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Is there an Adjustment to the 2009 Texas Wheat Yield for ACRE?¹

Dr. Barnaby,

Your web is very useful. You had one question dealing with state yields and FSA adjusting for failed acres. The state initial estimate for 2009 wheat is 27 bushels. Our average Olympic is 28.8. We have just suffered a tremendous loss on wheat production in 2009 for Texas and yet the initial estimate is close to the Olympic average and with perhaps a higher national average market price for 2009 over the next year, we may not even hit the State Trigger which of course eliminates ACRE benefits. The state average I am certain, was based on harvested acres and not planted acres which seems to be what was determined in section 1105 of the farm bill.

Do you think it is possible that FSA would adjust the 27 bushels if that turns out to be the final production by NASS (using harvested)? Texas had 6.1 million acres planted but at this point has 2.4 projected harvested acres with a 64,800,000 bushel production estimate. If you could tell me how this is computed I would be grateful.

*Thanks,
Texas Wheat Farmer*

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Dear Texas wheat farmer,

The answer is yes there is an adjustment. The Farm Service Agency (FSA) will divide the National Agricultural Statistic Service's (NASS) total production by NASS harvested acres plus FSA's "failed" acres and that will lower the state yield. The procedure is different for cotton and soybeans. FSA will divide the total NASS production by NASS planted acres. Effectively all unharvested acres are considered failed for those two crops. The reason that FSA does not follow the same procedure for corn and wheat is because there are a large number of wheat acres that are grazed out and corn acres chopped for silage. These acres did not fail, but produced no grain either.

Dividing by harvested acres generates a Texas yield of 27.0 bushels but dividing by harvested acres plus KSU's estimated FSA failed acres generated a lower state ACRE yield of 19.7 bushels. The lower state yield, as you correctly state, will increase the ACRE payment.

KSU estimated the 2009 FSA failed acres based on the historical percentage of non-harvest acres that FSA counted as failed acres for Texas and Kansas (Table 1 and 2). This estimate has a lot of "error". For example the 1996 and 2007 Kansas wheat crops were both poor, generating crop insurance loss ratios over 300. However, in 1996, FSA counted 42.1% of the non-harvested acres as "failed", but in 2007 FSA only counted 6.3% of the non-harvested acres as "failed" in Kansas.

The FSA failed acres are based solely on failed acres reported by farmers on their 578 forms. Therefore, if farmers certify with FSA they plan to harvest X number of acres but later they discover the yield is so low that it is not worth harvesting, then those unharvested acres are not counted as failed unless farmers return to the county FSA office and correct the 578 record. In the past few farmers returned to the county FSA office to report those acres as unharvested and to correct the 578 record.

In 2007 it is likely that Kansas wheat farmers had already certified their wheat acres for harvest when a late May freeze hit. There was no economic incentive to return to FSA to correct the 578 record and change those "harvested" acres to failed acres. This would explain why only 6% of the unharvested 2007 Kansas wheat acres were counted as failed (table 2). It is likely this outlier is not correct, so KSU estimated the percent of unharvested acres that were failed in the year 2007. The model used the "corrected" 2007 failed acres to estimate FSA failed acres that will be used to calculate 2009/10 ACRE payments.

In the future, correcting acres reported for harvest to failed status is very important. Consider the 2009 case for Texas wheat (Table 1). The Olympic yield is 28.8 bushels. The NASS harvested (projected) yield is 27.0 bushels so if there are no FSA failed acres counted, then the Texas ACRE payment is zero. Therefore, it is very important that all Texas (all states) wheat farmers report any planted acres that fail to FSA.

The current KSU forecast is 33.3% of the 2009 unharvested acres in Texas will be classified as FSA failed acres. That number of failed acres would generate the maximum ACRE payment and would hit the 25% cap. Effectively, based on current price estimates, the entire Texas ACRE payment will be driven by farmers reporting to FSA the number of failed acres! If farmers fail to report the number of failed acres, the effect will be to reduce or eliminate the ACRE payment on Texas wheat.

An Interesting Dilemma. If only a few farmers elected ACRE, then there is no economic incentive for Texas farmers to correct their 578 records and failed acres will be underreported. This under reporting will reduce the ACRE payment. However, if a large number of Texas wheat farmers elect ACRE, then they will have an economic incentive to accurately report failed acres on their 578 records. If all of the failed acres are counted, then the maximum ACRE payments will likely be paid on Texas wheat.

USDA does have the number of the failed acres because they will show up in crop insurance claims. However, FSA only considers the failed acres reported to their agency on the 578 form. In order for ACRE to work it will be critical for farmers to make sure their 578 FSA records are correct.

Records Records Records....!! It clearly appears that Texas and some Oklahoma wheat farmers are likely to collect the maximum ACRE payment on wheat. I would suggest farmers hold off until early August to make the ACRE decision because expected market prices could easily change before signup and reduce expected ACRE payments. However, farmers should prove their yields before signup. FSA will give farmers up to a year after they sign up for ACRE to provide yields but farmers have no exit from ACRE if FSA rejects their records. Farmers will then be locked in to a low county yield that will make it difficult for farmers to meet their individual farm level revenue benchmark and it will lower their share of any state level ACRE payment. Finally get signatures from all landlords, because if they cannot be located at the last minute it may prevent farmers from electing ACRE. Cash rents and farmers with power of attorney are also required to get a signature from all of their landlords.

