

# Beef Cow Strategies Under Drought Conditions

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[www.ag.ndsu.nodak.edu/aginfo/lsmkt/livestock.htm](http://www.ag.ndsu.nodak.edu/aginfo/lsmkt/livestock.htm)

**NDSU**  
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# Should cattle producers try to maintain a base cow herd?

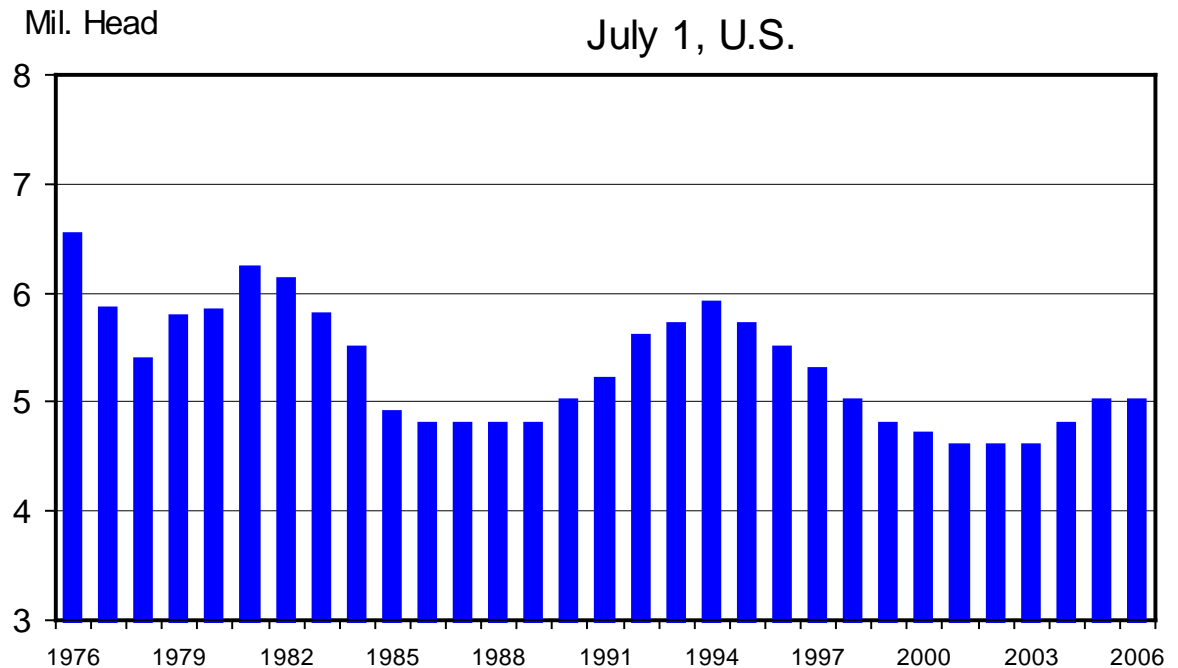
- price outlook?
- your retirement plans?
- low equity vs high equity?
- talk to your lender
- disaster assistance?

# Cyclical Rebuilding Is Continuing!



## HEIFERS HELD AS BEEF COW REPLACEMENTS

July 1, U.S.

