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Fruit and Tree Nuts Outlook

Agnes Perez and Susan Pollack

2005 U.S. Production Reduced for Apples and Pears, But More Grapes and Cranberries Expected

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The grower price index for fruit and tree nuts in August was the highest for this month since the 1990s. Boosting the index were higher prices for fresh grapefruit, pears, grapes, and peaches. Similarly, the U.S. Consumer Price Index (CPI) for fresh fruit in August was the highest for any August since the 1990s. Prices were higher at the retail level for most citrus fruit, Thompson seedless grapes, and peaches.

The U.S. Department of Agriculture (USDA) forecast the 2005 U.S. apple crop at 9.84 billion pounds, 6 percent smaller than in 2004. Projected production declines in the eastern and western United States will more than offset the expected increases from the central States. Fresh apple grower prices remained below a year ago early into 2005/06, but prices are likely to improve as the effects of the overall smaller crop come into play with demand and reduced supplies of pears provide less market competition.

USDA forecast the 2005 U.S. pear crop at 1.71 billion pounds, down 4 percent from a year ago. Bartlett production in the three Pacific Coast States (California, Oregon, and Washington) is forecast to decline 11 percent while production of other pear varieties in the region is forecast to increase 4 percent. Fresh-market supplies of both pears and competing new-crop apples are likely to be down from last year this fall, keeping grower prices for fresh pears strong.

The 2005 U.S. grape crop is forecast at 13.6 billion pounds, up 9 percent from a year ago. Crop size in California is expected to be 8 percent larger than a year ago, and combined production from other producing States is forecast up 23 percent. Harvest in California began about 2 weeks behind last year's, forcing shipments to fall behind last year and resulting in higher grower prices for fresh grapes.

The 2005 U.S. cranberry crop is forecast to reach 649.0 million pounds, up 5 percent from a year ago. Estimated carryover inventories of about 3.15 million barrels (or 315 million pounds) will combine with a bigger crop, likely putting some downward pressure on 2005/06 cranberry grower prices.

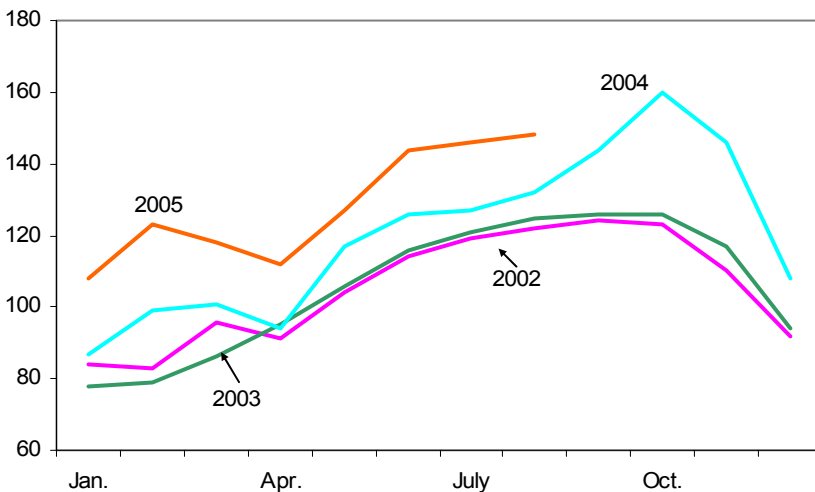
Price Outlook

Grower Fruit Prices Higher in August

The index of prices received by fruit and tree nut growers in August was the highest for this month since the 1990s. The August index, at 148 (1990-92=100), was 12 percent higher than the August 2004 index (fig. 1). Growers continued to receive record-high prices for the month for fresh grapefruit with the August average price being up 64 percent from August 2004 (table 1). Prices were also higher this August for pears, grapes, and peaches. These higher prices more than offset the lower prices growers received for fresh oranges, lemons, apples, and strawberries.

Reduced domestic production of pears in 2005 and a later-than-normal start to the 2005/06 marketing season have brought August fresh pear shipments down about 28 percent from the same time last year, driving up grower prices for fresh pears. Pear prices have held strong relative to last year since the start of the 2005/06 season in July, and are likely to remain higher in the months ahead as supplies continue to lag last year. With the 2005/06 apple season also underway, reduced production and the lack of competition from pears will likely help improve fresh apple prices in the coming months. The hot and dry summer delayed grape harvesting in California relative to last year. As a result, fresh grape shipments in 2005/06 have fallen behind a year ago thus far despite the bigger crop, boosting prices. Grape prices rose above a year ago since June when Chilean shipments ended. Prices for strawberries and peaches are likely to strengthen as supplies for the season wind down.

Figure 1
Index of prices received by growers for fruit and tree nuts
1990-92=100



Source: National Agricultural Statistics Service, USDA.

Table 1--Monthly fruit prices received by growers, United States

Commodity	2004		2005		2004-05 Change	
	July	August	July	August	July	August
	--Dollars per box--				Percent	
Citrus fruit: 1/						
Grapefruit, all	8.69	7.91	16.49	13.50	89.8	70.7
Grapefruit, fresh	10.60	10.80	19.99	17.69	88.6	63.8
Lemons, all	14.61	14.70	15.61	11.75	6.8	-20.1
Lemons, fresh	21.46	21.35	21.77	17.38	1.4	-18.6
Oranges, all	8.85	8.49	7.11	5.97	-19.7	-29.7
Oranges, fresh	10.15	11.15	8.25	7.35	-18.7	-34.1
	--Dollars per pound--					
Noncitrus fruit:						
Apples, fresh 2/	0.30	0.27	0.15	0.20	-49.0	-24.6
Grapes, fresh 2/	0.29	0.28	0.36	0.34	26.3	19.6
Peaches, fresh 2/	0.20	0.21	0.28	0.32	35.8	50.9
Pears, fresh 2/	0.16	0.19	0.28	0.25	69.2	28.3
Strawberries, fresh	0.60	0.77	0.66	0.76	10.7	-1.4

1/ Equivalent on-tree price.

2/ Equivalent packinghouse-door returns for CA, NY (apples only), OR (pears only), and WA (apples, peaches, and pears). Prices as sold for other States.

Source: National Agricultural Statistics Service, USDA.

Larger supplies of California Valencia oranges kept fresh orange prices lower than a year ago. The 2005/06 California navel orange crop is forecast to be 2 percent smaller than last season, at 1.58 million tons, likely boosting orange prices in the coming fall season and into next spring. However, reported smaller fruit size and some sunburn damage brought by this summer's heat wave may offset some of the upward push on orange prices.

Fresh Fruit Retail Prices Higher in August

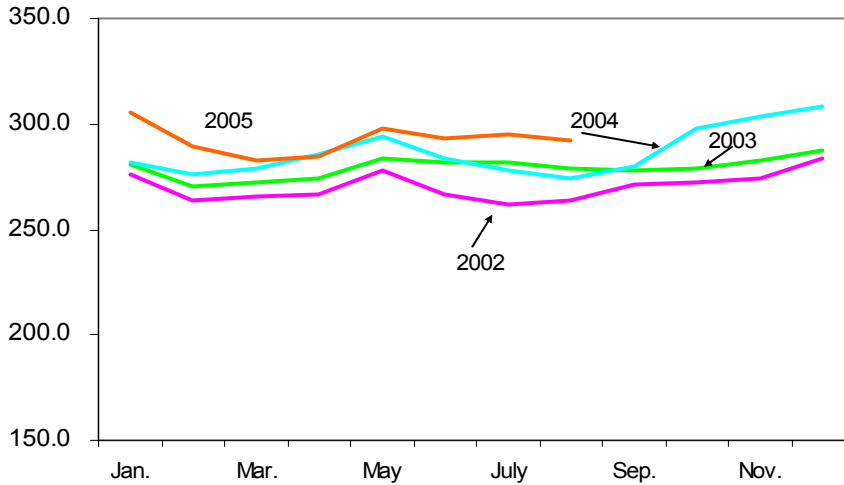
The U.S. Consumer Price Index (CPI) for fresh fruit in August, at 292.5 (1982-84=100) was 7 percent above the August 2004 CPI and the highest for any August CPI since the 1990s (fig. 2). The strong August CPI reflected higher retail prices for most citrus fruit, Thompson seedless grapes, and peaches (table 2). The higher prices consumers paid for these commodities more than offset the effects on the CPI of lower prices for Red Delicious apples, bananas, and strawberries. The August CPI, however, had declined slightly from the July CPI, reflecting the weakening of prices for bananas, strawberries, and Thompson seedless grapes.

Seasonal increases in grape supplies led to the lower August average price for Thompson seedless grapes than the previous month. The August CPI for apples, at 258.5 (1982-84=100), was 2 percent below last year, indicating that retail prices for other variety apples, besides Red Delicious apples, were also averaging lower than a year ago for the month. Supplies are increasing seasonally but the forecast smaller crop in 2005 will likely help boost apple retail prices in the coming months.

