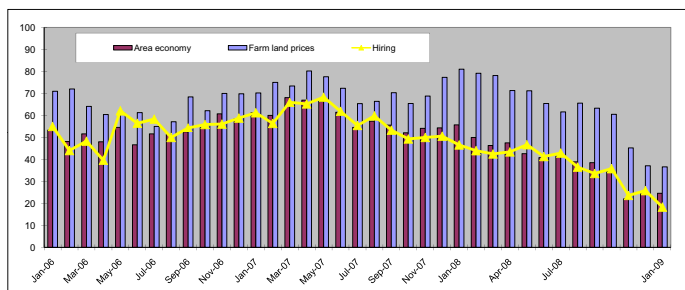


## SURVEY RESULTS AT A GLANCE

- Bank CEOs report record low farm-equipment sales.
- Farmland price index dips to another record low.
- Rural Mainstreet Economy remains very weak with job losses.
- Almost 44 percent of bankers report tightening of credit standards since September.
- 58 percent of bankers expect elevated farm input cost to pose the greatest threat for 2009 farm income.

## MAINSTREET RESULTS



Tables 1 and 2 below summarize findings from the January survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. February survey results will be released on the third Thursday of the month, December 18th.

[Index > 50.0 indicates expansion]

	Feb 2008	Jan 2009	Feb 2009
Area Economic Index	55.7	25.0	24.6
Loan volume	51.7	44.7	48.3
Checking deposits	70.0	62.9	60.8
Certificate of deposits	60.8	63.6	57.6
Farm land prices	81.0	37.1	36.6
Farm equipment area sales	71.1	31.6	29.4
Home sales	24.6	15.9	26.7
Hiring in the area	46.6	25.8	18.3
Retail Business	42.4	20.9	24.2
Economy 6 months from now	43.2	15.6	25.9

## WHAT YOU REPORTED IN JANUARY

The Rural Mainstreet Economy continues to experience significant economic weakness with job losses across the region according to the January survey of bank CEOs in an 11-state region. The Rural Mainstreet Index (RMI), which ranges between 0 and 100, dipped slightly to 24.6 from December’s 25.0. It is clear from surveys over the last several months that the national economic downturn is now gripping the Rural Mainstreet economy. This January’s reading compares to a much stronger index of 55.7 for January 2008. The RMI has now moved below for eleven consecutive months.

As agricultural commodity prices have slumped, farmland price growth has moved into negative territory for a third straight month. After peaking at 81.0 in January of 2008, the index declined to 36.6 from December’s record low 37.1. Furthermore, the global economic downturn and elevated farm input prices continue to put downward pressures on agriculture equipment sales. The farm equipment sales index likewise declined to a record low of 29.4 from 31.6 in December.

However according to McQuillan, “Agriculture real estate prices in this area have leveled off the last 3-4 months. There continues to be activity although buyers seem to much more selective. This month, we asked bankers what they considered to be the biggest threat to farm income for 2009. Over 58 percent of the bankers expect high farm input cost to pose the biggest risk to farm viability while the remaining 42 percent anticipate that reduced agriculture commodity prices will be the greatest hazard facing the farm for 2009. None of the bankers expect the current pullback in ethanol demand for corn and soybean to pose a significant risk to agriculture income for 2009.

According to Jeffrey Gerhart, CEO of the First National Bank in Newman Grove, Neb., “High input costs along and uncertain crop prices in combination pose a concern for what lies ahead.” For a fifth straight month, the confidence index, which tracks expectations for the economy six months out, moved to a very low level. January’s reading advanced to a very weak 25.9 from December’s 15.6., reflecting, concern among bank CEOs about the impact from the current financial crisis, the national recession, and a downturn in farm income. Hiring in the area began the year anemic and has weakened almost every month for 2008. The new-hiring index for January dipped to a record low 18.3 from December’s feeble 25.8. This is the 13th consecutive month that the index has been below growth neutral, due in part to a slowing national economy and a global recession which is cutting into exports.

