

# Economic Perspectives on the California Wine Industry

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# Topics

- Demand
- Supply
- Regions
- Future?

# A Few Statistics

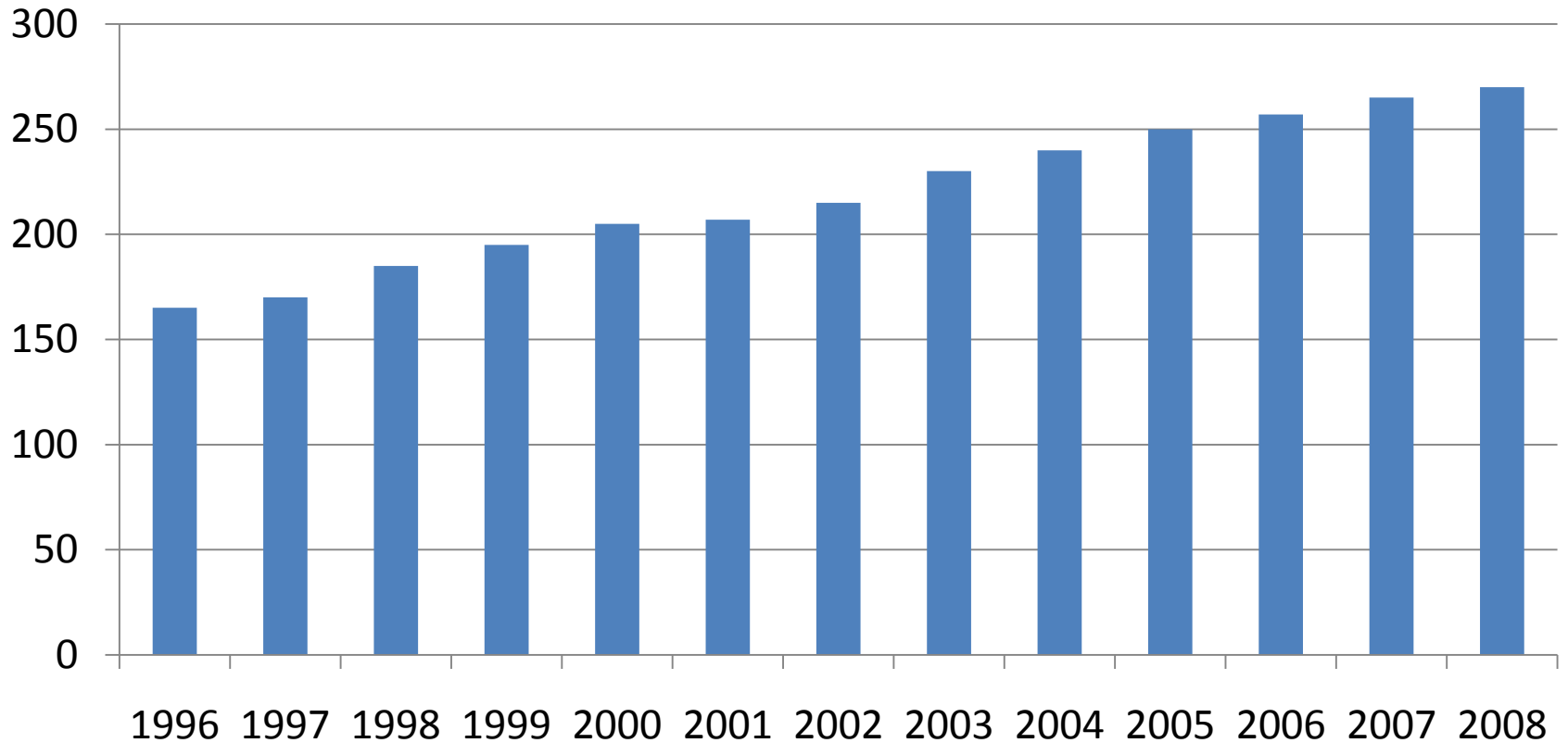
- Approximately 5000 grapegrowers statewide
- Wine is California's # 1 finished Ag product
  - Estimated \$51.8 billion impact in California
- Roughly 520,000 acres of wine grapes

