Wine Australia providing insights on Australian Wine

Australian wine: Production sales and inventory 2015–16

March 2017

Key takeaways

- The 2016 vintage saw highest production since 2008
- Red and white wine production were both up
- Domestic and export markets are both in growth
- An additional 15 million litres of Australian wine were sold in 2015–16 year, compared with the year before, with an additional value of $408 million
- Relatively strong sales growth for reds reflected higher production
- Increased sales were driven by the ‘premiumisation’ trend in the domestic market and strong demand from Asian markets for premium Australian wines
- Inventory increased by 115 million litres, with a greater increase in white wines
- Inventory-to-sales ratios at the end of 2015–16 were above long-term averages for red and white wine but inventory was well below 2005–06 level of nearly 2 billion litres
- The long-term trend for production, sales and inventory is positive, with continuing sales growth expected especially in export markets, and production unlikely to increase due to a stable national vineyard base

Overview

Wine production Vintage 2016

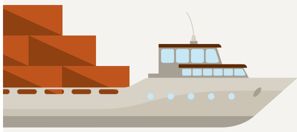
1.81m tonnes
grapes crushed
▲ 6%

1.3b litres
wine produced
▲ 10%

Wine sales 2015–16

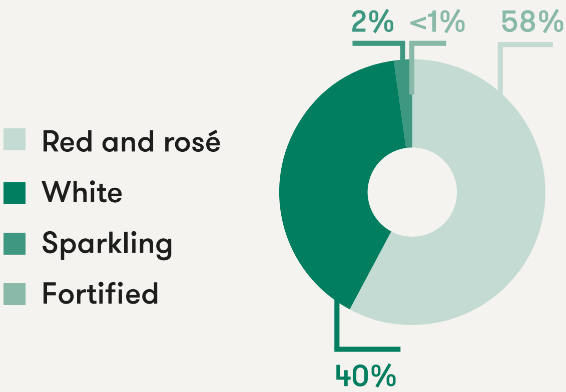
Total sales
$5.1 billion

Export 61% volume



Volume
728m litres ▲ 0.5%

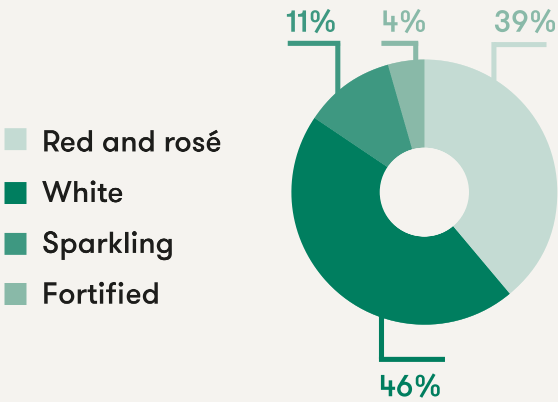
Value
$2.11b ▲ 11.4%



Domestic 39% volume

Volume
468m litres ▲ 2.5%

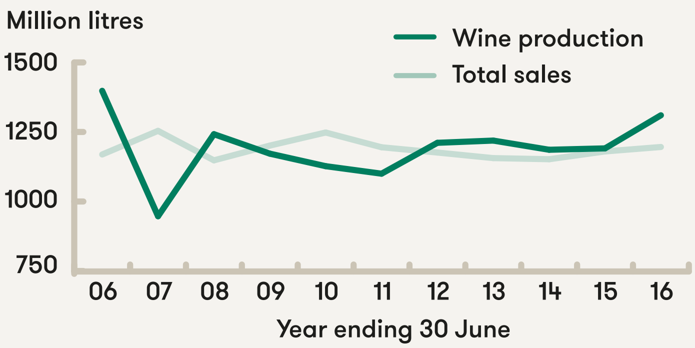
Value
$2.97b ▲ 6.9%



30 million glasses of Australian wine enjoyed worldwide everyday

Wine inventory 30 June 2016

1.76b litres
▲ 7%



Survey results summary

Table 1: **Grape crush by colour** (thousand tonnes)

