

Wine
Australia
providing market
insights for
Australian
Wine

Market update:
Canada
August 2022



Foreword

The purpose of this report is to provide data and insights on the wine market Canada for Australian wine exporters.

About Wine Australia

Wine Australia supports a competitive wine sector by investing in research, development and adoption (RDA), growing domestic and international markets, and protecting the reputation of Australian wine.

Wine Australia is an Australian Commonwealth Government statutory authority, established under the Wine Australia Act 2013, and funded by grape growers and winemakers through levies and user-pays charges and the Australian Government, which provides matching funding for RDA investments.

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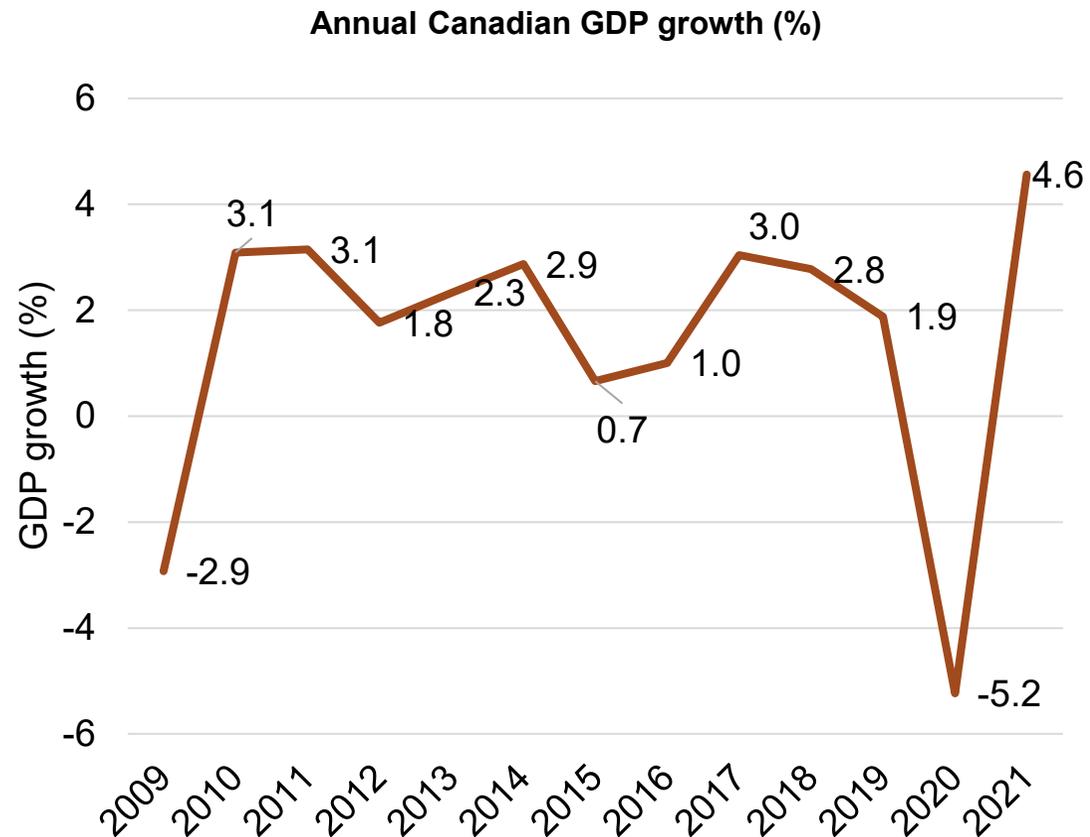
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Economy in recovery post-COVID

The Canadian economy, like other economies around the globe, did not come out of 2020 unscathed. Gross Domestic Product (GDP) reduced by 5.2 per cent in 2020, a higher rate than their neighbours to the south (the United States' economy shrank by 3.5 per cent in 2020). The government implemented generous stimulus packages in the face of the slowing economy and rising unemployment. In 2021, GDP rebounded to grow by 4.6 per cent.

Unemployment in July 2022 sat at 4.9 per cent, which is better than 2020, but still higher than other economies such as the USA (3.5 per cent) and Australia (3.4 per cent).

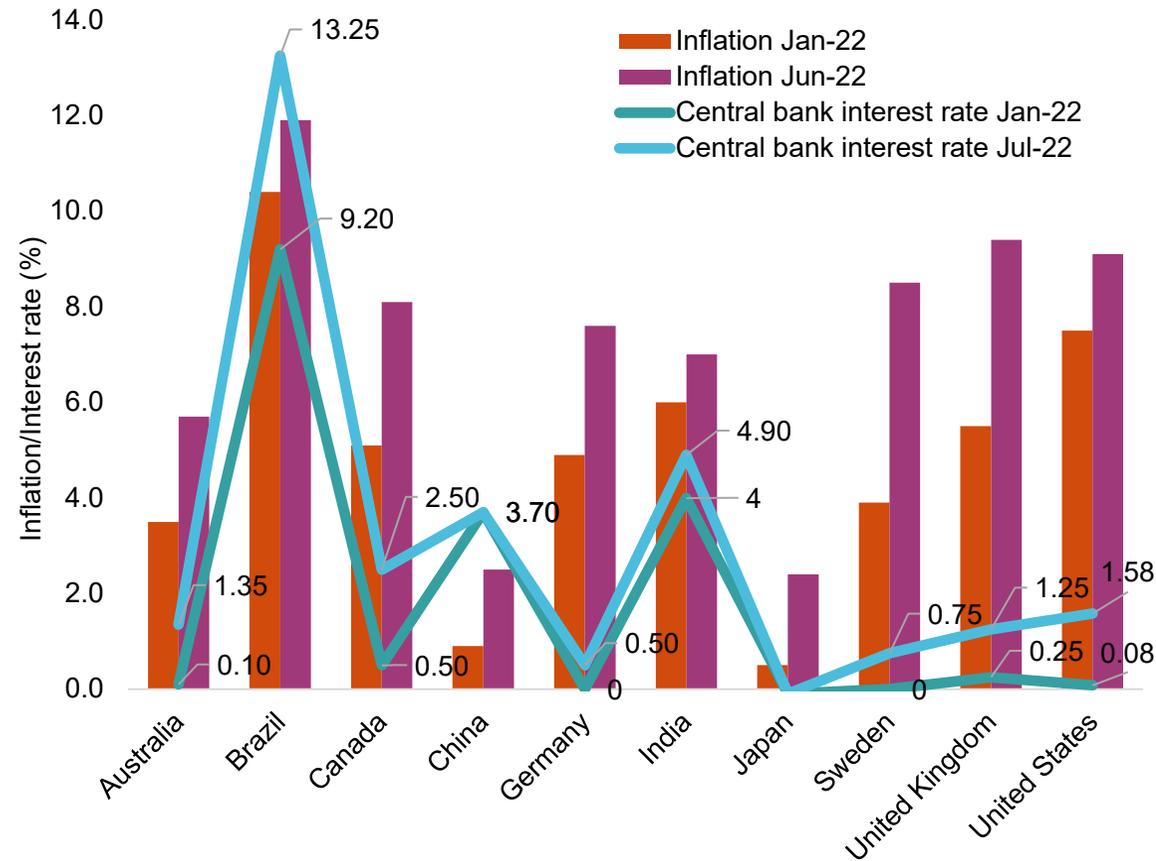


Inflation and interest rates will dampen growth

Inflation in Canada has increased from 5.1 per cent in January 2022 to 8.1 per cent in June 2022. This rate of inflation is slightly lower than the US and UK, and similar to Germany and Sweden. In July 2022, the Bank of Canada, hoping to rein in this inflation, raised interest rates to 2.5 per cent, an increase of 2 percentage points since January 2022. This is one of the steepest increases in major economies and the largest increase for Canada in over 20 years. Increasing inflation and interest rates will decrease the amount of disposable income available to consumers and may thus affect their spend on products such as alcohol; inflation may also contribute to higher prices of wine on the shelf.

