

Agricultural Survey

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

Survey Highlights

Bankers responding to the third-quarter survey continued to report concern for producers' financial positions due to low commodity prices.

Low prices for crops and livestock were the chief concerns among bankers. Farmland conditions varied by region, with most in good shape due to summer rains but some suffered from excessive rain.

Demand for agricultural loans decreased for a fourth consecutive quarter. Loan renewals and extensions continued to increase 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 in the third quarter (*Figure 1*).

District land values increased in the third quarter. Real irrigated land values rose the most, up 7.2 percent over the previous quarter. Real ranchland values were up 6.5 percent, and real dryland values were up 5.6 percent (*Figure 2*). According to bankers who responded both in third quarter 2016 and in third quarter 2015, ranchland and dryland values increased year over year, while irrigated land values were mostly unchanged from a year ago (*Table 1*).

The anticipated trend in the farmland values index remained negative for a fifth consecutive quarter, suggesting respondents expect farmland values to trend down in the upcoming months. Comments from bankers point to poor crop production, low commodity prices and concern about the economy as causing slowing land sales and depressing values. The credit standards index indicated continued tightening of standards (*Figure 4*).

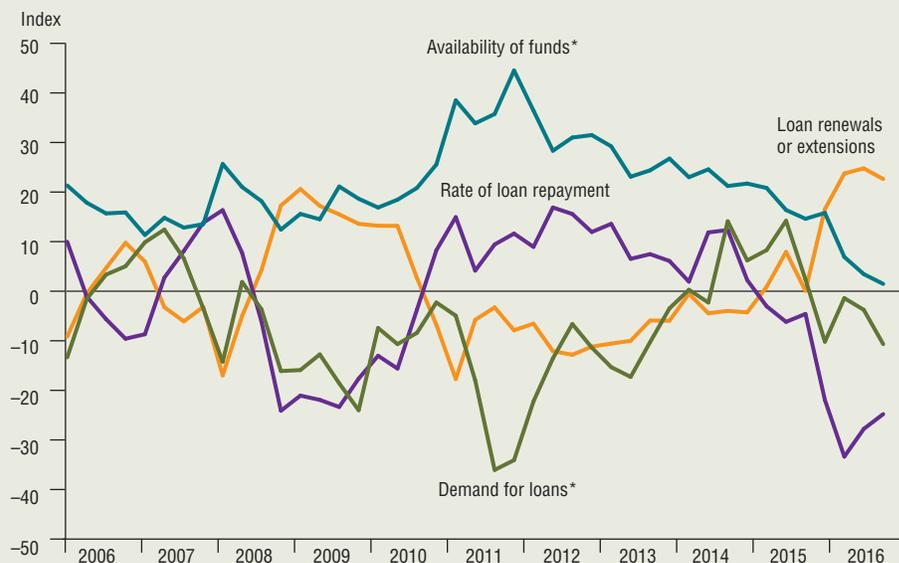
What's New This Quarter:

The Agricultural Survey's online presence takes on a new look. Check it out at www.dallasfed.org/research/agsurvey.

Figure 1
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		
	2016:Q2	2016:Q3	▲ Greater	Same	▼ Less
Demand for loans*	-3.9	-10.9	13.6	61.9	24.5
Availability of funds*	3.4	1.4	9.2	83.0	7.8
Rate of loan repayment	-28.2	-25.2	3.2	68.5	28.4
Loan renewals or extensions	25.0	22.8	26.0	70.9	3.2



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		
	2016:Q2	2016:Q3	▲ Greater	Same	▼ Less
Non-real-estate farm loans	-8.1	-2.4	17.6	62.4	20.0
Feeder cattle loans*	-31.1	-23.6	4.1	68.2	27.7
Dairy loans*	-11.6	-14.2	1.6	82.6	15.8
Crop storage loans*	-14.3	-4.6	5.6	84.2	10.2
Operating loans	5.7	8.8	22.4	64.0	13.6
Farm machinery loans*	-24.3	-24.8	5.5	64.2	30.3
Farm real estate loans*	-24.2	-27.0	6.3	60.4	33.3

*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

- ▶ 2016 is shaping up to be financially challenging for ag producers. Low grain and cattle prices will place many producers in a position of large equity losses and partial fixed asset liquidation to remain in business.
- ▶ Corn, milo and cotton all look near record-yield potential. Cattle performed well this summer, both on pasture and in the feedlot. Unfortunately, none of these things matter much with commodity prices at their current levels. 2016 will be very tough for ag borrowers. The outlook for 2017 is even worse.
- ▶ Crop conditions look good with some hail damage in locations. Cattle losses are noted for stocker operations.

