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Comments and Questions on ACRE¹

Dear Recipient,

Below are the responses to many common questions that I have been answering on ACRE. You may recognize your question. However, I have changed the location and other things to protect your privacy but without changing the intent of the question. Thanks to all who called or sent me questions. It is hoped these responses will answer questions for those who did not write.

ART

Dear Art,

Is the USDA lowering the 2008 price so they can lower the ACRE guarantee and not make any payments?

Conspiracy Farmer

Dear Farmer,

¹Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, March 1, 2009, Phone 785-532-1515, e-mail – barnaby@ksu.edu.

I don't think USDA is nearly that well organized! The price forecast that you refer to are from USDA but the 2008 and the 2007 price that will set the ACRE grantee is provided by National Agricultural Statistical Service (NASS). NASS does not forecast price they do the statistical surveys to discover price, yields, planted acres, etc. NASS takes almost an academic approach (NASS employees will likely take issue with that description) to the task and would object to any political interference. NASS sees themselves as "fact finders". So they have nothing to do with USDA's price forecasting or the parts of USDA that work on increasing exports, etc. NASS numbers are used for some insurance contracts, to set public policy, legal cases, etc., so it is in the best interest of all parties for NASS to use a scientific approach when measuring prices, yields, etc. without any political interference. I believe they do their very best for a job that most people would not want because someone is always complaining about NASS numbers.

ART

Art,

Is the Current Futures New Crop Price the price for Dec 09 corn on Chicago exchange as of 2/6/09? Is there an adjustment from futures to farm level price to be comparable to the published NASS season average price? Also, would the strike price be the 2 year average price or 90% of the two year average price? Thanks for explaining to me what is probably obvious.

Also even in a state with a negative price-yield correlation, is it not possible for lower yields to still trigger ACRE payments?

Extension Specialist,

Dear Extension Specialist,

As you know, the NASS price is an annual price weighted by sales volume. New crop futures is a spot price. While futures are normally higher in most markets (but not all), cash prices tend to increase after harvest to reflect storage. My thinking is any adjustment is beyond the data but if you want to make one there would be a justification.

You are correct on the 90% of the price assuming average yield. I will be assuming average state yield for spring planted crops but by mid May we will have some estimate of the winter wheat yields in TX, OK, and KS. I will make that 90% adjustment in the future.

I am more concern that **my NASS corn price estimate is too high**. I will post my updated NASS forecast for 2008/09 crops soon but my estimate continues to be higher than the USDA estimates. If my estimate is closer to the final NASS weighted national

average price then the ACRE guarantee will be higher. A higher ACRE guarantee will increase the odds of an ACRE payment and make it more attractive to farmers.

Assuming the negative price-yield correlation does not equal a negative -1.0 then clearly there is a chance that low yields will trigger ACRE payments. About the highest negative price-yield correlation anyone could expect is about -0.50, and Iowa corn is likely to generate the largest negative price yield correlation.

Because the ACRE is being argued as risk management, then “premium cost” should change with the risk of a claim but the premium cost is the same under all conditions, 20% of farmers’ direct payments. This is further complicated with the secondary trigger that requires the individual farm revenue to be below the farm’s individual farm level benchmark to collect any ACRE payment. For example the “premium cost” should be lower if ACRE is out of the money (The strike price is lower than the expected harvest price at signup). Premium should also be lower in large states like Iowa with negative price yield correlation and less correlation between farm revenue and state revenue that is necessary to meet the second trigger. On the other hand premiums should be higher in Delaware where ACRE is nearly a “county” based GRIP contract with no price yield correlation. Also the Delaware corn production area is small enough that any drought that affects the state revenue will also likely affect the farm level yields and farmers would meet the benchmark trigger too. This rating principle would apply to other states too, for example grain sorghum in New Mexico, where production is concentrated in a few counties.

I would not signup for ACRE until mid May so there is still time to do more analysis. The market could change and Kansas could lose the wheat crop to freeze by that date. So I see no reason to signup until I am past the freeze date.

ART

Dear Art,

I attended a meeting in Minnesota. I thought I knew what to do, 85% coverage and no ACRE; but now I am confused. I farm 3800ac in Mn 950 corn 1500 Soybeans 750 Sp Wheat. Low farm payments in my county, avg \$8 per ac. I'll use single farm unit on ins. ???

