

Agricultural Survey

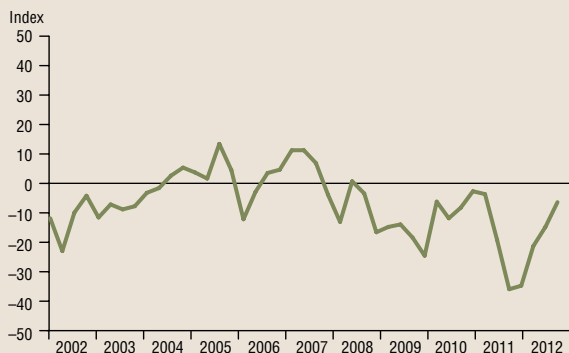
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Third Quarter 2012

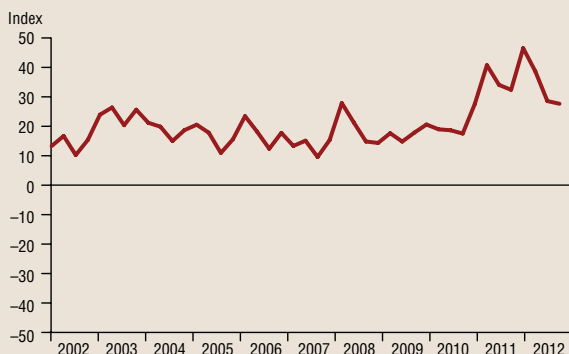
Demand for Loans

The share of respondents seeing declining loan demand continues to fall.



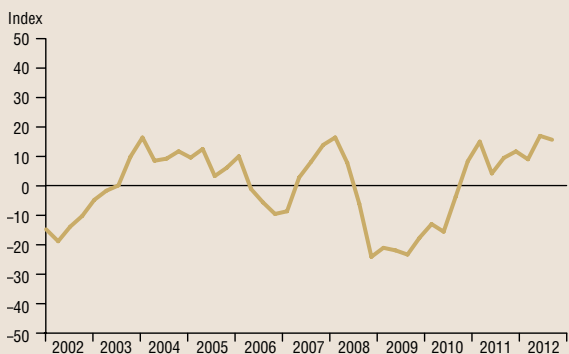
Availability of Funds

The availability of funds index remains positive but edges down.



Rate of Loan Repayment

Twenty percent of bankers note increasing loan repayment rates.



Bankers responding to the third-quarter survey emphasized a need for rain as several areas in the Eleventh District are experiencing a second consecutive year of drought conditions. Respondents voiced particular concern for the livestock sector as pasture conditions remain poor and ranchers face high feed costs due to elevated grain prices. Crop conditions were mixed, depending on how much rainfall was received, but overall, crops were in better shape than last year.

Cropland values rose in the third quarter. Irrigated cropland saw the largest increases; values were up 4 percent from the second quarter and were up 13 percent from last year. Ranchland values were largely unchanged. Bankers in the Central Texas region noted that other uses of land have pushed prices above an affordable level for farmers or ranchers to purchase the land for agricultural use. While the majority of survey respondents expect land values to hold steady over the next three months, 18 percent anticipate an increase—the highest share since early 2011.

Demand for agricultural loans continued to decline but not as steeply as in prior quarters. Feeder cattle loans continued to see the largest drop in volumes compared with the same period a year ago, followed by dairy loans. Loan repayment rates rose again in the third quarter, while loan renewals and extensions continued to fall.

