

Agricultural Survey

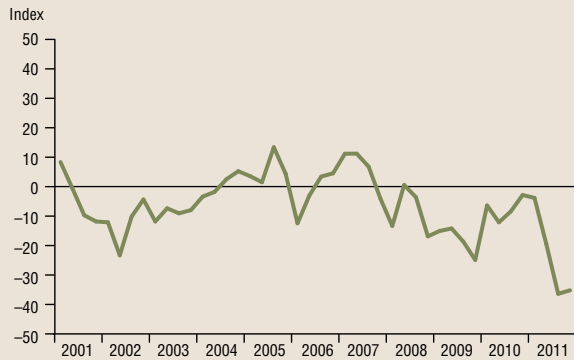
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Fourth Quarter 2011

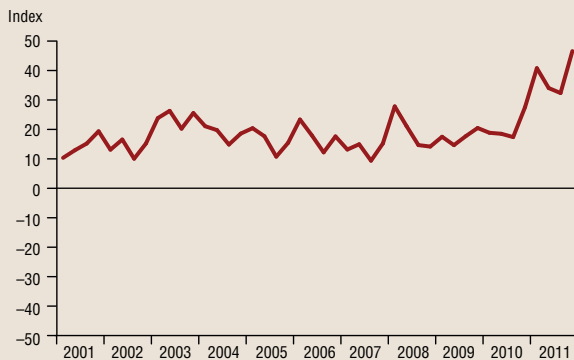
Demand for Loans

Nearly half of respondents continue to report lower loan demand.



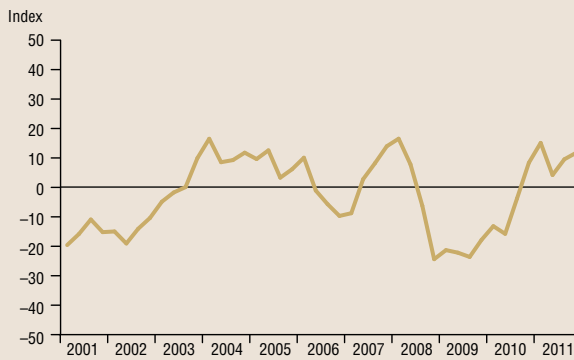
Availability of Funds

The index rises to its highest level in recent past.



Rate of Loan Repayment

Loan repayment rates rise, with more than one quarter of bankers noting an increase.



Bankers responding to the fourth-quarter survey noted widespread impacts from severe drought conditions. Crop insurance was a major source of income for many farmers in 2011. These insurance payments allowed some borrowers to pay down loans earlier than usual. Many ranchers sold off portions of their herds due to lack of adequate forage and high supplemental feeding costs.

Irrigated cropland values in the Eleventh District continued to rise, posting a 14 percent increase from the fourth quarter of last year. Dry cropland values held fairly steady from last quarter, although they too are up from a year ago, by about 6 percent. Ranchland values showed mixed movements in 2011 but ended the year up 2 percent. Expectations for farmland values were more optimistic this quarter than last; 16 percent of bankers anticipate an upward trend in farmland values in the coming quarter, while 6 percent anticipate declines.

Demand for agricultural loans remained subdued. More than a quarter of bankers across the district reported an increase in loan repayment rates, largely a result of incoming crop insurance payments for farmers. Related to this, banks' availability of funds remained on the rise, and fewer borrowers were requesting loan renewals or extensions. Loan volumes declined across the various lending types. Bankers' comments suggested that drought remains a main concern going into 2012.

Farm Lending Trends

What changes occurred in non-real-estate farm loans at your bank in the past three months compared with a year earlier?

	2011:Q4	Percent reporting			2011:Q3
	Index	Greater	Same	Less	Index
Demand for loans	-35.0	11.7	41.6	46.7	-36.2
Availability of funds	46.7	48.2	50.4	1.5	32.4
Rate of loan repayment	11.7	26.3	59.1	14.6	9.5
Loan renewals or extensions	-8.1	13.2	65.4	21.3	-3.4
Amount of collateral required	12.4	12.4	87.6	0	9.5

What changes occurred in the volume of farm loans made by your bank in the past three months compared with a year earlier?

