Analysis of H.R. 2646, Agricultural Act of 2001

Texas Agricultural Policy Summit
"Outlook and Alternatives for the Current Farm Program"
Lubbock, Texas
August 14, 2001

Abner Womack
Ed Smith

AFPC www.afpc.tamu.edu
Ph 979-845-5913
Fx 979-845-3140
FAPRI www.fapri.missouri.edu
FAPRI www.fapri.iastate.edu

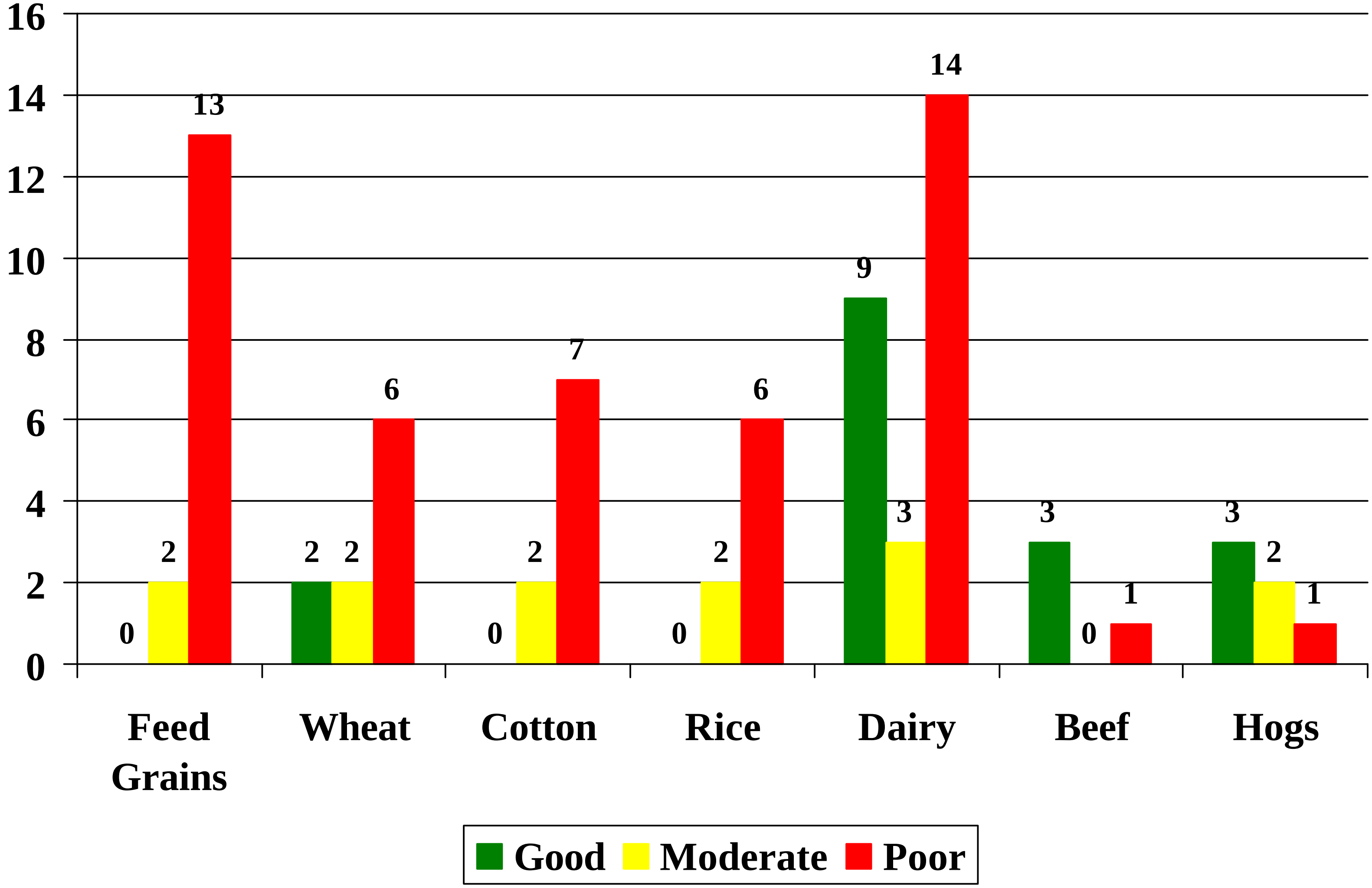
AFPC
AGRICULTURAL & FOOD POLICY CENTER

U.S. Commodity Prices

	1981-85	1986-90	1991-95	1996-98	**1999**	**2000-02**
Wheat, per Bu	$3.42	$3.01	$3.50	$3.44	**$2.48**	**$2.82**
Corn, per Bu	$2.62	$2.12	$2.49	$2.36	**$1.82**	**$2.00**
Soybeans, per Bu	$6.10	$5.90	$5.95	$6.28	**$4.63**	**$4.61**
Cotton, per Lb	$0.59	$0.60	$0.64	$0.65	**$0.45**	**$0.56**
Rice, per Cwt	$8.02	$6.39	$7.48	$9.50	**$6.11**	**$6.21**
Sorghum, per Bu.	$2.34	$1.91	$2.35	$1.91	**$1.57**	**$1.83**
NE Steers, per Cwt	$63.99	$69.83	$72.20	$64.28	**$65.56**	**$73.38**
B&G, per Cwt	$51.21	$51.97	$46.29	$48.52	**$34.00**	**$39.95**
All Milk, per Cwt	$13.44	$12.91	$12.80	$14.51	**$14.38**	**$12.22**

- With the exception of beef and dairy, 1999 commodity prices came in substantially lower than historical averages. Prices of the 5 major crops are all expected to average below the loan rate for the 2000 marketing year.
- Assuming normal yields, only a modest recovery is anticipated for the 2000-02 period. Soybean prices are expected to average below the 1999 level in the 2000-02 period. Loan rates will continue to play a significant role in a producer's income.
- Strengthening is expected in beef and pork prices as beef production falls and pork levels off.

Summary of Overall Economic Viability for Representative Crop, Dairy, and Livestock Farms 2001-2005



General Assumptions

- Analysis incorporates the provisions that address loan rates and direct payments for grains, cotton and oilseeds (excluding peanuts) as well as an increase in the CRP enrollment cap.
- The analysis does ***not*** include any proposed changes to other conservation programs, other crops, dairy, trade programs, research, nutrition, and rural development.

