Survey of Tenth District Agricultural Credit Conditions

First Quarter 2008

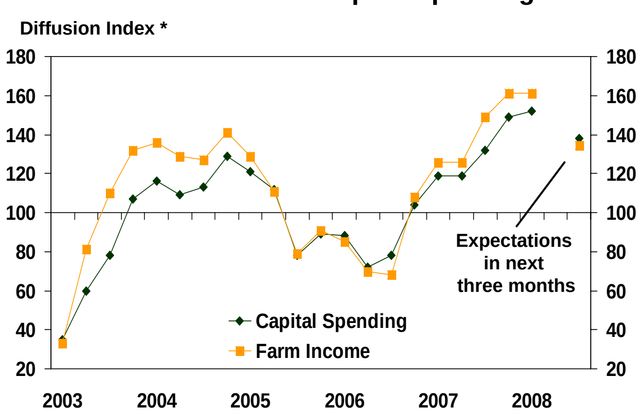
FEDERAL RESERVE BANK *of* KANSAS CITY

Have Farm Credit Conditions Peaked?

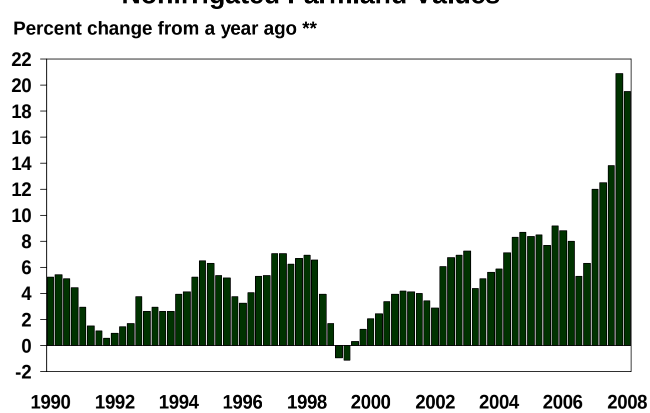
by Jason Henderson, Omaha Branch Executive, and Maria Akers, Assistant Economist

- According to District bankers, robust gains in farm income, capital spending and farmland values are expected to slow. In the first quarter, bankers reported strong farm incomes. Fewer bankers, however, expected farmers to earn higher incomes in coming months. After reaching record highs, the District's farm income index is expected to decline in the second quarter. Rising input costs are limiting crop profit margins. Livestock producers are posting huge losses due to higher feed costs.
- The District's capital spending index rose further in the first quarter with bankers citing increased equipment purchases. However, capital spending is also expected to decline with incomes in the second quarter.
- Farmland values continued to boom in the first quarter. District cropland values remained roughly 20 percent above year ago levels. Irrigated cropland posted the strongest gains. Farmland value gains accelerated the most in Oklahoma and the Mountain States.

Farm Income and Capital Spending



Nonirrigated Farmland Values

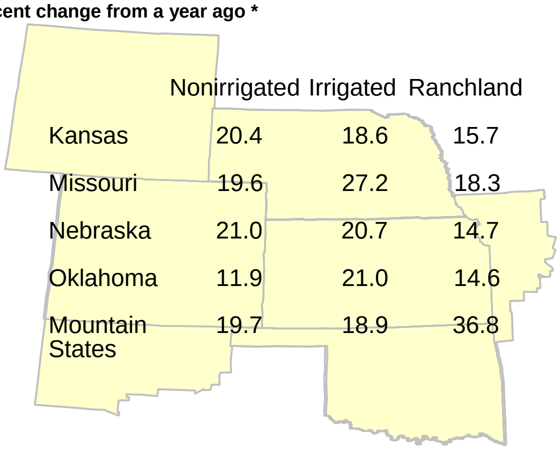


* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

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

Farmland Values by State

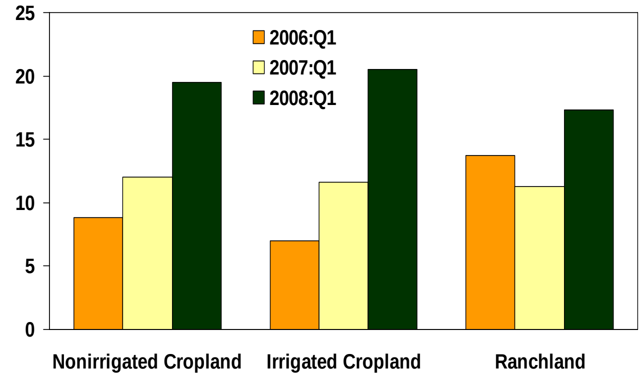
Percent change from a year ago *



	Nonirrigated	Irrigated	Ranchland
Kansas	20.4	18.6	15.7
Missouri	19.6	27.2	18.3
Nebraska	21.0	20.7	14.7
Oklahoma	11.9	21.0	14.6
Mountain States	19.7	18.9	36.8

