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Ag Decision Maker

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Counter-cyclical payments for corn and soybeans

by Bob Wisner, extension economist, 515-294-6310, rwwisner@iastate.edu

Farmers, landowners, and agricultural lenders should be aware of important differences between Counter-Cyclical Payments of the new farm program and the old Deficiency Payment system that was involved in pre-1996 federal farm programs. Both are based on Target Prices established by Congress, but there are some important differences that give Target Prices a different role than past programs.

The Farm Security & Rural Investment Act of 2002 (FSRIA) provides a three-tier safety net for producers of corn, soybeans, and other crops, which includes the Counter-Cyclical Payments. Two of these safety-net components are price-sensitive.

The first price-sensitive safety net components are the Loan Deficiency Payments (LDPs). This system of payments is calculated in the same way as in the last several years, except that loan rates have been increased for almost all major field crops except soybeans and cotton. The national average soybean loan rate has been lowered 26 cents per bushel from the 2001 rate while the corn loan rate has been increased by 9 cents per

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Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

Important Crop Insurance Dates — File A1-50 (2 pages)

Multiple Peril Crop Insurance — File A1-52 (2 pages)

Crop Revenue Insurance — File A1-54 (4 pages)

Actual Production History for Crop Insurance — File A1-55 (2 pages)

Insurance Units for Crop Insurance — File A1-56 (2 pages)

Delayed and Prevented Planting Provisions — File A1-57 (2 pages)

Group Risk Plan and Group Risk Income Protection — File A1-58 (3 pages)

Natural Resources Custom Rate Survey — File A3-11 (2 pages)

2003 Livestock Enterprise Budget Prices — File B1-20 (1 page)

Please add these files to your handbook and remove the out-of-date material.

Inside . . .

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bushel. Exact changes in county loan rates vary slightly from county to county.

The second component of the safety net is the Direct Payments, which are 28 cents per bushel for corn and 44 cents per bushel for soybeans for the 2002 through 2007 crops. Direct payments are paid on 85 percent of the FSA (Farm Service Agency) base acreage and historical yields for the respective crops. These payments remain unchanged even at extremely high or extremely low prices for their respective crops.

The third component of the safety net is the Counter-Cyclical Payments (CCPs). CCPs, like LDPs, are price-sensitive. They also are paid on 85 percent of FSA base acreage and yields, but the base and yield may be updated to a recent four-year average. With marketing year average prices moderately above the loan rates, Counter-Cyclical Payments (CCPs) drop to zero.

Calculating CCPs

An example of how the corn CCP is determined will help explain the variables involved. First, CCPs are based on a weighted national average marketing year price paid to farmers. For corn and soybeans, the marketing year is from September 1 through August 31. The marketing year average price is calculated by weighting each monthly average price by the portion of the year's total volume of grain sold during that month. These twelve monthly prices are used to compute a weighted average annual price. If CCPs are paid, every farmer receives the same CCP per bushel, regardless of geographic location.

Corn CCPs are computed as the difference between:

1. the national average target price less the direct payment ($2.60 - .28 = $2.32)
2. and the higher of:

• the national loan rate ($1.98) or
• the marketing year average price.

Table 1. Maximum Corn and Soybean Breakeven Cash Prices (CCP = 0).

	Corn	Soybeans
Target Price	$2.60	$5.80
Direct Pymt. Rate	-.28	-.44
Breakeven Price	$2.32	$5.36

As shown in Table 1, the corn CCP for 2002 through 2007 drops to zero when the U.S. marketing year average price reaches $2.32 per bushel. The soybean CCP for 2002 through 2007 crops declines to zero when the U.S. marketing year average price reaches $5.36 per bushel.

Table 2. Corn and Soybean Countery-Cyclical Payments.

	Corn	Soybeans
Target Price	$2.60	$5.80
Direct Pymt. Rate	-.28	-.44
Breakeven Price	$2.32	$5.36
National Avg. Price	-2.10	-5.10
Counter-Cyclical Pymt.	$.22	$.26

If the national average prices are below these levels, say $2.10 for corn and $5.10 for soybeans, the CCPs are 22 cents for corn and 26 cents for soybeans as shown in table 2.

