Wine Australia for Australian Wine

Taking a shine to our wine

Mildura Information Forum

10 May 2018

Sandy Hathaway

Australian Wine Sector state of play

Global market conditions in 2018

Australian wine supply and demand

Export opportunities

Outlook for grapes

Global market conditions in 2018

Conditions are generally favourable but volatility adds uncertainty

Volatile political and economic landscape

Global alcohol consumption is flat

Slow growth in wine sales (value > volume)

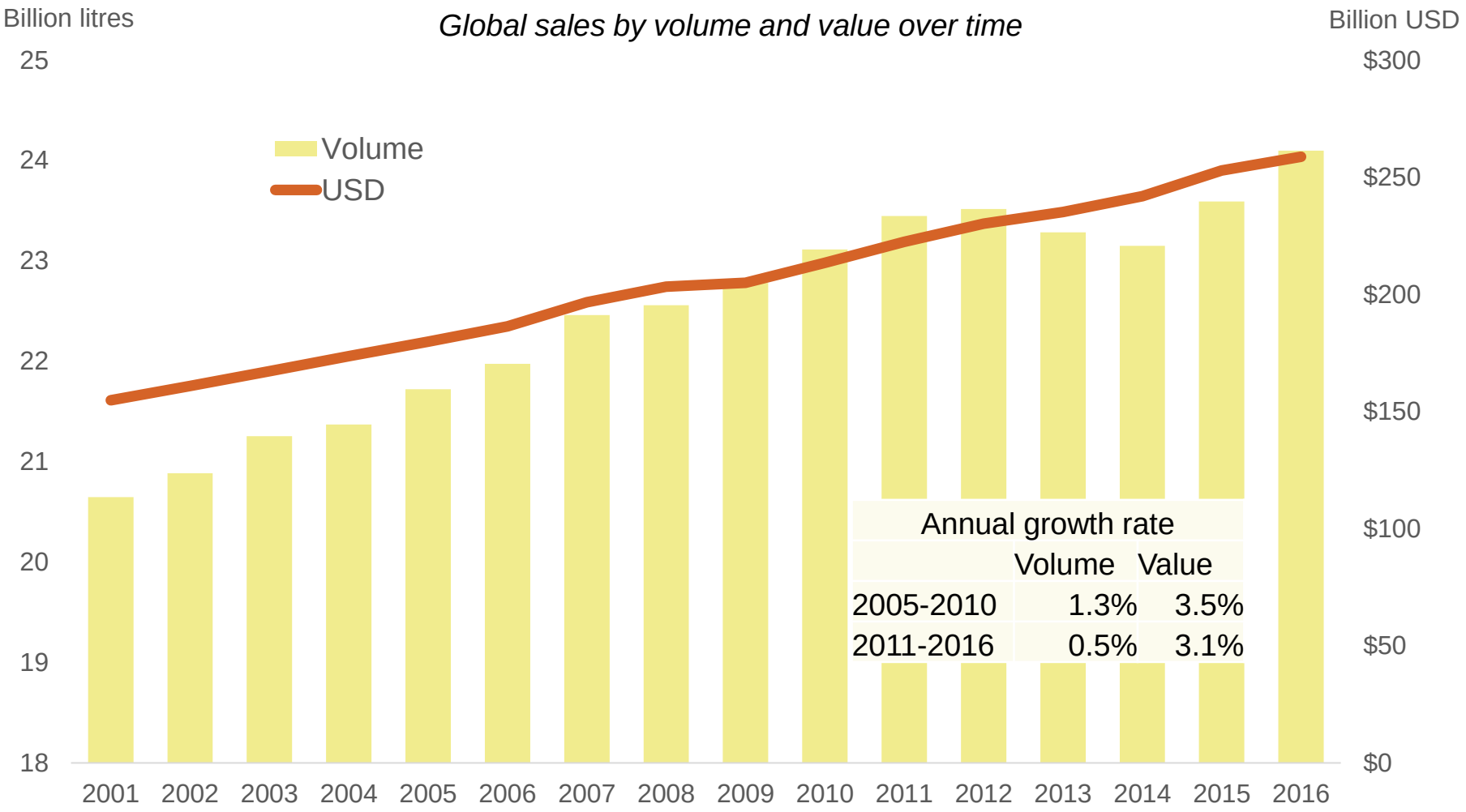
Global supply constrained after 2017 harvest