Loan Rates, Fixed Payments & Target Prices

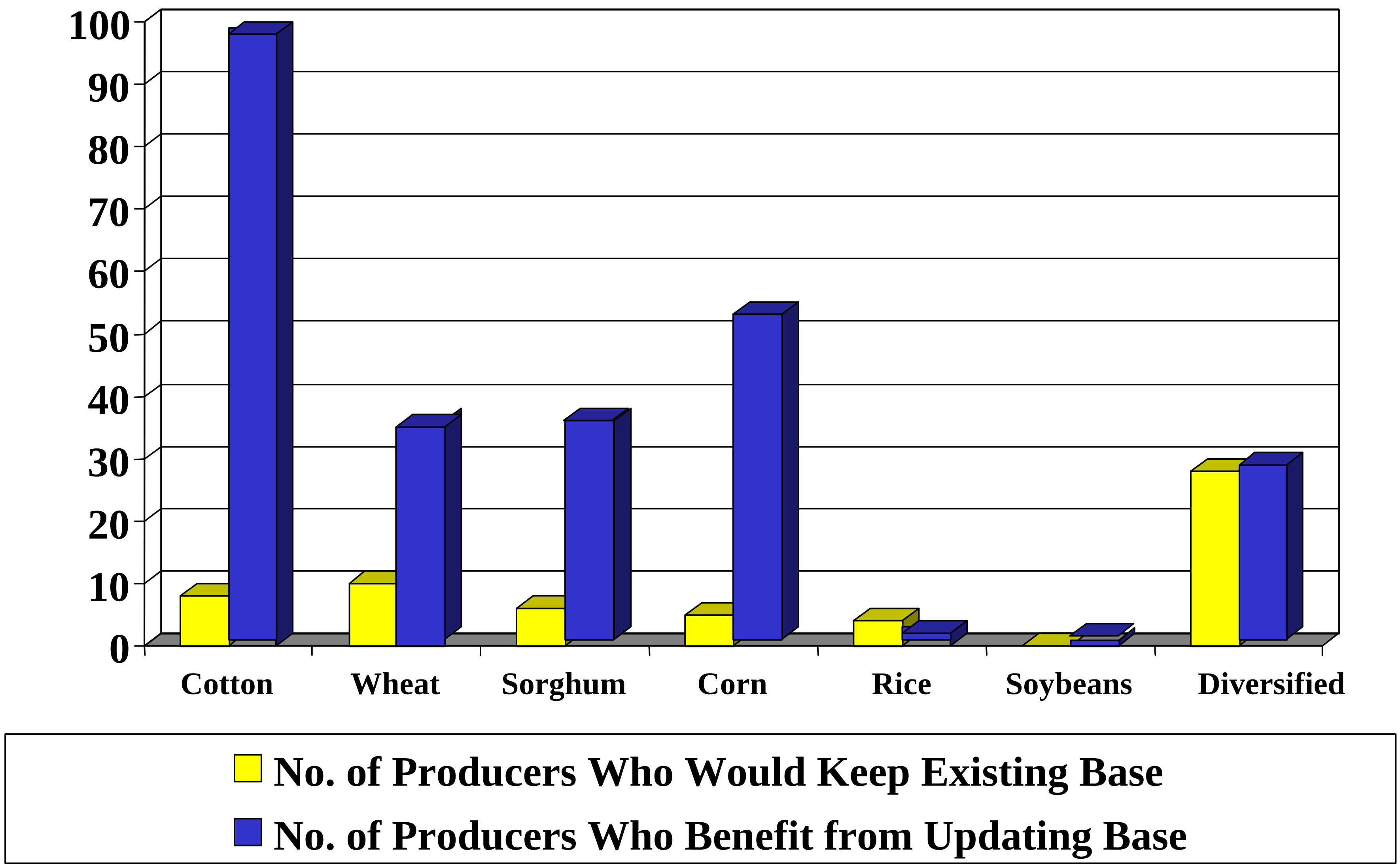
	Loan Rates		Fixed Payments	Target Prices
	Baseline	H.R. 2646		
Wheat	$2.58	$2.58	$0.53	$4.04
Corn	$1.89	$1.89	$0.30	$2.78
Sorghum	Relative market prices w/corn	$1.89	$0.36	$2.64
Barley	Relative market prices w/corn	Same as baseline w/max of $1.65	$0.25	$2.39
Oats	Relative market prices w/corn	Same as baseline w/max of $1.21	$0.025	$1.47
Cotton	$0.5192	$0.5192	$0.0667	$0.736
Rice	$6.50	$6.50	$2.35	$10.82
Soybeans	$5.26	$4.92	$0.42	$5.86
Minor Oilseeds	$9.30	$8.70	$0.74	$10.36

Determining Base Acreage

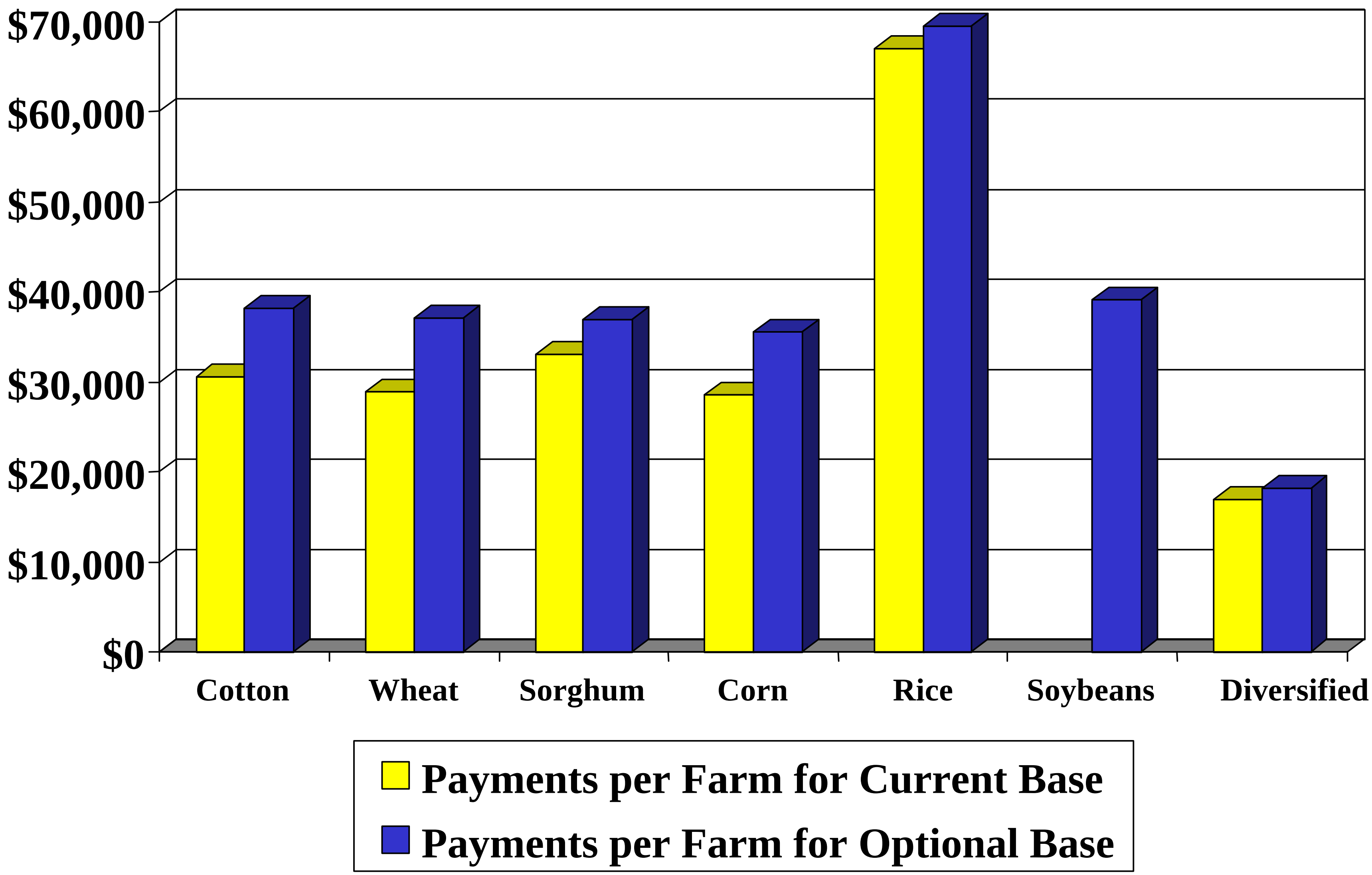
- Estimates are based on county data.
- Decision to update based on expected program benefits where each county is treated as a farm.

