

Survey of Tenth District Agricultural Credit Conditions

First Quarter 2009

FEDERAL RESERVE BANK *of* KANSAS CITY

Farmland Values Stabilize and Capital Spending Slows

by Brian Briggeman, Economist, and Maria Akers, Assistant Economist

Survey Summary

District farmland values appeared to stabilize in the first quarter of 2009 after modest declines at the end of 2008. District contacts reported demand and prices for good quality farmland remained solid, but prices for marginal farmland have dropped due to limited buyer interest. Nonirrigated cropland values ticked up slightly while irrigated cropland values were flat. Ranchland values edged down due in part to a struggling livestock sector. Going forward, most bankers expected farmland values to hold steady.

Survey respondents also reported that farm income declined from 2008 record highs. Softer farm incomes slowed capital spending and eased non-real estate loan demand, despite a further reduction in agricultural interest rates. Also contributing to the drop in non-real estate loan demand was a rise in loan renewals and extensions. Survey respondents anticipated that farmers will be frugal with their spending because of the current volatile agricultural economy and uncertainty in the broader financial markets.

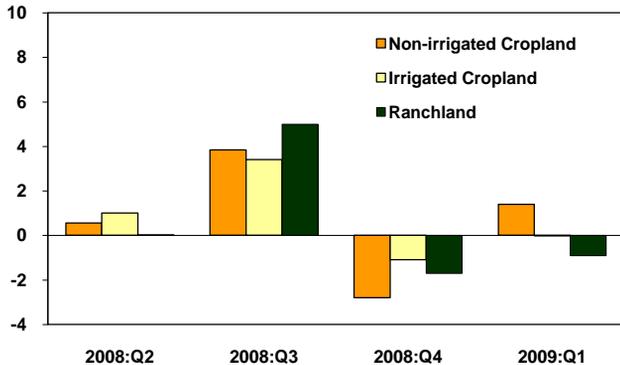
Turbulent agricultural and macroeconomic conditions also contributed to tightened agricultural credit conditions. Collateral requirements edged up and the rate of loan repayment fell for the second straight quarter. In addition, loan referrals to non-bank credit agencies rose as a consequence of drought conditions in wheat growing areas of the district. In general, survey respondents felt that agricultural credit conditions could weaken further.

Note: 255 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 Brian Briggeman, Economist, or Maria Akers, Assistant Economist at 1-800-333-1040 or Brian.Briggeman@kc.frb.org or Maria.Akers@kc.frb.org. The views expressed in this article are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

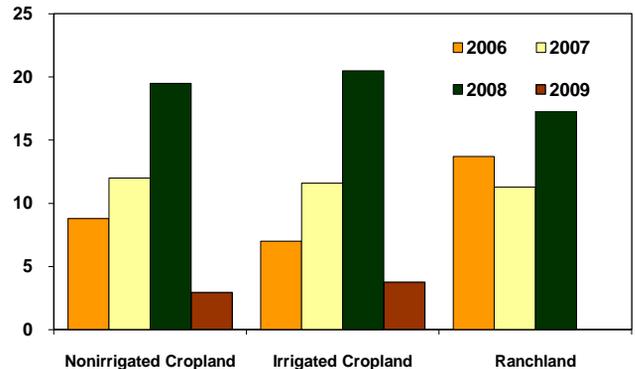
Farmland Values – Quarterly Changes

Percent change from last quarter *



Farmland Values – Annual Changes (First Quarter)

