State of the US Wine Industry 2025

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Introduction

The wine industry offers a tapestry of beauty and craftsmanship that is captivating, evoking a lifestyle that seems worlds away from ordinary life. The business is not merely an occupation; it's a passionate pursuit, rich with sensory experiences, social connections, and profound personal meaning. For those of us lucky enough to work in the industry, those are a few of the reasons we chose this path as a career. For the consumer, those same characteristics ignite envy in those who are not immersed in the business. It's that mysticism that calls them to enter this idyllic realm we call wine country.

Admittedly, that was flowery. But it evokes the imagery reflected in the eyes of those looking in. Consumers may think those of us in the wine business live luxurious lifestyles, waking at 4:00 PM for massages with enough time for a seven-course meal. The reality is that this business is flat-out hard work, and it's getting harder.

After thirty years of moving up and to the right, it is foreign to see wine industry metrics flatten out. This isn't like any era before, so the solution will not be straightforward. We lack a historical solution set to emulate. There is hard work ahead, but I do not doubt that creativity, something we have in abundance, will provide solutions.

In my opinion, we are caretakers charged with protecting an industry that's thousands of years old. We each have a part to play. For me, as a banker and analyst, it would certainly be easier to downplay the difficulties we face and report that all is well. However, it's critical that our industry leaders be forthright and transparent, communicating the data as we see and understand it—even as it becomes uncomfortable to read. To do otherwise slows adaptation, so the faster we reach a consensus on the issues, the quicker we can implement collaborative solutions. Translation: don't blame the messenger!

Change always creates opportunities for those willing to understand the risks and are capable of charting a course toward success. We hope that presenting our views will spur new conversations and encourage industry collaboration to help us evolve and thrive in the years to come.

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Rob McMillan is one of the top wine-business analysts in the United States and the author of Silicon Valley Bank's highly regarded annual *State of the Wine Industry Report*, described by *The New York Times* as "probably the most influential analysis of its kind."

With Rob's decades of experience researching the industry and working with winery clients, his views are sought after and trusted by winery owners, journalists, entrepreneurs and investors.

He is a prominent speaker, domestically and internationally, and you will find him extensively quoted in the national, regional and trade press.

"In my opinion, we are caretakers charged with protecting an industry that's thousands of years old. We each have a part to play."

Review of 2024 Predictions

What we got right

- Absent an external event, it is unlikely there will be a US recession in 2024.
- Total wine category sales will end in 2023 with negative volume growth between minus 4% and minus 2%.
- Volume growth will remain negative in 2024. Value sales will hover near 0% growth, plus or minus 1.5% in 2023 and remain in that range in 2024.
- Premium wineries currently have balanced inventory positions and will successfully take small bottle price increases in 2024. High-production wineries will find price increases more difficult.
- The industry is presently built to overproduce. Total wine consumption is decreasing by volume. Retail inventories are backing up into wholesale. Wholesale inventories are bulging, and wineries are being more cautious about carrying inventory in a reduced-demand environment. Without improving demand, retailers can only rebalance inventories by buying less from wholesale while selling through their existing inventory.
- The planted acreage in California and Washington is exceeding current demand. Oregon's planted acreage is in balance with demand. We will likely see a market correction for grapes and bulk wine in grapes intended for lower-priced wine.

What we got wrong

- Tasting room visitation that was lower over the past two summers will grow in 2024.

  Why we were wrong: We based our prediction on the theory that the post-COVID travel boom would be out of everyone's system by 2024. That type of travel might have lowered visitation to wine country, but with three years of lower visitation to tasting rooms, there is more to this story, which we cover in the report.

- Slower in 2023 through October, direct-to-consumer sales will grow modestly in 2024.

  Why we were wrong: This is what you get when you make predictions and insert hope into the math. We believed this prediction for the same reason as our visitation prediction. I stretched for something positive. I had a basis in fact, but it was a weak one, and it turned out wrong.

What we got partially right

- Bottle prices are showing some resilience in late 2023, but with demand fragile and too much supply at retail and wholesale, it won't take much for the industry to increase flash sales sites and increase discounts and promotions in 2024.

  Why: The use of flash sales dramatically increased in 2024, so we got that piece right. However, when we reevaluated the prediction of higher discounts and promotions, we found that wholesale and retail discounts were more moderate than we expected.

  The interchange between wholesalers and retailers was more nuanced in 2024. Some wineries sold through like clockwork as if nothing had changed. Others remain stuck. Retailers are culling back shelf space for SKUs that aren't moving and are far more cautious about the selection of wine SKUs they will put on the shelf. If a wine never leaves the warehouse or sits on the shelf unsold, the discount doesn't show in the data. Ultimately, the data did not give us the complete picture here.

- Premium wineries will end 2023 with slightly negative volume sales. Value sales growth between 1% to 4% is expected, strengthened by a good Q423. Total premium wine sales by value will improve in 2024.

  Why: Premium wineries ended 2023 with good OND sales, as predicted. Value sales (revenue) finished 2023 in slightly positive territory. However, premium wine sales trended lower in 2024 and will not improve over 2023 at year end.

2025 Predictions

The wine industry is undergoing a significant reset, marking the first demand-based correction in three decades. While identifying positive indicators in the data is challenging, they do exist. No- and low-alcohol products are growing at a dynamic pace off a low base but I can argue that is a mixed positive. White wine and prosecco have positive growth rates by volume, and white wine now has better sales growth rates than red wine. The varietal shifts may be another indicator that the rotation to younger consumers is underway. In the premium segment, the top quartile in our data had average revenue growth rates of 22%, much better than the full segment.

The key issue to grasp in this era lies in the contrast between the preferences of older, high-spending wine consumers and the newly emerging 21-year-old demographic. If you believe that older consumers index higher in wine versus the rest of consumers, the current market dynamics are explainable. To mitigate the decline of older consumers, it's essential to rethink and enhance our approach with the 30-45 age group and improve our share between beer, wine, and spirits in that cohort.

One of the most frequent questions I'm asked is, "How long will this last?" It's important to recognize that forecasts are inherently flawed.

In this case, at a high level, it's just math–assumptions of consumers leaving the ranks to be replaced by new consumers with lower wine preference levels. Although this prediction is informed, it's not a simple equation. The myriad variables involved make precise predictions impossible. Nonetheless, we are offering general guidance and our informed estimates as follows.

Forecast

General

- Boomers are ‘sunsetting’ at 2.6M annually today and forecasted to peak around 2037 at 4.4M. Because consumption is already declining ahead of deaths in the cohort, the meaningful impact on sales declines should peak before 2037, which we estimate will come between 2029 and 2031.
- The premium business will return to zero growth between 2027 and 2029 depending on the success in adapting to a new consumer and efforts to promote the category. It will grow at the rate of inflation plus population growth thereafter.
- Off-premise must positively evolve before we can return to normal wholesale alcohol inventory turns. Off-premise sales will move back zero percent growth by volume between 2027 and 2029.
- Until retail sales improve, growers will have difficulty negotiating favorable contract pricing and terms. Given the other predictions for flat growth just mentioned the current market dynamics could extend past 2030 in many regions.
- When computed, total wine category sales will end the just completed 2024 year with negative volume growth between minus 3% and minus 1%.
- When computed, value sales for the total wine category in 2024 will hover near 0% growth, plus or minus 1.0%. With expected discounting through 2025 likely, we expect to see value sales align more closely with volume sales and 2025 to finish the year at minus 1%, plus or minus 1%.

This is one of those times where I’d like to be proven wrong and see a more rapid turnaround. But this is a correction caused by declining demand instead of overproduction, as has been the case for the past thirty years. Changing the behavior of consumers takes time. The underlying reasons for this market instability won’t change overnight. While painful to experience now, these shifts may result in a healthier industry with more accessible bottle prices that will attract new consumers tomorrow.

Supply

- Clearing backed up wholesale inventory and returning to predictable depletion volumes will likely take most, if not all, of 2025 and possibly continue into 2026.
- The premium wine business has healthy inventory levels - only slightly heavy. Owners have shown discipline in not taking on cheap fruit that was available and uncontracted for in 2023 or 2024. Aligning with this finding, only 10% of premium producers suggest they will increase their grape purchases in 2025. Chart 30.
- When 2024 totals are calculated, we estimate that California will have crushed 3.2 million tons, which will be the smallest crush in the state since 2008. Chart 27.
- Supply in the West is in a position of excess in every region, with some regions better than others. We can’t identify quantitatively what didn’t get harvested in California, other than knowing it was in the thousands of acres. The same will be true in 2025 with fruit that will not find a home.
- Publicly, industry experts called for 50,000 acres of vineyard removals net of new planting, particularly in diseased fields and grapes destined for wine priced below $12.00. While removals are continuing as of this writing, we believe there need to be calls for additional acres removed.
- Bulk wine is plentiful and available at very low prices. Purchase activity is sporadic, and buyers are comfortable waiting. They believe juice will be there if they need it. Given the expected decline in volume sales in 2025, this situation should continue at least through 2025 and likely longer as demand continues to look for a bottom.
- From the 2024 SVB State of the Industry Survey, only 16% of grape buyers suggest they plan to buy more fruit in 2025. We don’t expect that number to grow.
- The trend of strong vineyards and wine brands changing hands will continue. More retirement-aged owners will be looking for exits in 2025 as part of another bubble, but smaller average-size wineries will have a more challenging time finding buyers at previously expected exit prices.

Demand

- 2025 online sales will continue to shrink as a percentage of sales by channel.
- The 21-29 year-old age bands are likelier to abstain or consume alternatives to wine. That will continue in 2025.
- World demand for wine is waning, mainly for the same reasons as the US. That will continue in 2025.
- Tasting room visitation will be slightly lower in 2025 compared to 2024.
- The downturn in demand is reversible if the industry collaborates on solutions to target 30 – 45-year-old consumers. Aggressive category marketing and promotions will shorten the length and depth of this downturn and will lead to better growth once supply and demand rebalance. Efforts at marketing will continue to gain traction regionally.

Price

- Discounting is always the tonic for oversupply. We expect to see different forms of discounting continue with grapes, bulk wine, and bottled wine. Price adjustment, in many cases, will be disguised with excess inventory pushed through private labels, flash sites, and newly created labels from negociants.
- Established labels won't need to discount their top-line offerings, but shrinking the size of the production, offering free shipping and a litany of other actions will help move volume if needed. **This will be a great era for consumers looking for good deals.**
- Given the acres of unharvested fruit in 2024, grape prices will drop in virtually all appellations but not in all vineyards. Producers with a strong history of quality and extended buyer relationships will be less impacted, if at all.
- Forty-two percent of SVB survey respondents said they will take a small price increase in 2025. Given the higher costs of production in a modest inflationary environment, it makes sense owners would want price increases. We believe the true number will fall below the forty-two percent survey average.
- Some vineyard prices softened in 2024 but vineyard properties in coastal regions felt the least impact. The lack of good comparable sales in many regions will continue to add an element of volatility to sales transactions.
- Entering 2025, there are many vineyards for sale without interested buyers. As comps start to come in for closed sales, 2025 will likely see average vineyard values drop in more regions as sellers greatly outnumber serious buyers.
- As of this writing, there are discussions regarding increasing tariffs on all European products. If wine is in that product group and the tariffs are substantial, it might push larger US buyers who use imported bulk wine for domestic labels, into switching out to domestic juice.

  There are many conditions needed for this to occur. For the wine industry, since we export less and consume more wine domestically, tariffs will generally have a positive effect - ignoring the impact on domestic producers who export, domestic importers, and the other side of the discussion with the possibility of retaliatory tariffs on other US products.

Setting a Baseline

I often discuss the industry from a high altitude when writing and speaking. As you read the report, it's essential to acknowledge that the large, high-volume producers represent a significant portion of the under $12.00 wine sold through the three-tier system into on- and off-premise accounts, and that fact often drives the macro conversation. More wineries by numbers, however, sell most of their wine through direct-to-consumer channels at higher prices versus selling through wholesale.

These two distinctive production and sales models produce different results, as seen in Charts 1 and 2, and generally require different solutions. When reading this report, you must separate the general statements that apply to the industry as a whole from those that apply to your specific segment.

Over the past several years, as industry sales have flagged, the data confirms that larger wine companies and growers producing lower-priced wine are having to work overtime. The small producer seemed somewhat insulated in the past, but that is changing.

Averages are, at times, misleading. To that point, the top quartile of premium wineries experienced an average of 22% revenue growth in 2024, while the bottom quartile experienced a 16% revenue decline.

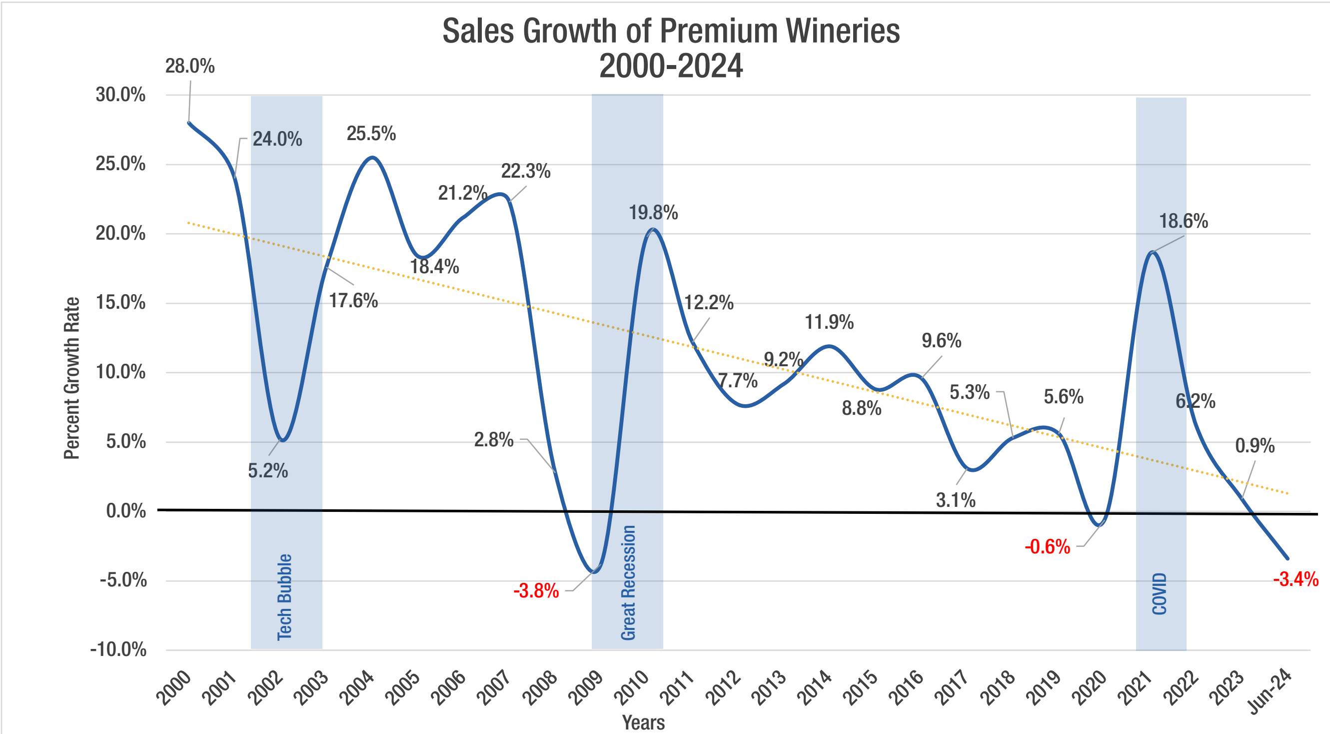
Chart 1

Sales Depletions for the Largest Eight U.S. Wineries

Rank	Company	9-Liter Case Depletions (millions) 2020	2021	2022	2023	Change 2020-2021	Change 2021-2022	Change 2022-2023
1	E. & J. Gallo Winery	95.3	93.4	90.3	87.6	-2.0%	-3.3%	-3.0%
2	The Wine Group	42.0	40.5	41.7	39.4	-3.6%	3.0%	-5.5%
3	Constellation Brands	21.6	20.7	23.5	19.9	-4.2%	13.5%	-15.3%
4	Trinchero Family Estates	18.0	17.6	17.4	16.4	-2.2%	-1.1%	-5.7%
5	Delicato Family Wines	15.4	15.7	15.0	15.1	1.9%	-4.5%	0.7%
6	Deutsch Family Wine & Spirits	12.4	11.8	12.0	12.6	-4.8%	1.7%	5.0%
7	Ste. Michelle Wine Estates	7.8	7.6	7.0	6.7	-2.6%	-7.9%	-4.3%
8	Jackson Family Wine Estates	6.1	6.4	6.2	6.0	4.9%	-3.1%	-3.2%
Average Sales Growth for the largest 8 wineries						-1.6%	-0.2%	-3.9%

