

The Economic Importance of Pennsylvania's Wine Industry



**Pennsylvania
Wine Association
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Now 84 PA wineries, up 79% from 1989

**4th largest grape producer in U.S.
(12,800 acres and 61,500 tons)**

5th highest number of wineries in U.S.

**Now almost 700,000 gallons produced annually,
up 21% growth from 1997 to 2000.**

\$21 million in sales

\$50 million in economic impact

\$140 million in related tourism impacts

\$190 million total economic impact

**Room to grow with only 2-3% of PA wine sales
now captured by PA wineries**

For further information:

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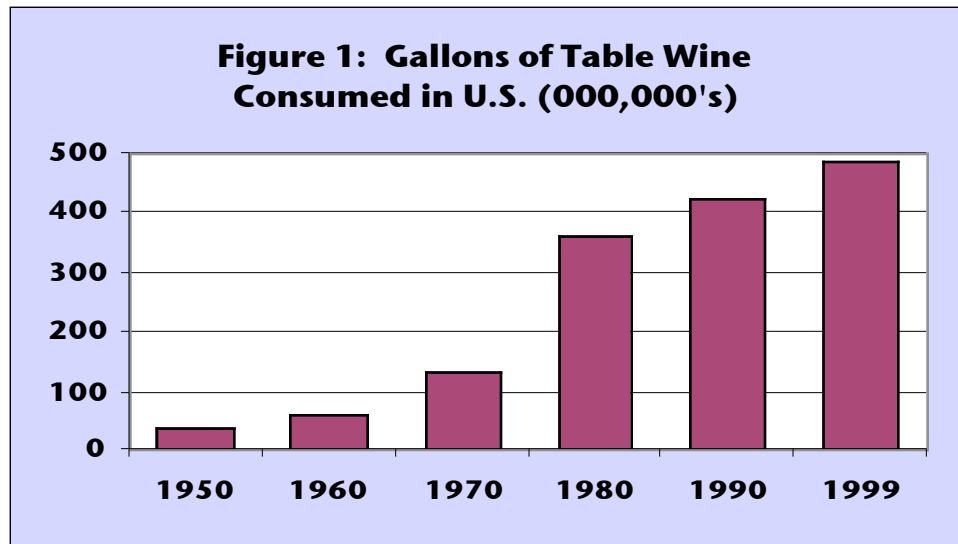
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THE U.S. WINE INDUSTRY

The U.S. wine industry has experienced major growth in recent years. Table wine consumption has increased as the adult population has increased, incomes have grown and American tastes have evolved. Figure 1 below provides an overview:



Source: *Wine Institute* data on consumption and table wine share (based on Tax and Trade Bureau monthly reports).

Total wine consumption for 1999 (the latest year available) was 552,763,000 gallons, of which 88% was table wine. Additional growth is highly likely with marketing and a continued shift to premium and varietal wines, given the relatively low levels of wine consumption in the U.S. compared to other nations with wine industries.

Per capita wine consumption in the U.S. and the percentage of table wine both more than doubled between 1960 and 1980. The percentage of table wine has continued to grow, allowing the wine industry to expand, but per capita consumption has been relatively stable since then. The U.S. ranked 34th in the world in per capita wine consumption even though it was the world's fourth largest wine producer and third largest wine consumer.

Increases in per capita consumption over time through marketing and development of new and continually higher quality products will yield major new expansions of this economic sector. Achieving consumption levels on the order of the United Kingdom, as an example, will nearly double the size of the U.S. wine industry.

Table 1: Wine Consumption Per Capita, Selected Countries, 1999		
World Rank	Country	Gallons Per Capita
1	Luxembourg	16.07
2	France	15.81
3	Italy	14.30
7	Spain	9.91
17	Germany	6.05
18	Austria	5.14
10	Chile	4.97
22	United Kingdom	3.89
28	New Zealand	2.66
29	Ireland	2.60
32	Canada	2.15
34	United States	2.01

Production of bulk still wines in the U.S. totaled 534,974,000 gallons in 1999, according to the Alcohol and Tobacco Tax and Trade Bureau (TTB). The *Wine Institute* indicates that the U.S. accounted for some 7.2% of world wine production that year.

