HAY EXPORTS, ACREAGE, AND TRENDS

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ABSTRACT

The California alfalfa hay industry has seen the best of times and the worst of times over the past three years. Just as reduced supplies and strong demand pushed the alfalfa hay market to a record high in 1997, heavy supplies and sporadic demand created the lower prices in 1999. Factors contributing to the market decline were many, but three of the main factors were: California had 8 percent more alfalfa acreage in 1999 compared to 1997, double the hay carryover into 1999 from 1998 mostly due to El Nino, and lower grain and feedstuff markets. Early indications are that California’s alfalfa hay acreage will decline in 2000. However, the decline may not be as dramatic as the 12 percent drop between 1991 and 1993, mainly because of low prices on many field crop commodities. After a banner year and with a need to spend money in 1999 for tax reasons, dairymen turned aggressive in the fall to purchase hay. Most of the demand was for Supreme quality alfalfa, but other qualities also benefitted. Another positive development was the Farm Assistance Bill passed by Congress in mid-October, which may indirectly benefit the California alfalfa industry. This legislation should improve returns to growers for 1999 crop cotton and, according to sources it should be an incentive for cotton growers to convert 2 to 3 year old alfalfa stands back to cotton. If alfalfa hay acreage drops, and with continued growth in the dairy and export sectors, alfalfa hay prices should improve in 2000. However, lower grain and feedstuff markets could temper an increase in hay prices. Also, demand from dairymen may be weak in early 2000 due to large hay inventories at the dairies. Asian economies continue to rebound and west coast hay exports should continue to expand.

Key Words: alfalfa acreage, grain and feedstuff markets, Farm Assistance Bill, cotton market, dairy demand, alfalfa hay prices, exports, Asian economies

INTRODUCTION

After experiencing record highs in prices and movement of alfalfa hay in 1997, California hay growers had very challenging years in 1998 and 1999. Of the many factors that contributed to the alfalfa hay market decline, a few were somewhat overlooked such as the very large green chop production (mostly oats, barley, and wheat) in the spring of 1999. Growers must now decide how much hay acreage they will plant in 2000. Are there alternative crops with more profit potential? Unfortunately, in some areas, such as the southern California desert, the options are limited. In 1999, markets were down on most alternative field crops. Will an expanding export market, rapidly growing dairy industry in California, and fewer hay acres turn the California alfalfa hay market around in 2000? How much impact will low grain and feedstuff prices have on the alfalfa hay market in 2000?
WHAT CAUSED THE HAY MARKET TO DROP IN 1999?

This may be one of the few down market cycles in the history of the hay industry where growers faced so many negative factors. Grain prices hit a 13-year low in the summer of 1999. For example, Iowa’s July corn prices reached $1.54 per bushel F.O.B. or $55.00 per ton. This corn was being delivered by rail to California for less than $90.00 per ton. Because of the low grain prices, a record amount of grain (oats, barley, and wheat) green chop was produced in the spring of 1999, especially in central California. Also, corn silage production was slightly above normal with excellent yields reported in the late summer and early fall of 1999.

Due to a glut of cotton on the world market, U.S. cotton prices in early October 1999 hit the lowest level in 24 years. California’s cotton harvested acreage (all varieties) went from 1,280,000 acres in 1995 to a preliminary 844,000 in 1999. We know some cotton acreage went into permanent crops, but quite a few acres also went into alfalfa hay. Will some of this alfalfa acreage go back into cotton in 2000?

If the alfalfa hay industry was reminded of a few things the past year, they were:

* There is a level of hay acreage and supplies that will not sustain a viable market
* The far reaching affects on the hay industry of an extremely wet year like 1998
* How low grain and feedstuff prices can impact the hay market

A record large carryover of hay weighed heavy on the hay industry in early 1999. However, high quality alfalfa sold well early in the year because much of the carryover was lower quality. But this strong market began to deteriorate by mid to late spring as many growers in central and northern California were cutting on shorter cycles to produce a higher quality alfalfa. Consequently, supplies of high quality alfalfa increased and hay that tested less than 56 Total Digestible Nutrients (TDN) became difficult to move.