# The U.S. Wine Market in 2009

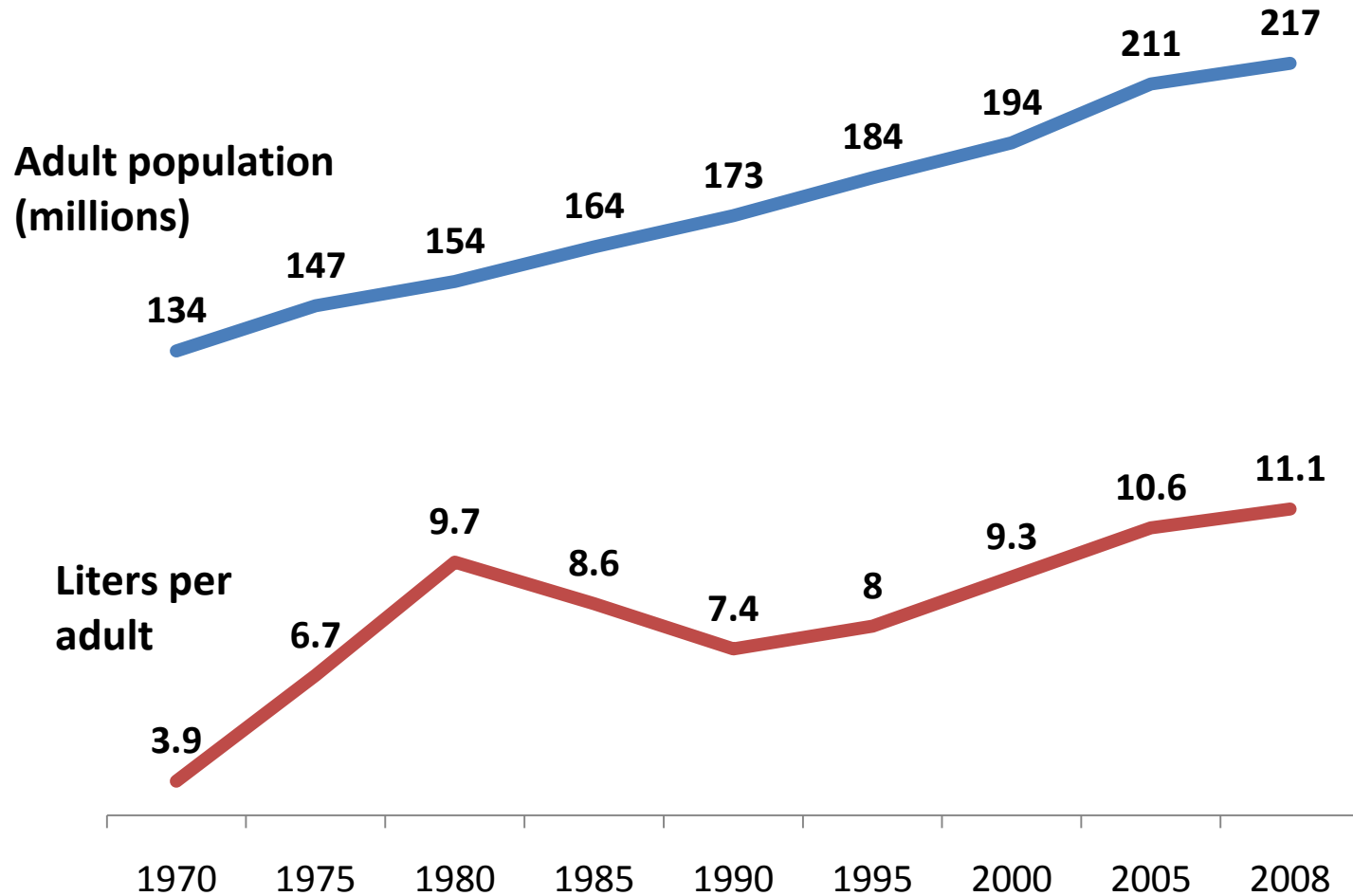
- California supplied 61% of all wine sold. Imports were 31% Other states supplied 8%
- 83% of California wine was sold in the U.S.
- Of the 17% exported, half was bulk, and valued at \$1.05 a liter
- Approximately 75% of the wine sold in the U.S. retailed for under \$7 a bottle and 30% sold for less than \$3 a bottle
- Most of this wine came from the San Joaquin Valley

# US Wine Sales Have Increased Every Year Since 1993

Millions Cases of Table Wine



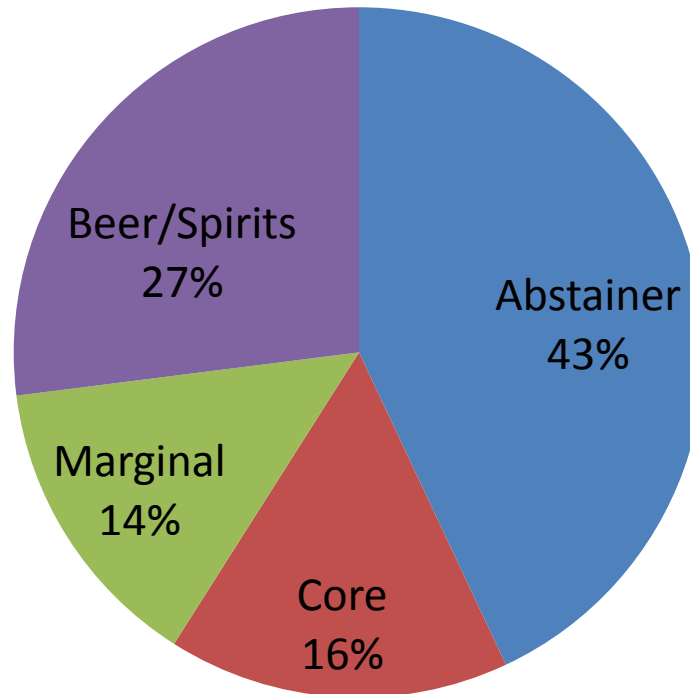
Total sales is a function of population times per capita consumption. Both have increased



# 2009 Wine Market Council Study

## Percent Adult Population

Core Consumers enjoy at least one glass of wine a week or more. At 16% of the adult population they number about 34 million and they consume 91% of all table wine—averaging 70 liters per person



Marginal consumers drink less than 1 glass a week, although they say they enjoy wine. They drink the other 9%

