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# CORNHUSKER ECONOMICS

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## The ACRE Program: Sign-up Results, Expected Payments and Future Prospects

| Market Report | Yr Ago | 4 Wks Ago | 8/13/10 |
|---|---|---|---|
| ***Livestock and Products, Weekly Average*** | | | |
| Nebraska Slaughter Steers, 35-65% Choice, Live Weight | $81.00 | $94.00 | $93.78 |
| Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. | 114.63 | 133.68 | 134.61 |
| Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. | 105.99 | 118.43 | 117.00 |
| Choice Boxed Beef, 600-750 lb. Carcass | 141.22 | 154.04 | 153.59 |
| Western Corn Belt Base Hog Price Carcass, Negotiated | 46.51 | 74.53 | 78.13 |
| Feeder Pigs, National Direct 50 lbs, FOB | * | * | * |
| Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean | 54.27 | 81.76 | 89.33 |
| Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct | 91.25 | 135.25 | 132.50 |
| National Carcass Lamb Cutout, FOB | 248.72 | 309.24 | 303.11 |
| ***Crops, Daily Spot Prices*** | | | |
| Wheat, No. 1, H.W. Imperial, bu. | 4.08 | 4.34 | 5.43 |
| Corn, No. 2, Yellow Omaha, bu. | 3.03 | 3.61 | 3.68 |
| Soybeans, No. 1, Yellow Omaha, bu. | 10.71 | 10.09 | 10.44 |
| Grain Sorghum, No. 2, Yellow Dorchester, cwt. | 5.07 | 5.98 | 6.55 |
| Oats, No. 2, Heavy Minneapolis, MN , bu. | 2.08 | 2.67 | 2.73 |
| ***Feed*** | | | |
| Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. | * | 150.00 | 135.00 |
| Alfalfa, Large Rounds, Good Platte Valley, ton. | * | 75.00 | 77.50 |
| Grass Hay, Large Rounds, Premium Nebraska, ton. | * | 72.50 | 95.00 |
| Dried Distillers Grains, 10% Moisture, Nebraska Average. | 83.00 | 87.50 | 94.00 |
| Wet Distillers Grains, 65-70% Moisture, Nebraska Average. | 34.00 | 31.50 | 35.00 |

*No Market

In 2009, agricultural producers participating in federal farm programs had to make a decision between staying in the existing Direct and Counter-Cyclical Program (DCP) and the new Average Crop Revenue Election (ACRE) Program. If producers chose to keep the DCP, their farm income safety net is strictly tied to crop prices with a combination of marketing loans, counter-cyclical payments and direct payments. If producers chose the new ACRE program, they changed their farm income safety net to a combination of price and revenue. The new ACRE component is based on revenue and replaces the counter-cyclical payment. The other parts of the safety net for ACRE participants remain tied to price, albeit at lower levels (direct payments reduced 20 percent, marketing loan rates reduced 30 percent).

### Analysis of 2009 ACRE Enrollment

The new ACRE program brought with it many complexities and peculiarities that hindered participation nationwide in 2009. Nebraska was one of the leading states in terms of enrollment in ACRE, but even in Nebraska sign-up was limited to 20 percent of farms and 25 percent of acres enrolled in federal farm programs (United States Department of Agriculture (USDA) Farm Service Agency).

A recent study by Dr. William Edwards of Iowa State University confirmed the common reasons given for limited enrollment. Dr. Edwards surveyed Iowa farmers about the 2009 farm program sign-up, and found the leading reasons for not enrolling in the new ACRE program were program complexity and not wanting to give up 20 percent of the direct payment. Losing possible LDP payments, being too hard to explain to landlords and being unlikely to get an [ACRE] payment, rounded out the top five responses.

Personal experience and conversations with Nebraska farmers at farm bill educational meetings throughout 2009 and 2010 largely suggest the same reasons for the low enrollment in Nebraska as well. Complexity of the program and the

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economics of certain cuts in direct payments in exchange for uncertain ACRE payments led many producers to stay out of the ACRE program. Further research on ACRE enrollment in Nebraska did find substantially different enrollment patterns across the state. Using program data obtained from the USDA Farm Service Agency, the state's highest and lowest enrollment counties by percentage are shown in Table 1.

A comparison of counties on the high-enrollment list versus the low-enrollment list in Table 1 provides further insight into the ACRE sign-up decision and the economic factors at work. Heading up to the August 2009 deadline for the initial ACRE sign-up decision, corn looked to be the crop most likely to generate ACRE payments in Nebraska. Table 2 shows the final ACRE guarantees for 2009 for the major Nebraska crops, along with expected yield and price information from the time of the ACRE decision.

The high-enrollment counties are all largely corn-soybean or corn-grain sorghum-soybean producing counties. The projected state yields and national prices at the time of the sign-up deadline (based on USDA August 2009 reports) show that corn and grain sorghum both were expected to produce 2009 ACRE payments. The projected national marketing year average price of $3.50/bushel would have generated payments in both irrigated and dryland corn in Nebraska, given projected yields as of August 2009 at 188 bushels/acre and 128 bushels/acre respectively. Similarly, a projected state grain sorghum yield of 90 bushels/acre and a projected national price of $3.00/bushel would have generated a small ACRE payment.