The U.S. Department of Agriculture's (USDA) Agricultural Marketing Service data on banana import shipments indicate supplies were down slightly in August from a year ago. Nevertheless, banana retail prices were not only averaging below a year ago in August but were also slightly down from the previous month. Banana retail prices have traditionally weakened in August throughout most of the nineties and in

Figure 2

Consumer Price Index for fresh fruit
1982-84=100



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Table 2--U.S. monthly retail prices, selected fruit, 2004-2005

Commodity	Unit	2004		2005		2004-05 Change	
		July	August	July	August	July	August
		--- Dollars ---		--- Dollars ---		--- Percent ---	
Fresh:							
Valencia oranges	Lb	--	0.672	0.912	0.892	--	32.7
Navel oranges	Lb	--	--	--	--	--	--
Grapefruit	Lb	0.870	0.912	1.203	1.202	38.3	31.8
Lemons	Lb	1.247	1.418	1.481	1.537	18.8	8.4
Red Delicious apples	Lb	1.099	1.104	0.965	0.977	-12.2	-11.5
Bananas	Lb	0.510	0.507	0.494	0.487	-3.1	-3.9
Peaches	Lb	1.348	1.281	1.364	1.454	1.2	13.5
Anjou pears	Lb	--	--	1.116	--	--	--
Straw berries 1/	12-oz pint	1.629	1.817	1.808	1.807	11.0	-0.6
Thompson seedless grapes	Lb	1.682	1.501	1.929	1.701	14.7	13.3
Processed:							
Orange juice, concentrate 2/	16-fl. oz	1.878	1.873	1.834	1.852	-2.3	-1.1
Wine	liter	6.793	7.490	7.178	8.543	5.7	14.1

-- Insufficient marketing to establish price.

1/ Dry pint.

2/ Data converted from 12 fluid ounce containers.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

recent years. The slip in banana prices may be attributed to seasonally low demand for bananas during this period due to the competition from various summer fruit available in the market. Damage brought by Hurricane Katrina to receiving ports in the U.S. Gulf Coast in late August caused short-term disruptions in supplies as banana distributors rerouted shipments to alternative ports, putting upward pressure on f.o.b. banana prices. Data are not yet available to determine whether these higher f.o.b. prices were passed on to consumers.

Fruit and Tree Nuts Outlook

U.S. Apple Production To Decline in 2005

The U.S. Department of Agriculture's (USDA) initial forecast for the 2005 U.S. apple crop is set at 9.84 billion pounds, 6 percent smaller than in 2004 but bigger than the previous 3 years (table 3). Projected production declines in the eastern and western United States will more than offset expected increases from the central States.

Production in the Western States is expected to decline to 6.28 billion pounds in 2005, down 8 percent from a year ago. Most States are expecting smaller production, except in California, where production is forecast up 5 percent, and Colorado, where production is expected to be unchanged. This year's apple crop in Washington, the dominant producer, is forecast 7 percent smaller, at 5.60 billion pounds. If realized, this will still be a fairly large crop, posting an 18-percent increase from the 1999-2003 crop average. Many of the producers, particularly in the Yakima Valley, experienced production losses due to several nights of below freezing temperatures in April and some hail damage even through May. Water shortages in some of the growing districts, stemming from a relatively mild winter, further curtailed production in the State. In Oregon, production is forecast down 20 percent due to poor pollination and a variable fruit set.

Production in the Eastern States is forecast at 2.41 billion pounds, down 4 percent from a year ago. The largest producer in the region, New York, is expecting a 10-percent decline in production, to 1.15 billion pounds. Nonetheless, New York's 2005 production will be ample, averaging 15-percent higher than its 1999-2003 annual output. Favorable weather during the early stages of crop development has helped boost yields in the State, but a late-spring frost caused crop damage in several areas. Fruit is expected to size well due to the high temperatures in June that led to an above-normal fruit drop, leaving the remaining apples more room to grow. Also, plenty of sunshine has boosted the sugar content in the fruit, making it sweeter and full of flavor. Many other States in the region expect larger declines in production. However, Pennsylvania, Virginia, and North Carolina, the next three largest producers in the region, are expecting moderate production gains.

Production in the Central States is forecast at 1.15 billion pounds, up 3 percent from a year ago. Forecast production in Michigan, the dominant producer in the region, is set at 820 million pounds, up 8 percent despite some hail and wind damage. Besides Michigan, Wisconsin is the only other State in the region that expects an increase in production. Production in Wisconsin is forecast up 4 percent from 2004, but down 13 from 2003. As in some of the other smaller-producing States in the region, pollination problems and difficulties in fruit sizing caused by the hot and dry summer are limiting their production potential.

This year's smaller crop, especially in Washington, points to reduced fresh-market production during the 2005/06 season. About three-quarters of Washington's crop goes to the fresh-market each year, and over the past three marketing seasons it has supplied nearly 70 percent of all U.S. fresh-use apples. Based on a 3-year average proportion of U.S. apple production sold for fresh use, the 2005/06 U.S. fresh-market crop is projected to be down about 6 percent from the 6.6 billion pounds produced in 2004/05. While declining from a record-high crop year, fresh-market

Table 3--Apples: Total production and season-average price received by growers, 2002-2004, and indicated 2005 production 1/

States	Production				Price		
	2002	2003	2004	2005	2002	2003	2004
	--- Million pounds ---				--- Cents per pound ---		
Eastern States:							
Connecticut	12	22	20	18	41.2	37.1	39.5
Georgia	10	13	12	13	18.0	10.6	22.8
Maine	49	44	47	35	36.1	29.8	32.0
Maryland	32	40	34	30	14.3	15.6	13.6
Massachusetts	33	43	42	35	38.6	34.6	38.1
New Hampshire	27	26	31	26	28.5	27.9	30.1
New Jersey	35	40	40	45	17.6	14.6	15.1
New York	680	1,070	1,280	1,150	17.7	14.5	15.1
North Carolina	160	135	155	170	14.3	13.2	13.2
Pennsylvania	370	442	405	430	10.1	10.3	10.1
Rhode Island	3	2	2	2	40.4	39.3	48.0
South Carolina	9	6	6	5	13.2	21.9	10.8
Vermont	31	42	46	41	33.7	26.6	22.7
Virginia	250	270	300	320	10.4	9.6	14.9
West Virginia	95	87	81	88	8.5	9.7	9.1
Total	1,795	2,281	2,500	2,408			
Central States:							
Arkansas	3	2	2	2/	27.3	23.5	35.5
Illinois	43	53	57	50	35.9	29.1	23.7
Indiana	40	51	60	55	26.5	26.3	21.9
Iowa	9	6	5	1	34.3	42.4	46.6
Kansas	3	3	3	2/	35.8	27.3	27.6
Kentucky	6	8	8	8	31.8	32.7	36.4
Michigan	520	890	760	820	12.4	11.7	11.9
Minnesota	25	27	25	22	50.9	43.6	41.0
Missouri	38	40	48	42	17.8	20.8	16.4
Ohio	70	90	90	88	26.8	27.4	27.6
Tennessee	7	12	11	9	26.5	25.2	26.3
Wisconsin	58	68	57	59	34.9	33.4	33.6
Total	821	1,250	1,126	1,154			
Western States:							
Arizona	26	7	37	14	17.3	7.8	15.3
California	470	450	390	410	20.4	17.8	15.0
Colorado	21	22	28	28	18.4	18.5	15.4
Idaho	80	70	90	65	19.4	20.2	11.8
New Mexico	2	2	5	2/	32.6	30.7	41.8
Oregon	202	133	163	130	15.2	17.5	16.3
Utah	7	28	32	28	21.3	23.0	26.8
Washington	5,100	4,550	6,050	5,600	20.1	25.9	15.9
Total	5,908	5,262	6,795	6,275			
United States	8,524	8,793	10,420	9,837	15.8	18.9	20.9

1/ Commercial production from orchards of at least 100 bearing-age trees.

2/ Estimates discontinued in 2005.

Source: National Agricultural Statistics Service, USDA.

production will still be greater than the average annual production of 5.8 billion pounds during the past five seasons, allowing the industry to provide sufficient supplies to meet demand.

Movement of 2004 apple supplies continued at a strong pace late in the 2004/05 season, with only a small proportion of 2004 apple supplies remaining in cold storage. Based on USDA figures, 93 percent of all fresh apples in cold storage on November 1, 2004, were gone by August 1, 2005. However, the record-large fresh-market production in 2004 has resulted in bigger than last year's carryover inventories. On August 1, 2005, remaining supplies of 2004/05 fresh apples held in cold storage were up 63 percent from the same time last year when cold storage supplies were down 26 percent from the previous year. Although fresh apple grower prices strengthened at the onset of the 2005/06 season in August, this larger carryover inventory, in combination with greater shipments of new-crop apples in August, have held early 2005/06 fresh apple prices down from a year ago. August prices averaged 20.2 cents per pound, up from 15.3 cents in July, but down from 26.8 cents in August 2004. With continued strong movement of fresh apples to markets, carryover inventories will soon be cleaned up, and prices are likely to improve over last year as the effects of the overall smaller crop come into play with demand and reduced supplies of pears provide less competition.

Despite increased production in Michigan, Pennsylvania, California, and Virginia, processing apple production during 2005/06 will likely be down from the previous season due to the smaller crops in Washington and New York. Washington alone produces 30 to 40 percent of U.S. processing apples and New York about 15 percent. With processing apple supplies projected to be down this season by about 6 percent, grower prices are likely to improve in 2005/06. In Michigan, where production is expected to be higher this season, the Michigan Processing Apple Growers Marketing Committee has negotiated with several of the State's apple processors a minimum price schedule for 2005 processing apples. The negotiated minimum prices, depending on varieties, all appear to be unchanged from last year's agreed minimum prices. A minimum price for straight loads of juice apples was set at \$4.25 per hundredweight (cwt; 1 cwt=100 pounds).

