Cow-Calf Producers: Are You on Offense or Defense?
Derrell S. Peel, OSU Extension Livestock Marketing Specialist

The U.S. beef cow herd has shrunk for 12 of the last 14 years for a variety of reasons. The late 1990s was normal cyclical liquidation extended by drought into the mid 2000s. Two years of cyclical expansion in 2004 and 2005 was truncated by more recent economic shocks, including dramatic increases in input prices and volatility from late 2006 through 2008 followed by recessionary weakness in cattle prices in 2009. Cattle prices in general, and calf prices in particular, have rebounded significantly in 2010. That along with some moderation in input costs suggests modest profitability potential for cow-calf producers.

In general, cow herd liquidation occurs for only a couple of reasons. One is severe, widespread and prolonged drought, which occurs occasionally. More commonly, producers reduce the cow herd due to lack of profitability. Historically, cyclical variation in calf prices, with relatively stable costs, led to periods of poor profitability that spawned phases of liquidation followed by expansion after calf prices improved. Since 2006, it has been high input prices relatively more so than low cattle prices that has eroded profitability. Whatever the reason, producers have spent much of the last 14 years and the last four years especially on the defensive, trying to maintain equity and avoid catastrophic financial impacts. The extended period of liquidation results today in the lowest cattle inventories in nearly 50 years.

Macroeconomic recovery is underway, albeit slowly, and input markets and prices have stabilized somewhat. Those factors, combined with the cow herd at current low levels, suggest generally higher cattle prices and improved cow-calf profitability for the next several years. This is likely at some point to lead to cow herd expansion. Cow-calf producers may have the best chance in many years to be more on the offense than the defense. Individual producers should consider their unique situation and determine a strategy for the next several years. If your financial situation is still precarious, repairing that will logically continue to be your primary concern. If not, it may be time to consider if you should be more aggressive and exactly how to do that.

What you really want to do is anticipate when lots of producers will want to expand cow numbers and do it just ahead of them. This is for two reasons. First, you want to purchase replacement breeding animals before they get more expensive. Any significant expansion at this time will result in very expensive replacement heifer and cow costs because cattle inventories are so low. Secondly, not only will you want to take advantage of high calf prices but you may have opportunities to sell replacements to other producers resulting in additional profit potential. If high cattle prices are going to cause you to want to expand your cow herd in the next two to three years, you probably want to do it sooner rather than later.

What are the risks? Because we have had many noncyclical factors affecting cattle markets, it is difficult to predict when cyclical expansion will begin. The U.S. and global economies are still rather precarious and many markets are quite volatile. There have been no indications of expansion yet; in fact, cattle numbers are still declining. But numbers could stabilize in the next few months and modest expansion is possible by late 2011. Caution is advised but being prepared for more aggressive production and be willing to step out ahead of the rest of the industry is the best way to capitalize on market opportunities.
Culling Time: Strategies for Adding Value to Cull Cows
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1Oklahoma State University  2Noble Foundation

Cow-calf producers typically cull spring-calving cows from the herd in the fall after weaning calves. Those cull cows are, more often than not, sold immediately when markets are at the seasonal low. However, managed marketing of cull cows can potentially increase overall profitability of the cow-calf herd (Blevins, 2009; Peel and Doye, 2004). However, there are a few things the cow-calf producer should consider in the decision to retain and feed cull cows.

Seasonality in cull cow prices is strong and consistent. That is, cull cow prices tend to peak near the same time every year (spring/early summer) and hit the valley near the same time every year (in the fall during the culling period) (see Figure 1). This pattern raises the possibility of adding value to cows by retaining them for a period after culling and selling later to take advantage of the typical seasonal price upswing. Amadou et al. (September 2010) found positive net returns for retaining cull cows on native grass for 90 to 120 days beyond fall culling. This practice capitalizes on the normal seasonal pattern in cull cow prices at a relatively low feed cost.

Additionally, producers should consider the condition of the cow. Ongoing research at Oklahoma State University joint with the Samuel Roberts Noble Foundation indicates that cows with lower body condition scores at culling (less than 4.5) generate higher net returns in a retention setting than cows with higher body condition scores (Amadou et al. July 2010). This was true for cows retained in a pasture/hay setting and in a drylot setting on feed. However, net returns were higher overall for cows in the pasture/hay setting. The study suggested that the optimal time to market cull cows was generally 90 to 120 days after culling (mid January to mid February) and that cows with body condition scores greater than 4.5 should be sold at culling. Cows that end the weaning season with a lower BCS (i.e. leaner) should be more feed efficient in a retention setting. That is, a greater percentage of feed intake should go to weight gain rather than to weight maintenance. Cows should be sound and healthy going into the feeding period.