	2002 AMTA	H.R. 2646
Wheat	78.4	71.0
Corn	81.4	78.6
Sorghum	13.5	10.5
Barley	11.1	8.7
Oats	6.7	4.8
Cotton	16.4	16.9
Rice	4.2	4.2
Soybeans	NA	69.2
Sunflowers	NA	1.6
Total	211.7	265.5

FARM Assistance Database
Analysis of Option to Switch Base Acres

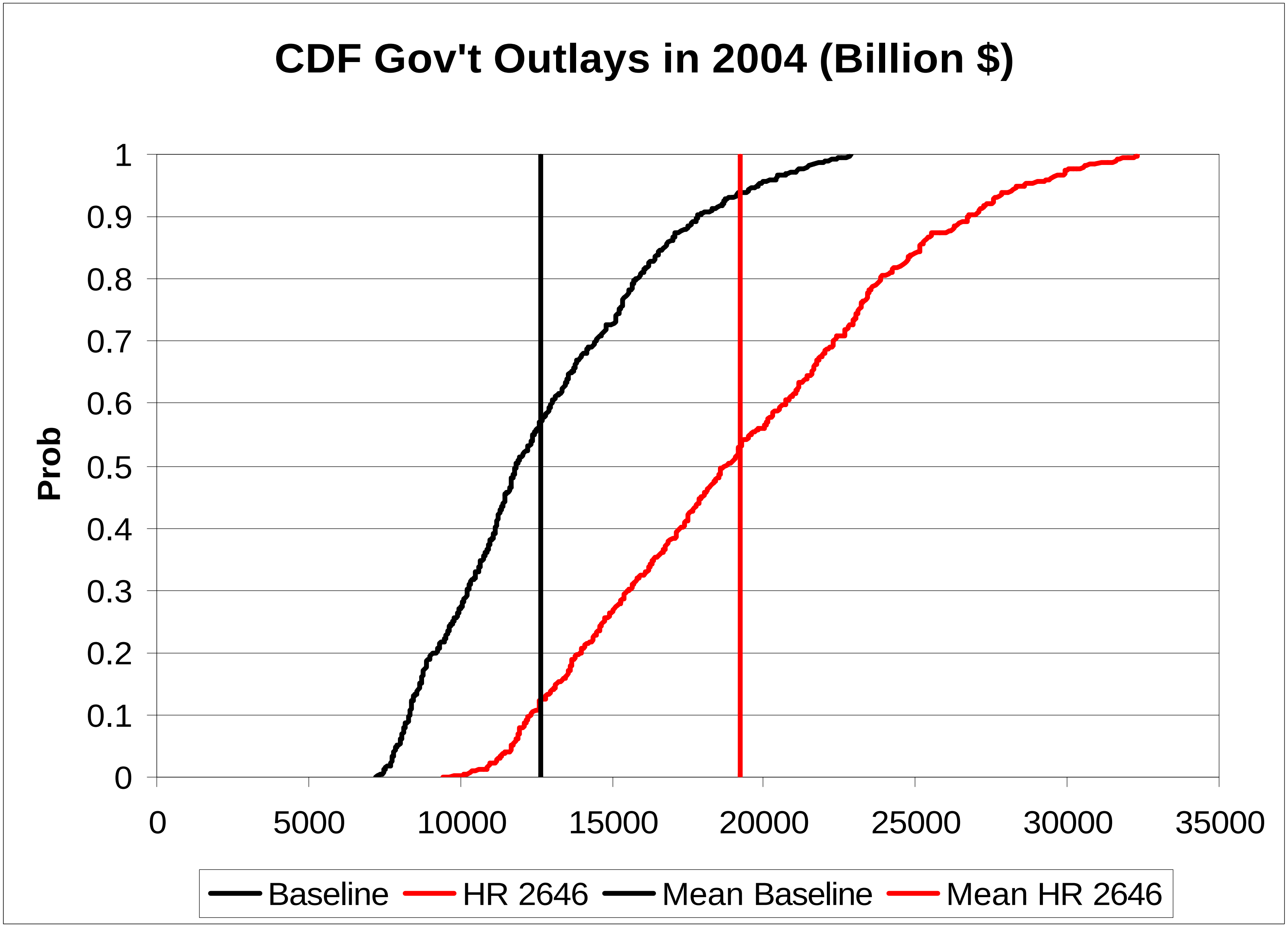


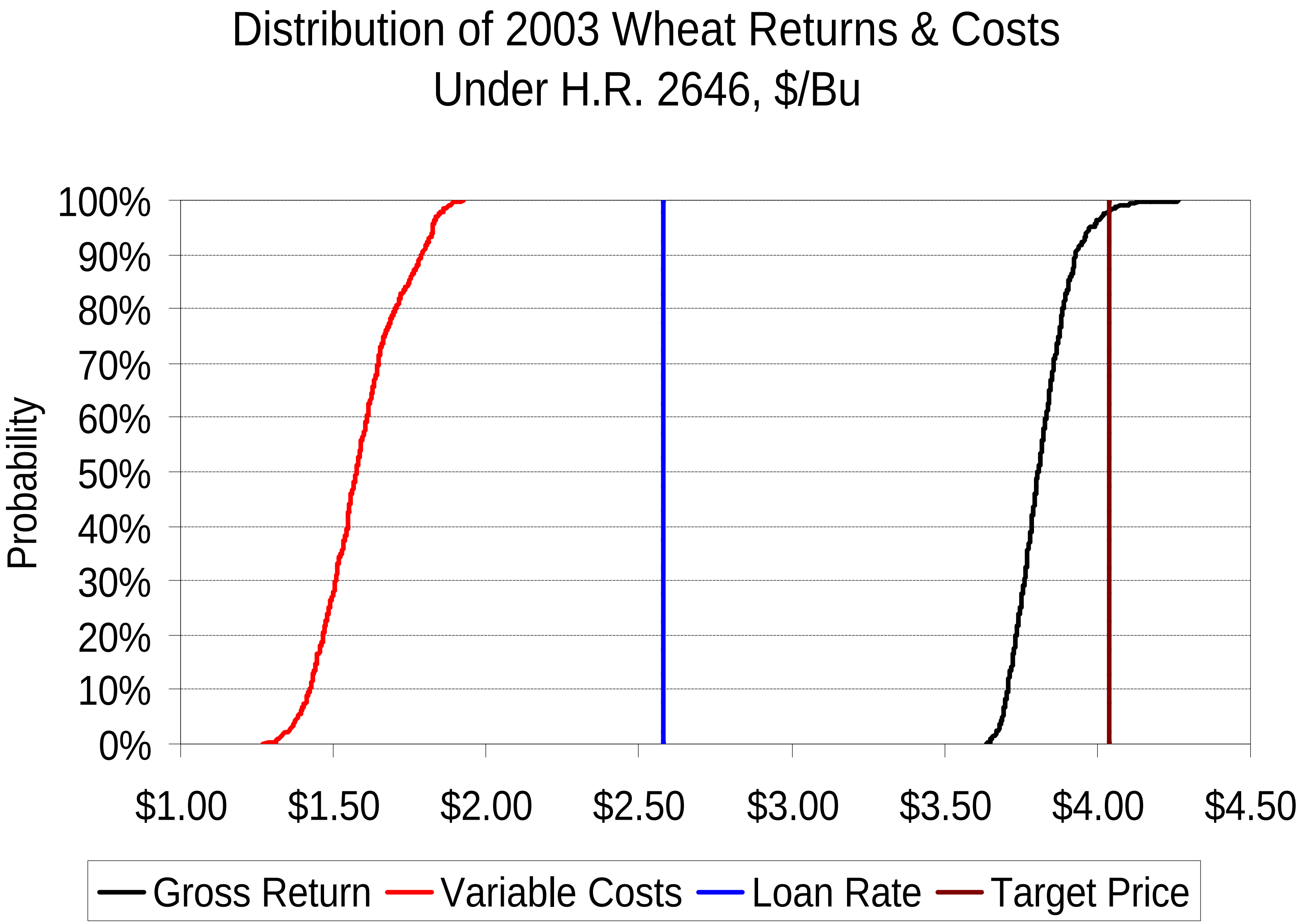
FARM Assistance Database
Analysis of Option to Switch Base Acres