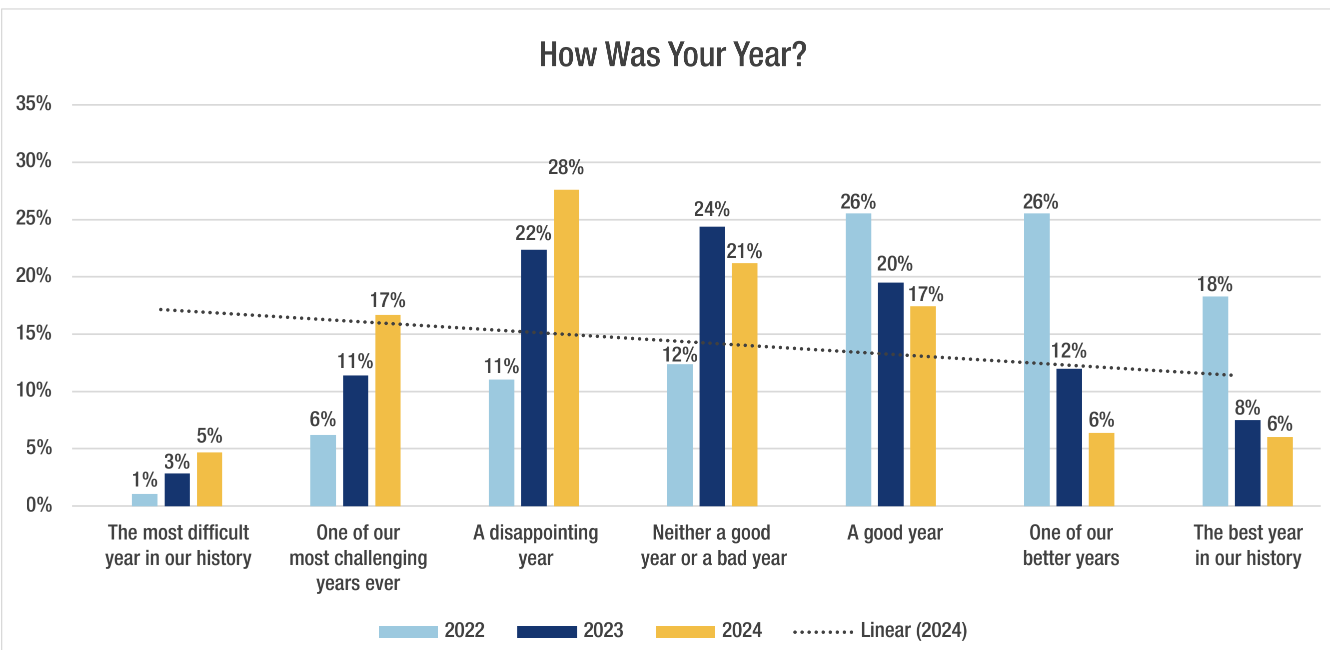
Source: Shanken's Impact Databank Review and Forecast 2024

Chart 2



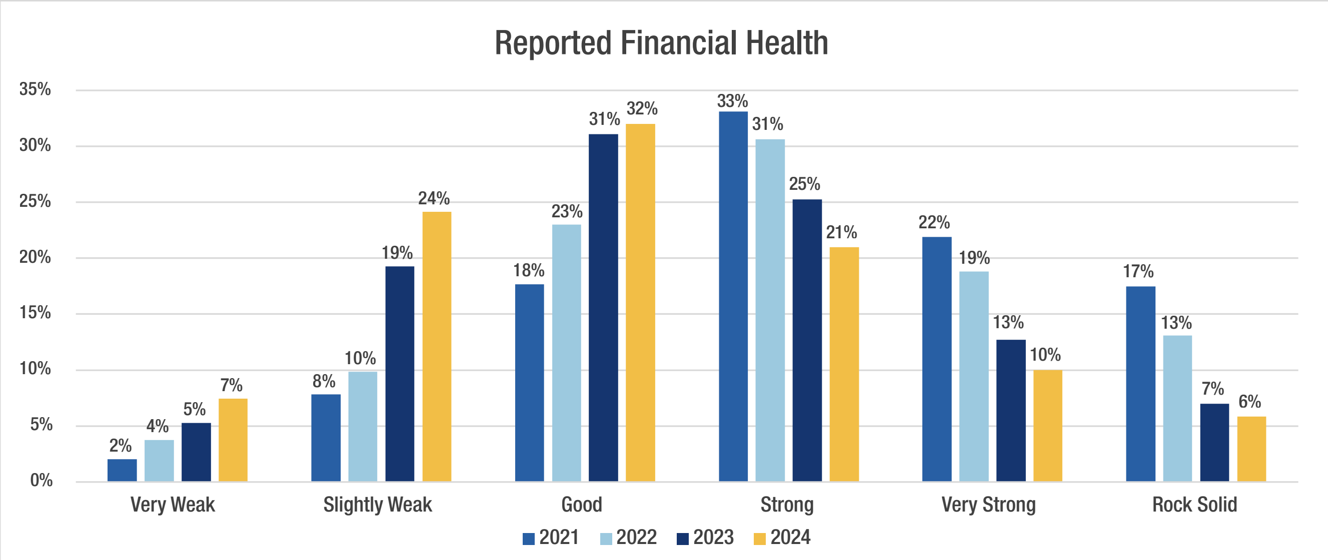
Source: Silicon Valley Bank Peer Group Database of financial statements. (PGA)

Chart 3



Source: SVB 2024 State of the Wine Industry Survey

Chart 4



Source: SVB 2024 State of the Wine Industry Survey

Thank you to those who participate each year in the annual survey. You will receive 100 slides with more detailed breakdowns by region, case production, and average price point.

If you want to be included in the two SVB surveys and receive the results, you can sign up here.

Nuance is critical to understanding the degree of industry change, now and ahead of us. The annual SVB State of the US Wine Industry Survey conducted in October 2024 received a response from over 600 participants. Charts 3 and 4 from the survey reflect the participants' short- and longer-term financial health, providing some of the needed nuance and context. Chart 3 results from a simple question, "How was your year?"

Over the past five years, 2022 has been characterized as a positive year reflecting the post-COVID business reopening. However, noted in Chart 4, a pattern has appeared since, reinforcing the industry challenges with a 17% downward shift from the prior year's results. Objective information from the SVB Peer Group Database of Industry Financial Statements supports that the subjective survey results shown in Chart 4 are consistent with the financial data.

In a separate chart only given to survey respondents, we dig deeper into the question "How was your year." We find that by region, Sonoma and "other CA" which includes California's Central Valley, had the most significant negative view of the year, with 73% reporting it was disappointing. At the same time, Virginia celebrated an excellent year, with 68% of respondents feeling optimistic about 2024.

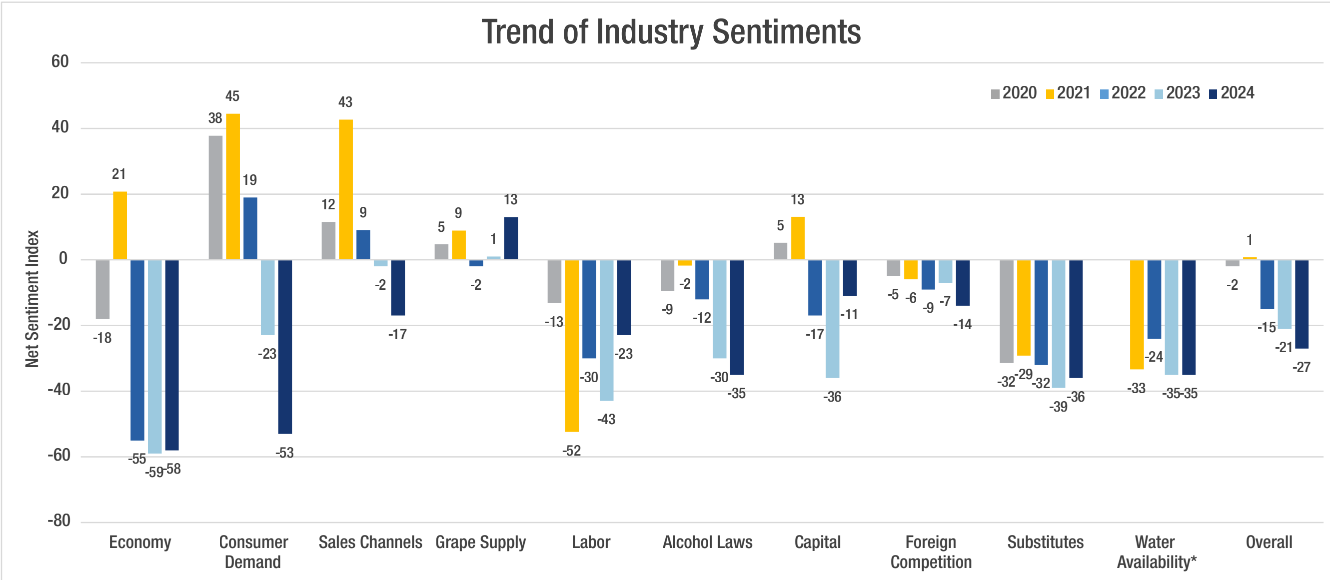
In chart 4, it's noteworthy to see that winery owners rate their financial health as generally good. How is that possible given the difficult industry news?

First of all, the situation is not binary, and averages don't explain the situation for everyone. Winery owners are resilient. Those who have been in business with their own properties with years of successful brand-building under their belt forged their financial strength over time. Those wineries will work their way through this challenging period and emerge out the other side with new opportunities.

Second, the press has been outspoken regarding outliers such as the Vintage Wine Estates bankruptcy and a handful of other closures. Those events do not define the industry either. Industry sales are softer, and profitably is lower on average. So, on the edges of the industry, while there will be other closures of wineries in 2025, the Vintage Wine Estates bankruptcy is in no way representative of the industry, nor is it a precursor of a rash of bankruptcies to come.

The overwhelming number of wineries list their status toward the center of Chart 4 in the Good or Strong categories. Wineries have staying power, which is a better description of the current state of affairs than the minor losses showing as a simple average.

Chart 5



Source: SVB 2024 State of the Wine Industry Survey. *Water Availability first tracked in 2021

The SVB Wine Industry Sentiment Index in Chart 5 uses the Michigan Consumer Sentiment Index methodology to gather insights regarding the mood in the business community by drilling down into the components of respondent opinions.

How do our industry colleagues feel? They could feel better. The sentiment index is at a 10-year low point, even when including the 2020 COVID lock-down years. The economy and labor remain the most significant issues, the latter of which has been a top concern for years.

Talk of deportations of farm workers by the incoming administration isn't helping the labor component of the index. However, this year, there is a dramatic change in the sentiment surrounding consumer demand, which has now moved into the categories of highest concern. We will spend significant time addressing demand in this report.

Most of the remaining index subcategories are negative. The only component the industry feels good about in the Sentiment Index is grape supply. That is because when there is too much supply, as is the case today, grape prices drop. But this is a winery survey explaining the optimism. If you ask grape growers, the answer will be quite different.

Wine substitutes today take many forms. From low- and no-alcohol alternatives, beer, spirits, ready-to-drink options, cocktails, and all other non-alcohol beverages ranging from sports drinks and THC-infused canned cocktails to soda.

We won't be taking on the impacts from RTDs, cannabis or semaglutide in this edition, but the first two fall into the substitute category.

Cannabis remains a possible partial explanation for the youngest consumers' avoidance and abstinence from alcohol compared to past decades of younger consumers.

While causation is not correlation, in 2018 cannabis use was only 3.6% of the dollar denominated demand of total alcohol sales, and 11.2%, and cannabis use skews significantly to a younger user. We can say cannabis use is not a positive factor for wine consumption, but the issue deserves further research.

RTDs now represent $18B in annual sales when adding up all sources of the base alcohol. Convenience is also a significant factor, but often, price is a component of the purchase decision.

Recent research suggests, in addition to weight control, semaglutide reduces the desire for alcohol. The science is new, and to the extent consumption is reduced from taking the drug, the real impact is not yet quantifiable.

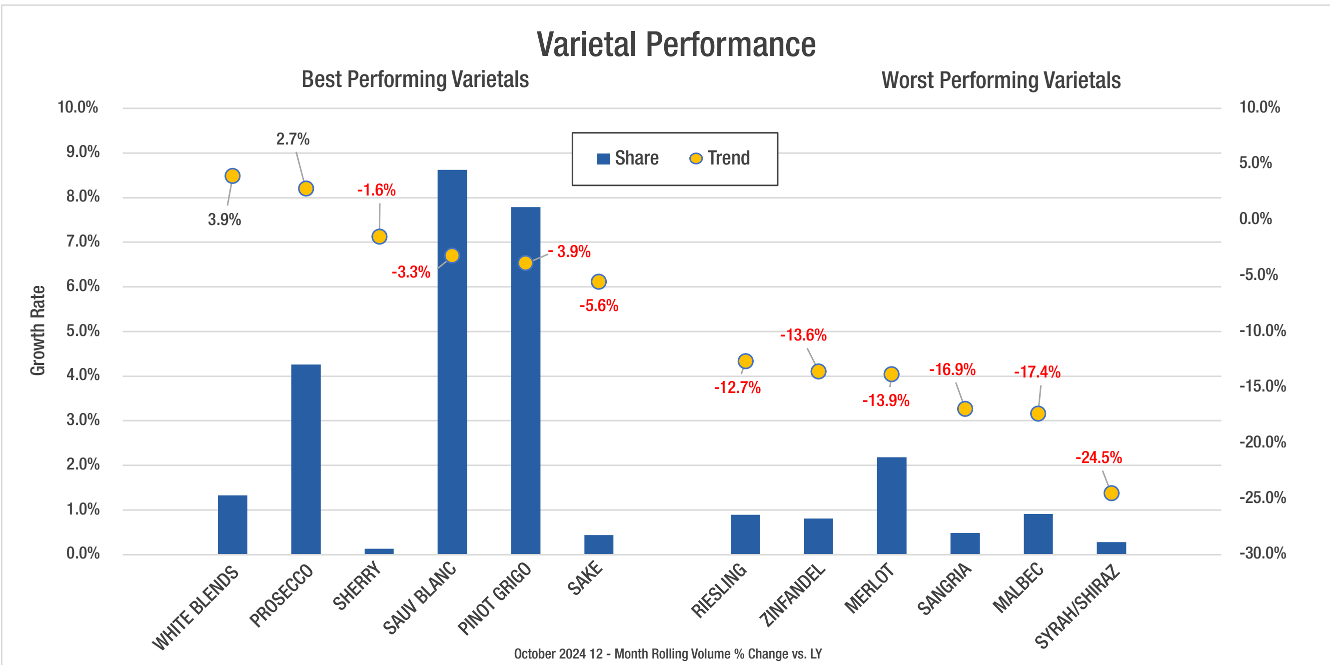
Chart 6 from SipSource on varietals shows overall varietal depletions and share for on- and off-premise is largely negative. Some surprises are that white wine is now out-performing red-table wine. Prosecco, while slowing somewhat, is another positive growth story. Sauvignon blanc and pinot grigio are relatively better performers versus other wine varietals.

Of note is the lack of traditionally good performing varietals such as cabernet, chardonnay and pinot noir. Those varietals still occupy 30% of market share.

What do the better performing varietals by growth rate have in common? They are less expensive compared to many other varietals, easier to drink for entry-level consumers, and while the range is wide, white wine can carry lower alcohol than red wine.

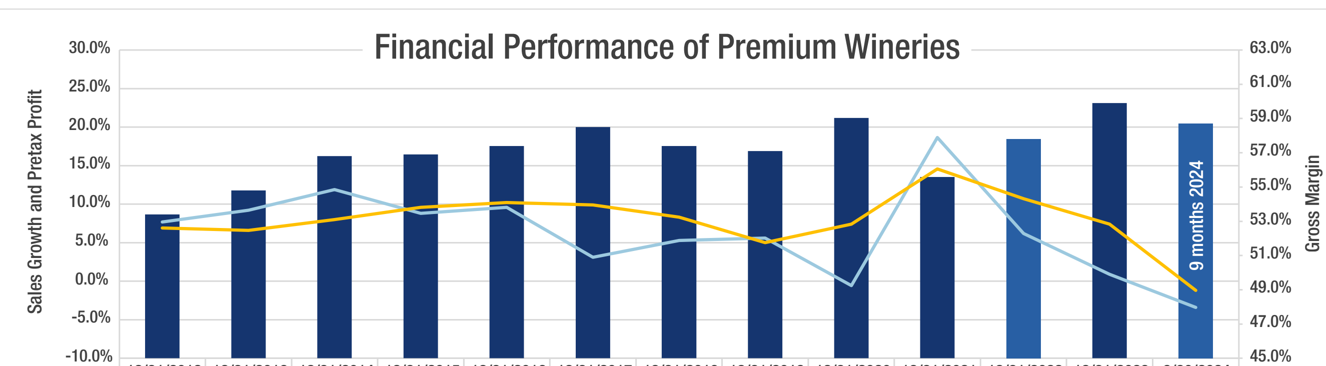
Because prosecco can be viewed as a celebratory drink, it represents fun and is value-priced per serving, making it another potential entrance point for younger consumers who fueled the flavored sparkling water craze.

Chart 6



Source: SipSource

Chart 6b



	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	9/30/2024
Gross Margin	53.4%	54.8%	56.8%	56.9%	57.4%	58.5%	57.4%	57.1%	59.0%	55.6%	57.8%	59.9%	58.7%
Sales Growth	7.7%	9.2%	11.9%	8.8%	9.6%	3.1%	5.3%	5.6%	-0.6%	18.6%	6.2%	0.9%	-3.4%
Pretax Profit	6.9%	6.6%	8.0%	9.6%	10.2%	9.9%	8.3%	5.0%	7.4%	14.6%	10.7%	7.4%	-1.2%

Source: Silicon Valley Bank Peer Group Analysis Database.

