# Master Cattleman Quarterly

## Oklahoma State University


### Beef Exports Provide Strong Market Support

*Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist*

International trade continues to grow and play an increasingly important role in the U.S. cattle and beef market. At a time when domestic beef demand is still struggling, demand for U.S. beef in export markets continues to grow. The most recent monthly trade data show that beef exports in April jumped 26 percent compared to one year ago. Beef exports for the first four months of the year are up 31 percent over last year. This rapid export growth is a pleasant surprise as exports were expected to grow only moderately over last year's 19 percent year over year increase over 2009. Increased beef exports are led by a dramatic jump in exports to South Korea and a strong increase to Japan as well as increased exports to Canada.

For the year to date beef exports are up to all major markets with the exception of Vietnam (currently the sixth largest beef export market) and Taiwan (currently the seventh largest export market). For the first four months of the year, South Korea has replaced Mexico as the largest U.S. beef export market. The Mexican economy continues to struggle but year to date beef exports are up slightly. Also at the current pace, Japan would rise to third place with Canada dropping to fourth place as a U.S. beef export destination.

Exports continue to be supported by a weak U.S. dollar, which has protected foreign buyers from much of the higher beef prices seen in the U.S. Additionally, strong exports reflect growing international beef demand and decreased production from some other major beef producers including Canada and Australia. International market strength is further indicated by record high beef by-products values, which are largely driven by exports demand for hides and offals. Some of the increased exports to South Korea and Japan are no doubt linked to disasters in those countries (FMD in South Korea and the Tsunami/earthquake/ nuclear plant breach in Japan) which have disrupted beef production. These disaster related factors will likely diminish somewhat in coming weeks and months in the Asian markets but the underlying demand strength seems firm.

Beef imports continue to decrease thus far in 2011.Beef imports for April were down 10 percent from 2010 and for the year to date are down 17 percent. Beef imports are down 7 percent from New Zealand but are down more sharply from Canada and Australia, the two major beef import sources. Beef imports continue to be very limited from Brazil. Among smaller importers, beef imports are up from Mexico, Argentina and Uruguay. U.S. beef imports continue to be limited as strong international demand provides alternative markets for world beef producers and the weak U.S. dollar limits the attractiveness of the U.S. market.

Live cattle imports may be playing a particularly important role in feeder cattle markets this spring. Mexican cattle imports were up 10 percent in April and are up 28 percent for the first three months of the year. Most Mexican cattle imports are lightweight feeders and usually enter stocker production prior to feedlot placement. However, there are indications that many, if not most, of the increased Mexican cattle imports this year are being placed directly in feedlots. This is offset to a degree by sharply lower cattle imports from Canada. Total cattle imports are down 7 percent for the first four months of the year. At the current pace, Mexico is on track to export roughly 1.3 million head of cattle to the U.S. in 2011.It is not clear if this is a sustainable rate and may be impacted by U.S. price levels and whether the current drought in northern Mexico extends into the normal rainy season that begins in June.


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## Reminder: Drought/Disaster Assistance Available to Livestock Producers

*Jody Campiche, Assistant Professor and Extension Economist*

Livestock producers across Oklahoma have been affected by recent weather events, including droughts, wildfires, and tornados. Several programs administered by the Farm Service Agency (FSA) are available to assist livestock producers.

**Conservation Reserve Program (CRP) Emergency Grazing**

Emergency grazing of CRP land has been authorized in twenty-two Oklahoma counties as of May 31, 2011 due to the drought conditions across much of the state. The counties include: Alfalfa, Beaver, Beckham, Blaine, Cimarron, Comanche, Cotton, Custer, Dewey, Ellis, Greer, Harmon, Harper, Jackson, Kiowa, Major, Roger Mills, Texas, Tillman, Washita, Woods, and Woodward. At this time, haying is not permitted and grazing is allowed through September 30, 2011 (or earlier, if conditions return to normal). Acreage is eligible for emergency grazing regardless of whether or not the acreage was hayed or grazed during the managed haying and grazing period in the previous two years. Managed haying and grazing is allowed in one out of every three years following the establishment of the CRP cover. The managed grazing period for 2011 in Oklahoma counties is July 2, 2011 – September 30, 2011. The managed haying period for 2011 in Oklahoma counties is July 2, 2011 – August 10, 2011.

