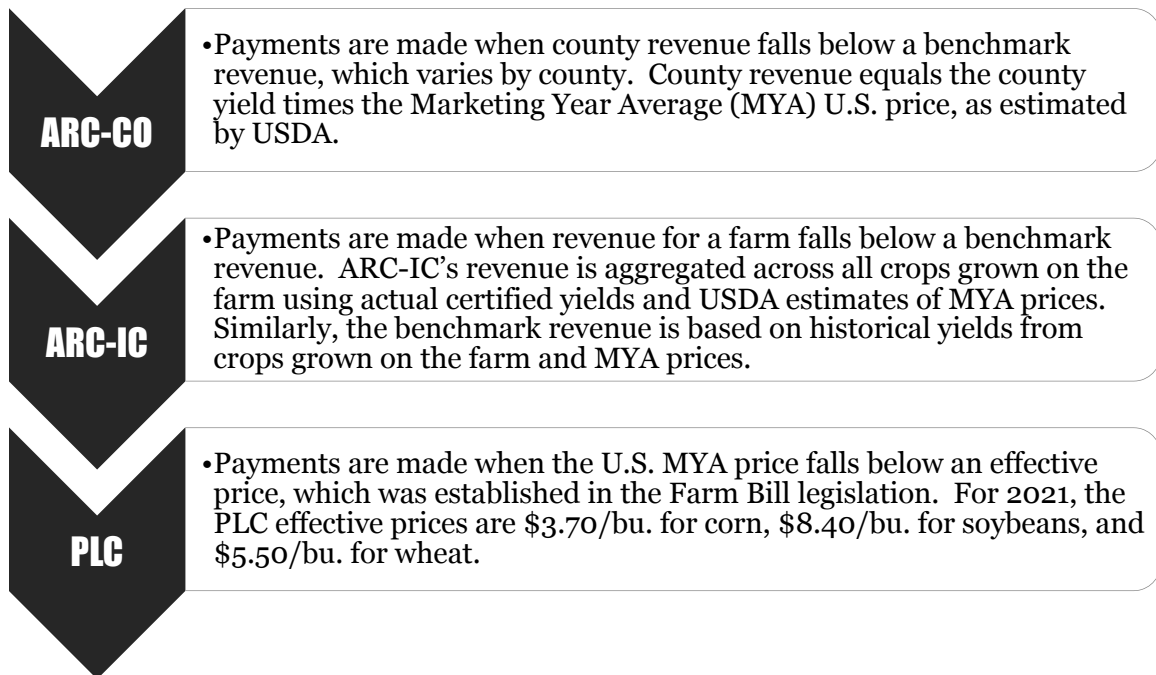


2021 Farm Bill Decisions for Crop Producers

By Michael Langemeier & James Mintert

Crop producers need to make their 2021 farm program choices at their local Farm Service Agency (FSA) office (or online) by March 15, 2021. Producers have the option of choosing the Agriculture Risk Coverage (ARC) or the Price Loss Coverage (PLC) programs. Additionally, within the ARC program there are two programs to choose from: The County Agriculture Risk Coverage (ARC-CO) and the Individual Agriculture Risk Coverage (ARC-IC).



2019 AND 2020 PROGRAM ELECTIONS AND ESTIMATED PAYMENTS

When making their choices for the 2019 and 2020 crop years, most crop producers in the Corn Belt chose the PLC program for corn, the ARC-CO program for soybeans, and the PLC program for wheat. However, some producers with a large proportion of prevented planted acres in 2019 found that choosing ARC-IC was advantageous. Key to this decision was the fact that, when making program choices for 2019 and 2020, producers knew their prevented planted acreage for 2019.

For a west central Indiana case farm, assuming that the PLC program was chosen for corn and the ARC-CO program for soybeans, the payment for corn and soybeans (averaged across both crops) was approximately \$20 per acre in the 2019 crop year. This payment was received in fall 2020. However, given that USDA is currently forecasting a 2020 MYA price of \$4.20 for corn (well above the \$3.70 PLC price) and a 2020 MYA price of \$11.15 for soybeans (which will push ARC-CO revenue above the revenue guarantee even with average yields), payments are expected to be \$0 per acre for the 2020 crop year, which means no payment can be expected in fall 2021.

Most wheat producers chose the PLC program when signing up for 2019 and 2020. For a southwest Indiana case farm, wheat under the PLC program generated a payment of approximately \$45 per acre in 2019. USDA's current 2020 MYA price projection of \$4.85 for wheat suggests a 2020 crop payment is likely and could wind up near \$35/acre for this southwest Indiana case farm, which would be payable in 2021.

MAKING 2021 PROGRAM ELECTIONS

Unlike the previous sign-up, this program election is for the 2021 crop year only.

Producers who chose ARC-IC for 2019 will, in most cases, want to make a different choice for 2021. In the last sign-up period, ARC-IC was attractive primarily for farms that had large, prevented planting acreage in 2019 and those farms could sign-up knowing their prevented planted acreage. That's not the case in 2021. In 2019, large, prevented planting acreage helped offset the fact that the ARC-IC program only pays on 65% of base acres, compared to ARC-CO and PLC, both of which pay based on 85% of base acres. In the winter of 2021, it makes sense to assume a normal planting season. As a result, the choice for most farms will be between the PLC and ARC-CO programs.

Although there is a lot of uncertainty regarding what the 2021 MYA prices will be, the strength in new crop futures prices suggest the 2021 MYA prices will be high enough to preclude 2021 crop year payments for corn and soybeans. Currently (1/20/21), December 2021 corn futures are trading at \$4.49/bu., and November 2021 soybean futures are trading at \$11.72/bu., far above both crops respective PLC prices and high enough, with anything near average yields and basis levels, to prevent ARC-CO revenue from falling below the revenue guarantee making 2021 crop year payments very unlikely.

When making 2021 crop year program choices for corn and soybeans, producers will want to consider which program **might** generate a 2021 crop year payment. For soybeans, the PLC price is so low (\$8.40) that it's very unlikely that the 2021 MYA soybean price will fall below it, which makes the PLC program unattractive leading to the ARC-CO program being the better choice for soybeans. For corn, the \$3.70 PLC price is high enough relative to new crop futures prices to make the PLC program more attractive than the ARC-CO program, since there is a small chance that the MYA price could fall below \$3.70. For the ARC-CO program to be more attractive for corn than the PLC program you would have to expect yields to fall below average in 2021, an unreasonable assumption to make well in advance of planting season. Still, it's unlikely that either program will generate a payment for 2021 crop corn or soybeans, and you should plan accordingly.

Most wheat producers chose PLC for the 2019 and 2020 crop years because the PLC price was higher than the expected MYA wheat prices. The situation is different in 2021. Currently (1/20/21) new crop wheat futures are trading well above \$6/bu. suggesting that the 2021 MYA price has a good chance of being higher than the wheat PLC price of \$5.50. In turn, this implies that a 2021 crop year payment is unlikely, making the choice between PLC and ARC-CO less clear. Still, for most Corn Belt farms with a wheat base, the PLC program is likely to be the best choice since there is still a chance the MYA wheat price will fall below the PLC price of \$5.50.