

2009 Tree Fruit Economic Update

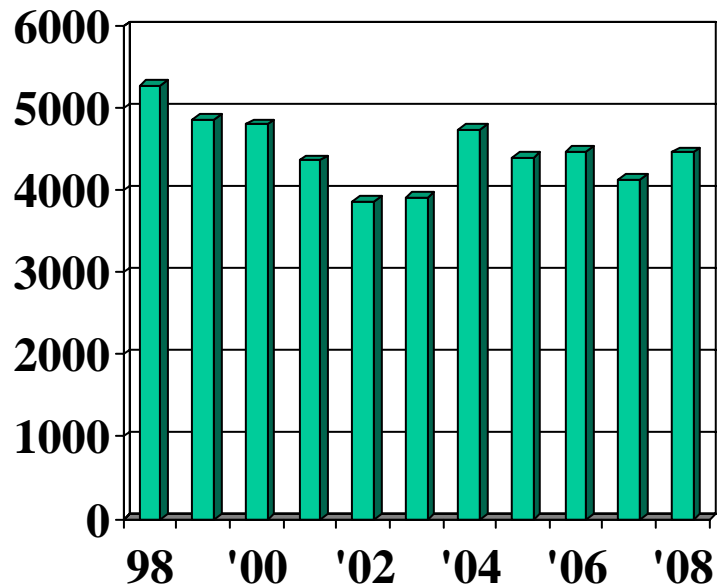
Desmond O'Rourke
G.S. Long Company, Inc.
Grower Meeting

Topics for Today

- **What caused the price run-ups of the last two seasons.**
- **How conditions changed.**
- **Impact of the global recession.**
- **Trends in profitability in apples.**
- **Price outlook for 2008-09**
- **Recommendations for speeding recovery.**

Factors Favorable to Prices

US Apple Production
(1,000 mt)



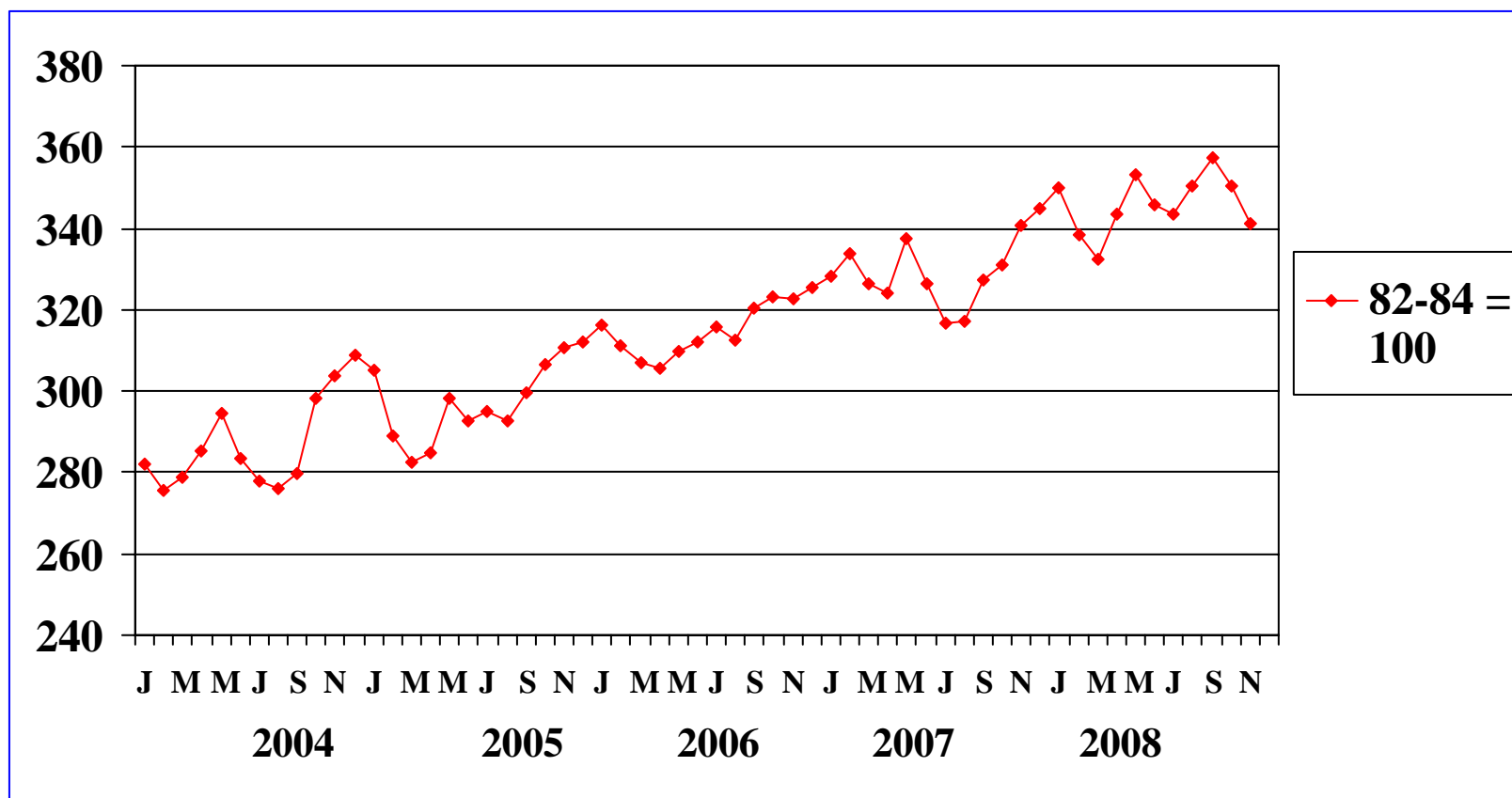
- Short apple, pear and cherry crops in the U.S. and elsewhere.
- Short supplies of competing fruits like oranges, bananas and strawberries.
- Most shortages due to temporary weather factors, not less acreage.

