

SCION

SONOMA COUNTY VINTNERS

March 13, 2024



American
AgCredit



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FUTURE
GROWS
HERE.



Macro Update – What a ride!

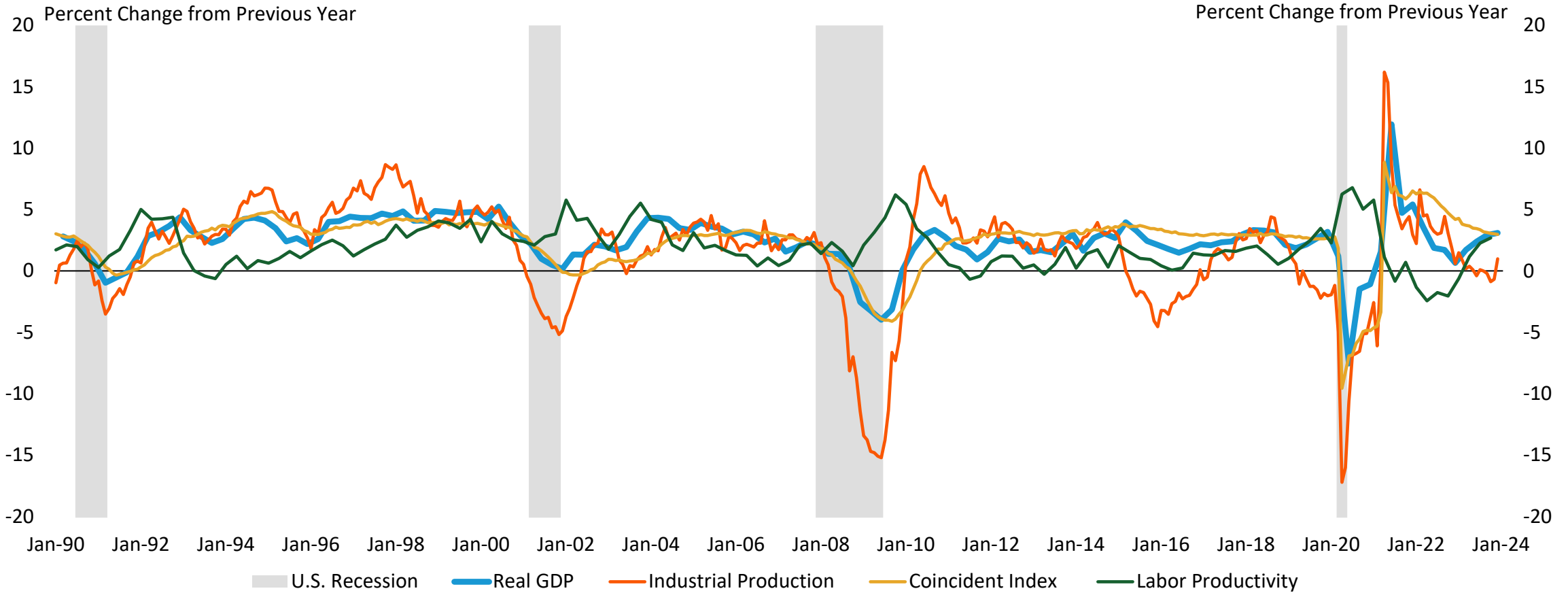
Matt Clark, Senior Rural Economic Analyst

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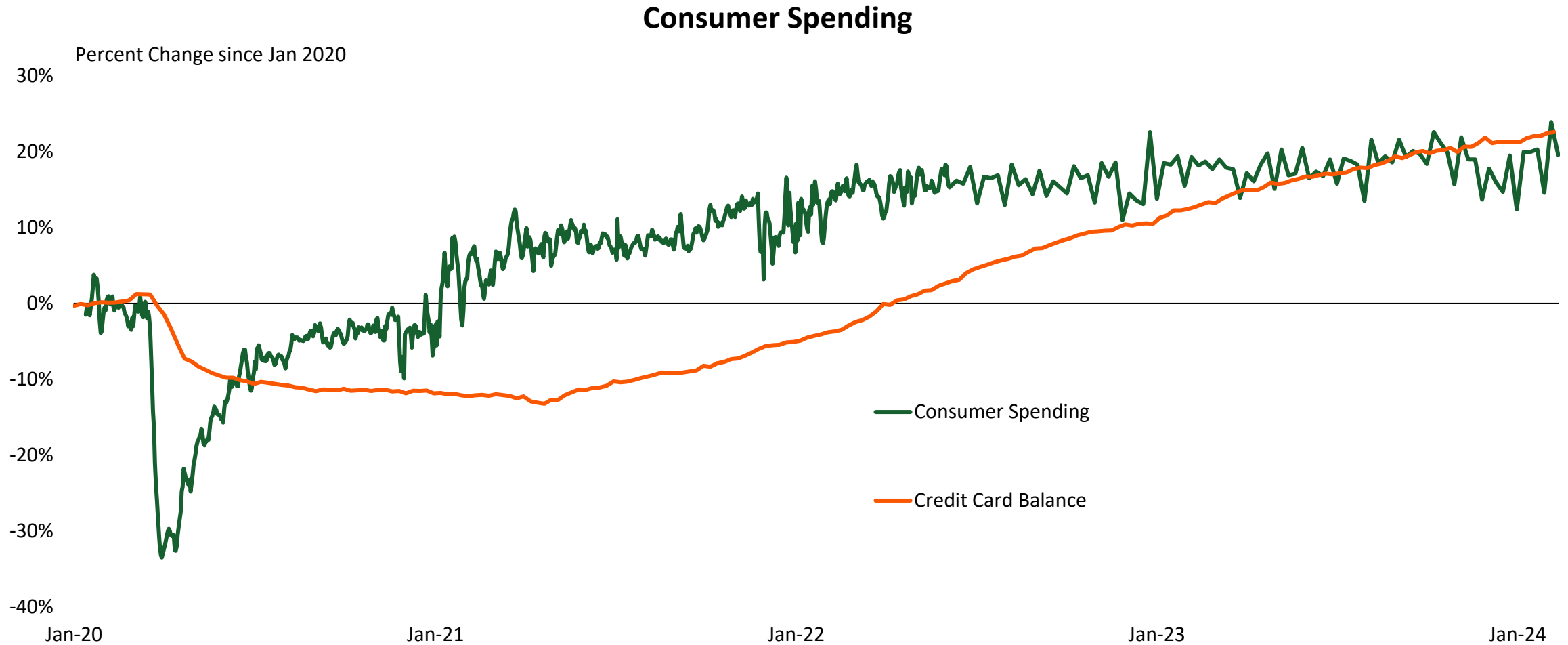


