1968 Feed Grain Program for the Virginia Grower

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1968 Feed Grain Program

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The 1968 feed grain program has been beefed up in an effort to strengthen grain prices. It has the extra diversion for payment feature that was not in the 1967 program. The U.S.D.A. has set a target to divert at least 30 million feed grain acres in 1968. This will be about 10 million more than were diverted in 1967. Virginia growers must decide whether or not to participate in the feed grain program by the final sign-up date of March 15, 1968.

Basic Facts About the Program

SIGN UP -- The sign-up period for the 1968 feed grain program is from February 5 to March 15, 1968. The producer declaration of intention form must be signed at the county A.S.C.S. office by those growers who wish to participate in the program.

VOLUNTARY -- Each producer decides whether or not to participate in the 1968 program.

BASE ACREAGE -- The base is the combined 1959-60 average acreage of corn and grain sorghum. Eligible acreage (after diversion) may be planted to any one or any combination of these crops. However, diversion payments will be based on the kinds of feed grain crops actually taken out.

PROJECTED YIELD -- Payments will be computed on the basis of projected yields. These yields more nearly reflect the potential production of the farm.

DIVERSION PAYMENT -- A grower must divert 20% of his base acreage to an approved conservation use in order to be eligible for any program benefits. Diversion payments will not be made on the first 20% with the exception of those small farmers who have bases of 25 acres or less. Diversion payment is available to farmers with up to 50% of their base acres. Thus, large growers may receive diversion payments. Small farms with bases of 25 acres or less may divert total base acres for diversion payments.

SUBSTITUTIONAL PROVISION -- Virginia farmers who grow both wheat and feed grains may substitute wheat for feed grains, or vice versa, if the grower has signed up for both programs. A grower who plants feed grain or wheat allotment acreage may put his production under loan, but he will not be eligible for feed grain compensatory payments on this acreage. If wheat is substituted for feed grains, he will not be eligible for marketing certificates for wheat grown in lieu of feed grains.

UNDER THE WHEAT PROGRAM -- The Virginia grower is paid at the rate of about $2.60 per bushel for 40% of his wheat base, including the value of the market wheat. For the other 60% the grower will receive market price. Growers may plant other crops, but must be within the total conserving base acres.

NONCOMPLIANCE -- Failure to comply with the sign-up agreement will mean a deduction from payments earned amounting to one and one-half the county price-support loan rate times yields times excess acres.

ADVANCED PAYMENTS -- A grower may receive up to 50% of the diversion payment at sign-up time. The final payment is made after performance is determined. An acreage measurement service is available to the grower at a nominal cost.

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PRICE SUPPORT PAYMENT -- The total payment for corn, and grain sorghum is in two parts: the loan rate, and price-support payment. The price-support payment is the same as 1967, Table 1. Participating farmers will receive price-support payments for acres planted up to 50% of the total feed grain base. This payment is in addition to the diversion payments and is made whether the grain is fed on the farm, sold or not harvested. This payment provides some protection from the risks of drought, hail, and insects, etc. However, the farmer is required to plant at least 45% of the base acres in order to receive full support payment.

Table 1. FEED GRAIN LOAN RATES, SUPPORT PAYMENTS FOR 1968 AND VIRGINIA PRICES

Commodity	U.S. Loan Rate	Virginia Loan Rate (per bu.)	U.S. & Va. Support Payment	Total for Virginia	Virginia 3 Year Avg. Prices
Corn	$1.05	$1.24	$ .30	$1.54	$1.34
Grain Sorghum	$ .90	$ .95	$ .297	$1.25	$1.18

LOAN RATES -- Participating farmers are eligible to place their entire production of the corn or grain sorghum under price-support loans. Approved storage facilities are required before loans may be obtained. During the last 4 years only a very small amount of corn has been put under CCC loan in Virginia. Figure 1 gives the Virginia loan rate through 1968 and corn price for 1960-67. The rectangles indicate that part of the total price which is provided by the price support payment.

