



KANSAS FARM MANAGEMENT ASSOCIATION

Your Farm - Your Information - Your Decision

N E W S L E T T E R

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PROJECTED 2009 ACRE BENCHMARKS FOR KANSAS

The 2008 Farm Bill offers the opportunity for producers to participate in DCP (the traditional suite of programs including direct payments, counter-cyclical payments and marketing loans) or the new Average Crop Revenue Election (ACRE) suite of programs. If producers decide to participate in ACRE, they will opt out of the counter-cyclical program, reduce direct payments by 20 percent, and reduce marketing loan rates by 30 percent.

Participation in ACRE is actually a two-step process. Producers must first elect to participate, and then they must enroll in the program each year. Recently the Farm Service Agency (FSA) announced that the ACRE election/enrollment process for the 2009 commodity program crops will start on April 27. The final date for enrollment for both the DCP and ACRE options was extended to August 14, 2009.

ACRE is a state-level revenue program that establishes a state revenue guarantee for commodity program crops based on state yields and national prices. If actual state crop revenue is less than the state revenue guarantee **AND** a farm's actual revenue is less than the farm's benchmark revenue, then payments will be made. Following are the formulas used to calculate benchmark yields, prices and guarantees for the ACRE program.

(1) *Benchmark State Yield = 5-Year Olympic Average State Yield per Planted Acre¹*

(2) *Benchmark Price = 2-Year National Average Market Year Price*

(3) *State Revenue Guarantee = (90% * Benchmark State Yield * Benchmark Price)*

In calculating the *Benchmark State Yield* for 2009, the 5-year Olympic average yield would equal the average National Agricultural Statistics Service (NASS) yield per planted acre (see footnote) for the most recent 5 crop years (2004-2008), excluding the highest and lowest yields. The *Benchmark Price* for 2009 is calculated as the simple average of the national average market price received by producers of the covered commodity or peanuts for the most recent 2 crop years (2007-2008).

Tables 1 and 2 show the projected 2009 benchmark yields, prices, and guarantees for the primary program crops in Kansas. A provision in the ACRE program calls for separate guarantees for irrigated and non-irrigated crops if a state has at least 25% of the acres of a crop that are irrigated and at least 25% of the acres of the crop that are non-irrigated. The only crop in Kansas that would qualify for this provision in Kansas is corn. Thus, irrigated and non-irrigated corn in Kansas will essentially be treated as separate crops under the ACRE program.

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¹ ACRE yields will equal state production divided by NASS harvested acres plus FSA failed acres and will be used in lieu of NASS planted acres. The FSA failed acreage data is not currently available to the public.

Figure 1 shows the projected 2009 ACRE guarantees for the primary commodity program crops in Kansas. The guarantees range from \$208/planted acre for dryland sunflowers to \$711/planted acre for irrigated corn. Producers who believe there is a high probability that actual state revenue (actual state yield times the U.S. market year average price) will be below the guarantee would strongly consider participating in ACRE. Those who believe there

is a low probability that actual state revenue will be below the guarantee may want to defer the decision to participate in ACRE until 2010.

Additional information on the ACRE program can be found at www.agmanager.info.

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Table 1. Projected 2009 ACRE Benchmark State Yields for Primary Kansas Crops.

| | Wheat bu/a | Dryland Corn bu/a | Irrigated Corn bu/a | Sorghum bu/a | Soybeans bu/a | Dryland Sunflowers lb/a | Irrigated Sunflowers lb/a |
|---------|---------------|-------------------------|---------------------------|-----------------|------------------|-------------------------------|---------------------------------|
| 2004 | 34.2 | 110.0 | 192.0 | 76.0 | 39.5 | 1,714 | 1,067 |
| 2005 | 39.9 | 94.0 | 187.0 | 75.0 | 36.5 | 1,714 | 1,067 |
| 2006 | 31.8 | 72.0 | 173.0 | 58.0 | 31.5 | 1,714 | 1,067 |
| 2007 | 32.6 | 97.0 | 193.0 | 79.0 | 32.5 | 1,714 | 1,067 |
| 2008 | 39.2 | 97.0 | 185.0 | 78.0 | 36.5 | 1,714 | 1,067 |
| Average | 35.3 | 96.0 | 188.0 | 76.0 | 35.0 | 1,714 | 1,067 |

