

Cornhusker Economics

Cooperative Extension

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

The New Farm Bill: An Increase or Decrease in Farm Program Payments?

Market Report	Yr Ago	4 Wks Ago	8/23/02
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$70.90	\$62.37	\$83.00
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	99.75	82.50	63.90
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	103.90	88.52	88.98
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	109.42	98.37	101.28
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	48.00	40.62	26.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	11.53
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	121.40	*	98.85
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	50.12	84.50	73.13
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	132.73	165.03	161.91
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.04	3.71	4.01
Corn, No. 2, Yellow Omaha, bu	1.87	2.18	2.57
Soybeans, No. 1, Yellow Omaha, bu	4.73	5.35	5.40
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.63	4.12	4.63
Oats, No. 2, Heavy Minneapolis, MN, bu	1.51	1.82	2.04
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	102.50	110.00	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	67.50	82.50	90.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	117.50	117.50
* No market.			

The Farm Security and Rural Investment Act of 2002 (the farm bill) has been recognized as potentially providing agricultural producers with enhanced financial support. The bill has titles (sections) that address commodity programs, conservation, trade, nutrition programs, credit, rural development, research, forestry and energy. Some provisions are intended to indirectly affect producer prices and costs of production through trade promotion and research, for example. The commodity and conservation programs promise direct support for agriculture based on planting history and production, as well as payments for following specific production practices expected to conserve resources and protect the environment. The purpose of this discussion is to examine the possible effects of the commodity (Direct and Counter-Cyclical) programs on farm program payments.

The Direct and Counter-Cyclical Program (DCP) provides for direct payments that are similar to the Production Flexibility Contract (PFC) payments under the 1996-2002 (Freedom-to-Farm) bill. In addition, the counter-cyclical payments based on the shortfall of a target price are similar to the deficiency payments of the 1990-95 farm program. We examine in Tables 1 and 2 case situations to illustrate payment calculations and differences between the PFC and DCP programs. The first case (Table 1) is typical of eastern Nebraska and much of the rest of the corn belt where a corn-soybean rotation was in place in the early 1980s and has been continued to date. This history results in a current corn base on half of the crop acres; and by updating base under DCP the producer can add a soybean base on the other half.

The calculations in the first section of Table 1 assume the national average prices are at, or below the national loan rate of \$1.98 for corn and \$4.95 for soybean. At those price levels, the counter-cyclical payments are at their maximum. The calculations use updated base and yields from 1998-2001 cropping history. The second section of Table 1 shows the average annual payments that were received under the



1996 farm program for the period 1996-2001. Comparison of the calculations for the two programs indicates if prices are low (and the counter-cyclical payments are at their maximum), the DCP payments of \$39.24 per acre would exceed the average annual payment of \$20.38 received under the PFC program. Per bushel payment rates under the PFC reflect all payments including market loss assistance payments as well as oilseed payments. If national average prices are above \$2.27 for corn and \$5.30 for beans, total DCP payments would fall below PFC payments.

Table 1. Eastern Nebraska Dryland Example

1998-2001	Corn	Beans			
Planted	50%	50%			
Yield	130	40			
DCP Payment*	Acres	Bu	\$/bu	Payment/acre	
Corn Direct	50%	85	0.28	\$10.12	
Corn CC	50%	122	0.34	17.56	
Beans Direct	50%	31.2	0.44	5.83	
Beans CC	50%	37.4	0.36	5.72	
Total				\$39.24	
w/o Counter Cyclical				\$15.95	
1996-2001	Corn	Beans			
Payment Acres	50%	50%			
Yield	85	40			
PFC Payment	Acres	Bu	\$/bu	Payment/acre	
Corn*	50%	85	0.527	\$19.04	
Beans	50%	40	0.067	1.34	
Total				\$20.38	

* Reduced by 85%

The second example (Table 2) is intended to illustrate a typical irrigated situation in central Nebraska where the PFC base was equal to 90% of the crop acres, but the farm was planted to half corn and half soybeans in 1998-2001. In this example, payments under the DCP exceed the PFC payments realized in 1996-2001 only if national average prices are close to the loan rate (for example, \$2.02 for corn and \$5.00 for soybeans).

In summary, changes in the farm program payments under DCP compared to 1996-2001 will differ dramatically between farms. Our dryland example suggests higher payments under DCP than PFC when prices are low, but lower payments when prices are high. Prices during the last 10 years have averaged above the \$2.27 corn and \$5.30 soybeans that is a breakeven for our first example. In contrast, for our second example, farm program payments would be lower than in the past if prices remain much above the loan rate. As illustrated, the effect of the commodity provisions of the new farm bill on farm incomes, cash rents and land values could be dramatically different with reductions from 1996-2001 levels in some common situations.

Table 2. Central Nebraska Irrigated Example

1998-2001	Corn	Beans			
Planted	50%	50%			
Yield	170	53			
DCP Payment*	Acres	Bu	\$/bu	Payment/acre	
Corn Direct	50%	120	0.28	\$14.28	
Corn CC	50%	159	0.34	22.97	
Beans Direct	50%	41.3	0.44	7.73	
Beans CC	50%	49.6	0.36	7.58	
Total				\$52.56	
w/o Counter Cyclical				\$22.01	
1996-2001	Corn	Beans			
Payment Acres	90%	50%			
Yield	120	53			
PFC Payment	Acres	Bu	\$/bu	Payment/acre	
Corn*	90%	120	0.527	\$48.38	
Beans	50%	53	0.067	1.78	
Total				\$50.15	

* Reduced by 85%

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Interested in meeting the authors of the *Cornhusker Economics* newsletter? Stop by the Department of Agricultural Economics booth at Husker Harvest Days in Grand Island, September 10, 11 and 12. We'll be located in the University of Nebraska's IANR building. See you there!!