Like much of the nation, retail sales were very weak for the month with a January retail-sales index of 24.2, up slightly from December’s 20.9. We have yet to record an upturn in retail sales stemming from lower fuel prices. Economy in the rural area have not felt the effects of Wall Street. People have backed off from spending, but feel this is because they’ve been told we are in bad time. They still have a job, they can get loans and have no problem making their house payment. Steven Lane, CEO Security Savings Bank in Farnhamville, Iowa.

	<u>High Input Prices</u>	<u>Reduced Ethanol Demand</u>	<u>Reduced commodity prices due to global recession</u>
Which of the following poses the biggest threat for agriculture in your area for 2009?	12.1%	24.1%	63.8%
Since September, have you changed credit standards for borrowers?	<u>Less than 25%</u>	<u>25 %-50%</u>	<u>Greater than 50%</u>
	5.6%	13.0%	81.5%

Just like the national housing market, home sales were very weak for Rural Mainstreet with the home-sales index climbing a bit to 26.7 from December’s record low of 15.9. Despite the economic weakness sweeping Rural Mainstreet, bankers on Rural Mainstreet reported healthy economic conditions for their banks even as elements of the national banking sector approach a crisis state. The loan volume index advanced to 48.3 from December’s 44.7, and checking deposits slipped to a still healthy 60.8 from December’s 62.9. The index for certificates of deposit and other savings instruments declined to 57.6 from 63.6 in December.

## MAINSTREET ON YOUR STREET

### COLORADO

As in the past three months, the state’s non-metro areas are being negatively affected by the pullback in energy prices and in tourism. Colorado’s Rural Mainstreet Index expanded to a still feeble 16.7 from November’s 11.1. On a less negative note, the state’s farm-and ranch-sales indexes stood at 41.7 for December.

### ILLINOIS

Reports from the state’s rural bank CEOs continue to be quite negative. The Rural Mainstreet Index for December slipped to 21.2 from November’s 26.5 and October’s 25.0. On the other hand, the state’s farmland-sales index for December of 56.1 indicates that farmland continues to increase in price even as the rural economy slumps.

### IOWA

“Some but not all farmland prices have fallen. It still depends a lot on who your neighbor is and how badly they want a particular piece of ground. The rebound in farm commodity prices the last 30 days gives us more hope for a more stable 2009. Cash flows from 2008 crops are still mostly positive and with good marketing they are very positive. James Brown, CEO of Hardin County Savings Bank in Eldora.

### KANSAS

It is a matter of time but the down trend of the economy will make it to the rural areas. Good time to be conservative and practical. Dale Bradley CEO CSB Miltonvale, KS

### MINNESOTA

Positive economic reports from Minnesota rural bank CEOs were almost nil. The December Rural Mainstreet Index declined to a regional low of 8.6 from November’s 8.9. Despite this weakness, farmland prices expanded for the month with a reading of 52.3. There were numerous reports of harvest-related issues in the state. As reported by Pete Haddeland, CEO of First National Bank in Mahanomen, “Our harvest was very late this year. The corn harvest is not complete yet.”

### MISSOURI

As in prior months, bankers in Missouri’s rural areas reported very weak economic conditions. The Rural Mainstreet Index for December slipped to 18.2 from November’s 25.0 and October’s 33.3.

### MONTANA

Pullbacks in commodity and energy prices have negatively affected rural areas of the state. The December Rural Mainstreet Index dipped to 23.2 from November’s 25.0.

### NEBRASKA

While the state’s Rural Mainstreet Index has experienced a

significant pullback in economic conditions, it is somewhat stronger than much of the region. December’s RMI stood at 38.2, down from November’s reading of 40.0. Of course, future conditions will depend on agricultural commodity prices and yields. In that regard, Jim Stanoscheck, CEO of State Bank in Odell said, “Corn yields were well above average; soybean yields were average as some farmers in southwest Nebraska are still harvesting.” According to Kathy Thuman, president, Farmers State Bank in Maywood, “Yields are good, but moisture content is high, keeping grain in the bin for the immediate future.”

