

US Wine Industry Outlook: Optimism Warrants Caution

Part 1: Focus on demand

December 2024

Peter Barynin, Chief Economist



The audio for this presentation
is available at
vivieconomics.com

Click on
“Register for the Outlook webinar”
on the home page

Current US wine markets in review

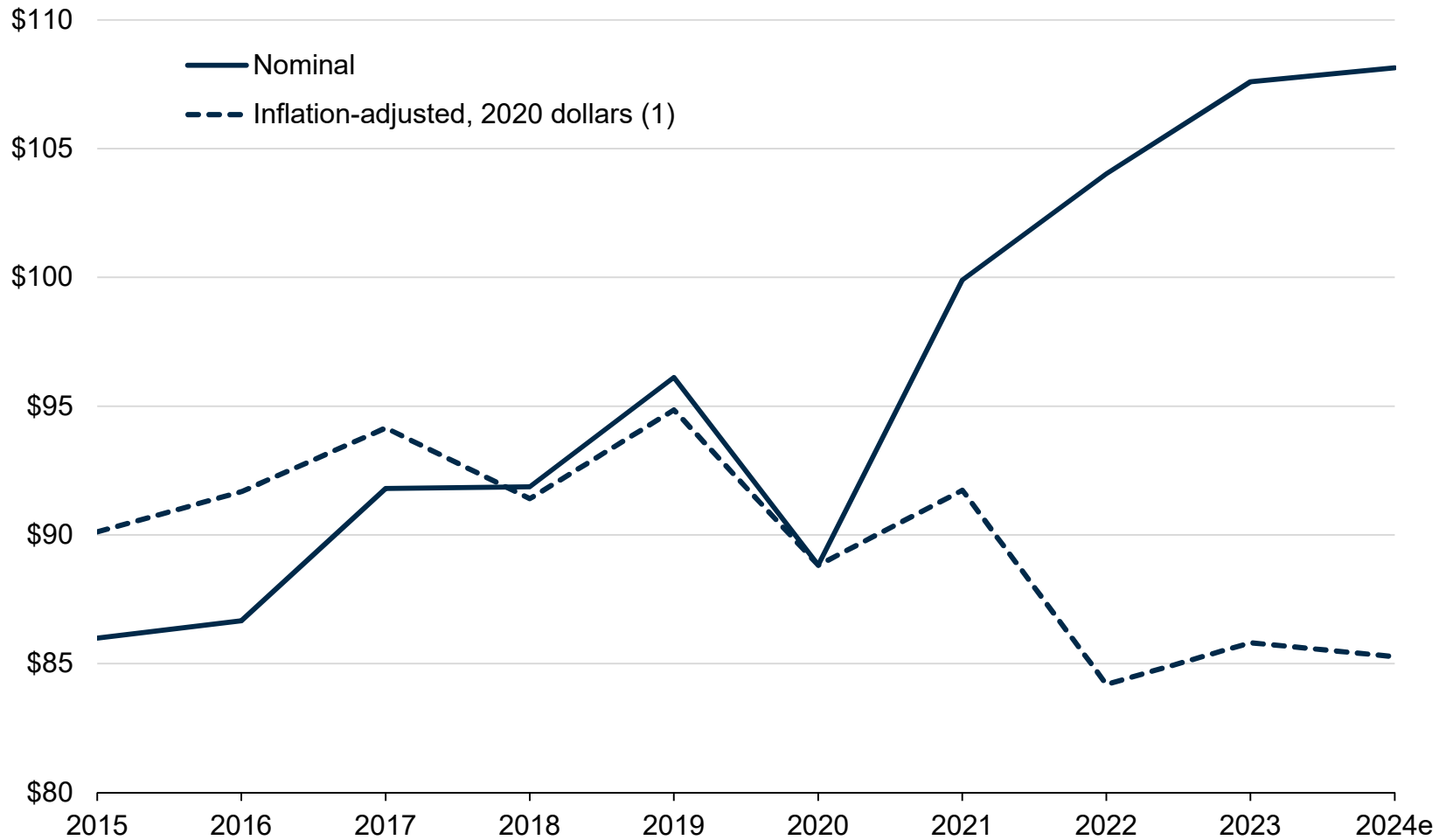
- Stakeholders expressed “cautious optimism” coming into 2024
- Flailing demand (not just in the US)
- Real prices for wine and grapes in decline
- Post-pandemic normalization is nearly fully established
- Stiff competition in international markets
- Value wines struggle more than premium wines
- Reorientation of product strategies
- Divestment in grape production is underway

Note: In this presentation “wine” is defined as still wine of all varieties unless specified otherwise.

Consult VIVI’s *Wine Price Monitor* for the outlook for sparkling wines and vermouth.

Real wine prices are at a low

USD per case, retail off premise



(1) Calculated using the producer price deflator.

