Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

December 31, 2004

Highlights from the fourth quarter survey*

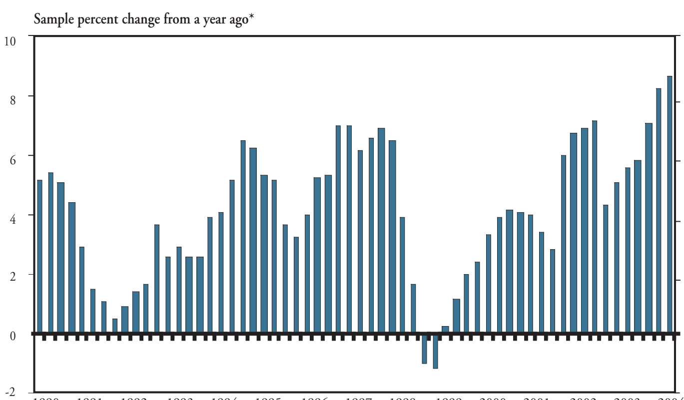
- District farmland values again posted solid gains in the fourth quarter of 2004. Ranchland values were strong throughout 2004 and ended the year with an annual gain of 10.5%. Gains in ranchland values were strong in all district states with Kansas, Missouri, and Nebraska posting double-digit gains over a year ago. District cropland values were also healthy. Nonirrigated cropland values increased 8.7% over a year ago, and gains in irrigated values accelerated to 8.3%.
- Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Investment was cited by nearly 70% of respondents, compared to 62% two years ago. Another major reason for nonfarmer purchases of farmland was recreation, which was cited by 57% of respondents, compared to 44% in 2002.
- District farm credit conditions remained strong in the fourth quarter. The index of farm loan repayment rates moved up, with 24% of respondents reporting higher rates of loan repayment. The index of requests for renewals and extensions was slightly above the third quarter, but below a year ago. The district indices for farm income, household spending, and capital spending were all up sharply from the third quarter, which are indicators of the strength in the farm economy. When asked about the use of alternative sources of credit among their borrowers, respondents indicated, on average, 60% of their customers use credit from other sources such as seed, chemical, and equipment dealers. More than a third reported that the use of supplier credit was higher than a year ago.
- The district farm commodity price index fell in the fourth quarter. Relative to the previous quarter, prices softened for feeder cattle, hogs, and crops, except wheat. Compared to the end of last year, crop prices were down substantially, while feeder cattle and hog prices were higher.
- Interest rates on new farm loans moved up in the fourth quarter. At the end of the quarter, interest rates on new farm loans averaged 7.57% for operating loans, 7.59% for machinery and intermediate-term loans, and 7.18% for real estate loans. Since the end of December, most interest rates in national money markets have moved higher, but longer term rates have moved down.

*Note: 276 banks responded to the fourth 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

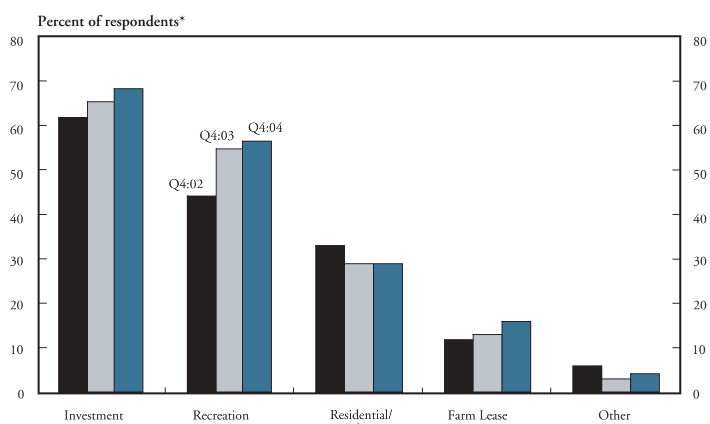
Tenth District



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

Reasons for Farmland Purchases by Nonfarmers

Tenth District



* Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Respondents could choose more than one response and therefore percentages will not sum to 100.