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Wine Production Shrinks to 60-Year Low

Will Smaller Harvest Push Prices Up in 2024?

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The wine industry has certainly seen better days than those of the early 2020s. Starting with the disruptive impact of the global pandemic in 2020 and followed by geopolitical tensions, the sector has been hit with wave after wave of challenges. According to the latest report from the International Organization of Vine and Wine (OIV), the global wine market faced another tough year in 2023, as inflation pushed prices up and squeezed household budgets, leading to a 2.6% drop in wine consumption—translating to around

800 million fewer bottles uncorked worldwide, marking the lowest level since 1996.

John Barker, OIV's Director General, emphasized in an online press conference that inflation has been a major disruptor over the past two years, significantly hiking production and distribution costs and reducing consumer purchasing power. He highlighted a notable decline in wine consumption across the top five markets, including the United States and France. Barker urged caution in interpreting these preliminary figures, noting that key market distributors have been importing less and selling off stock to cope with inflationary pressures, which could skew apparent consumption figures.

China's shrinking wine consumption also significantly impacted the global market, with 2023 volumes less than half of what they were four years ago. Moreover, shifting demographics and lifestyle changes are fueling an underlying trend of reduced wine consumption.

Barker commented on the complicated state of global demand, stating it is challenging to determine whether the recent downturn in consumption is a short-term blip or a long-term market trend. In a surprising turn of events, global wine production in 2023 fell by 9.6% to 237.3 million hectoliters, even lower than OIV's November estimate, following significant production cuts in Italy and Spain. The year's harvest was the smallest since 1961, as extreme weather conditions slashed grape yields worldwide.

Despite these challenges, Barker noted that the difficult harvest would at least prevent a significant mismatch between global supply and demand. While it is "a bit early" to predict the exact trajectory of wine prices and consumption for 2024, the easing of inflationary pressures offers a glimmer of hope. Barker added that the main driver of price increases in 2023 was inflation, which appears to be subsiding this year. Whether the small 2023 harvest will impact the balance between supply and demand and consequently affect prices will likely depend somewhat on global stock levels.

The value of global wine exports dropped 4.7% to €36 billion, although it remains the second highest on record as higher prices partially offset lower shipments. The OIV noted that the average export price of wine increased by 2% to €3.62 per liter, the highest ever recorded, again likely driven by inflation.

Sparkling wines such as champagne and prosecco exhibited the most resilience in export performance, with the value of shipments rising 1% even as volumes fell 4%. Giorgio Delgrosso, OIV's Head of Statistics, remarked that the sparkling wine category has seen "incredible growth," with production and consumption tripling since 2002. Italy's prosecco has led this surge, but champagne, Spain's cava, and Germany's sekt also showed strong performance.

Delgrosso pointed out that sparkling wines are by far the most successful category in the market. Besides sparkling wines, high-priced premium products, particularly high-end red wines, continue to perform well.

France remains the leader in wine exports by value, driven by its champagne shipments, although Italy and Spain exported more by volume. All major global wine suppliers reported lower export volumes last year.

OIV also offered its first estimates for 2024 wine production in the Southern Hemisphere, which could see an increase of about 5%, according to preliminary data. Australia might boost its volumes by 21% due to favorable growing conditions, while initial estimates for Argentina predict a 27% larger harvest, though Barker noted these figures are subject to revision in the coming weeks or months.

In sum, the wine industry's journey through the early 2020s has been anything but smooth, yet the resilience shown by producers and the enduring appeal of both traditional and sparkling wines suggests a path forward through even the most turbulent times.