THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

September 2017

Could a Stock Market Swoon Damage Your Retirement Plans? Baby Boomers at Risk

Nine years of record low interest rates, an improving economy, and few high yielding investment alternatives, have propelled the U.S. stock market to record highs. For example, the current price-earnings (P/E) ratio of the Standard & Poor's 500 (S&P) stocks collectively is 24.5. This indicates that stock investors are paying $24.50 for each dollar of earnings, which is well above the average P/E ratio since 1950 of 17.85. If the S&P were to decline to its 1950-2017average P/E, S&P stock prices would plummet by 27.2%.

However for long-term investors, it is almost a certainty that the S&P would rebound to its old high. But how long will it take? Should the S&P P/E ratio drop to its 1950-2017 average, retired baby boomers who will be age 70.5 and older in 2018, and other retirees in need of funds for living, would be required to withdraw funds from their non-Roth retirement accounts at these low stock prices. The question then becomes, how long will it take for the S&P 500 average to return to its current record high level?

In August 2000 with the S&P at 1517.7, the stock index plummeted 31.4% over the next 13 months. It then took the S&P 81 months to climb back to its August 2000 level. And six months later in November 2007, the S&P once again began falling ultimately slumping to 735.1 by February 2009. Thus, between August 2000 and February 2009, or 102 months, the S&P fell by 51.6%. During this bear or down market, individuals that made mandatory or voluntary withdrawals from their retirement accounts dominated by stocks likely suffered significant financial hits.

With U.S. stock prices at current record highs, recent empirical evidence indicate that those required to make significant withdrawals from their retirement accounts over a short time horizon should evaluate re-balancing their investment portfolio to be less dependent on stock prices. As investment guru Ben Graham advised, "Diversify"! Ernie Goss.

MAINSTREET RESULTS

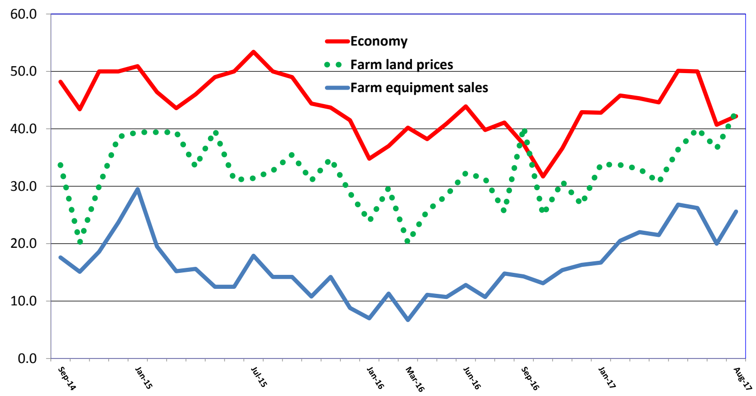
Rural Mainstreet Climbs to Highest Level in Almost Two Years
One-Fourth Bank CEOs Support June Fed Rate Hike

Table 1: The Mainstreet Economy	Aug 2016	Jul 2017	Aug 2017
Area Economic Index	41.1	40.7	42.2
Loan volume	78.3	81.5	77.8
Checking deposits	41.3	51.2	46.7
Certificate of deposits	44.5	45.3	46.7
Farm land prices	25.6	36.6	43.0
Farm equipment area sales	14.8	20.0	25.6
Home sales	58.9	60.8	62.5
Hiring in the area	47.9	53.6	51.1
Retail Business	38.1	43.1	41.1

Survey Results at a Glance:

- The overall index climbed for month, but remained below growth neutral.
- Approximately 57.6 percent of bankers reported drought conditions were having a negative impact on ag-riculture production in their area.
- Average yearly cash rents declined by 4.3 percent over the past year to $241 per acre.
- On average bankers expect farmland prices to decline by another 3.5 percent over the next year. In August 2016, bank CEOs projected a 6.9 percent decline for next year.

