Winescape®

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This issue:

- *Assesses the nation's wine inventory glut and how quickly it might be resolved*
- *Gives an update on the size of the California grape harvest and its potential impact on inventory*
- *Shares an early outlook for how the wine and grape markets will fare in 2026*

A Balancing Act

An exceptionally small 2025 grape harvest would help balance wine inventories and potentially stimulate grape demand next year.

There wasn't much change in the complexion of the wine market in the third quarter. Sales continued to decline across channels and price points, though at varying rates. Some segments improved while others worsened. Wine exports continued to flag because of provincial bans in Canada.

I continue to believe the slump is mainly structural, particularly at the lower end of the market (**see Page 3**). But I also believe economic factors such as inflation and depressed consumer sentiment have played a role, and I expect wine sales to firm up once the economic backdrop improves. Unfortunately, we aren't expecting much change in the economy, for better or worse, in the months ahead, so the wine market isn't likely to see much improvement either.

2025 was a painful year for California grape growers. Weather was an issue, but the grape market proved to be an even greater challenge. There simply wasn't enough demand to absorb all the fruit due to slumping wine sales, excess inventory and gun-shy buyers. Hundreds of thousands of tons were thought to have been left hanging. Experts believe the crush will come in below 2.5 million tons, which would be the slightest of the 21st century.

I expect some improvement in the grape market in 2026 because of the ongoing supply-side correction (nearly 40,000 acres were removed between October 1, 2024, and August 1, 2025) and a potential reduction in wine inventory stemming from the small harvest, though this is far from certain.

This issue's Trending Topic focuses on the wine inventory glut (**see Page 9**). The inventory overhang is difficult to measure now, let alone forecast, because of imperfect data and uncertainty regarding the 2025 crush size and trajectory of wine sales. If the harvest turns out to be as small as predicted, inventories should be more balanced heading into next year's harvest. However, my analysis indicates that a wide range of outcomes are possible.

A material reduction in inventory would stimulate grape demand next year. Under my base-case scenario, I expect more grapes to be sold in 2026. This, coupled with lower grape production potential, should result in a better balance between supply and demand in the aggregate. No matter the scenario, the balance will continue to vary widely across appellations, varieties and quality tiers.

Wineries and growers should closely monitor the situation in the months ahead as fresh datapoints are released. I'll provide an update in the spring edition of "Winescape."

(Information about the data and sources behind the analysis in this report can be found in the Appendix on **Page 15**).

ABOUT THE AUTHOR

Chris Bitter, Ph.D., is Terrain's senior wine and grape analyst, focusing on generating research and insights in the areas that impact the business of vineyards and wineries. With more than 20 years of experience as an economist and market analyst, Chris is a former faculty member of the University of Washington's Runstad Center for Real Estate Studies. In 2016, he left his academic position to launch Vintage Economics, a market research and consulting firm focused on the wine industry.

Chris earned his Ph.D. in economic geography with a minor in agricultural and resource economics from the University of Arizona. His research has been published in a variety of national and international publications, including the Journal of Wine Economics, and he has delivered presentations at wine industry conferences around the globe.

Progress Remains Elusive in the Wine Market

As wine sales maintain their downward trend, the $15 to $20 price point continues to be the sweet spot. For growers, the 2025 harvest may end up the smallest in at least a quarter-century.

REPORT SNAPSHOT

Situation: Wine sales continued to fall across all channels and price points in the third quarter. Improvement was evident in some segments of the industry, but the rate of decline accelerated in others. Industry experts expect the 2025 harvest to come in below 2.5 million tons, which would be the smallest of the 21st century. Even with a lighter crop, there wasn't enough demand to absorb all the grapes grown.

Finding: The grape glut ultimately traces back to declining wine sales. The glut will eventually be corrected by an increase in demand, a decrease in supply or a combination of the two. I believe the slump in wine sales is primarily structural, so most of the adjustment will likely come on the supply side. It is not beyond the realm of possibility that there is a shortage of grapes next year, but we'll have a better sense of the situation over the coming months.

Outlook: Given my outlook for sluggish economic growth, I don't expect a material change in the trajectory of wine sales in the near term. Fourth-quarter retail sales figures will likely be weak, in part because the year-ago comparison was the strongest of 2024, but also because of weaker consumer sentiment heading into Q4 2025. I expect the grape market to be in a better position overall next year, but perhaps not yet strong enough to generate profitable prices for all growers.

Wine Sales Dashboard: **Sales Trends by Channel and Price Segment**

For more on the dashboard, see the Appendix on Page 15.

		Year-Over-Year Change	Trend
$$$	**Retail: Value**	↓	—
$$$	**Retail: Premium**	↘	—
$$+	**Retail: Super-Premium**	↘	—
$$$	**Retail: Luxury**	↘	⌄
	Direct-to-Consumer	↓	—
	Export	↓	⌄

Market Update: DtC Sales Still Struggle; Export Sales Lack Clarity

There was no material change in the complexion of the wine market in the third quarter. Wine sales continued to decline across all channels and price points. Improvement was evident in some segments of the industry, but the rate of decline accelerated in others.

Based on my analysis of NIQ data, off-premise wine sales fell 5% year over year in both value and volume. The decline was a bit steeper than in the second quarter but shallower than in the first.

