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Likelihood of Safety Net Payments in Illinois for 2011

Gary Schnitkey

Department of Agricultural and Consumer Economics
University of Illinois

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Much of Illinois has experienced extremely hot, dry weather during July and August, leading to projections for low yields on many farms. Given these low yields, we examine the likelihood of payments under crop insurance, ACRE or the Traditional Counter-Cyclical program, and SURE. These three programs provide farmers with a revenue safety net. Crop insurance will make payments on farms with low yields. ACRE and the traditional counter-cyclical program likely will not make payments because prices will be above levels needed to cause revenue to be below the state guarantee. SURE will not make payments, unless counties in Illinois are declared disaster areas.

Crop Insurance

This year, harvest prices used in calculating revenue likely will be higher than projected prices used in setting initial guarantees. Corn in 2011 has a projected price of \$6.01. The harvest price will be based on settlement prices in October of the December futures contract traded on the Chicago Mercantile Exchange (CME). Currently this contract is trading at over \$7.00 per bushel. The soybean projected price is \$13.49 per bushel. The November CME contract on which the harvest price is based is trading at over \$13.70 per bushel.

Given that harvest prices will be above projected prices, farmers who purchased revenue products with guarantee increase provisions have a much higher chance of payments than those farmers who purchased revenue products without the guarantee increase. Products with a guarantee increase include Revenue Projection (RP) and Group Risk Income Plan with the harvest revenue option (GRIP-HR).

When harvest price is above the projected price, RP and GRIP-HR will make payments when there is a yield loss. For RP, a yield loss occurs when yield is below the Actual Production History (APH) yield times the coverage level. Take a 170 bushel APH yield and an 80% coverage level. Payments will occur when yield is below 136 bushels (170 bushel APH yield x 80% coverage level).

RP likely will make payments on some Illinois farms due to yield losses. In addition, GRIP-HR likely will make payments in central Illinois where weather is particularly dry.

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ACRE/Traditional Counter-Cyclical Program

For corn and soybeans, ACRE and the Traditional Counter-Cyclical program likely will not make payments, unless prices fall dramatically during the 2011-12 marketing year. The 2011 state guarantee levels are not known with certainty, but the corn guarantee in Illinois will be around \$640 per acre. For ACRE to make a payment the 2011-12 season average price (SAP) would have to be below \$3.76 if the state has a 170 bushel yield. For a 150 bushel yield, the SAP would have to be below \$4.27. In Illinois, soybeans for 2011 will have a state guarantee around \$445 per acre. The SAP would have to be \$9.88 if the state yield is 45 bushels. For a 40 bushel yield, the SAP would have to be below \$11.12. Prices below these levels are not probable.

The traditional counter-cyclical program makes payments when season average prices (SAPs) are below trigger prices. Trigger prices are \$2.35 for corn and \$5.56 for soybeans, well below current prices.

SURE

SURE is a standing disaster assistance program that is designed to provide assistance for crop losses caused by natural disasters. There are five criteria that must be met before a farm is eligible for payments. One of these criteria is that a farm must either have a crop loss of 50% or be in a disaster designated county. To receive a disaster designation, a county must either be declared a disaster area or be adjacent to a county that has been declared a disaster area. Very few Illinois farms will have a yield loss of 50%. Therefore, farms must be in a county with a disaster designation. As of August 16th, no county in Illinois has been declared a disaster area. Some counties along the Missouri and Kentucky borders qualify because those counties are adjacent to a county that has been declared a disaster area in another state.

Given that no counties receive disaster designations, very few Illinois farmers will qualify for SURE. There would be a number of farmers that would receive SURE payments in some counties if they receive disaster designations.

Summary

Rising prices will buffer the revenue on many farms caused by low yields, particularly on farms that have not engaged in large amounts of pre-harvest hedging. SURE likely will not make payments on 2011 production unless Illinois counties are designated disaster areas.