

## July 2023 Walnut Report

### 2022/23 Walnut Supply (inshell tons)

Carry-in from prior season:	137,969
<u>2022 Crop Receipts (to date):</u>	<u>747,870</u>
Total available for shipment:	885,839
<u>Less: Shipments to date thru July 31:</u>	<u>730,488</u>
Remaining unshipped supply:	155,351
<u>Less: Estimated commitments as of July 31:</u>	<u>120,761</u>
Remaining supply available for sale:	34,590

### Shipments

- Inshell walnut shipments were 5.5 million pounds for the month of July, an increase of +0.7 million pounds (+16%) compared to July 2022.
- Season to date inshell shipments are 240.9 million pounds through July, a decrease of -10.1 million pounds (-4%) compared to the same period last season.
- Shelled walnut shipments were 33.4 million pounds for the month of July, an increase of +9.1 million pounds (+37%) compared to July 2022.
- Season to date shelled shipments are 489.2 million pounds through July, an increase of +24.7 million pounds (+5%) compared to the same period last season.

July walnut shipments from California of 44,357 inshell equivalent tons is a record for the month of July. This is the 3<sup>rd</sup> consecutive monthly shipment record. The strong shipments were primarily driven by shipments of walnut kernels in the domestic market which were +6.7 million pounds (+44%) compared to July of 2022. This figure includes USDA kernel purchase but also reflects strong domestic demand driven by record low pricing.

Season to date shipments have reached 730,488 tons compared to total 2022 crop production of 747,870 tons. Another way of saying this is that 98% of 2022 crop production has been shipped with one month remaining in the marketing season. When August shipments are added next month, California will have shipped more than 100% of 2022 crop production. This will reduce the carryover to a very manageable level going into the 2023 crop.

Additionally, future sales commitments are estimated at 120,761 inshell equivalent tons using an estimated shellout rate (meat yield) of 40.1%. These commitments are primarily for 2022 crop product and roughly account for the remainder of the carryover.

### 2023 crop

The USDA Objective Crop Estimate for the 2023 California walnut crop is expected to be announced in early September. Currently, growers in California are expecting a good crop in terms of quantity and quality. Orchards in the primary growing regions are in excellent condition given the wet winter and spring weather. The growing region is experiencing higher temperatures but nothing unusual for this time of season. Growers will watch temperatures closely as we approach the later part of August and September as the walnuts are more vulnerable to heat damage during this time.

With limited 2023 crop business taking place this early, pricing is not yet established. We anticipate markets getting more active in the coming weeks.

## **Summary**

The 2022 California walnut crop and marketing season was tough and trying for nearly everyone involved. For growers, returns were well below the cost of production. These returns are not sustainable and if repeated will drive severe economic pressure in the industry. A recent LandIQ report estimated that about 24,000 acres of walnuts have been removed in the past year. That figure is likely to grow in the coming months. We anticipate that the 2023 crop will be the first time in recent history where bearing acreage is lower than prior season due to slower plantings in recent years combined with more aggressive orchard removal due to low commodity prices.

For buyers, overall quality of the 2022 crop was subpar for California and markets were sloppy and softening for most of the season. Quality was damaged by drought conditions entering the 2022 crop and severe heat during the first half of September of 2022 when the fruit was most vulnerable. Given lower quality and slow demand, prices began moving lower and continued to do so into the spring of 2023.

Looking forward, the California walnut industry has worked to put themselves in much better position heading into the 2023 crop harvest.

- The carryover will be smaller than prior season and almost completely committed by the time 2023 harvest begins.
- The crop on the trees, as of this date, is reported to be in excellent condition.
- Chilean crop is largely committed meaning that little Chilean inventory will still be available in the market when California begins harvesting. Given the premium pricing that Chilean growers receive for inshell, many have moved away from kernel markets. These kernel markets are likely to need product early in the California season.
- The inventory in overseas markets which was driven by logistics challenges in prior seasons has now cleared. This allows buyers to make purchasing decisions without the burden of excess inventory on hand.
- The California walnut industry has actively engaged the USDA and continues to do so to provide walnuts as part of Section 32 purchases for domestic distribution.

The strong returns the walnut industry experienced 5-10 years ago resulted in heavy new plantings in California and other origins. Today, we are facing rapidly increasing production as those plantings are now mature. Given lower returns, we are already seeing older plantings removed and supply will adjust over time to regain balance with demand. We look forward to an active 2023 crop year.

Please let us know if our offices in Dubai, India, China or the US may be of further assistance.

Best regards,  
DERCO FOODS