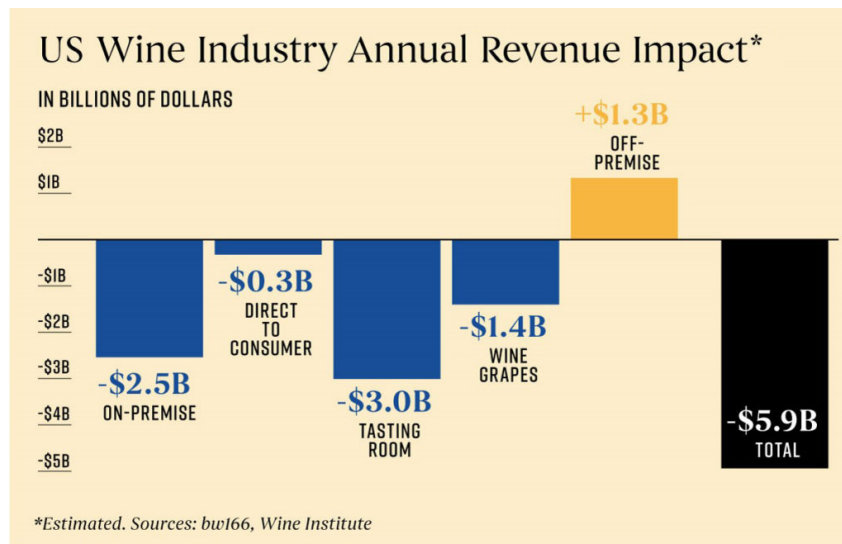


**Potential Economic Impacts of COVID-19 on the California Wine Industry**  
*Impact to the California Economy*  
*Outpaces the \$5.9 Billion Impact on the US Wine industry*

The Wine Business Institute (WBI) at Sonoma State University is monitoring the effects of COVID-19 on the California wine industry. The following economic impact analysis is meant to consider the shock this crisis may have on the wine value chain and the broader California economy. While headwinds were in the air for the wine industry prior to March, there were no headwinds as dramatic as a pandemic.

An analysis by wine industry expert Jon Moramarco, Editor & Partner Gomberg & Fredrikson and Managing Partner of bw166, published by Wine Institute and CAWG on April 16, 2020, provides a baseline forecast for the national contraction for vineyards, wineries, on-premise establishments and retailers, as well as the baseline assumptions for our analysis.

The following figure represents the baseline estimates for the **direct** economic impacts on the United States wine industry.

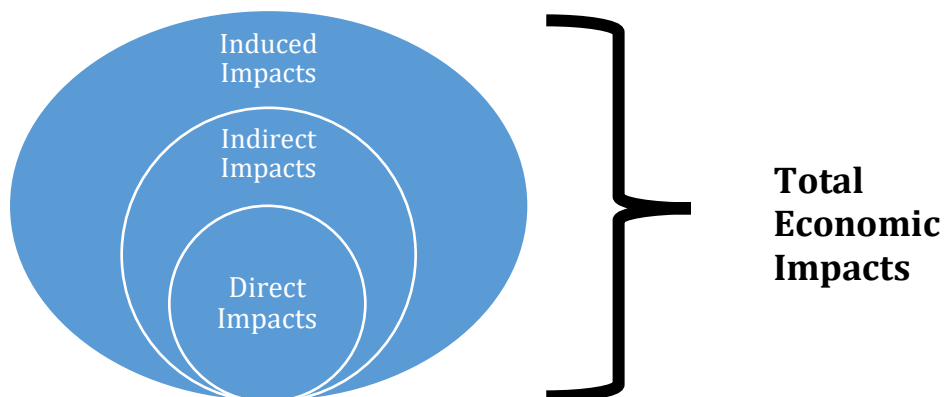


Source: Wine Institute

Our approach is to narrow the focus to the *State of California*. This economic impact analysis estimates the connections from the California wine industry across hundreds of other industries in the state economy. This California wine industry's potential contraction in net has broader effects on California than any other state's wine industry has on its state.

Figure 2 shows the multiplier effect of these rounds of new spending in theory. Economic impacts come in three “flavors” starting with the same way ripples come from throwing a rock into a still pond; the rock is the estimated losses to the wine industry, rippling out into the broader economy as **direct** effects. **Indirect** effects come from vendor relationships becoming broader spending. For example, the purchase of wholesale services, trucking, and vineyard management provide demand to local businesses not there previously without the new units.

**Figure 2: Economic Impacts**



This indirect spending fuels **induced** effects, including winery, retail, wholesale and vineyard employees spending their wages on groceries, medical visits, restaurant meals, and various other industries that have little to no connection at all with the wine industry proper.

### **Data Assumptions for California’s Direct Impacts**

While the forecasted variables above reveal a net negative impact on the national wine industry, there have been some bright spots in DTC sales and retail sales, both online and in brick-and-mortar stores.

Following are the national figures from the graphic above. These national data provide a basis to consider the California wine industry impacts on the state economy.

