Terrain

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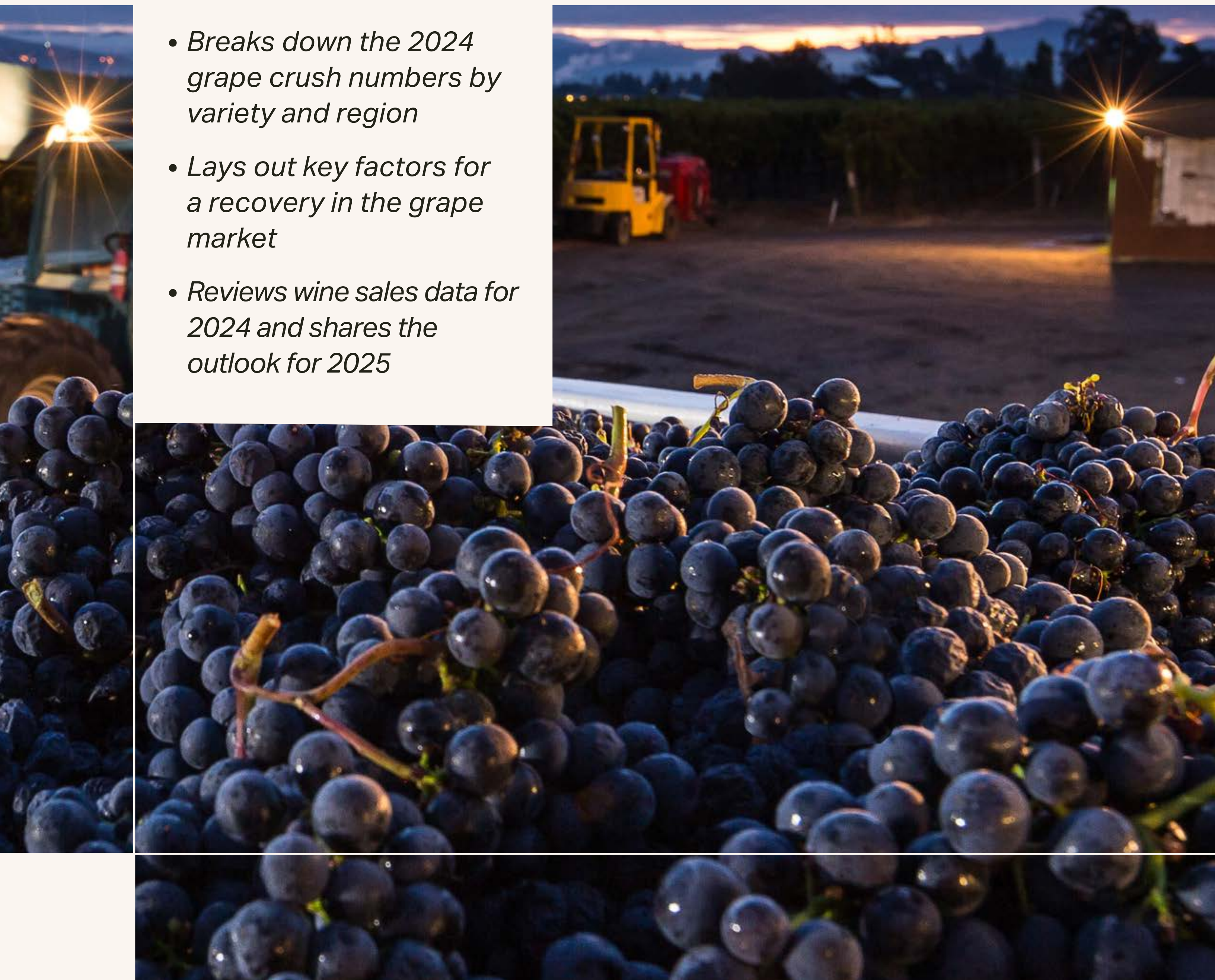
This issue:

- *Breaks down the 2024 grape crush numbers by variety and region*
- *Lays out key factors for a recovery in the grape market*
- *Reviews wine sales data for 2024 and shares the outlook for 2025*



IN THIS ISSUE

Withstanding the Currents

Flexibility and focus will be key this year, as the economic backdrop for wine sales has become murkier, and the grape market still looks long despite a short harvest in 2024.

The 2024 numbers are in, and they confirm that off-premise wine sales have not bottomed yet. They are descending at a slower rate, though, due mainly to improvement in the super-premium and luxury segments. Alternatively, the slump deepened in the direct-to-consumer (DtC) and on-premise channels.

The economy continues to sail along at a reasonable pace, and the labor market remains solid. But consumer sentiment, which has been treading water, took a dive in early 2025 due to intense uncertainty and negative inflation news.

The new U.S. administration's policies are apt to have both positive and negative impacts on the economy and consumers, though it is impossible to predict how this will play out. We expect the economy to remain afloat in 2025, though the risks have slanted to the downside, and we have less conviction that inflation or consumer confidence will improve (**see Page 7**).

That said, I continue to believe that the bottom is nearing for the $15+ segment and that DtC sales will improve. But I do not foresee an end to the value segment's descent.

Declining wine sales continue to depress the grape market, which is the focus of this issue's Trending Topic (**see Page 10**). California saw its smallest harvest since 2004, and the market was still awash with excess fruit.

Grape prices sank a little in 2024; growers with contracts fared reasonably well. However, crush report prices are not indicative of the current state of the market, and prices on new deals are likely to sink in most cases in 2025.

The Interior appears to be closer to the surface today than the coast, primarily due to more aggressive vineyard removals (**see Page 17**). But longer-term demand prospects look more buoyant for the coastal regions. In the end, the shore is not yet in sight for either region.

(Information about the data and sources behind the analysis in this report can be found in the Appendix on **Page 19**).

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.

Signs of Life at the High End of the Market

Wine sales continued to fall in 2024, but the higher retail price tiers improved materially. Meanwhile, 2025 has ushered in more uncertainty for the economy and wine sales.

