Master Cattleman Quarterly

Oklahoma State University

Vol. 24 Sept. 2014

In this issue:

Ranch Financial Management Chores

Damona Doye, Regents Professor & Farm Management Specialist

Now is a great time to review your ranch's financial situation. With temperatures still quite warm, spending time inside under air conditioning may be welcome, even if it is spent catching up on financial chores. Think about investing some time in improving your farm and family recordkeeping system to support decisions in rapid fashion. Steps could include:

- Reevaluate what kind of information you need to support decisions.
- If you don't have the right tools to do that, identify the appropriate tool(s).
- Begin using the tool.
- Evaluate the information generated to make sure you are getting what you need.

Getting started now positions you to have a system that works well for calendar year 2015.

How clear are you on your sources and uses of cash? Farm and family living expenses and income are often intermingled which can lead to confusion about what each source is contributing or using. Do you have a good handle on family living expenses? If not, they may put stress on the farm operation. Perhaps you are at a stage where you are considering an expansion of the cow herd or a land purchase. Do you know what kind of cash flow may be associated with annual loan payments? Perhaps a child or grandchild is interested in becoming a partner in the operation. Do you know exactly how much farm income there is to share? The ability to answer these and similar questions is rooted first in a good recordkeeping system. Personally, I am an advocate of software as no hand record keeping system allows you to sort and summarize transactions as quickly and easily in a variety of ways.

For basic financial records, becoming adept at using an inexpensive software tool such as Quicken or QuickBooks is a great first step. If you are wondering which is the best for your situation or thinking about making a switch from one to the other, I encourage you to read OSU AGEC-266, "Quicken or QuickBooks: What's the Best Choice for Agricultural Producers?", **http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-7522/AGEC-266web2014.pdf**

To cut to the chase, my view is that everyone should use something like Quicken as everyone has family living expenses and many have off-farm jobs, income and investments; some should also use QuickBooks, particularly those who want to do invoicing, track accounts payable and receivable or use a payroll service. Read the publication for details on my rationale. Quicken 2015 will be released soon so if you're thinking of buying Quicken wait until the new version is released and check our website a month or so later for step-by-step instructions on using it for farm financial records.

Buying software is a necessary step but once you have it, you have to be disciplined in either entering or downloading data to ensure that records are up-to-date and accurate. Downloading transactions allows you to focus your time on assigning the transaction to the appropriate income/expense category (and production activity if you are doing enterprise accounting). Going beyond the basics of identifying the type of income or expense to allocate transactions to enterprises (farm/ranch production activities such as cow/calf, stockers, wheat, native pasture, introduced pasture, etc.) provides an immensely richer database of information and allows you to identify cost

Farm Financial Management Chores (cont.)

and profit centers. If you haven't yet taken the step to begin using "tags" in Quicken or "classes" in QuickBooks for enterprise accounting, I challenge you to do so as you will gain new insights into your business.

Both Quicken and QuickBooks facilitate exporting reports to spreadsheets for further analysis. If you want to calculate the cash cost of production per head or per acre, simply create a cash flow report, export it to Excel, for example, add a line with the number of head or acres and another row to divide the cash flow total by the appropriate number.

