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Economic contribution of the spirits industry in Australia

Spirits and Cocktails Australia

2024

Deloitte Access Economics

Economic contribution of the spirits industry in Australia

The Australian spirits industry supports economic activity both directly through its operations and through purchases from suppliers.

In 2022-23, this economic activity was worth nearly **$15.5 billion** in total value add and supported over 100,000 full-time equivalent (FTE) jobs across Australia, of which approximately **51,300** people are directly employed in the industry.

The Australian spirits industry supply chain is made up of four stages, starting with approximately **700** spirit manufacturers that produce **366 million litres** of finished product within Australia, attracting **3.5 million patrons** to their distillery doors in FY23.

The Australian spirits industry supply chain

Spirits manufacturers	Liquor wholesalers	Retail	Hospitality
over 5,700 direct FTE jobs	over 1,900 direct FTE jobs	over 9,500 direct FTE jobs	over 34,000 direct FTE jobs

Key industry findings

A growing industry
700 spirits manufacturers currently operating, up from 200 in FY19

Local manufacturing
366 million litres of finished product manufactured in Australia

Patronage
3.5 million visits by patrons to distillery doors in FY23

Exports
Exports of spirits increased 69% over the decade to reach nearly $112 million in FY23

Industry outlook

Strong growth is expected for the spirits industry with:

69% of spirits manufacturers expecting revenue to increase in FY24

Revenue is expected to increase by **10% on average in FY24**

Capital investment is expected to rise by 2.3% in FY24, with 30% of spirits manufacturers expecting their capital expenditure to increase.

Barriers to growth

1. **Excise tax burden**
2. **Inflation and rising costs of inputs**
3. **Economic uncertainty**
4. **Difficulty growing in existing market**

Economic contribution of the spirits industry in Australia

The spirits industry makes an important economic contribution in every state and territory across Australia.

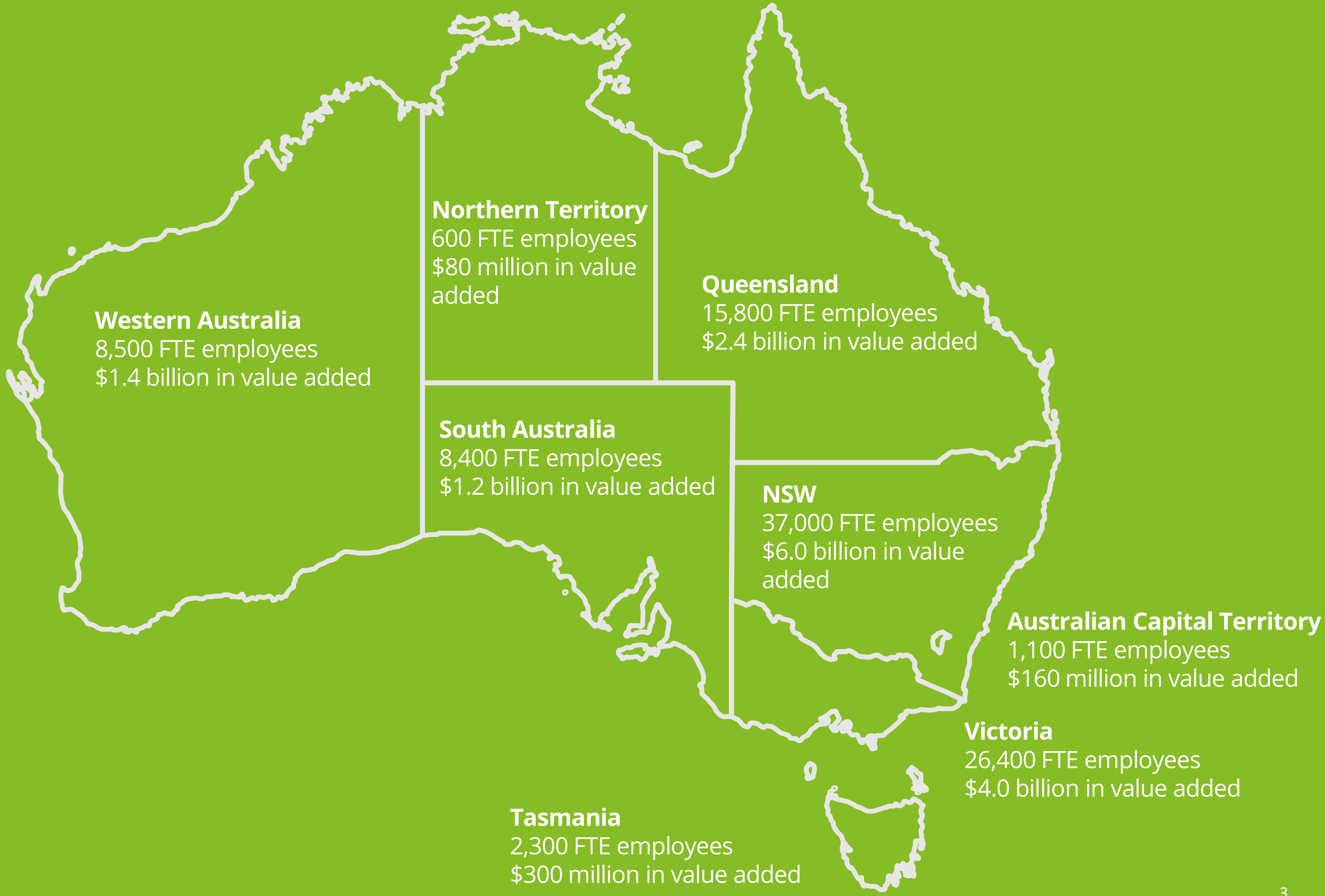
The map presents the total economic contribution of the four stages of the supply chain for the respective state or territory.

