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# Will the Market Be Berry Different Than Last Year?

## 2020 Strawberry Outlook Update

### RaboResearch

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## Summary

- Strawberry planted acreage in California is up YOY in 2020 from its lowest level in almost 15 years, and increased plantings in the Santa Maria producing region continue. Florida's acreage remains flat, while strawberry plantings in Mexico continue to expand.
- Updated estimates, based on our proprietary analytical tool, show that weekly strawberry shipments will increase in 2020, especially during the California peak season in May and June, bringing prices down in specific weeks, compared to observed prices in 2019.
- We now include estimates for the organic strawberry market. Higher yields and acreage will boost weekly shipments during spring/summer 2020. Despite general price pressure, there are market windows with potentially more favorable opportunities in the organic space for cost-competitive firms.
- With these estimates, we update and extend our weekly market outlook, providing our clients with information for their capital investment planning as well as for marketing decisions.
- Impacts from Covid-19 are a mixed bag for the strawberry industry. Foodservice sales are in decline, while retail grocery sales have jumped. Labor availability is being negatively impacted and remains the biggest issue.

## A Brief Review

In 2019, we developed a proprietary analytical tool to estimate weekly strawberry shipments and prices for the US market. The related report was well-received by clients and industry players, as our price estimates were very close to the actual data, especially during the peak season in California during early summer. In the 2020 version of the strawberry market outlook, we not only aimed to update price estimates for conventionally grown strawberries, but we also extended the model to include organic strawberry estimates for weekly shipments, prices, as well as for organic price premiums.

## Combined Planted Acreage at a Multi-Year High

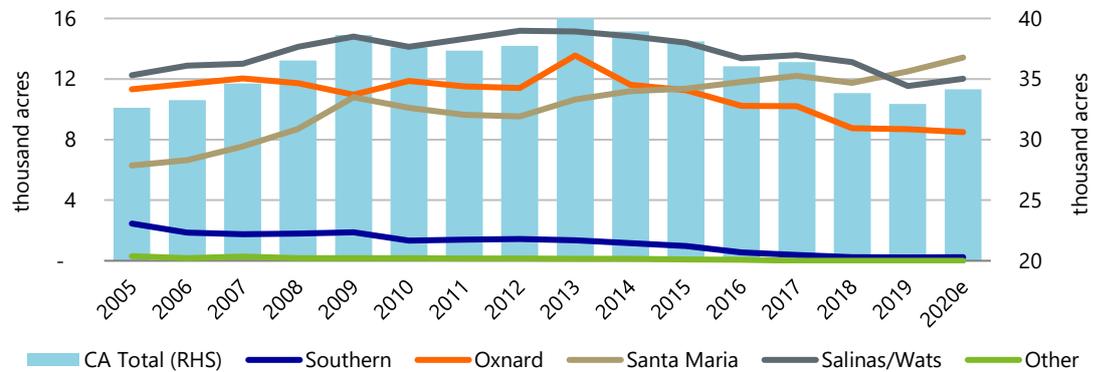
In 2020, total strawberry planted acreage in the main producing regions in the US and Mexico will hit a multi-year high. Estimated at almost 76,000 acres for the present season, combined planted area is about 5% higher YOY and the highest in the last five seasons.

According to industry estimates, planted acreage in Mexico increased by 8% YOY during the current marketing year, to 30,400 acres. This growth occurred mainly in Central Mexico, where they planted 10% more acres than in the previous season to reach over 24,000 acres, while plantings in Baja increased by only 2% YOY to surpass 6,000 acres this marketing season. On the other hand, plantings in Florida have remained between 11,000 and 12,000 acres during the last few years, and acreage this season was not very different than in the recent past.

