nerability of milk production to the effects of abnormal weather.

New-style dairy farms will become much more numerous and widespread, having proven their viability under a variety of circumstances. Development in the West may be slowed by tighter forage supplies and greater environmental and other restrictions, but the Western dairy industry will continue to expand. The number of new-style dairy farms in the Midwest and Northeast may accelerate as new production concepts are adapted to local climates and feed situations. Some of these dairy farms will be smaller operations making the leap to a much larger size and a totally different organization.

For the foreseeable future, most medium-size dairy farms will adapt and survive. Although many of these farms cannot generate enough return for both family living and reinvestment, they will be able to stay in business until the retirement of the current operator or until major new investment is needed. They even are likely to increase their herd size, although expansion probably will be fairly modest.

A majority of the small and some medium dairy farms will exit the industry when current operators retire or give up, and the next generation goes elsewhere. Small-scale dairy farms have been the only feasible land use in a number of marginal agricultural areas. As these farms exit dairying, much of their land may be converted to nonagricultural uses.

Some downward pressure on real farm milk prices is likely in the years to come, as milk supply is expected to grow a bit faster than demand. However, longrun demand has proven more resilient than often perceived, and falterings in milk output are likely to trigger occasional price surges. Similar unique circumstances that lead to the sharp erosion of milk prices during 1980-95 are unlikely. AO

James Miller (202) 694-5184
jjmiller@ers.usda.gov

Specialty Crops

Grape Expections: Abundant Quantity, High Quality

U.S. consumers are finding an abundance of high-quality fresh-market grapes at slightly higher prices this year than a year ago. USDA forecasts the 2002 U.S. grape crop at 14.5 billion pounds, the third-largest crop ever. Production is up in most of the nation's grape-producing states, including California and Washington, the two leading producers.

The grape crop is 11 percent larger than a year ago but 5 percent smaller than the record 15.4 million-pound crop in 2000. Despite this year's increased production, prices received by growers are up from last year due to the higher quality crop. Higher prices will increase the value of the 2002 grape crop above last year's $2.92 billion, when a 15-percent decline in production more than offset the effects of higher prices. Grower prices for fresh grapes from June through October 2002 averaged $788 per ton, up 6 percent from the same period a year ago.

At the retail end, January-September prices for Thompson seedless grapes were higher than a year ago for each month except April and June. Grape supplies this past winter, mostly imported from Chile, were up considerably from a year ago, but retail prices averaged higher due to strong consumer demand and less competition from reduced U.S. production of fall crop apples and California navels in 2002, and lower banana imports. Smaller apple and pear harvests again this fall will likely help keep grape prices strong for the balance of 2002 and into early 2003.

U.S. fresh grape consumption in 2002/03, even with higher prices, is projected to increase over last year to 7.67 pounds per person. However, higher prices are affecting exports, with May-August shipments up only fractionally from the same period a year ago. Exports are down thus far to important markets, including Malaysia, Taiwan, the Philippines, and the United Kingdom. The heaviest export shipments typically occur during September and October, and exports this year for those months may have slowed due to the recent 2-week shutdown of West Coast ports.

On the bright side, California table grapes are finally entering the Australian market after several years of negotiations. The first shipments totaling 132 cartons of flame seedless grapes arrived in Sydney, Melbourne, and Brisbane via airfreight on July 16, 2002. Export growth potential for U.S. grapes to the Australian market appears promising given the country's large population, high income, and counter-seasonal grape production.

The U.S. grape industry remains a valuable component of the U.S. agricultural sector with farm cash receipts averaging close to $3 billion per year over the last 5 years. Technological improvements in production and marketing have helped the industry achieve both the quality and volume demanded by foreign customers, and to play a key role in the global grape market. The U.S. is the world's third largest producer of grapes, next to Italy and France, and provides about 10 percent of the world's production. While most of the grape and grape products produced here are sold through domestic channels, foreign markets are increasingly important. Export markets have taken over 20 percent of U.S. grape production since the mid-1990s, up from 12 percent during the early 1980s. U.S. export volumes of fresh grapes and raisins rank third in the world while wine exports rank sixth.

California Dominates Production

California accounts for over 90 percent of U.S. grape production, dominating both the fresh and processing markets and supplying most of the grapes for exports. Except for the heat wave that moved across the state this summer, weather was generally favorable throughout the grape-growing period and production is expected to increase 12 percent from a year ago to 13.3 billion pounds. All varieties are expected to increase: raisin-type grapes, up 23 percent; table-type grapes, up 8 percent; and wine-type grapes, up 5 percent.

The rapid growth of California's grape vineyards during the 1990s, largely from the state's expanding wine industry, appears to have slowed in recent years. Grape acreage in California actually declined fractionally in 2001 from the previous year, mostly reflecting lower nonbearing acreage of wine grape varieties as some vineyards reached productive stage and growers made no new plantings. Wine varieties accounted for 60 percent of California's grape acreage in 2001, with bearing acreage up 5 percent and nonbearing acreage down 18 percent. Bearing acreage for raisin and table varieties each declined 1 percent.

