

PRICE DISTORTION IN THE VEGETABLE INDUSTRY

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Introduction

The Georgia vegetable industry was plagued with several unforeseen contingencies and natural calamities in 2004. A series of hurricanes and tropical storms Frances, Ivan, and Charley caused severe damage in various vegetable farms. This devastation caused a natural scarcity nationwide. Consequently, prices for various vegetables were distorted and were sending a wrong signal to growers. In addition to the natural disaster that affected the vegetable industry, several regulatory policies were enacted. The Traceability and Country of Origin Labeling were the most important. These regulations are causing concerns amongst growers in particular and the industry at large. Finally, another drastic change was and/is the continuous devaluation of the United States dollars.

For the past four months, the value of the US dollar has depreciated an average of 35 percent against other currencies such as the Japanese Yen, the Canadian dollar, the Euro etc. This depreciation of the United States dollar could have a positive effect on our vegetable export market, which has stagnated for the past decade or so. The good news is that because the U.S. dollar is falling, other countries around the world will be able to afford our vegetables. A classical example is the 25 countries that together make up the European Union. Currently, they are our number four trading partners slightly below Mexico. If the Georgia growers in particular and the U.S. at large can make efforts to comply with the European quality and other regulations such as Euro Gap, ISO 9000, sanitary and phytosanitary (SPS) regulations etc., chances are that our export of vegetables to the European Community could increase significantly. If this hypothesis is correct, we will also narrow our vegetable trade deficit with the rest of the world. This trade deficit has fallen drastically in the past decade as we continue to import more vegetables than we export.

Material and Methods

The data for this research was obtained from USDA/ERS, Agricultural Statistics Service. Descriptive statistics was used for the analysis.

Results and Discussion

Jumbo and Large Green Pepper

A comparison of 2003 and 2004 vegetable prices vividly illustrate the distortion created by the numerous tropical storms and hurricanes that affected the Georgia vegetable industry in 2004. Figure 1 shows that 2003 spring jumbo green pepper prices were higher than 2004 from May to June. In the fall season, 2004 jumbo and large pepper prices skyrocketed almost four folds compared to the spring season and almost three folds compared with 2003 fall season crop (Figure 1).

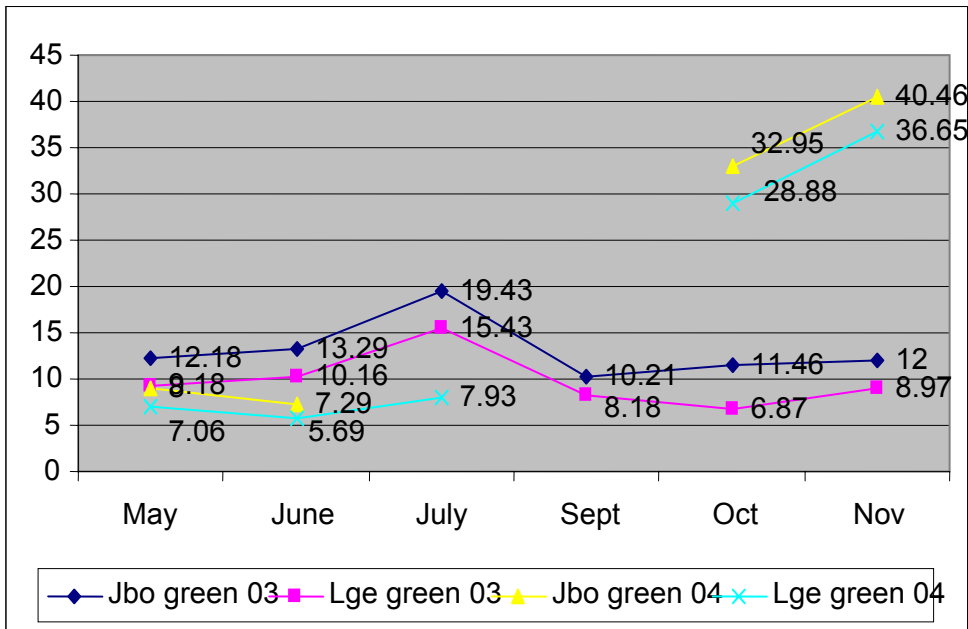


Figure 1: Prices of Jumbo and Large Green Pepper in Georgia, 2003-2004.

