

Agricultural Survey

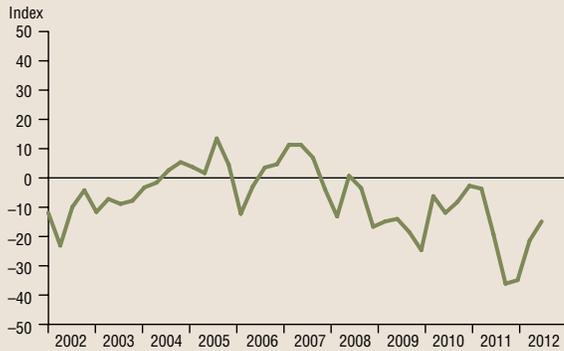
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Second Quarter 2012

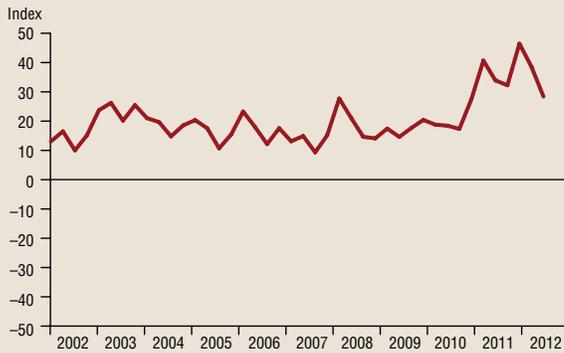
Demand for Loans

A smaller share of respondents see declining loan demand this quarter than last.



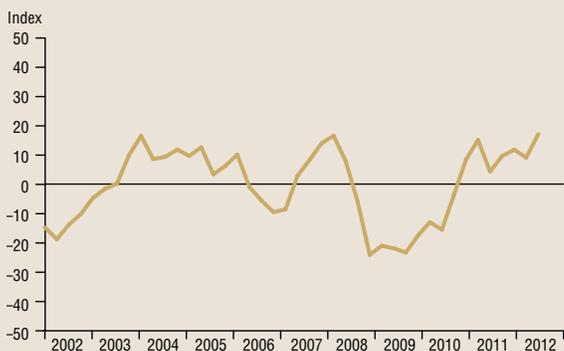
Availability of Funds

The availability of funds index remains elevated but has pulled back from previous highs.



Rate of Loan Repayment

The loan repayment index reaches its highest level on record.



Bankers responding to the second-quarter survey noted drought conditions continued to improve but more rain is needed as many areas are still very dry and surface water remains low. Overall crop conditions are better this year than last. Respondents voiced concern over low cotton prices. Cattle prices, however, remained high, providing good income for ranchers who were able to retain herds during the drought.

Agricultural land value changes were mixed. Dryland values fell, while irrigated land and ranchland values rose modestly in the second quarter. Cash rents increased across the board, with irrigated land posting the largest rise. Bankers in the Central Texas region noted that some landowners are receiving production payments from the Eagle Ford Shale development, allowing these customers to pay off their existing loans.

Demand for agricultural loans remained subdued, although there are indications the weakness in agricultural credit conditions may be moderating slightly. Loan demand continued to decline but not as steeply as in prior quarters. Feeder cattle loans saw the largest drop in volumes compared with the same period last year, followed by dairy loans. Loan repayment rates rose sharply in the second quarter, with more than 20 percent of bankers noting an increase.

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?

	2012:Q2			2012:Q1	
	Index	Percent reporting			Index
		Greater	Same	Less	
Demand for loans	-15.0	15.0	55.1	29.9	-21.5
Availability of funds	28.6	32.7	63.3	4.1	38.8
Rate of loan repayment	17.0	21.1	74.8	4.1	9.0
Loan renewals or extensions	-12.3	4.8	78.1	17.1	-6.7
Amount of collateral required	4.8	4.8	95.2	0.0	6.7

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

	2012:Q2			2012:Q1	
	Index	Percent reporting			Index
		Greater	Same	Less	
Non-real-estate farm loans	-2.7	18.5	60.3	21.2	-14.1
Feeder cattle loans	-18.0	9.4	63.3	27.3	-22.7
Dairy loans	-14.8	0.9	83.3	15.7	-12.4
Crop storage loans	-7.0	4.4	84.2	11.4	-15.1
Operating loans	1.4	15.1	68.5	16.4	0.0
Farm machinery loans	-9.7	13.1	64.1	22.8	-13.1
Farm real estate loans	-7.0	12.6	67.8	19.6	-11.5

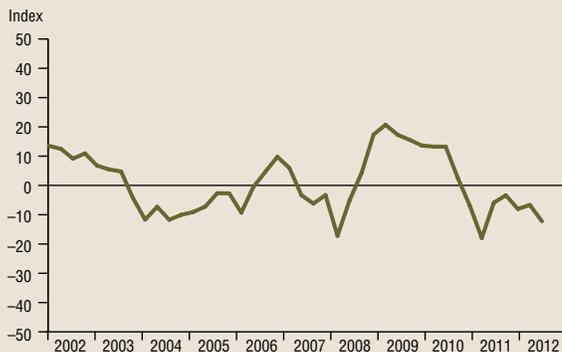
Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting a decrease from the percentage reporting an increase.



