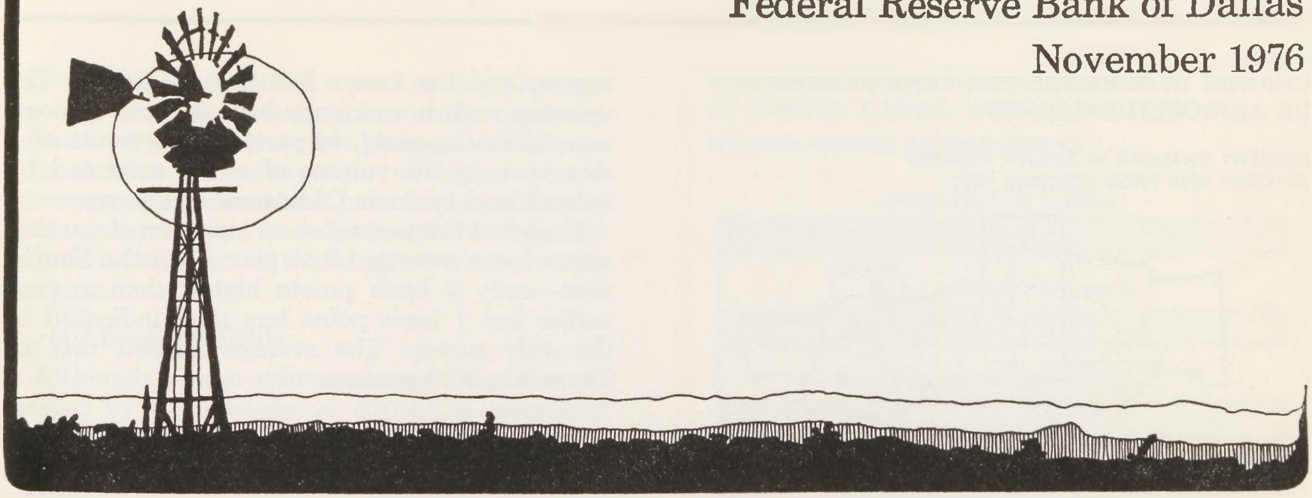
FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

November 1976



FARMLAND VALUES SHOW MODEST GAINS

Rural land values in the Southwest continued rising at a slow rate in the year ended October 1, according to a survey of agribankers conducted by the Federal Reserve Bank of Dallas. Reporting on representative agricultural land with average productivity, the bankers indicated gains of 5 percent for dryland and irrigated cropland and 4 percent for ranchland. In Texas, values increased 5 percent for dryland cropland, 4 percent for irrigated cropland, and 3 percent for ranchland.

On the whole, cropland values in the Southwest appreciated at a faster rate than ranchland values. The main reason is that crop production has a higher income-generating capability per acre than do most cow-calf operations. However, farm incomes in the southwestern states of Texas, Louisiana, Oklahoma, and New Mexico have been pressured by rising production costs, depressed cattle prices, and recent declines in grain prices. High natural gas prices, in particular, have slowed the advance in irrigated land values. And too, adverse weather has affected crop production this year in many areas in the four states.

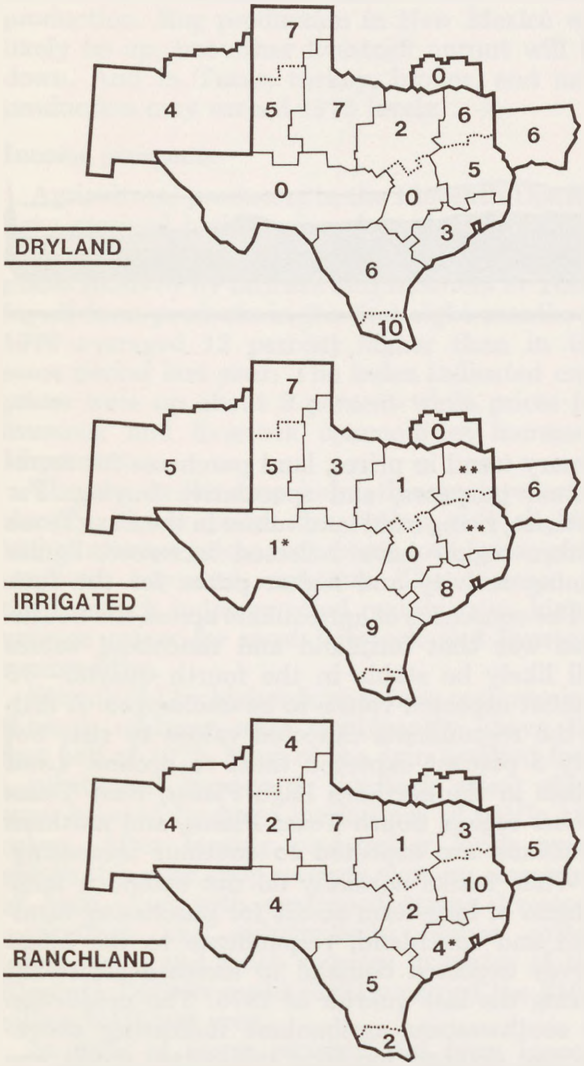
Changes in farmland and ranchland values have also been influenced by the general inflationary trend in prices, land purchases for recreational purposes, and speculative buying. For instance, rising rural land values in the East Texas timber region have reflected increased lignite mining activity and higher prices for the fuel.

