Wine Australia providing insights on Australian Wine

Australian wine: Production, sales and inventory 2016–17

January 2018

Key takeaways

- The 2017 vintage saw historically high production for the second year in a row
- Red production increased while white production was down slightly
- An additional 59 million litres of Australian wine were sold in 2016–17, compared with the year before, with an additional value of $393 million
- Sales growth complemented production growth in being weighted towards red wines
- Increased sales were driven by the 'premiumisation' trend in the domestic and export markets, particularly from Asia
- Inventory increased overall, with a greater increase in red wines and a net decline in white wines
- Stock-to-sales ratios at the end of 2016–17 were slightly above long-term averages, particularly for white wine, but within acceptable ranges to support increases in sales
- The short-term outlook for the wine sector is positive, with continuing sales growth expected, especially in export markets, and strengthening prices for wine and grapes, facilitated by global shortages in supply.

Overview

Wine production Vintage 2017

1.98m tonnes
grapes crushed
▲ 8%

1.37b litres
wine produced
▲ 5%

Wine sales 2016–17

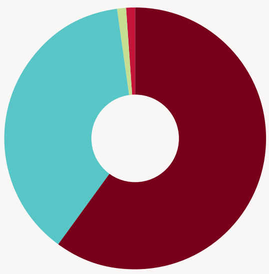
Total sales
$5.6 billion ▲ 8%

Export 61% volume

Volume
777m litres ▲ 7%

Value
$2.3b ▲ 9%

- Red and rosé 60%
- White 38%
- Sparkling 1%
- Fortified 1%

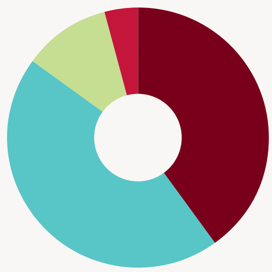


Domestic 39% volume

Volume
500m litres ▲ 2%

Value
$3.3b ▲ 6%

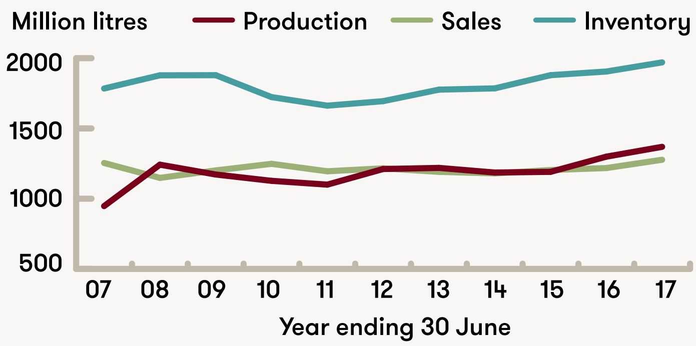
- Red and rosé 40%
- White 45%
- Sparkling 11%
- Fortified 4%



32 million glasses of Australian wine enjoyed worldwide everyday

Wine inventory 30 June 2017

1.97b litres
▲ 3%



Survey results summary

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

	2016	2017	Change
Red grapes	966	1137	18%
White grapes	879	847	-4%
Total grape crush	**1845**	**1985**	**8%**

Table 2: **Total wine production by colour** (million litres)

	2016	2017	Change
Wine from red grapes	690	793	15%
Wine from white grapes	609	576	-5%
Total wine production	**1299**	**1369**	**5%**

Table 3: **Extraction rates** (litres per tonne)

	2016	2017	Change	10-year average	Change
Red	715	697	-2%	713	-2%
White	692	680	-2%	686	-1%
Total	**704**	**690**	**-2%**	**700**	**-2%**

Table 4: **Wine inventory by colour** (million litres)

	2016	2017	Change
Red and rosé	1010	1085	7%
White	743	739	-1%
Sparkling	74	76	3%
Fortified and other products	24	25	3%
Total inventory	**1905**	**1970**	**3%**

Table 5: **Stock to sales ratios (excluding sparkling and fortified)**

	2016	2017	10-year average
Red	1.64	1.63	1.61
White	1.44	1.42	1.29
Total	**1.56**	**1.54**	**1.49**

Table 6: **Domestic wine sales by wine style** (million litres)

	2015–16	2016–17	Change
Red and rosé	191	202	5%
White	225	224	-1%
Sparkling	53	54	1%
Fortified and other products	20	20	1%
Total	**490**	**500**	**2%**

Table 7: **Domestic wine sales value**

	2015–16	2016–17	Change
Total value ($ million)	**3109**	**3302**	**6%**
Average value ($/litre)	**6.34**	**6.60**	**4%**

Table 8: **Export wine sales by wine style** (million litres)

