

Short Term Marketing Strategies During a Drought

May 2008



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www.ag.ndsu.nodak.edu/aginfo/lsmkt/livestock.htm

NDSU
Extension Service
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2002 vs. 2006 Drought

- 2002

- Higher cattle prices ahead
- \$1.35 highway diesel fuel
- \$1.50 feed barley

Recommendation: buy feed or haul cattle to feed to keep as many cows as possible

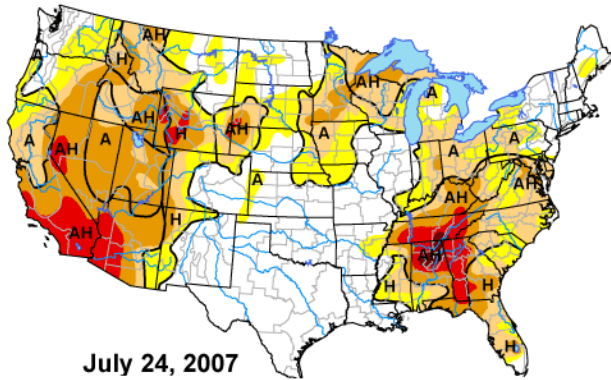
- 2008

- Steady to lower prices ahead
- \$4.00 highway diesel fuel
- \$5 feed barley

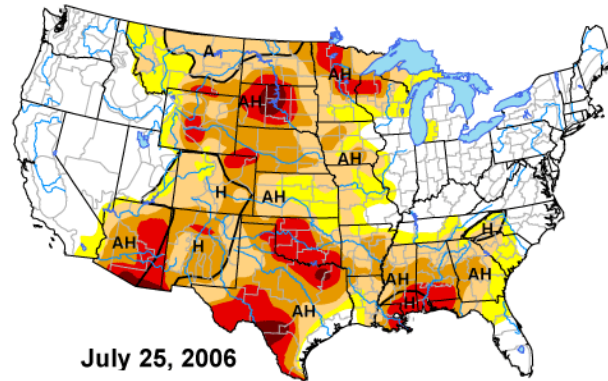
Recommendation: cull cows heavily but keep base herd

