Craft's Changing and Maturing Market

Bart Watson
Chief Economist

BREWERS ASSOCIATION

Thank you!

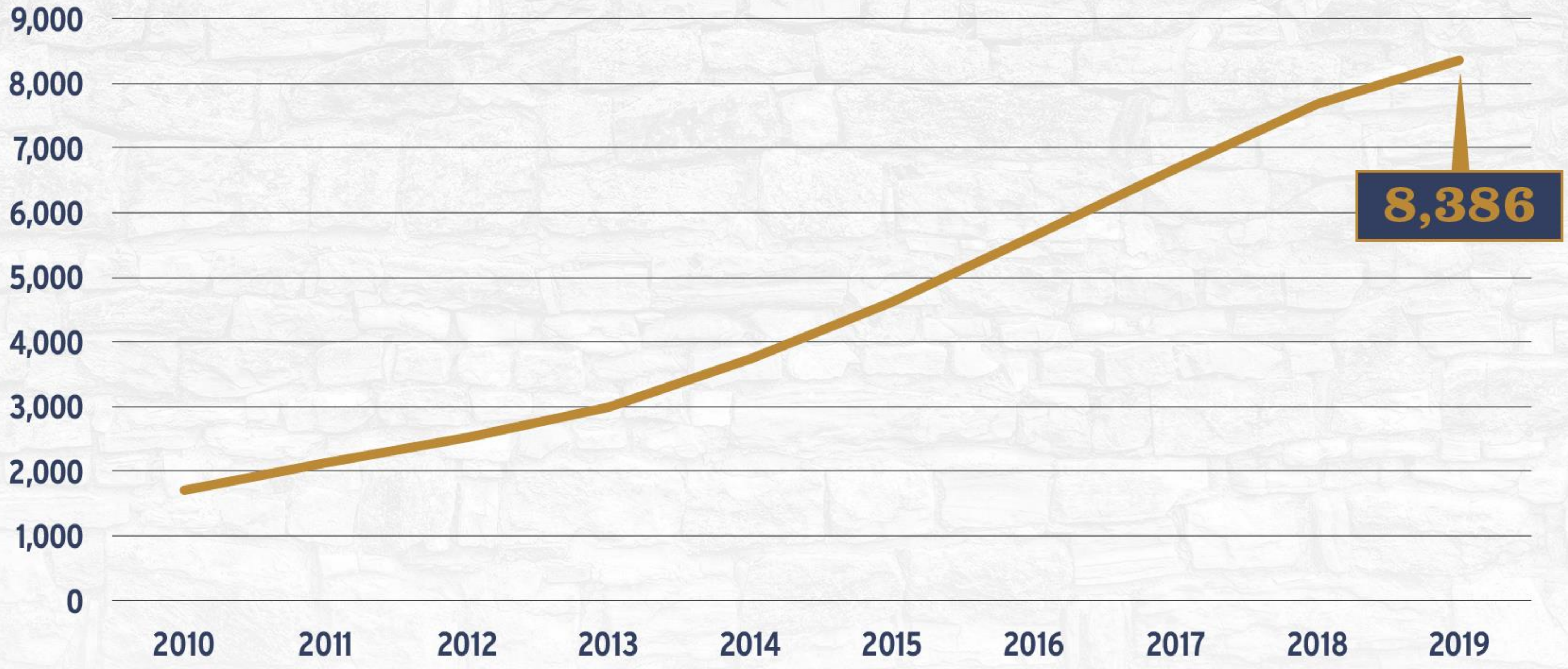
Where Are We and Where are We Going?

Return to Normal vs New Normal

- In order to understand where we are now, need to understand:
  - Where we were
  - Where we were going
  - What happened
  - What that changed
- Separating trend from shift from recovery

Where we were in the before times…

2010–2019 Operating Breweries



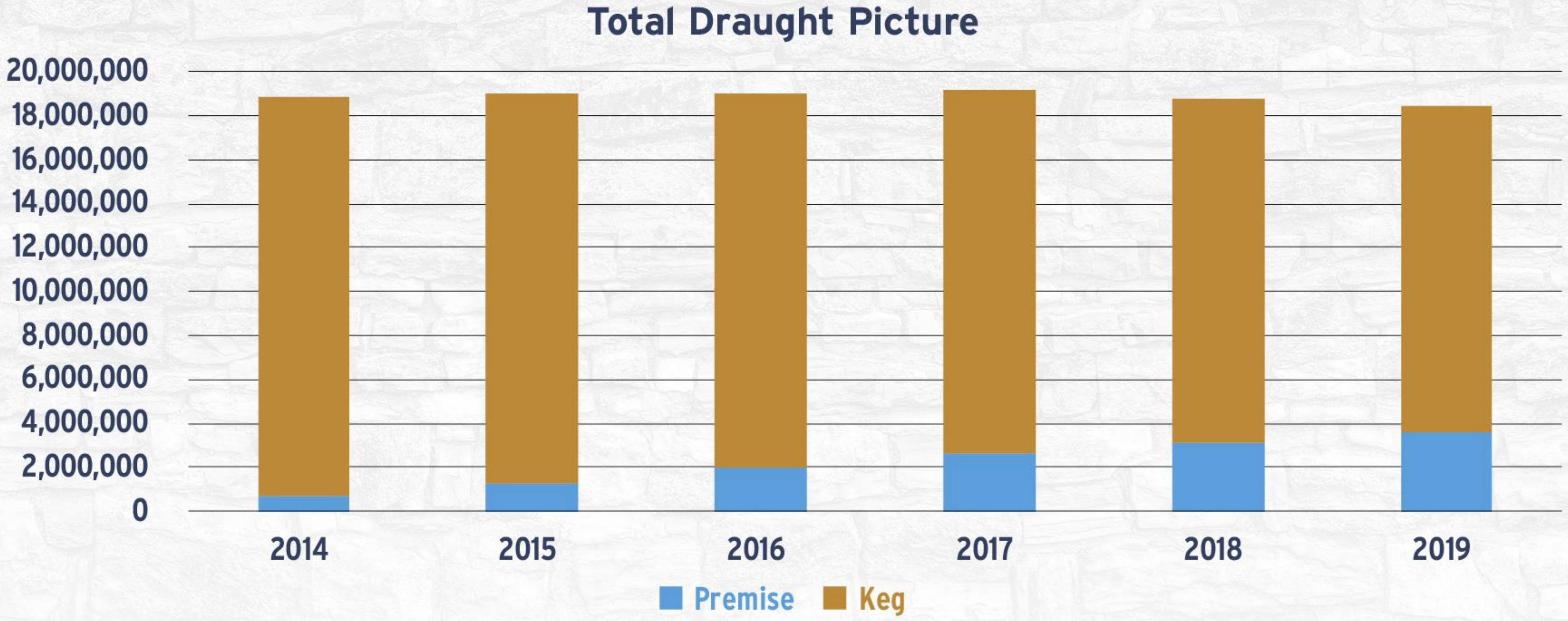
Sales Growth

slowing,

CHANGING,

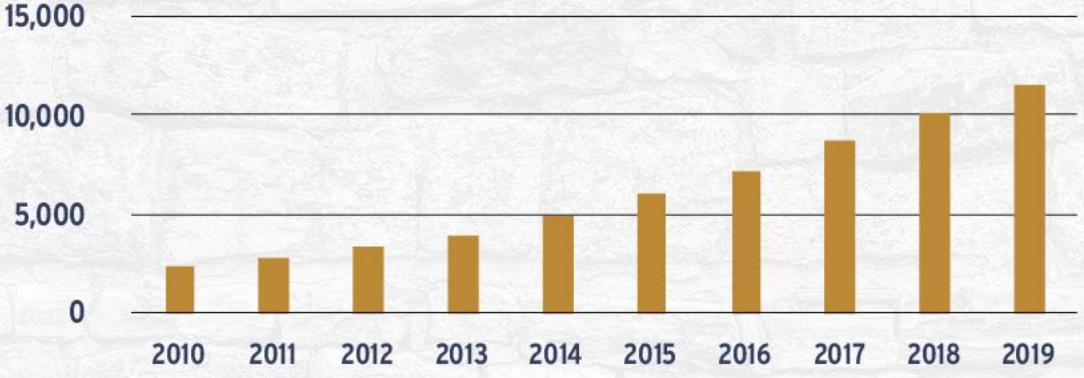
fracturing

The Flip Side: Distributed Draught (all beer)

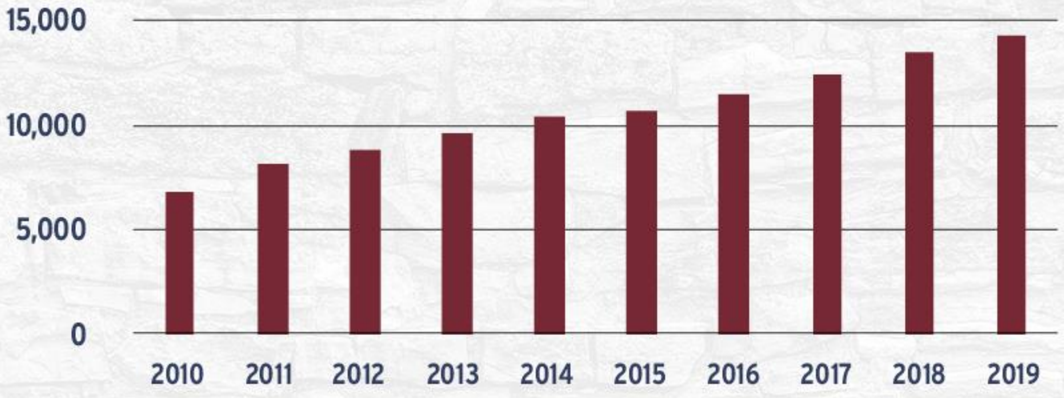


Total U.S. Alcohol Beverage Permits Grow Across All Segments

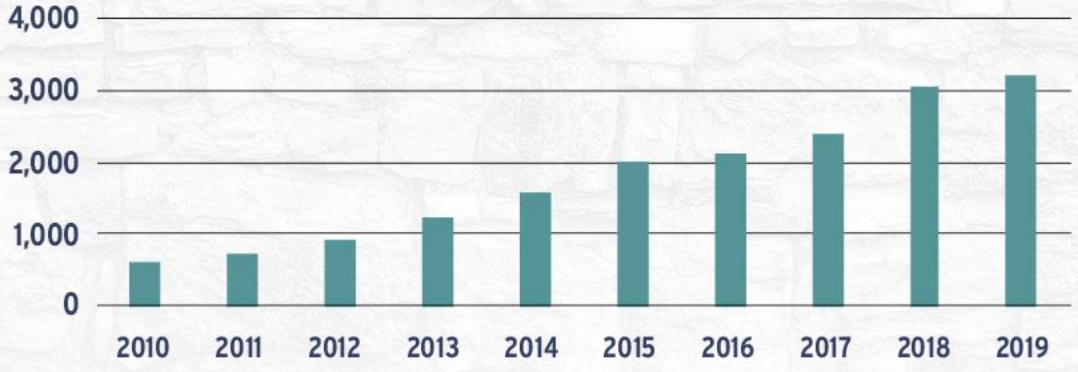
U.S. Brewery Permits



U.S. Winery Permits



U.S. Distillery Permits



Almost 30,000 permitted alcohol suppliers in U.S. +20,000 in past 10 years:

2010 = 9,803

Current = 29,007

Recap

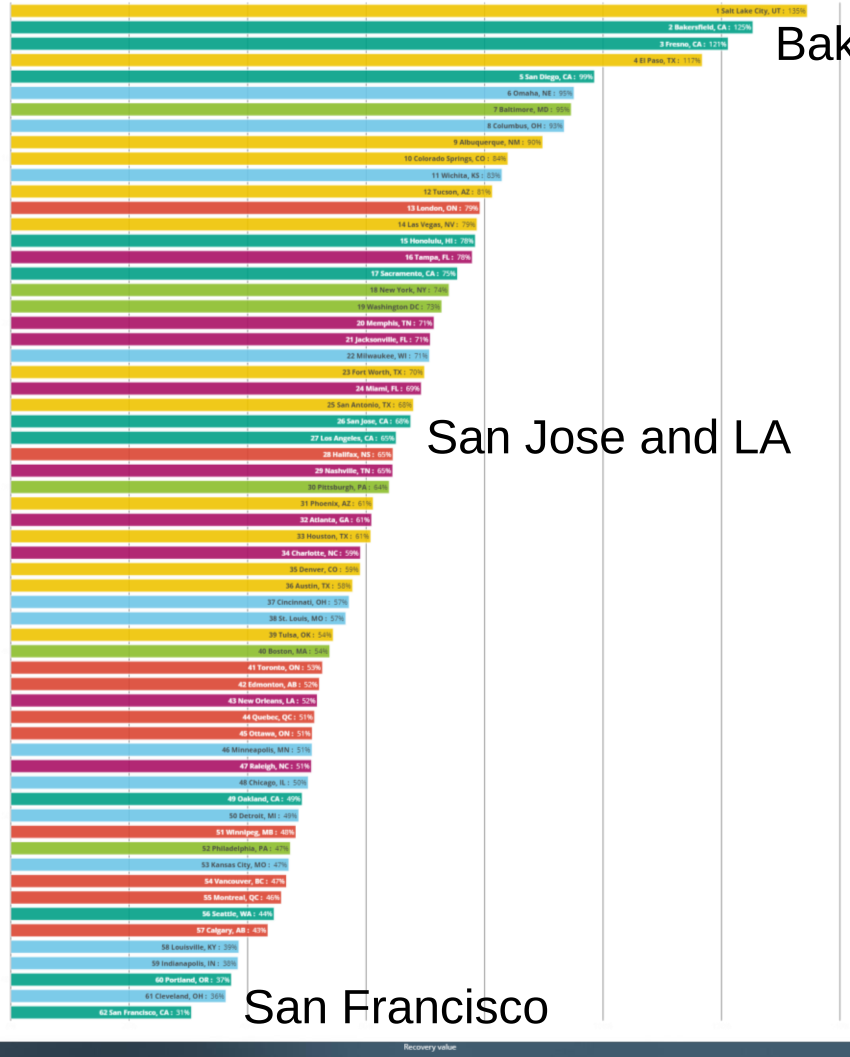
- Market was already maturing
  - Per brewery growth trending down
  - Distributed draught market weakening
- So return to trend would be back to that…
- But since then we've had:
  - Huge economic and demographic shifts
  - +1,000 net gain in breweries
  - Continued growth in beverage alcohol competition

