AGRICULTURAL HIGHLIGHTS

DALLASFED

Federal Reserve Bank of Dallas August 1982

Storms Damage Farm Income Prospects

The cost-revenue squeeze in agricultural production has tightened its grip on District farmers. Livestock margins which had improved throughout the early part of the year took a sudden downturn in June, while extreme weather, crop diseases and low commodity prices further reduced farmers' 1982 income prospects.

Crops

Storms with high winds, heavy rains, and hail ripped across West Texas during the middle of June destroying crops and leaving water standing in the fields. Several of Texas' principle crops sustained damage as a result.

The cotton crop was the hardest hit as hail destroyed many plants, and the standing water left behind caused many others to develop root rot. A Lubbock area cotton exchange has estimated that over 50 percent of the cotton crop in a 25 county area around the West Texas city has been lost. Much of the damage occurred after the deadline for replanting cotton. As a result, some farmers have been forced to replant other, less profitable, crops such as sunflowers and milo. The cotton that survived is likely to bring low prices. Large carryover stocks and slack demand are expected to keep prices depressed despite the projected decline in U.S. cotton production.

Some sorghum and corn fields also were damaged by the West Texas storms. Corn is making a strong recovery, however, and the lost sorghum was quickly replanted.

The unseasonably wet weather throughout Texas also hurt wheat farmers. Harvesting operations ran well behind schedule because humid conditions prevented the fields from drying properly. The excess moisture promoted wheat rust and heavy weed growth as well, which caused some fields to be abandoned. Of the fields that were harvested, yields were lower than last year and grain quality was below normal. Consequently, despite a 5 percent increase in acres planted, wheat production is expected to be 11 percent lower than last year. This will be the second largest crop on record, but the increased costs from planting more acres combined with low product prices will leave many farmers unable to repay this year's production loans.

Governor Clements requested disaster relief from the Farmers Home Administration (FmHA) for 26 counties in the High and Rolling Plains areas and is expected to add approximately 13 more counties to the list. The FmHA is assessing the amount of damage done in the 26 counties, and will forward its results and recommendations to Agriculture Secretary Block for a decision sometime between mid-August and early September. If relief is granted, it is expected to be in the form of low interest disaster loans. In order for a county to be considered for these loans, damages must amount to 30 percent or more of the normal value of all crops in the county.

Livestock

Farmers with livestock operations are faring better than those who are relying solely on crops. Both beef cattle and calf prices appeared to be on the rebound after reaching a three year low in December and January. In addition, hog prices continued their sharp rise, reaching their highest level since 1975. With costs increasing more slowly than in previous years, it looked as though livestock producers were going to have a good year. A recent decline in beef cattle and calf prices, however, in conjunction with a surge in energy costs, have cut profit margins again and clouded the income prospects of livestock producers.

Credit

Agricultural credit conditions throughout the District worsened somewhat as a result of the crop losses and declining income prospects. As evidenced by the table on the next page, the demand for loans (including renewals and extensions) increased. Although funds continue to be available, agricultural banks are requiring more collateral in response to a lower loan repayment rate. Interest rates at commercial banks appear to be falling, but are still at prohibitively high levels.

—Brian Galuardi

AGRICULTURAL CREDIT CONDITIONS
JULY 1, 1982

Item	Compared with one year ago	Percent of respondents 1981 July 1	1981 Oct. 1	1982 Jan. 1	1982 Apr. 1	1982 July 1
Demand for loans	Greater	13	19	26	18	26
	Less	47	51	31	44	38
Availability of funds	Greater	31	34	31	36	36
	Less	11	11	10	10	13
Renewals or extensions	Greater	40	40	58	62	70
	Less	4	5	4	3	2
Rate of Loan Repayment	Greater	2	4	3	3	3
	Less	42	38	53	62	69
Amount of collateral required	Greater	41	43	47	54	63
	Less	1	1	1	2	1
Number of referrals to:						
Correspondent banks	Greater	9	6	10	11	13
	Less	11	16	15	11	23
Nonbank credit agencies	Greater	20	18	21	26	28
	Less	9	10	10	7	11