The total economic contribution estimates of value add and employment include both the direct contributions from the spirits industry and the indirect value added from purchases made to supplying industries.

The eastern states of New South Wales, Victoria and Queensland collectively account for approximately 80% of the total activity from the spirits industry in terms of value add and employment.

Following this, the states of Western Australia and South Australia also make up a significant proportion of the value add of the spirits industry, making up almost one-fifth (17%) of value add collectively.

Total economic contribution of the spirits industry, by state and territory



EXECUTIVE SUMMARY

Snapshot of spirits industry

In recent years, the spirits industry in Australia has experienced strong growth. Per capita consumption of spirits and RTDs in Australia increased by 0.6% each year on average between FY10 and FY20, according to the Australian Institute of Health and Welfare (AIHW).[1] In response to rising underlying demand, there has been **strong growth in the number of spirits manufacturers across Australia, increasing from about 200 in FY19 to 700 according to Spirits and Cocktails Australia and the Australian Distillers Association.[2]**

Spirits manufacturers are part of the broader spirits industry that also includes wholesaling, retailing and hospitality. Together, these four components make important contributions to the spirits industry supply chain within Australia.

To better understand the contribution of the spirits industry to the Australian economy, Spirits and Cocktails Australia has commissioned this report to provide a snapshot of the industry in FY23, focusing particularly on the role of spirits manufacturers as well as the economic contribution of the broader spirits industry. This research updates previous industry analysis undertaken by Deloitte Access Economics for Spirits and Cocktails Australia in 2021.

To inform the analysis, Deloitte Access Economics updated and fielded a survey (‘Spirits Industry Survey’) of spirits manufacturers and a small number of wholesalers. The survey was completed by 263 businesses, ranging in business size, location, years in operation and spirits distilled. The primary research was supplemented with publicly available information from the Australian Bureau of Statistics (ABS), Tourism Research Australia and other data sources.

A significant industry

Modelling undertaken for this report shows the resilience of the industry despite the impact of COVID-19 on the Australian economy.
From data gathered in the Spirits Industry Survey, it is estimated **366 million litres of finished product was manufactured in Australia in FY23**. Finished product includes the entire volume of the product being sold, for example, a bottle of whisky or can of ready-to-drink spirits.

Deloitte Access Economics estimates that **the spirits industry contributed $15.5 billion in economic activity (measured in Gross Value Added (GVA)) to the Australian economy in FY23 and supported over 100,000 full time equivalent (FTE) roles. The spirit industry in FY23 is 16% larger in terms of economic activity compared to the industry in FY19.**

Of this contribution, spirit manufacturers directly contributed $984 million and supported 5,700 FTE employees. Compared to the previous snapshot in FY19, the contribution of spirits manufacturers has increased by 16%. This demonstrates significant resilience considering the impact of COVID-19 on some components of the spirits industry supply chain.

The significance of the Australian spirits industry is also reflected in the high proportion of spirits manufactured locally, with 80% of spirits product sold in Australia made in local distilleries and manufacturing plants according to the Spirits Industry Survey and other estimates.[3]

The spirits industry comprises relatively young businesses with 57% of survey respondents in operation for less than six years. As a result of the large number of new entrants, a large share are small businesses, with **88% employing less than 20 employees**. The Spirits Industry Survey also reveals the important contribution to regional Australia, **with 48% of respondents located outside of capital cities.**

In addition to the large number of small spirits manufacturers, there are a small number of large spirits manufacturers (some of which are internationally owned). This is evident when looking at industry revenue. Just under half (47%) of respondents earned less than $350,000 in revenue, while 46% earned between $350,000 and $10 million and 7% earned more than $10 million in revenue in FY23.^

[1] *AIHW 2023, Apparent Consumption of Alcohol, Australia*
[2] *Spirits & Cocktails Australia and Australian Distillers Association, Spirits Manufacturer Database*
[3] *Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry*
^ These figure also includes a small number of wholesalers/distributors.

KEY FIGURES FOR THE SPIRITS INDUSTRY

A growing industry
701 spirits manufacturers operating currently, up from 200 in FY19

Local manufacturing
366 million litres of finished product manufactured in Australia

Economic contribution
Nearly $15.5 billion in economic activity to the Australian economy

Employment
Over 100,000 full time equivalent roles

Supporting regions
48% of spirits manufacturers located in regional areas

EXECUTIVE SUMMARY

Key sources of revenue

The revenue generated by spirits manufacturers comes from a variety of sources. According to the Spirits Industry Survey, spirit manufacturers use three different revenue channels on average.

For smaller manufacturers (less than $1 million in revenue per annum) the most substantial revenue channel is direct to consumer sales (including a distillery door), which makes up 29% of total revenue generated. Sales at events, including farmers markets and festivals, was the second largest source of revenue (15%) for this group.

For larger manufacturers (more than $1 million in revenue), 94% of revenue is generated from distribution, wholesalers and off premise sales.

Given consumers are increasingly looking for and valuing unique experiences, distillery doors play a pivotal role for the spirits industry. Almost two thirds of spirits manufacturers operate a distillery door. Based on the Spirits Industry Survey, these distillery doors had 3.5 million visits from patrons and generated $58 million in revenue in FY23.