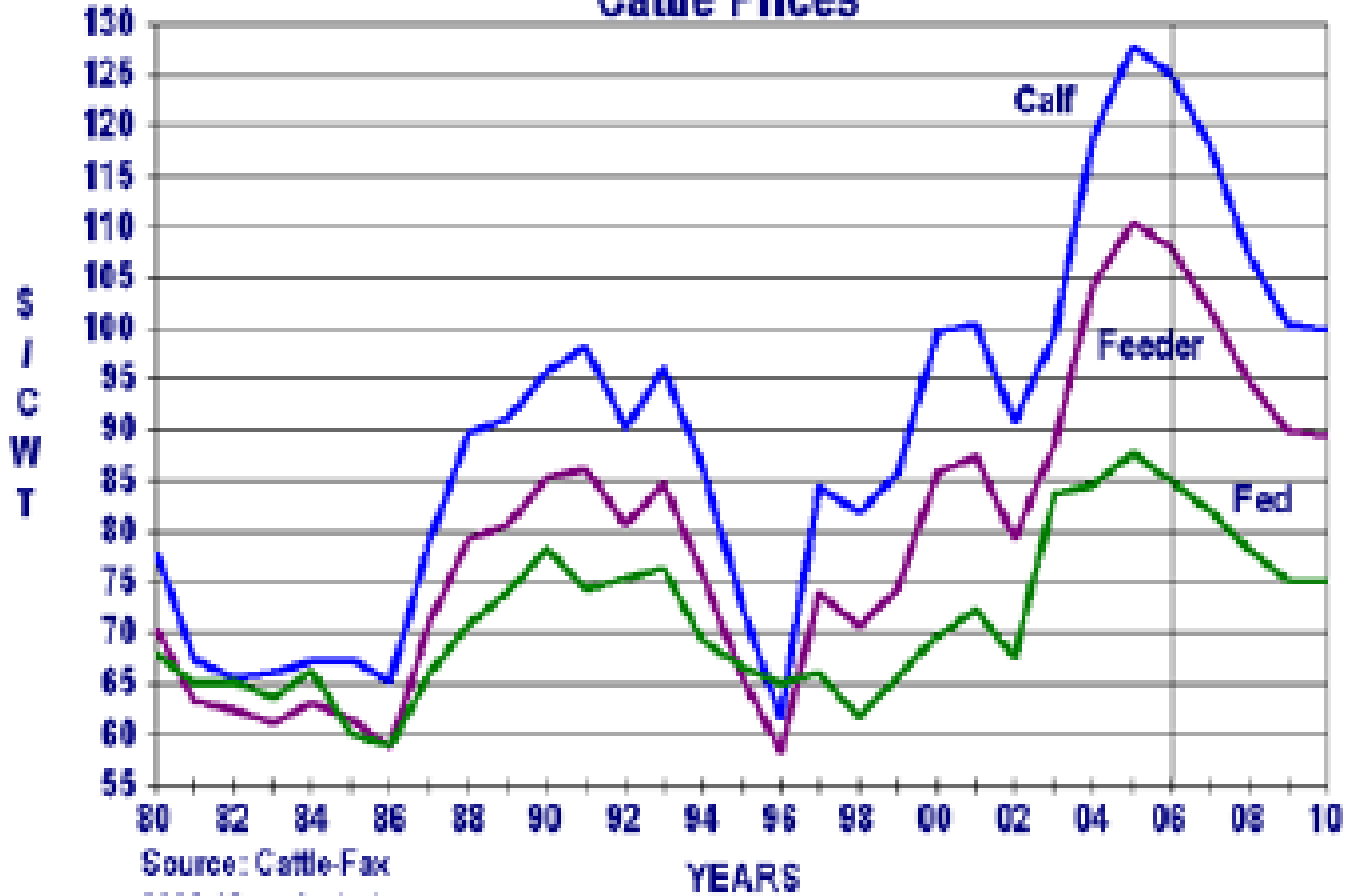


Livestock Marketing Information Center

Data Source: USDA/NASS

C-N-37  
07/21/06

# Cattle Prices



Source: Cattle-Fax  
2005-10 projected

# 2002 vs. 2006 Drought

- 2002

