

AGRICULTURAL SURVEY

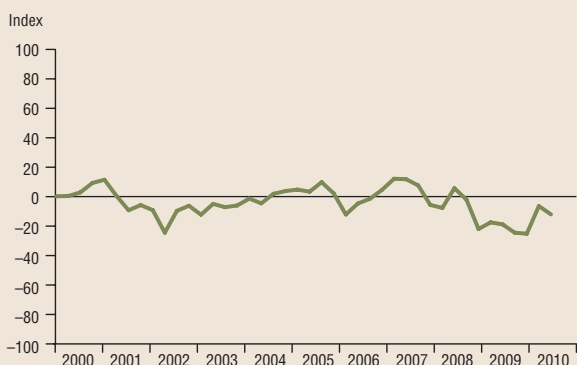
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Second Quarter 2010

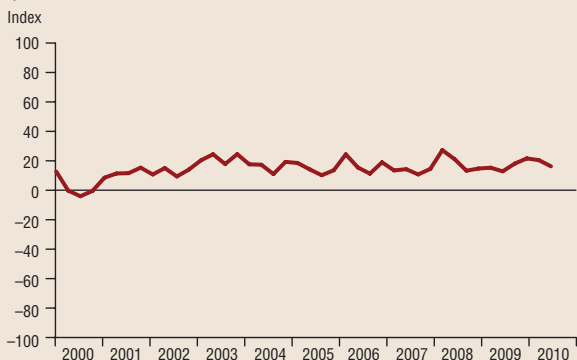
Demand for Loans

Loan demand declines in the second quarter.



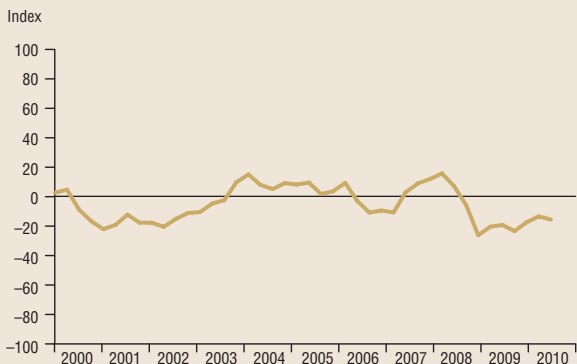
Funds Available for Additional Lending

Availability of funds edges downward for the second consecutive quarter.



Rate of Loan Repayment

Loan repayment rates are slightly above year-ago levels.



Survey responses are used to calculate an index for each question by subtracting the percentage reporting a decrease from the percentage reporting an increase. When all respondents report increased activity, an index will register 100. An index will register -100 when all respondents report a decrease. An index will be zero when the number of respondents reporting an increase or decrease is equal.

Bankers responding to the second-quarter survey continued to report optimism regarding overall agricultural conditions in the Eleventh District. Timely rains helped maintain adequate soil moisture in most areas, resulting in good crop conditions and favorable pasture growth. The wheat harvest was under way with accounts of very solid yields. However, low wheat prices were threatening farmers' margins, as were increased input costs for seed and chemicals. Livestock prices remained strong.

Loan demand remained weak, with 30 percent of bankers reporting waning demand, compared with 18 percent noting an increase. A greater share of respondents expects loan volumes to decrease rather than increase over the next three months, with the exception of crop storage loans and operating loans. Thirteen percent of respondents expect a greater volume of crop storage loans in the next three months, up from 5 percent last quarter and 3 percent a year ago. This could be the result of farmers wanting to store their yields until market prices improve. One quarter of bankers expect an increase in operating loans, likely due to higher-than-budgeted input costs.

Land values increased in the second quarter, with dryland, irrigated land and ranchland prices all moving up. The trend in expected farmland values stabilized further, with only 10 percent of respondents anticipating lower prices in the next three months—the smallest share since the second quarter of 2008. Recreational interests continue to generate some land purchases, although overall agricultural land sales remain weak.

Farm Lending Trends and Forecasts

What changes occurred in non-real-estate farm loans at your bank in the past three months compared with a year earlier?

