Survey of Agricultural Credit Conditions

Fourth Quarter 2005 FEDERAL RESERVE BANK *of* KANSAS CITY

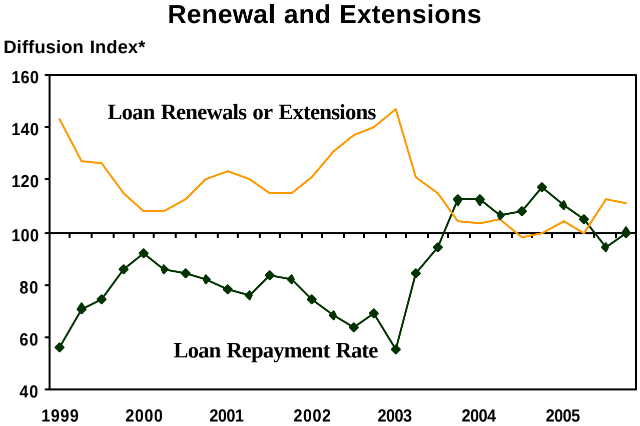
A Post-Hurricane Rebound in Credit Conditions

by Nancy Novack, Associate Economist

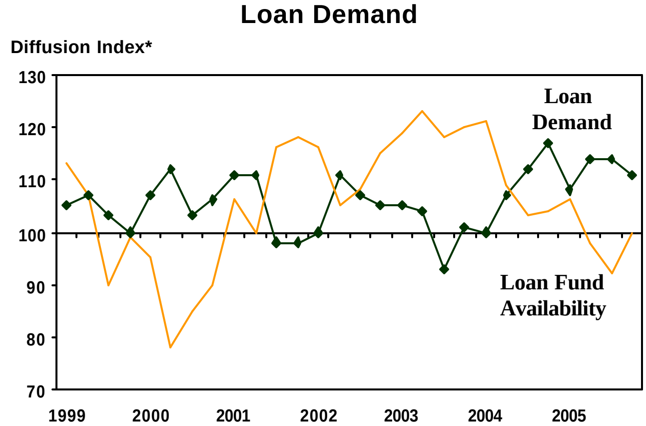
- District farm credit conditions rebounded from post-hurricane levels and stabilized in the fourth quarter. Most credit condition indexes held steady. Nonirrigated cropland and ranchland values values closed the year by posting record gains. Still, bankers remain concerned about the effects higher input costs are having on their farm customers. Their concerns are greatest for crop producers facing drought and large fuel and fertilizer bills.

- After falling 11 points in the third quarter, the index of farm loan repayment rates rose in the fourth quarter. The index of renewals and extensions edged down with the large majority of respondents reporting no change in renewal and extension requests. Loan demand continued to hold steady. The availability of funds index moved higher after falling the previous two surveys.

Loan Repayment Rates and Renewal and Extensions



Loan Fund Availability and Loan Demand



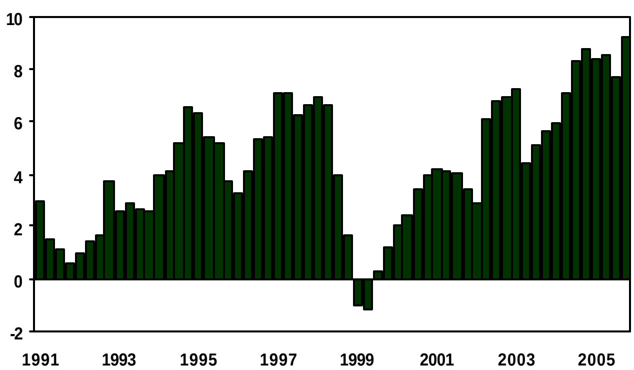
*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- District farmland values posted solid annual gains in the fourth quarter. After pulling back in the third quarter, growth in nonirrigated farmland values accelerated to 9.2% over a year ago. Growth in district irrigated cropland values held steady at 6.1%. Ranchland values posted double digit gains again at 12.5% over last year. Gains in farmland values were solid in all district states, but growth was particularly strong in Missouri.

- Respondents were also asked the most common reasons for farmland purchases by individuals other than farmers. Recreation surpassed investment as the most popular response to the question. The share of respondents indicating recreation was a major reason for nonfarmer purchases of farmland was 66% compared to 57% in 2004 and 44% in 2002. Investment was cited by 64% of respondents, slightly less than a year ago. Nearly 20% of respondents reported farm leases as a reason for nonfarmer puchases, which is up from previous years.

