

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



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.

Third Quarter 2005

The Third Quarter Survey of Agricultural Credit Conditions indicated increased apprehension among the Eleventh District agricultural community about high fuel and fuel-related product prices. Bankers expressed concern about the future viability of some producers as revenue streams continued to take a hit because of low crop prices and high energy costs. Fears of being unable to reach a break-even point held back some farmers from prepping land for the 2006 crop. Moreover, producers reported that hot, dry weather significantly reduced crop yields and dried up pastures in many parts of the District. On a positive note, prospects for a robust cotton crop are promising, and yields are expected to be second only to last year's record harvest.

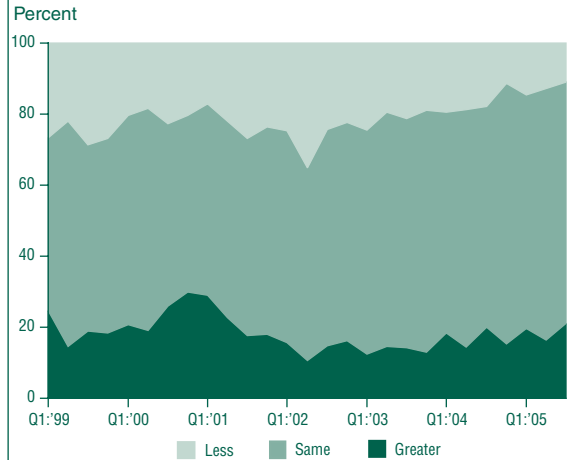
Here are additional details from the survey:

- Despite increased strain in the agricultural environment, credit conditions remain mostly stable. Eighty-three percent of agricultural lenders report that fund availability remains unchanged, while 68 percent report steady loan demand. Moreover, collateral requirements and referrals to other banks remain mostly unaltered.
- Dryland, irrigated land and ranchland values rose sharply in the third quarter of 2005 relative to third quarter 2004, increasing 10.1 percent, 15.5 percent and 18.2 percent, respectively.
- Higher fuel prices and increased production costs depressed loan repayment rates. Six percent of those surveyed reported lower loan repayment, up from 2.4 percent last quarter.
- Dry conditions and low crop yields, along with the sale of farmland for recreational use, have limited the sale of farmland for agricultural use. Fifteen percent of respondents expect the volume of farm real estate loans to be lower over the next three months, up from 8.5 percent last quarter.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

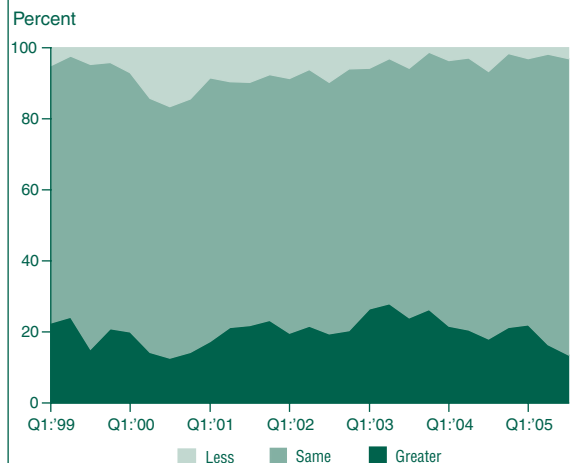
Demand for Loans

Twenty-one percent of bankers cite an increase in loan demand.



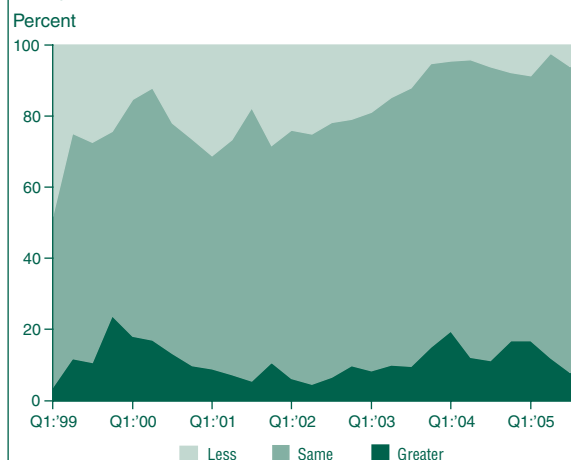
Funds Available for Additional Lending

Eighty-three percent of respondents said funds available for lending have remained the same.



Rate of Loan Repayment

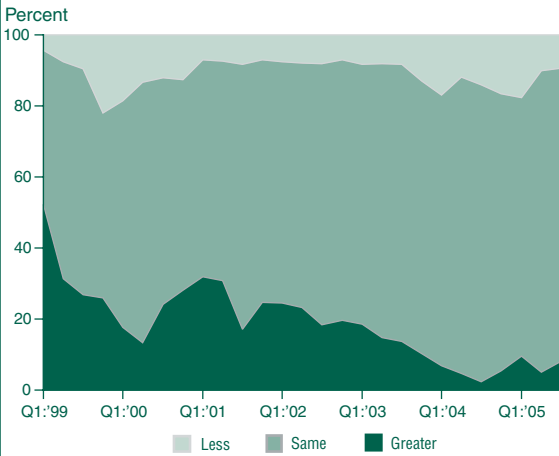
Despite concerns about agricultural conditions, 86 percent of respondents stated that loan repayment rates remain stable.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

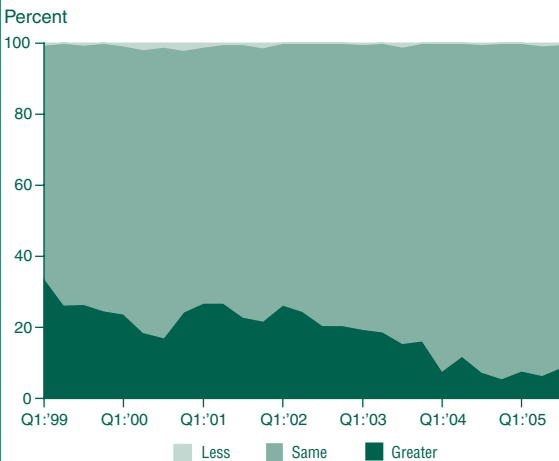
Renewals or Extensions of Loans

Eight percent of bankers report an increase in requests for loan renewals or extensions.



