Survey of Tenth District Agricultural Credit Conditions

Second Quarter 2010 | FEDERAL RESERVE BANK *of* KANSAS CITY

Despite Low Incomes, Farmland Values Rise Further

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

Survey Summary

District farmland values continued to rise in the second quarter as farm incomes fell. Farmland value gains were attributed to strong demand from farm and non-farm buyers and a limited supply of land for sale. However, lower crop prices during the spring trimmed farm incomes.

Farmland values strengthened in the second quarter, with cropland posting the largest value gains compared to last year. Sustained profits in the livestock sector and improved pasture conditions pushed ranchland values just over year-ago levels. Demand for farmland remained solid as buying by both farmers and non-farm investors was active. Survey respondents commented that very few farms were for sale, and most bankers expected farmland values to remain at current levels over the next three months.

District bankers reported a drop in farm income in the second quarter, due primarily to lower crop prices. During the quarter, weaker demand for winter wheat as well as expectations of bumper corn and soybean supplies held down crop prices and lowered banker expectations for crop incomes. In contrast, farm income prospects for the livestock sector remained positive as cattle and hog prices rose and feed costs fell. However, stronger crop prices at the beginning of the third quarter could boost crop incomes and limit livestock profits going forward.

Despite reduced farm incomes, farm credit conditions generally held steady. While loan repayment rates were flat, loan renewals and extensions edged down. Collateral requirements for non-real estate loans were little changed, and district bankers reported ample funds were available to satisfy slightly lower farm loan demand. Farm interest rates for operating and real estate loans remained historically low. District bankers reported that few loans had repayment issues that required major restructuring or liquidation of assets.

Note: 240 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, Vice President and 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.

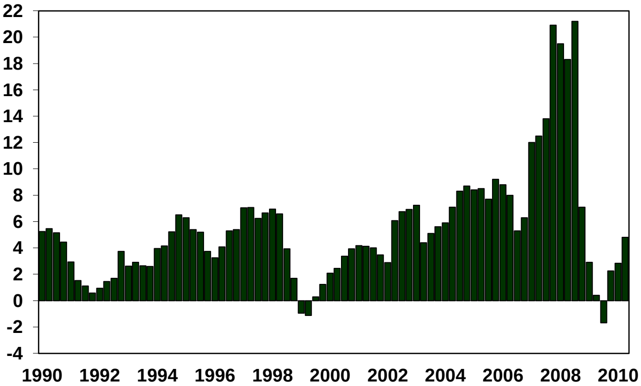
- Annual gains in district cropland values strengthened in the second quarter. Compared to last year, land values were 4.8 and 5.6 percent higher for nonirrigated and irrigated acreage, respectively. The stronger gains were driven by a rise in values in 2010 after a dip in values in the summer of 2009. Kansas and Nebraska reported the largest year-over-year value gains for cropland. Compared to last quarter, nonirrigated farmland values edged up, while the value of irrigated acreage increased 1.4 percent. In addition, annual cash rental rates for cropland rose an average of 1 to 3 percent.

- Sustained profits in the livestock sector contributed to a rise in district ranchland values for the second straight quarter. Compared to the last survey, ranchland values edged up 1.2 percent to settle just above year-ago levels. Oklahoma and the Mountain states posted the strongest annual increase in ranchland values. Cash rental rates for ranchland remained lower than last year even though substantial rainfall improved pasture conditions for cattle grazing.

- District contacts reported solid demand for farmland from both agricultural producers and investors outside of the farm sector. Bankers in Oklahoma and Wyoming also noted increased oil and gas leasing activity was influencing land values. Still, most survey respondents expected land values to hold steady over the next three months as there is typically a lull in agricultural real estate activity during the summer growing season.

