



CROP REPORT

7.16.21

Valued Customers:

As states continue their re-openings and consumers return to restaurants, the recent months have spiked above even pre-pandemic foodservice volumes. While encouraging, supply chains are still resolving, inflation continues and our industry (manufacturing, operations, and distribution) are challenged finding a qualified workforce, even at the mandated increased wage levels.

As supply chains resolve, we want to provide you with some level of justification for price increases. The food business is a pennies business and increased costs have affected all of our bottom lines. There are several links at conclusion of this report worthy of a look, if you're not already aware of current events in our industry. We're sure you've heard the recent inflation reports on the nightly news or online, as they've been hard to avoid. In any event, we hope our report can help explain some of the cost increases you're experiencing from likely all of your suppliers during this unsettled period.

<https://www.foodbusinessnews.net/articles/18624-food-price-inflation-is-on-the-horizon>



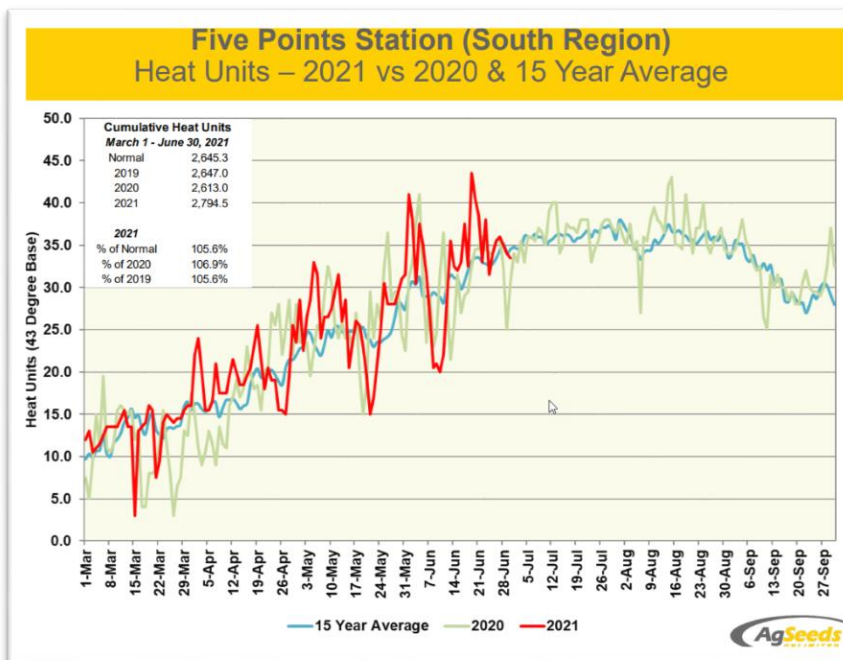
California Tomatoes:

Also in the news of late are both the continued CA and NW drought conditions and wildfires. The crop has been off to a spotty start given the extreme heat (113F recently) and a few growers choosing to let already planted crops go, given the inability to insure water access through the growing season. At last count there were approximately 230K acres contracted. The additional heat units, combined with limited water causes stress for the plants culminating often in “blossom end rot”. We have added sorting labor to insure optimal quality, despite growing conditions. Most projections since the original forecast of 11.6MM tons have fallen by approximately 200,000 tons. Weather will dictate where we go from here, over the next few weeks.

The contracted CTGA price is up 8% over last year at \$84.50 per ton + up to \$16 more for late harvest. This does not include the increase in transportation to get tons from field to processor, which has increased as much as 20% over last year and with fewer trucks available.

We’ve also heard Italy’s crop appears to be coming along nicely, culminating in peak harvest mid-July to mid-August at roughly 5.4MM Tons. However, there continues to be concerns with a shortage in packaging materials such as cans, film and fiber.

While we continue to keep a watchful eye on wildfires currently burning in CA and PNW, aside from some limited smoke in the area, they are currently not an issue.



