

Agricultural Survey

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

Survey Highlights

Bankers responding to the fourth-quarter survey noted conditions had turned dry again across a number of regions. Crop yields varied by region and commodity from below average to slightly above average. Respondents noted that the winter wheat crop needed rain. Livestock markets have remained decent.

Demand for agricultural loans overall continued to decrease for a ninth consecutive quarter. Loan renewals and extensions continued to increase, while the rate of loan repayment stabilized after falling last quarter. Overall, the volume of non-real-estate farm loans was lower than a year ago, as was the volume of farm real estate loans. The volume of operating loans increased; all other loan categories' volumes fell year-over-year this quarter (*Figure 1*).

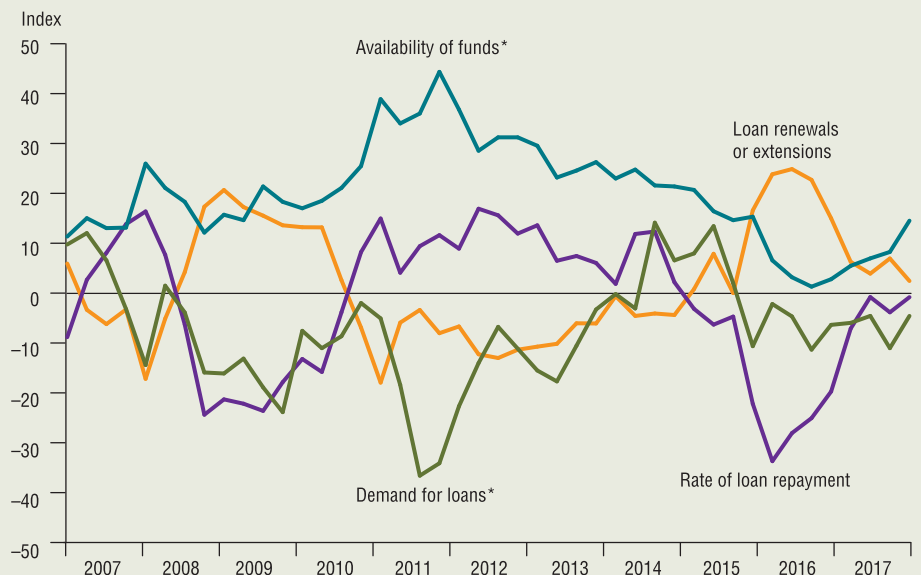
District real ranchland and dryland values increased this quarter, while irrigated cropland values decreased (*Figure 2*). According to bankers who responded in both this quarter and fourth quarter 2016, nominal cropland and ranchland values increased year over year in Texas (*Table 1*). Southern New Mexico respondents indicated cropland values increased while ranchland values decreased, and northern Louisiana respondents reported irrigated cropland and ranchland values increased while dryland values decreased.

The anticipated trend in the farmland values index remained positive for a third consecutive quarter, suggesting respondents expect farmland values to trend up in the upcoming months. The credit standards index indicated continued tightening of standards on net (*Figure 4*).

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, Q4 | | |
|-----------------------------|---------|---------|-----------------------|------|--------|
| | 2017:Q3 | 2017:Q4 | ▲ Greater | Same | ▼ Less |
| Demand for loans* | -11.1 | -4.6 | 12.3 | 70.8 | 16.9 |
| Availability of funds* | 8.3 | 14.6 | 15.9 | 82.8 | 1.3 |
| Rate of loan repayment | -3.9 | -0.8 | 8.9 | 81.3 | 9.8 |
| Loan renewals or extensions | 7.0 | 2.4 | 8.1 | 86.2 | 5.7 |



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, Q4 | | |
|----------------------------|---------|---------|-----------------------|------|--------|
| | 2017:Q3 | 2017:Q4 | ▲ Greater | Same | ▼ Less |
| Non-real-estate farm loans | -9.3 | -2.4 | 10.4 | 76.8 | 12.8 |
| Feeder cattle loans* | -8.7 | -1.9 | 13.7 | 70.7 | 15.6 |
| Dairy loans* | -7.3 | -12.5 | 3.7 | 80.1 | 16.2 |
| Crop storage loans* | -8.5 | -2.3 | 5.5 | 86.7 | 7.8 |
| Operating loans | 3.8 | 3.3 | 13.0 | 77.2 | 9.8 |
| Farm machinery loans* | -13.1 | -15.1 | 5.4 | 74.1 | 20.5 |
| Farm real estate loans* | -10.3 | -10.0 | 5.3 | 79.4 | 15.3 |

*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.



