



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

# Low Price Impacts on Farm Program Payments and Farm Income

---

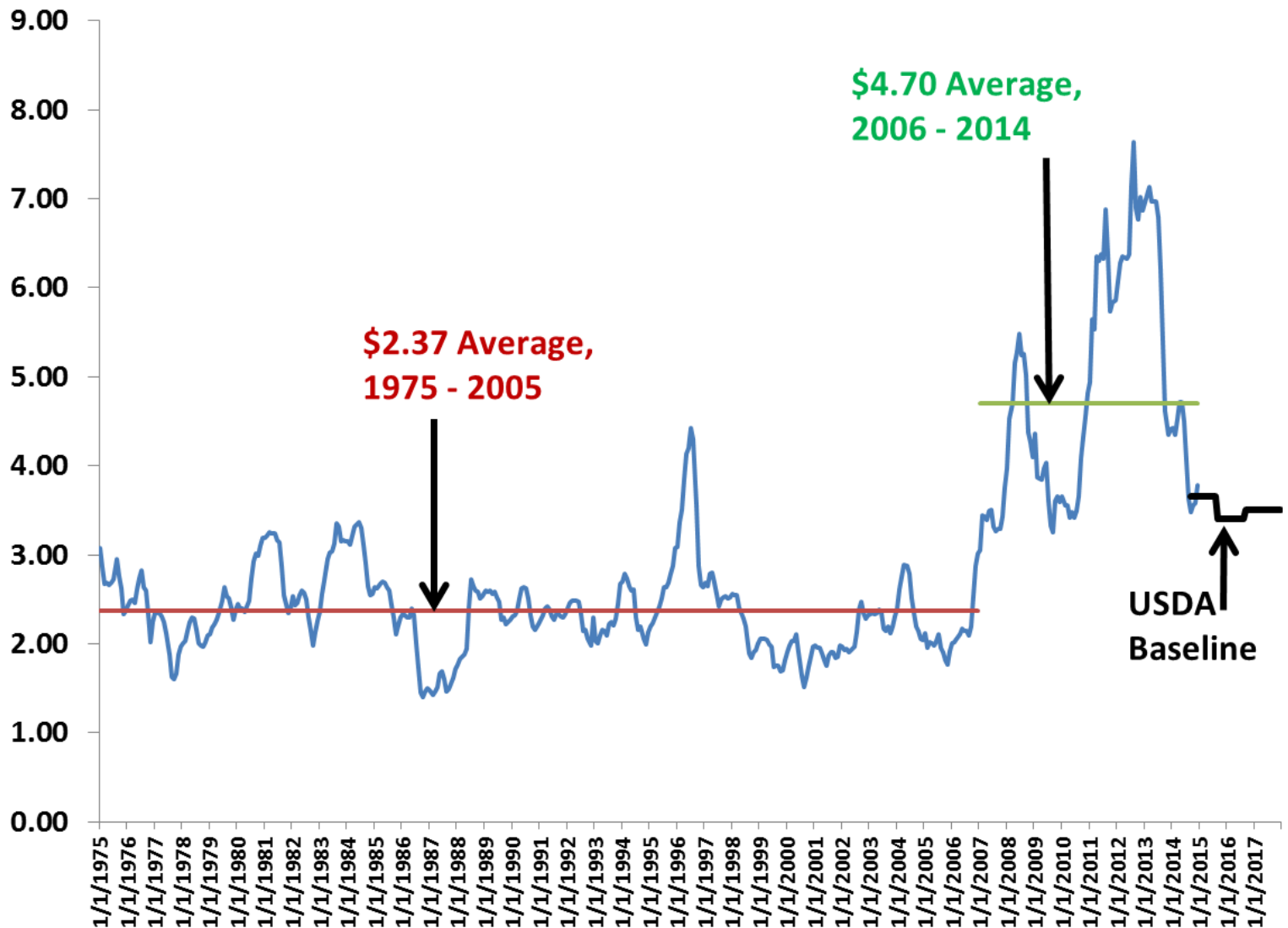
**Gary Schnitkey**

**University of Illinois**

