2023 San Diego County Economic Impact of Wineries

San Diego County – where
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This study was underwritten, in part, by the San Diego County Vintners Association (SDCVA).

All conclusions, errors and omissions are the sole responsibility of the author. We thank SDCVA for their support.

Executive Summary

While many prominent national and global health officials have declared the novel coronavirus pandemic over in 2023, there have been lasting effects on workers and businesses across the country. Major shifts in consumer choices have also been observed in key industry sectors, including wine. Understanding how local vintners in San Diego County have adapted to the current economic environment can foster greater awareness to the sector's local policy priorities.

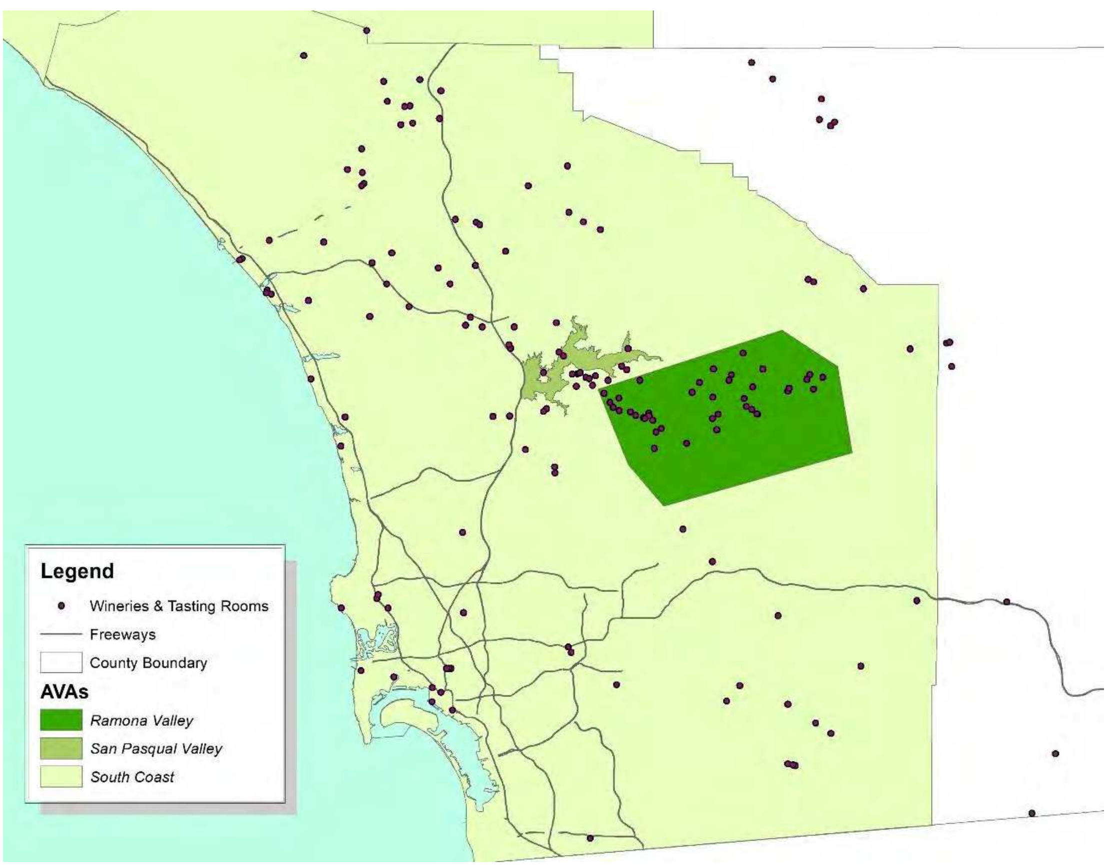
Using survey responses, public and proprietary data sources and geographic information systems (GIS) mapping software, we conducted an economic and workforce analysis of San Diego County wineries for 2022. Overall, we found that:

- Data from the California Department of Alcoholic Beverage Control shows that as of March 2023, the San Diego County region is home to 166 active and planned wineries, a modest 4% year-over-year increase from 2022 (160 wineries).
- We estimate that in 2022, San Diego County wineries generated $49.1 million in gross sales, an 11% increase over 2021 sales ($44.1 million), reaching an all-time high. In comparison, San Diego County distilleries generated an estimated $25.1 million in revenue in 2022.
- Newer and expanding wineries led job growth in the sector, which rose to an estimated 709.5 jobs in 2022, a 6% increase over 2021 totals (669), but still below 2020 levels (719.7).
- Yields from the 2022 harvest season dropped; most respondents indicated a below average (66%) harvest yield, a reversal from 2021 which saw most wineries experiencing an average yield (72%). Still, the harvest quality was strong (24% Excellent, 50% Good).
- Wineries have largely moved past the COVID-19 pandemic; nearly half (45%) of respondents indicated their business has returned to its normal level of operations, and 16% said there has been little to no effect on their business. Still, inflation and prices are a concern, and some wineries have adjusted to operating with fewer employees.
- Wildfire insurance coverage is a major issue for local vintners. Most (54%) respondents said their insurance rates increased over the past year, and 22% stated they were denied insurance coverage. Few (14%) said their insurance provider and rates have not changed.

