

Maple Syrup Price Predictions for 2009

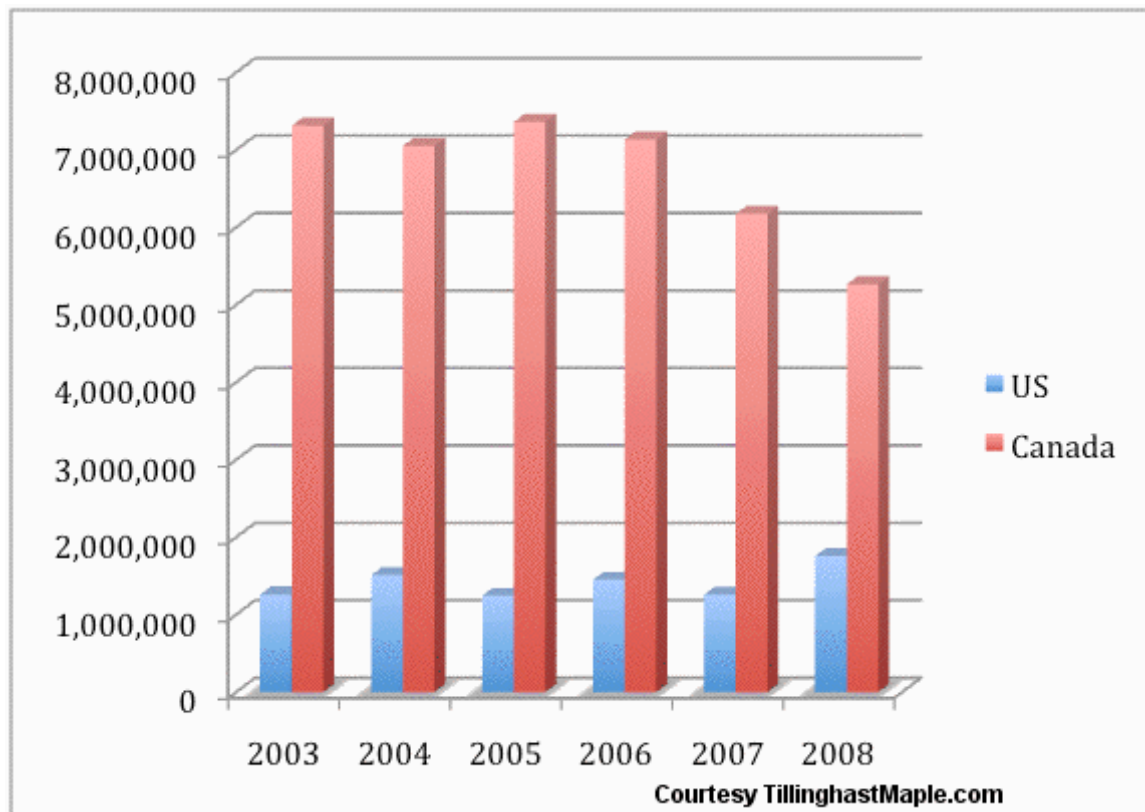
From FreshMapleSyrup.com

After reading data from the a wide variety of overlapping sources, I made a stab at predicting the average price of syrup for 2009. You can skip the rest of this if you're looking for the dollar figure. That's \$3.16 per pound, or \$36 per gallon in 2009. I know that will disappoint many producers hoping that our record high prices this year would stick around for a bit.

The method I used to draw this conclusion has two key flaws, one obvious and the other less so. The obvious flaw is the fact that we cannot precisely predict the 2009 crop. However, we can use the running averages and trends, and factor in new developments (such as the vastly increased equipment sales) to predict various pluses and minuses. We must also apply that same logic to the changes in demand, such as the delayed effect of large food industry players moving away from maple to protect themselves from high prices and volatility.

The less obvious flaw in the system is the fact that the world market is largely controlled by the Canadians, who have in there very Canadian fashion set up a bureaucracy that holds over oversupply from one year and dumps it on a future year, making charts of production versus price a somewhat indirect measure of actual supply. We have a few data points we can throw in on this, and I have calls in to various Canadian bureaus to see if they'll part with the specifics of their market movements over the past five years. If I can find that, I'll update the model.

