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Weekly Farm Economics: 2018 Harvest Prices and Crop Insurance Payments in Illinois

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The 2018 harvest prices used to determine revenue on crop insurance products are \$3.68 per bushel for corn and \$8.60 per bushel for soybeans. While both the corn and soybean harvest prices are below projected prices, payments on 2018 policies will be low in Illinois because of exceptional yields. Low 2018 payments will continue a string of low loss years in Illinois. Notably, the 2018 harvest price is the lowest since 2006, the year before the beginning of the higher-price era caused by increased use of corn in ethanol and continued growth in exports of soybeans.

2018 Harvest Prices

Harvest prices for corn and soybeans in Midwest states are averages of October settlement prices on Chicago Mercantile Exchange contracts. As October has ended, the Risk Management Agency (RMA) has announced harvest prices.

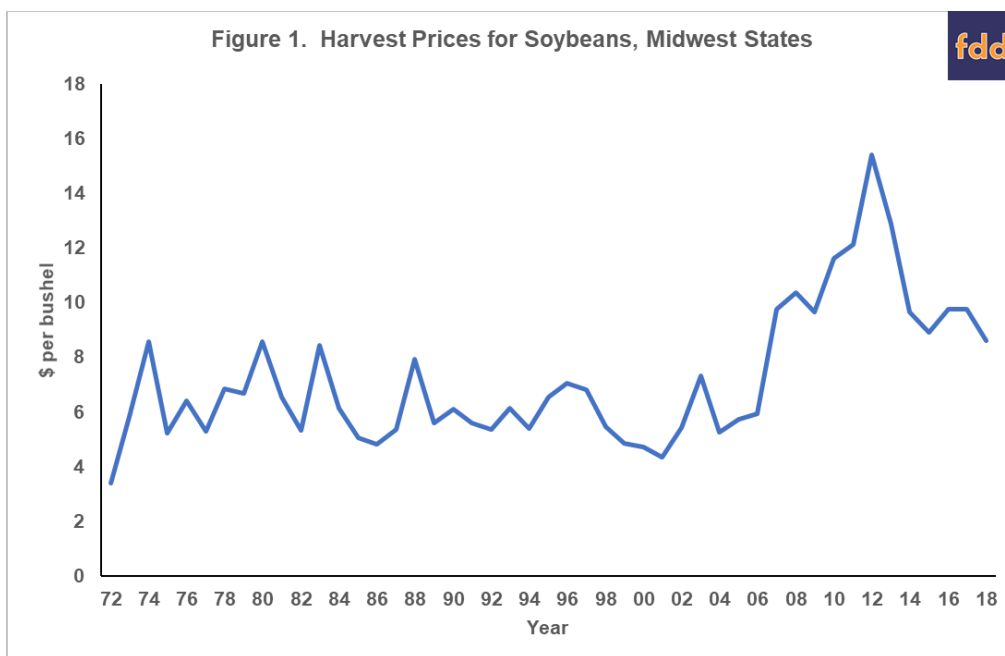
The 2018 harvest price for corn is \$3.68 per bushel, 7% below the 2018 projected price of \$3.98 per bushel. The 7% decline is not out of the ordinary. From 1972 to 2017, 49% of the years had larger declines than 7% while 51% had declines of less than 7% (or the harvest price was higher than the projected price).

The 2018 harvest price for soybeans is \$8.60 per bushel, 15% below the 2018 projected price of \$10.16 per bushel. The 2018 decline in the harvest price is relatively large. From 1972 to 2017, only 17% of the times has harvest price had a dropped more than the 2018 decline. Recent trade disruptions between the U.S. and China had a significant role in the decline (see *farmdoc daily*, [July 31, 2018](#)).

Moreover, the \$8.60 harvest price is the lowest harvest price since 2006 (see Figure 1). In 2006, the harvest price was \$5.93, below the 2018 harvest price by \$2.67 per bushel. After 2006, corn and soybean prices increased due to rising use of corn in producing ethanol and growing export demand for soybeans. Since 2006, the next lowest price occurred in 2015 when the harvest price was \$8.91 per bushel, \$.31

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higher than the \$8.60 harvest price for 2018. The second lowest price happened in 2014 when the harvest price was \$9.65, \$1.05 per bushel above the 2018 harvest price.



Insurance Payments in 2018

While both 2018 harvest prices are lower than projected prices, crop insurance payments will be low across much of Illinois. Yields have been exceptional, which will offset the price declines.

In the October 2018 Crop Production report, the National Agricultural Statistical Service reported a state yield estimate for Illinois of 212 bushels per acre. The 212 yield is a record yield, surpassing the last record yield set in 2017 of 201 bushels per acre. A 212 state yield is well above expectations (see *farmdoc daily*, [Sept 5, 2018](#), for more discussion).

