

# 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.

Second Quarter 2008

The second quarter 2008 survey indicated continued strain in the Eleventh District agricultural community. Respondents from several regions noted that hot, arid and windy weather dried out topsoil moisture, deteriorating crop and pasture conditions, increasing the need for supplemental feeding and weakening the outlook. High fuel, feed and fertilizer costs boosted operational expenses, and a few respondents said that this increased strain was affecting cash flow of some agricultural producers. On the upside, crop prices remained favorable, and 78 percent of responding bankers reported stable loan repayment rates.

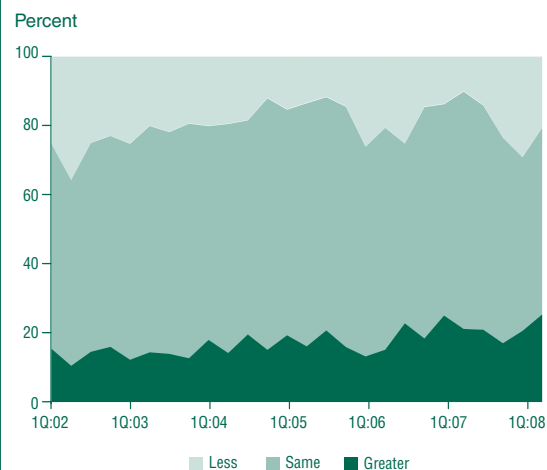
Additional highlights from the survey:

- Demand for farmland for recreational use or development continues to bid up land prices, although the rate of increase has moderated. Seventy-three percent of respondents say it is likely that land values will be flat over the next three months, up from 62 percent in the first quarter.
- Drought-like conditions have stunted pasture growth and increased feed costs. This has compelled some ranchers to cull their older cattle, reducing demand for feeder cattle loans. Nearly 40 percent of responding bankers expect to make fewer feeder cattle loans in the next three months compared with 29 percent last quarter.
- Rapidly rising costs of irrigation, fuel and fertilizer have pushed up production expenses. Therefore, more than a third of those responding anticipate an increase in farm operating loans over the next three months, up from 26 percent last quarter.
- Interest rates for all types of agricultural loans edged down in the second quarter.

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

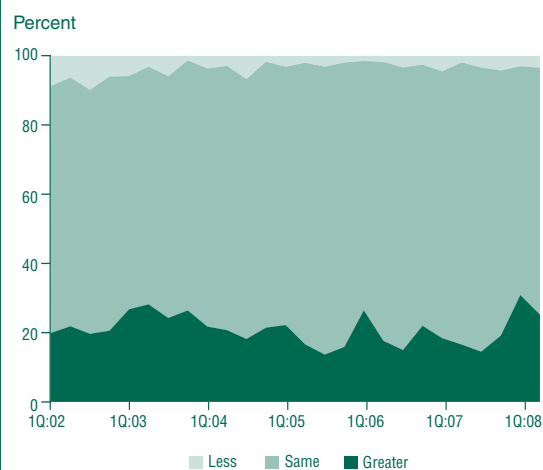
### Demand for Loans

Fifty-four percent of bankers report that demand for loans remains steady.



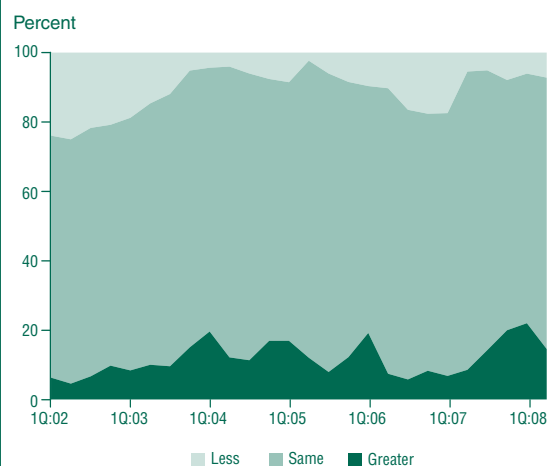
### Funds Available for Additional Lending

Seventy-two percent of respondents indicate no change in funding.



