Terrain

Winescape

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This issue:

- *Focuses on the wine industry's most pressing topic: the state of the market*
- *Provides a detailed outlook for the wine market in 2025 and beyond*
- *Discusses the economy and wine's post-pandemic new normal in a time of uncertainty*

IN THIS ISSUE

What's Next?

The most pressing topic for the California wine industry is the state of the market. This issue provides a detailed outlook for the wine market in 2025 and beyond.

This issue of "Winescape" focuses entirely on the state of the market. As the fruits of the recent harvest are now being converted into wine and beginning their journey to market, the most important topic for the California wine industry is, what's next? In this issue's Trending Topic, I provide a detailed outlook for the wine market in 2025 and beyond.

Third-quarter wine sales were a mixed bag. In the Market Happenings section, I empty and sort the bag's contents to help us understand what it all means (**see Page 3**).

Retail sales were down versus last year. But on a positive note, the pace of the decline has moderated a bit, driven mainly by improvement in the higher price tiers. Unfortunately, the direct-to-consumer (DtC) numbers were soft, and the rate of the decline has accelerated in 2024.

The grape market remains challenging (**see Page 5**). The 2024 California crop looks to have been well below average in size. Nonetheless, the crop was still larger than needed. Spot market activity was slow, and not all the fruit found a home.

Even as the U.S. economy continues to expand at a moderate pace, consumers remain dissatisfied. Low sentiment may be dampening spending on discretionary and luxury items, including wine (**see Page 8**).

In the Trending Topic section, I share what light I'm starting to see at the end of the tunnel, though it is not evenly distributed. Under Terrain's base-case economic scenario, retail sales should improve in 2025 (**see Page 10**). I believe the bottom is nearing for the premium and luxury segments; I see less potential for progress in the value tier.

After 2025, sales are apt to continue to decline at a modest pace as wine continues to face stiff headwinds. However, prospects look brighter for the premium and luxury segments, and modest growth is even possible.

The DtC channel should follow a similar trajectory, though some unique factors such as a travel-abroad wave that has yet to subside may mean sales take a bit longer to stabilize.

Improvement in wholesale shipments will lag as distributors work through excess inventory, and competition will continue to be heightened.

Consolidation and attrition — both painful — are likely, as many wineries are straining under the burden of surplus inventory.

(Information about the data and sources behind the analysis in this report can be found in the Appendix on **Page 16**).

ABOUT THE AUTHOR

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Chris earned his Ph.D. in economic geography with a minor in agricultural and resource economics from the University of Arizona. His research has been published in a variety of national and international publications, including the Journal of Wine Economics, and he has delivered presentations at wine industry conferences around the globe.

2024's Challenges and Triumphs

The U.S. wine market continues to be challenging, though the pace of the decline in retail sales is slowing a bit, and third-quarter economic indicators were positive.

Wine Sales Dashboard: Change in Sales Volume by Channel and Price Segment

For more on the dashboard, see the Appendix on Page 16

	Year-Over-Year Change	Trend
$$$ Retail: Value Segment	↓	—
$$$ Retail: Premium Segment	↘	—
$$$ Retail: Luxury Segment	↓	^
Direct-to-Consumer	↓	v
Export	↑	^

RETAIL SALES STILL FALLING, BUT SOME IMPROVEMENT AT THE HIGH END

Retail wine sales fell across price tiers and sales channels during the first nine months of 2024. But on a positive note, the pace of the decline appears to be moderating a bit, with the high end of the market experiencing the most pronounced improvement.

Based on my analysis of NIQ data, off-premise wine sales fell 3.5% by volume in the third quarter versus the same period last year. This is an improvement relative to the first half of the year, when sales were down 4.3%. Year to date (YTD), sales are off 4%, which compares with a 5.4% decline in volume in 2023.

While sales volumes are down across all market segments in 2024, the premium category ($11 to $29.99) is still holding up best.

Distributor depletions are still declining at a faster rate than off-premise sales. According to SipSource data, depletions fell 7% year over year (YOY) in the third quarter and are down 8% YTD. This compares with a 6% decline in 2023.

Inventory reductions by retailers partly explain the ongoing disconnect between depletions and off-premise sales, but deterioration in the on-premise channel, which is not captured in the NIQ figures, has played a role as well. Indeed, on-premise depletions, which held up better than off-premise depletions in 2023, have fallen at a slightly faster rate over the past six months.

SALES BY PRICE TIER

While sales volumes are down across all market segments in 2024, the premium category ($11 to $29.99) is still holding up best. However, the $50+ market segment has shown the greatest improvement this year, followed by the $30 to $50 price tier. Conversely, sales in the under-$11 segment are falling at a faster rate, and there has been little improvement in 2024.

Under our base-case economic scenario, I expect to see premium and luxury wine sales stabilize in 2025.

The $50+ category saw the strongest growth during the pandemic as consumers, flush with government stimulus and elevated savings, traded up to higher-priced wines and perhaps bought more wine than they were consuming. Thus, the sharp decline in 2023 came against an inflated comparison, and the comparisons have become easier this year.

Under our base-case economic scenario, I expect to see premium and luxury wine sales stabilize in in 2025. However, the problems facing the value segment are more structural in nature — exaggerated comparisons are not the problem — so I foresee less improvement here.

Domestic wines have ceded some market share to imports this year, albeit very gradually. Domestic wines lost just over a half-percentage point of market share during the past 12 months. The decline has been most prevalent at the lower end of the market, and domestic wines have gained a bit of ground in the luxury segment.

