

# Agricultural Survey

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

## Survey Highlights

**B**ankers responding to the fourth-quarter survey reported additional rain benefited pastureland; however, more rain is needed to replenish ground moisture, stock tanks and lakes. Rain slowed harvesting of crops in a couple of regions, and respondents across the district were concerned about low commodity prices and their negative impact on loan repayment rates. The livestock sector remained strong, with high prices and good grazing conditions.

District farmland values increased in the fourth quarter. Irrigated cropland values jumped to a record high after declining two consecutive quarters. Dryland and rangeland values increased more modestly. Farmland values are all up from their year-ago levels.

Farmland values are anticipated to continue trending up next quarter, although the share of bankers expecting an increase continued to decline. Credit standards continued to tighten this quarter, although the vast majority of respondents noted no change in standards.

Demand for agricultural loans picked up again this quarter, marking the second consecutive quarter of increasing demand after six years of falling demand. Loan repayment rates continued to increase; however, loan renewals and extensions declined. Volumes for a majority of loan types continued to decrease. However, increases were seen in volumes of feeder cattle loans, crop storage 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, Q4 |      |        |
|-----------------------------|---------|---------|-----------------------|------|--------|
|                             | 2014:Q3 | 2014:Q4 | ▲ Greater             | Same | ▼ Less |
| Demand for loans*           | 14.2    | 6.2     | 22.7                  | 60.8 | 16.5   |
| Availability of funds*      | 21.4    | 21.9    | 23.7                  | 74.5 | 1.8    |
| Rate of loan repayment      | 12.4    | 2.2     | 11.7                  | 78.8 | 9.5    |
| Loan renewals or extensions | -4.1    | -4.4    | 6.6                   | 82.4 | 11.0   |



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, Q4 |      |        |
|----------------------------|---------|---------|-----------------------|------|--------|
|                            | 2014:Q3 | 2014:Q4 | ▲ Greater             | Same | ▼ Less |
| Non-real-estate farm loans | 18.5    | -0.7    | 18.4                  | 62.5 | 19.1   |
| Feeder cattle loans*       | 1.3     | 5.8     | 20.7                  | 64.4 | 14.9   |
| Dairy loans*               | -8.1    | -11.5   | 1.9                   | 84.7 | 13.4   |
| Crop storage loans*        | -2.3    | 2.1     | 6.8                   | 88.5 | 4.7    |
| Operating loans            | 21.2    | 8.2     | 23.0                  | 62.2 | 14.8   |
| Farm machinery loans*      | -9.6    | -21.0   | 4.2                   | 70.6 | 25.2   |
| Farm real estate loans*    | -4.9    | -12.5   | 7.7                   | 72.1 | 20.2   |

\*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

▶ Demand for stocker cattle loans is high due to better wheat grazing conditions, and with cattle costs at high levels, ranchers need significantly larger lines of credit than in the past. There is low demand for equipment loans, but that could change if the Section 179 property deduction gets restored to last year's level.

## Region 2 • Southern High Plains

▶ Farmers are beginning to harvest crops—about two weeks later than normal. Cotton prices need to increase to the 70 cent range. Cattle are doing well since we had three inches of rain. The new farm bill is really hurting cotton producers; predicting plantings for 2015 is challenging. No one seems to understand the Stacked Income Protection Plan or Supplemental Coverage Option crop insurance yet.

▶ It appears that row crop lending will be extremely challenging in the days ahead. Crop types are varied across the area, commodity prices are low, and the rate of repayment is slow. A majority of operating loans will carry over. The main concern at this time is how to make the cash flow work for 2015. Low prices, a poor farm bill as it relates to cotton and higher expenses will make 2015 one of the more challenging years we have had.

▶ Farm incomes are expected to be down substantially, while ranching incomes should be up.

▶ The cotton crop on the South Plains is coming in about as expected with generally good irrigated yields and fair to modest dryland. The collapse in cotton prices will challenge repayment of operating loans for leveraged borrowers. Dairies are making up lost ground. Cattle feeders have done exceptionally well. The outlook for 2015 row-crop producers is bleak with prices too low to cover all costs.

## Region 3 • Northern Low Plains

▶ Current commodity prices, except livestock, are at breakeven levels or lower; any highly leveraged producers are unlikely to survive.

▶ Lenders and customers alike are apprehensive about next year due to low commodity prices and uncertainty for a government program for cotton.

▶ We are heading into the last month of the year at near average rainfall with more in the forecast. Wheat and native pastures look good. We are starting to see a lot of stocker cattle being put out on pasture, which will help our local economy. We continue to see ranchers slowly restock their cow herds.