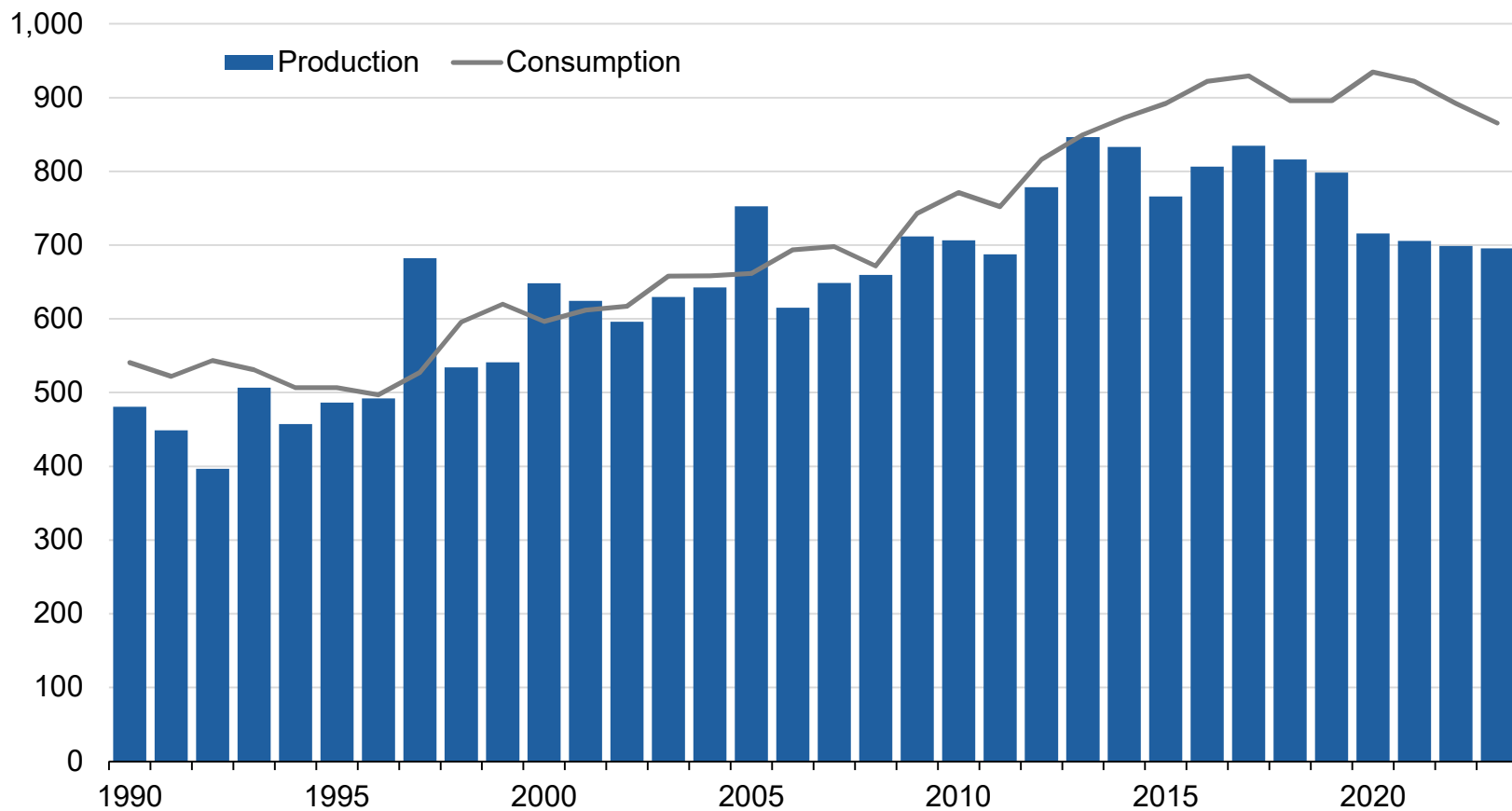
Wine demand facing headwinds

- Demand will contract in 2025 and unlikely to fully recover
- Slow growth of the US economy at best
- Lower per-capita drinking rates
- Anti-alcohol lobbying, including the World Health Organization, has been effective
- Wine suffers from distorted health perceptions
- Wine substitutes range widely and are competitively priced
- An aging-out population without replacement
- Slower global population growth

