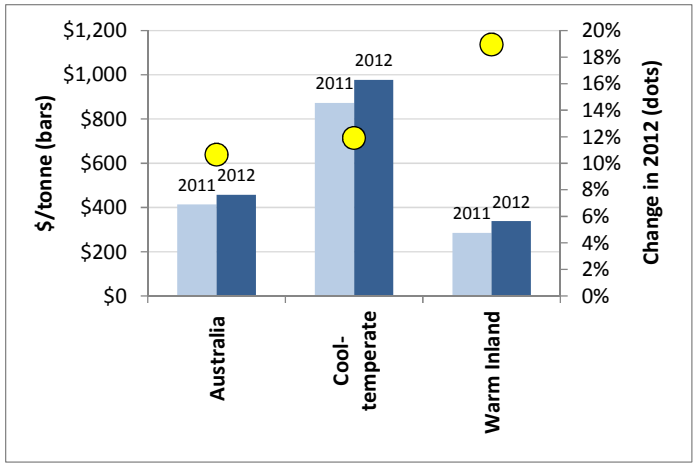
Price and profitability of winegrape growing: 2012

Analysis of price movements in the 2012 harvest

Together with the first positive price outcome for Australian wine exports for many years, at a 4% rise in the fob $/litre price in 2012, Wine Australia Corporation's *2012 Winegrape Purchases: Price Dispersion Report* provided some positive news for winegrape prices in the 2012 harvest. The national average winegrape price improved 11% driven mainly by price improvement in reds and warm inland fruit.

The 2012 winegrape price dispersion data (Figure 1) showed that warm inland prices had the largest percentage price increases (up 19% overall - reds 22% up and whites 16% up) compared to cool-temperate price increases (up 12% overall - reds up 17%, whites up 2%).

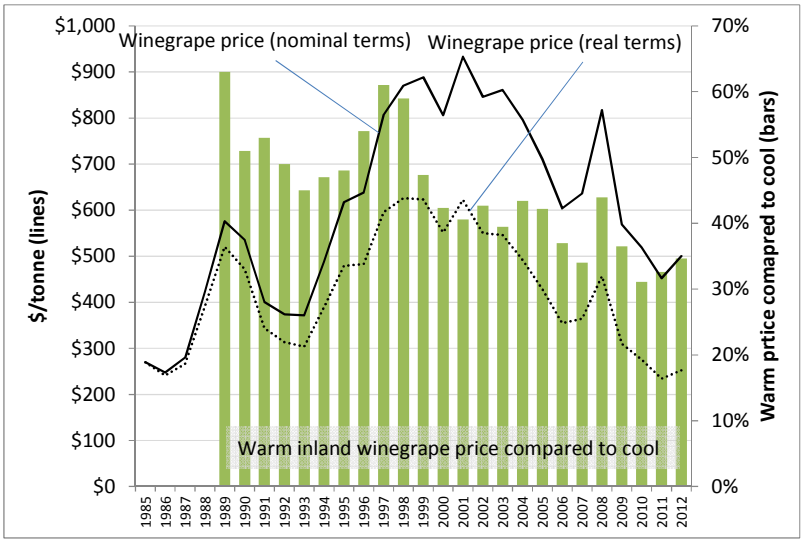
Figure 1: 2012 winegrape price outcomes by major growing districts



Source: ABS, price utilisation reports, price dispersion reports, WGGA analysis

A useful way to look at why warm prices improved more than cool in 2012 is to look at what warm inland prices were as a proportion of cool-temperate prices (the bars in Figure 2). A pattern emerges from this comparison. In times of high demand (eg prices growing between 1993 and 1999) warm prices were closer to cool. This is because the strength of demand exhausted the availability of preferred cool-temperate fruit and drove up the price of warm fruit that was needed to fill the gap. On the other hand, in times of low demand (eg when prices fell between 1989 to 1993 and generally after 2001) with the depressed prices for cool-temperate fruit and its greater availability compared to demand, it is taken in preference to warm, because of its favourable cost/quality ratio. As a result, the less sought-after warm fruit experienced a price collapse relative to cool and their prices are a smaller proportion of cool prices.

Figure 2: National average winegrape prices and warm-cool comparisons



Sources: 2012 Winegrape Purchases: Price Dispersion Report, Wine Australia Corporation

It is notable from Figure 2 that while prices have been depressed in overall terms since the turn of the century, warm prices are more so in comparison to cool. This also provides a part of the answer to why warm prices may have grown more relative to cool in 2012. They simply improved from a much lower base in absolute and relative terms.

Figure 2 shows that the national average winegrape price is still very low. Prices in 2011 and 2012 are at the level they were 25 years ago – back when there was a vine pull scheme because they were so low.

All of this says that while there are early signs of a turn-around, these still need to be confirmed as a fundamental turn-around rather than just a seasonally driven variation. Moreover, the depression in prices is deep and broad. The small segment of the industry working in the very high end is the best off. It is up in the high end also that green shoots are sprouting but it is a long way up to profitability for most growers.

Winegrape profitability by region: 2010 – 2012

Increases in average winegrape prices for the 2012 harvest warrant a check to see if the 2012 price improvements restored profitability.

The analysis provided in Table 1 shows returns per hectare for the major growing areas. Yields for these areas come from Australian Bureau of Statistics production data, prices come from Wine Australia Corporation's price dispersion reports and the cost of production data has been provided anecdotally by growers. Although there will inevitably be variation in what growers include and do not include in their figures, it is understood that these costs include operating costs plus fixed costs, including interest and wages, but will not include the capital to establish the vineyard or extraordinary items like extra water costs in drought.

Table 1: Winegrape profitability by major growing districts

		2010	2011	2012	Average
t/hectare*					
Warm Inland	WI	15.4	16.7	17.9	16.7
Cool-Temperate	CT	6.7	6.2	6.1	6.3
Classic Cool Climate	CCC	7.3	7.0	5.2	6.5
$/tonne					
Warm Inland	WI	$298	$285	$339	$307
Cool-Temperate	CT	$916	$813	$978	$902
Classic Cool Climate	CCC	$1,472	$1,369	$1,487	$1,443
$/hectare					
Warm Inland	WI	$4,590	$4,760	$6,060	$5,120
Cool-Temperate	CT	$6,137	$5,041	$5,984	$5,720
Classic Cool Climate	CCC	$10,746	$9,583	$7,676	$9,359
Cost of production ($/hectare)					
Warm Inland	WI	$7,000	$7,000	$7,000	$7,000
Cool-Temperate	CT	$7,500	$7,500	$7,500	$7,500
Classic Cool Climate	CCC	$9,000	$9,000	$9,000	$9,000
Returns compared to break-even return per hectare					
Warm Inland	WI	-34%	-32%	-13%	-27%
Cool-Temperate	CT	-18%	-33%	-20%	-24%
Classic Cool Climate	CCC	19%	6%	-15%	4%

WI = Warm Inland, CT = Cool-temperate, CCC = Classic Cool Climate

The analysis of average returns per hectare shows that warm and cool districts have not achieved cost of production in any of the last three years. On the other hand, classic cool climate has been ahead of cost in two of the three years although arguably, margins may not have been great. While warm returns rebounded in 2012, driven by price and yield improvements, an arithmetic average of the three seasons suggests they have been about equal with cool climate regions overall in profitability.

NB Table 1 deals with averages and means that above-average operators may have been more profitable and below-average operators will be much less profitable than indicated. This needs to be kept in mind.