Cow-calf producers must consider individual resources and the availability and affordability of forage or feed in addition to seasonal price increases when deciding whether to retain and feed cull cows or market them at culling time. The viability of increasing net returns by retaining cull cows on feed varies producer to producer and year to year with relative feed costs. Some producers may have stockpiled forage, pasture and/or hay that can be used as an inexpensive feed source. Others may be forced to rely on purchased hay and/or feed. In some years, the cost of purchased feed may limit the profitability of retaining cull cows. Another obvious consideration is whether you have pasture space or a drylot in which to hold the cull cows over the feeding period.

More information on adding value to cull cows is available in the resources that follow.

References


Peel, D. S. and D. Doye. “Cull Cows Grazing and Marketing Opportunities.” Oklahoma Cooperative Extension
STILLWATER, Okla. – The Oklahoma State University Department of Animal Science and the Animal Science Graduate Student Association will present the 17th Annual Totusek Lectureship Nov. 4 – 5.

The event begins the evening of Nov. 4 with a prime rib dinner and seminar, followed by a noon general seminar in animal science on Nov. 5. The event is free, but those who are interested are asked to RSVP to Evin Sharman at evin.sharman@okstate.edu.

This year’s lectureship will feature speaker Mike Thoren who has served as the President and Chief Executive Officer (CEO) of JBS Five Rivers Cattle Feeding LLC since the Company’s inception. From 2003 until 2005, Thoren was the President and CEO of ContiBeef LLC, a former wholly owned subsidiary of Continental Grain Company.

He began his career with the Cattle Feeding Division of Continental Grain Company in 1991 and worked his way up through the Company as feedyard general manager, director of feedlot operations, vice president of operations, and CEO. Thoren received his bachelor’s in agricultural business and his master’s in agricultural economics from Washington State University.

Sharman, Animal Science Graduate Student Association president, said Thoren has a vast amount of experience and knowledge of the cattle feeding industry to share and this lectureship will provide a unique opportunity to hear a voice from the industry with the dedication for the future of beef production.

“Thoren will discuss the future of the cattle feeding industry,” Sharman said. “This lecture should be good insight on how the cattle feeding industry will change over the next few years.”

The lectureship is in honor of Robert Totusek, who was a member of the OSU Animal Science faculty for more than 38 years, including 14 years as head of the department.

Totusek was a friend and advisor to all and is known for his contributions in animal evaluation, beef cattle nutrition and livestock production.

Wheat Stocker Margins Look Good for 2010-11

Eric A. DeVuyst, Associate Professor and Derrell Peel, Professor and Breedlove Professor, Department of Agricultural Economics

Given the sky high prices for feeder cattle, some wheat stocker producers are questioning the advisability of putting calves on wheat this winter. However, it is not the price of feeder calves alone that matters. More importantly, producers need to focus on margins. When we look at October futures and historical Oklahoma basis, the market is signaling a price of $135 for 450 lb steers. So, a 450 lb steer calf will cost about $608 in mid-October. That calf should weigh 680 lb (or more) by March 1. The March futures contract is currently trading around $114 and the historical basis is around $12 for 680 lb March steers. So, our 680 lb steer looks to sell for $857 on March 1. The difference between purchase price and sale price is $249. With a 2% death loss, the value of gain is about $1.06 per lb.

What about wheat production expenses? The additional seed for dual-purpose wheat will run around $10 per acre and fertilizer will run around $11 per acre. Lost yield will vary, but to be conservative we’ll use 8 bu per acre at $5.50 per bu. So, lost wheat grain is valued at $44 per acre. Totaling added production expenses and value of lost grain, we get $65 per acre. At a stocking rate of 0.5 head per acre, the cost of grazing wheat is around $130/ head. Given a margin of $249 per head, there’s $119 to pay other production expenses. If you’re renting wheat pasture, expect to pay around $0.40 to $0.50 per lb of gain, leaving $0.56-$0.66 per pound to pay for trucking, labor, other feed, veterinary, and marketing expenses.

