

# AGRICULTURAL SURVEY

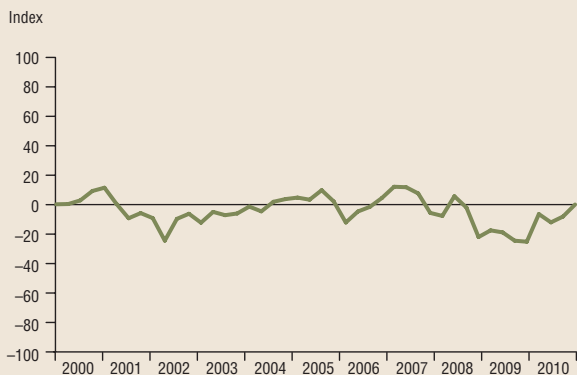
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Fourth Quarter 2010

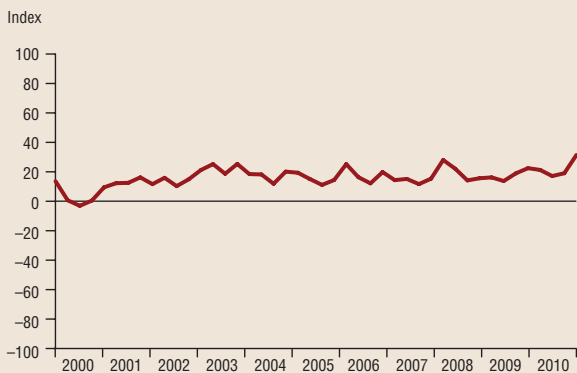
## Demand for Loans

Demand for loans stabilizes after more than two years of declines.



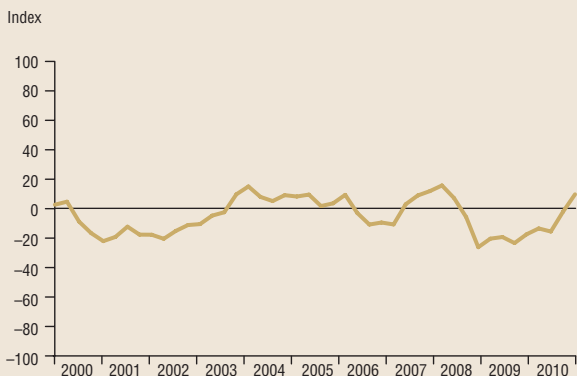
## Funds Available for Additional Lending

Thirty-one percent of bankers note an increase in the availability of funds.



## Rate of Loan Repayment

Loan repayment rates increase; the index is positive for the first time since mid-2008.



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 fourth-quarter survey noted that agriculture producers in the Eleventh District finished 2010 with favorable production yields and strong commodity prices. Cotton yields were at historic highs in several regions, and prices remained elevated. Cattle prices continued to increase, providing ranchers with solid profits.

Respondents in several regions reported very dry conditions in the fourth quarter, with some areas experiencing drought. The lack of moisture was primarily impacting livestock and winter wheat producers. Wheat pastures were very dry, limiting winter grazing and increasing supplemental feeding costs. Respondents noted that dry soil could adversely affect 2011 crops if sufficient rainfall is not received before spring planting.

Dryland and ranchland values were stable, while irrigated values rose slightly on the heels of the successful cotton crop. Twenty-two percent of bankers expect farmland values to increase over the next three months, up from 3 percent a year ago.

The generally strong crop and livestock performance in 2010 boosted loan demand and repayment rates, as both these indexes turned positive for the first time since mid-2008. Loan volume expectations remained weak for several loan types, although increased agriculture profitability led to an increase in farm machinery loans and pushed this index above zero for the first time since mid-2008.

