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Weak Rural Mainstreet Economy for March: Farmland Prices and Farm Equipment Sales Sag Again

March Survey Results at a Glance:

- Bank CEOs report a slight economic up tick from February's record low.
- Farmland-price index plunges to another record low.
- Farm-equipment-sales index drops to record low.
- Only 8.1 percent of bankers think the FDIC should seek needed funds by assessing fees on all banks.

For Immediate Release: March 19, 2009

OMAHA, Neb. – The overall economic index for the Rural Mainstreet economy increased slightly for March, but continues to point to significant economic weakness, according to the March survey of bank CEOs in an 11-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, inched up to 18.7 from February's record low 16.9.

“Since February of last year, the Rural Mainstreet economy has trended downward. The March 2009 reading compares to a 46.3 for March 2008. The RMI has now moved below growth neutral 50.0 for 13 consecutive months. Of course, all of the states in the survey are being negatively affected by the national and global recession. However, states with a significant mining and natural resources industry, such as North Dakota and Wyoming, have held up much better than other states,” said Creighton University economist Ernie Goss. Goss and Bill McQuillan, CEO of City National Bank in Greeley, Neb., created the monthly economic survey.

The strong dollar has made U.S. products less competitive abroad and dampened agriculture commodity prices and farm income. As a result, farm income for 2009 is stacking up to be much less favorable than it was in 2008. Weaker agriculture commodity prices have had important and negative affects on farmland prices and the sale of farm equipment. The farmland-price index moved below growth neutral for the fifth straight month. “After peaking at 81.0 in January of 2008, the index declined to 33.1, a record low, and down from February's 38.3. Furthermore, the farm-equipment sales index slumped to 30.0 for March, a record low, and down from February's 31.0,” said Goss.

However, there were definite pockets of strong farmland price growth. Barry Linnens, CEO of Cottonwood Valley Bank in Cedar Point, Kan., reported that land prices were holding up in the Flint Hills area of Cedar Point, and Michael Johnson, CEO of Swedish American State Bank in

Rural Mainstreet Index – p. 2 of 5

Courtland, Kan., added that recent sales of land in his area were definitely higher with prices at \$3,400 an acre.

For the sixth straight month, the confidence index, which tracks expectations for the Rural Mainstreet economy six months out, stood at a very low level. However, the index did spike upward to 35.9 from February's 21.2. "Apparently, aggressive actions by the Federal Reserve and the U.S. Treasury have reduced the angst for some of the CEOs, but there remain considerable concerns regarding the economic health of the U.S. and global economies," said Goss.

Hiring in the area has been anemic since the beginning of 2008 and weakened almost every month in 2008 with the negative trend continuing for 2009. The new-hiring index for March advanced to an anemic 23.0 from February's record low 14.7. "This is the 15th consecutive month that the index has been below growth neutral, due in part to a slowing national economy and a much more negative outlook for the farm economy in 2009," said Goss.

Like much of the nation, retail sales were very weak for the month with a March retail-sales index of 18.7, which was up slightly from February's, record low 18.4.

Just like the national housing market, home sales were frail for Rural Mainstreet with the home-sales index at an anemic 24.6, unchanged from February.

Despite the economic lethargy across Rural Mainstreet and the national banking crisis, bankers on Rural Mainstreet reported healthy banking numbers. The loan-volume index rose to 46.2 from 43.9 in February reflecting some tightening of credit, but still not in a range to cause concern. For March, checking deposits expanded to 67.4 from February's 61.4 and January's 60.8. The index for certificates of deposit and other savings instruments climbed to 62.9 from February's 56.4 and January's 57.6. Rising funds in Rural Mainstreet banks are indicative of continuing solid balance sheets among farmers even as Rural Mainstreet businesses struggle.

This month bankers were asked several questions regarding the national financial crisis. Recently the Federal Deposit Insurance Commission (FDIC) announced that due to heavy insured bank losses, the cost of insurance would be going up for member banks. Bankers were asked if they would recommend an alternative funding methodology. Almost two-thirds, 66.1 percent, of the bankers propose assessing fees on "big" national banks. However, David Steffensmeier, president of the First National Bank in Beemer, Neb., said that, "the answer is a combination of borrowing funds from the Treasury in the short-term along with assessing the banks a lower one time charge and higher fees going forward to repay the Treasury and replenish the FDIC fund."

In their assessment of the steps taken by the U.S. Treasury, 36.9 percent of bankers gave the Treasury negative marks, while 35.7 percent gave a positive grade. "Treasury needs to articulate how they are going to rid the financial system of the systemic risk of too big to fail. No firms should be allowed to grow to the size that they jeopardize the whole financial system," said Bradley Robson, CEO of First State Bank in Belmond, Iowa.

Larry Winum, president of Glenwood Bank in Glenwood, Iowa, reflected the concerns of many of the community bankers when he stated that, "It is time to break these large entities up so that

Rural Mainstreet Index – p. 3 of 5

they no longer cause such a large systemic risk to the economy. Community banks and the tax payers are fed up with paying for the irresponsible acts of the large financial institutions.”