Source: Wine Market Council

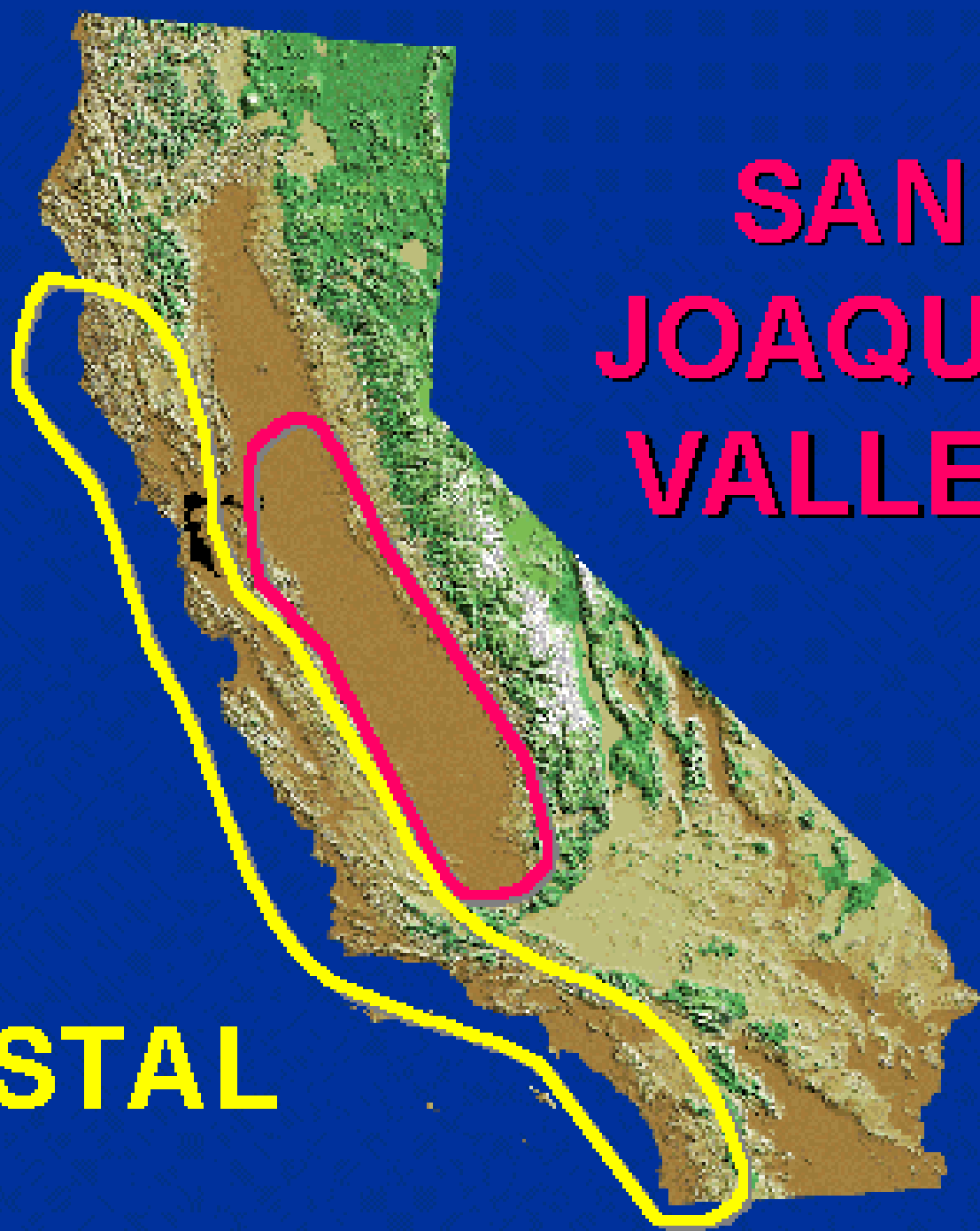
# Conclusions on Demand

- Consumption has increased, largely due to “Millennials” choosing wine at a higher rate than did “Boomers”
- Every year for the next 7-8 years, 4 million Millennials will come of legal drinking age
- Proliferation of grape-growing and winemaking in states outside of California will make wine less “foreign” to non-consumers
- What of Supply?



