

HAY MARKET SITUATION IN THE WEST IN 2017 AND OUTLOOK FOR 2018

Seth Hoyt¹

OVERVIEW OF THE 2017 ALFALFA HAY MARKET

Two key factors for the stronger alfalfa hay market in the west in 2017 compared to 2016 were export demand and lower hay carryover into 2017. Hay stocks in the eleven western States on May 1, 2017 were down 28 percent from 2016 while the entire U.S. was down only 3 percent, according to USDA. Idaho was down the most at 46 percent below 2016 which is remarkable when you consider that there was a glut of feeder hay in Idaho in the fall of 2015. Thanks to a cold and very snowy winter in some States, including Idaho, feeder hay supplies were reduced dramatically. This combined with strong export demand helped to push FOB alfalfa hay prices in the west \$20 to \$30 higher than 2016 and at times as high as \$40 higher on Fair dry cow alfalfa hay delivered to dairies in central California. Unlike past years when dairy hay buyers set the tone of the early alfalfa hay market, and sometimes for the entire season, export buyers set the market tone in 2017. Exporters purchased 7 percent more alfalfa hay in Idaho than in 2016. The export demand in 2017, while positive for the western alfalfa hay market was especially positive for Idaho and Washington that saw weak dairy demand until later in the season. Another plus for hay growers in Idaho was widespread export demand, including California, at bids higher than Idaho dairies were willing to pay.

Besides rain that seems to impact alfalfa hay production every year, record high temperatures in some areas of the west, smoky conditions, particularly in Washington, army worms in central and northern California and other pressures, impacted quality and yields on alfalfa hay through the season.

The weak demand from dairies through the first half of the 2017 season (in some areas much of the season) was due to milk prices not at levels predicted by analysts in the fall of 2016. For example, in California with bare bones breakeven milk cost of production in the \$15 to \$15.50 cwt. range for much of the year and overbase milk prices ranging from \$14 to \$15.50, margins were being squeezed. This is the third consecutive year that many California dairy producers have been operating in the red. Many dairies in the west elected to use existing hay inventories, reduce pounds of alfalfa hay in rations, and wait until later in the season to purchase alfalfa hay hoping for better milk prices. Unfortunately, except for an upward spurt to \$16.21 in August, overbase milk prices in California and other milk prices in the west did not make an upward move into the fall that many had hoped for. With many dairies waiting to purchase alfalfa hay, demand for alfalfa hay in October and early November picked up in Idaho and California. To make matters worse for California dairies, the last cutting that some dairies were waiting for in Nevada either got rained on or was overgrown and did not test. This forced some dairies to pay more than they wanted for Premium to Supreme alfalfa and some dairies in central California decided to feed middle quality alfalfa hay in order to save money. While many dairies in central California resisted the strong delivered prices on Premium and Supreme alfalfa hay, there were a few willing to pay the higher prices. The bottom line is there was more demand for higher

¹Seth Hoyt (aginfo@thehoytreport.com), The Hoyt Report, 3003 Grapevine Gulch Road, Ione, CA 95640. **In:** Proceedings, 2017 Western Alfalfa and Forage Symposium, Reno, NV, Nov 28-30, 2017. UC Cooperative Extension, Plant Sciences Department, University of California, Davis, CA 95616. (See <http://alfalfa.ucdavis.edu> for this and other alfalfa conference Proceedings.)

quality alfalfa hay from central California dairies in October and early November than there was available hay.

OUTLOOK FOR 2018

The early indications are that there will not be much excess hay carried into 2018 in the west. However, it is really too early to get a good handle on old crop hay supplies that will be counted on the May, 1, 2018 Hay Stocks report from USDA. Much will depend on winter weather, particularly in higher elevation States where there was very heavy feeding of feeder hay to beef cattle last winter. If we have similar weather again this winter, it would be expected that hay carryover would be down as it was on May 1, 2017.

