Master Cattleman Quarterly

Oklahoma State University

Every Decision Counts

Scott Clawson, NE District Area Extension Ag Economics Specialist

All signals point to go. Drought conditions that have hampered cow herd expansion in the recent past have been largely alleviated in this region, and cow calf returns are at historic highs. At the same time, the payments from the Livestock Forage Disaster Program have helped remedy some of the financial strain experienced in the less profitable, drought stricken, high feed stuff years. Cow calf producers seem to be responding to the expansion call.

As cow calf managers, the question of how to expand is more difficult than the question of should we expand. A quick survey of the markets show groups of yearling replacements about $1,700, bred heifers around $2,500, and aged cows selling higher than ever. Generally speaking, these prices are not out of line with the possible net returns from the current calf market, pasture conditions, and input costs. Unfortunately, evaluating the investment in a cow herd is a long term decision that extends past the current markets. Our other expansion option is to retain heifers that were raised on our own operation. This method of expansion provides many advantages. Being able to retain females out of our own genetics that hopefully are a great match to our production system can pay long term dividends. There is also value in knowing how these heifers are developed nutritionally as research has shown time and time again that it impacts the long term productivity of the females. Collectively, the more influence we have managing the heifers, the more certain we can be that it is done correctly.

Keep in mind that management decisions need to be evaluated again at these unprecedented price levels. As a quick example, virtually all producers would agree that we should select a calving ease bull to use on heifers. But, have we calculated what using that low birth weight bull costs an average size operation? An average size cow calf operation consisting of 30 cows that keeps back 5 replacements every year to replace aging cows would only be able to justify having one bull around. If we purchased this bull with the intention to keep heifers then the birth weight EPD received quite a bit of selection pressure, and we sacrificed in other areas. If our calving ease bull sacrifices 25 pounds of weaning weight on the calves from the 25 mature cows, then we have forfeited some significant revenue. Twenty-five pounds multiplied by 25 mature cows results in 625 pounds of weaning weight. At current prices, that would be well over $1,500 dollars. This lost revenue needs to be considered.

This is just one example of a laundry list of factors to consider in the expansion equation. The current market can push us to take another look at many decisions. Virtually every decision that we make on cow calf operation right has significant implications as every pound of weaned calf lost or gained is worth more than it ever has been. Iowa State University has a great tool to help calculate the raise versus buy decision. It can be found at:

http://www.extension.iastate.edu/agdm/decisionaidsld.html. Select the link titled *Raising Heifers for Beef Cow Replacement.*

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In this issue:

Leather Prices Soar

Livestock Marketing Information Center

After tanning, a single steer hide can produce enough leather for 11 cowboy boots, 20 footballs or one sports car bucket seat. Hides are becoming more and more valuable as cattle supplies are tight, both domestically and worldwide, and demand for leather goods is increasing. Hides are an important contributor to animal value and also constitute just over half of the non-meat or byproduct value.

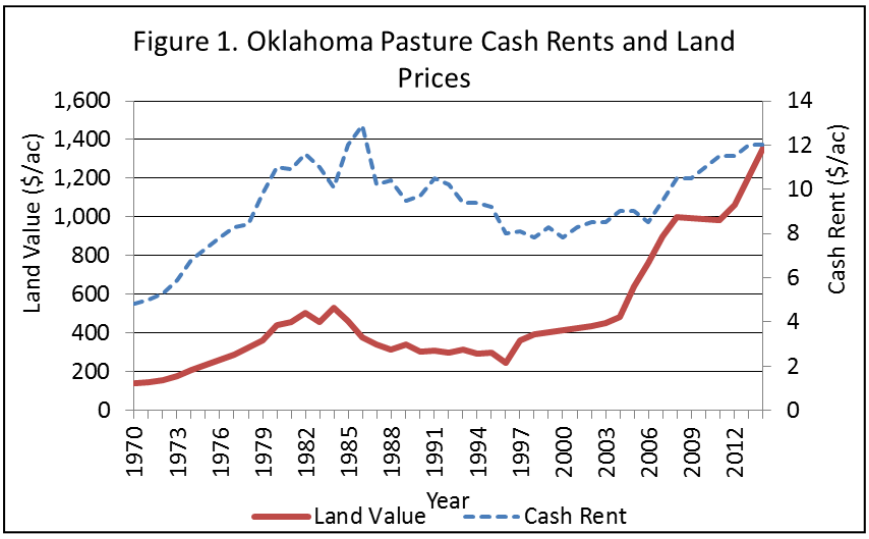
The USDA-AMS reports weekly beef byproduct prices, including hide values. Several wholesale hide prices are reported for steers, heifers, and cows including; heavy native, native steer, Colorado branded, heavy Texas, and butt branded. The heavy native steer, Colorado branded steer, heavy Texas, and butt branded steer provide the most consistent price records. Since AMS began reporting those prices in 1995, heavy native steer hides have mostly stayed in the $60-$80 per hide range through 2008, with fairly consistent prices during a given year. In 2009, the hide market took a significant downturn, along with the economy, with values dropping to a low of around $30 per hide. Mid 2010 saw a rebound in prices to normal levels, and since 2011 hide values have taken off. January of 2011 was the first time hide values eclipsed $80, since 2001.

