US Wine Market for Italian Wines
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The U.S. wine market is the largest in the world, and it's also a complex market for suppliers. Many Italian producers have sold in the U.S. market. This article will review long-term trends and allow a better understanding of wine in the U.S.,

Included in the article is an overview of the total beverage alcohol market in the U.S., domestic wine trends, imported wine trends, specifically with Italy, and then some other competitive countries that are significant in the U.S., off-premise and on-premise trends tied in with consumer wine spending, a little bit about syndicated data such as Nielsen and how it fits in within the U .S. wine market, and finally a few topics for the future. **(Introduction, no slide reference)**

To understand the U.S. wine market, one must understand beverage alcohol in total. Beverage alcohol, in total, means wine, beer, and spirits. We use indices to talk about overall growth and to do this; we convert total volumes to servings. The serving conversion is 12 ounces of beer being a serving, five ounces of wine being a serving, or one and a half ounces of spirits.

The U.S. saw significant growth in beverage alcohol in the 1960s and 1970s. Then, there was a significant softening in the 1980s, driven by concerns about drunk driving and other social issues driven by groups such as Mothers Against Drunk Driving and Students Against Drunk Driving. This softening continued until the early 1990s when the market found a new normal.

Another way to look at consumption in the U.S. is consumption per legal drinking age adult (LDA). From 1965 to 1980, the number of servings consumed per LDA increased by 30%. Per LDA, consumption declined to the rate of 1965 by 1993. For the last thirty years, the LDA population has been growing at an annual rate of 1.2% a year. The number of servings of beverage alcohol entering the market has also grown at 1.2% a year which means that consumption per LDA has been stable (flat) for thirty years.

The market has been distorted by the pandemic since 2020. The U.S. saw significant growth in servings in 2020 and 2021, which was reversed in 2022 and 2023. The data now shows this was a significant inventory build-up, which will be addressed below.

Another factor to understand for the future is that the LDA population growth is forecast to slow. Given the current pressure against alcohol consumption, it is unlikely that consumption per LDA will grow. The slowing growth in the LDA population will mean slower growth in the beverage alcohol market. This implies greater competition across beer, wine, and spirits, as well as within the wine category. **(Above Slide 3)**

Looking specifically at wine, wine started growing faster than beer or spirits in about 1993. And that growth continued until 2016. So, for almost 25 years, wine grew at 3.4% per year versus the overall beverage alcohol industry which was growing at 1.2% a year. This was a great period for the wine market, and wine as a share of beverage alcohol grew from about 11% of total beverage alcohol by servings to 18%. And if one looks at value, it grew faster because wine's average price has been growing faster than beer or spirits.

As mentioned above, for total beverage alcohol the market was disrupted by the pandemic. This also impacted the wine market, with volumes growing in 2020 and 2021 but declining in 2022 and 2023. This has been seen as declines in shipments from suppliers driven by an inventory build in the market and now destocking. **(Above slide 4)**

Speaking about the U.S. volumetrically, the US wine market grew consistently from the time prohibition was repealed (1934) until the mid-80s when the wine market was almost 250 million 9L cases. It was a far different market back in those years. Wine growth in the 70s was driven by white wine, considered a cocktail, so it wasn't being consumed as much with meals, but it was being consumed prior to meals at the bar. This ended with that pushback against drunk driving in the 80s.

The other thing that happened was the growth in flavored wine beverages, specifically wine coolers, and also included with this were some Lambrusco sales back in the 70s and 80s. These wines also helped grow the overall market, although they weren't as profitable for the wine market. But that ended in 1991, when the federal excise tax increased more on wine than beer and many of these flavored wine beverages were converted to malt-based products. By 1993, the market had declined to less than 200 million 9L cases.

Growth restarted in 1993, driven by sales of more traditional table wines. The market grew consistently up until 2016, when it approached 410 million 9L cases. The market flattened out again, but growth accelerated in 2020 and 2021, partially driven by flavored wine beverages, driving total volumes to 440 million 9L cases. The market has fallen off over the past two years to 375 million 9L cases. **(Above slide 5)**

Total beverage alcohol grew rapidly in 2020 and 2021, and a regression line would show abnormal growth in these years. However, the market saw significant declines in 2022 and 2023.

The reality of the pandemic is that initially, we saw a slowdown in shipments because of supply chain problems. Given those supply chain problems, both wholesalers and retailers started to increase the amount they were purchasing because of the late deliveries. We also saw growth in consumer purchases of direct-to-consumer sales from domestic wineries electronically. This was driven by increased promotional activity since tasting rooms were closed.

