

MARKET UPDATE

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THE UNTHINKABLE _____

Futurist Peter Schwartz, the luncheon speaker at the recent Hambrecht & Quist Wine Industry Forum, made his fortune analyzing oil industry trends. In his work, he has had to deal with characters such as the Ayatollah Khomeini and Saddam Hussein. I, on the other hand, have made my fortune, (such as it is and it ain't much), at least in part analyzing trends for the wine business. I have had to deal with characters like, well, let's just say with plenty of characters.

Peter Schwartz warns that "those who live by the crystal ball will die from eating broken glass." Instead of trying to predict the future, he has developed a system to prepare for an unpredictable future. This system might be summarized in four steps: 1) identify current (and often contradictory) trends, including major and minor trends. 2) Take each trend and consider the consequences if this trend became dominant. 3) Decide which trends will most likely be dominant and plan around them. 4) Finally, and perhaps most importantly, develop **contingency plans** in case the trends identified as less likely become in fact the dominant trends.

Using this system, Peter Schwartz prepared Royal Dutch Shell, the world's largest corporation, for some events no one, including Peter Schwartz, really compatible format. Call us if you have questions or comments about this procedure.)

Our goal with the chart is: 1) to examine trends. 2) To identify an average between the low and high as our best guess for the 1992 crop level (our average was within 1% of the actual 1990 crop). And, 3) to

expected to happen. Royal Dutch Shell had a plan developed for the unlikely event that ever increasing oil prices might drop rapidly, which in fact happened. They also had a plan for the almost impossible, that is, the collapse of communism in the Soviet block. These events did not look likely beforehand, but the trends that led to them were identifiable. No one can predict the future consistently. There are too many unknowns. Planning must include contingencies for what most people would consider "unthinkable", because the "unthinkable" happens.

In our own business, who would have thought that the T.V. program that devastated the apple industry with Alar hysteria would have suddenly promoted the health benefits of wine? And who could have predicted that this unexpected eight minute segment on T.V. would propel a red wine boom? Or that the ocean of excess Cabernet Sauvignon would begin evaporating? Or that San Joaquin Valley wines and grapes would be hard to find even at record prices?

Not wishing to eat broken glass, we have always focused not on rash predictions but on identifying trends and considering their implications. Our third annual **Chardonnay Crop Projection Worksheet** (p.3) is an example of this approach. What this chart does is to project a probable range for 1992 Chardonnay production by cross tabulating past tonnage and acreage data for each area in California. (This is easier said than done because the raw data does not come in identify the possible lows and highs that warrant **contingency plans** (the 1991 crop was right on the high end of our projected range). The magnitude of the 1991 crop surprised just about everyone, but those who prepared for the possibility of an extraordinarily large crop were ready to deal quickly with the problems - and opportunities - that followed.

So, what are the trends shaping this year's Chardonnay crop? Well, on the side of a large crop, we have the following:

- Reported bearing acres up 13% or 5,700 acres.
- Actual bearing acreage probably more, due to under-reporting of new plantings.
- Long Term yield trend is up.
- Pre-bloom cluster count looks fairly good.

Factors working against a large crop include:

- Vines may be stressed from last year's huge crop.
- Phylloxera continues to spread.
- Strong wind during bloom in some areas.
- The ordinary threats of untimely heat or rain.

Due to a 44% increase in bearing acreage, plus exceptional yields, the **North San Joaquin Valley** area will probably grab the title this year as the most prolific Chardonnay producer. **Sonoma Co.**, long the biggest Chardonnay producer - and still the area with the biggest bearing acreage - will probably be number two in tonnage this year, even with its increase of 1,100 bearing acres, (making a total of 10,584 acres). **Napa**, with 9,276 bearing acres, should be third. Monterey/San Benito (8,518), San Luis Obispo/Santa Barbara (7,137), Mendocino Co. (3,149), Central & South San Joaquin Valley areas (1,012), Riverside Co. (1,107) and Alameda Co. (1,057) make up the middle tier of producers. The smaller producing areas, Lake Co., Solano Co., and Amador Co. have just about a 1,000 bearing acres all together.

Estimating yield per acre is considerably more difficult than determining bearing acreage. Our sense from numerous conversations with wineries and growers around the state is that the pre-bloom bunch count has been pretty good but generally somewhat smaller than last year. Also, we consider it unlikely (but not impossible) that we would have two exceptionally large yield years in a row. On the other hand, the long-term trend is towards higher yields. This is probably due to an under-reporting of new plantings, as well as the use of higher yielding clones, improvements in trellising and other vineyard practices, and an increasing percentage of high-density plantings.

To establish reasonable low and high yield estimates, we looked at the historical data for each district

(shown on the Chart). We reasoned that this year's crop was likely to be below the highest yield of the last four years and above the lowest. We therefore picked intermediate figures, neither the highest of the high nor the lowest of the low.

The chart shows a range of 217,000 to 258,000 tons, with an average of 237,000 tons. This represents an increase of zero percent at the low end to 19% at the high end, with an average increase of 9.5%. Over the last four years, Chardonnay production has increased at an average of about 22% per year. So even if we have a 1992 crop at the high end of the probable range, we'll still be facing a slower growth rate for Chardonnay production. What this will do to the bulk market next year, of course, depends on the rate of growth for wholesale & retail sales.

ASEV 1992 RENO

Booth 330 is where you'll find the action at ASEV in Reno. Be sure to come by and do some business or just say hello. And take a shot at our **1992 Crop Projection Contest**. It's a much better deal than the slots. There's nothing to lose and Champagne to gain, so take a flyer at it. Those who enter at ASEV get a double chance to Win.

TURRENTINE GRAPE EXCHANGE SYSTEM

Grape purchases are gaining momentum and many buyers are using our Grape Exchange System. Check out the listing enclosed with this issue. Let us know if you would like to be on our list for bi-weekly grape sales information as harvest. Also, let us know if you have grape needs or if you have grapes for sale. Our system will facilitate an appropriate match between buyer and seller.