

SURVEY *of* TENTH DISTRICT

Agricultural Credit Conditions



4th QUARTER 2011

FEDERAL RESERVE BANK *of* KANSAS CITY

Farm Sales Rise with Land Values

*By Jason Henderson, Omaha Branch Executive, and
Maria Akers, Associate Economist*

Robust bidding by farmers spurred record high land values, which enticed more landowners to place farmland up for auction. Nonirrigated cropland values in the District jumped almost 9 percent during the last three months of 2011 and were 25 percent higher than year-ago levels. District bankers noted an increasing number of absentee landowners were putting their farms up for sale and attributed much of the auction activity to landowners seeking top-dollar prices. Farmers were the main buyers, and the share of land purchased by farmers has grown during the past few years. Still, outside investor interest in farmland for rental income or capital gains remained high, with farmland sales for recreational or development use dwindling. About a third of District bankers expected both the price and the amount of farmland offered for sale to rise further in 2012.

Strong farm incomes were fueling the robust farmland value gains. During the fourth quarter, crop prices remained

historically high but volatile, while livestock prices were well above year-ago levels. Half of survey respondents reported higher farm income in the fourth quarter compared to last year, and almost a third expected further income gains in 2012. With bullish farm income prospects, many landowners negotiated steep increases in cash rental rates for farmland. Rising cash

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rents, however, could strain profit margins for some producers, especially if other input costs climb higher.

Agricultural credit conditions improved at the close of 2011 and loan demand edged up. Bankers reported fewer requests for loan renewals or extensions in the fourth quarter and stronger loan repayment rates were expected to hold firm. A year-end spike in capital spending provided a slight boost to loan demand as bankers noted wider use of vendor financing by farmers. With loan demand expected to hold steady in the coming months, ample funds were available for qualified borrowers at low interest rates.



Chart 1
Reasons for Farmland Purchases by Nonfarmers

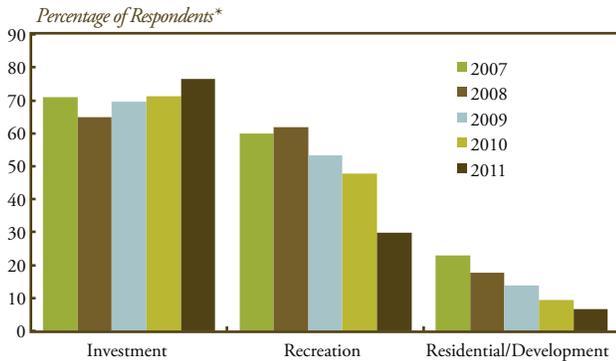


Chart 2
Tenth District Farmland Value Gains

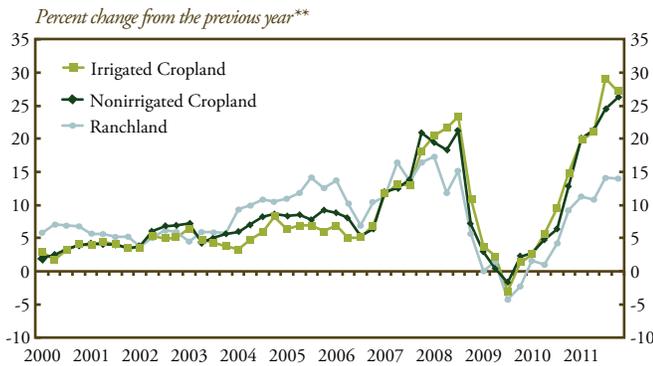
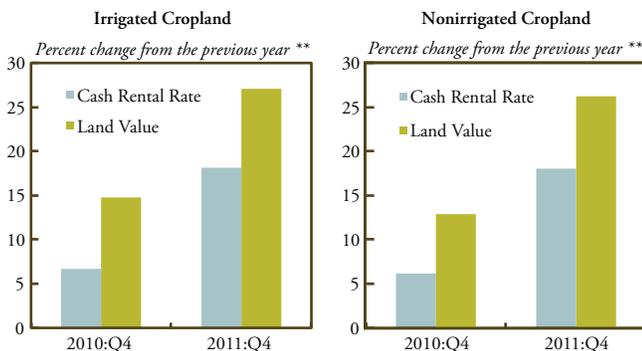