	2014–15	2015–16	Change
Red grapes	857	935	9.1%
White grapes	850	872	2.6%
Total grape crush	**1707**	**1807**	**5.9%**

Table 2: **Wine production by colour** (million litres)

	2014–15	2015–16	Change
Wine from red grapes	604	684	13.2%
Wine from white grapes	587	627	6.7%
Total wine production	**1191**	**1310**	**10.0%**
Other grape product	52	37	-27.9%

Table 3: **Domestic wine sales by wine style** (million litres)

	2014–15	2015–16	Change
Red and rosé	175	183	4.5%
White	211	213	0.6%
Sparkling	50	53	4.9%
Fortified	20	20	0.0%
Grand Total	**456**	**468**	**2.5%**

Table 4: **Domestic wine sales value** ($ million)

	2014–15	2015–16	Change
Total sales	**$2777**	**$2969**	**6.9%**

Table 5: **Export wine sales by wine style** (million litres)

	2014–15	2015–16	Change
Red and rosé	406	424	4.4%
White	305	292	-4.1%
Sparkling	11	11	4.6%
Fortified	1	0	-63.4%
Other products	2	1	-69.4%
Grand Total	**724**	**728**	**0.5%**

Table 6: **Export wine sales value** ($ million FOB)

	2014–15	2015–16	Change
Total sales	**$1892**	**$2108**	**11.4%**

Table 7: **Total sales volume** (million litres)

	2014–15	2015–16	Change
Red and rosé	581	606	4.4%
White	516	505	-2.1%
Sparkling	61	64	4.8%
Fortified	21	20	-3.0%
Other products	2	1	-69.4%
Grand Total	**1180**	**1195**	**1.3%**

Table 8: **Total sales value** ($ million)

	2014–15	2015–16	Change
Total sales	**$4669**	**$5077**	**8.7%**

Table 9: **Wine inventory by colour** (million litres)

	2014–15	2015–16	Change
Wine from red grapes	1009	1066	5.7%
Wine from white grapes	631	689	9.2%
Total wine inventory	**1640**	**1755**	**7.0%**

Australian wine grape crush

In 2016, the wine grape crush was up by 6 per cent to 1.81 million tonnes. The red grape crush drove this growth, up 9 per cent to 935,000 tonnes, while the white grape crush was up 3 per cent to 872,000 tonnes. This year's crush is 100,000 tonnes greater than the 5-year average (2011–15) of 1.7 million tonnes. The increase in the total crush came primarily from the cool and temperate regions of Australia, with the crush from the warm inland regions (Riverina, Murray Darling-Swan Hill and Riverland) decreasing by approximately 7000 tonnes (down 0.6 per cent) while the crush from the other regions combined increased by an estimated 112,000 tonnes (up 26 per cent).

The biggest increases in volume among the major regions were in Langhorne Creek (up 57 per cent), Mornington Peninsula (up 53 per cent) and McLaren Vale (up 47 per cent) while the Yarra Valley was down 20 per cent and the Hunter Valley down 46 per cent.

Figure 1: **Wine grape crush by colour.** Source: ABS, Wine Australia, Levy Revenue Service and WFA

Wine production

Total wine production increased by 10 per cent (120 million litres) to 1.3 billion litres, due to higher yields and extraction rates. Total red wine production increased by nearly 80 million litres (13 per cent) to 684 million litres while total white wine production increased by nearly 40 million litres (6.7 per cent) to 627 million litres.

The red wine grape extraction rate increased from 703 litres per tonne to 730 litres per tonne, which is above the 10-year average of 713 litres per tonne. The white wine grape extraction rate of 719 litres per tonne was also above the long-term average of 686 litres per tonne. Higher extraction rates are likely to be a result of seasonal factors and low disease pressure meaning less waste and less need to produce concentrate. Concentrate production in 2016 was much lower than in 2015. The production of non-wine products from white wine grapes may account for their lower extraction rate when compared to red wine grapes.