What's Happened Since Then

Urban Geography

135%

Bakersfield and Fresno



San Jose and LA

31%

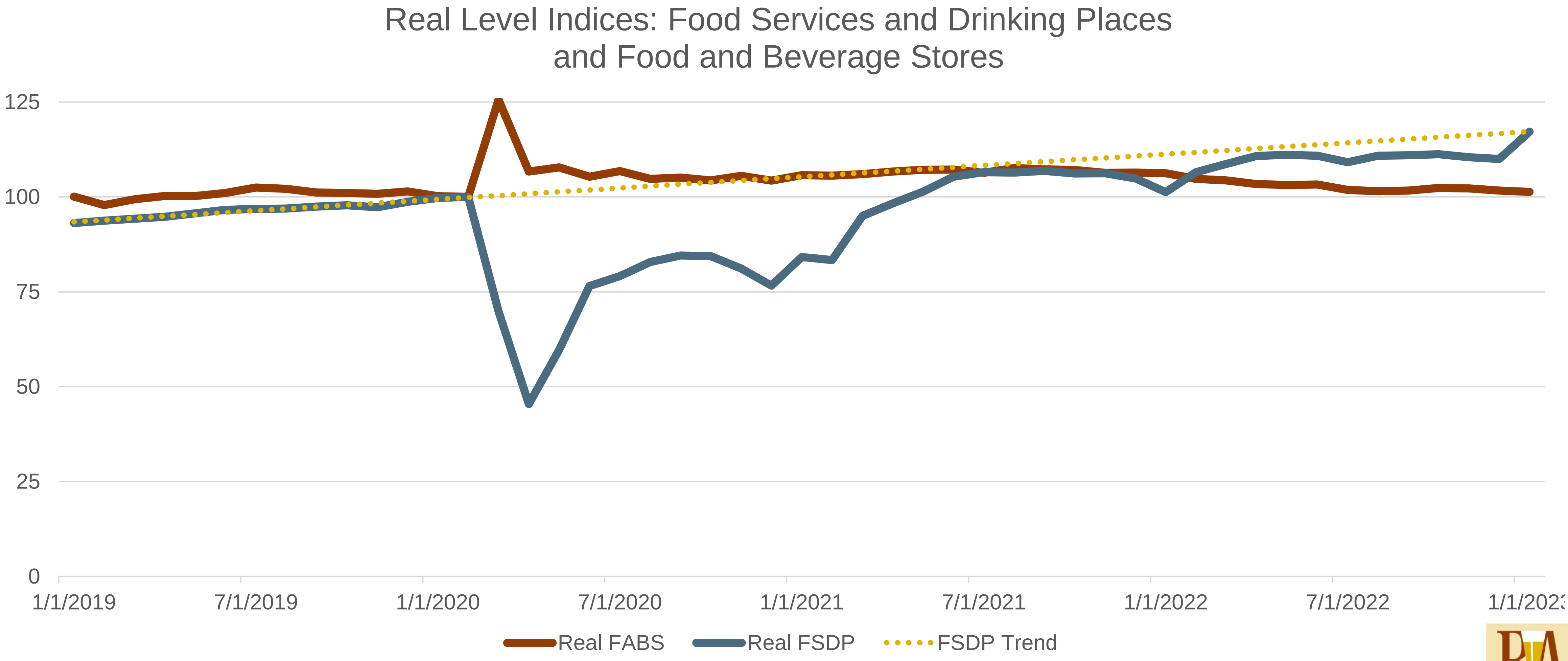
San Francisco

Talking about trends and recovery at a national level remains very difficult

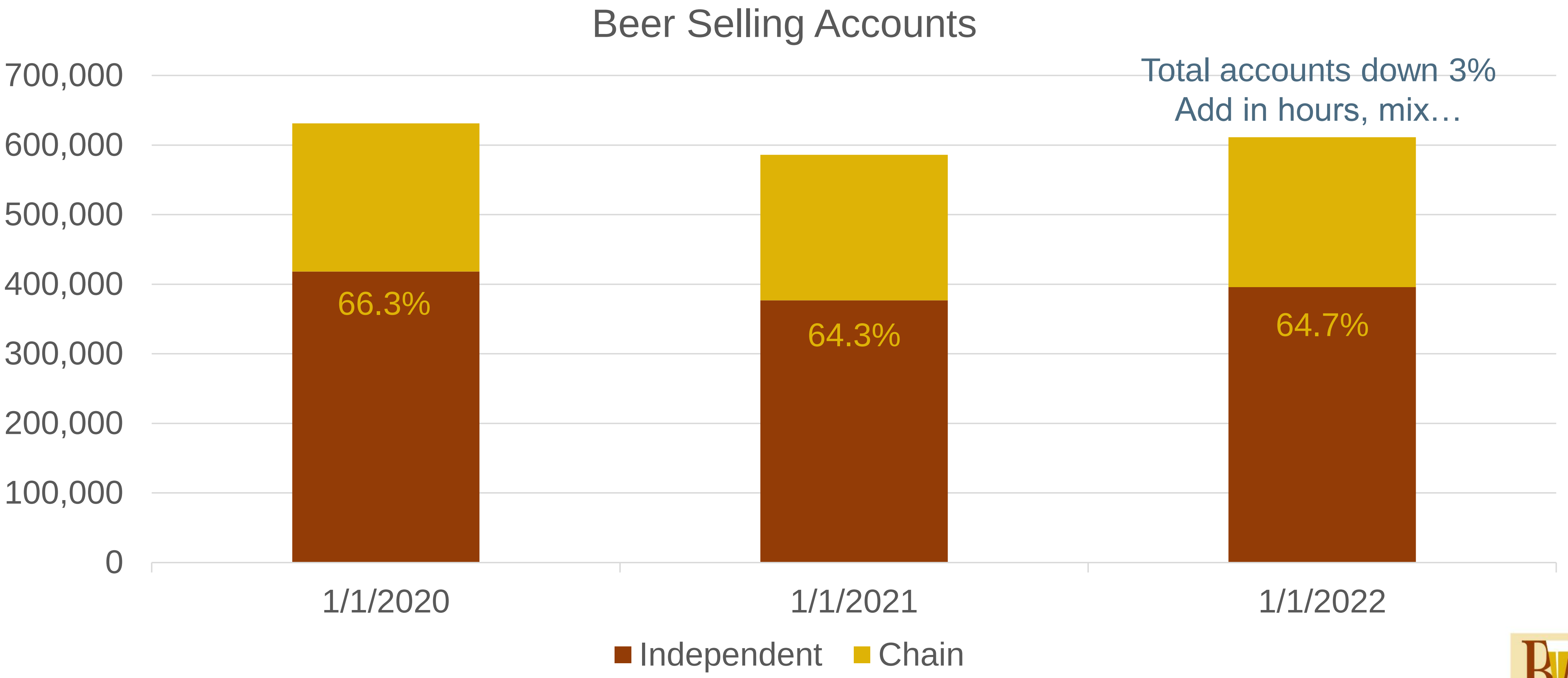
Large variations by:

- State
- City
- Even part of city

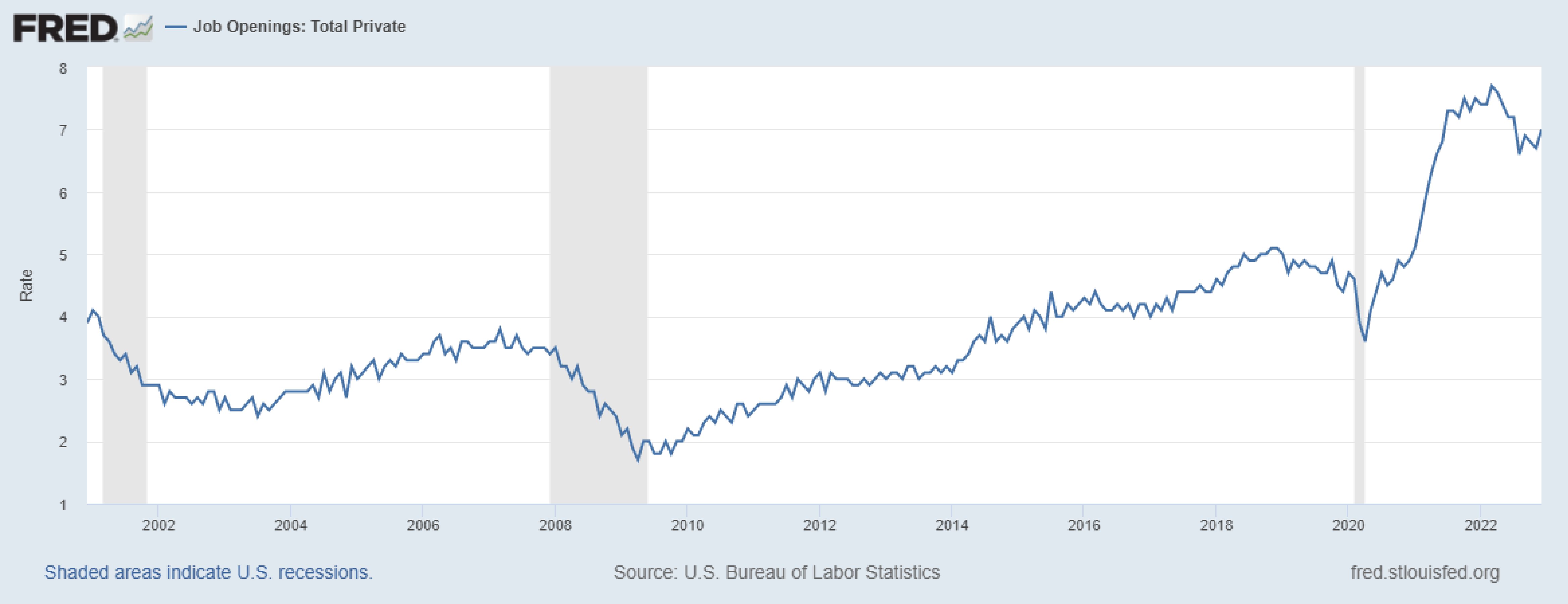
Retail Sales



Retailer Mix Shift



Labor Market



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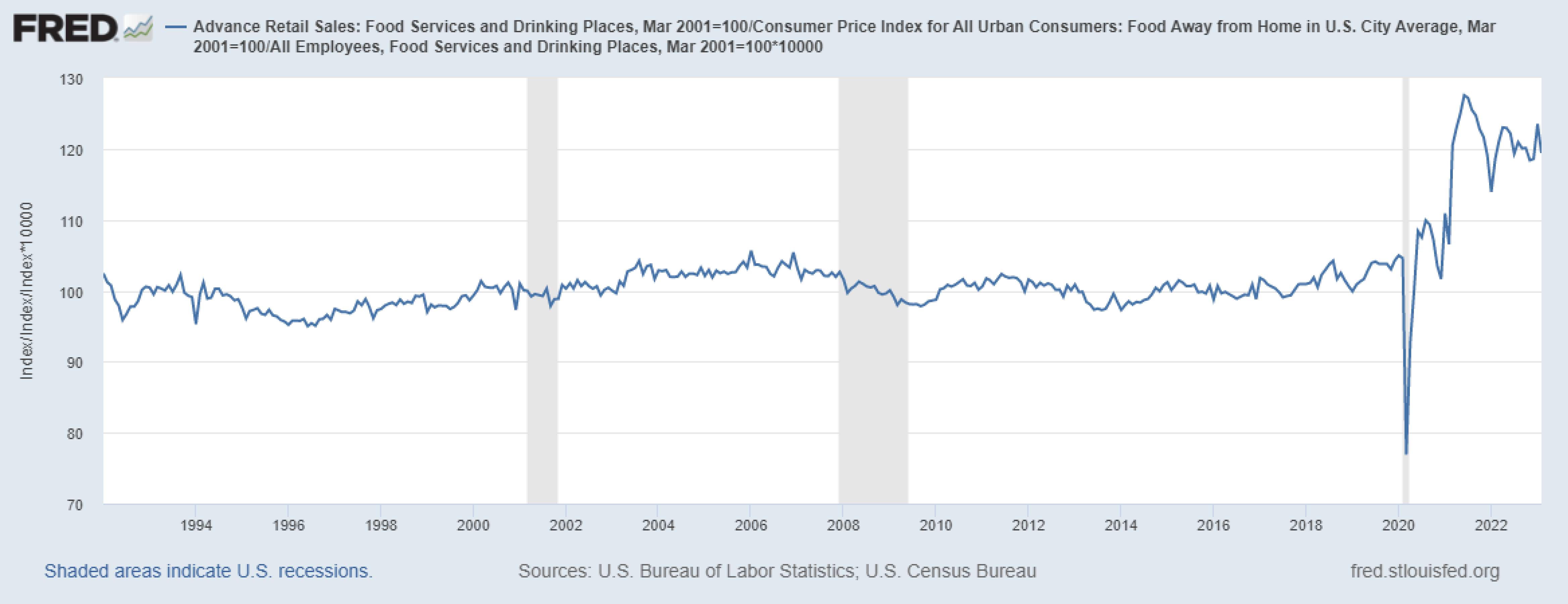
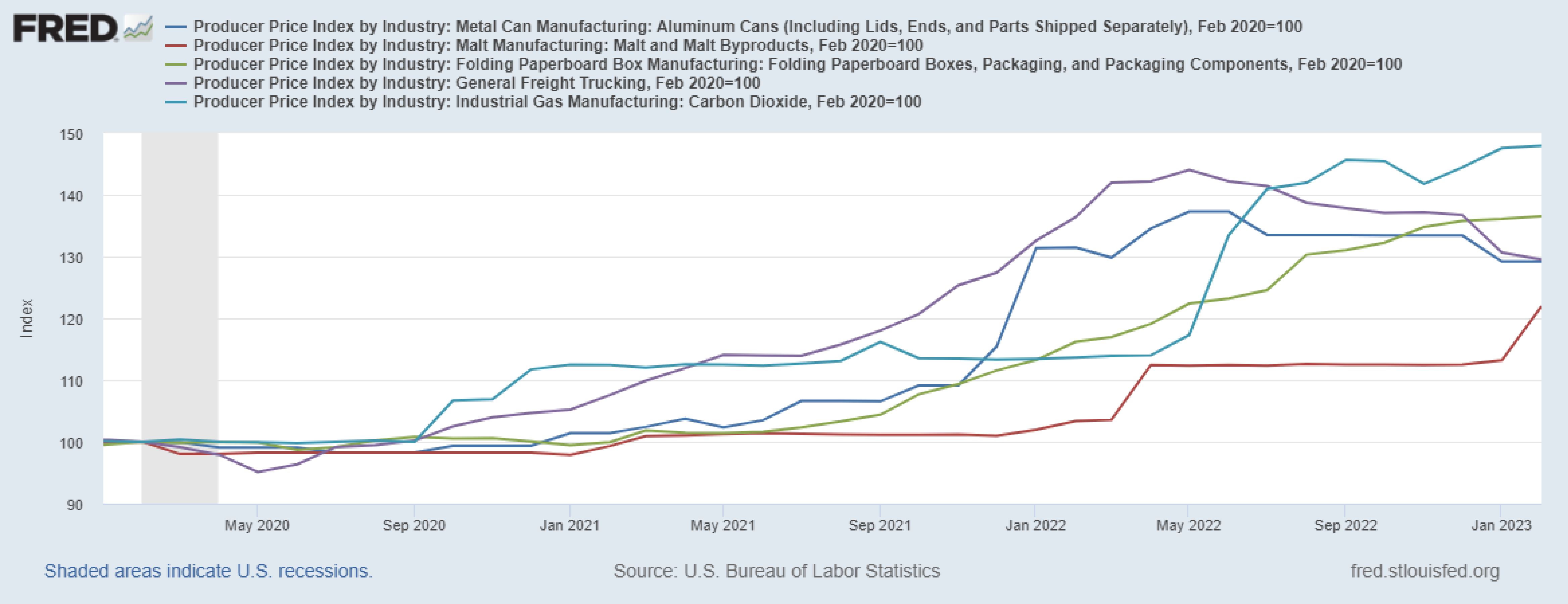
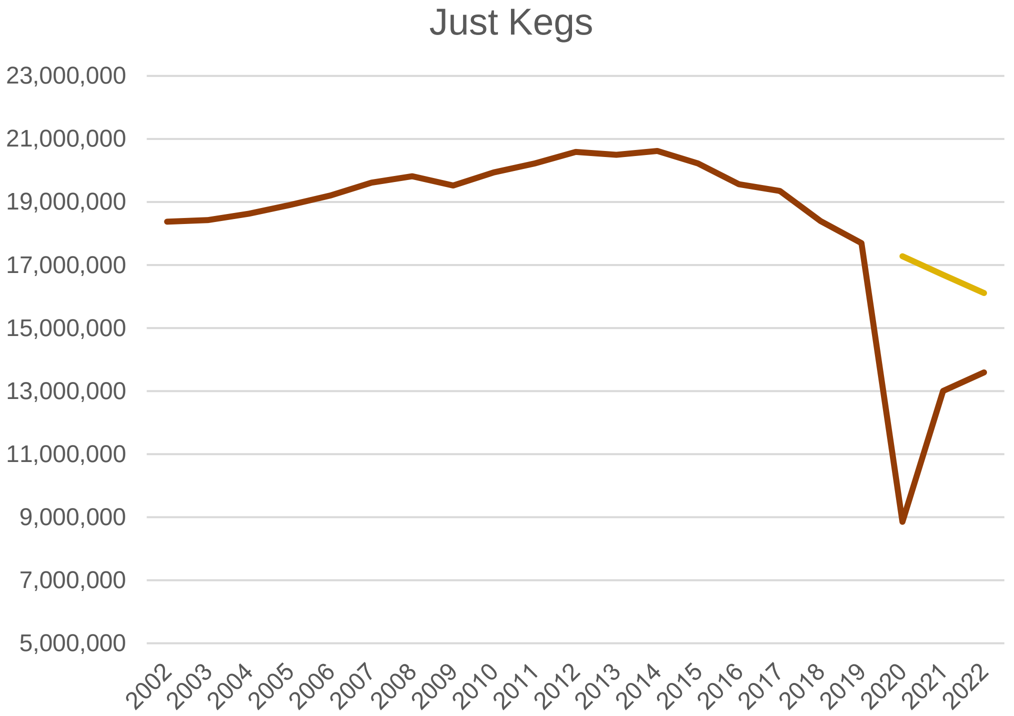
Labor Market

