Producers can choose their farm program for 2013

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Rather than craft a new farm bill this winter, Congress passed the American Taxpayer Relief Act of 2012, which extended the previous farm bill (Food, Conservation and Energy Act of 2008) for another year. The provisions for the Average Crop Revenue Election (ACRE) and Direct and Counter-cyclical Payment Program (DCP) will be unchanged from 2012, with one exception. Producers who enrolled in ACRE during the 2009 through 2012 crop years were obligated to remain in ACRE through 2012. That obligation does not extend through 2013, however. Each producer can choose to enroll each farm that she or he manages in either the DCP program or the ACRE program this year, regardless of which program the farm was enrolled in last year. The Farm Service Agency began sign-ups for DCP and ACRE for the 2013 crops on Feb. 19, 2013. The DCP sign-up period will end on Aug. 2, 2013, and the ACRE sign-up period will end on June 3, 2013.

Briefly, two gross revenue per acre triggers are in effect under ACRE, one at the farm level and one at the state level. Actual revenues, based on the farm and state yields and the average marketing year price for the September through August period, must be below both of the corresponding trigger levels for a payment to be made. Farm-level triggers will depend on recent yields for each farm, but the state-level trigger is the same for everyone. The ACRE program does not allow the state trigger to increase or decrease more than 10 percent from one year to the next. For the past three years, increases in both the corn and soybean revenue trigger levels in Iowa have been limited due to the 10 percent cap. Thus, they have not increased as fast as actual revenues, and no ACRE payments have been made in Iowa during the time the program has been in effect.

Handbook updates
For those of you subscribing to the handbook, the following new updates are included.

Historical Corn Yields by County – A1-12 (10 pages)
Historical Soybean Yields by County – A1-13 (10 pages)
Corn and Soybean County Yields – A1-14 (4 pages)
Iowa Farm Custom Rate Survey – A3-10 (2 pages)
Historic Cattle Prices – B2-12 (6 pages)
Financial Performance Measures for Iowa Farms – C3-55 (8 pages)

Please add these files to your handbook and remove the out-of-date material.

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State level trigger revenues for Iowa for the 2013 crop are currently projected as $781/acre for corn and $574/acre for soybeans, using the current USDA forecasts for the 2012 average marketing year prices. These could change slightly over the next seven months. This means that if the state average corn yield for 2013 is 160 bushels/acre, for example, the marketing year price for the 2013 crop will have to average less than $4.88/bushel to trigger an ACRE payment. Likewise, if the state average soybean yield is 47 bushels/acre, for example, the 2013 marketing year price will have to average less than $12.21/bushel to trigger a payment. Current futures contracts covering the 2013 marketing year are projecting prices substantially higher than these.

As before, enrolling in ACRE reduces the farm’s direct payments by 20 percent. Conversely, farms not enrolled in ACRE in the past can decide not to enroll in 2013 and receive 100 percent of their direct payments. Payments rates will be the same as in 2012, and funds will be distributed in October.

To analyze their individual sign-up decisions, producers can use the ACRE Payment Estimator, decision file A1-45 on the Ag Decision Maker website. For more information visit your county Farm Service Agency office.

Comparing the stock market and Iowa land values: a question of timing

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This article is an update of earlier versions. Its purpose is to examine the following question: Which is a better investment, the stock market or farmland?

Iowa farmland values have shown yearly increases for 11 of the past 12 years. The values remain at record high levels where they have been for the past nine years. Based on the Iowa State University Farmland Value Survey, the 2012 estimated average farmland value in Iowa was $8,296 per acre. This was an increase of 23.7 percent from the 2011 estimate. Iowa land values have increased by double digits eight of the past nine years. This year marked the third consecutive year that values have increased more than 15 percent. The estimated land values have increased more than two and a half times since 2003.

The composite value of the stock market, as measured by the Standard & Poor’s Index (S&P) average, has started recovering from the disastrous 2008 year. Even though the S&P lost 34 percent of its value between 2000 and 2008, its overall record has been impressive since 1990. Stock values rose from 328.75 in 1990 to a December 2012 close of 1,422.29, an increase of over 300 percent in spite of the decline in 2008.

To determine which option provided the better investment, this article compares and contrasts the returns to farmland and the stock market since 1960. It also discusses some of the important factors to consider over the next few years.

Background

The returns to land or stock shares are composed of two parts. The first is capital gains or the increase in value. Obviously, this also could be a capital loss if values decrease. The second component is yearly returns.

Owning land has an unavoidable annual ownership cost not associated with stocks. Property taxes must be paid and should be included in a comparison of owning stocks or farmland. Additionally, if farmland is held as an investment and not by an owner-operator, there could be a professional farm manager involved and the fee for this service would have to be considered. There is also a need for some maintenance and insurance with farmland not associated with owning stocks.

The data used for this analysis comes from various sources. The Iowa average land values come from the yearly Iowa State University Extension and Outreach publication FM 1825. The average