Northwest FARM CREDIT SERVICES

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MARKET SNAPSHOT

CHERRIES

March 31, 2022

Executive Summary

Drivers for the cherry industry include favorable consumer demand and removal of older tree blocks.

- Growers continue to remove acres due to old age and disease.
- Although too early for an official estimate, growers are hopeful of good yields and quality.
- Demand is expected to remain strong.

12-Month Profitability Outlook

While still early in the season, Northwest FCS' 12-month outlook foresees slightly profitable returns overall for the Northwest cherry industry. Removal of underperforming and disease affected acres should limit risk of oversupply. Pricing should be strong if quality improves over last year, and demand remains strong. Consumer inflation and rising input costs present industry headwinds.

Supply

Several unique challenges occurred in 2021, including a heat wave that reduced yields, forced much of the crop out of fresh and into the processed market (due to poor quality) and increased cost (labor and equipment needed for night harvesting). Imports picked up some of the slack, increasing 43% by value over the previous year with most additional supply coming from Chile. Over the last two decades, cherry production grew tenfold in Chile, threefold in Turkey and twofold in the U.S and all three countries have seen rapid growth in exports. Progress in sorting and cultivation for sweet cherries has led to larger fruit size and greater availability later into the season.

The outlook for the 2022 season is generally more positive as limited acres have been added and older blocks were removed to address the Little Cherry Virus and Western X Virus. In Washington, early season weather patterns may bring slightly below-average temperatures and above-average moisture (cherries can split from excess rain); however, it's too early to assess risk to the crop. California experienced suboptimal winter cooling conditions and a frost event in February that is expected to reduce supply. Labor availability will continue to be a limiting factor.

Demand

Consumers increasingly view cherries as a healthy fruit due to its nutrient density and low glycemic index. As such, strong domestic demand in the fresh market should carry over into the 2022 season. Unfortunately, inflation is rising (7.9% year over year in February 2022) and this could pose a headwind given cherries are generally perceived as a discretionary agriculture product.

Export trends are mixed. While Canada and Vietnam have seen solid increases in cherry import values from the U.S. between 2017 and 2021, China is down 57%, South Korea 27%, Taiwan 22% and Japan 3% (some of this can be attributed to changes in crop yield and quality). A solid 2022 crop may help buck the trend; however, increasing geopolitical tensions and competition from Chile and Turkey may limit the upside to Asian markets.

Pricing and Profitability

According to the Bureau of Labor Statistics, agriculture inputs (fertilizer and pesticides) and long-haul trucking are up 47% and 28% year over year (60% and 38% from pre-pandemic levels). Fertilizer costs in particular are at risk for continued price gains because Russia, a major global supplier, recently banned exports. Further, rising H2A visa rates, minimum wages and labor shortages will increase labor costs. An improved crop in 2022 should lead to a profitable season for growers, especially if there isn't significant overlap in harvest timing with the Californian crop. While costs are rising and there's uncertainty around export markets, strong domestic demand and a greater allocation to the fresh market should more than compensate.

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Additional Information

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

USDA Agricultural Marketing Service
www.ams.usda.gov

Washington State Tree Fruit Association
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.

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