Peanuts 2016: Payment Limit vs Acreage Planted

National Center for Peanut Competitiveness

February 23, 2016

During this time of year, peanut farmers are deciding their crop mix and acreage level for each crop. As in 2015, commodity prices are at all-time lows which make it extremely difficult for farmers to cash flow any crop and obtain loans from banks. Farmers have been attending county extension production meetings to gain insight. Farmers and bankers view peanuts as having a viable safety net relative to the other commodity options, especially since cotton does not have a commodity program and relies on crop insurance for its safety net. This lead to significant peanut acreage in 2015. Most peanut industry experts are predicting 2016 peanut acreage to be comparable to the 2015 peanut acreage if not slightly less. The National Center for Peanut Competitiveness believes farmers need to fully understand the details of the 2014 Farm Bill prior to finalizing their 2016 planting decisions.

The 2014 peanut crop PLC rate was $95/base ton. Many farmers realized that their farming operation was not structured satisfactory to ensure the ability to fully utilize the safety net provisions in the 2014 Farm Bill. In fact many farmers failed to include their spouse as an entity even though the spouse was an integral part of the farming operation. Payment limitations significantly impacted those farming operations. It is the Center's understanding that many farmers addressed the issue for the 2015 and beyond peanut crops. However, the Center believes that those actions were based on the 2014 PLC rate of $95 without consideration as to what would happen with significant peanut production leading to even lower peanut prices.

For the 2015 peanut crop, USDA has provided an estimate for the national seasonal average price for peanuts of $366/ton which translates into a projected PLC rate of $169/base ton. The current national seasonal average price for the August 1, 2015-February 6, 2016 time period is $383/ton which translates into a projected PLC rate of $152/base ton. These two projected PLC rates provide a farmer with a realistic estimate of their projected 2015 safety net payments. The PLC safety net payment is based on the PLC rate * 85% of the base acres * payment yield. In the 2014 Farm Bill, the payment limit was set at $125,000 per entity. Due to sequestration at the present time, USDA will reduce the 2015 and 2016 payments by 6.8% as was done for the 2014 payments. The 6.8% reduction implies $8,500 off the full payment limit which means that the effective payment limit per entity is really $116,500. Or, one can view this sequestration as reducing the base acres being paid on from 85% to 79.22%.

Allowing the peanut payment yield to range from 1.75 tons/acre to 3.0 ton/acre in .25 tons/acre increments, the Center was able to take the payment limit and the formula to calculate PLC payments to determine the maximum peanut base acres for one entity in a farming operation given the two projected PLC payment rates (Table 1). One additional PLC payment rate was included where the national seasonal average peanut price was the loan rate. The peanut base acres include both the traditional peanut base and the attributed generic base to peanuts.

Table 1. Maximum Peanut Base Acres (traditional + allocated generic) for 1 Payment Limit*

Yearly	Average Price ($/ton)	PLC rate ($/base ton)	Payment Yield (tons/acre)					
			1.75	2.0	2.25	2.5	2.75	3.0
			Maximum Peanut Base Acres					
2014/15	$440	$95	884.56	773.99	687.99	619.20	562.90	516.00
2015/16 (Aug 1- Feb 6)	$383	$152	552.85	483.75	430.00	387.00	351.82	322.50
USDA Estimate (1/29/16)	$366	$169	497.24	435.09	386.74	348.07	316.43	290.06
Loan Rate	$355	$180	466.85	408.50	363.11	326.80	297.09	272.33

* Payment Limit = $125,000.

The implication is that the maximum peanut base acres for one entity for the two projected PLC rates is between approximately 38% to 44% less than the maximum peanut base acres for the 2014 peanut crop. If the projected price drops to loan rate, the maximum peanut base acres for one entity is approximately 47% less than the maximum peanut base acres for the 2014 peanut crop. For example for the 2014 peanut crop, assuming a payment yield of 1.75 tons/acre (3,500 lbs/acre), one entity could have had 884.56 acres of total peanut base comprised of traditional peanut base and the attributed generic base to peanuts to reach the payment limit. For the 2015 crop, the total peanut base cannot exceed either 497.24 acres or 552.85 acres depending on the two alternative PLC rates forecasted. If the PLC rate is based on the loan rate, the total peanut base cannot exceed 466.85 acres. For a farming operation with multiple entities with equal shares, one can multiply the maximum peanut base acres by the number of entities to derive their farming operations maximum peanut base acres. For example, a farming operation with 2 entities such as a husband and wife and a payment yield of 1.75 tons/acre, the maximum peanut base acres for the 2014 crop would have been 1,769.13 acres. For the 2015 crop, the maximum peanut base acres can range from 994.48 acres to 1,105.71 acres. However, if the average price is the loan rate for either the 2015 crop or the 2016 crop, the maximum peanut base acres for 2 entities would be reduced to only 933.71 acres.

One can see from the table that as a farm's payment yield increases, the maximum peanut base acres reduces significantly. Unfortunately, the 2015 situation cannot be changed. Many farmers will not see the full PLC safety net payment. However, a farmer can ensure that the situation does not occur for the 2016 peanut crop. Unless a farmer knows explicitly that he/she can cash flow their peanuts at $355/ton, a farmer will need to significantly reduce their planted acreage to the level that the PLC safety net payment can provide protection.