Survey of Tenth District Agricultural Credit Conditions

Second Quarter 2008

FEDERAL RESERVE BANK *of* KANSAS CITY

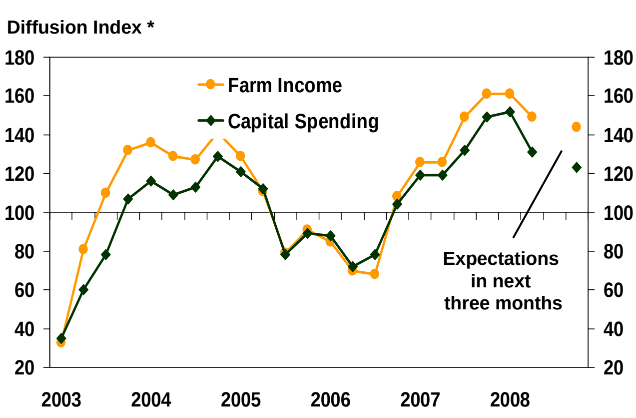
High Energy Prices Slow the Farm Boom

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

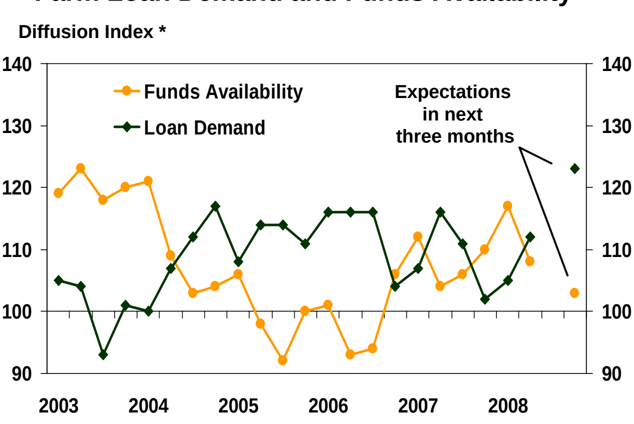
- Soaring energy costs have tempered farm income expectations despite historically high commodity prices. In the second quarter, the Tenth District farm income index pulled back from record highs primarily due to the rising cost of energy-related crop inputs such as fertilizer, fuel, and chemicals. In addition, some bankers were concerned that spring planting delays due to wet weather could adversely affect fall crop yields. High feed costs continued to limit livestock profits despite stronger hog and cattle prices, with a few reports of herd liquidations. Oklahoma was the only state that reported an increase in farm income for the second quarter after the winter wheat harvest produced above average yields.

- Rising input costs also boosted loan demand as agricultural producers borrowed funds to cover operating expenses. District bankers reported a sharp increase in loan demand for the second quarter that is expected to intensify in the coming months. Many farmers are paying up-front for 2009 crop inputs, and some are facing repair costs for irrigation equipment that was damaged by severe storms. The amount of funds available for loans declined with elevated loan demand. Increased expenses curbed capital spending plans.

Farm Income and Capital Spending



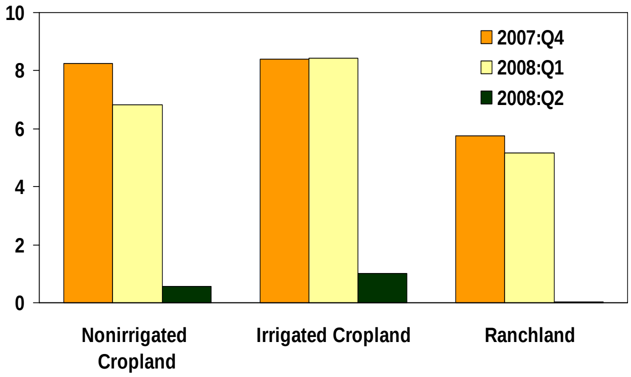
Farm Loan Demand and Funds Availability



* 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.

