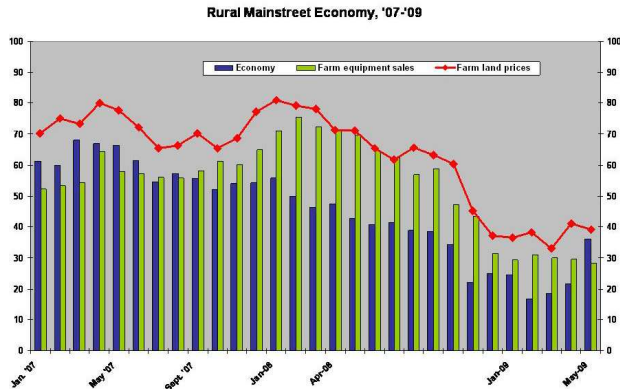


## SURVEY RESULTS AT A GLANCE

- Bank CEOs report a third straight uptick in the monthly index.
- Farm-equipment sales index drops to another record low.
- More than half of the bankers report no impact from the home-buyer tax credit in the 2009 Stimulus Bill.
- Almost two-thirds of the bankers expect the closure of GM and Chrysler dealerships to have little or no impact on the Rural Mainstreet economy.

## MAINSTREET RESULTS



Tables 1 and 2 below summarize findings from the May 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, June 18th.

[Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	June 2008	May 2009	June 2009
Area Economic Index	42.6	21.7	36.2
Loan volume	59.3	50.8	46.7
Checking deposits	59.3	66.7	68.0
Certificate of deposits	55.1	61.0	59.3
Farm land prices	71.2	41.2	39.2
Farm equipment area sales	69.6	29.6	28.3
Home sales	35.8	30.8	48.7
Hiring in the area	46.7	15.8	29.6
Retail Business	36.7	20.5	34.9
Economy 6 months from now	47.5	45.6	56.0

## WHAT YOU REPORTED IN MAY

The overall index for the Rural Mainstreet economy increased for a third straight month but continued to point to significant economic weakness, according to the May survey of bank CEOs in an 11-state region. The Rural Mainstreet Index (RMI), which ranges between 0 and 100, expanded to 36.2 from April’s 21.7 and March’s 18.7. The Rural Mainstreet Economy appears to have bottomed out earlier this year with fewer negative indicators each month since February. While the RMI remains below growth neutral, May’s number was the highest recorded level since September 2008. The May 2009 reading compares to 42.6 for May 2008. The RMI has remained below growth neutral 50.0 for 15 consecutive months. Weaker farm income, significant reductions for rural manufacturers and a weak U.S. economy continue to negatively affect the Rural Mainstreet economy.

A weaker outlook for farm income has materially and negatively affected businesses that sell to the farm sector. The strong dollar and the global recession have had a negative impact on the sales of U.S. farm products abroad. As a result, the farmland-price index moved below growth neutral for the seventh straight month. After peaking at 81.0 in January 2008, the index declined to a record low 33.1 in March of this year, but has rebounded slightly to May’s 39.2, though it is down slightly from April’s 41.2. The farm-equipment sales index slumped to 28.3, a record low and was down from April’s 29.6 and March’s record low 30.0. Cautious farmers have clearly cut their purchases of farm machinery.

However, bankers with an eye to the 1980s said the conditions for buying farm machinery is not as bad as it could be. According to Jim Brown CEO Hardin County Savings Bank, Eldora, Iowa, “This is not record low territory for farm machinery sales. In the 1980s, there were no sales and no bottom to the market for a long period.” For the first time since September 2007, the confidence index, which tracks expectations for the Rural Mainstreet economy six months out, rose above growth neutral 50.0. The May reading soared to 56.0 from April’s 45.6. Bankers in our survey are clearly getting more optimistic in their economic outlook.

Hiring in the rural areas has been especially weak over the past year. The new-hiring index for May climbed to a weak 29.3 from April’s 15.8 but well above February’s record low of 14.7. This is the 17th 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.