[Update: on 12/21/08, I received Bascom's new catalog in which Bruce Bascom writes on 2009 pricing. He predicts \$2.50 to \$3.00 per pound on the table grades, with commercial grade coming in about half a dollar lower. That translates to a Grade A price of \$28.50 to \$34.20 per gallon. Bruce has a vested interest in low producer prices, but he has proven highly accurate in the past.]



(Data to 2007 from USDA. 2008 estimates from Bascom report on market.)

The chart above shows the relative production of Canada and the U.S. in terms of gallons of syrup. The obvious trend: the proportion of Canadian production that the U.S. is also able to produce roughly doubled from 17 percent in 2003 to 34 percent in 2008. This trend is due largely to weather happenstance, particularly in the latter two years. Combined, the world's two maple producing countries produced much less syrup over this same time period.

This fall-off in production forced the marketing board that controls bulk syrup sales in Quebec to dip into their once-overflowing stockpiles, depleting them in 2007. It is that depletion that is likely the single most shocking event to the market, causing wholesale and retail prices in 2008 to burgeon from the 30's to the 50's and 60's.

[Footnote 1: A cross-town neighbor actually engaged in local syrup arbitrage earlier in the year, noticing that some of the producers - who

generally run to the older and crankier sort - were insisting on selling syrup in the low \$30s, probably out of embarrassment for charging anything higher. This fellow went around asking to buy in 50 gallons and 100 gallons, with the intent on unloading it on one of the big packers, which at the time were paying \$44 per gallon.]

The reason both the wholesale and retail prices are roughly the same shows a wonderful and curious example of the sort of microeconomics of small towns that doesn't often make it into the textbooks. The books might refer to it as a lack of "price elasticity," but that doesn't begin to cover the social dynamics that affect the retail price of maple. Most maple producers are small-scale in the U.S., and less so in Canada. These small producers don't have the scale to conduct formal marketing, transport their syrup great distances or generally waste much time on the whole affair. They sell to friends and family, over the years developing a highly valuable customer list that year-in and year-out allows them to sell all their crop. These individuals on the list feel as though they are - and they are - on the inside track with something very special. There is a relationship between these small-time farmers and their customers that doesn't abide 40 percent price hikes in a year - no matter the global commodity price rationale.

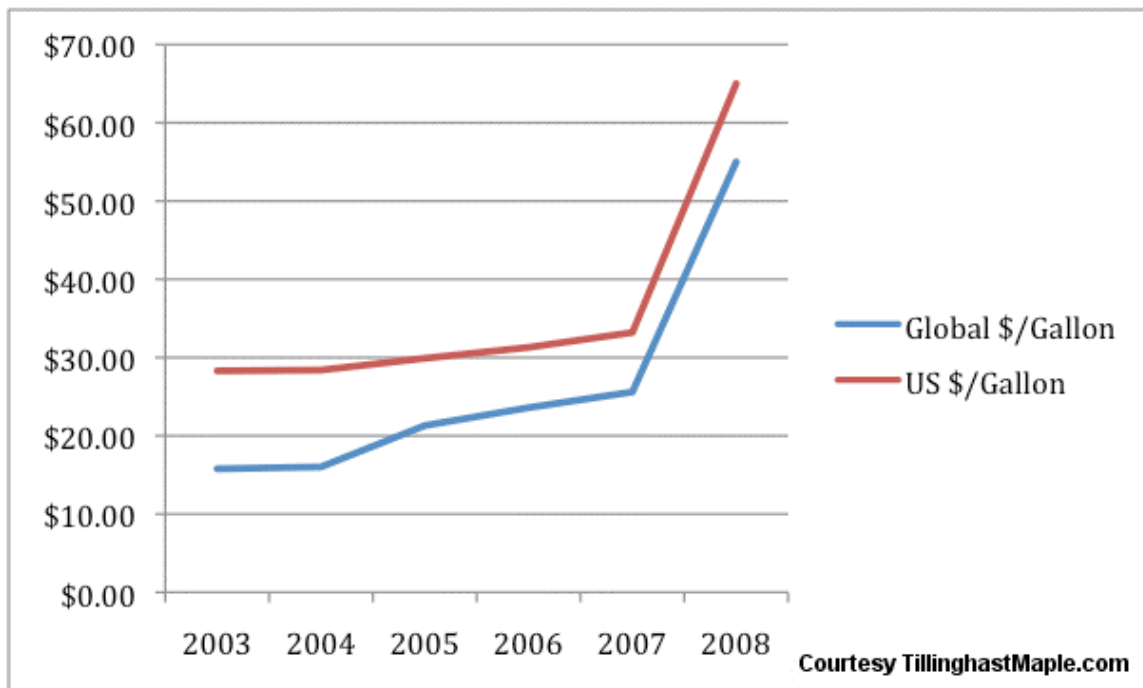
Yesterday evening I had a phone conversation with a producer on the other side of town. I had a big order I couldn't fill by myself, and I was trying to marshal together a few of us to meet the demand. As most folks around here, she was sold out, but she added that she'd sold her gallons at \$48 a piece. I pointed out that she could sell it wholesale to Maple Grove for \$50.16. She replied that she knew that, but that she'd spent more than 20 years building that list and she'd be darned if she were to do it over again.