	2015–16	2016–17	Change
Red and rosé	424	465	10%
White	292	296	1%
Sparkling	11	15	37%
Fortified and other products	1	1	2%
Total	**728**	**777**	**7%**

Table 9: **Export wine sales value** ($ million FOB)

	2015–16	2016–17	Change
Export sales	**2108**	**2307**	**9%**

Table 10: **Total sales volume** (million litres)

	2015–16	2016–17	Change
Red and rosé	615	666	8%
White	518	520	0%
Sparkling	62	62	0%
Fortified and other products	24	28	19%
Total sales	**1218**	**1277**	**5%**

Table 11: **Total sales value** ($ million)

	2015–16	2016–17	Change
Total sales	**5217**	**5609**	**8%**

Wine grape crush

In 2017, the wine grape crush is estimated to have been 1.98 million tonnes[1], an increase of 140,000 tonnes (8 per cent) above the 2016 crush and 260,000 tonnes above the 5-year average of 1.72 million tonnes (2012–16).

Overall growth was driven by red varieties, which were up by 171,000 tonnes (18 per cent). All of the top 10 red varieties except for Ruby Cabernet increased, with Shiraz up by 15 per cent.

White varieties fell by 32,000 tonnes (4 per cent) overall compared with 2016. The decline was predominantly attributable to Chardonnay, which fell by 13 per cent, while there were increases in six of the top 10 white varieties including Sauvignon Blanc, Pinot Gris/Grigio and Muscat Gordo Blanco.

