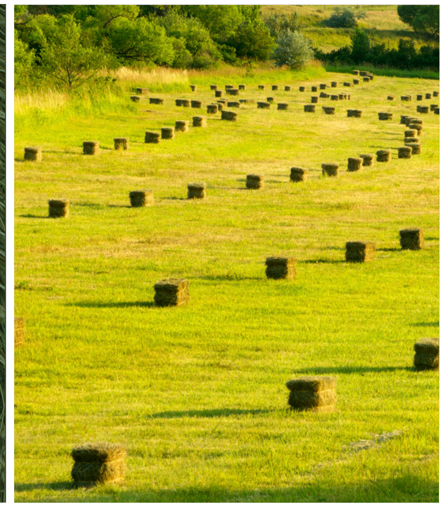
SURVEY *of* TENTH DISTRICT

Agricultural Credit Conditions



3rd Quarter 2011

Federal Reserve Bank *of* Kansas City

Cropland values reach record highs

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

District farmland values surged to a record high in the third quarter, with stronger gains in the northern Plains. District cropland values rose more than 25 percent over the past year, and ranchland values increased 14 percent. Furthermore, a quarter of survey respondents felt that cropland values had yet to peak. Nebraska posted the strongest gains with irrigated and nonirrigated land values rising approximately 40 percent above year-ago levels. Record gains in the northern Plains were fueled by another bumper crop this harvest season that raised farm income expectations despite the recent slide in crop prices.

In the southern Plains, weaker farm income limited farmland value gains. Severe drought struck Oklahoma and areas of Kansas, Missouri and Colorado, stressing crops and drying out pastures. Reduced yields cut farm incomes and drove an increase in crop insurance claims. In addition, poor grazing prompted livestock operators to relocate herds or liquidate. While increased cattle sales provided a temporary boost to farm income, smaller herds could limit farm income in the future.

Despite variable farm income, District agricultural credit conditions held relatively steady in the third quarter. Loan repayment rates remained strong with fewer requests for loan renewals and extensions. Interest rates for farm operating and real estate loans reached new survey lows. Slightly more bankers reported an increase in collateral requirements but noted ample funds were available for loans to qualified borrowers. However, operating loan demand remained weak in all District states and bankers reported that fewer farmers were upgrading machinery and equipment.

"Record land value gains in the northern Plains were fueled by another bumper crop that raised farm income expectations"

Chart 1
Tenth District Farmland Value Gains

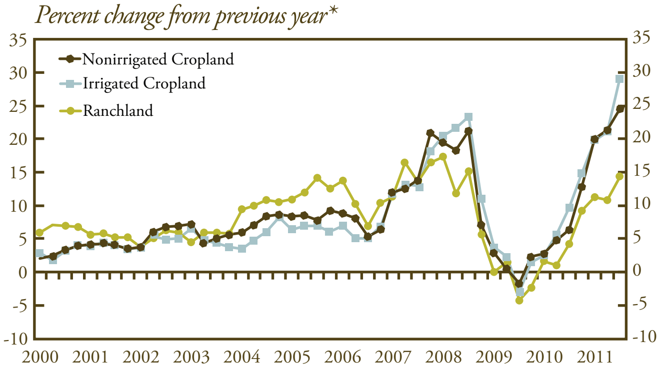
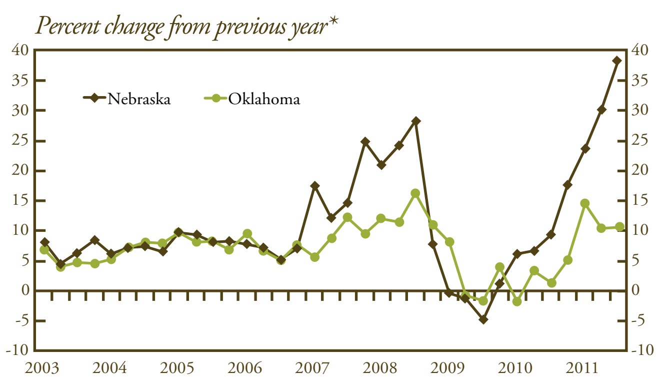


Table 1
Farmland Value Gains by State

*Percent change from previous year**

	Nonirrigated	Irrigated	Ranchland
Kansas	20.2	14.9	12.4
Missouri	13.4	n/a**	10.6
Nebraska	38.3	40.6	26.2
Oklahoma	10.6	n/a**	5.2
Mountain States	12.1	12.6	10.4

