

The U.S. Wine Market in a Global Context

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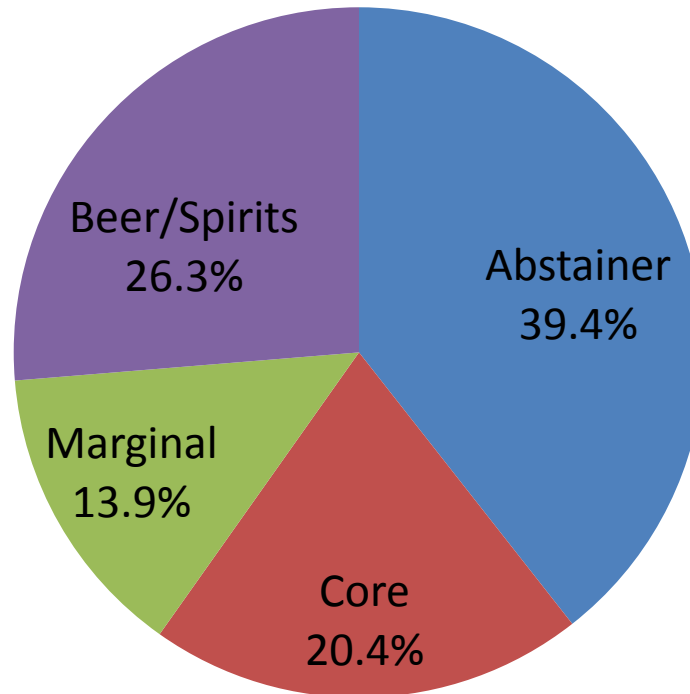
Agricultural Issues Center

How might a U.C. perspective differ?

- More Objective? We don't produce or sell wine. Treat it as an interesting good but still a good that responds to supply/demand
- Focus on supply? Grapes are an agricultural product and we study production. Little actual consumer research
- California-centric? California dominates U.S. production
- Historical? Current events placed in longer term perspective

2010 Wine Market Council Study

Percent Adult Population

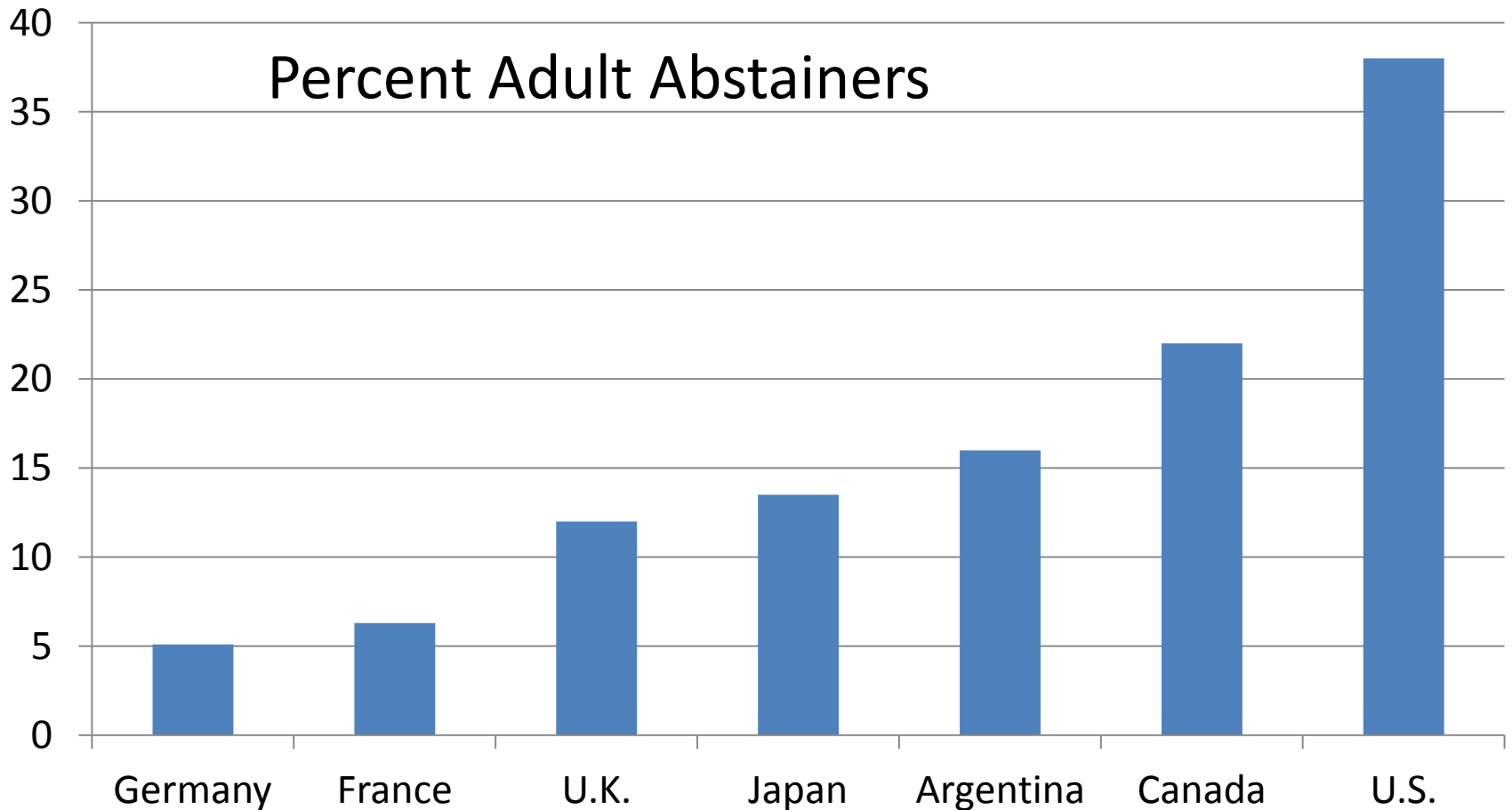


Core Consumers enjoy at least one glass of wine a week or more. At 20% of the adult population they number about 36 million and they consume 91% of all table wine—averaging 70 liters per person

Marginal consumers drink less than 1 glass a week, although they say they enjoy wine. They drink the other 9%

