Winescape

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This issue provides an update and outlook for the wine and grape markets, and examines the leading explanation for the longer-term softening in U.S. wine consumption: the generational gap in wine preferences.

IN THIS ISSUE

Market Softness and the Generational Gap

The inaugural issue discusses the 2024 outlook for the wine and grape markets, and the uneven progress among millennials and Gen X in their enthusiasm for wine.

Wine sales are still declining across channels and price tiers. The good news is that the slump is not accelerating. But there are no signs of improvement yet either.

In the near term, the economy will play a central role in shaping the path of wine sales **(see Page 4)**. The U.S. economy has outperformed on almost all metrics in 2023, and the odds of an economic soft landing look far better than they did at the beginning of the year.

Nonetheless, consumers remain pessimistic about their financial situations, and as we enter the crucial holiday season, they continue to face headwinds — the most important of which is high interest rates. Thus, I expect wine sales to remain soft over the next several quarters. But if downward progress on the inflation front continues, sales should begin to stabilize in 2024 as consumer confidence improves and interest rates moderate. The premium and ultra-premium segments of the market should lead the way. Direct-to-consumer sales should benefit as well.

The 2023 grape crop looks to have been above average in size. Nonetheless, the crush is set to come in below average for a fourth consecutive year because of the high volume of fruit that was either rejected or left on the vine for lack of a buyer **(see Page 6)**.

The grape market ended the season on a low note amid declining wine sales and an abundant supply of uncontracted fruit. There was little activity on the spot market, and sellers met unfavorable prices **(see Page 6)**. Pricing will continue to be soft heading into 2024. Vineyard removals will likely be required to restore the balance between supply and demand.

The inaugural issue's Trending Topic delves into the generational challenge that the wine industry is facing **(see Page 8)**. Baby boomers have passed their peak as wine consumers. And a sizable gap in wine buying and spending exists between the boomers and the two subsequent generations: Generation X and millennials.

On a positive note, wine is still making clear progress with millennials, and the gap between millennials and boomers is narrowing, albeit slowly. But progress with Gen Xers appears to have stalled, which is a concern, as they still lag far behind boomers in terms of their engagement with wine. The wine industry will need to step up progress with both of the younger generations if it is to stave off a persistent decline in wine consumption and spending over the next decade.

REPORT NOTES

Information about the data and sources behind the analysis in this report can be found in the Appendix **(see Page 15)**.

"Winescape" is written by Terrain's senior wine and grape analyst, Chris Bitter, Ph.D. Read his bio on **Page 16**.

Post-Pandemic Slump in Wine Sales Persists

Given muted expectations for a rebound in wine sales in the near term, the grape market is likely to remain under pressure in 2024.

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

For more on the dashboard, see the Appendix on Page 15.

		Year-Over-Year Change	Trend
$$$	Retail: Value Segment	↓	—
$$$	Retail: Premium Segment	↘	—
$$$	Retail: Ultra-Premium Segment	↓	—
	Direct-to-Consumer	↓	—
	Export	↓	—

THREE-TIER SALES

The post-pandemic slump in wine sales continued into the third quarter of 2023, as consumers remain skittish because of inflation and economic uncertainty. There have not been any clear signs of improvement as we enter the crucial holiday season, as the pace of the decline has been reasonably steady over the past 12 months.

My analysis of Nielsen IQ (NIQ) data indicates that retail sales fell by 5% in volume versus the same period last year but dropped by just 1% in value. This compares with a 5% decline in volume and a 2% drop in value over the past 12 months.

Distributor depletions, which also capture the on-premise channel, weakened considerably during the third quarter. SipSource data indicate a drop of 12% versus the same period last year, which compares with a 7% year-over-year decline for the past 12 months. The more forceful decline in depletions suggests that retailers are working through excess inventory or reducing inventory levels because of concerns about future sales.

The premium segment ($11 to $29.99) of the retail market continues to outperform relative to the lower and higher price tiers, though sales volumes are still declining slowly. The stronger performance may be partly attributable to price taking, which has pushed some brands above the $11 threshold, but there is also evidence of trading down from the ultra-premium category.

The value segment (under $11) continues to contract at a modest rate, and there has been little change in the pace of the decline over the past 12 months. California wineries are facing stiff competition from imports in this price tier and have ceded a bit of market share over the past 12 months.

The ultra-premium price tier ($30 and up) has been the weakest segment of the market in 2023, and there was no change in this dynamic during the third quarter. Nonetheless, it is important to note that sales are still tracking well ahead of their pre-pandemic level, despite a steady decline over the past five quarters.

Sales of white wines, led by Pinot Gris and Sauvignon Blanc, continue to hold up better than red wines and rosé. The sparkling wine category also continues to outperform overall, though sales have deteriorated markedly in the higher price tiers this year.

DIRECT-TO-CONSUMER SALES

The direct-to-consumer (DtC) channel continues to struggle as well. According to data from Wine Business Analytics and Sovos ShipCompliant, DtC shipments were down 10% by volume and 6% in value in the third quarter versus the same period last year. There has been little change in the trajectory of DtC shipments over the past 12 months.

Indeed, the average bottle price has risen by 6% over the past year.

While shipments are down for wineries of all sizes, those producing 500,000 cases or more have seen the most pronounced decline over the past 12 months. Moreover, shipments of wines priced at $30 and above have held up better than those priced below this threshold. This likely reflects price taking to some extent, as anecdotal evidence suggests that wineries have been more aggressive in taking price in the DtC channel. Indeed, the average bottle price has risen by 6% over the past year.

DtC shipments by California wineries were down by 12% in volume and 7% in value during the third quarter. Shipments have fallen across California's three primary DtC regions in 2023: Napa, Sonoma and the Central Coast. This coincides with declining hotel occupancy rates in both Sonoma and Napa, which still stand well below pre-pandemic levels.