- Discuss early selling with:
 - Lender
 - Livestock Market
 - Tax Advisor

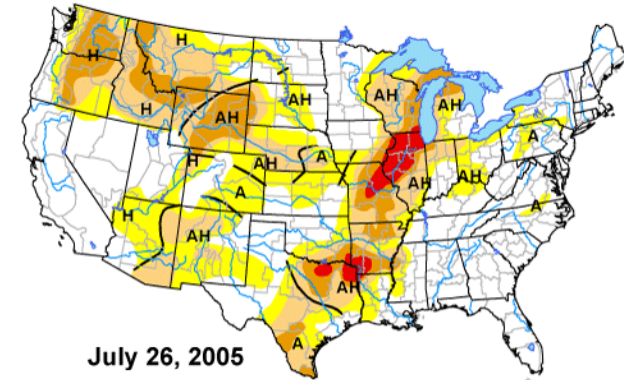
U.S. Drought Monitor



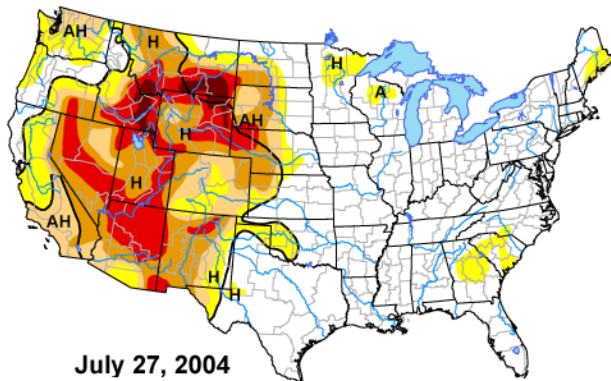
July 24, 2007



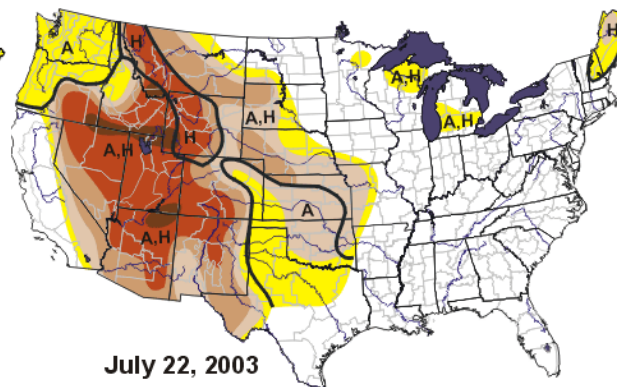
July 25, 2006



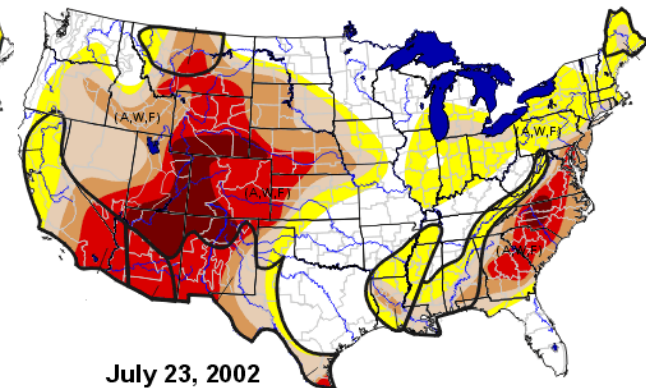
July 26, 2005



July 27, 2004



July 22, 2003



July 23, 2002

Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:

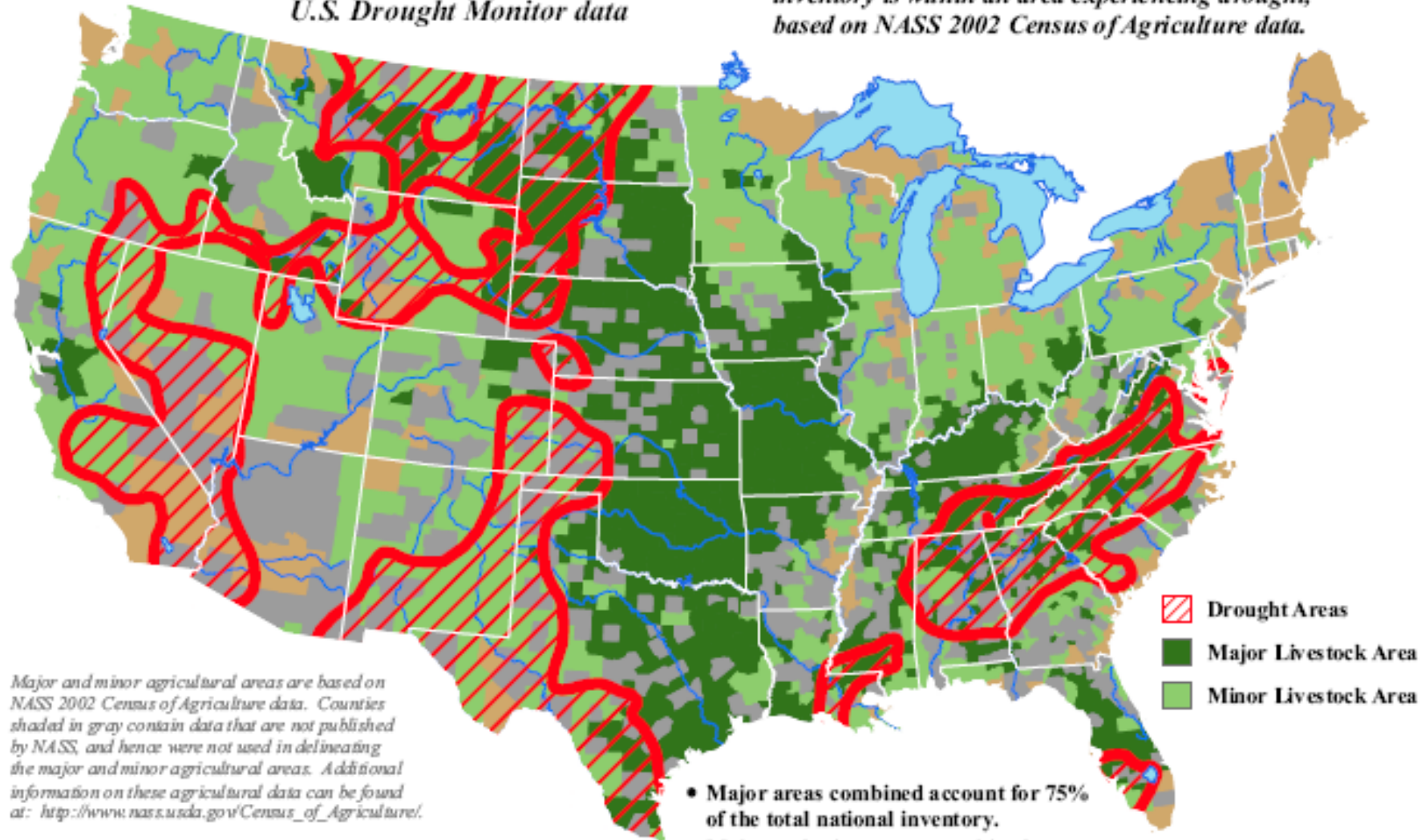
- Delineates dominant impacts
- A = Agricultural (crops, pastures, grasslands)
- H = Hydrological (water)



