March 2016 – Crop Market Update
Public Policy Department
Budget & Economic Analysis Team

Crop Insurance Prices for 2016

The last day of February marked the end of the crop insurance price discovery period for areas with a sales closing date of March 15. This is important from the market's perspective because these areas basically encompass the key growing region of the Corn Belt (and then some).

Not surprisingly, this year's projected prices used to establish guarantees on crop insurance products are pretty disappointing. The projected corn price came in at $3.86 per bushel, and the projected soybean price came in at $8.85.

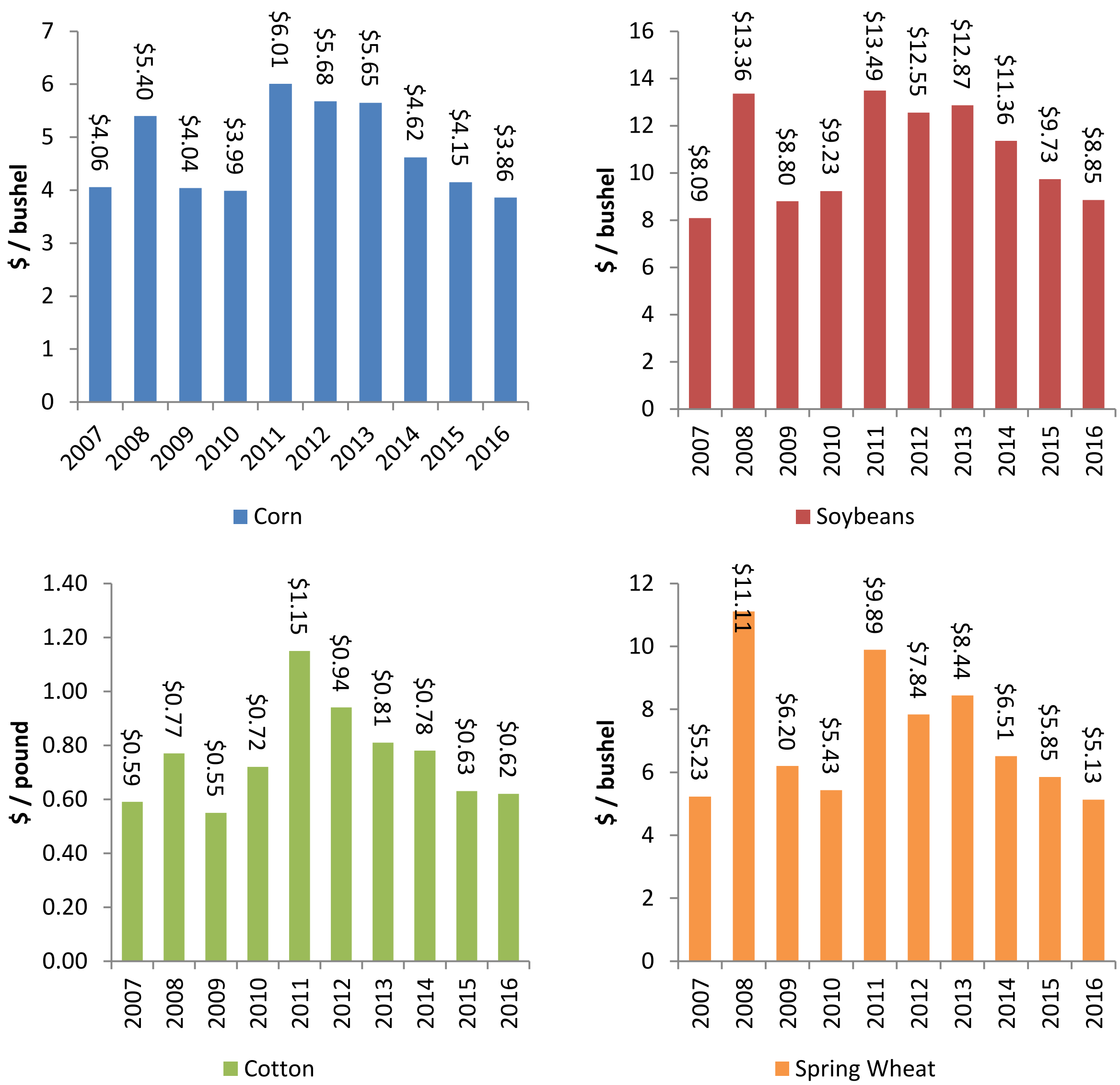

Figure 1. Crop Insurance Projected Prices for Selected Crops: 2007 – 2016
Data Source: USDA Risk Management Agency (http://prodwebnlb.rma.usda.gov/apps/PriceDiscovery/)

Notes: Projected prices are for the March 15 sales closing date for corn, soybeans and spring wheat and for the Feb. 28 sales closing date for cotton.

For both of these crops, this year's prices represent another year of substantial decline. In fact, 2016 projected prices for corn and spring wheat are the lowest in a decade. Soybean and cotton prices have been lower at a couple of points in the last ten years, but not by much. These prices imply crop insurance guarantees that will not cover production costs for many—if not most—producers.

To see what this year's crop insurance projected prices mean in terms of revenue guarantees, I calculated break-even prices (over total costs) using cost of production estimates in USDA's Agricultural Risk Management Survey (ARMS) database along with a simple 20-year trend yield estimate. Break-even prices were calculated for every year going back to 2000 and compared with crop insurance projected prices. A couple of disclaimers are probably in order here. First, the cost of production data used here is a national average. I will differ significantly from actual costs for some operations, of course. Second, the trend yield used here is a simple linear trend for each year based on the immediately preceding 20 years. If one thinks (as some do) that in more recent years a simple linear trend underestimates actual yield, these results will seem unduly negative. However, this approach represents a consistent means of comparing expected returns at the beginning of the year across time, providing a useful context for evaluating this year's insurance guarantees.

Figure 2 shows the estimated net returns (over total costs) for corn based on the data described in the previous paragraph.

