

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.

Fourth Quarter 2005

The Fourth Quarter Survey indicated concern in the agricultural community as extreme drought continued to grip the Eleventh District. Bankers reported that drought conditions have been hard on both District livestock and crop producers. Poor pasture conditions, along with short hay supplies, significantly increased supplemental feeding costs and forced some cattle producers to cull their herds. Meanwhile, sparse subsoil moisture discouraged farmers from prepping land for the 2006 crop. Other concerns are that sagging commodity prices and high input costs could considerably reduce profits. Overall, prospects for the 2006 production season are bleak. On a positive note, a record cotton crop was harvested for the second consecutive year. Revenues from the bumper crop are helping cotton farmers pay down their debt as well as invest in farm equipment.

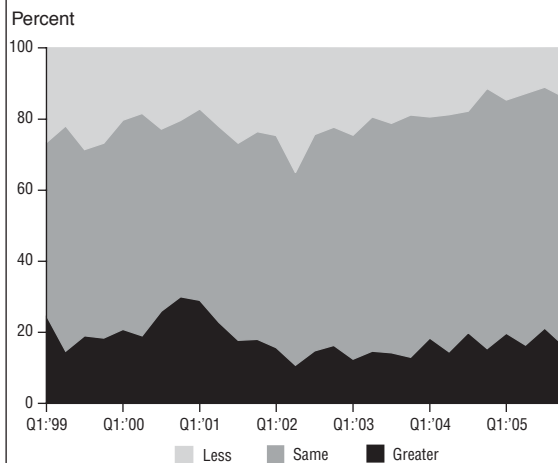
Here are additional details from the survey:

- Respondents expect the volume of feeder cattle loans to increase in the next three months. Nineteen percent of bankers anticipate greater loan volume, a 3.5 percent increase from a year earlier. This is in large part due to the high price of cattle and the increased cost of supplemental feeding.
- Farmland values continue to rise, albeit at a slow pace. Dryland, irrigated land and ranchland values edged up in the fourth quarter relative to the third quarter, increasing 0.4 percent, 1.0 percent and 3.4 percent, respectively. This is partly because farmland available for sale is scarce.
- Cash receipts from a great cotton crop are enabling farmers to service their debt. Twelve percent of bankers reported improved loan repayment rates, a 4.3 percent increase from last quarter. Moreover, 12 percent of bankers expected demand for operating loans to be lower over coming months; this reflects a 5.2 percent increase of bankers with lower loans over fourth quarter 2004.

Agricultural Credit Conditions at Survey Banks in the Eleventh District

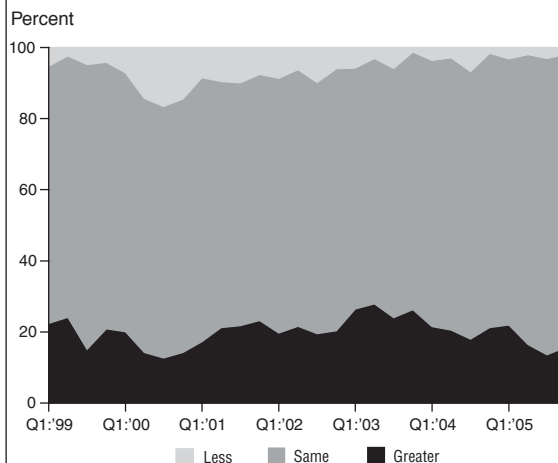
Demand for Loans

Demand for loans decreased, say 14 percent of bankers.



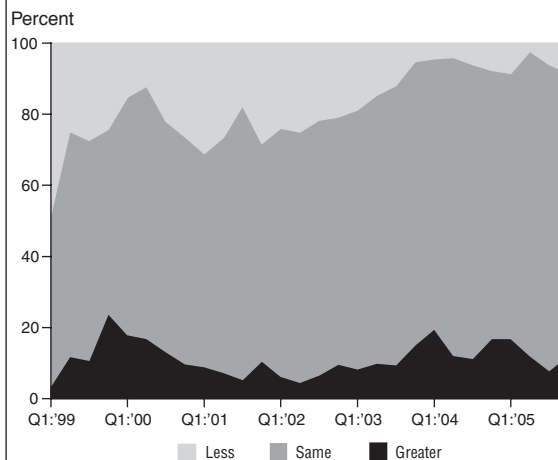
Funds Available for Additional Lending

Eighty-two percent of respondents say funds available for lending have remained the same.



