

ECONOMIC OUTLOOK FOR WASHINGTON GRAPES

By

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INTRODUCTION

The 2002 grape growing and harvesting year was unique. The Concord grapes actually grew during the harvest period, while the wine grapes were dehydrating. Overall, there were over 300,000 tons of grapes produced in Washington.

Concord Grapes

The 2002 Concord grape crop in Washington was 200,799 tons (Figure 1). This is approximately 31,000 more tons than produced in 2001 and represents an 18,000 ton increase over the average for the previous 5 years. As indicated last year, when there has been about 4 years of normal crop levels, the vines are usually capable of producing a large crop. In 2002, the crop was larger. In fact, since 1968, there were only 3 years in which the Concord grape crop was larger: 1983, 1995, and 1997.

The large crop of Concord grapes in 2002 can be attributed mostly to the yield per acre. The average yield in 2002 was 8.2 tons per acre (Figure 2). The large yield was not expected during the growing season or even as harvest was started. What was unique this year was the fact that berries continued to increase in size during harvest. Over the last 30 years there has been high correlation between the yield per acre and the size of the total Concord grape crop in Washington given the planted acreage.

With the larger Concord grape crop there was a decrease in the average cash price (Figure 3). The average cash price fell to \$150 per ton. This was a \$75 decrease from last year's price and more than what was expected given the level of production and inventories of Concord grape products. In fact, the only year with a lower price since the first half of the 1980's was in 1995 when the largest concord grape crop of 250.3 thousand tons were harvested and the price fell to \$120 per ton (Figure 4).

A decrease in price was expected given the larger crop. However, the magnitude of the decrease (\$75 per ton) was not expected given that the cash price in the eastern production areas only dropped about \$15 per ton. Contributing to the decrease in the west were the inventories that existed and the extremely large crop in California. The cash price of juice grapes in California was only \$65 per ton at harvest. This price level was a result of the record California harvest of 3.3 million tons of wine/juice grapes. There was also a large supply of grape concentrate offshore.

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**FIG. 1: WASHINGTON CONCORD GRAPE PRODUCTION, 1979-2002
(1,000 TONS)**