One of the drivers of inflation is supply chain disruptions. The Liquor Control Board of Ontario (LCBO) has [announced that freight rates will approximately double for wines coming from outside North America, starting in September 2022.](#)

Inflation and central bank interest rates, key economies 2022

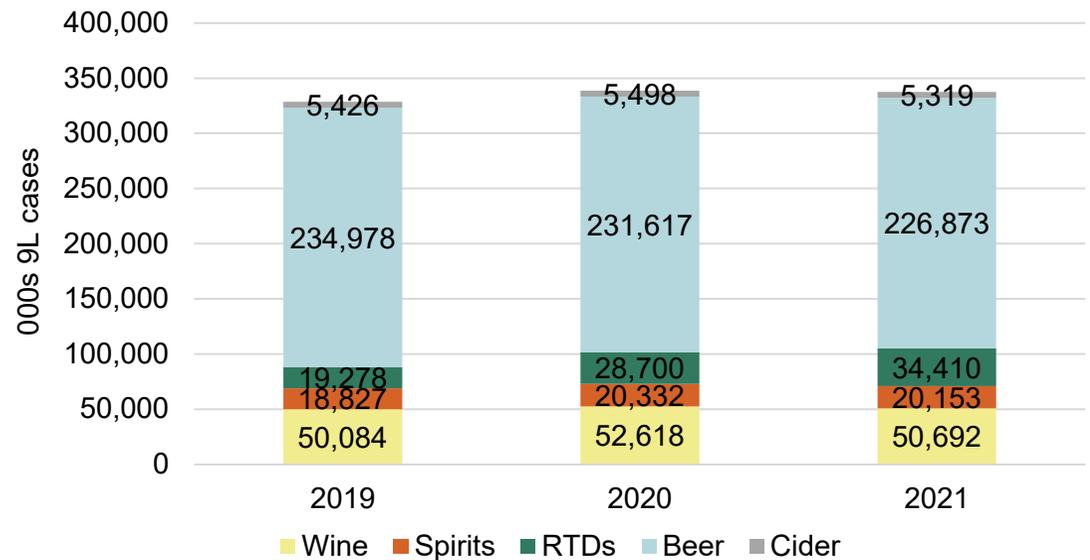


Beer has largest market share; RTDs show strongest growth

The volume of alcohol consumption grew by 3 per cent in volume during 2020, driven by RTDs, wine, and spirits. IWSR reports that 2021 saw a return towards a normal level of consumption but still elevated in comparison to 2019, thanks to lasting changes in consumer behaviour due to government restrictions on movement and policy decisions making alcohol more accessible.

In 2021, while total beverage alcohol declined by 0.4 per cent, RTDs were the sole driver of growth (up 19 per cent), while all other types of alcohol declined compared to the elevated consumption in 2020. Although beer has the largest share of the market, it was the only category to shrink in consumption during the pandemic.

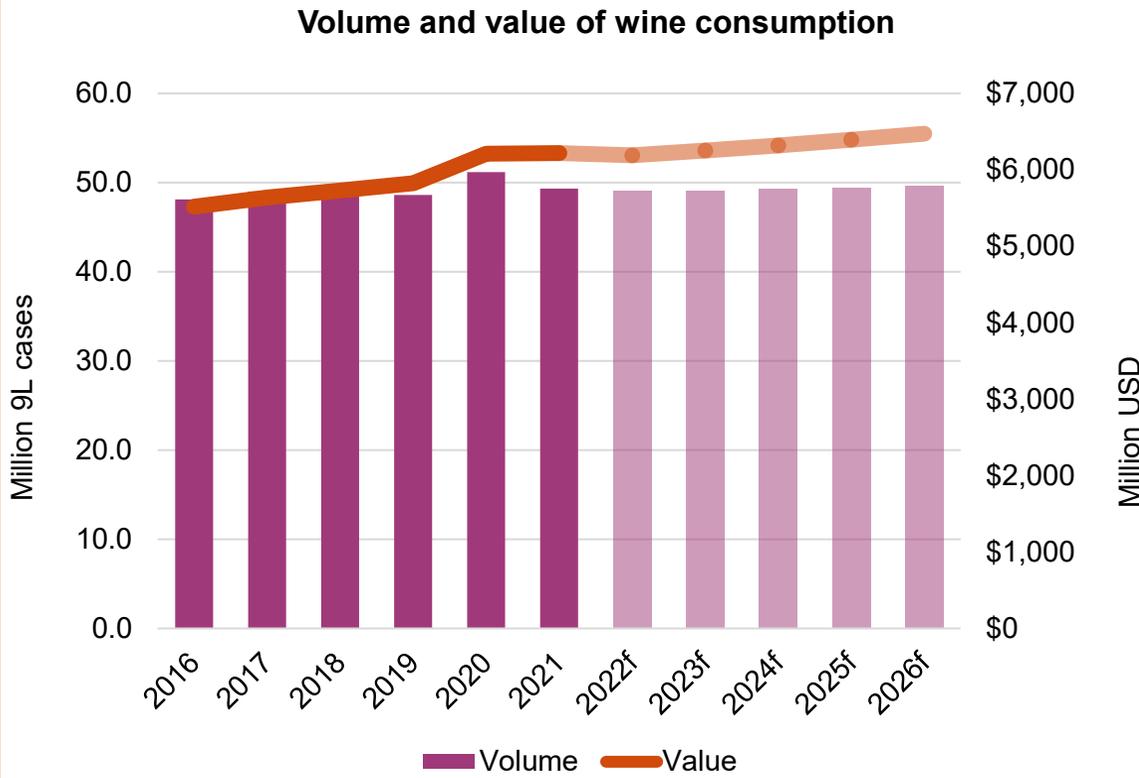
Volume of alcoholic beverage consumption



Wine consumption down from 2020 but up from 2019

After growing by 5 per cent in 2020 thanks to increased per capita consumption during the pandemic, the volume of still, sparkling, and fortified wine consumption declined by 4 per cent in 2021 to 49 million cases in total. However, this is still 2 per cent above total wine consumption in 2019. In contrast, the retail value of wine managed to grow further from 2020, by 0.2 per cent to US\$6.2 billion.

Volume is projected to fall further in 2022, before recovering slightly to grow by 0.1 per cent per year between 2021 and 2026. Value is projected to grow at a faster rate – 0.8 per cent each year until 2026.



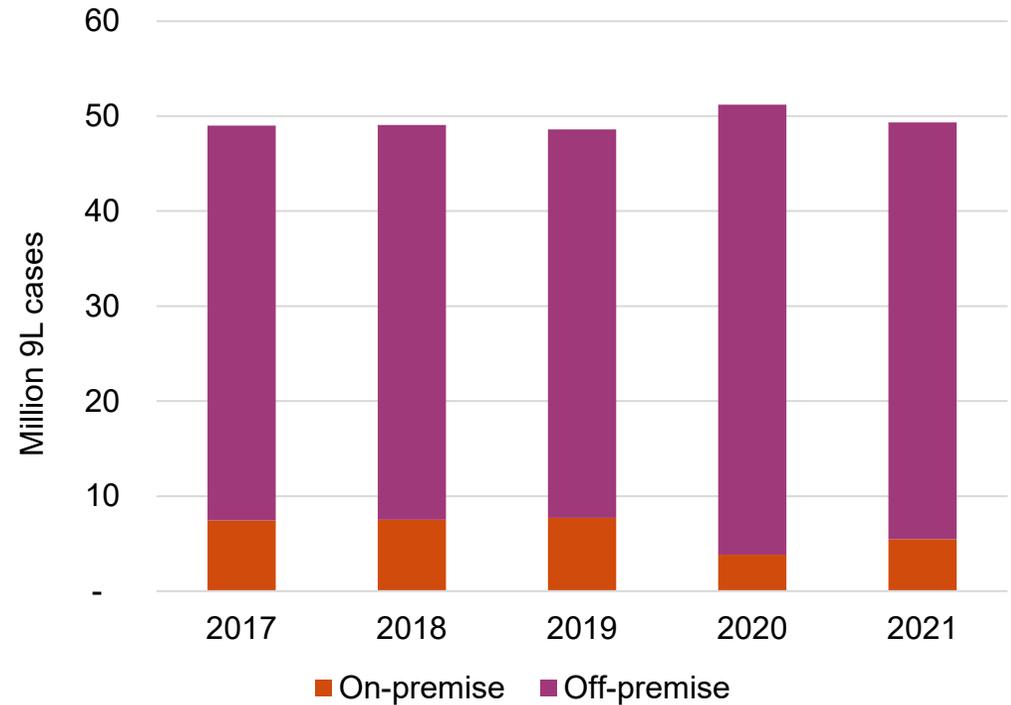
Source: IWSR

Sales volume shifts back from off to on-premise

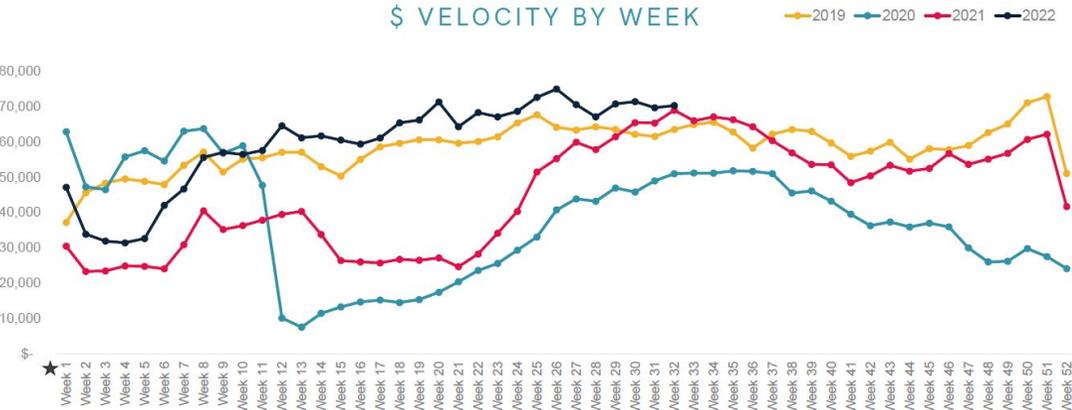
Canada had relatively strict restrictions on movement in 2020, meaning that consumption of wine moved quite dramatically from on-premise (restaurants and bars) to off-premise (bottle shops and online). In 2019, the on-premise had a 16 per cent share of consumption volume but this was cut in half to 8 per cent in 2020. In 2021 the on-premise started to recover about mid-way through the year and ended up with an 11 per cent share of volume at year end.