### Rate of Loan Repayment

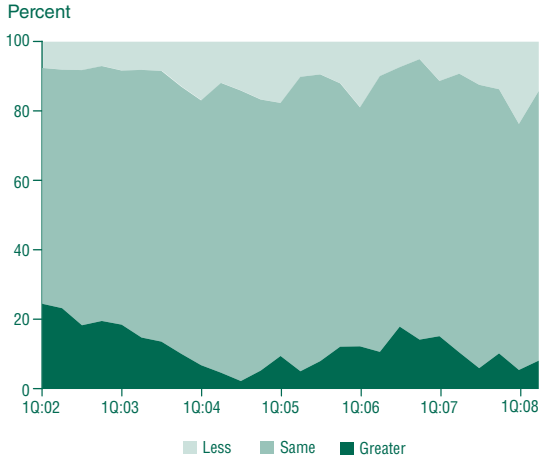
Fifteen percent of bankers experience increased loan repayment, up from 9 percent a year earlier.



# Agricultural Credit Conditions at Survey Banks in the Eleventh District

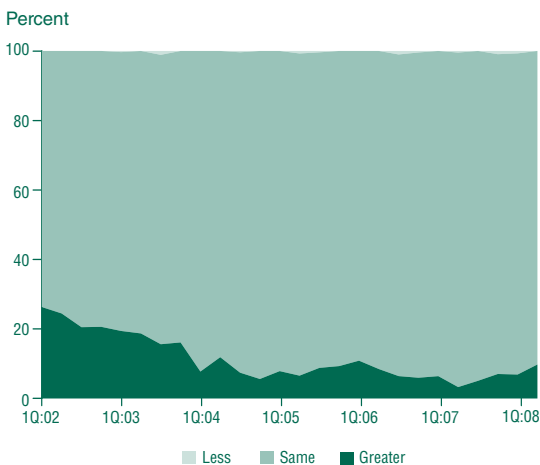
## Renewals or Extensions of Loans

Fourteen percent of reporters cite making fewer renewals or extensions compared with 9 percent a year ago.



## Amount of Collateral

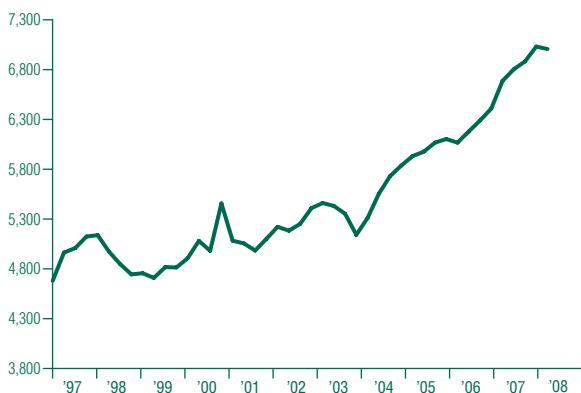
Ninety percent of bankers require no additional collateral.



## Total Agricultural Loans

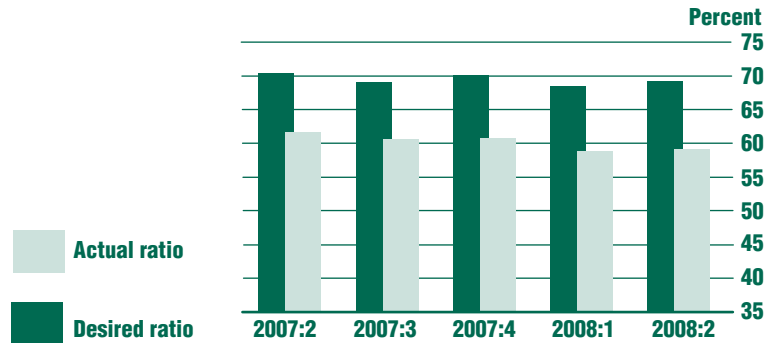
Loan volume declines in first quarter 2008, following seven successive quarters of healthy growth.

