



Connie & Conrad Confabulate

I conferred with our old friends, Connie & Conrad Consumer. They are recession-weary and would really like to spend money like they did in the good old days. But their world has changed. Their 401 k investments have come back partially but their house is still worth less than they paid for it. They have both kept their jobs, but they have friends who are not so fortunate and they occasionally wake up in the middle of the night wondering what they would do if either one of them got downsized. They are watching expenses and increasing savings. The good news is that they are drinking a little more wine than in past years. To save money, they are drinking more of that wine at home and less in restaurants. The weak dollar has also convinced them to drink less imported wine and a little more California wine. As everyone knows, they have traded down in terms of price point. Wines retailing for more than \$30 per bottle seem completely extravagant to them now. Every once in while, they splurge on a bottle in the \$15 to \$20 range but they have also found some pretty tasty wines at less than \$10.00. They have even experimented with premium wines in a box - and it went down just fine.

Sooner or later, the economy will recover and Connie & Conrad will be more than ready to celebrate when it does. But this recession has been painful enough to make a lasting influence on behavior. Connie & Conrad have become adverse to debt and they have learned the painful lesson that stocks - and even California real estate - can decrease in value. When the recession is over, will they return to that occasional \$6.00 Frappuccino at Starbucks? Will they trade up to above \$15.00 or \$20.00 per bottle in wine purchases? My guess is that the trend to quality foods and beverages will continue but with a higher degree of price sensitivity. Connie & Conrad will probably return on occasion to relatively small indulgences but perhaps less frequently than before. Bigger indulgences (think jet-skis), will suffer much more. But foods - and wines - that can combine a sense of wholesomeness, lots of flavor and an affordable price will probably be very strong.

California Harvest & Bulk Market Review

In the meantime, as we wait for recovery to take hold, growers and wineries must survive a still difficult market. The toughest varietal is **Chardonnay**, which has suffered from three problems: very



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slow sales growth, large imports in bulk Chardonnay from Australia from the 2009 harvest, and - by far the biggest factor - an unexpectedly large Chardonnay crop in the Northern Interior. Substantial quantities were custom crushed on the Central Coast and smaller quantities will be available from other regions as well.

Cabernet Sauvignon yields rebounded from the low levels of 2008. Yields were normal in all areas of the state except Lodi, where the crop was big. Due to the lingering effects of the recession, demand for Cabernet Sauvignon is soft at the high-end and strong at lower price points. Because of last year's light crop, demand for 2008 Cabernet Sauvignon in bulk exceeds current supply. Many bargain brands will need to make an earlier transition into their 2009 blends because of a shortage of 2008 Cabernet Sauvignon. **Pinot Noir** had a good crop in the Central Coast and the Interior but was light in the North Coast. Demand for Pinot Noir in bulk remains fairly strong but has become much more price sensitive. **Merlot** yields came in at about the long-term average and tonnage was close to projection, but grafted and removed vineyards have reduced the total tonnage.

Global Bulk Market

Despite very low rainfall in 2008 and 2009, **Australia** has a strong supply of wine in bulk. Much of the oversupply is from cool climate regions but the wines that compete most directly with California are warm region Chardonnay and Cabernet Sauvignon which are available at attractive prices. With increased rainfall this winter (our summer), they are expecting a bigger crop in 2010 than their sales warrant. However, some grapes may go unpicked due to slack demand, their government is encouraging vineyard removals by purchasing water rights and the U.S. dollar is weak compared to the Australian dollar, raising effective prices for U.S. buyers.

Chile had a big crop in 2009. Chardonnay production, for example, was up by about 8.5 million gallons and Cabernet Sauvignon by over 14.5 million gallons, which makes Chile a highly competitive player on the world market. Current supplies are balanced with demand and there seems to be little pressure to reduce prices prior to the 2010 harvest. Expanding acres and the world financial crisis have given **New Zealand** its first bitter sip of excess supply, even of their very successful Sauvignon Blanc.

The 2009 Pinot Noir crop in the huge **Languedoc** region was down from normal, typically about 1.5 million gallons. The 2009 Chardonnay crop appears to be down about 25%. Cabernet Sauvignon and Merlot look average. Crop size for Pinot Noir and Pinot Grigio in **Italy** was also average. The overall volume of wine on the market from Europe is not great but sales are slow. Asking prices are moving downward but U.S. buyers still have to deal with the weak dollar and the challenge of matching Old World and New World styles.

Please contact us with your updated bulk wines for sale and bulk wine needs. The earlier we know of the inventory available for sale the more time we have to use our extensive contacts and market experience to provide the best service to you. It is also not too early to start working on the sales of 2010 grapes.

Market Opportunities

Needed: 2008 Cabernet Sauvignon bulk wine from the Interior, Paso Robles, Central Coast or North Coast appellations

Needed: 2008 Paso Robles appellation Cabernet Sauvignon blenders

Needed: 2009 Interior Pinot Noir bulk wine

Available: 2009 California and Central Coast Pinot Grigio bulk wine

Available: 2009 Pinot IGT Pavia Italy bulk wine

Available: 2009 Marsanne, Paso Robles appellation