

# DALLAS FED

AGRICULTURAL HIGHLIGHTS

Federal Reserve Bank of Dallas

August 1987

## District Cropland Values Closing in on the Bottom

Though still falling, average cropland values in the Eleventh District may be approaching the bottom of the market. In a few heavily agricultural regions of West Texas, cropland value estimates have actually stabilized. Any recovery in cropland prices, however, will be contingent upon continued heavy government income support for farmers and a revival of the moribund District economy.

### Demand Drives Cropland Markets

In recent years, the demand side has been more important than the supply side in determining cropland values. The demand for cropland is the aggregation of demand for land to be used in agriculture and demand for land for nonfarm uses by those outside of agriculture, such as real estate developers. Agricultural demand for land is a function of expectations about domestic and export markets and the level of government support, while nonagricultural demand is largely dependent on the state of the regional economy. In some regions of the District, such as Central Texas, agricultural land values are supported by nonagricultural demand for land. In other areas, such as West Texas, agricultural demand alone supports land values.

### Cropland Values Stabilized in Some Areas

The current District cropland value situation seems to be a near reversal of what existed in the early 1980s. Land values in heavily agricultural areas of the District started down as early as

1981. But in the more urbanized areas, the weakening agricultural demand for land was offset by the growing regional economy. In 1987, however, even though expectations about domestic and export farm markets are relatively unchanged, agricultural demand for land has probably increased because of the massive infusion of government money into the sector as a result of the 1985 Farm Bill. Starting in 1986, Texas

farmers will likely receive in excess of \$1 billion per year in government payments for the foreseeable future. Consequently, in a heavily agricultural area of Texas roughly around and between Lubbock and Abilene, July survey results indicate that the cropland market has stabilized. In contrast, nonagricultural demand for cropland has probably dropped off

*(Continued on back page)*

## Texas Agricultural Counties Experience Declines in Recent Years

The farm financial crisis, which began in the early 1980s, has reduced cash flow and income to the nation's farmers, forcing many out of business. The decline in farm and ranch income has had a significant impact on some rural communities. An analysis of the top 50 agricultural counties in Texas reveals that despite performing fairly well during 1980-84, these counties have experienced significant economic declines since 1985.

### Employment Grew Moderately before 1985

An agricultural county can be defined as one of the top 50 counties ranked by share of total personal income attributed to agriculture. By this definition, employment for Texas agricultural counties followed a pattern similar to the state's during 1980-84 (see Chart 1). While a slowdown occurred between the second quarter of 1982 and the second quarter of 1983, total employment grew at an annu-

alized average rate of 1.25 percent for agricultural counties and 2.13 percent for the state overall. Employment growth in the agricultural counties, however, was not evenly distributed. It was negative in 7 counties and positive in 14, with essentially no growth occurring in 27.

### Number of Businesses Increased

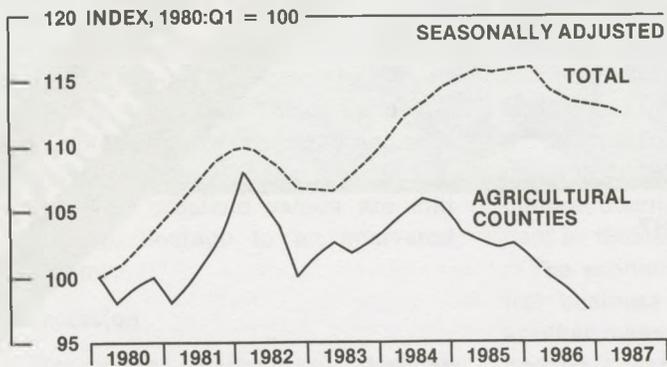
Another measure of the economic welfare of regions is net new business formation. Like employment, net new business formation showed positive yet slower growth for the agricultural counties than for the state as a whole. The number of businesses in agricultural counties grew 23.2 percent during 1980-84 (see Chart 2) and 56.2 percent for the entire state.