Premium Winery Performance Indicators

The following observations are from Silicon Valley's Peer Group Analysis application that aggregates the financial statements we receive from clients and prospects and converts them into actionable metrics. For our clients, we can produce customized benchmarks against an anonymized peer set if at least five peers are in the sample. The following are observations from the aggregated data.

General Themes

- **Revenue decline isn't across the board:** The weighted average of wineries produced a low single-digit decline of 3.4%. However, the top quartile experienced an average of 22% revenue growth, while the bottom quartile experienced a 16% revenue decline. Wholesale heavy wineries fared worse than DTC-focused brands.
- **Gross profit margin decline:** We saw gross profit margin deteriorate throughout 2024 as higher cost inputs from the 2022 and 2023 vintage wines have started to flow through the Income statement. We expect this trend to continue at FYE 2024 and throughout 2025.

  While difficult to acknowledge, the grower community is in the most difficult spot in this market. It will be years before balance will be found with demand. During this period, the price paid by producers will drop. With sales falling for wine, this is an opportunity for producers to reset their grape pricing to protect their own gross profit margin.
- **Negative operating leverage:** As operating expenses have continued to grow while revenues have remained flat-to-down, over the past 24 months, we've seen profitability declines across most producers. The combination of lower volumes and higher fixed costs is pressuring wine companies that are reducing volume, given the added cost allocations from unused capacity.
- **Interest expense:** Growth in interest expense increased due to higher average balances on lines of credit combined with the Fed's interest rate increases.
- **Stress on working capital:** Excess cash accumulated through Government programs during COVID has been fully invested into inventory growth today. Combined with lower profitability, higher interest expense, and the residual effects of inflation, working capital has been squeezed.

Year over Year Metrics

All metrics compare 9 months in 2023 to the same period in 2024.

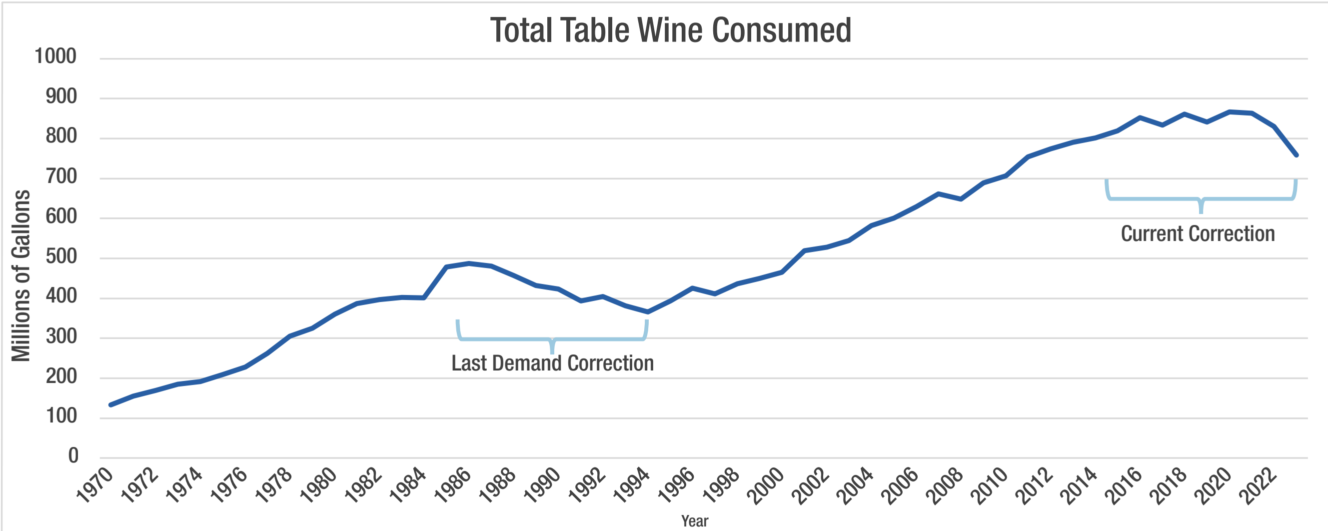
- **Revenue and profit:**
  - Cased goods revenue declined 3.4% on a weighted average basis.
  - Net Income was lower. Half the sample was profitable YTD, and 56% showed improved profitability when moving through the inflation-impacted costs carried in 2023 inventory.
- **Expenses:**
  - SG&A was up 5.5%. 58% of sample wineries experienced higher operating expenses.
  - Interest Expense was up 12% YoY and 90% over the past 2 years due to higher balances and higher rates. 62% of wineries showed increasing interest expense.
- **Balance sheet:**
  - Cash is lower by 14%.
  - Line of credit borrowing is up 77%. Line of credit balances as a percentage of revenue have doubled between the periods under review.
  - Inventory is up 15%, and 93% of wineries have grown their inventory balance.
  - Net fixed assets are up 11%.
  - Current liabilities are higher by 47%.
  - Long term liabilities are up 3%, and total liabilities are up 14%.
  - Shareholder equity is essentially flat between the periods.

Inventory Turns

The average years of inventory on the balance sheet have reverted to the 2019 pre-COVID mean and are at reasonable levels. Specifically, Inventory years from 2019 to 2024 were 3.32, 4.56, 2.92, 2.83, 2.80, and 3.18 years, respectively.

The Supply Imbalance

Chart 7



Source: CA Wine Institute

This is a unique period in our business. The industry has never been better at delivering flawless wines and inspired experiences, but there are ongoing risks and opportunities to navigate.

Unlike today, the supply/demand imbalances we've experienced since the middle 1990s have been caused by overplanting, large harvests, or, occasionally, by recessions. There have been several periods since 2000 when we were close to being balanced, and then large harvests tipped the scale unfavorably.

Reviewing Chart 7, for total table wine consumed in the US, the period from 1994 through the middle 2010s might make one believe there haven't been any supply/demand imbalances given the slope of the line. But this chart represents total consumption by volume instead of total supply. When consumption drops, this chart moves negatively. There isn't a change in the line from demand imbalances. This chart is showing consumption changes.

Through the period in Chart 7, there are several examples of inventory-driven oversupply, including 2005, the three years bracketing 2013 and 2018, the 2001 tech bubble, the 2008 Great Recession, and the COVID recession.

Each event caused systemic shocks, putting inventory out of balance for a short time, but that was followed by exaggerated positive sales swings within 18 months, making up for pent-up demand. We need to look no further than the 2020 - 2021 COVID period for a recent example.

Each inventory imbalance during the past thirty years had underlying characteristics supporting rapid recovery. In each of those examples, the demand for wine increased, so 'doing nothing' or simply waiting for things to turn around could cure out-of-balance inventory states. That is not the case this time, so the experience learned by fighting through prior market imbalances may not be applicable this time around.

Clearly, when everything around us changes, including demand, doing nothing isn't a viable strategy.

In this super-cycle, we don't have growing consumer demand to bail us out, lessen the imbalance, or shorten the duration of this event. Since 2018's record harvest in California, we've had consecutive small harvests and still had too much inventory. So, the production side of the equation isn't a cause of the imbalance this time—it's a symptom. The cause of the inventory bubble today is on the demand side of the equation, and it's our job to understand it and find solutions.

The conditions we're experiencing today aren't unprecedented, but it's been some time since anyone has seen them. The last time we had a consumer-based stall in wine purchasing was between 1986 and 1994, approximately eight years in length.

Many factors contributed to the 1980s demand correction, including an extended recession and the end of the wine cooler craze, which started the premiumization chapter in the alcohol beverage market.

Two recurring factors significantly tamped down consumption then and now:

1. Increased activity by the anti-alcohol industry.
2. The change in dominant cohorts.

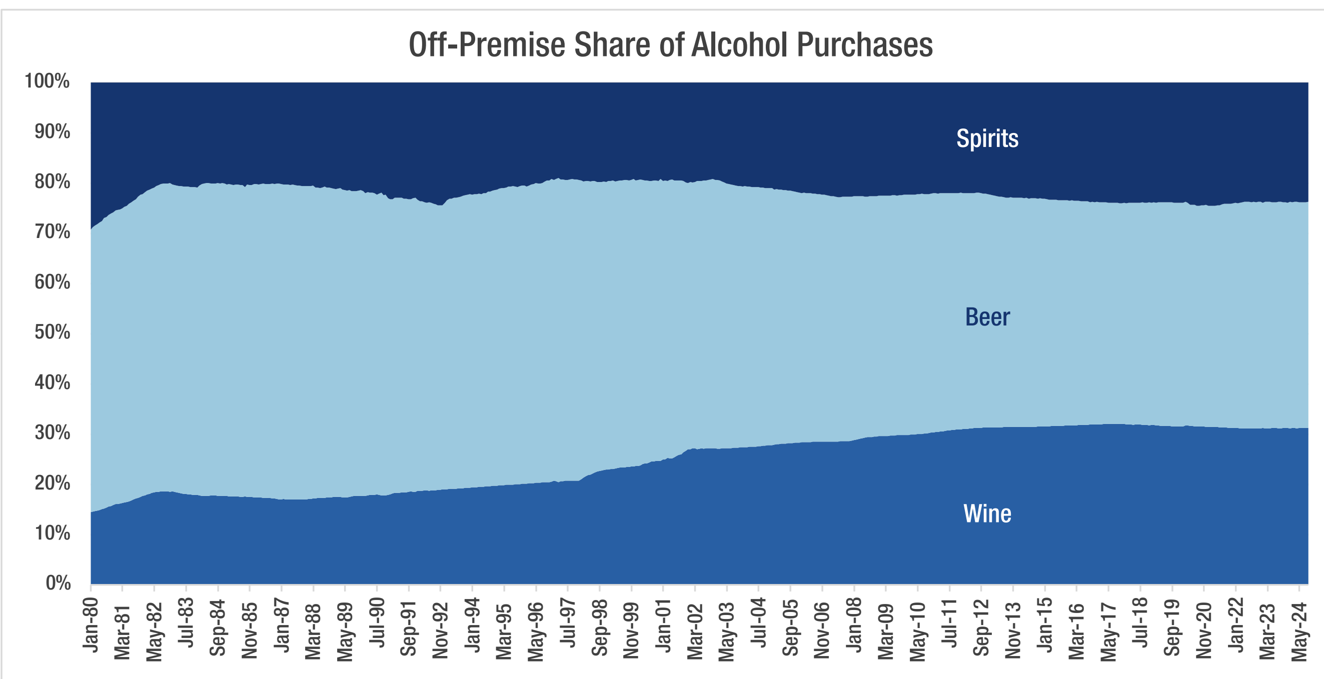
In the late 80s the Greatest Generation was replaced by baby boomers with different alcohol beverage preferences compared to their beer and spirits-consuming elders. Today, it's the boomers exiting in favor of all younger consumers with a range of different behaviors, including a larger predisposition for abstinence, particularly in the 20 - 30 year age bracket.

During the last consumer correction in the late 80s to early 90s, total alcohol consumption diminished due to anti-alcohol successes such as the passing of the 1984 National Minimum Drinking Act, which raised the minimum drinking age to 21, thereby eliminating millions of consumers. The founding of Mothers Against Drunk Driving and several public service campaigns also had an impact on consumption. The Department of Transportation pushed the "Friends Don't Let Friends Drive Drunk" campaign and the Department of Health and Human Services aired PSAs on fetal alcohol syndrome.

For those reading this who are not closely connected with the alcohol beverage industry, it's worth noting that there is widespread support throughout the business for actions that support moderate and responsible consumption.

It's important to note that the majority of the anti-alcohol efforts enacted during the last demand downturn were primarily directed at abusive consumption. Conversely, the actions taken today are often against any alcohol consumption. The neo-prohibitionist activities today operate under the rallying cry, "There is no safe amount of alcohol."

Chart 8



Source: BEA, Monthly PCE Beer, Wine and Spirits 1980-2024

The various eras of the past 40 years shown in Chart 8 effectively demonstrate the slow-moving pace of change in consumer preferences for the beverage alcohol share between beer, spirits, and wine.

In 1986, the average age of the baby boomers was 30, and the mature generation averaged 49 years. In concert with declining alcohol consumption between 1986 and 1994, there was movement in beverage choices beneath the surface. The impact of the transition between generations can be seen in chart 8 on the prior page.

In the middle to late ’70s into the ‘80s, young boomers abandoned their parents' drinking preferences. Wine was a preference for boomers early on, but unlike the boomers' parents, who consumed inexpensive jug wine, boomers took to entry-level premium wines such as premium wine coolers and imports such as Mateus, Lancers, and Blue Nun. Wine started taking share away from spirits in the late ‘70s and beer around 1988.

Most supply-demand cycles go through corrective and often expected phases before returning to a more predictable pattern. So, asking what happened to the wine business that helped us exit the last demand shift may be illuminating. Is there something we can learn from a past era that we can apply today?

That period of contraction, caused by neo-prohibitionists, began during the middle 80s. Several events in the 1990s flipped the script, including the popularization of the Mediterranean Diet, Arthur L. Klatsky's work on the J-shaped curve, and the 1991 French Paradox airing on 60 Minutes. Each linked longevity to wine consumption. The year following the airing of The French Paradox, red wine sales in the United States jumped nearly 40 percent. Adding to the growth was the wealth created in the US stock market in the 1990s, arising from the internet boom.

Candidly speaking, we got lucky with the French Paradox broadcast during the last downturn. Since the 1990s, we’ve taken our eyes off the activities of the hardworking and well-funded anti-alcohol industry to our detriment. Perhaps we all felt that the science of the ‘90s settled things.

Business boomed in the 1990s, leading to a significant shortage of grapes. That explains part of the reason we took our eyes off the neo-prohibitionists then. Business was great! Changing strategy when nothing seems outwardly broken is one of the most difficult things to pull off in business.

It’s been enlightening to watch the anti-alcohol battle plan, using marketing tools disguised as scientific studies, cherry-picking data, and changing the definition of health measurements. In the 80s, measuring how long someone lived seemed a reasonable measure for the impact alcohol had on health. Moderate wine consumers lived longer by the science and that was inconvenient for neo-prohibitionists.

So, in the early 1990s, measuring the impact of wine was changed from longevity, to DALYs or “disability-adjusted life years.” In theory, it is a method that measures the overall burden of disease in a population. According to the WHO, DALYs are calculated by adding together the years of life lost due to premature death (YLLs) and the years of healthy life lost due to disability (YLDs). Changing the definition gives those measuring alcohol impact many more assumptions to add to the calculation and change the narrative that came from the French Paradox and the other studies.

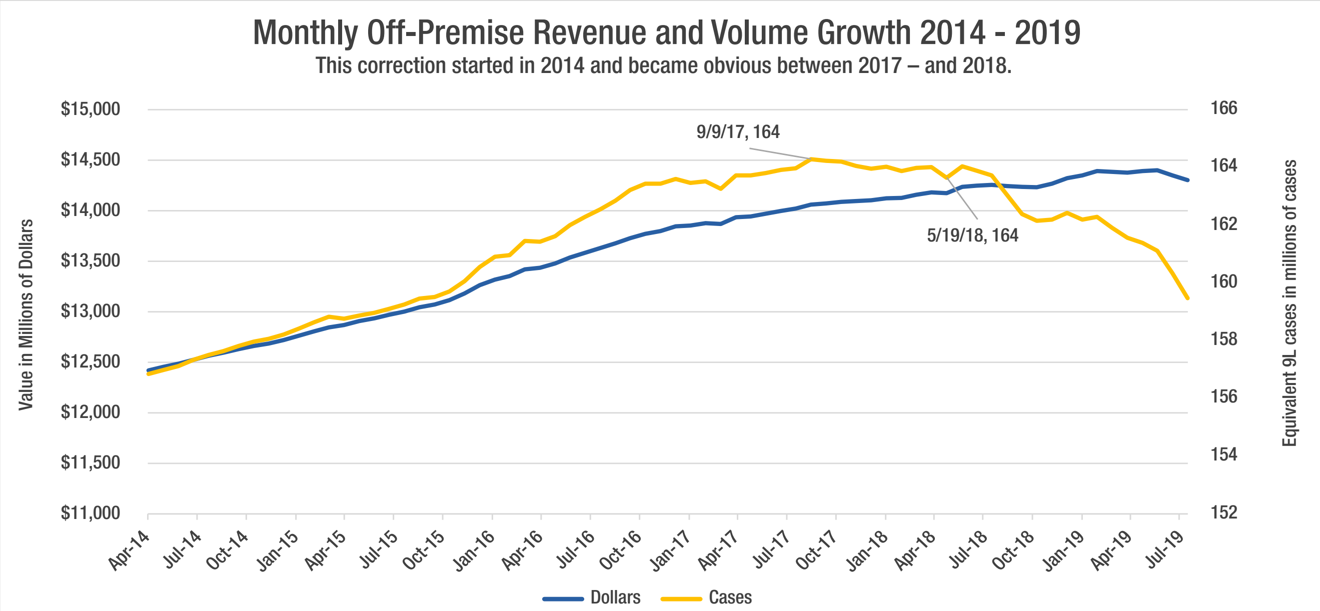
This is an extensive topic that I won’t drift too far into. I began discussing the impact of a cumulative negative health message in 2018. To read more on the subject, please see the 2019 SVB State of the Wine Industry Report on page 35, the 2020 report on page 64, the 2021 report on page 41, the 2022 report on page 52, and the 2023 report on page 72.

If there are some insights to apply from the last demand downturn, it is that we should retain industry marketing efforts when the skies are blue and more closely monitor our antagonists' activities.

