

Agricultural Survey

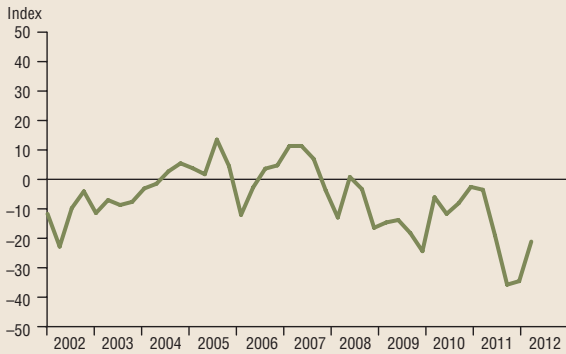
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

First Quarter 2012

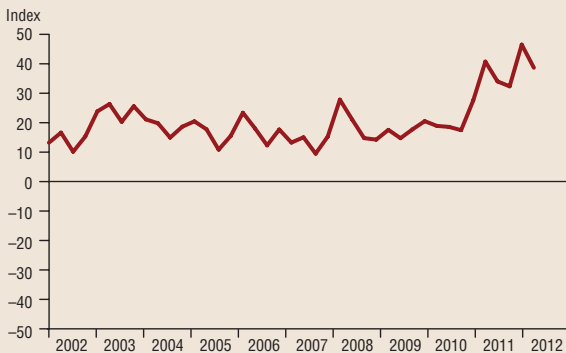
Demand for Loans

More than a third of respondents continue to report declining loan demand.



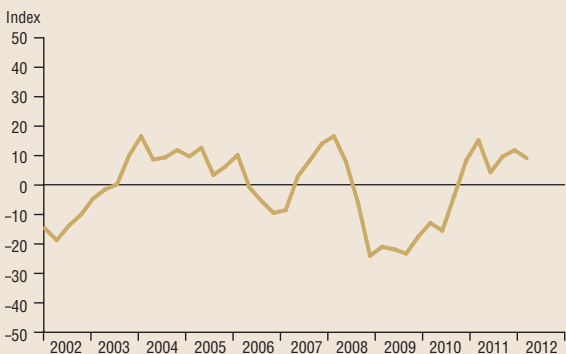
Availability of Funds

The index suggests a continued significant rise in the availability of funds.



Rate of Loan Repayment

Loan repayment rates continue to increase, but at a slightly slower pace.



Bankers responding to the first-quarter survey noted recent rains improved drought conditions but said more moisture is needed as many areas are still very dry. Respondents' comments indicated that cattle prices were highly elevated, and input costs for farmers and ranchers increased, negatively impacting producers' margins.

Agricultural land values generally rose across the board from the prior quarter. Compared with a year ago, irrigated land values rose substantially, up almost 9 percent. Dry cropland and ranchland values were nearly unchanged from last year's levels. Bankers in the Central Texas region noted that land sales for agricultural purposes remained limited due to oil and gas activity in the Eagle Ford Shale area.

The effects of the drought continued to impact lending conditions, with loan demand continuing to decline. Requests for loan renewals or extensions fell, and loan repayment rates increased from a year ago. Loan volumes generally declined across types, with only operating loan volumes holding steady. Feeder cattle loans saw the steepest decline in volumes, as many herds were reduced in recent months in response to drought, increased feed costs and strong cattle prices.

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?

	2012:Q1			2011:Q4	
	Index	Percent reporting			Index
		Greater	Same	Less	
Demand for loans	-21.5	14.8	48.9	36.3	-35.0
Availability of funds	38.8	41.0	56.7	2.2	46.7
Rate of loan repayment	9.0	20.2	68.7	11.2	11.7
Loan renewals or extensions	-6.7	11.2	70.9	17.9	-8.1
Amount of collateral required	6.7	6.7	93.3	0.0	12.4

What changes occurred in the volume of farm loans made by your bank in the past three months compared with a year earlier?