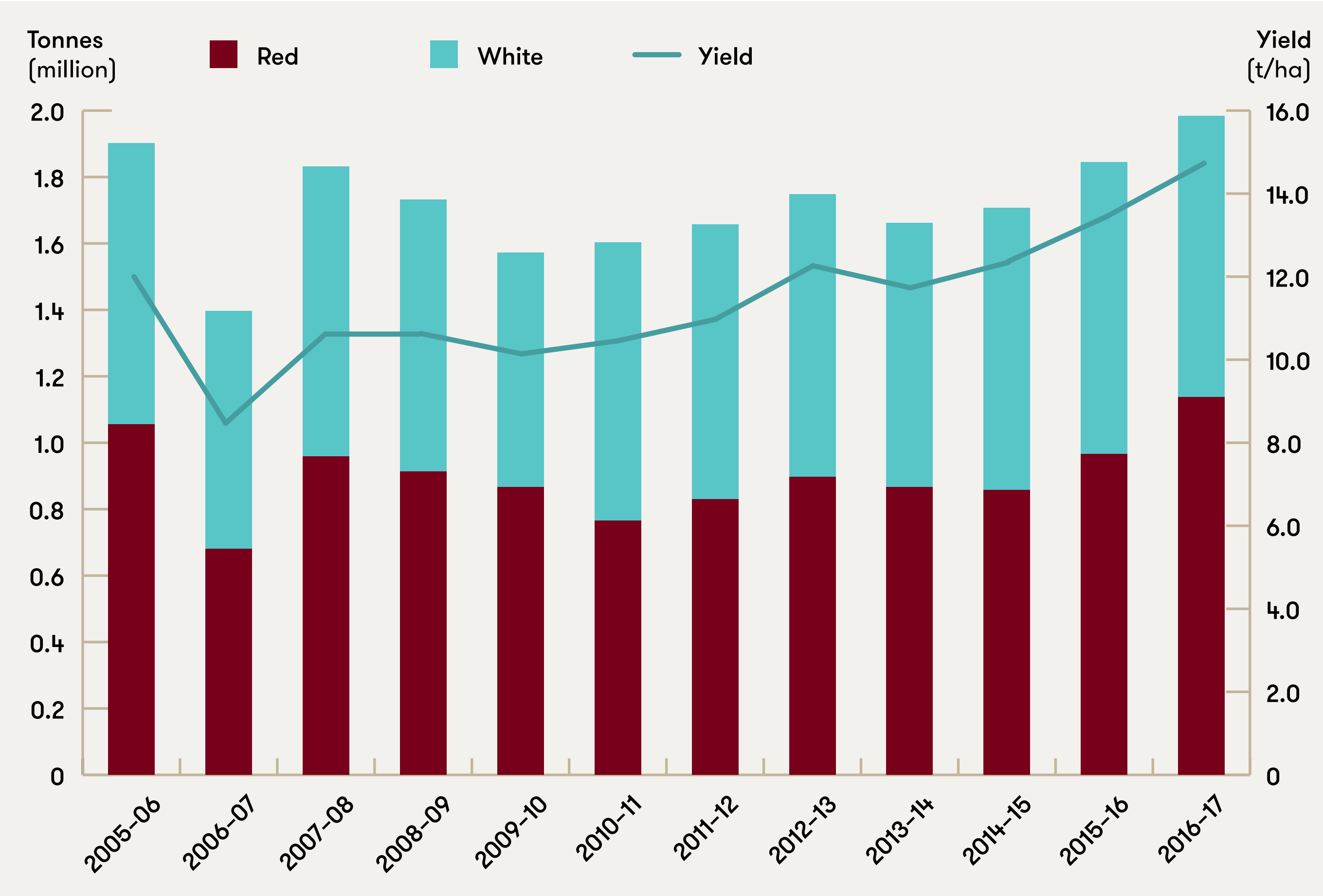


Figure 1: **Wine grape crush by colour.** Source: ABS, Wine Australia, Levy Revenue Service and WFA

Results from the 2017 National Vintage Survey indicate that additional tonnes this year came relatively equally from the cool and temperate regions and the warmer inland regions of Australia. However, in percentage terms the tonnes from the cool and temperate regions increased by more (9 per cent compared to a 3 per cent increase in the warmer inland regions), and the warmer inland regions' share of the crush declined slightly to 69 per cent. The increased relative contribution from cool regions has increased the proportion of red varieties in the overall production profile as well as increasing the average price, and is consistent with the demand for premium red wines being driven by export markets, particularly China.

1. This figure is slightly different from that published in the National Vintage Report 2017, which was an estimate prior to the Levies Revenue Service figure being available.

Wine production

Total Australian wine production in 2017 is estimated to be 1.37 billion litres, compared with just under 1.3 billion litres in 2016[2]. This represents a 5 per cent overall increase, once again driven by an increase in red wine production (up 15 per cent to 793 million litres), while white wine production declined 5 per cent to 576 million litres.

The increase in wine production is less than the increase in the crush, as a result of lower extraction rates. The red wine extraction rate is estimated to be 697 litres per tonne, 2 per cent below the 2016 figure and the 10-year average. The white wine extraction rate is estimated to be 680 litres per tonne, also below the 2016 figure and the 10-year average. The difference may be due to seasonal factors, variations in the survey sample and/ or demand factors leading to a greater production of non-wine grape products, which are not included in the extraction rate.

Allowing for an overall wastage of around 2 per cent between initial wine production and wine available for sale gives a final saleable wine production estimate of 1.34 billion litres or 149 million cases.

The production of non-wine grape products has not been estimated this year. Therefore, the total production of grape products from the 2017 vintage is likely to be higher than the figure given above. However, non-wine grape products have also been excluded from the sales and inventory figures below.

Domestic sales of Australian wine

Domestic sales of Australian wine by winemakers[3] in 2016–17 are estimated to be 500 million litres or 56 million cases, and to have increased by 10 million litres (2 per cent) in the past 12 months.

White wine was the largest category but sales decreased by 2 million litres (1 per cent) to 224 million litres, while red and rosé wines recorded the strongest growth, up by 10 million litres (5 per cent) to 202 million litres. Reds (including rosé) increased their share of domestic sales volume to 40 per cent, while whites dropped to 45 per cent.

Sparkling, carbonated and fortified wine sales made up 74 million litres, together accounting for 15 per cent of domestic wine sales. Sales of these categories increased by 1 per cent in 2016–17.

The best performing varieties in 2016–17 in the off-trade market were all reds: Pinot Noir (up 22 per cent in volume), Shiraz (up 9 per cent) and Cabernet Sauvignon (up 7 per cent). Sauvignon Blanc was still the top-selling variety and grew 5 per cent, while Chardonnay grew 2 per cent; however, Chardonnay outperformed Sauvignon Blanc in value growth at all price points above $15, while overall growth was skewed towards higher price points, reflecting the trend towards premiumisation on the domestic market[4].

The total value of domestic sales to Australian winemakers in 2016–17 is estimated to be $3.3 billion. It has increased by just under $200 million (6 per cent) compared with 2015–16, reflecting an increase in average value as well as in volume and therefore continuing the trend towards premiumisation identified last year. This is consistent with IRI figures showing a decline in volume of Australian cask wine sales of 4 per cent, while bottled wine sales increased by 4 per cent.

The calculated average value per litre was $6.60 — an increase of 4 per cent compared with 2015–16. This is consistent with IRI figures, which show that the average retail value of Australian wine on the domestic market increased by 3 per cent in 2016–17, and could also reflect a change in the channel mix with growth in the higher value cellar door and other direct-to-consumer channels.