DIRECT-TO-CONSUMER: SOFT VISITATION REMAINS A CHALLENGE

There is, as of yet, no light at the end of the tunnel in the direct-to-consumer (DtC) sales channel. Indeed, the rate of decline in both visitor counts and DtC sales accelerated during the first nine months of 2024.

Sovos/ShipCompliant data indicate that DtC shipment volume fell by 11% in the third quarter versus the same period last year, with a 4% decline in value. This compares with a 7% loss in volume and flat value during 2023. Large wineries (>500,000 cases) continue to experience the steepest decline, and the figures look a bit better when they are excluded.

Third-quarter sales figures from Community Benchmark, which are based on a smaller sample but capture all DtC sales channels, indicate that total DtC revenue fell 5%. This represents a deterioration relative to a flat reading in 2023.

Tasting room visitation continues to be a pressing problem. Visitor counts at the approximately 500 wineries

Direct-to-Consumer Indicators Q3 2024

Change from a Year Ago

Sales by Channel		Tasting Room Metrics		Wine Club Metrics	
Club Allocation	1%	Visitor Counts	-13%	Active Club Members	-2%
Tasting Room	-8%	Purchase Conversion Rate	3%	Club Conversion Rate	-1%
All Other Channels	-9%	Average Order Value	2%	Revenue per Member	3%

Sources: Community Benchmark, Terrain

that participate in Community Benchmark fell 13% YOY in the third quarter. They are down 8.5% YTD, and wineries in all major West Coast regions have seen fewer visitors this year.

Lower visitor counts have translated to shrinking tasting room sales, though the impact has been mitigated to some extent by rising purchase conversion rates and higher average-order values.

Declining visitation is also impacting club acquisition rates, as fewer visitors mean fewer opportunities to sign up new members. Indeed, the number of active club members was 2% lower in Q3 2024 than it was at the same point in 2023. In most regions, declining acquisition appears to be a greater problem than rising attrition. Despite the slight decline in member counts, club allocation revenues are still running ahead of 2023 levels due to higher allocation costs.

Swelling bulk exports continue to be a bright spot for the U.S. wine industry.

Some factors that have been weighing on DtC sales and visitor counts this year appear to be temporary in nature, and I expect to see improvement in 2025. The Trending Topic section of this issue explains my outlook for 2025 in more detail (**see Page 10**).

EXPORTS CONTINUE TO FIRM UP

Wine exports surged again during the third quarter. They gained 31% in volume and 5% in value versus year-ago levels. This builds on a similarly strong reading during the second quarter. However, performance continues to be bifurcated between the bulk and bottled wine categories.

Swelling bulk exports continue to be a bright spot for the U.S. wine industry. They have accounted for all the growth over the past two quarters and are up 62% by volume for the first nine months of 2024 versus the same period a year ago. Nevertheless, the recent increase comes against deeply depressed readings in 2023.

Conversely, bottled wine exports, which are more lucrative for wineries, remain weak. Volumes dropped 10% YOY in the third quarter and are down 5% for the first nine months of the year. In value terms, the YTD decline was just 1%.

THE GRAPE MARKET: 2024'S SMALLER CROP STILL EXCEEDED DEMAND

The 2024 California growing season was relatively uneventful. Fire and water were nonissues, and harvest timing was more normal this year. There were, however, several severe heat waves that ultimately reduced the size of the crop. Moreover, some fruit was left on the vine again this year due to soft demand and spot market pricing that generally was not favorable to growers.

While firm numbers on the size of the crush will not be available until the Grape Crush Report is released in February, an October heat wave looks to have reduced yields substantially in some areas, particularly for late-ripening varieties such as Cabernet Sauvignon. Preliminary estimates suggest that yields were about 15% below normal overall, though they varied widely across regions. For example, the Central Coast and Central Valley crops appear to have come in considerably below normal, while the Lake and Mendocino County crops look to have been closer to average.

In addition to lower yields, substantial acreage was removed in 2024, particularly in the Central Valley. The "net" reduction in bearing acreage was likely in the range of 15,000 to 20,000 acres, which represents a decrease of about 3% from 2023. The combination of lower yields and less acreage points to a substantially smaller grape crop this year.

The smaller crop was still more than needed to satisfy demand. Some uncontracted fruit went unpicked again this year for lack of a buyer. Thus, the crush is likely to be significantly below the long-term average of nearly 4 million tons. The number being discussed is 3.2 million tons, which would be the smallest California crush since 2008.

Despite the shortfall in tonnage, spot market activity was limited. Wineries were hesitant to purchase fruit, even at bargain basement prices, due to excess inventory from prior vintages and uncertainty regarding the trajectory of wine sales. An abundance of bulk wine available at attractive pricing also weighed on grape demand.

The deals that were done typically did not fully compensate growers for their costs. This was true even for the most desirable grapes such as Napa Cabernet Sauvignon and Russian River Pinot Noir and Chardonnay.

The low prices paid in 2024 will inevitably impact the Grape Crush Report prices, to which many multiyear grape contracts are tied. Thus, there is likely to be a downward adjustment in pricing on these contracts in 2025.

