Businesslink

THANK GOD FOR CROP INSURANCE

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For the past 25 years, Bushnell, Ill., farmer Steve Pigg has been trying to forget that he didn't carry crop insurance in 1988. That was the year when drought torched his average corn yields to 40 to 60 bushels per acre, and he even disked down some of his fields. "If it hadn't been for a very understanding banker who let me defer some payments, I'd have been put out of business," he says. The near-death experience made such a crop insurance believer of Pigg that he became an agent and has purchased coverage on his own farm ever since. It was a consolation to him in late July as he looked at a 95- to 100-bushel yield from fields with a 10-year yield history of 213 bushels.

"I was so convinced corn prices were going to be $4 this fall on a record crop, rather than corn's $5.68 spring price, I didn't buy a revenue policy with a harvest adjustment," he says. "But with 85% revenue coverage, I'll come out OK."

The corn crop is shaping up as a disaster of epic proportions for livestock producers, ethanol plants and exporters. Surprisingly, it's grain producers who need not push the panic button. Growers who waited to sell much of the 2012 crop may end the year with better revenues than if they'd produced a normal yield worth $4.60 per bushel—what USDA expected farmers to receive until late June.

Auburn, Ill., farmer Tim Seifert expects his corn yields to plunge from his 10-year average of 217 bushels to as low as 130 to 160 bushels this season. Ironically, he's feeling "very confident" his revenues won't suffer a similar wipeout. His 80% Revenue Protection policy gives him peace of mind.

The bottom line is "I can make more money on a partial crop at $7.50 than a 200-bushel crop at $4," he says. "If the drought hadn't been so widespread and lifted prices, I'd be in a totally different situation."

The situation is much different than the Great Drought of 1988, when only 13% of Illinois corn acres were federally insured, says Kansas State University economist Art Barnaby. In 2012, about 80% of Illinois crop acres are insured; states in the eastern Corn Belt run about 75%. The majority of Corn Belt growers have been electing policies with at least 80% revenue coverage and choosing the new Trend-Adjusted yield pilot program, which typically bumps protection up another 5%. Barnaby won't guarantee that insured producers will make a profit in 2012. But the checks will be bigger than in 1988—"easily 30 to 40% or more above what the old yield-only formulas would have provided."