

# 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](http://www.dallasfed.org).

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

Third Quarter 2006

The Third Quarter Survey shows marginal improvement in the Eleventh District's agricultural conditions. Several regions received badly needed rain in September, which helped enhance irrigated crop yields, slightly improved cattle grazing conditions and boosted soil moisture levels for winter wheat planting. However, the rains were too late to salvage dryland crops, and a large area of the district remains in drought. Ranchers in Central, North Central and East Texas continue to liquidate their breeding stock because of limited forage availability and high supplemental feed costs. Operating margins remain lackluster, and bankers say the ongoing drought, along with high feed and production costs, has increased demand for new loans and spurred renewals of existing loans.

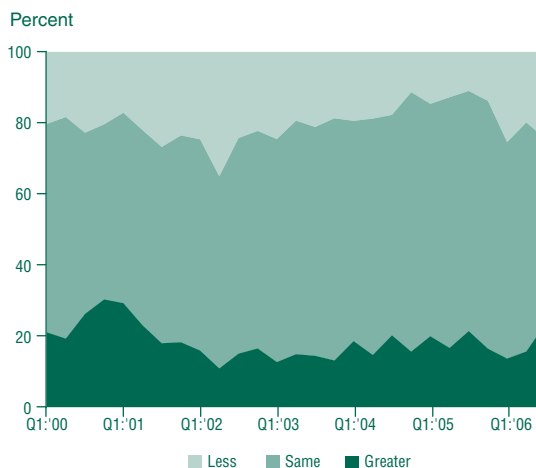
Here are additional details from the survey:

- Land values continue to rise in most regions, largely due to the sale of farmland for nonagricultural purposes, such as investment and recreation. Dryland, irrigated land and ranchland prices were up 3.9 percent, 2.4 percent and 7.1 percent, respectively, in the third quarter. Bankers say the recent run-up in land values has priced many agricultural producers out of the market.
- The ongoing dry spell, coupled with higher interest rates and production costs, has increased financial strain on the district's agricultural producers. Seventeen percent of bankers saw a decline in the rate of loan repayment, compared with 10 percent last quarter and 6 percent a year earlier. Additionally, 18 percent of those surveyed cite an increase in loan renewals or extensions, compared with 8 percent a year ago.
- High production costs may have limited purchases of farm machinery. Fewer bankers (only 4 percent vs. 17 percent last year) anticipate making more farm machinery loans.

## Agricultural Credit Conditions at Survey Banks in the Eleventh District

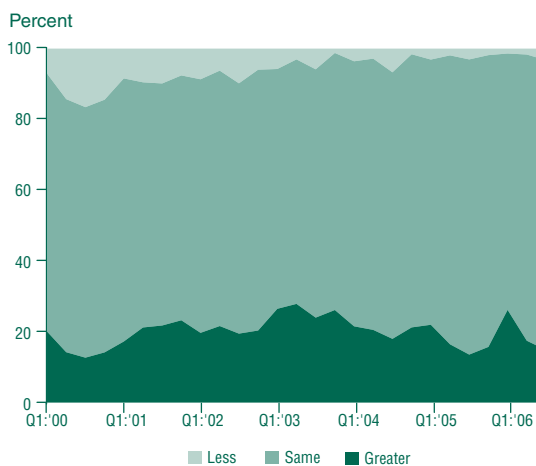
### Demand for Loans

*Fifty-two percent of bankers report no change in loan demand.*



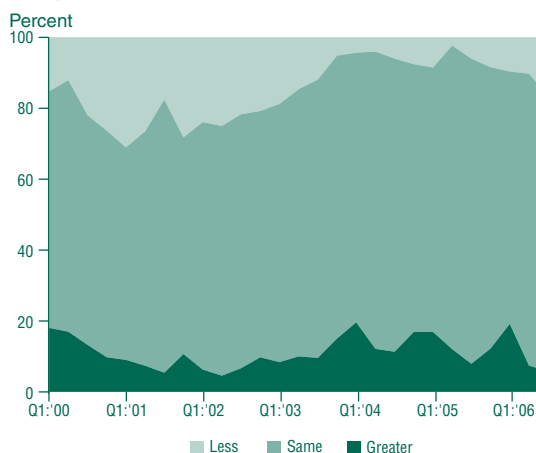
### Funds Available for Additional Lending

