

Cost of Production Compared to Insurance Coverage Level

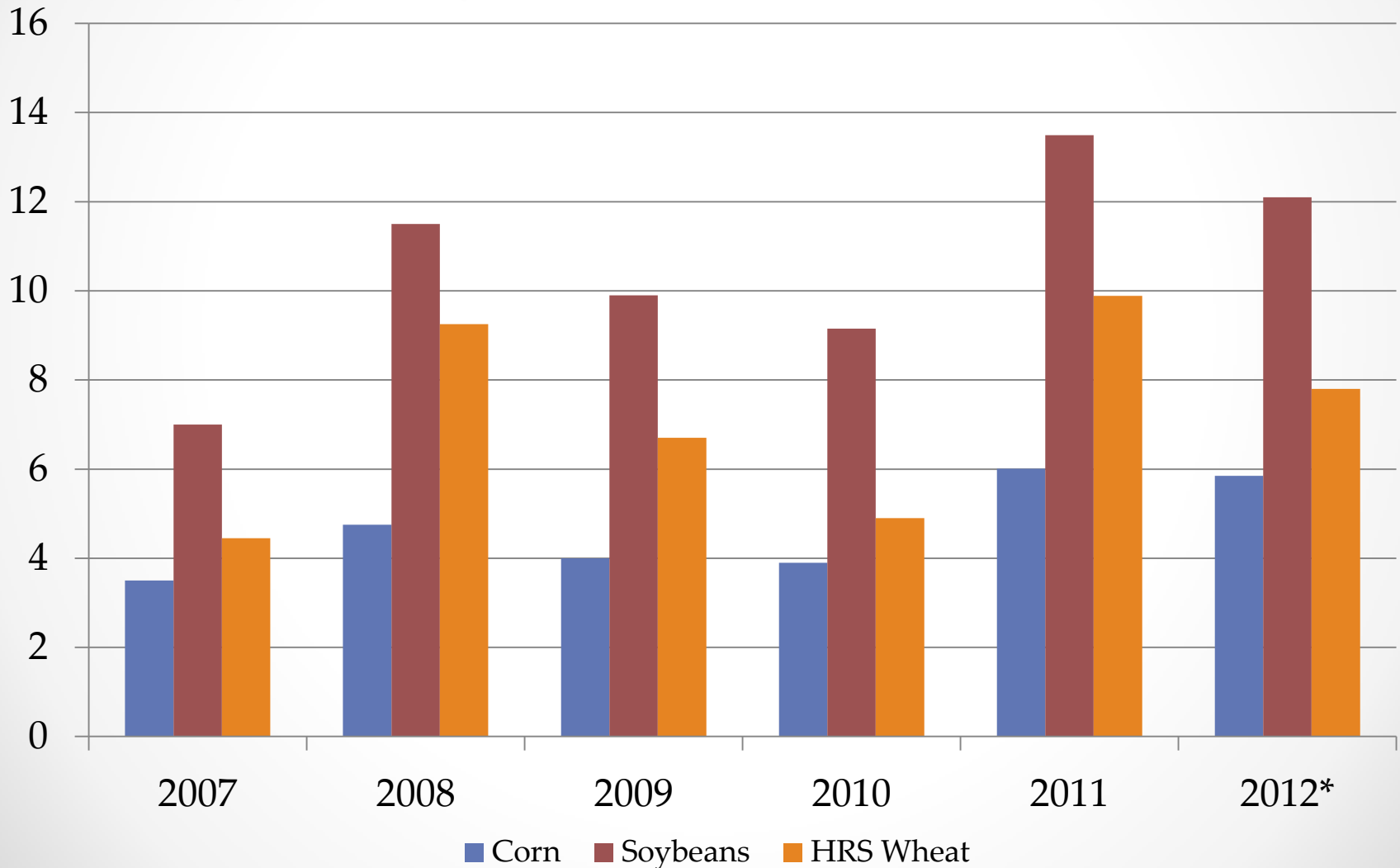
Dwight Aakre
Farm Management Specialist
January 16, 2012

RMA Price, (APH) Yield Protection

Year	Corn	Soybeans	HRS Wheat
2007	3.50	7.00	4.45
2008	4.75	11.50	9.25
2009	4.00	9.90	6.70
2010	3.90	9.15	4.90
2011	6.01	13.49	9.89
2012*	5.85*	12.10*	7.80*

*Harvest month futures price on January 10.

