

ALFALFA MARKET CONDITIONS AND TRENDS IN WESTERN STATES

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ABSTRACT

After two years of disappointing returns and tough market conditions, alfalfa growers in the western states braced for another challenging year in 2000. However, due to various developments, including lower hay supplies, hay prices made a surprising turnaround, especially the second half of the year. Fair quality, feeder/dry cow alfalfa hay, while finding strong demand in most western states due to dry pasture conditions, was in light demand in California until nearly August when the market began an upward move. Alfalfa hay supplies in the West declined and the market strengthened as the season progressed. Bullish factors in the marketplace included the following: lower alfalfa hay supplies (evidenced by reduced alfalfa hay shipments from the western states to California), dry summer pastures in most western states, continued strong growth in the California and Idaho dairy industries, good alfalfa hay export demand (particularly in the Pacific Northwest), increased cotton acreage in central California due to the Government Loan Program, and increased Sudan grass acreage in the Sacramento Valley due to very good demand from export buyers. Some negative factors were as follows: depressed grain and feedstuffs markets, relatively high alfalfa hay acreage in the West, a reduction in sugar beet and processing tomato acreage in central and northern California, and low milk prices.

Key Words: hay prices, hay supplies, dry pastures, dairy industry, export demand, grain and feedstuffs markets, cotton government loan program, alfalfa hay acreage.

INTRODUCTION

Alfalfa hay growers in the seven western states experienced two challenging years in 1998 and 1999. Large hay supplies and weak prices caused a tremendous financial strain on the industry. Two thousand was a defining year for the western states' hay industry because a third year of depressed prices and losses would have most likely reduced the number of hay growers and overall hay acreage. While Supreme quality alfalfa hay prices were strong in California most of the season, Fair and Good quality, particularly Fair, lagged behind some other western states until approximately August 1. Because of overall higher cost of production and continued losses, hay growers in California were searching for other crops to plant, but found very few with profit potential. Beef cattle operators in the West were challenged by dry summer pastures in 2000, but hay growers benefited from the increased demand for feeder hay. For the first time in three years, western hay growers found reasons for optimism going into the fall and winter of 2000-2001.

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WHAT CAUSED THE ALFALFA HAY MARKET TO RECOVER IN MID TO LATE 2000?

One of the main factors for higher alfalfa hay prices in 2000 was the unprecedented growth of the California and Idaho dairy industries. California's dairy cow herd increased about 60,000 cows this past year, while Idaho added about 30,000 cows to their industry. Milk replacement heifer numbers in these two states were also at high levels. For example, California's milk replacement heifers numbered 720,000 on January 1, 2000, 43 percent above 1991.

Demand was good most of the year for high quality milk cow alfalfa. With low milk prices and small profit margins, higher milk production was one way for dairymen to maximize returns. As a result, alfalfa hay testing above 56 TDN (Total Digestible Nutrients - 90% dry matter) or below 27 ADF (Acid Detergent Fiber - 100% dry matter) was the preferred hay quality for dairy buyers. As supplies of Supreme quality alfalfa hay became short in the fall, California buyers began searching throughout the West.

Export demand, particularly in the Pacific Northwest, was another factor for price recovery. While demand at times was good for export alfalfa hay in California, export buyers seemed to be more aggressive in Washington, Idaho, and Oregon. Many export buyers of high quality alfalfa hay continued to prefer hay from the Pacific Northwest. Conversely, California continued to supply mainly Good or Middle quality alfalfa for export.

Mother Nature had a lot to do with stronger Fair quality alfalfa hay prices in the West. Although weather was a challenge at times for hay growers in 2000, dry weather in the Pacific Northwest was the main reason for early season strength in the Fair quality alfalfa market. Lack of rain resulted in dry summer pastures and fires throughout the seven western states with extreme conditions in Montana and Idaho. The strong demand for feeder hay was felt by beef cattle operators throughout the West. Feeder hay supplies, which had been burdensome in 1998 and 1999, dropped to the lowest level since 1997 and in some areas the lowest since 1994. This was manifested early in the season in Idaho and Utah, which were experiencing very dry conditions.

