



WEEKLY OUTLOOK

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PIK CONFUSION CONTINUES

A PAYMENT-IN-KIND ASSESSMENT REPORT released by USDA last Friday contained additional information on participation by corn producers. Of the 39.5 million acres to be idled by corn and sorghum producers under the various programs, 84 percent, or 33.2 million acres, is "assumed" to be corn. The report also said that 78 percent of the corn base acreage was enrolled in the 1983 acreage reduction programs. These figures imply that the corn base acreage is 84.9 million acres rather than the 83.2 million reported earlier. On the surface, then, it appears that 51.7 million acres will be planted to corn in 1983. Allowing for "slippage," increased corn planting by noncompliers, and loss of some of the Acreage Reduction Program (ARP) acres, planting could exceed the 58 million acres projected earlier.

These revised estimates indicate that PIK payments will be made on approximately 21 million acres of corn. Payment on about half of that acreage will be at 80 percent of program yield. The payment rate on the whole-base acres is not known but probably will exceed 75 percent of program yield. The average payment rate on all PIK acres will likely be near 78 percent of program yield. Assuming a national program yield between 100 and 105 bushels per acre, the payment rate will be about 80 bushels per acre. Total payment under the PIK program thus projects to 1.68 billion bushels.

Producers who are enrolled in the PIK program and have corn that was placed in the farmer-owned reserve or the regular nine-month CCC loan program before January 11, 1983, will receive that corn as their PIK payment. The USDA has indicated that those inventories are about 500 million bushels less than required to satisfy total PIK payments.

As a result of this shortfall, the USDA is offering producers with excess reserve or loan corn the opportunity to forfeit on those loans. Again, only corn that was placed under loan before January 11, 1983, will be eligible for this program. The corn would be used by the USDA to make PIK payments.

Producers have two weeks beginning on April 4 to forfeit on these loans. All loans offered at face value will be accepted. In addition, producers have the opportunity to make this loan corn available at a price above the face value. If these offers are accepted, the "excess" payment would be made in the form of corn. This excess payment, then, would be released from the loan or reserve and would become a free-market supply. The USDA will evaluate offers based on geographic need.

The USDA is confident that this program will produce enough corn to meet PIK payment requirements. This program is preferred over the alternative of forcing some producers to use a portion of their 1983 crop as PIK payment.

The program has created some uncertainty in the corn market. If the USDA accepts a large number of the offers that are in excess of face value, free-market supplies of corn will exceed current estimates. The need to push corn prices to the reserve trigger price would then be eliminated. Once the trigger price is reached or once it becomes clear that free-market supplies will be ample, the premium of old crop prices over new crop prices will disappear.

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