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The 2024 vintage: seesaw between production and price

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The Vinpro Production Plan Survey was performed in the wine industry for the 21st consecutive year in 2024. The service is provided per vintage in each of the ten wine regions, within study groups and individual capacity. The findings indicate that, although the average producer is still not generating a sustainable income, the industry is showing year-on-year improvement after a long downward cycle.

A promising winter season spurred high expectations for the 2024 crop, but large amounts of rain in June and again in September resulted in flood damage and high disease pressure in several wine grape districts. Unforeseen increases in input costs, namely crop protection and repairs, put cash flow under immense pressure and the effect of delayed capital-intensive replacements is becoming more noticeable every year. With the industry producing the smallest wine grape crop in three decades this season, the onus was placed on wine grape prices to drive producers' profitability upwards.

1. Introduction

In 2024, Vinpro's Agricultural Economic Services division conducted a comprehensive economic analysis in all ten South African wine regions. The project is financially supported by South Africa Wine, Absa, FNB, Standard Bank, Land Bank and Nedbank, enabling the provision of a free-of-charge financial management analysis for primary wine grape producers. The overall objective of the project is to perform a whole-farm analysis of each participant's production unit, and to compare it against the producer's own historical performance as well as that of the study group and the regional average. This report provides feedback on the production structure and profitability per enterprise, as well as detailed analyses and comparisons of the wine grape enterprise, which includes different block-level dimensions.

For the 2024 survey, 270 production units participated in the study, representing 24 494 ha (28% of the total South African surface planted to wine grapes in 2023) and 345 499 tonnes (31% of the total South African crop in 2024). White wine grapes constituted 62% of these figures and red wine grapes 38%. The representation of red wine grapes increased by 5% year on year, mainly due to climatic factors influencing the red grape crop of various regions during 2023. Of the total tonnage, 75% was supplied to producer cellars and 64% was mechanically harvested. The total crop, including juice and concentrate for non-alcoholic purposes, as well as wine for brandy and distillation, amounted to 885.9 million litres, calculated at an average recovery of 793 litres per tonne of grapes.

2. The cost of wine grape production

The annual financial layout required in preparation for the 2024 vintage, included cash expenses and provision for renewal, while all taxes, interest, entrepreneurial remuneration and obligations were excluded (Figure 1). Compared to the 2023 vintage, the total industry-average production cost, with the exception of dryland vineyards in the Swartland region, increased by 6.8% to R75 828/ha. This increase is in line with the long-term average increase of approximately 6.89% but mitigated slightly due to the financial/cash-flow position of many producers who have cut back their expenses on specific items for one or more years.

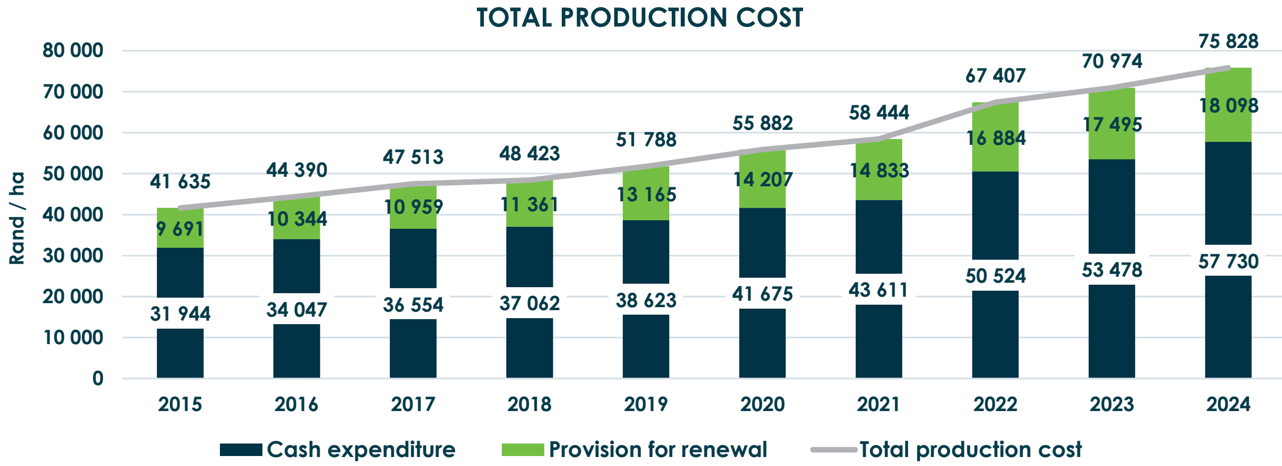


FIGURE 1. *Total industry average production cost for 2015 – 2024.*

3. Cash expenditure

Cash expenditure comprises direct costs, labour, general expenses and non-capital-related expenditure on mechanical and fixed improvements. During the 2024 vintage, an increase of 7.95% to R57 730 per hectare was observed in total cash expenditure, compared to 2023.