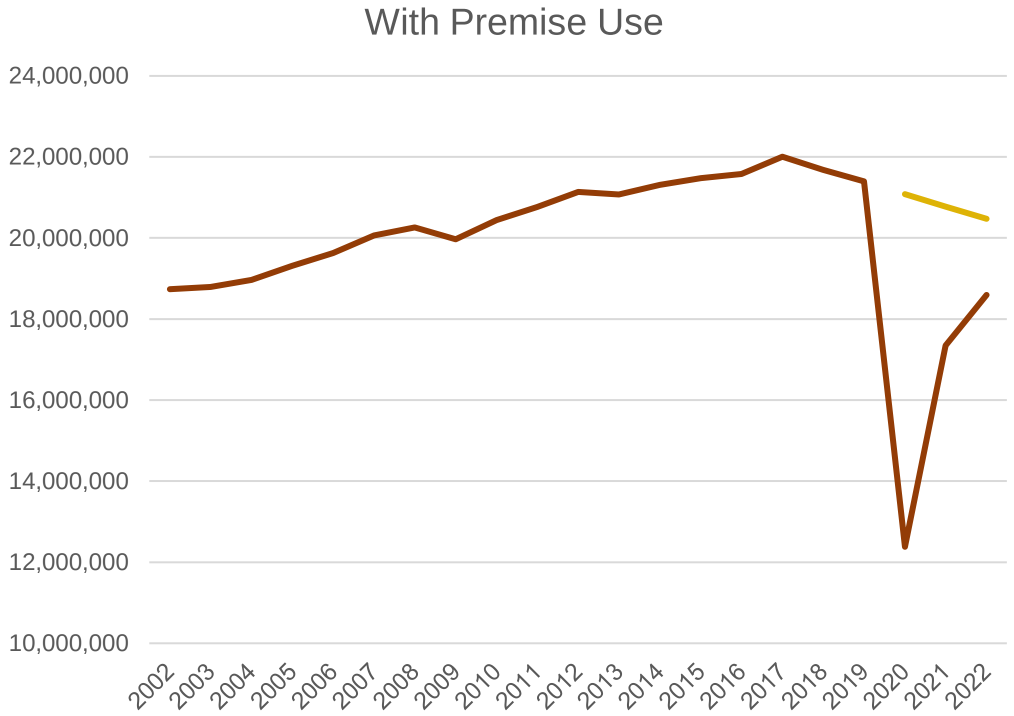


Supply Chain



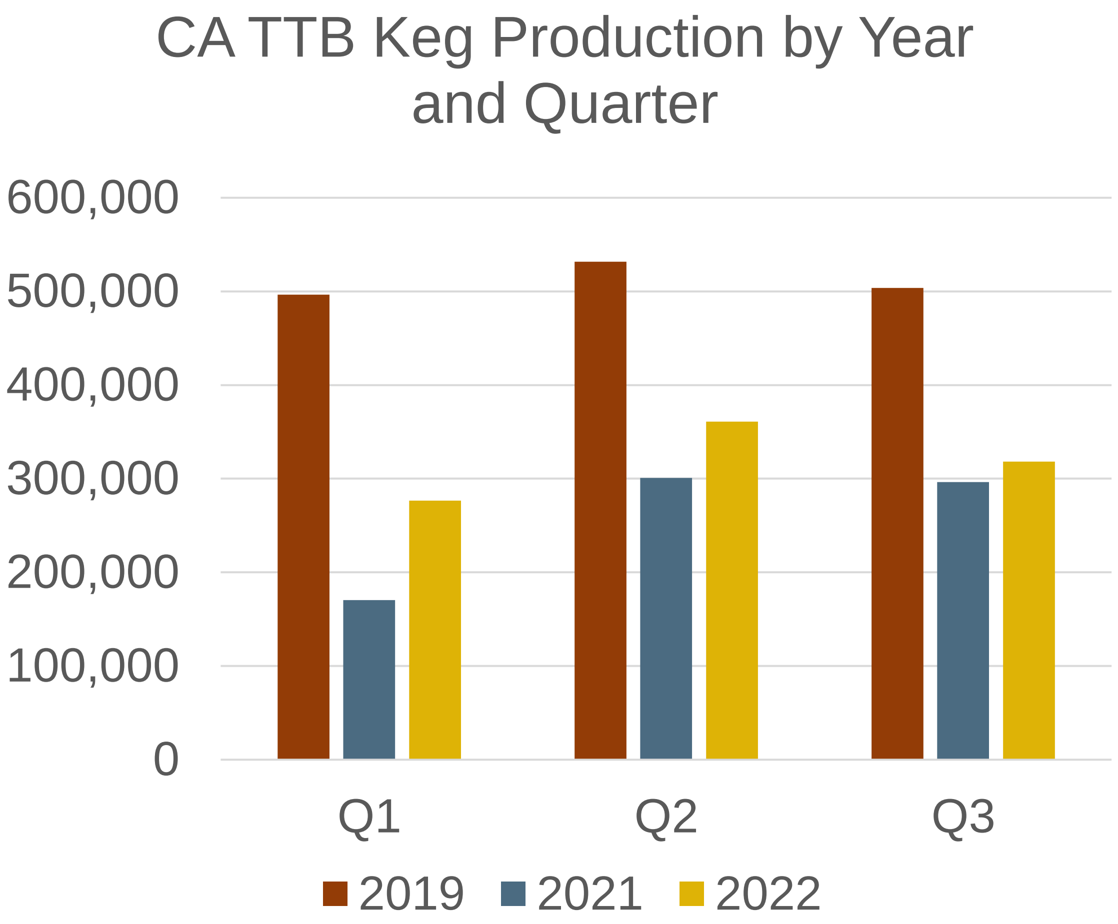
Draft Never Came Back

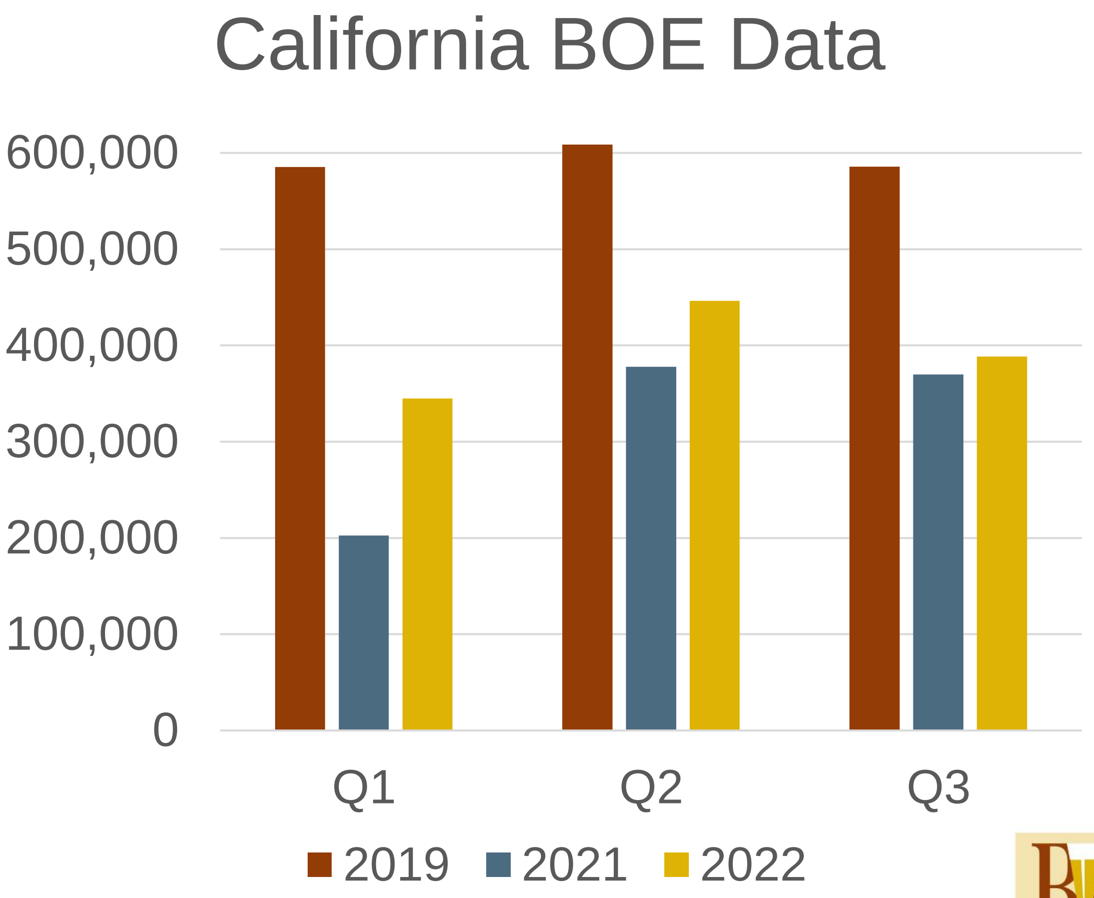




Missing 2-2.5M barrels of draft. At 30% craft that's ¾ of a million barrels missing

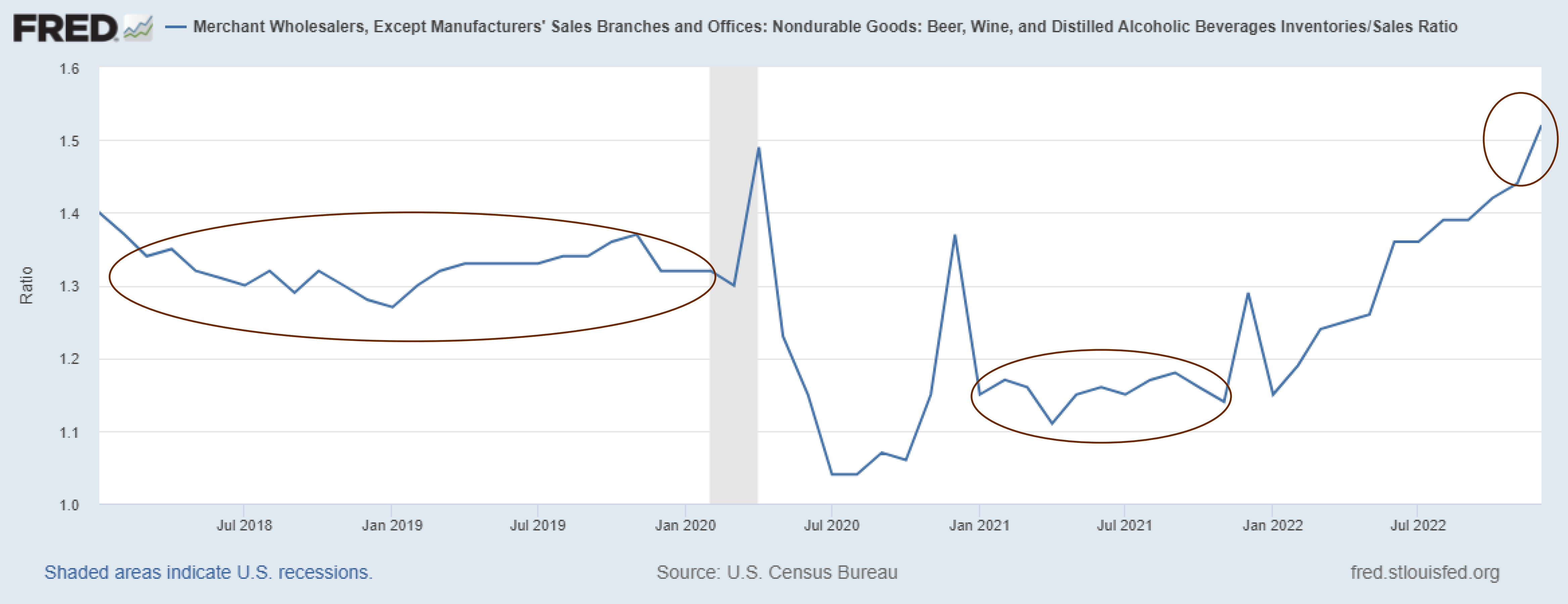
California Keg Production Lagging More, Still Recovering*