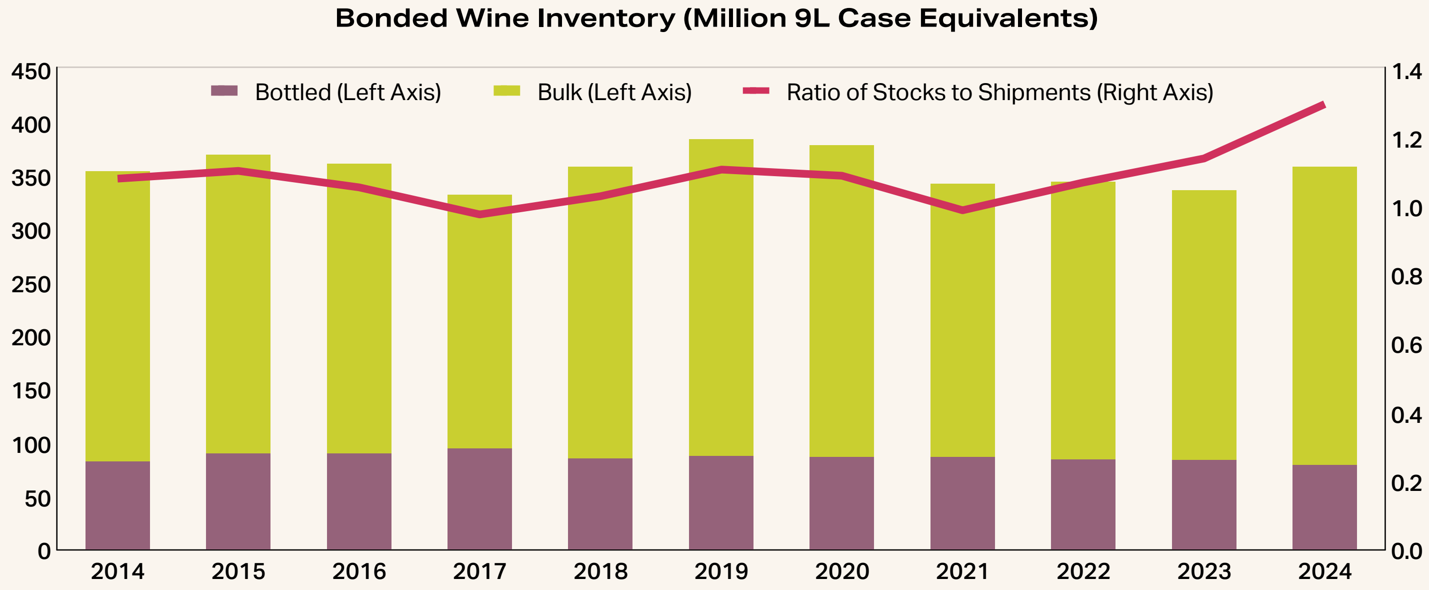
Given the muted outlook for wine sales and high inventory levels at both wineries and distributors, grape demand and prices are not likely to rebound quickly. As Chart 1 demonstrates, bonded inventory levels at wineries have risen but remain in line with the long-term average. However, inventory is high in relation to shipments, which have declined due to shrinking wine sales and inventory destocking at the retailers.

Coastal regions that produce grapes for premium and luxury bottlings should see the swiftest recovery.

Coastal regions that produce grapes for premium and luxury bottlings should see the swiftest recovery, as the outlook for these segments of the wine market looks brighter. Nonetheless, even if wine sales stabilize, it could be several years before the grape market in these areas is back in balance unless there are short crops or more vines are removed than anticipated.

The pace of vineyard removals will dictate the speed at which the grape market recovers.

Chart 1: **Winery Inventories Are Elevated in Relation to Shipments**



Note: Data as of August 30 each year; includes cider
Sources: Alcohol and Tobacco Tax Bureau, Terrain

The recovery is likely to take more time in the interior regions. While there could be a temporary bump in demand once inventory destocking has been completed, they are likely to continue to see a gradual reduction in demand. The decline in value-priced wine sales looks to be structural in nature, and California is facing stiff competition from foreign suppliers within this market segment. Thus, the supply side will be the primary lever of adjustment — and the pace of vineyard removals will dictate the speed at which the grape market recovers.

Given that the market is likely to remain challenging for some time, growers will need to be more creative than ever in finding ways to cut costs and secure grape commitments. As painful as it may be, growers should not hesitate to remove vineyards in marginal areas that are no longer economically viable; delaying this decision may prove to be more costly in the long run.

THE ECONOMY REMAINS RESILIENT DESPITE BAD CONSUMER VIBES

The U.S. economy has proven to be more resilient in 2024 than economists expected for a higher interest rate environment. While the third-quarter economic indicators were positive, consumers remain dissatisfied, particularly those in the lower and middle tiers of the income distribution.

GDP growth slowed a touch to 2.8% in the third quarter, but this is still in line with economists' estimates of the economy's long-term growth potential. Employment continued to expand, albeit at a slow pace, and unemployment is still hovering near 4%, an indication of a healthy labor market and not far from the more than 50-year low reached in early 2023. Wage growth and consumer spending remain robust (both accelerated during the third quarter), and wages grew in real terms.

Inflation also continued to abate and is gradually approaching the Federal Reserve's 2% target. This dynamic has given the Fed room to cut rates despite the solid labor market.