It has been a challenge trying to get a feel where alfalfa hay acres are going in the west in 2018. I visited with several seed company representatives and the following is where the majority thought acres could be in 2018: California alfalfa hay acres could be up. There were higher alfalfa hay plantings in the Northern San Joaquin and Sacramento Valleys, much of this had to do with flooded out acres last winter that were re-planted. Early indications are that alfalfa hay acres may not be higher in Kern, Tulare, and Kings Counties. In Idaho, alfalfa hay acres could be unchanged to lower with one seed contact thinking acres may be down 3 to 5 percent. [Personal note, two large growers in Idaho told me their alfalfa hay acres would be down in 2018]. The lack of alternative crops to plant with profit potential could temper a decline in alfalfa hay acres in Idaho and other areas of the west. While it was unanimous that timothy hay acres in Washington would be higher in 2018, seed contacts were a little mixed on what they thought alfalfa hay acres would do. However, the majority of seed contacts felt alfalfa hay acres in Washington could be unchanged to lower in 2018. Alfalfa hay acres could be unchanged to lower in many other States in the west.

The milk price outlook for 2018 (as of early November 2017) is not looking very promising. Things can change and let's hope they do for the better but with the world milk production and dairy supplies (particularly in Europe) what they are and appear to be heading it is not showing a picture of stronger milk prices at least for the first half of 2018. It appears that U.S. milk production is still at a level that cannot sustain profitability, particularly in the west. Additionally, with falling dairy product prices in some areas of the world, particularly in Europe, it hurts U.S. dairy exports.

On the positive side, most export contacts I visited with feel that alfalfa hay exports will be up again in 2018. China and Saudi Arabia will be the main drivers of this. China has been the biggest market for U.S. alfalfa hay and while volume has fallen below a year ago in in the July through September 2017 period, many exporters think that the volume will strengthen in the months ahead. January through September 2017 alfalfa hay exports from the west coast to China were 13 percent higher than the same period in 2016. Another positive development is that Saudi Arabia will reduce water for crops in 2018 which means that more alfalfa hay will need to be exported from the west coast to Saudi Arabia next year. One disappointment has been the decline in alfalfa hay exports to the UAE. January through September exports from the west coast to the UAE at 215,416 Metric Tons (MT), were down 13 percent from the same period last year. It appeared a few years ago that this would be a market with great potential for western

alfalfa hay but after exports of 598,000 MT in 2012 and 662,000 MT in 2013, it has not been sustainable. The UAE is currently the fourth largest market for west coast alfalfa hay. The higher alfalfa hay shipments to China from the west coast have more than offset what was lost in sales to the UAE. Alfalfa hay exports from the west coast to China have gone from 358,000 MT in 2012 to 1,093,000 MT in 2016, according to the U.S. Census Bureau.

I have said this before and you probably don't like to hear it but to try and predict hay prices has become almost impossible with the many variables in the western hay industry. But higher quality hay supplies are tight going into the winter and will be short when first cutting starts in the southern California desert and Arizona in March of next year. This, along with competition for higher quality alfalfa hay for Saudi Arabia could hold prices at levels seen on first cutting a year ago. Whether alfalfa hay prices go higher or lower than that will depend on quality of first cutting, milk prices & dairy demand, and export demand, particularly for early high quality alfalfa hay. There are quite a few dairies in central California that are carrying smaller than normal inventories of hay and will have light supplies of higher quality alfalfa hay on hand as we go into early next season. Unless the milk price outlook changes, I believe that exporters could have a big influence in the alfalfa hay market in the west again in 2018. The exception could be early in the season in the southern California desert where short-term pent-up demand from central California dairies that need milk cow quality alfalfa hay could force dairy bids to compete with export bids on first cutting. Having said that, there will be tough competition for alfalfa hay that meets the specifications to go to Saudi Arabia. I believe the spread between the top and bottom of the alfalfa hay market will be wide, especially in central California where many dairies will feed by-product feeds to dry cows and less alfalfa hay if the price on Fair quality dry cow hay is above \$190 to \$200 delivered.