California Agriculture: Outlook ‘99

Editors’ Introduction

California agriculture continues to adjust to the scenario of increasing limits on its use of resources and uncertainty in its foreign markets. The industry’s success in doing so led to gross sales of $26 billion in 1997 and is expected to have produced similar sales in 1998, although El Niño adversely affected quality and quantity of some commodities. The prospects for 1999, in general, are for approximately the same level of success, despite continued changes in the competitive environment faced by the industry.

Below is a brief summary of the outlook for California agriculture. The information is from a presentation made in December 1998 by Jerome Siebert, Extension Economist from UC Berkeley, during a conference organized by the UC Agricultural Issues Center. For more information from the conference, readers can contact the AIC at 530-752-2320.

General Outlook

California produces a widely diverse group of commodities and, overall, is expected to see revenues and profits at levels in 1999 that are similar to those of the past few years. However, the prospects for specific products or groups of commodities are going to vary widely as production and market conditions change. For example, acreage continues to shift to higher-value crops as increased population, urban and environmental pressures increase the cost of water, land and other inputs. Added to these pressures has been the Asian financial crisis that has introduced increased uncertainty into lucrative export markets.

The gross value of production per acre for vegetables has been much higher than the value of fruits and nuts and field crops over the past decade. In 1988, vegetable revenues averaged $2,960 per acre, but increased to $4,700 by 1997. Fruit and nut crops averaged $3,640 per acre in 1997, while field crops generated only $810 per acre. Increasing costs pressure producers to shift into higher value crops to maintain return-on-investment levels adequate to justify continued use of land in agriculture rather than the expanding options for nonagricultural use made possible by the urbanization of the state.

Agricultural exports from California remained steady in recent years, totaling $6.7 billion in 1997. However, exports of bulk commodities were down 12 percent while high value product exports increased 5 percent. Leading export commodities during 1997 were cotton ($825 million), almonds ($818 million) and oranges ($307 million). Continued growth in exports depends on a number of factors; the two primary ones being the value of the dollar and economic growth in the rest of the world.

Outlook by California Commodity Groups

The fruit, nut and vegetable sectors all are expected to have continued growth in acreage and sales revenues in 1999. The abilities of markets to handle the gradual expansion of production in upcoming years will directly affect price levels during the harvest season. In general, demand for these products remains strong.

In 1997 the livestock and poultry sector reversed the decline in which markets had been mired since 1990. The $3.6 billion dairy industry is primarily responsible for this trend. Milk production is expected to have increased in 1998 in response to higher prices, yet prices in 1999 may be stable or slightly higher. This will benefit alfalfa producers as strong demand from dairies should continue. Cattle and calves are responsible for the decline in livestock revenues during the 1990s. Although revenues have increased since 1996, the beef sector is still adjusting production to better match demand levels.

Field crops cover 60 percent of California’s harvested acreage, but economic pressures are squeezing this sector. In 1998 weak international markets impacted prices of field crops and prompted the federal government to substantially increase appropriations for farm supports. In the future such support is less likely, so field crop markets will be variable and reflect international market situations. With relatively low and increasingly variable revenues, these crops are becoming much less attractive to producers, hence the shift in acreage to higher value commodities.

Readers interested in seeing detailed information about California agriculture can visit the web pages of the California Department of Food Statistics Service (www.cdfa.ca.gov) and the California Agricultural Statistics Service (www.nass.usda.gov\ca).