Very strong demand out of China

Exchange rates favourable

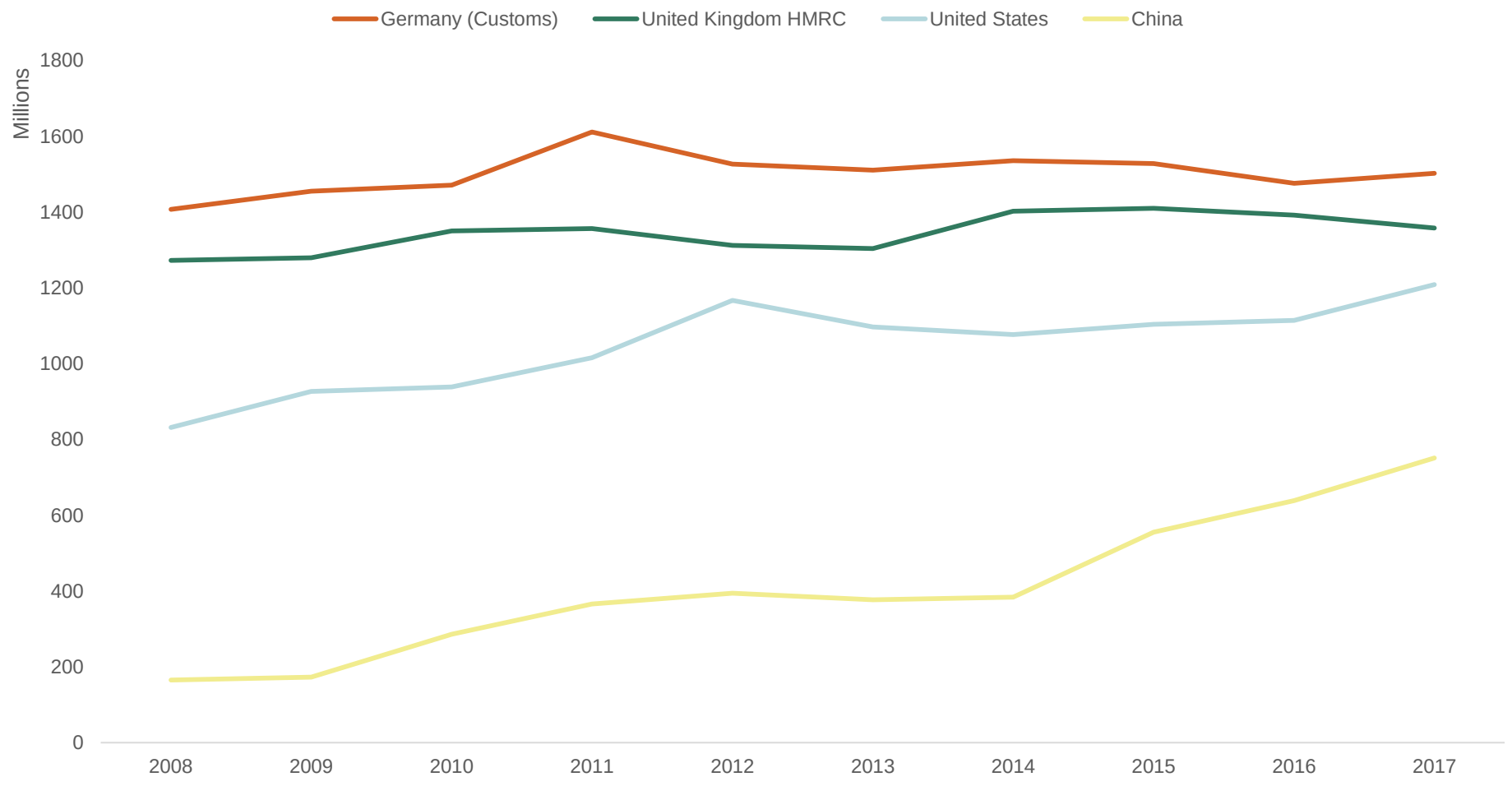
FTAs advantageous for Australia

Global wine sales value growth stronger than volume growth



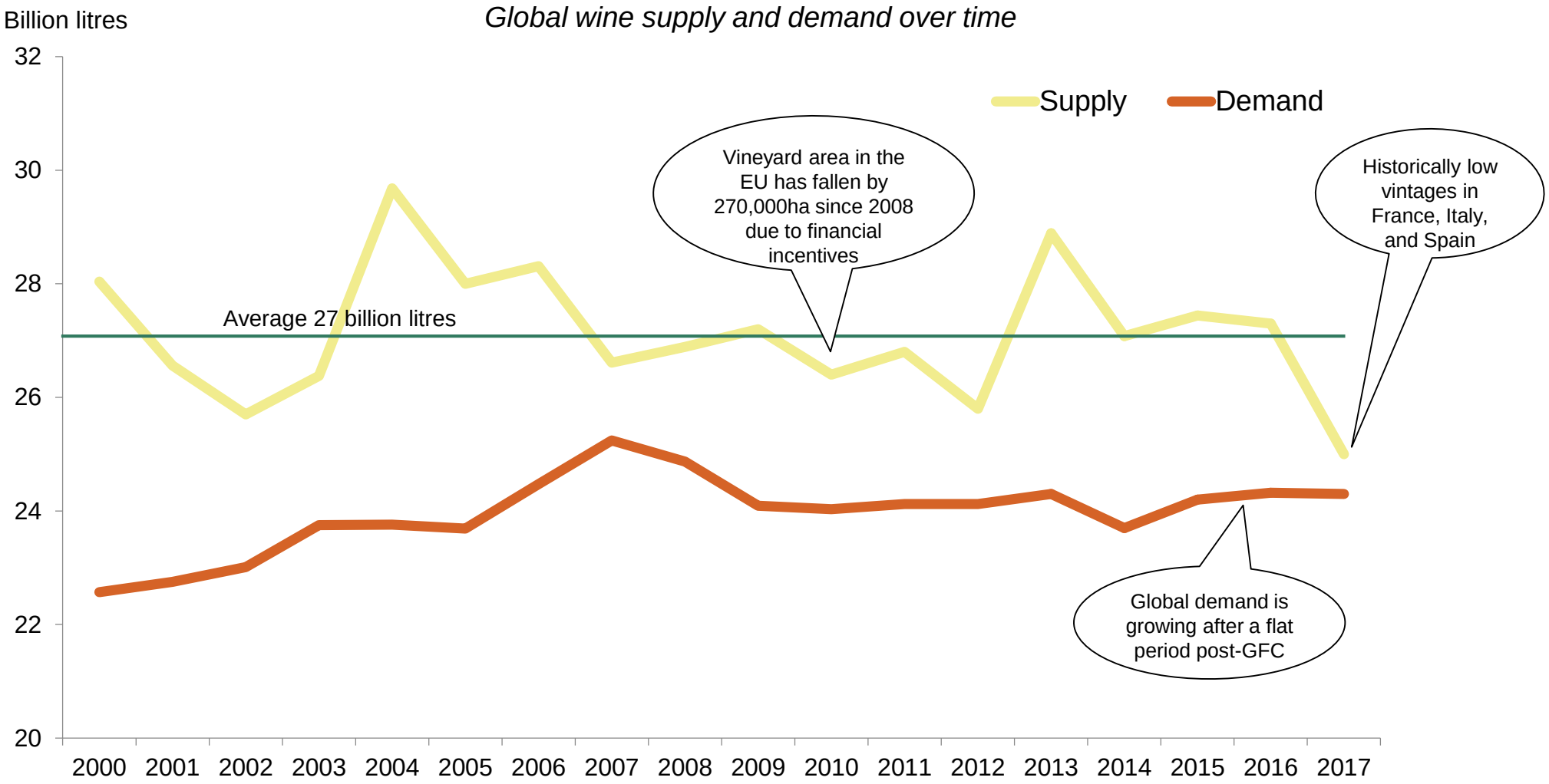
Source: Euromonitor International

Wine imports to China have quadrupled in ten years



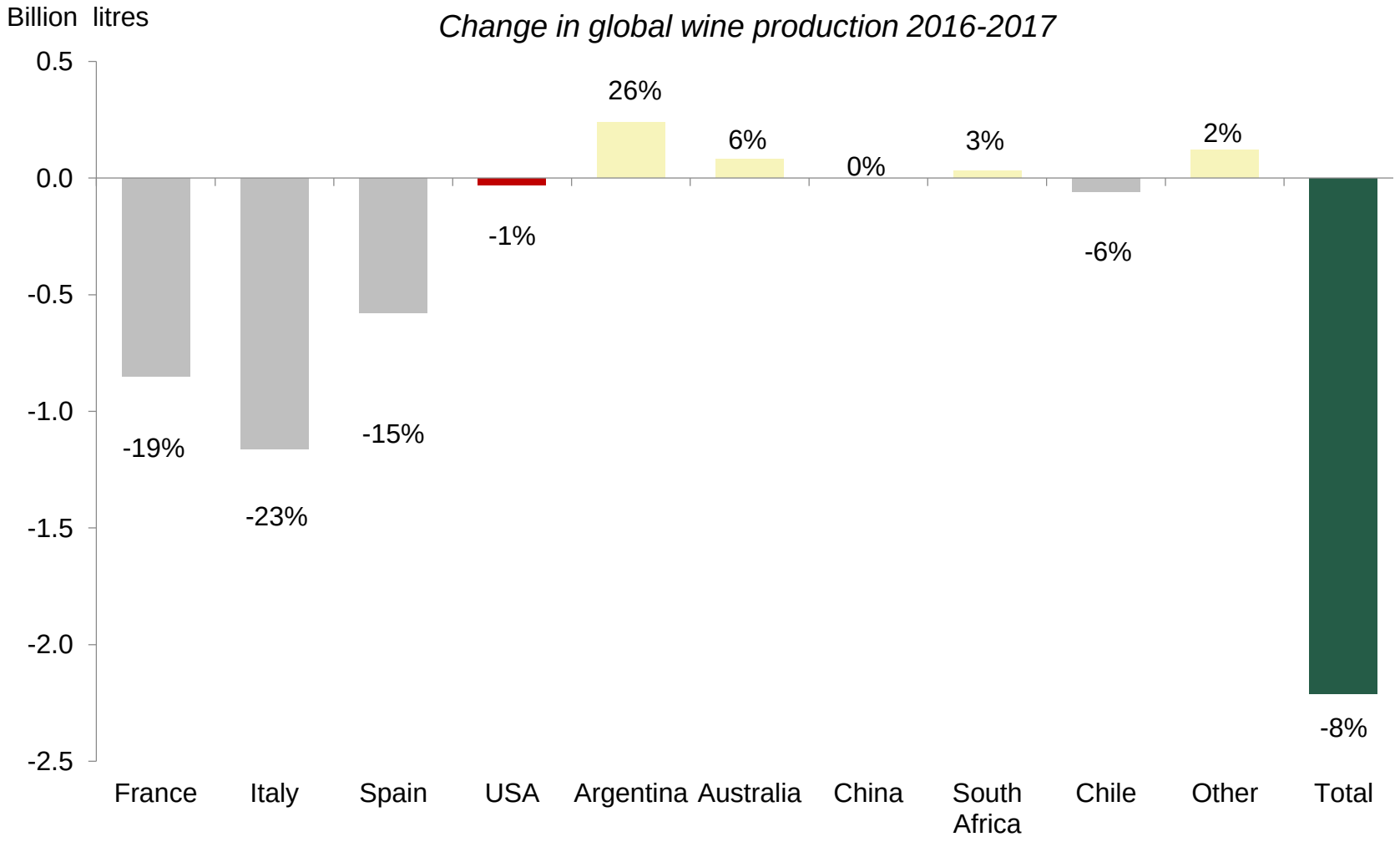
Source: Global Trade Atlas

While demand is increasing, supply is falling



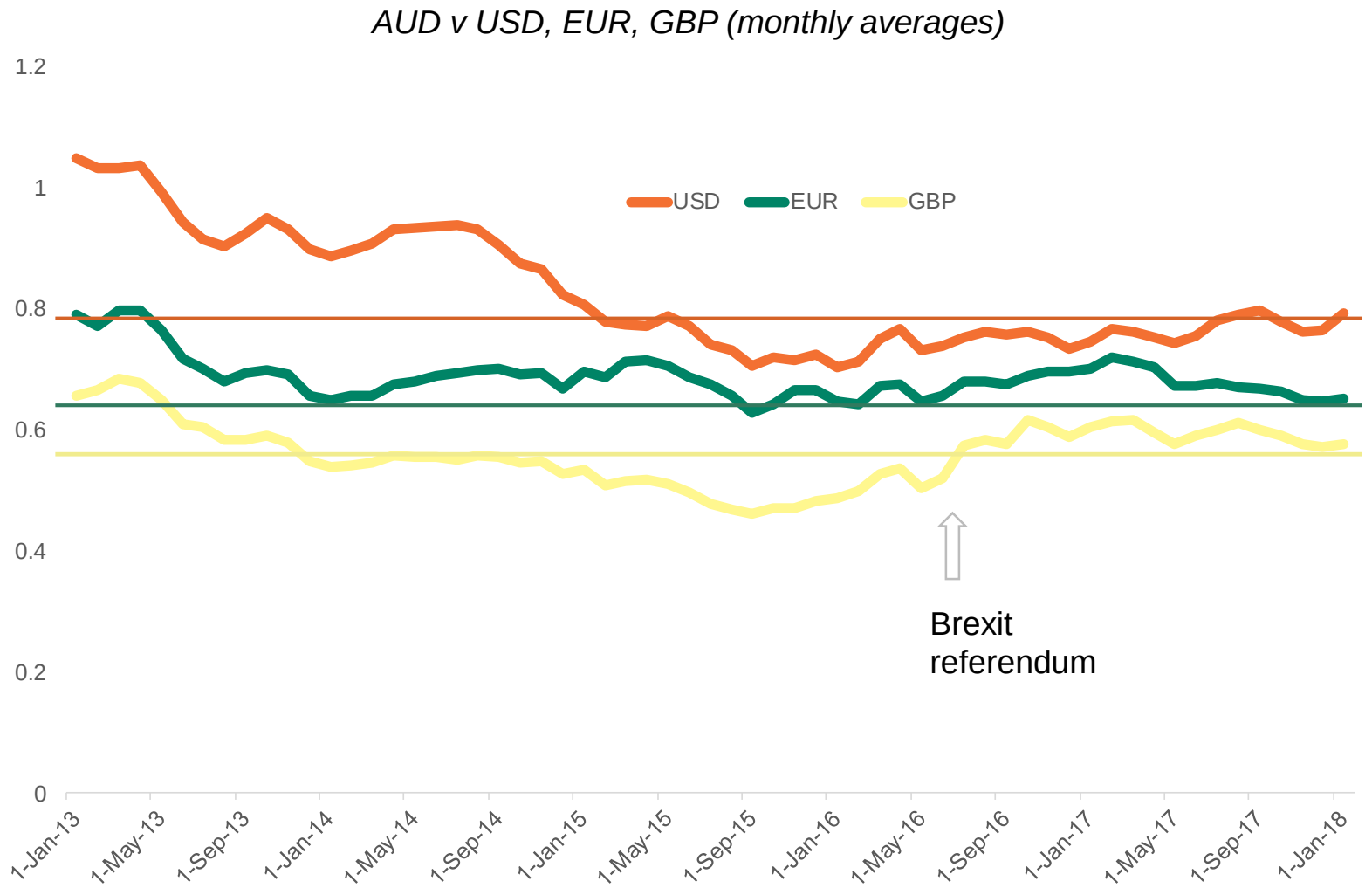
Source: OIV

Global wine production was historically low in 2017



Source: OIV

Exchange rates have been reasonably stable for the past 18 months



Source: OzForex

Trade agreements

CPTPP:

- Signed in March (but not implemented)
- Opportunities particularly for Mexico, Vietnam and Malaysia – but not clear-cut or guaranteed
- NZ and Chile will also benefit

Existing FTAs in North Asia are beneficial:

- ChAFTA, KAFTA and JAEPA

Other agreements currently being negotiated:

- Pacific Alliance
- Regional Comprehensive Economic Partnership
- FTAs with India and Indonesia

Post-Brexit changes to arrangements with UK and EU (?)

