September 15, 2017

REALITY OF THE FARM BILL SAFETY NET

This week I was asked to help at the UNL building at Husker Harvest Days. The theme this year was Agricultural Economics with many ideas on reducing expenses and risk management. I assisted Brad Lubben with the booth discussing the farm bill. Managing short term challenges to achieve long term business sustainability was a theme with our booth.

Some bullet points on our large banner was as follows: 1) Support from current programs are declining as moving average prices have fallen; 2) Farm bill authorization is due in 2018 among Federal budget challenges; 3) We need to make new farm program decisions for the 2019 crop year; 4) There needs to be a reset for targets and expectations for the safety net. Farm programs, crop insurance and marketing should all be considered as part of a sound, integrated risk management decision for your farm. Our website for information is farmbill.unl.edu

Current estimates of farm program payments for Nebraska producers show continued support from farm programs for the 2016 crop that will be paid in October 2017, but likely very little support moving forward for the 2017 and 2018 crops (to be paid in 2018 and 2019) for the ARC-CO program. PLC payments are projected for the 2016 through 2018 crops unless we somehow get higher commodity prices. ARC-CO payments for next fall could be a zero or only $10 per base acre of corn and the fact that payments are not on planted acres but made on 85% of base acres.

With the PLC program, actual payments will differ based on individual farm program payment yields. With lower prices and price projections, projected PLC payment rates have become significant. For wheat and grain sorghum producers with substantial base acreage enrolled in PLC, the payments have added and will add significantly to cash flow. However, only a fraction of the base acreage for corn and soybeans was enrolled in PLC and total PLC payments for these crops will be minimal in Nebraska. The estimated payment rates do not take into consideration budget sequestration, which has further reduced payments by approximately 7% each year.

The good news is payments this October approximately 70% of last year but challenges after that. Congress needs to pass a new farm bill. If they kick the can down the road and extend past legislation one more year for the 2019 crop you would hope farmers have an opportunity to change their elections to PLC, if not, that would not be good.

Brad Lubben has published the payments for October and other future projections on the farmbill.unl.edu website or at the bottom of this shortlink: goo.gl/jhQVFN He also has a document of the current challenges with the next farm bill.

There is talk about needing to use crop insurance yield data to determine yield averages for the county level versus the current methods. Regardless of the source, Lubben says it would seem the program needs a consistent and complete data set to function accurately and transparently. Beyond the yield data set, the bigger issue with varying ARC-CO payment rates may be the relatively brief historical yield period in the guarantee. The 5-year Olympic average yield only averages 3 years after eliminating the high and low yields from the calculation. This average itself

can be skewed relative to a longer-term average such as the 10-year actual production history (APH) that producers use for crop insurance protection or some historical trend projection of expected yield in the county. Examining both the yield data and the length of the yield history are important details for considering the ARC program going forward.

Finally if the ARC-CO and ARC-I formulas are tweaked for 2019 and beyond, computer tools like the Texas A&M decision aid will be crucial to help make important financial decisions.

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