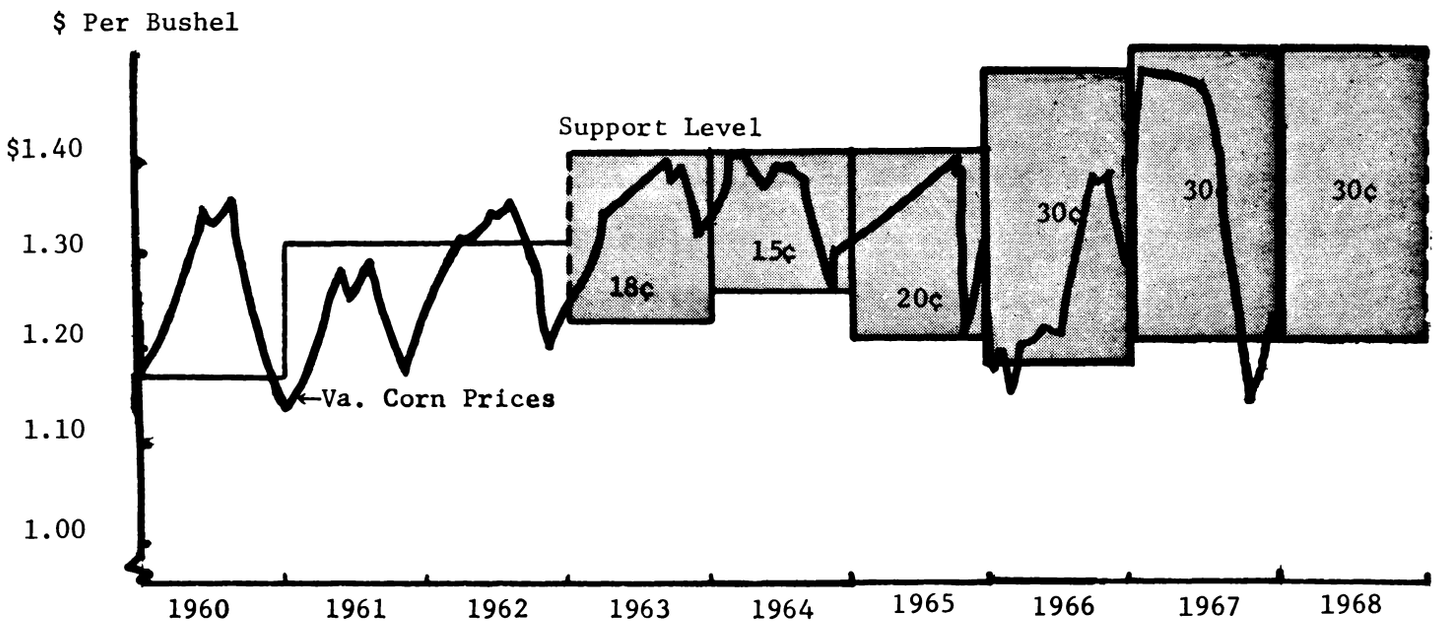

Figure 1. VIRGINIA CORN PRICES AND SUPPORT LEVELS 1960 - 68

Exports of Feed Grains

Dollar sales of feed grains totaled $945 million for the year ending June 30, 1967. The commercial sales of feed grains ranked second in dollar earnings of agricultural exports. U.S. agricultural exports totaled $6.7 billion for the last fiscal year, with $5.2 billion being sold for dollars, Figure 2. A majority of our agricultural exports go to Western Europe, Japan and Canada.