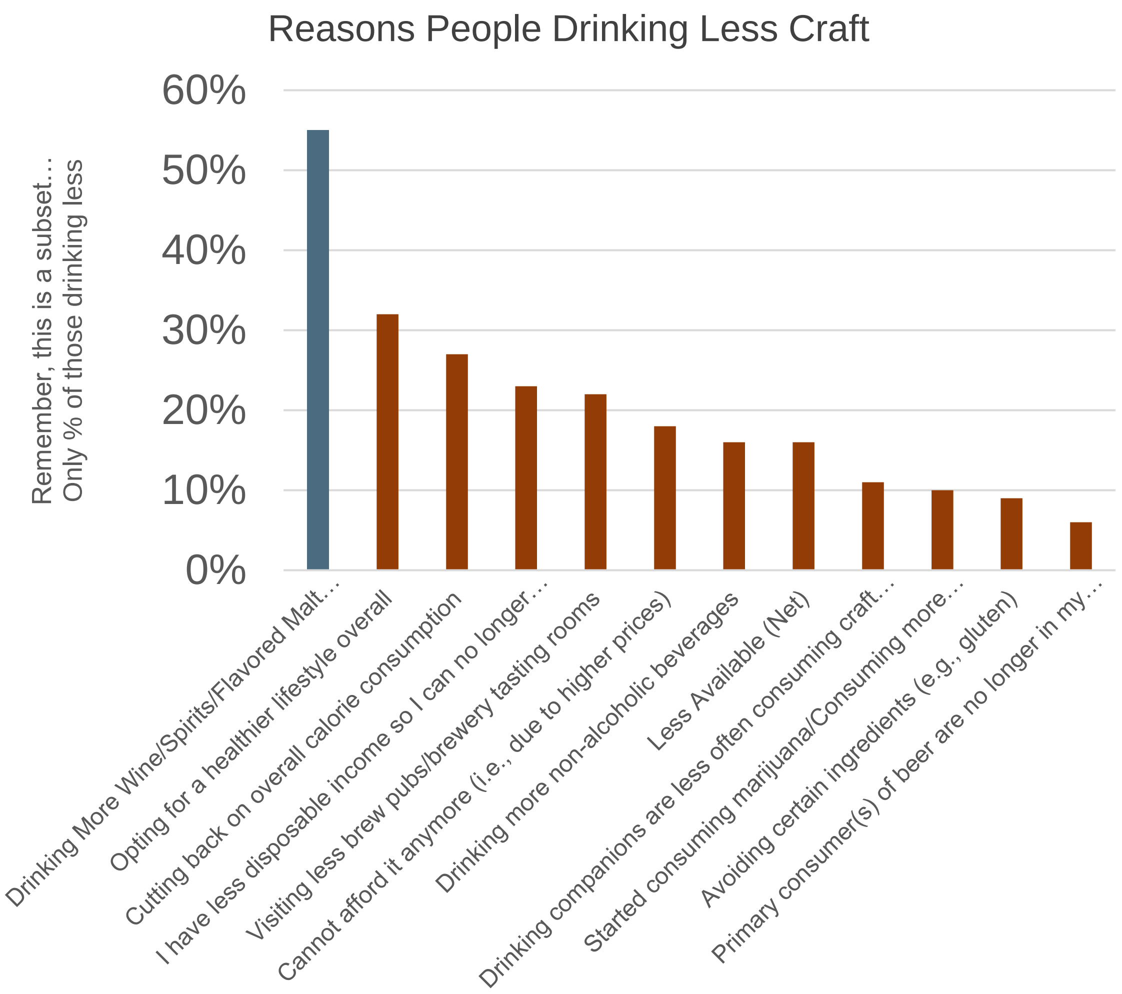


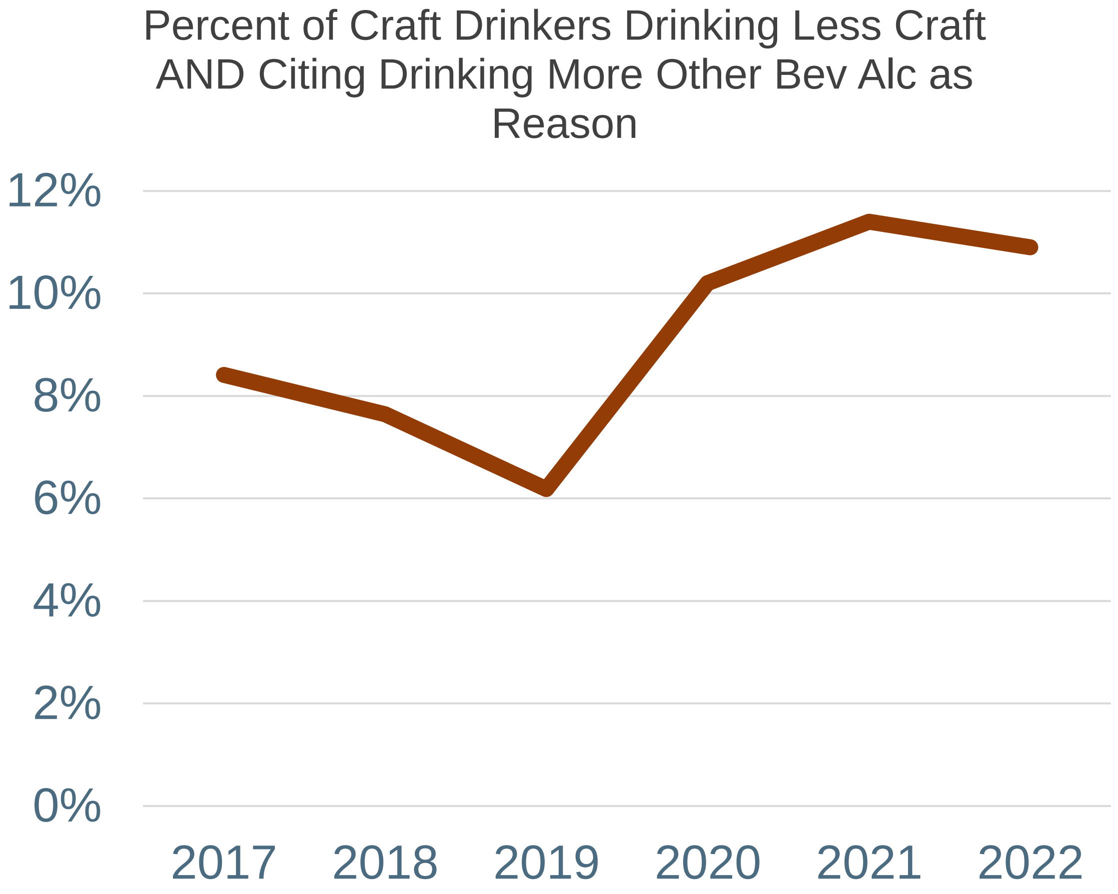
*Production does not equal sales

Wholesalers Looked to Simplify



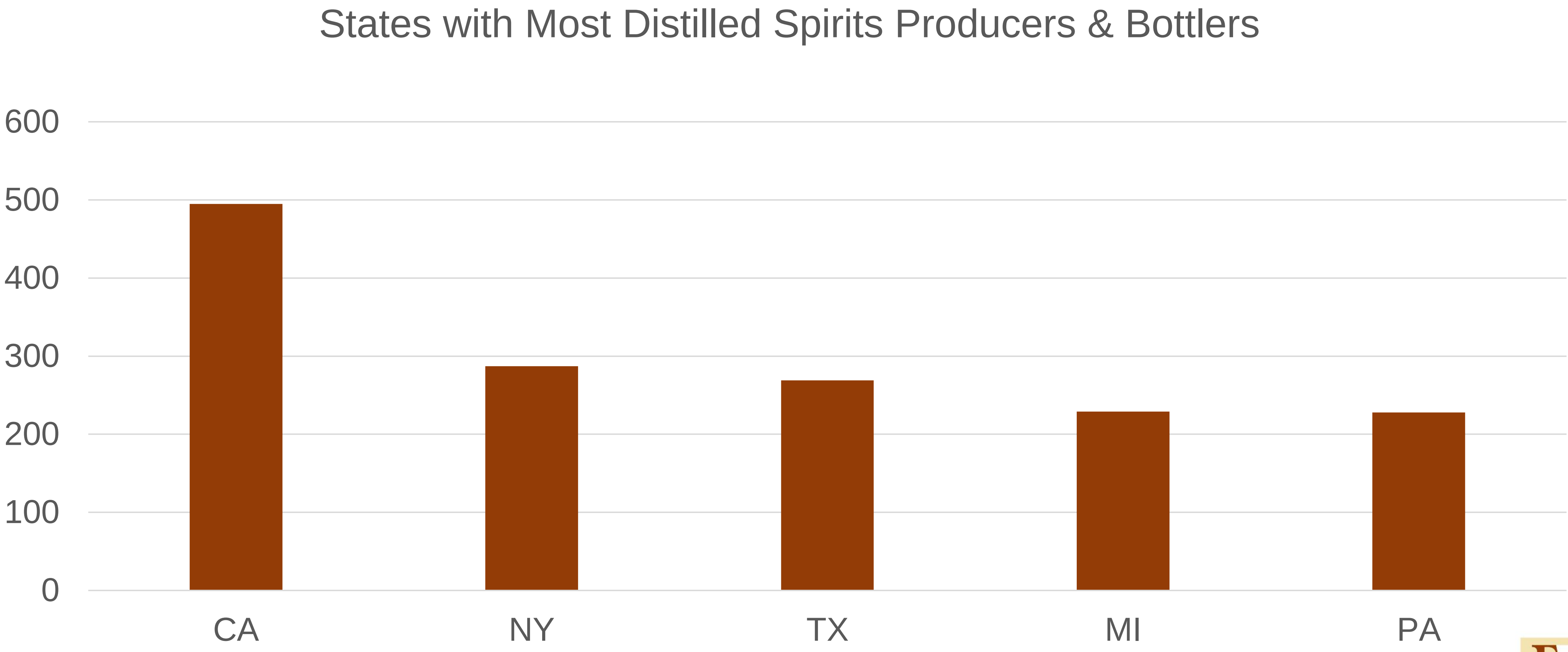
Craft Competition Heated Up





Source: The Harris Poll; May 18 - 26, 2022; N = 2,035

Lots of Competition in California



Where Are We Now?

Survey So Far

- ~4,750 entries right now. Responses and state reports so far (no estimates).
- Running +0.3% right now
- -1% regionals. 3% micros. 9% taproom. 2% brewpubs.
- My prediction would be more or less static from 2021

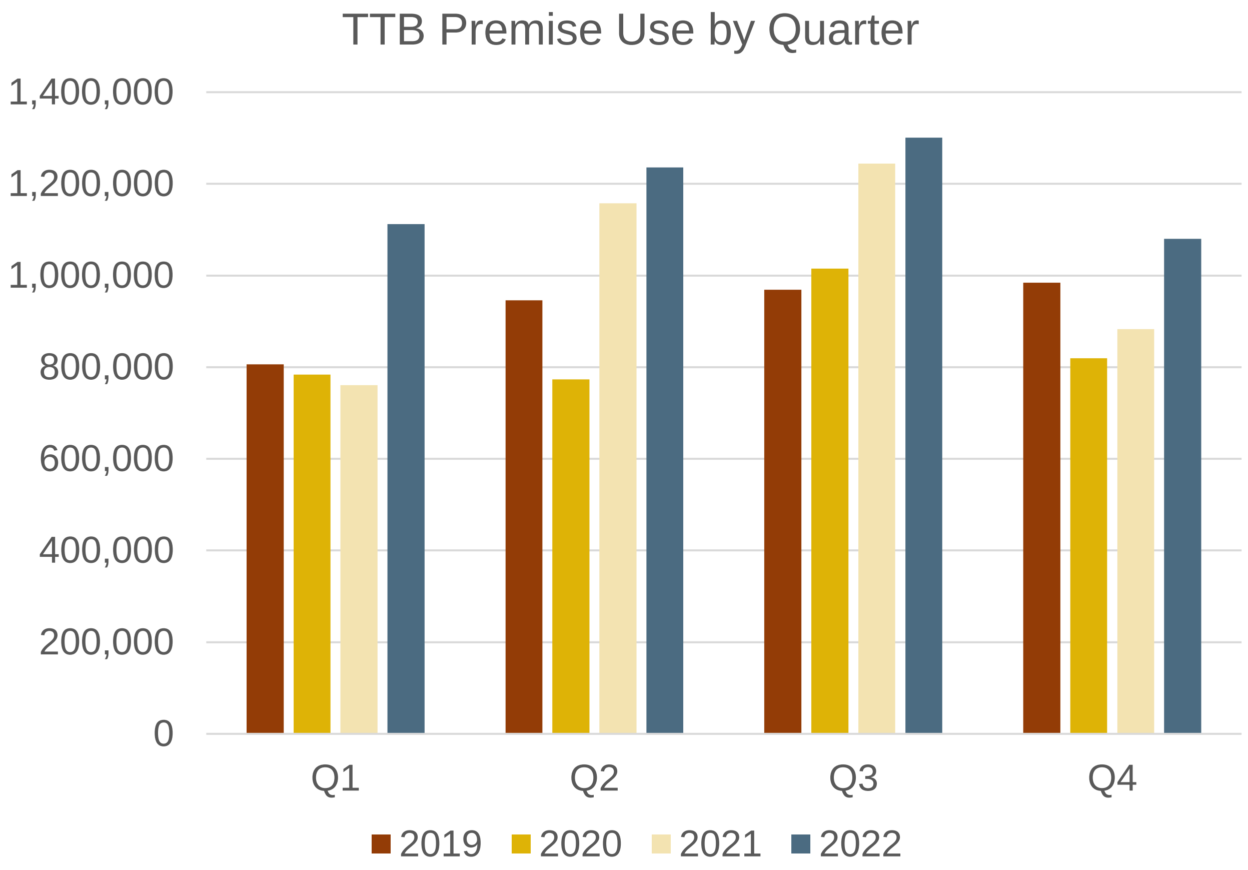
Survey So Far – California

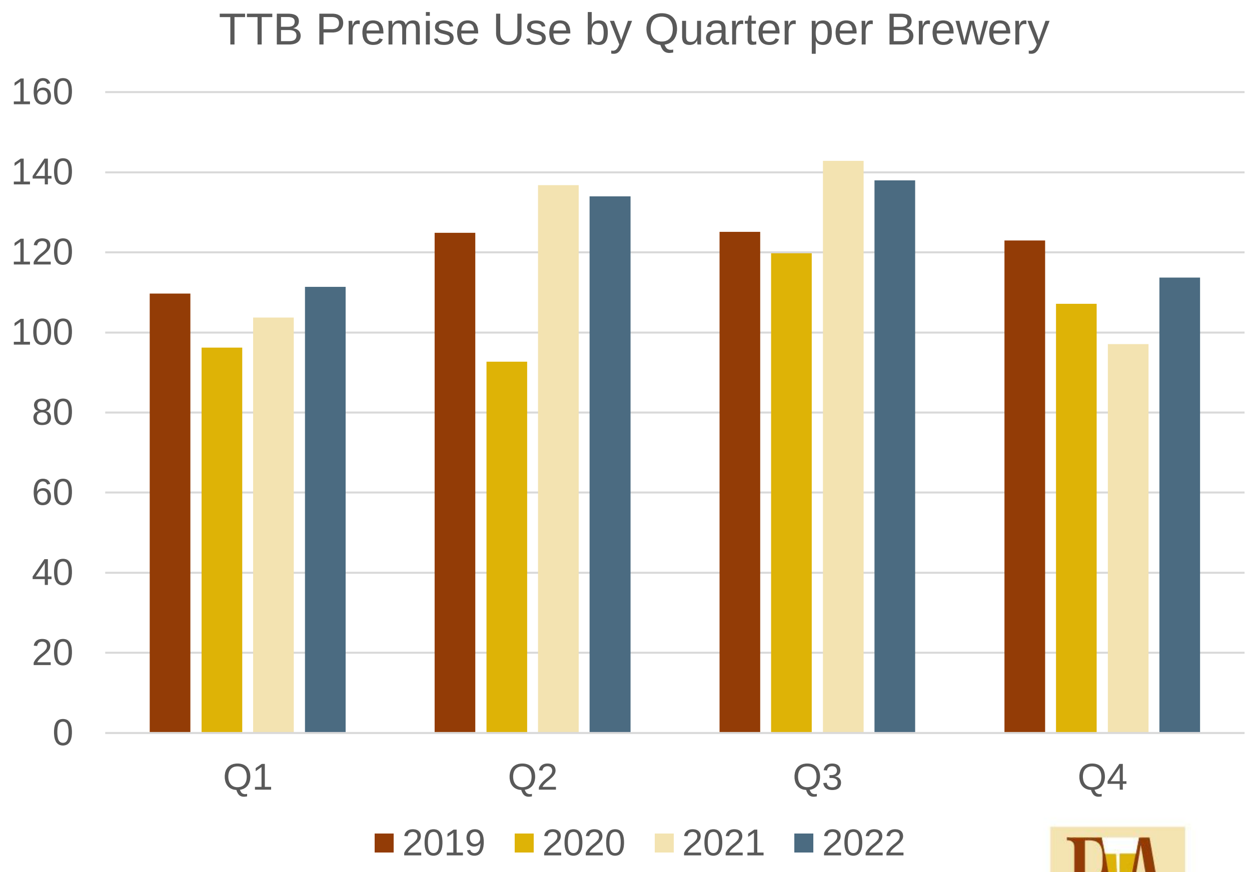
- Still time! www.brewersassociation.org/bips
- 279 CA responses entered
- Running -1% right now
- Regionals = -3%, Micro = +13%, Taproom = +17%, Brewpubs = 0%
- Interesting variation/contrasts