During the 2004/05 season, greater processing supplies drove processing apple grower prices down significantly from the two previous seasons, averaging \$107.00 per ton. Prices fell in all processing categories (canned, juice and cider, frozen, dried, and other), with the largest declines reported for juice apple prices. Total processed use for juice and cider last season increased 35 percent, to 1.93 billion pounds, driving down grower prices for juice and cider apples to \$73.00 per ton, the lowest average price over the past five seasons. USDA's National Agricultural Statistics Service (NASS) began reporting fresh slices as a separate processed apple product category for the 2004 crop. This was prompted primarily by the recent surge in demand for fresh sliced apples from the foodservice sector, particularly from McDonalds with its addition early last year of apple dippers among its Happy Meal choices and its introduction of its fruit and walnut salad. NASS reported that an estimated 47 million pounds of apples produced during the 2004/05 season were processed as fresh sliced, and this represented about 1 percent of all of last year's processing supplies. Growers received \$184.00 per ton for the apples that were fresh sliced, averaging higher than prices received for any of the other processed product categories.

The U.S. apple industry faced a strong export season in 2004/05. Exports through July totaled 1.3 billion pounds, 35 percent higher than a year ago. Export growth reflected the larger shipments made to top markets: Mexico, Canada, and Hong Kong. Also, exports to other smaller markets posted significantly larger increases, particularly to markets such as the United Arab Emirates, India, Saudi Arabia, China, Russia, the Dominican Republic, Kuwait, and Egypt. Exports to Taiwan, a major market, only posted a 9-percent decline despite a 4-month-long ban on imported U.S. fresh apples after three separate cases of codling moth larvae were detected. As it stands, Taiwan still has maintained its rank as the third largest export market for U.S. apples in 2004/05.

International demand for U.S. fresh apples will likely remain strong in 2005/06, but export potential possibly will be limited by this year's smaller Washington crop. Global economic growth and the weak U.S. dollar will both work to benefit demand for U.S. apples in export markets. Projected lower production in China this year will open more opportunities for U.S. apples in several Asian markets that had been large growth markets for Chinese fresh apples in recent years. Also, Japan has finally eliminated all scientifically-unjustifiable restrictions related to fire blight disease on U.S. apples. This disease affects apple trees but is not found on mature, harvested fruit. U.S. apples have effectively been barred from the Japanese market for over twenty years mostly due to these stringent fire blight restrictions that were very costly to U.S. growers. Effective August 25, 2005, the new Japanese import program for apples would require that export fruit be sampled to ensure fruit is mature and certify that shipments are free of fire blight disease.

With the recent passing of the United States-Central America and Dominican Republic Free Trade Agreement (CAFTA-DR), U.S. apple exporters will gain greater access to a large number of consumers in potential growth markets in that region. Elimination of apple import duties in Central America under CAFTA-DR will allow U.S. apple exporters to gain duty free, quota free access to six participating countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic), increasing their competitiveness against Central America and third country suppliers. Except for El Salvador, these countries were growth markets for the U.S. apple industry in 2004/05. Combined shipments to these six markets generated \$13.8 million in export sales for the U.S. apple industry in 2004/05, accounting for 3 percent of the total value of U.S. fresh apple exports.

Expected smaller apple crops in key apple juice producing countries, including Poland, Hungary, Germany, China, and the United States, will result in reduced world supplies of apple juice and consequently higher world apple juice prices during 2005/06. While reduced competition may further opportunities for export growth, U.S. apple juice exporters may not be able to take advantage of this situation, as expected lighter processing supplies domestically will also likely curtail its exports in 2005/06. The most significant foreign markets for U.S. apple juice are Canada and Japan, taking more than half of U.S. apple juice shipments. During 2004/05, U.S. apple juice exports were up 1 percent from the previous season but shipments to Canada were down slightly.

U.S. Pear Crop Smaller in 2005

USDA forecast the 2005 U.S. pear crop at 1.71 billion pounds, down 4 percent from a year ago and the smallest crop since 1996 (table 4). Bartlett production in the three Pacific Coast States (California, Oregon, and Washington) is forecast to decline 11 percent, to 816 million pounds. Production of other pear varieties in the region, used mostly for fresh use, is forecast to increase 4 percent, reaching 844 million pounds. Output increases for other pears are in Oregon and Washington.

Bartlett pear production is expected to down 19 percent from a year ago in California. A very wet spring in California contributed to lower-than-average yields in pear orchards, and additional rains and hail during the growing season damaged some fruit, further reducing the State's 2005 crop potential. Pollination problems due to cold and rainy weather during bloom have also lowered yields in Oregon where Bartlett production is expected to be down 8 percent. The Washington Bartlett crop will be 1 percent smaller due to some scattered damage from freezing temperatures and hail. Poor weather during pollination in some of the growing areas in the State led to a light set. Also, the hot and dry summer raised concerns among the growers about water availability.

Table 4--Pears: Total production and season-average price received by growers, 2002-2004 and indicated 2005 production

State	Production 1/				Price		
	2002	2003	2004	2005	2002	2003	2004
	--- Million pounds ---				--- Cents per pound ---		
Pacific Coast:							
California:							
Bartlett	464	434	446	360	12.1	10.8	12.6
Other	103	110	96	90	20.3	15.0	25.2
Total	567	544	542	450	13.6	11.7	14.9
Oregon:							
Bartlett	116	108	126	116	17.2	16.7	17.3
Other	282	312	298	304	15.4	16.2	18.7
Total	398	420	424	420	15.9	16.4	18.3
Washington:							
Bartlett	316	370	342	340	15.7	16.1	14.8
Other	462	474	416	450	14.5	14.8	19.8
Total	778	844	758	790	15.0	15.3	17.6
Three States:							
Bartlett	896	912	914	816	14.0	13.6	14.1
Other	847	896	810	844	15.5	15.3	20.1
Total	1,743	1,808	1,724	1,660			
Colorado	5	6	5	6	28.8	30.0	28.1
Connecticut	1	3	2	2	42.9	50.0	40.0
Michigan	3	10	7	5	15.9	13.0	15.6
New York	20	31	33	26	18.7	18.7	19.3
Pennsylvania	8	10	9	6	24.0	34.9	28.2
Utah	1	1	1	1	32.2	39.2	19.7
Total	37	60	57	46			
United States							
Bartlett	896	912	914	816	14.0	13.6	14.1
Other	884	956	867	890	15.5	15.3	20.1
Total	1,780	1,868	1,781	1,706	14.9	14.7	17.0

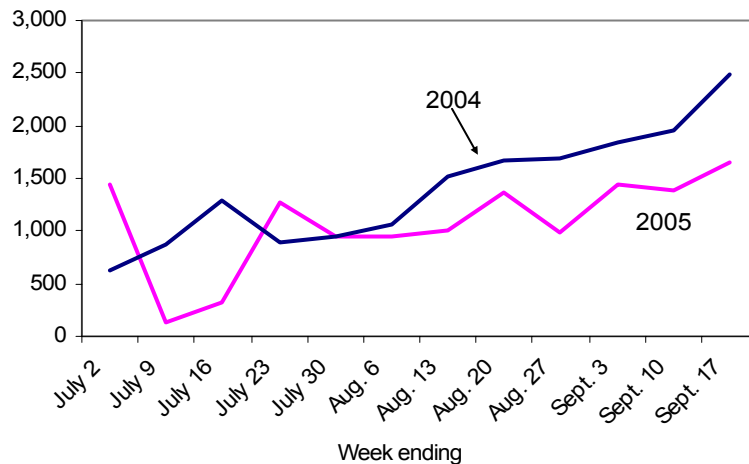
1/ Includes unharvested production and production not sold.

Source: National Agricultural Statistics Service, USDA.

Figure 3

Weekly shipments of domestic fresh pears

Units of 10,000 lb



Source: Agricultural Marketing Service, USDA.

Most other States surveyed by USDA are projected to produce fewer pears this year. These States are minor producers, with combined production averaging only 3 percent of the U.S. crop. Among the six other States included, Colorado and Connecticut are the only ones expecting production increases. In Michigan, Pennsylvania, and New York, a combination of weather problems, including rains and freezing temperatures during pollination, heavy rainfall, and hailstorms during the growing season, are expected to result in significant production declines. In Pennsylvania, there were also some reported problems arising from pest infestation, specifically with Japanese beetles.

Last year's small U.S. pear crop yielded lower outputs for both the fresh and processing markets, and consequently boosted grower prices in both markets. Movement of fresh pears to markets was strong early this summer as indicated by a more than 50 percent drop in July cold storage supplies from the previous month. Because of the smaller crop, shipments in July and August were down from the same time last year (fig. 3), driving early 2005/06 pear prices higher. Grower prices for fresh pears were up sharply in July, averaging \$550 per ton (or 27.5 cents per pound) from \$325 per ton in July 2004 and higher than any July average price reported over the last 20 years. August prices have weakened from early-season prices as the harvest progressed, but continued tighter shipments compared with last year held prices above a year ago, averaging \$490 per ton. Supplies will likely continue to increase seasonally this fall as shipments of pears from Washington and Oregon peak. Both States supply large volumes to the fresh market. However, since overall fresh-market supplies of both pears and competing new-crop apples are forecast down from last year this fall, prices will likely remain strong.