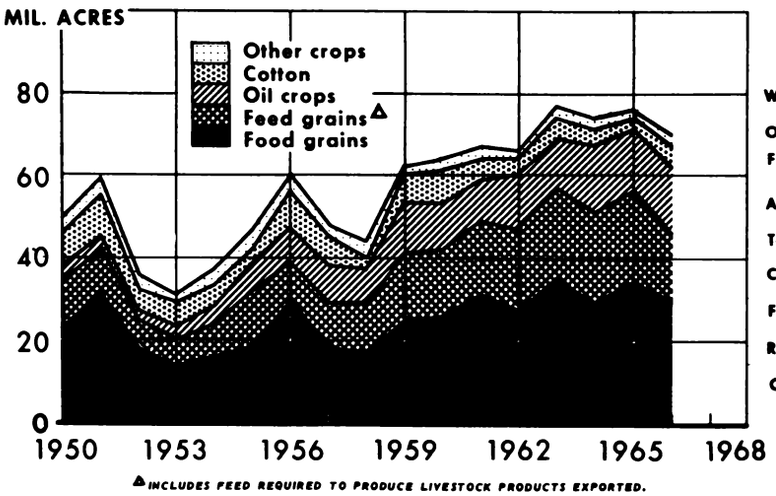

Fig. 2. - ACRES OF CROPS HARVESTED FOR U.S. EXPORTS 1950-67

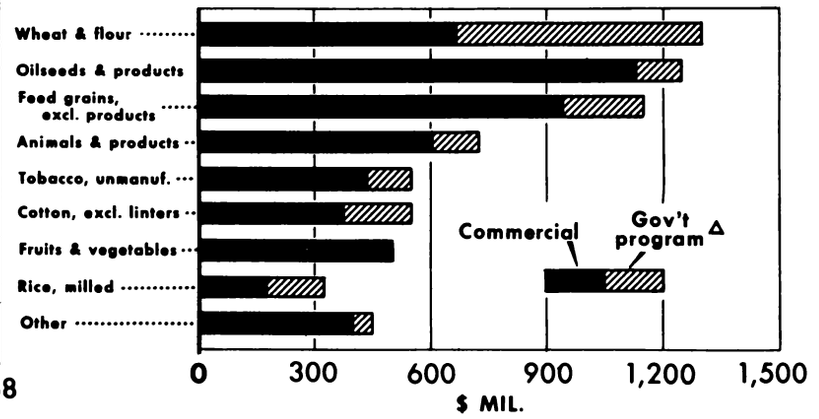

Fig. 3. - 1967 U.S. AGRICULTURAL EXPORTS BY COMMODITY GROUPS

Exports of feed grains to the European Common Market countries increased from an average of 228 million tons for (1959-62) to 538 million tons in 1966. However, the volume of exports dropped to 369 million tons in 1967. The recent actions to restrict dollar investments in most European countries could affect our agricultural exports, if efforts are made to develop trade barriers. Since U.S. farmers are very dependent on exports it is important that they consider the present "protectionist" trend very carefully. The equivalent of 16 million acres of feed grain production was exported in 1967, Figure 3. This included 475 million bushels of corn or about 18 times the average corn crop in Virginia for the period 1961-65. It is difficult to over rate the importance of the export trade to U.S. farmers. Every effort should be made to maintain the maximum trade in agricultural products. A large export market provides the opportunity to produce large crops without drastic decline in prices or severe adjustments in some agricultural programs.

Feed Grain Carryover

Carryover of feed grain declined to 35 million tons by October 1, 1967, and was about 40% of the carryover of 1961. About 2/3 of the 1967 tonnage was held by the trade, a much larger share than in any recent year, Figure 4. Stocks of grain sorghum were 225 million bushels by 1967, down from the 1961 level of 702 million bushels. Both barley and oats carryover was down in 1961.

