



CIATTI
GLOBAL WINE & GRAPE BROKERS



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**Ciatti Global Wine
& Grape Brokers**

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It is fair to say 2023 was not an easy year for California's wine industry, battling not only the same macroeconomic headwinds – inflationary costs and rising interest rates – faced by all, but also having to come to terms with the return of flat or shrinking wine sales volumes after the brief respite provided by the pandemic-induced demand spike. Tough decisions that might have got made in 2020 and 2021 in response to long-term demographic/behavioural changes and the proliferation of alternative alcohol beverage products – and which were postponed by the pandemic demand – are now back on the agenda. Ultimately, the direction in California, as around the world, is probably towards a more streamlined wine industry.

By the year's end it was clear that growers and wineries had begun to concertedly adjust to the reality. Grapes and bulk wine suppliers are becoming better attuned to buyer needs and more open-minded to re-engineering their businesses in order to make work for them the prices that buyers can actually pay. Many such adjustments are painful – not least the mothballing or removal altogether of uncontracted vineyards, for example, or the rationalizing of headcounts – but they are helping lay the groundwork for a rightsized industry enjoying greater resilience in 2024 and beyond.

Our final report of 2023 made plain the bulk wine pricing trend and its "2019 vibes": "Pricing has weakened as the year has progressed and – outside Napa and a few areas of Sonoma – the price hierarchy has condensed somewhat towards California-appellation pricing." While some programs will switch their sourcing from Coastal to premium California wines in order to shore-up margin at this time of elevated costs, others programs might take the opportunity to trade up on grapes in order to boost quality, assisted by the 2023 vintage being – as is widely perceived – a very good one. Lower pricing on excellent-quality wines frees-up wineries, negociants and retailers to create new lines and products that might help attract fresh consumers and younger demographics, so that overall sales volume has a chance of returning to growth at some stage. We remain positive about our industry and see 2024 as a year of opportunity.

- Bulk wine suppliers should send their samples in to us as it remains the best way for their wines to find a buyer. They can contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com to get their wines listed.
- Growers should keep us up to date with the 2024 grapes they will have for sale by contacting Molly at +1 415 630 2416 or molly@ciatti.com.
- International buyers seeking to harness some highly attractive price-quality opportunities on Californian wines, including from premium Coastal areas, should contact Greg at +1 415 458-5150 or greg@ciatti.com. California is also able to offer lower-alcohol wines for international buyers seeking to meet the growing global demand, particularly among younger consumers, for such products.

Read on for our review of 2023 and look ahead to 2024 and – for the most up-to-the-minute information – get in touch with Ciatti directly. The broker team with its many decades of experience stands ready to help guide buyers and sellers through the year ahead – and would like to wish all its friends, clients and business associates a very Happy New Year.

Robert Selby

2023: “Vibes of 2019”

California’s bulk wine and grape markets moved into 2023 sluggishly amid softening wine demand in the US as around the world. The long-term trend has been for flat or declining sales volumes due to demographic changes and the proliferation of alternative alcohol beverage products. In 2022 into 2023, this trend was compounded by tough, hopefully short-term economic realities: Volume sales ticked downward as consumers reined-in discretionary spending amid declining yet still high annual inflation levels (at 6% in January and February 2023) and rising interest rates (at 5% by the start of the second quarter). This consumer caution came just as suppliers sought to increase shelf prices to cover elevated input costs, and while these price upticks were not out of line with other products (upticks averaged 3% in 2022 versus 10% across grocery prices, according to scanner data quoted by Wine Business Monthly), the impressive stability of wine prices over the years meant consumers were perhaps unprepared for rises.

This consumer caution was prolonging the time it was taking retailers and distributors to work through the inventories many of them had accumulated during the pandemic demand spike in 2020 and 2021. In turn, in an environment of elevated costs – when storage can be a liability – buyers wished to keep their inventories lean and therefore moved onto the bulk market only for incremental volumes and only when they were certain they were needed. The trend for securing and trucking wine on a just-in-time basis strengthened in 2023.

All of these factors meant that little if any extra grape or bulk wine activity was stimulated by the CDFA’s preliminary report on the 2022 grape crop, published in mid-February, which showed – at 3.349 million tons – the smallest output since 2011. (The final figure was revised upward to 3.376 million tons, still the smallest in 11 years.) It was in fact the fourth-consecutive crop below 4.0 million tons, but the lack of demand pressure on the market in early 2023 resembled the sort of activity levels one might expect following a bumper harvest. The 2022 crop had come in relatively early, meaning more wines were available sooner if buyers were interested.