Heavy steer hide prices set a record the end of September this year, at $116.25 per piece. The most recent report recorded prices at $112.95 per piece for the second week of November; year-over-year that is an 8% price increase. Compared to a $70 per hide average prior to 2009, wholesale leather costs for luxury goods manufacturers have surged 60%. As would be expected, industry sources are reporting high priced hides are causing some leather users to switch to less expensive lower grades of leather, canvas, and synthetic leather-like products. Some have even suggested changes in luxury women's boots toward shorter (ankle high) styles in part due to higher wholesale leather costs.

Oklahoma Pasture Rental Rates: Headed Up?

Damona Doye, Regents Professor & OSU Farm Management Specialist

For livestock producers, the cost of forage is a significant component of the total cost of production. A 2014 OSU spring calving cow-calf budget shows pasture is more than one-third of the annual operating costs when labor costs are included (the percent would be even higher if labor costs were excluded). Whether you rent or own pasture, it is helpful to be aware of both current market rates for pasture as well as trends over time. Here, we highlight some findings from the annual USDA/NASS June enumeration survey of land values and rental rates.



A graph of pastureland values and rental rates shows the increase in both in recent decades (Figure 1). The land value scale is on the left and the solid line shows pastureland values averaged about $250 in 1970 and now are $1,500 per acre. The pasture cash rent scale is on the right. The dashed line shows average rental rates around $5 per acre in 1970, with rates now around $12 per acre. Thus, land values are up sixfold since 1970 while rental rates are only up 2.4 times. The increase in rental rates on average appears to have slowed but anecdotal information from school land lease auctions and preliminary OSU survey data suggests rates are increasing, substantially in some cases. Record high cattle prices may allow for higher rents to be paid as long as other costs are managed well. This is likely easier for established producers who aren't buying stockers or breeding females.

Oklahoma Pasture Rental Rates: Headed Up? (cont.)

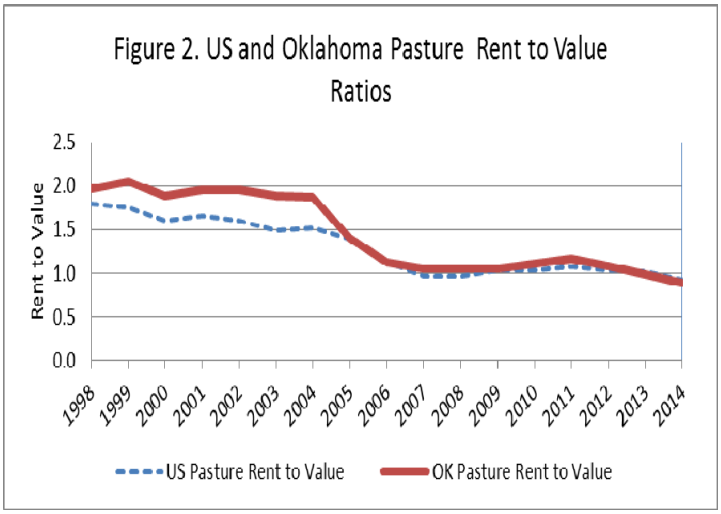
Pasture land owners who are not livestock operators may be interested in higher returns on their investments, which also would put pressure on rents to come up. Figure 2 shows average pasture rent divided by average land value. The US and Oklahoma pasture rent-to-value ratios track each other closely in recent years, with both showing low cash returns to pastureland investments. A return to a rent-to-value ratio of 2 would mean that land prices would have to come down, rents go up or some combination of the two. As I have heard no one talking about pasture land prices decreasing, rental rate increases are more likely.

