

Agricultural Survey

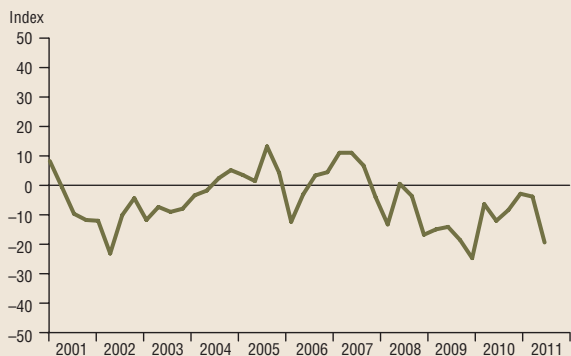
Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District

FEDERAL RESERVE BANK OF DALLAS

Second Quarter 2011

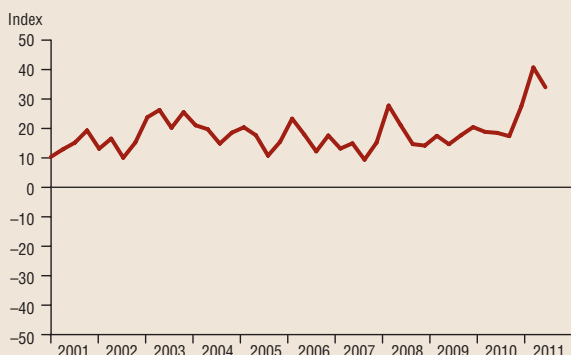
Demand for Loans

One-third of bankers report a decrease in loan demand.



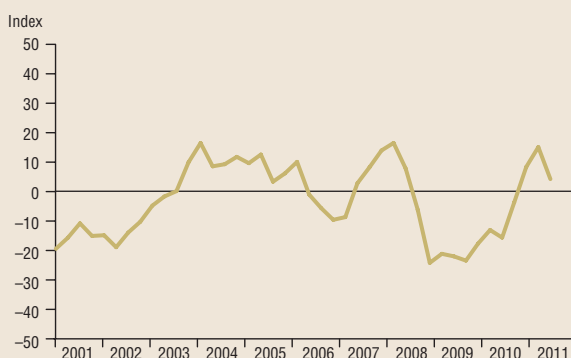
Availability of Funds

The availability of funds index remains high.



Rate of Loan Repayment

Loan repayment rates show little change.



Bankers responding to the second-quarter survey reported that severe drought continues to manifest challenges for the Eleventh District agricultural community. Comments from bankers noted widespread negative impacts of the dry conditions—low or nonexistent yields for many dryland crops, stress to irrigated crops and very poor pasture conditions. Respondents in several regions mentioned that farmers will likely collect crop insurance money to offset drought losses. There were numerous reports of ranchers liquidating their cattle herds due to inadequate grazing conditions and a lack of surface water.

Cropland values continued to rise, while ranchland values edged down from last quarter. Expectations for farmland values were slightly less positive than in recent reports, with less than 10 percent of bankers anticipating an increase over the next three months.

District agricultural lending trends generally worsened in the second quarter. Overall loan demand decreased, with the exception of operating loans, which were stable. Comments suggested higher input costs may be driving the relative strength of demand for operating loans. The weakest loan category this quarter was for feeder cattle; more than 30 percent of respondents saw a decrease in volumes. Despite poor agricultural conditions resulting from drought, the great majority of bankers said loan repayment rates held steady or increased.

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?

	2011:Q2 Index	Percent Reporting			2011:Q1 Index
		Greater	Same	Less	
Demand for loans	-19.4	14.1	52.4	33.5	-3.7
Availability of funds	34.1	35.9	62.4	1.8	40.9
Rate of loan repayment	4.1	15.3	73.5	11.2	15.0
Loan renewals or extensions	-6.0	10.1	73.8	16.1	-18.0
Amount of collateral required	14.3	14.3	85.7	0.0	7.5

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

	2011:Q2 Index	Percent Reporting			2011:Q1 Index
		Greater	Same	Less	
Non-real-estate farm loans	-11.2	14.2	60.4	25.4	-7.6
Feeder cattle loans	-23.3	7.3	62.0	30.7	-6.1
Dairy loans	-15.7	0.0	84.4	15.7	-13.8
Crop storage loans	-12.1	1.6	84.7	13.7	-10.6
Operating loans	0.6	18.9	62.8	18.3	6.1
Farm machinery loans	-16.9	9.0	65.1	25.9	3.9
Farm real estate loans	-9.7	12.7	64.9	22.4	2.3

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 June 7-15, and 172 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. Data may not match previously published numbers due to data revisions. For questions regarding information in the release, contact Emily Kerr, 214-922-6941.

