

Vegetable Perspectives and 2008 Outlook¹

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The decade of the 1980s was the golden era of vegetable production. Demand grew faster than supply which greatly increased returns. U.S. cash receipts for all fresh vegetables and melons grew from \$2.17 billion in 1980 to \$4.04 billion in 1989. The 1990s proved more difficult for most vegetable production, with fewer commodities experiencing significant growth. Cash receipts grew at a much slower pace, growing from \$4.04 billion in 1989 to \$4.65 billion in 1999. Production of broccoli, onions, beans, and melons grew in value over the 1990s while vegetable production that experienced rapid growth in the 1980s struggled. Import-sensitive crops like tomatoes hit a low value of \$870 million in 1995 when tomato imports from Mexico surged. Several crops have experienced new growth since 2000. Total U.S. cash receipts for fresh market vegetables grew to \$6.07 billion in 2006.

Imports tempered the gains of domestic growers in the 1990s and will continue to increase in volume during this decade. Imports of fresh market vegetables increased from 1.83 billion pounds in 1979 to 3.03 billion pounds in 1989. They grew at a faster pace throughout the 1990s, to 5.6 billion pounds in 1999, and have continued to grow, totaling 8.0 billion pounds in 2006.

Opportunities exist for efficient growers who are meeting market demands, but growers who fail to adjust to market demands or fail to manage production and market risk will experience some difficult years. The vegetable industry is in transition, requiring growers and packers to adapt their operations to the demands of the new market.

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 it increased to 172 pounds per person in 2000. Demand has remained flat since 2000, with per capita consumption of 172.8 pounds in 2006. 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 declined to 114.5 pounds per person in 2006. However, increased per capita income of U.S. consumers, improved quality of products and services, and popular concerns about health and obesity may create a new wave of demand.

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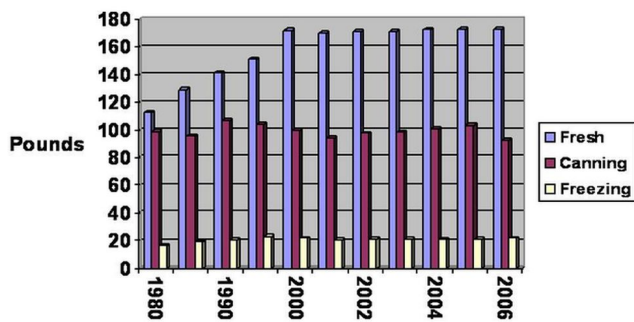


Figure 1. Per capita consumption (pounds) of selected fresh, canned, and frozen vegetables, 1980 to 2006. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook, VGS-2007, July 26, 2007, pp. 12-14.

New technologies have had a variety of effects on the U.S. vegetable industry. They have increased productivity for many crops and increased their value through quality improvements. These technologies help lower costs and increase demand for vegetables. Demand will continue to grow and give opportunities for growers who are positioned to take advantage of it.

Supply

Following a brief recovery in returns to fresh vegetable growers from 1998 to 2003, increased production risk has put pressure on growers. The fresh market value of 10 selected fresh market vegetables (asparagus, broccoli, carrots, cauliflower, celery, head lettuce, honeydew melons onions, sweet corn, and tomatoes) increased from \$2.1 billion in 1980 to \$5.0 billion in 1995 (Figure 2). Fresh market value declined from \$4.3 billion in 1996 to \$4.6 million in 1999. U.S. fresh market value has since increased to \$6.1 billion in 2006. Acreage increased from 997,190 acres in 1980 to 1,071,930 acres in 1984 for the 10 selected fresh market vegetable crops. Acreage peaked in 1994 at 1.17 million acres and has since declined to 1.05 million acres in 2006. Increased productivity has allowed the industry to increase output, however, from 17.9 billion pounds in 1980 to 29.2 billion pounds in 2004 (Figure 3). A decline of 24,000 acres combined with the occurrence of hurricanes cut production in 2005 to 28 billion pounds. An additional decline of 11,780 acres harvested and low returns cut production again in 2006 to 27 billion pounds. Low market returns in 2006 and 2007 have resulted from production risk

and food safety concerns. Production risk caused some growers to experience lower returns from quality problems caused by weather and pests. Food safety issues impacted several growers that shut them out of several profitable markets.

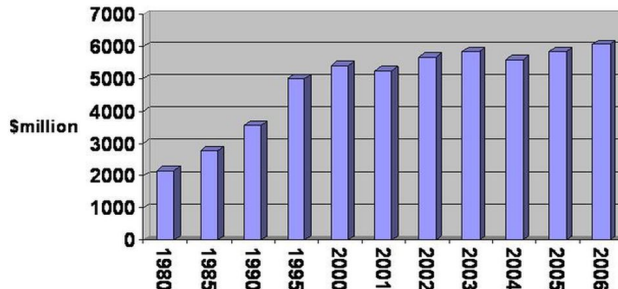


Figure 2. U.S. fresh market vegetable production value, 1980 to 2006. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook, VGS-2007, July 26, 2007, p. 20.