On May 1, 2000, hay stocks in the seven western states dropped to the lowest level since 1997. December 1, 1999 hay stocks were also at the lowest point since 1997 with the possibility that December 1, 2000 stocks could reach the lowest point since 1994. Alfalfa hay shipped into California from January through August 2000 was running 21 percent below the same period in 1999 and 1998. There were strong indications that hay supplies were much more manageable in the western states. Idaho and Washington's lower hay stocks the past year have narrowed the alfalfa hay price spreads between California, Idaho, and Washington, particularly on Fair quality.

Another development in California was that some of the many dairies, which were carrying large alfalfa hay inventories the past two years, were beginning to need hay by late summer and early fall of 2000. Additionally, small grain green-chop production in California was down sharply in the spring due to erratic winter and spring rains that drastically cut yields. Corn for silage production was up July through September 2000; however, yields began to fall in September because of Mexican Corn Stunt and Whitefly damage in central California.

MARKET FACTORS FOR 2001

This past June, I was estimating a lower hay market in California next year; however, some positive developments have taken place since early summer. Lower hay supplies and strong demand for most qualities of hay caused me to change my outlook for 2001. In spite of the seven western states' alfalfa hay acreage being 4 percent above the ten-year average and the most acreage since the mid-1990's, alfalfa hay prices moved higher, especially the second-half of 2000. Favorable weather and higher production in many western states during the season did not seem to dampen prices in the late summer and fall.

There are still some negatives, such as the depressed grain markets and the strong possibility of more alfalfa hay acreage in 2001. After feed corn prices rallied in the spring of 2000 due to drought fears in the Midwest, the market moved sharply lower by midsummer influenced by rain in the corn belt and the forecast of a record U.S. corn harvest. The market made a small rally in October due to a lower National Agricultural Statistics Service forecast on production and yields. However, the forecast is still for record U.S. corn production and large supplies going into 2001. A key element for the western states' alfalfa hay market in 2001 will be harvested hay acreage, as early indications point to an increase. In those western states where grain and hay are the predominant crops, the depressed grain markets could cause increased alfalfa hay planting. In this overview of the western states' alfalfa production, Dan Putnam will shed more light on alfalfa acreage from a grower survey he conducted in the fall of 2000.

In California, a few developments have changed the alfalfa hay acreage picture for 2001. With a cutback in sugar beet acreage due to two plants closing and a reduction in processing tomato acreage, approximately 70,000 to 80,000 acres in central and northern California will be planted to different crops in 2001. The initial projection was that some, if not a sizeable amount, of this acreage would be planted to alfalfa hay. However, it now appears that not as much will be planted to alfalfa. For example, because the government loan program for cotton was extended to the 2001 crop, some of this land in both the central and northern valleys will be planted to cotton. Industry sources estimate as much as 80,000 to 90,000 additional acres of cotton in California for 2001. Another factor favoring cotton is that it uses less water than alfalfa. Water availability and cost is becoming a bigger concern, especially for central California farmers. Also, due to strong demand for Sudan hay for export in the central and northern valleys, an increased amount of Sudan grass will be planted in 2001. Industry sources estimate 30,000 to 35,000 acres of Sudan grass will be planted in the Sacramento Valley next year compared to approximately 8,000 acres in 1998.

Additionally, Imperial Valley Bermuda hay acreage during 2000 increased 10,000 to 41,000 acres, according to the Imperial Irrigation District. Imperial Valley Sudan grass acreage was down about 10,000 acres in 2000 compared to the previous year. Sources also indicate that Durum wheat planting could be up in 2001 in the Imperial Valley, especially if the market continues to move up as it did from mid-September to mid-October 2000. Sources say if Durum wheat contracts for 2001 reach \$7.00 cwt. in the Imperial Valley, a significant amount of Durum will be planted in the southern California desert. This could reduce the alfalfa hay acreage in the Imperial Valley. The bottom line: California's alfalfa hay acreage will most likely be up in 2001, but possibly not as much as we thought earlier in the season.

Another thing to watch for is the possibility that larger dairies, particularly in central California, may plant more alfalfa acreage in 2001. One seed company representative, who handles a large amount of alfalfa seed in central California, indicated that some larger dairies were planting more alfalfa hay for 2001. In fact, he thought the alfalfa acreage lost to cotton planting in central California would be offset by increased alfalfa hay planting by dairies. Whether or not this will be a factor, remains to be seen. Given the bullish tone of the alfalfa hay market going into winter, it would not be surprising that some larger dairies would plant more alfalfa to insure supplies of high quality hay for 2001.