The 30-year climb for wine is over

US still wine consumption and production, 1990 to 2023

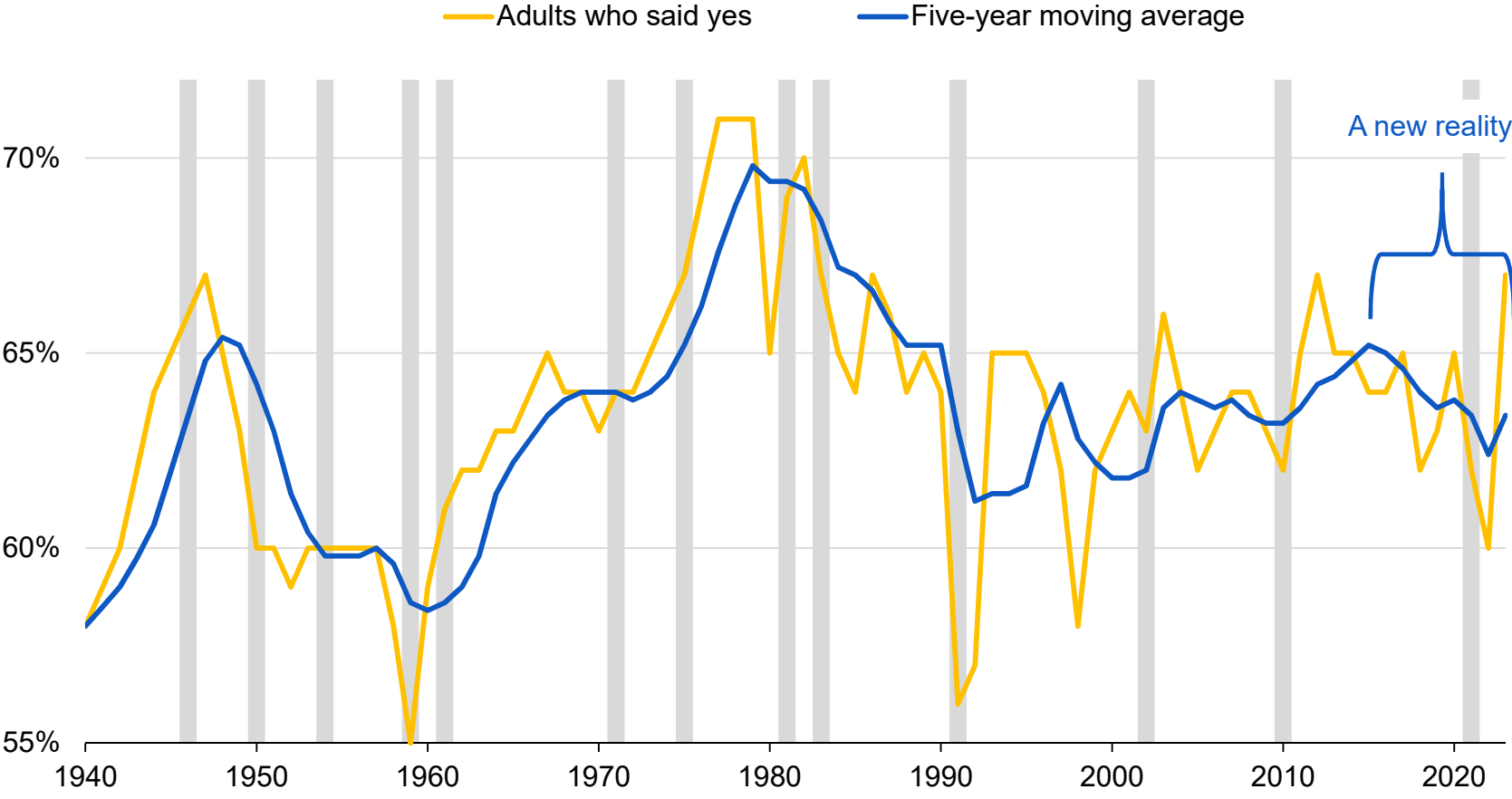
Million gallons



Why are adults drinking less alcohol?

- Lower per capita consumption rates
- Fewer heavy consumers post COVID
- Alcohol losing favor with the youth
- Geriatric abstinence
- Success in anti-alcohol health lobbying
- Cannabis viewed as an alternative
- Disposable income has emerged as a factor