Millions of dollars (seasonally adjusted)



## Loan-to-Deposit Ratios at Survey Banks

Average actual and desired ratios



## Distribution of Loan-to-Deposit Ratios

	Banks Reporting (Percent)				
	2007		2008		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Less than 41%	17	17	18	24	24
41% to 50%	12	14	12	12	10
51% to 60%	13	17	17	18	15
61% to 70%	28	23	28	22	18
More than 70%	30	30	25	24	32

## Interest Rate—Fixed

	Average Rate (Percent)				
	2007		2008		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Feeder cattle	9.39	9.35	8.91	7.78	7.52
Other farm operating	9.54	9.55	9.05	7.96	7.81
Intermediate term	9.13	9.24	8.66	7.74	7.63
Long-term farm real estate	8.52	8.49	7.92	7.24	7.20

## Interest Rate—Variable

	Average Rate (Percent)				
	2007		2008		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Feeder cattle	9.42	9.22	8.67	7.20	6.96
Other farm operating	9.57	9.41	8.73	7.41	7.09
Intermediate term	9.14	9.23	8.48	7.32	6.91
Long-term farm real estate	8.66	8.61	7.93	6.66	6.54

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# Rural Real Estate Values

July 1, 2008

<sup>1</sup> Number of banks reporting land values.

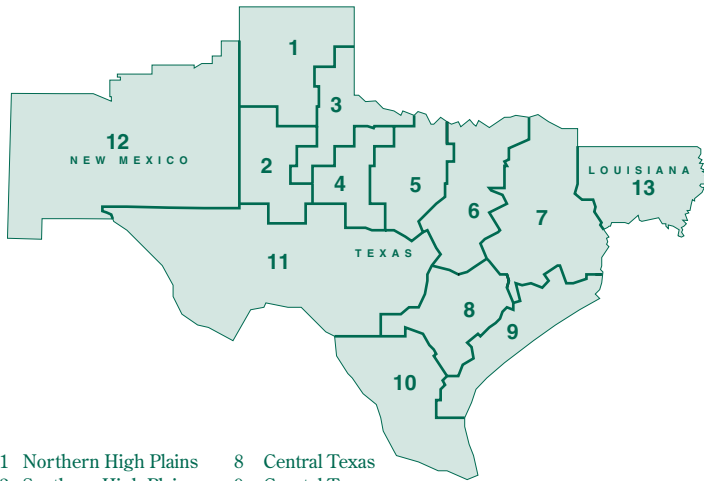
<sup>2</sup> Prices are dollars per acre, not adjusted for inflation.

<sup>3</sup> Not adjusted for inflation.

<sup>4</sup> Increase in the percent change from 2007 to 2008 reflects new reporters in 2008.

n.a.—Not published due to insufficient responses but included in totals for Texas and district.

## Eleventh Federal Reserve District

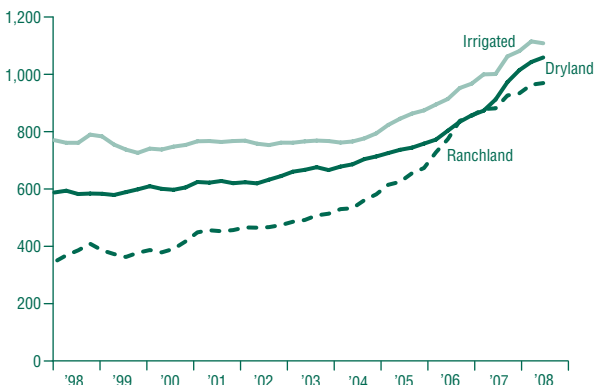


- 1 Northern High Plains
- 2 Southern High Plains
- 3 Northern Low Plains
- 4 Southern Low Plains
- 5 Cross Timbers
- 6 North Central Texas
- 7 East Texas
- 8 Central Texas
- 9 Coastal Texas
- 10 South Texas
- 11 Trans-Pecos and Edwards Plateau
- 12 Southern New Mexico
- 13 Northern Louisiana

## Eleventh District Real Land Values

*Dryland and rangeland values increase slightly while irrigated land values edge down in the second quarter.*