Upward phase of cattle price cycle  
\$1.35 highway diesel fuel

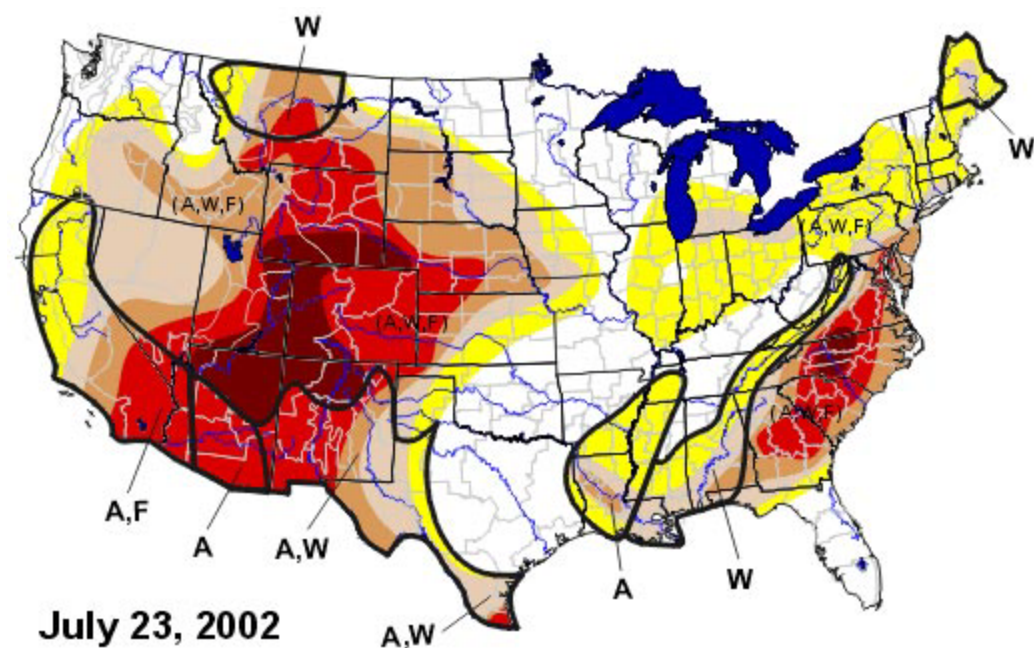
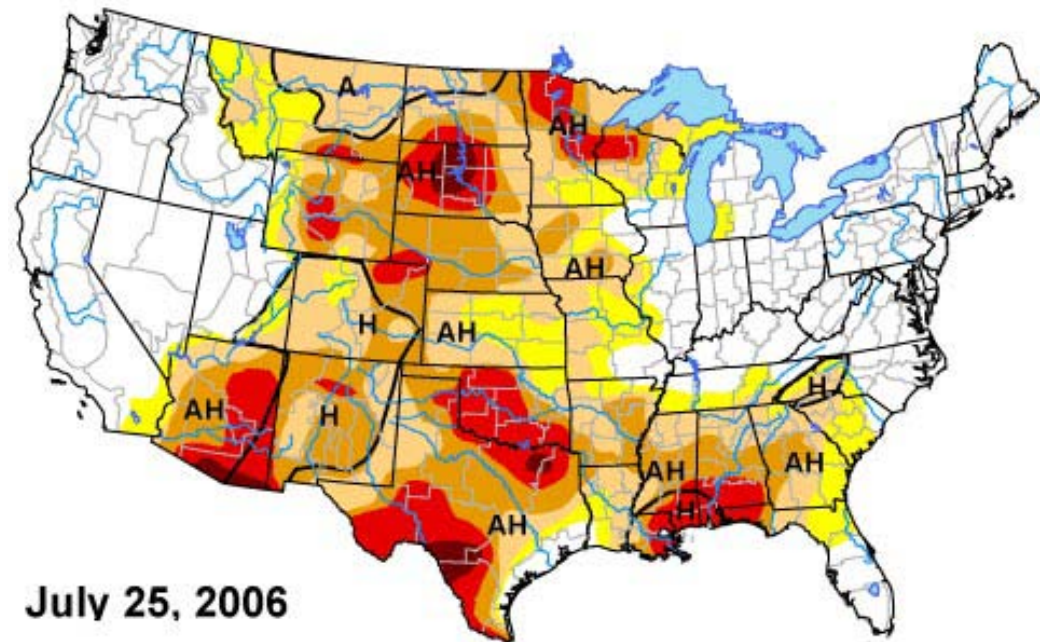
recommendation: buy feed to keep as many cows as possible

