

IDAHO HAY MARKET SITUATION AND OUTLOOK

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Quite a Ride for the Alfalfa Hay Market in 2008

All indicators pointed to a stronger alfalfa hay market in Idaho in 2008. Idaho hay stocks on December 1, 2007 were down 7 percent. Dairy cow numbers in the Gem State were growing at a faster rate than any State in the U.S. and hay consumption was strong. Idaho milk prices were in the \$17.50 to \$19 cwt range in late 2007 and early 2008 and everything pointed to strong milk prices throughout 2008. May 1, 2008 hay stocks were down 6 percent. Cold and wet weather in the spring delayed first cutting by three to four weeks. Due to the late start of the new crop alfalfa hay harvest, dairies were running out of alfalfa hay and were buying hay from other dairies. It was the perfect storm of events that led up to the strongest alfalfa hay market ever seen in Idaho.

In early June Supreme alfalfa hay was being contracted for \$185 to \$190 per ton and Fair quality at \$155. When alfalfa hay sales began in mid June Premium and Supreme alfalfa hay traded from \$200 to \$220 per ton. In the following weeks prices escalated to \$220 to \$260 per ton. Dry cow/feeder hay prices jumped from \$155 to \$165 in mid June to \$185 to \$200 by mid to late July. It was a buying frenzy on alfalfa hay that had growers buzzing at coffee shops throughout Idaho. Demand was outpacing supplies on the first two cuttings. Export buyers were trying to stay out of the cross hairs of dairy buyers and were purchasing Good quality alfalfa from \$180 to \$200.

By mid August some dairy hay buyers started to pull back a little as the milk price outlook was not as promising. Export buyers, including buyers from Washington and Oregon came into the market in mid August and bought large volumes of Good quality alfalfa hay from \$190 to \$200 per ton fob. The milk price outlook worsened into the fall as the financial and economic meltdown in the U.S. and abroad was changing the picture on dairy product exports and domestic consumption. The alfalfa hay market started to weaken by late October and November. By mid November Supreme alfalfa hay prices were topping at \$180 in a bearish market. Dairies were facing the reality of much lower milk prices than what was predicted earlier in the year.

What started as such a promising hay market year ended for some Idaho growers on a sour note. For example, a grower in eastern Idaho that contracted several thousand tons of alfalfa hay earlier in the season at over \$200 per ton fob, got the hay back when the dairy hay buyer backed out late in the year. He ended up selling the hay from \$135 to \$145 in December but got all of the money up front. Due to the collapse of the cheese and non-fat powder milk markets late in the year and the outlook for very depressed milk prices in early 2009, other dairies or dairy hay buyers were also backing out of hay contracts in late 2008.

Hay Stocks Down on December 1, 2008

The positive for Idaho hay growers is the 16 percent fewer hay stocks on hand on December 1, 2008. Even though alfalfa hay production was up 5 percent in Idaho in 2008, other hay production was down 2 percent. The very tight supplies of alfalfa hay at dairies entering the 2008 hay season and the fastest growth in dairy cow numbers of any State in the nation were two major factors in the lower hay stocks on

December 1, 2008. The first seven months of 2008, dairy cow numbers each month ranged from 35,000 to 45,000 head more than the previous year. The year to year growth in cow numbers began to slip in the last quarter of 2008 with the dairy cow inventory in Idaho in December coming in at 554,000 head, up 24,000 from December 2007 but down 2,000 head from the high of 556,000 reached this past July.

Milk Prices Deteriorate in Late 2008 and Early 2009

After milk prices in Idaho rebounded to \$16.83 cwt. in September 2008, it was all down hill after that. The price dropped for three straight months, reaching \$13.12 cwt in December. The outlook for January was around the mid \$10 range and possibly falling into the mid \$9 range in February. With many dairies cost of production in the \$14 to \$15 cwt. range, this will be a major financial hit to dairymen in the West. Fortunately, about 30 percent of the larger dairies in Idaho protected part of their production by locking in a higher milk price (sources say between \$15 to \$18 cwt) with processors or by using the Milk Futures Options market. The rapid fall of milk prices was sending shock waves throughout the dairy industry in the West in early 2009.

In the third week of January, the dairy industry was pushing for a USDA guarantee for a loan to Cooperatives Working Together (CWT), the organization that has held seven dairy herd retirement programs in the U.S. the past few years. The dairy industry would like to remove 250,000 to 300,000 dairy cows from production. Western United Dairymen in California asked Congress to implement the Dairy Export Incentive Program funding authorized by Congress but blocked by the Bush administration. This is to combat new dairy export subsidies recently announced by the European Union. And lastly, in order to satisfy the concerns of the U.S. beef cattle industry, Western United Dairymen in California asked that USDA remove beef from the market (I assume boneless cow beef) for distribution to Government feeding programs or export channels. This will keep slaughter cow prices from falling farther, particularly in the West where there is a large concentration of dairy cows. All the State dairy organizations in the West are supportive of the above actions, including the Idaho Dairymen's Association. The Western United Dairymen in California also cautioned that inaction may lead to a major failure in the agricultural lending system as equities and cash flow at dairies are declining daily.

Outlook for the Idaho Alfalfa Hay Market in 2009

While hay stocks are reported by USDA to be down 16 percent from a year ago, there is one issue that could offset the benefits from this. The financial strain on the biggest customer for alfalfa hay in Idaho, the dairy industry. The financial condition of dairies will carry more weight in the alfalfa hay market than supplies. If the dairy industry is successful in putting together a large herd retirement program and milk prices rebound in the months ahead, this will be very positive for the Idaho hay industry. If they are not able to obtain funding and the Idaho dairy industry goes through a slower liquidation and downsizing process, this will not be as good of a scenario for alfalfa and other hay growers. A herd retirement program would send a message to milk, cheese, and powder processors throughout the U.S. that milk supplies will be slowing soon. This would be bullish to the milk futures market and near term milk prices. The slower liquidation of cows would eventually help boost milk prices but not as soon and maybe not as strong as if there was a herd retirement.

It sounds like Idaho alfalfa hay acres and production in 2009 could be close to 2008. The key to production will be what yields do but it will be hard to beat the yields in 2008. Surprisingly, USDA estimated alfalfa yields in Idaho at 4.4 tons per acre in 2008, a new record high.

It is very difficult to forecast where the alfalfa hay market will be in 2009 in Idaho given the uncertainty of where things are headed for milk prices and the dairy industry. I believe alfalfa hay prices could be close to 2007 levels. Supreme alfalfa hay topped in the \$160 to \$165 per ton range in 2007. If milk

prices rebound to profitable or near profitable levels before the start of the new crop hay harvest and if dairies are carrying light hay inventories into the 2009 season, this will be positive for the early alfalfa hay market. However, most dairies will still be trying to rebound from financial losses sustained in late 2008 and the first few months of 2009 and will not be nearly as bullish on bidding for alfalfa hay as they were a year ago. If milk prices do not return to profitable levels by the start of new crop hay harvest dairies may turn bearish on bids for alfalfa hay and holding the market at 2007 levels may be a challenge.

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