

MARKET SNAPSHOT  
**CHERRIES**



Dec. 31, 2018

**Executive Summary**

**Drivers** for the cherry industry include midseason glut, tariffs and disease.

- Cherry growers continue to experience a large, midseason supply glut that reduces profits.
- Chinese tariffs on U.S. cherries hurt the 2018 season and will remain a headwind if not resolved.
- Disease pressure is challenging Northwest growers.

**12-Month Profitability Outlook**



Northwest FCS' 12-month profitability outlook predicts break-even to slightly profitable margins for Northwest growers, depending on harvest timing. Cherries that were shipped early and late, when supplies are lower, should capture positive returns. The continuing supply glut in midseason will pressure prices until growers migrate to earlier or later season varieties or regions.

**2018 Crop**

The 2018 Northwest cherry crop exceeded preliminary volume estimates due to favorable weather conditions earlier in the year. Light summer rains helped increase crop size and quality. The 2018 crop was the second largest on record at 23.9 million boxes, behind 2017's record harvest of 26.4 million boxes.

California's crop cleared the market before Northwest harvest, resulting in favorable shipping pace and prices. The average shipping rate was 357,000 boxes a day for the duration of June, 33 percent more than in 2017. Strong demand drove shipments and profitability up for most of June.

Part of the fast shipping rate was attributed to marketers moving fruit before the Chinese tariffs were implemented. Higher tariffs enacted by China on July 6 stopped exports to the country, hitting the market at the worst time. The resulting added inventory during peak supply plummeted prices.

**Market Timing and Returns**

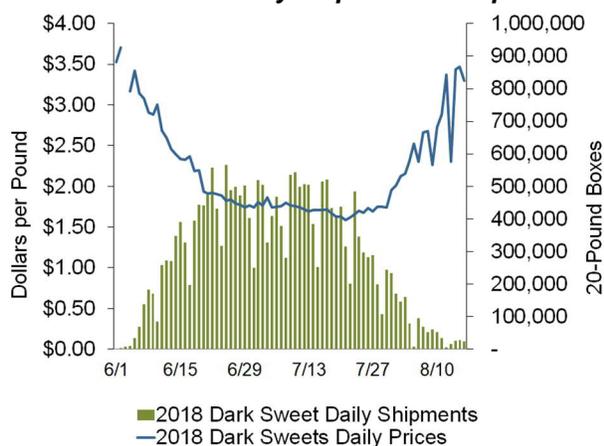
Harvest timing continues to drive profitability in the industry. During average growing conditions on the West Coast, California's cherry crop is harvested and sold prior to the Northwest cherry harvest. Any overlap with normal volumes between the two markets

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creates an oversupply, driving down pricing in the early season. Labor shortages also occur if the two regions' crops overlap as workers typically work the cherry crop from the south to the north.

It is difficult to capture high returns from midseason varieties, such as Bings, when margins are compressed from high supplies. The early market has typically been more profitable. Producers are likely to continue moving away from midseason, lower-yielding orchards and varieties in favor of higher-density, early maturing, firm-sweet cherries.

**2018 Northwest cherry shipments and prices**



Source: WSTFA

Some marketing desks have begun to temper variances in early and late pricing by implementing fixed forward pricing with retailers for a portion of packed volumes. By compressing earlier potential upside in pricing, they are mitigating the risk of later-season price drops. These marketing programs will provide consumers more consistent pricing throughout the cherry marketing season. However, this will be a headwind for early market cherry growers in the future.

**Disease Pressures**

A major issue facing cherry producers, particularly in Washington, is an outbreak of little cherry disease. Both the Western X phytoplasma and little cherry virus-2 (LCV-2)

were both considered significant across the state in 2018.

Western X was seen throughout south-central Washington, spanning Yakima, Benton and Franklin counties, while LCV-2 was more commonly found in the central part of the state.

The affected areas saw as much as a 91 percent increase in incidences compared to 2017. Treatment varies depending on how widespread the disease is, but typically removal of affected limbs, or entire trees, is necessary. The disease is expected to challenge the industry's production into the future.

**Trade and Exports**

Beginning in April, the Trump administration placed tariffs on a number of countries for steel and aluminum dumping. It also placed tariffs on Chinese goods in response to intellectual property disputes. This trade war disrupted cherry exports to China.

Cherries were targeted in early April with retaliatory tariffs by China of 15 percent in response to steel and aluminum tariffs. On July 6, China imposed another 25 percent tariff and the industry began to see significant drops in movement.

Trade talks between the U.S. and China have begun with hopes of finding resolution early in 2019. If no agreements are made, the cherry industry could face a full season of imposed tariffs in 2019.

**USDA Market Facilitation Program (MFP)**

The USDA has created a trade mitigation package in an attempt to ease damage from tariffs. On Sept. 24, sweet cherries were added to the program. Growers received 8 cents per pound earlier this year. In mid-December the remaining 8 cents was approved for payment. Payments are capped

at \$125,000 per entity. Growers can apply for MFP payments at their local Farm Service Agency.

### **Organics**

2018 organic production was the largest to date. Volumes exceeded 660,000 boxes, growing 26 percent from last year, and made up 3 percent of the total shipped Northwest crop.

### **Outlook**

Trade talks will be pivotal in shaping the state of the cherry industry. While there has been positive headway made toward resolution in key export markets of Canada and China recently, there have yet to be any firm agreements to relieve tariffs.

Early indications are positive for the 2019 Northwest cherry crop. Growers are reporting normal bud growth, with no adverse conditions so far this winter to affect the crop.

### **Additional Information**

Northwest FCS Business Management Center  
[www.northwestfcs.com/Resources/Industry-Insights](http://www.northwestfcs.com/Resources/Industry-Insights)

Washington State Tree Fruit Association  
[www.wstfa.org](http://www.wstfa.org)

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For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or [bmc@northwestfcs.com](mailto:bmc@northwestfcs.com).

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