Many were not. And, in fact, some had become sellers themselves, “putting in some instances significant

inventory, and a generous spectrum of samples, onto the market,” we noted in March. With the ultra-competitive retail industry pushing back against increased supplier prices, and price-conscious consumers resistant to increased shelf prices anyway, those buyers still actually buying often shopped around first for bulk pricing that provided them with greater margin. In our forecast for 2023 we said there was likely to be a “shift from Coastal appellations and sub-appellations to Central Coast and California appellations – i.e., akin to what we were seeing in the years before the pandemic”, and this was being borne out. Often there was an impasse in buyer-seller price expectations that prevented transactions getting made, and we urged suppliers to be “cognizant of the sales picture” when determining their pricing expectations and deliberating over the offers they had received.

In the Coast, only some specific wines could command robust demand levels: For example, Napa Valley Cabernet, Russian River Pinot Noir, Russian River/Sonoma County Chardonnay. Varietal whites led demand in the Interior but transactions were slowing by springtime as supplies grew reduced and some firm pricing tempered buyer enthusiasm. The grape market mirrored these areas of bulk demand; probably the grape variety in most supply-demand balance was Chardonnay, due to its short crop in 2022 – Chardonnay tonnages were down the most, to the extent that Cabernet became the state’s leading variety by output for the first time ever. Illustrating the weakness of the bulk market, despite this Chardonnay shortfall, pricing on the Interior’s bulk Chardonnay remained generally lower than it had been 12 months previously.

Meanwhile, the sheer volume of bulk Cabernet inventory – our calculation of its size was stably in excess of 8.0 million gallons between March and August – continued to remain “the biggest concern – both on grapes and bulk wine”, we wrote in May, with demand for the varietal outside Napa Valley slow to say the least. The 2022 Cabernets were coming onto a bulk market already lethargic with unsold 2021 and some 2020 inventory; furthermore, more 2021 and 2020 Cabernets were becoming available having been held back on speculation. Symptomatic of deals having

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fallen through, or a disinclination by wineries to use the wines internally, older vintages of a number of varieties were in fact starting to pop up on an already well-stocked bulk market.

Pricing, on the whole, remained stable into the second quarter of 2023, with many buyers and sellers waiting for the frost risk to pass in the vineyards before making decisions on deals. Following a very wet December and January, which extricated much of California from severe drought – and saw Sierra Nevada snowpack reach 205% of normal as of 1st February – March and April continued to be wetter than average, delaying spring and therefore helping to prolong the bulk market impasse. However, in April, with conditions finally turning dry enough to allow vineyard work, including the first preventative sprays, and the aforesaid arrival of more and more bulk wine onto the market (including batches of 2020 and 2021 wines), we detected a softening in some Coastal prices and an increased openness to negotiate by suppliers across the state.

By June it was clear California had experienced its coolest spring and early summer in years, so that the growing season was running two to four weeks behind normal. The delay fed into a wider sense of prevarication on the bulk market, amid flat or declining wine sales volumes across all channels and some growing evidence that sales value was starting to trend the same way. When buyers did show, they were often highly price- and/or volume-sensitive. It was no surprise, then, that we detected a decline in seller bullishness by mid-year, with the 2023 harvest – belatedly – moving into view; even some Napa Valley Cabernet prices were softening, likewise pricing on some of the other relatively in-demand wines like Russian River Chardonnay and Pinot Noir. Price reductions, however, struggled to generate much extra buyer interest. When interest did arise, it was price-sensitive, tending to drift from expensive to less expensive areas, and involving smaller volumes. Demand in the Interior was as limited as in the Coast, as most of the region's major bulk wine buyers were, in fact, in the business of trying to sell bulk. With harvest about to get underway, we urged that “sensible, reasonable offers” on bulk wines “should not be dismissed lightly by sellers”.

September dawned with a much-delayed 2023 harvest only fully underway in the southern Interior. California

having received 110-200% of its normal precipitation in the first nine months of the year, fungus pressure and rot was evident across the state. Wineries, many still struggling to offload 2022 and older inventories, held grape growers to the quality standards stipulated in contracts. Consequently, throughout harvest, significant rejections of fruit were made. In addition, overages were often not taken, even when offered at greatly-reduced prices. Uncontacted grapes, meanwhile, were either left unpicked, picked and offered at clean-up prices, or crushed by the grower if they were happy to take on a risk that was not insignificant, given the bulk market's slowness.