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:Q3 | | | 2012:Q2 | |
|-------------------------------|---------|-------------------|------|---------|-------|
| | Index | Percent reporting | | | Index |
| | | Greater | Same | Less | |
| Demand for loans | -6.5 | 19.5 | 54.6 | 26.0 | -15.0 |
| Availability of funds | 27.6 | 29.6 | 68.4 | 2.0 | 28.6 |
| Rate of loan repayment | 15.7 | 20.3 | 75.2 | 4.6 | 17.0 |
| Loan renewals or extensions | -13.1 | 2.6 | 81.7 | 15.7 | -12.3 |
| Amount of collateral required | 4.6 | 4.6 | 95.4 | 0.0 | 4.8 |

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

| | 2012:Q3 | | | 2012:Q2 | |
|----------------------------|---------|-------------------|------|---------|-------|
| | Index | Percent reporting | | | Index |
| | | Greater | Same | Less | |
| Non-real-estate farm loans | -0.7 | 19.5 | 60.4 | 20.1 | -2.7 |
| Feeder cattle loans | -17.3 | 9.0 | 64.7 | 26.3 | -18.0 |
| Dairy loans | -13.5 | 1.8 | 82.9 | 15.3 | -14.8 |
| Crop storage loans | -10.1 | 3.4 | 83.2 | 13.5 | -7.0 |
| Operating loans | 2.7 | 21.3 | 60.0 | 18.7 | -1.4 |
| Farm machinery loans | -11.9 | 10.6 | 66.9 | 22.5 | -9.7 |
| Farm real estate loans | -8.6 | 9.9 | 71.7 | 18.4 | -7.0 |

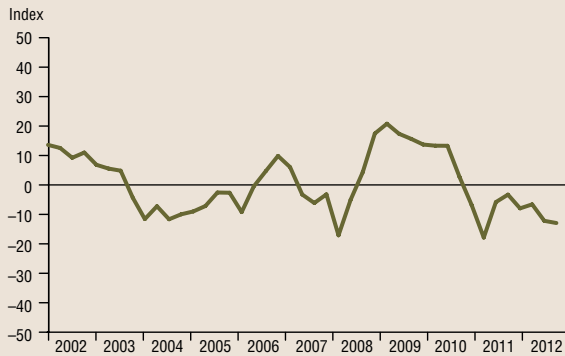
Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting a decrease from the percentage reporting an increase.



Agricultural Survey is compiled from a survey of Eleventh District agricultural bankers. Data were collected Sept. 4–12, and 157 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.

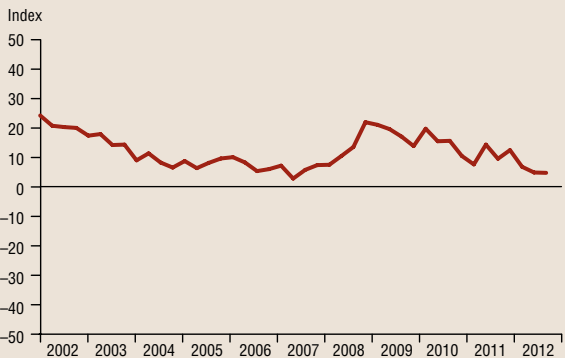
Loan Renewals or Extensions

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



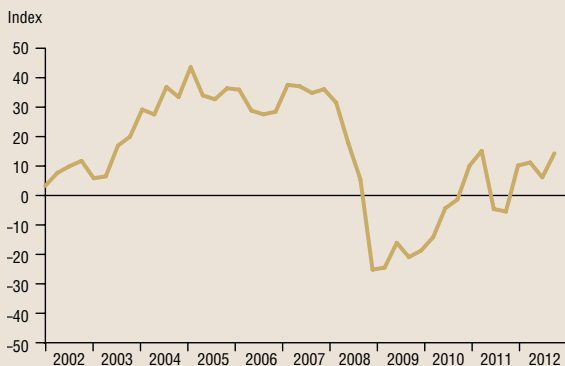
Amount of Collateral Required

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



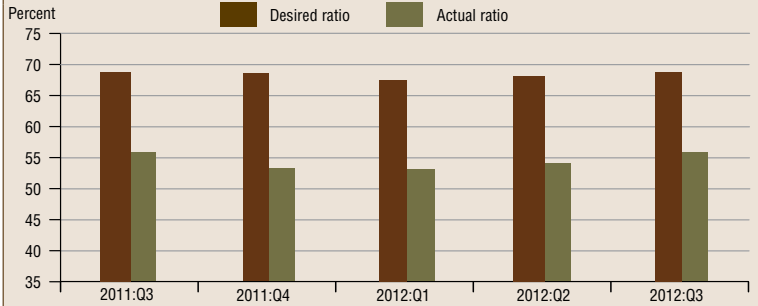
Anticipated Trend in Farmland Values

The share of bankers expecting a rise in farmland values increases notably in the third quarter.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