## 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:Q4				2010:Q3
	Index	Greater	Same	Less	Index
Demand for loans	0.31	21.91	56.50	21.59	-7.91
Availability of funds	31.07	31.83	67.42	0.75	18.53
Rate of loan repayment	9.87	17.87	74.12	8.00	-2.09
Loan renewals or extensions	-7.73	9.95	72.38	17.67	0.74
Change in collateral required	7.37	10.64	86.10	3.27	11.91

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:Q4				2010:Q3
	Index	Greater	Same	Less	Index
Non-real-estate farm loans	-1.38	14.90	68.82	16.28	-0.68
Feeder cattle loans	-3.67	11.19	73.96	14.86	-4.96
Dairy loans	-15.12	1.16	82.56	16.28	-14.58
Crop storage loans	-3.34	5.06	86.54	8.40	9.22
Operating loans	6.11	18.11	69.89	12.00	10.72
Farm machinery loans	2.47	18.95	64.57	16.48	-10.06
Farm real estate loans	-9.05	10.02	70.92	19.07	-23.29



## Quarterly Survey of Agricultural Credit Conditions

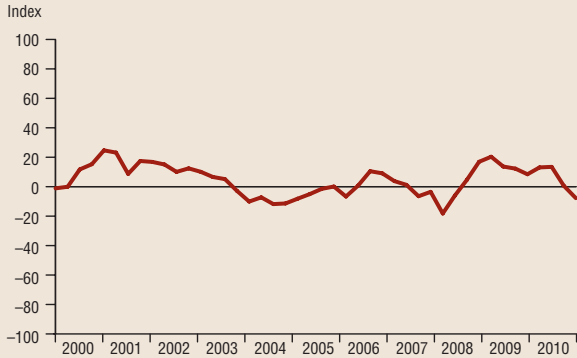
is compiled from a survey of Eleventh District agricultural bankers. This publication is prepared by the Federal Reserve Bank of Dallas and is available without charge by sending an e-mail to [pubsorder@dal.frb.org](mailto:pubsorder@dal.frb.org), or by calling 214-922-5254. It is available on the web at [www.dallasfed.org](http://www.dallasfed.org).

Data may not match previously published numbers due to data revisions.

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

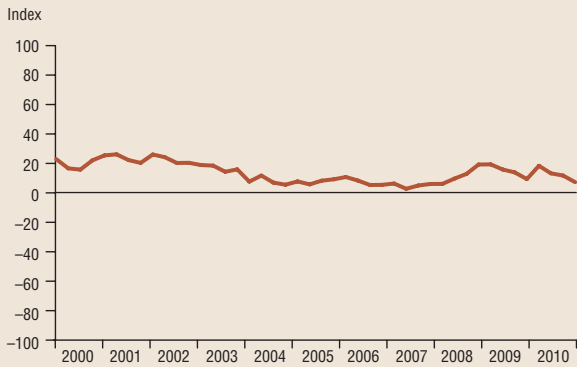
## Renewals or Extensions of Loans

Requests for loan renewals or extensions decline due to strong agricultural conditions.



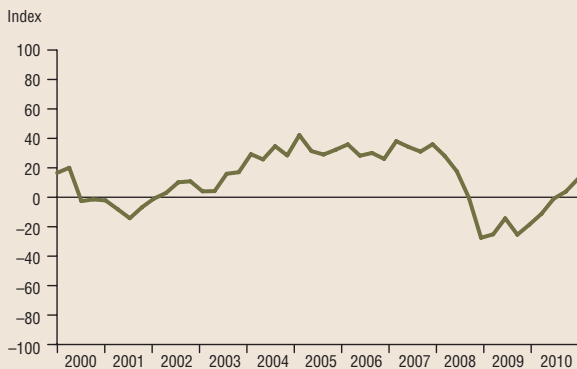
## Amount of Collateral

Eighty-six percent of respondents say collateral requirements are unchanged from the previous quarter.



