

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 report concern for producers' financial positions and profitability due to low commodity prices. Cotton yields were good in general and better than expected in some areas. Reports on the winter wheat crop were mixed, with some areas in good condition and others marginal. Ranchers suffered equity losses with the decline in cattle prices; this is impacting supplementary feed, replacement cattle and equipment purchases.

Demand for agricultural loans decreased for a fifth consecutive quarter. Loan renewals and extensions continued to increase, albeit at a slower pace, as loan repayment rates declined for the second year in a row. Overall, the volume of non-real-estate farm loans was lower than a year ago. Operating loan volume increased year over year, while all other loan categories' volumes fell (*Figure 1*).

Real district land values decreased this quarter (*Figure 2*). Real irrigated land values fell 5.2 percent from last quarter. Real dryland values declined 4.3 percent, while real ranchland values were down 3.3 percent. However, according to bankers who responded in both this quarter and fourth quarter 2015, nominal district land values increased year over year (*Table 1*).

The anticipated trend in farmland values index was negative for a sixth consecutive quarter, suggesting respondents expect farmland values to trend down in the coming months. The credit standards index indicated continued tightening of standards (*Figure 4*).

Figure 1
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		
	2016:Q3	2016:Q4	▲ Greater	Same	▼ Less
Demand for loans*	-10.9	-5.8	18.7	56.8	24.5
Availability of funds*	1.4	3.1	8.8	85.5	5.7
Rate of loan repayment	-25.2	-19.8	6.4	67.5	26.2
Loan renewals or extensions	22.8	15.1	22.2	70.6	7.1



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		
	2016:Q3	2016:Q4	▲ Greater	Same	▼ Less
Non-real-estate farm loans	-2.4	-6.3	15.8	62.2	22.1
Feeder cattle loans*	-23.6	-26.0	7.8	58.4	33.8
Dairy loans*	-14.2	-10.0	1.8	86.4	11.8
Crop storage loans*	-4.6	-2.0	6.0	86.0	8.0
Operating loans	8.8	4.0	17.6	68.8	13.6
Farm machinery loans*	-24.8	-30.6	3.9	61.6	34.5
Farm real estate loans*	-27.0	-16.5	9.0	65.5	25.5

*Seasonally adjusted.

NOTE: Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting less from the percentage reporting greater. 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

- ▶ Farmers are still feeling the effects of low commodity prices, which are hurting loan repayment. Ranchers seem to be recovering a little due to price stabilization but still have a hill to climb to regain lost equity.
- ▶ It has been a year of challenges for any area of ag production to be profitable. 2017 is anticipated to be another challenging year as most crop and livestock budgets are prepared with anticipation of negative cash flows.

▶ Cotton yields were very good. Wheat pasture looked great in early October, but lack of moisture has only allowed us to stock the irrigated land at this time. Most cattlemen are being very cautious about stocker cattle purchases. Two years of beatings have taken their toll.

Region 2 • Southern High Plains

- ▶ The cotton crop was better than expected, both in quality and quantity. The harvest is progressing nicely. Cattle prices have weakened. Hopefully, most producers will be able to pay out this time.
- ▶ Cotton production has been slightly better than projected heading into harvest. Producers are selling cotton in the 65 to 70 cents/pound range. These two factors should allow most producers to break even or possibly take in a small amount of positive net income.
- ▶ Due to increased yields, 2016 is on track to be productive and profitable. Not all producers enjoyed this trend due to crop loss or just not being under a rain when it came. Most cotton yields are tremendous. However, lenders will face the same hurdles as last year in getting an operation to cash flow.

▶ Cotton yields on the South Plains are coming in better than expected due to favorable conditions in September and October. Fiber quality is excellent, and prices reached 70 cents for some trading days. Income for this sector will be up 20 percent or so from original expectations—very much welcomed. Cattle producers are hoping that prices have bottomed and that the market will be less volatile. Lots of equity has been drained from this segment, which is hampering placements.

Region 3 • Northern Low Plains

▶ The cotton harvest is winding down. Dryland production has been far above average in most areas. Irrigated yields are average. Wheat conditions improved with the rain two weeks ago but are still marginal, with most acres being used for

grazing. We are seeing significant loss of equity in cattle-based operations due to the significant drop in cattle prices over the past year.

▶ It's the best wheat pasture we have had in years. Wheat producers are trying to use cattle to help diversify their operations. Most, if not all, producers can't pencil a profit by cutting wheat at current prices.