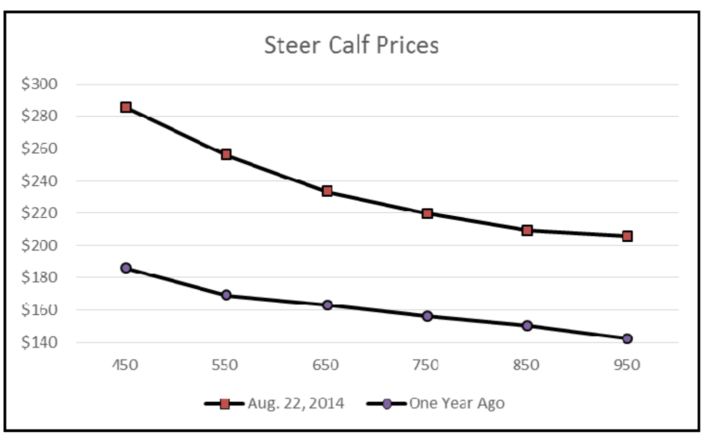
Fall 2014 Wheat Stocker Outlook

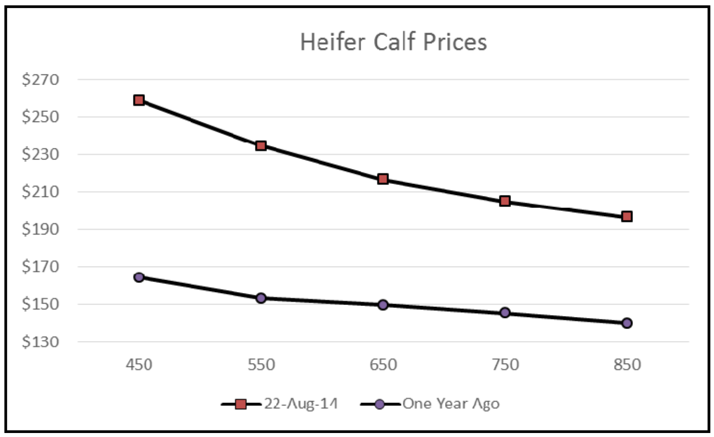
Eric A. DeVuyst, Professor & Farm Management Specialist

As Oklahoma producers gear up to plant wheat, it's time to look at how wheat stocker profits are shaping up. Early September rains show promise of ample wheat grazing opportunities. However, record calf prices increase the required investment in stockers, suggesting a bigger need than ever to budget.

Seasonal feeder cattle prices typically decline through fall months into November. However, current feeder prices remain at record highs and futures prices indicate record monthly highs for September through November. Lower corn prices this year suggest that feedlots may have an incentive to bid prices higher still as they compete for scarce cattle. With corn prices over $7 for a number of years, feedlots have stayed away from light weight calves. That may not be true this fall, so prices may increase or remain steady.

Traditionally, Oklahoma wheat stocker producers purchase four and five weight calves for wheat grazing. However, the last few years have seen higher profit potential for 6 weight calves due to a kink in the price slide that formed in the fall. Prices sharply declined from 4 to 6 weights and then flattened out from 6 to 8 weights. While stocking rates are lower for 6 weights than 4 and 5 weights, higher profit potential was present for the heavier weight calves given the price structure. So far, the price curve is smooth, rather than a sharp kink. However as the figure shows, the steepest rate of decline in steer prices is from 450# to 650#. This suggests that heavier weight stockers might have the most profit potential.





In the table below, projected steer and heifer revenues and expenses based on Oklahoma City prices for the week of August 22 are given. Even with heifer daily gain lagging steers, our budgets show the highest profit potential is projected for heifers. Six weight heifers show the highest potential with four weight heifers also projected to have relatively high profits. The heifer price slide is not as steep as for steers, so fewer pounds of gain are needed to offset the rollback. Five weight steers show the most potential for profit among steers with four weight steers having the lowest potential.

Fall 2014 Wheat Stocker Outlook (cont.)

	Purchase weight					
Steers	**400**	**450**	**500**	**550**	**600**	**650**
Sale weight	655	705	755	805	855	905
Sale price	216.34	210.65	204.95	199.26	193.56	187.87
Gross Revenue	1417	1485	1547	1604	1655	1700
Less						
purchase cost	1217	1276	1326	1390	1445	1481
Cost of gain	154	154	154	154	154	154
vet, market, other	10	10	10	10	10	10
interest exp	19	20	21	22	23	24
Net return per head	**17**	**25**	**36**	**28**	**23**	**31**
	Purchase weight					
Heifers	**400**	**450**	**500**	**550**	**600**	**650**
Sale weight	604	654	704	754	804	854
Sale price	207.13	201.94	198.08	194.22	190.36	186.50
Gross Revenue	1251	1321	1394	1464	1530	1593
Less						
purchase cost	1050	1139	1204	1272	1326	1379
cost of gain	123	123	123	123	123	123
vet,market, other	10	10	10	10	10	10
interest exp	17	18	19	20	21	22
Net return per head	**51**	**31**	**38**	**39**	**50**	**59**

