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Rural Mainstreet Economy Still Weak: But Bank and Farm Indicators Very Healthy

September Survey Results at a Glance:

- For a third straight month, the overall index declines below growth neutral.
- Farmland prices and farm equipment sales continue to advance.
- Home sales and retail purchases decline for the month.
- Almost one-fourth of the bankers expect a Federal Reserve rate hike in the first half of 2011.

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

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, increased to a weak 47.6 from August's 46.0. This index is well below readings earlier in the year, but significantly higher than that recorded for September 2009.

Creighton University economist Ernie Goss said, "While the farm sector is experiencing healthy growth, Rural Mainstreet businesses continue to report waning economic fortunes." 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 an eighth straight month to 57.7 from 55.3 in August and 52.5 in July. "While businesses on Rural Mainstreet continue to struggle, farm indicators remain very strong, including farmland prices," said Goss.

According to Kathy Thuman, president of Farmers State Bank in Maywood, Neb, "The general economy is still struggling, but the crop and livestock producers are looking at an exceptional year. Growing conditions are the best in decades, yields are up and prices are good." She indicated that the biggest concern was a dramatic increase in farm input costs.

The farm equipment-sales index soared to 56.2 from 52.7 in August. "As the outlook for the farm sector has improved significantly, farmers have likewise expanded their purchases of capital equipment. I see this very positive trend continuing for the rest of 2010," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

For a seventh straight month, all bank indicators were above growth neutral. The loan-volumes index increased to 57.4 from 54.2 in August. For September, the checking-deposit index improved to 65.6 from August's 59.1. The index for certificates of deposit and other savings instruments inched higher to 55.0 from August's 54.2.

The September hiring index increased to a still weak 46.0 from 45.9 in August. "Many areas in the Rural Mainstreet area are still losing jobs. However over the past year, Rural Mainstreet has added jobs at a 1.5 percent pace and well above urban job growth," said Goss.

This month bankers were asked when they expected the Federal Reserve (Fed) to begin raising short-term interest rates. Almost one-fourth, or 23 percent, expect a rate hike in the first half of 2011, and 55 percent anticipate a rate increase in the second half of 2011. More than one-fifth, or 22 percent, anticipate a Fed interest rate increase beyond 2011. None of the bankers expect a rate increase in 2010.

This month bankers were also asked about the share of households in their area that could take advantage of home-based businesses requiring broadband access. More than one-third, or 36 percent, indicated that 60 percent of households in their area could handle home-based jobs requiring broadband access.

Much like other elements of September's survey Rural Mainstreet retail sales increased to a sub-par 45.2 from September's 40.2. 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, grew to 54.9 from 46.0 in August.

Home sales declined again with a reading of 47.6, which was up from an index of 38.8 in August. This is the third straight month that the reading has slumped below growth neutral 50.0. Nancy Ruyle, CEO of Citizens Bank in Rogersville, Mo., indicated that while there were home sales for the month, it was not sufficient to make a big difference in the housing market.

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 September moved below growth neutral to a weak 42.8, but up slightly from 42.0 in August. The September farmland and ranchland price index increased slightly to 53.8 from 52.8 in August. Colorado's farm equipment-sales index improved to 53.8, from 50.2 in August. The rate of job **losses** for Rural Mainstreet Colorado over the past 12 months was 1.9 percent.

Illinois: For a fifth straight month, Illinois' RMI advanced above growth neutral. The September reading was 52.5, up from 50.3 in August. For an eighth straight month, farmland prices advanced above growth neutral with a September reading of 60.1, up from 57.5 in August. Farm equipment-sales for September expanded to 58.6 from 54.4 in August. The rate of job **gains** for Rural Mainstreet Illinois over the past 12 months was 3.8 percent.

Iowa: Iowa's RMI slipped below growth neutral for the month with a September reading of 48.2, but was up slightly from August's 48.0. The farmland-price index expanded to 58.0 from August's 55.8. The state's farm equipment-sales index grew to 56.5 from 53.2 in August. The rate of job **gains** for Rural Mainstreet Iowa over the past 12 months was 0.2 percent.

