

# Drought: The Challenge to Livestock



**Devin Murnin**  
**Director of Industry Programs**  
**Colorado Cattlemen's Association**





# Colorado Agriculture Statistics

- Agriculture Second Largest Contributor to Colorado Economy
- Approximate Land Area: 66.3 Million Acres \*
- Approximate Cropland Area: 11.5 Million Acres \*
- Approximate Irrigated Area: 2.6 Million Acres \*
- Number of Farms and Ranches (2011): 36,700
- Average Size of Farm and Ranch (2011): 853 Acres
- Farm Marketing Receipts (2010): \$6,017.5 Million
- Livestock & Livestock Products: \$3,749.2 Million (62% of the total)



\* 2007 Census of Agriculture

Source: USDA NASS Colorado Field Office



# Drought Management Decisions

- Guessing the Duration of the Drought
- Assessing Current Water and Feed Inventories
- Evaluating the Cowherd
- Financial Resources

# Predicting Duration of the Drought

- Current models not accurate enough to make management decisions
  - Some reports indicate cooler and damper transitioning taking place while others indicate another hot, dry summer
- Producers generally choose a date to sell cattle if it has not rained
  - Producers currently not using long range forecasts to determine this date
  - This date is not always strictly adhered to





# Water

- Dry conditions have resulted in ponds/lakes/reservoirs drying up
- Irrigation water limited due to limited snowpack, thus less irrigated pasture
- Water tanks and wells expensive to install





# Feed

- Drought has 87% of Colorado Pasture & Range Conditions Rated as Poor or Very Poor
- Most livestock supplemented hay
- Most hay was sent out of state last year due to the drought in Texas
- Very little carryover supply in Colorado
- Alfalfa Hay Price
  - USDA Agriculture Marketing Service reports price in Northeast Colorado \$300.00-\$350.00 per ton delivered.
  - Value of hay is nearly double historical averages





# Feed

- Corn
  - December Corn prices on the Chicago Mercantile Exchange (CME) were trading below \$5.20 per bushel in May and June of 2012
  - CME December Corn traded over \$8.20 per bushel in August: an increase of approximately 60%
    - September 17<sup>th</sup> Price: \$7.48



# December Corn Price Graphed





# Feed

- Alternative Feed Resources
  - Feeding a less expensive and lower quality roughage
  - Corn Stalks
  - Straw
  - Etc...
  - Competition for these alternative feedstuffs have driven up prices for lower quality forages





# Cowherd Management

- Evaluate Body Condition Score of Cattle
  - Opportunity for cattle to eat less or lower quality forage
- Consider all options
  - Find Additional Feed
  - Sell Herd





# Options for Livestock Owners

- Find Additional Feed Resources
  - Purchase additional feed
    - Colorado feed inventory limited due to excess hay going to drought areas last summer
    - Demand for feed resulting in record feed costs
  - Move cattle to other areas where there is feed
    - This year is difficult because of large area of drought
    - Transportation costs expensive



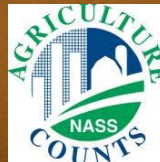
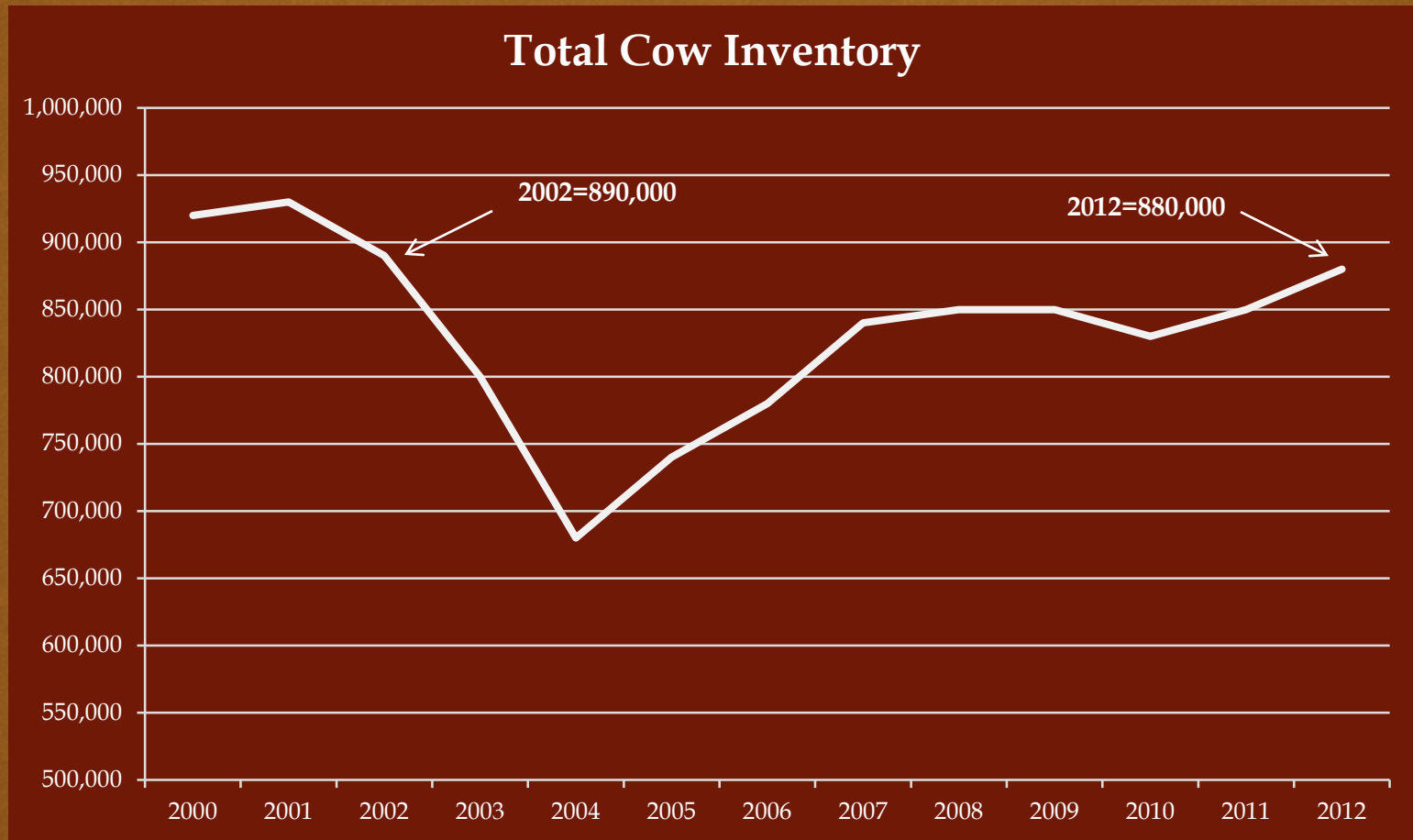


