

DALLAS FED

# Agricultural Survey

Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

## Survey Highlights

**B**ankers responding to the second-quarter survey reported timely rains were very beneficial, but a few contacts noted crop damage from hail and strong winds. Row crops were in good condition because of the rain, giving producers and respondents a more positive outlook. Cattle prices continued to increase, but live-stock numbers remained low as restocking of herds was minimal.

District dryland values continued rising in the second quarter, but irrigated cropland and ranchland values were slightly lower. However, farmland values for all land types were above year-ago levels. Dryland values increased almost 6 percent over last year, while irrigated cropland and ranchland were up about 5 percent compared with last year.

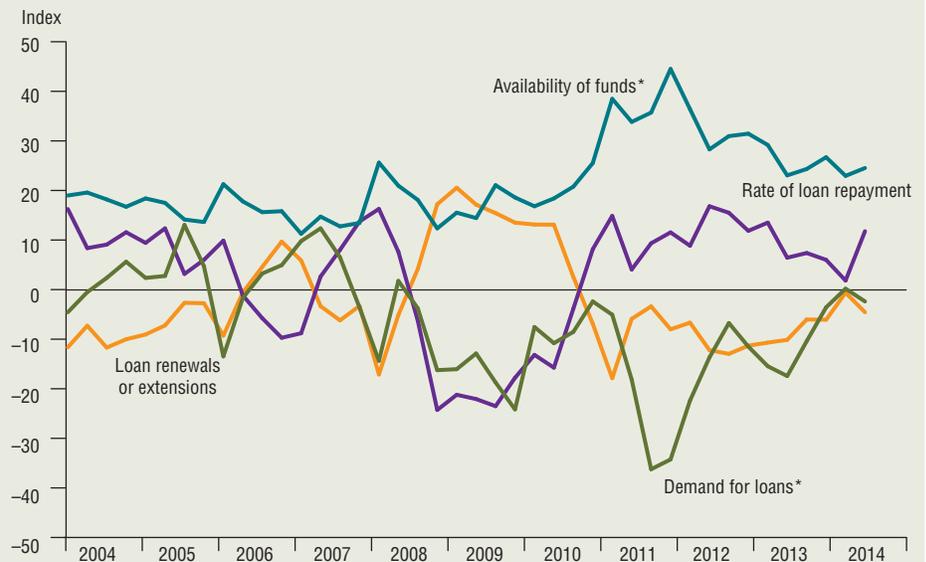
Farmland values are anticipated to continue trending up next quarter. This survey period, no respondents reported anticipating a decreasing trend. Credit standards continued to tighten this quarter, although the vast majority of respondents noted no change in standards.

Demand for agricultural loans declined this period after holding steady last quarter. Loan renewals and extensions also declined. However, loan repayment rates continued to increase this quarter, with a couple respondents noting farmers' incomes from oil and gas activity stimulated repayment activity. Volumes for most types of loans continued to decrease. The exceptions were non-real-estate farm loans, feeder cattle loans and operating loans, for which demand was higher than during second quarter last year.

### 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, Q2		
	2014:Q1	2014:Q2	▲ Greater	Same	▼ Less
Demand for loans*	0.2	-2.4	18.7	60.2	21.1
Availability of funds*	23.2	24.8	26.7	71.4	1.9
Rate of loan repayment	1.9	11.9	15.2	81.5	3.3
Loan renewals or extensions	-0.6	-4.6	7.2	80.9	11.8



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, Q2		
	2014:Q1	2014:Q2	▲ Greater	Same	▼ Less
Non-real-estate farm loans	-0.6	4.7	20.0	64.7	15.3
Feeder cattle loans*	-7.9	3.7	20.4	62.9	16.7
Dairy loans*	-8.9	-14.0	2.1	81.8	16.1
Crop storage loans*	1.5	-7.5	2.9	86.7	10.4
Operating loans	12.7	10.7	24.8	61.1	14.1
Farm machinery loans*	-12.6	-9.1	11.6	67.7	20.7
Farm real estate loans*	-9.8	-11.3	12.6	63.5	23.9

\*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

- ▶ Recent rains provided the most beneficial moisture in over three years, but our soil moisture profile hasn't recovered from the drought. Record-high calf and feeder cattle prices are offering strong profits but also posing market risks not ever experienced. Feedyard cattle sales are profitable, but profiting in the next turn will be more challenging. Milk prices have allowed the dairy industry to recover from a long period of losses. Lower grain prices have tightened farming margins significantly.
- ▶ Farmland real estate is heavily influenced by gallons per acre, and we anticipate future appraisals to incorporate such data in their evaluations.