	2012:Q1			2011:Q4	
	Index	Percent reporting			Index
		Greater	Same	Less	
Non-real-estate farm loans	-14.1	14.1	57.8	28.2	-28.4
Feeder cattle loans	-22.7	8.4	60.5	31.1	-27.1
Dairy loans	-12.4	0.0	87.6	12.4	-16.5
Crop storage loans	-15.1	0.9	83.0	16.0	-19.1
Operating loans	0.0	18.8	62.4	18.8	-7.6
Farm machinery loans	-13.1	13.1	60.8	26.2	-30.5
Farm real estate loans	-11.5	10.7	67.2	22.1	-29.0

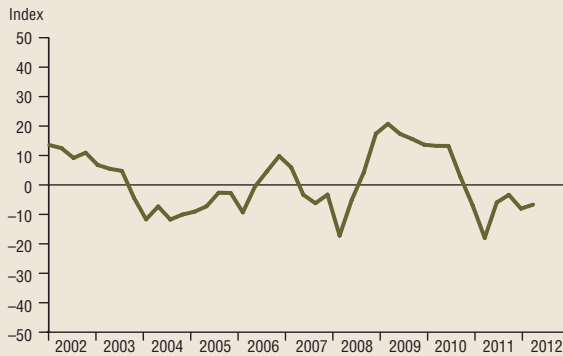
Survey responses are used to calculate an index for each item by subtracting the percentage of bankers reporting a decrease from the percentage reporting an increase.



Agricultural Survey is compiled from a survey of Eleventh District agricultural bankers. Data were collected Mar. 6-14, and 138 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 214-922-5254. It is available on the web at www.dallasfed.org/research/agsurvey. For questions regarding information in the release, contact Emily Kerr, 214-922-6941.

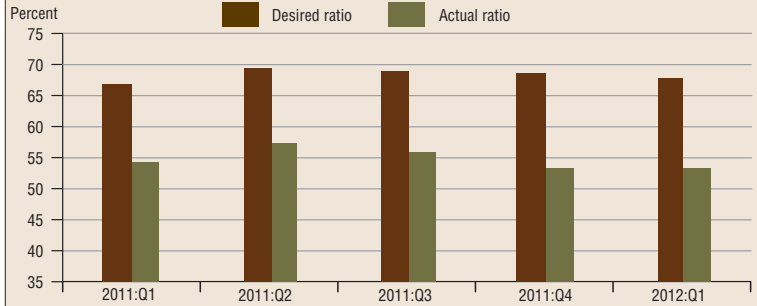
Loan Renewals or Extensions

Bankers note a slight decrease in requests for loan renewals or extensions.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios

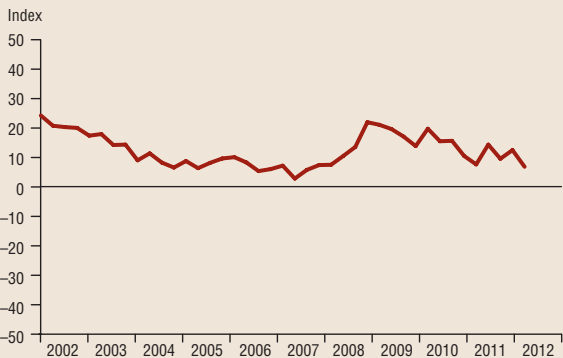


Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				2012
	2011				
	Q1	Q2	Q3	Q4	Q1
Less than 41%	28	21	24	29	29
41% to 50%	15	18	18	19	14
51% to 60%	15	14	12	17	18
61% to 70%	20	22	23	15	19
More than 70%	22	24	23	20	20

Amount of Collateral Required

The vast majority of respondents note no change in collateral requirements.



Interest Rates

Fixed

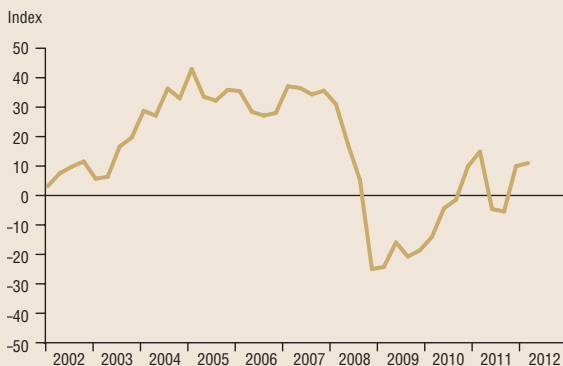
	Average rate (percent)				2012
	2011				
	Q1	Q2	Q3	Q4	Q1
Feeder cattle	6.83	6.77	6.71	6.54	6.54
Other farm operating	6.95	6.83	6.87	6.71	6.63
Intermediate term	6.94	6.96	6.83	6.69	6.49
Long-term farm real estate	6.70	6.76	6.60	6.41	6.19