At the same time, hotel room rates have surged. For example, Napa room rates are 32% higher than in 2019. Increasing costs to visit wine country, coupled with rising tasting fees and bottle prices, are likely contributing to depressed tasting room visitor counts and sales.

EXPORTS

Amid slowing domestic wine sales, U.S. wineries are not finding any solace in the export channel. Wine exports remain weak because of a strong dollar combined with weak global demand and heightened competition. They fell by 24% in volume and 18% in value in the third quarter relative to the same period last year. Over the first nine months of 2023, they were down 29% and 22%, respectively.

Bulk wine exports, which typically account for around half of export volume but a much smaller fraction of value, have plummeted in 2023. They were down 45% in value and 46% in volume for the first nine months of the year versus the same period in 2022. By comparison, exports of packaged wines were down 19% in value terms and 17% by volume.

The decline in wine exports has been broad-based. Shipments to all major export markets have fallen in 2023, including to our two most important buyers: Canada and the U.K.

OUTLOOK

It is impossible to precisely sort out the drivers of the post-pandemic slump in wine sales. It is almost certainly the result of a combination of factors, including inflation and economic uncertainty, competition with alternative alcoholic beverage categories, demographic change, and changing attitudes toward alcohol consumption.

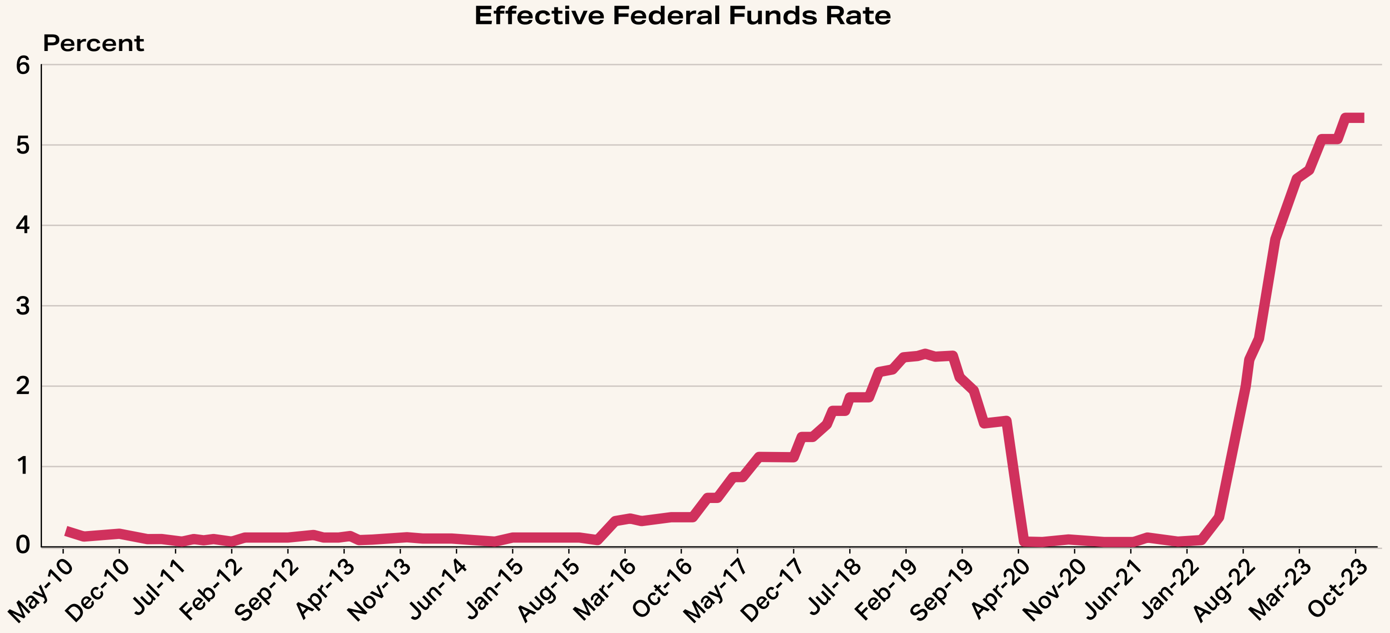
Of these, economic factors tend to be the most dynamic, and thus have the greatest potential to influence the near-term path of wine sales.

The U.S. economy has exceeded expectations in 2023, and inflation is abating. The economy and consumers are still facing some headwinds, but these should begin to subside in 2024, and the soft-landing scenario looks much more probable than it did at the beginning of 2023.

Real GDP growth has accelerated in 2023. It came in at an annualized rate of 4.9% in the third quarter, the strongest reading since the fourth quarter of 2021. Jobs also remain plentiful, and the unemployment rate sat at just 3.9% in October. Wages adjusted for inflation continue to increase, though the rate of growth has slowed, and consumer spending has accelerated since the spring.

Inflation continues to slow. The CPI has fallen to 3.3% on a year-over-year basis, down from a peak of over 9% in June 2022. However, progress has slowed in recent

Chart 1: **Interest Rates Likely to Stay Higher for Longer Given Above-Target Inflation**



Sources: Federal Reserve Bank of St. Louis, Terrain

months, and inflation is still running well above the Federal Reserve's 2% target. Thus, interest rates, which have surged in 2023 as shown in Chart 1, are likely to remain higher for longer.

The economy is still facing headwinds — the most important of which is high interest rates — which will impact both businesses and consumers. Thus, consensus expectations are for the labor market and GDP growth to soften over the next several quarters. In addition, political gridlock in the U.S. and geopolitical unrest abroad present risks to the economy going forward.