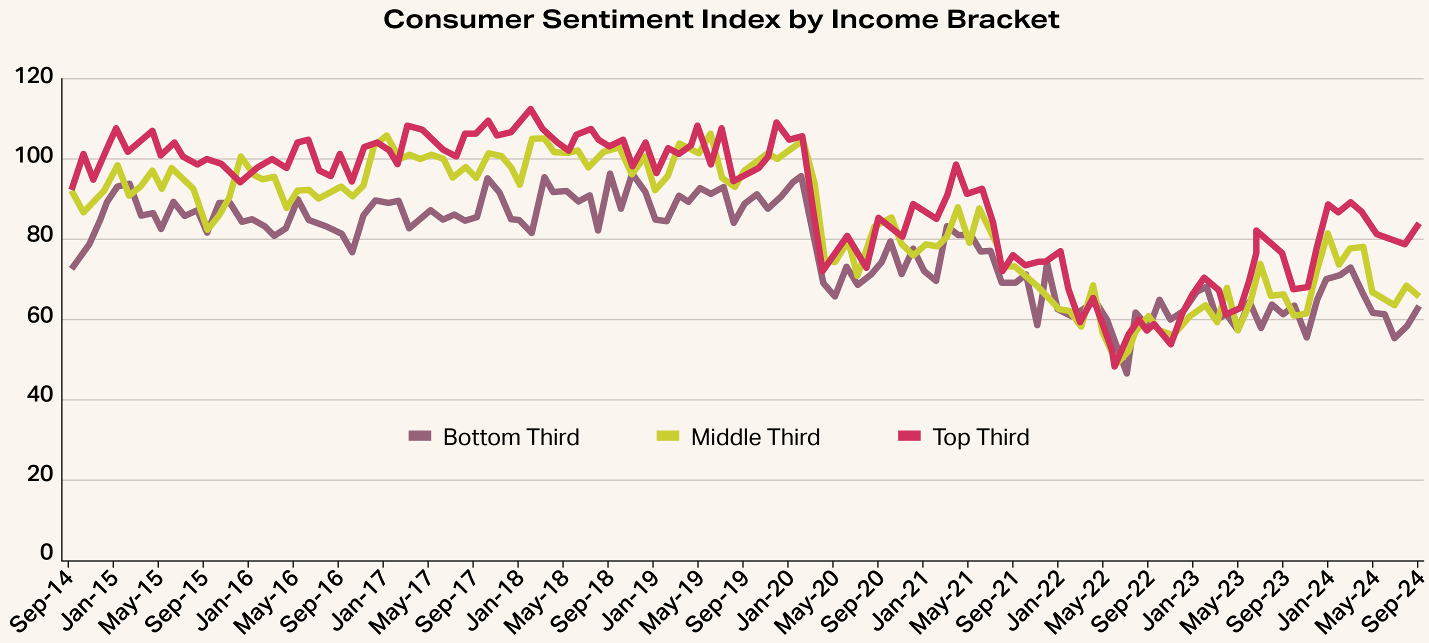
Consumer sentiment did tick up in the third quarter, and the preliminary reading for November was slightly higher. Even so, sentiment remains well below pre-pandemic

Key Economic Indicators

Indicator	Q3 2024	Q2 2024
Change in GDP (real)	2.8%	3.0%
Unemployment Rate	4.1%	4.1%
Change in Consumer Prices	2.1%	1.1%
Change in Consumer Spending (real)	3.6%	2.8%
Consumer Sentiment Index	70.1	68.2
Change in Employment	1.1%	1.1%
Change in Average Weekly Earnings	3.9%	2.3%
Credit Card Delinquency Rate	8.8%	9.1%

Sources: FRED, Federal Reserve Bank of New York, Terrain

Chart 2: **Consumers Are Still Dissatisfied**



Sources: University of Michigan, Terrain

levels, particularly among lower- and middle-income households (see Chart 2). This is despite the fact that inflation-adjusted per capita disposable income is 10% higher today than it was in 2019, according to Bureau of Economic Analysis data.

Glum sentiment has not stopped consumers from spending, but it may be influencing their behavior. Consumers appear to be more price-conscious and less willing to splurge on discretionary items and luxury goods. Thus, the negative economic vibes may be contributing to softness at the high end of the wine market.

I see four potential factors that are driving consumer sentiment while economic indicators portray a different story:

1. The cumulative impact of inflation: Though the rate of inflation has moderated, consumers may be focusing on price levels, which are substantially higher than they were prior to the bout of inflation that began in 2021.
2. High interest rates: Rates on credit cards, auto loans and mortgages have risen dramatically in recent years, so the costs of servicing debt have risen as well. This is not accounted for in the consumer price index, so it understates the extent to which consumers' expenses have risen.
3. Pandemic stimulus: Real disposable income and bank account balances swelled during the pandemic, especially for lower- and middle-income consumers, due to government payments. Losing what I'd call "artificial income" is hard to do.
4. Negative election rhetoric: The steady dose of negative news and attack ads during the 2024 election season has also likely contributed to still-depressed sentiment despite improving economic indicators.

Sentiment is likely to improve in 2025 if progress on lowering inflation and borrowing costs continues as we expect.

These factors should fade with time. Sentiment is likely to improve in 2025 if progress on lowering inflation and borrowing costs continues as we expect. And the election is already in the rearview mirror.

We expect the U.S. economy to continue to grow at a modest pace in 2025. While still-high interest rates may dampen growth and consumer spending in the near term, they should become less of a drag with time. The Fed has already cut rates by 75 basis points, and we expect at least several additional cuts by the end of 2025, though this is far from a certainty.