Rate of Loan Repayment

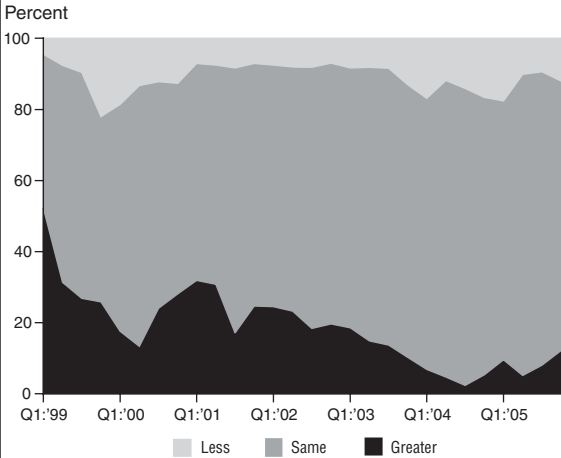
Excellent cotton crop yields in several regions improved loan repayment, as 12 percent of bankers report higher repayment rates.



Agricultural Credit Conditions at Survey Banks in the Eleventh District

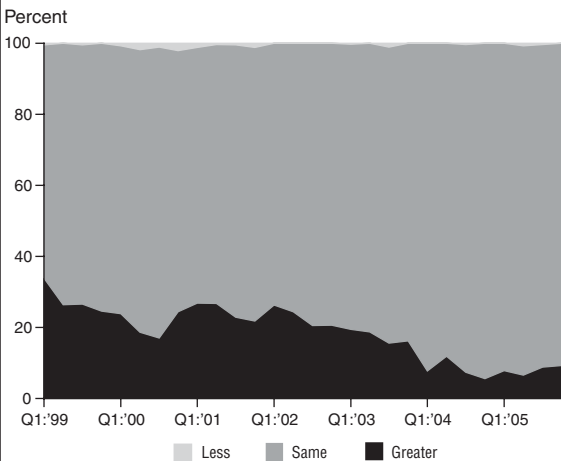
Renewals or Extensions of Loans

Drought conditions possibly increased requests for renewals and extensions, as 12 percent of bankers report greater demand.



Amount of Collateral

Collateral requirements remain stable, report 91 percent of bankers.



Total Agricultural Loans at Eleventh District Banks

Agricultural lending continues to grow.

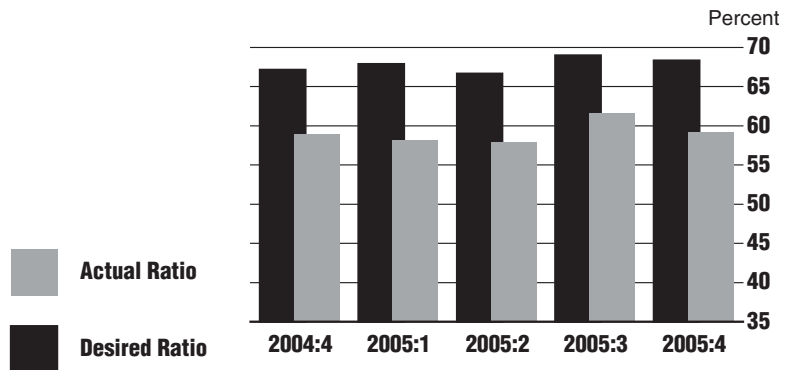
Millions of dollars (seasonally adjusted)



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)				2006 Jan. 1
	2005				
	Jan. 1	April 1	July 1	Oct. 1	
Less than 41%	19	24	23	18	20
41% to 50%	17	12	13	16	15
51% to 60%	18	15	19	14	21
61% to 70%	16	21	16	15	14
More than 70%	30	28	29	37	30

INTEREST RATE—FIXED

Ratio	Average Rate (Percent)				2006 Jan. 1
	2005				
	Jan. 1	April 1	July 1	Oct. 1	
Feeder cattle	7.59	7.75	8.07	8.41	8.86
Other farm operating	7.60	7.97	8.29	8.53	8.85
Intermediate term	7.67	7.85	8.16	8.36	8.72
Long-term farm real estate	7.00	7.37	7.56	7.97	8.11

