

Economic Outlook for Washington Grapes
by
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The 2001 grape-growing year and resulting Concord grape and wine grape crops were unique each in their own way. Many of the expectations that I had about the two segments of the two industries in Washington came to fruition while some were not realized. Total grape production in Washington was about 269,000 tons in 2001.

Concord Grapes

The 2001 Concord grape crop in Washington was 169,884.1 tons (Figure 1). This was 7,758 tons more than produced in 2000 when the crop was 162,126.4 tons. Comparison of the years of 1998 through 2001 reveals that the Concord grape crop has ranged from 144,488 tons to 182,645.2 tons. This is an important point to keep in mind given the pattern of crop sizes from an historical perspective. Typically, when there has been 3 to 4 years of normal crops, the industry usually produced a significantly larger crop the following year.

The yield for Concord grapes in 2001 was 7.1 tons per acre if 24,500 acres was the actual bearing area (Figure 2). The historical yield levels were 6.2 tons in 1998, 7.6 tons in 1999, and 7.0 tons in 2000. The range has only been 1.5 tons over the last four years. There were some weather-related problems in isolated areas. The hailstorms and high winds caused severe damage to individual growers who lost from 60 to 70 percent of the crops. Water was not a problem for grapes in 2001.

The slightly higher production level of Concord grapes in 2001 in Washington was accompanied by a \$5 per ton decrease in the cash price for 16 brix grapes. The 2001 price was \$215 to \$220 per ton depending upon the processor who was buying the grapes (Figure 3). The slight decrease in price was expected if the Washington Concord grape industry operated in a vacuum given the modest increase in Washington production and some inventories/carryovers that existed as harvesting started (Figure 4). However, the decrease in price was not expected given the production levels in the rest of the country.

The Concord grape crop in Michigan was a disaster. There was approximately a 67 percent crop loss due to poor pollination during bloom. The number of berries per cluster was half of the usual average and many clusters had no berries. In addition, there was a

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poor fruit set in New York and Ohio. The crop in New York was estimated to be down 14 percent, while the Ohio crop was down over 30 percent. Only Pennsylvania had an

FIG. 1: WASHINGTON CONCORD GRAPE PRODUCTION, 1979-2001 (1,000 TONS)