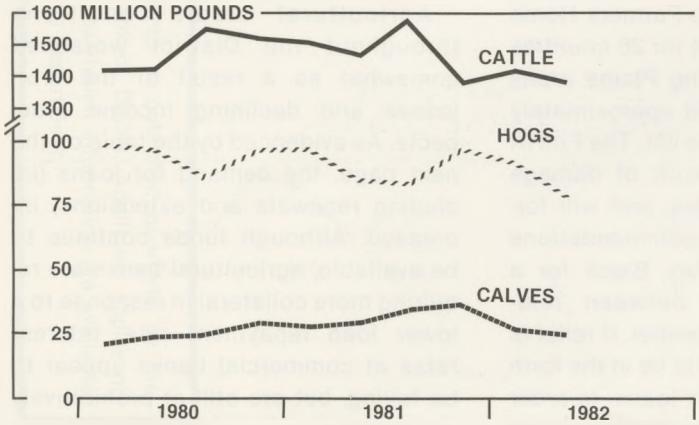
SOURCE: Federal Reserve Bank of Dallas

RURAL REAL ESTATE VALUES
JULY 1, 1982

	Average Dollars Per Acre Cropland Dryland	Cropland Irrigated	Ranchland
Eleventh District Average	718	1,130	530
Texas Average	696	1,033	541
	Percent change in District average[1]		
From April 1, 1982	-1.8	3.1	-1.6
From July 1, 1981	-1.1	1.0	-1.9

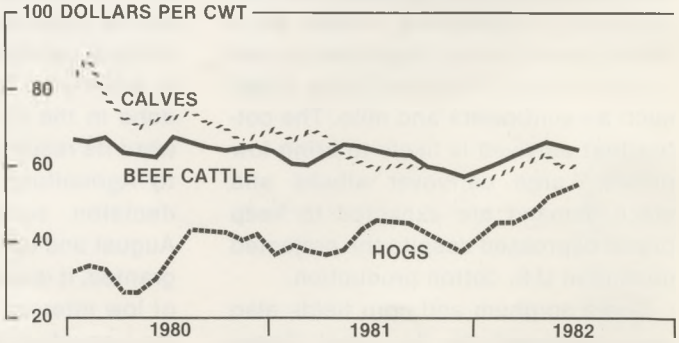
1. Percent changes calculated from the data adjusted for sample variation.
SOURCE: Federal Reserve Bank of Dallas.

COMMERCIAL SLAUGHTER: TEXAS (LIVEWEIGHT)



SOURCES: U.S. Department of Agriculture.
Federal Reserve Bank of Dallas.

TEXAS MID-MONTH PRICES: LIVESTOCK



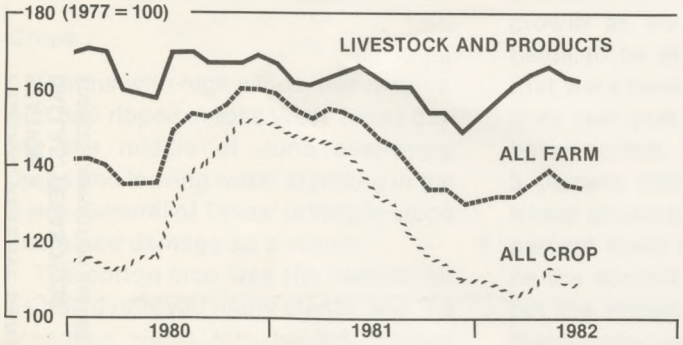
SOURCE: U.S. Department of Agriculture.

AGRICULTURAL BRIEFS

Falling prices and increasing costs continue to plague District farmers.

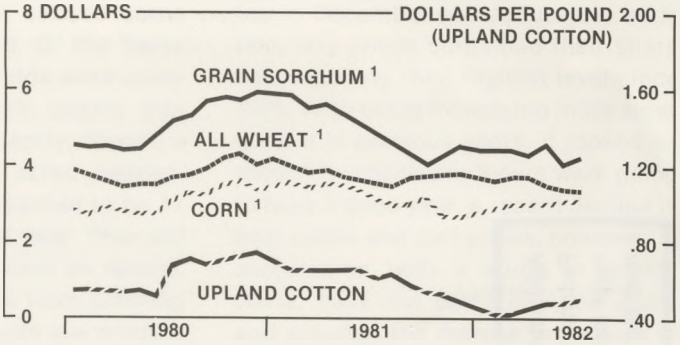
- Prospects for improved income from livestock production were dimmed as the Index of Prices Received for Livestock and Products dropped 2 percent from May to July. This reversed an upward trend—the Index increased 11 percent from December to May.
- Beef cattle and calf prices led the decline. In spite of reduced slaughter, beef prices fell 3.6 percent and calf prices fell 5.8 percent during June and July.
- Hog prices continued to rise on the strength of lower U.S. inventories and fewer animals being brought to slaughter. Average hog prices have increased 18.6 percent since July 1981.
- Farmers continue to face sagging commodity prices. Cotton prices are currently 19.7 percent less than a year ago while corn, wheat and sorghum prices are 4.1, 7.0 and 12.0 percent below July 1981 levels. No significant increase in commodity prices is expected until stocks are reduced to normal seasonal levels.
- Production costs increased slightly as energy and consumer prices jumped. Declines in interest rates for agricultural loans and feed costs partially offset the rise in energy and consumer prices.
- Despite the drop in interest rates, farmers are finding it more difficult to obtain loans. Commercial lenders are requiring more collateral and stronger proof of ability to repay than in previous years. In addition, the farmers' debt to equity ratio is climbing. This is a result not only of higher debt levels, but also falling farm real estate values in some areas.

