

2020 Illinois Farm Economics Summit

Tuesday
December 1st

2021 Market
Outlook for Corn
and Soybeans

Friday
December 4th

2020 and 2021
Grain Farm Income
Outlook with Risk
and Rental
Implications

Tuesday
December 8th

Farm Program and
Crop Insurance
Decisions for 2021

Friday
December 11th

**Straining the
alphabet soup:
Post-election farm
policy outlook after
three years of ad
hoc farm payments**

Tuesday
December 15th

Farmland Markets
and Macro Markets

I
ILLINOIS
Agricultural &
Consumer Economics
COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES



farmdocDAILY
farmdoc

Straining the alphabet soup:

Post-election farm policy outlook
after three years of ad hoc payments

I

ILLINOIS

Agricultural &
Consumer Economics

COLLEGE OF AGRICULTURAL, CONSUMER
& ENVIRONMENTAL SCIENCES



Joe Janzen

jjanzen@illinois.edu



Nick Paulson

npaulson@illinois.edu

farmdocDAILY

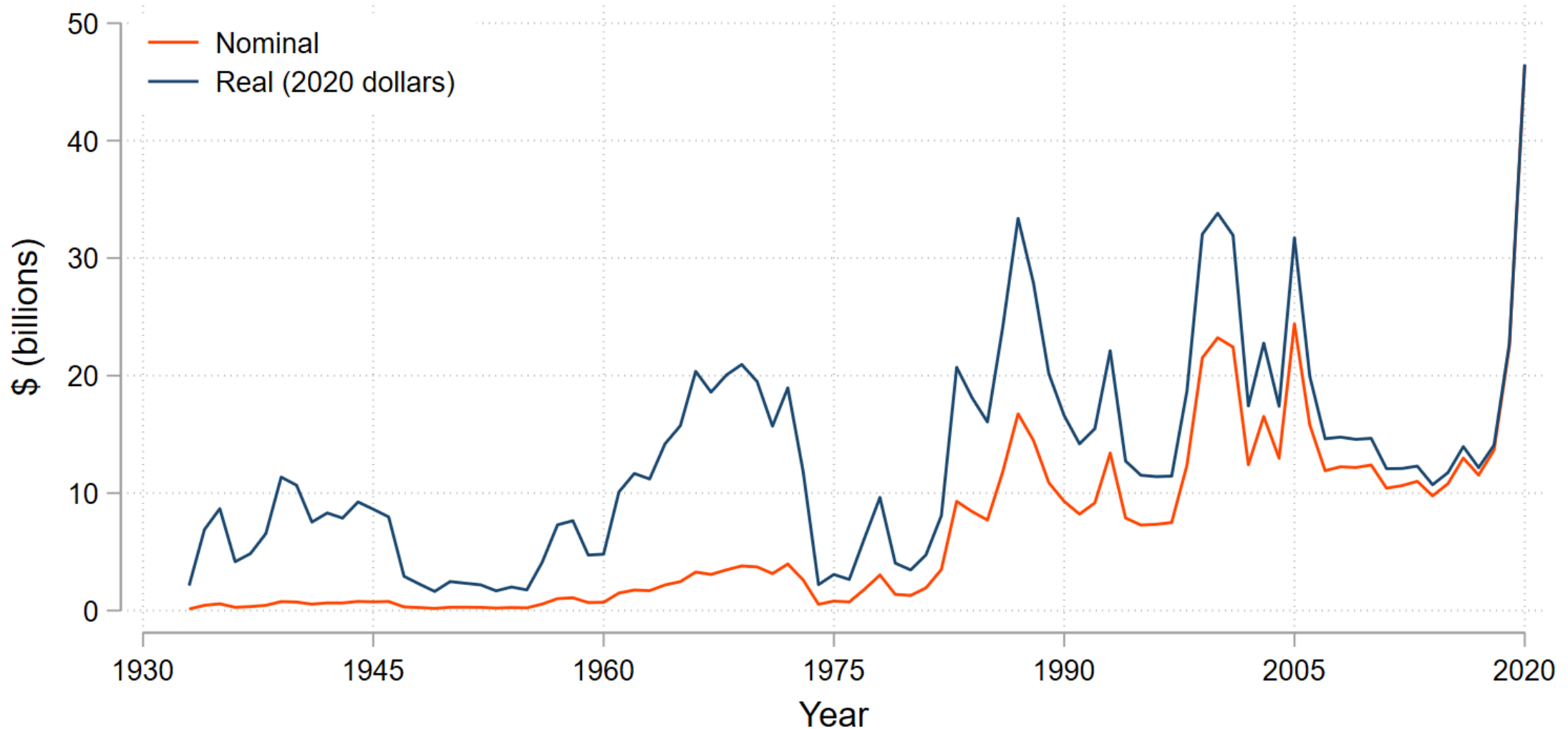
Poll Question

Do you expect additional COVID-related Federal support for ag?

- Another round of PPP (or similar)**
- Another round of specific ad hoc support for agriculture**
- Both PPP and specific ad hoc support for agriculture**
- No additional support for ag**

Government payments will hit record in 2020

All federal government direct farm payments, 1933-2020, (excluding crop insurance)



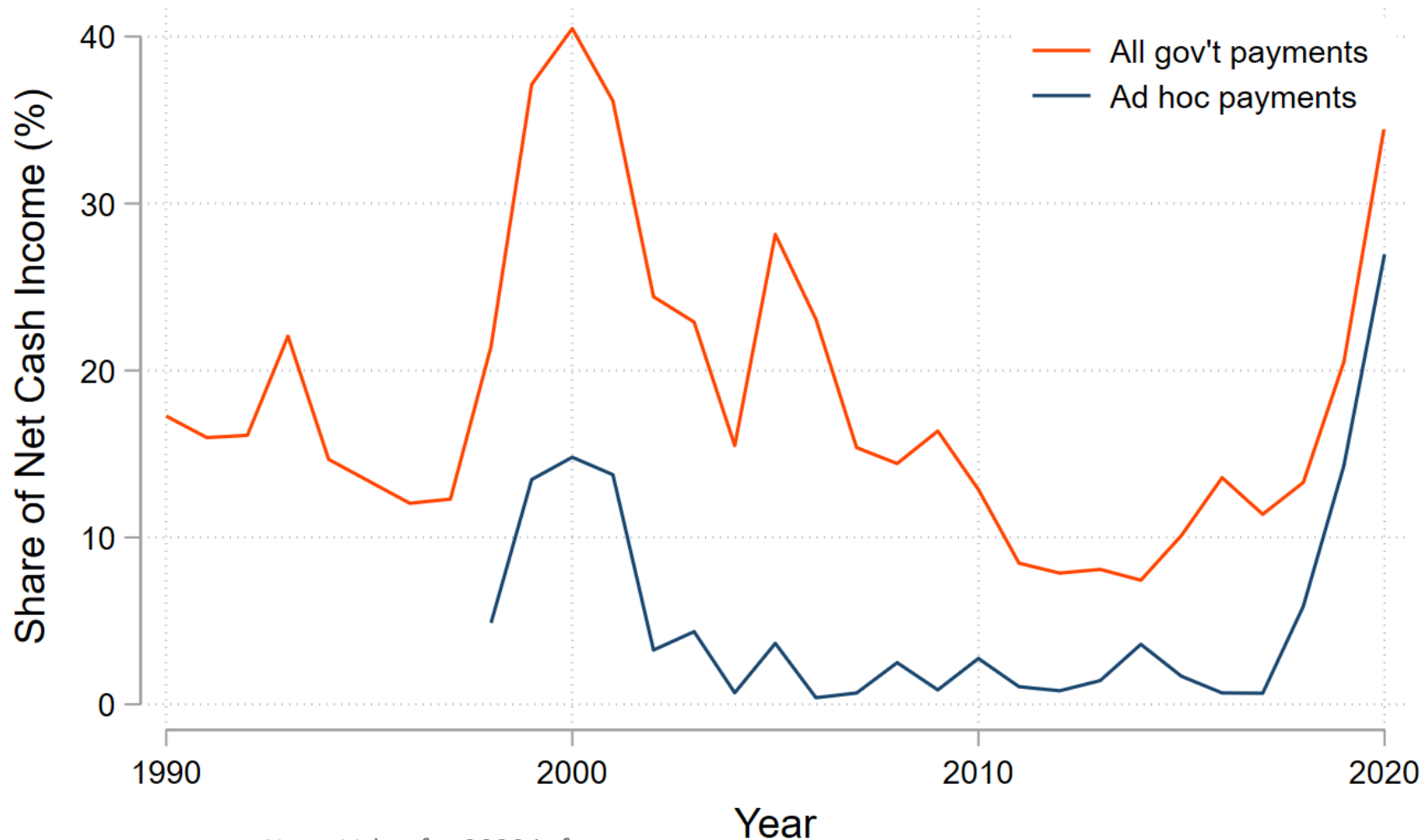
Note: Data not accrual-adjusted. Value for 2020 is forecast. Real values are inflation-adjusted using chain-type GDP deflator.