Headline U.S. data starts the year well

U.S. Economic Activity



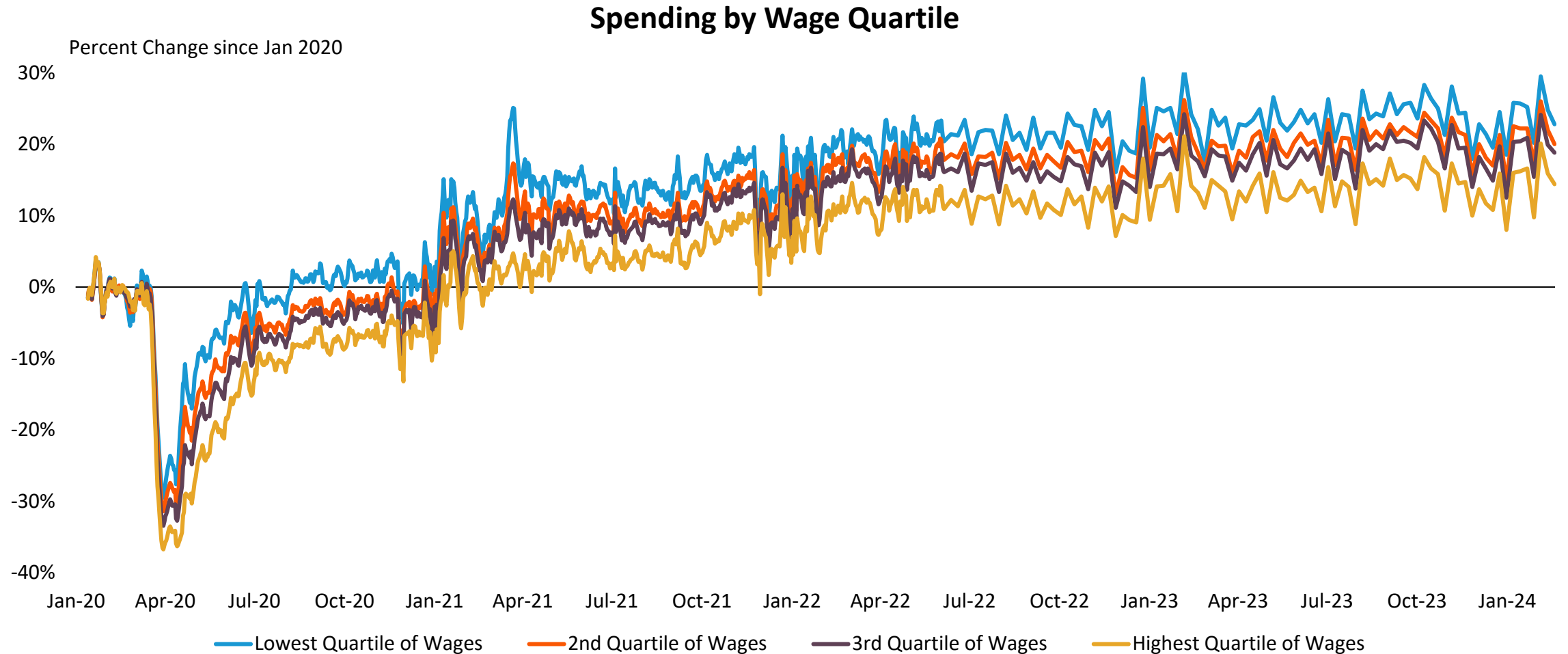
■ ■ ■ The consumer has been the driving force



Source: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis, Affinity Solutions, Economic Tracker at <https://tracktherecovery.org>, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. November 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

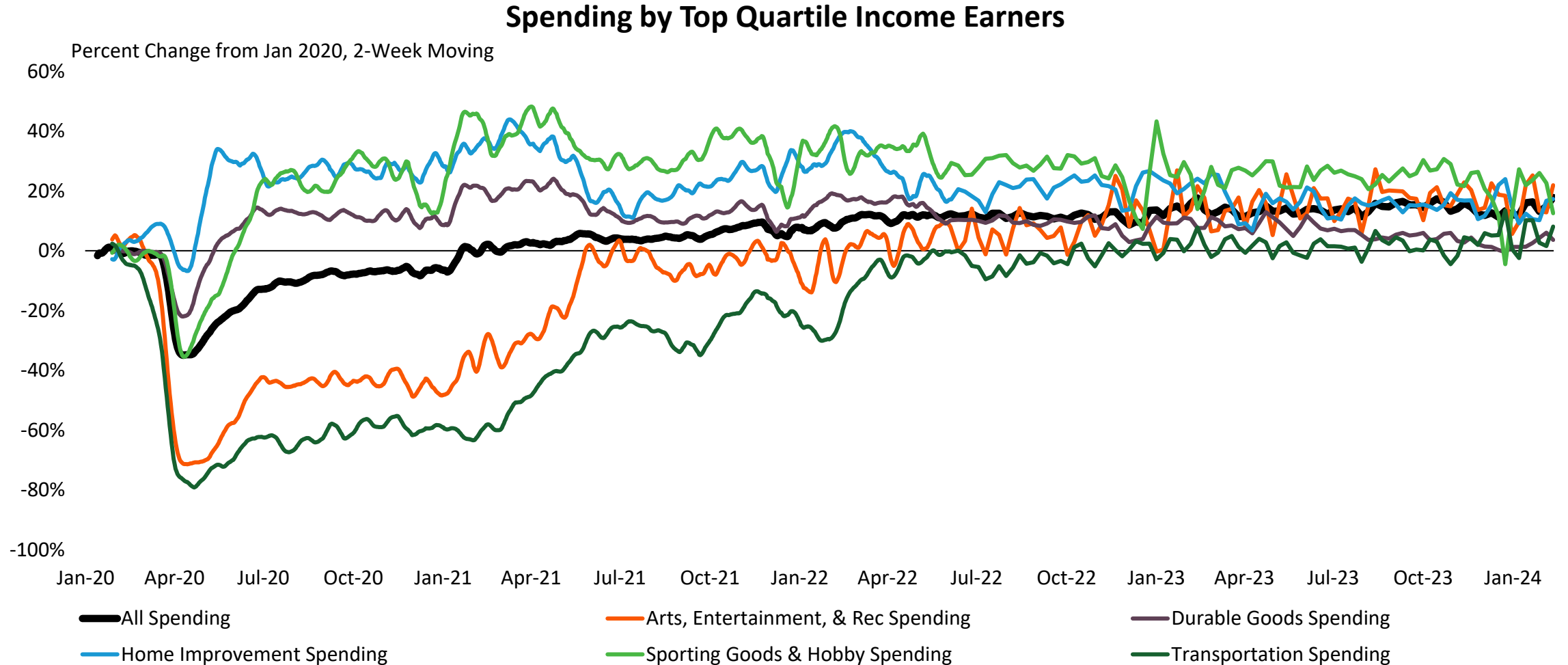


Everyone is joining on the spending train



Source: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis, Affinity Solutions, Economic Tracker at <https://tracktherecovery.org>, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. November 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

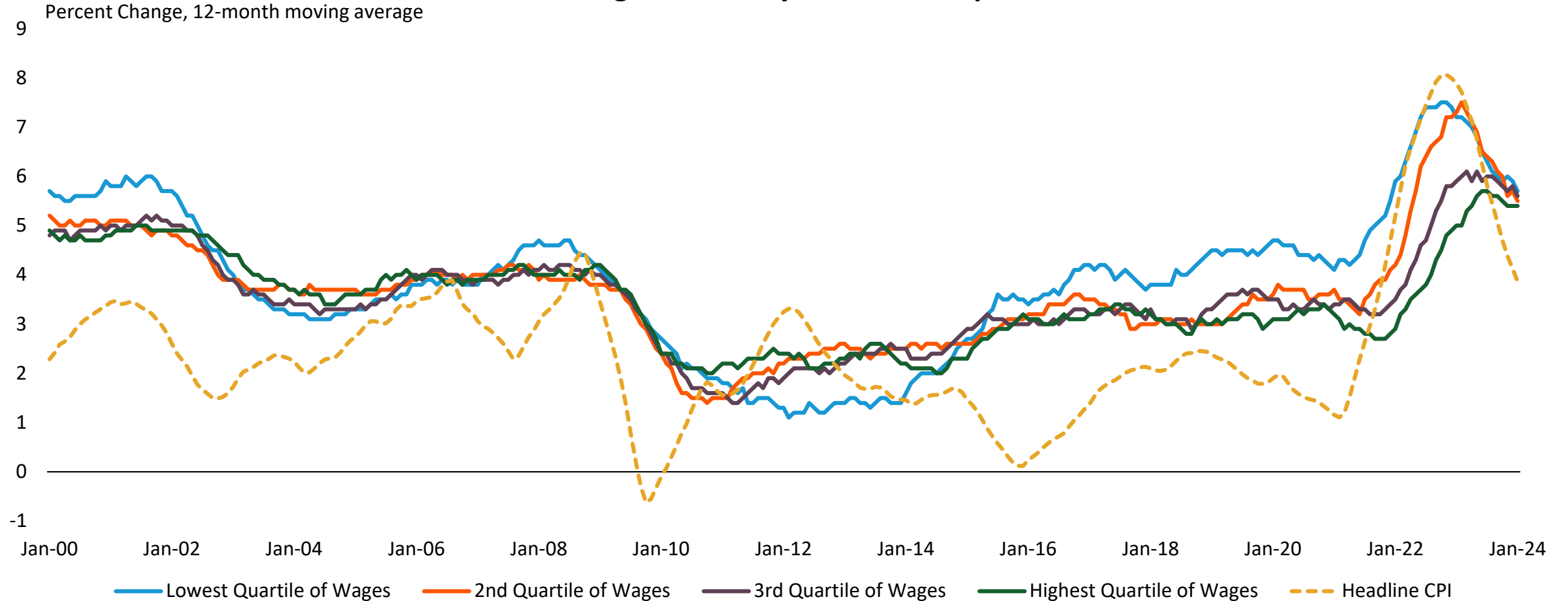
Top Quartile Income Spending



Source: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis, Affinity Solutions, Economic Tracker at <https://tracktherecovery.org>, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. November 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

