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Expanding the Farm Income Safety Net

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Market Report	Year Ago	4 Wks Ago	6/7/19
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	*	114.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	183.76	NA	174.72
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	158.13	NA	147.46
Choice Boxed Beef, 600-750 lb. Carcass.	226.95	223.49	222.57
Western Corn Belt Base Hog Price Carcass, Negotiated	78.89	77.83	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	78.07	84.72	82.28
Slaughter Lambs, wooled and shorn, 135-165 lb. National.	162.85	154.10	157.80
National Carcass Lamb Cutout FOB.	379.29	386.97	388.26
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.78	3.65	4.08
Corn, No. 2, Yellow **Columbus**, bu.	3.49	3.42	4.00
Soybeans, No. 1, Yellow **Columbus,** bu.	8.79	7.01	7.60
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.40	5.30	6.36
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.90	3.20	3.25
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	170.00	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	100.00	115.00	110.00
Grass Hay, Large Rounds, Good Nebraska, ton.	102.50	90.00	97.50
Dried Distillers Grains, 10% Moisture Nebraska Average.	144.00	114.50	128.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	40.50	42.50	50.00
*** No Market**			

When the 2018 Farm Bill was passed in December, producers were looking ahead to implementation and thinking of the coming decision between enrollment under the Agricultural Risk Coverage (ARC) program or the Price Loss Coverage (PLC) program. With continued low price projections at the time, the safety net decision may have seemed relatively straight-forward. Now, with all of the weather and market challenges in 2019 coupled with ad hoc assistance expected from the federal government, the safety net and the decisions related to it have become exceedingly complex. A look at the wide and expanding safety net for crop producers provides perspective and management insight in the wake of current production and marketing challenges.

Commodity Programs

The 2018 Farm Bill maintained the existing ARC and PLC programs that were introduced in the 2014 Farm Bill. At that time, producers made a one-time election as to which program to use and were set with that choice for the 2014 through 2018 crop years. The new farm bill made some changes to improve the ARC program, including changes to the yield data and a trend-yield calculation that should improve the ARC guarantee. There were also modest changes to the PLC program, including a yield update (with some limited benefits) and a formula to increase the reference price if market prices increase. However, the biggest feature of the new farm bill for ARC and PLC had to be a new enrollment decision, first in 2019 for 2019 and 2020, and then annually beginning in 2021.

At the time of farm bill passage, the expectations were for widespread shifts in enrollment away from ARC and into PLC. Price projections at the time that were below existing reference price levels would seem to heavily tilt the performance of the programs toward PLC. Given the expected shift in enrollment, the estimated cost of the programs for all program crops was projected at nearly $6 billion for the 2019 crop year to be paid in October 2020, with more than $5.4 billion of that for PLC, all based on projections from the Congressional Budget Office in January 2019. With this year's extreme weather events and concerns over crop production, particularly corn, the recent run-up in commodity prices would substantially change these numbers, or even eliminate them if higher pices were sustained through the marketing year.

Crop Insurance

The crop insurance program is a second key part of the safety net and is actually projected to be bigger than the commodity program. While crop insurance programs are permanently authorized under separate legislation, the farm bill did make some small changes to various program features, including expanded enterprise coverage to include farm units across county lines. The overall crop insurance program was projected to cost about $7.8 billion for the 2019 crop year, including a total of about $5.2 billion in net indemnities ($9.9 billion in total indemnities less $4.7 billion in producer-paid premiums).

Those projected costs were estimated in early 2019 based on long-run projections and an assumed average loss ratio of 0.90 (total indemnities divided by total premiums, including the farmer share and the government share of premiums). While the projected cost is relevant for federal budget estimates, the actual cost and payouts under the crop insurance program vary with actual conditions. This year's prevented-planting claims and risks of further production losses due to late planting could result in substantially more indemnities paid out. And under the Revenue Protection (RP) policies, the recent rise in commodity prices, if maintained through harvest-time, could increase the guarantees and cover insured yield losses at higher prices necessary to fulfill any forward-priced sales contracts when production falls short.

Standing Disaster Assistance

In addition to the commodity programs and crop insurance, the farm bill also provides the foundation for a set of standing disaster assistance programs. After decades of ad hoc disaster assistance that was both unpredictable and always after the fact, Congress had moved to provide some stability and permanence for agricultural disaster programs in the 2008 Farm Bill. That legislation authorized standing disaster assistance programs for crop, livestock, and tree losses, but the authority stretched only to 2011, given budget challenges at the time. After the programs lapsed in 2012, the 2014 Farm Bill reauthorized the disaster assistance programs retroactively back to 2012 with permanent authority and mandatory funding for all but the crop disaster assistance, given the continued growth and utilization of crop insurance over time. The 2018 Farm Bill did not need to reauthorize these programs, but did make some modest adjustments to various provisions.

