THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

October 2016

The Aftermath of the Affordable Care Act: Higher Costs and More Part-time Jobs

In 2010, Congress and the Obama Administration passed the Affordable Care Act (ACA). At the time, its chief supporter, President Obama, argued that the ACA would incentivize hospitals and primary physicians to deliver better health outcomes at lower costs to a greater share of the U.S. population. As implemented, the ACA demands that companies with more than 49 workers either provide health insur-ance to all employees working 30 hours or more weekly, or pay a stiff penalty.

Thus, businesses are incentivized to reduce worker weekly hours below 30. Not surprisingly, since passage of the ACA, the share of all U.S. workers that are working part-time, but wish to work full-time, has more than doubled. Regarding cost, the evidence is even more discouraging. At a compound annual rate, individual and family health insurance expenditures grew by 6.1 percent yearly six years be-fore ACA, but by a much higher 8.9 percent annually for the six years after ACA.

But the worst is yet to come. According to a Barclays' analysis of rates, the average national health insurance premium will soar by 24.2 percent for 2017 with Arizona leading the way with an in-crease of 68.1% with other states not far behind such as Illinois at 43.9%, Iowa at 31%, Florida at 17.7%, Colorado at 20.2%, North Carolina at 20.4% and Pennsylvania at 23.6%. And the percentage of counties being served by two or fewer insurers in the federal exchanges will rise to 39% from only 14% this year. Due to diminished competition among insurance companies, Americans can expect to suffer from even higher growth rates in prices in the years ahead. It may be bitter pill, but President Clinton's recent statement that the ACA is "the craziest thing in the world" appears to be closer to truth than fiction. Ernie Goss.

MAINSTREET RESULTS

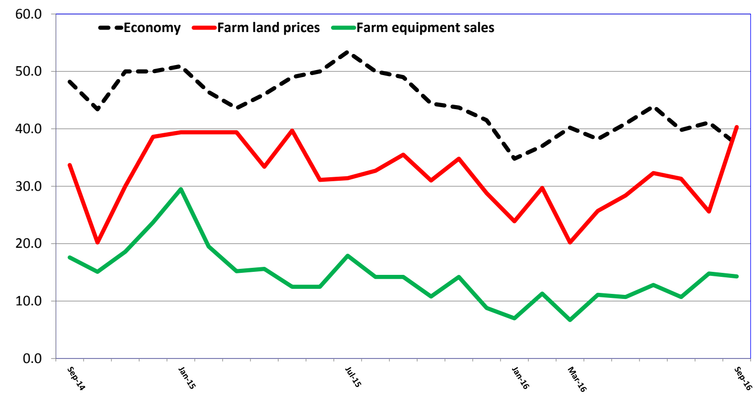
Rural Mainstreet Index Below Growth-Neutral for September: Four of Five Bank CEOs Report Loan Restructuring

Table 1: The Mainstreet Economy	Sep 2015	Aug 2016	Sep 2016
Area Economic Index	49.0	41.1	37.3
Loan volume	72.0	78.3	72.1
Checking deposits	54.2	41.3	50.0
Certificate of deposits	41.7	44.5	51.5
Farm land prices	35.5	25.6	30.3
Farm equipment area sales	14.2	14.8	14.3
Home sales	56.4	58.9	57.2
Hiring in the area	54.3	47.9	54.8
Retail Business	49.0	38.1	33.4

Survey Results at a Glance:

- For a 13th straight month, the Rural Mainstreet Index fell below growth neutral.
- Almost 4 of 5 bank CEOs indicated restructuring farm loans due to weak farm income.
- Farmland prices remained below growth neutral for the 34th consecutive month.
- Almost one-fifth of bankers reported increasing rejection rates on agricultural loans due to weak farm income.

Rural Mainstreet, Economic Indicators, Sept. 2014 – Sept. 2016
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index sank for September and remained below growth neutral for the 13th straight month, according to the 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 fell to 37.3 from 41.1 in August. This month's reading is well off the index for September 2015 when it stood at 49.0.

According to the USDA, 2016 net farm income is expected to decline by almost 12 percent from 2015 levels. Even with an anticipated 25 percent increase in government support payments for 2016, the Rural Mainstreet economy continues to falter according to our surveys of bankers.