Australian wine supply and demand in 2018

Australian wine is in a strong position in the short term

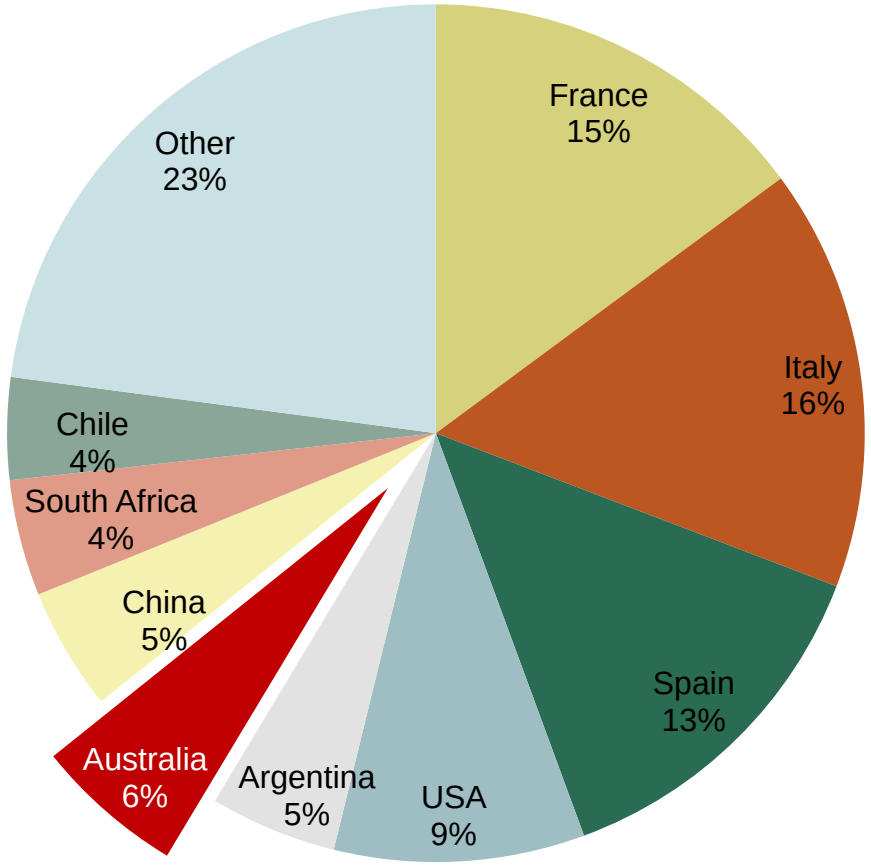
Above average harvest in 2017 likely to be followed by a slightly smaller one in 2018

Sales increasing in domestic and export markets

Wine and grape prices are increasing with premiumisation and tightening of supply

Australia was the only major wine producer to have an above-average harvest in 2017

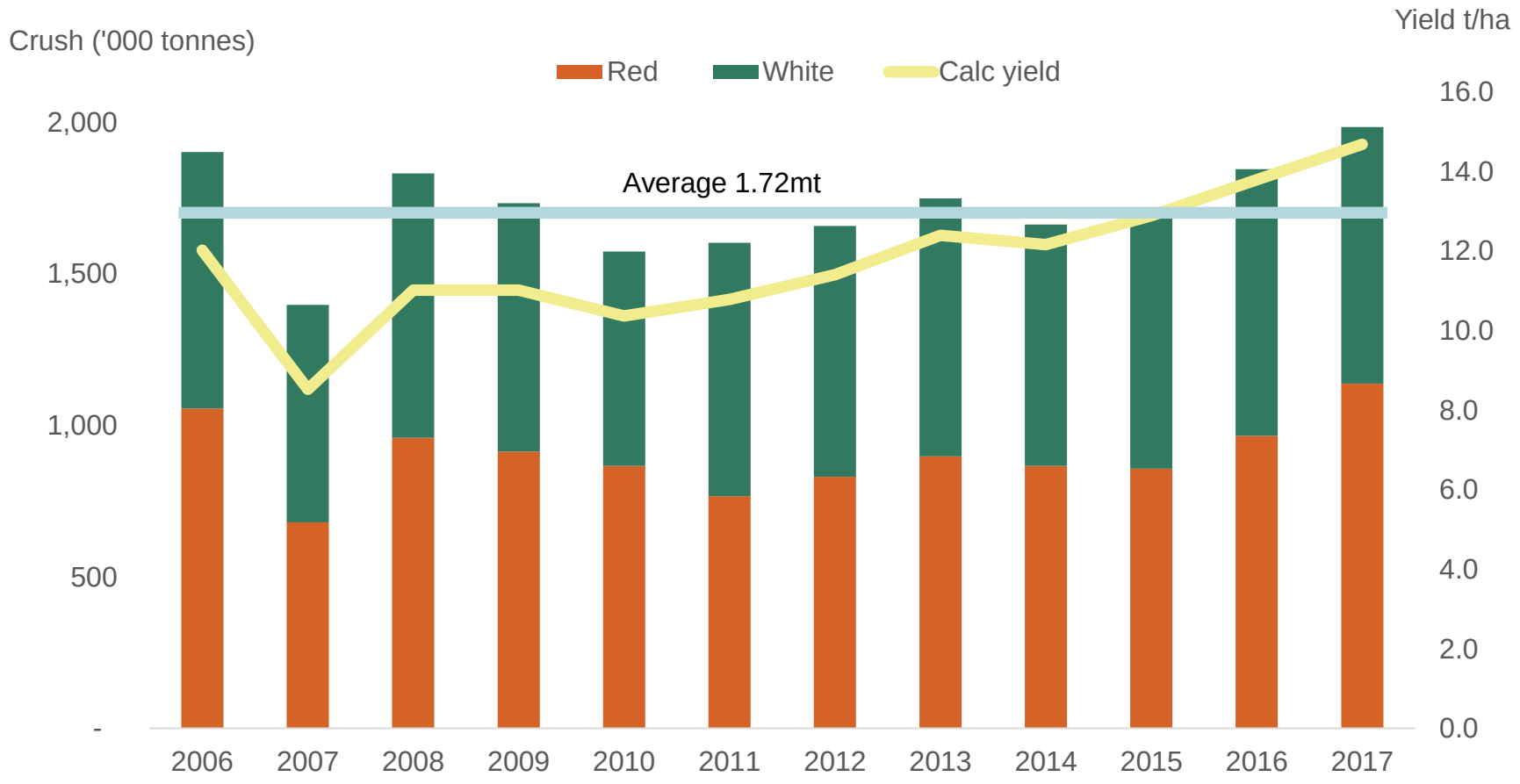
2017 global wine production share



Source: OIV

Australia has a history of stable conditions and consistent harvests

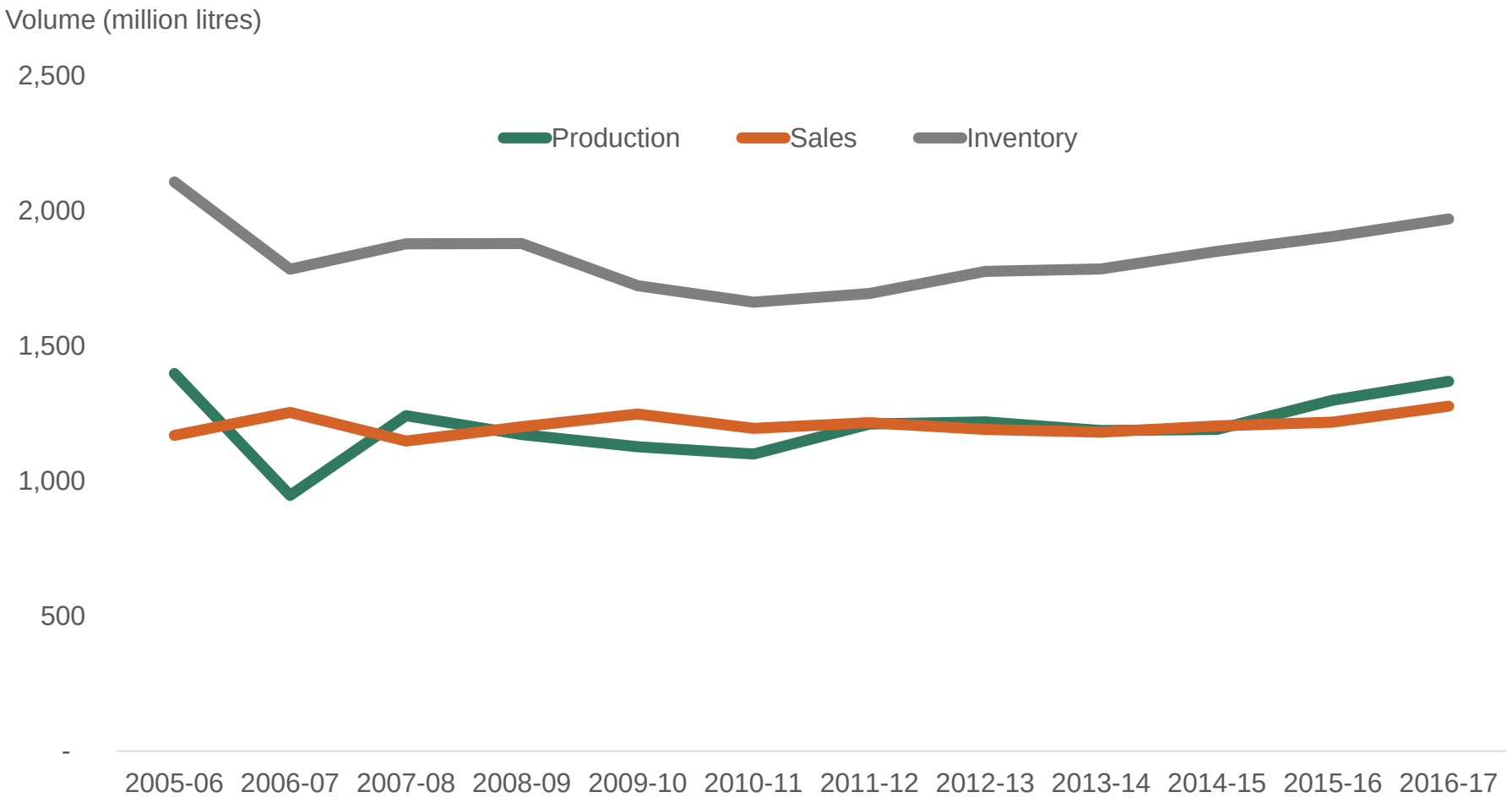
Australian winegrape crush by colour historical



Source: ABS, Wine Australia, Levy Revenue Service and WFA

Stock levels give potential to take advantage of the current market opportunities

