

**SEASONAL PRICE FLUCTUATIONS IN THE
ALFALFA HAY MARKETING CYCLE**

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Alfalfa hay pricing in the California market has undergone minor change over the last twenty years. The basic rules still apply to affixing a price and are used by most dealers and sellers in arriving at a market value of baled hay. The criteria used by a majority of buyers to determine value is quite common. A visual inspection is necessary to check for color, texture, cleanliness, and soundness. An average sample bale is broken open and examined to determine whether these standards have been met. How then do we arrive at a value?

Prior to the development of chemical analysis of alfalfa hay, and the dairy industry's acceptance of the testing system, a visual analysis and a trial load by feeding and waiting for results in the milk tank was necessary. Today, pricing by the numbers is becoming widely accepted. Formulas for determining value on estimated net energy (ENE) have been published in a booklet by the University of California-Davis, however, these are not currently used by the industry. Total digestible nutrients (TDN) is commonly used and has developed a degree of buyer confidence through trial and error.

A formula for pricing alfalfa may be devised if certain factors are known: moisture, fiber, protein and total digestible nutrients. These are the most commonly used factors by California buyers employing hay analysis. These factors, once known, can then be calculated to determine the quality of a particular lot of hay. After a price is set by formula, the value or selling price has been determined. Simply then, problems in pricing alfalfa hay are solved technically by laboratory analysis. All that is needed to adjust the final price is an individual to determine the supply and demand principles.

When there is an adequate supply of hay to meet the needs of the market, and the alfalfa is in the gradable range, then sales can progress smoothly. However, alfalfa hay sales don't always run smoothly! Rain damage, grass, weed content, harvesting conditions insect damage, and improper management contribute to reduce the quality of the alfalfa product. One cannot produce hay by computer or automated equipment in order to control quality...as could a steel manufacturer.

Other factors may then enter into pricing. Frequently, growers place hay on the market at a price too high to compete with the delivered offerings. The options are (1) hold until the market catches up, or (2) sell at the price of the current offerings. These alternatives do not always work well with the individual grower's plans.

Cash flows to farming are vital, and prompt movement is important. These factors can influence the seller's decision. The relationship with the buyer or seller should be one of trust in dealing on your hay. Knowing with whom you are dealing, and an awareness of the market is essential to proper pricing.

Soil profile is important in hay quality. As a rule, heavier clay soils consistently produce hay with a higher protein content, having a greater value. High mountain regions produce high protein hay. Areas in the San Joaquin Valley differ in protein quality and palatability as well, and are reflected in price differences in various growing districts. The price may also be adjusted according to freight differences to the market, depending on the geographical location. For example, the Petaluma hay market receives deliveries from the Intermountain, Oregon, Nevada, San Joaquin Valley and Southern California areas. The delivered market where the hay is consumed is used as a base for determining the price offered to the grower, i.e., delivered price less freight and brokerage equals grower return. Light or heavy inventories (supply) can often re-adjust the grower's price according to the buyer's needs (demand).

The Federal-State Marketing News Service provides a weekly bulletin quoting selling prices of various lots of hay marketed the previous week by hay brokers within the state,

and can be used as a guide to pricing. However, published prices do not always reflect the market conditions at the time of sale. The very important supply and demand factor is always there to pressure or relax the market. How much of a particular kind is available to the particular need or demand? Whether it is a hay broker or a grower...these factors play an important role in actual selling practices.

Experiments exist, in all probability, with other methods of pricing for quality produced. A grower producing a high quality product deserves a better price. Most buyers requesting high quality hay expect to pay more. The result in increased milk flow justifies the higher market value in most cases. For example, most dairymen know that 55 TDN hay compared with 52 TDN hay produces a heavier milk flow. The buyer, fully cognizant the higher quality will produce more, is willing to pay a higher price. Again, supply and demand factors can enter the picture. Demand for high quality hay over the last several years has increased beyond that produced by California growers...to the point that the high quality demands of the market have forced buyers to look elsewhere. Nevada, primarily, was found to be the area whereby first and third cuttings could be obtained to help fill those needs. As more California buyers migrated to Nevada markets, Oregon, Idaho, and Utah also began to enter into the California dairy marketplace. Demand for high quality, and the deficit California inventories, drove prices to a point for out of state regions to compete. Because of higher freight and energy costs, the situation has leveled off within the last two years. It is obvious that costs to the grower in producing higher quality hay in California are outweighed by the results of producing higher tonnage for a few less dollars. This same situation is catching up to out of state growers as well.

Arriving at a price when first cutting is harvested generally is affected by carryover from the previous year. How much the grower will take and how much the buyer will pay scenario orchestrates the market in Southern California at the beginning of the season to start the ball rolling, and works its way to Northern California.

The economic upswing of the dairy industry has probably had the most dramatic impact on healthier prices received by alfalfa growers. The general economy has done more to change the buying habits than any other factor. Hand to mouth purchasing has impacted the market by causing heavier than normal grower inventories. The hay grower must now carry the burden of storing hay supplies that were normally moved. Buyers are resisting storing large inventories.