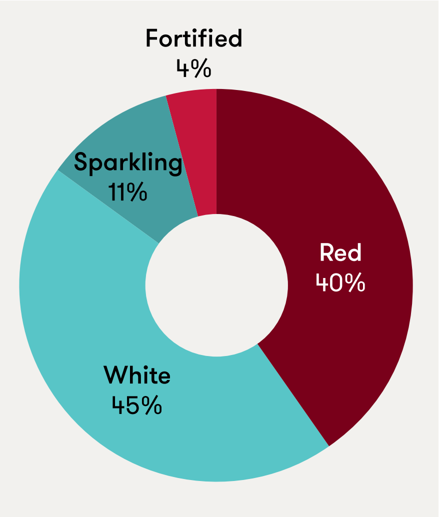


Figure 2: Domestic sales volume share by wine style

2. Wine production estimates for 2016 have been revised since last year as a result of changes in methodology and improvements in source data. Figures quoted in this report should not be directly compared with earlier published reports. See the methodology section for details.

3. Includes predominantly wholesale but also direct-to-consumer sales

4. Off-trade sales figures from IRI Market Edge Liquor

Exports of Australian wine

In 2016–17, Australian wine exports grew by just under 50 million litres (7 per cent) to 777 million litres (86 million cases). Growth was driven by red wines (up 41 million litres), while white wines also grew — up by 4 million litres. Although this growth in whites is relatively small, it reverses a decline in 2015–16, and at 296 million litres is the second highest recorded annual figure for white wine exports. Australia's export profile is weighted towards red wines rather than white, with the proportion of white wines declining from 50 per cent 20 years ago to 38 per cent in 2016–17. Red makes up 60 per cent of all exported Australian wine compared with 40 per cent of domestic Australian wine sales, but shows the strongest growth and an increasing share in both markets.

The value of Australian wine exports (A$ FOB) grew by $199 million (9 per cent) to $2.3 billion. While the growth rate declined compared with 2015–16, the overall growth remained strong, and total export value is now at its highest since 2009. Exports to Northeast Asia continued to drive growth, with their increase accounting for $177 million out of the total increase in value.

Exceptional growth to mainland China continued, with the value of exports up 44 per cent to a record $605 million. Exports to the United States also increased, by 3 per cent to $464 million, the highest value since 2011–12. The UK market continued to be the largest in volume terms but exports were down 7 per cent in value to $341 million. Exports to Canada fell by 5 per cent to $186 million and to Hong Kong declined by 8 per cent to $114 million, with some exporters now shipping direct to mainland China due to the reduced tariffs through ChAFTA.

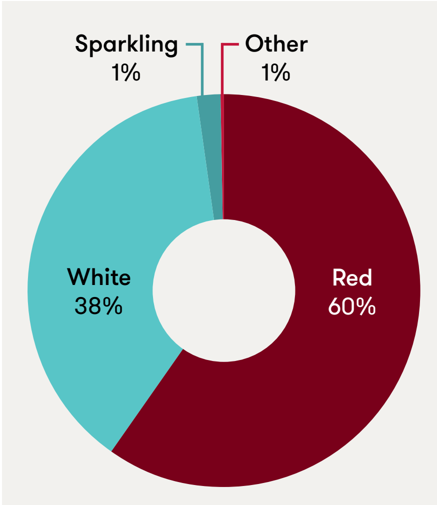


Figure 3: Export sales volume by wine style

Total Australian wine sales

Growth in both the domestic and export markets led to a combined increase in sales value of $393 million (8 per cent) to more than $5.6 billion, and an increase in volume of 59 million litres (just under 7 million cases) giving a total volume of 1.3 billion litres (142 million cases).

Almost all (86 per cent) of the growth in sales came from red and rosé wines, which increased by 51 million litres overall to 666 million litres. This was well aligned with the increase in wine production, which came entirely from red varieties and indicates that market signals are driving production growth.

