

Hong Kong wine and spirits market with an outlook to 2019

*from the VINEXPO/IWSR study**

The Hong Kong wine market

Recovery driven by low end still wines and sparkling segment

After a decline in 2013, the Hong Kong wine market showed a positive trend between 2013 and 2014 growing by +2.24%. The market recovery was mainly driven by two categories, entry level still light wines +16.3% and sparkling wines including Champagnes +46.9 %. The Premium segment is still suffering from government anti-corruption laws. Yet, Hong Kong remains a buoyant market.

Sparkling wine remains a driving force

Already hailed as the next big thing a year ago, the sparkling wine segment keeps growing, + 51.3 % between 2010 and 2014. The driving force behind this lasting trend are Italian and Spanish sparkling wines. Prosecco consumption volumes grew by a substantial +88.5% and Cava by an outstanding +110% between 2010 and 2014. Sparkling wines are increasingly popular with female consumers and are mainly bought through retail. The upwards trend for sparkling wines is forecast to continue on the 2019 horizon with the segment growing by +20.7%. Volumes shall reach 320,000 9-litre cases in 2019. Champagne, which unlike other sparkling wines, is mainly consumed in Modern-On-Trade Premises (MOT) is expected to remain stable.

Shift from premium to entry level wines

The still light wine segment grew by +17.9% between 2010 and 2014. Consumption is expanding at the lower end, wines costing around HK\$100 are on the up. The average price for a bottle of still light wine has fallen from 154\$HK to 124\$HK as the Premium and above segments lose momentum.

The main reasons for the growth of the entry level market are +12% more tourists between 2013 and 2014. Hong Kong tourists are mainly shopping tourists from Mainland China, representing 85% of all tourists. This evolution is forecast to continue, +11.3 % more tourists between 2015 and 2019. Young Hong Kong residents reaching legal drinking age also contribute to this trend, yet to a lesser degree.

Red wines are the main segment with a 83.2% market share. White wines, which are popular amongst expats represent 14.3% of the market. Rosé wines with a market share of 2.4% in 2014 remain niche.

As for importing countries, France is still the leading importer with a 26.5% market share, followed by Australia 19.5%, the USA 16.4% and Chile 13%. However, the French share is declining as France is most active in the Premium level which is declining. Australian imports are stable. US, Chilean and even more so Spanish wines, which are all most represented in the entry-level segment are growing strongly. US still light wines registered a massive growth of +41.3% between 2010 and 2014. The total value of the still wine consumption in 2014 was 0,6 billion \$US

Distribution a shift to the Off-trade

Supermarkets and retailers such as Wellcome and Park'n shop are gaining importance and online distribution is up, too. Specialist shops are key as far as premium wines and Champagnes are concerned.

The On-trade is suffering from increasing rents, higher wages and growing music royalties. On-trade volumes have declined by -10% in 2014 as compared to the previous year.

Hong Kong remains buoyant

Hong Kong remains an important hub for the Asia Pacific wines and spirits markets, its largest re-export destinations being Mainland China and Macau. Re-exports to these markets grew + 16% to China and +17 % to Macau between 2013 and 2014.

China, including Hong Kong, is the world's 5th largest wine-consuming market, in value and volume, and the 8th largest wine-producing country.

The Hong Kong market is full of opportunities as penetration rates are still low leaving plenty of room for growth. Tourist numbers, are increasing, and the government favours the idea of Hong Kong being an Asian Wine hub, best illustrated by the tax abolition in 2008.

The Hong Kong spirits market

Niche spirits are growing

Niche spirits categories such as Tequila + 55.6% and Rum +39.1% between 2010 and 2014 are growing even though from a very low base. Both categories are forecast to keep growing on the 2019 horizon with growth rates reaching +35.6% for Tequila and +20.6% for Rum. The same is true for Gin, which has been driven by a recent trend towards Gin-and-tonic and Martini swapping over from the US and UK markets which have a noteworthy influence on Hong Kong citizens' consumption patterns.

Whisky which represents 186 000 9-liter cases is overall stable. Single malts have good momentum and continue growing however the market keeps to be led by blended Scotch. Japanese whisky is growing strongly and so is bourbon a trend due to the strong American influence on Hong Kong consumers.

Cognac is the second most consumed spirit after whisky with 77 000 cases in 2014 but prices have dropped because more China allocations are becoming available, yet the category keeps to be driven in the Traditional-On-Trade by Tourists from Mainland China.

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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.*