Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

September 30, 2005

Highlights from the third quarter survey*

- District farmland values remained strong in the third quarter however, the momentum in nonirrigated cropland value gains may be slowing. Annual gains in nonirrigated cropland were 7.8% compared with gains of more than 8% in the previous four quarters. Irrigated cropland values increased 6.9% over a year ago. Ranchland values continued to climb and on average were up by 14% over last year. The strongest gains ranchland values were seen in Missouri and Oklahoma.

- District farm credit conditions weakened in the third quarter. The index of farm loan repayment rates fell below 100 for the first time in two years. The index of renewals and extensions moved higher with 15% of respondents reporting and increase in requests for renewals and extensions from a year ago. Loan demand remained strong, but the availability of funds index fell for the second quarter with 16% of respondents reporting a decline in the availability of funds from a year ago.

- In a special survey question, 77% of respondents expected lower farm income this year compared to last year. About 83% expected lower income for crop farmers while only 43% expected a decline for livestock producers. Given that last year was a record year for U.S. farm income, these results were expected. Many respondents still expressed concerns about rising energy prices and interest rates and the impact they will have on net farm income this year and into 2006. Many suggested that the full effects have yet to be seen.

- The district farm commodity price index fell from the previous quarter but remained slightly above a year ago. Cattle and wheat prices were above both the previous quarter and previous year. Hog prices fell from a year ago. Prices for fall crops fell seasonally in the quarter but were still below year-ago levels, with a significant decline in corn prices.

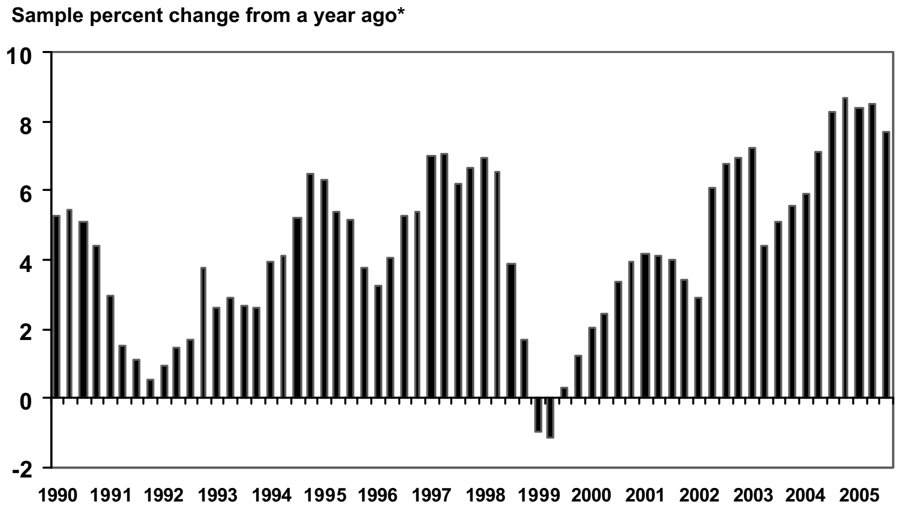
- Interest rates on new farm loans moved up in the third quarter. At the end of the quarter, interest rates on new farm loans averaged 8.18% for operating loans, 8.12% for machinery and intermediate-term loans, and 7.58% for real estate loans. Since the end of September, interest rates in national money markets have moved higher.

*Note: 279 banks responded to the third 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 Nancy Novack, associate economist, at 816-881-2423 or nancy.l.novack@kc.frb.org.

Nonirrigated Cropland Values

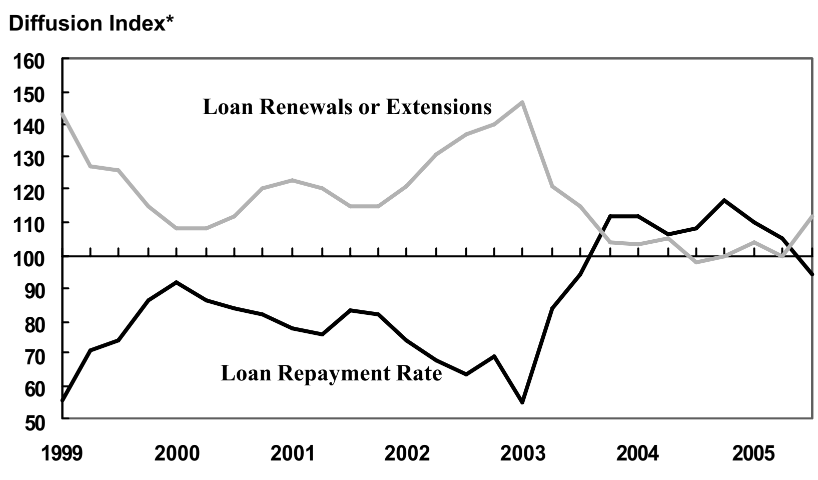
Tenth District



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

Farm Credit Conditions

Tenth District



*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.