INDEX OF PRICES RECEIVED: TEXAS



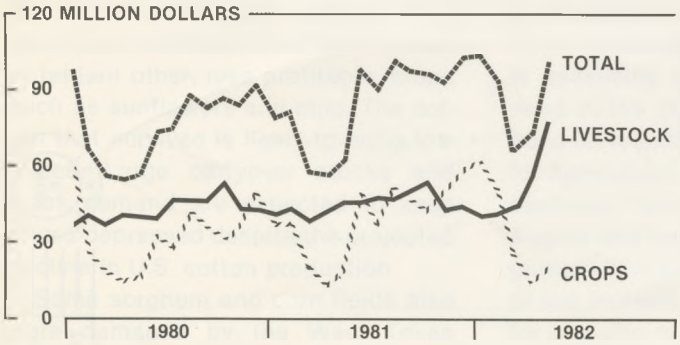
SOURCES: U.S. Department of Agriculture.
Federal Reserve Bank of Dallas.

TEXAS MID-MONTH PRICES: CROPS



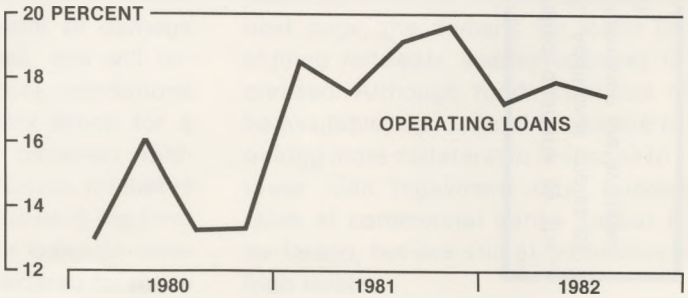
1. Corn and All Wheat quoted in dollars per bushel; Grain Sorghum quoted in dollars per hundredweight.
SOURCE: U.S. Department of Agriculture.

CASH RECEIPTS FROM AGRICULTURE: TEXAS



SOURCE: U.S. Department of Agriculture.

INTEREST RATES ON AGRICULTURAL LOANS



SOURCE: Federal Reserve Bank of Dallas.

Decline In U.S. Farm Income Slows

Agricultural income has seen a number of ups and downs during the last few years. Since 1979, however, the downs have outnumbered the ups. Between June 1979 and June 1982, seasonally adjusted farm proprietors' income fell 55.1 percent. During the first six months of 1982, it declined 36.7 percent.

Lately there have been signs that farm income is bottoming out. Although income has declined every month this year, the rate of decline has slowed steadily, moving from a 16.0-percent drop in January to June's 1.3 percent decline. This possible trough offers little hope for significant improvement in farm income this year, however. High levels of world crop production and large inventories discourage expectations of significant price rebounds this year for most U.S. agricultural products.

Variable Rate Loans More Widespread

The U.S. financial system lately has experienced much interest rate volatility. Lending money at a fixed rate of interest is more risky than in periods of stable interest rates. Bankers increasingly have expected borrowers to bear some of the risk associated with interest rate volatility. As a result there have been changes in the types of loans available to district farmers.

On July 1, 1981, 57 percent of all feeder cattle loans and 55 percent of other farm operating loans offered in the three previous months had fixed rates. Since then, variable rate loans have come to dominate these and other kinds of agricultural financing. In July 1982, 60 percent of all new feeder cattle loans and 58 percent of new other farm operating loans noted in a Federal Reserve Bank of Dallas survey were variable rate loans. At the same time, variable rate loans accounted for 70 percent of new long-term farm real estate loans and 68 percent of new intermediate term farm loans.

Survey Revised

On July 1, 1982, the Quarterly Survey of Agricultural Credit Conditions conducted by the Federal Reserve Bank of Dallas was revised. Both the sample and format of the Survey were changed to improve the accuracy of the results and increase its comparability with the surveys of other Federal Reserve Banks. Some of the results are included in this publication, and they will continue to be incorporated in future issues. A complete report of the Survey's findings will be published in a detailed statistical release. The release may be obtained by contacting the Research Department of the Federal Reserve Bank of Dallas.

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