Industry Overview

San Diego County's wineries, satellite tasting rooms and urban wineries reach every corner of the region, which is recognized for its year-round temperate climate, ocean breezes and fertile soil that are prime conditions for wine grape cultivation (see Figure 1). Local wineries reside primarily within one of three American Viticultural Areas (AVAs) – Ramona Valley, San Pasqual and South Coast. The South Coast AVA stretches from the US-Mexico border to Los Angeles County, and the San Pasqual Valley AVA is in the northern most area of the City of San Diego. Winegrower license data from the California Department of Alcoholic Beverage Control (ABC) shows that as of April 2023, 166 unique active and planned wineries are located in San Diego County, a modest 4% increase from the regional tally included in our March 2022 wine industry report.[1] In comparison, there are 95 unique active and planned wineries in Riverside County, home to Temecula Valley wineries and vineyards.

Figure 1: Wineries and Satellite Tasting Rooms in San Diego County, April 2023



[1] We conducted an exhaustive review of the Type 2 licenses in San Diego County, verifying every license holder and their current operating status, and removing all duplicate licenses, non-wineries and inactive wineries from the list.

2022 and Annual Survey

To say that 2022 was a challenging year for the wine industry in America is an understatement. To quote the Silicon Valley Bank's 2023 Wine Report:

> The issues that winery owners needed to overcome this past year were daunting. While COVID has mostly fallen into the background now, a partial list of other headwinds includes the continuing and growing consumer disillusionment with wine under $15, a slowing economy, neo-prohibitionism and evolving anti-alcohol laws, world political unrest, an aging wine consumer and resulting changing consumer tastes, declining total volume industry sales, supply chain shortages, finding skilled labor at an affordable price (or any price), inflation and increased material and shipping costs that were hard to fully pass to consumers in price increases, higher interest rates, higher numbers of imports and competition from other alcohol producers, and the deleterious impacts from climate change.
>
> Have we ever had a more difficult business environment to conquer?

Since our last survey of San Diego County vintners, we were particularly interested to learn about how area wineries were transitioning away from restrictions and challenges associated with the novel coronavirus pandemic, and adapting to an uncertain economic climate with high inflation and shifts in consumer preferences. To explore these questions, we partnered with the San Diego County Vintners Association (SDCVA), which electronically distributed an 18-question survey to its members. We also distributed the survey electronically to non-member winery owners in the region, using contact information found on social media sites, winery websites, and online industry directories. The survey instrument was circulated over two weeks in mid-to-late March 2023. Follow-up contacts were coordinated with SDCVA to ensure that larger wineries participated in the questionnaire. Overall, we received 38 responses, generating a 23% response rate from operating wineries.

Sales

As part of our survey questionnaire, we asked respondents to estimate their total gross sales revenue for 2022. We compiled these responses and supplemented non-participating wineries with modeled data from prior surveys and obtained company sales data (actual and modeled) from Dun & Bradstreet, a best-in-class proprietary business record database. We estimate that in 2022, San Diego County wineries generated $49.1 million in gross sales, an 11% increase over 2021 sales ($44.1 million), reaching an all-time high (see Table 1). In comparison, San Diego County distilleries generated an estimated $25.1 million in revenue in 2022.

Table 1: Estimated Gross Sales for San Diego County Wineries, 2018-2022

2018	2019	2020	2021	2022
$41,059,126	$46,236,060	$37,100,211	$44,172,206	$49,136,052

Generally, we have observed that, since the start of the pandemic, smaller wineries have experienced flat or declining sales, while mid-size and larger wines have mostly increased sales year-over-year. This may indicate there have been longer-term shifts in consumer choices, or challenges to adapt business operations, or both, which would require more research and investigation.

