



## MARKET UPDATE

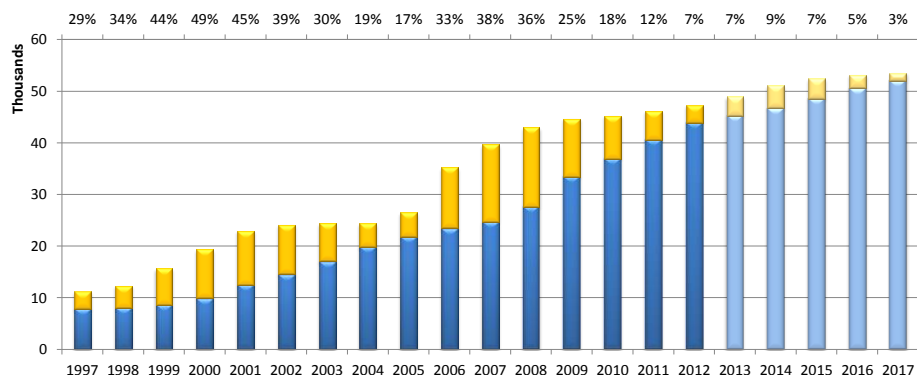
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### THE WAY UP

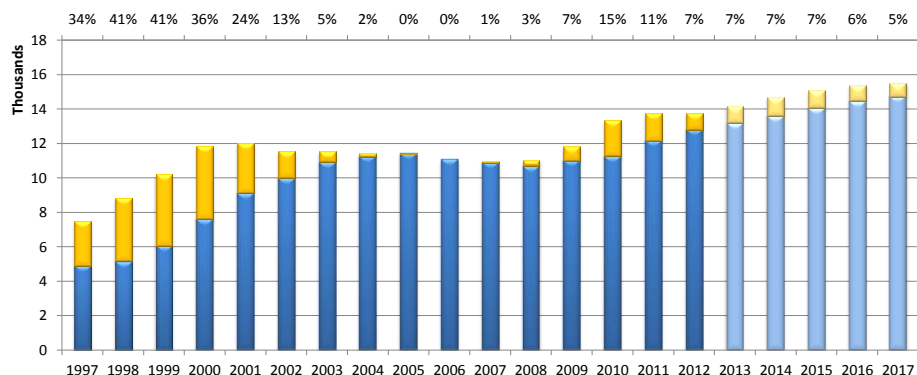
I met an engineer who works on oil rigs in the Gulf of Mexico. He had just come from a simulation training in which they practiced survival skills in case a helicopter should crash into the Gulf. The problem is that occupants of a sinking helicopter have been so spun about that they sometimes become confused about up and down. They may swim with all their might to reach the surface – but may actually be swimming down instead of up. This is not a good situation. So every year they get whirled around underwater in a simulator and practice a few tricks to tell which way is up, like blowing little bubbles and following them to the surface.



#### Statewide Pinot Noir Bearing vs. Non-bearing Acres



#### Lodi Cabernet Sauvignon Tons Crushed



A lot of winery grape buyers are blowing little bubbles right now. When grape and wine supply becomes short, the grape buyer – or whoever is responsible for securing supply - becomes the most important person in the whole winery organization. If the winery's brands are to grow, it will be because the grape buyer found the grapes. If the winery manages to maintain or even improve quality, it will be because the grape buyer managed to find the right vineyards and growers and succeeded in negotiating agreements so that those vineyards will be farmed for quality. If the winery makes a profit, it will be due, at least in part, to the grape buyer who managed to negotiate a price that works for the winery's programs. None of that is easy to do when the market is already becoming short. But the sooner the grape buyer knows which way is up, the better chance he or she has. Of course, the same thing is true for growers, financial folks, owners and marketers.

*The bearing acres history and forecasts are estimates derived from Turrentine Brokerage that incorporate proprietary data accumulated about removal and new plantings, as well as data from the California Grape Acreage Report. This data reflects the proprietary calculation of "Equivalent Fully Producing Acres," intended to make explicit the real changes in productive capacity over time. Productive capacity is based on a yield curve for each variety and region, adjusted for vine age, spacing and the proportion of acres planted or grafted. This productive capacity is then restated as if the vines were either non-bearing or fully-bearing. Projections for tons crushed for 2013-17 reflect the use of sophisticated analysis and forecasting tools to incorporate decreases in crop size from vineyard removals and increasing crop size from grafted acres as well as new plantings maturing over time. The 1997-2011 data is derived from CDFA Crush Reports.*

The way up depends on a lot of factors. The Interior regions of California, for example, prospered during the recession and its aftermath. Strong consumer demand for wines under \$9.00 per bottle stimulated planting and those new acres are just now coming into production. In the meantime, however, consumer demand has started to move up in price and perceived quality. This has helped to moderate demand, and prices, for grapes and bulk wines from both the Northern and Southern Interior. Lower prices and greater supply have convinced some brands to return to California wine after they had switched to imports. This return to California wine, of course, helps to absorb the increase in Interior production.

