



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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NEW TARGET PRICES OFFER LIMITED PRICE PROTECTION

THE 1976 TARGET PRICES to be announced soon will cover the cash costs of most Illinois corn and wheat producers. But they will not guarantee a return to tenant operators for their labor, or to land owners for their land.

Under the 1973 Agriculture and Consumer Protection Act, "established" or target prices of \$1.38 for corn and \$2.05 for wheat were set for 1974 and 1975. Since farm prices rose substantially after the 1973 law was passed, the target prices have been substantially below market prices during 1974 and 1975; and no deficiency payments have been made.

The law provides for adjustment of target prices in 1976 and 1977 (1) to reflect the prices paid by farmers for production items, interest, taxes, and wage rates during 1975 and (2) to reflect changes in average yields during the three most recent years.

The new target price for corn is expected to fall between \$1.55 and \$1.64 a bushel, about 25 cents higher than 1975. The average Illinois production cost for 1974 corn reported by the USDA was \$1.56 for direct costs, overhead, and management; but this figure excludes land costs. When the land cost was computed at the average acquisition value, it was 54 cents a bushel; but at current value, it was \$1.31. So the total average corn production costs ranged from \$2.10 to \$2.87, depending on how land costs were figured. With higher average yields in 1975, these average production costs per bushel should be lower.

The 1976 wheat target price is likely to be set between \$2.27 and \$2.35 a bushel. This would also be about 25 cents above last year. The USDA production cost study reported average Illinois costs for winter wheat at \$1.71 a bushel, excluding land. Land costs ranged from 79 cents a bushel, using the average acquisition value to \$1.86 a bushel, using current land values. Thus, total average winter wheat production costs ranged from \$2.50 to \$3.57 a bushel.

Although the 1973 Act called for annual cost-of-production studies by USDA, these are not used to establish target prices under current legislation.

Target prices apply to only that part of the production on allotted acreage at average farm program yields. If the weather is favorable, many Illinois farmers will plant more than their farm allotment and will achieve yields above the average established for their farm.

For 1976 farming operations, the most significant income protection feature of the 1973 Act could be the disaster feature. Farmers who are prevented from planting any part of their farm acreage allotment, or are unable to harvest two-thirds of their allotment acreage times the established farm yield, are eligible for payments based on one-third of the target price. As a result of the unfavorable 1974 crop season, 20,000 Illinois farms received about \$35 million in payments.

At current market prices for new-crop corn and wheat, forward sales offer more risk protection than the target prices in 1976.

Harold D. Guither, Extension Economist, Public Policy

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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