The prospects for export growth during 2005/06 will likely be limited by this year's reduced production and higher domestic prices. U.S. exports of fresh pears to its top foreign markets, Mexico and Canada, continued lower early into 2005/06, driving July exports down 30 percent in volume from the same time last year.

Meanwhile, July imports of fresh pears rose 15 percent from the same time last year, mainly due to a big jump in shipments from Chile.

More Grapes To Be Harvested in 2005

The U.S. grape crop is forecast to increase to 13.6 billion pounds in 2005, up 9 percent from a year ago (table 5). If realized, this would be the fourth biggest crop harvested in over 20 years. Following two consecutive years of negative growth, crop size in California is expected to total 12.1 billion pounds, increasing 8 percent from last year. Prospects for other producing States are also on the up side, with 2005 combined production forecast at 1.52 billion pounds, 23 percent higher than a year ago.

California's production will make up 89 percent of the expected 2005 U.S. grape crop. Production in the State is expected higher for all grape types, with raisin-type grapes posting the largest gain, projected at 13 percent over last year. Gains in wine- and table-type grape production are expected to be more moderate, up 5 percent and 3 percent, respectively. Bunch counts for raisin and wine grapes are reported up from last year. Warm temperatures promoted vine growth of wine grapes, with bud break 1 to 2 weeks earlier than normal. Although sizing of Thompson seedless grapes are reported to be typical so far into the harvest, the quality of the raisin crop in general will likely be down due to mildew problems resulting from the cool and wet weather this spring. Meanwhile, the State's table-grape crop is yielding good size and quality.

Table 5--Grapes: Total production and season-average price received by growers in principal States, 2002-2004 and indicated 2005 production

State	Production				Price		
	2002	2003	2004	2005	2002	2003	2004
	-- Million pounds --				-- Cents per pound --		
Arizona	17	16	8	2	47.4	51.5	16.7
Arkansas	10	5	6	5	23.1	24.3	25.1
Georgia	6	6	7	7	53.0	48.9	58.0
Michigan	85	189	125	174	17.4	15.4	16.2
Missouri	7	6	7	6	30.7	30.5	36.0
New York	312	396	284	320	15.2	11.8	10.6
North Carolina	5	6	7	7	64.0	53.5	48.1
Ohio	12	16	10	15	19.9	19.2	23.0
Oregon	44	48	48	46	73.5	75.5	83.0
Pennsylvania	106	170	174	160	14.7	12.1	12.6
Texas	9	12	18	20	45.5	45.0	46.0
Virginia	10	7	7	9	67.5	65.0	65.0
Washington							
Wine	230	224	214	250	43.9	46.0	46.3
Juice	434	464	320	500	7.8	10.1	8.9
All	664	688	534	750	20.3	21.8	23.9
Total 1/	1,286	1,565	1,233	1,522			
California:							
Wine	6,298	5,818	5,630	5,900	26.8	26.5	28.5
Table	1,486	1,464	1,540	1,580	30.8	30.1	34.8
Raisin 2/	5,608	4,440	4,060	4,600	7.6	8.5	15.2
All	13,392	11,722	11,230	12,080	19.2	20.1	24.6
United States	14,678	13,287	12,463	13,602	19.4	20.2	24.2

1/ Some figures may not add due to rounding. 2/ Fresh weight of raisin-type grapes.

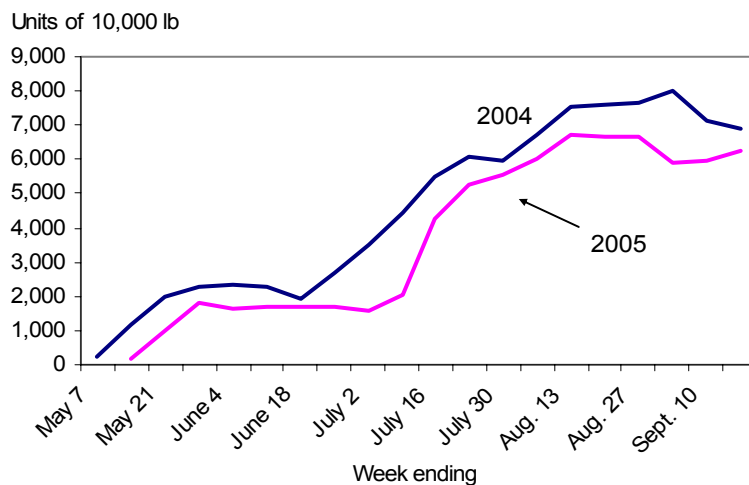
Source: National Agricultural Statistics Service, USDA.

Washington, the Nation's second largest producer of grapes, is expected to harvest a record-large crop in 2005. Forecast production is set at 750 million pounds, up 40 percent from a year ago. Production of juice variety grapes is expected to increase 56 percent and wine variety grapes up 17 percent. Production in New York is expected to increase 13 percent and in Michigan up 39 percent. The Michigan crop is reported to be of good quality due to the low incidence of pest and diseases while New York grapes will range in quality. Crop size in Pennsylvania will be down 8 percent, but above average.

With the 2005/06 U.S. grape season fully underway, grower prices for fresh grapes have been declining seasonally through August as a result of increased supplies. Growers were paid an average of \$1,270 per ton (or 63.5 cents per pound) in May when the season started and by August, prices have already dropped to \$670 per ton (or 33.5 cents per pound). Although production is expected to be bigger this year, the harvest in California began about 2 weeks behind last year's early harvest, forcing shipments to fall behind last year and driving fresh grape prices 20 percent to 40 percent higher than a year ago since June (fig. 4). Shipments should taper off later than last year, likely bringing end-of-season supplies above last year. As of early September, f.o.b. shipping-point prices for various grape varieties were quoted higher than a year ago.

The delayed harvest in California and the higher grape prices have contributed to lower exports of U.S. fresh grapes early into the 2005/06 season. May-July exports were down 22 percent from the same time a year ago, declining significantly to some of its major foreign markets, including Canada, Hong Kong, and Mexico. At the same time, increased shipments from Mexico brought U.S. fresh grape imports up 50 percent.

Figure 4
Weekly shipments of California fresh grapes



Source: Agricultural Marketing Service, USDA.

With the expected increased production in major producing States, total grapes crushed for wine and juice will likely increase during 2005/06, putting downward pressure on processing grape prices. Domestic winery demand for grapes was strong during 2004/05 as indicated by the larger volume of grapes that moved to wineries last season despite overall tighter processing supplies and the corresponding higher prices that growers received for wine-use grapes. Growers received an average of \$504 per ton of grapes used in wine production during 2004/05, up from \$489 per ton the previous season. More favorable prices for wine-use grapes resulted in some diversion of grapes intended for grape juice production to the wine production sector. Additionally, record-high imports of price-competitive grape juice, mostly from Argentina, weakened the demand for U.S. grapes from domestic grape juice processors, driving down domestic grower prices for juice grapes during 2004/05. Despite a 17-percent decline in the quantity of 2004 grapes diverted to juice processors, grower prices for juice grapes declined 9 percent, to an average of \$199 per ton during 2004/05.

Acreage for raisin-type grapes, mainly Thompson seedless, declined in 2004 in response to low prices during the four previous years. Domestic raisin production (all from California) during 2004/05 declined 24 percent from the previous season, to 266,100 tons, dried basis, and the smallest production since 1981. A bigger harvest of raisin-type grapes is anticipated in California this year. However, there are mildew problems resulting from the cool and wet spring and sunburn damage from the very hot summer which may reduce the quality of this season's raisin crop. Faced with these quality issues, more grapes may be needed to make raisins this year. Preliminary indications are that raisin grower prices will remain strong as in last year. Already the Raisin Bargaining Association, a cooperative of grape growers who negotiates prices for raisins, has reached a contract with one of California's raisin packers on a minimum price for 2005/06 raisin grapes, at \$1,210 per ton. This minimum price is the same as the minimum price agreed upon last season from among the packers, but much improved from the level set in the four previous years. Because this contract is based on a sliding scale, the price could improve if the raisin harvest turns out to be smaller than expected. The final 2004/05 average grower price for raisins was \$1,230 per ton. Between 2000/01 to 2003/04, raisin grower prices ranged between \$500 and \$800 per ton.

In response to higher raisin prices in the domestic market, there has been a higher demand in the United States for imported raisins. Imports from August 2004 through June 2005 totaled 38.1 million pounds, up 87 percent from the previous year and larger than any August-June volume imported since 1998/99 when domestic raisin prices were at a record-high. The top three suppliers to the United States were Chile, Mexico, and Argentina, with shipments up sharply from the previous season. Foreign suppliers will continue to look favorably at the U.S. market for their raisin exports as domestic raisin prices remain strong into 2005/06.