Yellow Small Crookneck and Straight Neck Zucchini

A similar trend was observed with yellow small crookneck and straight-neck zucchini. In spring 2004, initial prices were more than 40% lower than spring 2003 prices for both crook and straight neck zucchini. Furthermore, fall 2003 prices were even lower than spring 2003 prices. How can one explain the sudden historic escalation in fall 2004 prices of both zucchinis? This price distortion was as a result of the extreme scarcity caused by natural disasters, i.e. tropical storms and hurricanes (Figure 2).

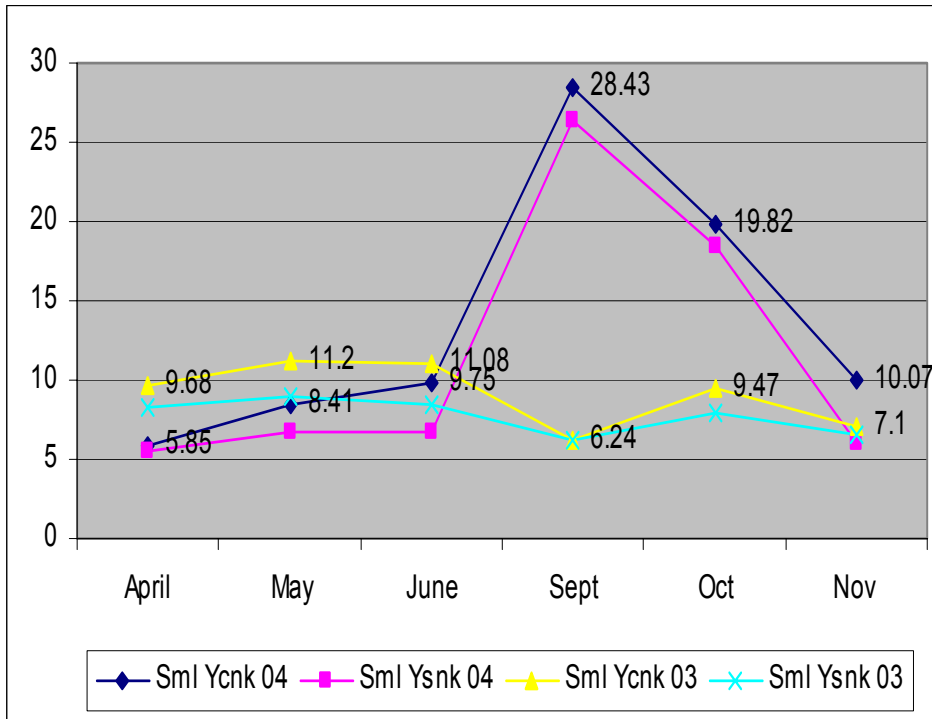


Figure 2: Prices for Yellow Small Crookneck and Straight-neck Zucchini, 2003-2004.

Medium Zucchini

The price of medium zucchini started slightly below \$5 per ½ bushel in April 2003. In May of the same period the price rose to over \$5 and remained consistent through June. Thereafter, the price fell to about \$5 per ½ bushel throughout the fall period. In 2004, initial prices were way below the 2003 prices for the spring season, i.e. April – June. Then an abrupt jump occurred to almost \$20 in September (fall season). By November, the price had trended downward but still better than both spring and fall prices obtained in 2003 (Figure 3).