## Region 2 • Southern High Plains

- ▶ After recent rains, we are hopeful for good crops. Grassland is recovering, yet there is no cattle. Wheat harvest will be modest, but all spring crops have a good start.
- ▶ Heavy rainfall significantly enhanced our chances to produce a dryland cotton crop. Some farmers received severe crop damage from hail and strong winds, but the beneficial rains greatly offset those acres lost to adverse weather.
- ▶ The May rain was very helpful. Irrigated cropland will benefit greatly. Dryland will be planted and should emerge well. But there is no underground moisture, and if it doesn't rain again, the dryland crops will not make it.

## Region 3 • Northern Low Plains

- ▶ Although we received significant rainfall, we are still in crisis mode and producers have little appetite to borrow or expand their operations.
- ▶ Recent rains improved pasture conditions but hindered planting. Feeder cattle purchases have been dampened by high prices and unknown feed availability.
- ▶ Wheat harvest has started, with yields averaging 10 to 12 bushels, but will be short as most acres failed due to drought. Many acres were grazed out late or baled. Recent good rains filled stock ponds and will help pastures. There's some demand for cow and calf loans to rebuild herds.

## Region 4 • Southern Low Plains

- ▶ Government regulations are our biggest concern; they are strangling the rural markets.

## Region 5 • Cross Timbers

- ▶ We had some relief from an extremely dry spring with 3 to 7 inches of rain recently. Before that, we heard talk from many customers of selling part or all of their cattle and little hope for dryland hay production. Dairies are benefitting from record milk prices, but feed costs are still high and production of roughage is going to be down unless we get rain in the summer and fall.
- ▶ We received only 1.5 to 2 inches of rain since January, so tanks and lakes remain at 15 percent capacity on average. Some ranchers are liquidating herds because of no grass or water.

## Region 6 • North Central Texas

- ▶ Our area was very dry through April, and crops suffered. After rain in May, corn and grain sorghum crops recovered; yields now may be above average. Pastures and hay meadows are in excellent condition for June. Cotton looks good, but much was planted late or replanted due to poor stands caused by the drought. There is a new wave of interested land buyers from the Houston and Austin areas.
- ▶ Cattle prices should remain high due to shortage of cows.
- ▶ Land values in our county range from \$6,000 to over \$20,000 per acre. Developers are paying the higher amounts and reducing usable farmland.

## Region 7 • East Texas

- ▶ Cattle prices continue to increase. We are still loaning 80 to 85 percent on cattle and 70 to 90 percent on farm real estate. Our county has a relatively stable real estate market and did not see the decline other areas saw in 2009. We have had minimal losses on agricultural loans. We have increased our agricultural portfolio over the past two years. We have also not experienced the drought that other parts of the state have. Most of our operations are part-time farmers with off-farm income.
- ▶ After recent rains, optimism abounds. Row crops are in excellent condition, with the corn crop doing the best. Cotton had a good growth spurt. Wheat harvest reports were from 40 to 80 bushels. Cattle are in excellent condition, with ranchers holding onto calves looking for the extra weight to go with the record prices.

## Region 8 • Central Texas

- ▶ Land prices continue to rise due to demand and lack of land available for sale, primarily because of

## Regions of the Eleventh Federal Reserve District

production in the Eagle Ford. Land is purchased with no or few mineral and royalty interests. Ranchers receiving income are paying off loans, and it is a continuous chore to replace the paid off accounts. More rain will allow for a good first cutting of hay and help ensure ranchers can restock hay. Cattle prices remain high but need to be at current levels to cover costs of production.

- ▶ Loan repayment is increasing as borrowers pay off loans with oil income. Recent rains changed the outlook for many ranchers and farmers; if rains continue, some ranchers will expand their operations. Quality replacement cattle will be harder to find as more producers keep their own cattle instead of selling.
- ▶ Demand for recreational land has increased land values, pricing most farmers and ranchers out of the market.