Region 4 • Southern Low Plains

- ▶ There's more optimism with the new administration coming in. Hopefully, some deregulation will occur that will help profitability.
- ▶ Dryland yields were mixed. A very rare fall hailstorm cut yields in half. Irrigated yields were 1.5 to 2 bales. Most cotton operating loans will pay off or be close to paying out. The lack of concern on overall debt coverage by dealer credit continues to be a problem. Banks have to cash flow large dealer debt, but dealers don't give a hoot—they are just selling equipment. Cattle lines have stabilized.

Region 5 • Cross Timbers

▶ Good rains over most of the area in the past month or two ended a dry spell; soil moisture is now in good shape, and most ponds and lakes are full. Winter wheat and oats should do very well this year. Cattle prices are still down and causing cash-flow issues for many cow-calf operations. Winter arrived late; there's abundant supply of hay.

Region 6 • North Central Texas

- ▶ Unreliable weather patterns are severely impacting farm operations and land sales in the area, as potential buyers are concerned that they will not be able to produce a crop.
- ▶ Crop and cattle prices are not good. Off-and-on rain is hurting cotton and the gins.
- ▶ Cattle prices are killing our farmers. Cattle had helped soften the blow the past two years due to our flood/drought situations.
- ▶ With the rains the past two years and lower commodity prices, 2016 is the second carryover year for a lot of the farmers.
- ▶ The cattle market has declined substantially. Many producers are retaining their weaned calves until next year.

Region 7 • East Texas

▶ Most farmers are still undecided about 2017. Those who have decided look to plant almost all

Regions of the Eleventh Federal Reserve District

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cotton. Cattlemen are in hunkered-down mode, tightening their belts and hoping for a light winter to hold feed costs down.

Region 8 • Central Texas

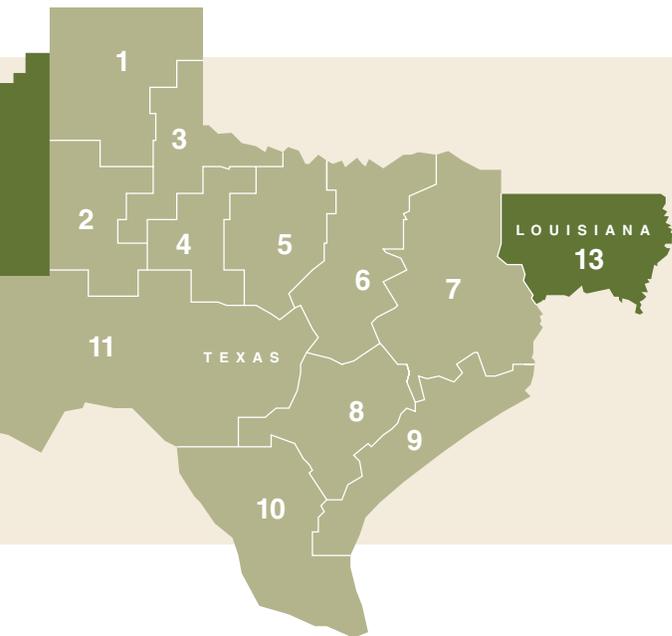
▶ Beneficial rains in November and December provided needed subsoil moisture. Cattle prices are down, affecting purchases of supplementary feed and equipment.

Region 9 • Coastal Texas

- ▶ Recent rains put some good moisture in the ground that will definitely help crops and pastures get a good start into next year. Rains were mixed from area to area. Land preparation for spring started with some wheat planting being considered. Wheat acreage will be down this year. More traditional crop mixes will be planted in grain, corn and cotton in 2017. The cotton market seems optimistic, with some potential this coming year. Cattle prices have rebounded some but can be shored up by an upswing in the markets. Prices will be good indicators in the marketing of cattle in the next three to nine months. Some producers will hold back replacements and look at possibly improving herds.
- ▶ All ag-related credit has decreased cash flow due to lower commodity prices. In particular, cotton producers in this area experienced the biggest decrease in cash flow due to added expenses at the gins. Producers with concentrations in cotton will not be able to pay off annual operating lines.

Region 11 • Trans-Pecos and Edwards Plateau

- ▶ A decreased alfalfa market will cause a number of accounts to come up short, despite excellent yields. A few producers are planning on feeding alfalfa to feeder cattle to minimize losses.
- ▶ Cattle prices have come off significantly from early in the year and particularly since last year.



Although we experienced good rainfall all year long, there is apprehension among most of our livestock producers that with prices where they are, we could be looking at a difficult year if it turns out dry. As always is the case in south central Texas, rainfall will be the key going forward. Fortunately, going into the early winter months, range conditions are overall very good.

