

DALLASFED

Agricultural Survey

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

Survey Highlights

Bankers responding to the fourth-quarter survey continued to stress the need for rain as most of the Eleventh District remains in drought conditions. Cattle prices were strong, but ranchers faced increased feed costs resulting from the drought. Even though the harvest this year was better than it was last year, without more rain, respondents expect a poor winter wheat crop. A new farm bill may impact crop insurance and lending and therefore may delay the spring planting.

Agricultural land value changes were mixed. Irrigated land values increased again, gaining roughly 5 percent above third quarter levels. The value of ranchland fell slightly, while dryland remained largely unchanged. However, all cropland rose year over year. The majority of respondents continue to expect values to hold steady over the next three months.

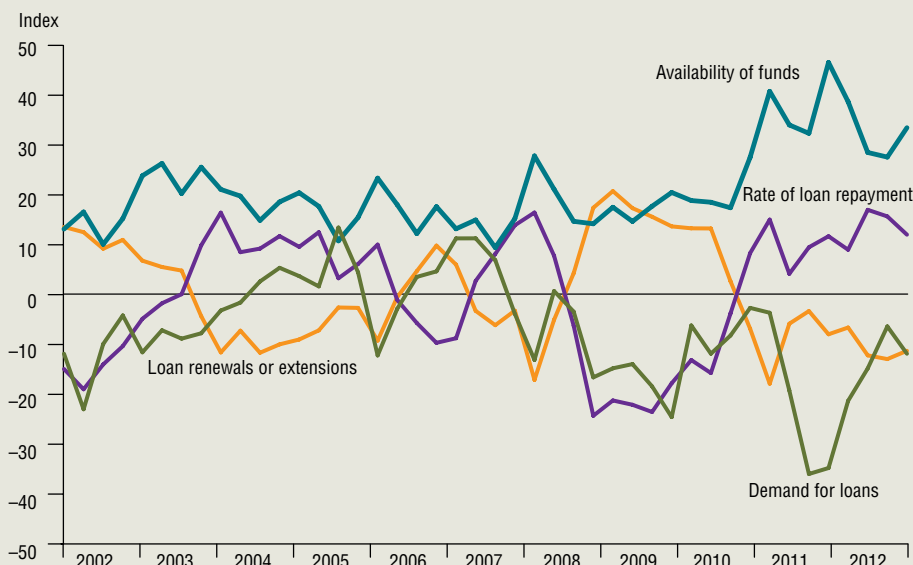
The number of bankers who reported increased incomes for farmers and ranchers in the fourth quarter was equal to those who reported decreased incomes; however, almost half the respondents reported no change in farm incomes in the past three months. Although the credit standards index rose very slightly, the great majority of bankers reported no change to credit standards compared with a year ago.

Demand for agricultural loans continued to decline in the fourth quarter, as did loan renewals and extensions. Once again, feeder cattle loans, followed by dairy loans, showed the largest drops in volume compared with a year ago. Loan repayment rates continued to rise, although at a slower pace than in the past two quarters.

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?

	Index*		Percent reporting Q4:		
	2012:Q3	2012:Q4	▲ Greater	Same	▼ Less
Demand for loans	-6.5	-12.0	19.3	49.3	31.3
Availability of funds	27.6	33.6	35.6	62.4	2.0
Rate of loan repayment	15.7	12.0	21.3	69.3	9.3
Loan renewals or extensions	-13.1	-11.4	6.0	76.5	17.5



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

	Index*		Percent reporting Q4:		
	2012:Q3	2012:Q4	▲ Greater	Same	▼ Less
Non-real-estate farm loans	-0.7	-12.8	16.9	53.4	29.7
Feeder cattle loans	-17.3	-17.2	14.1	54.7	31.3
Dairy loans	-13.5	-16.0	0.9	82.1	17.0
Crop storage loans	-10.1	-12.6	6.3	74.8	18.9
Operating loans	2.7	-4.9	19.4	56.3	24.3
Farm machinery loans	-11.9	-15.0	10.9	63.3	25.9
Farm real estate loans	-8.6	-11.0	15.2	58.6	26.2

*Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting greater from the percentage reporting less. Positive index readings generally indicate an increase while negative index readings generally indicate a decrease.