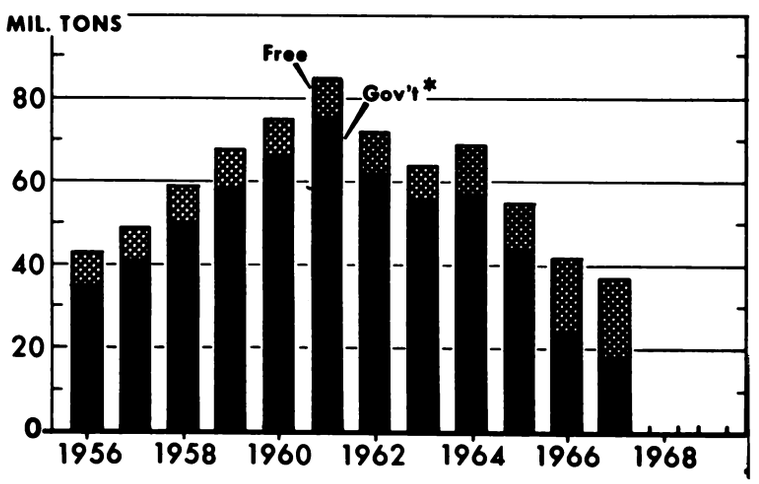

Fig. 4. - U.S. FEED GRAIN CARRYOVER

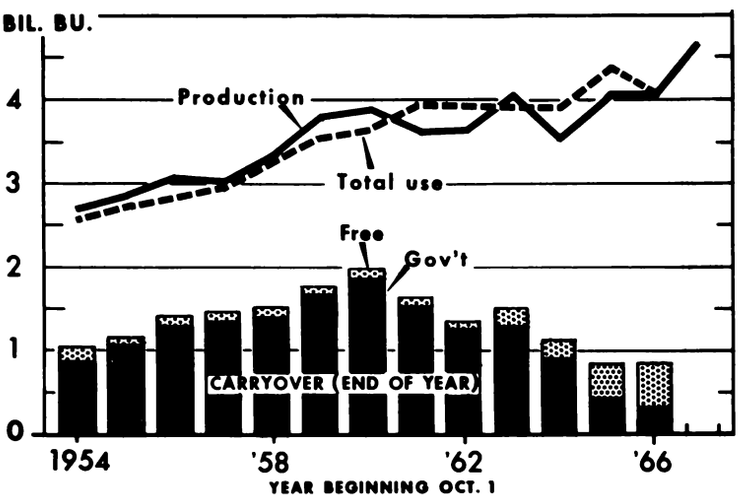

Fig. 5. - U.S. CORN PRODUCTION, USE AND CARRYOVER 1954-66

Corn carryover in 1967 was 850 million bushels compared to the 2.0 billion bushel carryover of 1961. The 1967 carryover was slightly above the 1966 level. This reflected the decline in use that started in 1965, Figure 5. Corn production and consumption had expanded over a long period before the recent drop in consumption. The decline reflects response to lower livestock prices, as well as decline in commercial exports and Food for Peace shipments.

Feed Grain Program Cost-Corn

Corn production in the U.S. has increased an average of about 100 million bushels annually since 1961. If production in 1968 is closer to the trend than the 1967 crop, the 1968 crop will again be near 4.6 billion bushels. Farm value of corn production moved nationally from $3.9 billion in 1961 to $5.3 billion in 1966, Table 2. The cost of the feed grain program for corn has increased at a faster rate than farm value. By 1966 government payments equalled about 20 percent of farm value. In 1965, diversion payment costs per acre of corn diverted were $31.71 nationally. Additional payments were made for price support, and the total payment nationally was about $39 per acre.

Estimates based on the 1963-64 year indicate that the Feed Grain Program cost was about equal to the value of the production reduced. It is evident that the program is expensive in relation to its accomplishments.

TABLE 2. FEED GRAIN PROGRAM -- CORN: NATIONAL PRODUCTION, AVERAGE PRICE TO FARMERS, CROP VALUE, GOVERNMENT PAYMENTS, 1961-1968

Crop Year	Production	Average Price To Farmers	Farm Value[1]	Government Payments Feed Grain -- Corn
	(Mil. Bu.)	(Per Bu.)	(Millions)	(Millions)
1961	3,598	$1.10	$3,939.0	$ 645.4
1962	3,606	1.12	4,025.3	684.0
1963	4,019	1.11	4,454.0	679.8
1964	3,484	1.17	4,064.2	926.2
1965	4,084	1.16	4,731.9	1,094.1
1966	4,103	1.29	5,285.3	1,028.0
1967	4,651	--	--	--

[1]Farm value based on production of corn for grain only

Considerations for the Virginia Grower

Corn production in Virginia in 1967 was 35 million bushels, up 81% from 1966, when output was cut by a severe drought. Over 480,000 acres were harvested for grain in 1967, for a high average yield of 73 bushels per acre.

