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Implications for South Dakota Counties of Decreases in Federal Farm Program Supprt Payments; Grain Price, Exports, and Frost

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IMPLICATIONS FOR SOUTH DAKOTA COUNTIES OF DECREASES IN FEDERAL FARM PROGRAM SUPPORT PAYMENTS

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It appears that we are now in the closing stages of debate on the 1995 Federal "Farm Bill". Much of that debate is centering on budgetary issues associated with the magnitude and form of commodity price support payments over the next 5 to 7 years. At this time, all indications are that price supports will be reduced, possibly by substantial amounts. One scenario calls for farm program spending to be cut by a cumulative total of $13.4 billion over the next 7 years.

Major decisions on how payments will be cut remain unresolved. Among the alternatives being considered are (a) reducing target prices and, consequently, deficiency payments; (b) increasing the portion of program base that is ineligible for deficiency payments; and (c) lowering maximum per farm payments. Also, some have proposed that payments be "decoupled" from individual crop bases and gradually reduced, possibly to the point of eventual elimination. Others have suggested that portions of the funds historically spent on deficiency payments be shifted to "stewardship" or "green payment" programs, designed to enhance conservation and other environmental goals related to agriculture.

Upcoming public policy decisions about the magnitude and form of Federal farm program price supports could have substantial impacts on South Dakota farmers and associated agricultural economies. To get some sense of those potential impacts, we have assembled data, by County, on the magnitudes of deficiency payments in South Dakota over the 5-year period 1989-1993. County total annual average deficiency payments, in actual dollars, are shown in Table 1.

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GRAIN PRICE, EXPORTS AND FROST

by
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How can the prices of corn and beans go up when supplies increase? This question has been asked many times in response to the August USDA Crop Production Report. In answering this question, one must consider at least three things. First, how does the crop production estimate compare with pre-report expectations. The market price has been adjusted to the forecasts of the many traders since the previous months report was released. In the August report, supply of corn and soybeans was expected to increase compared to the July Crop Production Report. However, the increases were larger than expected and prices did decline as the futures markets opened following the report.

Second, were demand expectations changed enough to use up the increase in production? In this report, export demand and feed demand were increased enough to use two-thirds of the increase in supply. As futures traders factored the demand side of the market into price levels, the decline stopped and prices began to rise to pre-report levels.

Third, the time of the report was August 11, but the information was gathered for the 1st of August. Crop conditions and progress had changed during the 10 day time difference. Although conditions were improving slightly and progress was better, it wasn't considered good enough to justify the large increase in the U.S. corn yield from 119.7 to 125.6 bushels per acre and U.S. soybean yield increase from 36.0 to 36.4 bushels per acre. Crop conditions for corn (see chart on p.4) are similar to those of 1990 and to a lesser degree 1992. In 1990, the corn crop condition index was under 380 for most of the growing season and the U.S. yield was 118.5 bushels per acre. This year the corn condition index has been steadily increasing but has remained mostly between

(Continued on p.4)

Counties are broken into four groups in Figure 1, ranging from relatively low to relatively high average total annual payments. Payments in many of the State's western Counties and in several of its south-central Counties averaged less than $2 million. At the other extreme, recipients of payments in four Counties--Minnehaha in the south-eastern area and Brown, Spink, and Sully in the north-central area--received an average total of $5.9-8.8 million annually.

Average annual deficiency payments per "payee" are shown in Figure 2 for the same 5-year (1989-1993) period. ("Payees" include landlords as well as farm operators. Some individuals can be recorded as payees in more than one County, also. Therefore, payee numbers and farm numbers generally differ.) Averages can be misleading in that, for any particular County, the average payment shown could result from a combination of few payees with very large payments and many with very small payments (or vice versa). Nevertheless, some idea of potential impacts at the individual payee level can be garnered from Figure 2. The first number shown within each County boundary is the average annual payment received by individuals or other legal entities that received payments in that County; below that figure, in parentheses, is the average number of individuals or other legal entities that received those payments.

The highest annual payments per payee were in central, wheat growing, Counties (Stanley, Sully, Hughes, and Buffalo), where individual farm acreages tend to be quite large. Average individual payments were considerably lower in the east-central and south-eastern, corn-soybean growing, Counties, where soil and climate permit smaller farms.