Percentage of US adults who drink alcohol, 1940-2023

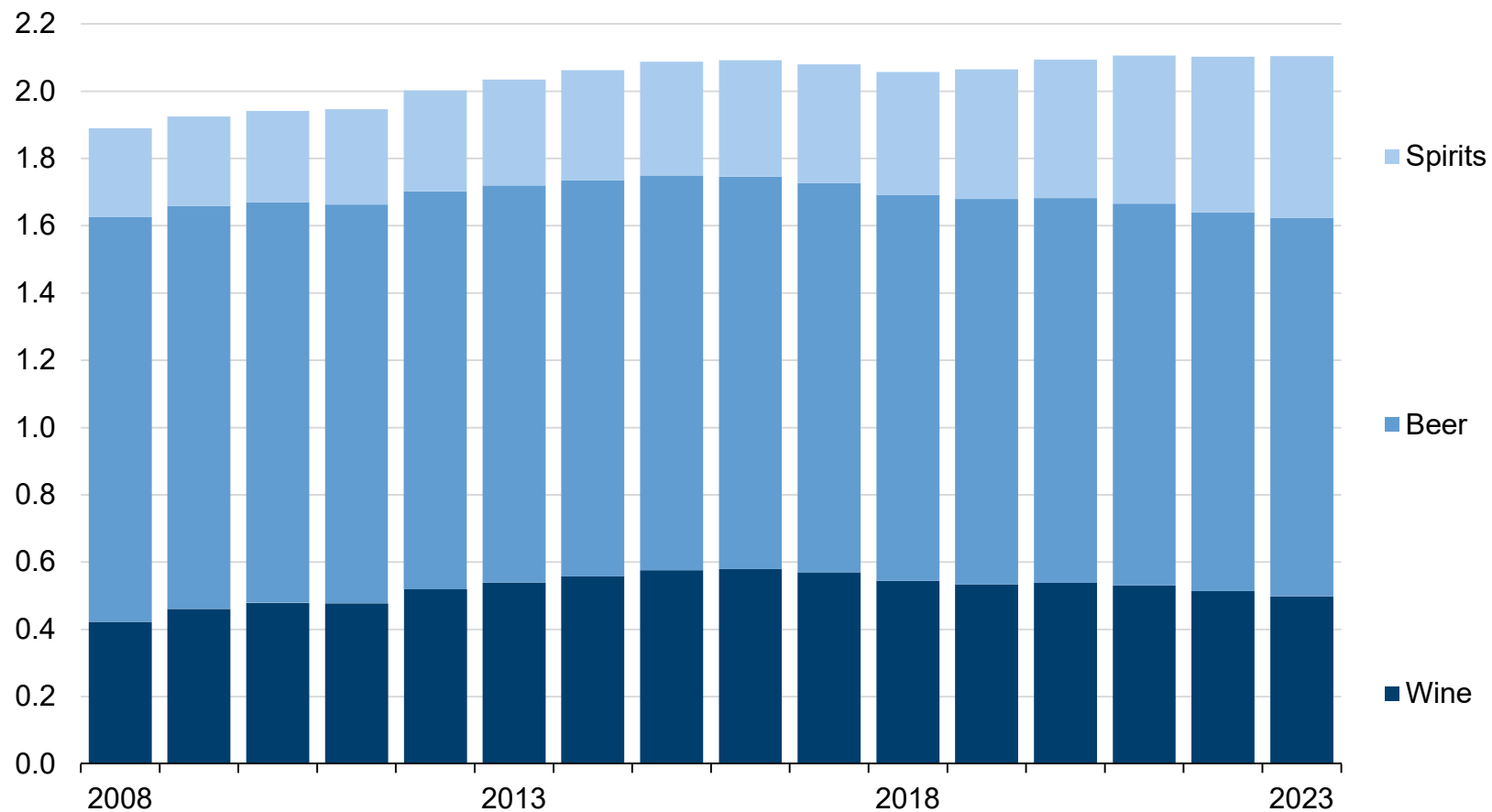


Note, grey bars indicate recession years. Source: Gallup, VIVI

RTDs and cannabis gaining market share at the expense of beer and wine

US alcohol beverage consumption in ethanol equivalence

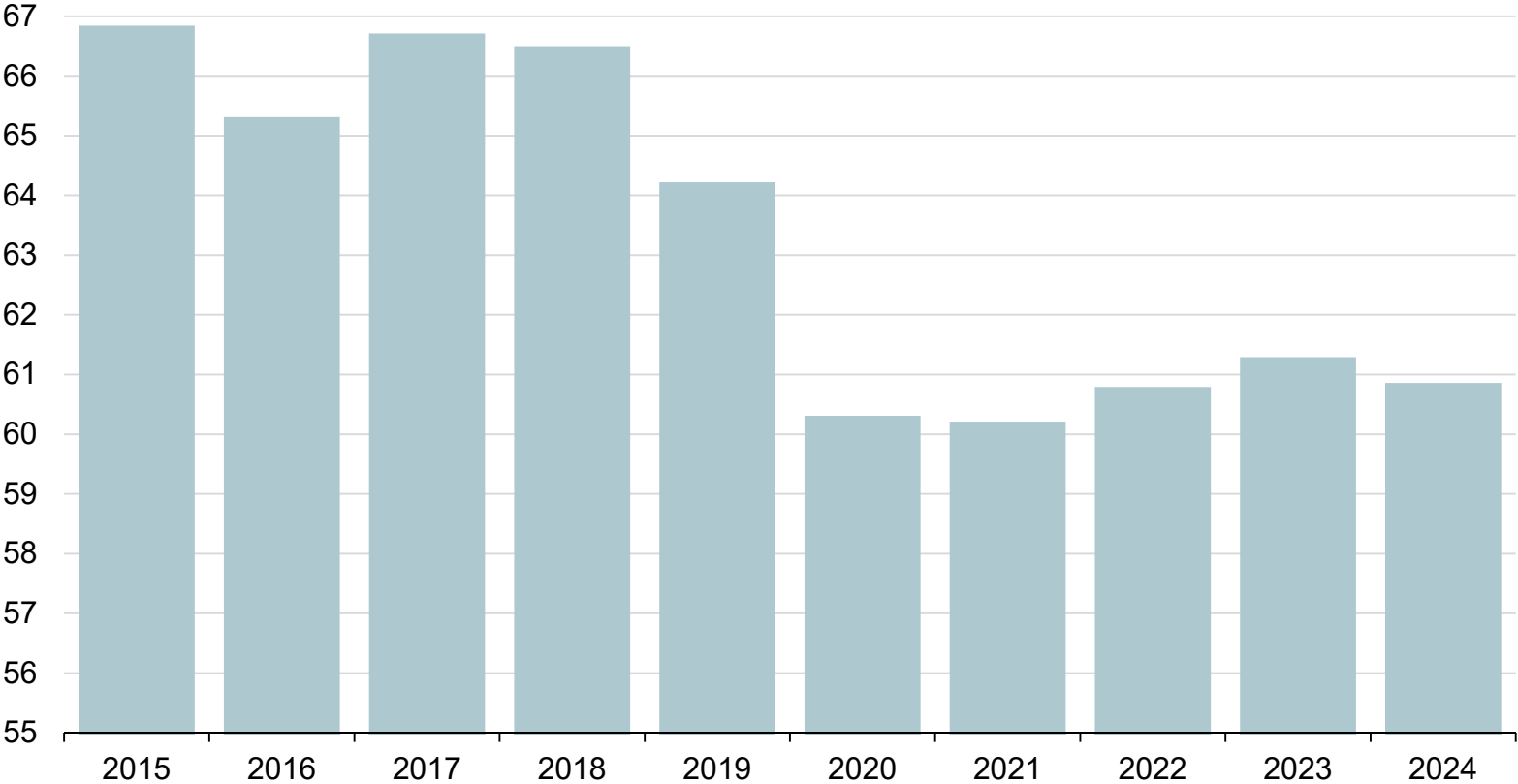
Billion liters



COVID-19 changed the binge culture

US heavy and binge alcohol drinker population

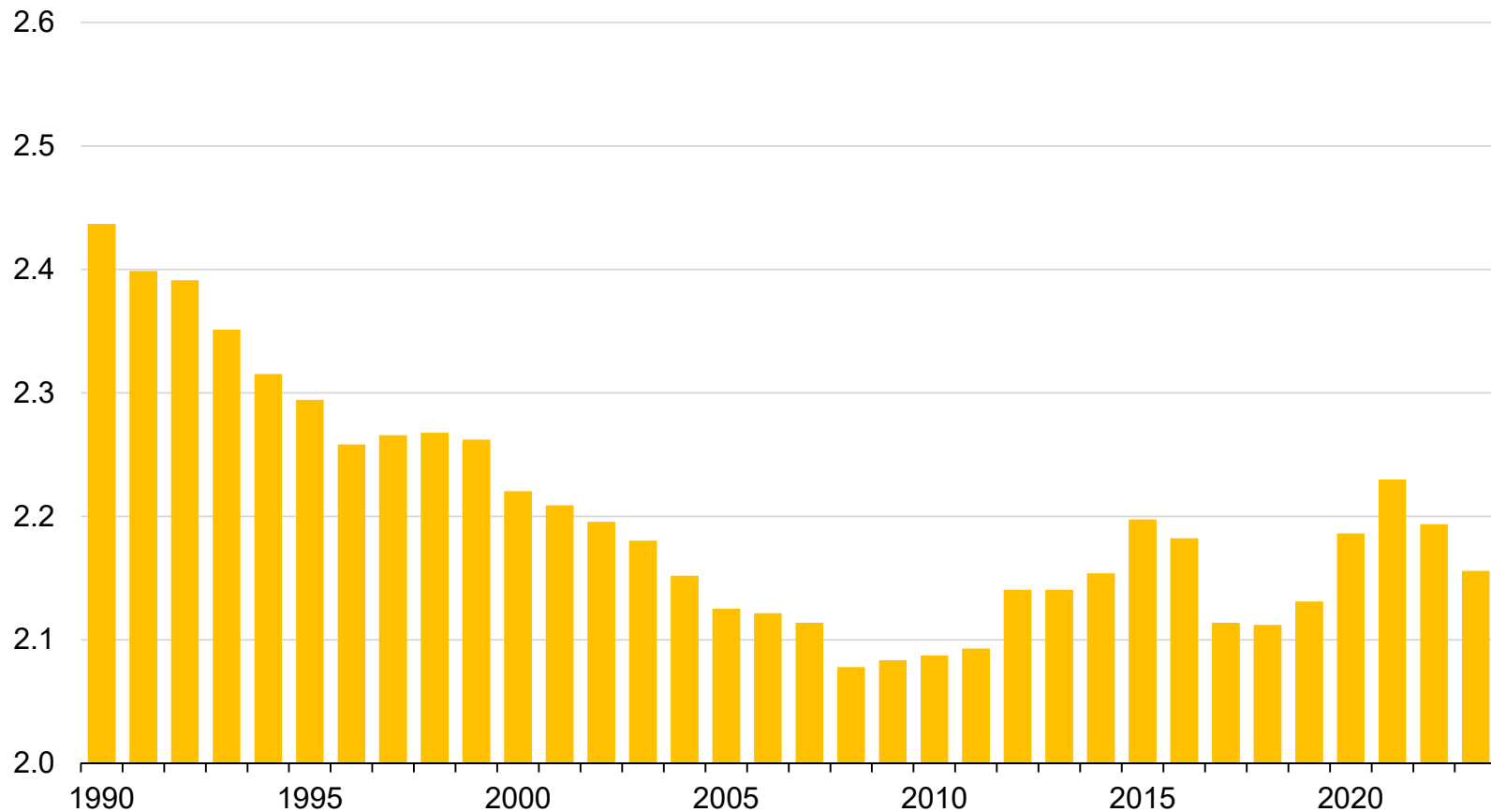
Millions



Source: VIVI. Excludes “light” and “occasional” drinkers whom together account for 65% of alcohol consumers but less than 20% of alcohol consumption. Contact Peter@viviomics.com for category definitions.

Drinkers are drinking less

Number of 750ml bottles per week measured in wine equivalence (1)