It seems that in the U.S. market, there is a price premium effect due to the non-commodity nature in which the product is often sold, yet this price is very inelastic when price pressures attempt to move it upward.

U.S. producers almost always sell a higher proportion of their product at retail than the Canadians do, which makes for a generally higher

average price as well in the U.S. This is not only because of the retail premium, but also because the smaller sizes that are typically the best sellers at retail command a further sizing premium. Canadians, with their enormous operations, sell the brunt of their product in bulk and wholesale.

[Footnote 2: It should be noted that the USDA data on pricing among states and sizes does not seem accurate in some aspects. In particular, at the lower size packages they appear to show an inversion in the retail and wholesale prices, which is highly unlikely. This may be due to a low number of people in their poll at these more obscure sizes. Similarly the full gallon pricing is very volatile in the past year or two, as many, if not most retailers stopped selling the size in favor of the higher-margin pints and half-pints. The Maine prices also did not look at all consistent with prices I checked in the summer of 07 along the coast. While I was in just one area, it was the expensive area, and in high tourist season, so the fact that I was seeing lower prices makes me think this data set should be used with caution.]



(Data from USDA and StatCan)

The chart above shows the movement of prices over the past six years,

showing the general price – which really means the U.S. and Canada – in blue, with the red line of the U.S.-only price above it. Figures for 2008 are estimated based on current December 2008 wholesale price offers from New England packers (which currently range from \$44 to \$50.16) and an informal competitive survey of retail syrup prices sold during the same period.

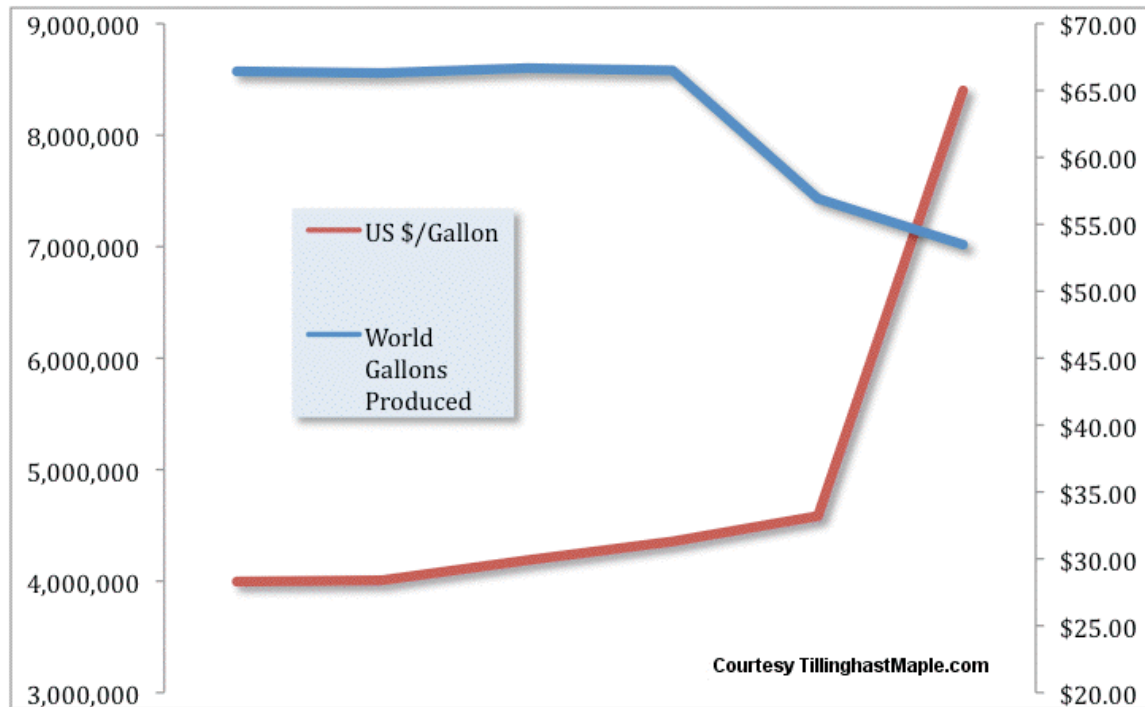
Over the time period shown in the chart above, the Quebecois have depleted their syrup reserves – the last drop reportedly being sold in 2007. This may help explain the ground the Canadians seem to be making up, pulling somewhat closer to price parity with their southern neighbors. Two warnings on this assumption:

