# POLICY MINUTE

## March Prices and Farm Bill Decisions

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On March 11, USDA issued its monthly report of supply and demand estimates for major U.S. agricultural commodities. While the USDA estimates from March serve as a reminder that counter-cyclical payments are essentially non-existent for the 2002 crop year except for cotton, rice, and peanuts, where those price and payments will be for the life of the Farm Bill is another question. In the past couple of weeks, FAPRI has released its long-term baseline projections through 2012, available on the web at www.fapri.missouri.edu. Just as with USDA's long-term projections released in February (highlighted in the February 12 issue of the *Policy Minute*), the FAPRI numbers provide a guideline in setting price expectations for the coming years. Table 1 provides the latest USDA and FAPRI price forecasts and corresponding counter-cyclical payments.

**Table 1. USDA Price Estimates and Expected Counter–Cyclical Payments, February, 2003.**

| Price Series and Crop Year | Corn | Sorghum | Barley | Oats | Wheat | Soybeans | Cotton |
|---|---|---|---|---|---|---|---|
| **USDA Supply & Demand** | | | *($/bushel)* | | | | *($/lb)* |
| 2002/2003 Price Forecast[a] | 2.30 | 2.35 | 2.70 | 1.75 | 3.60 | 5.40 | -[c] |
| 2002/2003 CC Payment[b] | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.137[c] |
| **FAPRI Baseline** | | | *($/bushel)* | | | | *($/lb)* |
| **Price Forecast[d]** | | | | | | | |
| 2002/2003 | 2.35 | 2.39 | 2.65 | 1.75 | 3.65 | 5.45 | 0.415 |
| 2003/2004 | 2.10 | 2.01 | 2.34 | 1.54 | 3.07 | 4.99 | 0.459 |
| 2004/2005 | 2.10 | 1.97 | 2.29 | 1.50 | 3.10 | 4.99 | 0.479 |
| 2005/2006 | 2.14 | 2.01 | 2.33 | 1.50 | 3.13 | 5.15 | 0.486 |
| 2006/2007 | 2.19 | 2.05 | 2.36 | 1.52 | 3.15 | 5.26 | 0.480 |
| 2007/2008 | 2.20 | 2.08 | 2.36 | 1.53 | 3.22 | 5.30 | 0.495 |
| **CC Payment[d]** | | | | | | | |
| 2002/2003 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.137 |
| 2003/2004 | 0.22 | 0.18 | 0.09 | 0.00 | 0.27 | 0.36 | 0.137 |
| 2004/2005 | 0.25 | 0.25 | 0.15 | 0.00 | 0.30 | 0.36 | 0.137 |
| 2005/2006 | 0.21 | 0.21 | 0.14 | 0.00 | 0.27 | 0.21 | 0.137 |
| 2006/2007 | 0.16 | 0.17 | 0.11 | 0.00 | 0.25 | 0.10 | 0.137 |
| 2007/2008 | 0.15 | 0.14 | 0.11 | 0.00 | 0.18 | 0.06 | 0.137 |
| **Average CC Payment[e]** | 0.17 | 0.16 | 0.10 | 0.00 | 0.21 | 0.18 | 0.137 |

[a] Based on midpoint of price range of USDA Supply and Demand Estimates, March 11, 2003
[b] Counter-cyclical payment rate based on national marketing year average price equal to midpoint price estimate.
[c] USDA is prohibited by law from publishing cotton price estimates. The counter-cyclical payment estimate is derived from announced advance estimated payments in October, 2002 and February, 2003.
[d] Based on "FAPRI 2003 U.S. Baseline Briefing Book" released in March, 2003.
[e] Average counter-cyclical payment rates over 2002-2007 crop years, based on national marketing year average price estimates for 2002/2003 through 2007/2008 in the table.

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**Table 2. KSU Marketing Year National Average Price Estimates, March 2003[a]**

| Crop Year | Wheat | | Corn | | Grain Sorghum | | Soybeans | |
|---|---|---|---|---|---|---|---|---|
| | Price | CC Pay. | Price | CC Pay. | Price | CC Pay. | Price | CC Pay. |
| | | | | *($/bushel)* | | | | |
| 2002/2003 | 3.56 | 0.00 | 2.29 | 0.03 | 2.26 | 0.00 | 5.41 | 0.00 |
| 2003/2004 | 3.13 | 0.21 | 2.26 | 0.06 | 2.07 | 0.12 | 5.04 | 0.32 |
| 2004/2005 | 3.19 | 0.21 | 2.28 | 0.07 | 2.12 | 0.10 | 5.25 | 0.11 |
| 2005/2006 | 3.22 | 0.18 | 2.28 | 0.07 | 2.13 | 0.09 | 5.38 | 0.00 |
| 2006/2007 | 3.25 | 0.15 | 2.28 | 0.07 | 2.13 | 0.09 | 5.46 | 0.00 |
| 2007/2008 | 3.26 | 0.14 | 2.28 | 0.07 | 2.13 | 0.09 | 5.51 | 0.00 |
| Average CC Pay[b] | | 0.15 | | 0.06 | | 0.08 | | 0.07 |

[a] Estimated from KSU price forecast model on March 11, 2003.

[b] Average counter-cyclical payment rate over 2002-2007 crop years, based on national marketing year average price estimates for 2002-2007 in the table.

The combination of the USDA Supply and Demand Estimates and the FAPRI baseline projections provide one series of prices that may be used to calculate counter-cyclical payments for the life the farm program. Another possible series is based on a price model developed at KSU by Ag Economics Extension Specialist Terry Kastens. Using a futures-adjusted mean-reversion model, commodity prices from March 11, 2003 were used to estimate prices and coounter-cyclical payments over the life of the Farm Bill and are shown in Table 2.

Comparing the KSU and FAPRI price series, there is a substantial difference in the estimated prices and thus the estimated counter-cyclical payments. As to which projection is more accurate, only time will tell. They both represent current information and expectations, but are reliant on different modeling procedures. FAPRI uses a comprehensive analysis of the current situation and projected economic trends to arrive at their baseline projections. The KSU projections are based on information currently known and traded by the marketplace, using futures-adjusted prices and historic price relationships to develop long-run price projections.

The different price series will impact the expected counter-cyclical payments. Remember that changing prices can change expected counter-cyclical payments, and changing counter-cyclical payments can change the optimal base and yield election. So, the decision of which price series to use, or the decision to use yet another series, must be made by the producer with careful consideration. If you are considering using either price series with the KSU Farm Bill Spreadsheet, please note that the spreadsheet currently has three price series built in as options: producer-provided prices, FAPRI prices from July, 2002, and USDA prices from February, 2002. While this new FAPRI series replaces the old FAPRI series, we will not be issuing a new version of the spreadsheet to make this change. Instead, simply enter the desired price series in the section for the producer-provided price series. That requires a bit more input on each individual analysis, but it avoids making all of the analyses done previously look incorrect simply because the spreadsheet version number would have changed.

Remember that the deadline for making the base and yield election is only about three weeks away, coming up on April 1. USDA has announced a deadline extension for individuals who request an appointment before April 1 but cannot get an appointment by then. However, if a producer fails to do anything before April 1, the producer will presumably be limited to the default decision USDA has defined as Base Option 2. This option may in fact be optimal for the producer, but even then, waiting until after April 1 may force a producer to take county plug yields instead of proving oilseed yields. And, if the acres on file with USDA are not complete, the producer may not get to add as many oilseed acres as possible.. So, there is every reason to contact the FSA office now.