(1) Consumption of all alcohol categories (wine, beer and spirits) measured in wine equivalence and divided by the "drinking population". The drinking population includes light, moderate, binge and heavy drinkers.

Demographics are working against demand for wine

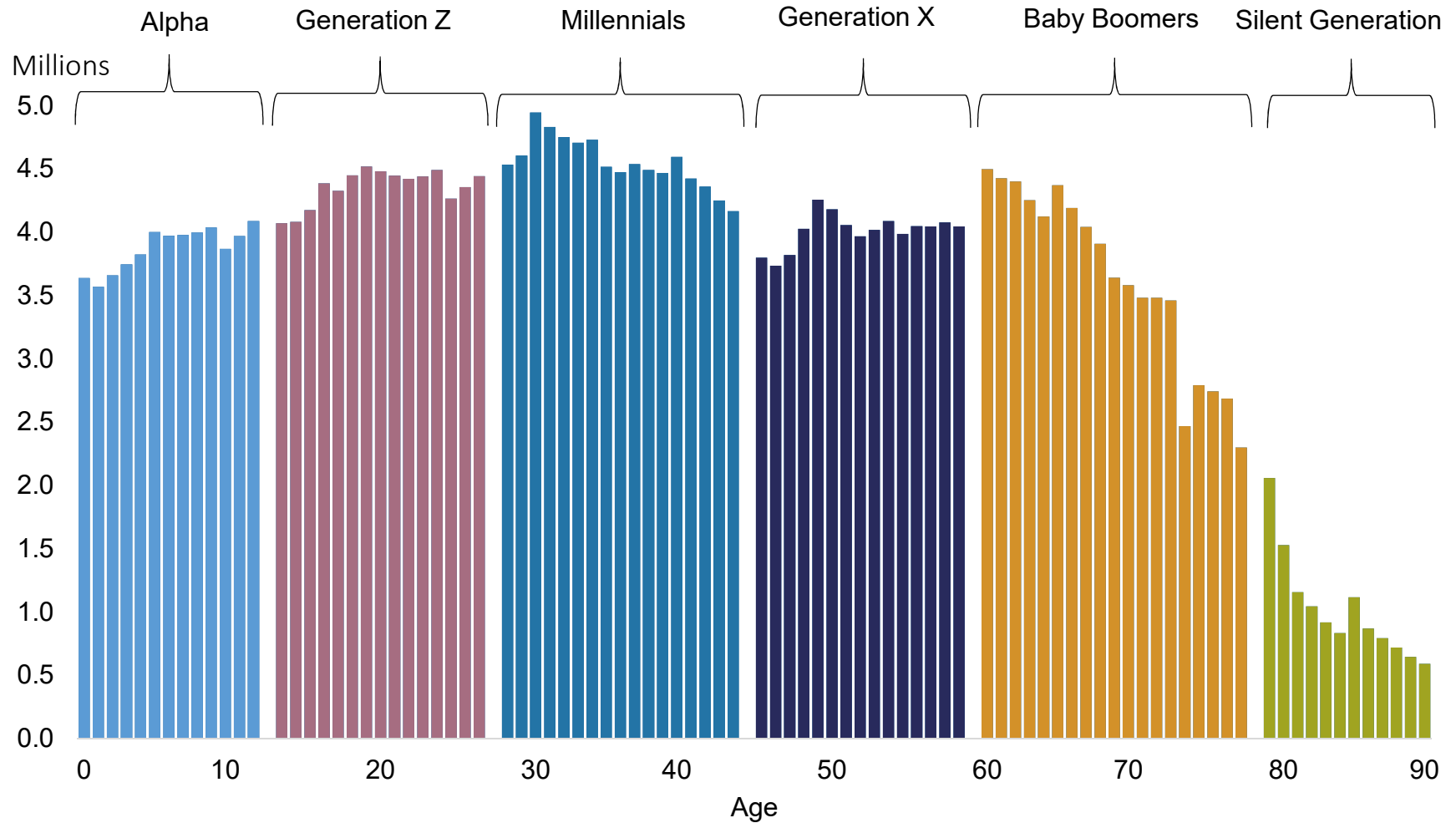
Baby Boomers: 60 to 65 age group are the strongest future growth opportunity for US wine demand

Generation X: Too small of a population to replace the Baby Boomers and currently reducing their wine consumption

Millennials: Different spending priorities and low home ownership is a problem, but still a bastion of hope

Generation Z: Small population, less disposable income and choosing alternatives to alcohol