*Funds available for lending remain the same, say 82 percent of respondents.*



### Rate of Loan Repayment

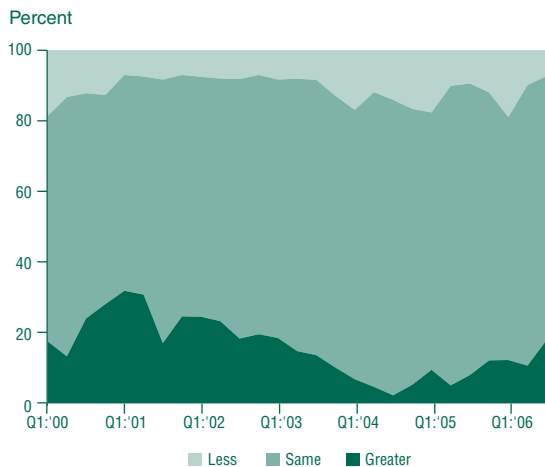
*Seventeen percent of bankers see lower loan repayment this quarter.*



## Agricultural Credit Conditions at Survey Banks in the Eleventh District

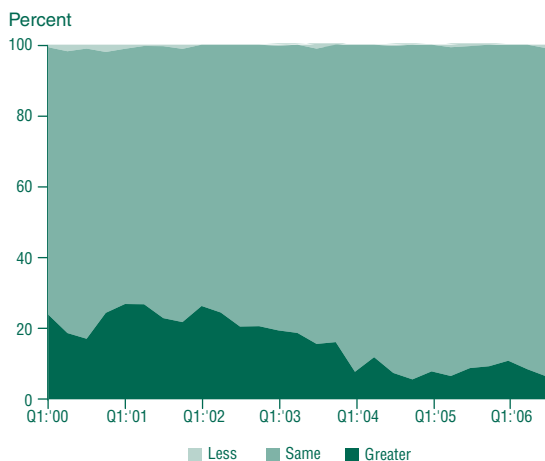
### Renewals or Extensions of Loans

*Eighteen percent of bankers see an increase in loan renewals and extensions.*



### Amount of Collateral

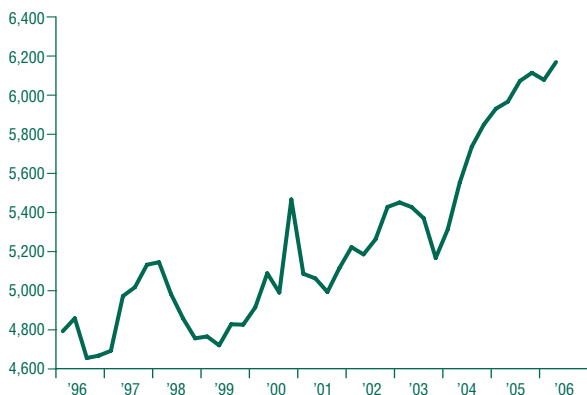
*Collateral required remains unchanged, report 93 percent of bankers.*



### Total Agricultural Loans at Eleventh District Banks

*Agricultural lending continues to grow in the Eleventh District.*

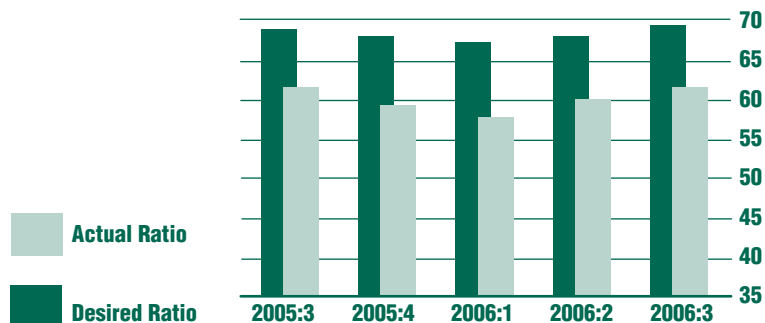
Millions of dollars (seasonally adjusted)