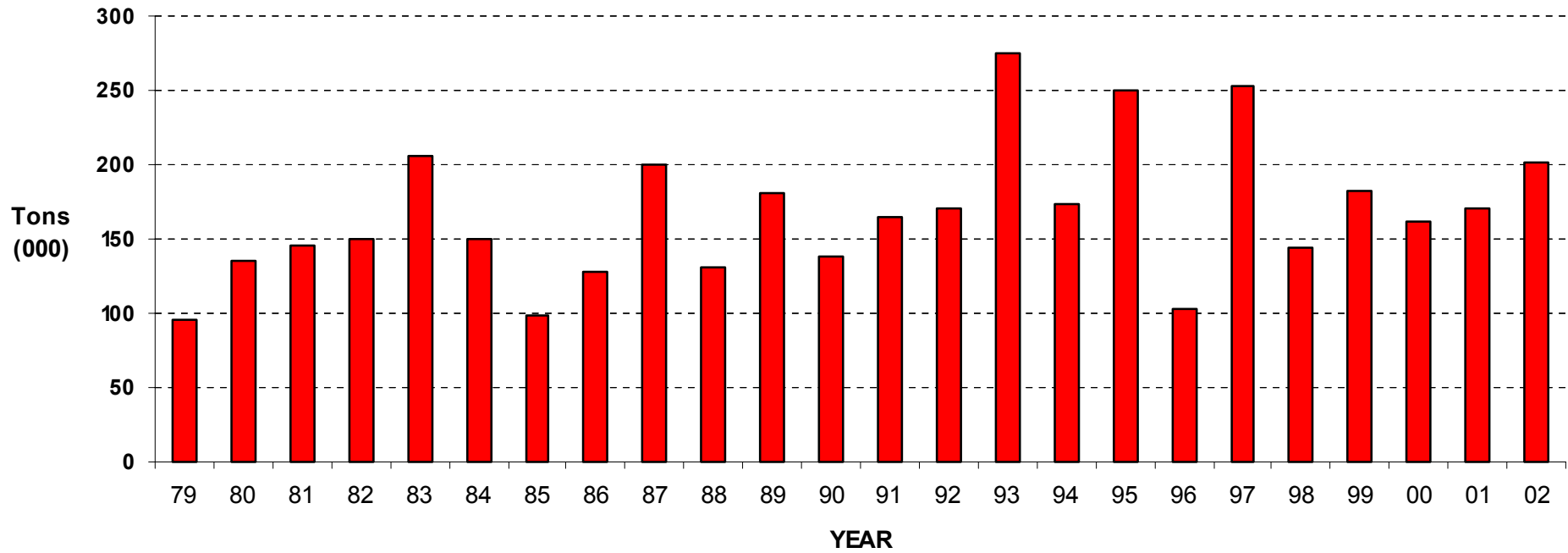


FIG. 2: PRODUCTION AND YIELD OF CONCORD GRAPES, 1969-2002