RMA Price, (APH) Yield Protection



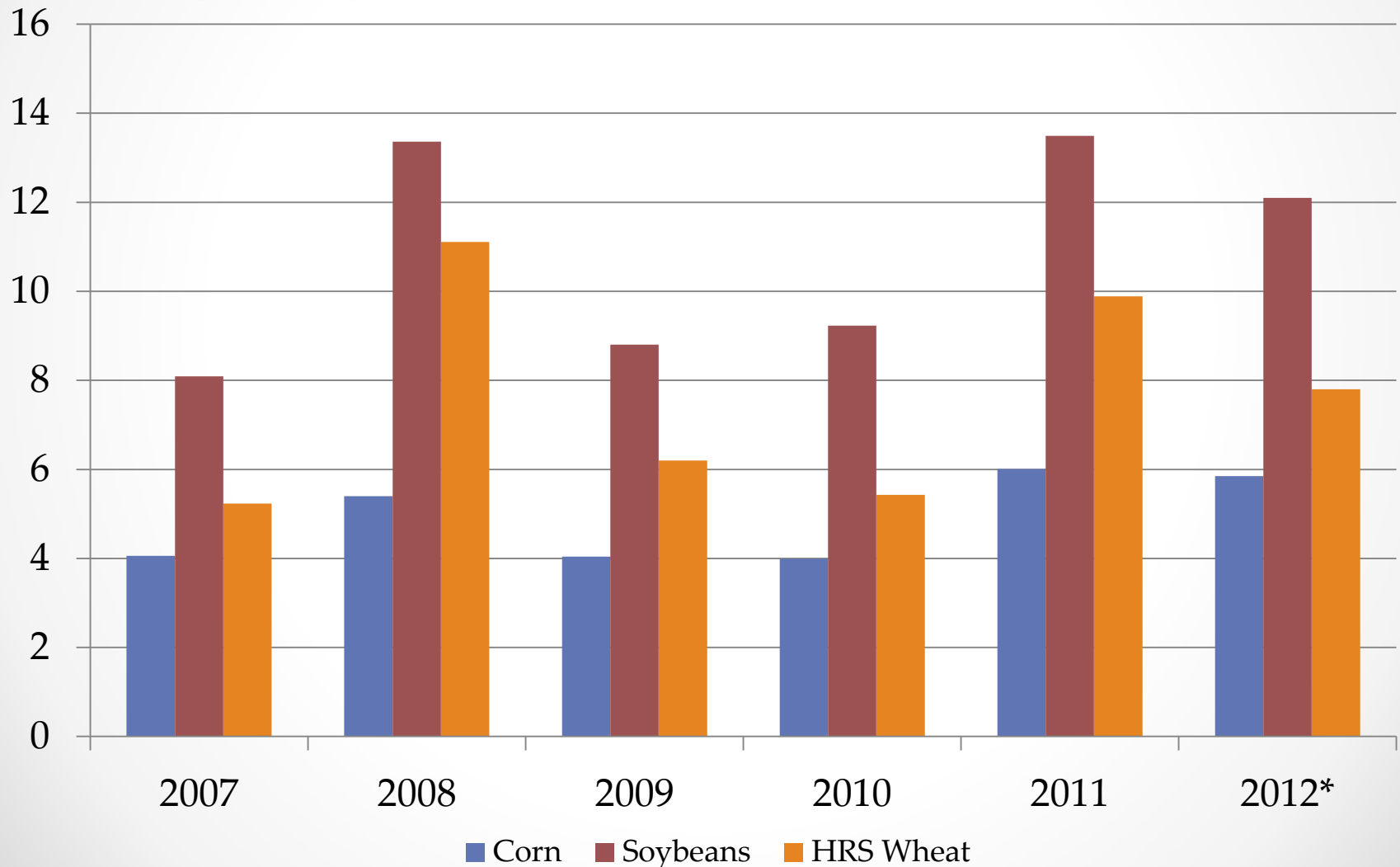
*Harvest month futures price on January 10

