

January 2009

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## **Rural Mainstreet Bankers Report Weak Economic Conditions: Higher Farm-Input Prices Pose Biggest Threat for 2009**

### **January 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.
- Fifty-eight percent of bankers expect elevated farm-input cost to pose the greatest threat for 2009 farm income.

### **For Immediate Release: January 15, 2009**

OMAHA, Neb. – 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 growth neutral for 11 consecutive months," said Creighton University economist Ernie Goss. Goss and Bill McQuillan, CEO of City National Bank in Greeley, Neb., created the monthly economic survey.

"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 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 agricultural equipment sales. The farm-equipment sales index declined to a record low of 29.4 from 31.6 in December," said Goss, director of Creighton's Economic Forecasting Group and the Jack A. MacAllister Chair in Regional Economics.

However, according to McQuillan, "Agriculture real estate prices have leveled off over 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 farmers in 2009. None of the bankers expect the current pullback in ethanol demand for corn and soybean to pose a significant risk to agricultural income for 2009," said Goss.

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According to Jeffrey Gerhart, CEO of the Bank of Newman Grove in Newman Grove, Neb., "High input costs, in combination with uncertain crop prices, are a real concern for what lies ahead for the farming sector."

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 potential downturn in farm income.

The regional hiring index began 2008 below growth neutral and has weakened almost every month since. The new-hiring index for January dipped to a record low 18.3 from December's feeble 25.8. "This is the 13<sup>th</sup> 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, particularly for rural manufacturing," said Goss.

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," said Goss.

However, all reports were not negative. According to Steven Lane, CEO of Security Savings Bank in Farnhamville, Iowa, "The rural economy has 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 for bad economic times. They still have jobs, they can get loans, and they have no problem making their house payments."

Just like the national housing market, home sales remained very weak for Rural Mainstreet with the home-sales index climbing 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 own banks. 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.

This month, CEOs were asked if their banks, like their big-city brothers, had begun to restrict credit to lenders. According to the January survey, 43.9 percent of the bankers have tightened credit standards since last September while 53.7 percent indicated they had made changes in credit standards since the failure of Lehman Brothers in September 2008.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of an 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, Montana, Nebraska, North Dakota, South Dakota and Wyoming are included. The average community-population size covered by the survey is approximately 1,300 with almost 200 communities represented in the survey.

**Below are reports for the separate states:**

**Colorado:** While not getting worse, Colorado's Rural Mainstreet Index (RMI) continues to experience some fairly negative pressures. The January RMI rose to 22.3 from December's 16.7.

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**Illinois:** Farmland price growth tends to be much weaker for Illinois, Iowa and Minnesota than for other states in the survey region. The state's Rural Mainstreet Index for January stood at a feeble 22.4, but up from December's 21.2. As stated by Jim Shafer, president of First National Bank in Tremont, "Until recently, our area has been buffered from the negative national climate. We are beginning to see effects through layoffs. This will rapidly trickle through the general economy to vendors and suppliers."

**Iowa:** The state's Rural Mainstreet Index (RMI) has been slumping since the floods in June 2008. The January RMI advanced to a weak 26.4 from 24.3 in December. Despite reduced agriculture commodity prices, some areas of the state continue to experience solid increases in farmland prices. As indicated by Jim Brown, CEO of Hardin County Savings Bank in Eldora, "Some but not all farmland prices have fallen; it still depends a lot on who your neighbors are and how badly they want a particular piece of ground. The rebound in farm commodity prices during the last 30 days gives us more hope for a more stable 2009."

**Kansas:** The slowdown in the national economy and the state's urban areas pushed economic growth in a negative direction for January. The January RMI declined to 31.5 from December's 38.2.

**Minnesota:** The state's Rural Mainstreet continues to struggle economically. The January RMI climbed to a still weak 20.4 from December's regional low of 8.6. Bankers reported that weather conditions negatively affecting business conditions. Said Pete Haddeland, CEO of First National Bank in Mahanomen, "We still have a lot of corn out after having the wettest September and December on record. Additionally, credit standards on commercial credit have tightened."

**Missouri:** As in prior months, bankers in Missouri's rural areas reported very weak economic conditions. Weak exports for rural manufacturers were an important factor in pushing the state's Rural Mainstreet Index to a weak 20.1. However, the January reading was up from December's feeble 18.2.

**Montana:** Continuing pullbacks in commodity and energy prices and the national economic downturn have negatively affected rural areas of the state. The January Rural Mainstreet Index slipped to 22.1 from December's 23.2 and November's 25.0.

**Nebraska:** The state's Rural Mainstreet Index (RMI) continues to slow, according to the monthly survey of bank CEOs in the state. Lower agriculture commodity prices and reductions in the export of manufactured goods pushed the state's RMI for January to 33.6 from December's 38.2.

**North Dakota:** In a signal of the impact of a global economic recession, and lower agricultural and energy commodity prices, North Dakota's Rural Mainstreet Index declined significantly from December's reading. The January RMI stood at 41.2, down from December's healthy 55.9.

**South Dakota:** Pullbacks among some of the state's ethanol plants, along with reduced exports of manufactured goods, pushed the state's Rural Mainstreet Index below growth neutral to 44.3 from December's 52.5.

**Wyoming:** For a third straight month, Wyoming's Rural Mainstreet Index (RMI) moved below growth neutral. The state's January RMI declined to 38.6 from December's 47.6. As indicated by Bob Sutter, Chairman of Hilltop National Bank in Casper, "Wyoming's economy has shown recent signs of softening. Given the state's strong economic ties to oil and gas prices, it would be expected that there would be a decline in activity but that has not yet had much of an effect."

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. Next month's survey results will be released on the third Thursday of the month, Feb. 19.

**Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)**

	Jan-08	Dec-08	Jan-09
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
Certificates of Deposit	60.8	63.6	57.6
Farmland 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	46.6	25.8	18.3
Retail business	42.4	20.9	24.2
Confidence index (area economy six months out)	43.2	15.6	25.9

**Table 2: The Rural Mainstreet Economy**

	High Input Prices	Reduced Ethanol Demand	Reduced commodity prices due to global recession
Which of the following poses the biggest threat for agriculture in your area for 2009?	58%	0%	42%
	Tightened Significantly	No Change	Loosened Standards
Since September, have you changed credit standards for borrowers?	43.9%	53.7%	2.4%

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