- Vineyards = (\$1,400,000,000)
- Wineries/DTC = (\$3,300,000,000)
- On-premise = (\$2,500,000,000)
- Off-premise = +\$1,300,000,000

The California figures form a large percentage of those above. Moramarco provided insights into 2019 revenues as well as historical data which describe how vineyards and winery effects in the United States are predominately in California (approximately 85 percent of total US winery revenue, 90 percent of vineyard revenue. Jeff Bitter, President of Allied Grape Growers also confirmed 90 percent

as the best annual approximation of grape revenues.) The off- and on-premise markets are approximately 12 percent in California. The final, direct impact estimates for California are as follows:

- Vineyards = (\$1,260,000,000)
- Wineries/DTC = (\$2,805,000,000)
- On-Premise = (\$310,305,100)
- Off-Premise = +\$155,887,800

The total direct impact to the California wine industry is approximately \$4,219,417,300. Wholesale revenues are affected by off- and on-premise sales through the indirect and induced effects, as the tables show below.

## Economic Impacts

We will report employment, business revenues, and state and local tax revenue losses in the tables below. In each of the tables, specific industries or tax categories show where the California wine industry has its largest effects on both supply chain links (wholesale as an example) and how job and revenue losses affect other parts of California's economy. The indirect and induced losses include lost spending from both wineries **and** their employees. As people lose their jobs or are temporarily laid off, spending falls. This loss of spending becomes lost tax revenues.

### Business Revenues, Estimated Losses, Based on Forecasted Contraction

Industry	Direct	Indirect	Induced	Total
Wineries	\$2,805,000,000	\$116,778,900	\$1,987,000	\$2,923,765,900
Vineyards	1,260,000,000	496,297,700	3,187,200	1,759,484,900
Total On-Premise and Off-Premise	154,417,300	63,602,500	269,696,000	487,715,800
Rental Income for Property Owners	0	0	282,046,700	282,046,700
Other real estate	0	189,687,300	82,381,100	272,068,400
Wholesale - Other products	0	168,448,900	23,233,000	191,681,900
Wholesale – food and beverage wholesalers	0	152,112,100	12,902,600	165,014,700
Truck transportation	0	101,918,700	18,704,200	120,622,900
Wholesale - Machinery	0	115,681,300	2,891,100	118,572,400
Management of companies and enterprises	0	83,578,900	26,723,700	110,302,600
Support activities for agriculture and forestry	0	107,319,700	800,800	108,120,500
Insurance agencies	0	75,020,200	30,417,200	105,437,400
Internet publishing	0	62,025,400	32,689,400	94,714,800
All Others	0	1,234,067,000	1,633,544,400	2,867,611,400
<b>Total</b>	<b>\$4,219,417,300</b>	<b>\$2,966,538,600</b>	<b>\$2,421,204,400</b>	<b>\$9,607,160,300</b>

### Employment, Estimated Lost Jobs, Based on Forecasted Contraction

Industry	Direct	Indirect	Induced	Total
Vineyards	7,161	2,538	16	9,715
Wineries	6,967	247	4	7,218
Retail (On-Premise and Off-Premise)	2,241	100	434	2,775
Support activities for agriculture and forestry	-	2,020	15	2,035
Other real estate	-	723	314	1,037
Wholesale – food and beverage wholesalers	-	774	66	840
Truck transportation	-	579	106	685
Limited-service restaurants	-	53	626	679
Wholesale - other products	-	523	72	595
Warehousing and storage	-	466	81	547
Management of companies and enterprises	-	361	115	476
Insurance agencies	-	336	136	472
Employment services	-	272	200	472
All Others	-	5,275	9,555	14,830
<b>Total</b>	<b>16,369</b>	<b>14,267</b>	<b>11,740</b>	<b>42,376</b>

### State and Local Taxes, Estimated Lost Jobs, Based on Forecasted Contraction

Tax Category	Amount
Employment Taxes	\$13,643,700
Sales taxes	\$201,055,900
Property taxes	\$190,041,900
Personal Income	\$115,714,000
Other Taxes and Fees	\$65,678,500
<b>Total State and Local Taxes</b>	<b>\$586,134,000</b>

Note: Off-premise sales reduce the potential losses, but all tax categories are losses.

### Summary

In summary, the estimated losses in 2020 for the California wine industry, based on the data as of April 16, are approximately \$4.219 billion. The broader economic impacts of these losses are based on the linkages of this industry to the state economy. Specifically, the following bullets provide a summary:

- The job losses are **16,369** for the \$4.219 billion directly, and there are additional job losses of **26,007** based on the indirect and induced job losses;
  - This is a total loss of over **42,376 jobs in California** throughout hundreds of industries;
- The revenue multiplier in this analysis is 2.28, meaning for every dollar of direct loss there is 122.8% additional loss to California economy otherwise;
  - The \$4.219 billion loss leads to a total loss to the California economy of approximately **\$9.607 billion in business revenues**;
- State and local tax losses will result from the statewide loss in business revenues;
  - The \$4.219 billion loss in business revenues may generate a tax loss of **\$586 million for state and local governments in 2020**.

The impact of COVID-19 on the wine industry will ripple through all parts of the economy. Beyond lost jobs and business revenues, state and local governments will see impacts to their budgets and the services that they can provide to citizens. We suggest further analysis after the phased reopening of the economy, as new data become available, and the wine industry continues to adapt to the unprecedented impact of the pandemic.