

Although there are U.S. Department of Agriculture grades for pecans, most buyers regard them as inadequate. Buyers feel they can use their own grading system more efficiently.

Most buyers use a three-grade system which consists of Fancy or Select, Choice, and Standard or Ambers, with Fancy grades being the highest quality and Amber grades the lowest. Pecans are placed into one of these three grades using the following criteria: nut size, meat size, color of the meats and the shell-out percentage of the nut. Shell-out percentage refers to the amount of nut meat yield relative to the weight of the whole pecan. Once pecans are sampled and graded, the producer's price is calculated.

Most buyers base their inshell pecan price on the prices they expect to receive for nut meats, rather than the whole inshell pecan. Price expectations for pecan nut meats are influenced by such factors as the current year production of pecans, current supply of competing nuts, demand for nuts, imports and exports of pecans and other nuts, and the quantity of pecans and other nuts carried over from the previous year. To arrive at a price for producers' inshell pecans, shellers subtract estimated shelling costs and profit margin from the price expected for nut meats. Once the buyer sets the purchase price for nut meats, the price of the inshell pecans can be determined based upon the shell-out percentage. This is done by a shell-out test.

As an example, assume pecans shell out at 58% nut meats, they grade Fancy and the buyer is willing to pay \$1.70 per Fancy nut meat pound. The buyer would then pay the producer 98.6 cents per pound for the inshell

pecans ($\$1.70 \times 58\% = \0.986). If the lots grade out at Choice or Amber, the same pricing strategy is used, except the price paid for those nut meats would be less than for Fancy.

If a particular lot is not of a uniform grade, the buyer would base his price on the percentage of each grade in the sample. For example, if a producer sold pecans consisting of 70% Fancy, 20% Choice and 10% Amber, the buyer would calculate a weighted price as follows:

$$\begin{aligned} (70\% \text{ at } \$1.70/\text{nut meat pound}) &= \$1.19 \\ + (20\% \text{ at } \$1.60/\text{nut meat pound}) &= \$.32 \\ + (10\% \text{ at } \$1.55/\text{nut meat pound}) &= \$.15 \\ \text{Lot total} &= \$1.66/\text{nut meat pound} \end{aligned}$$

Assuming the shell-out test was 56%, the final lot price would be $56\% \times \$1.66 = \0.93 per pound of inshell nuts.

Pecans bought for later sale as inshell pecans tend to bring higher prices than inshell pecans bought for shelling. Pecans sold for final sale in-shell are the high-priced end of the market. The quantity of pecans demanded for inshell use has been fairly stable, regardless of price.

Pecans entering the inshell final use market must have certain characteristics which make them pleasing to consumers. These include size, shape, and coloring of the shell, as well as a thin shell ("paper shell").

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