

Rural Mainstreet Index Expands for Third Straight Month: Farmland Equipment Sales Slump to Lowest Level in 4 Years

May Survey Results at a Glance:

- Bank CEOs report a third straight uptick in the monthly index.
- Farm-equipment sales index drops to another record low.
- More than half of the bankers report no impact from the home-buyer tax credit in the 2009 Stimulus Bill.
- Almost two-thirds of the bankers expect the closure of GM and Chrysler dealerships to have little or no impact on the Rural Mainstreet economy.

OMAHA, Neb. – The overall index for the Rural Mainstreet economy increased for a third straight month but continued to point to significant economic weakness, according to the May survey of bank CEOs in an 11-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, expanded to 36.2 from April's 21.7 and March's 18.7.

“The Rural Mainstreet Economy appears to have bottomed out earlier this year with fewer negative indicators each month since February. While the RMI remains below growth neutral, May's number was the highest recorded level since September 2008. The May 2009 reading compares to 42.6 for May 2008. The RMI has remained below growth neutral 50.0 for 15 consecutive months. Weaker farm income, significant reductions for rural manufacturers and a weak U.S. economy continue to negatively affect the Rural Mainstreet economy,” said Creighton University economist Ernie Goss. Goss and Bill McQuillan, CEO of City National Bank in Greeley, Neb., created the monthly economic survey in 2005.

A weaker outlook for farm income has materially and negatively affected businesses that sell to the farm sector. The strong dollar and the global recession have had a negative impact on the sales of U.S. farm products abroad. As a result, the farmland-price index moved below growth neutral for the seventh straight month. “After peaking at 81.0 in January 2008, the index declined to a record low 33.1 in March of this year, but has rebounded slightly to May's 39.2, though it is down slightly from April's 41.2. The farm-equipment sales index slumped to 28.3, a record low and was down from April's 29.6 and March's record low 30.0. Cautious farmers have clearly cut their purchases of farm machinery,” said Goss.

However, bankers with an eye to the 1980s said the conditions for buying farm machinery is not as bad as it could be. According to Jim Brown CEO Hardin County Savings Bank, Eldora, Iowa, “This is not record low territory for farm machinery sales. In the 1980s, there were no sales and no bottom to the market for a long period.”

For the first time since September 2007, the confidence index, which tracks expectations for the Rural Mainstreet economy six months out, rose above growth neutral 50.0. The May reading soared to 56.0 from April's 45.6. “Bankers in our survey are clearly getting more optimistic in their economic outlook,” said Goss.

Hiring in the rural areas has been especially weak over the past year. The new-hiring index for May climbed to a weak 29.3 from April's 15.8 but well above February's record low of 14.7.

Rural Mainstreet Index – p. 2 of 4

“This is the 17th consecutive month that the index has been below growth neutral, due in part to the national and global recession and weakening farm and energy commodity prices,” said Goss.

Like much of the nation, retail sales were less than healthy for the month with a May retail-sales index of 34.9, but well up from April’s 20.5 and the highest reading for the retail sector since July 2008.

Unlike the national housing market, home sales improved for Rural Mainstreet with the home-sales index rising to 48.7, its highest level since June 2007, and up significantly from April’s 30.8. In order to determine the source of this growth, this month, bankers were asked to assess the \$8,000 tax credit contained in the 2009 Stimulus Bill. Over half, or 52.3 percent, responded that the tax credit for first-time home buyers has had no impact on their housing markets. Only 4.6 percent indicated that the program has had a significant impact on home sales on Mainstreet. Thus it appears that the upturn in the Rural Mainstreet housing market is more of a reaction to an economy that has bottomed out and poised for growth.

However, other bankers see it differently. Todd Douglas of the First National Bank in Ft. Pierre, S.D., said, “The impact of the first-time home owner tax credit has generated sales and interest in the housing market in central South Dakota.”

This month bank CEOs also were asked to gauge the potential economic impact of the closure of GM and Chrysler dealerships on their communities. Almost two-thirds, or 66.2 percent, indicated that the closures would have little or no impact. On the other hand, 9.2 percent of the bankers expect the impact of the closures to be significant. Some of the bankers see little benefit to Chrysler and GM in closing the dealerships. For example, John Nelsen, president of First Tier Bank in Holdrege, Neb., said that, “I have yet to see the real costs to Chrysler and GM in keeping rural dealerships open. The closure will not add to their bottom lines.” And Howard F. Schaan, CEO of First State Bank of Harvey in Harvey, N.D., thinks his community’s only dealership will keep its franchise but any change could produce moderate negative impacts.

Despite the national banking crisis the community bankers on Rural Mainstreet reported healthy banking numbers. The loan-volume index sank to 46.7 from 50.8 in April, reflecting some tightening of credit, but it is still not in a range to cause concern. For May, checking deposits expanded to 68.0 from April’s 66.7. The index for certificates of deposit and other savings instruments dipped to a still healthy 59.3 from April’s 61.0 and March’s 62.9. “Bank balance sheets continue to be strong for Rural Mainstreet bankers in comparison to their urban counterparts,” said Goss.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of an 11-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 the rural, agriculturally and energy dependent portions of the nation. The Rural Mainstreet Index is a unique index covering 11 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.