Harvest

California wineries in the 2022 harvest season generally experienced high quality fruit production and reduced crop yields, and San Diego was no exception. The 2022 Wine Institute Harvest Report by UC Davis gave a detailed description of the San Diego County regional harvest:

> Yields were down in the San Diego County region this year, yet overall fruit quality was excellent. The season began with a dry winter that required growers to begin irrigating early; those that did not do so experienced lightly pollinated cluster formation. Temperatures increased gradually over the season, allowing the vines to acclimate to the heat. Harvest began around the normal time and occurred at an accelerated rate. Crop sizes were down around 10% and some wineries chose not to harvest grapes due to a surplus from last year. There was a lot of variation among varieties in terms of ripening, delayed sugar accumulation and physiological ripeness, but overall, vintners reported very good quality fruit with distinct varietal character.[2]

[2] Source: California Wine 2022 Harvest Report. Wine Institute. https://wineinstitute.org/wp-content/uploads/2022/11/Wine_Institute_2022_Harvest_Report.pdf

Indeed, our survey revealed that respondents generally experienced good harvest quality but low yields (see Charts 1 and 2). When asked to rate the harvest yield, 2/3rds (66%) of respondents indicated a below average yield that year, the highest response rate for this answer choice since the start of our industry survey series in 2016. Only 11% indicated that 2022 produced an above average harvest yield, and 18% indicated it was average. With regard to harvest quality, there was a small drop of respondents choosing “Excellent,” from 2021’s all time high of 31% to 24% in 2022, and a similar rate of response choice for “Good” year over year (50%, respectively).

Chart 1: Harvest Yield, San Diego County, 2018-2022

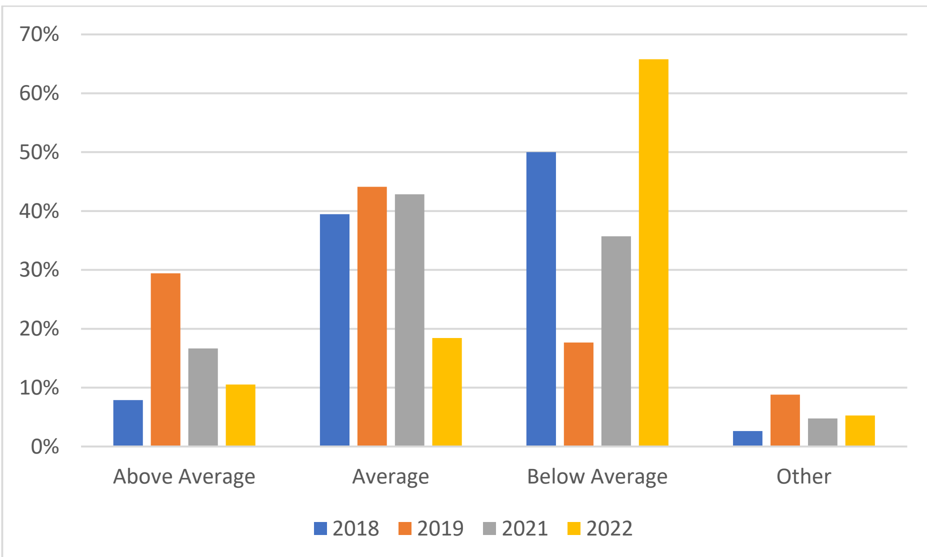
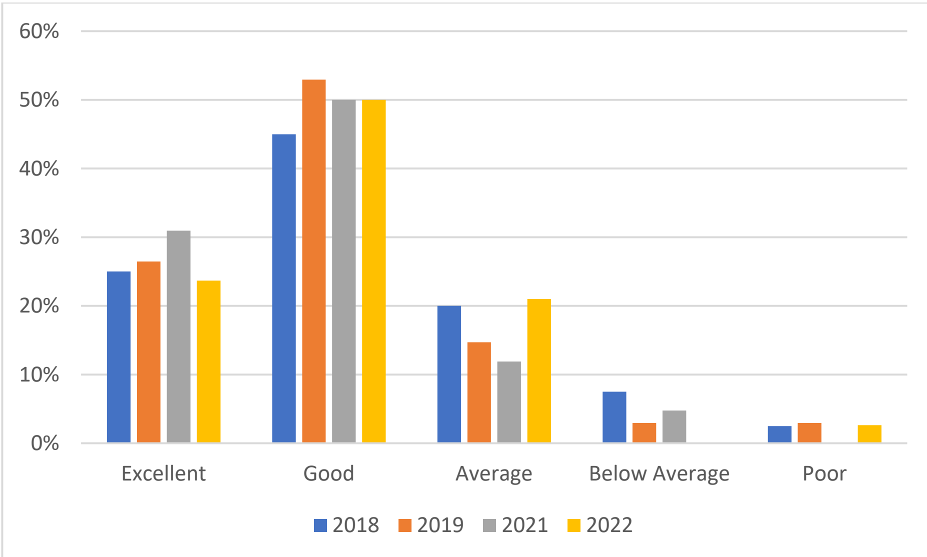