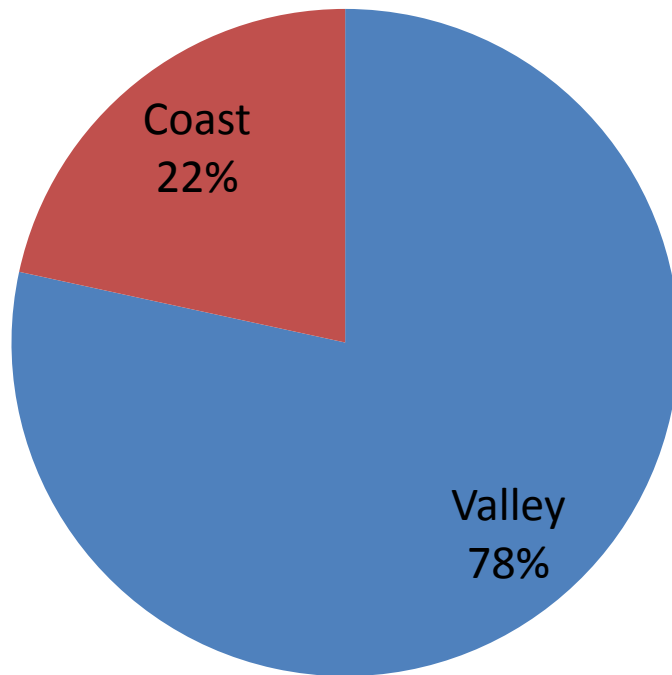
**SAN  
JOAQUIN  
VALLEY**

**COASTAL**

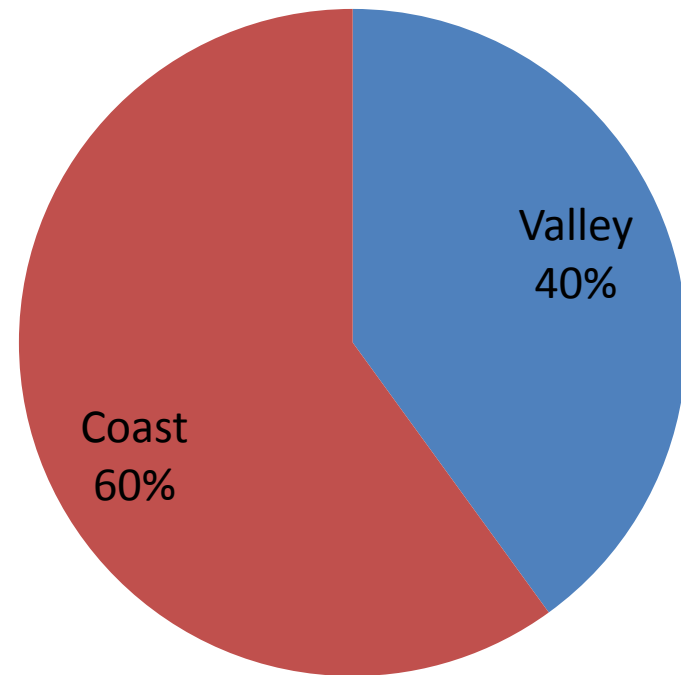


# Regionality? 2009 Crush Percentages

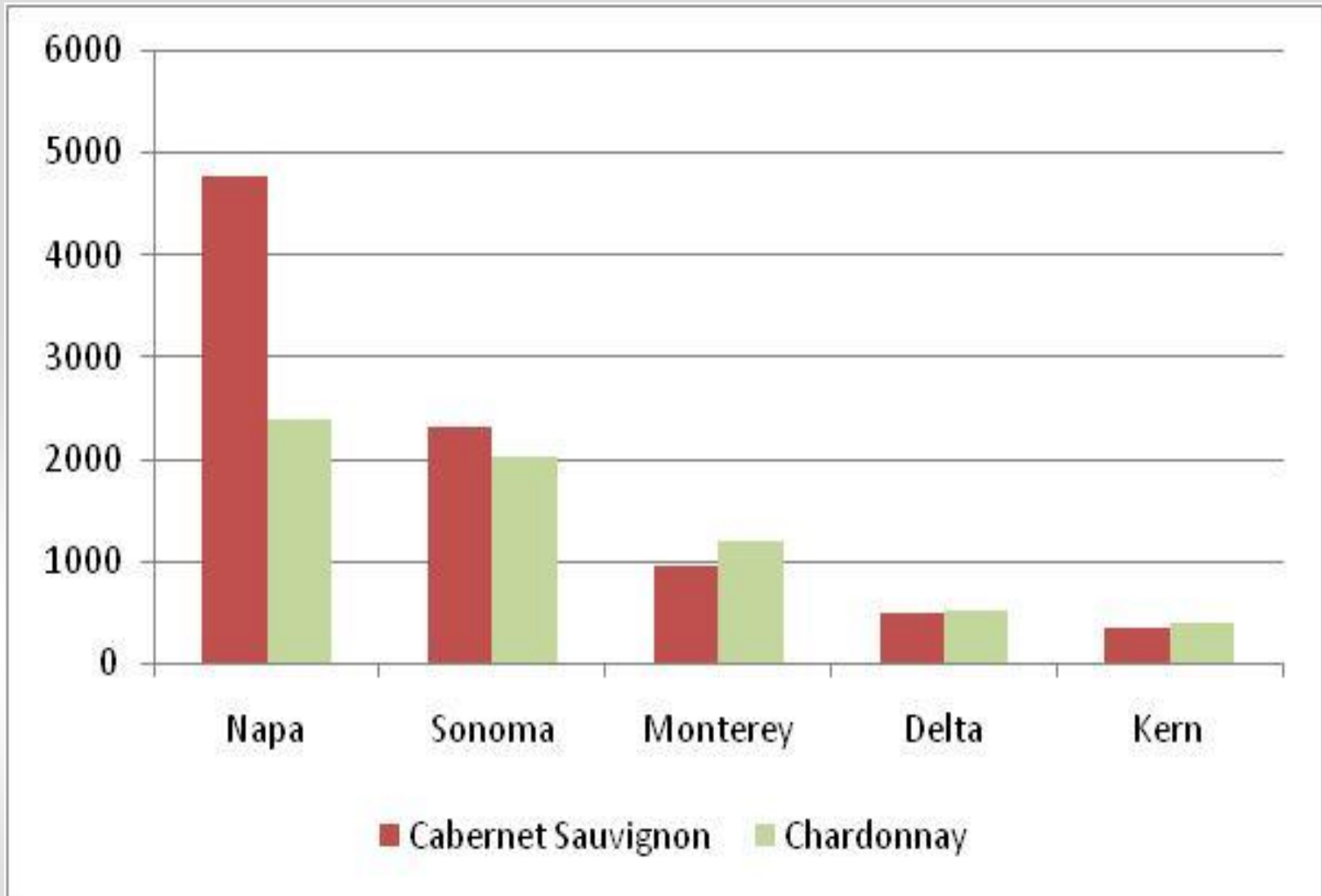
**Volume: Tons Crushed**



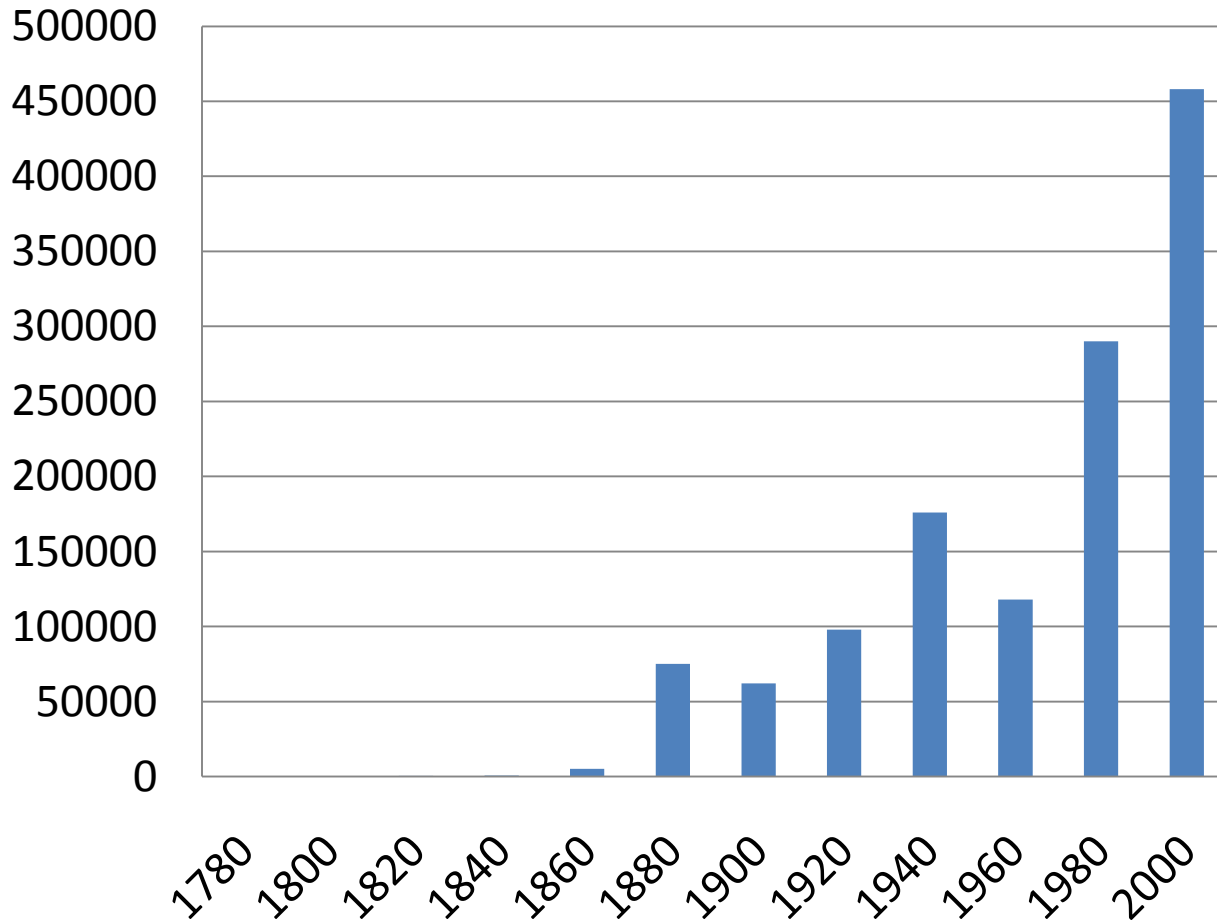
**Value: Percent Dollars**



# ***Price of Cabernet Sauvignon and