Survey of Tenth District Agricultural Credit Conditions

Fourth Quarter 2008

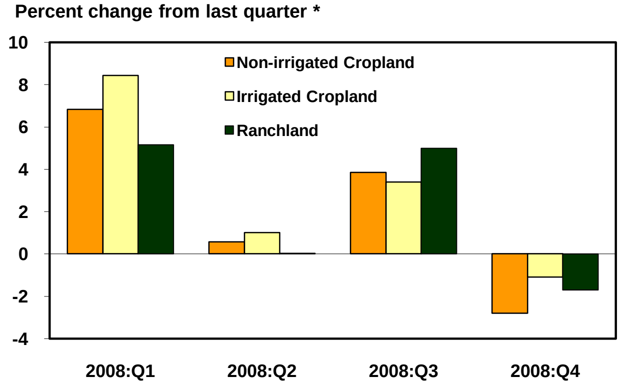
FEDERAL RESERVE BANK of KANSAS CITY

Farmland Values Decline and Credit Conditions Tighten

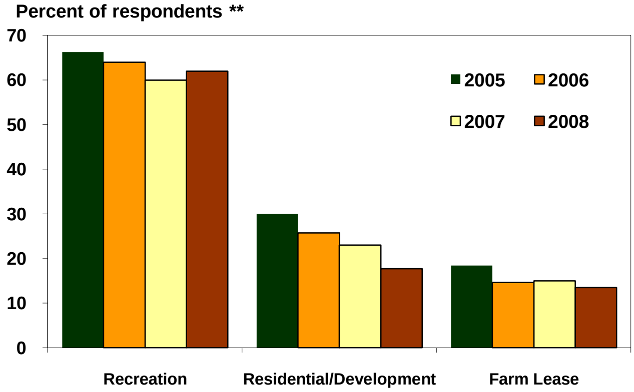
by Jason Henderson, Omaha Branch Executive, and Maria Akers, Assistant Economist

- In the fourth quarter of 2008, farmland values declined amid weaker farm incomes and softer non-farm demand. District contacts reported that quarterly non-irrigated cropland values slipped 2.8 percent below third quarter levels, while irrigated cropland and ranchland values dipped 1.1 and 1.7 percent, respectively. The largest quarterly declines were reported in Nebraska. Even though farmland values declined in the fourth quarter, they remained above 2007 levels.
- Most bankers reported that the annual number of farmland sales declined in 2008, as did the percentage of agricultural land sales to non-farmers. Anecdotal reports indicated that the number of failed sales at local farm auctions increased during the quarter. Fewer bankers reported farmland sales for residential or development purposes, while the share of farmers reporting sales for recreational use held steady. The share of farm real estate lending increased slightly in 2008 for both the Farm Credit System and commercial banks, as some insurance companies exited the market.

Farmland Values – Quarterly Gains



Reasons for Farmland Purchases by Non-farmers



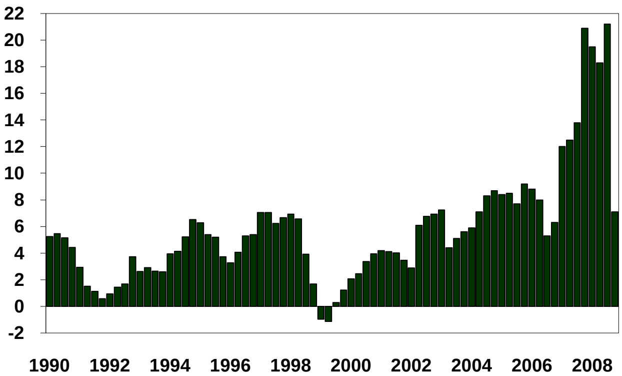
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

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

- Farmland values remained 7.1, 10.9, and 5.6 above year-ago levels, respectively, for non-irrigated, irrigated, and ranchland acreage. Approximately 70 percent of survey respondents expected farmland values to hold steady, while 25 percent anticipated further declines.

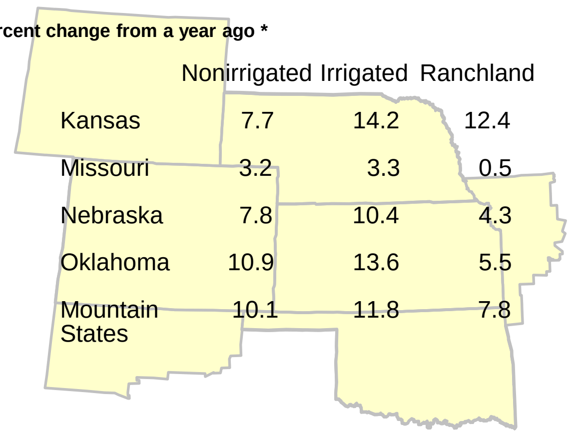
Nonirrigated Farmland Values

Percent change from a year ago *



Farmland Values by State

Percent change from a year ago *



	Nonirrigated	Irrigated	Ranchland
Kansas	7.7	14.2	12.4
Missouri	3.2	3.3	0.5
Nebraska	7.8	10.4	4.3
Oklahoma	10.9	13.6	5.5
Mountain States	10.1	11.8	7.8

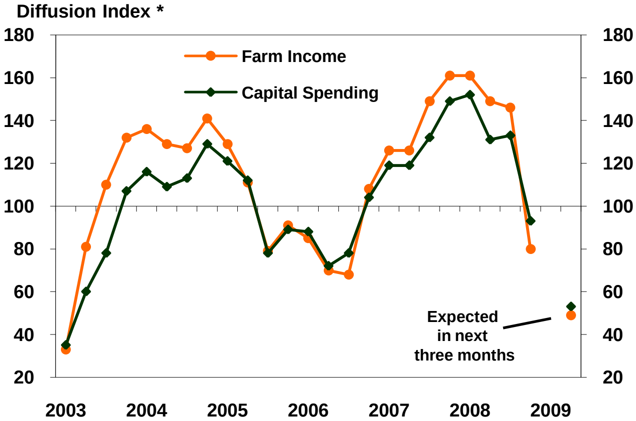
* Percent changes are calculated using responses from banks reporting in both the past and the current quarter.

