

Taxpayer Bailouts for Insurance Companies, College Students (and Universities) Ahead

After Solendra, AIG, Fannie Mae, Freddie Mac, and General Motors picked the pockets of the U.S. taxpayer, two other groups are waddling over to feed at the public trough. Section 1342 of the Affordable Care Act forces taxpayers to make insurers whole from losses they incur selling policies below costs on the ObamaCare exchanges through 2016. The government payouts are designed to hide the 2014 premium increases that would be required to support insurance companies that have enrolled too few young healthier citizens, and too many older, less healthy folks. Without the taxpayer bailouts which will require higher taxes or federal debt, insurance companies would have to raise more visible premiums to avoid large losses and/or bankruptcy. The second looming and ominous rescue "victim" is the American college student whose debt has doubled to \$1.1 trillion since 2007. By the end of 2013, enrollment in the plans—which allow students to rack up big debts and jettison the unpaid balance regardless of amount after a set time period—has surged to more than 40 million debtors. President Obama's 2011 revised plan required student borrowers to pay only 10 percent a year of their discretionary income in monthly installments. Under the plan, the unpaid balances for those working in the public sector (e.g. IRS) or for nonprofits (e.g. NORML) are forgiven after 10 years. As a result of federal government over feeding, universities have increased tuition at a rate twice that of medical care, and three times that of all consumer prices over the past decade. Next, watch for Pfizer, maker of Viagra, to be soliciting a bailout to straighten out its financing. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Economy for April Strengthens: Regulations Sink Rural Home Lending

Tables 1 below summarizes the findings from this month's 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	Apr. 2013	Mar. 2014	Apr. 2014
Area Economic Index	58.3	50.1	53.2
Loan volume	66.0	65.5	73.1
Checking deposits	63.0	65.5	65.1
Certificate of deposits	40.4	42.5	42.0
Farm land prices	66.9	40.9	42.9
Farm equipment area sales	57.3	29.3	36.7
Home sales	70.8	51.8	63.8
Hiring in the area	57.5	60.0	64.0
Retail Business	51.4	49.2	50.0
Economy 6 months from now	56.3	47.3	54.0

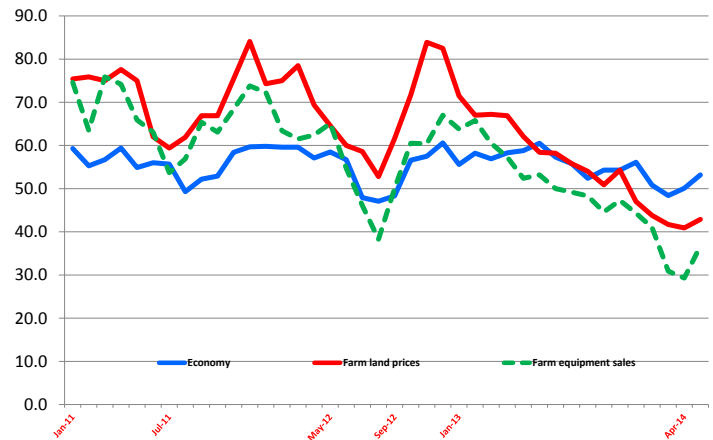
Survey Results at a Glance:

- Rural Mainstreet Index rises for a second straight month indicating modest growth for the month.
- FBank CEOs estimated a \$4.30 per bushel break-even price for corn.
- Approximately one-fourth of bankers reported that

due to greater regulation, they no longer make owner-occupied home loans.

- A significant number of bankers reported that their bank would discontinue making residential real estate loans.

Rural Mainstreet Economy January '11 – April '14



After moving below growth neutral in February, the Rural Mainstreet economy has moved above the 50.0 threshold for two straight months according to today's April survey of bank CEOs in a 10-state area. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, increased to 53.2 from 50.1 in March and 48.4 in February.

The overall index for the Rural Mainstreet Economy indicates that the areas of the nation highly dependent on agriculture and energy are experiencing much slower growth than for the same period in 2013. However, recent boosts to agriculture commodity prices should boost the economy in the months ahead.

This month bankers were asked to name the biggest challenge for farmers for this year's planting season. Almost one-third, or 31.5 percent reported that low agriculture-commodity prices were the greatest threat to farming profitability. Approximately 27.8 named lack of adequate moisture and 27.6 indicated high input prices were the biggest challenges for crop farm operations. Another 13.0 percent indicated high cash rents represented the greatest 2014 challenge for crop farmers.

