

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

## **Rural Mainstreet Economy Remains Weak for January: Loan Volume Declines to Record Low Level**

### **Survey Results at a Glance**

- Rural Mainstreet economy continues to decline but at a slower pace.
- Bank lending declined to a record low for the month.
- More than one-third of bankers don't expect a Fed rate hike this year.
- Economic confidence remains healthy.

### **For Immediate Release: Jan. 21, 2010**

OMAHA, Neb. – For a fifth straight month the overall index for the Rural Mainstreet economy advanced, but continued to indicate significant economic weakness, according to the January survey of bank CEOs in an 11-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, rose slightly to 41.0 from December's 40.9. A reading of 50.0 is considered growth neutral.

“The RMI has remained below growth neutral for 23 consecutive months. The uncertainty surrounding legislative changes coming from Washington combined with economic weakness among Mainstreet businesses linked to the farm sector appear to be weighing on the rural, agriculturally dependent economy,” 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.

For many of the bankers, health care costs remain an issue. According to Jeffrey Gerhart, CEO of the Bank of Newman Grove, Neb., “Increasing health care costs continue to concern me. Our costs continue to rise but meaningful improvements in our health care system that would lower the cost do not seem to be the focus of Congress.”

As in past months, the fragility of the rural economy is being reflected in farmland prices and the sales of farm equipment. The January farmland-price index rose to 47.4 from 44.9 in December. This was the 15th straight month that the index remained below growth neutral. The farm equipment-sales index increased to 47.2 from December's 40.4.

This month we asked CEOs by how much farmland prices have changed over the past 6 months. More than one in 10, or 11 percent, indicated that farmland prices had increased by more than 5

percent over the second half of 2009. Approximately 31 percent reported that farmland prices declined over the past 6 months. The largest share of bankers, approximately 41 percent, reported no change in farmland prices over the past half year.

However, there were wide variations in reports of farmland prices. For example, Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kan., reported, "Land prices seem to be staying strong. Crops were good this fall, but prices are down and that does not bode well for our farmers."

Despite the corn harvest being behind schedule, yields are up dramatically for 2009 according to the bankers. More than one-third, or 38 percent, indicated that yields were up more than 10 percent over 2008 levels. On the opposite side, only 7 percent reported that yields were down by more than 10 percent. Overall, 65 percent reported yields up from 2008, while only 15 percent indicated that yields were down from 2008.

Even with the current muted economic conditions for Rural Mainstreet, bankers were very upbeat about future economic prospects. The monthly confidence index, which tracks bankers' economic outlook six months from now, climbed to 59.7 from December's 53.7 and November's 50.1.

Hiring in rural areas was decidedly negative. Nonetheless the negatives are getting less negative as the new-hiring index advanced to 40.1 from December's 33.4. While January's reading was the highest since July 2008, it was the 25th consecutive month that the index has been below growth neutral. Approximately 9 percent of bankers said that hiring was up for the month but roughly 65 percent reported that hiring was down for January from December levels.

"Over the past year, the Rural Mainstreet economy has lost 150,000 jobs, or 3.1 percent of its employment. While this loss is certainly a problem, it is encouraging that the annualized pace of job losses has declined from the 5.4 percent experienced only a few months back. I expect the pace of losses to moderate significantly in the months ahead," 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 January retail-sales index of 40.2, down from 43.3 in December. However, crippling winter weather played an important role in reducing retail sales.

Just like the recently released national housing data, home sales for Rural Mainstreet were not good for January. The home-sales index slumped to 40.1 from December's 40.4.

This month, bank CEOs were also asked when they expect the Federal Reserve to begin raising interest rates. Only 7 percent expect a rate hike in the first half of 2010, while 37 percent anticipate that the Fed will not raise rates until 2011. Most, or 56 percent, expect a rate increase in the second half of 2010. Pete Haddeland president of the First National Bank in Mahanomen, Minn., does not expect a rate increase until unemployment peaks and is on its way down.

Despite the United States Treasury Department encouraging increased lending, the loan-volume index slumped to a record low level. The January loan volume index plummeted to 33.4 from December's 45.7 and November's then record low 38.3.

For January, the checking-deposit index declined to 59.2 from 69.8 in December. The index for certificates of deposit and other savings instruments slumped to 47.5 from December's 59.6.

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.

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 expanded to 40.3 from 39.8 in December. The January ranch- and farmland-price index rose to 46.8 from December's 43.8 and 44.1 in November. The state's Rural Mainstreet loan volume index plunged to 32.7 from December's 44.6. Colorado's Rural Mainstreet economy has lost more 3.7 percent of its employment over the past year. This compares to a loss of 3.9 percent for Colorado's urban areas.

**Illinois:** The Illinois RMI once again moved below growth neutral. The RMI for January rose to 38.4 from 37.6 in December. Farmland prices continue to slump with a January index of 44.4 which was higher than December's 42.4. Illinois' Rural Mainstreet economy has lost more 5.3 percent of its employment over the past year. This compares to a loss of 4.0 percent for the state's urban areas.

**Iowa:** Iowa's RMI remained below growth neutral, according to the monthly survey of bank CEOs. The RMI for January edged higher to 41.2 from 40.7 in December. The farmland-price index was also below growth neutral with a January reading of 47.6, up from December's 44.7. Iowa's Rural Mainstreet economy has lost approximately 3.2 percent of its employment over the past year. This compares to a loss of 1.5 percent for Iowa's urban areas.