Amendment to the Livestock Forage Disaster Program (LFP) and 2015 Crop/Forage Insurance Deadlines

Jody Campiche, Assistant Professor and Extension Economist

Livestock Forage Disaster Program (LFP): The LFP program was amended to include additional coverage for contract growers. This specifically applies to many Oklahoma producers who have grazed stocker cattle on a rate of gain basis, but did not actually own the cattle. A contract grower is a livestock producer whose income is dependent on the actual weight gain and survival of the livestock (excluding feedlots). To be eligible, contract growers must provide a copy of grower contracts/written agreements to the county FSA office for 2012, 2013, and 2014. The contract grower must meet certain requirements to be considered at risk in the livestock and eligible for LFP. The three basic requirements include: 1) The written agreement between the contract grower and livestock owner must include a mortality clause, (2) The contract grower must pay or provide for the labor to care for the livestock, and 3) The contract grower provides the grazing land on a rate of gain basis and owns or cash leases the grazing land. A few other requirements apply to livestock insurance and missing livestock, but only if originally included in the written agreement. Proof of all land leased is required and if there was no written lease agreement from that year, each landowner must complete and sign FSA form CCC-855. For a contract grower, it is important to note that the contract grower will need a written agreement signed by the livestock owner with the required information. This information can be found in the FSA LDAP handbook starting on page 6-10 (or just scroll to page 218 of the PDF file). The web address for the handbook is: http://www.fsa.usda.gov/Internet/FSA_File/1-

Amendment to the Livestock Forage Disaster Program (LFP) and 2015 Crop/Forage Insurance Deadlines (cont.)

ldap_r01_a06.pdf. The table with the relevant written agreement information is called "Determining Contract Grower Risk in Livestock." Additional clarification regarding the requirements has been requested and will be provided by OSU extension as soon as it is available.

Producers who may be eligible for LFP payments should contact their FSA office as soon as possible. The Budget Control Act passed by Congress in 2011 requires USDA to implement reductions of 7.3 percent to the Livestock Forage Disaster Program (LFP) in the new fiscal year, which begins Oct. 1, 2014. However, producers seeking LFP support who have scheduled appointments with their local FSA office before Oct. 1, even if the appointment occurs after Oct.1, will not see reductions in the amount of disaster relief they receive. USDA is encouraging producers to register, request an appointment or begin a Livestock Forage Disaster Program application with their county FSA office before Oct. 1, 2014, to lock in the current zero percent sequestration rate. As an additional aid to qualified producers applying for LFP, the Farm Service's Agency has developed an online registration that enables farmers and ranchers to put their names on an electronic list before the deadline to avoid reductions in their disaster assistance. This is an alternative to visiting or contacting the county office. To place a name on the Livestock Forage Disaster Program list online, visit http://www.fsa.usda.gov/disaster-register. Producers who already contacted the county office and have an appointment scheduled need do nothing more.

Crop and forage insurance sign-up deadlines:

September 30, 2014: Crop insurance for wheat, oats, barley, and rye.

September 30, 2014: New Supplemental Crop Insurance (SCO) for winter wheat

November 15, 2014: Pasture, Rangeland, Forage Insurance (PRF) for losses of forage harvested for hay or produced for grazing due to lack of rainfall.

November 30, 2014: Noninsured Crop Disaster Assistance Program (NAP) coverage for perennial crops, including pecans or native/improved grasses intended for hay.