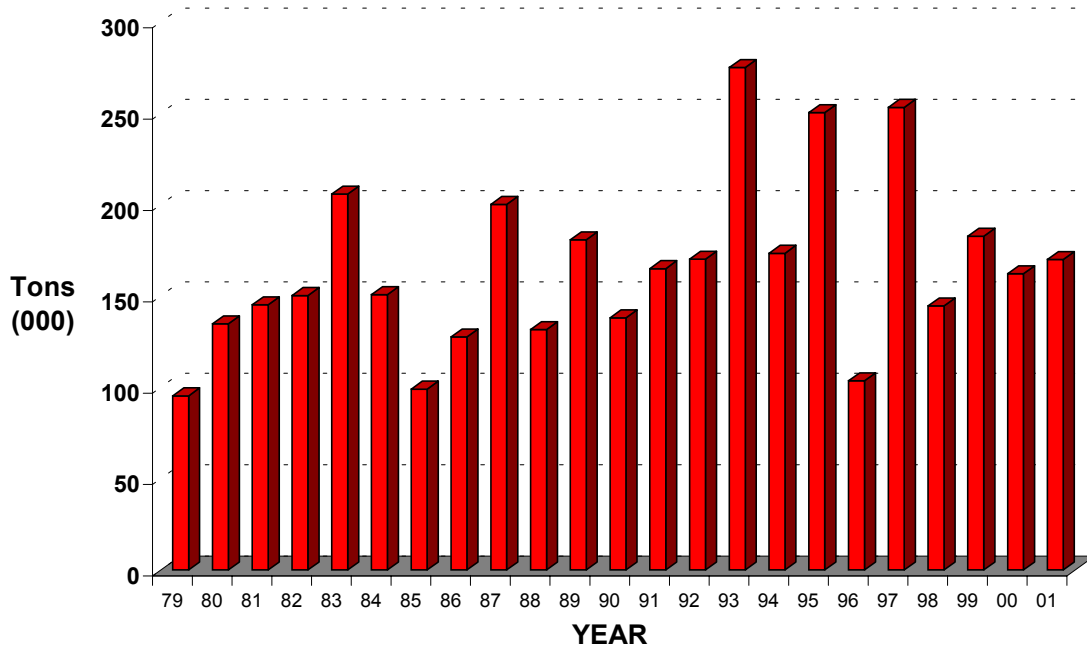
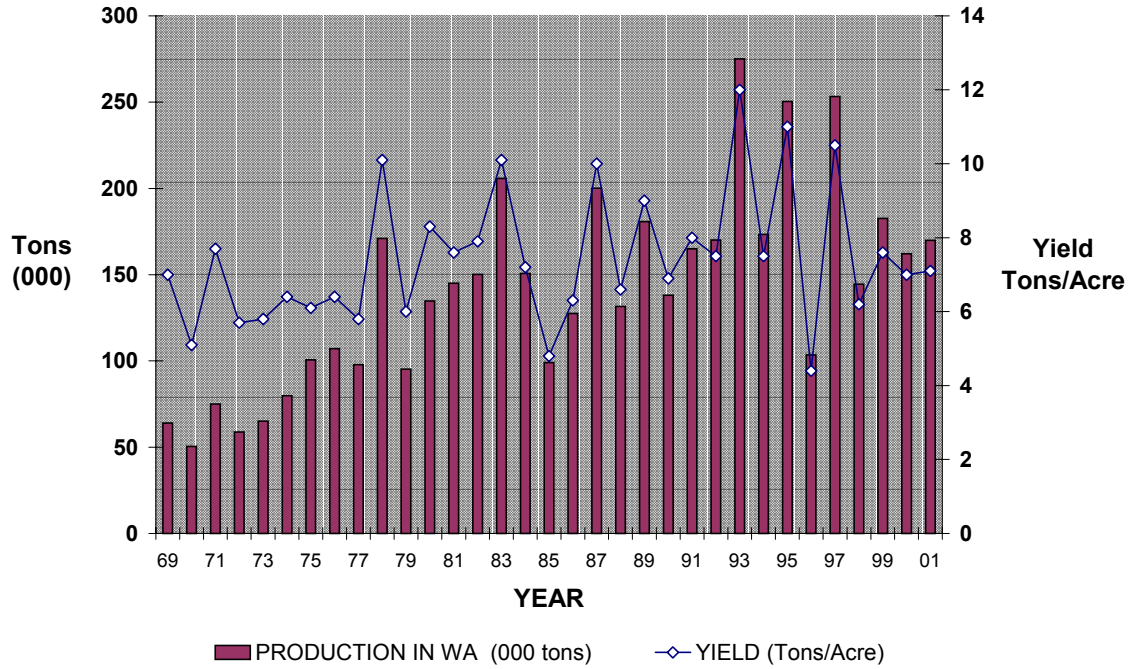