<https://www.sfgate.com/bayarea/article/water-California-cuts-Bureau-of-Reclamation-16205911.php>

Northwest Fruit:

With the recent “once in a century” NW heatwave there was considerable crop stress on most of our grower’s orchards and ground crops. **Cherry** tons to processors were very limited with the Northwest losing about 20% of their fresh crop. **NW berries** were also hit hard and resulting pricing on items like Marionberries have increased over 200% from last year. Though still early, **Cranberries appear** on track for average tons and quality, but we’ll have better read in about 60 days.

The final per ton price from growers for **Bartlett pears** is still being negotiated, but is certainly higher than last year’s \$340 per ton. Crop is proceeding OK but pear sizing, given the extreme heat, is likely to serve up smaller fruit. The next 3 weeks are crucial. If sizing is down, yields fall off, driving production costs up, which in turn elevates pricing. Additionally, packaging (cans and fiber), transportation, cost per ton, labor, & utilities are all higher. We anticipate overall costs will increase on canned fruit by 10-12% and we will seek to only cover those costs for the 2021 season.

Finally, considering that primary fruit growers in Europe including Greece, Spain and France will produce roughly half of their normal production of peaches, and the shortest orchard crops in 30 years- US supplies should be balanced, weather permitting.

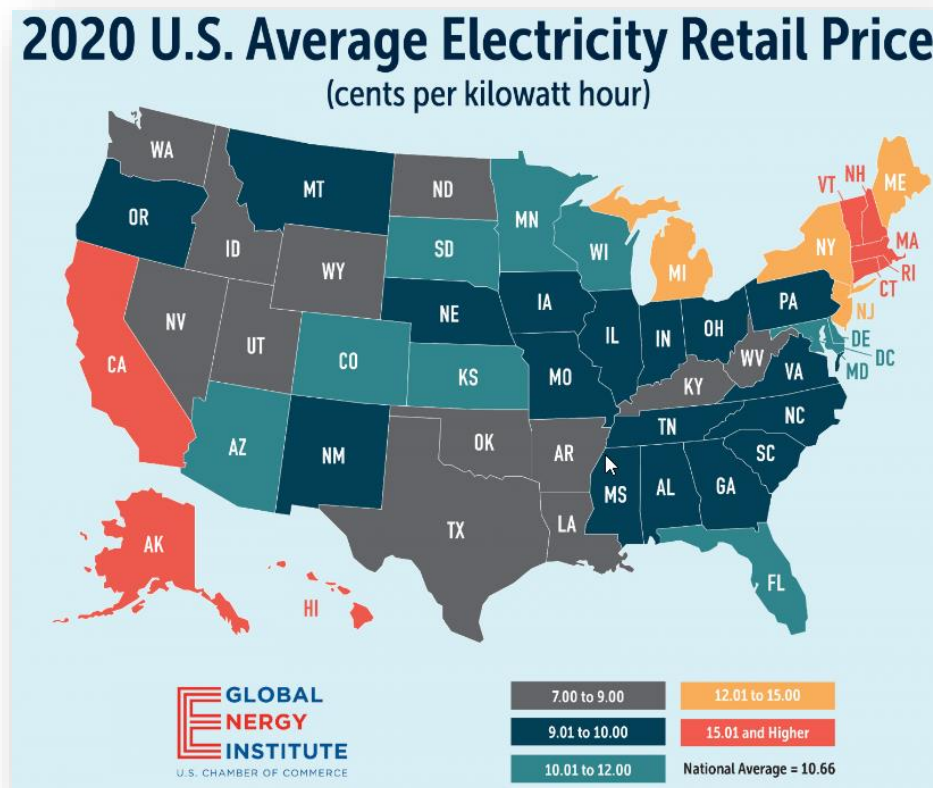


Costs:

In an effort to shed some light on our recent price increases and others you're likely seeing, we offer the following if you're looking for some context.