Distribution of Loan-to-Deposit Ratios

| | Banks reporting (percent) | | | | |
|---------------|---------------------------|----|------|----|----|
| | 2011 | | 2012 | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Less than 41% | 24 | 29 | 29 | 28 | 25 |
| 41% to 50% | 18 | 19 | 14 | 17 | 13 |
| 51% to 60% | 12 | 17 | 18 | 15 | 20 |
| 61% to 70% | 23 | 15 | 19 | 22 | 19 |
| More than 70% | 23 | 20 | 20 | 19 | 23 |

Interest Rates

Fixed

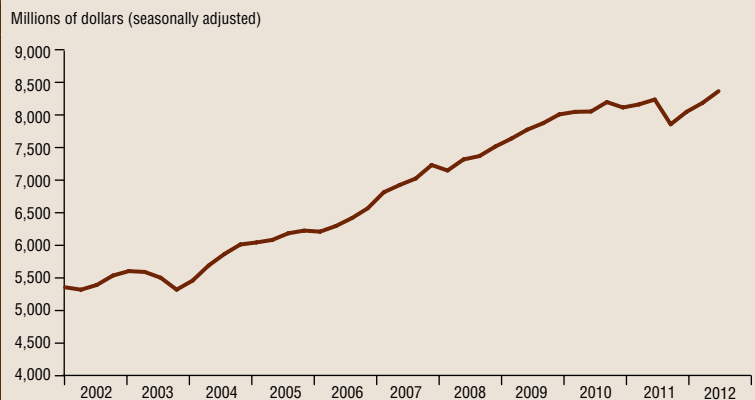
| | Average rate (percent) | | | | |
|----------------------------|------------------------|------|------|------|------|
| | 2011 | | 2012 | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 |
| Feeder cattle | 6.71 | 6.54 | 6.54 | 6.43 | 6.56 |
| Other farm operating | 6.87 | 6.71 | 6.63 | 6.50 | 6.55 |
| Intermediate term | 6.83 | 6.69 | 6.49 | 6.46 | 6.51 |
| Long-term farm real estate | 6.60 | 6.41 | 6.19 | 6.36 | 6.23 |

Variable

| | | | | | |
|----------------------------|------|------|------|------|------|
| Feeder cattle | 6.11 | 6.00 | 5.97 | 5.90 | 6.04 |
| Other farm operating | 6.20 | 6.09 | 6.09 | 5.96 | 6.09 |
| Intermediate term | 6.23 | 6.14 | 6.06 | 5.98 | 6.05 |
| Long-term farm real estate | 5.92 | 5.83 | 5.79 | 5.70 | 5.69 |

Total Agricultural Loans*

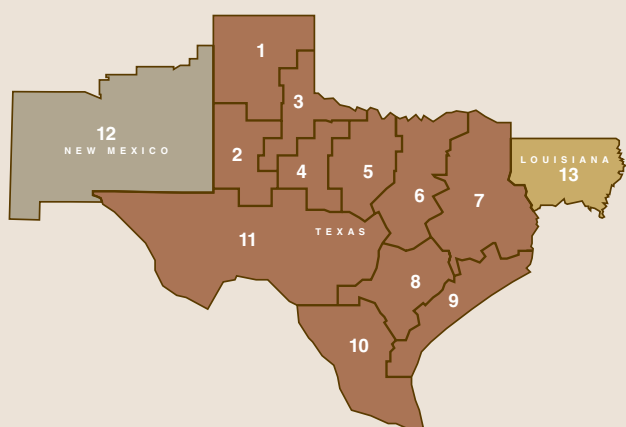
Eleventh District agricultural loan volumes rose modestly in the second quarter.



