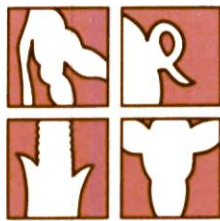




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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WILL HIGHER YIELDS AND GOVERNMENT PAYMENTS OFFSET LOWER PRICES?

THE PROSPECTS OF LARGE CORN AND SOYBEAN CROPS and weak overall demand have pushed prices to extremely low levels, but these low prices will not result in lower than normal incomes for every producer. Their impact depends on the relationship of 1985 yields to normal yields and the eligibility of the producer for the government loan program and deficiency payments for corn.

CORN. The U.S. average corn yield is estimated at 115.1 bushels per acre, about 15 percent above the average of the past 7 years. A corn producer with a hundred-acre corn base who produces 115 bushels per acre and is eligible for the loan and deficiency payment can gross returns of \$30,712.50. This calculation is based on a Commodity Credit Corporation (CCC) loan rate of \$2.55, storing the corn for nine months and forfeiting to the CCC, and a deficiency payment of \$.48 per bushel on 9,000 bushels (a normal yield of 100 bushels per acre times 90 acres).

Forfeiting on the CCC loan requires that the corn be stored for nine months, but no interest is paid on the loan. If half of a normal crop is usually stored, the additional storage cost incurred this year is just about equal to the value of the interest-free loan.

The producer saved some expenses by not planting 10 percent of the base acreage. The savings may have totaled about \$140 per acre on 10 acres. This savings brings the adjusted gross returns to \$32,112.50.

In a normal year, the farm produces 10,000 bushels of corn (100 bushels per acre on 100 acres). To have an equivalent gross income in a normal year, then, would require an average price of \$3.21 per bushel. The price of corn nationally has never averaged that high for a full season. The 1983-84 average was \$3.20 when the U.S. average yield was only 81 bushels. For producers with 1985 yields that are more than 15 percent above normal, the equivalent price received is even more than \$3.21 per bushel.

At the other extreme is the producer who is not eligible for the CCC loan and target prices. A sale at current prices of around \$2.00 per bushel would be equivalent to only \$2.30 with a 15 percent lower yield.

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SOYBEANS. Soybean yields that are 15 percent above normal mean an average yield of 34.5 bushels per acre for a producer with a normal yield of 30 bushels. There is no target price or deficiency payment program for soybeans, but all soybean producers are eligible for the CCC loan program. A producer who stored soybeans for nine months and forfeited to the CCC at \$5.02 per bushel would gross about \$173.20 per acre, the additional storage costs being offset by the value of the interest free loan. With a normal yield of 30 bushels per acre, a price of about \$5.77 would be required to generate a gross return of \$173.20 per acre.

Because of higher yields and government payments, income to corn and soybean producers will be generally higher than suggested by the low level of commodity prices. The variation in income among farmers could be extreme, however. Producers who have well above normal yields, adequate storage space, and are eligible for the CCC loan and deficiency payments will have very large gross returns.

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