Source: USDA-Economic Research Service data as of December 2, 2020.

<https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx>

Share of income is high, due to ad hoc payments

Direct farm payments as share of net cash income, 1990-2020



What are ad hoc payments?

Not authorized in farm bill or given permanent funding.

In 2018-2020:

MFP: Market Facilitation Program

CFAP: Coronavirus Food Assistance Program

WHIP+: Wildfires and Hurricanes Indemnity Program

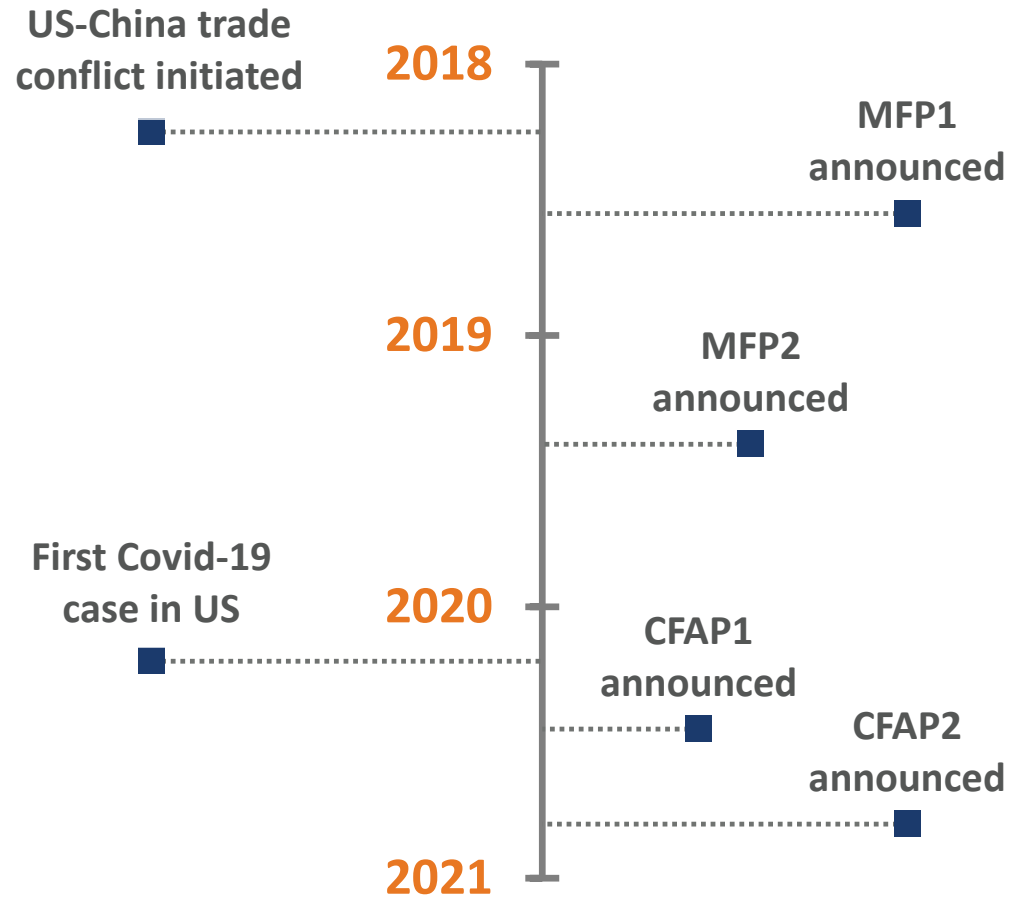
PPP: Paycheck Protection Program forgivable loans

Note: Value for 2020 is forecast.

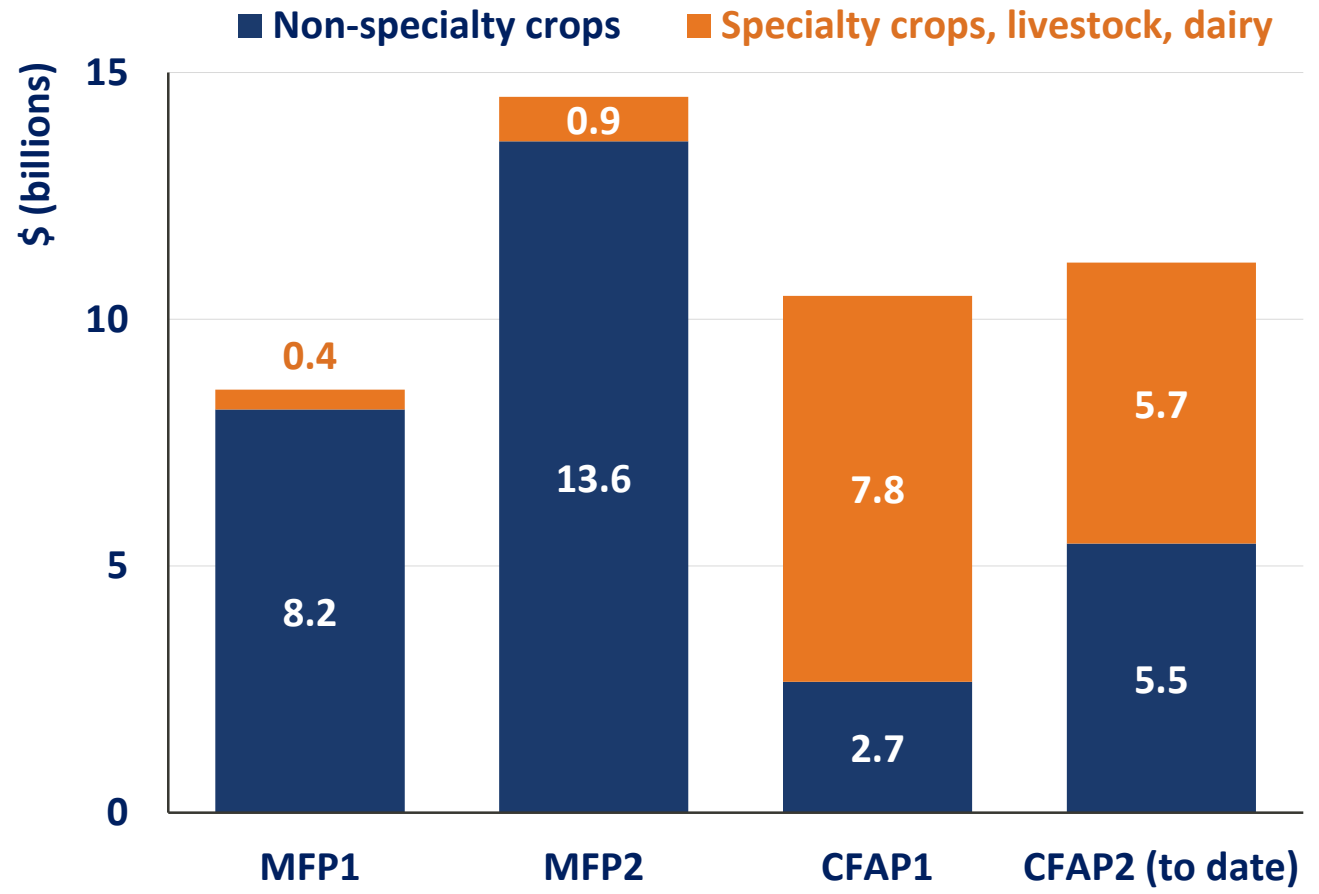
Source: USDA-Economic Research Service data as of December 2, 2020.