INTEREST RATE—VARIABLE

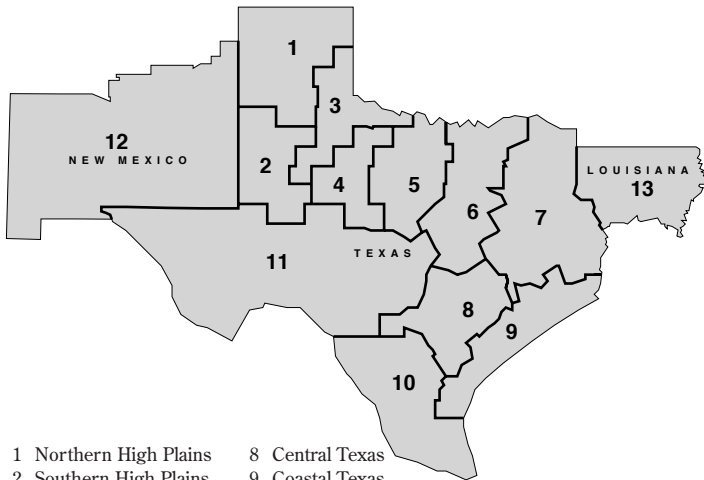
Ratio	Average Rate (Percent)				2006 Jan. 1
	2005				
	Jan. 1	April 1	July 1	Oct. 1	
Feeder cattle	7.12	7.25	7.83	8.19	8.27
Other farm operating	7.22	7.50	8.06	8.33	8.37
Intermediate term	7.10	7.41	7.89	8.18	8.20
Long-term farm real estate	6.59	6.94	7.42	7.81	7.79

Rural Real Estate Values

December 31, 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 Fourth Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	150	836	0.4	7.2
TEXAS	139	838	0.4	7.2
Northern High Plains	21	328	-0.3	6.9
Southern High Plains	18	430	3.7	9.9
Northern Low Plains	12	408	2.5	11.1
Southern Low Plains	11	501	1.5	3.8
Cross Timbers	12	772	-2.1	8.0
North Central Texas	22	1,452	-1.1	8.0
East Texas	7	899	1.5	3.7
Central Texas	18	1,419	-2.7	3.0
Coastal Texas	7	1,067	6.4	3.8
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	10	732	-1.7	8.3
Northern Louisiana	7	886	1.1	7.9
Southern New Mexico	4	300	-1.0	8.3

CROPLAND—IRRIGATED

Region	Banks ¹ Fourth Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	98	983	1.0	13.2
TEXAS	86	909	1.7	12.3
Northern High Plains	19	685	2.4	14.5
Southern High Plains	17	798	0.9	6.0
Northern Low Plains	10	661	-0.7	9.6
Southern Low Plains	7	741	-0.3	0.7
Cross Timbers	4	1,316	-1.7	4.8
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	3	976	-6.9	-5.6
Central Texas	11	2,079	2.7	12.4
Coastal Texas	4	1,216	0.9	15.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	8	1,619	2.3	19.9
Northern Louisiana	7	1,163	3.2	15.5
Southern New Mexico	5	1,653	-3.3	17.8

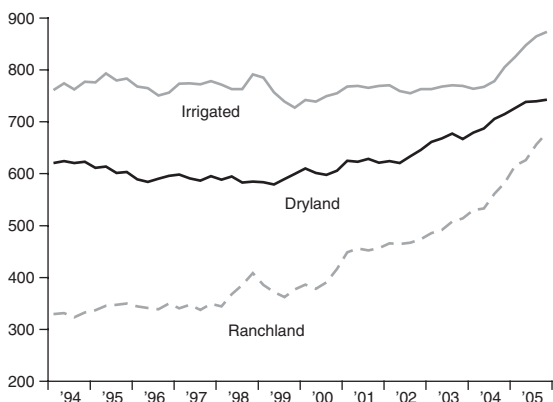
RANCLAND

Region	Banks ¹ Fourth Quarter 2005	Average Value ² 2005	Percent Changes ³ in Values from	
			Previous Quarter	Previous Year
DISTRICT	164	765	3.4	20.4
TEXAS	153	939	2.6	20.2
Northern High Plains	21	261	4.4	15.0
Southern High Plains	14	234	1.0	8.8
Northern Low Plains	12	320	6.3	27.3
Southern Low Plains	10	486	3.6	18.7
Cross Timbers	15	974	1.9	13.2
North Central Texas	23	1,562	1.4	6.0
East Texas	15	1,213	4.5	24.2
Central Texas	21	2,072	0.9	13.2
Coastal Texas	6	950	-0.3	-2.6
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	15	905	3.2	32.8
Northern Louisiana	6	804	0.8	4.3
Southern New Mexico	5	263	13.6	23.5

Eleventh District Real Land Values

Increase in sale of farmland for recreational use boosted dryland, irrigated land and ranchland values in fourth quarter 2005.

2000 dollars per acre



Fourth 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

Ideal moisture, growing conditions and harvest weather resulted in excellent crops for fall 2005. Farmers are ending a tremendous crop year, but 2006 looks dismal with no moisture and high energy costs.

Feeder cattle loan demand is low due to minimal projected borrower profitability. 2006 demand for dairy loans is expected to be higher due to new construction of facilities relocating from California, Arizona and East Texas. Fuel prices will strain profitability of irrigated crops for the 2006 planting season. Moisture conditions are poor; winter wheat is under much stress.