Region 2 • Southern High Plains

- ▶ Recent rains have helped the peanuts and milo; cotton needs some heat units now. We need a farm bill to help our cotton farmers. Hopefully, current crop prices will hold or improve. Rangeland is in good shape, with cattle not needing extra feed.
- ▶ Lubbock-area land values are higher than most areas due to sellers speculating on commercial or residential development. Ranchland is higher due to recreational values rather than livestock production.

Region 4 • Southern Low Plains

- ▶ The cotton crop is late, and we expect a below average to average crop. September rains were too late to help crop yields. Wheat is being planted. Cattle margins continue to get tighter. Producers are very hesitant to purchase cattle even though pasture is in good shape. Many producers are concerned about the survival of their operation if prices continue to stay down.

Region 5 • Cross Timbers

- ▶ Most of our area is in good shape for moisture. We have a surplus of hay, and late moisture enabled another cutting. It also set up a good situation for getting winter wheat and oats planted. On the negative side, cow-calf operators are being hit hard by lower calf prices. Those who sell hay are not able to move much, and prices are down significantly for round bales. There has not been much change in farm, ranch or recreational real estate sales or prices in our area in the past months.
- ▶ Record rainfall resulted in abundant grass and stock tank water. Farmers are sowing wheat, and everything looks good except cattle and grain prices.

Region 6 • North Central Texas

- ▶ Historically poor crop production due to rain or drought plus poor current crop prices are beginning to undermine demand for purchasing farmland in this area, resulting in a slow spiral downward in land values.
- ▶ This year is extremely poor with all commodity prices lower and most yields on corn, wheat, grain sorghum and cotton down by 15 to 50 percent. Excess rain two years in a row has caused significant losses in equity. Cattle prices are not high enough this year to offer much help either. Two weeks of cool rain in August caused cotton seed to sprout in the boll on thousands of acres of cotton. This lowers price and quality, and the farmer loses the income from the cotton seed.

- ▶ The steady moisture this summer has been beneficial for both farmers and cattlemen.
- ▶ Conditions remain reasonably stable with lower cattle prices having some negative effects. Lower commodity prices are also a negative factor. However, the positive real estate market due to our proximity to the DFW metroplex overrides the dampening effects of cattle and commodity prices.

Region 7 • East Texas

- ▶ Requests for all types of ag loans have been very slow. Cattle loans are expected to increase in the fall. Crop loans are expected to pay in full, although insurance proceeds may be needed to complete the payoffs.

Region 8 • Central Texas

- ▶ August rainfall was excellent, causing nice grazing going into the fall/winter. Calf weights are heavy, but prices are down in almost all categories. Land sales have slowed due to concerns about the economy and loss of jobs. Drilling in the Eagle Ford is sparse at best. Local economy has changed significantly with the drop in oil and gas activities.
- ▶ Corn harvest is complete with good yields. However, prices continue to fall, same with cattle prices. This has been the best August that anyone can remember for a long time, with ample grass and water and fat cattle. If the weather keeps up, some producers will not plant fall grains and make use of the grass that is available into the first freeze. Pecan harvest looks to be fair this year.

Regions of the Eleventh Federal Reserve District

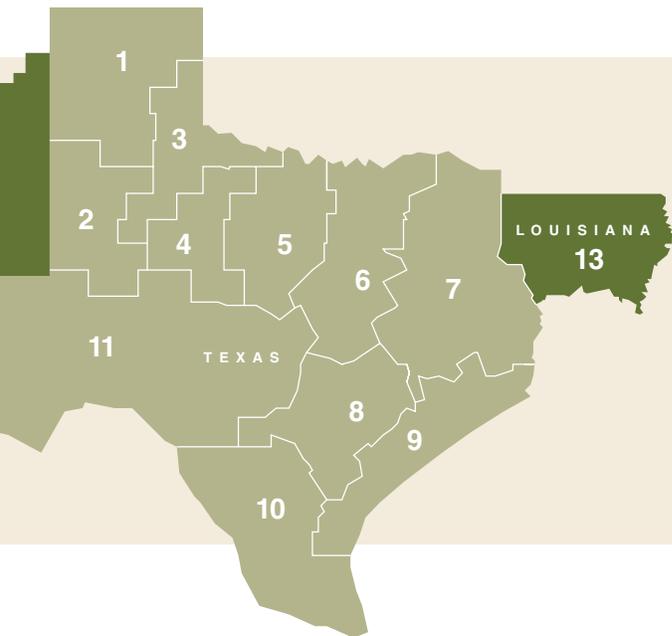
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Region 9 • Coastal Texas

- ▶ Crops have been harvested, with average to above average yields and average price. The cotton crop had excessive rain during the later harvest and lost some production on the fields at about 10 to 30 percent. Most grains were harvested prior to heavy rains, but some extreme weather right before harvest affected stands. Grain yields averaged 30 to over 50 hundredweight. Cattle have had good pasture through the majority of the year with drier times in summer that have been corrected with recent rains. Most rebuilding of herds has occurred with some still to be completed once prices have stabilized. Calf prices are dropping from record amounts in the past 18 months.
- ▶ Due to weather-related issues and low commodity prices, we are expecting some producers to fall short of paying off operating lines for 2016. There is an increased concern for the upcoming crop year with overall low commodity prices and possibly higher debt carry by producers.