Policy measures such as reducing target prices or increasing the portion of program base that is ineligible for deficiency payments are likely to reduce payments going to individual payees and, in aggregate, to payees in given Counties in rough proportion to the magnitude of the overall cuts felt in South Dakota. The major exception to this would be in cases where individual payees are at program payment ceilings. Reductions in target prices or eligible acres may not reduce the payments of those payees or may reduce them, as a percentage, less than for others. A policy to lower maximum payment levels, of course, could impact some large farmers more than others and possibly some Counties more than others.

Table 1. Average Annual Federal Farm Program Total Deficiency Payments ($) in 1989-1993, by County in South Dakota

Aurora	$1,874,440	Fall River	$700,607	McPherson	$1,598,035
Beadle	$4,704,452	Faulk	$2,262,399	Meade	$1,951,973
Bennett	$2,121,292	Grant	$2,847,798	Mellette	$956,175
Bon Homme	$3,027,312	Gregory	$1,629,244	Miner	$1,760,211
Brookings	$4,508,904	Haakon	$3,028,436	Minnehaha	$5,953,726
Brown	$8,844,369	Hamlin	$3,031,048	Moody	$4,007,020
Brule	$2,207,043	Hand	$4,540,481	Pennington	$1,722,264
Buffalo	$793,069	Hanson	$1,908,788	Perkins	$2,396,187
Butte	$819,337	Harding	$880,410	Potter	$4,119,550
Campbell	$2,339,720	Hughes	$3,231,972	Roberts	$4,322,564
Charles Mix	$4,709,317	Hutchinson	$4,035,963	Sanborn	$1,649,072
Clark	$3,806,342	Hyde	$1,458,965	Shannon	$782,176
Clay	$3,228,539	Jackson	$1,535,766	Spink	$7,637,344
Codington	$2,903,724	Jerauld	$1,184,261	Stanley	$2,149,203
Corson	$1,786,248	Jones	$1,982,703	Sully	$5,930,221
Custer	$155,088	Kingsbury	$4,209,341	Todd	$494,323
Davison	$1,920,715	Lake	$3,753,126	Tripp	$3,894,900
Day	$3,393,937	Lawrence	$12,123	Turner	$4,136,741
Deuel	$3,012,260	Lincoln	$4,995,274	Union	$4,777,637
Dewey	$1,129,256	Lyman	$4,054,307	Walworth	$2,653,786
Douglas	$1,799,761	Marshall	$3,304,664	Yankton	$2,509,028
Edmunds	$2,963,345	McCook	$2,876,870	Ziebach	$1,163,329

Figure 1. Groupings of South Dakota Counties by Magnitudes of Average Annual Federal Farm Program Deficiency Payments Received in 1989 - 1993