Chardonnay Grapes, \$/ton, in Various Districts, 2008***

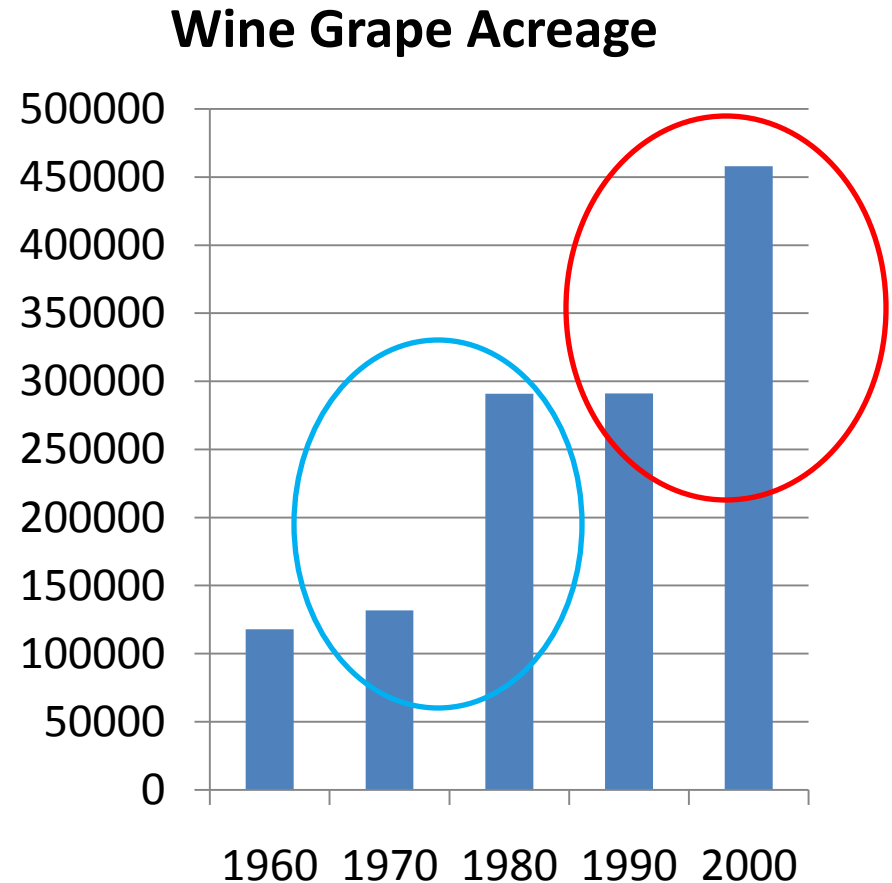


# California Winegrape Acreage



# The Wine Booms of the 1970s and 1990s

- Two wine booms—one white and one red
- Demand increased as Baby Boomers came of legal drinking age and adopted wine
- Technology played a role in improving wine quality

