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ACRE Price Component Forecast, 2012 Crop

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Background

Farmers and land owners currently enrolled in the traditional farm programs for the 2011 crop year will have the opportunity to choose between the traditional farm program suite and the ACRE farm program suite for the upcoming 2012 crop year. The traditional suite consists of the direct payment, marketing loan, and price counter-cyclical programs. The ACRE suite consists of the ACRE state revenue program, 80% of direct payments, and marketing loans with a loan rate at 70% of the traditional program's marketing loan rate. The ACRE state revenue benchmark for the 2012 crop will equal (the Olympic average (high and low yield discarded) of a state's yield per planted acre for the 2007-2011 crop years times average U.S. cash price for the 2010 and 2011 crop years). This article looks at a forecast of ACRE's 2012 price component. A 1-page description of ACRE as enacted in the 2008 Farm Bill is available at http://aede.osu.edu/publications.

Data

U.S. cash prices for the 2010 and 2011 crop years are from the January 12, 2012 U.S. Department of Agriculture's WASDE report (http://www.usda.gov/oce/commodity/wasde/index.htm). These prices are the latest available. The ACRE benchmark price is calculated for the crops listed in WASDE that are eligible for the ACRE farm program. Because we are currently in the 2011 crop year, the 2011 crop year price is an estimate. Thus, the estimate of the ACRE price component for the 2012 crop year can change between now and the end of the 2011 crop year. As of January 1, 2012; the 2011 U.S. crop year was 4 months complete for corn, grain sorghum, and soybeans, 5 months complete for upland cotton and rice, and 7 months complete for oats and wheat.

The forecasted ACRE price component for the 2012 crop year as of January 12, 2012 are reported in Table 1. The price component will be combined with the ACRE yield component for each state to create the state's ACRE revenue benchmark. It the state's realized revenue for the 2012 crop year is less than the state's revenue benchmark, an ACRE state revenue payment will be made. A state's realized revenue is the state's 2012 yield per planted acre times the U.S. cash price for the 2012 crop year. ACRE also has an individual farm revenue loss eligibility condition. Both conditions must be met for an individual farm to receive an ACRE payment.

Table 1: Projected Price Component of ACRE State Revenue Benchmark,[A] Target Prices, and Marketing Loan Rates for Selected Crops, 2012 Crop Year

Crop	Unit	ACRE Price Component	Target Price	Traditional Program's Marketing Loan Rate
Corn	bushel	$5.69	$2.63	$1.95
Grain Sorghum	bushel	$5.56	$2.63	$1.95
Oats	bushel	$2.96	$1.79	$1.39
Soybeans	bushel	$11.50	$6.00	$5.00
Wheat	bushel	$6.45	$4.17	$2.94
Rice (Long Grain)	pound	$0.13	$0.11	$0.07
Rice (Medium/Short Grain)	pound	$0.17	$0.11	$0.07
Upland Cotton	pound	$0.86	$0.71	$0.52

NOTES: A. Price component is the average of the price for the 2010 crop year and the midpoint price for the 2011 Crop Year as reported in the January 2012 WASDE report.

SOURCE: U.S. Department of Agriculture. World Agricultural Supply and Demand Estimates (WASDE). January 12, 2012.

ACRE vs. Crop Insurance

ACRE is not a substitute for crop insurance. Crop insurance focuses on the risk of a decline in yield or revenue between planting and harvest on an individual farm. In contrast, ACRE focuses on the risk of revenue decline during the crop's marketing year relative to revenues for recent crop marketing years. Such a revenue shortfall is often the result of multiple-year systemic risks. Examples of multiple-year systemic risks that U.S. farmers currently confront are (1) the risk of economic slowdown in China, (2) the risk of economic slowdown in Europe and the associated debt crisis, and (3) the risk of large global farm production. These are risks that transcend a growing season on an individual farm. In short, ACRE and crop insurance are designed to address different risks, with ACRE's focus being multiple-year systemic risk.

Summary

As farmers and land owners consider their management of the risks they confront, they need to think about the risks that are beyond their individual farm and one growing season. Strategies for managing these systemic risks are (1) a low cost of production, (2) low debt, and (3) participation in government programs. Both the traditional and ACRE farm program suites have systemic risk programs. Thus, as a point of comparison for the ACRE price components, the target prices for the counter-cyclical program and marketing loan rates in the traditional farm program suite are also presented in Table 1. Farmers and land owners will need to assess the higher systemic risk protection offered by ACRE against the lower direct payments and lower marketing loan rate. This article provides an initial perspective on this decision by presenting a forecast of the ACRE price component for the upcoming 2012 crop year.

This article is also available at http://aede.osu.edu/publications.