Chart 2: Harvest Quality, San Diego County, 2018-2022

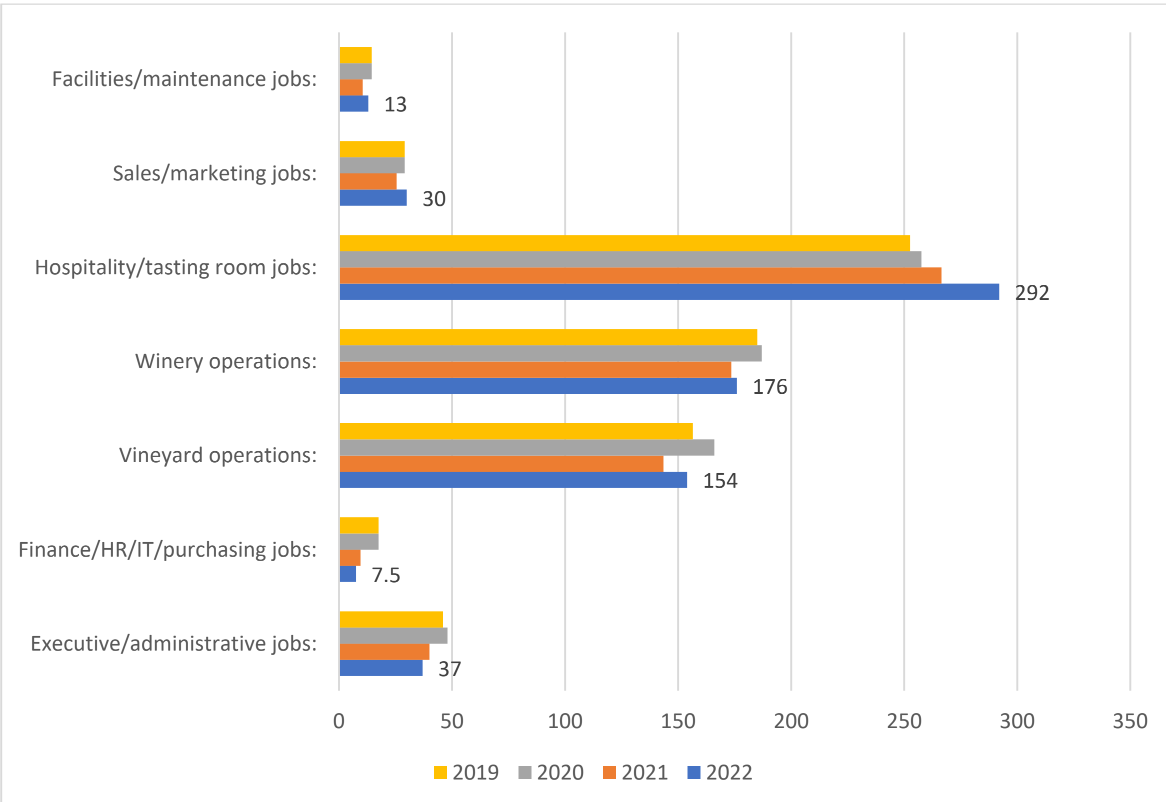


As in prior years, we asked respondents to identify the wine grape varietals grown, cultivated and/or sold in 2022. Overall, our survey showed there were 41 unique varietals grown in the region, which for the second year in a row falls out of the range of prior survey tallies (45-62). This may be due to a change in survey question design, however it is worth exploring if there has been a shift in varietal cultivation and purchasing choices. Furthermore, where once Cabernet Sauvignon was the clear top varietal choice in the region, there is now a three-way split for first place - Cabernet Sauvignon, Syrah, and Sangiovese, with Grenache and Merlot now tied for second place. Chardonnay dropped out of our top ten varietals, surpassed now by Viognier and Sauvignon Blanc.

