

HAY MARKET SITUATION IN WESTERN STATES

Seth Hoyt¹

ABSTRACT

Every year there are different dynamics that shape the hay and forage markets in the west. When I wrote this paper in 2012 the big dynamic was hay exports. In 2014, you could list several but the three main ones are: drought, milk prices, and summer rains. While California was the hardest hit state in the west with drought, dry conditions were also seen in Nevada, Idaho, Oregon and Arizona. Larger amounts of hay and straw were shipped into California from other Western States to meet the demand from not only dairies but beef cattle producers early in 2014. With the sharp decline in Fair quality alfalfa hay prices in California the second half of the season and record price spreads between the top and bottom of the alfalfa hay market, some thought the drought's impact on the alfalfa hay industry, particularly in California, was overblown. They say USDA's forecast of higher alfalfa production in the west in 2014 supports that. While the west did produce more alfalfa hay than was expected, I will show how the drought did impact alfalfa hay production in California but not to the extent that was expected earlier in the year. Harvest schedule changes and feeding changes by the dairy industry played a huge role in the record price spreads between Supreme and Fair quality alfalfa hay. With record high milk prices, dairies in the west had a very profitable year. While alfalfa hay prices were at record highs, particularly in California, corn and other by-product feed prices were lower than 2013. Summer rains damaged a large amount of alfalfa hay in some areas of the west, including the southern desert. Hay exports from the west coast the first nine months of 2014 were down 14 percent from the same period in 2013. An array of developments reduced hay exports including; sharp declines in alfalfa hay exports to the UAE, the weak Japanese Yen, China changing to a policy of zero tolerance on GMO alfalfa hay, and work slowdowns by Longshoremen at west coast ports.

You'd Be Hard Pressed to Find a Year That Had More Dynamics Impacting the Hay Industry

When you look back at 2014, where do you start with all that happened. I guess a good place is the drought and dry foothill pastures in central and northern California early in the year that brought a large amount of hay into the state from Washington, Oregon, Arizona, and the southern desert of California. It was mainly lower quality hay but it kept beef cows alive on

¹ Seth Hoyt (aginfo@thehoytreport.com), THE HOYT REPORT, 3003 Grapevine Gulch Road, Ione, CA 95640. **In:** Proceedings, 2014 California Alfalfa, Forage, and Grain Symposium, Long Beach, CA, 10-12 December, 2014. UC Cooperative Extension, Plant Sciences Department, University of California, Davis, CA 95616. (See <http://alfalfa.ucdavis.edu> for this and other Alfalfa Symposium Proceedings.)

barren foothills. A late winter rain not only brought a little green grass to these foothills but it helped change the irrigation water picture a little for the northern and central valley in California which had been looking very bleak.

The early alfalfa hay market in the southern California desert started strong and got stronger. Supreme alfalfa hay that traded from \$260 to \$265 fob stacks in early March, pushed into the \$270 to \$275 range by early May. Delivered prices into Tulare on Supreme desert hay brought \$340 to \$360, occasionally \$370 in early May. Overbase milk prices in California were at \$21 cwt. in May and dairymen wanted higher quality alfalfa hay to enhance milk production. With the large amount of lower quality hay used by beef cattle producers in early 2014, there was no abundance of dry cow alfalfa hay. Fair quality alfalfa hay delivered to Tulare dairies in May brought \$280 to \$310, record high prices. This, along with uncertainty in irrigation water supplies triggered what could be the earliest ever that alfalfa hay growers in the central and northern valley of California started cutting on longer cycles to produce more tonnage. This usually doesn't start until July and August, not in May. What also happened at the same time is dairies decided to look at alternatives to paying \$280 to \$310 delivered for dry cow alfalfa hay. Working with their nutritionist's they came up with a plan to use wheat straw and by-product feeds to lower the price of feeding dry cows. Consequently, wheat straw prices went through the roof with prices in May and June trading at \$160 to \$170 per ton delivered to central California dairies (Interesting that the price in mid-November was still \$163 to \$166 delivered). This reduced usage of dry cow alfalfa hay at the same time that growers were cutting for tonnage started the downward spiral of the Fair quality dry cow alfalfa hay market. Because growers were going for tonnage earlier than normal there was less than normal supplies of Premium and Supreme alfalfa hay from May and June. Thus we see how supplies got out of balance and the wide spreads between Supreme and Fair alfalfa hay in California. Supreme alfalfa hay in the central valley in April and May was trading at record high prices of \$310 to \$330 fob stack.

A side Note: I disagreed with USDA's forecast of 3 percent more alfalfa hay acres, 4 percent higher yield and 8 percent higher alfalfa hay production in California in 2014. I decided to survey 25 larger alfalfa hay growers in California to see where their acres, yield, and production were in 2014. These 25 growers said they had 62,720 acres of alfalfa hay in 2014 compared to 68,515 acres in 2013. They said their alfalfa hay production was 416,213 tons compared to 447,412 tons in 2013, a 7 percent decline. The 7 percent decline in production is actually much better than I thought it would be earlier in the year. But between a late winter rain and well water, California avoided what could have been a 15% to 20% decline in alfalfa hay production.