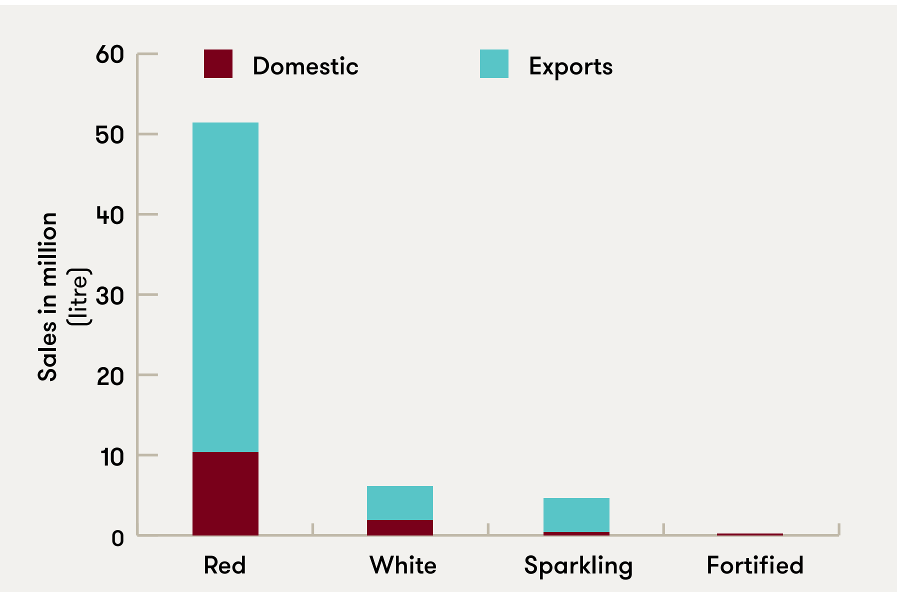


Figure 4: Total sales growth by wine style

The Small Winemaker Production and Sales Survey 2016–17 found that small winemakers (crushing up to 500 tonnes) accounted for 24 per cent of the total value and 10 per cent of the volume of sales of Australian wine. Domestic sales accounted for 86 per cent of sales from small winemaking businesses, with retail (45 per cent) and cellar door sales (30 per cent) making up the majority of domestic sales. All channels grew in 2016–17, with the strongest growth in the cellar door sales channel.

Small winemakers identified the main opportunities for the next five years being in export markets and cellar door/tourism, and are seeking to expand and diversify their businesses by offering an increasing number and range of personalised and interactive tourism-related activities around the cellar door. Growth in winery visitation in 2016–17 was 3 per cent for international visitors and 4 per cent for domestic visitors, according to

Tourism Research Australia figures, indicating that wine tourism represents a significant opportunity for wine businesses.

The *$50 million Export and Regional Wine Support Package* will enhance these opportunities for wine businesses over the next five years by providing support for wine tourism and driving demand for Australian wine exports.

Inventory

Total Australian wine inventory at 30 June 2017 is estimated to have been 1.97 billion litres, and to have increased by 65 million litres (3 per cent) overall since 2016. This is consistent with the difference between total production (1.37 billion litres) and total sales (1.28 billion litres) — allowing for wastage/samples and the diversion of wine into wine-based products that are not accounted for in the sales figures.

Red wine inventory is estimated to have increased by 7 per cent to 1.09 billion litres in 2016–17, while white wine inventory is estimated to have decreased by 1 per cent to 739 million litres. An increase in red wine inventory is required to support increased sales, with approximately 1.5 years' worth of sales expected to be held in stock.

The stock-to-sales ratio (SSR) for reds and whites decreased slightly. A decrease in this ratio generally reflects a move towards under-supply and increased pressure on pricing. Recent bulk wine prices from Ciatti Global Wine and Grape Brokers (see figure 5) show that Australian bulk prices for key Australian reds are already firming.