Thus far in 2022, total spend in restaurants and bars has outperformed 2019 levels as consumers make up for lost time during 2020 and 2021.

Volume of wine consumption by channel



\$ VELOCITY BY WEEK

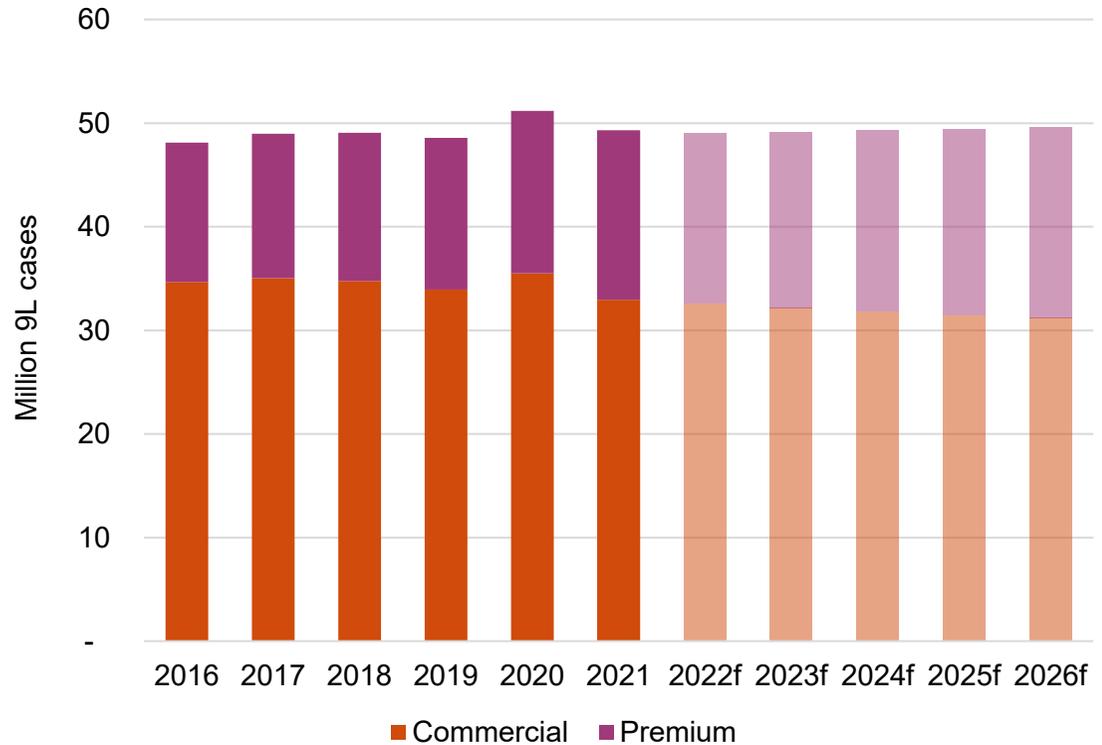


Premium share of market is climbing

Premium wine sales in Canada (defined as C\$14 per bottle and above by IWSR) have a 33 per cent volume share of the market. This is slightly higher than the US (31 per cent share), much higher than the UK (24 per cent) and much lower than Australia (43 per cent).

In 2021, premium wine sales grew by 4 per cent in volume and are forecasted to grow by 2 per cent each year to 2026. Meanwhile, commercial wine declined from 2020 elevated consumption by 7 per cent and is expected to decline by 1 per cent on average in the next 5 years. The different performance of the premium and commercial segments means that premium wine is expected to reach a 37 per cent share by 2026.

Volume of wine consumption, commercial vs premium

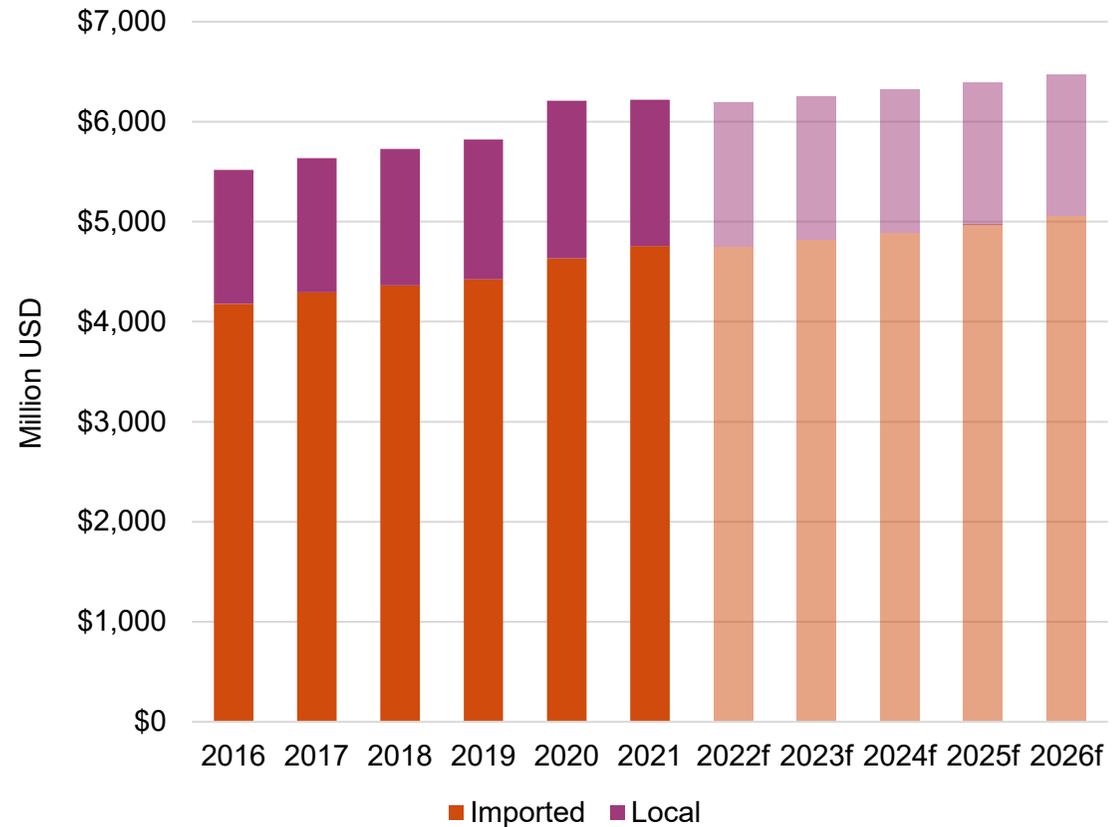


Value of imports remains high in 2021

Imports have a 75 per cent value share of the Canadian wine market and total value growth is forecast to be driven by imported wines. Increased consumption in 2020 benefitted both local and imported wines, but the return to a more normal level of consumption in 2021 has had a disproportionately negative effect on locally produced wines.

The value of domestic wines fell by 7 per cent in 2021, while imported wines grew by 3%. Driving the growth in imports were French, Italian and Spanish wines.

