

By avocado expert and Green Earth Produce business development manager Avi Crane

✘ When avocados from Chile first arrived in the U.S. in September 1985, the weekly demand for avocados was under 7 million pounds. Weekly supply above that level would carry into the following week as unsold inventory and the market would react accordingly. As we start the third quarter of 2014, demand at strong freight on board (FOB) prices is 44 million pounds a week.

Ten years ago, this author forecast, most incorrectly, that avocados from Chile would average 25% of the total annual consumption of avocados in the U.S. Year to date, Chilean avocados are at an unimpressive market share of 7.8%.

In 2013, the final figure was a 3.05% annual market share. Chilean avocado exporters and their long-time receivers in the U.S. understand the market dynamics that have resulted in the fruit going to alternative markets, including the Chilean domestic market.

Whether by design or chance, the avocado growers and exporters in Peru are following a different business model. During the past decade, Peru has developed a strong presence in the European avocado market by successfully competing with the avocado harvest from South Africa.

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I forecast in my last review that Peru would ship 140 million pounds to the U.S. in 2014, despite having gained market access just three years ago. I now calculate that 180 million pounds of Peruvian Hass will be consumed in the U.S. this year. This will give Peruvian avocados close to a 20% annual market share in 2014. The country will continue to play a key role in the supply of avocados to North America during the June to September period. Avocado crops in California (even on above average yield years) and Mexico, even with Jalisco gaining access to the U.S., will not be able to supply the third quarter avocado demand in North America.

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Third Quarter 2014 - Projected Weekly Shipments by COO in Pounds

Today's Avocado Market

Avocado shipments in June 2014 hit a monthly record of just under 200 million pounds, equaling an annual consumption of over two billion pounds. The wholesale value of annual avocado sales is reaching US\$2.8 billion. Even with this volume surge, FOB levels have

remained more or less stable and industry inventories have remained in a manageable level. Retailers and foodservice operators have again seen their avocado sales reach yet another milestone in demand level.



Third Quarter Projected Avocado Size Curve vs. Normal Demand Size Curve

The challenge and the opportunity in the 3rd Quarter of this year will be the market adjusting to the atypical size curve that will peak on 48s and 40s instead of the normal 60s and 48s. In order to maintain current point of sale (POS) unit prices, retailers will have the opportunity to display at least one size larger than normal. Per unit cost of 60s (and possibly 70s) will exceed the level of 40s and larger. Already, FOB prices on size 60 domestic and Mexican Hass exceed those of all other sizes.



Third Quarter Demand vs. Supply in Pounds. Demand based on actual June 2014 consumption

Third quarter, 2014 by country of origin

Mexico

As is typical, during the third quarter the avocado harvest in Mexico will transition from the old crop ("Negra") to the Off-Bloom ("Flora Loca") and then, at the end of September to the "Aventajada". While the market share of Mexican avocados will be below 50% during this quarter, the weekly volume projections in this report assume a much higher shipment level of Mexican avocados to the U.S. than in 2013.

U.S.

The avocado harvest in California peaked early in 2014, which was the result of three main factors: 1) an extreme heat wave in the second quarter; 2) producers' need for cash flow and: 3) the high field prices offered by packing houses. The volume projections above assume a total yield of 275 million pounds in California this season. While the industry was assuming a larger or huge crop in 2015, I believe the high temperatures during the critical flowering period in April and May make the probability of a bumper California avocado crop in 2015 highly unlikely.

Chile

The volume projections for the third quarter do not assume any volume from Chile.

However, based on the return from the Chilean domestic market and from other export destinations, the North American market could very well receive some respectable avocado volume (peaking on 60s) from Chile in late August or early September.

Peru

The Peruvian avocado industry will again prove to be a reliable supplier of quality avocados to the North American market. One can only imagine the enormous avocado shortage this summer in the U.S. if the United States Department of Agriculture (USDA) hadn't granted Peru avocados market access three years ago. This year will establish Peru as one of the top three avocado suppliers to the North American market.

During the second half of this quarter, Peruvian avocados will have the highest avocado market share in California, which is the state with the highest per capita consumption of avocados in the country, accounting for 25% of the nation's annual avocado consumption.

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