Even though loan defaults have changed little over the past year, downturns in farm income over the past three years are pushing bankers to change the terms of farm loans. According to Creighton's September survey, almost four of five, or 79.1 percent, of bank CEOs reported a significant upturn in loan restructuring due to weak farm income.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, expects lower agriculture com-modity prices to cause all but the best capitalized producers to only break even or lose money for 2016.

Farming and ranching: The farmland and ranchland-price index for September expanded to a frail 40.3 from 25.6 in August. This is the 34th straight month the index has languished below growth neutral 50.0.

The September farm equipment-sales index sank to 14.3 from August's 14.8. Weakness in farm income and low agricultural commodity prices continue to restrain the sale of agriculture equipment across the region. This is having a significant and negative impact on both farm equipment dealers and agricultural equipment manufacturers across the region.

One bank CEO indicated there would be substantial 2017 impacts from current conditions. The CEO is concerned that bank regulators will not provide necessary "breathing room" for banks to weather plummeting farm income.

Banking: Borrowing by farmers remains strong as the September loan-volume index slipped to a strong 72.1 from last month's 78.3. The checking-deposit index climbed to 50.0 from 41.3 in August, while the index for certificates of deposit and other savings instruments improved to 51.5 from 44.5 in August.

Hiring: After moving below growth neutral 50.0 for July and August, the Rural Mainstreet hiring index advanced to a solid 54.8 for September, up briskly from August's 47.9 and July's 49.0. For the re-gion, Rural Mainstreet employment is down by 0.9 percent over the past 12 months.

But some bankers reported significant pullbacks in employment. For example, James Shafer, CEO of the First National Bank in Tremont, Illinois, reported, "Continued (loan) restructuring and layoffs by Caterpillar are having a strong, negative impact in our immediate area."

Confidence: The confidence index, which reflects expectations for the economy six months out, plummeted to 21.5 from August's 27.2, indicating an intense pessimistic outlook among bankers. Recent downturns in already weak agriculture commodity prices pushed banker's economic outlook even lower for the month.

Home and retail sales: Home sales remain the positive indicator of the Rural Mainstreet economy with a strong September index of 57.2, though it was down slightly from 58.9 in August. The September retail-sales index slumped to 33.4 from August's very weak 38.1. Despite low inventories of homes for sale, Rural Mainstreet home sales continue on a solid trajectory, but rural retailers, much like their urban counterparts, are experiencing downturns 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 Rural Mainstreet Index (RMI) climbed to 54.7 from 51.1 in August. The farmland and ranchland-price index soared to 69.7 from August's 59.0. Colorado's hiring index for September jumped to 73.2 from 64.8 in August. Colorado job growth over the last 12 months; Rural Mainstreet, 1.2 percent; Urban Colorado, 3.3 percent.

ILLINOIS
The Septemer RMI for Illinois increased to a feeble 32.1 from 21.2 in August. The farmland-price index rose to 26.3 from August's 17.5. The state's new-hiring index climbed to 50.7 from last month's 44.2. According to Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, exceptional 2016 crop yields will make cash flows positive even with lower commodity prices. But Kuhlmeier says "2017 looks to be a real challenge on average crop yields without a reduction in cash rents." Illinois job growth over the last 12 months; Rural Mainstreet, -1.5 percent; Urban Illinois 1.0 percent.

IOWA
The September RMI for Iowa fell to a solid 56.2 from August's 58.3. Iowa's farmland-price index for September increased to 47.2 from 40.5 in August. Iowa's new-hiring index for September expanded to 65.1 from August's 58.1. Iowa job growth over the last 12 months; Rural Mainstreet, 1.9 percent; Urban Iowa, 1.5 percent.

KANSAS
The Kansas RMI for September increased to 35.4 from August's 24.6. The state's farmland-price index for September advanced to a weak 24.2 from August's 13.4. The new-hiring index for Kansas increased to 51.7 from 44.6 in August. Kansas job growth over the last 12 months; Rural Mainstreet, -1.8 percent; Urban Kansas, 0.5 percent.

MINNESOTA
The September RMI for Minnesota climbed to 39.0 from August's 30.3. Minnesota's farmland-price index grew to 26.3 from 18.0 in August. The new-hiring index for the state expanded to 57.5 from last month's 49.9. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, crops in his area looked great, but were a "little wet." Minnesota job growth over the last 12 months; Rural Mainstreet, 0.1 percent; Urban Minnesota 1.8 percent.