Workforce and Wages

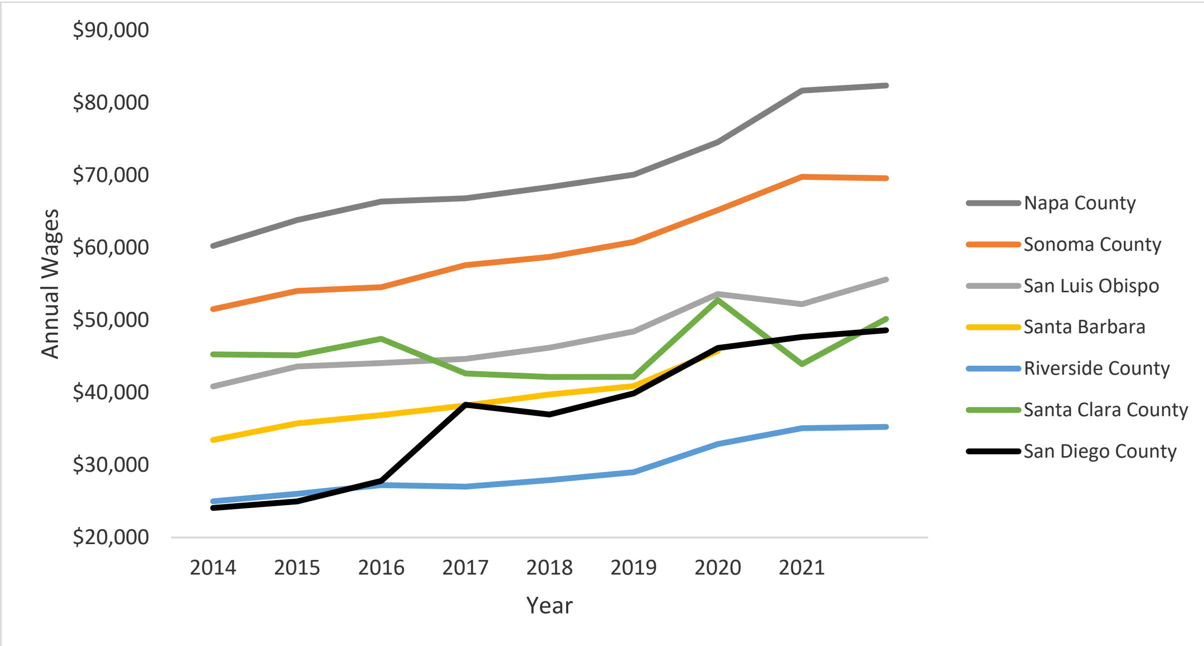
Newer and expanding wineries led job growth in the sector, which rose to an estimated 709.5 jobs in 2022, a 6% increase over 2021 totals (669), but still below 2020 levels (719.7). With the exception of hospitality/tasting rooms jobs and sales/marketing jobs, all industry occupations are still below 2020 levels (see Chart 3). Most wineries indicated year-over-year hospitality and tasting room jobs were flat or declined. Industry analysts are still identifying labor shortages nationwide. Winery and tasting room closures may have also contributed to these year-over-year figures.

Chart 3: San Diego County Wine Industry Workforce, by Occupation, 2019-2022



Annualized and preliminary industry wage data from the U.S. Bureau of Labor Statistics indicates that, overall, salaries may be flattening at wineries across the region (see Chart 4). This may be due to a combination of factors, including a cutback in high-wage jobs and an increase in lower-wage jobs; challenges in recruiting and retaining skilled industry workers; and more owners working longer hours and stepping in to take on more roles at their winery in the absence of paid employees, which our 2021 survey indicated. While these explanations are reflective of nationwide industry trends, they may be more acute in San Diego County where the high cost of living, housing crisis, and prevalence of small, boutique wineries are factors in play. At the time of the writing of this report, average annualized wage data for 2022 was unavailable, but quarterly wage data from 2022 indicated wages declining or flattening in San Diego County. Other benchmark wine regions in the state (Napa, Sonoma, Riverside) are experiencing the same phenomenon. Future research and survey questionnaires should consider exploring this matter in more detail.

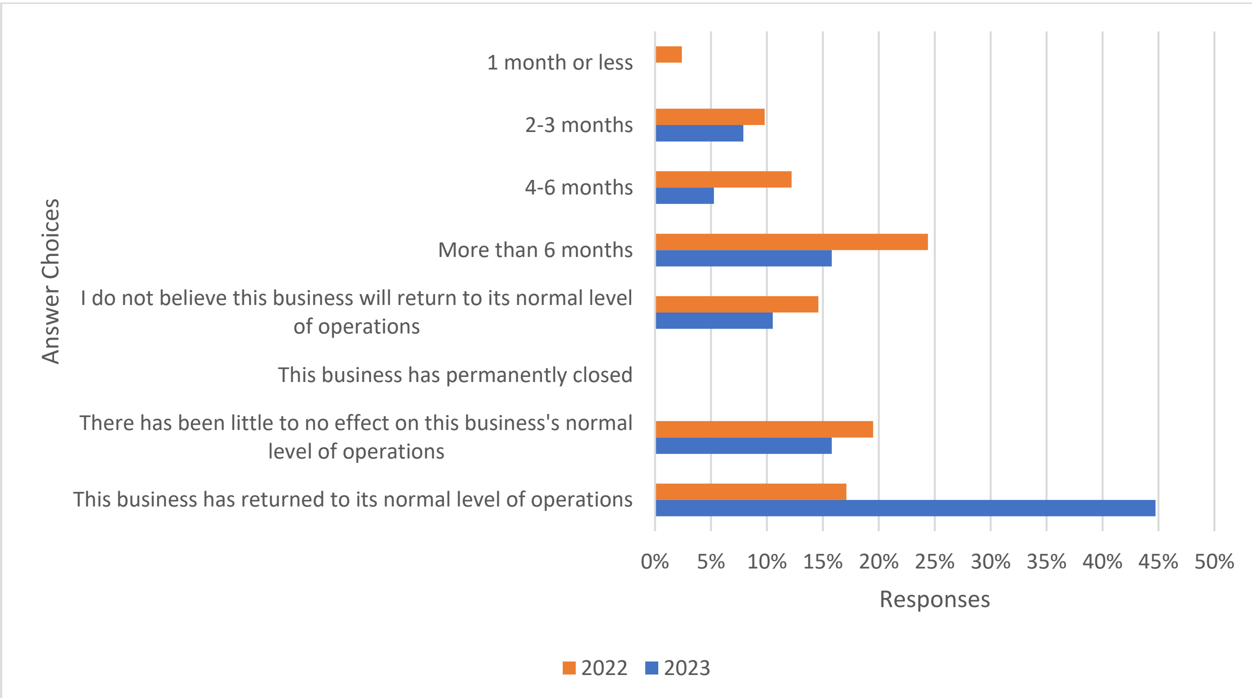
Chart 4: Average Annual Industry Wages, by County, 2014-2021



