

Agricultural Survey

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

Survey Highlights

Bankers responding to the first-quarter survey reported receiving beneficial winter rain and snow but said more moisture is needed. Farm commodity prices remained low, and there was widespread concern among respondents about debt and profitability this year. The winter wheat crop is in generally good condition, while the livestock sector remains strong. However, high cattle prices are restraining herd replacement.

Changes in district farmland values were mixed in the first quarter. Bankers in a couple of regions noted that land purchases for nonagricultural purposes had impacted land values. Real irrigated cropland and dryland values declined from fourth-quarter levels but remained above year-ago levels. Ranchland values increased modestly.

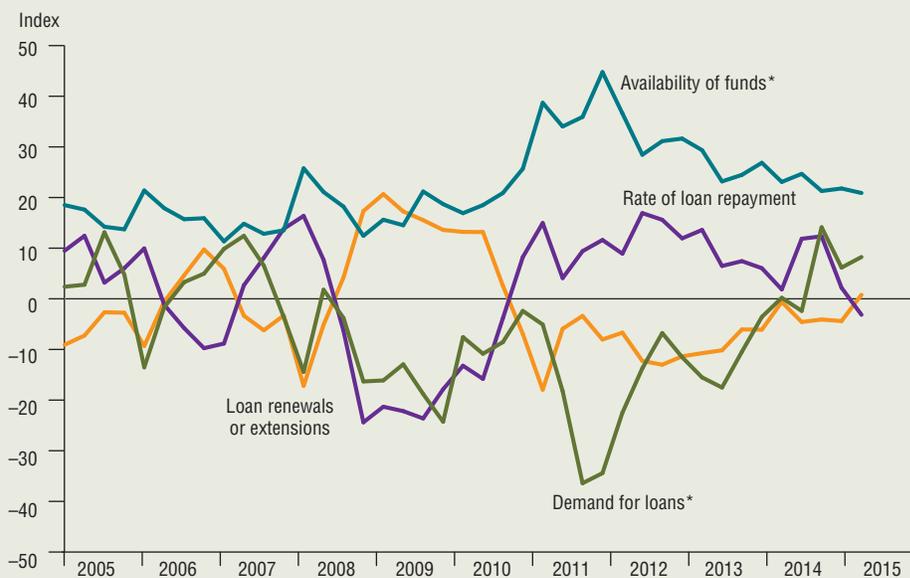
Responses suggest bankers anticipate farmland values will decline next quarter, a reversal of a three-year trend in this index. The credit standards index indicated continued tightening, although the vast majority of respondents noted no change in standards.

Demand for agricultural loans picked up again, marking the third consecutive quarter of increasing demand after six years of declines. While volumes for a majority of loan types continued to decrease, operating loan volumes increased. Loan repayment rates slowed, and loan renewals and extensions were generally unchanged from the previous quarter.

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, Q1		
	2014:Q4	2015:Q1	▲ Greater	Same	▼ Less
Demand for loans*	6.2	8.3	24.9	58.6	16.6
Availability of funds*	21.9	21.0	22.2	76.6	1.2
Rate of loan repayment	2.2	-3.2	12.7	71.4	15.9
Loan renewals or extensions	-4.4	0.8	10.3	80.2	9.5



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, Q1		
	2014:Q4	2015:Q1	▲ Greater	Same	▼ Less
Non-real-estate farm loans	-0.7	0.8	21.3	58.3	20.5
Feeder cattle loans*	5.8	0.0	16.0	68.0	16.0
Dairy loans*	-11.5	-10.2	2.4	85.0	12.6
Crop storage loans*	2.1	-4.3	8.4	78.9	12.7
Operating loans	8.2	5.9	20.2	65.6	14.3
Farm machinery loans*	-21.0	-16.5	9.1	65.3	25.6
Farm real estate loans*	-12.5	-17.7	8.3	65.7	26.0

*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

- ▶ Moisture improved with winter snow storms. Prospects for producing an average to above-average wheat crop look good. Lower profitability is reflected in 2015 farm budgets due to lower crop prices.
- ▶ We are definitely feeling a burden from additional bank regulations, which are causing great hardship on our banks and our customers.