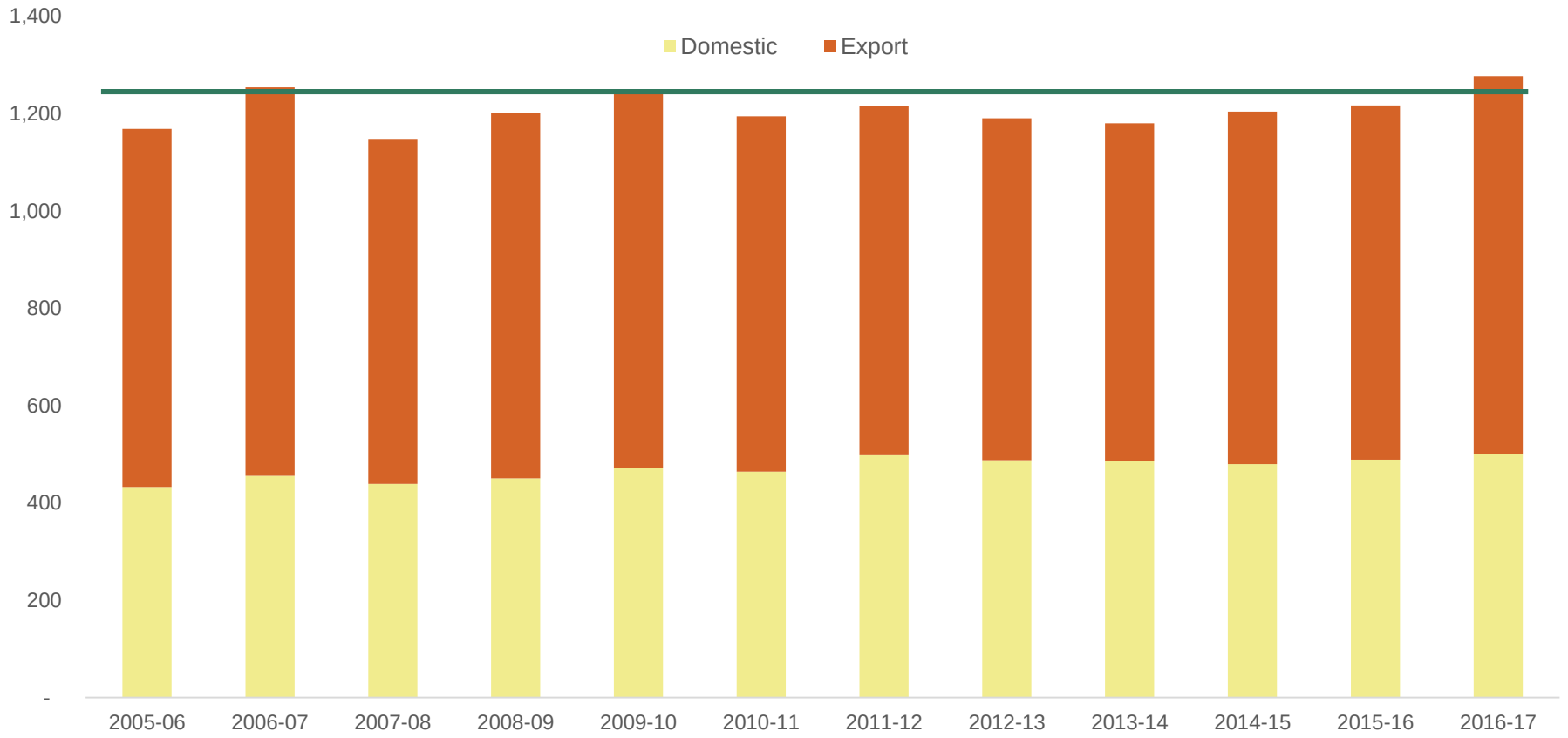
Production, sales, and inventory of Australian wine



Source: ABS, Wine Australia

Sales of Australian wine are at an all-time high

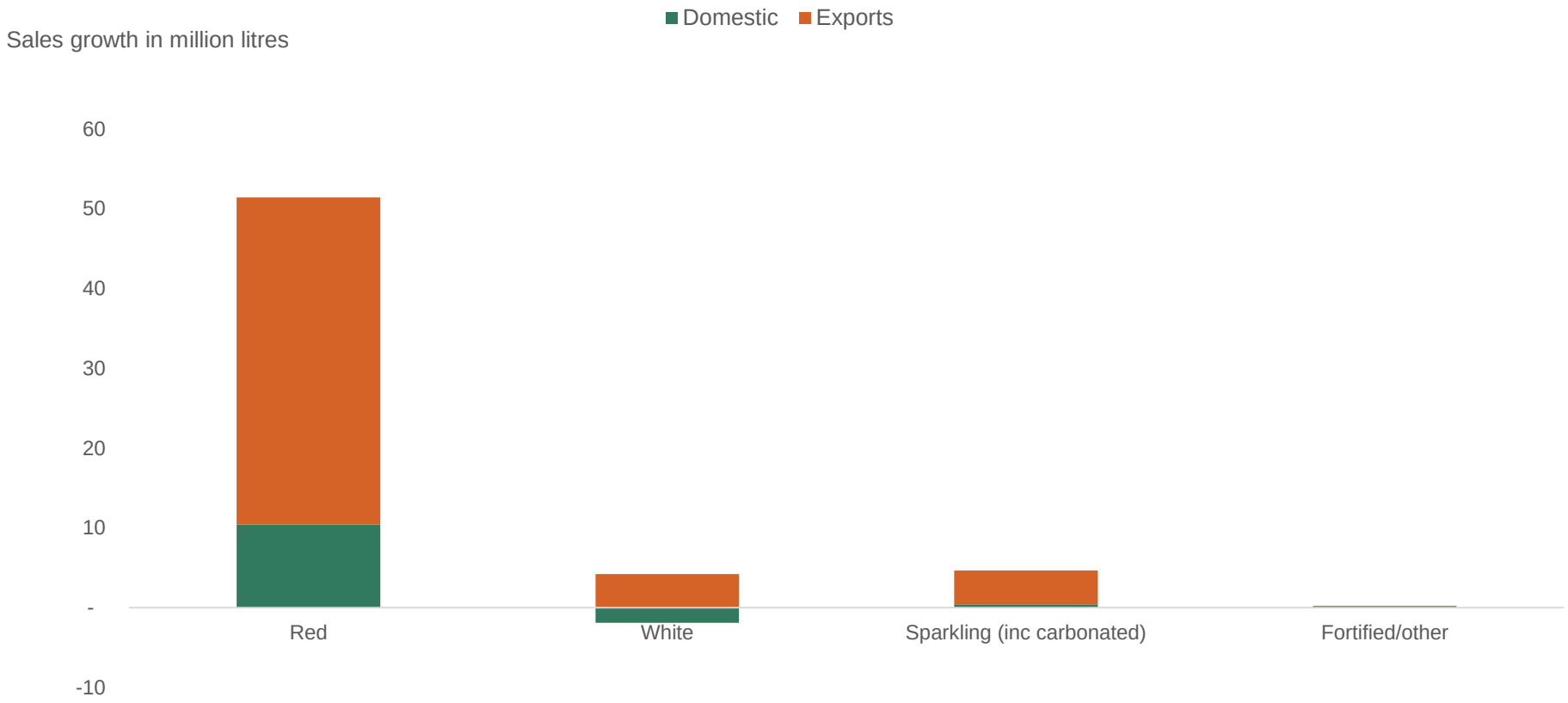
Australian wine sales domestic and export (million litres)



