

Agricultural Survey

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

Survey Highlights

Bankers responding to the third-quarter survey reported additional rains this summer were beneficial, though more was still needed.

Harvest is underway, with improved corn production over prior years in a couple of regions. Cattle sector conditions were favorable as prices remained high. However, declining commodity prices are dampening outlooks, and bankers in a few regions expect land prices to begin to decline.

District irrigated cropland values continued falling in the third quarter. Land values for dryland were mostly unchanged, while ranchland values were slightly higher. However, farmland values for all land types were above year-ago levels. District farmland values all rose around 5 percent over last year.

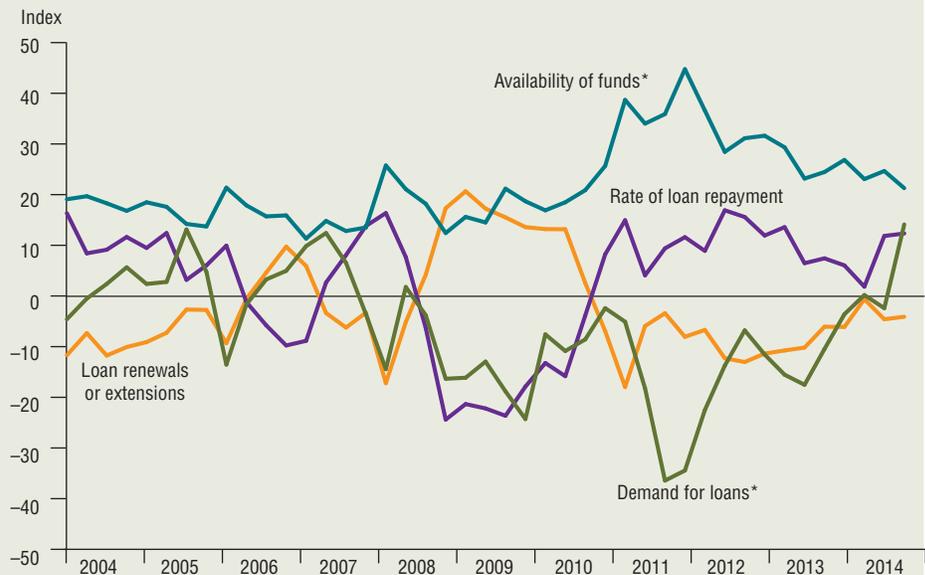
Farmland values are anticipated to continue trending up next quarter; however, a smaller share of bankers expect an increase this quarter compared with last quarter, resulting in a slightly lower index level. Credit standards continued to tighten this quarter, although the vast majority of respondents noted no change in standards.

Demand for agricultural loans picked up this quarter, marking a turning point after six years of falling demand. Loan repayment rates continued to increase, but loan renewals and extensions declined. Volumes for a majority of loan types continued to decrease. However, increases continued in volumes of non-real-estate farm loans, feeder cattle loans and operating loans.

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, Q3		
	2014:Q2	2014:Q3	▲ Greater	Same	▼ Less
Demand for loans*	-2.4	14.2	24.8	64.6	10.6
Availability of funds*	24.8	21.4	24.2	73.0	2.8
Rate of loan repayment	11.9	12.4	16.6	79.3	4.1
Loan renewals or extensions	-4.6	-4.1	5.5	84.9	9.6



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, Q3		
	2014:Q2	2014:Q3	▲ Greater	Same	▼ Less
Non-real-estate farm loans	4.7	18.5	30.8	56.9	12.3
Feeder cattle loans*	3.7	1.3	16.4	68.5	15.1
Dairy loans*	-14.0	-8.1	2.8	86.3	10.9
Crop storage loans*	-7.5	-2.3	4.1	89.5	6.4
Operating loans	10.7	21.2	30.8	59.6	9.6
Farm machinery loans*	-9.1	-9.6	9.2	72.0	18.8
Farm real estate loans*	-11.3	-4.9	13.7	67.7	18.6

*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

▶ The moisture profile has improved significantly over the past 120 days. Although the three-year drought is not broken, it certainly feels better than it has in a long while. Cow-calf producers are in the driver's seat for the next couple of years unless something political or psychological negatively affects the market. Supply-side fundamentals will be tight for at least two more years. Grain prices will hurt farm revenue in 2014 for those who did not forward-market.

- ▶ We have had more rain than in the last few years.
- ▶ Ranchland sold for pure ranching purposes does not exist anymore. We do not recall the last time a piece of ranchland sold to a rancher for grazing purposes.