Amount of Collateral

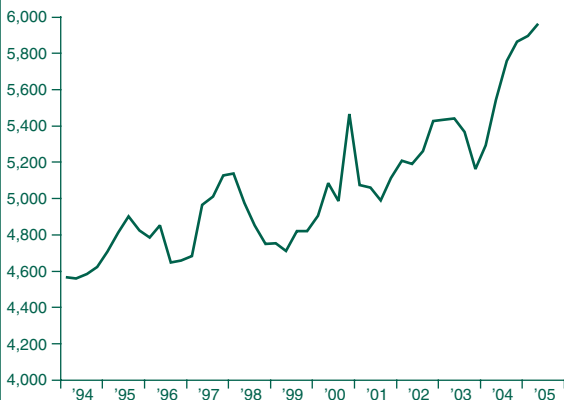
Ninety-one percent of bankers report that collateral requirements remain unchanged.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending continues to grow.

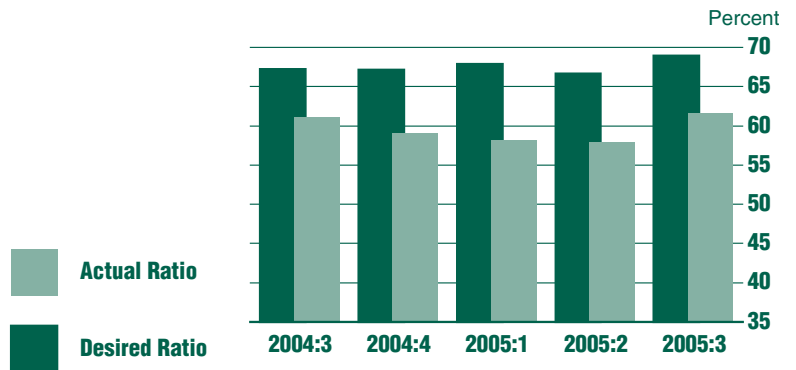
Millions of dollars (seasonally adjusted)



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)				
	2004 Oct. 1	2005 Jan. 1	2005 April 1	2005 July 1	2005 Oct. 1
Less than 41%	17	19	24	23	18
41% to 50%	13	17	12	13	16
51% to 60%	20	18	15	19	14
61% to 70%	14	16	21	16	15
More than 70%	36	30	28	29	37

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				
	2004 Oct. 1	2005 Jan. 1	2005 April 1	2005 July 1	2005 Oct. 1
Feeder cattle	7.36	7.59	7.75	8.07	8.41
Other farm operating	7.41	7.60	7.97	8.29	8.53
Intermediate term	7.51	7.67	7.85	8.16	8.36
Long-term farm real estate	6.91	7.00	7.37	7.56	7.97

INTEREST RATE—VARIABLE

Ratio	Average Rate (Percent)				
	2004 Oct. 1	2005 Jan. 1	2005 April 1	2005 July 1	2005 Oct. 1
Feeder cattle	6.58	7.12	7.25	7.83	8.19
Other farm operating	6.75	7.22	7.50	8.06	8.33
Intermediate term	6.67	7.10	7.41	7.89	8.18
Long-term farm real estate	6.27	6.59	6.94	7.42	7.81

THIRD QUARTER 2005

List all commodities grown in your lending area and rank the top three in order of importance.

Commodities

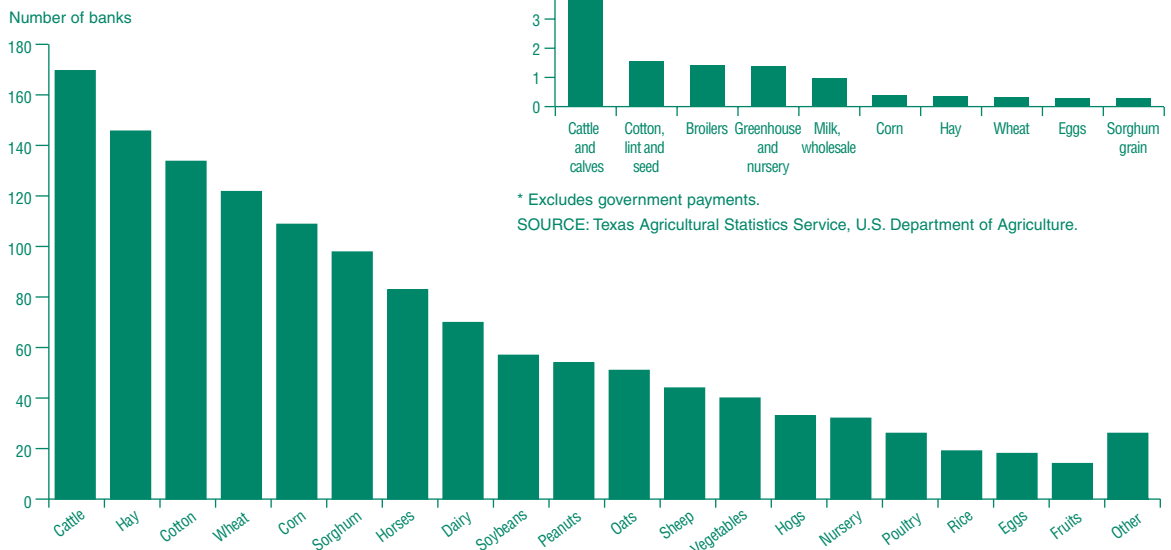
Texas is a leading state in U.S. agricultural exports. The state ranks fourth in the nation in dollar value of agricultural exports and accounts for 5 percent of the nation's total—about \$3.4 billion in revenues in 2004.¹

Texas produces a diverse mix of agricultural crops and products, including corn, wheat, rice, peanuts, vegetables, fruits, poultry and dairy products (*Chart 1*). However, cattle, cotton and related products are by far the most prevalent commodities. More than half of the state's agricultural revenues—approximately \$9.5 billion—comes from cotton and cattle (*Chart 2*), with cattle ranking as Texas' top revenue-generating agricultural commodity and cotton the state's top exported commodity.