US population by age in 2024



Slow growth of the US economy at best

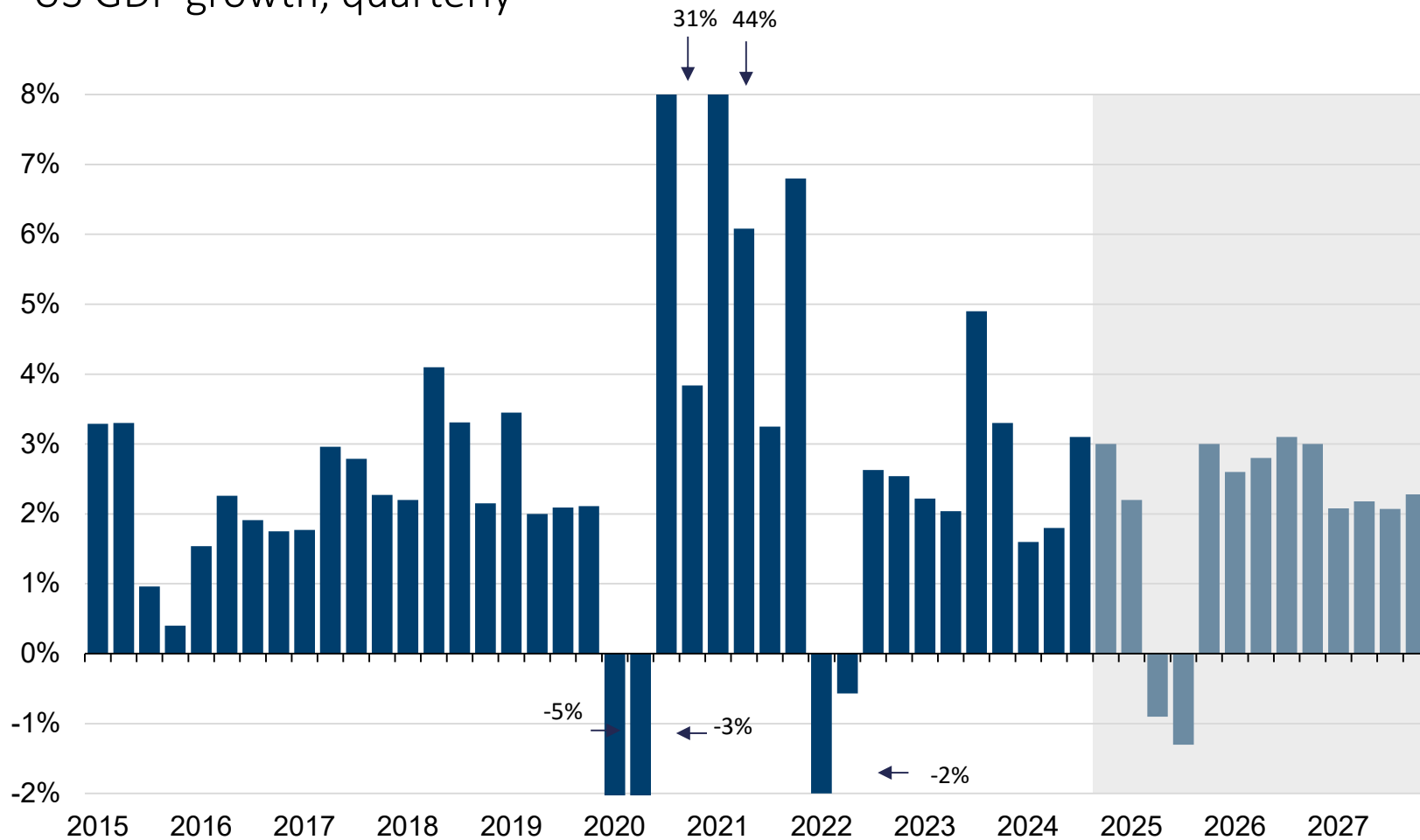
- Persistent inflation and high interest rates
- Increasing mortgage payments
- Declining real wages
- High fuel costs
- Geopolitical tensions
- Trump presidency adds to uncertainty
- Inverted yield curve

US macro economy forecast assumptions

- Underwhelming GDP growth in 2024
- Shallow and short recession in 2025
- Strong economic growth in 2026-2027
- Inflation in check throughout the three-year forecast
- Ratcheting down of interest rates
- No major unemployment concerns
- Strong US dollar
- Trade wars and geopolitics introduce significant uncertainty