	2011:Q4	Percent reporting			2011:Q3
	Index	Greater	Same	Less	Index
Non-real-estate farm loans	-28.4	11.2	49.3	39.6	-34.5
Feeder cattle loans	-27.1	9.3	54.2	36.4	-29.9
Dairy loans	-16.5	1.0	81.4	17.5	-14.3
Crop storage loans	-19.1	1.0	79.1	20.0	-11.8
Operating loans	-7.6	24.2	43.9	31.8	-15.8
Farm machinery loans	-30.5	6.9	55.7	37.4	-33.3
Farm real estate loans	-29.0	6.9	57.3	35.9	-31.5

Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting a decrease from the percentage reporting an increase.



Agricultural Survey is compiled from a survey of Eleventh District agricultural bankers. Data were collected Dec. 6–14, and 139 bankers responded to the survey. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by sending an email to pubsorder@dal.frb.org or by calling 214-922-5254. It is available on the web at www.dallasfed.org. For questions regarding information in the release, contact Emily Kerr, 214-922-6941.

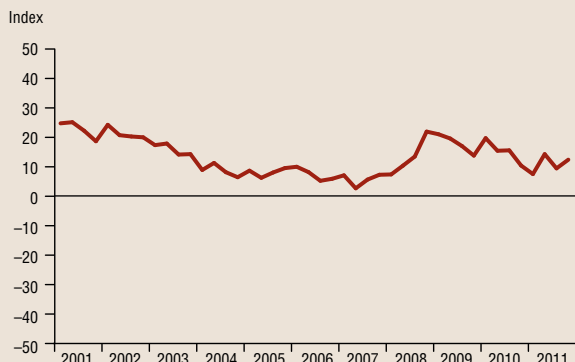
Loan Renewals or Extensions

The index dips as numerous respondents note fewer requests for renewals or extensions.



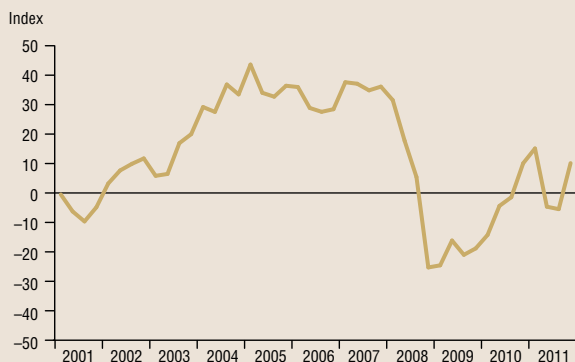
Amount of Collateral Required

A majority of bankers note no change in collateral requirements, while 12 percent note an increase.



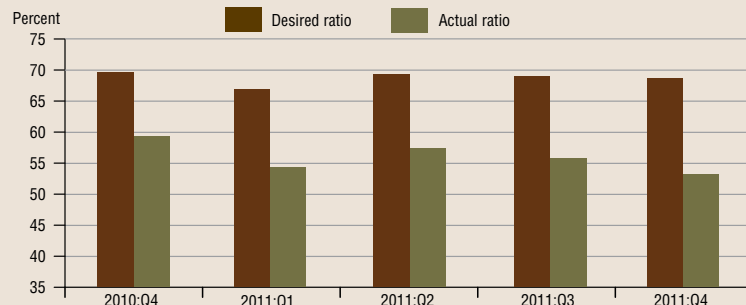
Anticipated Trend in Farmland Values

The index bounces back into positive territory, indicating an expectation of higher farmland values over the next three months.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				
	2010	2011			
	Q4	Q1	Q2	Q3	Q4
Less than 41%	18	28	21	24	29
41% to 50%	16	15	18	18	19
51% to 60%	20	15	14	12	17
61% to 70%	19	20	22	23	15
More than 70%	28	22	24	23	20

Interest Rates

Fixed

	Average rate (percent)				
	2010	2011			
	Q4	Q1	Q2	Q3	Q4
Feeder cattle	6.89	6.83	6.77	6.71	6.54
Other farm operating	7.00	6.95	6.83	6.87	6.71
Intermediate term	6.95	6.94	6.96	6.83	6.69
Long-term farm real estate	6.73	6.70	6.76	6.60	6.41