Under this relatively benign economic scenario, I expect wine sales to remain soft through the holiday season, but they should begin to stabilize in 2024.

Rising credit card and auto loan delinquency rates, which now exceed pre-pandemic levels, are already a source of stress for consumers. Increasing debt service costs along with the resumption of student loan payments and depletion of excess savings that households built up during the pandemic are likely to weigh on consumer spending in the months ahead.

Nonetheless, if progress on inflation continues as expected, interest rates have likely already peaked and should begin to come down in 2024, which should boost consumer confidence.

Under this relatively benign economic scenario, I expect wine sales to remain soft through the holiday season, but they should begin to stabilize in 2024. However, I do not anticipate a return to outright growth in wine consumption anytime soon because of longer-term shifts in consumer behavior and demographics.

The premium and higher price tiers of the retail market should be the biggest beneficiaries, while the value tier is not likely to see much improvement as consumers trade up. DtC sales should also improve, though growth is likely to be modest.

Elevated inventory levels at alcoholic beverage wholesalers will need to be worked through before wineries feel the full benefit of improving retail wine sales.

THE GRAPE MARKET

It has been a tumultuous year for California wine grape growers. Following a series of vintages marked by fires, drought and heat spikes, none of these problems were evident in 2023. In fact, it has been the coolest and wettest vintage in many years, which has led to a different set of problems. Moreover, growers have had to contend with an uncertain and challenging market environment.

As of this writing, harvest is beginning to wrap up. Thus, we have a clearer picture of the status of the 2023 grape crop.

The cool, wet weather delayed grape maturation and led to worries that the late-ripening varietals would not be ready to pick before the winter rains set in. Harvest generally began two to four weeks behind schedule and was compressed into October, which resulted in log jams in the winery.

So, despite the improvement in yields in 2023, the actual crush is likely to come in below average for a fourth consecutive year.

After a slow start, the crop sized up late in the season, and growers were generally reporting yields near or modestly above average. But mildew was also a problem across the state, and rot was a major issue in the Central Valley. Wineries rejected a substantial quantity of fruit because of these problems. In addition, a lot of fruit was left unharvested because there were no buyers or was not enough capacity to process it.

So, despite the improvement in yields in 2023, the actual crush is likely to come in below average for a fourth consecutive year. On the bright side, wineries are generally optimistic about the quality of the fruit they brought in, which benefited from the longer hang time.

While it is still too early to form a firm estimate, a consensus is emerging that the crush will come in somewhere in the range of 3.5 million to 3.6 million tons, which is in line with the smaller crops of the past three years. A more precise estimate will be available when the Grape Crush Report is released in February.

While improved yields were a positive for growers with contracts in hand, it has been an extremely challenging year for those with uncontracted fruit. The grape market moved decisively in the favor of buyers in 2023 as a structural imbalance between grape supply and demand that had been masked by supply constraints in recent years became more apparent.

Three consecutive short crops drove appreciation in grape prices over the past several years, despite slowing case goods sales. However, potential buyers entered the year hesitant to commit to additional grapes amid the persistent decline in wine sales and uncertainty regarding their future trajectory. And following the winter rains, which alleviated drought conditions throughout most of the state, the prospect of a larger crop gave them confidence that ample fruit (or bulk wine) would be available later in the season should the sales picture improve.

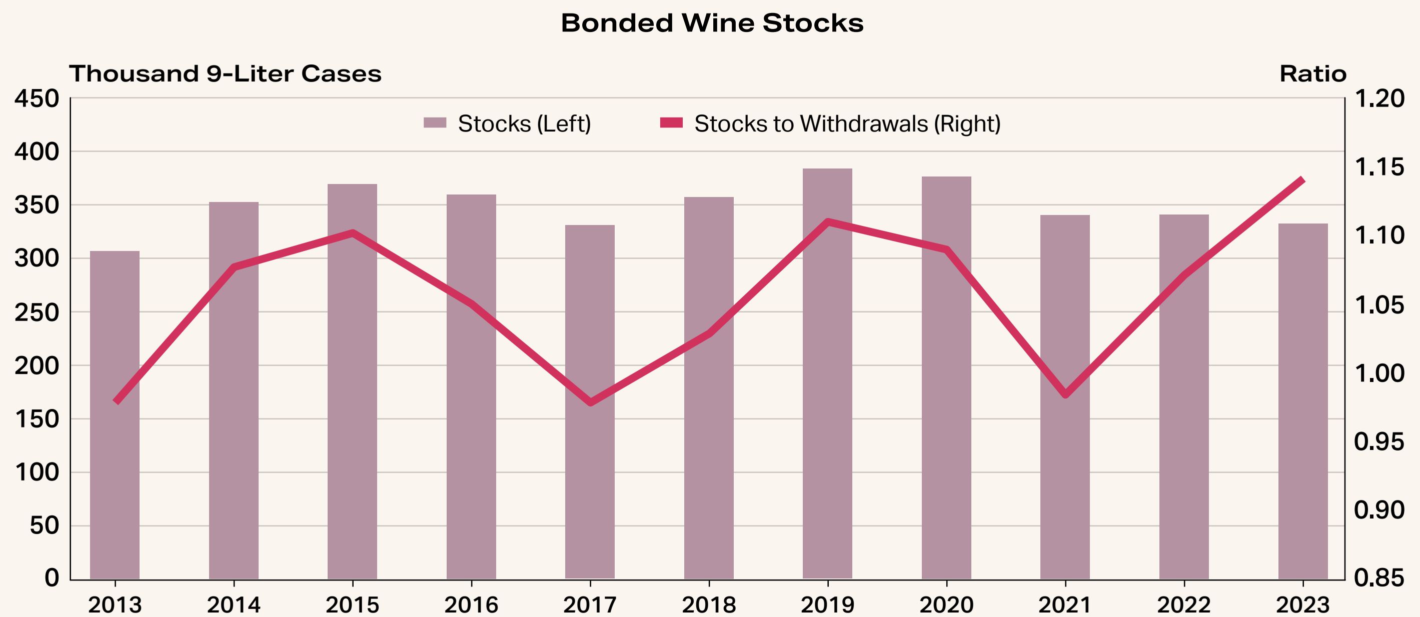
However, as the season progressed, it became clearer that the slump in wine sales was entrenched and that the crop would be at least average in size. Moreover, winery inventory levels had become elevated in relation to shipments as shown in Chart 2, at least in the aggregate.

