

## **Description of Cost Estimates**

This study reflects an attempt to incorporate impacts from cost increases and price declines that have been experienced during the current downturn in the farm economy. Unlike the previous MFP Payments, these estimates were developed treating all commodities exactly the same based on increases in costs of production and crop-specific price declines.

The analysis includes the effect of higher costs producers have borne since reference prices were established in 2013 and made statutory in the 2014 Farm Bill. Those reference prices were based on the costs of production for the various covered commodities. Even though prices have fallen to roughly one-half of the highs experienced during 2011-13 for most crops, costs have not decreased. Based on USDA prices paid index for crop farms, as of 2018 costs are 5.5% higher than when the reference prices were established during 2013. While prices have declined due to the trade disputes, producers are quick to point out that what really makes their financial situation even more precarious is that production costs are sticky, having not yet followed prices downward. During this already difficult cost adjustment period, the loss of exports markets has added an additional layer stress.

As the trade dispute continues, it is anticipated that the resulting price reductions will extend beyond the initially impacted commodities authorized to receive MFP Payments in 2018. As producers make current and future planting decisions, it is expected they will shift away from commodities typically exported to China. As acres shift and unusually high production of other covered commodities occur, equilibrium prices for these other commodities will decline. Realizing that other factors beyond the trade dispute are contributing to the current low price environment, this plan only compensates for a fraction of the price decline experienced.

## **Data Utilized**

National estimates by covered commodity were developed using marketing year average prices as reported by USDA-FSA, 2018 planted acres and yields from USDA-NASS, PLC payment yields obtained from the May 2019 CBO baseline (except for seed cotton which was calculated based on 2005 Farm bill counter-cyclical lint yields for cotton), and APH yields were approximated by the most recent 10 years of USDA-NASS planted acre yields.