Rural Mainstreet Index – p. 3 of 4

Below are reports for each state:

Colorado: Economic conditions for Colorado's Rural Mainstreet continued its downward trend. The Rural Mainstreet Index (RMI) advanced to 34.9 from April's 21.7 and March's 18.7. The May ranch- and farmland-price index dipped to 37.9 from 41.2 in April but up from March's 33.1. May's home sales index stood at 47.4.

Illinois: The Illinois RMI was once again the weakest among the surveyed states. The RMI for May expanded to 22.2 from April's 15.6. Farmland prices continue to decline with a May reading of 23.2, up from April's 11.6. May's home-sales index was 28.9.

Iowa: Iowa's RMI remained below growth neutral, according to the monthly survey of bank CEOs. The RMI for May climbed to 37.2 from April's 18.1 and March's 17.5. The farmland-price index was also below growth neutral with a May reading of 40.2, up from April's index of 34.3. May's home-sales index stood at 49.7.

Kansas: The Kansas RMI, like much of the region, was below growth neutral 50.0. The May RMI rose to 36.5 from 19.0 in April and 17.5 in March. The farmland-price index increased to 39.5 from April's 36.2. May's home-sales index stood at 49.0. However, there were some good signs. For example, Dale Bradley, CEO of The Citizens State Bank in Miltonvale said, "Crops look good in our area. The economy is more stable than I thought it would be by this time."

Minnesota: Minnesota's RMI climbed to 25.9 from April's 15.9 and March's 16.2. The farmland-price index dipped to 28.9 from 30.2 in April and 24.2 in March. May's home-sales index was 38.4.

Missouri: Missouri's RMI grew to 32.6 from 16.1 in April and 11.4 in March. The May farmland-price index expanded to 35.6 from April's 30.5 and March's 24.5. May's home-sales index stood at 45.1.

Montana: Too few bankers responded to survey to calculate index.

Nebraska: As in past months, Nebraska's RMI remained below growth neutral. The May RMI rose to 40.6 from April's 20.3 and March's 14.5. The Nebraska farmland-price index for May increased to 43.6 from April's 38.6 and March's 30.9. May's home sales index was 53.1. Moreover, alternative fuel production continues to have positive impacts for areas of the state. According to Kathy Thuman, president of Farmers State Bank in Maywood, "Sales of corn to ethanol plants in our area are remaining steady with higher fuel costs. Southwest Nebraska has oil fields and our customers with oil production are seeing larger royalty payments." But for the livestock producer, economic conditions have been less favorable. Jon Schmaderer, president of Tri-County Bank in Stuart, said, "The high input prices in 2008 seemed to challenge the cow/calf producer. We expect that 2009 input prices will be lower and more in line with their income."

North Dakota: The North Dakota RMI for May was the second highest among the states with a reading of 62.5, up significantly from April's 32.8 and March's 52.2. The state's May farmland-price index rose again to 65.6 from April's 62.3. May's homes-sales index was a very strong 75.0. Not surprisingly, North Dakota weather has been at the forefront of the economy. According to DeWayne Streyle, CEO of United Community Bank of North Dakota in Leeds, "Extreme wet conditions have delayed planting to the point of eliminating the planting window for some crops." Even though conditions were positive for the month, there were some negatives. Scott Tewksbury, CEO of Heartland State Bank in Edgeley reported, "The past month has seen the first local layoffs as a local equipment parts manufacturer reduced its workforce due to lack of demand for its products."

South Dakota: South Dakota's RMI remained below growth neutral with a reading of 46.1 from April's very weak 22.9 and March's 22.3. The state's farmland-price index expanded to 49.1 from 43.5 in April and 34.9 in March. May's home-sales index was 58.6.

Rural Mainstreet Index – p. 4 of 4

Wyoming: While much of the region and nation struggled economically, Wyoming’s RMI remained healthy. The May RMI was the highest in the region at 64.1. The May ranch- and farmland- price index was also a very strong 67.1. The May homes sales index stood at 76.5, the highest in the region.

Tables 1 and 2 below summarize findings from the May survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. Next month’s survey results will be released on the third Thursday of the month, June 18.

	May-08	Apr-09	May-09
Area economic index	42.6	21.7	36.2
Loan volume	59.3	50.8	46.7
Checking deposits	59.3	66.7	68.0
Certificates of deposit	55.1	61.0	59.3
Farmland prices	71.2	41.2	39.2
Farm-equipment area sales	69.6	29.6	28.3
Home sales	35.8	30.8	48.7
Hiring	46.7	15.8	29.6
Retail business	36.7	20.5	34.9
Confidence index (area economy six months out)	47.5	45.6	56.0

	Declined by more than 10%	Declined by 5% - 15%	Not declined
1. Over the last six months projected fertilizer input costs for agriculture producers have	34.9%	50.8%	14.3%
	Significant	Moderate	None
2. What has been the impact of the \$8,000 tax credit for first-time home buyers on home sales in your area	4.6%	43.1%	52.3%
	Significant	Moderate	Little or none
3. What will be the impact of the closure of GM & Chrysler dealerships in your area	9.2%	24.6%	66.2%

Follow Ernie Goss on Twitter www.twitter.com/erniegoss

For historical data and forecasts, visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

For ongoing commentary on recent economic developments, visit our blog at: www.economicstrends.blogspot.com

For More Information Contact:
 Ernie Goss, Ph.D. (402) 280-4757
ernieg@creighton.edu
 Bill McQuillan, (308) 428-3925
bmcq@cnbgreeley.com
 Cindy Workman (402) 280-2969
cworkman@creighton.edu