We now understand that we saw growth in inventories for both wholesalers and retailers rather than a significant uptick in consumption. We've also come to understand that during the pandemic because consumers ordered directly from wineries online, they had what we call pantry loading in the US, where they bought more than they actually consumed.

And then, when we got into 22 and 23 with increased inflation, we also saw higher interest rates. Consumers started to pull back on spending, and wholesalers and retailers started to cut inventory across beer, wine, and spirits. Especially in 2023, we saw declines in inventory, which drove declines in shipments into the US market.

This has caused some of the recent very slow shipments from both domestic producers and foreign producers into the US market for wine, but it's also impacted beer and spirits suppliers as well. **(Above Slide 6)**

In evaluating the wine market decline from 440 million 9L cases in 2021 to 375 million 9L cases in 20023, a key question is where the market will go from here. Looking at the flattening of the wine market from 2016 to 2019 it would appear that the market should be at about 405 million 9L cases. We believe that once inventories in the market normalize, the market will return to this level. It will likely take until the end of 2025 to get back to these volumes, but unless something significant happens in the marketplace, the volumes entering the U.S. market will likely be flat beyond this point.

Any producer producing wines in the U.S. or exporting to the US will need to build their share of the market to see if they can actually grow their business in the U.S. market. **(Above Slide 7)**

Looking at U.S. wine shipments overall, they were down 8.7% in 2023, and that's actually the biggest drop we've seen since going back throughout all the history since the repeal of prohibition.

One thing to note is that these numbers include cider, which is a small amount of the volume. However, the Tax and Trade Bureau in the U.S. tracks beverage alcohol, and cider is included with wine. Overall, domestic shipments were down 6.8%.

Packaged imports were down 13.0%, so the declines impacted packaged imports more, but both categories were impacted. Surprisingly, even with these declines in shipments into the market, consumer spending was up from about $103 billion in 2022 to $107 billion in 2023. The growth in consumer spending was mostly driven by the on-premise.

The disconnect between the volume of wine shipped into the market and consumer spending can be explained as follows: Wine shipments into the U.S. are sold to distributors, which are depleted by selling to retailers where the consumer purchases them. Prior to the pandemic, those numbers moved in parallel. During the pandemic and post-pandemic, they've become disconnected because of that buildup in the inventories.

This has made it harder to track all the numbers and how they fit together. However, the shift in consumer spending is primarily driven by what's been going on in the U.S. for over 30 years, which is that consumers continually buy wines at slightly higher prices every year.

In 2023, consumer spending on wine grew 5.2%, driven by 2.7% growth in the off-premise and 10.6% growth in the on-premise. In the on-premise, restaurateurs have been increasing their prices to offset the costs such as labor and rent, which are key components of growth in the on-premise, so most of this does not come back to producers. We estimate that the equivalent wholesale value of wines in the US market was $56.6 billion in 2003, showing an increase in value of 3.1%. Based on normal wholesaler markups, this implies the value of the U.S. market for producers is $42 billion. This shows how important the market is for both domestic and foreign producers. **(Above Slide 8)**

Looking at domestic wine shipments, fortified wines outsold traditional still wines until the late 1960s. As mentioned previously, white wine growth was a fad in the 70s, but then we saw declines in the markets in the 1980s and early 1990s. From 1993 until 2016, the market showed strong growth driven by table wines, sparkling wines, and bulk imports, many of which have been bottled in traditional domestic brands at low prices.

Categories that have not driven growth are traditional dessert wines, which are almost non-existent today, and vermouth, produced domestically. and flavored wines. **(Above Slide 9)**

Total packaged imports have seen consistent growth from 2010 to 2019, but this was not consistent across all wine types. red wines were in a soft to moderate decline during this period. White wines were stable. Rose wines saw some growth. Sparkling is really what drove imports between 2010 and 2019.

There was a big pickup in sparkling wine imports in 2020 and 2021 but a decline over the last two years to reduce inventory. Also, in 2020 and 2021, there was growth in Vermouth, which we attribute to what we call amateur mixologists. During the pandemic, people at home started to make their own cocktails, and so a lot of vermouth was sold to consumers. It can be assumed that it is still sitting in partial bottles in the consumer's liquor cabinet.

Another category that saw growth during the pandemic was flavored wine beverages, but this really does not appear to be a long-term category. Many products were introduced to compete with what we call hard seltzers in the U.S. The hard seltzer category grew dramatically but has slowed down, and these wine-based products that were introduced to compete with them have slowed as well.