Region 2 • Southern High Plains

▶ Most irrigated crops look pretty good, but dryland is beginning to burn up. We desperately need rain and have for the last four weeks. Cattle are doing fairly well, but the grass is beginning to stress also.

▶ The jury is still out on the production of cotton on the South Plains. Some areas have had timely rains, but other areas have still been dry. After the June hail and wind, quite a few farmers have replanted, some turning to milo and others to wildcat cotton. The hot and dry weather is helping with maturity on late-planted crops. However, with the price drop in cotton, repayment capabilities are questionable with expenses being as high as they have been.

▶ Plummeting row-crop prices and little to no rainfall in August are putting a damper on things. The cattle sector is healing somewhat, but most feeders have stayed fairly hedged up and missed much of the benefit in the price spike. The best outlook is for cow-calf ranchers.

Region 3 • Northern Low Plains

▶ Declines in commodity prices, in conjunction with the drought, will compound the struggles agriculture will see. This suggests that real estate will begin to decline in value, reducing the borrowing capacity of many producers.

▶ We have received slightly above average and timely rainfall this year. We are starting to see producers slowly restock cow herds. Our pastures are in their best shape in many years going into the fall. We have really good conditions to grow early wheat pasture as well. Many producers are looking

at some type of grazing option on their wheat since the price of wheat looks to be lower this year.

Region 4 • Southern Low Plains

- ▶ Drought and changes to farm policy in the long run will cause a decline in land prices.
- ▶ This will be a crop insurance year due to dry conditions. Repayment of all debt obligations is not expected.

Region 5 • Cross Timbers

▶ It is still extremely dry. Area lakes are at 16 percent capacity, and stock tanks are at 25 percent. There is not enough moisture to sow wheat at this time. Cattle prices are the only thing favorable around here.

Region 6 • North Central Texas

- ▶ It has been a wetter- and milder-than-normal summer in North Texas. We expect cattle prices to remain high as herd numbers are still down.
- ▶ Farmers continue to do well with a bumper corn harvest and continued hay cuttings. Cattle prices have been elevated and seem to be going higher, with 400–500 pound calves selling for over \$1,000.
- ▶ This has been a very good year for hay crops. The corn yield has done extremely well this year, with 125 bushels plus per acre. We do need rain for the oat and wheat planting, though.
- ▶ Cattle prices are at all-time highs; the summer rains have been timely and have helped out the local producers. We do not know of any sales of agricultural tracts of land.

Region 8 • Central Texas

- ▶ The corn harvest is almost complete and has been fairly good, thanks to early summer rains. Hay making has come to a stop as fields continue to burn up under the heat and no rain. Cattle prices seem to keep going higher as the summer goes on. Recent heifer sales saw outstanding prices on replacement cattle, and if we'd had some rains, prices would have been even higher. Everyone is getting excited about El Niño coming this fall because we might have a wet winter for growing rye and oats for grazing.
- ▶ Land values continue to increase due to the increase of recreational farmland purchases. Weather conditions again have turned to very dry; however, farmers managed to get two good hay cuttings

Regions of the Eleventh Federal Reserve District

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earlier in the year. The strong cattle market has mitigated the negatives.

Region 9 • Coastal Texas

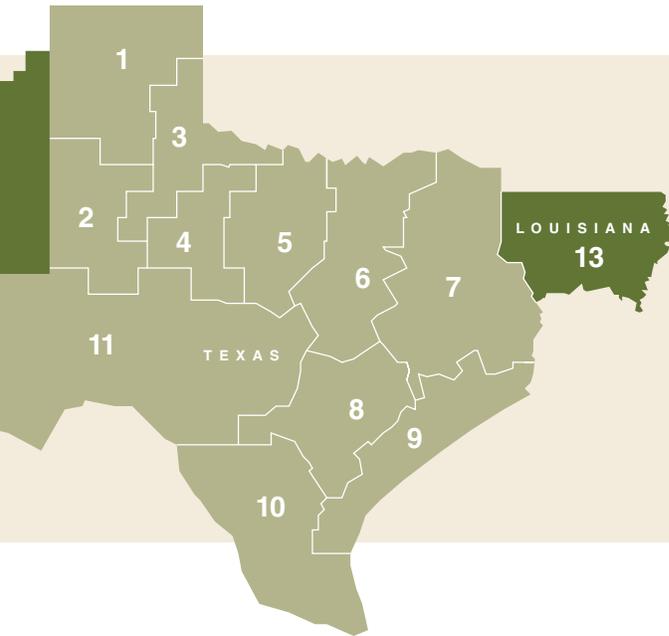
- ▶ Agriculture values tend to be stable in most areas. The current Farm Bill formulation and rollout has been delayed and slower than anticipated. Crops have been harvested in our area, with yields being at most average with some sporadic spikes and lows. Prices at the port for grain sorghum have been assisted by strong Chinese imports, while there is a refusal to take genetically modified corn from the U.S. Cotton and corn prices are slipping, with some upside potential on a long-term basis. Contracting of some crops was made available early on. We will be going into the new crop year in 2015 with some issues on cash flow if producers purchased larger items with term payments outstanding. Cattle have done well, with recent prices being above average, and ranchers are trying to keep as many replacements as necessary. Feeder potential on heifers has increased in order to further evaluate the replacement potential or capitalize on live cattle prices. Cattle prices will tend to remain strong over the next 18 months.