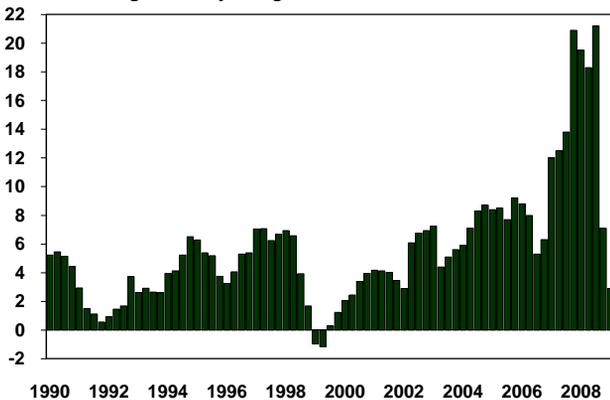
Percent change from last year *



- In the first quarter, District farmland values held relatively steady after modest declines at the end of 2008. Nonirrigated farmland values rose 1.4 percent during the quarter, while there was no change in the value of irrigated acreage. In contrast, ranchland values declined slightly by 0.9 percent. Quarterly farmland value changes varied across the District. Nebraska experienced the most dramatic fluctuations in land values over the last year, reporting the highest gains in 2008, but also the sharpest declines in the last two quarters. The majority of survey respondents felt farmland values had stabilized with fewer bankers expecting further price declines.
- Compared to last year, District farmland values were up 2.9 and 3.8 percent for nonirrigated and irrigated cropland, respectively, while ranchland values were flat. A struggling livestock sector and drought conditions in many ranching areas limited price gains. In the mountain states, a quarterly decline pushed ranchland values well below record highs from a year ago. Still, ranchland values in the mountain states were 5.7 percent above 2007 levels. District contacts reported demand for good quality farmland was still strong, but the market for marginal farmland has slowed dramatically.

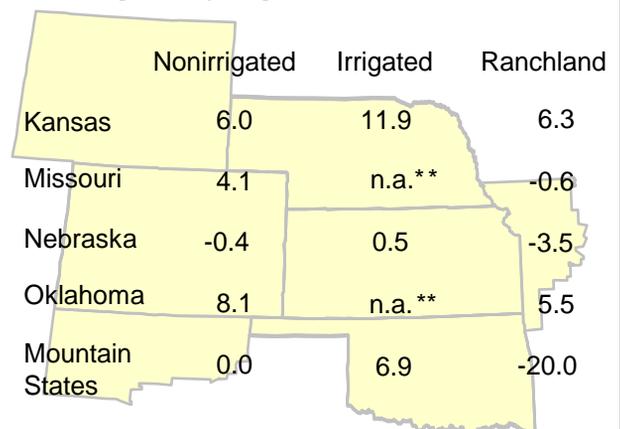
Nonirrigated Farmland Value Changes

Percent change from a year ago *



Farmland Value Changes by State

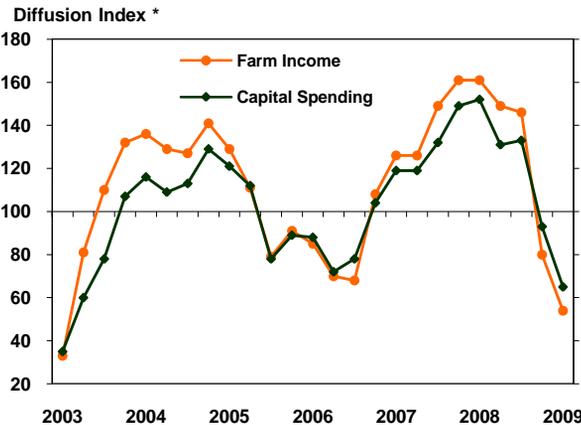
Percent change from a year ago*



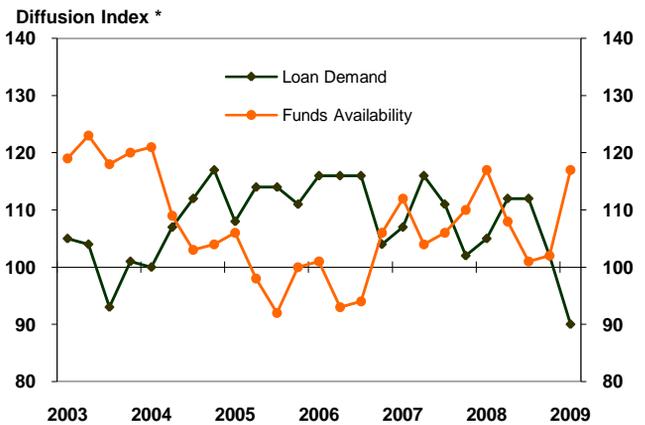
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

