Current and Future Grape Market Trends

by

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Introduction

The 2004 Washington grape crop was nothing to brag about in terms of the production levels of Concord and wine grapes. The Concord grape crop was down 78,905 tons as compared to the 2003 production level. While the wine grape crop harvested is slightly smaller than in 2003 and it could have been significantly lower if it had not been for the new acreage starting to bear fruit. Overall, there were 247,759 tons of grapes harvested in 2004 in Washington. The 2004 harvest was only 74% of the 2003 harvest.

Concord Grape

The 2004 Concord grape crop harvested in Washington was 142,759 tons (Figure 1). This was the smallest Concord grape crop harvested in Washington since 1990 when the crop was only 138,000 tons. There were smaller crops in the 1980's but the acreage was 3,000 acres less than currently what is in the ground.

The smaller Concord grape crop in 2004 was mainly due to winter damage and lower yields. The average yield over the estimated 24,500 acres of Concord grapes in 2004 was 5.8 tons per acre (Figure 2). However, not all of the acreage was harvested. I would estimate that as much as 1,000 acres of Concord grapes were not harvested in 2004 previously because of two reasons associated with low yields. The first reason is that the expected revenues from the grapes did not cover the harvesting and hauling expenses. The second reason is that for those growers with low yields and crop insurance, if the expected yields were less than the level of protection they chose (50%-75% of normal yields), then the grower would choose the insurance payment and forego the harvesting of the grapes. In either case, the unharvested acreage contributed to a lower average yield in 2004.

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FIG. 1: WASHINGTON CONCORD GRAPE PRODUCTION, 1979-2004 (1,000 TONS)