Today, the "No Safe Amount" campaign is finally getting some pushback in the alcohol beverage industry in both Europe and the US, with several studies and articles offering an alternate view. But is this initial rebuttal sufficient to end the current demand downturn quickly as the French Paradox did in the early 90s?

Industry Correction Stages

Chart 9



Source: Nielsen Beverage, NIQ

Business recoveries are often described by various shapes representing economic activity, such as V-shaped, L-shaped and W-shaped. Some corrections are fast, and others are protracted. This cycle will likely have a flattened L shape and move through four stages.

Reviewing Chart 9, starting in 2017 the off-premise growth rate in lower-priced wine began to decline by volume. By May 2018, even with higher dollar sales, the trend became more apparent. So, in the introduction of the 2019 SVB State of the Wine Industry Report, we led with the following thoughts:

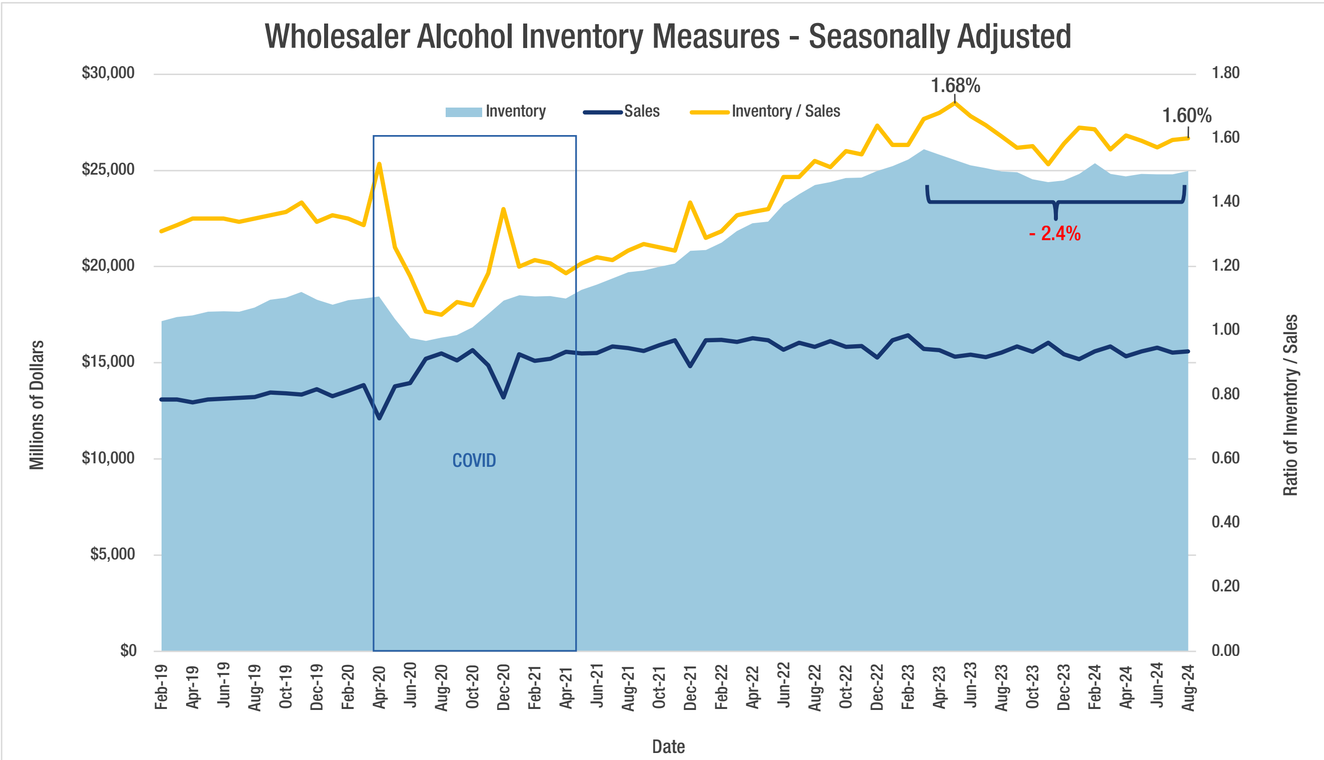
> “Despite the positive year in 2018 and 25 years of great growth for the US wine business, I believe sales growth forecasts for the next five years should be tempered. The fundamental underpinnings that created the industry growth are changing, which means the tactics that were relied upon to ride this wave of success to this point will slowly prove flawed without business adaptation. To continue its growth in the years ahead, the US wine industry needs new direction and a changed focus.”

That was a prescient conclusion then. We advised our readers that the consumer shift was already underway in 2019. The conclusion wasn’t fully appreciated at the time, even though the underlying factors for that conclusion had already been discussed in prior reports. The first sign was declining sales by volume in the lower price tiers starting in middle 2014. COVID hid the reality of the downward demand shift in the years after 2019. Particularly in the premium wine segment, for many, 2024 might have felt like a surprise and the first year of a correction.

The good new is we’ve already been moving this correction along for at least 7 years. This isn’t the first year of the correction. We are closer to the resolution than the start.

Correction: Phase One

Chart 10



Source: US Census Bureau

COVID's impact on wine supply is best seen in Chart 10: Wholesale Alcohol Inventory Measures. Note that the chart addresses all alcohol distribution and not just wine, but the narrative is virtually the same for the wine category and the spirits category.

With COVID causing shelter-in-place orders, consumers found themselves at home with too much time on their hands. Alcohol became a reminder of life's simple pleasures–and many were afraid they would run out of pleasure.

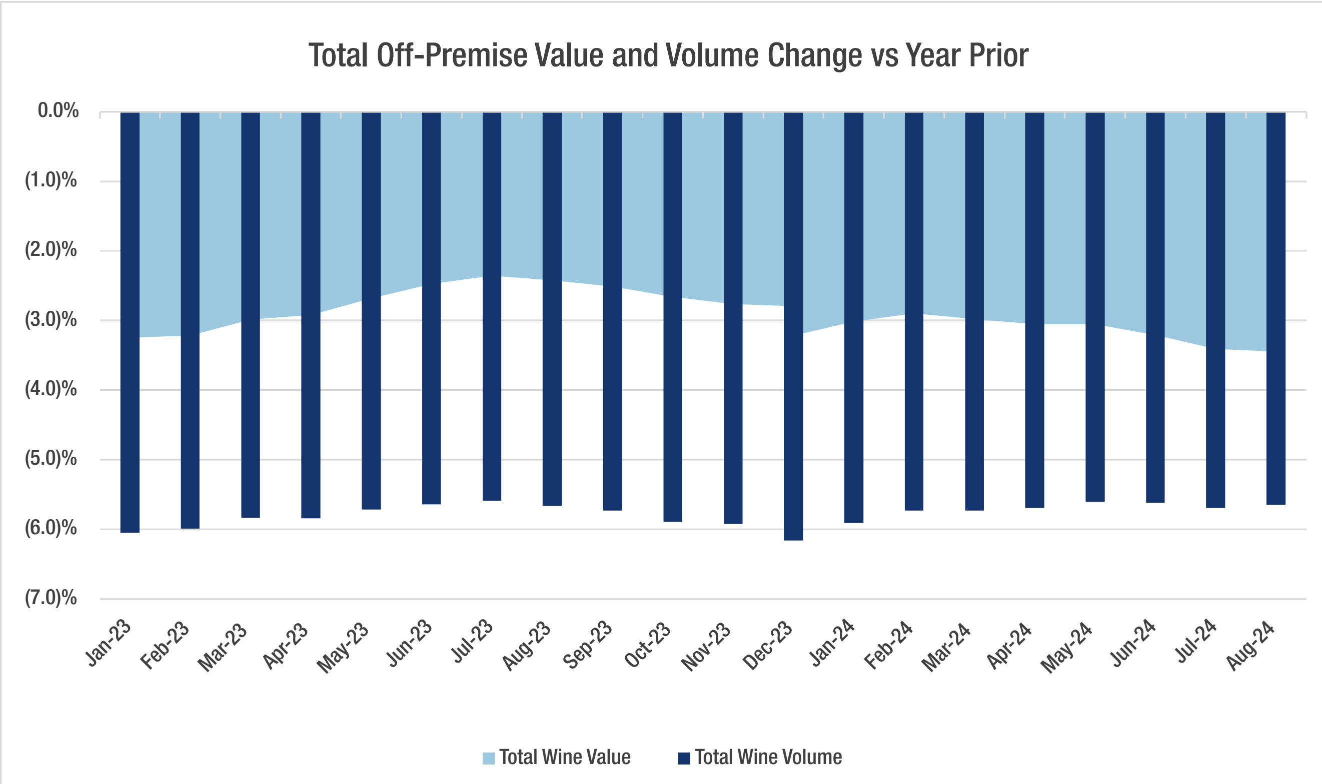
In March 2020, worried consumers raced to the store and filled their pantries. Retailers rapidly drew down supply. By August 2020, the inventory-to-sales ratio dropped to 1.05x–meaning one dollar and five cents of inventory were available to cover a dollar of sales. Wholesalers ordered more from producers, who drew down the excess stocks of bulk wine.

However, wholesalers, many of whom were working under guaranteed purchase order agreements, found themselves in a difficult spot when sales slowed, and inventory kept getting delivered to warehouses.

Finally, in March of 2023, inventories stopped growing and rested at 1.6x sales before dropping slowly. A ratio around 1.30x – 1.40x is closer to what's typical in a growth environment. In an environment with declining sales, the ratio should be lower. The most recent reading for August 2024 shows that after a year and a half, inventories dropped only 2.4%. There is a lot of work left.

Though some may feel like we are in a freefall, we are not. Despite the COVID shocks that made it more challenging to get an accurate read during the last five years, we are already through a period of declining consumption patterns and increasing retail and wholesale inventories. That's Phase One of the correction, and being partially through that stage is a positive.

Chart 11



Source: Nielsen Beverage, NIQ

Chart 11 for off-premise volume and value indicates that category sales are currently in negative territory for both metrics. To help clear out the excess inventory in wholesale, both the retail and on-premise channels need to improve their performance and create more shelf space. Additionally, the volume of off-premise depletions at wholesale is declining more sharply than retail off-premise sales. This discrepancy likely reflects the current situation: retail inventories are somewhat more backed up than wholesale inventories.

Retail volume sales and revenue need to show growth to reduce the inventory backlog at wholesale. Alternatively, discounting will become prevalent, driving volume sales higher and helping clear the backlog.

Chart 12 for off-premise change in value shows that all price segments ended with negative growth rates in the periods cited, but despite the negative growth stats, there is a sliver of positive news with the $12-$29.99 price bands outperforming others.

Many stock and industry analysts have been wishing, hoping, and predicting when the wholesale backlog will clear, with some suggesting it would be cleared last year. That didn't happen, but it's not an easy forecast.

Given typical positive industry growth rates, the oversupply could be cleared in four months. With negative growth rates, it will take longer–possibly all of 2025 and into 2026 before inventory stocks return to normal turnover. The time to clear may be shorter, depending on the discounting and marketing tactics employed. Sales from the larger wineries will improve when retail, then wholesale inventories start flowing again.

Chart 12

Off-Premise Change in Sales ($) 2023 - 2024								
Trailing 52-weeks	<= $2.99	$3 - $5.99	$6 - $8.99	$9 - $11.99	$12 - $14.99	$15 - $19.99	$20 - $29.99	$30 - $49.99
Jan-23	(2.6)%	(3.7)%	(4.6)%	(6.8)%	(1.3)%	0.4%	(0.0)%	(4.8)%
Feb-23	(2.1)%	(3.3)%	(4.3)%	(6.7)%	(1.3)%	0.3%	(0.5)%	(5.6)%
Mar-23	(1.7)%	(2.9)%	(4.0)%	(6.5)%	(1.0)%	0.3%	(0.4)%	(5.7)%
Apr-23	(1.4)%	(2.7)%	(3.8)%	(6.4)%	(0.9)%	0.3%	(0.7)%	(6.2)%
May-23	(1.3)%	(2.5)%	(3.6)%	(6.2)%	(0.5)%	0.6%	(0.5)%	(6.1)%
Jun-23	(1.3)%	(2.4)%	(3.5)%	(6.1)%	(0.1)%	0.8%	(0.6)%	(5.5)%
Jul-23	(1.4)%	(2.3)%	(3.5)%	(5.9)%	0.0%	0.9%	(0.8)%	(5.0)%
Aug-23	(1.6)%	(2.4)%	(3.7)%	(5.9)%	0.1%	0.8%	(1.4)%	(5.0)%
Sep-23	(1.8)%	(2.3)%	(3.7)%	(5.9)%	(0.0)%	0.6%	(1.7)%	(5.2)%
Oct-23	(1.9)%	(2.5)%	(3.9)%	(6.2)%	(0.1)%	0.3%	(1.8)%	(5.3)%
Nov-23	(2.0)%	(2.5)%	(4.0)%	(6.2)%	(0.2)%	(0.1)%	(1.8)%	(5.7)%
Dec-23	(2.3)%	(2.6)%	(4.0)%	(6.3)%	(0.4)%	(0.3)%	(1.6)%	(5.2)%
Dec-23	(2.7)%	(3.0)%	(4.2)%	(6.7)%	(0.9)%	(1.0)%	(1.9)%	(5.2)%
Jan-24	(2.6)%	(2.7)%	(4.2)%	(6.5)%	(0.6)%	(0.8)%	(1.6)%	(4.5)%
Feb-24	(2.6)%	(2.6)%	(4.1)%	(6.4)%	(0.6)%	(0.7)%	(1.2)%	(4.0)%
Mar-24	(2.9)%	(2.7)%	(4.2)%	(6.5)%	(0.7)%	(0.8)%	(1.1)%	(4.0)%
Apr-24	(3.1)%	(2.8)%	(4.3)%	(6.4)%	(1.0)%	(1.0)%	(1.0)%	(3.8)%
May-24	(3.2)%	(2.9)%	(4.3)%	(6.5)%	(1.1)%	(1.0)%	(0.9)%	(3.6)%
Jun-24	(3.3)%	(2.9)%	(4.4)%	(6.7)%	(1.4)%	(1.2)%	(0.8)%	(4.2)%
Jul-24	(3.4)%	(3.1)%	(4.5)%	(7.1)%	(1.6)%	(1.4)%	(0.7)%	(4.4)%
Aug-24	(3.4)%	(3.2)%	(4.6)%	(7.4)%	(1.6)%	(1.4)%	(0.3)%	(4.3)%

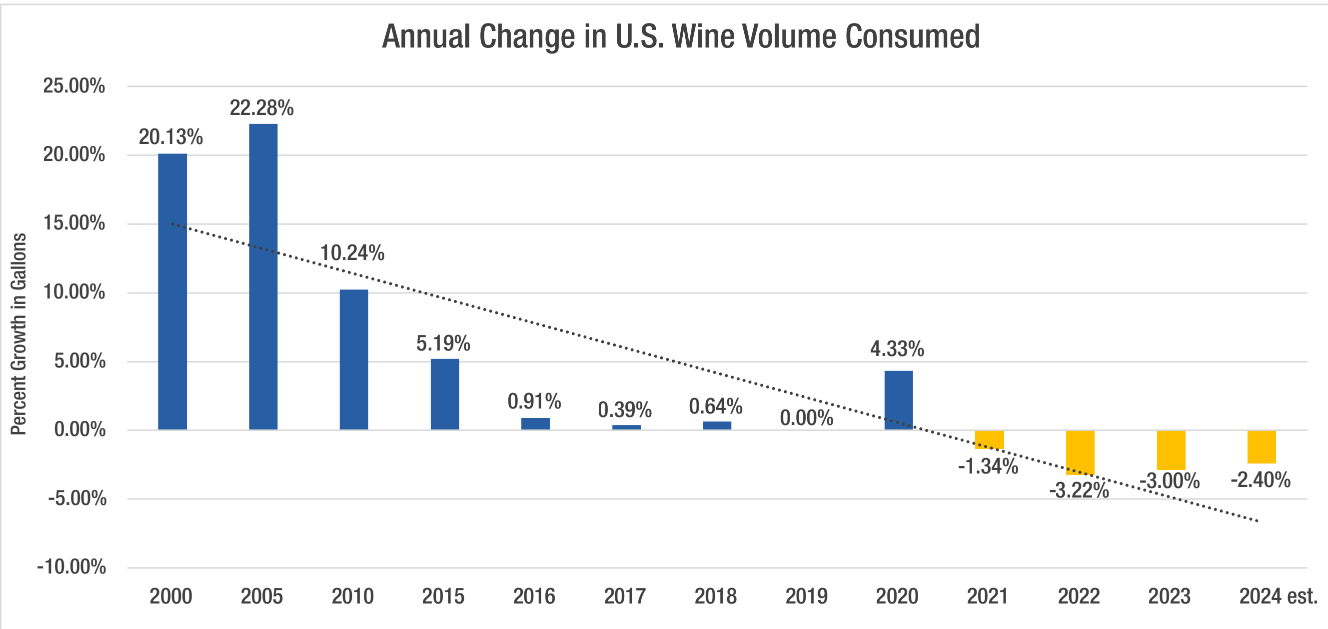
Source: Nielsen Beverage, NIQ

Correction: Phase Two

Getting an accurate reading of total wine industry sales is problematic as analysts have to string together disparate information from different data sources and then fill in the blanks with assumptions. Shanken is one source of dependable information, though they post their results late in the following year.