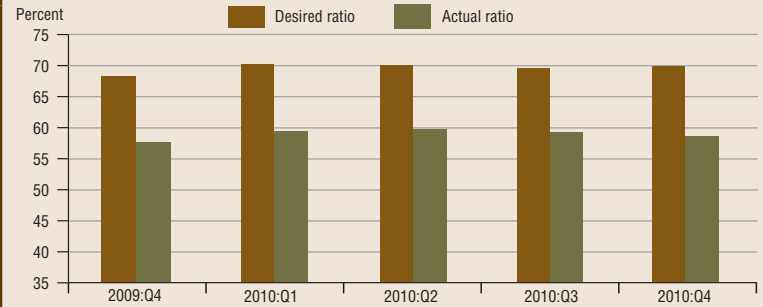
## Anticipated Trend in Farmland Values

Twenty-two percent of respondents expect farmland values to increase over the next three months, continuing the upward trend from last quarter.



## Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



## Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				2011 Jan. 1
	2010				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Less than 41%	25	24	22	23	18
41% to 50%	9	11	11	10	18
51% to 60%	19	13	14	14	20
61% to 70%	24	21	23	25	17
More than 70%	23	31	30	29	26

## Interest Rates

### Fixed

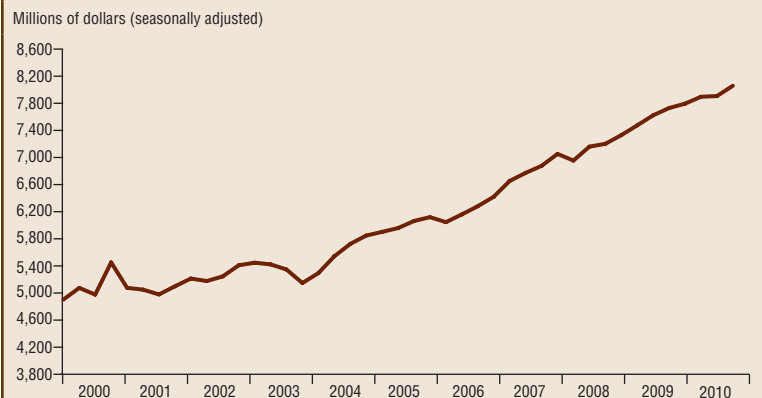
	Average rate (percent)				2011 Jan. 1
	2010				
	Jan. 1	Apr. 1	Jul. 1	Oct. 1	
Feeder cattle	6.86	6.81	6.78	6.83	6.66
Other farm operating	6.98	7.07	6.89	6.96	6.86
Intermediate term	7.00	7.15	7.10	7.02	6.84
Long-term farm real estate	6.75	6.75	6.69	6.71	6.52

### Variable

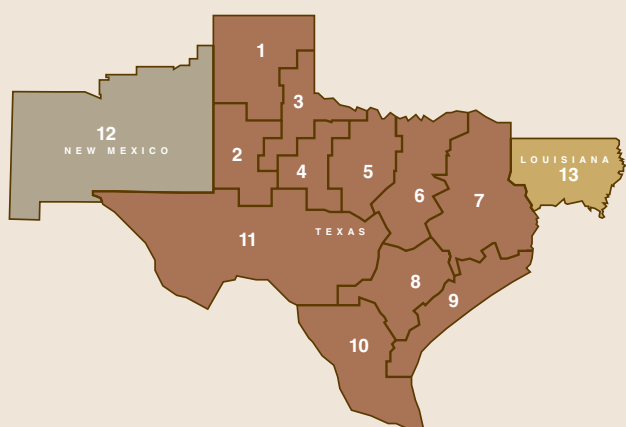
Feeder cattle	6.12	5.91	6.05	5.94	5.96
Other farm operating	6.46	6.22	6.24	6.24	6.16
Intermediate term	6.26	6.21	6.29	6.14	6.13
Long-term farm real estate	6.08	5.94	5.99	5.80	5.91

## Total Agricultural Loans

Agricultural loan volumes trended up slightly in the third quarter.