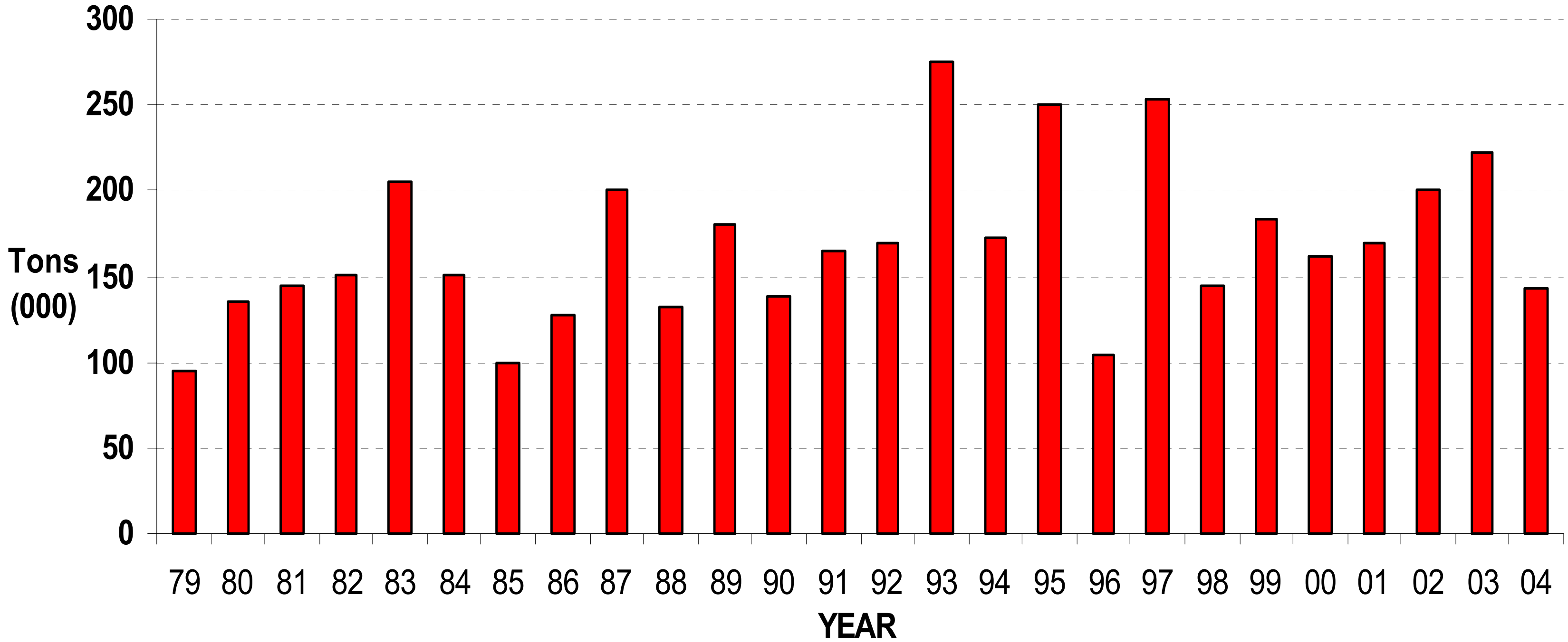
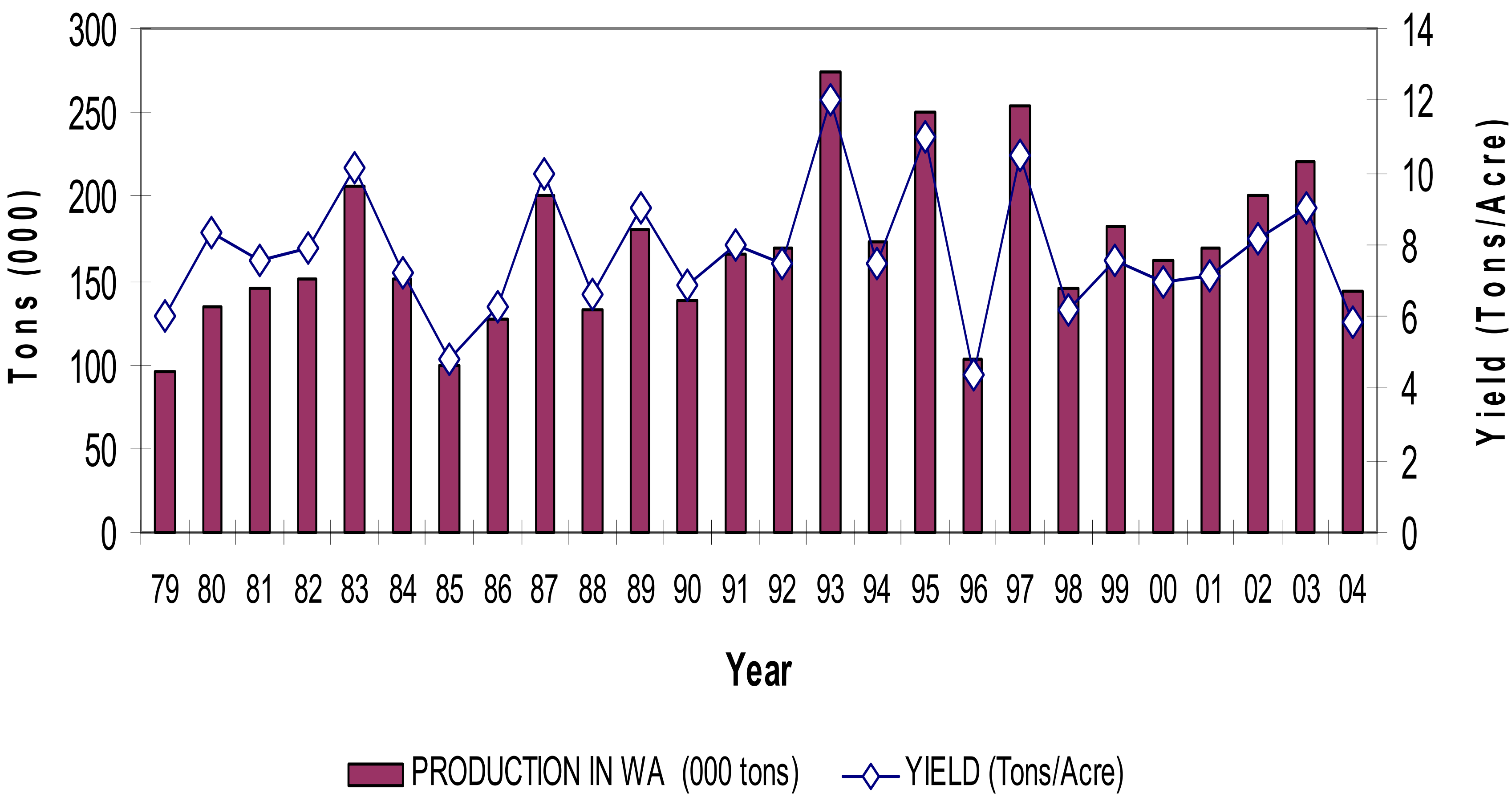