- ▶ Recent rains have pastures and grain fields in good condition. Livestock prices are slightly stronger.
- ▶ Pasture conditions are optimal at present, with good moisture received recently on already very good grazing conditions. Minimal supplemental feeding has been required, but it will increase after the recent freeze. Cattle, sheep and goat prices remain good, though down from last year. High-quality female replacement values remain good to very good. Predators are increasing with control being much more challenging.

Region 12 • Southern New Mexico

- ▶ An increase in commodity prices would be welcomed.
- ▶ Livestock markets continue to be volatile. Yearling and finishing operations have difficulty hedging a profit. Cow-calf receipts are 60 percent of last year's gross sales. All livestock operations are experiencing problems maintaining a profitable margin. Crop producers are having a difficult time planning for 2017 as all production reflects negative returns based on the present depressed commodity prices. Dry weather is concerning, and moisture is needed on the winter wheat in this area. All wheat is established but is in need of moisture at this time.
- ▶ Our irrigation water is rapidly depleting. Dryland and grazing land depend on rain.

Table 1
Rural Real Estate Values—Fourth Quarter 2016

	Banks ¹	Average value ²	Percent change in value from previous year ³
Cropland—Dryland			
District*	104	1,818	3.2
Texas*	92	1,845	2.6
1 Northern High Plains	11	873	1.3
2 Southern High Plains	10	683	1.6
3 Northern Low Plains*	8	810	-3.9
4 Southern Low Plains*	8	1,148	-0.8
5 Cross Timbers	7	1,821	-2.6
6 North Central Texas	18	2,719	7.6
7 East Texas*	5	2,687	2.9
8 Central Texas	10	3,650	1.8
9 Coastal Texas	6	2,508	1.6
10 South Texas	3	2,317	3.5
11 Trans-Pecos and Edwards Plateau	6	1,750	1.4
12 Southern New Mexico	5	360	10.4
13 Northern Louisiana	7	2,429	14.7
Cropland—Irrigated			
District*	78	2,398	2.8
Texas*	64	2,169	0.3
1 Northern High Plains	11	2,007	-4.8
2 Southern High Plains	9	1,628	5.1
3 Northern Low Plains*	5	1,758	-5.4
4 Southern Low Plains	7	1,429	-2.7
5 Cross Timbers	3	2,817	9.7
6 North Central Texas	5	3,070	2.3
7 East Texas	3	2,567	0.0
8 Central Texas	7	3,714	1.1
9 Coastal Texas	4	2,813	-1.3
10 South Texas	4	3,188	5.1
11 Trans-Pecos and Edwards Plateau	6	2,883	10.2
12 Southern New Mexico	7	3,421	14.2
13 Northern Louisiana	7	3,614	9.1
Ranchland			
District*	111	1,695	2.8
Texas*	99	2,014	2.7
1 Northern High Plains	11	582	-4.1
2 Southern High Plains	7	700	-3.5
3 Northern Low Plains	8	931	6.7
4 Southern Low Plains*	9	1,196	-2.4
5 Cross Timbers	7	2,057	-3.3
6 North Central Texas	17	2,747	6.5
7 East Texas	9	2,744	0.0
8 Central Texas	9	4,622	9.2
9 Coastal Texas	5	2,630	6.4
10 South Texas	3	2,550	-1.9
11 Trans-Pecos and Edwards Plateau	14	1,681	2.6
12 Southern New Mexico	6	326	4.2
13 Northern Louisiana	6	1,825	3.5

* Seasonally adjusted.

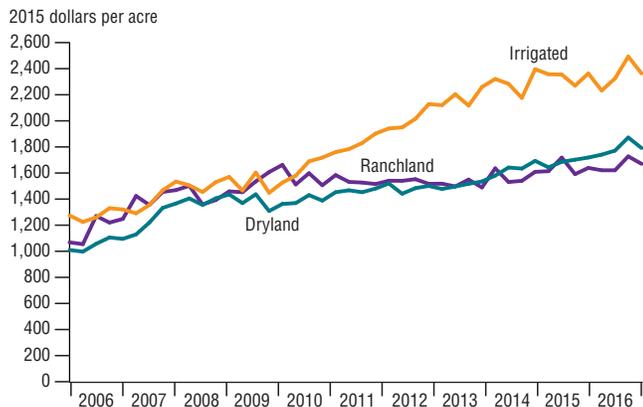
¹ Number of banks reporting land values.

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.