Coronavirus Pandemic & Business Operations

When we began our investigation into how San Diego wineries were transitioning from the coronavirus pandemic, we first looked at our pandemic-related survey questions from 2022 and compared responses. Our first question looked at when respondents thought their business would return to its normal level of operations, and there was a clear shift in responses year-over-year (see Chart 5). Nearly half (45%) of survey respondents indicated that their business has already returned to normal operating levels (compared to 17% stating the same response in February 2022), and 16% stated there was little to no effect in operations, which is a marginally less number of responses compared to 2022 (20%). Overall, these response choices suggest a high level of optimism among winery owners that a sense of normality for their business is here, or in view.

Chart 5: Survey Responses to "In your opinion, how much time do you think will pass before your business returns to its normal level of operations?"



Sourcing glass continues to be a problem for local vintners (see Table 2), but overall fewer wineries are reporting difficulty with accessing supplies and equipment for the winemaking process. Similarly, our question exploring the existence of industry supply chain issues revealed most respondents (57%) believe any supply chain issues will correct themselves this year, and nearly a quarter (22%) don't have any supply chain issues at all (see Table 3). The response rate for these choices more than doubled year-over-year, which indicates a significant shift away from pandemic-related supply chain problems to more stable and predictable business solutions.

Table 2: Survey Responses to "Which supplies have been difficult to source in 2021/2022? Please select all that apply:"

Answer Choices	2021	2022
Glass	80%	81%
Corks, capsules and closures	15%	11%
Cartons/corrugated cardboard	3%	6%
Equipment	13%	6%
Labels	28%	17%
Barrels	0%	6%
None	15%	19%

Table 3: Survey Responses to "In communicating with suppliers for production components (bottles, closures, machinery, parts, etc.) do you expect supply chain issues to carry into this year and beyond (2022 and 2023)?"

Answer Choices	2022	2023
We don't have any issues with getting supplies	8%	22%
We believe the supply chain issues will correct themselves this year	28%	57%
We believe the supply chain issues will carry into next year, but will be resolved by the first half of the year	39%	11%
We believe the supply chain issues will carry into next year, but will be resolved by the second half of the year	22%	3%
We believe the supply chain will likely carry into two more years or beyond	3%	8%

Moving on to business-related prices and costs, nearly two-thirds (65%) of respondents indicated that since the start of the pandemic in March 2020, they have experienced large price increases for the business goods and services they pay for, a major shift from just one year ago, where less than half (44%) indicated large price increases (see Chart 6). This suggests that rising inflation has significantly eaten away at the purchasing power that wineries have and the value they receive from business vendors and manufacturers.

Businesses commonly pass cost increases they must pay into the prices for goods and services they provide to customers, and wineries are no exception; roughly two-thirds (65%) of respondents in both 2022 and 2023 indicated that their net retail wine prices can take a small or moderate sized price increase (see Table 4). Taking a closer look reveals that in 2023 there was a shift in responses, from indicating mostly indicating moderate sized increases to now mostly small increases. The number of respondents stating they can hold prices also held consistent year-over-year, at 30%. These responses suggest that wineries are increasingly getting their business costs under control despite inflation.

Chart 6: Survey Responses to "Comparing now to what was normal before March 13, 2020, how have the prices your business pays for goods and services changed?"

