FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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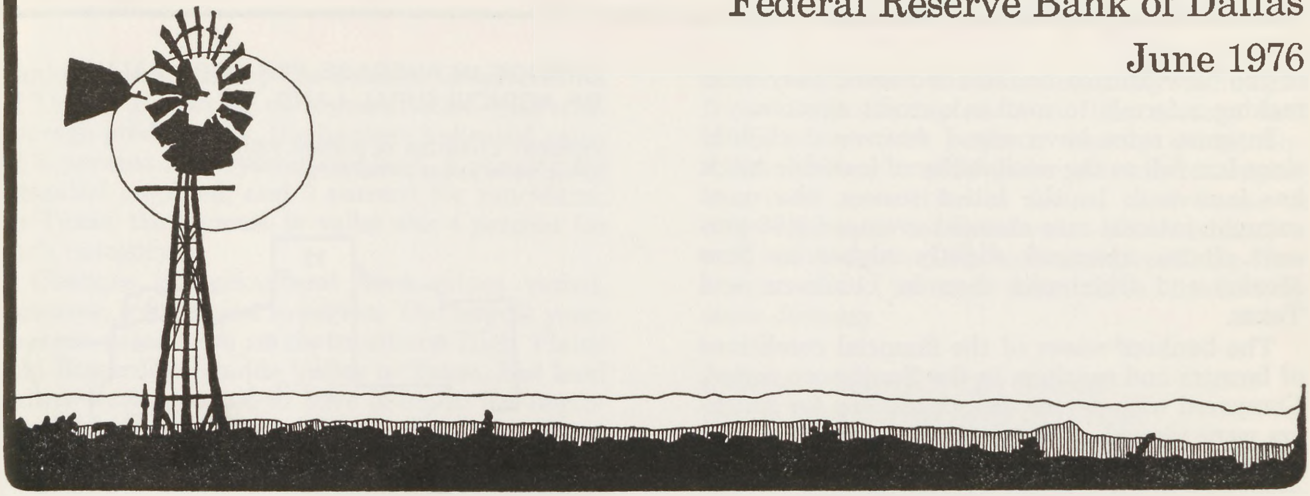


AGRICULTURAL LOAN DEMAND REMAINS STRONG

Agricultural credit conditions in the Southwest have improved slightly since mid-1975. A survey of 230 agribankers in the Eleventh Federal Reserve District in early April shows 51 percent of the bankers have been actively seeking new farm accounts—up from 40 percent in July 1975. And more than 90 percent indicated they had not refused a loan because of a shortage of funds in three months. Thus, even though demand for loans is expected to increase this spring, banks have adequate funds available to lend to farmers and ranchers.

Information from a selected group of banks shows that both deposits and loans have been increasing faster since a year ago at banks in rural areas than at banks in the large urban areas. With the improved liquidity, 36 percent of the survey bankers reported above-average availability of funds and only 7 percent reported less funds than usual. Total loans averaged 55 percent of deposits at banks participating in the survey, with more than a third of the bankers indicating a higher loan-deposit ratio was desired. Although more funds are available at rural banks than a year ago, bankers are evaluating loans carefully as 32 percent indicated that collateral requirements are greater than usual.

Demand for loans is increasing mainly because costs of farming and ranching are higher. The strongest demand for loans was reported by survey bankers in New Mexico and Louisiana, and the weakest demand was in Oklahoma. Nearly two-fifths of the bankers expected the volume of operating loans to be larger this spring than a year ago. And with higher machinery prices, a third of the bankers expected farm machinery loans to increase.

Repayment of loans has improved, and the proportion of bankers indicating more renewals and extensions than usual has decreased to 27 percent, down from 47 percent in July 1975. With higher livestock prices, repayment of loans has steadily increased in Texas. But repayments remain sluggish in Louisiana, Oklahoma, and New Mexico because crop sales have decreased substantially. With the general decline in renewals and extensions, the proportion of bankers reporting referrals to nonbank credit agencies declined from 22 percent in July 1975 to 13 percent in the April survey. However, 27 percent of the New Mexico bankers indicated they were making referrals to nonbank credit agencies.

Interest rates have edged downward slightly since last fall as the availability of loanable funds has increased. In the latest survey, the most common interest rate charged averaged 9.36 percent. Rates averaged slightly higher in New Mexico and Oklahoma than in Louisiana and Texas.