### NORTH DAKOTA

As in past months, North Dakota’s rural economy continues to expand even as the regional rural areas experienced significant pullbacks. The December Rural Mainstreet Index rose to a regional high of 55.9, up from November’s 52.8.

### SOUTH DAKOTA

Just as in November, the state was one of only two states to be above growth neutral with its Rural Mainstreet Index. The December RMI dipped slightly to 52.5 from November’s 52.8.

### WYOMING

For a second straight month, Wyoming’s Rural Mainstreet Index (RMI) moved below growth neutral. December’s RMI was 47.6, well above November’s 37.5. Despite the somewhat negative report for the month, Bob Sutter, vice chair, Hilltop National Bank in Casper, concluded, “The relatively stable price of natural gas is positive for our economy. Skilled workers are still in short supply with a low (at or near the lowest in the nation) unemployment rate.”

## THE BULLISH NEWS

- A second Labor Department report Thursday said productivity - a measure of how much an employee produces per hour - rose more than three percent for the last three months of 2008. Further, productivity gains that are larger than per unit labor cost increases usually translates into a quick snap-back in corporate earnings, once the U.S. economy starts to recover, so says economist Peter Dawson.
- After hitting a four-year low of \$32.40 a barrel on Dec. 19, oil has now rebounded more than 20%. While occasionally falling below \$40 in intraday trading, it has closed above \$40 everyday since Jan. 20. Similarly, national average gasoline prices have risen above \$1.90 a gallon from below \$1.70 a month ago. However, the reason that oil prices are low is not good—the global recession.
- Sales at U.S. retailers unexpectedly halted a six-month slide in January, an advance that may not be sustained after the number of Americans collecting jobless benefits reached the highest on record.

## THE BEARISH NEWS

- The global recession is reducing the U.S. trade gap. The U.S. trade deficit shrank 29 per-cent, more than forecast, to \$40.4 billion, the Commerce Department said today in Washington. A record 12 percent drop in imports propelled the improvement. Exports fell for a fourth straight month.

- Japan’s core machinery orders, a closely watched indicator of corporate spending, fell 1.7 percent in December from the previous month, as businesses trimmed investment amid a deepening recession, the government said.
- U.S. employers cut 598,000 jobs in January, the steepest one-month decline since the end of 1974, driving up the nation’s unemployment rate to 7.6 percent from 7.2 percent. The United States has lost 3.6 million jobs since the recession began in December 2007. Roughly half of those losses have occurred in the past three months.
- The Labor Department report, issued Thursday, said the number of laid-off workers applying for benefits for the first time soared to 626,000 last week.
- Sales at U.S. retailers probably fell in January for a seventh straight month as surging unemployment hobbled consumers, economists said a report this week will show. Purchases fell 0.8 percent, capping the longest slide since comparable records began in 1992, according to the median estimate in a Bloomberg News survey. Other reports may show falling oil prices helped narrow the trade gap and prevented consumer confidence from sinking further.
- Consumer sentiment rose slightly in January but remains near a half-century low on job losses, income worries, and lost savings and investments, according to a survey released Friday by the University of Michigan and Reuters.
- Demand for expensive items such as automobiles is plunging as consumers retrench. Cars and light trucks sold in January at a 9.6 million annual rate, the lowest since June 1982, industry figures from Autodata Corp. showed. Sales plunged 55 percent at Chrysler LLC and sank 49 percent at GM as car loans became scarce after credit seized up late last year.
- Keep an eye on the yield for 10-year U.S. Treasuries. Current yields are artificially low and reflect unprec-edented fear among investors. Large increases will tell us that either 1) global investors are taking funds out of the U.S. market, or 2) inflation expectations have increased, or 3) investors have reduced the risk perceptions and are pulling money out of treasuries and putting it into equity markets (<http://finance.yahoo.com> )