At the Brewery

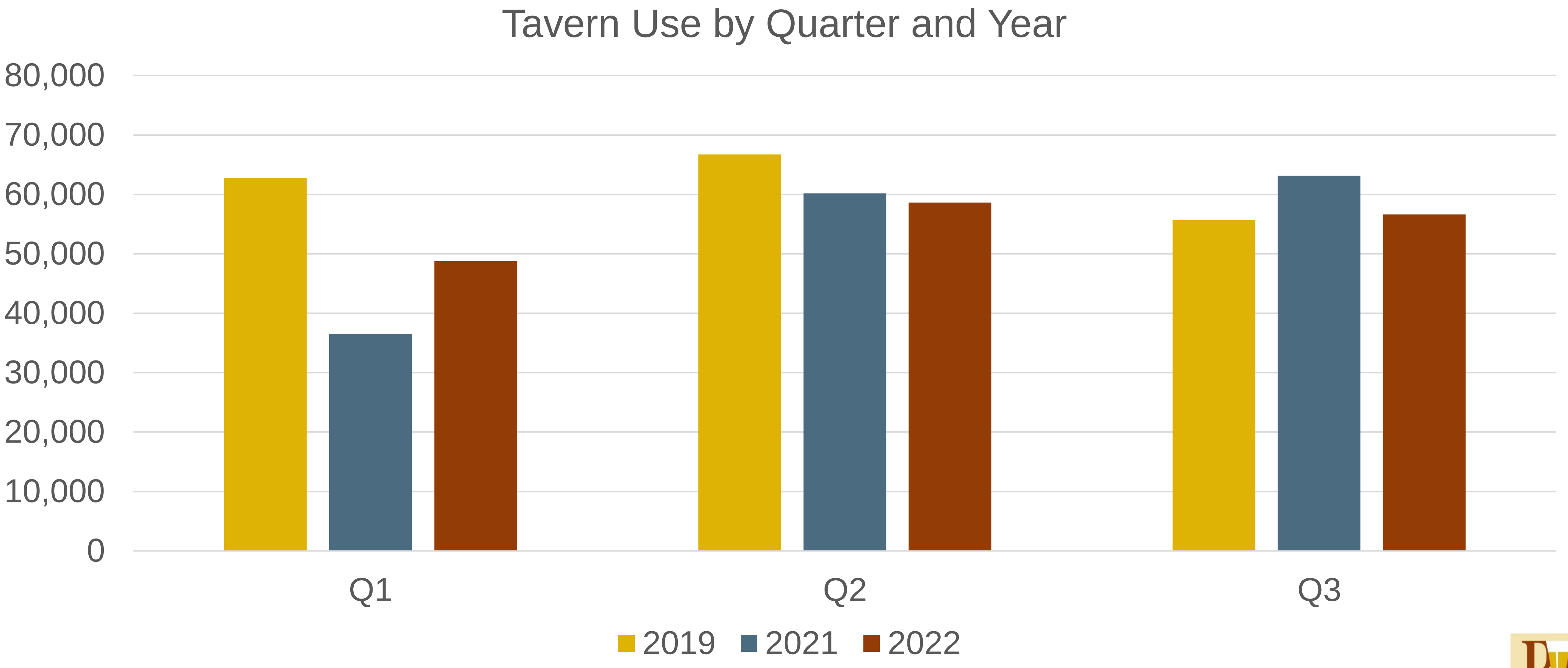
- The bright spot
- Different business
- Hard to scale volume (efforts to scale have generally failed) – but opportunities remain
- How long can it continue?
- Conflict with other tiers (see New Jersey)

Total Volume back…
Closer on per brewery basis





California Still Catching Up



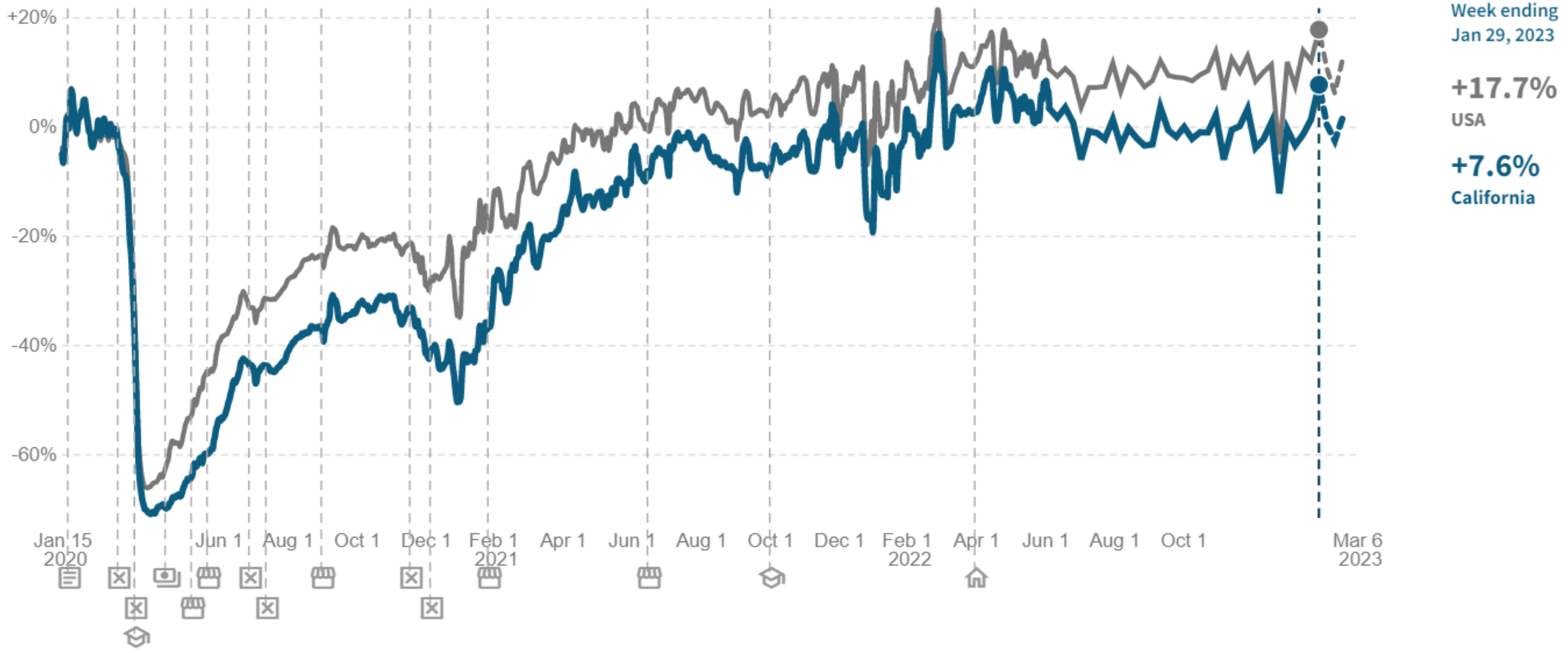
CA vs US Restaurant Spending

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

HARVARD UNIVERSITY BROWN BILL & MELINDA GATES foundation

Percent Change in All Consumer Spending*

In **California**, as of **January 29 2023**, restaurant and hotel spending by all consumers **increased** by **7.6%** compared to January 2020.



data source: **Affinity Solutions**

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: ***February 28, 2023*** *next update expected:* ***March 08, 2023***

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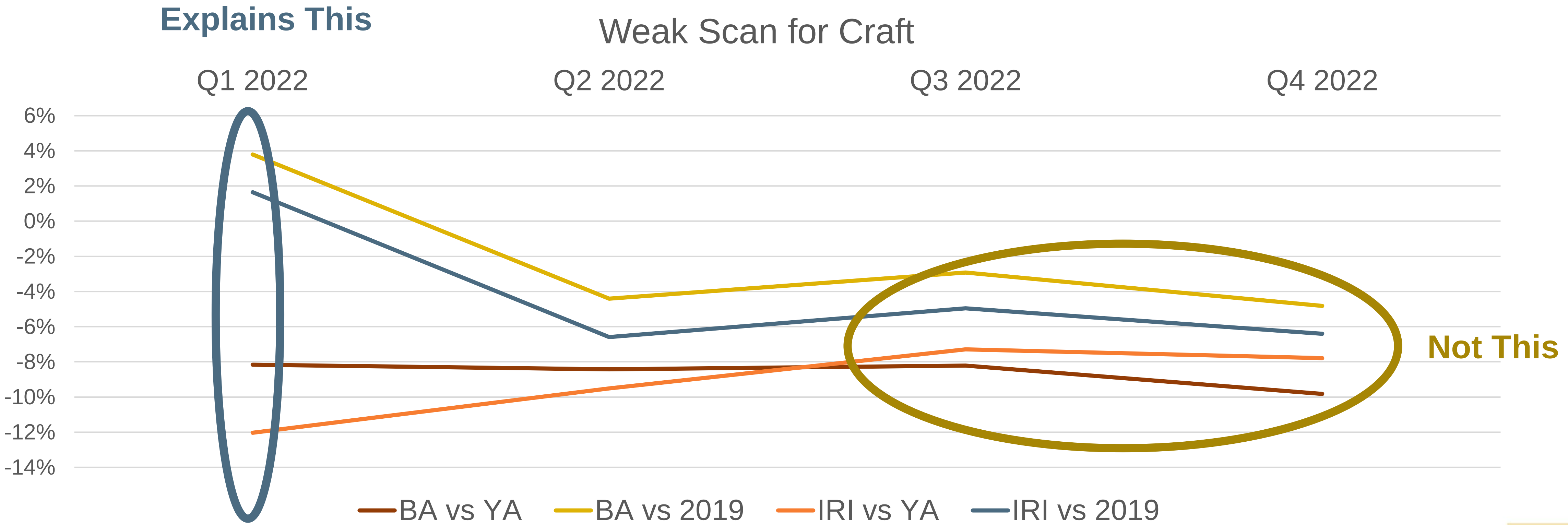
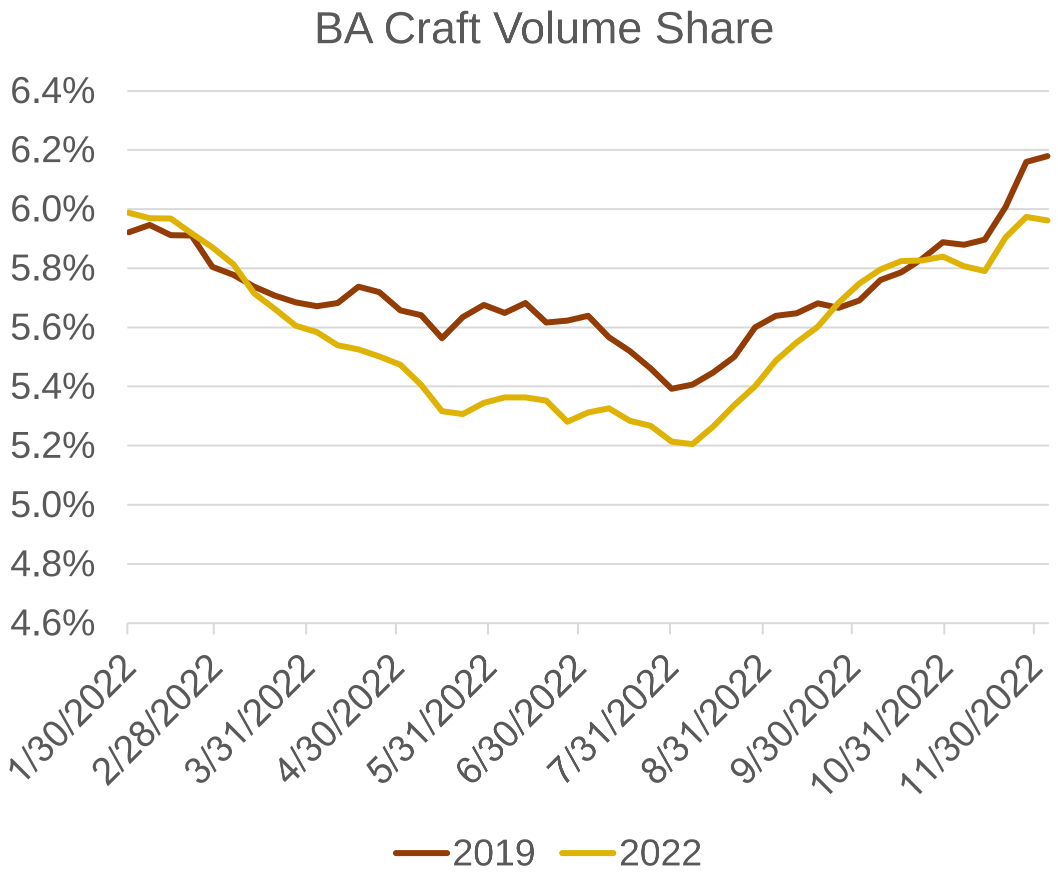
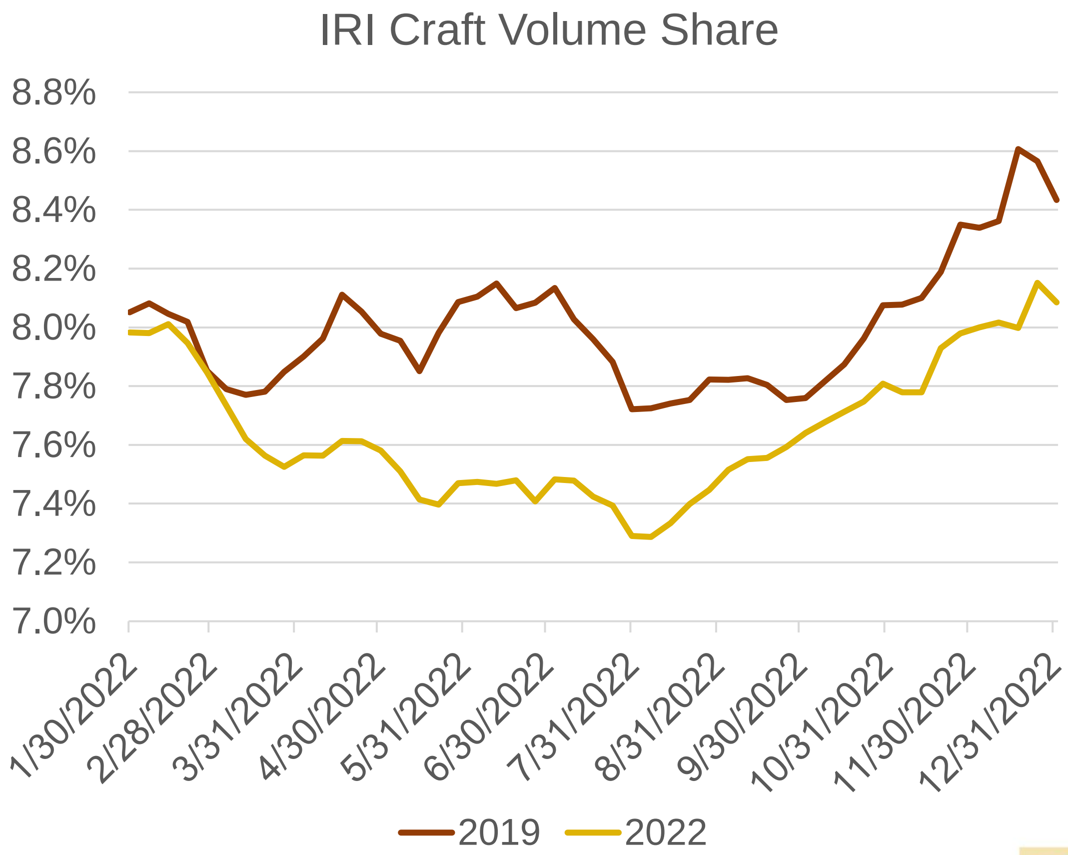
Channel Shift Explains Some of Weakness… Not All



