

The U.S. Wine Market in 2030

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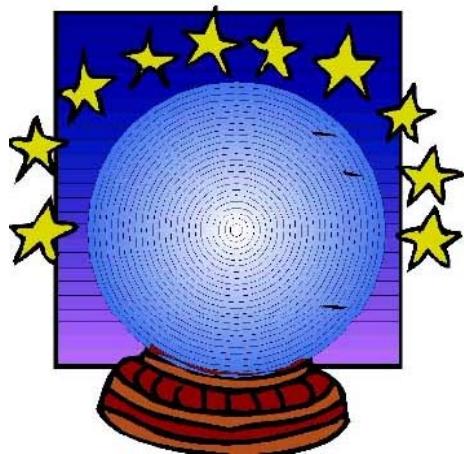
Dept. of Viticulture and Enology, UCD

Topics to Cover

- Consumption in 2030—Who and how much?
- Distribution
- Where will the wine come from? Grapes, water and money in the southern San Joaquin Valley

Topics NOT covered: Income elasticity or Exchange rates

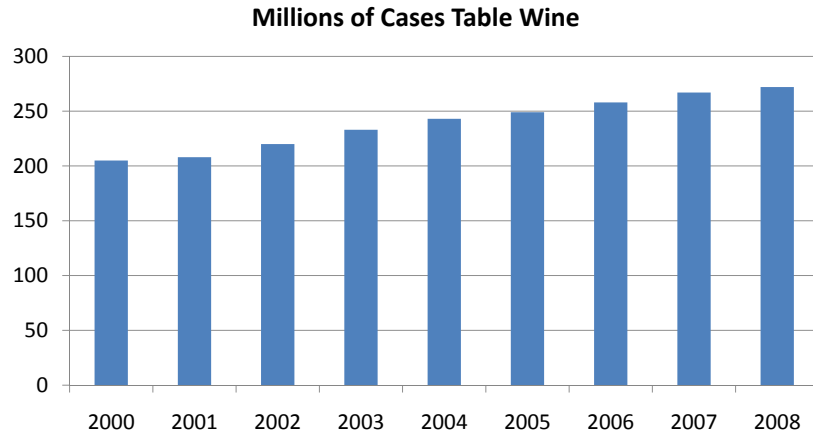
Wine Consumption in 2030?



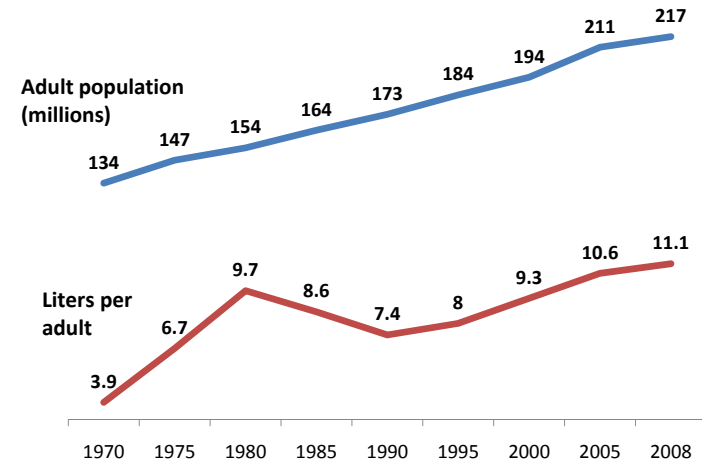
Two Straight Line Projections

- Total U.S. population is expected to grow from 310 million in 2010 to 373 million in 2030—a 20% increase. Table wine sales in 2008 were 272 million. A 20% increase would mean **326 million cases in 2030**
- Total adult population is expected to grow from 220 million to 268 million—a 22% increase. That projects to **330 million cases in 2030**

