ACRE Decision: Influence of 2010 Wheat Acreage

Farms that have 10% or more of their 2010 acres in wheat may have a stronger incentive to elect ACRE for 2010. Wheat can become important in the ACRE decision because there are likely to be fairly large wheat ACRE payments, but a lower likelihood of any corn or soybean ACRE payments. Signing a farm up for ACRE means that all corn, soybean, and wheat acres will be in the ACRE program.

Many Eastern Corn Belt producers do not seed wheat. So for them, the decision is based on corn and soybeans. Also, wheat acreage planted this year is at record low levels in Illinois, Indiana, and Ohio. For Indiana, wheat acres are less than 3% of total corn, soybean, and wheat acres. But, some individual farms have a much higher wheat percentage.

Current estimates suggest there will be fairly large ACRE payments for wheat. Those same current estimates for corn and soybeans suggest there will be no 2010 ACRE payments for corn and soybeans. In fact, if there is no ACRE payment for corn or soybeans, then the loss of 20% of direct payments means it will cost producers to be in ACRE on their corn and bean acres.

Likely large payments for wheat and unlikely payments for corn and soybeans raise the question of how much wheat do I have to have to offset the potential losses on my corn and soybean acres? The answer will vary from farm to farm, but here we evaluate average Indiana quality land and assume normal Indiana average yields for 2010. Those yields in the analysis are 163 bushels per acre for corn, 49 bushels per acre for soybeans, and 68 bushels per acre for wheat.

Two further assumptions are that the loss of 20% of direct payments on an acre of corn land will be $6.00 per acre and the loss on soybean acres will be $3.00 per acre. Second, it is assumed that the U.S. Average Farm Price for the 2010 crop will be $4.60 per bushel. This is the mid-point of the USDA May 11, 2010 estimate for that price. Their estimate is in a range from $4.10 to $5.10 per bushel and we estimate that a 2010 Indiana wheat ACRE payment would be triggered at the state level if those prices are below $5.26 per bushel with normal yields. This would seem to indicate, at this time, that odds are high for a sizeable 2010 wheat ACRE payment if yields are reasonably close to normal.

Using the USDA mid-point price of $4.60 per bushel for the U.S. Average Farm Price, Indiana state wheat ACRE payments with normal yields would be about $37 per acre, and farms in ACRE would give up about $4.00 an acre in direct wheat payments. Thus the net benefit to be in wheat ACRE for 2010 would be $33 per acre of wheat.

Given the assumption of 2010 net values per acre to be in ACRE as: Wheat +$33; Corn -$6; and Soybeans -$3, what % of wheat acres will give a positive whole farm return to ACRE for 2010? That analysis is summarized in the following figure using the non-wheat acres as 50% corn and 50% soybeans.

With no wheat in the crop mix the reduced returns in ACRE (given these assumptions) would be -$4.50 per acre. That is simply the -$6 on corn and the -$3 for soybeans on a 50/50 corn/soybean crop mix. You can see that if 10% of the total acres are wheat, there is still a small loss on the average acre of -$0.75 per acre planted. The breakeven level of wheat seeding (given these assumptions) is 12% wheat. If wheat acres are above 12% of total planted acres for 2010, in this analysis, then total returns from ACRE are
positive on the average acre planted. If wheat were 20% of total acres, then the positive net returns to be in ACRE is estimated at $3.00 per acre.

So in general, Eastern Corn Belt farms with over 10% wheat in their 2010 crop mix likely have much stronger financial incentives to consider the 2010 ACRE election.

There are additional considerations in the decision to elect ACRE so also read our postings under Grain and Oilseeds Outlook for May 10th and for May 17th and work with your FSA officials to understand the implications of ACRE for your farms.

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