Source: Wine Market Council

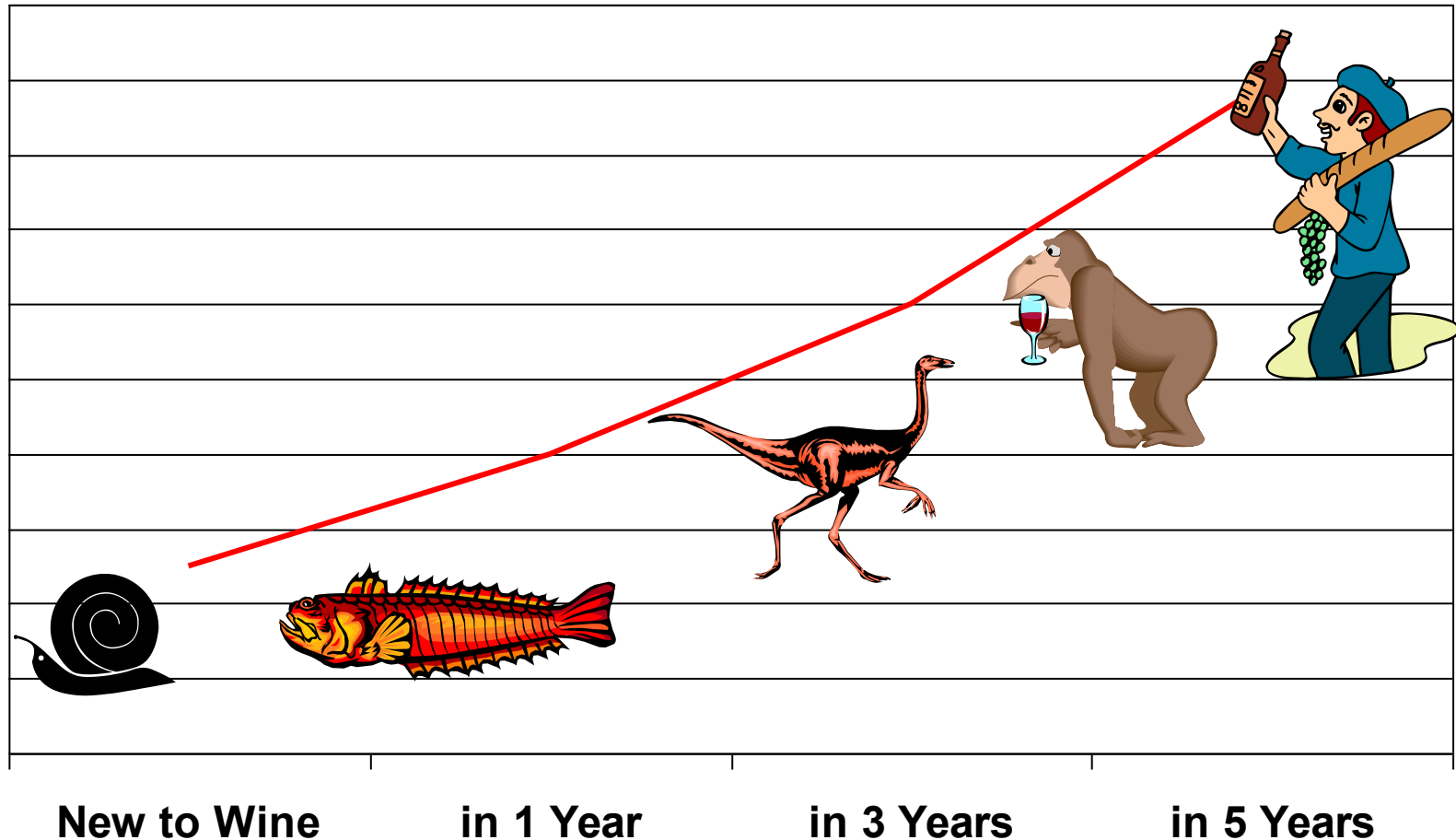
How Does the U.S. Compare?



Source: WHO Global Status Report on Alcohol 2004

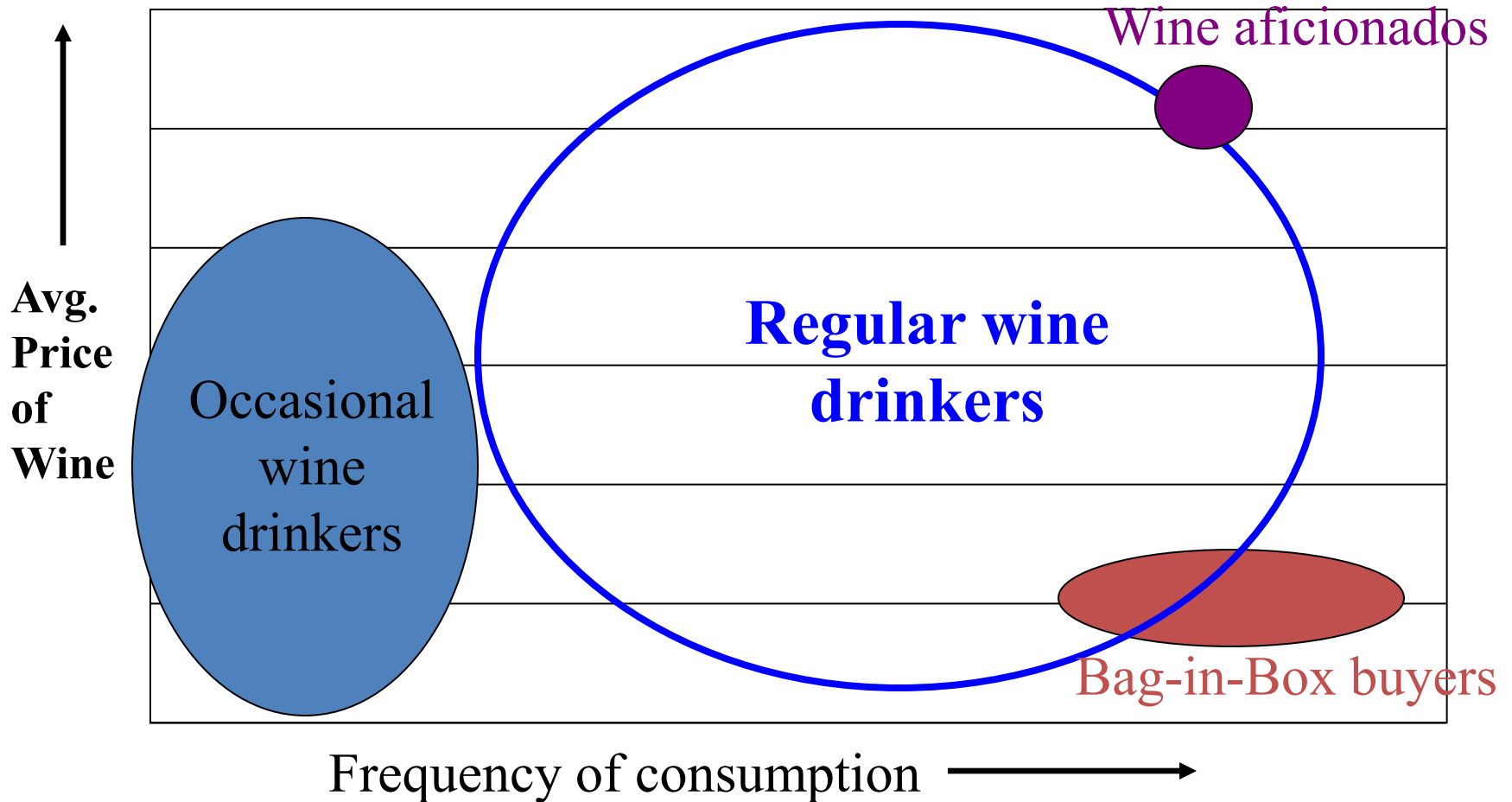
Wine Consumers – the traditional view

Quantity & Quality



Thanks to Christian Miller for the slide!

