Adjusting to a New Price Environment: Implications for the Farm and Trade Programs

USDA Agricultural Outlook Forum, Feb. 20, 2015
Speakers: Paul Westcott, ERS
Gary Schnitkey, Univ. of Illinois
Jason Carver, FAS
Moderator: Pat Westhoff, FAPRI-MU
What to expect

- Paul Westcott: USDA baseline outlook
- Gary Schnitkey: Implications for farm programs
- Jason Carver: Global implications
U.S. farm and futures prices for corn

Revenue-based option for farm support

• Agriculture Risk Coverage (ARC)
  • Payment if per-acre revenues fall below trigger
  • For this example, using national yields, but actual program uses county- or farm-level yields
  • Paid on share of base acreage
    • 85% if choose county option
    • 65% if choose farm option (all crops on farm)

Corn revenues per acre

Sources: Agricultural Act of 2014, FAPRI-MU Feb. 2015 update
Net CCC outlays
(billion dollars, fiscal year basis)

Source: FAPRI-MU
stochastic baseline,
March 2014; watch for
our new baseline soon
in early March 2015
Table 5—Proportion of Outcomes Exceeding Proposed Doha Limits

<table>
<thead>
<tr>
<th>Support</th>
<th>Average 2014-23 Mil dollars</th>
<th>Proposed limit Mil dollars</th>
<th>Proportion of outcomes exceeding limit at least once over 2014-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMS</td>
<td>3,063</td>
<td>7,641</td>
<td>34.0</td>
</tr>
<tr>
<td>Blue box</td>
<td>4,842</td>
<td>4,773</td>
<td>98.6</td>
</tr>
<tr>
<td>OTDS</td>
<td>15,080</td>
<td>14,467</td>
<td>99.8</td>
</tr>
</tbody>
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Note: The analysis was done based on the FAPRI-MU March 2014 stochastic baseline. Key assumptions include a Doha Agreement in line with proposals tabled in 2008, and U.S. notifications consistent with previous practice. After the paper was prepared, the U.S. changed the way it notifies WTO of crop insurance subsidies. These changes would not affect estimates of Blue box or OTDS support, but would increase the U.S. AMS, all else equal.
So are these projections any good?

Mean absolute percentage errors, 18 past baselines for CORN prices

<table>
<thead>
<tr>
<th>Projection for</th>
<th>USDA</th>
<th>FAPRI-MU</th>
<th>Futures</th>
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</thead>
<tbody>
<tr>
<td>Next year</td>
<td>12.5%</td>
<td>15.0%</td>
<td>19.0%</td>
</tr>
<tr>
<td>2 years ahead</td>
<td>17.7%</td>
<td>20.4%</td>
<td>25.1%</td>
</tr>
<tr>
<td>3 years ahead</td>
<td>22.9%</td>
<td>22.3%</td>
<td>23.6%</td>
</tr>
<tr>
<td>4 years ahead</td>
<td>26.2%</td>
<td>26.1%</td>
<td>24.2%</td>
</tr>
<tr>
<td>5 years ahead</td>
<td>29.7%</td>
<td>28.9%</td>
<td>26.9%</td>
</tr>
<tr>
<td>Average of above</td>
<td>21.8%</td>
<td>22.5%</td>
<td>23.8%</td>
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