

Vintage Economics

Washington Wine Industry Update March 2020

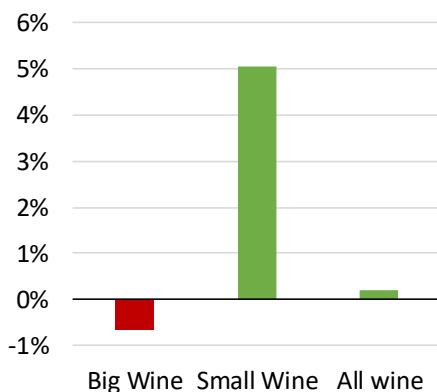
Wine Shipment Trends

Packaged Wine Shipments
Year Ending 12/31/2019 (000s of cases)
Source: Vintage Economics / LCB

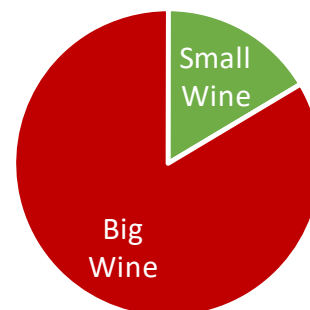
Total Shipments	12,581	▲ 0.2%
Out-of-State	9,326	▲ 0.6%
In-State	2,364	▼ 4%
Direct-to-Consumer	891	▲ 10%

- Washington wineries shipped a total of 12.6 million cases in 2019 – an increase of just 25,000 cases relative to 2018.
- Out-of-state shipments, which represent 74% of the total, edged up by less than 1%.
- Sales to in-state distributors and retail licenses contracted by 4%.
- DtC remains a bright spot in Washington State, as sales/shipments expanded by 10% to nearly 900,000 cases.
- The industry’s performance continues to be bifurcated – “small” wine outperformed “big” wine again in 2019.
- Washington’s small wineries grew at a healthy 5% pace – though this represented a collective gain of just 99,000 cases.
- Conversely, shipments by large wineries (>250,000 cases) slipped by 1%.
- Following declines in 2017 and 2018, Ste. Michelle’s sales stabilized, but the collective shipments by other large wineries fell 5%.
- A rebound in shipment growth is unlikely in 2020 – the COVID-19 outbreak will push the U.S. economy into recession and depress stagnating wine demand even further.

Change in Shipments

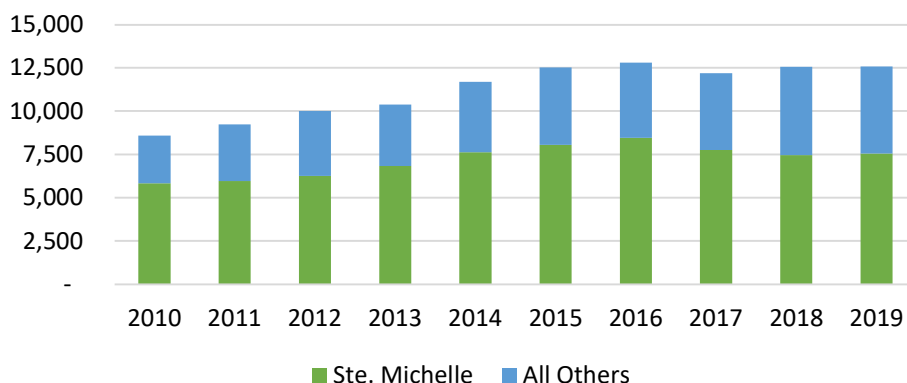


Share of Total Shipments



The Decade in Perspective

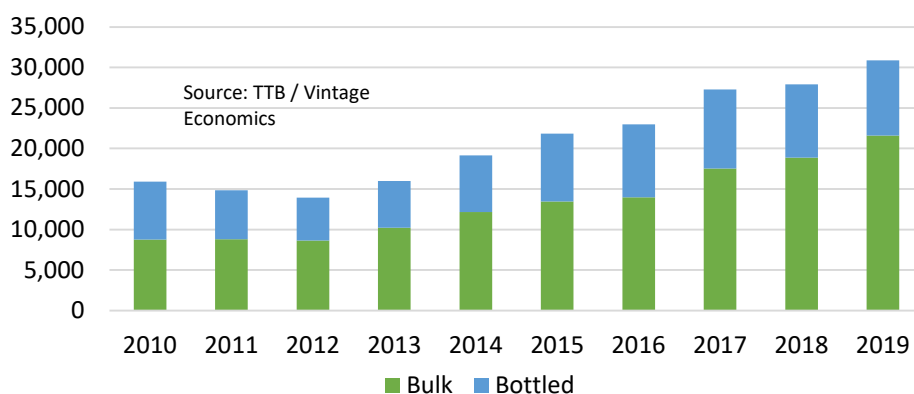
Total Shipments (000s of cases)



- The flat shipment volume reading in 2019 is consistent with recent trends.
- The Washington wine industry experienced a great run during the first half of the 2010s as shipments expanded at a 6.7% CAGR.
- But the expansion stalled in the second half – there has been essentially no growth over the past four years.
- The strong first half performance was driven in large part by a two million case increase in Ste. Michelle’s shipments.
- Ste. Michelle’s shipments peaked in 2016 – and have declined by 900,000 cases since.
- The remainder of the industry has continued to expand, but growth slowed from 7.6% in the 1st half to 4.4% in the 2nd.