December 15, 2014: Annual Forage Index (AF) for spring planted crops. Coverage includes, but is not limited to: small grains (wheat, oats, barley, rye, triticale) intended for grazing or forage, corn for silage, sorghum forage for grazing or forage, annually planted grasses (sudan, ryegrass, etc.) for grazing or forage, and annually planted mixed forages for grazing or forage.

Oklahoma's Agricultural Land Market Remains Strong

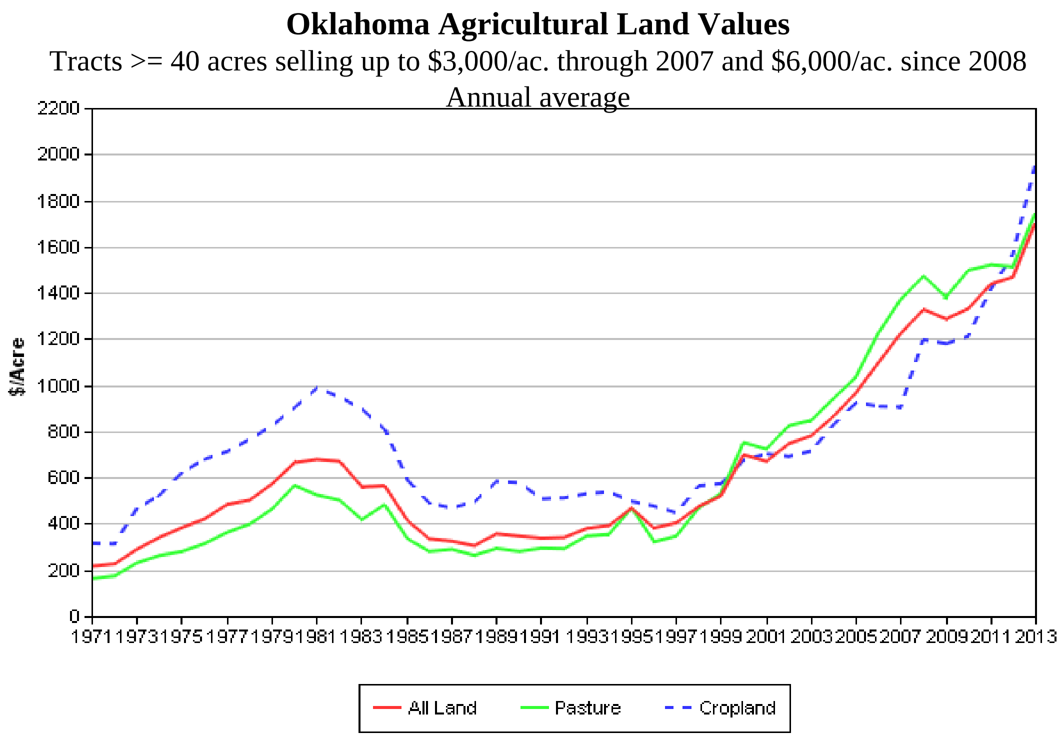
Roger Sahs, Assistant Extension Specialist

The latest trends and patterns in Oklahoma's agricultural real estate landscape have been updated for 2013 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. Sales data on representative agricultural real estate transfers were obtained from the Farm Credit Associations of Oklahoma.

Our study reveals that average values for all agricultural real estate increased 16.2% in 2013, the largest percentage increase since 2000. As typical of recent years, cropland gains exceeded pasture on a percentage basis. In fact, Oklahoma cropland posted strong year-over-year gains of 24.8% and an equally impressive 61.3% growth since 2010. In comparison to states heavily dependent on corn and soybean production (i.e., Nebraska) where cropland value gains have slowed recently due to sharply lower grain prices, easing drought conditions supported crop income levels in Oklahoma likely adding some upwards "bounce" to land transfer prices. Lower crop profit expectations from higher costs and lower prices may lead to a moderation in cropland values going into 2015. A poor crop harvest this fall may also tighten farm finances, leading potential buyers to proceed with greater caution.

