Cattle Inventory: Never Right, Sometimes Close, and Always Changing

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The January 1, 2017 Cattle Inventory report was released January 31 and it once again proved three things. 1) I am never right about cattle inventory, few are. 2) I am sometimes close with my projections, but close is a relative term. 3) The market is always changing, so must we.

As of January 1, 2017, all cattle and calves were just shy of 93.6 million head which is a 1.8 percent (1.67 million head) increase in cattle inventory from one year ago. All cattle and calves inventory increased 5.0 percent in two years (2015, 2016). Cattle inventory has not grown at this rate over a two year period since the years 1973 and 1974 when all cattle and calves reached 132.0 million head on January 1, 1975. Beef cow inventory increased 3.5 percent (1.04 million head) from one year ago to total 31.2 million head. Similarly, beef heifers held for replacement totaled 6.42 million head which is an increase of 1.3 percent (79,000 head) compared to one year ago. The results are similar across all classes of cattle except the dairy herd.

All cattle and calves inventory in Tennessee was unchanged from a year ago and stood at 1.83 million head. However, beef cow inventory increased 23,000 head (2.6 percent) from one year ago to 909,000 head. Heifers held for beef cow replacement declined 15,000 head (-9.4 percent) to 145,000 head. There were also significant declines in feeder cattle and calves compared to one year ago which was likely due to the extremely dry summer and fall months.

It is difficult to look at individual states and prognosticate the direction of the industry. Similarly, it is difficult to look at the national inventory to determine if there are trends in areas. Thus, looking at inventory from a regional standpoint may be beneficial.

All cattle and calves inventory increased 2.1 percent in the Southeast (AL, AR, FL, GA, KY, LA, MS, MO, NC, SC, TN, VA), 2.6 percent in the Plains (KS, NE, ND, OK, SD, TX), 0.4 percent in the Mid-West (IL, IN, IA, MI, MN, OH, WI), and 1.3 percent in the West (AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY). As of January 1, 19.8 percent of all cattle and calves were in the Southeast, 38.3 percent were in the Plains, 15.4 percent were in the Mid-West, and 21.9 percent were in the West which is in line with the ten year average cattle distribution.

The regional distribution of beef cows is a little different than the distribution of all cattle and calves. Beef cow inventory increased 2.3 percent in the Southeast, 4.4 percent in the Plains, 3.4 percent in the Mid-West, and 3.2 percent in the West. Considering beef cows in the U.S., 29.2 percent are in the Southeast, 40.6 percent are in the Plains, 8.4 percent are in the Mid-West, and 19.7 percent are in the West which is comparable to the ten year average beef cow distribution. Heifers for beef cow replacement increased 0.2 percent in the Southeast, 2.5 percent in the Plains, 2.8 percent in the Mid-West, and declined 1.0 percent in the West.

Numbers and statistics are great, but what is the take away from this information? How will markets react? What decisions will producers make in 2017?

The first observation is producers in the Plains States continued to rebuild beef cattle herds at a rapid pace in 2016 following several years of drought that resulted in deep cow culling. Alternatively, the Southeast expanded the beef cow herd at a more moderate pace while the West and Mid-West fell in the middle. Maybe the more interesting story lies in the heifers for beef cow replacement where the Plain states and the Mid-Western states continue to power forward, while the Southeast is putting on the brakes, and the West has shoved it in reverse.

The regional differences are largely due to cost of production and capacity. Cost of production and capacity are not independent. There is a ceiling on animal capacity and a floor on cost of production, but the two concepts are interrelated. Producers with high cost of production generally have lower profits which results in quicker decision making when it comes to expanding the herd. Producers with high cost of production are more quickly faced with the disincentive (losses in profit) of lower calf prices than producers with low cost of production. The cattle inventory report shows that the Plain states continue to have capacity to grow the herd after several years of drought decimating the beef cattle herd. Similarly, states in the West have relatively high cost of production which has squeezed profits out of the beef business faster than other parts of the country. The Southeast has room to improve by trading labor for management which will lower cost of production, mainly by trading mechanically harvested feedstuffs for grazing management.