U.S. Beef Cow Areas Experiencing Drought

Reflects April 22, 2008
U.S. Drought Monitor data

Approximately **23%** of the domestic beef cow inventory is within an area experiencing drought, based on NASS 2002 Census of Agriculture data.

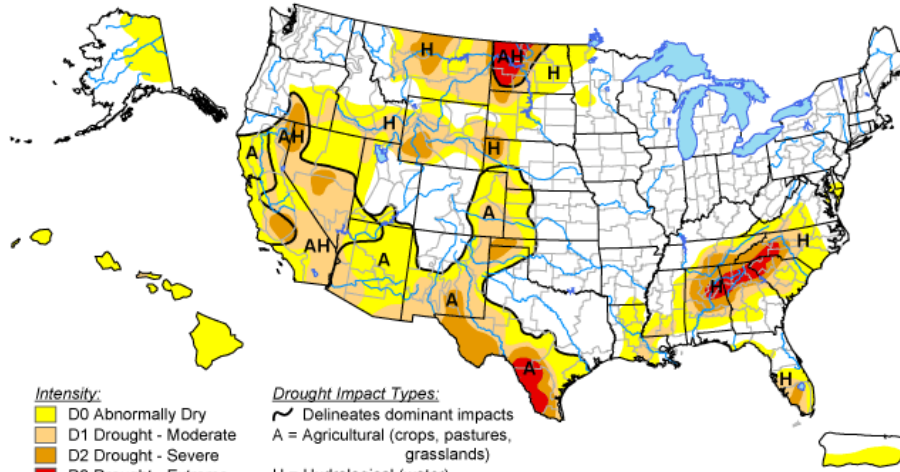


Major and minor agricultural areas are based on NASS 2002 Census of Agriculture data. Counties shaded in gray contain data that are not published by NASS, and hence were not used in delineating the major and minor agricultural areas. Additional information on these agricultural data can be found at: http://www.nass.usda.gov/Census_of_Agriculture/.

Mapped drought areas are derived from the U.S. Drought Monitor product and do not depict the intensity of drought in any particular location. More information on the Drought Monitor can be found at: <http://www.drought.unl.edu/dm/monitor.html>.

U.S. Drought Monitor

May 13, 2008
Valid 8 a.m. EDT



Intensity:
 D0 Abnormally Dry
 D1 Drought - Moderate
 D2 Drought - Severe
 D3 Drought - Extreme
 D4 Drought - Exceptional

Drought Impact Types:
 ~ Delineates dominant impacts
 A = Agricultural (crops, pastures, grasslands)
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The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>