Kansas: The RMI for Kansas declined below growth neutral 50.0 for the month. The index stood at a still weak 48.1, up from August's 46.8. The farmland-price index increased to 57.9 from 55.2 in August. The September agricultural equipment-sales index rose to 56.4 from 52.6 in August. According to Dale Bradley, CEO of Citizens State Bank in Miltonvale, "The economy is one headache for rural banks and in addition to that we will see much more in the way of rules and regulations due to the Financial Reform now in place." The rate of job **gains** for Rural Mainstreet Kansas over the past 12 months was 1.4 percent.

Minnesota: The RMI for Minnesota climbed to 52.2 from August's 50.1. Minnesota's farmland-price index rose to 60.0 from 55.2 in August. The September agricultural equipment-sales index stood at 58.5, higher than August's 54.2. The rate of job **gains** for Rural Mainstreet Minnesota over the past 12 months was 2.9 percent.

Missouri: The RMI for Missouri dipped to 43.5 from August's 44.5. The September farmland-price index for Missouri climbed to 55.6 from 54.0 in August. The September farm equipment- sales index advanced to 54.1 from 51.4 in August. Don Reynolds, president of Regional Missouri Bank said that, "Early corn yields were down somewhat." The rate of job **losses** for Rural Mainstreet Missouri over the past 12 months was 2.4 percent.

Nebraska: The September RMI for Nebraska moved higher to 50.4 from August's 48.7. The farmland-price index for September climbed to 59.1 from 56.1 in August. The state's farm equipment-sales index grew to 57.6 from August's 53.5. The rate of job **gains** for Rural Mainstreet Nebraska over the past 12 months was 2.3 percent.

North Dakota: North Dakota's RMI advanced to 52.8 from 51.5 in August. North Dakota's farmland-price index increased to 60.3 from 57.5 in August. Farm equipment-sales for September stood at 60.2, well up from 54.9 in August. According to DeWayne Streyle, CEO of United Community Bank of North Dakota in Leeds, "Wet weather conditions continue to delay harvesting while oil drilling continues to increase in northwest North Dakota." The rate of job **gains** for Rural Mainstreet North Dakota over the past 12 months was 3.8 percent.

South Dakota: For a second straight month, the RMI for South Dakota sank below growth neutral. Still, the index for September advanced to 48.1 from 47.0 in August. The state's farmland-price index climbed to 58.0 from 55.3 in August. South Dakota's farm equipment-sales index was 56.5, up from 52.6 in August. The rate of job **gains** for Rural Mainstreet South Dakota over the past 12 months was 0.3.

Wyoming: The state's RMI for September slumped below growth neutral with a reading of 46.8, but up from August's 44.3. The September farmland and ranchland -price index rose to 57.3 from 54.0 in August. The state's agriculture equipment sales advanced to 55.8 from 51.4 in August. The rate of job **gains** for Rural Mainstreet Wyoming over the past 12 months was 0.8 percent.

Tables 1 and 2 summarize survey findings. Next month's survey results will be released on the third Thursday of the month, Oct. 21.

Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)			
	Sept. 2009	Aug. 2010	Sept. 2010
Area economic index	36.5	46.0	47.6
Loan volume	49.3	54.2	57.4
Checking deposits	61.9	59.1	65.6
Certificates of deposit and savings instruments	50.1	54.2	55.0
Farmland prices	41.1	55.3	57.7
Farm equipment area sales	38.6	52.7	56.2
Home sales	42.7	38.8	47.6
Hiring	27.0	45.9	46.0
Retail business	32.8	40.2	45.1
Confidence index (area economy six months out)	43.5	46.0	54.9

Table 2: The Rural Mainstreet Economy, September 2010				
	Last Quarter 2010	First Half 2011	Second Half 2011	After 2011
When do you expect the Federal Reserve to begin raising short-term interest rates?	0%	23%	55%	22%
	Less than 19%	20% - 40%	41% - 60%	More than 60%
What percent of consumers in your area have broadband Internet capability sufficient to support a home-based business?	7%	26%	41%	26%

-30-

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