Terrain

2023 OUTLOOK

2022 Grape Crush: Don't Bet Too Heavily on a Repeat Performance

By Chris Bitter

THE CRUSH WAS BELOW AVERAGE FOR A THIRD CONSECUTIVE YEAR AND THE SMALLEST SINCE 2011

According to the National Agricultural Statistical Service's preliminary California Grape Crush Report, the 2022 crush came in at 3.35 million tons, down 8% from 2021 and 13% below the ten-year average. It was the smallest crush since 2011. Red tonnage was off by 12% versus the average, while white tonnage was short by 14%.

Following a seven-year period of relatively stable and generously sized harvests, fires, drought and other severe weather events have taken a toll on the California grape crop over the past three years. The 2022 crush was the smallest in the past 10 years, while the 2020 and 2021 crushes were the second and third lightest, respectively. The crush has averaged just under 3.5 million tons over the last three years — which compares to an average of more than four million for the prior three — a deficit of 15%.

The three successive short harvests have pulled the California grape market into a more balanced position, which has in turn stimulated appreciation in grape prices.

ALL DOWN, BUT VARIABILITY ACROSS REGIONS

Output was well below average in both the coastal and interior regions of the state in 2022, though the North Coast fared better than the Central Coast and the Northern Interior was closer to the average than the Southern Interior, where some vineyards have been pulled in recent years.

Figure 1 depicts the size of the crush in each district indexed to its ten-year average, which is assigned a value of 100. Values greater than 100 indicate a larger than average crush, while those fewer than 100 signify a smaller than average crush in that year.

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SOME HIGHLIGHTS OF NOTE:

- The coastal regions have been hit harder than the interior in recent years. North Coast producers crushed 21% fewer tons over the past three years relative to the prior three (Napa's crush was down by 29%), while the Central Coast experienced a 16% shortfall.
- The Southern Interior's three-year output deficit was 13%, but some of the shortfall here is due to vineyard removals rather than lower yields.
- The Northern Interior has fared better with a deficit of just 4% relative to the 2017 to 2019 period.

Figure 1: **Tons of Wine Grapes Crushed Indexed to the Ten-Year Average (=100)**

District	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 Mendocino	118	94	87	118	107	124	103	84	71	93
2 Lake	102	90	91	109	112	108	110	92	79	106
3 Sonoma	124	117	83	103	95	126	105	68	94	86
4 Napa	120	119	85	105	98	126	109	68	83	87
5 Solano	97	107	83	98	83	110	128	103	115	110
6 North Central Coast	132	99	79	107	100	120	97	85	95	87
7 Monterey	120	123	76	103	108	115	92	72	110	79
8 South Central Coast	113	100	70	105	109	114	99	90	112	89
9 N. Sacramento Valley	101	93	88	105	125	116	127	95	88	63
10 Sierra Foothills	113	105	88	112	115	125	105	93	87	56
11 Lodi	107	89	89	106	99	113	103	91	104	99
12 Modesto	109	102	111	113	107	107	94	87	89	82
13 Fresno	106	99	111	102	106	105	103	97	86	85
14 Bakersfield	126	113	105	100	112	108	98	78	79	81
15 & 16 Southern Cal	96	90	78	92	139	83	141	81	102	96
17 Clarksburg	90	86	83	104	97	115	111	105	127	82
State Total	110	101	96	105	104	111	102	89	94	87

Source: California Department of Food and Agriculture / USDA National Agricultural Statistics Service

Map and Definitions of California Grape Pricing Districts

1. Mendocino County
2. Lake County
3. Sonoma and Marin Counties
4. Napa County
5. Solano County
6. Alameda, Contra Costa, Santa Clara, San Francisco, San Mateo, and Santa Cruz Counties
7. Monterey and San Benito Counties
8. San Luis Obispo, Santa Barbara, and Ventura Counties
9. Yolo County north of Interstate 80 to the junction of Interstate 80 and U.S. 50 and north of U.S. 50; Sacramento County north of U.S. 50; Del Norte, Siskiyou, Modoc, Humboldt, Trinity, Shasta, Lessen, Tehama, Plumas, Glenn, Butte, Colusa, Sutter, Yuba, and Sierra Counties
10. Nevada, Placer, El Dorado, Amador, Calaveras, Tuolumne and Mariposa Counties
11. San Joaquin County north of State Highway 4; and Sacramento County south of U.S. 50 and east of Interstate 5
12. San Joaquin County south of State Highway 4; Stanislaus and Merced Counties
13. Madera, Fresno, Alpine, Mono, Inyo Counties; and Kings and Tulare Counties north of Nevada Avenue (Avenue 192)
14. Kings and Tulare Counties south of Nevada Avenue (Avenue 192); and Kern County
15. Los Angeles and San Bernardino Counties
16. Orange, Riverside, San Diego and Imperial Counties
17. Yolo County south of Interstate 80 from the Solano County line to the Junction of Interstate 80 and U.S. 50 and south of U.S. 50 and Sacramento County south of U.S. 50 and west of Interstate

PRICES WERE UP IN NEARLY ALL DISTRICTS IN 2022 — BUT THE MARKET REMAINS BIFURCATED

The average price paid for a ton of California wine grapes rose by 5% in 2022 to $944. Red grape prices jumped 7%, while white varietal prices rose just 1%. The smaller increase for whites, though, was partly attributable to a redistribution of sales from the coast to the interior.