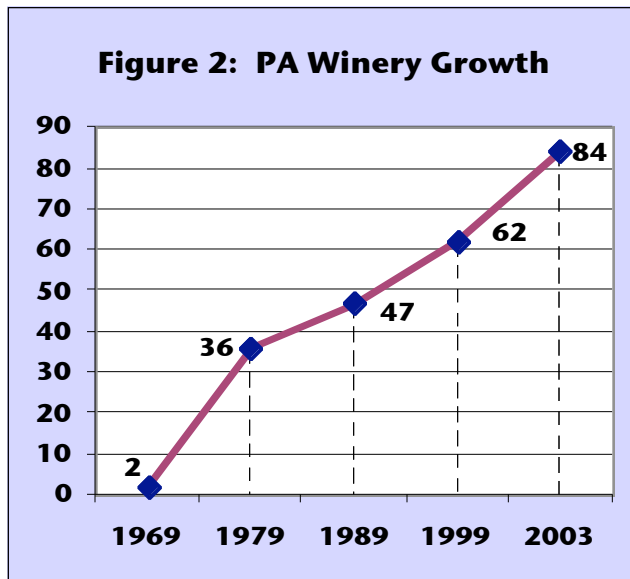
Bulk production of still wines jumped sharply in 2000, to a total of 653,272,000 gallons (Source: BATF). This increase resulted from many factors, including continued growth in farm and estate wineries. There are now about 2,500 wineries in the U.S., some 84 of which are found in Pennsylvania.

The U.S. wine industry is steadily evolving toward premium table wines as lower quality vines used for bulk wine production are replaced with hybrid and vinifera varieties. A number of distinctive wine regions have developed outside California, where 90% of U.S. production has traditionally taken place. New York, Washington State, Virginia and Oregon, as well as Pennsylvania, have all experienced large gains in numbers of farm and estate wineries.

Many of those gains have come about as a result of these states enacting legislation modeled on Pennsylvania's pioneering Limited Winery Act, adopted in 1968.

PENNSYLVANIA'S WINE INDUSTRY

Since Pennsylvania began providing for "Limited Wineries" in 1968, there has been steady growth in the number of wineries as Pennsylvania State University data collected through 1999 reveals (see Figure 2 below).



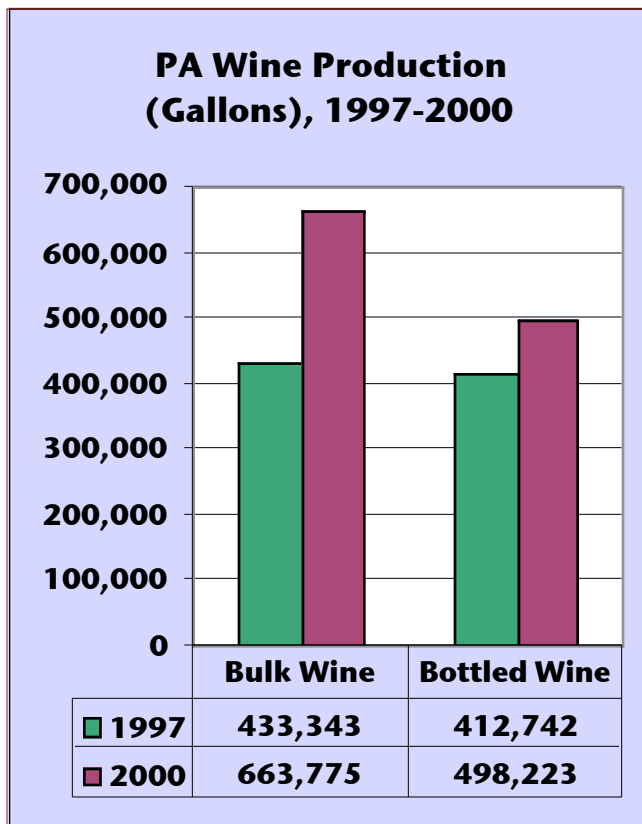
Winery numbers have continued to gain. There were, in 2003, some 84 active licensed wineries located in the Commonwealth. About 75 promote their products through the Pennsylvania Wine Association. Additional vineyards and wineries are also in the process of being established and will begin offering product over the next several years. There has, indeed, been a concurrent increase in the number of vineyards, with 23 added during the 1980's and 27 in the 1990's.

