Over-production or recession?
Causes of the low prices of table wine in Argentina

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The table wine is not the star of Argentina’s wine industry, but represents two thirds of wines produced in Argentina. A key indicator of this product is the price of “vino de traslado” (transfer wine). This wine is sold to large wineries for its later sale. Its price is closely linked to the incomes of grape-growers and small wineries.

In the last three years, this price has been very low, and consequently governments of wine provinces have been forced to implement various measures to raise this price, by restricting wine supply and/or by buying wine.

Why is this price so low? From a microeconomic perspective, there is overproduction, with its consequent increase in wine stocks. Also, as in other major wine producing countries, domestic consumption of this wine in Argentina has been declining since several decades (competing against other beverages, such as beer). Two other factors are the low international prices of these wines and of grape juice.

But there is also a macroeconomic view. Over a period of more than three decades, this reference price has been lower during the different recessions in Argentina. In several cases, this low price also has coincided with periods of unfavorable real exchange rate for exports. Instead, in every economic recovery, this price has increased very strongly. It seems that macroeconomic impacts outweigh microeconomic factors.

Another important fact is that, during recessions, the raw material (“vino de traslado”) loses participation in the final price of the wine sold to consumers. This situation generates complaints from producers against large wineries. However, this participation improves once the economy starts to recover.

An explanation is that, given the difficulty of reducing wage and input costs during a recession, the wineries are forced to pay lower prices for grapes and wines, in order to avoid losses on its profitability. In that case, producers see their prices fall more than proportionately during the bad years.

This paper attempts to quantify the impact of micro and macro-economic factors on the table wines market, both in its price of “vino de traslado” and in the participation of producers in the final price impact. It concludes with guidelines for the assessment of the current wine policy in Argentina.