It is important to note that acreage hayed or grazed during either the emergency or managed authorizations in the current year will not be eligible for managed haying or grazing for two years. Producers who elect to participate in either emergency or managed haying or grazing will receive a 25% reduction in their annual rental payment on the acres hayed or grazed and the acres will not be eligible for managed haying or grazing for two years. To participate, producers should file a request with their county FSA office prior to grazing CRP land. Livestock producers can also rent emergency grazing privileges from a CRP participant.

**Livestock Forage Disaster Program (LFP)**

The Livestock Forage Disaster Program (LFP) provides assistance to producers who suffered grazing losses due to drought or fire occurring between Jan. 1, 2008 and Oct. 1, 2011. Eligibility for the program is determined on a county basis by the U.S. Drought Monitor. Producers must apply for benefits within 30 days after the end of the calendar year in which the grazing losses occurred. To qualify for the program, producers must have a crop insurance policy or a Noninsured Crop Disaster Assistance Program (NAP) policy on grazed acres with a loss. Producers are only required to have insurance coverage on acres for which benefits are being requested.

**Livestock Indemnity Program (LIP)**

The LIP provides assistance to producers for losses due to livestock deaths in excess of normal mortality as a result of adverse weather occurring between Jan 1, 2008 and Oct. 1, 2011. Adverse weather events include tornados, hurricanes, floods, blizzards, disease, wildfire, extreme heat, and extreme cold. For this program, livestock do not have to be located in a county or contiguous county designated as a natural disaster. This program does not include a risk management purchase requirement. Producers are not required to have insurance coverage to qualify for this program. Producers receive 75% of the average fair market value for livestock deaths in excess of normal mortality. Losses must be reported within 30 days of the severe weather event. It is important to note that even if losses for a specific weather event are not above the normal mortality rate, producers should still report the losses to their local Farm Service Agency (FSA) office in case additional losses are incurred at a later date.

**Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP)**

The ELAP program provides emergency relief to livestock producers due to blizzards, flooding, and wildfires. Benefits include: (1) pasture losses, (2) feed and forage losses produced on the farm or purchased prior to the disaster event, (3) above normal purchase of feed and forage, and (4) expenses to deliver feed to stranded livestock. To qualify for this program, producers must have a crop insurance policy or NAP coverage on every farm and commodity (excluding grazed acres). The ELAP program provides compensation for losses that are not covered through other disaster programs, including LFP and LIP.

For all of these programs, producers should check eligibility and apply for benefits at their county FSA office. For more information on eligibility and payment rates, click on the following links:

CRP Emergency and Managed Haying and Grazing

http://www.fsa.usda.gov/FSA/webapp?

area=home&subject=copr&topic=crp-eg

June 2009 Master Cattleman Article on Livestock Disaster Programs by JJ Jones http://agecon.okstate.edu/cattleman/files/newsletter/mc_spring_newsletter_2009_v3.pdf

Livestock Forage Disaster Program (LFP)

http://www.fsa.usda.gov/Internet/FSA_File/lfp_2011_pfs.pdf

Livestock Forage Disaster Program Eligibility Maps

http://www.fsa.usda.gov/FSA/webapp?area=home&subject=diap&topic=lfp

Livestock Indemnity Program (LIP)