2000 dollars per acre



## CROPLAND—DRYLAND

Region	Banks <sup>1</sup> Second Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	130	1,290	1.5	18.0
TEXAS	118	1,303	2.1	18.5
Northern High Plains	20	450	4.2	17.6
Southern High Plains	15	498	3.6	14.9
Northern Low Plains	8	540	2.0	27.2
Southern Low Plains	9	806	9.8	31.2
Cross Timbers	11	1,274	5.7	33.1 <sup>4</sup>
North Central Texas	16	2,216	-0.6	20.6
East Texas	7	1,550	-2.5	15.4
Central Texas	14	2,548	3.4	24.2
Coastal Texas	6	1,591	5.2	26.1
South Texas	3	1,388	5.0	-15.0
Trans-Pecos and Edwards Plateau	9	1,127	0.0	9.7
Southern New Mexico	6	380	-4.1	18.6
Northern Louisiana	6	1,241	-5.1	11.7

## CROPLAND—IRRIGATED

Region	Banks <sup>1</sup> Second Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	91	1,350	-0.6	12.5
TEXAS	78	1,307	2.0	15.5
Northern High Plains	20	1,066	0.4	20.9
Southern High Plains	15	1,081	7.1	26.5
Northern Low Plains	6	945	3.7	17.3
Southern Low Plains	6	1,245	14.7	56.8 <sup>4</sup>
Cross Timbers	5	2,160	3.0	20.8
North Central Texas	n.a.	n.a.	n.a.	n.a.
East Texas	n.a.	n.a.	n.a.	n.a.
Central Texas	9	3,146	5.8	27.1
Coastal Texas	3	1,629	-1.3	13.3
South Texas	3	1,567	3.7	-9.5
Trans-Pecos and Edwards Plateau	8	1,986	-2.1	21.1
Southern New Mexico	7	1,683	-15.8	-7.9
Northern Louisiana	6	1,607	-4.0	20.7

## RANCHLAND

Region	Banks <sup>1</sup> Second Quarter 2008	Average Value <sup>2</sup>	Percent Change <sup>3</sup> in Value from	
			Previous Quarter	Previous Year
DISTRICT	138	1,181	0.6	11.8
TEXAS	126	1,488	0.6	12.5
Northern High Plains	21	361	3.0	16.8
Southern High Plains	9	408	7.6	31.9
Northern Low Plains	8	590	-0.9	50.9 <sup>4</sup>
Southern Low Plains	9	802	11.5	17.6
Cross Timbers	12	1,811	6.2	28.7
North Central Texas	17	2,334	0.6	20.4
East Texas	13	1,956	-3.5	5.0
Central Texas	15	3,413	2.1	22.1
Coastal Texas	5	1,402	1.2	26.6
South Texas	3	1,744	-1.1	-3.1
Trans-Pecos and Edwards Plateau	14	1,430	-0.7	9.1
Southern New Mexico	7	302	0.4	2.9
Northern Louisiana	5	941	1.7	11.3

# Second Quarter 2008 Comments

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

## Region 1—Northern High Plains

The ongoing high winds and drought-like conditions delayed this year's cotton crop. With rising input costs, from chemicals and fertilizers to irrigation pumping costs, and even higher fuel costs, agricultural loan customers will need a good crop to finish out the remainder of the year. The price of oil is dictating everything in the economy, not just commodities.

The drought ended any hopes for the dryland wheat crop. Now it's raining, but even the irrigated wheat yields are down.

Loans in this area continue to decline due to extreme oil and gas production and landowner royalty interests. Deposits continue to increase.

Both land prices and rental rates have decreased slightly in the past three to six months. Buyers and producers are faced with higher input costs because of fertilizer and fuel prices. Commodity prices are good and are expected to remain high until the end of the year. Prospects for profit in the cattle market are not good at this time.

## Region 2—Southern High Plains

Land values continue to increase for irrigated land. We have some severe drought conditions, due to 100+ degree heat and 30 to 50 mph winds. If we do not get a good rain soon, most of our dryland crops will not be salvageable.

