



Smaller Pecan Industry Aiming to Emulate Larger Tree Nuts

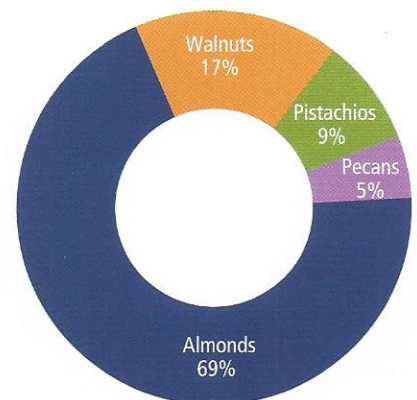
The booming popularity of tree nuts has awakened the pecan industry to hopes of emulating the success of other more widely grown tree nuts. Pecan growers overwhelmingly (77%) passed a federal marketing order (FMO) in March that will fund industry promotion and research through an industry self-imposed assessment of 1 to 3 cents per in-shell pound. Similar programs are credited with enlarging the footprint of California centric tree nuts like almonds, walnuts, and pistachios. With the approval vote, the pecan industry solidified its commitment to becoming a modern tree nut industry, and could be a signal of industry expansion to come as the industry responds to domestic and international demand shifts.

The pecan is the only native tree nut in North America and naturally grows across the southern U.S. and northern Mexico where nearly all commercial pecan production takes place today. It is the state tree of Texas, and a staple in southern confectionary cuisine. While pecans have a storied history, they rank a distant fourth in U.S. production among tree nuts (see Figure 3).

The pace of development for the pecan industry has been gradual. Production in many regions has gone unchanged for decades. Backyard and hobbyist farmers comprise a significant portion of production. The large presence of low intensity producers leads to more weather related production volatility in the industry and it also blurs industry data. FMOs have been proposed several times over the years, but geographical fragmentation and low intensity farmers made it difficult for the industry to see value in an FMO. The consequence was an industry that struggled to benchmark itself and lacked industry data. The industry also lacked funding to organize the promotional and trade activities necessary to fully capitalize on food trends favorable to nuts.

The long-term investment of pecan farming, where trees do not reach mature production for 10 years, leads to slow changes in acreage and production. Producers need to believe price adjustments are due to lasting shifts in demand, rather than temporary responses to fluctuations in supply, before committing to more capital investment. Two fundamental shifts occurred in the last decade that would eventually lead to the creation of an FMO and likely expansion of the industry. One such shift was the emergence of China an export destination (see Figure 4). Historically, the U.S. has been a net importer of pecans, relying significantly on Mexico. China began to develop a taste for flavored pecans in the mid-2000s, and by 2011, export growth to China made the U.S. a net-exporter.

Figure 3: U.S. Tree Nut Production 2.6 billion (shelled) lbs.



Source: USDA (5-year Average)

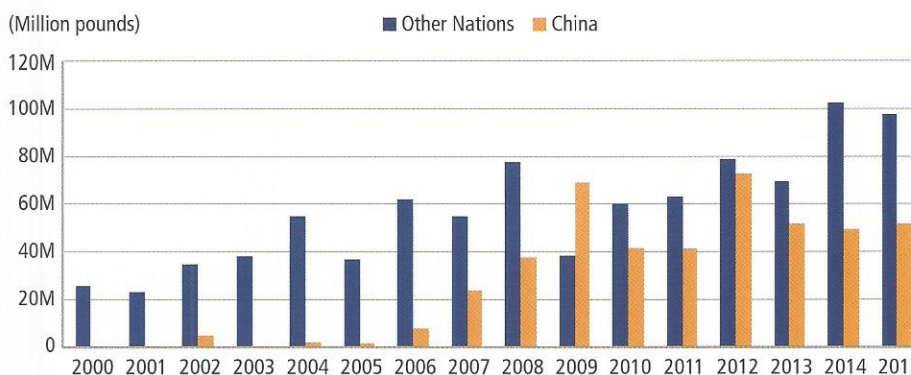
Pecan exports to China have declined from the peak year of 2012. While there is some concern over the economic slowdown in China, Dan Zedan, an industry expert and president of Nature's Finest Foods, Ltd. suggests the lower export figures are due to China's anticorruption measures and high prices.

"It appears that the Chinese Government's anticorruption measures have been successful as pecan shipments to China through Vietnam dropped sharply since 2014 while direct shipments to mainland China has increased considerably. China is also an 'alternate-year' buyer. They buy heavy in the low priced 'on-crop' years and buy less in the 'off-year' crop when prices are higher."

Dan Zedan, President of Nature's Finest Foods, Illinois.

The second shift was the growing domestic demand as research shed light on the health benefits of tree nuts. As a result, consumers are more willing to embrace fats and are seeking out non-animal based proteins. Pecans have been shown to lower "bad" cholesterol, and contain high levels of vitamins, minerals, antioxidants, and fiber. While pecans have benefited from health trends, disproportionate industry funding has created disparity between the amount of research devoted to pecans and that devoted to almonds, pistachios, and walnuts. The general view in the pecan industry is that there is additional untapped opportunity among health conscious consumers.

Figure 4: U.S. Pecan Exports



Source: USDA FAS

These demand shifts elevated prices and stirred external interest in the pecan industry. In our view, the upward price trend has been sustained long enough to entice producers to expand production. This opinion is supported by anecdotal reports of several large investments that have been made recently in the pecan industry by institutional farm investors. The realization of the industry's potential also ignited the formation of the FMO. We believe the new FMO will position the pecan industry to enter an expansion phase. Data collection provided by the FMO will add transparency to the industry and better define marketing strategies to support demand growth. The pecan industry is hoping to emulate the success of almonds and pistachios, which experienced explosive growth over the past decade. While the pecan industry is still relatively small, the acreage base is expected to rise, and more intensive cultural practices are expected to compound the effect on total pecan output. The funding of pecan promotion programs through the new FMO should increase consumption in order to keep demand in balance with supply, which will likely grow over the next decade.

Invited contributor: Trevor Warren, Associate, Western Regional Office

Endnotes

¹Includes corn, soybeans, wheat, cotton, rice, hay, sorghum, barley, oats and canola

²<http://www.ers.usda.gov/publications/err-economic-research-report/err152.aspx#.Ugjd-WRgYU4>

³[http://ageconsearch.umn.edu/bitstream/129168/2/\(2\)%20ohr.pdf](http://ageconsearch.umn.edu/bitstream/129168/2/(2)%20ohr.pdf)

⁴To learn more about the NCREIF Farmland Index see <https://www.ncreif.org/faqsfarmtimber.aspx>

⁵<http://www.imf.org/external/pubs/ft/gfsr/2015/01/pdf/text.pdf>

⁶www.metlife.com/ag

Agricultural Market Research



Hugues Rinfret, CFA, FRM



Eric Rama

All information contained herein has been obtained by MetLife from sources believed by it to be reliable. The analysis, opinions, forecasts and predictions contained herein are believed by MetLife to be as accurate as the data and methodologies will permit. However, MetLife makes no representations or warranties, either expressed or implied, to any persons as to the completeness, accuracy and reliability of such information, forecast and/or predictions and expressly disclaims any liability with respect to any of the foregoing.

These views are those of MetLife, Inc. in connection with management of its own proprietary accounts. MLIA does not currently provide investment advice concerning agriculture at the present time.