Wine Sales Dashboard: **Sales Trends by Channel and Price Segment**

For more on the dashboard, see the Appendix on Page 19

	Year-Over-Year Change	Trend
$ **Retail: Value**	↓	—
$$ **Retail: Premium**	↘	—
$$+ **Retail: Super-Premium**	↘	⌃
$$$ **Retail: Luxury**	↘	⌃
Direct-to-Consumer	↘	—
Export	→	⌄

Off-premise wine sales fell 3% by value and 4% by volume in 2024, based on my analysis of NIQ data. This marked the fourth consecutive year of falling sales volumes. However, on a brighter note, the pace of the decline has moderated gradually over the past three years.

The steadier pace of decline in the lower price tiers suggests that the slump in this segment is more structural in nature.

The overall figures mask a bifurcation in performance between the lower and upper price tiers. The premium and luxury segments saw smaller losses than the value segment (under $11). More importantly, substantial improvement was evident in the higher price tiers relative to sharp declines in 2023, particularly in the $50+ segment.

This improvement came despite a lukewarm economic backdrop. Thus, I believe the steeper declines in 2022 and 2023 mostly represented a correction following an unsustainable surge during the pandemic. Conversely, the steadier pace of decline in the lower price tiers suggests that the slump in this segment is more structural in nature.

NIQ captures a relatively small portion of luxury wine sales, as a substantial share is sold through on-premise accounts and independent retailers. Nonetheless, depletions data from SipSource, which includes these outlets, also indicate that there was considerable improvement in the $50+ price tier in 2024.

Overall distributor depletions continue to lag retail sales, and they deteriorated a bit in 2024. They fell by 7%, compared with a 6% decline in 2023. The deterioration was more pronounced in revenue terms.

The ongoing disconnect between depletions and retail sales indicates that retailers and restaurants continued to reduce inventory levels in 2024. They are generally carrying fewer unique wines, as the number of accounts that purchased wine held steady, while total points of distribution fell by 6%.

SipSource data also show that on-premise depletions weakened in 2024 and are now falling at the same rate as off-premise depletions. This may be due in part to more aggressive price taking in the on-premise channel amid a time of heightened price sensitivity. According to Bureau of Labor Statistics data, wine prices in bars and restaurants have risen 24% over the past five years, versus an increase of just 8% for the off-premise channel.

DIRECT-TO-CONSUMER REMAINS CHALLENGING

Unfortunately, there were no signs of improvement in the direct-to-consumer (DtC) channel in 2024.

DtC shipment volume, as measured by Sovos ShipCompliant, was off by 10%, compared with a 7% decline in 2023. Likewise, shipment value fell by 5%, versus a flat reading a year earlier. However, the pace of the decline did moderate during the all-important fourth quarter.

Community Benchmark figures, which include carryout sales and non-wine DtC revenue, indicate that total DtC sales fell by 3% in 2024 across the 500+ West Coast wineries that contribute to it. This represents a slight deterioration versus a 1% decline in 2023.

Weakness in the DtC channel continues to be broad-based, with no major regions reporting better sales in 2024.

Both datasets reveal that weakness in the DtC channel continues to be broad-based, with no major regions reporting better sales in 2024. There are also some nuances worth mentioning. Based on the shipment data, smaller wineries (producing fewer than 50,000 cases) performed better than their larger counterparts in 2024, and those at the higher end of the price spectrum (with average red bottle prices of $60 and above) saw a smaller decline in sales relative to their lower-priced counterparts, per Community Benchmark figures.

On a positive note, tasting room purchase conversion rates and revenue per club member improved a touch in 2024.

Direct-to-Consumer Indicators Q4 2024

Change From a Year Ago

Sales by Channel		Tasting Room Metrics		Wine Club Metrics	
Club Allocation	1%	Visitor Counts	-7%	Active Club Members	-3%
Tasting Room	-5%	Purchase Conversion Rate	2%	Acquisition Rate	-11%
All Other Channels	-8%	Revenue per Visitor	2%	Revenue per Member	3%

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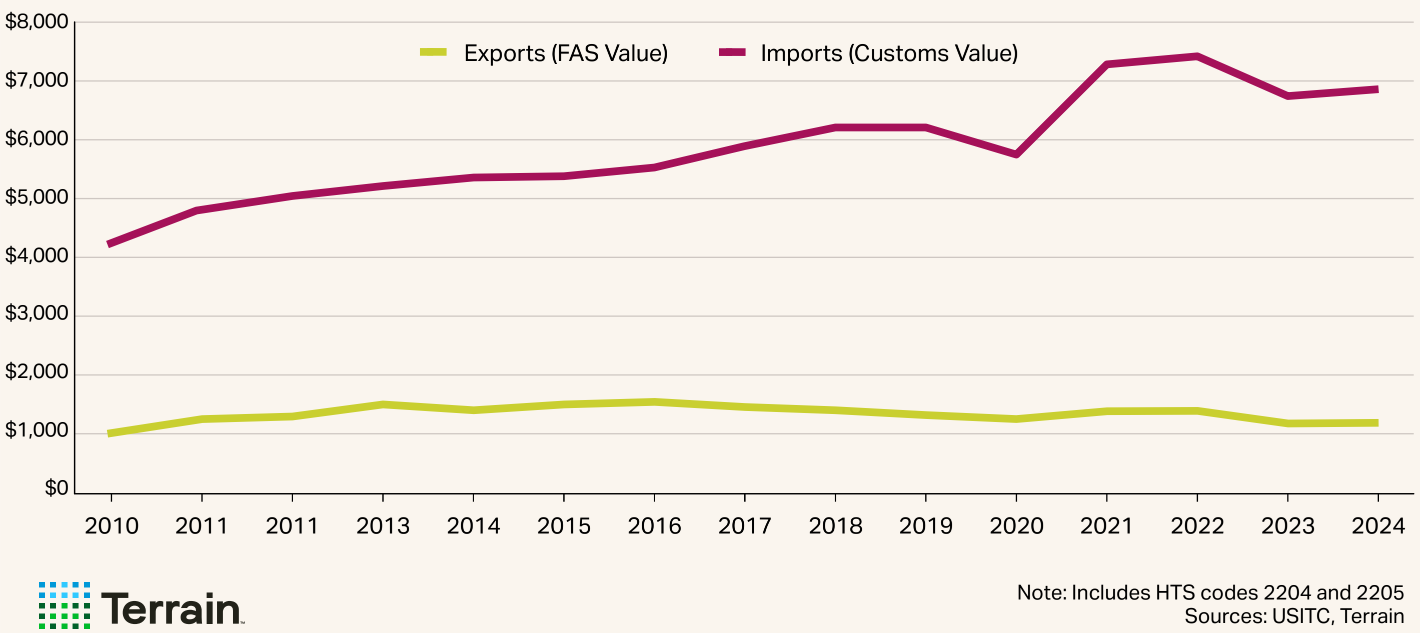
Sources: Community Benchmark, Terrain

The U.S. Runs a Massive Trade Deficit in Wine



Note: Includes HTS codes 2204 and 2205
Sources: USITC, Terrain

The Community Benchmark data indicate that softening visitor counts continue to be a pressing problem. They slumped by 7% in 2024, and no region saw more visitors than in 2023. Lower visitation is not only weighing on tasting room sales but also on wine club membership, as it is contributing to declining acquisition rates. On a positive note, tasting room purchase conversion rates and revenue per club member improved a touch in 2024.

