

Agricultural Survey

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

Survey Highlights

Bankers responding to the second-quarter survey continued to report concern for producers' financial positions due to low commodity prices and high production costs. Wheat harvest has been disrupted in a number of regions due to weather, including rain and hail. A few bankers noted some relief for cotton producers with the recently passed Cotton Ginning Cost Share program. Although cattle prices were lower, grazing conditions were good across regions.

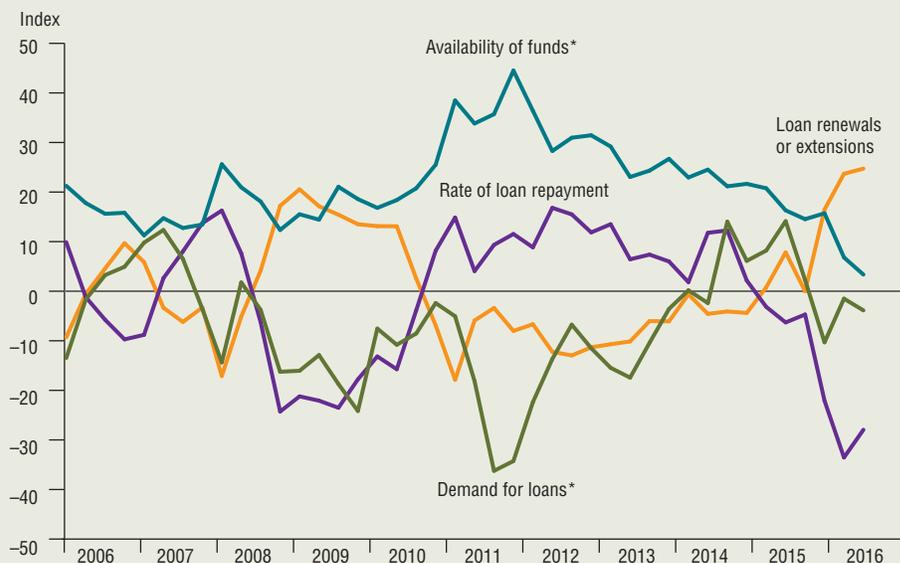
District cropland values increased this quarter. Real irrigated land values rose 4.7 percent over last quarter, and real dryland values were up 2.3 percent. Ranchland values were mostly unchanged again this quarter (Figure 2). However, according to bankers who responded both this quarter and in second quarter 2015, ranchland and dryland values increased year over year, while irrigated land values declined slightly (Table 1).

The anticipated trend in farmland values index remained negative for a fourth consecutive quarter, suggesting respondents expect farmland values to trend down in the coming months. The credit standards index indicated continued tightening of standards; no bankers reported loosening standards this quarter, but the vast majority of respondents continued to note no change (Figure 4).

Demand for agricultural loans decreased for a third consecutive quarter. Loan renewals and extensions picked up as loan repayment rates continued to decline. Overall, the volume of non-real-estate farm loans was lower than a year ago. Operating loans continued to increase year over year; all other loan categories fell in volume year over year this quarter (Figure 1).

Figure 1
Farm Lending Trends

	Index		Percent reporting, Q2		
	2016:Q1	2016:Q2	▲ Greater	Same	▼ Less
Demand for loans*	-1.5	-3.9	18.3	59.5	22.2
Availability of funds*	6.9	3.4	8.7	86.0	5.3
Rate of loan repayment	-33.9	-28.2	3.2	65.3	31.5
Loan renewals or extensions	24.0	25.0	29.0	66.9	4.0



	Index		Percent reporting, Q2		
	2016:Q1	2016:Q2	▲ Greater	Same	▼ Less
Non-real-estate farm loans	0.0	-8.1	16.1	59.7	24.2
Feeder cattle loans*	-31.4	-31.1	3.7	61.5	34.8
Dairy loans*	-17.1	-11.6	4.1	80.2	15.7
Crop storage loans*	-10.4	-14.3	3.2	79.3	17.5
Operating loans	5.7	5.7	21.0	63.7	15.3
Farm machinery loans*	-28.5	-24.3	7.9	59.9	32.2
Farm real estate loans*	-25.0	-24.2	4.0	67.8	28.2

*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

▶ Low commodity prices continue to hamper our farmers and projected cash flows. The lack of rain in our area has not helped either, as some farmers are contemplating whether or not to farm as much as they have done in the past, which would put a strain on our loans.