Maximum Counter-Cyclical Payments

The maximum corn CCP is 34 cents per bushel as shown in Table 3 for the 2002 and 2003 corn crops. It will increase by 6 cents per bushel for the 2004 through 2007 corn crops because of a 3 cent reduction in the loan rate and a 3 cent increase in the target price for those years.

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Table 3. Maximum Corn and Soybean Counter-Cyclical Payments.

	Corn	Soybeans
Target Price	$2.60	$5.80
Direct Pymt. Rate	-.28	-.44
Breakeven Price	$2.32	$5.36
Loan Rate	-1.98	-5.00
Counter-Cyclical Pymt.	$.34	$.36

Table 4. Corn Counter-Cyclical Payments under various Price and Yields.

U.S. Average Price	Corn Counter-Cyclical Payments 2002-03 Crops	2004-07 Crops
$1.90	$.34	$.40
2.00	.32	.35
2.10	.22	.25
2.20	.12	.15
2.30	.02	.05
2.32	0	.03
2.35	0	0

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Table 5. Soybean Counter-Cyclical Payments under various Prices and Yields.

U.S. Average Price	Soybean Counter-Cyclical Payments, 2002-07 Crops
$4.90	$.36
5.00	.36
5.10	.26
5.20	.16
5.30	.06
5.36	0

Table 7. Possible CCPs for 2002 Crop Corn and Soybeans.

	Corn	Soybeans
Breakeven Price	$2.32	$5.36
Simple Avg Price *	2.35	5.43
Possible CCP	0	0
Est. Weighted Avg. Pr. *	2.34	5.39
Possible CCP	0	$.00

* Approximate simple and weighted national average price (Sept.–Feb.)

Soybean CCPs are calculated in the same way as corn, but using the soybean loan rate of $5.00 per bushel, the direct payment of 44 cents per bushel, and the soybean target price of $5.80 per bushel. The maximum soybean CCP for the 2002 through 2007 crops is 36 cents per bushel.

Payment Schedule

Counter-Cyclical Payments are made available to farmers in three stages. In years when a CCP is anticipated, the first installment of the CCP is made available to producers in the fall for the next year's crop. The second payment becomes available in February and the final payment is made in early fall after the marketing year has ended and the marketing year average price has been determined by USDA. So, the payments for a crop may be spread over two years.

Corn and soybean CCPs under various price levels are shown in Table 4 and 5.

Monthly corn and soybean prices, along with estimates of the percentage of the crop that is marketed each month, is presented in Table. 6. Estimates of the simple average and monthly average prices so far this year are shown at the bottom.

Table 6. Estimated National Average Corn and Soybean Prices (Sept. - Feb.).

Month	Estimated Corn Price	Estimated Percent Marketed	Soybean Price	Percent Marketed
September	$2.47	8.0%	$5.39	8.5%
October	2.34	11.0	5.19	20.9
November	2.27	12.7	5.46	9.4
December	2.32	7.0	5.46	8.1
January	2.27	12.5	5.38	15.5
February (preliminary)	2.35	6.0	5.57	6.6
Simple Avg. Price *	$2.35	57	5.45	69
Est. Weighted Avg. Pr. *	2.34		5.39	

* Approximate simple and weighted national average price (Sept. through Feb.)

For the 2002 corn and soybean crops, USDA price projections through February 2003 indicate that marketing year average prices will be above the level that will generate CCPs as shown in Table 7. There is a chance that prices will decline enough as the season progresses so that CCPs will be made, but as of early March 2003 that appears unlikely. Periodically we will report national average prices for corn and soybeans in this newsletter.

When a Contract Obligor Becomes an Owner of the Contract *

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A contract for deed or installment contract for the sale of real estate (or other assets) between parent and child is not unusual; a frequent outcome of such transactions is that the obligor under the contract becomes the owner or a co-owner of the contract after death of the contract seller, which results in often unanticipated income tax consequences.

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