

MARKET SNAPSHOT
CHERRIES



June 30, 2020

Executive Summary

Drivers for the cherry industry include reduced supply, good demand and increased labor costs.

- Hit with several damaging weather events, the crop is much smaller than average.
- Early season sales appear strong and good export demand is possible.
- Precautions to limit the spread of COVID-19 are increasing labor costs.

12-Month Profitability Outlook



Northwest FCS' 12-month outlook expects slight profits for cherry growers this year. Decreased supplies should keep prices in ranges that will result in positive margins for growers. However, growers hit with measurable tonnage losses might not have enough fruit to capture much return.

Supply

California started picking ahead of schedule on April 25 and projects 6 million 18-pound boxes compared to the 10-year average of 7.1 million boxes. Crops in Washington and Oregon are also light due to cool weather at pollination and sporadic frosts this spring. The 2020 crop is projected between 18 million and 19 million 20-pound boxes. The Pacific Northwest crop is also below the 10-year average of 22.8 million boxes, the smallest crop since 2015 when 19.3 million boxes were harvested. Also contributing to the shrinking crop size is Little Cherry Disease, which continues to plague the Yakima Valley and cause increased orchard removal.

Due to a mild winter, harvest in Washington kicked off May 31, earlier than the average

June 7 start. After harvest started, wind, rain and scattered hail that swept through Washington in early June caused additional crop shrinkage from fruit damage. Oregon began picking approximately one week behind schedule. Heavy rain at the beginning of harvest caused some damage to early varieties but later varieties have been spared. Packouts are reportedly slightly lower than average but packed fruit is high quality.

Labor Supply

H-2A visa holders are instrumental in harvesting the cherry crop. While travel bans were put in place to stem the spread of COVID-19, returning guest workers were able to return to orchards. Harvest is expected to be completed relatively smoothly.

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Demand

Minimal overlap between California and Northwest crops bodes well for consumer demand. However, consumer grocery shopping behavior has altered as a result of stay at home orders.

Because cherries are seasonal, they rely on impulse sales. The FMI's U.S. Grocery Shopper Trends Study showed that due to COVID-19, 42% of consumers are spending less time in stores while grocery shopping compared to pre-pandemic metrics. As consumers move to online grocery orders, curbside pickup options and less frequent or shorter trips, cherry purchase frequency and household penetration may suffer. However, initial indicators show the opposite with early season cherry sales up 50% in the first week compared to the same period in 2019. The increase is potentially influenced by the early harvest but could also be an indication that consumers are looking for a sense of normal as they look for classic summer products amid the pandemic.

Sales During COVID-19

Top 5 produce items	Dollar growth 5/31 vs year ago (million)	Dollar growth week ending 5/31	Volume growth week ending 5/31
Cherries	\$24	57.3%	57.5%
Berries	\$22	16.6%	14.0%
Lettuce	\$21	14.1%	13.0%
Tomatoes	\$16	22.8%	17.8%
Potatoes	\$14	26.9%	14.9%

Source: IRI, market research company.

Exports

Despite supply chain and demand disruptions due to COVID-19, there is optimism for exports. Good demand for U.S. cherries is expected in China, Taiwan, South Korea and Vietnam as retailers work to make up for lost revenues earlier in the year. An agreement in early 2020 eased China's tariffs on some U.S

products, including cherries. Chinese importers can seek an exception allowing tariffs to drop from 60% to 25%. While demand exists, moving the fruit may be a major hurdle. Cherries are typically transported in belly tankers of passenger aircraft but due to limited flights, charters may be necessary to transport fruit. Nevertheless, early indicators show exports of California cherries are above last season's levels.

Pricing

Good pricing for California fruit and very little crop overlap between regions set the stage for strong pricing in the Northwest. If cherries can hold on to their traditional position as a top impulse buy, prices should remain strong throughout the Northwest season due to limited supply.

Season-to-Date Cherry Prices

Variety	Average Price
Chelans	\$59.00
Dark Sweets	\$57.25
Rainiers	\$66.33
Light Sweets	\$94.18

Source: Washington State Tree Fruit Association, June 7, 2020 Growers Bulletin. Average price weighted on row size based on boxes shipped.

Profitability

High prices in early regions of Washington state are positive, yet reduced yields in these areas due to weather challenges may mean growers don't have enough fruit for strong profitability.

Implementing policies and procedures to minimize employee risk from COVID-19 will come with costs to the grower and minimize profitability. Housing modifications including barriers, increased transportation costs to meet distancing standards, and the need to keep segregated beds open for potential cases are unplanned expenses for producers this year.

One bright spot is harvest timing has reduced labor needs in many areas and a labor shortage hasn't been felt as much this year compared to past years. In the packing warehouses, labor strikes and associated hazard pay established this spring will increase packing costs, further reducing grower's profitability.

Additional Information

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

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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