The slump in DtC sales does not appear to represent normalization alone. Shipment volume, which was growing rapidly prior to the pandemic, has now fallen below its level in 2019.

The post-pandemic surge in foreign travel, which has yet to abate, continues to be a factor. But I believe that rising costs are taking a bigger bite out of visitation and DtC sales.

Average bottle prices for shipped wines rose by 8% in California in 2024 and are 28% higher than five years ago. While average prices are not a precise measure of inflation because they are also influenced by changes in the mix of bottles sold, there has clearly been more aggressive price taking in the DtC channel. Tasting fees and costs to visit wine country have also increased substantially, though they now appear to be stabilizing.

EXPORTS IMPROVED, BUT THE LONGER TERM LOOKS BLEAK

There was both good news and bad news on the export front. U.S. wine exports increased 16% to 28.2 million 9-liter equivalent cases in 2024. However, this was due entirely to a 58% surge in bulk exports. Conversely, packaged exports fell 5% by value and volume and ended the year on a weak note with a 17% volume decline in the fourth quarter. Due to the higher per-unit value of packaged wines, the total value of U.S. wine exports grew by just 1% in 2024.

Following several decades of growth, export value peaked in 2016 and has fallen by nearly 25% since.

The rebound in bulk exports was a positive development for the oversupplied U.S. bulk wine market, though the gain was just 4.7 million cases, so it was not a difference maker. Moreover, the increase comes against sharp declines in the three prior years.

From a longer-term perspective, exports continue to be a point of weakness for the U.S. wine industry. Following several decades of growth, export value peaked in 2016 and has fallen by nearly 25% since. The decline is not necessarily surprising given that global wine consumption also fell, but the U.S. has lost market share abroad as well.

Given the strong dollar and a potential backlash from tariff threats, it is difficult to see a scenario where this trend reverses course in 2025.

A MURKIER OUTLOOK FOR THE U.S. ECONOMY

The economy softened a touch in 2024 as higher interest rates bit. Nonetheless, it was an above-average year by most measures, though it did not necessarily feel like that to consumers.

Real GDP grew by 2.5%, exceeding the 2.2% average posted during the first 25 years of the 21st century. Job growth decelerated a bit and unemployment ticked up to 4.1%. But, to put this into perspective, unemployment has only been lower about 10% of the time over the last half-century. Inflation also slowed — the CPI rose 2.9%, versus a 3.3% increase in 2023 — and the Federal Reserve lowered the federal funds rate three times for a combined 100-basis point reduction.

Despite a relatively solid economic backdrop, consumer sentiment was choppy and remained well below its pre-pandemic level.

Consumer finances benefited from strong wage growth, which exceeded inflation. However, there were some signs of distress among lower- and middle-income households in the form of rising credit card and auto loan delinquencies.

Despite a relatively solid economic backdrop, consumer sentiment was choppy and remained well below its pre-pandemic level. This is likely due to the cumulative impact of inflation (the rate of price increases has slowed, but prices are still far higher than several years ago) as well as the contentious presidential election.

Overall, the data paint a picture of an economy on reasonably solid footing heading into 2025. But that was then, and this is now. Progress on inflation has stalled and there is a new administration in town that has a very different policy agenda and style of doing business.

Following improvement during mid-2024, inflation began to reaccelerate later in the year. Combined with a resilient labor market (and perhaps tariff concerns), this has caused the Fed to pause its rate cutting. Moreover, the January 2025 Consumer Price Index reading was the hottest in nearly 18 months.

The Trump administration, which has been in office for less than a month as I write this, has also come in hot and heavy. New policies and executive actions are being announced almost every day. Tariffs have become the talk of the town, while deportations, Department of Government Efficiency (DOGE) efforts to dismantle long-standing government institutions, and talk of U.S. territorial expansion have also made headlines.

New tariffs in effect at this point are fairly limited in size and scope and should have only a modest impact on the trajectory of the economy and inflation. Even so, if we take the White House at its word, this is only the beginning. Deportations have also been relatively modest to date, and it remains to be seen how much of the DOGE cost-cutting efforts stand up in court.

Nonetheless, the frenetic and unpredictable environment has enveloped the economy in a thick cloud of uncertainty. While we expect the shock-and-awe campaign to eventually begin to die down, the

Key Economic Indicators

Indicator	Q4 2024	Q3 2024
Change in GDP (real)	2.3%	3.1%
Unemployment Rate	4.1%	4.1%
Change in Consumer Prices	3.9%	2.1%
Change in Consumer Spending (real)	4.4%	4.2%
Consumer Sentiment Index	74.0	70.1
Change in Employment	1.6%	1.0%
Change in Average Weekly Earnings	4.3%	2.6%
Credit Card Delinquency Rate (30 day)	8.8%	9.0%

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Sources: FRED, Terrain

uncertainty is already causing some paralysis among businesses and consumers, which may weigh on economic activity in the first half of the year. Moreover, tariff threats appear to be leading to a backlash against at least some American products abroad, including wine.

Under our base-case scenario, we still expect the economy to grow at a moderate pace.

It is still too early to say with any degree of certainty how this will all play out. We are still of the mind that much of the tariff talk will turn out to be just that, and that deals will be cut that avert severely negative outcomes for the economy and consumer. The impact of the policy shifts that do take hold are likely to be both positive and negative, though it is difficult to sort out the timing for when the costs will be paid, and the benefits received.