- 2006

downward phase of cattle price cycle  
\$3.00 highway diesel fuel

Recommendation: cull cows heavily but keep base herd

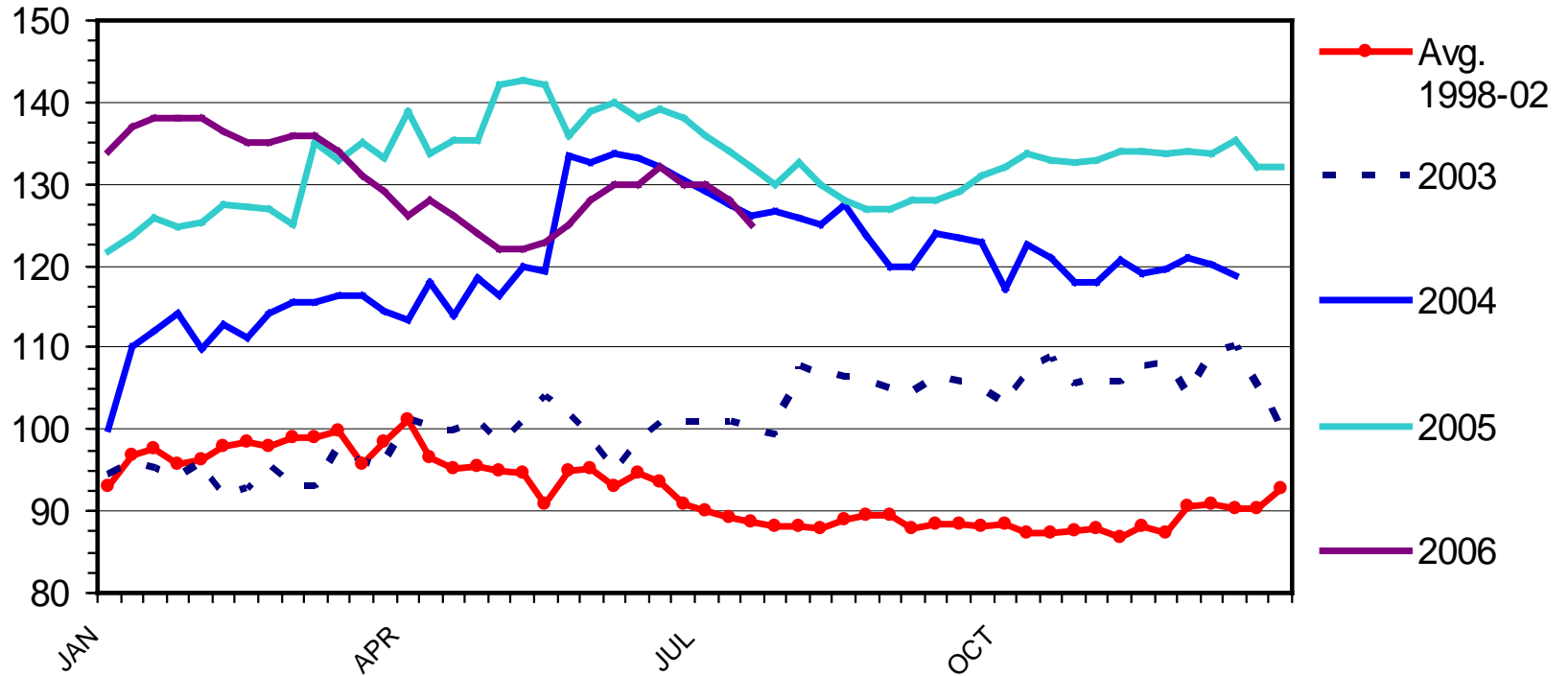