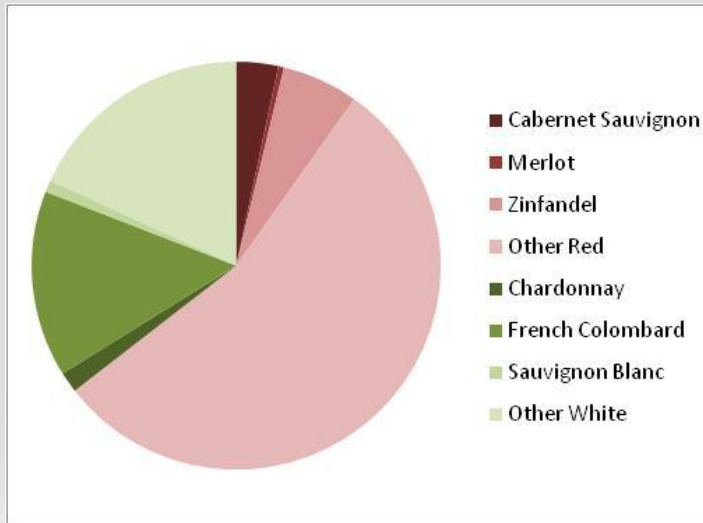


# Per Capita Consumption in gallons

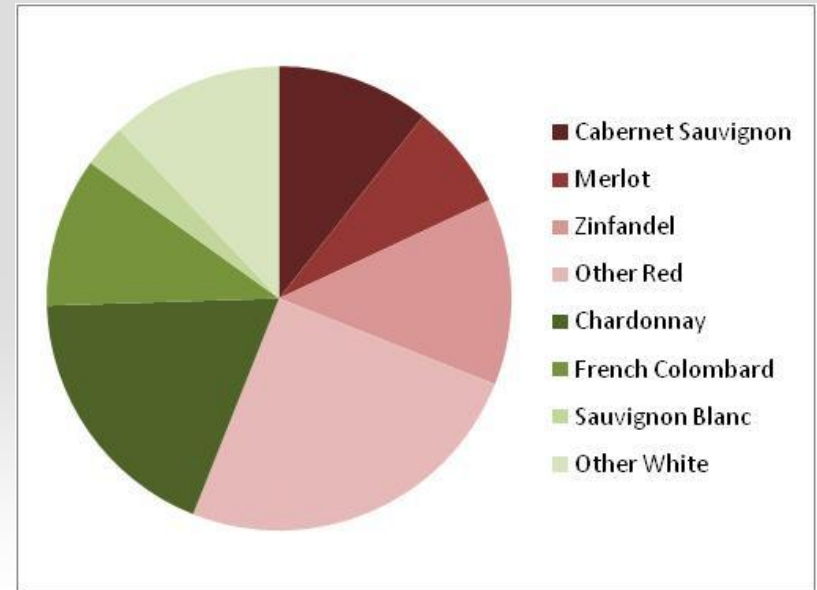
	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
Red wine	.54	.64	.35	1.00
White Wine	.27	1.26	.93	.92
Blush wine	.27	.47	.60	.45
Total wine	1.08	2.38	1.87	2.30

