

Financial considerations of selling stock in drought

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The cash flow consequences

- Initially the cash flow will be positive because you will receive income from the stock sale. However, selling stock is likely to eliminate future income flows, and there will be a big outlay to buy replacement stock after the drought. There are several causes of lost income, for example loss of a wool clip or loss of one year's calves, lambs or other progeny.
- You may need to consider whether you will have the spare time, following the sale of stock, to earn additional income to assist in the cash flow. Additional income can be earned by off-farm employment, by contracting using your machinery off-farm, or you may be in a position to earn additional income from other enterprises on your farm.
- You could make good use of the time by carrying out improvements to your property which you never seem to have time to do. Remember that if you do carry out improvements on your property, any capital requirements will need to be taken into account in the farm budget. Another option may be to take that long overdue holiday.
- You should not 'fall in love' with your stock. They are a cashable asset whose job is to provide you with adequate income and a lifestyle. Keep in mind that if you get caught in a long drought, and high feeding costs put you out of business, then you are going to lose the stock anyway. There is a saying used: 'Sell, repent, then sell again'.
- The taxation consequences of selling stock should be considered. See Primefact 293 *Tax treatment of forced livestock sales due to pasture or fodder loss* for more information.

Advantages of selling stock

- Selling stock early often means that you are selling before prices become depressed. It also means that you will be resting your paddocks and that your pastures will recover more quickly. You may then be in a position to buy earlier following the drought, when prices are still lower.
- You will not be up for feed costs that you cannot estimate. Feed costs or agistment costs can continue for some considerable time in the Australian environment. Some producers take a punt on feeding stock in the hope that the drought will be short-lived; however, if the drought is prolonged, producers may find that their cash reserves are exhausted and they could be forced to sell anyway.
- Often it is claimed that stock prices will be extremely high following a drought; if this were the case, it would likely undo any of the cash flow advantage you had up until this stage. While breeding stock prices following a drought may not necessarily follow the same pattern as in the previous drought, it is usual for the prices paid for stock to rise after a drought breaks, but usually they do not rise to extremely high levels. (For details, see Primefact 290 *Financial considerations of feeding cattle in drought*.)
- You will have the opportunity to change enterprises or production systems. It will also allow you to buy in younger replacement stock and to trade your way back into breeding cattle.
- If a freight subsidy applies for transport of stock to slaughter, this will help reduce costs of this option.
- Paddocks can be rested, which means pastures will respond faster following the drought, and soil damage will be minimised. Replacement of pastures is very expensive.
- Some income can be earned from investing the proceeds of the sale of stock, or by paying back the bank. If you have an overdraft, the best



option is likely to be to reduce this. You may also look at reducing a term loan. However, you must keep in mind that at the end of the drought, capital will be required to buy stock back in. It can be costly to renegotiate a loan, so if this is the case and the expected drought period is only a few months, the option of a short-term investment, with money at call, may be the best option.

- Special tax considerations are available if you are obliged to sell stock because pastures are unavailable. For details, see Primefact 293 *Tax treatment of forced livestock sales due to pasture or fodder loss*.

Disadvantages of selling stock

- If you decide to sell your stock, first investigate whether you will be able to buy in stock that are of an equivalent quality or better quality. If this is not the case, you may suffer a loss of income in the future from lower livestock productivity.
- If the drought is short-lived, selling stock can turn out to be the most expensive option.
- It is possible that you may introduce disease, insect pests or weeds when you buy stock back in.
- When stock are sold at higher values than the valuation of stock on hand used in the last tax return, there will be a tax liability due from the sale (see Primefact 293 *Tax treatment of forced livestock sales due to pasture or fodder loss*).

Further information

- Primefact 307 *Drought strategies for the livestock producer*
- Primefact 281 *Prompts to assess your financial situation in drought*
- Primefact 293 *Tax treatment of forced livestock sales due to pasture or fodder loss*

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