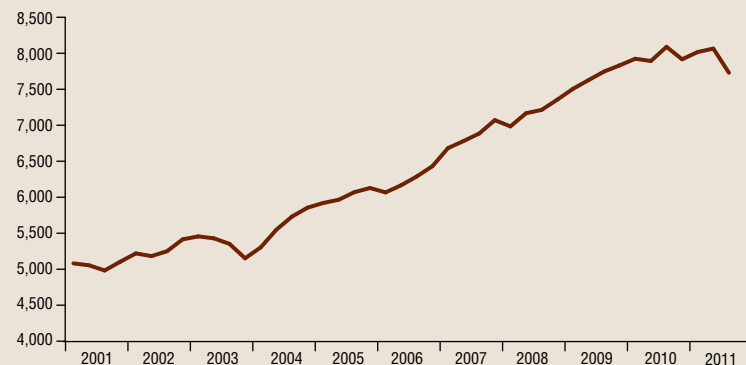
Variable

	2010	2011	2011	2011	2011
	Q4	Q1	Q2	Q3	Q4
Feeder cattle	6.05	6.08	6.06	6.11	6.00
Other farm operating	6.23	6.28	6.24	6.20	6.09
Intermediate term	6.20	6.19	6.30	6.23	6.14
Long-term farm real estate	5.96	5.91	6.06	5.92	5.83

Total Agricultural Loans*

Eleventh District agricultural loan volumes declined in the third quarter.

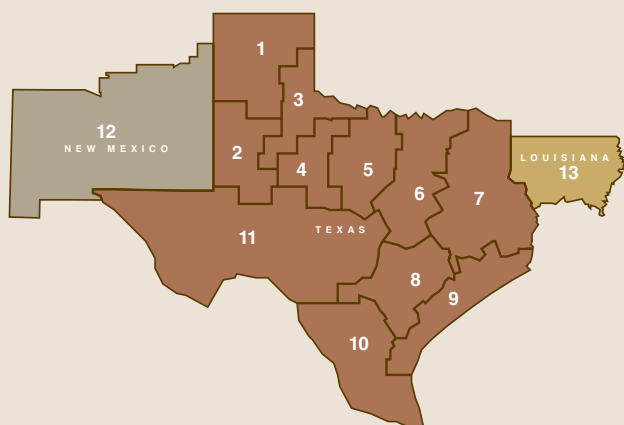
Millions of dollars (seasonally adjusted)



*Not based on Agricultural Survey data. Data lagged by one quarter.

SOURCE: Federal Financial Institutions Examination Council, Reports of Condition and Income.

Eleventh Federal Reserve District



Rural Real Estate Values—Fourth Quarter 2011

Cropland—Dryland

District	Banks ¹	Average value ²	Percent change ³ in value from	
			Previous quarter	Previous year
			Fourth quarter 2011	
	109	1,394	0.3	5.7
Texas	98	1,422	0.2	6.0
1 Northern High Plains	14	598	6.1	9.1
2 Southern High Plains	9	542	4.1	10.7
3 Northern Low Plains	6	708	-4.0	-6.5
4 Southern Low Plains	8	813	2.8	17.9
5 Cross Timbers	9	1,311	-4.9	4.2
6 North Central Texas	14	2,121	-4.7	6.6
7 East Texas	6	2,100	0.0	-1.1
8 Central Texas	17	2,944	5.0	6.0
9 Coastal Texas	5	1,810	4.3	26.8
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	1,258	-0.4	5.8
12 Southern New Mexico	3	358	2.3	-28.8
13 Northern Louisiana	8	1,619	0.0	8.4

Cropland—Irrigated

District	77	1,797	7.4	14.4
Texas	66	1,645	7.4	14.9
1 Northern High Plains	14	1,521	11.2	15.2
2 Southern High Plains	9	1,294	9.9	20.3
3 Northern Low Plains	5	1,290	1.0	-6.3
4 Southern Low Plains	5	1,320	0.0	13.3
5 Cross Timbers	5	2,580	-2.6	4.5
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	n.a.	n.a.	n.a.	n.a.
8 Central Texas	10	3,010	-5.7	13.1
9 Coastal Texas	4	2,200	-12.7	6.7
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	1,933	-1.6	10.3
12 Southern New Mexico	4	2,800	17.9	21.3
13 Northern Louisiana	7	2,211	-4.9	1.7

Ranchland

District	125	1,431	3.3	1.7
Texas	116	1,713	3.5	1.8
1 Northern High Plains	14	480	2.4	12.7
2 Southern High Plains	8	494	11.7	19.9
3 Northern Low Plains	6	721	8.1	1.1
4 Southern Low Plains	8	856	0.0	-0.8
5 Cross Timbers	12	1,842	5.3	-1.0
6 North Central Texas	17	2,518	2.6	2.2
7 East Texas	15	2,257	-0.8	3.3
8 Central Texas	17	3,903	4.4	3.6
9 Coastal Texas	4	1,263	1.7	-7.5
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	14	1,491	1.5	-1.9
12 Southern New Mexico	3	230	-1.3	-1.3
13 Northern Louisiana	6	1,300	-4.5	6.7

¹ Number of banks reporting land values.