Total planted area in California, expected at over 34,000 acres, will be the largest since the 2017 marketing year. For the second consecutive season, the Santa Maria growing region will have the largest share of total planted acreage in California with almost 40%. The Salinas/Watsonville area will plant about 35% of the state's total strawberry acreage, whereas Oxnard will keep about 25%

of the acreage (see Figure 1). These numbers include fall-planted acreage and summer-planted acreage, as well as organic and conventionally grown strawberries. For a graphical description of the weekly shipment shares by growing region, see our 2019 report [Price Signals at Work in the Strawberry Market](#).

**Figure 1: Total planted strawberry acreage in California by marketing year, 2005-2020e**



Source: California Strawberry Commission, Rabobank 2020

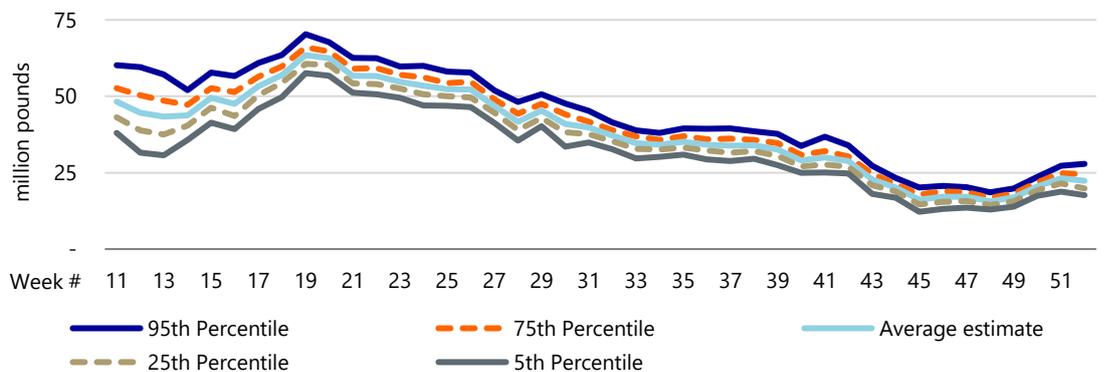
Fall-planted acreage in California, for winter, spring, and summer production, increased about 4% YOY, to almost 27,000 acres, with Santa Maria increasing 7% YOY and Salinas/Watsonville planting 4% more compared to the previous season. In terms of geographical distribution, plantings in Salinas/Watsonville account for about 45% of the fall-planted acreage in the state, while Santa Maria's share is about 35%.

As for summer-planted acreage, aimed for fall production, this will grow about 1% YOY in 2020 to over 7,100 acres, according to the California Strawberry Commission. Santa Maria's summer plantings will grow 7% YOY and will represent about 54% of all summer plantings in California. With this, Santa Maria is confirming its place as the only growing region in the US that is commercially shipping strawberries year-round.

## Prices Under Pressure in Specific Weeks

With acreage estimates as a basic keystone, we are also taking seasonal weekly yields by growing region into consideration, as well as increasing yields, due primarily to improved cultivars. We also incorporate a risk component that is intended to capture shipment variability due to several factors, including potential weather shocks. Thus, our estimates include probabilistic ranges instead of single-point estimates. For week 16, our average shipment estimate is 47.5m pounds, with a 75% probability of being below 51.4m pounds (75<sup>th</sup> percentile) and a 50% chance of being between 43.5m pounds and 51.4m pounds (see Figure 2).