FIG. 2: PRODUCTION AND YIELD OF CONCORD GRAPES, 1969-2001



**FIG. 3: WASHINGTON CONCORD GRAPE PRICES,
1979-2001 (\$/TON)**

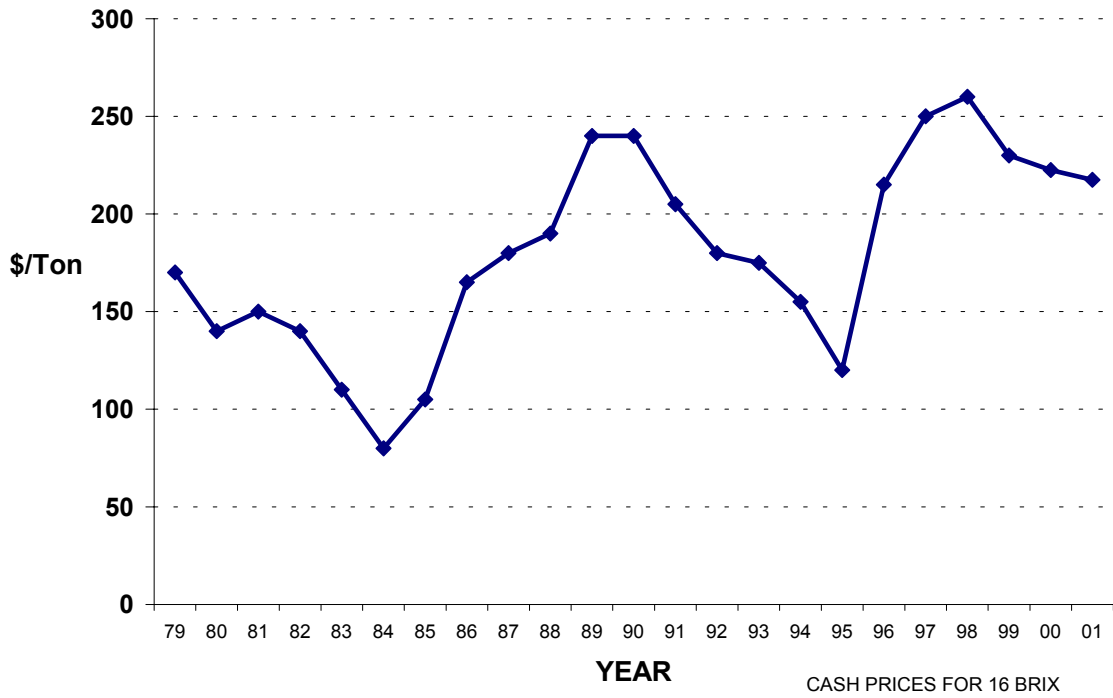
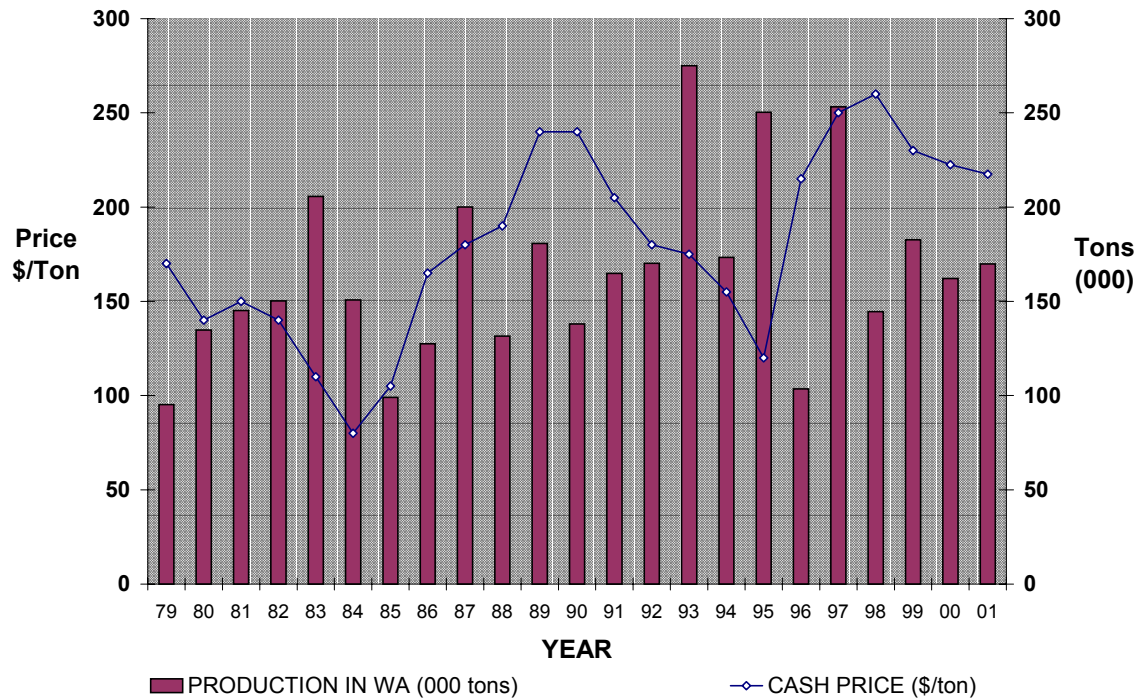
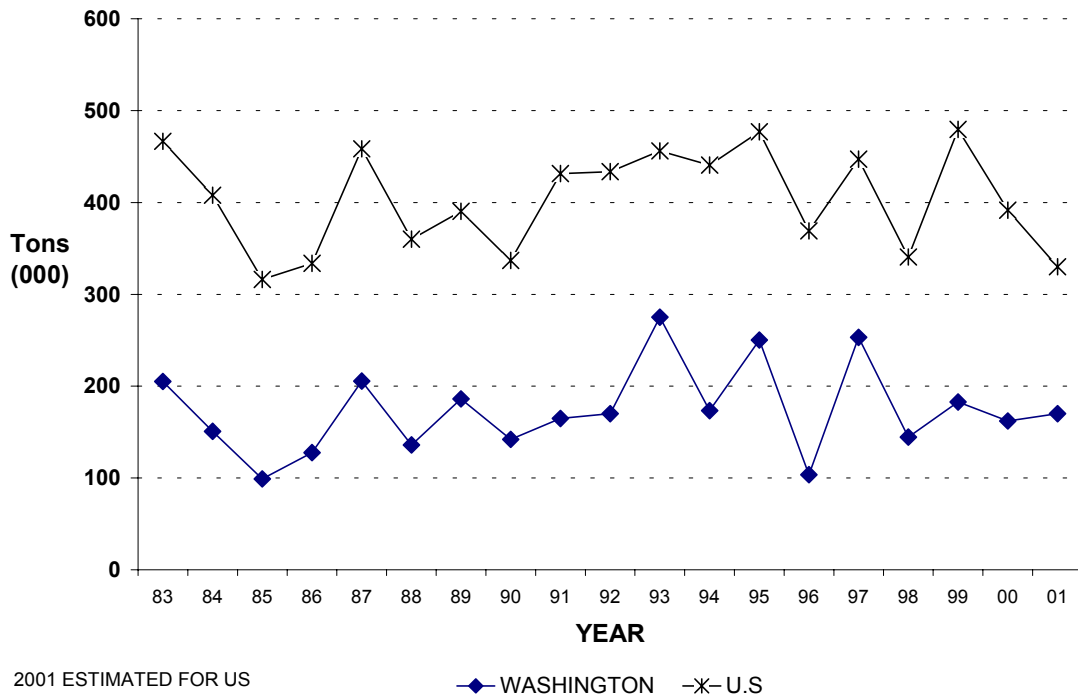