Variable

Feeder cattle	6.08	6.06	6.11	6.00	5.97
Other farm operating	6.28	6.24	6.20	6.09	6.09
Intermediate term	6.19	6.30	6.23	6.14	6.06
Long-term farm real estate	5.91	6.06	5.92	5.83	5.79

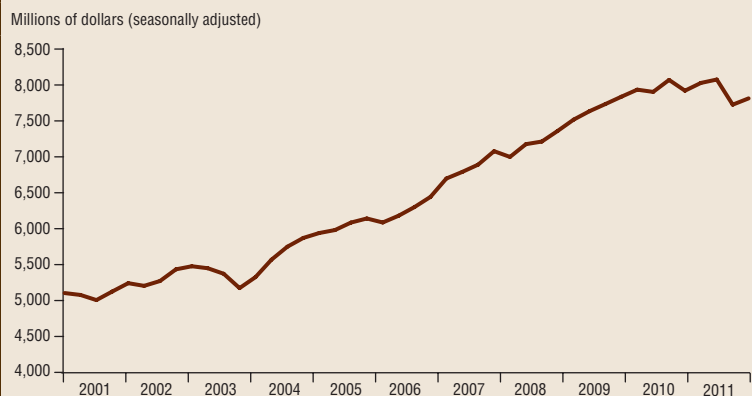
Anticipated Trend in Farmland Values

Nearly 15 percent of bankers expect farmland values to increase over the next three months, keeping the index in positive territory.



Total Agricultural Loans*

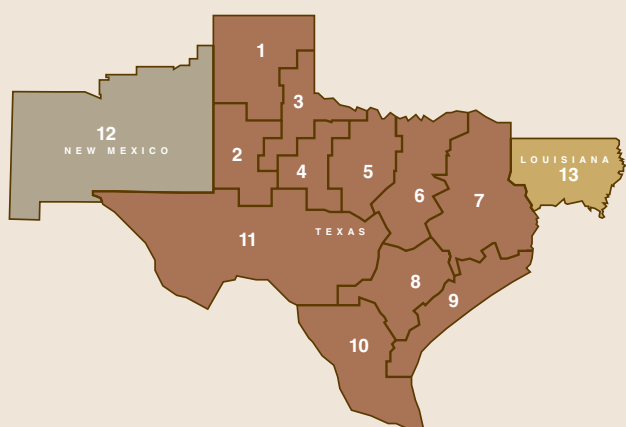
Eleventh District agricultural loan volumes rose slightly in fourth quarter 2011.



*Not based on Agricultural Survey data. Data lagged by one quarter.

SOURCE: Federal Financial Institutions Examination Council, Reports of Condition and Income.

Eleventh Federal Reserve District



Rural Real Estate Values—First Quarter 2012

Cropland—Dryland

District	Banks ¹	Average value ²	Percent change ³ in value from	
			Previous quarter	Previous year
	First quarter 2012			
District	108	1,440	5.3	0.8
Texas	98	1,467	5.2	0.6
1 Northern High Plains	16	569	-0.7	10.7
2 Southern High Plains	10	613	5.4	8.3
3 Northern Low Plains	6	767	1.8	-12.5
4 Southern Low Plains	8	891	2.7	9.5
5 Cross Timbers	6	1,158	0.0	3.6
6 North Central Texas	15	2,060	-2.3	-11.2
7 East Texas	6	1,750	4.2	-6.0
8 Central Texas	16	2,841	3.7	1.2
9 Coastal Texas	5	2,710	31.2	32.7
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	9	1,500	1.9	2.5
12 Southern New Mexico	3	367	0.0	0.0
13 Northern Louisiana	7	1,707	7.2	3.1

Cropland—Irrigated

District	77	1,843	1.8	8.8
Texas	66	1,700	3.2	8.7
1 Northern High Plains	16	1,481	4.8	11.5
2 Southern High Plains	10	1,235	-6.1	0.0
3 Northern Low Plains	5	1,570	11.4	-6.3
4 Southern Low Plains	4	1,275	0.0	0.0
5 Cross Timbers	n.a.	n.a.	n.a.	n.a.
6 North Central Texas	n.a.	n.a.	n.a.	n.a.
7 East Texas	4	1,975	0.0	12.5
8 Central Texas	10	3,610	13.4	10.0
9 Coastal Texas	4	3,175	22.2	33.3
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	8	2,475	2.3	2.7
12 Southern New Mexico	4	2,625	-5.0	11.1
13 Northern Louisiana	7	2,404	1.9	6.7