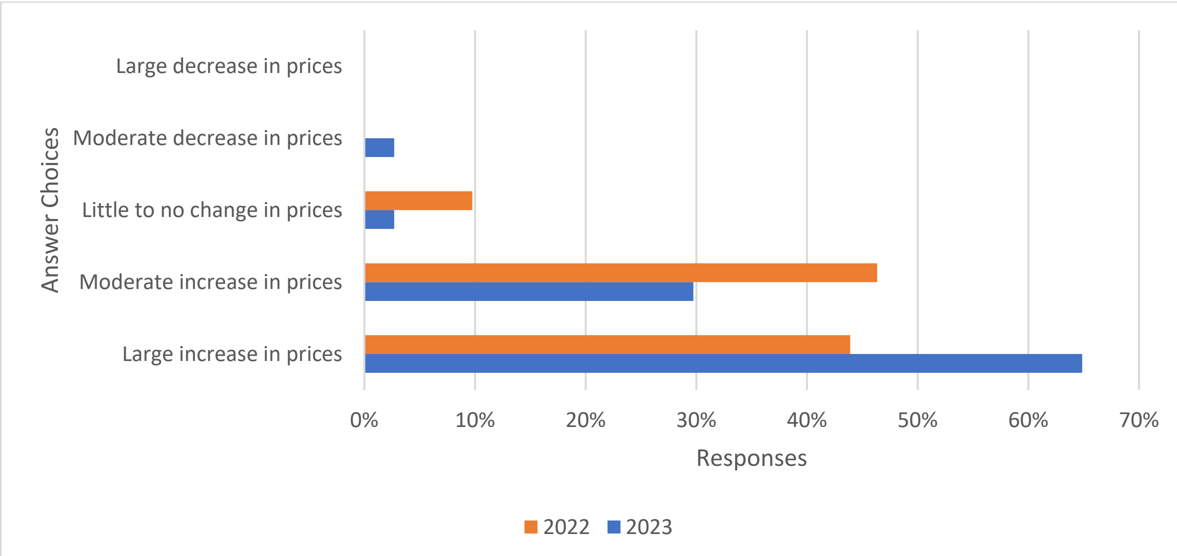


Table 4: Survey Responses to "Select the statement that most closely matches your belief about the expected net retail price changes for your wines in 2022/2023."

Answer Choices	2022	2023
Strong decrease: I need to take strong price reductions on most of my wines	3%	3%
Moderate decrease: I need to take modest price reductions on most of my wines	3%	0%
Small decrease: I need to take some small price reductions on select SKUs	5%	3%
Hold prices: I can pretty much hold my shelf price on average	30%	30%
Small increase: I can take some small price increases on select SKUs	28%	38%
Moderate increase: I can take modest price increases on most of my wines	33%	27%
Strong increase: I will be able to take strong price increases on most of my wines	0%	0%

Looking forward, we asked respondents to indicate which, if any, business activities they will need to do over the next six months (see Table 5). Two-thirds of wineries indicated they will need to increase marketing or sales, the greatest shift in year-over-year responses (49% in 2022). We would also note that the second largest response choice was “develop online sales or websites” (34%). Generating a higher level of sales is the clear focus for San Diego County wineries for 2023. Notably, pandemic-related priorities such as finding new supply chain options and hiring new employees have dropped year over year among respondents (32% to 18% and 35% to 26%, respectively), underscoring the shift away from pandemic-related priorities.

Table 5: Survey Responses to “In the next 6 months, do you think this business will need to do any of the following? Please select all that apply:”

Answer Choices	2022	2023
Obtain financial assistance or additional capital	11%	13%
Identify new supply chain options	32%	18%
Develop online sales or websites	32%	34%
Increase marketing or sales	49%	66%
Identify and hire new employees	35%	26%
Make a capital expenditure	30%	32%
Cancel or postpone a planned capital expenditure	14%	8%
Identify potential markets for exporting goods or services	3%	3%
Permanently close this business	3%	0%
None of the above	16%	18%

Other Issues

Another topic of major interest for wineries in California is the threat of wildfires. We previously touched on this topic in our 2019 economic impact, following the wildfire events that destroyed thousands of structures and burned tens of thousands of acres in Sonoma, Napa and Mendocino counties in 2017 and 2018. While most wineries and winery acreage were unaffected, there was an immediate drop in tasting room attendance and a languishing public perception that wineries were damaged and not open for business.[3] California experienced significant wildfire events in 2019 and in 2020, when more than four million acres burned across the state, mostly concentrated in Northern California, costing billions of dollars in economic loss and damages for property owners.

The effect wildfires have on wineries and wine production is still under evaluation. In 2018, oenologists at the University of California, Davis began investigating the impact wildfires, smoke and smoke taint have on wine grapes and the wine industry at large. This area of research is new and ongoing, but we do know there has been a ripple effect on insurance coverage for agricultural policyholders, where cancelled policies and steep increases in premiums have been observed.[4] The state response has been slow, but improving; in 2021, California Governor Gavin Newsom signed Senate Bill 11, which allowed formerly excluded agricultural properties to receive property insurance coverage under the California FAIR Plan, which provides basic insurance coverage for high-risk properties that have been denied coverage from insurance companies.[5]

We asked wineries how their insurance coverage has changed since January 2022 (see Table 6). Most respondents said that their rates increased (54%), and nearly a quarter have been denied insurance coverage (22%) and/or have coverage under the California FAIR Plan (22%). Only 14% of respondents indicated that their insurance provider or rates have not changed since 2022.