FIG.4: WASHINGTON CONCORD GRAPE PRICES AND PRODUCTION, 1979-2001



increase in its Concord grape crop of slightly over 5 percent. Overall, the Concord grape crop in the U.S. was down when all production areas were taken into account. The estimated production in 2001 is 330,000 tons as compared to 391,675 tons in 2000 (Figure 5).

FIG. 5: CONCORD GRAPE PRODUCTION IN WASHINGTON AND THE U.S. TOTAL, 1983-2001



The question then still remains as to why the Washington Concord grape cash price fell by \$5 per ton as compared to the \$15 per ton increase in the eastern producing areas. A complete answer to this question is difficult to develop. Some information that might explain the situation includes the fact that there were some inventories/carryovers as harvest approached last fall. The asking price on the inventories/carryovers was low. Second, there is the California 131 problem. This refers to the red and white grape juice/concentrate that is available in California that is replacing Concord grape juice/concentrate in several products. Thus, the downward pressure on price in Washington was as a result of competing products and carryovers/inventories.

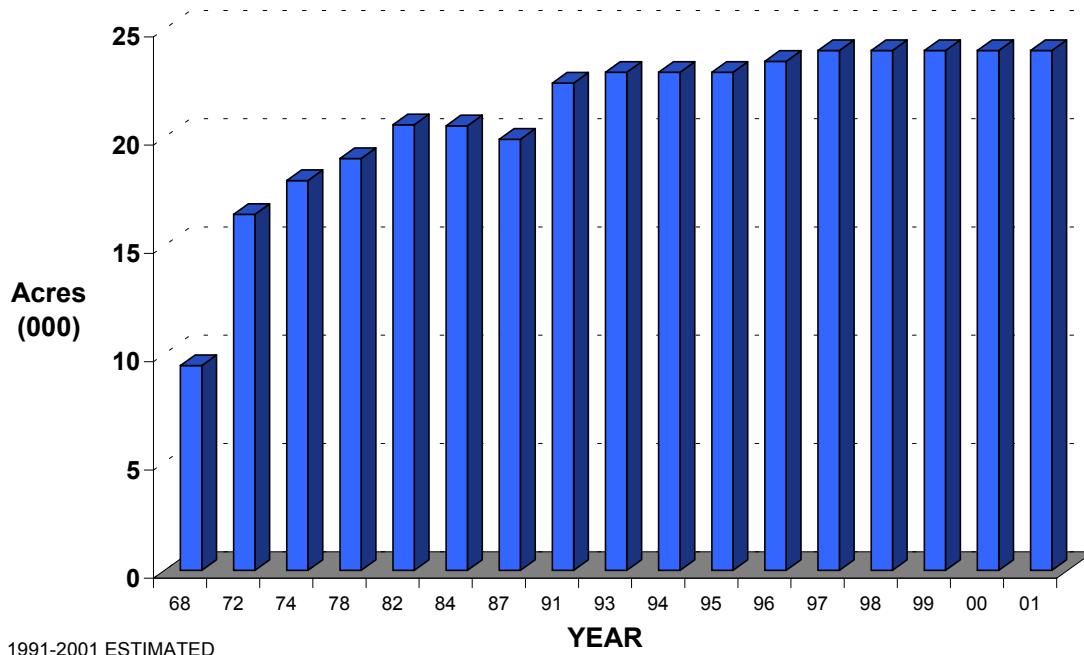
What is the outlook? This has been probably the best fall that most growers can remember in terms of vine health. The foliage remained on the vines for an extended period of time this fall. The Washington Concord grape industry might produce a record or near record crop in 2002 given the current conditions.

Will this potential production depress prices even further? There should not be a significant price decrease even if there is a large crop in 2002. First, the international market demand has rebounded from the last few years and is fairly stable. Some processors in the U.S. are short of product and there should be little to no inventories/carryovers next year. However, the problem of the cheap California grape juice remains a problem. In fact, the substitution of the 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 what ingredients are

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 products that are downgraded because of lower quality cost ingredients.

The Concord grape acreage is holding steady (Figure 6). It is most likely about 24,000 acres.

