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Rural Mainstreet Economy: Weak Businesses but Strong Farms

October Survey Results at a Glance:

- For a fourth straight month, the overall index declines below growth neutral.
- Farmland prices and farm equipment sales continue to grow briskly.
- More than half of bank CEOs expect high corn prices to be biggest challenge to ethanol profits.
- More than half of bankers expect a moratorium on mortgage foreclosures to delay a housing rebound.
- Almost four of ten bankers expect companies to pass along higher health care costs to employees.

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

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, increased to a weak 48.4 from September's 47.6. This index is well below readings earlier in the year, but significantly higher than that recorded for October 2009.

Creighton University economist Ernie Goss said, "Unfortunately, very healthy farm income is not translating to healthy business activity for the Rural Mainstreet economy. Businesses heavily dependent on the domestic economy continue to experience pullbacks in growth." Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

Farming: The farmland-price index moved above growth neutral for a ninth straight month to 60.0 from 57.7 in September and 55.3 in August. The agriculture-equipment sales index rose to 61.0 from 56.2 in September and 52.7 in August. "While businesses on Rural Mainstreet continue to struggle, farm indicators remain very strong, including farmland prices and the sale of agriculture equipment," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton. Confirming strong farmland prices, Terry Engelken, CEO of Federation Bank in Washington, Iowa, said, "We have had several farm land auctions recently and several parcels brought over \$9,000 per acre."

Bradley Bauer, president of Pinnacle Bank in Ogallala, Neb, added, "The higher agricultural commodities prices should help stimulate the rural economy in upcoming months."

Banking: For the first time since February of this year, loan volumes declined below growth neutral to 48.4 from September's much stronger 57.4. For an eighth straight month, the other two banking indicators stood above growth neutral. The checking-deposit index improved to 73.0 from September's 65.6. The index for certificates of deposit and other savings instruments dipped slightly to 54.9 from September's 55.0. "While businesses on Rural Mainstreet are experiencing tough economic times, banking and farming continue to enjoy solid economic fortunes," said Goss.

Jobs: October's hiring index was unchanged from September's feeble 46.0. "Many areas in the Rural Mainstreet area are still losing jobs," said Goss.

Confidence: Despite a weak report for the month, bankers were much more optimistic. The economic confidence index, which reflects expectations for the economy six months out, advanced to 57.3 from September's 54.9 and August's 46.0.

Home and retail sales: Home sales declined again with an October reading of 42.1, down significantly from 47.6 in September. This is the fourth straight month that the reading has slumped below growth neutral 50.0. Much like other elements of October's Rural Mainstreet survey, retail sales stood at a weak 45.1, down slightly from September's 45.2.

Special questions: This month bankers were asked special questions regarding ethanol production, healthcare reform and the mortgage foreclosure moratorium.

1. **Ethanol profitability:** Approximately 56 percent expect high corn prices to be the greatest challenge to ethanol profitability, while 31 percent indicated that the expiration of the blenders' tax credit represented the most significant challenge to ethanol profitability in the near term. The remaining 8 percent and 5 percent indicated that low gasoline prices and distribution difficulties, respectively, were the most significant profit hurdles for the industry in the near term.

2. **Healthcare reform:** Approximately 37 percent of the bank CEOs expect employers to keep current coverage for their employees and pass along the added costs to their workers. More than one-fifth, or 22 percent, anticipates that firms will reduce healthcare insurance benefits, while 8 percent expect employers to drop health insurance coverage. The remaining bankers were unsure how employers will deal with healthcare reform. According to Pete Haddeland, CEO of the First National Bank in Mahanomen, Minn., "The impacts of the new healthcare are still unknown as to how it will affect us." And Jim Stanosheck, CEO of State bank in Odell, Neb said that, "The thing to keep in mind is that last year without the health care bill, the cost of our small business health insurance plan went up over 30 percent."

3. **Mortgage foreclosure moratorium:** More than half, or 52 percent, think that the greatest problem with any moratorium would be a delay in the housing rebound. Approximately 29 percent anticipate that the most significant problem surrounding any moratorium would be the added incentive for home owners to delay or forgo mortgage payments. The remaining 19 percent of bankers expect the biggest problem to surface from a moratorium would be a lack of incentive for financial institutions to make home loans.

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 October stood at a weak 43.3, up slightly from September's weak 42.8. The October farmland and ranchland price index increased to 57.4 from September's 53.8. Colorado's farm-equipment sales index improved to 58.4 from 53.8 in September. The rate of job **losses** for Rural Mainstreet Colorado over the past 12 months was 3.3 percent.

Illinois: For a sixth straight month, Illinois' RMI advanced above growth neutral. The October reading was 55.6, a regional high, and up from 52.5 in September. For the ninth straight month, farmland prices advanced above growth neutral with an October reading of 63.6, up from September's 60.1. Farm-equipment sales for October expanded to 64.6 from 58.6 in September. The rate of job **gains** for Rural Mainstreet Illinois over the past 12 months was 4.3 percent.