The first quarter 2002 *Survey of Agricultural Credit Conditions* contained a list of the most important agricultural commodities in each lending area as reported by responding banks. As a follow-up, we recently asked Eleventh District bankers to rank the top three commodities grown in their lending region.

The ranking has changed somewhat from 2002. The most significant changes include the growing importance of the dairy and equine industries in the District;

CHART 1
Eleventh District Agricultural Commodities
(as reported by responding banks)



NOTE: "Other" includes goats, pecans, sunflowers, milo, corn silage, timber and tree farms.

however, cattle, cotton and corn still rank as the top three commodities.

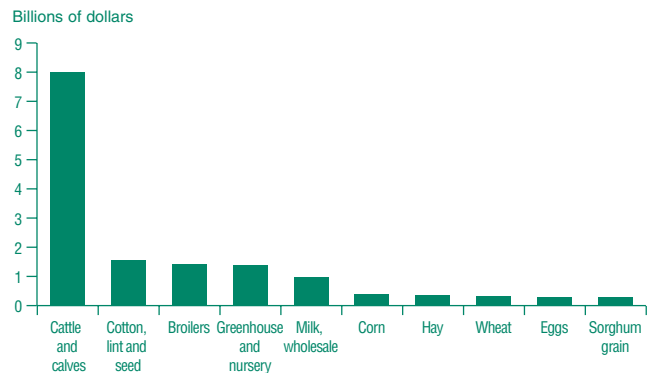
Many factors have impacted the profitability and prevalence of the types of commodities grown in the District. These include increased use of farmland for recreation, modifications in farm laws, depressed crop prices and soaring input costs as well as more efficient farming methods.

The survey also asked Eleventh District bankers about any changes in the types of agricultural commodities grown in their lending area. As expected, bankers' comments varied from region to region. For example, the dairy industry has expanded in the High Plains regions, and grapes have been introduced into the mix of crops grown in the Trans-Pecos and Edwards Plateau region. Peanut production has markedly declined in the Cross Timbers and Coastal Texas regions, and farmers in several regions have switched from corn to cotton production. Although the pattern of change differs across regions, most bankers cited higher energy and input costs, low crop prices or changes in farm laws as reasons for the switch.

The following pages display a graphical representation by region of the data gathered in this commodities survey, along with the comments we received. The comments have been edited for publication.

¹ Economic Research Service, U.S. Department of Agriculture, www.ers.usda.gov/data/stateexports/.

CHART 2
Texas Top 10 Agricultural Commodities by Cash Receipts,* 2004



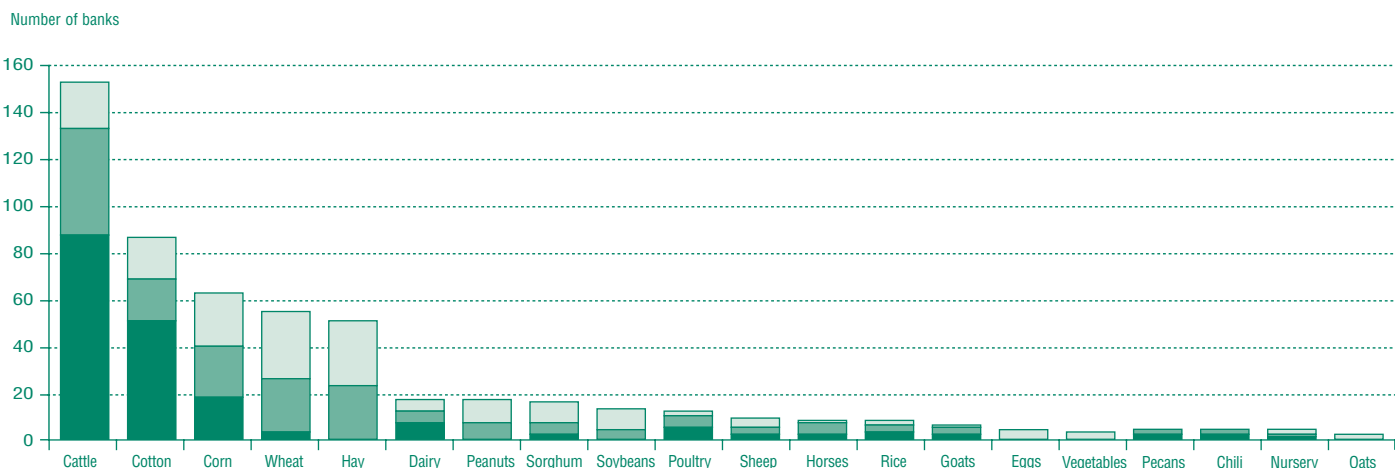
* Excludes government payments.

SOURCE: Texas Agricultural Statistics Service, U.S. Department of Agriculture.

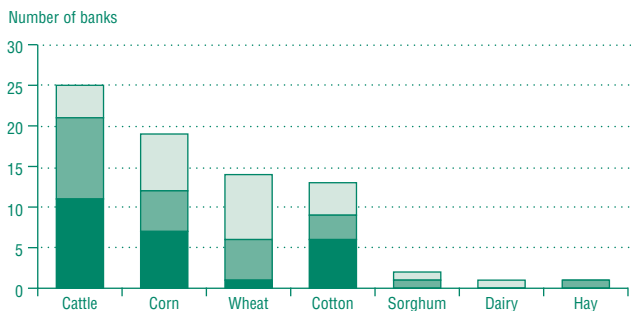
Most Important Agricultural Commodities in Eleventh District (Reported by Responding Banks, Third Quarter 2005)*