*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—Third Quarter 2012

Cropland—Dryland

| District | Banks ¹ | Average value ² Third quarter 2012 | Percent change ³ in value from | |
|------------------------------------|--------------------|--|--|---------------|
| | | | Previous quarter | Previous year |
| District | 126 | 1,427 | 1.8 | 3.4 |
| Texas | 112 | 1,445 | 1.8 | 2.6 |
| 1 Northern High Plains | 20 | 626 | 8.8 | 16.1 |
| 2 Southern High Plains | 16 | 588 | 3.1 | 10.0 |
| 3 Northern Low Plains | 7 | 786 | 4.9 | -7.3 |
| 4 Southern Low Plains | 7 | 896 | 0.0 | 11.0 |
| 5 Cross Timbers | 11 | 1,523 | 10.7 | 5.2 |
| 6 North Central Texas | 18 | 2,081 | 3.1 | -2.2 |
| 7 East Texas | 6 | 2,433 | 0.0 | 5.5 |
| 8 Central Texas | 12 | 2,729 | -2.2 | -1.9 |
| 9 Coastal Texas | 3 | 1,350 | 0.0 | 6.6 |
| 10 South Texas | n.a. | n.a. | n.a. | n.a. |
| 11 Trans-Pecos and Edwards Plateau | 11 | 1,543 | -1.0 | 1.1 |
| 12 Southern New Mexico | 3 | 367 | 0.0 | 0.0 |
| 13 Northern Louisiana | 11 | 1,855 | 2.2 | 14.9 |

Cropland—Irrigated

| District | Banks | Average value | Percent change | Percent change |
|------------------------------------|-------|---------------|------------------|----------------|
| | | | Previous quarter | Previous year |
| District | 93 | 1,933 | 3.9 | 12.7 |
| Texas | 77 | 1,785 | 4.5 | 14.1 |
| 1 Northern High Plains | 20 | 1,653 | 6.5 | 21.3 |
| 2 Southern High Plains | 15 | 1,413 | 7.5 | 15.0 |
| 3 Northern Low Plains | 5 | 1,440 | 3.5 | 3.5 |
| 4 Southern Low Plains | 5 | 1,380 | 0.0 | 13.1 |
| 5 Cross Timbers | 6 | 2,517 | 0.0 | -8.3 |
| 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 | 7 | 2,871 | -0.6 | 11.6 |
| 9 Coastal Texas | 4 | 3,175 | 2.1 | 37.1 |
| 10 South Texas | n.a. | n.a. | n.a. | n.a. |
| 11 Trans-Pecos and Edwards Plateau | 9 | 3,444 | 2.5 | 2.3 |
| 12 Southern New Mexico | 5 | 2,620 | 2.2 | 7.1 |
| 13 Northern Louisiana | 11 | 2,645 | 2.7 | 11.0 |

Ranchland

| District | Banks | Average value | Percent change | Percent change |
|------------------------------------|-------|---------------|------------------|----------------|
| | | | Previous quarter | Previous year |
| District | 137 | 1,490 | -1.3 | 0.7 |
| Texas | 124 | 1,782 | -1.4 | 0.7 |
| 1 Northern High Plains | 19 | 483 | 1.7 | 7.0 |
| 2 Southern High Plains | 9 | 572 | 2.1 | 25.6 |
| 3 Northern Low Plains | 7 | 789 | 3.7 | -2.7 |
| 4 Southern Low Plains | 7 | 986 | 1.5 | 9.6 |
| 5 Cross Timbers | 13 | 1,858 | -1.9 | -0.2 |
| 6 North Central Texas | 19 | 2,250 | 2.3 | 1.2 |
| 7 East Texas | 16 | 2,426 | -1.0 | 2.0 |
| 8 Central Texas | 15 | 4,016 | -8.2 | -2.4 |
| 9 Coastal Texas | n.a. | n.a. | n.a. | n.a. |
| 10 South Texas | n.a. | n.a. | n.a. | n.a. |
| 11 Trans-Pecos and Edwards Plateau | 16 | 1,769 | -0.7 | -1.0 |
| 12 Southern New Mexico | 4 | 225 | 0.0 | 0.0 |
| 13 Northern Louisiana | 9 | 1,844 | 1.2 | 4.8 |

