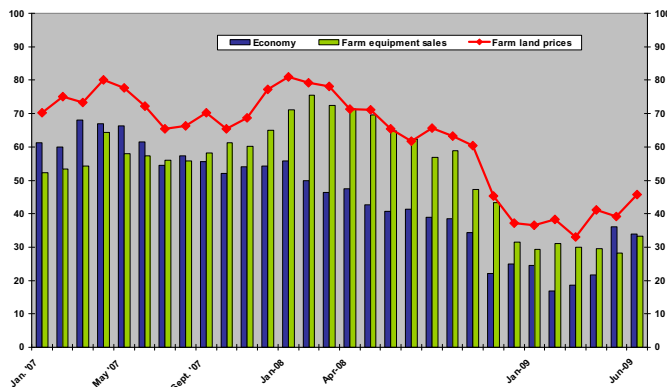


SURVEY RESULTS AT A GLANCE

- Bank CEOs report first decline in Rural Mainstreet Index since February of this year.
- Farm-equipment sales index and farmland-price index increase for the month.
- Only 2.0 percent of bankers support a public health insurance program.
- Over one-third of bank CEOs expect a Federal Reserve rate hike by the end of 2009.

MAINSTREET RESULTS

Rural Mainstreet Economy, '07-'09



Tables 1 and 2 below summarize findings from the June survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. June survey results will be released on the third Thursday of the month, July 16th.

[Index > 50.0 indicates expansion]

	July 2008	June 2009	July 2009
Area Economic Index	40.8	36.2	34.0
Loan volume	63.6	46.7	56.1
Checking deposits	55.1	68.0	54.2
Certificate of deposits	49.3	59.3	54.1
Farm land prices	65.4	39.2	45.7
Farm equipment area sales	64.7	28.3	33.3
Home sales	34.1	48.7	45.9
Hiring in the area	41.3	29.6	29.0
Retail Business	32.1	34.9	33.7
Economy 6 months from now	36.8	56.0	52.2

WHAT YOU REPORTED IN JUNE

After three consecutive monthly increases, the overall index for the Rural Mainstreet economy declined and continues to indicate significant economic weakness, according to the June survey of bank CEOs in an 11-state region. The Rural Mainstreet Index (RMI), which ranges between 0 and 100, slipped to a weak 34.0 from 36.2 in May, but was up significantly from February’s record low of 16.9. A reading of 50.0 is considered growth neutral. “The RMI has remained below growth neutral for 16 consecutive months. Even though the RMI was down for June, the index has been trending upward over the past few months, indicating the severity of the economic downturn is lessening. Weaker farm income, closures and cutbacks for rural manufacturers and a weak U.S. economy continue to negatively affect the Rural Mainstreet economy.

The weak global economy has affected the farm sector significantly. With net farm income under pressure, both land prices and sales of farm equipment have weakened over the past several months. The farmland-price index moved below growth neutral for the eighth straight month and the farm-equipment sales index dropped below growth neutral for the ninth consecutive month. After peaking at 81.0 in January 2008, the farmland-price index declined to a record low 33.1 in March of this year. It has since rebounded to this month’s reading of 45.7 from May’s 39.2. The farm-equipment sales index climbed to 33.3 from May’s record low 28.3.

Weather always plays an important role in the Rural Mainstreet economy. This month bankers were asked to compare this year’s planting conditions to this time last year. More than three-fourths of the bankers, or 76.0 percent, indicated that crop planting was on schedule, or ahead of schedule compared to 2008. Less than one-fourth, or 24.0 percent, indicated that planting was behind last year’s schedule. Despite the current negative economic circumstances, the confidence index, which tracks expectations for the Rural Mainstreet economy six months out, was above growth neutral for a second straight month. The June reading slipped to 52.2 from May’s 56.0. Despite the decline in the confidence index, bankers in our survey clearly think that the worst of the economic downturn is behind us.

