The U.S. Wine Market in 2030

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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

Percent Adult Abstainers

Source: WHO Global Status Report on Alcohol 2004
## 2010 Core Consumers by ethnicity

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Percent of Core</th>
<th>Total Number</th>
<th>Percent of Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;White&quot;</td>
<td>84</td>
<td>28.56 million</td>
<td>13.9%</td>
</tr>
<tr>
<td>African-American</td>
<td>5</td>
<td>1.7 million</td>
<td>4.3%</td>
</tr>
<tr>
<td>Asian-American</td>
<td>7</td>
<td>2.38 million</td>
<td>14.8%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>4</td>
<td>1.36 million</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

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

## Projected U.S. Total Population in Millions

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;White&quot;</td>
<td>246</td>
<td>266</td>
<td>286</td>
</tr>
<tr>
<td>African-American</td>
<td>39.9</td>
<td>44.4</td>
<td>48.7</td>
</tr>
<tr>
<td>Asian-American</td>
<td>14.4</td>
<td>18.7</td>
<td>23.5</td>
</tr>
<tr>
<td>Hispanic</td>
<td>49.7</td>
<td>66.4</td>
<td>85.9</td>
</tr>
</tbody>
</table>


## 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

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>% Core 2010</th>
<th>% Core 2030</th>
<th>Population 2030</th>
<th># Core Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;White&quot;</td>
<td>13.9</td>
<td>16.0</td>
<td>212 Million</td>
<td>33.92 M</td>
</tr>
<tr>
<td>Black</td>
<td>4.3</td>
<td>4.5</td>
<td>48 Million</td>
<td>2.16 M</td>
</tr>
<tr>
<td>Asian</td>
<td>14.8</td>
<td>16.0</td>
<td>27 Million</td>
<td>4.32 M</td>
</tr>
<tr>
<td>Hispanic</td>
<td>3.2</td>
<td>8.0</td>
<td>86 Million</td>
<td>6.80M</td>
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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?

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

Production and Distribution

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

- 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

The need for more grapes

- A 2030 market of 407 million 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.

The U.S. wine market in 2009

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Cost and Profitability of Alternatives

Cooperative Extension Cost/Return Studies: Cost per Acre

<table>
<thead>
<tr>
<th>Crop</th>
<th>Investment</th>
<th>Revenue</th>
<th>Cost</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winegrapes</td>
<td>$7100</td>
<td>$3000</td>
<td>$2920</td>
<td>$80</td>
</tr>
<tr>
<td>Almonds</td>
<td>$4840</td>
<td>$4200</td>
<td>$4000</td>
<td>$200</td>
</tr>
<tr>
<td>Walnuts</td>
<td>$5700</td>
<td>$5100</td>
<td>$4030</td>
<td>$1070</td>
</tr>
<tr>
<td>Pistachios</td>
<td>$9276</td>
<td>$4540</td>
<td>$3680</td>
<td>$860</td>
</tr>
<tr>
<td>Pomegranates</td>
<td>$3490</td>
<td>$5400</td>
<td>$4780</td>
<td>$620</td>
</tr>
<tr>
<td>Alfalfa Hay</td>
<td>$530</td>
<td>$1480</td>
<td>$1500</td>
<td>-$20</td>
</tr>
</tbody>
</table>

California winegrapes are a small part of a large world supply

<table>
<thead>
<tr>
<th>Crop</th>
<th>% World Production</th>
<th>% World Export Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almonds</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>Walnuts</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>Wine</td>
<td>7</td>
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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
- Dr. William Matthews, AIC, for supplying import/export wine statistics
- Mr. Tom Rosen-Molina, AIC, for help with value and market share of almonds and walnuts.
- All of you for your attention