Favorable Market Environment

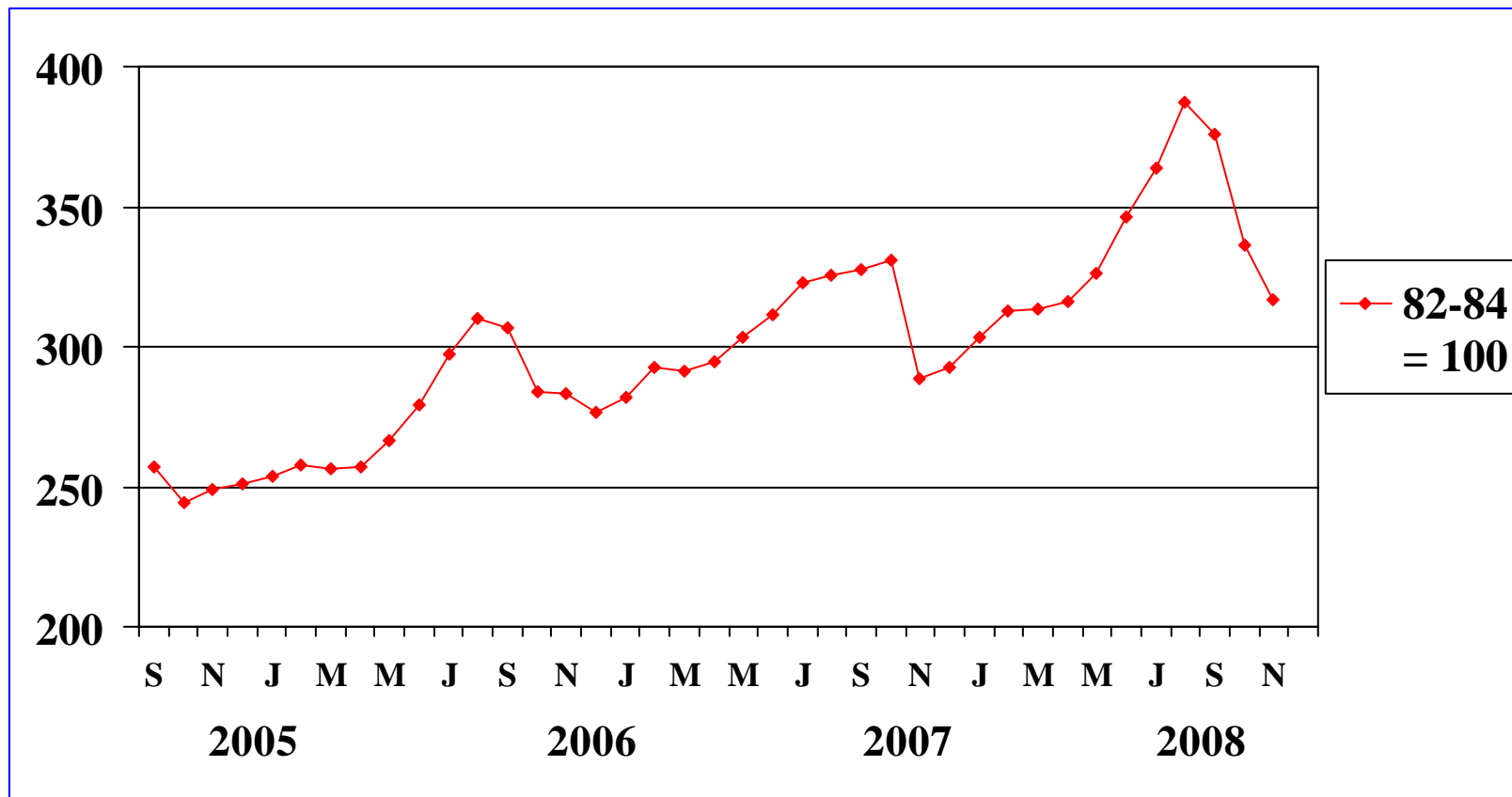


- Consumers in generous mood as prices of homes/stocks surged, credit was plentiful.
- Easier for retailers to increase prices after years of discounting.
- Price increases in wheat, corn, milk, oil, etc., gave retailers added cover.

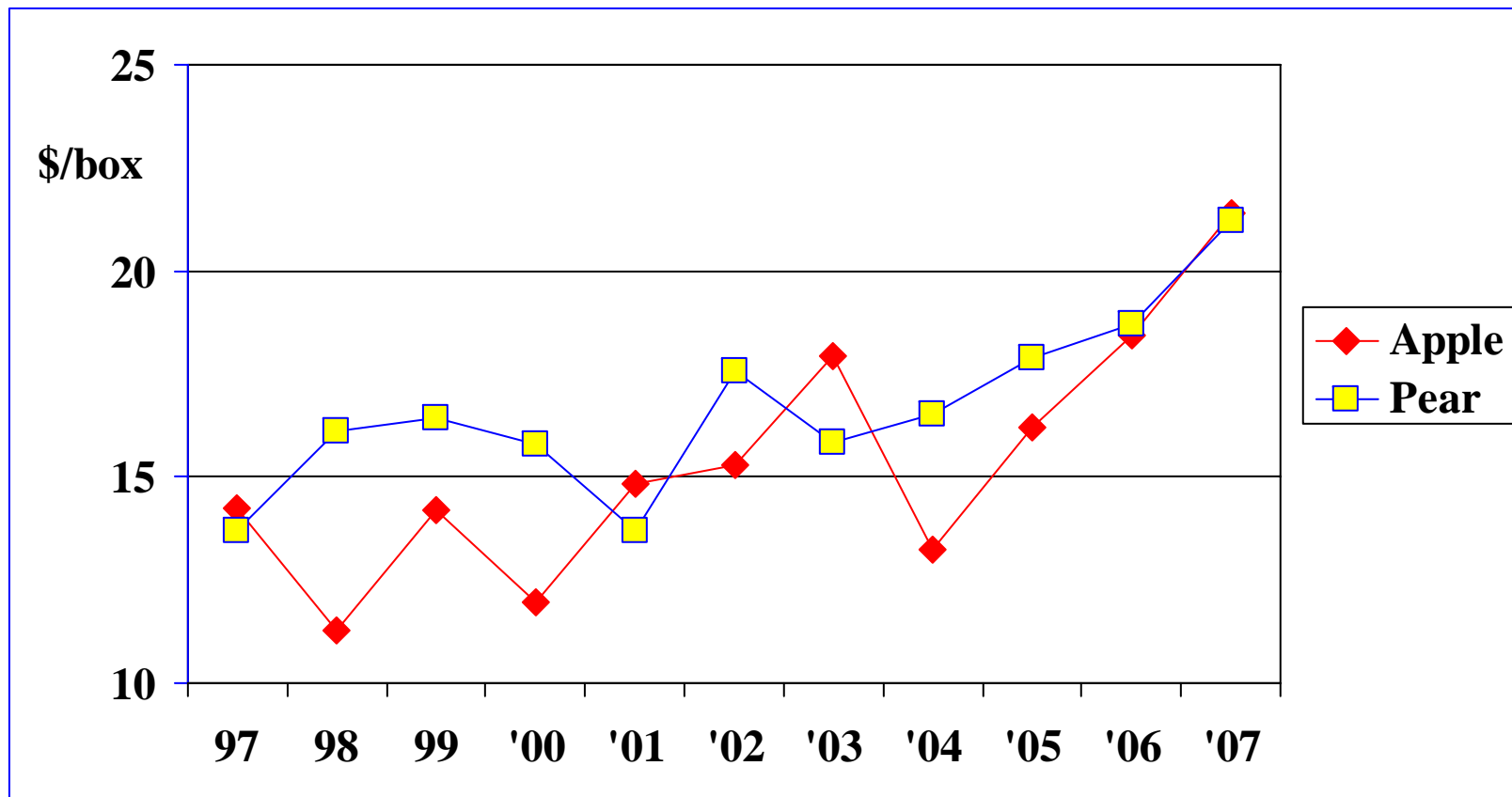
Unprecedented Rise in U.S. Retail Fruit Prices, 2004-2008



