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Commodity Program and Crop Insurance Payments Down as a Percent of Crop Revenue

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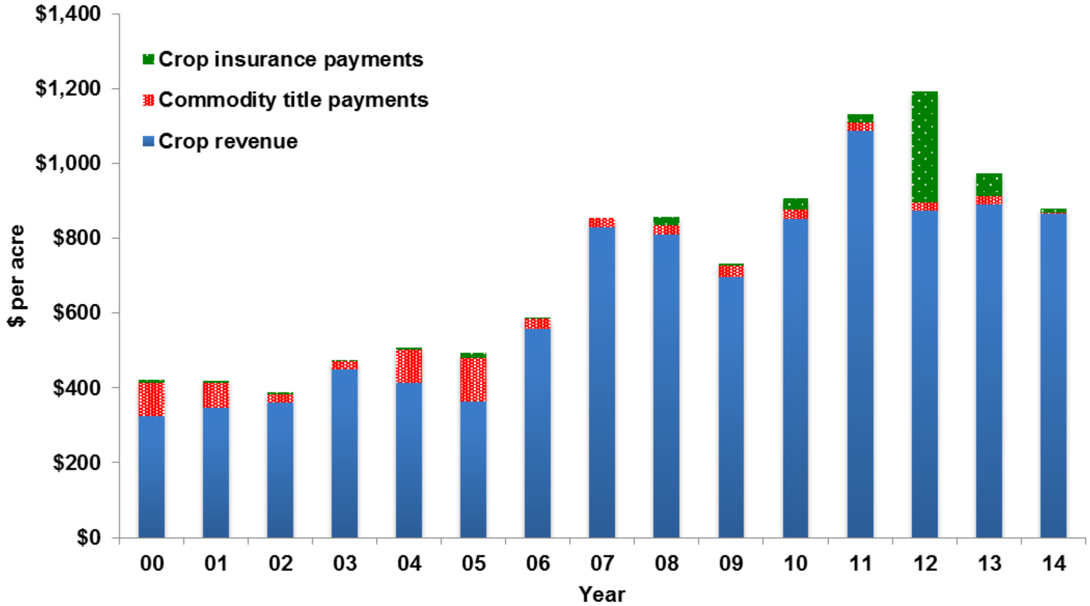
Commodity program and crop insurance payments are a lower percentage of crop revenue since 2006 as compared to 2000 through 2005. This lower percentage holds two implications. First, crop revenue has become more important as a revenue source. The second relates to a popular benchmark of appropriate cash rents. This measure is "cash rent as a percent of crop revenue" and likely needs to be adjusted downward.

Commodity program and crop insurance payments

Bars in Figure 1 show gross revenue for corn grown in central Illinois on high-productivity farmland. These revenues are averaged over many grain farmers enrolled in Farm Business Farm Management and include three sources or revenue:

- Crop revenue is the blue portion of the bar and equals yield times price.
- Commodity program payments are the red portion of the bar. Commodity title programs have varied over time. Historically, commodity program payments include direct payments, Agricultural Market Transition Assistance (AMTA) payments, Market Loss Assistance payments, loan deficiency payments, marketing loan gains, and Average Crop Revenue Election (ACRE) payments. Under the 2014 Farm Bill, commodity program payments either are Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) payments.
- Crop insurance payments are the green portion of the bar.

Figure 1. Commponents of Gross Revenue on Corn Grown in Central Illinois on High-Productivity Farmland



Crop revenues are higher after 2006 as compared to pre-2006. Between 2000 and 2005, crop revenue averaged $376 per acre, compared to $829 per acre from 2006 to 2014. Higher revenues since 2006 occur because commodity prices increased due to more use of corn in producing ethanol.

Over the pre and post-2006 period, commodity program payments have decreased. Between 2000 and 2005, commodity payments averaged $68 per acre, compared to $7 per acre after 2006. On the other hand, crop insurance proceeds increased. From 2000 to 2005, crop insurance payments averaged $7 per acre, compared to $50 per acre since 2006. Much of the higher crop insurance payments since 2006 is attributable to large payments occurring in 2012. The sum of commodity program payments and crop insurance proceeds have been relatively stable before and after 2006. From 2000 to 2005, commodity program payments plus crop insurance averaged $75 per acre, compared to $73 per acre post-2006.

Because crop revenue payments increased, the relative size of commodity payments and crop insurance proceeds has decreased since 2006. Between 2000 and 2005, commodity program and crop insurance payments averaged 21% of crop revenue, compared to 9% since 2006.

Figure 1 gives revenues for central Illinois high-productivity farmland. Similar percentage reduction occurred over most Illinois regions across both corn and soybeans (see Table 1). Between 2006 and 2014, commodity program and crop insurance payments averaged 5% to 9% of crop revenue in all regions except for corn in southern Illinois. Commodity program and crop insurance proceeds averaged 22% of crop revenue for corn in southern Illinois. The higher percentage for corn in southern Illinois is due to large crop insurance payments in 2012. In 2012, corn yields in southern Illinois were exceptionally low.

Table 1. Commodity Title Payments Plus Crop Insurance as a Percent of Crop Revenue

		Government Payments as Percent of Crop Revenue[1]	
Region	Crop	2000-2005	2006 - 2014
Northern	Corn	23%	8%
Central-High	Corn	21%	9%
Central - Low	Corn	22%	9%
Southern	Corn	19%	22%
Northern	Soybeans	26%	5%
Central-High	Soybeans	23%	5%
Central - Low	Soybeans	24%	6%
Southern	Soybeans	20%	7%

[1] Includes commodity program and crop insurance payments.

Projection suggest that commodity program payments will be a low proportion of crop revenue in 2015 and 2016. Even with large ARC payments in 2015, commodity program payments likely will be well below 10% of crop revenue.

Implications

These percentage reduction in commodity program and crop insurance payments hold two implications for farmers and land owners. First, crop revenue has become an increasing proportion of total revenue. The risk-mitigating impacts of government programs are important, as is illustrated by crop insurance payments in 2012. Still, a higher proportion of revenue is coming from crop revenue, increasing the importance of changes in revenue from year to year.

Second, an often used gauge of an appropriate cash rent is cash rent as a percent of crop revenue. A benchmark of cash rent between 30% and 35% of crop revenue often is suggested. Lower percentages of revenue from other revenue will decrease if non-land costs have not decreased as a percentage of crop revenue. Non-land costs have not decreased, suggesting that cash rent as a percent of gross revenue needs to decrease as a percentage of crop revenue. More on this point will be discussed in next Tuesday's *farmdoc daily* article.