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Rural Mainstreet Index Dips Again for August: Almost Half of Bank CEOs Expect a Recession in 2011

August Survey Results at a Glance:

- For a second straight month, the overall index declines below growth neutral.
- Almost half the bankers expect the economy to move back into a recession in 2011.
- Farmland prices and farm equipment sales continue to advance.
- Home sales and retail purchases tumble for the month.
- A high percentage of bankers support increasing the percentage of ethanol in blended fuel.

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OMAHA, Neb. – For a second straight month, the overall index for the Rural Mainstreet economy dipped below growth neutral 50.0, according to the August survey of bank CEOs in a 10-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, dipped to 46.0 from July's 49.3 and June's 52.6.

Creighton University economist Ernie Goss said, "Much like the nation, bank CEOs are tracking significant pullbacks in economic activity." Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

The farmland-price index moved above growth neutral for a seventh straight month to 55.3 from July's 52.5 and June's 54.7. "While Rural Mainstreet businesses are experiencing downturns in economic activity, farming income is holding up much better with resulting

upturns in farmland prices,” said Goss.

The farm equipment-sales index rose to 52.7 from 51.8 in July. “Farm income will depend heavily on the value of the dollar. As long as we don’t experience any significant upward moves in the value of the dollar, I expect farm income to continue to grow for 2010,” said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Many bankers reported very healthy crop yields. For example, Terry Engelken, CEO of Federation Bank in Washington, Iowa, said, “Our county ranges from excellent looking crops to some areas that were too wet to plant.”

Todd Douglas, CEO of the First National Bank in Fort Pierre, S.D., reported, “Although most area row crops look good, grass hoppers have caused damage west and south in our area.”

For a sixth straight month, all bank indicators were above growth neutral. The loan-volumes index increased to 54.2 from 53.1 in July. For August, the checking-deposit index improved to 59.1 from July’s 54.6. The index for certificates of deposit and other savings instruments slipped to 54.2 from July’s 55.4. Larry Winum, president of Glenwood State Bank in Glenwood, Iowa, reported that individuals and businesses are focusing on reducing their debt levels and cutting expenses, and as a result are borrowing less.

The August hiring index increased to a still weak 45.9 from 45.4 in July. “Most states in the region continue to lose jobs. Over the past year, Rural Mainstreet has lost approximately 3.5 percent of its total employment,” said Goss. Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kan., echoed much of the sentiment saying, “The economy is certainly not out of the woods yet.”

This month bankers were asked if they expected the economy to move back into recession territory in 2011. More than four in 10, or 43 percent, said they thought a 2011 recession was likely or very likely. Only 26 percent indicated that a 2011 recession was unlikely or very unlikely. According to Frank Sullentrop, president, Legacy Bank in Colwich, Kan., “There is too much uncertainty (coming from Washington). Businesses do not like to take financial risks in uncertain times.”

Much like other elements of August’s survey Rural Mainstreet retail sales declined to 40.2 from a July reading of 41.7. The economic confidence index, which reflects expectations for the economy six months out, slipped to 46.0 from 52.4 in July and 56.1 in June.

For a second straight month, the new home sales index sank to 38.8, down from July’s 41.7 and well down from June’s 56.1 and May’s 58.8. “This is the weakest home sales reading that we have recorded this year,” said Goss.

And Larry Rogers, president of First Bank of Utica, Neb., is concerned that increasingly, people seem to be more willing to walk away from their debt obligations.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of the 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.

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.

Colorado: Colorado's RMI for August moved below growth neutral to a weak 42.0 from 45.5 in July and 47.6 in June. The August farmland and ranchland price index increased slightly to 52.8 from June's 52.1. Colorado's farm equipment-sales index moved slightly lower to 50.2 from 50.4 in July. Fred Bauer, CEO of Farmers Bank in Ault, reported, "We are experiencing heavy oil drilling in our area because of new drilling technology. That could change some of my answers down the road." The rate of job **losses** for Rural Mainstreet Colorado over the past 12 months was 2.5 percent.

Illinois: For a fourth straight month, Illinois' RMI advanced above growth neutral. The August reading was 50.3, down from July's 53.4. For a seventh straight month, farmland prices advanced above growth neutral with an August reading of 57.5, up from July's 56.0. Farm equipment-sales for August advanced slightly to 54.4 from July's 54.3. The rate of job **gains** for Rural Mainstreet Illinois over the past 12 months was 3.4 percent.

Iowa: Iowa's RMI slipped below growth neutral for the month with an August reading of 48.0, down from July's 52.5. The farmland- price index expanded to 55.8 from July's 55.6. The state's farm equipment-sales index declined to 53.2 from July's 53.9. The rate of job **gains** for Rural Mainstreet Iowa over the past 12 months was 0.6 percent.

