
Vintage Economics

Washington Wine Industry Update August 2019

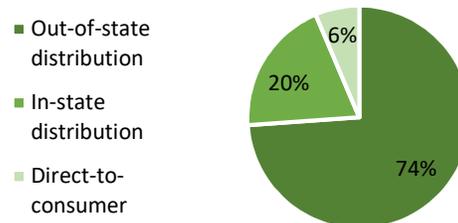
Washington Wine Shipment Trends

Washington Wine Shipments Through 6/30/2019 (000s of cases)

	Last 3 Months	Last 12 Months
This Year	3,114	12,849
Last Year	3,030	12,771
	▲ 3%	▲ 0.6%

- Shipments of packaged wines by Washington wineries grew by 2.8% in 2Q 2019 relative to the same period a year ago.
- Ste. Michelle's 2Q shipments increased by 3.1% while the remainder of the industry recorded a 2.3% gain – all three shipment channels posted increases for the quarter.
- This is the second consecutive quarterly gain following a severe slump in the second half of 2018, but total shipments are up by just 80,000 cases over the past 12 months.
- The first half improvement was driven primarily by a resurgence in Ste. Michelle's shipment volume, while growth for the remainder of the industry has moderated.
- Sales to in-state distributors are down slightly over the last six months relative to the same period last year, while out-of-state shipments are up by 6%.
- The surge in DTC sales/shipments continues unabated with double-digit increases in each of the first two quarters.
- The recent rebound in Ste. Michelle's shipments is an encouraging sign but has come at the cost of lower margins – thus its durability is questionable.
- As a group, Washington's small wineries (<50,000 cases) continue to post solid volume growth, though the expansion has lost breadth in 2019.
- Given volatility at Ste. Michelle, slowing demand, and an uncertain economic environment, Washington's shipment growth trajectory remains ambiguous.

Shipment Share by Channel: 2018



Grapes & Bulk Wine

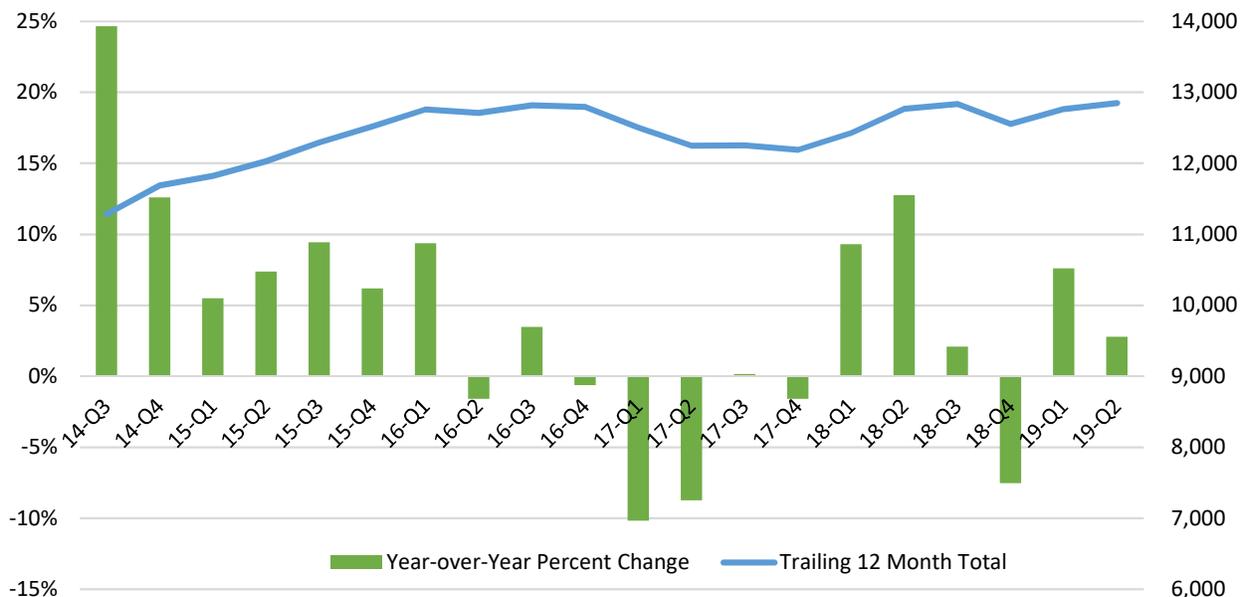
- Washington Winegrowers is estimating a slightly larger crop this year that may potentially break the 2016 record.
- Grape quality looks to be very good and the harvest may be the latest since 2011 due to cool weather in July and August.
- Demand has generally been flat, with some softening for Cabernet and Merlot and an uptick for traditional Rosé varieties.
- It continues to be a buyer's market in Washington – particularly for grapes from lower-quality sites – and a delay in the Gallo / Constellation deal is leading to uncertainty regarding the status of affected contracts.

U.S. Economy and Wine Market

- Economic growth slowed modestly during the first half of the year – the break down in trade negotiations with China will likely accelerate the softening going forward.
- Growth in U.S. off-premise demand remains weak – Nielsen indicates that volume fell by 1.3% for the 12-months ending in May – but sales increased slightly in dollar terms.
- The \$11 to \$25 segment of the market continues to record solid gains and Washington wine sales have outpaced the nation overall in both volume and value.
- The U.S. bulk market remains oversupplied and prices have fallen markedly in California – stimulating private label competition.

Chart of the Month

Packaged Wine Shipments (000s of cases)



About Vintage Economics

Vintage Economics is a market research and consulting firm focused on the Pacific Northwest wine industry. The firm is dedicated to providing insightful market research and analytics to help clients make better informed and more strategic decisions and position their businesses for success in a rapidly evolving and increasing competitive market environment. Areas of expertise include market analysis and forecasting, strategic research, and data analytics.

Vintage Economics also supplies industry reports and customized metrics and intelligence on the the Washington wine industry and its wineries, brands, and vineyards tailored to meet clients' unique needs.

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