Farming and ranching: The farmland and ranchland-price index for April increased slightly to 42.9 from March's very weak 40.9. This is the fifth straight month that the farmland and ranchland-price index has moved below growth neutral. With the Federal Reserve continuing to withdraw its economic stimulus, I expect rising interest rates to put even more downward pressures on farmland prices and cash rents.

Farm equipment sales remained below growth neutral for the 10th straight month. The April index rose to a frail 36.7 from March's even weaker 29.3. Agriculture equipment and implement dealers in the agriculture based areas are experiencing very weak sales to farmers in the region even as farm equipment manufacturers are experiencing positive growth due to healthy sales abroad.

This month bankers were also asked to estimate the breakeven price for corn production in their service area. "Bank CEOs, on average, indicated that the break-even corn price was approximately \$4.30 per bushel. This is down from a breakeven price of \$4.84 recorded in our February 2013 report.

Jim Ashworth, president of Carlinville National Bank in Carlinville, Ill., said, “Of course, break-even is different for each farmer; yet for mid-Illinois corn we believe our range is \$3.75 - \$4.25.”

Banking: The loan-volume index advanced to a robust 73.1 from March’s 65.5. The checking-deposit index slipped to 65.1 from 65.5 in March, while the index for certificates of deposit and other savings instruments dipped to 42.0 from March’s 42.5.

Hiring: Rural Mainstreet businesses continue to hire at a solid pace. The April hiring index advanced to a very healthy 64.0 from 60.0 in March. While the farm economy slows, businesses on Rural Mainstreet continue to expand their payrolls. Despite growing job additions, Rural Mainstreet employment is still below its pre-recession level.

Confidence: The confidence index, which reflects expectations for the economy six months out, expanded to 54.0 from last month’s 47.3. An improving national economy, higher agriculture commodity prices and passage of the farm bill pushed economic confidence among bankers higher for the month.

Home and retail sales: The April home-sales index soared to 63.8 from March’s 51.8. The April retail-sales index rose to 50.0 from 49.2 in March. Improving weather encouraged an upturn in home purchases and growth in an increase in the retail sales index.

Bankers were asked if new compliance regulations have caused their bank to no longer make owner -occupied residential real estate loans. More than one-fourth, or 25.4 percent, indicated that their banks were no longer making owner-occupied residential real estate loans as a result of greater regulation. Furthermore, many other bankers reported that they would likely cease these loans in the future. For example, Dale Leighty, CEO of the First National Bank in Las Animas, Col., reported, “We are considering discontinuing residential loans due to regulations.”

Larry Rogers of the First Bank of Utica in Utica, Neb., indicated the workload and exam requirements associated with greater regulations have become a huge time consumer. Rogers said that the rising regulations would help no one in rural Nebraska.

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

After moving below growth neutral for February, Colorado’s Rural Mainstreet Index (RMI) inched above the 50.0 threshold for two straight months advancing to 54.1 from March’s 50.9. The farmland and ranchland-price index expanded to 50.6 from March’s 43.2. Colorado’s hiring index for April rose to 68.9 from

March’s 61.3.

ILLINOIS

After declining below growth neutral for three consecutive months, the RMI for Illinois in April advanced above the 50.0 threshold, increasing to 53.3 from March’s 49.2. The Illinois farmland-price index rose to 36.2 from March’s 30.6. The state’s new-hiring index improved to 57.4 from 50.7 in March. Dirk Meminger, CEO Sauk Valley Bank in Sterling reported his bank continues to make residential home loans but “regulation has increased costs and impaired the ability to serve local lending needs.”

IOWA

The April RMI for Iowa expanded to 53.5 from March’s 49.8. The farmland-price index for April advanced to 41.4 from March’s 37.6. Iowa’s new-hiring index for April rose to 61.6 from 56.3 in March.

KANSAS

The Kansas RMI for April climbed to 53.8 from 50.1 in March. The farmland-price index for April in-creased to 46.3 from March’s 41.3. The state’s new-hiring index advanced to 65.4 from March’s 59.2. Michael Johnson, CEO of Swedish American Bank in Courtland indicated his bank was continuing to make residential real estate loans, “If we did not make them there is nowhere else to go for financing in our rural area,” said Johnson.