2005 Cranberry Production At A Record High

The 2005 U.S. cranberry crop is forecast to reach 649.0 million pounds, up 5 percent from a year ago (table 6). If realized, this year's crop will be the largest on record, with most producing States expecting production increases, except Massachusetts. Next to Wisconsin, Massachusetts is the Nation's second largest

cranberry producing State, supplying about a quarter of total production. A cold, wet spring delayed bloom and slowed development of the 2005 crop in Massachusetts which is forecast to yield a total of 170.0 million pounds, down 6 percent from a year ago. The crop succumbed to a lot of winterkill, and both bloom and fruit set were spotty. Moreover, the lack of rainfall this summer was getting growers concerned about berry sizing.

More than half of U.S. cranberries are produced in Wisconsin where production this year is forecast at 367.0 million pounds, up 11 percent. Minimal winter damage and good weather during fruit set have led to above-average yields, likely resulting in the largest cranberry crop ever harvested in the State. The current crop is reported to be in good condition with no major pest problems. Growers have been irrigating on a regular basis wherever possible this summer due to the hot, dry weather. No significant weather damage has been reported with regards to the cranberry crops in New Jersey, Oregon, and Washington where production is forecast to be up 8 percent, 4 percent, and 3 percent, respectively.

Cranberry inventories have declined to more manageable levels in recent years, helping improve grower profitability. Average grower prices for processing cranberries in the United States have been improving from the very low prices received during the market glut years of the late 1990s through 2000, increasing year after year since the 2001/02 season. Fairly strong demand during 2004/05, both domestically and internationally, drove processing cranberry grower prices higher, particularly as the carryover inventory level, estimated at 3.09 million barrels (1 barrel=100 pounds) were met with reduced production. Processing cranberry prices averaged \$33.2 per barrel in 2004/05, up from \$32.7 per barrel the previous season. According to the Cranberry Marketing Committee (CMC), the group responsible for administering the cranberry marketing order, the carryover inventory for 2005/06 (or 2004/05 ending inventory) is estimated at 3.15 million barrels, about the same as last season. The same level of beginning inventories, combined with a bigger crop, will likely putting some downward pressure on processing cranberry grower prices. Additionally, the 2005 cranberry crop in Canada will potentially be about the same size as last year's large crop, indicating continued large volumes of imports competing in the U.S. cranberry market during 2005/06. Nearly all of U.S. cranberry imports come from Canada and although most enter the country as fresh cranberries, a majority of the imports are utilized for processing.

Table 6--Cranberries: Total production and season-average prices received by growers, 2002-2004, and indicated 2005 production

State	Production				Price		
	2002	2003	2004	2005	2002	2003	2004
	-- Million pounds --				-- Cents per pound --		
Massachusetts	145	141	181	170	32.8	34.1	34.5
New Jersey 1/	43	48	40	43	31.9	31.9	34.3
Oregon	43	51	50	52	32.6	34.1	35.1
Washington	17	19	17	18	36.0	35.2	38.6
Wisconsin	321	361	330	367	31.7	34.0	34.7
United States	569	619	617	649	32.2	33.9	34.7

1/ Small quantities of fresh cranberries are included in processed to avoid disclosure of individual operations.

Source: National Agricultural Statistics Service, USDA.

The fresh market only accounts for less than 10 percent of domestic cranberry production, but recent demand in the fresh market has been strong, driving fresh-use cranberry grower prices higher. Based on CMC data, sales of fresh cranberries have been increasing at an average rate of 2 to 3 percent annually since the mid-1990s. Robust demand during 2004/05, as indicated by a 22-percent increase in fresh cranberry sales volume from the previous season, boosted fresh-use cranberry grower prices to an average of \$56.7 per barrel, up from \$53.1 in 2003/04. Favorable pricing in the fresh market led to more diversion of cranberries to the fresh market during 2004/05, even though overall production was down fractionally from the previous season. In light of this year's expected increased production, the availability of domestic fresh-use cranberries will likely be sufficient to fulfill market demand which is anticipated to remain strong during 2005/06.

2005/06 Florida Avocado Supplies Tight Due to Hurricane Damage

Florida's avocado production will be greatly diminished in 2005/06 as Hurricane Katrina swept through southeastern Florida on August 25, hitting the Miami-Dade County area where nearly all of the State's avocados are produced. Before the hurricane, approximately one-third of the State's 2005/06 avocado crop had been harvested. The powerful winds and rains from the hurricane damaged much of the State's remaining crop, causing a lot of fruit drop, flooded fields, and toppled trees. In the aftermath of this strong storm, a lot of the fruit left on the trees were badly bruised, reducing the quality of the remaining crop.

Florida is a distant second to California in avocado production, producing an average of about 25,000 tons annually or about 12 percent of U.S. production. During 2004/05, production in the State was estimated at 28,000 tons, the third largest harvest since the nineties. NASS will not release the 2005/06 Florida avocado production estimate until July 2006, but according to NASS's September *Crop Production* report, fruit loss from the remaining crop could be as much as 50 to 75 percent. With these anticipated losses this season, USDA's Economic Research Service projects that production will only be between 12,000 to 17,000 tons, based on a 3-year crop average. The last time the industry experienced major destruction was in 1992 when high winds from Hurricane Andrew resulted in a lot of tree loss, eliminating 3,000 acres of avocados. Resulting production in 1992/93 and 1993/94 were very low, ranging from 4,000 to 7,000 tons. Bearing acreage in Florida declined from a peak of 11,300 acres in 1987/88 to 5,900 in 1994/95. There has been very little expansion in production area since then. During 2004/05, bearing acreage was reported at 6,400 acres.

This year was an "off-year" in the alternate-bearing cycle of Florida's avocado crop. This means that the trees produce a smaller crop following a big crop year in order to build back energy reserves. Since the start of Florida's avocado marketing season in June, shipments from the State have been below the same time last year, based on data from USDA's Agricultural Marketing Service. However, shipments had picked up until late August when Hurricane Katrina struck. Shipments in the weeks immediately following the hurricane have declined by as much as 60 to 80 percent from the weekly average in August. Overall avocado supplies in the United States will not likely be greatly diminished by the big production drop in Florida. Besides California, Florida's production has been overshadowed by supplies from

Chile since the late nineties, and from Mexico in more recent years. However, these larger production regions, including California, supply mostly the Hass avocado variety that is different from the various green skinned varieties Florida produces. Prices for 2-layer cartons of various green varieties of Florida avocados at the Miami terminal market as of the second week in September were hovering around \$26.00 to \$28.00, compared with \$13.00 to \$15.00 the same time last year. Prices for green-skinned avocados will likely continue higher for the remainder of the season as supplies remain very tight. Florida's marketing season runs from mid-June through early March of the following year.

Smaller Crop of Fresh Navel Oranges Expected This Fall

NASS released its first forecast for California's navel orange crop in September. For 2005/06, it projects California orange groves will produce 1.575 million tons of navel oranges, the first orange crop of the season, and the most popular orange variety for fresh use. If realized, this crop would be 2 percent smaller than last season but 6 percent bigger than two seasons ago.

The 2005/06 California Navel Orange Objective Measurement Report by the NASS California field office, states that the estimate for this season's fruit set is 461 oranges per tree, 63 more oranges than last season. The decline in the crop size is a result of the smaller size of the fruit this season, reducing the estimate for the number of boxes of oranges expected to be produced.

The number of bearing acres for California's navel oranges is at an all-time high this season at 124,000 acres. Part of the increase in bearing acreage is the result of growers converting Valencia orange tree acreage to navels, which have a higher consumer appeal. The new planting tends to be denser than in the past, and in 2005/06, NASS estimates that there is now an average of 127 trees per acre, up from 125 trees last season and 122 trees between 1999/2000 and 2002/03. The increase in the number of bearing trees on new bearing acreage is likely to result in an upward trend in the number of navel oranges produced in the coming years, given average weather conditions.

Although this season's crop is smaller, grower prices are not likely to increase as much as might be expected with smaller supply. The smaller-sized fruit commands a lower price than average- to large-sized fruit. Along with the size issue, NASS reports problems with sunburn damage to the oranges. Since appearance is a strong factor in setting prices, this season's crop is not likely to bring returns to growers as high a price per box as last season.

Hazelnut Crop Estimated To Drop From Last Season

The Oregon field office of NASS put its first estimate for the State's 2005 hazelnut crop at 28,000 tons, 25 percent below last season and 26 percent below 2003. If realized, this season's crop will be the smallest in 3 years.

Hazelnut trees generally produce their nut crops on an alternate bearing cycle. The cycle was not apparent in 2004, when the crop should have been on an off cycle and producing a smaller crop than in 2003. In fact, the 2003 and 2004 crops were

almost the same size. While this season would have been an on cycle with a bigger crop, the trend appears to have shifted as it has done several times in the past. Although this season is expected to produce an off-cycle crop, at 28,000 tons, it would be the biggest off-cycle crop since the recent trend began in 1993.

The Oregon Hazelnut Objective Yield Survey found that while the number of nuts per tree in 2005 is slightly less than in 2004, it is slightly higher than 2003. The share of good nuts per tree, however, is estimated to be 79.5 percent, the lowest since 1990, reducing the number of marketable nuts. Nuts sampled this year were larger and heavier than at any time since 2000. These are important factors in determining grade and quality of the nuts. Having such a big share of large, heavy nuts this year, along with the smaller crop, are both factors that could potentially boost grower prices. At the same time that conditions are good for higher prices in the domestic market, USDA's Foreign Agriculture Service is reporting that Turkey's hazelnut production, the largest in the world, is expected to be higher this season, likely driving down the world price for hazelnuts. This can affect the U.S. grower price, since a large share of the U.S. crop is sold on the world market.