**Kansas:** The Kansas RMI, like much of the region, was below growth neutral 50.0. The index was unchanged from December's 39.0. The farmland-price index climbed to 45.4 from 43.0 in December. The January loan volume index plunged to 31.4 from December's 43.8. But all was not negative for agriculture. According to Frank Sullentrop, president of Legacy Bank in Colwich, "Commodity prices and farm income have been one of the few bright spots in our local economy over the past year. Kansas' Rural Mainstreet economy has lost approximately 6. percent of its employment over the past year. This compares to a loss of 3.2 percent for the state's urban areas.

**Minnesota:** Minnesota's RMI inched higher to 39.8 from December's 39.3. Minnesota's farmland-price index advanced to 46.3 from December's 43.3. The January loan volume index for the state's Rural Mainstreet economy sank to 32.2 from 44.1 in December. Brian Nicklason, president of Woodland Bank in Remer reported, "Winter tourism in our area is down. Lack of good snow and high gas prices are the likely cause of the downturn. Most restaurants, bars, gas stations and motels are finding customer traffic is below last year's levels." Minnesota's Rural Mainstreet economy has lost approximately 3.4 percent of its employment over the past year. This compares to a loss of 2.9 percent for Minnesota's urban areas.

**Missouri:** The Missouri RMI slipped to 41.5 from December's 41.7. The January farmland-price index expanded to 48.0 from 45.7 in December. Loan volumes remained weak with an index of 33.9 for January which was down significantly from December's 46.5. Missouri's Rural Mainstreet economy has lost approximately 3.9 percent of its employment over the past year. This compares to a loss of 2.2 percent for the state's urban areas.

**Montana:** There were too few responses to produce a reliable index.

**Nebraska:** Nebraska's RMI climbed to 42.3 from December's 42.0. The farmland-price index for January expanded to 48.7, up from December's 34.7. The January loan volume index tumbled to 34.7 from December's 46.8. But some areas in the state reported solid growth in farmland prices. For example, John Nelsen, president of First Tier Bank in Holdrege, said, "Our farmland sales have been very limited but have set record highs as they occur." However, he is somewhat concerned about the financial strength of the agriculture sector. Nebraska's Rural Mainstreet economy has lost approximately 2.2 percent of its employment over the past year. This compares to a loss of 1.9 percent for Nebraska's urban areas.

**North Dakota:** For the eighth straight month, North Dakota's RMI was the highest in the region and the only one above growth neutral. The January RMI for the state slipped to 52.1 from December's 52.2. North Dakota's farmland-price index climbed to 52.6 from 50.2 in December. The state's loan volume index plunged to 38.5 from December's 51.0. North Dakota's Rural Mainstreet economy has increased the size of its employment by 1.8 percent. This compares to a loss of 1.1 percent for the state's urban areas.

**South Dakota:** The RMI for South Dakota remained below growth neutral with a January reading of 43.2, up slightly from December's 43.1. The state's farmland-price index climbed to 49.7, which was up from December's 47.1. South Dakota's loan volume index for January slumped to 35.6 from 47.9 in December. South Dakota's Rural Mainstreet economy has lost approximately 2 percent of its employment over the past year. This compares to a loss of 1.3 percent for the state's urban areas.

**Wyoming:** Wyoming's RMI for January slipped to 39.2 from December's 40.1. The January ranch- and farmland-price index rose to 45.7 from December's 44.1. However, according to Kent Shurtleff, CEO of Wyoming National Bank in Riverton, "The value of farmland is hard to ascertain in our market. Not a lot of farms have sold recently to my knowledge." The Wyoming loan volume index for January tumbled to 31.6 from December's 42.4. Wyoming's Rural

Mainstreet economy has lost approximately 6.6 percent of its employment over the past year. This compares to a loss of 3.1 percent for the state’s urban areas.

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

Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)			
	Jan. 2009	Dec. 2009	Jan. 2010
Area economic index	41.0	40.9	41.0
Loan volume	33.4	45.7	33.4
Checking deposits	59.2	69.8	59.2
Certificates of deposit & savings instruments	47.5	59.6	47.5
Farmland prices	47.4	44.9	47.4
Farm-equipment area sales	47.2	40.4	47.2
Home sales	40.1	40.4	40.1
Hiring	40.7	33.4	40.7
Retail business	40.2	43.3	40.2
Confidence index (area economy six months out)	59.7	53.7	59.7

Table 2: The Rural Mainstreet Economy				
	<u>Up by more Than 10%</u>	<u>Up by 1% to 9%</u>	<u>Down by 1% to 9%</u>	<u>Down by more than 10%</u>
1. Compared to 2008’s corn yields, 2009’s corn yields were (11% reported no change)	37%	27%	8%	7%
	<u>At its next meeting</u>	<u>In the first half of 2010</u>	<u>In the second half of 2010</u>	<u>In 2011</u>
2. When do you think the Federal Reserve will begin raising interest rates?	2%	5%	56%	37%
	<u>Up more than 5%</u>	<u>Up 1% - 4%</u>	<u>Down 1% - 4%</u>	<u>Down by more than 5%</u>
3. How have farm land prices changed in your area over the last 6-months? (41% reported no change)	11%	17%	22%	9%

Follow Ernie Goss on Twitter [www.twitter.com/erniegoss](http://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](http://www.economicstrends.blogspot.com)