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MARKET SNAPSHOT
# POTATOES

**Dec. 31, 2018**

## Executive Summary

**Drivers** for the industry include strong global demand for processed potatoes, and adverse weather.

- Production increased in the Northwest
- Yields were low in Europe and Canada.
- The outlook for fresh potato growers is positive due to insufficient process potato supplies.

**12-Month Profitability Outlook**


Northwest FCS' 12-month outlook is for slightly profitable contracted potatoes and profitable uncontracted potatoes. Fresh market pricing should continue to improve as producers finish moving volumes that may have limited storage ability. Processor shortages across the U.S. and Canada will provide tailwinds to potato producers.

## Northwest Situation

Grower returns are slightly above breakeven for fresh uncontracted potatoes, generally between $6 and $6.50 per cwt. Current returns are below the previous year due to a larger crop and heavy shipments of potatoes not suitable for the storage season. Returns are expected to improve after the winter holidays as shipments moderate and demand from frozen processors strengthens.

U.S. frozen potato processing remains constrained by limited potato supplies in the upper Midwest, Canada and Northeast. Demand from processors outside the Northwest will provide tailwinds to fresh market prices through the spring of 2019.

Notwithstanding crop shortfalls across much of the U.S. and Canada, frozen processing capacity remains constrained. Several new processing lines and plants will be completed in 2019, including a new fry line in Richland, WA, a new fry plant in Hermiston, OR, a new plant in Manitoba and a new plant in Burley, ID.

## North America Production

The Canadian crop is down 5 to 6 percent, or 285,000 tons, and has quality issues stemming from wet growing conditions and an early freeze that should result in above-average storage loss. As a result, Canada's short crop may get smaller. The Manitoba and Prince Edward Island regions were hardest hit; other areas experienced average crops.

U.S. fall production is estimated up 4.2 percent, totaling 17 million cwt or 850,000 tons. The Northwest finished with large crops with good quality. Other Midwest and Eastern regions had production issues and storage losses may be above average. Raw product supplies are low outside the Northwest; potatoes are starting to ship to plants in Canada (as far east as Prince Edward Island) and the Eastern U.S.

## European Production

The Europe Union experienced a poor production year due to drought. Official estimates register the crop down 16.5 percent, or nearly 11.5 million tons. This could be more than 20 percent down, especially if storage shrink (quality issues in the crop) is above average. New processing capacity in the Northwest may enable the U.S. to increase global market share as Europe and Canada experience reduced crop yields.

## Trade

Global potato supplies are low. However, strong domestic demand and a stronger dollar favor potato imports, not exports. USDA data confirms this trend. Year over year imports are up 5.4 percent, driven by increased domestic consumption of frozen fries and other frozen potato products. Dec. 1 U.S. potato stocks increased 2.8 percent despite a 4.2 percent production increase in 2018.

***Potato exports by volume***

| | 2016-17 marketing year (1,000 lbs) | 2017-18 marketing year (1,000 lbs) | Year-over-year change |
|---|---|---|---|
| **Chips** | 113,651 | 108,076 | -4.9% |
| **Dried, flour and meal** | 22,573 | 18,308 | -18.9% |
| **Flakes and granules** | 172,679 | 167,120 | -3.2% |
| **Fresh or chilled** | 1,094,591 | 986,011 | -9.9% |
| **Frozen, fries** | 2,020,984 | 1,985,287 | -1.8% |
| **Frozen, other** | 248,873 | 254,360 | 2.2% |
| **Prepared or preserved** | 80,911 | 87,635 | 8.3% |
| **Seed** | 110,494 | 37,565 | -66.0% |
| **Starch** | 24,035 | 17,070 | -29.0% |
| **Total overall** | 3,888,791 | 3,661,431 | -5.8% |

Source: Economic Research Service (USDA), Potato Imports/Exports. Dec. 14, 2018.

***Potato imports by volume***

| | 2016-17 marketing year ( 1,000 lbs) | 2017-18 marketing year (1,000 lbs) | Year-over-year change | |
|---|---|---|---|---|
| **Chips** | 39,341 | 45,286 | 15.1% | ↑ |
| **Dried, flour and meal** | 10,710 | 18,531 | 73.0% | ↑ |
| **Flakes and granules** | 79,195 | 85,534 | 8.0% | ↑ |
| **Fresh or chilled** | 938,711 | 926,416 | -1.3% | ↓ |
| **Frozen, fries** | 1,849,679 | 1,982,084 | 7.2% | ↑ |
| **Frozen, other** | 194,971 | 226,209 | 16.0% | ↑ |
| **Prepared or preserved** | 57,123 | 63,478 | 11.1% | ↑ |
| **Seed** | 165,714 | 153,286 | -7.5% | ↓ |
| **Starch** | 223,675 | 250,316 | 11.9% | ↑ |
| **Total overall** | 3,559,119 | 3,751,140 | 5.4% | ↑ |

Source: Economic Research Service (USDA), Potato Imports/Exports. Dec. 14, 2018.

## Cold Storage

In the Pacific region (Washington, Oregon, California), fry inventories are down 4.7 percent while U.S. total cold-storage inventories are down 5.9 percent. Fry inventories in the Mountain region (including Idaho and Montana) are down 10.8 percent.

***Frozen potatoes in cold storage***

| Commodity | Nov. 30, 2017 (1,000 lbs) | Nov 30, 2018 (1,000 lbs) | Year-over-year change | |
|---|---|---|---|---|
| **French fries** | | | | |
| **Mountain[1]** | 189,943 | 172,295 | -9.3% | ↓ |
| **Pacific[2]** | 492,105 | 464,957 | -5.5% | ↓ |
| **U.S. total** | 1,010,300 | 963,212 | -4.7% | ↓ |
| **Other** | | | | |
| **Mountain** | 76,004 | 62,470 | -17.8% | ↓ |
| **Pacific** | 69,728 | 54,206 | -22.3% | ↓ |
| **U.S. total** | 263,835 | 235,390 | -10.8% | ↓ |
| **Total frozen potatoes** | | | | |
| **Mountain** | 265,947 | 234,765 | -11.7% | ↓ |
| **Pacific** | 561,833 | 519,163 | -7.6% | ↓ |
| **U.S. total** | 1,274,135 | 1,198,602 | -5.9% | ↓ |

Source: USDA National Agricultural Statistics Service, Cold Storage. December 21, 2018.
[1]Mountain = Idaho, Montana, Wyoming, Nevada, Utah, Colorado, Arizona, New Mexico
[2]Pacific = Washington, Oregon, California

## Additional Information

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

North American Potato Market News
www.napmn.com

USDA Agricultural Marketing Service
www.ams.usda.gov

USDA National Potato and Onion Report
www.ams.usda.gov/mnreports/fvdidnop.pdf

## 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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