Unlike the national housing market, home sales improved for Rural Mainstreet with the home-sales index rising to 48.7, its highest level since June 2007, and up significantly from April’s 30.8. In order to determine the source of this growth, this month, bankers were asked to assess the \$8,000 tax credit contained in the 2009 Stimulus Bill. Over half, or 52.3 percent, responded that the tax credit for first-time home buyers has had no impact on their housing markets. Only 4.6 percent indicated that the program

Table 2: The Mainstreet Economy	<u>Declined by more than 10%</u>	<u>Declined by 5% - 15%</u>	<u>Did not decline</u>
Over the last six months projected fertilizer input costs for agriculture producers have	34.9%	50.8%	14.3%
What has been the impact of the \$8,000 tax credit for first-time home buyers on home sales in your area	<u>Significant</u>	<u>Moderate</u>	<u>None</u>
	4.6%	43.1%	52.3%
What will be the impact of the closure of GM & Chrysler dealerships in your area	<u>Significant</u>	<u>Moderate</u>	<u>Little or None</u>
	9.2%	24.6%	66.2%

has had a significant impact on home sales on Mainstreet. Thus it appears that the upturn in the Rural Mainstreet housing market is more of a reaction to an economy that has bottomed out and poised for growth. However, other bankers see it differently. Todd Douglas of the First National Bank in Ft. Pierre, S.D., said, “The impact of the first-time home owner tax credit has generated sales and interest in the housing market in central South Dakota.”

This month bank CEOs also were asked to gauge the potential economic impact of the closure of GM and Chrysler dealerships on their communities. Almost two-thirds, or 66.2 percent, indicated that the closures would have little or no impact. On the other hand, 9.2 percent of the bankers expect the impact of the closures to be significant. Some of the bankers see little benefit to Chrysler and GM in closing the dealerships. For example, John Nelsen, president of First Tier Bank in Holdrege, Neb., said that, “I have yet to see the real costs to Chrysler and GM in keeping rural dealerships open. The closure will not add to their bottom lines.” And Howard F. Schaan, CEO of First State Bank of Harvey in Harvey, N.D., thinks his community’s only dealership will keep its franchise but any change could produce moderate negative impacts.

Despite the national banking crisis the community bankers on Rural Mainstreet reported healthy banking numbers. The loan-volume index sank to 46.7 from 50.8 in April, reflecting some tightening of credit, but it is still not in a range to cause concern. For May, checking deposits expanded to 68.0 from April’s 66.7. The index for certificates of deposit and other savings instruments dipped to a still healthy 59.3 from April’s 61.0 and March’s 62.9. Bank balance sheets continue to be strong for Rural Mainstreet bankers in comparison to their urban counterparts.

## MAINSTREET ON YOUR STREET

### COLORADO

Economic conditions for Colorado’s Rural Mainstreet continued its downward trend. The Rural Mainstreet Index (RMI) advanced to 34.9 from April’s 21.7 and March’s 18.7. The May ranch- and farmland-price index dipped to 37.9 from 41.2 in April but up from March’s 33.1. May’s home sales index stood at 47.4.

### ILLINOIS

The Illinois RMI was once again the weakest among the surveyed states. The RMI for May expanded to 22.2 from April’s 15.6. Farmland prices continue to decline with a May reading of 23.2, up from April’s 11.6. May’s home-sales index was 28.9.

### IOWA

Iowa’s RMI remained below growth neutral, according to the monthly survey of bank CEOs. The RMI for May climbed to 37.2 from April’s 18.1 and March’s 17.5. The farmland-price index was also below growth neutral with a May reading of 40.2, up from April’s index of 34.3. May’s home-sales index stood at 49.7.

### KANSAS

The Kansas RMI, like much of the region, was below growth neutral 50.0. The May RMI rose to 36.5 from 19.0 in April and 17.5 in March. The farmland-price index increased to 39.5 from April’s 36.2. May’s home-sales index stood at 49.0. However, there were some good signs. For example, Dale Bradley, CEO of The Citizens State Bank in Miltonvale said, “Crops look good in our area. The economy is more stable than I thought it would be by this time.”