This month bank CEOs also were asked whether they supported a government program providing health insurance competing with private insurers. Only 2.0 percent of the bankers support such a program while 68.6 percent are firmly opposed to a government run program. The remaining 29.4 percent indicated that too little was known about the public health insurance program. Bradley Robson, CEO of First State Bank in Belmond, Iowa, summed up the expectations of many when he said, “Why would we consider any model that has the government running health care over the long run. One only has to look at Amtrak to see how expensive such an undertaking will be to the taxpayer.” However, Jim Stanosheck, CEO of State Bank of Odell in Odell, Neb., said, “If our goal is to make health insurance available to all Americans, a government operated program must be included.”

The Mainstreet Economy	Raise Rates	No Change	Reduce Rates
By the end of 2009, what changes, if any, will the Fed make to short term interest rates?	34.0%	66.0%	0.0%
Do you support a government program of health insurance coverage that competes with private programs?	Definitely Not	Not Sure	Definitely Yes
	68.6%	29.4%	2.0%
In your area, how do crop plantings this year compare to last year?	Significantly Behind	About the Same	Significantly Ahead
	9.2%	24.6%	66.2%

Hiring in the rural areas has been especially weak over the past year. The new-hiring index for June inched lower to a frail 29.0 from May’s 29.3, but was well above February’s record low of 14.7. This is the 18th consecutive month that the index has been below growth neutral, due in part to the national and global recession and weakening farm and energy commodity prices. Over the past 12 months, rural areas of the region have lost more than 4.7 percent of their jobs while urban areas in the region have seen more than 3.1 percent of their jobs disappear over the past year.

Like much of the nation, retail sales were less than healthy for the month with a June retail-sales index of 33.7, down from 34.9 in May, but well up from February’s record low 18.4. The Rural Mainstreet housing market appears to be stabilizing, albeit at a somewhat weak level. The June home sales index softened to 45.9 from May’s 48.7. It appears that the upturn in the Rural Mainstreet housing market is following the urban pattern – improving, but still weak. However, the 2009 stimulus program is having a positive impact on the housing market according to some. For example, McQuillan said the \$8,000 special tax credit for first time homebuyers is having a positive effect in his region.

Despite the national financial crisis, community bankers on Rural Mainstreet reported healthy banking numbers for the month. The loan-volume index expanded to 56.1 from May’s 46.7 indicating little concern in terms of credit availability. According to McQuillan, “We certainly have plenty of dollars to lend to qualified buyers who are seeking financing.” For June checking deposits declined to 54.2 from May’s 68.0. The index for certificates of deposit and other savings instruments dipped to a still healthy 54.1 from May’s 59.3.

In June’s survey, bankers were asked whether they thought the Federal Reserve would raise short-term interest rates. Fully 34.0 percent of the banks CEOs expect the Fed to raise short-term interest rates by the end of 2009. The remaining 66.0 percent expect no rate change in 2009. 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, Nebraska, North Dakota, South Dakota and Wyoming are included.

This survey represents an early snapshot of the economy of the rural, agriculturally and energy dependent portions of the nation. The Rural Mainstreet Index is a unique index covering 11 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.

MAINSTREET ON YOUR STREET

COLORADO

Colorado’s Rural Mainstreet economy continued its downward trend. The Rural Mainstreet Index (RMI) sank to 20.0, a regional low, from 34.9 in May and 21.7 in April. The June ranch- and farmland-price index declined to 31.8 from May’s 37.9 and April’s 41.2. June’s home-sales index decreased to 31.9 from May’s 47.4. Mike Bass, president of the First National Bank of Hugo, sees solid crops for 2009, “Our area has received over two inches of rain in the past 10 days, with some hail damage to wheat crops, though not wide spread. Spring wheat and pastureland look fantastic.”

ILLINOIS

The Illinois RMI once again declined below growth neutral but expanded from May’s level. The RMI for June rose to 32.0 from May’s 22.2 and April’s 15.6. Farmland prices continue to show weakness with a June reading of 43.8, up from May’s 23.2 and April’s 11.6. June’s home-sales index expanded to 43.9 from May’s 28.9.

