

CALIFORNIA AND WESTERN U.S. HAY AND FORAGE MARKET TRENDS

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ABSTRACT

Every year brings new dynamics for the Alfalfa hay markets in California and the west. In 2012 a big dynamic was **exports**. Due to tight and negative margins in the dairy industry and below normal demand (substantially below 2011) from dairy buyers during the season, export buyers picked up the slack in some areas. This was particularly noticeable on Good to Fair quality alfalfa hay that was finding good demand for export to the Middle East and China. While alfalfa hay markets in California and the west were generally lower in 2012, they were still above the ten year average and were at profitable levels. Alfalfa hay acres were mixed in the west compared to 2011. USDA was estimating a 100,000 acre increase in acres in California (I thought it would be closer to 50,000 more acres) while alfalfa hay acres in other western States were unchanged to lower. As we enter 2013 there will be more carryover hay in California and mixed trends in other Western States. It appears that hay exports will be strong in California and the west in 2013 but there seems to still be uncertainty as to where milk prices are going in the coming months. This is a big issue as dairy producers in California and the West struggled financially much of 2012, particularly in the second half of the year when grain prices increased dramatically.

2012 – A Year of Strong Exports, Moderating Hay Prices, and Financial Losses in the Dairy Industry

Unlike other Western States, California alfalfa hay acres were higher than 2011, up 100,000 according to USDA. Other Western State alfalfa hay plantings were not as ambitious as California with only Washington State showing a slight increase in acres in 2012. Year to Year declines in milk prices and higher trending milk cost of production through the year pushed alfalfa hay prices softer in California and the West compared to 2011 but still higher than the ten year average and still at profitable levels. The price decline varied from \$30 to \$50 per ton but in some areas it was less than that, particularly on early to mid-season prices on three string export alfalfa hay in Washington State that were nearly the same as in 2011.

It was the opinion of many in the California and Western hay industry that had it not been for export demand in 2012, alfalfa and other hay prices would have been even lower. Baled hay exports from West coast ports January through September 2012 were running 10 percent above the same period in 2011. But the biggest change was that a growing amount of this hay, particularly alfalfa hay was being exported from California ports than from Washington and Oregon ports. For example, baled hay

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exports from California ports from January through September 2012 were up 23 percent from the same period in 2011 while exports from Washington-Oregon ports during the same period were up only 1 percent. During the summer, particularly in the north central and north valley of California where demand from dairies for dry cow alfalfa hay turned light, demand picked up for this quality of hay from export buyers who were purchasing mainly for the Middle East.

Due to drought in areas of the West, demand for alfalfa and other hay from beef cattle producers was up significantly from 2011. For example, in Idaho in mid to late summer, feeder hay was trading to beef cattle operators in Nevada with a good amount of hay moving to the Elko area. In November, big bale corn stalks were moving from the Sacramento Valley to beef cattle operators in Winnemucca, Nevada. We did not see the amount of alfalfa and other hay moving from some areas of the West to dairies in Texas and New Mexico like we saw in 2011, although Canadian hay was moving into those States. But what we did see were bigger shipments of alfalfa hay from Utah and even Idaho to beef cow-calf and feedlots in Colorado. Drought dramatically reduced production of meadow grass hay for beef cattle in some States in the west.

While California and Western dairyman reduced the amount of alfalfa they were feeding in 2011 and the first half of 2012, this began to change in mid to late 2012. With the sharp rise in corn prices the second half of the year, dairies started adding more pounds of alfalfa and other hay back into milk cow rations. Alfalfa hay fed to milk cows in California dropped to a low of 8.95 pounds per head per day the first half of 2012, according to data from the Dairy Marketing Branch in the California Department of Food and Agriculture. I predict that pounds in the second half of the year will increase and put the total for 2012 in the 9.2 to 9.3 pounds per head per day range. Alfalfa hay pounds in milk cow rations will be higher than what we saw in the first of 2012 as long as corn prices stay at historical high levels. When corn prices fall below alfalfa hay prices as they were in 2011 then we could see alfalfa usage drop again. We also saw heavy usage of corn silage the second half of 2012 due to the very strong corn grain prices. Corn silage will continue to see heavy use with the strong corn for grain and hay prices.

Trends in the California and Western Hay Industry for 2013

Carryover hay inventories will be higher in California than a year ago and will be mixed in other western States. With California alfalfa hay acres forecasted by USDA to be up 11 percent from 2011 it is not surprising that hay carryover into 2013 would be higher. This will not be the case in other western States where hay production was mainly unchanged to lower in 2012. Consequently, hay carryover will be unchanged to lower in other western States. One development that we saw in November is that some of these remaining supplies of alfalfa hay, particularly in Nevada were finding good demand from export buyers.

The early indications on alfalfa hay acres in 2013 in the West, particularly the seven Western States is unchanged to lower acres than 2012. However, it does appear that due to low cotton prices that Arizona alfalfa hay acres could be higher in 2013. In California, one of the few areas where alfalfa hay acres could be up is in the Blythe (Palo Verde Valley) area. This is due to fallowed acres coming back into production as a result of a reduction in the amount of water needed for a long term water

agreement. But in the central and northern valley of California it appears that alfalfa hay acres will be down and that statewide alfalfa hay acres could be down 3 to 5 percent in 2013.

The big uncertainty for 2013 is where milk prices are going. While some dairy economists were predicting milk prices to be \$20 cwt. and above in 2013, there are some questions about whether that will occur. The key will be the world economic situation and milk production in both the U.S. and the world. With U.S. milk production not dropping as much as some had hoped and with stronger milk production in New Zealand, Australia, and Europe, there appears to be ample dairy supplies worldwide. Will this continue to be the trend as we move into 2013? Additionally, in order to retain and improve dairy product demand the U.S. and world economies must not falter in the months ahead.

It appears that export hay demand in California and the west will be good again in 2013, particularly alfalfa hay to China and the United Arab Emirates (UAE). We know that China and Saudi Arabia are growing alfalfa hay in South Africa and South America and how successful they will be in reducing hay needs from the Western U.S. is yet to be seen. With the very rapid growth in the Chinese dairy industry, it appears that China's needs for alfalfa hay will be higher again in 2013. Demand for timothy, sudan, and other grass hays to Japan and Korea should also be good in 2013. While the quality of the Australian oaten hay crop is excellent, production was down, some estimate by 30 percent.

Demand for orchardgrass and timothy hay for retail and stable hay for horses should remain strong in 2013. It does not appear that timothy hay acres will change much in areas of the west that produce for the domestic horse market. Orchardgrass, on the other hand should see more acres planted in the Northern Mountains of California but due to the very strong demand in 2012, the additional acres should not cause much of a drop in prices in 2013. Retail alfalfa hay demand should be good next year but carryover supplies into 2013 will be up from a year ago.

Conclusion

Early indications point to fewer alfalfa hay acres in California and the west in 2013. Alfalfa and other hay exports should be up again in 2013 as demand for quality alfalfa hay in the western U.S. is sought after for dairy cows around the world. The biggest growth in alfalfa hay exports should be to China where there has been an unprecedented upsurge in dairy cow numbers in recent years and the outlook is for stronger growth in their dairy industry in the future. Alfalfa hay prices in California and the west should be close to what we saw in 2012 but a key element is an improvement in the financial health of the dairy industry. While hay exports are a growing driver in the alfalfa hay market in the west, the dairy industry is still the main user of alfalfa hay and is still a major factor in where alfalfa hay prices will go in 2013.