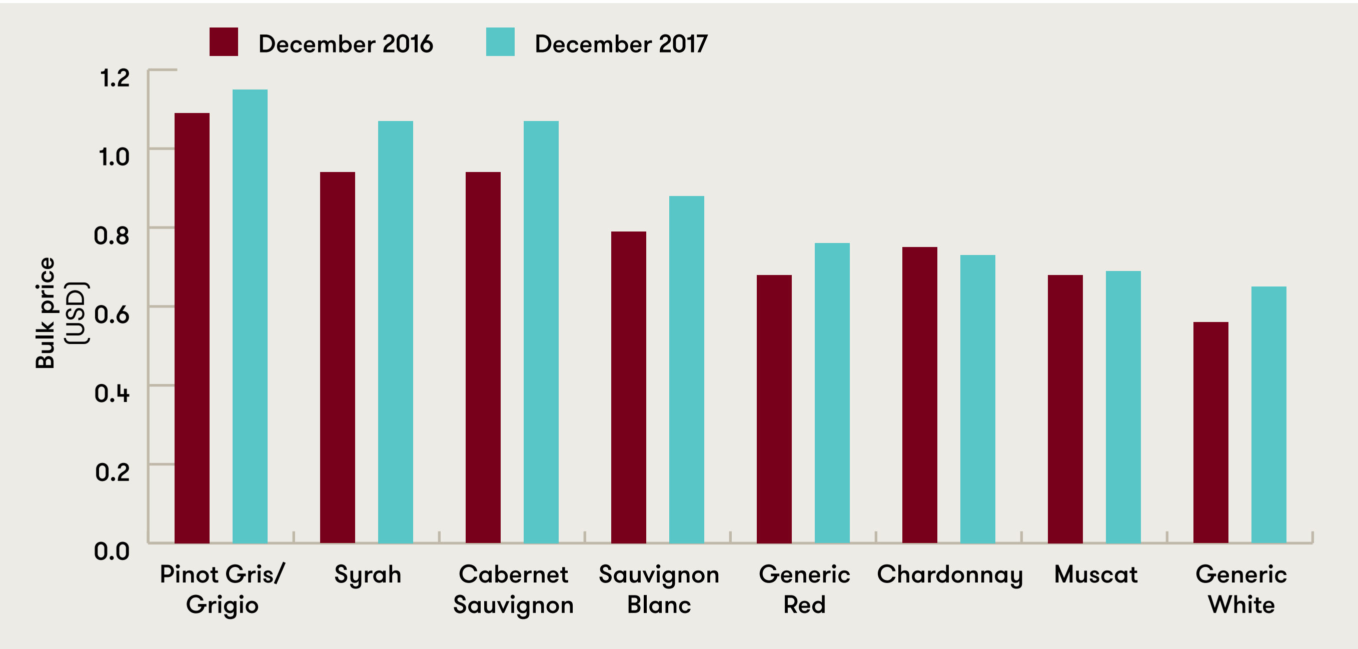


Figure 5: **Comparison of average Australian bulk wine prices 2016–17** Source: Ciatti Global Market Reports

Outlook

The short-term outlook for Australian wine is positive.

The lowest global harvest since 1961, combined with the increase in global consumption, presents a window of opportunity for Australia. Global wine production in 2017 is estimated to be 24.6 billion litres[5], which is 2 billion litres below the 2016 figure and the lowest since 1961. Australia was the only major wine producing country to have an above-average harvest in 2017, while production from each of the big three countries: France, Italy and Spain, was down by between 15 and 23 per cent.

The drop in global production comes at a time when consumption is on the rise after a period of decline following the Global Financial Crisis. The OIV estimates wine consumption to be between 24.1 and 24.6 billion litres in 2017 — which makes it likely to equal or exceed production for the first time ever, putting pressure on existing global stocks and prices.

Australia is well positioned to take advantage of the opportunity, with stocks at reasonably high levels and well-established routes to market in the four largest wine markets in the world: the United States, United Kingdom, China and Germany. All are significant net importers of wine and traditionally rely heavily on Italy, France and Spain.

Since the drought of 2007, Australian wine production has been relatively consistent, before rising in the last two years. The 2017 vintage was the largest crop since 2006, but pricing firmed regardless, helped by favourable global supply and demand dynamics.

On a cautionary note, inventory levels have been creeping higher over the past five years, particularly for reds (see figure 6). Production exceeded sales by 65 million litres in 2016–17, adding to total inventory.