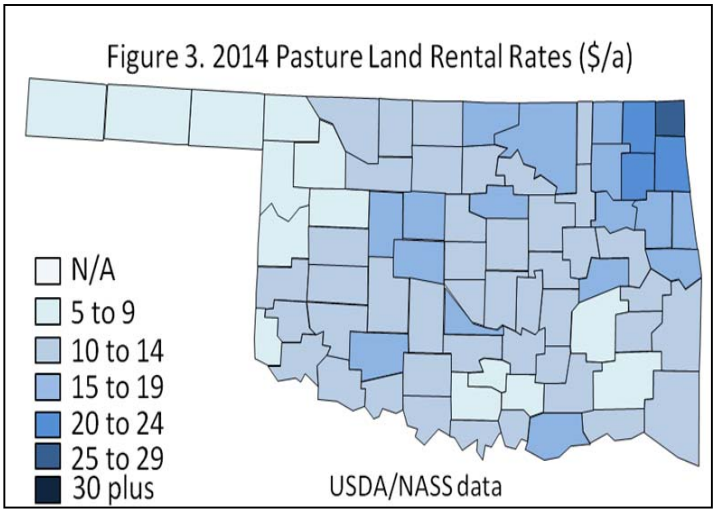
Cash rents for pasture vary across the state, with higher rates in the higher rainfall areas and those with introduced pasture; both apply for eastern Oklahoma relative to western Oklahoma (Figure 3). Rents near urban areas and areas with unique local competition are also higher. Table 1 lists 2014 pasture and cropland rental rates by county. Ottawa county in the northeast corner of the state has the distinction of being on the high end for both pasture and cropland rental rates.

Sources for pasture rental rate information include:

- The biennial leasing survey which OSU conducts that identifies differences in rental rates by type of pasture. A new survey is currently being conducted in cooperation with the Oklahoma office of USDA's National Agricultural Statistics Service (NASS). We thank you for your participation in these surveys as they provide information that is valuable to educators, researchers and producers. Results will be available next spring in CR-216 on pods.dasnr.okstate.edu.
- Recent Oklahoma school land lease auction information is available through the Real Estate Management Division of Commissioners of the Land Office at **http://www.clo.state.ok.us/REM/REMHome.htm**
- Kansas City Federal Reserve Bank: **http://www.kansascityfed.org/research/indicatorsdata/agcredit/index.cfm**
- USDA National Agricultural Statistics Service: **http://www.nass.usda.gov/Statistics_by_State/Oklahoma/Publications/County_Estimates/index.asp**

Producers concerned about managing financial risks associated with pasture rental rates may want to negotiate multi-year leases. Knowing something about average rental rates in an area is only the starting place for negotiating an equitable lease agreement. Every piece of property is unique. "Fair" rents must be negotiated between tenant and landlord. Differences in family living expenses and hired labor costs can be substantial for different operations, affecting the maximum rental bids. Differences in land quality and improvements and restrictions on land use can greatly impact the value of potential leases. Some leases stipulate precisely what fertilizers, pesticides, and seed may be used on the property. If you do not have a written contract, it is advisable to develop one to ensure that communications and legal obligations are clear. Publications discussing best practices for developing lease agreements and sample forms can be found at www.aglease101.org to guide discussions.