FIG. 2: PRODUCTION AND YIELD OF CONCORD GRAPES, 1979-2004



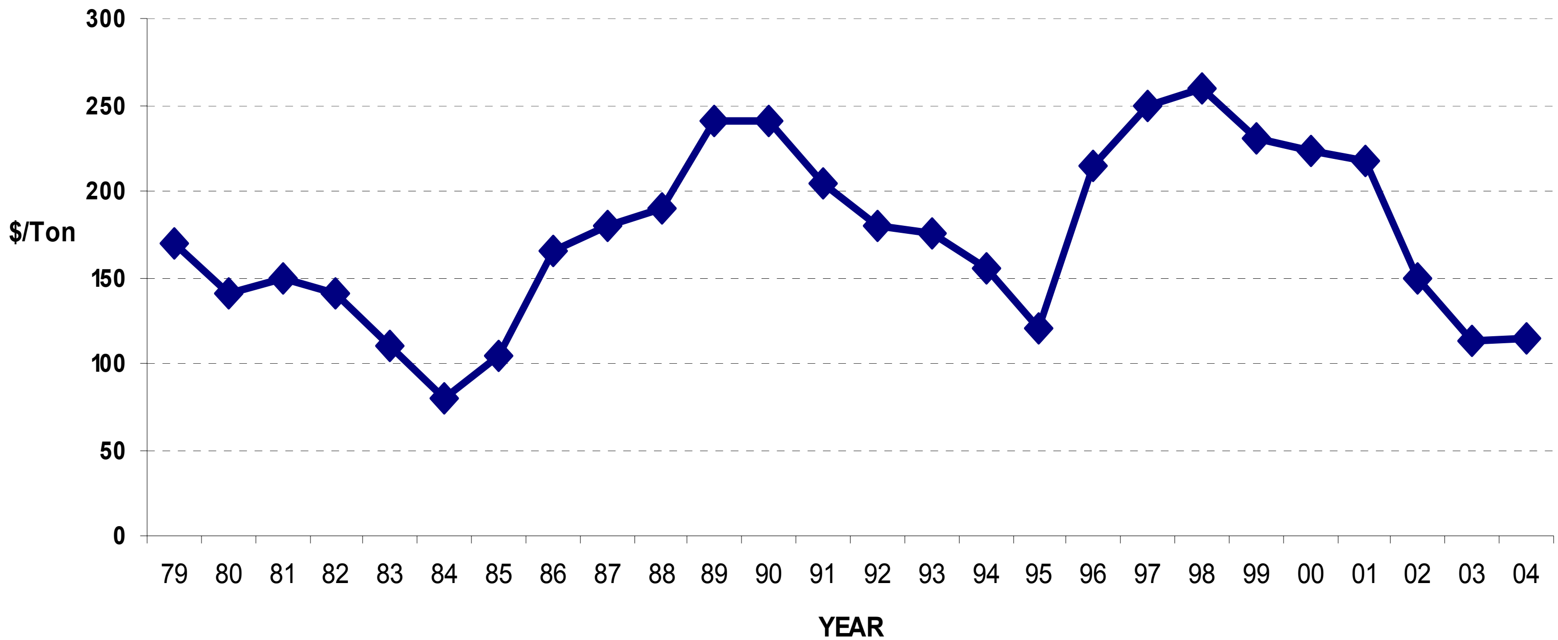
With the smaller Concord grape crop, one would expect a higher average cash price. This did not happen. The cash price ranged from $105 to $125 per ton depending upon which processor purchased the grapes and when the grapes were delivered during the harvest (Figure 3). The 2004 price level for all practical purposes is the same as it was in 2003. Washington Concord grape production has trended upward since 1999 through 2003, the average cash price for Concord grapes has trended downward (Figure 4). However, the magnitude of the decrease in crop in 2004 was expected to result in a higher price.

This was the sixth year in a row that the cash prices for Concord grapes either decreased or stayed about the same level. The only year with such a low price since the first half of the 1980's was in 1995 when the largest Concord grape crop of 250.3 thousand tons was harvested and the price fell to $120 per ton (Figure 4). It should be noted that in 1984 and 1985 the cash price was only $80 and $105 per ton. The prices in these years were the result of an oversupply situation because of inventories that represented at least two years' supply.

Total Concord grape production was down in the East just as in the West. Total grape production was forecasted to be down almost 40,000 tons in Michigan, 53,000 tons in New York, 1,000 tons in Ohio, and 20,000 tons in Pennsylvania. While Concord grapes are only part of the total grape product in each of these states, the overall picture was for a smaller supply. The good news for the eastern growers was that as harvest started, the forecasts were found to be too low. The crop was actually 25 percent above the forecasts. Overall, I would estimate that the total supply of Concord grapes from the 2004 harvest is about 360,000 tons including the Washington crop (Figure 5). This is the smallest supply from current production in over 20 years.

The inventory situation was manageable in relation to Concord grape concentrate as the harvest started this year. In addition, it has been rumored since late summer that the California supply situation for the famous 131 product was tight. In fact, industry people were saying that the 131 product was sold out.