IOWA

Iowa’s RMI remained below growth neutral, according to the monthly survey of bank CEOs. The RMI for June slumped to 32.0 from May’s 37.2 and April’s 18.1. The farmland-price index was also below growth neutral with a June reading of 43.7, up from May’s 40.2. June’s home-sales index slipped to 43.9 from 49.7 in May. According to Kurt Henstorf, president of First National Bank in Shenandoah, “Area crops were planted in good time and to date look excellent. Very adequate moisture lately, but as always, July and August rainfall will be the ultimate determinant.”

KANSAS

The Kansas RMI, like much of the region, was below growth neutral 50.0. The June RMI plummeted to 26.6 from May’s 36.5, but up from April’s 19.0. The farmland-price index dipped to 38.3 from May’s 39.5. June’s home-sales index stood at 38.5, which was down from 49.0 in May. Joe Kennedy, CEO of First National Bank in Frankfort said, “Union Pacific Railroad has laid off a lot of employees recently, but I do expect the area economy to improve in the next six months.”

MINNESOTA

Minnesota’s RMI sank to 23.7 from 25.9 in May but was up from April’s 15.9. The farmland-price index advanced to 35.4 from May’s 28.9. June’s home-sales index was 35.6 which was down from May’s 38.4. According to Pete Haddeland, CEO of First National Bank in Mahanomen, “Crops are a little behind because of the cool wet conditions. Farmers are being very careful when it comes to purchases.”

MISSOURI

Missouri’s RMI dipped to 30.4 from May’s 32.6, but was up from April’s 16.1. The June farmland-price index expanded to 42.1 from May’s 35.6 and April’s 30.5. June’s home-sales index stood at 45.1.

MONTANA

Too few banks responded in April to calculate an index.

NEBRASKA

As in past months, Nebraska’s RMI remained below growth neutral. The June RMI sank to 37.0 from May’s 40.6. The Nebraska farmland-price index for June expanded to 48.8 from May’s 43.6 and April’s 38.6. June’s home-sales index was 48.9, down from 53.1 in May.

NORTH DAKOTA

The North Dakota RMI for June was the highest in the region with a reading of 59.0, which was down from 62.5 in May. The June farmland-price index for the state rose to 70.9 from 65.6 in May and 62.3 in April. June’s home-sales index was a very strong 70.8, but lower than May’s 75.0.

SOUTH DAKOTA

South Dakota’s RMI remained below growth neutral with a June reading of 41.9, down from 46.1 in May and 22.9 in April. The state’s farmland-price index rose above growth neutral to 53.7 from May’s 49.1. June’s home-sales index was 53.9 compared to May’s healthier 58.6. According to David Callies, CEO of Miner County Bank in Howard said, “Crops in our area are looking great at this time.”

WYOMING

Wyoming and North Dakota were the only states with RMIs above growth neutral for June. Wyoming’s RMI declined to 53.2 from May’s much higher 64.1. The June ranch- and farmland- price index was also a very strong at 65.0, down from May’s 67.1. The June home- sales index stood at 65.2, down from May’s 76.5. But according to Bob Sutter, vice chairman of Hilltop National Bank in Casper, there were mixed economic signals, “Some businesses have picked up while others are having layoffs. Consumer delinquency is showing an increase, after a less than normal seasonal increase during the winter months.

THE BULLISH NEWS

- The U.S. trade deficit unexpectedly narrowed in May to \$26 billion its lowest level in al-most a decade as exports jumped while imports of crude oil and auto parts declined.
- Initial claims for jobless benefits plunged 52,000 to a seasonally adjusted 565,000 in the week ended July 4.

