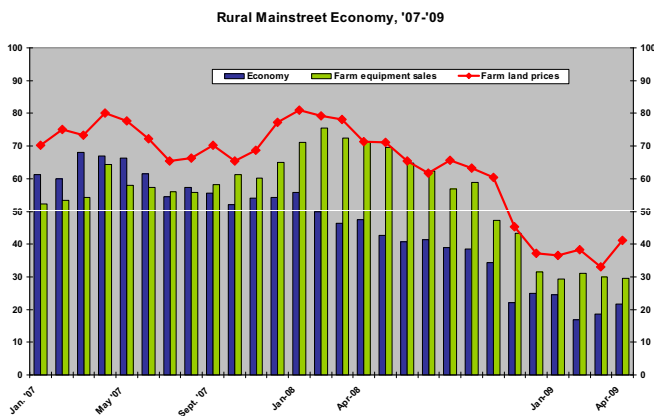


## SURVEY RESULTS AT A GLANCE

- Bank CEOs report a second straight uptick in the monthly index.
- Farmland-price index expands from March’s record low.
- Farm-equipment sales index drops to another record low.
- More than one-fourth of surveyed communities experienced housing price declines of more than 10 percent over last twelve months.

## MAINSTREET RESULTS



Tables 1 and 2 below summarize findings from the April survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. mAY survey results will be released on the third Thursday of the month, May 21st.

[Index > 50.0 indicates expansion]

	May 2008	April 2009	May 2009
Area Economic Index	47.5	18.7	21.7
Loan volume	57.3	46.2	50.8
Checking deposits	54.8	67.4	66.7
Certificate of deposits	57.3	62.9	61.0
Farm land prices	71.3	33.1	41.2
Farm equipment area sales	71.4	30.0	29.6
Home sales	33.6	24.6	30.8
Hiring in the area	43.4	23.0	15.8
Retail Business	40.3	18.7	20.5
Economy 6 months from now	36.9	35.9	45.6

	Declined by more than 10%	Declined by less than 10%	Did not decline
Over the past year, residential housing prices in your area have:	25.5%	56.9%	17.6%
Have agricultural producers projected fertilizer input costs gone down in the last 150 days?	Yes	Not Sure	No
	60.8%	23.5%	15.7%
Compared to one year ago, loan delinquencies rates are	Up Significantly	Up Moderately	Same or Down
	12.0%	52.0%	36.0%

## WHAT YOU REPORTED IN APRIL

The overall economic index for the Rural Mainstreet economy increased for a second straight month for April but continued to point to significant economic weakness, according to the April survey of bank CEOs in an 11-state region. The Rural Mainstreet Index (RMI), which ranges between 0 and 100, expanded to 21.7 from March’s 18.7 and February’s record low 16.9.

While the Rural Mainstreet Index (RMI) remains weak, I think it has bottomed out. Since February of last year, the Rural Mainstreet economy has trended downward. The April 2009 reading compares to a 47.5 for April 2008. The RMI has now moved below growth neutral 50.0 for 14 consecutive months. Most states in the region are being negatively affected by the national economic downturn and low agricultural and energy commodity prices. The strong dollar has dampened demand abroad for U.S. agricultural and energy commodities. Additionally, the weakness in Asia and Europe is being telegraphed back to the Rural Mainstreet Economy. Weaker agricultural commodity prices have had important and negative effects on farmland prices and the sale of farm equipment. The farmland-price index moved below growth neutral for the sixth straight month. After peaking at 81.0 in January 2008, the index declined to 33.1, a record low, in March. However, the April index rebounded to 41.2, the highest reading for the index since November 2008. The farm-equipment sales index slumped to 29.6, a record low, from March’s record low 30.0.

For the nineteenth straight month, the confidence index, which tracks expectations for the Rural Mainstreet economy six months out, was below growth neutral 50.0. However, the index did rise to 45.6, its highest level since May of last year, up from March’s 35.9. This is further evidence that the Rural Mainstreet Economy has bottomed out. However, I do expect any recovery to be as much as six months out. Hiring in the rural areas has been especially weak over the past year. The new-hiring index for April plunged to 15.8 from March’s anemic 23, only slightly higher than February’s record low of 14.7. This is the 16th 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.

Like much of the nation, retail sales were very weak for the month with an April retail-sales index of 20.0, which was up from March’s 18.7 and February’s record low of 18.4. Just like the national housing market, home sales were feeble for Rural Mainstreet with the home-sales index rising to an anemic 30.8, from 24.6 in March. This month, bankers were asked to compare April 2009 housing prices to April 2008. More than one-fourth or 25.5 percent of the bankers reported that prices had declined by more than 10 percent while 56.9 percent indicated that housing prices declined by less than 10 percent. For the 12 month period, 17.6 percent of bank CEOs reported that housing prices had not declined or had increased. According to Pete Haddeland, CEO of First National Bank in Mahanomen, Minn., “The housing stock has decreased over 10 percent in value in the last year.”