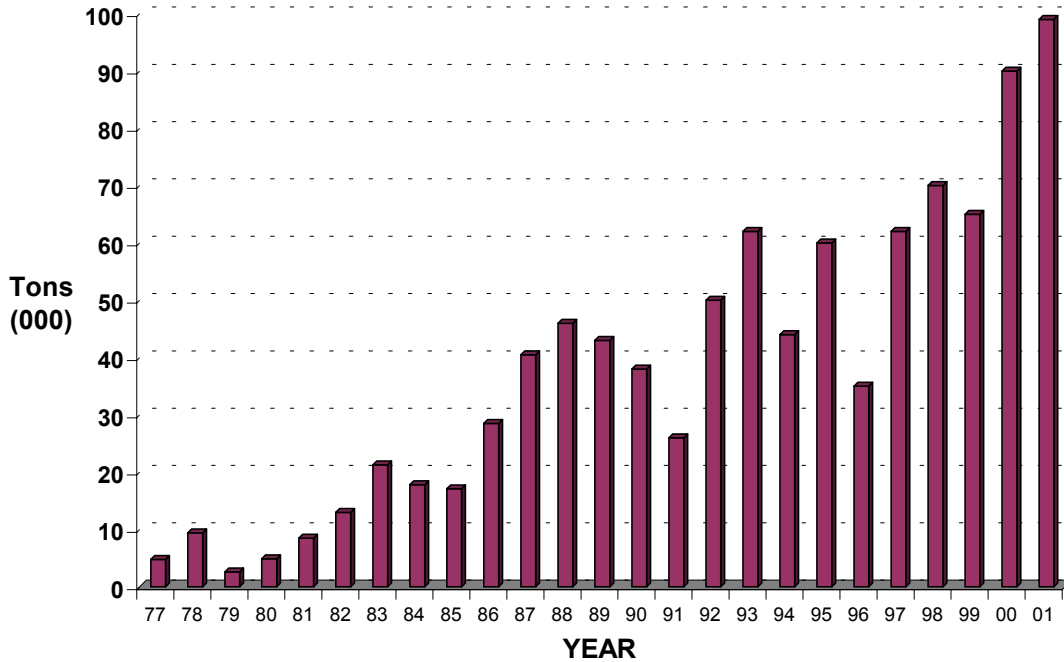
FIG. 6: CONCORD GRAPE ACREAGE IN WASHINGTON, 1968-2001



Wine Grapes

The 2000 year was a record in terms of production and crush of wine grapes in Washington. The Washington Wine Commission reported that 97,600 tons of wine grapes were harvested and crushed in Washington. The production was slightly higher. An educated estimated of the production is about 99,000 tons (Figure 7). There were about 1,400 tons of wine grapes in Washington that were not harvested for various reasons including the lack of a home or market in which to sell the grapes.

FIG. 7: PRODUCTION OF WINE GRAPES IN WASHINGTON, 1977-2001

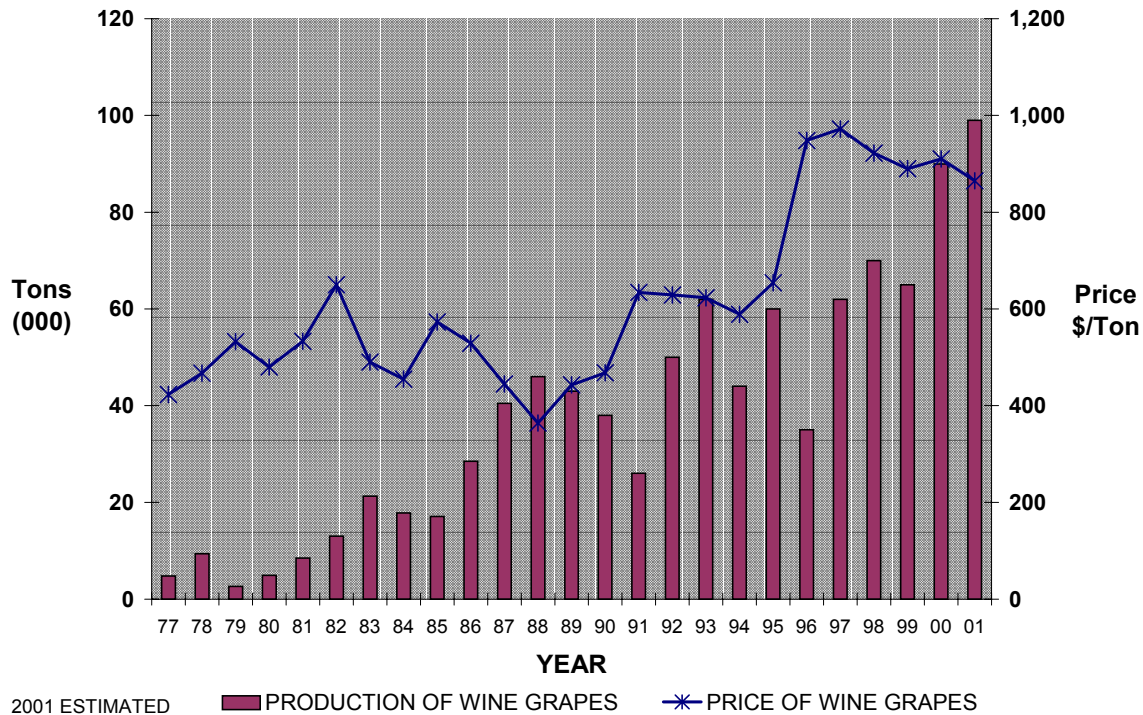


As a result of the record level of production, there was some softening of the cash prices paid. The estimated price per ton for white varieties in 2001 was \$650. In 2000, the average price for all white varieties was \$736 per ton. The white variety that experienced the largest price decline was Chardonnay. The average price dropped by almost \$200 per ton. In fact, there were some grapes of this variety that had difficulty finding a home.