¹ Number of banks reporting land values.

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

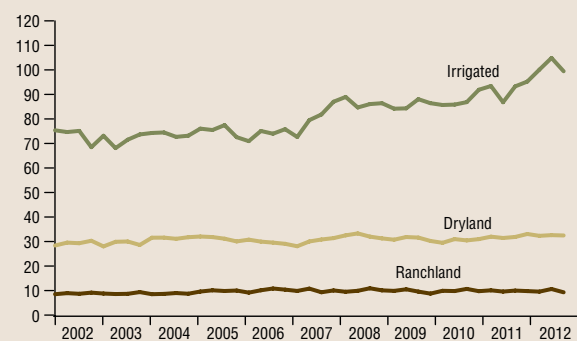
³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

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

Real Cash Rents

Dryland cash rents hold steady while irrigated land and ranchland rents decline.

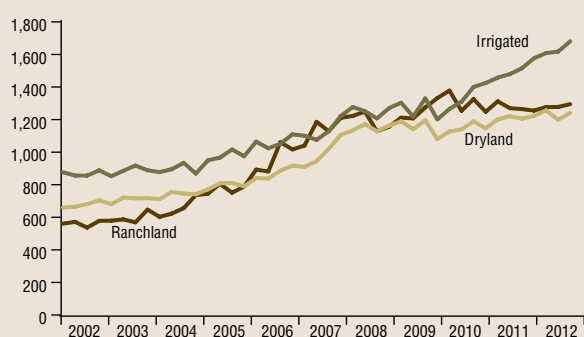
2005 dollars per acre per year



Real Land Values

Land values increase in third quarter.

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

Drought continues to affect our production around here, and with the feed prices at a higher level, cattle feeders are showing losses of \$150 to \$200 per head.

Dryland crops have been nonexistent due to continued drought. Irrigated crops are in better condition than one year ago as wind and high temperatures have been less severe than in 2011. High grain prices will boost farm income but are seen as having an extreme adverse impact upon the cattle feeding and dairy industry.

The corn harvest is under way, and the yield reports are inconsistent. The top yields are very close to our normal numbers. Feedlot cattle are taking big losses due to high feed costs. Cow/calf producers are struggling with year two of a persistent drought. Further liquidation of the cowherd is likely.

Drought conditions continue for the second straight year.

Region 2—Southern High Plains

We need rain in West Texas.

Drought and low cotton prices have slowed the farm real estate market and curtailed fixed assets purchased by farm customers.

The current drought has not broken. Although most dryland areas have a crop, very little of that dryland crop will yield any harvestable product. Crop insurance is still key to keeping these producers financially sound. Land values remain strong, but sales are very limited in the area. Landlords and buyers still view ag land as a safe alternative investment given the current low interest rates on deposits.

The second year of record drought will continue to have a negative impact in our local and regional economies. More and more farmers are considering discontinuing farming due to the second year of farm losses. They do not want to continue to lose their net worth that took many years to build. Most of our area's small West Texas towns live and breathe on agriculture. When the farmers suffer, all of our businesses suffer. The 2012 corn crop is being harvested, and yields are down again in the 20 to 30 percent range. Prospects for 2012 irrigated cotton production are also expected to be below past years' production averages. Federal crop insurance has already been paid on most of the dryland crops for the second year in a row. Heavy irrigation requirements continue to have a severe impact on our area water supply.

