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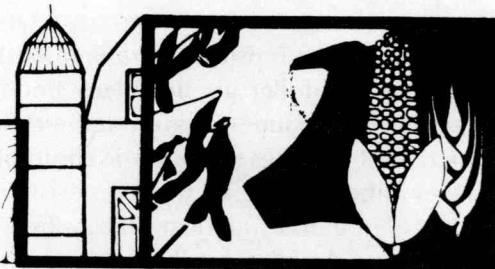
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LETTER

THE AGRICULTURAL EXPORT PICTURE, while still strong overall, is not as bright as a few months ago. Prices of grains and oilseeds, which account for more than 70 percent of the value of agricultural exports, have not reached the levels previously expected. Moreover, shipments of oilseeds in recent months have been well below the forecast pace, and the amount of outstanding export contracts for soybeans is down sharply from last year. Export prospects have also been dampened by the record harvest under way in the Southern Hemisphere, the strengthening value of the U.S. dollar, and the lagging economic growth in a number of the major importing countries. Reflecting these developments, the U.S. Department of Agriculture recently lowered its forecast of the volume of agricultural exports for fiscal 1981 from 170.5 million metric tons to 169 million. The lower tonnage estimate, plus lower price prospects, have reduced the value estimated for agricultural exports from \$48.5 billion to \$47 billion.

Despite the downward revisions agricultural exports are still expected to exceed the record of fiscal 1980. The latest estimates point to a 3 percent rise from last year in export tonnage and a 16 percent rise in the value of shipments. Moreover, the agricultural trade balance—exports minus imports—is still expected to be in a surplus by about \$29 billion in fiscal 1981. If that level is achieved, it would mark a one-fourth increase from fiscal 1980 and an increase of more than four-fifths from the level of two years ago.

The slower-than-expected pace in oilseed shipments has been particularly evident for sunflower seeds and soybeans. During the first one-third of the current fiscal year (October-January), soybean exports were down a fourth from the same months the year before and were the lowest for that period in three years. The year-to-year decline has since narrowed appreciably, but export inspections for February and early March still point to a pace well below last year. Evidence of a soft export demand for soybeans is also reflected in the comparatively low amount of unfilled export sales contracts. As of early March, unfilled export sales of soybeans were more than a fourth below the "embargo-adjusted" level of a year ago.

In marked contrast to soybeans, corn exports have been in line with the strong performance expected this year. In the four months ending in January, export shipments of corn were nearly a tenth higher than in the same period the year before. Weekly export inspections data suggest the year-to-year gain in corn export shipments narrowed only slightly in February and early March. Moreover, unfilled export sales, as of early March, were well above the "embargoed-adjusted" volume of contracts that were on the books at that time last year.

Several recent developments have contributed to the less optimistic export picture, especially for oilseeds. Indications of a record harvest now under way in the Southern Hemisphere have had a significant impact. Latest estimates suggest the combined soybean harvest in Brazil and Argentina will approach 735 million bushels, 8 percent more than last year and 43 percent higher than the short crop of two years ago. The increase from last year suggests soybean and meal exports from those two countries in the next few months will remain high, and for the year ending in September are likely to be more than a third higher than the year before. Brazil and Argentina account for over a fourth of world exports of soybeans and products. The United States accounts for a little over three-fifths.

Southern Hemisphere production of coarse grains is also up significantly this year. Latest production estimates for South Africa, Argentina, and Australia point to an increase of 32 percent from last year and 14 percent from two years ago. The impact of this increase on U.S. corn markets, however, will be less than the Southern Hemisphere influence on soybean markets. The three major exporting countries in the Southern Hemisphere account for less than a sixth of world exports in coarse grain, while the United States accounts for about 70 percent. In terms of corn alone, the United States enjoys a far more dominant share in world exports.

The stronger value of the dollar and slower economic growth in several major importing countries has also contributed to the less optimistic export picture. For those commodities in which trading is not encumbered

by administered pricing arrangements, the stronger value of the dollar implies many importing countries have not witnessed—in terms of their own currencies—the recent declines in domestic commodity prices. This development, along with slower economic growth, has probably been a significant factor behind the particularly large decline in oilseed shipments and sales to Western Europe.

The export picture is also clouded by the continuing embargo on sales to the USSR. Little of the 8 million metric tons of wheat and corn that can be shipped to the

USSR during this fiscal year remains to be shipped. Moreover, the embargo and the apparent cooling in U.S./USSR relations is starting to cast longer-term shadows on the export picture. The existing five-year grain agreement between the United States and the USSR expires in September. As yet, there is no indication of what will follow in terms of shipments or a new agreement. Despite the various leakages that thwart efforts to curtail direct trading with the Soviet Union, American agriculture has a vital long-run interest in maintaining trade with that country.