So, most wineries had little need for additional grapes. Thus, they were reluctant to accept contract overages or to augment their supply through spot market purchases. Capacity limitations associated with the compressed harvest timeline also limited the ability of opportunistic buyers to scoop up excess fruit. Ultimately, a considerable amount of uncontracted fruit was left unharvested.

The spot market transactions that did occur were generally done at bargain basement prices that did not fully cover the grower's production costs.

There was generally more activity in the coastal regions than in the interior, and on white varietals as opposed to reds. Demand for Sauvignon Blanc, Pinot Gris and Chardonnay from select appellations such as the

Chart 2: **Little Need for More Grapes Amid Elevated Winery Inventory Levels**



Sources: Alcohol and Tobacco Tax and Trade Bureau, Terrain

Russian River Valley has been fairly resilient. There have also been some late-season buys on Central Coast Chardonnay, though these have been at fire-sale prices.

California wine grape acreage has not adjusted yet to the reality of lower wine sales, so a structural imbalance exists between supply and demand.

Red varietals have been a tougher sell in 2023, and more red fruit has been left on the vine for lack of buyers. There has been some demand for Pinot Noir from the more sought-after appellations, including the Russian River Valley and Sonoma Coast, as well as for Napa Valley Cabernet Sauvignon, though most of this varietal was already under contract.

Given muted expectations for a rebound in wine sales in the near term, the grape market is likely to remain under pressure in 2024. California wine grape acreage has not adjusted yet to the reality of lower wine sales, so a structural imbalance exists between supply and demand. The imbalance is most acute in the interior, while the coastal regions remain better positioned because of their focus on producing grapes for the premium and upper tiers of the wine market.

A large number of three-year deals that were signed in 2021 will also be expiring, so buyers looking for contracts will have abundant options and growers will be forced to compete for their business. This situation will exert more downward pressure on prices, unless the 2024 crop turns out to be very small.

In a competitive market environment, growers will need to focus on both reducing costs and elevating quality in order to stay ahead of the curve. Vineyard removals will almost certainly be required to restore the market to balance, particularly in the Central Valley. Growers on marginal sites should consider transitioning to alternative uses when they become economically viable.

TRENDING TOPIC

The Generational Challenge for Wine

Boomers have passed their peak as wine consumers — will the younger generations be able to pick up the slack?

U.S. wine consumption was plateauing prior to COVID-19. Following a brief reprieve during the pandemic, wine sales have fallen steadily over the past two years.

While inflation and economic uncertainty have clearly played a role in the recent slump, the generational gap premise is currently the leading explanation for the longer-term softening in wine consumption.

The story goes that baby boomers drove a decades-long boom in wine consumption but are now being replaced by younger generations that are less interested in wine and have instead gravitated toward competing alcoholic beverage categories, including spirits and ready-to-drink (RTD) beverages like canned cocktails.

Three generations lead the wine market today: boomers, Generation X and millennials. While Generation Z will play a crucial role in the wine industry's future, it does not yet have a long enough track record with wine to analyze.

Thus, the more important question is whether the younger generations are showing the progress necessary to eventually match boomers when they reach the same age.

There is a large gap between boomers and the younger generations on all three engagement metrics of wine buying, wine spending, and the share of alcoholic beverage expenditures devoted to wine. But lower levels of engagement today do not necessarily imply that this will always be the case.

To the extent that wine is an acquired taste, preferences should intensify with age. Additionally, wine is more expensive per serving on average than other alcoholic beverage categories, so preferences and spending should also build with affluence, which tends to rise until retirement age is reached.

Thus, the more important question is whether the younger generations are showing the progress necessary to eventually match boomers when they reach the same age. If the gaps are not filling on their own, the wine industry will need to take additional measures to improve engagement with the younger generations if it is to avoid a decline in demand over the coming decades.

ANALYSIS NOTES

The analysis is based on microdata from the Bureau of Labor Statistics' Consumer Expenditure Survey (CES) Diary Survey, which is described in more detail in the Appendix on Page 15.

As with all survey data, there are limitations that should be kept in mind. The survey includes approximately 6,000 households per year, but even with a sample of this size, margins of error can be large, and the most recent figures include the years immediately following the pandemic, which may have created temporary distortions.

In addition, the study focuses on wine purchased for at-home consumption only, as the CES stopped breaking out on-premise alcohol purchases by subcategory in 2022. Finally, it is not possible to say anything explicitly about wine consumption, as it tracks spending only.

That said, I believe the data are sufficiently reliable to derive meaningful insights into the generational gap and its implications for wine.

Table: **The Generations by Age and Size**

	Gen Z	Millennial	Gen X	Boomer	Pre-Boomer
Birth Years	1997-2012	1981-1996	1965-1980	1946-1964	Before 1946
Age in 2023	11 to 26	27 to 42	43 to 58	59 to 77	78+
Legal Drinking Age Adults 2023 (million)	27.2	72.4	65.1	67.6	17.5
Projected Change 2023 to 2033 (million)	46.7	0.6	(3.4)	(14.1)	(11.9)

Sources: U.S. Census Bureau, Terrain

The term "generation" refers to membership within a cohort of individuals born over a specific time frame. The boundaries between generations are loosely based on historical birth rates but are still somewhat arbitrary.