Impacts on Production & Price

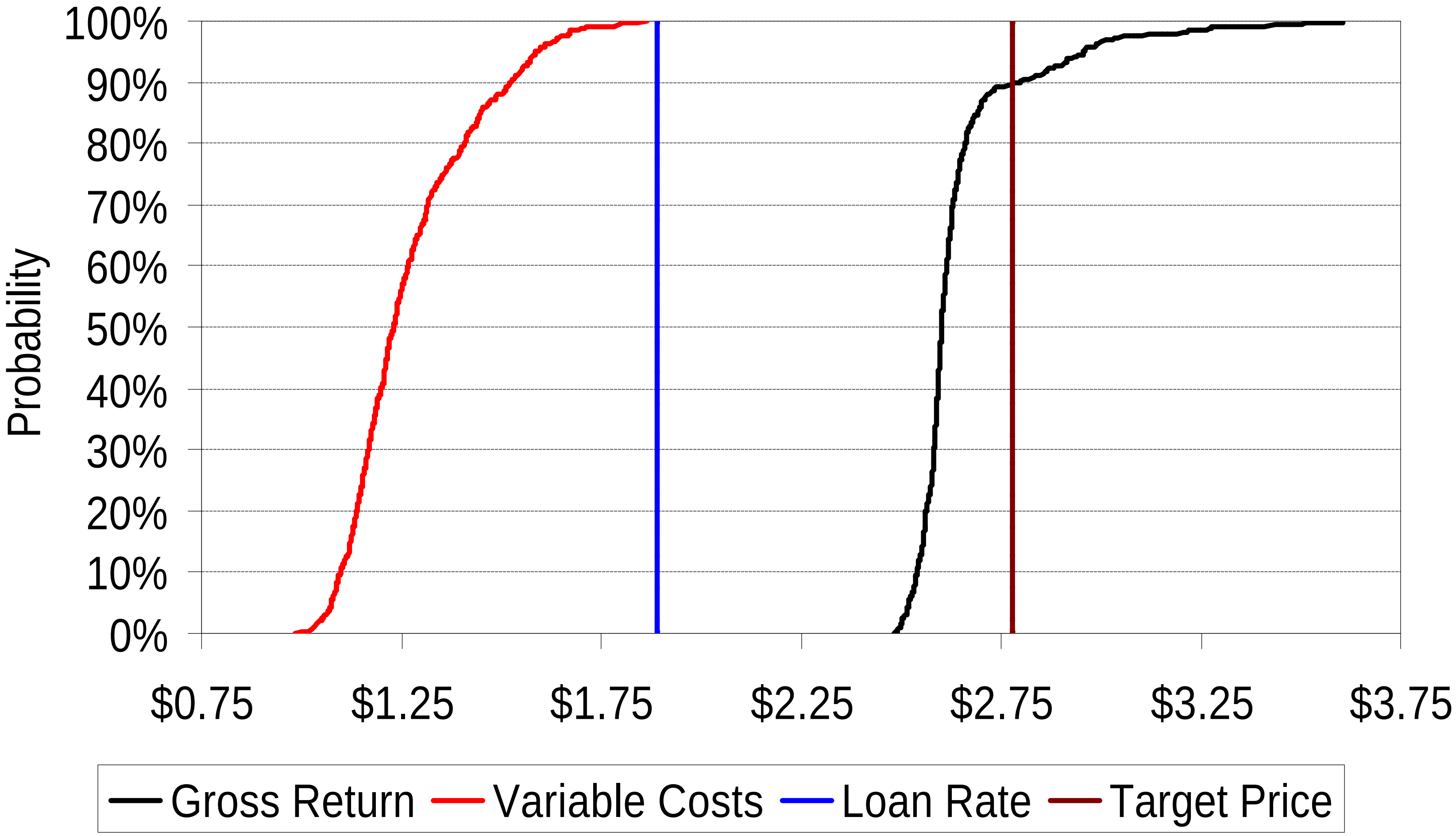
- Marginal increases in grain and cotton area with oilseed area declining from baseline levels.
- Total planted area increases by less than 1%.
- Changes in crop prices reflect shifts in acreage
  - Grain prices fall by 2-4 cents/bu
  - Soybean prices rise by 4 cents/bu
  - Cotton prices fall by less than 1 cent/lb


CDF Gov't Outlays in 2004 (Billion $)
Prob
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
0
5000
10000
15000
20000
25000
30000
35000
Baseline
HR 2646
Mean Baseline
Mean HR 2646