The 2001 grape crush for California totaled 3.37 million tons, down 15 percent from the 2000 record. Approximately 16 percent of this crushed volume was sold as grape concentrate. Red wine varieties accounted for the largest share of crushed grapes, 51 percent (1.7 million tons), followed by white wine varieties, at 39 percent (1.3 million tons). Raisin and table grape varieties made up the remaining 10 percent of total volume crushed. The farm gate value of crushed grapes averaged $555 per ton in 2001, up from $504 in 2000. Grower prices for raisin, table, and white wine varieties averaged lower in 2001 than in 2000, while prices for red wine varieties, mostly higher priced than other varieties, averaged 8 percent higher.

While still far behind California in production, Washington has rapidly increased its grape acreage over the last decade in line with expansion of its wine sector. The state's crop in 2002 is expected to be 640 million pounds, up 13 percent from 2001, with increases in both wine and juice varieties. Grapes are produced in Washington solely for the processing sector, with wine manufacturers taking an increasing share. In 2001, 35 percent of the state's crop went into wine, compared with 26 percent in 1999. The balance went into juice.

Wine Consumption Is Growing

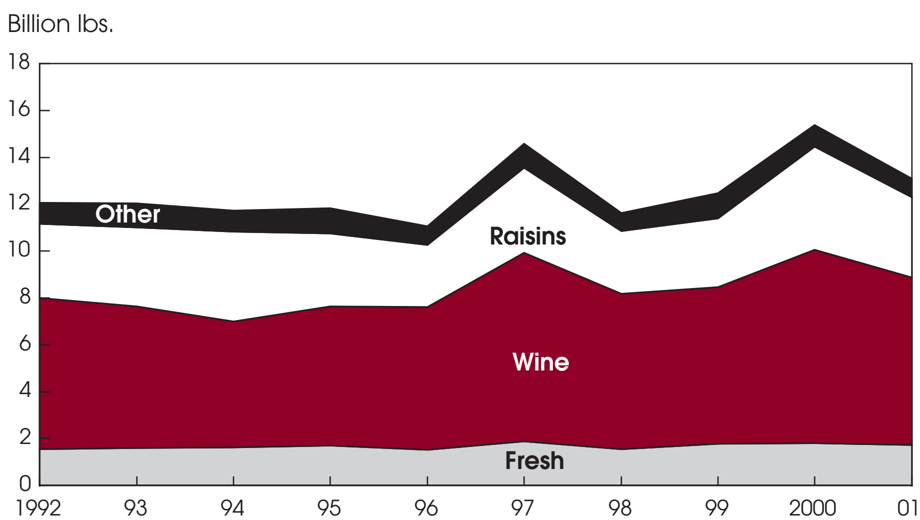
While U.S. grape growers generally receive a higher value for fresh-market grapes, over 65 percent of the U.S. grape crop value comes from sales of grapes used to make wine. Wine is a high-value finished agricultural product. Retail sales of wine in the U.S. averaged $18 billion over the last 5 years, almost triple the value during the early 1980s, according to the Wine Institute, an advocacy association of California wineries. The U.S. wine industry also grew rapidly over the last 20 years with the number of commercial wineries tripling to about 1,800. Most of these are family owned and operated and nearly half are located in California where approximately 90 percent of all U.S. wine is produced.

Wine shipments from California totaled 450 million gallons during 2001, with domestic shipments totaling 387 million gallons—70 percent of U.S. wine consumption last year, including wines from other states and foreign countries. Of the estimated $19.8 billion in retail value of all wines sold in the U.S. last year, sales of California wine generated $13.4 billion, or about 68 percent.

While the demand for wine, in general, received a boost from the many reports linking moderate wine consumption to good health, demand for U.S. wines grew rapidly during the 1990s as U.S. wineries improved quality. Shifts occurred in the varietal composition of grapes crushed in favor of premium varieties. The top 5 varieties during 2001 were Chardonnay (17 percent of total crush), Cabernet Sauvignon (12 percent), French Columbard (10 percent), Zinfandel (10 percent), and Merlot (8 percent). Except for French Columbard, crush volumes for each of these varieties were much larger than in 1992 when Thompson seedless was the leading variety crushed for the wine and juice sector, accounting for 24 percent of total crush volume. This share declined to 8 percent in 2001.