http://www.fsa.usda.gov/Internet/FSA_File/lip2011_158c020211.pdf

## Oklahoma Pasture Land Values, Rents and Price to Value Ratios

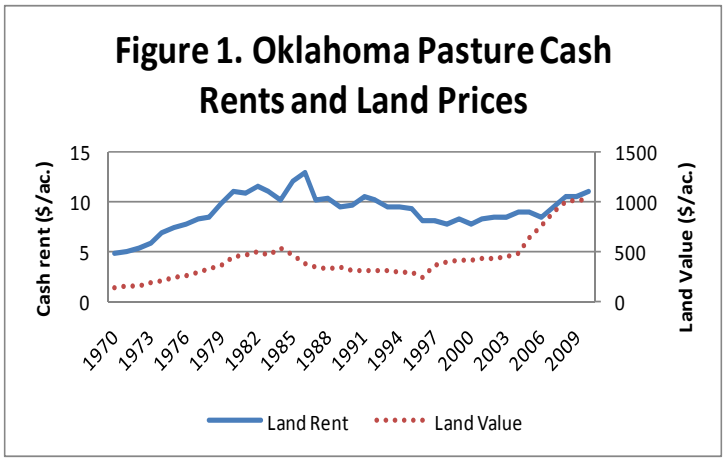
*Roger Sahs and Damona Doye*

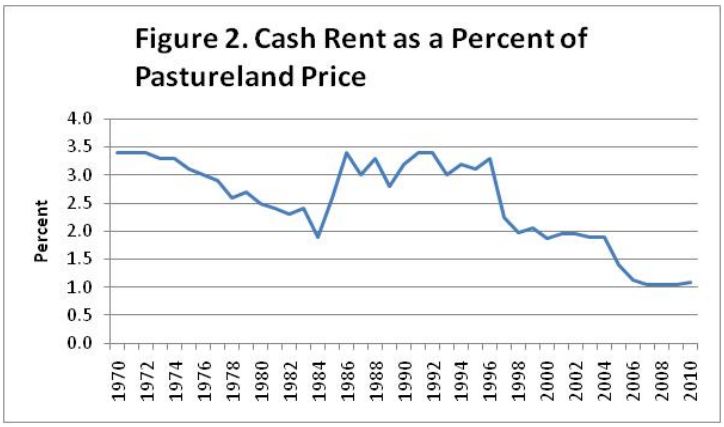
In February, 2010 Gary Schnitkey at University of Illinois posted an article, "Farmland Price Outlook: Are Farmland Prices Too High Relative to Returns and Interest Rates" on farmdoc's website. We've repeated what he did, using Oklahoma data for pastureland and cropland. The U.S. Department of Agriculture regularly reports agricultural land values and associated cash rents for Oklahoma (Figure 1). All data are shown in nominal terms. Oklahoma pasture land values have surpassed the previously high levels of the early 1980s and have recovered from the years of devaluation that followed. Meanwhile, average cash rents have not yet reached 1980 levels. In the past decade, cash rents increased 33% while pasture prices increased 140%. In recent years, pasture land markets have benefited from low interest rates, strong hobby farm and outdoor recreational interests, and outside investors looking for alternatives with potential income and value growth. Since 2008, however, land prices have stabilized and cash rents grew more slowly due to lingering recessionary fears.

Another perspective on real estate markets is provided by examining the relationship of earnings to market value, for example, by dividing the gross cash rent by the land value (Figure 2). Though pasture values and cash rents have both increased since the 1990s, land prices have increased faster as shown by changes in the cash returns as a percent of pasture land value.

As recently as 1996, the gross cash rent to value ratio was 3.3%. Since then, cash rents as a percentage of pasture land values have steadily declined and presently are hovering around 1%. This decline could lead to waning interest in pasture land as an investment, since basic earnings for an absentee landowner are decreasing as a percent of land price. However, additional income from recreational leases may not be reflected in these cash rent values and could boost returns significantly.