The three-tier market remains distinctly bifurcated at the $15 price mark.

Depletions are still lagging retail sales due to inventory reductions by retailers. According to SipSource data, depletions fell 7% YOY in terms of revenue and 10% YOY by volume in the third quarter, a steeper decline than in the first six months of the year. Depletions to off-premise accounts fell at a slightly faster rate than those to on-premise accounts, a trend that has been in place throughout 2025.

It is possible that the retail and depletions figures overstate the actual decline in wine sales to some extent. This is because both data sets fail to capture at least some private-label sales, which have purportedly been taking market share from branded wines.

The overall sales figures also obscure an important dynamic: The three-tier market remains distinctly bifurcated at the $15 price mark.

Sales of wines priced at $15 and above haven't been all that bad. Sales of these wines are down just 1% in volume in NIQ outlets year to date — a slightly better performance than in 2024 — though they have deteriorated a bit in value due to discounting. The $15 to $20 price point continues to be the sweet spot.

Conversely, sales of brands priced below $15 were off 6% in both value and volume during the first nine months of 2025, versus a 5% drop in volume and 3% decrease in value in 2024. The depletions data paint a similar picture.

In terms of the direct-to-consumer (DtC) channel, sales are clearly still fading, though the datapoints send mixed signals regarding the magnitude. Similarly, it is difficult to tell whether the pace of decline is accelerating or moderating.

Data from Wine Business Analytics and Sovos/ShipCompliant indicate that DtC "shipments" fell 21% in volume and 14% in value during the third quarter YOY, the weakest quarterly reading this year. Conversely, Community Benchmark reports a decline in total DtC revenue of less than 4%, the smallest quarterly decline thus far in 2025. I put more weight on the Community Benchmark numbers, because they include carry-out sales.

However, the Community Benchmark figures for the first nine months of 2025 are slightly worse than the full-year figures for 2024. The data also indicate that visitor counts have continued to decline across the West Coast in 2025. The erosion in sales and visitor counts is likely attributable in part to rising prices. Based on the DtC shipment data, average bottle prices were 7% higher in Q3 2025 than during the same period last year. The cost of wine, tasting experiences and travel may need to come down to stimulate DtC sales and visitation.

We don't yet have a full account of Q3 2025 wine exports due to the government shutdown. However, based on the first two months of the quarter, there doesn't look to have been much improvement.

Wine shipments to foreign markets fell 33% in value and 12% in volume in July and August versus the same period last year. This compares with YOY declines of 38% in value and 26% in volume in the second quarter.

Declining export value continues to be driven by provincial bans on American alcohol in Canada. Canadian exports fell 94% YOY for the July to August period, just a tick better than a 95% drop in Q2.

A final point to note is that domestic wines have yet to take market share away from imports, despite the imposition of tariffs in April.

Wine Market Outlook: Expect More of the Same

To the extent that the wine sales slump has been driven by the economy, there is not likely to be much improvement in the near term, as we expect slightly below-average economic growth. The government shutdown disrupted data collection, making it hard to even decipher where the economy stands today.

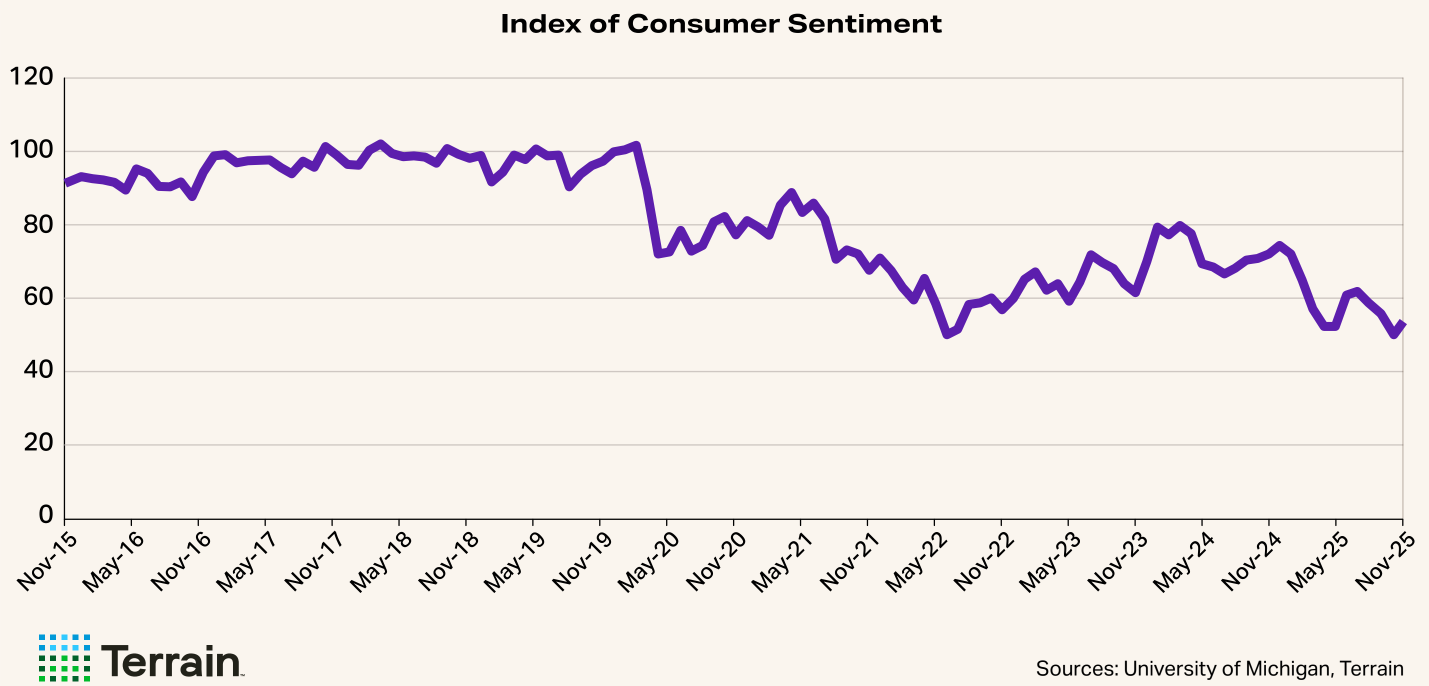
Overall, though, the economic backdrop wasn't all that bad during the first nine months of 2025. The worst-case scenarios relating to tariffs seem to have been avoided, as their impact has been diluted by carveouts, new trade deals and, in some cases, circumvention.