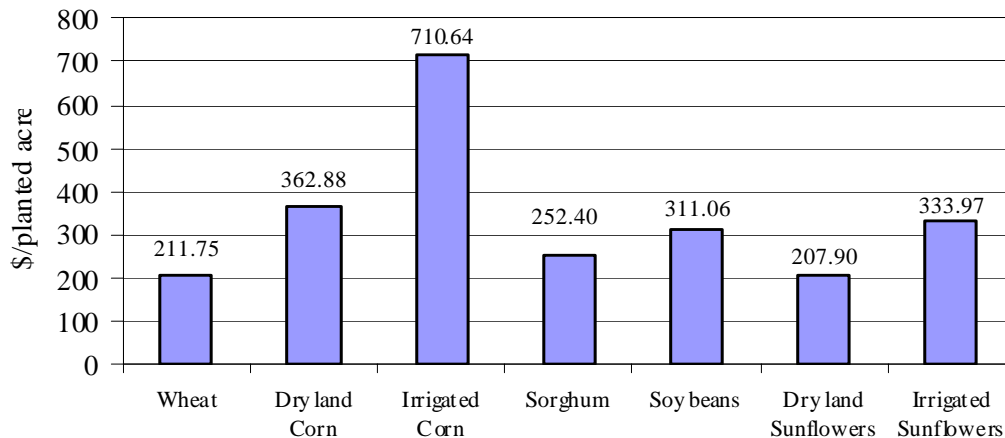
Table 2. Projected 2009 ACRE Benchmark Prices*.

| | Wheat \$/bu | Corn \$/bu | Sorghum \$/bu | Soybeans \$/bu | Sunflowers \$/lb |
|---------|----------------|---------------|------------------|-------------------|---------------------|
| 2007 | 6.48 | 4.20 | 4.08 | 10.10 | 0.2170 |
| 2008 | 6.85 | 4.20 | 3.30 | 9.65 | 0.2160 |
| Average | 6.67 | 4.20 | 3.69 | 9.88 | 0.2165 |

* Prices for the 2008 marketing year are the midpoint estimates from the April 9, 2009 USDA *World Agricultural Supply and Demand Estimates (WASDE)* Report.

Figure 1

Projected 2009 State ACRE Guarantees for Kansas Crops



LONG-TERM TRENDS IN LABOR BENCHMARKS

This article documents long-term trends in three labor benchmarks: value of farm production per worker, total acres per worker, and labor efficiency using data for KFMA farms with continuous data from 1988 to 2007. Trends in the percent of labor devoted to crop production and the number of workers are also discussed. The number of KFMA farms with continuous data over the 1988 to 2007 time period was 390.

Table 1 contains summary statistics for value of farm production, labor cost, total acres, crop acres, the percent of labor devoted to crop production, and number of workers for the 20-year period. The number of workers includes hired labor as well as family and operator labor. Value of farm production and labor cost are presented in nominal dollars so it is not surprising to see positive trends for these variables. Interestingly, total acres, crop acres, and the percent of labor devoted to crop production show a steady upward trend while the reverse is the case for number of workers. In 1988, on average, the farms had 1542 total acres, 900 crop acres, 1.61 workers, and 66.2 percent of their labor was devoted to crop production. In 2007, these same farms had 1862 total acres, 1106 crop acres, 1.43 workers, and 77.4 percent of their labor was devoted to crop production.

Table 2 presents annual labor benchmarks for value of farm production per worker, total acres

per worker, and labor efficiency. Value of farm production per worker and total acres per worker are measures of labor productivity. Higher values for these variables reflect higher labor productivity. The labor efficiency index presented in Table 2 is computed by dividing total labor expense (hired, family, and operator labor expense) by value of farm production. A more efficient farm would have a lower value for this variable.

Labor productivity and efficiency during the 20-year period was the best in 2007. Value of farm production per worker was \$255,763; total acres per worker were 1302; and the labor efficiency index was 0.172 in 2007. Total acres per worker increased from 958 in 1988 to 1302 in 2008. Despite the fact that labor efficiency was the best in 2007, there was not a significant trend in this variable over the 20-year period. Figure 1 presents the annual labor efficiency indices as well as the average labor efficiency index for the 20-year period. The labor efficiency index tends to be lower when value of farm production is higher.