Region 3—Northern Low Plains

This year is better than last year, but we still find our borrowers struggling to deal with the drought. Those farming cotton in the Rolling Plains needed luck to get the rain to have a crop to harvest. Wheat seeding is under way, and prices are looking good for 2013. Cattlemen are weaning calves with weights coming in better than 2011. Prices remain high and could help cover some of last year's additional cost. Hay prices remain high, and supplemental feed costs are going up with the price of corn. A good fall rain would greatly help the producers in our region.

We still need rain. We hope fall rains will increase the demand for feeder cattle loans. Many farmers are considering harvesting wheat rather than grazing it, due to current wheat prices.

There is very little land trading due to oil and wind farm leasing.

Region 5—Cross Timbers

Drought is still impacting our area. Farmers' and ranchers' crops and grazing land have suffered greatly due to extremely dry conditions. We are seeing many ranchers already having to purchase feed or hay.

We have had better moisture this year, but there is still much room for improvement. Irrigated crops look decent. Dryland crops could have used another rain in July. Hay production is up. Cattle prices have been up and down but seem steady.

A wet spring turned into a dry summer with lots of grasshoppers. There has been good hay and silage production early and good grazing until recently. Beef cattle prices are down, but still very good. The dairy situation is still tough. Feed costs are very high for everyone.

It is very dry. Hubbard Lake is at only 30 percent capacity, and 60 percent of stock tanks are completely dry. There is no moisture to sow wheat.

Region 6—North Central Texas

Higher grain prices are certainly helping this year, but cotton prices are not so good. We need some more rain soon.

Grain prices are good.

Region 7—East Texas

Grain production was excellent, with corn and grain sorghum production at almost record yields. Because of excellent prices, many farmers wished they had more grain acreage than cotton. Cotton production appears to be above average for the area. Most dryland cotton has been harvested. Lack of soil moisture continues to be a problem due to high temperatures in late August without a good widespread rain. Pastures are short, going into fall. Rain will be needed across the area for winter wheat and oats to come up and sustain growth.

Region 8—Central Texas

The drought and heat are back; there have been scattered showers in some areas, but most areas are receiving little or no rain. Grass continues to burn up. If we don't get fall rains soon, we will have another big shortage of hay and poor cattle conditions heading into the fall and winter. Oil and gas revenue continues to roll in to area landowners, but most would prefer rain at this time. It is a good thing to have money and power, but Mother Nature can humble anyone.

Canal-watered rice crops did not receive water from the Lower Colorado River Authority for 2012; thus, farmers filed for crop insurance. Yields in Colorado, Fort Bend and Wharton counties were at record highs for grain sorghum and cotton and were average to very good for corn. We received very timely rainfall in spring and early summer. Prices are excellent; some producers will see record profits. Grazing conditions are improved, and cattle prices are very good at this time.

All in all, the ag sector is in much better shape than 12 months ago. There have been more moisture, better range and crop conditions and stronger cattle prices. However, cattle numbers are down substantially due to the sell-off during the drought last year. We are seeing some indication of restocking.

Land is being removed from ag production and used for other purposes. Present sales prices make ag purchases infeasible. It is starting to get dry; fall rain would be beneficial.

Land around the Austin area has become too expensive to be sold for ag use. The majority of ag land sales are for home sites and/or development.

Region 11—Trans-Pecos and Edwards Plateau

After a promising early start to the year rainfall-wise, it seems like *deja vu* to many operators in the Edwards Plateau. The rainfall received in this area has been very spotty. Accordingly, some folks find themselves in almost the same situation as last year. At least livestock prices have stayed strong. Feed costs have gone through the roof due to the drought in the Midwest and alternative uses for feed corn. The ranching business in this area faces some difficult times ahead. Thank heaven for hunting income.

Our area is in need of rainfall.

Region 12—Southern New Mexico

We've had enough scattered rain showers to keep producers from liquidating their herds, but they are still in dire need of rainfall.