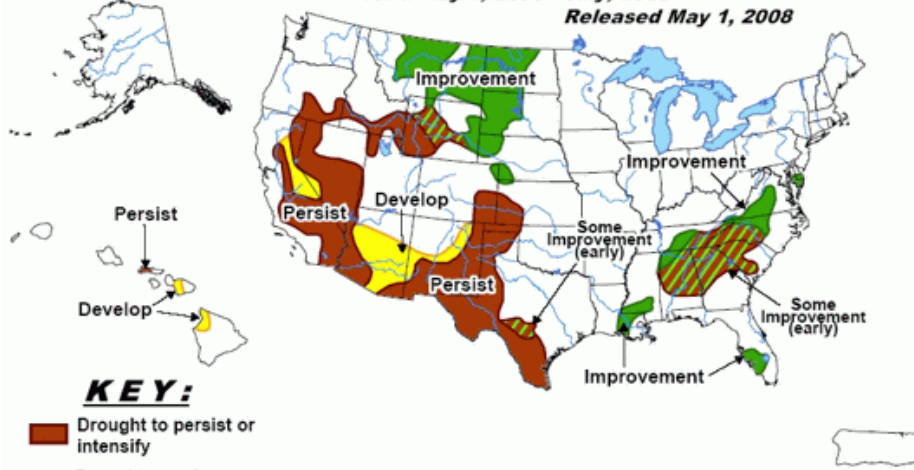
Released Thursday, May 15, 2008
 Author: Michael James, JAWF/CPC/NOAA



U.S. Seasonal Drought Outlook

Drought Tendency During the Valid Period
 Valid May 1, 2008 - July, 2008

Released May 1, 2008



KEY:

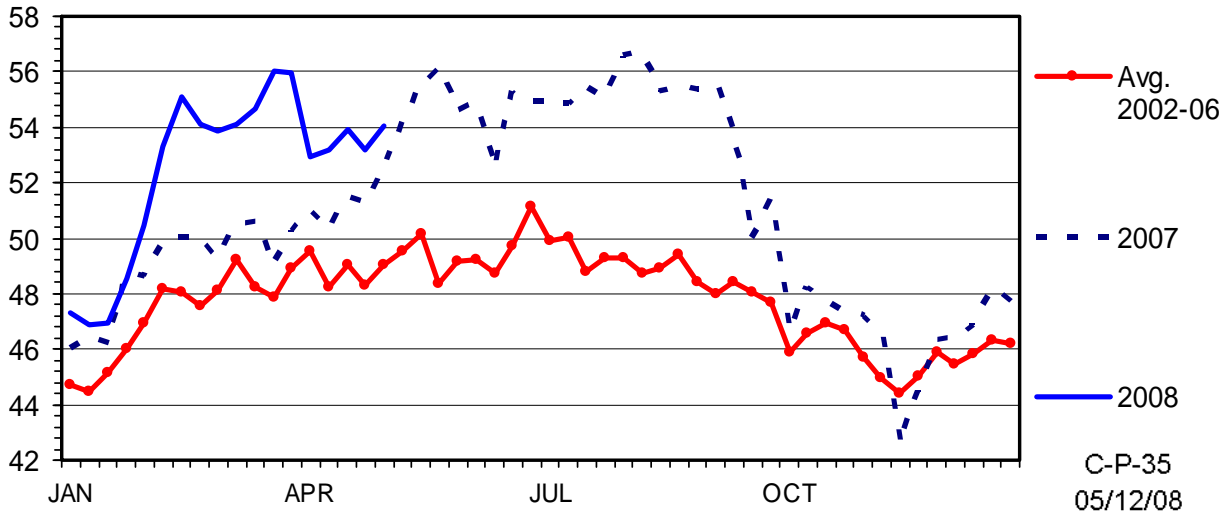
- Drought to persist or intensify
- Drought ongoing, some improvement
- Drought likely to improve, impacts ease
- Drought development likely

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events -- such as individual storms -- cannot be accurately forecast more than a few days in advance. Use caution for applications -- such as crops -- that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor. NOTE: the green improvement areas imply at least a 1-category improvement in the Drought Monitor intensity levels, but do not necessarily imply drought elimination.