Another perspective on land prices is provided by comparing price to capitalized value where capitalized value reflects impacts of cash rent and interest rate changes on land values. The capitalized value repre-



*Pasture Values, Rents and Price to Value Ratios (continued)*

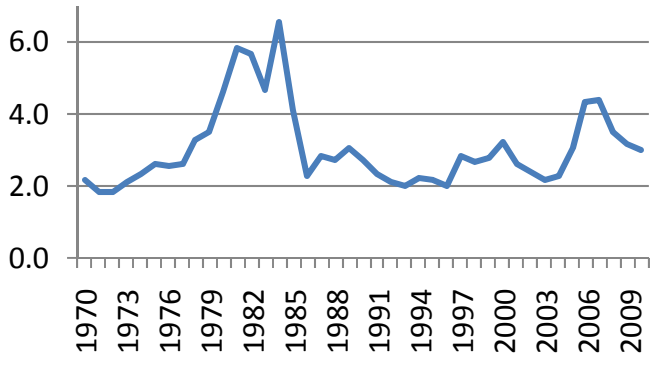
sents the estimated discounted value of all future cash flows to agricultural land, where here the capitalized value equals cash rent divided by the interest rate on a 10 -yr Treasury note. An increase in cash rents and/or a decrease in interest rates will strengthen capitalized values.

Capitalized values were calculated for each year between 1970 and 2010 and then compared to land prices through land price-to–capitalized value ratios. In 2010, pasture cash rent was $11 per acre and the 10-year Treasury note rate was 3.22%, so its capitalized value was $343 per acre ($11/.0322). The average pasture land price was $1,020 leading to a 2010 price-to-value ratio of 2.97 ($1,020 land price / $343 capitalized value). This means that pasture land price is 297% of capitalized value.

Figure 3 shows these vales for pastureland and Figure 4 shows the cropland values. Price-to-value ratios above one signal that the land prices exceed capitalized values and may fall if economic fundamentals do not support higher land prices. The 2010 price-to-value ratio can best be interpreted in relative context to historical levels. Between 1970 and 2010, the highest ratios for both pasture and cropland occurred during the early 1980s where capitalized values declined with increasing interest rates. At the same time, land values increased dramatically. Ratios greater than 5 for pasture and 3 for cropland were common during this boom period.

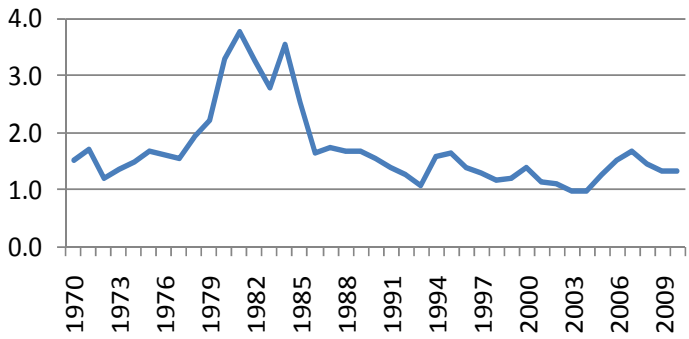
A devaluation period in land values began in earnest

**Figure 3. Oklahoma Pasture Land Price Divided by Capitalized Value**




in the mid-1980s and persisted until the mid-1990s. Between 1986 and 2010, the price-to-value ratio averaged

**Figure 4. Oklahoma Cropland Price Divided by Capitalized Value**




2.73 for pasture and 1.37 for cropland. In the mid-2000s, land prices increased at double-digit percentage rates due to a variety of ag and non-agricultural factors, including urban and recreational influences and 1031 tax exchanges. Since 2008, cash rent increases and declining interest rates have brought price-to-capitalized values somewhat more in line with prices, particularly for cropland with ratios now closer to 1.Still, the pasture ratio hovers around 3, compared to a non-boom average closer to 2.

Concerns remain that pasture land prices are well above those supported by cash rents. Interest rate declines have played a supporting role in increasing farmland price as lower interest rates make it easier to finance farmland assets and also make farmland attractive compared to other fixed income investments. Thus, a longer run risk to pasture values is that current interest rates are historically low and likely to rise. When they do, it may place downward pressure on land prices.