FIG. 3: WASHINGTON CONCORD GRAPE PRICES, 1979-2004 ($/TON)



CASH PRICES FOR 16 BRIX

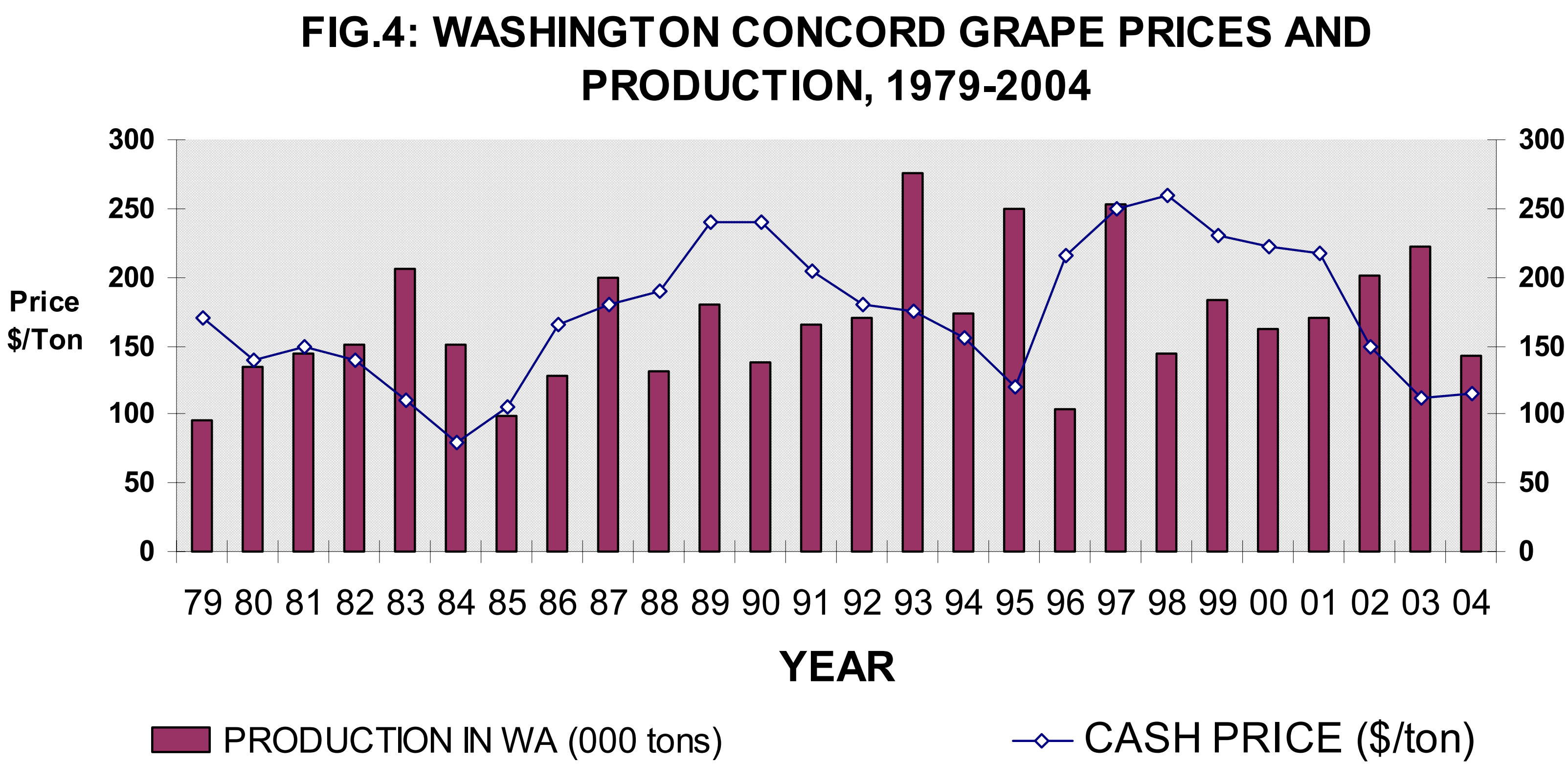
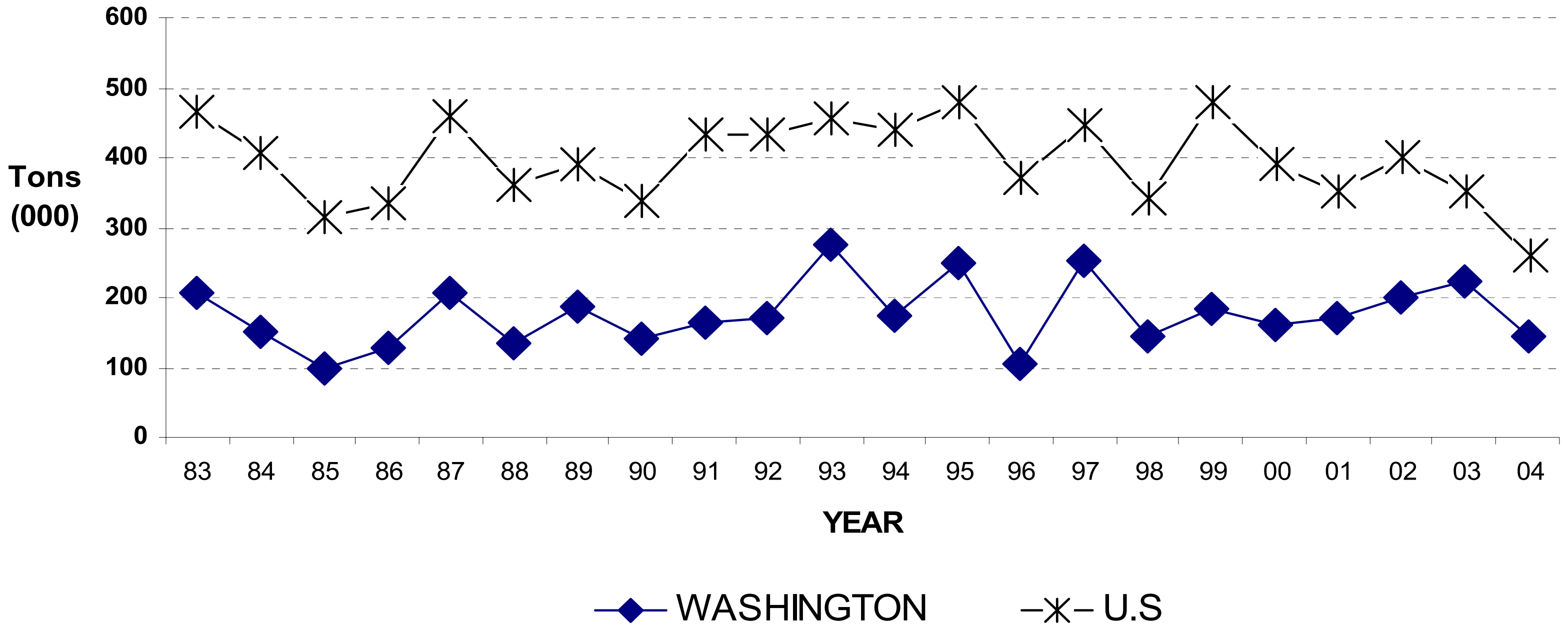


