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Economic Outlook for Washington Grapes

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Introduction

Weather factors contributed to the continued "roller coaster ride" for the Concord grape sector and new acreages reinforced the upward trend in production in the wine grape sector of the Washington grape industry. The year 2000 was just the opposite of 1999 in terms of weather patterns. Overall, both sectors had a good economic year.

Concord Grapes

The Concord grape crop in Washington was 162,126.4 tons (Figure 1). This is down from the 182,645.2 ton crop in 1999, is up from the 1998 crop of 144,488 tons, and down from the 253,200.5 ton crop in 1997. Remember, the largest crop was 275,600 tons in 1993. The roller coaster ride continues, but is not as wild as it was from 1992 through 1996.

The average yield was about 7 tons per acre in 2000 (Figure 2). This year was expected to be a major production year because of the degree of winter hardiness and the level of carbohydrates stored at the end of the 1999 season. The large crop did not occur because of weather problems during fruit set and heat during the growing season. The vines are again in good shape and if no major weather problems occur there could be a bumper crop in 2001.

The 2000 crop was accompanied by a slight decrease in the cash price. The cash price ranged from \$220 to \$225 per ton (Figure 3). In 1999, the cash price ranged from \$225 to \$235 per ton. As was true last year, the major cash buyers were at two different price levels. With production being down only slightly, the price level remained about the same (Figure 4).

Inventories did not play a major role in 2000. There was some upward trend in sales and USDA purchases reduced the inventories to a minimal level. Thus, they did not have a depressing effect on prices.

The Concord grape production in the east was light. The overall supply of Concord grapes in the U.S. is probably between 385,00 to 405,000 tons (Figure 5). Coupling the rather normal supply situation with a slight increase in Washington, a light crop in the east, and no significant inventories, it was expected that the price would be stable.

The quality of the Concord grape crop in Washington was good. The color and sugar levels were

excellent, while the acid levels were in the range desired by processors.

Given the supply and quality, it is expected that the concentrate price will be \$1.00 higher per gallon than it was in 1999. To date, there have not been any prices announced but are expected at any moment. In 1999, the bulk concentrate price was \$11.50 to \$12.50 per gallon. With an expected 2000 price of \$12.50 to \$13.50 per gallon, the equivalent price for the grapes is \$460 to \$497 per ton. Naturally, this must be adjusted for processing, inventory, marketing, and distribution costs.

Overall, 2000 was a good year for the Concord grape industry. The relative stability of production means a steady price and income level to producers and efficient utilization of processing plant facilities.

The Concord grape acreage is slightly more than 23,000 acres in terms of bearing acreage (Figure 6). While there has been some limited planting, the industry has been a stable entity in the agricultural sector of the Washington economy.

Wine Grapes

The 2000 wine grape in Washington will be about 87,000 tons when all the figures are tabulated (Figure 7). There are estimates ranging from 80,000 to 90,000 tons. This is by far the largest wine grape crop ever harvested in Washington. It will surpass the wine crops of 1998 and 1999 by 20,000 tons or by 28.6%. The crop in both of the previous 2 years was 70,000 tons.

The larger crop was accompanied by a softening in most prices paid for wine grapes (Figure 8). I estimate that the average cash price for the white varieties to be \$700 per ton and for the red varieties \$1100 per ton. These prices are down from \$753 and \$1,152 per ton for the white and red varieties, respectively, in 1999. In fact, wine grape prices on the average have been decreasing since 1996. In 1996, white varieties earned an average price of \$786 per ton, while the red varieties earned an average price of \$1,260 per ton. In 1996, the wine grape crop was only 35,000 tons and has increased or remained constant each year through 2000.

The inverse price-quantity relation was expected given basic economics. However, some of this inverse relation was tempered by a change in contracting practices. The move towards more acreage and fewer tonnage contracts has tempered this price-quantity relation.

The prices by variety varied widely. In the case of the white varieties, Chardonnay commanded the highest cash price of \$800 per ton, while some varieties had difficulty finding a home if they were not under contract. There was some strength in the demand for White Riesling with the average cash price being at \$550 per ton, which is up slightly from 1999.