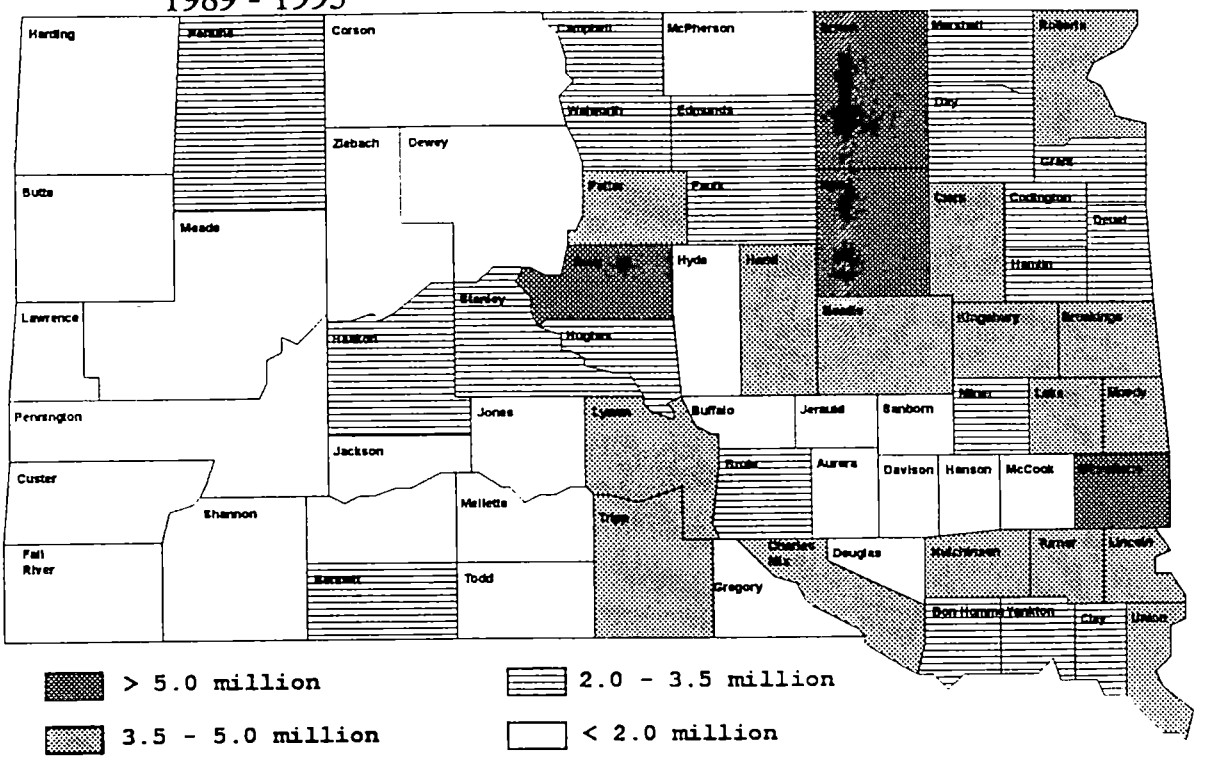
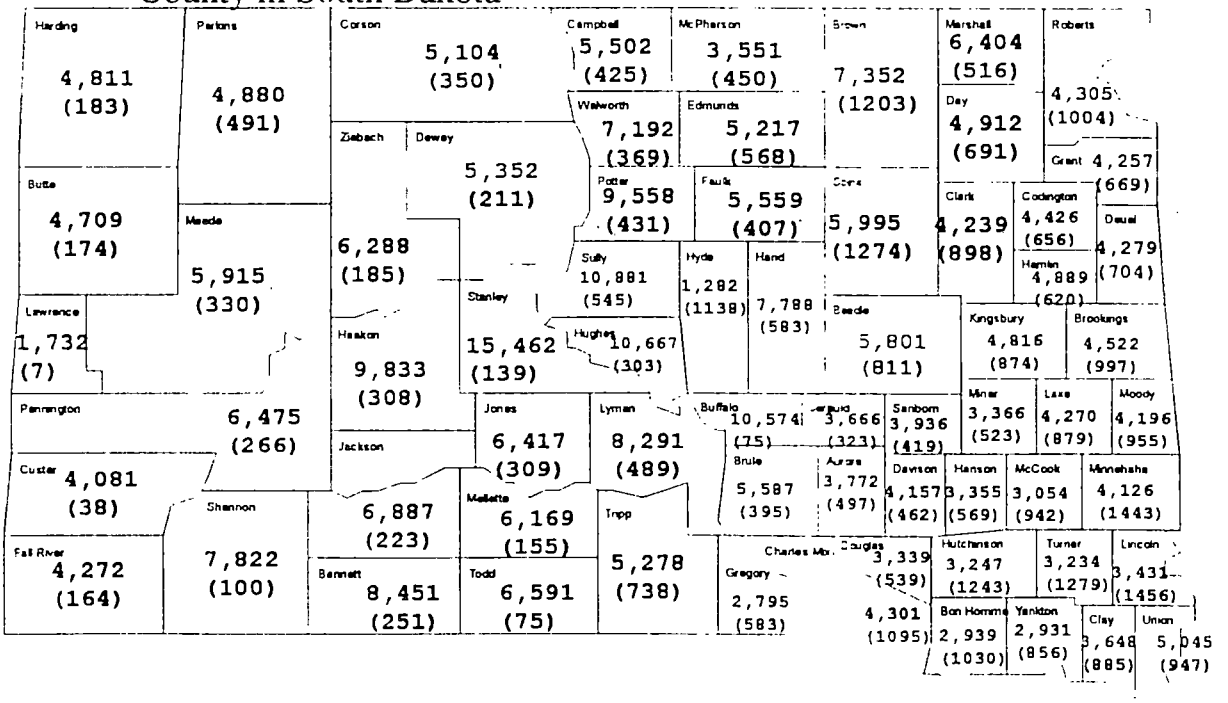
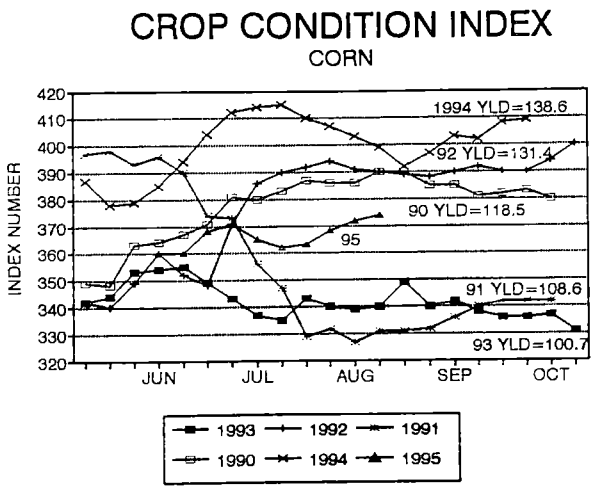