Despite the national banking crisis, bankers on Rural Mainstreet reported healthy banking numbers. The loan-volume index rose to 50.8 from March’s 46.2 reflecting some tightening of credit, but it is still not in a range to cause concern. For April, checking deposits dipped to 66.7 from 67.4 in March. The index for certificates of deposit and other savings instruments slipped to a still healthy 61.0 from March’s 62.9. Contrary to banks in other parts of the country, only 12 percent of the bankers reported that loan delinquencies were up significantly, and 52 percent indicated that loan delinquencies were up only moderately. Moreover, 36.0 percent of the bankers reported that loan delinquency rates were either the same or down. As in past months, bankers expressed concern that they will pay the price for large bank fiascos. Dale Torpey, president of Federation Bank in Washington, Iowa, said he “still has a great deal of concern over the bailout money that continues to flow into the ‘too-big-to-fail’ institutions and the potential of the FDIC closing down community banks. These large institutions need to be treated like all banks.”

The Rural Mainstreet Index (RMI) is a very unique index that covers 11 regional states & focuses on approximately 200 rural communities of under 1300 population. It gives us the most current realtime analysis of the local rural economy. The RMI is the realtime pulse of Rural America.

## MAINSTREET ON YOUR STREET

### COLORADO

Economic conditions for Colorado’s Rural Mainstreet for April were anemic, much like in previous months. The Rural Mainstreet Index (RMI) climbed to 21.7 from 18.7 in March. The April ranch- and farmland-price index strengthened to 41.2 from March’s 33.1.

### ILLINOIS

The state’s Rural Mainstreet Index (RMI) was the weakest among the surveyed states. The RMI for April expanded to 15.6 from 12.0. Farmland prices continue to struggle with an April reading of 11.6, down from March’s 21.2.

### IOWA

The state’s Rural Mainstreet Index (RMI) remained weak, according to the monthly survey of bank CEOs. The RMI for April advanced to 18.1 from 17.5 in March and 15.0 in February. The farmland-price index was also below growth neutral with an April index of 34.3, which was higher than March’s 27.6 and February’s 34.0. Weather will be an important factor affecting the state’s rural economy in the months ahead. As stated by Charles Helscher, president of Farmers Savings Bank in Keota, Iowa, “We need some sunshine and warm temperatures to get soil temps up. If we get that, a lot of planters will be rolling.”

### KANSAS

The Kansas Rural Mainstreet Index (RMI), like much of the region, remained very weak. The April RMI grew to 19.0 from March’s 17.5. The April farmland-price index stood at 36.2, up from March’s 29.0.

### MINNESOTA

Minnesota’s Rural Mainstreet Index dipped to 15.9 from March’s 16.2. The farmland-price index expanded to 30.2 from 24.2 in March and 22.2 in February. According to Pete Haddeland, CEO of First National Bank in Mahanomen, “Conditions are very wet up here in the Red River Valley. The farmers are hoping for some drying days.”

### MISSOURI

Missouri’s Rural Mainstreet Index advanced to a still weak 16.1 from March’s 11.4. The April farmland-price index expanded to 30.5 from March’s 24.5.

### MONTANA

Too few banks responded in April to calculate an index.

### NEBRASKA

As in past months, Nebraska’s Rural Mainstreet Index (RMI) continued to struggle. The April RMI stood at 20.3, up from March’s 14.5 and February’s 12.7. The Nebraska farmland-price index for April climbed to 38.6 from 30.9 in March. According to Kathy Thuman, president of Farmers State Bank in Maywood, “Farmers in southwest Nebraska have adopted a wait-and-see attitude and are proceeding with their usual schedule. There is some fear that input costs could rise dramatically, but there is no realization of that fear yet.” Regarding farm input costs, Jim Stanosheck, CEO of State Bank in Odell, said that, “The area co-op bet that the price of fertilizer would continue to go up and, when it did not, they were slow in bringing down the cost for fertilizer. For a while, the independent suppliers were pricing fertilizer at 60 percent of the co-ops’ price.”

### NORTH DAKOTA

The state’s Rural Mainstreet Index for April dipped to 32.8 from March’s 52.2. The state’s April farmland-price index rose to 62.3, the highest in the region, up from March’s 50.0.

### SOUTH DAKOTA

The state’s Rural Mainstreet Index (RMI) remained frail with an April RMI of 22.9, up slightly from March’s 22.3. South Dakota’s farmland-price index expanded to 43.5 from March’s 34.9.

### WYOMING

While much of the region and nation struggled economically, Wyoming’s Rural Mainstreet Index (RMI) remained 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- price index was also a solid 54.6. According to Bob Sutter, vice chair of Hilltop National Bank in Casper, “While the oil and gas activity continues to sag, the rest of mainstreet may be finding a bottom. Wind energy continues to be in the news with a lot of conversation, however activity in generator construction may not happen until there is increased strength in fossil fuel prices.”