Ranked No. 1 Ranked No. 2 Ranked No. 3

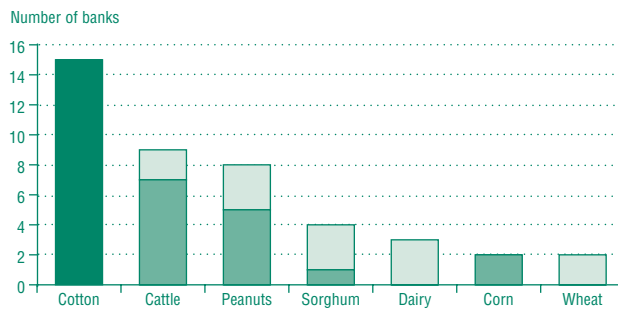
All Regions



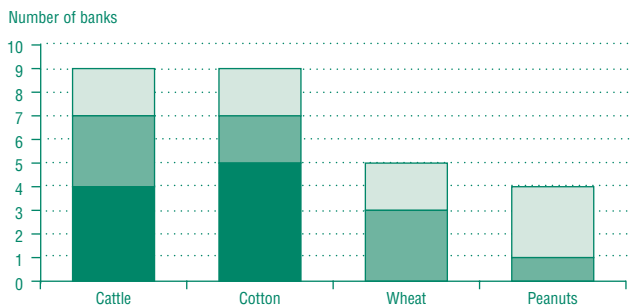
Region 1—Northern High Plains



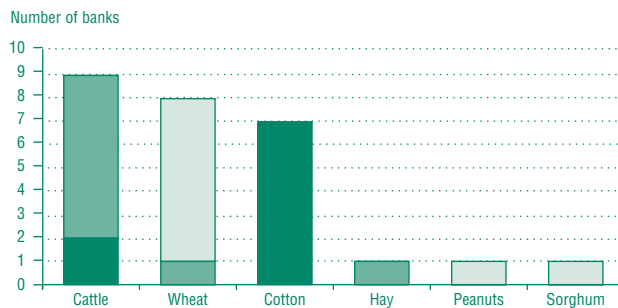
Region 2—Southern High Plains



Region 3—Northern Low Plains

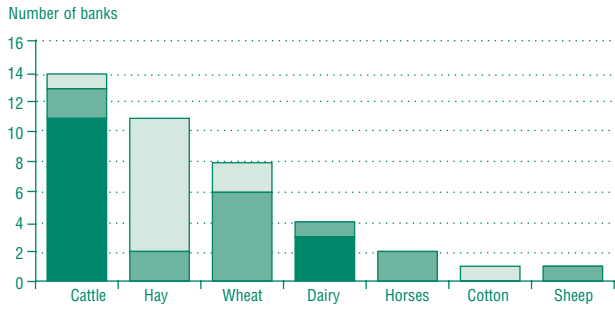


Region 4—Southern Low Plains

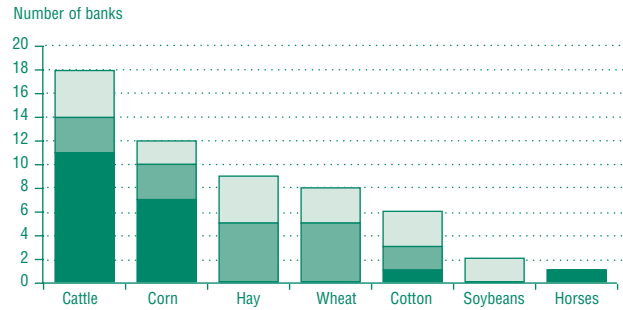


* Data for Region 10—South Texas have not been reported due to insufficient responses.

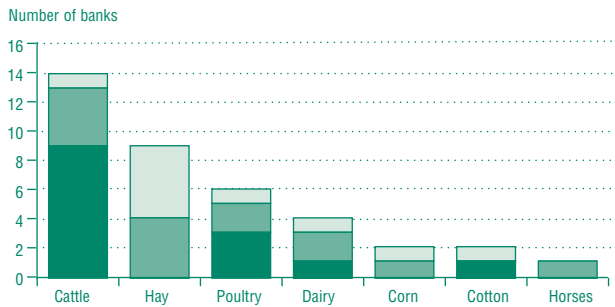
Region 5—Cross Timbers



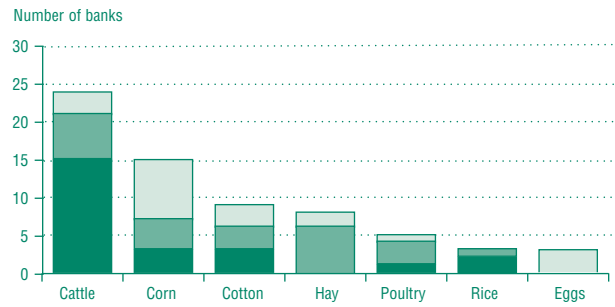
Region 6—North Central Texas



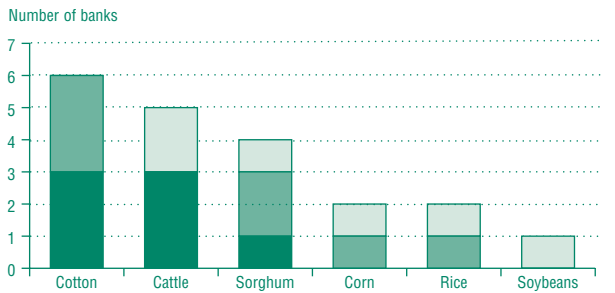
Region 7—East Texas



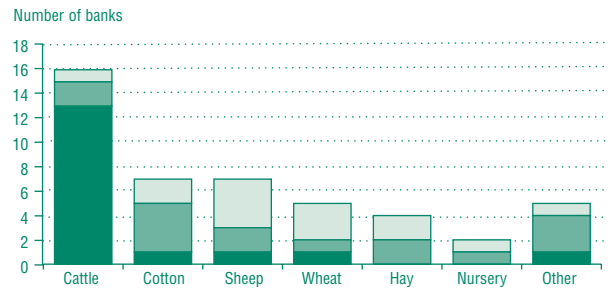
Region 8—Central Texas



Region 9—Coastal Texas

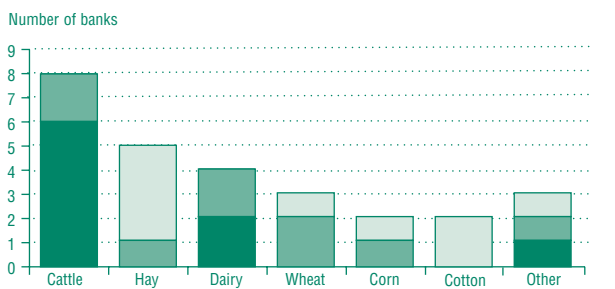


Region 11—Trans-Pecos and Edwards Plateau



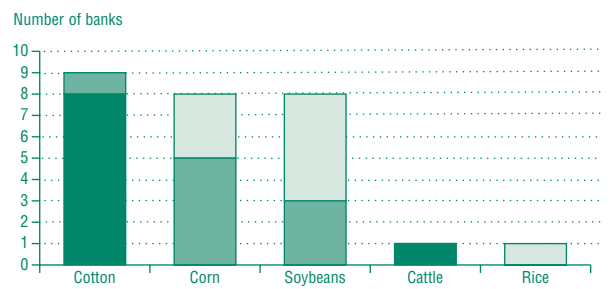
NOTE: "Other" includes goats and pecans.