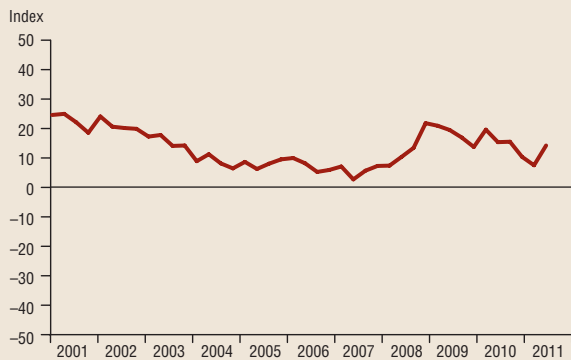
Loan Renewals or Extensions

A majority of bankers note no change in requests for loan renewals or extensions.



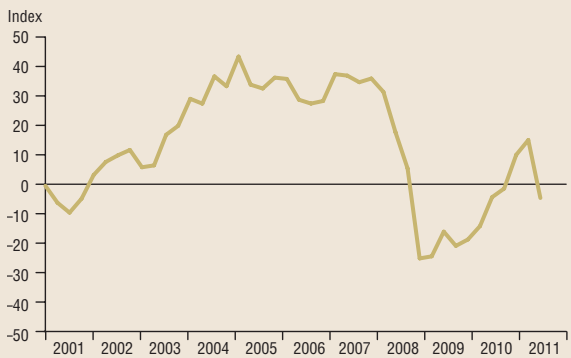
Amount of Collateral Required

All bankers report stable or increased collateral requirements.



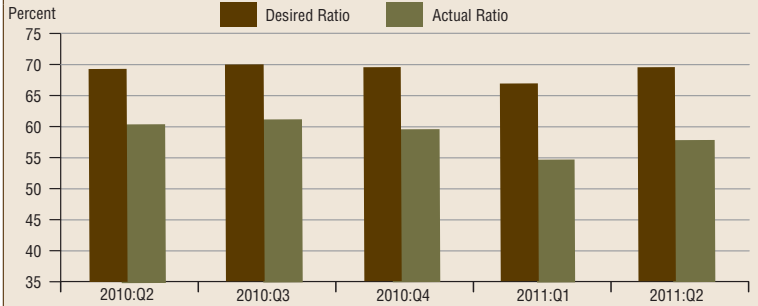
Anticipated Trend in Farmland Values

Less than 10 percent of bankers expect farmland values to increase over the next three months.



Loan-to-Deposit Ratios at Survey Banks

Average desired and actual ratios



Distribution of Loan-to-Deposit Ratios

	Banks reporting (percent)				
	2010			2011	
	Q2	Q3	Q4	Q1	Q2
Less than 41%	22	20	18	28	21
41% to 50%	10	10	16	15	18
51% to 60%	15	14	20	15	14
61% to 70%	21	23	19	20	22
More than 70%	32	33	28	22	24

Interest Rates

Fixed

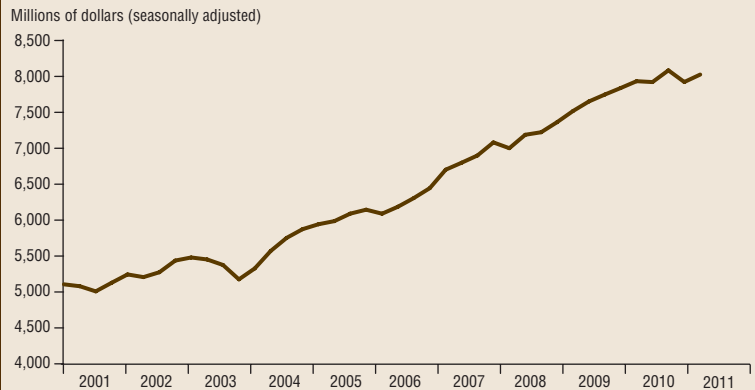
	Average rate (percent)				
	2010			2011	
	Q2	Q3	Q4	Q1	Q2
Feeder cattle	6.99	6.92	6.89	6.83	6.77
Other farm operating	7.09	7.03	7.00	6.95	6.83
Intermediate term	7.16	7.03	6.95	6.94	6.96
Long-term farm real estate	6.89	6.76	6.73	6.70	6.76