The cotton crop has been difficult to establish, but most of the irrigated crops are doing well, provided they were not damaged by hail or wind. Dryland crops are marginal, where they are established.

It is very dry and windy, and we need rain. High costs and market volatility will make for a difficult year for agriculture producers.

The lack of moisture and high winds have damaged the cotton crop. This area is in desperate need of rainfall.

## Region 3—Northern Low Plains

Ranchland in our area no longer sells to ranchers and farmers, but to recreational users.

Real estate values continue their upward trend due to hunting and recreational use.

## Region 4—Southern Low Plains

Recent rains have helped establish the new crop. Higher fuel and chemical expenses are causing operating expense concerns.

## Region 5—Cross Timbers

It is taking longer to sell agriculture land. Land sales are slowing down. Prices have not changed.

Land price increases seem to have stalled. This area is very dry, which is affecting the production of adequate hay and pasture to maintain livestock. We need rain very soon.

## Region 6—North Central Texas

Circumstances are the worst I've ever seen with fuel prices (both gas and diesel).

Hopefully, increased grain prices will at least offset the high input costs for our farmers. There is still some concern as to how these issues may impact the repayment of our overall portfolio.

Due to very high winds and high temperatures, the corn crop has suffered in the last three weeks. Prior to that, we were expecting a better than normal yield. Now corn yields may be 50 percent of normal. When corn is under stress, aflatoxin is a possibility. The corn market continues to increase, which is a positive, but if yields are decreased and with the possibility of aflatoxin, it could be a disaster for corn farmers. Milo still has a good chance to produce a normal yield, but we need rain soon. The cotton acreage has decreased in Williamson County, and corn and some wheat are being planted in its place. What has been planted is under stress, and without rain it will also have low yields. The entire wheat crop is out, and yields were average to above average with a very good price, making this the year to have planted all wheat. Producers and their bankers have concerns about the future and the increasing costs associated with production. This will be an interesting year, and the outcome is hard to predict.

The area is in need of rain.

Higher input costs continue to plague producers. Oil and gas development, combined with recreational land purchases, have increased land values, making them economically unjustifiable. Unlike home prices, land prices have remained high, oblivious to previous soft economic times.

## Region 7—East Texas

Land values are based on developmental values rather than production value, making it difficult for the family farmer to make a profit. Production cannot support the prices that land development dictates. Credit conditions are such that cash flow from crops will not support needed expenses to make a crop. Therefore, production loans are more difficult to fund without the assistance of an outside income.

## Region 8—Central Texas

Weather conditions are hot and dry. The Farm Credit System continues to expand lending to borrowers who are not directly involved in agriculture.

Dry weather patterns and high fuel, feed and fertilizer costs are putting some marginal agriculture operations in a cash flow crunch. We need rain!

Most of the corn is burning up, and yields will be down drastically. There is very little hay available, and ranchers are starting to need it for feed. Prices have increased in the past three weeks from \$35 for old hay, up to \$50-\$55 bale. Area sale barns report larger runs of packer cows and packer bulls as ranchers cull their older cows.

Another drought cycle is on the horizon. Fuel, fertilizer and feed are all up in price, and cattle prices are coming down.

## Region 11—Trans Pecos and Edwards Plateau

High fuel and feed costs, along with dry conditions, are presenting problems.

Hot, dry weather continues to be the norm for the western portion of the Hill Country. Drought conditions have made feeding more prevalent at a time of high feed and fuel prices. All in all, 2008 is shaping up to be a difficult year for the agriculture operator in this region. Real estate prices continue to be influenced by recreational purchases, with more and more traditional ranchland being taken out of production each year.

Our region is extremely dry. Fuel prices are forcing changes in current operations. Recreational usage is pushing up land values.

## Region 12—Southern New Mexico

We are in very uncertain times. All input costs continue to increase. Livestock prices are volatile. Milk is stable, but the future is uncertain. Grain prices continue to escalate, and the impact of flooding in the Midwest is still unknown.

It is very dry and windy. There has been no wheat to harvest this year due to the drought.