Moreover, middle and, particularly, high-income consumers — the core audience for wine — are well positioned to continue spending, as rising home and stock prices have lifted their wealth. This, coupled with improving sentiment, could provide a boost to spending on premium and luxury items, including wine, in 2025.

There are upside and downside risks to this outlook, and economic uncertainty remains heightened. The incoming administration has articulated potentially sweeping changes in trade, immigration and tax policy. It is unclear how much of the stated agenda will actually come to fruition, so it is too soon to gauge the potential impact on the economy.

Predictions Amid Uncertainty

Despite a rapidly evolving environment, I am optimistic that economic and post-pandemic factors will help wine sales improve next year.

OUTLOOK 2025: UNEVEN, BUT SOME LIGHT AT THE END OF THE TUNNEL

The future is always uncertain, and this is a particularly uncertain time for wine due to the post-pandemic return to normal and unclear economic backdrop. Moreover, market data are fragmented and incomplete, so it is difficult for industry players to get a precise picture of the state of the market today or in the recent past, let alone in the future.

That said, predictions are unavoidable. And they're necessary. Almost all business decisions rest on assumptions about what the future will look like, whether they are explicitly articulated or not.

I focus mainly on articulating my near-term outlook but will also provide some insight into what I believe the "new normal" for wine will look like beyond 2025.

I EXPECT WINE SALES TO IMPROVE IN 2025

The wine market is impacted by cyclical, structural and idiosyncratic factors. Structural factors tend to be both gradual and longer-lasting, so cyclical (economic) and idiosyncratic (unwinding pandemic distortions) factors will play the pivotal role in shaping the trajectory of the wine market in 2025.

I believe that cyclical and idiosyncratic factors will generally have a positive impact on the wine market, and I expect wine sales to improve, particularly at the high end.

Under Terrain's base-case scenario of a relatively steady economic backdrop in 2025 (no severe slowdown or sharp rebound), I believe that cyclical and idiosyncratic factors will generally have a positive impact on the wine market, and I expect wine sales to improve, particularly at the high end.

I am optimistic for four key reasons.

1 More Realistic Comparisons

The most compelling reason to expect improvement at the high end of the market is that the slump in sales over the last two years came against inflated wine sales comparisons during the pandemic. Luxury and premium wine sales surged during the pandemic and its immediate aftermath as consumers, flush with excess savings and government stimulus, traded up to higher-priced wine and perhaps bought more wine than they were consuming.

This simply wasn't sustainable, and sales began to normalize as stimulus dried up and excess savings began to be depleted. Thus, the declines in 2023 and 2024 came against inflated consumption and purchases that lasted into 2022, particularly for the luxury segment. A deceleration in the rate of decline this year suggests that the normalization process is nearing its end, and the comparisons will be more realistic and thus easier in 2025.

Luxury and premium wine sales surged during the pandemic and its immediate aftermath.

Conversely, the decline in sales in the under-$11 segment of the market does not appear to be the product of inflated pandemic comparisons, so there is less room for improvement here.

2 Improving Consumer Sentiment

Consumer sentiment remains depressed. Negative consumer vibes have likely contributed to slumping wine sales in 2023 and 2024 as consumers have been less willing to spend on discretionary items and luxury goods.

While we don't expect a major shift in the trajectory of the economy in 2025, we do believe that depressed sentiment is due mostly to temporary factors that will dissipate with time as explained in the Market Happenings section of this issue (**see Page 3**). Indeed, sentiment has already improved a touch in recent months.

Moreover, rapidly rising asset prices have boosted wealth, particularly for higher-income households who are most likely to own stocks. Indeed, it has been an exceptional year for stockholders. The S&P 500 is up nearly 25% so far this year and nearly 45% versus its low in October 2023. While there is no guarantee that these gains will hold, they may boost sentiment and willingness to spend on discretionary items and luxury goods, including wine.