FIG.4: WASHINGTON CONCORD GRAPE PRICES AND PRODUCTION, 1979-2004
Price $/Ton
Tons (000)
0
50
100
150
200
250
300
79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04
YEAR
PRODUCTION IN WA (000 tons)
CASH PRICE ($/ton)

FIG. 5: CONCORD GRAPE PRODUCTION IN WASHINGTON AND THE U.S. TOTAL, 1983-2004



If all of the above supply and demand situations are taken into aggregate, the price of Concord grape concentrate in Washington increased as the harvest started. The price of Concord grape concentrate in the West was $7 per gallon and almost equal to the price at the same time in 2003. However, the concentrate price has strengthened as the situation in the East became clearer.

The concentrate prices have increased to $8. This translates into an equivalent Concord grape price of $294 per ton. I will project a price of $9 to $10 per gallon as the marketing year progresses. The overall factors contributing to this optimistic price outlook is the rumor that California is sold out of concentrate, a short Concord grape crop in 2004, and manageable inventories. If the concentrate price strengthens to $9-$10 per gallon, then the equivalent Concord grape price would be $331 to $368 per ton, respectively.

The economic outlook for the Concord grape industry is going to be dependent upon several factors. First, if the California 131 juice continues to be in short supply or sold out, then Concord grape prices should be going up in the future. The prices currently paid are probably enough of an economic incentive not to remove the vines in California. It will take a couple or really low-priced years before there will be significant vine removal in California. Second, the small Concord grape crop in 2004 could result in a shortage of product at the end of this marketing year. However, at this point in time, it appears that the Washington Concord grape industry might produce a bumper crop in 2005. The vines are in excellent shape. If there is a large crop in 2005, there will not be much upward movement in price.

As I have indicated in the past, the Concord grape industry must renew its efforts to market Concord grape products. The substitution of non-Concord grape juice for Concord grape juice/concentrate might have significant positive impacts on short-run profits of the industry but have disastrous negative impacts on long-run profits of the industry. Consumers will turn away from products that are downgraded because of lower quality cost ingredients.