Overall, the recent softening of more traditional wines, putting aside the flavored wine beverages, has really been destocking by distributors, retailers, and, to a degree, even consumers. Packaged imports, excluding flavored wine beverages, should return to a volume of 100 million plus 9L cases by late 2025 **(Above Slide 10)**

Italian table wine imports were fairly stable prior to the pandemic. There was a pickup during 2021 but a falloff in 2022 and 2022. Reds were declining slightly prior to the pandemic, which is unfortunate as they have higher average prices than white wines or rose wines.

White wines were seeing slow growth, likely due to U.S. consumers changing culinary choices. U.S. consumers historically have been more Eurocentric in the types of foods they eat as well as traditional American fare such as steaks or hamburgers. We now see a move by younger consumers to eat more Asian foods, such as Thai, Vietnamese or sushi and Latin foods, primarily Mexican, but also Spanish, Peruvian, et cetera. Some of those types of foods go better with white wines and they also go better with maybe a chilled red, so we believe some of these shifts are being driven by food choices.

Rosé wines have seen little growth from Italy but are still quite small compared to the reds and whites imported into the U.S. France is still the predominant driver of imported rosé wines into the U.S.

When an Italian producer looks at the U.S., they need to remember that the U.S. has 50 states plus the District of Columbia. The producer has to think about where they are going to sell their wines by state and channel. Big brands are better suited to large chain retailers or national on-premise accounts. Smaller brands are better focused on independent retailers and restaurants and do not necessarily need distribution across every state in the U.S. **(Above Slide 11)**

Italian sparkling wines were showing good growth prior to the pandemic. However, they were soft in 2020, primarily driven by supply chain issues involving betting products from Italy to the U.S.

Inventory was built in 2021 and 2022 as shown by significant increases in shipments with a decline in 2023. Everything in market trends says that Italian sparkling wine should be back in growth this year. The category has seen some fluctuation in pricing, with export pricing coming out to about $50 U.S. Some dips surprisingly during the pandemic, but it seems to be coming back last year and seems to be maintaining around a $50 US customs value coming into the US. **(Above Slide 12)**

Other wine types from Italy coming into the U.S. are small compared to table wines and sparkling wines. Based on customs data in the US, vermouth actually saw some big increases during the pandemic. It should be noted that there is a bit of a disconnect between what Italian export customs say and US imports and how they classify the wines. So, we are not sure if this was all Vermouth, but the volumes are quickly reversing to much smaller volumes.

Given these trends, Italian producers should focus on table wines and sparkling wines for exports to the U.S **(Above Slide 13**)

Packaged imports from other countries show various trends. French packaged imports have generally seen good long-term growth. Really, when you start looking at the trends, most of the growth has been rosé wines. The rose market growth was slowing prior to the pandemic, and the current outlook is for rose wine volume to be flat moving forward. Sparkling wines showed significant growth In shipments during the pandemic, but this reversed in 2023. We believe this will recover to slow growth but, due to pricing, will have slower growth than Italian sparkling wines. **(Above Slide 14)**

Australian packaged imports have had consistently soft trends. Australia positioned itself as cheap and cheerful, and it hasn't played well in the U.S. And so from a competitive standpoint, Italy is much stronger than Australia. Obviously, Italy would like to see more growth, but Italy is in a far better place than where Australia is in the U.S. market. **(Above Slide 15)**

New Zealand, on the other hand, driven by Sauvignon Blanc, has seen continued growth. This can be attributed to the growth in New Zealand Sauvignon Blanc. As referenced earlier, changes in cuisine have benefited New Zealand with the focus on Sauvignon Blanc. An Italian varietal like Vermentino can fill this same niche, but U.S. consumers have little knowledge about the varietal. **(Above Slide 16)**

Spanish packaged imports have been driven by red wines and sparkling wines. Just prior to the pandemic, there was a little bit of softening of table wines from Spain. There was a little inventory build from Spanish wines, but not much. Italy has a much stronger strategy of how to export and where to sell in the US than Spain does. Part of that is just the understanding of Italian wines in the U.S. versus Spanish wines.