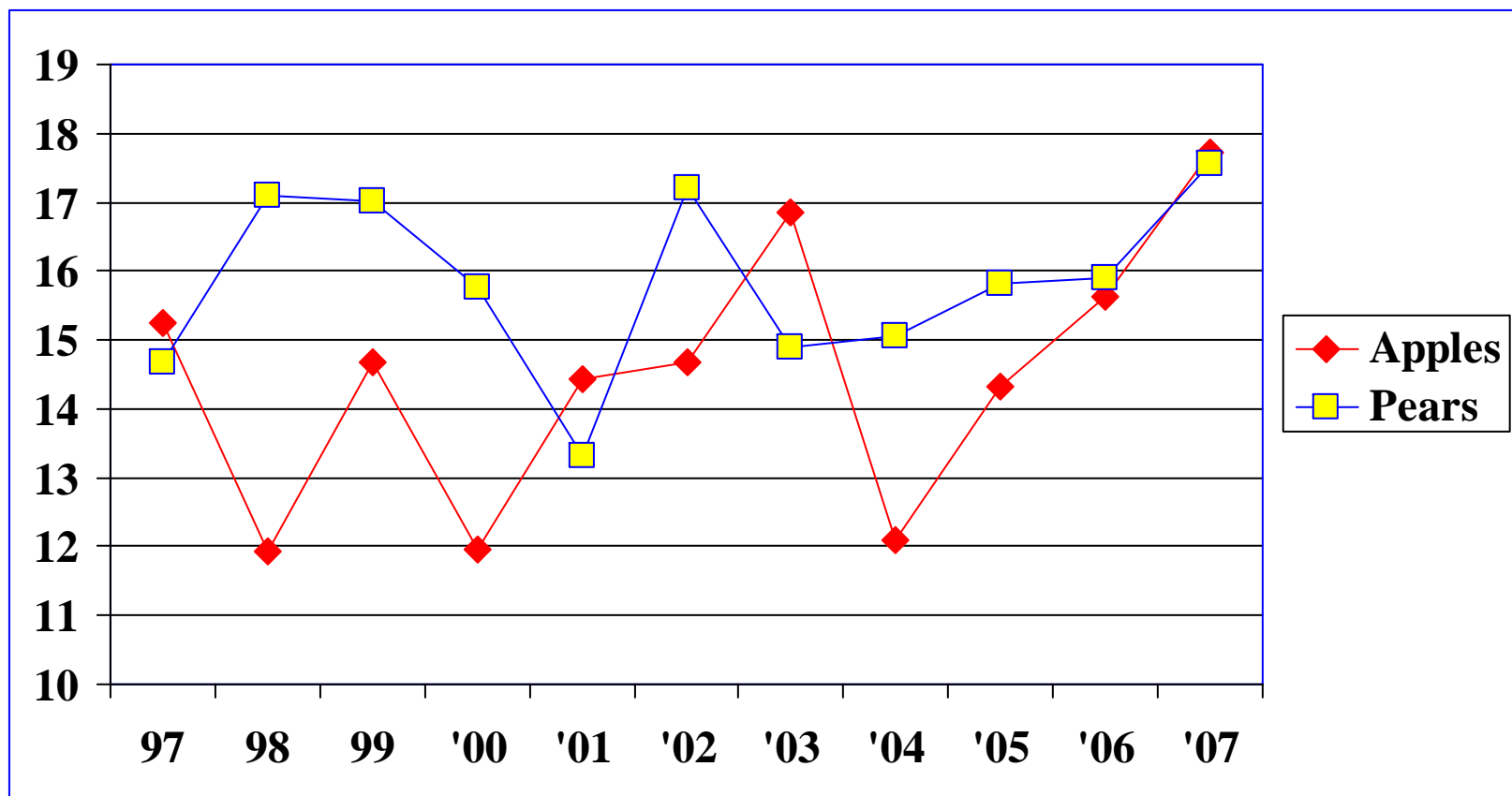
U.S. Apple Retail Prices Set Records in last three seasons



Price Increases Have Been Passed Back to Shipping Point, 2005-08



Price increases not so impressive after restating at constant 2000 prices



Great Expectations for 2008-09

- **August crop estimates lower for pears, flat for apples at 100m. packed boxes.**
- **Lower crops expected in U.S., normal crops in Europe and China.**
- **Although consumer spending was slowing, staples like apples were not expected to be hit.**
- **General inflation was lifting all prices.**

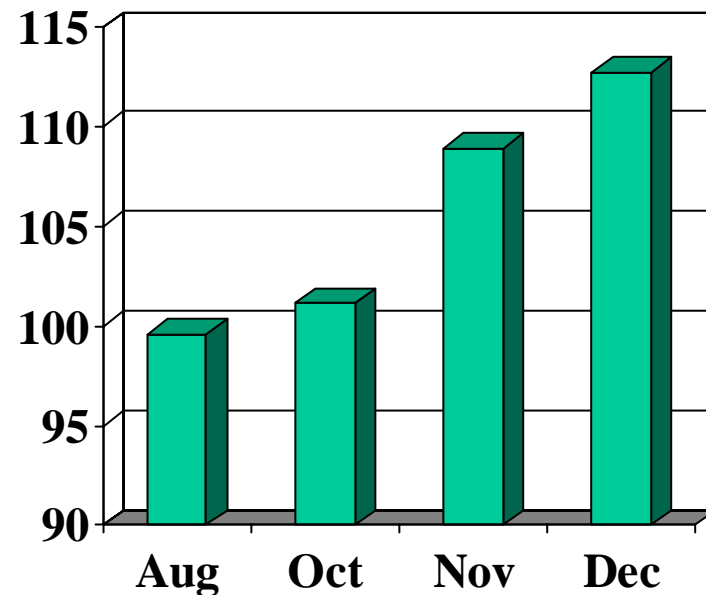
Then the Roof Fell In

- **Iconic institutions like AIG, Bear Stearns, Merrill Lynch and Washington Mutual collapsed.**
- **Widespread financial meltdown.**
- **Housing, stock and commodity prices tumbled.**
- **Consumers saw pensions, savings and asset values crumble.**
- **Retail sales fell sharply, unemployment rose.**
- **Contagion spread rapidly around the world.**