United States Department of Agriculture
National Agricultural Statistics Service

Oklahoma Cash Rent County Estimates

Oklahoma Field Office
Cooperating with the Oklahoma Department of Agriculture, Food and Forestry
P.O. Box 528804 · Oklahoma City, OK 73152-8804
(405) 522-6190 · FAX (405) 528-2296 · www.nass.usda.gov/ok

Pasture and Cropland: Cash Rents, Dollars per Acre, by County, Oklahoma, 2014[1]

District and County	Pasture	Cropland	
		Irrigated	Non-Irrigated
	Dollars	*Dollars*	*Dollars*
Beaver	7.70	49.50	20.50
Cimarron	5.60		20.00
Ellis	6.60		20.50
Harper	8.70		22.50
Texas	8.10	51.00	27.00
Other counties		65.00	
Panhandle	**7.10**	**53.00**	**22.50**
Beckham	10.50	45.00	25.50
Blaine	15.00		33.00
Custer	13.00		36.50
Dewey	9.20		32.50
Roger Mills	9.80		20.50
Washita	13.00		34.00
Other counties		93.00	
West Central	**11.50**	**92.00**	**32.50**
Caddo	14.00	77.50	35.00
Comanche	16.50		
Cotton	13.00		31.00
Greer	11.00		
Harmon	9.60	114.00	26.50
Jackson	11.00	113.00	27.50
Kiowa	14.00	55.00	29.50
Tillman	14.50		32.00
Other counties		66.50	27.50
Southwest	**13.50**	**87.50**	**30.50**
Alfalfa	14.00		43.00
Garfield	13.00		40.00
Grant	12.00		41.00
Kay	15.50		49.00
Major	10.00	97.00	34.00
Noble	13.00		36.00
Woods	11.00		34.50
Woodward	8.80		33.50
Other counties		39.50	
North Central	**11.00**	**58.50**	**40.00**
Canadian	17.00		40.00
Cleveland	13.00		27.00
Creek	14.00		13.00
Grady	14.00		
Kingfisher	17.00	53.00	33.00
Lincoln	12.50		
Logan	12.50		33.00
Mcclain	15.00		35.00
Okfuskee	11.00		17.00
Oklahoma	10.00		33.50
Payne	17.00		24.00
Pottawatomie	10.00		31.50
Seminole	10.50		14.00
Other counties		44.00	29.50
Central	**13.50**	**51.00**	**32.50**

District and County	Pasture	Cropland	
		Irrigated	Non-Irrigated
	Dollars	*Dollars*	*Dollars*
Atoka	11.50		17.50
Bryan	15.50	29.50	27.50
Carter	8.80		12.00
Coal	12.00		17.50
Garvin	11.50		25.50
Jefferson	13.50		26.00
Johnston	9.20		18.50
Love	12.00		22.00
Marshall	12.50		14.00
Murray	9.30		14.00
Pontotoc	10.50		8.30
Stephens	11.50		15.50
Other counties		29.50	
South Central	**12.00**	**29.50**	**21.00**
Craig	22.00		27.50
Delaware	20.00		32.00
Mayes	21.00		25.00
Nowata	17.50		20.50
Osage	15.50		36.50
Ottawa	27.50		38.50
Pawnee	12.50		27.50
Rogers	17.00		24.00
Tulsa	10.50		24.50
Wagoner	17.50		27.50
Washington	14.50		24.50
Other counties		107.00	
Northeast	**16.50**	**107.00**	**30.00**
Adair	19.00		28.00
Cherokee	16.00		21.50
Haskell	10.00		
Hughes	11.00		16.00
Mcintosh	15.50		15.50
Muskogee	14.00		25.50
Okmulgee	13.00		26.00
Pittsburg	9.40		13.50
Sequoyah	15.50		
Other counties		57.00	14.50
East Central	**13.00**	**57.00**	**19.50**
Choctaw	11.00		
Latimer	10.50		10.00
Leflore	12.00		18.00
Mccurtain	12.50		
Pushmataha	8.10		10.00
Other counties		58.00	41.00
Southeast	**11.00**	**58.00**	**30.50**
Oklahoma	**12.00**	**64.00**	**32.00**

[1] In keeping with NASS policy, counties and/or districts are only published where sufficient reports are received.

