



Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

ANALYSIS OF THE 1985 GOVERNMENT WHEAT PROGRAM

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The decision to participate or not participate in the 1985 government wheat program must be made by March 1, 1985. Factors producers should consider when deciding which course of action to take are: 1) double cropping opportunities, 2) current harvest price and yield expectations, 3) planted acres compared to base acres, 5) impact on income from livestock, and 6) actual costs associated with production and ACR acres. These factors can influence the correct decision in several ways. What might be the best decision for one producer might not necessarily be the best for another producer.

1985 Government Program Summary

Provisions of the 1985 government wheat program include:

- A \$4.38-per-bushel target price.
- A \$3.30-per-bushel national average loan rate.
- A maximum deficiency payment of \$1.08. The deficiency payment will be based on the higher of the June through October 1985 national average wheat price or \$3.30, and the \$4.38 target price. One-half or \$0.54 per bushel of the deficiency can be requested at sign-up. The remainder is normally received in December.
- To be eligible for loans, purchases, and payments for the 1985 crops of wheat, producers must reduce their wheat harvested acreage by 30 percent of the base acres. This includes 20 percent acreage reduction and 10 percent for paid land diversion.
- The 1985 acreage base will be an average of 1983 and 1984 planted and considered planted to wheat.
- The diversion payment rate is \$2.70 per bushel on 10 percent of the base acreage and the base yield. Fifty percent of the diversion payment can be received at sign-up.
- Haying will not be permitted on the conservation use acreage.
- Grazing will be permitted during the seven principal growing months. The principal growing months will be designated by the ASCS State Committee.
- In the event of a natural disaster, emergency haying and unlimited grazing privileges may be authorized as needed on a county-by-county basis.
- Offsetting and cross compliance will not apply to the 1985 program.

- Payment-in-kind is not authorized for the 1985 wheat crop.
- USDA will review the size of the farmer-owned reserve before the regular price support loans for the 1985 crops reach maturity. At that time it will be determined whether entry into the reserve will be permitted.
- Contracts signed by participants will be considered binding and penalties will be assessed for noncompliance.
- If the producer doesn't sign up or comply, no benefits are received.
- To maintain a base acreage and yield, producers not participating should declare their planted wheat acres and yield to the county ASCS office.

Additional information should be obtained from your county ASCS office. The provisions outlined are subject to change.

Program Analysis and Worksheet

A worksheet received from the University of Missouri was modified for Oklahoma. The worksheet is used to illustrate the net returns associated with both participation and non-participation in the wheat program. For the participation portion of the worksheet, it is assumed that 70% of each acre is devoted to wheat production and 30% is ACR land. Production costs and returns are weighted to account for harvested and non-harvested acreage costs.

The example assumes that wheat yields are 32 bushels per acre for non-participation and 33.5 bushels per acre for participation. The expected harvest price of wheat is \$3.15. Variable production costs for wheat and ACR land are \$75.00 per harvested acre and \$20.00 per non-harvested acre. No income from pasture rental or livestock is included in the example. If the producer has income from livestock, then it should be included on line 15 of the worksheet. Livestock income should be computed on a per acre basis.

Based on the production, cost, and price assumptions used in the example, it is more profitable for the producer to participate in the government program. Profit per acre for participation is \$46.44 per acre, profit from non-participation is \$25.80 per acre. What if the producer has invested \$50 per acre on the entire base? Line 16 shows that expected gross return per base acre (this includes all acres) is higher from participation, \$104.94 versus \$100.80. Add additional fertilizer, chemical and harvesting cost savings on the ACR acres and the returns would be even larger for participation relative to non-participation.

In completing the enclosed worksheet, the importance of knowing correct cost and return information cannot be over emphasized. If accurate records are not available, the producer is encouraged to consult OSU Enterprise Budgets and Cooperative Extension personnel.

Persons interested in determining the impact of risk on the decision of whether or not to participate in the government wheat program are encouraged to read OSU Current Report GR-329. A microcomputer and VISICALC program can be utilized in the risk-rating approach.