Even so, given what we have seen during the first month and a half of 2025, we have become a bit less optimistic regarding the economic outlook for the remainder of the year, and the risks have slanted more heavily to the downside.

There is one thing that we have become more certain of: It is going to be a wild ride in 2025.

Under our base-case scenario, we still expect the economy to grow at a moderate pace and only modest softening in the labor market. However, we have less conviction that inflation will continue to abate, which puts further interest rate cuts in doubt. Similarly, the improvement in consumer sentiment that we had initially anticipated seems to be a more dubious proposition now.

There is one thing that we have become more certain of: It is going to be a wild ride in 2025.

A LESS PREDICTABLE WINE SALES OUTLOOK

Given the ambiguous economic backdrop and unpredictable repercussions of tariffs for wine in particular, the outlook for the wine market in 2025 has become less foreseeable as well. Nonetheless, under our base-case economic scenario, we still anticipate incremental improvement in 2025, though it is likely to be choppy and uneven.

The U.S. wine market is facing stiff structural headwinds that are apt to weigh on consumption for some time.

The U.S. wine market is facing stiff structural headwinds that are apt to weigh on consumption for some time. For that reason, I do not expect a return to growth in overall wine sales volumes anytime soon.

That said, the headwinds appear to be more impactful to the value segment of the market, while the premium and luxury segments look to be sheltered to some extent. I still expect premium and luxury retail sales to stabilize this year, mainly because the comparisons will be easier following the normalization that has occurred over the past three years. More attractive pricing should also stimulate demand. However, I am less optimistic that we will see a return to outright growth in 2025 because I am less sanguine that inflation and consumer sentiment will improve.

Wineries need to be flexible and prepared to react to a range of outcomes.

I also expect the rate of decline in DtC sales to moderate due to easier comparisons and a subsiding travel abroad wave. Nonetheless, still-high bottle prices, tasting fees, and travel costs continue to dampen prospects for growth. On the other hand, there is likely to be less competition in 2025, as the number of California wineries is now declining.

While I am cautiously optimistic that we will see some improvement in 2025, the risks are clearly slanted to the downside. Thus, wineries need to be flexible and prepared to react to a range of outcomes.

Even under our base-case scenario, it will remain a competitive market environment in all channels and price segments. Improvement in wine shipments will also lag as distributors work through excess inventory. Given the staff reductions that have occurred at distributors, producers will need to be more aggressive in selling their wine.

There will be many ups and downs in 2025 due to the on-again, off-again style of the new administration. My advice is to focus on what you can control, not what you can't. Hone your value proposition and messaging. Streamline your operations to improve efficiency. And seek creative ways to acquire new customers and boost sales.

THE GRAPE MARKET REMAINS QUIET

2024 was a challenging year for California grape growers, to say the least. The crush came in at just 2.84 million tons, the smallest since 2004, and nearly 850,000 fewer tons were harvested than in 2023. The shortfall was due to a combination of lower yields, vineyard removals and a deficit of buyers that resulted in a substantial quantity of grapes going unpicked.

Fewer of the state's grapes were under contract in 2024, as many wineries did not renew contracts and few new deals were signed. Growers with contracts in place fared reasonably well, as pricing had not yet fully adjusted to the new market realities. Those without contracts generally saw deeply discounted prices or received no value at all for their fruit.

Grape buyers will continue to have the upper hand in most cases this year unless there is a very short crop or upside surprise in wine sales.

Despite the diminutive 2024 crush, bulk wine availability is higher now than it was at this time last year, according to the Ciatti Company. Activity on 2025 grapes remains slow, though there has been a tentative uptick in inquiries recently, particularly on white varieties. Grape buyers will continue to have the upper hand in most cases this year unless there is a very short crop or upside surprise in wine sales.

While it is too early to say anything definitive about the 2025 crop, the water situation looks to be a mixed bag at this point. Supply levels are at or above historical averages at major reservoirs throughout the state, but snowpack is well below average in the Central and Southern Sierra regions. There will, however, be less bearing acreage in 2025 as removal activity continues, particularly in the Interior.

Bulk wine availability remains elevated, particularly for Cabernet Sauvignon, as well as reds more generally, and prices are lower than they were a year ago. On a brighter note, brokers suggest that there has been a bit more improvement in activity on the bulk market. This may be due in part to a tighter global bulk market. Indeed, prices have firmed in many regions due to smaller crops and vineyard removals in key supplier nations such as Australia, Chile and France.

This issue's Trending Topic section (**see Page 10**) provides a more detailed assessment of the crush report and outlook for the grape market.

TRENDING TOPIC

Absorbing the Excess

An oversupply remains despite the smallest grape crush in 20 years. Several factors will help shape the market's recovery, which will vary across appellations and varieties.

Part 1: Insights From the Crush Report

SMALLEST GRAPE HARVEST SINCE 2004

The 2024 crush came in at 2.84 million tons, according to the California Department of Food and Agriculture's 2024 Preliminary Grape Crush Report, a decline of nearly 850,000 tons relative to 2023 and the smallest California total since 2004. The crush was 21% below the trailing five-year average.