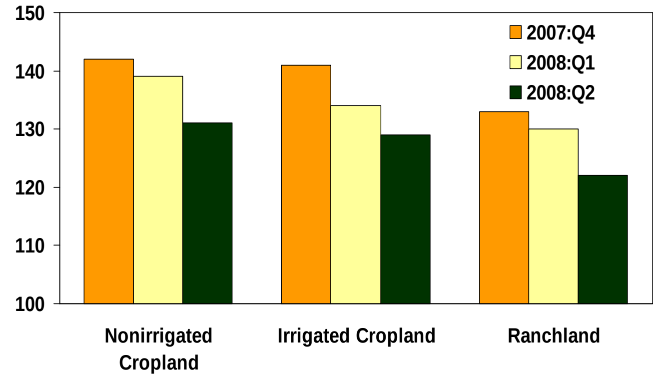
Farmland Values – Quarterly Gains

Percent change from last quarter *



Expected Trend in Farmland Values

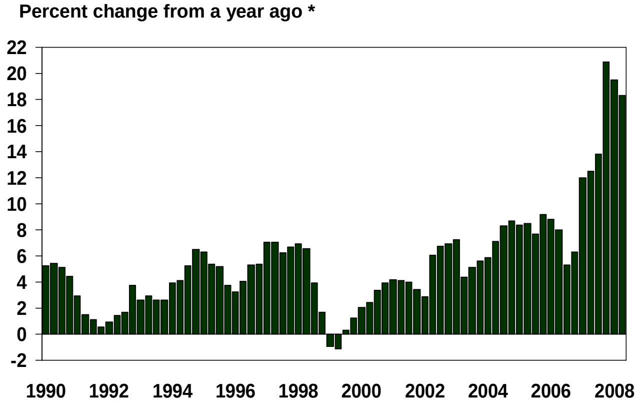
Diffusion Index **



- After steadily climbing for the last two years, farmland values plateaued in the second quarter. District bankers reported farmland values held steady as the growing season began and real estate activity slowed. Still, approximately a third of survey respondents anticipated cropland values could start appreciating again closer to fall harvest.
- While farmland values were flat compared to last quarter, they remain well above year-ago levels. In the second quarter, irrigated land posted an annual value gain of 21.6 percent, followed closely by an 18.3 percent gain in the value of nonirrigated acreage. Ranchland appreciated 11.8 percent compared to the same period last year.
- The strongest annual gains in farmland values continued to be in Nebraska, while Missouri saw the pace of farmland appreciation slow from first to second quarter. According to contacts in Oklahoma, Colorado, and Wyoming, the booming energy industry is contributing to rising farmland values in natural gas and oil producing regions of the District.

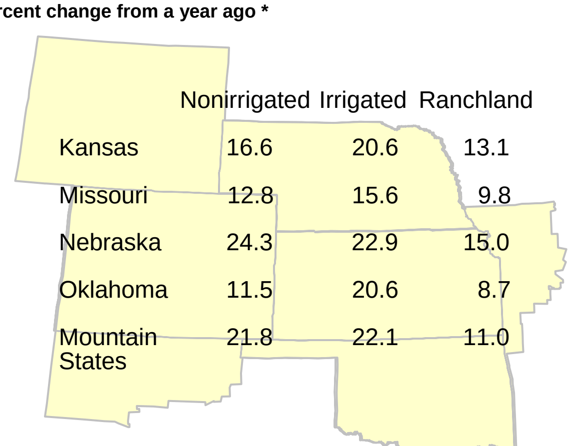
Nonirrigated Farmland Values

Percent change from a year ago *



Farmland Values by State

Percent change from a year ago *



	Nonirrigated	Irrigated	Ranchland
Kansas	16.6	20.6	13.1
Missouri	12.8	15.6	9.8
Nebraska	24.3	22.9	15.0
Oklahoma	11.5	20.6	8.7
Mountain States	21.8	22.1	11.0

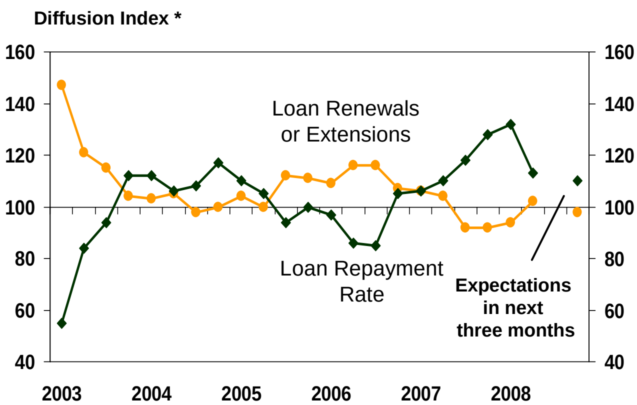
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

** 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.

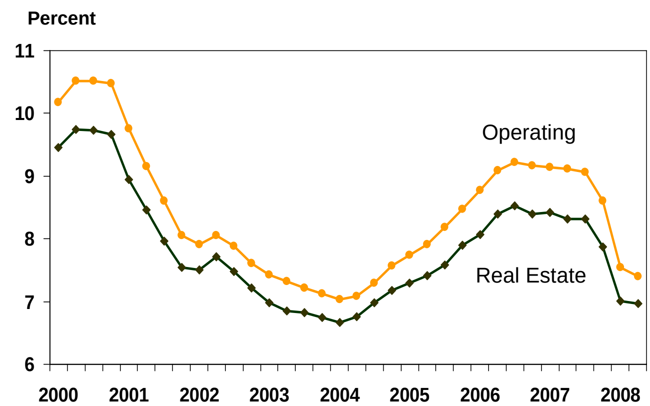
- Farm credit conditions showed signs of deterioration in the second quarter. The rate of loan repayments fell sharply from a record high in the first quarter and is expected to ease further. The number of loan renewals and extensions continued to trend up and pushed the index past 100, though some improvement is expected in the third quarter.

- Farm interest rates edged down following substantial reductions over the last six months. The average interest rate for operating loans was 7.4 percent, down from a high of 9.2 percent in 2006. Average real estate interest rates dipped to 7.0 percent. Collateral requirements rose slightly and the number of loans refused due to a shortage of funds held steady.

Farm Credit Conditions



Farm Interest Rates



* 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.

Selected Comments from District Bankers

"Outlook has changed so much in the last 90 days. While grain prices remain at record levels, operating costs, especially fuel, fertilizer, and repairs have taken away most of the profit. Late planting will affect yields. Outlook not nearly as optimistic!" – *Northwest Missouri*

"With the skyrocketing price of grain and transportation, the cost of winter feeding is a great concern for ranchers." – *Western Oklahoma*

"Now more than ever the volatility and risk of falling income levels against higher inputs remains the number one concern for the future of our farmers." – *Central Kansas*

"North Western Colorado is enjoying a strong natural gas boom and many land owners are finding substantial windfalls that are not related to agriculture." – *Northwest Colorado*

"Input costs continue to drive loan demand." – *North Central Nebraska*

Note: 265 banks responded to the second 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, Assistant Economist at 1-800-333-1040 or *Jason.Henderson@kc.frb.org* or *Maria.Akers@kc.frb.org.*

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