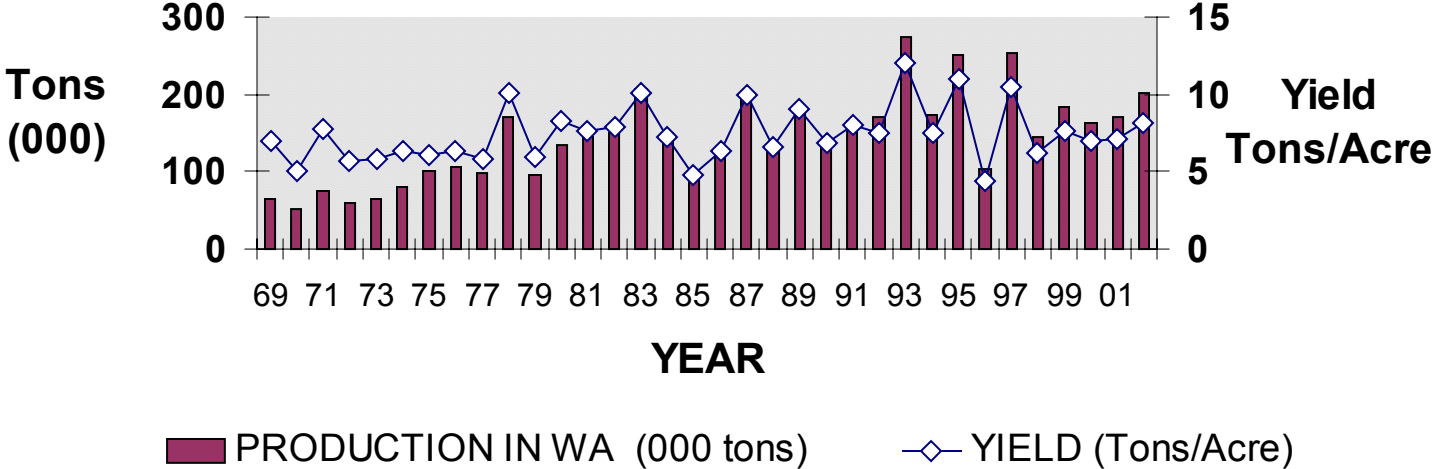
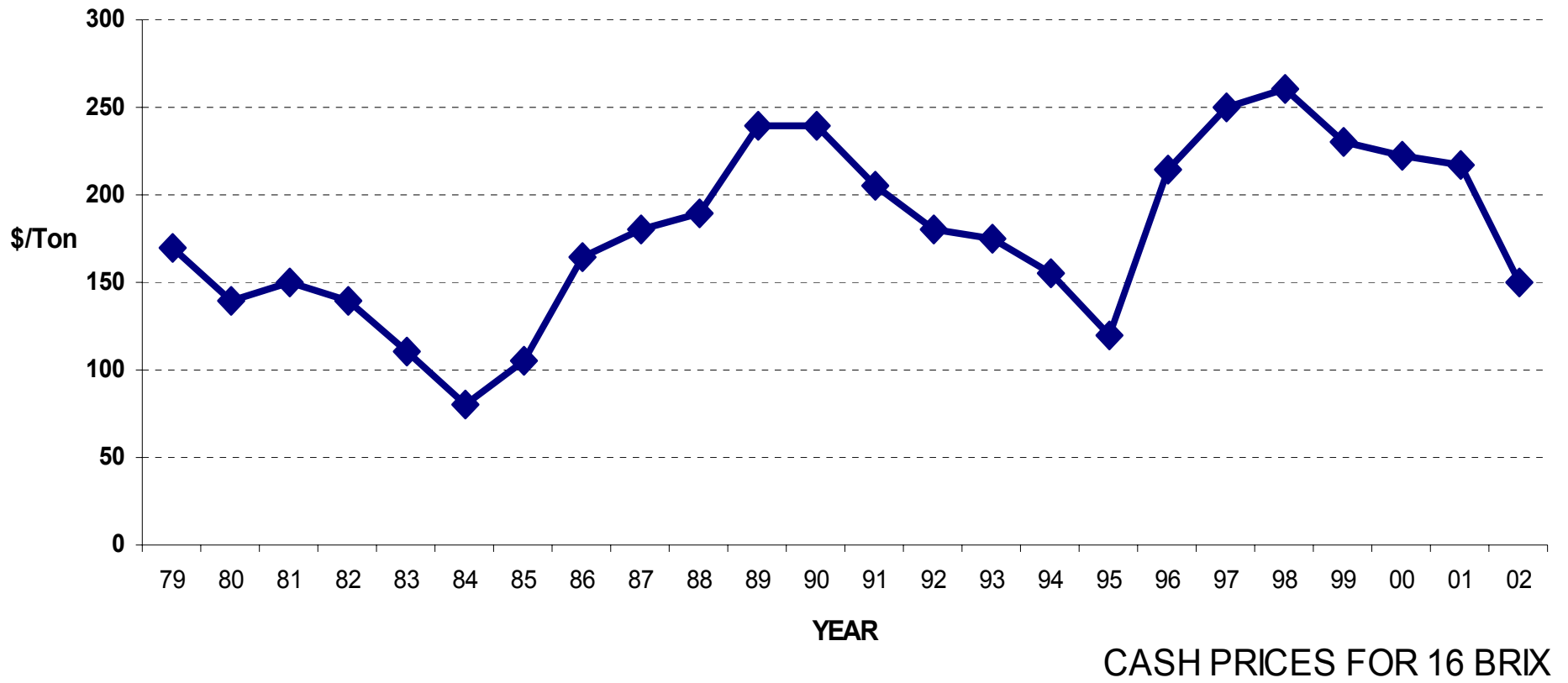
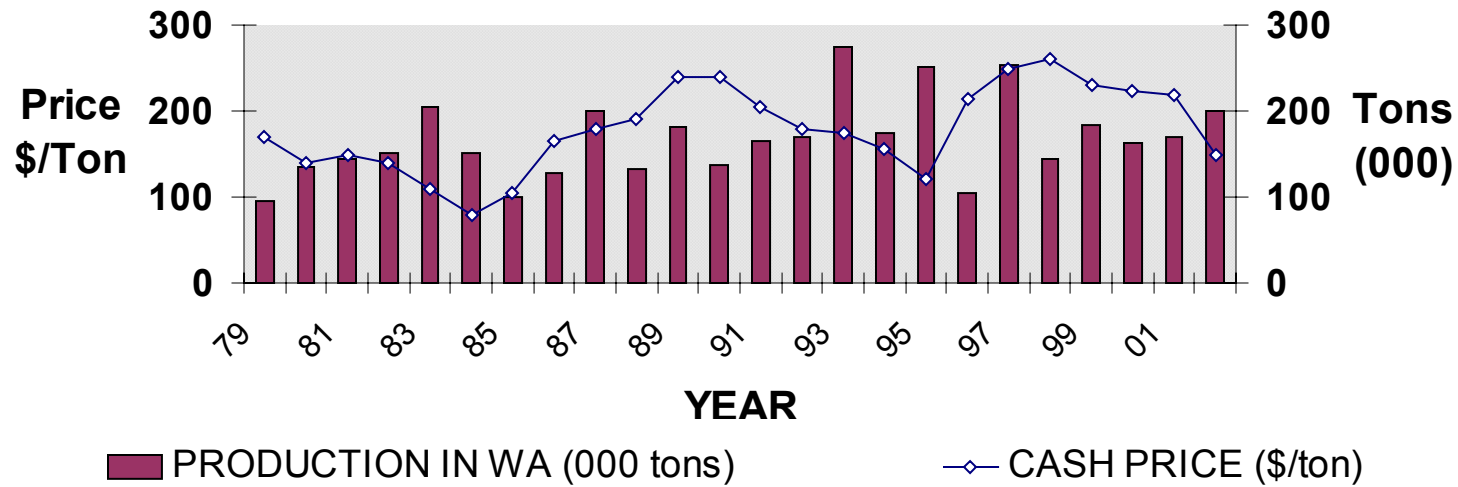