Region 12—Southern New Mexico



NOTE: "Other" includes chili and corn silage.

Region 13—Northern Louisiana



Banker Comments

Question:

Has there been a change in the types of agricultural commodities grown in your region? If so, why?

Responses to the third quarter commodities survey are printed below. These comments have been edited.

Region 1 Northern High Plains

Cotton is a new crop in our area. Corn production is getting too costly; cotton is an alternative.

The dairy industry is expanding rapidly in our area.

Cotton production has increased due to new hybrids and high fuel prices. There is less corn production because of high fuel costs.

Most row crop production changed to cotton due to water depletion, high energy costs and lower profitability.

There has been a big increase in cotton and sunflowers because of the increased cost of irrigation fuel.

Cotton is still the best fit for our region. There has been some talk among farmers of changing, but no other commodity has the profitability of cotton. Energy costs could change this outlook.

Due to the cost of irrigation, corn production has declined, with some increase in cotton and other summer crops.

Cotton has become more prevalent due to the high cost of pumping water.

Cotton acres continue to increase in the area (Ochiltree and Hansford counties). It appears cotton will continue to grow in popularity on irrigated acres. If energy prices remain high, cotton acreage could see an even greater increase.

Yes, because of dramatic increases in production costs and extremely low commodity prices.

Region 2 Southern High Plains

Primarily no changes have occurred with the crops grown, only in farming practices: more conservation tillage, along with the technological changes that have occurred over the past few years. Guar production, goat production and other alternative crops are being looked at; however, goat production appears to be the only one that looks promising at this time. Predators are limiting more farmers from going into goat production.

There has been an increase in crop diversification. I have seen several farms switch from crops to pecan trees and also have seen more fruits and vegetables being grown.

Cotton is still the No. 1 crop. However, due to low prices, some producers are rotating more crops: cotton and peanuts, cotton and wheat, peanuts and wheat. The rotation helps and allows some savings on expenses.

There is more dairy business in our area. We are seeing a large increase in feed production to support the growing dairy industry.

Dairy is new to West Texas.

Region 4 Southern Low Plains

No. Dryland conditions limit the types of crops that can be grown.

Sheep and goats have decreased due to destruction from predators such as coyotes, bobcats and foxes.

Region 5 Cross Timbers

A 300,000-laying-hen operation is closing down, while a 3,000–5,000 sow (farrowing) operation is in the start-up phase.

Peanuts are no longer grown in this area due to changes in government programs. We used to have more dairies, but most of them are gone.

Peanut crop has gone from over 11,000 acres to less than 2,000 acres because of non-quota peanut program.

There are very few cotton farmers in our area. Farmers must make any profit from cattle. The cost of farming is too high to cut \$2.75-per-bushel wheat.

No. Production has remained the same for the last 75 years as we have no irrigation.

Region 6 North Central Texas

Cotton has declined in importance.

Yes. In the last three years, there has been more cotton. Years ago cotton was the No. 1 crop; as expenses increased, most producers went to corn. That cycle is again changing due to the high cost of seed, chemicals and fertilizer.

Region 7 East Texas

Cotton remains the most cash flow-producing commodity in the immediate area, but large cotton acreage is being diverted to corn and soybeans because of cost and the lack of ginning facilities.

Poultry production has increased because a large producer has expanded.

Region 8 Central Texas

Yes, increase in recreational land use by retirees and weekenders, who want agricultural tax exemption with the least amount of work.

No change. Not much row crop anymore. No customers strictly farm.

Less row crops every year due to limited availability of good farmland and the fact that most land is being used for cattle. There has been a slight increase in nursery/greenhouse operations in the area.

A lot less peanuts are being grown because of quota buyout and quota transfers to West Texas.

More cotton is being grown in the last few years due to good returns.

There has been a slight decrease in rice acreage.

Cotton has had a large increase. There is more profit in cotton than corn.

Switched from corn to cotton production because of prices.

Region 9 Coastal Texas

Rice production is dropping due to water cost and increased production in other states.

Region 11 Trans-Pecos and Edwards Plateau

Yes, because of the cost of fuel and labor.

Grape crops are beginning to be farmed mostly by people moving to this area. Few local farmers have planted grapes.

Yes. The farm bill change made it difficult for the peanut farmers because they were quota holders. They are not farming peanuts anymore, and most have spent their quota money.

More cotton and less grain are being raised in our area. More wheat is being grazed out by livestock.

Region 12 Southern New Mexico

Because of increased expenses like fuel and labor, farmers are moving slowly out of vegetable farming.

Region 13 Northern Louisiana

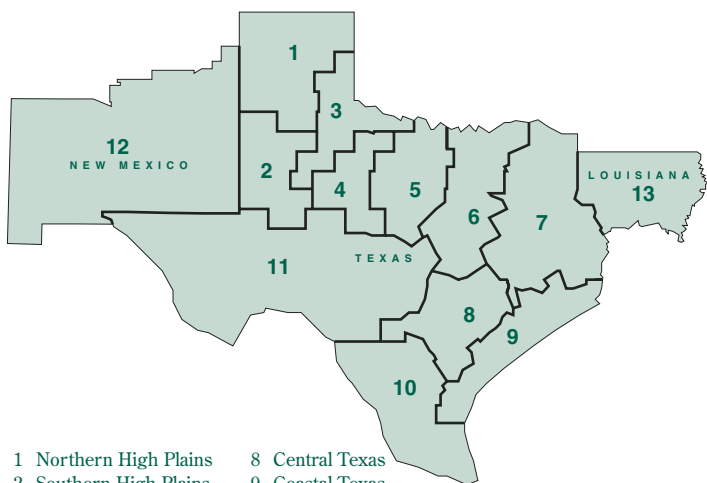
Cattle are becoming more prevalent in this region. Cotton and corn fluctuate as the No. 1 and No. 2 crops.