# Varietal Mix of California Winegrape Production

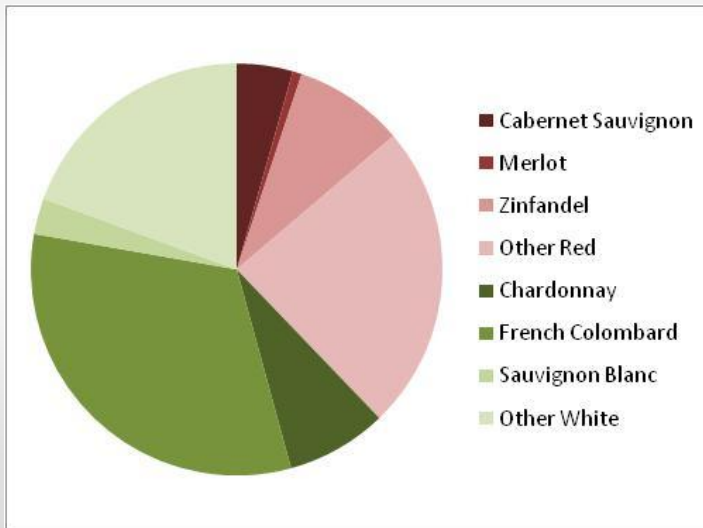
1980



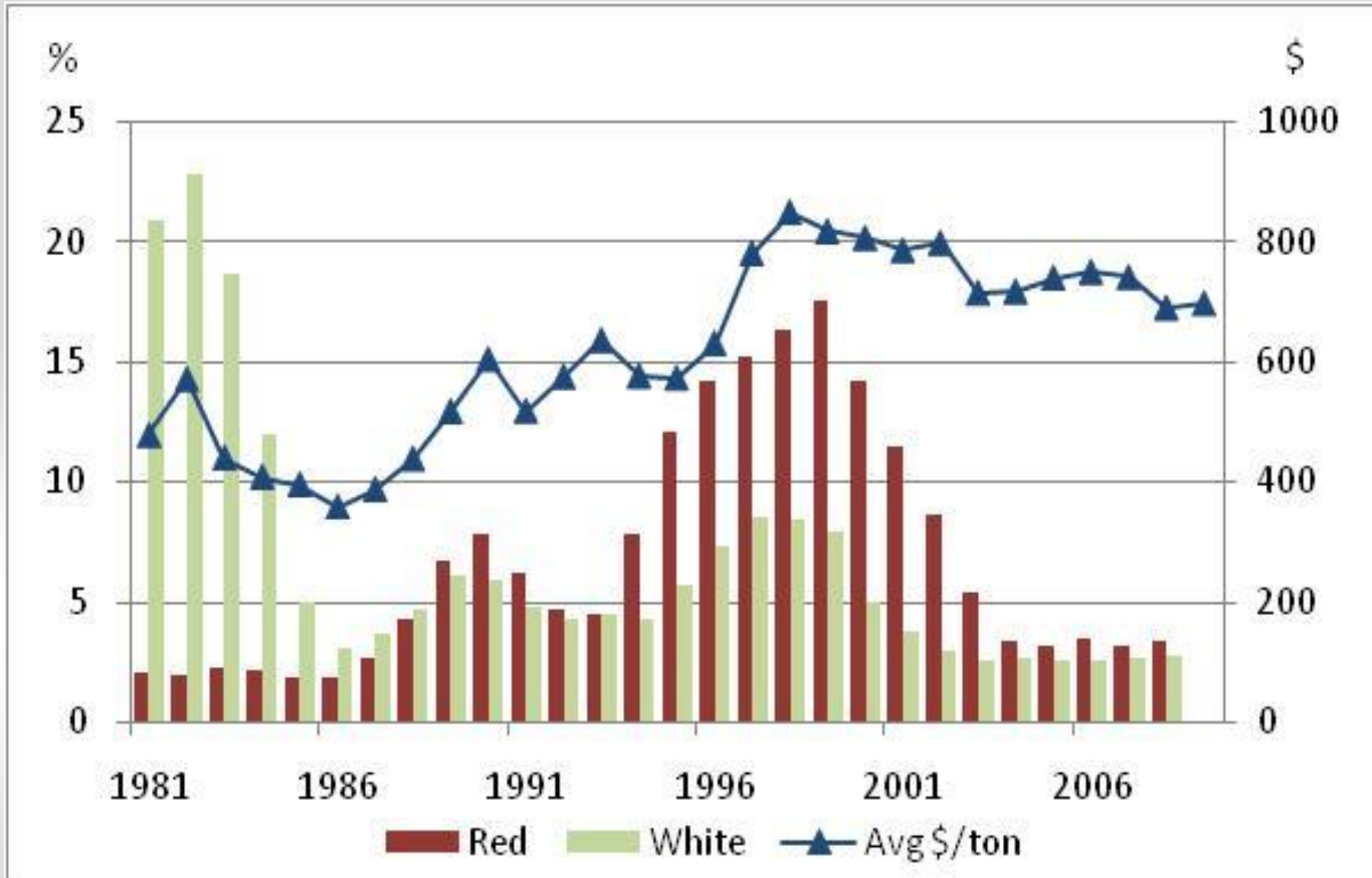
2008



1990



# *Nonbearing Acreage of Winegrapes as a Percentage of Bearing Acreage*

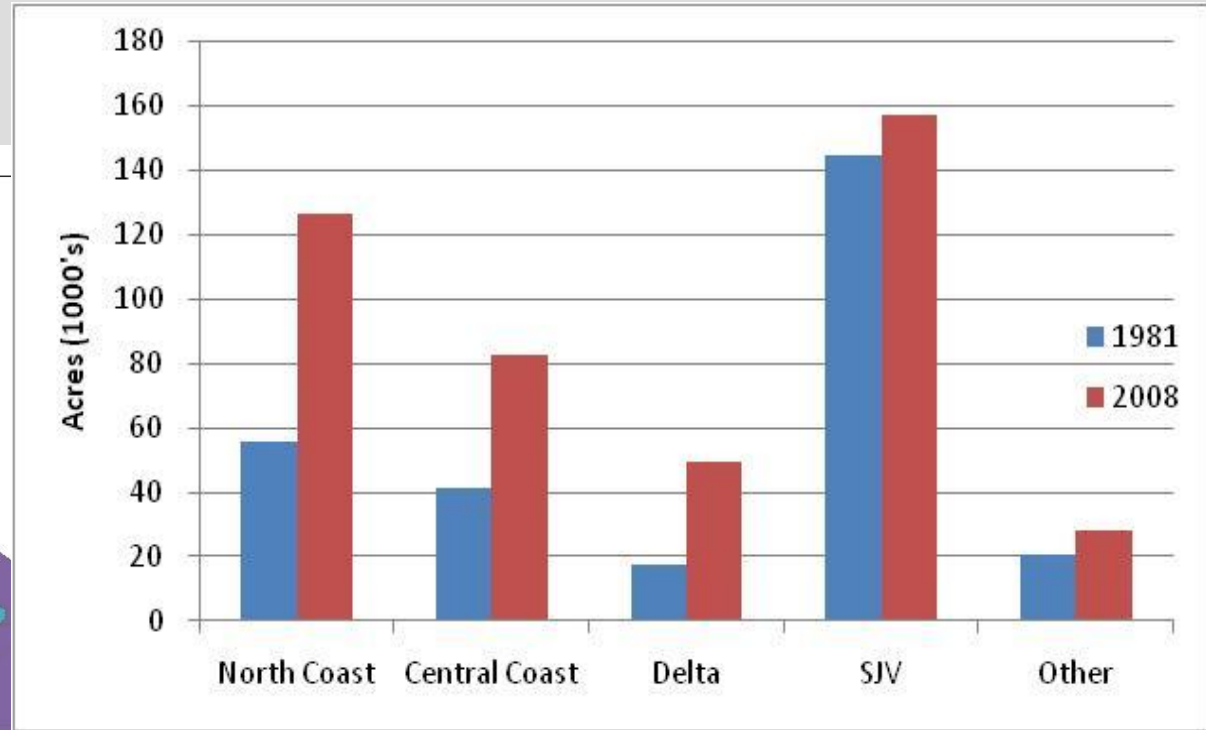
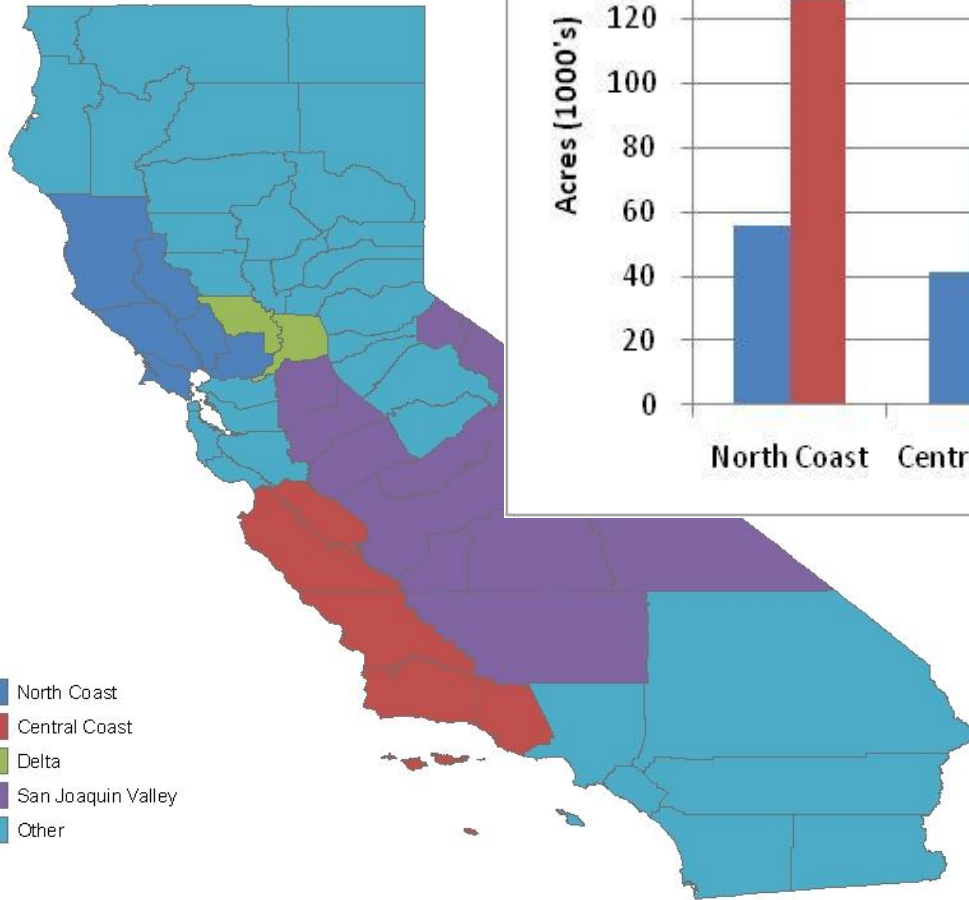