	2010:Q2				2010:Q1
	Index	Greater	Same	Less	Index
Demand for loans	-11.89	17.82	52.47	29.71	-6.21
Availability of funds	16.60	19.90	76.80	3.30	20.80
Rate of loan repayment	-15.50	5.47	73.56	20.97	-13.40
Loan renewals or extensions	13.60	19.60	74.40	6.00	13.23
Change in collateral required	13.40	14.79	83.82	1.39	18.57

How do you expect the volume of farm loans made by your bank during the next three months to compare with the volume of loans made during the same months a year ago?

	2010:Q2				2010:Q1
	Index	Greater	Same	Less	Index
Non-real-estate farm loans	-8.65	16.72	57.90	25.37	-11.88
Feeder cattle loans	-14.90	8.64	67.82	23.54	-12.80
Dairy loans	-14.29	2.20	81.32	16.48	-21.84
Crop storage loans	2.33	13.10	76.13	10.77	-7.17
Operating loans	9.30	24.76	59.79	15.46	0.75
Farm machinery loans	-19.22	9.15	62.48	28.37	-12.49
Farm real estate loans	-21.41	8.11	62.36	29.52	-20.34



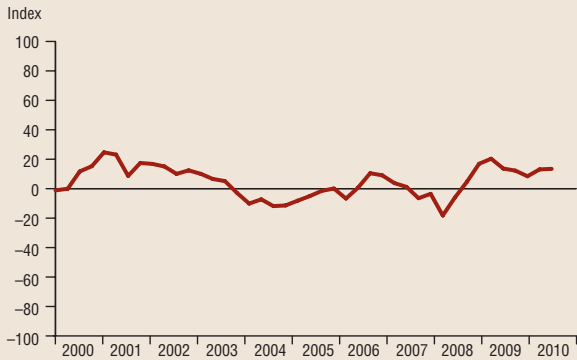
Quarterly Survey of Agricultural Credit Conditions

is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by writing to the Public Affairs Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by calling 214-922-5254. It is available on the web at www.dallasfed.org.

For questions regarding information in the release, contact Emily Kerr, 214-922-6941.

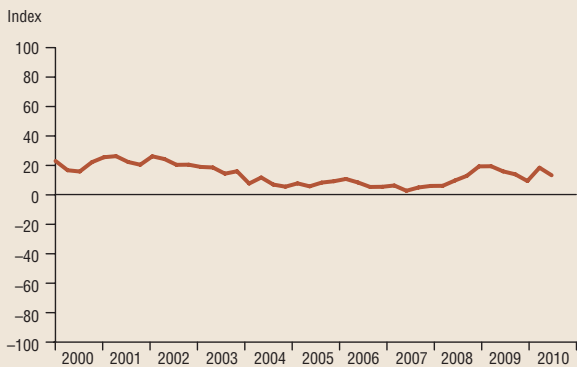
Renewals or Extensions of Loans

Nearly three-fourths of bankers report no change in loan renewals or extensions.



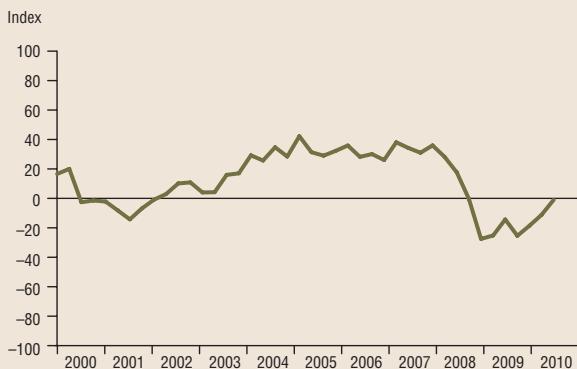
Amount of Collateral

Collateral requirements ease in the second quarter.