Variable

Feeder cattle	6.21	6.05	6.05	6.08	6.06
Other farm operating	6.33	6.29	6.23	6.28	6.24
Intermediate term	6.35	6.25	6.20	6.19	6.30
Long-term farm real estate	6.13	5.91	5.96	5.91	6.06

Total Agricultural Loans*

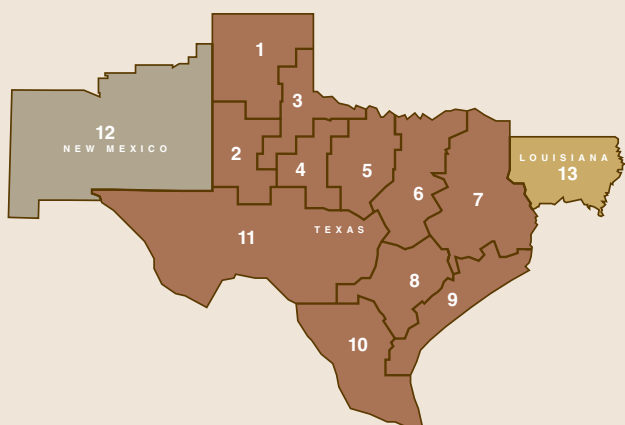
Eleventh District agricultural loan volumes increased slightly in the first quarter.



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

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

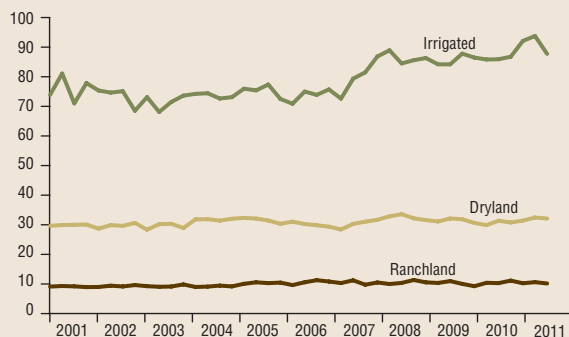
Eleventh Federal Reserve District



Real Cash Rents

Irrigated cash rents fall while dryland and ranchland cash rents hold fairly steady.

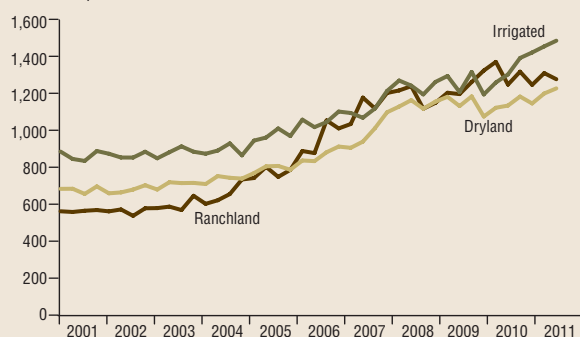
2005 dollars per acre



Real Land Values

Irrigated and dryland values continue to rise while ranchland values edge down.

2005 dollars per acre



Rural Real Estate Values—Second Quarter 2011

Cropland—Dryland

District	Banks ¹	Average value ²	Percent change ³ in value from	
			Second quarter 2011	Previous quarter
District	134	1,381	2.7	5.8
Texas	121	1,403	2.9	5.5
1 Northern High Plains	18	540	4.8	5.7
2 Southern High Plains	14	575	6.3	15.5
3 Northern Low Plains	9	800	2.7	12.2
4 Southern Low Plains	9	828	-2.7	1.2
5 Cross Timbers	13	1,323	-1.5	3.4
6 North Central Texas	17	2,103	0.2	-2.6
7 East Texas	6	2,200	3.2	8.0
8 Central Texas	18	2,717	1.8	-0.4
9 Coastal Texas	6	1,525	26.5	40.9
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	1,468	-1.0	8.1
12 Southern New Mexico	5	385	0.0	-16.5
13 Northern Louisiana	8	1,688	-1.0	14.5