5. OIV data October 2017

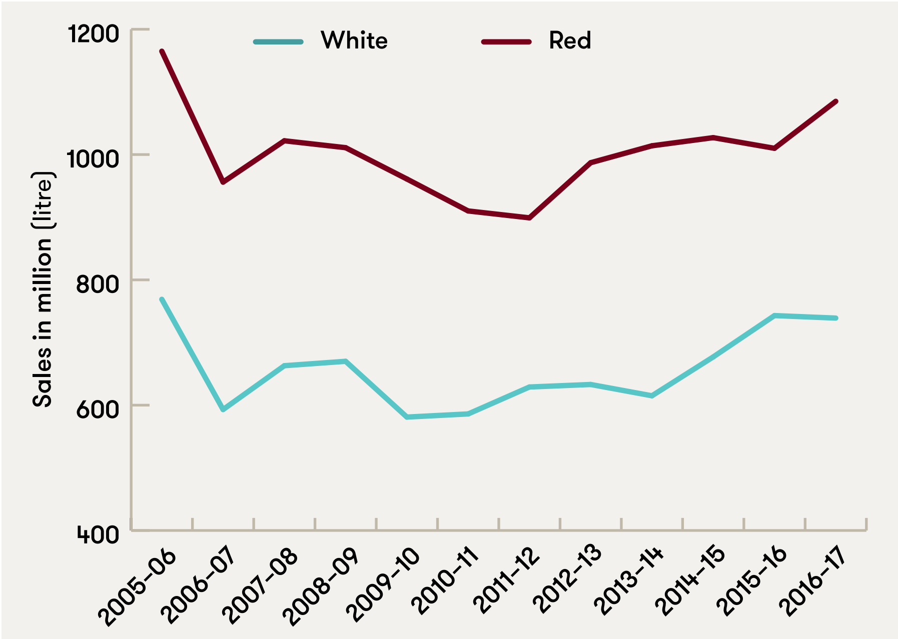


Figure 6: Inventory levels for red and white table wine – historical

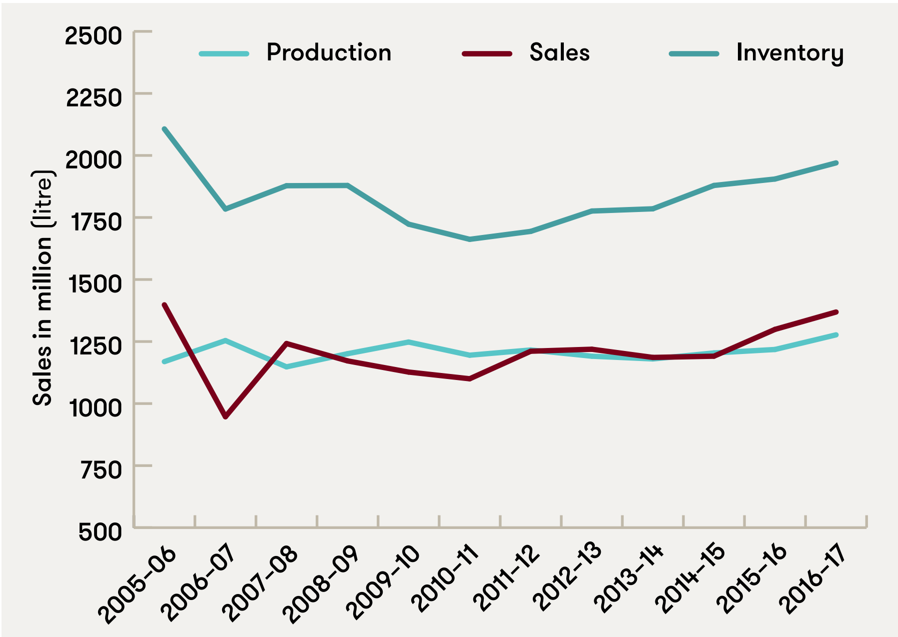


Figure 7: Production, sales and inventory of Australian wine – historical

Higher inventory levels can be a mixed blessing as they allow for more sales but also require careful management to maintain pricing momentum. Figure 7 shows that production growth has been matched by sales growth in the past three years.

Export sales of Australian wine have been increasing since 2013–14, and in 2016–17 were the highest for seven years. Continuing the schedule of tariff cuts negotiated in the China-Australia Free Trade Agreement, the tariff on Australian bottled wine into China reduced from 5.6 per cent to 2.8 per cent on January 1, 2018 and tariffs will drop to zero in 2019, which will further increase Australia's competitiveness in the world's fastest-growing major wine market, placing it on equal footing with Chile and New Zealand, and at a significant advantage over France, Italy, the USA, Argentina and South Africa, which each face a 14 per cent tariff on bottled wine and 20 per cent on bulk wine.

Forward exchange rates are difficult to predict but in an optimistic sign for exports, three of Australia's four major banks expect the Australian dollar to be below 75c at the end of 2018, with the only exception being the Commonwealth, which forecasts 85c[6].

The current global supply pressure in the market may be short-lived — depending on what happens with harvests in the next few years in Australia and its competitor countries. Australian companies may be able to use it as a launching pad to establish new products firmly in the market, which may then have an advantage over products trying to re-enter.

This opportunity is very well-timed. Consumer research by Wine Intelligence has shown that perceptions of Australian wine among regular and non-regular Australian wine drinkers have improved markedly in the past five years, with the improvement greater in non-regular consumers and in the large markets of the UK and USA.

Structurally, the sector has made adjustments that are expected to support sustainable growth. Vineyard area decreased by 20,000 hectares between 2006 and 2015, with flexibility in production achieved through manipulation of yields. Challenges continue to exist in ensuring that the varietal mix matches demand in a context of changing consumer preferences, but producers and marketers are responding through adjusting production, changing wine styles and innovating to suit new markets.

6. Forecasts as at the end of November 2017 – www.thecurrencyshop.com.au/guides/australian-dollar-aud-forecast

Appendix 1: Historic production, sales and inventory statistics

Red		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Crush	(thousand tonnes)	1056	680	959	913	866	766	830	898	866	857	965	1137
Extraction Rate	(litres per tonne)	735	695	703	689	718	732	728	733	703	703	715	697
Wine Production	(million litres)	776	472	674	629	622	561	604	658	609	602	690	793
Inventory	(million litres)	1165	956	1022	1011	961	910	899	987	1014	1027	1010	1085
Exports	(million litres)	455	497	446	442	468	447	435	406	385	406	424	465
Domestic sales	(million litres)	154	166	161	171	176	173	186	182	182	183	191	202
Total sales	(million litres)	609	664	607	612	644	620	621	588	567	589	615	666
SSR	(years)	1.91	1.44	1.68	1.65	1.49	1.47	1.48	1.70	1.82	1.78	1.64	1.63