On the pasture side, values increased 15.5% during 2013. Statewide growth over the past several years had been slowed primarily due to the devastating drought impacts beginning in 2010. However, improving forage pro-

Oklahoma's Agricultural Land Market Remains Strong. (cont.)



spects and a strong demand for high quality forage strengthened pasture values in 2013. Going forward, there is a general bullish outlook on net returns to grazing land given very favorable profit margins in the cow-calf sector. These expectations continue to support ranchland values.

Other factors have influenced farmland values. Most producers have strong balance sheets and interest rates are still very reasonable for those who seek debt financing. Land-lease revenues from energy exploration and extraction have allowed many producers to be active cash buyers especially in northern and western Oklahoma.

In conclusion, Oklahoma has experienced steady growth in the agricultural real estate sector over the past several years. Current trends in farmland values are expected to continue for the short term with the cropland and ranchland values rising further. Any interest rate increases closer to historical levels, a decline in profit margins or an intensification in drought conditions will pressure farmland prices. Fortunately the level of debt exposure in the agricultural sector has been minimal. Despite the uncertainly surrounding the general economy, the agricultural real estate market in Oklahoma appears to be on solid ground.

For other sources of information on farmland values:

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. **http://www.kansascityfed.org/research/indicatorsdata/agcredit/index.cfm**

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!

Cow-Calf Returns Record High, Start Planning Now

Jessica Sampson, Agricultural Economist and James Robb, Director
Reprinted with permission Livestock Marketing Information Center

Since the early 1970's the Livestock Marketing Information Center (LMIC) has estimated cow-calf returns over cash costs plus pasture rent based on typical production and marketing practices in the Southern Plains but does not include other economic costs like family labor and management. The estimates incorporate data and information provided by several USDA agencies. LMIC's estimates are developed for market analysis purposes, actual cow-calf returns will vary considerably, even between neighbors.

A near perfect set of demand and supply circumstances have come together creating record high cattle prices. Our cattle herd is now at its lowest numbers since 1962 and biology states that tight supplies will be felt in the market place for at least another two years. LMIC estimates that total beef production through June is down 5% compared to last year. The most recent USDA-AMS reported weekly prices show 500-600 pound feeder calves in the Southern Plains up 53% year-over-year, and the five market average slaughter steer prices and boxed beef cutout values both up 35% compared to last year. On the demand side, both domestic and foreign consumers are still showing a strong demand for beef even in the face of higher prices.

Cow-calf operators are the major beneficiaries of these demand and supply circumstances. For 2014, LMIC estimates cow-calf returns around $445.00 per cow, nearly $325 per cow above the prior year. This is a new record high, vastly surpassing the previous high in 2004 of about $150.00. For the remainder of 2014, uncertainty in the market is focused on weather forecasts affecting pasture/range conditions and corn and soybean crops, price increases affecting consumer demand, and the million dollar question of where these cattle prices will top out at.

For cow-calf producers, cash flow planning sooner rather than later is critical. First, project 2014 income using realistic sale prices – calves this fall could easily be 25% over 2013's prices and cull cows up fully 10%. Then use cash flow planning on head to be sold, along with a tax advisor, to look at income tax implications and alternatives. Many investment options exist, and are all very situational dependent. Some examples of these options are: invest in or expand the ranch, pay off debt, invest in an Individual Retirement Account (IRA), restock cattle herds, build or supplement a savings account for the younger generation's college fund, implement pasture or water improvement programs, transition to an improved or new marketing option such as preconditioning calves, or delay cull cow sales.