### Recent Declines Reported

Employment and the number of businesses in Texas agricultural counties began to decline in 1985. With the

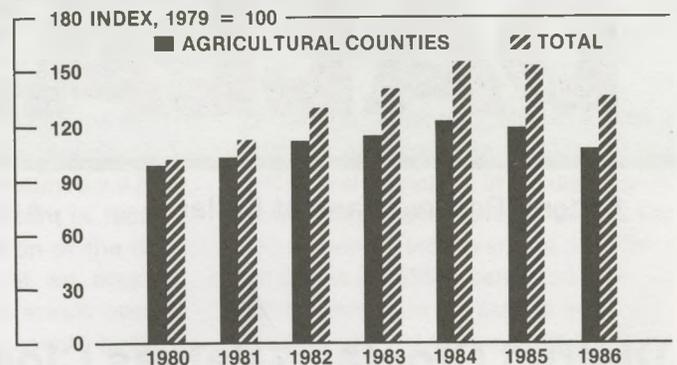
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**Chart 1  
TEXAS EMPLOYMENT**



SOURCES: Bureau of Labor Statistics.  
Texas Employment Commission.  
Federal Reserve Bank of Dallas.

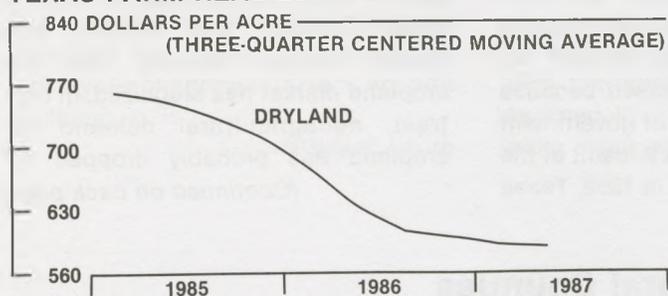
**Chart 2  
NUMBER OF BUSINESS  
ESTABLISHMENTS IN TEXAS**



SOURCE: Texas Comptroller of Public Accounts.

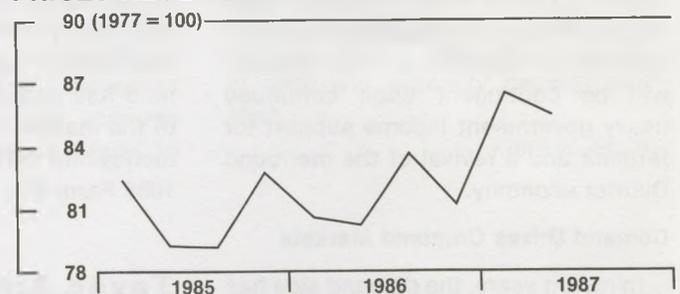
## SELECTED INDICATORS OF THE TEXAS AGRICULTURAL ECONOMY

**TEXAS FARM REAL ESTATE VALUES**



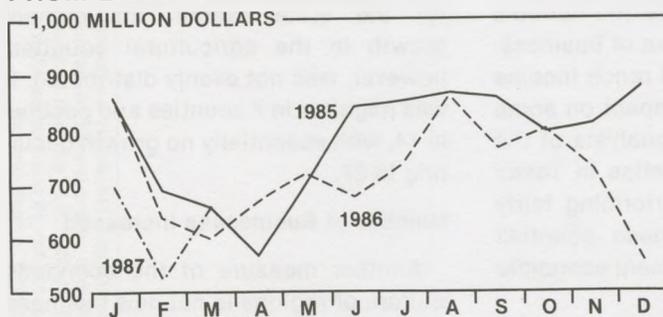
SOURCE: Quarterly Survey of Agricultural Credit Conditions,  
Federal Reserve Bank of Dallas.

**PRICES RECEIVED/PRICES PAID**



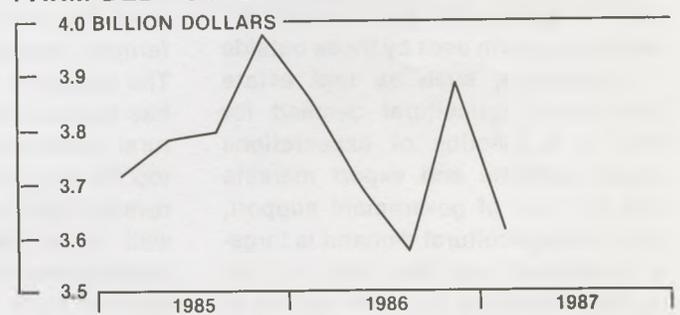
NOTE: Index is constructed by dividing prices received by farmers in Texas by prices paid by farmers nationwide. (No separate series exists for prices paid in Texas.)  
SOURCES: U.S. Department of Agriculture.  
Federal Reserve Bank of Dallas.