- About 56 percent of Canada's exports go to the U.S. That's several times what the Americans make themselves, so pretending that U.S. and Canadian markets are discrete is a bit deceptive.- Maple producers in Quebec have strict reporting requirements designed to limit bulk sales outside of their Federation marketing scheme. If producers there evade that scheme by selling syrup at the higher U.S. rates directly, the lack of reporting on those transactions would – and probably does – skew the U.S./Canada pricing data.

- When wholesale prices ratchet up, as they have in the past two years, it opens up a much greater temptation for U.S. producers to skip the hassle and expense of retail operations, with both price and friction factors coming into that decision. In fact, we see that surface in the data, with the USDA reporting that all New England states but New Hampshire showing significant movement from retail to bulk and wholesale sales methods between 2006 and 2007. I expect that trend to continue at a faster pace in 2008 due to the spike in wholesale prices. This may also be affected by a trend away from old-school hobby bucket operations – which tend to be retail-only – and toward larger mainline operations. That trend depresses U.S. prices as seen from the producer's perspective.

Which brings us to the relationship between the supply and the price. We see the prices going up in the chart above. Look at the one below,

where the annual production figures are pasted in...



(Data from USDA, StatCan, Federation des producteurs acericoles du Quebec. First data point is 2003, on left. Right-most data point is 2008.)

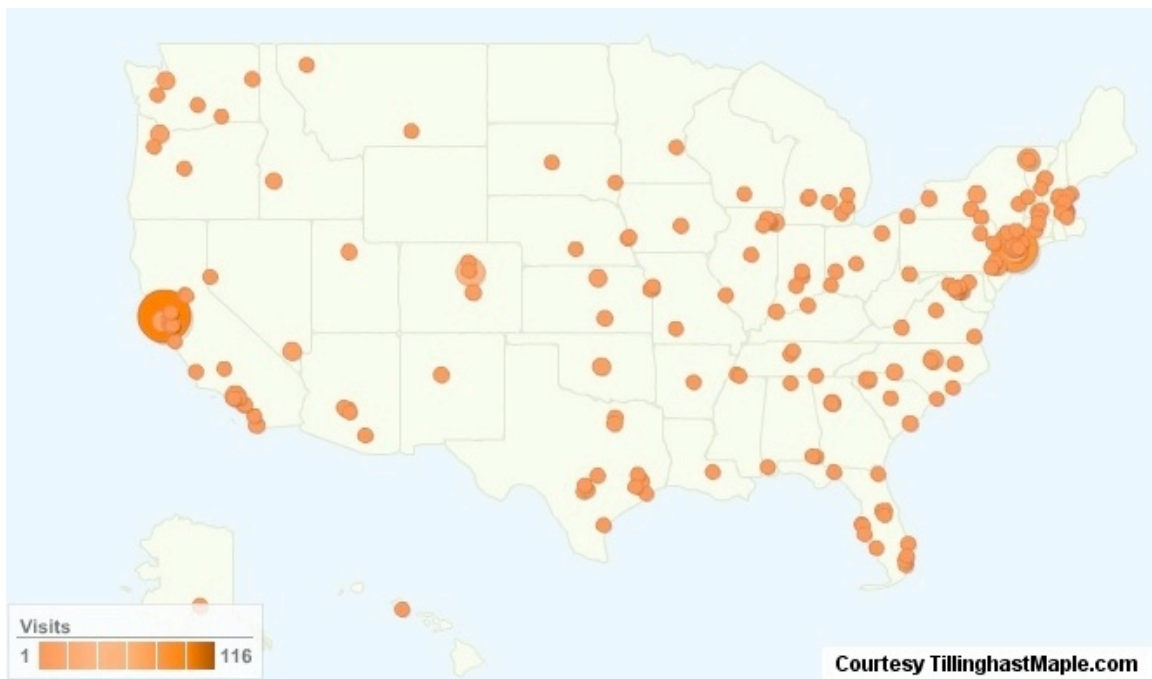
This certainly suggests that declining production spiked prices, but the real story is a bit more complex than that. The second to last set of data (2007) shows the biggest production decline, yet the price rose merely along with the continuing trend. This is likely because, according to Bascom, the Canadians dropped their last batch of reserve syrup (about 35 million pounds) on the market that year, more than making up for the supply drop. And then, in 2008, the unmoderated market forces broke loose as supply sank with no reserves to make up for the deficit.