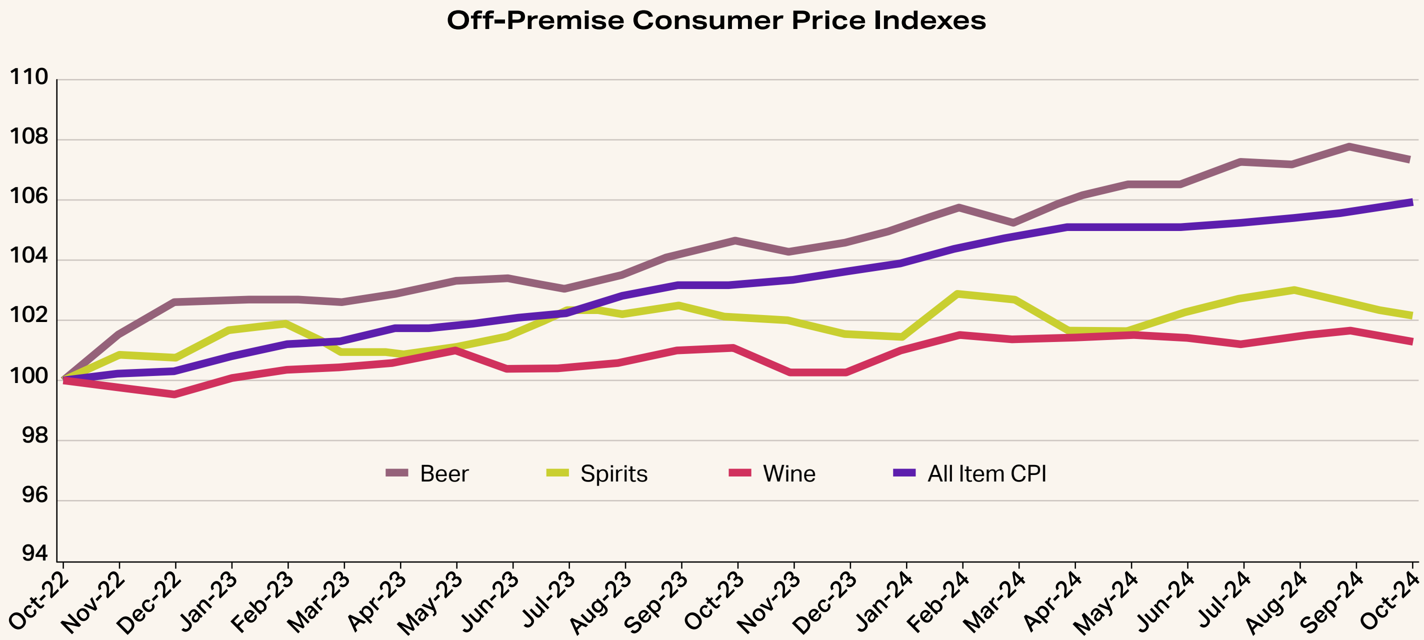
To the extent that consumer pessimism has contributed to negative wine sales trends, improving sentiment should provide at least some boost in 2025, particularly for the premium and luxury segments of the market.

3 More Competitive Wine Prices

Wine has become more affordable over the last several years in both real terms and relative to other alcoholic beverage categories, according to consumer price data from the Bureau of Labor Statistics.

Off-premise wine prices have increased just 1.4% over the past two years and have been flat over the past 12 months. This compares with the overall consumer price index's two-year rise of 5.9%. Increases in on-premise wine prices have also begun to abate; they are up by just 1% in the past year. Moreover, the wine category has seen smaller price increases than spirits and beer over the last 24 months in both sales channels, though the differential between wine and spirits has been narrow in the off-premise channel (see Chart 1).

Chart 1: **Wine Is Becoming Relatively More Affordable in Real Terms**



Sources: Bureau of Labor Statistics, Terrain

While lower relative prices are clearly not desirable from the standpoint of suppliers, they should have a modest positive impact on wine sales in 2025.

Wine prices are likely to become even more affordable over the next year or two due to heightened competitive pressures as well as excess inventory and low bulk wine prices, unless wine is singled out for tariffs. While lower relative prices are clearly not desirable from the standpoint of suppliers, they should have a modest positive impact on wine sales in 2025.

It is important to note that the BLS figures are more indicative of trends in the retail channel and specifically for lower-priced wines, which represent the vast majority of consumer purchases.

DtC wine prices have not become more affordable, as the average bottle price for shipped wines has risen 6% over the last year. Moreover, DtC wines are often bundled as part of an experience, and the cost of this experience has risen due to rising wine tasting fees and costs to visit wine country.

More specific to the DtC channel, wine country visitation should benefit from normalizing travel patterns in 2025.

4 Normalizing Travel Patterns

More specific to the DtC channel, wine country visitation should benefit from normalizing travel patterns in 2025.

The number of U.S. citizens traveling abroad has surged in recent years due to pent-up demand stemming from closed borders during the pandemic and a strong dollar. During the first nine months of the year, U.S. citizen departures to foreign destinations were tracking 20% ahead of their level in 2019. At the same time, foreign visitor counts have not yet recovered to pre-pandemic levels.

This dynamic has almost certainly contributed to slumping tasting room visitor counts and DtC sales, though it is not possible to precisely quantify the impact.

I expect travel patterns to begin to normalize as pent-up demand is satisfied. This should provide a modest boost to visitor counts and DtC sales in 2025.

In the retail channel, I believe we are nearing the bottom of the slump for the premium and luxury segments of the market.

NEAR-TERM PROSPECTS BRIGHTEST FOR PREMIUM AND LUXURY SEGMENTS

Given these four factors, the pace of the decline in wine sales is likely to slow in 2025, provided that our base-case scenario for the economy materializes. However, progress will vary widely across sales channels and price points.

In the retail channel, I believe we are nearing the bottom of the slump for the premium and luxury segments of the market. They stand to benefit the most from improving vibes, and I expect to see sales stabilize by the end of 2025.

The value segment of the market is likely to see less improvement, as the problem here appears to be more structural in nature. More competitive pricing should have a slight positive impact, and the rate of decline in sales in the under-$11 segment may moderate a bit over the coming year.

However, improvement in distributor shipments, even in the higher price tiers, is likely to lag due to inventory destocking at retailers and distributors. Because there are no definitive figures on the size or composition of the inventory overhang, it is difficult to gauge how long this might take. Based on anecdotal evidence, it appears that destocking at the retail level may be nearing an end. And distributors hold a relatively modest level of inventory in relation to annual sales, so I am optimistic that it won't take too long to work through the excess if retail sales improve.

I expect to see some improvement in the DtC channel as well. Firming sentiment and normalizing travel patterns should provide a boost to visitor counts and sales. However, still-elevated costs are apt to continue to weigh on DtC sales in 2025. For that reason, it is still too early to call a bottom.

Over the longer term, structural factors will play the decisive role in shaping the trajectory of the wine market.