**TEXAS CASH RECEIPTS  
FROM LIVESTOCK AND CROPS**



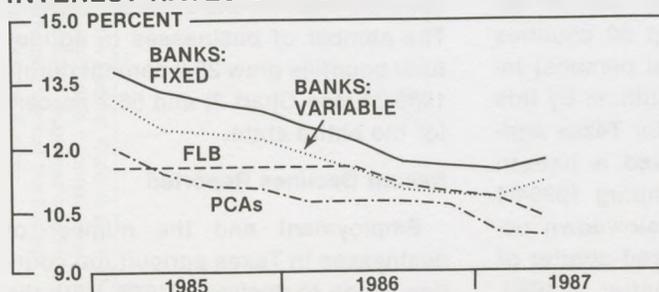
SOURCE: U.S. Department of Agriculture.

**FARM DEBT OUTSTANDING AT TEXAS BANKS**



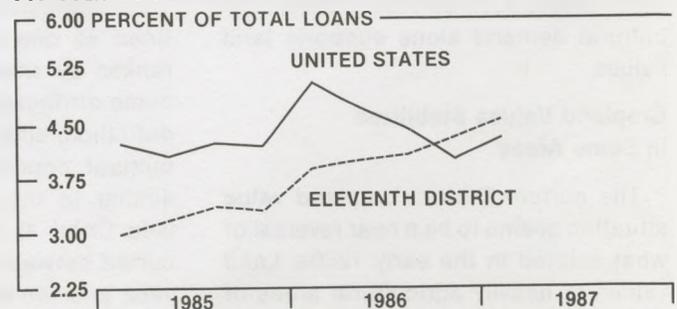
SOURCE: Board of Governors, Federal Reserve System.

**INTEREST RATES ON TEXAS FARM LOANS**



NOTE: PCA rate is for farm operating loans at production credit associations.  
FLB rate is for farm real estate loans at the Federal Land Bank.  
SOURCES: Farm Credit Banks of Texas.  
Quarterly Survey of Agricultural Credit Conditions,  
Federal Reserve Bank of Dallas.

**NONPERFORMING LOANS  
AT AGRICULTURAL BANKS**



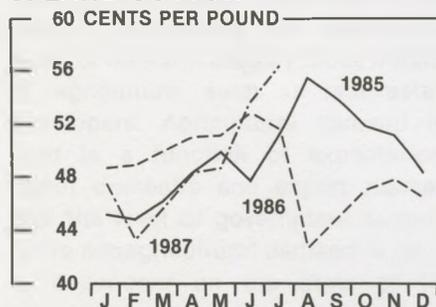
NOTE: Nonperforming loans consist of loans past due 90 days or more and still accruing plus nonaccrual loans.  
SOURCES: Board of Governors, Federal Reserve System.  
Federal Reserve Bank of Dallas.

## AGRICULTURAL BRIEFS

- The decline in District farm and ranch land values has stopped in some of the heavily agricultural regions, but District-wide average land values are still falling (see front-page article). In an area around Lubbock, however, dry-cropland values have not only bottomed out but have turned up slightly. For example, dryland values there were \$263 per acre in the January 1 and April 1 surveys but have risen to \$269 per acre as of July 1. District average cropland values continued to fall in July, down about 1 percent from the April estimate.
- Survey results show that the mix of local farmers/ranchers and outside investors buying land today is similar to the mix seven years ago when the agricultural land market was booming. This indicates that not all agriculturalists have been squeezed out of the land market because of financial stress. In the past two years, government farm programs for farmers and the renewed profitability of livestock operations have increased the sector's liquidity. In 1980, 54 percent of the District land buyers were tenants or owner-operators. In July 1987, bankers estimated that 52 percent of the purchasers were farmers and ranchers.
- During the first six months of 1987, District bankers' expectations of business failure because of financial stress among their farm and ranch customers declined markedly. On January 1, 1987, survey respondents estimated that an average of 4.9 percent of their customers would leave agriculture in 1987 because of financial stress. By July 1, bankers expected only 3.3 percent of their agricultural borrowers to succumb to financial stress during all of 1987. The cumulative effect of fairly steady commodity markets and continued strong government support for farmers has helped keep agricultural borrowers in business.
- Many District cotton farmers in the Southern High Plains of West Texas are more dependent upon the weather than usual. Over a million acres there is planted to "June cotton" because of weather-induced replanting. Because June cotton needs warm September weather to do well, both the farmers and their lenders have their fingers crossed.