▶ Land values remain stable despite less-favorable operating profit margins. This is due to demand for land being greater than the limited amount of land on the market for sale in our area. Weather has been ideal for planting of fall crops; however, higher-cost input crops such as irrigated corn may see less acreage due to initial projected poor economics. Lower cattle prices continue to impact the viability of cattle ownership by many, especially for smaller operators. 2016 remains a year of being cautious and seeking alternatives to traditional operations.

▶ Moisture is good. Our year-to-date totals are higher than the three-year period from 2011–13. Summer grazing conditions are exceptional. The wheat crop looks good, although it has sustained some hail damage. Some of the corn and most of the cotton had to be replanted due to rains. Feedlot cattle are still suffering large losses.

▶ Along with timely rain is crop-damaging hail.

▶ For several years, producers were able to compensate for poor cotton and grain prices with cattle profits. Given the current prices for all of the above, with no improvement, a shakeout among producers is likely in the near future.

Region 2 • Southern High Plains

▶ A better farm bill is needed to provide a safety net for producers. The ginning cost-share program just approved will definitely help our cotton farmers and is very much needed. Commodity prices need to improve as do cattle prices. We are thankful for the timely rains we have received in the past couple of months.

▶ Farm income will be challenged for 2016 crops. Simply put, the costs of production are well above the current market prices for almost all crops. As such, farmers are currently projecting losses for the year. Farmers with leverage will have a hard time surviving currently projected losses.

▶ It was a challenging renewal season. We were unable to continue to provide operating financing for several customers. Access to Farm Service Agency guarantees was constrained as their underwriting guidelines don't match with the reality of low commodity prices. Bankruptcies and voluntary liquidations have been the highest in many years. Surprisingly, farmland values are holding steady, but most market participants doubt this will last if prices don't reverse their decline. Stocker and feeder cattle operators continue to bleed red ink; gains from 2014 have all been given back, plus some, as immense equity has been lost within this industry. The crop outlook for the South Plains is decent. Most areas have favorable moisture conditions, but cold, wet weather has caused delays in getting cotton in. The wheat crop looks pretty

good, but prices and the basis are horrible. Rebounding corn prices are an encouragement. The just-announced cotton ginning support program will give some cotton producers a shot in the arm, although the \$40,000 payment limit hurts. So, things are about the same: Everyone is in survival mode.

Region 3 • Northern Low Plains

▶ Low commodity prices are stressing cash flows, and repayment rates have slowed on stocker lines due to a significant reduction in the price of cattle. Crops and pastures are currently in good condition. Wheat is being harvested. Dryland yields have been better than normal on harvested acres.

▶ Wheat harvest started with average yields and poor prices but stalled due to heavy rain. Very little wheat was grazed out this year. Most farmers are in a perfect storm where they will cut bushels just above the multiple peril crop insurance quantity and sell for a low price.

Region 4 • Southern Low Plains

▶ Agriculture looks bleak for the next few years. Over-regulation and government manipulation of markets are killing America.

▶ Recent rains have improved cotton crop prospects. Planting is full speed. No grain sorghum is being planted due to aphids. Wheat harvest has been disrupted due to rains; some field grain is sprouting in the head. Stocker cattle operators have lost a large amount of collateral margin due to lower cattle prices. Cow-calf operators are seeing a drop in collateral and cash flow margins due to the drop in calf prices.

▶ Dryland cotton is a crop of the past. It cannot keep up with the living expenses or the cost of equipment and technology involved in the initial seed expense. It is time to move on to something productive. The assistance for ginning expenses is just a token offering, yet it is more than we should realistically expect to receive for the cotton farmer. Let's move on to something sustainable—even if we have to reduce our standard of living some. Insurance and government payments are not the answer.

Region 5 • Cross Timbers

▶ Land sales continue at a very moderate pace with steady values. An abundance of rain in recent weeks has led to all lakes and ponds being full and even some flooding. Grazing conditions and hay production are and will be very good. Lower prices for calves and yearlings are affecting beef cattle producers' incomes. Milk prices are down to or below breakeven, so dairymen are also being squeezed again.