The consensus of agribankers across the Southwest was that farmland and ranchland values will likely be stable in the fourth quarter—76 percent expected values to be unchanged. A fifth of the respondents expected values to rise, but only 3 percent expected them to decline. Land values in the northern High Plains, East Texas timber region, South Texas Plains, and northern Louisiana are expected to continue increasing.

While banks normally do not extend a large volume of long-term credit for purchasing farmland and ranchland, respondents to the latest survey expected demand to increase somewhat during the last quarter of 1976. The proportion of southwestern agribankers indicating above-average demand for farm real estate credit was 17 percent—up from the 11 percent indicated for the same period last year. Demand at commercial banks is expected to be particularly strong in the southern High Plains, the East Texas timber

CHANGE IN AVERAGE PER-ACRE VALUES OF AGRICULTURAL LAND

PERCENT CHANGES IN SURVEY FIGURES
OCTOBER 1976 FROM OCTOBER 1975



*Excludes dramatic declines in isolated areas
**Not applicable

region, and the Lower Rio Grande Valley. The upswing in farm mortgage loan demand at commercial banks could, in part, be the result of a slowdown in the volume of credit extended by federal land banks in Oklahoma and Texas.

Reported interest rates on long-term farm real estate loans averaged 9.35 percent in the Southwest—only 3 basis points higher than a year earlier but 1 basis point less than indicated in the July survey. The average interest rate in Texas was 9.30 percent.

AGRICULTURAL CREDIT CONDITIONS REFLECT STRONG LOAN DEMAND

Agricultural credit conditions across the Southwest have tightened somewhat in the past 12 months. Climbing costs, coupled with low prices for most agricultural products, have eroded the financial condition of most agricultural producers. And loanable funds at rural banks are being pressured by a strong demand for farm and ranch credit.

Loan demand grows . . .

In a survey of approximately 200 agribankers in the Eleventh Federal Reserve District in early October, above-average demand for agricultural loans was reported by 47 percent of the respondents—up substantially from 21 percent a year ago. Farm loan demand registered the biggest increases in the intensive wheat, cotton, and grain sorghum producing areas of the High Plains and Rolling Plains of Texas. Demand was the lowest in the Central Blacklands and Coastal Prairies of Texas and in southeastern Oklahoma.

The growing demand for farm and ranch credit stems from not only higher operating and machinery costs but also increased activity in most farming and ranching enterprises. And the pace of agricultural borrowings will likely continue, even though the volume of feeder cattle loans is expected to decline because feedlot placements are lower. Half the respondents indicated the volume of operating loans will be larger in the last quarter of 1976 than a year earlier. Demand for crop storage loans is apt to edge higher as farmers withhold wheat and perhaps other crops from market in anticipation of higher prices. Moreover, with machinery prices up significantly from a year earlier, more than a third of the respondents indicated intermediate-term loans may increase.

. . . but funds available

Although a large volume of loans has been extended by rural banks to cover the increasing demand for farm and ranch credit, the bankers generally reported that funds are available for creditworthy borrowers. As a result, 45 percent of the bankers are seeking new farm loan accounts. Average or above-average availability of funds was reported by 86 percent of the respondents, and only 14 percent reported less funds than usual. In the grain-producing and cattle feeding areas of West Texas, however, a few bankers indicated that loanable funds were limited.