Energy:

PG&E's natural gas transport for last season June 2020 thru Sept 2020 was \$3.17; 2021 is at \$5.13 MMBTU, an increase of over 60%! As the majority of our product is packed in Central CA, we continue to incur some of the highest fuel, natural gas and electricity costs in the country. This is in addition to some of the most significant national volatility in decades.



https://www.bls.gov/regions/west/news-release/averageenergyprices_losangeles.htm

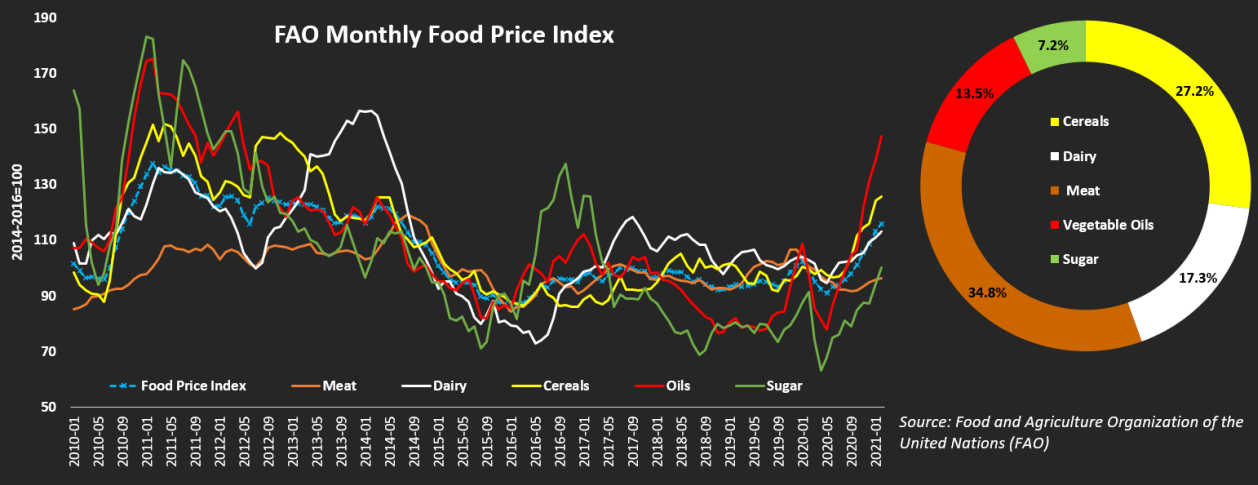
<https://www.cnbc.com/2021/07/05/oil-prices-jump-to-multiyear-highs-after-opec-talks-yield-no-production-deal-.html>

<https://www.eia.gov/naturalgas/weekly/>

Ingredients:

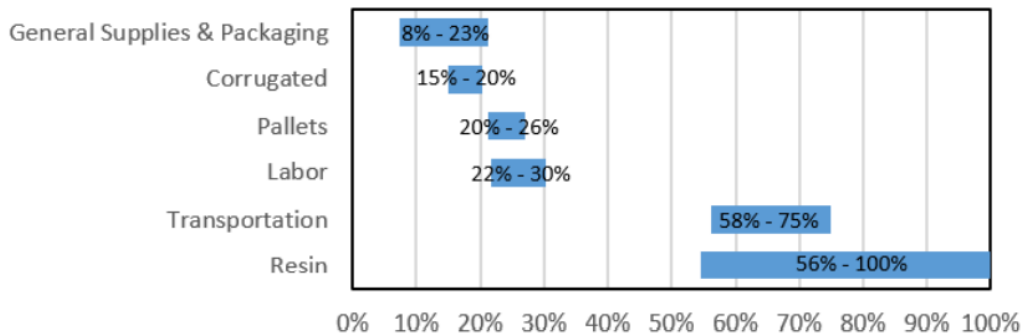
Edible oils lead the charge as global food prices push to multi-year highs

The FAO monthly index of edible oil prices is up more than 70% in the past 6 months, fuelling a 24.6% climb in the overall Food Price Index