<https://www.ers.usda.gov/data-products/farm-income-and-wealth-statistics.aspx>

Ad hoc payments are response to specific market and/or production disruptions



Ad hoc government payments by program and commodity type



Note: Quantities are actual payments made, not budgeted amounts.

Source: USDA via farmers.gov and FOIA requests

What determined ad hoc crop payment amount?

MFP: Predicted lost export sales

Payment = Rate (\$/unit) x Quantity (units)

Payment rate:

Predicted decline in US exports to countries imposing retaliatory tariffs, relative to:

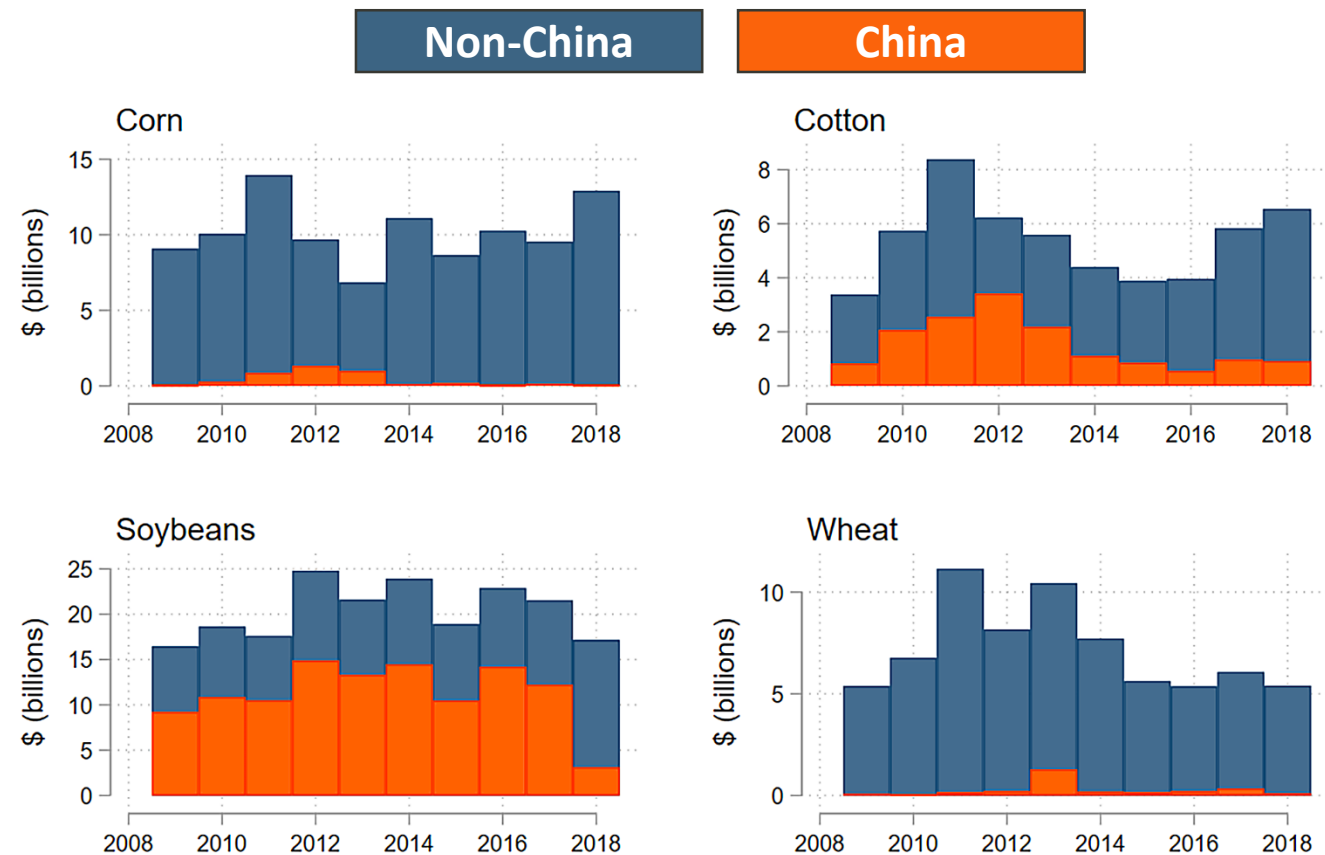
- 2017 (for MFP1)
- Decade maximum (for MFP2)

Quantity:

Estimated amount subject to loss, independent of farm acreage allocation to specific crops

