THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

October 2015

Americans Vote with Their Feet on Best Places to Live: Low Tax States Are Preferred

Each year based on a questionable set of criteria, scores of publications rank the top places to live in the U.S. Instead, it is argued here that states should be ranked according to the actual votes of U.S. residents---where are they moving to and where are they moving from? This method is not subject to the arbitrary selection of factors by the analyst, but is instead based on domestic migration rates from the 50 U.S. states, in this case from 2010 to 2014.

According to American's moving patterns, the five states with the highest net exit rates were New York, Illinois, New Jersey, Connecticut, and Alaska. Among these five states, only Alaska was ranked in the bottom half of states in terms of tax burdens. Among states with the highest net entrance rates were North Dakota, Colorado, South Carolina, Florida and Texas. Two of these states have no individual income tax, Florida and Texas and the five states collectively had median tax rates that were significantly lower than the bottom five. As American individuals, families and businesses have become more geographically mobile, migration voting patterns show that Americans are repelled by states with high taxes and attracted to states with lower tax burdens. Ernie Goss.

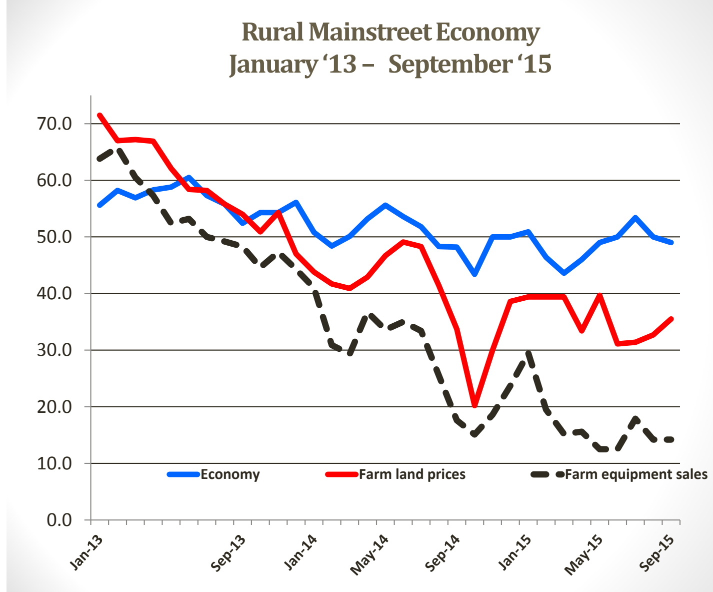
MAINSTREET RESULTS

Rural Mainstreet Index Falls Below Growth Neutral for September Agriculture Equipment Sales Near Record Low

Table 1: The Mainstreet Economy	Sep 2014	Aug 2015	Sep 2015
Area Economic Index	48.2	50.0	49.0
Loan volume	75.9	73.0	72.0
Checking deposits	56.4	55.0	54.2
Certificate of deposits	42.8	34.0	41.7
Farm land prices	33.7	32.7	35.5
Farm equipment area sales	17.6	14.2	14.2
Home sales	57.3	70.4	56.4
Hiring in the area	56.5	63.3	54.3
Retail Business	49.9	50.0	49.0
Economy 6 months from now	33.4	42.0	43.8

Survey Results at a Glance:

- The Rural Mainstreet Index sinks below growth neutral for September.
- Farmland prices decline for the 22nd straight month.
- Farm equipment sales remain near record lows.
- Bank CEOs support removing the Farm Credit's tax exempt status and its quasi-government position to level the financial playing field for Rural Mainstreet



The Creighton University Rural Mainstreet Index for September fell from August's weak reading, 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, sank to 49.0 from August's growth neutral 50.0. This is the second straight month that the overall index has declined reflecting weakness stemming from lower agriculture and energy commodity prices.

Farming and ranching: The farmland and ranchland price index for September increased to 35.5 from 32.7 in August. This is the 22nd straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices. On an annualized basis farmland prices are declining 6 percent to 7 percent rates.

The September farm equipment-sales index was unchanged from August anemic 14.2. The 2014 and 2015 downturns in farm income continue to reduce sales and production of agriculture equipment dealers and producers across the region. Bankers remain pessimistic about the short and intermediate prospects for agriculture equipment dealers and producers on Rural Mainstreet.

Banking: The September loan-volume index dipped to 72.0 from last month's 73.0. The checking-deposit index declined to 54.2 from August's 55.0, while the index for certificates of deposit and other savings instruments advanced to 41.7 from 34.0 in August.

In previous surveys bank CEOs have identified Farm Credit as their major competitor. This month we asked how this competition was manifested. Bankers singled out Farm Credit's quasi-government status and their tax exempt status as an issue.

According to Jeffrey Gerhart, chairman of Bank of Newman Grove and former chairman of the Independent Community Bankers of America, "Farm Credit has been a thorn in our side for decades. Lower cost of funds, lower credit standards, and quasi-government status give them an unfair advantage over the community bank."

Almost two-thirds, or 65 percent, of bankers reported that Farm Credit's tax exempt status produced unfair competition for agriculture loans. Another 84 percent indicated that Farm Credit's quasi-government status allowed them to borrow in credit markets at much lower rates than commercial banks.

Jim Eckert, president of Anchor State Bank in Anchor, Ill., said, "The Farm Credit System has grown beyond its original purpose. It's time for their tax exempt status to change. They should pay taxes just like community banks do."

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls. The September hiring index fell to a still solid 54.3 from 63.3 in August. Rural Mainstreet businesses continue to hire additional workers but at a slower pace. From last year at this time, annualized job growth was dropped 1.2 percent to 0.2 percent.

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to 43.8 from 42.0 in August. Declines for agricultural commodity and energy prices pushed bankers' economic outlook lower for the month.