Region 11 • Trans-Pecos and Edwards Plateau

- ▶ Most of the pasture land received good rainfall during the growing season, resulting in adequate forage for livestock.
- ▶ Rains all summer have been beneficial for rangeland, but have negatively impacted hay quality and demand. Continued low cattle prices and adequate forage have caused many producers to retain calves, resulting in increased requests for renewals.
- ▶ Our West Texas economy is depressed by the downturn in the oil and gas industry coupled with decreased livestock prices. Range conditions are actually good overall with excellent August rains. Land values are down slightly, but there is sales activity.



► Livestock prices have softened in the past quarter, particularly cattle prices. Range conditions are excellent due to recent rains on top of a very good spring. From the producer's standpoint, things are not bad in the Edwards Plateau.

► Downward trend on cattle market prices has decreased interest in continued restocking in spite of excellent pasture conditions from recent rains. Meat goat and hair sheep interest is good, even with prices pulling back some from highs. Pastures' carrying capacity at present well exceeds stocking rates. Livestock is in very good condition. Hunting income remains relatively stable and very important to most operations, with minimal reported hunting leases being given up.

► Hot weather is becoming a concern as grasses from spring rains dry out and the fire hazard increases. We need fall rains to help bring back water tables. Cattle prices have stabilized, helping local ranchers and farmers.

Region 12 • Southern New Mexico

► Fluctuating commodity prices continue to present challenges.

Table 1
Rural Real Estate Values—Third Quarter 2016

	Banks ¹	Average value ²	Percent change in value from previous year ³
Cropland—Dryland			
District*	105	1,900	6.1
Texas*	95	1,943	6.7
1 Northern High Plains	14	855	3.7
2 Southern High Plains	12	696	-1.6
3 Northern Low Plains*	7	767	-3.6
4 Southern Low Plains*	7	1,268	3.4
5 Cross Timbers	4	1,425	0.0
6 North Central Texas	14	2,807	10.4
7 East Texas*	7	2,548	0.0
8 Central Texas	12	4,192	16.5
9 Coastal Texas	6	3,350	11.6
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	2,005	10.5
12 Southern New Mexico	3	300	0.0
13 Northern Louisiana	7	2,236	-5.2
Cropland—Irrigated			
District*	77	2,530	0.5
Texas*	66	2,241	1.1
1 Northern High Plains	14	1,986	2.9
2 Southern High Plains	10	1,660	-5.8
3 Northern Low Plains*	5	1,665	6.5
4 Southern Low Plains	5	1,640	7.9
5 Cross Timbers	n.a.	n.a.	n.a.
6 North Central Texas	4	2,838	31.3
7 East Texas	5	2,840	0.0
8 Central Texas	6	3,733	3.7
9 Coastal Texas	5	4,450	6.1
10 South Texas	3	2,917	0.0
11 Trans-Pecos and Edwards Plateau	7	3,107	11.9
12 Southern New Mexico	4	4,450	3.8
13 Northern Louisiana	7	3,371	-8.5
Ranchland			
District*	109	1,753	5.1
Texas*	99	2,078	5.3
1 Northern High Plains	13	608	-3.7
2 Southern High Plains	8	681	-1.3
3 Northern Low Plains	7	807	-2.7
4 Southern Low Plains*	7	1,094	15.2
5 Cross Timbers	4	1,525	0.0
6 North Central Texas	15	2,807	9.4
7 East Texas	10	2,675	4.8
8 Central Texas	12	5,192	19.2
9 Coastal Texas	5	2,720	15.7
10 South Texas	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	16	1,844	-1.6
12 Southern New Mexico	3	350	0.0
13 Northern Louisiana	7	2,064	8.3

* Seasonally adjusted.