Record-Large Walnut Crop Forecast for 2005

According to data from NASS' 2005 California Walnut Objective Measurement Survey Report, the crop this year is forecast to reach 340,000 tons, 5 percent above last year and 4 percent above 2003. If realized, this will be the largest walnut crop on record in the United States.

The number of bearing acres continues to rise, as it has since 1993. Since this is an on year in the alternate bearing cycle of the walnut trees, yields are up 3 percent over last year. Together, the increase in the number of bearing acres and the highest yield per acre on record have resulted in the forecast for the record high production for 2005.

Increasing demand for walnuts, both in the domestic and international markets, has helped maintain strong grower prices despite increasingly larger crops. This year will likely be no different. With continued demand for walnuts by health conscious consumers, prices will likely remain strong this season, even with the larger crop. Although the price per ton might be slightly down, overall the value of this year's crop will likely top last season's record high.

Fruit and Tree Nuts Trade Outlook

Lighter Supplies Limit U.S. Exports of Fresh Grapes, Pears, And Peaches in 2005/06

The United States has moved smaller quantities of fresh grapes and pears to international markets early into the 2005/06 season (table 7). The 2005 U.S. grape crop is expected to outsize last year's, but harvesting was delayed relative to the unusually early start last year, pushing available supplies for this season behind a year ago thus far. Despite a slow start to the season, supplies in California are rising seasonally, increasing available supplies for export. California's production of table grape varieties, which on average accounts for over 70 percent of domestic fresh-market production, is forecast to be 3 percent larger. Larger overall supplies, good fruit quality, and increased fiscal year promotional funding through the Market Access Program (MAP) allocated to the California Table Grape Commission, the marketing arm of the California table grape industry, will all be helpful in furthering opportunities for U.S. fresh grape exports during 2005/06. This season through July, however, exports were down to major markets such as Canada, Mexico, and Hong Kong, but demand remained strong in other large markets such as Malaysia, China, Taiwan, and Indonesia.

Reduced supplies of fresh pears and peaches and resulting higher prices are also limiting their export shipments for this season. July shipments of fresh pears to leading destinations, Mexico and Canada, were down 11 percent and 41 percent over the same time last year. Export shipments of fresh peaches declined 15 percent to Canada, the leading market for the United States, and were also sluggish to a number of South and Central American markets. However, among some of the larger markets, demand was strong to Taiwan, Mexico, Hong Kong, and New Zealand.

Table 7--U.S. exports of selected fruit and tree nut products

Commodity	Marketing season	Season-to-date (through July)		Year-to-date change
		2004	2005	
		--- 1,000 pounds ---		Percent
Fresh-market:				
Oranges	November-October	1,307,136	1,186,611	-9.2
Grapefruit	September-August	866,271	497,351	-42.6
Lemons	August-July	224,591	210,143	-6.4
Apples	August-July	987,978	1,331,489	34.8
Grapes	May-April	106,132	82,352	-22.4
Pears	July-June	15,461	10,824	-30.0
Peaches (including nectarines)	January-December	144,710	134,202	-7.3
Straw berries	January-December	135,959	143,011	5.2
Sweet cherries	January-December	90,035	86,064	-4.4
		--- 1,000 sse gallons 1/ ---		
Processed:				
Orange juice, frozen concentrate	October-September	53,702	36,289	-32.4
Orange juice, not-from-concentrate	October-September	48,778	55,257	13.3
Grapefruit juice	October-September	32,842	20,410	-37.9
Apple juice and cider	August-July	5,743	5,818	1.3
Wine	January-December	58,289	53,497	-8.2
		--- 1,000 pounds ---		
Raisins	August-July	264,076	250,445	-5.2
Canned pears	August-July	9,776	22,953	134.8
Canned peaches	July-June	4,502	5,241	16.4
Frozen straw berries	January-December	11,922	14,134	18.5
		--- 1,000 pounds ---		
Tree nuts:				
Almonds (shelled basis)	August-July	773,508	812,114	5.0
Walnuts (shelled basis)	August-July	125,021	195,030	56.0
Pecans (shelled basis)	September-August	28,806	28,433	-1.3
Pistachios (shelled basis)	September-August	27,203	57,201	110.3

1/ Single-strength equivalent.

Source: Bureau of the Census, U.S. Department of Commerce.

Fresh Imports Up for Most Noncitrus Fruit

U.S. fresh imports are up for the season through July for major noncitrus fruit, except apples and mangoes (table 8). Although import volume is small relative to other fruit, grapes accounted for the biggest growth in imports so far, up 57 percent from the same time a year ago. Imports of pears and peaches were up 15 percent and 3 percent, mostly from Chile. Most of the imported grapes were from Mexico where good weather conditions and higher yields in the primary table-grape producing region of Sonora increased crop size for the 2005 marketing year. A larger proportion of Mexico's table grape production goes to the export market, and the United States serves as their largest export market. Shipments of Mexican grapes are winding down for the season. Given that the 2005 U.S. grape crop is forecast larger and supplies are increasing in volume, demand for imports for the next couple of months will not likely be as robust as in earlier in the season when domestic shipments were lighter and prices were higher.

Season-to-date shipments of bananas, the United States' number one imported fresh fruit, increased only fractionally over last year. Larger shipments from Guatemala and Colombia barely made up for the smaller quantities received from other major banana supplying countries to the United States, including Ecuador, Costa Rica, and Honduras. The 2004/05 apple season ended with a 44-percent drop in fresh apple imports compared with the previous season as a result of the big domestic crop harvested last year. The expected smaller U.S. apple crop this year, particularly in Washington, combined with continued strong demand in export markets, will likely boost imports during 2005/06.

Table 8--U.S. imports of selected fruit and tree nut products

Commodity	Marketing season	Season-to-date (through July)		Year-to-date change
		2004	2005	
		--- 1,000 pounds ---		Percent
Fresh-market:				
Oranges	November-October	63,378	63,879	0.8
Tangerines (including clementines)	October-September	189,774	186,563	-1.7
Lemons	August-July	57,430	84,444	47.0
Limes	September-August	520,797	599,119	15.0
Apples	August-July	472,209	262,614	-44.4
Grapes	May-April	603	948	57.2
Pears	July-June	1,600	1,836	14.8
Peaches (including nectarines)	January-December	139,094	142,853	2.7
Bananas	January-December	4,963,913	4,988,184	0.5
Mangoes	January-December	430,639	400,604	-7.0
		--- 1,000 sse gallons 1/ ---		
Processed:				
Orange juice, frozen concentrate	October-September	176,215	284,386	61.4
Apple juice and cider	August-July	449,994	470,189	4.5
Wine	January-December	95,814	103,654	8.2
		--- 1,000 pounds ---		
Canned pears	August-July	51,212	41,712	-18.6
Canned peaches (including nectarines)	July-June	5,167	7,244	40.2
Canned pineapple	January-December	405,283	455,580	12.4
Frozen straw berries	January-December	103,335	114,357	10.7
		--- 1,000 pounds ---		
Tree nuts:				
Brazil nuts (shelled basis)	January-December	14,807	20,791	40.4
Cashew s (shelled basis)	January-December	163,537	165,643	1.3
Pine nuts (shelled basis)	January-December	5,804	6,501	12.0
Pecans (shelled basis)	September-August	50,572	67,475	33.4

1/ Single-strength equivalent.

Source: Bureau of the Census, U.S. Department of Commerce.

Commodity Highlight: Walnuts

Walnuts: Second Biggest Nut Crop Produced in the United States

Walnut growers in the United States produced 325,000 tons of nuts in 2004, second in size only to almonds among all nut crops produced domestically (almonds, hazelnuts, macadamia nuts, pecans, pistachios, and walnuts). The crop was valued at \$439 million, the sixth highest valued fruit and tree nut crop for the year.

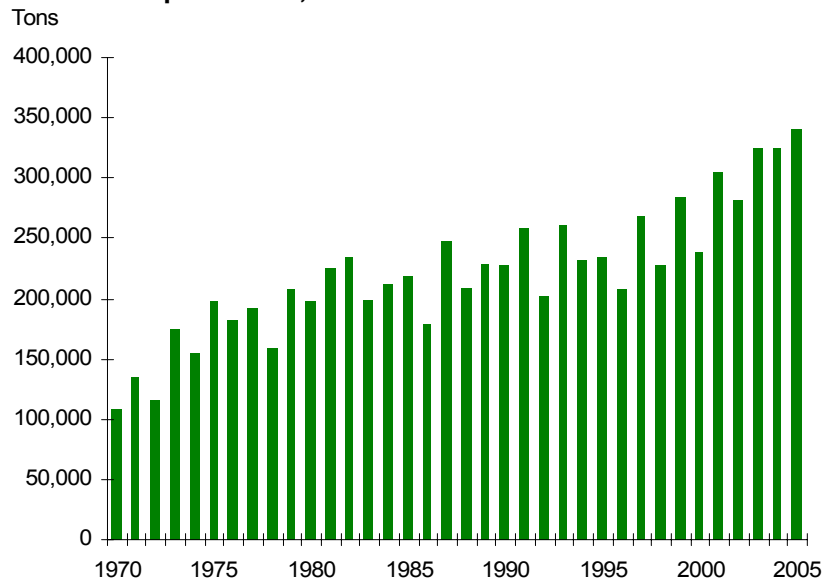
The size of the walnut crop has been trending steadily upward over the past 35 years, with production increasing the most rapidly in the 1970s when the industry was young and again over the past decade (fig. 5). Walnut trees produce nuts on an alternate-bearing cycle, meaning they produce a big crop one year followed by a smaller crop the following year as the trees replenish their nutrients. Generally, the cycles can bring big swings in crop size. In spite of the up and down cycle, the crop's size has been trending upward as more acreage has been brought into production, and yields have increased through improved production and management technologies (fig. 6).