FIG. 3: WASHINGTON CONCORD GRAPE PRICES, 1979-2002 (\$/TON)



**FIG.4: WASHINGTON CONCORD GRAPE
PRICES AND PRODUCTION, 1979-2002**



Contributing even further to the larger than expected supply situation was the production of Concord grapes in the eastern production areas. What was thought to be a small crop in Michigan actually was over 10% larger than all prospects. Other areas such as New York and Pennsylvania had crops 25% to 30% greater than expectations. In fact, I would estimate that there were at least 400,000 tons of Concord grapes produced in the U.S. in 2002 (Figure 5). While this is not a record level of Concord grape production, it was enough to soften the price.

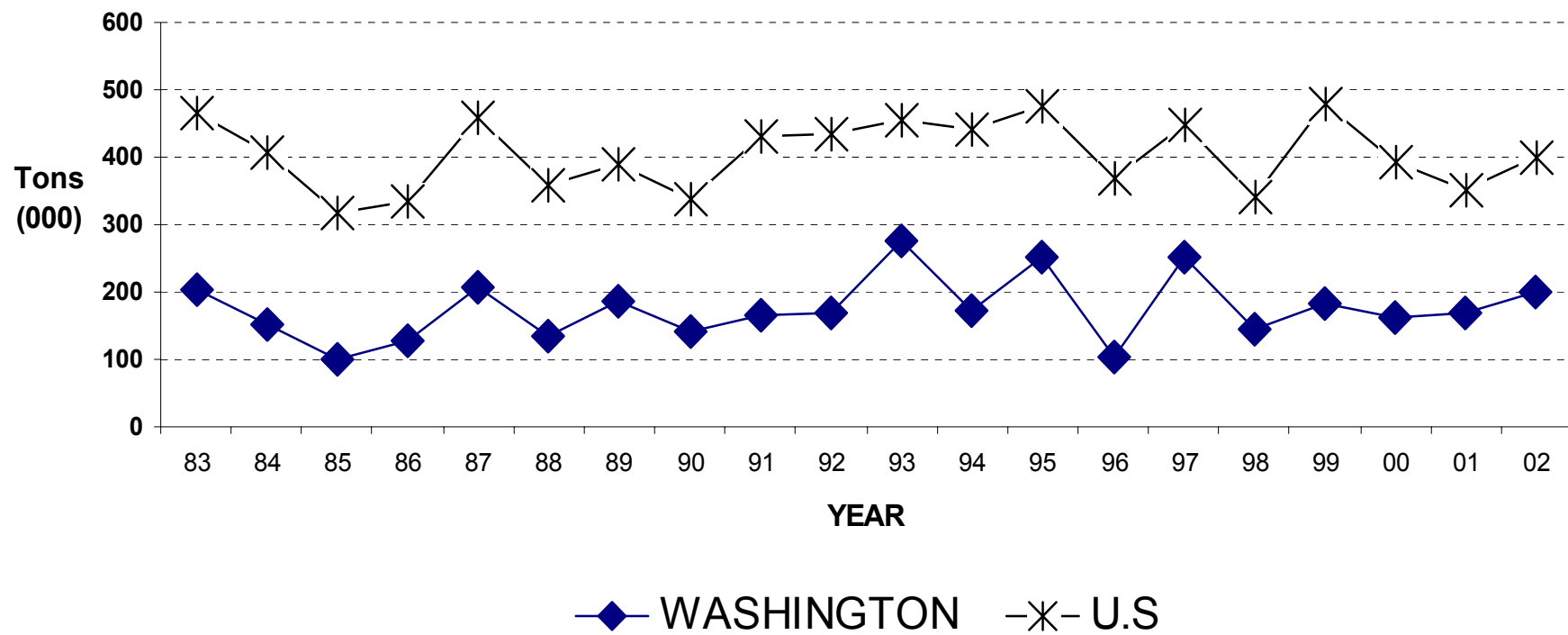
If all of the above supply situations are taken into aggregate, the price of Concord grape concentrate in Washington began to fall as harvest started and has continued. When harvest was about to begin, the price of Concord grape concentrate in the west was approximately \$10.50 per gallon. As of the last week, the price had declined to \$8.50 per gallon in the west with eastern asking prices being \$10 per gallon. At the same time there was grape concentrate out of California being priced at only \$8.20 per gallon and off-shore grape concentrate being sold for only \$3.20 per gallon.