Domestic wine sales

Domestic sales of Australian wine increased in value by 6.9 per cent and in volume by 2.5 per cent in 2015–16. Strong revenue growth for small winemakers contributed to the overall value growth. The total value of domestic sales increased by $191 million to just under $3 billion (based on winemaker receipts comprising mostly wholesale transactions but also cellar door and direct sales) while volume increased by 11.5 million litres to 467.5 million litres.

The increase in value is attributable to the 'premiumisation' trend among consumers (trading up in value) – including a move away from cask wine, and 'daigou' shopping (Chinese buyers purchasing premium wine on the Australian domestic market and shipping to China for on-selling).

Red and rosé wines recorded the strongest growth, up by nearly 8 million litres (4.5 per cent) to 183 million litres, while sparkling wine recorded a similar growth rate (up 4.9 per cent) from a smaller base, giving an increase of 2.4 million litres to 53 million litres. White wine increased by more than 1 million litres to 213 million litres – reversing last year's decline. Shiraz and Pinot Noir have been the main drivers of red wine growth on the domestic market while Pinot Grigio had the most growth among white wines, according to IRI figures to the end of June 2016[1].

1 These figures include imported wines

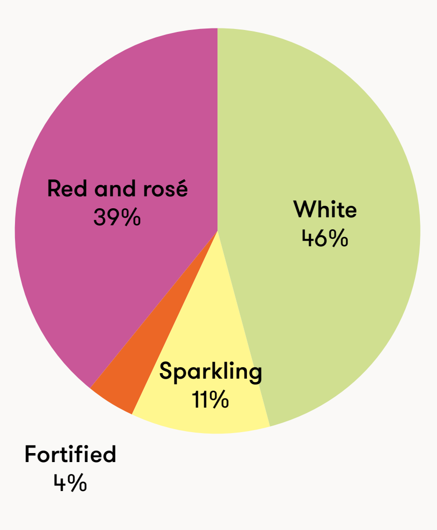


Figure 2: Domestic sales volume share

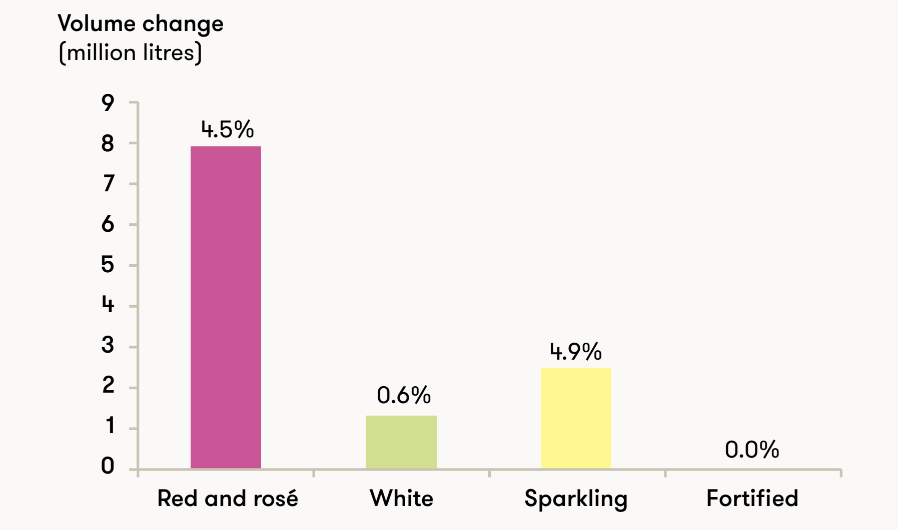


Figure 3: Domestic sales volume growth by wine style

Exports of Australian Wine

In 2015–16, the value of Australian wine exports grew by $216 million (11.4 per cent) to $2.11 billion and volume increased by 0.5 per cent to 728 million litres. Growth was driven by red wines (up 4.4 per cent) and sparkling wines (up 4.6 per cent) while white wine exports declined by 4 per cent. Australia's export profile is more weighted towards red wines than white, with red wines (including rosé) accounting for 58 per cent of export sales, compared with 39 per cent of domestic sales.