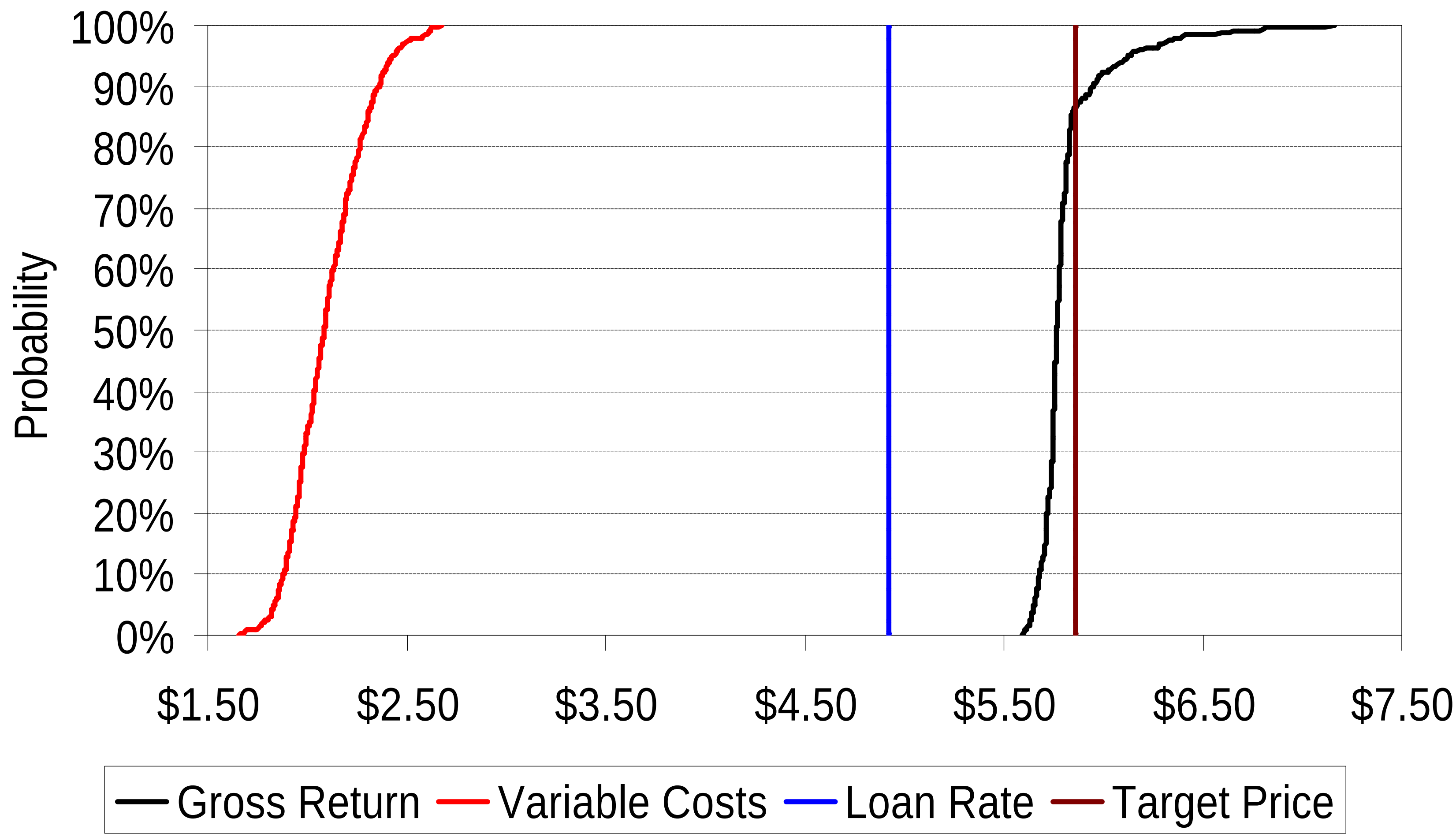


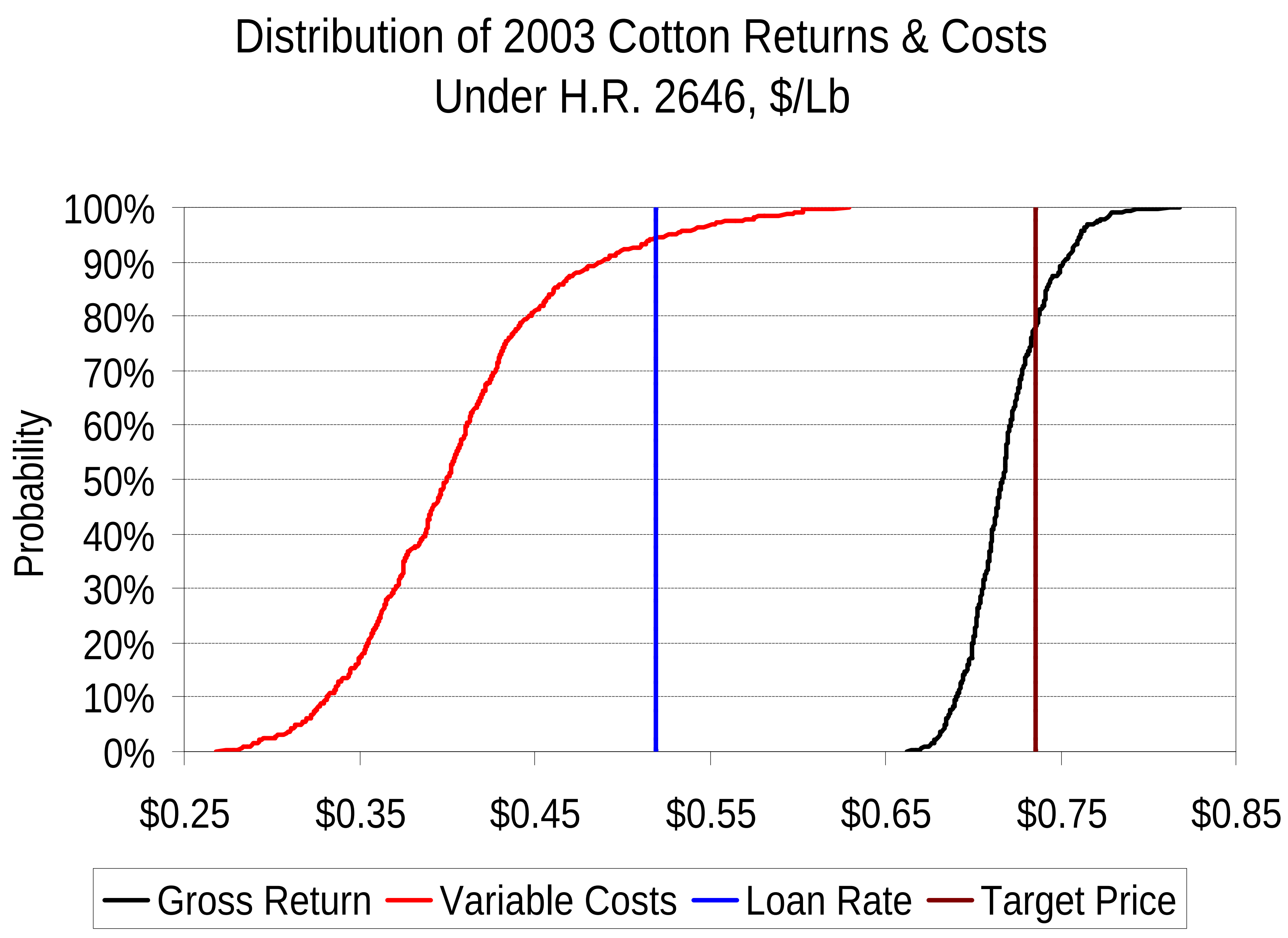
Distribution of 2003 Wheat Returns & Costs
Under H.R. 2646, $/Bu
Probability
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
$1.00
$1.50
$2.00
$2.50
$3.00
$3.50
$4.00
$4.50
Gross Return
Variable Costs
Loan Rate
Target Price

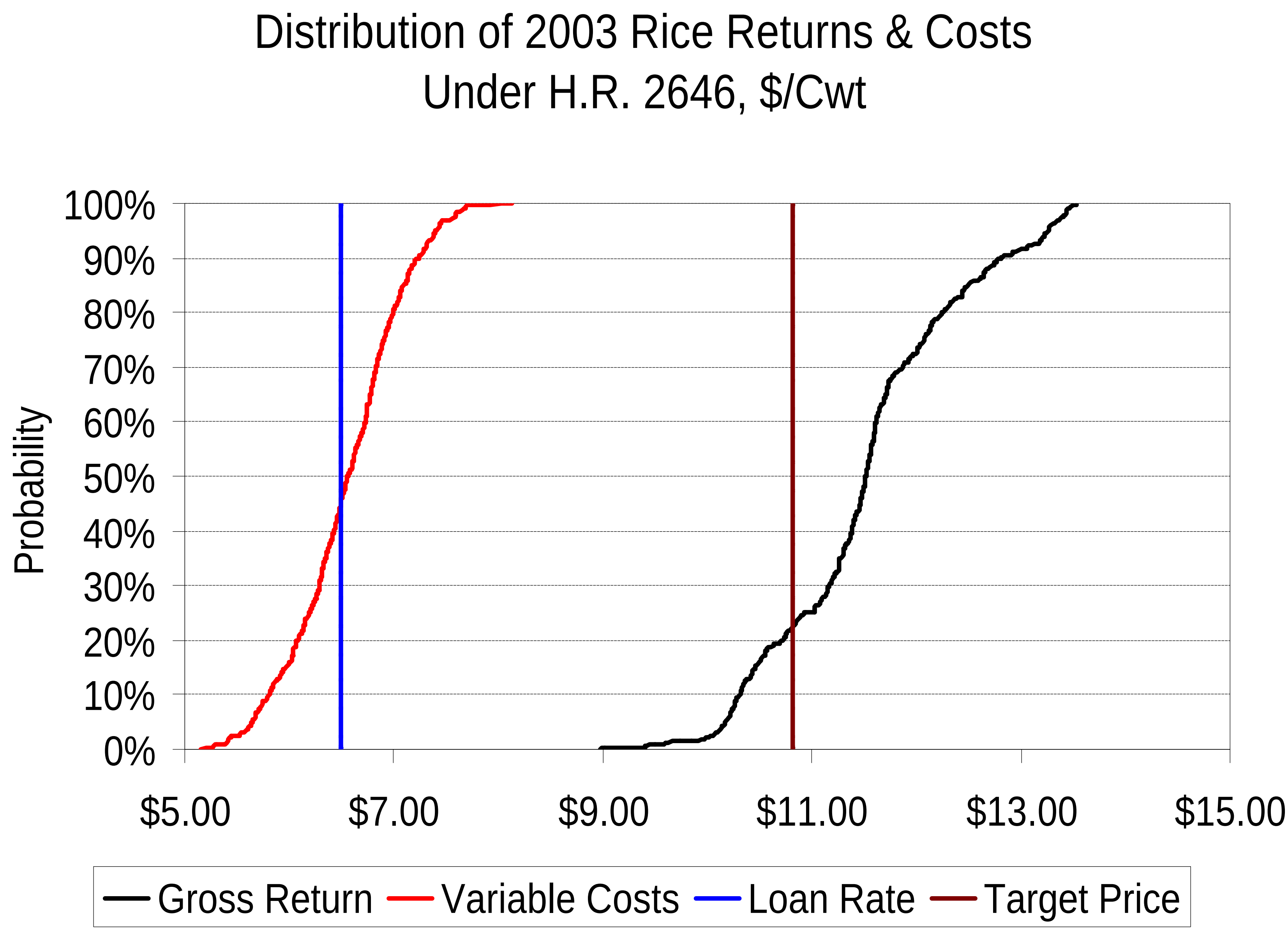
Distribution of 2003 Corn Returns & Costs
Under H.R. 2646, $/Bu



Distribution of 2003 Soybean Returns & Costs Under H.R. 2646, $/Bu




Distribution of 2003 Cotton Returns & Costs
Under H.R. 2646, $/Lb
Probability
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
$0.25
$0.35
$0.45
$0.55
$0.65
$0.75
$0.85
Gross Return
Variable Costs
Loan Rate
Target Price



Distribution of 2003 Rice Returns & Costs
Under H.R. 2646, $/Cwt
Probability
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
$5.00
$7.00
$9.00
$11.00
$13.00
$15.00
Gross Return
Variable Costs
Loan Rate
Target Price

