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Rural Mainstreet Index Above Growth Neutral for June: Farmland Prices Growing Rapidly Again

June Survey Results at a Glance:

- Rural Mainstreet index advances above growth neutral for second straight month.
- Farm and ranch land index expands above growth neutral for fifth straight month.
- Farm equipment sales expand for a third consecutive month.
- More than one-third of the banks reduced loan volumes over the past six months.
- Approximately six of 10 bankers expect the new financial reform bill to limit their ability to make real estate loans.

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OMAHA, Neb. – For the first time in more than two years, the overall index for the Rural Mainstreet economy was above growth neutral 50.0 for two consecutive months, according to the latest surveys of bank CEOs in a 10-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, dipped to 52.6 for June from May's 54.3.

Creighton University economist Ernie Goss said, "After 26 consecutive months of below growth neutral readings, the overall index has now moved above growth neutral for two consecutive months," said Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

However, some bankers remain cautious. For example, Larry Rogers, president of First Bank of Utica, in Utica, Neb., said, "I don't think we are out of the woods yet. I feel we could see another serious downturn in the economy. Home loans and student loans are going to come back to haunt us."

The farmland-price index moved above growth neutral for a fifth straight month to 54.7 from May's 52.7. "Even as the rising value of the dollar has put downward pressures on estimated 2010 farm income, farmland prices are being bid up significantly in the region," said Goss.

The farm equipment-sales index expanded to 53.1 from May's 50.9. "In addition to an expanding rural economy, we are tracking significant improvements in farm and ranch land prices and farm equipment sales. I expect both of these factors to remain healthy in the months ahead," said Goss.

For a fourth straight month, all bank indicators were above growth neutral. The loan-volumes index rose to 57.9 from 54.4 in May. For June, the checking-deposit index sank to 53.5 from May's 67.0. The index for certificates of deposit and other savings instruments climbed to 51.8 from May's 50.0.

Kathy Thuman, president of Farmers State Bank in Stanton, Neb., said, "We've seen a significant increase in deposits the first six months of this year due to a combination of reluctance to invest long term, a slow start on crop inputs, and increased activity in bank IRA accounts."

This month, bank CEOs were asked about lending over the past six months. More than one-third, or 35 percent, reported that lending had declined during this period while 48 percent indicated lending was up over the past six months. Likewise, 60 percent of bankers are concerned that the new financial regulatory bill will reduce long-term real estate loans.

Don Reynolds, president of Regional Missouri Bank in Salisbury, Mo., said, "The financial reform bill also may significantly lower our lending limit to one borrower, increase an already heavy regulatory burden, and take away card interchange income."

"As a result, many of the bankers expect the impact to fall more heavily on community banks," said Goss.

Kent Shurtleff, CEO of Wyoming National Bank in Riverton, Wyo., said, "In our market, the restrictive changes in the long-term secondary markets have hampered our ability to sell quality loans. Comparable loans have been sold in the past."

After declining below growth neutral for 28 consecutive months, the new-hiring index has now moved above 50.0 for two straight months. The June hiring index slipped to 50.9 from May's 56.1 but was well up from April's 46.7 and March's 45.7," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Retail sales continue to improve for Rural Mainstreet with a June reading of 52.6, up from 49.2 in May. The recovering rural economy kept bankers' economic outlook or business confidence above growth neutral with a June reading of 56.1, though it was down from May's 63.0. "European economic problems and the Gulf oil crisis clearly have had an impact on confidence," said Goss.

Despite the end of the first-time buyer tax credit, the home-sales index rose above growth neutral for a third straight month for Rural Mainstreet. The index dipped to 56.1 from May's 58.8. However, Dale Bradley, CEO of the Citizens State Bank in Miltonvale, Kan., reported, "I still think housing problems will continue to exist for some time."

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 June was unchanged from May's 47.6. The June farm and ranch land price index expanded to 53.7 from 50.9 in May. Colorado's farm- equipment sales index moved higher to 51.1 from May's 48.1. The rate of job losses for Rural Mainstreet Colorado over the past 12 months was 3.1 percent.

Illinois: For a second straight month, Illinois' RMI advanced above growth neutral. The June reading was 54.6 up from May's 53.8. For a fifth straight month, farmland prices advanced above growth neutral with a June reading of 57.2, up from May's 54.0. Farm-equipment sales for June climbed to 54.6 from May's 51.2. The rate of job gains for Rural Mainstreet Illinois over the past 12 months was 0.8 percent.

Iowa: Iowa's RMI once again climbed above growth neutral with a June index of 54.2, down slightly from May's 54.8. The farmland - price index rose to a healthy 57.0 from 54.4 in May. The state's farm- equipment sales index grew to 54.4 from 51.6 in May. Dale Torpey, president Federation Bank in Washington, reported, "We have had a lot of rain in the last week or 10 days but the crops look great in most areas. If we can shut the rain off to just normal and get some heat we are going to

have some great crops.” The rate of job **losses** for Rural Mainstreet Iowa over the past 12 months was 0.2 percent.