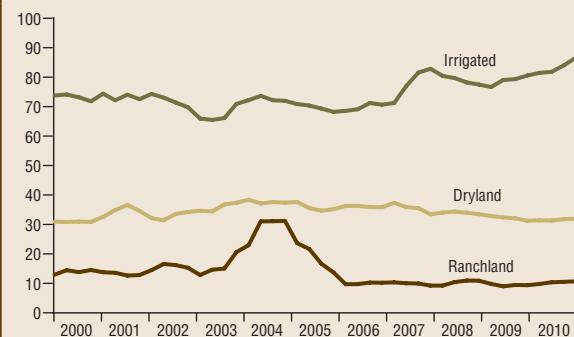
## Eleventh Federal Reserve District



## Real Cash Rents

Cash rents for dryland and ranchland tick up in the fourth quarter, with a strong increase for irrigated cropland.

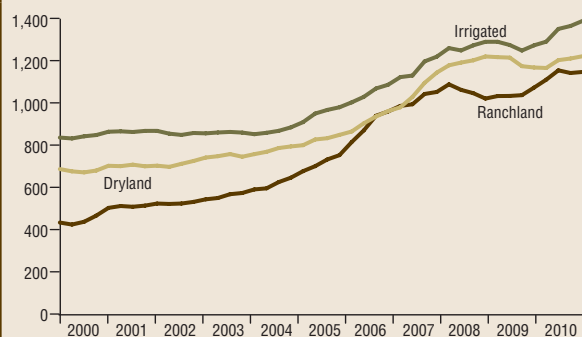
2005 dollars per acre



## Real Land Values

Land values increase, particularly for irrigated cropland.

2005 dollars per acre



## Rural Real Estate Values—December 2010

### Cropland—Dryland

District	Banks <sup>1</sup>	Average value <sup>2</sup> Fourth quarter 2010	Percent change <sup>3</sup> in value from	
			Previous quarter	Previous year
<b>District</b>	114	1,359	0.9	5.1
<b>Texas</b>	105	1,366	1.2	4.9
1 Northern High Plains	20	504	0.6	4.5
2 Southern High Plains	12	535	4.6	10.8
3 Northern Low Plains	7	674	1.5	21.0
4 Southern Low Plains	10	773	-1.8	-9.1
5 Cross Timbers	11	1,251	-0.1	-5.6
6 North Central Texas	12	2,033	1.2	0.2
7 East Texas	7	2,217	6.4	26.9 <sup>4</sup>
8 Central Texas	13	2,701	-0.5	2.7
9 Coastal Texas	4	1,133	-3.4	-15.6
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	8	1,208	0.5	5.0
12 Southern New Mexico	3	371	-6.4	-3.8
13 Northern Louisiana	6	1,392	-2.6	8.1

### Cropland—Irrigated

District	Banks <sup>1</sup>	Average value <sup>2</sup>	Percent change <sup>3</sup> Previous quarter	Percent change <sup>3</sup> Previous year
<b>District</b>	86	1,544	1.8	9.0
<b>Texas</b>	75	1,499	2.0	12.1
1 Northern High Plains	20	1,218	1.8	11.5
2 Southern High Plains	12	1,123	1.6	1.6
3 Northern Low Plains	5	1,409	11.1	42.2 <sup>4</sup>
4 Southern Low Plains	7	1,182	1.0	-2.8
5 Cross Timbers	5	2,199	1.5	0.1
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	8	2,965	2.4	13.0
9 Coastal Texas	4	1,641	-0.5	1.9
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	2,954	7.1	34.2 <sup>4</sup>
12 Southern New Mexico	5	1,823	-2.7	-10.0
13 Northern Louisiana	6	2,004	8.6	11.2

### Ranchland

District	Banks <sup>1</sup>	Average value <sup>2</sup>	Percent change <sup>3</sup> Previous quarter	Percent change <sup>3</sup> Previous year
<b>District</b>	127	1,276	0.4	5.1
<b>Texas</b>	119	1,636	0.4	4.3
1 Northern High Plains	19	402	0.4	2.0
2 Southern High Plains	8	430	8.8	6.1
3 Northern Low Plains	7	685	3.2	15.7
4 Southern Low Plains	10	875	0.5	-6.8
5 Cross Timbers	12	1,820	-0.4	-1.6
6 North Central Texas	14	2,187	-0.4	-1.9
7 East Texas	13	2,119	3.7	7.7
8 Central Texas	15	3,363	-1.4	1.3
9 Coastal Texas	4	1,175	-4.8	-2.4
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	16	1,659	-0.6	3.0
12 Southern New Mexico	4	247	1.5	-0.5
13 Northern Louisiana	4	955	-0.5	1.4

<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.