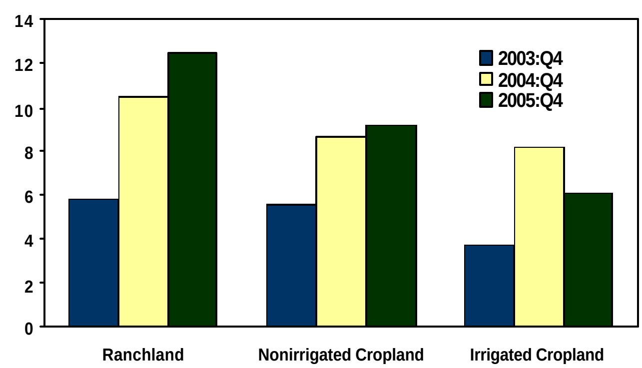
Nonirrigated Cropland Values

Percent change from a year ago*



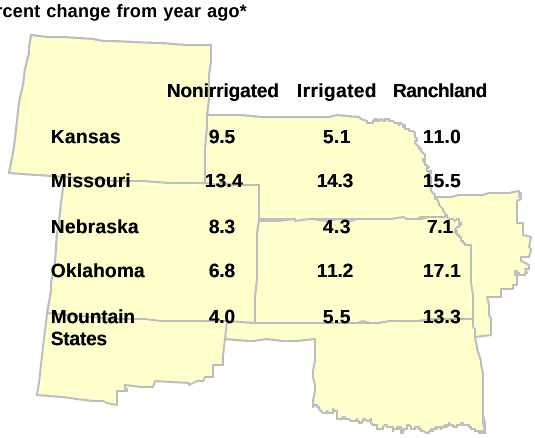
Farmland Value Gains

Percent change from year ago*



Farmland Value Gains by State

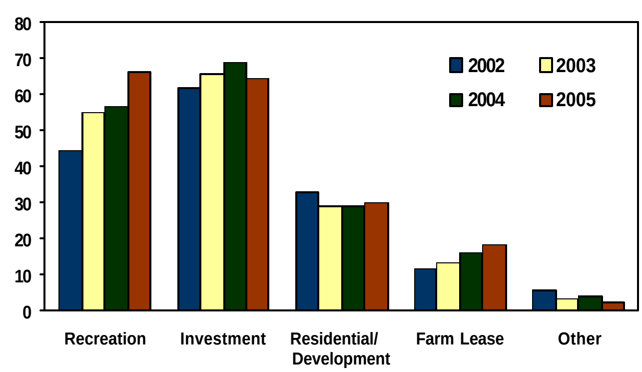
Percent change from year ago*



	Nonirrigated	Irrigated	Ranchland
Kansas	9.5	5.1	11.0
Missouri	13.4	14.3	15.5
Nebraska	8.3	4.3	7.1
Oklahoma	6.8	11.2	17.1
Mountain States	4.0	5.5	13.3

Reasons for Farmland Purchases by Nonfarmers

Percent of respondents**

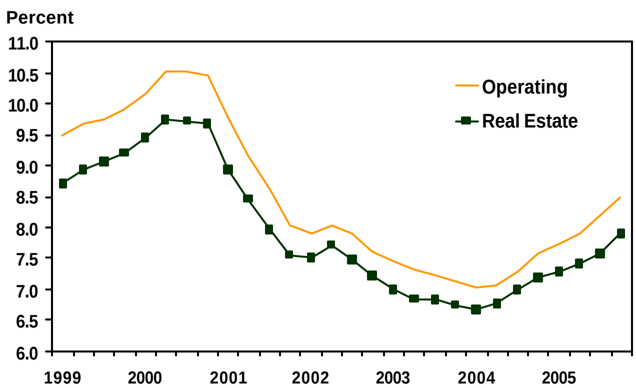


* Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.
**Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Respondents could choose more than one response and therefore percentages will not sum to 100.

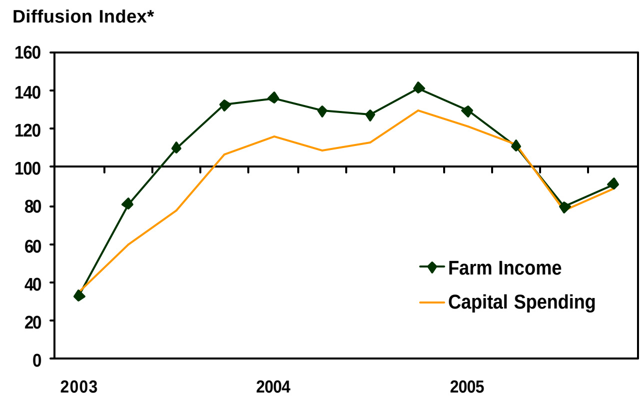
- The district farm commodity price index moved higher in the fourth quarter. At the end of the quarter, fed cattle and crop prices were at or above both the previous quarter and year. Feeder cattle prices were below the previous quarter but remained above a year ago. Hog prices pulled back from the strong levels of previous quarters.

- Interest rates on new farm loans moved up in the fourth quarter. At the end of the quarter, interest rates on new farm loans averaged 8.48% for operating loans, 8.40% for machinery and intermediate-term loans, and 7.90% for real estate loans. Since the end of December, interest rates in national money markets have moved higher.

District Farm Interest Rates



Farm Income and Capital Spending



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Selected Comments from District Bankers

"Higher costs are impacting our ag producers as many are reducing heavy tillage operations and using manure rather than commercial fertilizer to reduce fuel costs." –*SE Colorado*

"Outside money buying farmland is hurting area farmers as there is no way to cash flow land purchases at current prices." --*SW Nebraska*

"Most farmers use some trade financing in addition to bank credit to operate and the frequency of credit card financing seems to be increasing." –*W. Oklahoma*

"Cattle have been the greatest source of profitability for many of our customers." –*NC Kansas*

Note: 269 banks responded to the fourth 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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The views expressed in this article are those of the author and do no necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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