Chart 3
Farmland Values and Cash Rental Rates—Annual Gains



Farmland values soared higher, reaching all-time highs across much of the District in the fourth quarter. Bankers noted more landowners listing their land holdings, particularly absentee owners and older farm operators looking to profit from record prices. Despite more farmland for sale, strong farmer demand pushed prices higher. In fact, survey respondents indicated the share of farmland bought by farmers grew from about 60 percent in 2005 to around 73 percent in 2011. Regarding nonfarmer purchases, more bankers reported farmland was bought for investment purposes, such as receiving farm rental income and earning capital gains (Chart 1). In contrast, the volume of farmland purchases for recreational use or residential/development projects continued to fall.

District farmland values rose further at the end of the year, posting strong quarterly and annual gains. Compared to the third quarter, the value of nonirrigated and irrigated cropland in the District surged by 8.9 percent and 7.5 percent, respectively, and ended the year more than 25 percent higher than 2010 levels (Chart 2). District ranchland values rose 3.1 percent during the fourth quarter, contributing to a year-over-year increase of 14 percent.

Cash rental rates for farmland also jumped at year-end. Landowners factored in high farm income expectations when renegotiating lease terms. Though not as steep as cropland value gains, annual cash rental rate increases averaged a hefty 18 percent in the District, far outpacing the average annual gain of 6 percent reported last year (Chart 3). Cash rental rate increases for ranchland were more modest, but still averaged more than 10 percent year-over-year compared to a 4 percent average annual gain in 2010.

* Percentages will not add to 100 because respondents could choose more than one category.
** Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.



Chart 4
Tenth District Farm Income

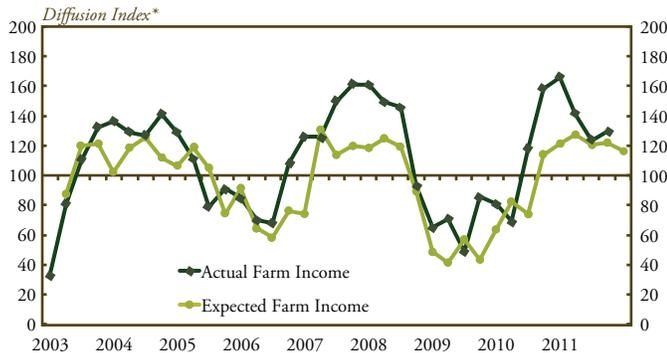


Chart 5
Tenth District Farm Income by State
Fourth Quarter 2011

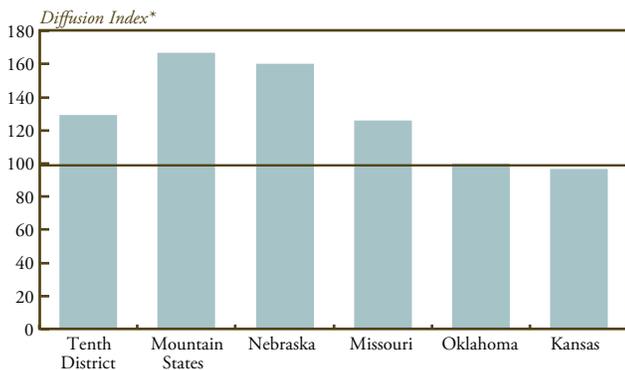


Table 1
Farmland Value Gains by State

Percent change from the previous year**

	Nonirrigated	Irrigated	Ranchland
Kansas	24.1	18.0	13.7
Missouri	18.5	n/a***	11.0
Nebraska	37.8	36.1	21.2
Oklahoma	9.2	22.6	6.9
Mountain States	14.2	9.8	14.7

**Percent changes are calculated using responses from only those banks reporting in both the past and the current quarter.
***Not reported due to small sample size.