This growth has placed Pennsylvania at the forefront of U.S. wine industry, with the fifth largest number of wineries in 1999 (Source: American Vintners Association). It also ranked fourth in grape bearing acreage in 2001, with some 12,800 acres (Source: USDA).

Table 2: Grape Bearing Acreage by State, 2001

State	Acres	%
California	803,000	86.3%
Washington	48,000	5.2%
New York	31,500	3.4%
PENNSYLVANIA	12,800	1.4%
Michigan	12,300	1.3%
Others	22,800	2.5%
U.S.	930,400	100.0%

Pennsylvania grape production was estimated by the USDA at 61,500 tons in 2001, also fourth among the States. It ranked fifth in the value of grapes utilized in production, estimated at \$16,871,000. Grapes utilized in wine production totaled 12,000 tons in 2001, according to the USDA, with 48,500 tons used for juice. The value of grapes used in wine production was an estimated \$333 per ton or slightly less than \$4,000,000 in total.



Wine production has risen sharply as the number of wineries has grown. The Alcohol and Tobacco Tax and Trade Bureau (formerly the BATF) began publishing data by state in 1997, with the latest data available being for 2000. Pennsylvania bulk wine production increased 53.2% over this four-year period to 663,775 gallons.

Bottled wine production grew by 20.7% from 1997 to 2000, reaching a 498,223 gallon volume. There was a 84,426 gallon gain in still wine production (some 98.6% of all wine bottled in Pennsylvania) and a 1,055 gallon increase in effervescent wine production.

Wine has also helped to reshape Pennsylvania's grape industry. Land used for vineyards grew from 12,052 acres in 1992 to 13,398 acres in 1997 (U.S. Agricultural Census). Commercial vineyards (NAIC 111-332) totaled 297 in 1997, used 12,943 acres of cropland and included nearly 10,000 acres of other farmland. Average investments were \$321,276 in land and buildings plus \$49,934 in equipment. These vineyards marketed an estimated \$16,852,000 of grapes in 1997 (not including wine).

PENNSYLVANIA WINE TOURISM

Pennsylvania's wine and tourism industries are integrally related. The Commonwealth's Pennsylvania's "Tourism Strategic Marketing Communications Plan" targets \$50,000+/year households composed of 35-54 year old college-educated adults with a skew towards women - a natural fit for wine marketing. The Plan also calls for special attention to wineries, which already attract large numbers of visitors to mostly rural areas of Pennsylvania.

PA Wine Trails and Regions

- **Lehigh Valley Wine Trail**
- **Groundhog Wine Trail**
- **Heart of the Susquehanna Trail**
- **Brandywine Valley Region**
- **Mason-Dixon Wineries**
- **Lake Erie Region**

Pennsylvania's many wineries have capitalized on their tourist appeal by organizing into several wine trails and conducting a number of annual events throughout the Commonwealth. The Lehigh Valley Wine Trail, as an example, was given the Lehigh Valley Convention and Visitors Bureau's "Best Contributor to Tourism in 2000" award.