- 2018 production
- 2019 planted acres of all eligible crops

Calendar year US export value by commodity and destination, 2009-2018

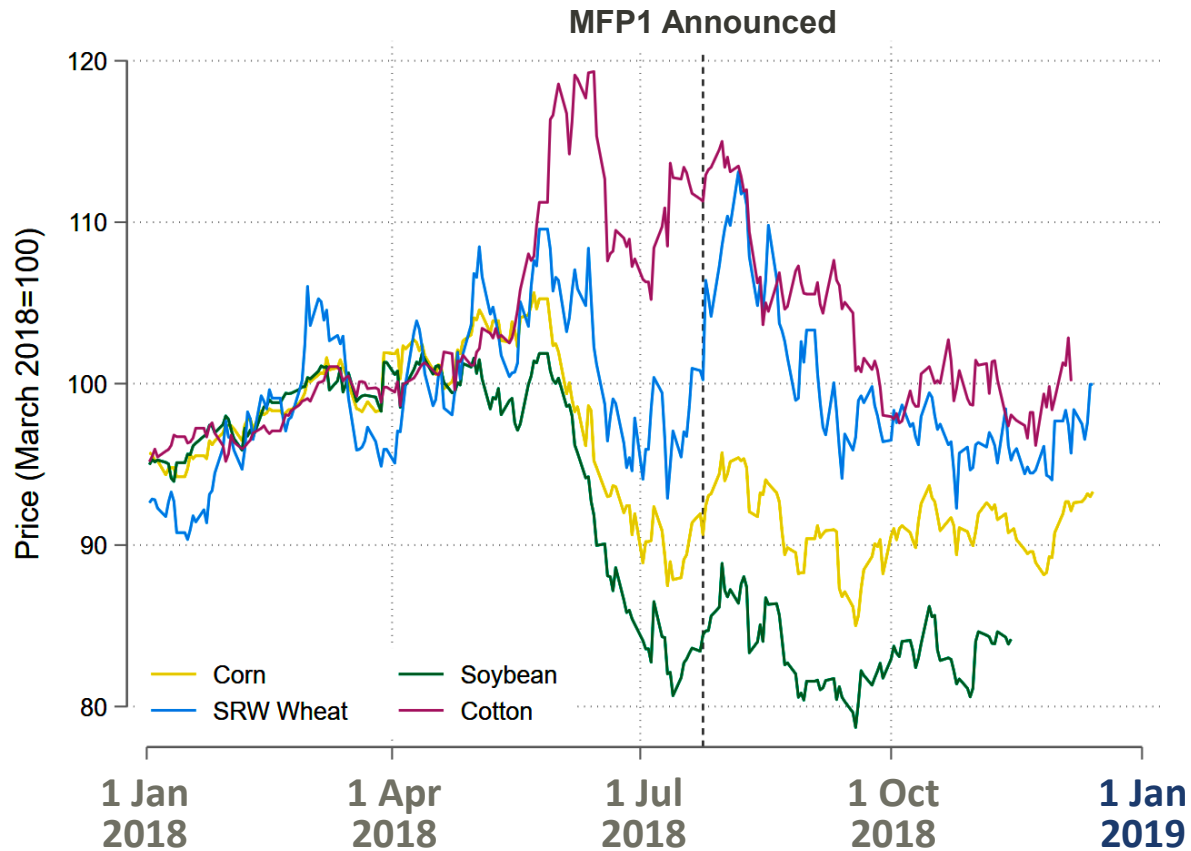


Source: US International Trade Commission

MFP rates did not equal trade war price impacts

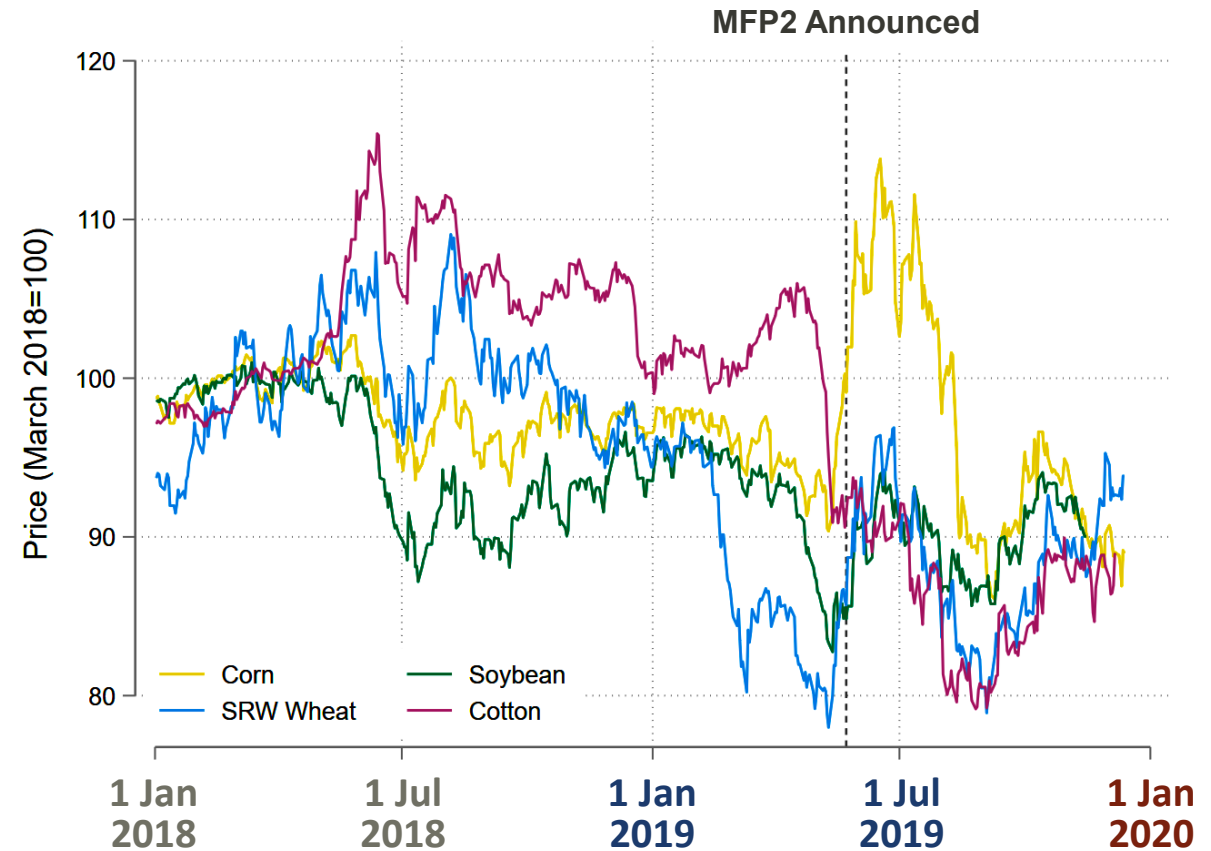
MFP1-related crop price impacts

Futures prices for 2018 harvest delivery, Jan-Dec 2018



MFP2-related crop price impacts

Futures prices for 2019 harvest delivery, Jan 2018-Dec 2019



Note: Prices are indexed so the average price during March 2018 = 100.

Source: Bloomberg

What determined ad hoc crop payment amount?

CFAP: Price decline over specific period in 2020

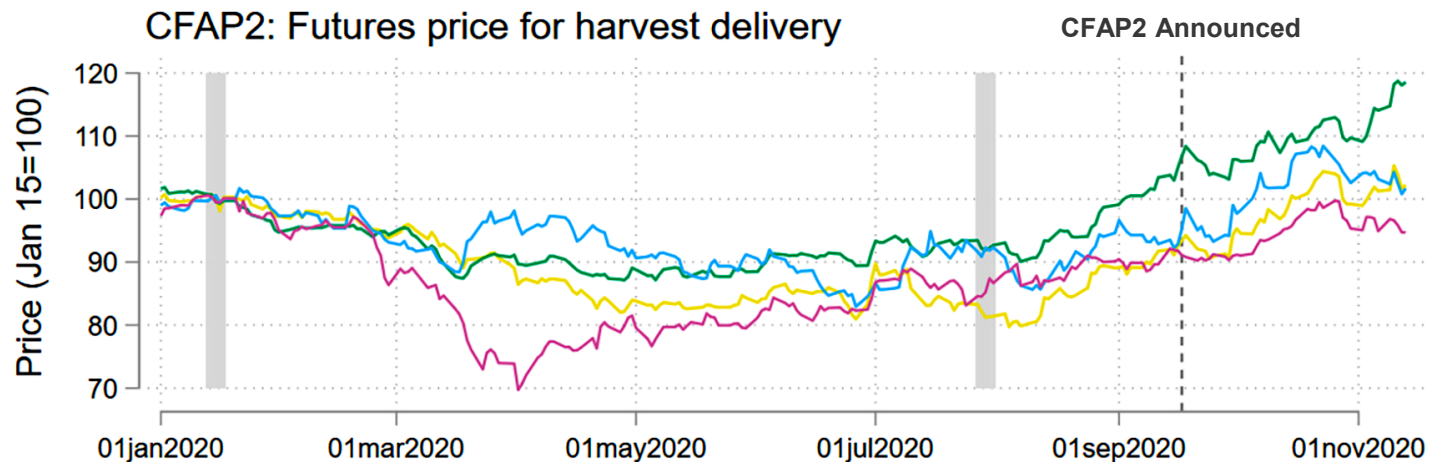
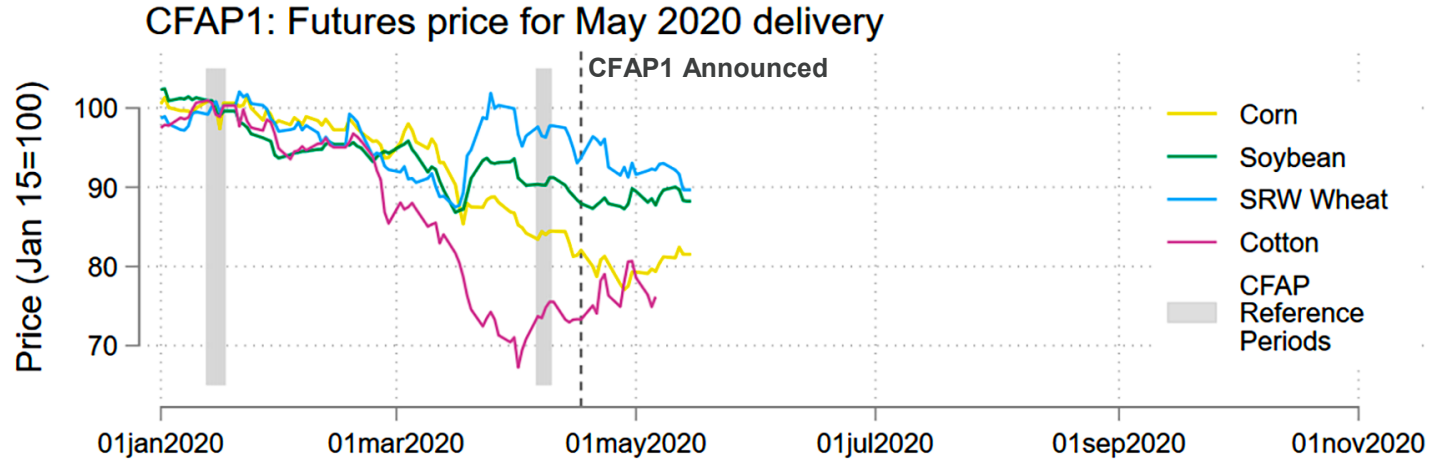
Payment rate:

