

Survey of Tenth District Agricultural Credit Conditions

Third Quarter 2009

FEDERAL RESERVE BANK *of* KANSAS CITY

Farmland Values Hold Steady and Farm Credit Conditions Deteriorate by Brian Briggeman, Economist, and Maria Akers, Assistant Economist

Survey Summary

Despite weaker farm incomes and credit conditions, district farmland values held steady in the third quarter, remaining below year-ago levels. Since falling in the fourth quarter of 2008, District farmland values overall appear to have reached a plateau. Nonirrigated cropland values held steady again in the third quarter, while irrigated cropland and rangeland values dipped slightly. Survey respondents reported a limited number of sales during the quarter. A majority of the bankers responding to the survey expected farmland values to hold steady over the next three months.

In the third quarter, more District bankers reported weaker farm incomes due to sagging protein demand and a summer decline in crop prices. With shrinking margins, livestock producers have been cutting supplies by culling herds and consolidating feedlots. In response to a special survey question, bankers, on average, estimated that livestock incomes would decline roughly 10 percent below year-ago levels. Bankers also reported that annual crop incomes would decline roughly 15 percent below year-ago levels due to lower pre-harvest crop prices, especially since many expected an excellent harvest.

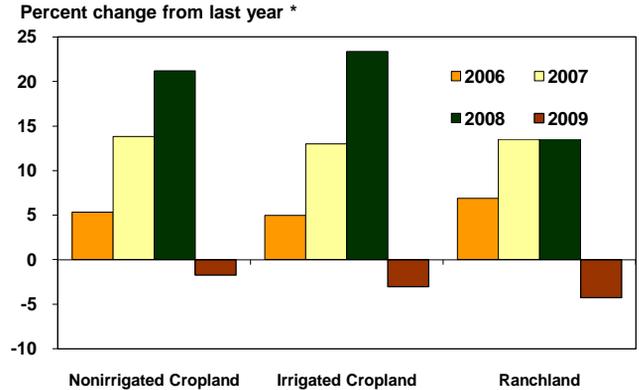
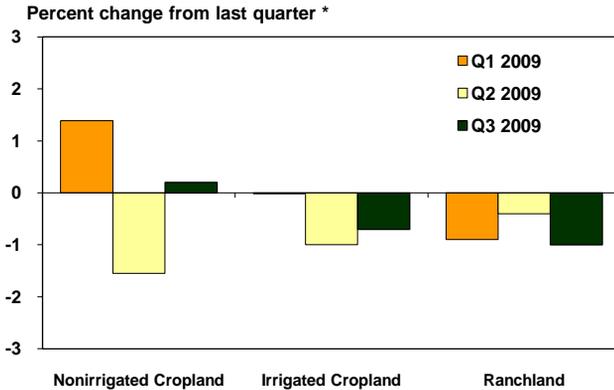
With lower incomes, farm credit conditions eroded during the third quarter. More bankers reported lower loan repayment rates and a rise in loan renewals and extensions. Bankers expected these trends to continue through the end of the year. The collateral requirements index remained elevated, changing little from the second quarter. More bankers reported rising farm loan demand, and many indicated having ample funds for creditworthy borrowers.

Note: 263 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 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

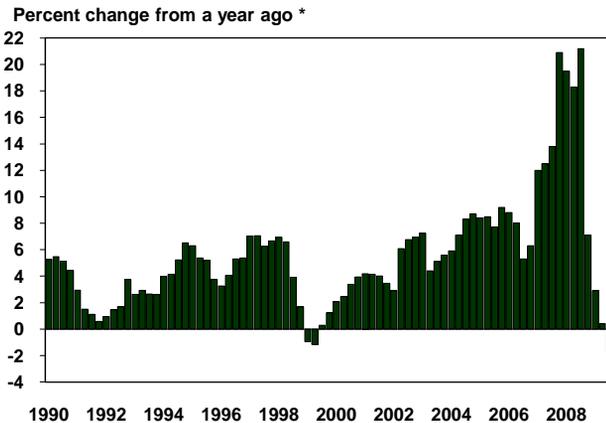
Farmland Values – Annual Changes (Third Quarter)



