THE MAINSTREET ECONOMY REPORT

January 2012

"A monthly survey of community bank CEO's"

Is the U.S. the Next Greece? No California Is!

A Greek, an Italian and a Spaniard spend the evening drinking in a London pub. Who pays the tab? Answer: the American. This satire adds a bit of humor to a disturbing trend whereby the U.S. taxpayer bails out not only "too big to fail" U.S. businesses but then underwrites overspending European economies via the U.S. Federal Reserve (Fed). Gerald O'Driscoll, a former vice president and economic advisor at the Dallas Fed, and a current senior fellow at the Cato Institute recently argued that the Fed's temporary U.S. dollar liquidity swap arrangement with the European Central Bank (ECB) is "essentially a transfer of U.S. dollars to banks in Europe." Unlike the Fed, Eurozone national banks cannot mask or reduce debt problems by simply printing more currency. Only the Fed's counterpart, the European Central Bank, (ECB) can flood the market with more Euros to ease the debt burdens of the 17 nations. But the ECB's only mandate is to maintain price stability thereby precluding massive currency infusions. Instead, each of the 17 nations, much like U.S. states, can only shrink debt burdens by cutting spending, defaulting on sovereign debt, or raising taxes. Thus, the United States, with assistance from the Fed, is not on the path of Greece but California and Illinois are. The U.S. debt burden can and will be diminished by the Fed flooding the market with dollar purchases of U.S. Treasury bonds. This action, of course, adds to inflationary pressures in the U.S. along with pushing interest rates higher. However with the current U.S. debt at $15 trillion even this Fed action must be accompanied by higher federal taxes, reduced spending, or both. The day of U.S. debt reckoning is likely to come sooner rather than later, just as it has for the Eurozone. Ernie Goss.

MAINSTREET RESULTS

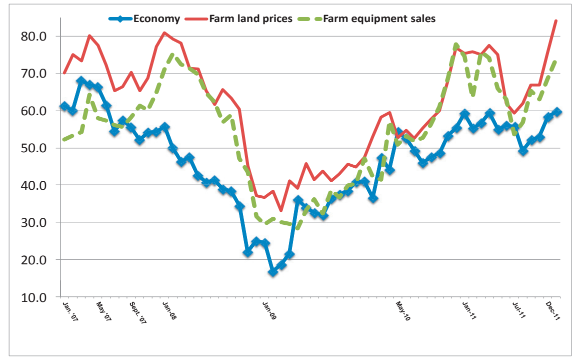
Rural Mainstreet Index Expands Again: Farmland Price Growth Advances to Record High

Tables 1 below summarizes the findings from the December survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Dec 2010	Nov 2011	Dec 2011
Area Economic Index	55.4	58.4	59.7
Loan volume	52.3	44.2	50.8
Checking deposits	66.7	81.7	68.9
Certificate of deposits	50.0	41.7	37.0
Farm land prices	76.9	75.4	84.1
Farm equipment area sales	77.8	68.4	73.8
Home sales	43.9	46.7	46.2
Hiring in the area	50.1	53.4	54.6
Retail Business	57.1	53.3	61.6
Economy 6 months from now	62.2	57.5	61.8

- Rural Mainstreet Index soars to highest level since June 2007.
- Farmland price index soared to record high.
- Bankers reported average yearly cash rents for region of $191 per acre.
- Approximately 23 percent of bankers reported that the MF Global bankruptcy has negatively affected their agriculture customers.
- Retail sales bounce to a record high for the month.

Rural Mainstreet, Jan. '07 – Dec. '11



For a third straight month, Rural Mainstreet Index (RMI) increased. December's reading from a monthly survey of bank CEOs in agriculturally dependent areas in a 10-state region climbed to its highest level since June 2007.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, advanced to 59.7 from 58.4 in November and 52.9 in October. The areas of the region and country tied to farm and energy are outpacing urban areas of the region. Our survey is detecting a very healthy Rural Mainstreet economy with the gap between urban and rural widening. Approximately 60 percent of agricultural producers have contracted or sold their 2011 production. Global demand and alternative energy generation are driving the Rural Mainstreet economy higher. Despite our strong December report, I expect Eurozone problems to slow the growth in agriculture and energy due to a strengthening dollar and weaker exports. This will tend to push agriculture and energy commodity prices lower. Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

Farming: The farmland price index rose to a record high. The index for December climbed to 84.1 from No-vember's very strong 75.4. This is the 23rd straight month the index has been above growth neutral. The farm equipment sales index expanded to 73.8, its highest level since February 2008, and up from 68.4 in November. This month bankers provided the current average cash rent per acre in their area. Across all states, the average cash rent was $191, ranging from $105 in Kansas to $269 in Illinois. Approximately 22 percent of the bank CEOs reported average per acre cash rents above $250. Don Reynolds, president of Regional Missouri Bank in Salisbury, MO, "Land prices appear to continue to rise. We note that a few small tracts that were desired by multiple cash rich buyers appear to distort people's thinking." Banking: The loan volume index for December increased to 50.8 from November's 44.2. The checking deposit index slumped to a healthy 68.9 from 81.7 in November, while the index for certificates of deposit and other savings instruments dipped to a very weak 37.0 from 41.7 last month. Tepid loan demand, and very healthy checking deposits are consistent with a very strong farm economy across the region. The failure of MF Global has affected agricultural producers in the region. Approximately 23 percent of bankers said that the firm's bankruptcy had a negative impact on their agriculture customers. On the other hand, 52 percent indicated no impacts with the remaining 25 percent reporting that the impacts were unknown at this time.