Wine Consumers – Defined by Price and Frequency of Consumption



Constellation's "Project Genome" 3500 in-depth interviews in 2005



SIX KEY CONSUMER SEGMENTS

% Core

ENTHUSIAST

73

IMAGE SEEKER

49

SAVVY SHOPPER

59

TRADITIONALIST

54

SATISFIED SIPPER

33

OVERWHELMED

28

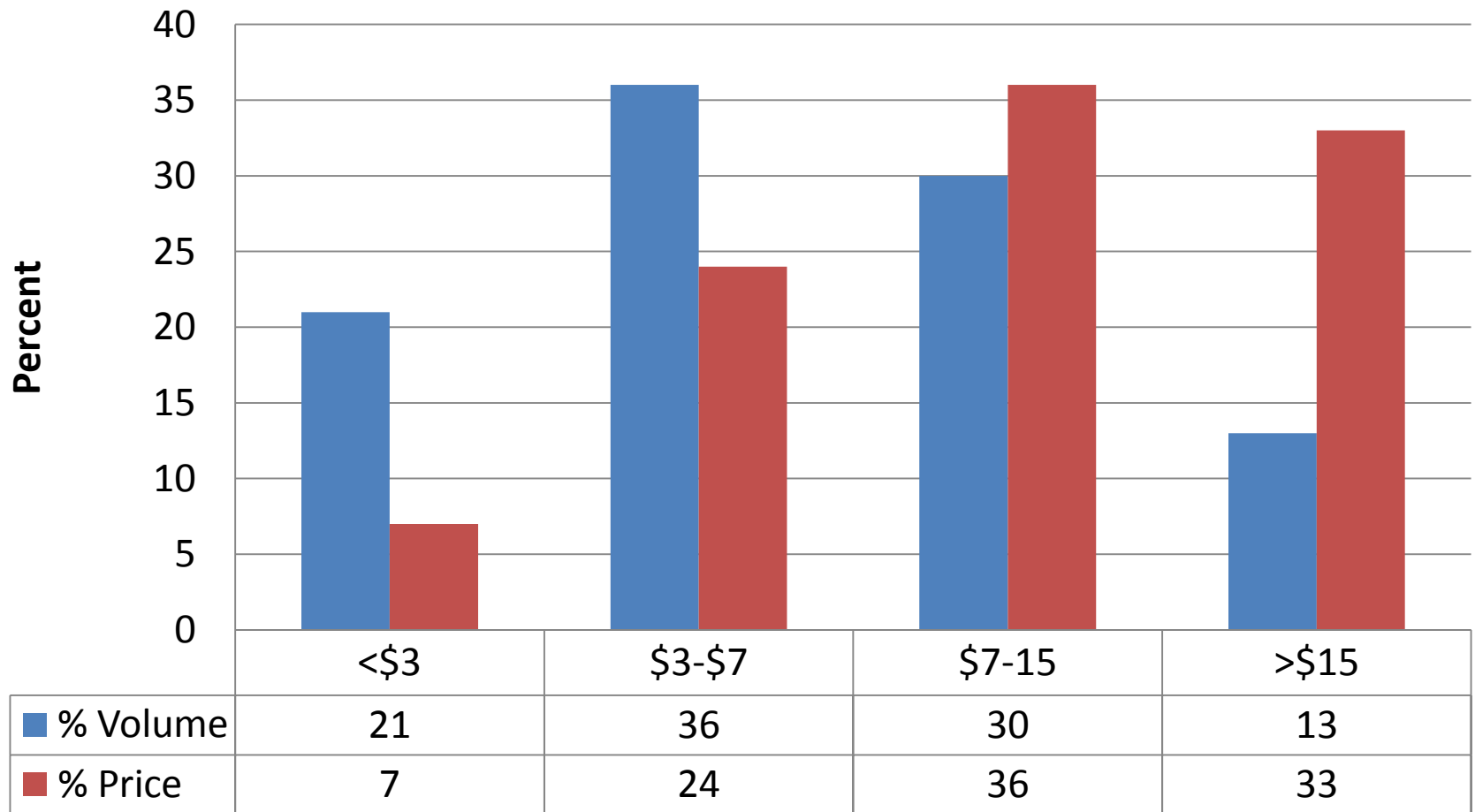
Genome by Quantity

	Percent Consumers	Glasses per week	Percent all wine
Enthusiast	12	5.1	18
Image Seekers	20	3.3	23
S.Shoppers	15	3.5	18
Traditional	16	3.0	16
Satisfied	14	2.2	11
Overwhelm	23	1.7	14

What about supply?



2010 U. S. Wine Sales by Price Category



Data sources: Jon Fredrikson and Christian Miller

The U.S. wine market in 2010

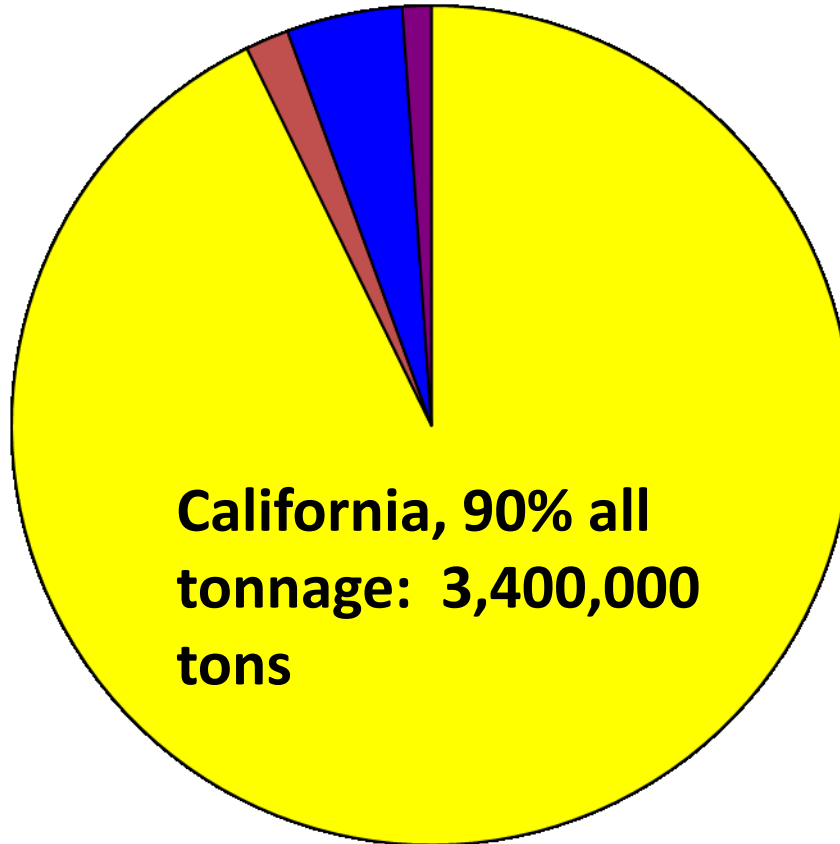
- California supplied 61% of all wine sold.
- 82% of California wine was sold in the U.S.
- Of the 18% exported, half was bulk, and valued at \$1.05 a liter
- Approximately 57% of the wine sold in the U.S. retailed for under \$7 a bottle (\$9.33/L) and 21% sold for less than \$3 (\$4/L) a bottle
- Most of this wine came from the San Joaquin Valley

2010 Imports to U.S.

Country	Value (\$ Millions)	Volume (million Ls)	\$/L
Italy	1,253	246	5.09
France	988	90	10.97
Australia	603	211	2.85
Chile	274	121	2.26
Argentina	269	87	3.09
Spain	264	53	4.98
New Zealand	197	31	6.35