The average price for the red varieties of wine grapes was about \$1,010 per ton. This is only about \$70 less than the 2000 price of \$1,085 per ton. The prices for Merlot and Cabernet Sauvignon decreased slightly. The variety in demand was Cabernet Franc with its price ranging up to \$1,000 per ton. Syrah was the highest priced variety at about \$1,200 per ton.

Overall, the price for all wine grapes averaged about \$865 per ton in 2001 (Figure 8). This is down from the 2000 price of \$899 per ton in 2000. With new acreage coming into production, it is expected that the average price will continue to soften in the near future unless there is an increase in winery demand for the grapes.

FIG.8: PRODUCTION AND CASH PRICES OF WINE GRAPES IN WASHINGTON, 1977-2001



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 worldwide including California.

A recent research project indicates that wine consumption by Generation X (20-40 year olds) is increasing. In addition, women within this market segment consume twice as much wine as men in that market segment. This should influence marketing strategies. In the domestic market, wine sales in restaurants have decreased this fall. Hopefully, if the economy rebounds in the forthcoming year, wine sales in this market segment will pick up. However, the economy has been declared as being in a recession.

California continues to increase its wine grape acreage. In 2000, there were 568,000 acres of wine grapes in California with 110,000 acres being nonbearing. The leading varieties in terms of nonbearing acreage were Cabernet Sauvignon, Chardonnay, Merlot, Pinot noir, and Syrah (Table 1). What is worth noting is where the wine grape acreage in California is increasing. Between 1999 and 2000, the acreage in Napa/Sonoma was up

4.5 percent, other coastal acreage was up 7.6 percent, and the northern interior acreage was up 4.6 percent.

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The worldwide wine production and consumption are still out of balance. In 2000, the estimated worldwide wine production was 274.9 million hl, while consumption was only 219.4 million hl. The leading wine producing countries continue to be Italy (14.21 percent), France (12.22 percent), and the United States (10.88 percent). The same three countries are the major wine consumers with France accounting for 15.0 percent, Italy with 14.0 percent, and the United States with 9.8 percent.

TABLE 1. Nonbearing Wine Grape Acreage in California and for Selected Varieties, 2000 (acres)

Variety	Nonbearing Acreage
Cabernet Sauvignon	21,382
Chardonnay	14,219
Merlot	7,915
Pinot noir	7,605
Syrah	6,151
All other	52,728
Total	110,000

SOURCE: Allied Grape Growers.

In addition to worldwide surplus, the Washington wine industry must be cognizant of the vineyard and winery developments in Australia, South Africa, and Chile. The growth in the planted areas in these countries presents the newest and most severe competition for the Washington wine industry. These countries are producing quality wines that are competitively priced with Washington table wines. However, the growth of the industries could be slowing because of softening prices.

The competition in the international market is severe. As an example, France's wines exports are off over 5 percent and prices in some regions have fallen by as much as 40 percent. In countries where the wine industry is an important segment of their economy, such as France, you can bet that they will increase their competitive behavior.

The organizational structure of the Washington wine industry is changing. Many large wine firms that have aggressive growth plans are discovering that it is easier, faster, and less risky to grow through acquisition rather than investing in new wineries and developing new brands. Most of this activity is in the premium table wine area as observed in the case of the Washington wine industry. Hopefully, with this change in organizational structure, the quality of Washington table wines will be maintained. It is the only way the industry will continue its economic well being and grow.

Given the overall supply and demand situation here and worldwide, there are some economists that have predicted wine prices will decline by 10 percent over the next 4 years. If the Washington wine industry is to maintain its prices and market shares, it will have to intensify its marketing and merchandising efforts. If this is not done there will be more softening of prices for wine and wine grapes as has been observed.