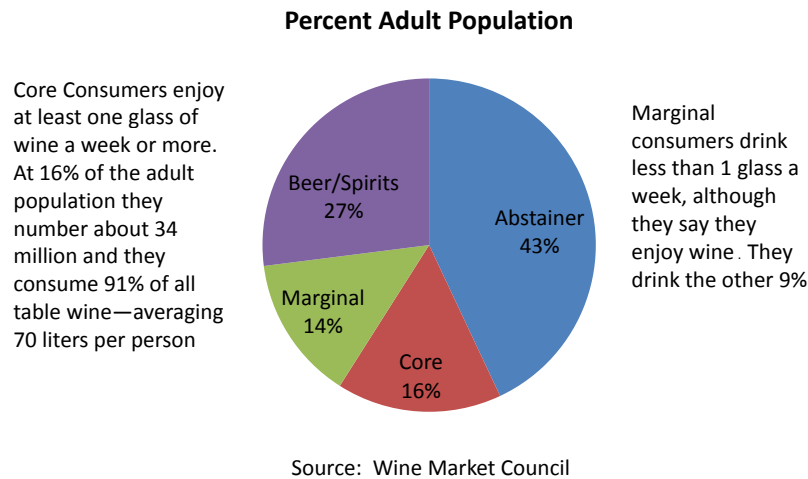
Table wine consumption has steadily increased



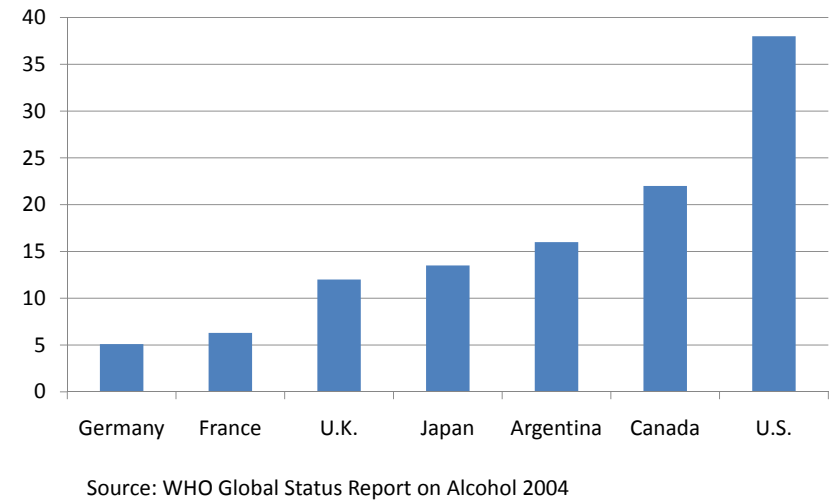
Total sales is a function of population times per capita consumption. Both have increased



2009 Wine Market Council Study



Percent Adult Abstainers



2010 Core Consumers by ethnicity

| Ethnicity | Percent of Core | Total Number | Percent of Group |
|------------------|-----------------|---------------|------------------|
| "White" | 84 | 28.56 million | 13.9% |
| African-American | 5 | 1.7 million | 4.3% |
| Asian-American | 7 | 2.38 million | 14.8% |
| Hispanic | 4 | 1.36 million | 3.7% |

Source: Wine Market Council and U.S. Census Bureau

Projected U.S. Total Population in Millions

| Ethnicity | 2010 | 2020 | 2030 |
|------------------|------|-------|-------|
| "White" | 246 | 266 | 286 |
| African-American | 39.9 | 44.4 | 48.7 |
| Asian-American | 14.4 | 18.7 | 23.5 |
| Hispanic | 49.7 | 66.4 | 85.9 |
| | 350 | 395.5 | 444.3 |

Sources: "National Population Projections 2008, U.S. Census Bureau and "U.S. Population Projections" Pew Research Center

Hispanics account for the greatest increase in population

- In 2010, Core Hispanic consumers are 3% of their ethnic group.
- A 2005 study showed 23% of Hispanics drank some wine, lower than the general market
- But Hispanics under 40 years old drank one more glass a month than did the general market.
- Acculturated Hispanics drank more wine than their cohort
- Hispanics have lower levels of abstaining than the general population