In the second phase of the correction, we are looking for more consistent, reduced rates of decline that will form a bottom. This is somewhat shown in Chart 13 on this page regarding the annual change in wine volume consumed. There is a bottom point in 2022, after which there is diminishing negative sales growth in the subsequent years. Is it a real bottom though?

Chart 13



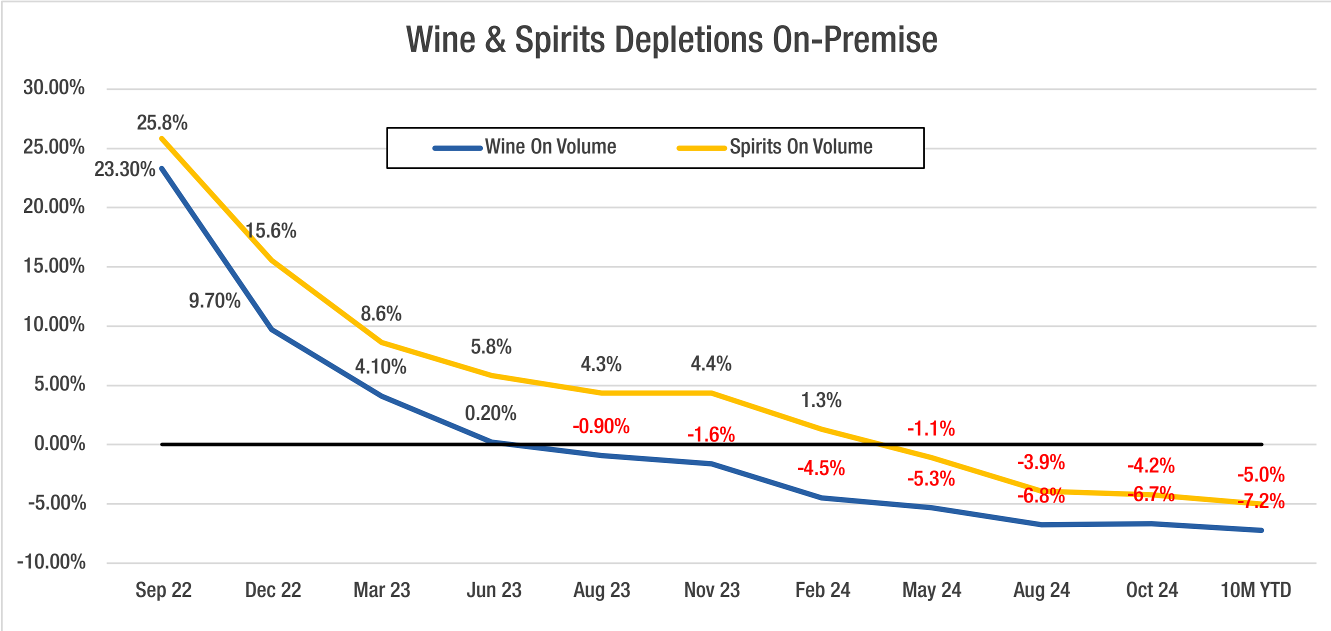
Source: Shanken's Impact Databank Review and Forecast, 2024 SVB estimate

According to Chart 14 from SipSource in the page following, wine experienced more significant decline during COVID in 2020, while the spirits category grew due to another post-COVID bubble created from reopening restocking as restaurants pared back wine lists. The rate of decline flattened out in 2022 for wine but lagged for spirits. Perhaps off-premise depletions are showing a bottom in this view at the end of 2025.

Chart 15 on the following page, adds the on-premise view for spirits and wine. Wholesale depletion volumes have been negative on- and off-premise. During the recent period of inflation, it was common to see more significant declines in volume than dollars as price increases counteracted higher costs.

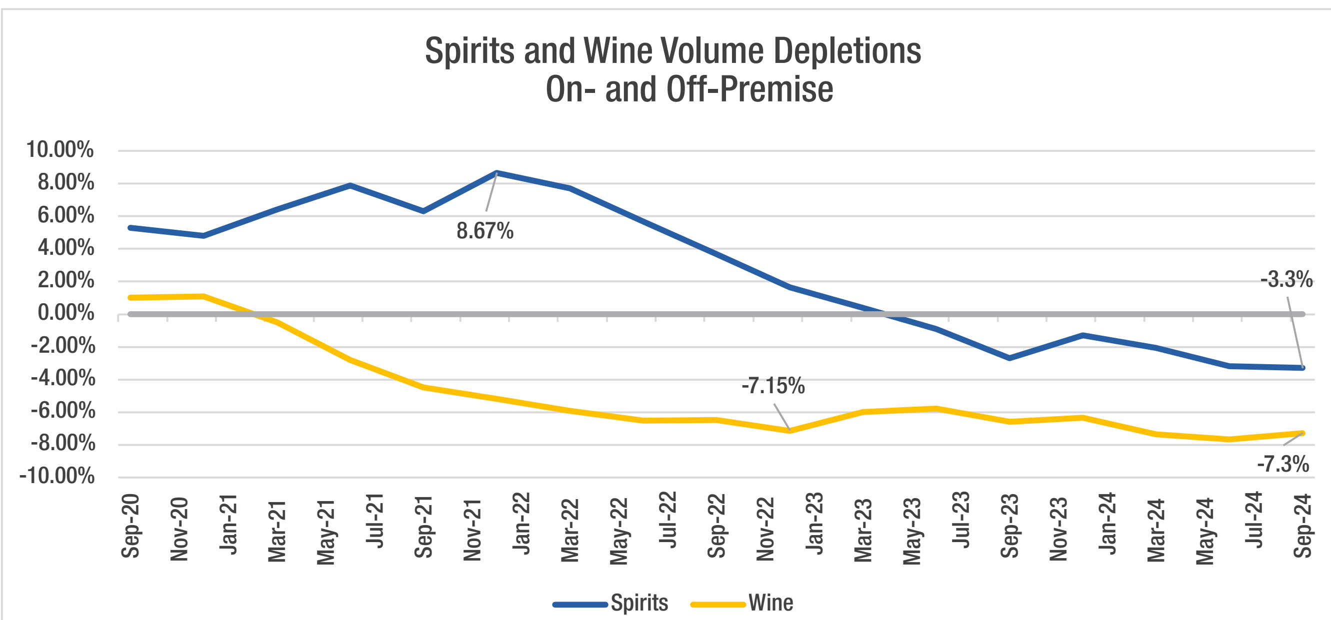
As of this writing, retail sales are beginning to trend more closely to the trend of wholesale inventories. Both volume and value are still in negative growth territory, but the value trend is closing on the volume trend. That should become more pronounced as we move closer to a time when discounting will be the predominant tool to reduce wholesale supply. The good news is that we are nearing the secondary phase of the cycle, the start of 2025, and a more obvious clearing of inventory leading to zero growth in depletions within a year or two thereafter.

Chart 14



Source: SipSource

Chart 15



Source: SipSource

Tasting Room Visitation Developments

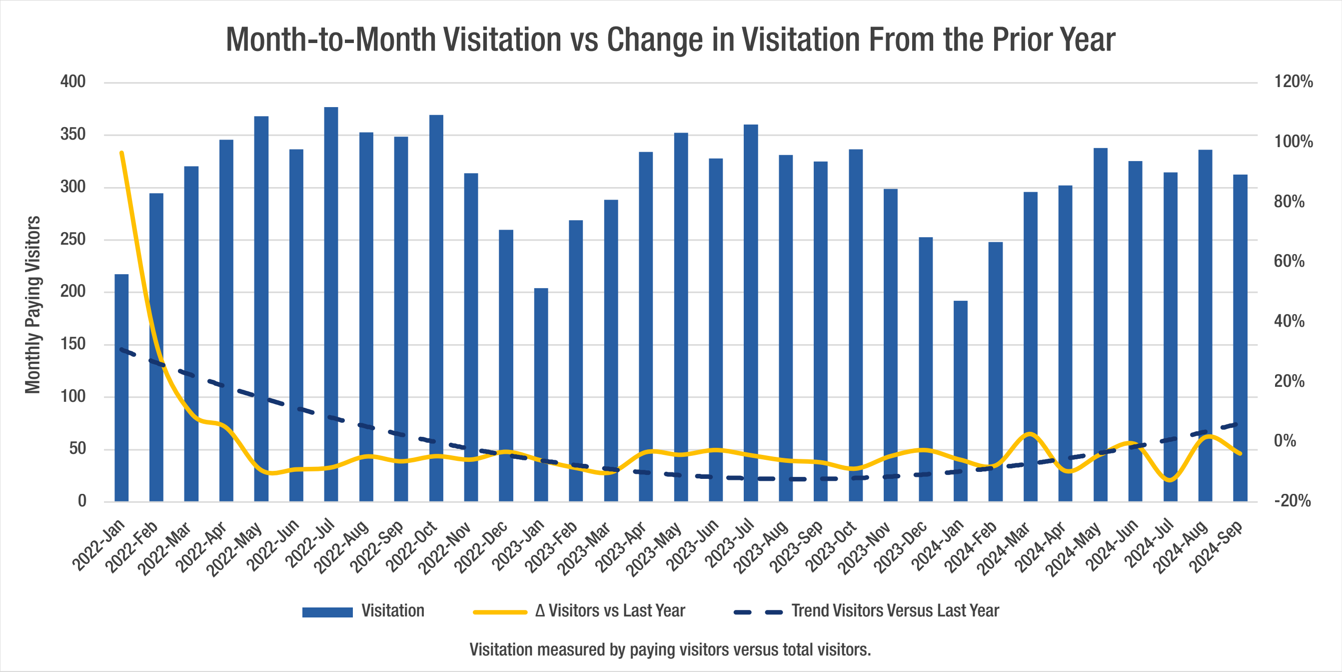
In 2020, the pandemic primarily hurt premium producers due to the closure of tasting rooms, while larger production wineries at that time managed to sell out in grocery stores. However, in 2021, these dynamics reversed with the reopening of tasting rooms.

Considering COVID tasting room closures, visitation was obviously going to be unnaturally low during the COVID lockdown. As expected, following restricted reopening, low visitor comps led to abnormal year-over-year growth patterns. That pattern quickly abated, as demonstrated in Chart 16, and flattened when the early COVID closures dropped from prior year comps. Since May 2021, a normalized consumer pattern has emerged and shows a bottom-forming trend, though the trend still indicates slightly negative visitation.

While increased average purchases continue in the tasting rooms, there is quiet but widespread concern in the premium wine community regarding the decline in visitation, which also impacts club signups. Many theories have been put forth, including the COVID impact of consumers becoming stir-crazy and wanting to make up for lost time–a phenomenon described elsewhere as revenge travel.

European hotel stays and TSA travel data showed ample evidence of heavy travel to Europe during 2022, supporting my theory that declining tasting room visitation was temporary. However, that pattern continued in 2023 and 2024. While revenge travel may have been an accurate cause of visitation declines in 2022 and 2023, the continuing trend indicates that other causes may also be at work.

Chart 16



Source: Enolytics

The decline in visitation is likely due to the evolving travel patterns of luxury consumers, which are exacerbated by the divergent post-COVID behaviors of younger and older consumers.

Another pandemic-related trend is the growth of older consumers shopping online. Post lockdown, older consumers continue to spend on luxury and wine but are slightly more cautious with travel and, when they do, are more likely to travel domestically and see family, according to a McKinsey & Company study released in June of 2024.[1]

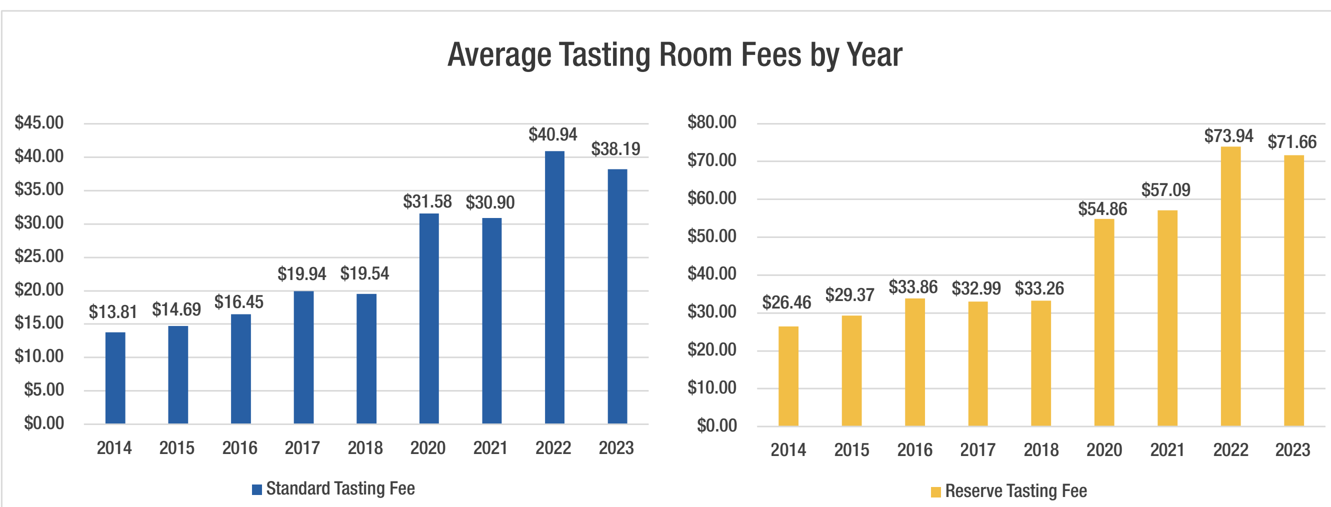
In contrast, younger travelers came away from the COVID experience with a greater sense of loss from forgone occasions, such as dating and socializing, and ceremonies, such as graduations and weddings. This group came out of the pandemic less cautious than their parents, aware that time on earth is limited, and they rate 'fun' high on their list of essential personal values. That observation is leading luxury retailers to add more sports, entertainment and games to their retail offerings, something the small premium wineries may want to consider.

Younger consumers spend less money than older, wealthier consumers on luxury purchases. They place more importance on fun and spend a higher parentage of their income on luxury items, particularly new experiences. When younger consumers purchase goods, they are more frugal and splurge on smaller-ticket luxuries, making jewelry one of the luxury category winners in 2024. How do we apply that to the wine category? Selling expensive premium wine in a 375ml format is one way to appeal to a younger, frugal, and aspiring affluent consumer. It might also serve a parallel purpose for older single-occupant households.

A final clue to the question covering tasting room visitation is data from Visit Napa Valley research statistics, showing that in 2023 the average age of visitors to Napa Valley has decreased by six years since 2018–from 46 to 40. Unfortunately, we don't have data from other wine regions to add weight to this finding, but given current consumer behaviors, it is what should be expected with the behavioral changes resulting from the exchange of older to younger consumers.

Sixty-plus-aged consumers are still the top buyers of wine today, and their travel choices have tilted to more visits to family, perhaps at the expense of wine country. And with more entertaining at home, they may be shifting slightly more to online, grocery and local wine shops instead of buying wine through direct channels, including at the winery.

Chart 17



Source: SVB Direct to Consumer reports, 2014 - 2024

A final possibility for lower visitation is the cost of tastings (Chart 17), particularly considering the barrier that it creates for younger spenders–those less wealthy consumers who are the hope for wine business tomorrow.

Tasting room fees have increased more than 200% since 2012 with a regional range increase of 133% to 271%. The average reserve tasting fee is now $72, and the standard fee is $38 (Chart 17). But in 2023, seven of nine regions reported a decline in their average tasting room fees, and that lends credence to the notion that the industry is listening and adapting.

I believe every winery owner should rethink their tasting room fee structure and develop a marketing strategy around variable fee structures. For instance, examine periods when the tasting room isn't full. If it's 3:00 p.m. on Tuesday and the tasting room is normally slow at that time, create an experience for entry-level consumers by offering tastings of entry-level wine. Consider including live music and games targeting a younger consumer. There are endless possibilities.

Younger age bands are more interested in new experiences versus spending money on material goods. If your tasting experiences remain static, that may make a return to wine country lower on their lists of need-to-have experiences. Adapting your approach for an emerging consumer is key. Making the experience more fun instead of focusing only on the wine tasting may be an effective counterstrategy.

What is true for sales, whether wholesale or direct-to-consumer, is that if we are moving toward a bottom in the current trend of declining sales, it is forming in negative growth territory. The negative growth bottom means we have extended year over year negative growth to work through.

The final correction stage will be emerging green shoots in stage 3, when the negative growth rates turn to flat growth rates. Then, finally, stage 4 is when we see a return to balanced supply and demand, with positive sales growth in volume.

Given the root cause of this consumer reset, the correction will be prolonged, and the return to positive growth will still be out a few years, depending on the segment.

Understanding Consumer Opportunity

Welcoming aged 30–45 consumers and retaining the 60+ set.

It's difficult to fathom, but in 1970, the boomer cohort represented 50.3% of the US population, and the leading edge of the cohort was 24. They were predominantly white, of European descent and were part of the post-war economic boom. Nobody had seen anything like it before or since. It was Madison Avenue's dream to market to a high-earning, nearly homogenous consumer group.