November (and December) Surprises

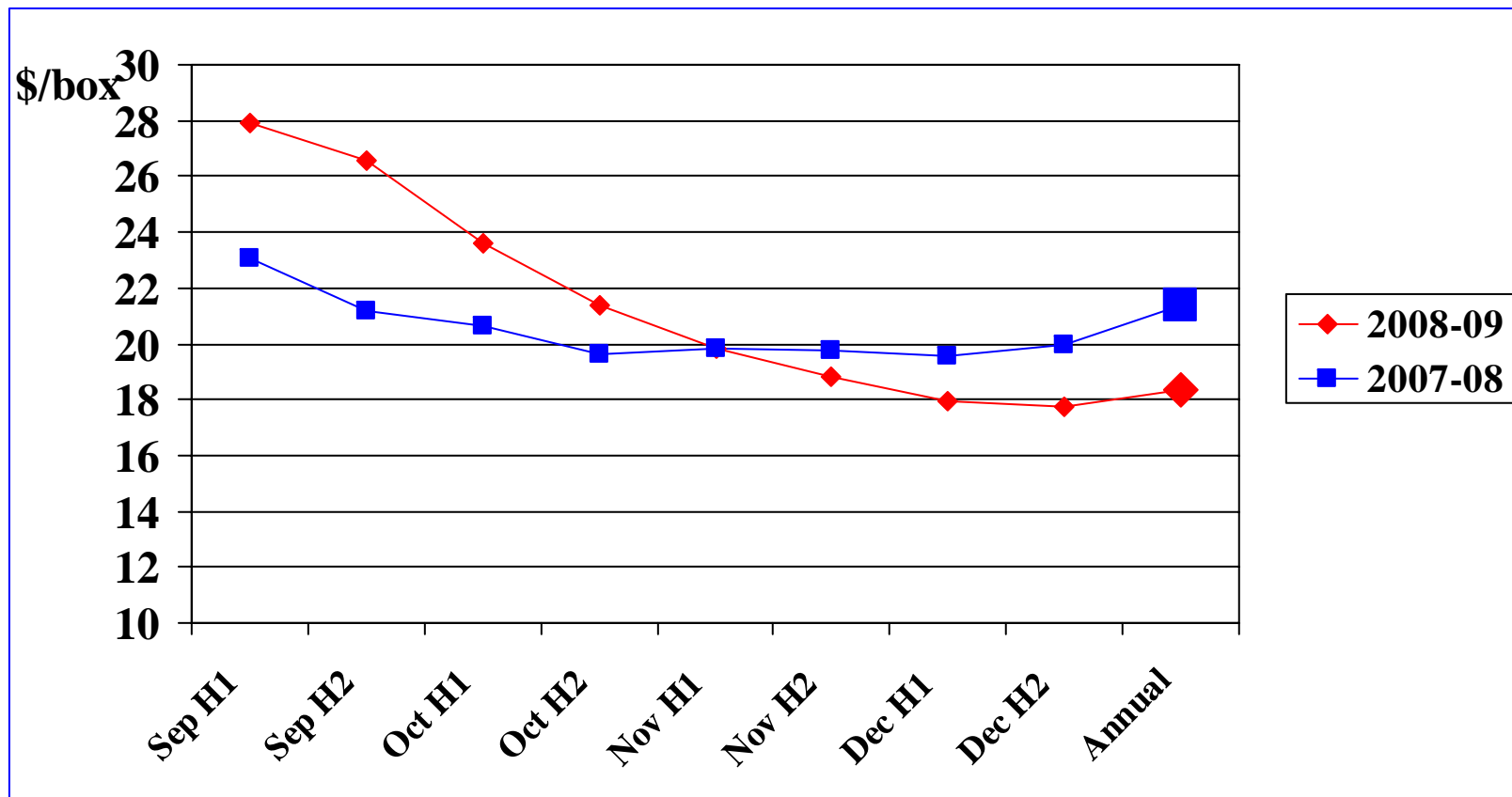
- The size of the Washington apple crop was revised upward 3 times.
- China's crop was revised upward.
- Stocks in U.S. and Europe much higher than expected.

WA Crop Estimate, 2008
(m. boxes)