▶ For row-crop farmers, this year's yields compensated for lower commodity prices. Cattle prices remain strong, but there are some indications the highs have been reached. Local commercial grain storage is in demand with a large percentage of the 2014 crop going directly to storage.

Region 11 • Trans-Pecos and Edwards Plateau

- ▶ Most of the area received good rainfall during the growing season, which will facilitate herd expansion. However, there are areas that failed to receive adequate moisture, so herd liquidation will continue for some operators.
- ▶ Timely summer rains have brightened the

Rural Real Estate Values—Third Quarter 2014



outlook in some areas of the Edwards Plateau, but overall the situation still relies on rainfall prospects. Some good late-summer to early-fall rains would be just what the doctor ordered with these livestock prices as high as they are.

▶ Livestock markets remain very good. We have received some scattered rainfall, but most of the area is in need of rain.

▶ Pastures generally have more grass than in recent years, with lesser numbers of livestock to graze it. Increased stocking is being talked about by producers, but hesitation comes from the cost of restocking and unknown weather conditions, as it is generally pretty dry now. Some scattered rains have been received recently, but we really need good general rains for significant improvement to be seen. Livestock prices remain very good for sellers and pretty high for buyers.

Region 12 • Southern New Mexico

▶ We have had good moisture this summer, and the complexion of the farm and ranch industry is quite different due to that.

▶ We have had good precipitation across most of the region; however, some areas remain dry. Range conditions remain fair in spotty areas, but areas with moisture have seen a return to excellent forage conditions. Rains along the Pecos Valley have resulted in some black and striped hay, which we have not had much of in several years. Underground water recharge has been helped, and areas with flood irrigation have benefited from ample storage. Corn crops are actively being harvested, and alfalfa season is wrapping up. Prices received have been favorable to farmers.

Region 13 • Northern Louisiana

▶ We expect the current downtrend in farm commodity prices to start having a negative effect on current land values and rental rates.

	Banks ¹	Average value ²	Percent change in value from previous year ³
Cropland—Dryland			
District*	109	1,622	5.4
Texas*	97	1,639	5.1
1 Northern High Plains	16	741	8.6
2 Southern High Plains	13	662	0.0
3 Northern Low Plains*	8	818	-10.6
4 Southern Low Plains*	11	1,049	12.1
5 Cross Timbers	3	1,283	2.6
6 North Central Texas	15	2,520	6.7
7 East Texas*	7	2,209	3.2
8 Central Texas	11	3,109	9.6
9 Coastal Texas	5	2,300	0.0
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	7	1,364	1.0
12 Southern New Mexico	4	400	13.6
13 Northern Louisiana	8	2,219	9.2
Cropland—Irrigated			
District*	83	2,159	4.7
Texas*	69	1,976	5.1
1 Northern High Plains	16	1,994	5.4
2 Southern High Plains	13	1,467	-6.2
3 Northern Low Plains*	5	1,496	5.7
4 Southern Low Plains	6	1,558	-3.2
5 Cross Timbers	n.a.	n.a.	n.a.
6 North Central Texas	4	2,550	0.0
7 East Texas	5	2,280	-10.6
8 Central Texas	7	3,364	4.2
9 Coastal Texas	4	2,925	42.9
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	6	1,833	3.3
12 Southern New Mexico	6	3,042	2.3
13 Northern Louisiana	8	3,038	4.6
Ranchland			
District*	121	1,528	5.1
Texas*	110	1,812	4.6
1 Northern High Plains	14	536	7.1
2 Southern High Plains	10	610	3.0
3 Northern Low Plains	8	875	-3.9
4 Southern Low Plains*	11	1,003	-1.9
5 Cross Timbers	6	1,550	3.9
6 North Central Texas	17	2,441	7.6
7 East Texas	12	2,250	3.6
8 Central Texas	12	4,350	12.3
9 Coastal Texas	4	2,138	5.3
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	14	1,650	-1.7
12 Southern New Mexico	5	315	19.4
13 Northern Louisiana	6	1,633	3.2

* Seasonally adjusted.