- Farmland values held steady in the third quarter, though farm sales were limited as harvest began. Still, survey respondents indicate that demand for farmland remains solid and values appear to be holding. Compared to the previous quarter, nonirrigated cropland values were flat and the value of irrigated acreage dipped less than 1 percent. Ranchland values were just 1 percent lower than second-quarter levels, due mostly to value declines in Nebraska and Kansas. The value of Oklahoma ranchland actually rose in the third quarter, as drought conditions eased. About 75 percent of responding bankers agree that farmland values will hold at current levels over the next three months.
- Since farmland experienced a spike in value in the third quarter of 2008, year-over-year comparisons show a moderate decline in District farmland values. Compared with last year’s third quarter peak, nonirrigated land values dipped 1.7 percent, irrigated land values were down 3.0 percent, and ranchland values fell 4.2 percent. After posting some of the steepest annual increases in farmland values over the last two years, Nebraska values have moderated somewhat in 2009.

Nonirrigated Farmland Value Changes

Farmland Value Changes by State

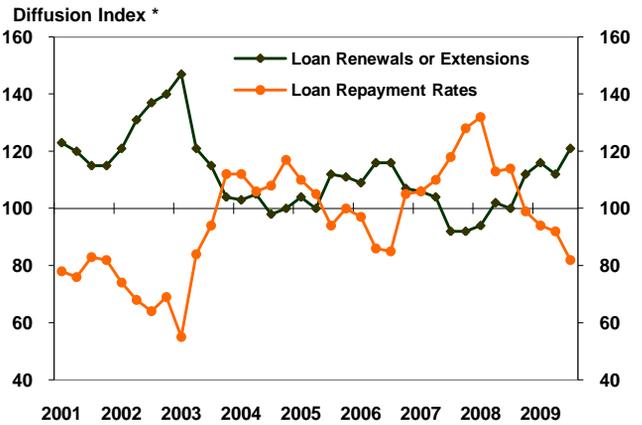
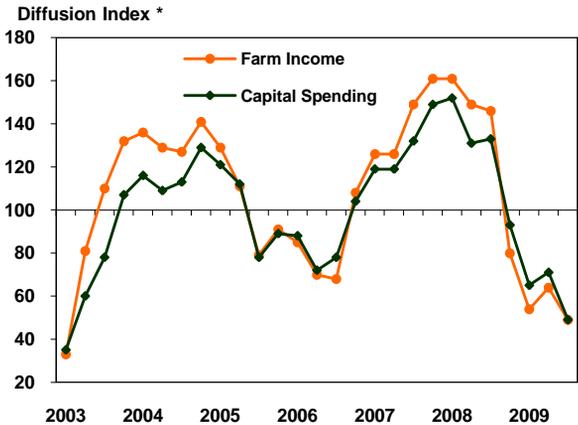


State	Nonirrigated	Irrigated	Ranchland
Kansas	2.3	-0.5	-4.3
Missouri	0.2	n.a.**	-4.2
Nebraska	-4.8	-4.7	-5.3
Oklahoma	-1.6	n.a.**	n.a.**
Mountain States	-5.5	n.a.**	-10.0

* 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

Loan Repayment Rates and Loan Renewals and Extensions

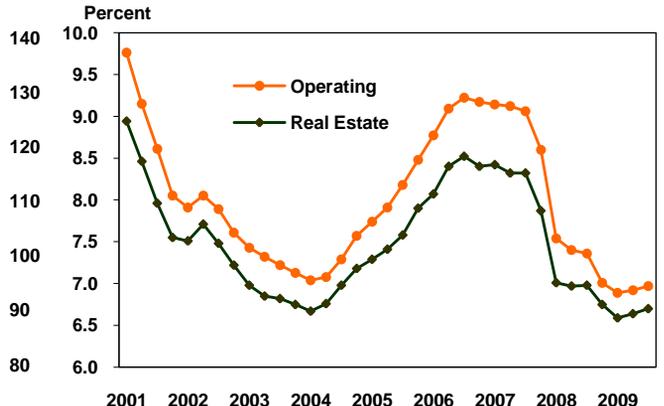
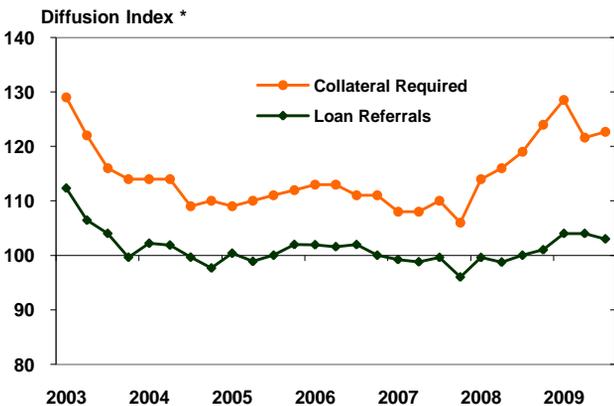


* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- District farm incomes fell in the third quarter due to a pre-harvest decline in crop prices and sustained losses in the livestock sector. After two years of historically high farm incomes, the farm income index has followed a downward trend throughout 2009. In the third quarter, the farm income index was below 50, its lowest level since early 2003. Closely tracking the farm income index was the capital spending index, which also reached a survey low, as lower incomes further curtailed equipment purchases.
- Farm credit conditions eroded in the third quarter with weaker incomes. The third quarter index of loan repayment rates fell further, reaching its lowest level since early 2003. Simultaneously, the index of loan renewals and extensions jumped to its highest level in six years. Collateral requirements remained elevated in the third quarter, but were little changed from the previous quarter and were expected to remain flat in coming months. Referrals to nonbank credit agencies also held steady during the quarter, and few bankers reported refusing a loan due to a shortage of funds. Farm interest rates moved slightly higher but stayed below year-ago levels.

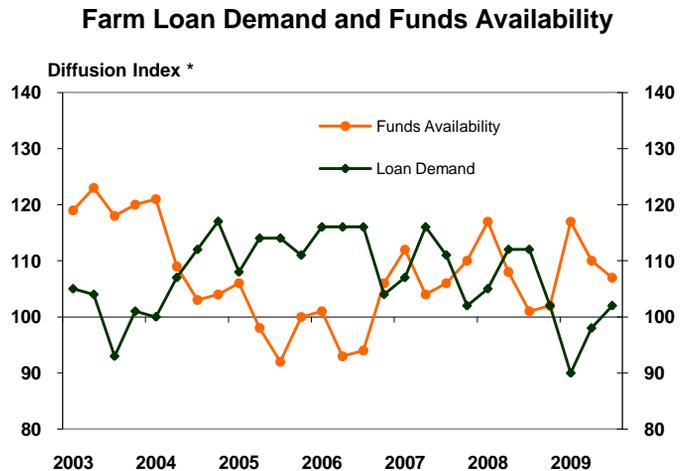
Collateral Requirements and Loan Referrals

Farm Interest Rates



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- Farm loan demand rose further in the third quarter. In fact, the loan demand index surpassed 100 for the first time this year, partly driven by seasonal crop input purchases in Nebraska and livestock losses, especially for poultry producers in Oklahoma. Even with greater loan demand, lenders reported ample funds were available for qualified borrowers.



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Selected Comments from District Bankers

- “Fall crops are looking tremendous with bumper yields expected; however, those farmers that did not price protect will receive less for producing more.” – *Central Kansas*
- “Large decline in commodity prices, much smaller decline in input costs.” – *NE Colorado*
- “The area looks to have a really good corn crop, although lower grain and livestock prices will adversely affect ag income this year.” – *NW Oklahoma*
- “Most farming/livestock businesses are operating at breakeven levels or less due to commodity prices declining more than input costs.” – *SE Wyoming*
- “Very little land has sold in our area in the last 12 months. Market is considered steady until we see an indication of change.” – *NE Nebraska*
- “Real estate values have maintained with few sales occurring.” – *SE Wyoming*
- “Extremely limited farm ground sales.” – *NE Missouri*
- “Poultry farmers are in significant distress, farms are going out of business every week.” – *Eastern Oklahoma*
- “We have lost three feed yards and one large swine feeding facility in our area.” – *NE New Mexico*

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