Many of the 35,000 Virginia farmers that harvest less than 25 acres of corn for grain may find they are able to divert their total feed grain base. Any renters on these farms or on the 8,000 farms that harvest more than 25 acres of corn for grain may benefit more than landlords from the program if payments are made in the same way as crops are divided.

Budgeting through his own situation will help each grower to decide to participate or not participate in the program. Of course, things other than the dollars and cents must be considered in making this decision, and alternatives for both the government program and one's own resources must be considered.

Factors Affecting Decisions

1. Size of the feed grain base to your acres of conserving base. A large feed grain base and/or a small conserving base would make the program more attractive.

2. When expected yields are less than provided yields, participation is more attractive. When expected yields substantially exceed yields, participation is less attractive. If the program is effective the prospects are good for somewhat higher corn prices for 1968.

3. Retired and part-time farmers may find the program a profitable way to reduce farm operations and increase their incomes.

4. Farmers who have high production costs will find the program more attractive than growers who have low per acre production costs.

5. Full-time farmers who have a serious labor shortage or farmers who lack sufficient grain storage should carefully consider the program.

Budget Guides

The feed grain budget form is designed to help a farmer think through alternative situations. Any budget is a tool and has some limitations. Adjustments must be made on each individual farm for differences in production costs, projected prices, expected yields vs. "normal" yields, storage space, and size of allotments. The net returns in Table 2 do not include costs for land and labor, nor a management charge. Generally, these costs will continue whether corn is grown or not. If possible, use your own figures when working through the alternatives. Government diversion payments may be calculated from your ASCS notice received in the mail plus the payment rate available at your county ASCS office (see table, page 7).

REMEMBER --the program choice involves not only a dollar and cents budget analysis but also other considerations.

TABLE 2. ESTIMATED PER ACRE COSTS AND RETURNS OF CORN FOR VIRGINIA COMMERCIAL FARMS

Yields in bu.	Gross Recpts1/	Estimate Per Acre Costs of Production					Total Cost6/	Net Returns6/
		Fert2/	Seed3/	Mach4/	Harvest4/	Storage5/		
40	52.80	8.25	3.25	11.20	3.75	8.00	34.45	18.35
50	66.00	11.00	3.25	11.20	4.00	10.00	39.45	26.55
60	79.20	13.75	3.25	11.20	4.00	12.00	44.20	35.00
70	92.40	16.50	3.25	11.20	4.25	14.00	49.20	43.20
80	105.60	20.60	3.25	11.20	4.25	16.00	55.30	50.30
90	118.80	23.75	3.50	11.20	4.50	18.00	60.95	57.85
100	132.00	25.00	3.50	11.20	4.50	20.00	64.20	67.80
110	145.20	26.25	3.50	11.20	5.00	22.00	67.95	77.25
120	158.40	28.75	3.50	11.20	5.00	24.00	72.45	85.95
Your Farm___	_____	_____	____	_____	____	_____	_____	_____

1/ Based on $1.32 per bushel which was average Va. price of the last four years.

2/ Amount of fertilizer applied per acre increased as yield increases. Cost is figured on $55 per ton for 10-10-10, with added nitrogen above 80 bu. at 12½¢.

3/ Seed and spray costs (2,4-D at $1 per acre). Pre-emergence spray will cost extra.

4/ Machinery cost based on $1.60 per hr. for 7 hours. Both machinery and harvesting costs exclude labor. These costs vary widely between farms(adjust for custom work).

5/ Breakdown of storage costs: crib cost, 6-9¢; taxes and insurance, 2.5¢; interest, 5¢ (at ½% for 10 months); losses, 4.5¢. If corn must be sold at harvest, shrinkage and drying cost must be included (Other storage costs would not apply).

6/ Net return to land, labor and management (Total cost not including land,labor & mgt).