Following a rocky start to the year, which included a GDP contraction in the first quarter followed by a rebound in the second, the economy appears to have been relatively stable in the third quarter. The Q3 GDP report has been delayed, but third-party estimates suggest growth was solid.

However, there were signs of labor market softening, and inflation ticked up. Unemployment came in at 4.4% in September, its highest level in four years but still low by historical standards. Consumer prices rose 3% YOY in the third quarter, up from a 2.7% increase in Q2, but wage gains continued to outpace inflation.

Despite these reasonably benign indicators, consumer sentiment fell in the third quarter. The consumer sentiment index dipped to 51 in November, just a point

Consumer Sentiment Is Hovering Near an All-Time Low



Sources: University of Michigan, Terrain above the all-time low recorded in 2022. Inflation, economic uncertainty and the government shutdown have weighed heavily on consumers' psyches.

I'm not expecting much improvement or deterioration in the economic backdrop in the near term. The Q4 GDP figure is likely to be weak because of the government shutdown, and we expect growth to remain sluggish in early 2026 as tariffs and policy uncertainty continue to constrain growth. Inflation is also likely to remain uncomfortably high, and additional softening in the labor market is possible.

Consumer sentiment may improve now that the government has reopened, but the mood is likely to remain pessimistic due to rising prices, economic uncertainty and political strife.

Nonetheless, consumers look reasonably well-positioned to continue spending — particularly those in the upper half of the income distribution, whose wealth has been boosted by a buoyant stock market. But they are apt to remain conservative and price-sensitive when it comes to discretionary purchases.

The economic backdrop could see slight improvement by midyear 2026 as the stimulatory effects of the 2025 tax bill and deregulation become more evident. Additionally, the president's plan to issue eligible Americans a "tariff rebate" check could also act as a one-time income stimulus, though this is far from a certainty.

Given my outlook for sluggish economic growth, I don't expect a material change in the trajectory of wine sales in the near term. Fourth-quarter retail sales figures will likely be weak, in part because the year-ago comparison was the strongest of 2024, but also because of weaker consumer sentiment heading into Q4 2025.

I continue to believe that longer-lasting structural factors are the primary cause of the slump, particularly in the value segment of the market.

Exports are also not likely to rebound anytime soon. Canadian provincial bans on American alcohol remain in place in all but Alberta and Saskatchewan, which represent just 15% of the population. Even after provincial bans are lifted, Canadians will likely be slow to return to American wine.

It is possible that domestic wines could begin to take some market share from imports in the months ahead as pre-tariff import stockpiles are depleted. Nonetheless, price taking will continue to be challenging for domestic producers due to heightened consumer price sensitivity.

Once the economic backdrop improves, there should be some improvement in the trajectory of wine sales. Even so, I continue to believe that longer-lasting structural factors are the primary cause of the slump, particularly in the value segment of the market. So, I don't expect a return to outright growth in wine sales. The premium and luxury segments should continue to outperform.

