Survey of Tenth District Agricultural Credit Conditions

Third Quarter 2008 | FEDERAL RESERVE BANK *of* KANSAS CITY

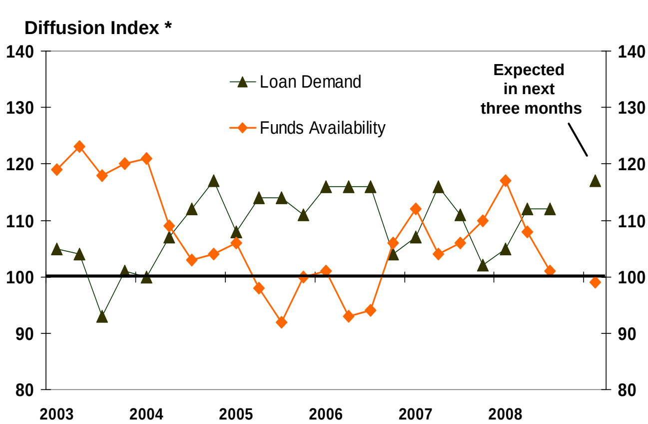
Farm Credit Conditions Expected to Soften

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

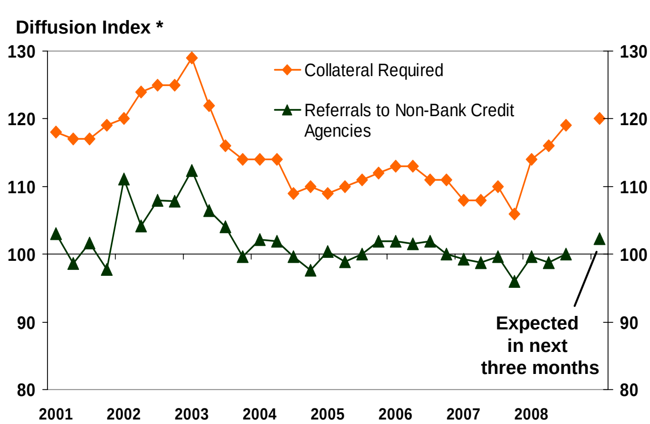
- Farm credit conditions remained healthy in the third quarter, but are expected to weaken in the coming months. Agricultural lenders reported tighter credit standards and reduced funds availability while demand for farm loans remained strong. The index of funds available for agricultural loans declined in the third quarter but remained slightly above year-ago levels. Still, less than two percent of survey participants reported refusing a loan due to a shortage of funds and there was no change in the number of loans referred to correspondent banks or non-bank credit agencies. Loan demand remained strong, however, some borrowers faced tighter credit standards as almost 20 percent of respondents raised collateral requirements. The rate of loan repayments and the number of loan renewals and extensions held steady.

- Farm credit conditions were expected to soften in the fourth quarter. Farm loan demand was projected to rise, further reducing funds availability. Survey respondents anticipated additional tightening in credit standards and slightly more referrals to correspondent banks and non-bank credit agencies in the fourth quarter.

Farm Loan Demand and Funds Availability



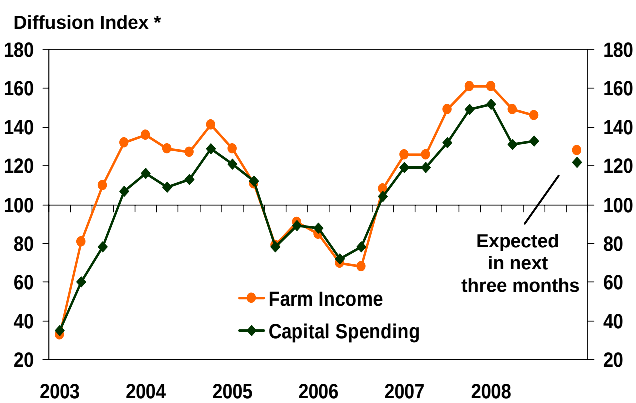
Collateral Requirements and Loan Referrals



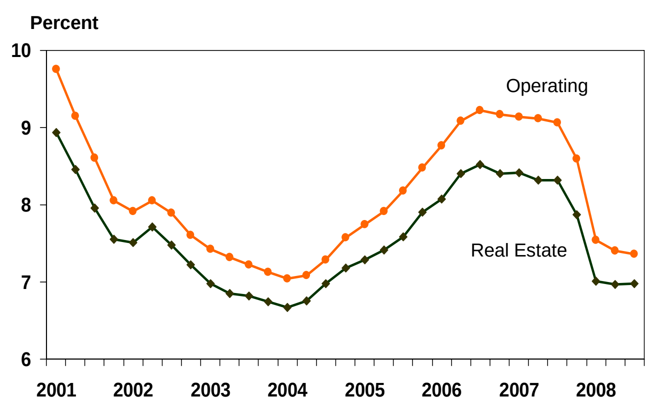
* Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and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

- The farm income index eased slightly in the third quarter. Bumper crops and timely forward contracting earlier this summer helped offset lower revenues due to falling farm commodity prices. In addition, finished cattle and hog prices strengthened, narrowing losses for producers. Farm incomes were stronger in Kansas and Oklahoma due to bountiful wheat harvests.
- Looking forward, farm incomes were expected to decline well below the record high reported at the beginning of the year. Many survey participants expressed concern that rising input costs would cut profit margins next year. Moreover, increased commodity price volatility could limit farm incomes and make the timing of marketing decisions even more critical.
- Capital spending held steady in the third quarter but was expected to slow as farm incomes drop and credit standards tighten. Nationally, tractor and combine sales remained well above year-ago levels. Farm interest rates remained at their lowest levels since 2004. The average interest rate for operating loans was 7.4 percent, and the average interest rate for real estate loans was 7.0 percent.