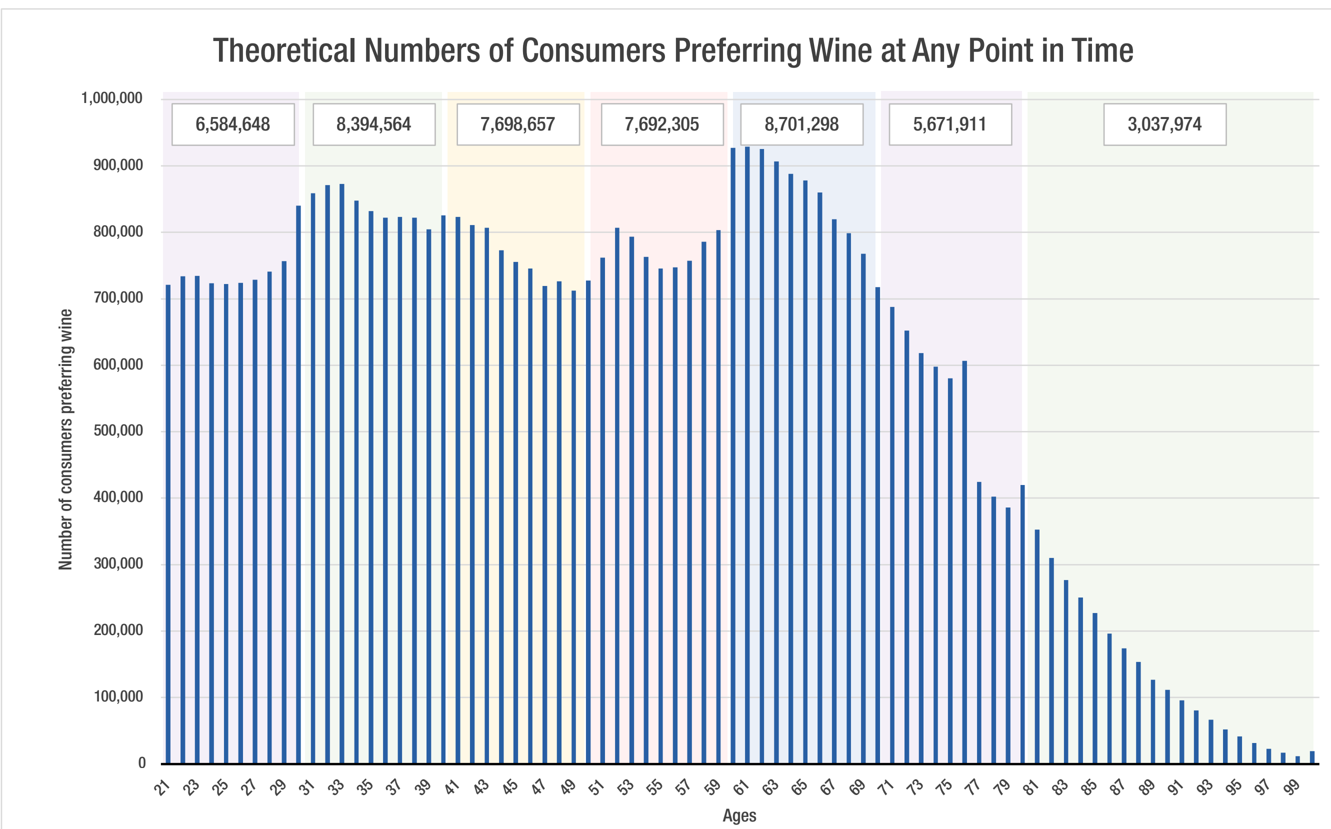
In a few years, mass luxury and conspicuous consumption became wildly popular. Keeping up with the Jones entered the lexicon as a phrase to describe the goods-ravenous cohort. Boomers wanted much more of everything compared with their Depression-era parents, and retailers were all too happy to fan the flames.

How lucky was the wine industry to have that generation adopt wine as their alcoholic beverage of choice. In the 1990s, the medical community believed that if you were going to drink, wine was the better option. We took share from beer, spirits and "other." We led the charge to premiumization and watched prices and quality of the product rise in spectacular fashion.

In 40 years, we moved from being an interesting wine-producing country, shaking off the cobwebs of prohibition, to being spoken of in the same breath as the producers in Europe who have been making wine for centuries.

The past thirty years couldn't have gone much better. But as the saying goes, trees don't grow to the sky. Should we be surprised that today's market conditions fall short of perfect?

Chart 18



Sources: 2023 US Census Bureau population estimates, 2023 Wine Market Council Benchmarking Segmentation survey

If you have listened to me speak or read my work during the past decade, you know my general thesis explaining the present market shift:

We are rotating out consumers who index higher for wine purchases compared to other alcoholic beverage categories, replacing them with consumers who index lower for wine than the 60+ aged consumer.

That is a large part of what we are feeling today. It's a combination of deaths and lower consumption of those over 60, juxtaposed with younger age bands.

In Chart 18, we have taken the preferences for wine by age provided by the Wine Market Council[2] and charted that data against US Census Bureau information of the US population of age by year, creating a theoretical model for the number of consumers who will prefer wine over a different alcoholic beverage at any given time.[3] Think of it as a chart that answers the question, "How many drinkers in the US will prefer a glass of wine right now."

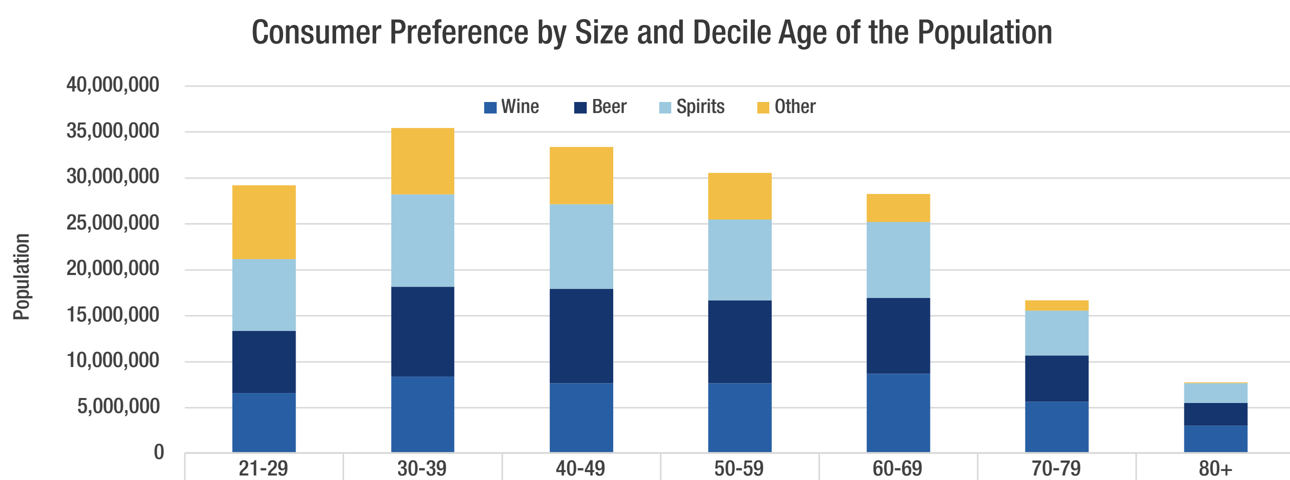
You should notice the large population of consumers with a wine preference in the 60-69 band and the speed at which the population drops by year after age 69. This is still the dominant consumer group, but it's getting close to the next most prominent band at ages 31-39. Those older consumers will continue to drink less as they age. Further, the population over age 60 is expected to lose about 2.4 million people annually. That will increase until 2037 when an estimated 4.4 million older Americans pass on. The loss in the +60 band will be offset by new LDA consumers between ages 21 – 29. They will reach the legal drinking age at a rate of 4.4 million annually.

The 31-49 age band, is the opportunity set. If we can market to convert the occasions when that band of consumers prefers wine instead of another choice, we can slow or change the current trend.

Here is a nuance many miss: Younger consumers above 30 have tried wine and have an opinion. We aren't initiating raw novices. We need to convert those who already have an established opinion and values, including preferences for other beverages–alcoholic and non-alcoholic alike, over wine. That is a more difficult task, but it's the critical one at hand.

Information from the Wine Market Council indicates that only 3% to 4% of alcoholic beverage consumers up to age 60 drink wine exclusively. For those over age 60, 7% to 10% are exclusive to the wine category. The latter are the consumers we will lose.

Chart 19



	21-29	30-39	40-49	50-59	60-69	70-79	80+
Other	8,025,039	7,228,653	6,201,696	5,054,943	3,045,454	1,134,382	89,352
Spirits	7,819,269	10,026,841	9,195,618	8,791,206	8,266,233	4,861,638	2,144,452
Beer	6,790,418	9,793,658	10,264,876	9,010,986	8,266,233	5,023,692	2,501,861
Wine	6,584,648	8,394,564	7,698,657	7,692,305	8,701,298	5,671,911	3,037,974

Source: US Census Bureau, Wine Market Council

In Chart 19, we provided a second view of Chart 18 to estimate consumer preferences between alcohol categories. We've omitted non-drinkers and people under age 21 from the graph to accentuate the visualization of consumer choice between alcohol types. It should be noted that this isn't volume purchased or consumed. It is simply consumer desire without volume or price metrics.

An interesting thing about this view is between beer wine and spirits, for everyone under age 60, wine is their third choice. For those above 60, wine is the top choice. That is the cliff we are walking off today and why this change seems to be moving so quickly.

Generally, consumers go through a discovery phase in their early consuming years and then gravitate to their preferred alcoholic beverage choices or abstention over time. In their younger years today, the 'other' category, consisting of drinks such as hard cider, seltzers, wine coolers, hard lemonade, and hard teas, shows heavier representation. As drinkers age, the percentage of the population that elects to abstain increases, their beverage preferences narrow, and the 'other' category has fewer participants.

The chart again shows that the 30-39 age band and the 60-69 age band are the two age ranges with the highest population of consumers with a stronger preference for wine comparatively. The younger population, however, has seven million more consumers, and, as of 2023, they prefer spirits and beer to wine, while the 60-69 age band is more evenly split between alcoholic beverages. Marketing to the younger age band is complicated by existing consumption patterns. **However, the conclusion should follow that if we present a product that hits their value points, 30-45-year-old consumers will choose wine more often.**

Chart 20

Different Values of Younger and Older Wine Consumers		
Values	**Older Consumer**	**Emerging Consumer**
Work life	Hard work	Meaningful work and life balance
Two-income families	Optional but allowed for life's luxuries	Now required for rent and home ownership
Defining Success	Evolving away from material goods with age	Fulfilling friendships and relationships
Winning	Compete to win THE trophy	Everyone wins a trophy
Technology	For improved efficiency and talking live to family	To communicate, connect, shop and be entertained
Support Group	Family	Friends
Marriage	Marry early. Divorce early.	Not required but secretly desired
Children	Important. Two or more	Conflicted. At least one if the timing works.
Choice in Food	Don't eat if it's bad for you	Only eat if it's good for you - that changes with the next study.
Faith	Pick one flavor	Optional, but accepting. Spiritual vs Religious
Government	Not to be trusted	Not to be trusted
Business	Capitalism is the path to individual wealth	Business success comes with social responsibility
Social Justice	Responsibility of government, church and law	My responsibility
Diversity	Civil Rights Movement drove change	Action, social, and ethnic diversity drives change
Finances	Debt is good	Savings are good
Landfills and Waste	Disposable culture	Green, reuse and repurpose culture
Spending	Conspicuously	On important things
Pleasure	Work before play	Work at play
Fun	Work is fun	Everything should be fun
Retirement	Not if I don't have to	I'll never be able to, but the sooner the better
Experiences	Bucket lists	Unique, adventurous and socially connected… and fun
Charity	Quietly donating money to causes	Publicly donating time and money to causes

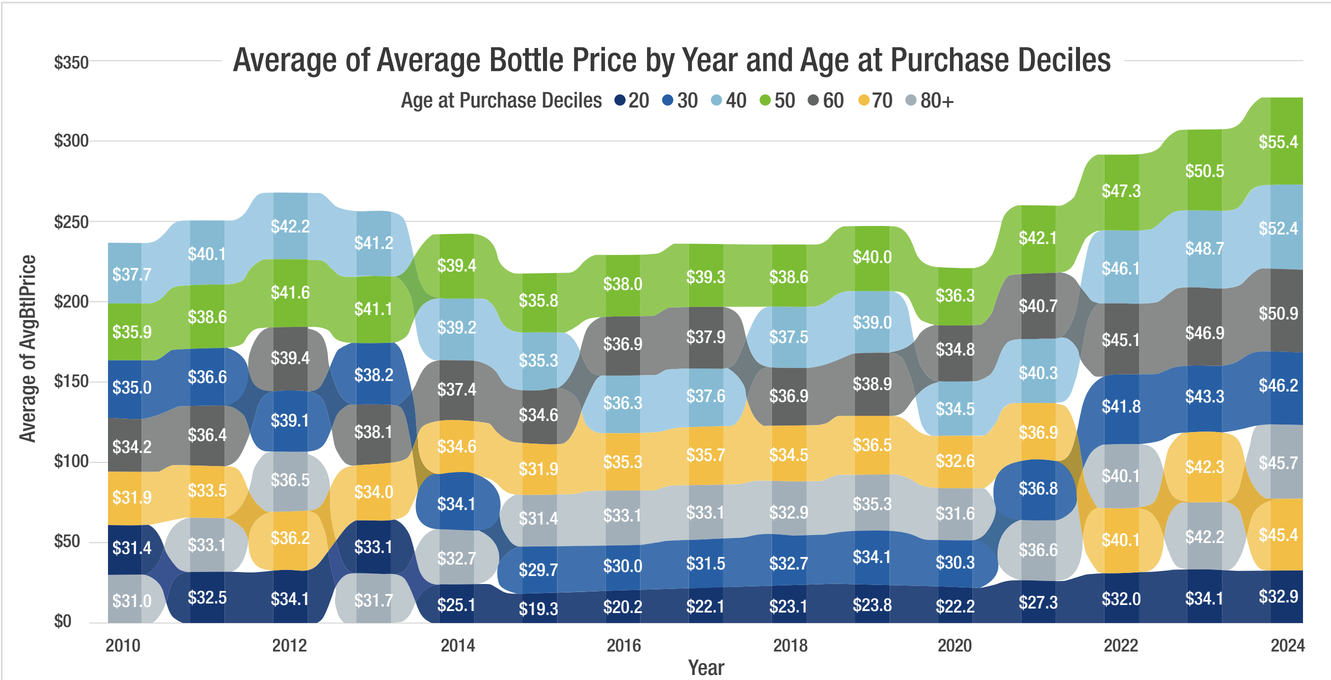
Within the current population, the preference for wine grows with age, beer remains mostly constant and spirits decline. This pattern has popularized the view by many that consumers will switch to wine over the course of their lives simply because they age. That is and always has been a fallacy. Consumers buy any good based on need, personal values, convenience, the inherent worth of the good, projecting an image for older people or fear of missing out for younger people, among other factors.

The mature generation that came before the boomers preferred spirits and beer over wine. They didn't become wine consumers in their high-spending years. And the boomers who followed didn't copy their parents' consumption patterns. Boomers edged into their discovery years drinking beer and wine coolers, but as they aged, they switched from their parents' patterns to their own, preferring wine over spirits and beer. There are significant differences in selling to the values of older and younger consumers, as described in Chart 20

Once a consumer group develops a consumption pattern, it will take an external force to modify it. Family formation has traditionally been once such force that influences wine consumption.

As another example, during the last demand retraction in the '80s, the French Paradox and other health-related studies showing some health benefits with moderate consumption were the activation points that drove more boomer consumers away from spirits and beer and towards wine.

Chart 21



Source: Customer Vineyard

I hope we are all past the notion that we shouldn't worry about younger consumers coming to wine, and all we need to do is wait or, said another way – be patient and do nothing. Doing nothing won't change our present situation.

Chart 21 from Customer Vineyard gives another view of the consumer shift. It shows the average bottle prices purchased through direct-to-consumer channels by the same decile age bands as Chart 19, over the period from 2014 to 2024. However, in this chart, the consumer age remains static each year. For example, the 21-29-year-olds' group is always 21 to 29 years old.