Labor productivity and efficiency vary by farm size and farm type. A future newsletter article will provide labor productivity and efficiency benchmarks by farm size and type.

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Table 1. Summary of Farm Characteristics for 390 KFMA Farms.

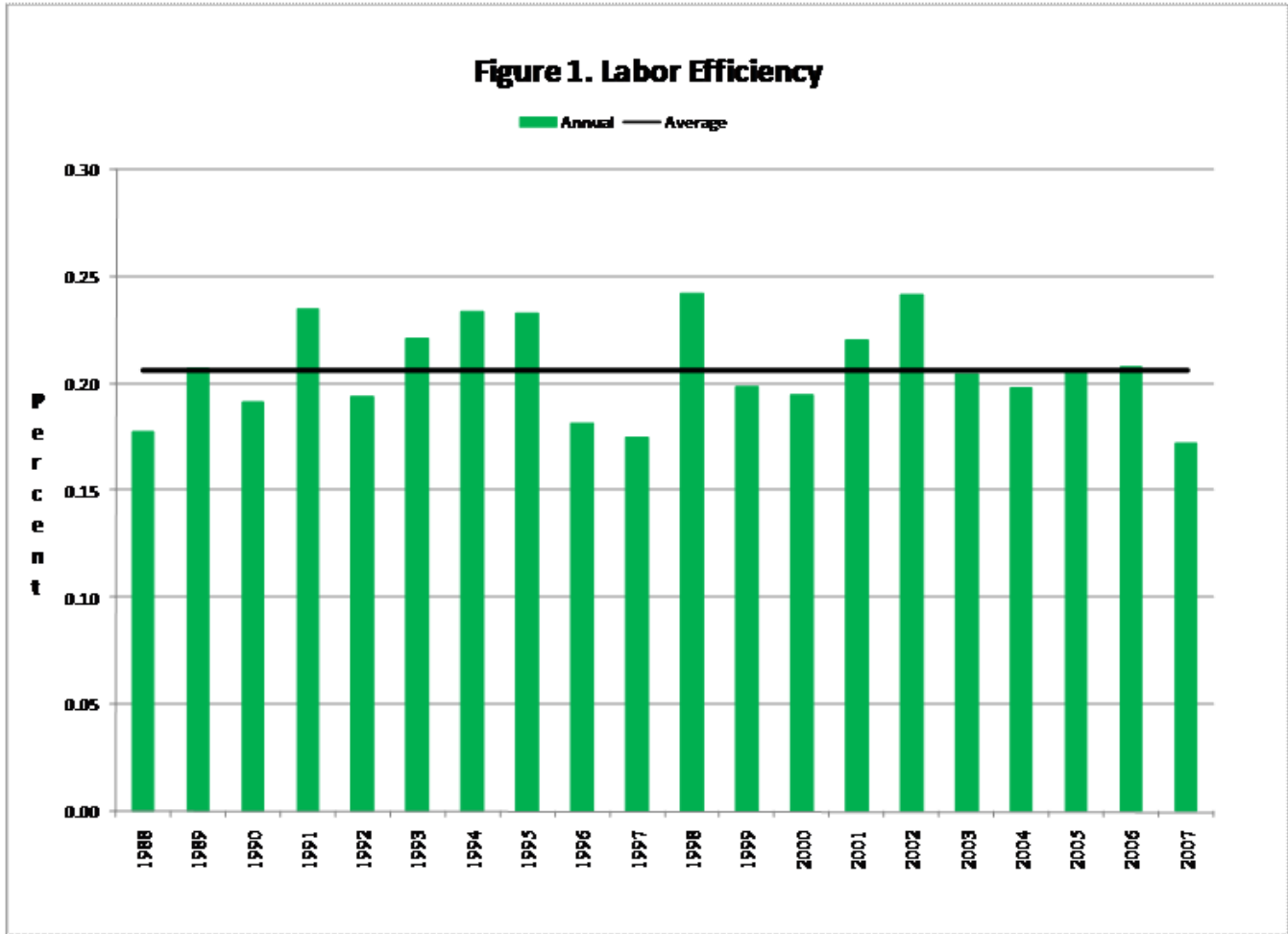
| Year | Value of Farm Production | Labor Cost | Total Acres | Crop Acres | Crop Labor % | Number of Workers |
|------|-----------------------------|---------------|----------------|---------------|-----------------|----------------------|
| 1988 | 179,240 | 31,778 | 1,542 | 900 | 66.2% | 1.61 |
| 1989 | 154,771 | 32,083 | 1,583 | 929 | 66.8% | 1.64 |
| 1990 | 177,030 | 33,883 | 1,623 | 958 | 68.9% | 1.68 |
| 1991 | 154,612 | 36,299 | 1,645 | 968 | 67.8% | 1.63 |
| 1992 | 192,637 | 37,330 | 1,715 | 1,002 | 70.0% | 1.54 |
| 1993 | 189,185 | 41,752 | 1,729 | 1,015 | 70.2% | 1.60 |
| 1994 | 183,123 | 42,727 | 1,767 | 1,029 | 70.8% | 1.62 |
| 1995 | 184,605 | 42,978 | 1,749 | 1,032 | 71.6% | 1.61 |
| 1996 | 239,794 | 43,418 | 1,767 | 1,051 | 72.5% | 1.60 |
| 1997 | 256,734 | 44,789 | 1,813 | 1,063 | 73.2% | 1.65 |
| 1998 | 193,291 | 46,733 | 1,815 | 1,067 | 75.8% | 1.64 |
| 1999 | 222,883 | 44,276 | 1,816 | 1,052 | 74.3% | 1.58 |
| 2000 | 229,173 | 44,628 | 1,826 | 1,066 | 75.9% | 1.54 |
| 2001 | 225,351 | 49,594 | 1,855 | 1,083 | 77.3% | 1.58 |
| 2002 | 209,407 | 50,471 | 1,876 | 1,103 | 77.6% | 1.51 |
| 2003 | 254,671 | 52,114 | 1,882 | 1,110 | 77.8% | 1.52 |
| 2004 | 280,743 | 55,500 | 1,848 | 1,111 | 77.6% | 1.52 |
| 2005 | 289,557 | 59,449 | 1,867 | 1,119 | 77.8% | 1.49 |
| 2006 | 288,168 | 59,848 | 1,894 | 1,129 | 77.7% | 1.46 |
| 2007 | 365,741 | 62,968 | 1,862 | 1,106 | 77.4% | 1.43 |