Minnesota Farmer

Dear Minnesota Farmer,

Because of the increased subsidy for the enterprise unit, I would agree with your decision to select enterprise units. The 85% coverage might cause you to leave some SURE “money on the table” but then there are a number of conditions where one will not exceed the SURE cap, even with 85% coverage. They include a higher settlement price for

SURE claims, higher adjusted aph for SURE, inclusion of any NAP crops, and a number of other possible factors that will keep farmers under the SURE cap.

If the direct payment is only \$8, then you are foregoing only \$2 per acre in direct payments for the next 4 years or a total of \$8 for chance of a \$100 ACRE payment. I am currently showing most of the crops have a lower expected harvest price than the strike price in ACRE. If this price relationship holds, it will increase the odds of an ACRE payment. I would suggest you sign up for the DCCP program and collect the direct payment but you may want to re-think your ACRE decision.

Currently FSA does not have the software completed so they can not accept ACRE sign up but you can elect ACRE later and FSA will amend your contract. I think farmers should wait until mid-May to make the ACRE decision. Farmers have until June 1 to select ACRE and the market could change. Winter wheat farmers will even have a good estimate of the state yield by June 1, so there is no incentive to sign up for ACRE early.

ART

Art,

Thank you for your latest updates on SURE & ACRE. That is helping us out here understand better!

Heard a "twist" to ACRE from one of my guys the other day I thought I would share with you. After a lengthy discussion more about SURE & ACRE than crop insurance, he made the comment that he was still collecting Direct Payments on several acres of FSA "Base Acres" that were now sowed to grass. If he went into ACRE on that farm number, he would forgo 20% of that payment with no opportunity to collect that money back under ACRE as he would be ineligible for any payment on those acres as they are currently "grazing" acres. That does sound correct doesn't it?

Kansas insurance agent

Dear Kansas insurance agent,

Yes, that is correct; unless farmers are planting one of the program crops on that base they have no chance of an ACRE payment. Those farmers should stay with the direct payment. The collecting of direct payment by putting the land in to a conserving use was one of the arguments for direct payments. It may be possible to participate in one of the new conservation programs for farmers moving from crop production to a conserving use. I don't current have a suggestion but the conservation programs are something these farmers may find to their advantage.

ART

Art:

I see your view if you are striving to maximize the gov't programs when selecting ACRE only if it is in the money. Another issue is the tax treatment of government payments.

Also there is the size thing. In IL it looks like the \$65K payment limit on ACRE is an issue for most and equates to about a 1200 acre operation. A level that most farmers exceed except for lifestyle farms. So those folks are not likely to find interest.

Looks like a good mess coming. One thing about Gov't - If you think they create problems, wait till you see their solutions!!

Illinois producer

Dear Illinois producer

That is one of my points on ACRE. Over the limit farmers are betting \$32,000 (\$8,000 reduction in direct payments for the next four years) for chance of a \$73,000 ACRE payment based on historical data that suggests there is little chance of collecting multiple year large ACRE payments. In fact history suggests there is a greater chance of no ACRE payments over the next 4 years than there is of multiple year payments.

By contrast, farmer under the payment limit planting corn on wheat base may only be giving up \$8 (\$2 per acre for the next 4 years) for chance of a \$125 payment. The cost of being "wrong" is "small" if there is no ACRE payment. Remember there is a 25% cap on ACRE payments for all farmers, regardless of size. For example if the State ACRE guarantee is \$500 then the 25% cap will limit the payment to \$125 per acre even if the bottom falls out of the market.

It takes a bigger farm to hit the \$100,000 SURE payment but payment limits on SURE will factor in on the tradeoff with 85% crop insurance. Because SURE is supplemental coverage, it will take a larger farm than one would expect to hit the payment limit. But if one is over the payment limit then crop insurance would be the better alternative.

There is also a per farm limit that combined crop insurance indemnity payments, government payments and the value of the crops can not exceed 90% of the expected crop revenue for the farm. However, there are a number of conditions where farmers who purchase 85% crop insurance will not exceed the 90% cap on farm revenue. Those conditions were discussed in greater on earlier AgManager.info posting at:
http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf09/AB85_coverage.pdf

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