Hiring: December's hiring index advanced to 54.6 from 53.4 in November. Year over year job growth for Rural Mainstreet communities is approximately 1.4 percent compared to 0.8 percent for urban areas of the region.

Confidence: The economic confidence index, which reflects expectations for the economy six months out, climbed to 61.8 from November's 57.5.

Home and retail sales: For a fifth straight month, the

Rural Mainstreet home sales index dropped below growth neutral to 46.2 from 46.7 in November. The retail sales index for December bounced to a record high 61.6 from 53.3 in November. The record high retail index bodes well for the holiday buying season for merchants in the region while rural housing markets remain weak.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of the 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.

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.

MAIN$TREET ON YOUR $TREET

COLORADO

For the 12th straight month, Colorado's Rural Mainstreet Index (RMI) remained above growth neutral. The index for December rose to 74.6 from 70.4 in November. The farmland and ranchland price index climbed to 88.5 from November's 81.4. Colorado's hiring index for December was 50.8, down from November's 63.8. Drought conditions in Texas, and Oklahoma has affected ranching in Colorado. For example, Mike Bass, president of the First Naitonal Bank of Hugo in Hugo, said that, "Texas ranchers are buying all the hay they can in our area. Reports of final cost (after delivery) is around $300.00 per ton for good alfalfa hay. How can that work long term?"

ILLINOIS

The RMI for Illinois remained above growth neutral for the 20th straight month. The December index advanced to 61.1, up from 56.3 in November. Farmland prices remained significantly above growth neutral with a reading of 85.7 from November's 77.5. The state's new hiring index advanced to 58.3 from 56.9 in November.

IOWA

The RMI for Iowa advanced to 56.3 from 51.7 in November. The farmland price index increased to 77.1 from November's 69.3. Iowa's new hiring index for December climbed to 54.1 from November's 52.5. Charles Helscher, president of Farmers Savings Bank in Keota said, "On average, I would estimate that roughly 50 percent of what was produced for sale and not feed usage (agriculture commodities), has been marketed."

KANSAS

The RMI of Kansas bounced into positive territory to 52.5 from November's 49.1. The farmland price index advanced to 70.3 from November's 64.5. The state's new hiring index increased to 50.7 from 50.1 in November. The Kansas economy continues to be affected by global economy. Dale Bradley, Chairman of The Citizens State Bank in Miltonvale said that," The world economy certainly affects the National and local economy."

MINNESOTA

The December RMI for Minnesota rose to 55.8 from November's 52.8. Minnesota's farmland price index climbed to 76.2 from 71.2 in November. The state's new hiring index inched forward to 53.6 from 53.5 in November. Pete Haddeland, CEO of First National Bank in Mahonomen, "Great fall, things have dried out. Very little snow cover. should be a great spring for planting."

MISSOURI

The RMI for Missouri bounced to 50.3 from November's weak 35.8. The farmland price index for Missouri climbed to 52.2 from 41.1 in November. The state's new hiring index increased to 51.6 from 38.4 in November.

NEBRASKA

The December RMI for Nebraska expanded to 60.5 from 55.7 in November. The farmland price index rocketed to 84.6 from November's 76.3. The state's new hiring index slipped grew to 57.8 from 56.0 in November. In Nebraska as in much of the region, agriculture linked businesses are experiencing much better growth and growth prospects. As said by Larry Rogers, president of the First Bank of Utica in Utica, "It appears that the small business man is really hunkering down trying to figure out what their future looks like! A lot of unknowns."

NORTH DAKOTA

The North Dakota RMI climbed to a regional high of 89.8 from November's 88.8, also a regional high. The farmland price index dipped to 88.9 from 93.1 in November. The state's new hiring index slipped to 83.9 from November's 85.5.

SOUTH DAKOTA

The December RMI for South Dakota expanded to 51.9 from 51.5 in November. The farmland price index rose to 69.4 from 68.8 in November. South Dakota's new hiring index for December slipped to 50.2 from November's 52.3.

WYOMING

The December RMI for Wyoming dipped to 60.3 from 62.1 in November. The December farmland and ranchland price index declined to 84.3 from 87.7 in November. The state's new hiring index declined to 57.7 from 61.7 in November. The Rural Mainstreet economic growth while not expanding remains healthy. According to Bob Sutter, vice-chairman of Hilltop National Bank in Casper --A flat month as far as 30 day change, but the WY economy continues at a firm to strong level."