Direct costs, which include inter alia crop protection, herbicide and fertiliser, increased by 10.7% year on year. Crop protection expenses show the most significant movement and increased by an average of 19.5% from 2023, owing to both the intense disease pressure conditions experienced in most regions, and the drastic increase in prices of products applied.

Labour costs (the biggest cost component in the cultivation of wine grapes) increased year on year by 6.1%. The biggest contributor to this cost category, supervision and managerial assistance, increased by 14.7% (with an increase of 3.3% in seasonal and 5.2% in permanent labour). The interpretation of the smaller-than-expected increase in permanent and seasonal labour is important for the following reasons:

- Wages correspond directly to the number of canopy actions applied and thus the size of the crop;
- The decline in the wine grape surface correlates with the many wine grape work opportunities that have been lost; and
- The degree of mechanisation, with a greater percentage of the crop harvested mechanically every year, has a direct influence on this cost component.

Wine grapes are cultivated in a wide variety of production regions in South Africa, with variation in terms of topography, climate, cultivation practices and the corresponding production and cost structures. The biggest regional differences can be found in labour and direct costs.

A flattening in expenditure on fuel and an above-average increase in mechanical repairs were observed in mechanical cost expenditure. The former can be attributed to substantial year-on-year production contractions in some of the most mechanised wine regions in 2024. The aforementioned increase in mechanical repairs relates to a limited cash-flow situation where critical capital replacement decisions have been put on the back burner for some time now.

In terms of general expenditure, the most significant movement was a 6.7% year-on-year increase in administration costs. Although a lower-than-expected increase of 5% in electricity was observed, this phenomenon can be credited to the implementation of electricity-saving technologies or alternative power sources.

The drastic increase in producer expenditure on non-capital related expenses on fixed improvements (37% year on year) is due to the repair of infrastructure damage caused by the heavy rains and floods that battered most wine regions during the second half of 2023.

The relative contribution of different cash expenditure items to total cash flow is set out in Figure 2.

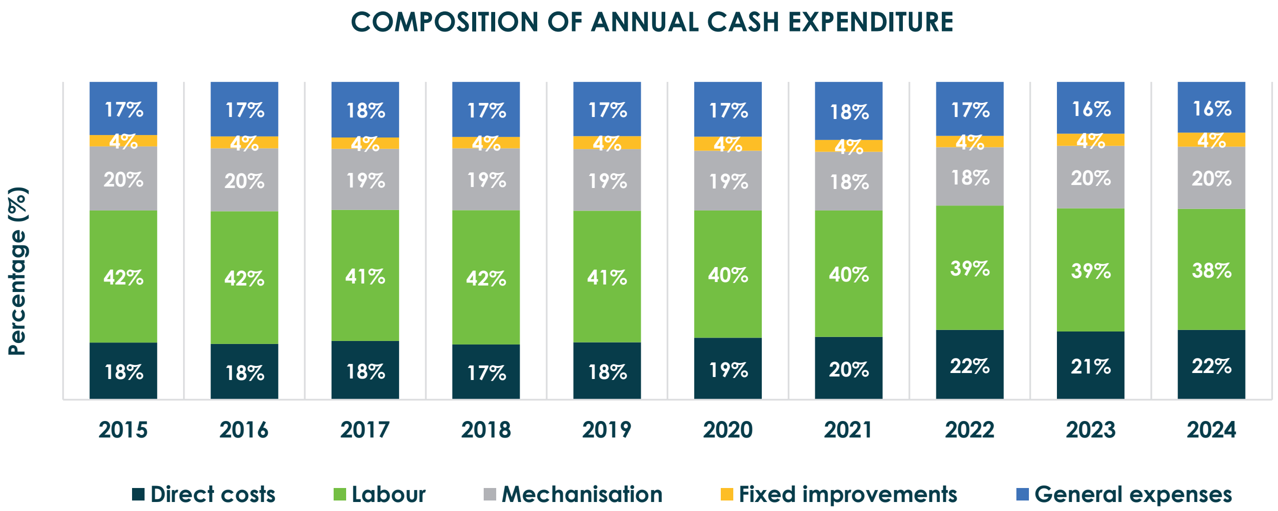


FIGURE 2. *Percentage composition of annual cash expenditure – industry average.*

4. Provision for renewal

Production costs are not limited to cash expenditure alone, capital items also have to be replaced over time – an element considered critical to sustain a business and ensure long-term sustainability. These implicit costs are referred to as provision for renewal.[1]

The total provision for renewal in the 2024 vintage amounted to R18 098 per hectare; an average increase of 7.5% per year since 2015.