SLAUGHTER COW PRICES

85-90% Lean, Weekly

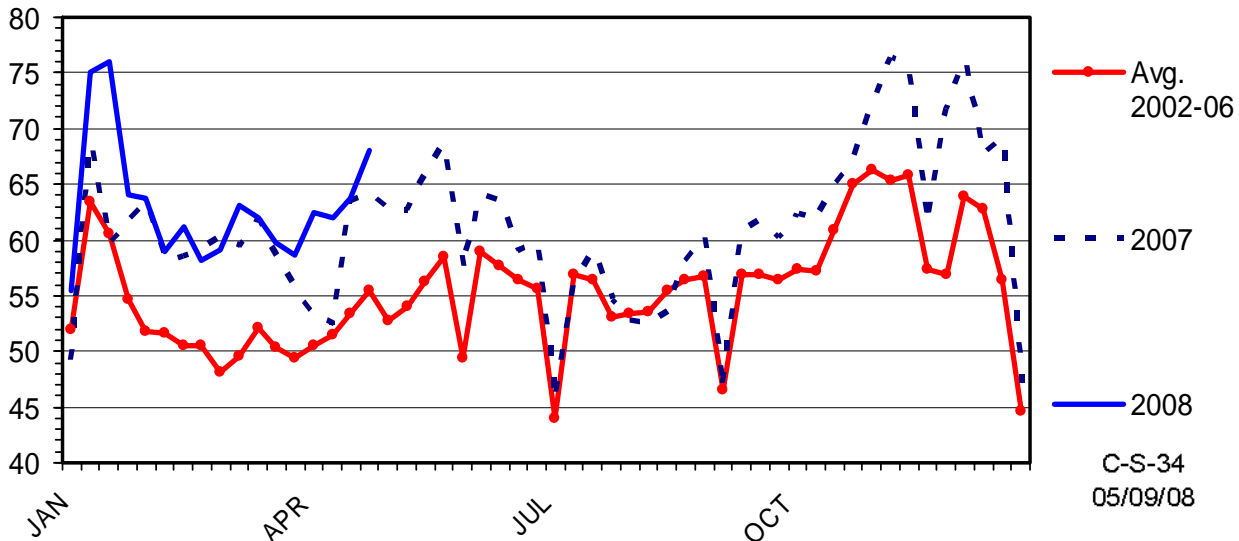
\$ Per Cwt.



BEEF COW SLAUGHTER

Federally Inspected, Weekly

Thou. Head



TOP SALES FROM COW-CALF PAIR SPECIAL

Thursday, May 6, 2008 1230 hd sold

YOUNG COW CALF PAIRS

Richardton	3	blkbwf	3-6yrs	1075.00
Keene	5	blkbwf	4-6yrs	1060.00
Taylor	5	rdbldy	2yrs	1060.00
Taylor	3	black	4-6yrs	1050.00
Dodge	8	red	4yrs	1040.00
Taylor	2	black	4-6yrs	1035.00

SHORT TERM PAIRS

Manning	10	blkbwf	1498	985.00
Taylor	4	red	1639	975.00
Richardton	12	blkbwf	1521	945.00
Halliday	3	blkbwf	1457	930.00
Dickinson	1	red	1560	925.00
Keene	9	blkbwf	1508	900.00
Gladstone	2	rwfbwf	1630	900.00
Dickinson	8	red	1424	900.00
Golden Valley	3	black	1357	900.00
Watford City	9	black	1445	900.00
Gladstone	12	black	1410	890.00
Dickinson	4	redchar	1393	885.00
Richardton	16	blkbwf	1290	885.00
Dickinson	4	black	1325	875.00
Dickinson	2	red	1470	860.00
Dunn Center	8	blkred	1335	860.00
Dodge	9	redblk	1266	825.00
Dunn Center	4	xbred	1296	800.00
Keene	2	black	1390	800.00
Belfield	12	xbred	1366	785.00
Manning	16	xbred	1244	785.00

SOLID MOUTH PAIRS

Richardton	7	black	1580	1075.00
Watford City	4	black	1511	1075.00
Halliday	4	bwf	1513	1000.00
Dunn Center	5	red	1549	995.00
Dickinson	5	blkbwf	1650	985.00
Keene	15	blkbwf	1503	975.00
Taylor	3	black	1537	950.00
Taylor	5	black	1436	930.00
Keene	5	blkbwf	1397	910.00
Dunn Center	4	black	1496	900.00

NEW CROP CALVES

Taylor	4	blk bulls	203	400.00
Dickinson	3	char str	230	390.00
Taylor	1	black	195	385.00
Dickinson	2	char hfr	195	380.00
Dickinson	2	blk hfr	258	375.00
Dickinson	1	rdbldy	235	360.00
Taylor	2	blk hfr	188	350.00
Dickinson	5	blkbwf	271	325.00
Dickinson	2	blkbwf	208	300.00
Taylor	2	blk bulls	120	270.00
Taylor	3	blk bulls	120	260.00
Rhame	2	black	130	230.00
Dickinson	2	blkbwf	135	200.00
Amidon	3	red	125	200.00

