Survey of Agricultural Credit Conditions

Third Quarter 2006

FEDERAL RESERVE BANK *of* KANSAS CITY

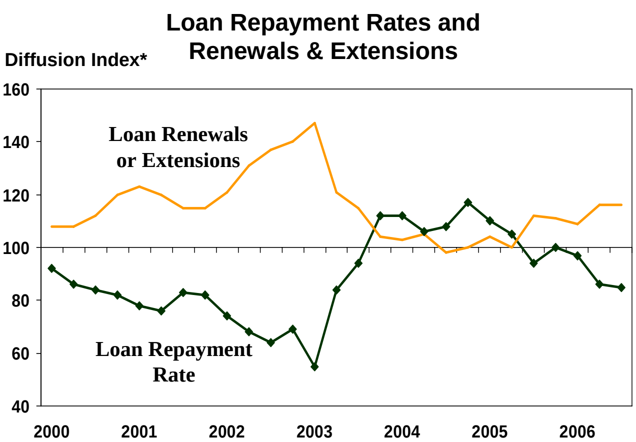
Farm credit conditions stabilize and farmland value gains slow

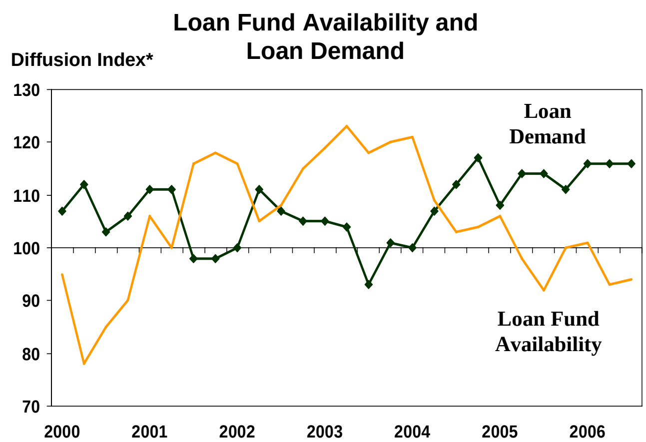
by Nancy Novack, Associate Economist

- Farm credit conditions in the third quarter survey were generally unchanged from second quarter results. The index of loan renewals and extensions held steady, and loan repayment rates inched lower as less than 4% reported increase repayment rates. Looking ahead, bankers' expectations suggest some deterioration in loan renewals and extensions could resurface even with the expectation for limited improvement in repayment rates in the fourth quarter.

- Bankers continued to cite high input costs and drought-related losses as negative forces on farm income statements. Late-summer rains eased drought conditions in some parts of the district. Fall crop prospects were favorable in Nebraska and Missouri, but yields were expected to fall below last year in Kansas and Oklahoma.

- The index of farm loan demand was flat in the third quarter, while the index of loan fund availability inched higher. One-fourth of district bankers indicated that loan demand was higher than a year ago. In Nebraska, nearly half of bankers reported an increase in loan demand, pushing the state index higher. However, the loan demand index fell in Missouri.





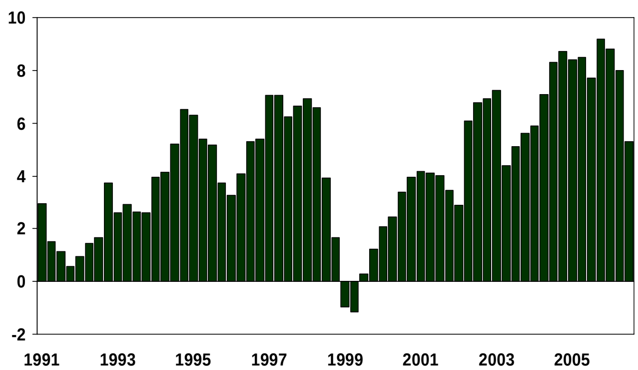
*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- The pace of gains in district farmland values slowed in the third quarter relative to previous quarters, yet farmland values still posted solid gains. On average, nonirrigated cropland values rose 5.3% over a year ago. Gains in district irrigated cropland values held steady at 5.0%. Gains in ranchland values moderated significantly, increasing 6.9% over last year and breaking a nine-quarter streak of double-digit gains. Gains in Missouri land values moderated the most, following slower gains in other district states last quarter.

- Values for all types of land posted their smallest gains since early 2004. This slowdown in the rate of increase follows the expectations of more moderate gains reported by respondent bankers in recent surveys. Going forward, 83% of respondents expect no change in land values in the fourth quarter relative to the same quarter last year. Still, demand for nonfarm uses of farmland continued to underpin land markets across the district.