Source: Wine Australia

Sales growth is driven by exports and red wine

Sales growth in 2016-17 by market and wine type

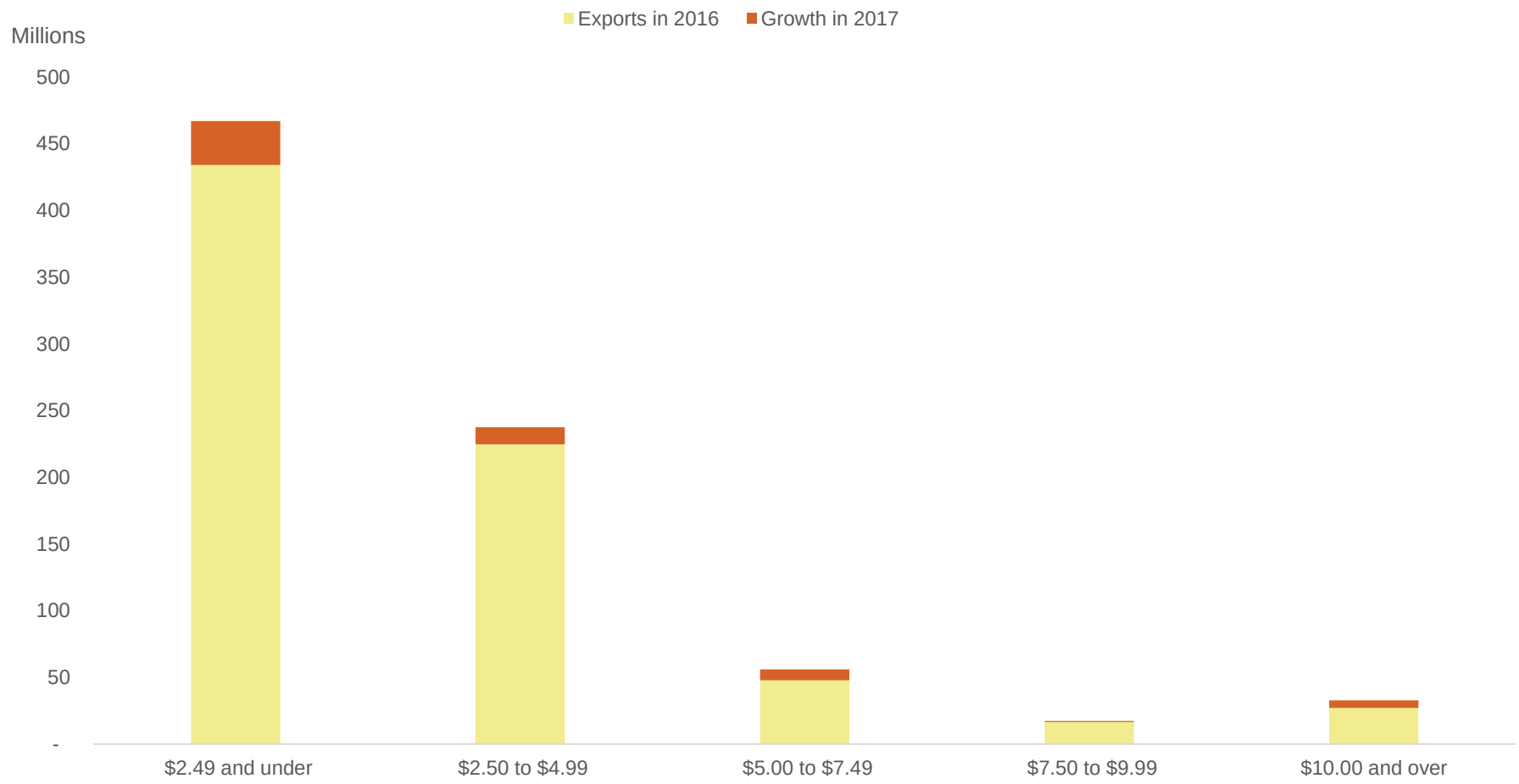


Source: ABS, Wine Australia

Export opportunities

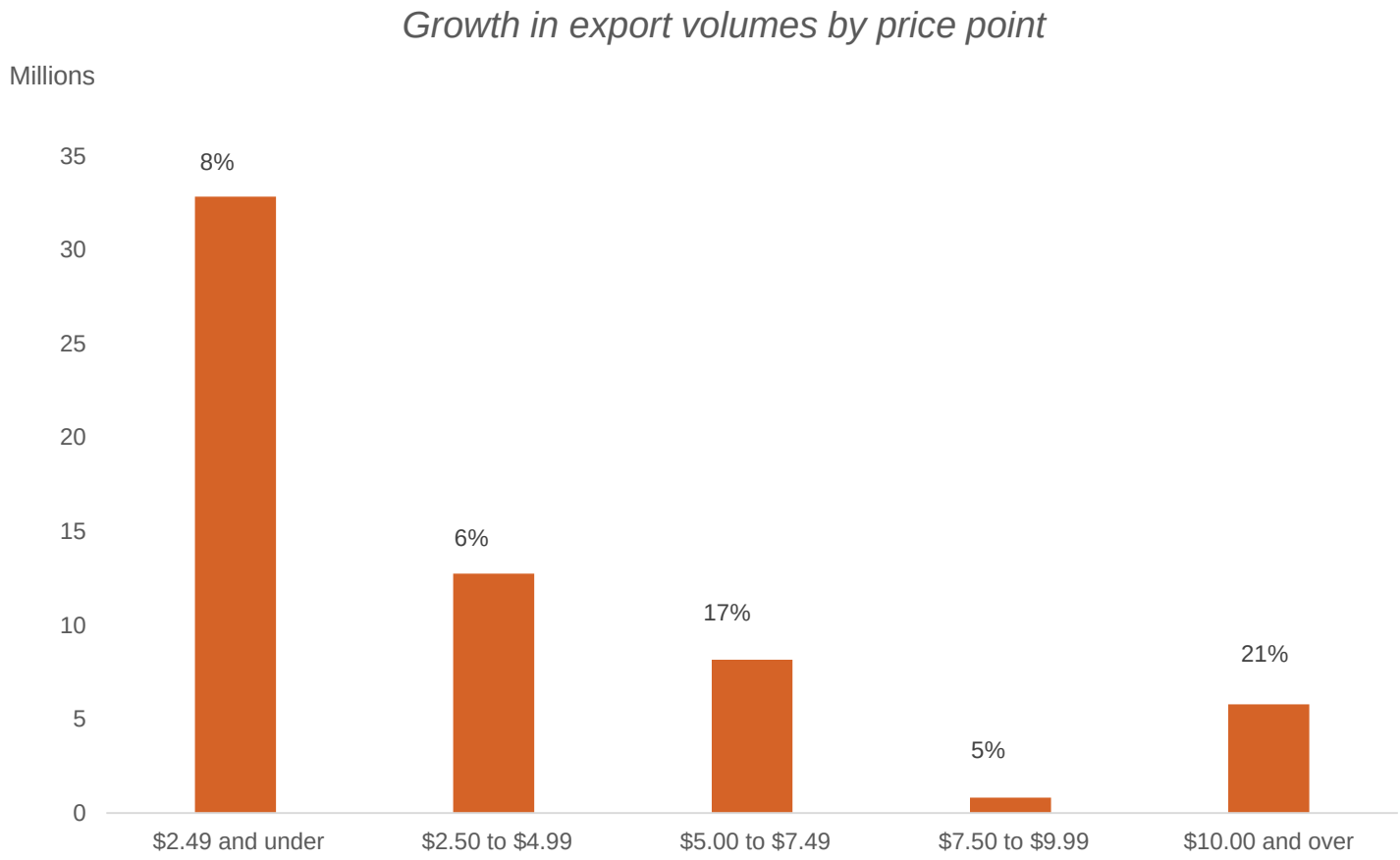
Most export sales are below $5 per litre FOB

Volume and growth of export sales by price point (2017)