These disaster programs, including the Livestock Forage Disaster Program (LFP) for drought, the Livestock Indemnity Program (LIP) for death losses, and the Emergency Livestock Assistance Program (ELAP) for other losses have provided substantial support in recent years, including storm and flood losses this year. However, they are just some of the multitude of disaster assistance programs, including no less than 10 administered by the USDA Farm Service Agency for production losses, emergency conservation practices, emergency loans, and other needs. There are programs or elements of other programs administered through additional agencies that have also provided assistance to producers recovering from disaster events. When the 2018 Farm Bill was passed, the livestock and tree disaster assistance programs were budgeted at a little less than $500 million per year, but again, this number only reflects a cost estimate for planning purposes. The disaster payments through these programs are expected to dramatically exceed that number in response to the recent and continuing storm losses, not even counting the numerous other programs that have been utilized this year.

Ad Hoc Disaster Assistance

While the permanent authorization of disaster assistance programs in 2014 supposedly preempted the need for ad hoc disaster legislation year after year, it did not prevent the political process from repeatedly revisiting the issue. Not long after the 2014 Farm Bill was passed, there were calls for disaster assistance in response to drought losses, particularly in California. More recently, disaster assistance was passed in early 2018 to cover wildfire and hurricane losses, including qualifying crop losses in affected areas through the Wildfires and Hurricanes Indemnity Program (WHIP).

Now, ad hoc disaster assistance is on the way again. The aid package recently approved by Congress includes approximately $3 billion in assistance for ag losses in 2018 and 2019 as part of a broader $19 billion disaster assistance bill. The details are limited on the ag aid, but using WHIP and previous crop disaster assistance programs as a model, the assistance could provide partial relief for crop revenue losses, with greater protection for those that bought crop insurance over those that did not. The legislation specifies payments not to exceed 90% of calculated losses (expected crop value less actual crop revenue, crop insurance payments, and disaster payments) for those that had crop insurance or Noninsured Crop Disaster Assistance Program (NAP) coverage and 70% for those that did not. The WHIP program provides a model of increased disaster protection levels based on increasing levels of crop insurance coverage purchased that could be used again for this year's assistance.

The legislation also specifically mentions assistance for 2019 prevented-planting and on-farm storage, which may directly help producers affected by recent storms and flooding who lost grain or could not get acres planted. There is also additional funding beyond the $3 billion committed for emergency forest, conservation, and watershed programs among others, which may help backstop funding for existing programs as current demands for assistance have grown.

Ad Hoc Trade Assistance

On top of the other parts of the safety net, the Secretary of Agriculture announced a second round of trade assistance to producers to help offset losses due to the on-going trade policy conflicts and export market losses. The Secretary announced assistance last year for the 2018 crop based on calculated export losses by crop. At the time, that assistance was advertised as a $12 billion package, including Market Facilitation Program (MFP) payments by commodity on 2019 production as well as $1.2 billion allotted for commodity purchases to support demand and $200 million for trade promotion programs to add to existing programs authorized by the farm bill. The MFP payments covered a number of crops as well as milk production and hog inventories (in lieu of production numbers). Ultimately, the MFP payments amounted to nearly $9.5 billion, with more than $600 million received on 2018 production in Nebraska.

The new round of trade assistance announced in late May promises $16 billion in support, with $14.5 billion for MFP payments on the 2019 crop (as well as dairy and hogs), $1.4 billion for additional commodity purchases, and $100 million more for trade promotion programs. The announcement indicated the MFP payments would be based on calculated trade losses by commodity, but then weighted across historical plantings of each commodity by county to produce a single payment rate per county.

While the payment rates are not known at this time, comparing the $14.5 billion in announced assistance for 2019 against the $9.5 billion paid out on the 2018 crop and then prorating that to the $600 million plus in Nebraska suggests the 2019 MFP payments could exceed $900 million in the state. Divided over the 19.6 million acres of principal crops intended to be planted in Nebraska in 2019, the average MFP payment in the state could be around $45 per acre, although it should vary substantially from county to county based on crop mix and productivity levels.

The single payment rate would presumably not affect planting decisions between crops, but given the potential amount and the additional stipulation that it would be paid on 2019 planted acreage, the MFP payment could certainly affect the final decision on whether to plant or to claim prevented-planting coverage under crop insurance. To add to the uncertainty, the Secretary has made additional comments since the initial announcement suggesting the issue of prevented-planting acres is not settled. But, with prevented-planting also included in the terms of the expected ag disaster assistance program, it could be that prevented-planting acres are treated nearly equally as planted acres regardless of which program ultimately provides the support.

Looking at the entire farm income safety net for crop producers, it is easy to become overwhelmed with the details. The exact support and protection will vary for each producer based on participation decisions, crop mix, and other considerations, but in aggregate, there is substantial support. Commodity programs could provide several billion dollars of support nationally if crop prices move lower than current levels. Crop insurance programs are likely to provide even more support based on losses already realized with prevented-planting claims and potential further yield losses from late planting. Standing disaster assistance programs will likely provide $1 billion plus in assistance, recognizing that those are primarily for livestock losses. The ad hoc disaster assistance is advertised as $3 billion and the new round of trade assistance may provide up to $14.5 billion in MFP payments to producers. All of that may not make up for the production, market, and financial losses producers are facing due to the continued economic challenges in agriculture compounded by the disaster losses and the on-going trade losses, but it does provide a substantial net for producers that helps address the financial challenges and helps producers make plans for the future.

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