

The thrill is gone...or, maybe it isn't, for the moment!

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It doesn't matter where I am, tears always come to my eyes when I hear B.B. King's piercing guitar and melancholy voice on 'The Thrill Is Gone'. There is something so lonely, haunting about the song that moves me every time I hear it.

Perhaps it is not really B.B. King tugging at my emotions, but rather the roller coaster nature of the California wine business. The real thrill is that California has experienced unprecedented market growth in the last few years, as its varietals have come into the mainstream of US wine consumption. This growth has coincided in the last three years with two short harvests in 1995 and 1996, followed by the largest harvest in California history in 1997 and a period of major new vineyard plantings. Combine this scenario with concern about oversupply in the years ahead, a bull market on Wall Street that has turned bearish and questions about the White House's ability to lead. Is it any wonder that there is some question that the thrill may be gone!

Since 1990 total shipments of California wine to the US market have increased by 28% in volume and by 135% in revenues from 109 million cases to 140 million cases. Total premium shipments, \$3 and above per 750 mL bottle at retail, grew by over 100% to 70 million cases over the same period. The fastest growth has been in the super premium \$7-14 retail bottle price sub-category with volume growing by 12.2 million cases, or by 188%. Table 1 summarises 1997 California table wine revenues and volume shipped to the US market by price segment.

When evaluating California winery revenues to wholesalers by retail price category, as will be expected, the 1997 revenue increase was by far the largest since 1990 because of the industry price increases. Table 2 shows winery revenue growth by retail price category since 1990.

Strong market growth at a time of reduced winery inventories caused by the short California harvests in 1995 and 1996, both at a low 2.3 million tons, has resulted in unprecedented price increases of California wines. These price increases slowed California growth because the industry was unable to meet the strong market demand and this situation opened the US market for increased shipments of Australian, Chilean and French varietals in 1997 and 1998.

The 1997 harvest, at a record 2.9 million tons, has provided some relief in prices; however, it has not had the expected dampening impact that we all expected, due in part to con-



tinued market growth and California's odd weather. In fact because of the unusual El Niño weather patterns California has been experiencing since the beginning of the 1998 growing season, there has been a recent firming of prices because of a risk of a short California harvest this year. Hence, possible continuation of the thrill.

Some areas of concern earlier in the year as a result of the cloudy and wet spring weather were delayed growth leading to a late harvest (this has now been confirmed with harvest in some parts of the state over four weeks late), spring botrytis affecting flower clusters and a poor fruitset, increased potential for botrytis at harvest and a reduced crop potential for 1999. California did experience some much needed warmer weather in July and August; how-

Table 1. 1997 California table wine revenues and volume shipped to the US market.

Retail price per bottle	Price segment	Estimated nine litre cases sold (millions)	% change	% of total	Estimated winery sales revenues (millions)	% of total
Over \$14	Ultra premium	5.0	7%	4%	\$750	15%
\$7 to \$14	Super premium	18.7	11%	13%	\$1,440	29%
\$3 to \$7	Popular premium	48.1	3%	33%	\$1,680	34%
	Subtotal premiums	69.8	5%	50%	\$3,870	79%
Below \$3	Jug wine	70.3	1%	50%	\$1,050	21%
	Total table wine	140.1	3%	100%	\$4,920	100%

Source: Estimated by Gomberg, Fredrikson & Associates. Excludes California wine exports.

Table 2. Winery revenue growth by retail price category since 1990.

	Total	Estimated Calif. winery revenues			
		Below \$3	\$3-7	\$7-14	Over \$14
1997	\$4,920	\$1,050	\$1,680	\$1,440	\$750
1996	\$4,250	\$1,310	\$1,570	\$990	\$380
1995	\$3,761	\$1,242	\$1,357	\$827	\$335
1994	\$2,630	\$873	\$900	\$580	\$277
1993	\$2,430	\$840	\$840	\$490	\$260
1992	\$2,480	\$870	\$810	\$560	\$240
1991	\$2,280	\$840	\$700	\$510	\$230
1990	\$2,090	\$790	\$620	\$460	\$220

Estimated Calif. winery revenues Normalised (1990 = 100)

	Total	Below \$3	\$3-7	\$7-14	Over \$14
1997	235.4	133.0	271.0	313.0	341.0
1996	203.3	165.8	253.2	215.2	172.7
1995	180.0	157.2	219.0	179.8	152.3
1994	125.8	110.5	145.2	126.1	125.9
1993	116.3	106.3	135.5	106.5	118.2
1992	118.7	110.1	130.6	121.7	109.1
1991	109.1	106.3	112.9	110.9	104.5
1990	100.0	100.0	100.0	100.0	100.0

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ever, generally it has been cooler and wetter than normal and the major concern now is the combination of mould/mildew with a late season, a combination that may threaten quantity and quality. Now that we are in the thick of the white harvest, there are problems in some areas from mildew and mould. Yields per acre are down and yields per ton are also reduced. Recent unofficial predictions are for a 1998 California harvest of 2.2 million tons.

