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Farm Program Spending Under the President's 2006 Budget Proposal

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Market Report	Yr Ago	4 Wks Ago	4/1/05
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$83.56	$89.67	$94.74
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	119.05	128.55	142.03
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	95.45	106.28	113.11
Choice Boxed Beef, 600-750 lb. Carcass	139.07	141.74	151.09
Western Corn Belt Base Hog Price Carcass, Negotiated	61.19	73.47	66.90
Feeder Pigs, National Direct 45 lbs, FOB	51.03	81.72	70.81
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	70.54	68.74	71.06
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	93.50	111.25	107.00
National Carcass Lamb Cutout, FOB	231.35	269.69	267.67
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Omaha, bu	4.11	3.47	2.92
Corn, No. 2, Yellow Omaha, bu	3.11	1.89	1.86
Soybeans, No. 1, Yellow Omaha, bu	10.30	5.93	5.90
Grain Sorghum, No. 2, Yellow Columbus, cwt	5.18	2.80	2.73
Oats, No. 2, Heavy Minneapolis, MN , bu	1.94	1.83	1.78
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	115.00	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	57.50	57.50

* No market.

According to Secretary of Agriculture Johanns news release on February 7, 2005, the President's 2006 budget proposes a net reduction in farm support program spending nationally of about $587 million in 2006, and $5.7 billion from 2006 through 2015. These proposals include: reducing the payment limitation for all commodity payments, making marketing assistance loans based on historical production and reducing all commodity payments to farmers by 5 percent. It is difficult to estimate the impact of any changes in the payment limitation. Nearly all producers have their business arrangements configured to avoid the current payment limitations, and their ability to do so in the future will depend upon the implementation of any new limitations and their ingenuity in adjusting to the new rules. The impact on Nebraska producers of these latter two proposals is estimated below.

According to the Farm Service Agency records, more than 90 percent of Nebraska's wheat, oil seed and feed grain producers were enrolled in the farm program in 2004. Enrolled producers receive direct payments on payment acres (85 percent of base acres) for their direct payment yield. Direct payment rates ($/bushel) are currently at levels established for 2004-07 under the Farm Security Rural Investment (FSRI) Act of 2002. In addition, counter-cyclical payments are issued for each commodity in response to any shortfall of the target price. The national average price (or loan rate if above the national average price) plus the direct payment is compared to the target price to determine any shortfall (See Table 1). Counter-cyclical payments are made for payment acres at counter-cyclical payment yields.

The impact for Nebraska producers of a 5 percent reduction in commodity payments (direct and counter-cyclical payments) and of limiting marketing assistance loans to historical production is estimated in Table 2. Commodity payment estimates are based on national average prices in 2001, 2002 and 2003, and for the University of Missouri based Food and Agriculture Policy Research Institute (FAPRI) projected prices for 2006. The results for 2001 illustrate the effect of a bumper crop where counter-cyclical payments were at their maximum for soybeans and grain sorghum, and near maximum levels for wheat and corn and would be again if 2001 price levels were repeated. The budget reduction proposal would result in a loss of commodity payments at 2001 price levels that would be approximately double that of the losses at 2002 and 2003 price levels and 2006 projected prices ($38 million vs $17-20 million, contact the authors for details).

Table 1. Farm Program Commodity Payments and Price Support Levels

		2004-07 Provisions of FSRI Act of 2002				
		National Loan	Direct Payment	Loan + Direct	Target	Max CC Payment*
Corn	$/bu	1.95	0.28	2.23	2.63	0.40
Sorghum	$/bu	1.95	0.35	2.30	2.57	0.27
Barley	$/bu	1.85	0.24	2.09	2.24	0.15
Oats	$/bu	1.33	0.024	1.354	1.440	0.086
Wheat	$/bu	2.75	0.52	3.27	3.92	0.65
Soybean	$/bu	5.00	0.44	5.44	5.80	0.36
Minor Oilseeds	$/lb	0.093	0.008	0.101	0.101	0.000

* Counter-cyclical payments will make up any shortfall from the target price. The larger of the National Loan rate and the National Season Average price plus the fixed payment will be used to determine any shortfall.