MINNESOTA

The April RMI for Minnesota rose to 54.1 from March’s 50.4. Minnesota’s farmland-price index for April increased to 50.0 from March’s 40.3. The new-hiring index expanded to 65.7 from 57.3 in March. Pete Had-deland, CEO of the First National Bank in Mahanomen, said, “Farmland rent prices have peaked and are slowly starting to fall.” Brian Nicklason, CEO of Woodland Bank in Grand Rapids registered concern about the late spring and its impact on tourism and the resort industry.

MISSOURI

The April RMI for Missouri increased slightly to 51.3 from March’s 50.9. The farmland-price index for April slumped to 42.3 from March’s 49.7. Missouri’s new-hiring index decreased to 55.5 from 66.0 in March.

NEBRASKA

For a third straight month, Nebraska’s Rural Mainstreet Index remained below growth neutral. The index improved to 53.0 from March’s 49.5. The farmland-price index for April jumped to 35.8 from March’s 27.7. Nebraska’s new-hiring index climbed to 57.1 from March’s 48.4. Due to rising regulatory costs, David Steffensmeier, president of the First Community Bank in Beemer said, “We have not stopped making owner-occupied home loans completely, but we are questioning the profitability of continuing.”

NORTH DAKOTA

The North Dakota RMI for April bounced to 59.4 from March’s 52.6. The farmland-price index grew to 64.5 from March’s 58.6. North Dakota’s new-hiring index rose to 80.0 from 73.1 in March. Jim Goetz, CEO of Security First Bank of North Dakota said, “New home regulations are driving many community banks out of the residential mortgage business.”

SOUTH DAKOTA

The April RMI for South Dakota expanded to 53.4 from March’s 49.2. The farmland-price index for April increased to 38.1

from 29.4 in March. South Dakota’s new-hiring index for April advanced to 58.9 from March’s 49.7.

WYOMING

The April RMI for Wyoming increased to 53.6 from 49.5 in March. The April farmland and ranchland-price index grew to a weak 40.9 from March’s 33.1. Wyoming’s new-hiring index for April improved to 61.1 from March’s 52.7

THE BULLISH NEWS

- For April, Creighton University’s survey of supply managers and the national survey of supply managers point to improving growth for through the second quarter of 2014.
- U.S. employers added 288,000 jobs in April and the unemployment rate declined to 6.3%, its lowest level since 2008.
- Exports rose by 2.3% in March to their highest level since November thus narrowing the nation’s trade deficit.

THE BEARISH NEWS

- In April 733,000 Americans gave up on job search and left the labor market. The number of long-term unemployed still stands at 3.5 million.
- New residential housing construction remains weak. As a result, house prices are growing at unsustainable paces for much of the U.S.. Watch for bubbles.

WHAT TO WATCH

- Retail Sales:** On June 12, the U.S. Census Bureau will release retail sales numbers for May. An increase of more than 1% from May’s retail sales will be bullish for the economy but bearish for bonds as the threat of inflation rises.
- Jobs:** On Friday June 6, the U.S. Bureau of Labor Statistics (BLS) will release employment report for May. Another strong report (job additions above 200,000) will result in long term interest rates rising more quick-ly.
- CPI:** On May 15 and June 17, the Bureau of Labor Statistics releases consumer price indices for April and May, respectively. Monthly increases of more than 0.2% will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates and could even encourage the Fed to raise short-term interest rates before the end of 2014.

THE OUTLOOK

FROM GOSS:

- Wage gains to escalate the second half of 2014 for specific occupations (e.g. welders, software developers, accountants) due to shortages.
- Monthly rents to begin increasing more swiftly as more and more Americans seek housing.

- Inflation to pick up in the second half of 2014.

OTHER FORECASTS:

- Conference Board (May 2014) “Widespread Labor Shortages Ahead for the U.S.” American workers have endured six years of depleted wealth, stagnant wages, and general insecurity. But their fortunes are about to change, according to a surprising new study from The Conference Board. From a Buyer’s Market to a Seller’s Market predicts unemployment in the United States — currently 6.3 percent and falling rapidly — will reach its “natural rate” of 5.5 percent by late-2015. The decline will continue well past this benchmark; over the next 15 to 20 years, U.S. unemployment may even dip below 3.8 percent, the lowest rate recorded since the 1960s.”

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The anti-science, Luddites are at it again. Vermont Governor Peter Shumlin signed a law requiring food producers to label foods that contain genetically modified farm products. This will force the price of food up dramatically making it unaffordable for many families to live in this state. Even when advisable, food labeling laws cannot be set at the state level.

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