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Rural Mainstreet Index Soars to Highest Level in Two Years: Hiring and New-Home Sales Bounce Higher

May Survey Results at a Glance:

- Rural Mainstreet index soars to highest level since January 2008.
- Farm and ranch land index expands above growth neutral for fourth straight month.
- Farm equipment sales expand for a second consecutive month.
- Almost 37 percent of bankers report an increase in cash rents for farmland over the last 12 months.
- Over one-fourth of the bank CEOs say regulatory issues are limiting their lending to agriculture and business borrowers.

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OMAHA, Neb. – For the first time since January 2008, the overall index for the Rural Mainstreet economy rose above growth neutral 50.0, according to the May survey of bank CEOs in a 10-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, rocketed to 54.3 from April's weak 44.2. However, Larry Rogers, president of First Bank of Utica in Utica, Neb., said "It seems as though the weaknesses are a little more pronounced than they have been."

Creighton University economist Ernie Goss said, "After 26 consecutive months of below growth neutral readings, the overall index moved to a healthy reading for the month," Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

The farmland-price index moved above growth neutral for a fourth straight month to 52.7 but was down from April's 59.5. After beginning a downward slide in spring of 2008, farmland and ranchland prices are once again growing. This month bankers were asked to estimate the change in cash rents for agriculture land over the past year in their area. Approximately 15 percent reported gains of more than 5 percent in rental prices, and 23 percent indicated gains of 1 - 4 percent. More than 55 percent of bankers detailed no change in rental rates, while 7 percent said land rents declined over the past year.

Kathy Thuman, president of Farmers State Bank in Maywood, Neb., said, "Cash rents are down slightly from 2009."

The farm equipment-sales index slumped to 50.9 from April's 57.2. Prior to February of this year, both farmland price growth and farm-equipment sales had been slipping. "In addition to an expanding rural economy, we are tracking significant improvements in farm and ranch land prices and farm equipment sales. I expect both of these factors to remain healthy in the months ahead," said Goss.

For a third straight month, all bank indicators were healthy. The loan-volumes index slipped to 54.4 from 61.1 in April. For May, the checking-deposit index climbed to 67.0 from April's 62.7. The index for certificates of deposit and other savings instruments dipped to 50.0 from 52.5 in April.

This month, bank CEOs were asked to identify factors limiting their bank lending. Over one-fourth, or 26 percent, indicated that lack of demand was the prime factor for a slowdown in lending, while an equal 26 percent said that regulatory concerns were restraining lending. One in 10 bankers reported that the credit quality of applicants was responsible for restrained lending, while 38 percent reported that lending was proceeding as normal.

David Callies, CEO of Miner County Bank in Howard S. D., said, "Banking regulations continue to be a big concern in limiting our ability to properly serve our community."

After declining below growth neutral for 28 consecutive months, the new-hiring index bounced to 56.1 from April's 46.7 and March's 45.7. Over 26 percent of bankers said hiring was up from last month, while only 14 percent of bank CEOs reported that May hiring was down from April. "The increase in hiring was one of the most encouraging elements of the May survey of bankers," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Much like the rest of the nation, retail-sales readings improved for the month with a May index of 49.2, up from April's 43.4 and March's 42.4. The recovering rural economy has pushed bankers' economic outlook, or business confidence, higher with a May reading of 63.0, up from April's 60.2.

Pushed higher by the first-time buyer tax credit, the home-sales index rose above growth neutral for a second straight month for Rural Mainstreet. The index climbed to 58.8 from April's 52.5. "Bankers reported a significant uptick in home buying as the tax credit for first-time home buyers ended at the close of April," said Goss.

However some bankers were less optimistic about the housing market. For example, Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kan., said, “I still feel that mortgage foreclosures have not hit bottom and will show more problems for the economy this summer.”

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of the 10-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 rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) 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.

Colorado: Colorado's RMI climbed to 47.6 from April's 38.4 and March's 44.3. The May ranchland and farmland-price index declined to 50.9 from 58.0 in April. The state's farm-equipment sales index moved lower to 48.1 from April's 54.2. Mike Bass, president of First National Bank of Hugo said, “Winter wheat looks fantastic in our area. We have had good spring moisture.”