Many Coastal regions and varieties which struggled as consumers moved down in price in 2009, 2010 and 2011, are now enjoying renewed consumer demand. In many of those areas, there has been little or no planting beyond replacement requirements for many years, or, at least not until a year or two ago. This means that sales growth threatens to outpace production growth, putting upward pressure on grape prices. But will wholesalers, retailers and consumers accept price increases to offset higher grape prices? Will the anemic economy keep growing and will consumers continue to trade up?

Turrentine Brokerage's subscription publication, The Turrentine Outlook, is all about exclusive graphs and data that function like little bubbles: they indicate which way is up. It's a time of big change in the wine business; change in short-term trends and in long-term trends. There are many risks and opportunities that must be weighed and balanced. The combination of strategic information, supplemented with our broker's specific advice for your situation, is key to success. Like my engineer friend, everyone working in the wine business needs a kind of survival training that must be repeated over and over again. Those who work in the wine business get whirled around by Mother Nature and consumer trends – and it is always critical to know which way is up.

*(This article appears as an Editor's Note in the current issue of The Turrentine Outlook: Strategies and Forecasts for a Competitive Advantage. For more information, and a subscription application, visit*

*<http://www.turrentinebrokerage.com/turrentine-outlook/>*

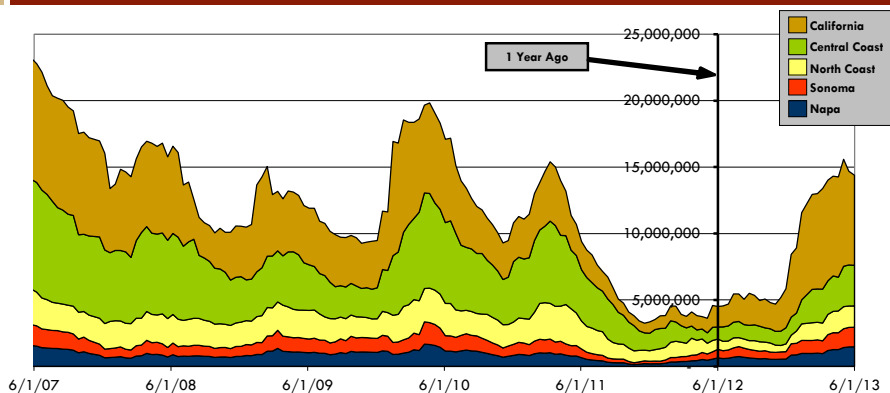


## BULK MARKET CRUNCH

The CRUSH may not start until August and September but the CRUNCH starts in June. This is especially true for the



### Bulk by Region 6-Year Bulk Gallons Available



market for wines in bulk. Buyers and sellers carefully weigh crop estimates against sales projections, neither of which are highly reliable. (As one brand manager admitted over a beer: "We just make this stuff up.") Sellers determine whether they have sufficient tank space - and cash flow - to carry any unsold bulk wine through harvest. Buyers come up against deadlines to wrap their bulk wine blends if they are going to get labels approved and components blended and stabilized and bottled before

*When casegood inventories backup, wineries place more wine for sale in bulk; when casegood sales are strong, wineries remove wine from the bulk market. This proprietary chart shows the volumes of wine from the region(s) named that have been listed for sale in bulk with Turrentine Brokerage and is probably the best proxy of the changes in inventory levels of bulk and bottled wine.*

grape trucks start lining up at the crusher. After a plentiful harvest in 2012, there is more wine on the bulk market than there was the previous two Junes, as shown in the chart below. This encourages buyers to move slowly. Yet, on the other hand, many of the best quality lots continue to sell. Crunch time means many complex decisions must be made quickly.

Overall, the bulk market is active but the total volume of bulk wine for sale has been holding fairly constant, with sales and new listings cancelling each other out. 2011 and 2012 vintage Cabernet Sauvignon volume for sale from Napa Valley and Sonoma County, however, is decreasing from continued sales and few new listings. Large volumes of California appellation Cabernet Sauvignon are moving, but new listings have supplemented total volumes. Prices for these recent deals have moderated since last year, but remain fairly strong.

Demand has been robust for 2012 Sonoma County Pinot Noir bulk wine despite the abundant harvest. Prices have been in the high teens to mid \$20's per gallon. Zinfandel volume is still ample from all regions, especially Lodi, and there are some great opportunities. Chardonnay demand has been consistent, with prices holding for the Coastal wines and softening for Interior Chardonnay. The normal demand and pricing trend for early white varieties like Pinot Grigio and Sauvignon Blanc is to peak early and then to soften. This year peak demand has lasted longer than usual and prices have been holding.



