

Economy and weather put the squeeze on wine grape supply, survey finds

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Cool weather and a damaging freeze in the Central Coast have significantly reducing this year's wine grape yield in California, according to GSM professor emeritus Robert Smiley. Credit: UC Davis/archive photo

The sluggish economy and unusually cool weather this season have dramatically tightened the supply of wine grapes, a situation that will likely continue for several years, reports Robert Smiley, dean and professor emeritus at the University of California, Davis, Graduate School of Management.

Smiley will present findings from two recent surveys of [wine](#) industry professionals and executives at 8:40 a.m. Tuesday, Sept. 20, during the 20th annual Wine Industry Financial Symposium at the [Napa Valley](#) Marriott Hotel in Napa, Calif.

“Even though we have technically been out of the recession for two years, growers have been reluctant to expand their plantings or replace older vineyards that are moving into declining production,” Smiley said.

“Cooler [weather](#) — including a very damaging freeze in the Central Coast — have compounded the problem by significantly reducing this year’s wine grape yield in California,” he added.

Smiley noted that, while growers and producers struggle with the shortage, consumers are likely to find that discounted prices on high-quality wines will continue to be available.

Survey of Wine Executives

Smiley’s 10th annual wine executives survey gathers opinions and projections from the heads of 29 leading wine operations. Most of the respondents represent wine companies, while others are from operations that range from grape growing to wine-distribution firms.

In addition to predicting that wine grape demand will continue to outrun supply for the foreseeable future, most of the responding executives reported that discounts on wine will likely continue because consumers have grown accustomed to finding good buys on quality wines, and retailers are finding the discounted prices to be an effective tool for drawing consumers into their stores.

“Most of the executives seem to feel that discounting is here to stay,” Smiley said.

Many of the respondents also reported that they work with third-party “wine clubs,” which sell wine directly to consumers, usually via the Internet. These wine clubs often sell consumers a series of wines on a monthly or quarterly basis, helping producers reach a broader audience

and introducing consumers to new and different wines. The wine producers hope that the consumers will eventually return to their wines as direct-sales customers.

Most of the wine executives reported that they have good relationships with their lenders, but some noted that banks these days are more cautious about lending and require firms to “earn” their loans.

The survey respondents predicted that the hottest issues for the wine industry during the next five to 10 years will include consolidation in the wine industry’s distribution sector; increased government regulations affecting everything from land use to taxation; and environmental issues, especially climate change.

“In addition, these executives foresee an insatiable thirst for wine at home and abroad,” Smiley said. “They are quite optimistic about the growing demand for wine in the United States, particularly among consumers in their mid-20s, as well as internationally, especially in China.”

Survey of Wine Professionals

Smiley’s survey of California wine professionals, now in its 20th year, included responses from 130 wine producers.

Seventy-one percent of the respondents predicted that the health of the wine industry would improve, reflecting a confidence not seen among survey respondents since 2007.

“I’m pleased to report that California’s wine professionals are increasingly ‘bullish’ about their industry,” Smiley said. He noted that 53 percent of respondents expect 2011 will prove to be more profitable than 2010. And 74 percent anticipate that 2012 profits will outpace 2010.

The responding professionals projected that the slow economic recovery would be the major constraint for the industry, followed by pricing pressures, government regulations and taxes, and consolidation among retailers and distributors. For the first time, they also included grape shortages, unusual weather and oil prices as likely constraints for the industry.

They predicted that among red wines, demand would be strongest for Cabernet Sauvignon, red blends and Pinot Noir. And among white wines, demand will be strongest for Chardonnay, followed by Sauvignon Blanc, Pinot Grigio and Riesling.

Wine Executive Program

The Graduate School of Management will continue its work with California wine executives when it collaborates with the UC Davis Department of Viticulture and Enology in offering the Wine Executive Program March 26-29 at UC Davis. The four-day program is designed to teach the fundamentals of winemaking and management skills that are necessary to be profitable in the wine industry and related businesses. To date, more than 520 industry professionals have participated in the program, which is designed to help [wine industry](#) professionals enhance their success in the art of making and selling wine. More information about this spring program is available online at www.wineexecutiveprogram.com .

Provided by UC Davis

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