Unsustainable average gross income levels also restrict producers from performing the necessary capital replacement. An improvement in price points over the past two years contributed to producers keeping underperforming blocks in production, but older blocks that simply cannot make the grade are becoming an ever more common occurrence. Due to this, the effect of an ageing vineyard surface on the overall crop size was significant for the second year running.

Vineyards aged three years or younger, comprise only 8.61% of the total vineyard surface, with the component of vineyards older than 20 years constituting 30.4% of the survey sample. This contradicts the prescribed norm that 15% of vineyards should be three years or younger and that the portion of vineyards older than 20 years should not exceed 15% (Figure 3).

[1] This methodology is explained in full detail in the Production Plan analyses. It involves inter alia the provision for replacement of assets over their productive lifespan. Provision is also made for structural and region-specific differences, as well as economies of scale (size benefits), where applicable on certain asset classes.

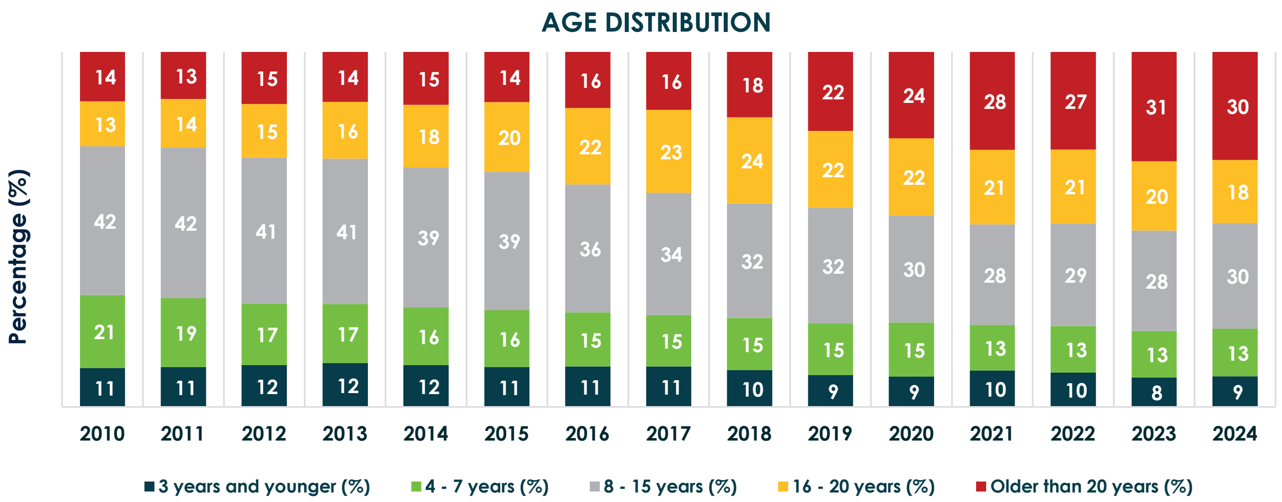


FIGURE 3. *Age distribution – industry average.*

5. Profitability

Profitability, or net farm income (NFI), is calculated as gross income (R/tonne x tonne/ha) minus total production cost. The latter consists of cash expenditure and provision for renewal, but excludes entrepreneurial remuneration, interest obligations and tax. The total income is calculated for a specific vintage and although a large majority of producers realise their income at different stages, no time value of money is taken into account (Figure 4).

