

# Survey of Tenth District Agricultural Credit Conditions

Second Quarter 2007

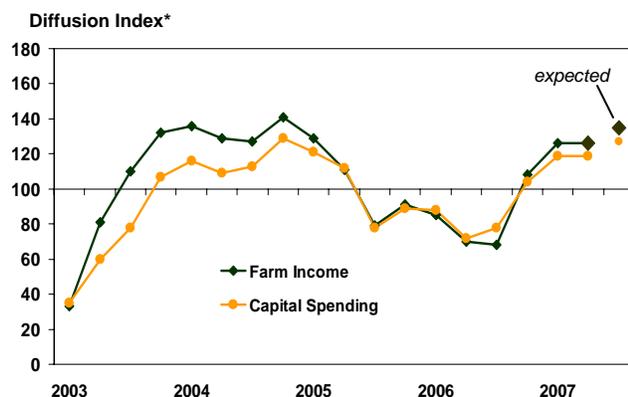
FEDERAL RESERVE BANK of KANSAS CITY

## Farm Income and Land Values Continue to Climb

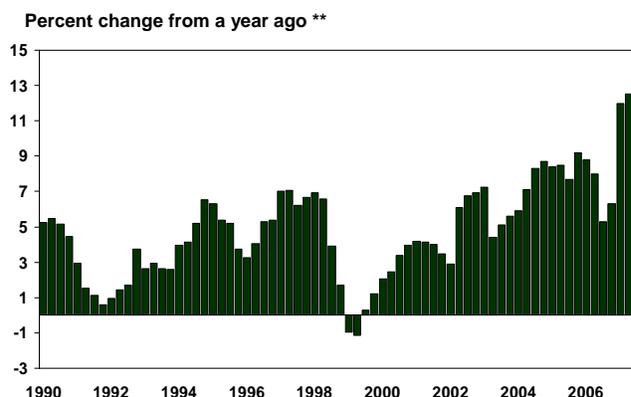
by Jason Henderson, Omaha Branch Executive, and Maria Akers, Assistant Economist

- Farm income expectations rose in the second quarter, fueled by strong crop prices and easing drought conditions. Though spring and early summer storms delayed planting and hurt wheat yields in parts of Kansas and Oklahoma, they also provided much needed moisture and improved growing conditions for fall crops and pasture grasses. With more acreage planted to corn this year and the crop reported in good condition, corn prices have moved down from their peak but remain high relative to year-ago levels.
- Nebraska continued to lead farm income expectations for the district. Oklahoma's second quarter farm income index showed the most improvement, indicating higher incomes for the first time in over a year. Though high energy costs remain a concern, farmers hoped to offset rising fuel and fertilizer prices by forward contracting crops at relatively high commodity prices. Strong seasonal demand for meat and easing feed costs increased profits for livestock operators.

**Farm Income and Capital Spending**



**Nonirrigated Cropland Values**



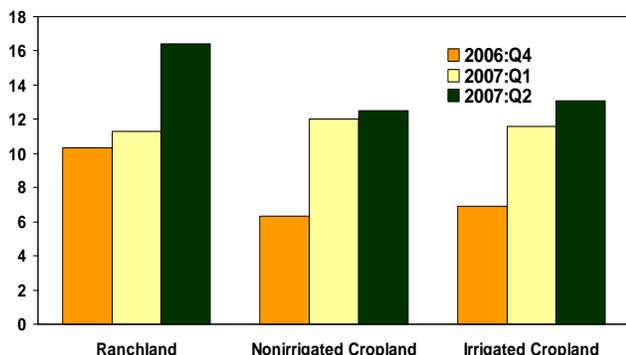
\* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

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

- Following strong first quarter gains, cropland values continued to climb in the second quarter, but at a slower rate. When compared to year-ago levels, values for irrigated and nonirrigated acres have risen over 12 percent. Robust recreational demand, strong cattle prices, and easing drought conditions contributed to record gains in ranchland values. Fewer bankers expected farmland values to rise in coming months, and some remain concerned about the ability of future farm income streams to support such dramatic farmland value gains.
- District contacts reported a modest increase in the amount of farmland for sale as some investors are cashing out after the recent surge in value. However, demand for farmland still exceeded supply, placing upward pressure on prices. Recreational use of farmland continued to be cited as a primary reason for land purchases made by non-farmers, especially in areas close to urban centers. Interest rates for farm real estate loans eased further.

