WEAK DOLLAR AND ECONOMY IMPACT SALES

Based in Sonoma County, Tina Caputo has been writing for a variety of trade publications, including Wines & Vines, the San Francisco Chronicle and Wine Review Online, for a dozen years.

Although Americans consumed an all-time high of 300m cases in 2007, with value outpacing volume, a weak dollar and an impending recession lurk on the horizon. While this may force consumers to trade down, domestic producers should profit as the shelf prices for imported wines rise.

If the latest consumer tracking study by California's Wine Market Council is any indication, the U.S. wine industry is heading for a banner year. Not only did wine consumption reach an all-time high of 300m cases in 2007, but sales growth by value outstripped volume, indicating that American consumers are trading up.

While this all seems fantastic news for both domestic wine producers and importers, the decline of the US economy threatens to burst that bubble, as American consumers may find themselves with less money to spend. Importers face a particularly steep challenge, as the weak dollar forces them to take price increases for the first time in years.

Import prices to increase

According to Gregory Balogh, CEO for California-based Maisons Marques & Domaines Inc., which imports and markets luxury brands like Champagne Louis Roederer, the dollar's slide has been an ongoing problem.

"Unfortunately, the dollar has been deteriorating continuously for the last three years, so the patience of the European suppliers has worn thin," he says. "Asking them three years in a row not to raise their prices, when they're having global inflation of two to three points a year, is no longer a possibility."

Balough predicts that prices will increase by 15% or more in 2008. However, he's optimistic that customers will remain loyal to higher-end brands. "I think [price increases] will have a major impact on wines from $9.99 to about $12," he says. "For wines that are above $25, the customers that like them for specific reasons will not necessarily drop them."

As importers grapple with inevitable price increases, the U.S. economy presents a challenge for domestic producers, who should otherwise profit from the rise in shelf prices of imported wines. "The concern is how far the economy declines, and for how long," says Mike McEvoy, vice president and director of sales, for Napa Valley's Joseph Phelps Vineyards. "If history is any guide, our core customers will be among the last to be affected, and first to recover."

Most of the Joseph Phelps wines retail between $50 and $200 per bottle. If consumers opt to trade down, McEvoy says, it's more likely to happen in the $15-and-under category.

Should the economy continue to weaken, says Danny Brager, VP of Nielsen Co.'s Beverage Alcohol Team, "We would expect it would knock down somewhat what have been really strong wine growth rates over the last couple of years." However, he says, "We feel that the 'premiumization' trend of recent years has now really taken hold in the States."

Export opportunities

As the weak domestic economy leaves Americans with less disposable income, an increasing number of California producers will look to export markets, predicts Joe Rollo, director of California-based Wine Institute's international department. "People are talking about seeking new markets."

Though the weak dollar makes California wines more attractive to European buyers, he says, it's not a major factor in overseas sales. "I agree that it has a positive effect," he says, but annual export growth by value has been holding steady at 10% for the last dozen years.

"Actually, exports to the EU were flat to slightly down in 2007 by value," Rollo says. "However, considering the huge jump in 2006, that year was tough to beat." In 2005, dollar sales of U.S. exports to Europe reached $310.8m, while in 2006, sales jumped to $453.6m. That figure dropped a bit in 2007 to $442.9m, according to figures from the Global Trade Atlas.

Factors such as bulk wine shipments are more important than the current exchange rate, Rollo says. "We've seen, for the last couple of years, a fair amount of brands being exported from the U.S. to Europe in bulk. What happens is your value goes down and your volume goes up. That trend, if you look at total exports, fights with whatever you'd see in terms of the exchange rate."

One way the weak dollar has a negative impact on U.S. exporters, Rollo adds, is the cost of European market visits. "That's when the weak dollar gets back at you," he says. "When a hotel room costs $400 a night, and lunch costs $30, travel and entertainment expenses are extreme—especially if you're a small winery."

Picture of the condor taken on the 20th June 2007 in the Andes Mountains.

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