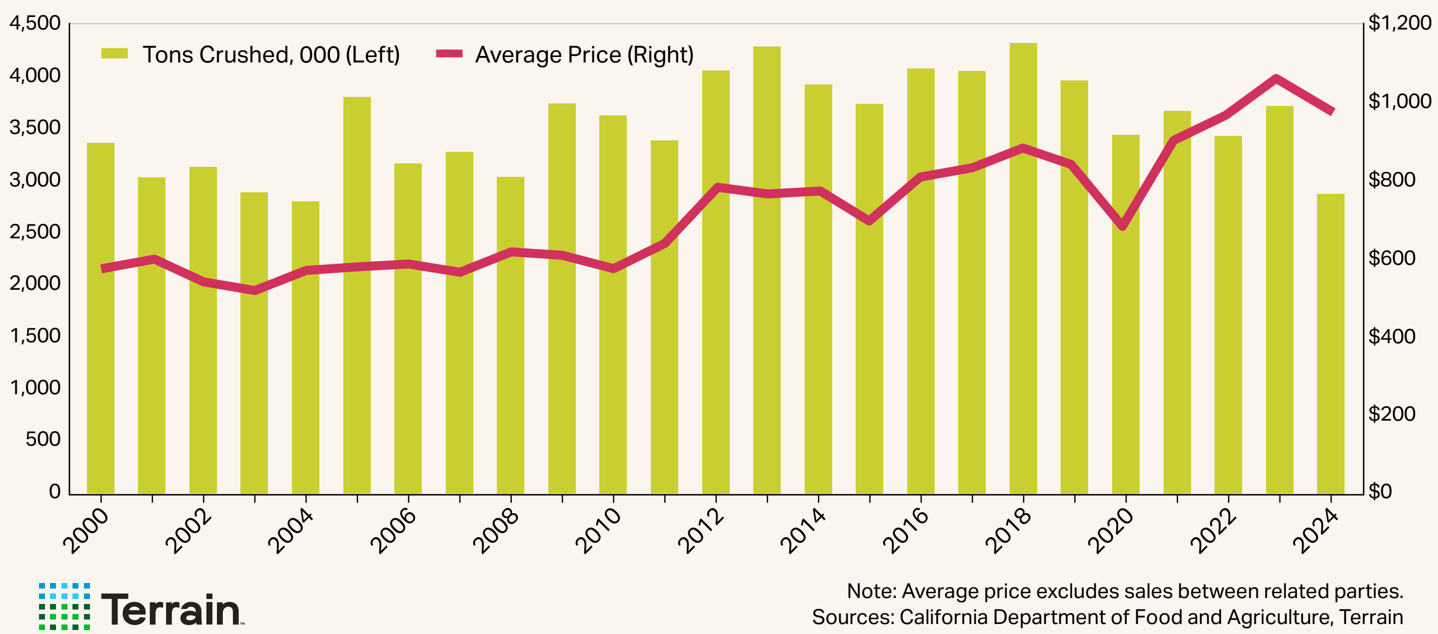
The statewide average price per ton fell by 8% in 2024. Nonetheless, the prices that California growers received in 2024 were still the second highest on record.

The fact that prices fell amid an acute reduction in tonnage is a clear indication of an oversupplied market, though this should not be news to anyone with a winery or vineyard in California.

The smaller crush was attributable to a variety of factors, including lower yields caused by adverse weather conditions and a modest reduction in bearing acreage. Importantly, there simply wasn't enough demand to absorb all the fruit produced in 2024. As many as 500,000 tons may have gone unpicked, according to market participants.

The state-level figures obscure some important nuances. Namely, the crush wasn't evenly small, and grape prices have not yet seen a meaningful downward adjustment.

2024 Marked the Smallest California Grape Harvest in 20 Years



Note: Average price excludes sales between related parties.
Sources: California Department of Food and Agriculture, Terrain

Tons of Wine Grapes Crushed Indexed to the 10-Year Average (=100)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1 - Mendocino	88	119	108	125	104	84	72	95	109	95
2 - Lake	87	105	107	104	106	89	76	103	136	110
3 - Sonoma	84	104	95	127	106	68	95	92	111	95
4 - Napa	85	105	97	126	109	68	82	92	117	98
5 - Solano	80	95	80	107	92	100	112	104	124	105
6 - South Bay	82	111	104	125	100	88	99	92	96	52
7 - Monterey	78	106	111	117	95	74	113	81	99	70
8 - S. Central Coast	70	104	108	114	99	89	111	91	115	69
9 - Northern Cal	86	102	122	113	124	93	85	61	123	98
10 - Sierra Foothills	90	113	117	127	107	95	89	61	94	62
11 - Lodi	89	107	99	113	103	91	104	100	104	79
12 - Modesto	112	114	108	109	95	88	91	83	97	68
13 - Fresno	114	105	109	107	105	99	88	88	82	73
14 - Bakersfield	111	107	118	115	104	83	83	86	73	35
16 - San Diego/Riverside	78	91	132	84	139	80	102	98	105	73
17 - Clarksburg	80	100	94	112	107	102	123	80	120	95

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Note: District 15 is excluded due to extreme variability in crush totals.
Sources: California Department of Food and Agriculture, Terrain

Average Price per Ton Indexed to 2014 Levels (=100)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1 - Mendocino	101	103	113	113	115	100	119	118	121	98
2 - Lake	105	111	115	113	119	92	115	121	128	104
3 - Sonoma	105	112	121	122	122	102	116	123	128	125
4 - Napa	109	119	132	140	144	114	152	167	175	172
5 - Solano	99	110	127	127	128	114	126	134	135	162
6 - South Bay	105	107	110	116	115	98	114	111	124	133
7 - Monterey	106	113	114	113	113	88	105	112	116	114
8 - S. Central Coast	103	107	115	110	113	108	114	123	125	119
9 - Northern Cal	120	129	121	121	130	124	135	141	138	133
10 - Sierra Foothills	110	111	117	124	129	129	124	126	136	137
11 - Lodi	98	101	100	96	93	93	102	106	101	97
12 - Modesto	99	102	104	104	102	99	113	116	113	112
13 - Fresno	95	98	98	102	99	101	109	115	109	107
14 - Bakersfield	97	100	96	97	90	99	102	112	110	108
16 - San Diego/Riverside	103	111	112	118	127	121	128	144	139	147
17 - Clarksburg	104	106	111	109	105	103	111	112	107	102

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Note: District 15 is excluded due to extreme variability in crush totals.
Sources: California Department of Food and Agriculture, Terrain

THE CRUSH WAS UNEVENLY SMALL

The 2024 grape crush was down across all regions and grape pricing districts. However, the extent of the shortfall varied widely.

The Central Coast saw the largest percentage decline in tonnage. The crush was down 35% from a year earlier and came in 29% below the five-year average. The Northern and Southern Interior regions also recorded extensive year-over-year declines and crushes that were well below their recent averages.

The North Coast harvest was not nearly as light. It was down by 15% versus a large crush in 2023, but the 2024 harvest was still the second largest in the past five years and only slightly below the 10-year average.

The North Coast's relatively generous harvest was due to several factors:

1. The North Coast was less impacted by heat spikes than the Central Coast and Interior.
2. A larger share of the North Coast crop was under contract, so less fruit was likely left behind.
3. Bearing acreage has remained relatively steady in the North Coast, while the Central Coast and, particularly, the Interior have seen more substantial vineyard removals.