RMA Price, (RA) Revenue Protection

Year	Corn	Soybeans	HRS Wheat
2007	4.06	8.09	5.23
2008	5.40	13.36	11.11
2009	4.04	8.80	6.20
2010	3.99	9.23	5.43
2011	6.01	13.49	9.89
2012*	5.85*	12.10*	7.80*

*Harvest month futures price on January 10.

RMA Price, (RA) Revenue Protection



*Harvest month futures price on January 10

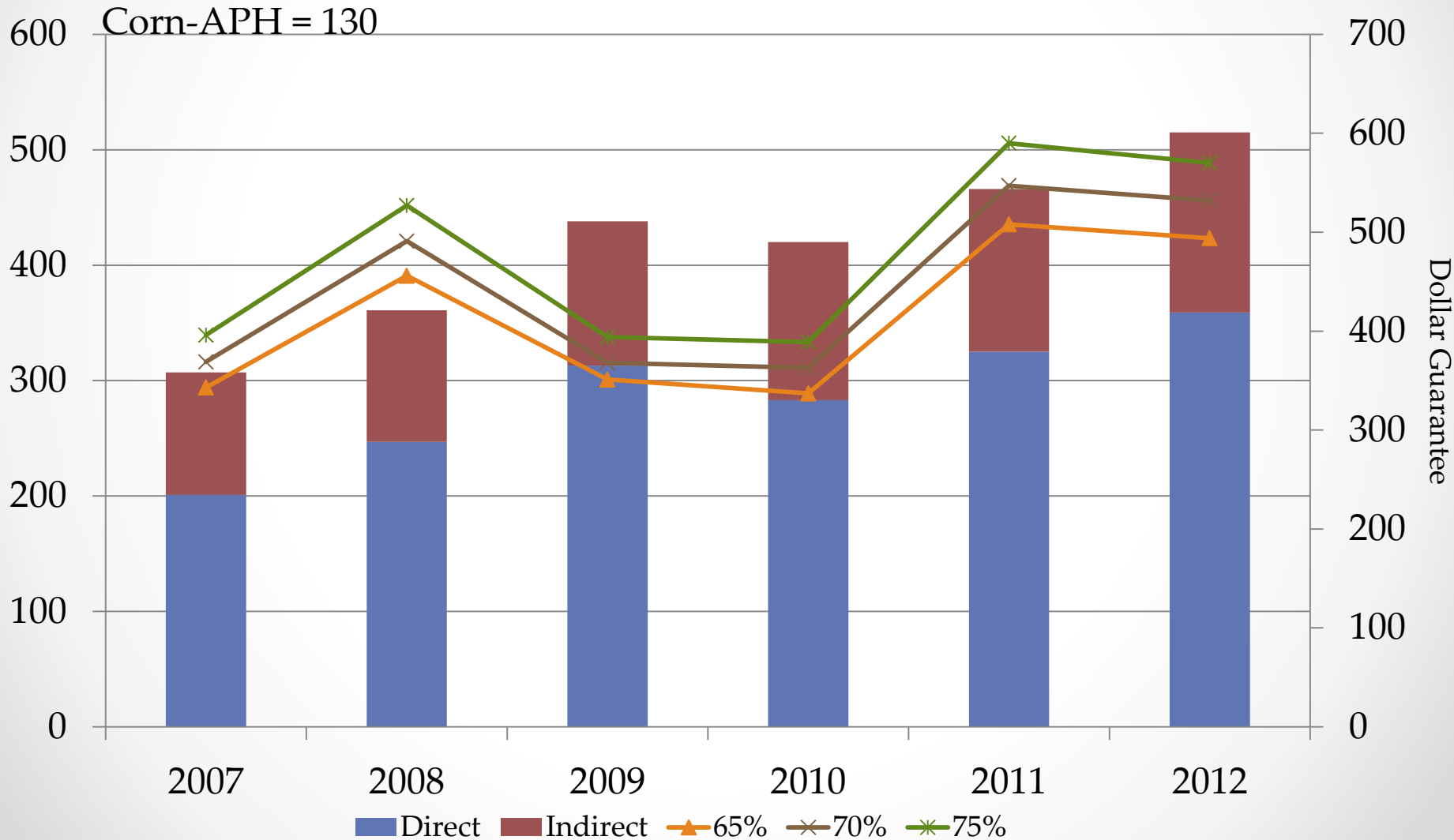
Projected Production Costs, South Valley, Corn Grain