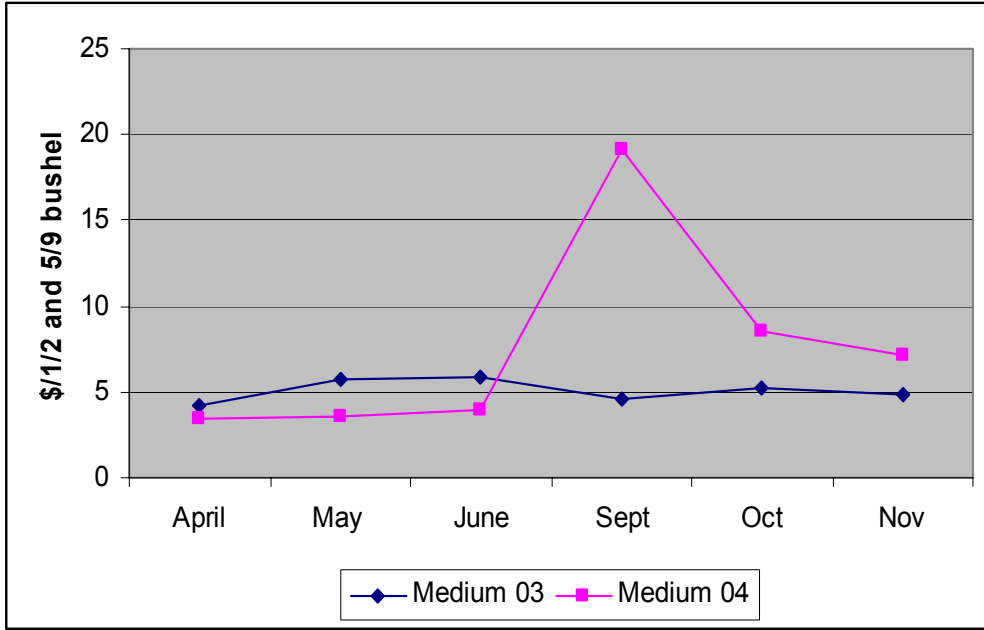


Figure 3: Medium Zucchini Price Trend, 2003-2004.

Yellow and White Sweet Corn

The price trend for yellow and white sweet corn was slightly different than all other vegetables. Spring season prices were lower than fall prices in 2003. However

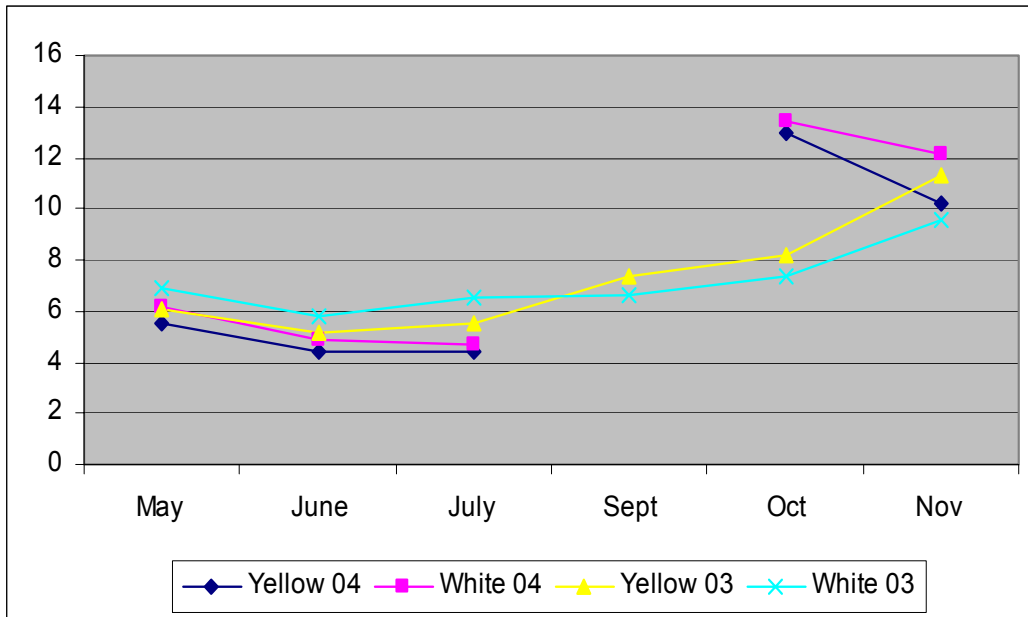


Figure 4: Yellow and White Sweet Corn Price Trend, 2003-2004.

Spring prices for 2004 were still lower than 2003 from May to July and the usually abrupt jump in prices was similar to all the other vegetable crops in this study (Figure 4).

Conclusion

This price trend analysis clearly depicts the price distortion as a result of the numerous hurricanes and tropical storms that caused excessive damage to the Georgia vegetable growers in particular and the Georgia vegetable industry at large. The prices in this study are prices strictly obtained by Georgia vegetable growers. The vegetables in the study are all Georgia grown. To summarize, the torrential rains and numerous hurricanes caused a shortage in supply, which eventually drove prices to a record high due to scarcity.

Reference

USDA/ERS Outlook (June 2004). WRS-04-06, www.ers.usda.gov

USDA/AMS (2004) "Fruit & Vegetable Programs", Thomasville, Georgia, Various issues. See <http://www.ams.usda.gov/marketnews.htm>