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)				
	2005 Oct. 1	2006 Jan. 1	2006 Apr. 1	2006 July 1	2006 Oct. 1
Less than 41%	18	20	25	16	18
41% to 50%	16	15	11	14	9
51% to 60%	14	21	21	27	22
61% to 70%	15	14	15	13	18
More than 70%	37	30	28	30	33

### INTEREST RATE—FIXED

	Average Rate (Percent)				
	2005 Oct. 1	2006 Jan. 1	2006 Apr. 1	2006 July 1	2006 Oct. 1
Feeder cattle	8.41	8.86	8.96	9.37	9.61
Other farm operating	8.53	8.85	9.15	9.57	9.68
Intermediate term	8.36	8.72	8.84	9.19	9.36
Long-term farm real estate	7.97	8.11	8.19	8.12	8.53

### INTEREST RATE—VARIABLE

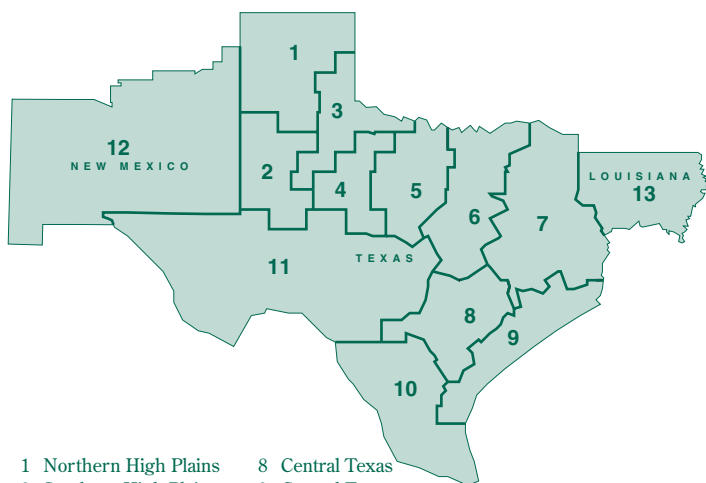
	Average Rate (Percent)				
	2005 Oct. 1	2006 Jan. 1	2006 Apr. 1	2006 July 1	2006 Oct. 1
Feeder cattle	8.19	8.26	8.53	9.10	9.47
Other farm operating	8.33	8.37	8.84	9.32	9.55
Intermediate term	8.18	8.20	8.62	9.18	9.48
Long-term farm real estate	7.81	7.79	7.96	8.66	8.73

## Rural Real Estate Values

October 1, 2006

- <sup>1</sup> Number of banks reporting land values.
- <sup>2</sup> Prices are dollars per acre, not adjusted for inflation.
- <sup>3</sup> 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 <sup>1</sup> Third Quarter 2006	Average Value <sup>2</sup> 2006	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	142	970	3.9	15.4
TEXAS	129	982	4.2	16.5
Northern High Plains	22	358	1.9	8.9
Southern High Plains	17	422	-1.6	1.9
Northern Low Plains	10	412	3.2	3.3
Southern Low Plains	11	554	1.3	12.1
Cross Timbers	13	870	4.4	10.4
North Central Texas	20	1,572	0.3	6.5
East Texas	8	1,208	6.9	36.4
Central Texas	13	1,948	6.7	27.1
Coastal Texas	7	1,005	2.7	0.3
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	7	926	5.3	24.4
Northern Louisiana	7	900	-0.2	2.7
Southern New Mexico	6	336	-5.4	10.9

### CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Third Quarter 2006	Average Value <sup>2</sup> 2006	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	93	1,088	2.4	11.6
TEXAS	78	1,011	3.1	13.0
Northern High Plains	20	733	0.9	9.5
Southern High Plains	17	847	0.6	7.2
Northern Low Plains	8	731	7.3	9.7
Southern Low Plains	7	743	-2.1	0
Cross Timbers	4	1,701	6.6	27.1
North Central Texas	n.r.	n.r.	n.r.	n.r.
East Texas	3	1,439	9.0	37.2
Central Texas	7	2,413	0.5	19.1
Coastal Texas	4	1,152	-0.4	-4.4
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	6	1,623	-2.6	2.6
Northern Louisiana	7	1,064	0.3	-5.6
Southern New Mexico	8	1,856	1.0	8.6

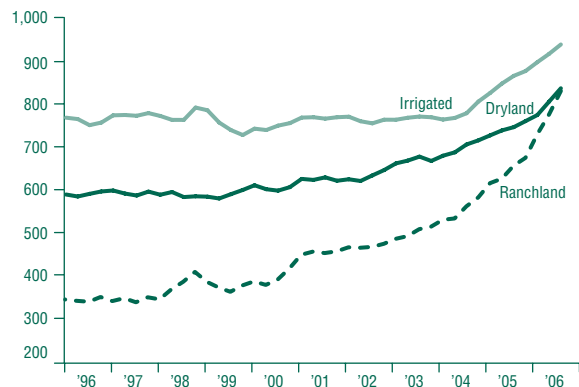
### RANCHLAND

Region	Banks <sup>1</sup> Third Quarter 2006	Average Value <sup>2</sup> 2006	Percent Changes <sup>3</sup> in Values from	
			Previous Quarter	Previous Year
DISTRICT	158	962	7.1	30.2
TEXAS	142	1,215	7.3	32.8
Northern High Plains	21	272	-0.6	8.6
Southern High Plains	13	272	7.2	17.6
Northern Low Plains	10	373	7.4	23.9
Southern Low Plains	10	573	3.5	22.1
Cross Timbers	14	1,132	5.9	18.4
North Central Texas	22	1,664	0	8.5
East Texas	18	1,363	3.8	17.5
Central Texas	16	2,597	7.1	26.5
Coastal Texas	6	1,051	6.4	10.3
South Texas	n.r.	n.r.	n.r.	n.r.
Trans-Pecos and Edwards Plateau	11	1,214	4.2	38.5
Northern Louisiana	7	748	-3.6	-6.2
Southern New Mexico	9	240	-6.4	3.4

### Eleventh District Real Land Values

Dryland, irrigated land and ranchland values continued to rise in the third quarter of 2006.

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

While too late for dryland crops, the recent moisture helped fall crops and winter wheat planting. More wheat is being planted. Land sales for dairy sites and dairy-related forage production are driving up irrigated farmland prices.

Our small- to medium-size farmers are going out of business. We finance mostly large farmers operating over 3,000 acres.

The silage harvest is complete. The wheat looks good. The corn harvest is under way, but the yields are off.

Recent rainfall has boosted all crops except cotton and silage. Winter wheat planting is in full operation, with prospects of wheat pasture grazing looking good. Feeder cattle prices are near break-even levels, while stocker cattle prices remain high. However, profitability levels are strained. Prices of land with recreational usage remain strong.

## Region 2—Southern High Plains

Rain has helped irrigated crops and winter wheat planting. Dryland crops were lost to drought. Input costs are higher than last year.

Rains were too late for the 2006 dryland cotton crop. Irrigated cotton appears headed for a good harvest season. Net income will be down due to high production costs.

## Region 3—Northern Low Plains

Our area received rain, and farmers are able to sow rye and wheat for winter grazing. Cotton crops will be short due to the earlier dry weather. Irrigated cotton is below average.

We are waiting on insurance checks. The cotton harvest may be half of last year's. The cattle business is still good.

