



# Master Cattleman Quarterly

Oklahoma State University

## Plan Now for Changing Cattle Markets

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

Cow-calf producers enjoyed record returns in 2014 after cattle prices rose dramatically to phenomenal levels last year. Calf prices in the second half of 2015 will be lower than last year but cow-calf producers will still see the second highest cow-calf returns ever for spring born calves. Beef cow herd expansion began in 2014; is continuing in 2015; and is expected to continue beyond 2016. Over the period, cattle prices will decline as cattle inventories and beef production increase. However, price erosion will be relatively slow initially and cow-calf producers are expected to enjoy strong returns through 2016 at least.

As the revenue component of returns declines, producers will have the best opportunity to maintain returns by increasing attention to cost management. Good returns now may provide money to make strategic investments that will boost productivity and reduce costs in coming years. Many acres of pasture and rangeland in Oklahoma are infested with eastern red cedar or other invasive species that reduce forage productivity. An initial investment in overdue brush and weed control combined with a pasture management plan to maintain and improve forage production can help reduce cow cost of production in the future. Other possibilities include additional fencing or water development that will improve grazing management and efficiency of forage use. In areas that use or may use introduced forages, development of new forages to complement existing forages can extend the grazing season and reduce hay requirements and potentially reduce equipment needs. Producers should evaluate the potential for new or different cool or warm season forages to de-

velop a more comprehensive forage base.

It's easy for cattle producers to get distracted by focusing on narrow technical efficiency measures. Emphasizing one dimensional productivity measures such as calving percentage or weaning weights or similar concepts may cause producers to overlook the impacts of changing values of revenues and costs. It is not pounds of production that matter; it is the value of production relative to the cost of producing that quantity that determines net returns. Moreover, the primary production of cattle operations is not cattle but rather is forage. Cattle are a means to harvest and sell forage. Cattle producers should focus on maximizing net returns per acre. By stating the farm or ranch objective in this manner, producers will be more open to consider a variety of production alternatives including the role of cow-calf production of weaned calves, retained calves and complementary stocker enterprises to utilize forage production. Additionally, focusing on net returns per acre will keep producers focused on cost management and especially on managing the cost of purchased inputs. The expected changes in the value of cattle means that producers may need to adjust input use and consider different production alternatives to maximize net returns per acre. These adjustments will help cow-calf producers to maintain returns as cattle markets change in coming years.

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## Oklahoma's Agricultural Land Market Holds Firm

Roger Sahs, OSU Assistant Extension Specialist

The latest trends and patterns in Oklahoma's agricultural real estate landscape have been updated through 2014 and can be found at <http://agecon.okstate.edu/oklandvalues/>. Statewide statistics, regional comparisons, and county summaries are presented in chart and tabular form (see chart example below). Cropland and pasture tracts are defined as having 85%+ cropland and pasture utilization respectively. The Farm Credit Associations of Oklahoma provided information on 1273 sales that were considered representative of the 2014 agricultural land market. This provides important insight into the characteristics of recent sales as well as benchmark indicators for studying trends over time.

Our study reveals that average values for all agricultural real estate increased a modest 5% in 2014. Pasture values increased 7% over the past year with improved forage prospects and continued profits in the cattle sector. These conditions are expected to sustain a healthy demand and prices, for rangeland during the remainder of 2015.