MISSOURI
The September RMI for Missouri increased to 26.4 from 22.4 in August. The farmland-price index expanded to 29.7 from August's 14.9. Missouri's new-hiring index increased to 35.6 from 17.1 in August. Missouri job growth over the last 12 months; Rural Mainstreet, -8.2 percent; Urban Missouri 1.7 percent.

NEBRASKA
The Nebraska RMI for September sank to 61.2 from August's regional high of 64.5. The state's farmland-price index climbed to 46.9 from August's 43.5. Nebraska's new-hiring index grew to 64.9 from 59.2 in August. Nebraska job growth over the last 12 months; Rural Mainstreet, 2 percent; Urban Nebraska, 1.0 percent.

NORTH DAKOTA
The North Dakota RMI for September increased to 20.9 from 17.8 in August. The farmland-price index climbed to 18.7 from August's 12.1. North Dakota's new-hiring index expanded to 37.8 from 25.6 in August. North Dakota job growth over the last 12 months; Rural Mainstreet, -8.1 percent; Urban North Dakota, 1.3 percent.

SOUTH DAKOTA
The September RMI for South Dakota fell to 52.1 from August's 54.3. The farmland-price index expanded to 41.2 from August's 27.3. South Dakota's new-hiring index improved to 62.8 from August's 53.3. South Dakota job growth over the last 12 months; Rural Mainstreet, 1.8 percent; Urban South Dakota, 3.7 percent.

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WYOMING
The September RMI for Wyoming increased to 22.3 from 18.9 in August. The September farmland and ranchland-price index expanded to 19.7 from August's 15.6. Wyoming's new-hiring index increased to 48.5 from August's 39.6. Wyoming job growth over the last 12 months; Rural Mainstreet, -2.6 percent; Urban Wyoming, -3.2 percent.

THE BULLISH NEWS

- U.S. non-farm payrolls rose by 156,000 in September and the unemployment rate ticked up to 5%.
- The U.S. Case-Shiller home price index fell by a seasonally adjusted 0.1% for July and is 5.0% above the reading for July 2015.

THE BEARISH NEWS

- The Creighton PMI fell below growth neutral for September. Surveys indicate that the Mid-America region manufacturing sector is losing jobs and economic activity.
- Average hourly earnings rose 0.2% as employers struggle to find qualified workers.
- The U.S. trade deficit for August rose more than expected to $40.7 billion as the trade deficit with China widened to $33.9 billion.

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings:** On Nov. 2, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they may not raise rates at this meeting, they are likely to set the stage for a Dec. rate increase in their post-meeting statements.
- **The Jobs Report:** On Nov. 4, the Bureau of Labor Statistics will release the September jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates at their December 2016 meeting.
- **PMIs for US and Mid-America**: On Nov. 1, Creighton and the Institute for Supply Management will release their readings on manufacturing in Mid-America and U.S. Another set of readings below growth neutral 50.0 will be bearish for U.S. stocks and potentially thwart a Fed November rate hike.

THE OUTLOOK

FROM GOSS:

- **I put the likelihood of a Federal Reserve rate hike in November at 20%. However, I place the probability of one more rate increase in 2016 at 90% (Nov. or Dec.) ** I expect oil prices to continue to increase in the short run. However, supplies are too plentiful and OPEC production restrictions are not likely to hold. Thus, oil prices are likely to drop back toward that $45 per barrel level as early as November of this year.

OTHER FORECASTS:

- **National Association of Business Economics (NABE). SUMMARY**: "Four-fifths of panelists participating in NABE's September Outlook Survey expect the next U.S. business cycle peak to occur in 2018 or later," according to NABE President-elect Stuart Mackintosh, CBE, executive director, Group of Thirty. "NABE forecasters expect the Fed to raise its interest-rate target by another quarter of one percent later in 2016 and one-half of one percent in 2017." "As in the June survey, there are no signs that current inflation will be picking up rapidly," noted Jack Kleinhenz, CBE, chief economist, National Retail Federation. "Still, panelists look for prices to inch higher toward the Federal Reserve's target of 2.0% in 2017."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Government supported mortgage-finance giant Freddie Mac is loosening income and documentation requirements for first-time mortgage applicants. Under the Freddie program, applicants will be able use the income of people who will live with them but aren't going to be on the mortgage to qualify. As Yogi Bera might say its déjà vu all over again. Did these folks sleep through the 2007-09 housing crisis?

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This month's survey results will be released on the third Thursday of the month, Oct. 20.