### MINNESOTA

Minnesota’s RMI climbed to 25.9 from April’s 15.9 and March’s 16.2. The farmland-price index dipped to 28.9 from 30.2 in April and 24.2 in March. May’s home-sales index was 38.4.

### MISSOURI

Missouri’s RMI grew to 32.6 from 16.1 in April and 11.4 in March. The May farmland-price index expanded to 35.6 from April’s 30.5 and March’s 24.5. May’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 May RMI rose to 40.6 from April’s 20.3 and March’s 14.5. The Nebraska farmland-price index for May increased to 43.6 from April’s 38.6 and March’s 30.9. May’s home sales index was 53.1. Moreover, alternative fuel production continues to have positive impacts for areas of the state. According to Kathy Thuman, president of Farmers State Bank in Maywood, “Sales of corn to ethanol plants in our area are remaining steady with higher fuel costs. Southwest Nebraska has oil fields and our customers with oil production are seeing larger royalty payments.” But for the livestock producer, economic conditions have been less favorable. Jon Schmaderer, president of Tri-County Bank in Stuart, said, “The high input prices in 2008 seemed to challenge the cow/calf producer. We expect that 2009 input prices will be lower and more in line with their income.”

### NORTH DAKOTA

The North Dakota RMI for May was the second highest among the states with a reading of 62.5, up significantly from April’s 32.8 and March’s 52.2. The state’s May farmland-price index rose again to 65.6 from April’s 62.3. May’s home-sales index was a very strong 75.0. Not surprisingly, North Dakota weather has been at the forefront of the economy. According to DeWayne Streyle, CEO of United Community Bank of North Dakota in Leeds, “Extreme wet conditions have delayed planting to the point of eliminating the planting window for some crops.” Even though conditions were positive for the month, there were some negatives. Scott Tewksbury, CEO of Heartland State Bank in Edgeley reported, “The past month has seen the first local layoffs as a local equipment parts manufacturer reduced its workforce due to lack of demand for its products.”

### SOUTH DAKOTA

South Dakota’s RMI remained below growth neutral with a reading of 46.1 from April’s very weak 22.9 and March’s 22.3. The state’s farmland-price index expanded to 49.1 from 43.5 in April and 34.9 in March. May’s home-sales index was 58.6.

### WYOMING

While much of the region and nation struggled economically, Wyoming’s RMI remained healthy. The May RMI was the highest in the region at 64.1. The May ranch- and farmland- price index was also a very strong 67.1. The May home sales index stood at 76.5, the highest in the region.

## THE BULLISH NEWS

- Outlays by foreign direct investors to acquire or establish U.S. businesses increased 3% in 2008, to \$260.4 billion. Outlays in 2008 were the third-largest on record and the sixth consecutive increase since a falloff in outlays in 2001-2002.
- Non-farm payroll employment fell by 345,000 in May, about half the average monthly decline for the prior 6 months. It just indicates that the negative are getting less negative.
- The overall U.S. trade deficit is running at an annual rate of \$361.1 billion, about half of the \$695.9 billion total for all of 2008. The drop in imports has been greater than the fall in exports, which also are down significantly as the global recession cuts demand for U.S. products in key markets. Unfortunately, the reason the deficit is down is due to the global economic recession.
- The U.S. current-account deficit--the combined balances on trade in goods and services, income, and net unilateral current transfers--decreased to \$132.8 billion in the fourth quarter of 2008, the smallest deficit since the fourth quarter of 2003, from \$181.3 billion in the third quarter of 2008.
- U.S. retail and food services sales for May increased by 0.5% from the previous month, but were 9.6% below May 2008.