Potential Core Consumers 2030

| Ethnicity | % Core 2010 | % Core 2030 | Population 2030 | # Core Consumers |
|-----------|-------------|-------------|-----------------|------------------|
| "White" | 13.9 | 16.0 | 212 Million | 33.92 M |
| Black | 4.3 | 4.5 | 48 Million | 2.16 M |
| Asian | 14.8 | 16.0 | 27 Million | 4.32 M |
| Hispanic | 3.2 | 8.0 | 86 Million | 6.80M |
| | | | | 47.20 M |

My Projection

- The number of Core consumers is 34 million in 2010. 47 million in 2030 is a 38% increase. Assuming 70 liters per Core consumer and 90% consumption of all table wine, **a market of 407 million cases is possible.**
- Assumptions: Decrease in abstinence from 40 to 30% and increase in Hispanic consumption
- Caveat: Will Millennials who will be in their 40s and raising families consume at their present rate?

Production and Distribution



In 2009

- California produced over 90% of all wine made in the U.S.
- Wineries exist in every state
- Because of the 21st Amendment, each state has its own laws regarding production and distribution—the U.S. is essentially 51 countries
- Distributor consolidation has continued, which reduces sales opportunities for wineries

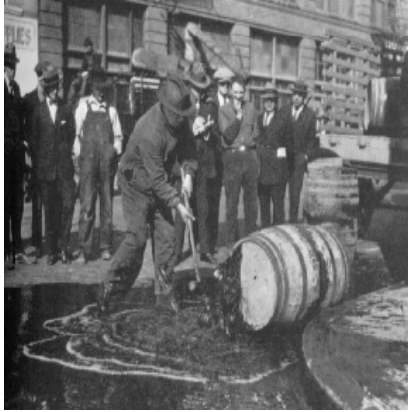
Number of Wineries 2005-2009

| | CA | WA | OR | NY | VA | All |
|------|------|-----|-----|-----|-----|------|
| 2005 | 1658 | 323 | 230 | 185 | 101 | 3606 |
| 2006 | 1905 | 430 | 290 | 218 | 135 | 4383 |
| 2007 | 2098 | 479 | 320 | 232 | 147 | 4850 |
| 2008 | 2219 | 511 | 321 | 232 | 152 | 5073 |
| 2009 | 2347 | 542 | 334 | 223 | 162 | 5304 |

The total number of wineries in the United States has increased by almost 50% in 5 years. Today every state has at least one producing winery—most have twenty or thirty. This has caused changes in laws relating to local sales

Prohibition: 1919-1934

- Part of the U.S. Constitution
- Repeal required another Amendment which could be blocked by ¾ of the states
- Result: Each state given the authority to regulate production and sale
- Most states did not produce wine and set up a multi-tier system of distribution aimed at protecting local distributors—not producers



Three Tier Distribution

- Most states required that producers
 - Sell to Wholesalers
 - Who sell to Retailers
 - Who sell to consumers
 - Direct sales to consumers was discouraged
- Distribution is expensive and encourages increases in scale of wholesalers to hold inventory and to deliver 100s of 30 pound boxes of wine every day.
- Distributor consolidation has made it difficult for 1000s of small wineries to get to the end consumer

2005 Granholm Case

- States liberalized sales laws for domestic producers as wineries proliferated in state
- But most states still required out-of-state producers to use 3-tier distribution
- In a 5 to 4 decision, the U.S. Supreme Court ruled that states can make their own laws but can't discriminate
- Raises lots of issues