1985 Wheat Program Worksheet Example

	Non- Participation	Participation
1. Expected yield per acre	1. <u>32</u>	<u>33.5</u>
2. Expected market or loan price/bushel	2. \$ <u>3.15</u>	\$ <u>3.30</u>
3. Less 9 months storage costs/bushel	3. \$ <u> </u>	\$ <u>.225</u>
4. Expected net price/bushel (L2 - L3)	4. \$ <u>3.15</u>	\$ <u>3.075</u>
5. Percent of base acres harvested	5. <u>1.00</u>	<u>.70</u>
6. Total return per harvested acre (L5 x L4 x L1)	6. \$ <u>100.80</u>	\$ <u>72.11</u>
7. Expected deficiency payment per bushel	7. XXXXX	\$ <u>1.08</u>
8. ASCS base yield per acre	8. XXXXX	<u>32</u>
9. Percent of base acres planted	9. XXXXX	<u>.70</u>
10. Deficiency payment per base acre (L9 x L8 x L7)	10. XXXXX	\$ <u>24.19</u>
11. Diversion payment per bushel	11. XXXXX	\$ <u>2.70</u>
12. ASCS base yield per acre	12. XXXXX	<u>32</u>
13. Percent of base acres diverted	13. XXXXX	<u>.10</u>
14. Diversion payment per base acre (L13 x L12 x L11)	14. XXXXX	\$ <u>8.64</u>
15. Net livestock return per acre	15. \$ <u> </u>	\$ <u> </u>
16. Total return per base acre (all acres) (L6 + L10 + L14 + L15)	16. \$ <u>100.80</u>	\$ <u>104.94</u>
17. Variable cost per harvested acre	17. \$ <u>75.00</u>	\$ <u>75.00</u>
18. Percent of base acres harvested	18. <u>1.00</u>	<u>.70</u>
19. Variable cost per base acre (L18 x L17)	19. \$ <u>75.00</u>	\$ <u>52.50</u>
20. Variable cost per non-harvested acre	20. XXXXX	\$ <u>20.00</u>
21. Percent of base acres in ACR	21. XXXXX	<u>.30</u>
22. ACR variable cost per base acre (L21 x L20)	22. XXXXX	\$ <u>6.00</u>
23. Total variable cost per acre (L19 + L22)	23. \$ <u>75.00</u>	\$ <u>58.50</u>
24. Net return per base acre (L16 - L23)	24. \$ <u>25.80</u>	\$ <u>46.40</u>

1985 Wheat Program Worksheet

	Non- Participation	Participation
1. Expected yield per acre	1. _____	_____
2. Expected market or loan price/bushel	2. \$ _____	\$ _____
3. Less 9 months storage costs/bushel	3. \$ _____	\$ _____
4. Expected net price/bushel (L2 - L3)	4. \$ _____	\$ _____
5. Percent of base acres harvested	5. _____	_____
6. Total return per harvested acre (L5 x L4 x L1)	6. \$ _____	\$ _____
7. Expected deficiency payment per bushel	7. XXXXX	\$ _____
8. ASCS base yield per acre	8. XXXXX	_____
9. Percent of base acres planted	9. XXXXX	_____
10. Deficiency payment per base acre (L9 x L8 x L7)	10. XXXXX	\$ _____
11. Diversion payment per bushel	11. XXXXX	\$ _____
12. ASCS base yield per acre	12. XXXXX	_____
13. Percent of base acres diverted	13. XXXXX	_____
14. Diversion payment per base acre (L13 x L12 x L11)	14. XXXXX	\$ _____
15. Net livestock return per acre	15. \$ _____	\$ _____
16. Total return per base acre (all acres) (L6 + L10 + L14 + L15)	16. \$ _____	\$ _____
17. Variable cost per harvested acre	17. \$ _____	\$ _____
18. Percent of base acres harvested	18. _____	_____
19. Variable cost per base acre (L18 x L17)	19. \$ _____	\$ _____
20. Variable cost per non-harvested acre	20. XXXXX	\$ _____
21. Percent of base acres in ACR	21. XXXXX	_____
22. ACR variable cost per base acre (L21 x L20)	22. XXXXX	\$ _____
23. Total variable cost per acre (L19 + L22)	23. \$ _____	\$ _____
24. Net return per base acre (L16 - L23)	24. \$ _____	\$ _____

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