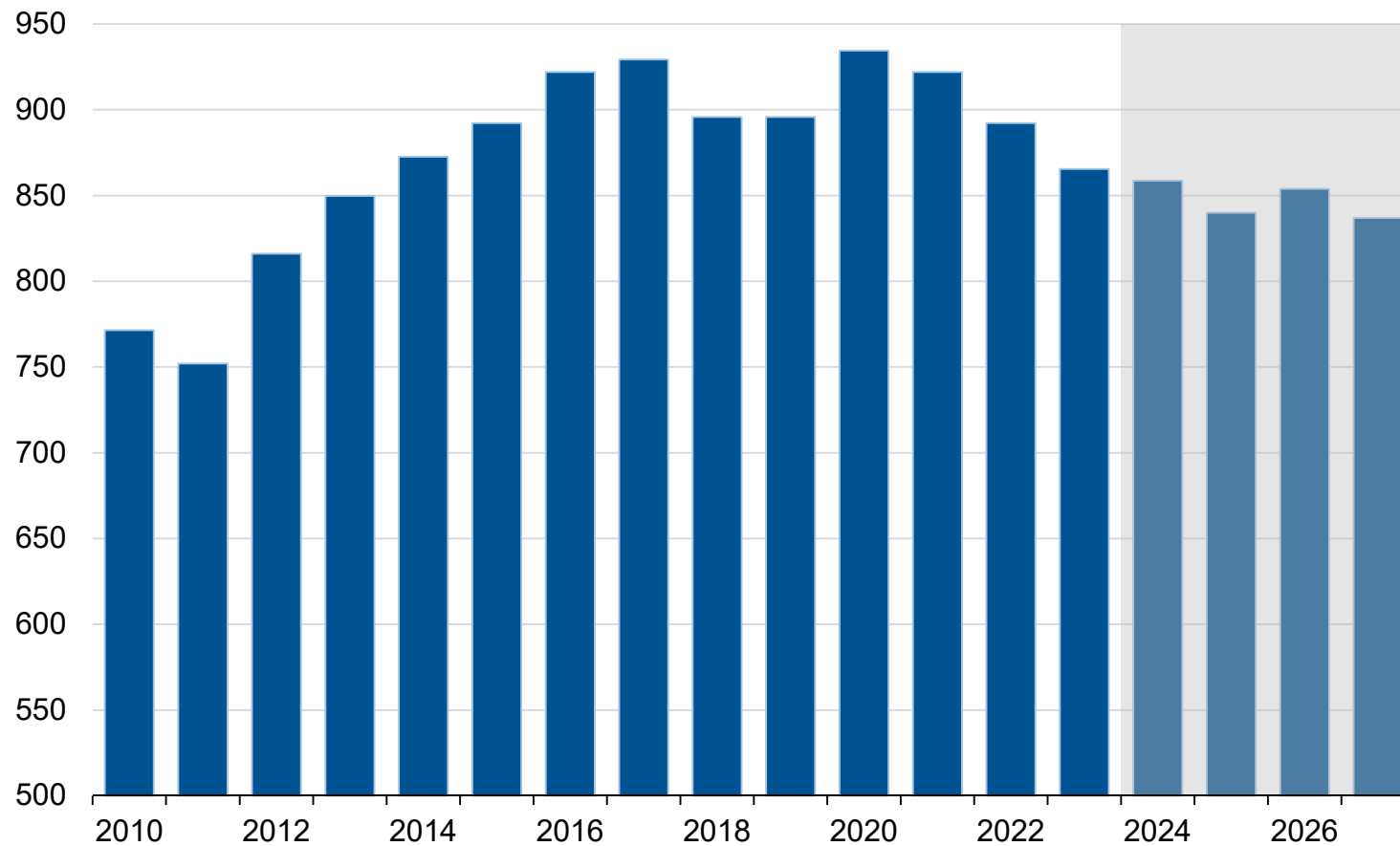
VIVI is pessimistic about the economy

US GDP growth, quarterly



Demand is a problem

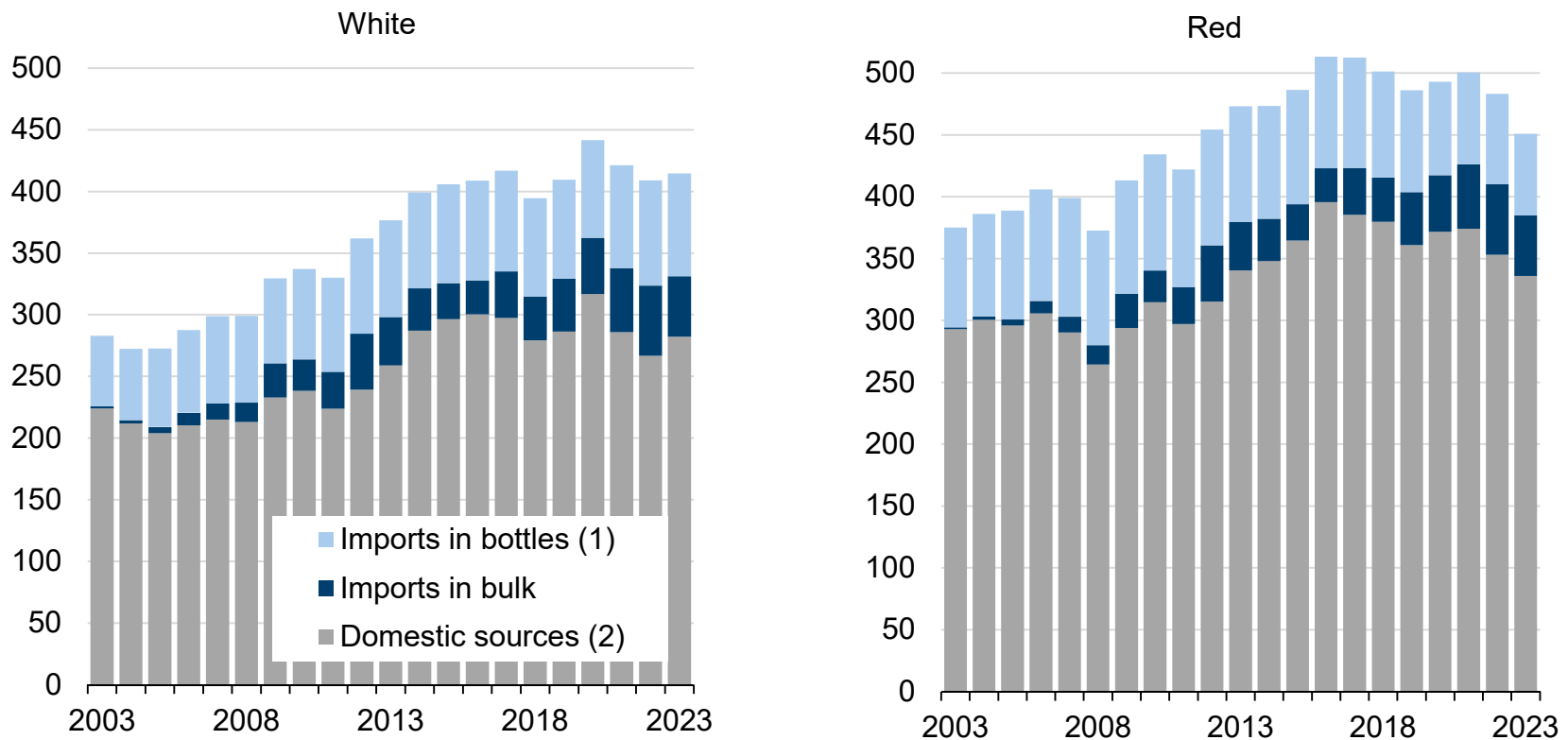
US still wine demand, million gallons



Markets turn towards importing in bulk

US red and white wine consumption by source

Million gallons



(1) Imports include wine consumed in the respective year but not necessarily imported in the given year.