Kansas: The RMI for Kansas declined below growth neutral 50.0 for the month. The index slumped to 46.8 from July's 51.2. The farmland-price index increased to 55.2 from 54.9 in July. The August agricultural equipment-sales index slipped to 52.6 from July's 53.2. The rate of job **losses** for Rural Mainstreet Kansas over the past 12 months was 0.1 percent.

Minnesota: The RMI for Minnesota moved lower to 50.1 from 54.5 in July and 57.0 in June. Minnesota's farmland-price index decreased to 55.2 from July's 56.6 and June's 58.4. The August agricultural equipment-sales index stood at 54.2, down from July's 54.9. According to Pete Haddeland, CEO of First National Bank in Mahanomen, "Our crops look very good. Homes sales are very slow." The rate of job **gains** for Rural Mainstreet Minnesota over the past 12 months was 1.7 percent.

Missouri: Missouri's RMI sank to 44.5 from 49.6 in July and 51.6 in June. The August farmland-price index for Missouri slipped to 54.0 from July's 54.1. The August farm equipment- sales index decreased to 51.4 from 52.4 in July. The rate of job **losses** for Rural Mainstreet Missouri over the past 12 months was 1.0 percent.

Nebraska: The August RMI for Nebraska slumped to 48.7 from 53.2 in July and 55.3 in June. The farmland-price index for August climbed to 56.1 from July's 54.2. The state's farm equipment-sales index sank to 53.5 from July's 54.2. Kathy Thuman, CEO of Farmers State Bank in Maywood, reported, "The corn looks great and in southwest Nebraska we're hoping for higher yields, similar to the wheat crop, of a 15-25% increase." Additionally, Bradley Bauier, president of Pinnacle Bank in Ogallala, expects the recent upward trends of grain commodity prices to give a real boost to the local economy. The rate of job **gains** for Rural Mainstreet Nebraska over the past 12 months was 0.6 percent.

North Dakota: For the 15th straight month, North Dakota’s RMI was the highest in the region. However, the index slid to 51.5 from 56.5 in July and 58.5 in June. North Dakota’s farmland-price index declined to 57.5 from July’s 57.6 and June’s 59.1. Farm equipment-sales stood at 54.9, down from 55.9 in July. The rate of job **gains** for Rural Mainstreet North Dakota over the past 12 months was 1.2 percent.

South Dakota: For the first time since April of this year, the RMI for South Dakota sank below growth neutral. The index for August stood at 47.0, down from 50.8 in July and 53.0 in June. The state’s farmland-price index advanced to 55.3 from 54.7 in July. South Dakota’s farm equipment-sales index was 52.6, down from 53.0 in July. Scott Park of Farmers State Bank in Marion, said, “Crop yields (in some areas) were reduced due to flooding of low spots. Crops on high ground will be fantastic.” David Callies, of Minor County Bank in Howard reported much the same saying, “Our local economy continues to do well. The area crops look as good or better than last year. However, with many low areas drowned out, the overall yield will probably be less.” The rate of job losses for Rural Mainstreet South Dakota over the past 12 months was 0.0 percent (no change).

Wyoming: Wyoming’s RMI for August sank below growth neutral with a reading of 44.3, down from July’s 47.5 and June’s 48.8. The August farmland and ranchland -price index rose to 54.0 from July’s 53.1. The state’s agriculture equipment sales slipped to 51.4 from July’s 51.7. The rate of job **losses** for Rural Mainstreet Wyoming over the past 12 months was 0.3 percent.

Tables 1 and 2 summarize survey findings. Next month’s survey results will be released on the third Thursday of the month, Sept. 16.

	August 2009	July 2010	August 2010
Area economic index	32.0	49.3	46.0
Loan volume	45.3	53.1	54.2
Checking deposits	52.0	54.6	59.1
Certificates of deposit and savings instruments	49.4	55.4	54.2
Farmland prices	43.7	52.5	55.3
Farm equipment area sales	32.4	51.8	52.7
Home sales	39.2	41.7	38.8
Hiring	25.0	45.4	45.9
Retail business	30.4	41.7	40.2
Confidence index (area economy six months out)	46.0	52.4	46.0

	Likely Or very likely	50-50 chance	Unlikely Or very unlikely
Do you think the U.S. economy will move back into recessionary			

territory in 2011?	43%	31%	26%
	Leave at 10%	Increase to 11% – 15%	Increase to more than 15%
Would the customers and businesses in your area support changing the corn ethanol blend percentage?	27%	51%	22%
	Up	Same	Down
Compared to August 2009, do current row crop conditions in your area look like they will yield?	50%	22%	28%

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