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FEDERAL RESERVE BANK OF CHICAGO

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LETTER

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THE FARM POLICY ARENA has been active in recent weeks. The activity has added finishing touches to this year's feed grain and wheat programs, authorized the opening of the grain reserve program to farmers that did not abide with set-aside requirements last year, and extended the Economic Emergency lending program of the Farmers Home Administration.

The **1980 feed grain program** differs in several respects from last year's program. Unlike last year, there is no acreage set-aside requirement and no voluntary paid diversion option for removing additional acreage from production. Because there is no set-aside requirement, all producers will be eligible for program benefits, including CCC loans, reserve entry, and—if made—deficiency and disaster payments. The loan rate for this year's corn program has been raised a dime to \$2.10 per bushel. That represents the amount per bushel farmers will receive if they pledge their 1980 corn as collateral for a loan from the Commodity Credit Corporation.

The 1980 feed grain and wheat programs initiate a system of two-tiered target prices. For corn, the upper target price is \$2.35 per bushel and the lower target price is \$2.05. Last year's corn program offered a single target price of \$2.20 per bushel. Producers whose 1980 plantings do not exceed their normal crop acreage (NCA) will be eligible for deficiency and disaster payments linked to the higher target price. Benefits for those whose plantings exceed the NCA will be linked to the lower target.

Selected provisions of the 1980 feed grain and wheat programs and the grain reserve program

	Wheat	Corn	Sorghum	Barley	Oats
	(dollars per bushel)				
Loan rate	2.50	2.10	2.00	1.71	1.08
Target prices					
NCA compliers	3.63	2.35	2.50	2.55	n.a.
NCA noncompliers	3.08	2.05	2.45	2.29	n.a.
Grain reserve features					
Storage payment	.265	.265	.265	.265	.205
Release price					
old contracts ¹	3.50	2.63	2.50	2.14	1.35
new contracts ¹	3.75	2.63	2.50	2.14	1.35
Call price					
old contracts ¹	4.38	2.94	2.80	2.39	1.51
new contracts ¹	4.63	3.05	2.90	2.48	1.57

¹Old contracts are those entered into before January 7, 1980, and not subsequently replaced with new contracts which altered some of the links between loan rates and release and call prices.

n.a. Not applicable.

Target prices are used to determine whether deficiency payments will be made, and—if so—what the deficiency payment rate will be. Eligible producers receive deficiency payments from the government if the average market price received by all farmers during the first five months of the marketing year is less than the target price. In such instances, the payment rate per bushel of normal production is the difference between the target price and the five-month average price or—if less—the difference between the target price and the loan rate. To receive a full deficiency payment, a farmer will have to limit 1980 plantings to no more than what he planted last year, plus any acreage removed from production last year through set aside or paid diversion. Otherwise, his deficiency payment could be reduced as much as 20 percent.

Pressures on rural credit markets will likely ease somewhat with the recent legislation. One bill signed this week authorizes the Secretary of Agriculture to open the three-year grain reserve program to 1979 corn and wheat farmers that would otherwise be ineligible because they did not comply with set-aside requirements last year. The Secretary has announced that he will use this authorization to permit some additional 1979 crop corn to enter the reserve. The CCC loans and the storage payments provided to farmers that enter the reserve under this option will help supplement the tight rural credit markets.

The other development that will likely ease the stress in rural credit markets is recent legislation extending the Farmers Home Administration's Economic Emergency lending program through September 1981. Without the extension, the program would have expired in mid-May. The extension adds an additional \$2 billion to the \$4 billion ceiling on outstanding obligations authorized in the original 1978 act. Of this, the FmHA has allocated a preliminary \$1 billion among the 50 states for the remainder of fiscal 1980. District states were allocated a total of \$187 million, including \$48 million for Wisconsin and \$42 million for Iowa. The program provides direct loans to farmers, as well as guarantees for loans negotiated between eligible farmers and private lenders. Interest rates on direct loans were raised to 14 percent this week, up from 11 percent on real estate and 12 percent on farm operating loans.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers					
Crops	1967=100	March	234	- 1.7	- 5
Livestock	1967=100	March	217	- 1.4	+ 1
	1967=100	March	251	- 1.6	- 8
Index of prices paid by farmers					
Production items	1967=100	March	274	+ 1.1	+12
	1967=100	March	269	+ 1.1	+10
Producer price index* (finished goods)					
Foods	1967=100	March	238	+ 1.2	+14
Processed foods and feeds	1967=100	March	233	+ 0.6	+ 3
Agricultural chemicals	1967=100	March	232	- 0.7	+ 5
Agricultural machinery and equipment	1967=100	March	256	+ 5.4	+24
	1967=100	March	250	+ 0.5	+11
Consumer price index** (all items)					
Food at home	1967=100	February	236	+ 1.4	+14
	1967=100	February	241	+ 0.3	+ 6
Cash prices received by farmers					
Corn	dol. per bu.	March	2.31	- 3.3	+ 4
Soybeans	dol. per bu.	March	5.92	- 4.5	-17
Wheat	dol. per bu.	March	3.62	- 4.2	+22
Sorghum	dol. per cwt.	March	3.97	- 0.3	+12
Oats	dol. per bu.	March	1.35	- 1.5	+ 6
Steers and heifers	dol. per cwt.	March	69.30	- 1.4	- 6
Hogs	dol. per cwt.	March	34.60	- 5.7	-30
Milk, all sold to plants	dol. per cwt.	March	12.70	- 0.8	+ 8
Broilers	cents per lb.	March	24.2	- 4.7	-16
Eggs	cents per doz.	March	55.0	+ 8.3	-14
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Quarter	132	+ 1.7	+11
Net farm income	bil. dol.	4th Quarter	33	+ 5.5	+ 3
Nonagricultural personal income	bil. dol.	February	2,004	+ 0.5	+11

*Formerly called wholesale price index.

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