The growth in Australian wine exports was mainly driven by Asia, as a result of increasing wealth, interest in wine among the emerging middle class and the introduction of the China-Australia Free Trade Agreement (ChAFTA) in December 2015. A depreciated Australian dollar was also a tailwind throughout the year.

The top five export markets by value were the United States, mainland China, the United Kingdom, Canada and Hong Kong. Together, they accounted for almost three-quarters of the value of Australian exports. Overall, Australian wine was exported to 119 countries in 2015-16, and value increased to 74 of these, including four of the top five.

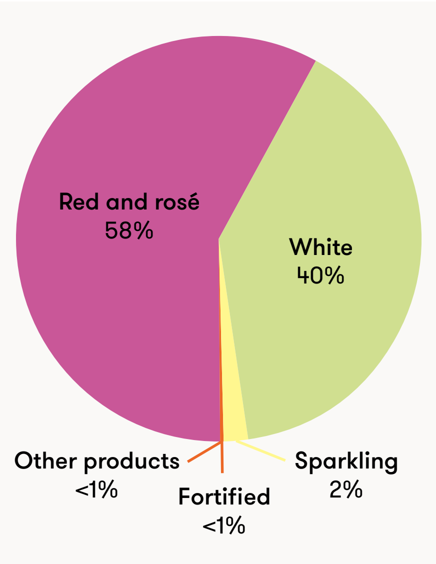


Figure 4: Export sales volume by wine style

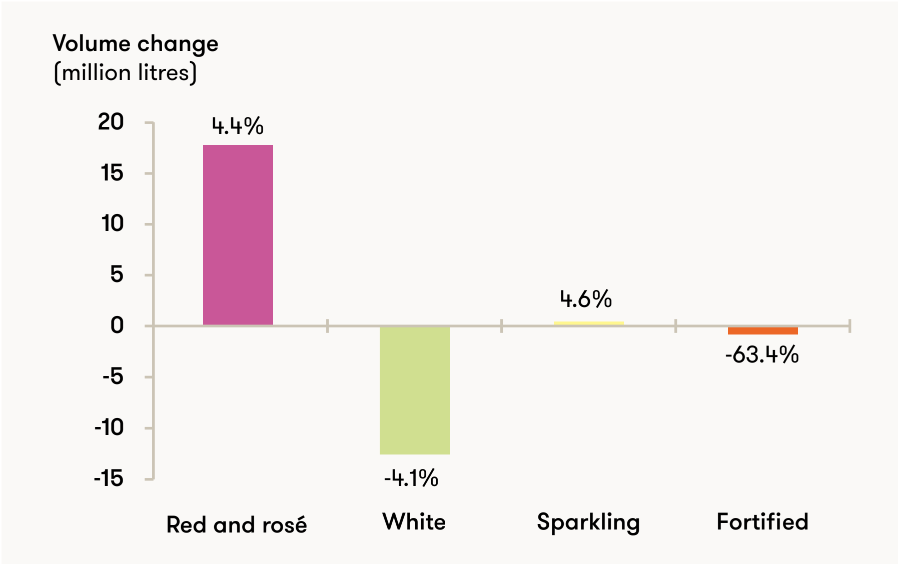


Figure 5: Export sales volume growth by wine style

Total Australian wine sales

Growth in both the domestic and export markets led to an increase in value of $408 million (8.7 per cent) in total Australian wine sales to more than $5 billion and an increase in volume of 15 million litres (1.3 per cent) to 1.2 billion litres.

Sales of wine produced from red wine grapes increased by 4.1 per cent to 606 million litres while wine made from white wine grapes decreased by 2.1 per cent to 505 million litres.