Pasture values have shown a more rapid rate of gain over cropland values, especially in many eastern areas of Oklahoma where pasture land commands a premium over cropland. Although Oklahoma is less populated than many other states, the urban influence on agricultural real estate is strong and recreational interests are a positive factor. Likewise, forage-based livestock gains have enhanced value in high grain markets, which helps support pasture rents and land values

**Summary**

Agricultural land represents an income-producing asset and its value is essentially driven by current and expected earnings that it generates. Pasture rents and val-

ues have risen in recent years. Over the next year, this trend is likely to continue given a strong cattle economy, high grain prices, low interest rates, and continued non-farm investor interest. In the longer term however, changing economic conditions and/or interest rate increases could adversely impact pasture values and earnings. For more, agricultural land values and cash rent information, see:

Kansas City Federal Reserve Bank: http://www.kc.frb.org/research/indicatorsdata/agcredit/

OSU CR- 216, Oklahoma Pasture Rental Rates: 2010-11.

http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-7364/CR-216web10-11.pdf

OSU AGEC-214, Developing Cash Lease Agreements for Farmland,

http://osufacts.okstate.edu/docushare/dsweb/Get/Document-1793/AGEC-214web.pdf

USDA NASS Charts and Maps of Land Values and Rental Rates:

http://www.nass.usda.gov/Charts_and_Maps/Land_Values_and_Cash_Rents/index.asp

USDA Land Values and Cash Rents 2010 Summary:

http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1446

Annual Ten-year United States Treasury Constant Maturity:

http://www.federalreserve.gov/releases/h15/data/Annual/H15_TCMNOM_Y10.txt

OSU Agricultural Land Value Website: www.agecon.okstate.edu/oklandvalues

## Beating the Bushes for Feeder Cattle

*Derrell S. Peel, Oklahoma State University Extension Livestock Marketing Specialist*

For several months I have been anticipating that tight feeder supplies would catch up with feedlots and feedlot placements would have to decrease due to a lack of cattle. I still think that will happen but, I confess, I continue to be amazed at the cattle industry's ability to wring out feeder supplies to an extent unlike anything we have seen before. The May Cattle on Feed report shows feedlot inventories up seven percent over this time last year. However, it should be noted that the May 1 inventory is only 101.4 percent of the previous five year average and highlights the fact that we are still comparing to a small year-ago value.

April placements were up 10 percent year over year and were up nearly 13 percent over the previous five year average for April. It is a big placement number by any measure. This highlights the obvious question of where feedlots continue to find these numbers of feeder cattle to place. It is necessary to look at the placement weight breakdown and regional patterns, along with other data to understand just how unique the current situation truly is.

The placement weight breakdowns show a bimodal placement pattern that reflects what cattle feeders would like to versus what they are able to do. With high cost of gain and expectations for continued high feed costs, feedlots have an incentive to place heavy feeders. Indeed, of the increase in April placements, 31 percent were feeder cattle over 800 pounds. Placements weighing between 600 to 800 pounds accounted for only 16 percent of total April placements. The biggest part of the placements was feeder cattle weighing less than 600 pounds, which accounted for 52 percent of total placements. These cattle will not be marketed until roughly November. Despite high feed costs, feedlots are placing very lightweight calves…calves that would typically be part of feeder supplies later in the year.

State to state comparisons of the placements is also instructive. Most of the increase in placements occurred in the Southern Plains. Placements were up in Kansas, Oklahoma and Texas. In Texas, where placements were up by a total of 110,000 head, 73 percent consisted of cattle weighing less than 600 pounds. Many of these lightweight cattle consisted of Mexican cattle that are directly entering feedlots rather than grazing as stockers. The lightweight placements likely also included some drought forced early weaning, especially fall born calves. Some of the 28 percent of Texas placements weighing more than 600 pounds were likely heifers diverted from

*Beating the Bushes for Feeder Cattle (continued)*

planned replacements due to the drought conditions. The weight breakdown in Kansas shows that most of the increase consisted of feeders over 700 pounds. This likely included mostly yearling stockers but may have also included some heifers originally planned for herd replacements.

