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Weekly Farm Economics: Market Facilitation Program: Impacts and Initial Analysis

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USDA released details on aid it will provide to farmers in response to trade disputes, resulting in tariffs instituted by the U.S. and retaliatory tariffs from trading partners, especially China. This article focuses on the Market Facilitation Program (MFP) which will have the largest impact on incomes of Midwest grain farms. The MFP provides cash payments to farmers for a subset of commodity crops, including corn and soybeans that are commonly grown in the Midwest. Payments are to be made using a specific rate per bushel on 2018 actual production. In Illinois, average payments are estimated at $53 per acre for soybeans, $1 per acre for corn, and $5 per acre for wheat. MFP payments will significantly increase 2018 net farm incomes. Payment rates for corn are low relative to those for other crops.

A Response to the Trade Dispute

USDA provided more details on the entire package of assistance to farmers in an August 27, 2018 press release. The package includes three components:

1. Market Facilitation Program will provide direct payments to farmers. Federal spending is estimated at $4.6 billion.

2. Food Purchases and Distribution Program will purchase commodities impacted by tariffs. Federal spending is estimated at $1.3 billion.

3. Agricultural Trade Promotion program will provide cost-share assistance to aid organizations in promoting trade. Estimated spending is $200 million.

The MFP is the largest estimated amount of Federal spending of the three components and likely will have the largest impact on Midwest grain farms. Therefore, the remainder of this article focuses on the MFP.

Market Facilitation Program Details

The Farm Service Agency (FSA) will administer the MFP using authorities of the Commodity Credit Corporation (CCC). Payments will be issued to growers of five crops (corn, cotton, soybeans, sorghum, and wheat), as well as to dairy and pork producers. Payment rates for these commodities as listed in the August 27th press release will be made on 50% of reported production for the 2018 crop and thus the effective payment rates are half the reported rate when applied to total farm production (See Table 1). Soybeans, for example, have a reported payment rate of $1.65 per bushel but farmers with soybean production can estimate their payments by multiplying $0.825 by their total 2018 yield and acres. For example, a farmer with 60 bushels per acre of soybean production in 2018 would expect to receive an initial MFP payment of $49.50 per acre (60 bushels per acre x $.825 per bushel). The press release indicated that there is a possibility, but not the guarantee, of receiving a later MFP payment on the remaining bushels. Few details on the potential second payment were released except that signup would begin in December 2018. In addition, payments for hogs will be based on the number of live hogs on August 1, 2018. Payments to dairy producers will be based on historical production reported to the Margin Protection Program for Dairy.

Table 1. Payment Rates Announced by USDA for Market Facilitation Program

Commodity	Payment Rate	Effective Payment Rate[1]
Corn	$.01 per bushel	$.005 per bushel
Cotton	$.06 per pound	$.03 per pound
Dairy (milk)	$.12 per cwt.	$.06 per cwt.
Pork (head)	$8 per head	$4 per head
Sorghum	$.86 per bushel	$.43 per bushel
Soybeans	$1.65 per bushel	$.825 per bushel
Wheat	$.14 per bushel	$.07 per bushel

[1] Equals 50% of payment rate.

Source: USDA Press Release "USDA Announce Details of Assistance for Farmers Impacted by Unjustified Retaliation". August 27, 2018.

Farmers will have to complete an application, which will be available at www.farmers.gov/MFP, and any related forms required by FSA for the assistance. USDA suggests that farmers have "verifiable and relative production record by crop, type, practice, intended use, and acres if not already on file" and more information is available on the USDA website . Farmers can begin to apply for payments on September 4, 2018. The application period will end on January 15, 2019. To be eligible for MFP payments, a producer must be a) in conservation compliance and b) have an adjusted gross income that averages less than $900,000 for the tax years from 2014 to 2016. The following payment limitations apply to MFP payments:

- $125,000 per person or legal entity for eligible crop commodities
- $125,000 per person or legal entity for dairy and hog production.

Payment limits are separate from payment limits on other Farm Bill programs (e.g., an ARC, PLC, and loan payments do not count against the MFP limit). The same rules likely exist for determining person eligibility under MFP as do under other farm bill programs.

Impacts on Illinois Grain Farms

Because payments are production-based, farmers with higher yields will have higher MFP payments. Estimates of average Illinois payments are based on current estimates of average yields in Illinois: 64 bushels per acre for soybeans, 207 bushels per acre for corn, and 66 bushels per acre for wheat (National Agricultural Statistical Service, Crop Production, August 2018). These average yields result in initial MFP payments of $53 per acre for soybeans, $1 per acre for corn, and $5 for wheat (see Table 2).

Table 2. Estimates of Per Acre Market Facilitation Program (MFP) Payments in Illinois.

Crop	Effective MFP Payment Rate [1]	Yield per Acre [2]	Estimated MFP Payment [3]
	$/bu.	Bu/acre	$/acre
Corn	$0.005	207	$1
Soybeans	$0.825	64	$53
Wheat	$0.070	66	$5

[1] See Table 1.

[2] USDA estimate of 2018 yield per acre in Illinois (NASS, Crop Production, August 2018).

[3] Effective MFP payment rate x yield per acre.

A farm with a 50% corn and 50% soybean rotation would have an average payment of $27 per acre ($53 per acre for soybeans x .50 +$1 per acre for corn x .50). A 1,200 acre farm, a fairly typical sized commercial farm in Illinois, would receive $32,400 in MFP payments given that all acres are owned or cash rented. For the $27 average per acre payment, the $125,000 payment limit would be reached at 4,644 acres.

Questions Concerning the Market Facilitation Program

USDA's decision to issue these payments outside payments authorized by Congress in the farm bill raises questions. Among the first is how payment rates on crops were determined. In particular the corn payment rate is low relative to payment rates on other crops.

The payment rates do not appear to align with existing estimates for the decline in crop prices since May. For example, the World Agricultural Supply and Demand Estimate (WASDE) Board estimated 2018-19 market year average prices. Changes from the May report to the August report will provide an estimate of trade impacts using USDA procedures as the May to August coincides the escalating trade conflicts. From the May to August reports, changes in midpoint prices were (see Figure 2 of *farmdoc daily*, August 16, 2018):

- 11% ($1.10/bu) decrease for soybeans
- 6% ($0.20/bu) decrease for sorghum,
- 5% ($0.20/bu) decrease for corn,
- 2% ($0.10/bu) increase for wheat, and
- 15% ($0.10/lb) increase for cotton.

Wheat and cotton have experienced increased prices but are included with relatively large payment rates. Sorghum will receive a payment rate that is more than four times as large as the estimated price decline from May to August. By comparison, corn has experienced a price decline similar to sorghum (both in $/bu and % terms) but will receive a payment rate that results in an average payment of less than $1 per acre.

Other metrics could be used to judge price declines. A simple comparison of price declines for soybeans and corn suggest a high degree of correlation of price declines over the May through July period, with corn and soybeans having roughly similar magnitudes of price declines (see *farmdoc daily*, July 31, 2018).

In the future, USDA may provide more details on the rationale used to arrive at the payment rates for the alternative crops. In addition, questions related to the timing and rationale for a second payment will be addressed. Moreover, issues related to drought areas may arise, as those areas will receive little aid through MFP due to drought-stricken yields.

Summary

The first details of USDA's trade assistance package to farmers have been released. The MFP will provide payments to grain farmers that will increase 2018 incomes. A number of questions are raised by the MFP program, however, including the relative payment rates across crops.

References

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