



**COUNTER-CYCLICAL PAYMENTS UNDER THE 2002 FARM BILL  
JANUARY 2008**

**Background**

The 2002 farm bill introduced counter-cyclical payments (CCP) that are designed to move opposite of market prices. In determining the CCP, the legislation established target prices (TP) for eligible crops. A CCP will be paid to eligible producers when the effective price, as determined by USDA, falls below the target price. The effective price is the sum of the direct payment and the higher of the loan rate and the marketing year average (MYA) farm price.

If the effective price falls below the target price, then the CCP is calculated using the formula:

$$CCP = Target\ Price - Effective\ Price,$$

where the *Effective Price* = *Direct Payment* + *maximum(Loan Rate, Farm Price)*

If the effective price equals or exceeds the target price, then the CCP is zero.

For upland cotton, the target price is set at 72.4 cents per pound, the direct payment is 6.67 cents and the loan rate is 52 cents. Using the formula from above, the CCP would equal the maximum level of 13.73 cents when the farm price is at or below the loan rate level of 52 cents. If the MYA farm price reaches 65.73 cents per pound, then the CCP would be zero.

**Determination of the Marketing Year Average Farm Price**

The MYA farm price used to determine CCPs is a national average price for the August-July marketing year. It is calculated by USDA's National Agricultural Statistics Service (NASS) using monthly data for prices paid to farmers. The final price for each month is made available at the end of the subsequent month (e.g.: July price is available August 31<sup>st</sup>). However, a preliminary monthly price is available at the end of each month (Exhibit 1).