Feedlot placements were also up in California, Arizona and Idaho. Although there is no weight breakdown of placements in those states it is highly likely that most of the increase was in lightweight dairy calves. Calf slaughter for the nation was down 13 percent in April and is down 11 percent for the year to date. Though calf slaughter is minor compared to total cattle slaughter, this is one more small increment to boosting placements in the short run.

In contrast, April placements were down in Colorado, Iowa, Nebraska and South Dakota. The decrease is consistent with the cool, wet conditions and limited feeder supplies in the region. In Nebraska, placements of feeders over 800 pounds were up slightly but were more than offset by decreased placements in all other weight categories.

One final unique contributor to larger feedlot inventories is decreases in the other disappearance category of the Cattle on Feed report. Other disappearance occurs for several reasons but at this time of the year often includes some lightweight cattle that initially arrive at feedlots then return to pasture when forage conditions improve. This is happening much less this year. In fact, other disappearance has been down year over year for each of the last six months. Like calf slaughter, other disappearance is a minor factor but these two, combined with direct placement of Mexican feeder cattle is indicative of the very unique situation and the intensity with which feeder markets are beating the bushes to find feeder cattle supplies.

The vacuum of feeder cattle supplies would already be very apparent without increased Mexican cattle imports, which are unlikely to continue at current rates; reduced veal production, which is already projected to show a nearly 10 percent annual decrease; drought forced calf and replacement heifer sales, which are likely mostly done at this point; and reduced other disappearance, which is already at minimal levels. The increasingly steep downhill slope of feeder supplies is turning a precipice over which we are likely to fall in the next month or two…unless the market can pull another rabbit, or more feeder cattle, out of the hat once again.

## Tax Consequences of Weather Related Sale of Livestock

*J C. Hobbs, Assistant Extension Specialist*

As of June 1, 2011, extreme weather conditions in Oklahoma during the past several months have resulted in all 77 counties receiving disaster area designations by the President and/or the Secretary of Agriculture. These designations result in two preferential tax treatments for livestock producers that have sold a larger number of animals than is the normal business practice.

A producer who sells livestock because of a shortage of water, grazing, feed production, or other consequences of a weather related condition may postpone the payment of income tax on the taxable gain from the sale. There are two separate and distinct tax treatments, both of which apply only to weather related sales of livestock in excess of normal business practice.

The election to postpone gain by replacing the livestock within a two-year period applies to draft, breeding, or dairy animals that will be replaced within a two-year period. The election to postpone reporting the taxable gain for one year applies to all livestock.

***Note:*** The two-year replacement period can be extended to four years if the area is eligible for assistance by the federal government as declared by the president. The Secretary of the Treasury can extend the replacement period for an even longer period of time if the weather condition continues for more than three years.

### Election to Postpone Gain by Purchasing Replacement Animals

If livestock (other than poultry) held for any length of time for draft, breeding, or dairy (no sporting) purposes are sold because of a weather related condition, the gain realized on the sale does not have to be recognized if the proceeds are used to purchase replacement livestock within two years of the end of the tax year of the sale.

The new livestock must be used for the same purpose as the livestock sold. Therefore, beef cows must be replaced with beef cows. The taxpayer must show that weather caused the sale of more livestock than otherwise would have been sold in a typical year. For example, if a cattleman normally culls or sells one-fifth of the herd each year, only the sales in excess of one-fifth will qualify for this provision. There is no requirement that the weather conditions cause an area to be declared a disaster area.

*Tax Consequences of Weather Related Sale of Livestockle (continued)*

**Example**. A rancher normally sells 15 cows from his beef herd each year. In 2011, drought conditions reduced his hay crop so that he did not have enough to carry his normal herd through the summer. Consequently, he sold 35 cows rather than 15 in 2011. He plans to purchase additional cows in 2012 to replace the extra 20 that were sold. Only 20 of the cows sold in 2011 qualify for the deferral of gain due to the drought. The rancher then reports the purchase of qualified replacement cows with his 2012 and/or 2013 return

**Election to Defer Income to Subsequent Tax Year**

If any livestock is sold because of weather conditions, the taxpayer may be eligible for another exception to the general rule that the sale proceeds must be reported in the year they are received. This election applies to all livestock. This exception allows the taxpayer to postpone reporting the income by one year.