Agricultural Survey is compiled from a survey of Eleventh District agricultural bankers. Data were collected June 5–13, and 149 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/research/agsurvey. For questions regarding information in the release, contact Emily Kerr, 214-922-6941.

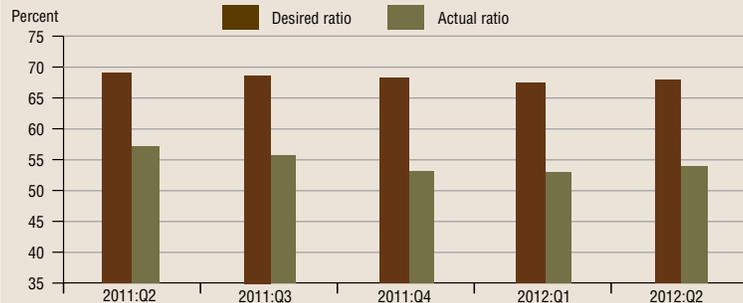
Loan Renewals or Extensions

Bankers continue to note a decline in requests for loan renewals or extensions.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				
	2011			2012	
	Q2	Q3	Q4	Q1	Q2
Less than 41%	21	24	29	29	28
41% to 50%	18	18	19	14	17
51% to 60%	14	12	17	18	15
61% to 70%	22	23	15	19	22
More than 70%	24	23	20	20	19

Amount of Collateral Required

Nintety-five percent of respondents note no change in collateral requirements.



Interest Rates

Fixed

	Average rate (percent)				
	2011			2012	
	Q2	Q3	Q4	Q1	Q2
Feeder cattle	6.77	6.71	6.54	6.54	6.43
Other farm operating	6.83	6.87	6.71	6.63	6.50
Intermediate term	6.96	6.83	6.69	6.49	6.46
Long-term farm real estate	6.76	6.60	6.41	6.19	6.36

Variable

Feeder cattle	6.06	6.11	6.00	5.97	5.90
Other farm operating	6.24	6.20	6.09	6.09	5.96
Intermediate term	6.30	6.23	6.14	6.06	5.98
Long-term farm real estate	6.06	5.92	5.83	5.79	5.70

Anticipated Trend in Farmland Values

The outlook for farmland values is fairly stable, with 83 percent of bankers expecting no change over the next three months.



Total Agricultural Loans*

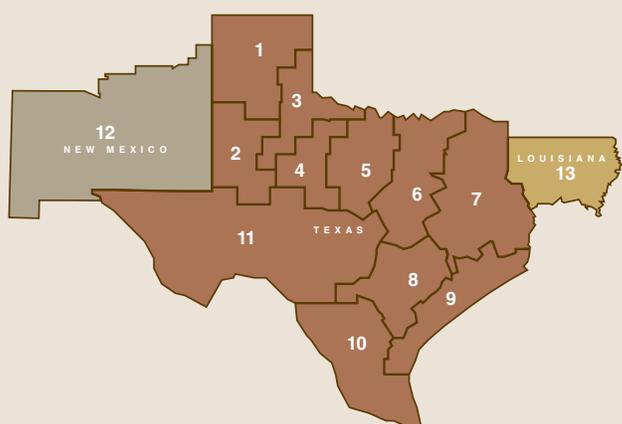
Eleventh District agricultural loan volumes rose modestly in the first quarter.



*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—Second Quarter 2012

Cropland—Dryland

District	Banks ¹ Second quarter 2012	Average value ² Second quarter 2012	Percent change ³ in value from	
			Previous quarter	Previous year
District	112	1,379	-0.1	2.7
Texas	101	1,398	0.1	2.5
1 Northern High Plains	16	602	1.2	7.9
2 Southern High Plains	14	582	0.0	6.7
3 Northern Low Plains	8	772	-0.5	-7.1
4 Southern Low Plains	9	881	0.7	8.9
5 Cross Timbers	8	1,394	5.2	7.9
6 North Central Texas	14	2,061	-1.0	3.9
7 East Texas	4	2,025	-4.7	0.0
8 Central Texas	13	2,600	0.3	-0.6
9 Coastal Texas	4	1,488	3.8	0.0
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	1,680	2.2	4.5
12 Southern New Mexico	n.a.	n.a.	n.a.	n.a.
13 Northern Louisiana	9	1,739	-3.7	6.4