## THE OUTLOOK

- Some analysts predict oil prices could fall to as low as \$25 in the second quarter. The in-fla-tion-adjusted record low for Nymex oil is at \$18.90 a barrel, hit on April 1, 1986. In non-adjusted dollar terms, that low was \$9.75, the only time in Nymex history that oil fell below \$10.
- Most energy agencies, including the U.S. Energy Information Administration and the In-ternational Energy Agency, predict world oil demand will fall by 1% to 2% this year, fol-lowing a similar decline in 2008. Chakib Khelil, Algeria’s energy minister, said Tuesday there was a 50% chance of another supply cut during OPEC’s next meeting on March 15, according to media reports.
- The U.S. economy may contract at about a 5.5 percent annual pace this quarter after declining at a 3.8 percent rate in the last three months of 2008, according to a forecast by economists at Morgan Stanley in New York. Last quarter’s drop was the biggest since 1982.
- On the one hand, the weakening global economy is expected to lead demand for oil to fall for a second year, marking the first two-straight-year decline in decades. On the other hand, the Organization of Petroleum Exporting Countries is expected to continue cutting production at a record pace to put a floor under prices.
- According to the January survey of National Association of Business Economists:
  - Demand for goods and services increased at just 20% of respondents’ firms last quarter, the lowest percentage since the survey began in 1982. Demand fell at 47% of respondents’ firms, an all-time high. This confirms that the U.S. recession that began at the end of 2007 worsened significantly in the fourth quarter of 2008. Demand weakness was pervasive across sectors, but was especially pronounced in the goods-producing sector, where 79% of firms reported declining demand.
  - Respondents continued to grow more pessimistic about the macroeconomic outlook. Seventy-eight percent of respondents expect U.S. real GDP to be lower in 2009 than in 2008.
  - Rapidly deteriorating global market conditions are hammering business profits. For the fourth consecutive quarter, reports of falling profit margins (52% of respondents) outnumbered reports of rising margins (10%). This was the worst result since the spring of 1982.
  - For the first time since the economy was emerging from the last recession, the share of panelists who said materials costs rose in the previous quarter was lower than the percentage of panelists who said materials costs fell. Eighty-five percent of respondents reported no shortages of major inputs. The share of respondents reporting skilled labor shortages dropped to 10% from 40% just six months ago.

## WHAT TO WATCH

- The February PMI released March 2nd will be an early economic indicator that will be very, very closely examined. ([www.outlook-economic.com](http://www.outlook-economic.com) and [www.ism.ws](http://www.ism.ws) ). Another index below 40.0 will be a bearish sign but an index above 45.0 will be a moderately bullish signal.. I expect the leading economic indicator to be slightly above 40.0.
- Retail sales for January and February will be released on Feb. 12th and March 12th respectively. These readings have become important measures of consumer sentiment (forget about the actual consumer senti-ment and confidence numbers). Look at what consumers are actually doing. ([www.census.gov](http://www.census.gov)). I expect both releases to show retail sales declining on a monthly basis of 2.0%.
- The employment report for February will be released on March 6th I expect the report to show job losses (and large) for a fifteenth straight month and an increase in the unemployment rate to 7.9%.. ([www.bls.gov](http://www.bls.gov))
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims above 600,000 and continuing claims more than 4.0 million are bearish. I expect this number to continue to show significant economic weakness. ([www.doe.gov](http://www.doe.gov) ).