THE DEMAND SIDE

The demand side is poorly understood. We have a great deal of public data on the production side, and even some on the supply side, with the Canadian market moves, but our understanding of the demand side is still wrapped up in an old fashioned and increasingly out-of-

date impression who buys maple syrup and why.

The map below shows the geographic breakdown of domestic interest in a maple syrup sales message to a maple retail website during the holiday season 2008. Interest is consistent with population centers, not surprisingly. Actual transaction data showed increased interest in those regions of the country (Northwest, San Francisco, Colorado, Alaska and Hawaii) where children of Vermonters are more likely to settle.



While it may be true that pancakes are pointless without maple syrup, there are a lot of other reasons why people use maple syrup. The rise in Polynesian and other Asian-style “fusion” cooking has added demand, along with the Maple Syrup Diet – a terribly disgusting fad weight loss program that is best not described – as well as the opening of new sizable markets in Japan and Germany, along with their respective currencies rise against the U.S. dollar.

For our purposes of determining syrup price for 2009, it’s instructive to see how these trends are moving relative to this past year.

- Asian and other culinary interest: Very consistently positive

- Maple Syrup Diet: Fading fast
- Japanese, German, other markets opening: Very consistently positive, with perhaps downside risk temporarily due to economic troubles. This may be somewhat offset by decreasing shipping prices.
- Currency exchange rate effect: The U.S. dollar has strengthened quite a bit since its days of falling earlier in 2008, although it has not made up lost ground. Interestingly, Canadian exports to Germany declined 54 percent in 2007, made up with commensurate gains in exports by U.S. sugar producers. This is very likely due to the U.S. dollar's decline versus the Loonie.

Domestic direct consumption will likely prove a slightly downward trend in light of the current prices. Domestic industrial consumption is likely to move downward faster, as companies that required plant resetting time in order to accommodate a more reasonably-priced sweetener will likely come online in 2009, reducing commercial demand as a latent effect to 2008's very high prices.

The net of all of this – heavily weighted to the domestic consumption side of things – is rather negative. We have seen demand rising in all of the preceding years, and next year is likely to be the first where that actually reverses.

Bascomb Maple Farms, the biggest market maker in New England, writes on its website that the world demand for maple is about 110- to 120 million pounds of syrup. In 2007, that was about what was supplied when the surplus was added back in by the Canadians. In 2008, only about 80 to 90 million pounds of syrup hit the market, as that was all that was produced and was available. Which means that there is quite a bit of demand that can leave for other sweeteners without necessarily jumping prices down drastically.

One hidden factor is how much demand was lost in the current 2008 pricing regime. We know we sold only those 80 to 90 million pounds, but we cannot know how much more we could have sold at those prices. I think it is safest to assume additional supply would have

significantly affected prices. We see evidence of that regionally, where Maple Grove in Vermont offered wholesale prices about eight percent higher than Bascom's during the year. Visiting the Maple Grove website at different times over 2008, the larger sized packages were out of stock, or taken down entirely, replaced by very small packages at relative premiums. This caused the average price per gallon of their sales to be extraordinarily high.