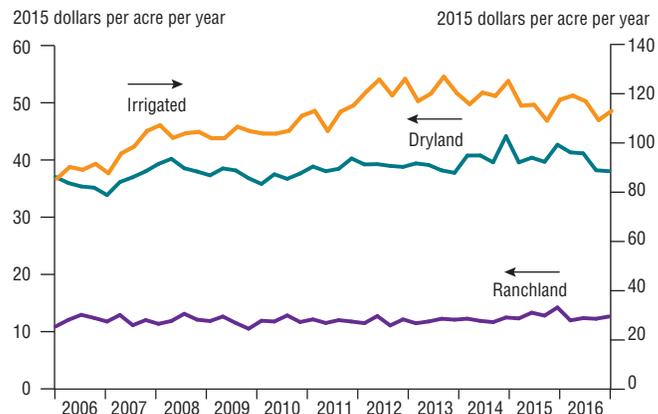
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

**Figure 2
Real Land Values**



NOTE: All values have been seasonally adjusted.

**Figure 3
Real Cash Rents**

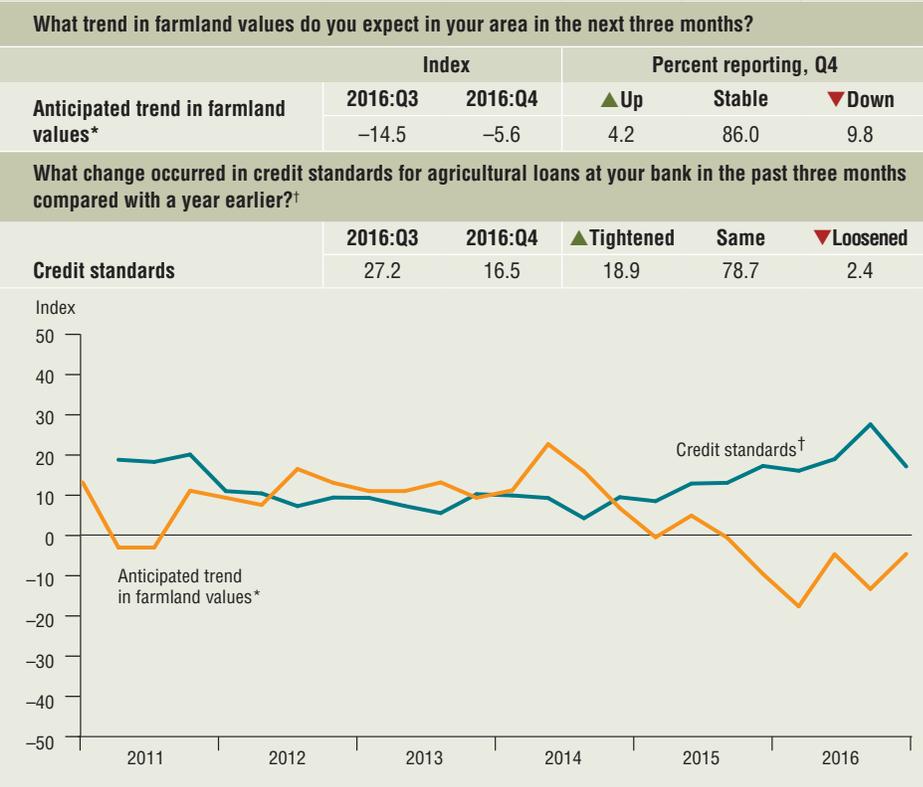


NOTE: All values have been seasonally adjusted.

**Table 2
Interest Rates by Loan Type**

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
Fixed (average rate, percent)				
2015:Q4	6.04	6.08	5.93	5.67
2016:Q1	6.07	6.11	6.09	5.81
Q2	6.08	6.19	6.07	5.82
Q3	5.98	6.07	5.96	5.72
Q4	5.98	6.11	6.03	5.72
Variable (average rate, percent)				
2015:Q4	5.70	5.73	5.69	5.31
2016:Q1	5.72	5.74	5.78	5.38
Q2	5.73	5.80	5.68	5.32
Q3	5.60	5.63	5.64	5.36
Q4	5.65	5.65	5.63	5.29

**Figure 4
Anticipated Farmland Values and Credit Standards**



*Seasonally adjusted.

†Added to survey in second quarter 2011.

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

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Agricultural Survey

is compiled from a survey of Eleventh District agricultural bankers, and data have been seasonally adjusted as necessary. Data were collected Dec. 6–14, and 133 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 214-922-5270. It is available on the web at www.dallasfed.org/research/surveys/agsurvey.aspx. For questions, contact Amy Jordan, 214-922-5178.