Regions of the Eleventh Federal Reserve District

Region 1 • Northern High Plains

▶ Early planted wheat looks good, but we need moisture. Very dry conditions are affecting the cattle's health, and we need moisture to keep the dry land wheat in good condition.

Region 2 • Southern High Plains

▶ Late rains in September and October are affecting the grades on cotton. Yields are off some. Prices were low early but are improving. Seed prices are down, causing the cost for ginning to be above seed prices.

▶ The cotton crop was very difficult to get started due to drought, hail and then excessive moisture. The crop looked good through most of the year as timely rains fell in the area. A cold spell in September hurt the quality of the crop with grades and micronaire [fiber fineness] being affected the most. Peanuts were average to maybe a little above from a production standpoint. Corn planting in this area is limited, but production was average.

Region 3 • Northern Low Plains

▶ The peanut harvest is finished and yields were excellent. The cotton harvest is an estimated 80 percent complete; yields have been mixed, but overall it was an average year for the irrigated acres and below average for the dry land acres that remained for harvest. We are experiencing dry conditions that are reaching serious levels, with no rain since early October. Wheat conditions are poor.

▶ We are getting really dry here again. Rainfall for October and November was 0.25 inches total. There is virtually no cattle turned out on wheat. Approximately 80 percent of wheat planted in the county has not emerged.

▶ It is getting really dry here in North Texas. The majority of the wheat in this area is not rooted, although it looks okay. There are lots of yearling cattle standing around in traps and grow yards.

Region 4 • Southern Low Plains

▶ Cotton harvest is near complete. Yield quality is mixed, with 30 percent good, 35 percent poor and 35 percent failed. The wheat crop is weak due to army worms and dry weather. Pastures are fair with tank water getting low. Cash flows will once again be very, very tight. Borrowers are looking for additional income and trying to cut costs. Some borrowers are looking into exiting the business. There is more consolidation by large borrowers in good condition.

Region 5 • Cross Timbers

▶ Small grains need rain. A lot of dry forage is resulting in a fire hazard. Hay is being fed to cattle at this time.

▶ There has not been a lot of change in land values; sellers are trying to get higher prices based on values to the east and south of this area, but buyers are reluctant to pay those prices. We are in need of rain. Creeks are drying up, and ponds and lakes are going down. Hay supply is good and grazing conditions are still okay on native pastures. Winter grains were off to a good start but need moisture.

▶ Cattle prices continue to improve. We need additional rain.

Region 6 • North Central Texas

▶ Ag land values are stable but tend to be low compared to other ag states, primarily because crop yields are not consistent due to weather. This factor along with low crop prices has put a lid on land prices in this area.

▶ Beans ended up being okay. There is an abundance of hay due to the mild and wet summer, so hay should be plentiful and cheap. We are now back in drought condition in our area. Cattle prices are still somewhat up and down.

▶ Our area has enjoyed a positive crop year due to late summer rainfall leading to solid crop yields. We have, however, experienced little to no rainfall this fall. Rain is needed badly at this point for fall wheat that has been planted in the area. Prospects for 2018 crop prices are also not favorable at this time.

Region 8 • Central Texas

▶ Cattle prices have remained strong, especially compared to last year at this time. Most of the fall runs are over and we should see a decrease in cattle numbers at the sale barns through the end of the year. Winter pastures for oats, wheat and rye grass look poor at this time. Some of it has been replanted and has not even sprouted yet due to lack of rain. There is plenty of hay, with most being fair to average quality and lots left over from last year. The pecan crop was well below average with no one reporting any substantial harvest numbers. Oil and gas activity is still around with some leasing in the area and a few rigs still drilling.

▶ Things seem to be relatively quiet on the ag front. I think most are waiting for the outcome of the tax reform bill. The high cost of new farm equipment has slowed purchases.