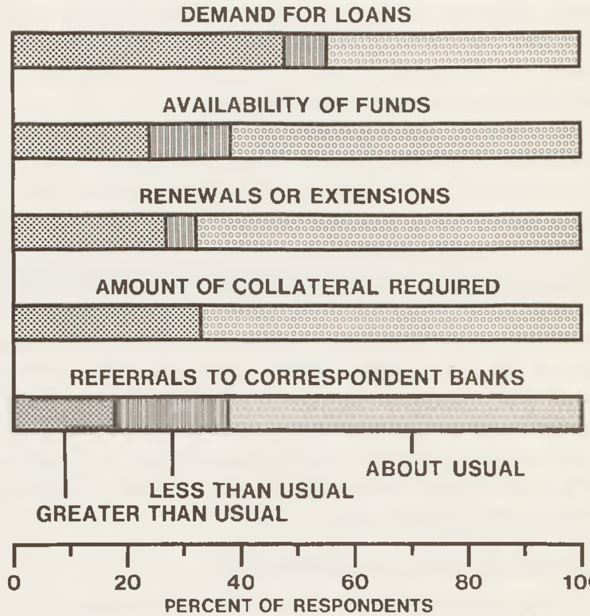
Some of the survey banks are taking advantage of the seasonal borrowing privilege extended to members of the Federal Reserve System. Many banks that did not previously qualify can now borrow under the seasonal credit arrangement as the program has been liberalized. Also, the new guidelines increase the amount of funds available to many banks that previously qualified.

Most banks have been able to meet the growing demand for credit because they have had strong deposit growth. Data from a selected group of member banks in Texas heavily engaged in agricultural lending indicate that deposits at rural banks in September averaged 10 percent higher than a year earlier and total loans averaged 20 percent higher. In fact, both deposits and loans have increased at a faster pace at rural banks than at banks in urban areas.

Total loans averaged 60 percent of deposits at survey banks, compared with 55 percent in October 1975. Nevertheless, with higher production expenses squeezing profits for farmers and ranchers, rural bankers are evaluating loans closely,

AGRICULTURAL CREDIT CONDITIONS AT SURVEY BANKS, OCTOBER 1, 1976

ELEVENTH FEDERAL RESERVE DISTRICT



and 32 percent of the respondents indicated collateral requirements are greater than usual.

A large number of loans are being renewed and extended, and the proportion of bankers reporting the rate of loan repayment as less than usual was 28 percent—up from 25 percent a year earlier. With low cattle prices and declining grain prices, repayments have been particularly sluggish in the Texas High Plains, South Texas, southern Blackland Prairies, and southern New Mexico.

With increased credit demand, the proportion of bankers reporting greater than usual referrals to correspondent banks advanced from 12 percent in October 1975 to 18 percent in the latest survey. But correspondent activity between rural and urban banks likely could have increased more. The proportion reporting greater than usual referrals to nonbank credit agencies dropped from 20 percent in October 1975 to 9 percent a year later. Referrals to correspondent banks were highest in the northern High Plains and Coastal Prairies of Texas, while referrals to nonbank credit agencies were highest in southeastern Oklahoma and New Mexico.

Generally, the agribankers indicated little experience in participation with production credit associations in jointly making farm loans. However, many were working with the Farmers Home Administration in making guaranteed loans.

Interest rates on non-real-estate loans declined slightly in the Southwest in the past 12 months, reflecting the steady supply of loanable funds. In the latest survey, interest rates averaged 9.33 percent on feeder cattle loans, 9.31 percent on farm operating loans, and 9.41 percent on intermediate-term loans. Rates in Louisiana and Texas were slightly lower than in New Mexico and Oklahoma.

Financial conditions deteriorate

Compared with October 1975, the overall financial condition of farmers and ranchers in the Southwest has weakened. While 41 percent of the bankers reported conditions of farmers had weakened, 57 percent indicated conditions were worse for ranchers. On the other hand, only 28 percent of the respondents indicated improved financial conditions for farmers, and only 16 percent reported better conditions for ranchers.

Regional differences are evident in the views reported by the agribankers responding to the latest survey, however. Bankers in northern Louisiana and East Texas indicated that the financial conditions of farmers and ranchers have improved somewhat since a year ago. Elsewhere in the Southwest, the respondents generally reported that the cost-price squeeze had eroded financial conditions of ranchers. The deteriorated financial condition of farmers in the northern High Plains and New Mexico was attributed to a poor wheat crop and declining prices. And farmers in the Coastal Prairies region of Texas have been faced with sluggish rice markets and low prices.

The bankers indicated that with the increasing credit requirements and risks associated with agricultural production, lending arrangements with producers in the foreseeable future will necessitate more interbank and nonbank financing. Correspondent banking and participations with the guaranteed loan programs of the Small Business Administration and the Farmers Home Administration are expected to expand. And a larger proportion of machinery purchases will likely be financed by equipment companies. In addition, bankers will probably require more detailed financial statements and planned marketing arrangements, such as forward contracting.

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