

Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

Third Quarter 2004



Quarterly Survey of Agricultural Credit

Conditions is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Research Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (214) 922-5254. It is available on the web at www.dallasfed.org.

For questions regarding information in the release, contact Laila Assanie, (214) 922-5191.

Eleventh District agricultural lenders reported stable loan conditions in third quarter 2004. Above-average moisture in late summer and early fall improved range and pasture conditions in most parts of the district and created favorable weather conditions for good crop yields. Bankers in the Southern Low Plains, Northern Low Plains, Southern High Plains and North Central Texas anticipate record yields of cotton. Some respondents said dryer weather was needed before harvesting could begin in the Southern Plains.

High cattle prices are allowing district ranchers to pay down their debts but are deterring livestock producers from restocking their herds to optimum levels. Some bankers in cattle-producing regions expect the number of agricultural loans in their portfolios to decrease. Twenty-three percent of those surveyed anticipate a decline in the volume of feeder cattle loans in the next three months, compared with 15.6 percent a year earlier. Some bankers remain concerned about higher fuel prices.

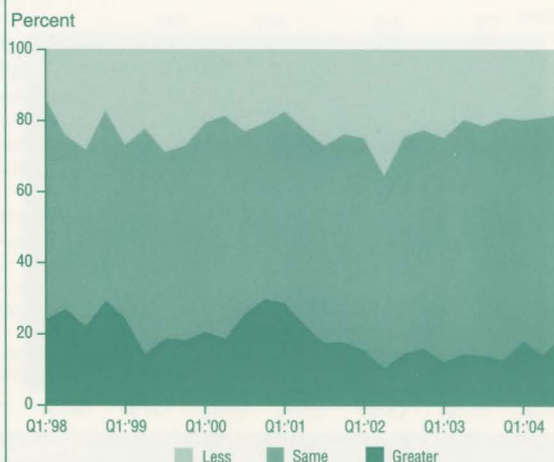
Here are additional details from the survey:

- The sale of farmland for recreational land use continues to drive up prices in areas near major metros. Thirty-six percent of respondents expect farmland values to increase in the next three months, up from 19.5 percent a year ago.
- Bankers report a slight increase in demand for loans. Twenty percent reported greater demand for loans, up from 14.2 percent a year earlier.
- The incidence of loan repayment remains stable. Eighty-three percent of respondents expect the rate of loan repayment to remain the same, up from 78.5 percent in third quarter 2003.
- Fifteen percent of bankers expect the volume of farm machinery loans to increase. This is up from 4 percent a year ago.
- Fewer farmers are requesting renewals or extensions on outstanding loans. Only 2 percent of those surveyed reported a greater number of requests, down from 14 percent a year ago.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

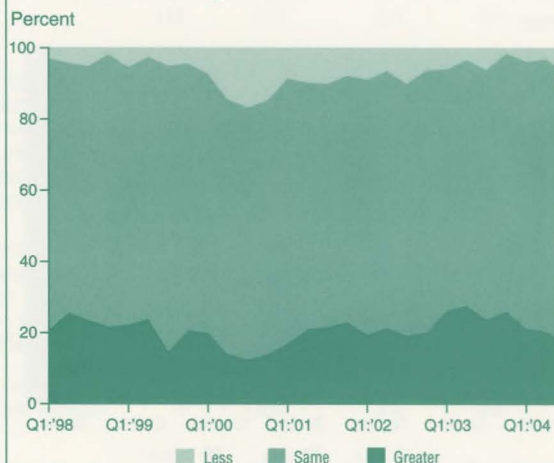
Demand for Loans

Twenty percent of bankers cite an increase in loan demand.



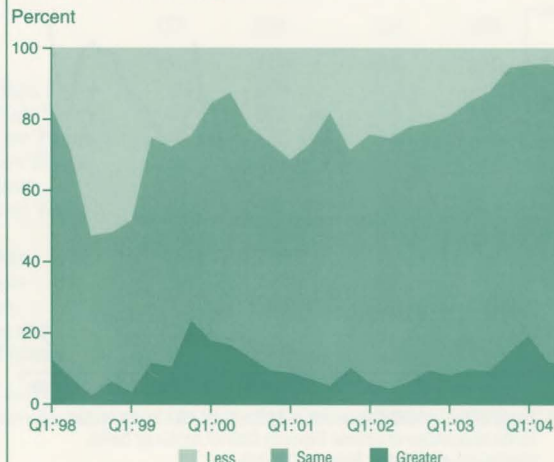
Funds Available for Additional Lending

Seventy-five percent report no change in funds available for lending.