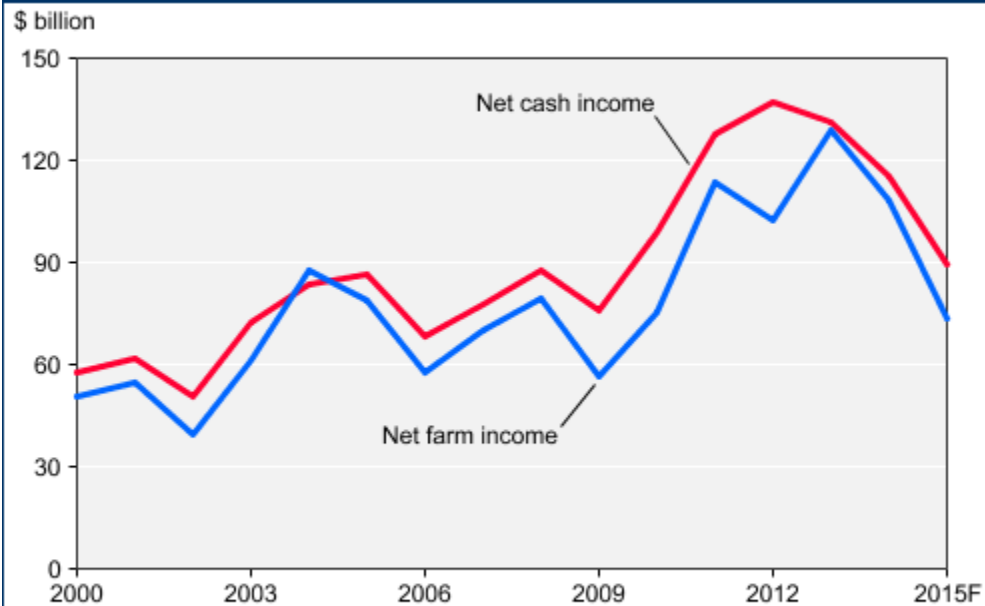
**[schnitke@illinois.edu](mailto:schnitke@illinois.edu)**

**217 244-9595**

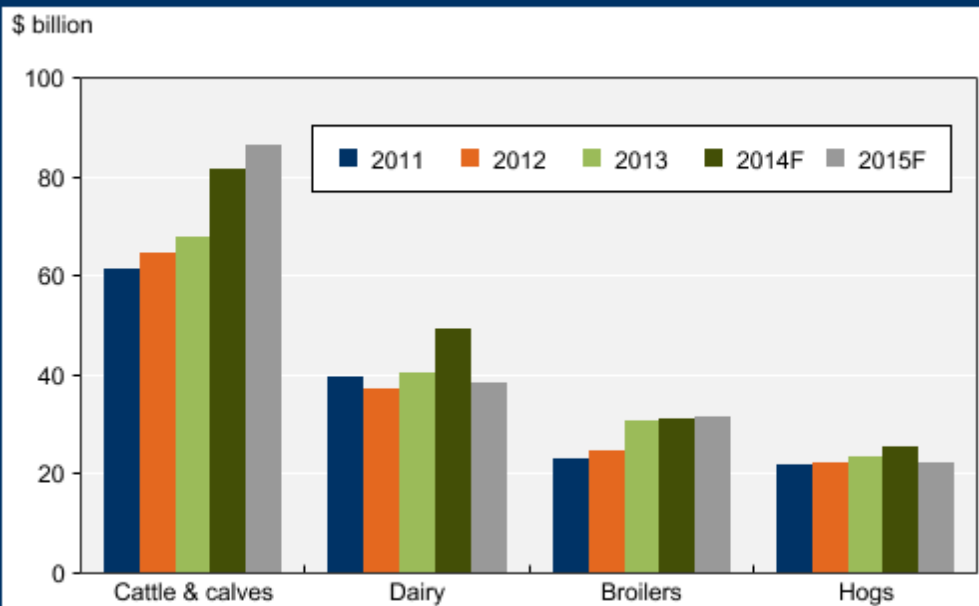
# National Corn Price, January 1975 through December 2014