▶ We finally received 15-plus inches of rain in May and the first week in June, and 100 percent of all stock tanks are full, plus our area lake that feeds 150,000 people is full. It was down to 12 percent capacity a year ago. Farmers are waiting for fields to dry to start farming.

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NEW MEXICO

Regions of the Eleventh Federal Reserve District

Region 6 • North Central Texas

▶ Cattle prices are still down from a year ago. We have been deluged with heavy rainfall, and our farmers should be on the second or third cutting of hay but most are on the first.

▶ We have had a few farmers with carryovers from last year who have requested additional funds to cover the carryover plus operation cost this year. Last year, our area had extensive rain and flooding, which drastically reduced production. For the most part, we have used the same analysis policies whether it's a good time or bad time, which helps keep our ag loans constant.

▶ The cattle market has softened, which has primarily hurt the stocker calf prices.

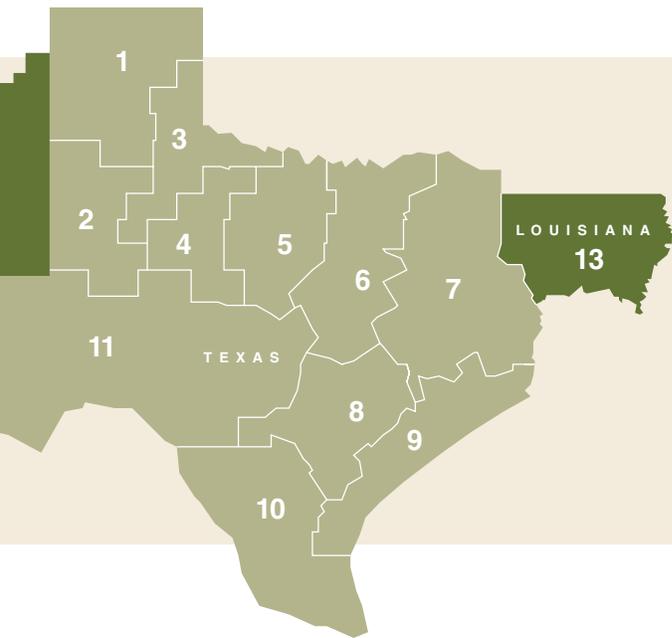
Region 7 • East Texas

▶ There seems to be some positive movement in farm real estate in East Texas—mostly for smaller tracts of less than 100 acres. There have not been any major price fluctuations in cost per acre, and demand may be increasing slightly, but not enough to say it is an upward trend. Cattle prices have dropped but are still favorable enough to be profitable at this time. We have had no adverse situations resulting from lower cattle prices.

▶ Cattle loans have slowed considerably with the recent cattle market downturn. Real estate loans have slowed, with very little land moving at this time. Crops that withstood the recent floods look very good. Pasture conditions are very good to excellent.

Region 8 • Central Texas

▶ We have had plenty of rain over the past few months. Most crops are in good shape, and pasture land is in excellent shape, with the best spring in many years. There's lots of hay to be made once it dries out enough to get into fields. Cattle prices have remained fairly stable the past few weeks and will hopefully hold at the current prices through the summer months. We are starting to see more for-sale signs on residential and farm and ranch property in the area, due to the slowdown in oil and gas activity and the number of layoffs starting to impact area economies. Sales tax numbers have also been down for area towns, and we are starting to see an inventory of homes on the market exceeding 90 days.



▶ The deluge of rain in excess of 15 inches in parts of our trade area will put additional operational costs into play: replacing fencing, repairing erosion and replacing lost livestock, to mention a few. Hay making may be postponed until July. Many meadows have not yet been cut.