Iowa: Iowa's RMI slipped below growth neutral for the month with an October reading of 48.6, up slightly from September's 48.2. The farmland-price index expanded to 60.1 from September's 58.0 and August's 55.8. The state's farm equipment-sales index grew to 61.1 from September's 56.5. David Kingland, president Manufacturers Bank & Trust of Forest City, reported, "Area farmers are just completing one of the easiest harvests ever with excellent yields, dry fields, dry corn,

and very favorable weather.” The rate of job **gains** for Rural Mainstreet Iowa over the past 12 months was 0.1 percent.

Kansas: The RMI for Kansas rose above growth neutral 50.0 for the month. The index stood at a still fragile 51.0, but was up from September’s 48.1. The farmland-price index increased to 61.3 from September’s 57.9 and from 55.2 in August. The October agricultural equipment-sales index rose to 62.3 from 56.4 in September. However according to Dale Bradley, Chairman of the Citizens State Bank in Miltonvale, “[I see] continued turmoil in our economy. I wish we could see light at the end of the tunnel.” The rate of job **gains** for Rural Mainstreet Kansas over the past 12 months was 2.3 percent.

Minnesota: The RMI for Minnesota climbed to 55.2 from September’s 52.2. Minnesota’s farmland-price index rose to 63.4 from September’s 60.0. The October agricultural equipment-sales index stood at 64.4, higher than September’s 58.5. Pete Haddeland, CEO of the First National Bank in Mahanomen, said t, “We have had a very good crop this year. The Farm economy is very strong up here.” The rate of job **gains** for Rural Mainstreet Minnesota over the past 12 months was 3.7 percent.

Missouri: The RMI for Missouri dipped to a regional low of 41.6 from September’s 43.5. The October farmland-price index for Missouri climbed to 56.6 from September’s 55.6. The October farm-equipment sales index advanced to 57.6 from 54.1 in September. The rate of job **losses** for Rural Mainstreet Missouri over the past 12 months was 4.3 percent.

Nebraska: The October RMI for Nebraska moved higher to 52.0 from September’s 50.4. The farmland-price index for October climbed to 61.8 from 59.1 in September. The state’s farm equipment-sales index grew to 62.8 from September’s 57.6. According to Kathy Thuman, president of Farmers State Bank in Maywood, “Southwest Nebraska's agriculture economy is hitting on all cylinders with record crop yields and rising prices. The same cannot be said for other sectors of our economy, and business owners are very concerned about the expense attached to ‘Obamacare.’” The rate of job **gains** for Rural Mainstreet Nebraska over the past 12 months was 2.0 percent.

North Dakota: North Dakota’s October RMI was unchanged from September’s 52.8. The state’s farmland-price index increased to 62.2 from September’s 60.3. Farm-equipment sales for October stood at 63.2, up from September’s 60.2. The rate of job **gains** for Rural Mainstreet North Dakota over the past 12 months was 2.3 percent.

South Dakota: For a third straight month, the RMI for South Dakota remained below growth neutral. Still, the index for October advanced to 49.7 from 48.1 in September and 47.0 in August. The state’s farmland-price index climbed to 60.7 from September’s 58.0. South Dakota’s farm-equipment sales index was 61.7, up from 56.5 in September. David Callies, CEO of Miner County Bank in Howard, reported, “Harvest is going well with reasonable yields and good prices. Our local economy should do well for the near future. The rate of job **gains** for Rural Mainstreet South Dakota over the past 12 months was 0.9 percent.

Wyoming: Wyoming’s RMI for October advanced to a still weak 49.3 from September’s 46.8. The October farmland and ranchland -price index rose to 60.5 from 57.3 in September. The state’s agriculture equipment sales advanced to 61.5 from September’s 55.8. Bob Sutter, vice chairman, Hilltop National Bank in Casper, said, “Our lenders are seeing a more positive outlook on the part of borrowing clients.” The rate of job **gains** for Rural Mainstreet Wyoming over the past 12 months was 1.0 percent.

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

Table 1: Rural Mainstreet Economy Last 2 Months and One Year Ago: (index > 50 indicates expansion)			
	Oct. 2009	Sept. 2010	Oct. 2010
Area economic index	37.5	47.6	48.4
Loan volume	42.4	57.4	48.4
Checking deposits	61.0	65.6	73.0
Certificates of deposit and savings instruments	51.7	55.0	54.9
Farmland prices	43.0	57.7	60.0
Farm equipment area sales	36.7	56.2	61.0
Home sales	46.7	47.6	42.1

Hiring	35.6	46.0	46.0
Retail business	36.7	45.1	45.2
Confidence index (area economy six months out)	58.7	54.9	57.3

	High corn Prices	Expiration of blenders' tax credit	Low gasoline prices	Other
Which of the following represents the biggest challenge to the profitability of the ethanol industry in the near term?	56%	31%	8%	5%
	Delay rebound in housing	Encourage mortgage defaults	Discourage mortgage lending	Other
Which of the following is the biggest problem with the mortgage foreclosure moratorium?	52%	29%	19%	0%
	Pass higher costs on to employees	Reduce benefits	Drop coverage	Other or not known
How will firms in your area react to healthcare reform?	37%	22%	8%	33%

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