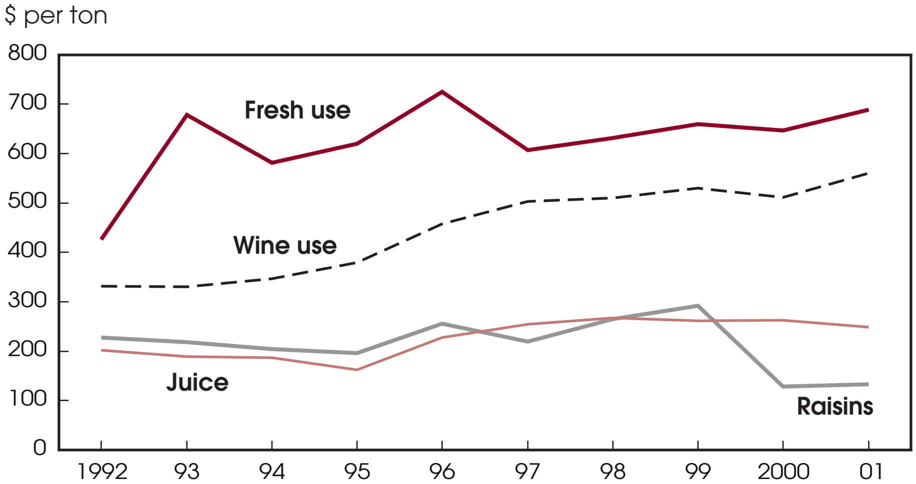
Export markets have served as a growing outlet for U.S. wine. U.S. wine exports over the last 3 years averaged 13 percent of domestic production, up from 7 percent during the early-to-mid 1990s and 3 percent during the 1980s. Based on Bureau of the Census data, wine exports set another record during 2001, increasing 4 percent from a year earlier, to 75.4 million gallons. Of the top five markets, shipments were up to the United Kingdom, the Netherlands, and Belgium but were down to Canada and Japan, partly due to the growing competition from other large world producers. Also in Japan, an oversupply situation over the last 2 years also negatively affected that country's demand for U.S. wine. However, the outlook for 2002 is for a drop in U.S. wine exports from the 2001 record due to increased global competition and the continued strength of the U.S. dollar. During the first 8 months of 2002, wine exports were down 13 percent from the same period in 2001, with decreased sales to all the top five markets.

Wine Accounts for Greatest Use of U.S. Grapes



Economic Research Service, USDA

Grapes for Fresh and Wine Use Bring Highest Prices



Economic Research Service, USDA

In 2001, because of the smaller U.S. grape crop and a stronger U.S. dollar, U.S. importation of wine rose 7 percent over 2000. From the main suppliers, shipments were up from Italy, Australia, and Spain but were down from France and Chile. During the first 8 months of 2002, U.S. wine imports continued higher, up 16 percent from the same period a year ago.

Raisin Production & Exports Down

Raisins account for the second-largest use of U.S. grape production. Partly due to the smaller 2001 grape crop, fewer grapes were used for raisin production last year. However, large carryover stocks and increased imports raised domestic raisin supplies during the 2001/02 season, and pressured already low raisin prices.

Imports rose 29 percent, with larger shipments from the leading suppliers—Chile, Mexico, Argentina, and the Republic of South Africa. Even with increased supplies, commercial shipments, as reported by the Raisin Administrative Committee, were down slightly from the previous year and ending stocks remained large. U.S. raisin consumption was estimated at 1.46 pounds per person during 2001/02, down 3 percent from the previous season. However, low domestic prices and decreased world supplies helped boost export demand for U.S. raisins, raising shipments 4 percent. Increased shipments to Japan, Canada, and other important markets in the Asian Pacific Rim more than offset decreased sales to the European Union.

This year's larger U.S. raisin crop and another year of large carryover stocks will likely keep U.S. raisin prices competitive in the world market, but increased world production and a continued large world surplus will likely prevent any significant growth in U.S. exports. Good drying conditions prevailed for sun-dried raisins in September of this year. By early November, harvesting of raisin vineyards in California was complete. AO

Agnes Perez (202) 694-5255
acperez@ers.usda.gov

Specialty Crops

Smaller 2002/03 Citrus Crop May Boost Grower Prices

The 2002/03 citrus crop is projected to total 15 million short tons, 9 percent smaller than last season, according to USDA's National Agricultural Statistics Service (NASS). The orange, grapefruit, tangerine, and Temple crops are expected to be smaller, while lemon and tangelo crops should be bigger. As a result of the expected smaller crops, growers are likely to receive higher prices for their product. Higher prices could, in turn, improve revenues for some of the citrus industries.

With the Florida crop typically accounting for at least three-quarters of all citrus produced in the U.S., any changes in its crop affects the overall industry. An expected 14-percent decline in Florida's citrus crop is driving overall decline for the 2002/03 season. As a result of the sharp projected decline in Florida's production, its share of the total U.S. citrus crop is likely to be 74 percent, down from 78 percent last season.

A projected 11-percent increase in California's crop is offsetting some of the overall decline in the U.S. citrus crop. Since Florida and California market their citrus differently, one state's crop has little effect on the other state's market. For example, most of California's oranges are sold in the fresh market while most of Florida's oranges go into making juice. Because of the split markets, quality factors often have more effect on markets, with poor-quality California oranges increasing sales to processing and high-quality Florida oranges increasing its sales to the fresh market. The impact of any change in market, however, is generally very small. Similarly, Florida grapefruit dominate the winter fresh market with California's product taking over from spring through early fall.

More Fresh Oranges Expected in the Markets This Season. California and Arizona orange crops are projected to reach 2.4 million short tons, 13 percent bigger than last season and potentially the largest since 1997/98. The navel orange crop, which is already being marketed, is expected to be 17 percent larger than last season. The Valencia crop, which will not be harvested until February or March, will be 4 percent larger. The significantly larger navel crop is good news for growers since navels are popular both domestically and