Agricultural Risk Coverage Payments Expected Lower in 2018
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The Agricultural Adjustment Act of 2014 (more commonly known as the 2014 farm bill) reformed the safety net for U.S. row crop producers. Among several changes, direct decoupled payments were replaced with two countercyclical programs that targeted shallow losses in revenue and price. The Agriculture Risk Coverage program (ARC-CO) uses both a counties current and historical revenue to calculate payments. The Price Loss Coverage Program (PLC) allows the market to fluctuate, but triggers payments when the Marketing Year Average (MYA) price falls below a fixed reference price set by Congress. The two programs operate differently and are not substitute programs. The ARC-CO program uses a counties average yield to calculate both current and historical revenue allowing the program to account for weather events that negatively impact one county’s yield but not another. Producers were allowed a one-choice in 2015 between the two programs for the length of the farm bill. Participation rates in Ohio followed the national trend for corn and soybeans with the majority of producers electing ARC-CO. The national trend for wheat was to elect PLC, whereas Ohio producers favored ARC-CO. Nonetheless, there are producers in Ohio that are enrolled in either ARC-CO or PLC for corn, soybeans and wheat. The programs make payments at the end of the marketing year, which for wheat is May 31 and for corn and soybeans it is August 31. Because the MYA price is one half of the calculation, payments are made almost a full year after the crop has been harvested. Payments for the 2017 crop will be made in October of 2018. Estimating the size of the payments will be important information for Ohio producers and lenders that wish to plan for their autumn cash flow.

Payments in autumn of 2018, representing the 2017 crop, are expected smaller and less frequent than a year ago for corn and wheat, but triggered in more counties and larger for soybeans. For the 2016 crop, every Ohio county except Ashtabula triggered an ARC-CO corn payment, whereas the 2017 crop is expected to trigger a corn payment in only six counties. Nearly half of the counties are expected to trigger a soybean payment and two thirds are expected to trigger a wheat payment. Total payments made in October 2018 are expected lower in Ohio than a year ago even with the higher soybean payments. Expected net cash farm inflow for the month of October is expected down from the three-year average on price and lower government payments.

These calculations were made based on yields reported by the National Agricultural Statistical Service (NASS) in February of 2018. Actual payments made in October will be calculated using Farm Service Agency Yields. NASS does not provide county yields for all counties, partially due to a low survey response rate. Counties with a NASS yield are included. Price estimates are those published by the World Agricultural Outlook Board in the May World Agricultural Supply and Demand Estimates. Expected MYA prices are corn- $3.40, soybean- $9.35 and wheat- $4.70. It is possible that price estimates could change between now and the end of the marketing year, but because of the position in the marketing year, it is going to take large shifts in the cash market to move the MYA price. Higher prices result in a smaller payment, similarly, a lower price results in a larger payment.

Established in the ARC-CO and PLC formulas is a restriction that payments be made on 85% of base acres. The estimates included have been adjusted to reflect both the 85% restriction and a federal sequestration of 6.8% outlined in the Budget Control Act of 2011.

Expectations for corn payments made this October are for smaller payments than those distributed in October 2017. A lower historical revenue benchmark and above average yields lowered the probability of corn payments for many of Ohio’s counties. Large quantities of corn base acreage exist across Ohio, and is a leading factor in total commodity payments. Payment variations across counties are a result of the yield component included in the ARC-CO formula. Highland county triggers the largest payment at $24/ base acre with a yield of 167 bushels/acre in 2017 vs a yield of 176 bushels/acre in 2016. The program is designed to smooth the differences in revenue from one year to the next, whereas crop insurance is designed to protect against revenue losses within the same year. The average estimated payment this year is expected to be $8, whereas the 2017 average payment was $57.
Smaller soybean yields across Ohio in 2017 increased the likelihood of ARC-CO payments in several of the state’s 88 counties. While more counties are expected to trigger payments this October than last October, the size of the average payment is only slightly higher. The average soybean payment in 2017 was $18/base acre whereas this year the expectation is for $23/base acre. Payments are more frequent in the norther part of the state where yields lagged from late planting and large rains.

Fewer base acres of wheat exist in Ohio compared to corn and soybeans, but ARC-CO payments for wheat are expected in two-thirds of Ohio’s counties. The average ARC-CO payment for wheat is expected to be $24/base acre down from $32 last year. Wheat acreage is up in Ohio this year, but because the field is planted to wheat does not mean that there will be a commodity payment. Only if the field contains historical wheat base acreage and enrolled in the wheat ARC-CO program, will the field be eligible.
To use these estimates in cash flow planning, producers will need to know their base acreage and which of the two commodity programs they enrolled under. By multiplying the base acreage value by the county estimates above, producers can calculate their estimated commodity program payment. The federal government limits total payments per person (not entity) to $125,000.

These estimates are based on current forecasts for MYA prices. Final prices and yields will be made by the Farm Service Agency in September, with payments expected in October. Large swings in cash prices could alter these estimates. PLC payments are expected higher for corn and lower for wheat in 2018, but applies to a small percentage of Ohio base acreage. Soybeans prices have to date not fallen below the reference price to distribute a PLC payment and the expectation is zero soybean PLC payments this year.

Access the complete Agricultural Risk Coverage Payments Expected Lower in 2018 article at https://tinyurl.com/y6us5uyf