Region 9 • Coastal Texas

▶ Moisture conditions have been adequate to excessive in some areas. Crops managed to sustain their potential, with some damage in some areas due to winds, flooding, hail and bug pressure. Pastures are in good shape, with worming and fly pressure being high. Good management practices with livestock are needed to maintain optimal growth of calves heading into summer. Prices have still maintained some stability, with grain providing resistance with recent increases. Some reestablishment or replacement of cattle has occurred in the area, with lowered replacement prices and relatively good calf prices. Grain sorghum harvest should be starting soon. Cotton is growing with ample moisture. The areas with too much rain have lost some bolls, and the plant is trying to reestablish blooms and new bolls. Corn had good moisture with some dry times in April that put stress on the plant. Overall, most crops should be harvested on time, weather permitting. Grain and cotton prices have been on the upside, with factors across the nation, South America and other areas showing lower production or increased demand for grain, beans and cotton. Overall, the potential of having a good crop this year is very possible, but we still have variables that may affect overall production, quality, price and income. The cattle markets have still been steady with good prices. Feed usage has also been up and may affect the feeders placed in feed and overall pricing.

Region 11 • Trans-Pecos and Edwards Plateau

▶ The recent heavy rains have created harvest issues for many of the area wheat farmers.

▶ Cattle prices have softened considerably over the past 90 days. Sheep and goat markets have remained pretty steady. Things in general are pretty positive over much of the Edwards Plateau.

▶ Our area had very good rainfall. The cattle market remains soft.

Table 1
Rural Real Estate Values—Second Quarter 2016

	Banks ¹	Average value ²	Percent change in value from previous year ³
Cropland—Dryland			
District*	94	1,792	4.3
Texas*	79	1,822	5.0
1 Northern High Plains	12	848	6.4
2 Southern High Plains	7	664	-2.6
3 Northern Low Plains*	7	808	2.8
4 Southern Low Plains*	8	1,242	27.6
5 Cross Timbers	4	1,425	-2.6
6 North Central Texas	15	2,723	6.4
7 East Texas*	7	2,648	0.0
8 Central Texas	7	3,507	6.6
9 Coastal Texas	4	2,613	3.9
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	6	1,892	6.1
12 Southern New Mexico	4	325	0.0
13 Northern Louisiana	11	2,314	-7.3
Cropland—Irrigated			
District*	69	2,351	-1.0
Texas*	52	2,087	-1.0
1 Northern High Plains	12	1,944	-1.9
2 Southern High Plains	6	1,392	-4.7
3 Northern Low Plains*	4	1,564	1.6
4 Southern Low Plains	8	1,588	17.6
5 Cross Timbers	n.a.	n.a.	n.a.
6 North Central Texas	n.a.	n.a.	n.a.
7 East Texas	4	2,925	-8.8
8 Central Texas	4	3,375	0.0
9 Coastal Texas	3	2,983	0.0
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	5	3,180	2.5
12 Southern New Mexico	6	3,817	-1.4
13 Northern Louisiana	11	3,441	-1.2
Ranchland			
District*	103	1,640	1.5
Texas*	88	1,956	1.5
1 Northern High Plains	11	589	4.2
2 Southern High Plains	5	690	-5.5
3 Northern Low Plains	7	857	8.3
4 Southern Low Plains*	9	1,214	18.8
5 Cross Timbers	6	1,658	5.2
6 North Central Texas	16	2,619	11.9
7 East Texas	9	2,861	-2.9
8 Central Texas	8	4,563	1.8
9 Coastal Texas	3	2,450	1.1
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	12	1,617	-2.0
12 Southern New Mexico	5	270	2.2
13 Northern Louisiana	10	2,040	-3.0

* Seasonally adjusted.

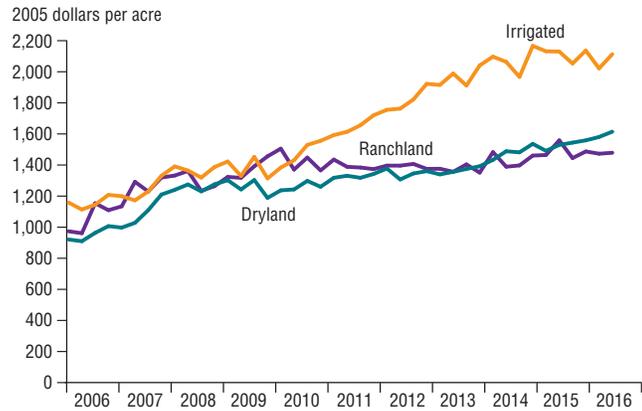
¹ Number of banks reporting land values.

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.