Kansas: The RMI for Kansas, like much of the region, climbed above growth neutral 50.0 for the month. The index rose slipped to 53.1 from 53.7 in May. The farmland-price index rose to 56.4 from May’s 53.7. The June agricultural equipment sales index increased to 53.8 from 50.9 in May. Barry Linnens, CEO of Cottonwood Valley Bank in Cedar Point, said, “Land prices seem to be holding and in some cases are stronger if the property provides recreation.” The rate of job **losses** for Rural Mainstreet Kansas over the past 12 months was 0.2 percent.

Minnesota: The RMI for Minnesota moved higher to 57.0 from May’s 56.8. Minnesota’s farmland-price index climbed to 58.4 from May’s 55.7. The June agricultural equipment-sales index stood advanced to 55.8 from 52.9 in May. Nancy Skophammer, president of Farmers State Bank, in Albert Lea, reported, “A wind tower project has created a number of new jobs in our area and construction workers are filling the motels and keeping the restaurants busy.” However, Skophammer sees this as a short-term bubble of activity. The rate of job **gains** for Rural Mainstreet Minnesota over the past 12 months was 1.3 percent.

Missouri: Missouri’s RMI dipped slightly to 51.6 from May’s 51.9. The June farmland-price index for Missouri grew to 55.7 from May’s 52.4. The June farm-equipment sales index expanded to 53.1 from 49.6 in May. The rate of job **losses** for Rural Mainstreet Missouri over the past 12 months was 0.7 percent.

Nebraska: The June RMI for Nebraska dipped slightly to 55.3 from 55.7 in June. The farmland-price index for June advanced to 57.6 from May’s 52.2. The state’s farm-equipment sales index climbed to 55.0 from 52.2 in May, but down from April’s 58.3. Jim Bodyfield, president of Nebraska Bank Management expects Nebraska’s heavy rainfall and flood damaged areas to experience significant negative economic impacts on the months ahead. John Schmaderer, president of Tri-County Bank in Stuart, echoed this sentiment as he is anticipating some economic fallout from the excessive rain and flooding in North Central Nebraska. Jim Stanosheck, CEO of State Bank in Odell, NE, said that ,”By year-end the area economy in southeast Nebraska will begin to see the effect of a major plant closing in Beatrice that employed more than 360 workers.” The rate of job **gains** for Rural Mainstreet Nebraska over the past 12 months was 0.5 percent.

North Dakota: For the 13th straight month, North Dakota’s RMI was the highest in the region. The index climbed to 58.5 from May’s 57.5. North Dakota's farmland-price index advanced to 59.1 from 56.2 in May. Farm-equipment sales were a solid 56.5, up from 53.4 in May. DeWayne Streyle, CEO of United Community Bank of North Dakota in McClusky, reported, “It appears that the post 1982 wet cycle continues to be alive and well throughout most of the state.” The rate of job **gains** for Rural Mainstreet North Dakota over the past 12 months was 3.0 percent.

South Dakota: For a second straight month, the RMI for South Dakota climbed above growth neutral with a June reading of 53.0, down slightly from 54.0 in May. The state’s farmland-price index rose to 56.4 from May’s 53.8. South Dakota's farm-equipment sales index was 53.8 for June compared to May’s 51.0. David Callies, of Miner County Bank in Howard, reported, “Recent heavy rains in our area are causing problems with putting up hay and planting.” The rate of job **losses** for Rural Mainstreet South Dakota over the past 12 months was 0.2 percent.

Wyoming: The Wyoming RMI for June slipped below growth neutral with a reading of 48.8 for June. This was down from May’s 50.0. The June farm and ranch land price index increased to 54.3, up from May’s 51.1. The state’s agriculture equipment sales expanded to 51.7 from 48.3 in May. The rate of job **losses** for Rural Mainstreet Wyoming over the past 12 months was 2.1 percent.

Tables 1 and 2 summarize survey findings. Next month’s survey results will be released on the third Thursday of the month, July 15.

	June 2009	May 2010	June 2010
Area economic index	34.0	54.3	52.6
Loan volume	56.1	54.4	57.9
Checking deposits	54.2	67.0	53.5
Certificates of deposit and savings instruments	54.1	50.0	51.8
Farmland prices	45.7	52.7	54.7

Farm-equipment area sales	33.3	50.9	53.1
Home sales	45.9	58.8	56.3
Hiring	29.0	56.1	50.9
Retail business	33.7	49.2	52.6
Confidence index (area economy six months out)	52.2	63.0	56.1

Table 2: The Rural Mainstreet Economy, June 2010

	Increased by 21% - 40%	Increased by 0% - 20%	Unchanged	Decreased by 0% - 20%
How does your current loan volume compare to six months ago?	4%	44%	18%	35%
	Yes	Unsure or not applicable	No	
Are you concerned that the new financial reform bill will limit your ability to make long-term portfolio real estate loans?	60%	17%	23%	
	Less than 10%	11% - 30%	31% - 50%	
What percentage of your current long-term real estate loans are match funded with FHLB advances?	62%	36%	2%	

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