Cropland—Irrigated

District	Banks ¹	Average value ²	Percent change ³	Percent change ³
			Second quarter 2011	Previous year
District	98	1,673	1.2	10.3
Texas	85	1,591	2.2	11.0
1 Northern High Plains	18	1,325	0.1	7.1
2 Southern High Plains	14	1,298	6.6	14.7
3 Northern Low Plains	7	1,564	-0.7	35.8
4 Southern Low Plains	6	1,217	0.0	14.0
5 Cross Timbers	6	2,142	0.0	4.7
6 North Central Texas	5	2,280	10.0	40.0
7 East Texas	3	2,000	0.0	25.0
8 Central Texas	10	2,810	0.0	-1.5
9 Coastal Texas	5	1,850	25.0	17.5
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	10	3,365	-0.8	20.6
12 Southern New Mexico	6	1,883	-0.5	-1.0
13 Northern Louisiana	7	2,246	-4.6	17.5

Ranchland

District	Banks ¹	Average value ²	Percent change ³	Percent change ³
			Second quarter 2011	Previous year
District	154	1,437	-2.3	-0.7
Texas	144	1,716	-2.3	-0.9
1 Northern High Plains	17	460	9.5	14.2
2 Southern High Plains	12	481	7.8	10.4
3 Northern Low Plains	9	808	-1.4	25.5
4 Southern Low Plains	9	1,017	-1.3	5.3
5 Cross Timbers	15	1,803	-4.6	-2.5
6 North Central Texas	21	2,267	-8.4	-6.7
7 East Texas	18	2,219	-2.1	-2.2
8 Central Texas	19	3,255	2.5	5.2
9 Coastal Texas	5	1,240	-14.3	-5.7
10 South Texas	n.a.	n.a.	n.a.	n.a.
11 Trans-Pecos and Edwards Plateau	18	1,749	-3.6	-4.1
12 Southern New Mexico	5	240	0.8	2.1
13 Northern Louisiana	5	1,530	0.0	5.0

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.

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

Extreme heat, wind and continued drought are having a significant negative impact on growing conditions. Harvestable dryland wheat is virtually nonexistent. Irrigated wheat yields are anticipated to be well below average with above-average costs. Dryland crops for fall harvest will be minimal. Irrigated summer crops are stressed from early heat, wind and lack of rainfall. The current draw down of the aquifer could be above average, which could impact future land prices.

Drought conditions necessitate land and herd management for livestock producers, who are forced to downsize due to the lack of native grass pasture. Dryland crop production is a disaster as well. Insured crops allow producers to avoid a potentially severe adverse impact.

Because of the expectation of higher prices and crop success, farmers started out the year investing heavily in equipment and the 2011 crop. However, due to the extreme nature of the current drought, all bets are off. This is the worst start to a crop in at least 35 years. The recent increase in loan demand is due to higher crop inputs.

Present cattle and grain prices are extremely high and volatile. Upon their decline, borrowers may not be able to service their present long-term debt load as a result of continued expansion of their operations.

Region 2—Southern High Plains

Drought is hurting crop production. It looks like dryland crops are gone, and insurance will pay back the loans. Irrigated crops are fair, but having to water almost nonstop is hard on the wells.

It has been the driest first five months of the year since the National Weather Service has been keeping records in Lubbock. Cotton production will be greatly reduced. While we have irrigation, there is not enough water to grow a crop with zero rain. Most farmers will collect insurance money and raise no crop, which will hurt ag-related businesses like cotton gins and their suppliers.

Dryland cotton is a total loss, with wind damage to the majority of the irrigated cotton crop. Crop insurance claims are expected to be the major source of income for the 2011 crop year.

Dryland cotton will be abandoned and insurance collected. Irrigated cotton production will be way off; extremely hot and windy conditions have led to poor establishment. Production expenses for irrigated cotton will be exorbitant. The real loser will be ag infrastructure; input suppliers and cotton ginners will miss out on throughput.