The above figures are import values. Retail prices are at least 2X, perhaps 3X

Tons of U.S. Grapes Crushed Vintage 2010



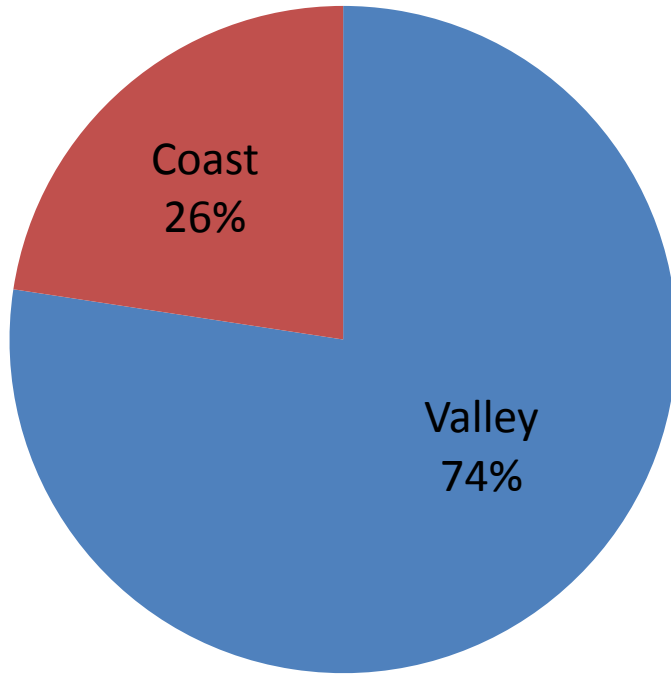
**New York: 60,000
tons (only 9,550
vinifera)**