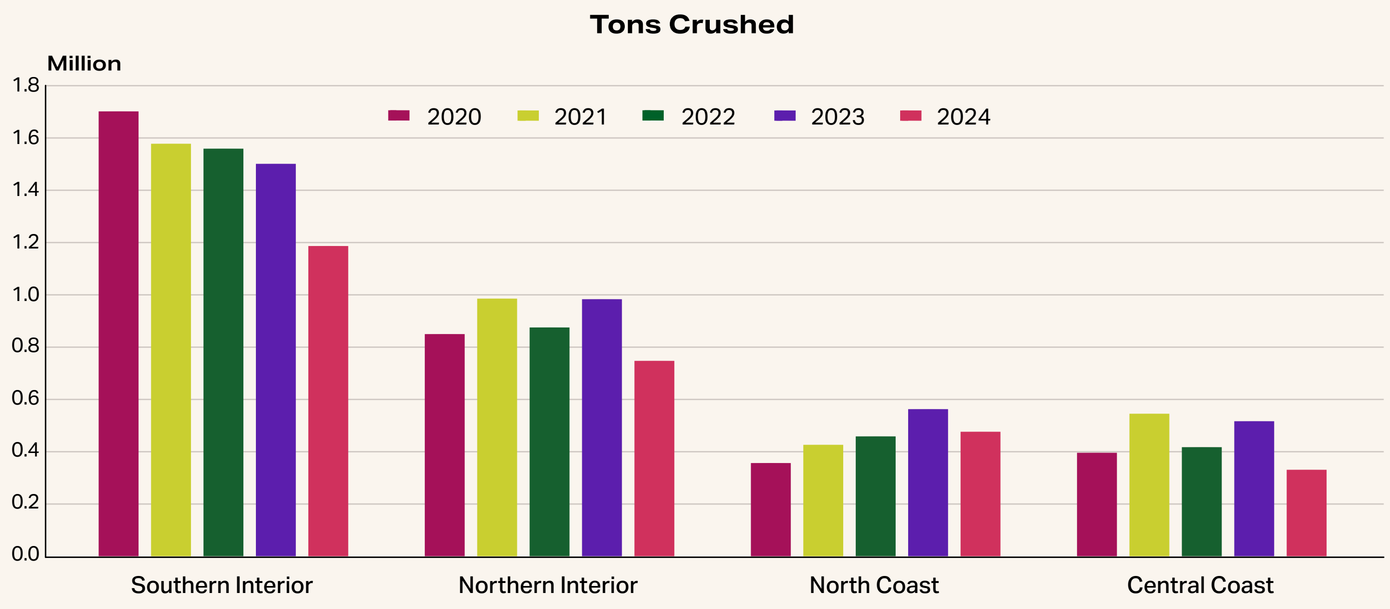
See **Page 11** for historical crush figures by district.

All told, white grapes formed 49.4% of the crush — their highest share since 1997.

WHITE VARIETIES WERE LESS SHORT THAN REDS

The white crush was down in 2024, but the 18% drop was far smaller than the 27% decline for red varieties. Moreover, white tonnage was just 14% below the five-year average, versus a 27% shortfall for reds. All told, white grapes formed 49.4% of the crush — their highest share since 1997.

The North Coast Crush Was Relatively Generous



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Sources: California Department of Food and Agriculture, Terrain

White Varieties Generally Saw Smaller Declines in Tonnage

Variety	2024 Tons	Change versus 2023	Change versus 5-Yr. Avg	Variety	2024 Tons	Change versus 2023	Change versus 5-Yr. Avg
Cabernet Sauvignon	447,919	-23%	-23%	Chardonnay	524,111	-20%	-12%
Pinot Noir	213,393	-26%	-17%	French Colombard	261,501	-12%	-10%
Zinfandel	198,296	-15%	-33%	Pinot Gris	190,393	-19%	-14%
Rubired	149,349	-24%	-28%	Sauvignon Blanc	136,981	-15%	2%
Merlot	129,213	-29%	-31%	Muscat of Alexandria	131,958	-16%	-23%
Petite Sirah	66,696	-23%	-26%	Chenin Blanc	37,457	19%	13%
Syrah	52,371	-24%	-28%	White Riesling	28,992	-17%	-9%
All Red Varieties	1,438,527	-27%	-27%	All White Varieties	1,405,120	-18%	-14%

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Sources: California Department of Food and Agriculture, Terrain

Among the leading white varieties, Sauvignon Blanc came in slightly heavier than average, and Chenin Blanc tonnage grew by 19% in 2024, exceeding the trailing five-year average by 13%. Conversely, the Chardonnay and Pinot Gris harvests came in well below average.

All the leading red varieties saw substantial declines in 2024 and came in well below average.

White grapes continue to command more interest from potential buyers than reds in early 2025.

White grapes were spared to some extent from a late-season heat spike, as many had already been picked. But the relatively more generous white harvest is also likely attributable to stronger demand and a more active spot market. White wine sales have declined in recent years, but at a much slower rate than red wine sales.