- Weaker farm incomes eroded agricultural credit conditions and cut capital spending by farmers. On net, more bankers reported that farm incomes fell in the fourth quarter due to lower crop and livestock prices. The capital spending index also declined as tighter profit margins led some agricultural producers to postpone major purchases. Bankers expected larger contractions for both farm income and capital spending in 2009.

- Loan demand eased in the fourth quarter. District contacts reported softer loan demand for real estate and capital purchases but expected an increase in operating loans for both crop and livestock enterprises. The funds availability index rose slightly in the fourth quarter but was expected to decline in first quarter 2009. Loan renewals and extensions increased as some farmers decided to wait for crop prices to rebound before marketing inventories. Loan repayment rates also fell to a two-year low with weaker farm income.

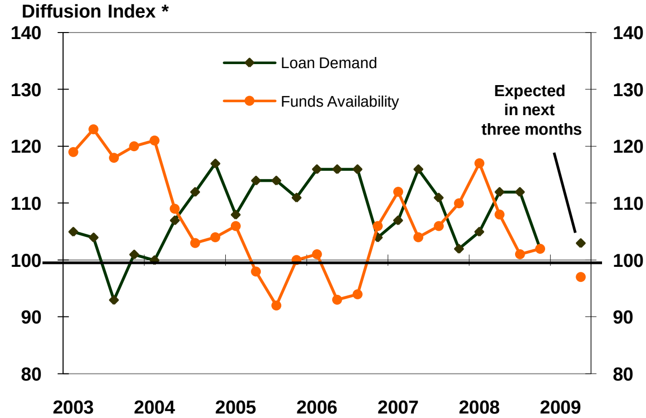
Farm Income and Capital Spending

Diffusion Index *



Farm Loan Demand and Funds Availability

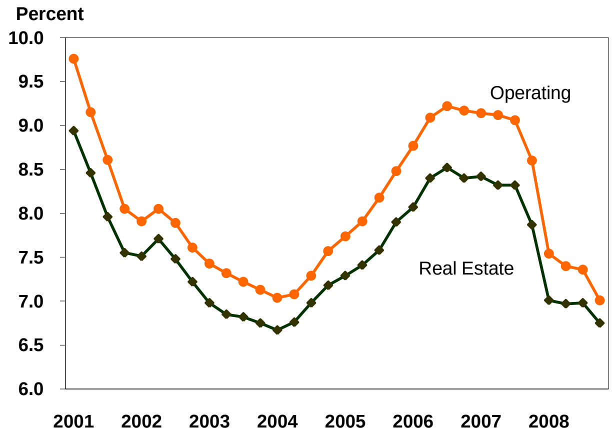
Diffusion Index *



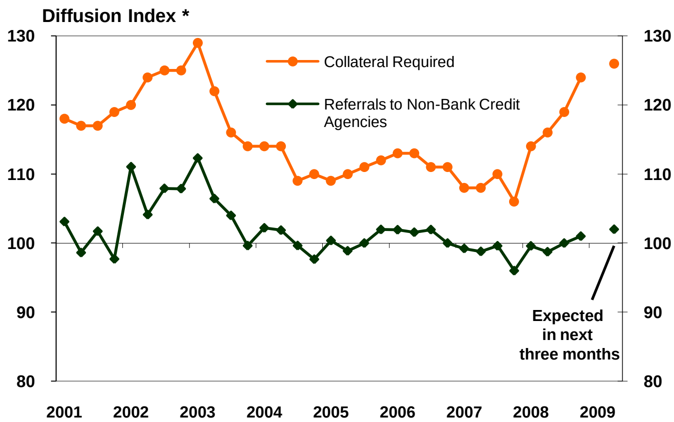
* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- Interest rates continued to fall, averaging 6.75 percent for real estate loans and 7.0 percent for operating loans. However, collateral requirements rose to a five-year high and more than a quarter of survey respondents expected credit standards to tighten further in 2009. Consistent with previous surveys, agricultural lenders reported more than half of district farmers also received credit from input suppliers. Referrals to non-bank credit agencies remained steady.

Farm Interest Rates



Collateral Requirements and Loan Referrals



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Selected Comments from District Bankers

"Ag conditions have changed dramatically in just the last 3 months with the decline in commodity prices and weakness in the general economy. The early stage of a retrenchment in agriculture is starting to show." – *NE Kansas*

"Lower commodity prices have impacted net income for the year." – *SE Colorado*

"With commodity prices trending lower, I would expect more loan requests, more extensions and renewals. This could also affect land prices and capital investments." – *Central Kansas*

"Ag producers are concerned with lower commodity prices and high input costs in relation to a very uncertain economy."– *Central Wyoming*

"Real estate values are starting to soften and capital purchases are down. " – *NE Nebraska*

"We are gearing up for much harder times. I would guess that land values will begin to trail off if commodity prices do not improve." – *Western Kansas*

Note: 254 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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