(2) Domestic sources include vineyards and consumption of inventory stocking.

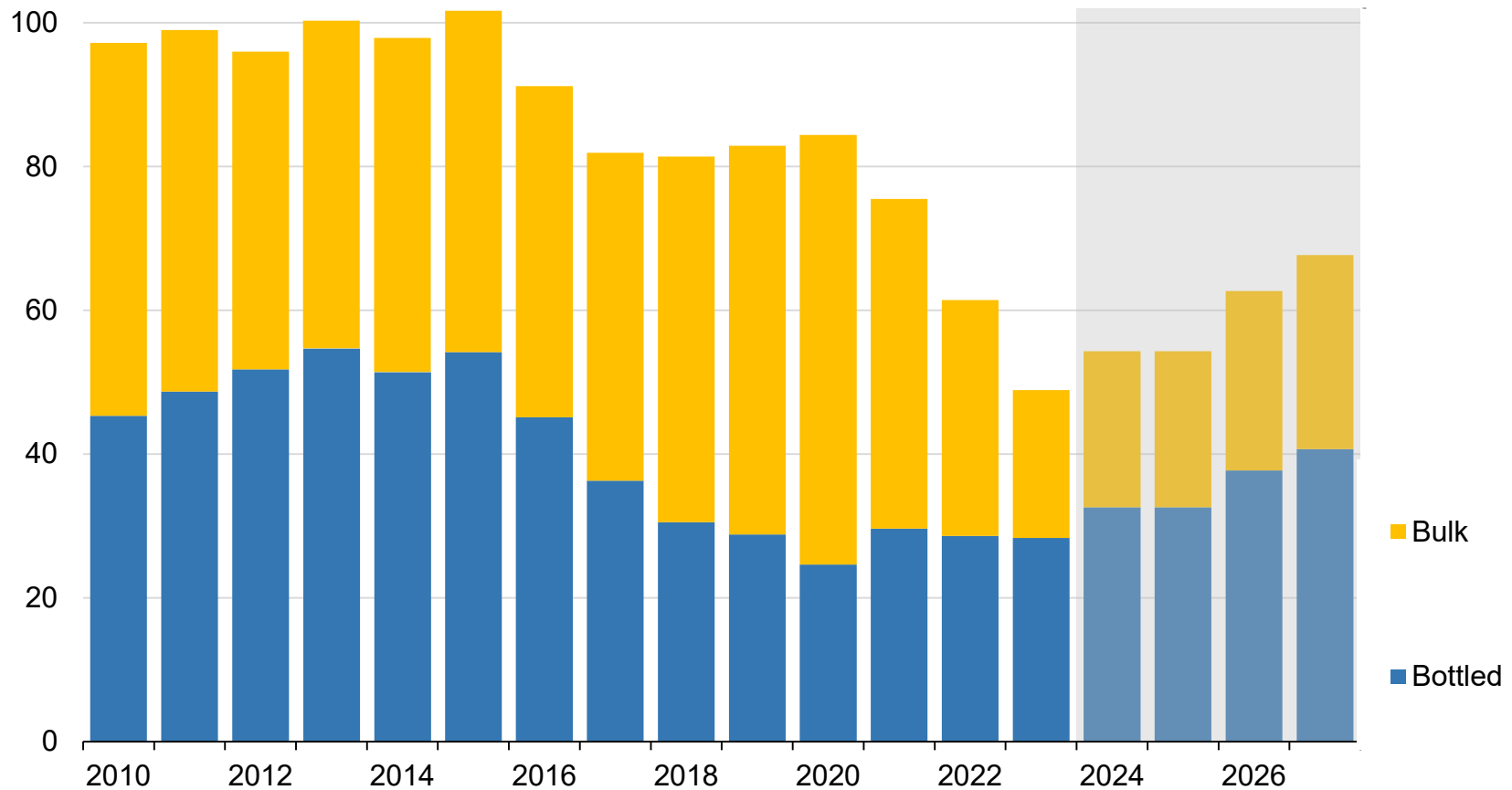
Export volumes will rise again as US offer prices decline

- US lost competitiveness in global wine trade during COVID19
 - A strong US dollar was not the only factor
 - Production costs increased more in the US than in Europe
 - El Niño effected global supply unevenly in 2023 and 2024
- Unusual growing conditions disrupt global wine markets
- France's 25% reduction in this year's production supports future demand for US wine
- The collapse in China's demand is probably over
- Excess supply in the US requires more aggressive price discounting

US offerings have lost competitiveness

US wine exports

Million gallons



Conclusion

- Demand is a problem
- Economic growth is the biggest near-term risk
- Very competitive markets, particularly for trade
- US wine capacity will need to be removed to balance demand with supply
- Will the demand projections be sufficient to sustain current wine prices?

Part 2 of VIVI's US Wine Industry Outlook includes:

- Wine price forecasts
- Inventory assessment
- US and international supply
- Global production costs

To receive access email Peter Barynin at peter@vivieconomics.com



Chief Economist
peter@viveconomics.com
705 542 2203
www.viveconomics.com

About Peter Barynin

With 25 years of experience in agro economic analysis and price forecasting, Peter oversees all of VIVI's economic reporting. He taught environmental economics at Harvard University and later served as a government executive for natural resource management.

Additionally, he spent 12 years as a successful entrepreneur, providing economic analyses and forecasts. His work has been presented in the USA, France, China, Chile, Australia, New Zealand, Canada and the UK.

About VIVI

“Analysis you can trust, insights you can use”

Established in 2018, VIVI is dedicated to being a premier source for wine industry data, analysis and forecasts. Our clients include winemakers, grape growers, retailers, financiers and distributors. In addition to wine market forecasts, we provide cost benchmarking services, monthly commentary, vineyard transaction reports, and onsite presentations.

Learn more at www.vivieconomics.com