Region 2 • Southern High Plains

- ▶ Commodity prices really hurt our crop producers. Only cattle prices stayed at a decent level. Current moisture is a big positive for planting. Farmers are having a hard time deciding what to plant and how to use new insurance products from the 2014 farm bill.
- ▶ Harvest commodity prices and weather played a huge factor in the lower profitability of most operations in 2014. Lack of a direct payment program for most commodities and lower insurance prices will make 2015 challenging. Current moisture conditions are the bright spot in a tight year to come.
- ▶ In the current farm bill and new insurance programs, cotton is the forgotten commodity. Cash flows are extremely tight, and producers are being stretched.
- ▶ 2014 was a very tough year for farmers in our area. Lower commodity prices are making cash flows extremely tight. The new farm bill is of no help to our producers, especially cotton producers. We are leaning more and more on Farm Service Agency loans; however, their limits are not adequate in some circumstances.
- ▶ As expected, West Texas row-crop producers experienced poor to mediocre results in 2014. Cotton growers who harvested a crop fared the worst as cotton prices fell to the 50 cent range at harvest, which is well below production costs. Many will have carryover debt. For the most part, producers have enough land equity to refinance the carryovers. The cattle sector is also facing pressure from falling stocker and feeder prices. The one bright spot is much-improved moisture conditions, which should give us a shot at a reasonable crop for the first time since 2010. With depressed crop prices, growers are understandably cautious about spending. Equipment and other farm supply dealers are reporting lackluster demand. Farmland values haven't backed off any, which is somewhat surprising.

Region 3 • Northern Low Plains

- ▶ Producers are feeling the impact of lower commodity prices. Most can pay all operating costs but cannot

make term debt payments. Moisture conditions are fair. The wheat crop is in fair to good condition at this time.

Region 4 • Southern Low Plains

- ▶ We lost a large amount of feeder cattle loans due to market volatility, specifically the cash-basis volatility, making breakeven projection impossible. Wheat is in such good shape that our bank could have made some good loans if our producers had a reliable hedging tool.

Region 5 • Cross Timbers

- ▶ We are going into spring with adequate ground moisture but inadequate tank, pond and lake water.
- ▶ Moisture conditions are very good at present, but most of our area is still in dire need of heavier rains to bring up lake levels. Hay supplies are adequate and the price is holding; winter pasture grazing is good. Record beef cattle prices are giving cow-calf operators a boost, especially those not having to buy replacements. Dairies in the area had a good 2014, which continues into 2015 with very good milk prices and reasonable feed costs.
- ▶ We received much-needed moisture in the past 10 days in the form of rain, sleet and snow. However, lakes and stock tanks remain below 25 percent capacity.

Region 6 • North Central Texas

- ▶ We have concerns for 2015 crop income because of the drop in expected commodity market prices.
- ▶ Most land transactions we are seeing are sales to investors and not to farmers or ranchers directly. Farmers and ranchers in our area are generally leasing the majority of the acreage they operate.

Region 7 • East Texas

- ▶ The cattle market remains strong. We are watching how much we loan on cattle but have a very good borrower base, which tends to be conservative.
- ▶ A corporation's recent nonagricultural-purpose land purchase of prime irrigated farmland was for almost double normal sales prices. The sellers now have funds to buy other parcels at inflated prices. This transaction will skew farmland prices in the area for several years.
- ▶ It is a desire and focus of our bank for 2015 to grow agricultural lending; however, competition from other types of lenders is proving problematic economically.
- ▶ We have experienced an increase in past-due loans and a slight decrease in the price of pastureland in the

12

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Regions of the Eleventh Federal Reserve District

past six months. Poultry growers have made additional requests for operating loans due to increased operating costs to heat their poultry houses.