Ranchland

District	117	1,463	-0.9	-0.6
Texas	110	1,752	-1.0	-0.7
1 Northern High Plains	15	446	0.9	9.7
2 Southern High Plains	6	650	17.4	34.8
3 Northern Low Plains	5	715	0.0	-25.5
4 Southern Low Plains	8	950	-1.8	5.4
5 Cross Timbers	9	1,756	0.9	-3.7
6 North Central Texas	16	2,244	-9.4	-3.0
7 East Texas	15	2,320	-0.2	9.4
8 Central Texas	19	3,668	-1.8	5.6
9 Coastal Texas	3	1,467	-7.7	-20.0
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	13	1,677	0.8	-5.8
12 Southern New Mexico	3	232	1.4	0.9
13 Northern Louisiana	4	1,263	11.0	2.6

¹ Number of banks reporting land values.

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

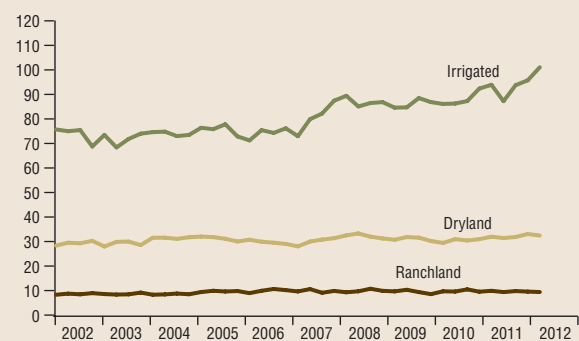
³ Not adjusted for inflation and calculated using responses only from those banks reporting in both the past and current quarter.

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

Real Cash Rents

Irrigated cash rents rise significantly, while dryland and ranchland rents decline slightly.

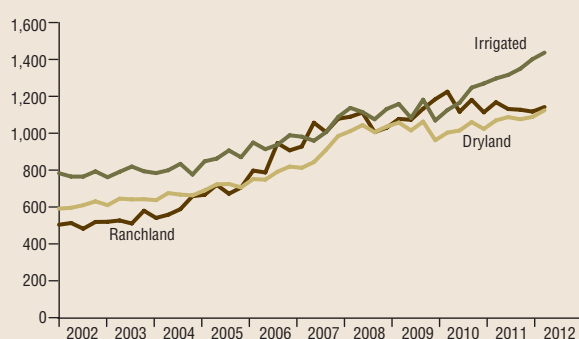
2005 dollars per acre per year



Real Land Values

Land values increase across the board, with dryland showing the strongest growth.

2005 dollars per acre



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

Our area remains in a drought. There has been no dryland wheat pasture grazing and limited irrigated wheat pasture grazing. The dry soil profile and winds are starting out another tough year for planting season. Expenses continue to increase, while profitability decreases for all producers.

The full impact of the 2011 drought remains unknown.

Extreme dry conditions continue.

Continued dry conditions are now beginning to affect the wheat yield potential.

Region 2—Southern High Plains

We would welcome a wet year. The drought needs to be broken; then land values would increase.

The increase in farm income did not come from crop sales. It is coming from insurance proceeds and from dividends. Loan demand remains weak. Dry weather will cause loan volumes for operating loans to fund much more slowly. It is dry, dry, dry.

Strong fat-cattle prices have been extremely positive for cattle feeders. This is more than overcoming the high cost of feeder cattle and feed, at least for the present time. Row crop producers on the South Plains are sitting on their hands for the most part, waiting for rainfall. Irrigated growers who tried to make a crop last year regretted it—they spent money on inputs, but the crop was terrible due to the drought. Those who pulled the plug early fared much better. Our bank's ag fundings are up, but only because of net new customers and because of the impact of high cattle and feed costs. Increased fundings from new customers and ranchers are overcoming lower fundings, on average, for row crop producers.

Region 3—Northern Low Plains

Although we have had more rain than last year, the outlook is dismal.

The wheat crop is looking decent with recent rains, but it still needs more rain to make a crop. Cattle on wheat are doing well. Producers are guardedly optimistic about this year's crop prospects.

The drought continues to cause problems in this market. Most livestock borrowers have culled their herds, and dryland farmers are one rain ahead of another insurance payment on the 2012 wheat crop. Summer crops show reduced income potential, and suppliers are finding crop inputs a hard sale. Cotton acres are not going to be at 2011 levels, and grass kills are reducing restocking plans. The coming year has started with better rains, but 2012 will be a year where

producers will be very careful to protect business capital.

