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Department of Agricultural Economics
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PARTICIPATION IN THE 1990 ACREAGE REDUCTION PROGRAM FOR CORN

Feed-grain and wheat producers will be able to sign up for the 1990 acreage reduction program beginning on January 15. The sign-up period extends through April 13. Corn producers who participate in the program will be required to idle 10 percent of their corn base acreage. In return, those producers will be eligible for the Commodity Credit Corporation loan program and will be eligible for deficiency payments if the market price of corn during the first five months of the marketing year (September 1990 through January 1991) is below the target price.

For the 1990 corn crop, the loan rate has been set at $1.57 per bushel. The target price was originally established at $2.75 per bushel but was recently lowered to $2.72 2/3 in the Budget Reconciliation Act. The maximum deficiency payment is the difference between the loan rate and the target price, or $1.15 2/3 per bushel. In the recent past, the USDA has projected the actual deficiency payment and offered a percentage of the projected payment at the time of sign-up. Such provisions have not yet been announced for the 1990 program.

The decision to participate in the acreage reduction program hinges on a number of economic and agronomic factors. One of the most useful exercises for individual producers is to calculate a break-even price--the market price that would result in equal net returns from participation and nonparticipation in the program. The amount of the break-even price depends on the relationship between program yield and expected yield, the relative cost of growing corn versus maintaining set-aside acres, and the seasonality of prices. As a result, there is variability in break-even prices from farm to farm. Professor Royce Hinton at the University of Illinois has budgeted a number of different scenarios and has found that the break-even price centers around $2.50 per bushel. That is, in a large number of instances, a price of $2.50 during the first five months of the 1990-91 marketing year would make the participation/nonparticipation decision a toss-up.

The market is currently offering less than $2.50 for delivery during the first five months of the 1990-91 marketing year. With December futures at $2.46 and March futures at $2.53, the market is offering the central Illinois producer an average price of about $2.35 for delivery during this period.

Is there reason to expect that prices will average above $2.50 during this period? The 1990 corn crop will likely be larger than the 1989 crop. With normal spring weather, corn acreage will increase in 1990. The increase will reflect the area that was intended to be planted to corn in 1989 but was not planted due to adverse weather. In addition, some corn base acreage was planted to soybeans in 1989. That alternative will not be as attractive in 1990. Total corn acreage could increase by 1.5 million acres.

A good growing season would result in a higher average yield in 1990, probably in excess of 120 bushels per acre. The 1990 crop might well exceed 8 billion bushels. A crop of that size would result in an increase in the corn surplus and an average price below $2.50 per bushel. While odds favor a price below the break-even price for nonparticipation, the crop is a long way from harvest.

The lengthy sign-up period gives producers a lot of flexibility in making the decision to participate. Early spring weather conditions may be the deciding factor. Producers should not rule out participation at this time. For those who eventually decide not to participate, an opportunity to forward price new-crop corn may materialize about planting time.

Note: *Weekly Outlook* will not be published for the next two weeks. The next issue will be dated January 10, 1990. Beginning with that issue, the newsletter will be a joint publication of the Departments of Agricultural Economics at the University of Illinois and Purdue University.

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