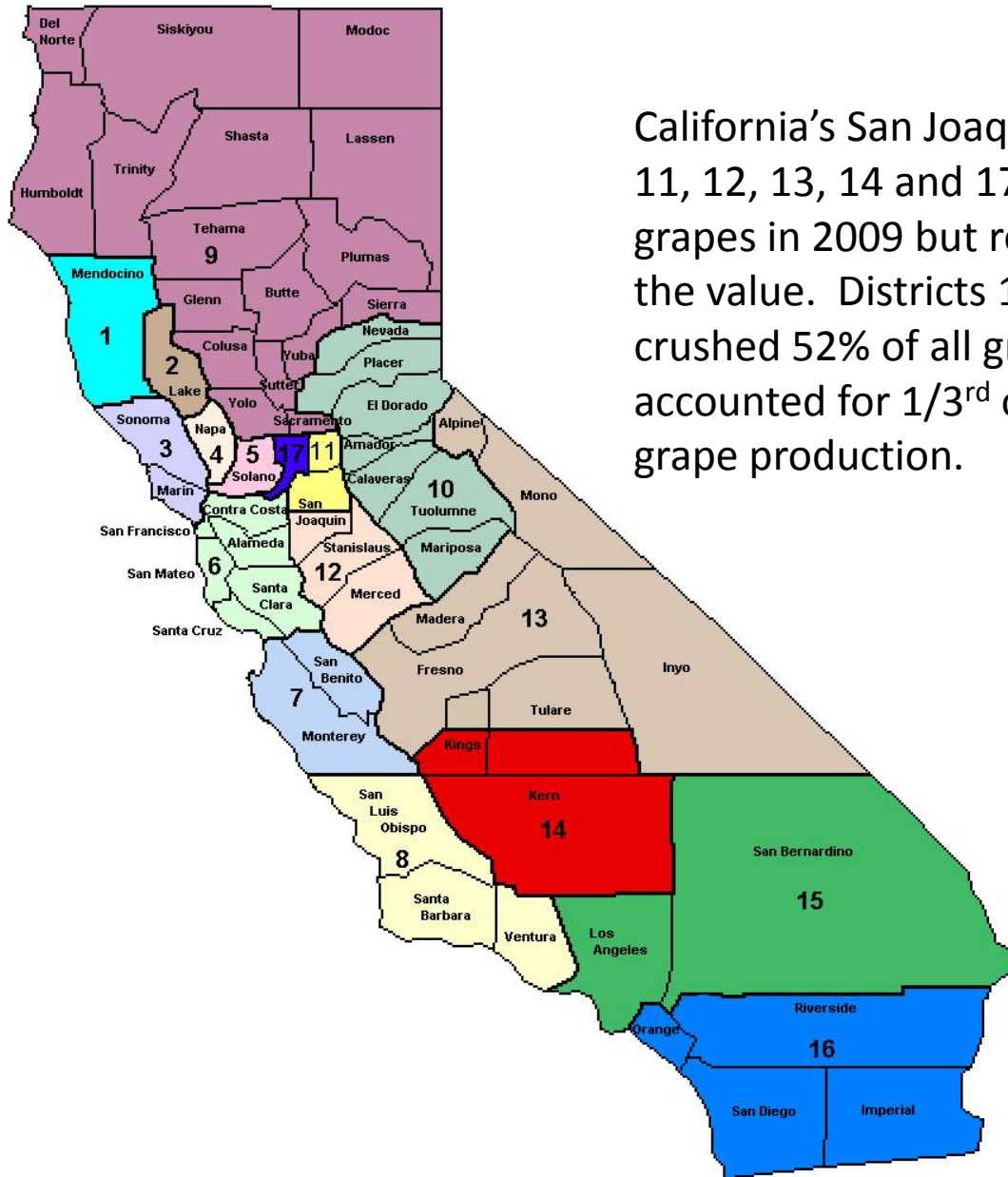


# Vineyard Removal in 2003



# Regional Distribution of California Winegrape Acreage, 1981 and 2008





California's San Joaquin Valley (districts 11, 12, 13, 14 and 17) crushed 78% of all grapes in 2009 but received only 40% of the value. Districts 12, 13, and 14 crushed 52% of all grapes and District 13 accounted for 1/3<sup>rd</sup> of California wine grape production.

# California winegrapes are a small part of a large world supply

<b>Crop</b>	<b>% World Production</b>	<b>% World Export Market</b>
Almonds	80	90
Walnuts	30	60
Wine	7	4

In 2009, 60 million gallons of bulk wine valued at 70 cents a liter were imported and bottled in the U.S.—most by California wineries. The presence of inexpensive foreign wine acts as a ceiling to wine grape prices in the Southern San Joaquin Valley

# The need for more grapes

- A 2030 market of 407million cases is an increase of 125 million cases, requiring 1.75 million tons of grapes
- Assuming California supplies 60%, and that half sells at \$5 a bottle or below, the San Joaquin valley needs to expand production by 500,000 tons, or 42,000 acres at 12 tons/acre
- 2008 acreage was 157,000 –down from a 2001 peak of 190,000 acres

# Cost and Profitability of Alternatives

Cooperative Extension Cost/Return Studies: Cost per Acre

<b>Crop</b>	<b>Investment</b>	<b>Re venue</b>	<b>Cost</b>	<b>Net</b>
Winegrapes	\$7100	\$3000	\$2920	\$80
Almonds	\$4840	\$4200	\$4000	\$200
Walnuts	\$5700	\$5100	\$4030	\$1070
Pistachios	\$9276	\$4540	\$3680	\$860
Pomegranates	\$3490	\$5400	\$4780	\$620
Alfalfa Hay	\$530	\$1480	\$1500	-\$20

# The future?

- The U.S. wine market will look quite different
  - It will be significantly larger
  - Number of wineries in other states will double
  - Upwardly mobile Hispanics will adopt wine
- California will remain the major U.S. producer but will lose volume to inexpensive imports marketed as global brands
- Faced with expensive water, San Joaquin valley growers will switch to crops where California has a competitive advantage