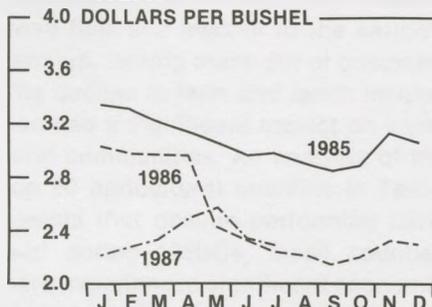
## TEXAS COMMODITY MARKET PRICES

### UPLAND COTTON



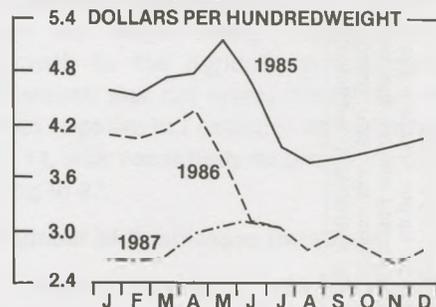
SOURCE: U.S. Department of Agriculture.

### ALL WHEAT



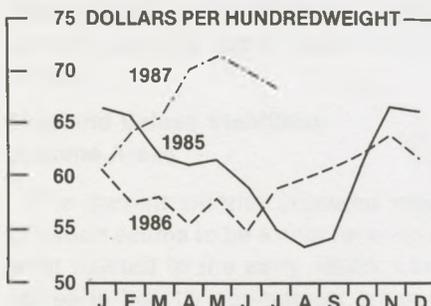
SOURCE: U.S. Department of Agriculture.

### GRAIN SORGHUM



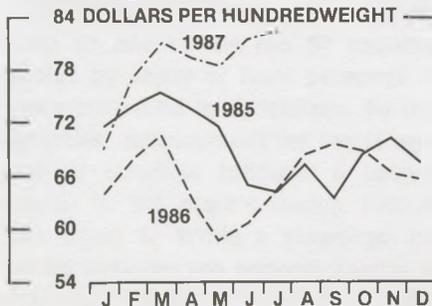
SOURCE: U.S. Department of Agriculture.

### SLAUGHTER STEERS



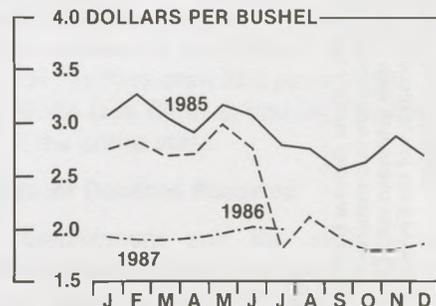
SOURCES: Texas Department of Agriculture.  
Federal Reserve Bank of Dallas.

### FEEDER STEERS



SOURCES: Texas Department of Agriculture.  
Federal Reserve Bank of Dallas.

### CORN



SOURCE: U.S. Department of Agriculture.

## Cropland Values (cont.)

considerably since 1984, when District employment numbers and other signs of a vigorous economy began to nosedive. In Central Texas, for example, which is more urbanized and supports land values above agricultural-use value, cropland values are still declining, hostage to an enervated economy.

### Conclusion

For average District cropland values to stabilize, not only must the agricultural outlook remain relatively prosperous, but the regional economy must begin to grow more vigorously. A recent survey of Eleventh District bank lenders to agriculture shows that only 58 percent believe the land market has bottomed out. Average land values for most types of agricultural land are still declining.

—Hilary H. Smith

## Counties Decline (cont.)

1986 slowdown in the state's economy, the decline in agricultural counties accelerated. In 1985, the number of businesses in agricultural counties fell 3.2 percent, followed by a decline of 9.9 percent in 1986. Employment in agricultural counties also declined 2.9 percent in 1985 and 4.8 percent in 1986.

The economic condition of the central business district of an area is another measure of the area's overall economic welfare. In a county heavily dependent on agriculture, any decline in that industry should be reflected in the county's retail trade. Employment and net new business formation for the retail sector both showed that the business districts of the agricultural counties as a whole experienced slow but positive growth during 1980-84. In 1985 the number of retail businesses declined in the agricultural counties while retail employment continued to

grow. Both measures, however, declined in 1986.

### Conclusion

Although Texas agriculture has been generally depressed in the 1980s, the agricultural counties in Texas experienced some growth overall during the 1980-84 period. However, the downturn that began in 1985 accelerated with the 1986 weakness in the state's economy. Because of rising government payments, however, the net cash income of Texas farmers increased significantly in 1986 and will likely rise again in 1987. With the expected gradual improvement in the Texas economy in 1987 and the increased net cash income to farmers, the employment declines seen in agricultural counties in 1986 will probably be smaller in 1987.

—Keith R. Phillips