The number of distillery doors is set to increase as 80% of spirits manufacturers currently not operating a distillery door indicate they intend to open one at some point, as revealed in the Spirits Industry Survey.

Exports

Australian produced spirits are increasingly being recognised internationally. The value of spirits exports has grown 69% over the last decade (to FY23), equivalent to an average annual growth rate of 5.4%.[3^] The average annual growth rate peaked in the three years period to COVID (FY17-FY19), at 33%, and reached 22.1% average annual growth post covid (FY21-FY23).

Ready To Drink (RTDs) were the most exported type of spirit in FY23, making up 28% of total export value of spirits, followed by brandy and grape spirits (20%) and whisky (13%).

New Zealand is the most important destination for Australian spirits exports, accounting for 37% of total export value in FY23.[4] This represents an increase from five years ago when New Zealand accounted for 25% of export value in FY18. The United States of America is Australia's second largest export destination, accounting for 22% of total export value, followed by China accounting for 12% of export value. China is becoming an increasingly important export market for the local spirits industry, with China only accounting for 2% of export value in FY18.

According to the Spirits Industry Survey **while only 17% of spirits manufacturers currently export, this figure is likely to grow, with 40% interested in exporting.**

Investments

Investment activity is an important measure of industry health. Spirits manufacturing requires significant capital expenditure on specialised equipment to begin operations and expand. **Surveyed spirits manufacturers invested $343 million in FY23.**

The vast majority (over 90%) of capital investment came from larger spirits manufacturers with over $10 million in annual revenue. This is similar to results found in the 2021 industry study.[5]

Capital investment in FY24 is expected to increase, with 30% of respondents anticipating an increase amount invested. If these realised, capital investment will rise to $353 million (a 2.6% increase) from the FY23 level.

The maturation of spirits is another form of investment for the industry. Nearly 42% of spirits manufacturers surveyed have some form of spirits under maturation in Australia in FY23. These manufacturers have 61 million litres of spirits under maturation, comprising 72% rum and 27% whisky.

[3] ABS, International merchandise exports, Australia.
^ Figures reported from the ABS exclude 'foreign re-exports'.
[4] ABS, International merchandise exports, Australia.
5 Spirits & Cocktails Australia and Australian Distillers Association 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry

KEY FIGURES FOR THE SPIRITS INDUSTRY

Patronage

3.5 million visits by patrons to distillery doors in FY23

Exports

Exports of spirits increasing 69% over the decade to reach nearly $112 million in FY23

Investment

$343 million in capital investment in FY23 with 30% of businesses expecting to increase investment in FY24.

Maturation

61 million litres of spirits under maturation in FY23.

EXECUTIVE SUMMARY

Outlook for the spirits industry

Throughout 2023 the cost-of-living crisis in Australia has constrained consumer spending, though population growth has mitigated some the impact of this. These challenging macroeconomic conditions have reduced consumer demand for discretionary spending for items like spirits.

Despite the challenging macroeconomic environment, according to the Spirits Industry Survey **over two thirds of spirits manufacturers expect revenue growth in FY24, with the average increase expected being 32% and a median of 10%.**

Generally, spirits manufacturers with higher growth expectations (median of 10%) have less than $1 million in revenue. This reflects rapid expansion as they establish operations and build revenue from a low baseline. Businesses that earned over $10 million are anticipating revenue to grow by 5% on average.

Realising the anticipated growth for spirits manufacturers and the broader spirits supply chain will require addressing some barriers facing the industry.

When those surveyed were asked about the impact of potential barriers to business growth and expansion, **excise tax burden and inflation were the two challenges most often selected as having a severe impact (selected by 59% of businesses).**

Of surveyed spirits manufacturers above the excise remission threshold, **87% rated the excise tax burden as having a severe impact compared to 50% of those below the threshold.**

When asked about the specific impact the excise tax burden would have on business operations, over two thirds (67%) reported the excise would have a severe impact on the prices of products.

The other most commonly selected severe impacts were in decisions around revenue streams other than spirits (such as other agricultural products or types of alcohol), indicating the diversifying of businesses beyond spirits products may be impacted by excise tax, and investment in business facilities, with both options being selected by 53% of businesses.

The challenges of the current economic environment are also key barriers to growth. **Inflation and rising costs of inputs are the most common barriers having an impact (slight, moderate or severe) on respondents, affecting 92% overall.** The impact of inflation was higher amongst respondents not expecting revenue growth this year, severely impacting 67% compared to 53% for spirits manufacturers expecting revenue growth.

Future growth of the industry will also rely on access to capital for spirits manufacturers to scale up. While only 3% of businesses have accessed Foreign Direct Investment (FDI) as a source of capital, **77% of spirits manufacturers reported a 20% increase in this source of capital would support additional operational activity.** Over half of all businesses reported it could support increasing the level or production and sales and marketing activity. Smaller spirits manufacturers were more likely to report it could support export activity and distillery doors.

Addressing some of these barriers will increase the likelihood of continued growth in this important industry and help deliver associated benefits from a more diversified and regionally distributed economy.

