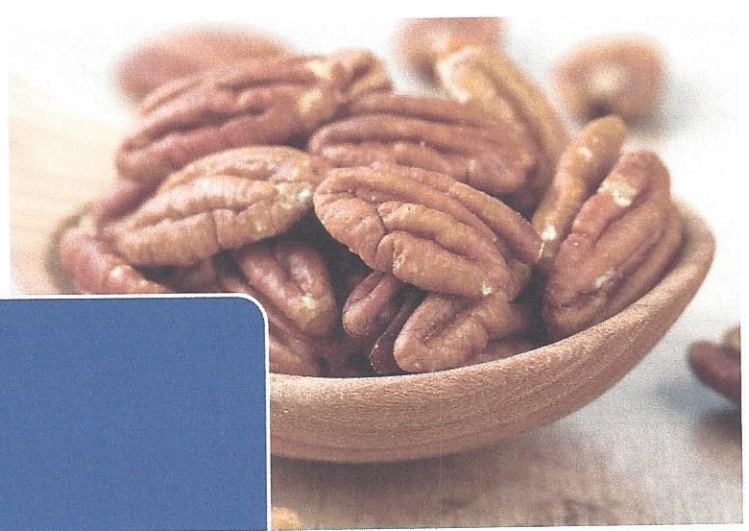




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# U.S. Pecans

## Fighting for Their Share

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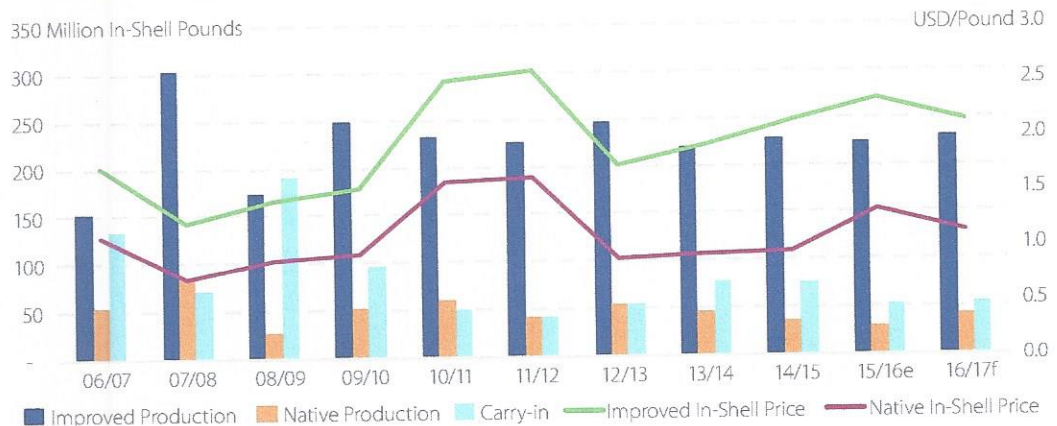
Pecans are the only nut native to the United States: nearly 30% of production is harvested from the 'yard crop'—native and seedling trees grown and produced on small farms, in rural homes, or on riverbanks—when prices are favorable.

Almost 100 years ago, producers in Georgia began planting large swathes of land with improved varieties, which were budded to rootstock and produced higher-yielding, quality nuts. Plantings of improved varieties have continued in commercial orchards, especially in western states. More recently, production in other countries has also increased, creating additional competitive pressures for U.S. producers and processors. As a result, prices will see downward pressure in the medium term. Growers and processors recently approved a federal marketing order (FMO)—as other major U.S. nut sectors have successfully done—which could help them improve their collaboration, as well as promote better research and marketing.

### Production Is Steadily Increasing

U.S. pecan production has averaged 277m in-shell pounds in the last ten years, compared to 255m in-shell pounds the previous ten years. The USDA estimates the 2015/16 U.S. crop to be 254m in-shell pounds, which some industry observers believe to be slightly conservative. The next crop is expected to be better, since weather has been favorable to date. Last fall's harvest was negatively impacted by rainy weather in parts of the U.S. and Mexico.

