

Is 2012 the Year to Elect the Average Crop Revenue Election (ACRE)?

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Ohio farmers have previously had three opportunities to elect into the Average Crop Revenue Election provision as create by the 2008 Farm Bill. Looking back, the question is was it a good decision for those farmers that elected in previously? There are many ways to answer that question. From a risk management perspective, the answer is yes. The downside revenue protection that was provided was worth the approximate \$4.00 per acre in reduced direct payments. From a cash flow perspective, the answer is mostly no (except under certain circumstances) because the ACRE payments for wheat in 2009 and 2010 were not enough to offset the reduction in direct payments.

Farmers are now into the fourth year and have the final opportunity to elect into ACRE provision. Farmers not currently enrolled in ACRE have until June 1, 2012 to decide if ACRE or DCP might be the better decision for this crop year. However, once a farm has elected ACRE it cannot be switched back to DCP. There is also a little chatter that the current Farm Bill may be extended one more year. If it is, there is no speculation on how that might affect ACRE/DCP elections in 2013.

Examining the numbers and price/yield assumptions, farmers can speculate on the probability of an ACRE payment being triggered in 2012 and if ACRE might be a good choice for them. The guarantee price for 2012 will be the two year average U.S. cash price from the marketing years for the 2010 and 2011 crops. Using the 2010 actual prices plus the USDA estimated price (from January 31, 2012) for the 2011 crops, the 2012 ACRE price guarantee can be calculated as shown in the following table. As prices continue to change during the marketing year the 2012 ACRE price guarantee will also change. In the last column of the table below, the 2012 ACRE price guarantee is listed.

Commodity Unit	Marketing Year	2010 Average Price	2011 Average Price <i>estimated</i>	Guarantee Price 2012 <i>estimated</i>
Corn	Sep 1 – Aug 31	\$5.18	\$6.20	\$5.69
Soybeans	Sep 1 – Aug 31	\$11.30	\$11.70	\$11.50
All Wheat	Jun 1 – May 31	\$5.70	\$7.20	\$6.45

Since ACRE is a revenue protection program, price is only half of the equation in determining the 2012 ACRE revenue guarantee. The second half of the equation is the five year Olympic average yield for each crop respectively. In the table below, the new five year Olympic average for 2012 is calculated for each crop. Even though the final numbers for the 2011 crop might vary slightly from the estimates, it will not affect the outcome significantly.

	2007	2008	2009	2010	2011	Olympic Average
Corn	150	135	174	163	158	157
Soybeans	47	36	49	48	48	48
Wheat	58	68	72	61	61	63

The estimated 2012 Ohio ACRE revenue guarantee is calculated by multiplying the Ohio Olympic average yield times the U.S. average cash price times the 90% coverage level provided by ACRE. There was also a provision in the 2008 Farm Bill that established a limit on how much the revenue guarantee could change once the program started. This 10% cup and cap based off of the 2011 revenue guarantee sets a floor and ceiling for the 2012 revenue guarantee. The 10% cup and cap come into effect for all three major crops in Ohio if these forecasted numbers hold for the 2011 crop year. The Ohio ACRE revenue guarantee would be \$627 for corn, \$493 for soybeans and \$358 for wheat, which is significantly lower for corn and slightly lower for soybeans and wheat than the calculated values.

	Ohio Olympic Average Planted Yield 2007-11	US Average Cash Price 2010-11	Coverage Level	Ohio ACRE Revenue Guarantee 2012	10% Cup/Cap 2011 Revenue Guarantee and 2011 Guarantee
Corn	157 bu/acre	\$5.69	90%	\$627 \$804 /acre	\$627 - \$513 \$570
Beans	48 bu/acre	\$11.50	90%	\$493 \$497 /acre	\$493 - \$403 \$448
Wheat	63 bu/acre	\$6.45	90%	\$358 \$366 /acre	\$358 - \$292 \$325

The following table provides some insight into whether or not enrolling in ACRE in 2012 would be a financially advantageous decision. If the Ohio crop yields in 2012 are equal to the 5 year Olympic average, the 2012 average U.S. market price (from 9/1/2012 through 8/31/2013) would need to be below \$3.99 for corn before an ACRE payment would be made. However, if crop yields are better, the price would need to be lower before a payment is made and the opposite is true if yields are lower. Under this example if the Ohio average yield and U.S. average market price would trigger a payment, individual farm revenue would also need to be below the farm's 2011 revenue guarantee before any payment would be received.

	U.S. average cash price to equal revenue guarantee; 10% decreased yields		U.S. average cash price to equal revenue guarantee; average yields		U.S. average cash price to equal revenue guarantee; 10% increased yields	
Corn	141 bu	\$4.45	157 bu	\$3.99	173 bu	\$3.62
Soybeans	43 bu	\$11.47	48 bu	\$10.27	53 bu	\$9.30
Wheat	57 bu	\$6.28	63 bu	\$5.68	69 bu	\$5.19

In examining the current future market prices on February 15, 2012, prices were \$5.82 corn, \$12.65 soybeans, and \$6.45 wheat. These prices, relative to the U.S. average cash price needed to trigger an ACRE payment, do not appear to be low enough to trigger an ACRE payment for the 2012 crop. However, with that said the markets are fickle and can move quickly and unexpectedly at times. The ACRE payment is based on the average U.S. market price from harvest 2012 until harvest 2013, not what a farmer receives for his crop. Although the markets look good today, you have no downside risk protection if they decide to decrease significantly. The approximate \$4.00 per acre cost to enroll might still be a good risk reduction strategy for some operations. Remember, even if you decide to sign up for ACRE, it is not a substitute for crop insurance since it depends on low state revenue to trigger. ACRE will not cover localized crop failures in the same fashion that crop insurance does.