FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

Department of Agricultural and Consumer Economics • College of Agriculture, Consumer and Environmental Sciences
University of Illinois at Urbana-Champaign

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CASH FLOWS TIGHT ON MANY GRAIN FARMS THIS YEAR BECAUSE OF REDUCED GOVERNMENT PAYMENTS

After four years of low grain prices, this summer's price upswing has been welcomed by producers. However, higher prices may not completely offset lower revenue caused by lower yields as a result of adverse weather conditions. In addition, higher grain prices will reduce the amount of farm program payments. There will be little, if any, loan deficiency and counter cyclical payments this fall. In addition, the new farm bill does not contain provisions for market loss assistance and oilseed payments that have been paid out the past few years. These payments came about due to additional legislative action in response to low market prices.

Higher grain prices will offset much of the drop in farm program payments for producers with average or above average yields. This will not be case for producers with a shortfall in production. Even for producers with normal yields, their cash flow will be altered considerably this year due to the drop in farm program payments. Some producers will need to sell 2002 crop production this fall to make up for the cash flow shortfall. Others who had been in the practice of prepaying expenses before the end of the year may decide not to this year.

Changes in Farm Program Payments

The 1996 Farm Bill included provisions for production flexibility contract (often called AMTA payments) payments and loan deficiency payments (LDP's) or marketing loan gains. Ad hoc legislation resulted in additional market loss assistance payments for the 1998 through 2001 crop years. Supplemental oilseed payments began with the 1999 crop.

The 2002 Farm Bill includes provisions for direct payments and counter cyclical payments. The direct payments are similar in concept to the AMTA payments from the 1996 Farm Bill except they now include payments for oilseeds, such as soybeans. Direct payments are guaranteed. The direct payment rate per bushel is fixed over the life of the farm bill while the old AMTA payment rate changed from year to year. The counter cyclical payments are similar to deficiency payments which existed under farm bill legislation prior to 1996. These payments are not made unless national average marketing year prices are below a certain "trigger" price level. The 2002 Farm Bill continues provisions for LDP's and marketing loan gains similar to the 1996 Farm Bill, although national and county loan rates have been revised.

Most producers took a 100 percent advance of the 2002 AMTA payments early this year. The 1996 Farm Bill was to continue through 2002 but the new farm bill legislation was implemented this year. Once producers select their base acre and yield options and sign up for the program, producers can receive their direct payments. Direct payments will be reduced by the amount of the advance AMTA payment they took earlier this year. Most producers should receive additional direct payments for 2002 since the direct payment rate is slightly higher for corn and wheat than the AMTA payment rate. In addition, they will receive a direct payment for soybeans. Depending on their direct payment program yield, producers might receive another $1 or $2 per program acre for corn and wheat and $10 to $15 per program acre for soybeans.

Result of Higher Grain Prices on Farm Program Payments

Expected lower production of corn, soybeans and wheat has resulted in significantly higher prices for these commodities. Higher prices are going to result in lower or no government loan deficiency and counter cyclical payments this year. As of September 30, market prices for corn and soybeans were about 35 cents per bushel above the level in which producers would start receiving LDP's. Wheat prices were about $1.25 above the LDP price level. On September 27, USDA indicated that at this point in time they would not make any advance counter cyclical payments for corn, soybeans and wheat because the estimated marketing year price for these commodities was above the price level that would trigger counter cyclical payments. USDA will evaluate this again in February of 2003. A significant drop in grain prices could result in some counter cyclical payments in 2003. For producers with average or above average yields, the higher market prices to a great extent will offset the lower government payments. However, for producers with a significant shortfall in production, the higher market prices will not totally offset the lower counter cyclical payments and the elimination of market loss assistance payments.

Table 1. Estimated Farm Program Payments for 2001 and 2002 for a
Central Illinois Grain Farm.

			2001		2002	
			Per bu.	Per acre	Per bu.	Per acre
Jan.	AMTA	Corn	$ 0.269	$ 16.42	$ 0.261	$ 15.93
Aug.	MLA	Corn	0.307	18.74	XX	XX
	Oilseed	SB	0.121	2.78	XX	XX
Oct./Nov. ??	LDP	Corn	0.17	15.42	0	0
		SB	1.25	28.75	0	0
Oct./Nov. ??	CCP	Corn	XX	XX	0	0
		SB	XX	XX	0	0
Oct./Nov. ??	DP	Corn	XX	XX	0.019	1.16
		SB	XX	XX	0.44	6.71
	Per acre totals			$ 82.11		$ 23.80

Note: 2003 direct payment advance of 50% available in December, 2002.
2002 final CCP payment not determined until October, 2003.
2000 Oilseed payment also received in Feb. 2001 but not in table.

Comparison of Farm Program Payments for 2001 and 2002

Table 1 compares estimated farm program payments for 2001 and 2002 for a central Illinois grain farm. Total payments were estimated for each type of program payment and then divided by all the acres in the farm to calculate a per acre payment. The sample farm has a 55 percent corn base and a corn program yield of 125 bushels per acre. It has a yield of 49 bushels per acre for oilseed payments and a soybean program yield for direct payments of 39 bushels per acre. The yield in 2001 for loan deficiency payments was 168 bushels per acre for corn and 50 bushels per acre for soybeans. This farm has a 50 percent corn – 50 soybean rotation.

In 2001, this farm received $16.42 per acre in AMTA payments and $21.52 per acre in market loss assistance (MLA) and oilseed payments. Loan deficiency payments totaled $44.17 per acre with a LDP rate of 17 cents per bushel for corn and $1.25 per bushel for soybeans. Total payments were $82.11 per acre.

For 2002, advance AMTA payments were $15.93 per acre. The advance AMTA payments under the 1996 Farm Bill will reduce direct payments under the 2002 Farm Bill. Remaining direct payments are estimated at $1.16 per acre for corn and $6.71 per acre for soybeans. As illustrated in the table, there will be no market loss assistance and oilseed payments this year. Also, with the increase in grain prices, no loan deficiency and counter cyclical payments are estimated. Total estimated payments this year of $23.80 are 29 percent of the amount paid in 2001. Differences in farm program payments between 2001 and 2002 will vary from farm to farm depending on a number of factors. These factors include base acres and yields for different program crops, crop rotations, and actual yields.

Summary

Implementation of the 2002 Farm Bill combined with higher grain prices will result in significantly less government payments to producers this year. Lower payments are mainly due to higher prices resulting in limited or no loan deficiency and counter cyclical payments. A significant drop in grain prices could change that. The fact that there will not be any market loss assistance and oilseed payments this year is also a major factor in lower farm program payments. For producers with average or above average yields, the drop in farm program payments will be offset by higher grain prices. Higher grain prices will not offset the drop in farm program payments for producers with a significant drop in production. For some producers, crop insurance proceeds will offset some of the loss in revenue due to lower yields. The drop in farm program payments also has cash flow and income tax planning ramifications that producers need to examine.

Issued by: Dale Lattz, Department of Agricultural and Consumer Economics