Representative Farm Assumptions

- 44 Farms Analyzed under risk 2000-2006
  - 13 Feed grains/oilseeds
  - 10 Wheat
  - 11 Cotton
  - 10 Rice
- 20% term and 100% operating debt 2000
- Base acreage chosen to maximize benefit
- MPCI 50/100
- Baseline – 1996 FAIR ACT continued through 2006
  - Does not include MLA for 2001
- Provisions of H.R.2646 plus the 2001 MLA
- Payment Limits assumed nonrestrictive

Table 2. Comparison of the H.R. 2646 Farm Bill to a Continuation of the 1996 Farm Bill for Representative Crop Farms, 2000-2006

	Change in Net Cash Farm Income	% Change in Net Cash Farm Income	Change in Probability of a Deficit	Change in Probability of Decreasing Net Worth
	($1,000)		(% Points)	(% Points)
Wheat				
COW5440	36	22.0%	-12	-4
COW2700	20	28.0%	-21	-2
KSNW4300	57	1623.6%	-1	0
KSNW2325	26	255.5%	0	-2
KSSW1385	21	56.7%	-11	-67
KSSW3180	41	33.7%	-22	-18
NDW4850	62	39.1%	-27	-30
NDW1760	11	29.9%	-10	-21
WAW1500	35	598.6%	0	-6
WAW4250	98	109.1%	-11	-83

NDW1760 CDF of Average Annual Net Cash Farm Income for Base and H.R.2646 Farm Bill, 2002-2006 ($1,000)

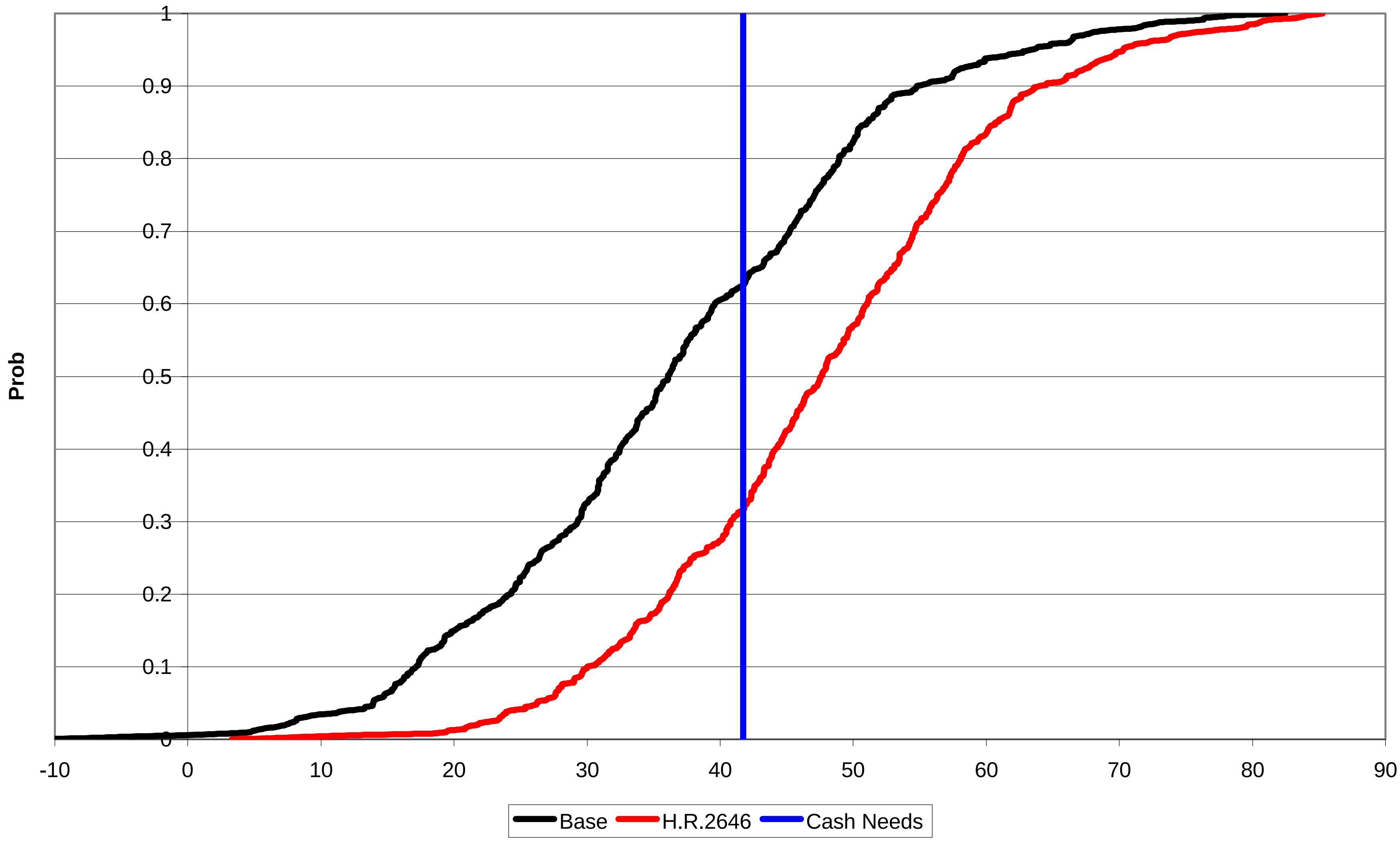


Table 2. Comparison of the H.R. 2646 Farm Bill to a Continuation of the 1996 Farm Bill for Representative Crop Farms, 2000-2006

	Change in Net Cash Farm Income	**% Change in Net Cash Farm Income**	**Change in Probability of a Deficit**	**Change in Probability of Decreasing Net Worth**
	($1,000)		(% Points)	(% Points)
Feed Grain Farms				
TXNP1600	44	80.6%	-25	-40
TXNP6700	156	127.2%	-22	-57
MOCG3300	44	23.8%	-21	-35
MOCG1700	32	29.7%	-18	-32
MONG1400	21	169.4%	0	-13
IAG950	21	34.7%	-20	-55
IAG2400	46	43.4%	-36	-33
NEG900	35	35.7%	-31	-17
NEG1300	42	31.7%	-21	-27
TNG900	16	252.0%	0	-1
TNG2400	41	80.1%	-8	0
SCG1500	39	255.0%	-7	-49
SCG3500	131	67.8%	-35	-28

TXNP1600 CDF of Average Annual Net Cash Farm Income for Base and H.R.2646 Farm Bill, 2002-2006 ($1,000)