Wine Inventory Trends

WA Bonded Inventory - August 31 (000s of cases)

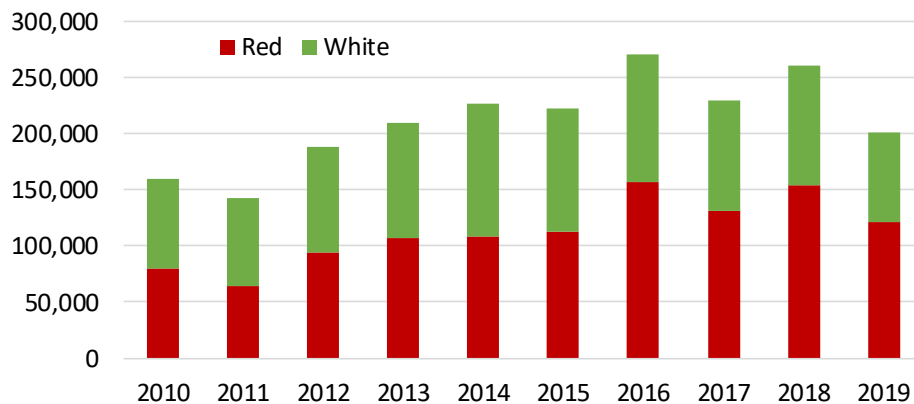


- Washington State has experienced a massive build in bonded wine inventory.
- Total inventory swelled from 14 million cases in 2012 (which may have been light due a short 2011 crop) to 31 mil. in 2019.
- If it is accurate, the TTB data suggests that supply has been outstripping demand in Washington over an extended period.
- The small 2019 crush will reduce the glut a bit but won’t materially alter the situation.

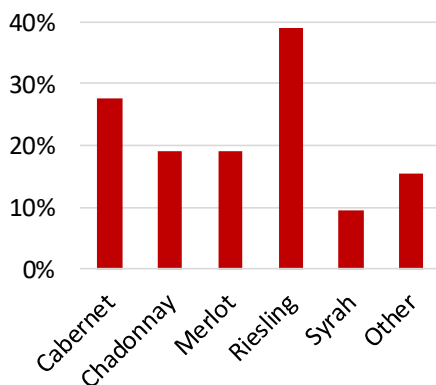
The 2019 Grape Crush

- According to the Washington Wine Commission, the 2019 crush totaled 200,100 tons - the smallest since 2012 and a drop of more than 60,000 relative to 2018.
- The crop was estimated to be much larger – 270,000 tons – but fruit went unpicked due to both economic and freeze-related issues.
- All major varietals experienced declines in 2019 – Riesling and Cabernet Sauvignon were hardest hit.
- Despite a 28% decline, Cabernet Sauvignon led the state again with 53,740 tons crushed and a 27% share of total output.
- The Grape Crush Report indicates that the average price per ton grew by 8% to \$1,315 in 2019.
- These figures belie the true market dynamic – price declines on new contracts and spot market sales have been widespread.

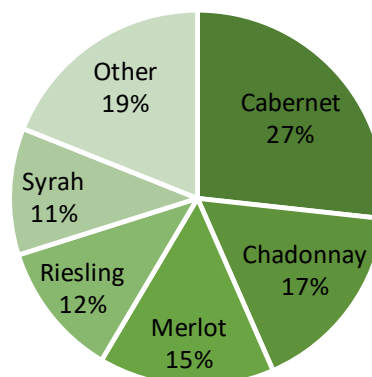
Quantity Utilized (tons)



Year-over-Year Decline in Tons



Share of Total



The Grape Market

- The Washington grape market struggled with oversupply in 2019, despite the diminutive crush.
- The problem is structural as growth in bearing acreage has outstripped growth in wine shipments in recent years.
- Based on back of the envelope calculations – the gap between potential supply and current shipment-based demand exceeds 40,000 tons per year.
- The inventory glut exacerbates the situation – growers are being forced to compete with reasonably-priced bulk wine for buyers.
- Given the muted outlook for shipment growth, substantial vineyard removals will be required to close the gap.
- The story is more nuanced – the market for traditional Rosé varieties and higher quality grapes grown for super-premium and luxury bottlings, has held up better, for example.

The Washington Winery Report 2020 Edition



The 2020 edition of the *Washington Winery Report* provides 2019 shipment and production totals for all 1,000+ Washington winery licenses as well as more extensive metrics for the 300+ wineries that shipped at least 1,000 cases, including shipments broken down by type and sales channel and three years of historical data on total shipments and production. It also contains industry statistics and benchmarks, winery and satellite tasting room counts by location, and winery rankings.

The report represents the most comprehensive source of intelligence available on Washington wineries and wine shipment trends. The metrics will be valuable to wineries for benchmarking their performance, growers and service providers for generating new business leads, and others seeking insight into the Washington wine industry.

Visit the [Vintage Economics](http://VintageEconomics.com) website for additional details or to purchase a copy.

About Vintage Economics

Vintage Economics is a Vancouver, BC based market research and consulting firm focused on the U.S. and Canadian wine industries. 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 analytical reports and customized metrics and market intelligence on the the Washington wine industry tailored to meet clients' unique needs.

Please see the [Vintage Economics](#) website or contact Chris Bitter for additional information:

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