Generations vary in size, partly because of variations in birth rates over time, but also because the number of birth years assigned is not consistent. There are also marked differences in racial and ethnic composition. For example:

- Boomers are the largest U.S. generation to date: They numbered 78.8 million at their peak in 1999, according to the Census Bureau. However, boomers were assigned 19 birth years, while the younger generations were assigned just 16 (see Table).
- Considering the point above, the four most recent generations are not dramatically different in size, though Gen X is clearly the smallest.
- America's younger generations are much more diverse: The pre-boomers are nearly 80% white, while Gen Z is split evenly between non-Hispanic white people and other racial/ethnic groups.

Generations are a relevant consumer construct because they encompass inherent differences in social attitudes, financial circumstances, consumer behavior and preferences. These arise from age and life cycle effects. That is, events like marriage and retirement typically occur during a certain period of life. They also stem from historical events and circumstances that have unique impacts. For example, millennials tend to be more digitally savvy than boomers because they grew up during the digital revolution that began in the 1980s.

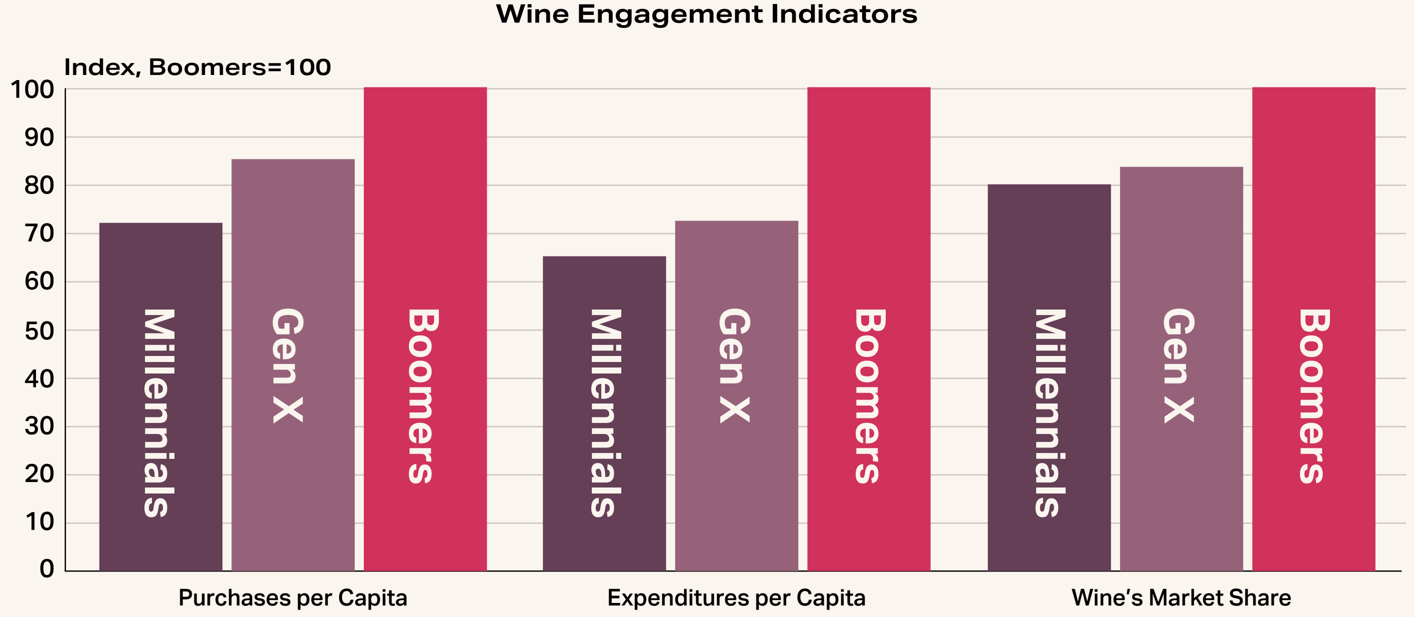
BOOMERS STILL WINE'S BIGGEST FAN

Chart 1 illustrates the gaps between boomers and the younger generations on the key measures of wine engagement in 2021/2022. (The metrics are defined in more detail in the following section.) The values for Gen X and millennials are indexed to those of boomers in the chart, which are assigned a value of 100.

Boomers are clearly still the dominant generation in the wine market today — they accounted for more than 40% of all consumer expenditures on wine in 2022. They buy wine more frequently, generate higher wine expenditures per capita, and devote a larger share of their alcoholic beverage expenditures to the wine category than Gen X and millennial households.