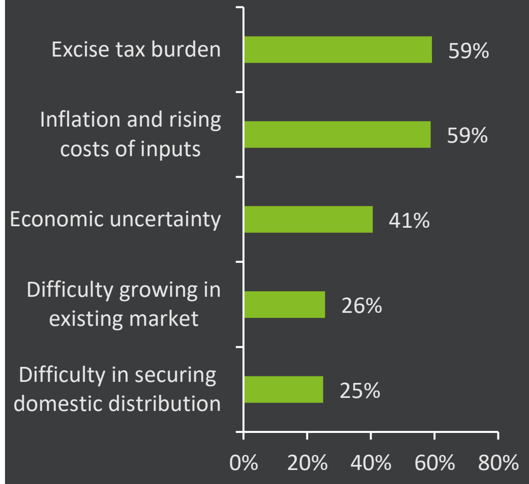
KEY BARRIERS FOR THE SPIRITS INDUSTRY

Excise tax burden

Excise tax burden remains a key barrier to growth and expansion for the industry, particularly larger spirits manufacturers.

Inflation and rising costs of inputs

Inflation and rising costs of inputs is another key barrier to growth and expansion for most spirits manufacturers.



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05 INVESTMENT

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Understanding the importance of the spirits industry.

Spirits and Cocktails Australia commissioned Deloitte Access Economics to undertake an industry analysis, including an economic contribution estimate, of the spirits industry in Australia. This report provides an update on the earlier economic contribution Deloitte Access Economics undertook for Spirits & Cocktails Australia in 2021, which profiled the industry in FY19 before the impact of COVID-19 disruptions were felt.

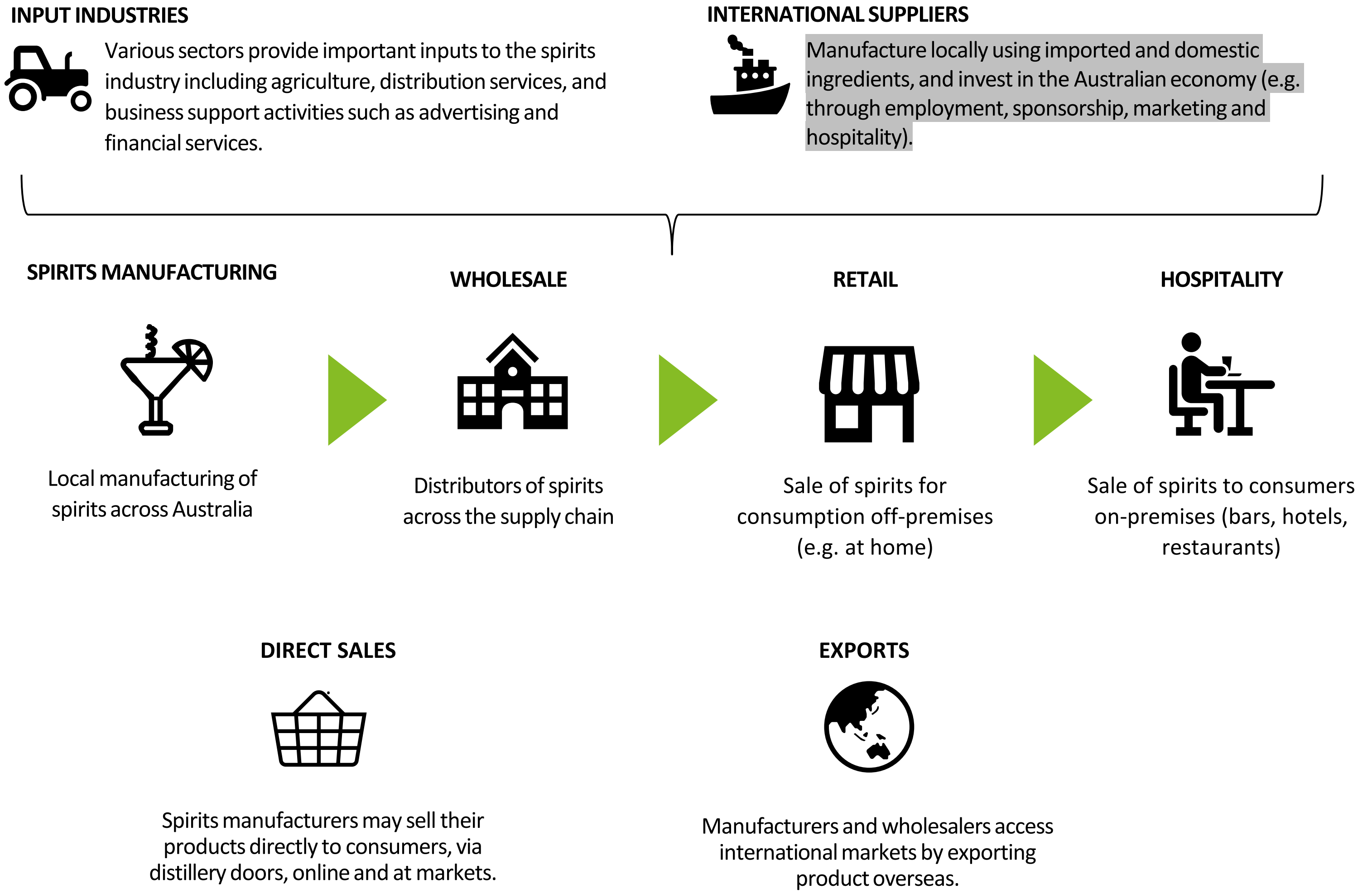
The spirits industry extends beyond spirits manufacturers to include wholesalers, retail and hospitality elements.