## Region 4 • Southern Low Plains

▶ Cattle are too expensive to buy. Crops are too cheap to support equipment purchases. There has been little to no activity in our area because high oil prices discourage selling land with minerals or buying land without minerals. Hopefully the drop in oil prices will make some things move.

## Region 5 • Cross Timbers

▶ Drought conditions still have a significant effect on agriculture interest. Good cattle prices are our only salvation.

▶ We had some grass-growing rains but are badly in need of runoff. The cotton harvest has been slowed by weather, while the cattle market is good.

▶ Moisture conditions remain fairly good, but heavier rains are needed to fill up lakes and ponds which are mostly still low. Dairy producers are doing better with the best profits in several years due to higher milk prices and lower feed costs. Cow-calf operations are getting fantastic prices for calves and yearlings, but replacements are very expensive. Hay supplies appear to be adequate, and grazing conditions on winter pastures are fair to very good.

▶ Recent rain has helped wheat pasture, but it is still not enough to help stock tanks and area lakes that remain between 15 and 27.5 percent capacity.

## Region 6 • North Central Texas

▶ Wheat acres increased over fall 2013. Projections for next year indicate grain sorghum



## Regions of the Eleventh Federal Reserve District

acres will be reduced because of sugar cane aphid problems last year, and cotton acres will be reduced because of low prices. Corn acres should be relatively stable.

▶ This year's higher yields helped offset poor prices.

## Region 8 • Central Texas

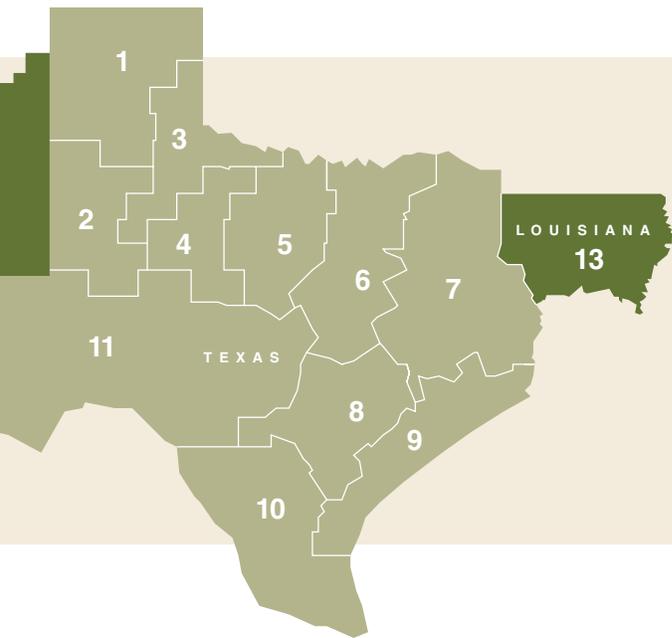
▶ Winter came early and fast, and most areas had some relief in the form of much needed rain but much more is still needed. Late season oats and rye grass plantings should do well, with some fields ready for grazing in the next 30 to 60 days. Cattle prices continue to set new record levels every week. If rains and favorable weather patterns continue until the spring, it may be hard to find replacement cattle for sale in our area and if you do they will be at record prices.

## Region 10 • South Texas

▶ We anticipate a decline in ranch real estate prices in the next 12 months due to a possible crash in the oilfield.

## Region 11 • Trans-Pecos and Edwards Plateau

▶ This year the Edwards Plateau received timely rains that raised enough grass for livestock to flourish, and the prices livestock commanded at the auction barn have been outstanding. All we need is more rain, and the ranching picture will look the best it has in several years. Uncertainty about rainfall in 2015 remains. Herd numbers are still low, and



many ranchers are holding back heifers, ewes and nannies. A dry year could wreck restocking plans again.

▶ Livestock markets are excellent. Real estate markets are active.

▶ Good general rains in late October and early November really helped the country. We have very good stands of grass, but the ground is drying out. Livestock conditions remain strong with minimal supplemental feeding so far. Excellent prices continue and are expected to continue for cattle, sheep and goats.

#### Region 12 • Southern New Mexico

▶ Heavy rains in September, followed by additional rains in October, delayed corn, cotton and alfalfa harvests. Rangeland conditions are excellent, and cattle prices are yielding significant paychecks this fall for our ranchers. The agricultural community remains optimistic for good winter moisture to jump start the 2015 growing season.