Chart 2
Nebraska and Oklahoma Nonirrigated Farmland Value Gains



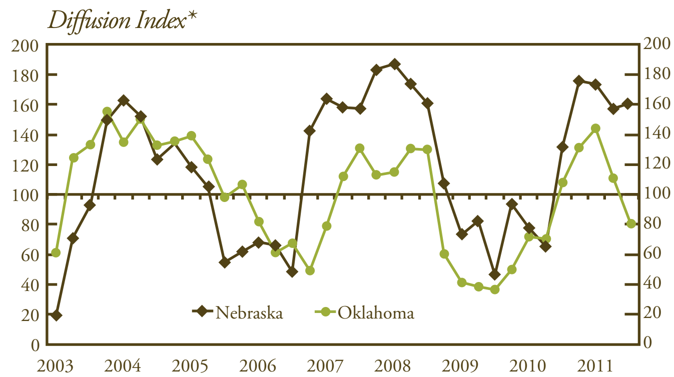
The District saw another round of record farmland value gains in the third quarter. The value of nonirrigated and irrigated cropland rose more than 25 percent above year–ago levels, their strongest year-over-year increase in survey history, eclipsing the highs set in 2008 (Chart 1). Ranchland value gains accelerated as well, jumping 14 percent above year-ago levels with good-quality pasture in demand for cattle grazing.

Farmland value gains, however, varied across the District. Expectations of bumper crops and rising farm income in Nebraska fueled a record 40 percent jump in the value of irrigated acreage compared to last year (Table 1). In contrast, cropland value gains held steady in Oklahoma where severe drought cut crop yields and accelerated herd liquidations (Chart 2). Almost half of those surveyed in Nebraska expected farmland values would continue to climb, whereas less than 20 percent of bankers in Oklahoma anticipated further farmland value appreciation.

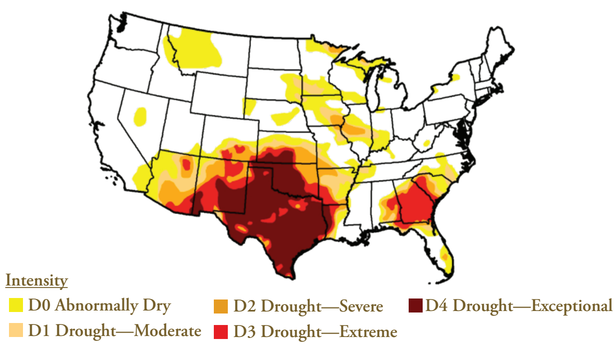
With a limited number of farms for sale during the growing season, strong competition bid up sales prices at public auctions. For new farmland purchases, bankers continued to report that cash down payments averaged 20 percent of the purchase price, pledges of existing equity accounted for another 30 percent and the remaining 50 percent was financed with new debt. Mirroring movements in land values, cash rental rates also rose compared to last year and were up 15 percent for nonirrigated and 21 percent for irrigated acreage in the District.

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

Chart 3
Nebraska and Oklahoma Farm Income

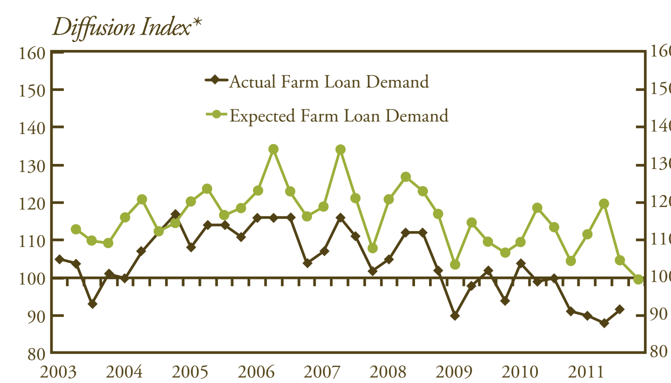


Map 1
U.S. Drought Monitor
September 27, 2011



Source: University of Nebraska

Chart 4
Tenth District Farm Loan Demand



District farm incomes remained above year–ago levels, despite softening in the third quarter as drought continued to shape District income. In Nebraska, where farmers enjoyed ample precipitation, bumper crops fueled strong farm income gains even with a downturn in crop prices just before harvest (Chart 3). In contrast, bankers in drought-stricken Oklahoma expected farm incomes to dip below year-ago levels (Map 1). Several contacts noted that crop insurance payments would underpin farm incomes in regions suffering from extreme drought.

Robust livestock demand also helped underpin District farm income expectations. Livestock prices remained higher than last year, supported by strong demand. Cattle and hog exports climbed during the third quarter, and domestic consumption remained strong throughout the grilling season. Recent declines in crop prices reduced feeding costs and improved profit margins. Survey contacts reported that herd liquidations in drought areas provided a temporary boost to farm income, and tight supplies may support stronger livestock prices going forward.

Bankers reported that operating loan demand remained sluggish in the third quarter and was not expected to improve in the near future (Chart 4). The rise in production costs slowed somewhat with the recent retreat in crop and energy prices, reducing input costs. District contacts noted fewer farmers made capital purchases in the third quarter, and herd liquidations could reduce demand for livestock loans this winter.