Direct and counter-cyclical payments typically make up the shortfall of target prices for only part of production, since direct and counter-cyclical payment yields are often still below actual production levels, even though many operations partially adjusted payment yields in 2002 for then recent history. In contrast, price supports have applied to total actual production each year. If the market price is below the loan rate at the time of sale, a loan deficiency payment (LDP) can be requested that equals the difference between the loan rate and the local posted county price (PCP). Alternatively, producers can take out a marketing loan for the loan rate and later repay the loan at the PCP, thereby realizing a marketing gain equal to the difference between the loan rate and the PCP. Or grain under loan can be forfeited and the loan is fully cancelled even though the value of the grain forfeited is below the loan rate.

Since grain prices typically rise following harvest lows, some grain may be held and sold after prices rise above the loan rate without collecting an LDP. Grain can also be sold before prices drop below the loan rate. Hence it is difficult to anticipate how much grain will directly benefit from the price support program. Actual support payments realized in past years is available and this record was used to estimate the effect reducing the grain eligible for support payments would have had on producer support payments. The average of LDP and marketing gains was applied to loan forfeitures to arrive at the total estimated price support for 2001, 2002 and 2003. Several loan rates were adjusted downwards in 2004, and the total estimated price support was adjusted to reflect the difference in loan rates between then and now.

As already pointed out, total actual production is currently eligible for price support (as was also true in 2001-03). The President's 2006 budget proposes to limit price support payments to historical production. The counter-cyclical payment (CCP) yield was compared to the Nebraska Agricultural Statistics Service (NASS) yield estimates for each year, 2001-03, and the estimated price support (adjusted for changes in loan rates) in each year was reduced by the proportion of yield that exceeded historical (CCP) yields. The price support payments were assumed to be limited to 85 percent of CCP yields.

By far the greatest impact of the President's 2006 budget proposal would be felt if 2001 price levels were repeated, where the CCP levels were maximum or near maximum for the major commodities (wheat, soybeans, corn and grain sorghum) and price supports were substantial. A 5 percent reduction of the commodity payments in 2001 amounts to $38 million, while limiting price supports to historical production would have reduced the price support realized in 2001 over $173 million, for a total estimated impact at 2001 price levels of over $211 million (Table 2). This is more than 13 percent of the $1.6 billion net farm income NASS reported for Nebraska in 2001. The estimated impact on commodity payments at 2002 and 2003 price levels and 2006 projected prices is less than one-half that for 2001 prices, while price support payments were relatively small in 2002-03. FAPRI estimates no LDP's in 2006 for wheat, corn, grain sorghum or barley and $0.03 per bushel for soybeans, so no attempt was made to estimate the impact of the reduction of price supports for 2006.

In addition to the commodity and loan payment reduction proposals discussed above, the President's 2006 budget proposes a cut of about $425 million in the discretionary program spending for conservation programs.

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Table 2. Estimated Impact of the President's 2006 Budget Proposal for Commodity Income Support and Loan Programs[1] on Nebraska Wheat, Oilseed and Feedgrain Producers, $000

Prices	Total Program	Wheat	Soybeans	Other Oilseeds	Total Oilseeds	Corn	Grain Sorghum	Barley	Oats	Total Feedgrains
2001	211,552	4,380	123,611	701	124,311	80,123	2,700	30	7	82,861
2002	19,083	1,997	1,964	11	1,975	13,563	1,512	30	7	15,112
2003	21,652	4,117	1,619	12	1,632	14,072	1,512	30	290	15,903
Proj. 2006[2]	20,672	2,880	2,217	11	2,228	13,709	1,814	30	11	15,564

[1] Loan payments limited to 85% of Counter Cyclical Payment yield.
[2] Estimated impact on commodity payments only. No attempt made to estimate impact on loan program payments in 2006. FAPRI estimates averge LDP rate for 2006 crop of $0.16 per bushel for oats, $0.03 per bushel for soybeans, $0.72 per cwt for sunflowers and $0.31 per cwt for canola. 2006 LDP for wheat, corn, grain sorghum and barley estimated by FAPRI to be zero.