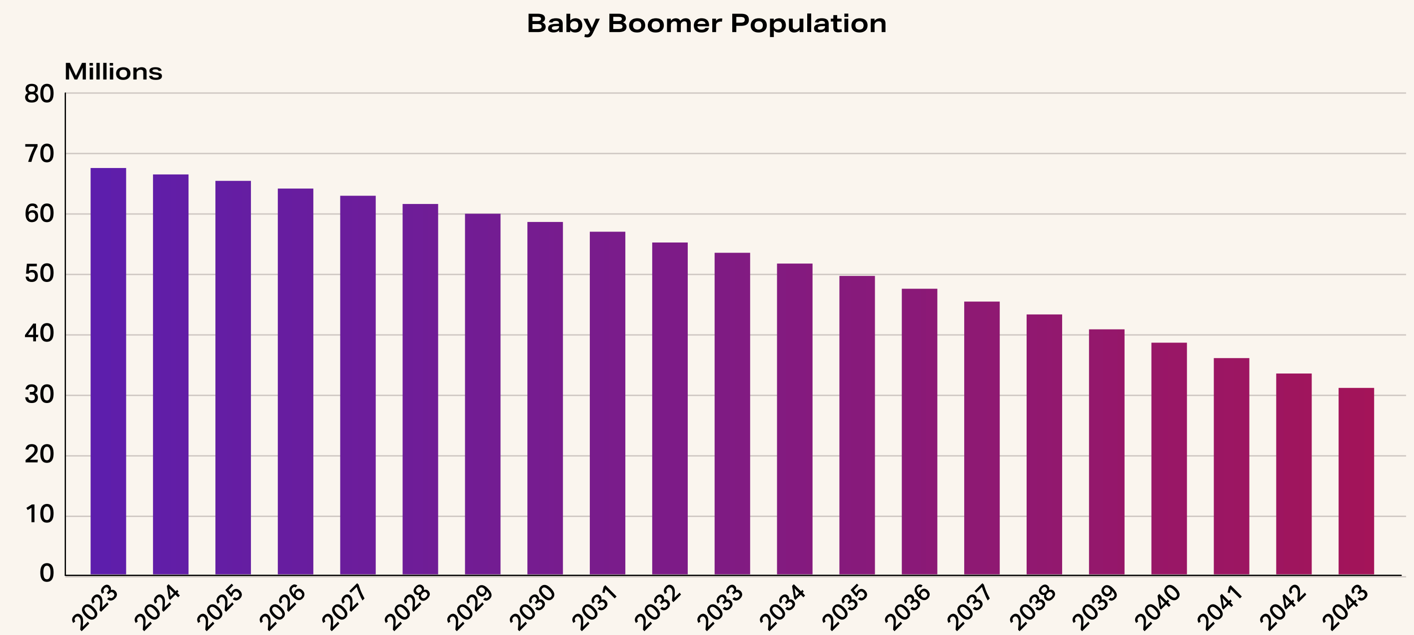
Boomers have entered the stage of life in which their wine consumption and spending should begin to decline because their numbers are shrinking and tolerances for alcohol, as well as incomes, tend to decline later in life. The youngest boomers turned 59 in 2023, and the majority have now reached retirement age. Census Bureau projections indicate that there will be 14 million fewer boomers in 10 years' time and 36 million fewer in 20 (see Chart 2). Thus, their impact on the wine market will wane going forward.

Chart 1: **Boomers Still the Dominant Generation in the Wine Market**



Sources: Bureau of Labor Statistics, Terrain

Chart 2: **Boomers' Impact on the Wine Market Will Wane**



Sources: U.S. Census Bureau, Terrain

GENERATIONAL TRAJECTORIES WITH WINE

The younger generations trail boomers by a wide margin in terms of their engagement with wine. But given their earlier stage in life, this is not unexpected if wine preferences do indeed intensify with age. The more important aspect to focus on is whether the gap is closing, and if it is doing so at a rate sufficient for the younger generations to eventually match boomers when they reach the same stage in life.

In this section, I assess the progress the younger generations have made with respect to the three engagement indicators over the past 10 years.

WINE BUYING TRENDS

The CES Diary Survey does not provide data on wine consumption. Rather, it asks respondents to record their purchases and the amount they spent. Chart 3 shows the average number of wine purchases generated by each generation on a per household basis, expressed on an annual basis. The overall total for all generations (including Gen Z and the pre-boomers) is also shown for reference.

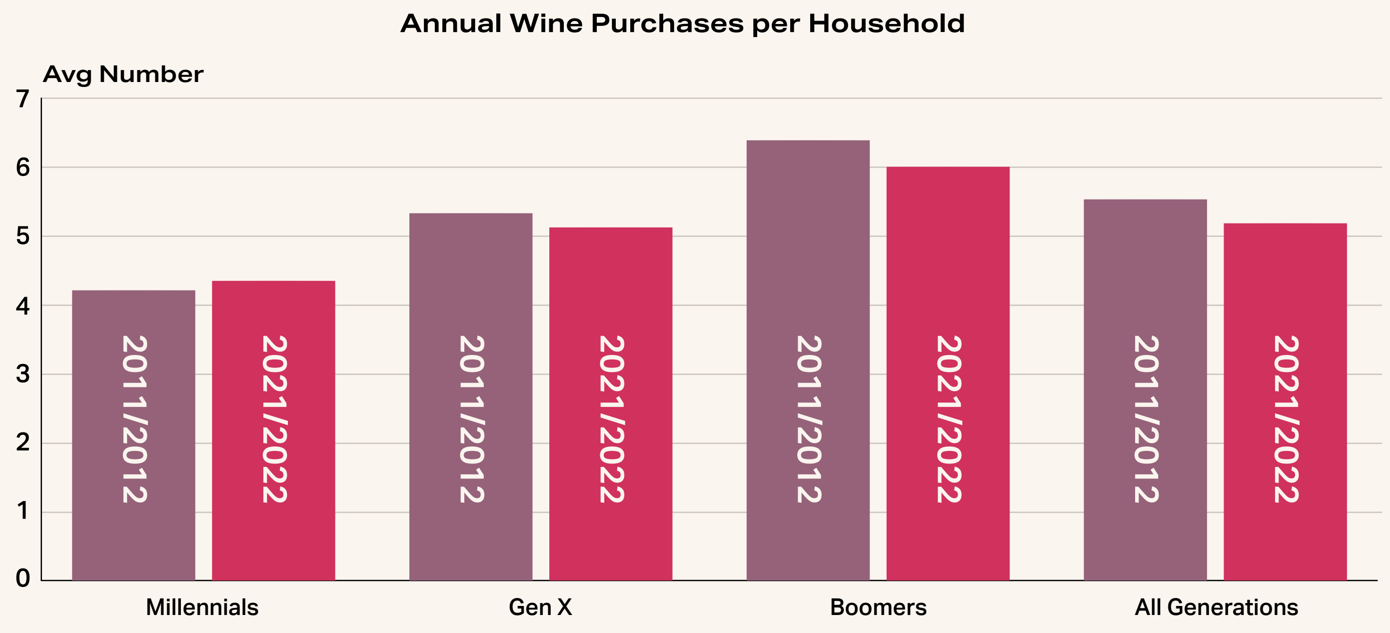
Overall wine buying rates slipped during the 10-year study period. Wine buying rates in 2021/2022 may have been depressed because of distortions in shopping patterns related to the pandemic and its aftermath. The average amount spent per purchase rose over the same period, which suggests that consumers are buying less frequently than in the past but spending more when they do.