Home and retail sales: The September home-sales index declined to a 56.4 from 70.4 in August. The September retail-sales index decreased to 49.0 from 50.0 last month. Home sales on Rural Mainstreet have been very healthy over the last several months. On the other hand, Creighton's monthly survey has yet to measure any upturn in retail sales resulting from the downturn in fuel prices.

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
The state's Rural Mainstreet Index (RMI) dipped to 48.8 from 51.5 in August. The farmland and ranchland price index expanded to47.4 from August's 38.4. Colorado's hiring index for September fell to a healthy 60.1 from August's 65.5.

ILLINOIS
The September RMI for Illinois declined to 49.0 from 50.0 in August. The farmland-price dropped to 28.8 from August's 29.5. The state's new-hiring index sank to 53.3 from last month's 62.0.

IOWA
The September RMI for Iowa improved to 54.2 from August's 53.4. Iowa's farmland-price index for September rose to 47.2 from August's 44.0. Iowa's new-hiring index for September decreased to 60.0 from 67.8 in August.

KANSAS
The Kansas RMI for September slid to 48.6 from August's 49.8. The state's farmland-price index for September slipped to 27.0 from August's 27.8. The new-hiring index for the state declined to 51.9 from 61.3 in August.

MINNESOTA
The September RMI for Minnesota expanded to 49.2 from August's 48.4. Minnesota's farmland-price index slipped to 33.0 from 33.7 in August.. The new-hiring index for the state declined to 54.6 from last month's healthy 58.2.

MISSOURI
The September RMI for Missouri improved to 47.4 from 43.2 in August. The farmland-price index grew to 30.9 from August's 29.5. Missouri's new-hiring index decreased to 44.0 from August's 51.3.

NEBRASKA
The Nebraska RMI for September slumped to 47.3 from 48.4 in August. The state's farmland-price index fell to 18.7 from August's 19.6. Nebraska's new-hiring index slumped to 48.6 from 58.0 in August.

NORTH DAKOTA
The North Dakota RMI for September decreased to 40.8 from 47.1 in August. The farmland-price index fell to 17.8 from 24.8 in August. North Dakota's new-hiring index declined to 44.2 from August's 60.1.

SOUTH DAKOTA
The September RMI for South Dakota slipped to 54.4 from August's 55.1. The farmland-price index rose to 53.3 from 47.2 in August. South Dakota's new-hiring index fell to a still strong 62.4 from 69.1 in August.

WYOMING
The September RMI for Wyoming climbed to 50.4 from August's 49.2. The September farmland and ranchland-price index sank to 30.8 from 47.2 in August. Wyoming's new-hiring index declined to 53.4 from August's 60.9.

THE BULLISH NEWS

- Home prices for July were up 5.1% from the year earlier according to the Case-Shiller monthly survey.
- Oil prices appear to be stabilizing at $40 - $50 per barrel.

THE BEARISH NEWS

- The October jobs report for September was not good. Where do I begin? The number of jobs added was 142,000 below the expected 200,000 and July and August job additions were revised downward; The unemployment rate was unchanged at 5.1%; The labor force participation rate declined to 62.4%; wages declined by a penny an hour.
- The U.S. trade deficit for August rose to $48.3 billion as exports sagged.
- It's looking like health insurance premiums are going to rise by an average of 10% for 2016.

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- Both the U.S. and Creighton survey of supply managers indicate that the economy is slowing down with little infla-tionary pressures at the wholesale level.

WHAT TO WATCH

- **Federal Reserve:** On Oct. 28, the Fed will announce any change in short term interest rates. Right now there is only a 10% likelihood of a rate hike in October. Keep an eye on short term interest rates leading up to their Oct. 27-28 meeting. If yields begin to rise in the weeks leading up to the Fed meetings, failure to raise rates could produce stock market gyrations.
- **PMIs:** On Nov. 2, the first business day of November, Creighton and the National Institute for Supply Management will release regional and national PMIs for October. Both PMIs are moving down. A national PMI below growth neutral will be bearish for stocks but bullish for bond prices. Also note the inflation gauges from the reports.
- **The Jobs Report:** On Nov. 6 the Bureau of Labor Statistics will report October jobs report. A weak jobs report will be very bullish for bonds (higher prices, lower yields). Weak: job gains less than 120,000; flat wages; More discouraged workers (drop in labor force participation).

THE OUTLOOK

FROM GOSS:

- Well I was wrong again. The Federal Reserve failed to raise rates (they should in my judgement). I now expect the Fed to push a rate hike into 2016. They are just too concerned about any negative releases such as the employment report or international markets. I expect U.S. manufacturing data to remain as exports languish.

OTHER FORECASTS:

- Conference Board (September 2015): "A gain of only 142,000 new jobs in September on top of a soft reading of 136,000 in August provides more evidence that the US economy is experiencing a slowdown in job growth. While disappointing compared with expectations, this slower job growth is more in line with the mediocre GDP growth of recent years, and also suggests that the very low productivity growth during that time is not sustainable. Part of the weakness in the recent slowdown in job growth was a result of the drop in manufacturing employment which is clearly suffering from weak exports growth. Even if employment continues to grow at about 150,000 per month, the lack of any signs of a recovery in labor force growth suggests that the unemployment rate will continue to go down, perhaps going below 5 percent by the end of the year."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The Federal Reserve's interest rate setting committee failed to raise interest rates in September. Furthermore they are sending out mixed messages about their 2015 likely moves. They say they are data dependent; let's hope that they are always data dependent. Which data? They are paying too much attention to financial mar-kets and headline inflation data. Slightly higher rates would not hurt but assist the U.S. economy.

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This month's survey results will be released on the third Thursday of the month, October 15.