A Closer Look at the Alfalfa Hay Market

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Markets for most agricultural commodities have a tendency to move together. A market moving factor, while it may be more applicable to one commodity than others, will have a long run impact on many other commodities due to the competition for land. Since late 2006, commodity prices in general have experienced significant strength. This upward movement in commodity prices was initiated in the corn market. The rapid expansion of the corn ethanol industry applied considerable upward pressure on the price of corn. The resulting competition for acres has resulted in increased prices for most commodities in order to ensure an adequate supply to meet demand.

Competition for acres has led to a decrease in acres harvested for hay in the U. S. of 2.3 million acres from 2010 to 2011. Production of all hay is estimated to be down nearly 10% from last year. Strong profit margins for corn, soybeans, and numerous other crops have encouraged expansion of these crops at the expense of any crop that appeared to be less profitable or more difficult to produce and/or market.

The market for alfalfa hay has exploded in some parts of the country, primarily in Texas, Oklahoma, and surrounding areas due to one of the worst droughts in recent history. As with most commodities, this has a ripple effect across the country. Price increases have spread outward from this area, but to a lesser extent further away from the drought area. This is certainly impacted by local supply and demand conditions. However, an overriding factor with hay is the high transportation cost relative to many other crops. For example, much of the grain is transported by rail, which is considerably cheaper than truck transportation. Thus, moving feed grains from surplus areas to deficit areas is much more efficient than moving a bulky product like hay that will likely be hauled by truck. This means a considerable portion of the premium price available in the southern plains is eaten up by transportation costs to move hay from the northern plains, where surplus hay supplies exist.

The Midwest has experienced opposite hay conditions, that is, plentiful moisture, leading to high yields of alfalfa, as well as other hay. The increased rainfall has resulted in a considerable amount of hay being damaged by the weather resulting in lower quality and, therefore, value. However, the actual price is being impacted by the smaller supply nationwide. USDA reported the average price of alfalfa hay during the month of September at $71/ton in North Dakota and $196/ton in the United States. These prices are an increase of 20% in North Dakota and 65% in the United States over last year. While a price increase of 20% is attractive, it pales compared to the increase elsewhere in the country. This is a direct reflection on the local supply exceeding the local demand and the high cost of transporting the excess to the high value market areas.

Looking ahead, it is reasonable to expect stronger hay prices in general. This is due to the increased demand for acres of competing crops that will keep hay supplies in check. Relative profitability determines which crops farmers will decide to produce. To ensure adequate production to meet demand, the profit potential for alfalfa and other hay will have to keep pace with the major competing crops; wheat, soybeans, and corn.