We are in a continuing severe drought that has basically put a halt to most cattle activity and has put the wheat crop in severe jeopardy.

Region 5—Cross Timbers

Cattle prices are up significantly, but input costs are up significantly also. Our ranchers' incomes are going to be up, but increased input costs due to the drought and economic factors beyond our control will result in very small profit margins, if not actual losses.

After a one-year-plus drought, the eastern part of our trade territory is in great shape, with stock tanks full and spring grass and weeds producing ample grazing. The western half of our trade territory has ample grazing but is still in need of stock tank water.

Region 6—North Central Texas

It has been greener this winter than it was all of last summer due to timely rain and warm weather. Cattle prices are as high as we have ever seen them, which is great for our local ranchers. There is more rain on the way, so things are looking very positive.

Things are looking much better this quarter due to the rains we have been having. Hopefully this will continue.

Region 7—East Texas

Within the first quarter of 2012, moisture and grazing conditions have improved dramatically. Early corn planting has been accomplished. The small grain crops look great, especially those used for grazing. Yearling cattle gains will be very good if conditions hold. Stock water has improved, and most tanks are full. Loans to purchase cow/calf pairs or bred cows are still slow, as ranchers are still apprehensive about weather conditions and high prices for pairs and bred cattle.

Region 8—Central Texas

Land sales for agriculture purposes are mostly nonexistent due to Eagle Ford Shale drilling and exploration in our area. Land with minerals is leasing at unbelievable amounts. Because mineral leases are extreme, land values are greater than agricultural or recreational use could return in investment. There is an increased income in oil and gas leases. Because of the shortage of livestock, sales of previously held livestock are greater. This increase in income has resulted in loan payoff. Agricultural producers of crops and livestock are continuing a conservative outlook because of the 2011 and continuing drought conditions.

Very little ag land is being sold in our area, primarily due to the Eagle Ford Shale exploration that is occurring. A couple of sales have occurred where the land and minerals were sold for as much as \$13,500 per acre. That is unusual, but the folks willing to pay \$13,500 per acre are those who have received large oil and gas leases

or money from pipeline easements. We wish we could get more loans, but borrowers who are fortunate to have land and received funds of any kind from oil and gas companies are paying off their loans instead of getting new ones. It's very difficult to maintain our current level of loans.

We have been fortunate in the coastal bend area of Texas to have caught some late winter rains. With a strong market, favorable weather patterns could yield a good year for producers.

We continue to benefit from the rains over the past month. Ranchers who planted rye and oats have seen excellent growth and grazing opportunities. Cattle prices remain at all-time highs, with sale barn runs becoming smaller and smaller. However, diesel prices and farm supplies continue to increase in price. The oil and gas drilling continues in our area, with landowners receiving tremendous amounts of royalty income. They are spending it on new fences, bulldozer work and general home and ranch repair.

Beneficial rains have resulted in an excellent winter pasture stand, enabling ranchers to hold on to current inventories. This coupled with strong beef prices has made for a much brighter future.

Due to the lack of water in the Highland Lakes, some rice farmers will not be able to farm in 2012.

Region 11—Trans-Pecos and Edwards Plateau

We still have not received rain in our area.

Some early spring rains have resulted in good winter weeds for sheep and goats for the people that still have some. Supplemental feeding for cattle is still extensive in our area. Prices are high, but expenses are high as well. Some ranchers will restock, but older ones are saying they just will not buy back in. It remains to be seen what kind of tax consequences will occur as producers determine their rate of buyback from the breeding stock sold. Predators continue to be an extreme problem. As more producers sold out, the predation has increased on the remaining livestock. Hogs and coyotes are spreading undeterred. Bobcats and eagles are still an issue as well.

Good late-year rains and an excellent first two months of 2012 have most operators at least somewhat optimistic for a better year rainfall-wise. Continued strong demand for beef has pushed prices for replacement livestock to levels never before seen. This year presents a different set of problems for ranchers in the Edwards Plateau. Many ranchers in our area who still have some cattle are scratching their heads whether to sell their heifers in this high market or keep them for replacements and avoid the high cost to restock.

Region 12—Southern New Mexico

Strong commodity prices have eased the effects of the drought, but supply going forward is contingent upon more favorable moisture conditions.