# Survey of Tenth District Agricultural Credit Conditions

*Third Quarter 2007*

FEDERAL RESERVE BANK *of* KANSAS CITY

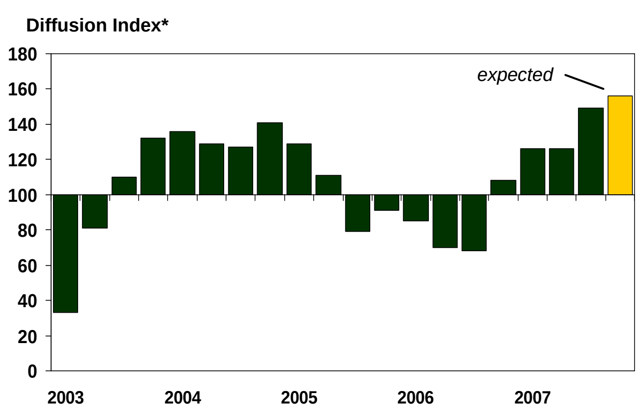
## Farm Incomes Surge

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

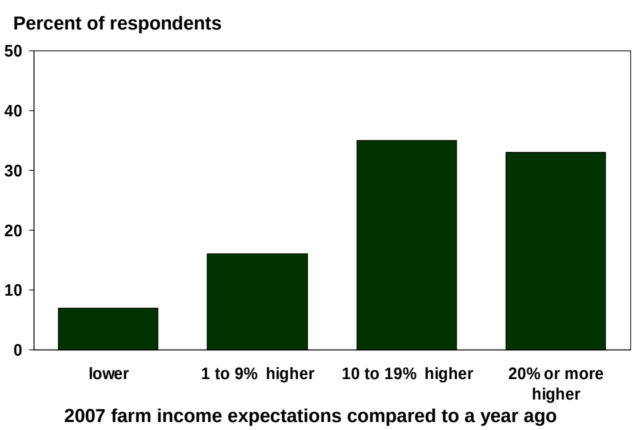
- In the third quarter, farm incomes surged with strong crop prices and a bountiful fall harvest. A modest increase in livestock cash receipts also contributed to higher farm incomes. The district's farm income index surpassed the record high set in 2004. On average, bankers expect farm incomes to be 15 percent higher than year-ago levels. Roughly one-third of the bankers expect annual farm income gains to be 20 percent or more, with another third of respondents expecting incomes to rise between 10 and 20 percent.

- The largest annual income gains emerged in Nebraska where abundant corn and soybean yields, coupled with high crop prices, boosted crop receipts. Annual income gains were less robust in Oklahoma and Kansas, where heavy June rains spoiled some of the promising wheat harvest and lowered farm income expectations in some regions.

**Tenth District Farm Income**




**Tenth District Farm Income Expectations**

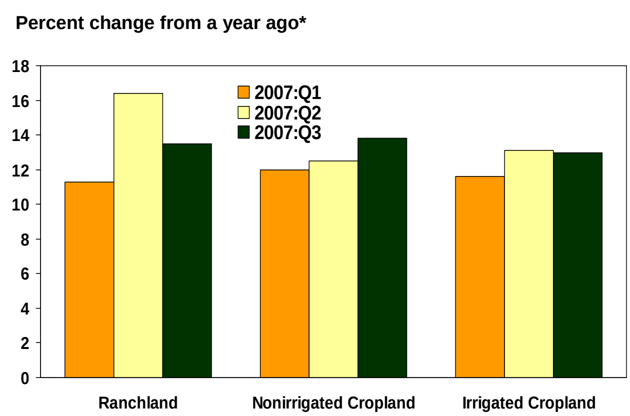



* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

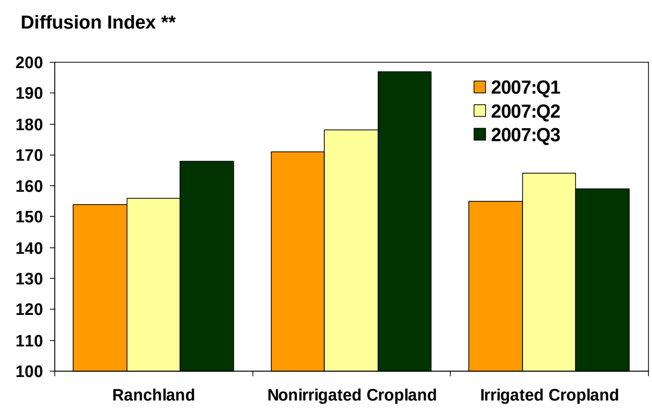
- Farmland values continued to climb in the third quarter. Bankers report stronger price appreciation for nonirrigated cropland. Nonirrigated cropland values were 13.8 percent above year-ago levels in the third quarter, up from the 12.5 percent annual gains reported in the second quarter. Annual ranchland value gains eased to 13.5 percent during the quarter, while irrigated cropland value gains held at 13.0 percent above year-ago levels.

- Bankers felt that prices for farmland have yet to peak and anticipate further appreciation in values once harvest is complete. Almost all bankers expect nonirrigated cropland values to rise in coming months. Ranchland values are also expected to rise further due to near record feeder cattle prices and strong recreational demand for ranches. District contacts also noted a shift in farm real estate transactions toward farm auctions and away from privately arranged farmland sales. Interest rates for farm real estate loans held steady.

