

Survey of Tenth District Agricultural Credit Conditions

Fourth Quarter 2009

FEDERAL RESERVE BANK *of* KANSAS CITY

Cropland Values Strengthen

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

Survey Summary

District cropland values strengthened in the fourth quarter of 2009 with rising farm income. More district bankers reported stronger farm incomes due to a harvest rise in crop prices and above-average yields. Stronger crop prices at the end of the year underpinned a rise in both nonirrigated and irrigated cropland values during the quarter, pushing farmland values above year-ago levels. In contrast, anemic profit opportunities in the livestock sector placed downward pressure on ranchland values. Ranchland values slipped below year-ago levels during the quarter as contractions in the livestock sector dampened demand for pasture ground.

Robust farm demand remained the primary driver in district farm real estate markets. District bankers noted that fewer farmers were selling farmland and the limited supply of farms was contributing to stronger cropland value gains. Survey respondents also reported a slowdown in nonfarm demand for farmland as the recession curtailed residential development and purchases for recreational purposes. District bankers also noted an increase in cash transactions for farmland purchases.

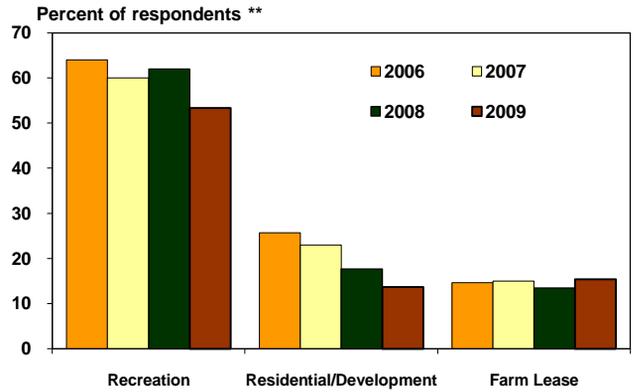
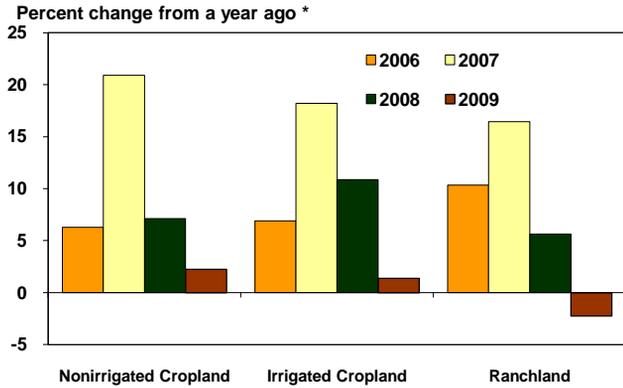
With higher incomes during the fourth quarter, farm credit conditions improved. More district bankers noted higher loan repayment rates and fewer loan renewals and extensions. Collateral requirements remained steady but elevated. More survey respondents expected renewed capital spending in 2010, especially since many farmers scaled back on equipment purchases during 2009. Several contacts reported that farmers increased their use of vendor credit for the purchase of crop inputs and grain production equipment.

Note: 241 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 Jason Henderson, Vice President and Branch Executive, or Maria Akers, Associate Economist at 1-800-333-1040 or Jason.Henderson@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
(Fourth Quarter)**

Reasons for Farmland Purchases by Non-farmers



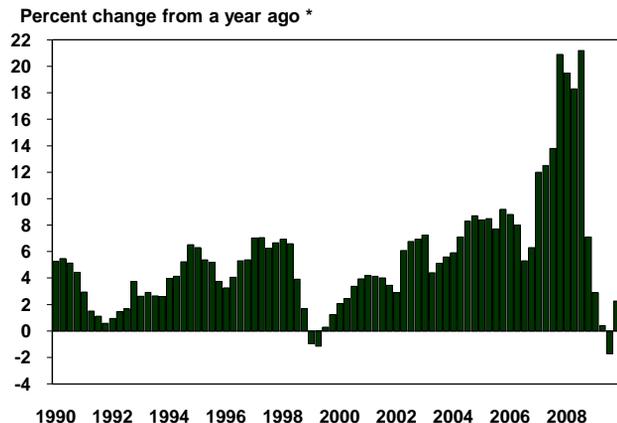
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