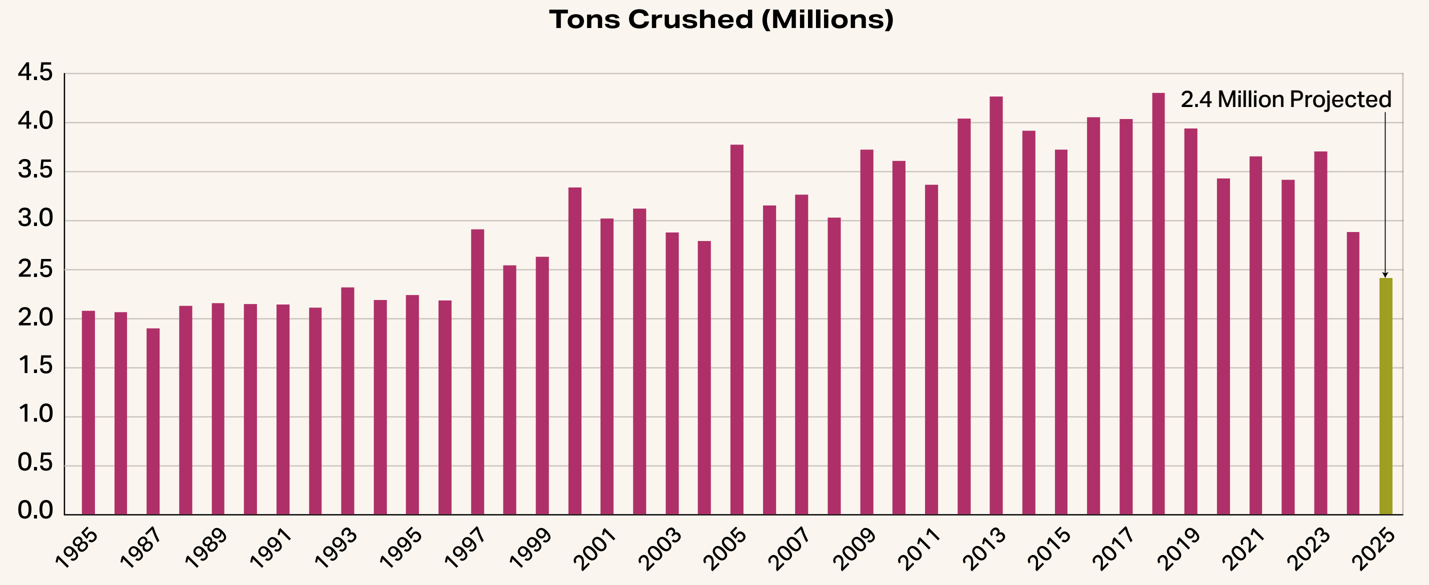
Grape Market Outlook: Sour Grapes for Growers

Vintage 2025 has been one of the most taxing in memory for California grape growers. The growing season was challenging due to cool weather and a rainy harvest, which made it difficult to achieve desired brix levels in some cases and caused some issues with mold.

The grape market proved to be an even greater challenge. There simply wasn't enough demand to absorb all the grapes grown, even with a lighter crop.

Spot market activity was limited, and deals were generally done at unprofitable prices for growers.

The California Grape Crush May Have Been the Smallest of the 21st Century



Terrain

Sources: California Department of Food and Agriculture, Terrain

Those with uncontracted fruit, of which there were many, were mostly left out in the cold for a second year in a row, and hundreds of thousands of tons of fruit are thought to have been left on the vine.

Yields look to have been near average in most regions. But given the volume of fruit left behind and less bearing acreage, industry experts expect the harvest to come in below 2.5 million tons, and perhaps well below. A crush of 2.5 million tons would be the smallest in a quarter-century. This compares with 2.9 million tons last year and an average of 4 million during the mid-2010s.

We may not have hard data to confirm the crush until mid-March, as a legislative bill passed in October extends the reporting deadline for grape processors to January 31. Consequently, the deadline for the release of the preliminary Grape Crush Report has been pushed from February 10 to March 15, though I haven't been able to confirm this change will take effect in 2026.

The grape glut ultimately traces back to declining wine sales.

Declining sales imply the need for fewer grapes each year. The slump in consumption has also resulted in a wine inventory glut, as wineries were slow to pull back on production in years past. Thus, even fewer grapes were needed in 2025 than were warranted by wine sales. This situation, along with an abundance of caution on the part of wineries, depressed grape demand in 2025.

The glut will eventually be corrected by an increase in demand, a decrease in supply or a combination of the two. I believe the slump in wine sales is primarily structural, particularly at the value end of the market, so most of the adjustment will likely come on the supply side.

I believe that more grapes will be needed in 2026 than were crushed in 2025, offering a slight silver lining.

Substantial progress toward rightsizing has already been made. The California Association of Wine Grape

Growers indicates that 38,000 acres of wine grapes were removed between October 1, 2024, and August 1, 2025, a reduction of 7.5%. This comes on top of heavy removals the prior year, though we don't have a firm estimate of total acres. More acreage is likely to be removed in the coming months as growers without contracts throw in the towel.

The small 2025 crush will help to reduce the wine inventory overhang, a subject I address in the Trending Topic section of this report **(see Page 9)**. The magnitude of inventory reduction will depend on how many tons were crushed in 2025 as well as the path of wine sales. The imperfect data preclude precise calculations, but under my base-case scenario, I believe inventory will still be modestly long heading into the 2026 harvest. However, I believe that more grapes will be needed in 2026 than were crushed in 2025, offering a slight silver lining.

I expect the grape market to be in a better position overall next year, but perhaps not yet strong enough to generate profitable prices for all growers.

The potential for improvement in grape demand coupled with vineyard removals sets the stage for a more balanced grape market in 2026, though there is uncertainty on both sides of the equation. We simply don't know how many grapes will be needed or how much the land will be capable of producing due to ambiguity on how much acreage has and will be removed, how much will not be farmed, and how quickly mothballed vineyards will spring back.

I expect the grape market to be in a better position overall next year, but perhaps not yet strong enough to generate profitable prices for all growers. As always, supply and demand dynamics will vary widely across appellations and varieties, so there could be shortages or surpluses even when the market is in balance in an aggregate sense.

