Smaller U.S. Wineries Especially Hard-Hit by COVID-19 Pandemic

Julian Alston

Even before the COVID-19 pandemic took hold, the global and U.S. wine industries were facing economic and market challenges. U.S. markets were adapting to new Chinese tariffs on American wine and U.S. tariffs on European wine. As we entered 2020, wine markets worldwide were already soft, wine consumers were enjoying a buyer's market, and industry prognosticators presaged some industry adjustments to come (McMillan, 2020).

In just a few months, COVID-19 has made matters much worse, especially for those parts of the wine industry most dependent on direct sales to consumers—on-premise sales through hotels, restaurants, and winery tasting-rooms, and cellar-door sales at wineries. With social distancing and mandated closures, sales from these outlets are blocked for now and are projected to be well down for the year 2020.

The detailed outcomes will depend on many current unknowns. In one set of estimates, John Moramarco (Wine Institute, 2020) projects revenue losses for the U.S. wine industry in 2020 attributable to the pandemic totaling $5.9 billion, comprising decreases of 80% (or $2.5 billion) for on-premise sales, 80% (or $3.0 billion) for tasting-room sales, and 10% (or $323 million) for direct-to-consumer (DTC) shipments from wineries; he projects a 10% ($1.33 billion) *increase* in off-premise retail sales through grocery stores and other outlets.

In the immediate context, the effects are more pronounced and more mixed. Nielsen data indicate that DTC shipments and off-premise sales in March and April 2020 were up by 30% in value compared with 2019 (see, e.g., Adams, 2020). This reflects a rise in DTC and off-premise sales of alcohol, a shift toward larger package sizes, and a shift within alcohol toward wine.

These seismic shifts in marketing channels have complex implications for the total value and volume of sales, and the overall winery share of consumer wine expenditure. The consequences will be borne unevenly across the many thousands of American winegrape growers and wineries, as well as wine wholesalers and distributors, wine merchants, restaurants, and other retailers. Among the hardest-hit wineries will be those that emphasize sales on-premises and through their tasting rooms. Many of these are at the smaller end of the size distribution.

Looking forward to the 2020 vintage, winegrape growers can anticipate reduced demand for their grapes reflecting not only the immediate impact of the pandemic on wine markets, but also in view of the longer-run impacts of reduced incomes and consumer spending even after the world has returned to a more normal footing. Growers who do not have a well-established (contractual) relationship with a winery may struggle to find a buyer for their grapes and many are anticipating further price declines. Jon Moramarco (Wine Institute, 2020) projects a 25% ($1.4 billion) reduction in value of winegrape sales in 2020.

Among the complicating factors, as we try to make sense of the implications of the COVID-19 pandemic for California and U.S. wine producers, is uncertainty about impacts and adjustments in the rest of the world—both immediately and in the longer-run. Along with disruptions to domestic markets in all countries, the pandemic has disrupted production and distribution channels in ways that affect international trade. Some countries—such as France, Italy, Spain, and Australia—are heavily dependent on exports, including exports to the United States. In the short-run, U.S. producers may benefit from disruptions to those exports. Various early reports are anticipating major structural changes in the wine sector in the main producing countries, the consequences of which could ameliorate the longer-run effects of changes in U.S. markets on the U.S. wine and grape industry.

Author's Bio

Julian Alston is a Distinguished Professor in the Department of Agricultural and Resource Economics at UC Davis. He can be reached by email at jmalston@ucdavis.edu.

For additional information, the author recommends:

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Wine Institute Press Release "US Wine Losses from COVID-19 Could Reach $5.94 Billion: Lost Revenue of 36 to 66 Percent Projected for Most Wineries." *Wine Business* April 17, 2020. https://bit.ly/2XeV79O