The 2015/16 Mexican pecan crop was approximately 250m in-shell pounds, despite heavy rains during harvest. According to estimates, about 60% of it is exported to the U.S., 20% to China, while the remainder is consumed domestically. Observers expect Mexico's harvest to increase by over 30% within the next ten years. South Africa's pecan production is booming, amounting to nearly 20m in-shell pounds this year, and many industry



Source: USDA, Rabobank 2016

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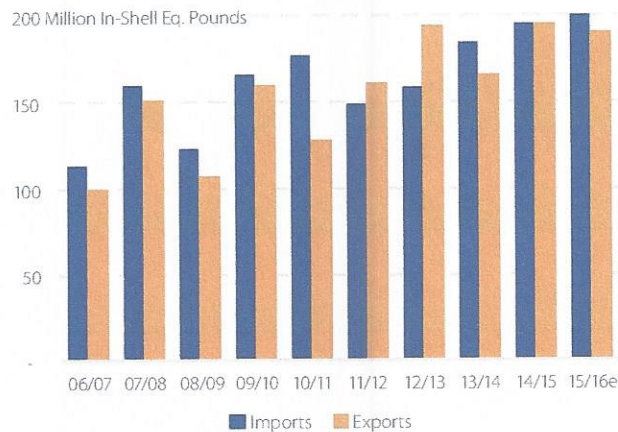
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observers expect production to increase as much as four-fold within the next decade, significantly improving the country's competitiveness. Australia's average pecan crop is no more than 15m in-shell pounds.

### Exports Are High

U.S. pecan exports have been increasing 9% per annum during the last ten years. By volume, a majority of the growth has been occurring in China, the EU, and Vietnam. These regions have, respectively, increased their consumption by 40m, 24m, and 19m in-shell equivalent pounds.

While most markets use pecans as an ingredient, the Chinese typically consume them as a snack. They import them in-shell and then pre-crack, roast, and flavor them for sale as individual nuts. China has created some additional competition for U.S. pecan processors by directly buying larger, higher-quality pecans from U.S. growers. South Africa pecan producers enjoy a competitive advantage over U.S. exporters, since their crop is harvested countercyclically, making it easier for Chinese buyers to supply their markets for the Mid-Autumn and Chinese New Year's festivals.



Source: USDA/FAS, Rabobank, 2016

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### Pecan Prices Are Also High

In 2015, pecans accounted for roughly 7% of the total value of U.S. nuts (not including peanuts). Recent U.S. improved pecan prices have been as much as 20% higher than the historic ten-year average of USD 1.89/in-shell pound, because of the reduced crop this year. The ten-year historical average all-pecan price paid to growers was USD 1.75/in-shell pound, and the prior ten years, the average in-shell price paid to U.S. pecan growers across all varieties was USD 0.92/pound. Growing global demand has pushed prices up.

If pecan growers and processors fail to successfully augment their marketing of pecans, average prices will decline as production continues to increase, especially in Mexico and South Africa. Production below the Equator will moderate the price spikes enjoyed by U.S. growers prior to the Chinese holidays. At the same time, the lower, more stable price will increase consumption in the U.S. and abroad.

The American Pecan Council will serve as a platform for growers and processors to work together and ultimately sell more nuts.

### U.S. Pecan Growers and Processors Are Partnering to Sell More

The recently approved FMO, the American Pecan Council (APC), will serve as a platform for growers and processors to work together and ultimately sell more nuts. The board will be funded by assessments, ranging from USc 1/in-shell pound to USc 3/in-shell pound, depending on the pecan category and grade. This platform is designed to help unite growers and processors across the U.S., building better relationships of trust among growers and processors. The success of the APC will be evident if prices and demand increase, while expanding production.

## What's the impact?

- U.S. pecan production will continue to increase, especially in western states.
- If greater research and marketing efforts are not successful, pecan prices will decline as worldwide production increases.
- The U.S. will experience more competition for the Chinese market, as Mexican and South African production increases.
- Growers and processors will find it necessary to collaborate more on new research and marketing programs.

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