MARKET UPDATE

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TURRENTINE WINE BROKERAGE

Bill Turrentine - Editor

BOTTLED POETRY 4 SALE

Robert Louis Stevenson once wondered what vintners could possibly buy that was half so precious as what they sell. It is obvious that he never ran a winery. If he had, grape payments, bank loans, payroll and, especially, wine brokerage commissions would have come to mind.

All kidding aside, vintners are rather concerned right now about selling the precious fruit of the vine. As everyone knows, the rate of sales growth has slowed this year just as many new acres of vineyards are coming into production. Aggravating the situation, retailers are pushing inventory back on wholesalers and wholesalers are pushing inventory back on wineries and wineries are pushing inventory back on bulk suppliers and growers. The result is an ultra-conservative market, with eager sellers and cautious buyers. On the other hand, with everyone paring inventories, the situation is volatile. A little upswing in consumer demand could spark immediate purchases. Let's hope Connie & Conrad Consumer hang in there and buy more bottled poetry as the economy improves.

UNTOLD STORY

Everyone is talking about quantity – and there is a lot of quantity to talk about. But the untold story of this market is quality. The average price of the wines and grapes we are selling has fallen, but it has not fallen as much as you would expect given the excess supplies. The average price has come down but, even more**, the quality expectations of buyers have gone up**. The financial folks at many wineries are hammering like crazy on prices. Winemakers are scrambling to reduce costs to keep the financial folks happy. But the marketing wizards know that increasing quality is currently more important than decreasing cost. They are clamoring for better and better wines. And so the winemakers and grape buyers push hard on price but even harder on quality.

It all goes back, of course, to our good friends, Connie & Conrad Consumer. They continue to trade up, obviously less motivated by price than by quality. The last couple of times we went through a period of excess supply, the growth in the market was concentrated in lower end "fighting varietals". This time, the biggest increase in cases is for the $8 to $15 per bottle category and the biggest percentage increase is for wines over $15 per bottle. As a consequence, the best grapes and the best wines in bulk are still selling pretty well. On the other hand, wines and grapes that are not good enough to please those quality-driven winemakers have few bidders. Quality is the key to this market.

GRAPES & WINES IN BULK

According to the just-released preliminary Crush Report, **Chardonnay** production dropped by 13% in 2001 compared to 2000, which is a drop of 82,000 tons or 14 million gallons. The Northern Interior accounted for more than half of this decrease. The North Coast also dropped significantly, down 23,000 tons. These lower yields are a godsend in a flooded market. But bulk wine sales of Chardonnay are still slow and prices are low all around the state. There have not been enough actual sales really to determine market values. **Asking prices** – generally higher than selling prices - are mostly in the $2.50 to $4.00 range for California appellation Chardonnay; $5.00 to $8.00 for North and Central Coast 2001 Chardonnay; and $7.00 to $10.00 for Napa and Sonoma Chardonnay.

Cabernet Sauvignon production increased by 9% or 32,500 tons. That's equal to 5.4 million gallons. The majority of the increase came from the Central Coast, up 39%, (+21,000 tons or 3.5 million gallons). To put that in perspective, sales of Cabernet Sauvignon were up just 2.2% in 2001 according to Information Resources' scan data.

Both 2000 and 2001 California Cabernet Sauvignon are moving slowly. The best wines have been selling for $3.50 to $4.50. Large quantities of standard quality Cabernet sit on the market with almost no offers.

North and Central Coast 2000 Cabernet has been selling in the $7.00 to $11.00 range. Asking prices for 2001 are in the same range. Top quality Napa and Sonoma Cabernet Sauvignon is still in demand, bringing $15.00 to $24.00. True reserve quality wines may bring more. But average quality wines are moving at glacial speed regardless of pedigree.

Top quality Cabernet Sauvignon grapes from Napa and Sonoma are in demand. There is more fruit available than last year and prices may be slightly more negotiable, but there are still numerous wineries that need excellent fruit.

The market for **Merlot**, on the other hand, is in better balance than Cabernet due both to faster growing demand and a lighter harvest. Merlot sales grew 5.1% in 2001 and production shrank 11% (down 33,500 tons or 5.5 million gallons). Almost all of the decrease (30,000 tons) came from the Northern Interior. The Central Coast actually increased production by 32%, up 13,000 tons or 2.1 million gallons.

The bulk market for Merlot, as might be expected, is reasonably strong. California Merlot 2001 is mostly $4.50 to $5.50. North and Central Coast 2001 is in the $7.00 to $11.00 range. Napa and Sonoma Merlot is mostly $9.00 to $16.00, (although we recently sold an exceptional Napa Merlot at $24.50 per gallon).

The Merlot grape market has been quite active in Mendocino and Sonoma Counties. We are also currently negotiating agreements on Central Coast 2002 Merlot.

Syrah jumped 22% statewide, up 16,000 tons or 2.7 million gallons. More than 50% of that increase came from the Central and South San Joaquin Valley. The Central Coast can claim the biggest percentage increase, up 47%, (4,500 tons or 0.7 million gallons). The North Coast climbed 18%, (1,200 tons or 0.2 million gallons) and the Northern Interior was up 7%, (1,400 tons or 0.2 million gallons). According to scan data, Syrah sales in the U.S. from all sources rose 63% in 2001. Given the extent of new plantings, we need to grow Syrah fast even while the base gets bigger.

Syrah prices have been in the $4.00 to $6.00 range for California; $6.00 to $10.00 for North and Central Coast; and $9.00 to $15.00 for Sonoma and Napa.

Sauvignon Blanc production was just about even with 2000. The Central Coast grew by 13%, (1,700 tons or 0.28 million gallons), but the Northern Interior shrank by slightly more than 2,000 tons. Sauvignon Blanc prices have been in the $2.50 to $3.50 range for California; $5.00 to $6.50 for North and Central Coast; $6.50 to $11.00 for Napa and Sonoma. We are seeing interest in Sauvignon Blanc grapes in all coastal areas.

Pinot Noir increased 20% or 10,500 tons. Of that 1.7 million gallon jump, 1.1 million gallons came from the North Coast and 600,000 gallons from the Central Coast. Sales for Pinot Noir were up 7% last year. Bulk market prices for 2001 Pinot Noir have been running in the $7.00 to $11.00 for North and Central Coast and $9.00 to $12.00 for Napa and Sonoma and $11.00 to $16.00 for Russian River and Carneros. Pinot Noir demand is extremely quality sensitive.

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During times of rapid change, successful companies make sure they thoroughly understand the market and that they have the right inventory strategy. Turrentine Wine Brokerage can help form your strategy to capitalize on market cycles. **Call the foremost broker of wine grapes and premium wines in bulk.**