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Why Are OSU-KSU Decision Tool Results Changing?¹

Art,

So I've had another question today of "Why did the OSU-KSU decision tool say my sorghum should be in PLC and when I ran it again now it says ARC-CO?"

Sorghum Grower

Dear Producer,

The OSU-KSU decision tool is using February-published University of Missouri FAPRI estimates for Market Year Average (MYA) prices from the National Agricultural Statistics Service (NASS) that are used in the FSA commodity program. The OSU-KSU decision tool was not updated with March 15 FAPRI prices.

The KSU estimated updated MYA prices are used in the "2014 Payment Calculator and 2015 PLC/ARC-CO Tradeoff". Both tools are posted on AgManager.info.

The FAPRI-estimated MYA corn price increased from \$3.50 in December to \$3.69 in March. The KSU estimated MYA corn price declined from \$3.84 in December to \$3.81 in March. The largest price move was for grain sorghum. The FAPRI sorghum price

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increased from \$3.50 in December to \$3.87 in March. The KSU estimate increased from \$3.69 in December to \$3.87 in March (Table 1).

In a recent posting on AgManager, the authors are concerned about the sorghum price estimate still being too low. For the past two months, the national average MYA price for sorghum has been about 30 cents higher than corn. If that basis is still holding on March 30, 2015 in the next NASS price updated publication, then the KSU estimate will be adjusted. If sorghum continues with a 30 cent over corn basis, then it's unlikely that sorghum will pay under PLC. However, it is hard to believe this basis will be maintained for more than a few months, because feeders will switch from feeding sorghum to corn because of a lower corn price. Many ethanol plants can process either crop.

Both updated price estimates will reduce any estimated PLC payments in the OSU-KSU decision tool and the KSU payment calculator results. However, this is 2014 only, so it is still possible the last four years will generate more PLC payments than the five-year total ARC-CO program payments. However, this means many farmers will need to turn down a pending ARC-CO payment to take a chance on higher PLC payments in the last four years. The KSU *"2014 Payment Calculator and 2015 PLC/ARC-CO Tradeoff"* will provide the estimated ARC-CO payment for any USA county that NASS published a 2014 county yield and will be updated with the March 30 NASS MYA and KSU price estimates, but do not wait for these estimates in order to make a decision regarding the farm program. The "KSU Payment Calculator" calculates the ARC-CO gross payment before the 10% stop loss. If the ARC-CO gross payment is substantially larger than the ARC-CO net payment after the 10% stop loss is applied, then any remaining forecasting errors will not be large enough to affect the final net ARC-CO payment. Counties with substantially larger gross payments than the net ARC-CO payment will receive the maximum ARC-CO payment for 2014.

The FAPRI wheat and soybean forecasted prices were \$6.01 and \$10.00 in December and were \$6.08 and \$10.13 in March. The KSU wheat and soybean forecasted prices were \$6.00 and \$10.19 in December and were \$5.98 and \$10.09 in March, respectively. Both price forecasts will generate zero PLC payment for 2014 wheat and soybeans.

The increase in FAPRI corn prices and especially sorghum prices are the reason the OSU-KSU model has shifted from PLC to ARC-CO, **but should you change your decision based on a changing price forecast?** There are so many variables including the farm's CC FSA program yield and does your county have more than one crop failure in the past five years that will understate the county's Olympic average yield? The results will depend on the MYA marketing price, so as a general statement, it will require a MYA corn price below \$3.25 and sorghum below \$3.50 before PLC will pay significantly more than ARC-CO.

Remember the commodity title uses the NASS MYA price and there is only one price for each crop nationally. This is not your local elevator price, it is not futures prices, and it is not crop insurance prices. It is a weighted national average price for the entire year, so it is not the normal harvest low price either.

One will drive themselves crazy by changing their mind with every new price forecast. You probably had good reasons for your commodity program selection decision and because it is a close call, most farmers will not want to change their decision.

What happens to SCO on winter wheat with a sales closing on September 30, 2014, if farmers select ARC-CO?

Winter wheat growers that signed up for Supplemental Crop Insurance Coverage (SCO) on September 30, 2014 last fall will have their SCO coverage cancelled if they sign up for ARC-CO. It is our understanding that FSA will send the cancellation notice to the RMA and RMA will send it on to the Approved Insurance Provider (AIP).