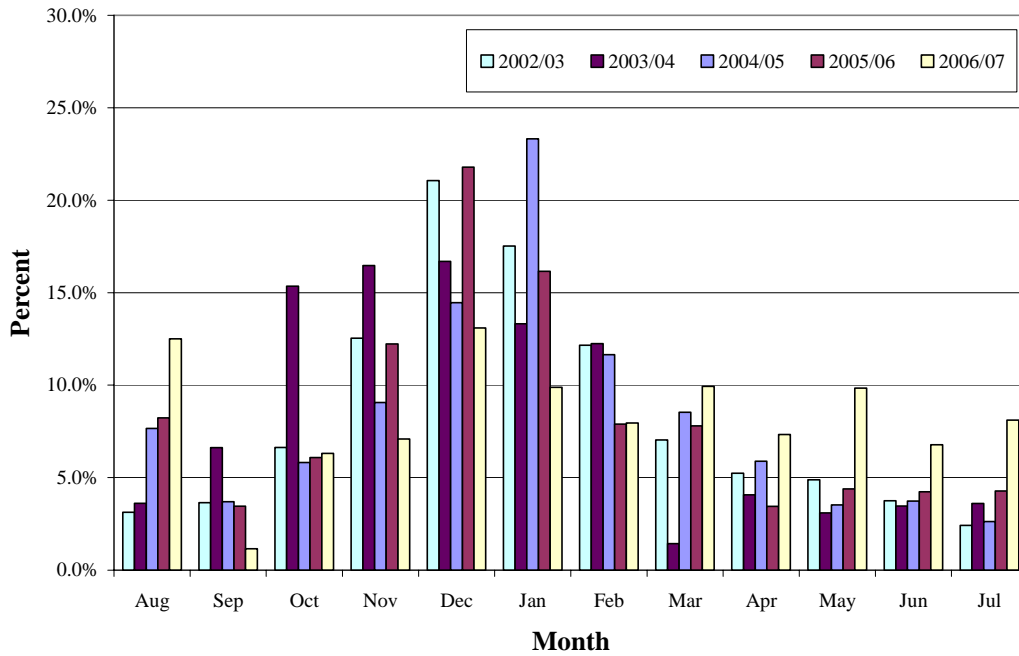
Exhibit 1

| Monthly Average Farm Prices |       |       |       |       |       |       |       |       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                             | Aug   | Sep   | Oct   | Nov   | Dec   | Jan   | Feb   | Mar   | Apr   | May   | Jun   | Jul   |
| <b>98/99</b>                | 66.00 | 66.20 | 65.90 | 64.60 | 60.60 | 58.10 | 55.60 | 55.00 | 55.60 | 55.00 | 54.60 | 53.80 |
| <b>99/00</b>                | 52.70 | 45.30 | 46.30 | 44.30 | 42.80 | 43.10 | 46.80 | 47.70 | 45.40 | 47.60 | 45.10 | 48.80 |
| <b>00/01</b>                | 51.40 | 50.60 | 55.50 | 58.00 | 57.80 | 52.10 | 48.50 | 41.10 | 42.60 | 40.90 | 39.20 | 38.90 |
| <b>01/02</b>                | 37.30 | 36.50 | 30.70 | 27.80 | 30.80 | 27.30 | 28.00 | 28.40 | 27.20 | 26.70 | 33.70 | 35.30 |
| <b>02/03</b>                | 33.00 | 35.20 | 39.00 | 41.90 | 42.10 | 44.00 | 45.20 | 47.30 | 45.00 | 45.60 | 45.30 | 46.10 |
| <b>03/04</b>                | 46.30 | 55.70 | 68.00 | 63.40 | 64.10 | 62.50 | 62.70 | 59.40 | 61.20 | 60.60 | 60.50 | 54.50 |
| <b>04/05</b>                | 53.70 | 49.30 | 49.50 | 44.40 | 40.70 | 39.60 | 39.00 | 41.50 | 43.10 | 42.00 | 44.00 | 43.20 |
| <b>05/06</b>                | 42.10 | 44.30 | 48.50 | 48.50 | 47.90 | 48.60 | 49.00 | 50.40 | 48.60 | 46.80 | 47.70 | 47.10 |
| <b>06/07</b>                | 45.80 | 47.30 | 46.10 | 47.60 | 49.30 | 49.70 | 48.00 | 47.40 | 47.30 | 44.80 | 46.40 | 46.50 |
| <b>07/08</b>                | 44.90 | 52.00 | 55.20 | 57.00 | 59.20 | 61.40 |       |       |       |       |       |       |

The monthly prices are weighted by marketings to determine a weighted MYA farm price. The months October through February carry the largest weights in the annual average. In fact, by the end of February, we typically have accounted for almost 75% of marketings (Exhibit 2).

Exhibit 2

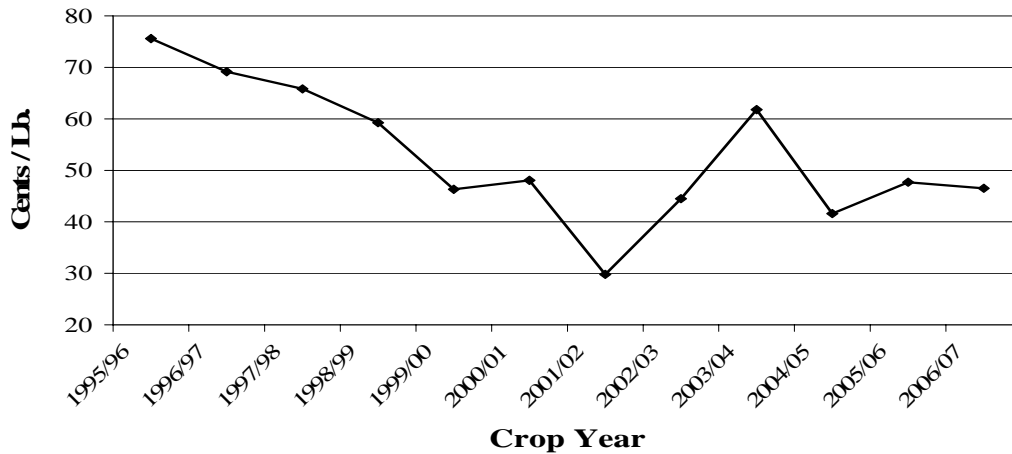
**Percent Marketed By Month**



In recent years, we have seen the MYA farm price move from a high of 75.60 cents per pound for the 1995/96 marketing year to 46.50 cents for the 2006/07 marketing year (Exhibit 3).

Exhibit 3

**Season-Average Farm Price**



For the 2007 marketing year, data for the month of December gives a preliminary weighted-average of 53.46 cents per pound (Exhibit 4). While the final CCP will not be determined until the final MYA farm price is known, the preliminary MYA farm price based on data through December would give a CCP of 12.27 cents.