To inform this analysis, Deloitte Access Economics updated and fielded a survey of spirits manufacturers and some wholesalers (‘Spirits Industry Survey’). The Spirits Industry Survey was completed by 263 businesses, predominantly spirits manufacturers, ranging in business size, location, years in operation and spirits distilled.

Further detail about the survey is available in Appendix A.

The primary research was supplemented with publicly available information from the Australian Bureau of Statistics (ABS), Tourism Research Australia (TRA), IBISWorld and other data sources.

Figure 1: Overview of the spirits industry supply chain



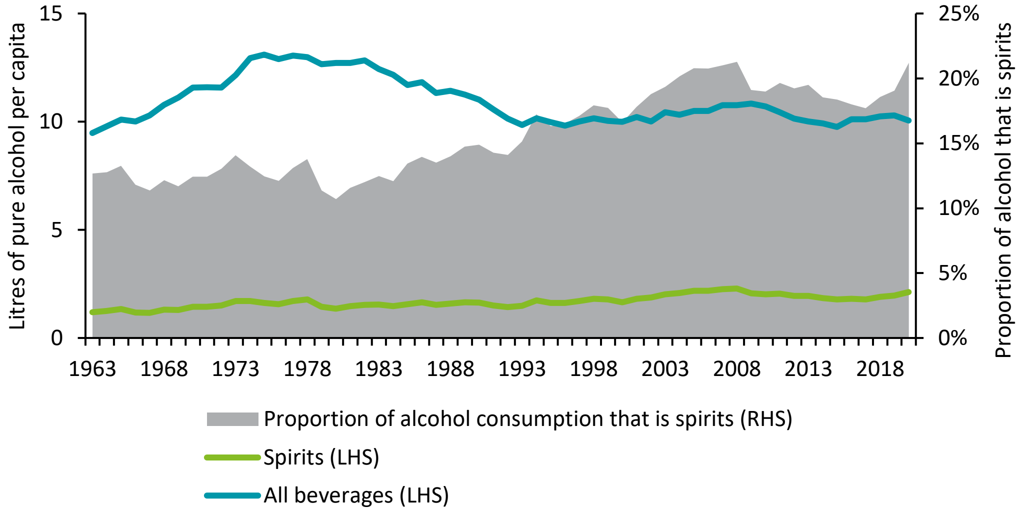
Spirits consumption has experienced faster growth than other alcoholic beverages, with per capita consumption increasing by 0.6% per annum over the decade.

In FY20, Australians consumed an equivalent of 10 litres per capita of pure alcohol across all beverages, of which 21% (2.1 litres of pure alcohol) was spirits according to AIHW (see Chart 1).[1,a] Overall, the average Australian consumes 2.08 standard drinks per day of pure alcohol and 0.4 standard drinks per day of spirits and RTDs.[2]

Between FY10 and FY20, per capita alcohol consumption decreased by 6.1%, indicating that Australians individually are consuming less alcohol.[3] In FY20, spirits were the only type of alcohol where per capita consumption increased (+8.7%) while per capita consumption of beer, wine and cider all declined. Declining per capita alcohol consumption has been primarily driven by a decrease in the consumption of beer, which decreased by 2.6% per annum on average between FY10 and FY20. Meanwhile, per capita consumption of spirits – including ready to drink beverages (RTDs) – increased by 0.6% per annum on average between FY10 and FY20.[4]

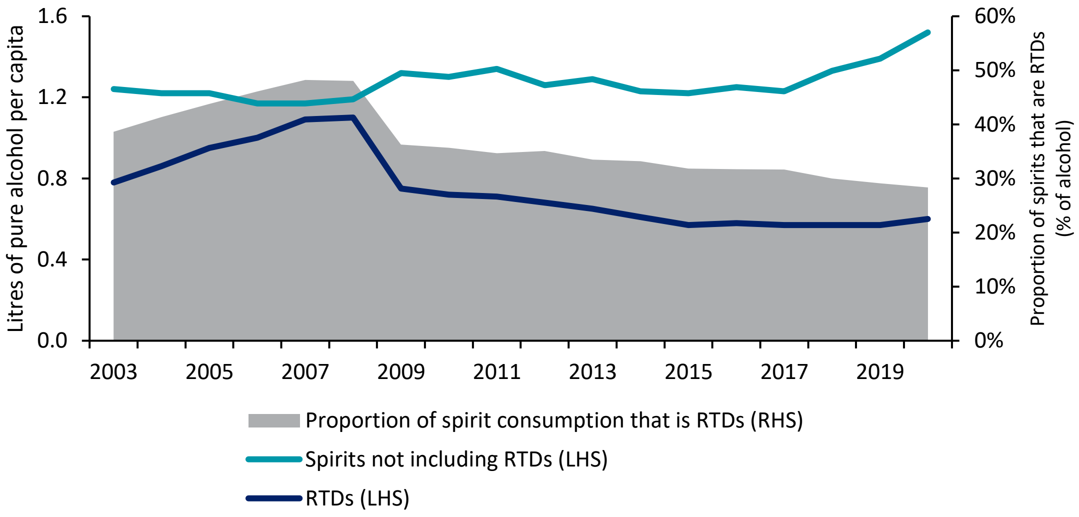
RTD's share of consumption of spirits peaked in FY08 at almost 50%, following which it declined to less than 30% in FY20 (see Chart 2). Consumption of RTDs thereafter remained stable at around 0.6 litres per capita on average, while consumption of other spirits increased to 1.3 litres per capita on average in the 10 years to FY20.[5]

Chart 1: Consumption of spirits and all alcohol over time



Source: AIHW Apparent Consumption of Alcohol, Australia

Chart 2: Consumption of spirits against RTDs



Source: AIHW Apparent Consumption of Alcohol, Australia

[1] AIHW 2023, Apparent Consumption of Alcohol, Australia: 1944-45 to 2019-20
[a] Per capita refers to persons 15 and over, per AIHW usage
[2] Australian Bureau of Statistics 2019, Apparent Consumption of Alcohol, Australia, September 2019
[3] AIHW 2023, Apparent Consumption of Alcohol, Australia: 1944-45 to 2019-20
[4] Ibid
[5] Ibid

More than 58% of survey respondents have been operating for less than six years, reflecting a fast-growing industry.

