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Options Under the New Farm Program

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Market Report	Yr Ago	4 Wks Ago	11/1/02
Livestock and Products,			
Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$65.46	$63.77	$67.14
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	87.95	*	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	92.18	86.21	87.05
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	102.89	99.81	102.70
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	37.50	33.25	30.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	*	98.09	79.99
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	43.52	72.75	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	*	155.54	156.52
Crops,			
Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	2.89	4.89	4.74
Corn, No. 2, Yellow Omaha, bu	1.78	2.45	2.39
Soybeans, No. 1, Yellow Omaha, bu	4.09	5.17	5.52
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.34	4.80	4.68
Oats, No. 2, Heavy Minneapolis, MN , bu	2.23	2.28	2.22
Hay,			
First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	130.00	150.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	82.50	82.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	115.00	115.00

* No market.

Producers have until April 2003 to select base and yield options under the new Direct and Counter-Cyclical Program. The options selected will be effective through 2007 and could significantly effect farm program payments. In many instances, the option that maximizes payments will depend upon program commodity prices. As a result, producers may want to consider some likely price scenarios, or simply consider the outcome at a range of price levels. Several computer programs are available to help producers evaluate the alternatives. However, understanding the principles can help in interpreting the computer results and provide some guidance if using a pencil and calculator.

If a farm does not currently have a full base, and oilseeds (soybean and sunflower, for example) were planted in 1998-2001, a set of options are available that may permit adding oilseed base to the existing wheat and feed grain base. Producers have received a Base Options Report from their Farm Service Agency (FSA) office that reports the *eligible oilseeds* for each FSA farm number. Producers can choose to simply add oilseed base at this *eligible* level (FSA's Option 2). Adding oilseed base at the Option 2 level increases payment eligibility at no cost; hence, considering Option 2 is a logical first step. If the farm has no oilseed history in 1998-01, then Option 1 is available which involves using the old wheat and feed grain bases. In most cases a farm will have a history of planting more oilseeds than the *eligible oilseeds*. Oilseed base can be increased to the 4-year average of total planted oilseeds. However, adding oilseed base above the *eligible* level requires an offset (reduction) of the existing wheat and feed grains bases acre-for-acre. Whether to do so will depend upon the old (PFC or Production Flexibility Contract program) yield for the farm, and upon market prices. If the National Average Price is above the Target Price-Direct Payment, only a Direct Payment will be received. For example, the Target Price for corn in 2002 is $2.60/bushel, and the Direct Payment is $0.28/bushel; so if the National Average corn price is above $2.60 - .28 = $2.32 per bushel, the farm program payment will be the minimum $0.28 per bushel. However, for every penny the National Average price is below $2.32, an additional payment of a penny will be made (called the Counter-Cyclical Payment), with the Counter-Cyclical Payment reaching a maximum if the national average price drops below the National Loan rate. Any additional drop in price will be approximately covered by the county loan rate. The National Loan rate for corn is $1.98 in 2002, so the maximum Counter-Cyclical

Payment for corn is $2.32 - $1.98 = $0.34/bushel for a total maximum payment of $.28 + $0.34 = $0.62 per bushel. The maximum and minimum payments per acre are shown in Table 1 for major program commodities for example yields. Payment acres are 85 percent of the base. In the Table 1 example, maximizing projected payments would require offsetting any oats base since the maximum payment per acre ($2.50) is less than the minimum payment per acre for soybean ($19.80). The payment yield that is used for soybean is 78 percent of the 1998-2001 farm average. Hence, a 45-bushel payment yield would require a 45/.78 =58 bushel actual yield. Even though a 58-bushel yield is, for example, a good irrigated soybean yield, the maximum and minimum projected payment levels for corn, grain sorghum and wheat at modest or low dryland yields are quite competitive with soybean payments, suggesting that wheat and feed grain base should not necessarily be offset by soybean base as we have suggested with oats base. This producer (Table 1) would have to consider the likelihood of various price levels to decide if further base offset is desirable. Using oilseed history to offset wheat and feed grains base at the maximum is Option 3. Some offset, but less than the maximum is Option 5.