THE BULLISH NEWS

- Non-farm payrolls for December 2011 grew by 200,000 and the unemployment rate ticked down to 8.5%, its lowest level since February 2009.
- The average hourly wage for December 2011 rose by 0.2%. Not that great but better than what we have been seeing.
- Construction spending in November reached a 17-month high of $807 billion at a seasonally adjusted annual rate, up 1.2% from a downwardly revised October total and up 0.5% from the November 2010 level.
- The Conference Board Consumer Confidence Index®, which had improved in November, increased further in December. The Index now stands at 64.5 (1985=100), up from 55.2 in November.

THE BEARISH NEWS

- There was little change in the long-term unemployed. Of the country's 13.1 million unemployed, 42.5 percent or 5.6 million have been out of work for six months or longer. These millions of people risk being left behind as the rest of the economy moves forward.

- Over the last 12 months, the all items the Consumer Price Index increased 3.4%. This is significantly above the Federal Reserve target. Subtracting out food and energy, the so-called core CPI increased by 2.2%. This is still above the Fed target of 1.75% - 2.0%.

- The value of the U.S. dollar has risen by 5.3% against a basket of global currencies. This has made U.S. goods, especially agriculture and manufactured goods, less competitively priced abroad.

WHAT TO WATCH

- **EuroZone:** Keep a close eye on 1) interest rates or yields on Italian sovereign debt. Rates approaching 7.5% will signal rising risks of default.

- **Jobs**: On Friday Feb. 3, the U.S. BLS releases its employment report for January. Another gain of more than 200,000 jobs will be viewed very positively by investors. An increase of less than 100,000 will be a big negative.

- **PMI:** On February 1, the Institute for Supply management releases it purchasing management index (PMI) for January while Creighton University releases its PMI for the Mid-America, the Mountain States and the San Joaquin Valley for the previous month. Readings bouncing above 55.0 will be viewed very positively.

- **4th Qtr. GDP:** On January 27, the Bureau of Economic Analysis will release its first preliminary estimate of Quarter 4, 2011 GDP. Annualized growth above 3.0% will be a very positive signal.

THE OUTLOOK

FROM GOSS:

- I expect growth in the nation's farming economy to slow somewhat in the first half of 2012 as the value of the U.S. dollar continues to rise pushing agricultural commodity prices lower. Also slower Asian economic growth will weigh on the U.S. farming sector

- I am bearish on gold beyond the short-term. I do not know when gold prices will begin to retreat but I am certain that the risks are high. As long as Europe continues to limp along, investors will continue to seek the safe haven of gold. When that changes, watch out for a downdraft in gold prices

- Long run (3-5 years), I am bullish on natural gas. Prices will be boosted when the U.S. Department of Energy adds natural gas to its list of preferred alternatives to coal, fuel oil and oil. Also approving the export of natural gas would be a real win-win for the U.S. and for the industry.

OTHER FORECASTS:

- **Ken Goldstein** at The Conference Board expects U.S. economic growth to be sluggish—at best—for years to come. As for Wall Street returning to its former glories (not to mention tax-generating capabilities), he says NO!

- Experts are forecasting fourth-quarter earnings growth for S&P 500 companies to have sharply slowed, creeping up between just 7% and 8% from a year earlier, according to analysts at S&P Capital IQ, as well as rival earnings tracker Thomson Reuters.

- **Conference Board:** The U.S. economic data continue to outperform past months' expectations and paint a brighter picture of U.S. economic growth. We have seen the largest monthly rise in consumer confidence since April 2003 and a record start to the holiday shopping season. Consequently, the odds of recession plummeted to just 9% in November, versus a revised 28% in October. However, while the U.S. looks likely to avoid another recession in the near-term, the economy is not likely to sustain a 2%-plus growth path due to ongoing weakness in the labor and housing markets and the continuing cycle of debt deleveraging at the consumer and government level.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- This month's choice was easy. Congressional passage and Presidential approval of a two month extension of the social security tax cut is both sad and foolhardy. It should have been extended for one year or nixed. How can businesses and individuals plan with such uncertainty?

BANKER READING ROOM

"What Companies Should Expect from the SEC in the New Year," Companies looking ahead at their 2012 agenda need to also consider an outside party's to-do list that may have an impact on their business strategy. New rules that the Securities and Exchange Commission plans to tackle this year fall into one of three areas: Dodd-Frank Act to-do items; proposals the SEC had temporarily tabled and will revisit; and new legislation that could help smaller companies extricate themselves from some burdensome reforms. While many question whether the Dodd-Frank Act is actually the agent of change it set out to be, the first 18 months of its implementation have been relatively anticlimactic for nonfinancial companies and their management. One reason is the continued delay of some of the rules. http://www3.cfo.com/article/2012/1/regulation_sec-new-rules-agenda-2012-dodd-frank-timeline

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