Pondering Farmer Age Statistics

Damona Doye, Regents Professor & OSU Farm Management Specialist

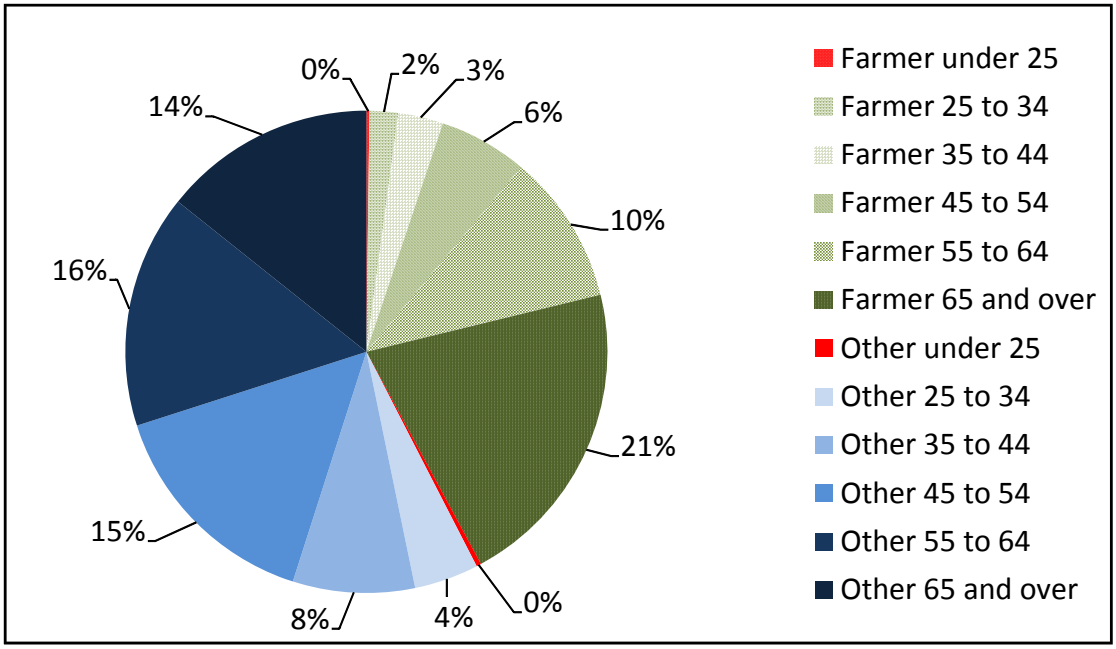
USDA's Census of Agriculture provides insights on the demographics of America's farmers and ranchers. The USDA definition of a farm is a place that sells or has the potential to sell $1,000 of agricultural products and the farmer is the operator of a farm. Oklahoma is like the rest of the country in that the average age of the operator keeps moving up incrementally; the rate of increase every 5 years seems to be slowing. The average age of the principal operator in 1982 was 51.9, 1992, 55, 2002, 56 and in 2012, 58.3. In Oklahoma, no county is exempt as the average age of farmers is over 55 in all counties and there are many counties with an average age over 60. Operator age distribution statistics show 13% of all farm operators are over the age of 75. More than 1/3 of Oklahoma farm operators are over the age of 65. In contrast, fewer than 1% are under 25 years of age, 10% under the age of 34.

Census respondents also had an opportunity to note their primary occupation. In the age distribution pie chart that follows, the patterned portion of the chart shows the percent of operators who consider farming their primary occupation, also with those with other occupations in shades of gray (blue on the online newsletter). The lighter the shading color, the younger is the cohort. About 40% of the total of 82,000 farms consider farming their primary occupation (the right side of the chart). Half of those producers are over 65; ¾ are over 55. The 60% of the farm population that considers farming a secondary occupation are slightly less skewed to the oldest categories. About 25% are over 65 with another 25% over 55.

A separate statistic showed a drop of 22-27% in farm operations that had been in business fewer than 5 or 10 years respectively. and, the number of farms decreased from 2007 to 2012, as we lost about 3,000 farmers. In Oklahoma, we experienced a loss of producers in almost every age category, regardless of whether their primary job was farming or something else.

It will be interesting to see what our 75+ year old farm operator population chooses to do with their land assets as they retire because it will have an impact on the future structure of agriculture. The prospect of continuing high land values and increasing rents is advantageous for farmers using those assets to finance retirement; however, it doesn't help facilitate entry of beginning farmers. To create opportunities for new producers may require creative financing through installment sales or leasing arrangements. Low interest rates make borrowing money to finance purchases appealing but high land values make loan repayment a challenge. Aspiring farm operators will need to tread carefully.

