



AG ECONOMIC SERIES

# TIMELY INFORMATION

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### Making Drought Related Beef Cattle Economic Decisions

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**Water:** Assess water availability and quality on your cattle farm. Monitor water ponds, streams, and well water sources to ensure an acceptable quantity and quality of water for the cow-herd is continually available. Reduced water levels and bogging around water sources can result in unacceptable water quality. Also blue-green algae on pond water can be toxic and poisonous to livestock. If either water quantity or quality or both are not acceptable, identify how to make them acceptable. Otherwise, have a plan to move the livestock to an adequate quantity and quality of water (rented pasture or contract feeding). If a suitable source of water is not available, be prepared to send the livestock to market. Inadequate water supply and/or inferior water will result in serious cattle health problems or death, which adversely affects profitability.

**Cattle:** Body condition score (BCS) all brood cows, replacement heifers, and bulls. Monitor BCS to ensure acceptable animal performance. When water and/or feedstuffs become limiting, you should expect to incur serious herd-health problems. These health problems are costly both short- and long-term. Body condition scores below 4 will result in uneconomic levels of performance. Also develop an animal culling plan should water and/or feedstuffs become limited or exhausted. See a later section entitled Marketing plan.

**Warm-Season Grass:** Assess the warm-season grass availability and quality for current consumption. Estimate the number of grazing days for each pasture and move cattle when needed. Rotate pastures to increase utilization. Conduct a forage test to determine the quality of the forage consumed. If adequate warm-season grass is not available, consider providing feed supplements, reducing the stocking rate, or moving a portion of the cattle to alternative pastures. Consult your fellow cattlemen and Regional Extension Agent about grazing strategies (rotational grazing, limit grazing, strip grazing, etc.) and fertilization levels to get the most out of the available warm-season grass pastures.

**Cool-Season Grass:** Evaluate moisture conditions and determine if cool-season grass production is possible on your operation this year. Evaluate the planting of winter forages (clovers, oats, rye, ryegrass, wheat, etc.) or stockpiling fescue to reduce the need for harvested feedstuffs for the cowherd. Estimate the acreage and level of forage production and utilization that is possible for your operation. Also estimate how much supplemental feed may be necessary prior to turn-in on grazing and/or in addition to grazing. Be sure to include all of the costs associated with each alternative for the comparisons. Consult your fellow cattlemen and Regional Extension Agent about alternative cool-season grazing alternatives, grazing strategies (rotational grazing, limit grazing, strip grazing, etc.) and fertilization levels to get the most out of the available cool-season grass pastures.

**Stored Feed:** Assess the quantity and quality of stored feed (hay, haylage, silage, by-product feeds, grains, etc.) on your cattle farm. Determine the quantity and quality of feedstuffs needed by the cow-herd. If either is limiting, move quickly to procure adequate feedstuffs for the winter. There are a large number of feedstuff alternatives available in Alabama. Be sure to buy feedstuffs by weight and quality. Send a feed or forage sample to a test laboratory to make sure you are meeting the energy and protein requirements of your cowherd. Be sure to include the cost of the feed or forage, cost to store the feedstuff, and the cost of feeding the feedstuff in your comparison of feedstuffs. Consult your fellow cattlemen and Regional Extension Agent about comparing the purchase of alternative feedstuffs.

**Minimize Feedstuff Storage and Feeding Waste/Losses:** Feedstuff storage and feeding waste can more than double the total cost of feedstuffs. Storage waste/losses usually range between 10 to 50 percent. Given these loss levels, hay and/or commodity barns are a good investment that will pay for themselves over time. Sometimes, the higher losses can be prevented with minimal investment. For example, a simple rock pad and a tarp will significantly reduce the waste associated with storing hay. Additionally, feeding waste/losses can also range between 10 to 50 percent. The waste associated with feeding hay is usually the largest. A number of hay feeding management practices can be used to reduce hay feeding waste such as feeding hay on a well drained sod, feeding only enough hay that can be consumed per day, feeding hay in panels or hay rings, moving the location of the panels before refilling, rolling out hay, and so forth. Be sure you account for the feedstuff waste when calculating the quantity of feedstuffs needed and their costs. Consult with your fellow cattlemen and your Regional Extension Agent about suggestions and management practices to minimize feedstuff storage and feeding waste/losses.

**De-stocking:** De-stocking is a production decision that means you plan to remove some cattle from a given pasture or acreage and put them on pasture or in a dry lot somewhere else. In other words, you either bought or rented more pasture and you still own the cattle. Thus, your stocking rate cows-per-acre has declined. For example, you plan to change the stocking rate on your cattle farm from 1 cow per acre to 1 cow per 2 acres. This decision will usually require the cattle farmer to spend additional effort to establish fences, corrals, water sources, and so forth on the additional acreage. This can take time and money, so plan ahead as much as possible.

