

Factors Affecting Vegetable Market Trend

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Introduction

This study is aimed at pointing out some economic factors affecting vegetable market trend. Historically, the world vegetable market is centered on North America, Europe and Asia. Due to the internationalization of this market, and the fact that it crosses the border of various countries the world over, exchange rate has become a factor to reckon with since all the countries do not use the same currencies.

Material and Methods

The data for this analysis was collected from the Agricultural Statistics Service, USDA/ERS and analysis using descriptive statistics.

Results and Discussions

Export of Fresh Vegetables

Figure 1 shows that 58% of all vegetables exported are destined for the European Union (EU) markets. The EU is the United States' fourth trading partner for fresh vegetables. Canada and Mexico, which are our number one and three trading partners respectively, only absorb 26% of total vegetables exported the world over. Note here that these two countries are members of the North American Free Trade Agreement (NAFTA). Although only 8% of total fresh vegetables goes to Asia, Japan still maintains her number two position in the vegetable trade with the United States.

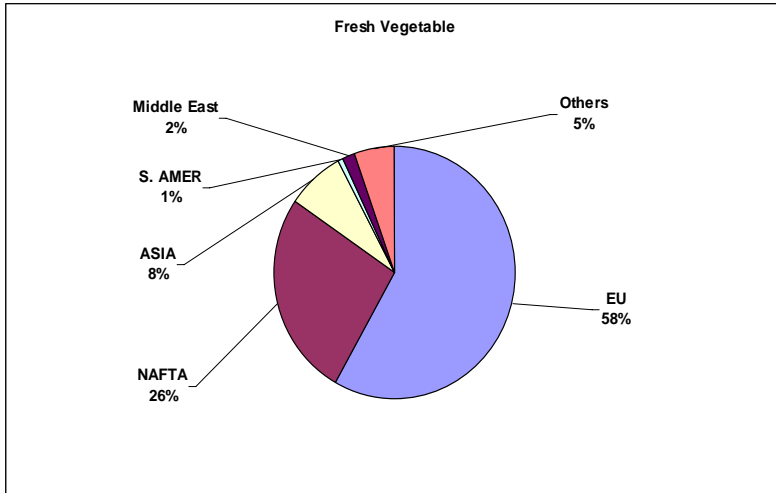


Figure 1: World Destination of Vegetable Export, 1990-2000.

Imports of Fresh Vegetables

From 1990 and 2000, the EU is also the net and largest importer of all fresh vegetable production around the world, equally absorbing 58% of the total. The NAFTA regional market recorded 23% of total fresh vegetable import, thus, slightly 2.5 times lower than the EU. The Asian market only imports 7% share (Figure 2). The rest is shared between the Middle East, the Southern Hemisphere and the Banana Republic countries.

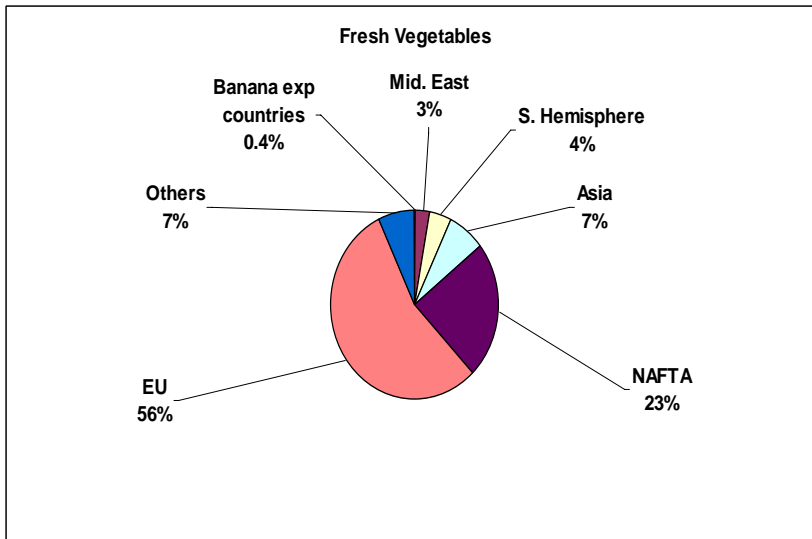


Figure 2: World Destination of Vegetable Import, 1990-2000.