The key to realizing these margins is to lock them in! When you purchase or contract stockers, you should do some forward pricing for March delivery. Talk to your county Extension agricultural educator if you need more information on forward pricing alternatives.
My name is Garet Edwards. I am a 4th generation rancher in western Major County, Oklahoma. Kaci, my wife, and I reside about 10 miles west of Fairview. I have been involved in the cattle industry all my life. My parents, Bill and Darinda Edwards, produced registered Brangus cattle in the ‘70s and ‘80s. All my siblings including myself showed Brangus cattle all through our youth. After high school I attended Oklahoma State University, where I graduated in 2006 with a Bachelors degree in Agribusiness and a minor in Animal Science. Kaci and I enjoy our cattle, horses and spending time at the ranch. Being a fresh Aggie graduate, I really wasn’t sure I would gain much by attending the Master Cattleman Program. After completing the course in the spring of 2009, I was glad that I participated. Since then I have made a few adjustments to my operation and have many ideas for the future.

My father, brother, and I currently run a small cow calf operation, consisting of crossbred cows covered by Black Angus and Limousin bulls. Our property is rangeland, mostly native grasses and some improved grasses; however, no farmland. Occasionally, we rent out some wheat pasture and run stockers, but really a simple contemporary type operation. We aim for a spring calving season and then market calves directly after weaning. We have always been open to new ideas, but “if it ain’t broke why fix it, right?” I wouldn’t say that the Master Cattleman Program completely changed our production process, but it opened our eyes to some minor renovations.

Record keeping is always been a down fall for our operation. It is a simple procedure, but we have always been lax on this step in the past. All our calves get the proper treatment when they go through the chute, including castrating, dehorning, worming, necessary vaccinations, and implants. In spite of this, we just never have kept sufficient records on the dates and the exact vaccines administered.

A major decision took place this spring on our ranch, which was highly influenced by what I took from the Master Cattleman Program. Our stocking rate was too high, resulting in high hay and feed costs in the winter; therefore restricting our profits. We took a hard look at the local average stocking rates, but I would honestly have to say that our land is definitely on the lower end of that median. The Program makes it easier to understand and determine the percent utilization of forage available in your area. As a result we had to cut down on our herd number. Luckily, the cull cow market was high at the time of our dispersal. We sold 32 cows, which will hurt our total calf sales, but in the long run we will have more grass going into winter, cut our hay and feed costs, and hopefully compensate with a higher profit margin.

Another decision in progress is somewhat embarrassing, but probably pretty common. Way before I had any input in our operation, bulls stay out with the cows…..year round! For years I have been prompting for a more defined calving season. The biggest reason why we haven’t pulled our bulls in the past is the poor quality of fence. Fencing materials aren’t cheap and labor is getting higher. Therefore, that just hasn’t been a big priority for our operation. My brother and I are in the process of preparing a bull pasture, so that we can manage our breeding season and produce a more unified calf crop.

There are many ideas and concepts that I learned through the Master Cattleman Program. Some were ideas that had already been presented to me or that I knew needed to be done, then others I was just negligent of their importance. We have always done soil tests on our pastures, but not every year. Why not? Our local elevator will do a basic soil test for free or other entities will do tests for a minimal fee. It is a cheap fee to find out your pasture’s needs. Our land works for us and so we should try to take care of it. Another management method we attempt is rotational grazing. In college rotational grazing was highly stressed on improved grasses. About five years ago we planted what little farm ground we had to grass, a native and improved grass mix. The canyon pastures are rough, but provide some good grazing in late spring and early summer. Then in the winter and early spring provide good cover from the weather, especially during calving season. Our cross fences allow us to rotate our cows around through the different seasons, forcing the cows to graze the forage available rather than having free range.

In our part of the world the eastern red cedar is becoming more of a problem than a concern. Prescribed burns on rangelands were practically unheard of in our area in the past, which resulted in the overabundance of cedars. However, more and more landowners are becoming
aware of the importance of prescribed burns. Once again with a tight budget and high costs, it has been a slow process to prepare our land for a prescribed burn. It will require some more work before we are ready, but in the near future this will be a management process for our operation.

The Master Cattleman Program is a good course for all ages and all levels of cattle producers. Whether you are looking for a tone up on management or needing some guidance, this program is great way to supplement your needs. I really enjoyed the experience. I would like to thank everyone involved in this program and good luck in all your operation’s ventures.

Trichomoniasis Testing Frequently Asked Questions and Answers
Dave Sparks, DVM

Trichomoniasis is a highly contagious venereal disease of cattle. Although not a new problem the incidence is rising and it has become a serious problem in some nearby states. In an effort to protect Oklahoma cattlemen and the Oklahoma cattle industry, the Oklahoma Legislature recently passed a law requiring testing of breeding bulls that change ownership or management within Oklahoma. This law will take effect January 1, 2011. The following are answers to some of the common concerns voiced by Oklahoma beef producers. In addition to this information, producers are encouraged to seek out and attend producer educational sessions on this issue being held around the state, or contact your OSU County Extension Office to request scheduling of an educational program in your area.