▶ 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

- ▶ Some dryland wheat sprouted, but drought conditions will likely yield another failed crop. Irrigated wheat is requiring higher than average irrigation costs to maintain crops. Overall, excitement for the drought ending this fall was brief, and we are left with a dry soil profile that very well may be worse than this time last year.
- ▶ High commodity prices coupled with low bank CD rates and an uncertain stock market are making agricultural land an attractive investment alternative. This is driving up farmland values. Corn farmers had a good revenue year. Cow/calf producers, stocker operators and feedlots are all struggling to make a profit. The Renewable Fuel Standard mandate has been good for corn farmers, but it is crippling the cattle industry.
- ▶ We still need moisture.
- ▶ The drought has continuing effects. Grass for pasture is minimal. We need rain to replenish subsoil moisture. Cattlemen have said they cannot maintain herds without rain in the spring.
- ▶ Borrowers are diligently searching for an alternative to the traditional cotton crop due to the high input costs and low price forecast for next year.

Region 2 • Southern High Plains

- ▶ Rain and a farm bill would be helpful. Drought has hurt us again, but we are thankful for the Supplemental Revenue Assistance Payments program.
- ▶ High corn, milo and cattle prices helped offset the low price of cotton. The dryland cotton crop suffered again this year because of the drought. Average yields for irrigated crops were down 20 to 25 percent in 2012 from past average yields, as a result of continued drought conditions and decline of irrigation water. Our area primarily produces cotton, and both cotton prices and yields were off again this year. Most farmers will suffer operating losses again this year. Federal crop insurance and the USDA disaster program, Supplemental Revenue Assistance Payments, will help most farmers with debt repayment, but loss of additional equity in most farmers' financial statements is expected for the second year in a row.
- ▶ It appears that we will have some borrowers that will be looking at operating carryover for 2012. It will not be a problem to collateralize the loan, but cash flow will be a huge problem. Cash flow will be the biggest problem for 2013 with government payments going away, cotton prices being depressed, dry weather setting in again for the third year, and the possibility of producers trying to switch to alternative crops.

- ▶ Cotton growers are wrapping up another poor year on the South Plains. Dryland growers who were able to abandon their crops and collect insurance have done well because the insurance price at planting time was high. Irrigated growers will lose money because yields were off due to drought and prices have plummeted to well below the all-in cost of production. It is extremely dry and the market outlook for 2013 is not good with excess cotton worldwide. We expect growers to switch a fair amount of production next year into grains.

Region 3 • Northern Low Plains

- ▶ Drought conditions continue to stress producers and their ability to generate income. If the weather pattern continues, we will experience a third year of severe drought conditions, with quickly dwindling irrigation.
- ▶ We need rain. The wheat has stopped growing and the feeder cattle are being shipped to the feedlot. Our hopes for a good wheat crop are fading, but even though the cotton crop was small, it was better than last year's.

Region 4 • Southern Low Plains

- ▶ Cotton harvest is ending, and while we harvested more than was insured, the quality is not very good. We continue to be dry with no indication of moisture.
- ▶ With no farm bill and the decrease in crop insurance from 2011 to 2012, the 2013 farm operating loan season will be delayed until late February or March 2013. Cash flow is expected to be tight.

Region 5 • Cross Timbers

- ▶ Like many parts of the country, we are extremely dry. In October, we received some good moisture, making many calf operators optimistic about early grazing. Since the middle of October, we have received no moisture, and calves on wheat pastures are beginning to be sent to the feedlot.
- ▶ It is very dry now. Grain fields need rain badly.
- ▶ We have had no moisture since early September. Lakes and stock tanks continue to go dry. Winter wheat that came up is dying.

Region 6 • North Central Texas

- ▶ Dry conditions continue to hamper fall planting of small grains. Fields that have grain suffer from a lack of rainfall, and pasture conditions deteriorate daily with high temperatures and winds. Native pastures are in poor condition. Many ponds are dry. Feeding cattle on protein and hay has started. Hay is again costing a premium. Some rural real estate is trading, but mainly for recreational purposes.