## Region 9 • Coastal Texas

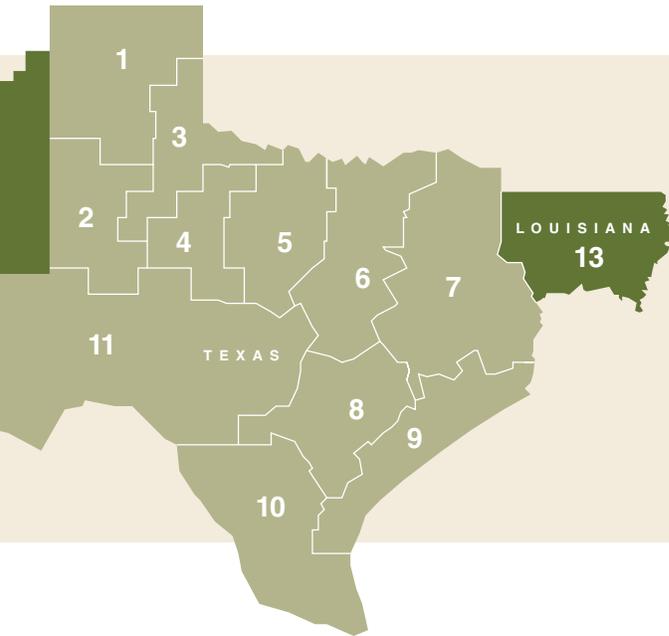
▶ Agriculture values are stable after increasing over the past several years due to Eagle Ford activity. Prices being paid by nonfarm businesses for investment increased. Although cattle numbers are down, income is up on a per head average. Operations are still hesitant to purchase cattle on the high end due to return on investment concerns. Cotton, wheat, grain sorghum and corn have great potential at this time with possible record yields if we get some rain soon. The new farm bill has some future support for farmers and ranchers and allows for better planning. Debt for new farm equipment is a concern and, with adequate planning, should be alleviated with this year's production. Grain prices are stable to bearish; cattle prices are bullish with great upside potential.

## Region 11 • Trans-Pecos and Edwards Plateau

- ▶ Our area had 5 to 10 inches of rain the last part of May—the first measurable amount this year. Year to



## Rural Real Estate Values—Second Quarter 2014



date, we are right at our average amount. The rain and excellent livestock prices have lifted everyone's spirits.

▶ Livestock prices are strong, including wool and mohair. Hair sheep are continuing to grow as management costs are less than wool sheep. Overall livestock numbers are still down. We received rain, but drought conditions remain, and most ranchers are still cautious about rebuilding herds. Predators continue to be a huge issue. Deer populations are being hurt also, which affects ranching operations since hunting is their main diversification. The oil and gas industry has resulted in added income to landowners, generating less need to lease land for additional income, causing lease operators to suffer.

▶ In spite of recent excellent rain of 2.5 to 7 inches, we are still below average. With livestock prices at all-time highs, the only negatives are the potential for drought and terribly expensive feed. Livestock numbers remain low as many producers still aren't comfortable restocking.

▶ Sheep and goat market prices remain very good even after some pullback, with cattle being exceptionally good. Many producers are weaning earlier to take advantage of prices.

### Region 12 • Southern New Mexico

▶ The outlook for summer crops is positive due to recent rains. Rain, combined with increased cattle prices, has also created a favorable environment for cow-calf and stocker operations.

▶ Measurable precipitation in April, May and June has been spotty but beneficial. Range conditions are fair to good. Some significant hail resulted in crop damage. Water storage is healthy, allowing for full allotments of irrigation water. Significant early heat and continuing winds will affect the ability of received moisture to rehabilitate areas particularly hard hit during the prolonged drought.

