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High US restaurant prices push wine enthusiasts to retail stores

Wine market trends predict increased retail sales, millennial consumption and influence of international imports

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In an increasingly consumer-driven wine market, the lure of wine retail prices is proving to be a stronger draw for consumers than the ambience of dining establishments. Post-pandemic, consumers, especially wine aficionados, exhibited a strong preference for enjoying wine at restaurants. But recent market trends suggest a reversal of this habit as the high markups on wine in restaurants have started pushing consumers back

towards wine retail shops.

These insights emerged from a recent wine market trend webinar conducted by Jon Moramarco, the reputable editor of the Gomberg Fredrikson Report. Moramarco's predictions from the session provided more reasons for wine retailers to cheer while posing a few challenges for wine producers.

He explained that the overall wine market in 2023 appears to remain flat, indicating minimal growth or contraction. However, the purchase preferences of wine lovers are noticeably shifting, with wine retail shops potentially becoming the primary beneficiaries of this change.

Meanwhile, wineries may be bracing for slightly lower sales in distribution this year. This prediction comes despite the expectation that overall wine sales will not witness a drop, thanks to high inventories. In an unexpected twist over the past year and a half, US consumers purchased more wine than the total volume of wine shipped from wineries into the market. Moramarco suggested that distributors might prioritize clearing more of their surplus inventory before placing new orders.

Moramarco expressed, "Adjusting for inventories, there may still be a little bit of a hangover. The wine market may be flat rather than up 1 or 2 percent. It's going to be a tight market. That's the way it looks."

During the pandemic, wine sales in supermarkets experienced a significant surge. But by the end of 2022, the volume of wine sales in food stores had declined compared to pre-pandemic levels. However, in terms of overall expenditure on wine in supermarkets, there was a slight increase.

Moramarco attributes part of this change to "premiumization" and inflation. He explained, "Some of that is premiumization, and some of that is inflation."

This indicates an increasing inclination among consumers towards higher quality, more expensive wines, despite buying lesser quantities. In a positive trend for wine retailers, overall consumer spending is up, generally a strong indicator for premium wine sales as it reflects disposable income.

Consumer spending on wine, in terms of dollars, has been consistently rising since the 1990s and is predicted to continue in 2023. This is expected even if the volume of wine purchased doesn't increase, as inflation is likely to push prices higher.

However, the effects of inflation were not the main cause of 2022 not being an optimal year for wine consumers. Though wine expenditure increased compared to the previous year, the quality of wine purchased was perceived to be lower due to increased spending in restaurants.

In the ongoing quest for value, retail still reigns supreme in the wine industry

Regionally, California continued to dominate wine production, accounting for 61% of wines in the US market in 2022. Italy followed with 11%, and France with 5%. Interestingly, both Italy and France saw a significant increase in their presence in the US market in 2022 compared to 2019 – with an increase of 15% for Italy and 11% for France. California, however, after a troubled 2020 vintage, witnessed a minor decrease of 3%.

Elsewhere, New Zealand wine imports continued to rise, recording a 30% increase from 2019 to 2022. Conversely, Australia, Spain, and Chile experienced a drop in their imports to the US over the same period - 21% for Australia, 12% for Chile, and 4% for Spain. Argentina, despite economic challenges, managed to record a 5% increase in its exports.

In the domestic market, the sale of Washington state's wines fell by 10% between 2019 and 2022, likely influenced by the sale of Chateau Ste Michelle. On the other hand, Oregon's wines witnessed a 10% increase during the same period.

The "other countries" category, consisting of nations other than the top seven wine exporters such as Portugal, South Africa, Greece, and others, experienced a significant surge during the pandemic, with sales doubling in 2021 compared to 2019. However, this spike was short-lived, as sales dropped nearly by half in 2022, though they remained 10% above the 2019 figures.

Looking towards the future, Moramarco foresees a potential turning point in 2023 as the average millennial turns 37, an age historically significant for the wine market. The steady rise in US wine consumption began in 1993 when the average boomer turned 37. Drawing a parallel, Moramarco quipped, "We used to say that that's the age when boomers' kids drove them to drink."

As millennials' children potentially push them towards increased alcohol consumption, Moramarco underscores the need to strategize for a shift in consumption patterns away from beer and spirits and towards wine. He cautions, "Wine is in a fight for market share. If millennials' kids are going to drive them to drink, we need to figure out how to get them to drink wine, instead of beer or spirits."

The current wine market landscape presents a complex, fascinating tableau, marked by shifting consumer preferences, the influence of international imports, and the potential emergence of millennials as the new drivers of wine consumption. As these dynamics play out, wine retailers stand poised to seize the opportunities presented, potentially heralding a new era of the wine retail industry.