WHAT THEN, IS THE 'NEW NORMAL' FOR WINE?

Over the longer term, structural factors will play the decisive role in shaping the trajectory of the wine market. Wine will continue to face three key structural headwinds going forward.

1 Demographic and Generational Shifts

The baby boom generation, which drove the long boom in wine consumption, is both aging and shrinking in size, and its wine consumption and spending are now declining. The generations that have followed don't seem to be as into wine, though this is difficult to gauge for the youngest generations due to their youth, as wine preferences typically blossom with age.

Each successive generation has been more diverse than the previous one, and Generation Z is nearly evenly split between non-Hispanic whites and other racial/ethnic groups. Growing racial/ethnic diversity poses a significant challenge, as wine has historically under-indexed with multicultural consumers.

While these trends have been progressing gradually, they are set to accelerate going forward.

2 Competition With Substitutes

Wine is facing heightened competition in the alcoholic beverage space from both traditional spirits and newer categories such as ready-to-drink cocktails and hard seltzers. Consequently, wine's market share had eroded gradually over the past five years.

Cannabis represents another threat, though its potential impact on wine sales is difficult to quantify. However, it does appear to be competitive with wine to some extent, particularly for the "relax and unwind" occasion, and it is likely to become more readily available and mainstream as additional states legalize it over time.

If alcohol consumption declines, wine sales will decline as well, unless wine can increase its share of the market.

3 Changing Attitudes Toward Alcohol Consumption

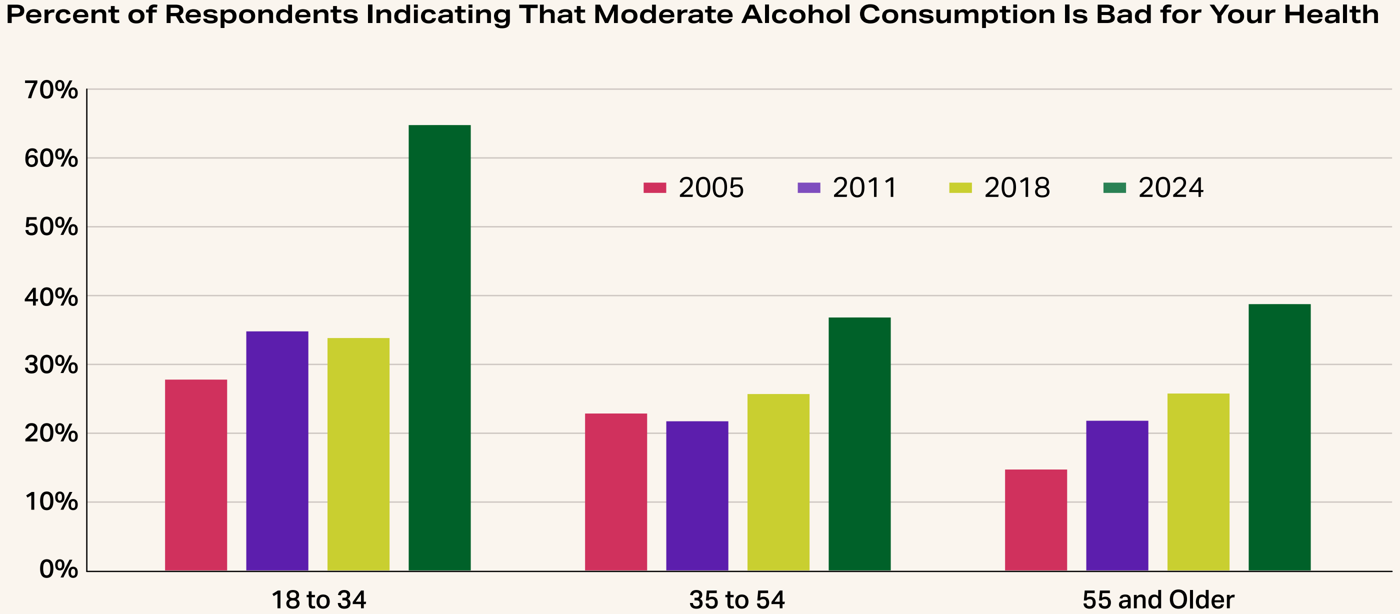
A greater focus on health and wellness and a well-funded anti-alcohol movement are beginning to negatively impact alcohol consumption. In fact, Gallup polls indicate that a majority of young adults now believe that even modest alcohol consumption is bad for your health (see Chart 2).

In addition, the increasing prevalence of weight loss drugs such as Ozempic may potentially reduce the desire to consume alcohol as well, though this connection has not yet been clearly established.

If alcohol consumption declines, wine sales will decline as well, unless wine can increase its share of the market.

This headwind could intensify going forward, particularly if the revised USDA dietary guidelines that will be released in 2025 establish lower daily limits for alcohol consumption or state that no level of consumption is safe. This may represent the single greatest threat to the wine industry.

Chart 2: A Growing Number of Americans Think Moderate Drinking Isn't Healthy



Sources: Gallup, Terrain

CONSUMPTION HAS LIKELY PEAKED, BUT PREMIUMIZATION SHOULD PERSIST

While none of these headwinds are new, all seem to be intensifying. For this reason, wine consumption, which had already plateaued prior to the pandemic in 2020, is likely to decline at a gradual pace going forward.