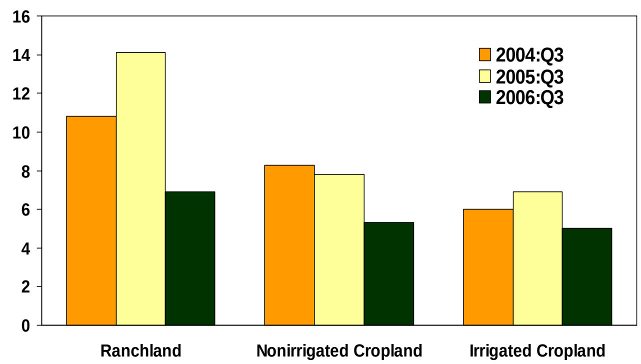
Nonirrigated Cropland Value Gains

Percent change from a year ago*



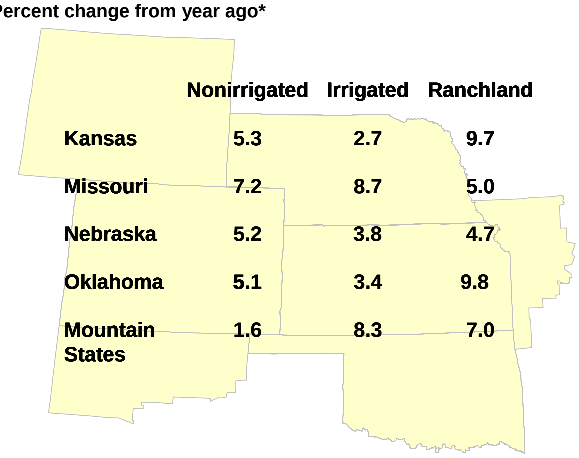
Farmland Value Gains

Percent change from year ago*



Farmland Value Gains by State

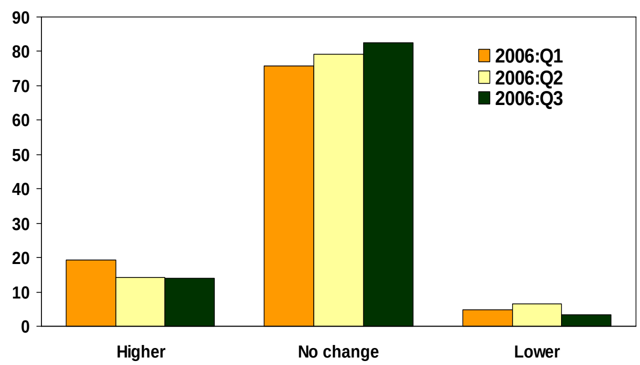
Percent change from year ago*



	Nonirrigated	Irrigated	Ranchland
Kansas	5.3	2.7	9.7
Missouri	7.2	8.7	5.0
Nebraska	5.2	3.8	4.7
Oklahoma	5.1	3.4	9.8
Mountain States	1.6	8.3	7.0

Expected Trend in Nonirrigated Farmland Values
(next 3 months)

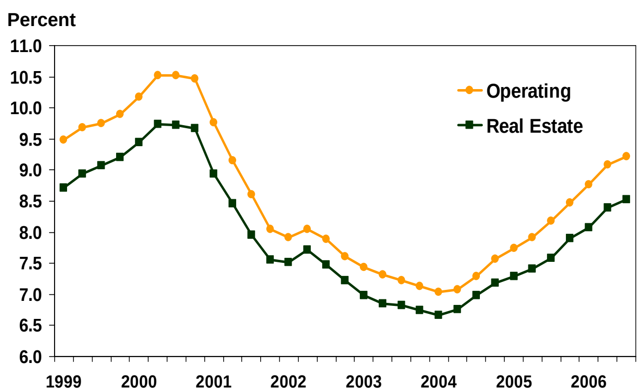
Percent of respondents



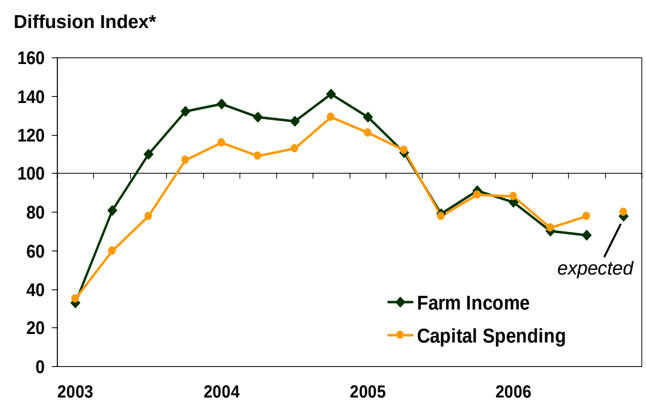
* Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

- Interest rates on new farm loans continued to move higher in the third quarter. At the end of the quarter, interest rates on new farm loans averaged 9.22% for operating loans, 9.06% for machinery and intermediate-term loans, and 8.52% for real estate loans.
- The index of farm income edged lower in the third quarter, but capital spending moved up. Respondents' outlook for the upcoming quarter improved somewhat due in part to easing drought conditions in some areas and higher crop prices. Still, more than 40% expect farm incomes to fall below last year and more than 30% expect lower capital spending. High input prices continued to weigh on farm income projections.

District Farm Interest Rates



Farm Income and Capital Spending



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Selected Comments from District Bankers

"There seems to be no limit by outside investors to purchase ranchland for recreational purposes. This has caused prices to skyrocket and has made ownership by local producers difficult and unfeasible." *–NC Kansas*

"Continuing drought conditions have reduced crop yields. Higher input costs have cut farm incomes despite higher commodity prices." *–NE Colorado*

"The rise in personal/family living costs is stressing the farmer's ability to continue to subsidize the farm while maintaining a lifestyle. Off-farm income is not rising as fast as the cost of living."*–SC Nebraska*

"Drought created below average crops. Livestock prices have held and those that withstood the drought have done well. However, a large number of ranches have sold smaller calves and have had to reduce their herds." *–NW Oklahoma*

Note: 278 banks responded to the third 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.

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