The 700 spirits manufacturers currently operating in Australia have a footprint in every state and territory, with just under half (48%) of having headquarters or main operations in Victoria and New South Wales, according to the Spirits and Cocktails and Australian Distillers Association database.

The spirits industry makes an important contribution to regional Australia, with 48% of surveyed businesses located outside capital cities. In fact, 50% of Queensland survey respondents are located in regional areas, while New South Wales (45%) and Victoria (42%) have similarly high shares of spirits manufacturers located in regional areas.

The spirits industry is fast-growing with 58% of surveyed spirits manufacturers and wholesalers/distributors in operation for less than six years (see Figure 2), for which 11% report being in operations for less than one year.

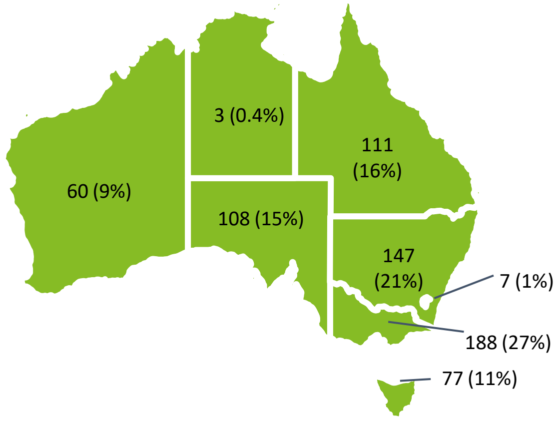
The industry is composed of mainly small businesses and a few large businesses (generally internationally owned), with 88% of respondents employing less than 20 employees. Only 3% of respondents employing over 100 people.

In terms of revenue, 47% of survey respondents earn less than $350,000 per annum. The industry has a high concentration of revenue, with 94% of industry revenue generated by the ten largest spirits manufacturers in FY23.

The survey found a high correlation between number of employees, annual revenue and years in operation – those with larger annual revenues also tend to employ more people and have been in operation longer.

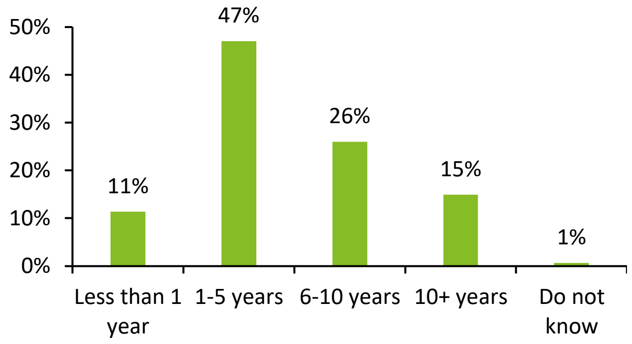
Figure 2. Profile of spirits manufacturers and wholesalers/distributors

Headquarters by jurisdiction (% of national)



Source: Spirits and Cocktails Australia and Australian Distillers Association, Spirits Manufactures Database

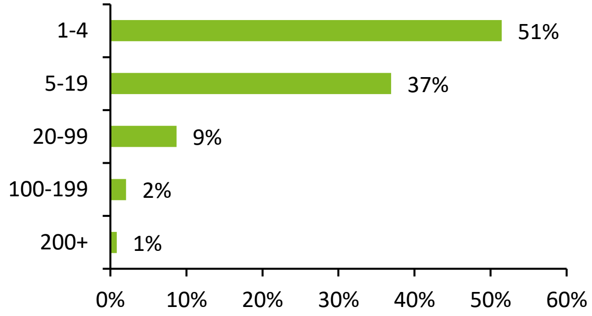
Years in operation



Question: How many years has your business been in operation?

Source: Spirits Industry Survey, Deloitte Access Economics (n=308)

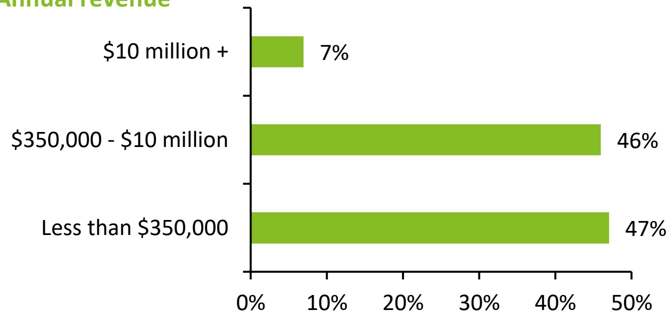
Number of employees



Question: How many staff does your business employ?

Source: Spirits Industry Survey, Deloitte Access Economics (n=241)

Annual revenue



Question: What was your business revenue from sales related to spirits and other distilled products for 2021-22?