Farmland Values

Percent change from a year ago *



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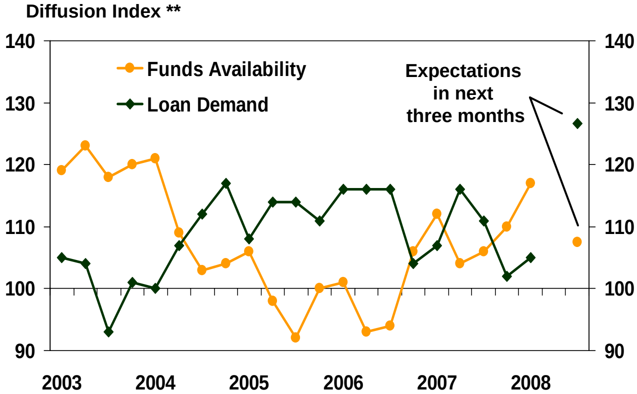
- Credit conditions remained healthy, but bankers expected the improvements in credit conditions to slow going forward. Loan repayment rates remained at historical highs and the number of loan renewals and extensions held steady. However, fewer bankers expected loan repayment rates to improve in the second quarter.
- It appears that farmers are using more cash to finance capital investments as bankers also reported soft loan demand. Bankers expected loan demand to jump sharply in the second quarter.
- The amount of funds available for loans rose due to the combination of high loan repayment rates, fewer extensions and renewals and slow loan demand that has freed up additional funds. The number of loans refused due to a shortage of funds continued to fall after spiking in 2006. The amount of funds available for loans is expected to decline in the second quarter with rising loan demand.
- Farm interest rates dropped to their lowest levels since 2004. However, collateral requirements rose sharply in the first quarter and are expected to hold firm in coming months.

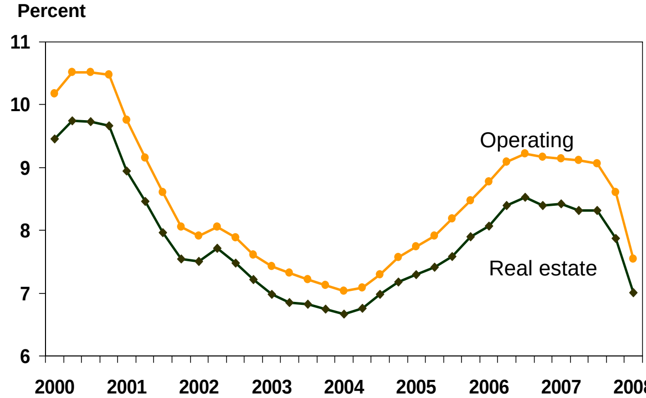
Farm Loan Demand and Funds Availability

Diffusion Index **



District Farm Interest Rates

Percent



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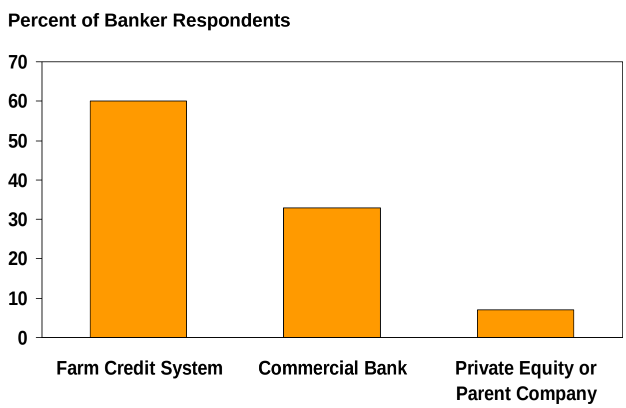
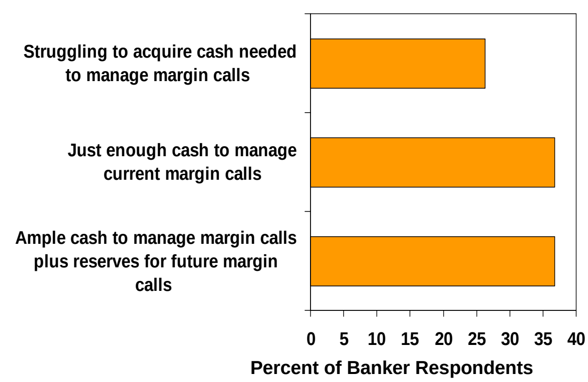
- In response to questions on the financial conditions of grain elevators, bankers noted that the Farm Credit System has more direct exposure to grain elevator financing. Sixty percent of the respondents indicated that local elevators were receiving funding from the Farm Credit System and almost a third of the respondents reported funding local grain elevators. Of those banks financing grain elevators, most reported that grain elevators had enough cash to cover current margin calls or ample cash to cover current and future margin calls. Just over a quarter reported that local grain elevators were struggling to meet margin calls.

- Reports of grain elevators in financial stress were concentrated in the wheat-growing regions of the District, but tended to be heavily localized. With larger demands for credit, banks are reporting increases in the number of participation agreements. One respondent noted that the line of credit for a single elevator had risen eight-fold and required participation with three banks.

Source of Local Elevator Funding



Financial Position of Grain Elevators



Selected Comments from District Bankers

"High input costs and unstable prices could make this a very unpredictable and potentially disastrous year." – *Central Nebraska*

"Elevators in our area need a large quantity of bushels this harvest or some are in real trouble." – *North Central Oklahoma*

"We have one local elevator that delayed payments for commodities." – *Southeast Colorado*

"The fat cattle market continues to be a financial drain on some bank customers. This will eventually affect the cow-calf producer." – *North Central Kansas*

"Fuel prices are killing these guys." – *Northeast New Mexico*

Note: 269 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.*

For more information or to view past survey results, visit:
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