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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Planning for Beef Cattle Operations in the Face of Drought

Market Report	Yr Ago	4 Wks Ago	7/19/02
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$72.31	$64.29	$62.57
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	96.53	84.75	87.00
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	108.67	83.11	87.74
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	111.99	101.97	97.91
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	49.50	44.00	41.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	36.00	*	19.00
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	125.30	107.78	*
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	58.70	83.75	83.87
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	162.58	154.87	*
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.15	3.25	3.71
Corn, No. 2, Yellow Omaha, bu	1.77	2.03	2.15
Soybeans, No. 1, Yellow Omaha, bu	4.68	4.85	5.68
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.50	3.71	3.93
Oats, No. 2, Heavy Minneapolis, MN , bu	*	2.17	1.95
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	102.50	112.50	105.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	75.00	60.00	75.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	90.00	97.50

* No market.

About two years ago we wrote a Cornhusker Economics article on this same topic. Unfortunately, the current drought is more widespread and onerous. Presently, many producers are out or about to be out of grass. This late in the year options are limited. Selling cattle, including part of the breeding herd is an option that many have begun to exercise. Weaning early, selling the calves or placing them in feedlots and feeding the cows are other options.

Options for Grazing Beef Cattle

Most beef cow-calf operations depend on grazed forage for spring, summer, fall and even early winter. Producers have two main options—increase the quantity of grazed forage or reduce the demand for the same. Forage supply can be increased or extended by several methods. Leasing additional grassland is one alternative that may be available, but the widespread nature of the drought makes this option difficult if not impossible. Another is to feed harvested forages/feeds at a much earlier date until other options e.g. corn stalks become available. A third option is to utilize non-traditional forages such as grazing meadows, corn or alfalfa and other growing crops, especially if they are irrigated.

Cost/return impacts associated with the options often will be producer specific. A good plan will examine those impacts and determine whether or not they are feasible both in the short and long-run. Even if leasing additional forage is feasible it may require moving livestock some distance via truck. In such cases the producer likely will lose day-to-day contact with the livestock, which may be another cost. Using non-traditional forage for grazing such as meadows, other hay or standing corn will reduce the amount of harvested hay or grain corn available for use or sale. The feasibility will depend on the producer's hay carryover, the cost of purchasing forage and the price of corn. Forage should be tested for quality and nitrates prior to feeding so that rations can be balanced.

Potential production problems need to be considered before choosing some of the options. For example,

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nitrates could be a problem when grazing standing corn, especially if drought stressed. Eco-fallow corn in Western Nebraska is drought stressed. Samples of this non-irrigated corn analyzed by the University's diagnostic lab in North Platte have had high levels of nitrates even in corn that appears to be vegetative.

Reducing the demand or need for forage is another major option. This can be accomplished by reducing cattle numbers and/or by weaning early and either selling or placing the calves in a lot. We estimate that weaning and removing the calf from range or pasture will reduce forage consumption by about 30 percent per day. These options also have other associated short and long-run cost/return implications. Culling and selling the culls earlier than normal can reduce the overall forage demand. Selling non-breeding stock e.g. yearling stocker cattle is an option available to some producers. One must be cognizant of seasonal price relationships as well as effects of early sales on sale weight. Cull cow prices tend to be lowest in October and November. Sales earlier in the year could possibly benefit from normally stronger prices. However, since the drought area is large, seasonal price patterns could be affected. There are indications that sales have already depressed cull prices. Similarly, calf prices tend to be lowest in October and November. Early sales of calves and yearlings might result in above average prices if the traditional seasonality of prices holds.

Selling part of the breeding herd is another option for reducing forage demand. This option requires the most serious analysis. Selling part of the breeding herd (non-culls) has important long-run implications. In the short-run, selling cows will generate cash flow dollars that can be used to pay expenses or reduce debt. But in the long-run, what does such an action do to the overall output of the "manufacturing plant?" If a bred cow or cow/calf pair is sold today, expenses for the remainder of the year will be reduced. But, income from the sale of the calf later in the year will also be gone. And if the cow is not replaced, the income from future calves will be lost so there will be fewer dollars to cover the overhead costs which are not likely to decrease with fewer cows. In essence, the overhead costs of the cow/calf operation will be spread over fewer production units so unit costs of production will increase. If the cows sold are eventually replaced, cash will need to be available to acquire the replacements. The cash flow gain of selling the cow now will be offset by the need for cash to replace it. Because of the seriousness of reducing future income, selling part of the breeding herd appears to be one of the last options the producer may want to use.

The relationship between the producer and her/his lender may be a critical aspect of the planning process. If the producer needs additional financing to get through the dry period, will the lender be willing to provide that financing?

