Do Italian Wine Consumers Exhibit "Home Bias"?

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Consumers in Italy have historically shunned imported wines, perceiving them to be of inferior quality. Time series data on wine production and imports indicate this "home bias" in wine consumption. But aggregate data do not allow valid comparisons of wines which are quite similar in most respects except for country of origin. Because wine is such a highly differentiated product, comparisons of imported and domestic wine consumption using aggregate wine categories necessarily hide how specific imported wines may compete with similar domestically produced Italian wines.

Household panel consumption data permit comparisons of similar wines which are produced in Italy and elsewhere. This study employs ACNeilsen panel data of Italian household wine purchases over the two-year period from January 2002 through December 2004. The virtue of these data is that they contain product-level information on wine purchased including country of origin as well as appellation, grape variety, certification of production methods, retail promotional information, and unit price. With this specific product information, valid comparisons of domestic and imported wines can be made.

To facilitate comparisons, the ACNeilsen household data are aggregated in several dimensions. Owing to the low frequency of purchase of imported wines by some households, purchase event data are aggregated over time to biweekly periods. The focus of this analysis is on aggregate, not household, behavior so household purchases are aggregated across regions. Without aggregation across time and households, the frequency of zero purchases is large enough to preclude estimation of a panel limited dependent variable model. Finally, specific wines are aggregated into several categories to facility domestic-international comparisons. Only red wines are included in this analysis; whites, sparkling, desert, and other wines are excluded. Premium red wines in the price range of € 3-7 is considered.

Having aggregated across time and households, the data contain 52 bi-weekly observations on five types of premium red wine: table; IGT (Geographic and Typical Indication); DOC (Controlled Denomination of Origin); DOCG (Controlled and Guaranteed Denomination of Origin); and foreign. The first four types are produced domestically while the last may be imported from Europe or elsewhere. Each type of wine is considered as a separate "good" in a quadratic almost-ideal demand system, which is estimated using generalized method of moments. The econometric specification controls for seasonality, Christmas holidays, introduction of the Euro, end-of-the-month paycheck effects as well as in-store promotions.

Preliminary results show distinct patterns of own-price response. Table wines are own-price inelastic whereas IGT and DOCG are price elastic. Foreign wines are highly price elastic. Estimated cross-price elasticities suggest increases in DOCG price may elicit higher consumption of foreign wines. Conversely, increases in foreign wine prices induce higher

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consumption of IGT and DOCG wine. In general, expenditure elasticities suggest foreign and DOCG wines are luxuries whereas table, IGT and DOC wines are not.

As high-quality foreign wines become more widely available at competitive prices, the home bias of Italian wine consumers may diminish, implying domestic producers will need to compete more keenly on pricing and quality.