The English Walnut is the Most Popular Variety

Most of the commercial walnut crops in the United States are the English or Persian variety. The trees are said to have originated in the Middle East, eventually making their way to the United States through English settlers, whereby they got their name English walnuts.

Another species, the black walnut is indigenous to the Midwest and Northeastern United States and grows mostly in the wild. While there is some commercial production and processing of the nuts from the black walnut, the trees' greatest value is for their wood, which is used for making furniture and gunstock.

Figure 5
U.S. walnut production, 1970 to 2005



Source: National Agricultural Statistics Service, USDA.

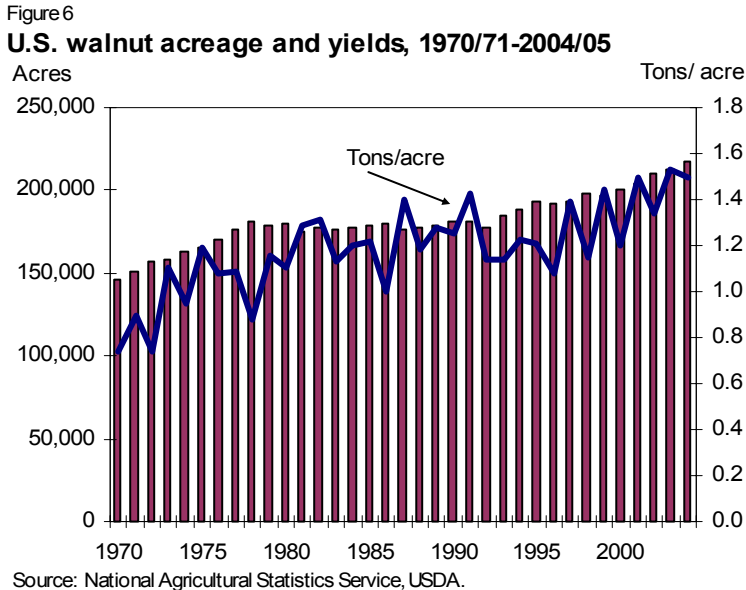
Black walnuts produce small kernels relative to the nuts' size, have hard, thick shells, and are difficult to hull. These traits reduce their commercial appeal. There is one major processor for black walnuts in the Midwest and most of the resulting products are sold locally. Other black walnut varieties grow in western and southwestern States. These species have less commercial value, although some may be used as rootstock for the English walnut trees.

Walnut Production Concentrated in California

The English walnut trees were said to have been introduced into California in the 1700s by Spanish missionaries. In the 1970s, production became concentrated in the San Joaquin and Sacramento Valleys, where today about 99 percent of the production occurs.

According to the 2002 Census of Agriculture, California accounts for 99 percent of English walnut bearing acres, but 90 percent of the farms. Oregon accounts for another 5 percent of the farms, and other States, such as Washington, Pennsylvania, Michigan, Utah, Iowa, and Maine account for the remainder. The bearing acreage on walnut farms was highest in California. While the number of bearing acres per farm in California averaged 46 acres, in other States, the average ranged from less than an acre per farm in most States to 14 acres per farm in Virginia.

In California, there were 6,293 farms producing walnuts in 2002. About 83 percent of these farms had between 1 and 100 acres of walnut trees; with 47 percent having between 1 and 15 acres. While less than 1 percent of the farms had 500 or more acres, this group accounted for 20 percent of the 242,603 bearing acreage in 2002. The Census reported there were 20 farms in California that had at least 1,000 acres of walnut trees. These farms accounted for 13 percent of the bearing acreage.



Most of the walnut orchards are family- or individual-held farms. In 2002, about 80 percent of the orchards came under this category. Only 6 percent of the farms were corporations and most of these were family-held corporations with 10 or fewer stockholders.

Processors Market Walnuts for Growers

Once the walnuts have been harvested, dried, and hulled on the farms, they are shipped to processors (also called handlers) who store, process, package, and market the nuts. The California Walnut Commission listed 52 handlers who receive and process the nuts. Diamond Foods is one of the biggest processors, receiving a large share of California's crop. Until 2005, Diamond was a cooperative of walnut growers but has since gone public.

Walnuts sold in the domestic market must meet standards set under two separate federal marketing orders, one for shelled nuts and the other for inshell nuts. The marketing orders are administered by the Walnut Marketing Board.

Once the walnuts arrive at the processors they are stored until needed. There, they are either shelled to be sold as kernels or sold inshell. About 90 percent of California's walnuts are sold shelled. The nuts are then packaged according to the buyers' requirements. Packaging includes bulk containers or cartons shipped to the food industry and retail packaging in clear bags.

About 40 percent of the annual walnut harvest is consumed domestically, either for use as ingredients in other products, such as candies, cereals, and baked goods, or directly as a snack item. Another 35 percent of the crop is exported. The remainder of the crop, about 25 percent, is put into storage.

Grower Prices Trending Upward

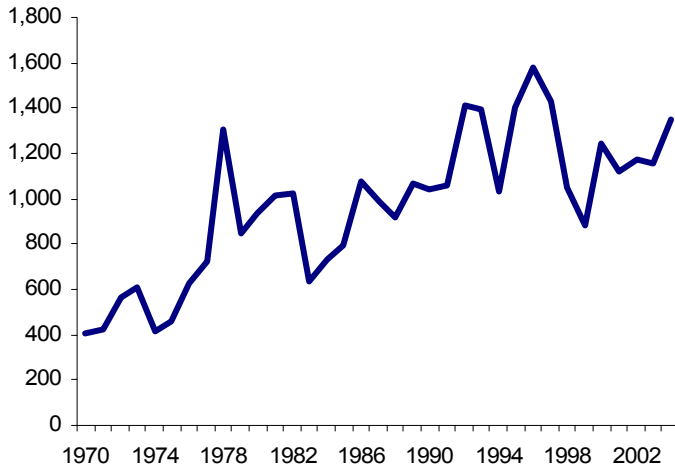
Prices received by walnut growers fluctuate annually in response to the size of the crop and total supply for the year. Throughout the 1970s and through the 1990s, annual price fluctuation could be very steep (fig. 7). Beginning in 2000, however, the rise and fall in prices have become much more moderate, and prices rose in 2004 despite supplies being the highest on record. Strong demand, domestically and internationally, since 2000 has helped growers achieve higher prices and reduce the strong correlation between the size of a crop for a given year and the price growers can expect to receive. With growing demand for walnuts, especially in the domestic market, prices should continue to trend upward in the coming years, and growers will likely see strong returns from their crop, regardless of its size.

United States Leads World Walnut Exports but Not Production

Although the United States is not the world's biggest producer of walnuts, it is the leading exporter (fig. 8). Since 2000, the United States accounts for about 35 to 40 percent of the world's walnut exports (fig. 9), followed by Mexico, Moldova, China, and France, based on data from the United Nations' Food and Agriculture Organization. The data are slightly deceptive, however, because some countries, such as Moldova, are mostly re-exporting shelled nuts, most of which they received as inshell imports from the European Union countries.

Figure 7

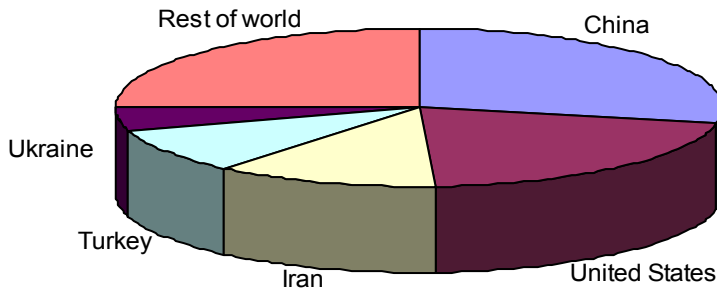
Prices received by walnut growers, 1970 to 2004
\$/ton



Source: National Agricultural Statistics Service, USDA.

Figure 8

Share of world walnut production by major producers, 2001-2004 average.



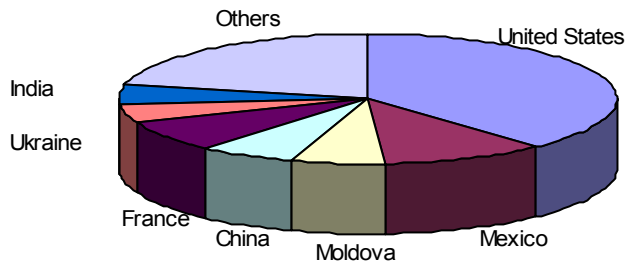
Source: Foreign Agriculture Organization, United Nations.