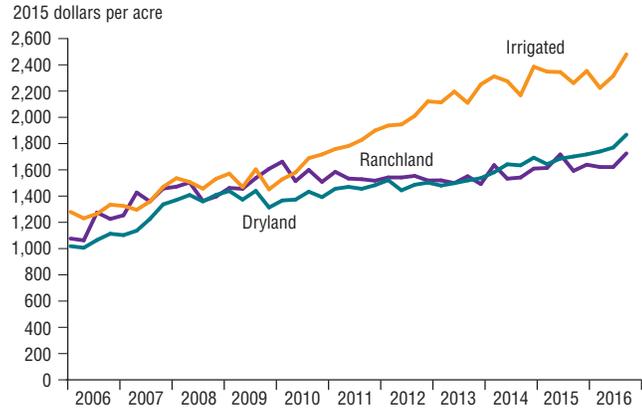
¹ Number of banks reporting land values.

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.

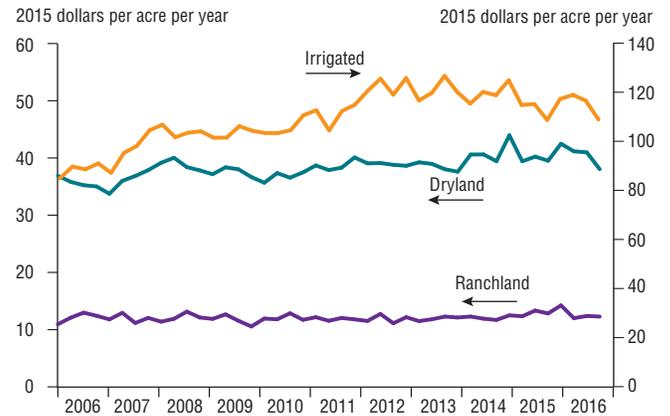
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

**Figure 2
Real Land Values**



NOTE: All values have been seasonally adjusted.

**Figure 3
Real Cash Rents**

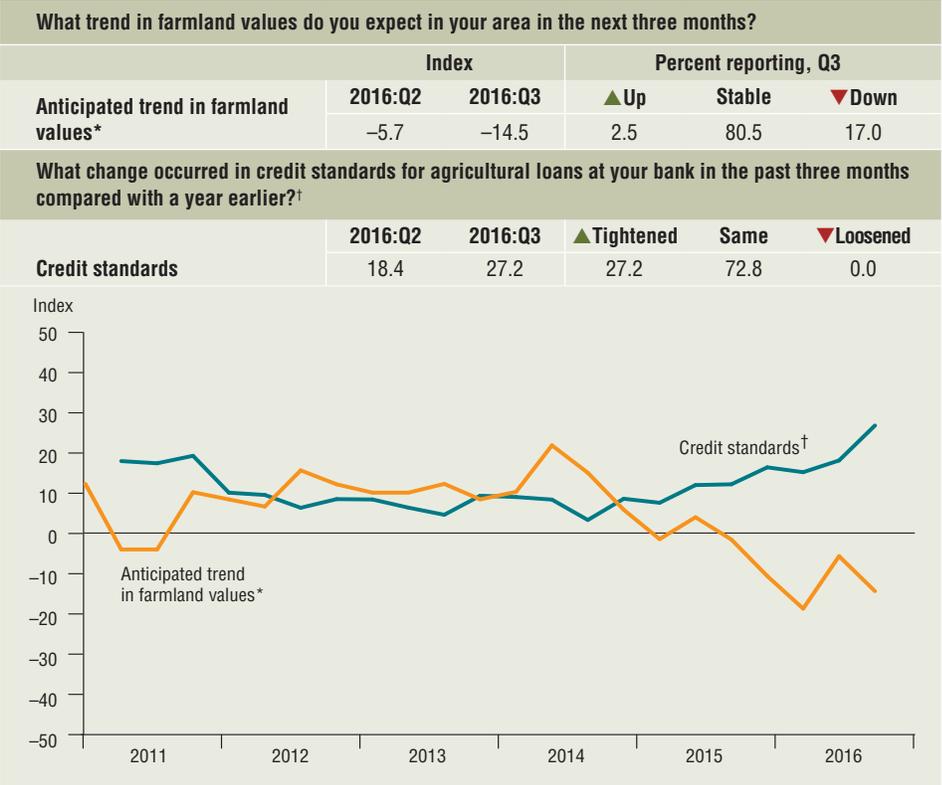


NOTE: All values have been seasonally adjusted.

**Table 2
Interest Rates by Loan Type**

	Feeder cattle	Other farm operating	Intermediate term	Long-term farm real estate
Fixed (average rate, percent)				
2015: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
Q3	5.98	6.07	5.96	5.72
Variable (average rate, percent)				
2015: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
Q3	5.60	5.63	5.64	5.36

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



*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 Sept. 6–14, and 132 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.