The drop in concentrate prices from \$10.50 to \$8.50 per gallon in the last few months translates into an equivalent drop in Concord grape prices of \$75 per ton. Most of the drop in Concord grape concentrate prices was not only caused by the above-average size of the Concord grape crop but also the cheap grape concentrate available from other sources. There is strong economic incentive for users of the Concord grape concentrate to substitute the low-valued grape concentrates for Concord grape concentrate.

The economic outlook for the Concord grape industry is going to be dependent upon several factors. First, the low prices for the California 131 juice will continue to put downward pressure on Concord grapes unless there is a large reduction in the number of vines that produce such juice. The low prices paid this year of \$65 per ton are probably not enough of an economic incentive to remove the vines. These growers are probably covering their direct costs but not their total costs of production. Therefore, it will take a couple of more low-priced years before there will be significant vine removal. Second, the large Concord grape crop in 2002 could result in some inventory problems at the end of this marketing year. Any inventories will have a negative impact on prices in 2003.

A couple of positive aspects to the 2003 prices for Concord grapes include consumer preferences in terms of the demand for Concord grape products. The substitution of non-Concord grape juice for Concord grape juice/concentrate could create future marketing problems for food processors/manufacturers. Consumers are becoming more and more aware of the ingredients in the foodstuffs they consume. When they purchase a product that does not meet their expectations as to taste, quality, and/or ingredients, they are not happy. There is no quicker way to ruin a brand name or product than by substituting low-quality ingredients for others such as Concord grape juice/concentrate. These substitutions might have significant positive impacts on short-run profits and have disastrous negative impacts on long-run profits. Consumers will turn away from products that are downgraded because of lower quality cost ingredients.

**FIG. 5: CONCORD GRAPE PRODUCTION IN WASHINGTON AND THE U.S.
TOTAL, 1983-2002**



The Concord grape acreage is holding steady and should be a positive factor in 2003 pricing of concord grapes (Figure 6). It is most likely about 24,500 acres are currently planted to Concord grapes. Hopefully, with the drop in price this year, there will not be any speculative plantings of Concord grapes. In addition, there could have been some bud and trunk damage in localized areas as a result of the recent cold weather. However, the extent of any damage will not be known until next spring.

Wine Grapes

The 2002 wine grape crop in Washington was noteworthy from two aspects. First, with the recent increases in acreage, the total tons produced as well as harvested was a record. Secondly, for the most part the wine grape berries did not continue to increase in size or weight as did the Concord grape berries during harvest. There was dehydration that intensified the compounds and flavors. Therefore, this could be a crop of not only record size but also of very high quality.

The production of wine grapes in Washington was probably about 115,000 tons (Figure 7). This represents a 15% increase over 2001 when 100,000 tons were harvested. Last year there was about 1,400 to 1,500 tons not harvested. This year because of the record crop there could be as many as 5,000 to 8,000 tons not harvested. No one will ever know since these statistics are not collected. Given the wine grape acreage of 28,000 acres reported by the USDA earlier this year and using acceptable viticultural yields, the production potential is 119,000 tons. With even more plantings taking place since that report by the USDA, the production potential is even higher.

