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Weekly Farm Economics: Harvest Prices and Insurance Payments

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Crop insurance harvest prices for corn and soybean in the Midwest are determined during October. Most farmers insured using either Revenue Protection (RP) or Group Risk Income Plan with the harvest revenue option (GRIP-HR), both of which have the guarantees based on the higher of the harvest or projected price. Harvest prices will be above the projected prices this year. Because of large yield losses this year, RP and GRIP-HR will make larger payments with higher harvest prices.

Projected and likely harvest prices in 2012

Projected prices are based on settlement prices of Chicago Mercantile Exchange (CME) futures contracts during the month of February (December contract for corn and November contract for soybeans). This year, the projected price for corn is \$5.68 per bushel for corn and \$12.55 per bushel for soybeans. Harvest prices are based on settlement prices of CME contracts during October. As a result, harvest prices will not be known until the end of October. During the first week of October, CME prices on the December corn and November soybean contracts suggest that corn's harvest price will be about \$7.50 and soybeans harvest price will be about \$15.50.

Both corn and soybeans harvest prices will be significantly above projected prices. Current prices suggest corn's harvest price will be 32% higher than the projected price (32% = $\$7.50 \text{ likely harvest price} / \$5.68 \text{ projected price} - 1$). A 32% increase in 2012 would be comparable to the increase that occurred in 1988, when the October average was 33% higher than the February average (\$2.89 average in October compared to a \$2.17 average in February). Another recent year with a large increase was 2010, when the \$5.46 harvest price was 37% higher than the \$3.99 projected price.

Current price projections suggest that the 2012 harvest price for soybeans will be 24% higher than the 2012 projected price (24% = $\$15.50 \text{ likely harvest price} / \$12.55 \text{ projected price}$). The 2012 increase compares to the 23% increase that occurred in 1988. For soybeans, several years since 2000 have seen harvest prices above projected prices more than projected for 2012: 1) 2003 when the \$7.32 harvest price was 39% higher than the \$5.26 projected price and 2) 2010 when the \$11.63 harvest price was 26% higher than the \$9.23 projected price.

Insurance Payments in 2012

Many farmers will have yield losses that cause RP and GRIP-HR payments. Given yield losses and

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harvest prices above projected prices, higher insurance payments will occur with higher harvest prices. This is illustrated in Table 1, which shows payments for an 80% RP policy having a 185 bushel Trend-Adjusted Actual Production History yield.

Table 1. 2012 Insurance Payments for an 80% Revenue Projection Policy with a 185 bushel Guarantee Yield, Corn.

Actual Yield	Harvest Price		
	\$7.00	\$7.50	\$8.00
	\$ per acre		
80	476	510	544
100	336	360	384
120	196	210	224
140	56	60	64

For an 120 bushel actual yield, the insurance payment will be \$210 per acre for a \$7.50 harvest price. The payment decreases to \$196 per acre for a \$7.00 harvest price and increases to \$224 per acre for an \$8.00 harvest price.

Summary

Due to yield losses caused by the drought, many farmers will receive large insurance payments if they purchased either RP or GRIP-HR at relatively high coverage levels. The size of these payments will be impacted by the harvest price. Increases in harvest prices in 2012 are comparable in percentage terms to increases in 1988, a year in which a severe drought also occurred.