Assumed proportion of actual price decline between given dates

Quantity:

- **CFAP1:** Farmer-owned crop inventories on Jan 15, 2020
- **CFAP2:** Actual 2020 planted acres times expected yield (crop insurance APH)

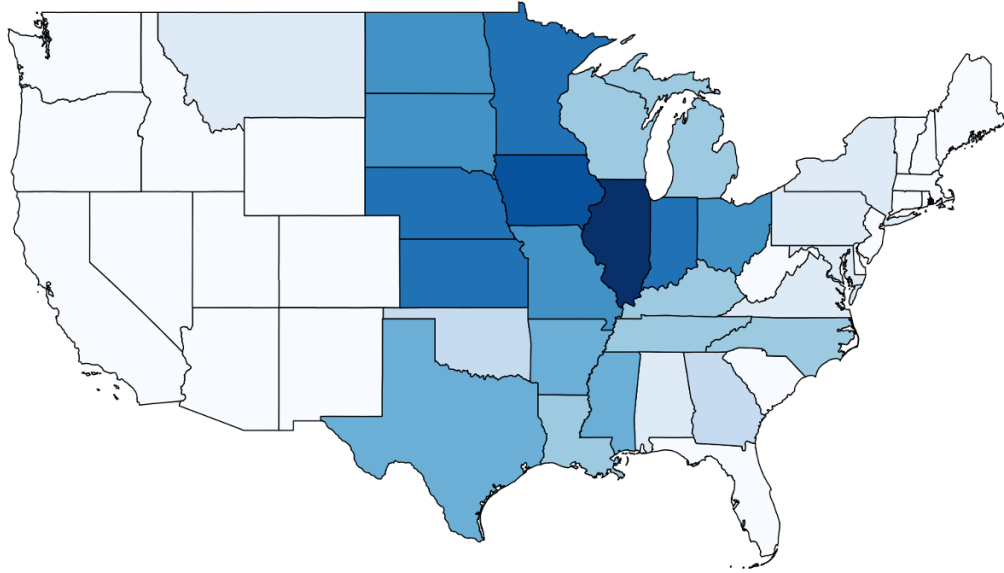
CFAP-related futures price changes, Jan 1 – Nov 15, 2020



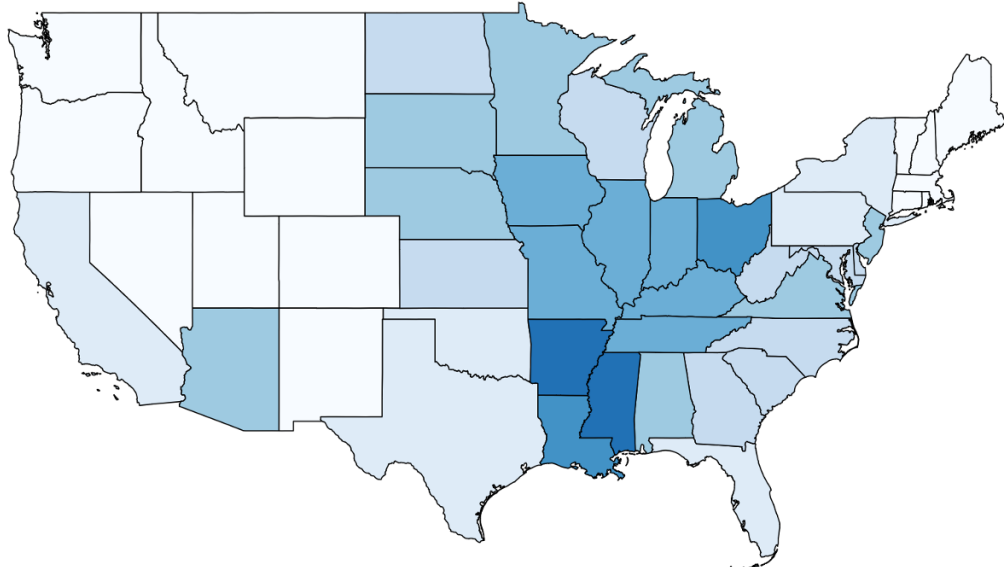
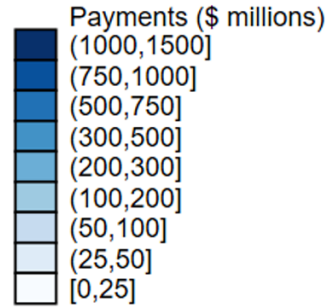
Note: Prices are indexed so the average price in the week of Jan 15 = 100.