📊 The spending is consistent with wage gains

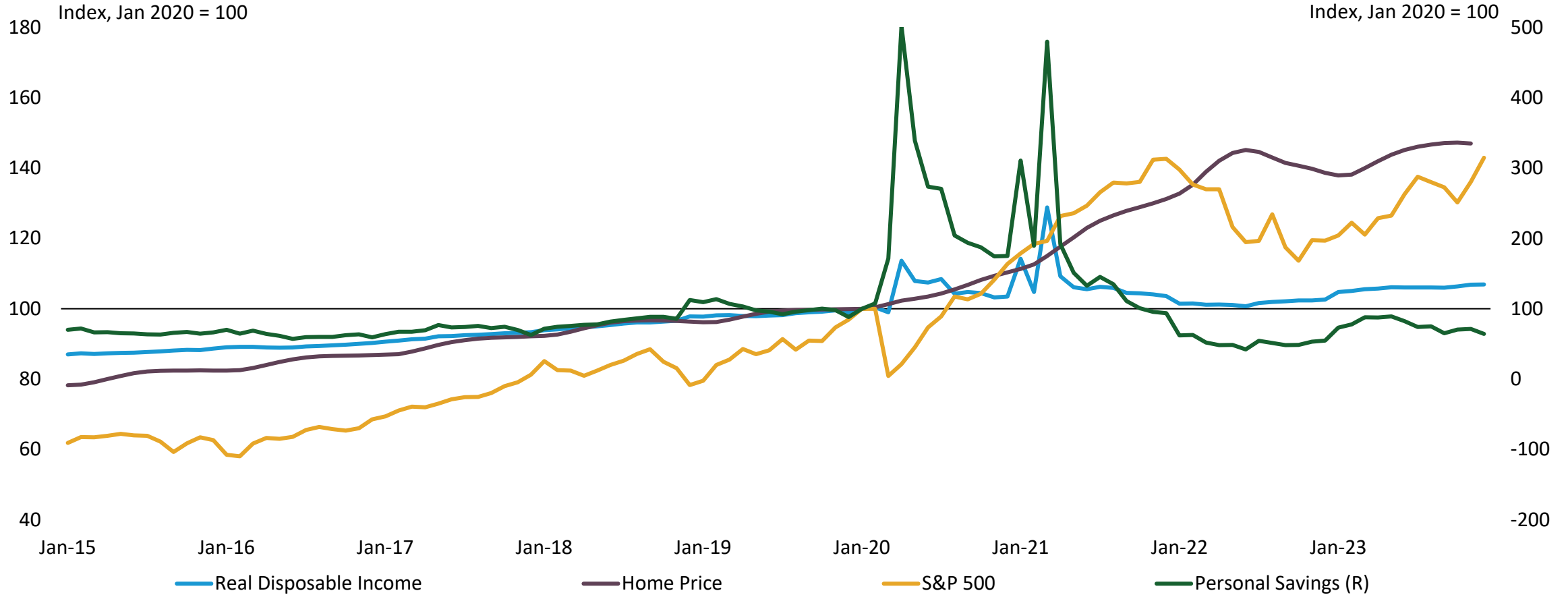
Wage Growth by Income Group



Source: Federal Reserve Bank of Atlanta, BLS, Terrain.

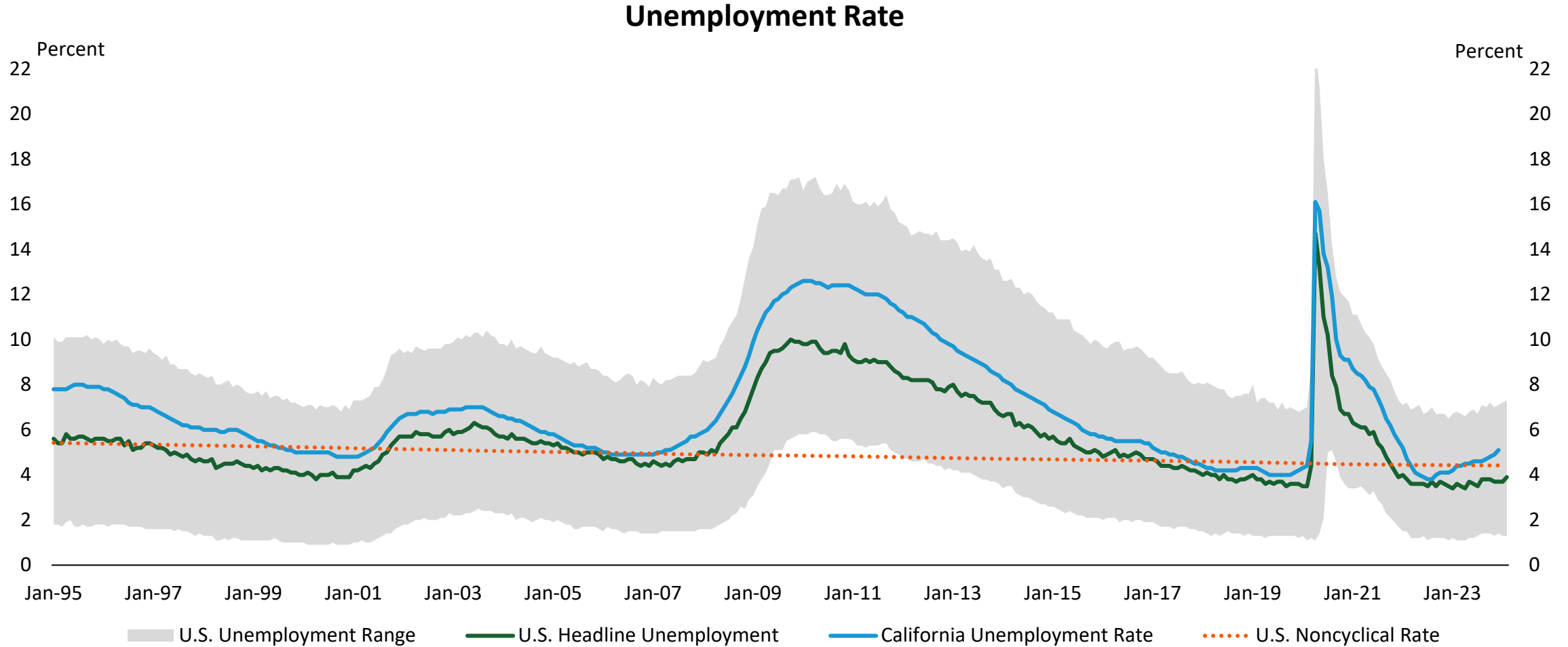
■ ■ ■ Wealth effect could be driving some spending

