

Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

June 30, 2002

Highlights from the second quarter survey.

- District farmland values remained strong in the second quarter of 2002. Relative to a year ago, nonirrigated and irrigated cropland values rose 6.1% and 5.3%, respectively, while ranchland rose 5.0%. Land values throughout the district benefited from nonfarm buyers seeking investment opportunities outside of the stock market.
- The district farm commodity price index fell in the second quarter. Cattle prices turned sharply lower in the quarter, while prices for hogs and crops posted solid gains. Since June, hog prices have fallen significantly and cattle prices remain weak. Crop prices, however, have moved higher as production prospects were trimmed due to the drought.
- Farm credit conditions weakened in the second quarter. Loan repayment rates slowed and renewals or extension moved up. Demand for new farm loans picked up due to some certainty gained with the passage of the farm bill and low interest rates. Going forward, government payments and crop insurance should reduce some risk for crop producers. Livestock producers and their lenders, however, face a difficult time.
- Despite lower market rates, respondents indicated interest rates on new farm loans edged up in the second quarter as risk increased due to the drought. At the end of the quarter, interest rates on new farm loans averaged 8.05% for operating loans, 8.04% for machinery and intermediate-term loans, and 7.71% for real estate loans. Since June, interest rates in national money markets have moved lower.
- More than half of respondents expect farm income and capital spending to be lower in the third quarter of 2002 compared to the third quarter of 2001. And over a third expect farm household spending to decline. In August, USDA reported that U.S. farm income is forecast to fall 23% in 2002.

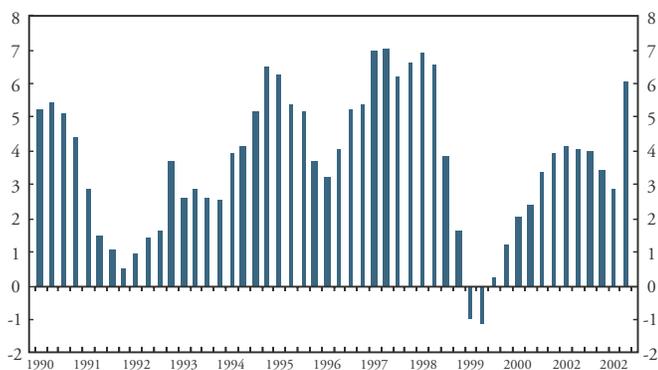
* Notes: 309 banks responded to the second quarter survey. Comments are based on preliminary estimates. In the second quarter, a revised survey form and expanded sample were used.

* Please refer questions to Nancy Novack, assistant economist, at 816-881-2423 or nancy.l.novack@kc.frb.org.

Nonirrigated Cropland Values

Tenth District

Sample percent change from last year*

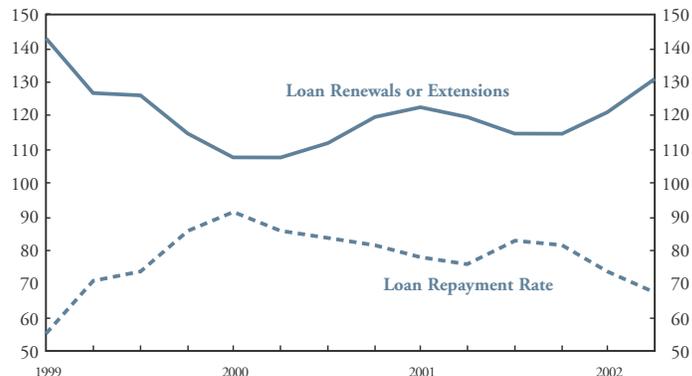


*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Farm Credit Conditions

Tenth District

Diffusion Index*



*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.