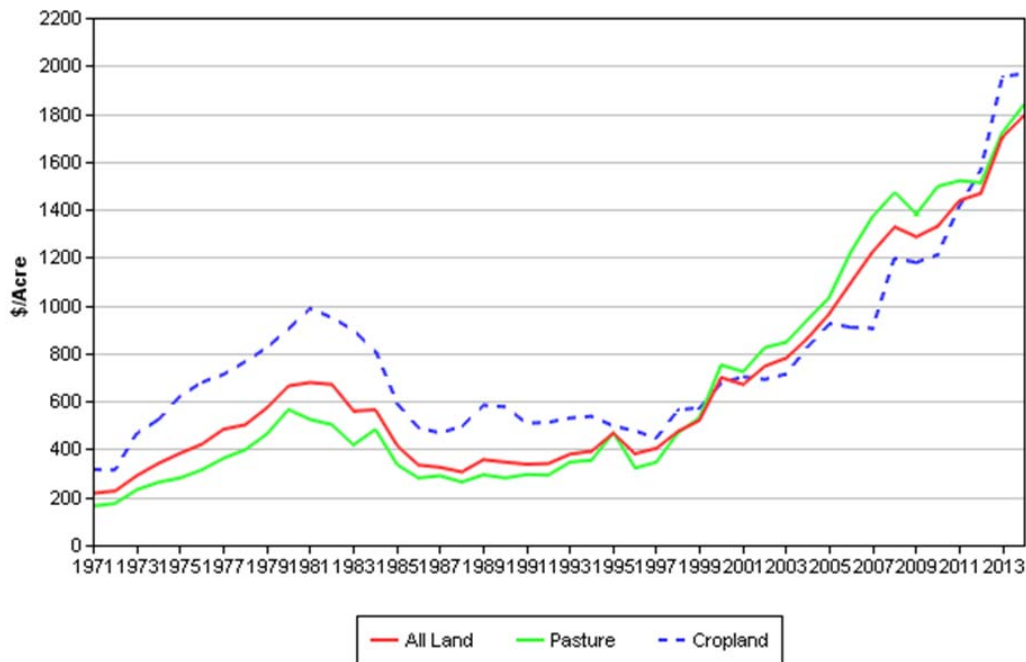
In contrast, cropland values held mostly steady and were pressured by lower crop prices and a historically poor wheat harvest. It is important to note that cropland values have more than doubled over the past ten years. However, given a moderation in net farm income from lower price expectations, cropland gains may again be tempered into the foreseeable future.

Several other factors have played a positive role on agricultural real estate values in Oklahoma. The buyer side of the market is basically operating from a strong financial base and interest rates remain very reasonable for those who seek debt financing. Income from recreational interests continues to be a positive driver in many areas of the state. And despite recent declines, land-lease revenues from energy exploration and extraction in northern and western Oklahoma have provided added liquidity for some interested buyers.

### Oklahoma Agricultural Land Values

Tracts  $\geq$  40 acres Selling up to \$3,000/ac. Through 2007 and \$6,000/ac. Since 2008

Annual average



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## Oklahoma's Agricultural Land Market Holds Firm

In conclusion, Oklahoma has experienced steady growth in the agricultural real estate sector over the past year. Greener pastures and record-setting cattle prices have translated into a spirited demand for grassland tracts across the state. In comparison to recent years, the growth in cropland values lessened in 2014 as returns for crops declined while input costs remained fairly constant. Fortunately, the level of debt exposure in the agricultural sector has been minimal up to this point in time. The agricultural real estate market in Oklahoma appears to be resilient and

on solid ground.

Other sources of land value information can be found at:

Agricultural Land Values, National Agricultural Statistics Service, USDA. <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1446>

Survey of Tenth District Agricultural Credit Conditions, Federal Reserve Bank of Kansas City.

<https://www.kansascityfed.org/research/agriculture>

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## Is the Loss of Livestock Deductible?

*J C. Hobbs, Extension Specialist*

Livestock losses due to casualties such as tornadoes, floods, fires, and theft may or may not be deductible. The tax treatment of a loss of livestock depends upon the class of animal lost. The tax treatment for animals raised for resale is different than the tax treatment for dairy, draft, and breeding animals. The following discussion will look at the rules that apply to losses of raised versus purchased animals for resale and dairy, draft, and breeding animals.

For a cash basis taxpayer, the loss of animals that have been purchased for resale is deductible. The cost of the animal plus the expenses associated with growing are all allowed as a deduction. In the case of the loss of a raised animal the only costs that are deductible are the expenses associated with raising it from the time of birth until it is lost. However, the loss of future income is not an allowable deduction. For example, if a \$600 calf put on pasture in April is then lost late in the year, the taxpayer is allowed a deductible loss of \$600 for the calf.

When draft, dairy, and breeding animals are lost, the tax basis of the animal is used to determine the deductible loss. The tax basis for purchased animals will be the pur-

chase cost less any depreciation that has been allowed. Therefore the deductible loss will be remaining tax basis, not the market value of the animal. For a herd bull purchased 3 years ago for \$2,500 and for which allowed depreciation of \$750 has been taken, the casualty loss deduction allowed will be \$1,750 (\$2,500 less \$750) in the year of the death loss.