Cull cow plans may want to include selling cows in 2015 to delay some income. This could also take advantage of seasonal trends in the cow market since cow slaughter in the U.S. is typically largest in the fourth quarter of the year. Peak slaughter is typically during mid-November and in that same timeframe cull cow prices hit their lowest level of the year. On a monthly average basis, in the Southern Plains, cull beef cow prices typically drop about 12.5% between September and November. In December prices usually stabilize and begin moving seasonally up through May. However, this year with tight supplies, record high prices across all cattle subcategories, and strong indications of cow and heifer retention, cull cow prices are record high. The same seasonal pattern can still be expected to some extent though. If plans do include delayed cull cow sales until 2015, LMIC expects prices to continue to hold at higher levels and delayed marketings could allow some producers to take advantage of seasonal pricing and improved forage conditions in parts of the U.S.

LMIC also estimates 2015 cow-calf returns will remain large and may stay well over $400.00 per cow even if some production costs, like interest, increase. The beef cow enterprise in 2014 and probably for several more years will provide a true economic profit. That is, a profit after including costs such as family labor and management which are not generally incorporated in estimated returns over cash costs. Plan now to take full advantage.

It is important to recognize that while this year's cow-calf returns are impressive, recent drought and record high feed costs forced numerous operations to liquidate their herds well below their average stocking rate that would allow them to take complete advantage of this market situation. Additionally, today it requires more capital than ever to rebuild herds. If a producer chooses to increase heifer retention and decrease cull cow marketings this includes forgoing current feeder heifer prices of $242.11 cwt, for a 500-600 pound heifer calf, and cull cow prices of $123.00 cwt (both prices reported by USDA-AMS for the Southern Plains area during the week of 7/21-7/25/2014). Although cow-calf producers are benefitting from these high prices, each producer is faced with challenging decisions this year.

Rural Economic Outlook Conference

The 2014 Rural Outlook Economic Conference will be held Friday, October 31, at the ConocoPhillips OSU Alumni Center. An excellent lineup of speakers will focus on trends and expectations for the rural economy and agriculture:

- Global Policies and Local Impacts: Why the Grain and Livestock Markets Are Not About Population and GDP, Michael Swanson, Wells Fargo Bank N.A. Ag Economist – Senior Vice President
- Green Glacier: The Looming Threat to the Oklahoma Beef Industry and Rural Communities, Sam Fuhlendorf, OSU Natural Resource Ecology and Management Regents Professor and Groendyke Chair for Wildlife Conservation
- Farm Bill Update, Jody Campiche, OSU Agricultural Economics Assistant Professor
- Oklahoma Water Issues: Blue, Green, and Grey Water, Garey Fox, Interim Director, Oklahoma Water Resources Center, OSU Biosystems and Agricultural Engineering Professor and Orville L. and Helen L. Buchanan Chair
- Searching for a 'New Normal': US & OK Economies in Recovery, Larry Sanders, OSU Agricultural Economics Professor and Dave Shidler, OSU Agricultural Economics, Associate Professor

Outlook Panel:

- Land Values, Rental Rates, Farm Characteristics, Damona Doye, OSU Agricultural Economics Regents Professor and Rainbolt Chair of Agricultural Finance
- Grain Markets, Kim Anderson, OSU Agricultural Economics Professor Emeritus
- Livestock Markets, Derrell Peel, OSU Agricultural Economics Charles Breedlove Professor