**Farmland Values**

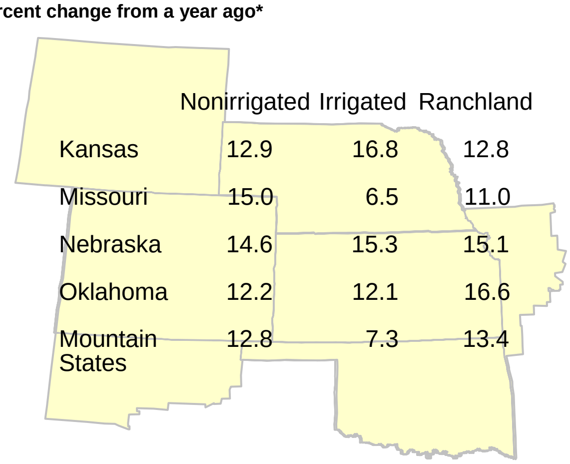



**Expected Trends in Land Values**



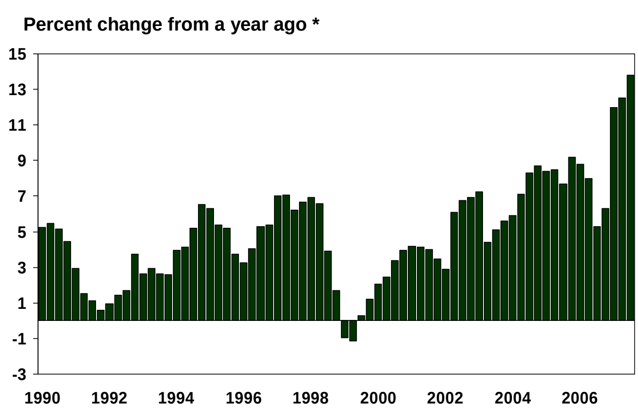

**Farmland Values by State**

Percent change from a year ago*



| | Nonirrigated | Irrigated | Ranchland |
|---|---|---|---|
| Kansas | 12.9 | 16.8 | 12.8 |
| Missouri | 15.0 | 6.5 | 11.0 |
| Nebraska | 14.6 | 15.3 | 15.1 |
| Oklahoma | 12.2 | 12.1 | 16.6 |
| Mountain States | 12.8 | 7.3 | 13.4 |

**Nonirrigated Cropland Values**




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

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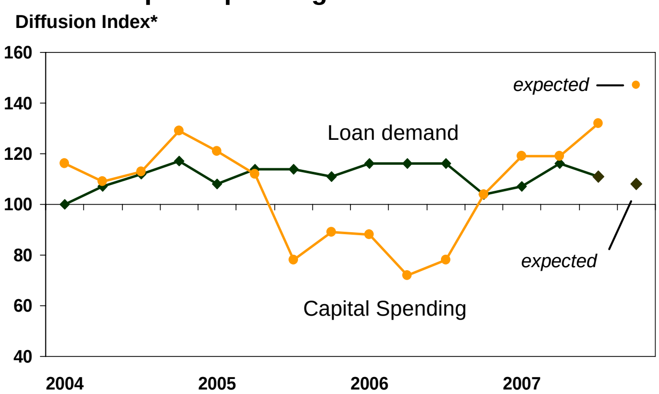
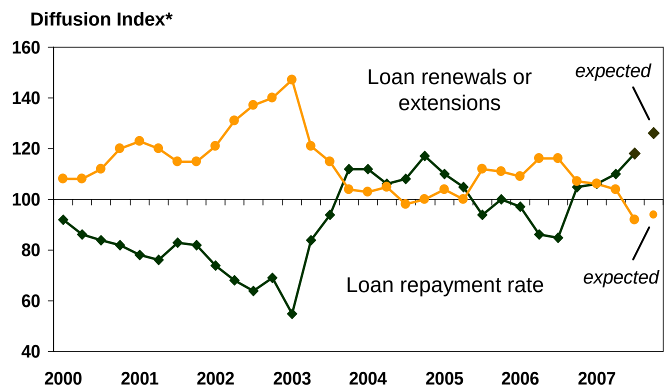
- The farm capital spending index rose again in the third quarter, with many agricultural producers replacing old equipment or expanding facilities. District contacts expect this trend to continue in the coming months as higher incomes facilitate investment in capital improvements. However, spending for production inputs also surged and bankers expressed concerns over tightening margins in the agricultural sector.
- Farm credit conditions strengthened further as farmers used higher incomes to pay off existing loans. The rate of loan repayment index rose to a three-year high, while the index of loan renewals or extensions fell to its lowest level in ten years.
- Third quarter loan demand remained strong with robust spending. Bankers report little, if any, liquidity concerns for agricultural loans. Collateral requirements increased slightly and interest rates on operating loans held steady.

**Capital Spending and Loan Demand**




**Farm Credit Conditions**

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## Selected Comments from District Bankers

"A lot of the crop is pre-priced this year (about 60%) which is way more than normal. Those who did not price will have a tough time handling production input and living costs unless we see a rally in the market." – *Central Nebraska*

"Expectations for capital spending are higher due to income levels and the fact that many farmers have not replaced some of their older machinery in the past several years." – *Northern Colorado*

"The availability of credit in the ag industry remains good, but we are shoring up some credits with more collateral." – *NW Kansas*

"We have outside investors moving their money from financial markets into residential real estate and taking over our ag real estate market." – *NE New Mexico*

Note: 273 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.

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*.



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