Banks<sup>1</sup>      Average value<sup>2</sup>      Percent change in value from previous year<sup>3</sup>

#### Cropland—Dryland

<b>District*</b>	<b>109</b>	<b>1,623</b>	<b>5.9</b>
<b>Texas*</b>	<b>98</b>	<b>1,641</b>	<b>6.0</b>
<b>1</b> Northern High Plains	13	727	6.6
<b>2</b> Southern High Plains	12	642	3.2
<b>3</b> Northern Low Plains*	9	803	-8.7
<b>4</b> Southern Low Plains*	9	894	3.0
<b>5</b> Cross Timbers	6	1,433	0.6
<b>6</b> North Central Texas	15	2,493	7.0
<b>7</b> East Texas*	8	2,040	10.4
<b>8</b> Central Texas	12	3,013	14.0
<b>9</b> Coastal Texas	3	1,967	-2.2
<b>10</b> South Texas	3	2,733	10.0
<b>11</b> Trans-Pecos and Edwards Plateau	8	1,956	11.5
<b>12</b> Southern New Mexico	4	400	4.3
<b>13</b> Northern Louisiana	7	2,200	4.9

#### Cropland—Irrigated

<b>District*</b>	<b>86</b>	<b>2,257</b>	<b>5.1</b>
<b>Texas*</b>	<b>75</b>	<b>2,068</b>	<b>4.2</b>
<b>1</b> Northern High Plains	13	1,888	-1.8
<b>2</b> Southern High Plains	12	1,450	1.7
<b>3</b> Northern Low Plains*	6	1,484	5.7
<b>4</b> Southern Low Plains	7	1,321	-8.9
<b>5</b> Cross Timbers	3	2,467	12.1
<b>6</b> North Central Texas	6	2,667	14.6
<b>7</b> East Texas	6	2,217	9.7
<b>8</b> Central Texas	8	3,406	7.2
<b>9</b> Coastal Texas	n.a.	n.a.	n.a.
<b>10</b> South Texas	4	3,038	6.0
<b>11</b> Trans-Pecos and Edwards Plateau	8	3,763	7.7
<b>12</b> Southern New Mexico	5	3,500	13.3
<b>13</b> Northern Louisiana	6	2,783	1.8

#### Ranchland

<b>District*</b>	<b>121</b>	<b>1,513</b>	<b>5.3</b>
<b>Texas*</b>	<b>111</b>	<b>1,803</b>	<b>5.6</b>
<b>1</b> Northern High Plains	13	558	3.6
<b>2</b> Southern High Plains	8	644	1.1
<b>3</b> Northern Low Plains	9	850	0.0
<b>4</b> Southern Low Plains*	7	1,140	-3.2
<b>5</b> Cross Timbers	9	1,806	1.1
<b>6</b> North Central Texas	15	2,440	2.2
<b>7</b> East Texas	17	2,291	8.2
<b>8</b> Central Texas	12	3,975	16.4
<b>9</b> Coastal Texas	n.a.	n.a.	n.a.
<b>10</b> South Texas	4	2,263	19.7
<b>11</b> Trans-Pecos and Edwards Plateau	15	1,623	-2.0
<b>12</b> Southern New Mexico	5	275	-1.8
<b>13</b> Northern Louisiana	5	1,560	0.0

\* Seasonally adjusted.

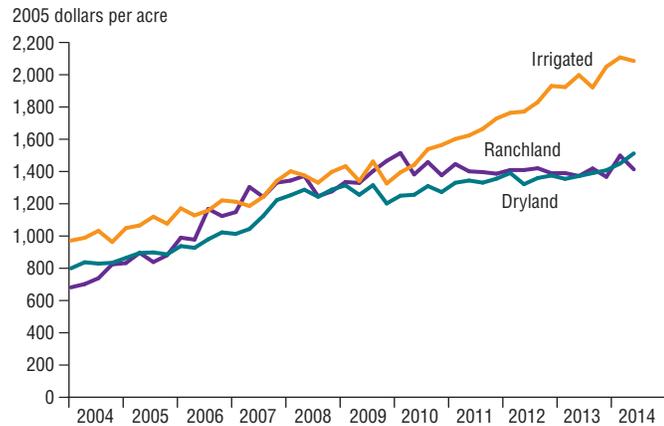
<sup>1</sup> Number of banks reporting land values.

<sup>2</sup> Prices are dollars per acre, not adjusted for inflation.