** Respondents could choose more than one category; therefore, percentages will not add to 100.

- Cropland values rebounded at the end of 2009, supported by higher farm income. Compared to the previous quarter, the value of nonirrigated and irrigated cropland rose roughly 2 percent, while ranchland values held steady. Compared to a year ago, district cropland values rose 2.3 percent for nonirrigated ground and 1.4 percent for irrigated acreage. Ranchland values, however, remained below year-ago levels since herd reductions in the livestock sector dampened farmland demand for cattle grazing. Annual farmland cash rental rates for crop production generally held steady, while pasture cash rental rates fell.
- Most bankers reported that the number of farms for sale declined in 2009, as did the percentage of agricultural land sales to nonfarmers. Several contacts remarked that farm owners have been reluctant to sell due to limited investment options offering a better rate of return. More bankers also reported an increase in cash transactions. District bankers suggested the recession led to weaker nonfarm demand for farmland as the housing market correction restrained residential development and softer household incomes curtailed recreational spending on farmland.

Nonirrigated Farmland Values

Tenth District Farmland Values



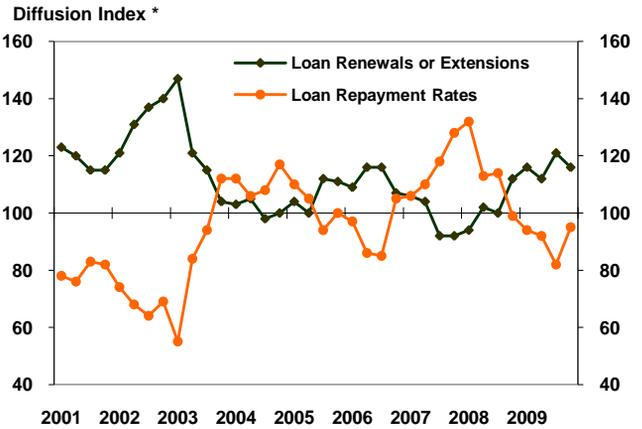
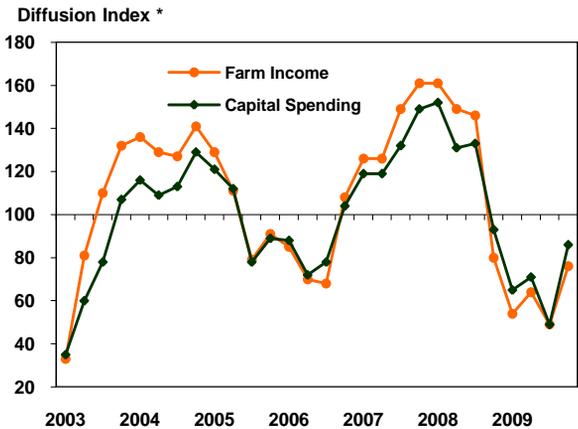
	Nonirrigated	Irrigated	Ranchland
Kansas	3.1	2.0	-7.3
Missouri	3.5	n.a.**	-2.6
Nebraska	1.2	2.3	-1.7
Oklahoma	3.8	n.a.**	n.a.**
Mountain States	-1.3	-2.5	-2.7