White		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Crush	(thousand tonnes)	846	718	873	819	707	837	828	851	797	850	879	847
Extraction Rate	(litres per tonne)	735	662	651	662	715	644	733	659	725	693	692	680
Wine Production	(million litres)	622	475	568	543	505	539	607	561	578	589	609	576
Inventory	(million litres)	769	593	663	670	581	586	629	633	615	677	743	739
Exports	(million litres)	265	283	243	292	291	267	268	281	296	304	292	296
Domestic sales	(million litres)	213	222	212	212	219	219	235	230	230	223	225	224
Total sales	(million litres)	478	504	456	504	511	486	503	511	526	527	518	520
SSR	(years)	1.61	1.18	1.46	1.33	1.14	1.21	1.30	1.29	1.20	1.33	1.44	1.42

Total		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Crush	(thousand tonnes)	1902	1397	1832	1733	1573	1602	1658	1748	1663	1707	1845	1985
Extraction Rate	(litres per tonne)	735	678	678	676	716	686	730	697	713	698	704	690
Wine Production	(million litres)	1398	947	1242	1172	1127	1100	1211	1219	1186	1191	1299	1369
Inventory (table wine)	(million litres)	1934	1549	1685	1681	1542	1496	1528	1620	1629	1704	1752	1824
Inventory (total*)	(million litres)	2107	1784	1878	1879	1723	1662	1694	1776	1785	1850	1905	1970
Exports table wine	(million litres)	720	780	690	734	759	714	703	687	681	710	716	761
Exports sparkling and fortified	(million litres)	16	18	19	17	18	17	15	15	14	14	12	16
Domestic sales table wine	(million litres)	367	388	373	383	396	393	421	412	411	406	416	426
Domestic sales sparkling and fortified	(million litres)	66	68	66	67	75	72	77	76	75	74	73	74
Total sales	(million litres)	1169	1254	1148	1201	1248	1195	1216	1191	1180	1204	1218	1277
SSR	(years)	1.80	1.42	1.64	1.56	1.38	1.39	1.39	1.49	1.51	1.56	1.56	1.54

Survey methodology

Data sources

Wine Australia's *2017 Production, Sales and Inventory* survey was sent to the top 150 wineries based on grape crush size in 2017. Wine Australia received responses from 102 wineries, including 46 of the top 50 by volume, accounting for an estimated 88 per cent of the total grape crush in 2017.

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 *2017 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: Australian Bureau of Statistics, IRI Market Edge Liquor, IWSR, Levies Revenue Service, Wine Intelligence, Winetitles and Wine Australia.

Grape crush

The grape crush estimate is provided by Levies Revenue Service, which receives levy returns accounting for all winegrapes crushed in each vintage. The timing of the returns means that a final figure is not available at the time that the National Vintage Survey report is published (June). Therefore a revised and more accurate figure is provided in this report than in the earlier published report. The difference between the reported crush from the survey and the total LRS figure gives an estimate on the non-response rate for the survey.

Wine production

The grape crush figures reported in the Production Sales and Inventory survey are aligned with the total figure obtained from Levies Revenue Service to enable the reported figures to be raised for red and white separately. The tonnes crushed for each colour are then multiplied by extraction rates calculated from the survey data to obtain a wine production figure.

Domestic sales

Domestic sales volume is reported by respondents to the Production Sales and Inventory survey. Figures are adjusted to allow for the estimated non-response rate.

Some corrections have been made to historical sales figures following a review of the data. The 2016–17 figure should not be compared with the figure for 2015–16 published last year as this would over-state the growth in sales.

Domestic sales value is based on winemaker receipts comprising mostly wholesale transactions but also cellar door and direct sales and is therefore a mix of wholesale and retail prices. Total domestic sales value has been estimated by multiplying the average value per litre (calculated from the survey results) by the total estimated sales volume.

Exports

Export sales figures are obtained from the Wine Australia Wine Export Approval System, which records the volume and value of all exported shipments of Australian wine over 100 litres.

Export sales value is recorded in Australian dollars FOB.

Inventory

The inventory figures are obtained from the survey data, with a raising factor applied to allow for the estimated non-response rate.

The reported figure has been validated by checking the balance calculation (*production minus sales equals change in inventory*). While the alignment is not perfect due to a number of variables such as change in use of red grapes to white wine, production of sparkling and fortified from different vintage grapes and allowance for wastage etc, it is considered to be within an acceptable tolerance.

Disclaimer and copyright

Further information on this report can be obtained from the Market Insights team at Wine Australia on 8228 2000 or market.insights@wineaustralia.com.