



Market Report



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The pistachio bloom is behind us, and water shortages and navel orange worm pressures lay ahead. Expectations for the 2014 crop are lower now than before the bloom. Above normal rainfall in February, March, and April has not eased the regulatory drought in California agriculture. Shipments continue to lag behind last year, with minimal sales activity on old crop. There is some interest in booking 2014 crop, mostly from Europe.

The pistachio bloom was unusual, to say the least. In the 30+ years we've been in the business, we've never seen such a disparity in bloom between the male and female trees. The females were the precocious ones, blooming well over a week ahead of the males. In addition, the bloom was very protracted. In numerous orchards the bloom on the north side of the trees was well ahead of the bloom on the south side of the trees! If you'd like to read more about the bloom, here are two excellent articles from UC Farm Advisors Bob Beede (emeritus) and Craig Kallsen:

http://ceking.ucanr.edu/newsletters/Pistachio_Tasks51034.pdf

http://cekern.ucanr.edu/newsletters/Pistachio_Notes_Newsletter51195.pdf (piece on chilling starts on 3rd page)

Like most things pistachio, we don't know the impact of the bloom. That being said, we only see potential for the unusual bloom to reduce the size of the crop. The disparity in bloom timing between male and female trees **may** impact the crop; the variation in bloom **will** impact the crop size. 2006 was the last time we saw poor chilling and variable maturity similar to this year. The 2006 crop was disappointing, and less than what was estimated by the industry. In hindsight, it was mostly due to high blanking (bloom issue) and lower recovery of pistachios from the orchard.

We don't have a term for "lower recovery" in the pistachio industry, but the thought we're trying to convey is how much of the crop on the tree actually ends up being harvested, processed, and marketed. Generally, pistachios are a one time harvest. If the maturity on the tree is such that 20% of the nuts are immature, 60% are mature, and 20% are overripe, the recovery will be different (and much less) than a situation where 5% of the nuts are immature, 90% are mature, and 5% are overripe. Looking at the tree from May to August, we can't see these maturity differences, but they are there, and account for a large part of the uncertainty about the crop each year. In recent years, many growers have gone to multiple harvests, and this helps some, but does not eliminate increased losses when there is great maturity variation. We are facing a situation this year with high variability, and expect the final **harvested** crop to be smaller than it appears.

Water availability is still the number one issue in the California pistachio industry, and for California agriculture in general. Well above average rainfall in February, March, and April has not appreciably reduced the drought. Water allocations are still at zero to 5%, and tens of thousands of permanent crop acres (almonds and pistachios primarily) have limited or no surface water. Due to pistachio's salt tolerance, we continue to believe water shortages will not impact the 2014 crop in a significant way.

Navel Orangeworm consumer complaints continue to rise. It is a major point of conversation with every one of our retail customers. We are combatting the issue in the field through increased awareness, significantly increased grower premiums for clean product, and review of best practices in the field. Navel Orangeworm is truly our Achilles heel. Our industry is very strong, with an excellent tasting, nutritional product. There are strong marketers within the industry and throughout the retail sector. However, if we don't listen to our consumers, we're in trouble. For every customer complaint made back to a store, there are many more consumers who silently decide not to buy pistachios any more.

Shipments continue to lag, especially domestic inshell shipments. The one very bright spot is the kernel business. It was expected for kernel volume to increase this year, as there was more shelling stock (closed, stained, etc) in the 2013 crop than the 2012 crop. What wasn't expected were 20% to 30% price increases in addition to the 20% volume increase. Pricing of current crop inshell and kernels are in the \$5/lb range for inshell, and \$10/lb range for kernels. We've had some inquiries on 2014 crop, but most of this interest is at prices significantly lower than current crop pricing. Given the uncertainty about the 2014 crop due to bloom and water issues, we don't expect much activity. Our estimate of the 2014 crop prior to bloom was 600 to 650 million pounds. Post bloom, we see the range as 500 to 600 million pounds. Less crop AND greater uncertainty about the crop size is our feeling about the 2014 crop.