** 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.*

Chart 5
Tenth District Farm Loan Repayments and Renewals

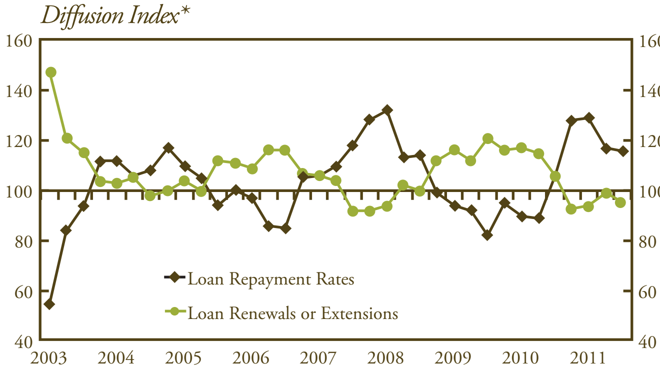


Chart 6
Tenth District Farm Interest Rates

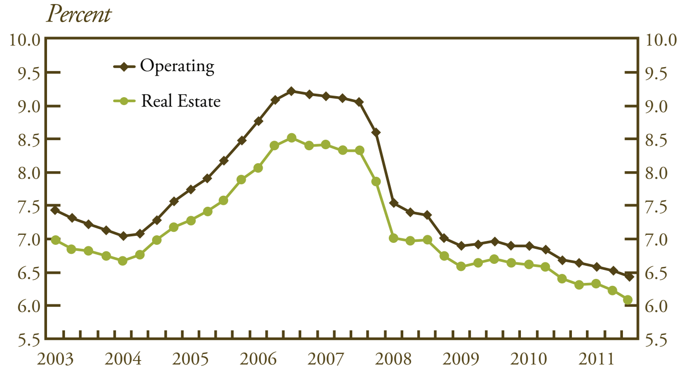
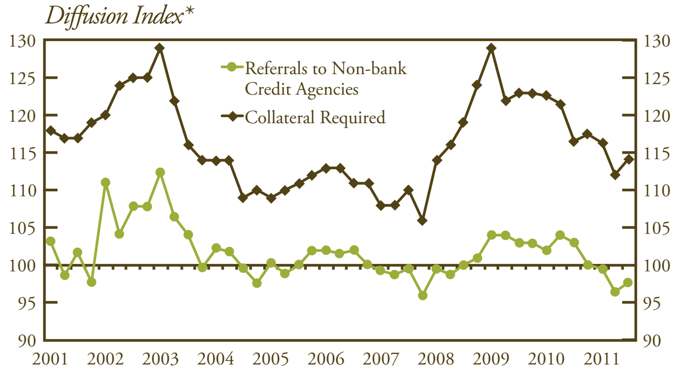


Chart 7
Tenth District Collateral Requirements and Referrals to Non-bank Credit Agencies



Farm credit conditions generally held steady across all District states in the third quarter. Bankers reported strong agricultural loan portfolios even with varied farm income levels. The loan repayment index was little changed from the second quarter and remained well above year-ago levels (Chart 5). Bankers in Nebraska expected that farm loan repayment rates would improve after harvest as farmers used profits to pay down debt, and crop insurance was expected to mitigate loan repayment issues in Oklahoma, Kansas and Missouri. Bankers also reported fewer requests for loan renewals and extensions in all states except Kansas.

With weak loan demand, bankers reported an increase in the amount of funds available for farm loans. In fact, there were no reports of loans that were refused due to a shortage of funds during the third quarter. Survey respondents also indicated farm loans were available at interest rates that reached a survey low. Interest rates on operating loans edged down further, averaging 6.4 percent, while the average interest rate on farm real estate loans dropped to 6.1 percent (Chart 6).

After easing during the past six months, slightly more bankers reported raising collateral requirements on short-term operating loans and intermediate-term machinery and equipment loans (Chart 7). Still, collateral requirements remained below year-ago levels and have eased substantially since peaking in 2009. Bankers also reported a slight uptick in referrals to non-bank credit agencies.

**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.*

BANKER COMMENTS *from* *the* TENTH DISTRICT

"Strong crop and livestock prices will result in larger loan paydowns, higher cash rent prices and increased spending."

—Southeast Wyoming

"Not expecting to have loan repayment problems as most farmers purchase revenue insurance on crops."

—Northeast Colorado

"Severe drought in our area. Large numbers of cows have been sold and many transported to where there is pasture."

—Western Oklahoma

"Very little farm ground has been put up for sale in the past three months."

—Southeast Nebraska

"Agricultural loans are in good shape."

—Eastern Nebraska

"Farm income is going to be higher, but so are input costs. Yields look like they will be average to above average."

—Eastern Wyoming

"Strong commodity prices will help offset a potential reduction in yields."

—Southeast Colorado

"Herd liquidations could reduce demand for livestock loans during the winter months."

—Western Kansas

"Most farmland is being bought by large farmers paying cash."

—Northeast Nebraska

"Although the farm sector remains strong, the dry summer has lowered yields."

—Western Missouri

Note: *243 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, 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.*

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