The bankers' views of the financial conditions of farmers and ranchers in the Southwest varied. Compared with a year ago, conditions for ranchers were viewed as better by 40 percent of the bankers, while 33 percent believed conditions were better for farmers. Conversely, more than a third of the bankers believed the financial conditions of ranchers and farmers had weakened since a year ago.

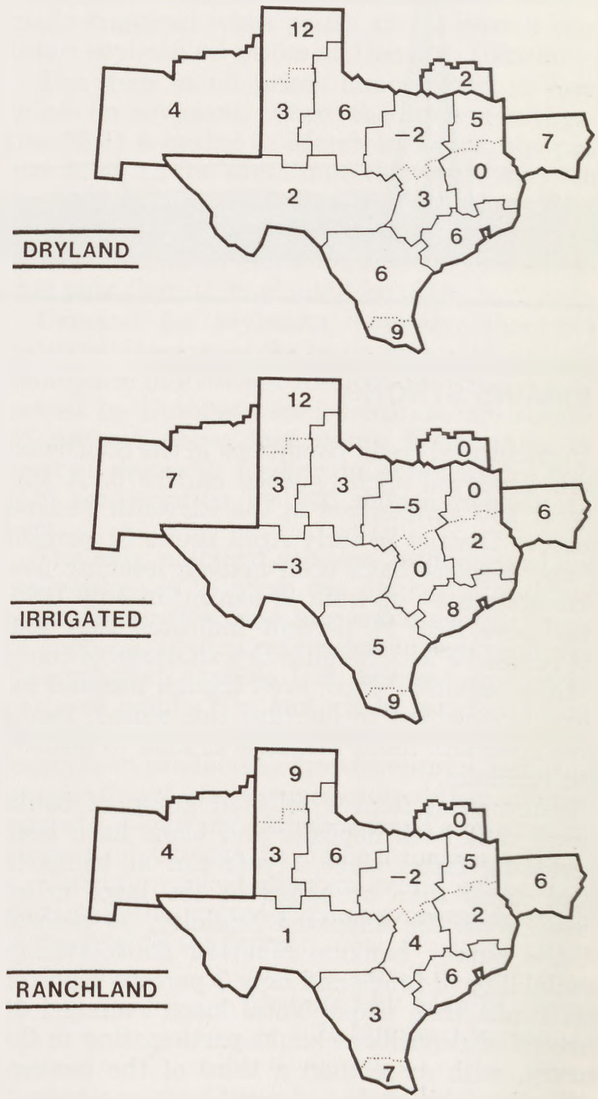
The wide variation in the bankers' views reflects regional differences. The financial conditions of farmers and ranchers in southeastern Oklahoma and in East Texas have improved since a year ago, according to most bankers in those regions. But in West Texas and New Mexico, limited moisture had deteriorated growing conditions, causing some decline in financial conditions. And higher fuel costs have added to the financial squeeze on many producers of irrigated crops. In the coastal region of Texas, 89 percent of the bankers reported conditions had declined largely because of a sluggish market for rice. Poor crops in recent years and low farm prices have weakened financial conditions of farmers in northern Louisiana, according to 63 percent of the bankers. In Central Texas, nearly half the bankers indicated financial conditions of ranchers had improved since a year ago but only a third reported improved conditions for farmers.

RURAL LAND VALUES EDGE UPWARD

The value of farmland and ranchland in the Southwest increased only moderately in the year ended April 1, according to a survey of agri-

CHANGE IN AVERAGE PER-ACRE VALUES OF AGRICULTURAL LAND

PERCENT CHANGES IN SURVEY FIGURES
APRIL 1976 FROM APRIL 1975



bankers conducted by the Federal Reserve Bank of Dallas. Reporting on representative land with average productivity, the bankers indicated gains of 5 percent for dryland cropland, 4 percent for irrigated cropland, and 3 percent for ranchland. In Texas, the increase in value was 4 percent for each category.

Changes in agricultural land values varied, however, from region to region. The largest year-to-year gains were in the northern High Plains and Lower Rio Grande Valley of Texas. But land values were reported to have fallen in the northern Blackland Prairies and in the Trans-Pecos and Edwards Plateau region of Texas. The decline in the northern Blackland Prairies may be linked with a slowdown in speculative land purchases in the Dallas-Fort Worth area.