Table 6: Survey Responses to, "Has your wildfire insurance coverage changed since January 2022? Please select all that apply."

Answer Choices	
My insurance rates increased	54%
I was denied insurance coverage	22%
I changed my insurance company	16%
I now have coverage from the California FAIR Plan	22%
I currently do not have wildfire insurance	19%
My insurance provider and rates have not changed	14%

[3] North Coast Wildfire Impact Study Signals Strong Recovery in Early Findings. Sonoma State University, Wine Business Institute. January 26, 2018. https://sbe.sonoma.edu/news/north-coast-wildfire-impact-study-signalsstrong-recovery-early-findings

[4] The Impact of Wildfires on California Agricultural Report. California State Assembly Agriculture Committee. November 18, 2020. https://agri.assembly.ca.gov/sites/agri.assembly.ca.gov/files/The%20Impact%20of%20Wildfires%20on%20California%20Agriculture%20Informational%20Hearing%20Report.pdf

[5] Pomranz, M. California Is Giving Vineyards That Can't Obtain Wildfire Insurance Another Option. (August 2, 2021). Food & Wine. Retrieved May 8, 2023, from https://www.foodandwine.com/news/california-farm-winery-wildfire-insurance

Wineries appear to be doing their part to mitigate the threat of wildfires on their property (see Table 7). When asked what actions they have taken to reduce wildfire risk, nearly half (47%) said they have cut back brush and vegetation at their winery, and a slightly smaller amount (39%) said they have created a defensible space around the perimeter of their property. While more than four out of ten (42%) said they have not taken any actions to reduce wildfire risk, it should be noted that our survey sample includes urban wineries and other industry establishments which may not be located in high-risk wildfire areas.

Table 7: Survey Responses to "What actions have you taken to reduce the risk of wildfires at your winery? Please select all that apply."

Answer Choices	
Removed fuel/cut back brush & vegetation	47%
Created defensible space/buffer around the perimeter of the property	39%
Fire gel retardant or other mitigation measure to save physical structures is on site	5%
Firefighting equipment is on site (water truck, dozer, shovels, et al)	18%
Other	5%
None of these apply/no action taken	42%

Also of interest to us was the prevalence of technology and automation at wineries in the region, to lower business costs, improve sales and reduce the dependence of labor since the start of the pandemic. Overall, we found that most respondents (61%) are using technology tools to improve business operations and the tasting room experience. The greatest answer choice was for app-based payment system options for tasting room sales (29%), followed by a tie for using online reservation systems for tasting room appointments and app-based payment systems for online sales (21%, respectively). We will continue to ask this question in subsequent surveys, to track responses and the adaptation of wineries to our economic climate.

Table 8: Survey Responses to "Has your winery added new products or services that increase your use of technology, automation or mechanization since January 2020? Please select all that apply."

Answer Choices	
Online reservation system for tasting room appointments	21%
App-based payment system (Venmo, Square, et al) for online sales	21%
App-based payment system option for tasting room sales	29%
QR codes on wine bottles/in tasting room	8%
Sales/marketing data analytics	11%
Mechanical pruning	3%
Mechanical harvesting	3%
Drone tanker system for vineyard spraying	0%
Other	5%
None of the above	39%

Lastly, our survey included the question "In your opinion, how can local elected officials help support the needs of San Diego County vintners in 2023?" We were interested in learning what policy and political priorities that wineries have been identified that can be helpful for their business and customers, and where consensus emerged. Wineries are largely opposed to a proposed mileage tax on vehicle miles traveled, as part of the San Diego Association of Government's (SANDAG) transportation plan for the region, particularly those with tasting rooms and properties outside of the urban core. Respondents also emphasized the importance of tourism campaigns, and marketing and advertising efforts to increase tasting room sales and public awareness of wineries in the region. Allowing amplified live outdoor music and events at boutique wineries, and longer operating hours for urban wineries were mentioned as well. Finally, lowering insurance costs, reducing business regulations and taxes, and streamlining industry-related permitting were mentioned by multiple respondents.

About the Author

Vince Vasquez is an independent economic data analyst and executive director of the Policycraft Institute, a public policy think tank based in Carlsbad, California. Professionally, Vince has worked as a public policy researcher for more than eighteen years. He has authored more than forty policy papers on a range of economic and workforce issues, including craft brewing and the wine industry. Vince has a bachelor's degree in political science from the University of California, San Diego, a master's degree in business administration from National University, and has completed coursework in viticulture and enology at MiraCosta College.

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The San Diego County Vintners Association (SDCVA) is a non-profit member association dedicated to supporting the San Diego viticulture and winemaking community, educating local wine enthusiasts and embracing sustainable agricultural practices in the county.