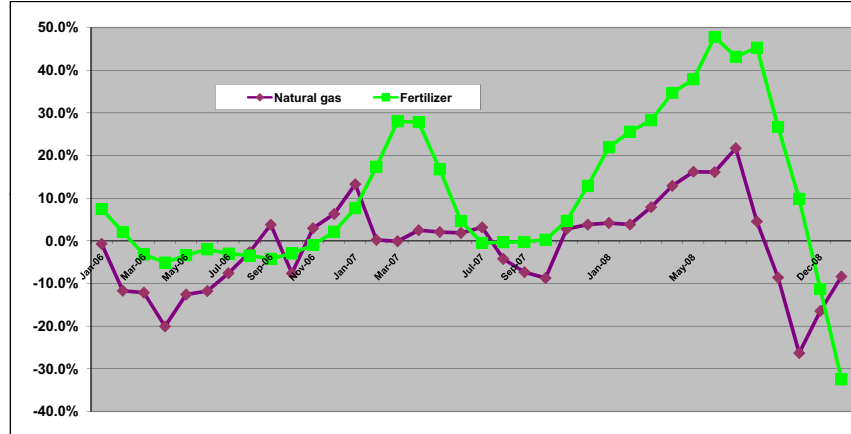
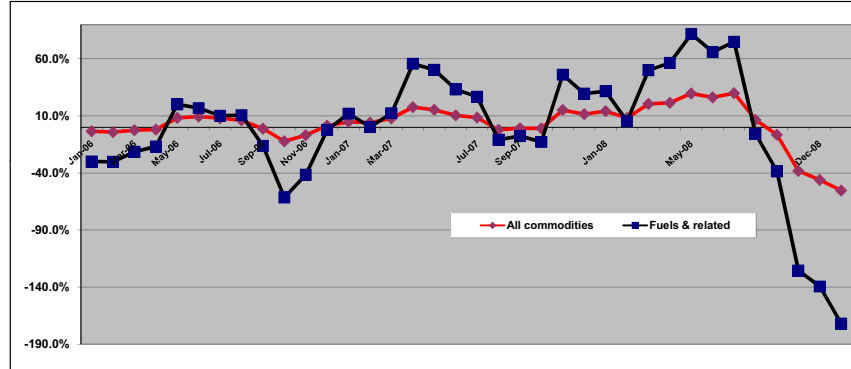
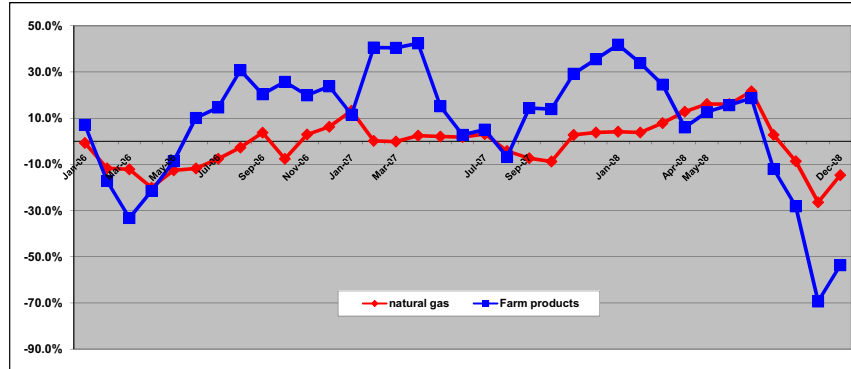
•The fraction of respondents who said their firms raised prices last quarter dropped to just 12 %– the lowest percentage of respondents since the end of 1998. For the second straight quarter, more respondents expect their prices to fall instead of rise over the next quarter.

## PRICE DATA

ANNUALIZED PRICE GROWTH  
3 MONTH MOVING AVERAGE 2006-2008

## BANKER READING ROOM

Our allies ... the Farm Credit System? American Bankers Association. ABA Banking Journal 101, no. 1 (Jan 2009): A roundtable panel discussion on the future of ag banking and agriculture is presented. Shrinkage and consolidation were frequently predicted for agricultural America by the panelists, who addressed these topics at a similar session, also pegged to the quarter-century mark, at ABA’s National Agricultural Bankers Conference in later November. The group addressed trends among both farms and farm lenders. Veteran ag banker Dennis Everson had done some number crunching to reach his conclusions about future farming. Growing, self-contained farms will be adding to their holdings both for efficiency and diversification, suggested Brian Little, head of Agriculture and Agri-Business at RBC Royal Bank. M&I’s Sam Miller does a great deal of dairy finance, and he sees more and more integrated “closed-system” operations that make use of by-products. Dr David M. Kohl, professor emeritus for agriculture and applied economics at Virginia Tech, told fellow roundtable members that he expects to see a European model market in the US by 2025.



## ASK ERNIE OR BILL

If you have any questions about the survey or have any specific questions about the recent economic conditions, please write to Ernie or Bill at [ernie@creighton.edu](mailto:ernie@creighton.edu).