

US hay supplies remain precariously low and this has negative implications for beef and dairy producers going into the spring. The shortage of hay supplies further underscores the importance of receiving adequate moisture this winter. The margin for error is close to zero.

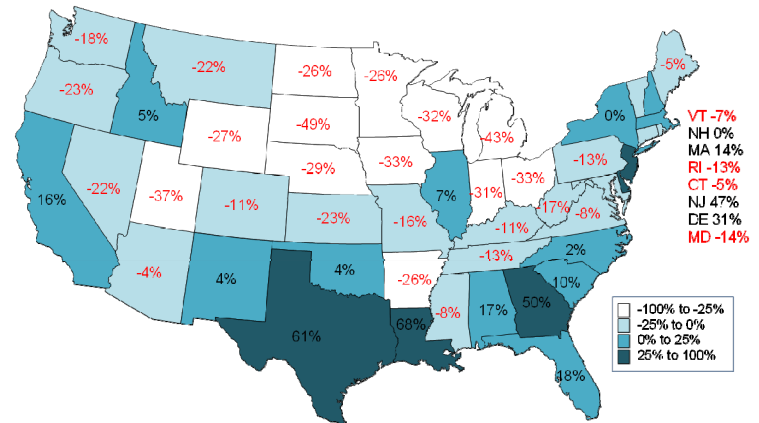
The USDA Crop Production report issued in early January pegged total US hay production for 2012 at just 119.9 million tons, about 9% below year ago levels and 16% lower than the five year average. Hay supplies differ dramatically by region. Hay production in the Great Plains declined by 29% in 2012 (crop year for hay is May - Apr) for the year and it was 31% lower than the five year average. December 1 stocks in some states were down as much as 49% from last year (see map). Hay production in TX/OK was double what it was the previous year (a very dismal comparison) but still about 6% less than the five year average. The increase in output helped boost stocks in Texas, a state that accounts for 15% of all US beef cows. But again, we are comparing to 2011 levels, which was a historic drought years for Texas and surrounding areas. December 1 hay stocks in Texas still were 29% below the five year average.

High grain prices has reduced the number of acres that go into hay production. Last year, US producers harvested 56.3 million hay acres, 7.7 million acres less than in 2002. There are fewer cows today than 10 years ago so not as many hay acres are needed. On the other hand, with grain prices at record highs, it is more important than ever for producers to put weight on animals before they go into feedlots. The drought of 2011 and 2012 has dramatically reduced hay yields. In 2012, yields for all hay were pegged at 2.13 ton/acre. Note that this is for all kinds of hay across all states. Alfalfa yield for the year was about 3 ton/acre, down 11.5%. One has to go back to the drought of 1988 to find yields lower than those we had in 2012. The short supplies have caused hay prices to escalate further and prices will be high at least until spring. USDA pegged alfalfa average national prices in December at 217/ton, 9% higher than the record levels of a year ago and a whopping 50% higher than the five year average.

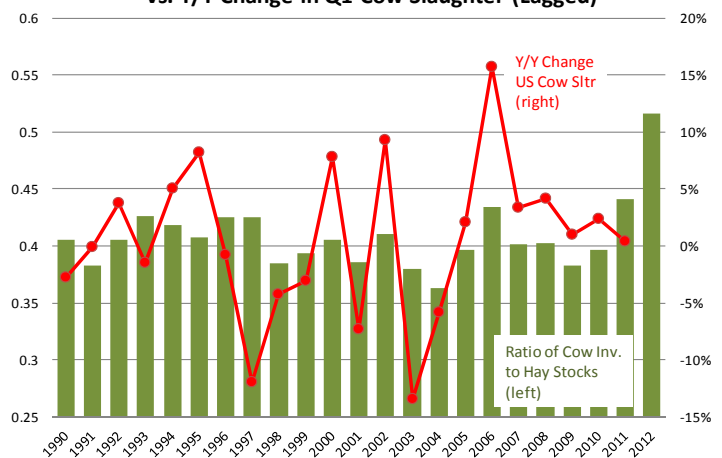
The decline in stocks is significant even as total US cow inventories are smaller today than they were a decade ago. The expectation is for cow inventories to be down 1.3% in 2012 and the lowest in half a century. Even with this low inventory, the ratio of the cow stocks to hay stocks currently stands at 0.52, compared a ratio of 0.44 last year and an average ratio below 0.40 the last 10 years. The higher ratio basically means that more cows are competing for a given stock of feed. The next question, however, is whether the increase in the cow inventory to the hay stock ratio impacts the number of cows coming to market. On

Dec 1, 2012 Hay Stocks: % Change from Dec 1, 2011

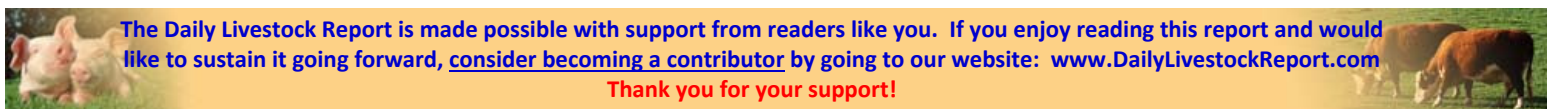
Data Source: NASS/USDA. Map created by Livestock Marketing Information Center



Jan 1 Cow Inv. Ratio to Hay Stocks vs. Y/Y Change in Q1 Cow Slaughter (Lagged)



that count, there is no clear answer. In some years, there is a real impact and we tried to show that in the chart above. One would expect that when the ratio is high (more cows competing for limited feed) that you would see the Q1 cow slaughter numbers to increase. This happens during some years (2000, 2002, 2006) but not consistently so in order to establish a strong relationship. Last year the ratio was the highest in the last 20 years but Q1 cow slaughter was flat, mostly because weather conditions were quite mild, allowing producers to graze cows early. Calf prices and availability of other feeds are important factors as well. In the end, however, Mother Nature has the final say.



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