All this is happening in the California vineyard at a time when the latest information available from Infoscan on US supermarket wine sales shows that for the 52 weeks ending 16 August 1998, compared to the previous period, US varieties continue their volume growth at 8.2% ahead with a 12.7% gain in dollar sales. Imports have grown even faster, but from a considerably lower base, with Australia +47.6%, Chile +23% and France +9.7% in volume.

Therefore, assuming we have a short harvest in California in 1998 and that market growth continues at some level, how long will it take for our new plantings to impact supply and for us to be able to say that the thrill is gone?

Allied Grape Growers, a respected growers' co-operative, recently developed acreage projections for the four primary varieties (Table 3).

Chardonnay increases by only 39% over the period 1997 to 2000. The major growth is in the interior Central Valley (+67%) rather than in the Coastal areas (+27%). California generic white wine sales are continuing to decline as Chardonnay shows +13% volume growth in US supermarkets for the last 52 weeks. Will we have an excess of supply by 2001 or 2002? Perhaps not.

Cabernet Sauvignon increases by 49% statewide, with the significant gain from interior areas (+87%) and Coastal areas (+33%). Based on where the red wine market has been going in the last few years and strong growth in sales of this variety recently the world market could absorb the year 2000 California production.

Table 3. Projections of the acreage of California premium varieties through year 2000.

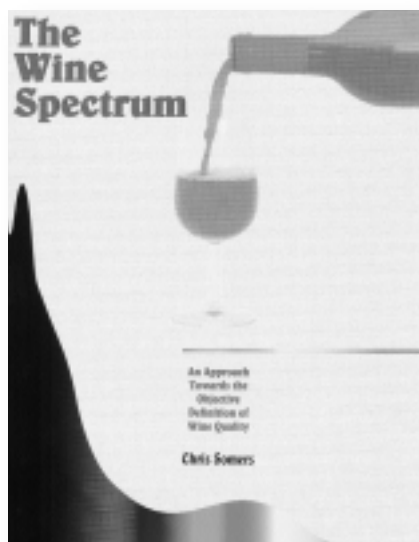
	1997	1998	1999	2000
Chardonnay	73,529	84,246	94,746	102,246
Coastal Chardonnay	50,949	54,909	60,510	64,510
Interior Chardonnay	22,580	29,336	34,236	37,736
Cabernet Sauvignon	35,531	40,616	47,916	52,916
Coastal Cab. Sauv.	25,104	27,595	30,395	33,394
Interior Cab. Sauv.	10,427	13,022	17,522	19,522
Merlot	28,424	36,174	41,874	43,874
Coastal Merlot	13,566	17,168	19,868	21,067
Interior Merlot	14,858	19,007	22,007	22,807
Zinfandel	45,108	48,821	53,271	55,071
Coastal Zinfandel	11,227	12,299	13,049	13,599
Interior Zinfandel	33,882	36,522	40,222	41,472

Source: Allied Grape Growers

Merlot acreage grows by 54% to 44,000 acres in all California areas with similar percentage growth in the interior and coastal areas. With supermarket sales for this variety continuing at +40% for the latest reporting period will we have enough by the year 2002? Probably we will, but will we have an excess?

Zinfandel plantings grow to a statewide total of 55,000 acres or 22% ahead of 1997. Both interior and coastal acreage grows at the same rate. California's white Zinfandel phenomenon continues to grow (+10%) in supermarket sales, confounding all predictions that it is about to die or slow. High quality red Zin is in high demand, along with all other premium red California wines, without enough supply to satisfy demand.

Add to this situation a growing export market for California wines (+20% in volume through July, 1998 against 1997) and there may be no looming winegrape glut in California and perhaps we can be assured of continued thrills for the industry in the years ahead. □



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