# Juice Market Getting Squeezed

*"They may be just as intelligent as you say. But I'd feel a helluva lot better if just one of them had ever run for sheriff." – Sam Rayburn to Lyndon Johnson in reference to John Kennedy's Vietnam-era advisors*

Back in the day when the Chairman Mao was running China into the ground to the plaudits of the world's literati, one of the punishments for people seen getting too comfortable in their Party sinecures was a trip to the countryside. There they had to do real work. It sure beat downsizing, Communist-style, though.

Mao was onto something. How much stupidity from our officials would we avoid if they had to spend a few weeks every year experiencing how the rest of us live? Look at the combined resumes of Bill Clinton and George W. Bush and tell me how many days of hauling water and chopping wood our last two presidents have had between them.

These thoughts came to mind after I spent two days moderating the Juice Processors Association's International Economic Outlook conference. These are the people who operate in the background of most of our lives, procuring, processing and delivering a river of various juices and drinks to wherever you happen to be at the moment. What I learned was just how many economic cross-currents affect that glass of orange juice or alternative you drank last.

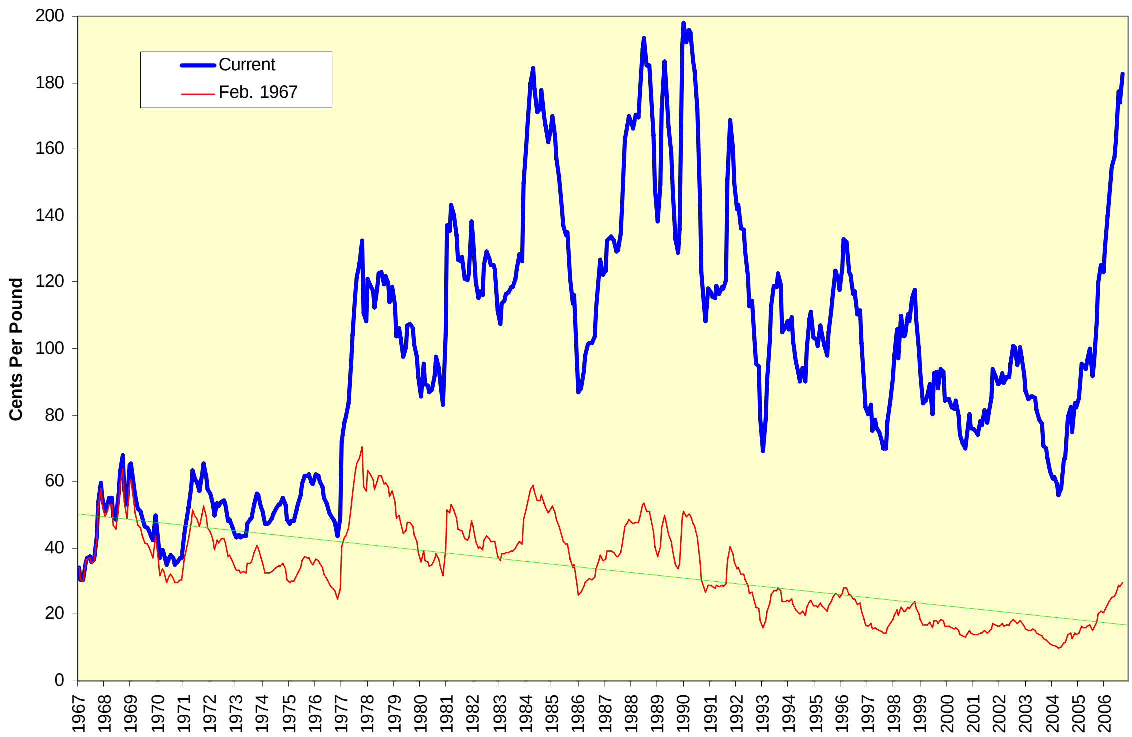
Consider, in no particular order, the following factors:

1. **Loss of agricultural land in Florida.** In addition to the hurricane damage to groves in 2004-2006, the continued urban sprawl in that state has pushed up land prices and taxes to where grove owners have no real alternatives but to sell their land. If Alan Greenspan can blame the housing bubble of 2003-2005 on the fall of the Berlin Wall, as he did on October 9th to a Canadian audience, you can blame higher prices for oranges and grapefruits on the end of the Cold War. Try it; it will make for memorable breakfast rhetoric: "Governor Jeb, tear down this tree!"
2. **A stronger Brazilian real.** Brazil is the world's leading producer, by far, of orange juice. But orange juice, like so many other commodities, is priced in dollars. When Brazilian exporters receive dollars in payment, they have to convert it into fewer reais. The return on growing oranges is reduced, which leads us to…
3. **The Brazilian ethanol industry.** Brazil's colonial economy under the Portuguese was based on sugar plantations, and they are getting back to basics. Like many Caribbean tourists, Brazilian automobiles increasingly are fueled by rum. OK, high-grade rum, but rum nevertheless. A citrus farmer gets a much better return by growing sugarcane instead of orange trees. Blame it on Rio? No, blame this one on Riyadh.
4. **China's emergence as a leading supplier of apple juice.** Not content to manufacture everything else in the world and pile up $1 trillion in reserves, the Chinese have expanded apple production. The economics of shipping apple juice concentrates across the Pacific must be, per the Duke of Wellington, a mighty close-run thing.
5. **Consumer spending patterns.** Spend a few hours listening to the latest high-tech market researchers armed with checkout data and linked to Wal-Mart by the latter's incredibly sophisticated supply chain management and you will check all illusions of privacy at the door. They know what you buy, when, under what promotions, in conjunction with what other products. Fascinating factoid of the day: It seems when the price of juice rises, consumers buy more bottled water, not other types of drinks, instead.
6. **Health concerns.** The industry is going far afield to give you more antioxidants. Today's acronym: ORAC, for oxygen radical absorption capacity. There are berries lurking in the Laotian highlands and in the back corners of the Amazon that can preserve you like some aging Hollywood starlet, sans Botox. Even better, most of them seem to taste bad, which must mean they are good for you.
7. **Immigration concerns.** Not to make too fine a point of it, but who do you think picks the oranges? Any move to restrict the inflow of agricultural labor will increase production costs.

**Higher Prices**

The net result, unsurprisingly, is a push higher by frozen concentrated orange juice (FCOJ) prices toward nominal highs in current dollars. As noted so often in this space, constant dollar commodity prices decline over time; if not, the commodity would lose market share to substitutes. FCOJ is the basis for the New York Board of Trade's principal contract; the exchange has launched a not-from-concentrate (NFC) contract to reflect changes in consumer preferences, but this contract has yet to capture dominance from the FCOJ contract.

**Declining Price Trend Over Time**




The consensus amongst the attendees is Florida will never recover its highs in juice output. By itself, this would suggest higher prices, but with so much competition for the consumer's dollar, demand is likely to fall should prices rise. According to the Florida Department of Citrus, profits in the citrus supply chain will fall as much as 80% in 2006-2007 from 2003-2004 levels. And price elasticity of demand is a terrible force to reckon with; demand is projected to fall in 16% in 2006-2007 from 2004-2005 levels. On a per capita basis, consumption is projected to fall from 5.0 gallons in 2003-2004 to 3.9 gallons in 2006-2007.

None of this makes trading FCOJ futures an easy task. And yes, you have to trade the futures. There are no fruit juice ETFs (yet) and most of the companies who process and distribute juice products are integrated beverage suppliers such as Coca-Cola.

The juice industry has had some of the more memorable marketing campaigns of any commodity over the years. If the present trends keep squeezing the market, we could end up with a day without sunshine.