Age Distribution for Principal Farm Operators, 2012

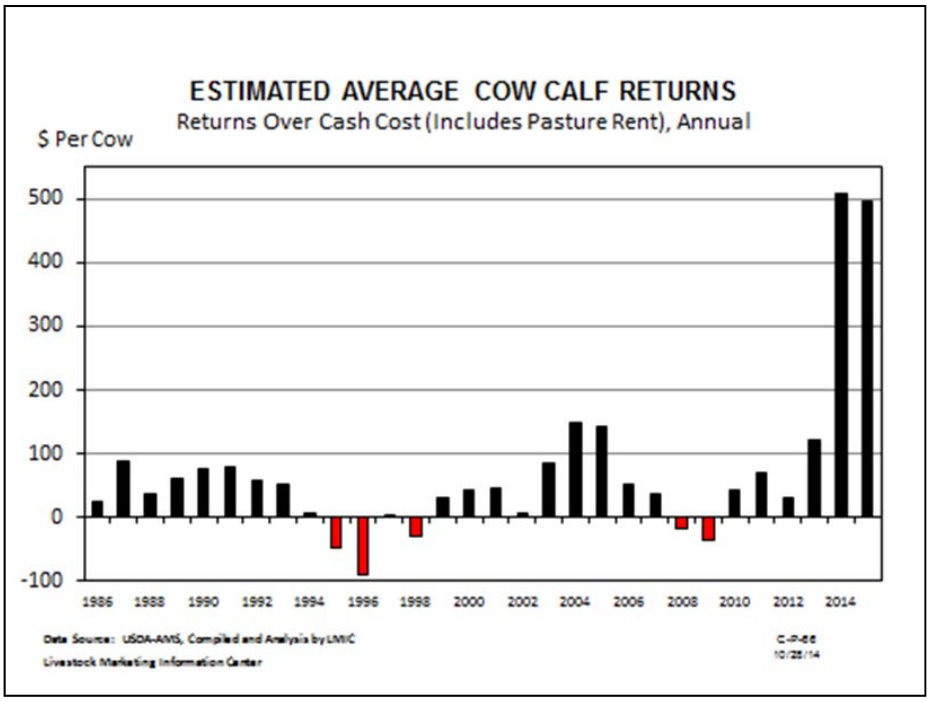


Cow-Calf Producers Plan for 2015

Derrell S. Peel, Extension Livestock Marketing Specialist

The price of 450-500 pounds steers in Oklahoma in early December, 2014 is $319.78/cwt., compared to $203.49/cwt. in early December, 2013. That's up 57 percent year over year. Cattle and beef prices began 2014 at record levels and have pushed sharply higher across the board with a series of new records during the year to reach the current breathtaking price levels.

As a result, cow-calf producers are enjoying record returns in 2014… record returns by a large margin (see figure). Calf revenue is up by $400-500 per head and production costs are, in many cases, down from one year ago as feed costs have moderated. Calf prices are expected to average near current levels in 2015 which means that producers can expect another year of banner returns. These extraordinary cattle market prices are the result of low cattle inventories and the need to increase beef production. Thus, record prices are directed specifically at the cow-calf sector, which controls supply for the industry, to do whatever they can to increase feeder cattle supplies in the next few years.



For many producers, this means tweaking production decisions to enhance productivity. There are many examples of these types of marginal adjustments in production. For example, pushing cows to slightly higher body condition score at breeding time may boost breeding and calving rates; thus it might make sense to spend a bit more than usual on cow nutrition. Extra effort is warranted to reduce calf death loss from calving time to weaning to enhance weaning rates. In general, producers should look for ways to boost calf numbers and weaning weights.

The growing industry incentive to expand the beef cow herd has many Oklahoma producers looking at expanding herds while others will be rebuilding cow inventories from drought reduced levels. Several considerations may be important as producers prepare for 2015. First, is managing forage resources for recovery and productivity. As tempting and imperative as quickly restocking seems to be, it is critical to allow drought-abused pastures to recover. The threat of drought redevelopment remains and producers should consider flexible cattle production that will support production according the availability of forage. Yearlings may provide more flexibility to utilize available forage and be sold as needed to avoid damaging pastures until forage can support cows year around.