Gary L. Benjamin

THE FEDERAL CROP INSURANCE PROGRAM has been revised under provisions of the Federal Crop Insurance Act of 1980. The new legislation provides for an expanded multiple-peril crop insurance program that will likely replace the Agricultural Stabilization and Conservation Service's (ASCS) disaster payment program in 1982. Within the next five years, the Federal Crop Insurance Corporation (FCIC) will extend available crop insurance to more agricultural counties and will consider underwriting insurance on additional agricultural products.

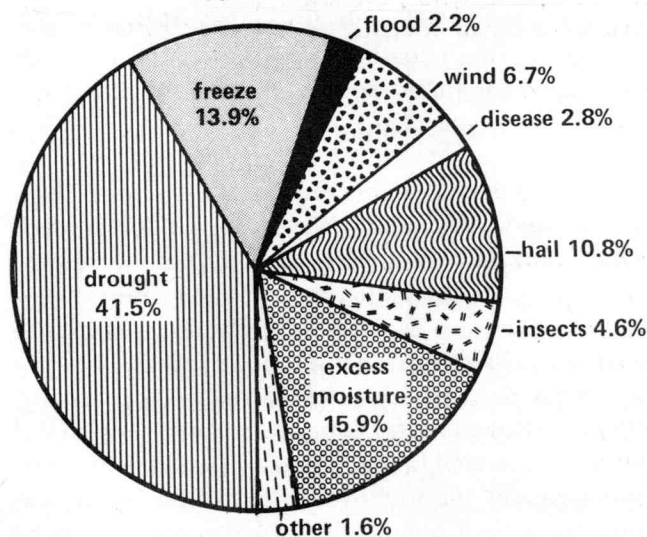
Federal crop insurance started in 1938. The first act created the FCIC as an agency of the USDA and authorized insurance programs for unavoidable crop losses due to adverse weather, insect infestations, diseases, and other risks. Losses due to neglect, poor farming practices, theft or low prices were not included. Operating and administrative costs were covered by government appropriations, while premiums covered claims for losses and provided reserves against unforeseen catastrophes. Payments for claims were limited to a portion of the value of crops rather than the full value.

The first program was limited to wheat, although cotton was added after the second year. However, because heavy losses to wheat crops caused indemnity (claim) payments to far exceed premiums in the first four years of the program, Congress withdrew funds in 1943. In late 1944 new legislation was passed to revive crop insurance for several crops and to provide for experimental insurance on some commodities. But losses occurred again in 1945 and 1946, so Congress reduced the program to an experimental basis. In 1948 federal crop insurance was restored and since that time has been gradually expanded. Legislative changes have provided for increases in the number of commodities insured from seven in 1948 to 28 now. The number of counties eligible for some coverage has expanded from about 400 in 1948 to over 1,600 at present.

Despite the expanding coverage provided by the FCIC, participation by farmers has not been great. Less than 13 percent of the eligible crop acreage has been insured in any one year since 1948. But the crop insurance program has been financially sound for the period 1948-78 in the sense that total claims have been nominally below the premiums collected. In 14 of the years, however, claims paid averaged one-fifth more than premiums taken in.

In recent years farmers could also obtain additional protection against crop losses by participating in the various commodity programs—such as wheat and feed grains—administered by the ASCS. Those programs partially compensate farmers who suffer crop losses due to prevented planting or subnormal yields resulting from flood, drought, or natural disaster. Farmers, to be eligible for payments, had to set aside acres or operate within their normal crop acreage (NCA) as determined by the ASCS. Payments were made from federal monies.

Portion of FCIC indemnities paid by type of loss, 1939 to 1978



SOURCE: Federal Crop Insurance Corporation.

The latest federal crop insurance program, passed by Congress in 1980, allows a nationwide, all-risk crop insurance program to become the primary form of disaster protection for farmers. The ASCS's disaster payment program is scheduled to expire in 1982, and within the next five years, the FCIC's program will be extended to all agricultural counties. At the same time the number of crops eligible for coverage will be expanded if sufficient actuarial data—history of losses in an area—can be established.

The new act incorporates several major provisions. Participants can elect one of three levels of yield protection and one of three levels of price protection. The options on yield protection are 50 percent, 65 percent, or 75 percent of the historical average yield in the participant's county or risk area within a county. The options on price protection are determined annually by the FCIC and apply to all areas. The highest price option is at least 90 percent of the annual price projected by the FCIC, based on trends, forward contracts, and judgmental factors. For the 1981/82 crop year, price options were set at \$1.70, \$2.00, and \$2.70 for corn and \$4.50, \$6.00, and \$7.00 for soybeans. Options for wheat were \$2.50, \$3.00, or \$3.50, but new price options will be established soon for the wheat crop year beginning in July.