THE BEARISH NEWS

- Analysts polled by Thomson Financial expect earnings for the S&P 500 companies fell an average 35.5 percent in the April-June from a year earlier after falling the same amount in the first quarter.
- Prices of goods imported into the U.S. rose 3.2 percent in June, the fourth monthly increase, as oil costs jumped by the most in a decade, a separate government report showed today.
- Continuing claims for unemployment benefits for the week ending June 27 rose 159,000 to a record 6,883,000.
- Employers cut 467,000 jobs last month, according to the report. The unemployment rate—a meas-ure of the percentage of workers who are unemployed and looking for work—rose slightly to 9.5 percent, from 9.4 percent in May. Job losses in June were spread widely. Manufacturing lost anoth-er 136,000 jobs. Construction employment fell by 79,000. Professional and business services em-ployment dropped by 118,000. Healthcare was the lone sector to add jobs in the month.
- The average workweek hit 33.0 hours, a record low since the data were first collected 45 years ago. While hourly earnings have jumped 2.7 percent in the past year, that rise has been mitigated as companies have cut workers’ hours—so, weekly earnings have risen by just 0.9 percent.
- Job worries caused consumer confidence, as measured by the nonprofit Conference Board, to drop in June, reversing a three-month upward trend fueled by a stock market rally that also is fizzling.
- Car dealers struggled last month, as sales dropped to a 9.7 million (annualized) from a 9.9 million rate in May.
- U.S. industrial output tumbled 1.1% in May, led by big drops in motor vehicles, mining and high-technology products, the Federal Reserve reported Tuesday. The

decrease was a bit worse than forecasts of a 1% drop, Output has fallen in 16 of the past 17 months since the recession began in December 2007. Since that month, industrial output is down 14.8%. Capacity utilization in industry fell to a record-low 68.3%. In manufacturing alone, capacity utilization fell to a record-low 65%.

WHAT TO WATCH

- The July PMI released August 3rd. This is the first economic indicator released for the month and will very, very closely watched. A decline from last month’s reading will be very, very bearish. (www.outlook-economic.com and www.ism.ws).
- The employment report for July released on August 7th. Job losses of more than 500,000 and an unemployment rate to ten percent will be viewed as extremely bearish. I expect losses to be roughly 400,000 with an unemployment rate of 9.8 percent—not good but not a crisis (www.bls.gov)
- Second quarter GDP (advance) will be released on July 31st by the BEA. A negative value is almost certain. However, an annualized decline of more than 4.0 will be bearish (www.bea.gov).
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims above 450,000 and continuing claims greater than 7.0 million will be very bearish (www.dol.gov).
- Keep an eye on the yield of 10-year U.S. Treasury bonds. A decline below 3.0 percent will be a harbinger of a continuation of the economic malise (<http://finance.yahoo.com>).

THE OUTLOOK

FROM GOSS:

- The U.S economy will exit the recession in the final quarter of 2009. However the recovery will be jobless with the unemployment rate stabilizing above 8.0 percent and little to no job growth.
- The Fed will raise interest rates as early as December of 2009 and no later than the first quarter of 2010.
- GDP growth for 2010 will be less than 1.5% (inflation adjusted). This is not good. It should be twice this rate.

FROM JOHN SILVA, CHIEF ECONOMIST, WACHOVIA BANK:

- Foreign investors showed little interest in all but the safest and most liquid instruments.
- The start of the summer has seen markets open up for IPOs and follow ons.
- Yield curve continues to steepen—too much stimulus?
- The cost of credit remains high on Main Street—recent moderation is a good sign.

BANKER READING ROOM

“Community banks develop roots to build customer trust,” Des Moines Register, July, 12. Community banks have embraced their roles as customers look for security and soundness over high returns.

This flight to safety is benefiting Iowa’s banks — 98 percent of which have less than \$1 billion in assets. “Generally, we have had steady growth,” said Tim Heldt, president and chief executive of Charter Bank in Johnston, Iowa. He expects to increase the bank’s assets by 8 to 10 percent this year. “It’s nice growth, not too fast,” he said. “It’s probably better than 25 percent growth.” Rural banks are continuing to lend, according to Arthur Johnson, chairman-elect of the American Bankers Association. He testified before a Senate committee last week on how the economy is affecting rural banks. He said community banks continue to lend despite the recession. “In spite of the downturn, community banks in rural communities expanded lending by 7 percent since the recession began,” Johnson said. “Loans made by banks that focus on farmers and ranchers also increased by 9 percent.”