Exhibit 4

| <b>FARM PRICES FOR UPLAND COTTON</b> |  |                   |                                     |                 |                       |
|--------------------------------------|--|-------------------|-------------------------------------|-----------------|-----------------------|
| <b>CROP YEAR 2007-08</b>             |  |                   |                                     |                 |                       |
| <b>(Weighted by Marketings)</b>      |  |                   |                                     |                 |                       |
|                                      | <b>Marketings</b><br><b>(000's of Running Bales)</b> |                   | <b>Prices</b><br><b>(Cents/Lb.)</b> |                 | <b>Implied CCP **</b> |
|                                      | <b>Monthly</b>                                       | <b>Cumulative</b> | <b>Monthly</b>                      | <b>Weighted</b> |                       |
| August                               | 1,762  | 1,762             | 44.90                               | 44.90           | 13.73                 |
| September                            | 373  | 2,135             | 52.00                               | 46.14           | 13.73                 |
| October                              | 949  | 3,084             | 55.20                               | 48.93           | 13.73                 |
| November                             | 1,464  | 4,548             | 57.00                               | 51.53           | 13.73                 |
| December                             | 1,529  | 6,077             | 59.20                               | 53.46*          | 12.27                 |
| January                              | NA   | NA                | 61.40                               | NA              |                       |
| February                             |  |                   |                                     |                 |                       |
| March                                |  |                   |                                     |                 |                       |
| April                                |  |                   |                                     |                 |                       |
| May                                  |  |                   |                                     |                 |                       |
| June                                 |  |                   |                                     |                 |                       |
| July                                 |  |                   |                                     |                 |                       |

USDA-NASS

\*Weighted price is a preliminary estimate

\*\* Unofficial estimate based on price to date

**Relationship Between NASS Farm Price and NY Nearby Futures**

While there is no exact relationship between NASS's MYA farm price and NY futures, the futures market can be used as a guide for anticipating the farm price. Historically, the average farm price runs 5-9 cents below the nearby NY futures contract (Exhibit 5).

Exhibit 5

| <b>Nearby Futures-MYA Price</b> |            |            |            |            |            |            |            |            |            |            |            |            |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                 | <b>Aug</b> | <b>Sep</b> | <b>Oct</b> | <b>Nov</b> | <b>Dec</b> | <b>Jan</b> | <b>Feb</b> | <b>Mar</b> | <b>Apr</b> | <b>May</b> | <b>Jun</b> | <b>Jul</b> |
| <b>96/97</b>                    | 1.88       | 3.82       | 2.59       | 3.37       | 6.44       | 6.42       | 6.66       | 5.48       | 5.04       | 4.18       | 7.46       | 7.33       |
| <b>97/98</b>                    | 7.10       | 3.63       | 2.25       | 3.32       | 4.04       | 5.11       | 3.98       | 5.21       | 1.22       | 3.01       | 5.64       | 5.73       |
| <b>98/99</b>                    | 7.09       | 8.33       | 4.52       | 1.43       | 1.35       | 1.18       | 2.68       | 6.09       | 4.40       | 3.38       | 1.43       | -2.34      |
| <b>99/00</b>                    | 0.11       | 7.68       | 6.78       | 6.79       | 6.96       | 11.97      | 10.97      | 13.29      | 11.81      | 13.44      | 14.06      | 11.39      |
| <b>00/01</b>                    | 12.90      | 13.82      | 7.95       | 8.54       | 7.76       | 8.44       | 8.80       | 9.60       | 3.95       | 3.32       | 3.30       | 3.04       |
| <b>01/02</b>                    | 3.21       | 0.45       | 0.69       | 7.12       | 5.87       | 9.58       | 7.86       | 9.71       | 8.98       | 9.08       | 7.24       | 10.75      |
| <b>02/03</b>                    | 11.64      | 7.19       | 5.51       | 5.91       | 7.93       | 7.04       | 6.68       | 10.89      | 12.27      | 7.66       | 8.58       | 13.14      |
| <b>03/04</b>                    | 9.83       | 6.74       | 6.78       | 9.29       | 7.30       | 11.63      | 5.44       | 7.01       | 0.50       | 2.33       | -7.30      | -7.55      |
| <b>04/05</b>                    | -6.62      | 1.59       | -3.00      | 1.52       | 2.57       | 6.36       | 6.67       | 10.46      | 11.26      | 10.58      | 4.34       | 7.82       |
| <b>05/06</b>                    | 5.98       | 5.61       | 5.90       | 1.77       | 5.23       | 7.09       | 7.49       | 3.37       | 3.22       | 3.96       | 3.21       | 4.99       |
| <b>06/07</b>                    | 7.86       | 3.32       | 3.28       | 0.97       | 5.43       | 4.65       | 5.54       | 6.31       | 3.14       | 4.41       | 7.54       | 16.61      |
| <b>07/08</b>                    | 13.41      | 9.00       | 8.81       | 4.76       | 6.31       | 7.80       |            |            |            |            |            |            |
| <b>AVG 98-06</b>                | 5.78       | 6.08       | 4.27       | 4.82       | 5.60       | 7.55       | 6.90       | 8.53       | 6.62       | 6.46       | 4.71       | 6.43       |