



Rio Rico, AZ

January 18th, 2023

To Our Valued Customers,

Thank you for your support of SunFed in 2022. It was a challenging year as we navigated the post Covid new normal of supply chain issues, rampant inflation, and the continued difficulty of profitable farming. There's a saying out there, "when the US gets a cold, Mexico gets the flu." Looking ahead at 2023, I write today to address the sober reality of what our farms, and most certainly all farming operations across North America, face. Year over year cost increases are unprecedented.

In Mexico the three most significant cost components to get fresh produce to market are labor, growing/packing inputs, and transportation, all of which have outpaced US inflation over the last 24 months.

#### Labor

From 2020 to 2022 minimum wage in Mexico went up 48%, and in 2023 it will increase another 20%<sup>(4)</sup>. For comparison, in the US, Arizona minimum wage is up 26% over the same period, and will increase 8%<sup>(5)</sup> for 2023.

Even with wage increases the farm labor market remains especially tight. According to MacroTrends<sup>(3)</sup> unemployment in Mexico is 4.38%. Farming operations struggle to attract and retain skilled labor as many individuals choose less physical labor-intensive industries. Complicating matters further is rising street violence resulting in workers finding work closer to the safety of their own home.

#### Growing/Packing Inputs

Cardboard and plastic materials are up over 16%, pallets up 19%.

Fertilizer cost is having the most significant impact. The YCharts<sup>(2)</sup> price index confirms December 2022 prices 160% higher than December 2019 (April 2022 peaked at 200% higher).

#### Transportation

Sourcing the USDA refrigerated truck data<sup>(1)</sup>, cost per mile peaked February 2022 at ~\$4.97 per mile. Although rates have retreated over the last few months to between ~\$3.75 and ~\$4 per mile, it is still well over 2019.

FOB AZ annualized rates:

- 2019 \$2.57
- 2020 \$2.62
- 2021 \$3.45
- 2022 \$3.33

Freight rates in Mexico have had the same trajectory as in the US.

While these cost increases are real, unfortunately YOY FOB prices have remained stagnant. Labor, growing/packing inputs, and transportation costs can't be avoided. Farming margins start out thin, making it obvious that it is not a sustainable model. Without annualized FOB increases we anticipate flat to declining production across the dry vegetable category over the next 12 to 36 months. For Mexican farms higher FOB prices are a must for their survival.

I ask for your continued support in 2023 and hope that through fact-based FOB price increases our farms will be able to continue to provide you with the best quality at the lowest possible cost.

Sincerely,

*Craig Slate*

Craig Slate  
CEO

- (1) <https://internal.agtransport.usda.gov/stories/s/Refrigerated-Truck-Dashboard/56s5-rpde/>
- (2) [https://ycharts.com/indicators/fertilizers\\_index\\_world\\_bank](https://ycharts.com/indicators/fertilizers_index_world_bank)
- (3) <https://www.macrotrends.net/countries/MEX/mexico/unemployment-rate#:~:text=Unemployment%20refers%20to%20the%20share,a%200.97%25%20increase%20from%202019.>
- (4) <https://tradingeconomics.com/mexico/minimum-wages>
- (5) <https://foreignusa.com/arizona-state-minimum-wage/>