It was only a couple years ago, the industry used to stratify their pricing based on grade. Those days are over, with the advent of bubbler systems that change the color of syrup. It seems that the new stratification mechanism is unit size, and retailers can create an impression of great demand and price by not carrying the larger sizes. This is a volatile situation, as the reverse is true as well. Faced with a normal crop and low demand, retailers will price the product to move, and in the face of fewer transactions will increase the unit size. This will quite possibly happen in 2009, creating a record price decline to match the record price rise.

2009 PRODUCTION

Ask an experienced sugarer how the next year looks, and almost always, you'll get a sour answer. Listing the reasons why things probably won't go well makes a normal year seem all the more positive. That sugarer has a lot of evidence on his side this year.

People have been making very deliberate efforts and capital expenditures to increase their production capability for the 2009 season. The two largest equipment manufacturers in northern New England indicate they are having near record years for major capital equipment, such as upgraded evaporators and technologies such as reverse osmosis and various types of preheaters and preboilers, perhaps due to sugarmakers attempting to take advantage of the high prices. Those near record revenues, however, may also come from the record steel prices that factor into their equipment.

The Federation des producteurs acericoles du Quebec announced it is

increasing quota amounts among its farmers by 12 percent this year, encouraging still more production increases.

If the weather cooperates with a “normal” season, North American sugarmakers should be producing roughly 10 million gallons of syrup, a 10 to 15 percent rise over the average actual production of the earlier part of this decade, which back then was then supplemented with reserve syrup.

If that comes to pass, the effect on price will depend on how quickly that supply is brought to market. The maple sugar industry typically has a short season with a long dormant season, encouraging many operations to dump syrup on the market at the same time, around late April. If wholesalers and packers determine that the season is a normal or good one, they will likely low-ball the price early on in the hopes that a great deal of April and May syrup will flow to them. Only if the season appears to be poor through the first month or so will packers be willing to offer the price premiums seen in 2008.

Precedent shows that supply will be brought to the market in large chunks early on, encouraging a return to the pricing regime of 2005 and 2006, when (coupled with Quebecois maple syrup reserves returned to the market) effective supply was around 10 million gallons. A possible downside risk is that demand will have been more stymied than many sugarers anticipate, having caused a lot of pain on the part of industrial companies using maple syrup as an ingredient. Those companies changing their recipes and processes would likely be able to roll out the reformulated products only in 2009.

MOST LIKELY SCENARIO

Because of this relatively pessimistic brew of factors, I predict average syrup prices in the U.S. to be about \$36 per gallon in 2009 among the higher-paying packers. That translates to \$3.16 per pound of syrup. With demand subsiding and supply returning to “normal,” the price could be lower than that, but I am also anticipating that the most recent price records will provide pressure on sugarmakers to withhold

syrup from wholesalers in an effort to exploit what they perceive as a less price sensitive retail market. The \$3.00 per pound of syrup psychological barrier may provide a great deal of price support at that level as well.

OTHER SCENARIOS

The pessimistic scenario would involve prices seen in the earlier part of this decade, around the \$28 per gallon mark. There is limited downside risk below that point because of the likely market actions that the Quebec federation would take if syrup prices were to fall further.

The optimistic scenario would involve either a poor season's production, a more controlled release of the year's crop onto the market, and/or the growth of international markets despite curtailed consumer spending. Pricing would average about \$40 per gallon. Barring ice storms or other acts of God, I do not see prices returning to the \$50 per gallon at wholesale level once 2009 production starts to flow.

As always, I welcome feedback on the data and logic used for this analysis. Please feel free to comment either publicly below, or by emailing me privately. Perhaps readers will be able to contribute further data points and additional observations.

CITATIONS:

Agri-Food Canada

http://www.ats-sea.agr.gc.ca/supply/3310_e.htm

Industry Canada

ic.gc.ca

la Federation des producteurs acericoles du Quebec

http://www.siroperable.ca/AxisDocument.aspx?id=503&langue=en&download=true&document=Info-sirop_ete_2008.pdf

USDA

http://www.nass.usda.gov/Statistics_by_State/New_England_includes/Publications/o6o5mpl.pdf

Bascom Maple Farms

http://www.maplesource.com/Press_Room/Releases/2008_crop_report.pdf

Published: December 20, 2008

Filed Under: Bulk Maple Syrup, Grading Maple Syrup, Maple Syrup Pricing, Marketing Maple Syrup, Packing and Shipping Maple Syrup, Relevant Maple Syrup Sites, Trade Groups on Maple Syrup, Wholesale Maple Syrup