Value of imported vs local wine consumption

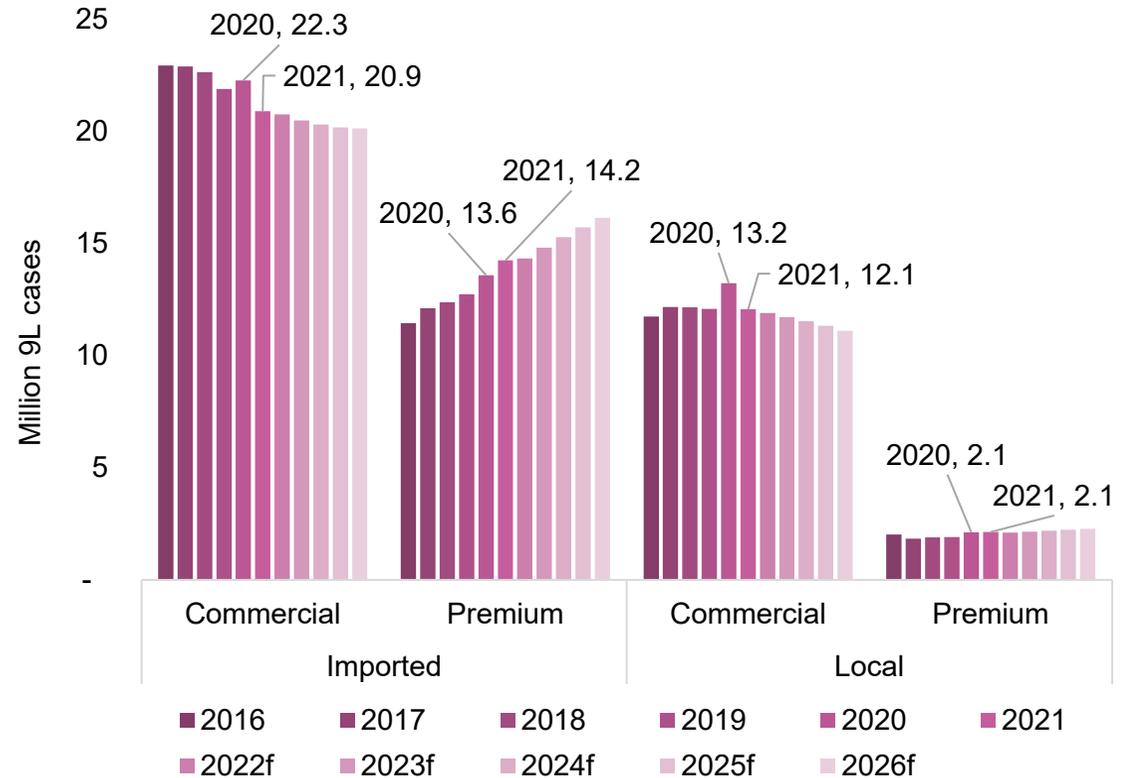


Premium imports drive growth

In the past 5 years, premium imported wines have been driving growth in the market, and this is forecast to continue. Premium price segments had a 41 per cent share of imports in 2021 and this is expected to reach 45 per cent in 2026 (translating to 3 per cent volume growth each year), at the expense of commercial segments. Premium wines have a 15 per cent share of local production and are expected to grow by 1 per cent each year to 2026, to reach a 17 per cent share.

Conversely, both imported and domestic commercial wines are expected to continue their decline. 2020 resulted in a temporary increase in the consumption of these wines, but 2021 saw that ease dramatically.

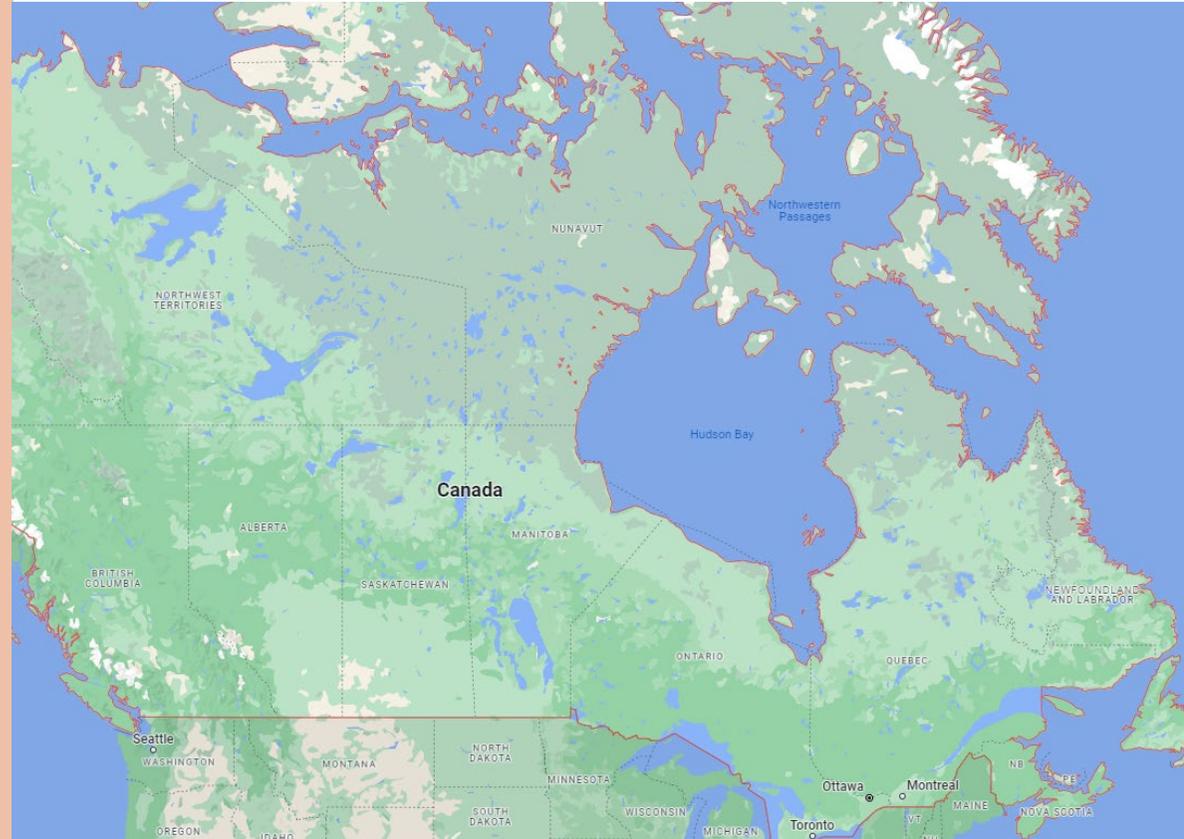
Volume of imported vs local wine, premium vs commercial



Most wine purchased in government-controlled stores

All but one of Canada's 13 provinces have liquor sales that are regulated by government monopolies. With the exception of Alberta, which privatised liquor sales in the 1990's, most of the Canadian population purchases wine through government outlets. The three largest provincial agencies are the British Columbia Liquor Distribution Branch (BCLDB), Société des alcools du Québec (SAQ), and the Liquor Control Board of Ontario (LCBO). Each agency's controls and responsibilities vary slightly but they are all the main gatekeepers to wine consumers in Canada. For example, the LCBO is the single largest purchaser of beverage alcohol in the world.

In recent years laws have been relaxed in some provinces to allow for liquor sales in grocery and convenience stores. According to Wine Intelligence, in 2022, 67 per cent of regular wine drinkers have bought wines in government-controlled outlets, while 22 per cent have purchased wine from a grocery store.



Majority of wine consumed in 3 key provinces

More than 80 per cent of total wine consumed in Canada is consumed within the 3 biggest provinces – Quebec, Ontario, and British Columbia. While Ontario has a much larger population, Quebec over-indexes when it comes to wine consumption. Quebec’s wine culture is much more entrenched – almost one third of Canada’s regular wine drinkers live in Quebec, while it is home to 23 per cent of Canada’s population. Of these three provinces, Australia has the largest market share in Quebec, followed by Ontario, then British Columbia.

Most provinces declined in wine consumption in 2021, compared to 2020. New Brunswick, Nova Scotia, and Prince Edward Island were the only provinces to record growth during the period.

Volume of wine consumption by province, 2021

Province	Total Volume (000 cases)	% change	Australian volume (000 cases)	% change	Province share	Australian market share
Alberta	4,951	-5%	295	-17%	9%	6%
British Columbia	8,671	-4%	452	-9%	16%	5%
Manitoba	1,275	-5%	115	-2%	2%	9%
New Brunswick	845	2%	133	2%	2%	16%
Newfoundland	477	0%	68	1%	1%	14%
Northwest Territories	44	-9%	4	-14%	0%	9%
Nova Scotia	1,150	2%	176	4%	2%	15%
Nunavut	12	-13%	2	-44%	0%	13%
Ontario	15,959	-3%	1,167	-6%	30%	7%
Prince Edward Island	170	7%	22	10%	0%	13%
Quebec	18,951	-4%	1,878	-10%	35%	10%
Saskatchewan	844	-6%	70	-3%	2%	8%
Yukon	61	-6%	3	6%	0%	6%
Total	53,410	-4%	4,382	-8%	100%	8%

