

THE MAINSTREET ECONOMY REPORT

March 2016

“A monthly survey of community bank CEO’s”

Presidential Candidates Spout Trade Untruths NAFTA Exports Boost U.S. Economy

Economic truths are usually the first casualty of any presidential election season and 2016 is no exception. For example, several candidates are using trade agreements such as the North American Free Trade Agreement (NAFTA) as a foil for their economic tunnel vision which argues that Canada and Mexico are stealing U.S. manufacturing jobs. Since NAFTA was passed in 1993, the U.S. has lost 26.6% of its manufacturing jobs, but manufacturing production soared by 142.3%. In other words, the enemy of U.S. manufacturing jobs has been rising and coveted productivity growth, not trade with Mexico or Canada. In fact over the past 15 years, exports to NAFTA signatories, Canada and Mexico, have grown by 108.3% as imports from the same nations expanded by a smaller 94.4%. For 2015, NAFTA exports supported 2.2 million U.S. jobs with the top job gains for Texas with 517,000, California with 189,000, Michigan with 149,000, Ohio with 115,000 and Illinois with 114,000. By industry, the biggest beneficiaries of NAFTA exports for 2015 were electrical and non-electrical machinery at 54,886 jobs, vehicles at 16,200 jobs, fossil fuels at 9,300 jobs, plastics at 6,700 jobs and surgical instruments at 3,500 jobs. Thus data show that the beneficiaries of exports to Canada and Mexico are broadly disbursed across U.S. states and industries. Those running for the U.S. presidency should appeal to the economic logic of the American voter not misguided economic chauvinism.

MAINSTREET RESULTS

Rural Mainstreet Economy Remains Very Weak:

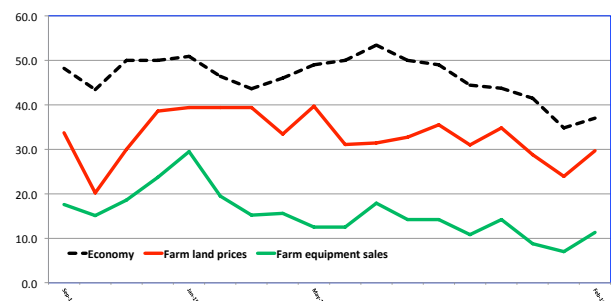
More Than One-Third of Bankers Report Recession in Local Economy

Table 1: The Mainstreet Economy	Feb 15	Jan 16	Feb 16
Area Economic Index	46.4	34.8	37.0
Loan volume	46.4	55.4	48.9
Checking deposits	57.3	55.5	44.6
Certificate of deposits	41.8	42.3	39.8
Farm land prices	39.4	23.9	29.8
Farm equipment area sales	19.5	7.0	11.3
Home sales	50.9	43.3	51.1
Hiring in the area	56.5	51.2	48.9
Retail Business	43.7	32.7	37.0
Economy 6 months out	41.5	29.4	30.4

February Survey Results at a Glance:

- For a sixth straight month, the Rural Mainstreet Index fell below growth neutral.
- Approximately 36.9 percent of bankers indicated their local economy was in a recession.
- Bank CEOs reported an average annual cash rent for farmland of \$221, down by approximately 15 percent from July 2015.
- Only 2.2 percent of bankers expect a March Federal Reserve rate hike.

U.S., Mid-America, Rural Mainstreet, Economic Indicators, 2014-16



While the Creighton University Rural Mainstreet Index rose for February, it remains weak, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, increased to 37.0 from January's 34.8.

This is the sixth straight month the overall index has moved below growth neutral. Recent declines are the result of lower agriculture and energy commodity prices and downturns in manufacturing. Since June of last year, prices for farm products have fallen by approximately 8 percent, and fuels by roughly 22 percent.

Only 8.7 percent of bank CEOs reported their local economy was expanding while approximately 36.9 percent indicated their local economy was in a recession.

Farming and ranching: The farmland and ranchland price index for February climbed to 29.8 from January's 23.9. This is the 27th straight month the index has moved below growth neutral.