## GRAPE MARKET ACTION

Berry set is mostly complete in all areas for all varieties. Cluster counts and sizes are average to above average. There have been hot days and more wind than normal, which has resulted in some shatter and short shoots in areas of the Coast, but the damage appears to be localized. Most vines currently look healthy and maturation is earlier than normal. Current projections are for an average to above average crop on most varieties throughout the state. Now we watch to see how the summer weather affects berry sizing.

With most of the 2013 crop already committed under multiple year contracts, the inventory of grapes actively for sale is down from last year at this time but buyers are still looking for grapes. In general, buyers are more price sensitive and quality conscious than last year. As wineries compile feedback from set, decisions will be made about whether to buy more now or hold off.

The North Coast Cabernet Sauvignon grape market, however, is exceptionally strong. Prices have been firm and, in some cases, above last year's spot market. Sonoma County's Pinot Noir crop looks good and demand is strong with prices holding. The Zinfandel crop in Lodi and the North Coast regions looks relatively abundant once again and, as a result, prices have been softer than last year.

One negotiation point that seemed to almost disappear last year has resurfaced: crop thinning. Discussions are starting for Zinfandel in Lodi and Zinfandel and Pinot Noir in Sonoma County and even for Cabernet Sauvignon, especially for vineyards supplying super-premium and luxury programs.





## BENCHMARK YOUR WINE BUSINESS!

*Where does your business stand against industry leaders?*

Turrentine Brokerage, in partnership with Moss Adams, LLP and Farm Credit Alliance has launched the 2013 Wine Industry Financial Benchmarking survey. When completed, the results will be a useful benchmarking tool for California, Oregon, and Washington's wineries and vineyards.

### *What are the benefits?*

- Valuable information on industry trends, sales, and production.
- Measure your business against validated, reliable statistics that are easy to understand.
- All identifiable survey data you provide will be held in strict confidence.

### *Improvements made this year:*

- Four distinct tracks for wineries, vineyards, and negotiants
- Streamlined financial information requirement
- Reduced/condensed number of questions

Participation is vital to providing meaningful data for all wineries, vineyards, growers, and negotiant business models.

***The survey is only as good as the numbers who participate in it!***

### *About the Survey:*

The confidential results will focus primarily on operations and financial statement information, and allow common-sized wine-related businesses to evaluate what the market and their competitors are doing. The survey results will provide insights on a range of topics – from sales and production data to operating and financial metrics by region, providing a valuable tool to businesses to measure and prepare their strategies for the years ahead.

### *Survey Partners:*

Moss Adams is launching the survey in conjunction with industry leaders, such as wine industry associations, trade groups, and publications, along with a select group of Farm Credit Alliance Partners: American AgCredit, Farm Credit West, Northwest Farm Credit, and CoBank, and Turrentine Brokerage.

**WIN AN iPad!**  
*Participants who  
complete the survey by  
July 10<sup>th</sup> will be entered  
to win.*

*Receive a free copy of the  
final report before non-  
participants can purchase  
it,  
a \$495 value!*

### *Thank You*

We'd like to thank you in advance for your participation in the survey.

To register, simply visit us at:

[www.mossadams.com/winesurvey](http://www.mossadams.com/winesurvey)

After registration, you will receive a confirmation email that provides instructions.

The survey is open for participation until July 22, 2013.

### *Need Help?*

Don't have the time to complete the survey? Questions about the commitment? Our team can help you complete the survey.

Contact [Rick Boland](#) of Moss Adams LLP at 707-535-4114.

# MARKET OPPORTUNITIES

Bulk Wine Needed	Bulk Wine Available
2012 California Pinot Noir – load size minimums	2012 Central Coast Chardonnay-24 lots, 374,000 gallons
	2012 Sonoma County Pinot Noir-50 lots, 222,000 gallons
	2012 Sonoma County Chardonnay-35 lots, 361,000 gallons
	2012 California/Lodi Zinfandel-33 lots, 722,000 gallons
	2012 California/Lodi Cabernet Sauvignon-30 lots, 859 gallons
	2011 Central Coast Merlot-12 lots, 86,000 gallons
	2011-2012 California (all appellations) Dry Whites-167 lots, 1.74 million gallons

Grapes Needed	Grapes Available
Sonoma County Cabernet Sauvignon	Sonoma County Chardonnay, truckload quantities
Russian River Pinot Noir	Alexander Valley Red Blenders, truckload quantities
Napa Carneros Pinot Noir	Dunnigan Hills Chardonnay, 200 tons
	San Miguel/Paso Robles Zinfandel, 125 tons
	Paso Robles Petite Sirah, 150 tons
	Los Olivos/Santa Barbara County Chardonnay, 30 tons
	Central Coast Cabernet Sauvignon, truckload quantities (call Audra for details 805-400-9930)
	Chualar Canyon/Monterey County Pinot Noir, 30 tons
	Mendocino County Cabernet Sauvignon, 30 tons
	Mendocino County Merlot, 70 tons
	Mendocino County Zinfandel, truckload quantities