Year	Direct	Indirect	Total*
2007	201	106	307
2008	247	114	361
2009	313	125	438
2010	283	137	420
2011	325	141	467
2012	359	156	515

*Total does not include labor and management costs

Revenue Guarantee and Cost of Production

With Revenue Protection Policy



Projected Production Costs, South Valley, Soybeans

Year	Direct	Indirect	Total*
2007	87	90	177
2008	101	97	199
2009	124	105	229
2010	124	118	242
2011	133	122	255
2012	145	135	281

*Total does not include labor and management costs

Revenue Guarantee and Cost of Production

With Revenue Protection Policy



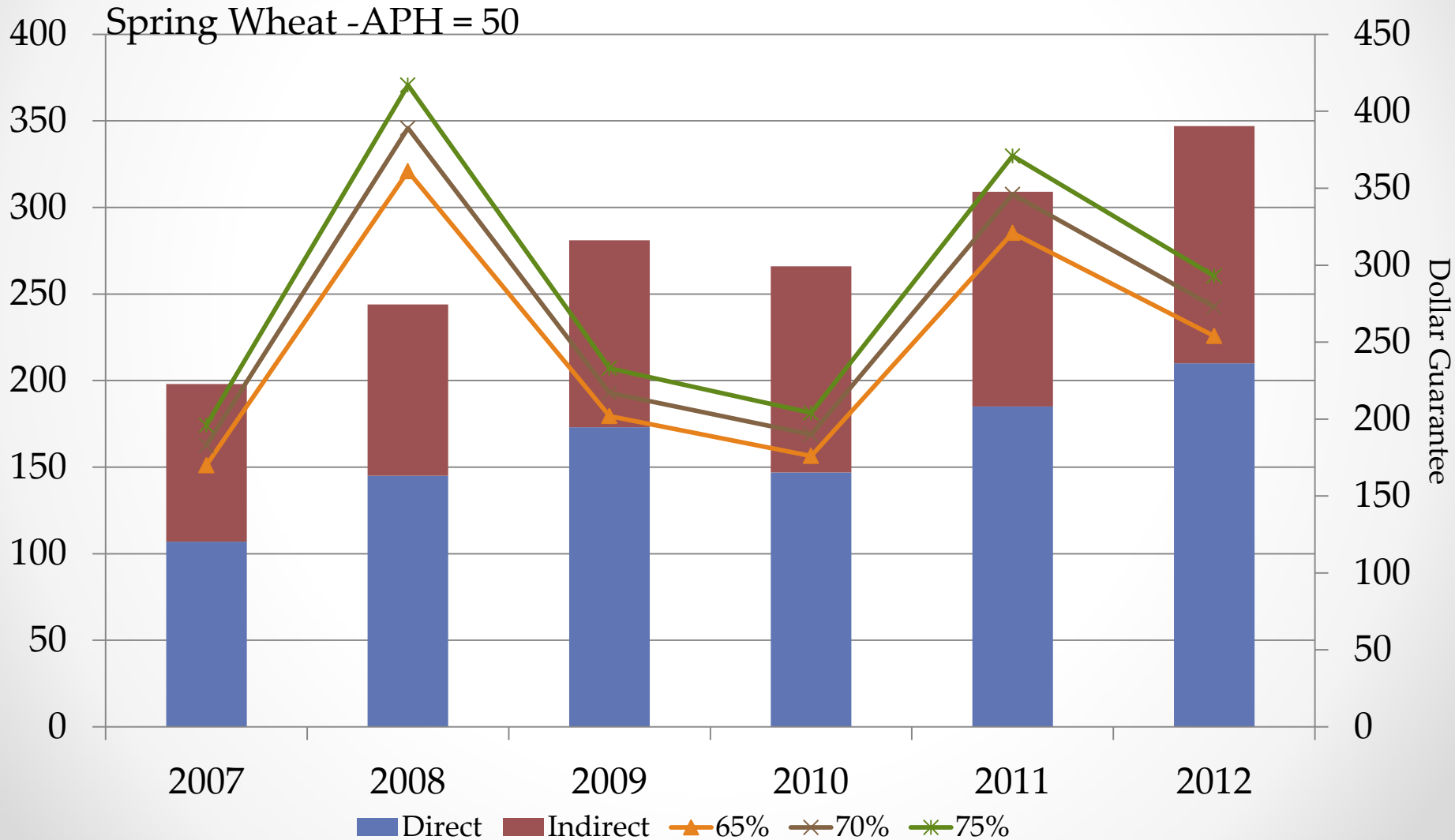
Projected Production Costs, South Valley, Spring Wheat