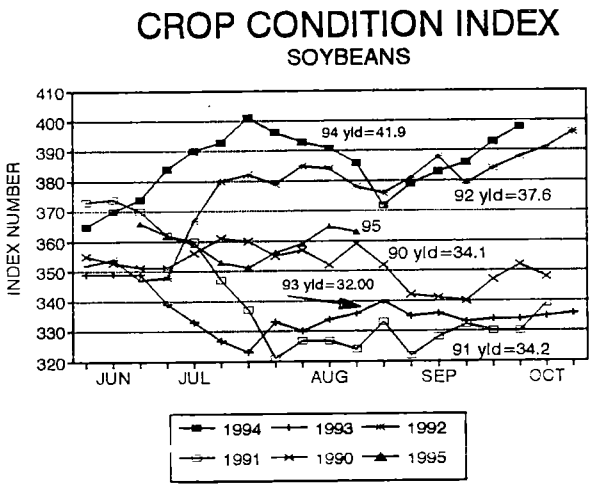
Figure 2. Average Annual Federal Farm Program Deficiency Payments Per Payee in 1989 - 1993 and Average Number of Payees (in parentheses), by County in South Dakota



(Grain ... cont'd from p.1)
365 and 375 and a U.S. average yield of 121-124 bushels per acre is suggested.



Soybean crop conditions (see chart below) this year are similar to the 1990 conditions which were typified by an index of around 360 with a year end drop into the 340's. In 1992 and 1990, U.S. average soybean yields were 34.1 and 37.6 bushels per acre, respectively. This information is supportive of a 35 to 36 bushel per acre yield in 1995 compared to the USDA yield estimate of 36.4 in the August Crop Production Report.



Grain traders also worked a frost premium into corn and soybean prices at the same time of the report release. Realistically, only 10 to 15 percent of corn production is susceptible to frost damage and probably only 25 percent of that acreage would suffer severe damage. The result is a potential decrease in supply of 200 to 300 thousand bushels. The appropriate price response to this level of frost damage is 10 to 15 cents per bushel. A frost scare would most likely cause futures prices to rise 20 to 30 cents to $2.95-$3.00 per bushel on the Chicago Board of Trade. Such a price increase in September should be viewed as an opportunity to price more 1995 corn production. As actual yield and production becomes known in Oct and Nov, corn CBOT price will most likely drift lower to $2.65-2.75 per bushel.

The potential frost damage for soybeans is 7 to 10 percent of production with only 25 percent of that being severe. This would result in a 40-60 million bushel decline in production and a CBOT price response of up to 50¢ per bushel. Actual price response should not exceed 25¢ per bushel. So take advantage of a frost scare price spike to $6.20-$6.50 November CBOT to price more of 1995 expected production.

Without a frost scare, December corn prices will most likely trade between $2.65 and $2.85 CBOT and soybean price (CBOT November) will most likely trade between $5.75 and $6.15 per bushel between the end of August and harvest time. Post-harvest price rallies are more likely for corn because of very tight supply conditions than for soybeans where supplies appear to be more than adequate. Also, if you are considering storage and space is limited, storing corn looks like a better alternative than storing soybeans at this time.

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