Rural Real Estate Values

October 1, 2005

- 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



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

CROPLAND—DRYLAND

Region	Banks ¹ Third Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	153	844	2.4	10.1
TEXAS	136	846	2.4	10.2
Northern High Plains	23	331	1.9	10.0
Southern High Plains	19	405	1.0	3.2
Northern Low Plains	9	365	-1.7	1.5
Southern Low Plains	11	488	-1.3	3.9
Cross Timbers	14	790	2.3	10.6
North Central Texas	18	1,530	5.6	15.2
East Texas	8	871	-1.7	4.8
Central Texas	17	1,512	2.2	9.6
Coastal Texas	7	1,016	0	3.2
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	9	766	4.1	20.6
Northern Louisiana	11	880	1.8	8.9
Southern New Mexico	6	320	7.8	6.3

CROPLAND—IRRIGATED

Region	Banks ¹ Third Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	108	977	3.2	15.5
TEXAS	91	888	2.5	14.2
Northern High Plains	21	658	1.5	15.0
Southern High Plains	19	785	-0.2	7.8
Northern Low Plains	8	670	1.2	15.7
Southern Low Plains	7	740	0.5	-0.2
Cross Timbers	6	1,405	4.5	13.7
North Central Texas	3	2,184	4.0	-28.1
East Texas	4	1,091	-0.4	5.8
Central Texas	10	2,019	0.4	6.7
Coastal Texas	5	1,177	3.8	24.0
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	7	1,638	7.2	34.9
Northern Louisiana	9	1,068	1.9	3.4
Southern New Mexico	8	1,814	6.7	25.9

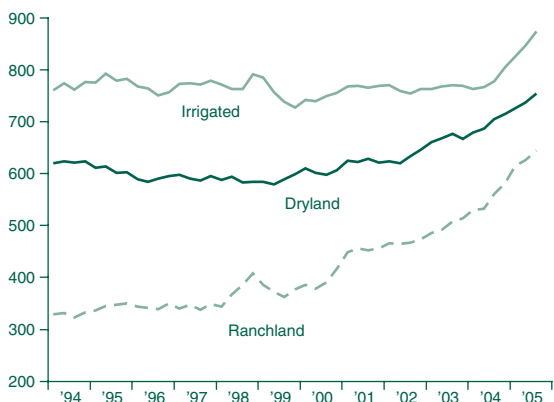
RANCLAND

Region	Banks ¹ Third Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	172	721	3.1	18.2
TEXAS	155	897	3.1	21.4
Northern High Plains	23	246	2.0	12.6
Southern High Plains	18	241	5.4	11.3
Northern Low Plains	9	286	4.5	20.5
Southern Low Plains	10	465	4.7	13.8
Cross Timbers	16	970	3.9	17.7
North Central Texas	21	1,559	2.7	9.3
East Texas	16	1,114	2.8	16.7
Central Texas	20	2,066	4.0	14.2
Coastal Texas	6	970	-2.8	6.3
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	15	832	2.8	36.3
Northern Louisiana	8	789	1.4	4.1
Southern New Mexico	9	212	3.5	-9.6

Eleventh District Real Land Values

Irrigated land, dryland and ranchland values continue to rise in the third quarter.

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 1—Northern High Plains

High energy costs are a concerning factor as we begin budgeting for the 2006 irrigated crop production.

Region 2—Southern High Plains

We currently have the best cotton crop that has ever been grown in this part of the country. The warm weather in September matured the cotton crop nicely; harvesting is set to begin the first week of October, with the balance being harvested by the first week of November. Wheat has been planted; however, the majority was dry sowed. We are needing rainfall. Cattle are doing nicely. Pastures are in the best condition of the past eight years. A large portion of the area received abundant rainfall in late July through early August, a total of 10 to 15 inches.

Fuel, utility and chemical costs are impacting the producer's bottom line. Without an increase in commodity value, next year could be a cash flow dilemma.

The time for the cotton crop harvest is approaching fast. The crop is estimated to be as good as last year's, which was the best crop in many years. The peanut harvest has begun, with very good yield prospects. Overall, another excellent year is anticipated.

Region 3—Northern Low Plains

The dryland and irrigated cotton crops are both above average. The peanut harvest will begin in the next few weeks.

Cotton, peanut and sorghum crops are looking good. Our cow calf operators are pleased. Land prices continue to escalate. If prices for crops were good, our worries would shift to long term.

Region 4—Southern Low Plains

Cotton prospects look better than they did this time last year. Higher fuel prices are a concern for all farm-related activities.

The cash rent for ranchland is \$7.50 for livestock grazing and dove, quail, hog and deer hunting. The cash rent on irrigated crop-

land is \$75 for crop production and \$25 for goose hunting. On the increase in loan referrals to other lenders, some of our customer lines are getting too large for our bank lending limit.

The price of fuel and other products is having a negative effect on agriculture in this region.

Cotton crop conditions are excellent on the Southern Plains. However, escalating energy and fertilizer prices are causing much concern. Above-average yields are required to break even because of continued depressed crop prices. Feedlot closeouts have not been positive this summer.

The purchase of real estate by farmers and ranchers for agricultural purposes is almost nonexistent.

Region 5—Cross Timbers

Cattle prices are good. We had rain through the summer. Wheat is being planted.

Fuel and fertilizer costs have made farming for crop production a thing of the past in our area.

Our area received record rainfalls in August; however, rain is needed at this time to sow wheat. Hubbard Creek Lake is now 8 feet low compared with 21 feet low one year ago.

Region 6—North Central Texas

Production yields for corn are down 15 to 30 percent due to the dry, hot spring. This, combined with low prices, is having a negative impact on the farm economy.