Share of regular wine drinkers by province

Provinces

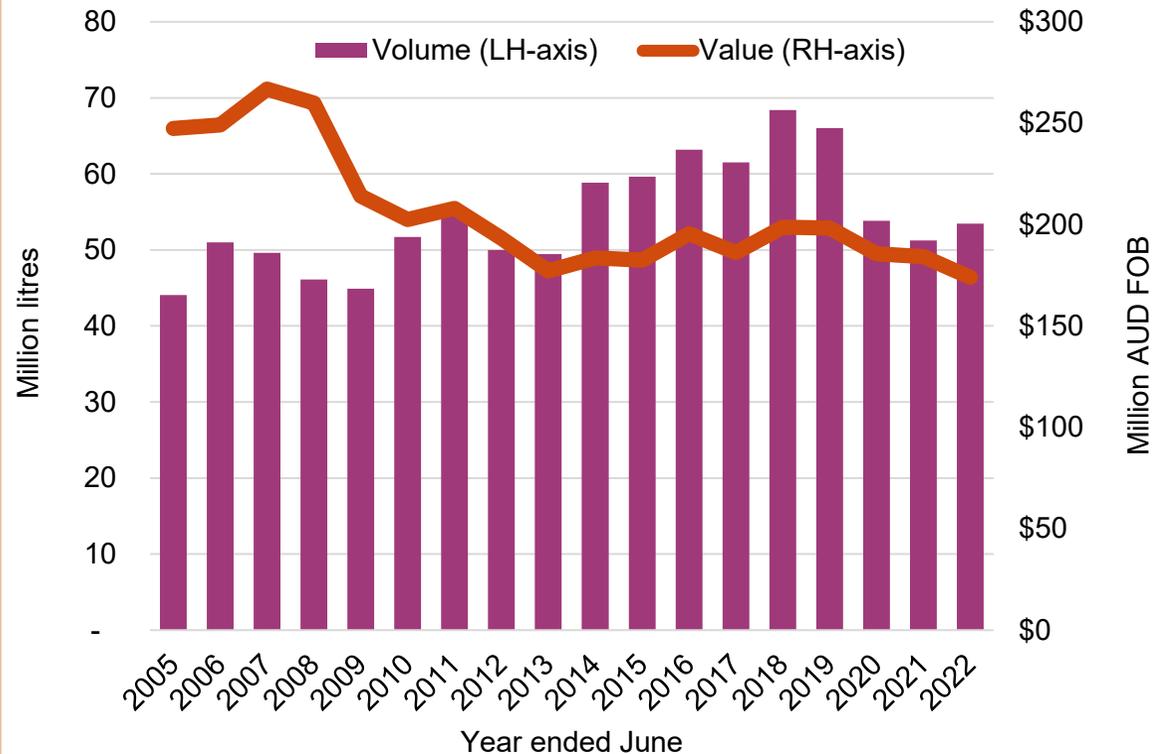
	2017	2022	Tracking
Québec	25%	29%	↑
Ontario	39%	38%	→
West	30%	28%	→
Other Provinces	5%	5%	→

Value of exports stable while volume fluctuates

While the value of Australian exports to Canada has been relatively steady over the last decade, volume has changed notably from year to year. Most of the fluctuation in volume has been due to increases and decreases in the volume of unpackaged wine shipments, which is closely aligned to the supply of wine available in Australia.

Canada is the third biggest destination for Australian wine by volume and by value. In 2021–22, Australian wine exports to Canada decreased by 5 per cent in value to \$174 million but increased 4 per cent in volume to 53 million litres. The increase in volume was driven by a 19 per cent increase in volume of unpackaged exports.

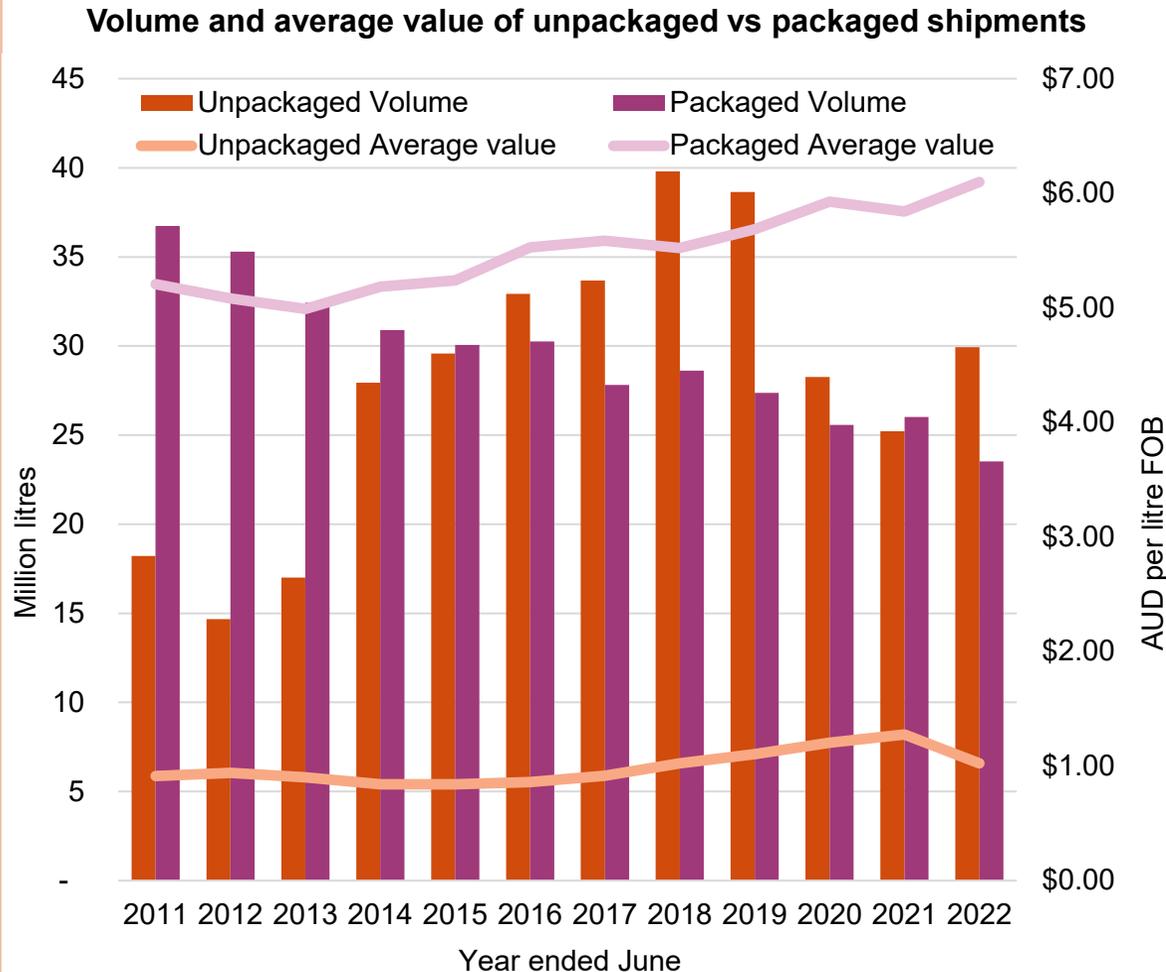
Volume and value of Australian wine exports to Canada



Unpackaged volume has overtaken packaged

Since 2014 there has been an elevated volume of unpackaged wine shipments when compared to previous years, especially during 2018 and 2019, the two years after the large 2017 Australian vintage. Unpackaged volume has again risen in 2022, following the large 2021 vintage. Up until 2022, the average value of unpackaged shipments was on a slow but steady incline, increasing by 6 per cent each year between 2014 and 2021. However, average value of unpackaged shipments declined by 20 per cent in 2022 to \$1.02 per litre.

The average value of packaged shipments has been steadily increasing since 2013, by 2 per cent each year. In the last 12 months, average value increased by 4 per cent to \$6.10 per litre. Volume has declined by an average of 4 per cent each year since 2013.