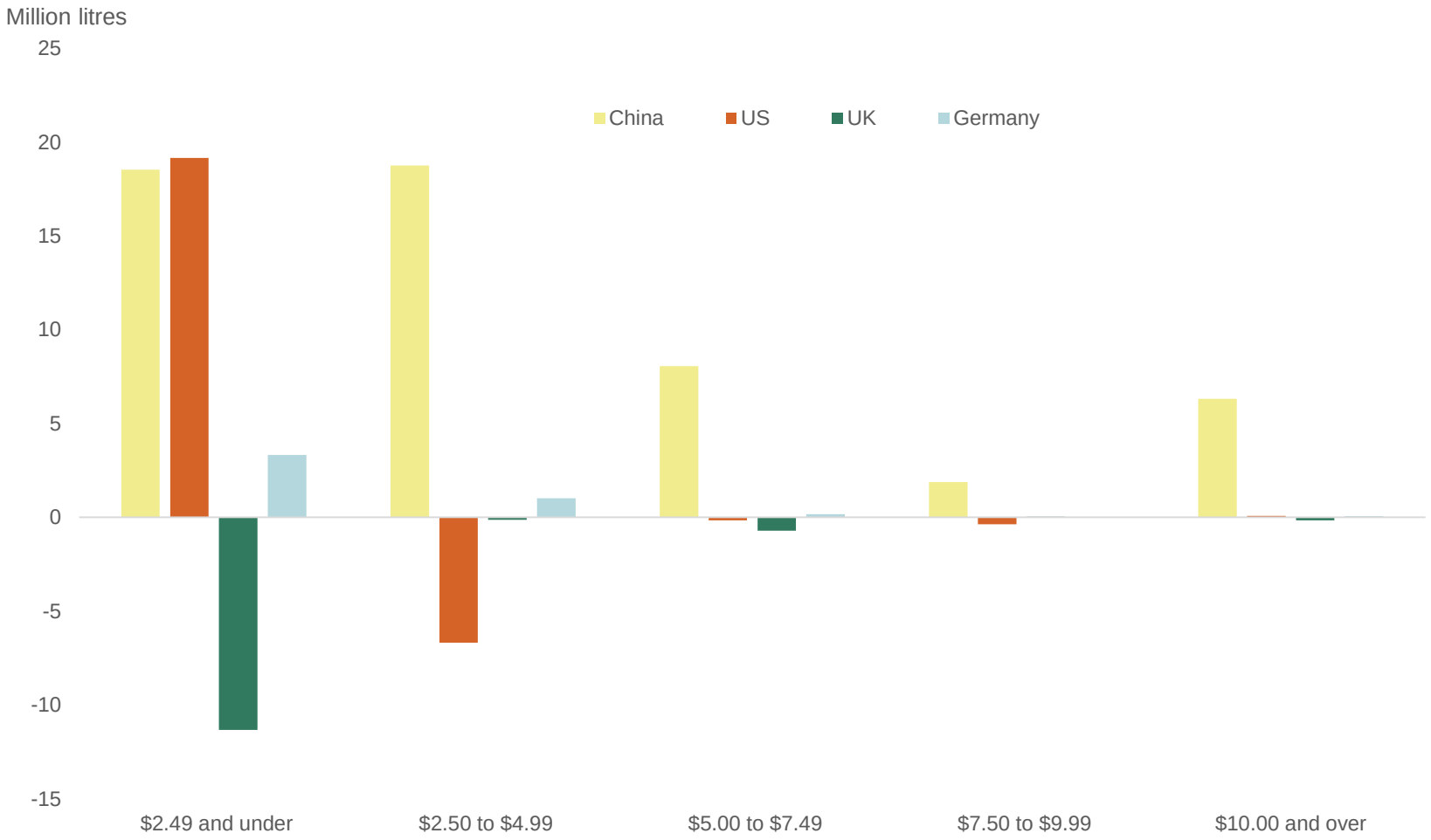
Source: Wine Australia

Growth is mainly in lower price points in volume terms

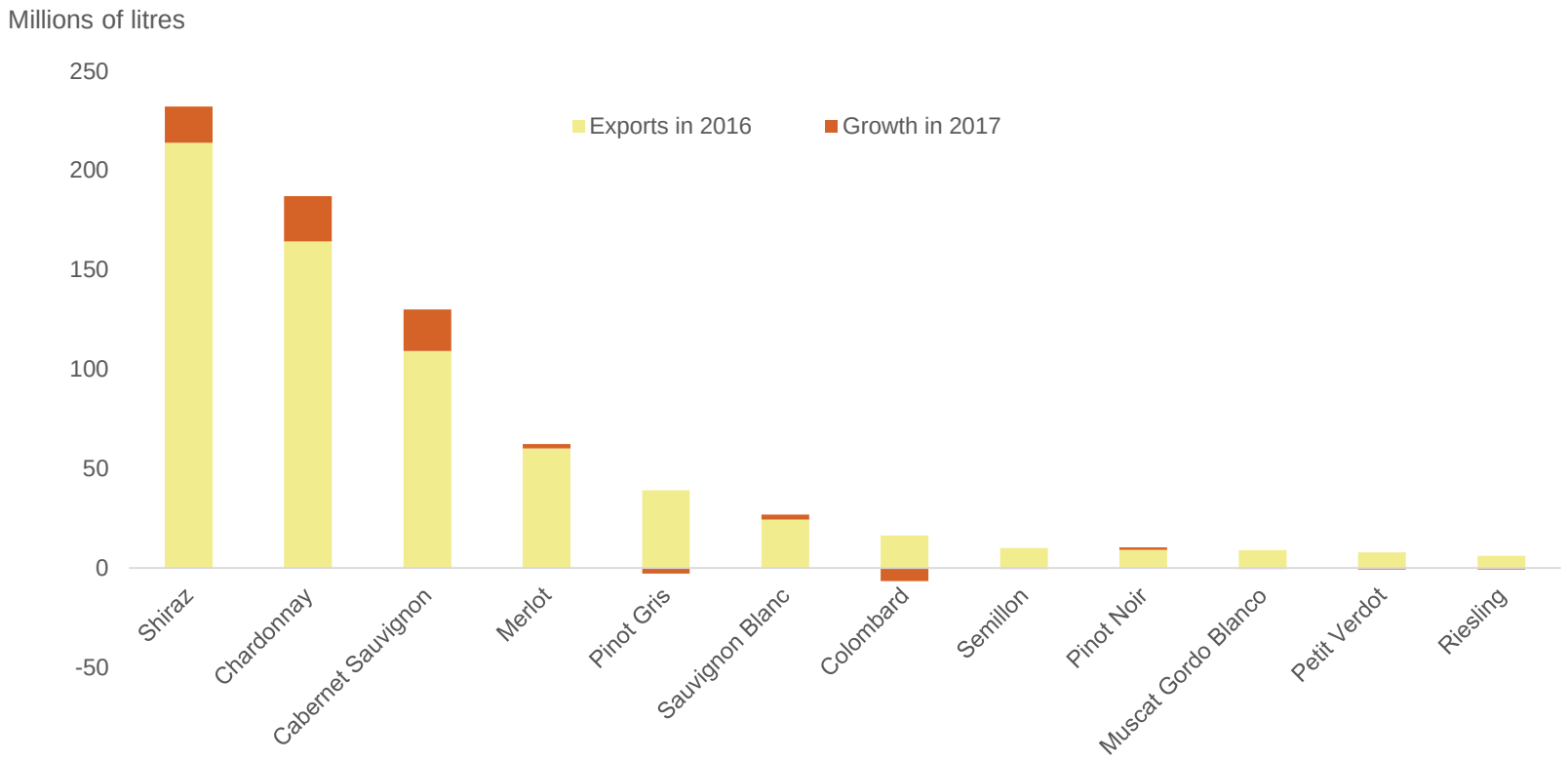


Source: Wine Australia

Export growth is driven by China

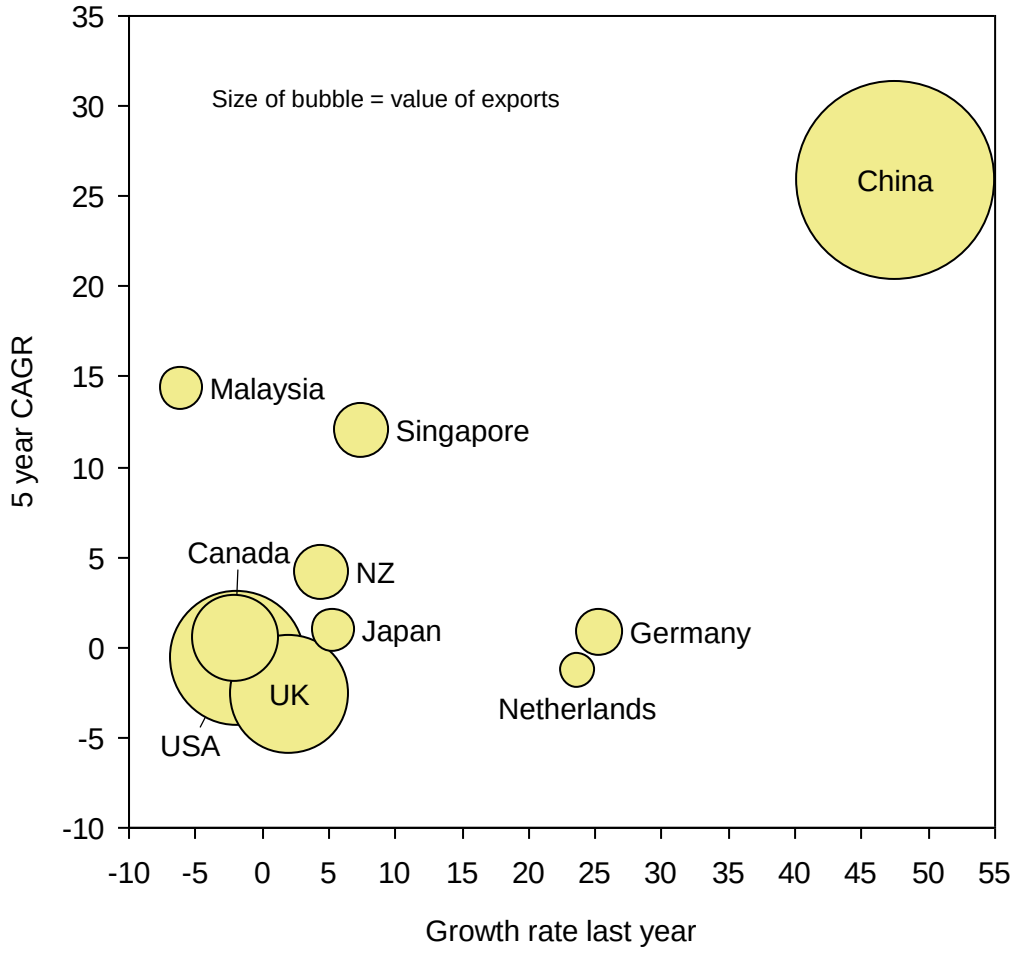


Top three varieties all grew in 2017: Chardonnay holding its own



Market in focus: China

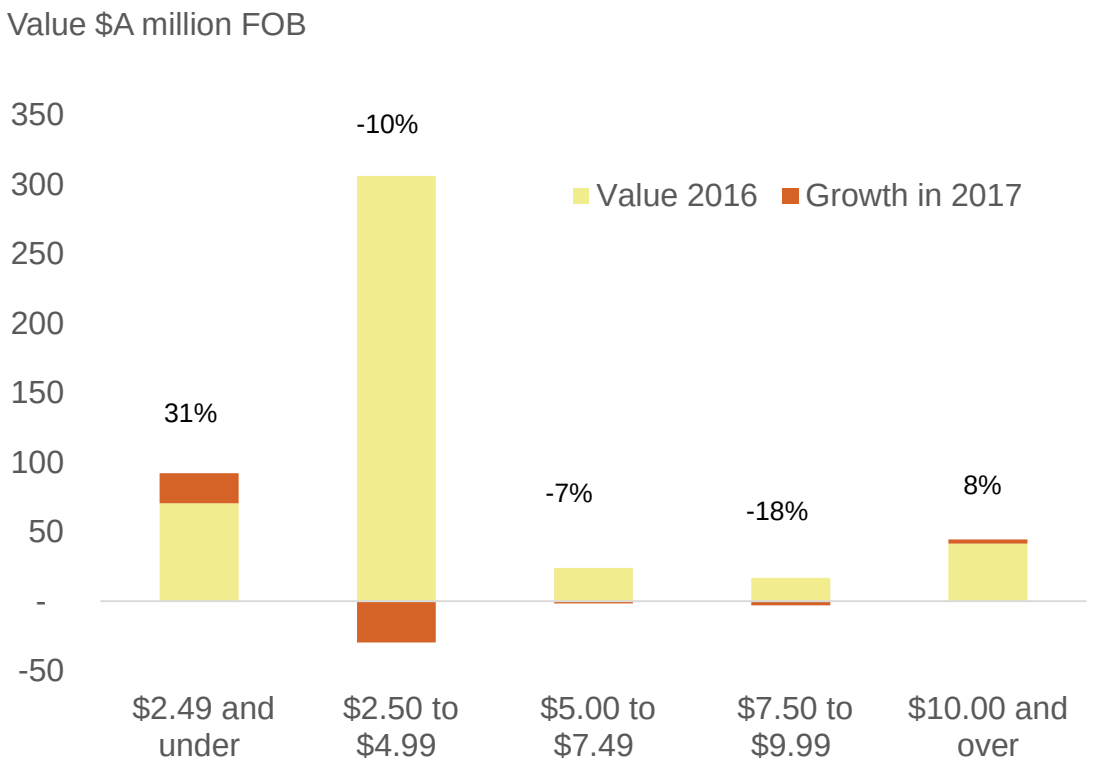
- Australia is #2 importer of wine to China and growing at faster rate than most competitors
- Australia has highest bottled average value among top five importers
- China is Australia's largest and fastest growing export market
- Solid growth in entry level/commercial wines at $5/litre and below as well as premium wines
- Growing Chinese middle and upper classes are driving the imported market
- Increasing acceptance of white wine and new styles
- ChAFTA underpins Australia's competitive advantage
- The $50m Package will provide further impetus from 2018



Market in focus: US

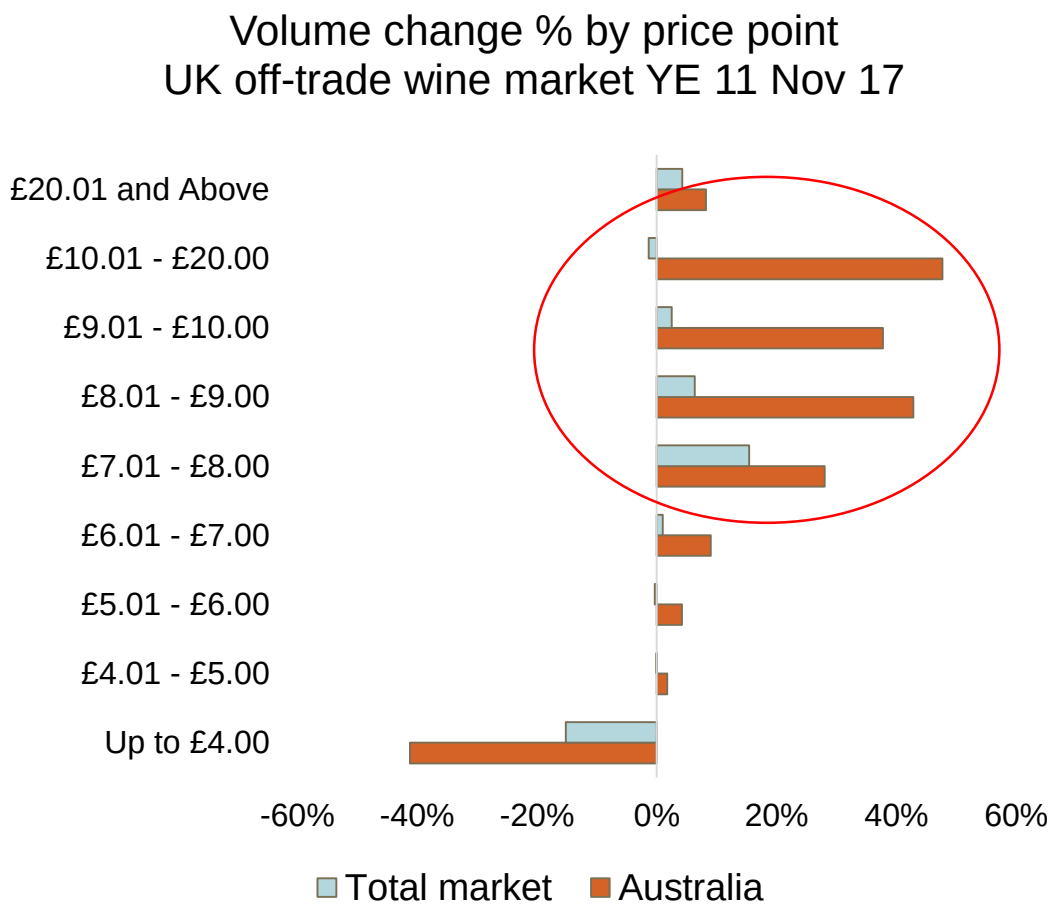
- Australian sales still heavily weighted to entry-level/ commercial end which is declining
- Australia has lowest bottled average value among top 10 importers
- Lack of penetration in premium price segments but showing strong growth
- Need more Australian wineries to re-enter the market
  - ➢ 238 exporters (down on previous year)
  - ➢ All except top five increased by 14%
- Consumer perceptions of Australian wine are improving
- $50 m Package will support increasing consumer demand and building sales in premium segments