Pricing was up across the state in 2022. The average price per ton rose in 15 of 17 districts. Prices increased by 5% or more in six of the eight coastal districts, led by a 12% gain in Napa. All five of the interior districts recorded higher prices and appreciation improved progressively moving north to south.

Year-over-year fluctuations in average grape prices can be influenced by shifts in the mix of grapes sold and tend to be a lagging indicator of changes in the market because many sales reflect prices paid based on contracts signed in prior years. Thus, annual changes are best viewed as a directional indicator.

Viewing prices in a longer-term context provides additional insight into the state of the grape market. In Figure 2, the average price in each district is indexed to its level from ten years ago, which is scaled to 100. The chart indicates that the trajectory of prices has varied markedly between the coast and interior, and the higher-priced districts in each region have generally had more appreciation than the least expensive districts

Figure 2: **Average Price per Ton Indexed to 2012 Price Levels (=100)**

District	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 Mendocino	101	105	106	108	119	118	118	105	125	124
2 Lake	102	109	115	121	130	122	127	94	127	133
3 Sonoma	102	106	112	119	129	129	130	112	123	131
4 Napa	104	114	122	132	147	157	162	133	171	192
5 Solano	102	101	100	110	126	127	128	113	123	134
6 North Central Coast	106	107	107	110	113	115	119	102	120	115
7 Monterey	104	105	110	118	120	118	120	96	111	117
8 South Central Coast	101	109	115	119	125	120	128	119	125	135
9 N. Sacramento Valley	98	96	103	109	121	120	126	122	134	138
10 Sierra Foothills	101	98	107	109	117	122	128	130	125	126
11 Lodi	95	92	90	92	92	89	85	87	96	99
12 Modesto	99	92	90	90	94	91	82	90	103	105
13 Fresno	94	82	78	80	81	84	79	83	90	95
14 Bakersfield	98	75	73	71	74	72	57	75	85	92
15 & 16 Southern Cal	110	125	131	146	136	152	146	150	154	175
17 Clarksburg	100	96	100	103	106	105	101	100	107	109
State Total	98	98	88	101	103	111	107	89	116	122

Source: California Department of Food and Agriculture / USDA National Agricultural Statistics Service

Grape prices in the interior declined steadily between 2012 and 2019 as shrinking demand for value priced wine, which is primarily sourced from interior grapes, led to oversupply. Prices have rebounded in recent years as supply has been pared back, but there has been little or no appreciation over the past decade. Average prices in the two largest interior districts (11 and 13), which account for more than half of California's grape output, remain below their level in 2012.

Conversely, the coastal regions have recorded solid appreciation over the past ten years, interrupted only by the pandemic and smoke-impacted 2020 vintage. This mirrors growing demand for premium wines, which are typically sourced from the coastal districts.

Growth in wine sales has been progressively stronger at successively higher price points, and grape price appreciation in Napa, the state's premier wine appellation, has outpaced that of the other coastal regions by a wide margin.

MARKET OUTLOOK: HEADWINDS RISING?

Grape prices depend on supply, demand and bottle prices. Recent price gains have been driven more by depressed supply than growth in consumer demand or rising wine prices, particularly at the value end of the market. Over the next year or two, we are likely to see more supply — and prospects for demand growth appear to be muted.

The demand side of the equation is unusually murky due to pandemic-related distortions in wine sales and an uncertain economic environment. Nonetheless, near-term headwinds are evident: consumers face a combination of inflationary pressures, rising interest rates, declining asset values and possibly a recession.

These headwinds could induce some trading down and potentially slow the long-standing decline in the value segment of the market, but it almost certainly won't be enough to reverse it. And competition from imports is likely to heat up as supply chain disruptions ease and shipping costs abate.

It is true that higher-income consumers (particularly those at the very top) are insulated from these pressures to some extent — but they are not immune — and may become less willing to splurge if their assets continue to shrink. Nielsen data is signaling already that growth in premium and higher-tier wine sales is beginning to fade.

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Finished wine prices also impact wine producers' willingness and ability to pay for grapes. Suppliers to all segments of the market are finding it challenging to raise prices without sacrificing volume, and margins are being squeezed. Thus, they will resist paying higher prices for grapes unless tight supply forces them to.

On the supply side, recent winter storms have gone a long way toward alleviating the severe drought conditions that have depressed grape yields in many parts of California. This sets the stage for potentially larger crops over the next several years, assuming the weather cooperates. And while some interior vineyards have been pulled out, these removals have been offset to some extent by the addition of bearing acreage in other parts of the state.

So, four million tons may still be the mark under "normal" weather conditions, with perhaps a slightly lower ceiling in the interior than in the past, and a slightly higher ceiling in the coastal regions.

As discussed earlier, grape output has averaged just 3.5 million tons over the past three years. Even so, there has been relatively little drawdown in wine inventories, which still appear to be in line with consumer demand overall. As always, certain varietals from certain appellations are in short supply while others are long.

Thus, a rebound in grape production to its long-term average of four million tons could tip the balance toward oversupply — unless there is an upside surprise in wine sales. Excess supply, if it materializes, will inevitably depress prices, or at a minimum, flatten appreciation rates in affected market segments.

> Given the prospect of softening market conditions, maintaining realistic expectations will be important for growers. It will also pay to closely monitor wine sales trends in order to make informed decisions regarding planting, removals and grape contracts.

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