The Concord grape acreage is holding steady and should be a positive factor in the 2005 pricing of Concord grapes (Figure 6). There are about 24,500 acres currently planted to Concord grapes in Washington. With the price level this year, there should not be any speculative plantings of Concord grapes. Currently the Concord grape vines in Washington are in very good shape and are capable of producing a large crop in 2005.

Wine Grapes

The 2004 wine grape crop in Washington was noteworthy from several aspects. First, even with the recent increases in acreage the weather patterns of 2003-04 held the crop down and it was not a record. Second, we probably have experienced the largest acreage of wine grapes not being harvested.

The harvested supply of wine grapes in Washington was probably about 105,000 tons (Figure 7). This represents a slight decrease from 2001 when 112,000 tons were harvested. The 2004 harvested crop was a decrease of 8.7 percent from the record crop of 115,000 tons in 2002. Last year there were about 4,000 tons not harvested. This year because of the crop size there were more than 4,000 tons not harvested. Given the wine grape acreage, the production potential is still over 120,000 tons. With even more plantings taking place, the production potential is even higher.

The task of estimating the average cash price of wine grapes is almost impossible because so much of the acreage is under long-term contracts. Given limited cash market price information available, the average price for the white varieties should be fairly close to last year's price of $700 per ton, while the red varieties will average about $1,100 per ton. The white variety price is down from last year's price of $738. The decrease in the white variety category was mainly attributed to Chardonnay. There were some Chardonnay grapes that sold for as low as $300 per ton and some were not harvested. In the case of some of the other white varieties, there was some weakening of the prices except for White Riesling. However, most had fairly steady prices because of the contracts. The average price of the red varieties was down primarily based upon a