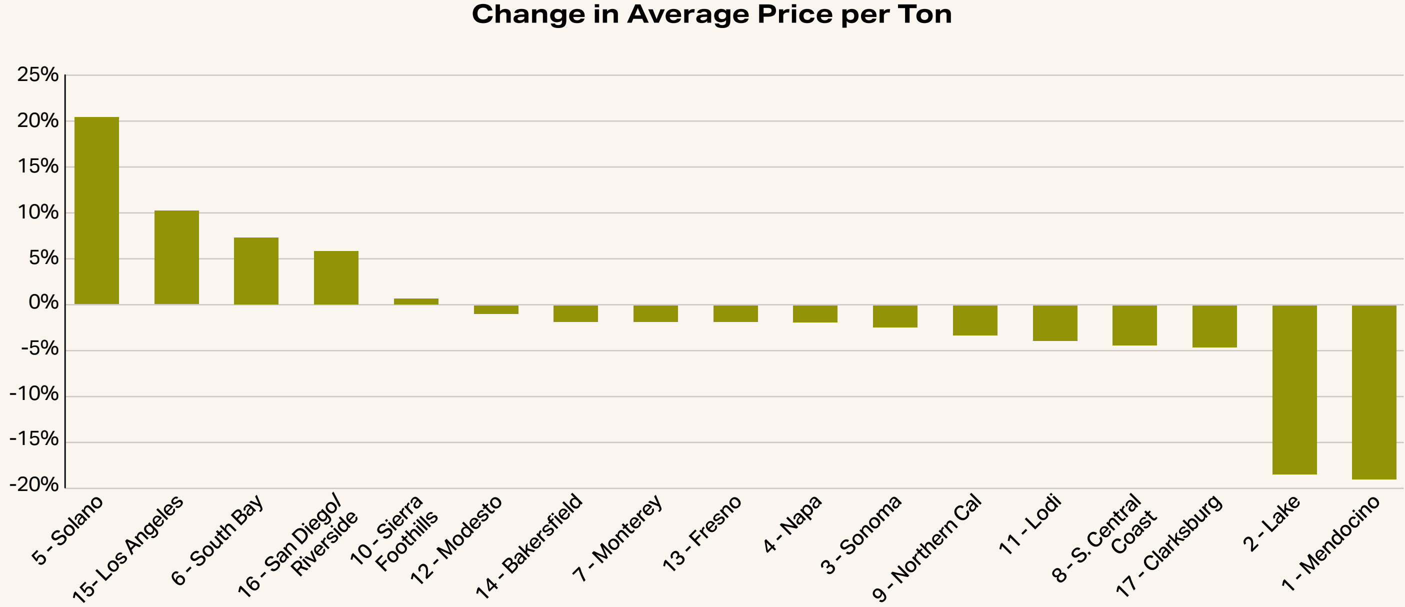
White grapes continue to command more interest from potential buyers than reds in early 2025, which suggests that demand will be more resilient again this year. Despite the decisive shift in consumer preferences toward white wines, red grapes continue to account for the majority of plantings. They represented 63% of the total in 2023 and 62% in 2024, according to Allied Grape Growers' nursery survey.

GRAPE REPORT PRICES HAVE NOT YET ADJUSTED TO NEW MARKET REALITIES

The weighted average price per ton for California grapes fell by 8% in 2024 in transactions between unrelated parties. However, this partly reflects a shift in the mix of grapes sold. Only two districts saw price declines of 5% or more (Lake and Mendocino counties), and five districts (all small) saw increases.

Thus, growers with contracts in place generally made out OK in 2024 (provided they got paid) despite weakening market conditions. Still, margins have been squeezed in recent years due to rising production costs.

Only Two Districts Saw Steep Grape Price Declines in 2024



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Sources: California Department of Food and Agriculture, Terrain

Contracted fruit represented a larger share of sales in 2024 because spot market activity was muted.

Crush report prices largely reflect the economics of contracts signed prior to harvest or in prior years, as multiyear deals are common. Contracted fruit represented a larger share of sales in 2024 because spot market activity was muted. Prices on many multiyear contracts also have annual adjustments tied to the crush report. Because grape prices generally rose in 2023, these contracts saw upward adjustments for 2024.

Given this, grape report prices are not a reliable indicator of where the market stands today and should only be considered a starting point for negotiations. Prices on new and expiring contracts in 2025 will depend on the supply and demand balance within their respective segment of the market (variety and appellation) as well as the qualities of the individual site and grower. In most cases, grape buyers will have ample options, so prices are likely to come in lower in 2025.

See **Page 11** for historical price figures by district.

The key question is: How long will it take for the market to recover?

Part 2: An Uncertain Timetable for Recovery

The California grape market is clearly in a state of excess supply. There wasn't enough demand to absorb all the fruit grown in 2024 despite below-average yields. And bulk wine availabilities are higher than they were a year ago even though far less fruit was crushed, according to figures from the Ciatti Company.

The key question is: How long will it take for the market to recover? This is a complicated question to answer, and the timeline will vary across appellations and varieties due to the fragmented nature of the grape market.

What I can do is highlight some of the factors that will play a role in shaping the trajectory of the grape market going forward.

THIS CYCLE IS DIFFERENT

The grape market is inherently cyclical. The long lead time required to bring new supply on line in response to rising prices makes it difficult to maintain balance between supply and demand. So, California has been here before. However, the roots of this downturn differ, so prior cycles don't provide a very useful guide to how deep the slump may go or how long the recovery might take.

The current cycle is different. It is primarily the product of a structural decline in demand rather than overplanting.

Recent cycles were driven primarily by overplanting, often coupled with a temporary slowdown in wine sales, as was the case during the Great Recession years. But grape demand rebounded quickly once the long-term upward trend in wine sales resumed and brought demand back in line with supply.

The current cycle is different. It is primarily the product of a structural decline in demand rather than overplanting. U.S. wine consumption began to plateau in the mid-2010s. This, coupled with a modest uptick in planting, resulted in an imbalance between supply and demand, causing grape prices to flatten in the late 2010s. Like today, there were calls to tear out vineyards back in 2019.

Then the COVID-19 pandemic hit. Wine sales initially surged, particularly in the premium and luxury segments of the market. But this proved to be unsustainable, and sales have declined across price tiers over the last three years.

Wine shipments grew at an even faster pace in 2020 and 2021, which stimulated grape demand, though much of the increase ultimately proved to be due to inventory build at retailers and distributors as opposed to growth in final demand.

A series of short crops between 2020 and 2022 also masked the growing disconnect between the capacity to produce grapes and demand for them. Rising grape prices led to an increase in planting in 2022 and 2023 and slowed the pace of vineyard removals, delaying the market correction that had begun in 2019.

Demand for grapes ultimately depends on wine sales, and the outlook for wine sales remains murky.

The problem came to a head in 2023 when the California grape market choked on a larger crop.

DEMAND GROWTH NOT LIKELY TO PULL THE GRAPE MARKET OUT OF ITS SLUMP

Where do we go from here? Demand for grapes ultimately depends on wine sales, and the outlook for wine sales remains murky. But one thing is certain: Wine is facing stiff headwinds.

Declining sales volumes in the lower price tiers look to be primarily structural in nature, and I am not anticipating a rebound anytime soon. The premium and luxury segments appear to be sheltered to some extent, but prospects for growth appear to be more muted than in the past. At this point it is unclear whether sales in these segments will begin to grow again, or simply shrink at a slower rate than the value segment.

As they have in the past, growers should not count on expanding wine sales to pull the grape market out of its slump.