We are very concerned about the price of oil and gas. Hay is in short supply as the area is very dry and in need of rainfall. We are worried that a harsh winter could further increase oil prices. Land values are dependent on what gas and cattle prices do. If we have a harsh winter, gas prices could soar and land prices could drop drastically. Hopefully, the cattle market can weather the storm.

This will be a default year. Production in all crops is down 25 percent because of low commodity prices and increased production costs. While we expect some carryovers from 2005, it will be very difficult to cash flow any operation. I feel there will be some farmers quitting on their own and some quitting because they cannot get financing for the 2006 crop.

Input costs are severely impacting profit margins. Base commodity prices have not kept pace with input costs.

Region 7—East Texas

The availability of funds remains stable; however, drought conditions, commodity

prices and low yields resulting from the dry conditions have limited the sale of property for production purposes. Cattle prices have remained stable, but low water levels and dry pastures are causing a problem for ranchers as costs are increasing regularly.

Region 8—Central Texas

We are seeing a slowdown in feeder cattle loans. Higher cattle prices would help everyone.

Few farmers are preparing land for the 2006 crop. Most are waiting due to the poor price outlook and high fuel and fertilizer prices, and 10 to 20 percent are talking about quitting farming.

With row and rice crops gathered and prices offered, we see many of our farmers with carryovers. Many of our farmers will not be able to continue at these prices.

Region 9—Coastal Texas

Farming is facing a critical time. Input costs are too high compared with commodity prices. Government subsidy programs are not adequate.

Region 11—Trans-Pecos and Edwards Plateau

Real estate agents are having trouble finding ranches to list. There are lots of buyers, but not many sellers. Rain has been ample in most places, but it hasn't been nearly as good as last year.

Most ranches have more grass than they have had in many years. However, the lack of rainfall in recent months, coupled with the higher than normal temperatures, has resulted in extremely dry conditions. While there has been some increase in sheep and goats, overall livestock numbers remain substantially below the past 10- to 20-year averages. Mohair incentives and prices have brought back some interest in raising angora goats. Ranch labor and improvement costs remain challenges to further increases in livestock numbers.

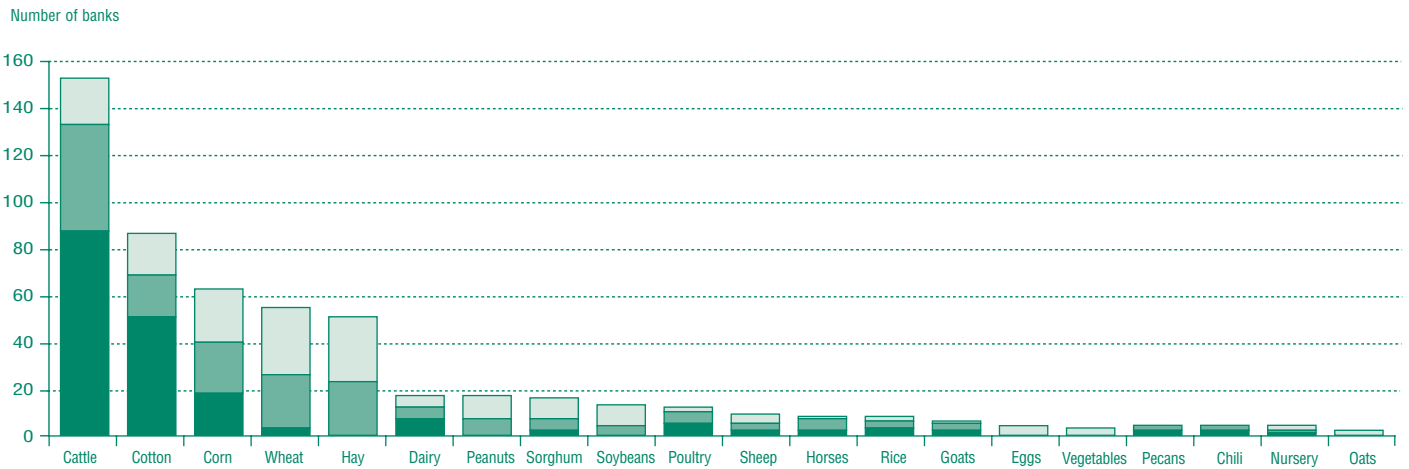
Region 12—Southern New Mexico

Moisture levels continue to be good, and fall crops should support a stable land market.

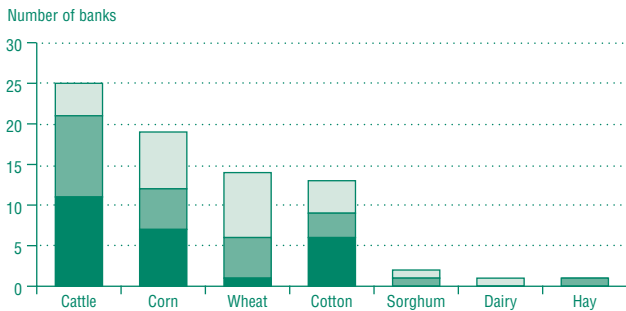
Most Important Agricultural Commodities in Eleventh District (Reported by Responding Banks, Third Quarter 2005)*

Ranked No. 1
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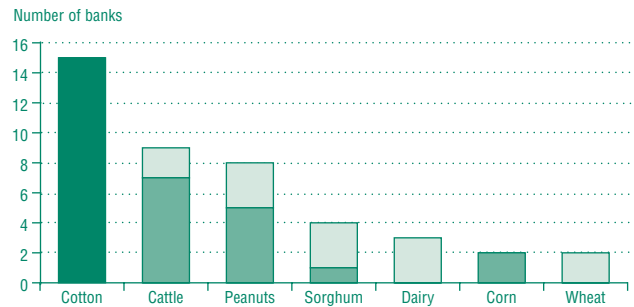
All Regions