Rate of Loan Repayment

Eighty-three percent of bankers report loan repayment unchanged.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

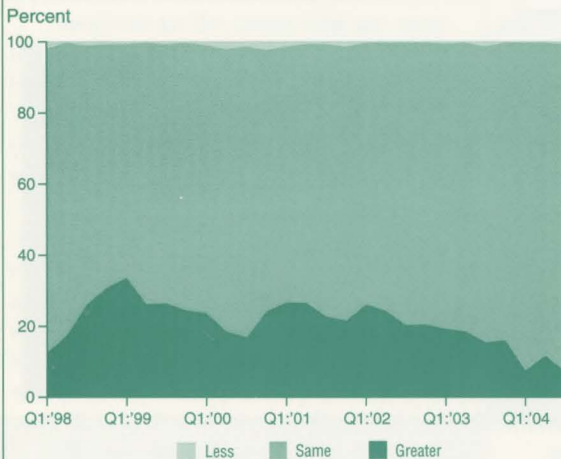
Renewals or Extensions of Loans

Fourteen percent of bankers report that requests for loan renewals or extensions are falling.



Amount of Collateral

Ninety-two percent of bankers report that collateral requirements remain unchanged.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending continues to rise in third quarter 2004.

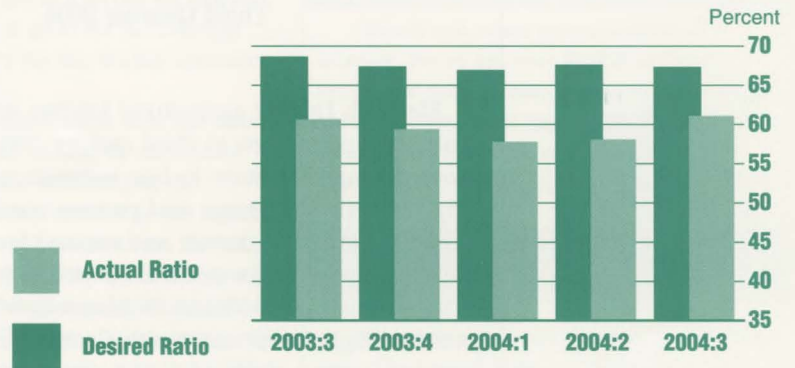
Millions of dollars (seasonally adjusted)



Note: Some of the volatility observed in agricultural loan levels is due to the acquisition of several Eleventh District banks by banks headquartered in other Reserve Districts.

Loan-Deposit Ratios at Survey Banks

Average actual and desired ratios



DISTRIBUTION OF LOAN-DEPOSIT RATIOS

Ratio	Banks Reporting (Percent)				
	2003 Oct. 1	2004 Jan. 1	2004 Apr. 1	2004 July 1	2004 Oct. 1
Less than 41%	16	20	23	21	16
41% to 50%	18	19	15	17	13
51% to 60%	11	12	15	15	19
61% to 70%	24	18	20	20	15
More than 70%	32	31	28	28	38

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2003 Oct. 1	2004 Jan. 1	2004 April 1	2004 July 1	2004 Oct. 1
Feeder cattle	7.41	7.25	7.37	7.17	7.35
Other farm operating	7.47	7.33	7.36	7.22	7.39
Intermediate term	7.39	7.32	7.25	7.25	7.52
Long-term farm real estate	7.59	7.21	6.95	7.09	6.93

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2003 Oct. 1	2004 Jan. 1	2004 April 1	2004 July 1	2004 Oct. 1
Feeder cattle	6.50	6.57	6.39	6.17	6.65
Other farm operating	6.60	6.63	6.57	6.50	6.82
Intermediate term	6.50	6.64	6.41	6.43	6.74
Long-term farm real estate	6.12	6.29	6.02	6.20	6.32

Rural Real Estate Values

October 1, 2004

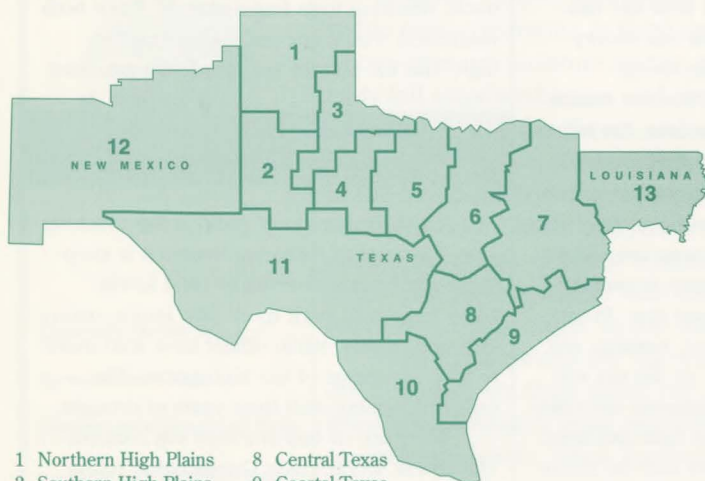
¹ Number of banks reporting land values.