# U.S. Drought Monitor



# MED. FRAME #1 STEER CALF PRICES

550-600 Pounds, Dakotas, Weekly

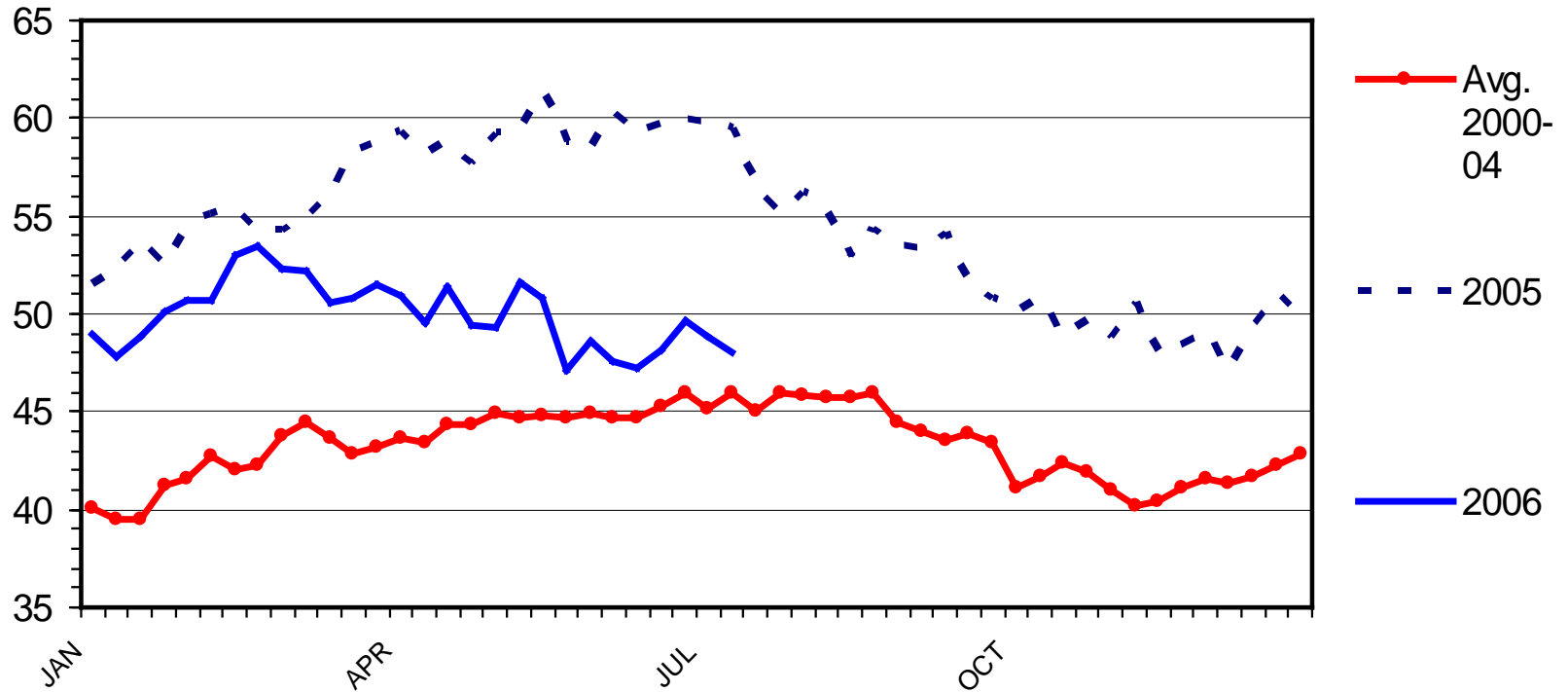
\$ Per Cwt.



# SLAUGHTER COW PRICES

85-90% Lean, Weekly

\$ Per Cwt.