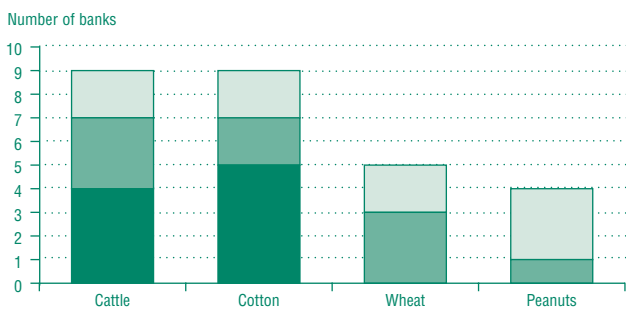
Region 1—Northern High Plains



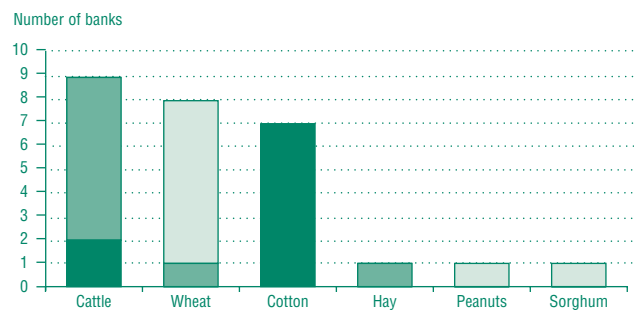
Region 2—Southern High Plains



Region 3—Northern Low Plains

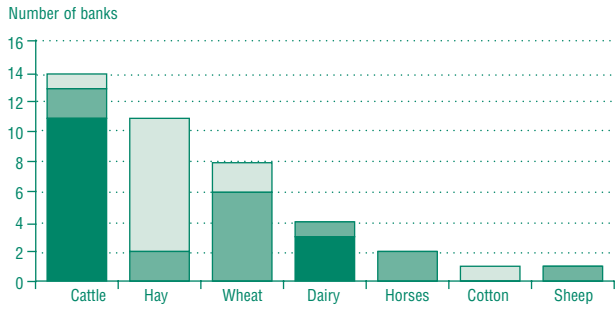


Region 4—Southern Low Plains

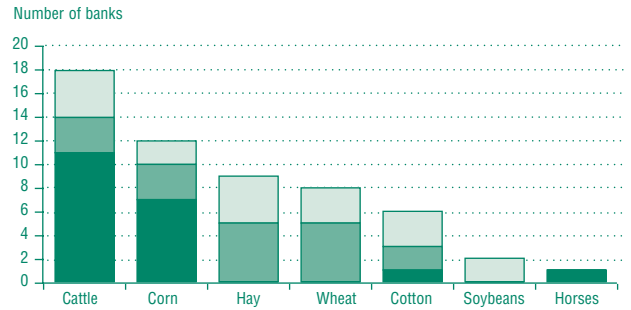


* Data for Region 10—South Texas have not been reported due to insufficient responses.

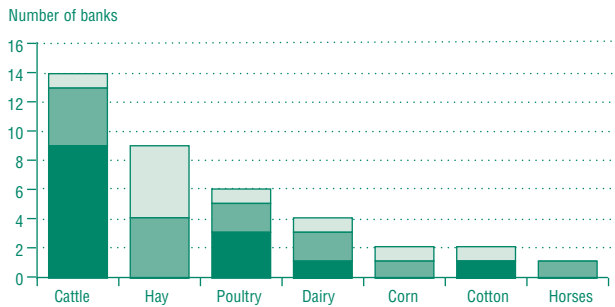
Region 5—Cross Timbers



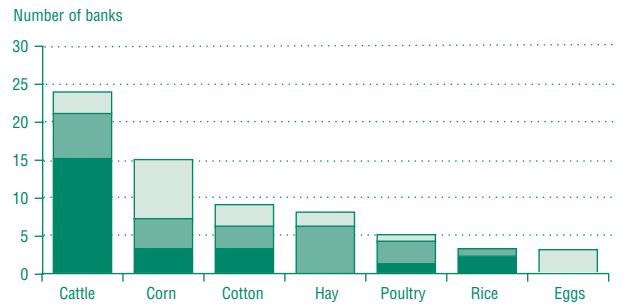
Region 6—North Central Texas



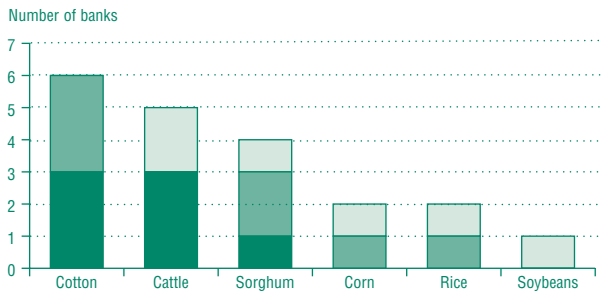
Region 7—East Texas



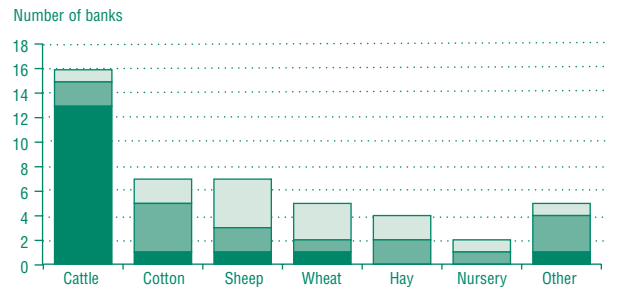
Region 8—Central Texas



Region 9—Coastal Texas

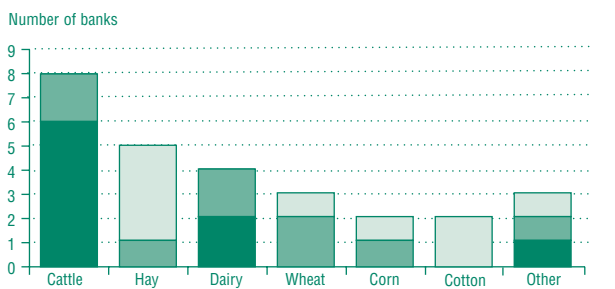


Region 11—Trans-Pecos and Edwards Plateau



NOTE: "Other" includes goats and pecans.

Region 12—Southern New Mexico



NOTE: "Other" includes chili and corn silage.

Region 13—Northern Louisiana