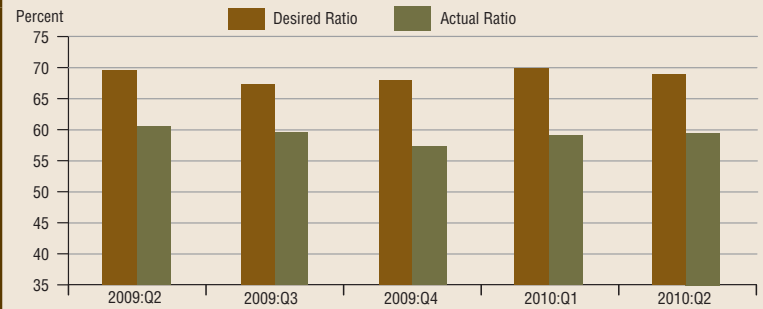
Anticipated Trend in Farmland Values

Farmland prices are expected to remain stable over the next three months, say 81 percent of respondents.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				
	2009		2010		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Less than 41%	20	25	25	24	22
41% to 50%	11	11	9	11	11
51% to 60%	18	15	19	13	14
61% to 70%	18	20	24	21	23
More than 70%	33	29	23	31	30

Interest Rates

Fixed

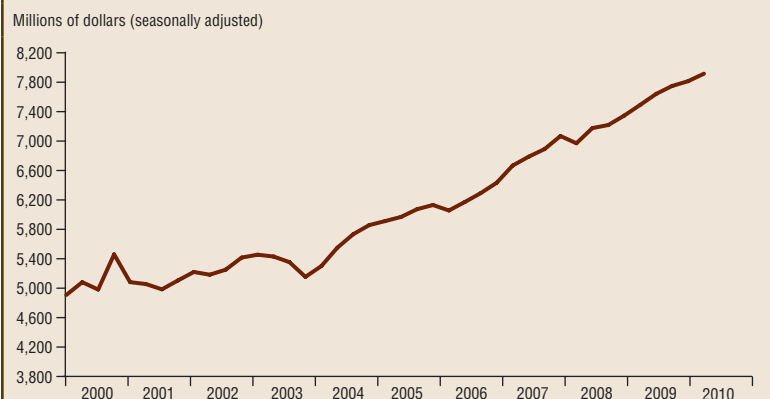
	Average rate (percent)				
	2009		2010		
	Jul. 1	Oct. 1	Jan. 1	Apr. 1	Jul. 1
Feeder cattle	7.01	6.90	6.86	6.81	6.78
Other farm operating	7.04	7.18	6.98	7.07	6.89
Intermediate term	7.04	7.20	7.00	7.15	7.10
Long-term farm real estate	6.72	6.89	6.75	6.75	6.69

Variable

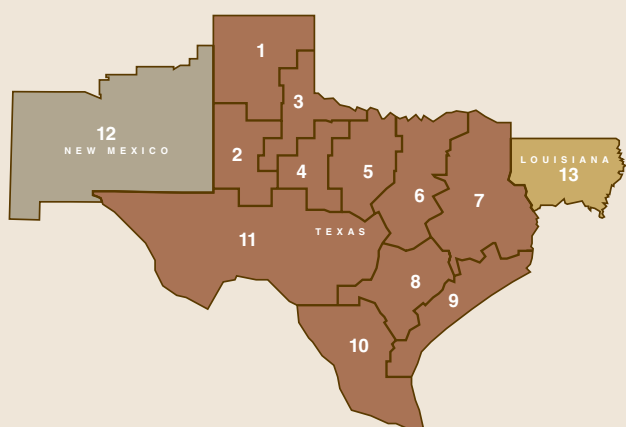
Feeder cattle	6.18	6.42	6.12	5.91	6.05
Other farm operating	6.22	6.34	6.46	6.22	6.24
Intermediate term	6.24	6.20	6.26	6.21	6.29
Long-term farm real estate	6.00	5.99	6.08	5.94	5.99

Total Agricultural Loans

Agricultural loan volumes continued to expand in the first quarter.