FIG. 6: CONCORD GRAPE ACREAGE IN WASHINGTON, 1968-2004

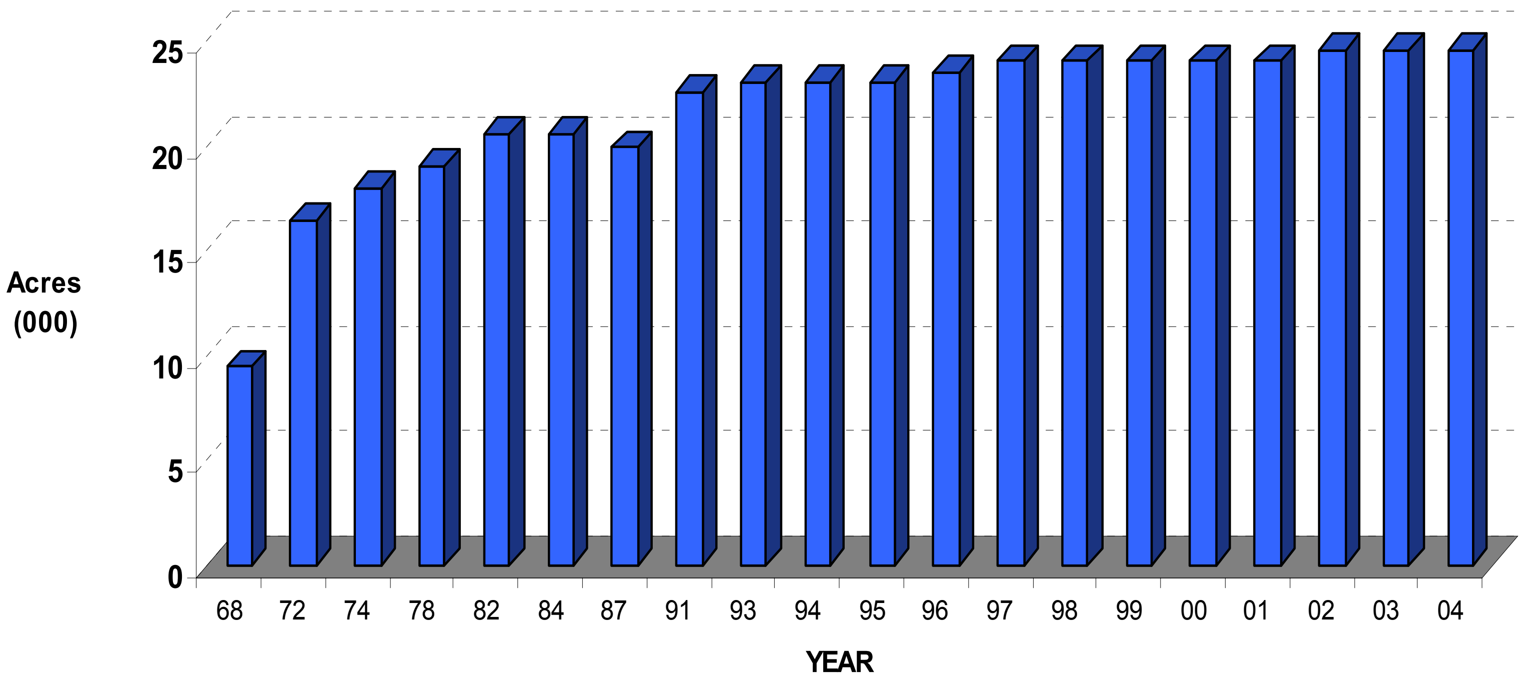
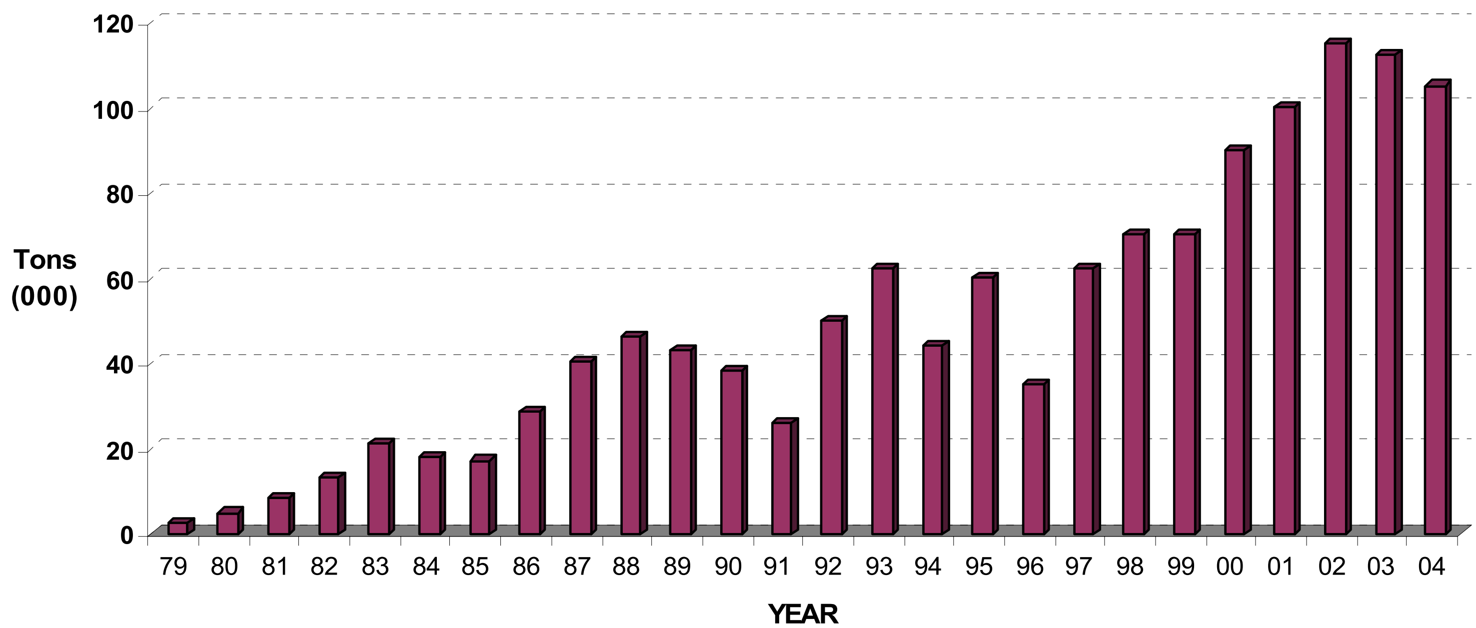


FIG. 7: PRODUCTION OF WINE GRAPES IN WASHINGTON, 1979-2004



weaker cash market demand for Merlot and Cabernet Sauvignon. The weaker demand has resulted for the inventory levels that currently exist.