**Figure 2: Estimated weekly conventionally grown strawberry shipments to the US market in 2020**

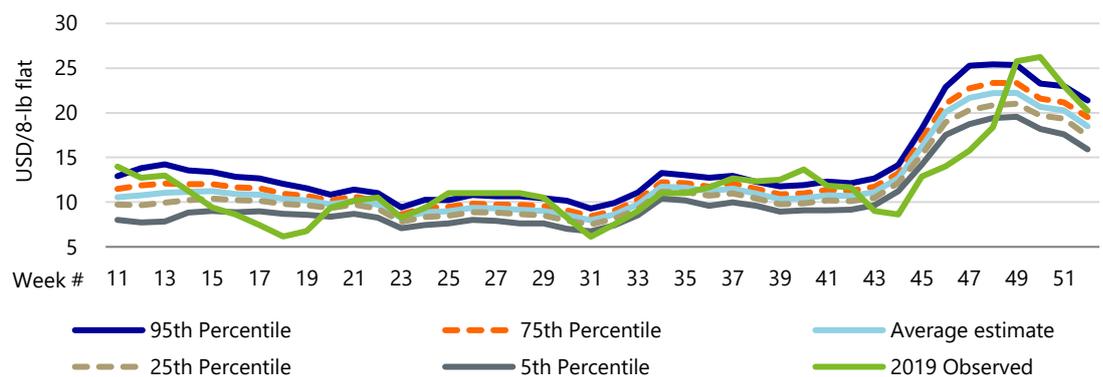


Source: Rabobank 2020

The wider variance in our shipment estimates during weeks 11 to 18 reveals not only increased weather risk during early spring, but also higher shipment-disruption risk due to transitions in growing regions. In particular, during this time, shipments from Florida and Mexico usually end, and production out of Santa Maria and Salinas/Watsonville ramps up.

Higher weekly shipment levels will have differentiated impacts on weekly conventionally grown strawberry prices, as we are also taking into consideration seasonal weekly variations in consumer demand for strawberries. In general, we are estimating lower YOY prices for many weeks for the May-August period (see Figure 3). For week 26, we estimate an average price of USD 9.37/8-lb flat, with a 5% chance of being below USD 8.02/flat and a 90% chance of being between USD 10.81/flat and USD 8.05/flat. Our average price estimate for week 26 in 2020 would represent a 15% drop with respect to the price observed during the corresponding week in 2019. We expect higher YOY prices during most of the fall, which is in line with historical prices for the season.

**Figure 3: Estimated shipping-point prices for conventionally grown strawberries in the US in 2020**



Source: Rabobank 2020

Our price estimates capture the interaction between supply and demand, including underlying risks. We acknowledge that current conditions, due to the Covid-19 outbreak, have the potential to considerably impact the strawberry market.

If supply is negatively impacted, due to labor shortages or any other supply chain disruption due to Covid-19, combined with increased demand for strawberries as a healthful food option, then the probability of seeing prices above our 95<sup>th</sup> percentile would be higher than 5% during some weeks. On the other hand, if supply is not significantly impacted, and demand is down due to recessionary impacts, then there would be a higher-than-normal probability of observing prices below our 5<sup>th</sup> percentile. We discuss potential impacts from Covid-19 in the last section of this industry note.

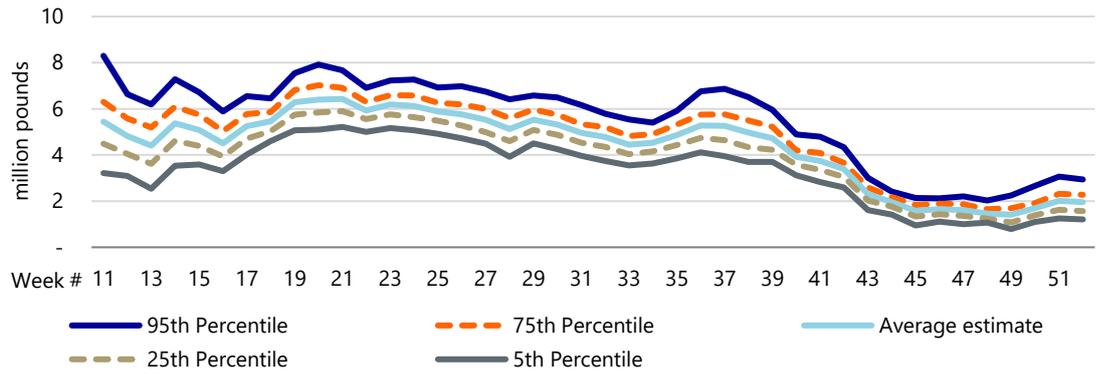
## Seasonal Opportunities in the Organic Space

Planted organic acreage will be around 12% of total planted acreage in California during the current marketing year, a similar proportion to that in the previous season. The highest concentration of organic plantings are in Salinas/Watsonville, with almost 17% of the regional plantings, and Santa Maria, with almost 14% of the plantings being organic, about one percentage point higher than in the previous year. Organic production in Oxnard and Southern California are less relevant.