² Prices are dollars per acre, not adjusted for inflation.

³ Not adjusted for inflation.

n.r.—Not reported due to insufficient responses.

Eleventh Federal Reserve District



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|------------------------|------------------------------------|
| 1 Northern High Plains | 8 Central Texas |
| 2 Southern High Plains | 9 Coastal Texas |
| 3 Northern Low Plains | 10 South Texas |
| 4 Southern Low Plains | 11 Trans-Pecos and Edwards Plateau |
| 5 Cross Timbers | 12 Southern New Mexico |
| 6 North Central Texas | 13 Northern Louisiana |
| 7 East Texas | |

CROPLAND—DRYLAND

Region	Banks ¹ Third Quarter 2004	Average Value ² Third Quarter 2004	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	161	769	3.5	7.3
TEXAS	145	769	3.6	7.7
Northern High Plains	17	303	-1.1	-2.3
Southern High Plains	18	382	-0.7	-0.2
Northern Low Plains	11	355	1.6	1.0
Southern Low Plains	13	473	1.7	6.0
Cross Timbers	16	713	0.3	14.5
North Central Texas	22	1,359	8.8	18.9
East Texas	6	846	9.6	9.9
Central Texas	16	1,347	-1.6	3.5
Coastal Texas	10	983	-0.9	0.8
South Texas	3	754	7.1	-0.2
Trans-Pecos and Edwards Plateau	13	625	3.8	4.5
Northern Louisiana	11	832	1.9	2.7
Southern New Mexico	5	273	1.7	9.8

CROPLAND—IRRIGATED

Region	Banks ¹ Third Quarter 2004	Average Value ² Third Quarter 2004	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	111	847	2.0	3.8
TEXAS	94	779	1.9	3.0
Northern High Plains	15	590	2.1	3.3
Southern High Plains	17	725	-0.9	2.4
Northern Low Plains	10	551	1.1	-8.7
Southern Low Plains	9	739	0.5	1.7
Cross Timbers	7	1,217	-0.1	24.2
North Central Texas	3	2,960	4.1	-18.8
East Texas	n.r.	n.r.	n.r.	n.r.
Central Texas	11	1,867	-4.1	-1.5
Coastal Texas	5	967	6.7	15.8
South Texas	3	922	4.1	1.8
Trans-Pecos and Edwards Plateau	12	1,135	3.7	-3.5
Northern Louisiana	9	1,068	1.1	-1.0
Southern New Mexico	8	1,437	3.0	9.6

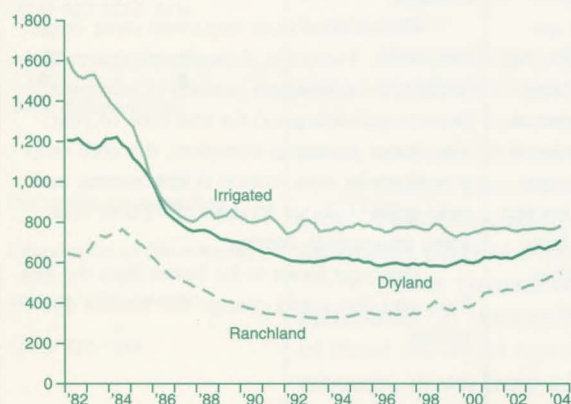
RANCHLAND

Region	Banks ¹ Third Quarter 2004	Average Value ² Third Quarter 2004	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	173	594	3.0	10.5
TEXAS	156	715	3.8	10.0
Northern High Plains	16	210	-5.5	-2.0
Southern High Plains	13	221	-1.6	10.2
Northern Low Plains	11	235	4.2	1.4
Southern Low Plains	12	408	2.7	15.9
Cross Timbers	19	813	2.4	13.5
North Central Texas	24	1,364	6.5	20.5
East Texas	13	958	0.7	-0.2
Central Texas	20	1,798	1.6	12.5
Coastal Texas	8	920	-0.7	-2.1
South Texas	3	886	5.6	11.6
Trans-Pecos and Edwards Plateau	17	581	5.9	9.0
Northern Louisiana	9	782	5.5	3.9
Southern New Mexico	8	246	-2.9	14.9

Eleventh District Real Land Values

Dryland, irrigated land and ranchland values edged up 3.5 percent, 2 percent and 3 percent, respectively.

