

Survey of Tenth District Agricultural Credit Conditions

First Quarter 2007

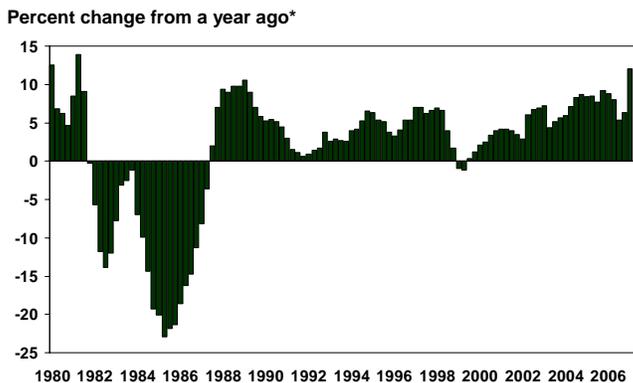
FEDERAL RESERVE BANK of KANSAS CITY

Farmland Values Surge

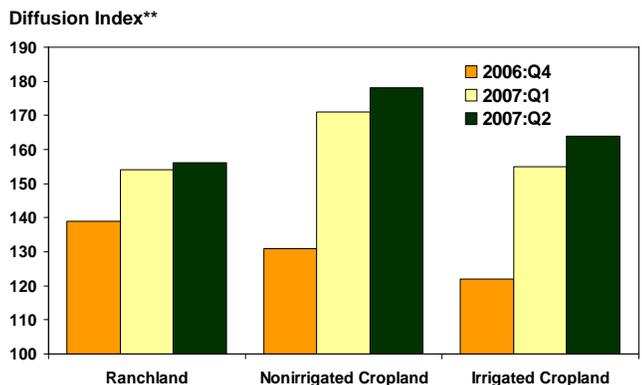
by Jason Henderson, Omaha Branch Executive and Maria Akers, Assistant Economist

- Fueled by high crop prices, district farmland values surged at a pace not seen since the 1980s. When compared to the same period a year ago, first quarter nonirrigated land values soared by 12 percent, the highest increase since mid-1981. Irrigated land values jumped 11.6 percent, the second highest increase in survey history. Survey respondents expected the upward trend in land values to continue, but with land values escalating so briskly, some questioned whether such rapid growth is sustainable.
- Farmland values increased throughout the district, but the gains varied by state and depended largely on the primary agricultural activity in the region. For example, the major corn producing state of Nebraska posted the district's strongest gains with farmland values surging more than 17 percent above year-ago levels. In contrast, gains in Oklahoma cropland values actually moderated from last quarter's pace.

Nonirrigated Cropland Values



Expected Trends in Land Values



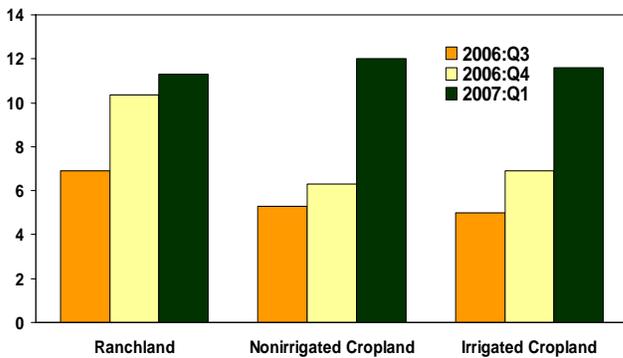
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

** Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

- Ranchland continued to be in high demand as first quarter values posted another year-over-year double-digit gain. Recreational demand remained strong and drought conditions have eased across most of the Plains. Increased soil moisture improved pasture conditions.
- High crop prices underpinned further district gains in farm income and capital spending. The gains were most dramatic in crop producing regions. Bankers reported that higher crop prices, especially for corn, are fueling a shift in the district's crop mix, particularly in Nebraska. However, higher crop prices have pushed up feed costs for livestock operators. As a result, more than a third of survey respondents indicated that livestock producers are selling cattle early or delaying herd expansion. The largest herd adjustments emerged in Oklahoma.