Source: Bloomberg

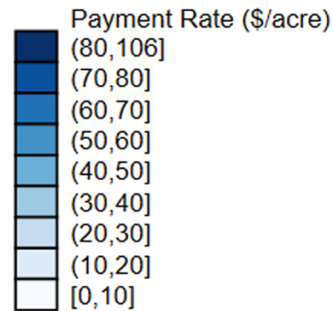
MFP1 crop payments



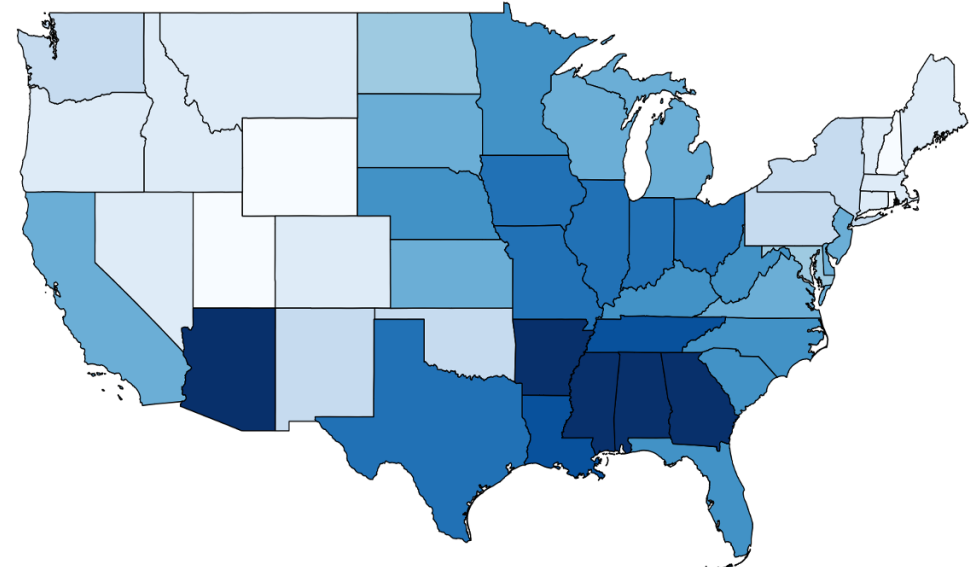
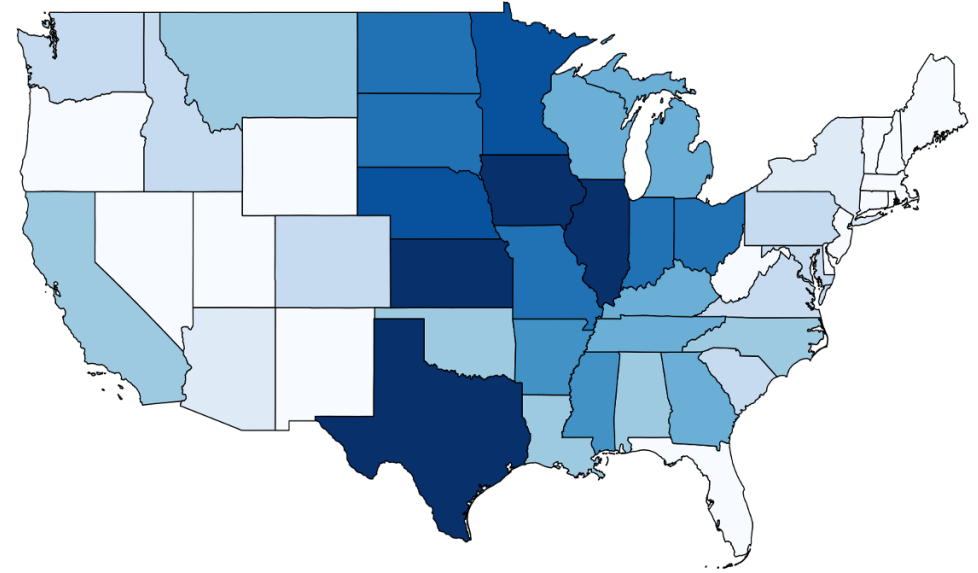
Total crop payments



Payment per planted acre

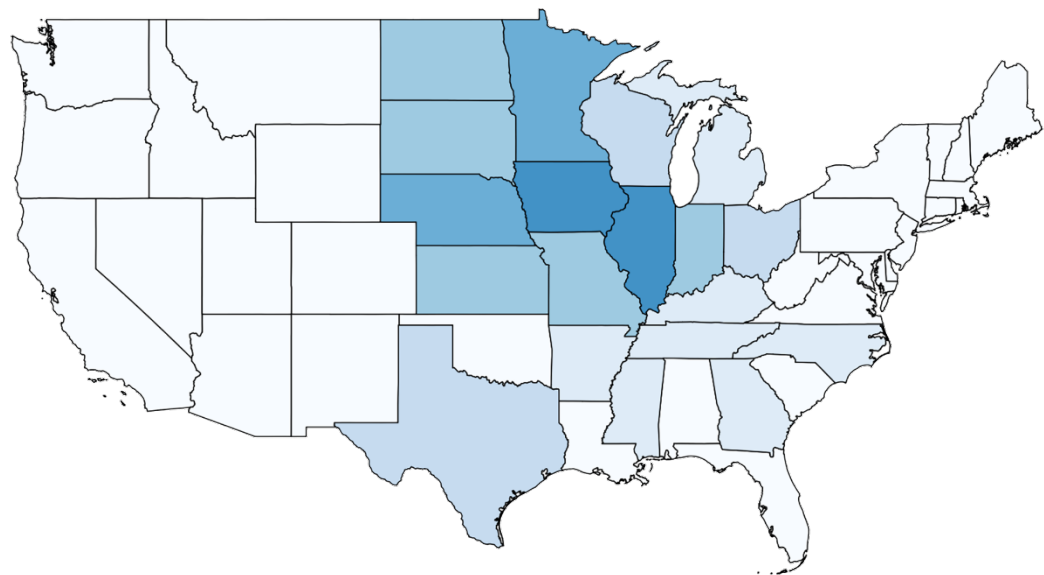


MFP2 crop payments

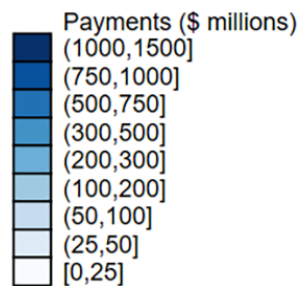


Source: USDA Farmers.gov and NASS. Note: Acres are 2018 NASS planted acres of MFP1-eligible crops: : corn, cotton, sorghum, soybeans, and wheat. 2019 NASS planted acres of MFP2-eligible crops: corn, cotton, sorghum, soybeans, and wheat plus alfalfa, minor grains, oilseeds, and pulses.