Exchange Rate

The exchange rate is a very important factor when it comes to international trade. Theoretically, an appreciation of the US dollar encourages import trade and discourages export at the same time. The reason being is that other countries around the world cannot afford to purchase our products. The reverse is true as depreciating dollar against other currencies helps to boost export trade and reduces import.



Figure 3: Depreciation of the US dollars against the Canadian dollars.

For the past decade, the U.S. has been very strong. As earlier mentioned, a strong dollar only weakens export trade of U.S. goods and services, which of course includes fresh vegetables. But this trend has changed since 2004. The U.S. dollar has depreciated about 35% against other currencies. For instance, Figure 3 shows the wakening trend of the US dollar against the Canadian dollar from December 2004 to April 2005. Note the erratic drop prior to December 2004 and March 2005 respectively.



Figure 4: Depreciation of United States dollars against the Euro.

A similar trend can be observed with the Euro, which was initially weaker than the U.S. dollar but is now stronger. With a stronger Euro and the fact that 58% of total vegetables are exported to the EU markets, this is the best time for the United States vegetable industry to penetrate this gigantic market (Figure 4).



Figure 5: Depreciation of U.S. dollars against Japanese Yen.

The Japanese Yen is the most volatile currency and has drastically responded to the depreciating U.S. dollar. However, since Japan is still our second best trading partner of fresh vegetables purchases, it is only logical that we try to sell (improve our export) to this huge market. Now that their purchasing power is stronger, they can afford to buy more vegetables from the U.S. (Figure 5).

US/EU Fruits & Vegetable Trade

Figure 6 depicts that 1996 was the peak year when the U.S. optimized its export to the EU. Thereafter, U.S. export to the EU has been declining rapidly. That is a classical example of the effect of an appreciated dollar against other currencies. The gap between import and export has been closing since 1996 until present. Trade balance with the EU has been declining at an exponential rate because we import more than we export.

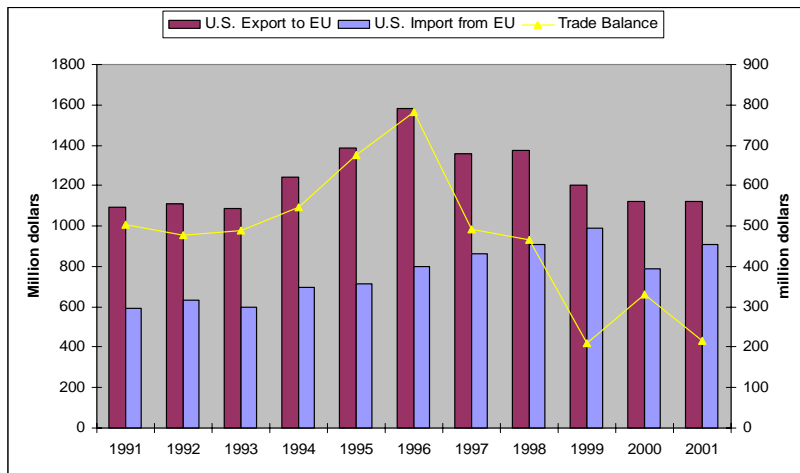


Figure 6: US/EU Fruits and Vegetable Trade, 1991-2001

Conclusion

The results of this study reveal that the EU and NAFTA are the predominant markets for vegetables. However, the EU absorbs more 2.5 times the quantity of vegetables produced the world over. Overall, the U.S. dollar has depreciated about 35% for the past year and the trend is expected to remain the same for a while. A weaker dollar might boost U.S. export and improve the vegetable trade balance deficit. Other nations around the world will be able to afford our vegetables. This is the time for producers to take the opportunity to expand their export market shares.

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>

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