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Growth and Cycles in Australia’s Wine Industry: A Comparative Economic History, 1843 to 2013

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Over the past 15 decades Australia’s annual wine production has roughly trebled every three decades, having increased 20-fold from a tiny base in the preceding two decades. Around that trend growth has been a series of five cycles, the average boom of 14 years being followed by a profit slump and a production plateau lasting 21 years on average. Australia’s wine industry currently is at the bottom of its latest cycle, with barely one in six producers covering variable costs in 2014. To understand how and when producers might be able to earn sustainable profits again it is helpful to examine (i) the anatomy of this latest cycle, which began in the latter 1980s, (ii) the differences as well as similarities between it and Australia’s previous cycles, and (iii) the differences and similarities between Australia’s performance and that of other key wine-producing countries during each of those periods.

By drawing on a new statistical compendium of the Australian industry (Anderson 2015) and a still-preliminary statistical compendium of global wine markets (building on Pinilla 2014), both with annual data back to the 1840s, this paper examines comparatively Australia’s wine production and export growth and cycles. Since in 19th century Australia was made up of several very different colonies separated economically by high tariff barriers, data for those differing colonial experiences enrich the study.

With so many other changes at home and abroad, comparing over time and across colonies and countries is helped by referring to intensive growth indicators. On the supply side they include:

• vine area per capita;
• vine area as a share of total crop area;
• wine production per capita;
• wine production volume or value per $ of real GDP;
• wine exports per capita; and
• shares of wine sales abroad/exported.

As for domestic demand-side developments, indicators of intensive growth include:

• wine consumption per capita or per adult;
• wine’s share of total alcohol consumption; and
• wine consumption per $ of real GDP.

How internationally competitive the industry is at a point in time is captured by several additional indicators, including:

• share of the domestic market supplied by local rather than imported wine;
• ratio of wine exports net of imports to wine exports plus imports in volume or value terms;
• share of wine in the country’s total value of merchandise exports; and
• index of revealed comparative advantage (ratio of that share to the share of wine in the value of global merchandise exports).

Explaining the industry’s growth trends and cyclical turning points is an econometric exercise yet to be undertaken. As a prelude to that though, this paper also examines key explanatory variables such as booms and slumps in major tradable sectors (reflected in part in the country’s international terms of trade and foreign exchange rates), government assistance to other industries relative to that for wine, alcohol consumption taxes, and developments in costs of trading intra- and inter-continentally.

References