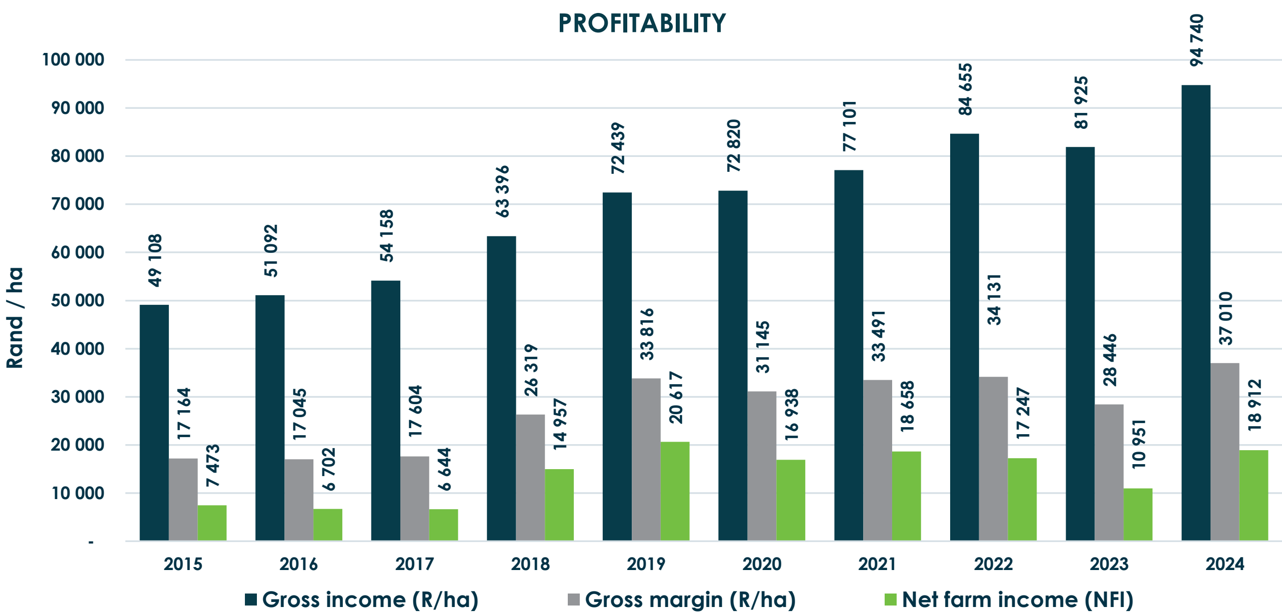
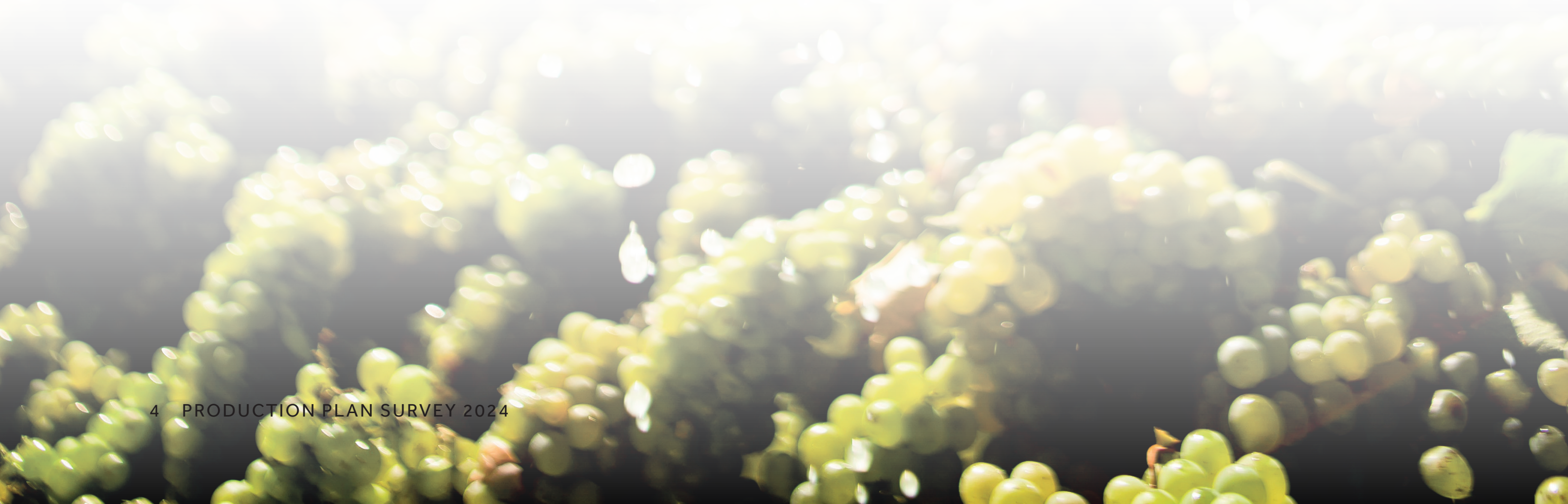


FIGURE 4. *Profitability – industry average.*



Increases in gross income during the last decade can be attributed to increasing yields, but, as notable in the 2023 season, future increases in gross income will mainly be dependent on increases in grape prices. A shrinking and ageing vineyard surface has resulted in structural limitations due to too many years of low profitability and insufficient capital replacement.