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NEW MEXICO

Regions of the Eleventh Federal Reserve District

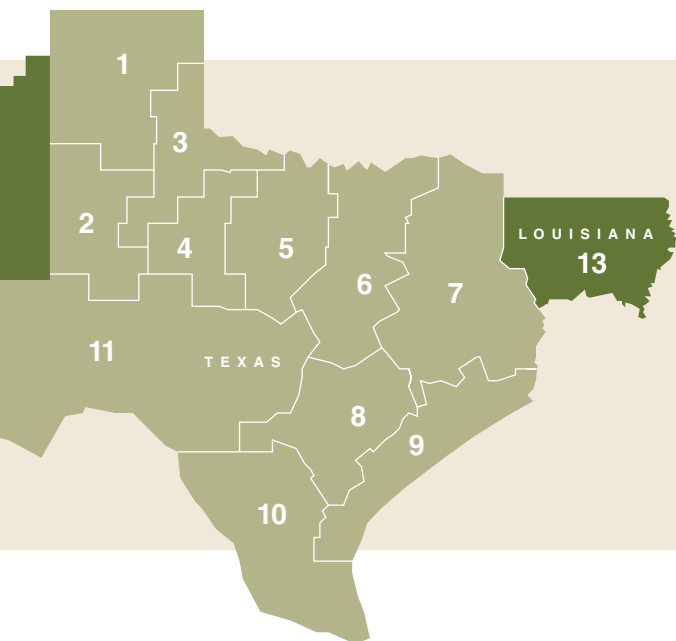
- ▶ All loans, including farm and ranch loans, are down. Based on our customers' comments, this is due to uncertainty in the U.S. economy.
- ▶ We need rain badly.
- ▶ We had good yields and prices this year. Cattle prices were good.

Region 7 • East Texas

- ▶ Farmland rent values may change if farmers' direct payments are eliminated. In the immediate area, a railroad company is in the process of acquiring 1,100 acres of prime row crop land for a switching station. They offered approximately twice the current land value, and these sales will skew land values for several years. Credit standards for feeder loans have tightened due to cattle costs.
- ▶ Lack of rain is a concern going into winter. Cattle prices stay strong, but input costs are higher as well. Some ranchers are beginning to restock after last year's drought.

Region 8 • Central Texas

- ▶ Our area is coming off a dry year that resulted in poor crop yields and reduced livestock production. In October and November, there were some scattered areas of helpful rain. Currently in December, the ground is very dry and outlook is dim. Farmers may not be able to plant cotton and corn on time.
- ▶ Consistent and abundant rain is greatly needed at this time. Ryegrass plantings and oats for winter grazing are starting to fail. Ranchers are feeding hay to cattle on a regular basis as green grass is gone and growing days are over. Cattle prices remain strong, but we are starting to see a slowdown in replacement cattle due to a lack of moisture for the winter months. Planting time is only 75 days out, and farmers are concerned about lack of moisture.
- ▶ Larger land sales are mostly for speculative purposes to individuals who also graze livestock or lease it. The price of real estate in our area does not justify a profitable ranching or farming operation.



► We had near record corn/grain sorghum yields with excellent prices; cotton yields set a new record with low prices; and cattle numbers were down with good prices. New wells for irrigation purposes are in demand due to lack of river water. Lack of surface water decreased rice acreage over 85 percent.

► Fall and winter have been disappointing with dry conditions. Winter grazing has not materialized, and early frosts have deteriorated pastures, causing ranchers to feed cattle on hay. Agriculture lending has been stagnant, with most activity being renewals.

Region 9 • Coastal Texas

► We need rain.

Region 11 • Trans-Pecos and Edwards Plateau

► Most area ranches grew some grass this summer. Stocking rates are still low because of the drought.

► Soil in our area is starting to dry out because we have not received any good rain since September. Producers are reducing livestock herds before the end of the year due to dry weather and uncertainty in the tax code.

