

# AG-ECO NEWS

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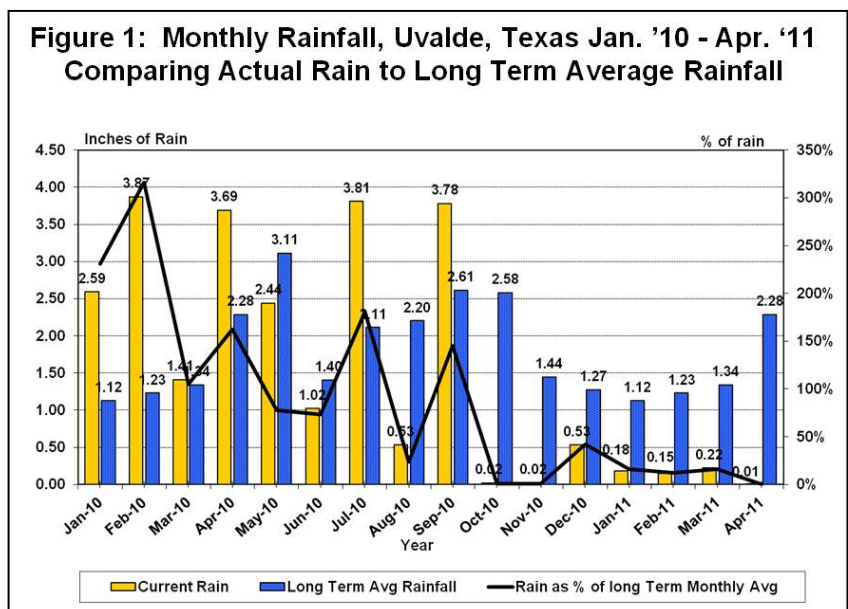
## A Continuing Drought Will Make 2011 a Financially Difficult Year for Agriculture In Texas Even As Commodity Prices Reach Record or Near Record Highs

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After abundant rainfall during September '09-July '10, rains stopped in August 2010 (except for some isolated rain showers in September 2010) and it has remained almost completely dry in the South-Central U.S. region since October 2010. The El Niño pattern (which favors rain in the southern U.S. tier) was active in Texas during the first half of 2010, but now most of the South-Central U.S. region, including Texas, is experiencing the effects of the La Niña. La Niña favors a dry southern U.S. tier. While parts of central Texas received some rain on May 2, 2011, most of Texas is facing the 4<sup>th</sup> driest period on record.

The drought will make 2011 a financially difficult year for agriculture even though prices for most U.S. agricultural commodities have surged to record or near record highs. As measured in

Uvalde, Texas which probably represents the relative drought situation in a large portion of the state, most of Texas entered into drought conditions (75% of average rainfall) around August 2010 and has remained in a dry spell since then (See Figure 1). April 2011



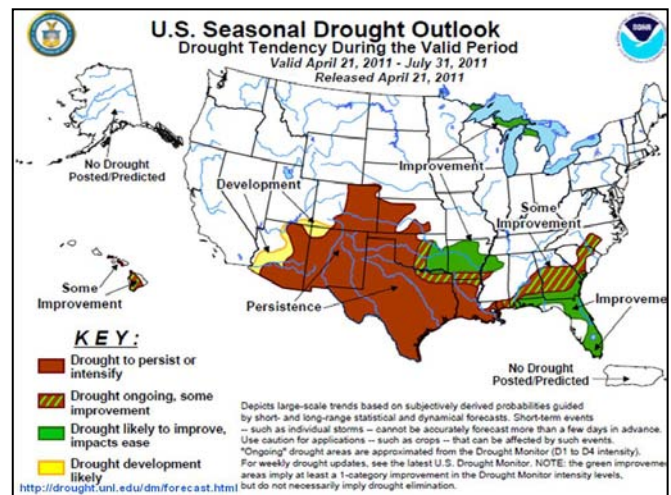
ended without any measurable rainfall, making the period from October 1, 2010 through the end of April 2011, in Uvalde, Texas the driest period on record. Only 1.13 inches of moisture fell, compared to a long term cumulative average of close to 11.3 inches during the same period.

The South Central U.S. region, where a large proportion of the U.S. cattle herd resides, is in a similar moisture situation. So far, it appears that the drought has had only a minor direct impact on the market, but the dry spell will have a major impact in agricultural production from that region. A significant portion of crops which are normally produced under dry-land conditions may fail and forage availability is becoming critical in some areas. Some wheat, which would normally be harvested for grain this spring/summer, is being grazed-out. Livestock and wildlife stock tanks in southwest Texas are dry or almost dry and will limit livestock and wildlife production. Wildlife has become the economic lifeline for many ranching operations.

In addition, unseasonably hot temperatures, dry forage and high, dry winds have increased the risk of road-side and field fires. Recent estimates indicate that wildfires have burned about 1.5 million acres in Texas, including about 6,400 in Kimble County.

### Time to React

The key to drought management is to plan ahead and react quickly while there may be some management flexibility left. The April 21, 2011 U.S. Seasonal Drought Outlook, unfortunately, shows the drought to persist in a large portion of the South Central U.S. region at least through the end of July 2011 (See Figure 2). This means that the spring growing season will be missed in most of that region. Ranchers should plan to reduce stocking rates to match the available forage. The list of drought planning alternatives is long.



The critical element in successful grazing management is maintaining the proper stocking rate. Stocking

rates should be reduced to prevent increased use of purchased hay and supplements and to ensure acceptable animal performance. Furthermore keep in mind that prolonging the decision to reduce the herd to match forage availability usually creates an overgrazing situation which causes harm in the long term. Start by liquidating livestock which will not produce income in the near term, such as open females, replacement heifers and low performing cows/bulls.

As signs of forage over-utilization during a drought start to appear, producers tend to increase the use of hay or concentrate feeds. This means increased production costs and requires very careful financial planning to survive a drought. Increased use of purchased feeds will reduce the economic performance of a ranch. Producers are reminded to keep accurate records of any drought sale to document the income tax implications of drought liquidations and for insurance/disaster assistance requirements.

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