Gross income amounted to R94 740 per hectare in the 2024 vintage (the average for bearing and non-bearing vineyards), a 15.6% year-on-year increase. The gross margin, i.e. the cash-flow effect per hectare, was R37 010. After provision for renewal was made, a drastic increase, albeit from a low base, of 72.4% % in NFI, or R18 912 per hectare, was realised. As guideline for economically viable production, the average gross income and NFI for the 2024 vintage should in fact achieve at least R120 822/ha and R45 007/ha respectively. Included in this calculation is an amount for entrepreneurial remuneration and opportunity cost (inflation plus 5%)

This calculation does not necessarily reflect the full opportunity cost of alternative crop choices. Although the profitability levels of primary producers have improved and the majority of primary producers in the South African wine industry are in a better position than in 2023, the profitability levels are still not ideal. This statistic can be observed in Figure 5: approximately 4.7% more producers are profitable and about 5.1% fewer producers reported a loss this year. The latter trend is a reflection of higher wine prices which boosted the bulk wine market in particular, and not only premium wine production.

PROFITABILITY ANALYSIS (NFI R/HA)

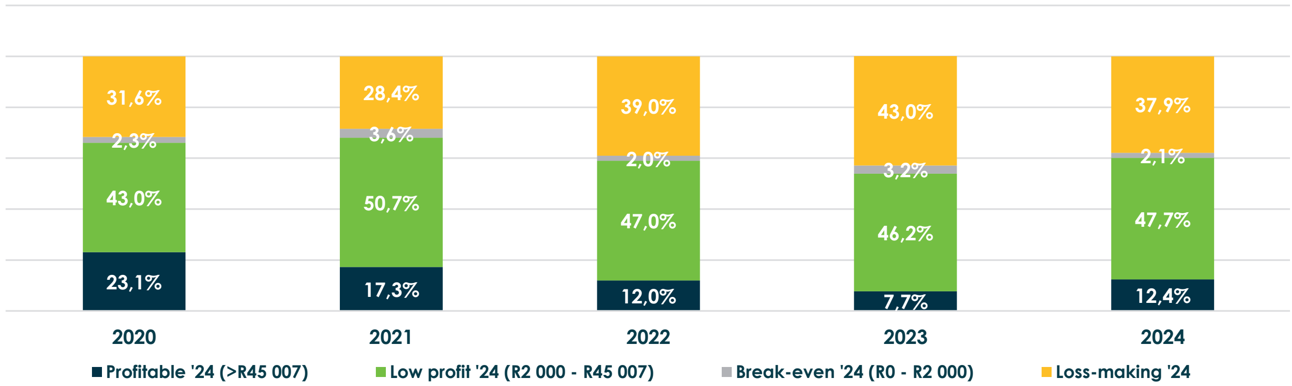


FIGURE 5. *Profitability analysis (2020 – 2024) – industry average.*

With price corrections observed across the industry, the main distinction between a low profit versus profitable producer comes down to a much higher average tonne per hectare achieved. This trend is mainly the effect of a healthy age distribution, with top producers diligently replacing 5% of their vineyard surface annually.

6. Conclusion

The 2024 season stirred a rollercoaster of emotions for producers, winemakers and industry role players, with high expectations of a promising crop, rising input costs due to widespread disease pressure and flood damage, ultimately resulting in an even smaller crop than 2023. With the world wine market more sluggish than normal in 2024 and red wine sales that effectively stagnated, the collective mood was at a low point after harvest.

A positive element of a much lighter crop is the expectation that wine grape prices will subsequently rise. A double-digit increase in prices, especially with regard to dry white and other bulk wine, resulted in a long-outstanding increase in gross income. With the 2025 harvest almost finalised, the industry hopes to observe similar price trends this year to ease producers' debt burden, encourage new wine grape plantings and capital-intensive replacements, as well as ensure the general financial health of the wine industry.

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