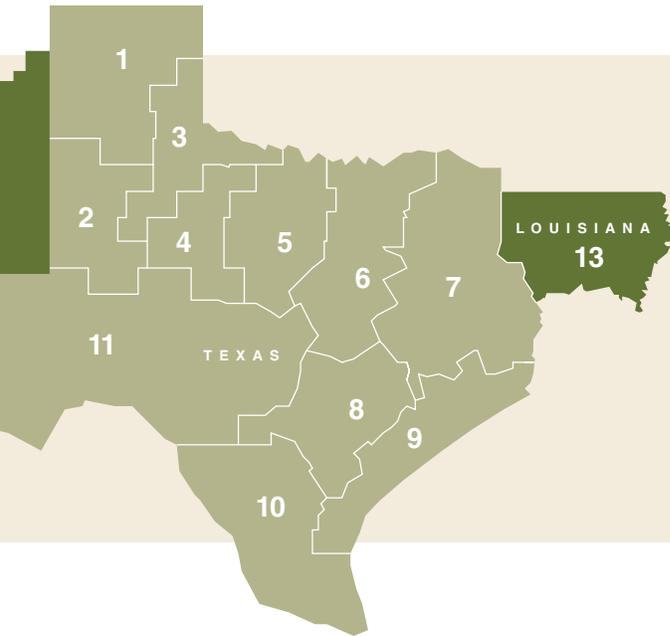
Region 8 • Central Texas

- ▶ Drilling activity in the Eagle Ford Shale region has slowed down, and we are seeing some people lose jobs. Overall, borrowers are doing well. Ranchers are pleased that cattle prices remain high. Many ranchers are retaining quality replacement heifers to replace older cows. Rains over the past few days are better than we have had in years. Many fields were renovated and/or planted, so they are ready to be fertilized in anticipation of ample hay and corn crops in 2015.
- ▶ Winter weather is holding back row-crop planting in the area. We still have not had enough rain to fill up ponds and reservoirs; we still need deep moisture for the summer months. Cattle futures prices are declining, yet cash cattle prices have been increasing. Replacement cattle are setting new highs every time there is a replacement sale.
- ▶ The strong cattle market is very welcome to our producers; however, the high cost for purchasing replacement cows is putting a damper on herd enlargement.

Region 9 • Coastal Texas

- ▶ Agricultural values in the area are stable to slightly higher, but there's still some influence from nonfarm-related purchases by investors or recreational users. Overall, rainfall has been good to above average, with some areas receiving excess rain, which slowed fieldwork and plantings. Crop income projections are stable. Farm bill enrollment is very slow and has hindered producers' program decision-making. Equipment debts incurred last year pose some cash-flow concerns, while new equipment purchases have also been noted and should be of concern. Cattle prices

Rural Real Estate Values—First Quarter 2015



have dipped slightly but are still very good. Feeder cattle are slow into the feedlot as most producers are still trying to restock. Wheat in fields right now has the potential to yield a record crop. All other crops have potential for average to above-average if no other delays in planting occur.

▶ All farmers are feeling a compression in margins due to very low commodity prices. Debt-service obligations will become a focus point in underwriting agricultural loans for the next two years. Farmers who carry minimal debt will have a significant operating advantage.

Region 11 • Trans-Pecos and Edwards Plateau

▶ Many irrigated acres are enrolled in the Edwards Aquifer Authority's Voluntary Irrigation Suspension Program, resulting in less cotton and corn to be planted on the farms.

▶ Winter on the Edwards Plateau has been cold and icy, which is hard on livestock. Even though we have had more than the normal wintry mix of snow, sleet and ice, we still have not received substantial rainfall or beneficial moisture amounts. No real improvement has been made to the water table or deep soil moisture. Commodity prices remain strong in all areas.

▶ Cattle, sheep and goat prices remain good.

Region 12 • Southern New Mexico

▶ 2015 farm operations have begun. Winter moisture across the region has been spotty. Range conditions should be good this spring. There remains considerable inventory of striped hay in the valley. Farmers are currently negotiating 2015 alfalfa prices with the dairies.

Banks¹ Average value² Percent change in value from previous year³

Cropland—Dryland

District*	107	1,633	5.5
Texas*	90	1,642	5.2
1 Northern High Plains	14	793	7.0
2 Southern High Plains	10	690	2.0
3 Northern Low Plains*	7	827	1.7
4 Southern Low Plains*	8	909	5.1
5 Cross Timbers	5	1,420	1.4
6 North Central Texas	13	2,288	-1.5
7 East Texas*	7	2,579	5.5
8 Central Texas	12	3,379	8.5
9 Coastal Texas	7	2,357	8.6
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	5	1,080	11.3
12 Southern New Mexico	4	425	3.8
13 Northern Louisiana	13	2,442	10.5