Assets vs Income



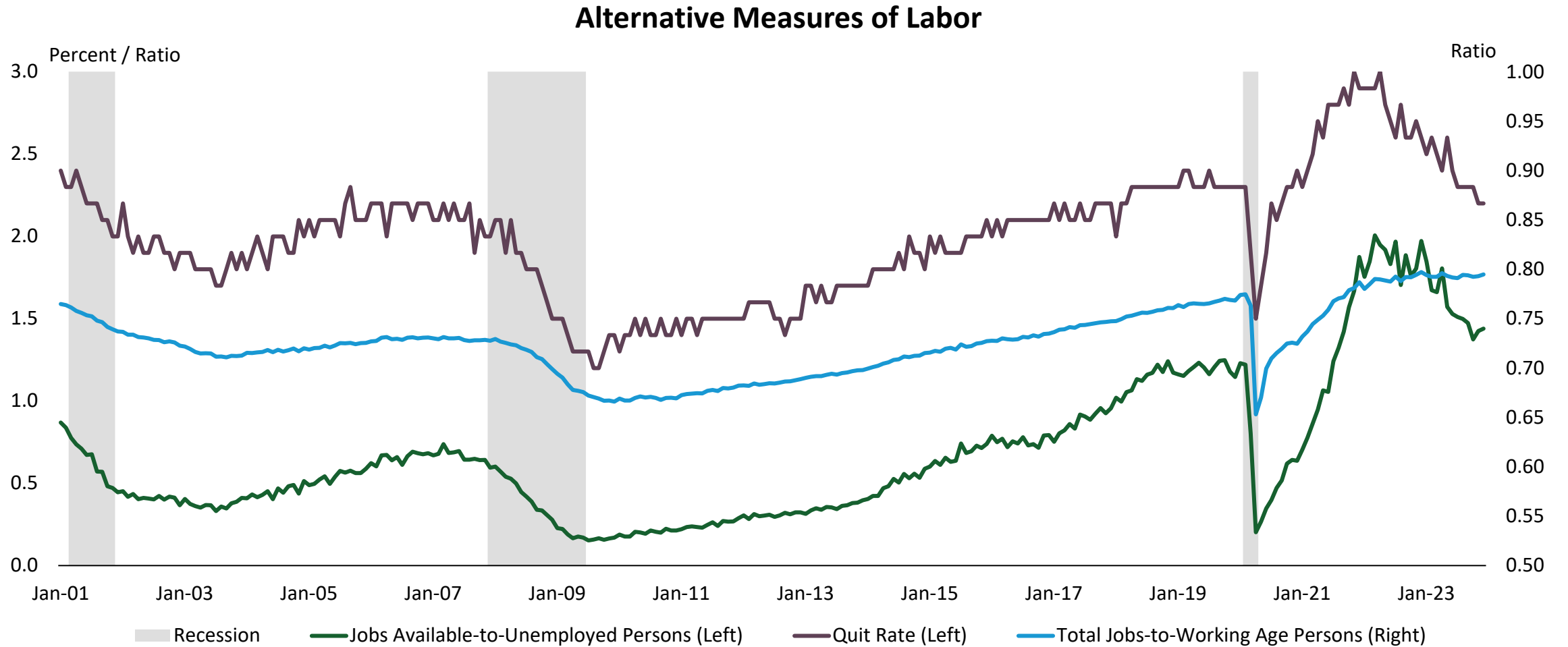
Source: Federal Reserve Banks of Philadelphia and St. Louis, BLS, BEA, Standard & Poors, Terrain.

■ ■ ■ The labor market has also been a key driver



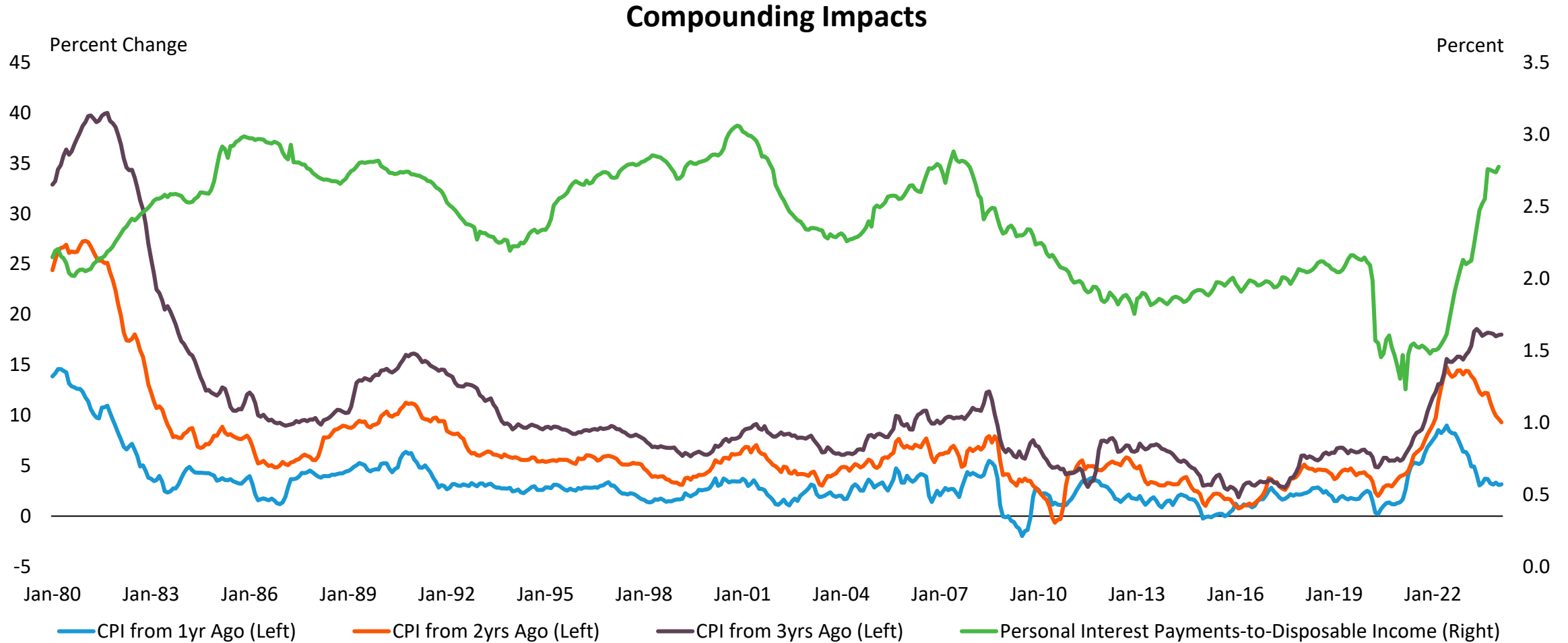
Sources: BLS, CBO, Federal Reserve Bank of St. Louis and Terrain.

Is the labor market cooling?