Among other techniques used to market Pennsylvania and Pennsylvania wine to tourists are several major wine festivals (17,000 visitors in 1999), offsite wine stores (121,000 customers), an annual wine competition and the Pennsylvania Wine Association website, which gets over 40,000 hits per month. Wine tasting rooms attracted an estimated 575,000 visitors in 1999, based on surveys of Association members. The Association also publishes a regular newsletter with distribution to 50,000+ visitors.

An "Economic Impact of Travel in Pennsylvania" study conducted for the Pennsylvania Department of Commerce indicates that domestic and international travelers spent \$21.4 billion in Pennsylvania in 2000, an increase of 7.1% from 1999. These expenditures included \$4.8 billion on food and beverages and \$4.5 billion shopping. Wineries generate sales in both categories.

Although experiences will vary, the typical Pennsylvania farm winery (and associated retail outlets) attracts about 10,000 visitors per year. This is consistent with the experience of other major wine producing states (e.g. New York, where 110 wineries attracted 1.8 million visitors in 1997). A 1992 Virginia study also determined that 5% of all tourists visited wineries. More importantly, it found that these visitors, on average "spend twice the amount that other tourists spend, stay longer in the state and visit more attractions." This is consistent with the higher income nature of the demographic groups attracted to both Pennsylvania and wineries in general.

PA Wine Tourism

- 800,000 to 900,000 visitors
- \$153 million spent by visitors
- \$244 million of sales for region
- \$82 million in wages & salaries
- \$29 million in taxes
- 4,000+ jobs

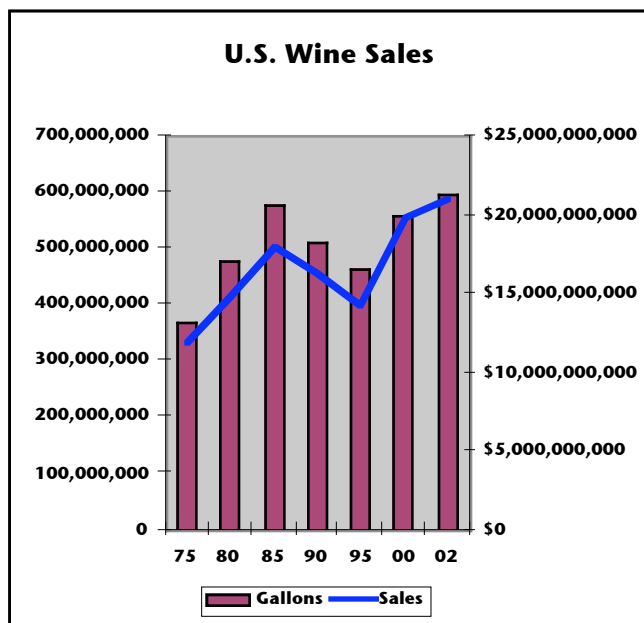
The Department of Commerce's travel impact studies indicate the average tourist to Pennsylvania spent \$182 in 2000. Those expenditures ripple through the economy and, ultimately, they generate, on average, \$290 of total sales, some \$98 in employee compensation and \$34 in taxes. Every 1,000 visitors supports approximately 4.8 jobs.

This data suggests that Pennsylvania's 84 wineries produced visitor expenditures of \$153 million, total sales for the economy of \$244 million, \$82 million in employee compensation and \$29 million of taxes, plus over 4,000 jobs. The actual numbers are very likely much higher, given the higher propensity of wine tourists to spend.

Revealing in this regard is a Washington Wine Commission study finding that the average wine tourist had an annual income of \$82,025 and was between 35 and 54 years of age, with half having no children. These visitors who lodged in the State (40%) stayed an average of 3.4 nights. Winery visits were the primary purpose of the trip in 38% of the cases. Some 44% of winery visitors also did sightseeing and 28% did other shopping while visiting.