In addition to declining wine sales, excess wine inventory also weighed on grape demand in 2024. The small 2024 crush should help to right-size winery inventories, paving the way for grape demand to firm up a bit. However, this will be offset by distributors trimming excess inventory, which could depress wine shipments again in 2025.

California wineries have faced stiff competition from foreign suppliers and gradually ceded market share to imported wines, particularly in the lower price tiers. Some wineries have sought to reduce costs by adding foreign bulk wine to their brands. Foreign competition has reduced demand for California grapes, particularly in the Interior, and a prolonged period of import tariffs could potentially result in stronger-than-expected grape demand.

THE PACE OF THE RECOVERY WILL DEPEND HEAVILY ON THE PACE OF VINEYARD REMOVALS

Given the muted outlook for demand-side improvement, vineyard removals will need to be an important part of the solution.

There has been progress already. According to the California Grape Acreage Report, bearing acreage contracted by 20,000 between 2019 and 2023. Allied Grape Growers suggests that the total declined by an additional 20,000 acres in 2024. Nonetheless, 40,000 acres represents only a 7% reduction from the peak — a good first step but not nearly enough to right the ship, as wine sales have declined by a larger percentage over the past five years.

Vineyard removals will continue in 2025, but barriers in many areas will constrain them.

Vineyard removals will continue in 2025, but barriers in many areas will constrain them. They include concerns regarding the ability and cost to replant vineyards in the future, a lack of viable alternative uses for the land, and a dearth of removal services. Most of the tear-outs have been aged or diseased vineyards so the acreage that remains will be more productive.

Plus, nearly 40,000 newly bearing acres will come on line in 2025 and 2026, according to Allied Grape Growers' nursery survey. They are the new plantings that accelerated in 2022 and 2023 due to the temporary uptick in demand during the pandemic and short crops.

The coastal region looks to be better positioned than the Interior with respect to consumer demand.

Plantings began to subside in 2024, so the number of newly bearing acres will slow in 2027 and beyond. That may pave the way for continued improvement on the oversupply.

THE COAST IS BETTER POSITIONED IN TERMS OF DEMAND

The coastal region looks to be better positioned than the Interior with respect to consumer demand, as it produces grapes mainly for the premium and luxury segments of the wine market. These should outperform relative to the lower-end segments going forward. Nonetheless, volume growth is likely to be very modest and is far from assured.

Demand for coastal grapes is likely to remain soft in the near term because wine inventories look to be long. The Ciatti Company indicates that coastal wines compose a disproportionate share of available bulk wine. Moreover, contracting activity has been minimal on coastal grapes thus far in 2025.

North Coast producers are likely to be heavier in inventory than their Central Coast counterparts because the 2024 North Coast crush was more generous.

Some vineyards will likely need to be removed to bring the coastal grape market back into balance. There has been little progress on this front to date. This is particularly true of the North Coast, where pullouts have been minimal due partly to the lack of alternative uses. Nonetheless, given that some acreage has been out of contract for several years now, the pace of removals is likely to accelerate.

More acreage has been pulled out along the Central Coast, mainly in Monterey and Santa Barbara counties, though there are barriers to removals here as well. Coastal planting activity has also been relatively resilient in recent years. Approximately 30,000 acres of newly bearing vines are expected to come on line between 2025 to 2027. Thus, there will be little if any reduction in bearing acreage over the next three years unless a substantial number of vines are pulled.

All considered, the coastal grape market is likely to remain depressed for some time unless there is an upside surprise in premium and luxury wine sales or vineyard removals are heavier than anticipated. The Central Coast looks to be ahead of the North Coast at this point. Even so, some buyers who came down from the North Coast to take advantage of better pricing may transition back if the price differential narrows.

The most prestigious appellations and vineyards within both areas are best positioned with respect to the market. There will always be demand for this fruit. In a down market, it simply becomes a matter of price.

THE INTERIOR LOOKS CLOSER TO BALANCE TODAY

The Interior grape market looks to be closer to balance than the coast due to a more aggressive supply-side course correction. Most of the vineyard removals to date have been in the Interior, and its 2024 crush was the smallest since 1998. Plantings have also subsided, so there will be far less new bearing acreage coming on line in the Interior over the next several years.

The demand side of the equation doesn't look as promising. Sales in the under-$11 price tiers are likely to continue to decline going forward. Thus, shrinking acreage is chasing a demand target that is shrinking as well. Acreage will need to be steadily removed to bring the grape market back into balance and keep it there unless the demand situation improves. So, the

Interior's recovery will hinge heavily on the pace of vineyard removals.

That said, there could be some relief from foreign competition. Vine removal programs in key supplier nations such as Australia, Chile and France have helped to firm up global bulk wine prices. A weakening dollar and the potential for targeted and sustained tariffs could impact the equation as well.

A reduction in foreign competition represents an upside scenario for the Interior grape market.

In 2024, the U.S. imported the equivalent of 16 million 9-liter cases of bulk wine alone, excluding those from Canada, which are destined for non-wine products. This is down from an average of 23.5 million cases over the prior five years, which is enough wine to generate demand for around 350,000 tons of grapes per year. The Interior crushed just under 2 million tons in 2024. Assuming that most of these imports are displacing grapes from the Interior, a reduction in foreign competition represents an upside scenario for the Interior grape market.

FAIR GAME IN CHALLENGING YEAR

While the timetable for recovery will vary across appellations and varieties, 2025 is certain to be another challenging year for both coastal and Interior grape growers, as buyers will have the upper hand in most cases. It will be important for sellers to carefully consider all offers and be flexible on price unless they are confident they are holding the better hand.

Growers will also need to continue to focus on improving operating efficiency to keep costs under control without sacrificing quality. Those with aged or diseased vineyards in marginal areas that are out of contract should not hesitate to remove them.

The grape market is cyclical, and sellers will inevitably hold the upper hand again at some point.

Buyers should resist the temptation to bargain too hard, as growers may be forced into suboptimal decisions that impact quality if they can't make a fair profit. Moreover, the grape market is cyclical, and sellers will inevitably hold the upper hand again at some point. If growers are not able to achieve acceptable margins, too many grapes could be pulled, and this result could come about sooner rather than later.

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 wine sales trends, 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 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
	$$	Premium	$11 to $19.99
	$$+	Super-Premium	$20 to $49.99
	$$$	Luxury	$50 and up