Value of Corn Crop

	Participation in Program	Normal Operation
1. BASE ACREAGE	_____	_____
2. ACRES PLANTED (OR ALLOTTED ACRES)	_____	_____
3. YIELD PER ACRE	_____ (normal)	_____ (expected)
4. TOTAL PRODUCTION (2 times 3)	_____	_____
5. PRICE (SEE TABLE 1)	_____	_____
6. TOTAL VALUE OF CROP (4 times 5)	_____	_____

Government Diversion Payments

CROP AND ALLOT. OR BASE (Acres)	YIELD (Bu.)	PAYMENT RATES 2/ (Dollars)	ADVANCE PAYMENT ACRES	ADVANCE PAYMENT DOLLARS
	5	6	7	8	9
A. Corn		PS	XXX	XXXX
		DIV		
B. Grain Sorgh.		PS	XXX	XXXX
		DIV		
C. Total Feed Grain	INTENDED DIVERSION ACRES TOTAL		PERMITTED	TOTAL
				ADVANCE

PS - Price Support
DIV - Diversion

Total Income	_____ (Sum of 6 and 7)	_____

Production Costs

8. _____ ACRES GROWN X _____ COSTS/ACRE (current operation)	_____	_____
9. _____ ACRES GROWN X _____ COSTS/ACRE (diversion program)	_____	XXX
COST OF ESTABLISHING COVER UNDER DIVERSION		
10. _____ X _____	_____	XXX
Total Production Costs	$_____ (Sum of 8, 9 and 10)	_____

Other Considerations

a. LABOR SAVED	_____	_____
b. LESS RISK	_____	_____
c. FEED FOR LIVESTOCK	_____	_____
d. OTHER, IF ANY	_____	_____

Summary

TOTAL INCOME	$_____	$_____
TOTAL COSTS	$_____	$_____
OTHER CONSIDERATIONS (PLUS OR MINUS)	$_____	$_____

Your Best Alternative

_____	_____

Choosing a Market for Grain

Harvest prices of corn in Virginia reached very low levels in 1967. The 35 million bushel output in 1967 was 9 million bushels over the 1961-65 average of 27 million bushels annually. The result was a marketing problem at harvest.

Waiting until harvest time to market corn is using only one of several marketing alternatives. It is possible to sell a crop without making delivery at the time of sale. This can be done by contracting with a local buyer or using the futures market.

Contracting in Advance. You may be able to contract with a local buyer to purchase your crop. The price is an agreed-on price. It may, at the time of delivery, turn out to be higher or lower than the market price on the day you deliver your crop, but the price you get will be determined by the contract. By contracting in advance you can reduce the price risk that you accept when you depend solely on the cash market price on the day of sale.

Sell at Harvest. If you deliver your corn crop to a buyer right after harvest and take the price offered on that day you accept the market price. You also accept all of the influences on that price without taking advantage of other marketing alternatives.

Hold for Later Sale. Storing corn involves costs and risk. Yet storing may be a better alternative than selling at harvest and particularly so when prices are disastrously low. Producers who plan to have cash corn only will need to carefully estimate the returns to storage. Those producers that decide that storage should be profitable may want to remove the speculation that takes place when corn is stored by using the futures market.

Futures Market. The futures market permits grain owners to minimize the risk caused by price fluctuations. Prices are determined by buyers and sellers of futures contracts. A contract to buy or sell for future delivery can be cancelled by executing an opposing contract. Actual deliveries are rarely made on a futures contract. The futures contract is a means of transferring risks. Futures contracts can be used to

a) Sell your crop in advance (even in advance of planting if desired),

b) Earn a payment for storage,

c) Set the price of feed, or

d) Speculate without storing.

If you wish to bring more stability into the prices you get for corn, you may find the futures contract a useful management tool. The cost of a futures contract is relatively small. You will want to study the price relationship that exists between your local market and the futures market before you buy or sell a futures contract.

To obtain further specific information for you farm, visit your local ASCS office.

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