## Rural Real Estate Values—Fourth Quarter 2014

|   | Banks <sup>1</sup> | Average value <sup>2</sup> | Percent change in value from previous year <sup>3</sup> |
|---|--------------------|----------------------------|---|
| <b>Cropland—Dryland</b>                   |                    |                            |   |
| <b>District*</b>                          | <b>104</b>         | <b>1,682</b>               | <b>9.7</b>  |
| <b>Texas*</b>                             | <b>94</b>          | <b>1,712</b>               | <b>9.8</b>  |
| <b>1</b> Northern High Plains             | 15                 | 773                        | 7.8   |
| <b>2</b> Southern High Plains             | 12                 | 650                        | 3.4   |
| <b>3</b> Northern Low Plains*             | 9                  | 812                        | 2.4   |
| <b>4</b> Southern Low Plains*             | 9                  | 1,071                      | 16.1  |
| <b>5</b> Cross Timbers                    | 7                  | 1,571                      | 0.7   |
| <b>6</b> North Central Texas              | 12                 | 2,454                      | 10.5  |
| <b>7</b> East Texas*                      | 7                  | 2,384                      | 9.7   |
| <b>8</b> Central Texas                    | 11                 | 3,036                      | 12.7  |
| <b>9</b> Coastal Texas                    | 3                  | 2,600                      | 11.4  |
| <b>10</b> South Texas                     | 3                  | 2,100                      | 15.0  |
| <b>11</b> Trans-Pecos and Edwards Plateau | 6                  | 1,950                      | 8.3   |
| <b>12</b> Southern New Mexico             | 4                  | 388                        | 0.0   |
| <b>13</b> Northern Louisiana              | 6                  | 2,025                      | 11.0  |
| <b>Cropland—Irrigated</b>                 |                    |                            |   |
| <b>District*</b>                          | <b>83</b>          | <b>2,381</b>               | <b>8.9</b>  |
| <b>Texas*</b>                             | <b>71</b>          | <b>2,176</b>               | <b>5.0</b>  |
| <b>1</b> Northern High Plains             | 15                 | 2,070                      | 4.1   |
| <b>2</b> Southern High Plains             | 11                 | 1,532                      | -0.7  |
| <b>3</b> Northern Low Plains*             | 6                  | 1,526                      | -6.3  |
| <b>4</b> Southern Low Plains              | 6                  | 1,483                      | 2.8   |
| <b>5</b> Cross Timbers                    | 5                  | 2,740                      | 7.3   |
| <b>6</b> North Central Texas              | 3                  | 2,567                      | 10.0  |
| <b>7</b> East Texas                       | 5                  | 2,360                      | -8.7  |
| <b>8</b> Central Texas                    | 8                  | 3,400                      | 5.7   |
| <b>9</b> Coastal Texas                    | n.a.               | n.a.                       | n.a.  |
| <b>10</b> South Texas                     | 3                  | 2,867                      | 24.0  |
| <b>11</b> Trans-Pecos and Edwards Plateau | 7                  | 3,714                      | 0.8   |
| <b>12</b> Southern New Mexico             | 6                  | 3,800                      | 31.6  |
| <b>13</b> Northern Louisiana              | 6                  | 2,883                      | 3.6   |
| <b>Ranchland</b>                          |                    |                            |   |
| <b>District*</b>                          | <b>116</b>         | <b>1,599</b>               | <b>6.3</b>  |
| <b>Texas*</b>                             | <b>106</b>         | <b>1,897</b>               | <b>5.6</b>  |
| <b>1</b> Northern High Plains             | 15                 | 575                        | 10.3  |
| <b>2</b> Southern High Plains             | 7                  | 693                        | 12.3  |
| <b>3</b> Northern Low Plains              | 9                  | 867                        | 0.0   |
| <b>4</b> Southern Low Plains*             | 9                  | 1,190                      | 8.0   |
| <b>5</b> Cross Timbers                    | 10                 | 1,925                      | 1.7   |
| <b>6</b> North Central Texas              | 12                 | 2,508                      | 16.3  |
| <b>7</b> East Texas                       | 14                 | 2,754                      | 2.8   |
| <b>8</b> Central Texas                    | 11                 | 4,195                      | 14.2  |
| <b>9</b> Coastal Texas                    | n.a.               | n.a.                       | n.a.  |
| <b>10</b> South Texas                     | 6                  | 1,967                      | 10.0  |
| <b>11</b> Trans-Pecos and Edwards Plateau | 11                 | 1,773                      | -1.5  |
| <b>12</b> Southern New Mexico             | 5                  | 325                        | 29.1  |
| <b>13</b> Northern Louisiana              | 5                  | 1,610                      | 3.2   |

\* Seasonally adjusted.

