

MARKET SNAPSHOT

APPLES



Dec. 31, 2018

Executive Summary

Drivers for the Northwest apple industry include overlap in crops, a lighter 2018-19 crop and tariff concerns.

- Prices for most varieties have recovered from early season softness as the 2017-18 crop and low-quality fruit have cleared the market.
- The 2018-19 Washington state fresh crop is small, estimated at 118 million boxes, 10 percent below the August estimate of 131 million boxes.
- Retaliatory tariffs continue to slow exports.

12-Month Profitability Outlook



Northwest FCS' 12-month profitability outlook predicts a profitable 2018-19 crop. A lighter crop with favorable fruit size will capture good prices and return profits to growers. Conversely, older varieties and low-quality fruit will struggle to generate positive earnings.

2018-19 Crop

On Dec. 1, the Washington State Tree Fruit Association (WSTFA) estimated the 2018-19 fresh crop at 118 million boxes, 10 percent below the August estimate of 131 million boxes, and 12 percent smaller than last year. All varieties picked were short of estimate, largely due to hot and wet 2018 weather patterns.

For the first time, Gala production surpassed that of Red Delicious; the industry has phased out Red Delicious over the last several years as demand has diminished.

Overlap of the 2017-18 crop slowed early movement of the 2018-2019 crop and some

quality issues in certain varieties weighed on early season prices. Last season's fruit has now cleared the market and movement has accelerated. In December, 27 percent of this year's crop has shipped, roughly matching last season's pace.

Prices are stabilizing and increases are expected through 2019. A smaller Washington crop will support higher prices. The Dec. 1 storage report shows fresh Washington state inventory on hand at 92 million boxes, 21 million boxes less than a year ago.

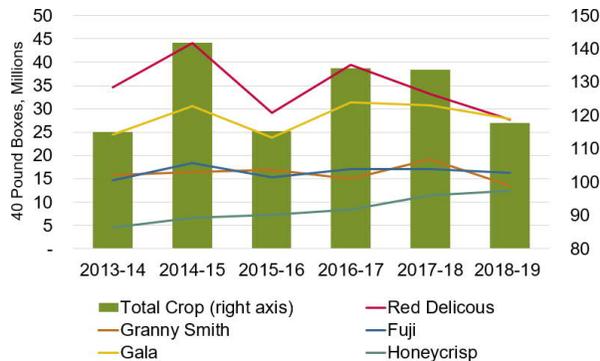
Additionally, national fresh inventory is 103 million boxes, down 16 percent from last year.

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Poor-quality fruit weighed on prices at the beginning of the season. However, the majority of this season's crop has good storing quality, which will allow marketers to wait for better prices. Fruit size this season is favorable, which will result in improved returns to growers.

Northwest fresh crop and varieties



Source: WSTFA, Dec. 1, 2018

Fire Blight

This year's hot and wet weather during bloom created severe fire blight conditions. A substantial amount of fruiting wood was removed to mitigate the disease, which is one reason the crop picked lighter than expected. Subsequent crops will be affected as trees re-grow over the next few years.

Fire blight is an increasing challenge, particularly for young trees and certain varieties such as Honeycrisp, Pink Lady and Fuji. There is no treatment for affected trees; infected limbs and/or trees must be removed. Certain varieties and rootstocks are more resistant. However, there is no guaranteed escape from the disease.

Retail

Returns to grocers were low for last season's crop, partly due to smaller sizing. In turn, the amount of available shelf space for this year's apple crop is pressured. Competition for shelf space is increased this year from the high-quality, low-price grape crop.

Labor Supply

The smaller crop, which required less labor, and increased use of H-2A visa labor resulted in adequate labor for the season. While the use of the H-2A program is necessary to ensure a labor supply during key times of the year, users incur its substantial costs in transportation, housing and higher wages. The USDA proposed Washington state 2019 H-2A wages at \$15.03 per hour, a 6.5 percent increase from 2018. The 2019 H-2A wage will be 25 percent greater than the 2019 Washington state minimum wage of \$12 per hour. Washington's H-2A hourly minimum wage is the highest in the nation.

Organics

Organic production continues to increase. In 2017-18, organic fruit was 10 percent of the crop at 13 million boxes, this season it is 14 percent at 17 million boxes. The organic apple price premium has softened, but the lighter overall crop is moderating the price compression.

Exports and Tariffs

Short global crops and competitor markets' inability to store fruit long term will favor Washington exports, increasing demand and prices.

The world apple crop is down 8 percent year over year to its lowest level in eight years. China's production is at a nine-year low, down 25 percent. The Mexican crop is also short, which should be a boon to U.S. apple exports. However, due to the tariff disputes, 2018-19 season-to-date exports are down 28 percent. There is optimism that once Mexico's crop is consumed their market will open to U.S. imports despite tariffs.

Exports are an important outlet for sizes and varieties that are in lower demand domestically, primarily Red Delicious. Apple growers in the U.S. export roughly \$900

million in apples every year, with about one-third being produced in Washington state.

Washington State Exports, Season to Date

Country	Boxes (thousands)	Year-over-year decline
Canada	1,056	-13.9%
Mexico	1,335	-24.5%
China	290	-40.5%
India	143	-78.2%
Taiwan	1,060	-29.9%
Vietnam	711	32.5%

Source: WSTFA, Dec. 15, 2018 Export Report

Retaliation to U.S. steel and aluminum tariffs are coming from some of the largest U.S. apple export destinations. The most notable tariffs include Mexico's 20, India's 30 and China's 40 percent tariff on U.S. apples.

Although India has delayed tariffs several times, exports to India are down dramatically. As the industry anticipated tariffs, a large amount of apples was shipped in hopes they would arrive before tariffs were implemented. Therefore, the Indian market was over saturated with U.S. apple exports, resulting in halted Indian imports.

On Nov. 30, President Trump signed the U.S.-Mexico-Canada Agreement (USMCA) which, if Congress approves, will replace NAFTA. This is good news for the apple industry given Mexico is the largest buyer of U.S. apples, primarily Red Delicious. However, there are still a number of House and Senate members who are against the trade deal. It remains unclear whether or not it will get the votes for approval.

The USMCA will not automatically end Mexican tariffs, as those are related to the steel and aluminum debate. However, moving toward better trade relations leaves more hope for resolution to other trade disputes.

Additional Information

Northwest FCS Business Management Center
www.northwestfcs.com/Resources/Industry-Insights

U.S. Apple Association
www.usapple.org

USDA Agricultural Marketing Service
www.ams.usda.gov

Washington State Tree Fruit Association
www.wstfa.org

Learn More

For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or bmc@northwestfcs.com.

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