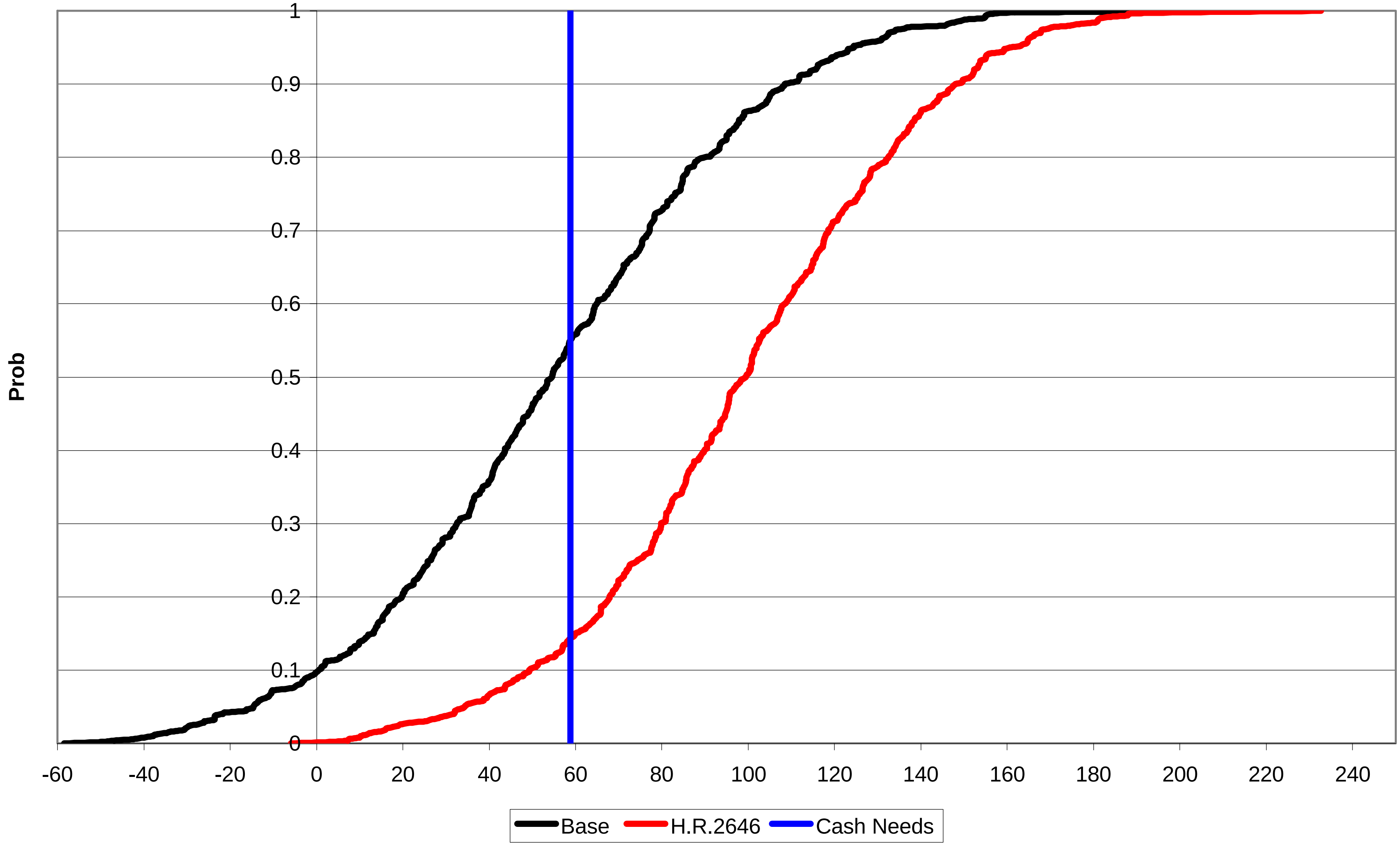


Table 2. Comparison of the H.R. 2646 Farm Bill to a Continuation of the 1996 Farm Bill for Representative Crop Farms, 2000-2006

	Change in Net Cash Farm Income	**% Change in Net Cash Farm Income**	**Change in Probability of a Deficit**	**Change in Probability of Decreasing Net Worth**
	($1,000)		(% Points)	(% Points)
Cotton				
TXSP3697	93	44.7%	-19	-5
TXSP1682	40	46.0%	-30	-26
TXRP2500	48	434.2%	-8	-32
TXBC1400	30	79.8%	-44	-90
TXCB1720	50	94.8%	-22	-46
CAC2000	160	226.5%	-6	-72
CAC6000	294	29.5%	-2	-14
TNC1675	52	1185.5%	-1	-29
TNC3800	173	242.8%	-39	-79
ALC3000	143	81.5%	-19	-47
LAC2640	96	940.5%	-42	-53

TXCB1720 CDF of Average Annual Net Cash Farm Income for Base and H.R.2646 Farm Bill, 2002-2006 ($1,000)

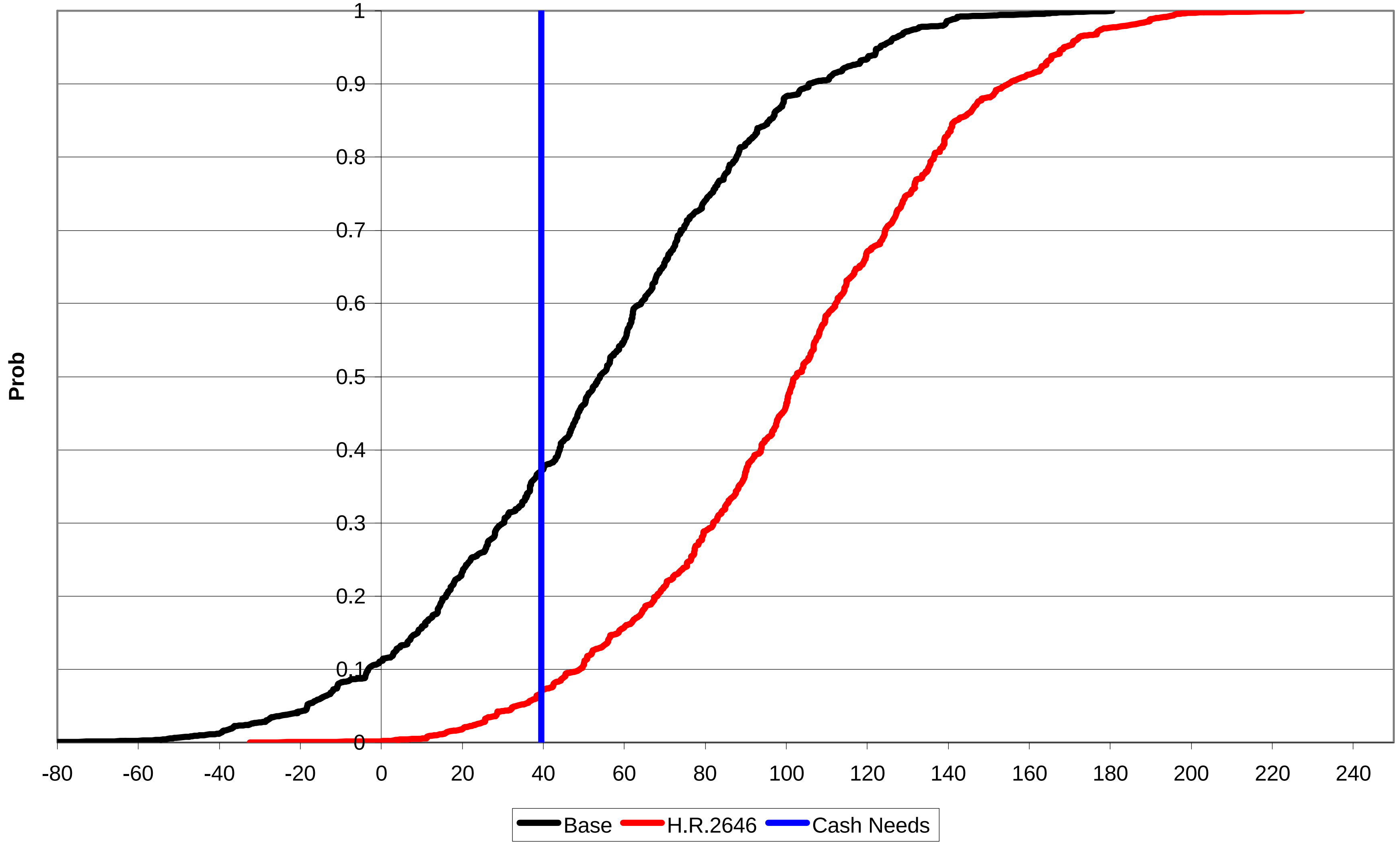
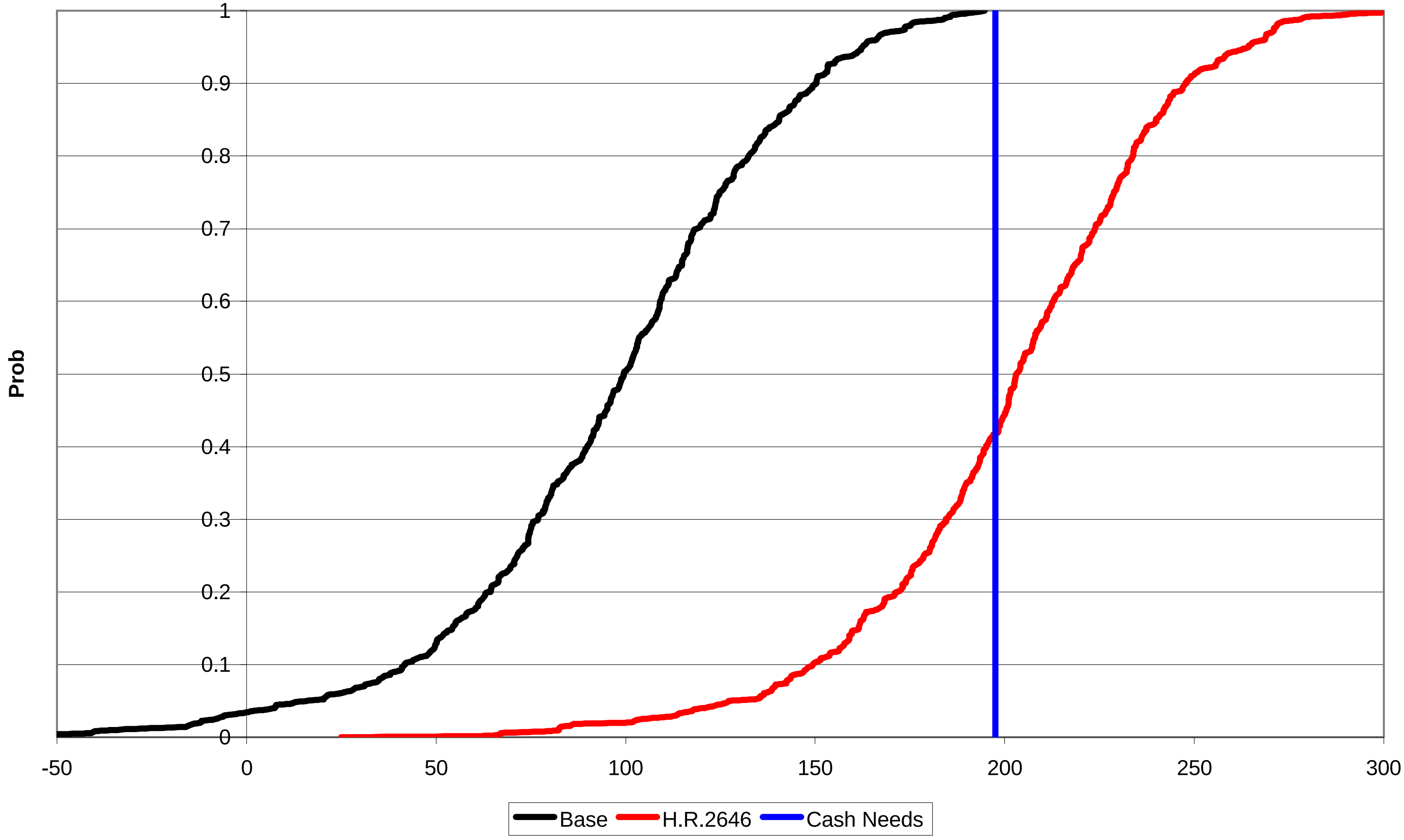