Cropland—Irrigated

District*	76	2,343	3.8
Texas*	59	2,115	1.6
1 Northern High Plains	14	2,123	8.3
2 Southern High Plains	9	1,633	7.7
3 Northern Low Plains*	4	1,592	0.0
4 Southern Low Plains	4	1,350	7.7
5 Cross Timbers	n.a.	n.a.	n.a.
6 North Central Texas	4	2,500	0.0
7 East Texas	4	2,575	5.0
8 Central Texas	7	3,750	2.2
9 Coastal Texas	5	2,920	1.0
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	4	1,125	5.8
12 Southern New Mexico	6	3,617	19.0
13 Northern Louisiana	11	3,255	0.5

Ranchland

District*	119	1,604	3.7
Texas*	102	1,903	3.0
1 Northern High Plains	14	625	11.4
2 Southern High Plains	7	650	1.5
3 Northern Low Plains	6	892	1.9
4 Southern Low Plains*	7	1,131	4.4
5 Cross Timbers	7	1,707	1.7
6 North Central Texas	17	2,394	5.1
7 East Texas	12	2,533	2.2
8 Central Texas	13	4,400	5.8
9 Coastal Texas	6	2,150	0.0
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	11	1,627	2.6
12 Southern New Mexico	5	316	25.5
13 Northern Louisiana	12	1,921	6.2

* Seasonally adjusted.

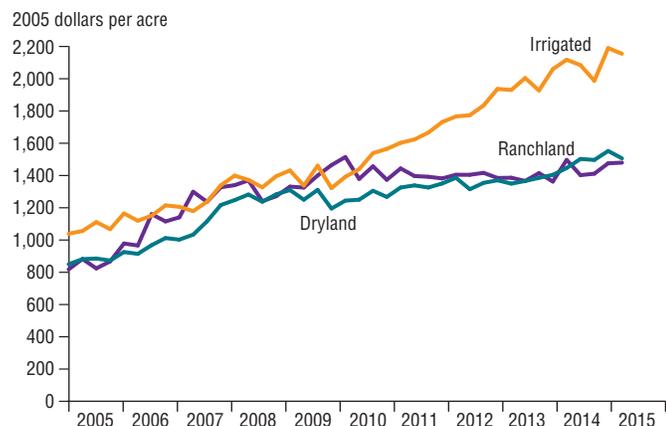
¹ Number of banks reporting land values.

² Prices are dollars per acre, not adjusted for inflation.

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

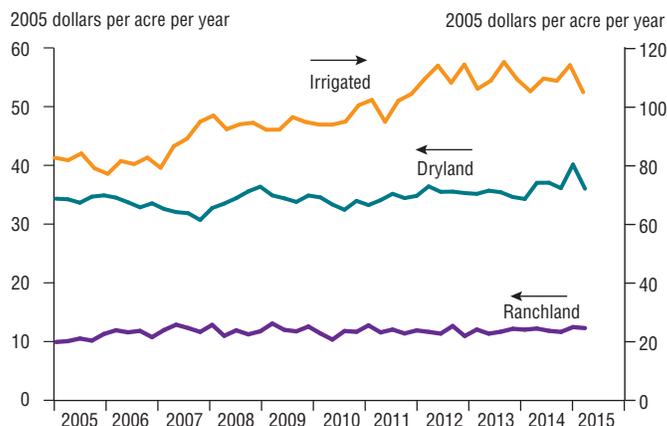
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

Real Land Values



NOTE: All values have been seasonally adjusted.

Real Cash Rents



NOTE: All values have been seasonally adjusted.

Interest Rates by Loan Type

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
Fixed (average rate, percent)				
2014:Q1	6.19	6.30	6.14	5.89
Q2	6.12	6.19	6.05	5.79
Q3	6.12	6.22	6.00	5.80
Q4	6.03	6.14	5.96	5.77
2015:Q1	6.09	6.12	6.01	5.74
Variable (average rate, percent)				
2014:Q1	5.78	5.84	5.77	5.43
Q2	5.73	5.75	5.64	5.30
Q3	5.69	5.75	5.64	5.37
Q4	5.65	5.71	5.62	5.39
2015:Q1	5.56	5.66	5.54	5.26

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, Q1		
	2014:Q4	2015:Q1	▲ Up	Stable	▼ Down
	6.0	-1.4	8.5	81.6	9.9

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:Q4	2015:Q1	▲ Tightened	Same	▼ Loosened
	8.8	7.8	9.3	89.2	1.6



*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 March 3–11, and 138 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 or by calling 214-922-5270. It is available on the web at www.dallasfed.org/research/agsurvey.

For questions, contact Amy Jordan, 214-922-5178.