

The Chinese wine and spirits market with outlook to 2019

*from VINEXPO/IWSR study**

CHINA IS

- ✓ **The fifth largest red wine market worldwide in 2014**
- ✓ **The fifth largest wine market in the world for still, light and sparkling wines**
- ✓ **The largest spirits market in the world**
- ✓ **The second largest cognac market worldwide (after the U.S.)**

Moderate growth continues on the 2019 horizon

In 2015, the Chinese consumed 131.9 million of 9L cases of red wine, 7.24m cases less than in 2014. This drop in consumption, which affected nearly all categories of wines and spirits, can be explained by several factors. First and foremost China's overall economic growth rate slowed sharply in 2015, compared to former double digit growth rates (+6.8%). Secondly government anti-corruption laws have affected the market and last but not least the Shanghai stock exchange collapse in August 2015 had a negative effect on the overall Chinese economy.

However perspectives are far from being all doom and gloom, as the imported wines segment keeps growing (+3.3%) in volume in the period between 2013 and 2014. The expanding middle class is also increasingly turning to wine. Per capita consumption is still low and with a population still growing, (the number of legal-drinking-age-adults should increase by 32m by 2020) the market will continue to expand, albeit with a comparatively slower pace.

Consumption of imported wines still increases

Today Chinese consumers are still focused on French wines in general and Bordeaux in particular. French wines account for 42% of consumption with 13.9m cases. Australian wines hold the second place with 4m cases. Australia benefits from geographical proximity and close commercial links. Spanish wines have established themselves as the lowest –cost, mass-market wines and are now the fastest-growing import. With 3.9 m cases last year, they are sure to come second behind French wines in consumption in 2015. Chile is another low-cost, high quality supplier that will also continue to see rapid growth. Consumption was 3.8m cases in 2014. Local Chinese wine accounted for over 80% of volumes in 2014 but is now in decline, finding it increasingly hard to compete with high quality low-cost imported wines.

At the medium run consumption of imported wines should continue to grow on a stable footing. Growth lies in regular drinking wine aimed at the emerging middle class, wines priced at under CNY100 (16\$) are doing the best.

Champagnes are a girl's best friend

Champagne has experienced strong growth over the last five years, with volumes doubling to 135,000 cases between 2010 and 2014. It is most popular with women in the on-trade for image reasons. The market is still largely concentrated in first-tier cities. As the category has little exposure to gifting and banquets it has not been much affected by the anti-corruption campaign. Growth of the Champagne segment should continue, but sparkling wine's growth in secondary outlets is a threat.

Sparkling wines are the next big thing

Other sparkling wines are booming even faster than Champagne. They have quintupled volumes between 2010 and 2014 to reach 1.1m cases. Italian sparkling wines have been the main driver of this growth and represent some 60% of the market. They are doing particularly well in second and third tier cities, thanks to low pricing allowing for higher margins than competing categories such as beer. Since sparkling wine still represents a very small percentage of wine consumption in China there is clearly space for growth in the future.

Imports, the market is recovering at the lower end

In 2015 between January and May imports of bulk wine were up 31.2% compared to the same period in 2014. Imports of bottled wines rose by 31.2%.

Spain has been the top performer in 2015 in terms of absolute volume increase. Imports were up 55.6% between January and May compared to the same period in 2014.

Australia (+47.8%), South-Africa (+128.1% starting from a smaller base), Argentina (+34.6%), Chile (25.9%) and Portugal (+36.8%) also saw strong growth.

Chinese production plenty of room for expansion

Whilst the area under vine has been slowly but steadily increasing, the wine production, after having known an important peak in 2012 is back to its 2010 level. The Vinexpo/ IWSR study forecasts a continued but moderate increase up to 2019.

Wine production is being encouraged by the Chinese government, which would like the Chinese population to switch from Baijiu to wine that has a lower alcohol content. However, currently only 5 to 10% of the nearly 500,000 hectares of planted vines are used for wine production. The rest is for table grapes and dried fruit, leaving plenty of room for grape wine expansion.

Spirits, new trends and options

All imported spirits categories, except for Cognac are increasing on the Premium and Super Premium levels. However Cognac remains the biggest imported spirits category before whisky. Premium and Super Premium Whiskies, Vodkas, Rums and Gins benefit from a swift towards on-premise consumption in high-end venues in large cities, even though some of these spirits like gin and rum remain niche. The Vinexpo IWSR study forecasts healthy growth rates for Vodka (+7%), Gin (+8.1%), and Tequila (+9.6%) on the 2019 horizon. US Whiskies are growing from a small base as Chinese expats to the US bring back knowledge of the category. Japanese whisky is also hot. Whilst Top of the range Scotch Whiskies and even more so Premium-end Cognacs have been affected by the declining gifting market. However, whilst demand for XO and above qualities is decreasing, consumption of VSOP and VS rise. Both these segments currently dominate the night on-trade market. Younger consumers are going for younger Cognacs and are mixing them.

Last but not least the world's largest spirits category, Baijiu is transforming. The category is modestly growing on the lower end, mostly in rural areas and three and four tier cities amongst male consumers aged 40 and older. Young urban residents are rather opting for wine.

On the high-end level Baijiu was exposed to the anti-corruption campaign, hence sales are dropping and prices are down.

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**VINEXPO has commissioned The IWSR (International Wine and Spirit Research) for 14 years to perform its world market study with forecasts for the next 5 years.*