California’s 1999 alfalfa hay acreage was estimated at 1,030,000 acres, up 1 percent from 1998. Some industry sources believe a sizable number of cotton acres were converted to alfalfa hay the past two years, mainly in central California. I will be looking very closely at the 1998 and 1999 alfalfa hay acreage indications in the coming weeks to determine if revisions need to be made. Contrary to earlier estimates, alfalfa yields were a mixed bag in 1999. Higher yields in some areas of California were offset by lower yields in others. As previously mentioned, alfalfa yields were lower in the spring and early summer in central and northern California due to either growers cutting on shorter cycles or because of cooler than normal temperatures. California’s preliminary alfalfa yield forecast of 6.70 tons per acre in 1999 compares to the past ten-year average of 6.80 tons per acre and the 7.00 tons per acre in the 1993-1997 five-year period.

While the preliminary alfalfa acreage estimates in Nevada and Utah were down slightly in 1999, acreage was up in Idaho. Alfalfa hay trucked into California from out-of-state reached a record high level in 1998 at 941,000 tons, up 16 percent from 1997 and up 65-80 percent from the early 1990’s. In-shipped alfalfa was up 3 percent the first half of 1999, but by July and August the volume trucked into California dropped dramatically to 10-20 percent below the same period in 1998.
HAY EXPORTS

Baled hay exports from the west coast to Japan, which dropped to 1.24 million metric tons in 1998 and 15 percent below 1997, made some recovery in 1999. In the first six months, the west coast’s baled hay exports to Japan, at 704,817 metric tons, were up 19 percent from the first half of 1998, but still down 15 percent from the robust export trade in 1997. However, sources indicated that demand for export of Sudan and alfalfa hay was good in the fall of 1999 as the Japanese Yen strengthened to 105 Yen to the U.S. dollar, compared to 140 to 1 in the summer of 1998. This, combined with very low container freight rates to Japan, improved demand from Japanese buyers. Also, Taiwan and Korea were showing more interest in California’s hay. Consequently, the hay export outlook for the west coast was much improved. Japanese buyers continue to be very price-conscious, which was evident by increased purchases from Australia and Canada in 1999. However, the 17 to 40 percent increase in Japanese hay purchases from these two countries the first half of 1999 amounted to a total of 163,179 metric tons, compared to the U.S. export volume during the same period of 704,817 metric tons.

An interesting development in 1999 was the increased demand from Japanese buyers for dairy quality timothy hay from Oregon and Washington to feed milk cows. Japan has always bought a higher quality of timothy hay to feed horses. This new development, according to sources, should expand timothy planting in the northwest.

WHERE DO WE GO FROM HERE?

To forecast what will happen in 2000-2001, one must use one word repeatedly, “IF.” If the Asian economies, particularly Japan, continue to grow at the projected 2.5 to 3 percent GDP in 1999, with continued growth in 2000, hay exports should increase. If cotton growers convert alfalfa acreage back to cotton and if overall alfalfa hay acreage declines, this should be positive for the alfalfa hay market. If grain prices stabilize or move higher, it would be bullish for hay prices and may reduce green chop production in California. However, the reality is that the 1999 U.S. corn harvest is very large and price projections are bearish for the first half of 2000. If expansion continues in the dairy industry in California, which had tremendous growth in 1999, it would be positive for hay prices. If hay shipped into California from other western states drops to the levels of the mid 1990's (700,000-750,000 tons), this would be bullish for the California hay market.

My personal opinion (not an official USDA/CDFA prediction) is that California’s alfalfa acreage will drop in 2000. How much of a drop is the hard one to predict. If cotton growers convert a large amount of alfalfa back to cotton, we could see a drop in acreage like we saw from 1991 to 1992. A big part of the 1998-1999 acreage increase was in central and north-central California, and I believe this is where the reduction in acreage must come from. We may not see a drop in alfalfa acres in some areas of the state because of the same problem we had in 1999: “No alternative crops.” However, there are strong indications that new alfalfa planting will be down in central and north-central California, where many third and fourth year stands have been taken out. The October 1999 acreage report from the Imperial Irrigation District showed alfalfa hay acreage in the Imperial Valley at 153,758, up 2 percent from October 1998. It appears the main reason for the slight increase is the lack of alternative crops to plant. With the depressed alfalfa hay markets in other states, it doesn’t
appear that alfalfa acreage will increase in the western states. In mid-October, Supreme quality alfalfa in Utah was trading for $80.00-$85.00 per ton F.O.B., with a few sales to $90.00. Premium quality dairy alfalfa traded from $65.00-$75.00.