A positive development for California hay growers is the trend since 1999 of less alfalfa hay being trucked into California from other western states. The amount of alfalfa hay trucked into California in 2000 is expected to reach the lowest level since the mid-1990's. Some of this can be attributed to smaller supplies or, in many cases, hay not meeting the test requirements of California buyers of milk cow quality alfalfa. For example, the 10 percent drop in alfalfa hay shipments from Nevada January through August 2000 is mainly due to these two factors. Additionally, higher fuel prices were putting a financial squeeze on truckers hauling hay to California. However, there is a trend that has been developing the past few years where more milk cow quality alfalfa hay is being shipped from Utah to the rapidly expanding dairy industry in Idaho. For example, in past years a large amount of high quality alfalfa from Utah's Box Elder County was shipped to California. Today, much of that hay moves into Idaho or to dairies in Utah. From January through August 2000, Utah shipped 16 percent less alfalfa hay to California than in 1999. Arizona, Oregon, and Idaho also shipped considerably less alfalfa hay to California compared to the previous year, as growers sold an increasing amount of hay to dairies and beef cattle operators in their own states.

ALFALFA HAY PRICES AND OUTLOOK FOR 2001

When analyzing the alfalfa hay market in the West, early indications point to higher prices in 2001 compared to 2000. I would not be surprised to see alfalfa hay prices average \$5.00 to \$10.00 per ton higher than in 2000. In spite of a bullish outlook for prices the first half of next year, I do not believe that we will reach the levels of 1997. Why? Acreage! In 1997, there were 3,825,000 acres of alfalfa hay in the seven western states, according to the National Agricultural Statistics Service. In 2000, there were 4,050,000 acres, a 6 percent increase. It appears that acreage will not be below 4,050,000 in 2001. If alfalfa acreage comes in at 4,100,000 or above, some areas may find downward market pressure the second half of 2001.

In spite of many variables that will continue to impact alfalfa hay prices in 2001, such as hay acreage, grain prices, exports, green-chop and silage production, weather, and winter/summer pasture conditions, etc., the big positive for growers and the markets are lower supplies. Early indications point to significantly lower hay stocks in the West on December 1, 2000 compared to 1998 and 1999. This should build a firm foundation for early season prices next year. Another positive is that because of strong dairy expansion in California and Idaho, the consumption of alfalfa hay should continue to rise.

At last year's symposium, I estimated that 1,000,000 acres of alfalfa hay in California seemed to be the balance between profitability and demand/utilization. The more acreage above 1,000,000, the less chance of profitability. However, with the tremendous growth in the dairy industry, it is logical that this acreage threshold could be increasing. I believe 2001 will give us a better indication of this. Because we are moving into a more current inventory situation for the first time in three years (especially at the dairies in California), we haven't really tested the acreage/profitability balance recently during a "normal" inventory year.

In 1997, the alfalfa hay industry, especially in California, discovered dairy producers could become very creative in cutting feed costs during periods of high hay prices. For example, the dairies increased grain or other feedstuffs in milk cow rations (while still maintaining cow health and milk production), increased silage and green-chop production, and utilized lower-test alfalfa hay with TMR's (Total Mixed Rations), etc. If milk prices continue at depressed levels into 2001, dairy producers will do all they can to hold feed costs down. Having said that, the bottom line is that high quality alfalfa hay should still be in good demand as dairymen are forced to produce as much milk as possible to maximize returns.

CONCLUSION

Lower hay stocks and reduced hay inventories at dairies, particularly in California, could push western alfalfa hay prices for the first half of 2001 to the highest average since 1997/98. Prices during the second half of the year will depend on the western states' alfalfa acreage and production during the summer and early fall of 2001. Also, if the West experiences another dry spring and summer, demand for feeder hay will again be strong. Larger than expected alfalfa hay acreage and production could be bearish to prices the second half of the year in some areas. However, it appears the western alfalfa hay market could possibly sustain some increase in acreage for 2001 without significant downside price pressure. This is due to lower hay inventories and unprecedented growth in the California and Idaho dairy industries. Demand should be strong for high test, milk cow quality alfalfa hay throughout 2001. If export and retail/horse demand for alfalfa hay or alfalfa mixtures is strong in 2001, this will further brighten the price outlook for the western states' alfalfa hay industry.