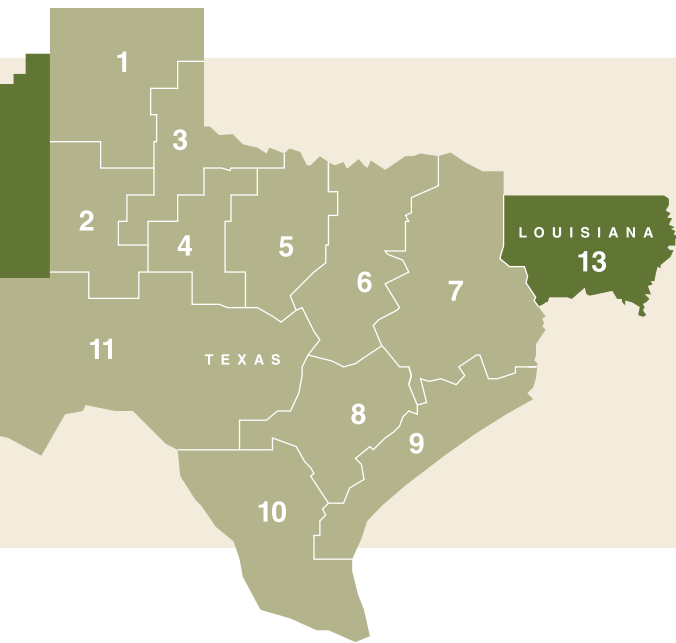
Region 9 • Coastal Texas

▶ Overall conditions in the area varied from some dry spots—with concerns for spring plantings—to sufficient moisture. Cattle sale numbers were up at local barns but have subsided. Cattle prices are on a sideways trend with some resistance on feeders and specialty buying by individuals. Some herd reduction has occurred in order to accommodate replacements kept from prior years and feeding expenses. Grass growth is not being generated due to temperatures. All corn, milo and cotton crops have been harvested. Cotton ginning is still going on in some gins that had excellent production from producers. Several gins have reported double the amount of bales ginned as compared to 2016. Most grains have been sold. The crops that have been retained are being kept for crop income deferment or looking for price increases. Corn makes up the majority of the crop being held back as grain sorghum had a good basis during the summer that allowed producers to capture relatively good prices at the port. Wheat acreage that was planned for the 2018 crop year has been planted with recent moisture being a good benefit to the crop. 2018 is shaping up to be a possible mirror of 2017.

▶ Due to futures prices, most row crop farmers are moving from corn to grain sorghum or cotton for 2018. Many cotton producers will be waiting well into 2018 before the independent gins will know the damage caused by Hurricane Harvey. The delay is causing issues for underwriting 2018 crop operating loans.

Region 11 • Trans-Pecos and Edwards Plateau

▶ The Edwards Plateau has some areas that have been blessed with ample rains this year, but there are also some locales that have missed many of the good soaking rains and, as a result, some ranching operators have been feeding more than usual this year. The prospects for a wet winter are not good at this point, so many folks in southwest and south central Texas are facing a shortage of



grass for the winter. Cattle, sheep and goat prices remain strong, and wool and mohair prices are good. As always, rainfall is the main driver in the ag situation at this time.

▶ Cattle, sheep and goat markets have all improved and the outlook remains good. Pastures have good grass coverage but are dry and need rain. Deer hunting and quality has been good this year, and hunting leases remain a very important part of area producers' income. Predators remain a huge problem for sheep and goat producers and are driving many more to cattle when the country is more suited to sheep and goats. Wild hog numbers continue to be high and they are very destructive. Control of predators remains important.

Region 12 • Southern New Mexico

▶ Winter wheat establishment was excellent due to timely and abundant rainfall. There is a lot of wheat pasture availability but no rainfall in the last 60 days, so the wheat pasture is starting to show signs of the dry moisture conditions. Most calf and yearling sales over the last quarter have been better than projections. The livestock market has just started to show signs of weakening over the first two weeks in December. Corn silage harvest and milo harvest are now complete with yields being average to slightly above average. Conversations with local dairy producers indicate most are breaking even with current milk prices. Prospects for increased prices don't look good over the next 90 days.