To qualify, the taxpayer must show that the livestock would normally have been sold in a subsequent year. Furthermore, a weather related condition that caused an area to be declared a disaster area must have caused the sale of livestock. It is not necessary that the livestock be raised or sold in the declared disaster area. The sale can take place before or after an area is declared a disaster area as long as the same disaster caused the sale.

The amount of income that can be postponed is computed as follows: Assume that because of weather, a taxpayer sold 500 head of calves in 2011 instead of the 300 she normally would have sold. She received $300,000 for the 500 head sold. She can postpone reporting the sale of only 200 calves. That amount is calculated by dividing the sale proceeds by the 500 calves sold and multiplying the result by the 200 for which she can postpone the proceeds. Therefore, $120,000 can be reported in 2012 rather than in 2011. ($300,000/500) x 200 = $120,000.

For additional information concerning weather related sales and the income tax rules that apply simply click on the following link: **AGEC-788 Tax Consequences of Weather Related Sale of Livestock**.

## Weaning Fall-born Calves

*Glenn Selk, Oklahoma State University Professor Emeritus*

Many cow/calf operations with fall-born calves will wean the calves in mid to late June. Weaning during very hot summer weather is stressful enough to the calves. Therefore any management strategy that can reduce stress to the calves should be utilized. "Fenceline weaning" is such a strategy that should be applied.

California researchers weaned calves with only a fence (Fenceline) separating them from their dams. These were compared to calves weaned totally separate (Separate) from dams. Calf behaviors were monitored for five days following weaning. Fenceline calves and cows spent approximately 60% and 40% of their time, respectively within 10 feet of the fence during the first two days. During the first three days, Fenceline calves bawled and walked less, and ate and rested more, but these differences disappeared by the fourth day. All calves were managed together starting 7 days after weaning. After two weeks, Fenceline calves had gained 23 pounds more than Separate calves. This difference persisted since, after 10 weeks, Fenceline calves had gained 110 pounds (1.57 lb/day), compared to 84 pounds (1.20 lb/day) for Separate calves. There was no report of any differences in sickness, but calves that eat more during the first days after weaning should stay healthier. A follow-up study demonstrated similar advantages of fenceline contact when calves were weaned under drylot conditions and their dams had access to pasture. To wean and background, even for short periods, fenceline weaning should be considered. (Source: Price and co-workers. Abstracts 2002 Western Section of American Society of Animal Science.)

During the hot summer days, having adequate water available for the cattle is a **MUST**. Experienced ranchers that utilize fenceline weaning have found that having plenty of water in the region where the cattle are congregated can be a challenge. Plan ahead before you begin the weaning process to be certain that sufficient water can be supplied to both sides of the fence.

**New Dates for Master Cattleman Summit! Save Oct. 14-15 for this great educational event in Stillwater.**

## New/Updated Publications for Beef Producers

Conservation Reserve Program (CRP) Emergency Grazing, *Agricultural Policy News"*, June 2011. http://agecon.okstate.edu/faculty/publications/4019.pdf

Crop and Forage Recordkeeping Software, CR –2133

OSU fact sheets are available at: http://osu acts.okstate.edu Enter the publication number or topic in the Search field at the top right of the screen on the website. Also, don't forget to look for resources on Beef Extension.com where you find not only publications but also software tools.

## IFMAPS Help a Phone Call Away

Financial pressures from the drought or a poor wheat crop have you stressed? IFMAPS staff have been helping producers analyze their farm/ranch business performance and evaluate alternative plans for more than 20 years. A fresh set of eyes may see something that you can't. Free, confidential one-on-one assistance in assessing your business future and identifying alternatives to improve finances is available by calling 1-800-522-3755 to schedule an appointment. For more information, see agecon.okstate.edu/ifmaps

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