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State of the 2012 Cattle Industry

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The cattle industry is experiencing both production and market conditions that are unique and uncommon for the industry. Extreme heat and drought conditions in 2011 caused double digit percentage declines in beef cattle numbers in Texas and Oklahoma. In 2011, there were 660,000 head of beef cows that disappeared from Texas making it the largest single-year decline in history. Oklahoma producers reduced their herds by 288,000, dropping its rank in total beef cows in the U.S. from second to fourth behind Texas, Nebraska and Missouri.

On the other hand, many northern states experienced good growing conditions in 2011, allowing them to increase beef cow numbers. This helped soften the year-over-year decline of total beef cows in the U.S. to 3 percent. The good summer in some of the northern states also allowed them to produce and ship hundreds, if not thousands, of truckloads of surplus hay to the Southern Great Plains. Even at unprecedented high prices, southern producers were glad that hay was available. Even though Mother Nature dealt the Southern Great Plains a harsh summer in 2011, she has provided a

mild winter through January that has helped stretch sparse hay inventories.

Somewhat surprisingly, cattle prices have remained strong despite the large numbers moving through the market. November 2011 prices for all cattle experienced more than a 25 percent increase over November 2010. Lightweight calf prices are at record levels causing "sticker shock" for buyers. Many producers are asking how high prices can go before consumers start to reduce beef purchases. The Consumer Price Index calculated a 10 percent increase in beef and veal prices from November 2010 to November 2011. Based on preliminary data reported by the University of Missouri, beef demand was up 4 percent in December 2011 compared to December 2010 and up 1 percent for all of 2011. This increase in overall demand follows three years of declining domestic beef demand. However, preliminary data for the fourth quarter of 2011 indicates that beef exports are expected to be over 10 percent higher than in 2003 (prior to BSE) and about 21 percent higher than in 2010. The weak U.S. dollar has contributed to stronger exports.

Beef production will be impacted for several years by the 2011 drought. The 2012 year-over-year decline in beef cows of 3 percent will result in the smallest calf crop since 1950. Smaller cattle numbers in combination with increased demand both domestically and internationally set the stage for a strengthening of prices. A surprising number in the Jan. 1, 2012, cattle inventory report was a 1 percent increase in beef replacement heifers relative to the previous year. This is an indication that the industry wants to increase herd numbers.

Overall, the future is bright for the cattle industry; however, many challenges persist. First, higher cattle prices typically translate into greater risks, thus making risk management strategies more important for producers. Second, input prices are likely to continue to rise. Managing costs, therefore, will be essential for profit-minded producers. Lastly, government policies can materially affect farming and ranching operations, so it is important that producers become (and remain) politically engaged. Those who engage their political representation and manage production and market risk should prosper in the next few years. ■