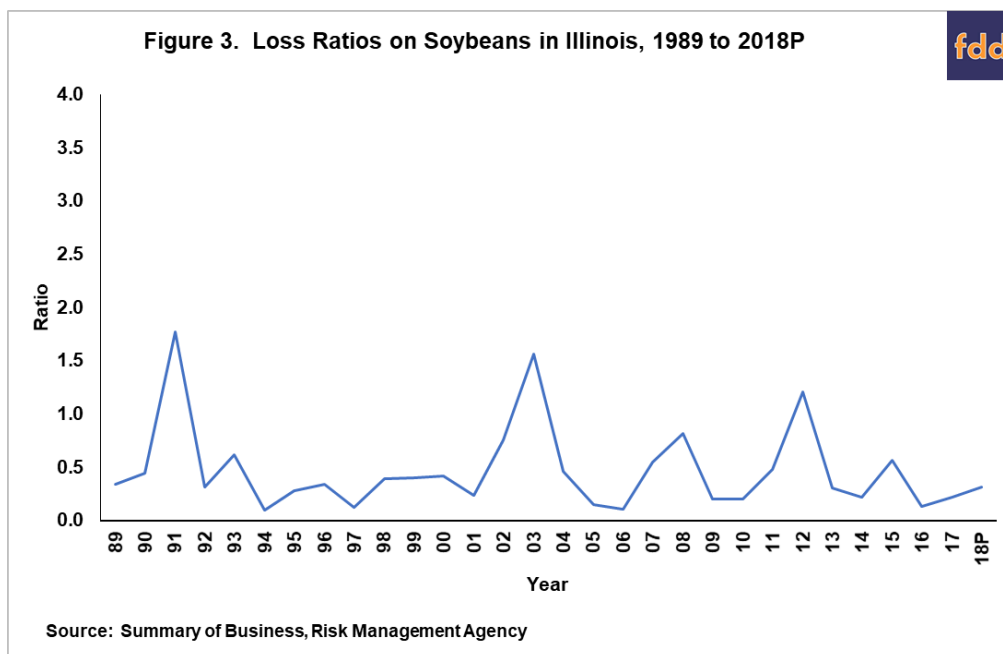
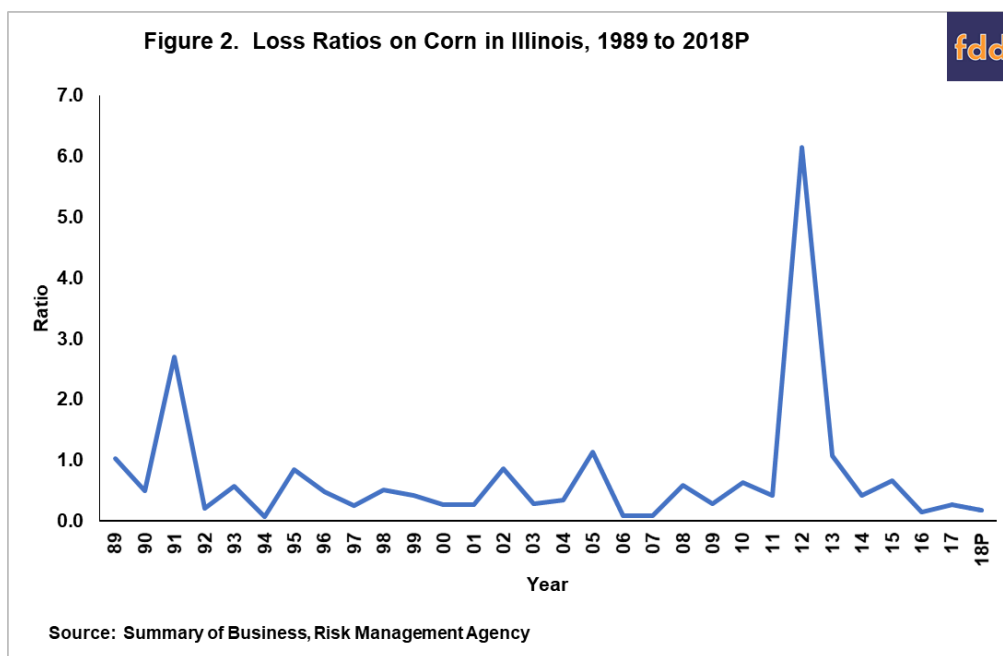
Similarly, NASS estimated a record state soybean yield for Illinois of 66 bushels per acre. A 66 yield in 2018 would be 7 bushels above the next highest yield of 59 bushels per acre set in 2016. Similar to corn, the 66 yield in 2018 is well above expectations (see *farmdoc daily*, [Sept 5, 2018](#), for more discussion).

Loss Ratio Estimates

Record yields lead to very low estimates of loss ratios for the state of Illinois. A loss ratio — equaling insurance payments divided by insurance premium — serves as a gauge of overall crop insurance performance. Loss ratios below 1.0 indicating that insurance payments are lower than premium. Loss ratios below .3 are very low.

For corn, loss ratios in Illinois have been very low in recent years (see Figure 2). The loss ratio was .15 in 2016 and .28 in 2017. Historical relationships between yields, prices, and loss ratios suggest a loss ratio of .15. If the .15 loss ratio projection holds, 2018 will be another very loss year.

Similarly, loss ratios on soybeans have been very low in recent years (see Figure 3). The loss ratio was .13 in 2016 and .22 in 2017. Historical relationships between yields, prices, and loss ratios suggest a loss ratio of near .30 for 2018. If this projection holds, soybeans will have another low loss year in 2018.



Summary

For Midwest states, 2018 harvest prices are \$3.68 per bushel for corn and \$8.60 per bushel for soybeans. The soybean harvest price is the lowest harvest price since 2006. Because of exceptional yields, crop insurance payments and loss ratios will be low in Illinois in 2018.

This article contains projections of loss ratios in Illinois. Complete enough data to know the exact 2018 loss ratio will be known in May 2019.

References

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