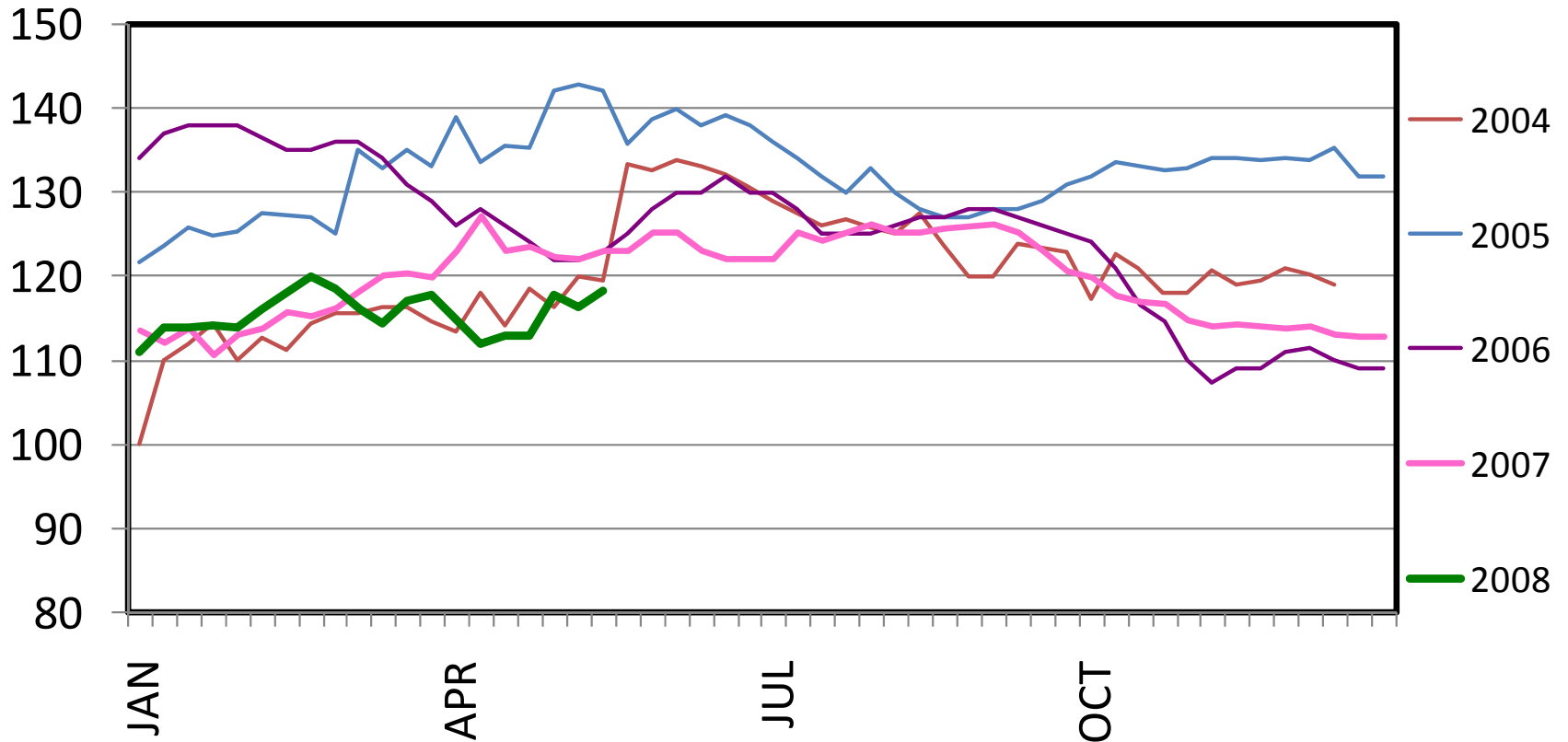
wgt w/
calves

Cow Calf Pair Marketing

- Contact market in advance
- Sell oldest and youngest first
- Consider withdrawal periods for medications because cows may go to slaughter

MED. FRAME #1 STEER CALF PRICES

550-600 Pounds, Dakotas, Weekly



IRS Tax Issues for Livestock Sales in Drought Year

Source: IRS Publication 225, *Farmer's Tax Guide*, 2007

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 are complex

Questions?

