

Vegetable Outlook 2007¹

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The vegetable industry often looks back at the 1980s as the golden era of vegetable production. Demand grew faster than producers and importers could supply the markets, and returns grew even more. Representative of this growth is tomatoes, which experienced steady growth in fresh market value from \$525 million in 1980 to \$1.4 billion in 1992. The 1990s proved more difficult for many vegetables, but there still were some commodities that increased in value during this period. Broccoli, onions, beans and melons all grew in value over the 1990s while those that experienced rapid growth in the 1980s struggled. For example, U.S. domestic tomato value hit a low of \$870 million in 1995 when imports from Mexico surged. The tomato market has since recovered, however, with growth in value to \$1.6 billion in 2005.

The new millennium has brought forth more profitable times to many growers. Imports tempered the gains of growers in the 1990s and continue to increase in volume this decade, but increasing demand has given opportunities to growers who are efficient and manage risk with appropriate production technologies and other risk-management tools. Opportunities exist for efficient growers who adjust to the dynamics of market demand. Growers who fail to adjust to market demands, or fail to manage

production and market risk, will experience some difficult years.

Demand

Demand for fresh vegetables increased dramatically in the 1980s, with per capita use of selected fresh vegetables, excluding potatoes, increasing from 112.6 pounds per person in 1980 to 146.1 pounds per person in 1989 (Figure 1). Per capita use was relatively flat from 1989 to 1993 but has since increased to 174.2 pounds per person in 2005. Per capita use of processed vegetables (canned and frozen) experienced a steady increase in consumption from 1980 to 1991, increasing from 115.2 pounds per person in 1980 to 130.4 pounds per person in 1991. It has since decreased to 124 pounds per person in 2005. Increases in vegetable demand can be attributed to increases in per capita income of U.S. consumers and to improved quality of product and service. The increasing concern for health and obesity has also contributed to increased demand. The concerns surrounding obesity and the need to expose our children to more fruits and vegetables could bring a new wave of demand growth.

New technologies have had a variety of impacts on the U.S. vegetable industry. They have increased

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1. This is EDIS document FE681, a publication of the Food and Resource Economics Department, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, FL. Published December 2006. Please visit the EDIS website at <http://edis.ifas.ufl.edu>.
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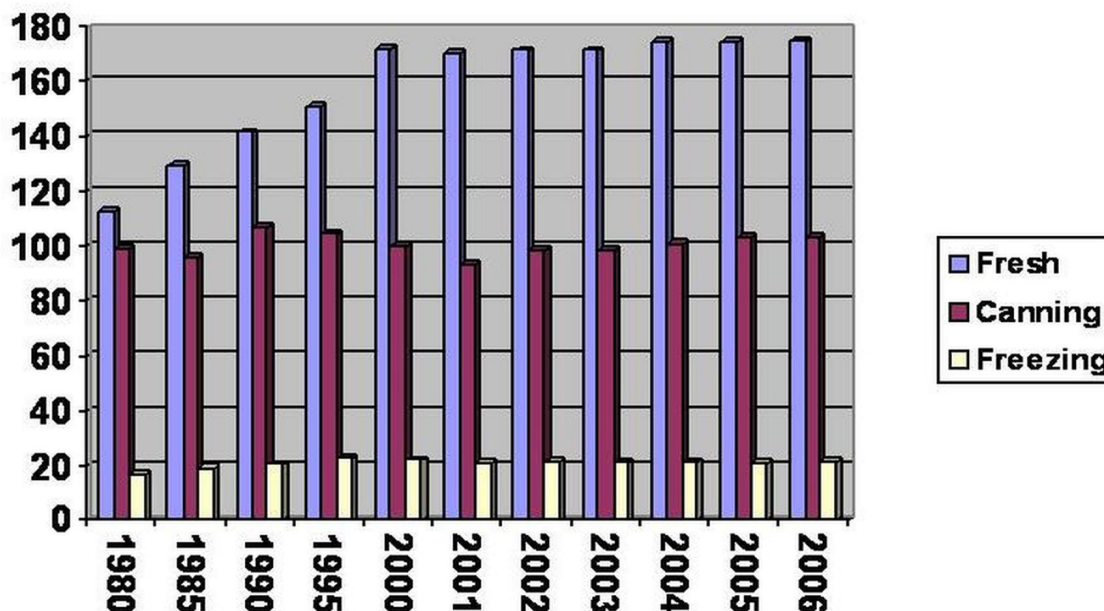


Figure 1. Per capita consumption (pounds) for selected fresh, canned, and frozen vegetables, 1980-2006. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook/VGS-2006/July 27, 2006, pp, 12-13.

productivity for many crops and increased value through quality improvement. These technologies help lower costs and increase the demand for vegetables.