► Fall and winter were forecast to be wetter and cooler, but we are still in drought conditions. Many producers have not replaced their livestock, and if it does not rain this winter and early spring, those who did not sell out this past year may have to next year. Even through the difficulties, livestock prices have remained strong and there is a good market for sheep, goats and cattle at this time. If current conditions persist, we can only hope that there is still some livestock left after the next couple of years.

► Cattle prices remain good. We need rainfall.

Region 12 • Southern New Mexico

► Crop insurance and commodity prices are keeping the effects of the drought mitigated. However, moisture is drastically needed.

Rural Real Estate Values—Fourth Quarter 2012

	Banks ¹	Average value ²	Percent change ³ in value from	
	Fourth quarter 2012		Previous quarter	Previous year
Cropland—Dryland				
District	114	1,440	0.6	3.9
Texas	101	1,458	0.8	3.4
1 Northern High Plains	18	664	4.6	14.6
2 Southern High Plains	13	646	4.4	10.1
3 Northern Low Plains	6	708	−3.4	−4.5
4 Southern Low Plains	6	896	−0.9	5.0
5 Cross Timbers	10	1,535	0.0	15.2
6 North Central Texas	16	2,134	1.3	−0.5
7 East Texas	6	2,100	−9.0	0.0
8 Central Texas	11	2,832	4.8	1.4
9 Coastal Texas	4	1,513	0.0	0.0
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	1,565	5.0	7.3
12 Southern New Mexico	4	338	−6.7	2.5
13 Northern Louisiana	9	1,894	−0.4	11.6
Cropland—Irrigated				
District	86	2,049	2.5	10.1
Texas	71	1,966	3.4	10.7
1 Northern High Plains	18	1,800	5.0	19.1
2 Southern High Plains	13	1,542	7.1	4.7
3 Northern Low Plains	4	1,350	−7.7	11.6
4 Southern Low Plains	5	1,440	0.0	0.0
5 Cross Timbers	5	2,670	−1.5	−0.5
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	4	2,350	−15.4	9.1
8 Central Texas	8	3,063	8.3	10.1
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	7	3,900	0.0	5.5
12 Southern New Mexico	6	2,200	−8.1	2.2
13 Northern Louisiana	9	2,700	5.3	13.7
Ranchland				
District	129	1,460	0.4	0.1
Texas	118	1,759	0.8	0.0
1 Northern High Plains	17	485	3.0	6.4
2 Southern High Plains	11	573	−1.5	6.4
3 Northern Low Plains	6	688	−4.6	−2.1
4 Southern Low Plains	6	992	−3.2	0.0
5 Cross Timbers	13	1,877	0.5	−0.5
6 North Central Texas	18	2,250	−3.0	−11.0
7 East Texas	17	2,421	−2.4	5.2
8 Central Texas	10	3,665	2.8	0.4
9 Coastal Texas	3	1,117	0.0	9.8
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	16	1,725	2.9	2.7
12 Southern New Mexico	5	183	−14.2	0.0
13 Northern Louisiana	6	1,458	6.6	25.0

¹ Number of banks reporting land values.

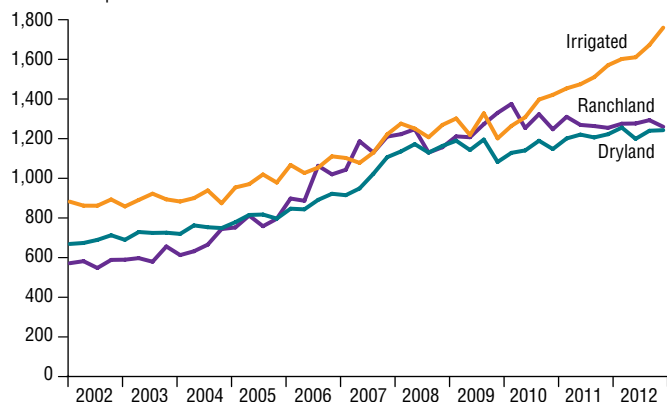
² Prices are dollars per acre, not adjusted for inflation.

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.