Limited numbers and high demand makes breeding heifers and cows very expensive. Female prices have increased sharply in 2014 and will remain strong, likely going higher in 2015. It may not be possible or desirable to purchase sufficient numbers of a single age of female to rebuild the herd. A combination of heifer calves, bred heifers, young cows and/or older cows may be more financially feasible and will help avoid bunched culling at a later time. Nationally, herd rebuilding is expected to take several years and calf prices will remain strong to ensure herd expansion. Producers should consider cattle production and marketing plans for multiple years to take advantage of the opportunities in this period of record prices.

Managing Cow-Calf Costs with OSU Enterprise Budgets

Roger Sahs, Assistant Extension Specialist

According to the 2012 Agricultural Census, Oklahoma has approximately 1,677,000 beef cows on 44,000 farms which mean the average beef cow-calf operation has only 38 cows. In fact, 80% of the beef cow farms have fewer than 50 cows.

Despite strong cattle prices expected to continue into the foreseeable future, operators with fewer than 50 cows are faced with rising production costs and a decreasing opportunity to buy or rent pastureland at affordable levels. Without the economy of scale to spread costs over a larger herd, production costs can be difficult to control. In addition, management decisions are based on time limitations because many small-scale producers have a primary job off or elsewhere on the farm. Thus, the time devoted to the herd can be quite constrained.

There are a number of practices a cow-calf producer can implement that can improve time management and hopefully, the net income of the operation. One important practice toward increasing efficiency is setting a defined breeding season (75 days, for example) instead of year-round calving season. A controlled calving season concentrates activities like gathering cattle for processing and produces a more uniform and heavier calf crop. Budgets can demonstrate the advantages and profitability of this system.

Regardless of the herd size, OSU Enterprise Budget Software can help take a closer look at the types of inputs you are using and what they cost. Then one can begin the evaluation of ways to improve the efficiency of input use in the operation. Enterprise budgets help identify the production and financial risks of alternatives before committing or shifting resources. This decision tool also provides the documentation necessary to project cash flows and obtain/maintain credit-worthiness. It will help you do the right things when managing costs.

Additional information on OSU Enterprise Budget software is available through your local county extension office, at **http://agecon.okstate.edu/budgets** or by calling Roger Sahs at 405-744-7075.

The OSU-KSU Farm Bill Decision Tool.

Eric A. DeVuyst, Farm and Production Specialist and Jody Campiche, Agricultural Policy Specialist

The 2014 Farm Bill is very complex. Producers have the option to reallocate base acres and update yields, and producers can enroll in four different farm bill options, Agricultural Risk Coverage (or ARC) County, ARC Individual, Price Loss Coverage (or PLC), and Supplemental Coverage Option (SCO). Producers can find descriptions of each of these options at the OSU Ag Econ Farm Bill webpage (**http://agecon.okstate.edu/agpolicy/farmbill.asp**). To assist producers in comparing the consequences of each of these options, Oklahoma State University Agricultural Economics and Kansas State University Agricultural Economics have developed a computerized decision tool. The tool is programmed in MS Excel and will run in Excel 2007 and later versions. (Other operating systems and spreadsheets are not compatible with the tool.) Producers can download the decision tool for free at **http://agecon.okstate.edu/agpolicy/dt1.asp**. Contact your local Cooperative Extension office for more information and look for workshops in early 2015 to assist you with utilizing the tool.

New and Updated Publications

OSU-KSU 2014 Farm Bill Decision Tool

Quicken 2015 for Farm Financial Records

Farm Bill Date Reminder

Dates associated with Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) that farm owners and producers need to know are:

- Sept. 29, 2014 to Feb. 27, 2015: Land owners may visit their local Farm Service Agency office to update yield history and/or reallocate base acres.
- Nov. 17, 2014 to March 31, 2015: Producers make a one-time election of either ARC or PLC for the 2014 through 2018 crop years.
- Mid-April 2015 through summer 2015: Producers sign contracts for 2014 and 2015 crop year

Farm Management Facebook

If you haven't yet found and liked our OSU Farm Management Facebook page, take a look: **https://www.facebook.com/OSUFarmManagement.** We're posting new information weekdays with links to research, decision tools, and interesting tidbits. You'll find current Farm Bill information, insights from USDA Census data, new information on land values, and more. Check it out!

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