The red varieties commanded higher prices with Syrah bringing \$1,450 per ton. The tonnage was small for this and some other red varieties. Merlot and Cabernet Sauvignon were priced at \$1,100 and \$1,200 per ton, respectively. These two varieties dominate the production of red wine grapes in Washington.

The crop size should not have been a surprise to anyone who is knowledgeable about the plantings of wine grapes in Washington. The acreage increased from 11,100 acres in 1993 to 24,806 acres in 1999. With the estimated plantings in 2000 being almost 2,400 acres, the total wine grape acreage is now 27,000 acres (Figure 4).

As I have suggested in the past, the acreage is capable of producing a significant amount of grapes. The total production capacity assuming an average of 5 tons per acre is 136,000 tons. With a 6-ton yield, the production could reach 163,200 tons. If the more conservative yield of 5 tons per acre is used along with a juice yield of 160 gallons per ton, the wine production that could result from this acreage is almost 22

million gallons. Using the same 5 tons per acre and a juice yield of 160 gallons per ton, the 2000 wine grape crop should result in about 14.4 million gallons of wine.

The cooperage existing within the state is currently capable of handling the 2000 wine grape crop. Instate cooperage is about 20 million gallons. Given that some of the 2000 wine grape crop was exported to other states and/or counties, and part of the cooperage must be used for aging and foaming during the fermentation process, the industry is pretty close to being in balance between grape/wine production and its capacity (cooperage) to handle the crop.

The next obvious question concerns the future balance between crop size and capacity to handle the crop. With Washington's storage capacity at about 20 million gallons and a production potential of at least 22 million gallons, there should be concern. With a larger production potential than capacity, the industry is in need of additional wineries and/or storage capacity. Today there are 165 wineries in Washington. This compares to only 145 in April 2000 and 80 in 1993. There have been a number of wineries enter the industry but there is a need for more and a couple of larger wineries would not hurt the industry at this time.

In comparison, there is an estimated 1,600 wineries in the US and that is three times the number of wineries that existed 20 years ago. There are 847 "brick and mortar" wineries in California. Roughly half sell less than 5,000 cases. It is estimated that the largest 25 wineries in California account for 90% of California wine shipments. In Washington, the largest five wine companies account for over 75% of the total storage capacity.

Wine sales in the US continue their upward trend. In 1999, 551 million gallons of wine were consumed in the US, which is 20% greater than in 1994. It should be noted that the upward trend in wine consumption that is currently underway started in 1994. Wine sales decreased in six out of the seven previous years to 1994. Consumption peaked in 1986 at 587 million gallons.

On a per capita basis, US wine consumption was 2.02 gallons in 1999. In 1986, the per capita consumption was 2.43 gallons. We have not regained that level of consumption on a per capita basis and it could be 8 to 10 years before the per capita consumption level is reached given historical annual average increases.

The most significant fact to note about US wine consumption is that 88% of it is table wine and that 23% of that volume sold for \$7 or more per 750 ml bottle. However, that means that 77% sold for less than \$7 per 750 ml bottle. There is stiff price competition at the retail level. The competition is not only coming from California but around the world. Chilean Merlots are selling for \$3.50 to \$4.50 per 750 ml bottle in the US

The competition from California may be slightly less in the future. Between 1998 and 1999, California growers planted 10,369 acres of Chardonnay, 5,405 acres of Cabernet Sauvignon, and 8,392 acres of Merlot. These plantings for the three most important premium varieties almost equal the total wine grape acreage in Washington. However, there are reports in the popular press that wine grape vineyards are being removed in California. These vineyards are in the San Joaquin Valley. In addition, the California industry must now deal with the Glassy-Winged Sharpshooter and Pierce's disease.

On the international front, attention must be paid to all the countries exporting table wines to the US. France and Italy still are our main competitors in the US market, accounting for 24.6% and 37.6% of the table wine imported to the US in 1999. Chile was the third most important country accounting for 13% of the table wines imported into the US. Chilean wine shipments increased from 93,600 cases in 1980 to 38.1 million cases in 1999.

The Washington wine industry is also exporting wine. The industry exports about 6% of its annual production to over 20 countries. Our most important export markets are Canada, United Kingdom, and Japan. The industry must increase sales not only in the domestic market but also in these export markets.

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