Illinois: The Illinois RMI advanced above growth neutral to 53.8 from April's 42.5 and March's 47.9. For a fourth straight month, farmland prices advanced above growth neutral with a May reading of 54.0, down from April's 60.7. Farm-equipment sales for May slipped to 51.2 from 56.9 in April.

Iowa: Iowa's RMI climbed above growth neutral with a May index of 54.8, up significantly from April's 43.0. The farmland-price index slipped to a still healthy 54.4 from April's 61.0. The state's farm-equipment sales index declined to 51.6 from 57.2 in April.

Kansas: The Kansas RMI, like much of the region, climbed above growth neutral 50.0 for the month. The index rose to 53.7 from April's 43.5. The farmland-price index slumped to 53.7 from April's 61.3 and March's 59.4. The May agricultural equipment sales index slipped to 50.9 from April's healthy 57.5.

Minnesota: The RMI for Minnesota bounced to the second highest reading on Rural Mainstreet with an index of 56.8, up from April's 45.0. Minnesota's farmland-price index slipped to 55.7 from 62.3 in April. The May agricultural equipment-sales index stood at 52.9.

Missouri: The Missouri RMI expanded to 51.9 from 46.7 in April. The May farmland-price index slumped to 52.4 from April's 63.5. The May farm-equipment sales index dropped below growth neutral to 49.6 from April's 59.7.

Nebraska: The May RMI for Nebraska rose to 55.7 from 44.6 in April. The farmland-price index for May slipped to 52.2 from April's 62.1. The state's farm-equipment sales index dipped to 52.2 from April's 58.3

North Dakota: For the 12th straight month, North Dakota's RMI was the highest in the region. The index advanced to 57.5 from April's 47.3 and March's much stronger 57.3. North Dakota's farmland-price index declined to 56.2 from 63.9 in April. Farm-equipment sales were a solid 53.4, but down from April's 60.1.

South Dakota: The RMI for South Dakota climbed above growth neutral with a May reading of 54.0 which was up significantly from April's 43.7 and March's 49.2. The state's farmland-price index slumped to 53.8 from April's 61.5. South Dakota's farm-equipment sales index was 51.0 for May compared to 57.7 for April.

Wyoming: The Wyoming RMI for May expanded to 50.0 from April's 39.5 and March's 46.0. The May ranchland and farmland price index sank to 51.1 from 58.7 in April. Contrary to other states, agriculture and ranch equipment sales declined for the month with a May reading of 48.3, down from April's 54.9. Bob Sutter, vice chairman of Hilltop National Bank in Casper said, "The Goldman Sachs problems, the market flash crash, and the BP oil spill may put a drag on our fragile optimism next month!"

Tables 1 and 2 summarize survey findings. Next month's survey results will be released on the third Thursday of the month, June 17.

Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)			
	May2009	April 2010	May 2010
Area economic index	36.2	44.2	54.3
Loan volume	46.7	61.1	54.4
Checking deposits	68.0	62.7	67.0
Certificates of deposit and savings instruments	59.3	52.5	50.0
Farmland prices	39.2	59.5	52.7
Farm-equipment area sales	28.3	57.2	50.9
Home sales	48.7	52.5	58.8
Hiring	29.6	46.7	56.1
Retail business	34.9	43.4	49.2
Confidence index (area economy six months out)	56.0	60.2	63.0

Table 2: The Rural Mainstreet Economy				
	Increased more than 10%	Increased 1% - 10%	Unchanged	Decreased 1% - 4%
1. Compared to May 2009, cash rents on crop land in your area have	3%	34%	56%	7%
	Nothing-lending as needed	Bank regulator concern	Credit quality of applicant	Lack of demand from applicants
2. Which of the following is limiting your bank's lending?	38%	27%	10%	25%
	More than 75% complete	51% - 74% complete	26% - 49% complete	0% - 25% complete
3. In terms of crop planting, farmers in your area are:	28%	44%	17%	11%

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