<sup>4</sup> Significant rise in the percent change from 2009 to 2010 is partly due to variation in reporters between years.

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

## 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

Crop income for 2010 has been well above average. Fall-harvested crops had good yields, and above-average prices were received. Feed yard cattle prices returned to a profitable level, resulting in all sectors of the cattle industry being profitable. Despite a terrific 2010, we have not had any significant moisture since the fall harvest, and we are experiencing near-record fall and winter drought conditions. The lack of moisture is limiting wheat pasture grazing. Dry conditions are also resulting in required early irrigation, so 2011 crop expenses are starting out high. Dryland wheat is in poor condition.

Commodity prices are near historic levels. Ag profitability was strong in most sectors in 2010. This is leading to more equipment financing inquiries.

Most farmers and ranchers are completing a good year for prices and production in 2010. Those with cotton in the North Plains were really able to do well with good production and prices. Corn prices were good and may continue to be so in the near future with increased demand for ethanol. Cattle prices have continued to increase due to the lowered numbers in the cow herd. In addition, fat cattle prices have been at near-record levels as demand for beef products has increased. The outlook for 2011 looks good at this time. Let's hope

that some disaster in prices or weather does not create a problem in the agriculture sector.

### Region 3—Northern Low Plains

We have just completed the second-best cotton crop in the last 40 years. Prices of cotton are good. This is a year we will be talking about for a long time.

Cotton, cotton, cotton is all we hear. All crop prices have been higher, resulting in higher land prices for December 2010. When cotton prices reached \$1 per pound, real estate prices started to rise. Irrigated land values have increased to \$2,000 per acre in our area. We are seeing an increase in land purchases.

### Region 4—Southern Low Plains

Cotton yields have been good, and prices are at historic highs. However, we are extremely dry now and next year's crops will need abundant moisture.

### Region 5—Cross Timbers

It is very, very dry here. Winter grazing crops are poor to fair. Beef cattle prices are good, but wintering cows will be expensive. Milk prices are going down again.

It is extremely dry, there is no wheat pasture to speak of and stock tanks are below 45 percent full.

### Region 6—North Central Texas

Cattle, sheep and goat markets are good. The area is in need of rain.

Good crop prices helped farmers. Cattle prices are good at this point. Pastures are extremely dry.

### Region 7—East Texas

Dairy farmers are still struggling with higher feed costs. Forced liquidations continue for dairy farmers.

### Region 8—Central Texas

Dry conditions have equated to no winter grazing, and a hard frost has stimulated hay feeding.

The word "drought" is starting to be used again. We don't need to see, hear or experience that again. We need rain soon. The local economy is still buzzing due to increased drilling and leasing activity in the area. Cattle prices are showing strong gains at year-end sales.

Lending to the ag sector has been stagnant. Most ag borrowers are systematically reducing debt and not acquiring new debt. We appear to be entering the drought of 2011, and winter pastures are almost nonexistent.

### Region 11—Trans-Pecos and Edwards Plateau

We are experiencing dry weather. For a year that started off so promising with regard to rainfall, the last half of 2010 has seen little rainfall in the Edwards Plateau and near West Texas, and the outlook for rain in the short-term forecast is not good. Fortunately, livestock prices remain high. This may be a real blessing because many operators may have to reduce their cattle, sheep and goat herds in the coming months if the drought persists. As always, price risk, rainfall and predator problems will keep area ranchers on their toes in 2011.