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Manage crop risk in 2013

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Farmland value reaches historic \$8,296 statewide average, continued from page 2

Additional information is available at www.extension.iastate.edu/topic/landvalue.

The Iowa Land Value Survey was initiated in 1941 and is sponsored by the Iowa Agriculture and Home Economics Experiment Station, Iowa State University. Only the state average and the district averages are based directly on the Iowa State survey data. The county estimates are derived using a procedure that combines survey results with data from the U.S. Census of Agriculture.

The survey is based on reports by licensed real estate brokers and selected individuals considered knowledgeable of land market conditions. The 2012 survey is based on 486 usable responses providing 663 county land value estimates. The survey is intended to provide information on general land value trends, geographical land price relationships and factors influencing the Iowa land market. It is not intended to provide an estimate for any particular piece of property.



Manage crop risk in 2013

by Steven D. Johnson, farm & ag business management field specialist, Iowa State University Extension, 515-957-5790, sdjohns@iastate.edu

Despite the worst Corn Belt drought in a generation, net farm incomes reached near-record levels in 2012, thanks to crop insurance indemnity payments and high crop prices. You can expect tremendous crop revenue risk in 2013 because of crop yield uncertainty and apprehension concern about how long record crop high prices will last.

A lot of the groundwork for another year of high net farm incomes from crops will be tied to the crop insurance decisions farmers make before March 15, the deadline to sign up for make changes in crop insurance coverage for spring planted crops.

The 2012 drought caused grain prices to surge, boosting net farm incomes to high levels as over 90% of Iowa's tillable acres are covered by revenue protection (RP) crop insurance. That product guarantees a percentage of the farm's Actual Production History or APH times the higher of the spring projected price (average futures prices in the month of February for December 2013 corn futures and November 2013 soybean futures). If the harvest price (average futures prices in the month of October) is higher than the projected price, the insured gets to use the higher of the two prices to determine their revenue guarantee. This is what happened in 2012, as the final harvest price was \$7.50 per bushel for corn and \$15.39 for soybeans.

The revenue protection levels provided by crop insurance means farmers are protecting against either a decline in yield or a drop in futures price. There will be a lot of ups and downs in grain prices in 2013 but using revenue protection provides a predictable net return protection revenue guarantee per acre, notes Johnson. In addition, the pre-harvest sale of bushels for delivery covered by revenue protection provides a guaranteed price (the projected price) and thus, the ability to sell in advance of harvest to meet next fall and winter's cash flow needs.

Projected prices in February 2013 near \$6 per bushel for corn and \$12.50 per bushel for soybeans would result in guarantees at or above 2012 levels. Again providing many farms with the opportunity to insure positive revenue guarantees by taking high levels of crop insurance coverage. In addition, many farmers will may increase their level of coverage up to 85% of their APH yields, and also use the Trend-Adjusted APH Yield Endorsement or TA-Option again in 2013 to increase their revenue guarantee.

While non-land crop cost estimates forecast by ISU in 2013 aren't expected to increase significantly, perhaps farms at the most risk for low and negative net farm incomes are grain farms that don't use crop insurance or perhaps those that cash rent a large portion of their farmland at high cash rent

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levels. Many of these farms paying high cash rent can't assure themselves positive revenue guarantees in 2013 even if they take high levels of crop insurance and use the TA-Option. That's because the high cash rental rates are so large, the crop insurance revenue guarantee is still less than the overall farm's total costs.

Expect few crop insurance changes for 2013

Farmers have some good news for 2013. They can expect very few changes to the federal crop insurance program from 2012. There will be little impact on crop insurance that results from the fate of the 2012 Farm Bill still pending in congress. Crop insurance is still operating under the 2001 Federal Crop Insurance Act and the current program has permanent authorization under the original 1938 legislation.

Congress occasionally makes small reforms to the program. The 2012 Farm Bill proposes combining the traditional commodity program with a separate title to address the crop insurance program as the center-piece for crop risk management.

2013 rate reductions

USDA's Risk Management Agency (RMA) plans to fully implement the rate reductions for corn and soybeans that farmers began to see in 2012. For Iowa corn and soybean farmers, this means a rate reduction averaging 6% lower for corn and 9% lower for soybeans beginning in 2013.

Previously, a yield history dating back to 1975 was used to determine rates. Once the policy changes are in effect, a 20-year yield history will be used.

The new rates are designed to reflect advancements in technology, management and seed.

Trent-adjusted APH yield endorsement

Again for the 2013 crop year, farmers purchasing crop insurance for corn and soybeans in major Midwestern states will have the option to use the Trend-Adjusted Actual Production History (TA-APH) Yield Endorsement. This "TA-Yield Option" allows farmers to increase yields used in calculating crop insurance guarantees. Because APH yields lag expected yields, guarantees will also lag.

The TA-Yield Option corrects this issue by allowing a trend adjustment to be added to the APH yield. The resulting TA-APH yield then is used in calculating guarantees. Each county and crop has a TA-APH trend rate estimated using National Agricultural Statistical Service (NASS) county yields, with controls included for weather and spatial considerations. These rates are county specific and are published by the RMA for the 2013 crop year.

Any sign-up or changes in coverage for 2013 requires that farmers must sign up for coverage or notify their crop insurance agent by the sales closing date, which is March 15.

RMA pilot programs

RMA will continue to offer a pilot program that allows producers to participate based on whole farm and enterprise units. The program will give producers increased coverage at the same price.

RMA also indicated that farmers can expect to see two more changes for 2013, a high-risk land exclusion option and revenue protection for pulse crops.



Ag Decision Maker website has a new look!

by Ann Johanns, extension program specialist, 641-732-5574, aholste@iastate.edu

Ag Decision Maker, one of the most visited Iowa State University Extension and Outreach websites, has a new look. The decision-oriented agricultural business website now showcases new and emerging issues within farm management. While the design of the Web page

has changed, the Web address and the Ag Decision Maker purpose, to provide up-to-date information from agricultural economists at Iowa State University and other Midwest universities and institutions, remain the same.

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