2000 dollars per acre



Third Quarter Comments

District bankers were asked for any additional comments concerning agricultural land values or credit conditions. These comments have been edited.

Region 2—Southern High Plains

Crops are better than we have ever seen them. Hopefully, we can get them harvested soon. We need ideal weather conditions and a late freeze for production to be very good. We are hoping that prices will be decent.

Rain is delaying preparation for harvesting the cotton crop. We are anticipating an excellent crop.

Region 3—Northern Low Plains

Prospects for the cotton crop are excellent if we have a normal fall. Production could be the best we have had in a number of years.

We have a good crop and low prices for cotton. We are seeing more row crop farmers turning to livestock production.

Hunting land with water (either a creek or a river) is bringing a big premium. For example, a farm that was owned by the city and used solely to produce water recently sold for over \$600 per acre. The farm was located on the river and was not suited for agricultural use.

Region 4—Southern Low Plains

This is the first time I can remember the pastures being so lush and being on the right side of the beef supply and demand. The cotton crop looks like it will be the best in years.

Conditions have been favorable in all agricultural sectors this season. However, untimely heavy rainfall is causing concern about harvesting the cotton crop in the south plains.

Real estate prices for ranchland are inflated due to recreational land use.

Cattle prices are good. We need rain to plant the wheat crops.

Land prices continue to be driven up by hunters from the [Dallas/Fort Worth] metroplex.

Region 6—North Central Texas

Hopefully, we won't have another mad cow scare and the cow market will remain good. Hay is plentiful in North Texas. Even if we have a bad winter, the market shouldn't break very much. Hopefully, we have seen the high point of fuel prices (gas and diesel), and those prices will continue to decline this fall and winter.

Cattle prices are at a record for stockers and feeders. That is great for the cow/calf operators but scary for the stocker operators and cattle feeders.

Agricultural contribution now has little impact on the value of land in our county because of our close proximity to the Dallas/Fort Worth metroplex. For our remaining farmers and ranchers, however, the recent year has been very beneficial with the better-than-average rainfall and good market prices.

In central Williamson County, crop yields have been very good. Corn crops are yielding 120 bushels per acre, and cotton is averaging two to two and a half bales per acre. Production costs are very high. Diesel, fertilizer and chemicals have all increased, so the net will not be as good. Livestock producers are enjoying record prices, pastures are lush and there is an abundance of hay. Prices and the future outlook continue to be very good.

Cattle prices are at an all-time high, allowing some producers to pay off their debt on cattle for the first time ever. This will decrease the percentage of agricultural loans in our loan portfolio.

Region 8—Central Texas

Rice yields are down 15 percent due to a wet June. Cow/calf operators will make a profit in 2004. Thousands of acres of farmland are being leveled using laser technology via the USDA Farm Service Agency's equipment program. In all, the work may take three to five years to complete.

One by one, producing acreages are being subdivided into mini-ranches and are driving land values up. On the bright side, the strong cattle market and good grass-growing weather are keeping the ranchers in business.

Demand for feeder cattle loans has been steady. Some customers have needed longer revolving lines of credit to compensate for the high cost of cattle. We have seen some large reductions on term loans because of higher priced cattle.

Region 9—Coastal Texas

Historically, high cattle prices have healed lots of rancher financial wounds!

This has been an expensive year. Crop yields are above average, but prices on commodities are marginal. It will be hard to project a positive cash flow for 2005.

Region 10—South Texas

Ranch real estate prices continue to increase. Prices are over \$1,000 per acre for brushland! Sales of and interest in small land tracts, resulting from fragmentation, have both weakened. Prices are perhaps getting too high, and the market may finally be saturated.

Region 11—Trans-Pecos and Edwards Plateau

Conditions are very good in the ranching area. The cost of replacing livestock is keeping many from restocking to ideal levels. Many have held back more ewe lambs, nanny kids and heifers, while others have sold more to take advantage of the high prices. The region is healing well from years of drought.

The price of fuel is a very big concern. The recent World Trade Organization ruling against cotton payments is also a concern; without government support at the current price of cotton, I believe it will be very difficult for West Texas cotton producers. West Texas has had very good late summer rains. Range conditions are excellent. The cotton fields need warm dry conditions to begin harvesting.

Region 12—Southern New Mexico

Moisture conditions have improved in most of the region. Winter pastures seem adequate, although there are some dry spots. Prices are good, but profits are down significantly because of the last five years of drought.

Recent rains have improved most range conditions. However, drought still exists. We really need prolonged periods of moisture. Most crops look good for this time of year: The onion harvest is complete, the chili crop is well under way, cotton is just starting and milo grain is about 30 days off. There was some recent hail damage.

This year looks to be better than the last four, and that could change the market this spring.