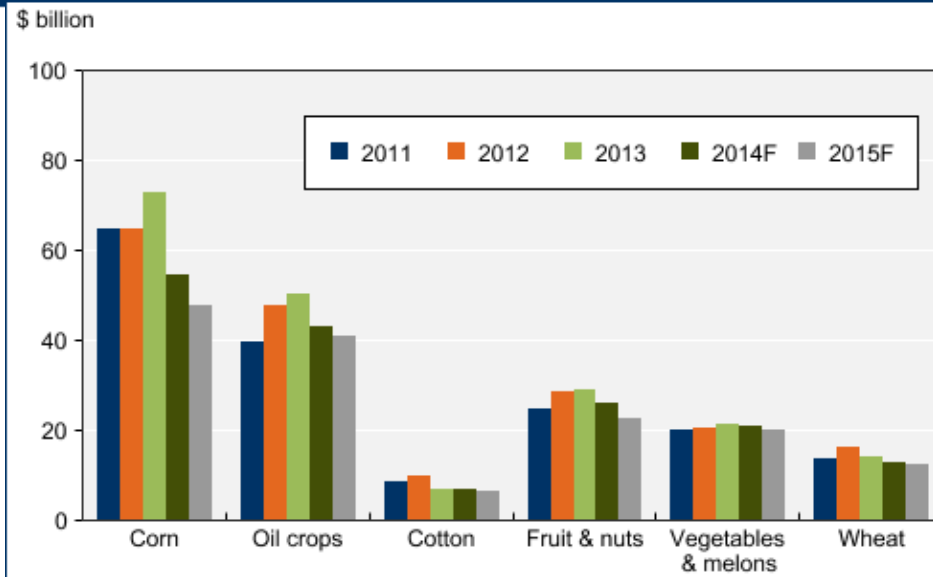
## Net farm income and net cash income, 2000-2015F