Supply-side rightsizing represents a delicate balancing act. It is not beyond the realm of possibility that there is a shortage of grapes next year, though I don't believe this is likely. We'll have a better sense of the situation as fresh data arrive over the coming months on 2025 crush size, vineyard removals, wine sales and more.

TRENDING TOPIC

Awash in Wine: Insights on the Inventory Glut

The small 2025 harvest should help reduce inventory. How much will depend on wine sales and the final crush number.

REPORT SNAPSHOT

Situation: Many wineries have more wine in bottles, tanks and barrels than they can reasonably expect to sell in a timely manner at profitable prices. My calculations suggest that wineries had nearly 30% more inventory than the market should ideally carry at midyear 2025. The root cause of this inventory glut is a decline in wine consumption that began in 2022.

Finding: To help determine how quickly the inventory imbalance could be corrected, I've produced ballpark estimates of the size of the inventory overhang as well as projections for what the situation might look like heading into the 2026 harvest under various scenarios.

Outlook: Underproduction will eventually bring inventories back in line. Under my base-case scenario, the small California grape harvest in 2025 will go a long way toward reducing the inventory overhang, which should in turn help firm up grape demand in 2026.

Many wineries are struggling under the weight of unneeded inventory, which is in turn depressing grape demand. This article examines the nation's inventory glut and outlines how quickly it might be resolved.

My calculations suggest that wineries had nearly 30% more inventory than the market should ideally carry at midyear 2025.

Unfortunately, this isn't a straightforward task due to imperfect data, uncertainty surrounding the size of the 2025 California grape harvest, and questions around the trajectory of wine sales. With this in mind, I've produced ballpark estimates of the size of the inventory overhang as well as projections for what the situation might look like heading into the 2026 harvest under various scenarios.

The inventory glut is quite large. My calculations suggest that wineries had nearly 30% more inventory than the market should ideally carry at midyear 2025. Under my base-case scenario, the small California grape harvest in 2025 will go a long way toward reducing the inventory overhang, which should in turn help firm up grape demand in 2026.

A wide range of outcomes are possible. Thus, wineries and growers should continue to closely monitor the market data, as the status of the inventory glut should become clearer by spring.

The root cause of the current inventory glut is a decline in wine consumption that began in 2022.

THE INVENTORY GLUT

Maintaining the appropriate amount of inventory is always a delicate balancing act for wineries. They must hold more inventory than producers of most other products because wine generally requires aging before it is released for sale. For high-end red wines, this is generally three years or more.

Given the uncertainty of where sales will be that far down the road, it is always a challenge for wineries to maintain a balanced inventory position. This is made more difficult by the normal variation in grape output from year to year and long lead times to produce new grapes.

Today, many wineries have more wine in bottles, tanks and barrels than they can reasonably expect to sell in a timely manner at profitable prices.

The root cause of the current inventory glut is a decline in wine consumption that began in 2022. Wineries were slow to adjust production when the market turned and have produced more than they've sold in recent years. Some grape growers also made wine from unsold grapes, hoping to sell the bulk wine to wineries later, adding to the current inventory glut.

The inventory glut is problematic for wineries, grape growers and the industry more broadly. Specifically:

- Inventory is costly to hold. The resources locked up in unneeded inventory can't easily be tapped to fund current expenses, new production or future expansion.
- Excess inventory exerts downward pressure on wine prices, as producers who are long may resort to discounting to stimulate sales.
- Because wineries are now compensating for past overproduction by underproducing, they needed fewer grapes from the 2025 crop than they would have if inventories were in balance. For growers, this sapped grape sales.

Underproduction will eventually bring inventories back in line. However, this has drawbacks, as vintners prefer to release new vintages on a regular schedule so that they have fresh products to sell to consumers. It generally isn't feasible for wineries, particularly those competing at the high end of the market, to drastically reduce production or skip a vintage entirely, as it may prove detrimental to future wine sales.

While reductions in production will be the main solution to the inventory glut, there are other means to reduce excess inventory as well. Discounting wine to temporarily stimulate sales will likely continue to occur until the inventory overhang is absorbed. However, this must be approached with caution, as it can destroy brand value. Some excess wine may also eventually be disposed of or transitioned to lower-value uses such as distilling material or cooking wine.

Past inventory gluts were easier to resolve because wine sales were growing. Because sales are now declining, the correction will prove to be more challenging.

HOW LARGE IS THE INVENTORY OVERHANG?

To appreciate how long it might take to resolve the inventory glut, it is first necessary to estimate its size.

The chart illustrating excess wine inventory shows bonded wine stocks held by U.S. wineries, including both finished (bottled) and unfinished (bulk) wine, as of June 30 each year, as well as the inventory-to-sales ratio over the prior 12 months.