Source: KFMA Databank.

Table 2. Average Labor Efficiency and Productivity for 390 KFMA Farms.

| Year | VFP per Worker | Acres per Worker | Labor Efficiency |
|------|----------------|------------------|------------------|
| 1988 | 111,329 | 958 | 0.177 |
| 1989 | 94,373 | 965 | 0.207 |
| 1990 | 105,375 | 966 | 0.191 |
| 1991 | 94,854 | 1,009 | 0.235 |
| 1992 | 125,089 | 1,114 | 0.194 |
| 1993 | 118,241 | 1,081 | 0.221 |
| 1994 | 113,039 | 1,091 | 0.233 |
| 1995 | 114,661 | 1,086 | 0.233 |
| 1996 | 149,871 | 1,104 | 0.181 |
| 1997 | 155,596 | 1,099 | 0.174 |
| 1998 | 117,860 | 1,107 | 0.242 |
| 1999 | 141,065 | 1,149 | 0.199 |
| 2000 | 148,814 | 1,186 | 0.195 |
| 2001 | 142,627 | 1,174 | 0.220 |
| 2002 | 138,680 | 1,242 | 0.241 |
| 2003 | 167,547 | 1,238 | 0.205 |
| 2004 | 184,699 | 1,216 | 0.198 |
| 2005 | 194,334 | 1,253 | 0.205 |
| 2006 | 197,375 | 1,297 | 0.208 |
| 2007 | 255,763 | 1,302 | 0.172 |

Source: KFMA Databank.



RECOMMENDATIONS FOR FURTHER READING

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research. Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

A recent survey of expected agricultural financial conditions in 2009 was conducted by the Extension Risk Management Education Regional Centers and the Center for Farm Financial Management at the University of Minnesota. Survey respondents included agricultural lenders, educators, crop insurance professionals, consultants, and agribusinesses.