TOTAL ECONOMIC IMPACTS

The economic benefits of the wine industry are not limited to tourism. The wine industry spans three additional sectors of the economy; agriculture, manufacturing and trade. Wineries support vineyard operations not only by providing an additional outlet for grape production, but also by offering a higher margin niche opportunity for growers. Farm wineries are a perfect illustration of added-value processing being promoted throughout the agricultural sector as a means of helping farmers and preserving farmland.

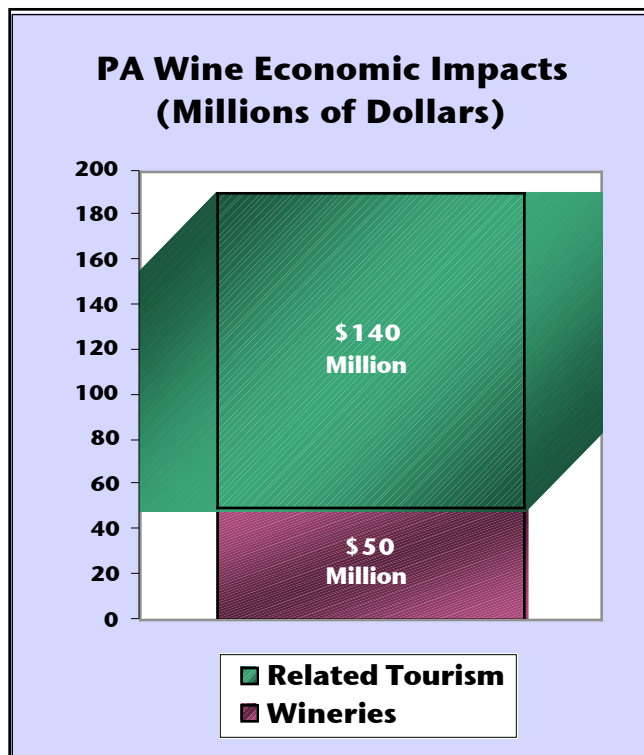


Wineries provide a market for higher valued French Hybrid and vinifera grapes. While yields from such crops can be smaller, they generate more profit for vineyard owners as a result of this higher market value.

The grape industry is, therefore, assured of economic growth if wineries continue to expand, even if total acreages are not increased. The conversion of vineyards to such higher valued crops is essential to their long-term success.

Nationally, wine has retailed for an average of approximately \$35.50 per gallon since 2000. This puts the value of wine bottled at Pennsylvania wineries at approximately \$18 million, given the current 500,000 gallon production level. Other bulk wine sales (160-170,000 gallons per year) yield additional value of approximately \$3 million at a wholesale price of \$20/gallon. This \$21 million of total sales does not include sales of associated items such as wine souvenirs.

There are a number of input-output studies regarding the multiplier benefits associated with wine sales. A 2001 study, for example, indicates that every \$1.00 of Washington State wine sold at wineries, retail stores and restaurants generated \$2.05 of total economic impact for the State. A Sonoma County, California study found that each \$1.00 of sales produced \$2.62 of total output for the economy. Applying a conservative multiplier of 2.35 to 2.40 indicates that Pennsylvania wineries create a total economic impact in excess of \$50 million.



Data from other states indicates that 20-25% of this total is included in the tourism impacts discussed above. Therefore, the total combined economic impact of Pennsylvania's wine industry is approximately \$190 million annually, some \$50 million from winery and associated activities and \$140 million of other tourism impacts from visitors traveling to Pennsylvania to see its wineries.

Pennsylvania wineries also create jobs, about one full-time equivalent employee for every 1,500 to 2,000 gallons of wine produced.

The most important aspect of Pennsylvania's wine industry is its future potential. Americans are more interested than ever in U.S. wines. Pennsylvania has some of the best conditions for growing varieties with broad appeal to the American palate. Pennsylvania wineries are now capturing about 2-3% of all Commonwealth wine sales and selling less than 2% of their product out-of-state. These factors, combined with currently low per capita consumption suggest room to grow and a bright future.