As in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices, with prices

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growing in some portions of the region. For example, Cameron Mathis with Tilden Bank in Creighton, Nebraska, reported, “I recently had two irrigated quarters of farm ground sell for \$8,650 at auction.”

Bank CEOs reported an average annual cash rent for farmland, excluding pastureland, of \$221. This is down by approximately 15 percent from July 2015.

On the other hand, *Jim Stanosheck*, CEO of *State Bank of Odell* in *Odell, Nebraska*, indicated, “Irrigated cash rents moved higher.”

The February farm equipment-sales index climbed to 11.3 from January’s record low 7.0. The strong U.S. dollar and global economic weakness have pushed grain prices down by 11 percent and slaughter cattle prices are 22 percent lower over the past 12 months. These weaker prices have discouraged farmers from buying additional agriculture equipment and have negatively affected the agriculture equipment dealers and manufacturers in the region.

Banking: The February loan-volume index decreased to 48.9 from last month’s 55.4. The checking-deposit index declined to 44.6 from January’s 55.5, while the index for certificates of deposit and other savings instruments dipped to 39.8 from 42.3 in January.

Regarding an interest rate change at the Federal Reserve’s March meetings, only 2.2 percent of the bank CEOs expect the Fed to raise rates while the remaining 97.8 percent anticipate the Fed’s rate setting committee, the FOMC, to leave rates unchanged.

Jeffrey Bonnett president of the Havana National Bank in Havana, Illinois, said, “As the Fed Funds future is showing no change through the first quarter of 2018, I would not think the Fed would be doing much with interest rates. At least I do not see data to justify an increase at this time.”

Hiring: Contrary to recent months, bankers reported that Rural Mainstreet businesses dropped workers from their payrolls over the last month. The hiring index decreased to 48.9 from 51.2 in January. Weakness in the farm and energy sectors is spilling over into the broader Rural Mainstreet job market.

Confidence: The confidence index, which reflects expectations for the economy six

months out, moved slightly higher to 30.4 from 29.4 in January, indicating a very pessimistic outlook among bankers. As in previous months, bankers see few factors pointing to improvements for the Rural Mainstreet economy.

Home and retail sales: The February home-sales index jumped to a respectable 51.1 from 43.3 in January. The February retail-sales index moved to a still very weak 37.0 from 32.7 last month. Home sales held up for the month, but rural retailers have yet to experience retail sales gains resulting from declines in fuel costs.

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) advanced to 43.9 in February from 37.1 in January. The farmland and ranchland price index soared to 56.1 from January’s 17.2. Colorado’s hiring index for February rose to 54.3 from January’s 51.9.

Illinois: The February RMI for Illinois declined to 32.5 from 33.6 in January. The farmland-price index climbed to 21.2 from January’s 19.9. The state’s new-hiring index fell to 45.5 from last month’s 49.2.

Iowa: The February RMI for Iowa advanced to 40.4 from January’s 38.2. Iowa’s farmland-price index for February increased to 45.9 from 36.0 in January. Iowa’s new-hiring index for February dipped to 54.5 from 55.1 in January.

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Kansas: The Kansas RMI for February improved to a still weak 37.5 from January’s 33.9. The state’s farmland-price index for February sank to 28.1 from January’s 36.0. The new-hiring index for Kansas declined to 48.0 from 49.5 in January.

Minnesota: The February RMI for Minnesota jumped to 39.2 from January’s 35.5. Minnesota’s farmland-price index increased to 30.1 from 18.2 in January. The new-hiring index for the state inched up to 48.7 from last month’s 48.6.

Missouri: The February RMI for Missouri climbed to 39.2 from 35.0 in January. The farmland-price index advanced to a still very weak 37.9 from January’s 30.5. Missouri’s new-hiring index declined to 51.5 from January’s 53.0.

Nebraska: The Nebraska RMI for February expanded to 37.0 from 35.0 in January. The state’s farmland-price index grew to 29.8 from January’s 19.8. Nebraska’s new-hiring index dipped to 48.6 from 49.2 in January.

North Dakota: The North Dakota RMI for February slumped to a regional low of 14.3 from January’s 17.3, also a regional low. The farmland-price index rose to 15.6 from 11.2 in January. North Dakota’s new-hiring index declined to 11.8 from January’s 21.3.