Exports to USA by price point



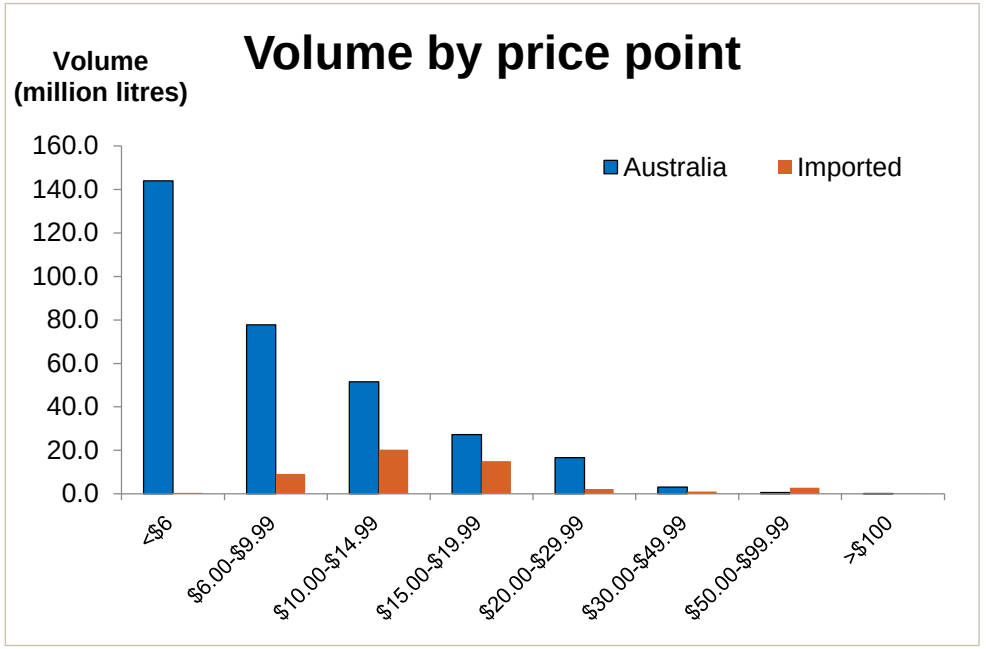
Market in focus: UK

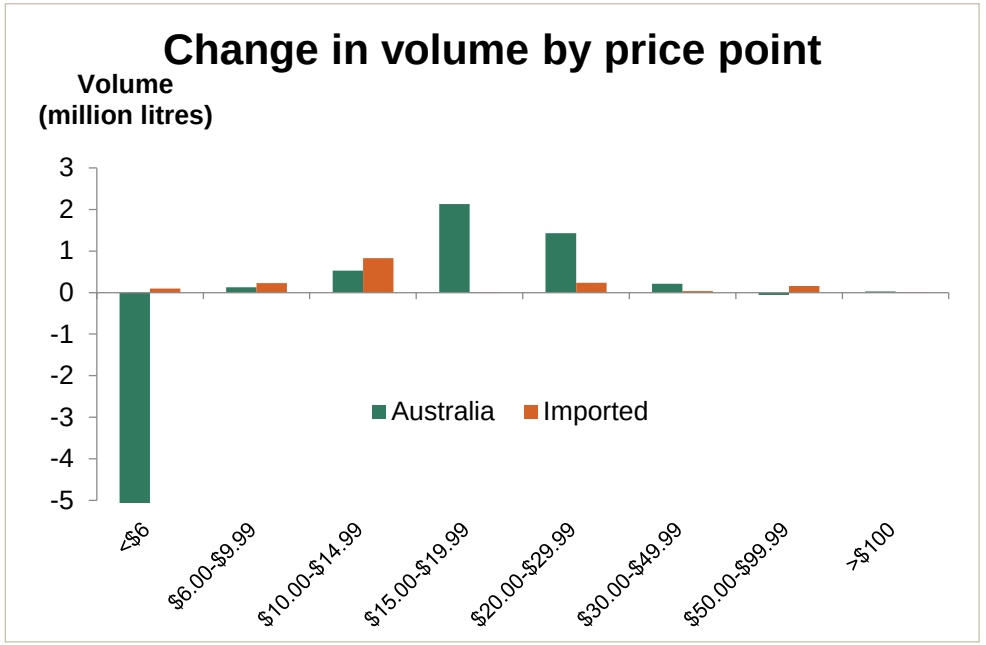
- We dominate the commercial end but market is declining and margins are extremely tight or non-existent
- We have a smaller share of the premium end but are recording strong growth
- Opportunities to take share in the on-trade (ranked #3)
- Uncertainty over where we sit in the independent channel
- Brexit implications yet to fully play out but much of the negative impact has already been felt
- Latest export figures are positive



Market in focus: Australia

- Australian wine has 86% of the domestic market by volume and 76% by value
- Market is generally static in volume terms but growing in value due to premiumisation
- Cask wine is in long-term decline
- Sales below $10 retail are in decline
- Styles/varieties showing strongest growth in the off-trade:
  - Shiraz, Cab Sauvignon, Pinot Noir, Pinot Gris
  - Rosé