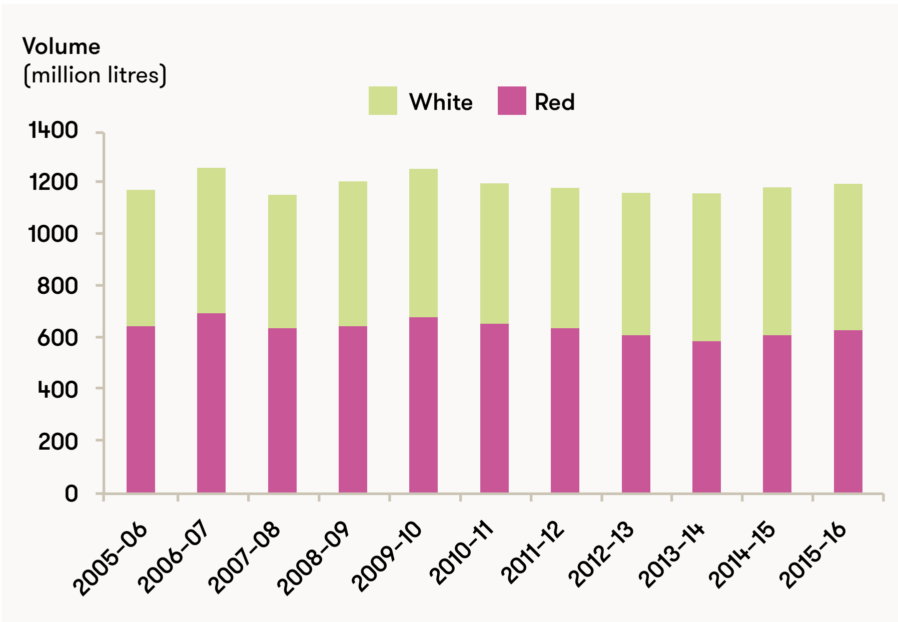


Figure 6: Total sales of Australian wine by colour

Inventory

Total Australian wine inventory finished the year at 1.76 billion litres, an increase of 115 million litres (7 per cent).

The increase in production was partially offset by the increase in both domestic and export sales.

Red wine inventory increased by 6 per cent to 1.07 billion litres in 2015–16. The inventory-to-sales ratio also increased slightly to 1.7 years (the 10-year average is 1.58 years).

White wine inventory increased by 9 per cent to 689 million litres in 2015–16, the highest since 2005–06. This reflects the large wine production in 2016 and overall decline in white wine sales. The inventory-to-sales ratio increased from 1.10 to 1.23 years. The 10-year average is 1.16.