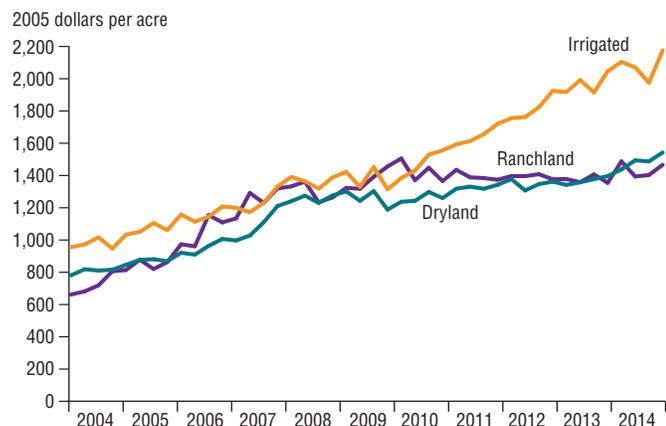
<sup>1</sup> Number of banks reporting land values.

<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.

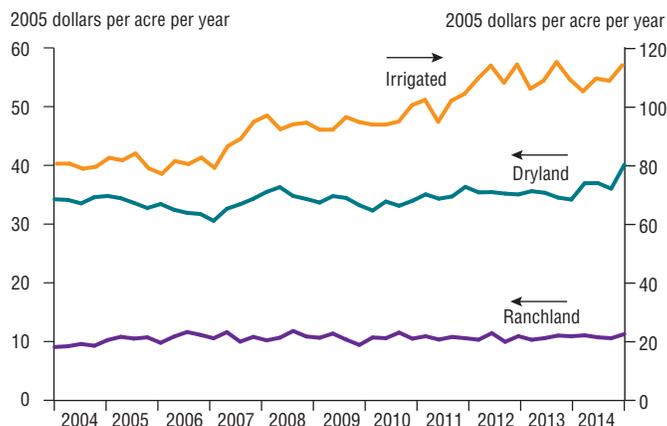
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

## Real Land Values



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 |
|---|---------------|----------------------|-------------------|----------------------------|
| <b>Fixed (average rate, percent)</b>    |               |                      |                   |                            |
| <b>2013: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>Q3</b>                               | 6.12          | 6.22                 | 6.00              | 5.80                       |
| <b>Q4</b>                               | 6.03          | 6.14                 | 5.96              | 5.77                       |
| <b>Variable (average rate, percent)</b> |               |                      |                   |                            |
| <b>2013: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                       |
| <b>Q3</b>                               | 5.69          | 5.75                 | 5.64              | 5.37                       |
| <b>Q4</b>                               | 5.65          | 5.71                 | 5.62              | 5.39                       |

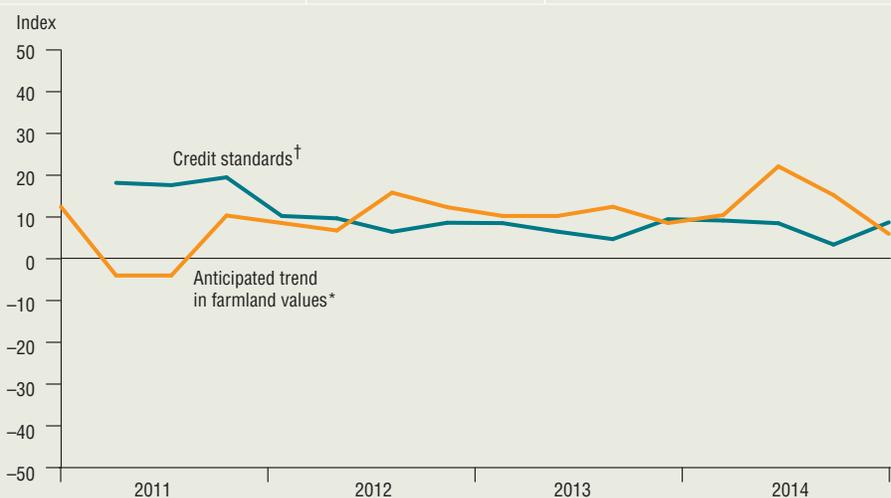
## Anticipated Farmland Values and Credit Standards

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

| Anticipated trend in farmland values* | Index   |         | Percent reporting, Q4 |        |        |
|---------------------------------------|---------|---------|-----------------------|--------|--------|
|                                       | 2014:Q3 | 2014:Q4 | ▲ Up                  | Stable | ▼ Down |
|                                       | 15.3    | 6.0     | 13.1                  | 79.8   | 7.1    |

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:Q3 | 2014:Q4 | ▲ Tightened | Same | ▼ Loosened |
|------------------|---------|---------|-------------|------|------------|
|                  | 3.4     | 8.8     | 9.5         | 89.8 | 0.7        |



\*Seasonally adjusted.

†Added to survey in second quarter 2011.

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.

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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 Dec. 2–10, and 137 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 214-922-5270. It is available on the web at [www.dallasfed.org/research/agsurvey](http://www.dallasfed.org/research/agsurvey).

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