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California wine market growth in 1998

THE US WINE MARKET EXPERIENCED ONLY 2% growth in 1998 to over 222 million cases and now ranks as the fourth largest wine market in the world after France, Italy and Germany, accounting for over 8% of world wine consumption. The relative slowdown in 1998 US wine shipments against previous years' growth can be attributed to various factors: a smaller 1998 California crop of 2.5 million tons, that was down 13.2% vs. the large 1997 California harvest; a drop of 4% in sales of generic jug wines that pushed down total California wine market growth; continued shortages of key California varietals (i.e. Cabernet Sauvignon); and higher than normal inventories of imported wines from the 1997 build-up (Table 1).

Last year consumption of total table wine in the US exceeded 6 litres per capita and reached the same previous high of 1983, while consumption of California table wines was almost 5 litres per capita and premium California wine has doubled since 1990.

Wine is now made in most states, however, California makes over 90% of all wine produced in the US and has a 73% share of the total wine market. Since 1990 the major shift towards premium varietal wines away from lower priced jug wines has grown total California table wine volume by 31% to 143 million cases in 1998. However, this distorts the true picture where premium California wine retailing at above $3 per 750 mL has grown faster at an annual rate of between 8 to 12% over the same period and last year jumped by an estimated 9% to over 76 million cases. Since the early 1990s winery revenues grew by 125% to $4.9 billion last year. Of this total volume 19% or over 27 million cases were sold at $7 or above per retail bottle while this fast growing category had an estimated 43% share in winery revenues, or $2.1 billion total (Table 2).

TABLE 1. Wine shipments to the US market—1997 and 1998. Preliminary 1998 estimates – millions of litres.

	1997	1998	Volume Change	Percent Change
California	1,436	1,462	26	2
Other states	158	161	3	2
Imported (bottled)	371	371	0	0
TOTAL	1,965	1,994	29	2

Sources: California Board of Equalization, DOC, GFA Estimates

TABLE 2. California wine shipments to US and export markets – 1997 and 1998. Preliminary 1998 estimates - millions of litres.

	1997	1998	Volume Change	Percent Change
California - US	1,436	1,462	26	2
California exports	150	184	34	23
Total California	1,586	1,646	60	4

Sources: California Board of Equalization, DOC, GFA Estimates

California wine exports grew by 23% in 1998, significantly exceeding US market growth. Total exports (bulk and bottled combined) have increased from 34 million litres in 1982 to 184 million litres last year while packaged exports have increased by 268% from 4.8 million cases in 1990 to 17.7 million cases last year. Exports have grown as a share of total California shipments from 2% in 1986 to 11% in 1998.

Now that the final results are published, the supposed 'small' California harvest in 1998 was in fact only 13% lower in tonnage than the record 1997 harvest; however, grower revenues fell from 1.9 billion in 1997 to $1.45 billion last year. There is no doubt that prices in 1998 increased in the quality coastal areas, the North Coast particularly, indicating a shortage of premium material from Napa and Sonoma. Because of the supply, some varieties will experience continued shortages. Chardonnay supply was down 13%, Cabernet Sauvignon was flat in a strong market that cannot find enough to supply demand, the Merlot crop was down 3% while sales have been growing at over 20% annually for the last few years and Zinfandel was down 20% statewide which will help stabilise pricing at retail.

Allied Grape Growers, the leading grower co-operative recently updated its California winegrape crush and acreage projections through the year 2001, with total California tonnage growing to 1.8 million tons in 2001 for the four major varieties. This is a compound annual growth rate of 8% in premium wine grape tonnage. The total wine grape acreage increases at CAGR of 10% (9% in the higher quality coastal regions). Providing the market for premium California varietals continues growing at the 8–12% rate we have experienced since 1990, California supply may remain in balance with demand for the next few years. However, this does not factor in the threat from some overseas suppliers who will have excess supply and whose products will compete at the lower prices points against California varietals that are produced from grapes grown in California's Central Valley. wij

Sources: Allied Grape Growers; Gomberg, Fredrickson Associates; 1998 Preliminary Grape Crush Report; California Board of Equalization; Department of Commerce.

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