Table 1
Rural Real Estate Values—Fourth Quarter 2017

| | Banks ¹ | Average value ² | Percent change in value from previous year ³ |
|---|--------------------|----------------------------|---|
| Cropland—Dryland | | | |
| District* | 101 | 1,864 | 4.2 |
| Texas* | 86 | 1,883 | 4.6 |
| 1 Northern High Plains | 9 | 903 | 1.4 |
| 2 Southern High Plains | 11 | 832 | 9.2 |
| 3 Northern Low Plains* | 7 | 882 | 7.4 |
| 4 Southern Low Plains* | 9 | 1,063 | -10.5 |
| 5 Cross Timbers | 7 | 1,807 | 11.6 |
| 6 North Central Texas | 12 | 2,667 | 5.3 |
| 7 East Texas* | 6 | 2,827 | 3.4 |
| 8 Central Texas | 9 | 3,867 | 6.9 |
| 9 Coastal Texas | 7 | 2,207 | 0.5 |
| 10 South Texas | 3 | 2,483 | 0.0 |
| 11 Trans-Pecos and Edwards Plateau | 6 | 1,900 | 28.8 |
| 12 Southern New Mexico | 4 | 438 | 9.4 |
| 13 Northern Louisiana | 11 | 2,632 | -3.0 |
| Cropland—Irrigated | | | |
| District* | 76 | 2,452 | 3.2 |
| Texas* | 59 | 2,184 | 2.6 |
| 1 Northern High Plains | 9 | 1,983 | 1.7 |
| 2 Southern High Plains | 11 | 1,650 | 4.4 |
| 3 Northern Low Plains* | 5 | 2,145 | 17.6 |
| 4 Southern Low Plains | 6 | 1,433 | 1.4 |
| 5 Cross Timbers | 4 | 2,913 | 0.0 |
| 6 North Central Texas | 4 | 2,738 | 8.0 |
| 7 East Texas | n.a. | n.a. | n.a. |
| 8 Central Texas | 5 | 4,020 | 0.0 |
| 9 Coastal Texas | 6 | 3,033 | 7.8 |
| 10 South Texas | n.a. | n.a. | n.a. |
| 11 Trans-Pecos and Edwards Plateau | 5 | 2,620 | -3.0 |
| 12 Southern New Mexico | 6 | 3,533 | 5.6 |
| 13 Northern Louisiana | 11 | 4,023 | 3.4 |
| Ranchland | | | |
| District* | 110 | 1,808 | 3.8 |
| Texas* | 94 | 2,152 | 4.1 |
| 1 Northern High Plains | 9 | 672 | 2.3 |
| 2 Southern High Plains | 7 | 814 | 7.6 |
| 3 Northern Low Plains | 7 | 932 | -2.2 |
| 4 Southern Low Plains* | 7 | 1,163 | -5.8 |
| 5 Cross Timbers | 9 | 1,972 | 3.4 |
| 6 North Central Texas | 14 | 2,682 | 9.8 |
| 7 East Texas | 10 | 2,875 | 3.9 |
| 8 Central Texas | 11 | 5,255 | 16.7 |
| 9 Coastal Texas | 6 | 2,933 | -0.6 |
| 10 South Texas | 3 | 2,650 | 1.9 |
| 11 Trans-Pecos and Edwards Plateau | 11 | 1,855 | -1.1 |
| 12 Southern New Mexico | 6 | 317 | -7.8 |
| 13 Northern Louisiana | 10 | 2,330 | 16.2 |

* Seasonally adjusted.

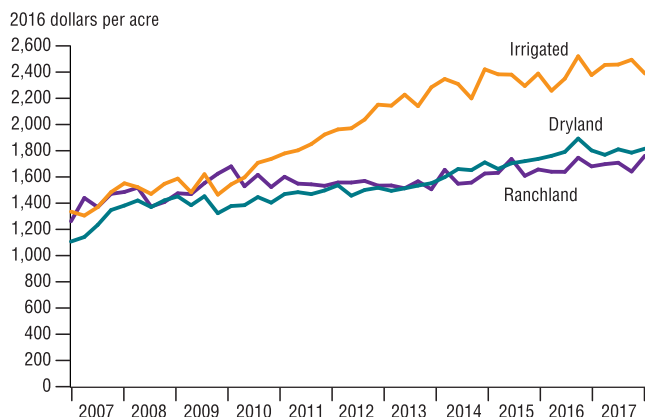
¹ Number of banks reporting land values.

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.

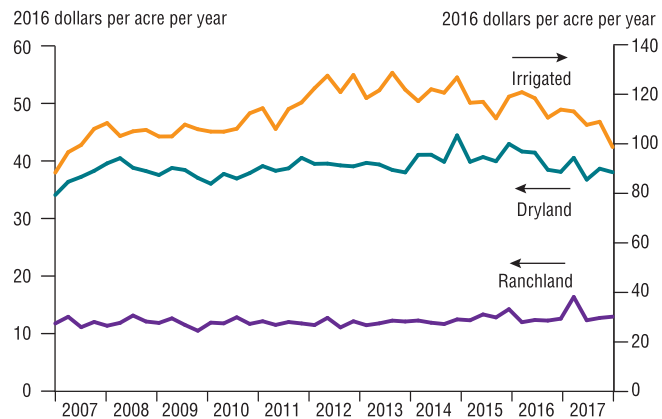
n.a.—Not published due to insufficient responses but included in totals for Texas and district.