District farm income strengthened in the fourth quarter and was expected to remain solid in the coming months (Chart 4). After spiking earlier in the year, crop prices remained elevated in the fourth quarter and supported farm income in regions with ample harvests. Still, farm income varied with 2011 weather conditions as drought clipped farm incomes in Oklahoma and Kansas (Chart 5). Crop losses due to flooding and drought meant some producers relied on crop insurance claims to supplement farm income at the end of the year. Land lease revenues from mineral rights also bolstered incomes in areas with strong energy activity.

With robust export demand, livestock prices remained above year-ago levels in the fourth quarter. In fact, cattle prices reached new highs as drought-induced herd liquidations pushed cow inventory levels to historical lows. Still, farm income for cattle and hog operators hinged on the ability to manage profit margins with elevated feed costs.

Farmland value gains varied with farm income. Strong farm income in areas with favorable yields drove the largest annual value gains for nonirrigated land in Nebraska and Kansas (Table 1). Severe drought in Oklahoma limited nonirrigated farmland value gains but drove up the value of irrigated ground. Drought also curtailed cattle grazing and boosted ranchland values in areas with good-quality pastures, such as Nebraska. With solid income expectations, a third of survey respondents felt farmland values would rise further in 2012.

* 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.

Agricultural Credit Conditions



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FEDERAL RESERVE BANK of KANSAS CITY - TENTH DISTRICT

Chart 6
Tenth District Agricultural Credit Conditions

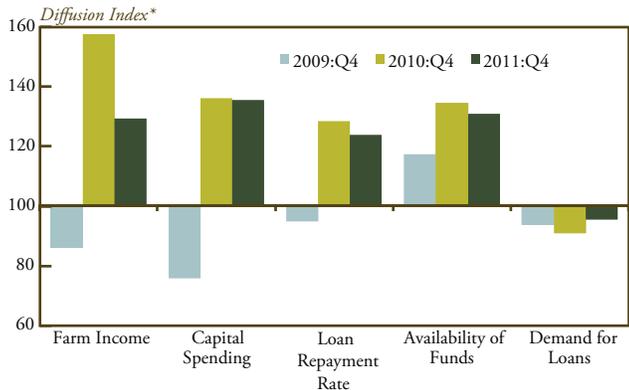


Chart 7
Tenth District Farm Capital Spending and Loan Demand

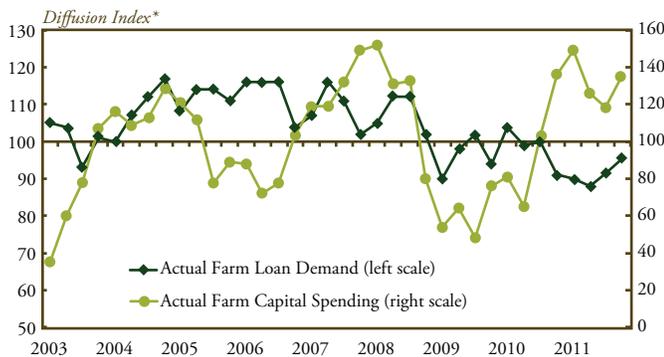
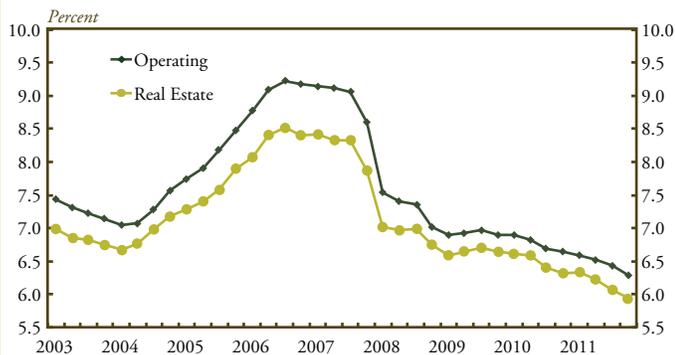