## U.S. value of production for selected livestock, 2011-2015F

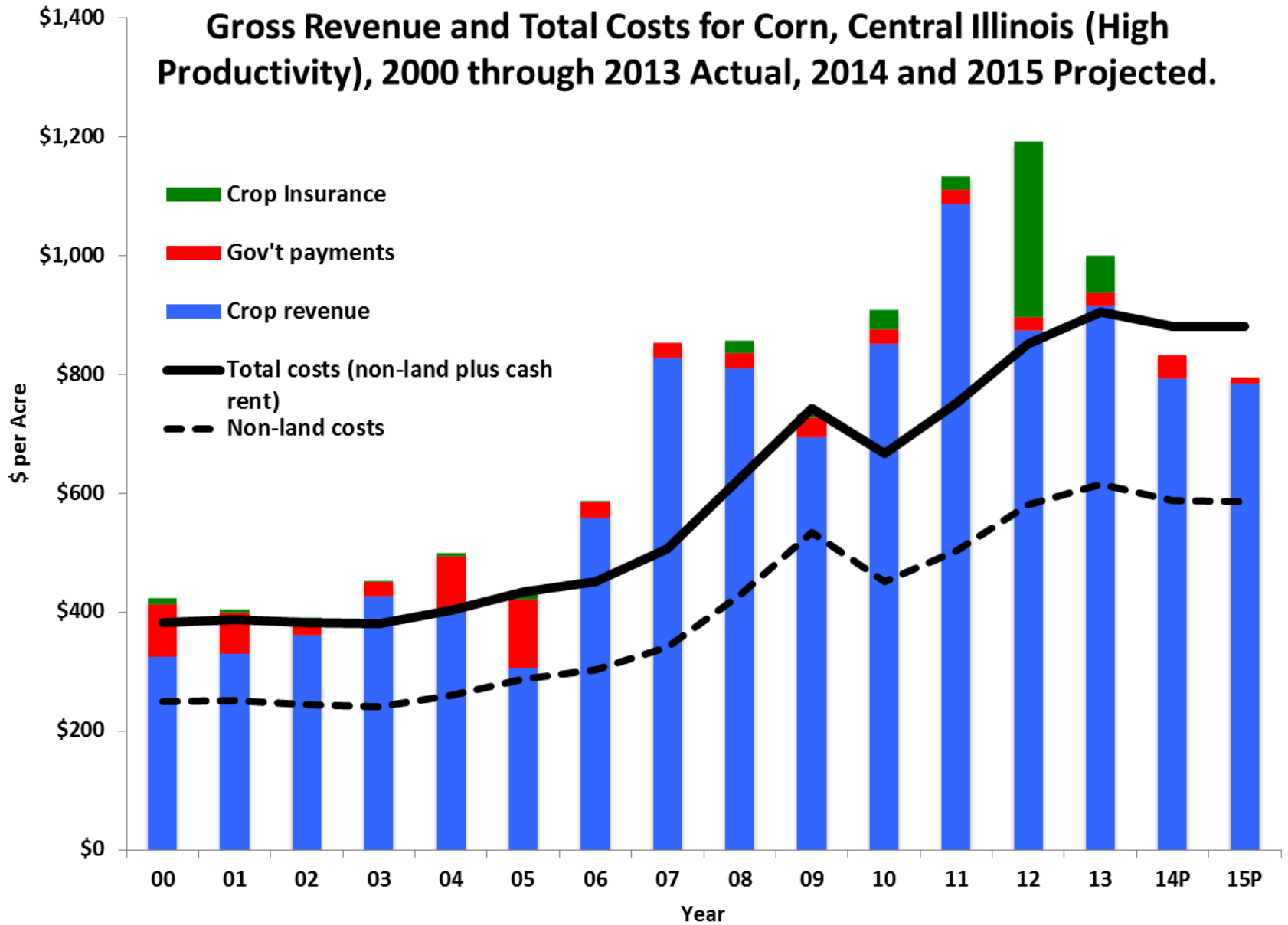


## U.S. value of production for selected crops, 2011-2015F



Note: F = forecast.  
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics

# Gross Revenue and Total Costs for Corn, Central Illinois (High Productivity), 2000 through 2013 Actual, 2014 and 2015 Projected.