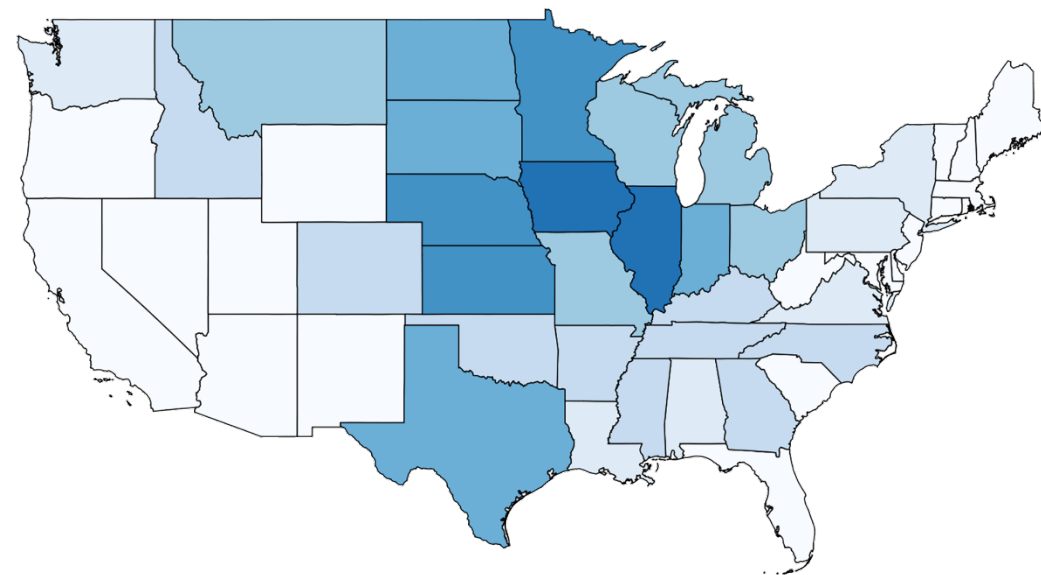
CFAP1



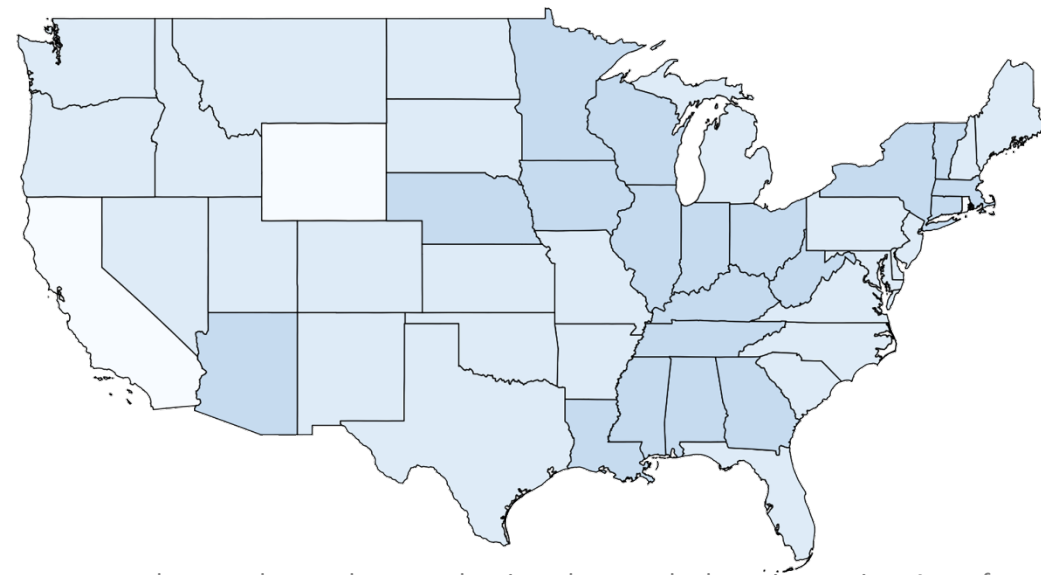
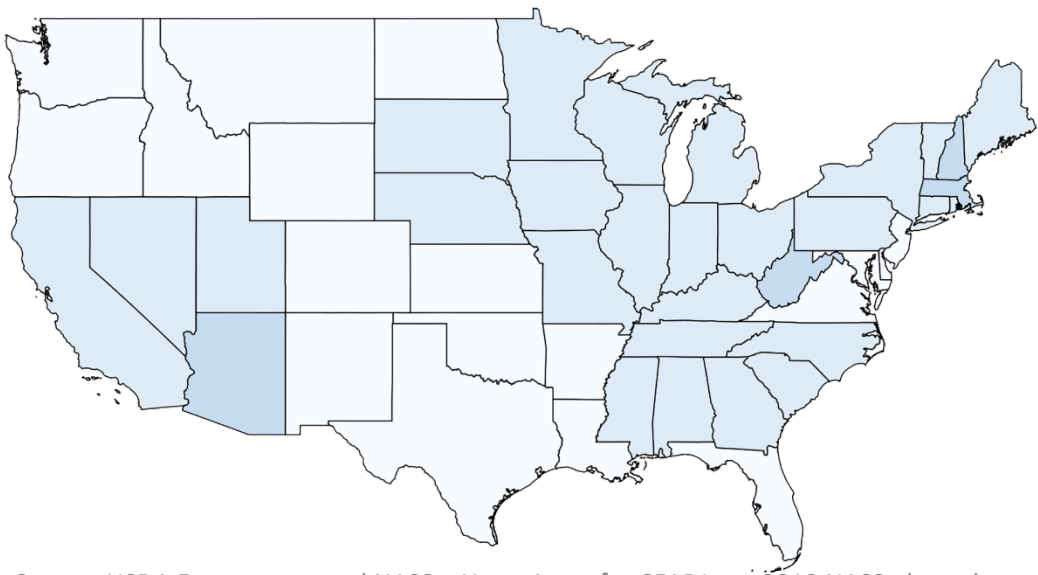
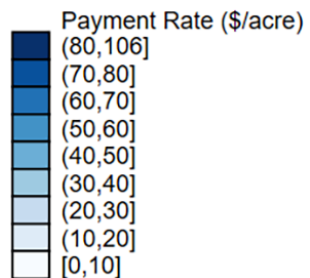
Total crop payments



CFAP2



Payment per planted acre



Source: USDA Farmers.gov and NASS. . Note: Acres for CFAP1 are 2019 NASS planted acres of CFAP1-eligible crops: corn, cotton, sorghum, soybeans, durum and spring wheat, and other minor grains. Acres for CFAP2 are NASS 2020 planted acres of CFAP2-eligible crops: corn, upland cotton, sorghum, soybeans, and wheat plus many other minor grains and oilseeds.

Policy lessons from MFP and CFAP

Achieving all policy objectives is impossible: choose two? one?

Timeliness

Necessary (but difficult) to predict losses in advance (e.g. prior to marketing year)

Targeting

Payment rates and quantities not always calibrated to actual economic damages

Difficult to apply one methodology to measure damages across many commodities

Programs less focused on specific commodities or regions over time

Decoupling

Program design consistently seeks to avoid affecting farmer acreage allocation decision (even when program announced prior to planting)

Poll Question

How do you think the significant Federal support for agriculture since 2018 will impact future support levels?

- Increased future support for agriculture
- Reduction in future support for agriculture
- No impact

Consistent design

Yield

Realized yields compared with expectations based on experienced history (trend)

Price

Average price over full year compared with recent experience (ARC) or fixed benchmark (PLC)

Price at harvest vs. expectations prior to planting (insurance)

Ad hoc = “for this”

Quick/rushed rollouts

Estimated/predicted trade damages (MFP)

Historical trade volume benchmarks

Estimated price impacts

Price decline over portion of a year (CFAP)

Pre- and post- shock time periods

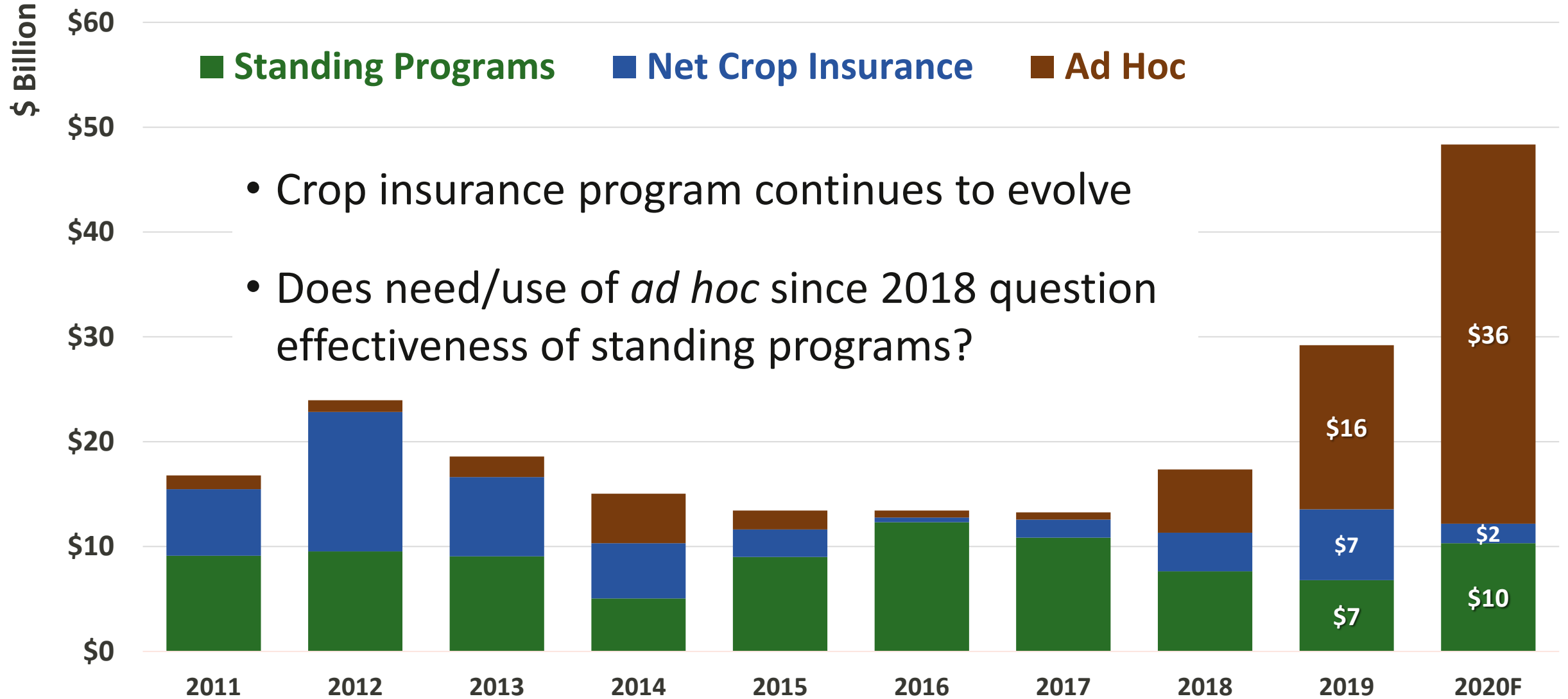
PPP/EIDL

Safety Net Programs

Commodity Programs and Crop Insurance

VS.