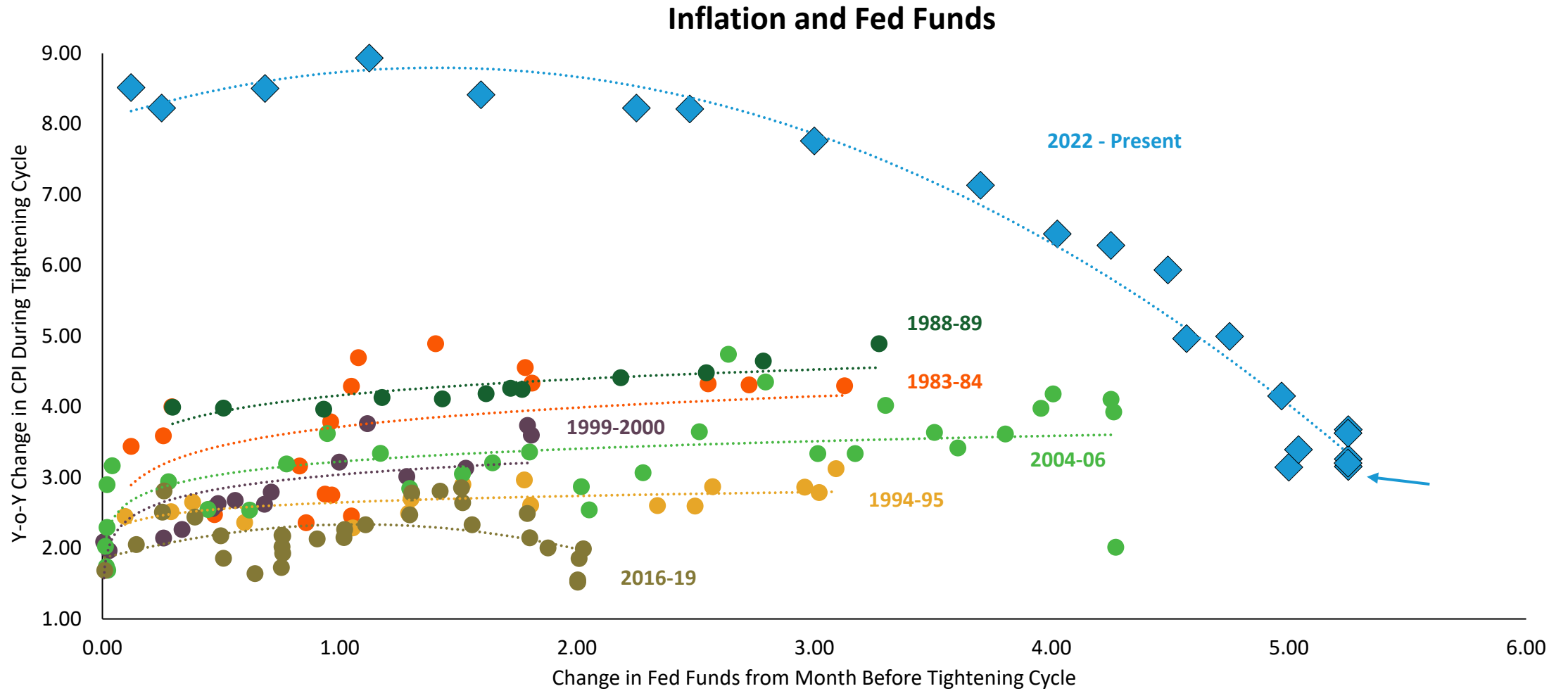
Sources: BLS, Federal Reserve Bank of St. Louis and Terrain.

Why doesn't it feel better?



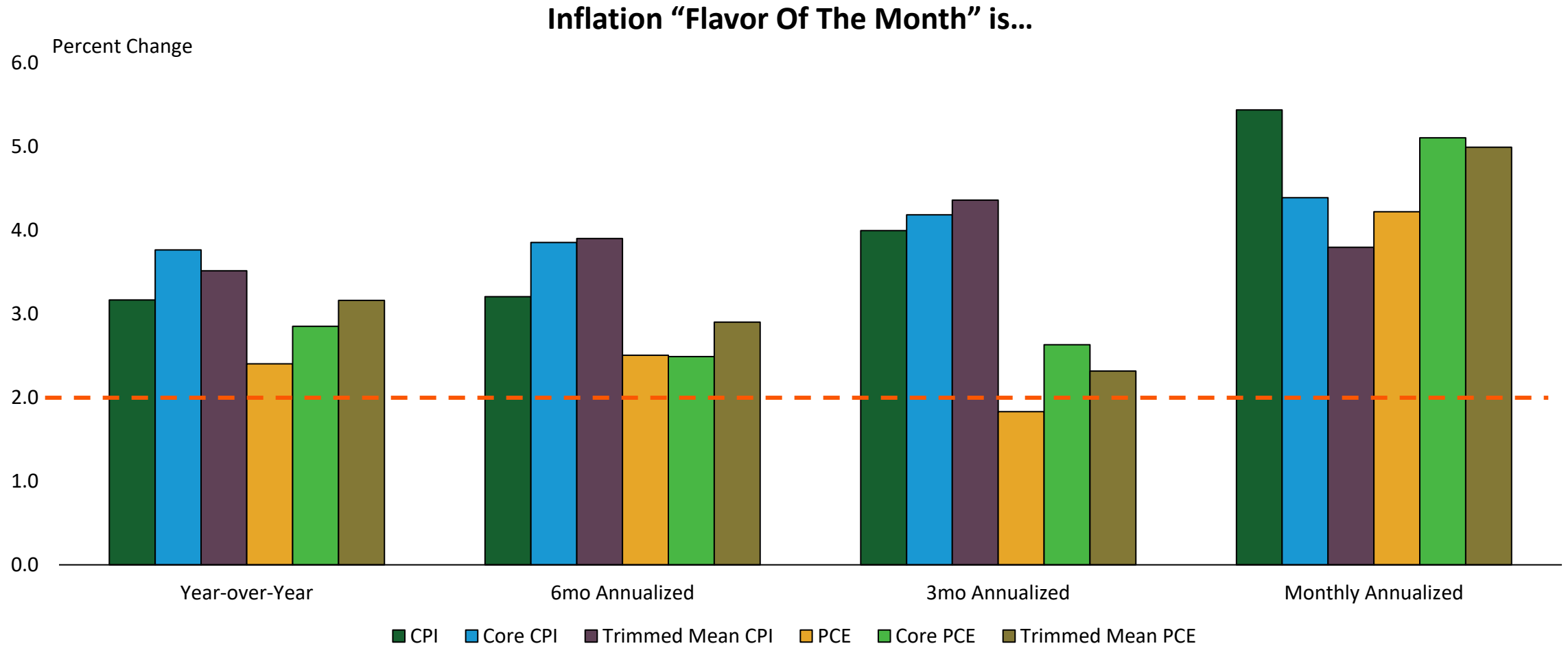
Sources: BLS, BEA, Federal Reserve Bank of St. Louis and Terrain.

📊 Inflation will drive the bus on rates



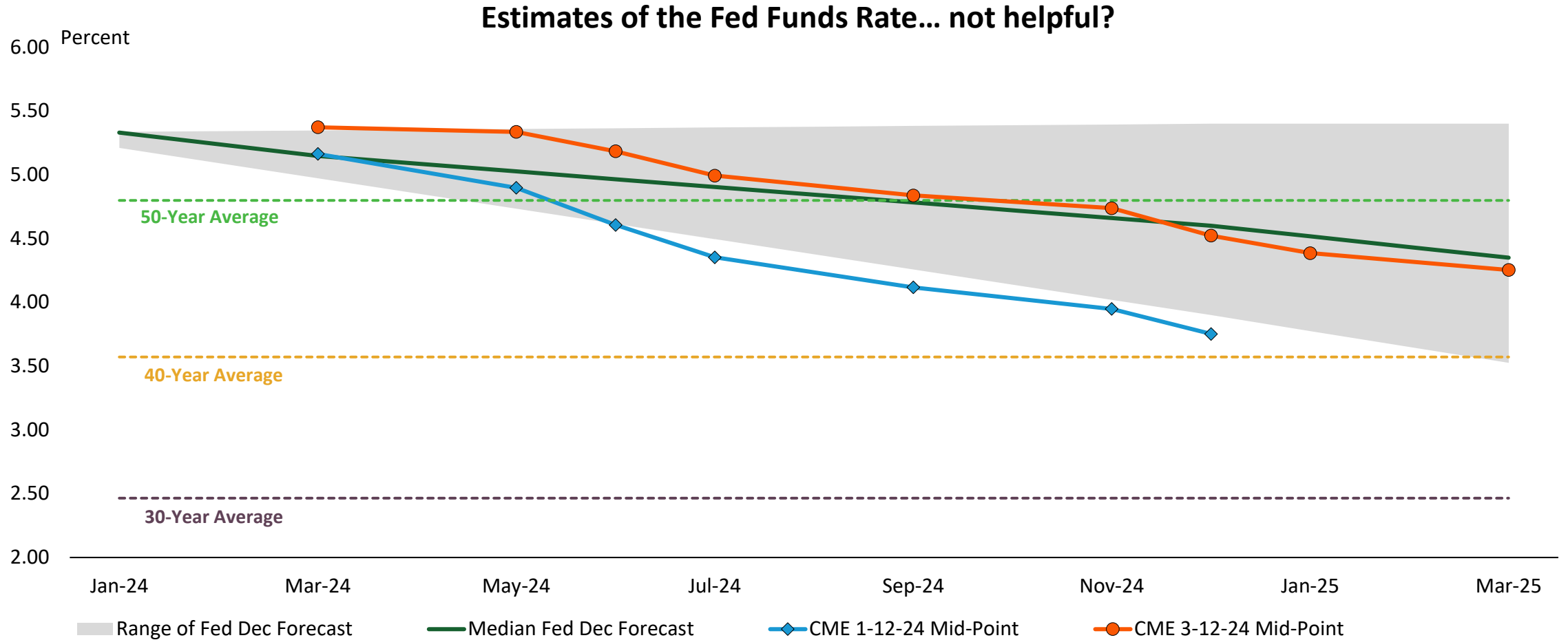
Sources: Federal Reserve Bank of St. Louis and Terrain

Is inflation headed towards the Fed's goal?