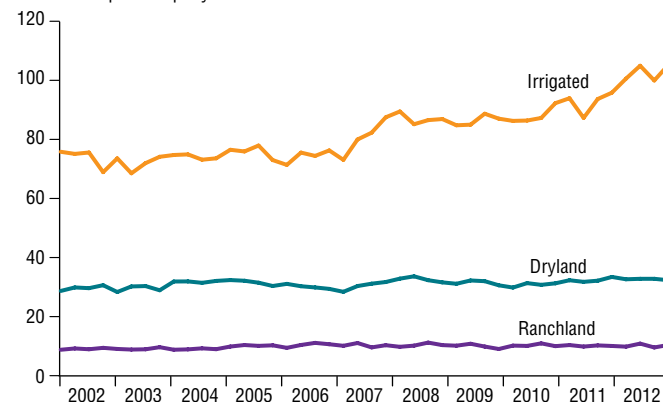
Real Land Values

2005 dollars per acre



Real Cash Rents

2005 dollars per acre per year



Interest Rates by Loan Type

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
Fixed (average rate, percent)				
2011:Q4	6.54	6.71	6.69	6.41
2012:Q1	6.54	6.63	6.49	6.19
Q2	6.43	6.50	6.46	6.36
Q3	6.56	6.55	6.51	6.23
Q4	6.37	6.47	6.32	6.19
Variable (average rate, percent)				
2011:Q4	6.00	6.09	6.14	5.83
2012:Q1	5.97	6.09	6.06	5.79
Q2	5.90	5.96	5.98	5.70
Q3	6.04	6.09	6.05	5.69
Q4	5.83	5.93	5.94	5.62

Anticipated Farmland Values, Income and Credit Standards

What trend in farmland values do you expect in your area in the next three months?

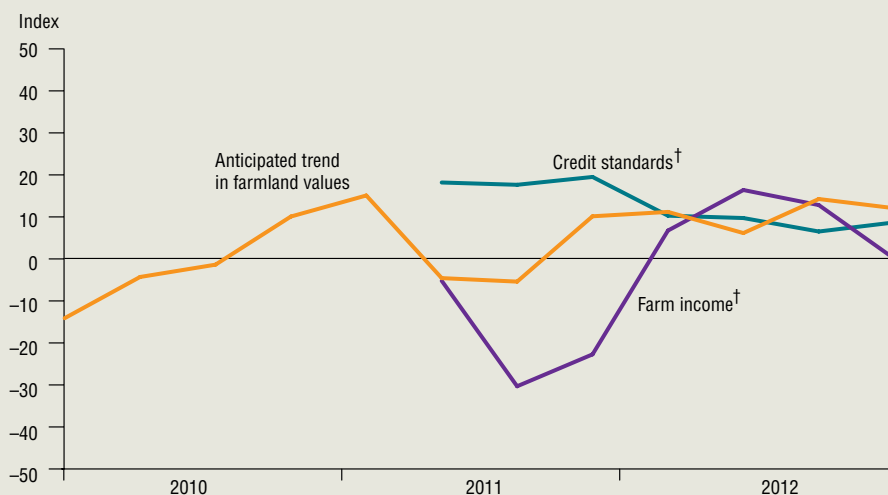
Anticipated trend in farmland values	Index*		Percent reporting		
	2012:Q3	2012:Q4	▲ Up	Stable	▼ Down
	14.3	12.1	17.5	77.2	5.4

What change occurred in farm income for farmers and ranchers in your area in the past three months compared with a year earlier?†

Farm income	12.8	0.0	27.0	46.0	27.0
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What change occurred in credit standards for agricultural loans at your bank in the past three months compared with a year earlier?†

Credit standards	2012:Q3	2012:Q4	▲ Tightened	Same	▼ Loosened
	6.5	8.7	10.0	88.7	1.3



*See note on bottom of page 1.

†Added to survey in second quarter 2011.

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Agricultural Survey

is compiled from a survey of Eleventh District agricultural bankers. Data were collected Dec. 4–12, and 152 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, contact Amy Jordan, 214-922-5178.