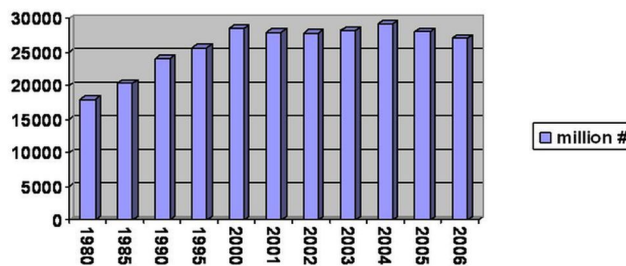


Figure 3. U.S. fresh market vegetable production, 1980 to 2006. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook, VGS-2007, July 26, 2007, p. 20.

Weather has been the largest risk factor in this market in this decade, with hurricanes in 2004 and 2005, followed by extreme drought conditions in 2006 and 2007. Hurricanes had significant impacts on the operations of growers both inside and outside the hurricane paths. Weather alters the seasonality of production and interferes with the steady market flow that is needed to keep consumers buying fresh commodities. The 2004 and 2005 hurricanes increased prices by 8.5 percent over the prices received in 2003. Prices were lower for many crops in 2006 and 2007. Several growers in Florida are reportedly choosing not to grow fresh market vegetables this season due to losses sustained over the three previous seasons. The hurricanes had one impact that many did not anticipate: increased market competition. Because the hurricanes occurred during back-to-back seasons, opportunities opened up for

imports and growers in other areas of the United States. For example, greenhouse tomatoes now dominate the retail sector. Since 2005, the United States has imported more greenhouse tomatoes than any other type of tomato recorded by the U.S. Department of Commerce. The hurricanes provided an opportunity for greenhouse producers to introduce their product to a wider market, and consumers have continued to buy those tomatoes.

International Trade

Globalization of markets had significant influences on the fresh vegetables market in 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 and production shifting to foreign producers. Domestic producers have been able to maintain production against this import growth but only because demand is also growing and absorbing this increase. Imports of selected vegetables increased from 1.75 million pounds in 1980 to 5.55 million pounds in 2000 and to 8 million pounds in 2006 (Figure 4). Imports will continue to grow as U.S. markets increase demand for fresh fruits and vegetables and as technology makes it easier for quality fresh market crops to come into U.S. markets. Market proximity and technology development have allowed U.S. producers to respond to and compete with these imports. In the future, technology development will be vital for remaining competitive.

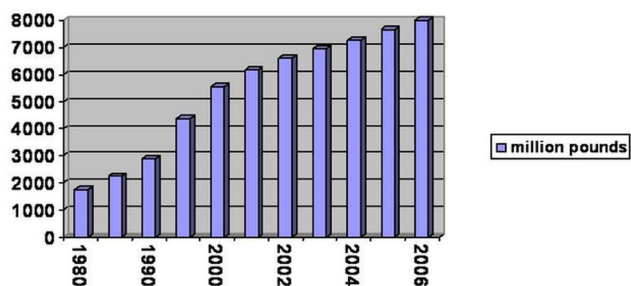


Figure 4. Fresh market vegetable imports, 1980 to 2006. Credits: USDA, Vegetables and Melons Situation and Outlook Yearbook, VGS-2007, July 26, 2007, p. 29.

Regulatory Issues

Regulatory issues continue to pose challenges to U.S. producers of fresh and processed vegetables. Availability of critical inputs and opportunities afforded by implementation of a new U.S. Farm Bill are important issues on the horizon. Food safety concerns are leading to policies that increase the cost of supplying fresh and processed vegetables to consumers. Uncertainty surrounding immigration reform and the availability of farm labor to harvest these crops increases the risk for fresh vegetable growers. Access to water for irrigation is critical to growing these crops in Florida and policies that restrict water use will have devastating impacts on this industry. The U.S. Farm Bill under consideration by Congress promises to provide some support to specialty crop producers. This legislation could be critical to the long-term survival of this industry.

Outlook

The largest concerns facing vegetable growers today are for fuel, water, and labor availability. Rising energy prices, more irrigation water restrictions, and stricter farm labor laws will increase the cost of producing vegetables, which will make it harder for domestic growers to compete in a global market.

The short-term outlook for fresh vegetables is for continued growth in demand with some adjustments for growers to remain in the fresh vegetable market industry. The new U.S. Farm Bill should help growers manage the risks associated with fresh market production. Processed vegetable growers should expect continued growth in demand and fewer marketing concerns than their fresh market counterparts.

The long-term outlook is that there will be many challenges for vegetable growers and policy makers. Demand growth and productivity gains will create opportunities for efficient growers. More assistance will be needed from policy makers. The new U.S. Farm Bill should help U.S. growers meet more of the challenges facing this industry. Without assistance, this industry may see the greatest structural change since the 1980s, only in reverse, with a loss of markets and declining production.