In contrast, the low-enrollment counties come from the Panhandle and the Southwest region of Nebraska, where wheat is a significant part of the crop mix, and also from

**Table 1. ACRE Program Enrollment in 2009 in Nebraska Counties***

| Ten Highest Enrollment Counties | | | Ten Lowest Enrollment Counties | | |
|---|---|---|---|---|---|
| County | Total Farms Enrolled in Farm Programs | Percent Enrolled in ACRE | County | Total Farms Enrolled in Farm Programs | Percent Enrolled in ACRE |
| Thayer | 1,448 | 47.7% | Cheyenne | 1,411 | 1.4% |
| Fillmore | 1,656 | 46.9% | Keya Paha | 120 | 1.7% |
| Platte | 2,285 | 46.0% | Boyd | 509 | 1.8% |
| Jefferson | 1,214 | 44.5% | Hitchcock | 327 | 1.8% |
| Gage | 2,466 | 44.2% | Box Butte | 828 | 2.2% |
| Phelps | 1,417 | 42.8% | Sioux | 219 | 3.2% |
| Merrick | 1,464 | 40.9% | Dundy | 579 | 4.0% |
| Dawson | 1,874 | 37.2% | Dawes | 517 | 4.2% |
| Gosper | 1,003 | 33.9% | Scotts Bluff | 1,234 | 4.5% |
| Nance | 1,103 | 32.9% | Dakota | 531 | 5.5% |
| State | 107,739 Total Farms Enrolled, 20.5% Enrolled in ACRE | | | | |

* Counties with less than 100 total farms enrolled in farm programs omitted from results.

**Table 2. ACRE State Guarantees, Yields and Prices for the 2009 Sign-up***

| Crop | State ACRE Guarantee ($/A) | Expected State Yield as of the 2009 Sign-up Deadline (B/A) | Price to Trigger ACRE Payments at Expected Yield ($/B) | Projected Price as of the 2009 Sign-up Deadline ($/B) |
|---|---|---|---|---|
| Corn-irrigated | $687.65 | 188 | $3.66 | $3.50 |
| Corn-dryland | $449.76 | 128 | $3.51 | $3.50 |
| Soybeans-irrigated | $510.53 | 57 | $8.96 | $9.40 |
| Soybeans-dryland | $370.48 | 42 | $9.11 | $9.40 |
| Wheat | $278.46 | 48 | $4.85 | $5.20 |
| Grain Sorghum | $232.71 | 90 | $3.09 | $3.00 |

* The 2009 state ACRE sign-up deadline was August 14, 2009. ACRE guarantees are published by USDA-FSA. Yield expectations and price projections at the time are based on the August 2009 reports of "Crop Production" from USDA-NASS and the "World Agricultural Supply and Demand Estimates" from USDA-WAOB.

smaller counties on the northern border of the state where local yields may be less related to state yields used in the ACRE calculation. By the time of the ACRE sign-up deadline, the 2009 wheat crop was already in the bin at a record state yield of 48 bushels/acre. Given that record yield, the price necessary to trigger an ACRE payment was $4.85, far below the projected price at the time of $5.20/bushel.

Thus, the economics of expected 2009 ACRE payments appears to have contributed substantially to the 2009 ACRE sign-up decision, just as the anecdotal evidence and survey results would suggest. Corn-soybean and corn-grain sorghum-soybean counties would have expected more potential ACRE payments, and signed up at a higher rate. Wheat counties would have expected less potential ACRE payments, and signed up at a lower rate.

**Analysis of 2009 ACRE Payments**

While the enrollment in ACRE in 2009 may have been based on expectations at the time, the actual final results for the ACRE program ended up very different. Table 3 (on next page) shows final yields for 2009 and updated price, revenue and ACRE payment projections as of August 2010.

Contrary to expectations at the time of sign-up, corn and grain sorghum did not generate ACRE payments in Nebraska, but wheat did. For wheat, the record yield was offset by a national marketing year average price that dropped far enough from August 2009 expectations to trigger a small ACRE payment (even though it has since rallied substantially). For corn, soybeans and grain sorghum, the yield levels projected in August 2009 continued to grow, with new record yields established for corn and soybeans and a near-record yield for grain sorghum. At the same time, market prices rallied from August 2009 levels and resulted in higher 2009 crop revenue relative to the ACRE guarantee.

While ACRE payments for the 2009 crop year have not followed expectations, the program did provide revenue protection at a guarantee level substantially above the price-based safety net available through the existing DCP. Compare for example, the ACRE trigger price levels shown in Table 2 of $3.51 - $3.66 corn or $8.96 - $9.11 soybeans, with trigger price levels for the counter-cyclical payment under the DCP of $2.35 for corn and $5.36 for soybeans. As a result, ACRE may be a preferable part of a producer's risk management portfolio, even if the ACRE payments received do not offset the 20 percent of the direct payments given up.