Stockmens Livestock Exchange, Dickinson, ND  
Feeder Cattle Weighted Average Report for 07/27/2006

Receipts: 1198 Last Week: 1199 Year Ago: 212

Trends not applicable since the last reported sale was May 25, 2006. Today's offering consisted of yearling steers and heifers coming off grass with a few out of the feedlot. Today's receipts 64 percent steers and 36 percent heifers. 95 percent weighed over 600 lbs. The next yearling special will August 10, 2006.

Feeder Steers Medium and Large 1

Head	Wt Range	Avg Wt	Price Range	Avg Price	
21	560-571	567	122.75-125.75	124.76	
16	733-739	736	118.50-119.00	118.75	
75	773-780	779	112.00-115.50	114.78	
30	806-846	833	109.60-111.25	110.41	
43	880-896	885	104.00-106.50	105.54	
46	922-926	922	104.25-108.50	108.22	
42	967	967	104.85	104.85	Fleshy

Feeder Heifers Medium and Large 1

Head	Wt Range	Avg Wt	Price Range	Avg Price	
14	521-533	527	117.75	117.75	
14	705-720	712	111.75-112.00	111.88	
83	763-782	777	104.25-109.75	107.49	
54	819-840	831	105.25-107.75	106.25	
28	993	993	94.10	94.10	Fleshy

Cost-Return Projection -- Beef Cow-Calf Enterprise (Per Cow), 2006 <sup>1</sup>

	N.D. Avg.	Your Numbers
<b>VARIABLE COST PER COW:</b>		
1. Summer Pasture	\$ 85.00	\$ _____
2. Hay--Forage	125.00	_____
3. Other feed	15.00	_____
4. Protein and Mineral	10.00	_____
5. Hired Labor, Custom Hire	12.00	_____
6. Veterinary, Drugs, and Supplies	15.00	_____
7. Utilities, Fuel, and Oil	22.00	_____
8. Facilities and Equipment Repairs	22.00	_____
9. Breeding Charge	10.00	_____
10. Marketing	10.00	_____
11. Miscellaneous	20.00	_____
12. Interest	7.50	_____
<b>A. TOTAL VARIABLE COSTS</b>	<b>\$ 353.50</b>	<b>\$ 0.00</b>
<b>FIXED COSTS PER COW</b>		
13. Depreciation	\$ 18.00	\$ _____
14. Interest	12.00	_____
15. Insurance	9.00	_____
16. Miscellaneous	10.00	_____
<b>B. TOTAL FIXED COSTS</b>	<b>\$ 49.00</b>	<b>\$ 0.00</b>
<b>C. TOTAL COSTS PER COW (A + B)</b>	<b>\$ 402.50</b>	<b>\$ 0.00</b>
<b>RETURNS PER COW <sup>2</sup></b>		
17. Steers: .45 x 550 x 1.17	\$ 289.58	\$ _____
18. Heifers: .26 x 530 x 1.07	147.45	_____
19. Cull cows; .14 x 1100 x .47	72.38	_____
20. Cull heifers: .05 x 900 x .85	38.25	_____
<b>D. GROSS RETURNS PER COW</b>	<b>\$ 547.65</b>	<b>\$ 0.00</b>
<b>E. RETURN OVER VARIABLE COSTS (D - A)</b>	<b>\$ 194.15</b>	<b>\$ 0.00</b>
<b>F. RETURN OVER TOTAL COSTS (D - C) <sup>3</sup></b>	<b>\$ 145.15</b>	<b>\$ 0.00</b>

<sup>1</sup> Information in this budget is based on the North Dakota Farm and Ranch Business Management Annual Report, 2004.

<sup>2</sup> Returns are based on a 90 percent weaning rate, 45 steers sold, 26 heifers sold, 19 heifers kept for replacement, 14 cull cows sold, and 5 cull heifers sold. Prices are projected for fall.