Supply

Returns since 2000 have improved for growers of many fruits and vegetables as demand grew faster than supply. The value of fresh market production has increased for most commodities. The fresh market value of 10 selected fresh market vegetables (asparagus, broccoli, carrots, cauliflower, celery, sweet corn, head lettuce, onions, tomatoes, and honeydew melons) increased from \$2.1 billion in 1980 to \$5.0 billion in 1995 (Figure 2). Fresh market value decreased during the 1996 to 1999 period, with fresh market value totaling \$4.3 billion in 1996 and \$4.6 billion in 1999. U.S. fresh market value has since increased to \$5.9 billion in 2005. During the 1980 to 1984 period, acreage increased from 997,190 acres to 1,071,930 acres for the 10 major crops, an increase of 7.3 percent. Acreage peaked in 1994 at 1.17 million acres but has since declined to 1.06 million acres in 2005. However, increased productivity allowed the industry to increase output from 17.9 billion pounds in 1980 to 29.4 billion

pounds in 2004. Production in 2005 fell to 27.8 billion pounds, due primarily to hurricanes. Weather has been the largest single risk factor in this market.

Hurricanes negatively impact the operations of growers caught in their pathways. Weather alters the seasonality of production and interferes with the steady market flow that is needed to keep consumers buying fresh commodities. The devastating effects of the 2004 and 2005 hurricanes increased prices received by fresh vegetable growers by 8.5 percent over those received in 2003. Prices were lower for some crops in 2006 and should remain unchanged in 2007, barring any unexpected weather events. The hurricanes of 2004 and 2005 are not likely to have any lingering impacts on acreage and production in 2007. Demand growth will continue to bring on new production within this market and help support returns to growers.

International Trade

Market globalization had a significant influence on the fresh vegetable industry during the 1990s. The United States is recognized as a premium market for foreign producers. A significant downsizing of the U.S. fresh vegetable industry occurred in the late

1990s, with acreage decreasing after 1994 and foreign producers increasing their presence in the U.S. market. Domestic producers were able to respond to this import growth and to experience profitable growth of their own after 2000 because demand grew faster than imports. Imports of selected vegetables increased from 1.75 million pounds in 1980 to 5.55 million pounds in 2000, and increased to 7.3 million pounds in 2005 (Figure 3). Import values grew with this increased volume, from \$1.98 billion in 2000 to \$3.33 billion in 2005. Imports will continue to grow as U.S. markets increase their demand for fresh fruits and vegetables and as technology makes it easier for quality fresh fruits and vegetables to come into our markets. Proximity to market and technology development are key to allowing U.S. producers to respond to and compete with these imports. Technology development will be vital to remaining competitive.

Regulatory Issues

Regulatory issues continue to pose challenges to U.S. producers of fresh and processed vegetables. Methyl bromide is a critical soil and post-harvest fumigant for many fresh fruits and vegetables. It was phased out of use by most U.S. growers on January 1, 2005. Several producer groups made successful applications for Critical Use Exemptions (CUE) to continue its availability beyond 2005. Producer groups will need to apply for those CUE over the next several years if they are to have access to continued use of methyl bromide. Considerable progress has been made in finding alternatives to methyl bromide, but there are several crops in the United States that need methyl bromide to compete against international competitors who will have access to methyl bromide through at least 2015.

Outlook

The short-term outlook for fresh vegetables is for continued growth in demand and continued improvements in returns and financial health for U.S. producers. Growers of processed vegetables should also expect growth in demand and fewer marketing concerns than their fresh-market counterparts. Dietary concerns will continue to expand the demand for fruits and vegetables, but food safety issues pose a

threat to this growth unless the industry is aggressive in addressing that challenge. The 2007 Farm Bill could create opportunities to expand that growth and help growers manage the risk of fresh-market production. Fruit and vegetable growers are positioning themselves to be involved in the debate about the 2007 Farm Bill to ensure they participate in its benefits.