# Major Government Safety Net

---

## 1. Crop insurance

## 2. Commodity programs

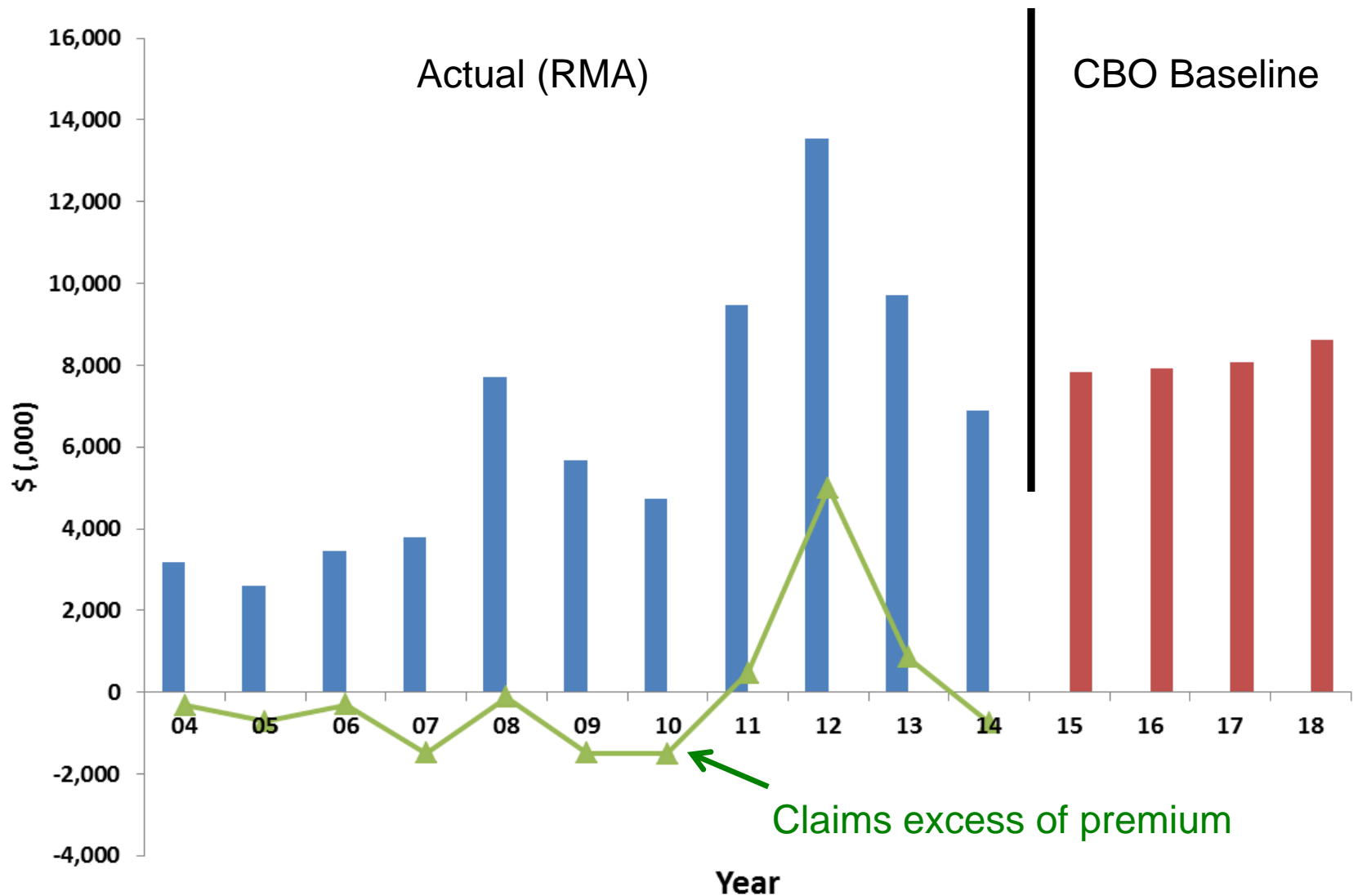
**ARC/PLC**

**Dairy**

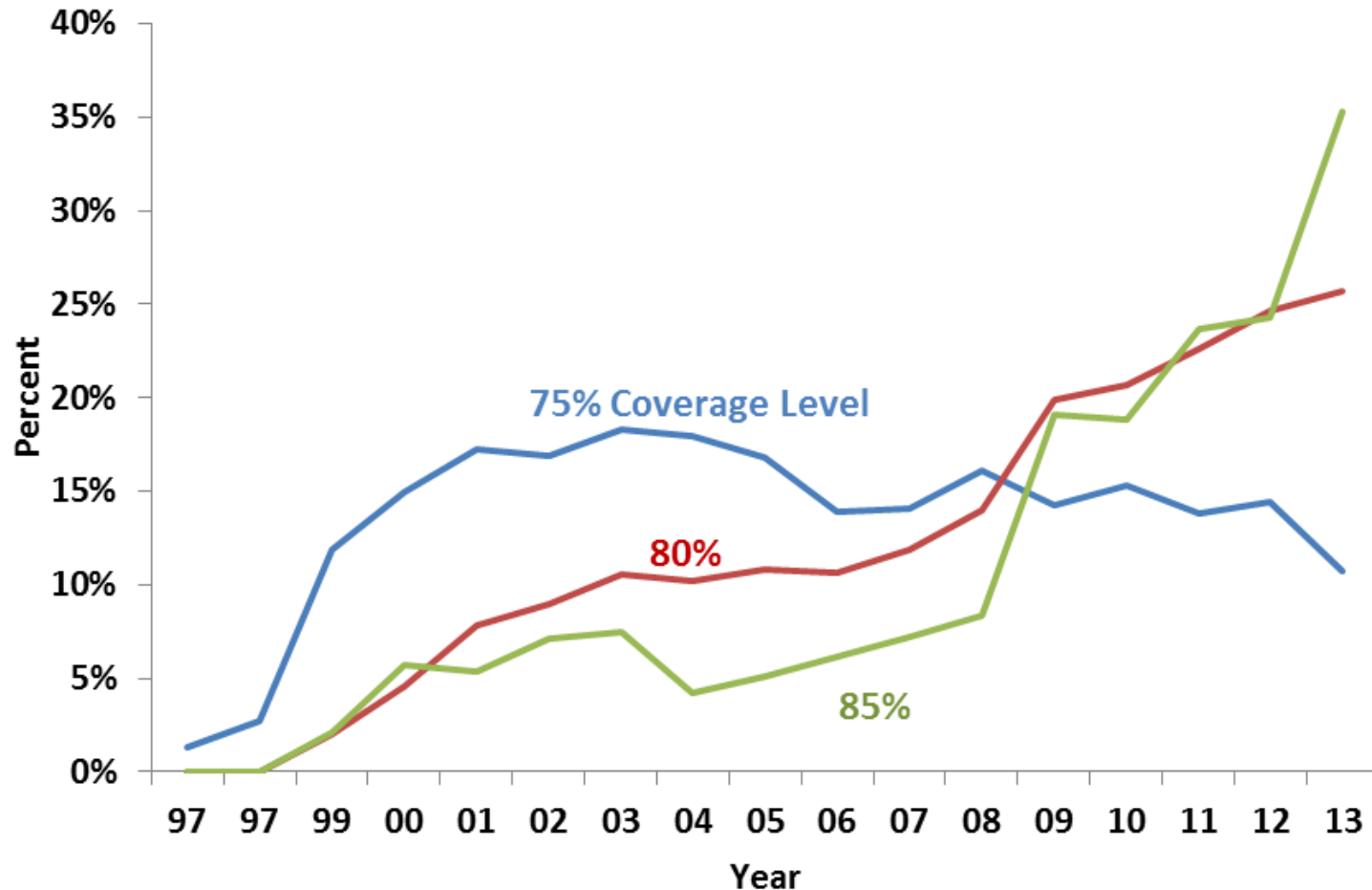
**NAP**



# Federal Government Outlays on Crop Insurance



# RP, Corn, I-States at 75%, 80%, and 85% Coverage Levels



Source: Risk Management Agency, Summary of Business data





# Projected and Harvest Prices (Midwest States)

	2010	2011	2012	2013	2014	2015
<b>Corn</b>						
<b>Projected Price</b>	<b>3.99</b>	<b>6.01</b>	<b>5.68</b>	<b>5.65</b>	<b>4.62</b>	<b><i>\$4.15</i></b>
<b>Harvest Price</b>	<b>5.46</b>	<b>6.32</b>	<b>7.50</b>	<b>4.39</b>	<b>3.49</b>	
<b>Soybeans</b>						
<b>Projected Price</b>	<b>9.23</b>	<b>13.49</b>	<b>12.55</b>	<b>12.87</b>	<b>11.36</b>	<b><i>\$9.64</i></b>
<b>Harvest Price</b>	<b>11.63</b>	<b>12.14</b>	<b>15.39</b>	<b>12.87</b>	<b>9.65</b>	

- Projected price – average of Dec. (corn) of Nov. (beans) CME futures contract in February, used to set insurance guarantees.
- Harvest price – average of Dec. (corn) Nov. (beans) CME futures contract in October, used to calculate insurance revenue.