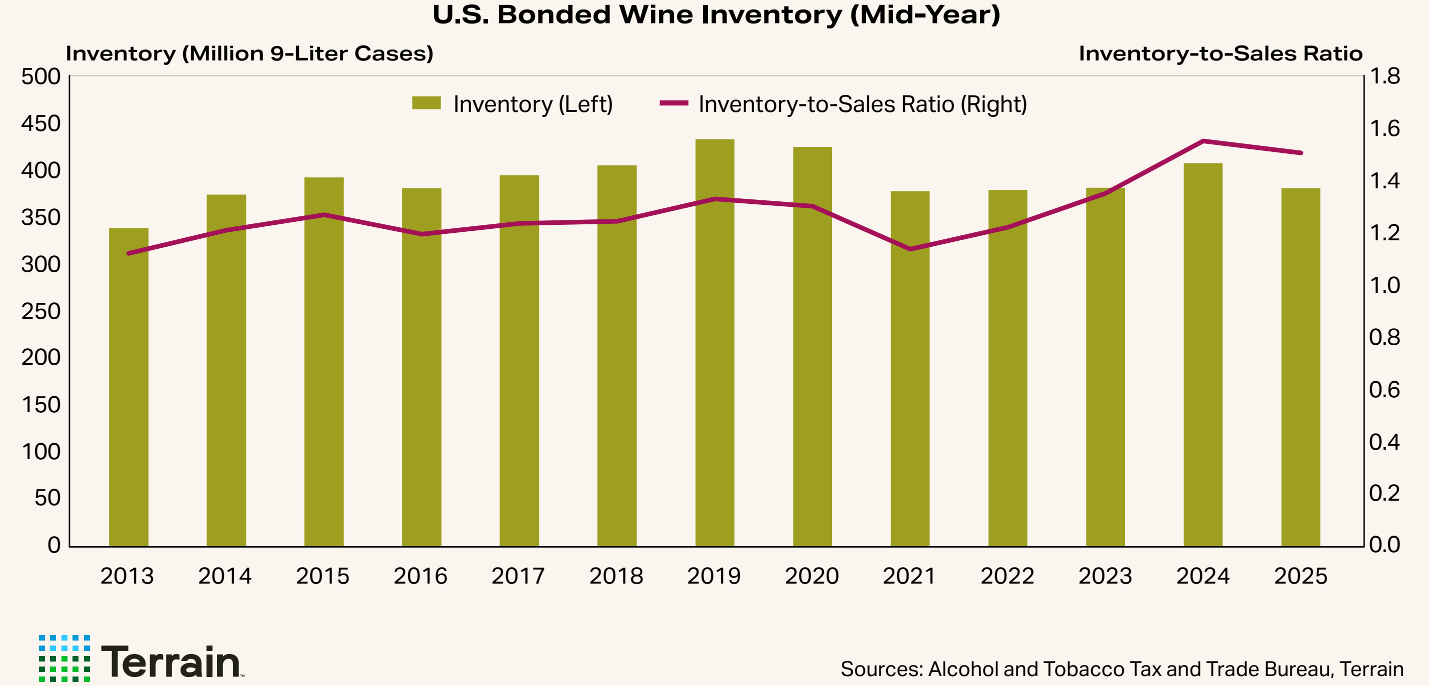
Note that the math doesn't always add up, and it is possible that wine inventory has been overstated in recent years. Despite the anomalies, the data should provide a reasonably close approximation.

Based on the data from the Alcohol and Tobacco Tax and Trade Bureau (TTB), wineries held approximately 380,000 cases of wine in absolute terms heading into the 2025 harvest, which is slightly below the historical average. However, the inventory-to-sales ratio is the more relevant metric. It measures how long it would take to sell through current inventory at the current pace of sales, providing a better gauge of whether inventories are long or short.

The ideal inventory-to-sales ratio today is lower than it was in the past because wine sales are declining.

The current inventory-to-sales ratio stands at about 1.5, equivalent to just over 18 months of supply based on past 12-month sales. This compares with an average of less than 1.25 (14.8 months) from 2014 to 2018, a period when inventories were thought to be roughly in balance. Thus, inventories are clearly high relative to historical levels.

Excessive Winery Inventory Sapped Demand for Grapes in 2025



The current ideal inventory level is 298 million cases.

The ideal level of inventory depends on the trajectory of wine sales. When wine sales are growing, wineries need to hold more inventory to satisfy future demand than when sales are shrinking. Thus, the ideal inventory-to-sales ratio today is lower than it was in the past because wine sales are declining. We are holding excess inventory.

This compares with actual inventory of 382 million cases.

Using the 2014 to 2018 average ratio as a baseline (when inventory was relatively balanced), I adjust down based on the assumption that wineries expect sales to decline at a 3% annual rate going forward. This yields an ideal inventory-to-sales ratio of 1.18 (14.15 months). Based on this figure, the current ideal inventory level is 298 million cases.

The current excess inventory is enough extra wine to fill 10,400 standard-size swimming pools.

This compares with actual inventory of 382 million cases, which implies there are 84 million cases of excess inventory. I want to emphasize this is a "ballpark" estimate because the underlying data are imperfect.

The current excess inventory is enough extra wine to fill 10,400 standard-size swimming pools. We are, indeed, awash in wine.

To bring this home to grape growers, the nation's inventory overhang is equivalent to 1.2 million tons of grapes, assuming a ton of grapes produces 165 gallons of finished wine.

The TTB data do not detail the composition of the inventory overhang. Some appellations, varieties and quality tiers are inevitably in a more balanced position than others.