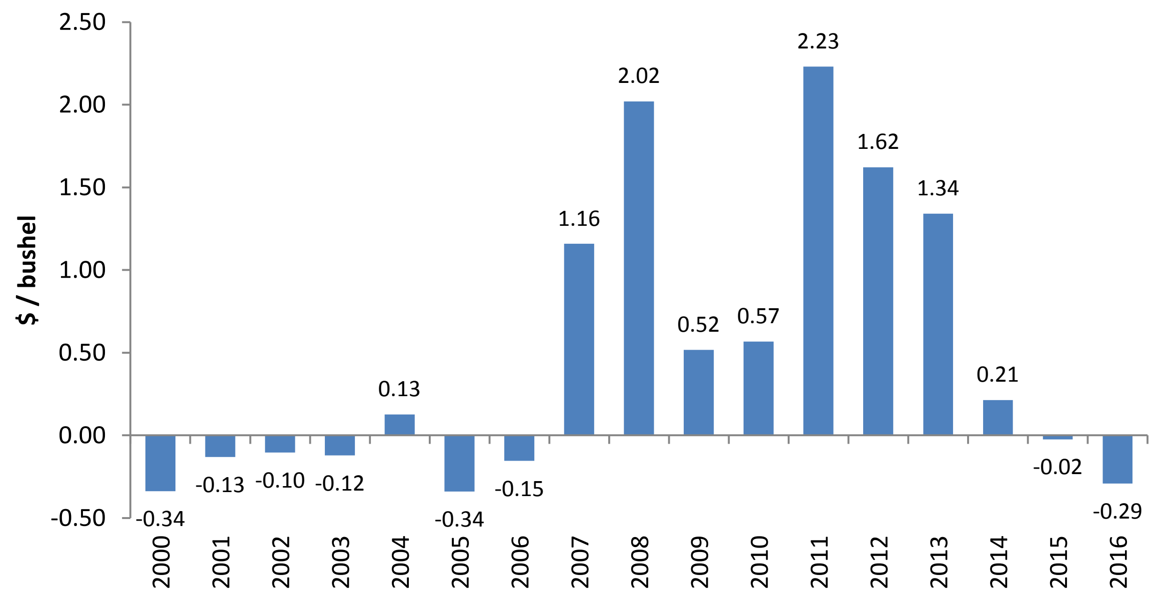

Figure 2. Pre-Planting Projected Net Returns for Corn Based on Crop Insurance Projected Prices
Data Source: USDA Economic Research Service, National Statistics Service, and Risk Management Agency

For 2016, the projected net over total costs based on crop insurance projected prices comes out to a 29-cent per bushel loss. What is interesting here is the historical perspective. From that perspective, two points are worth highlighting. First, with last year being about a wash, this year marks the first time in a full decade that the crop insurance projected price on corn has offered a substantially below break-even guarantee. Second, the pre-plant projected returns for 2016 are about in line with return projections in the early-2000s—not exactly a banner period for crop returns.

Figure 3 shows the same projected return calculations for soybeans.

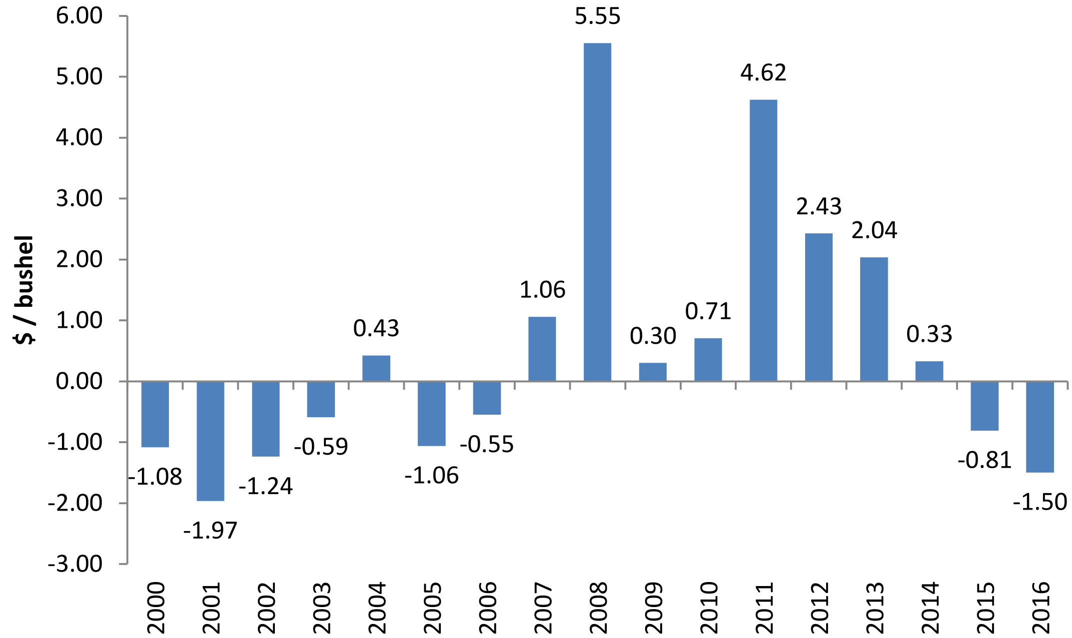

Figure 3. Pre-Planting Projected Net Returns for Soybeans Based on Crop Insurance Projected Prices
Data Source: USDA Economic Research Service, National Statistics Service, and Risk Management Agency

The results are not a lot different than for corn. The primary difference in the soybean projections is that 2016 marks the second year in a row of substantially below-break-even revenue projections. In the interest of time and space, I won't show the same calculations for wheat and cotton, but I am happy to share those if anyone is interested. The story is pretty much the same: 2016 is offering the least attractive crop insurance guarantees in a long time.

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