



MARKET SNAPSHOT WINE/VINEYARD

March 31, 2022

Executive Summary

Drivers for the winery/vineyard industry include a relatively small but excellent quality crop, strong market conditions for growers and supply chain challenges for wineries.

- Supply and demand conditions are improving for growers.
- Wine prices are up due to rising costs and premiumization.
- Wineries face supply shortages, logistical challenges and industry consolidation.

12-Month Profitability Outlook



Northwest FCS' 12-month outlook calls for profits for both vineyards and wineries. Although crop size is below historical averages, low inventories and strong demand are driving up grape prices. Consumers continue to show a willingness to purchase higher priced wines; however, consumption volume remains flat, and rising input costs and supply shortages will limit profits.

Supply Grapes

Grape yields in the Pacific Northwest came in above 2020 levels and quality is excellent. In Washington, cold weather impacts are thought to be minimal so far this year. While drought conditions are severe across much of Oregon, wine grape growers should have sufficient water supply for the 2022 season. California's harvest rebounded 8.7% in 2021 but was still the second smallest in ten years. With modest plantings and water availability a concern, yields should remain flat in 2022. Newly passed air-quality control regulations in California's San Joaquin Valley will start in 2025 and restrict agriculture burning (the primary method used to remove aging grape vines). Ultimately, this will encourage growers to pull forward this activity. Supply chain issues continue to hit all regions, increasing input costs and potentially limiting new plantings. The supply of grapes should be in balance with demand.

Wine

Wineries faced severe logistical and supply challenges in 2021 and this will continue in 2022. Shortages of glass bottles, barrels, corks and labels, due either to reduced production and/or supply chain bottlenecks, are forcing many to place orders far in advance, build inventory, utilize different containers and think differently about branding. According to the Bureau of Labor Statistics, agriculture inputs (fertilizer and

pesticides) and long-haul trucking are up 47% and 28% year over year (60% and 38% from pre-pandemic levels). Fertilizer costs in particular are at risk for continued price gains because Russia, a major global supplier, recently banned exports and a Nutrien plant (producing 3,500 tons / year of liquid fertilizer) in Sunnyside, Washington, was lost to a fire.

Industry consolidation is accelerating nationally. Vineyards with reliable access to water are attractive to both wineries seeking to shore up supply (amid multiple years of grape underproduction) and institutional investors looking for cash flow opportunities (within the mid-tier quality range). Larger domestic and international players are purchasing smaller wineries to fill niches and gain and/or maintain market access and share. Finally, consolidation among distributors encourages the same in wineries to protect market access (small to mid-tier operations increasingly have to rely on direct sales).

Demand

The total wine market value (including bulk wines) increased 23% for the year ending February 2022 to \$79.8 billion, but only increased about 8% since the start of the pandemic. Volumes for off-premise sales surged in 2020 as consumers stayed in during lockdowns, but have since fallen back to historic levels and sales and volume are down 7% and 12% on the year. Consumers are returning to restaurants as on-premise sales rose 71% in value for the year ending January 2022. Direct to Consumer (DtC) shipments were up 11% in value over the last year but down 1% in volume. The average price per bottle is clearly trending upwards and while much of this may be due to premiumization, producers are also passing along rising input costs to consumers. This dynamic will likely continue in 2022 as entry level consumers choose other spirits and older generations upgrade. In addition, both e-commerce (DtC and retail) and on-premise sales should continue to grow.

Pricing

Grapes

Across the Pacific Northwest, improving supply/demand dynamics due to multiple years of low crop yields should improve pricing over time.

Wines

Several trends will put upward pressure on wine prices in 2022, including rising input and transportation costs, limited labor availability, premium branding and rebounding on-premise sales. Further, inventory costs are rising as processors transition away from just-in-time management.

Profitability

Vineyard

Despite rising costs, vineyards should be profitable in 2022 due to a high-quality crop and strong demand.

Wineries

Over the next year, profitability among wineries will depend on their ability to adapt to supply disruptions and pass along rising costs. Fortunately, consumers are aware that inflation is impacting all sectors of the economy and appear more willing than ever to absorb higher wine prices. In addition, rebounding on-premise sales and growing DtC channels will raise the average price per bottle and support small to mid-size wineries.

Share your feedback! [Click Here](#) to complete a two-minute survey about this Market Snapshot resource.

Additional Information

Northwest FCS Business Management Center
www.northwestfcs.com/Resources/Industry-Insights

Idaho Wines
<https://wine.idaho.gov/>

Oregon Wine Center
www.oregonwine.org

ShipCompliant
www.shipcompliant.com

Turrentine Brokerage
www.turrentinebrokerage.com

U.S. Drought Monitor
www.droughtmonitor.unl.edu

USDA National Agricultural Statistics Service
www.nass.usda.gov

Washington State Wine Commission
www.washingtonwine.org

Wine America
www.wineamerica.org

Wine Business
www.winebusiness.com

Winegrape Growers of America
www.winegrapegrowersofamerica.org

Wine Institute – The Voice for California Wine
www.wineinstitute.org/resources/statistics

Wine Market Council
www.winemarketcouncil.com

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