Source: Spirits Industry Survey, Deloitte Access Economics (n=187)

Two thirds of distilleries have a distillery door, with 3.5 million visits from patrons last year.

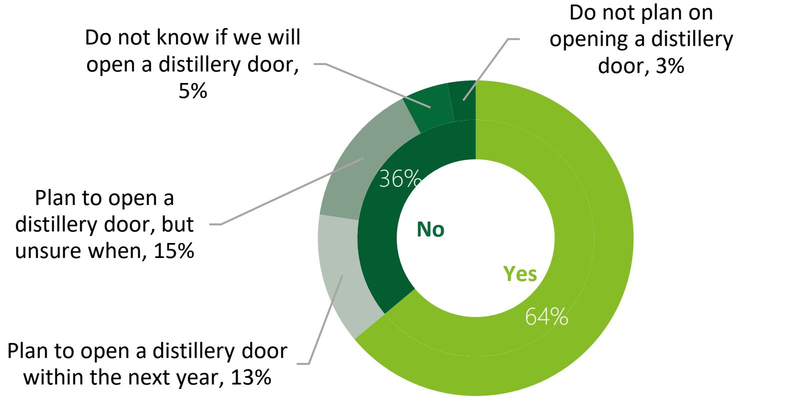
Australia has a flourishing craft spirits scene spurred on by strong growth in gin and whisky production and consumption.[6] Distillery doors play a pivotal role for the spirits industry in Australia, given consumers are increasingly looking for and valuing unique experiences like those provided at distillery doors.[7] Reflecting these trends, a large proportion of distilleries (64%) operate a distillery door (seen Chart 3). For those distilleries currently not operating a distillery door, 80% intend to open one at some point, with roughly half of these businesses planning to open a distillery door in the next year.

Victoria has the highest proportion of distillery doors, with one-third of all distillery doors located in the state, followed by New South Wales, where almost one-quarter of distillery doors are located (see Figure 3). Victorian distilleries also show the greatest interest in opening a distillery door over the next year, with 46% of distilleries not currently operating a distillery door intending to open one.

55% of distilleries operating a distillery door are in regional locations, while 45% are in metropolitan areas. There is further interest in opening distillery doors within metropolitan areas, with 64% of distilleries who do not currently have a distillery door planning to open one.

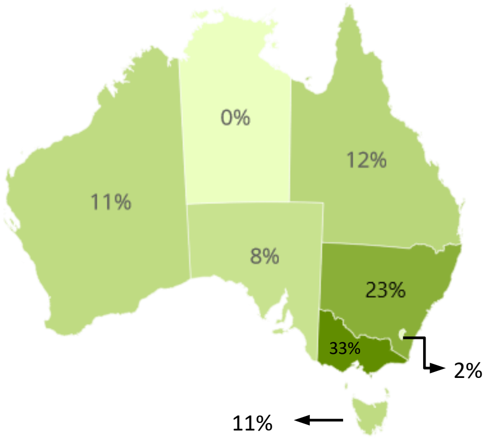
Almost half of distilleries (47%) reported less than 5,000 patrons at their distillery door over the past 12 months while almost a quarter reported 5,000 to 14,999 patrons (see Chart 4). Based on survey responses and imputing the share of distilleries with a distillery door and the median number of patrons, it is estimated that 3.5 million people visited distillery doors in FY23.[b]

Chart 3: Do you have a distillery door?



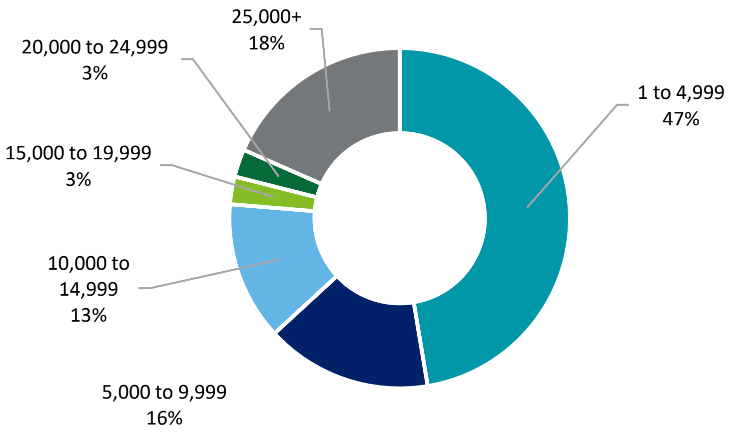
Source: Spirits Industry Survey, Deloitte Access Economics (n=206) Questions: Do you have a distillery door? Do you plan to open a distillery door?

Figure 3: Distillery door locations



Source: Spirits Industry Survey, Deloitte Access Econor... Question: Do you have a distillery door?

Chart 4: Distillery door visits over the past 12 months



Source: Spirits Industry Survey, Deloitte Access Economics (n=76) Question: How many people visited your distillery door in the past 12 months?

[6] *IBISWorld 2023, Spirit Manufacturing in Australia*
[7] *CommBank iQ 2023, Cost of Living Insights Report*
b. The number of visits to distillery doors was estimated by aggregating the number of visits from survey respondents and using the median number of visits (5,000) to the proportion of distillers who had not completed the survey that could be expected to operate with a distillery door based on the assumption the share (64%) of businesses in the survey operating with a distillery door is representative of the industry more broadly.

Visitation to distilleries by domestic visitors has rebounded strongly post-pandemic, with Victoria recording the largest number of visitors to distillery doors in FY23.

