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Rural Mainstreet Economy Slumps for February: Bankers See Business Hiring as Biggest 2010 Challenge

February Survey Results at a Glance

- Rural Mainstreet index declines for first time since August of 2009.
- Farmland price index advances above growth neutral for first time since October of 2008.
- Approximately 38 percent of bank CEOs expect lack of hiring by Rural Mainstreet businesses to be the biggest economic hurdle in 2010.
- Over 40 percent report that regulatory oversight was restraining U.S. bank lending.

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OMAHA, Neb. – For the first time since August of last year, the overall index for the Rural Mainstreet economy declined and continues to indicate significant economic weakness, according to the February survey of bank CEOs in a 10-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, slumped to 36.6 from January's 41.0. A reading of 50.0 is considered growth neutral.

“The RMI has remained below growth neutral for 24 consecutive months. It is clear that the rural economy of the region is underperforming the urban areas. The softer farm economy for 2009 continues to weigh on Rural Mainstreet businesses in the region. Agriculture producers have been taking a conservative approach to their buying and this is showing up in our survey,” said Creighton University economist Ernie Goss. Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

Despite a weaker overall index, the farmland price index move above growth neutral for the first time since October 2008, or around the time that the U.S. dollar began to increase in value and agricultural commodity prices softened significantly. The February farmland-price index rose to 52.8 from 47.4 in January. On the other hand, the farm equipment-sales index slumped to 42.4 from 47.2 in January.

This month bank CEOs were asked to identify the biggest economic challenge to the 2010 Rural Mainstreet economy. More than one-third, or 38 percent, expect a lack of new hiring by businesses in the area to be the most significant economic hurdle for 2010. Coming in a close second place, 30 percent of bankers anticipate that weak commodity prices will be the largest problem for the rural economy for 2010. Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kan., said the weakness in farm prices is not stacking up well for Rural Mainstreet banks. Ranking third were concerns over farm input prices with 16 percent expecting high agricultural input prices to be the biggest economic challenge for 2010.

As in past months, loan-volumes remained low with a February loan volume index of 43.7, which was up significantly from January's record low 33.4. This month bank CEOs were asked why U.S. banks had not stepped up their lending. More than 41 percent reported that regulatory oversight was the prime factor limiting loan activity. According to Pete Haddeland, CEO of First National Bank in Mahanomen, Minn., "I think the regulators have zeroed in on community banks, and are holding them to a much higher standard than the big banks." Another banker indicated that it was the threat from regulators that was causing reduced lending.

On the contrary, Larry Franklin, CEO of Cornerstone Bank & Trust in Alton, Ill. said, "Community Banks continue to fund their communities, by making loans for worthwhile purposes, despite increased regulatory burden." On the other hand, 34 percent of the bankers reported that cut backs in loan demand from borrowers was the chief factor reducing loan activity. Only 21 percent said that borrower credit quality was the prime reason that U.S. banks were limiting lending.

For February, the checking-deposit index declined to 52.8 from January's 59.2 and December's 69.8. The index for certificates of deposit and other savings instruments expanded to 50.9 from 47.5 in January.

As the Rural Mainstreet Economy wilted for the month, the economic outlook slipped as well. The monthly confidence index, which tracks bankers' economic outlook six months from now, sank to 52.8 from January's 59.7. However, there were some improvements on the horizon. According to Ken Walsh, CEO of Ruby Valley Bank in Twin Bridges, Mont., "Cattle prices are beginning to show some improvement, which will be a big benefit in our area. We look forward to green grass and a renewed outlook for the local economy."

Hiring in rural areas has yet to trend upward. The new-hiring index fell to 34.8 from January's 40.1. While the February 2010 reading was up from February 2009's record low 14.7, this month's report was not promising in terms of new hiring. This was the 26th consecutive month that the index has been below growth neutral. Only 7 percent of bankers said that hiring was up from last month.

"The Rural Mainstreet economy continues to lose jobs at an annualized rate of roughly 4 percent. While this is certainly not good and is well above the rate of job losses for urban areas, the pace of job losses has slowed from the 5 percent pace experienced in previous months," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Like much of the nation, retail sales were less than healthy for the month with a February retail-sales index of 32.4, which was down from 40.2 in January. Some of the bankers report losing local sales to regional "big box" retailers.