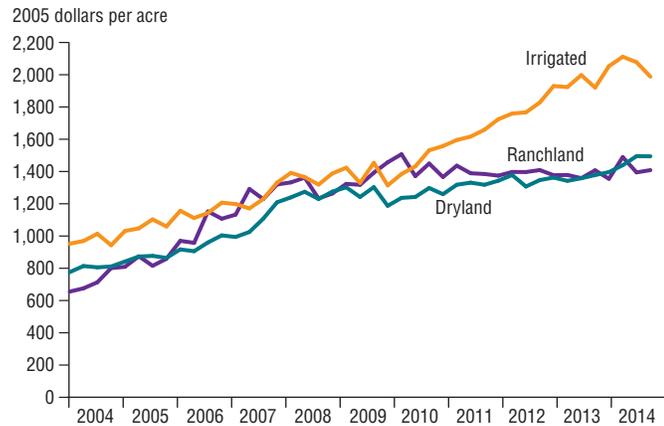
¹ Number of banks reporting land values.

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.

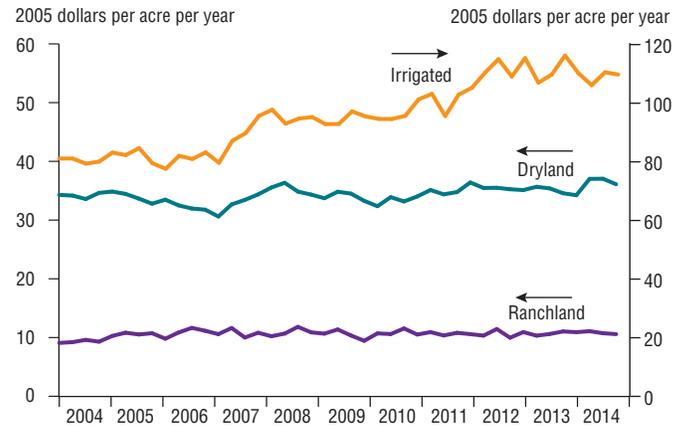
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

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)				
2013:Q3	6.16	6.34	6.25	6.04
Q4	6.16	6.27	6.17	5.86
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
Variable (average rate, percent)				
2013:Q3	5.71	5.81	5.71	5.47
Q4	5.69	5.75	5.71	5.42
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

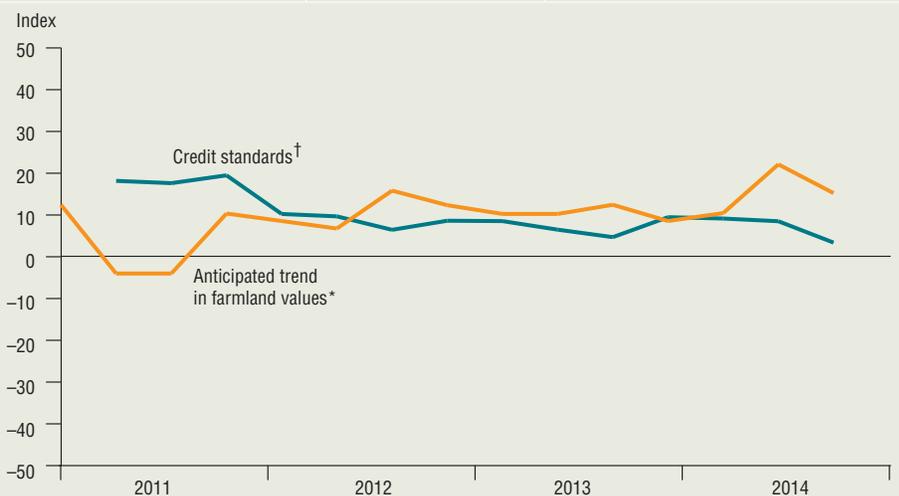
Anticipated Farmland Values and Credit Standards

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

Anticipated trend in farmland values*	Index		Percent reporting, Q3		
	2014:Q2	2014:Q3	▲ Up	Stable	▼ Down
	22.2	15.3	17.6	80.1	2.3

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:Q2	2014:Q3	▲ Tightened	Same	▼ Loosened
	8.6	3.4	3.4	96.6	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 Sept. 2–10, and 147 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.