Yours truly participated in this survey. Results are briefly discussed below. More summary information from the survey can be found on my contributor site under “Recommendations for Further Reading.” Eighty-four percent of the survey respondents expect the probability that agricultural producers will experience financial stress in the next three years to be high or very high. Sixty-three percent of the respondents state that 10 percent or less of the agricultural producers they currently work with are experiencing financial stress. In the next three years, however, 28 percent of respondents expect at least 30 percent of their agricultural clients will experience financial stress. According to the respondents, the major factors

contributing to financial stress include price/input cost margins, price volatility, negative cash flows, inadequate business planning, and lack of financial skills. As 2009 plays out it is important for agricultural producers to have whole-farm and enterprise information so that they can gauge their financial condition and effectively plan for the future.

A recent article written by Roger McEowen at Iowa State discusses common estate planning mistakes. Estate planning is often complicated because each situation is unique. A “one size fits all” estate plan does not exist. This artifact contributes to estate planning problems or mistakes. The author lists the following common mistakes: too much property owned in joint tenancy (large estates) or too little property owned in joint tenancy property (small estates); making the plan too complex; failure to review and update the plan; failure to check titles to property; failure to balance property ownership in larger estates; failure to check the beneficiary designations on non-probate property; utilization of a simple “I love you” will in larger estates; not taking into account issues that arise because of order of death of the spouses; not staying informed as to changes in the law that could impact the plan; simply doing nothing; failure to use disclaimers post-death to correct errors in the estate plan; incorrect ownership of life insurance; not being able to find the will; failure to fund a trust; not understanding the difference between “equal” and “fair”; failure to utilize annual exclusion gifts; and failure to plan to have sufficient liquidity at death. More information on estate planning and other legal topics can be found on the web site for the Center for Agricultural Law and Taxation (www.calt.iastate.edu).

A recent working paper written by Michael Bordo provides an historical perspective on the financial crisis of 2007-2008. The author indicates that the current financial crisis has many similarities to other crises which were triggered by events in the United State financial

system. The author lists the crises of 1857, 1893, 1907, and 1929-1933 as examples. Though the current crisis has many similarities to previous crises, it also has some important modern twists. These modern twists include the shifting of mortgage risk from banks to hedge funds and other institutions, and the growth of the non-bank financial sector which was not regulated by the central bank. This article can be found on my contributor site under “Recommendations for Further Reading.”

A recent article written by Michael Pakko addressed federal deficit and debt levels, and appeared in the January 2009 edition of *The Regional Economist*, a publication of Federal Reserve Bank of St. Louis. The author notes that the size of the deficit and debt for a particular country is not necessarily problematic. However, when deficits are part of a fundamental structural imbalance in the long-term, they signal a need for attention and reform. The author notes that this is the case for the federal deficits and debt. The official measure of the deficit for 2008 was \$455 billion. This measure reflects the current surplus in the Social Security trust fund. Using the difference in debt from year to year, the deficit in 2008 exceeded \$1 trillion. The deficit in 2008 is also relatively large when expressed as a percent of gross domestic product. More importantly, the author notes that the long-term fiscal outlook of the United States demands some serious attention. The author presents estimates of how much money would be needed in today’s dollars to pay for future promises in excess of expected tax revenues. These unfunded liabilities are as follows: \$6.8 trillion for Social Security, \$25.7 trillion for Medicare Parts A and B, and \$8.4 trillion for Medicare Part D (prescription drug coverage). Total unfunded liabilities for these programs are \$40.9 trillion. These are the government’s official estimates. As noted in the article, Lawrence Kotlikoff estimates these unfunded liabilities to be \$70 trillion. It is important to note that the estimates above do not include the impact of the stimulus bill and other recent legislation. The

article by Michael Pakko can be found on the web site for the Federal Reserve Bank of St. Louis (www.stloiusfed.org) and on my contributor site under “Recommendations for Further Reading”.

The Center for Agricultural Law and Taxation provides timely and objective information to agricultural producers, professionals, and agribusinesses concerning the application of important developments in law, and is a primary source of professional educational training in

agricultural law and taxation. Topics addressed by the Center include bankruptcy, business planning, contracts, estate planning, and taxation. The article on estate planning discussed above is an example of the type of information that is provided on this web site. The web site for the Center of Agricultural Law and Taxation is as follows:
www.calt.iastate.edu.

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The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: www.agmanager.info/kfma; and, on the Extension Agricultural Economics website: www.agmanager.info. The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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