## THE BULLISH NEWS

- Trade between the United States and the rest of the world contracted again in February, but an unexpected increase in exports fueled a debate about whether the economy was beginning to stabilize. Exports grew by \$2 billion as the country exported more automobiles, semiconductors, pharmaceuticals and chemicals. As imports plunged and exports stabilized, the United States trade deficit narrowed to its lowest levels in nine years. The trade deficit, which measures the gap between imports and exports, fell to \$26 billion in February, from a revised \$36 billion in January.

- The ISM tracks the breadth of growth across firms, asking purchasing managers if business is better this month than last. The PMI came in at 36.3%, up from 35.8% in February. Economists were happy to see this, as a trend may be developing. The PMI rose once again for the third consecutive month, bouncing off its cyclical lows of 32.9% in December. Readings above 50% indicate growth, and anything below, contraction.

## THE BEARISH NEWS

- New jobless claims fell more than expected last week but are stuck at elevated levels, while the number of people continuing to receive unemployment insurance approached six million, setting a record for the 10th straight week.
- The total number of laid-off Americans receiving unemployment rose to 5.84 million, from 5.75 million. That was the most on record dating from 1967 and higher than analysts expected.
- On average, laid-off workers over 45 years of age were out of work 22.2 weeks in 2008, compared with 16.2 weeks for younger workers.
- The U.S. unemployment rate reached a 26-year high in March as employers shed a staggering 633,000 jobs. During the first three months of this year, 2 million jobs have been lost. Since the start of 2008, 5.1 million have been lost, according to the U.S. Labor Department. The unemployment rate climbed from 8.1 percent in February to 8.5 percent in March, in line with economists' forecasts. It was the highest rate since November 1983.
- The non-manufacturing recession continued in March as the ISM non-manufacturing index rec-orded its 6th consecutive reading below 50. The ISM non-manufacturing composite index fell from 41.6 in February to 40.8 in March.
- Retailers in the United States reported continued declines in sales during March, compared to the same month a year earlier, but noted that there were signs of improvement in their performances. Many noted that Easter falling in April this year, as opposed to March in 2008, had a negative impact on the reported figures.

## WHAT TO WATCH

- The Mid-America and U.S. May PMI released June 1st will be the earliest economic indicator that will be very, very closely examined. ( www.outlook-economic.com and www.ism.ws ). An index above 45.0 will be moderately bullish.
- The employment report for May will be released on June 5th . I expect the report to show job losses (above 450,000) for an eighteenth straight month and an increase in the unemployment rate above 9.0% for the first time in quarter of a century. (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 5.0 million are bearish. I

expect this number to continue to show significant economic weakness. (www.doe.gov ).

- Keep an eye on the yield for 10-year U.S. Treasuries. This yield has been rising (and at this point in time that is a good thing). Current yields are artificially low and reflect unprecedented 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

### FROM GOSS:

- Year over Inflation will remain very low (< 1.0%) for most of 2009 as large commodity prices pass through the system. However, inflation will pick up considerably in 2010 rising to 4% - 5% by the end of 2010.
- Despite the Fed's efforts, mortgage rates will rise by 2% by the second quarter of 2010.
- Annualized inflation will rise to 4% - 5% by the second half of 2009.

### FROM THE NATIONAL ASSOCIATION OF BUSINESS ECONOMICS:

- The current cyclical downturn will rival that of 1973-75. In the current downturn real GDP is predicted to decline 2.8%, slightly less than the 3.1% during the early '70s.
- Economic weakness will be dominated by a retrenchment in consumer spending reflecting large employment and wealth losses.
- The jobless rate will peak at 9.0% by the end of the year.
- House prices are predicted to decline 5% during 2009, though the S&P 500 index is expected to rise a solid 8% by December 31, 2009.

### FROM THE CONFERENCE BOARD:

- The unemployment rate will peak at 10.1 percent in 2010.
- Housing starts will grow from 540,000 in 2009 to 730,000 in 2010.
- The economy will grow by 1.6 percent in 2010. This is well short of the potential of 3.5% to 4.0%.

## BANKER READING ROOM

“TARP II: Congress to allow community bank access to funds,” Last October, Congress passed the Emergency Economic Stabilization ACT of 2008. Part of that act, the Troubled Assets Relief Program, authorized the spending of \$700 billion originally intended for the purchase of mortgage-backed securities. Treasury will be directed to make funds available to community banks. Democratic leaders in both the House and Senate have expressed dis-pleasure that none of the \$350 billion already spent was used to help homeowners avoid foreclosure. Because of all the new spending, deficits of more than \$1.9 trillion are expected over the next two years, causing US debt to rise to 60% of GDP -- the highest level since the early 1950s when the country was working off its war debt.