FOB Prices Have Trended Down

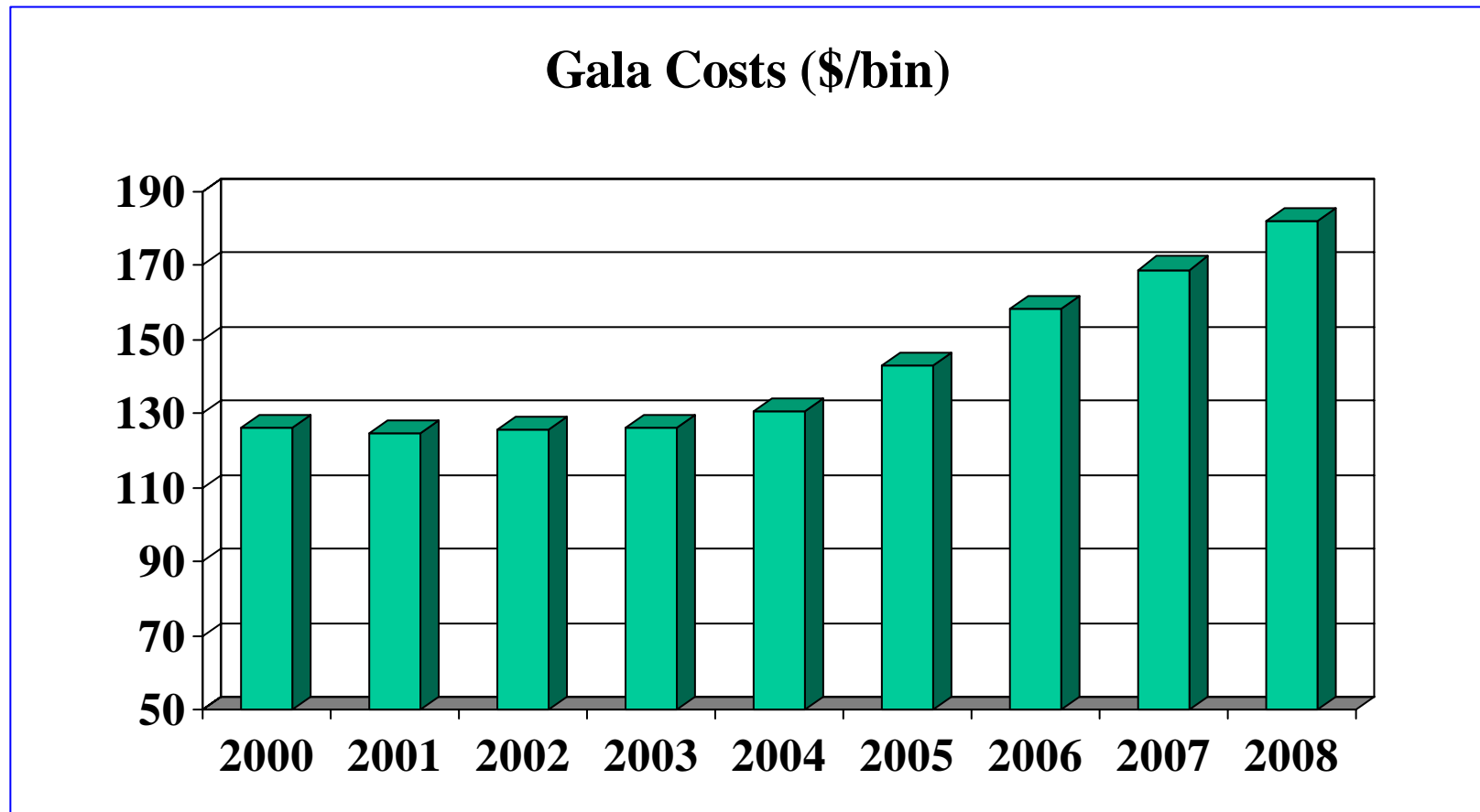
2008-09 compared to 2007-08



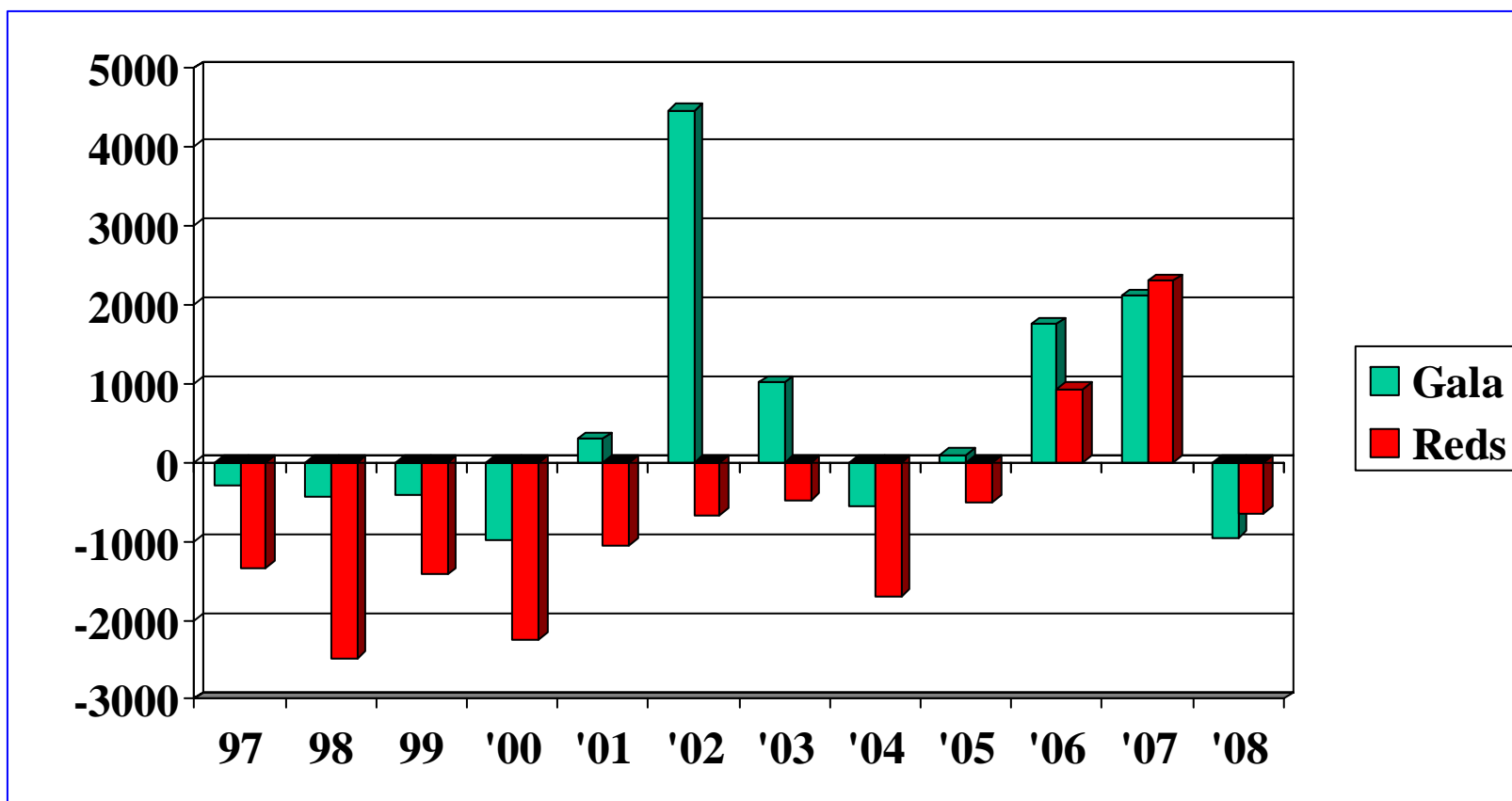
Apple Price Forecast for 2008-09

- **For the given size of crop, average price would be expected to be \$18.35/ box compared to \$21.40 last year, a 14% drop.**
- **However, 30% of the crop has already been sold. It could take average price as low as \$17/box to move the next 70% of the crop.**
- **Other negatives: High stock levels in U.S. and EU. Consumer demand sluggish. Can't tell if, or when, stimulus packages will kick in.**