Farm Income and Capital Spending



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

“The challenge for 2009 will be to project a profit given the increase in production costs.” – *NE Colorado*

“Recent turmoil in the national financial markets have severely undercut the profitability of the Ag sector.” – *Western Kansas*

“We are experiencing great operating loan demand due to higher input costs but repayment is stable. We will have tighter loan requirements at renewal due to the continued increase of input costs and the overall economy.” – *NW New Mexico*

“Input cost increases are creating more risk in the Ag loan portfolio.”– *Central Nebraska*

“The overall economy will have a major impact on household spending and capital spending even if farm income is up.” – *SW Missouri*

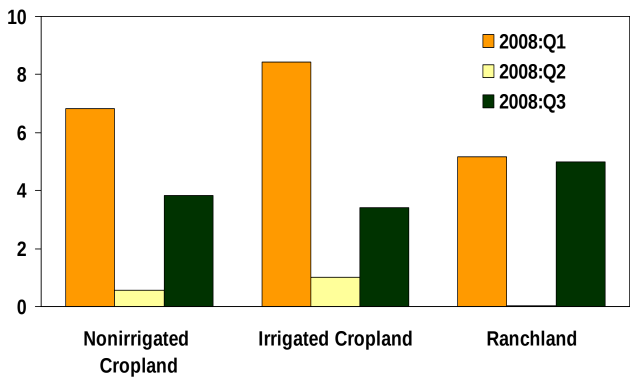
“Commodity prices are dropping, expect this to affect land values and borrowing needs.” – *Southern Kansas*

- After pausing in the second quarter, farmland values moved higher as the fall harvest approached. Ranchland posted the strongest quarterly gain of 5.0 percent. Cropland value gains were also robust compared to last quarter as the value of nonirrigated and irrigated cropland rose more than 3.4 percent. Nebraska again posted the strongest gains in cropland values, while the pace of farmland appreciation slowed in the mountain states where weather conditions have been dry. Compared to a year ago, cropland values were up more than 20 percent with 15 percent gains in ranchland values.

- Survey respondents expected farmland value appreciation to continue, but trends in farmland value gains varied by region. Over a quarter of Nebraska respondents felt that farmland values have yet to peak, while few Oklahoma survey participants anticipated further increases in farmland values.

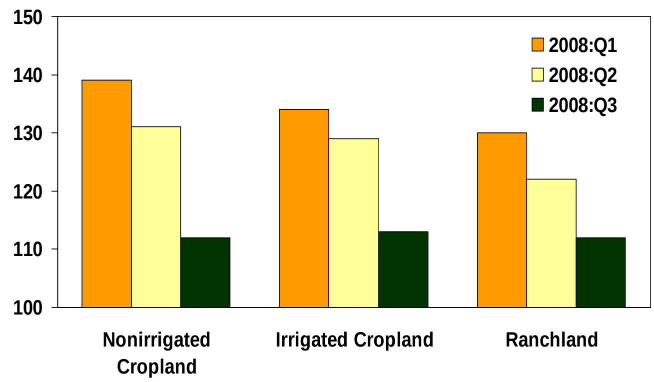
Farmland Values – Quarterly Gains

Percent change from last quarter *



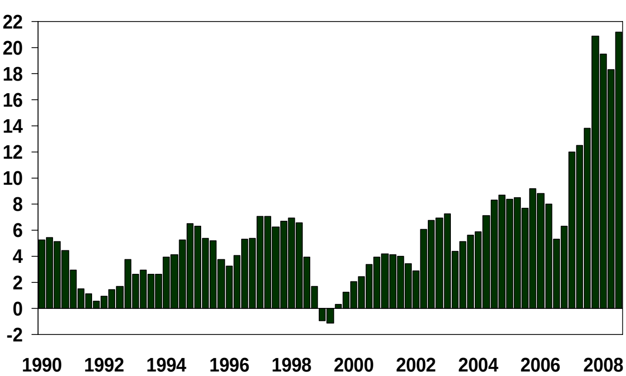
Expected Trend in Farmland Values

Diffusion Index **



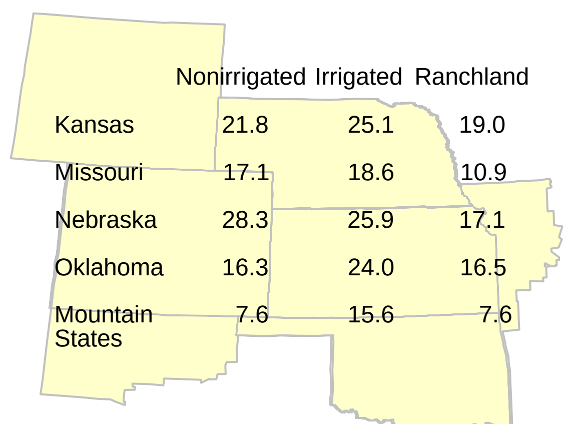
Nonirrigated Farmland Values

Percent change from a year ago *



Farmland Values by State

Percent change from a year ago *



	Nonirrigated	Irrigated	Ranchland
Kansas	21.8	25.1	19.0
Missouri	17.1	18.6	10.9
Nebraska	28.3	25.9	17.1
Oklahoma	16.3	24.0	16.5
Mountain States	7.6	15.6	7.6

* 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.

Note: 255 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*. 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.

For more information or to view past survey results, visit:
www.kansascityfed.org/agcrsurv/agcrmain