Sparkling wines will get back into growth from Spain, but it's really a low-price alternative to Italian sparkling wines, especially Prosecco, and obviously much lower priced than champagne. **(Above Slide 17)**

Argentina's growth is primarily driven by red wine imports into the U.S. You really have to go back to the 2000s, when Argentina's growth really began. It was primarily driven by Malbec, which flattened out in the 2010s. Beginning in 2017, Malbec started to decline. The pandemic briefly propped up volumes, but Argentine Malbec appears to be on a long-term decline. Italy is in a much stronger position than Argentina. **(Above Slide 18)**

Chile is much like Australia. They make some beautiful wines, but they've been in long-term decline. Again, if you really look at Chile, most of their wines were positioned at very low-price points. The term cheap and cheerful is used in the United Kingdom. The description applies to many wines from Australia and many wines from Chile as well. because they did a lot of business in the UK. **(Above Slide 19)**

We've seen dips in volume shipments into the market. U.S. consumer spending on wine has actually continued to grow, and even last year, despite the decline in shipments, we still saw increases in consumer spending.

The growth has been driven more by the on-premise. The on-premise increases have been driven by higher markups, with restaurants needing to make more margin on wine and most of their products just because of higher costs of operations.

The other thing that needs to be noted is that the markups in the U.S. are significantly more than what you see in Europe. If a restaurant buys a wine for 15 dollars, they sell it for 60. This is a four-time markup. A restaurant that buys a bottle of wine for 10 dollars may sell it for 12 or 15 dollars for a glass. And the markups are much higher in the on-premise in the U.S., but it's a result of the high operating cost for restaurants that they're trying to find margin wherever they can. And they do basically the same thing with their beer markups, their spirits markups, and it's just the nature of the market in the U.S. **(Above Slide 20)**

People hear a lot about Nielsen or Circana (IRI), and oftentimes, people think that Nielsen demonstrates the trends in the U.S. market. When one looks at different wine sources around the world, Nielsen represents 50% of the volume of California wines, which are primarily large brands at lower prices.

Nielsen only represents about 35% of imported wines. Italy in 2023 was 40% in Nielsen channels but this was driven by lower shipments due to the pandemic correction. Typically, Nielsen will represent 35% of Italian wine imports.

Nielsen generally represents retailers that sell at lower price points. One can typically think the trends of wines under $15 are probably pretty accurate in Nielsen, but they're not nearly as accurate for wines over $15. Obviously, many wines out of Italy sell for above $15 in the US. The other thing I'll note is that Nielsen has some markets where they track actual sales from a supermarket cash register, which is very accurate. But in other markets, say New York, one of the biggest markets for Italian wines in the US, they take a sample of stores and project the market. And those numbers are much less accurate than the markets where they can track a supermarket's actual sales. **(Above Slide 21)**

Nielsen is the best place to get data by price point by individual product. The reality in the US is that table wines under $10 were in a slow decline prior to the pandemic.

They had a little bit of pickup in 2020, and they're back into a slow decline post-pandemic. On the other hand, wines over $10 saw increases prior to the pandemic. There were some significant increases in sales in 2020 specifically, but a bit of a slowdown since then.

We are still trying to determine if the slowdown was just consumers drinking a little bit out of their pantries and not quite buying as much in 2023 or if we're seeing a greater slowdown in wines above $10. We will know more over the next year as we look at what the trends are in 2024. **(Above Slide 22)**

Wine has been very successful in premiumizing over time, much more successful than beer or spirits. The challenge now is that wine needs to grow the market with younger consumers who may not have the disposable income of older consumers.

Beverage Alcohol is a consumer category that people buy to substantiate their self-worth. The premiumization of wines means that a serving of a reputable brand of wine in the off-premise, such as Josh or La Marca, will cost $2.50 to $3,00 per serving. Reputable brands of beer and spirits have per-serving costs of $150 or less. **(Above Slide 24)**

Looking to the future, beverage alcohol has the risk of changing consumer perceptions. Historically, consumers in the US thought that moderate consumption was good for health. Unfortunately, with recent pronouncements from organizations like the World Health Organization, consumer perceptions are changing, and more consumers think that moderate consumption is bad for their health. This is especially pronounced among young consumers. The industry will need to find ways to counter these messages, or there is a risk of a declining market.

Another factor that needs to be considered is that Italian producers consider wine consumption a core part of life. 23% of Italians drink wine every day. Conversely, only 20% of U.S. wine consumers drink wine at least once a week. The less frequent consumption in the U.S. requires a different approach to the market than in Italy. **(Above slide 25)**

The U.S. market is large and complicated. Moving forward, it will likely be stable at 410 million 9L cases, barring a negative hit from consumer perceptions. Wine producers need to understand the market and find ways to gain market share in a flat market.