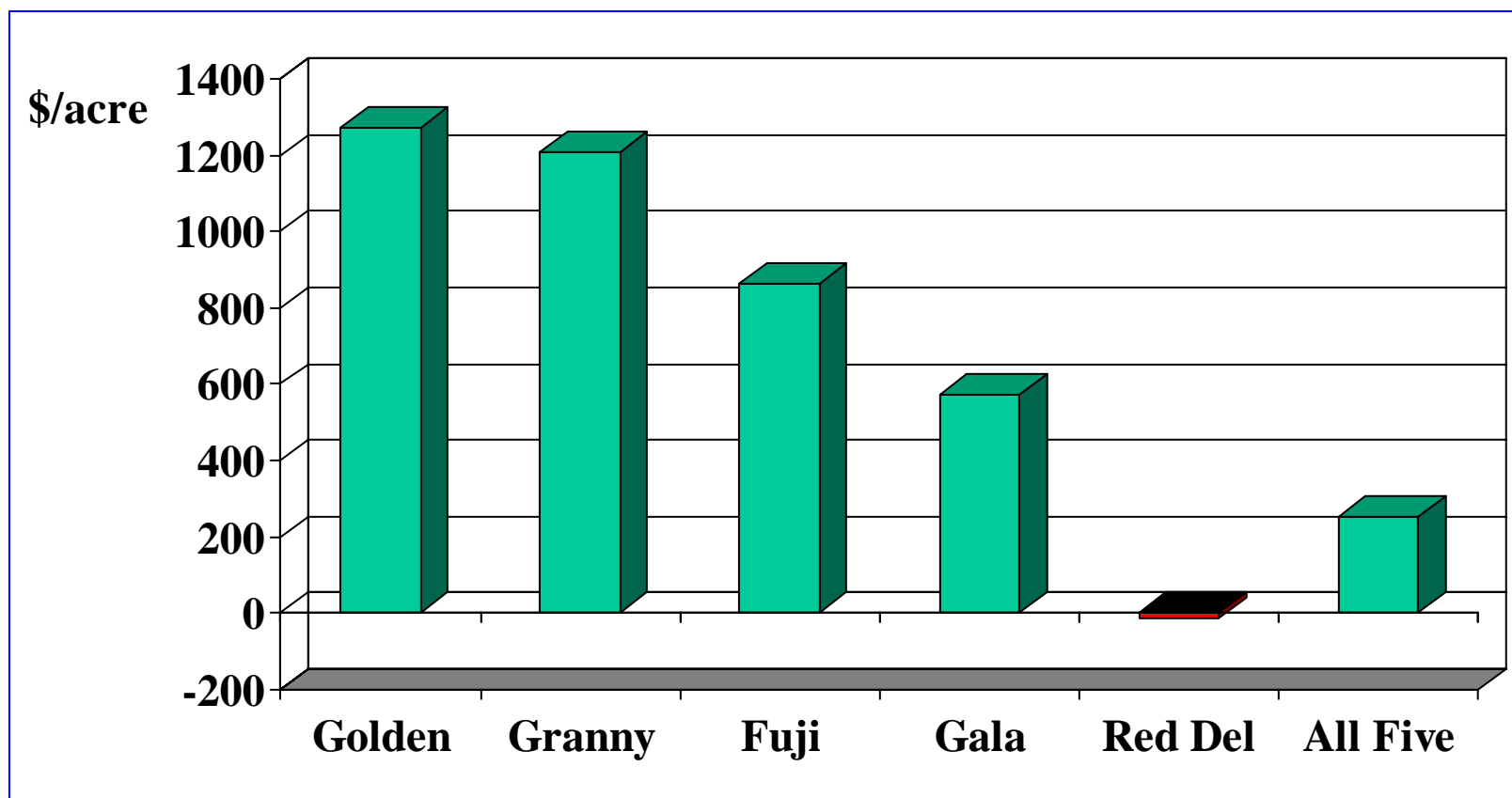
Costs of Production Rising Rapidly



Gala and Red Delicious: Net Revenue per Acre, 1997-2008



Five Major Varieties: Average Net Revenue per Acre, 2003-2007



Can Exports Save the Season?

- **U.S. dollar has strengthened against the currencies of many trading partners, making U.S. products more expensive.**
- **Countries that gained from the commodity boom have been hurt by the bust.**
- **The total economies and consumer demand in many countries has weakened.**
- **Export volume similar to last year so far.**

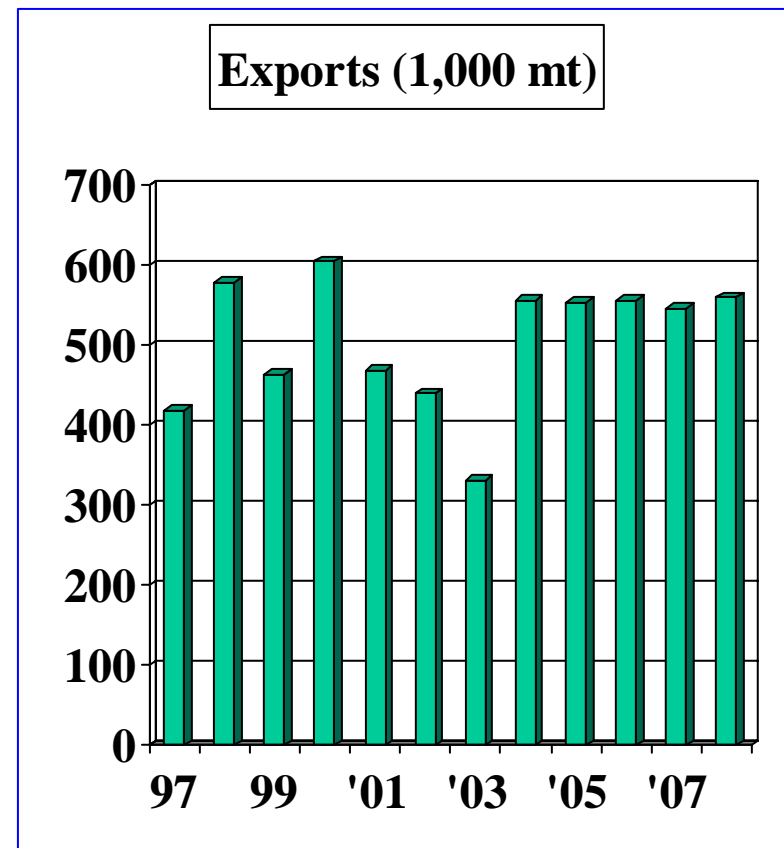
Washington State has struggled to expand apple exports in the last decade

A major problem has been increased competition, especially on price, from:

China in Asia

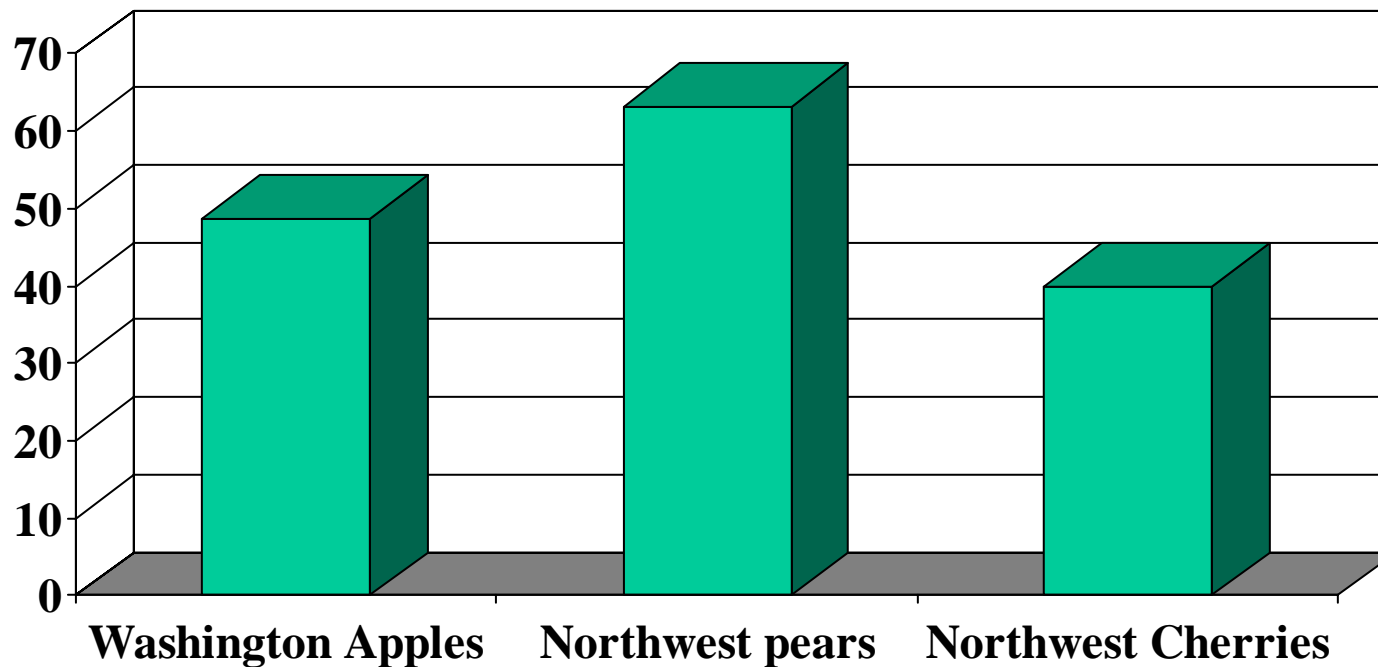
Chile in Taiwan

Iran and Turkey in the Middle East



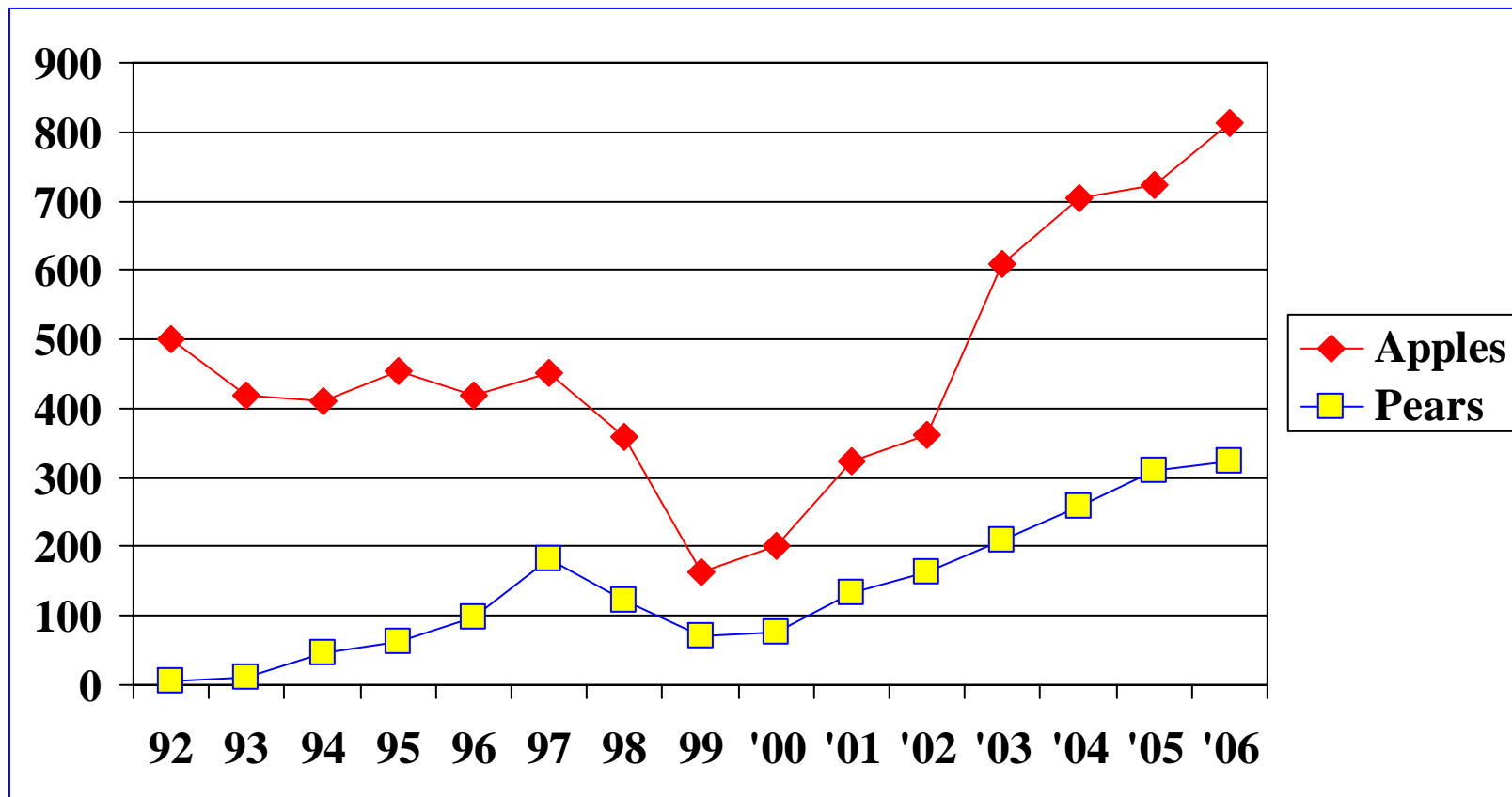
Washington Exporters have become heavily dependent on Canada and Mexico

Share to Canada or Mexico, 2007-08 (%)



Russia, a Growth Market for Fruit

Imports, faces financial setbacks like 1998

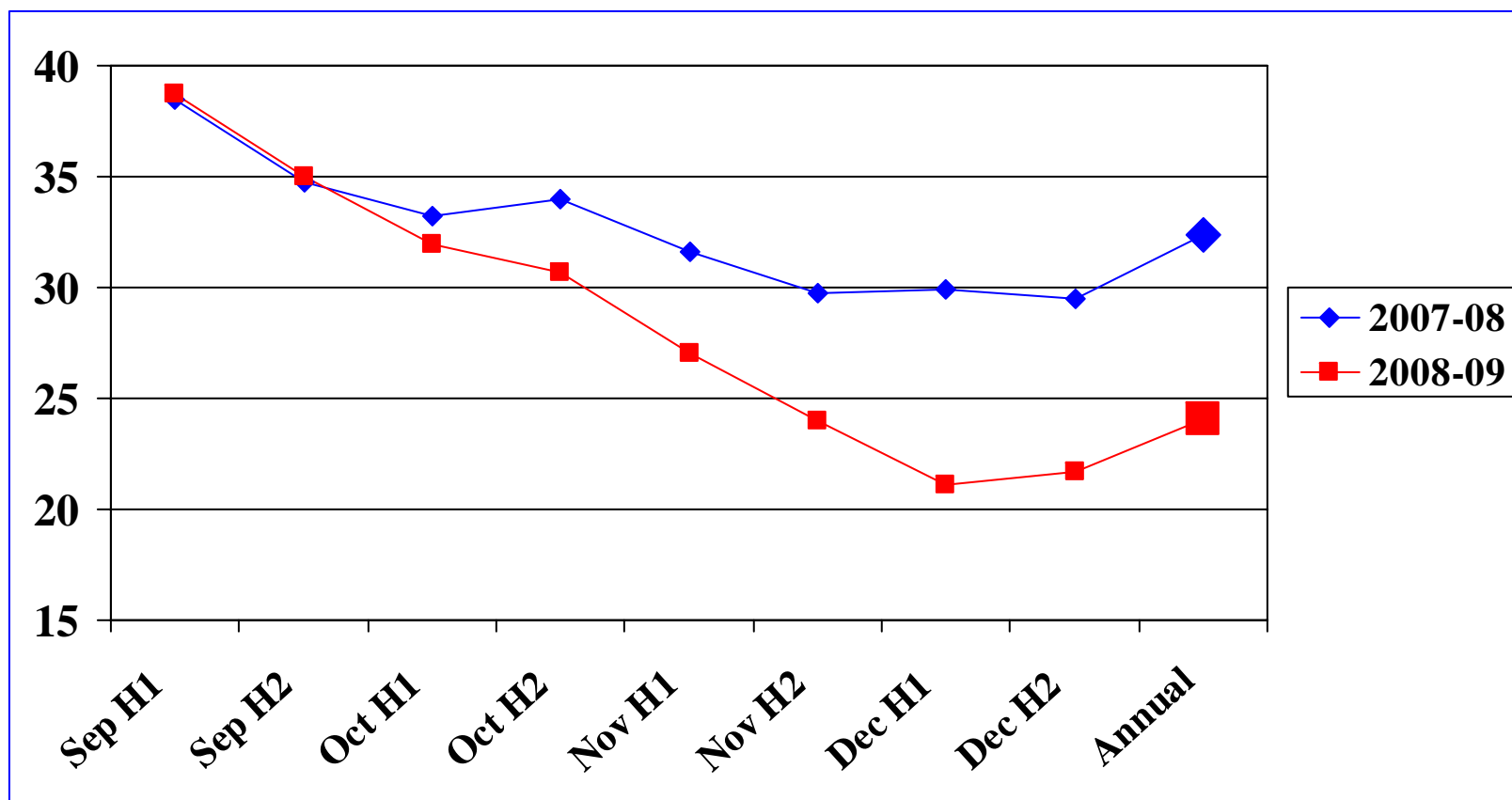


Organic Apples to the Rescue ?