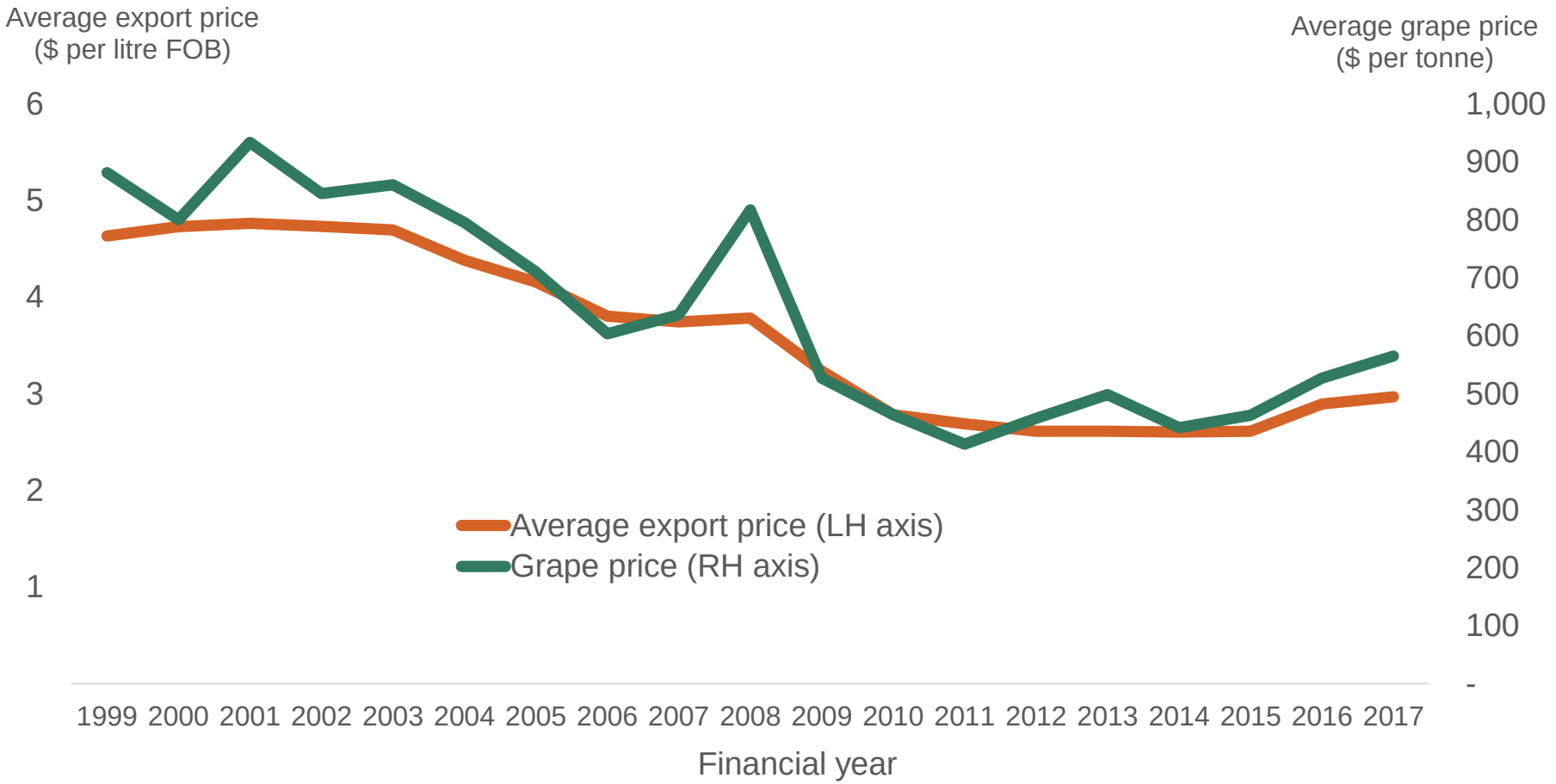




Outlook for grapes

Rising export prices historically flow through to grape prices

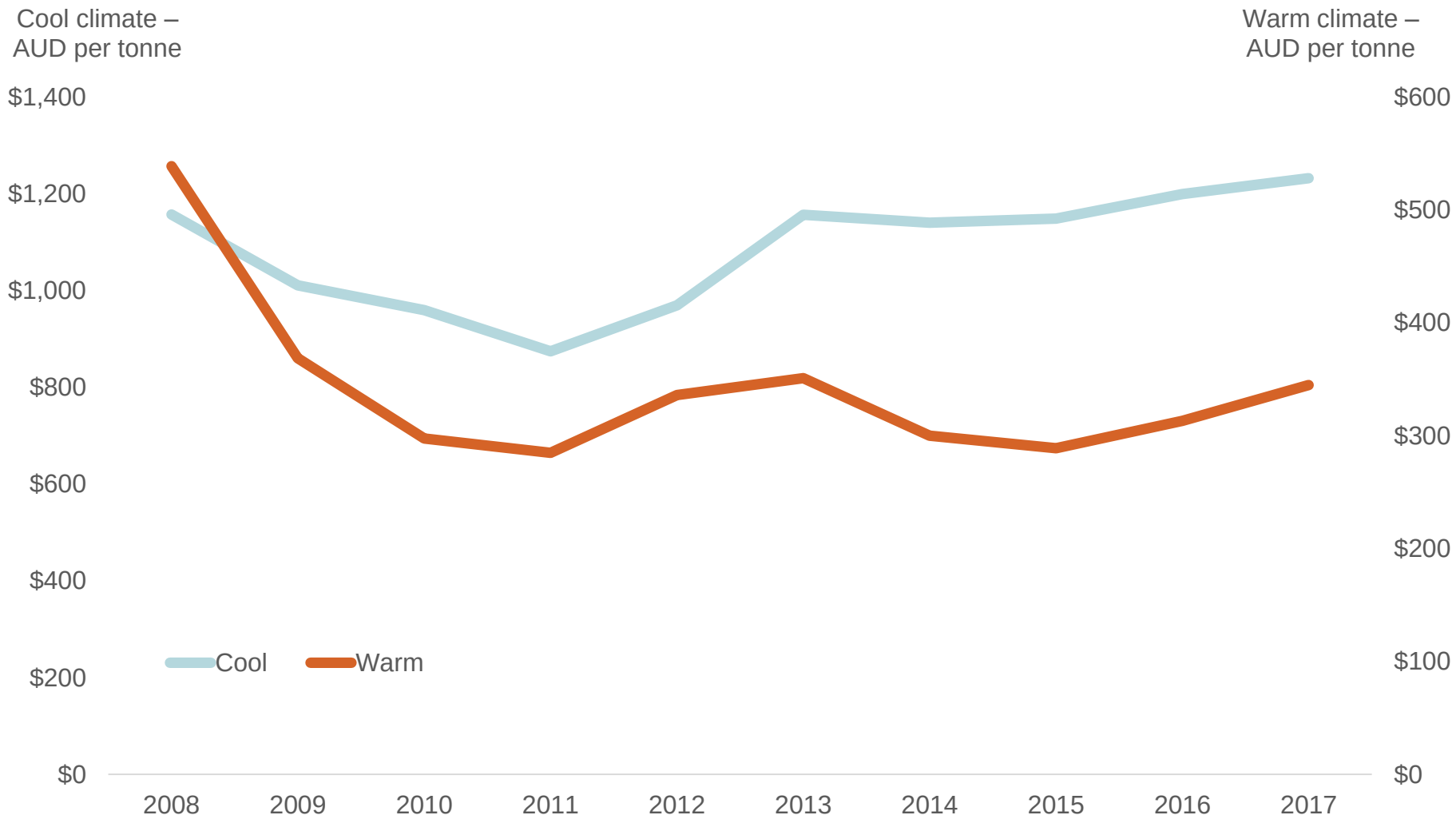
Average export price and average winegrape purchase price over time



Source: Wine Australia

Prices are firming across the grapegrowing spectrum

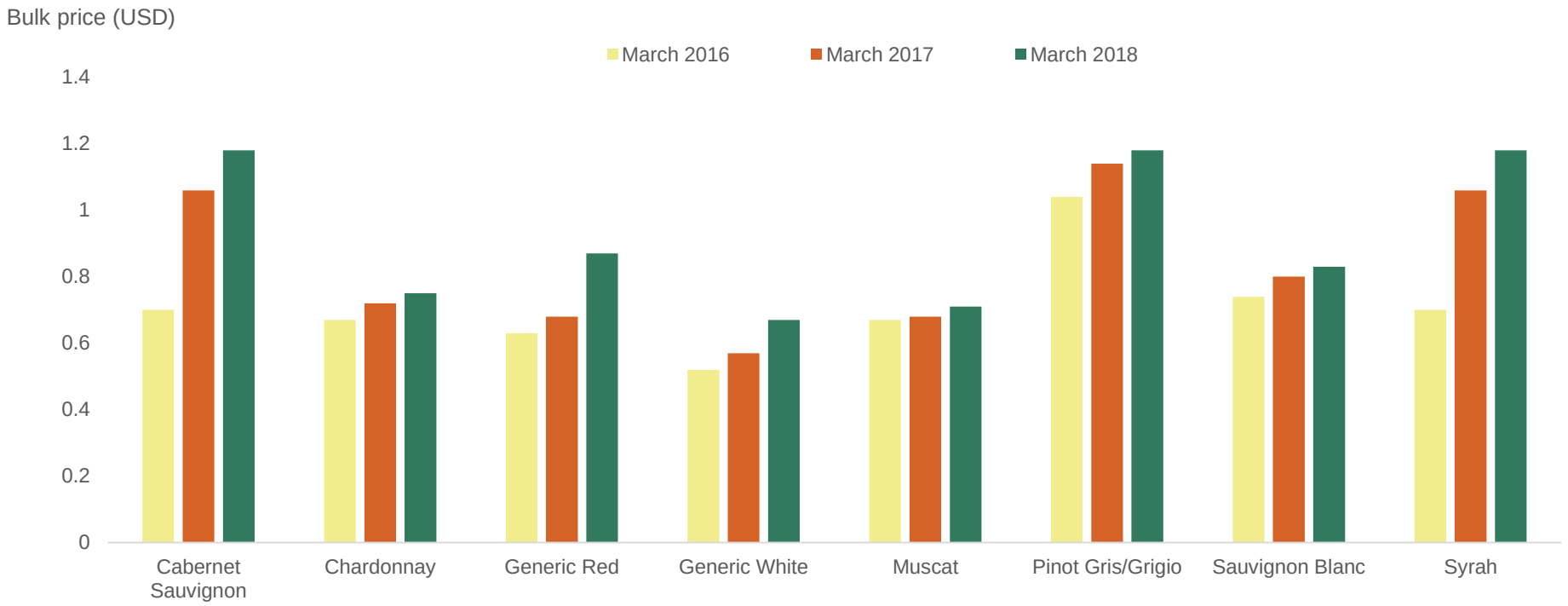
Australian winegrape purchase prices over time, warm vs. cool



Source: Wine Australia

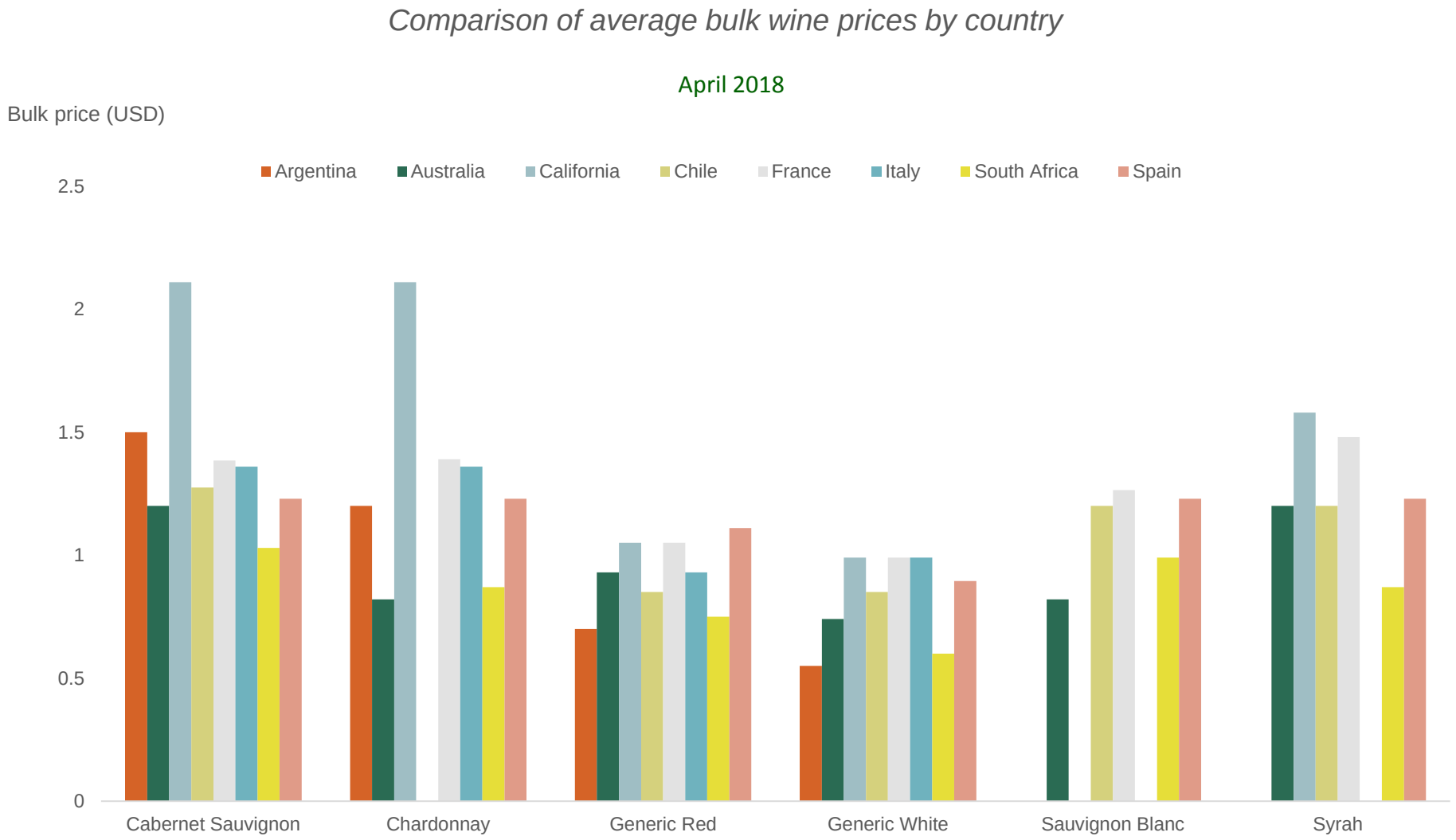
Bulk wine prices are also increasing

Australian bulk wine prices by variety – past three years



Source: Ciatti

Australia’s bulk wines are competitively priced



Source: Ciatti

Supply is tight but…..

Harvest in 2018 in Australia likely to be below 2017

Globally, 2 billion litres of wine have gone missing (close to 3 million tonnes)

China demand for Australian wine is growing at >50,000 tonnes per annum

Vineyard areas have been declining since 2007

But…….

A global above average harvest would see the shortfall wiped out

Supply in Australia still exceeds demand

Vineyard prices are going up – may stimulate plantings

Long term there is a decline in wine consumption (volume)

Key takeaways

Australian wine is in a strong position going into 2018.

Tight global supply and strong demand for Australian wine should lead to increases in grape prices in the short term.

Total volume and volume growth are highest in the lower price segments.

However, overall global alcohol consumption is flat and commercial wine demand is declining in mature markets.

In the long term, premiumisation and decreasing overall consumption are a threat to growth for commercial wine.

More information

wineaustralia.com/market-insights

market.insights@wineaustralia.com

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