Region 3—Northern Low Plains

We are experiencing extreme drought conditions. Pastures are in very poor condition, and producers are liquidating their cow herds. Most crops have been planted, though conditions for making

a dryland crop are poor. The financial condition of most producers improved last year with high commodity prices. Projected commodity prices look good, but production costs are higher.

The 2011 wheat crop was a bust, and cattle struggled to gain the needed weight.

Severe drought and high winds are hurting all areas of ag in our region.

Region 4—Southern Low Plains

Current drought conditions are affecting crop revenues, and most farmers are planting low-input-cost crops due to the poor outlook for rainfall. Many ranchers are being forced to reduce herd size due to lack of surface water and land suitable for grazing.

Region 5—Cross Timbers

Drought conditions are extreme and are triggering forced sales of livestock due to decreasing forage supplies and availability of stock water. This is causing decreases in what had been historically high livestock prices. Our farmers are having similar problems due to lack of rainfall. We had a poor wheat crop with well above average prices. Hay production will be spotty at best.

The recent wheat harvest was decent in our immediate area. We received some rain and snow that others did not receive. Most farmers in our bank have had a profitable year.

Pasture conditions are poor, and hay production is going to be short. A lot of cattle will be going to market if we don't get rain soon, but at least prices are still very good. Dairies are getting good milk prices, but feed costs are very high.

Region 6—North Central Texas

Drought has caused the corn crop to be a total disaster. Cow herds are being liquidated weekly. Most cotton still has some potential, but that will decline daily. Hay supplies are short, and many ranchers are already feeding cattle. Conditions have surpassed the legendary 1950s drought.

Dry weather continues to affect farming and ranching in our area. While cattle prices are favorable, stock water, hay and grazing conditions continue to decline.

Region 7—East Texas

We are in the early stages of depleting our cattle supply. Drought conditions and the efforts of the feedlots to fulfill their contract demands with the slaughterhouses are adversely affecting our ability to supply replacement cattle.

New oil and gas activity in our area has played a very important part in subsidizing ag income for our local farmers. This has driven up land prices as well.

Region 8—Central Texas

Drought conditions continue to worsen, with water becoming a big concern as small tanks go dry. Hay sales are up. Cattle prices remain strong at area sale barns, despite futures prices dropping. We can look for a big reduction in cattle numbers if the drought continues, making replacement heifers and cattle in the fall very expensive.

We are experiencing the longest spring drought in modern history. Dryland corn will be an insurance claim. Grain sorghum may be harvested, but we expect very low yields. The cotton crop still has a chance with good rainfall, but it is highly unlikely to approach a normal yield. Hay production was limited to one cutting, but prices are high. The rice crop will be expensive with extra water costs; extreme heat may affect yield and quality. Revenue protection crop insurance should allow farmers to be financeable next year.

Many herds have been sold off or greatly reduced, given strong pricing earlier in the year. Some producers are liquidating assets to pay off loans.

Drought is currently forcing the smaller cattle operations out of business. Hay is almost completely unavailable.

Farm and ranch income are down significantly due to drought. Mineral landowners continue to benefit from oil and gas leasing, pipeline construction and in some cases, production. This trend is expected to continue for at least three to five years in our area.

Region 11—Trans-Pecos and Edwards Plateau

Our area has had less than an inch of rain since October, and ranchers have begun to cut their livestock numbers.

The drought continues to force livestock sales. Prices are softening as more inventory hits the markets. With livestock numbers low, it may be expensive to buy back in. Wildfires have taken out entire ranches, including infrastructures.

This past year has been the driest in history for parts of the Edwards Plateau. Feed costs are high, hay is scarce and animal conditions are less than ideal. Prices have stayed relatively strong across the board for livestock. Of particular concern to many small community banks are increased regulatory scrutiny and stringent exams, which leave them with the impression that credit is not available.

Region 12—Southern New Mexico

Drought conditions will be a limiting factor on crop production this year. Our area has had very little measurable precipitation over the past nine months. The winter wheat crop is almost nonexistent from lack of moisture. Corn and cotton production will suffer as well if it doesn't start raining soon.

Region 13—Northern Louisiana

We had an excellent wheat crop. We are now experiencing above average temperatures and below normal rainfall. We need a rain soon, or dryland crops will be at risk.