Region 2—Southern High Plains

We have had a good turnout on the cotton and peanut crops. Better commodity prices would help with the increases in input costs.

Potentially the largest cotton crop ever is all but completely harvested and in modules. Customers are anticipating paying off their debt, with cash remaining. Excess funds will be used to update equipment and make land purchases.

There is strong evidence of rising land values—especially for irrigated cropland. Land available for purchase is scarce.

Region 3—Northern Low Plains

Crop yields have been above average, but increased production expenses have limited profits. Drought conditions have hampered the cow/calf and feeder operations with no wheat available for grazing.

The cotton harvest is almost finished; it's possibly the best yield this county has ever had. We have had excellent weather to harvest both the peanut and cotton crops. However, rain is needed to prepare the land for 2006 crops. Wheat crops are dying due to a lack of moisture.

The cotton harvest is almost complete; we have another bumper crop. Prices are not adequate to provide a reasonable margin. Cattle prices are still good. We are in need of moisture.

Feeder cattle lines have been increased due to cattle prices. Recreational land use continues to drive land prices up. Dairy buyout will reduce dairy loan demand after the first of the year. Fuel prices and lack of rain are major concerns.

Strong recreational land demands have continued to drive native pastureland and rangeland prices up. Native pastureland with good hunting is bringing from \$500 to \$800 per acre, well above its agricultural value.

Region 4—Southern Low Plains

We had a record cotton crop this year. 2006 doesn't look very good without any rain since October.

We have had good cotton crops two years in a row. Cattle prices are high, and there is plenty of grass to eat.

The 2005 cotton crop will be a bumper crop; grades are yielding in the 58 cent range. Demand for equipment and capital will be high, but loan demand will be lower.

Oil and gas prices have had a negative effect on agriculture in this region. Our area is 4 inches below normal annual rainfall.

2005 was awesome for cattle and cotton. Farmers expect excess funds, which will be needed because of the current drought and no foreseeable precipitation. 2006 wheat and cotton crops look bleak.

The cotton harvest is nearing completion, with expectations for a record crop. Wheat pastures are very dry; we need moisture for land preparation.

Region 5—Cross Timbers

Land is being sold in smaller tracts for more money.

Wheat grazing is poor due to a lack of moisture. Cattle prices are still good.

We have had zero moisture in October and November following the record rainfalls in August and September. Wheat grazing is zero. Pastures are short on winter grass.

Region 6—North Central Texas

It is hard to find land for sale. Hay prices are very high, and hay is scarce due to serious drought conditions. A rough winter and continued hay shortage should drive the cattle market down.

Pasture conditions are poor, preventing wheat pasture grazing. Operating expenses have increased because of high fuel prices and the need to purchase hay.

Agricultural credit conditions are not good. Crop yields are down and prices are at a low. Many older farmers are thinking about

quitting, as they are losing equity each year. If government payments are decreased or stopped, it is over for most farmers.

Drought conditions persist, and reports indicate a shortage of hay available for cattle feed. Continued dry conditions could affect the cattle market, as producers may be forced to liquidate herds due to lack of inexpensive feed.

Increased input costs are severely impacting profit margins. The base commodity price has not kept pace with input costs.

Region 7—East Texas

Lack of moisture will delay crops, affecting the availability of commodities to be marketed. Livestock will be negatively affected as pastures cannot provide adequate grazing or water. Additionally, land values will be affected if crops have lower yields, reducing the cash flow available for servicing real estate debt. Overall, the market will be adversely affected as cattle inventory will be liquidated.

Region 8—Central Texas

The continued drought has started to affect everyone. Lots of cattle are coming into local sale barns. Water and stored hay levels are low. There has been a recent surge in real estate sales (nonfarm) at the end of this year.

A few rice farmers are quitting due to operating losses. An increase in the cash rice market in the next 120 days will result in increased acreage, while a flat or falling market will result in a substantial drop in rice acreage for 2006. Cattle ranchers had another good year.

There are virtually no real estate transactions involving farmers or ranchers purchasing land for agricultural use; 95 percent of land sales are for investment purposes, recreational use or are being divided and sold in smaller plots.

Low crop prices will result in losses for the second year in a row.

Region 12—Southern New Mexico

The area is very dry. With high fuel and fertilizer costs, profitability will slip.

Region 13—Northern Louisiana

The recovery efforts following Hurricane Rita are nearly complete. All things considered, the agricultural economy in our market areas sustained minimal impact.

Crop production loans are being paid down or paid off at this time.