The number of growers facing such quandaries grew more numerous as berry-sizing greatly benefitted from prolonged hangtime through September – cool weather, adequate soil moisture, lush vine growth – so that many professed their surprise at the extent of sizing in their vineyards. The number producing tonnages above estimates rose, some early movement on Sauvignon Blanc and Chardonnay overages in the Interior subsequently evaporated, and a spot market for grapes failed to develop across the state. Illustrating the lack of need or desire for grapes, in many cases buyers in the Interior simply chose not to replace the fruit they had rejected with overages from elsewhere. In the Coast, some late-season grape deals were done and some of the overages and uncontracted fruit got crushed, but fruit was still left on the vine in some vineyards.

The 2023 harvest finally concluded in late November. In general, the volume and quality of the white and early red grapes appeared to have benefitted from the extended hangtime; the late-season reds still managed to ripen in time, but potentially sized-up to a lesser extent. The Coast is expected to have experienced a larger crop than in 2022, with Chardonnay sizing up most and some sizing on Cabernet appearing to offset the impact of spring shatter on that varietal. In the Interior, grape rejections – most common in the south – combined with thinning to avoid rot, and uncontracted grapes going unpicked, will have taken a toll on the final crush size. Across the state, the prolonged hangtime and mild growing season devoid of weather extremes – as well as the strict enforcement of grape quality standards – is expected to have boosted wine quality just as prices have become lower than for

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some years, which should bode well for wine sales in 2024 and beyond.

Anecdotally, some wineries reported positive – or at least stable – early OND sales numbers, feeding into a wider perception that distributors and retailers are finally nearing the end of the inventories they accumulated during the pandemic and may now

require fresh volume. It will be interesting to see whether holiday season sales figures reflect some improved consumer confidence when they start emerging in the coming weeks. Suppliers will be hoping buyers with relatively strong-performing brands may need to come in and top-up their bulk volumes if they have been proceeding with lean inventories over the past year.

2024: Looking Ahead

The bulk market comes into 2024 as it did 2023 – with acute buyer hesitancy. The most recent crop's size is even more unclear than it usually is at this time of year, exacerbating market prevarication while OND sales are assessed and sales projections get calculated. Bulk wine suppliers have come to understand the fragility of current demand and are being proactive in providing samples and pricing flexibly in order to help offload inventory and generate cashflow. The current lack of bulk wine transactions makes market pricing difficult to ascertain, but it is definitely weaker on most items in the Coast and in the Interior than it was 12 months ago.

As mentioned above, good availability and softer pricing opens up opportunities on some high-quality wines – not only for domestic buyers seeking to innovate with new products or programs. For international buyers, some Coastal and even North Coast pricing constitutes a greater export opportunity than for many years, especially given the return to pre-pandemic freight prices. The outperformance of California's wine exports by value versus volume suggests there is an appetite around the world for premium Californian wines – and now there are some attractive opportunities in that area of the bulk market to harness.

Looking ahead to what 2024 may bring, we offer up some tentative projections.

- We have guesstimated the preliminary 2023 grape crop size – forthcoming from the CDFR in February – at 3.5-3.6 million tons, but suspect it could be slightly north of this range considering the sizing seen in September, which may have helped offset some of the effect of field rejections and uncontracted grapes going unpicked.
- The grape market grew increasingly sluggish through 2023 and came to a halt altogether before the harvest; a spot market failed to develop. With the 2023 crush

likely to have come in larger than expected due to September's sizing, and the ongoing bulk market slowness, it will likely take time for the market for 2024 grapes to get underway.

- Grape buyers will have a large number of grapes and grape suppliers from which to choose. Some Interior wineries may take the opportunity to source Coastal grapes to boost wine quality; some Coastal wineries may seek to source California grapes to gain extra margin.
- When setting prices, Coastal grape suppliers will need to be aware of the possibility that higher shelf pricing may hurt consumer demand for appellation wine in 2024, in turn reducing need for their grapes.
- While our inventory graph showed volume at the end of 2023 in line with 12 months before, we suspect this could be attributable to the lateness of harvest. The bulk market's quietness combined with the crop size – even at sub-4 million tons, enough to keep inventory long – could mean year-on-year comparisons grow increasingly unfavourable once more 2023 wines start to become available. In addition, 2022 wines will continue to pop up on the market.
- Inventory levels as they are, buyers of bulk wines will be slow to commit, knowing there will be availability when they want it, at a price they will want it. Just-in-time buying behaviour will continue and likely increase in 2024, dovetailing with the need for greater efficiencies and reductions in operating costs.
- Large inventory levels and softer pricing may stimulate some negotiant activity, missing for the past two years. Negotiant activity could be a positive for innovation, as it may lead to some new, good-

