Q4 2024 OUTLOOK

Sideways, With Some Bright Spots

By Chris Bitter, Ph.D

As we progress into the latter half of 2024, the U.S. wine market is still mired in a multiyear funk. There was relatively little change in the trajectory of wine sales during the first half: Three-tier and direct-to-consumer (DtC) sales volumes continued to decay, though they held up better in dollar terms.

In the three-tier channel, NIQ data indicate that sales in retail outlets fell 4% by volume and 3% by value during the first seven months of 2024 versus the same period last year. Depletions declined by 8% in the same period, as retailers are still destocking.

Retail sales volumes are falling across price tiers. The premium segment remains a bright spot, with a modest year-to-date decline, and the rate of decline in luxury sales appears to be moderating.

White wine sales continue to hold up better than red and rosé sales in the three-tier channel. But it is important to keep this trend in perspective. White sales volumes are not actually growing; they are just falling at a slower pace. Moreover, the category's heavy hitter — Chardonnay — has not performed any better than the market overall.

Exports have been a bright spot in 2024. They grew 8% by volume and 5% by value during the first half of 2024 on a year-over-year basis due mostly to a second-quarter surge in bulk exports. Nonetheless, they are still tracking well below 2022 levels.

There are no signs of improvement in the DtC channel. In fact, shipment data from Wines Vines Analytics/Sovos ShipCompliant indicate that the pace of the decline quickened a bit during the first seven months of the year. DtC sales fell 10% by volume and 5% by value versus the same period last year. Data from Community Benchmark paint a slightly brighter picture. They indicate that total DtC revenue is down just 2% year to date for the wineries they track.

AN ECONOMY IN TRANSITION

Second-quarter economic results came in decidedly mixed. Real GDP grew 3%, consumer spending increased at a solid pace, and inflation continued to abate following a scare earlier in the year. Conversely, employment growth slowed, the unemployment rate ticked up, and consumer sentiment softened.

The mixed metrics are a sign of an economy in transition. High interest rates are producing the Federal Reserve's intended dampening effect.

The economy is likely to continue to soften during the remainder of the year. Indeed, the labor market weakened in recent months: Job growth slowed, and the unemployment rate now stands at 4.2% — still low by historical standards but 50 basis points higher than its starting point in 2024.

Nonetheless, given current trends in the economy, the soft-landing thesis remains intact. While growth will slow, the economy will avoid a severe slowdown or outright recession.

Under this relatively benign scenario, consumer spending is likely to soften, but we see little danger of the bottom falling out. Overall, consumers still appear to be on a firm financial footing, though some signs of distress are emerging among those in the lower half of the income distribution.

However, a soft landing is far from a certainty, and there are downside risks. Most importantly, the Fed will need to thread a tight needle as it reverses course on interest rates. If it cuts too quickly, inflation could be reignited. If it cuts too slowly, the economic slowdown could be more pronounced. Rising geopolitical tensions pose another material risk.

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WINE SALES OUTLOOK

The outlook for wine sales remains unchanged from the previous Quarterly Outlook, as the economic backdrop hasn't been that bad. It's more likely that the wine market's malaise is simply post-pandemic normalization. Thus, the slump increasingly appears to be driven by secular trends that are likely to be with us for some time.

That said, expectations are for some stabilization in wine sales over the next year as inflation abates and interest rates come down, though a return to outright growth looks improbable.

I also expect the DtC channel to see the most improvement, as there is a stronger case that depressed sales are partly just a post-pandemic hangover. While the market environment is challenging, opportunities for growth still exist, but wineries will need to work harder to spot and realize them.