Craft Share Static or Down vs ‘19

Source: IRI Group; Total US; MULO+C+Total Liquor





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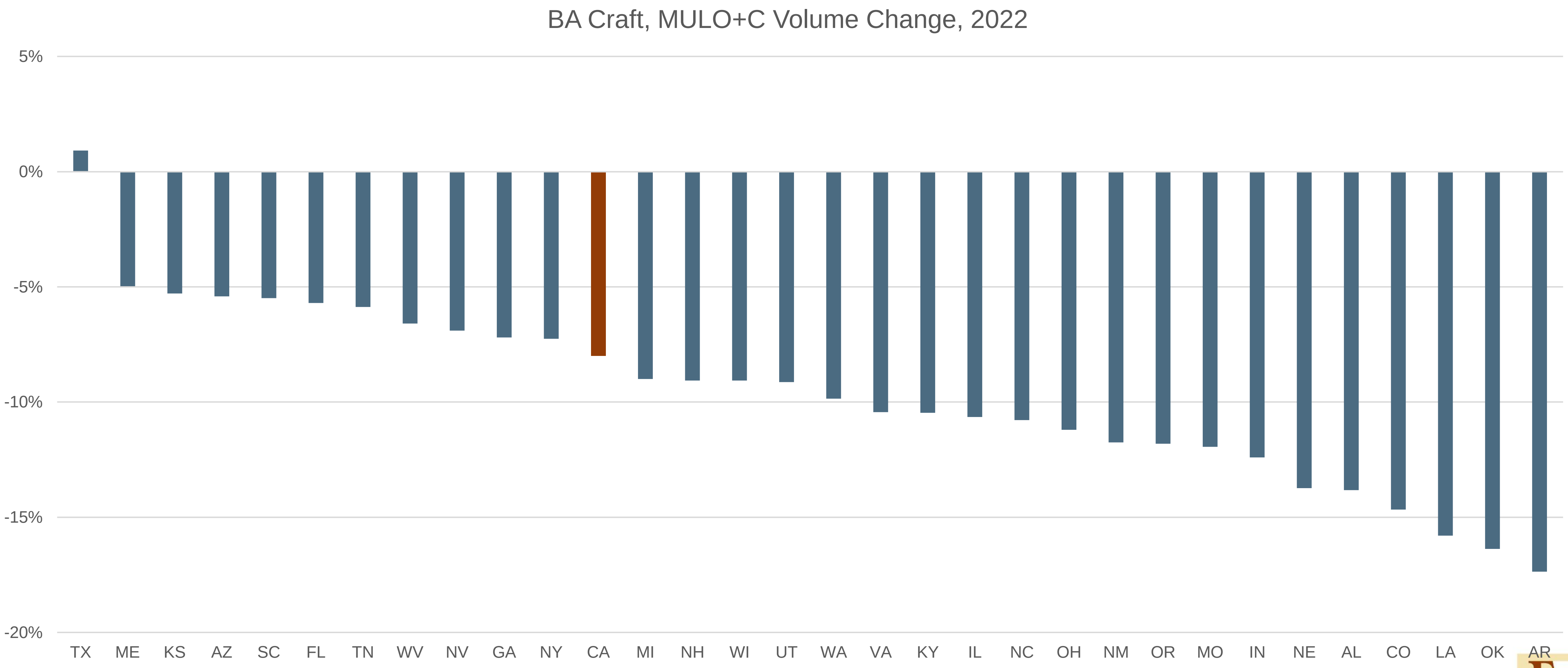
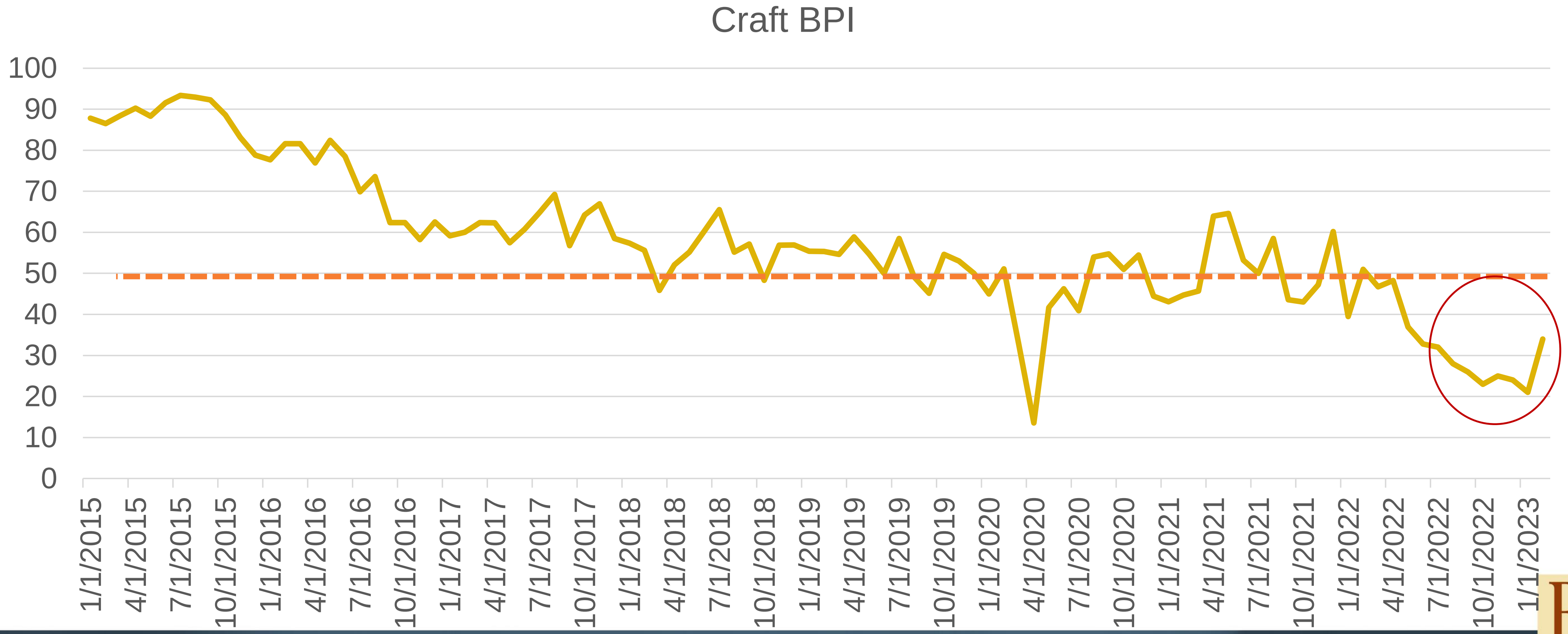
California Scan



Summing Distribution

- Distributed craft struggling nationally
  - Lower draft share/volume + lower scan share/volume
  - Scan weak, even as we cycle more normal on-premise comps
  - Draft clearly not fully back and flatlining. Some weak evidence craft losing there too (BeerBoard etc.)
- Will create more short/medium term pressure
  - Spacing? Distributor SKUs? What else?
  - Spring resets aren't going to be pretty…

Craft Beer Purchasers Index (NBWA)



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Where Are We Going?

2023 Predictions

1. Distributed craft volume won’t grow

“Trying to get back to where we were and level out, that was years ago at this point,” she said. “Our customers are very different. We’ve got new drinkers. We’ve got drinkers who’ve given up drinking.”

- Mary Guiver, Whole Foods

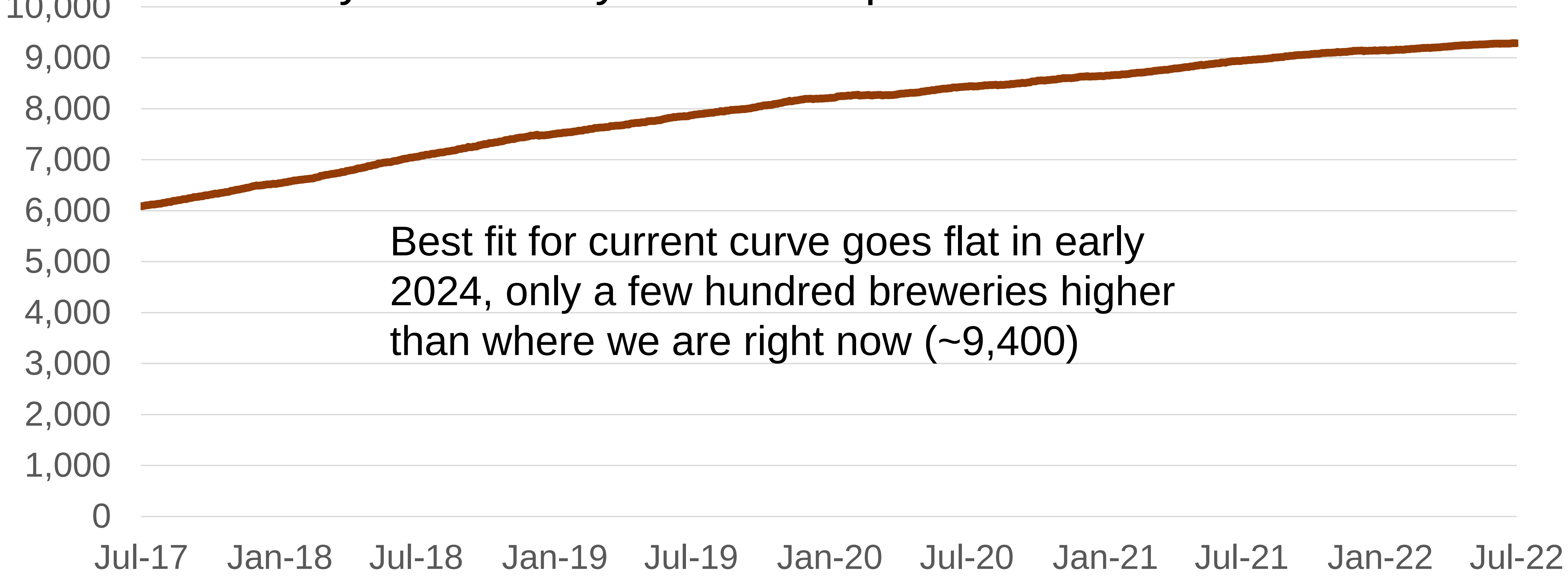
“We keep thinking that eventually we’ll get back to the 2019 sort of run that we were having. It’s not going to happen. It’s gonna be different.

- Jamie Carawan, Buffalo Wild Wings

- Still are growth opportunities
- But have to be new/incremental, OR
- Take volume from within the category

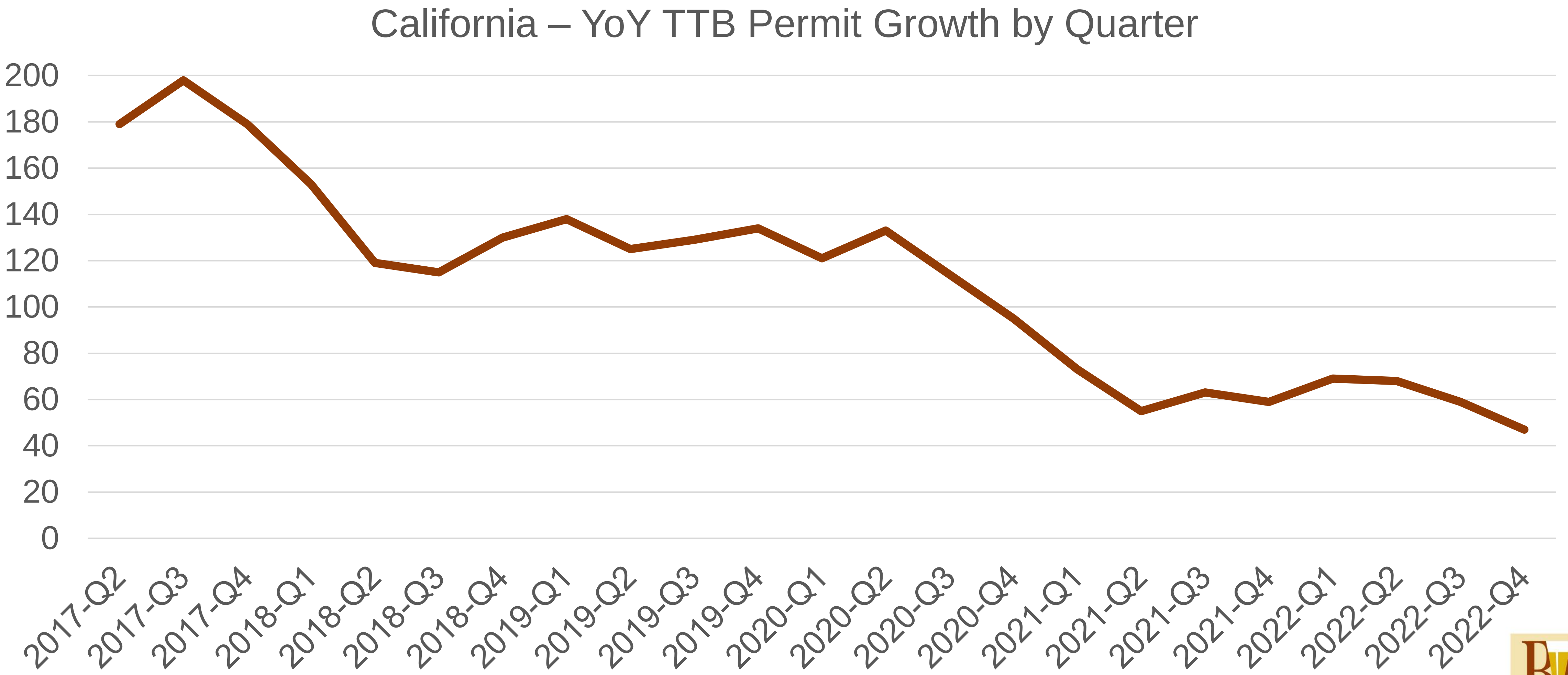
Brewery Growth Slowing

2. We may have finally reached equilibrium in breweries



Best fit for current curve goes flat in early 2024, only a few hundred breweries higher than where we are right now (~9,400)