THE SHORT CALIFORNIA HARVEST WILL HELP

Underproduction in 2025 will almost certainly help reduce the inventory overhang. Most market experts believe that less than 2.5 million tons of California grapes were crushed in 2025, and perhaps substantially less. My own estimate of 2.4 million tons is below the 2.9 million tons crushed last year and an average of more than 4 million during the mid-2010s peak.

The magnitude of the inventory reduction will depend on how many grapes were crushed and the trajectory of wine sales. To shed some light, I've produced projections of the inventory imbalance at midyear 2026 based on various scenarios for these two variables. (This exercise should be considered illustrative rather than definitive due to imperfect data.)

Based on tax data from the California Department of Tax and Fee Administration, I believe that approximately 222.5 million cases of wine made from California grapes were shipped to market in the 12 months ending in June. Assuming the inventory of California wine is proportional to its share of national wine shipments, I estimate there were approximately 74 million case equivalents of excess California wine heading into the 2025 harvest.

This represents 18.1 months of supply, the same as the national figure because I assume the inventory-to-sales ratio is the same. It also equates to just over 1 million tons of grapes, or around 40% of what is expected to have been crushed in 2025.

The table shows my projections of the months' supply at midyear 2026, based on various assumptions pertaining to the size of the 2025 crush and wine shipment growth. The ideal inventory varies based on the wine sales growth assumptions. These are shown in the final column of the table to facilitate comparison.

Under my base-case assumption (2.4 million tons crushed and -3% sales growth), we would have 15.5 months of supply, versus a target figure of 14.2 months. Still long but much better than the inventory-to-sales ratio heading into the 2025 harvest.

Under the most optimistic scenario (2 million tons and flat sales), wineries would be slightly short on inventory. Under the most pessimistic scenario (2.8 million tons and -6% growth) the reduction would be minimal, and we would still be severely long in inventory prior to the beginning of harvest next year.

Again, these are ballpark estimates and they pertain to aggregate inventory levels. Shortages or surpluses for specific appellations, varieties and quality tiers are possible under any of these scenarios.

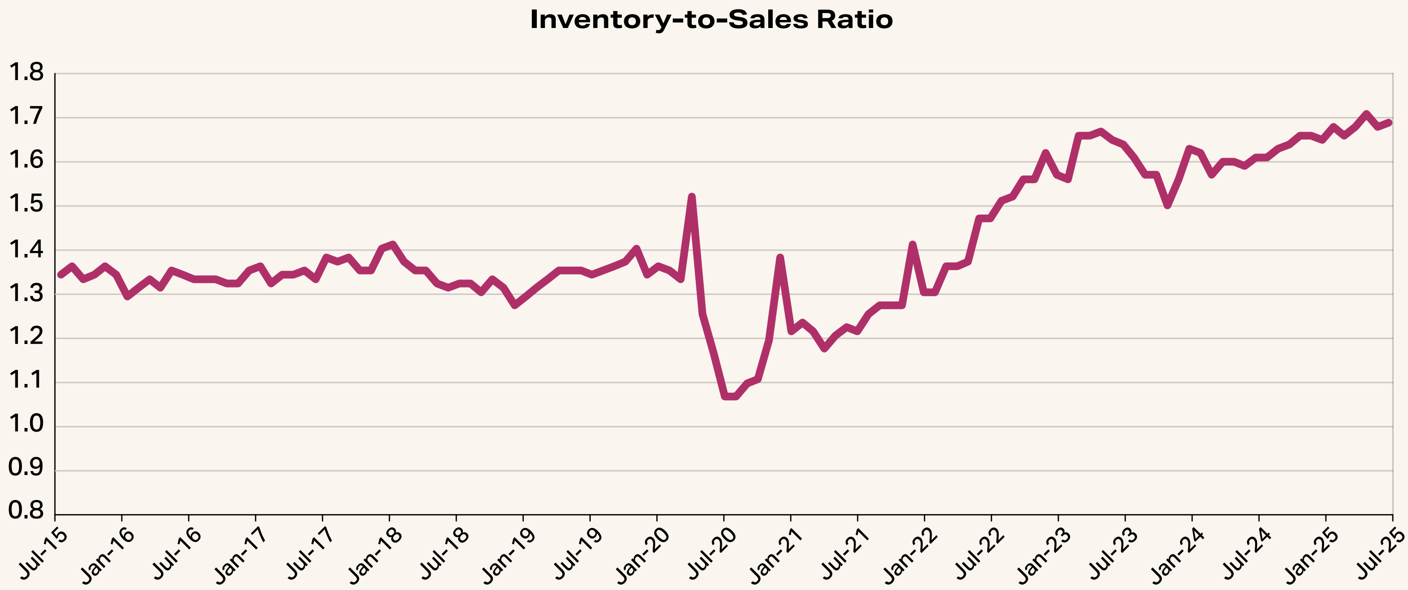
The Petite 2025 Harvest Is Almost Certain to Shrink the Inventory Overhang

		Projected Months' Supply on June 30, 2026 2025 Crush (Million Tons)			
		2.0	2.4	2.8	Ideal Supply
Wine Sales Growth Rate	0%	13.6	15.1	16.6	14.6
	-3%	14.0	15.5	17.0	14.2
	-6%	14.3	15.8	17.3	13.7

Terrain

Sources: Alcohol and Tobacco Tax and Trade Bureau, California Department of Food and Agriculture, Terrain

Wholesale Alcoholic Beverage Inventories Remain Elevated



Terrain

Sources: U.S. Census Bureau, Terrain

The analysis does not consider that excess wine inventory could potentially be transitioned to alternative uses or that wholesalers and retailers may be long on inventory as well. While retailers have pared inventories substantially based on the differential between depletions and retail sales in recent years, wholesale alcoholic beverage inventories are still elevated in dollar terms. Although, we don't know how much of the excess here is wine.