In 1991, when the alfalfa hay prices dropped dramatically the second half of the year, alfalfa acreage in California declined. Acreage went from 1,050,000 in 1991 to 960,000 acres in 1992 and bottomed out at 920,000 acres in 1993. The alfalfa hay market improved slightly in 1992, but made a significant rebound in 1993 to reach a yearly average price of $103.00 per ton on all qualities. This compared to an $80.50 per ton average price in 1992. California had 1,160,000 milk cows with 555,000 milk replacement heifers in 1992, while milk cows totaled 1,440,000 with 710,000 milk replacement heifers on January 1, 1999, which would indicate higher numbers for January 1, 2000.

In the central and northern valleys, sources stated in October that alfalfa seed sales were down and indications were that new alfalfa hay planting would be lower. The lack of incentive to plant was magnified by the fact that most buyers would only purchase milk cow alfalfa that tested above 56 to 57 TDN. Consequently, a large amount of Premium alfalfa, testing 55 to 56 TDN, was moving slowly and selling at a substantial discount. Dairy buyers did turn aggressive in October for milk cow alfalfa, but again most wanted the TDN above 57. The frustration for some growers was that they sacrificed tonnage in the summer to produce Premium quality alfalfa that still did not meet the buyers’ requirements. In some areas, growers let fields dry up in the summer due to high water costs and low alfalfa hay prices.

Another factor in the demand for alfalfa hay or alfalfa mixtures is California’s horse market. During the recession in the early to mid 1990’s, sources indicated that horse numbers declined in California. With the overall economic recovery (not in agriculture) the past two years, a growing number of people are putting horses back on their 2 to 5 acre ranchettes.

**CONCLUSION**

In spite of a growing dairy industry and improved exports, it appears that these developments alone will not significantly improve market conditions and profitability in the alfalfa hay industry without a reduction in acreage. The challenge is trying to figure where the balance is between acreage and demand/utilization. It appears that the 920,000 acres of alfalfa hay harvested in California in 1993 might create a very bullish market similar to 1997. However, acreage much above 1,000,000 acres may create bearish market conditions. The many variables, such as grain and feedstuff prices, green chop/silage supplies, in-shipped hay, exports, etc. make it difficult to estimate where an acreage/viable market balance would be. Early indications suggest that California’s hay stocks as of December 1, 1999 will be down from last year.

As milk and hay prices change so will the demand from the dairy industry for alfalfa hay. Hay growers discovered in 1997, when hay prices reached record highs, that dairymen will substitute grain or other feedstuffs in dairy cow rations to cut feed costs. However, the dairy industry has also discovered that in order to maintain cow health and production, this substitution can only be done to a point. Experts indicate that forage fed to milk cows will probably remain around 30-35 percent of the ration in early lactation and 60-65 percent in late lactation.
Alfalfa Hay Harvested Acreage, California
1989-1999

1999 - Preliminary
Source: California Agricultural Statistics Service

All Cotton Harvested Acreage, California
1988-1999

1999 - Preliminary
Source: California Agricultural Statistics Service
Alfalfa Hay Yields, California
1989-1999

1999 - Preliminary Yield
Source: California Agricultural Statistics Service

Hay Stocks, California
1989-1999

Source: California Agricultural Statistics Service
Alfalfa Hay Trucked Into California
1987-1999

1999 - Estimate
Source: California Dept. of Food and Agriculture and
USDA Livestock and Grain Market News.

Baled Hay Exports - West Coast to Japan
January - June (1990-1999)

Source: Bill Ford, WSU Cooperative Extension
Feed Corn FOB Prices - Iowa
1990-1999

1999 - January - September
Source: Iowa Dept. Of Agriculture

Alfalfa Hay FOB Prices - Premium Quality
Tracy - Patterson - Stockton

1999 - January - August
Source: USDA Livestock and Grain Market News
Alfalfa FOB Hay Prices - Good Quality

Tracy - Patterson - Stockton

1999 - January - August
Source: USDA Livestock and Grain Market News