Because there are a large number of cotton acres planted in Texas, Texas wheat growers will need to consider the impact on their cotton acres. The current USDA price forecast for 2009/10 MYA cotton is 48-60 cents. That is below the effective strike price for triggering counter cyclical payments. Because all crops on a farm serial number must elect ACRE, they will give up 20% of their direct payments and their counter cyclical payment. Other crops forgo counter cyclical payments too but there is no expectation the counter cyclical payments will be triggered on wheat, feedgrains, and soybeans.

The lower end of the USDA price forecast is below the 52 cent cotton loan rate. If farmers select ACRE then their cotton loan rate will be lowered from 52 cents to 36.4 cents. This will eliminate marketing loan gains with no payment limit, while ACRE has a \$65,000 payment limit.

The decision for a Texas wheat-cotton grower will depend on how many acres of cotton they produce versus wheat acres. If they grow 1,000 acres of wheat but only 100 acres of cotton then they would likely elect ACRE. Farmers also elect ACRE by farm serial number. Therefore if they signup only part of their farm serial numbers, then with planting flexibility farmers could plant crops on the ACRE enrolled farm serial numbers that are most likely to trigger ACRE payments. In this example, the signup of the farm serial numbers that are planted to wheat and leave farms planted to cotton in the current program.

Thanks for the question.

ART

Table 1. Texas Wheat Estimated 2009/10 ACRE Payment

Year	Plant- ed Acres ¹ (000)	Har- vested Acres ¹ (000)	% of Plant Acres Not Har- vested	Acres Not Har- vested (000)	FSA Failed Acres ² (000)	% of Unhar- vested Acres FSA Con- siders Failed	Produc- tion (000)	NASS		% Re- duce for NASS Plant Ac.	% Re- duce for AC RE Yd	% Re- duce for FSA Failed Ac.
								Plant Yd	Harvt Yld			
1995	5,800	2,800	51.7%	3,000	582.1	19.4%	75,600	13.0	27.0	51.7%	22.4	17.2%
1996	6,000	2,900	51.7%	3,100	943.0	30.4%	75,400	12.6	26.0	51.7%	19.6	24.5%
1997	6,300	4,100	34.9%	2,200	109.5	5.0%	118,900	18.9	29.0	34.9%	28.2	2.6%
1998	6,100	3,900	36.1%	2,200	64.9	2.9%	136,500	22.4	35.0	36.1%	34.4	1.6%
1999	6,200	3,400	45.2%	2,800	476.7	17.0%	122,400	19.7	36.0	45.2%	31.6	12.3%
2000	6,000	2,200	63.3%	3,800	1,754.2	46.2%	66,000	11.0	30.0	63.3%	16.7	44.4%
2001	5,600	3,200	42.9%	2,400	243.8	10.2%	108,800	19.4	34.0	42.9%	31.6	7.1%
2002	6,400	2,700	57.8%	3,700	708.5	19.1%	78,300	12.2	29.0	57.8%	23.0	20.8%
2003	6,600	3,450	47.7%	3,150	310.9	9.9%	96,600	14.6	28.0	47.7%	25.7	8.3%
2004	6,300	3,500	44.4%	2,800	365.9	13.1%	108,500	17.2	31.0	44.4%	28.1	9.5%
2005	5,500	3,000	45.5%	2,500	59.3	2.4%	96,000	17.5	32.0	45.5%	31.4	1.9%
2006	5,550	1,400	74.8%	4,150	773.7	51.4% ³	33,600	6.1	24.0	74.8%	15.5	35.6%
2007	6,200	3,800	38.7%	2,400	73.3	3.1%	140,600	22.7	37.0	38.7%	36.3	1.9%
2008	5,800	3,300	43.1%	2,500	371.5	14.9%	99,000	17.1	30.0	43.1%	27.0	10.1%
2009	6,100	2,400	60.7%	3,700	1,230.4	33.3% ⁴	64,800	10.6	27.0	60.7%	17.8	33.9%

ACRE Strike Price ⁴	Oly- mpic Yield	2009 90% Revenue Guarantee	2009 ACRE State Yield ³	2009 09/10 Est. Price ⁵	\$ to Count	Gross Pymt	25% Max Payment	Final Payment
6.63	28.8	\$171.87	17.8	6.47	115.45	\$56.42	\$42.97	\$42.97

Assumed 2009 Yield Forecast is Correct then:

Maxmium Price to Eliminate ACRE Payment **\$9.63**

Minmium Price to Maximize ACRE Payment **\$7.22**

Assumed 2009 Price Forecast is Correct then:

Maxmium Yield to Eliminate ACRE Payment **26.6**

Minmium Yield to Maximize ACRE Payment **19.9**

¹National Agricultural Statistics Service (NASS) published crop data.