Cost Increase Ranges by Spend Category

(Last 12 months, Liquibox data and analysis)



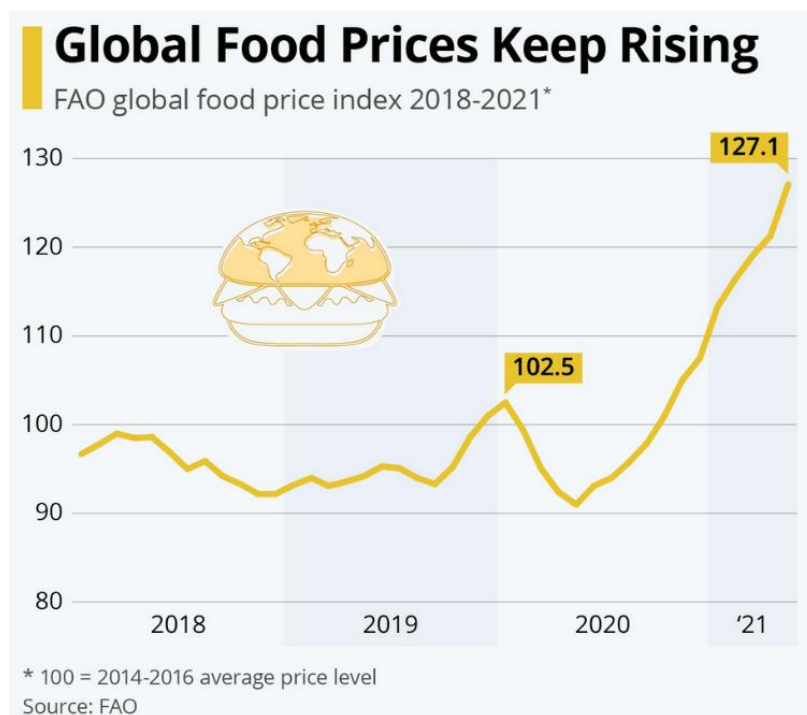
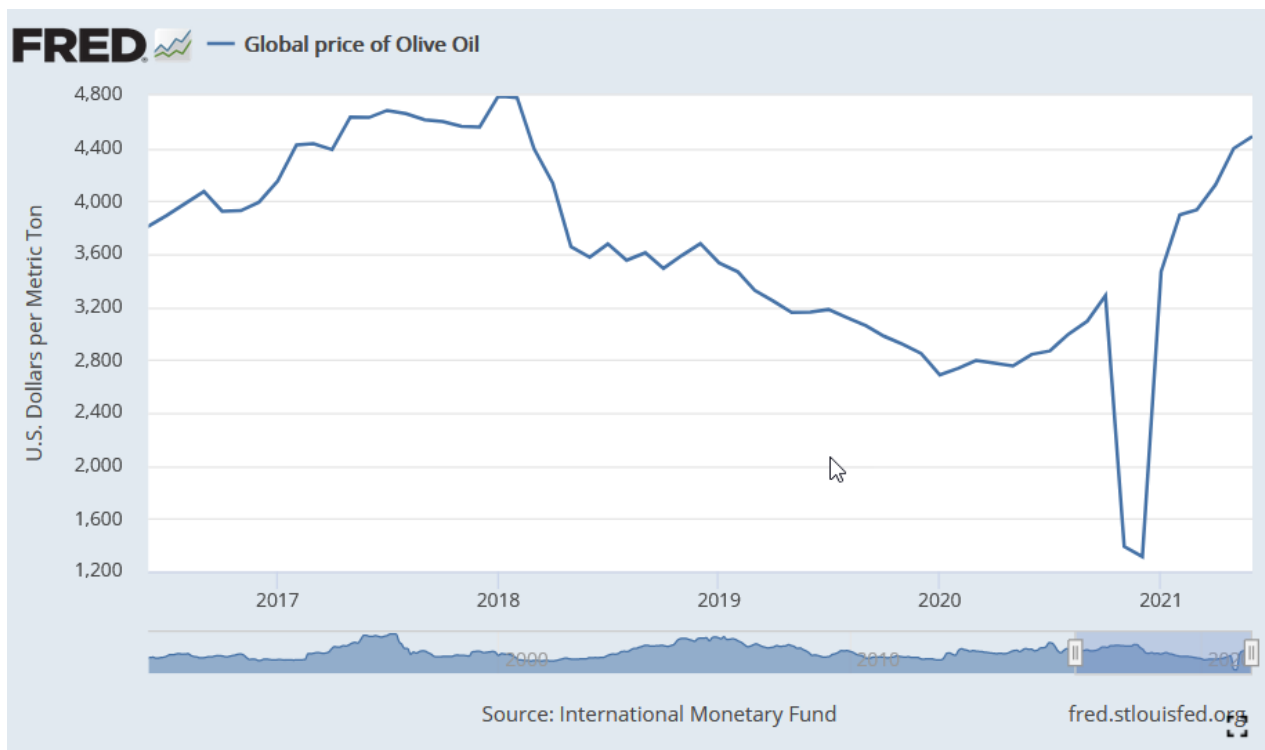
Spice Index