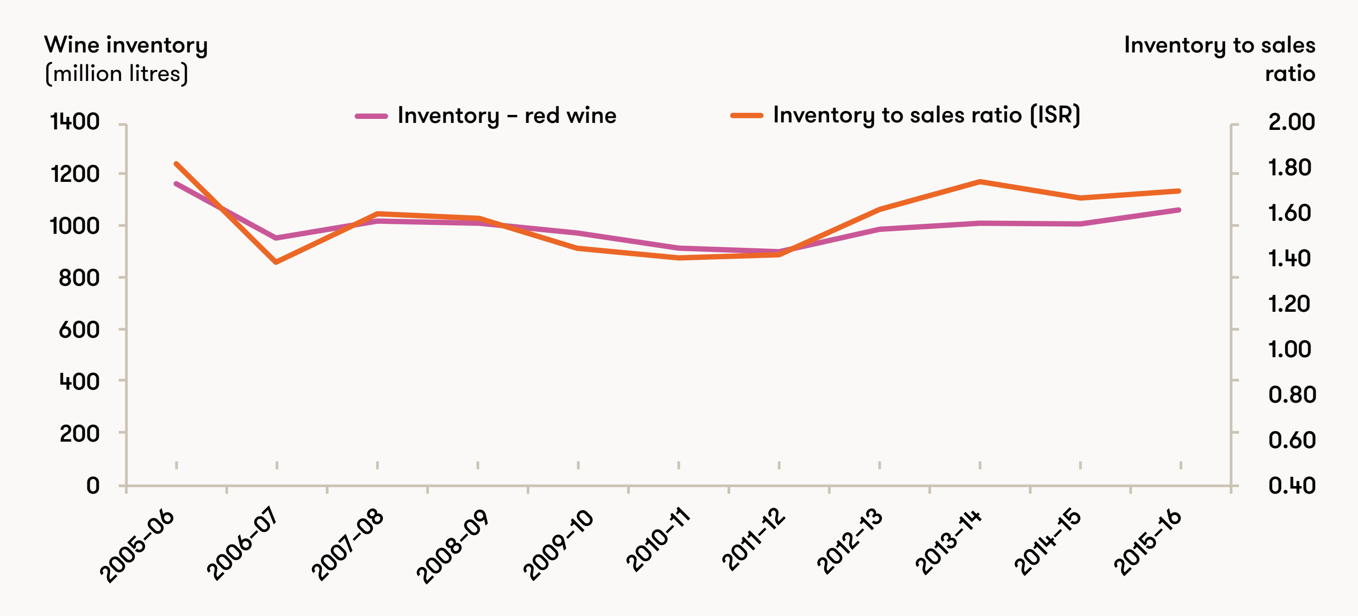


Figure 7: Inventory-to-sales ratio for red wine (historical)

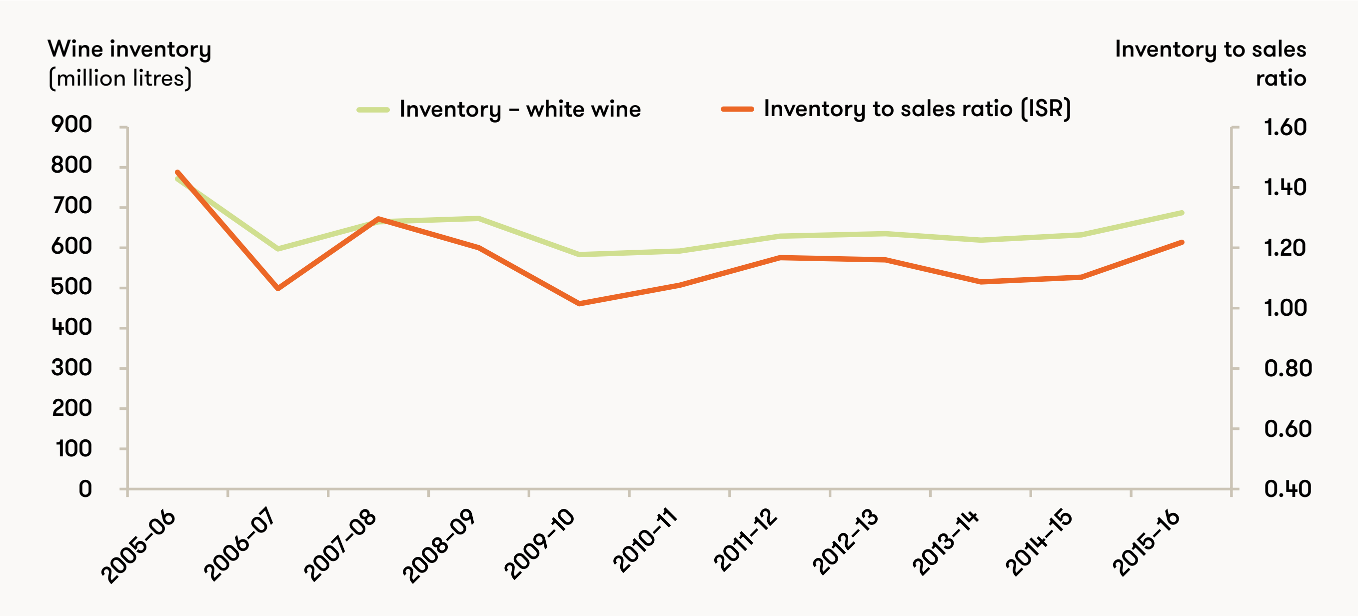


Figure 8: Inventory-to-sales ratio for white wine (historical)

Outlook

The long-term trend for production, sales and inventory is positive, with sales and production tracking reasonably closely since 2007–08 and inventory well below 2005–06 levels of nearly 2 billion litres.