- **Past low returns on conventional apples and pears have led to increased conversion of acreage to organic production.**
- **Organic supplies in 2008-09 will be nearly double last year's levels.**
- **Transition acreage suggests that organic could account for 10 percent of Washington fruit acreage by 2010.**
- **However, organic products are subject to the same market laws as other products. When supply goes up, price goes down.**

Organic Apples: FOB Prices

2008-09 compared to 2007-08



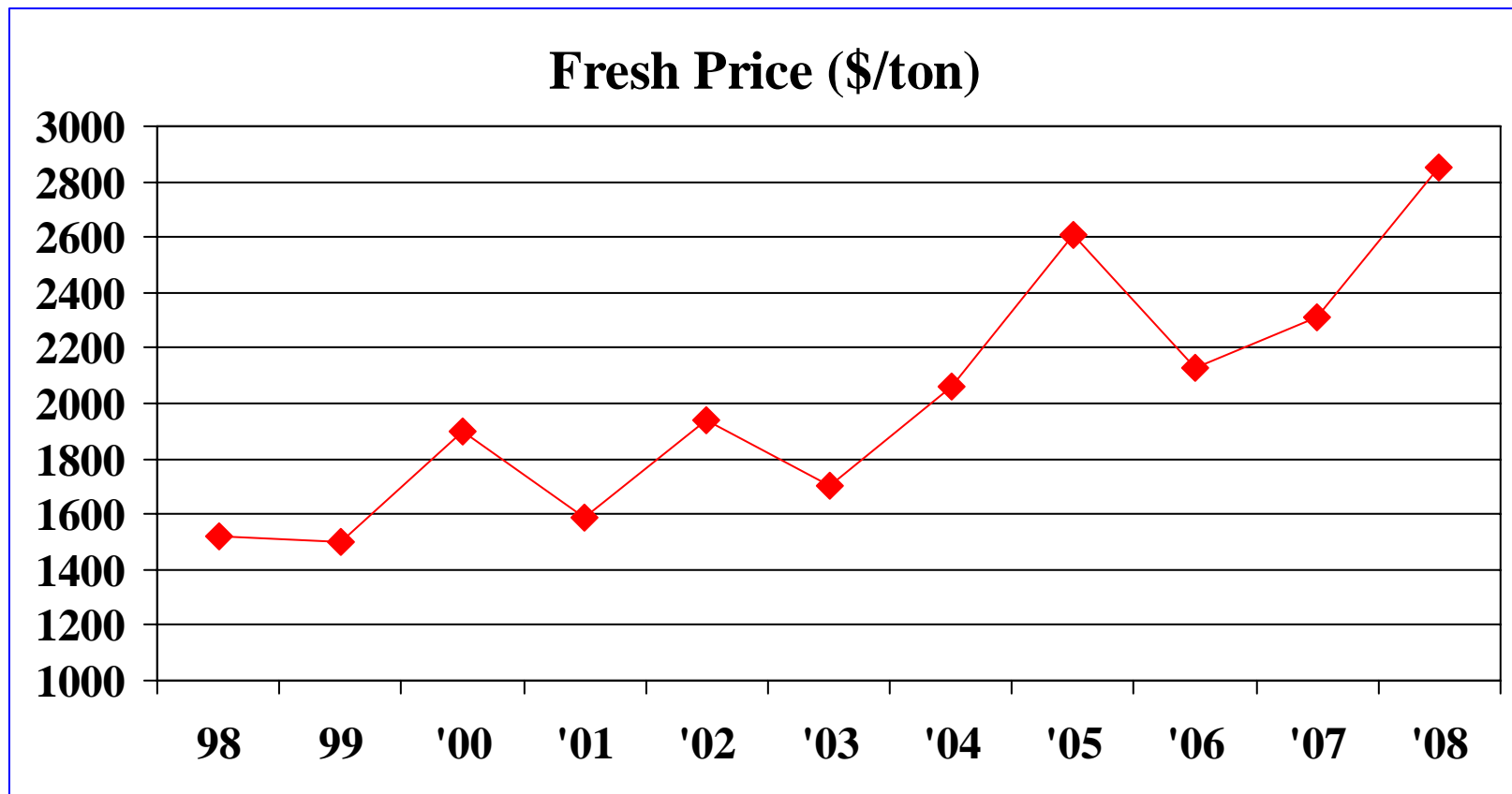
The Organic Premium

- Using the limited data available, I estimate that the average FOB price of all organic apples in 2008-09 will fall from \$32.36 to \$24.10.
- The average organic premium will fall from \$11.10 (52.5%) to \$5.75 (23.9%).
- The organic premium will disappear by the time organic reaches 12 percent of total apple shipments (now 6 to 7%).

Pear Outlook

- **Pear acreage has been declining slowly.**
- **Pear production is down in 2008-09, Bartletts by 8 percent and winter pears by 14 percent.**
- **Supplies and stocks are down in Europe.**
- **Exports are down sharply**
- **Prices have been holding up well.**

Sweet Cherries: Favorable Past



Sweet Cherries: 2009 Challenge

- **New record crop is possible.**
- **But, upscale consumers that powered demand for specialty items have been cutting back on spending.**
- **It may be necessary to sell at lower prices in order to hold the base of loyal customers.**
- **Product needs to fly off shelves. Market gluts could sour retailers for years to come.**

What Can be Done for Apples?



- **Find new ways to lower costs. Supply firms will play key role.**
- **Find new opportunities for premium niches.**
- **Organic producers will have to be even more disciplined. Need to concentrate on varieties that yield premiums.**

Time for Greater Promotional Efforts to Boost Demand

- **Pears and sweet cherries still have functioning domestic promotion programs, but are they big enough now?**
- **In apples, only NY Apple Association has viable consumer promotion program, and then only in Northeast U.S..**
- **Is it time to resurrect a Washington State promotional program? It does not need to follow the mandatory commission model. Other viable options possible.**

Long-term Challenge

- **Washington apple production could increase a further 20 percent in next decade, sweet cherries 40 percent.**
- **The challenges faced in 2008-09 will mirror those that lie ahead.**
- **How the tree fruit industry handles 2008-09 crops will be a good indicator of how effective it will be in maintaining profitability over the next decade.**