China leads the world in terms of quantity of walnuts produced. It exports only a fraction of its crop, leaving most of its production for domestic consumption. At present, only a limited portion of China's walnuts would meet the quality demands of the international market. With continued planting and improvements in planting and management techniques, however, increased quantities will likely be available for the export market in the future. At present, China is the fourth biggest walnut exporter, however, it exports amount to only about 15 percent of the quantity of U.S. walnuts in the world market.

The United States is the world's second biggest walnut producer, followed by Iran, Turkey, the Ukraine, and India. Iran and Turkey consume most of what they produce, or ship to neighboring countries. The Ukraine is a newcomer to the world export market. Between 2003 and 2004, FAO data showed a doubling in harvested walnut acres, indicating they may be expanding beyond their domestic market to gain revenues from the higher valued export market.

Figure 9

World's major walnut exports, top countries, 2000-03 average.



Source: Food and Agriculture Organization, United Nations.

France is the next biggest walnut exporter and ranks eighth in terms of production. In the past few years, however, its crop size has declined due to drought conditions. France is also a major consumer of walnuts, and while its top markets are Germany and Spain, a sizable portion of its crop is shipped to Moldova where the nuts are shelled and re-exported back to France.

Germany and Spain are Top World Walnut Importers

Germany and Spain import more walnuts than any other country in the world (fig. 10). Both countries are major consumers of nuts, and even though both are big walnut producers, they need to import to meet their domestic needs.

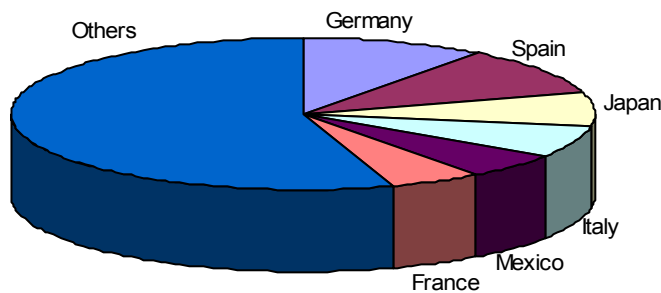
Walnut product destination varies based on whether the nuts are shelled or still inshell. While Germany and Spain are among the top importers of both shelled and inshell walnuts, certain countries, such as Japan, have a much stronger demand for one product over the other. While Japan produces a small quantity of a native variety of walnut, it relies on imports for its food industries. Japan imports shelled walnuts to a much greater extent than inshell nuts. For Japan, a high-income country, purchasing the more expensive shelled nuts is more economical than having to provide the machinery and labor to shell the nuts themselves. In Germany and Spain, the shelling machinery already exists since both countries produce large quantities of walnuts, reducing the economic advantage of shelled over inshell. Also, in both countries, demand is strong from both the food processing industries and from consumers for snack purposes.

Other major importers of inshell walnuts include Italy, Mexico, the Netherlands, Turkey, and Russia. Major importers of shelled walnuts after Japan include Germany, Turkey, France, Canada, Greece, and Spain.

U.S. Walnut Export Shipments Continue To Grow

U.S. walnut exports totaled 143.1 million pounds (shelled basis) in 2004/05, more than any other year over the past decade. Exports have grown at an average rate of 2 percent annually since the mid-nineties. Shipments of shelled walnuts grew more

Figure 10
World's major walnut importers, top countries, 2001-03 average



Source: Food and Agriculture Organization, United Nations.

rapidly during this period than inshell nuts, increasing at an average of 8 percent annually. Exports have grown at a more rapid pace over the past 5 years. Shipments increased at a rate averaging 11 percent annually for shelled walnuts and 7 percent annually for inshell nuts.

The average unit value of shelled walnut exports is about double the value of inshell walnuts. Since 2000, the unit value of exported shelled walnuts averaged \$1.80 per kilogram while shelled walnuts averaged \$3.79 per kilogram.

Since 2000, Spain, Italy, Germany, and the Netherlands continue to remain the top markets for inshell walnuts, as they have over the past 10 years. Over the past 5 years, the shipments to Italy, Germany, and the Netherlands have been stronger than the first half of the decade. Italy and the Netherlands rely heavily on the U.S. walnut crop as their major source of imports. Germany gets most of its imports from the United States, but also gets shipments from the Netherlands that originate in the United States.

Developing economy countries have been rapidly growing markets in recent years. Exports to Brazil and Venezuela have been expanding in recent years, placing them among the top 15 markets. Shipments have also been increasing rapidly in the past 5 years to Australia and Scandinavia.

Japan remains the number one export market for U.S. shelled walnuts, however, its share of shipments has declined in recent years from a high of about 40 percent in 1995-1997 to an average of 25 percent since 2000. The other top markets are Canada, Germany, and Spain. Growth markets in the past 5 years include South Korea, Australia, Norway, and Sweden. As traditional markets mature and the U.S. walnut crop continues to increase, new markets are becoming increasingly important to the industry.

U.S. Walnut Consumption Grows in the 2000s

U.S. walnut consumption reached a record high in 2004/05 at 0.54 pound per person (table 9). After averaging about a half pound per person during the mid-1980s, consumption dropped to about a third of a pound per person in the mid-1990s, and then has returned to slightly under a half pound in the 2000s. Between 2002/03 and 2004/05, walnut consumption grew at a rapid pace of 9 percent annually. Bigger crops and increased information about the health benefits have helped increase consumer demand for walnuts.

In 2004/05, the big story driving walnut consumption to a record high was the introduction of the fruit and walnut salad by McDonalds. As a major purchaser in any category product that it enters, McDonalds alone can have a major impact on consumer demand. The demand, however, can go beyond the increase in purchases from the company alone, by reintroducing the walnut as a product to consume in ways beyond an ingredient in baked goods and candy.

At the same time that McDonalds introduced its new salad, new studies, conducted under the auspices of the California Walnut Marketing Board, has reported several health claims associated with the walnut. Containing high levels of omega 3 fatty acids, vitamin E, and other antioxidants, has resulted in the walnut being the first whole food to receive the Food and Drug Administration's approval to make the claim that there was scientific evidence that walnut consumption was good for a healthy heart. This and other studies that are showing substances in walnuts can have effects on reducing different cancer cell growth are likely to drive up demand for walnuts not only in the United States but from around the world.

Table 9--Walnuts: Supply and utilization (shelled basis), 1985/86 to date

Season	Utilized production	Loss and exempt 2/	Marketable production	Import	Beginning stocks	Total supply	Ending stocks	Exports	Total	Per capita
					--1,000 pounds--					Pounds
1985/86	167,646	766	166,881	128	42,275	209,283	52,169	41,742	115,373	0.48
1986/87	141,687	787	140,899	2,655	52,169	195,723	28,343	49,300	118,080	0.49
1987/88	204,108	826	203,281	470	28,343	232,094	59,931	59,029	113,134	0.46
1988/89	173,171	829	172,343	184	59,931	232,458	48,279	60,845	123,334	0.50
1989/90	196,546	858	195,687	142	48,279	244,109	54,197	77,898	112,014	0.45
1990/91	181,600	800	180,800	95	54,197	235,092	48,736	72,507	113,848	0.45
1991/92	211,251	816	210,436	82	48,736	259,254	55,689	88,244	115,322	0.45
1992/93	168,940	832	168,107	8,046	55,689	231,842	37,201	75,038	119,603	0.46
1993/94	216,884	834	216,050	1,191	37,201	254,442	72,992	83,311	98,139	0.38
1994/95	200,795	865	199,930	704	72,992	273,626	56,940	99,624	117,062	0.44
1995/96	197,786	845	196,940	2,308	56,940	256,188	55,269	98,275	102,644	0.38
1996/97	170,444	819	169,625	5,815	55,269	230,709	40,346	102,724	87,639	0.32
1997/98	221,365	823	220,542	284	40,346	261,172	67,609	94,125	99,437	0.36
1998/99	187,862	828	187,034	156	67,609	254,800	59,448	90,920	104,431	0.38
1999/00	237,884	841	237,043	181	59,448	296,673	63,393	91,279	142,002	0.51
2000/01	204,857	857	204,000	1,155	63,393	268,548	46,218	97,083	125,247	0.44
2001/02	257,556	844	256,711	201	46,218	303,130	80,004	103,420	119,706	0.42
2002/03	243,963	865	243,098	192	80,004	323,294	73,419	113,966	135,909	0.47
2003/04	279,429	857	278,571	310	73,419	352,301	82,145	124,904	145,251	0.50
2004/05 3/	282,360	869	281,491	471	82,145	364,108	67,278	136,090	160,740	0.54

1/ Season beginning August 1. 2/ Inedibles and noncommercial usage. 3/ Preliminary estimate.

Sources: National Agricultural Statistics Service and Economic Research Service, U.S. Dept. of Agriculture; California Walnut Commission.

Contacts and Links

Contact Information

Agnes Perez (Noncitrus fruit), (202) 694-5255, acperez@ers.usda.gov

Susan Pollack (Citrus fruit and tree nuts), (202) 694-5251, pollack@ers.usda.gov

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Related Websites

Fruit and Tree Nuts Briefing Room,

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