This is not as simple as it sounds, because FSA sign-up is by Farm Serial Number. So only the Farm Serial Numbers signed up in ARC-CO will have their SCO coverage cancelled. Farm Serial Numbers that are signed up in PLC would retain their SCO coverage. RMA insurance units don't necessarily track directly with Farm Serial Numbers, so one could have an RMA insurance unit crossing more than one FSA Farm Serial Number.

Farmers are subject to a cancellation penalty equal to 20% of their SCO premium, if they don't cancel their SCO by the crop insurance acreage reporting date; December 15, 2014 for winter wheat and July 15, 2015 for spring planted crops. So it is too late for winter wheat growers to cancel their SCO without a penalty, if they sign up for ARC-CO or ARC-IC. In most cases the cancellation penalty is less than a dollar an acre, but it is another factor when considering the FSA program selection. Farmers with SCO coverage are likely to remain with the PLC that will have no 2014 wheat payment, unless they are in a county that will collect the maximum ARC-CO payment.

Because there will be no 2014 wheat PLC payment, many wheat farmers who are in counties that will collect the maximum 2014 ARC-CO wheat payment have changed their minds and have decided to take the cash. In their view, it is cash now and who knows what will happen in the next four years. In addition to market price risk, there is also the possibility after the election that those future FSA payments will be subject to sequestration in a future Federal budget deal. There are also many counties that will receive the maximum ARC-CO payment on corn, but it is too early to rule out the possibility of a corn PLC payment. However, corn farmers who select ARC-CO still have time to cancel their SCO without a paying a cancellation penalty.

Art and Robin

Table 1. FAPRI Price Forecast over the Past 3 Months

(Table created by Robin Reid, Extension Assistant, KSU, Manhattan, KS)

Marketing Year Average Prices FAPRI December						
Crop	2014	2015	2016	2017	2018	Units
Corn	\$ 3.500	\$ 3.790	\$ 3.910	\$ 3.920	\$ 3.980	bu
Grain Sorghum	\$ 3.500	\$ 3.520	\$ 3.650	\$ 3.700	\$ 3.800	bu
Soybeans	\$ 10.000	\$ 8.780	\$ 9.150	\$ 9.500	\$ 9.830	bu
Sunflower Seed	\$ 0.203	\$ 0.184	\$ 0.189	\$ 0.198	\$ 0.204	lbs
Wheat_Winter	\$ 6.010	\$ 5.050	\$ 5.150	\$ 5.390	\$ 5.630	bu

Marketing Year Average Prices FAPRI February						
Crop	2014	2015	2016	2017	2018	Units
Corn	\$ 3.610	\$ 3.870	\$ 3.910	\$ 3.960	\$ 4.090	bu
Grain Sorghum	\$ 3.810	\$ 3.640	\$ 3.660	\$ 3.770	\$ 3.890	bu
Soybeans	\$ 10.030	\$ 9.270	\$ 9.560	\$ 9.930	\$ 10.300	bu
Sunflower Seed	\$ 0.203	\$ 0.194	\$ 0.195	\$ 0.205	\$ 0.208	lbs
Wheat_Winter	\$ 6.010	\$ 5.170	\$ 5.260	\$ 5.440	\$ 5.700	bu

Marketing Year Average Prices FAPRI March						
Crop	2014	2015	2016	2017	2018	Units
Corn	\$ 3.690	\$ 3.930	\$ 3.950	\$ 3.990	\$ 4.110	bu
Grain Sorghum	\$ 3.870	\$ 3.680	\$ 3.690	\$ 3.790	\$ 3.910	bu
Soybeans	\$ 10.130	\$ 9.310	\$ 9.660	\$ 10.000	\$ 10.350	bu
Sunflower Seed	\$ 0.202	\$ 0.195	\$ 0.197	\$ 0.207	\$ 0.210	lbs
Wheat_Winter	\$ 6.080	\$ 5.200	\$ 5.260	\$ 5.430	\$ 5.680	bu

The decisions tools can be located at the following menu:

<http://www.agmanager.info/policy/commodity/2012/default.asp>

For the OSU-KSU decision tool select from the menu:

“2014 Government Program and Crop Insurance Decision Tool”

For the KSU payment calculator select from the menu:

2014 Payment Calculator and 2015 PLC/ARC-CO Tradeoff