Sources: Federal Reserve Banks of Atlanta, Cleveland, Dallas, and St. Louis, BLS, BEA, Terrain.

Be careful to not 'bank' too heavily on cuts



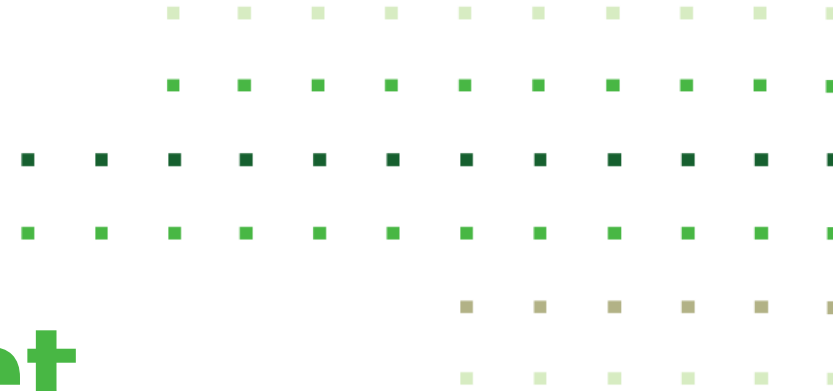
Sources: CME, Federal Reserve Bank of St. Louis and Economic Forecasts



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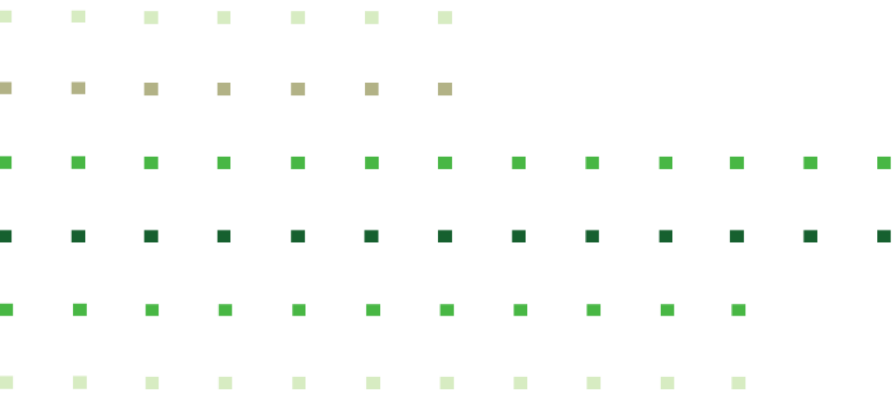
Wine and Grape Update – The Ride Isn't Over Yet

Chris Bitter, Senior Wine and Grape Analyst



The Wine Market

A Roller Coaster Ride for Wine



▣▣▣ Sales volumes down across channels and price tiers in 2023

-6%

**Retail
off-premise
under \$11**

-2%

**Retail
off-premise
\$11 to \$29.99**

-8%

**Retail
off-premise
\$30 and up**

-7%

DtC shipments

Sources: NIQ, Wines Vines Analytics, Terrain

☐☐☐ Sonoma wasn't able to buck the trend.....

-7%

**Retail
off-premise
volume**

-3%

**Retail
off-premise
value**

-10%

**DtC shipment
volume**

0%

**DtC shipment
value**

Sources: NIQ, Wines Vines Analytics, Terrain

☐☐☐ Why are wine sales declining?

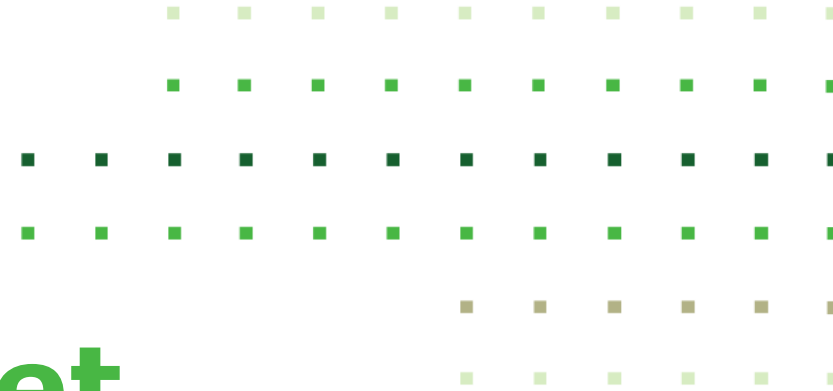
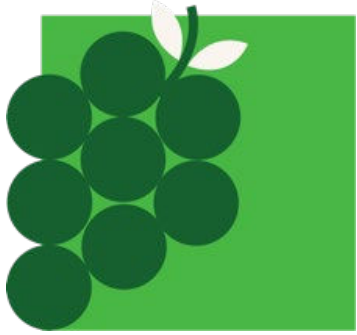
- Economic drivers
 - Solid economic back drop
 - But pessimistic consumers
- Idiosyncratic factors
 - Post-pandemic normalization
 - Inventory shortages due to 2020 fires
- Secular headwinds
 - Heightened competition with substitutes
 - Demographic / generational shifts
 - Moderation movement



■ ■ ■ A murky and muted outlook

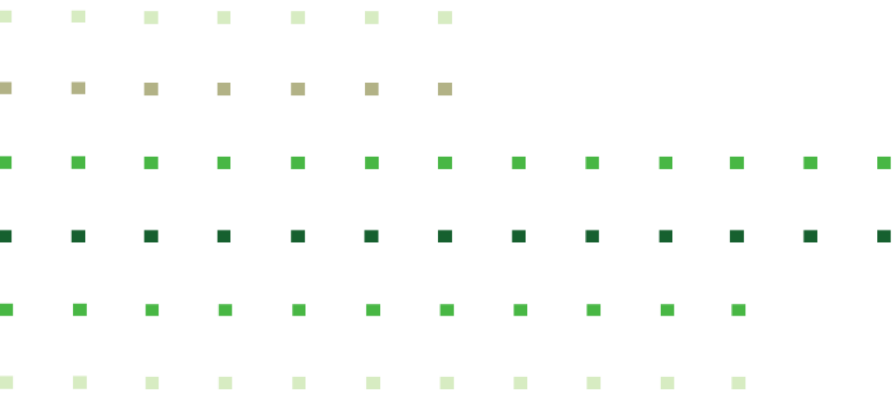
- Don't expect much improvement in 2024
 - The economy is not likely to provide a boost
 - Moderation movement is picking up steam
 - But post-pandemic normalization should be less of a drag
- Longer term – what is the new normal for wine?
 - Secular headwinds will persist – and perhaps hasten
 - Expect flat to slowly declining wine sales volume overall
 - Slow growth in the DTC and premium/luxury price tiers
- Sonoma County is favorably positioned