The task of estimating the average price of wine grapes is becoming difficult because so much of the acreage is under long-term contracts. Given limited cash market prices that I could assemble, the average price for the white varieties should be fairly close to \$725 per ton, while the red varieties will average about \$1,010 per ton. The white variety price is up slightly from last year's price of \$721 because of White Riesling. This variety was completely harvested and the spot or cash market price was up almost \$100 per ton over 2001. In the case of some of the other white varieties, there was some weakening of the prices. However, most had fairly steady prices. The average price of the red varieties was down primarily based upon a weaker cash market demand for Merlot and Cabernet Sauvignon. The weaker red variety prices for the two major varieties were expected given the surplus of Merlot from the 2001 crop. The overall wine grape price will be about \$870, which is only about \$30 per ton less than in 2001 (Figure 8).

The continued economic well-being of the Washington wine industry is going to be heavily influenced by the quality of product it produces and markets, plus competition from California and other countries.

In terms of product quality, it is imperative that the industry continue to maintain its quality standards and target its wines at the premium market segment or higher. This is the only growing segment in the wine market and the only range of products in which the industry can compete. There continues to be a large surplus of lower quality wines

FIG. 6: CONCORD GRAPE ACREAGE IN WASHINGTON, 1968-2002

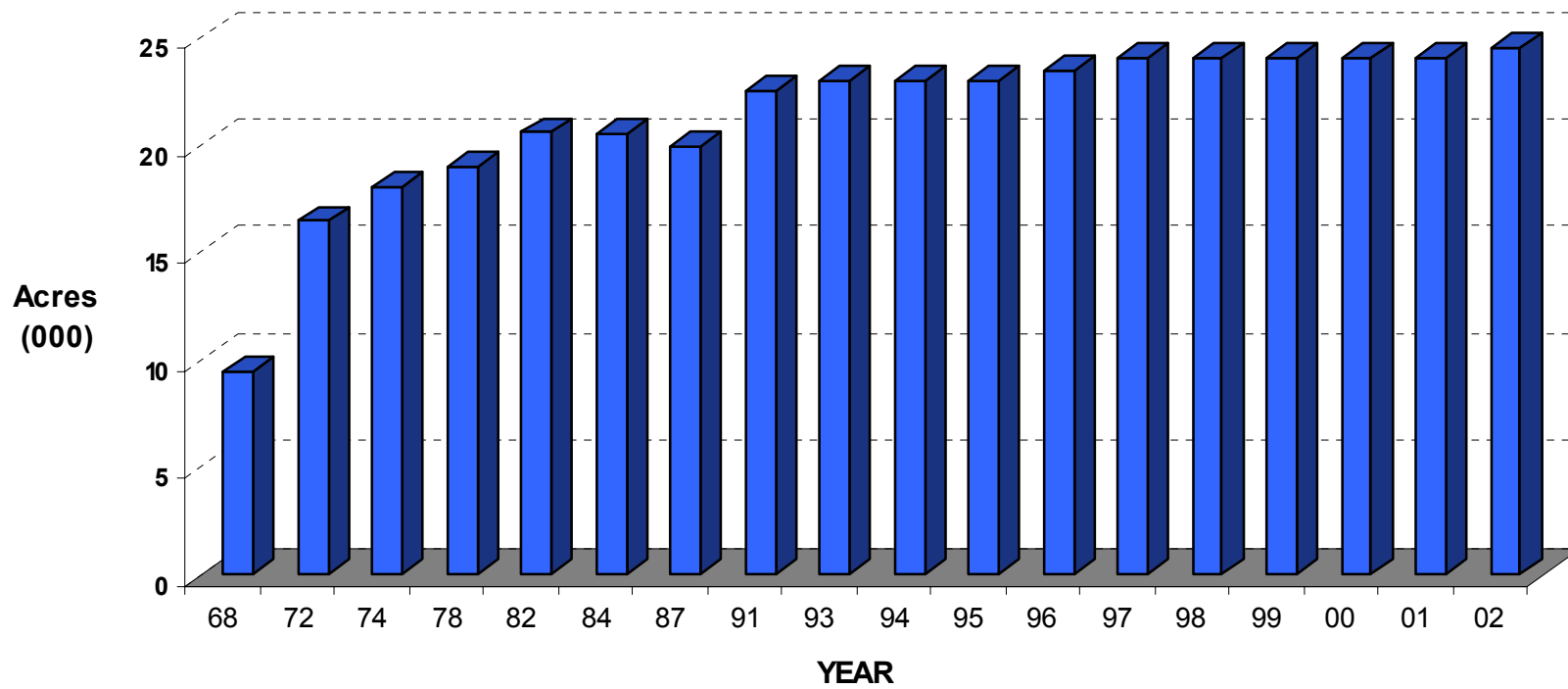


FIG. 7: PRODUCTION OF WINE GRAPES IN WASHINGTON, 1977-2002

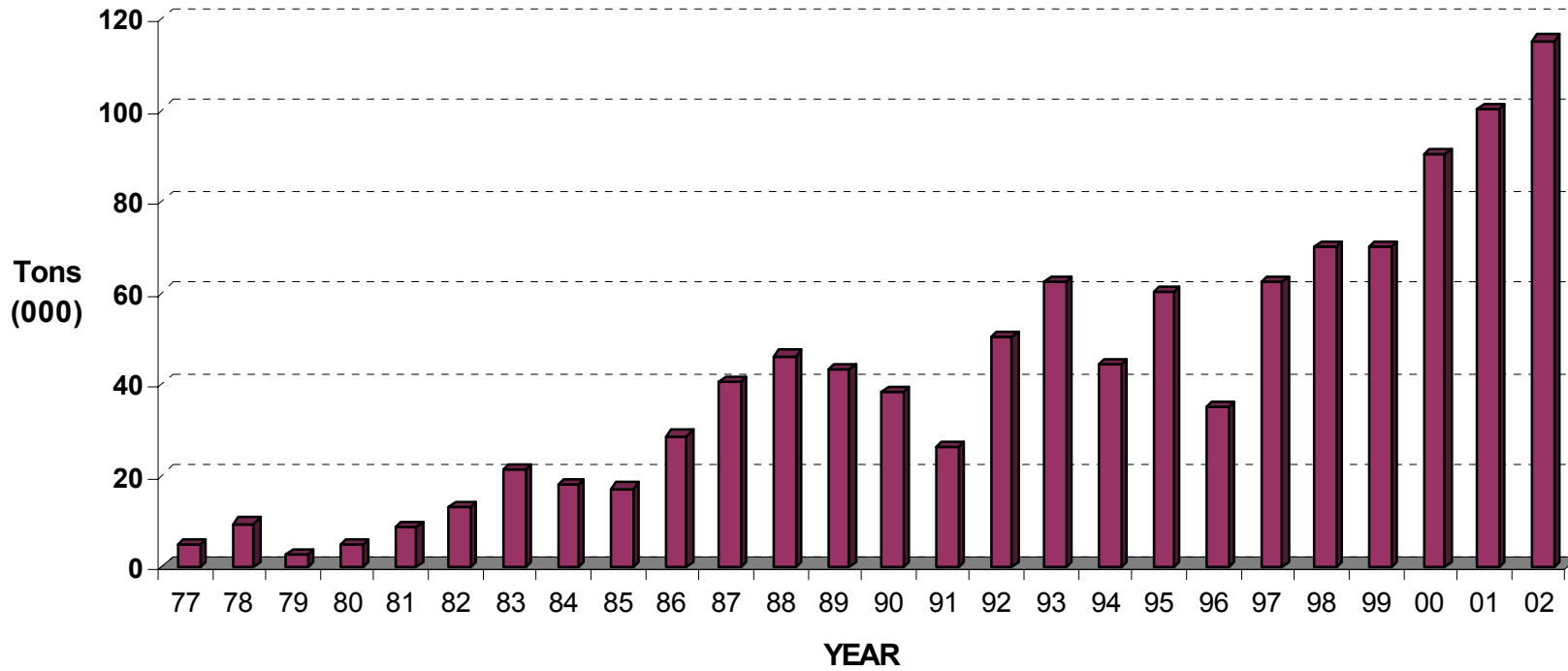
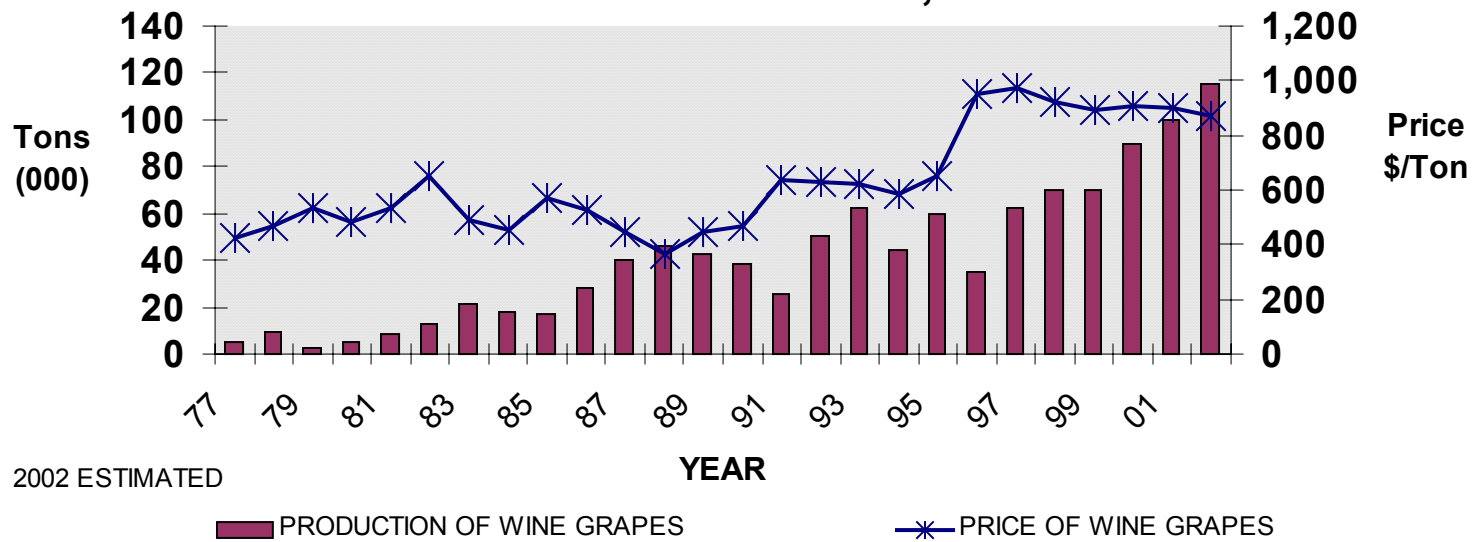


FIG.8: PRODUCTION AND CASH PRICES OF WINE GRAPES IN WASHINGTON, 1977-2002



world wide including California. The worldwide surplus of wines continues to hold prices in check. Wines for Italy, France, Chile, and now Australia are strong competitors. In fact, there will soon be “premium” table wines in 3-liter boxes exported to the U.S. from Australia. These boxes will be priced at \$15 to \$16 U.S. Since a 3-liter box is equivalent to four 750 ml bottles, the competition is going to be selling ‘premium’ table wines at \$3.75 to \$4.00 per 750 ml. Since U.S. wine consumers are price conscious, they will purchase these wines if, in fact, they are “premium” table wines.

On a more positive note, total table wine sales continue to increase. For the year ending August 31, 2002, total table wine sales were up 7.75% in the U.S. The sales of U.S. produced wines were up 6%. Total white and red wine sales were up 7.9% and 10.6% respectively. The major increase in sales was in imported wines, which were up 14.4%. The Washington wine industry needs to capitalize on these positive market trends and increase its market share both in state and out of state.