Domestic market sales are increasing particularly in value terms, while exports have seen strong growth in key markets due to better trading terms and economic conditions. While export sales of white wine were down in 2016 compared with the previous year, they were still the third highest since 2005–06 and 12 million litres above the 10-year average. Furthermore, the stronger sales trends reported here have continued into 2016–17.

On a cautionary note, inventory levels have been creeping higher over the last five years. Despite declining vineyard area, the 2016 crush was the highest since 2006. Higher inventory levels can be a mixed blessing as they allow for more sales but also require careful management to maintain pricing momentum. A return to average yields in 2017 would reduce the inventory-to-sales ratio.

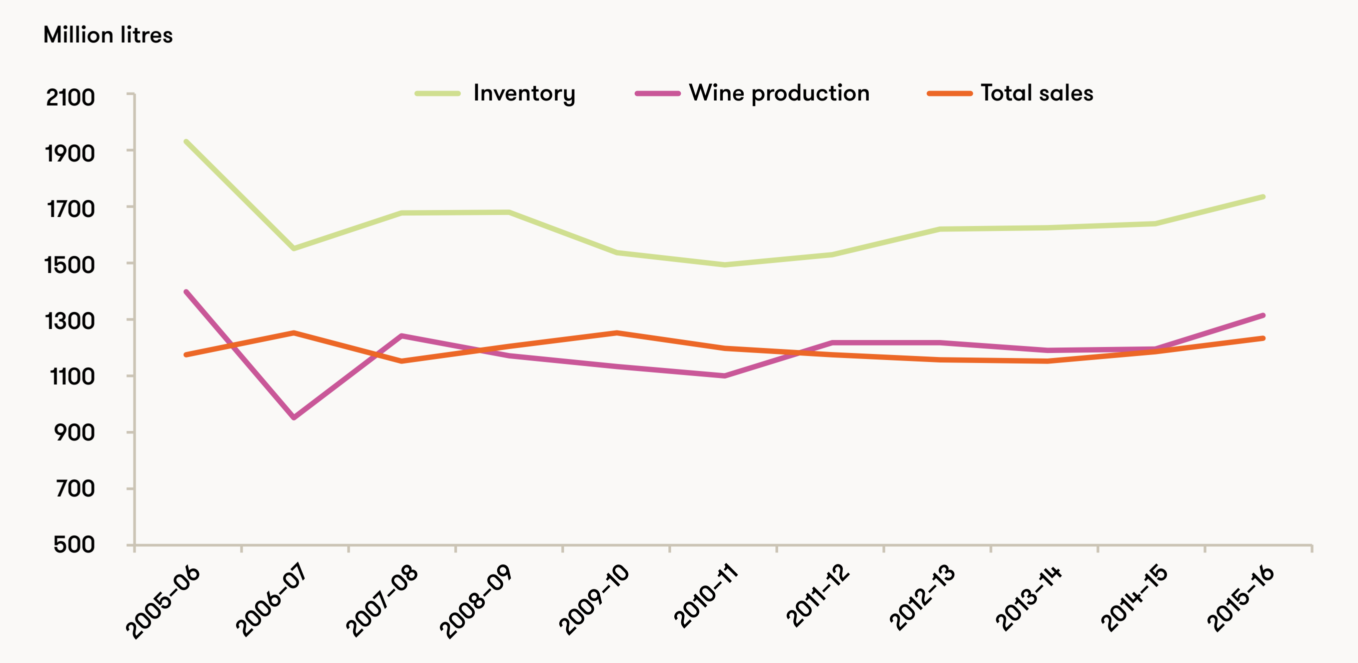


Figure 9: Wine production, sales and inventory (historical)

Survey methodology

Wine Australia's *2016 Production, Sales and Inventory* survey was sent to the top 130 wineries based on grape crush size in 2016. Wine Australia received responses from 85 wineries, including 29 of the top 30 by volume, accounting for an estimated 86 per cent of total wine production in 2016.

