

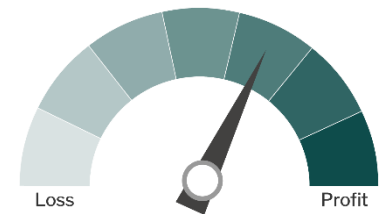
MARKET SNAPSHOT
Wine/Vineyard

September 30, 2023

Executive summary

AgWest Farm Credit's 12-month outlook sees the winery and vineyard industry as slightly profitable. Drivers include lower wine grape demand by Ste. Michelle in Washington, challenging conditions for uncontracted growers in Washington, favorable 2023 crops, strong wine demand among Oregon and small Washington wineries, rising borrowing costs and shifting alcohol consumption patterns.

12-Month Profitability Outlook



Industry drivers

Ste. Michelle reduces wine grape purchases in Washington

Ste. Michelle is negotiating with wine grape growers to revise supply contracts to better align its supply needs with demand. This reduction could amount to 10 to 12 thousand acres, or about 18% of the state's total production. The company is reportedly voiding contracts with some growers and reducing purchases from others. Growers in Washington whose contracts remain active should be slightly profitable to profitable; however, those with all or a substantial portion of their grapes not under contract may struggle to sell their crop and be profitable (see next industry driver).

Challenging conditions for uncontracted growers in Washington

Washington has excess wine grape production capacity. Growers not under contract may have to sell into bulk markets where prices are less favorable. Over time, some may decide to rebalance acreage to match demand and incorporate other agriculture products.

West Coast crops favorable

Growers in California expect a large, good-quality crop; however, harvest is two to four weeks late due to a cool spring and summer. A delayed harvest in California creates some weather risk for late-season varieties. Oregon may experience a 25% to 30% gain in yields from 2022 and quality is reportedly excellent. Washington's crop quality is reportedly very good, and yields appear average to slightly below average. Recent wildfires across the Northwest appear to have had minimal impact on crops.

Oregon wine industry and small Washington wineries strong

Oregon's wine industry is strong due to its focus on high-value, niche markets as well as both retail and Direct-to-Consumer channels. Currently, demand exceeds supply for its Pinot Noir and Sparkling varieties, which many expect to have strong 2023 vintages. Investor interest in Oregon's wineries and vineyards is increasing. Small wineries in Washington with established Direct-to-Consumer markets continue to experience strong demand and should be profitable.

Elevated interest rates reduce margins

The cost to carry inventory and/or large amounts of inputs is rising, as is borrowing for capital expenses. Rising interest expenses reduce margins and thus profitability, especially for operations with more variable rate financing. Please refer to our [Quarterly Economic Update](#) for more information on interest rates.

Alcohol consumption patterns shift toward liquor

Gallup's latest Consumption Habits Poll showed:

- Total alcohol consumption is steady, with beer remaining the top drink of choice. Liquor consumption exceeded wine for the first time due to higher demand among young consumers.
- Alcohol consumption varies by age, income and education level. Middle age (35 – 54) consumers, higher income earners and college graduates drink more than their counterparts.
- Wine consumption is strongest among females, older generations, college graduates and high-income earners.

Profitability

As a whole, Northwest vineyards and wineries should be slightly profitable over the next year; however, it will be a challenging year / years for those who suddenly find themselves without a market for their grapes. In Washington, contracted growers should benefit from a favorable 2023 crop; however, uncontracted growers, including those with canceled contracts, will struggle with profitability. Crops across the West Coast look generally favorable. Demand for Oregon wine is strong and the state should benefit from a large, high-quality 2023 crop. Elevated interest rates are pressuring profitability. Alcohol consumption patterns are shifting as younger consumers prefer liquor over wine.

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

Additional Information

AgWest Business Management Center

www.AgWestFC.com/industry-insights

Oregon Wine Center

www.oregonwine.org

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

Learn More

For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or bmc@AgWestFC.com.

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