Boomer households generate more wine purchases than the younger generations, but their wine buying activity has begun to decline.

Gen X has not shown any progress on this metric in an absolute sense. Its wine buying rate has slipped over the past 10 years. This is disappointing given that this generation has been moving through the stage of life that should coincide with growing preferences for wine. Nonetheless, Gen X has narrowed the gap with boomers, but the gain has been very modest.

Millennial households still trail far behind the two older generations but are the only generation with higher wine buying rates than 10 years ago. Still, progress has been slow, and if it does not accelerate, millennials are also unlikely to match boomers in wine buying frequency.

Chart 3: **Millennials Outperform in Wine Buying, Though Progress Is Slow**



Sources: Bureau of Labor Statistics, Terrain

WINE SPENDING TRENDS

Chart 4 shows the annual wine expenditures generated per household for each of the three generations. The figures are in inflation-adjusted dollars. Note that wine spending tends to be more volatile than purchasing, so the margins for error in the spending figures are higher.

Overall wine spending per capita rose modestly during the 10-year study period, as higher expenditures per purchase offset a lower wine buying rate.

Boomer households generate substantially higher per capita expenditures than the two subsequent generations. While their buying rate has slipped, they are spending more heavily when they buy than they were 10 years ago, and their per capita expenditures are higher.

Millennials have shown solid progress in terms of spending. While their wine buying rate has not increased materially, millennial wine buyers are spending far more than in the past, which has propelled an increase in their per capita expenditures over the past decade. Though they still lag far behind boomers in terms of spending, they are closing the gap.

Like the trend in wine purchasing, wine spending by Gen Xers appears to have stalled over the last decade, and the gap between Gen X and boomers has widened rather than narrowed. This development is particularly troubling given that Gen X has now reached its peak income years.

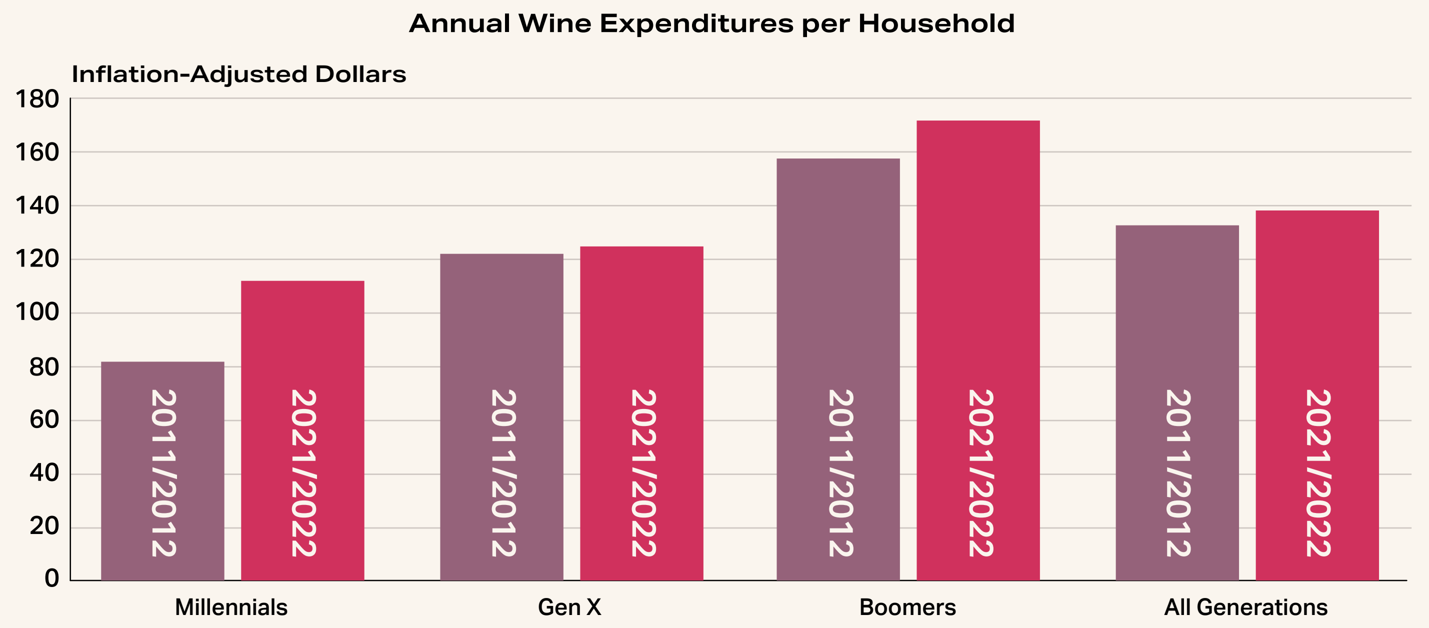
TRENDS IN MARKET SHARE

Chart 5 shows the share of total alcoholic beverage spending captured by the wine category. The wine category's share of reported consumer spending on alcoholic beverages has not changed much over the past decade despite increased competition from spirits, hard seltzers and RTDs.