A separate survey was conducted of the 2098 small wineries with an estimated crush of less than 500 tonnes. A separate report is available on the results of the *2016 Small Winemaker Production and Sales* survey. The results of that survey were incorporated into the overall survey results.

In addition, a number of other data sources were used to inform the final figures including estimating the missing data from non-respondents: Australian Bureau of Statistics, Drinks Association, IRI (Aztec), Levies Revenue Service, Winetitles and Wine Australia.

Note on inventory

The inventory figures reported in this paper are based on a sector supply and demand balance calculation in order to align with the time series data. The basic sector calculation is:

Inventory (June 2016) = inventory (June 2015) + wine production (2015–16) – total sales (2015–16)

The calculated figure and change in inventory were consistent with the survey data collected.

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Further information on this report can be obtained from the Market Insights team at Wine Australia on 8228 2000.

Appendix 1: Historic supply and demand balance

Red		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Crush	(thousand tonnes)	1056	680	959	913	866	766	830	898	866	857	935
Extraction Rate	(litres per tonne)	735	695	703	689	718	732	728	733	703	703	730
Wine Production	(million litres)	776	472	674	629	622	561	604	658	609	604	684
Inventory	(million litres)	1165	956	1019	1011	961	910	899	987	1014	1009	1066
Exports	(million litres)	455	497	446	442	468	447	435	406	385	406	424
Other* red exports	(million litres)	5	6	7	7	7	6	6	6	5	7	2
Domestic sales still wine	(million litres)	154	166	161	171	176	173	173	175	173	175	183
Domestic sales other*	(million litres)	24	23	22	22	22	23	21	21	20	20	18
Total sales	(million litres)	637	692	637	641	674	649	635	608	583	607	627
ISR	(years)	1.83	1.38	1.60	1.58	1.43	1.40	1.42	1.62	1.74	1.66	1.70

White		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Crush	(thousand tonnes)	846	718	873	819	707	837	828	851	797	850	872
Extraction Rate	(litres per tonne)	735	662	651	662	715	644	733	659	725	693	719
Wine Production	(million litres)	622	475	568	543	505	539	607	561	578	587	627
Inventory	(million litres)	769	593	663	670	581	586	629	633	615	631	689
Exports table wine	(million litres)	265	283	243	292	291	267	268	281	296	304	292
Other* white exports	(million litres)	11	12	12	10	11	11	10	9	8	7	3
Domestic sales (table wine)	(million litres)	213	222	212	212	219	219	216	210	215	211	213
Other domestic sales*	(million litres)	43	45	44	45	53	49	47	48	51	50	54
Total sales	(million litres)	531	562	512	560	575	545	541	548	569	573	562
ISR	(years)	1.45	1.06	1.30	1.20	1.01	1.07	1.16	1.16	1.08	1.10	1.23

Total		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Crush	(thousand tonnes)	1902	1397	1832	1733	1573	1602	1658	1748	1663	1707	1807
Extraction Rate	(litres per tonne)	735	678	678	676	716	686	730	697	713	698	724
Wine Production	(million litres)	1398	947	1242	1172	1127	1100	1211	1219	1186	1191	1310
Inventory	(million litres)	1934	1549	1682	1681	1542	1496	1528	1620	1629	1640	1755
Exports table wine	(million litres)	720	780	690	734	759	714	703	687	681	710	716
Other* wine exports	(million litres)	16	18	19	17	18	17	15	15	14	14	12
Domestic sales (table wine)	(million litres)	367	388	373	383	396	393	389	385	388	386	396
Other domestic sales*	(million litres)	66	68	66	67	75	72	69	69	71	69	72
Total sales	(million litres)	1169	1254	1148	1201	1248	1195	1176	1156	1152	1180	1196
ISR	(years)	1.65	1.23	1.47	1.40	1.24	1.25	1.30	1.40	1.41	1.39	1.47
Other wine grape product	(million litres)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	68.6	52.0	37.0