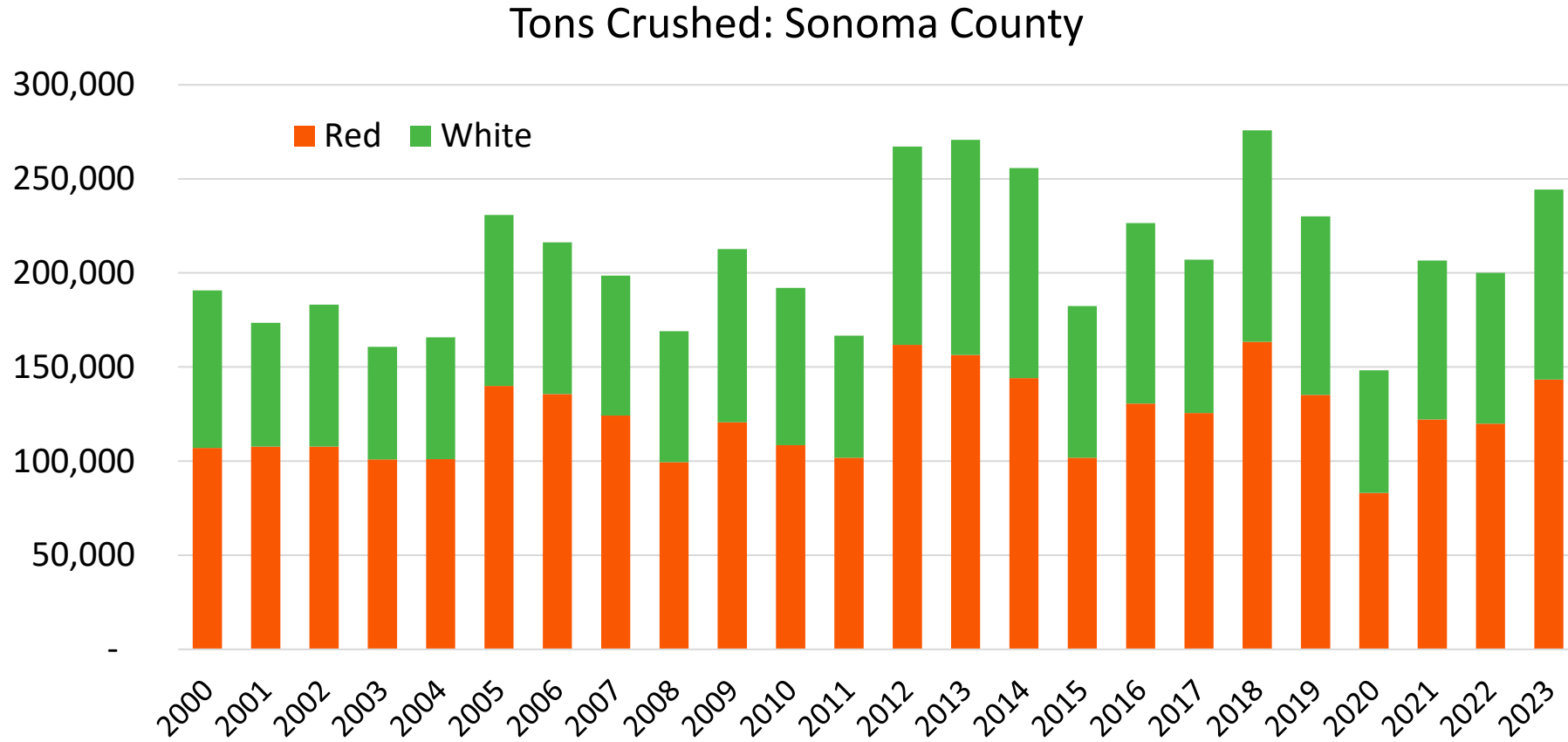


The Grape Market

Large Crop is a Doubled Edged Sword



Second largest crush in past nine years



Sources: California Department of Food and Agriculture, Terrain

▣▣▣ Sonoma grape prices edged up in 2023

+0.5%

Red Varieties

+5.0%

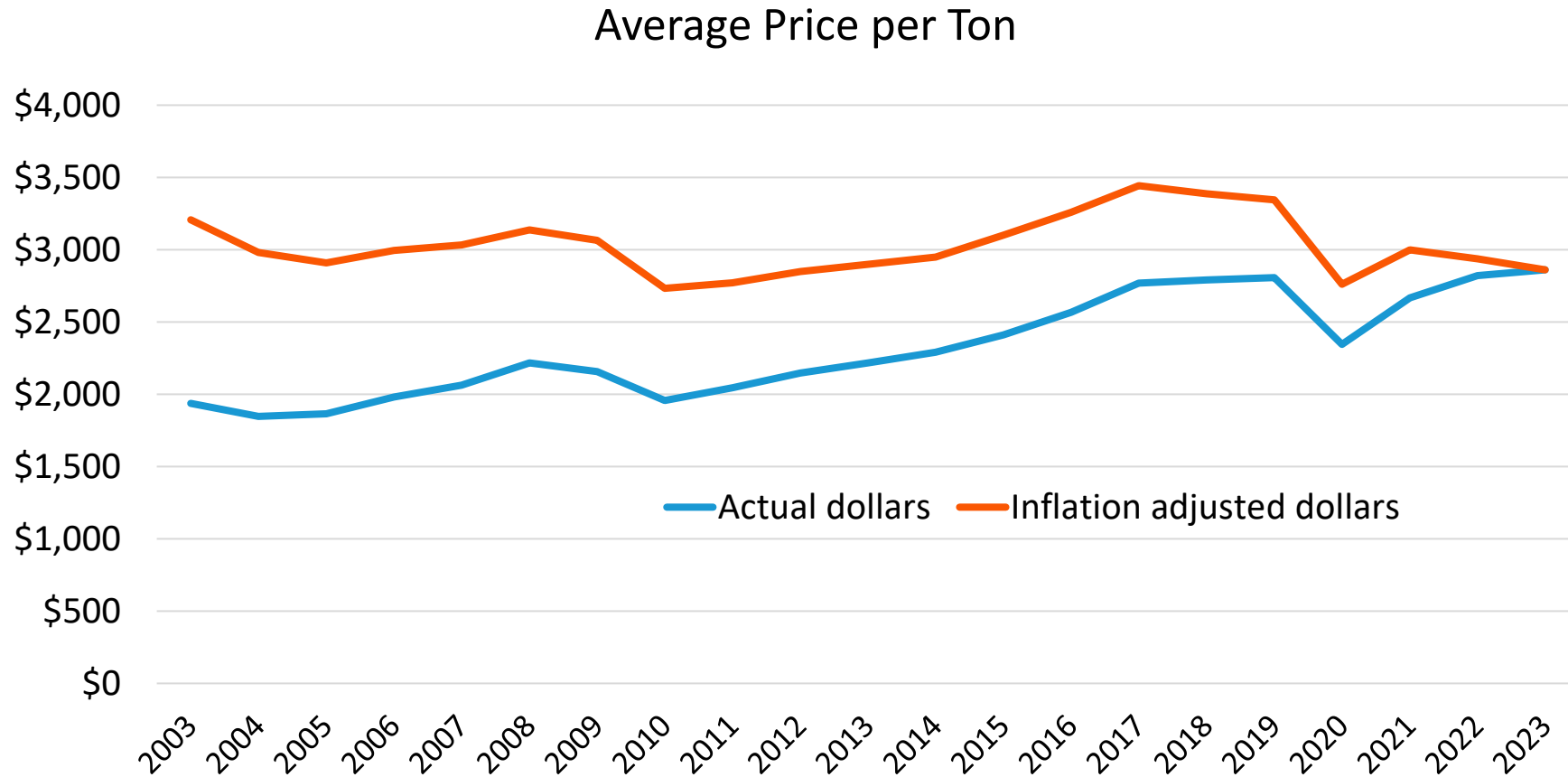
White Varieties

+1.4%

All Varieties

Sources: California Department of Food and Agriculture, Terrain

▣▣▣ Sonoma grape prices are slipping in real terms



Sources: California Department of Food and Agriculture, BLS, Terrain

❖❖❖ No quick fix for the grape market

- Demand is likely to remain soft in 2024
- Plenty of uncontracted fruit and bulk wine – buyers have options
- Prices will likely come under pressure unless the crop is small
- Acreage may need to be removed to bring the market back into balance