Bankers like Jeffrey Gerhart CEO of the Bank of Newman Grove, Newman Grove, Neb., argue that the industry needs to consider a higher reserve ratio than is currently used. He contends that the reserve level was not high enough to withstand the financial crisis that the country is now facing.

Each month, community bank presidents and CEOs in non-urban, 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. This survey represents the earliest snapshot of the economy of the rural, agriculturally and energy dependent portions of the nation.

Below are reports for the separate states:

Colorado: Economic conditions for Colorado’s Rural Mainstreet continue to be weak. The Rural Mainstreet Index (RMI) climbed to a still frail 18.7 from February’s 12.6 and January’s 16.7. The March ranch and farmland-price index also reflected economic weakness at 33.1 and well below growth neutral. However, weather is playing a part in the economy. “We need moisture. Let’s pray for rain,” said Mike Bass, president of the First National Bank of Hugo.

Illinois: As in prior months reports from rural bank CEOs in Illinois remain very negative. The RMI for March slipped again to a weak 12.0, the lowest in the region, from February’s 13.4. Farmland price growth also dipped for the month with a March reading of 21.2.

Iowa: Iowa’s Rural Mainstreet economy continues to struggle according to our monthly survey of bank CEOs. The RMI for March inched to 17.5 from February’s 15.0. The farmland-price index was also below growth neutral with a March reading of 27.6, which was down from 34.0 in February.

Kansas: The Kansas Rural Mainstreet Economy, like much of the region, continues to struggle. The March RMI slumped to 17.5 from February’s 25.8. While there were pockets of solid growth in farmland prices, the state’s farmland-price index plummeted to 29.0 from February’s healthy 58.4. According to Dale Bradley, CEO of Citizens State Bank in Miltonvale, “Our local land prices are stable. The economy in general is down somewhat, but not like other areas of the nation. We feel the weakness, in some respect, will spill over into our smaller communities. However, we remain upbeat that eventually things will get better for all.”

Minnesota: Minnesota’s RMI moved higher from February’s regional low 9.8 to 16.2 in March. The farmland-price index expanded to 24.2 from February’s 22.2. “Home sales and retail sales are down in my area,” said Pete Haddeland, CEO of the First National Bank in Mahanomen.

Missouri: Missouri’s RMI for March was the lowest in the region at 11.4 and down from February’s 19.1. The March farmland-price index stood at 24.5.

Rural Mainstreet Index – p. 4 of 5

Montana: Even with pullbacks in commodity and energy prices, Montana’s Rural Mainstreet economy continues to outperform the rest of the region with a March RMI of 47.2, up significantly from February’s 17.2. The price index for farm and ranching land was a healthier 51.2.

Nebraska: Nebraska’s rural areas continue to be negatively affected by weak exports and low agriculture commodity prices. The state’s RMI for March inched higher to a frail 14.5 from 12.7 in February. The Nebraska farmland price index for March was 30.9.

North Dakota: Last month’s record low RMI for North Dakota appears to have been a fluke. North Dakota’s RMI for March improved to 52.2, the second highest in the region, from 12.7 in February. Likewise, the state’s farmland price index move higher to 50.0 from February’s weaker 30.2. In addition to the national recession, weather will play an economic role in the months ahead. According to DeWayne Streyle, CEO of United Community Bank of North Dakota in Leeds, “We are looking at the potential for an extremely wet spring that could create vast difficulties in land preparation and seeding. The possibility exists for extensive preventive planting crop insurance claims.”

South Dakota: South Dakota’s Rural Mainstreet economy remains weak with a March RMI of 22.3 but up slightly from 21.2 in March. The state’s farmland-price index dipped to 34.9 from 48.1 in February.

Wyoming: While much of the region and nation struggle economically, Wyoming’s Rural Mainstreet economy remains strong, though less so than this time last year. The March RMI rose sharply to a regional high of 61.2 from February’s 29.3. The March ranch and farmland index was also a solid 54.6.

Tables 1 and 2 below summarize findings from the February 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, April 16.

Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)			
	<u>Mar-08</u>	<u>Feb-09</u>	<u>Mar-09</u>
Area economic index	46.3	16.9	18.7
Loan volume	54.5	43.9	46.2
Checking deposits	61.2	61.4	67.4
Certificates of deposit	51.5	56.1	62.9
Farmland prices	78.1	38.3	33.1
Farm-equipment area sales	72.5	31.0	30.0
Home sales	25.8	24.6	24.6
Hiring	42.5	14.7	23.0
Retail business	40.3	18.4	18.7
Confidence index (area economy six months out)	36.2	21.2	35.9

Table 2: The Rural Mainstreet Economy			
	Risk fees for big banks	Borrow funds from U.S. Treasury	Assess fees on all banks
1. The FDIC needs an infusion of funds. How should they get it?	25.8%	66.1%	8.1%
	<u>Yes</u>	<u>Not sure</u>	<u>No</u>
2. Should bank bondholders take a partial loss before the U.S. Treasury injects additional funds into the industry?	27.9%	34.4%	37.7%
	<u>Yes</u>	<u>Not sure</u>	<u>No</u>
3. Is the U.S. Treasury taking the right steps toward solving the banking crisis?	35.7%	27.4%	36.9%

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