# Price Predictions

**Lower consumption and larger inventories of OJ may hurt processed prices for the 2008–2009 orange crop.**

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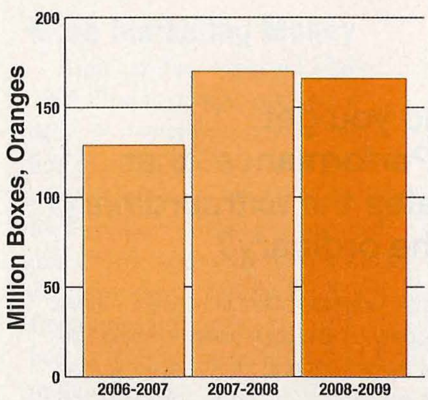
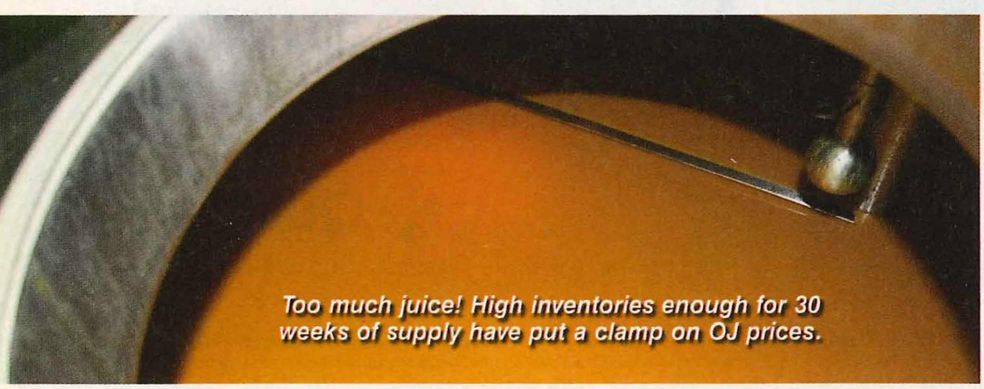
On Oct. 10, the Florida Agricultural Statistics Service released its 2008–2009 citrus crop forecast. The forecast was for an orange crop of 166 million boxes to be produced — a crop slightly smaller than the 170 million boxes marketed in 2007–2008, but considerably larger than the 129 million boxes harvested in 2006–2007.

The last two seasons have witnessed a roller coaster ride for processed orange prices with the small crop of 2006–2007 producing record delivered-in prices of nearly $2 per pound solid for Valencias. The larger crop in 2007–2008 combined with slower movement at retail resulted in inventory accumulation of FCOJ, and consequently, delivered-in prices declined through most of the 2007–2008 season with the average delivered-in price being $1.39 per pound solid. Orange juice inventories at the end of the 2007–2008 season totaled nearly 30 weeks of supply. This large inventory, combined with a crop of 166 million boxes, suggests that grower prices will likely be lower (although not dramatically lower) in 2008–2009.




## Consumption Assumptions

Let's put the 2008–2009 in perspective by first noting that a crop of this magnitude will produce more than one billion single-strength-equivalent (SSE) gallons of orange juice. While the U.S. orange juice market used to exceed 1.5 billion gallons of consumption, Atkins and other "low-carb" diets followed by higher retail orange juice prices cut estimated U.S. orange juice consumption to 1.089 billion SSE gallons in 2007–2008. The 2008–2009 crop will be almost sufficient to meet U.S. orange juice consumption.



Too much juice! High inventories enough for 30 weeks of supply have put a clamp on OJ prices.

## Processed Prices

Florida remains a primary supplier of orange juice to Canada, but the U.S. will import nearly 400 million SSE gallons in 2007–2008 (according to the U.S. Department of Commerce). The Brazilian orange crop is down substantially in 2008–2009, but imports also come from Mexico, Costa Rica, and Belize. All of these figures add up to suggest that grower prices for both early-mid and Valencia oranges sent to the processor will decline in 2008–2009. The Florida Department of Citrus recently released its crop outlook and suggested an average delivered-in price of $1.20 per pound solid, but this figure includes both cash-market and contract plans. It is likely that the cash market will be lower, and cash prices for early-mid varieties may struggle to average $1 per pound solid.

## Inventory Accumulation

What needs to happen to turn grower prices around? The big culprit in lower grower prices is the large juice inventories. It took just one season of higher production and lower consumption to cause the accumulation of large inventories. The last time the industry faced inventories of this magnitude was after the near-record crop of 2003–2004. It took two years of hurricanes (2004 and 2005) and the exceedingly low crop of 2006–2007 to work off the inventories accumulated by the end of the 2003–2004 season. This author does not want to live through two years of hurricanes again. Without a major weather event, however, it will take a few years to decrease inventories to more favorable levels. So while I remain bullish about prices in the long term, the price outlook for the next few seasons is not favorable. FG

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