These headwinds also look to be more impactful at the lower end of the market, so I expect the long-standing premiumization trend to remain in place. I don't expect to see value-tier sales stabilize. Rather, they will continue to decline at a modest pace. However, prospects look a bit brighter for the premium and luxury segments of the market.

For example, the younger generations appear to be willing to trade off quantity for quality both in general and regarding wine. So, even if they drink less wine than the boomers did, premium wine sales should hold up better.

Similarly, competition with substitutes should continue to be more intense in the lower price tiers of the market. For instance, canned cocktails and cannabis may be substitutes for an inexpensive bottle of wine on some occasions, but there are likely fewer occasions when they would be a close substitute for a $50 bottle.

While consumers may drink less wine in the future, I believe they are also apt to drink higher-quality wine when they do.

Finally, if consumers are drinking less alcohol, they are apt to treat it as more of an indulgence, and thus buy better wine. For example, a consumer might buy one $20 bottle to drink on weeknights instead of two $10 bottles. Or they might skip the weekday bottles entirely but continue to drink premium and luxury wine on the weekends.

Thus, while consumers may drink less wine in the future, I believe they are also apt to drink higher-quality wine when they do.

That said, the premium and luxury segments aren't entirely sheltered from these headwinds, so I don't expect a return to the robust rates of growth that prevailed prior to the pandemic. Stable to modest growth in sales seems to be a more reasonable expectation in the medium term.

Pre-pandemic growth in DtC sales was even stronger, and I expect wine tasting to appeal to the younger generations because they are more experience-oriented. However, the channel's most important tailwind, the relaxation of interstate wine shipping regulations, has subsided. The Wine Institute estimates that in 2004, direct shipments were available to approximately half of the U.S. adult population. But by 2023, they were able to reach more than 95%, so there isn't much room for growth from here.

Thus, the speed limit is much lower now, and I expect stable to modest growth in sales in this channel as well.

In all, I see some light at the end of the tunnel for the premium and luxury segments of the retail channel and expect sales to bottom in 2025, provided that the economy behaves as expected.

AMID UNCERTAINTY, WINERIES HAVE SOME CONTROL

In all, I see some light at the end of the tunnel for the premium and luxury segments of the retail channel and expect sales to bottom in 2025, provided that the economy behaves as expected. While modest growth is possible thereafter, it is far from assured and will not likely be nearly as strong as it was in the past.

Prospects for DtC sales look similar, though it may be another year before the bottom is reached.

The pace of the decline in the value segment should moderate a bit in 2025, but sales are likely to continue to drop for the foreseeable future.

That said, the future trajectory of the wine market is far from certain. My outlook is based on a qualitative assessment of the factors I believe will play the most important role in shaping the trajectory of wine sales going forward, but a range of outcomes is possible.

Moreover, the prospects for tariffs on wine have potentially far-reaching implications for the industry, both positive and negative, and are not factored into my outlook. The devil will be in the details.

In any event, competition is likely to be heightened in all segments of the market for some time and price-taking will be difficult. Thus, I expect to see considerable consolidation as well as attrition over the next several years.

It is more important than ever for wineries of all sizes to have an up-to-date, creative and well-thought-out strategic plan in place that addresses the evolving wine consumer and market.

The industry does have some power to shape its own destiny. Collective action on some issues will be required to ensure the most positive outcome. Chief among these will be to advocate for fair treatment and science-based decisions on health-related initiatives. The industry also has an opportunity to position wine as the best choice among alcoholic beverages in the eyes of consumers.

Each individual winery also has some control over its future. It is more important than ever for wineries of all sizes to have an up-to-date, creative and well-thought-out strategic plan in place that addresses the evolving wine consumer and market. If you are struggling, you can't count on a rising tide to lift your boat. You will need to define the steps and take the appropriate actions to make that happen yourself.

Appendix

Data and Methods

INFORMATION SOURCES

There is no single, comprehensive source of information on the U.S. wine and grape markets. Rather, there are many different sources that capture specific slices of these markets. The analysis in this report represents a synthesis based on the review of multiple points of data and information.

These include statistical data from private data vendors, reports from industry service providers, U.S. government data, and internal data collected by American AgCredit's appraisal and underwriting teams. I assess the relevance and reliability of each source and weight it accordingly in the analysis.

The report also incorporates anecdotal information gleaned from conversations with market participants, including wineries, growers and various market intermediaries.

This approach enables "Winescape" to deliver a relevant and nuanced perspective on wine and grape market trends as well as an informed outlook.

THE WINE SALES DASHBOARD

The dashboard provides a directional view of trends in wine sales by volume, reflecting the fact that none of the market segments and sales channels are measured with precision.

The year-over-year change column is a directional indicator of the percentage change in wine sales for the most recent six-month period relative to the same period a year earlier. I focus on the six-month period because the quarterly data can be volatile.

Year-Over-Year Change	
	↑ Substantial increase
	↗ Modest increase
	→ Little to no change
	↘ Modest decline
	↓ Substantial decline

The trend column provides an indication of whether the rate of change in sales volume has improved or deteriorated over the past 12 months. For example, if sales in the value segment are falling on a year-over-year basis, but at a slower rate than in the past, the trend is improving and an up arrow is assigned.

Trend			
	Improving	Stable	Deteriorating

The retail price segments are defined as follows:

Retail Price Segments			
	$$$	Value	Less than $11
	$$$	Premium	$11 to $29.99
	$$$	Luxury	$30 and up