The drought has reduced demand for feeder cattle loans. Hay is in high demand. Farmers are trying to keep their cattle herds together. Recreational use continues to drive land prices up. We received rain last week but need more.

## Region 4—Southern Low Plains

Pastureland is selling for nonagricultural purposes. The only three land sales in the last six months were to outside investors.

Recent rains were too late for the cotton crop. Pastures will need time to regrow before the frost.

## Region 5—Cross Timbers

As consumer spending and the economy slow down, land prices should stabilize or decline. Farming costs are high for the price of wheat.

We received 2 to 3 inches of rain in September, allowing farmers to sow wheat. More rain is needed or the wheat grazing will be limited. Stock tanks are low, so runoff water is critical.

## Region 6—North Central Texas

Land sales have increased both in number and cost. Most sales are for 100 to 200 acres to people who are moving back after retiring.

Some farmers will have problems refinancing in 2007 after a second year of increased expenses and reduced yields resulting from the drought.

We had 3 to 4 inches of rainfall this last month. We should be able to get a cutting of hay before frost. Things are looking better, with interest rates remaining stable and gas prices dropping 50 to 60 cents a gallon.

Drought conditions have made pastures nonexistent and increased feeding costs. Ranchers are selling their breeding stock. Cattle prices are good.

Our area has gone to five- to 10-acre tracts. The farm and ranch customers are being replaced by city people.

Corn and grain sorghum crop yields have been below average. For the first time in years, corn and grain sorghum stalks have been baled and sold, averaging \$50 per bale. Hay is in short supply and selling for \$100 per round bale. Cotton yields were above average despite the dry conditions. Tanks are dry, and producers are relying on rural water or even hauling water. Herds are being culled. Fortunately, prices have remained strong. Land prices continue to increase in Williamson County due to development by outside investors.

Dry weather persists. More cattle are being sold due to feed costs. Prices remain stable, but they will not hold unless rain is received soon.

## Region 7—East Texas

Northeast Texas is experiencing severe drought conditions, causing a sell-down of cattle inventory and reduced crop yields. Agricultural purchasing will be down into the first quarter of 2007 or until weather conditions improve.

Because of the drought, operating loan requests are up. However, land values continue to increase despite the drought.

## Region 8—Central Texas

There are more hay trucks on the road than gravel trucks. Gas prices slowed some people down. Real estate is starting to cool off. Borrowers are not able to come up with cash down payments as before.

Some say this is the worst drought since 1924. Many acres of winter pastures are being planted. Old cows are being culled. Many producers anticipate that heifers will be in demand next spring due to the sell-off this year.

Ranchers have about one-third the amount of hay needed to make the winter. Hay shipped into this area is costing \$70-\$90 per roll, causing an increase in cattle operating loans. Land prices have become outrageous; local people can't buy additional property.

## Region 9—Coastal Texas

Agriculture is in a crisis as a result of low prices, high production costs and lower subsidies. Young people can't or choose not to go into agriculture. Outside investors are buying the land.

Conditions in the Texas Gulf Coast are improving with recent rains. Crop results were fair to poor for grains and fair to good for cotton. We receive calls almost daily from cattle owners in Central South Texas looking for hay to purchase.

All types of crops have had better than average yields this year. The cotton crop looks really good.

## Region 11—Trans-Pecos and Edwards Plateau

An overabundance of water due to the recent rains is causing concern.

Recent rains have helped agricultural producers, but the hot, dry summer hurt range conditions. A wet fall and winter will be needed. Livestock prices have remained good through this dry time.

Interest in agricultural-valued properties for recreational use appears to coincide with the hunting season.

## Region 12—Southern New Mexico

We have the best grazing conditions in 20 years. Fuel costs are impacting operating expenses. It is hard to find fuel-efficient farm and ranch vehicles, making it very difficult to control costs.

The price of grassland has been affected by out-of-state buyers. Dairy expansion continues to push up the price of irrigated land.