Year	Direct	Indirect	Total*
2007	107	91	198
2008	145	99	244
2009	173	108	280
2010	147	119	266
2011	185	124	309
2012	210	137	347

*Total does not include labor and management costs

Revenue Guarantee and Cost of Production

With Revenue Protection Policy



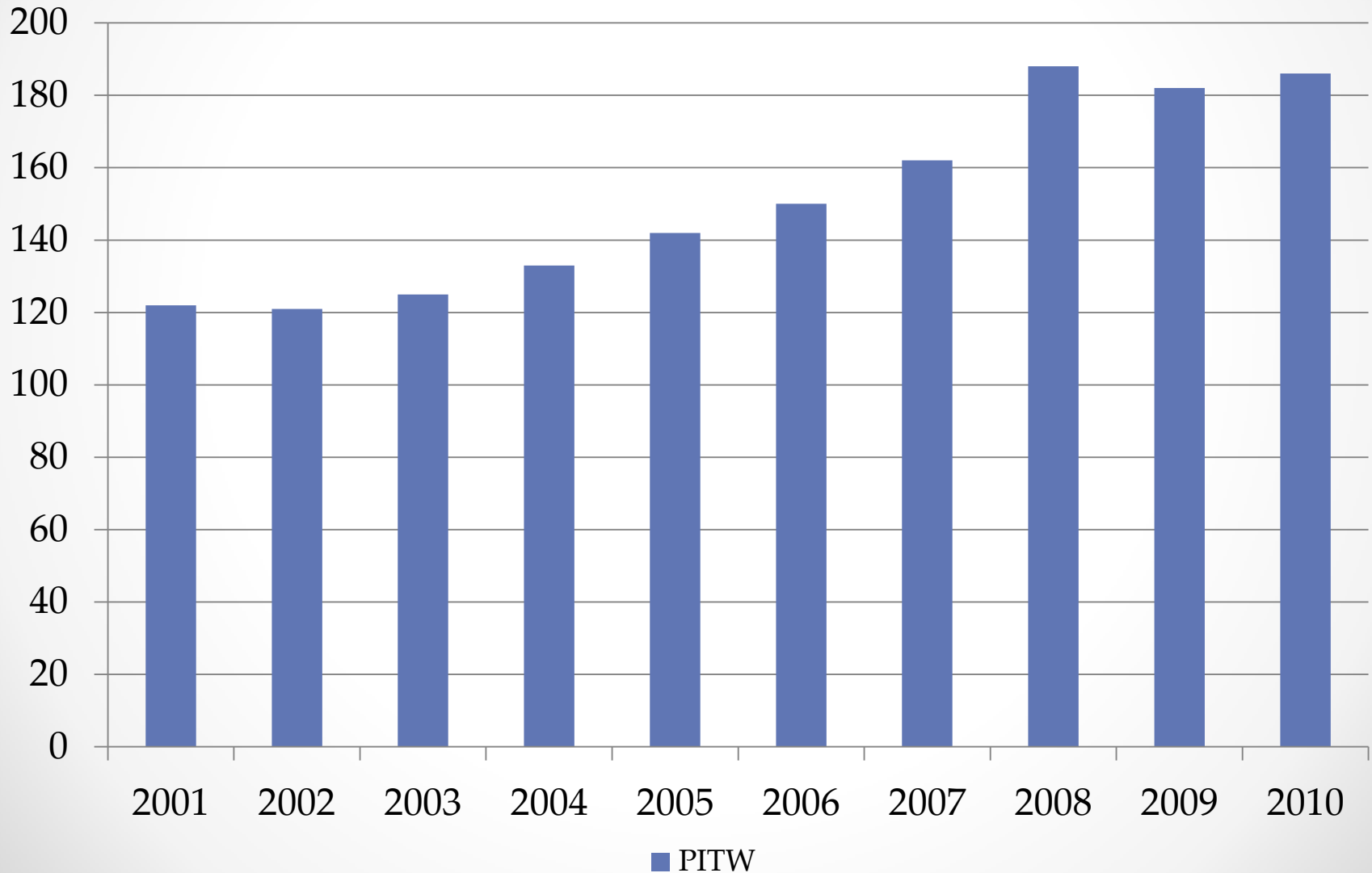
Cost of Production Index, United States, 1990-92 Base