California Slowing Too

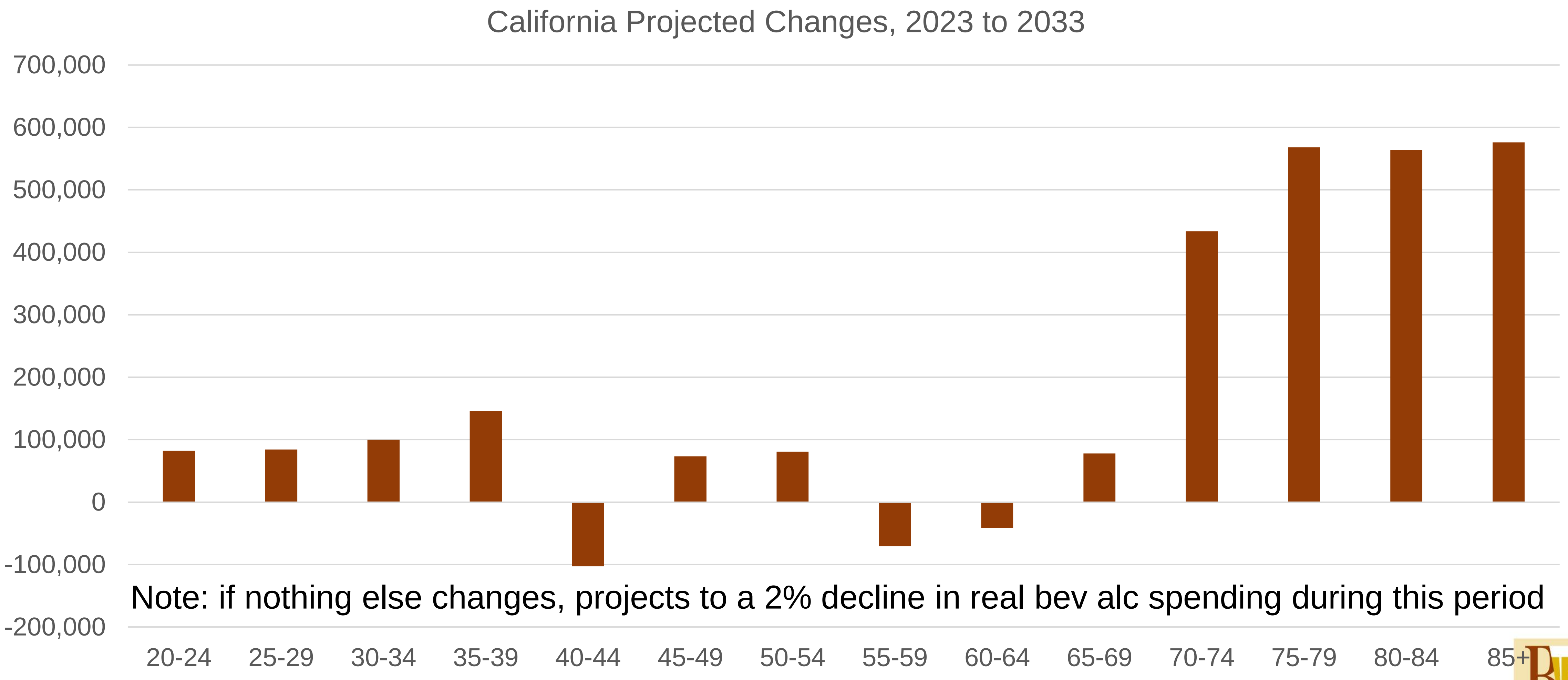


Changing Customers

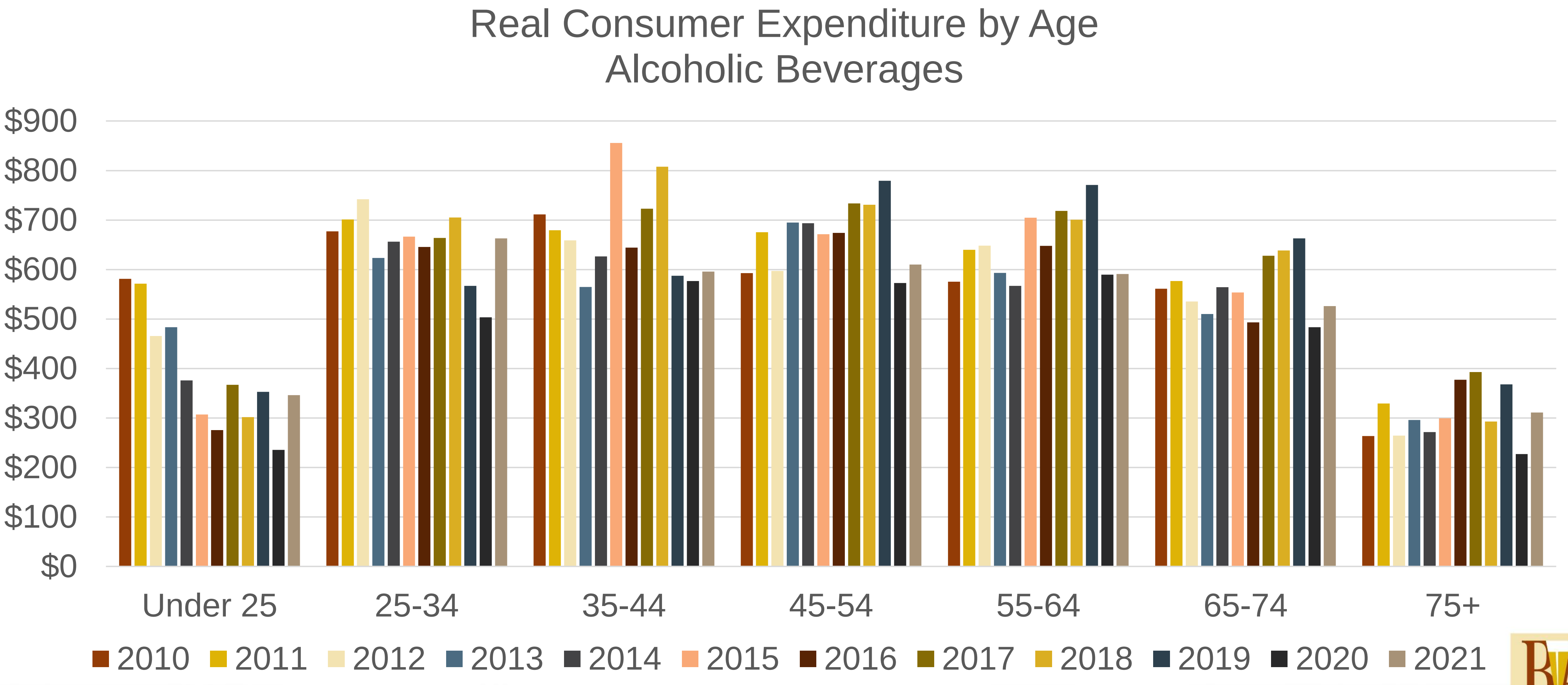
3. Customers will change! (I need one I’m guaranteed to get right)

- Demographics always a mix of things
  - New drinkers (potentially with new preferences)
- Everyone (hopefully) gets a year older every year
  - Shifts with age
- Changing preferences
- Changing economy/differential effects by age

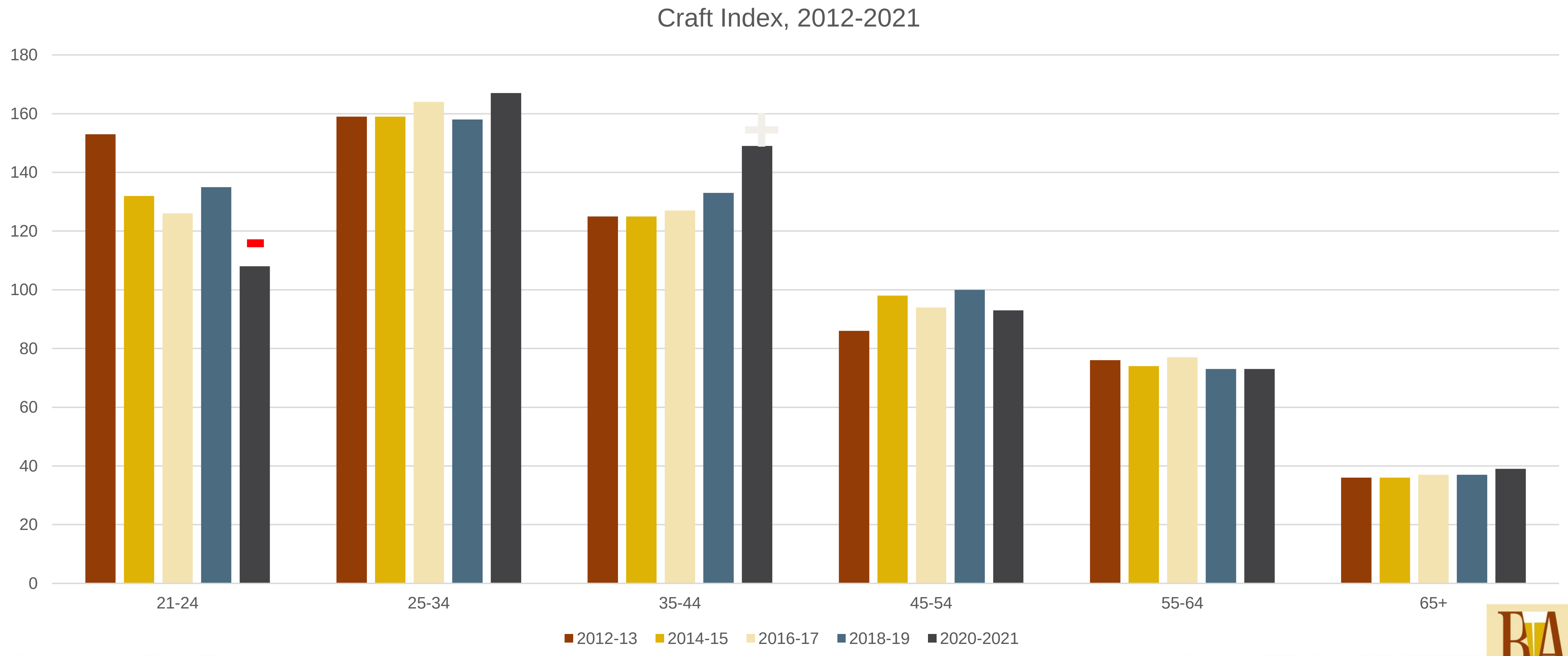
California Changes



Age and Spending



Craft Has Short-Term Demographic Tailwinds, but Headwinds Emerging…



Source: Scarborough

4. Growth Will Be in Pockets

- Intersection of green space and consumer needs/shifts
  - Channel + style (convenience and double IPA)
  - Alcohol levels + flavor (NA)
- What’s next?
  - Lighter styles + aging craft consumer?
  - Where will flavor/fruit go next?
- What’s intersection of what craft does well with new costumers/new demand in California?

5. The Economy Will Weaken

- And that may matter less than you think (with local exceptions)

- Complex picture – zero in on the factors that matter for you/your customers

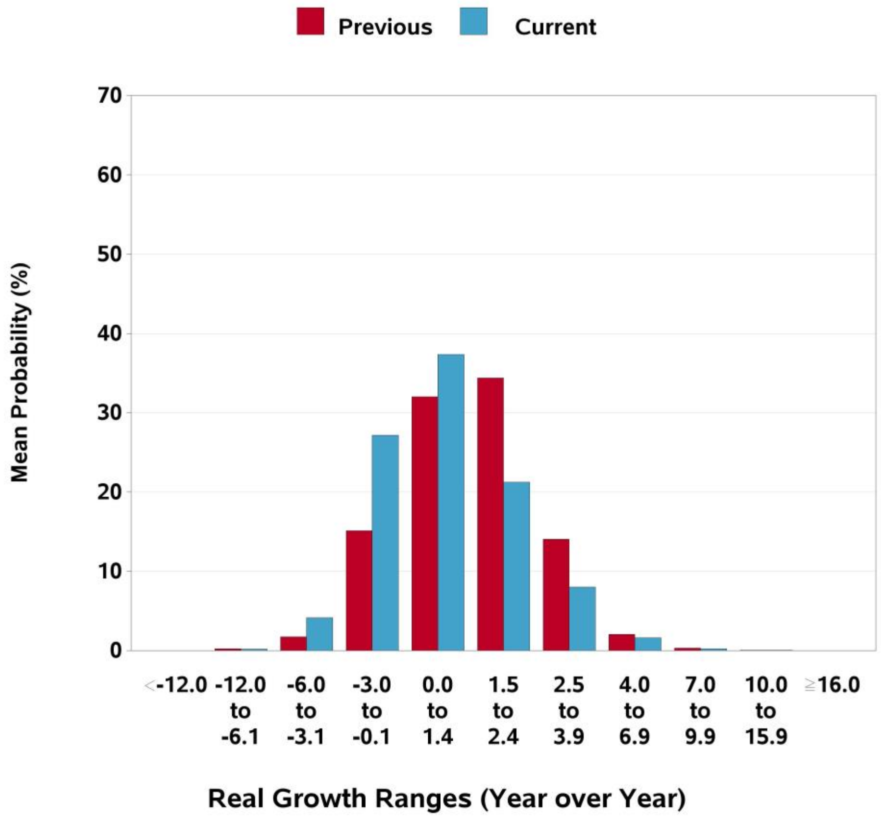
Whatever Inflation Is – Fed still thinks it is too high

"It's clear there is more work to do [...] In order to put this episode of high inflation behind us, ***further policy tightening, maintained for a longer time***, will likely be necessary."