Q) Why does this new law not include testing for cows?
A) Cows usually clear the infection on their own if not recontaminated by infected bulls. In addition, the test is not very reliable in cows and requires multiple tests in order to be trustworthy. Your best option is to purchase new female herd additions from reputable breeders who can provide evidence that they are not having a Trich problem.

Q) If my bull tests positive, what can I do to clear the infection?
A) Nothing. Most bulls, especially those past 3 years of age, are carriers for life if they acquire the infection and will spread it to 80 to 90% of the cows they breed.

Q) What should I do if I have a bull that tests positive?
A) With Trich, even one positive test indicates that the organism is present in your herd. This is not necessarily an insurmountable problem and the sooner it is detected the easier it is to resolve. There are management tools available to help resolve the problem, and your local veterinarian is best positioned to help you outline a program for your operation.

Q) What is the difference between the two tests that are available?
A) Both tests start by obtaining a sample from the bull’s prepuce and penis and protecting it in a special culture medium for shipping. The older culture test is less expensive but is not conclusive and is required to be repeated 3 times for regulatory purposes. The newer PCR test checks for genetic material from the organism and is more reliable. One test is sufficient for regulatory purposes. Although it is more expensive, it is usually
cheaper than 3 consecutive cultures and is much easier on the bull, the veterinarian and the owner.

Q) Can I collect and submit my own samples?

A) No. For regulatory purposes the sample must be collected and submitted by a licensed veterinarian who has received specific training and certification to do the collection correctly. The Oklahoma Department of Agriculture and OSU College of Veterinary Medicine are working now to provide this training and certification to food animal practitioners across the state.

Q) What do I need to do if I purchase a bull at my local auction that is not tested?

A) Under the new law you can have your newly purchased bull tested at the sale barn by the sale veterinarian and then take him home under a special quarantine. You must agree to isolate him from breeding animals until the test results are known (usually 7 to 10 days) and to sell him for “slaughter only” if he tests positive. You should seek clarification from the market operator or sale veterinarian before bidding on untested bulls.

Q) If I buy and feed cutter bulls what does this new law mean to me?

A) The law contains an exemption for cutter bulls that are purchased for feeding only and not allowed exposure to females. Visit with your market operator or sale veterinarian for clarification on this exemption.

Q) Is testing required if I buy, sell, or lease a bull through a private treaty transaction?

A) Yes. A negative test is required by law any time a breeding bull changes ownership or management within the state of Oklahoma, or enters from another state.

Q) Where should I go for more information?

A) Your local veterinarian should always be your first source of information on any health related issues. Other sources of information concerning the new testing regulations are the Oklahoma Department of Agriculture, Animal Industry Services, and your county OSU Extension Office.

New and Updated OSU Publications and Software

Livestock Tagging, ANSI-3287, discusses proper placement of electronic ear tags.

Adding Value to Cull Cows: Part II. AGEC-621.

To better understand your farm/ranch business financial performance, take a look at the updated financial statement fact sheet series on the OSU website, osu-facts.okstate.edu

Start with these:

- Developing a Cash Flow Plan. AGEC-751.
- Developing a Balance Sheet. AGEC-752.
- Developing an Income Statement. AGEC-753.

For more detail and worksheets to help gather the numbers needed for these financial statements, you may also want to view:

- Schedule of Assets. AGEC-792.
- Liabilities Schedule. AGEC-791.

And for even more of the nitty gritty:

- Owner Equity. AGEC-938.
- Capital Leases. AGEC-935.
- Deferred Taxes. AGEC-939.

Updated Software:

OSU ration formulation software has been updated from NRC2006 to NRC2010. Some of the notable and visible upgrades include expansions to allow for more feedstuffs in the feed database, calculations of percentages of feed ingredients in the diets, and inclusion of ingredient pricing on the formulation page to help with low cost ingredient selection. It is posted on BeefExtension.com under the Stocker and Receiving & Feeding calculators.
The Oklahoma Society of CPAs (certified public accountants) offers the following tax tips. For more information, see the Oklahoma Society of CPAs website, http://www.oscpa.com/home.asp

1. **Computers and other equipment used on the job or to monitor your investment portfolio may be tax deductible.** Review tax Forms 4562, 2106, and Schedules A and C to see if you qualify for these deductions.