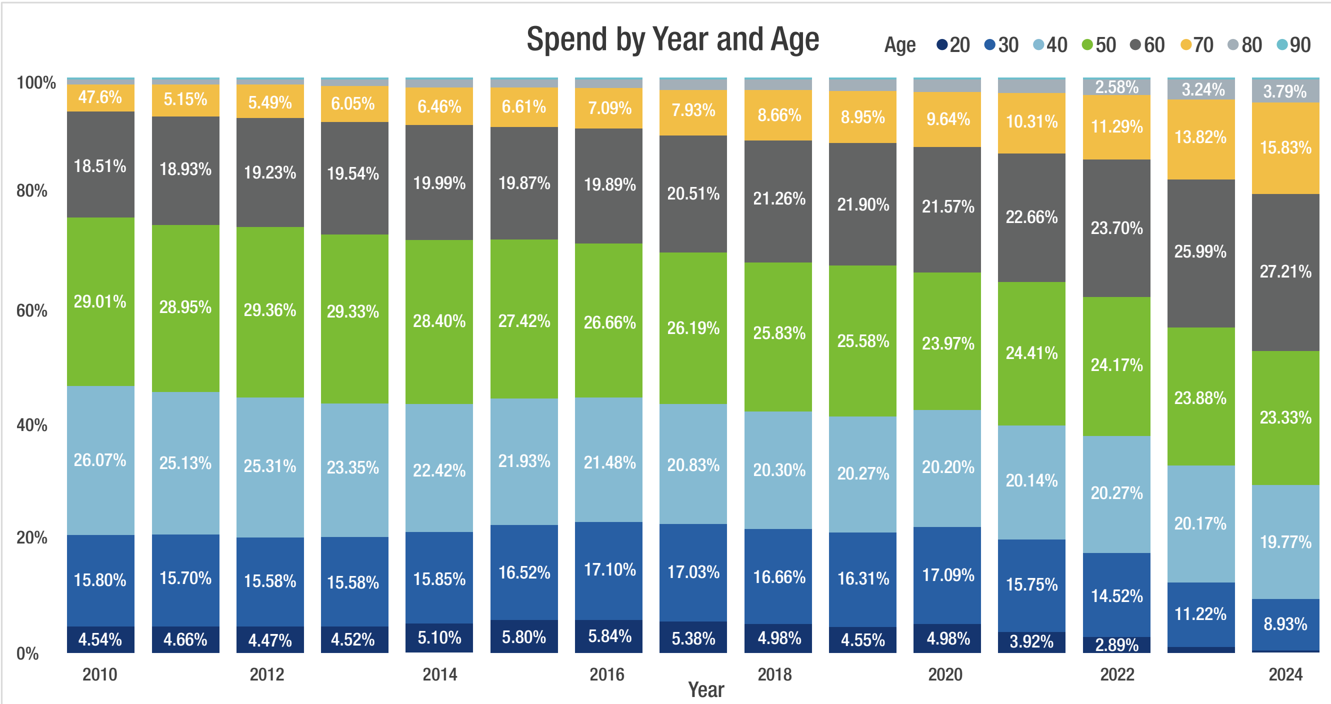
Data bias should be pointed out here. The direct-to-consumer channel, where these data originate, will always have higher bottle prices compared to the entire sample of wine offerings because the cost of shipping one case at a time for inexpensive wine is prohibitive. No consumer will order six bottles of $6 wine directly when the shipping costs might be more than the cost of the wine itself.

The prior chart on consumer preference shows that consumers less than 30 have a higher preference for wine versus what is in the DTC data. So, the conclusion follows that the youngest bands of consumers buy less expensive wine that isn't picked up in this view.

Several points can be taken away. The first is that 60+ consumers do not purchase the most expensive bottles today. The still-working 50-59-year-old age bands represent the group buying the highest bottle prices, followed by the 40-49-year-old band, with the 60-69-year-old age band hovering around the third highest.

There is a general rule of thumb that consumers reach their highest spending years in life between the ages of thirty-five and fifty-five. The fact that the boomer generation has been so dominant, and the lower end of the age bands have lagged, has been a big concern for many years. So, it is exciting to see the 30 – 39-year-old band demonstrate a greater willingness to spend more per bottle, particularly given the large size of that decile band.

Chart 22



Source: Customer Vineyard, Sovos - ShipCompliant

The next question to ask is how different this looks when we add total purchases to the average bottle price. In this view, we can still see that the youngest age group falls to the bottom in total spending. Another concern is the drop in total expenditures of that youngest consumer band up to the present. That shows up in many other studies, including a greater preference for abstention and possibly a substitution effect with cannabis.

In 2014, the youngest band trended above 5% growth in total wine spending. In 2024, the youngest individual consumers from 2014 graduated to higher age bands, and the result is the new class of 21-29-year-olds barely registered as direct buyers of wine. Unfortunately, those 30-39-year-old consumers who looked so promising and bought more expensive bottles in the prior chart also demonstrate a pattern of choosing other beverages over wine.

By total volume, the story returns to the one we all should know: In a time when total wine sales are declining, applying direct-to-consumer sales as a proxy, the 60-and-above crowd is still increasing their spending. If there is a silver lining in that news, the older consumers are living longer. Someone who is 65 today, on average, will live to be 84. So, speaking optimistically, we are keeping our best customers longer and that fact is a buffer to the current shift of consumers.

Chart 23

Customer Spend on Wine Weighted to Equalize LDA Population Distortions

Age Groups	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
80+	-3.55%	-3.48%	-3.39%	-3.23%	-3.10%	-3.09%	-2.69%	-2.83%	-2.71%	-2.60%	-2.50%
70 - 80	-1.74%	-1.55%	-1.18%	-0.67%	-0.28%	-0.25%	0.17%	0.42%	0.92%	1.26%	1.59%
60 - 70	7.54%	7.41%	7.55%	7.82%	8.29%	8.66%	8.22%	8.77%	9.70%	10.06%	10.42%
50 - 60	13.37%	12.90%	12.44%	11.53%	11.41%	11.26%	9.56%	9.86%	10.58%	10.36%	10.14%
40 - 50	5.71%	5.36%	4.85%	4.58%	4.07%	4.16%	4.21%	4.19%	2.59%	2.12%	1.66%
30 - 40	-5.26%	-5.12%	-4.88%	-4.69%	-5.01%	-5.23%	-4.59%	-5.59%	-5.87%	-6.03%	-6.19%
21 - 30	-16.06%	-15.52%	-15.39%	-15.35%	-15.37%	-15.50%	-14.87%	-14.83%	-15.21%	-15.16%	-15.12%

Source: Customer Vineyard, Sovos - ShipCompliant

Our final view of the consumer is a heat map in Chart 23 from Customer Vineyard that shows how the DTC spending patterns of a given age band compare to that band's share of the legal drinking-age population. This allows us to see how much of the changes in consumption come from shifting ages in a population.

The number 0 in the table indicates that the segment's spending is consistent with its population share. A negative number means the segment is underrepresented in its spending relative to its population size, and a positive number shows the extent to which a segment is outspending its population share.

Here, the 21- to 40-year-old age bands are significantly underrepresented in their spending each year compared to their population. The prime wine consumers are in the 50- to 70-year-old age bands, as expected, and they spend significantly more relative to their population size. However, their share is declining over time. The 40-50 band is still overrepresenting their expected spending, but the amount of overspending has dropped and is heading toward spending below their population expectation. The 70-80 age band in this series, starting in 2014, has evolved from underrepresenting their population to overrepresenting their expected direct-to-consumer spending.

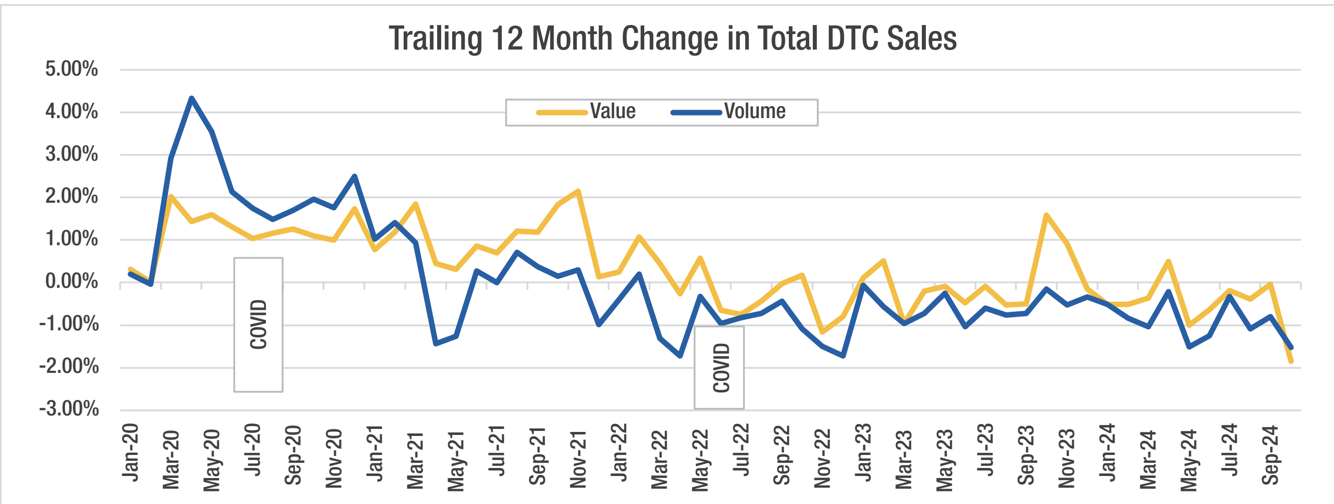
The best sign for growth in sales would be consumers below age 50 in a green overrepresenting cell in 2024. The age groups older than 60 gained ground starting in 2014 while everyone under 50 lost share. Again, that's the opposite of what we want to see.

Examining the Grower Community

No discussion of the current market is complete without looking at the state of affairs in the grower community, bulk wine supplies, and the performance of premium, direct-to-consumer wineries.

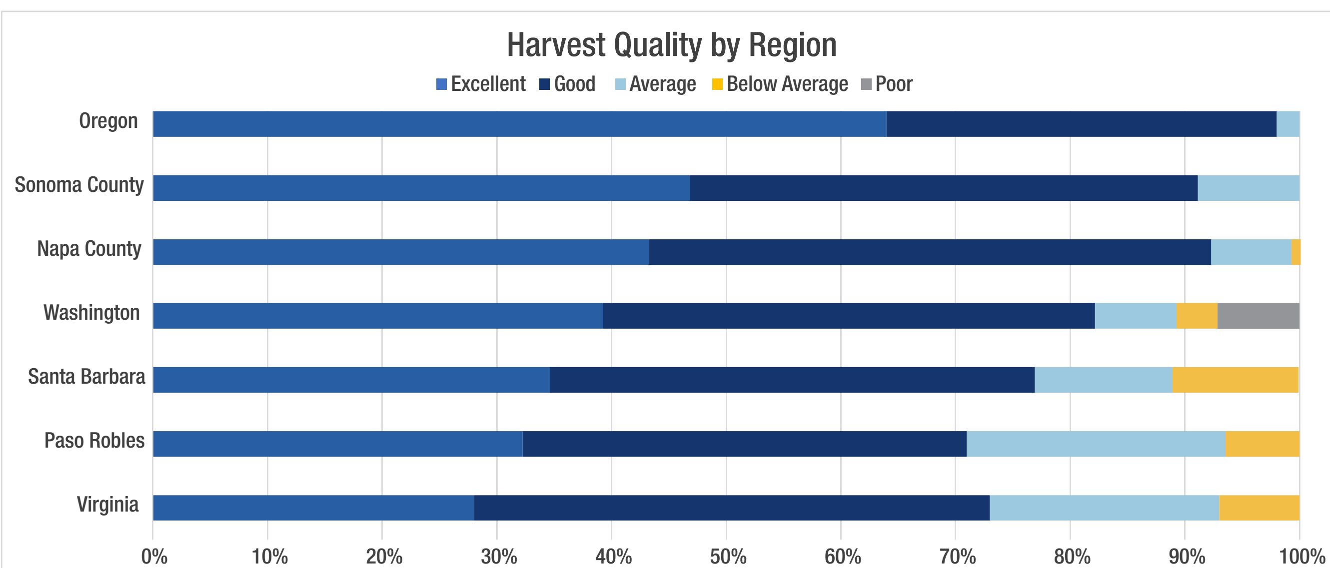
The direct-to-consumer sales downtrend continues, but as mentioned previously and shown on Chart 24, a bottom may be forming, particularly in tasting room metrics. As with most patterns, volume DTC sales are lower than dollar (value) sales. On a trailing 12-month basis, DTC volume sales are -9.5 %, and value is -4.1%. Those metrics are slightly worse than the trailing 12-month metrics for visitation and average tasting room order size, which were down 5.12% and up 1.34%, respectively.

Chart 24



Source: Wine Business Analytics/Sovos ShipCompliant

Chart 25

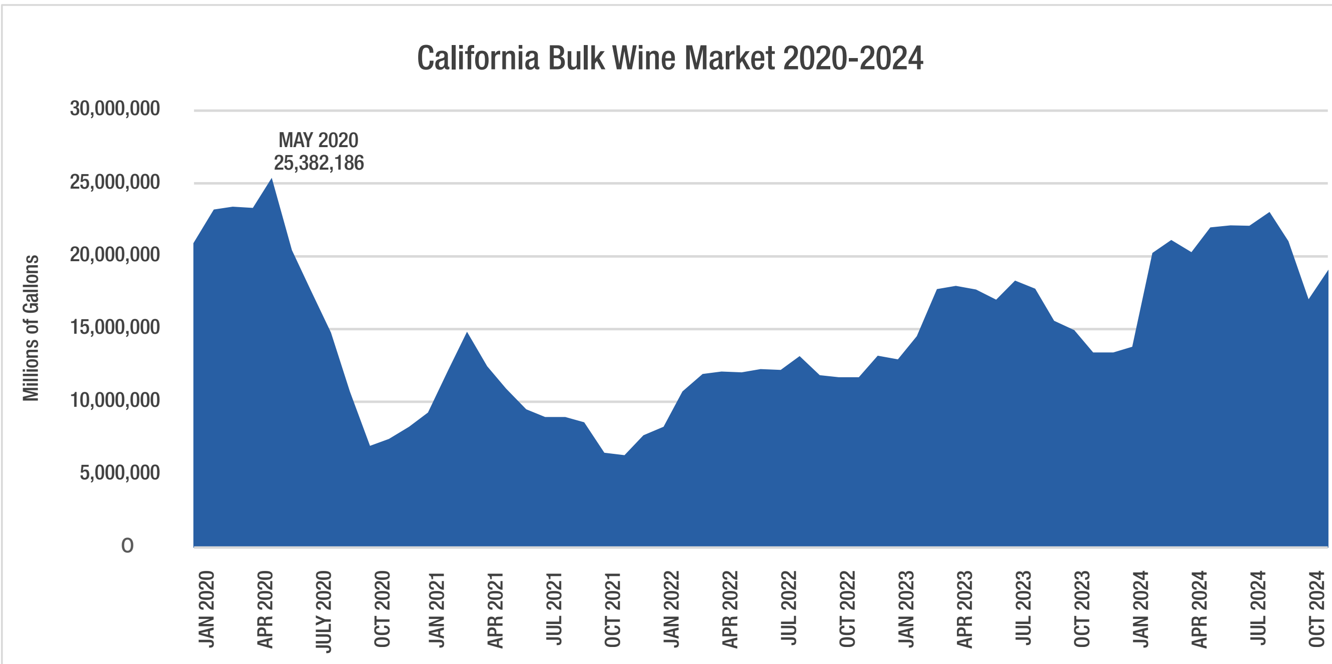


Source: Wine Business Analytics/Sovos ShipCompliant

As shown in Chart 25, every region on the West Coast has its own story regarding the quality of the 2024 vintage, but Mother Nature appears to have treated everyone quite well and given Oregon special treatment. While there were typical challenges during the growing season in most regions, the quality of everything picked on the West Coast is confirmed by speaking with brokers, winery owners, journalists, and the SVB survey results. Getting a sense of yield was more problematic this year given unharvested acreage, but yield is indicated in Chart 28.

California bulk wine availability, as noted in Chart 26 from Ciatti, is indicative of the supply-demand imbalance. California is the biggest wine-producing state in America, accounting for more than 80% of wine made in the country. The other major wine-producing states are Washington, New York, Pennsylvania, and Oregon. Ciatti Brokers report the overall bulk wine market is as quiet as it's ever been, and the supply is priced to sell–yet still slow to transact.

Chart 26



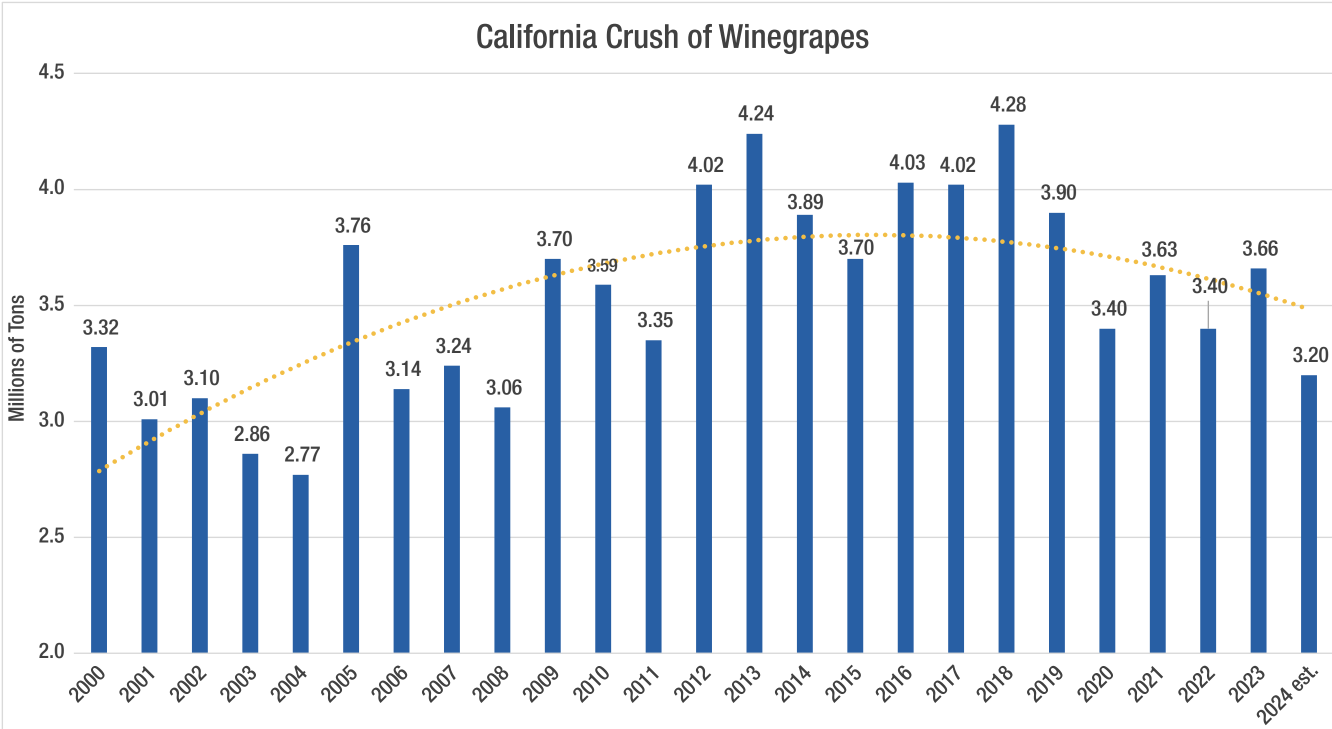
Source: Ciatti Brokers

California and Washington have significant oversupply issues, and Oregon is also emerging with a potential problem.

