

U.S. Flue-Cured Tobacco Outlook Update

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Cigarette Market

Cigarette consumption in developed regions such as the U.S. and EU continues to decline. Growth in cigarette consumption is expected to continue in China and other southeast Asia markets. In particular, Chinese demand for flavor style tobacco, such as U.S. tobacco, has grown in recent years as Chinese cigarette makers try to meet the demand for cigarettes from a more affluent consumer. As demand for U.S. tobacco from U.S. and EU cigarette manufacturers declines, growth in Chinese demand has partially offset the decline.

The emerging e-cigarette market has the potential to dramatically change the U.S. and EU cigarette markets. While total U.S. sales of e-cigarettes is still small (about \$2 billion in 2013) relative to sales of traditional cigarettes (about \$108 billion in 2013), growth in e-cigarettes is explosive with all major manufacturers of traditional cigarettes now selling e-cigarettes. FDA is treating e-cigarettes as a tobacco product and is developing regulations for e-cigarettes. States and local governments are beginning to enact taxes and restrictions on use of e-cigarettes in public places. Emerging regulations and taxes will significantly affect future growth in this market.

Other non-combustible tobacco products are being developed and introduced in the market. Growth in e-cigarettes and other non-combustible tobacco products will come at the expense of the current market for traditional cigarettes. While the effects at the tobacco farm level may not be felt for several years, ultimately most if not all of these new products will require less tobacco than traditional cigarettes.

Flue-Cured Production and Market

While the intermediate to long term market outlook is uncertain, current demand for U.S. flue-cured tobacco remains strong. This situation is the result of growing Chinese demand for U.S. tobacco and the weather related inability to increase production of good quality flavor style flue-cured tobacco in the U.S. and Brazil in recent years. Wet weather in autumn 2013 in some parts of the Brazil flue-cured production area caused the 2014 crop to fall short of the hoped for 1.4 billion pounds with the 2014 crop estimated at 1.34 billion pounds. In late 2013 some buyers attempted increase 2014 U.S. production. This push cooled over the winter as the Brazil crop was not as low as initially feared and as U.S. producers responded to the calls for higher production. Zimbabwe re-emerged in the late 2000's as a producer of flavor style flue-cured tobacco. Zimbabwe production for 2014 (the crop planted in autumn 2013 and still being marketed) may exceed 350 million pounds with production forecast to be

up for the 2015 crop. Prices thus far for the 2014 Zimbabwean crop have averaged about \$1.68 per pound.

The March planting intentions for U.S. flue-cured tobacco as announced by USDA were for 232,000 acres, up 3,500 acres from the 228,800 acre 2013 crop. In previous years planting intentions were as much as 10,000 acres below the actual crop acreage for the year in question. While 2014 acreage may be up, a limiting factor seems to be the availability of transplants. Severe weather destroyed some greenhouses in eastern NC this spring and adversely affected turnout in many greenhouses. In late April there were still reports of farmers seeding greenhouses in an attempt to raise transplants for the 2014 crop. How much, if any, U.S. flue-cured acreage increases in 2014 seems uncertain and a significant concern of many in the industry. Unless acreage is up much more than expected or a poor growing season damages crop quality, prices for the 2014 season will remain strong, although probably not as strong as in the 2013 season. USDA estimated the average price per pound for U.S. flue-cured tobacco at \$2.115 for the 2013 marketing year. Farmers in North Carolina must report tobacco acreage to USDA-FSA by July 15. This will be the earliest hard data available on tobacco acreage planted.