**Washington:
160,000**

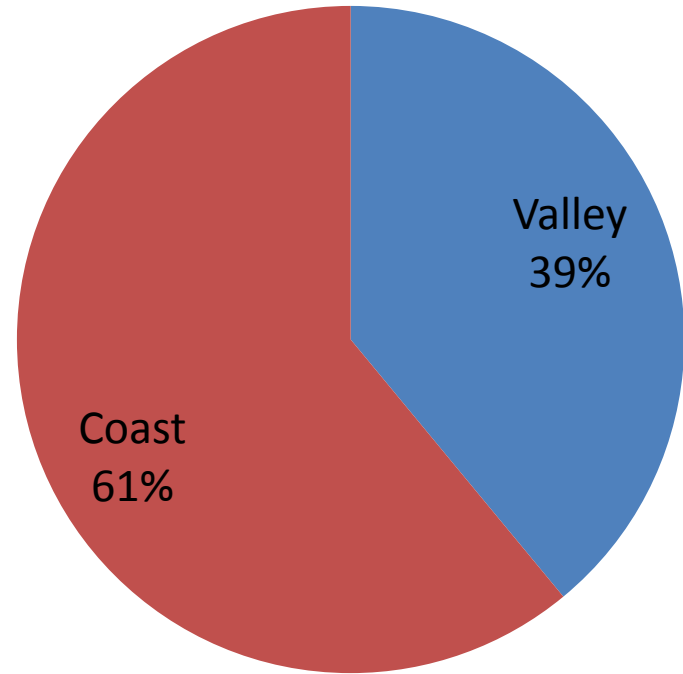
**Oregon: 40,000
tons**

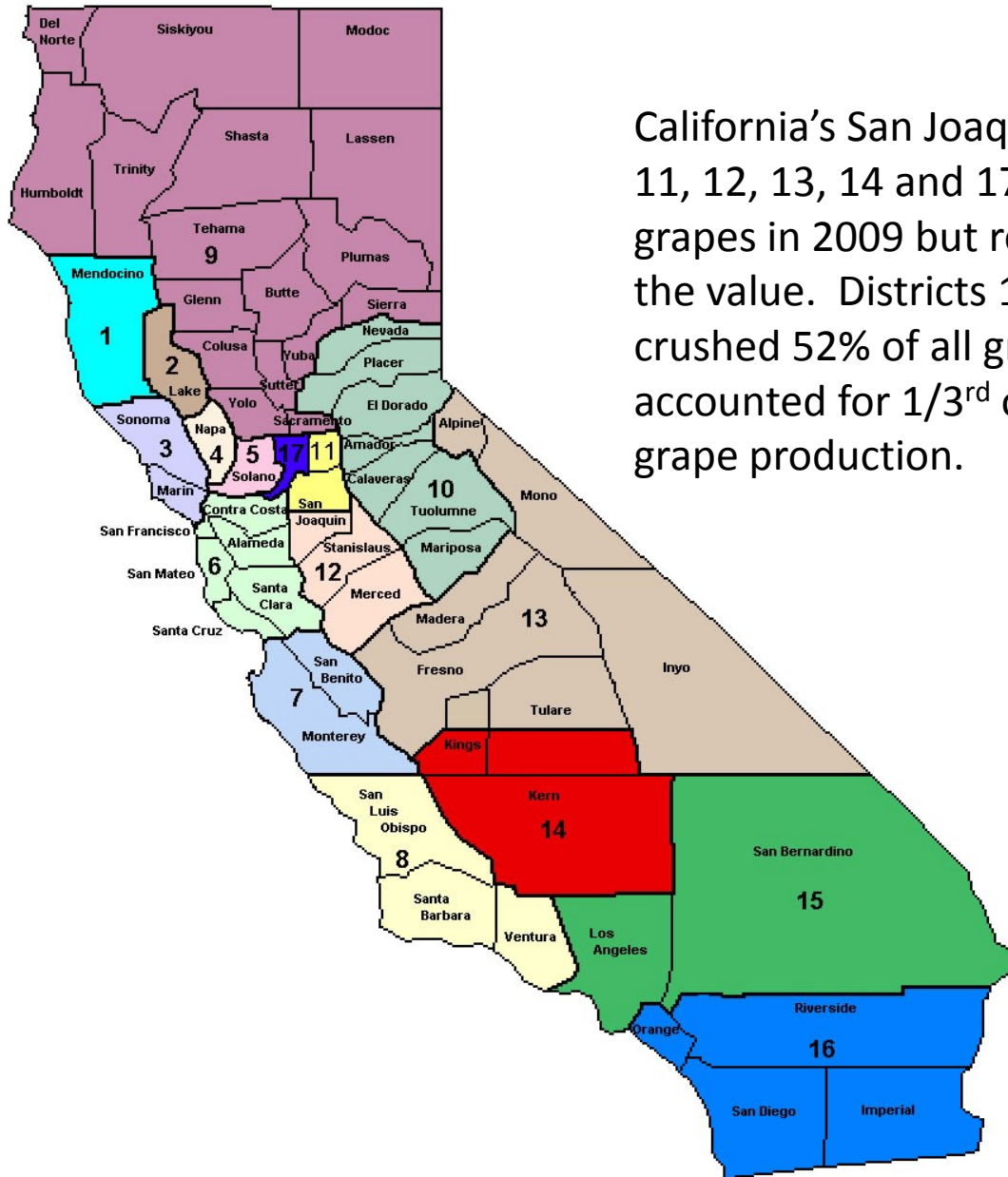
2010 Crush Percentages

Volume: Tons Crushed



Value: Percent Dollars





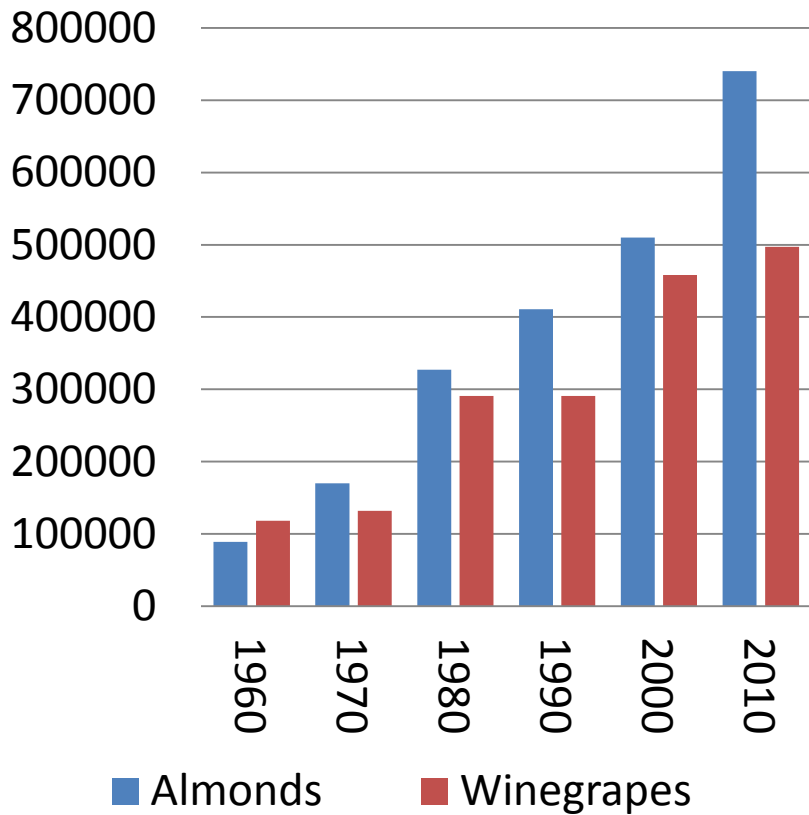
California's San Joaquin Valley (districts 11, 12, 13, 14 and 17) crushed 78% of all grapes in 2009 but received only 40% of the value. Districts 12, 13, and 14 crushed 52% of all grapes and District 13 accounted for 1/3rd of California wine grape production.

Can Winegrapes compete with Almonds?

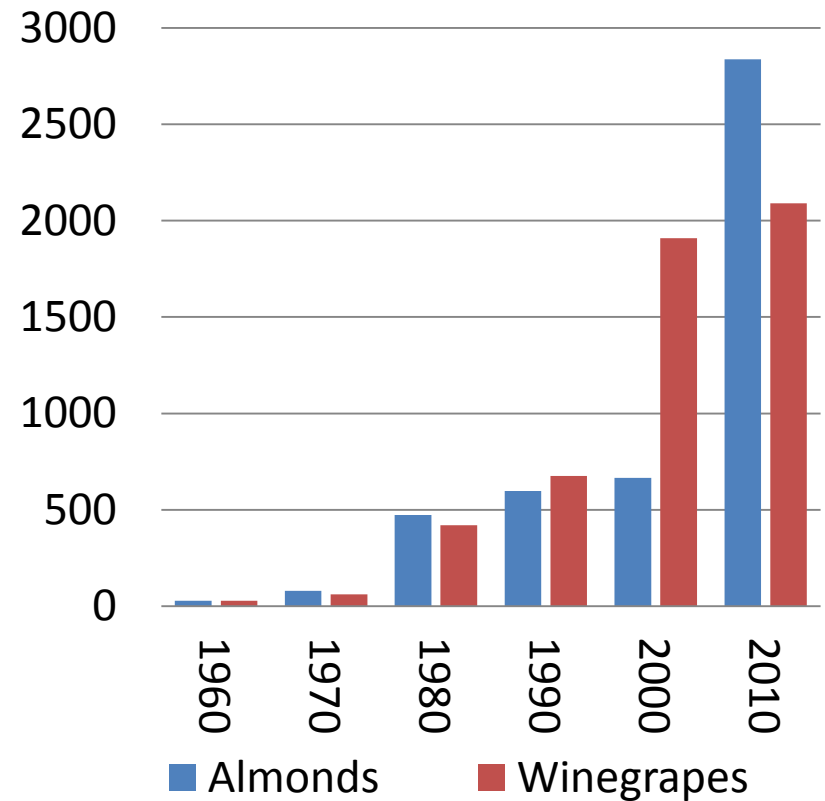


50 years of Almonds and Winegrapes

State Acreage

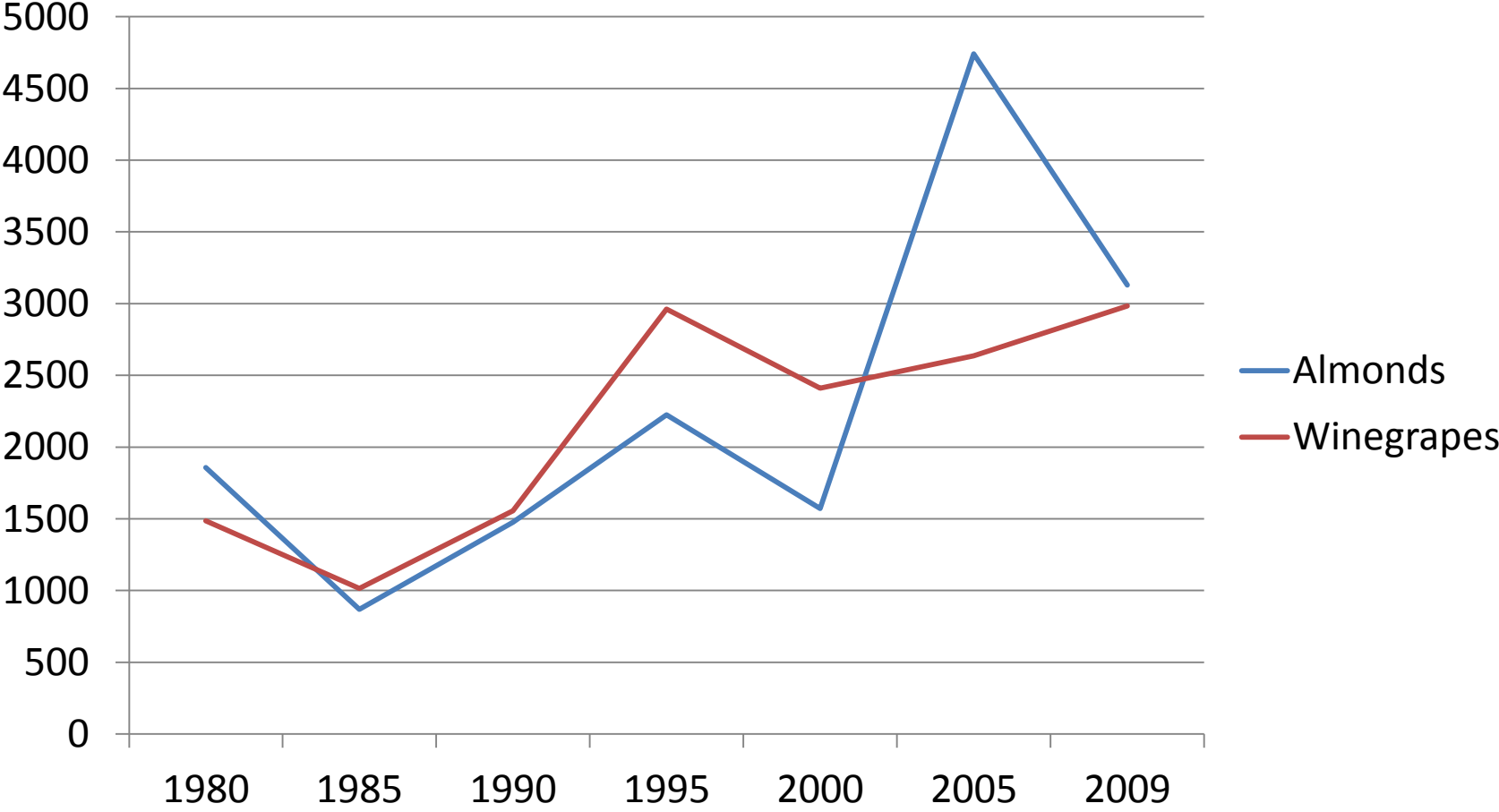


Value (millions)