Eleventh Federal Reserve District



Rural Real Estate Values—June 2010

Cropland—Dryland

District	Banks ¹ Second quarter 2010	Average value ²	Percent change ³ in value from	
			Previous quarter	Previous year
District	121	1,306	1.7	-2.2
Texas	108	1,306	1.5	-3.2
1 Northern High Plains	22	493	1.8	3.5
2 Southern High Plains	11	473	0.2	-3.3
3 Northern Low Plains	6	616	2.9	16.5
4 Southern Low Plains	8	809	-2.1	1.9
5 Cross Timbers	11	1,258	-3.0	-5.2
6 North Central Texas	12	1,988	-1.3	-10.3
7 East Texas	5	1,811	3.8	1.7
8 Central Texas	16	2,682	2.1	-2.3
9 Coastal Texas	6	1,219	-0.4	-17.6
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	1,142	4.3	1.9
12 Southern New Mexico	6	425	10.1	-2.3
13 Northern Louisiana	7	1,417	4.6	10.2

Cropland—Irrigated

District	Banks ¹	Average value ²	Percent change ³ Previous quarter	Percent change ³ Previous year
District	91	1,459	2.8	4.2
Texas	77	1,405	4.1	6.1
1 Northern High Plains	21	1,152	1.7	8.0
2 Southern High Plains	11	1,090	0.3	1.5
3 Northern Low Plains	6	1,063	2.9	10.7
4 Southern Low Plains	6	1,192	1.0	-1.3
5 Cross Timbers	4	2,173	-4.4	5.2
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	n.a.	n.a.	n.a.	n.a.
8 Central Texas	10	2,713	5.9	-7.6
9 Coastal Texas	5	1,673	7.1	1.8
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	2,282	3.4	8.8
12 Southern New Mexico	8	1,945	-1.5	-3.5
13 Northern Louisiana	6	1,605	-5.9	-5.1

Ranchland

District	Banks ¹	Average value ²	Percent change ³ Previous quarter	Percent change ³ Previous year
District	138	1,260	3.0	10.8
Texas	127	1,610	1.9	9.2
1 Northern High Plains	22	394	-0.1	4.9
2 Southern High Plains	9	361	-4.4	-11.8
3 Northern Low Plains	6	641	-1.8	21.3
4 Southern Low Plains	9	882	-2.2	6.1
5 Cross Timbers	13	1,820	-2.3	3.2
6 North Central Texas	14	2,243	1.3	-5.5
7 East Texas	10	1,940	-0.9	7.4
8 Central Texas	19	3,444	2.5	3.0
9 Coastal Texas	5	1,314	11.7	1.3
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	18	1,660	0.5	17.3
12 Southern New Mexico	7	257	2.2	19.9
13 Northern Louisiana	4	946	1.2	-5.4

¹ Number of banks reporting land values.

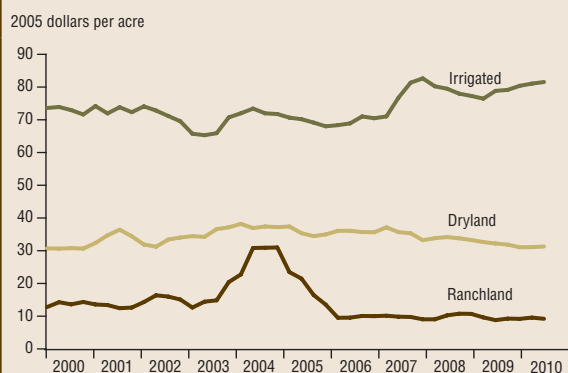
² Prices are dollars per acre, not adjusted for inflation.

³ Not adjusted for inflation.

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

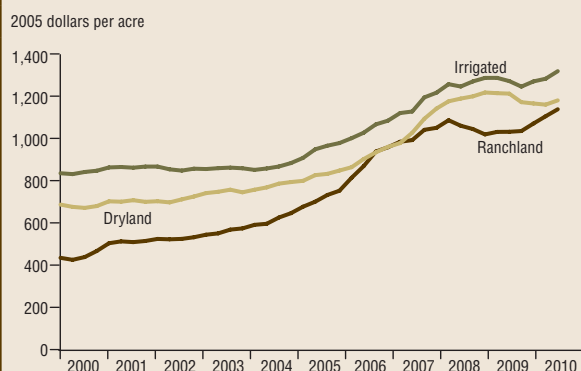
Real Cash Rents

Cash rents were relatively flat.



Real Land Values

Farmland values rise in the second quarter.



Quarterly Comments

District bankers were asked for additional comments concerning agricultural land values and credit conditions. These comments have been edited.

