

## **Nut glut leaves growers blue**

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This year, a can a week won't be enough.

With the bad global economy choking off exports and warehouses full with a record harvest, California's almond business is swimming in nuts – and the industry's long boom has finally run out of steam.

Almond prices dropped more than 30 percent from August to December. The market for orchard real estate, which doubled in price from 2003 to 2007, has gone cold. And the industry expects to be left with a record-shattering surplus – at least 300 million pounds – when the 2009 harvest begins in August.

Drought is likely to make matters worse for many almond farmers. At the same time, though, a weak harvest might help the industry dig out of the glut.

"The price situation can turn around in a matter of no time flat," said Dave Baker, director of member relations at Sacramento-based Blue Diamond Growers.

Cycles of shortage and surfeit are a part of farming, and today's oversupply is reminiscent of the humorous scenes from Blue Diamond's famous "a can a week, that's all we ask," advertising campaign, where farmers stood waist-deep in almonds.

But for many years this decade, it seemed almonds might deliver endless profits.

Even as orchards expanded and harvests grew, sales kept pace. Industry-funded marketing campaigns built demand abroad, and exports soared to nearly \$2 billion a year. Domestic sales rose, too, as stacks of nutrition research – supported by roughly \$1 million a year from the industry – established the nuts as good for fighting everything from obesity to heart disease and cancer.

The result: In the first half of the decade, prices tripled, and orchards sprouted faster than Central Valley subdivisions. The promise of annual profits better than \$1,000 an acre drew investors from real estate developers to football commentator John Madden.

"We were kind of in the same scenario as the housing industry – you couldn't grow enough of them," said Ladd Hackler, a sales representative for Oakdale-based Burchell Nursery, which supplies almond saplings to farmers around the state.

The almond market peaked after the 2005 harvest, but the crop was still quite profitable even after prices fell in 2006 and 2007. Orchard land kept rising in value, and export sales kept breaking records.

Then, just as the mammoth harvest of 2008 was being shaken off trees from

Bakersfield to Red Bluff, the global economy seized up and, at the same time, the dollar strengthened, making almonds more expensive for overseas buyers.

The growth in almond shipments, which had been at double-digit rates, suddenly went negative. Prices crashed, and almond processors around the state scrambled to find storage space for unsold nuts. Blue Diamond bought a huge former Hershey's chocolate warehouse in Oakdale to help handle the glut.

Still, many believe almonds are headed for a soft landing.

"I still think they have a very strong long-term future," said Daniel Sumner, a professor of agricultural economics at the University of California, Davis. The state is the dominant global almond producer, holding more than 80 percent of the market. There are no serious competitors on the horizon, Sumner said.

"I wouldn't say it was a bubble," said Mohnish Seth, who runs a mid-sized almond processing and export business in Chico, and also farms several thousand acres of orchards.

Over the long run, Seth predicts, the world's appetite for almonds will continue to grow. He ties the slowdown in sales mostly to shifts in currency values and the bad economy. And even at today's low prices, he said, many of his orchards can still be profitable.

Wearing a Bluetooth headset, Seth walked briskly through his hulling plant on a recent afternoon. Though tiny next to Blue Diamond's sprawling Sacramento factory, it still handles millions of pounds of almonds a year, which Seth ships to Europe and China as well as to his family's nut business in India..

As he inspected the buds on a tree in one of the orchards that surround his plant, Seth said last fall's huge harvest portends a smaller crop in 2009, since yields typically drop after a bumper year.

The state's looming drought could also keep the crop small.

About 216,000 acres of almond orchards in the San Joaquin Valley face a serious water shortage this year, according to Blue Diamond's Baker.

On most of that land, farmers have some options, though all are expensive – pumping from wells, fallowing other crops to free up water for almonds or buying water from other farms.

John Diener, who farms 5,000 acres near Five Points in Fresno County, said he's planning to fallow 3,000 acres of land that usually grows anything from corn to melons in order to concentrate water on his 750 acres of almonds, which represent millions of dollars of investment.

His neighbors, however, planted almonds on all of their 2,000 acres – and are now

pulling them out, he said.

International nut buyers follow California's water situation closely, Seth said. When water officials cut irrigation forecasts in late January, the global price for almonds ticked up 5 to 10 cents a pound.

In addition to water-related cutbacks, farmers are likely to bulldoze older, less productive orchards, Baker said. Low prices will accelerate that sort of culling, he predicts, and by 2011, the state's almond acreage is likely to drop.

With the nut market weak and water scarce, Seth said he's getting frequent offers from farmers looking to unload orchard land.

"A year ago, everybody still wanted to buy," he said. But now, Seth said, he's not interested. Land appraisers say nobody else is, either.

Orchard land prices don't appear to be dropping yet, but the market is difficult to judge because almost no land has changed hands in the past few months, said Mike Iliff, an agricultural appraiser for Fresno Madera Farm Credit..

"We're kind of at a pinnacle," Iliff said. "We're not quite sure what's going to happen."

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