** Not reported due to small sample size.

Farm Income and Capital Spending

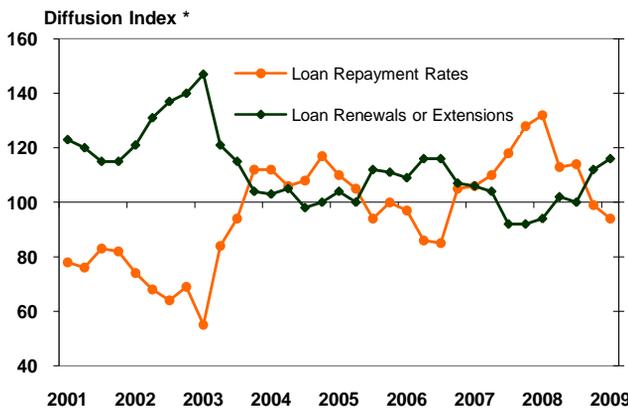


Farm Loan Demand and Funds Availability

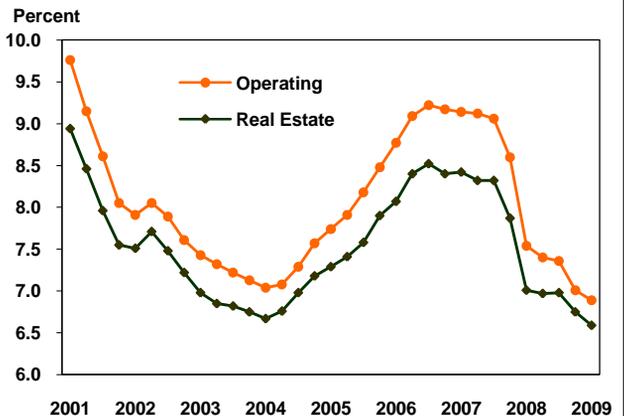


- Survey respondents reported farm income slipped from the record highs posted in 2008. Despite moderating production costs, first quarter farm income was below last year’s peak levels due to weaker crop and livestock prices. The lowest farm income index readings were in Oklahoma and Kansas where wheat crop conditions deteriorated due to dry weather. Livestock producers were still challenged by low cattle and hog prices and waning global meat demand.
- Lower farm income curbed capital spending. Survey respondents noted that new equipment sales slowed dramatically as agricultural producers postponed purchases or bought used equipment instead. For the first quarter of 2009, the Association of Equipment Manufacturers reported a 20 percent decline in tractor sales compared to last year’s record high.
- Non-real estate loan demand eased as capital spending slowed. With less demand for loans, the funds availability index rose. The number of loan renewals and extensions edged up while the rate of loan repayments fell for the second straight quarter. Interest rates edged down, averaging 6.6 percent for real estate loans and 6.9 percent for operating loans.

Loan Repayment Rates and Loan Renewals and Extensions

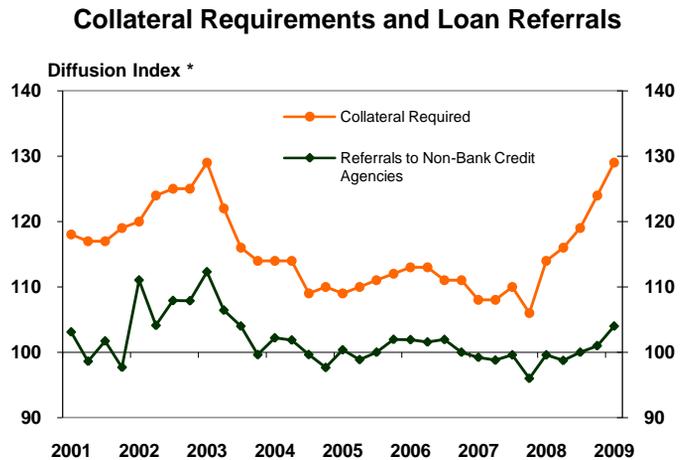


Farm Interest Rates



* 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.

- Credit standards tightened further as the percentage of lenders raising collateral requirements reached another record high. An increase in the number of referrals to non-bank credit agencies was driven by Oklahoma where respondents were concerned about stress on the wheat crop due to drought. Oklahoma was the only District state that did not experience a sharp drop in loan demand but reported the largest increase in the percentage of loans refused due to a shortage of funds.



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Selected Comments from District Bankers

“Profit margins have narrowed. With current economic conditions, I expect ag customers to be very frugal with their dollars and to suspend any unnecessary spending.” – *NE Kansas*

“Land values seem pretty stable at the moment. I anticipate values will decrease as agricultural income declines and the economy worsens.” – *Western Oklahoma*

“High input costs plus lower commodity prices will severely challenge operations.” – *NE Colorado*

“Ag producers are feeling the effects of the weak economy, reducing spending and watching what capital purchases are made.” – *NE Nebraska*

“A higher level of gently used equipment is selling at premium prices simply because new equipment is still far more expensive.” – *Central Kansas*

“Expecting the uncertainty in the financial markets to affect the ag economy in the upcoming year.” – *Southern Nebraska*

“Our main concern here is rain and commodity prices.” – *Western Kansas*

“Lack of rainfall is sure to affect the yield on the wheat crop.” – *NW Oklahoma*

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