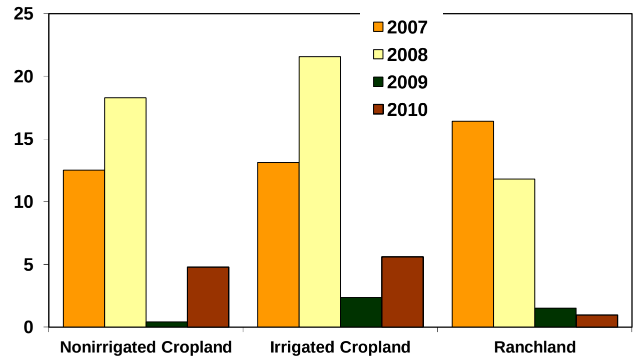
Nonirrigated Farmland Values

Percent change from a year ago *



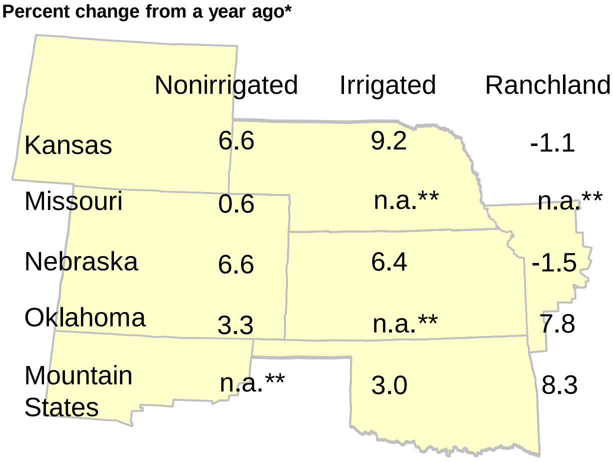
Farmland Values – Annual Gains (Second Quarter)

Percent change from the previous year *



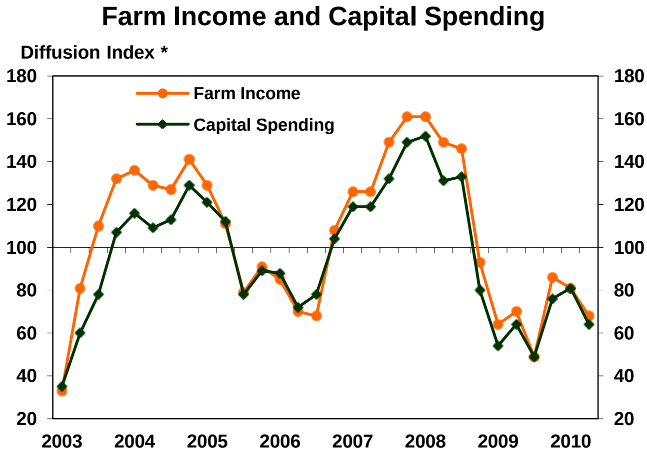
Tenth District Farmland Values

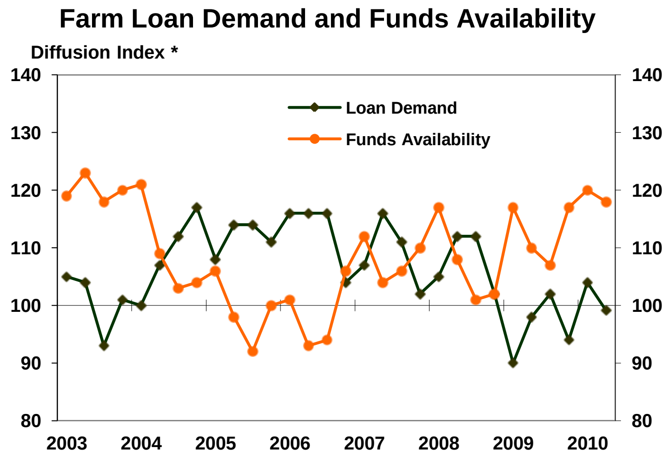
Percent change from a year ago*



	Nonirrigated	Irrigated	Ranchland
Kansas	6.6	9.2	-1.1
Missouri	0.6	n.a.**	n.a.**
Nebraska	6.6	6.4	-1.5
Oklahoma	3.3	n.a.**	7.8
Mountain States	n.a.**	3.0	8.3

