STATUS OF TEXAS AGRICULTURE
UNDER FEDERAL FARM LEGISLATION

AFPC Policy Briefing Series 98-3

July 1998

Agricultural and Food Policy Center
Department of Agricultural Economics
Texas Agricultural Experiment Station
Texas Agricultural Extension Service
Texas A&M University

Web Site: http://AFPC1.TAMU.EDU
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Ronald D. Knutson
Edward G. Smith

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AFPC Briefing Series

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   Agricultural and Food Policy Center
   Department of Agricultural Economics
   Texas A&M University
   College Station, TX 77843-2124

or call 409-845-5913.
Status of Texas Agriculture
Under Federal Farm Legislation

Texas House Agriculture and Livestock Committee
Austin, Texas
July 16, 1998

Ronald D. Knutson
Edward G. Smith
Status of Federal Farm Policy

Lump sum payments
- Higher than would have been under target price through 1998
- Indeterminate through 2002
- Increased diversification resulting from flexibility provisions

Crop Insurance
- Most common coverage is 50% yield (CAT or limited additional)

1998 situation particularly unfavorable for Texas
- Reduced yield
- Depressed grain prices
- Compounded by 1996 adversities
Impact of 1998 Weather Adversities: Assumptions

- **BASELINE**
  - TASS 1996 production statistics
  - FAPRI 1998 Baseline

- **1998 Weather Alternative**
  - Extension Service 1998 estimates of drought
FARM Assist

A whole farm strategic planning tool designed to provide farmers and ranchers the flexibility to proforma analyze their operation under risk employing a wide array of risk management tools.
FARM Assist

How will it work?

- One-on-one assistance
- Risk Management Specialist
- Professional Report
  - Specifically tailored to each subscriber
  - Delivered and explained
- Fee based
- Database
- Subscriptions start September 1, 1998
1998 vs. 1996 Drought

- Feed prices much more expensive in 1996
- Milk production normally declines during summer heat

Erath County Representative Dairies

- Moderate size dairy (400 cows) must change structure to survive over baseline period
- Large dairy (825 cows) is profitable under the baseline

Hopkins County Representative Dairies

- Area lost more than 30% of producers in last 4 years
- Moderate size dairy (210 cows) is profitable under baseline but only most efficient producers remain
- 210 cow dairy not profitable enough to move to next generation —> continued change will occur
- Large dairy (650 cows) is profitable under baseline
Cattle and Sheep

Cycle
- Inventory liquidation phase of cycle
- Texas producers caught trying to rebuild herd from 1996 drought
- Tx producers relatively less ability to begin to respond to higher anticipated cattle prices as supplies contract due to drought

Other issues
- Reduced weaning weights
- Reduced conception rates
- Lower feed prices relative to 1996

Sheep
- 1996 drought factor in 1996 inventory decline
- Reduced lambing rates and weights
- Drought on top of adjustments to program changes

AFPC/TAMU
Texas Southern Plains
Moderate Cotton Farm

Probability of Losing Real Net Worth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Baseline</th>
<th>1998 Drought</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>1998</td>
<td>24</td>
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<td>19</td>
<td>59</td>
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<tr>
<td>2002</td>
<td>17</td>
<td>55</td>
</tr>
</tbody>
</table>

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Texas Southern Plains
Large Cotton Farm

Probability of Losing Real Net Worth (%)

- 1997: Baseline 19, 198 Drought 14
- 1998: Baseline 11, 198 Drought 65
- 1999: Baseline 8, 198 Drought 39
- 2000: Baseline 5, 198 Drought 33
- 2001: Baseline 4, 198 Drought 25
- 2002: Baseline 17, 198 Drought 17

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Texas Rolling Plains Cotton Farm

Net Cash Farm Income ($1,000)  Probability of Refinancing Deficits (%)

Baseline  1998 Drought

<table>
<thead>
<tr>
<th>Year</th>
<th>Baseline</th>
<th>1998 Drought</th>
<th>Probability of Refinancing Deficits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>48%</td>
<td>48%</td>
<td>-40</td>
</tr>
<tr>
<td>1997</td>
<td>47%</td>
<td>47%</td>
<td>-20</td>
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<tr>
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<td>84%</td>
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<td>1999</td>
<td>50%</td>
<td>77%</td>
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<td>2000</td>
<td>51%</td>
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<td>2001</td>
<td>54%</td>
<td>72%</td>
<td>60</td>
</tr>
<tr>
<td>2002</td>
<td>53%</td>
<td>72%</td>
<td>80</td>
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</table>

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Texas Rolling Plains
Cotton Farm

Probability of Losing Real Net Worth (%)

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Texas Northern Plains
Moderate Grain Farm

Probability of Losing Real Net Worth (%)

<table>
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<tr>
<td>2002</td>
<td>6</td>
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</table>
Texas Northern Plains
Large Grain Farm

Net Cash Farm Income ($1,000)  Probability of Refinancing Deficits (%)

0 100 200 300 400 500 600 700

Baseline 1998 Drought Baseline 1998 Drought

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Texas Northern Plains
Large Grain Farm

Probability of Losing Real Net Worth (%)

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<tr>
<td>2002</td>
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Implications

- Dryland farmers in big trouble
  - Affects whole agriculture community

- Relative benefits of 1996 Farm Bill indeterminate over full life of bill
  - Need strong export demand to fulfill objectives

- Producers must be able to assess risk management alternatives
Texas Blackland Cotton Farm

Net Cash Farm Income ($1,000)

Probability of Refinancing Deficits (%)
Texas Blackland Cotton Farm

Probability of Losing Real Net Worth (%)

<table>
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<tr>
<th>Year</th>
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<tbody>
<tr>
<td>1997</td>
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<tr>
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<td>93</td>
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<tr>
<td>2002</td>
<td>93</td>
<td>93</td>
</tr>
</tbody>
</table>

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Texas Moderate Rice Farm

Net Cash Farm Income ($1,000) vs. Probability of Refinancing Deficits (%)

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0% 0% 0% 0% 0% 0% 0%

Baseline

Baseline

Probability of Refinancing Deficits (%)
Texas Moderate Rice Farm

Probability of Losing Real Net Worth (%)

- Baseline

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Texas Large Rice Farm

Probability of Losing Real Net Worth (%)

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Central Texas Moderate Dairy

Net Cash Farm Income ($1,000)  Probability of Refinancing Deficits (%)


0% 16% 27% 35% 37% 43% 51%
Central Texas Moderate Dairy

Probability of Losing Real Net Worth (%)

- 1997: 65%
- 1998: 52%
- 1999: 56%
- 2000: 50%
- 2001: 62%
- 2002: 73%

[Graph showing probability of losing real net worth from 1997 to 2002, with the highest probability in 2002 at 73%.]

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Central Texas Large Dairy

Probability of Losing Real Net Worth (%)

- **Baseline**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>1997</td>
<td>35</td>
</tr>
<tr>
<td>1998</td>
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<td>2001</td>
<td>1</td>
</tr>
<tr>
<td>2002</td>
<td>1</td>
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</tbody>
</table>
East Texas Moderate Dairy

Net Cash Farm Income ($1,000)

Probability of Refinancing Deficits (%)
East Texas Moderate Dairy

Probability of Losing Real Net Worth (%)

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East Texas Large Dairy

Net Cash Farm Income ($1,000)

Probability of Refinancing Deficits (%)

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East Texas Large Dairy

Probability of Losing Real Net Worth (%)

- 1997: 35%
- 1998: 11%
- 1999: 3%
- 2000: 3%
- 2001: 2%
- 2002: 1%

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