Vineyard Values Steady.....for Now

North Coast Market Indicators (Year over Year)

Vineyard Sales

	Values	Demand	Activity
▪ NAPA Prime	▬▬	▬▬	▼
▪ NAPA Secondary	▬▬	▼	▼
▪ NAPA Outlying	▬▬	▼	▼
▪ SONOMA Prime	▬▬	▬▬	▼
▪ SONOMA Secondary	▬▬	▼	▼
▪ MENDO Anderson	▬▬	▼	▼
▪ MENDO Inland	▬▬	▼	▼
▪ LAKE	▬▬	▼	▼

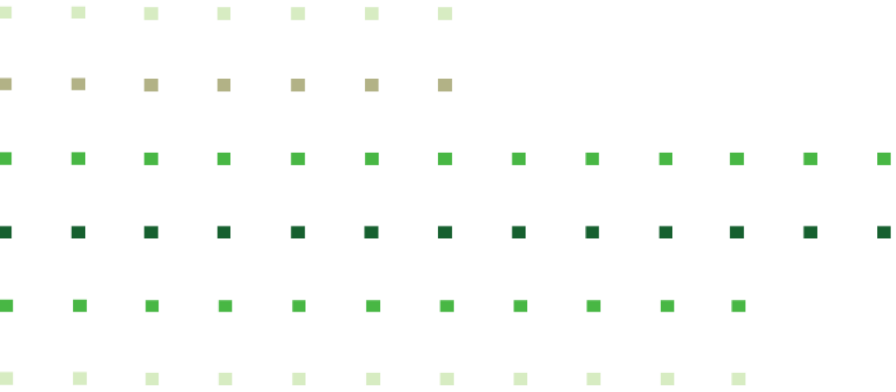
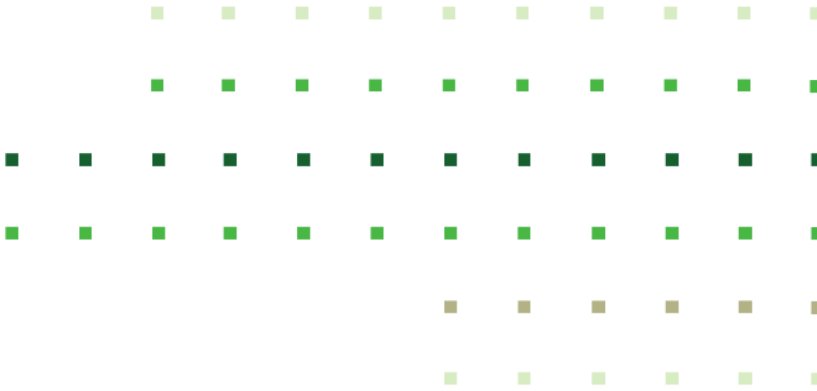
Source: American AgCredit / Terrain

North Coast vineyard value estimates (dollars per acre)

SEGMENT	VINEYARDS	PLANTABLE LAND
NAPA COUNTY		
Prime	\$300,000 to >\$525,000	\$200,000 to >\$300,000
Secondary	\$165,000 to \$375,000	\$165,000 to \$245,000
Outlying	\$50,000 to \$165,000	\$50,000 to \$110,000
SONOMA COUNTY		
Prime	\$90,000 to \$215,000	\$65,000 to \$110,000
Secondary	\$70,000 to \$135,000	\$25,000 to \$45,000
MENDOCINO COUNTY		
Anderson Valley	\$65,000 to >\$110,000	\$25,000 to \$40,000
Inland Mendocino	\$25,000 to \$50,000	\$10,000 to \$20,000
LAKE COUNTY		
All	\$25,000 to \$50,000	\$10,000 to \$20,000

Sources: American AgCredit, Terrain

Wrap Up





Sign up for Winescape



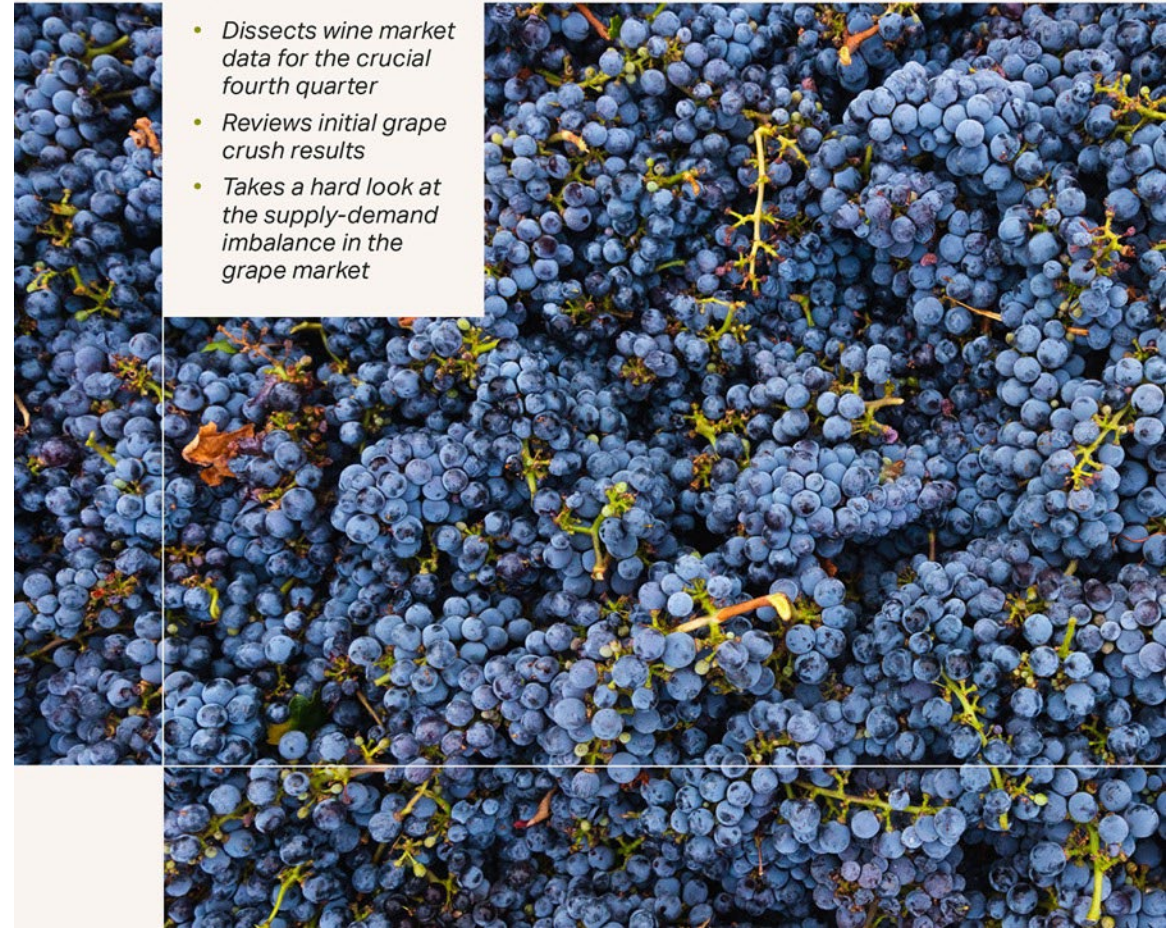
SCAN ME

Winescape

SPRING 2024

This issue:

- *Dissects wine market data for the crucial fourth quarter*
- *Reviews initial grape crush results*
- *Takes a hard look at the supply-demand imbalance in the grape market*



CONTACTS



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Thank You



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