## THE BEARISH NEWS

- The U.S. Import Price Index rose 1.6% in April. A 15.4% increase in import petroleum prices more than offset a 0.4% decline in the price index for non-petroleum imports. Export prices also rose in April, increasing 0.5%.
- Productivity rose 1.6% (not bad) in the non-farm business sector in first-quarter 2009, as hours fell faster than output. Unit labor costs increased 3.0%. Manufacturing output per hour fell 2.7 percent; unit labor costs increased 16.6 percent (very, very bad!).
- Privately-owned building permits in April were at an annual rate of 494,000. This is 3.3% below the March rate of 511,000 and is 50.2% below the April 2008 estimate of 991,000.
- On the last business day of April, job openings in the U.S. numbered 2.5 million, the lowest level since the series began in December 2000.
- The unemployment rate continued to rise, increasing from 8.9% to 9.4%. Steep job losses continued in manufacturing, while declines moderated in construction and several service-providing industries. Initial jobless claims fell by 24,000 to 601,000 in the week ended June 6. However, the number of people collecting benefits rose for a 19th straight time to a record 6.82 million in the prior week.

## WHAT TO WATCH

- The first and most important indicator for July will be the Mid-America and U.S. May PMIs released July 1. ( [www.outlook-economic.com](http://www.outlook-economic.com) and [www.ism.ws](http://www.ism.ws) ). Declines from last month’s readings will be very, very bearish. I expect a slight increase but still not strong.
- The employment report for June will be released on July 2nd. I expect the report to show job losses (above 300,000) for a 19th straight month and an increase in the unemployment rate from 9.4% to 9.6% ([www.bls.gov](http://www.bls.gov)).
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims above 600,000 will be bearish. I expect this number to drop below 600,000 for the first time since January ([www.doe.gov](http://www.doe.gov)).
- Keep an eye on the yield for 10-year U.S. Treasuries. If this yield approaches 4.5% within the next month the Fed will be “between a rock and a hard place.” The rapidly rising yields reflect: 1) Concerns regarding the large increases in the U.S. budget deficit, 2) Rising inflation expectations (but not a large factor yet) and 3) Investors reduced the risk perceptions and are pulling money out of treasuries and putting it into equity markets (a good thing) (<http://finance.yahoo.com> ).
- Investors will be closely watching retail sales to detect a weak consumer. A decline from May’s number will be very bearish. Released July 14 ([www.census.gov](http://www.census.gov)).

## THE OUTLOOK

### FROM GOSS:

- I expect the rising federal deficit projections to continue to weigh on the bond market with rising yields which will translate into higher mortgage rates over the next few months.
- I expect the nation’s jobless rate to top 10% by the end of the year.

### FROM GLOBAL INSIGHTS:

- U.S. economy will sink by 3.0% for 2009 but will grow by 1.5% for 2010.
- U.S. beef exports will not return to 2008 levels until 2012.
- Lower corn production in Argentina will limit export competition for current season for U.S. producers.

### FROM THE ENERGY INFORMATION AGENCY:

- Crude prices will likely average \$67 a barrel in the second half of 2009, about \$16 higher than the first six months of the year. A month ago, the EIA’s price-per-barrel forecast for the second half of 2009 was \$55.
- Retail gasoline prices to hit their summer peak in July, with a monthly average near \$2.70 a gallon. For the full year, the EIA now predicts an average retail price of \$2.33 a gallon, up from its forecast of \$2.12 a month ago..

## BANKER READING ROOM

“Lenders Forced Into Crisis Management,” National Real Estate Investor 51, no. 5 (May 2009): p. 27-28. The once turbo-charged commercial real estate financing market stands now largely idle. Lending volume plummeted 80% in the fourth quarter of 2008 from a year earlier, according to the Mortgage Bankers Association. The only steady demand is for long-term mortgages to refinance maturing debt. The last action lenders want to take at this stage of the game is to foreclose on hundreds of properties and attempt liquidations in a market where few assets are selling and dispositions may not recover the amount still owed on a mortgage. The conduit loans that drove mortgage originations to record highs in 2006 and 2007 won’t become a significant source of debt financing again for several years, observers say. Experts say community banks emerged as an important source of financing in 2008, probably because those banks had less exposure to the asset-backed securities that are now weighing down the balance sheets of larger lenders.