Rural Mainstreet, Economic Indicators, Sept. 2014 – August 2017
(50.0 = growth neutral)



After plummeting in July, the Creighton University Rural Mainstreet Index increased slightly for August, but remained below the 50.0 threshold according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100, increased to a weak. 42.2 from 40.7 in July which was the index's lowest level since November of last year.

We continue to record economic weakness stemming from low agriculture commodity prices and fallout from the drought in parts of the region. Approximately 57.6 percent of bankers reported drought condi-tions were having a negative impact on agriculture production in their area.

However there was significant variability regarding the impact of weather conditions. Bryan Grove, pres-ident of American State Bank in. Grygla, Minnesota, said, "Crop conditions overall in northwest Minne-sota are good. Small grain harvest is just starting, with good results both in quality and quantity."

Farming and ranching: The farmland and ranchland-price index for August rose to 43.0, its highest level since July 2014 and up from last month's 36.6. This is the 45th straight month the index has fallen below growth neutral 50.0.

This month, and in August 2016, bank CEOs were asked the value of cash rents for cropland (not pasture) in their area. On average bankers reported a yearly cash rent of $241 per acre, which is down from 12 months earlier when bankers indicated $252 per acre. This represents a decline in yearly per acre cash rents of 4.3 percent over the past year.

On average bankers expect farmland prices to decline by another 3.5 percent over the next year. This is an improvement from this time last year when bank CEOs, on average, projected a 6.9 percent decline.

The August farm equipment-sales index increased to 25.6 from 20.0 in July. This marks the 48th consecu-tive month the reading has remained below growth neutral 50.0.

Banking: Borrowing by farmers was strong for August as the loan-volume index fell to a still robust 77.8 from 81.5 in August. The checking-deposit index was 46.7, down from July's 51.2, while the index for certificates of deposit and other savings instruments increased to 46.8 from 45.3 in July.

Hiring: The job gauge dropped to 51.1 from July's 53.6 and June's healthy 58.9. Rural Mainstreet businesses, not linked to agriculture, increased hiring for the month, but at a slower pace than in July.

Confidence: The confidence index, which reflects expectations for the economy six months out, slumped to a weak 35.6 from 38.4 in July, indicating a continued pessimistic outlook among bankers. Concerns about trade combined with drought conditions in portions of the region sank bankers' economic outlook.

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy for August. The August reading rose to 62.5 from July's 60.8. The August retail-sales index sank to 41.1 from 43.1 in July. Much like their urban counterparts, Rural Mainstreet retailers are experiencing significant pullbacks in sales.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. The survey is supported by a grant from Security State Bank in Ansley, Neb.

This survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAIN$TREET ON YOUR $TREET

COLORADO

Colorado's August Rural Mainstreet Index (RMI) rose to 41.8 from 39.1 in July. The farmland and ranchland-price index expanded to 42.8 from July's 35.5. Colorado's hiring index for August climbed to 50.4 from July's 49.2.

ILLINOIS

The August RMI for Illinois inched up to 41.2 from 40.2 in July. The farmland-price index increased to 42.3 from July's 36.3. The state's new-hiring index dropped to 47.5 from last month's 54.2.

IOWA

The August RMI for Iowa expanded to 42.3 from 41.7 in July. Iowa's farmland-price index for August advanced to a weak 43.1 from 37.3 in July. Iowa's new-hiring index fell to 52.5 from July's healthy 60.7.

KANSAS

The Kansas RMI for August climbed to 40.2 from July's 39.4. The state's farmland-price index grew to 41.6 from 35.8 in July. The new-hiring index for Kansas slumped to 43.0 from 50.6 in July.

MINNESOTA

The August RMI for Minnesota slipped to 42.4 from July's 42.8. Minnesota's farmland-price index increased to 43.2 from 38.0 in July. The new-hiring index for the state declined to 53.1 from July's strong 65.5. Pete Haddeland, CEO of the First National Bank in Mahnomen, reported that, "Our crops in this area look good. Very little impact from drought. The wheat is excellent."