Chart 8
Tenth District Farm Interest Rates



District farm credit conditions improved in the fourth quarter with stronger farm incomes. The farm loan repayment index rose as farmers paid down debt at year-end (Chart 6). In addition, bankers reported fewer loan renewals or extensions in the fourth quarter. Looking forward, loan repayment rates were expected to hold at high levels with a modest uptick in loan renewals and extensions, primarily in the mountain states.

Farm loan demand picked up slightly in the fourth quarter with a year-end push to buy equipment and put capital improvements in place (Chart 7). Following declines in the last two quarters, the capital spending index rebounded as equipment purchases and construction of farm buildings were completed to take advantage of 2011 federal tax rules on bonus depreciation allowances. Though farm loan demand rose with capital spending, bankers also noted increased use of vendor financing for farm machinery and equipment purchases. Farm loan demand was expected to rise modestly at the start of 2012 as farmers prepared for spring planting.

Even with an expected uptick in loan demand, bankers indicated ample funds were available for farm loans. In fact, less than one percent of loans were refused due to a shortage of funds during the fourth quarter. Collateral requirements generally held steady and farm interest rates fell further. In the fourth quarter, interest rates averaged 6.3 percent on farm operating loans, and the average interest rate on farm real estate loans fell below 6.0 percent for the first time in survey history, dipping to 5.9 percent (Chart 8).

**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.*



BANKER COMMENTS *from* *the* TENTH DISTRICT “ ”

“Absentee landowners are taking advantage of high land prices and selling family land.”

—NE Kansas

“With current price levels, many older landowners are cashing out.”

—Eastern Nebraska

“Any land that is put up for sale is being aggressively pursued by buyers.”

—NE Kansas

“Land sales have exploded in number and price due to record farm profits. Many farmers have also prepaid for nearly all of next year’s crop inputs.”

—NE Nebraska

“Land prices and cash rents are highly dependent on irrigation capacity.”

—Western Oklahoma

“Two reasons given for buying farmland are alternative investments are limited and land will always be there.”

—NE Colorado

“The recreational buyers seem to have lost interest in buying land.”

—Southern Kansas

“Marginal harvest in 2011 due to drought. Crop insurance and oil lease money are helping keep farmers afloat.”

—Western Kansas

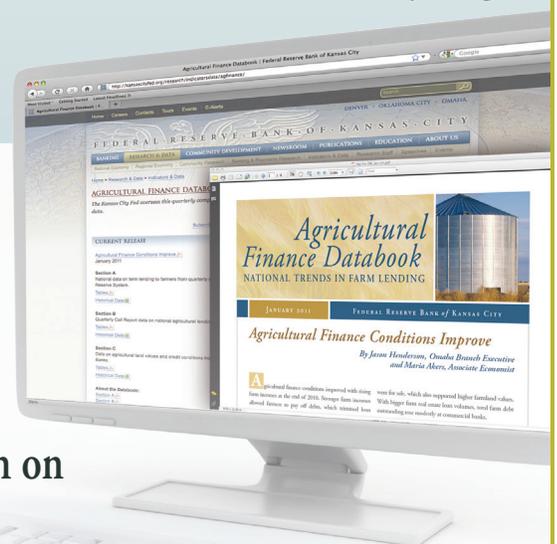
“High crop and livestock prices helped producers meet their debt requirements despite drought conditions.”

—NE New Mexico

“Ag producers did very well in 2011, but profit margins are expected to decrease in 2012 with higher input costs.”

—SE Wyoming

Note: 253 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, Omaha 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.



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