The largest concerns facing vegetable growers today are fuel costs and labor availability. Rising energy prices increased the cost of producing vegetables and the cost of delivering them to market. The positive on rising energy prices is that they impact imports more than domestic production and may help domestic growers become more competitive in the market. Concerns over labor are persistent, and pending immigration legislation could impact domestic growers if labor supplies are restricted.

The long-term outlook holds many challenges that must be addressed by vegetable growers, but the future looks bright for both fresh and processed producers. Demand growth and productivity gains will create opportunities for efficient growers. Look for more assistance to be demanded by and given to U.S. growers as an outcome in the 2007 Farm Bill to help them adapt to the increased challenges facing this industry.

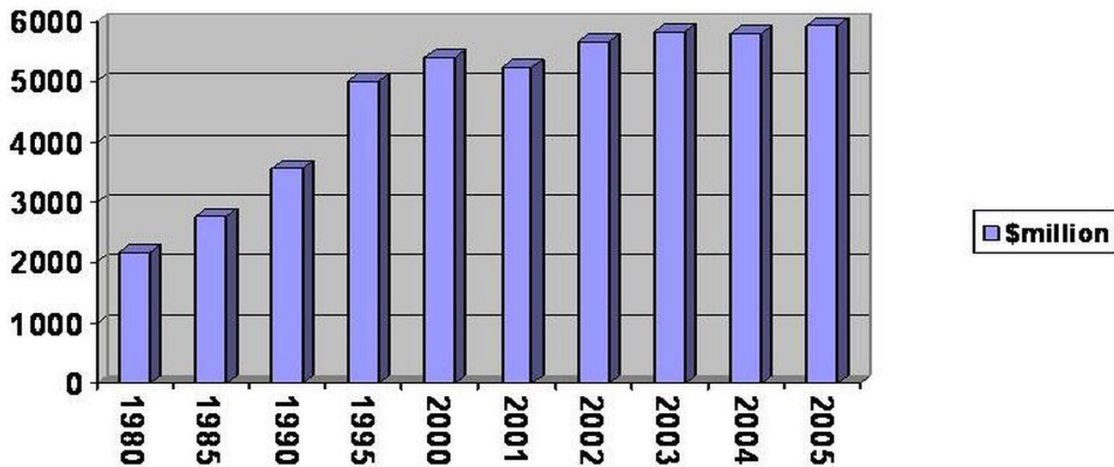


Figure 2. U.S. fresh market value for vegetables, 1980-2005. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook/VGS-2006/July 27, 2006, p. 14.

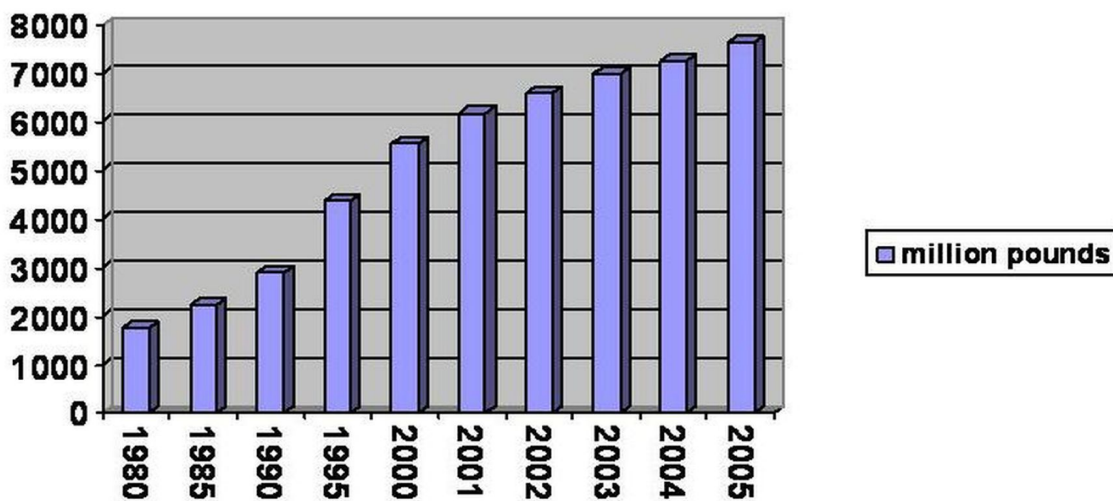


Figure 3. Fresh market vegetable imports, 1980 to 2005. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook/VGS-2006, July 27, 2006, p. 27.