South Dakota: The February RMI for South Dakota increased to 40.3 from 39.0 in January. The farmland-price index rose to 48.9 from 43.0 in January. South Dakota’s new-hiring index fell to solid 55.6 from January’s 57.6.

Wyoming: The February RMI for Wyoming slipped to 32.1 from January’s 32.9. The February farmland and ranchland-price index plunged to 14.6 from 18.7 in January. Wyoming’s new-hiring index slumped to 43.1 from January’s 48.7.

THE BULLISH NEWS

- The U.S. added 242,000 jobs for February and the unemployment rate stood at its lowest level in 8 years.
- According to the latest Case-Shiller index, U.S. home prices advanced by 5.7% between December 2014 and December 2015.

- U.S. ethanol exports had a strong start in January 2016, expanding 7% over December volumes to a 14-month high.

THE BEARISH NEWS

- Average hourly earnings for February fell 3 cents and were up a weak 2.2% from one year earlier.
- Both the U.S. and Creighton survey of supply managers indicate that the manufacturing economy continues to limp along but it does appear to have stabilized.
- U.S. January exports fall to lowest level since mid-2011 as the U.S. trade deficit climbs 2.2% to \$45.7 billion.

WHAT TO WATCH

- The Jobs Report. On April 1, the Bureau of Labor Statistics will report March jobs report. Another very strong report (200,000 jobs and unemployment rate of 4.8%) will push the Federal Reserve to raise rates at their April 26-27 meetings.
- CPI: On April 14, the BLS will release the consumer price indices for March. The core CPI, which excludes food and energy, increased 2.2% between January 2015 and January 2016. This is above the Federal Reserve’s target and will push the Fed to raise rates more aggressively in 2016.
- The Yield Curve: The yield on the 10-year U.S. Treasury is now 1.83% and the yield on the 2-year U.S. Treasury is now 0.88% for a gap or yield difference of 0.95%. Further reductions in the difference are warnings of slowing U.S. economic growth.

THE OUTLOOK

FROM GOSS:

- I put the likelihood of an April Federal Reserve rate hike at 65%.
- I also expect the core inflation rate, which excludes food and energy, to move a bit higher in the months ahead. This will push the Fed to raise short term rates several times in 2016.

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OTHER FORECASTS:

- **The Conference Board.** “The final quarter of 2015 ended on a weak note with GDP estimated to have grown by only 1 percent (annualized). Consumer spending rose twice that pace and is very likely to continue to grow at a relatively strong pace in the first half of 2016, driven by continued strong job growth, moderate growth in incomes, and improvement in consumer sentiment, as well as continued improvement in home building and buying. Still, inventory remains elevated while export demand remains weak, because economic growth abroad is slow and the dollar has been driven higher. As a result the industrial core of the economy continues to be very slow. Finally, government spending (at all levels) is moderate at best. All of these factors combine to drive the economy a little above the long term trend rate of 2 percent this winter and perhaps into the spring. The Fed can be expected to continue to “normalize” short term interest rates at a slow pace, even as the market holds longer-term rates steady and the probability of core inflation remains below target. And El Nino conditions hold the potential to cause economic disrupting weather patterns.”
- **The American Bankers Association:** “ABA believes Congress should pass data security legislation that holds retailers and others to high, uniform, nationwide standards for safeguarding sensitive customer information. Banks have had such an obligation to protect their customer’s sensitive financial information for years. ABA also is advocating that those responsible for data breaches should be responsible for their costs.”
http://www.aba.com/Issues/Index/Pages/Issues_DataSecurity.aspx

places in America where fracking will continue to take place”. But thanks to fracking, natural gas prices in the U.S. have fallen by 60% since 2008 saving the American consumer \$32 billion annually. Can low income Americans afford this policy?

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www.economicstrends.blogspot.com

This month’s survey results will be released on the third Thursday of the month, Mar. 17th.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The two Democratic presidential candidates went on record indicating that each would stop natural gas fracking in the U.S. Clinton said, “By the time we get through all of my conditions, I do not think there will be many

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