Figure 2
Real Land Values



NOTE: All values have been seasonally adjusted. Real values are created by deflating the nominal values using the implicit price deflator for U.S. gross domestic product.

Figure 3
Real Cash Rents

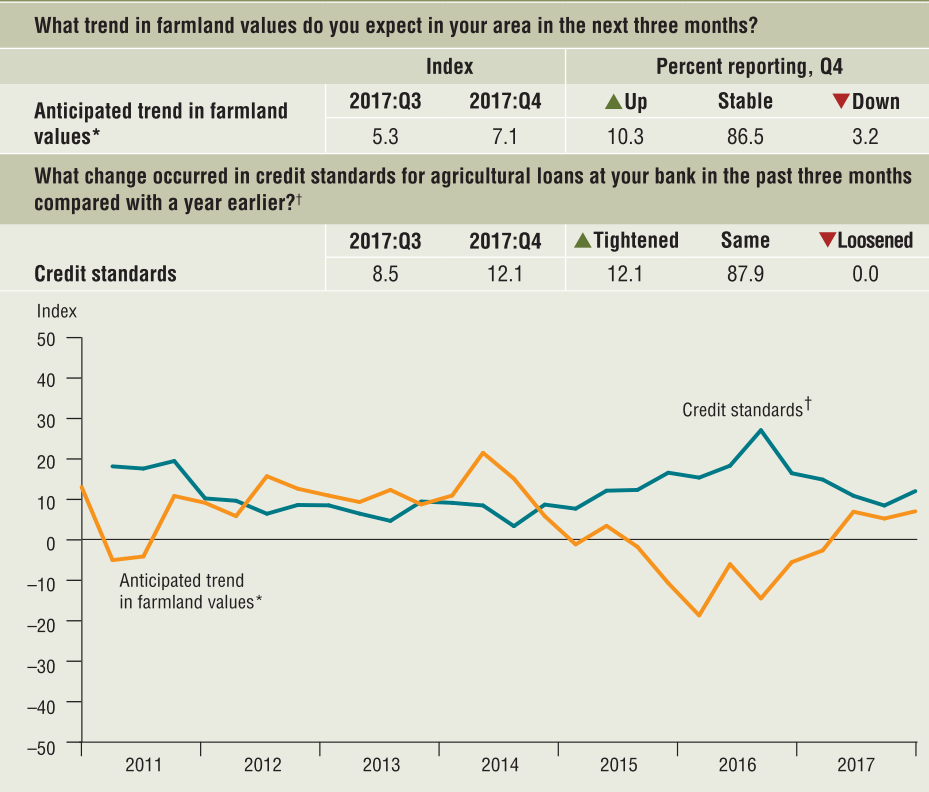


NOTE: All values have been seasonally adjusted. Real values are created by deflating the nominal values using the implicit price deflator for U.S. gross domestic product.

Table 2
Interest Rates by Loan Type

| | Feeder cattle | Other farm operating | Intermediate term | Long-term farm real estate |
|---|---------------|----------------------|-------------------|----------------------------|
| Fixed (average rate, percent) | | | | |
| 2016:Q4 | 5.98 | 6.11 | 6.03 | 5.72 |
| 2017:Q1 | 6.19 | 6.24 | 6.21 | 5.95 |
| Q2 | 6.05 | 6.17 | 6.05 | 5.89 |
| Q3 | 6.17 | 6.30 | 6.24 | 5.93 |
| Q4 | 6.24 | 6.29 | 6.25 | 5.99 |
| Variable (average rate, percent) | | | | |
| 2016:Q4 | 5.65 | 5.65 | 5.63 | 5.29 |
| 2017:Q1 | 5.73 | 5.74 | 5.80 | 5.47 |
| Q2 | 5.75 | 5.81 | 5.74 | 5.47 |
| Q3 | 5.92 | 5.96 | 5.95 | 5.64 |
| Q4 | 5.91 | 5.93 | 5.97 | 5.65 |

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 Dec. 5–13, and 127 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/surveys/agsurvey.aspx, where you may sign up for free email alerts to be automatically notified as soon as the latest survey is released on the web.

For questions, contact Amy Jordan, 214-922-5178.