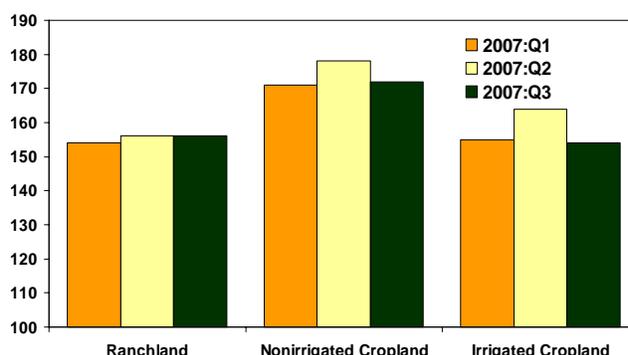
**Farmland Values**

Percent change from a year ago\*



**Expected Trends in Land Values**

Diffusion Index \*\*



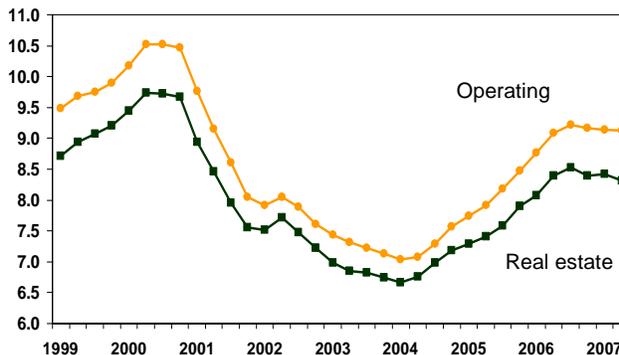
**Farmland Values by State**

Percent change from a year ago\*

	Nonirrigated	Irrigated	Ranchland
Kansas	14.4	14.5	15.7
Missouri	13.0	9.7	13.5
Nebraska	12.2	15.1	19.7
Oklahoma	8.8	8.8	19.4
Mountain States	13.0	10.4	15.5

**District Farm Interest Rates**

Percent

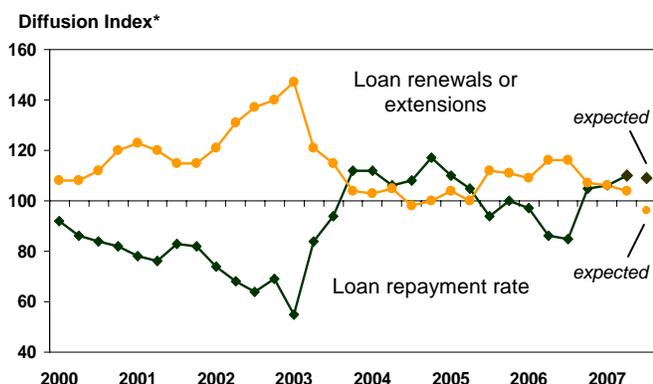


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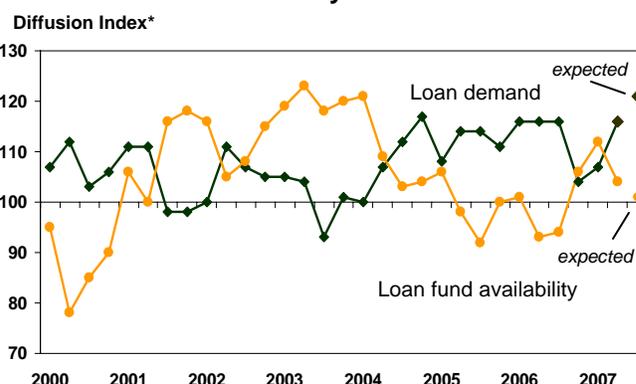
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- Second quarter farm credit conditions remained strong. Bankers continued to report high loan repayment rates, while the number of requests for loan renewals and extensions fell for the third straight quarter. Approaching the fall harvest, demand for loans increased. Capital spending levels remained elevated with district contacts reporting more sales of machinery and equipment and a flurry of construction activity for onsite grain storage.
- While the loan demand index rose, the funds availability index declined and some banks tightened credit standards. Survey results found that one-fifth of district banks have tightened credit standards somewhat, but the majority of respondents have not changed their lending criteria. Interest rates on operating loans held steady. Banks should be able to satisfy increased loan demand as the funds availability index is expected to remain above 100 in the coming months.

### Farm Credit Conditions



### Loan Fund Availability and Loan Demand



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### Selected Comments from District Bankers

“More farm real estate changed hands this year than any time in the last 15-20 years.” – *Western Nebraska*

“Speculative land fever continues.” – *NE Kansas*

“Increased input costs and higher capital improvement expenses have all contributed to higher borrowing needs from ag customers.” – *Western Missouri*

“Due to recent increases in land values, some investors and ‘gentleman farmers’ are liquidating farm real estate to take advantage of current market values.” – *SW Oklahoma*

“Consecutive drought years and increased input costs continue to hinder equity improvement by a majority of ag customers.” – *SE Wyoming*

“Farmers are selling pasture ground to people from large metro areas who want a place for recreational use and getting a fairly high price per acre.” – *NE Kansas*

Note: 266 banks responded to the second 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](mailto:Jason.Henderson@kc.frb.org) or [Maria.Akers@kc.frb.org](mailto: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.

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