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Crop Insurance Changes and Decisions For 2002

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Cornhusker

Economics

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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Crop Insurance Changes and Decisions For 2002

Market Report	Yr Ago	4 Wks Ago	1/18/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$79.88	\$ *	\$67.92
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	94.27	90.05	85.00
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	96.48	*	92.98
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	121.61	*	106.34
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	38.50	34.00	41.00
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	108.60	101.40	107.70
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	75.75	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	157.00	129.47	132.34
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.39	*	3.13
Corn, No. 2, Yellow Omaha, bu	1.89	*	1.92
Soybeans, No. 1, Yellow Omaha, bu	4.46	*	4.20
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.57	*	3.67
Oats, No. 2, Heavy Minneapolis, MN, bu	1.36	*	2.20
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	115.00	*
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	67.50	77.50	67.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	100.00	105.00	105.00

* No market.

It is now only about a month and a half before the sales closing date of March 15 for spring planted crops in Nebraska. There are no major changes in the program this year. Last year was the big change year with significant increases in premium subsidies as a result of the Agricultural Risk Protection Act of 2000.

There is one change in the CRC program for corn. Beginning in 2002, the harvest measurement period for the CRC corn contract has been changed from November to October. Under the revised system, the harvest price will be the average of the December CBOT corn contract during the month of October, rather than November. The planting price will remain the same. That is, the average of the same December futures contract during the month of February. The price change between the February average and the October average is then used to adjust the revenue losses or to increase the indemnity payments in the event the harvest price is higher than the planting price. These same price calculations apply to the grain sorghum insurance contract for 2002, except the grain sorghum prices are 95 percent of the respective corn prices. The pricing periods are now the same for both corn and soybeans. The only difference is that the soybean prices are based on the November soybean CBOT contract and the corn prices are tied to the December corn contract.

The reason for the change is to simplify the loss adjustment process. In the cornbelt, corn and soybean yields are often, but not always, influenced by the same weather events. Under the previous approach, loss adjusters often had to settle soybean losses at one time and corn losses at a later date. Under the new



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plan, both harvest prices will be known by November 1 and loss adjusters can settle claims for both corn and soybeans during the same trip to the farm. This will result in greater efficiency for the Risk Management Agency of USDA and for the insurance companies that write the policies. Hopefully, it will be in the long-run interest of all policy holders to reduce the expenses of administering the program (Barnaby).

Farmers may question the impact this change may have on indemnity payments. To answer this question, my colleague at Kansas State University, Dr. Art Barnaby, compared the historical average prices of the December CBOT corn contract for October and November and the impact on potential indemnity payments. In 2001 for example, the spring price was \$2.46 and the harvest price was \$2.05. The average for October was \$2.08. Hence, the price gain was reduced by 3 cents. But this would only apply if the actual yield equaled the guarantee yield. If the bushels produced were lower than the guaranteed yield, the 3 cent differential would have less of an impact. In 2000 the reverse was true, where the October average price was 8 cents lower than the November average. Using the last 29 years of data, Barnaby found there is no long-run difference in the average indemnity payment using the October price period versus the November period (Barnaby).

Prices for 2002

In addition to the market based prices for CRC policies, RMA establishes prices for the APH-MPCI program. These established prices for 2002 were announced on November 30, 2001 as follows:

Corn	\$2.00 per bushel
Grain Sorghum	\$1.85 per bushel
Soybean	\$4.92 per bushel

Often, RMA subsequently announces additional price elections due to changes in market conditions after the initial announcement. On January 15, 2002, RMA announced it would not be announcing additional price elections by the January 15 deadline. This was due to the impact the Congressional deliberations on the farm bill might have on 2002 commodity prices. When RMA has sufficient information it will announce additional price elections. This announcement will be no later than July 1, 2002.

This raises an interesting question of how this can apply to the 2002 crop when the sales closing date is March 15. Producers may select an additional price within five calendar days after it is announced and pay the additional premium, compared to the premium based on the November 30 announced prices. This is provided that the producer has not suffered a loss or was prevented from planting before the additional prices are announced; or, does not suffer a loss within ten days after the announcement.

As we go to press, the CRC planting prices will not be finalized for another five weeks, but based on the current market the 2002 CRC planting prices would be:

Corn	\$2.37 per bushel
Grain Sorghum	\$2.25 per bushel
Soybeans	\$4.54 per bushel

Prices will obviously change over the next five weeks, but it looks like the corn CRC price will be higher than the established price, and vice versa for soybeans where the established price for the APH/MPCI program will be higher than the CRC price guarantee. The key consideration for selecting the CRC program still remains: can CRC be incorporated into the marketing program?

Barnaby, G. A. "A History of the New CRC October Harvest Price Adjusted for Time Value of Money."
www.agecon.ksu.edu/risk/barnabyh02/hvstp2.htm

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