MISSOURI

The August RMI for Missouri rose to 42.5 from 42.2 in July. The farmland-price index improved to 43.2 from July's 42.3. Missouri's new-hiring index declined to 53.4 from 62.8 in July.

NEBRASKA

The Nebraska RMI for August inched forward to 42.9 from July's 42.1. The state's farmland-price index expanded to 43.5 from last month's 37.5. Nebraska's new-hiring index stood at a solid 55.2, but down from 62.5 in July.

NORTH DAKOTA

The North Dakota RMI for August rose to a regional high of 50.1 and up from July's 41.5. The state's farmland-price index moved to 44.1 from July's 41.0. North Dakota's new-hiring index dipped to 59.1 from 59.9 in July.

SOUTH DAKOTA

The August RMI for South Dakota fell to 38.5 from July's 38.9. The farmland-price index increased to 41.7 from July's 35.4. South Dakota's new-hiring index sank to 43.4 from July's 48.1.

WYOMING

The August RMI for Wyoming rose to 41.2 from July's 40.1. The August farmland and ranchland-price index increased to 42.3 from July's 36.1. Wyoming's new-hiring index slumped to 47.5 from July's much stronger 53.0.

THE BULLISH NEWS

- The median sales price of an existing home climbed to $263,000 in June, its highest level on record and up 40% from the first quarter of 2014.
- Multi-family starts appear to have peaked for this cycle, but a number of factors suggest that single-family starts could continue to rise.

THE BEARISH NEWS

- In August, the unemployment rate rose slightly, the labor force participation rate did not change and the employment-to-population ratio fell slightly. Also growth in labor compensation measures remained subdued.
- U.S. automobile sales sank in August.

WHAT TO WATCH

- **Jobs Report on October 4:** The Bureau of Labor Statistics will release its employment report for September. Another weak reading on wages could push the Federal Reserve to forego another 2017 rate hike.

- **Consumer Price Index on October 13**: The Bureau of Labor Statistics will release the inflation gauge for September. An annualized increase below 1.5% will be bullish for bond prices and sink both short and long-term interest rates.

- **Yield on 10-Year US Treasury Bond**: This yield will rise as inflation advances. Current yield is 2.06% and down by 25 basis point over the last month. Indicates safe haven buying or lower inflation.

THE OUTLOOK

FROM GOSS:

- I expect **one more Federal Reserve rate hike by the end of 2017; **The Fed to announce plans to reduce its $4.5 trillion portfolio of U.S. Treasury bonds and mortgage backed securities in September. This will tend to put slight upward pressures on long-term U.S. interest rates. **Multi-family rental rate growth to cool in the months ahead.

OTHER FORECASTS:

- **National Association of Business Economists:** In general, NABE Policy Survey panelists feel that current monetary and fiscal policies are 'about right,'" said NABE President Stuart Mackintosh, CBE, executive director, Group of Thirty. "The overall view of the panel is that the likely interest-rate impact of the Federal Reserve's Balance Sheet 'normalization' is fairly benign, and will add about one-half of a percentage point to the 10-year Treasury yield over time. "But panelists are concerned—although not alarmed—about the stability of the private health care market and the need for reform," Mackintosh continued. "Regarding executive actions surrounding immigration and foreign trade, survey participants give the administration unfavorable scores," added NABE Policy Survey Chair Richard DeKaser, CBE executive vice president and corporate economist, Wells Fargo. "Survey results also reflect the panel's strong preference for more active policies to mitigate global warming and income inequality," continued DeKaser. "A carbon tax is the expressed preference for addressing the former, and education policies are preferred to address the latter perceived problem."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Guilty of being an economist. Greece's former chief economist/statistician Andreas Georgiou was con-victed last month of "breach of duty" for his recalculation of the country's public finances in 2009 which showed that Greece was in serious fiscal health and needed to be bailed out. Politicians' desires always trump economists' statistics..

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This month's survey results will be released on the third Thursday of the month, September 21.