Changes in dairy feed programs caused a greater utilization of commodities with less alfalfa contained in the ration. This caused a heavier demand for top quality hay and a greater spread between No. 1, and offgrade. At the end of this crop year, a \$30 per ton differential was not uncommon, reflecting the demand for high quality.

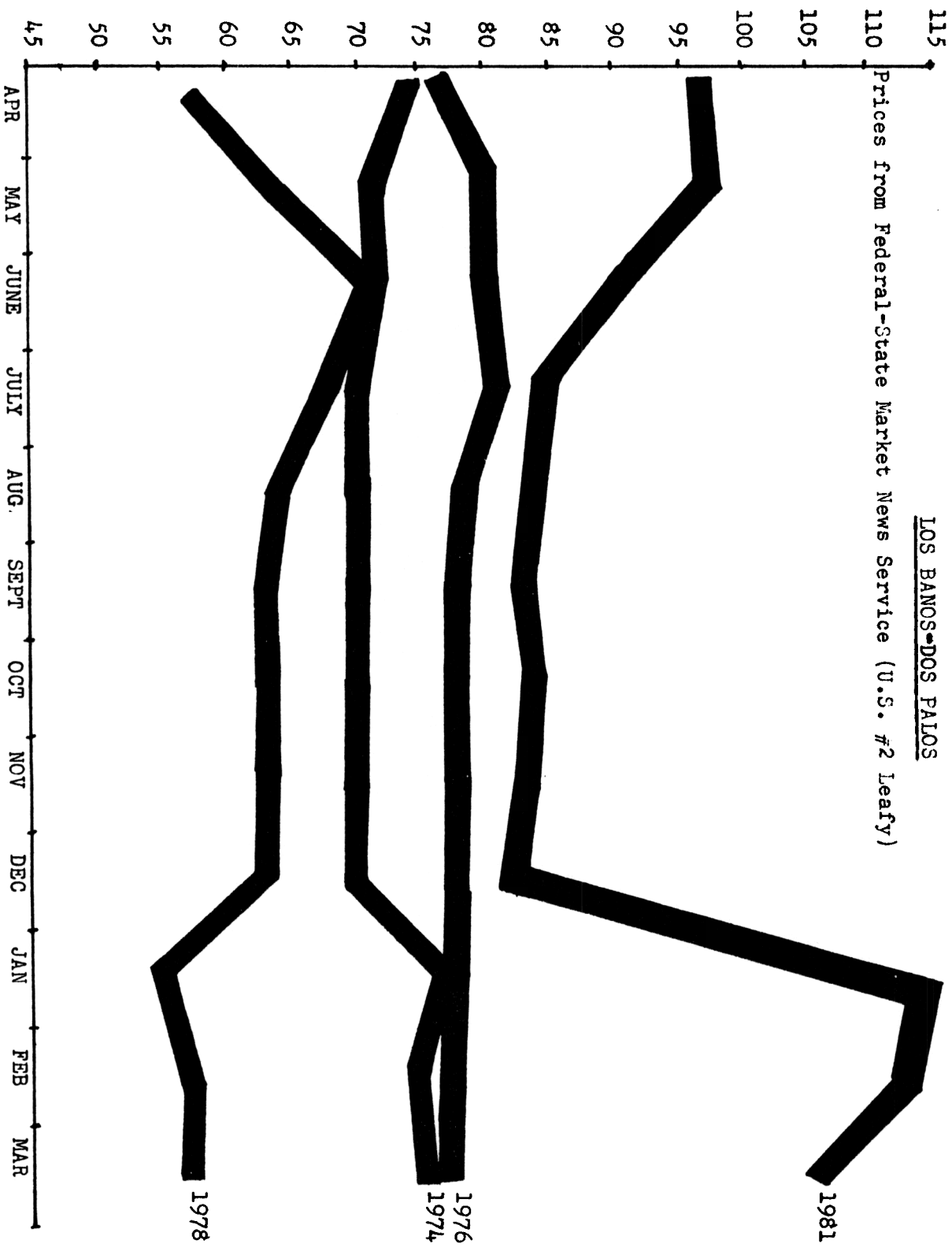
The low demands of Southern California dairymen do not differ widely with those of Northern California. Dairy farms without adequate acreage to support the non-milking herds are at a disadvantage; however, pasturing animals is becoming more expensive with rising land costs.

The following graphs show price differences between areas. The grade No. 2 leafy, was followed in a two-year cycle. Weather, and supply and demand can readily be identified in the price fluctuations. A traditional dip in prices most often indicates weaker sales during the July-August period, and less demand (lower quality). As quality increases in the early fall, demand increases followed by higher prices.

Another annual trend is the earlier Southern California Area price drop following up to the Northern California hay producing areas. During these periods between cuttings in the southern and northern part of the state, prices will often vary \$15 - \$20 per ton due largely to quality in regard to protein.

DOLLARS PER TON

LOS BANOS-DOS PAIOS
Prices from Federal-State Market News Service (U.S. #2 Leafy)



11. KERN COUNTY
Prices from Federal-State Market News Service (U.S)