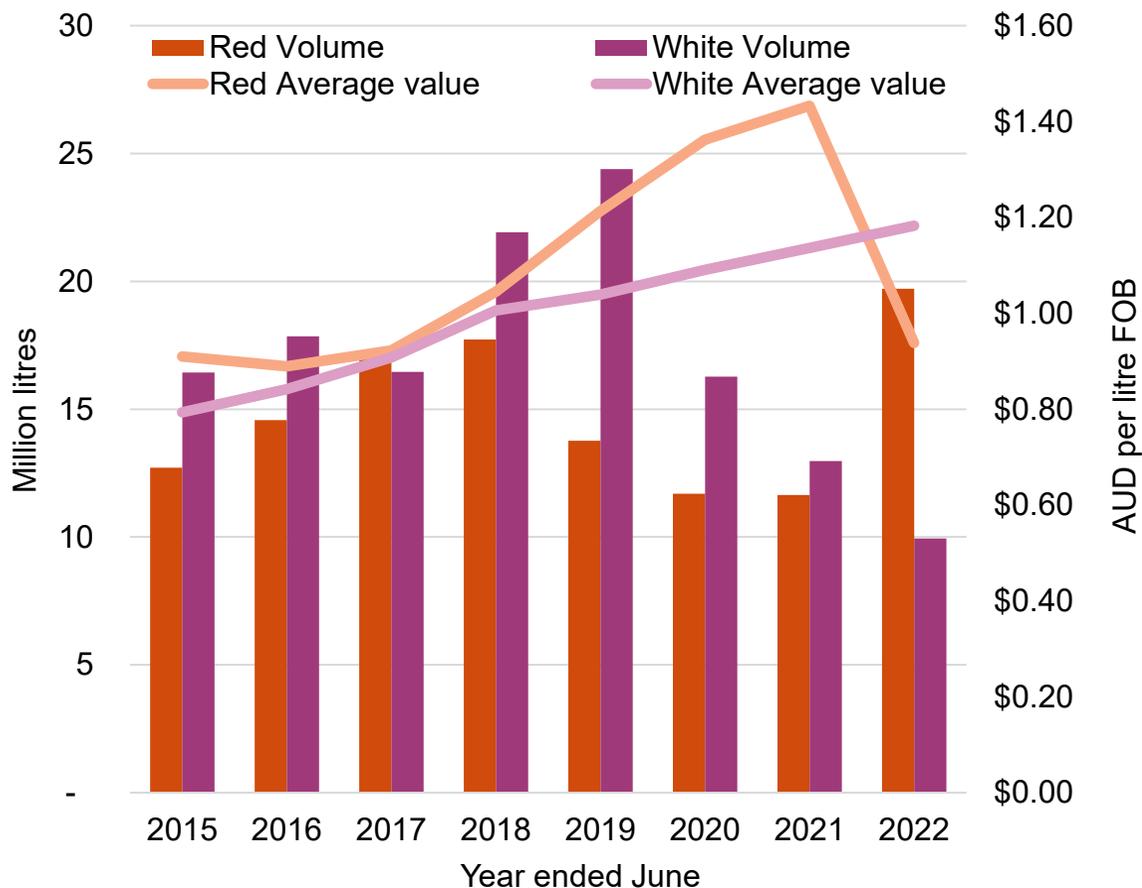


Unpackaged volume and \$/litre follow inverse trend

Since 2019, the volume of unpackaged white wine shipments has declined by 26 per cent each year, while average value has increased by an average of 4 per cent each year. This decline in volume and increase in average value has been driven by an increase in the demand for white wine, while supply remains constrained.

Red wine followed a very similar trend up until 2022. A decline in the available supply of red wine meant that the average value increased by an average of 11 per cent each year between 2018 and 2021. However, in 2022, a combination of a large 2021 Australian vintage, plus the effective closing of the Chinese market to Australian exporters (formerly a large purchaser of Australian red wine), has meant that the available supply of red wine to Canada has increased and, as a result, average value of unpackaged red wine has declined by 35 per cent to \$0.94 per litre.

Volume and average value of red and white unpackaged shipments



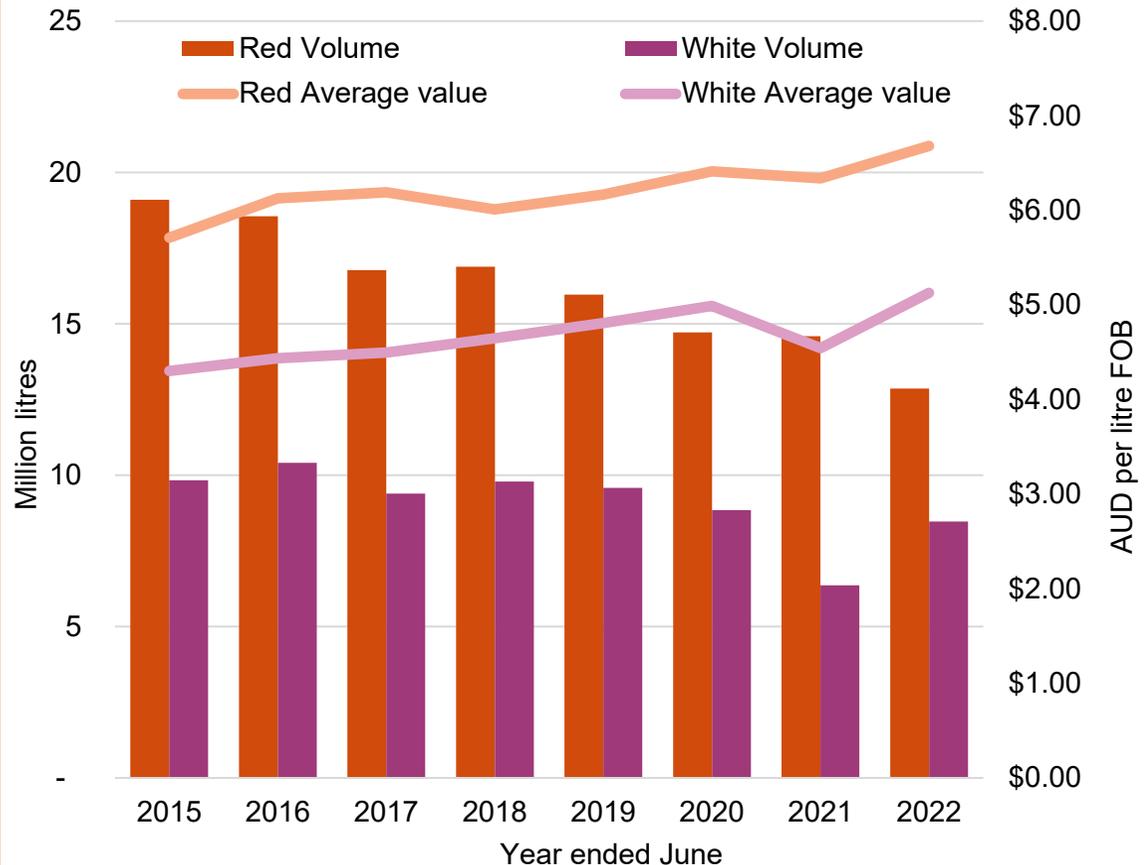
Packaged white up in volume and average value in 2022

In recent years, packaged white wine shipments have followed a similar trend to unpackaged – volume has declined, while average value has increased. This follows the global premiumisation trend, where consumers are drinking less, but more premium, wine. While Australian white wine volume has declined by 2 per cent on average per year between 2015 and 2022, in the past 12 months volume increased by 33 per cent.

Packaged red wine has declined at a steeper rate – 5 per cent on average per year, and 12 per cent in the last 12 months. Meanwhile, average value has increased by 2 per cent each year.

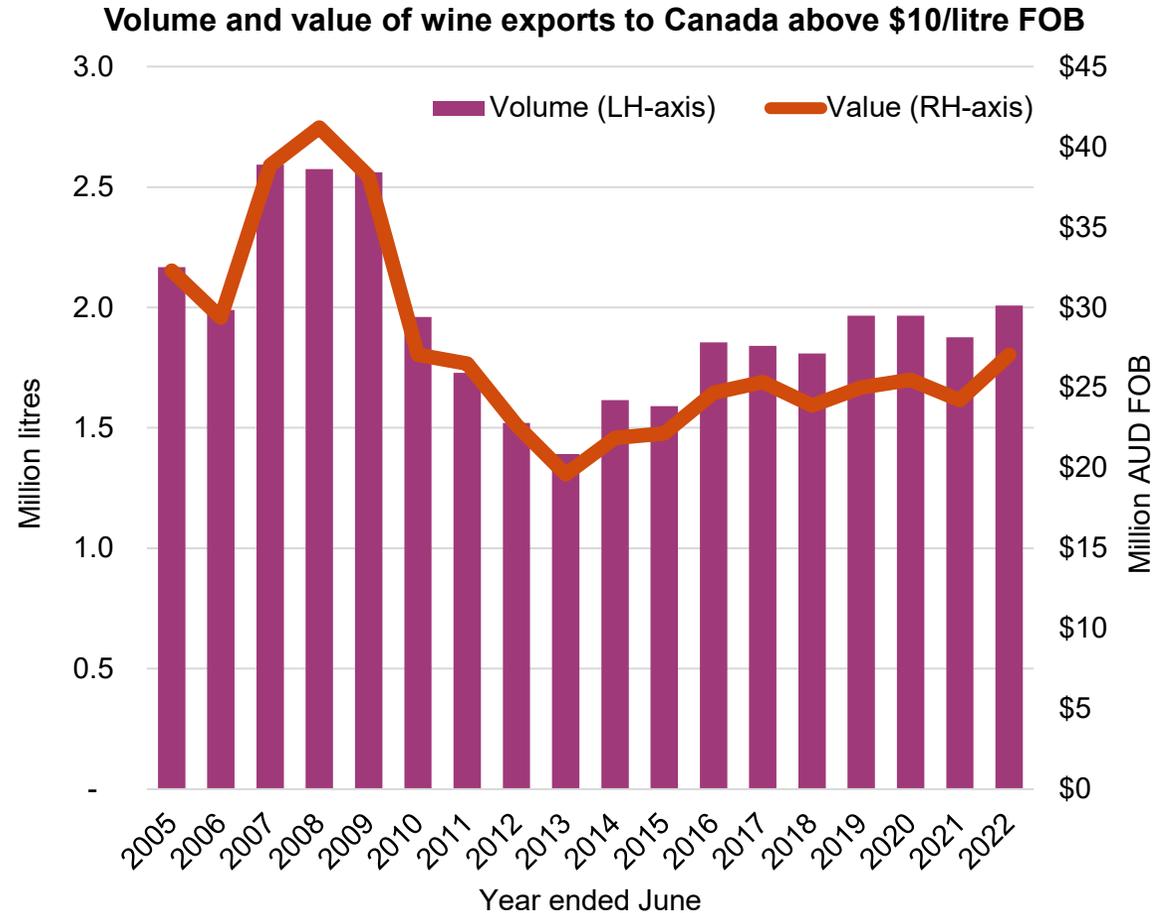
Average value of packaged shipments saw a slight decline in 2020-21 as commercial shipments increased and premium shipments decreased during COVID-19 pantry stockpiling, but has since recovered.