The Spice Index reflects the changing market prices for a basket of spices, herbs and capsicums only. This smaller basket of goods does not factor in the changes in markets for seasonings, dehydrated vegetables or ingredients. The Spice Index does not reflect the market changes for any single item.

We pegged the index to 100 for June 2010. Notice that more than a decade later, prices are only a shade higher; actually more than a decade later prices are lower when adjusted for inflation.

March 2021	March 2020	Change (vs. last year)
111.68	100.68	+ 10.93%

NOTE: The Spice Index has moved higher, pushed by the increases in the large volume spices: Black and White Pepper, Cinnamon and Ginger. Recently joined by Basil, Marjoram, Thyme and Mexican Oregano. Trend is still higher. Large drivers are ocean freight and availability of containers at any price, local markets, currency exchanges plus the negative impact of COVID-19 on labor availability and movement of goods.



Packaging & Supply Chain:

Also of note, costs and availability of containers and ocean freight have limited imports of peaches, cocktails, pears and most food products from Europe and Asia. A container load of goods from China to US just topped \$10,000. This is a 229% increase in just 12 months! The supply chain disruption from foodservice to retail is still in disarray domestically, causing many suppliers to pull out of long term contracts.

As most of you are aware, there has been a national driver shortage for the last couple of years and that situation is becoming even more dire now. Our freight costs to the east coast have increased by over 25% in just the last 6 months while we experience an increase in “no shows” from drivers who have found more profitable ‘spot loads’. While we review all options including rail, cross dock, intermodal and 3PL, we do not expect improvement here in the next 6 months. That said, we have made adjustments to inventories at forward warehouses to minimize service interruptions to our valuable customers.

China’s early economic rebound, residual tariff affects, and steel and tinplate inflation have continued to create global shortages for cans and defaults on large Italian processor contracts.

<https://www.bloomberg.com/news/newsletters/2021-06-09/supply-chains-latest-can-shortages-threaten-italian-tomatoes>

<https://www.cnn.com/2021/05/06/investing/steel-shortage-stocks-bubble/index.html>

<https://www.smithcorona.com/blog/2021-supply-chain-chaos/>

On a positive note:

We applaud your ability to adapt during an unprecedented restructuring of our entire operating environment. The resilience and adaptability of food service operators and distributors over the last 18 months has been nothing short of remarkable. We know that costs/pricing, labor and the unknown months ahead continue to concern us all, but that working together, there’s almost nothing we can’t overcome. We’re excited about the year ahead and looking forward to seeing many of you in person over the next several months!

We appreciate your partnership!

Jon

Jon K. Holt
The Neil Jones Food Company