Cropland—Irrigated

District	Banks	Average value	Percent change in value from Previous quarter	Percent change in value from Previous year
District	86	1,861	2.9	7.5
Texas	74	1,767	3.1	7.5
1 Northern High Plains	16	1,675	6.2	14.4
2 Southern High Plains	14	1,332	-0.9	-2.9
3 Northern Low Plains	6	1,558	3.8	-2.6
4 Southern Low Plains	6	1,417	0.0	13.1
5 Cross Timbers	5	2,260	0.0	0.0
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	3	1,633	0.0	0.0
8 Central Texas	8	2,744	3.5	7.7
9 Coastal Texas	4	2,200	6.1	29.1
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	2,889	0.3	5.8
12 Southern New Mexico	3	2,100	0.0	0.0
13 Northern Louisiana	9	2,522	4.9	12.7

Ranchland

District	Banks	Average value	Percent change in value from Previous quarter	Percent change in value from Previous year
District	124	1,470	1.2	1.4
Texas	115	1,757	1.2	1.4
1 Northern High Plains	16	470	2.9	4.6
2 Southern High Plains	9	578	-1.5	13.5
3 Northern Low Plains	8	775	0.7	-7.8
4 Southern Low Plains	7	971	0.0	6.2
5 Cross Timbers	10	1,900	2.9	5.0
6 North Central Texas	16	2,275	-2.0	7.0
7 East Texas	14	2,454	6.7	5.4
8 Central Texas	14	3,461	4.1	6.9
9 Coastal Texas	3	1,050	12.5	5.0
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	17	1,745	0.2	-5.3
12 Southern New Mexico	n.a.	n.a.	n.a.	n.a.
13 Northern Louisiana	7	1,314	2.9	14.3

¹ Number of banks reporting land values.

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

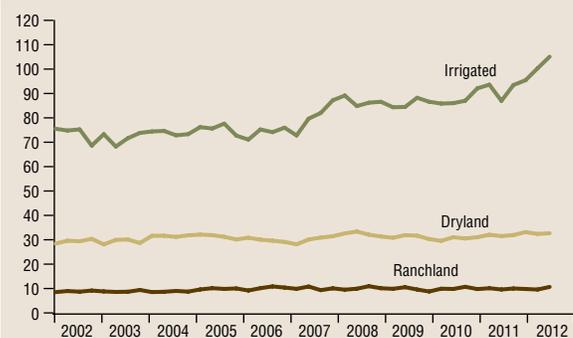
³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

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

Real Cash Rents

Irrigated cash rent values rise more than those for dryland and ranchland.

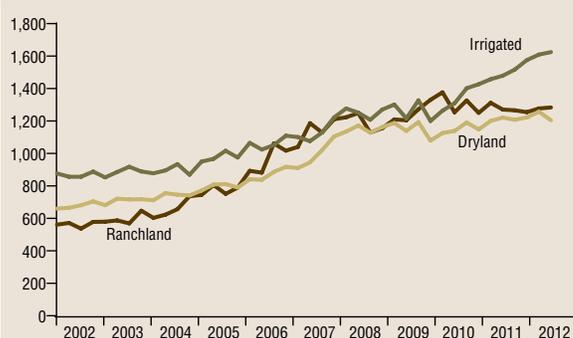
2005 dollars per acre per year



Real Land Values

Irrigated land and ranchland values increase while dryland values decline.

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 for publication.

Region 1—Northern High Plains

We are finally getting at least some rain around our area.

Region 2—Southern High Plains

Thank goodness for the rains we have received this year compared with last. If we can get at least an average amount of rainfall, we should be able to make an above-average crop. We certainly hope cotton prices improve, as we cannot make it pay at the current price.

We continue to see increased values for rangeland due to recreational use.

Land values remain very solid as landlords continue to invest due to a good return relative to any bank financial instrument.

Irrigated cotton and corn crops are looking good at this early stage. The dryland cotton crop has been planted with mixed results. Due to scattered rains, some of the dryland cotton is up with fair to good stands, but it will need timely rains during the growing season to survive due to inadequate subsoil moisture. Other dryland cotton was planted in dry soil with hopes of rain in the near future. Crop insurance planting deadlines have recently passed.

Rainfall on the South Plains is still spotty. Some areas are good, and some are still poor. The other problem will be the price of cotton. It does not look favorable at this time, and there could be some insurance crops again.

