

Staff Paper

**ALERT:
FARMERS NEED TO SIGN UP FOR ACRE!**

by

Jim Hilker, Roger Betz, Roy Black

Staff Paper 2009-06

July 2009



Department of Agricultural, Food and
Resource Economics
MICHIGAN STATE UNIVERSITY
East Lansing, Michigan 48824

MSU is an Affirmative Action/Equal Opportunity Employer

ALERT: FARMERS NEED TO SIGN UP FOR ACRE!

Jim Hilker, Roger Betz, and Roy Black - MSU Extension, Department of Agricultural, Food, and Resource Economics, Michigan State University

AFRE Staff Paper No. 2009-06 July 21, 2009

Corn, soybean and wheat producers are facing serious financial challenges. And it is even worse for livestock producers, most of who are also crop producers and are therefore eligible for ACRE. Crops are behind in maturity, some areas of the state need rain, product prices have fallen substantially, and USDA Counter Cyclical payments do not start until \$2.35 on corn, \$5.36 soybeans and \$3.40 on wheat. Chances of prices that low are around 10-15%, but at that point ACRE payments would be much, much bigger. Many producers do not understand ACRE and the benefits available; most of the reasons given for not participating are invalid.

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) added a new program, ACRE (Average Crop Revenue Election), at a very low cost. The cost is giving up 20% of the Direct Payments and 30% of the Loan Rate (See the two attached USDA Handouts for more detail). For most producers this cost is about \$5-\$6 per acre of Direct Payments, vs. the chances this year of much higher payments for participating in ACRE, as we show in the Tables below.

The new USDA ACRE program is much more of a risk management program compared to the income enhancement USDA programs of the past (default choice is the DCP we have had in the past).

While we cannot explain the whole ACRE program here, we can show you some chances of the ACRE program triggering and the size of payments. While the final sign-up date is not until August 14, if you want to participate you will need to have all the paper work done before the last minute or you will be late and the offices will not be able to process it. August 1st is the deadline for recombination of FSA farm numbers and you may want to change the combinations because all land owners must agree to be in ACRE and because of the 10 acre base minimum rule per farm.

These notes outline the incentives to find out more about the program and get the necessary paperwork done. In simple terms, ACRE payments per crop are based on a combination of Michigan yield and U.S. price which make up revenue as well as the relationship of your average yield to the Michigan average yield. As it turns out, there are very high chances that the corn and wheat payments will be triggered by the low prices that are projected for next year, even at average yields. Soybean prices are right at breakeven with respect to ACRE paying off.

For a producer to be eligible for ACRE payments, both the state and the individual farm must trigger (each crop figured individually). The state triggers at 90% of the average revenue from

the two previous years. The FSA farm must also trigger. The Farm trigger is 100% of the previous two years average revenue using the same U.S. price and the farms actual yield. As an incentive for producers to manage risk, producers are encouraged to buy crop insurance with the premium cost added to the farms revenue. The net result is that it is relatively easy for the farm to trigger.

State payment rates are determined by the state revenue shortfall. It does not matter by how much a farm triggers only that it does. However, a farm with higher than state average Olympic average yields, will have a higher payment per acre for their farm. Conversely a farm with lower than state average yields for their Olympic average yield will be paid less than the state payment rate.

Let's look at the Corn Table 1. below. The state Olympic average yield used by FSA in the calculation of the revenue guarantee is 138 bu/ac. Given that yield for 2009, the "breakeven price" or price at which a payment triggers, is any average U.S. 2009-10 price below \$3.65. In other words, if your farm yield is also near or below your 5 year Olympic average (dropping the high and low), any price below \$3.65 will pay more than the lost \$5-\$6 direct payments, and any price above won't.

At this time we don't know what the price will be so there is added risk value because the ACRE program kicks in when revenue at the state level falls below 90% of the two previous year's average.

Now the question is, what are the chances of an average U.S. 2009-10 corn price below \$3.65 (B.E. Price)? Table 1 shows there is a 70% probability the U.S. weighted average price for corn will be below \$3.65, i.e., ACRE pays. At this point the futures markets (adjusted for basis) projects a 2009-10 average price of \$3.25, with 60% odds that prices will average below that!

Put another way, if both the Michigan and your farm are at the 5 year average yield, there is greater than a 60% chance you will collect \$69.41/ac or more, versus the \$5-\$6/ac of direct payments you are giving up. If Michigan state yields are a little lower, payments go up, and if state yields are a little higher, payments go down.

Is there a chance that ACRE will not pay on corn acres? Yes, but we have until August 14 to actually sign the contract, and on August 12 the USDA releases the first survey of U.S. and State yields. It is like having 80% of the information of whether or not you need insurance before you have to decide! It would be fun to be in Las Vegas with this kind of info! The maximum ACRE corn payment is at a \$2.81 average price with the 138 bushel 2009 Michigan yield and the market feels there is a 40% chance of that happening.

