Wine and Weather Revisited: Retail Prices versus Auction Prices
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It is well established that wine market prices are greatly determined by publicly accessible factors. From a cross-sectional point of view, i.e., for a given vintage, it was shown that prices are mainly determined by the physical traits of the vineyard site (Ashenfelter and Storchmann, 2002). From a times-series perspective, climate and weather seem to be the crucial factors. In the long run, beneficial climate will lead to an increase in the area under crops leading to declining prices (Ashenfelter and Storchmann, 2003). In the short run, however, beneficial weather will lead to a positive deviation from this negative trend, leading to extraordinary vintages and high prices (Ashenfelter et al., 1995).

When referring to wine prices most studies draw on auction results that reflect both supply and demand side effects. However, in many cases auction prices are not readily available and analyses must resort to retail prices instead. This might lead to biased results. Given that retail prices are set by producers only, one may assume that retail prices are more inclined to stabilize the vintner’s income rather than reflect wine quality. From a retail perspective “the current vintage is always the best one”. We, therefore, hypothesize that retail prices of young wines are substantially less weather-determined than auction prices of young wines are. This paper is aimed at quantifying the extent to which producers are able to smooth weather induced quality effects.

The empirical part of our analysis draws on two rich sets of data. On the one hand we analyze wine retail data for the German Mosel valley as provided by the “Gault Millau Wine Guide for Germany”. The data set is comprised of more than 6000 wines of different producers and from different vineyard sites. On the other hand we collected wine auction prices for the same region from the annual auctions of “Grosser Ring VDP” and of “Bernkasteler Ring”. Both data sets cover the time period from 1992 to 2005. For both data sets we separately regress wine prices on variables that reflect weather and the vineyards’ traits as well as producer-related variables.