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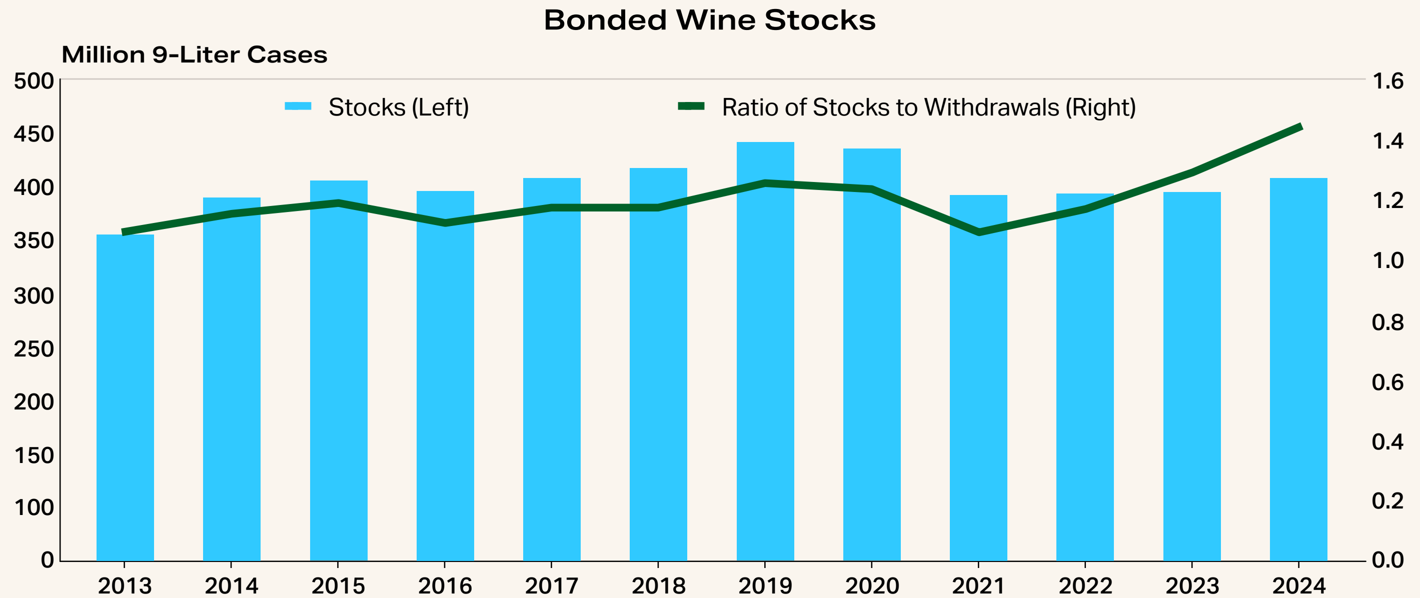
GRAPE MARKET OUTLOOK

Weak wine sales, elevated inventories, and an abundance of attractively priced bulk wine have depressed demand for grapes (see Chart). Unless the crop comes in much smaller than expected, there will be more fruit than needed again this year.

Although the harvest still has a long way to go, most signs suggest that the California grape crop will be considerably smaller than last year. This is attributable to lower yields and, to a lesser extent, a reduction in bearing acreage. Yields for white varieties in the interior look particularly light.

The grape market continues to see sporadic activity, and there are a number of opportunistic buyers seeking to scoop up grapes at fire-sale prices. Demand continues to be stronger for white varieties, including coastal Chardonnay and Sauvignon Blanc, though it is still sluggish at best.

Chart: **Elevated Winery Inventories Dampen Demand for Grapes**



Note: Data pertains to June 30 of each year.
Sources: Alcohol and Tobacco Tax and Trade Bureau, Terrain

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Given the weak market backdrop, growers should continue to carefully consider every offer received and take a cautious approach to custom crushing unsold fruit.

On the bright side, there will be some improvement in the supply-demand balance for grapes next year as vineyards continue to be pulled. Allied Grape Growers estimates that 30,000 to 40,000 acres of wine grapes have been pulled across California this year, with the heaviest removal activity in the San Joaquin Valley. However, the net reduction in bearing acreage will be less substantial, as an estimated 17,500 acres have come on line in 2024.

There should also be a modest rebound in wine shipments once wholesale inventories come back into line, which should help firm up grape demand a bit. Even so, it may be several more years before the market is fully back in balance in the absence of stronger-than-anticipated wine sales.

ABOUT THE AUTHOR

Chris Bitter, Ph.D., is Terrain's senior wine and grape analyst. He has more than 20 years of experience as an economist and market analyst. He earned his Ph.D. in economic geography with a minor in agricultural and resource economics from the University of Arizona. In 2016, Chris changed his economic focus from real estate to wine when he launched Vintage Economics, a market research and consulting firm focused on the wine industry.

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