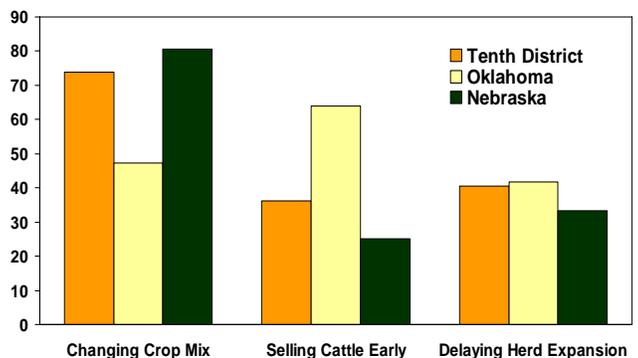
Farmland Values

Percent change from a year ago*



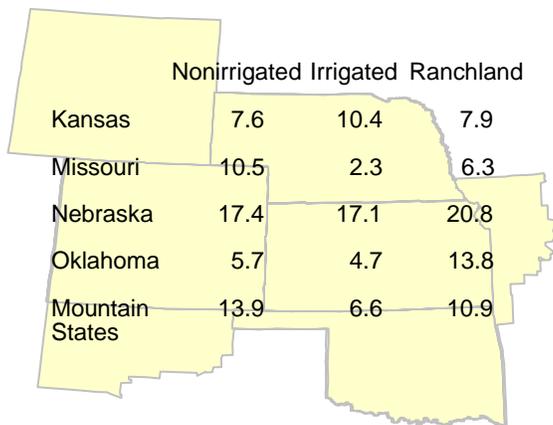
Tenth District Production Plans

Percent of respondents



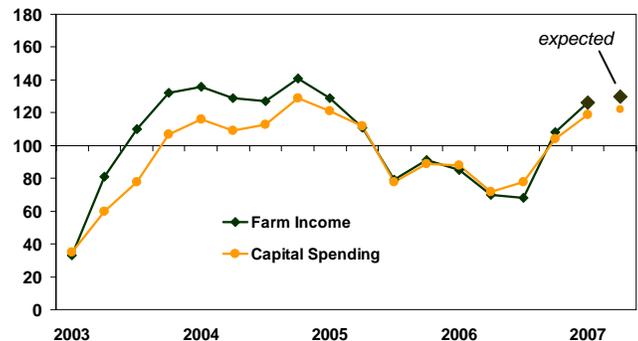
Farmland Values by State

Percent change from a year ago*



Farm Income and Capital Spending

Diffusion Index**

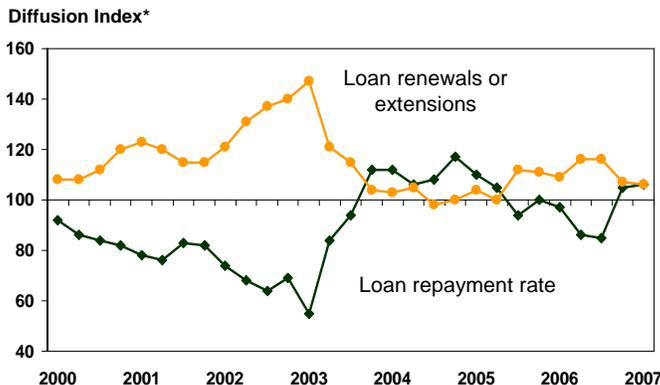


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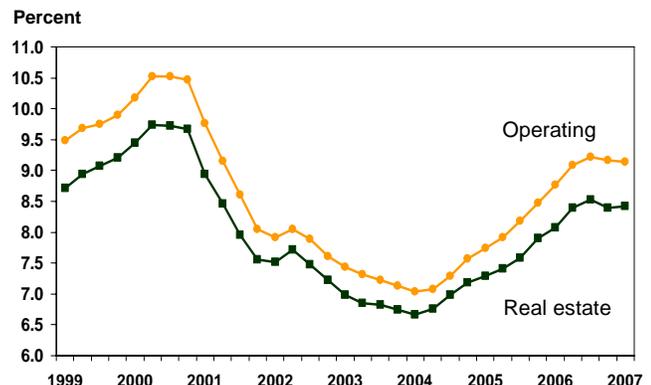
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- Farm credit conditions remained healthy in the first quarter. Bankers continued to report high loan repayment rates with slightly fewer requests for loan renewals and extensions. After easing at the end of 2006, farm interest rates in the first quarter remained stable. Interest rates averaged 8.4 percent on farm real estate loans and 9.1 percent on farm operating loans.
- The index of demand for farm loans edged up slightly after dropping in the fourth quarter. Survey respondents reported that capital spending increased in the first quarter and is expected to rise further as producers upgrade equipment and strive to boost yields. The index of loan fund availability rose to its highest level since early 2004, indicating that bankers were able to meet loan demand.

Farm Credit Conditions



District Farm Interest Rates



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Selected Comments from District Bankers

"I am becoming increasingly concerned with escalating real estate prices . . . some similarities to the late 70s and early 80s are starting to occur." – *Central Nebraska*

"The recent run up in real estate values and crop values places the ag community in the perilous position of repeating the problems of the 80s." – *Western Kansas*

"Due to the price outlook and the availability of irrigation water supplies looking better, crop producers are planning to plant more acres of corn." – *SE Colorado*

"We have had good moisture this winter, but spring will dictate grass and crop production." – *Western Oklahoma*

Note: 276 banks responded to the first quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri. Please refer questions to Jason Henderson, Omaha Branch Executive, or Maria Akers, Assistant Economist at 1-800-333-1040 or Jason.Henderson@kc.frb.org or Maria.Akers@kc.frb.org.

The views expressed in this article are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

**For more information or to view past survey results, visit:
www.kansascityfed.org/agersurv/agcrmain**