In the case of raised dairy, draft, or breeding livestock, the tax basis will be zero since all the costs of raising them are deductible as farm expenses in the year that the expense is paid. Therefore, there will not be a loss deduction allowed in the year that these animals are lost since they have no tax basis.

Please consult your tax preparer or advisor for additional information concerning the income tax treatment of casualty losses that apply to your specific business situation. In addition, refer to Farmer's Tax Guide, IRS Publication 225 for a more detailed discussion of casualty losses. The most current version can be downloaded from [www.irs.gov/pub/irs-pdf/p225.pdf](http://www.irs.gov/pub/irs-pdf/p225.pdf).

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## New and Updated Spreadsheets

- Oklahoma Wheat Stocker Graze Out Decision Aid
  - Oklahoma Wheat Stocker Purchase Planner
  - Oklahoma Wheat Stocker Spreadsheet Decision Aid
  - Stocker Data File
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## Master Cattleman Summit Agenda

Oct. 29-31, 2015

We hope that you'll join us for this year's event. Please note that this year's Summit includes two separate elective components: the Rural Economic Outlook Conference, Oct. 29 (reception) & 30 and "hands on" component, Oct. 30 (reception) & 31. Each has a separate registration fee of \$50. You can register online using a credit card at

[https://secure.touchnet.com/C20271\\_ustores/web/product\\_detail.jsp?PRODUCTID=1915](https://secure.touchnet.com/C20271_ustores/web/product_detail.jsp?PRODUCTID=1915) or return the enclosed form with a check.

### Rural Economic Outlook Conference

<b>Oct. 29</b>	<b>Rural Economic Outlook Conference reception</b>
5:00 p.m.- 7 p.m.	Registration and reception with cash bar, OSU Alumni Center
<b>Oct. 30</b>	<b>Rural Economic Outlook Conference</b>
7:30 a.m.	Breakfast (registration continues), OSU Alumni Center
8:30 a.m. – 4:30 p.m.	<p><b>Welcome</b>, Dr. Tom Coon, OSU DASNR Vice-President, Dean and Director</p> <p><b>Six Trends You Can't Afford to Miss</b>, Lowell Catlett, <a href="http://www.LowellCatlett.com">www.LowellCatlett.com</a></p> <p><b>Big Data and the Role of Technology</b>, Matt Waits, CEO, SST Technology</p> <p><b>Faculty research/Extension updates</b></p> <p><b>Economic Outlook</b>, Robert Dauffenbach, Director of Center for Economic and Management Research, OU</p> <p><b>Soil: Earth's Most Valuable Asset</b>, Jeff Moen, Director of Business Development, Noble Foundation</p> <p><b>Outlook Panel</b></p> <p><b>Agricultural Finance</b>, Rodney Jones, Farm Credit Professor, and Damona Doye, Rainbolt Chair of Agricultural Finance</p> <p><b>Grain Markets</b>, Kim Anderson, OSU Agricultural Economics Professor Emeritus</p> <p><b>Livestock Markets</b>, Derrell Peel, OSU Agricultural Economics Charles Breedlove Professor</p>
<b>Oct. 30</b>	<b>Master Cattleman Summit "hands on"</b>
5:30 p.m.	Registration (if you have not participated in the Rural Economic Outlook Conference) plus reception with cash bar, OSU Alumni Center
6:30 p.m.	Dinner
7:00-7:45	Burke Teichert, Consultant & retired V-P and general manager of Ag Reserves, Inc. (more commonly known as Deseret, "Essentials for Developing an Efficient Ranching Operation")
7:45-9:00 p.m.	Entertainment
<b>Oct 31</b>	
7:15 a.m.	Load busses west of ANSI building
7:30 a.m.	Depart for South Range
8:00-8:30 a.m.	<b>Semi-Confinement of Commercial Cattle Operations</b> – David Lalman, OSU Beef Specialist
8:30-10:00 a.m.	<p>Concurrent sessions with rotation through all three sessions:</p> <p><b>Weed ID Challenge</b>-Laura Goodman, OSU Assistant Professor, Natural Resource Ecology &amp; Management</p> <p><b>Implanting for Increased Efficiency</b>–<b>Dr. Doug Hilbig, DVM</b></p> <p><b>Vet Feed Directive Update</b>-<b>Mr. David Officer.</b></p>
10-11 a.m.	<b>Innovations in Pasture Sprayer Technology</b> – David Lalman, Brian Pugh, NE Area Extension Agronomy Specialist
11-Noon	<b>Fall and Spring Weed Control Considerations</b> – Brian Pugh
Noon-12:30 p.m.	Return to ANSI Building