Volume and average value of red and white packaged shipments



Premium wine exports are growing slowly

Since 2013 there has been a slow, gradual trend of increased shipments above \$10 per litre FOB. The value of these shipments has increased by 4 per cent on average per annum and further accelerated in 2022 where they increased by 12 per cent to \$27 million. This increase has resulted in the value share of these premium exports returning to 16 percent, a level not seen since 2009.

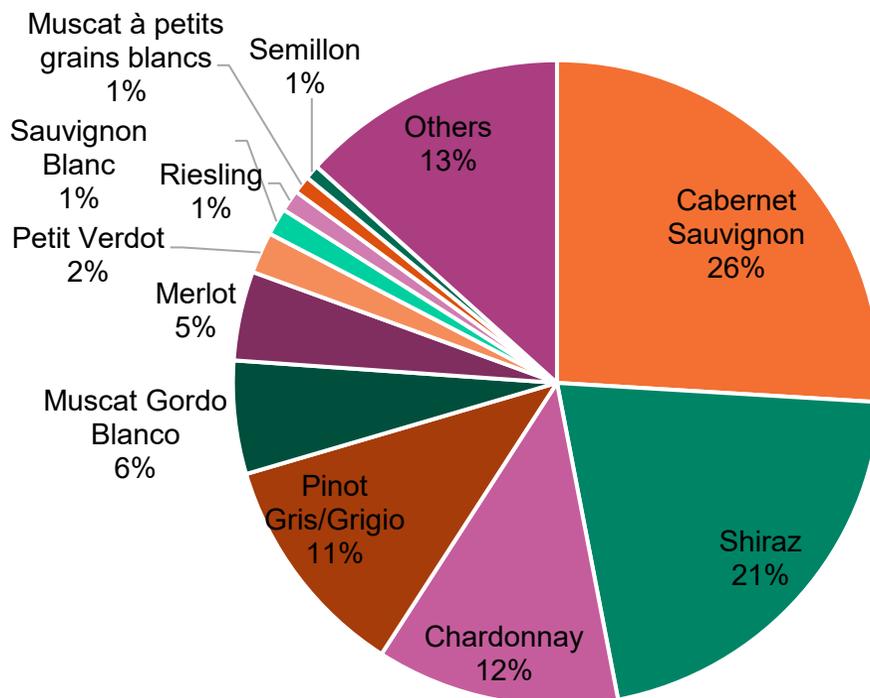


Shiraz loses share in favour of Cabernet Sauvignon

47 per cent of wine exported to Canada in 2022 was identified as either Cabernet Sauvignon or Shiraz. Rounding out the top three is Chardonnay, with a 12 per cent share. These three varieties have increased their share of exports from 54 per cent to 59 per cent in the last eight years. This is largely thanks to a considerable increase in the share of Cabernet Sauvignon exports, while Shiraz has notably lost share.

This switch from Shiraz to Cabernet Sauvignon is mirrored in the sales data; total sales of Cabernet Sauvignon in Canada have grown by 4 per cent each year since 2018, while Shiraz has declined by an average of 10 per cent (Association of Canadian Distillers).

Share of volume by variety, MAT June 2022



Variety	Share of volume, year ended June		
	2014	2018	2022
Cabernet Sauvignon	11%	15%	26%
Shiraz	30%	24%	21%
Chardonnay	13%	14%	12%
Pinot Gris/Grigio	17%	18%	11%
Muscat Gordo Blanco	1%	4%	6%
Merlot	4%	5%	4%
Petit Verdot	3%	1%	2%
Sauvignon Blanc	1%	3%	1%
Riesling	1%	1%	1%

E-commerce is accelerated by pandemic

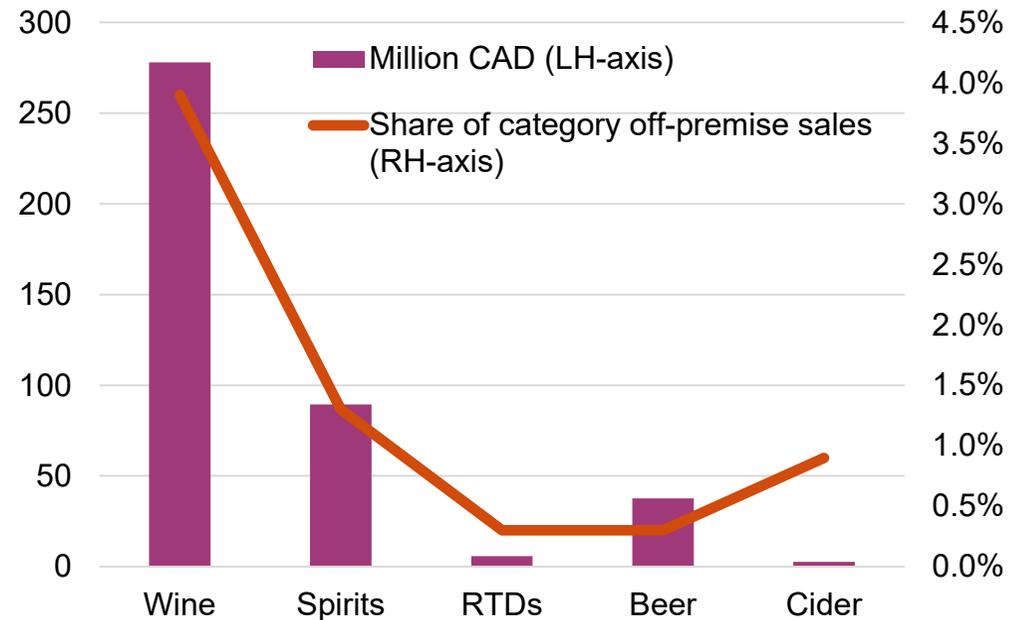
Online sales of alcohol have grown strongly during the course of the pandemic. These sales have mostly taken the form of Click and Collect from brick and mortar stores. Recently, new laws have relaxed restrictions around shipping across province borders, which should accelerate the growth further.

According to Statista, Lcbo.com is the biggest online alcohol retailer in Canada, growing by 21 per cent in 2021 to US\$126.6 million in revenue.

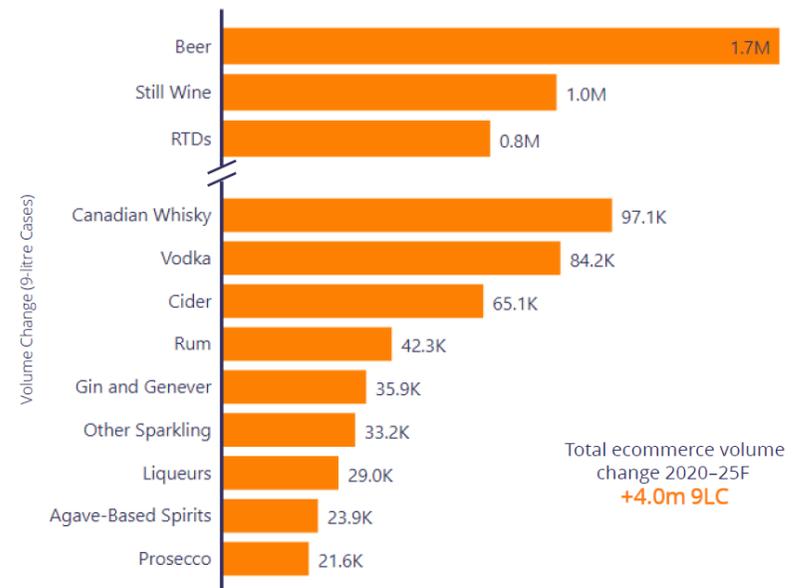
Wine has the highest value of the alcoholic beverage categories in online sales, and also the highest share of off-trade sales.

