

Survey of Tenth District Agricultural Credit Conditions

Fourth Quarter 2007

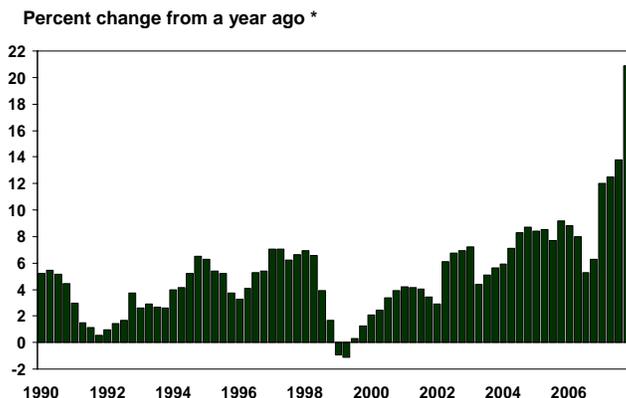
FEDERAL RESERVE BANK of KANSAS CITY

Booming Farmland Values

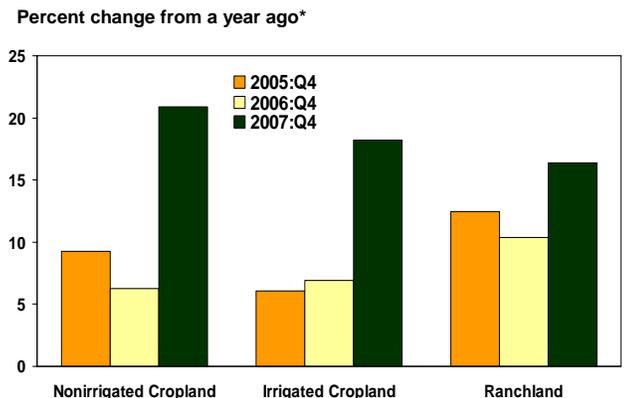
by Jason Henderson, Omaha Branch Executive, and Maria Akers, Assistant Economist

- District cropland values boomed in the fourth quarter of 2007, easily surpassing the previous highs posted last quarter. Both nonirrigated and irrigated cropland values surged at a record pace, rising 21 and 18 percent above year-ago levels, respectively. Ranchland values jumped 16 percent above year-ago levels. Record cropland value gains outpaced the 12 percent rise in cash rental rates for both nonirrigated and irrigated cropland.
- Bankers reported more farmland sales in 2007 compared to the previous year and that farmers were more active in the land market. Farmers' share of farmland purchases edged up in 2007 with more cash transactions. Bankers also noted increased activity by Farm Credit banks to finance farmland sales, while commercial banks were less active in financing land transactions. A few contacts indicated that high land values may be enticing some investors to cash out of the market.

Nonirrigated Cropland Values



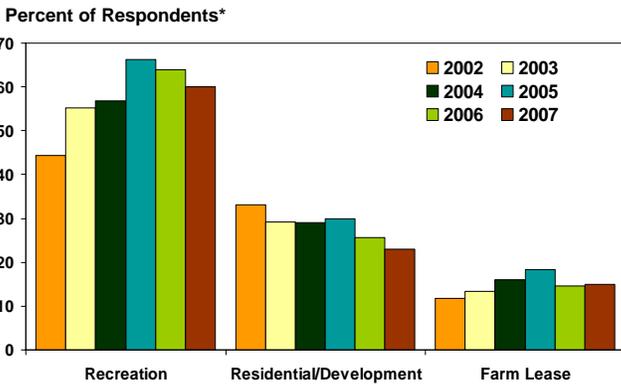
Farmland Values



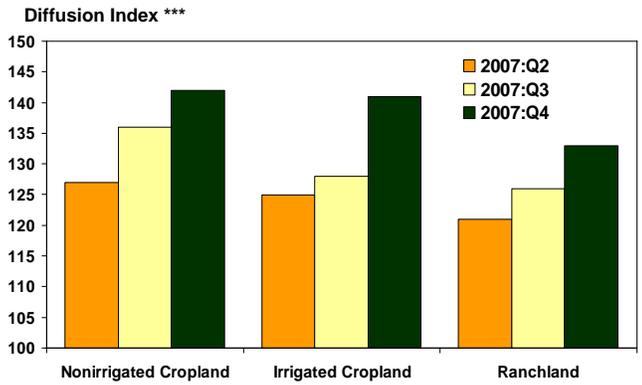
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

- Nonfarmer demand for farmland eased in 2007. While recreational use of farmland remains popular, fewer bankers reported nonfarmer purchases for recreational purposes in 2007. The national downturn in the housing market appears to have slowed purchases for residential development.
- Farmland values are expected to rise further in 2008, with the strongest gains projected for nonirrigated cropland. Over 40 percent of district bankers anticipate additional cropland value gains in the coming quarter. In fact, no survey respondent expected farmland values to decline.
- The district’s farm income index surged to a record high in the fourth quarter, led by crop sector gains where strong demand and tight global supplies drove crop prices to record highs. Overall farm income gains, however, were somewhat tempered by declining livestock profits due to high feed costs and eroding pasture conditions in some areas of the district. As a result, Nebraska posted stronger farm income gains in the fourth quarter, while Oklahoma’s farm income index pulled back from a record high in the third quarter.