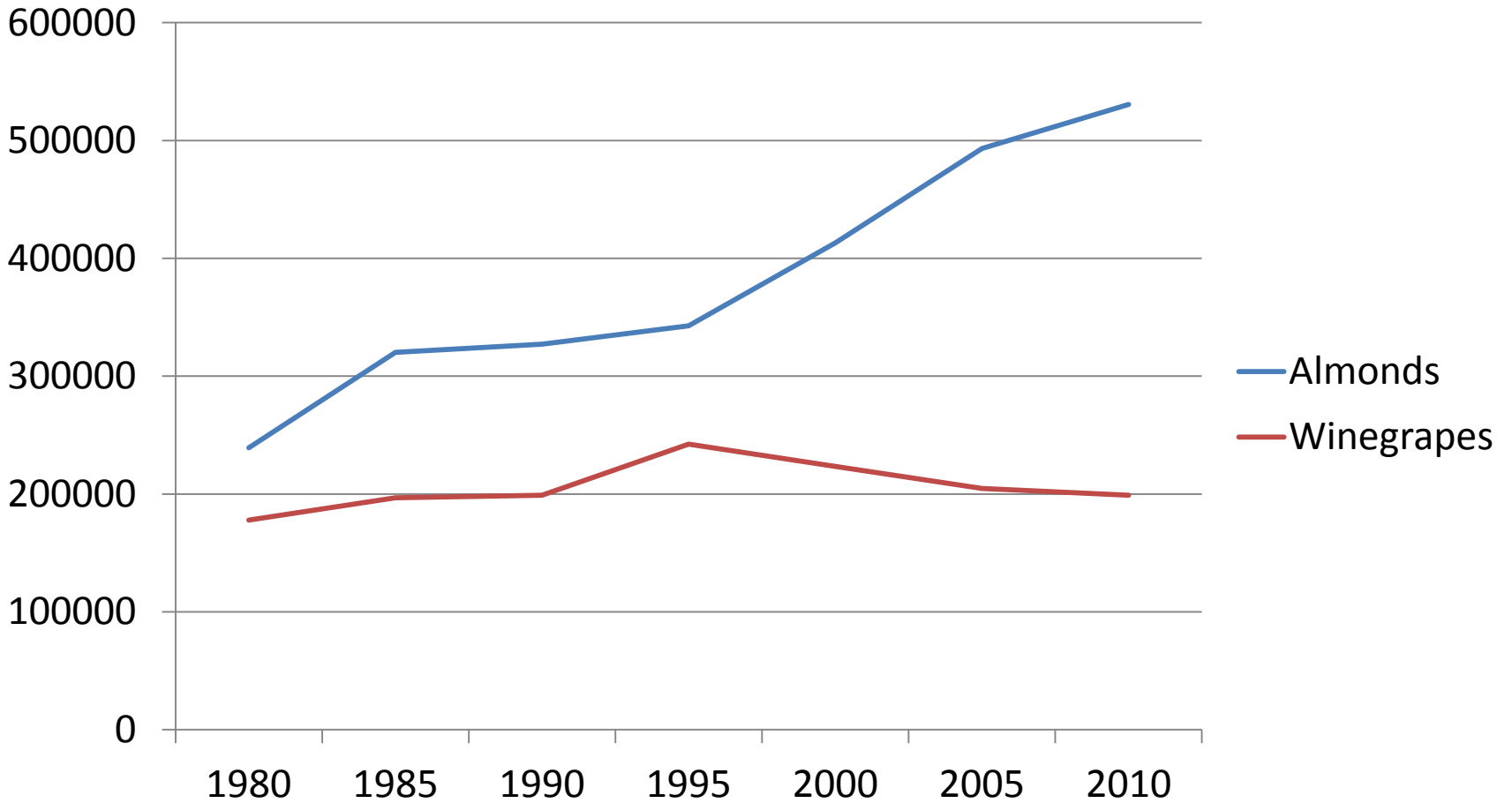


About 85% of California's almond acreage and 50% of winegrape acreage are in the San Joaquin Valley, (winegrapes down from 60% in 1980).

Gross Revenue per Acre



Bearing Acres San Joaquin Valley



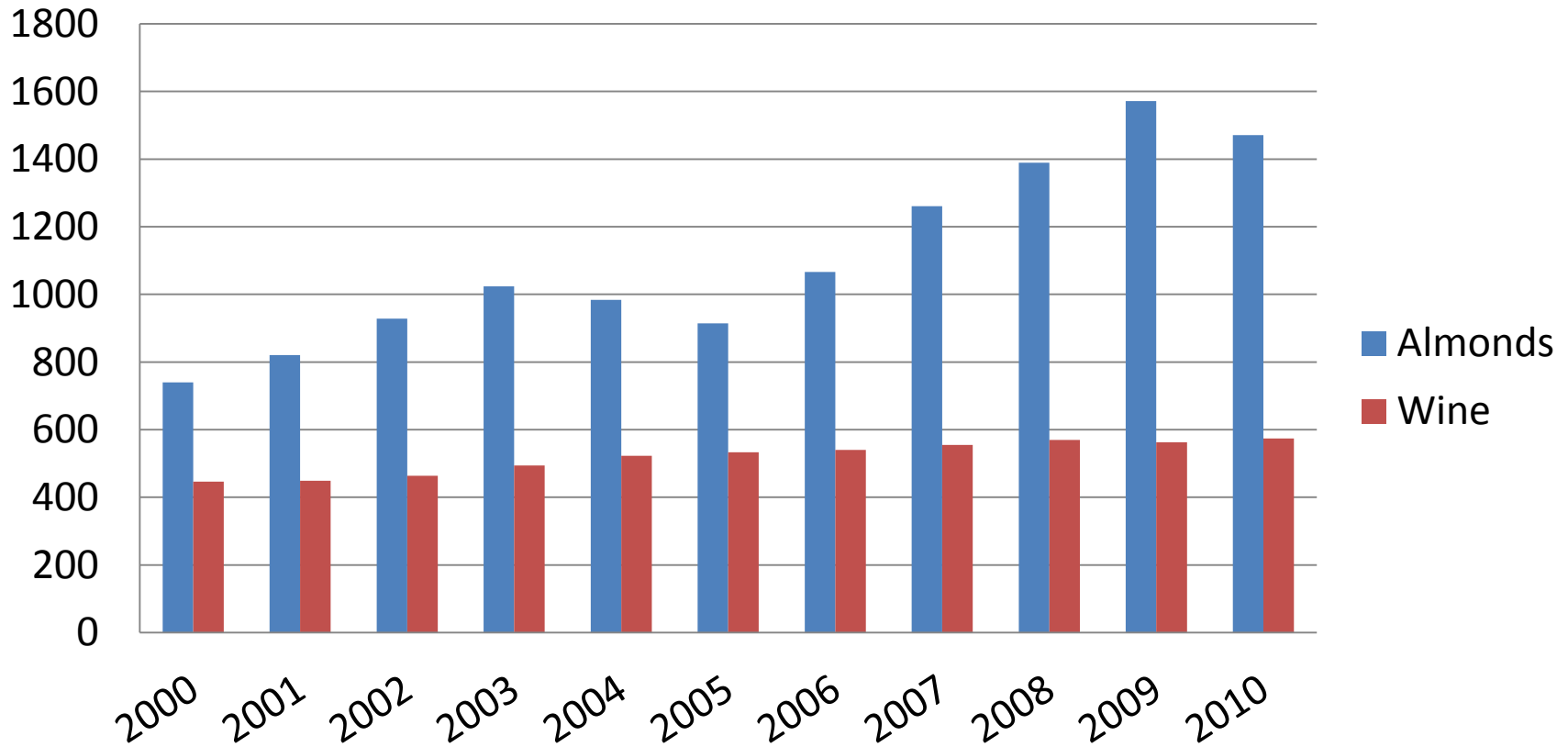
5 Year Weighted Average Returns per Acre San Joaquin Valley, 2005-2009