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

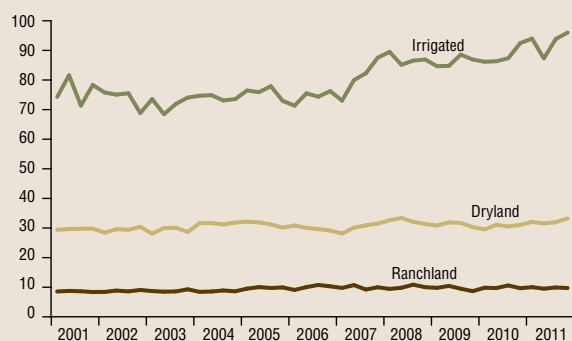
³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

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

Real Cash Rents

Cash rents for irrigated land increase in the fourth quarter.

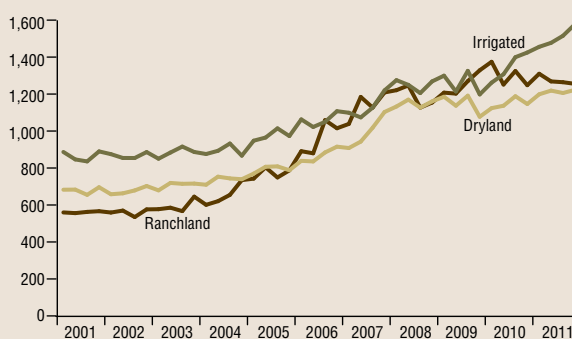
2005 dollars per acre per year



Real Land Values

Irrigated land values continue to rise as dryland and ranchland values hold fairly steady.

2005 dollars per acre



Quarterly 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

We had large paydowns in our loan volume earlier than expected from dryland cotton farmers and cow-calf operators because of insurance and liquidations due to the drought. Our irrigated producers spent more than the crop produced and will start with less equity in 2012. Expectations for 2012 will be more conservative and realistic given the projected continuation of the drought.

Drought conditions affected most farm yields and profits. Poor pasture conditions affected profits for ranchers. Conditions remain dry at this time.

Even with higher prices, we see most sales being closed with cash or with very low loan-to-value ratios.

Region 2—Southern High Plains

We are looking forward to a better year in 2012. Surely we will not have another drought like 2011. We are thankful for federal crop insurance.

Funds are being pulled out of the market due to the risk, uncertainty and low returns. Some of these funds are being used to buy farmland that can yield a 4 to 7 percent return using upfront cash leases to mitigate income risks. These buyers are confident that land prices will remain stable if they need to liquidate.

In addition to total losses of the dryland cotton crop in 2011, irrigated crop yields were down substantially. Both 2011 irrigated cotton yields and corn yields were down approximately 40 to 50 percent from past years' production averages. Most weather forecasts call for another dry year for 2012, which will compound the problems in our area. As a result of the record drought and poor commodity yields, many farmers would have been forced to liquidate their farming operations if it were not for federal crop insurance. Most farmers will see a significant reduction in their net worth or equity once the 2011 crop year is over. Most agricultural suppliers and local economies will continue to struggle as a result of 2011 losses, especially if the record drought continues.

Farm income has increased over 2010 due to insurance proceeds, not crop income.

Crop insurance has been the main source of farm income for this year. This has resulted in early paydowns of operating lines. Drought is still the main concern going into the 2012 crop year.

This crop season is wrapping up with bifurcated results. Producers who presumed that the drought would be severe and did not push the crop with inputs and took high crop insurance levels have actually thrived, especially pure dryland growers. On the other hand, producers who continued to irrigate throughout the season have had poor yields, high costs and breakeven results at best. The other negative aspect of our short cotton crop (maybe 1.5 million bales compared to 4 million on a good year) is that associated industries are suffering, especially cotton gins and warehouses.

Region 3—Northern Low Plains

The drought conditions and declining commodity values could negatively impact real estate values in our area. The drought has had a big negative economic impact on local businesses and the labor force in the area.