Year	PITW
2001	122
2002	121
2003	125
2004	133
2005	142
2006	150
2007	162
2008	188
2009	182
2010	186

PITW = Items used for Production, Interest, Taxes and Wage Rates

Source: Economic Research Service (ERS)

Cost of Production Index, United States, 1990-92 Base



Cost of Production Index, United States, 1990-92 Base

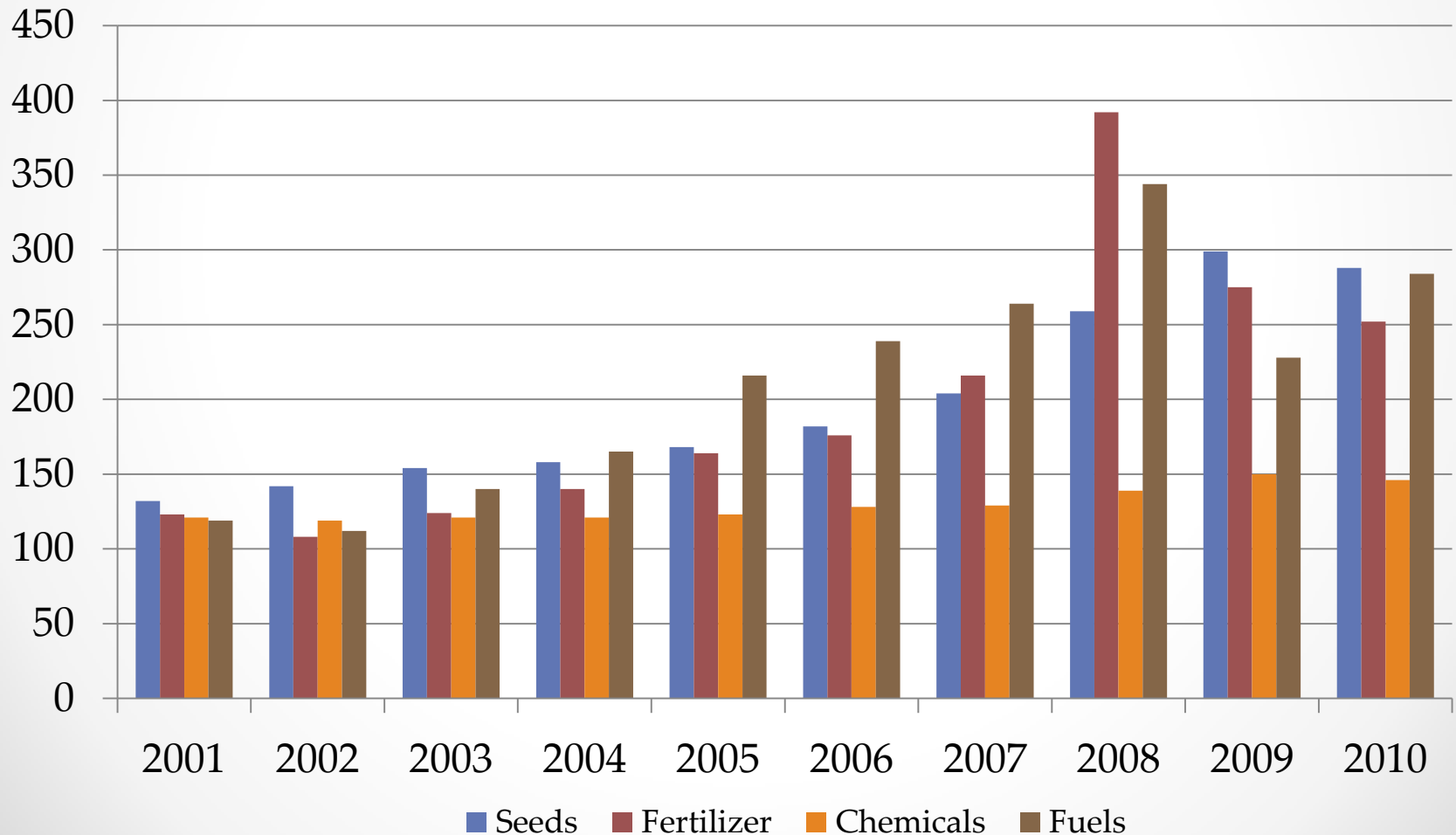
Selected Production Items

Year	Seeds	Fertilizer	Chemicals	Fuels
2001	132	123	121	119
2002	142	108	119	112
2003	154	124	121	140
2004	158	140	121	165
2005	168	164	123	216
2006	182	176	128	239
2007	204	216	129	264
2008	259	392	139	344
2009	299	275	150	228
2010	288	252	146	284