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

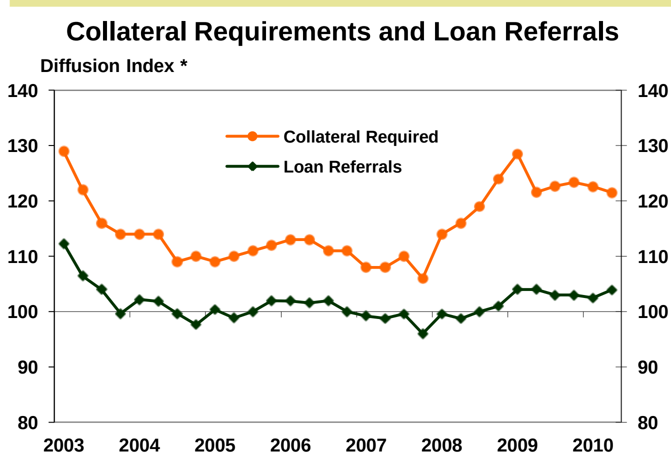


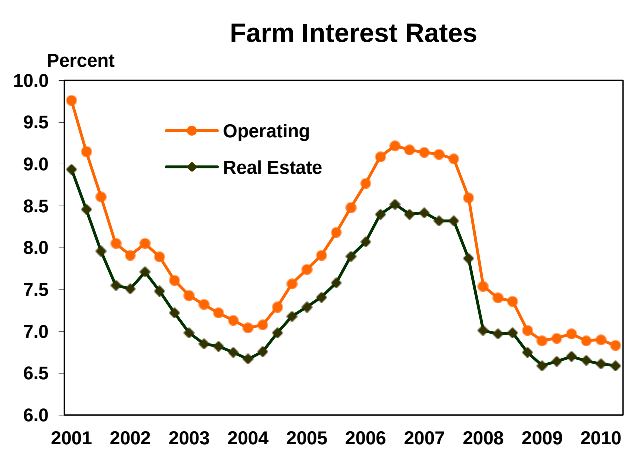


* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- The farm income index in the second quarter declined with lower crop prices, although most livestock operators remained profitable. Expectations of bumper crops due to ample moisture held down crop prices. Weak demand pushed wheat prices lower at harvest time, and prolonged wet weather contributed to poor quality yields in some areas. However, stronger prices at the start of the third quarter could lead to higher crop incomes going forward. In contrast, farm income remained solid for the livestock sector. Recovering demand for beef and pork supported strong livestock prices, and good grazing conditions lowered feed costs for cattle producers. The capital spending index also fell with reduced farm incomes.

- Farm credit conditions generally held steady despite lower incomes. Non-real estate loan demand eased but is expected to rise in the next three months as harvest approaches. As in previous surveys, bankers reported ample funds available for qualified borrowers and a slight uptick in referrals to nonbank credit agencies. After substantial tightening in 2008, collateral requirements have stabilized over the last year at an elevated level. Farm interest rates eased further, averaging 6.8 percent for operating loans and 6.6 percent for real estate loans.





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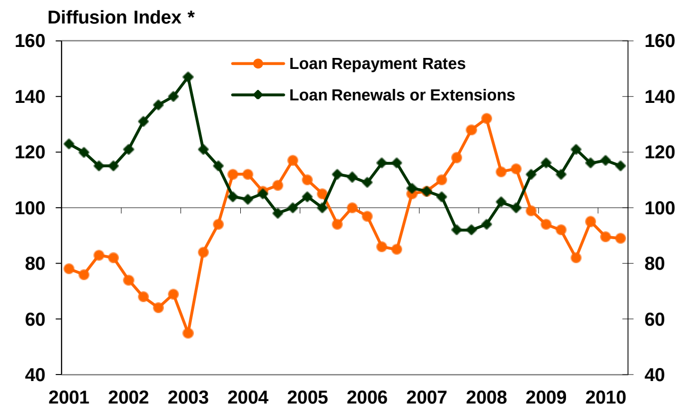
- Despite lower farm income in the second quarter, the loan repayment index held steady and the number of loan renewals and extensions edged down. When asked about loan repayment issues, bankers responded that on average, 85 percent of their loan portfolio had no significant repayment problems, just over 10 percent had minor repayment issues that could be managed easily, less than 4 percent would require major restructuring, and less than 1 percent would likely result in a loan loss or forced sale of assets.

Loan Repayment Rates and Loan Renewals and Extensions



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Selected Comments from District Bankers

"Demand for ag property remains strong as investors and farmers are looking for a safe place to invest their money. Abundant soil moisture has helped ranchers with grass for grazing. The ag sector continues to be conservative about major capital equipment purchases." – *SE Colorado*

"Very little real estate sales activity this late spring." – *NW Missouri*

"Overall farm economy is somewhat weaker due to lower grain prices in 2010. However, cattle prices have trended higher and real estate values are holding." – *Western Nebraska*

"Recent increases in land values are being influenced by increased oil and gas lease activity." – *SW Oklahoma*

"Livestock operations have improved income due to higher prices and lower feed costs, and therefore we expect net income to improve." – *NE New Mexico*

"Lower grain prices over the past 3 months have affected, and will continue to affect, repayment of debt." – *Central Missouri*

"We expect income will be down in 2010 as we anticipate weaker grain prices." – *South Central Nebraska*

"Lower grain prices may cause some repayment problems, and purchases of new machinery will be down. Sale of farm land is good, with prices staying up and outside buyers coming to invest." – *SE Kansas*

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www.kansascityfed.org/agcrsurv/agcrmain