The decline in land values in the Trans-Pecos and Edwards Plateau region has been concentrated in Pecos, Reeves, and Culberson counties. Farmers in those counties are totally dependent on irrigation water for crop production as annual average precipitation is insufficient for growing most crops. With the recent expiration of contracts for natural gas, the price of the fuel has risen from 40 cents per thousand cubic feet to around $1.85, increasing the cost of pumping water. Because of the enormous increases in irrigation costs, as well as higher prices for other inputs, unit cost of production for many farmers exceed current market prices for crops grown in the three counties. And a downward pressure on the market value of irrigated land has resulted.

Most survey respondents expected rural land values to remain unchanged in the second quarter. However, 17 percent indicated land values will trend upward, and 3 percent indicated they will decrease. It is in northern Louisiana, the northern High Plains and Rolling Plains of Texas, and East Texas that land values are expected to continue increasing. But with little change in overall values in the Southwest, the demand for farm real estate loans is expected to be stable.

Reported interest rates on long-term farm real estate loans averaged 9.35 percent at rural banks in the Southwest, which is essentially unchanged from the beginning of 1976. The average rate in Texas, at 9.29 percent, was up marginally. Although they tended to have somewhat higher long-term rates than in Texas, rural banks in other regions of the Southwest—northern Louisiana, southeastern Oklahoma, and southern New Mexico—had lowered their rates moderately since January.

LARGE PRODUCTION GAINS SEEN FOR CORN AND COTTON

Growers plan to increase acreages planted to corn, cotton, and spring wheat but decrease the number of acres seeded with sorghum, durum wheat, soybeans, and rice, according to planting intentions indicated in the April 1 survey by the U.S. Department of Agriculture. If yields per acre are equal to the averages for the 1972-75 period, production of corn, sorghum, spring wheat, and cotton could exceed the 1975 levels but production of durum wheat, soybeans, and rice will likely be lower.

The outlook for a large feed grain crop in the United States is bright despite slight reductions in acreages intended for barley and oats. Growers intend to increase the acreage planted to corn to 82.7 million acres, which is 6 percent more than in 1975. And with normal yields per acre, a record corn crop of 6.1 billion bushels could be harvested this fall. Most of the increased acreage will likely be in the Corn Belt area, where relative price and profit prospects favor corn over soybeans.

A larger sorghum crop, perhaps more than 790 million bushels, could also be produced as planted acreage will likely exceed the 17.9 million acres reported in the survey. The decline in acreage is primarily accounted for by Texas, where farmers indicated they would reduce plantings by 12 percent. But abandoned winter wheat acreage in the Southwest and an uncommitted 1 million acres of cropland in Texas are expected to be used largely for sorghum and cotton.

PLANTING INTENTIONS FOR SELECTED CROPS, APRIL 1, 1976

Area	COTTON		SORGHUM		CORN		SOYBEANS	
	Acres (Thousands)	1976 as percent of 1975	Acres (Thousands)	1976 as percent of 1975	Acres (Thousands)	1976 as percent of 1975	Acres (Thousands)	1976 as percent of 1975
Arizona	335	112%	180	100%	21	95%	0	—
Louisiana	480	150	70	171	120	150	1,900	100
New Mexico	101	89	340	96	120	120	0	—
Oklahoma	330	89	1,050	108	118	98	240	98
Texas	4,670	107	7,000	88	1,350	113	350	89
Five states	5,916	108	8,640	91	1,729	114	2,490	98
United States	11,256	116%	17,897	98%	82,727	106%	49,330	90%

SOURCE: U.S. Department of Agriculture

Prospects for increased cotton production are good as farmers, responding to higher prices, have expanded the number of acres planted. Seeded acreage is expected to exceed the 11.3 million acres indicated in the USDA report. Production in the United States could, therefore, reach 10.5 million bales—more than 2 million bales above the 1975 output.

Durum wheat production, with slightly fewer acres planted this spring, is expected to decline nationally. In Arizona and New Mexico, however, durum wheat plantings are up sharply. But the production of other spring wheat should increase as planted acreage may be up 17 percent.

Farmers intend to lower soybean acreage by a tenth and rice acreage by 16 percent. So, the soybean and rice crops in 1976 will likely fall well below the bumper harvests last year. Soybean acreage will probably be shifted to production of either corn or cotton, while idled rice acreage may be used for grazing cattle.

Crop yields in 1976 could be boosted by increased fertilizer application. Growers reduced application rates last year because fertilizer prices were at record highs. However, with considerably lower prices this spring, more fertilizer will likely be applied, resulting in greater output per acre.

Carryover stocks of grains and soybeans are large. This carryover and the prospects of another year of large crops suggest lower average crop prices and, perhaps, lower farm income in 1976.

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