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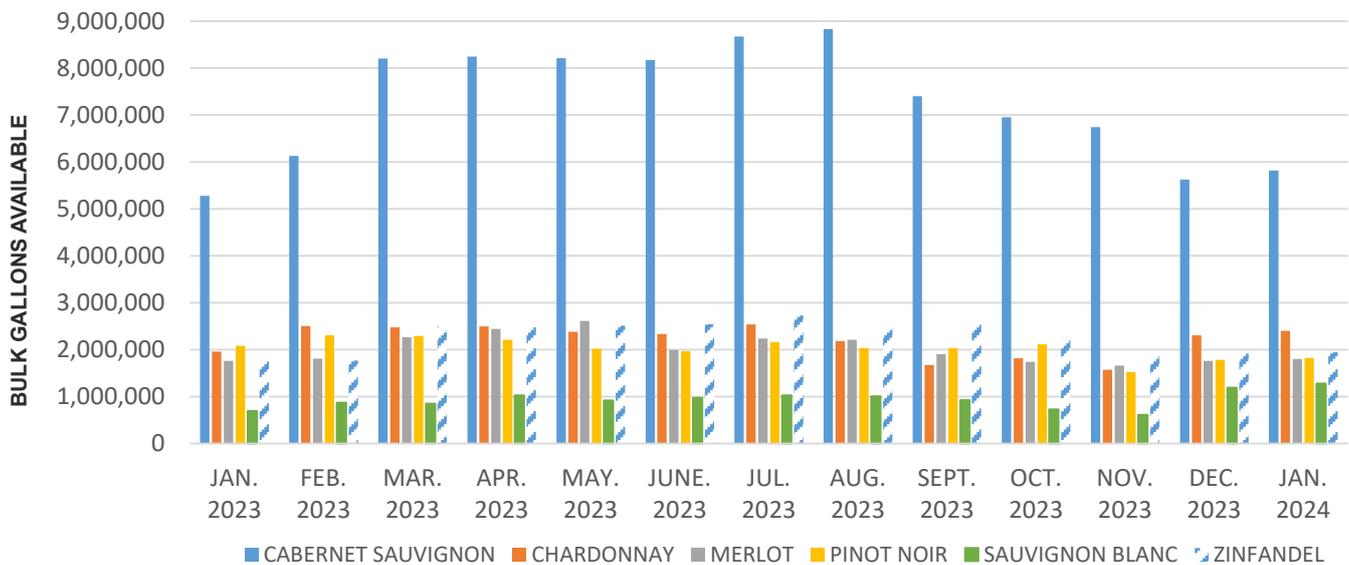
quality private and control labels – at attractive shelf prices – with which retailers can tempt consumers.

- US consumer confidence for the year ahead cannot be predicted. It was at a five-month high in December, according to the Conference Board, amid falling annual inflation (3.1% as of November) and signs of a robust labor market, but interest rates have defied expectations of a reduction, being held at 5.25-5.50% since July. We suspect consumer confidence will continue to fluctuate – since the pandemic, “in flux” is the new normal.
- If consumer confidence remains in flux, wine is likely to continue to struggle to shore-up both volume and value sales simultaneously. Upticks in shelf prices will help keep sales value at least stable, so long as volume falls are not large enough to offset value gains. With the trend among younger demographics

for occasional rather than regular wine drinking – a marked behavioural shift from their Baby-Boomer parents and grandparents – the ultimate destination is a more efficient, smaller wine industry.

- Although El Niño was anticipated to make wetter than average conditions more probable in December through February, winter in California has so far been relatively dry and mild, with Sierra Nevada snowpack levels as of January 2nd at just 25% of the long-term average for that date, versus 185% on that date in 2023. That said, the snow season is not yet halfway through, and 2023 was more than wet enough to ensure most reservoirs remain at above-average levels. The law of averages suggests that, as 2023 was so wet, 2024 could be more average in terms of precipitation or tending drier, auguring well for less disease pressure than last year.

California Bulk Wine Inventory (January 2023 - January 2024)



Events

Ciatti brokers will be attending and will have a booth at these upcoming events:

- **January 23 - 25:** Unified Wine & Grape Symposium
- **January 31:** Sonoma County Winegrowers Dollars & Sense Seminar and Trade Show
- **July 23 - 24:** International Bulk Wine and Spirits Show

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