Organic strawberry production will likely hit its peak during week 21. We estimate shipments at 6.34m pounds during that week, with a 50% chance of being between 5.9m and 6.91m pounds, 25th percentile and 75th percentile, respectively.

Our average estimates show that the largest ratio of organic shipments to total shipments, at around 13%, is between week 35 and week 40 in 2020. The proportion of organic production sits at around 8% after week 44.

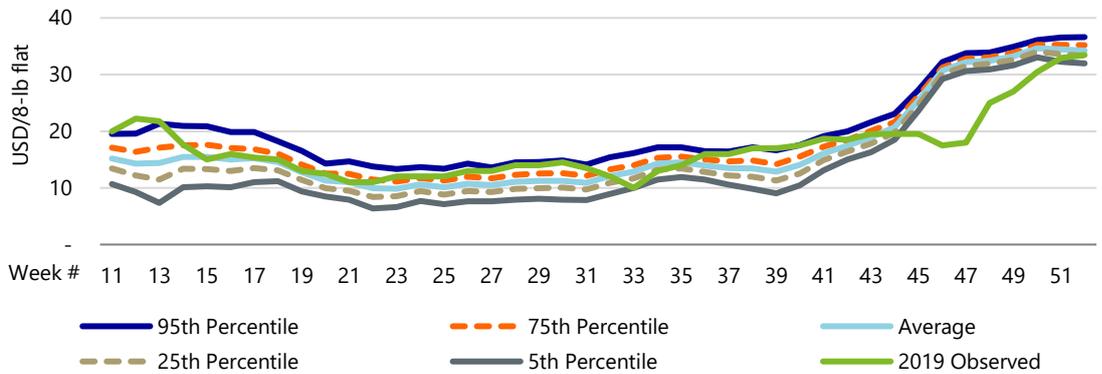
**Figure 4: Estimated weekly organic strawberry shipments to the US market in 2020**



Source: Rabobank 2020

Under normal market conditions, organic prices will be down YOY during most of the weeks in 2020. For week 26, we expect average organic prices to be around USD 11.26/flat, down about 22% YOY. In estimating weekly organic strawberry prices we also accounted for conventionally grown strawberry shipment levels, to capture the full supply-price interaction in the category.

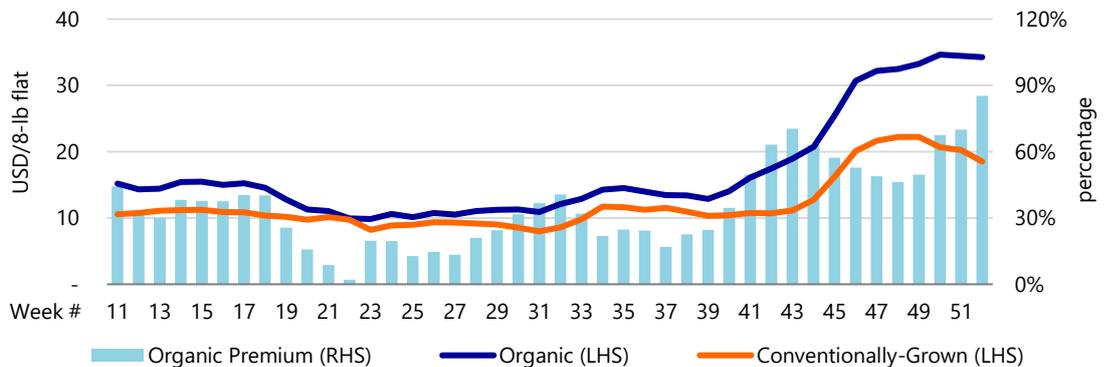
**Figure 5: Estimated shipping-point organic strawberry prices in the US market in 2020**



Source: Rabobank 2020

As a general trend, annual average organic price premiums for strawberries have been under pressure during the last few years, as organic shipments have expanded rapidly. As the segment of consumers that demand organic strawberries ‘all the time’ has been satisfied, increased shipments are facing a segment of consumers that are more price-sensitive. For more information on this, please see the Rabobank report on the [North American organic produce market](#). Whereas the above is true for annual average price premiums, opportunities exist in specific market windows.