* 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

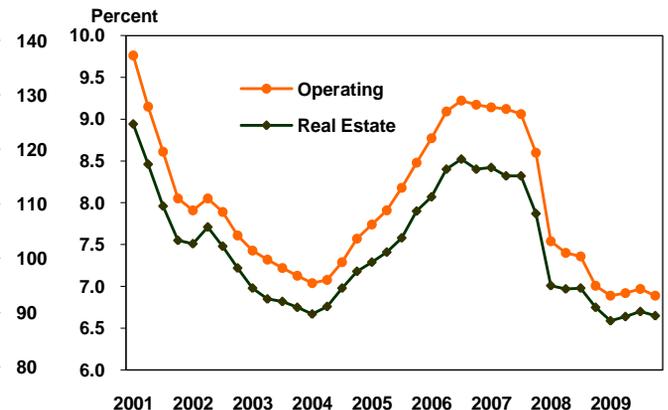
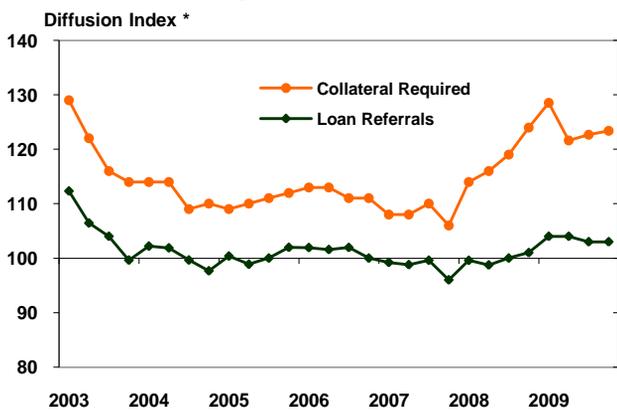


* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- District farm incomes strengthened in the fourth quarter, buoyed by bumper crops and higher commodity prices. Stronger export and ethanol activity, coupled with weather delays during harvest, underpinned an increase in crop prices. Despite the late fall harvest, crop yields were typically above average, especially in Nebraska and Kansas. Livestock prices moved higher as well but remained below break-even levels. After the agricultural sector scaled back on capital spending during the year, district contacts expected stronger farm income to support increased demand for grain production equipment over the next few months. However, on-going herd reductions limited the need for new livestock facilities.
- Farm credit conditions also improved with stronger incomes. During the fourth quarter, the loan repayment index rose for the first time in over a year as the index of loan renewals and extensions edged down. While collateral requirements remained elevated, few bankers reported refusing a loan due to a shortage of funds. Farm interest rates remained historically low.

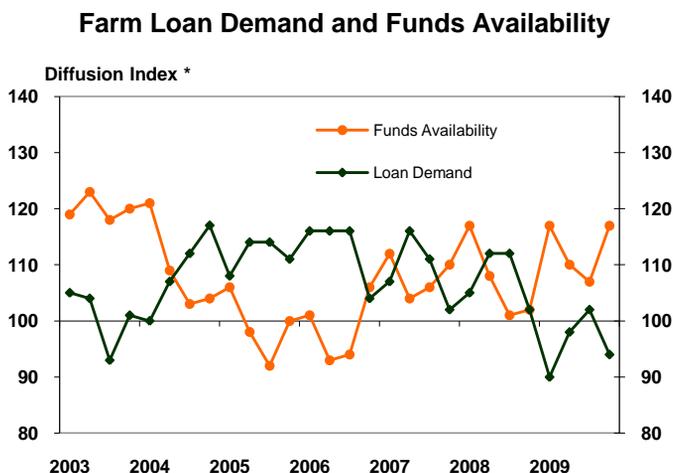
Collateral Requirements and Loan Referrals

Farm Interest Rates



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- During the fourth quarter, stronger farm incomes, primarily for crop producers, trimmed farm loan demand. More bankers indicated having funds available for farm loans at historically low interest rates. But survey respondents reported more farmers were purchasing production inputs using credit from vendors offering attractive financing options.



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Selected Comments from District Bankers

“The 2009 fall harvest had the best yields in recent history.” – *Central Kansas*

“Despite some hail damage, dry land yields have been generally excellent.” – *Western Nebraska*

“Cow/calf operators are really struggling. We are losing ranchers each year.” – *Central Nebraska*

“Livestock income is much lower for 2009 with mounting losses per head.” – *North Central Kansas*

“Ag land values have remained strong, especially for irrigated ground. Farmers are buying land rather than leaving cash in bank deposits with a low rate of return.” – *SE Colorado*

“Almost all land sales are farmer purchases with cash and little financing.” – *NE Kansas*

“We have actually seen a jump in irrigated farm prices and sales. Ranchland has started selling again but at much lower prices.” – *NE New Mexico*

“Seed companies have developed aggressive financing programs to promote sales.” – *South Central Nebraska*

“Some equipment companies are financing at 0% interest.” – *Western Missouri*

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