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EXTENSION

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Marketing Vegetables: The Current Situation and Near-Term Outlook¹

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Highlights

- Increased production and larger imports continued a general decline in prices in the first half of 2000, with prices received by growers one percent below year earlier levels. Prices in the first quarter were 13 percent below year earlier levels, the lowest prices have been since 1986. A rebound in the second quarter because of weather conditions in California helped to offset this general decline.
- Depressed returns have led to a decline in acreage in 2000, with acreage planted to vegetables expected to decline two percent.
- Imports increased five percent in 1999 even though imports from Mexico declined four percent. Imports of greenhouse vegetables more than offset this decline, with imports from Canada increasing 15 percent. Investments in the greenhouse industry worldwide are expected to continue expanding their presence in U.S. markets and pressure prices received by U.S. growers.
- Exports will remain a small but important part of the U.S. vegetable market. Growth in exports will depend on technologies for preserving quality and on access to foreign markets.

Exports account for almost eight percent of all U.S. supplies.

- The short-term outlook is for continued growth in demand, with returns dependent on weather and foreign trade. Normal weather patterns will likely continue the erosion in returns to U.S. growers through 2000.

Current Conditions

The U.S. fresh vegetable industry again struggled with low prices in 1999 and continued into the 2000 winter and spring markets with prices reaching their lowest levels since 1986 in the first quarter of 2000. Poor weather conditions in California in the second quarter of 2000 helped prices to recover, registering their third highest on record in that period. Prices again declined in the late spring and summer seasons as normal summer supplies came to market.

Despite cool and wet weather in California, a summer drought in the East, and hurricanes in the South, total U.S. production of vegetables and melons increased seven percent in 1999. Combined with a five percent increase in imports of vegetables, there has been an abundance of fresh vegetables available for consumers.

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Vegetable acreage is likely to decrease two to five percent in 2000 as a result of depressed returns to U.S. producers. Improvements in weather relative to 1999 and continued gains in productivity are likely to offset these declines, leaving expected production unchanged. Prices should recover in the fall market when California's production season ends, but prices will decline again in the winter and spring markets if normal weather patterns return.

Import Supply

The import supply of fresh vegetables continued to grow with imports five percent higher in 1999 relative to 1998. Imports from Mexico declined four percent, but increases in supply from countries growing primarily greenhouse products more than offset the decline in Mexico. Imports from Canada increased 15 percent, giving Canada a 21 percent share of all U.S. imports. Since 1995, imports of fresh vegetables have risen 51 percent to \$4 billion, representing 14 percent of all U.S. supplies. Mexico is the largest import supplier of vegetables to the U.S. with \$1.31 billion in import value for 20 selected vegetables in 1999. Canada is the second largest supplier of fresh vegetables with \$227 million in import value for selected vegetables in 1999. Growth in greenhouse supplies from Canada and European markets is expected to continue and will continue to pressure prices received by U.S. growers of field grown vegetables.

Domestic Demand

Domestic demand for fresh and processed vegetables continues to grow as consumers respond to increases in income, product quality, and perceived health benefits from vegetables. Per-capita consumption of all fresh and processed vegetables (excluding potatoes, mushrooms, and dry edible beans) increased from 268.2 pounds in 1991 to 295.3 pounds in 1999, a 10.1 percent increase. Per-capita consumption of fresh and processed potatoes increased from 134.5 pounds in 1991 to 141.9 pounds in 1999, a 5.5 percent increase. Technology-driven improvements in quality have played a significant role in these increases and will continue to produce better products that meet consumers needs.

Export Demand

U.S. growers of all vegetable products exported nearly eight percent of all their supplies. This compares with 19 percent of all fresh fruit (excluding bananas) and 10 percent of all fruit and nuts. Canada receives the bulk of these exports. While exports have been less important to U.S. vegetable growers than the impact of imports, the loss of this export market would have devastating consequences for U.S. growers. Canada will continue to be an important market for U.S. vegetable products, but increases in greenhouse supplies will have consequences not only because of increased imports from Canada into the U.S., but also because of decreased demand for U.S. products in Canada as greenhouse supplies replace U.S. field grown supplies.

Outlook

The long-term outlook is for continued growth in demand for vegetable products. The industry has been quick to respond to this increased demand. Grower incomes are and will continue to be driven by weather and foreign trade. Grower incomes improved in 1998 following the stabilization of the Mexican peso after the peso crisis of 1995 and the resolution of the trade dispute with Mexican tomato growers in 1996. Most grower incomes have since declined for many vegetables and there remain many challenges ahead for U.S. growers. The largest growth area in the industry continues to be greenhouse vegetables. U.S. growers will need to continue investing in their operations to compete in these markets.

The vegetable market is dynamic and will continue to evolve. There are opportunities for those growers positioned to exploit export markets. Continued economic growth in global markets is critical to U.S. growers, not only for opportunities they afford our growers but also for the demand they provide for vegetable products worldwide. There will continue to be significant competition in the global market for vegetable products. Growth in greenhouse supplies from Canadian and European markets is expected to continue, and will continue to pressure prices received by U.S. growers of field-grown vegetables.

References

USDA Economic Research Service. Vegetables and Specialties Situation and Outlook. USDA ERS-VGS-281. July 2000.