Reasons for Farmland Purchases by Nonfarmers



Expected Trends in Land Values

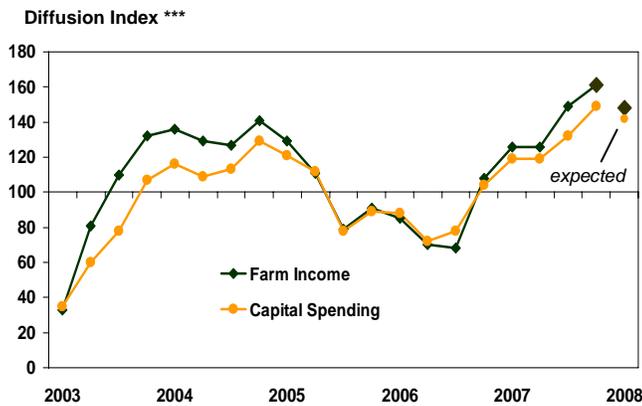


Farmland Values by State

Percent change from a year ago**

	Nonirrigated	Irrigated	Ranchland
Kansas	20.4	18.8	13.3
Missouri	24.0	13.0	17.5
Nebraska	24.7	22.1	19.5
Oklahoma	9.5	10.9	16.7
Mountain States	11.5	13.5	12.4

Farm Income and Capital Spending



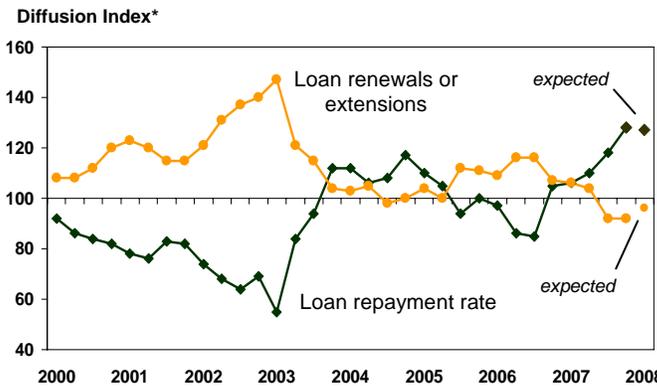
* Respondents could choose more than one category; therefore, percentages will not add to 100.

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

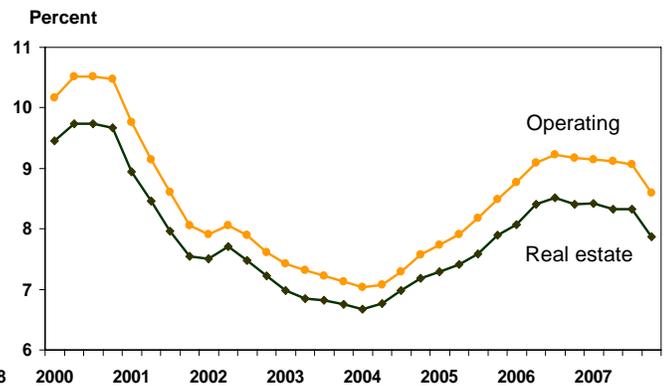
*** Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher"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

- Year-end capital spending strengthened as higher incomes allowed agricultural operators to upgrade equipment and facilities. Many crop producers also pre-paid input costs for the coming year in order to guarantee price and supply. The index of loan demand eased in the fourth quarter but is projected to rise substantially next quarter with spring planting. The index of loan fund availability rose and is expected to remain stable heading into 2008.
- Farm credit conditions improved further, as loan repayment rates moved higher and requests for renewals and extensions remained historically low. Following national money markets, interest rates for both farm real estate and operating loans dropped in the fourth quarter, averaging 7.9 and 8.6 percent, respectively.

Farm Credit Conditions



District Farm Interest Rates



* 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.

Selected Comments from District Bankers

"I keep thinking farm real estate has topped out, but it seems about every new sale brings higher prices." – *Western Oklahoma*

"Increased capital spending is expected with higher 2007 farm incomes." – *Western Nebraska*

"Machinery, fertilizer, herbicides and fuel expenses have skyrocketed. Breakeven projections for the coming year are barely positive at today's prices, and commodity price slippage will result in major losses in the ag sector. All is not golden." – *Western Kansas*

"If commodity prices fall, there could be some lending institutions that may see some potential for losses as some farmers are being allowed to spend beyond their means." – *Central Nebraska*

"Land prices have increased due to out-of-area buyers who have found land in this area "cheap" compared to other areas." – *South Oklahoma*

"HANG ON TO YOUR SEATS!!!" – *NE Kansas*

Note: 268 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. 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.

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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