Feeding the Cow

If the producer chooses to maintain the herd by keeping the productive cows, the cows must be fed. The widespread nature of the current drought is resulting in increasing prices for harvested forages and grain. To save costs cows can be "limit fed" rations that may contain grain and/or other supplements. Limit feeding means that the cows' nutrient requirements are met with the diet but they will not feel full. When limit feeding, feeds must be consistently delivered both in quantity and time of day. The quality of the forages used in the diets must be known and diets should be formulated to match that quality. Diet quantities should be accurately weighed and delivered. If grain is involved, appropriate ways to feed it must be available. In some instances the grain may be fed on the ground. When limit feeding in a bunk, adequate bunk space must be provided so that all cows have access to the feed. Cows must be fed daily when grain or some form of grain is used to substitute for forages in meeting animal requirements. Fences must also be in good repair since the animals may go looking for more to fill. Following are **example** rations, for 1,200-pound cows in early pregnancy using some feeds common to Nebraska. The quantities represent the amount that must be fed per head each day to maintain body condition. Ration costs are for feed only and do not include the cost of delivering the feed to the animals or waste. Cattle tend to waste little feed in limit feeding situations.

Ration 1: 8.5 lbs wheat straw; 10 lbs dry corn gluten pellet (a by-product of the corn sweetener industry). Ration cost: $0.73/head/day with straw priced at $75/ton and corn gluten at $82/ton delivered to North Platte, NE. We have observed prices lower than $82/t for corn gluten from some sources. Corn gluten prices are at or near seasonal lows this time of year.

Ration 2: 7.5 lbs average quality alfalfa hay (18 percent crude protein, 58 percent TDN); 8 lbs of whole corn. Ration cost: $0.72/head/day with alfalfa hay priced at $100/t and corn at $85/t.

Ration 3: 11 lbs of meadow hay (8.5 percent crude protein, 56 percent TDN); 6.7 lbs dry corn gluten pellet. Ration cost: $0.77/head/day with meadow hay priced at $90/t and corn gluten at $82/t.

Ration 4: 20 lbs average quality alfalfa. Ration cost: $1/hd/day with alfalfa @ $100/t.

Other feed resources are available. Producers need to work with an extension specialist or educator or a consultant who can formulate balanced rations with the resources available. Ammoniation of straw is another process that can provide a more useful forage resource. See University of Nebraska, Coop Extension publication, EC 89-265 for an excellent discussion of how to ammoniate the straw and
the potential costs. Ammoniation will turn straw into a resource with protein and digestibility similar to lower quality grass hay.

Feedlots may take in cows and limit feed them for producers. We have had reports of feedlots feeding dry cows for as low as $0.85/head/day. Trucking costs would need to be added but the labor for care of the animals would be covered by this cost.

Income Tax Implications from Selling Above Normal Numbers of Cattle

If one of the choices is to sell more cattle than normal, some parts of the IRS Code may be helpful in minimizing income tax consequences. Sale of additional market livestock may result in added income in a given year, which could move a producer to a higher tax bracket. Income averaging may help, but income averaging is not available for self employment (FICA) taxes. Breeding livestock sales are treated as a capital gain (loss) and thus will be subject to a maximum tax of either 8 or 20 percent. To reach the 8 percent capital gains rate a married couple filing jointly must have a taxable income of less than $46,700. Tax planning could help a producer achieve the appropriate level of taxable income so the first advice is to see your tax consultant.

IRS Rules (Paragraph 451 (e)) permit producers to defer "extra" income into the following year. This section applies to the sale of "all" livestock above those considered "normal." Normal is determined by averaging the number of cattle sold in each of the three, preceding years. Use of this section has several requirements, which must be met or filed with IRS.

a. Requires that the Federal Government declare a disaster area. Livestock need NOT be in the declared disaster area. Producer must include a statement explaining relationship of the designated drought area to the taxpayer's early sale or exchange of livestock

b. Number of animals that would have been sold in the taxable year had the taxpayer followed his or her normal business practice in the absence of drought must be shown plus the number sold on account of drought during the taxable year.

c. A computation of the amount of income to be deferred must be included.

In addition to these requirements the taxpayer's principal business must be farming/ranching and they must use the cash method of accounting for tax purposes.

IRS paragraph 1033 (e) permits the producer to postpone gain from the sale of excess **breeding** livestock for up to two years on the condition that those animals will be replaced sometime during those two years. Use of this section requires that excess animals be replaced by purchase on a one-for-one basis and for at least equal value. Suppose a producer sells 15 head above "normal" that have a zero basis (the case for raised breeding stock) and elects to defer $9,000 gain on those 15 head. Within two years the producer must spend at least $9,000 on the acquisition of at least 15 head. If the producer spends $9,000 on only 14 head then he/she must go back to the year of deferment and amend that year's income tax return to reflect a $600 gain for one animal (the average value deferred). Likewise, if less than $9,000 is spent on 15 head, the tax return for the year of deferment must be amended to report that difference. An official drought disaster area does **not** need to be declared for use of these provisions; however, producers must provide evidence that excess sales were caused by dry conditions.

The bottom line for tax implications is that producers should consult their tax advisors when selling livestock due to the drought!

While planning will not solve the drought problems, planning can help producers financially withstand the effects.

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Looking for up-to-date and concise news and analysis of the cattle market? The University of Nebraska and Kansas State University present "In the Cattle Markets," a weekly online newsletter released on Tuesday mornings. Authors Dillon Feuz, Darrell Mark and James Mintert discuss the supply and demand factors expected to affect fed and feeder cattle prices in the upcoming weeks. You can find the newsletter at:
http://www.lmic.info/memberspublic/InTheCattleMarket.html

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