General e-commerce has a relatively low penetration of Canadian internet usage compared to similar markets; 72 per cent of the population shops online, while 96 per cent use the internet. In comparison, in the United States 79 per cent of the population shops online but only 91 per cent use the internet (Statista).

Value and share of e-commerce



Ecommerce Volume Change by Category (2020-25F)*



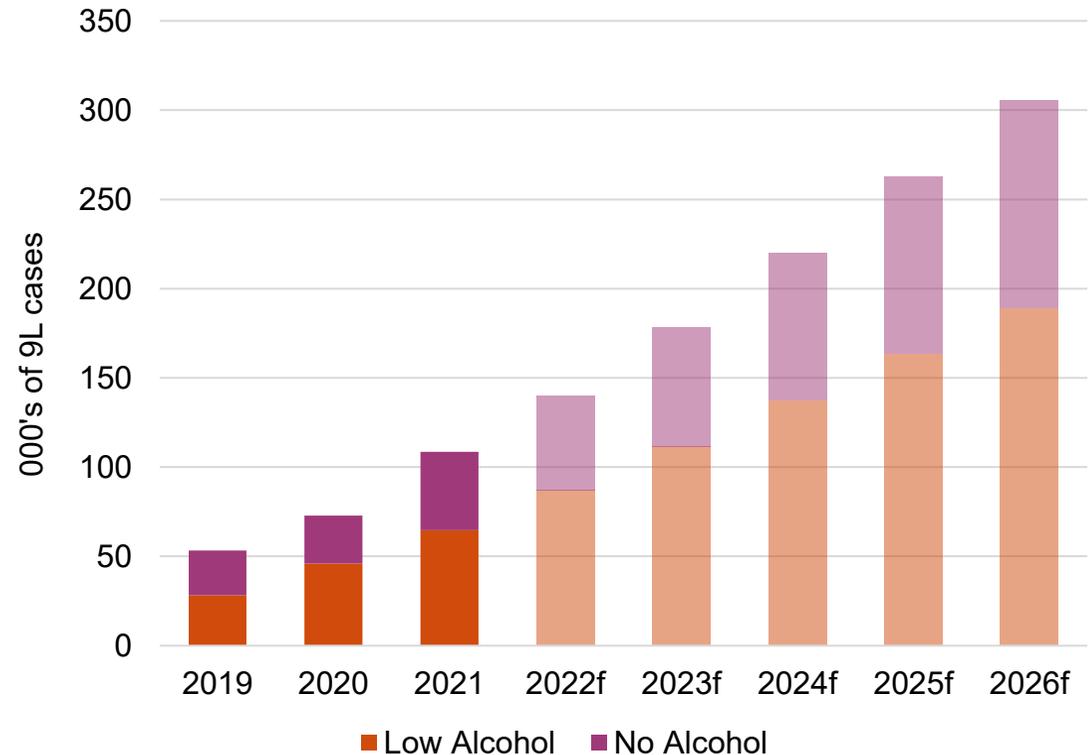
*Top 12 categories by ecommerce absolute volume change 2020-25F

Low and no-alcohol wines projected to grow

The sales of low and no-alcohol wines have grown by 43 per cent each year since 2019, with low alcohol wines outpacing no-alcohol wines. This growth is coming from a very low base; the volume share is less than 1 per cent of the total market. These two categories are projected to grow by 23 per cent each year out to 2026.

The government-run liquor stores in Canada are actively promoting “better for you” categories such as low and no-alcohol alternatives and are thus assisting with getting these types of products in front of consumers.

Volume of no and low-alcohol wine consumption in Canada



The number of regular wine drinkers has declined

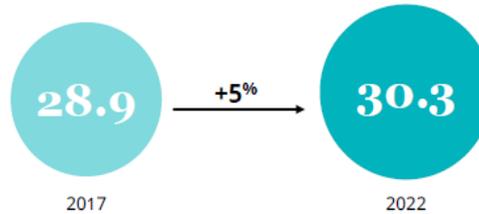
Canada has a high population growth rate, relative to similar markets. Despite this, the number of regular wine drinkers is declining. Weekly wine drinkers made up 49 per cent of the adult population in 2017, that share has now fallen to 38 per cent.

The core reason behind this decrease is the difficulty in recruiting younger drinkers to the category. The loss of younger drinkers is especially apparent in French speaking Canada (Quebec) – where the Gen Z proportion of regular wine drinkers has fallen from 10 per cent in 2017 to 3 per cent in 2022.

According to Euromonitor International's consumer health survey, the younger segments of the population are not just moving away from wine, but alcohol in general. Both male and female consumers under the age of 44 are more likely to be reducing their alcohol consumption than other age cohorts.

Population growth

In millions of adults

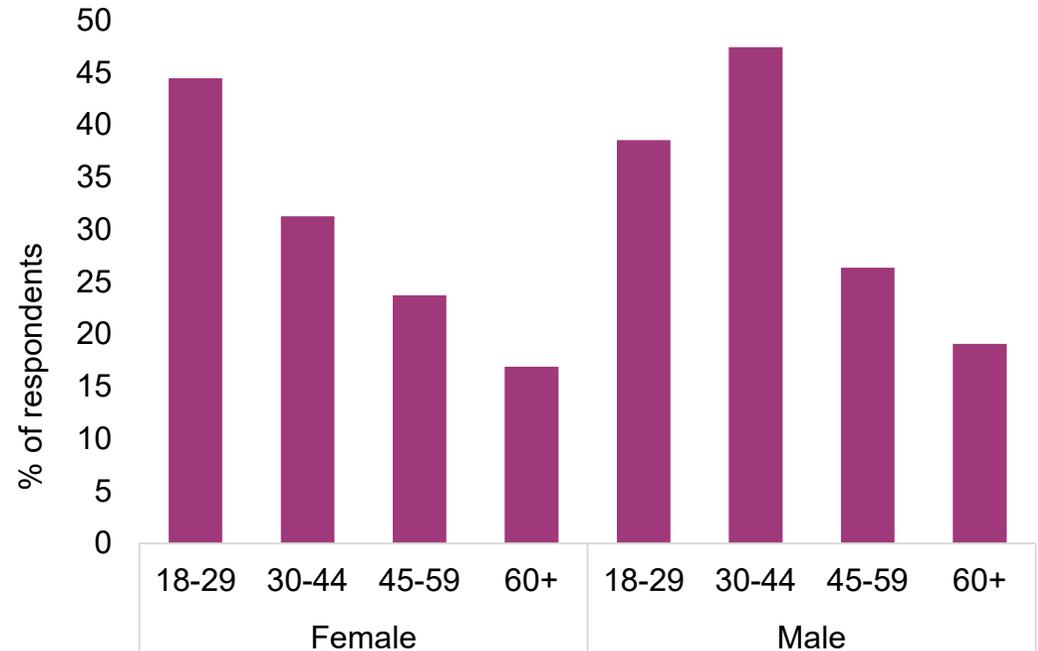


Wine drinkers decline

In millions. Those who drink wine at least once a week



Share of age group trying to quit or reduce their alcohol consumption



Canada still ranks highly in market attractiveness

Canada comes in as the eighth most attractive wine market in the world, according to the Wine Intelligence Global Compass 2022. Market attractiveness is determined by scoring the markets on economic and wine market measures. Canada scores slightly higher when it comes to economic measures, thanks to its population growth, GDP per capita, and strong GDP growth rate.

Wine Intelligence also ranks Canada highly when it comes to the potential for wine consumption growth and market profitability.

Top markets by 'market attractiveness'

Market		Score (1 to 10)	Tracking 2021-22	
			Rank difference	Score difference
1	United States	6.64	=	-0.16
2	Germany	6.31	↑ 3	-0.28
3	Switzerland	6.21	↑ 7	-0.06
4	South Korea	6.11	↓ -2	-0.61
5	United Kingdom	6.07	↓ -2	-0.61
6	Netherlands	6.03	↑ 7	-0.15
6	Japan	6.03	↑ 15	0.30
8	Canada	5.99	↓ -1	-0.48
9	China	5.98	↑ 8	0.17
9	Denmark	5.98	=	-0.30
11	France	5.93	↑ 5	-0.03
12	Norway	5.87	↓ -6	-0.60
13	Ireland	5.86	↓ -9	-0.77
14	Belgium and Luxembourg	5.82	↑ 4	0.03
15	Spain	5.80	↑ 10	0.54
16	Sweden	5.79	↓ -8	-0.54
17	Australia	5.72	↑ 1	-0.07
18	Singapore	5.66	↓ -7	-0.61
19	Poland	5.58	↓ -7	-0.64
20	Hong Kong	5.54	↑ 10	0.42
21	Italy	5.47	↑ 4	0.21
22	Brazil	5.45	↓ -8	-0.73
23	Austria	5.39	↑ 1	0.03
24	Mexico	5.38	↑ 7	0.31
25	Finland	5.33	↓ -7	-0.46