Prediction 2030

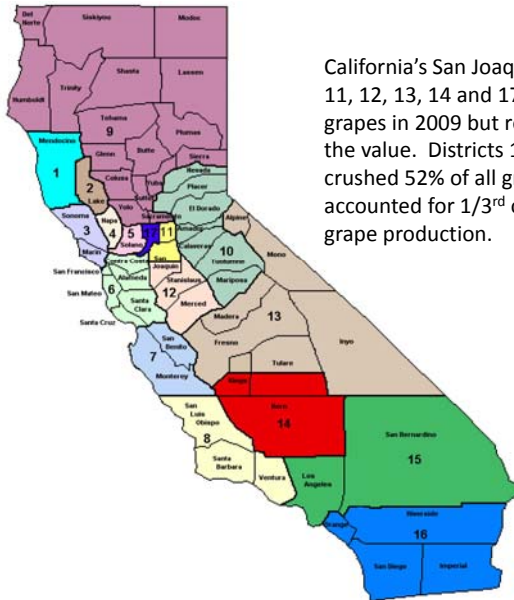
- Distributors will be quite healthy: There is a need for consolidation and delivery services and they do it well
- One of the big distributors will see an opportunity in creating a compliance/delivery system for small wineries
- Most states will allow some form of direct shipment by 2030

Supply in 2030



The U.S. wine market in 2009

- California supplied 61% of all wine sold.
- 83% of California wine was sold in the U.S.
- Of the 17% exported, half was bulk, and valued at \$1.05 a liter
- Approximately 75% of the wine sold in the U.S. retailed for under \$7 a bottle and 30% sold for less than \$3 a bottle
- Most of this wine came from the San Joaquin Valley



California's San Joaquin Valley (districts 11, 12, 13, 14 and 17) crushed 78% of all grapes in 2009 but received only 40% of the value. Districts 12, 13, and 14 crushed 52% of all grapes and District 13 accounted for 1/3rd of California wine grape production.

The need for more grapes

- A 2030 market of 407million cases is an increase of 125 million cases, requiring 1.75 million tons of grapes
- Assuming California supplies 60%, and that half sells at \$5 a bottle or below, the San Joaquin valley needs to expand production by 500,000 tons, or 42,000 acres at 12 tons/acre
- 2008 acreage was 157,000 –down from a 2001 peak of 190,000 acres

Cost and Profitability of Alternatives

Cooperative Extension Cost/Return Studies: Cost per Acre

| Crop | Investment | Revenue | Cost | Net |
|--------------|------------|---------|--------|--------|
| Winegrapes | \$7100 | \$3000 | \$2920 | \$80 |
| Almonds | \$4840 | \$4200 | \$4000 | \$200 |
| Walnuts | \$5700 | \$5100 | \$4030 | \$1070 |
| Pistachios | \$9276 | \$4540 | \$3680 | \$860 |
| Pomegranates | \$3490 | \$5400 | \$4780 | \$620 |
| Alfalfa Hay | \$530 | \$1480 | \$1500 | -\$20 |

California winegrapes are a small part of a large world supply

| Crop | % World Production | % World Export Market |
|---------|--------------------|-----------------------|
| Almonds | 80 | 90 |
| Walnuts | 30 | 60 |
| Wine | 7 | 4 |

In 2009, 60 million gallons of bulk wine valued at 70 cents a liter were imported and bottled in the U.S.—most by California wineries. The presence of inexpensive foreign wine acts as a ceiling to wine grape prices in the Southern San Joaquin Valley

Water, Vineyards and the Future

- Vineyards use about half the water of almonds or walnuts, but they are also less profitable
- Prices for agricultural water vary from \$10-\$100 an acre foot—but are expected to double
- Of the 105,000 acres currently planted in districts 13 and 14, 93,000 are over 10 years old and will be replaced by 2030
- Districts 13 and 14 have 344,000 acres of almonds already planted

2030 Conclusions?

- The U.S. wine market will look quite different
 - It will be significantly larger
 - Number of wineries in other states will double
 - Upwardly mobile Hispanics will adopt wine
- California will remain the major U.S. producer but will lose volume to inexpensive imports marketed as global brands
- Faced with expensive water, San Joaquin valley growers will switch to crops where California has a competitive advantage

Thank You to:

- The Wine Market Council for supplying me with some of the detailed studies
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- All of you for your attention