



Gaining Command Of OJ Demand



By Tom Spreen
tspreen@ufl.edu

There has been considerable discussion recently regarding concerns that with decreased per capita consumption of orange juice, U.S. orange juice demand is sagging. In fact, some analysts have used this reasoning to suggest why the futures market price has remained below \$1.50 per pound solid even with a less than robust crop forecasted for the 2007–2008 season.

The “law of demand” states that other things being equal, as prices increase, consumption will decrease, then when supplies are plentiful, prices will be relatively low. When supply is short, prices increase in order to

ration off decreased availability, and hence consumption decreases.

Consumption vs. Production

For most agricultural commodities, per capita consumption is measured by dividing total production by population. For a product such as orange juice, which can be stored, an inventory adjustment must also be included. Since actual consumption is not directly observed, per capita consumption figures should more accurately be called “per capita production,” because this is how these numbers are calculated.

Net Effect Of Smaller Citrus Crop

The last three seasons have witnessed significantly smaller orange crops in Florida due to a number of factors. The near-record crop of 242

million boxes in the 2003–2004 season has been followed by three crops at or below 151 million boxes.

After reaching a record of nearly 890 million single-strength-equivalent (SSE) gallons in 2000–2001, consumption as measured by AC Nielsen began to sag. As lower consumption in 2001–2002 through 2003–2004 was not accompanied by a price increase, there is evidence that demand was declining. Research has provided some support that this decline was caused, in part, by the “low-carb” diet craze. By 2004, however, the low-carb diet fad had waned, and demand appeared to stabilize.

Consumption continued to decline in 2005–2006 and again in 2006–2007. These declines, however, were accompanied by substantial price increases with the weighted average retail price of orange juice being \$5.45 per SSE gallon in 2006–2007, a record high.

Bucking A Bad Trend

Retail sales figures increased from 1998–1999 through 2000–2001, peaking at \$3.87 billion. When the effect of the low-carb diet craze was felt in the 2001–2002 through 2003–2004 seasons, sales declined, reaching \$3.56 billion in the 2003–2004 season — a decline of nearly 10% from the peak in 2000–2001. Even though OJ sales as measured by AC Nielsen continued to decline in 2004–2005 and 2005–2006, this figure made a dramatic turnaround in 2006–2007, rising to \$3.68 billion.

Therefore, the story of U.S. orange juice demand over the past nine seasons is not a simple one to tell. Expanding demand at the end of the 20th century was followed by a period of declining demand in 2002 through 2004. The data suggests, however, that this trend has ended. The results for 2006–2007 are encouraging to the industry. **FIG**

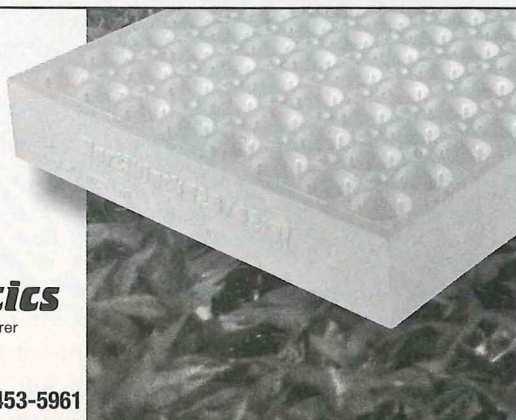
Tom Spreen is professor and chair of the Food and Resource Economics Department with the University of Florida.

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