Source: ERS

Cost of Production Index, United States, 1990-92 Base

Selected Production Items



Cost of Production Index, United States, 1990-92 Base

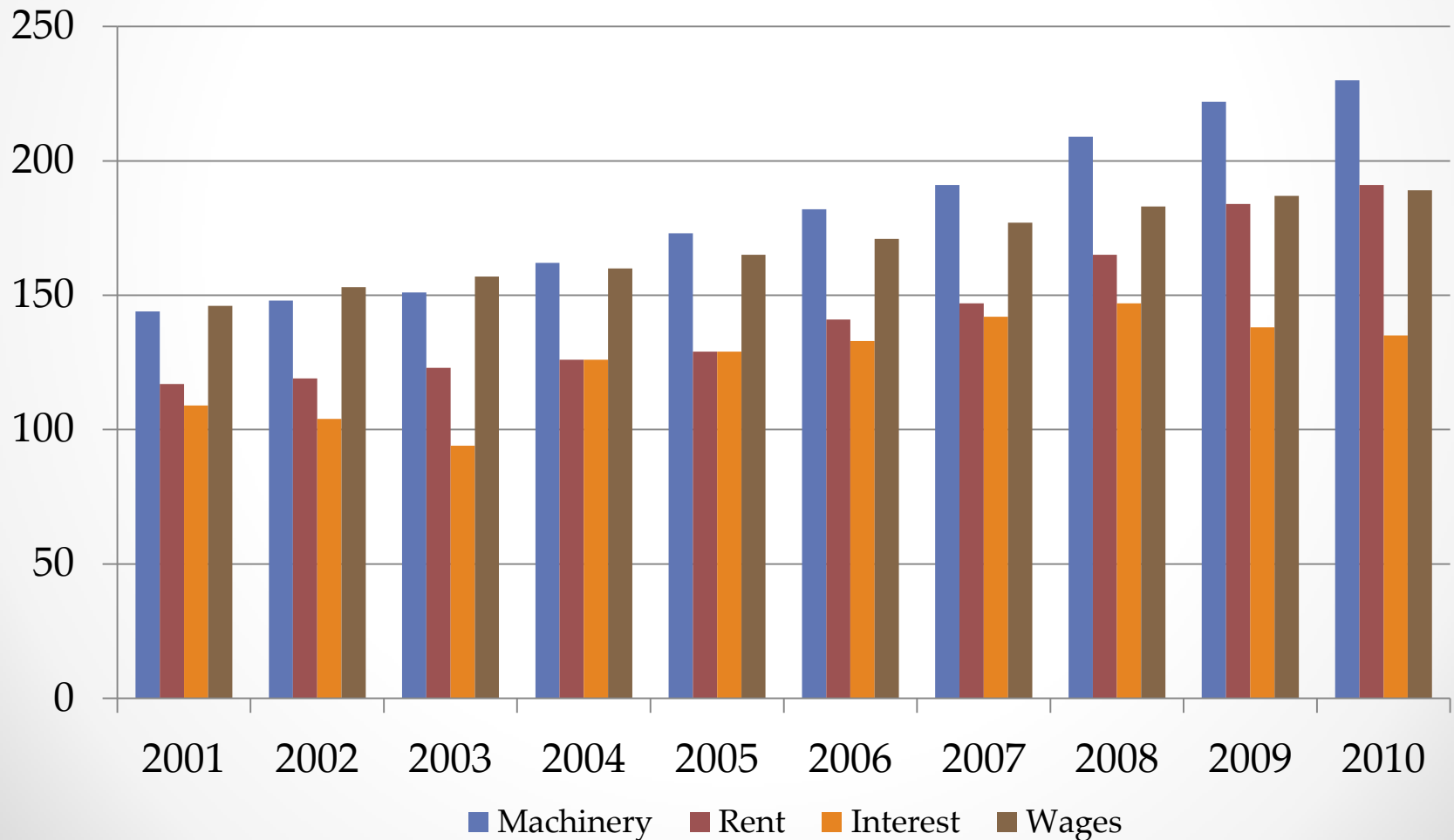
Selected Production Items

Year	Machinery	Rent	Interest	Wages
2001	144	117	109	146
2002	148	119	104	153
2003	151	123	94	157
2004	162	126	126	160
2005	173	129	129	165
2006	182	141	133	171
2007	191	147	142	177
2008	209	165	147	183
2009	222	184	138	187
2010	230	191	135	189

Source: ERS

Cost of Production Index, United States, 1990-92 Base

Selected Production Items



Insurance Price Needed to Cover 4 Percent Annual Increases in Direct Costs at 70 Percent Coverage Level

	Corn, APH = 130		Soybeans, APH = 33		Wheat, APH = 50	
<u>Year</u>	<u>Costs</u>	<u>Price</u>	<u>Costs</u>	<u>Price</u>	<u>Costs</u>	<u>Price</u>
2012	359	3.95	145	6.27	210	6.00
2013	373	4.10	151	6.54	218	6.23
2014	388	4.26	157	6.80	227	6.49
2015	404	4.44	164	7.10	236	6.74
2016	420	4.62	171	7.38	245	7.01

Summary

- Rising costs with flat or declining prices reduce the effectiveness of the insurance safety net
- Costs seldom decline without an extended period of depressed prices
- Producers have more control over rents and machinery expenses than other categories
- Crop insurance follows the market up and down
- There is more cushion between costs and price for soybeans than corn or wheat
- Insurance is more effective covering individual risk and less effective on systemic risk, i.e. market price declines
- If market prices decline significantly, there will be pressure for another farm program solution