# Revenue Guarantees per Acre by Year

Year	Projected Price	RP Minimum Guarantee
	\$/bu	\$/acre
2011	6.01	971
2012	5.68	917
2013	5.65	912
2014	4.62	746
2015P	4.15	670

Corn, 180 bu TA-APH, 85% coverage level



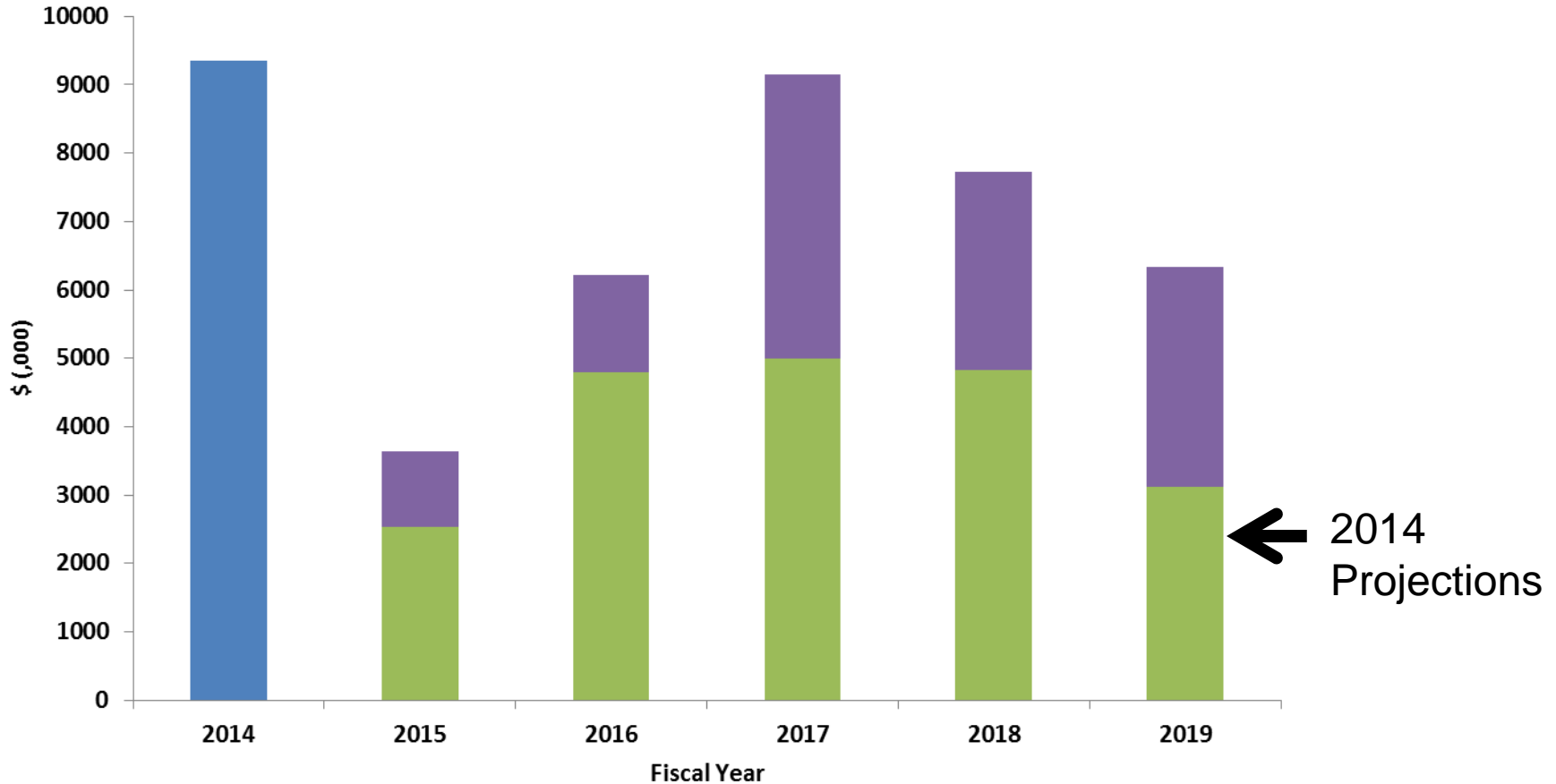
# Crop Insurance Issues

---

- **Increasing coverage levels**
  - Farmer buying up coverage levels
  - SCO and STAX, will do the same thing
  
- **Change the nature losses, Standard Reinsurance Agreement negotiations**



# Commodity Program Spending CBO Projections, February 2015



# Program Choice

---

- **Agricultural Risk Coverage (ARC) – County level program**
- **Price Loss Coverage (PLC) – reference price program**
- **ARC – Individual – farm level program**
- **Feb 28 -- Base acre and yield updating decision deadline**
- **March 31 – program Choice**



# Prices Impacting Program Decisions

Crop		2014			
		ARC Benchmark Price	PLC Reference Price	USDA Benchmark Avg (14-18)	FAPRI Avg (14-18)
Barley	Bu.	5.45	4.95	4.51	4.76
<b>Corn</b>	<b>Bu.</b>	<b>5.29</b>	<b>3.70</b>	<b>3.48</b>	<b>3.81</b>
Grain Sorghum	Bu.	5.10	3.95	3.48	3.69
Peanuts	lb.	0.28	0.27	0.22	0.22
Rice -- Long G.	lb.	0.14	0.14	0.15	0.12
Rice -- Medium G.	lb.	0.15	0.14	0.16	0.14
<b>Soybeans</b>	<b>Bu.</b>	<b>12.27</b>	<b>8.40</b>	<b>8.99</b>	<b>9.42</b>