Ad Hoc Support



Source: Economic Research Service (ERS) and Risk Management Agency (RMA) USDA

Net Crop Insurance = Indemnities less Farmer-paid Premiums

Farm Income and Perceptions

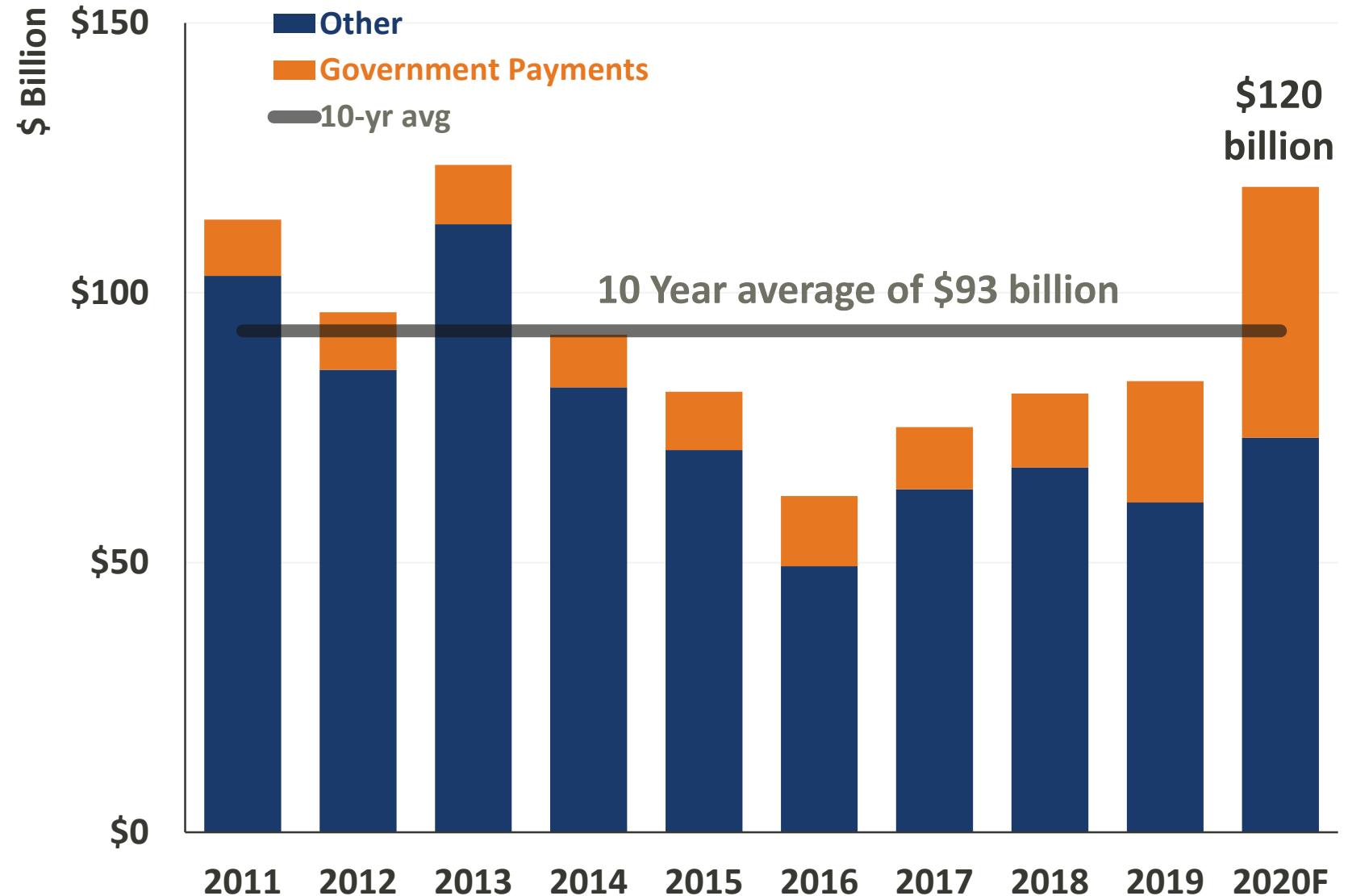
2020 NFI of \$120 billion

- \$46 billion in direct federal support
- Highest since 2013

All while:

- Overall recovery slows
- 10.7 mill unemployed (6.7% unemployment)
- Stock market records

Stimulus round 3



Source: Economic Research Service (ERS), USDA

Poll Question

What kind of changes do you expect for commodity programs in the next Farm Bill?

- Major overhaul, with less commodity program support
- Major overhaul, with more commodity program support
- Minor changes, with less commodity program support
- Minor changes, with more commodity program support
- Status quo for commodity programs

Farm Policy Moving Forward

- New administration's rural priorities
- Farm Bill debate
 - Budget/deficit constraints
 - Modifications to existing programs will be proposed and debated, as always
 - Conservation focus
 - Agriculture's role in climate efforts
- Consider rationale for ag support moving forward

We would like to thank all of our farmdoc sponsors



farmdoc



farmdocDAILY

Upcoming IFES Webinars

Farmland Markets and Macro Markets

11:00 to noon CT, Tuesday December 15th

Farmland is receiving significantly increased attention by owners and investors seeking to make sense out of the scrambled economic signals of the recent past. Historically, the conventional narrative around farmland as a financial asset is that the returns are positively correlated with inflation, have low or negative correlation with equities, and have positive portfolio benefits in well-diversified holdings due to the relative lack of response to short-term broad market movements.

The Fed has signaled an intent to target higher inflation, and the changing posture on trade and world demand could drive commodity prices, though perhaps not as clearly linked to dollar prices. This session examines the relative returns to farmland over differing macro-environment periods of the past, and suggests the strength of relationship to expect in the future to financial assets, interest rate indexes, and inflation.

Thank You for joining us!

Please submit your questions



ILLINOIS farmdoc farmdocDAILY Farm Policy News

farmdocDAILY

Market Prices Authors By Month Categories Series Tools Webinars/IFES Sponsors/Donate About Us

EDUCATIONAL PARTNERS:
Dept of ACE FBFM EXTENSION

Subscribe for Daily Email Updates

Connect on Social Media

Visit us at

farmdocDAILY

.Illinois.edu

Subscribe for Latest News Updates

farmdoc's coverage of the Coronavirus and Ag

Latest Article

Weekly Farm Economics
Premiums for the Enhanced Coverage Option
December 8, 2020
Gary Schnitkey, Nick Paulson, Krista Swanson, and Carl Zulauf
Enhanced Coverage Option (ECO) will be available for the first time in 2021. With ECO, purchasers of Revenue Protection (RP) or other COMBO products can extend county-level coverage up to a 90% or 95% coverage level. This article shows preliminary...

[Read the Article](#)

Corporate Sponsor TIAA Center for Farmland Research	Platinum Sponsor COMPEER FINANCIAL
Platinum Sponsor FARM CREDIT ILLINOIS Helping Farm Families Succeed	Platinum Sponsor GROWMARK
Platinum Sponsor www.ilcorn.org	Platinum Sponsor ILLINOIS SOYBEAN

[See all sponsors](#)

ILLINOIS

Agricultural & Consumer Economics

COLLEGE OF AGRICULTURAL, CONSUMER & ENVIRONMENTAL SCIENCES



For the webinar archives and **5-minute farmdoc**
Subscribe to our channel [YouTube.com/farmdocVideo](https://www.youtube.com/farmdocVideo)



[See the Latest News on Social Media](#)