Table 2. Comparison of the H.R. 2646 Farm Bill to a Continuation of the 1996 Farm Bill for Representative Crop Farms, 2000-2006

	Change in Net Cash Farm Income	% Change in Net Cash Farm Income	Change in Probability of a Deficit	Change in Probability of Decreasing Net Worth
	($1,000)		(% Points)	(% Points)
Rice				
CAR424	43	1475.3%	-3	-20
CAR2365	235	1020.0%	-19	-32
TXR1553	52	569.1%	0	0
TXR3774	105	109.0%	-16	-59
LANR2500	101	405.6%	0	-5
LAR1200	44	744.7%	-2	-10
MOWR4000	178	93.0%	-11	-54
MOER4000	147	52.3%	-37	-78
MSR4735	164	407.4%	0	-14
ARR3640	131	42.5%	-26	-41

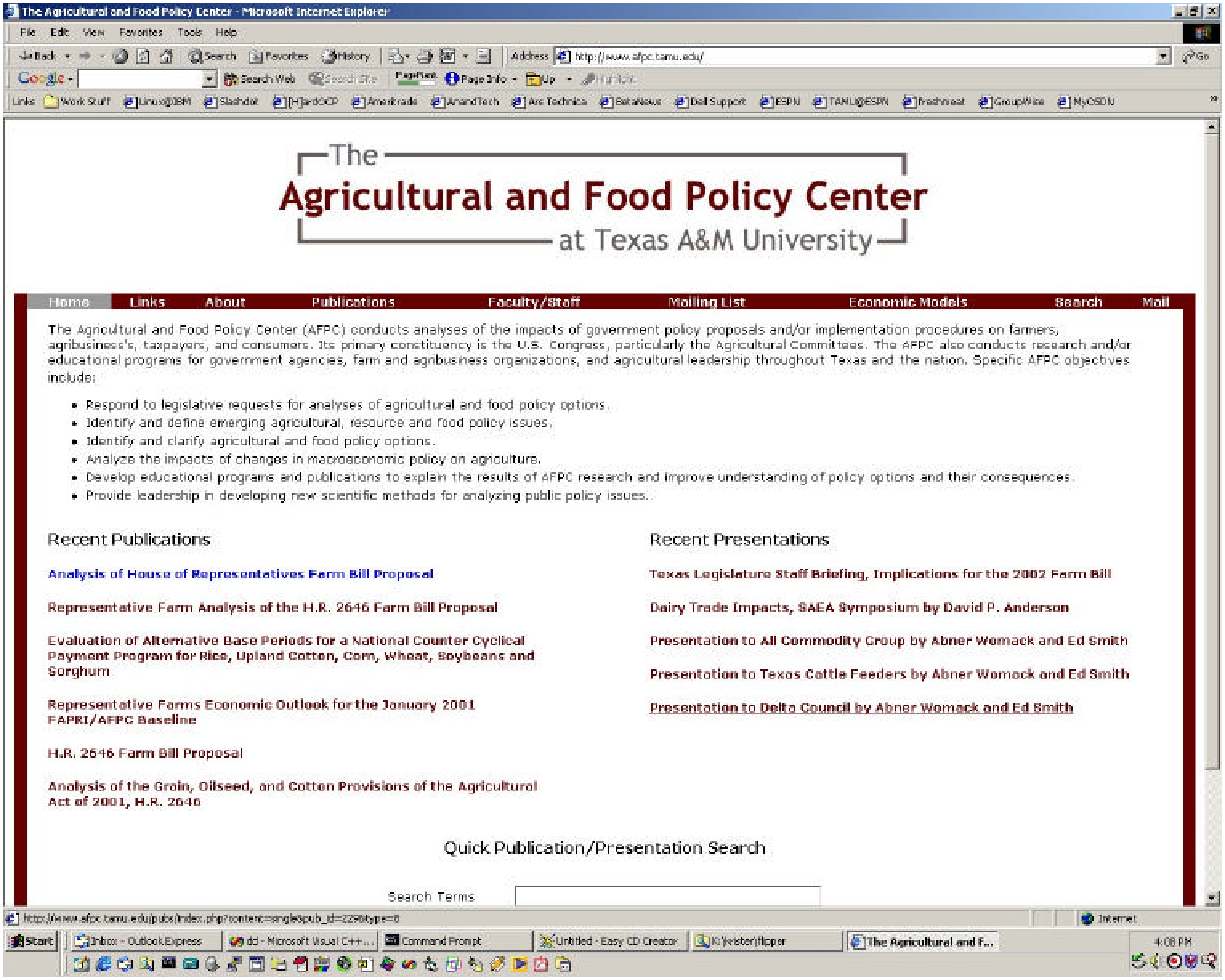
TXR3774 CDF of Average Annual Net Cash Farm Income for Base and H.R.2646 Farm Bill, 2002-2006 ($1,000)



Summary

- 13 of 44 crop farms retained current Base acres while 31 farms changed Base to their 1998-2001 average planted acres
- All crop farms benefit from H.R. 2646 Farm Program, relative to continuing the 1996 Farm Bill
  - Higher net cash farm incomes (44 of 44)
  - Lower probability of cash flow deficits (37 of 44)
  - Lower probability of decreasing net worth (40 of 44)

http://www.afpc.tamu.edu




4850
JOHN DEERE