<b>Wheat</b>	<b>Bu.</b>	<b>6.60</b>	<b>5.50</b>	<b>5.02</b>	<b>5.49</b>



# 2014 Program Payment Estimate

## DeKalb County Illinois

- **PLC = \$6 per base acre**
- **ARC-CO = \$56 per base acre**

**200 bu yield**

## McLean County, Illinois

- **PLC = \$6 per base acre**
- **ARC-CO = \$0 per base acre**

**210 Bu yield**

**Soybean payments = \$0**

**Average 2014 base acre = \$30 to \$40**

**Direct payments = \$22**

**Gross revenue = \$804**



**Table 1. Change in Non-Land Corn Costs from 2006 to 2013 by Cost Item,  
Central Illinois, High-Productivity Farmland**

Item	Category	Change from 2006 to 2013	2013 Costs
		\$/acre	\$/acre
Fertilizers	Direct	111	193
Seed	Direct	69	114
Mach. depreciation	Power	43	63
Pesticides	Direct	26	66
Crop insurance	Direct	16	27
Drying	Direct	13	24
Fuel and oil	Power	10	24
Machine repair	Power	9	22
Hired labor	Overhead	8	16
Machine hire/lease	Power	5	11
Building repair and rent	Overhead	3	6
Utilities	Power	2	5
Misc.	Overhead	2	8
Building depreciation	Overhead	1	5
Insurance	Overhead	1	10
Storage	Direct	0	8
Light vehicle	Power	0	2
Interest (non-land)	Overhead	-6	11
<b>Total</b>		<b>313</b>	<b>615</b>



# Financial Results will Depend on

---

- **How fast do the following go down:**
  - Machinery purchase
  - Fertilizer and seed
- **Adjustment in cash rents**
- **Adjustment in other cash flows**