²Farm Service Agency (FSA) determines the number of failed acres that historically have been less than the number of unharvested acres. The ACRE yield equals total production divided by NASS harvested acres plus FSA failed acres.

³In years when a large percentage of acres are unharvested, it is likely there will also be a large number of FSA failed acres. However, only failed acres reported by farmers to FSA are counted as failed acres, therefore KSU replaced the failed acres with an estimate.

⁴The estimated percentage of unharvested acres that are classified by FSA as failed acres is a KSU estimate. The percentage of FSA failed acres is multiplied by the NASS unharvested acres, that generates the KSU estimated 2009/10 state ACRE yield.

⁵The ACRE strike price is the average of 2007/08 published NASS weighted national average price and the KSU estimated 2008/09 weighted national average price. The 2008/09 NASS prices are nearly complete, therefore an error should be small.

⁶The weighted national average 2009/10 price will be used to settle ACRE claims. The marketing year starts June 1 for wheat and September 1 for corn, soybeans and grain sorghum. Therefore, the KSU estimated 2009/10 price is being forecasted for more than a year ahead and will have a large amount of error.

Table 2. Kansas Wheat Estimated 2009/10 ACRE Payment

Year	Plant- ed Acres ¹ (000)	Harv- ested Acres ¹ (000)	% of Plant Acres Not Harv- ested	Acres Not Harv- ested (000)	FSA Failed Acres ² (000)	% of Unhar- vested Acres FSA Con- siders Failed	Produc- tion (000)	NASS		% Re- duce for NASS Plant Ac.	% Re- duce for AC RE Yd	% Re- duce for FSA Failed Ac.
								Plant Yd	Harvt Yld			
1995	11,700	11,000	6.0%	700	119.5	17.1%	286,000	24.4	26.0	6.0%	25.7	1.1%
1996	11,800	8,800	25.4%	3,000	1,264.3	42.1%	255,200	21.6	29.0	25.4%	25.4	12.6%
1997	11,400	10,900	4.4%	500	25.1	5.0%	501,400	44.0	46.0	4.4%	45.9	0.2%
1998	10,700	10,100	5.6%	600	30.8	5.1%	494,900	46.3	49.0	5.6%	48.9	0.3%
1999	10,000	9,200	8.0%	800	96.6	12.1%	432,400	43.2	47.0	8.0%	46.5	1.0%
2000	9,800	9,400	4.1%	400	102.2	25.5%	347,800	35.5	37.0	4.1%	36.6	1.1%
2001	9,800	8,200	16.3%	1,600	875.7	54.7%	328,000	33.5	40.0	16.3%	36.1	9.6%
2002	9,700	8,200	15.5%	1,500	683.0	45.5%	270,600	27.9	33.0	15.5%	30.5	7.7%
2003	10,500	10,000	4.8%	500	51.1	10.2%	480,000	45.7	48.0	4.8%	47.8	0.5%
2004	10,000	8,500	15.0%	1,500	694.2	46.3%	314,500	31.5	37.0	15.0%	34.2	7.6%
2005	10,000	9,500	5.0%	500	30.8	6.2%	380,000	38.0	40.0	5.0%	39.9	0.3%
2006	9,800	9,100	7.1%	700	56.1	8.0%	291,200	29.7	32.0	7.1%	31.8	0.6%
2007	10,400	8,600	17.3%	1,800	113.0	40.4% ³	283,800	27.3	33.0	17.3%	32.6	1.3%
2008	9,600	8,900	7.3%	700	185.8	26.5%	356,000	37.1	40.0	7.3%	39.2	2.0%
2009	9,000	8,500	5.6%	500	72.0	14.4% ⁴	340,000	37.8	40.0	5.6%	39.7	0.8%

ACRE Strike Price ⁴	Oly- mpic Yield	2009 90% Revenue Guarantee	2009 ACRE State Yield ³	2009 09/10 Est. Price ⁵	\$ to Count	Gross Pynt	25% Max Payment	Final Payment
6.63	35.3	\$210.76	39.7	6.47	256.55	\$0.00	\$52.69	\$0.00

Assumed 2009 Yield Forecast is Correct then:

Maxmium Price to Eliminate ACRE Payment **\$5.31**

Minmium Price to Maximize ACRE Payment **\$3.99**

Assumed 2009 Price Forecast is Correct then:

Maxmium Yield to Eliminate ACRE Payment **32.6**

Minmium Yield to Maximize ACRE Payment **24.4**

¹National Agricultural Statistics Service (NASS) published crop data.

²Farm Service Agency (FSA) determines the number of failed acres that historically have been less than the number of unharvested acres. The ACRE yield equals total production divided by NASS harvested acres plus FSA failed acres.

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⁵The ACRE strike price is the average of 2007/08 published NASS weighted national average price and the KSU estimated 2008/09 weighted national average price. The 2008/09 NASS prices are nearly complete, therefore an error should be small.

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