The premium paid by a participant will depend on the combination of yield and price protection (coverage) that is selected. The premium schedule is based on the loss experience in the participant's county or risk area. A premium subsidy of 30 percent is available for those who select the 50 percent or 65 percent yield coverage. The subsidy for those selecting the 75 percent yield coverage has a maximum limit equal to 30 percent of the premium applicable to the 65 percent yield coverage. Participants who purchase hail and fire coverage from a private insurance firm will lower their FCIC premium costs by up to 30 percent. The act also permits other premium subsidies to be paid by a state or an agency of the state so as to further reduce the farmer's portion.

The FCIC, to the maximum extent feasible, is to use the delivery system of the private insurance industry to market and service federal crop insurance. Farmers may apply for policies at designated local insurance agencies or use ASCS and FCIC offices. Private insurance companies may even provide an all-risk crop insurance plan to farmers and, if acceptable, reinsure it with the FCIC.

In the event premiums and reserves available to the FCIC are inadequate to meet farmers' claims for losses, emergency funding may be sought. Commodity Credit

How federal crop insurance works

A farmer wants to insure 100 acres of soybeans in Farmer County, USA. The FCIC has determined the average county soybean yield is 40 bushels per acre. The farmer can choose one of three yield coverages:

50 percent or 20 bushels per acre;
65 percent or 26 bushels per acre;
75 percent or 30 bushels per acre.

He can also choose one of the three price level coverages offered by the FCIC: \$4.50, \$6.00, or \$7.00 per bushel.

If he selects the 65 percent yield coverage and the \$7.00 price protection, the premium according to a schedule of rates would amount to \$4.70 per acre. However, since the FCIC will subsidize 30 percent, his net premium is \$3.30 per acre for multiple risk crop insurance.

If drought conditions reduce his yield to 10 bushels per acre on the 100 acres, he would be eligible for an \$11,200 payment (16 bushels loss/acre x \$7.00 x 100 acres). His cost for this protection was \$330 (\$3.30 x 100 acres).

Corporation funds may be used for up to one year to supplement payments to farmers, or monies may be borrowed, if authorized, from the U.S. Treasury at prevailing interest rates.

The program may be broadened in the future as a result of research and pilot programs permitted by the act. Insurance on rangeland, livestock poisoning and diseases, bees, fruits, nuts, vegetables, aquaculture species, forest products and others could be added. This may come about slowly, though, since about four years are needed to study and test a program in an area. It is also unlikely that insurance would be available on a commodity that is not of importance to an area. In the near term priority will be given to expanding coverage on the six major crops—corn, wheat, barley, rice, grain sorghum, and cotton—that were part of the ASCS disaster payment program.

The new program is somewhat complicated this year because of the overlap in the insurance and disaster payment programs. During 1981 producers of the six major crops may choose insurance, disaster payments, or both. Producers of those six crops, who pay the *full* insurance premium established for the crop, may also qualify for disaster payments as long as ASCS requirements are met. Otherwise these farmers may rely solely on the disaster payment program or use the federal crop insurance program, taking advantage of a subsidized premium rate. Producers of 22 other crops must use the federal crop insurance program exclusively where available.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	February	263	- 0.4	+10
Crops	1967=100	February	275	- 0.4	+24
Livestock	1967=100	February	254	+ 0.4	0
Index of prices paid by farmers	1967=100	February	300	+ 0.3	+10
Production items	1967=100	February	294	+ 0.3	+10
Producer price index* (finished goods)	1967=100	February	262	+ 1.0	+10
Foods	1967=100	February	251	+ 0.1	+ 8
Processed foods and feeds	1967=100	February	250	- 1.0	+ 7
Agricultural chemicals	1967=100	February	271	+ 2.1	+12
Agricultural machinery and equipment	1967=100	February	277	+ 1.4	+11
Consumer price index** (all items)	1967=100	January	261	+ 0.8	+12
Food at home	1967=100	January	266	+ 0.6	+10
Cash prices received by farmers					
Corn	dol. per bu.	February	3.22	+ 0.9	+35
Soybeans	dol. per bu.	February	7.13	- 8.6	+15
Wheat	dol. per bu.	February	4.06	- 3.6	+ 7
Sorghum	dol. per cwt.	February	5.31	- 3.1	+33
Oats	dol. per bu.	February	2.03	+ 2.5	+48
Steers and heifers	dol. per cwt.	February	63.10	- 2.0	-10
Hogs	dol. per cwt.	February	42.30	+ 3.7	+15
Milk, all sold to plants	dol. per cwt.	February	14.10	0	+10
Broilers	cents per lb.	February	30.4	+ 0.7	+20
Eggs	cents per doz.	February	62.6	- 3.4	+23
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Quarter	146	+ 2.0	+ 8
Net farm income	bil. dol.	4th Quarter	22	+ 1.4	-26
Nonagricultural personal income	bil. dol.	February	2,266	+ 0.7	+11

*Formerly called wholesale price index.

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