**Figure 6: Average weekly estimated shipping-point prices and organic premiums in the US in 2020**



Source: Rabobank 2020

We estimate the lowest average organic price premium to occur around week 21. Weekly organic price premiums are likely to be under 30% in several weeks in late spring and during the summer. Higher price premiums are likely after week 40 in 2020.

Lower organic price premiums for fresh strawberries during most of the summer may create the incentive to divert some of the production to the frozen or processed markets.

## Some Comments on Market Outlook

Increased competition in the berry space, along with potentially record strawberry shipment levels to the US market, may lead to a price-challenging summer season in 2020. On the other hand, the current low stocks in the frozen and processed strawberry markets and the eagerness of buyers to secure product should help to create a more stable price floor for fresh strawberries.

Strawberry per capita consumption in the US has been growing at a modest rate during the last decade, compared to double-digit growth rates in other berries. But, strawberry per capita consumption is still king in the berry patch in terms of volume. Opportunities to attract new consumers are always present, either by focusing on specific local market niches, improving sustainable packaging, organic production aimed at specific market windows, or other types of product differentiation. Rising labor costs and increasing regulation in most of the growing regions will continue to be relevant challenges, which may continue to fuel changes in growing regions.

## Covid-19 Impacts

Changes in the status of the Covid-19 (coronavirus) pandemic are being reported daily, and the situation is very fluid. At the time of this writing, no shipping disruptions specific to strawberries have been reported. While transportation bottlenecks are being reported for some other crops, North American strawberry trade is largely confined to the North American continent, due to the high perishability of the product. Some shippers do sell into a more global market and could be impacted by shipping delays. However, North American strawberry exports to more distant countries often occur by private charter air transport, which is likely to be less impacted.

The most detrimental, potential supply-side impact to the US strawberry industry is the safety and availability of farm employees, particularly as California's peak strawberry season is rapidly approaching. The US embassy in Mexico announced that it would suspend processing many types of visas. The US Mission to Mexico (who processes most H-2A visas) is still planning to process H-2A visas, and they are giving priority to returning workers who do not require interviews. We do expect a slowdown/delay in H-2A workers arriving to the US, because procedures are having to adapt to provide for recommended social distancing. Agriculture groups are aggressively working with the government to ensure that even H-2A visas that require interviews can be efficiently processed. Any Covid-19 outbreak among farmworkers already in California would also be a huge setback in labor supply, but so far, no problems have been reported.

Potential demand-side impacts of Covid-19 are a mixed bag for the strawberry industry. Foodservice sales have crashed, as public events are rapidly being cancelled, and consumers are less willing to travel and eat out-of-home. The broader, macroeconomic impacts of Covid-19 may result in a 'hangover' effect that could negatively impact out-of-home food purchases, even after the virus is contained. At food retail stores, sales are surging. What was once a run on items like toilet paper, hand sanitizer, and bottled water has now become a run on all grocery items, including fresh strawberries.

Strawberries rank high on the list of fruits with high vitamin C content that help to improve the immune system. Promotion of strawberries as a good source of vitamin C may become a relevant demand driver in a virus-stressed environment. There is also a reported uptick in at-home food delivery, as consumers are less-willing to be in public settings. Newer marketing channels, such as online grocery shopping – including fresh strawberries – will be increasingly relevant and may be one of the long-lasting impacts from the coronavirus outbreak (i.e. permanent change in consumer buying habits).

# Imprint

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