- San Francisco Fed President Mary Daly, 3/5/2023

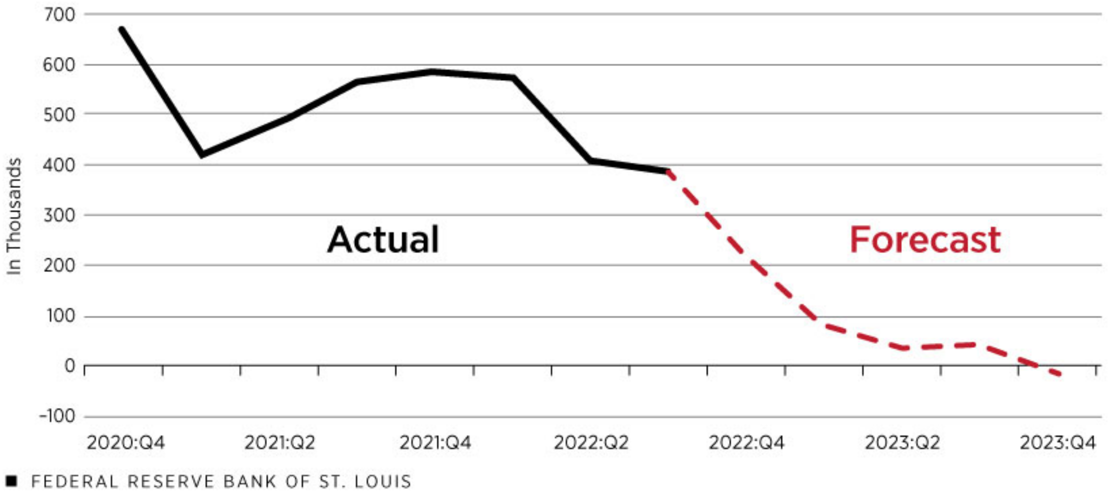
Higher Rates = Slower Growth

Mean Probabilities for Real GDP Growth in 2023



Source: Philadelphia Fed: SoPF

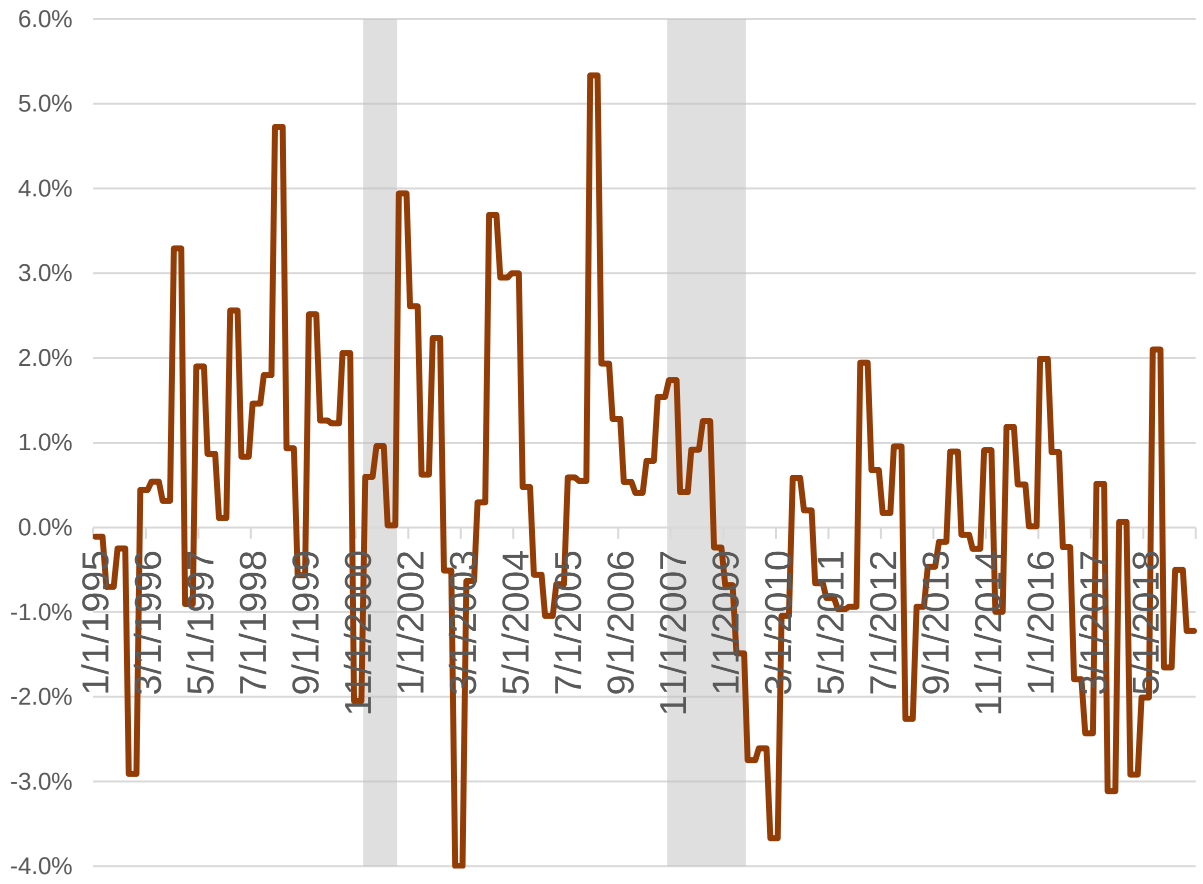
Monthly Average Increase in U.S. Nonfarm Payroll Employment



SOURCE: Survey of Professional Forecasters, November 2022.
NOTE: Figure data for the fourth quarter of 2022 to the fourth quarter of 2023 is forecasted.

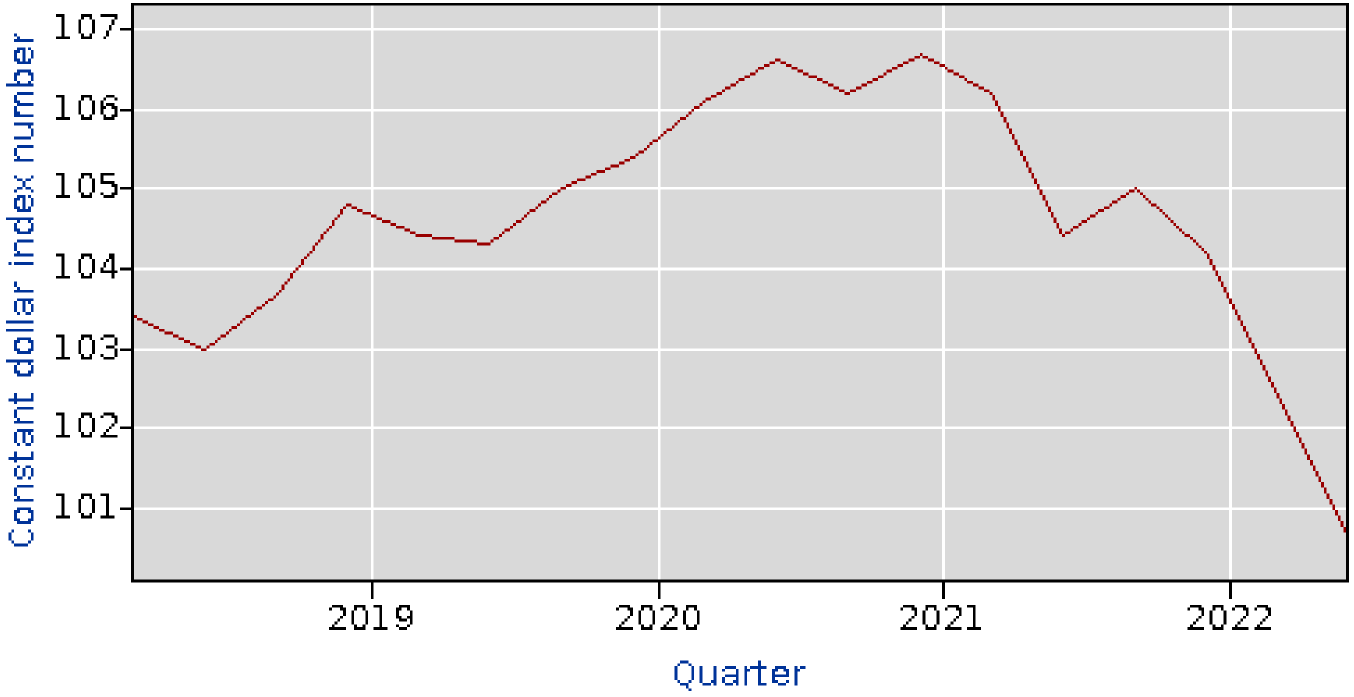
Beer in Recession

- 10 quarters covered by recessions avg 0.08% growth
- 88 covered by growth average 0.27% -- so growth quarters were better
- Difference isn't statistically significant
- Pricing a factor post 2008 recession
- Every recession is different…



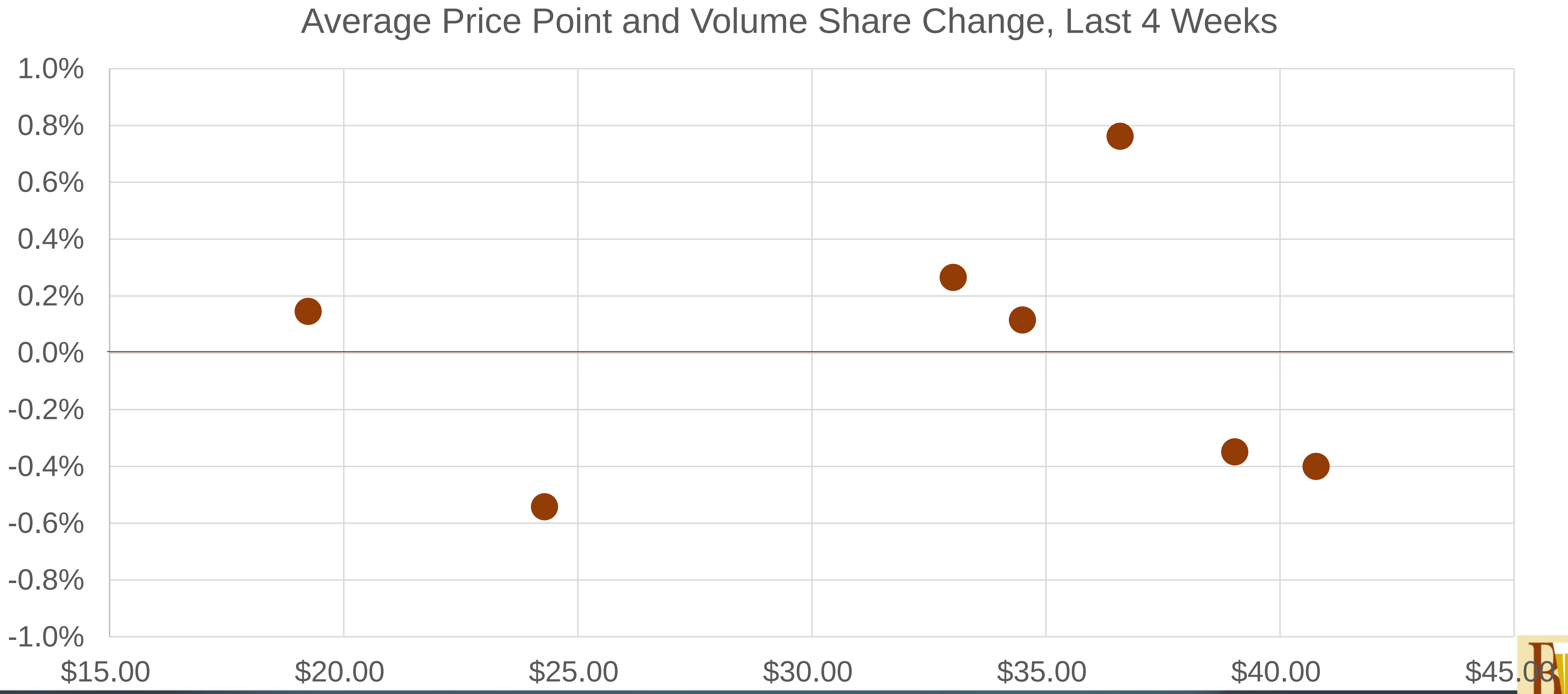
Inflation

- Reminder that it’s not inflation itself that is likely the cause
  - Relative pricing & elasticity
  - Purchasing power
  - Real wage growth
- Shouldn’t myopically focus on beer



Source: BLS; Employment Cost Index (ECI)

Maybe Slower Trade Up?



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The Craft Consumer

- Craft consumer is not the generic consumer
  - Different by company/brand/channel/location

- Different economic situations, confidence, patterns

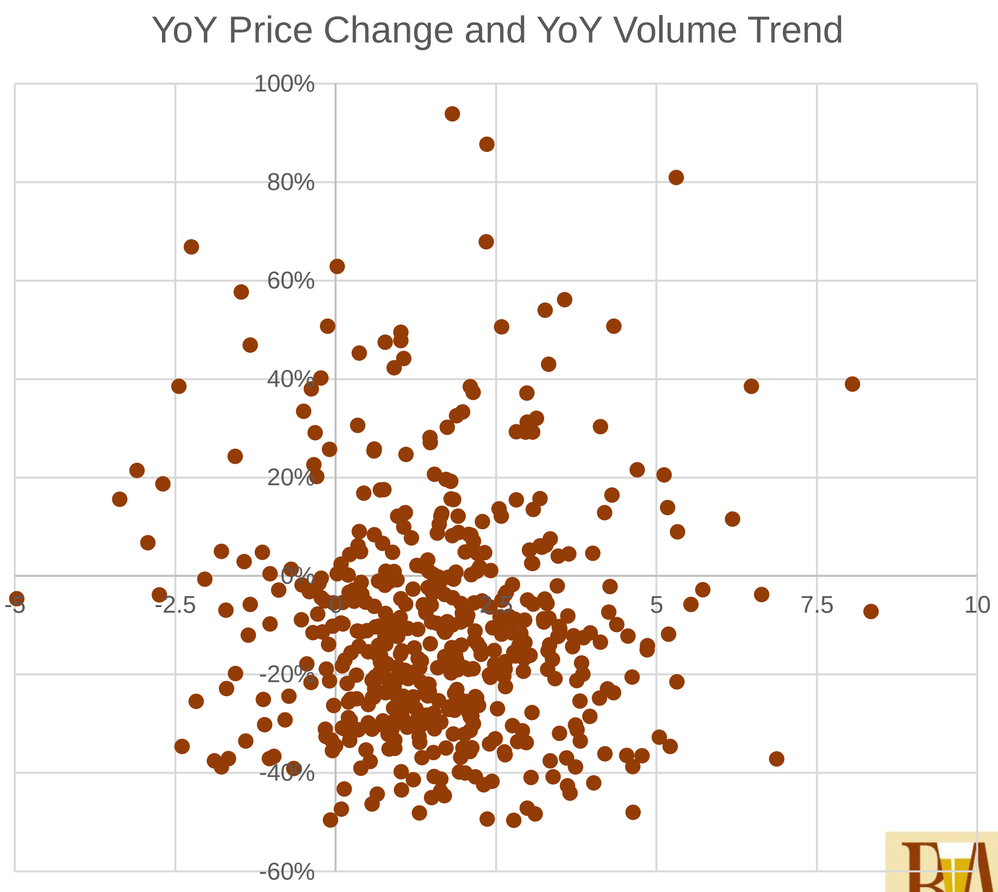
- What is true for one segment or even brand may not be for another

Example

- 55% of craft drinkers are college grads; 81% some college/associates
- For all beer that is 31%/62%
- Source: Scarborough USA

Brand Strength Key

- All else equal… but all else is usually not equal in brand or in customer
- Models explain very little of the variation
- Individual brand factors and competitive set still critical



To Close

- Distributed growth will be tough (at the brewery really a local question)
- Brewery numbers moving toward static (won’t be in all places)
- Demographics continue to change (challenges and opportunities)
- Growth is there, but you need to focus
- The economy may sour… but ignore the headlines and think about your customers

Thank you!

Bart Watson
bart@brewersassociation.org

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