In other areas of the west the alfalfa season started very good with excellent weather and strong prices. Supreme alfalfa hay prices in Southwest and South central Idaho on first cutting were in the \$245 to \$250 range and in the Columbia Basin in Washington prices were at \$260 to \$270 fob stack and dairy hay buyers were the big players. Things were rocking along very well but I guess Mother Nature thought growers were having too much fun because at mid-season rain hit some areas of the west like had never been seen before. Twin Falls Idaho receiving 4 to 5 inches

of rain in one day in early August with eastern Idaho getting much more rain than normal scattered over a long enough period that some growers got rain on every cutting. In Arizona it seemed like it rained every few days for over two months and some of those were heavy rains. Utah and Washington growers also got hit with above normal rain. Consequently, feeder hay (dry cow) hay supplies ballooned overnight which added additional pressure on the wide spreads between Fair and Supreme quality alfalfa hay. Supreme alfalfa hay prices stayed strong through much of the season but found some softness late in the fall as the milk price outlook for early 2015 looked much softer than the first ten months of 2014.

Trends in the California and Western Hay Industry in 2015

It appears that carryover hay inventories will be higher in the west going into 2015, some areas will be up more than others. But much of these supplies that are still in growers hands are mainly fair to low quality, including rain damaged hay. The exceptions are those growers that have retail alfalfa or other hay in barns for normal winter-time customers. The low to mid quality alfalfa hay has not been selling well in some western states and will be carried over. There is no abundance of Premium/Supreme quality alfalfa hay and there is still demand for that quality of hay late in the year. However, with a softer milk price outlook, we are seeing some softening of those prices in recent weeks in some areas.

Early indications point to more alfalfa hay acres in the west in 2015. However, the jury is still out on this in Central and Northern California and Western Nevada where there is still a question mark as to irrigation water supplies. While well water played a bigger role in alfalfa hay production in California in 2014, there is now legislation that will monitor ground water and could impact well water usage in some areas if the drought continues. Alfalfa hay acres in the Imperial Valley were down 4% in mid-November according to the Imperial Irrigation District due to expected larger plantings of Durum wheat. One big factor that will push alfalfa hay acres higher in the west is the lack of crop options with wheat and corn markets softer than they have been for years and a weak cotton market.

Indications are pointing to lower milk prices in 2015 with mixed estimates how low prices may go. If prices on overbase milk in California in the first half of 2015 drop to \$16 cwt. (some believe it could bottom in the \$15 to \$16 range) this will change attitudes on what dairies want to pay for alfalfa hay. Obviously, if the drought continues dairies may be forced to pay more than they want to. Many dairies already reduced pounds of alfalfa hay in dairy cow rations in 2014 so it is hard to say if they will reduce pounds any further. Corn will become a bigger consideration in milk cow rations if rolled corn prices delivered to Tulare dairies remain at \$200 per ton or below. If by-product feed prices stay competitive they will also be in good demand as dairies try to hold down feed costs. If wheat straw prices stay strong and dry cow alfalfa hay prices are the same to lower in 2015, some dairies may switch back to alfalfa hay for dry cows.

Exporters I visited with recently think alfalfa hay exports to the UAE will increase in 2015. However, there is also a feeling that the UAE will not buy at levels they did in 2013 when they overbought. Hay exports from the west coast to Japan will be challenged by a weaker yen and tough competition from Australian oaten hay. If the Japanese government raises milk prices due to the weaker Yen that would help west coast hay exports. But as one west coast exporter pointed out, the problem is the continued weakening of the Yen and trying to sell into that market when the Yen keeps softening. The wild card is China. We know they need a large amount of alfalfa hay for their dairy industry but when the Chinese government initiated stricter testing and zero tolerance on GMO alfalfa hay in mid-summer, the game changed. Having said that, according to the U.S. Department of Commerce, alfalfa hay exports from the west coast to China in September 2014 at 57,346 Metric Tons were only down 6 percent from August and were 2 percent higher than September of last year. We'll see if alfalfa hay exports in October from the west coast to China show a bigger decline. I have heard that there may be changes in testing requirements in China in the next year that would allow more alfalfa hay from the west coast to be shipped to China. We'll see what develops. A big negative for the west coast hay export industry, particularly in the Pacific Northwest was a work slowdown by Longshoremen workers at west coast ports in November. This was crippling the hay export industry in Washington State and there were no signs of when it would end.

Demand was strong again in 2014 for timothy and orchardgrass hay for retail horse markets. These are markets that continue to amaze. Even with more acres of timothy hay in the Northern Mountains of California in 2014, the market for retail timothy and orchardgrass hay was firm to higher than 2013. Retail timothy hay prices were strong in Diamond Valley Nevada. It is quite a story how the U.S. horse industry, particularly the western horse industry is feeding more orchardgrass and timothy hay and how the demand for this hay is outpacing production.

CONCLUSION

The combination of more alfalfa hay acres and lower milk prices could push alfalfa hay prices lower in the west in 2015. How much lower may have a lot to do with what happens in California. If the drought continues in California and holds down alfalfa hay acres and production, this could temper a decline in alfalfa hay prices not only in California but in other areas of the west. As we found in the spring and summer of 2014, the large number of dairy cows in central California can draw in hay and straw from much of the west. If the drought is broken in California, this will tend to put more pressure on alfalfa and other hay prices. Another factor is hay exports. While alfalfa hay exports should increase to the UAE, China and Japan are still the unknowns due to the weak Japanese Yen and China's current policy of zero tolerance on GMO alfalfa hay. It doesn't appear that there will be much of a decline in the retail orchardgrass and timothy hay markets in the west as demand is expected to be strong in 2015.