This metric paints a similar picture to that of wine spending. Boomers demonstrate a stronger preference for wine than the younger generations. Millennials have demonstrated a growing preference for wine as they have aged, while progress with Gen X has been disappointing.

The wine category has captured a slightly higher share of Gen X alcohol spending over the past decade, but not enough to close the gap with boomers. The "other" alcoholic beverage category, which includes everything

Chart 4: **Gen X's Wine Spending Is Worrisome**



Sources: Bureau of Labor Statistics, Terrain

Chart 5: Millennials Are Poised to Surpass Gen X in Market Share

Sources: Bureau of Labor Statistics, Terrain

except beer and wine, has gained share with all generations. But it has gained the most traction with Gen X consumers.

The lack of advancement here is another indication that Gen X wine preferences are not developing with age as has been the case with boomers.

On a more optimistic note, wine continues to make solid inroads with millennials. Given the upward trajectory in market share, millennials are poised to pass Gen X on this metric soon. If this progress persists, wine may eventually achieve a similar market share with millennials as it has with boomers.

CONCLUSIONS AND IMPLICATIONS

The generational gap is pronounced and represents a significant challenge for the wine industry. But the story is more nuanced. Gen X and millennials are on different trajectories with wine.

Boomers have passed the peak of their wine careers, and their consumption and spending are set to decline. This will create a large hole for the younger generations to fill. The boomer exodus from the wine market will progress slowly at first, but the pace will accelerate over time. So, the generational gap will become more apparent with time as well.

Gen X and millennials are on different trajectories with wine.

Millennials are still blossoming as wine consumers. Given their steady progress, they are likely to surpass Gen X as wine consumers, though they still have a long way to go to catch boomers. Millennials' upward trajectory is a cause for optimism, but further progress should not be taken for granted. The wine industry must continue to cultivate millennial wine consumers as they age.

Gen Z will also play an important role in the wine industry's future. This generation does not yet have a long enough track record to assess its trajectory with wine. Given their youth, it will be some time before Gen Zers have a major impact on the wine market. However, the CES data indicate that there has been a downward trend in alcohol buying with each successive generation.

If this trend holds with Gen Zers, it could impede their adoption of wine.

Gen X's engagement with wine appears to have stalled, and this generation remains far behind boomers in terms of its wine expenditures. Unless there is a dramatic shift in its trajectory with wine, Gen X will never match boomers as wine consumers. This represents a substantial headwind for wine demand going forward.

While modestly smaller in size than millennials, Gen X has greater income and wealth and thus more potential to offset the impending decline in boomer wine spending in the near term. Based on the CES data, Gen X households earned 24% more than millennial households on average, and Gen X's total income was about 20% higher.

Given these findings, the wine industry may be missing an opportunity by laser focusing on the two youngest generations of wine consumers, millennials and Gen Z. While it is crucial to attract new consumers to the category, Gen X represents the greater present opportunity for the wine industry given its greater income and wealth.

The wine industry will need to find a way to cultivate Gen X consumers if it is to stave off a persistent decline in wine consumption and spending.

The wine industry will need to find a way to cultivate Gen X consumers if it is to stave off a persistent decline in wine consumption and spending. Wineries need to gain a better understanding of Gen X consumers, and be more intentional in marketing to them.

Appendix

Data and Methods

INFORMATION SOURCES

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

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

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

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

THE WINE SALES DASHBOARD

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

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

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

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

Trend	▲	▬	▼
	Improving	Stable	Deteriorating

The retail price segments are defined as follows:

Retail Price Segments			
	$$$	Value	Less than $11
	$$$	Premium	$11 to $29.99
	$$$	Ultra-premium	$30 and up

TRENDING TOPIC: THE GENERATIONAL CHALLENGE FOR WINE

The metrics underlying this study are derived from public use microdata from the CES Diary Survey. Each year, the CES asks approximately 6,000 consumer units to record their daily expenditures by category, including alcoholic beverages, over a two-week period.

Alcohol purchased for at-home consumption is broken down by subcategory, including wine. Unfortunately, on-premise alcohol spending is no longer reported by subcategory, so the analysis focuses on off-premise wine buying only. Also note that alcohol spending is generally underreported in surveys, so the metrics should be viewed as low estimates.

The data cover consumer expenditures only. Spending for business purposes and by households while away from home on overnight trips (both domestic and abroad) is excluded. In general, only the household population is surveyed, so spending by people living in group quarters such as college dormitories, military housing or nursing homes is not captured.

The CES supplies weights for each consumer unit that correspond to the number of households in the total population that each represents based on their demographic attributes. I apply these weights to generate aggregate buying and spending estimates for the overall population and the individual generations. The spending data are adjusted for inflation using the consumer price index, and all figures are presented in 2022 dollars.

As with any survey data, the results are subject to sampling and other forms of error. The data are trended over two years to reduce sampling variability, and several outliers have been removed from the analysis to reduce the noise.

ABOUT THE AUTHOR

Chris Bitter, Ph.D., is Terrain's senior wine and grape analyst, focusing on generating research and insights in the areas that impact the business of vineyards and wineries. With more than 20 years of experience as an economist and market analyst, Chris is a former faculty member of the University of Washington's Runstad Center for Real Estate Studies. In 2016, he left his academic position to launch Vintage Economics, a market research and consulting firm focused on the wine industry.

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