	Almonds	Winegrapes	
Establishment	4839	6746	
Total Cash Costs	2761	2603	
Gross Revenue	3747	2571	
Difference	986	-32	

Costs do not include non-cash overhead expenses such as interest on land or depreciation of vineyard/orchard establishment. Gross revenue is derived from County Ag. Commissioner reports and is a 5 year (2005-2009) weighted average.

Total California Shipments (Domestic and Export)

Millions of gallons or pounds



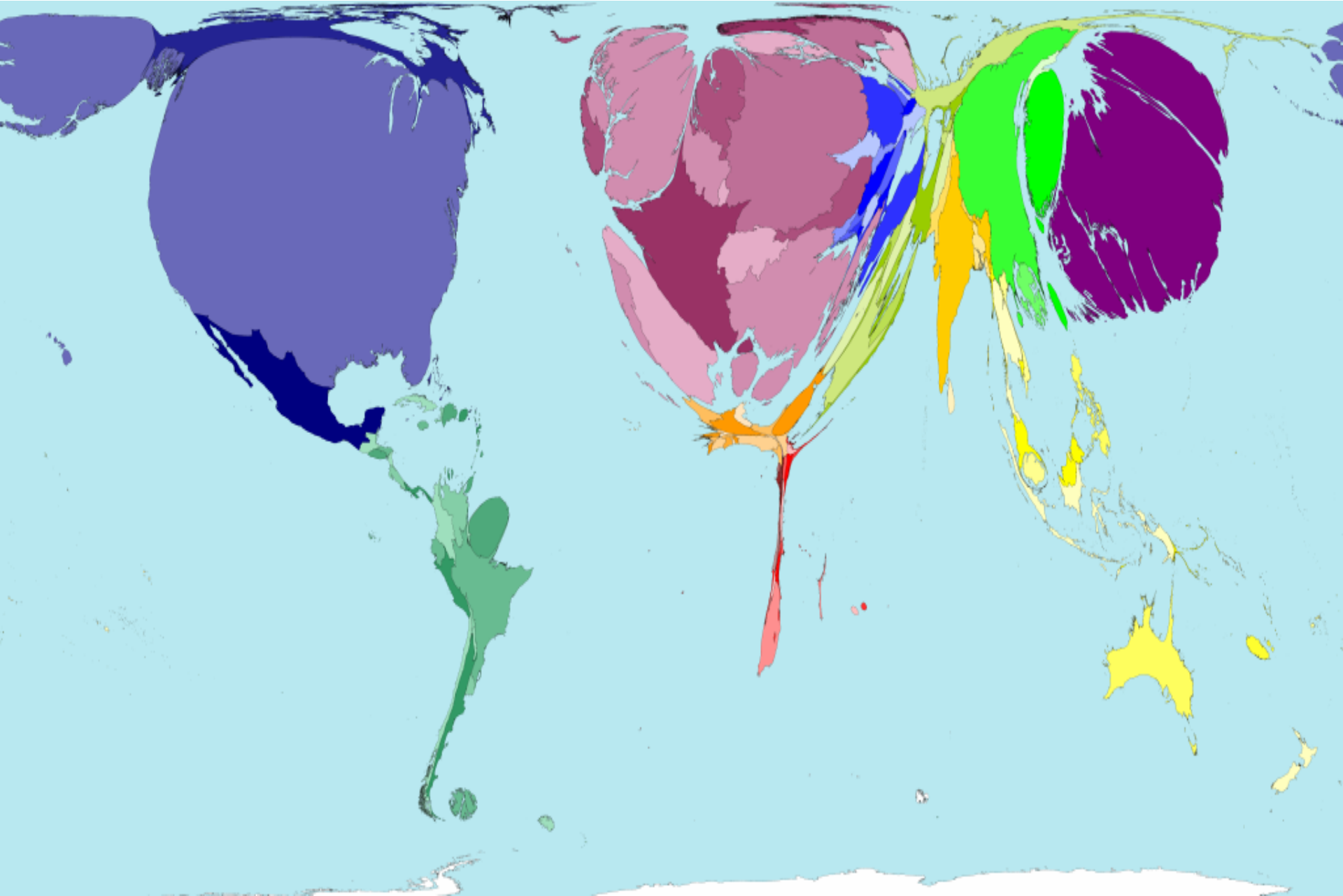
The World Matters for Both

	Almonds	Wine
% World Production	80	7
% California Production Exported	70	17
% of World Shipments	90	4