Region 1—Northern High Plains

Repayment of farm operating loans has increased during June due to 2008 disaster payments from the Farm Service Agency. These payments are for dryland wheat and milo losses, and the amounts have been substantial. Also, the wheat harvest is under way. Dryland yields are coming in between 20 and 30 bushels per acre. The irrigated crop has not yet been cut.

The wheat crop looks good, but it is standing in water. Heavy rainfall and flash flooding have damaged several roads and bridges, so harvesting the crop and getting it to market could be difficult.

The wheat harvest is in progress with good yields on both dryland and irrigated reported. This yield is compensating for the nosedive in prices. Cattle prices are holding steady. Pasture conditions are becoming drier by the day with recent high temperatures.

The wheat harvest is in full swing with very good dryland yields being reported. Loan demand is up, as crop inputs have been more expensive than originally budgeted. We've been lucky and dodged most of the bad weather.

Region 2—Southern High Plains

The moisture has been good in this area. Dryland yields should be up dramatically. Input costs are high, especially the cost of seed and chemicals. This, as always, affects the bottom line in any operation. Decisions have to be weighed on input costs that may or may not be offset by pricing at harvest time.

Region 3—Northern Low Plains

Most crops are in good condition. Pastures are starting to dry out, but adequate feed is still available.

We have had good local rains. The crops are good, and the grass is tall and green.

Region 4—Southern Low Plains

The cotton crop has a good start. Wheat prices are hurting producers.

The farmers and ranchers cannot compete with the hunters for the purchase of land. We anticipate losses with the wheat crop this year. As a result, we anticipate that the value of the cash leases will drop significantly over the next 12 months. Likewise, the overall land values will likely drop in this area if the cash lease values drop.

Region 5—Cross Timbers

Recent rains have been spotty. Some areas are still in good shape, while others are now dry and needing moisture. Hay baling and silage harvesting are well under way with generally good yields. Beef cattle producers are getting less for calves, but prices are still good. They are very concerned about the possible effects of another dairy buyout on the beef market. Dairy farmers are benefiting from slightly lower feed costs, but the increases in milk prices that we saw earlier in the year have stalled out at levels near the cost of production. Land sales are still slow, but a little more activity has been noted in recent months, albeit at somewhat lower prices in general.

We continue to receive adequate rain. The wheat crop yields are coming in between 35 and 45 bushels per acre. However, the price of wheat killed the year; \$2.50 a bushel will not result in profits, regardless of the yield.

Region 6—North Central Texas

We received rain just in time to salvage the corn crop from complete disaster. However, we still expect below average yields in many areas. The cotton crop still has the potential for good yields. Pastures are slow to recover.

It looks like our wheat crop yield might be greater than our corn yield.

The hay crop is about half of last year's production.

We have had good rains, and the crops look good. In particular, we had a good wheat crop.

Region 7—East Texas

Cattle prices are good. Land is still way overvalued and, as a result, it is not selling.

Dairy farmers continue to struggle, and some are being forced to liquidate.

Region 8—Central Texas

Oil and gas leasing, drilling and production are hot items. We have people getting oil and gas leases ranging between \$600 and \$3,500 per acre, with a 25 percent share of royalties. This could potentially bring millions of dollars to small communities up and down the Eagle Ford Shale play. Better yet, we have had rain, which is worth more than anything.

Crops look excellent overall.

The real estate market has gotten pretty quiet. Nice recent rains helped to avoid another drought situation.

Recent rains have really helped producers get their hay inventory back to somewhat normal levels.

Region 11—Trans-Pecos and Edwards Plateau

Land values continue to be driven by recreational and hunting interests. With fewer ranchers, problems with predator control have drastically increased. These predator issues are contributing to the decreased numbers of sheep and goats in the region. Brushwork and fencing improvements continue to be driven by government programs.

Livestock prices remain good. Early spring rains were beneficial, but they resulted primarily in the growth of winter weeds. Summer rainfall will be necessary to grow the all-important native grasses.

We have had record wheat yields, but record-low prices are making it difficult for our farmers to decide whether to sell or store their wheat. Cattle and sheep prices are very good.

We have had good spring rains, but it has been dry the last four to five weeks. Pasture conditions are good, with lots of grass available, but water tanks are either low or dry.