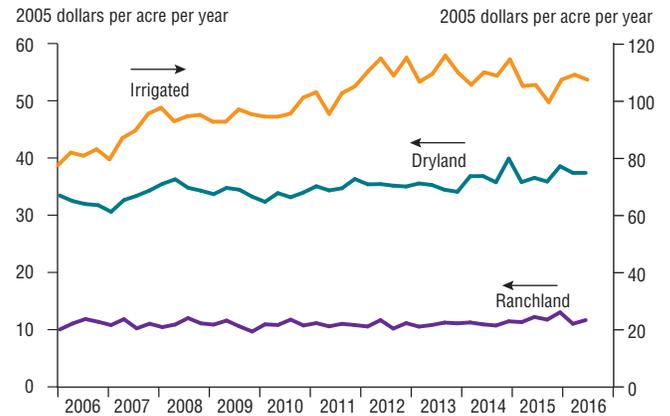
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

**Figure 2
Real Land Values**



NOTE: All values have been seasonally adjusted.

**Figure 3
Real Cash Rents**

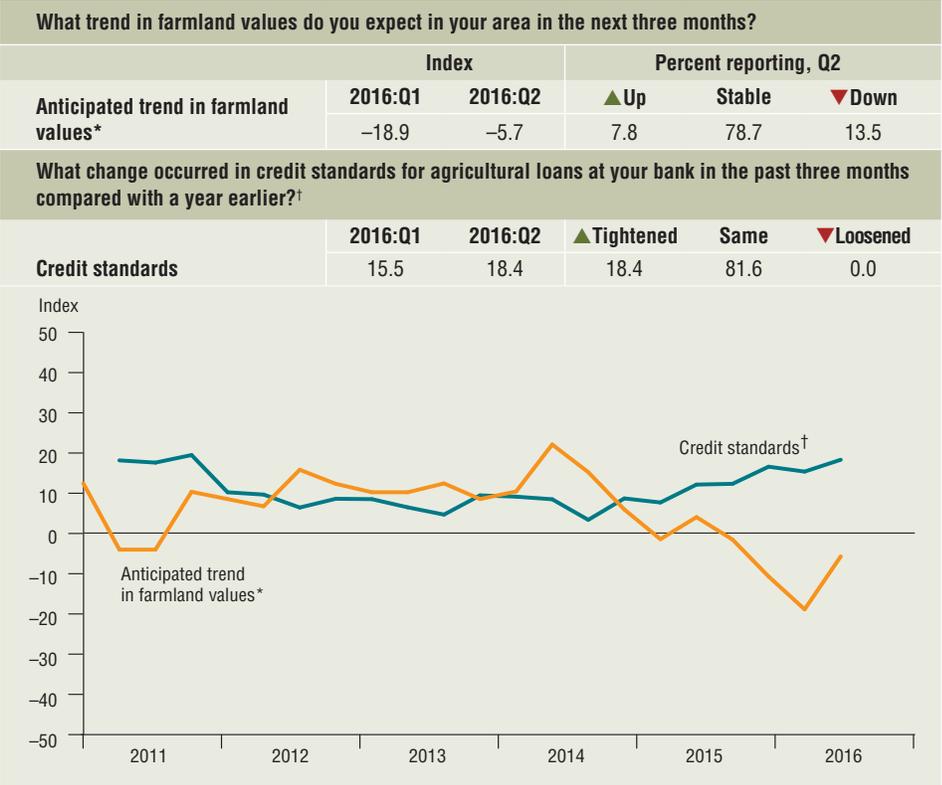


NOTE: All values have been seasonally adjusted.

**Table 2
Interest Rates by Loan Type**

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
Fixed (average rate, percent)				
2015:Q2	5.93	6.04	5.93	5.74
Q3	6.03	6.16	6.05	5.79
Q4	6.04	6.08	5.93	5.67
2016:Q1	6.07	6.11	6.09	5.81
Q2	6.08	6.19	6.07	5.82
Variable (average rate, percent)				
2015:Q2	5.52	5.57	5.51	5.27
Q3	5.65	5.70	5.63	5.36
Q4	5.70	5.73	5.69	5.31
2016:Q1	5.72	5.74	5.78	5.38
Q2	5.73	5.80	5.68	5.32

**Figure 4
Anticipated Farmland Values and Credit Standards**



*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 7–15, and 129 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.

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