Just like the recently released national housing data, home sales for Rural Mainstreet were not good for February. The home-sales index slumped to 37.5 from January's 40.1.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of the 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. Additional surveys were completed by Montana bankers but not reported separately.

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 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.

Colorado: Colorado's RMI sank to 35.7 from 40.3 in January. The February ranch- and farmland-price index rose to 51.9 from January's 46.8. The state's Rural Mainstreet new hiring index sank to 33.9.

Illinois: The Illinois RMI once again moved below growth neutral. The RMI for February slumped to 34.8 from January's 38.4. Farmland prices rebounded to 51.0 from 44.4 in January. Hiring in rural agriculturally dependent areas of the state remained weak with a February reading of 33.0 for the new hiring index.

Iowa: Iowa's RMI once again moved below growth neutral according to the monthly survey of bank CEOs in the state. The RMI for February dipped to 37.1 from 41.2 in January. The farmland-price index climbed above growth neutral to 53.3 from January's 47.6 and December's 44.7. Iowa's new hiring index for February was a frail 35.3. According to Bradley Robson, CEO of First State Bank in Belmond, "The federal government needs to quit working on/or passing legislation that short circuits business decisions founded in economics rather than legislative enticements."

Kansas: The Kansas RMI, like much of the region, was below growth neutral 50.0. The index slipped to 34.9 from January's 39.0. The farmland-price index climbed to 51.1 from January's 45.4. The February new hiring index for the state was a weak 33.1.

Minnesota: Minnesota's RMI dipped to 36.3 from 39.8 in January. Minnesota's farmland-price index advanced to 52.5 from January's 46.3. New hiring among Rural Mainstreet businesses was very weak with a reading of 34.5.

Missouri: The Missouri RMI slumped to 37.0 from 41.5 in January. The February farmland-price index grew to 53.2 from January's 48.0. Hiring in rural areas of the state was not good for the month with a new hiring index of 35.2.

Nebraska: The February RMI for Nebraska slipped to 38.5 from 42.3 in January. The farmland-price index for February rose to 54.7 from January's 48.7. The state's rural areas continue to lose jobs as the new hiring index for February stood at 36.7.

North Dakota: For the ninth straight month, North Dakota's RMI was the highest in the region. Even so, the index moved below growth neutral to 48.1 from January's 52.1. North Dakota's farmland-price index climbed to 58.3 from January's 52.6. Layoffs exceeded hiring for the month as the new hiring index stood at 40.3 for February.

South Dakota: The RMI for South Dakota remained below growth neutral with a February reading of 38.5, down from 43.2 in January. The state's farmland-price index climbed to 54.7 from 49.7 in January. South Dakota's new hiring index was 36.7 for February.

Wyoming: The Wyoming RMI for February dropped to 34.3 from January's 39.2. The February ranch- and farmland-price index advanced to 50.5 from 45.7 in January and 44.1 in December. As in the other states, businesses laid off more workers than they hired as the new hiring index stood at 32.5.

Table 1 and 2 summarize survey findings. Next month's survey results will be released on the third Thursday of the month, March 18.

	Feb. 2009	Jan. 2010	Feb. 2010
Area economic index	16.9	41.0	36.6
Loan volume	43.9	33.4	43.7
Checking deposits	61.4	59.2	52.8
Certificates of deposit & savings instruments	56.1	47.5	50.9
Farmland prices	38.3	47.4	52.8
Farm-equipment area sales	31.0	47.2	42.4
Home sales	24.6	40.1	37.5
Hiring	14.7	40.7	34.8
Retail business	18.4	40.2	32.4
Confidence index (area economy six months out)	21.2	59.7	52.8

	Weak commodity prices	Lack of hiring by new	High farm input prices	Other
1. What will be the single biggest challenge to the Rural Mainstreet economy for 2010?	30%	38%	16%	16%
	Regulatory Oversight	Cut backs in borrower demand	Credit quality of borrowers	Other
3. What do you think is the most significant reason that U.S. banks are not making more loans?	41%	34%	21%	4%

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