Table 1. Corn: ACRE State Payment Rate/acre for Alternative Yields and Prices

	Corn		Mich. Benchmark Yield (bu/ac)		
	U.S. Price	Estimated Probability price will be less than stated level	135	138	141
B. E. Price	\$3.65	70%	\$25.16	\$14.21	\$3.26
Market Price	\$3.25	60%	\$79.16	\$69.41	\$59.66
Market Price	\$3.15	55%	\$92.66	\$83.21	\$73.76
Max Payment	\$2.81	40%	\$129.48	\$129.48	\$121.70

How about wheat, see Table 2. The breakeven U.S. average price is \$5.80, and the market says there is a 65% that price will be that or lower. And at today's projected price of \$5.40 the payment with both average state and your farm yields, the payout would be \$37.42. By August 14th, you will know both the state and your wheat yield. And while you can't just sign up for one crop, you will have a very good idea if ACRE will pay for wheat. The only hang up is "Will prices skyrocket later?", but remember much of the wheat will have already been sold, and the U.S. farmer average price is a weighted price.

Table 2. Wheat: ACRE State Payment Rate/acre for Alternative Yields and Prices

	Wheat		Mich. Benchmark Yield (bu/ac)		
	U.S. Price	Estimated Probability price will be less than stated level	64	66	70
B. E. Price	\$5.80	65%	\$22.62	\$11.02	\$0.00
Market Price	\$5.40	55%	\$48.22	\$37.42	\$15.82
Max Payment	\$4.47	35%	98.46	\$98.46	\$80.92

The closest crop to be in or out of payments is soybeans. At this point as you can see from Table 3., the market price is a little over the breakeven price, but there is over a 50% chance that prices will be below the breakeven price of \$8.70 at average yields. Do you expect the state or your soybean yields to be average this year? Even if soybeans are not in the money now, \$2-\$6/ac cost is mighty cheap revenue insurance for 50/50 odds of being in the money.

Table 3. Soybeans: ACRE State Payment Rate/acre for Alternative Yields and Prices

	Soybeans		Mich. Benchmark Yield (bu/ac)		
	U.S. Price	Estimated Probability price will be less than stated level	37.5	38.5	39.5
Market Price	\$9.10	58%	\$6.64	\$0.00	\$0.00
B. E. Price	\$8.70	53%	\$21.64	\$12.94	\$4.24
Max Payment	\$6.77	25%	\$86.97	\$86.97	\$80.47

The bottom line is that with all but a very, very few exceptions farmers who are eligible should be getting the paper work completed to participate, it is a **No Brainer**. Is it extra work? Yes, could it not payoff? Yes, if it does not pay off this year, are the odds higher it will payoff next year? Yes.

Top Ten Exceptions of Why Signing up for ACRE is a “No Brainer”

1. Most base acres planted to non program crop
2. Don't have production history. You can use 95% of NASS county Yields as Plug yields for the ACRE program. This maybe lower or higher than the actual.
3. Plan to plant most of farm base acres to non program crops in future years. (2009 payment could easily make up for future loss of the 20% in Direct Payments)
4. You are confident that your 2009 yields on corn and wheat will be substantially higher than your last 5 years Olympic average yield to make up the potential loss revenue associated from the U.S. average price. IE State triggers and you don't trigger. The lower the U.S. prices the easier for the farm to trigger.
5. Most of base acres are planted to soybeans (marginal issue). IE soybeans are not as clear of a decision.
6. Can only borrow money from the FSA commodity loans and you must have the maximum loan amount each year. ACRE payments can easily make up any interest rate savings.
7. Can't convince your landlord to help you manage revenue risk. IE Landlord must agree to sign up for ACRE. Take them out to dinner.
8. You are willing to bet big dollars the 2009 U.S. average price of Corn will be substantially below \$1.95, below \$5.00 on Soybeans and below \$2.75 on Wheat and only if you are over in a combination of 750 acres of base planted to corn or 1,200 acres of base planted to wheat, per eligible payment limitation
9. Your time is worth more than \$100 per acre. You will need to report yields in 2009 and future years through 2012.
10. You like farming with high financial risk and you want to minimize potential income tax problems IE Don't want to make money and pay income taxes.

MORE INFORMATION:

- Local FSA Office
- Local Extension Office

WEB SITES:

- Roger Betz <https://www.msu.edu/user/betz/>
- Carl Zulauf materials <http://aede.osu.edu/people/display2.php?user=zulauf.1>
- Corn, soybean, and wheat calculator -- University of Illinois
<http://www.farmdoc.uiuc.edu/pubs/FASTtool.asp?category=farm>
- USDA <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=dccp&topic=landing>