The crux of the matter is there is still a lot of uncertainty on the inventory front. Inventories will likely be closer to balance next year, though the range of potential outcomes is wide.

IMPLICATIONS FOR GRAPE DEMAND

The potential reduction in inventory has positive implications for grape demand. Wineries will need to crush more grapes in 2026 than they are expected to have crushed in 2025 in all but the most pessimistic scenarios.

Under my base-case scenario, California wineries would need to crush just over 3 million tons in 2026 if they began in a balanced inventory position. However, because they would still be modestly long, the ideal crush (that required to bring inventory back into balance) would be around 2.7 million tons. Under the most optimistic scenarios, demand could be 3 million tons or more.

We may well have hit bottom in 2025, as the grape market is likely to be closer to balance under all but the most pessimistic scenarios.

Note that these represent "ideal" inventory scenarios — the quantity of grapes that producers would need to support expected future sales and achieve and maintain a balanced inventory position. It is possible wineries could continue to underproduce and take fewer grapes than this out of an abundance of caution or because of cash flow issues. (Although, underproduction could be detrimental to future sales.) And under the most pessimistic scenarios, grape sales may not improve at all next year.

What is certain is that there will be less capacity to produce grapes next year, and hence competition, as vines continue to be removed. Thus, we may well have hit bottom in 2025, as the grape market is likely to be closer to balance under all but the most pessimistic scenarios. Nonetheless, wineries may still be hesitant to pay higher prices if consumers continue to push back on bottle price increases.

It is not outside the realm of possibility that a grape shortage could materialize next year, as California growers may not be capable of producing 3 million tons due to vineyard removals, mothballing and abandonments. And there is less margin for error now in the event of any major disruption in yields.

FINAL TAKEAWAYS

The small 2025 California grape harvest should go a long way toward reducing the inventory glut. This in turn should help firm up demand for grapes in 2026.

However, the magnitude of the inventory reduction will depend on just how small the 2025 crush turns out to have been, as well as the trajectory of wine sales. Both are uncertain, so a wide range of outcomes are possible.

Given this, wineries and growers will need to be flexible and should continue to monitor the market closely, as it could turn quickly. Unfortunately, we may not have firm figures on the size of the 2025 crush or post-crush wine inventory until March, so there will be an element of blind negotiations in the first stages of the year.

I would advise wineries that are confident in their sales forecasts and know they will need grapes not to hold out too long. There are likely to be fewer opportunities as the 2026 harvest season approaches than there are today.

Tough decisions lie ahead for growers with uncontracted fruit. For those that have desirable varieties and the ability to produce quality fruit at a reasonable price, my advice is to continue to farm at least minimally until there is more clarity in the market.

For those with unproductive vines in marginal areas or where there are viable alternative uses, it may be wise to consider alternatives. Because supply and demand dynamics vary widely across appellations, varieties and quality tiers, I also recommend seeking expert advice if the decision isn't clear cut.

Appendix

Data and Methods

INFORMATION SOURCES

There is no single, comprehensive source of information on the U.S. wine and grape markets. Rather, there are many different sources that capture specific slices of these markets. The analysis in this report represents a synthesis based on the review of multiple points of data and information.

These include statistical data from private data vendors, reports from industry service providers, U.S. government data, and internal data collected by American AgCredit's appraisal and underwriting teams. I assess the relevance and reliability of each source and weight it accordingly in the analysis.

The report also incorporates anecdotal information gleaned from conversations with market participants, including wineries, growers and various market intermediaries.

This approach enables "Winescape" to deliver a relevant and nuanced perspective on wine and grape market trends as well as an informed outlook.

THE WINE SALES DASHBOARD

The dashboard provides a directional view of wine sales trends, reflecting the fact that none of the market segments and sales channels are measured with precision.

The year-over-year change column is a directional indicator of the percentage change in wine sales for the most recent six-month period relative to the same period a year earlier. I focus on the six-month period because the quarterly data can be volatile.

Year-Over-Year Change	
	↑ Substantial increase
	↗ Modest increase
	→ Little to no change
	↘ Modest decline
	↓ Substantial decline

The trend column provides an indication of whether the rate of change in sales has improved or deteriorated over the past 12 months. For example, if sales in the value segment are falling on a year-over-year basis, but at a slower rate than in the past, the trend is improving and an up arrow is assigned.

Trend			
	Improving	Stable	Deteriorating

The retail price segments are defined as follows:

Retail Price Segments			
	$	Value	Less than $15
	$$	Premium	$15 to $29.99
	$$+	Super-Premium	$30 to $49.99
	$$$	Luxury	$50 and up