By any measure, Washington and California's vineyard acreage is set up for oversupply. Despite lighter harvests since 2019, available bulk wine is approaching another high point, as noted in Chart 26, and the supply imbalance has now reached every region on the West Coast, some more critically than others.

Ciatti Grape Brokers estimated in the middle of October 2024 that 20-30% of California's total wine grapes were still uncontracted. We conducted a similar analysis for the North Coast of California and found 5% - 10% of the grapes uncontracted entering harvest in that region. I've never seen that happen in my lengthy career. That said, we know some bargain buyers came in during picking season and paid, in some cases, one-fifth of the normal price for North Coast grapes. Given the discussions with our Washington clients, we are sure Washington looks similar. We can confirm Oregon had fruit that didn't sell in 2024, but our sample was too small to make a reliable estimate for the state.

Chart 27



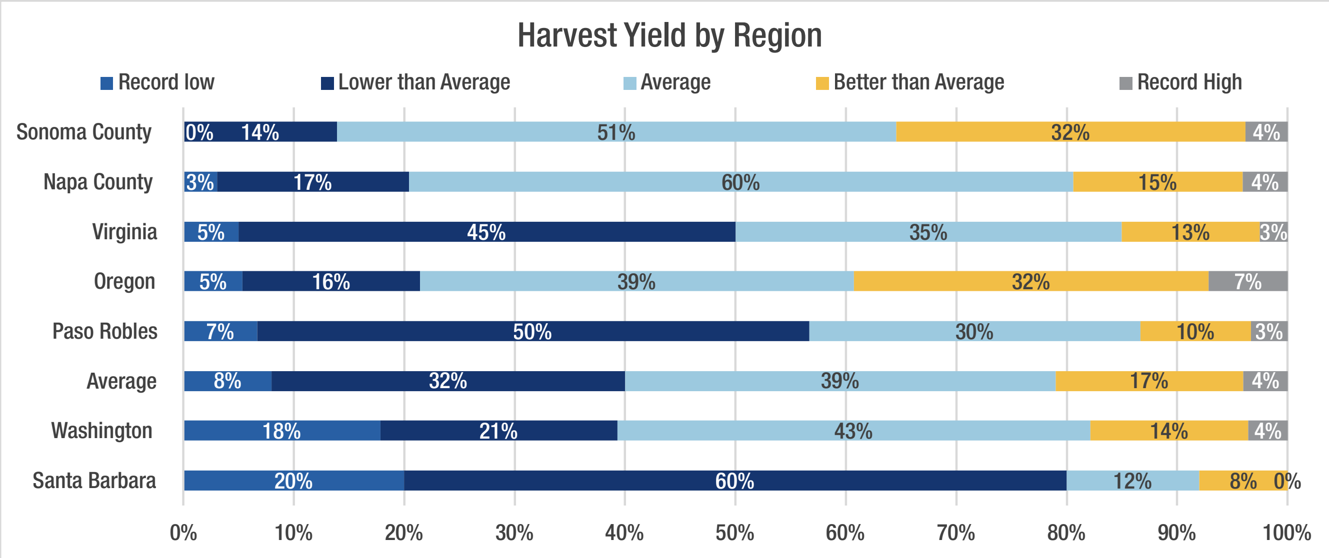
Source: California Department of Food and Agriculture, SVB Estimate

California can produce 4 million tons annually, as noted in Chart 27. However, in 2019, as a precursor to what we see today, significant acreage went unpicked. It appeared in 2019 that the existing oversupply would take several years to return to a balance. However, in 2020, the supply overage was unexpectedly eliminated in just a few months. It wasn't consumer demand or effective marketing. The shortage was eliminated by COVID and wildfires, causing smoke damage to most growing regions on the US West Coast.

Seeing the demand for wine under $11.99 falling consistently, the discussion of removing planted acres in California's Central Valley began in earnest in 2019.

The president of a large grower organization, Allied Grape Growers, Jeff Bitter, suggested to growers during a speech at the Unified Wine & Grape Symposium that California needed to remove a minimum of 40,000 acres from production. As of 2024, he estimated that only 18,000 acres had come out. Since then, he's increased his recommendation to an additional 50,000 net acres, closing in on 10% of California's total planted acreage. Indications after the 2024 harvest are that an estimated 30-40,000 gross acres have come out to date, but that's still not enough to bring grape supply intended for lower-priced bottles back into balance.

Chart 28

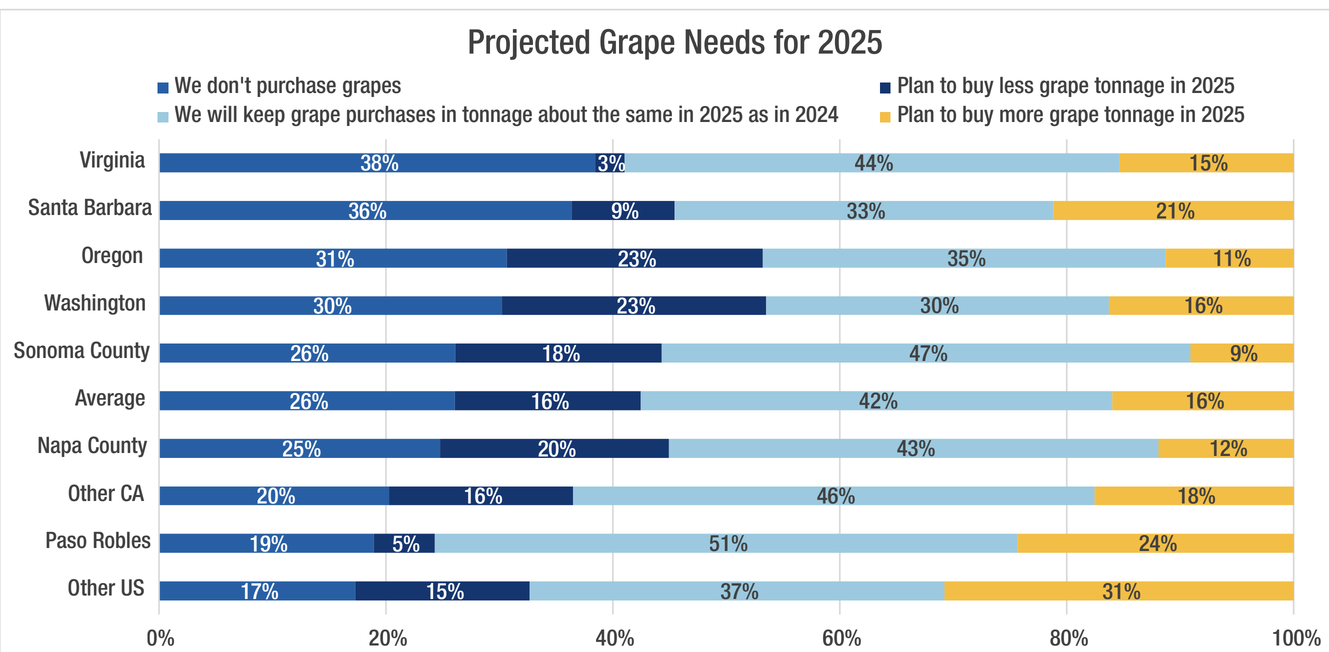


Source: 2024 SVB State of the Industry survey

When the report is released this spring, the USDA Grape Crush report for California will show light harvests at slightly lower prices per ton. Since the price of unharvested fruit isn't picked up in reporting for California, we won't have a clear understanding of the potential yield. Referencing the nearby chart from the latest SVB State of the US Wine Industry Survey, for what was picked, yields should come out average to below average when the counting is done.

West Coast growers and wineries are experiencing the aftereffects of changing consumer preferences—starting with slower retail sales and backing up through wholesale. The same can be said for direct-to-consumer sales, with the boxes stacked in warehouses, though nothing to the degree of wholesale.

Chart 29

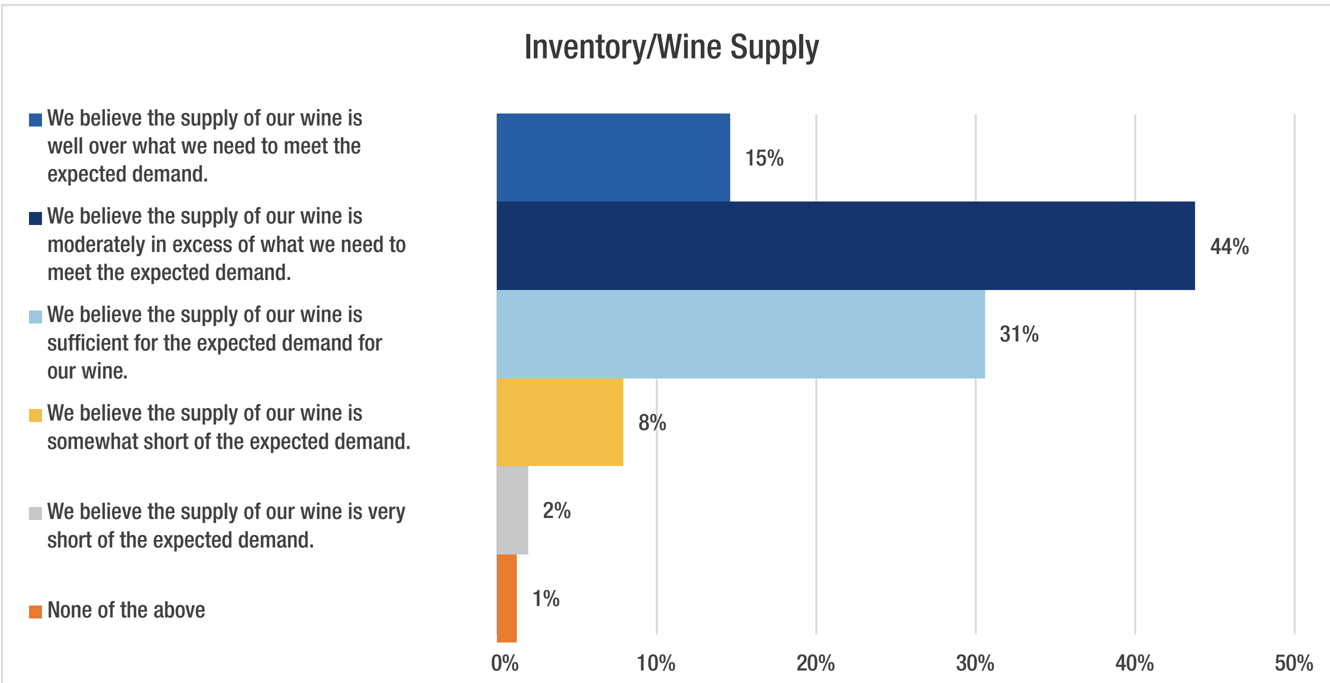


Source: 2024 SVB State of the Industry survey

Producers have proven wise with the 2024 crop decisions and were rightly hesitant to take on juice or grapes at any price last year without a defined plan for selling the wine. When asked about their plans for purchasing grapes in 2025, as noted in Chart 29, about 16% of wineries reporting say they are interested in buying more tonnage in 2025, while 26% expect to buy fewer tons of grapes. The remainder, about 42%, expects to hold grape buying constant.

In a separate question from our survey, we asked about available tank capacity in the 2024 harvest. Half said they used 90%—100% of capacity, with only 10% using less than half the winery capacity. The takeaway is that there is ample space for more production if needed, but for now, wineries will shoot to the conservative side when picking and buying grapes in 2025.

Chart 30



Source: 2024 SVB State of the Industry survey

A final chart to understand producer supply (Chart 30) shows that 59% of respondents believe they have too much supply. At a time when every region has unpicked fruit, that's a good sign that wineries have been smart about planning for generally soft demand. That is a huge positive and points again to the potential resiliency of producers to persevere through a rough patch.

Correction Length

So, how long will this last? That's the question on everyone's mind. There are far too many variables to predict confidently, but bracketing a range is worthwhile for planning purposes. To be clear, the answer is somewhat different depending on the segment you serve. That is a total wildcard. Recovery also doesn't happen all at once.

Because the wine industry production chain is linked, its components are tied to each other and will correct in a serial manner.

In wholesale, some wine companies with consumer pull will not feel a demand problem, while other wine producers with significant three-tier exposure and whose wine isn't pulling through will need to develop new plans to sell existing inventory.

The industry began this phase around 2015 when the growth rate for wine below the $9.00 average bottle price started to soften. The last demand correction lasted 9 years. If history were to repeat itself, 2024 should have been the year we saw the headwinds subside. Clearly, that wasn't the case.

The last demand correction reversed its course because we got lucky with the French Paradox broadcast. Today, the "No Safe Amount" anti-alcohol campaign is finally getting some pushback from grassroots organizations, and several articles have been published offering alternate views with credible scientific support. But is that effort sufficient to end this demand downturn? Luck is unlikely to fall into our laps twice.

A demand-based inventory bubble requires perseverance and will be a longer-term repair than the inventory-based bubbles we've experienced during the past 30 years.

Each imbalance, back to 1990, coincided with growing demand. When demand flattens, as is currently the case, there are limited corrective strategies.

To restore the balance between demand and supply, we can focus on systematically changing the behavior of millions of consumers through marketing and promotion or simply wait for the markets to cycle through their corrective phases at their own pace, removing vines and production capacity along the way until balance emerges.

The last sentence rolls off the tongue, but the destruction of capacity has real-life impacts for those on the edges of success. The one certainty in this market cycle is change. As the fundamental assumptions that led to industry growth have evolved, the tactics we counted on need to be revised to restore growth.

The fix isn't simple. The entire wine category is fragmented, making collaborations difficult. However, the reasons behind the adverse market are the same for everyone, so collaboration to market the category remains the best solution.

Some groups and grassroots organizations are in the early stages of starting promotional programs to stimulate demand and all efforts are welcome, but the need to move forward with new marketing campaigns at every level has never been greater.

Anything we can do to collaborate with neighbors, friendly regions, and fellow association members to market wine in wider circles can help shorten the length and severity of this cycle. And once this downturn ends, strengthen these relationships to bolster revenue, volume and profitability.

Given what we know today, the risks of ignoring a rapidly evolving marketplace far exceed the risks of trying new tactics. An untested idea, a novel outreach approach, collaboration with neighboring wineries, and establishing a Wine Business Improvement District are all worth considering. My preferred option, which was funded but didn't make it across the goal line in 2021, is a USDA Marketing Order.

Here are our predictions that answer the question, ‘How long will this last?”

- Boomers are ‘sunsetting’ at 2.4M annually today and forecasted to peak around 2037 at 4.4M. Because consumption is already declining ahead of deaths in the cohort, the meaningful impact on sales declines should peak before 2037, which we estimate will come between 2029 and 2031. So as a general statement, look for the industry to find a bottom and reach back to a zero growth rate in 2030.
- The premium business will return to flat growth between 2027 and 2029 and grow at the rate of inflation plus population growth levels thereafter.
- Off-premise will move to flat growth between 2028 and 2031.
- Until retail sales improve, growers will have difficulty negotiating favorable contract pricing and terms. Given the other predictions, the current market dynamics could extend past 2030 in many regions for growers.
- Clearing wholesale inventory and returning to predictable depletion volumes will likely take most, if not all, of 2025 and possibly continue into 2026.

In trying times, owners look for places to cut back. I believe that your contributions to your AVA Association are not something to cut. That is your town square for new ideas and community support.

Wine is what younger consumers want. They just don’t know it. But wine’s characteristics fit the bill–green, plant-based, natural, minimal additives, no added sugars, often organic, and more–all align with younger consumers' values. There is an opportunity, particularly in the 30–45-year age brackets, to change minds about wine.

ENDNOTES

1 2024 Bain-Altagamma Luxury Goods Worldwide Market Study.

2 To join the Wine Market Council and get access to their extensive research on the alcohol beverage consumer, sign up [here].

3 The LDA Wine Population Index by Occasion starts with a population base of 335M from the Census Bureau estimate of 2023. We eliminated everyone under age 21, and all non-drinkers. That leaves us only with legal alcohol consumers. Using the 2023 Wine Market Council Benchmarking Segmentation survey that outlines the portion of time someone shows a preference for wine in a drinking occasion, we peel out those occasions when a consumer might prefer beer, spirits or other, arriving at a theoretical number of consumers who will prefer wine at any point in time.

DISCLAIMER