<sup>3</sup> Return over total costs is return to unpaid family labor, management, and equity.

## Early Weaning

$$\begin{array}{r}
 370 \text{ lb} \\
 \underline{1.55} \\
 573.50
 \end{array}
 \qquad
 \begin{array}{r}
 550 \\
 \underline{1.17} \\
 \$643.50
 \end{array}
 = 70.00$$

### Additional Feed Costs for Early Weaned Calves, \$/head

Wt of calf	Weaning date	Days on feed	Cost of Ration (\$/lb. of gain)						
			.25	.30	.35	.40	.45	.50	
310	Jul 15	120	60	72	84	96	108	120	
370	Aug 15	90	45	54	63	72	81	90	
430	Sep 15	60	30	36	42	48	54	60	
490	Oct 15	30	15	18	21	24	27	30	
550	Nov 15	Normal sales date							

# Approximate \$/t to Haul Hay

Cost / Mile	<u>50</u>	<u>100</u>	<u>150</u>	<u>200</u>	<u>250</u>
\$4 / mile	9	18	27	36	45
Just fuel (\$3/gal)	2.75	5.50	8.25	11.00	13.75

# Haul Cattle To Pasture

- Pasture may be difficult to find with expanding drought conditions
- Adequate fence and water?
- Rates ranging from \$3 - \$3.50 per loaded mile with higher rates for shorter distances
- Costs per cow/calf pair one way @ \$3.25 per mile

<u>50</u>	<u>100</u>	<u>150</u>	<u>200</u>	<u>250</u>
5.50	11.00	16.25	21.75	27.00

- Pasture rental rates?
- Return haul?

# Hauling Pairs vs Hay, 200 mi (4 months – Aug, Sept, Oct, Nov)

Haul Pairs (30 @ \$3.25 / mile)		Haul Hay	
		Buy Hay Hire Truck	Make Hay Your Truck
Trucking	\$45	\$36 / T	\$11 / T
Pasture, fence, water, checking	\$50	\$60 / T	\$30 / T
		\$96 / T	\$41 / T
		50 lbs / day x 120 = 6000	2000 = 3 T
Total	\$95	\$288	\$123
	\$0.79 / day	\$2.40 / day	\$1.025 / day

# Selling Cows or Pairs

- Depopulation is necessary in dry areas
- Early weaning and sell cows?
- Cow prices will likely decline seasonally and cyclically
- Discuss plans with your market
- Tax consequences?

# IRS Tax Issues for Livestock Sales in Drought Year

Source: IRS Publication 225, *Farmer's Tax Guide*, 2005

Two Issues: Postponement vs. forgiveness

1. Income from any livestock sold abnormally early may be postponed for tax purposes until the next (normal marketing) year.

Example: Normally, you background feeder calves and sell in February. Due to drought and lack of feed, calves are sold in October.



- Income can be postponed if:
  - principal business is farming or ranching (IRS def: 2/3 of income generated from farm)
  - cash method of accounting
  - prove sale occurred because of drought
  - an area (not necessarily your county) must have been designated for federal assistance
  - specific information must be attached to tax return in year of sale

- Breeding, dairy, and draft livestock sales due to drought (or other perils) may be treated as “Involuntary Conversion”

Gain does not have to be reported if the same number and kind are repurchased by the end of the 4th full year after the drought sale.

Example: Normally you cull 15 cows, but in drought year 25 cows are sold. Only the additional 10 cows are eligible and must be replaced.

- If 4 years elapse without repurchase, a 1 year extension may be filed, but is not guaranteed.
- If “not practical” to replace same type of livestock, tangible replacement property (not real estate) may be purchased
- Check with your tax accountant, because other IRS provisions such as income averaging may be considered

# Summary

- Choices are extremely difficult
- Cattle prices will likely decline seasonally and cyclically
- But feeder cattle production will be profitable for several years
- Determine what your alternatives are
- Discuss alternatives with your lender