The wheat and feed grain yields used in Options 1, 2, 3 and 5 are the yields previously assigned to the farm. Producers also have an Option 4 available that involves using 1998-2001 yields to partially update yields and using 85 percent of 1998-2001 planted and considered planted acres for payment acres.

To compare Option 4 with the other options requires calculating the total projected farm program payments under each option. Table 2 illustrates the result of some example comparisons for a 1,000 acre irrigated farm that had a 900-acre base and that could add soybean base on all of the free acres. The 1998-2001 planting was 60 percent corn and 40 percent soybean. As Table 2 illustrates, the preferred option depends critically upon the projected prices.

A pencil worksheet to use as a guide for developing Table 2 is available on the University of Nebraska website: FarmBill.unl.edu. This website includes a computer spreadsheet for calculating the alternatives. Also, a link is provided to a Texas A&M website where the options can be compared on-line using price outlook information provided by outlook specialists.

Table 3 reports the July 2002 FAPRI projections in parenthesis by year. Table 3 also reports the number of years corn and soybean National Average price levels have occurred in that range in the last 25 years. The majority of the time prices have been at a level where no Counter-Cyclical payment would be paid under the DCP (corn above $2.32 and soybean above $5.35). Five of those 13 years were in the 90s. Four of the 5 years that would have qualified for a maximum Counter-Cyclical Payment (corn $1.98 or less and soybean $5.00 or less) were 1998-2001.

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Table 1. Example DCP Payment Levels, 2002-2003 Provisions

	Corn	Grain Sorghum	Oats	Wheat	Soybeans
Target	$2.60	$2.54	$1.40	$3.86	$5.80
National loan	$1.98	$1.98	$1.35	$2.80	$5.00
Direct payment (DP)	$0.28	$0.35	$0.024	$0.52	$0.44
Target-DP	$2.32	$2.19	$1.38	$3.34	$5.36
National Loan + DP	$2.26	$2.33	$1.374	$3.32	$5.44
Max Counter-Cyclical (CC) Payment	$0.34	$0.21	$0.026	$0.54	$0.36
DP + Max CC	$0.62	$0.56	$0.050	$1.06	$0.80
Example "Direct" Yield (bu/ac)	85.0	75.0	50.0	35.0	45.0
Min Payment/Acre[1]	$23.80	$26.25	$1.20	$18.20	$19.80
Max Payment/Acre[2]	$52.70	$42.00	$2.50	$37.10	$36.00

[1] Payment at Direct Payment level (Line 3).
[2] Total payment when Counter-Cyclical payment is maximum (Line 7).

Table 2. Advantage to Proving Yields, Example Farm

		Corn Prices		
		$1.98	**$2.15**	**$2.32**
Soybean Prices	$5.00	-2,795	-541	1,714
	$5.20	-5,702	-3,448	-1,193
	$5.36	-8,027	-5,773	-3,519

Payments under Option 5 would exceed those under Options 1, 2, or 3 for this example farm. Table values are differences between payments under Option 4 and Option 5. A positive value indicates an advantage to Option 4.

Table 3. National Average Price Frequencies, 1977-2001 and FAPRI Projections.

		Corn Prices					
		$1.98 or less	**$1.99-2.04**	**$2.05-2.09**	**$2.10-2.24**	**$2.25-2.31**	**$2.32 or more**
Soybean Prices	$5.00 or less	5			(2004,5)		
	$5.01 - 5.09				(2006)	(2003)	
	$5.10 - 5.34				(2007)		
	$5.35 or	2	1	1	1	2	13

FAPRI, Food and Agricultural Policy Research Institute, July 2002 projections in parenthesis indicating the year their price projection fell in that interval.