**Expectations for 2010 ACRE Payments**

The results of 2009 provides some insight on what may happen for 2010 as well. Table 4 (on next page) lists the 2010 state ACRE guarantees, as well as expected yields and prices based on August crop and supply and demand reports.

Looking at the numbers for 2010, the guarantees for all crops went down from 2009 to 2010 due to lower prices, except for dryland soybeans, which rose due to a substantial increase in the five-year Olympic-average yield. On top of lower guarantees, the August crop report from USDA indicates record or near record yield potential again for Nebraska crops, except for wheat which is down slightly from last year's record. If these expected yields materialize, then price levels would have to drop substantially from current projections in order to trigger any 2010 ACRE payments.

Thus, for the second year in a row, great yield potential in Nebraska is expected to negate the possibility of any ACRE payments. Remember that ACRE is a revenue safety net. And great yields two years in a row help prop up crop revenues to the point that a safety net doesn't kick in. The effective price protection is still greater than under the old DCP, meaning ACRE continues to provide a higher safety net. But the tradeoff between higher protection and lower direct payments looks to be the same in 2010 as it was in 2009.

**Future Prospects for ACRE**

Looking ahead, the state ACRE guarantees in 2011 and 2012 could be improved over 2010 if prices hold at present levels, and record or near-record yields projections for 2010 hold as well. The benchmark yield for 2011 is a five-year Olympic average yield, in which the high and low are excluded before averaging the remaining three years. When the 2009 yields were added in, they became the high yields to be excluded from the calculations, but a second year of record or near-record yields would mean one of the years would count in the average and substantially boost the yield benchmarks.

But even with higher yield benchmarks, current price expectations would still suggest little to no ACRE payments in 2011 or 2012. Thus, the net result over the 2009-2012 period could be little to no ACRE payments for participants to offset the 20 percent of direct payments given up over the same time frame.

This potential scenario has led to calls for revising how the ACRE program works in the next farm bill. While the shift to a revenue safety net is welcomed by many, the complexity of the ACRE program, the chance of little to no payments and the concern that state yields don't match up well with local conditions, has some calling for a shift in the ACRE program from a state-level guarantee to a county-level guarantee. On-going research at the University of Nebraska Lincoln, funded by the Nebraska Soybean Board, will help assess the impact of such a policy change, but it is clear from the outset that such a change could be expensive in terms of federal spending. And given the severe budget constraints projected for the next farm bill debate, a costly policy change such as suggested may come only at the expense of something else. That something else could well be a cut in total direct payments, given that it is the largest and most politically-charged part of the safety net at present.

**Table 3. ACRE State Guarantees, Yields, Prices, Revenue and Payments for 2009**

| Crop | ACRE Guarantee ($/A) | State Yield* (B/A) | Projected Price ($/B) | Projected Revenue ($/A) | Projected ACRE Payment ($/A) |
|---|---|---|---|---|---|
| **Corn-irrigated** | $687.65 | 197 | $3.55 | $699.35 | $0.00 |
| **Corn-dryland** | $449.76 | 149 | $3.55 | $528.95 | $0.00 |
| **Soybeans-irrigated** | $510.53 | 60 | $9.60 | $576.00 | $0.00 |
| **Soybeans-dryland** | $370.48 | 49 | $9.60 | $470.40 | $0.00 |
| **Wheat** | $232.71 | 47.3 | $4.87** | $230.35** | $2.36** |
| **Grain Sorghum** | $278.46 | 93 | $3.15 | $292.95 | $0.00 |

* Final 2009 state yields per planted acre were published by USDA-FSA in early 2010. Projected prices are from the "World Agricultural Supply and Demand Estimates" published by USDA-WAOB.

** The 2009 crop wheat marketing year is complete and the price, revenue and ACRE payment are final.

**Table 4. ACRE State Guarantees, Yields and Prices for 2010***

| Crop | State ACRE Guarantee ($/A) | Expected State Yield (B/A) | Price to Trigger ACRE Payments at Expected Yield ($/B) | Projected Price ($/B) |
|---|---|---|---|---|
| **Corn-irrigated** | $637.70 | 201 | $3.17 | $3.80 |
| **Corn-dryland** | $417.09 | 151 | $2.76 | $3.80 |
| **Soybeans-irrigated** | $504.05 | 60 | $8.40 | $9.25 |
| **Soybeans-dryland** | $385.70 | 48 | $8.04 | $9.25 |
| **Wheat** | $217.60 | 45 | $4.84 | $5.10 |
| **Grain Sorghum** | $259.20 | 94 | $2.76 | $3.50 |

* The 2010 state ACRE guarantees are published by USDA-FSA. Yield expectations and price projections are calculated based on the August 2009 reports of "Crop Production" from USDA-NASS and the "World Agricultural Supply and Demand Estimates" from USDA-WAOB.

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