2. The Earned Income Tax Credit (EITC), sometimes called the Earned Income Credit (EIC), is a refundable federal income tax credit for low-income working individuals and families. Take the Earned Income Tax Credit Certification Test (http://www.irs.gov /individuals/article/0,,id=96466,00.htm) to see if you qualify.

3. **Need more time to prepare your federal tax return?** If you are not able to file your federal individual income tax return by the due date, you may be able to get an automatic 6-month extension of time to file. To do so, you must file Form 4868, Application for Automatic Extension of Time to File U.S. Income Tax Return by the due date for filing your calendar year return (usually April 15) or fiscal year return. Special rules exist for those serving in the military. Other rules may apply. Visit the IRS Web site for more information or consult your CPA.

4. **Participating in an illegal scheme to avoid paying taxes can result in imprisonment and fines, as well as the repayment of taxes owed with penalties and interest.** Education is the best way to avoid the pitfalls of these "too good to be true" tax scams. Ensure the credibility and legality of your tax returns by letting a CPA help you prepare your returns.

5. **If you were looking for employment last year, check Form 2106 and Schedule A to see if some of your job seeking expenses are tax deductible.** Costs for agency fees, resume prep, interview travel, lodging and part of your meals qualify, as well as fees for psychological testing and career counseling.

6. **The Educators’ Deduction is available to eligible educators in public or private elementary or secondary schools.** To be eligible, a person must work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide. An educator may subtract up to $250 of qualified out-of-pocket expenses when figuring adjusted gross income (AGI). This deduction is available whether or not the taxpayer itemizes deductions on Schedule A.

7. **If you are filing a federal income tax return on paper, use the simplest form you can,** the IRS advises. The simpler the form, the less chance of an error that may cost you money or delay the processing of your return. The simplest is Form 1040EZ. Form 1040A covers several additional items not addressed by the EZ. Form 1040 should be used when itemizing deductions and reporting more complex investments and other income.

8. **Even individuals who don’t earn enough to be required to file a tax return may be eligible for an earned income credit.** Some individuals who do not have a qualifying child may also be eligible for a credit. However, you must file a return to receive the Earned Income Tax Credit. You must also file a return if you received any advance payments of this credit while you worked during the year.

9. **Contributions of cash or property must be made to qualified organizations, such as religious, charitable and educational groups in order to be deductible.** The IRS Web site (www.irs.gov) has an exempt organization search feature to help you determine whether an organization qualifies for federal deductions.

10. Under current law, **a married couple filing a joint return can exclude from income up to $500,000 of gains made on the sale of a principal residence.** For a single person, the amount of tax-free gain can be up to $250,000. To be eligible for the exclusion, you and your spouse (if married) must have owned and used your home as your principal residence for at least two of the five years up to the date of the sale. Short, temporary and seasonal absences count as periods of use. If you have more than one residence, only the sale of your principal home qualifies for the exclusion. Special provisions apply if unforeseen events such as job relocation, illness or divorce forces you to sell your home before meeting the residency requirement. Depending on the circumstances, gain may be fully excluded or the exclusion may be prorated based on the amount of time you lived in the house. When determining gain, don't forget to count qualified expenses. They can be added to your home's purchase price, increasing the cost basis on your original house. Increasing your cost basis helps reduce the gain on the sale of your house and may lower or eliminate a potential tax bill. Qualifying expenses include home improvements, such as adding a room or a new roof, and the cost of settlement fees, property inspection fees and title insurance.
Statewide Conference for Women in Ag and Small Business, Oct. 14-15

Save the date! Call, e-mail, text your friends and plan to load up the car. The hotel block is reserved through September 30. This year’s Statewide Women in Agriculture & Small Business Conference has an exciting lineup of workshop and keynote speakers. The Keynoter for Thursday is Michele Payne-Knoper (http://www.michelepaynknoper.com/) with Celebrating Agriculture! Karen Hill will close the conference on Friday with “Yesterday’s Peacock is Tomorrow’s Feather Duster”.

The conference will be held October 14-15 at the Moore Norman Technology Center located at SW 134th Street and Pennsylvania Avenue in Oklahoma City. Concurrent sessions will focus on timely topics in agriculture, small business and alternative enterprises. The conference will address personal, family, business and agriculture issues that present unique challenges to women. Every breakout will focus on providing helpful information that will help women be successful in business and personal endeavors.

The early registration deadline for the conference is October 7. For registration details, see www.OKWomenInAgandSmallBusiness.com.

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