# Options for Livestock Owners

- Sell Cattle
  - Ranches will initially sell least productive cattle
  - Drought causes an influx of animals going to market and decrease in prices
  - Short-term it has a positive impact to the ranches finances
  - Long-term it has a negative impact to goals of the ranch
    - Genetic Loss
    - Replacement Value
    - Consequences to future generations
    - Smallest cowherd in the US since the 1970's



# Colorado Inventory





# Selling Cattle

- Current market price for cows is approximately \$75.00 per cwt\*
- Using \$75.00 per cwt and a 1200 pound cow, this equates to \$900.00 per head
- Replacement values for cows in March were \$1,300.00-\$1,600.00 per head\*
- Each cow sold in drought conditions result in a \$400.00-\$700.00 loss for ranchers
- Replacement costs could be even higher if there is large restocking efforts by the industry

\*USDA Agriculture Marketing Service



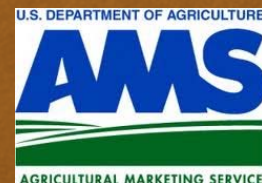


# Selling Cattle

- Prices near all-time historic high's
  - Cow's going to slaughter are nearly \$10.00 per cwt then a year ago\*
  - 500 pound calves selling nearly \$20.00 higher per cwt than a year ago and nearly \$40.00 higher per cwt than the five year average\*
  - This results in more taxes being paid by ranchers



\*USDA Agriculture Marketing Service





# Tax Options

- **Code Section 451(e):** The election to postpone reporting the taxable gain on the additional sales of any livestock for one year; or
- **Code Section 1033(e):** The election to postpone, and altogether avoid, paying taxes on the gain from the sale of breeding, draft, or dairy animals if they are replaced within a specified time frame





# Options for Livestock Owners

## USDA Farm Service Agency (FSA) Disaster Assistance Programs

- Noninsured Crop Disaster Assistance Program (NAP)
  - Covers plants grown for livestock consumption
  - Droughts, Freeze, Hail, Excess Moisture, Excessive Wind, Hurricanes
  - Fee is \$250.00 per crop or \$750.00 per county, not to exceed \$1,875 per producer with interest in multiple counties
  - 55 percent of an average market price for the specific commodity established by the FSA state committee

USDA Farm Service Agency





# Options for Livestock Owners

- Colorado has been designated at a secretarial level disaster for drought in 2012
- Haying and Grazing of Conservation Reserve Program (CRP)
- Emergency Loans
- Farm Bill Disaster Assistance Programs
  - Livestock Forage Disaster Program (LFP)
  - Livestock Indemnity Program (LIP)

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# What the Livestock Sector Needs for the Future?





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- Increased investment in forecasting models to provide more accurate long-term predications for livestock producers
  - Management decisions





# What the Livestock Sector Needs for the Future?

- Alternative qualifications for insurance and disaster qualifications beyond current methods
  - Weather stations few are far between and expensive
  - Programs based off of precipitation and forage green factors not working accurately in the west.





# What the Livestock Sector Needs for the Future?

- Changes to the Tax Code
  - Provide lenience to replace cattle on ranches with any type of cattle, not limited to similar types or time frame
- Congress should modify the Renewable Fuel Standard and provide an automatic waiver of the RFS in drought situations due the increased demand for feedstuffs that will be in marginal availability

# Thank You



- More information and this presentation is available at:
  - <http://www.coloradocattle.org>