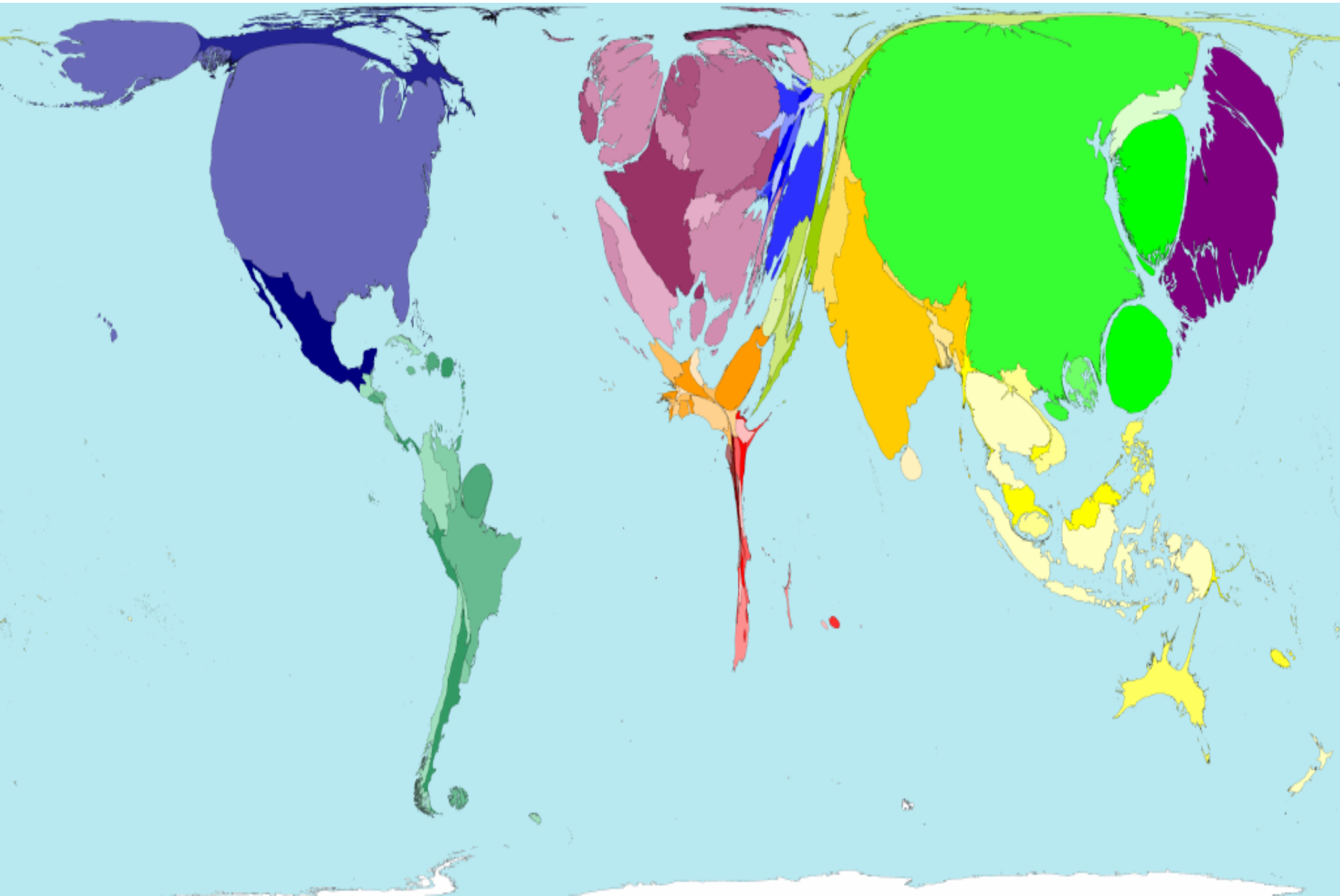
Two ways of looking at these numbers:

1. Since there is a large demand for wine in the world, California producers have a major opportunity to increase volume if they can compete with other producers. In contrast, California almond producers may well face increased international competition and lose market share.
2. International demand is still growing for Almonds and California has brand recognition. In contrast, demand for wine is stable or shrinking and major old world producers dominate

World map weighted by total GDP in 2005



World map weighted by estimated GDP in 2015

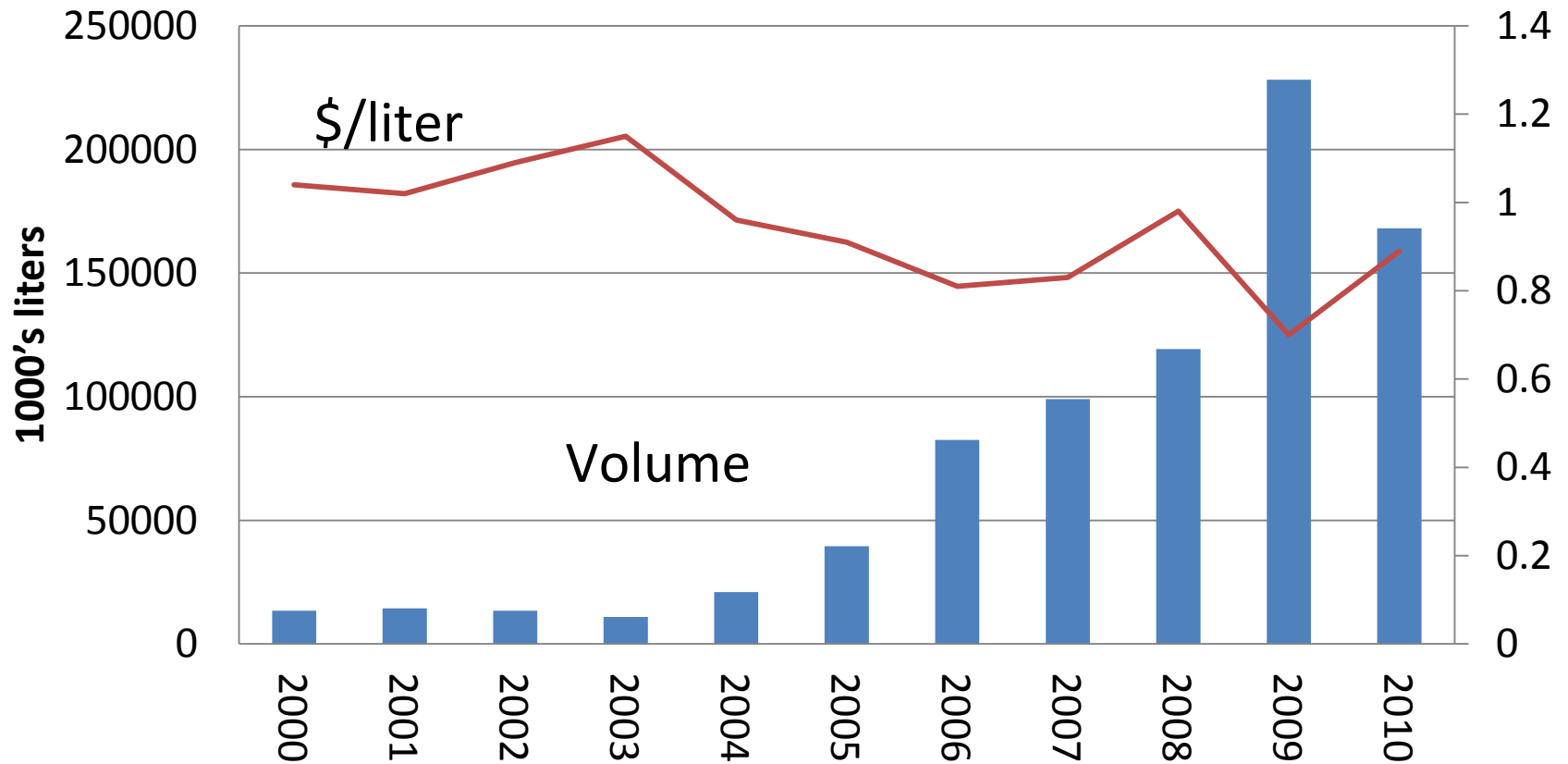


Lapsley's predictions for 2030

- Population and per capita consumption will both increase—leading to a 45% increase in volume
- 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
- Total acreage is down by about 50,000 acres

So how will wineries meet demand?

Bulk Wine Imports and Price per liter



The future of Winegrapes in districts 13 and 14?

- With average yields of over 12 tons/acre, the region is very productive but is in competition with other bulk wine producing regions of the world.
- Of the 92,000 acres currently planted in districts 13 and 14, 91,000 are over 10 years old and will probably be pulled by 2030.
- Will those acres be replanted and another 40,000 added to meet projected increased demand—or will wineries meet demand by importing bulk wine?
- Replanting is probable only if major wineries commit to long-term contracts and if California winegrapes can compete with winegrapes grown elsewhere.

Thanks for your attention!

And thanks to: Dan Sumner, Jonathan Barker and Jessica Vergati, Agricultural Issues Center, UC Davis and to Christian Miller, Full Glass Research, Berkeley