<sup>3</sup> Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

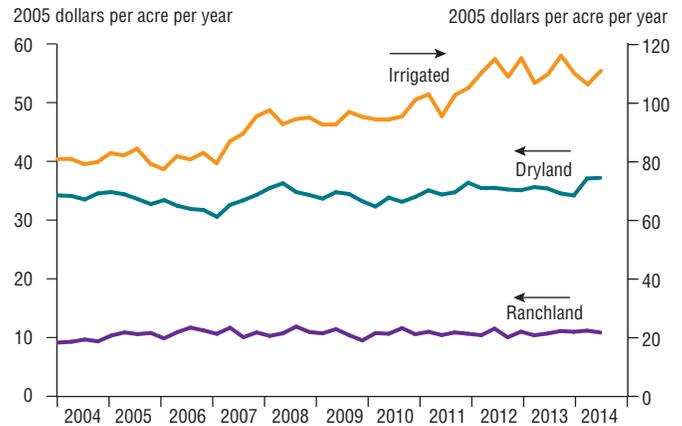
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

## Real Land Values



All values have been seasonally adjusted.

## Real Cash Rents



All values have been seasonally adjusted.

## Interest Rates by Loan Type

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
<b>Fixed (average rate, percent)</b>				
<b>2013:Q2</b>	6.21	6.39	6.22	6.01
<b>Q3</b>	6.16	6.34	6.25	6.04
<b>Q4</b>	6.16	6.27	6.17	5.86
<b>2014:Q1</b>	6.19	6.30	6.14	5.89
<b>Q2</b>	6.12	6.19	6.05	5.79
<b>Variable (average rate, percent)</b>				
<b>2013:Q2</b>	5.81	5.94	5.80	5.47
<b>Q3</b>	5.71	5.81	5.71	5.47
<b>Q4</b>	5.69	5.75	5.71	5.42
<b>2014:Q1</b>	5.78	5.84	5.77	5.43
<b>Q2</b>	5.73	5.75	5.64	5.30

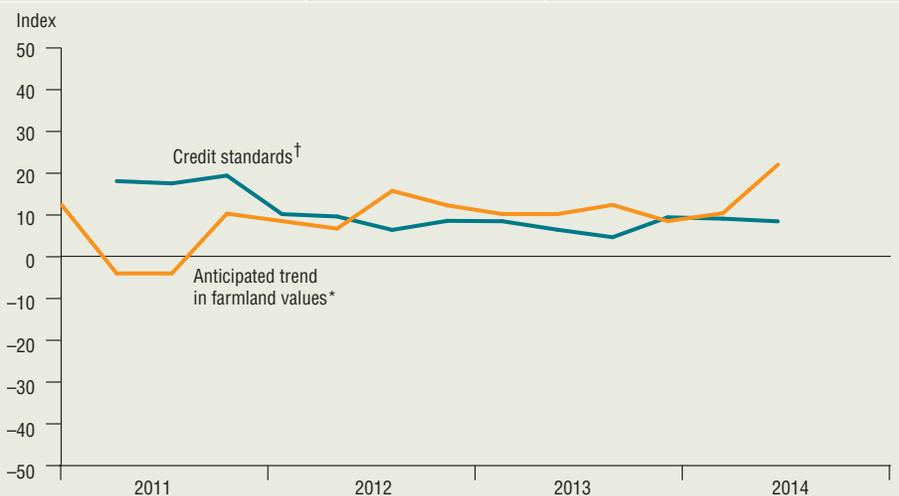
## Anticipated Farmland Values and Credit Standards

What trend in farmland values do you expect in your area in the next three months?

Anticipated trend in farmland values*	Index		Percent reporting, Q2		
	2014:Q1	2014:Q2	▲ Up	Stable	▼ Down
	10.5	22.2	22.2	77.8	0.0

What change occurred in credit standards for agricultural loans at your bank in the past three months compared with a year earlier?†

Credit standards	2014:Q1	2014:Q2	▲ Tightened	Same	▼ Loosened
	9.2	8.6	8.6	91.5	0.0



\*Seasonally adjusted.

†Added to survey in second quarter 2011.

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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 June 3–11, and 152 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](mailto:pubsorder@dal.frb.org) or by calling 214-922-5254. It is available on the web at [www.dallasfed.org/research/agsurvey](http://www.dallasfed.org/research/agsurvey).

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