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The US Wine Market

Volumes Slowing, Profits Accelerating

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far.rabobank.com

Stephen Rannekleiv

Global Strategist -
Beverages
+1 (212) 808-6823

At a panel discussion at a conference last year, I was asked, "Has the US wine market lost its mojo, and what does it need to do to get it back?" The reason for the question was obvious. Volume growth in the US wine market has clearly slowed, and it seems a matter of when, not if, it actually turns negative. But in spite of the slowing volume growth, the growth in the overall profit pool remains exceptional. Unfortunately, the growth in the profit pool does not benefit everyone equally, and is creating its own series of challenges.

US wine volume growth slowing

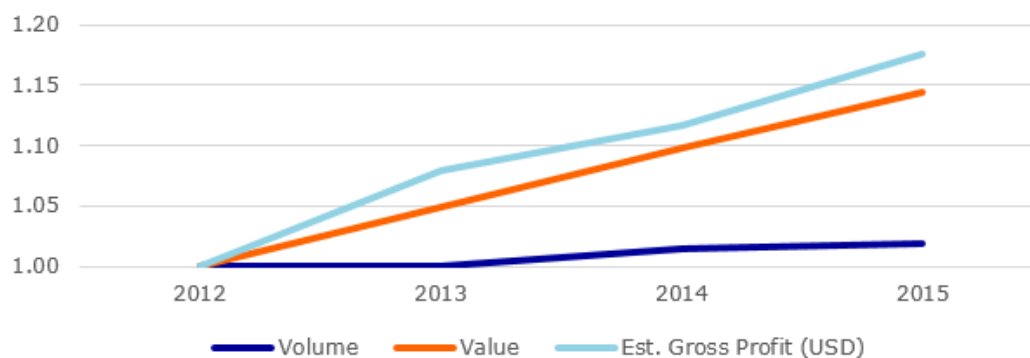
According to data from the Gomberg-Fredrikson Report, the US table wine market grew at a CAGR of 2.8% from 2000 to 2010. Between 2012 and 2015, the annual growth rate slowed dramatically to less than 1%. California table wine shipments were even more lacklustre, growing only 0.6% in that same period.

The profit pool is growing

But the slowing growth in volume was mainly the result of consumers choosing quality over quantity, drinking less of the wines priced below USD 10/bottle, and more wine priced above USD 10/bottle. The fact that the US wine market was able to deliver volume growth despite losing nearly 3m cases of California table wines priced under USD 10/bottle per year was an accomplishment in its own right.

The shift appears to have been driven in part by price increases at the lower end of the market, as well as some mild discounting in wines priced USD 10/bottle – USD 15/bottle. In short, the overall profit pool of the industry has accelerated, as lower-priced wines became more profitable, even as the growth was occurring in higher margin price segments (see *Figure 1*).

Figure 1: Growth index of California table wine shipments, 2012-2015



Not everyone benefits equally

But the shift has not benefited everyone equally. Wine grape growers in the San Joaquin Valley are feeling the pinch, as demand for their production has been soft. And while wineries in the premium space have generally enjoyed strong demand, those targeting the lower end of the market have had to make major adjustments to their product portfolio.

Premiumisation creates conundrums

The US wine market has seen slowing volume growth in recent years, but accelerated improvements in profitability. But even this growth in profitability creates its own set of challenges. For more on this topic, see our recent note, ["The Premiumization Conundrum: The Challenges Arising from Premiumization in the U.S. Wine Market"](#).

Imprint

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Stephen Rannekleiv Global Strategist - Beverages

stephen.rannekleiv@rabobank.com

+1 (212) 808-6823

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