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Is the U.S. Premium Tequila Boom Over?

by The IWSR Drinks Market Analysis, www.theiwsr.com

IWSR data shows that tequila's expansion at the top end is slowing as declines at the bottom end have turned around into growth.

The era of rapid growth for high-end tequila in the U.S. could be at an end after a dramatic slowing of growth for premium-and-above products during the first half of 2023.

While volumes of agave-based spirits continued to expand in the U.S. in H1 2023, lower price segments — standard, value and below — are now growing at a similar pace as premium-plus, reversing previous declines. After several years of strong double-digit increases, volumes of premium-plus tequila in the U.S. rose by +4% in the first six months of 2023, versus the same period in 2022.

Meanwhile, the category is expanding strongly in a host of markets outside North America, but off a much smaller volume base.

"As economic pressures mount and the novelty of the category wanes, the age of rapid premiumization for agave in the U.S. appears to be over," said Marten Lodewijks, Consulting Director - U.S., IWSR. "Expansion at the top end is slowing and decline at the bottom end has turned around into growth."

This phenomenon is underpinned by improvements in product quality and commercial profitability, noted Lodewijks: "As the tequila category becomes more mature and the number of brands grows, overall product quality improves, and this improvement is seen across all price tiers, justifying trade down."

The high-volume growth occurring through expanded distribution, especially from celebrity-backed brands, has normalized. Due to the influx of new brands, saturation is beginning to occur, making it more difficult for brands to differentiate themselves in the eyes of consumers.

With agave prices normalizing after being elevated for many years, manufacturers are better able to maintain margins, even through lower-priced products.

The current trend of trading down mirrors the vodka category's post-2008 recession era.

"Consumers sought products with a favorable price-to-quality ratio and, upon discovering options that exceeded their quality expectations, remained within the lower-priced segment," added Adam Rogers, Research Director - U.S., IWSR. "Unlike vodka, which is limited as an unaged product, tequila presents more opportunities for consumers to trade up. As economic conditions improve, it is anticipated that consumers will return to higher price points within the tequila category, albeit the rate of return is yet to be determined."

The current slowdown should not hide the extraordinary run tequila has had in the U.S. market, especially at the very high end. The premium+ tequila segment is now significantly larger than in the past and therefore more difficult to expand.

Only ten years ago, the tequila category represented less than 10% of the U.S. status spirit market (spirits in the ultra-premium+ price segment) by

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Distilled Spirits Council Annual Economic Briefing

from DISCUS

U.S. Spirits Revenues Maintain Market Share Lead of Total Beverage Alcohol Market in 2023; Sector Resets Following Accelerated Growth During Pandemic

U.S. spirits revenues maintained its market share lead in 2023 as the sector reset following the robust sales spikes during the pandemic super cycle, the Distilled Spirits Council of the United States (DISCUS) reported recently at its annual economic briefing for media and analysts.

In 2023, spirits market share totaled more than 42%, with steady gains over the past 14 years. This represents the second year in a row spirits supplier revenues have surpassed beer. The spirits sector has gained more than 13 points of market share since 2000. Each point represents $890 million in supplier revenue.

"The spirits sector showed resilience in 2023, navigating through the choppy wake of the pandemic and maintaining our market share lead of the total beverage alcohol market," said DISCUS President and CEO Chris Swonger. "The phenomenal sales growth we saw during the pandemic was unprecedented and unpredictable but also unsustainable, and now, the spirits market is recalibrating."

Swonger reported that spirits supplier sales in the U.S. were flat (0.2%) in 2023 totaling $37.7 billion, while volumes rose 1.2% to 308.8 million nine-liter cases.

Swonger attributed the challenging sales environment to a number of dynamic market factors including difficult economic conditions with high inflation and interest rates reducing consumer discretionary spending; consumers returning to more normal routines and buying habits post-pandemic; and retailers and wholesalers putting a pause on reordering as they reduced inventory build ups.

U.S. Hospitality Industry Rebounding but Recovery Remains Fragile

During the briefing, DISCUS reported that the hospitality industry continues to rebound from the pandemic, but that its recovery remains fragile.

U.S. Bureau of Labor statistics show nearly four years later that the hospitality industry's employment has not yet recovered to its pre-pandemic level of nearly 17 million. The hospitality industry added 588,000 jobs in 2023, but it still

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