September, 2015

Dear Reader,

Please participate in the evaluation on the back. As a valued recipient of the Master Cattleman Quarterly newsletter, we want your feedback about the material received and its impact on your ability to manage risk successfully. For a complete list of past newsletters including articles, please find the OSU Master Cattleman Program online at <http://agecon.okstate.edu/cattleman> and select the 'Newsletter' tab.

Your answers will help us determine the effectiveness of the newsletter and suggest content of future newsletters. The questionnaire should require less than 10 minutes to complete. Please fold the completed evaluation in thirds by following the dotted line, so that the Business Reply Mail address and postage (below) is on the outside. Tape to secure it and drop in the mail today. No postage is necessary. The evaluation is anonymous.

Thank you for your response. We appreciate your honesty and value your opinion. Please feel free to contact us with additional suggestions, questions, and/or comments. Additionally, if you want to change or update contact information (address, email, phone number), or would prefer to receive the Master Cattleman quarterly via email, please contact Sara at 405-744-9826.

Sincerely,

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Please indicate the extent to which you agree or disagree with each statement by circling the number in the appropriate column.	Strongly Agree	Agree	Disagree	Strongly Disagree	N/A
As a recipient of the Master Cattleman Quarterly...					
I am better informed about emerging risk management topics such as diversification programs and emergency planning	1	2	3	4	5
I have improved understanding of the Livestock Indemnity Program (LIP)	1	2	3	4	5
I have improved my understanding of the Livestock Forage Disaster Program (LFP)					
I am more aware of issues related to rebuilding herds	1	2	3	4	5
I am better informed of Farm Bill and related Ag Policy issues	1	2	3	4	5
I am more informed about financial management such as managing cow/calf costs	1	2	3	4	5
I have improved my understanding of cattle markets and appropriate marketing strategies, including reproductive and cull cow strategies	1	2	3	4	5
I find the newsletter to be a useful source of timely information	1	2	3	4	5
<p>I estimate the economic benefits that these changes have made in my operation as: \$_____ per head per year</p> <p>Approximate number of cattle in the herd: ____ Cow/calf ____ Stockers handled annually</p>					
<p>What impact did the newsletter have on your cattle operation? Please select all that apply.</p> <p> <input type="radio"/> Improved strategic planning      <input type="radio"/> Improved nutrition      <input type="radio"/> Increased confidence  <input type="radio"/> Improved herd health      <input type="radio"/> Improved risk management      <input type="radio"/> Improved financial management  <input type="radio"/> Improved production      <input type="radio"/> Improved marketing      <input type="radio"/> Improved forage management  <input type="radio"/> Other (please describe: _____) </p>					
<p>Please indicate topics you would like to see addressed in future Master Cattleman newsletters. Please select all that apply.</p> <p> <input type="radio"/> Input cost trends      <input type="radio"/> Farm Service Agency updates      <input type="radio"/> Genetic research updates  <input type="radio"/> Government programs available      <input type="radio"/> Applied nutrition      <input type="radio"/> Managing income/debt  <input type="radio"/> Other (please describe: _____) </p> <p>Any additional suggestions or comments about the newsletter that would be useful to authors?</p>					

## IFMAPS Update

Since 1985, the Intensive Financial Management and Planning Support program (IFMAPS) conducted by the Oklahoma Cooperative Extension Service has helped thousands of Oklahoma farm families identify ways to improve their farm financial future. A call to IFMAPS leads to a meeting with a consultant at a time and place convenient for the producer, often at the producer’s home.