**Depopulating:** Depopulation is an economic decision that means you have decided to sell some or all of the cows. This decision has several economic and tax implications. First, this decision will usually mean that your cost per cow will increase. You will have fewer cows over which to spread your fixed costs (depreciation, interest, repairs, taxes, and insurance) and overhead costs (labor, management, etc.). Thus, you want to make sure you identify and keep the most productive cows. Second, you will want to evaluate if you can be profitable at this level of production. If not, you will need to make other adjustments in your cattle operation. Review your inputs and look for ways to eliminate waste and reduce input use and costs. Consider changing some management practices (move to a controlled breeding season, cull open cows, implement a rotational grazing plan, evaluate the nutrition program, evaluate the herd-health program, pre-condition feeder calves, etc.). Consult with fellow cattlemen and the Regional Extension Agent to help evaluate making these important management changes. Third, evaluate your machinery and equipment inventory and determine if you still need all items. Many cattle farms are over-capitalized (more machinery and equipment than the cow-herd can pay for). The sale of unused assets (machinery and equipment and input supplies) will help improve your cash flow. You should also consider custom hiring a few operations on your farm (cutting, raking, and baling hay or mowing pastures or hauling cattle). This will usually reduce debt, lower repair costs, and free up time to work on other aspects of your cattle operation. Fourth, consult your income-tax preparer before you sell the cows. This will ensure that you collect the correct information needed to reduce your tax liability. It will also help you manage the money from the sale of the cattle.

**Marketing Plan:** What is your drought marketing plan? Do I keep or sell cattle during a drought depends on many factors. Of greatest importance, of course, is to determine if you have adequate water and feedstuffs for the cow-herd. If these are not available, then you need to determine when, where, how many, and which animals to send to market. However, if water and feedstuffs are available, then you need to determine if the market prices you will receive justify the expenditures you will incur to keep the cattle. This year's feeder calf prices are high enough that most cattle farmers can justify keeping their cattle and selling during their normal market time period. Next, developing an animal culling plan should water and/or feedstuffs become limited or exhausted or cattle market prices or feedstuff expenditures prohibit you keeping the cattle, can also help you make better economic decisions. An example drought marketing plan may be to market cattle according to certain categories such as open cows, old cows, old bulls, cows and bulls with defects, poor producing cows, older bred cows, younger bred cows, bottom end of replacement heifers, and other groups of cattle. By formulating a drought marketing plan, you will have thought about which groups of cattle to market, where to market them, and when to market them. The drought market plan will help you be prepared to market these cattle in a timely fashion before they become unhealthy or market prices plummet. The economic benefits of this decision are large.

**Loans (regular & disaster):** Before considering the idea of a getting a loan, you need to determine if your cattle operation is currently profitable. If you are not profitable with your cattle operation, you should resist the desire to obtain a loan. Instead, you need to examine your cattle operation and determine how to make it profitable. A loan may still be needed, but the right management plan to achieve a profit is needed first. Remember the definition of a loan; **a loan is a sum of money lent for a specified period and repayable with**

**interest.** The part about “repayable with interest” means that you will need to generate enough profit to pay the loan and interest on the loan back to the lender within a specified period. Therefore, your cattle operation needs to be profitable in order to make these payments. Disaster loans with low interest money may sound enticing, but if you are not profitable you will be better off without the loan. So don't be lured into a loan if you can't pay it back with the cow-herd.

**Money Management:** Droughts tend to cause most of us to re-act impulsively to various critical conditions or events and thus make some poor money management decisions. It is extremely important for cattle farmers to monitor the financial aspects of their cattle operation during the drought. Most likely cattle production costs are going to be higher and revenues lower during a drought. Thus, the cash flow of the cattle operation will likely be constrained creating the need for a loan or an inflow of money to the cattle operation. Should a loan be needed, cattle farmers should identify the various lending sources, their interest rates, and loan terms and conditions to determine which loan fits their cattle operation the best. Additionally, if you have other loans on the cattle farm, you may need to consider loan restructuring/refinancing. Reducing interest costs is often accomplished with refinancing. Reducing cattle production costs also offers opportunities to improve profitability such as do not fertilize pastures until adequate moisture is available, monitor input purchases to ensure that you obtained a bargain price, leasing equipment instead of buying, postponing major repair costs, group buying of inputs in bulk, swapping out day labor with your neighbor, and so on. In addition, look for ways to improve your cash sales. Add value to cattle (castrating, dehorning, weaning, vaccinating, etc.) where possible. Lastly, identify assets that you can sell such as unused machinery and equipment and excess supplies.

**Tax Management:** Cattle farmers forced to sell cattle because of the drought may receive special income-tax considerations subject to providing certain documentation. Consult with your bookkeeper and tax preparer to ensure that you know what information you need to collect to document the above normal sales of cattle from your cattle operation. Be sure you do this prior to the sale of the cattle. Complete and properly documented cattle sales and drought information will ensure that you realize the full tax benefits as a result of the drought.

**Mental Stress:** Droughts, particularly extended, wide-spread, severe droughts, can cause mental stress and the inability to make decisions. Prior to a drought, develop a proactive attitude about dealing with the drought. Drought is a normal weather phenomenon that should not be a surprise to cattle farmers. Have a plan on how to minimize the effects of the drought. The cow-pen is no place to formulate strategic plans or think through economic and financial consequences of decisions. The drought is an event when timely decisions have to be made regarding the management of cattle and land so they suffer minimally and the adverse economic impact can be minimized. Be mentally prepared to make the needed decisions. No one can make these decisions for you. These decisions will have a significant impact on how your operation performs in the future. The more successful cattle farmer offset droughts and bad markets with planning and making informed decisions in a timely manner. Good Luck!