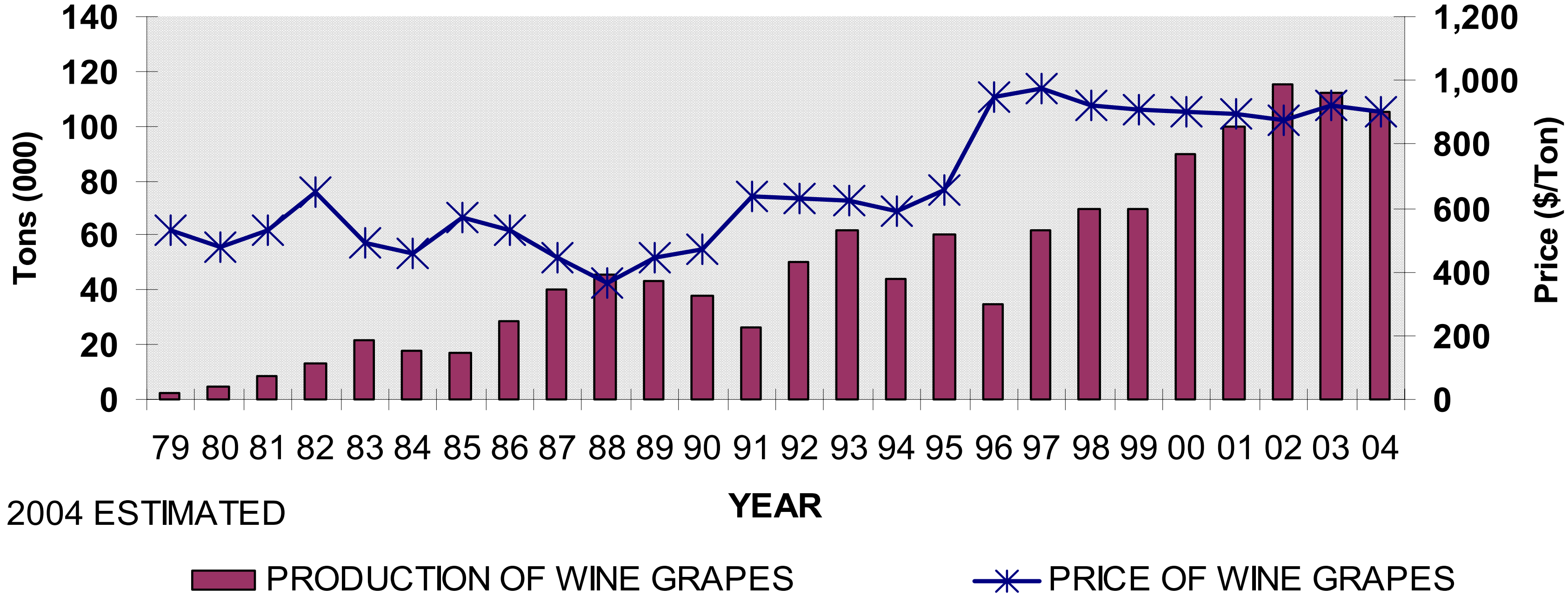
The overall wine grape price will be about $900, which is about $120 per ton less than in 2003 (Figure 8). This is the eighth straight year in which the average wine grape price has declined or essentially remained constant. The major factor contributing to the price situation is the current inventory situation as noted above.

The economic status of the Washington wine industry is going to be 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 fastest growing segment in the wine market and the only range of quality products in which the Washington industry can compete.

The worldwide surplus of wines continues to hold prices in check. Wines from Italy, France, Chile, and Australia are strong competitors. The market for wines in the U.S. continues to grow. Based upon A.C. Nielson survey data of U.S. food stores with sales of $2 million or more, the percentage increase in table wine sales based upon volume was 2.1% for the 52 seek period ending 7/3/04 as compared to a year earlier. Red and white table wine sales were up 5.5% and 2.3%, respectively. Blush table wine sales were down 4.5% during that period.

The growth in wine sales in the U.S. was driven by imports. Imported table wines accounted for 19.6% and 25.5% of the U.S. table wine market on a volume and value basis, respectively. The market share for imported table wines based on volume increased 1.7%, while the domestic table wines lost 1.7% of the total table wine sales. The gains made by the imported table wines are even more impressive when viewed on a percentage share based on value. This percentage share increased 2.1% during the last year. The major gain was by Australian table wines, while Chilean, French, and Italian table wines experienced a decrease in market share on both a volume and value basis.

FIG.8: PRODUCTION AND CASH PRICES OF WINE GRAPES IN WASHINGTON, 1979-2004



The big three table wines are Chardonnay, Merlot, and Cabernet Sauvignon. In the U.S. wine market, white zinfandel has experienced a decrease in sales, while the growth in the sales of syrah/shiraz is soaring at least on a relative basis. The level of syrah/shiraz sales on a volume basis was up 38.3% for the year ending 7/3/04 as compared to a year ago. The volume, however, is still less than 14% of that for Chardonnay.

The Washington wine industry must continue its marketing efforts in the premium table wine market and gear its marketing efforts towards the high-end buyers that are dominated by women, at least in the supermarkets. The industry should also focus some of its efforts on the local or regional market. The Washington wine industry needs to capitalize on these positive market trends and increase its market share both in state and out of state.