IFMAPS remains committed to increasing the competitiveness and profitability of agriculture with a confidential and personalized service. Because state funding was eliminated, IFMAPS is now a fee-based program. An upfront fee of \$200 is required prior to the first meeting to cover the cost of the initial consultation and data-gathering

session with the IFMAPS specialist and travel expenses. An additional \$300 payment is required upon completion of the budgets, financial statements and follow-up consultation if the case requires fewer than 15 hours to complete. The specialist will estimate the expected completion time during the first meeting. Analysis of more complicated cases or evaluation of alternative plans will be assessed a supplemental hourly charge of \$50 per hour for plan development, analysis and discussion. For more information or assistance, call the IFMAPS Center toll-free at 1-800-522-3755, e-mail us at [IFMAPS@okstate.edu](mailto:IFMAPS@okstate.edu) or look us up on the web at [agecon.okstate.edu/ifmaps](http://agecon.okstate.edu/ifmaps).

## Ranch Financial Position: Does Your Operation Have Sufficient Liquidity?

*Damona Doye, OSU Farm Management Specialist*

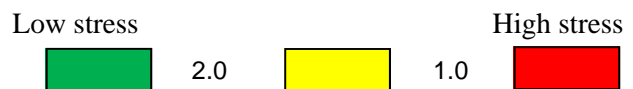
Analysis of business financial position and performance has several dimensions: liquidity profitability, solvency. Have you recently considered how liquid is? In other states, poultry producers impacted by avian flu have been unable to generate income for months after an outbreak. While we hope that nothing happens here, emergency preparedness forces us to consider how well prepared we are to survive without income temporarily, regardless of the potential cause. Two strategies that can help address this financial risk are accumulating savings and maintaining credit reserves, that is, having untapped sources for borrowing.

Savings are built over time through profitable business management plus disciplined and strategic use of surpluses. Financial planners often recommend having the equivalent of 3-6 months (or more) of spending in cash reserves. My motto is “save early and save often”. If you haven’t yet started, get started today. You never know when an accident, an outbreak, a weather event or some other sort of crisis may hit. And, it is better to be prepared than not.

Maintaining credit reserves means that your debt load is reasonable. If you have credit cards maxed out and your lender or lenders have said that your credit line is at its upper limit, your credit reserves are lacking. Retaining some capacity for additional borrowing provides a cushion, perhaps allowing for a lender to extend a larger line of credit

or reschedule debt payments.

How much liquidity is enough? The current ratio is one benchmark indicating the extent to which current assets, if liquidated, would cover current farm liabilities. Current assets are those expected to be sold or used up in the coming year; current liabilities are those due in the coming year, including scheduled principal and interest payments on long term debt. The higher the ratio, the greater the business liquidity. Lower ratios indicate the potential for cash flow problems. The ratio can vary significantly during the year, for instance, if a crop has been harvested but not yet sold. Historically, a measure of 2.0 has been used as a benchmark associated with a lower likelihood of stress.



A measure gaining popularity among lenders and financial analysts is the “burn rate”, which looks at working capital (current assets – current liabilities) in comparison to other financial measures, such as gross revenues or debt service payments. We’ll discuss this more in the next newsletter. In the meantime, save early and save often.

## Wheat Stocker Decision Tools--Updated

With most of the state's wheat growing region no longer in drought, this year looks to be a good fall for wheat planting and stocker placement. So, it is a good time to remind our readers of wheat stocker decision tools available free of charge from OSU Cooperative Extension Service. We recently updated Oklahoma's feeder basis in these tools. If you are using an older version of them, we recommend downloading the current version. All three can be downloaded from the Agricultural Economics Department's publication website (direct links follow).

Two tools designed to help with calf purchase decisions are the Wheat Stocker Budgeting Tool (<http://agecon.okstate.edu/faculty/publications/3394.xlsm>) and the Wheat Stocker Purchase Decision Tool (<http://agecon.okstate.edu/faculty/publications/3416.xlsm>). A third tool is available to analyze the economics of grazing beyond first hollow stem, Graze Out Decision Tool (<http://agecon.okstate.edu/faculty/publications/3443.xlsm>).

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