The bottom has absolutely fallen out of the cotton market. As I write this, futures markets suggest harvest prices of no more than \$0.60 per pound—that is way, way below anything thought possible at the beginning of the year. Because of this, it looks like most producers will gross no more than their crop-insurance revenue guarantees, which are based on a \$0.93 per pound price. The South Plains has received a little rainfall. It won't be enough to sustain the dryland crops. There are areas too dry for the crop to emerge. Crops that come to a stand have hardly any soil moisture. As sorry as the cotton market is, it is probably better this way (i.e., farmers can collect the crop insurance and go fishing).

Region 3—Northern Low Plains

The cost of feeder cattle has risen dramatically, but the profits have increased, too. Cow/calf operators are trying to rebuild herds, but the continued drought is slowing this. Wheat crop and prices are good. We need rain.

Region 4—Southern Low Plains

Last year at this time, we were faced with wildfires and extreme drought. Recently, we have had planting rains, and cotton is being planted. We are hopeful El Niño will show up so that we can have some kind of normal year for crop production. Grass and range lands are slowly recovering, and cattle prices should provide good income to the ranchers that were able to keep their herds.

Region 5—Cross Timbers

Drought conditions are slightly better, but we are still well short of being out of the drought. Our Hubbard Creek Lake is 16 feet low. This lake provides water to Breckenridge and at least five other communities including Abilene. We are soon to be under restricted water use. Area ag income is holding its own due to good cattle and wheat prices in spite of decreased cattle numbers and decreased wheat plantings.

We are having an average wheat harvest, but we still need rain to fill stock tanks and lakes that are less than half full.

There is a very good hay crop in the making and good grazing. It has been a very good spring with adequate to ample rain over the whole area. Beef cattle producers are benefiting from record-high calf prices and packer cow prices. Those who were able to keep most of their cow herd through the drought last year are doing very well, selling calves at \$1.50 to \$2 per pound. Replacement cows are extremely expensive for those who sold out or whose herds are way down. Dairies are still having a tough time but should be helped by lower hay and other roughage prices and good production on their own hay and silage.

Region 6—North Central Texas

Recent rains have increased demand for cattle loans; however, the producers are taking a conservative approach to expansion of their herds. With higher cattle prices, many producers are selling the replacement heifers to aid in recovery from prior years. The future is looking brighter with the availability of pasture, hay and stock water at this time. Fertilizer and fuel expenses are still an issue in crop and hay production costs. The transfer of farm real estate is almost nonexistent.

Region 7—East Texas

Leased grazing land prices have fallen. Moisture conditions have improved the overall ag outlook in the area. Ranchers are slowly stocking cattle. Row crops are in good to excellent condition.

Region 8—Central Texas

Some landowners are now receiving production payments from the Eagle Ford Shale development. They are paying off existing loans. Very little land is being sold in this area, so land loans are difficult to acquire.

It was a promising spring but has been a hot and dry summer so far. We need tropical activity and hope for a wet fall and winter. Thankfully, the cattle market is holding steady.

This spring has been better than last year; still, some areas need more rain than others. Rain will need to come again soon to keep grass and crops growing through the summer. The first hay cuttings are in, with second cuttings being made now and in the next few weeks, depending upon rain. Oil and gas continue to remain stable in the area, with most wells coming in above average. Money is still going into farm and ranch improvements, new fences, ponds being built, grass plantings, new barns, etc.

Most, if not all, of the rural land in our area is being bought and sold in smaller tracts of 25–75 acres or less for residential, development or recreational purposes. The larger tracts are being bought probably for speculation purposes with the West Houston area moving in our direction. We have a large amount of commuters now. The land values have gotten prohibitively high for strictly agricultural use.

Credit conditions have improved due to moisture received earlier and stronger cattle prices. Hay harvested from abundant winter forage was the lifesaver; moisture conditions have again changed as the last five weeks have been very dry.

Region 9—Coastal Texas

In the previous quarter, we were at our lowest level of ag loans that we have seen in 48 years. Good yields and outstanding prices two years in a row resulted in our customers paying their loans off, and we lost some farmers to competition over interest rates. We are glad we have been able to gain some back this year.

Region 11—Trans-Pecos and Edwards Plateau

The central Edwards Plateau has been blessed with rainfall so far this year, but much of the forage grown has been weeds. Future rainfall this summer will be needed to grow some grass for cow feed. Many producers sold part or all of their herds this past year due to drought, and many of these folks will be looking to restock. It is the feeling of many producers that they should go slow because this drought is still not over. A hot, dry summer could plunge us right back into trouble. Fortunately, livestock prices remain excellent, and cattle, sheep and goat numbers are way down. Hopefully, these prices will stay strong for the next couple of years.