Region 4—Southern Low Plains

2012 crop operating loans will be heavily influenced by the 2012 federal crop insurance program and the crop insurance net guarantee provided to each producer. There will be less influence from farm program payments. The dry conditions at this time will hinder livestock producers, as grass and native forage are not expected to be established due to overgrazing and lack of adequate rainfall. Cattle numbers are low, with replacement cattle expected to be expensive going into another dry season.

Region 5—Cross Timbers

The drought has been very tough in our area. Yields and grades are down. Hay is short, and ranchers are selling cattle. The cattle market is strong, which has been a lifesaver.

Region 6—North Central Texas

The area received widespread rainfall recently, and wheat is off to a decent start. Oats were damaged by fall drought conditions. The biggest concern for cattle producers is having enough forage and hay to feed until March, or further liquidation is expected.

Recent rainfall has encouraged local ranchers and farmers with adequate moisture for small grain growth. However, hay supplies are still very limited and expensive. Cattle continued to be liquidated based on lack of pasture and feeding costs. All cattle prices have increased over the last quarter, with fewer numbers sold at local markets.

Some of our producers had their best year ever, with good grain, cotton and cattle prices, lower harvest costs, large insurance payments and payments from the Supplemental Revenue Assistance (SURE) program.

Due to extremely dry weather conditions, the farmers' and ranchers' crops and grazing land have suffered greatly.

Region 7—East Texas

Poultry and cattle operations in this area are still suffering from the inflated price of corn. Until this is controlled, we feel that livestock farming in general will continue to suffer.

Region 8—Central Texas

The 15-month drought affecting most of Texas has been a drag on agriculture. We had a three-inch rain over a recent weekend, which should affect the economics of agriculture positively. Cattle prices are very high, even prohibitive for an investor to purchase stocker cattle. The current price of hay (\$125 per roll) is significant for the seller and unaffordable for the buyer. Some customers contracted alfalfa in North Dakota to truck to South Texas. Spring hay should be affordable.

At the present time, very little land is being sold in our area, primarily due to the exploration of the Eagle Ford shale activity. Many landowners, primarily west of Yoakum, have received sizable leases,

and several wells are in production. Landowners in those areas who are willing to sell have set prices extremely high, with a possible purchaser having to pay additional funds to acquire any royalty interest (which is making prices prohibitive). This is expected to last for 10–20 years, so we continue to watch such activity in those areas.

Drought is still impacting our area. Cattle runs have remained high all year and most producers have culled herds pretty hard. If weather conditions get worse and hay gets shorter, we may see producers selling off their better cattle and not keeping any replacement heifers. The future of the cow-calf business remains to be seen if we get no winter and spring rains. The number one concern in our area is lack of surface water. Ponds and lakes are now dry that have not been dry in many years, and it will take big rains to fill them up again.

Farmers and some ranchers had very good profits due to high commodity prices. While yields were well below average, crop insurance coverage was beneficial. Cattle prices were good, but expenses are up due to drought.

Ranchers who were banking on improved weather conditions for winter pasture have seen their wishes come true. The continued purchase of above-market-value feed continues for those who can afford it, and those who couldn't or wouldn't have sold out and are either on the sidelines or will not reenter the ranching business.

Many absentee landowners have their land for sale; however, there are few sales because many of these people paid cash for it and are just waiting for things to turn around in the land market.

Region 10—South Texas

Peanut farmers in the area had an exceptional year with high yields and record high value. Even with high irrigation expense, they did very well. The livestock producers have had a rough time with the drought. We estimate that our area has about 30 percent of the cattle that it normally does. Irrigated grain and cotton farmers also did well this year. We are expecting to see higher rent next year with more competition for good irrigated land.

Region 11—Trans-Pecos and Edwards Plateau

One positive aspect of this drought that is different from other droughts of the past is that worldwide demand for beef, lamb and goats has kept ag prices at high levels. Many ranch operators have had to sell their stock but have at least been able to pay out and, in some cases, put some money back for restocking in the future. One negative aspect is that many older ranchers, having sold out, will opt not to restock because of the loss of long-time improved bloodlines in their herds. Accordingly, the entire livestock industry suffers quality-wise as a result. One promising factor in the Edwards Plateau is that the months of October, November and December have brought some promising rains to the area. However spotty the coverage, they nevertheless help soothe the parched souls of those ranchers struggling with the decision of whether to get out or stay in.

The drought has forced much liquidation of sheep, goats and cattle in our area. Our farmers have done all right, thanks to federal crop insurance. We made very little cotton.

Increases in ranching income are due to the forced sale of livestock because of drought.