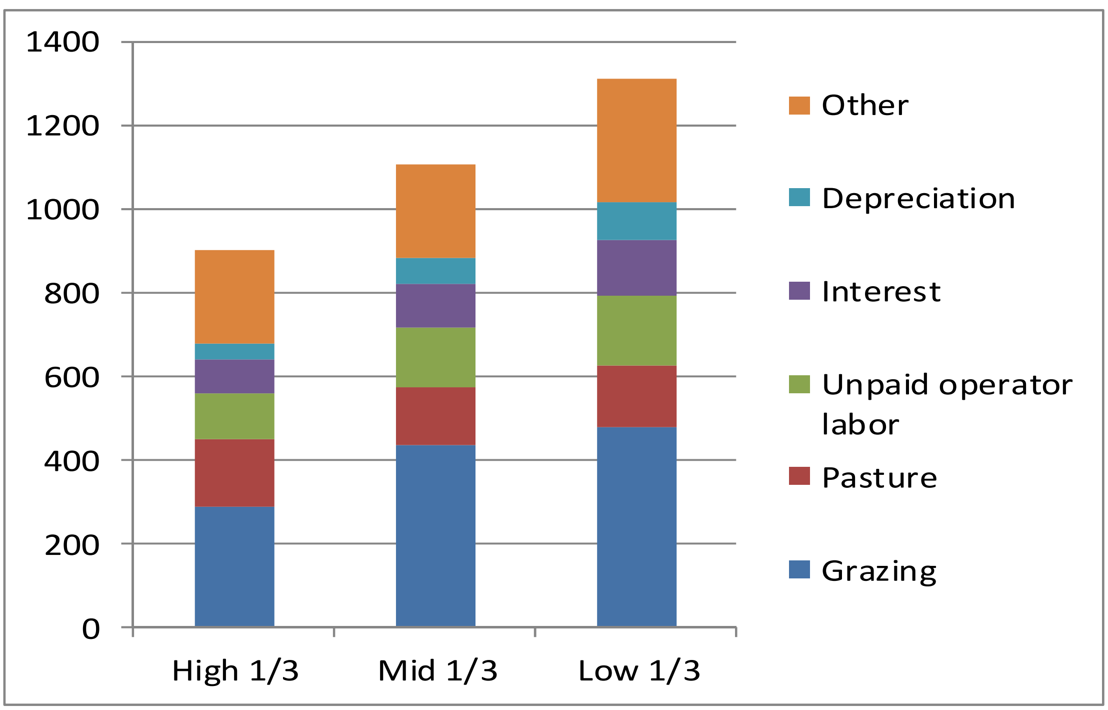
Registration is $50 before Oct.24 and $70 at the door. This includes the reception on Thursday evening, breakfast and lunch and all breaks. To register online with credit card (**http://orangehub.okstate.edu/**), choose Agricultural Economics store. For more information or to register with check, contact **damona.doye@okstate.edu** (405-744-9813) or **kareta.casey@okstate.edu** (405-744-9836).

Cow-calf Cost of Production

Damona Doye, Regents Professor & Farm Management Specialist

Kansas Farm Management Association data shows average cost of production at about $3 per day to own and maintain a cow. Looking at the cost of production sorted using profit categories, the least profitable producers have higher costs on average in each of the top cost categories: feed, grazing, unpaid operator labor, interest and depreciation. Controlling costs is important in building a profitable enterprise.

Cow-calf cost of production by profit category, 2013



Applied Reproductive Strategies in Beef Cattle Conference

Megan Rolf, OSU Animal Science Department

Oklahoma State University, in collaboration with the Beef Reproduction Task Force, will be hosting the 2014 Applied Reproductive Strategies in Beef Cattle Conference (ARSBC). The meeting will be held on the OSU Stillwater campus from October 8-9, 2014.

The conference is held annually, and rotates to a different state each year. This year, we will focus on a variety of applied subjects for producers, veterinarians, and beef industry stakeholders. The conference program includes a variety of educational programs from basic cattle reproduction and artificial insemination to the latest advances in embryo transfer and reproductive technologies. The complete schedule of events is posted at **www.beefextension.com/genetics.** We will post updates to this page as the conference planning progresses and registration opens later this summer.

Key goals of the Beef Reproduction Task Force include promoting widespread adoption of reproductive technologies among cow-calf producers, educating producers in management considerations that will increase the likelihood of successful breeding of animals through artificial insemination, and educating producers about marketing options to capture benefits that result from use of improved reproductive techniques.

Damona Doye
515 Ag Hall
damona.doye@okstate.edu

David Lalman
201 Animal Science
david.lalman@okstate.edu