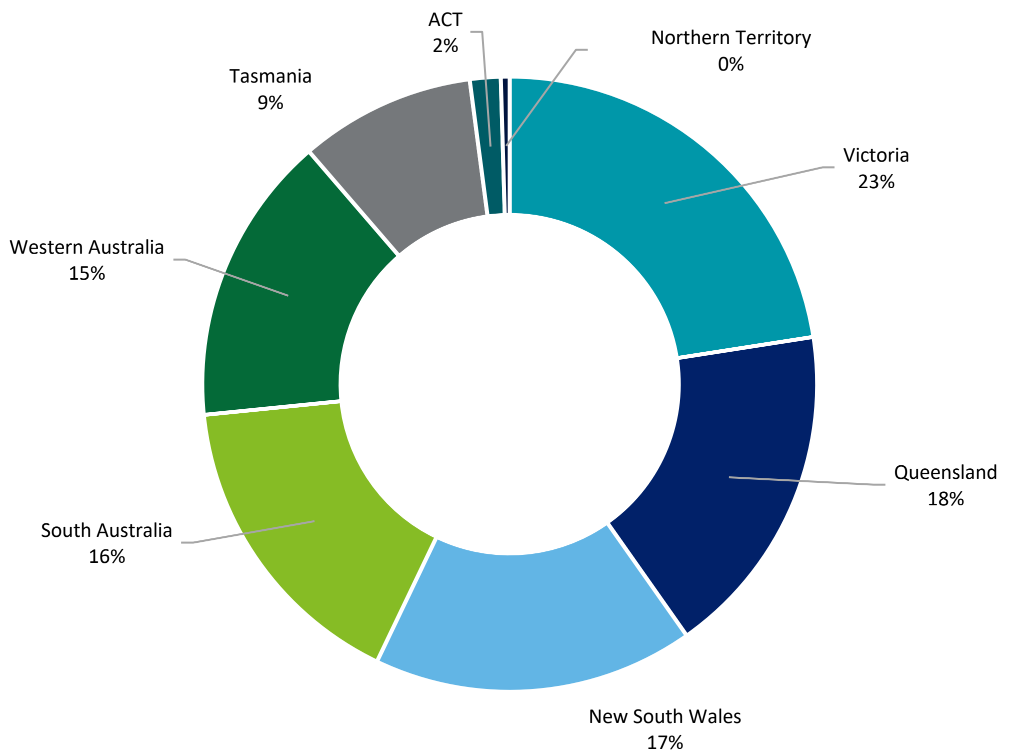
Tourism is a major contributor to the Australian economy, making up 2.5% of the country's Gross Domestic Product (GDP) in FY23.[8] Throughout FY23, the tourism industry saw a strong recovery from the impacts of the COVID-19 pandemic with total visitor expenditure in Australia reaching $164.5 billion, up 8% on FY19.[9] Food and drinks form an important part of Australia's visitor expenditure, comprising 12% or $19.2 billion, of total expenditure in FY23.[10]

There were approximately 1.05 million domestic and international visitors to distilleries in Australia in FY23, according to Tourism Research Australia (TRA).[11,c]

Visits to distilleries in FY23 for domestic visitors increased by 351% compared to visits in FY18. This increase reflects growing interest in artisanal, local products, including craft spirits, and consumers continuing to splurge on unique experiences, despite cost-of-living challenges.[12,13.]

Victoria had the highest share of domestic visits to distilleries in FY23, with almost one-quarter (23%) of Australia's domestic distillery visits taking place in Victoria over the past year. Queensland (18%) and NSW (17%) had the next highest shares of visits in FY23, as seen in Chart 5.

Chart 5: Domestic visits to distilleries, Australia, FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

[8] Australian Bureau of Statistics 2023, Australian National Accounts: Tourism Satellite Account, 2022-23, December 2023
[9] Ibid
[10] Ibid
[11] Tourism Research Australia 2023, National and International Visitor Survey
[c] Note that TRA data uses the term 'distilleries' and this may differ from the self-identification undertaken in the Deloitte survey (e.g. spirits manufacturers, distributors, wholesalers) . Therefore, there may be a difference in what Deloitte and TRA classify as a distillery when referring to tourism.
[12] The Shout 2023, A Golden Era for Australian Spirits
[13] National Australia Bank 2023, NAB Consumer Sentiment Survey Q3-2023

Strong growth in domestic visits to distilleries in Queensland and Western Australia.

Australian distilleries have seen a considerable increases in domestic visits over the past five years, reaching 850,000 in FY23 up from 192,000 in FY18.[d,e] Over the same period, there has been a decline in domestic visitors to distilleries in NSW, from 178,000 at its peak in FY21 to 146,000 in FY23, while Queensland saw the number of domestic visitors to distilleries grow from 147,000 in FY21 to reach 153,000 in FY23.

Western Australia has seen the strongest growth in domestic visitors to distilleries, increasing more than fivefold between FY18 and FY23 to reach 132,000 visitors. This reflects growth in the state's distillers and spirits production, seen also with membership of the WA Distillers Guild increasing from 15 to 35 distillers from 2019 to 2022.[14]

In 2022, 76% of visits to distilleries were part of an overnight trip (see Chart 6) reflecting the high proportion of distilleries located in regional areas. For example, visits to distilleries in Victoria are spread throughout the state with the High Country the most popular destination for distillery visits (one quarter of trips), almost a six-hour drive from Melbourne.

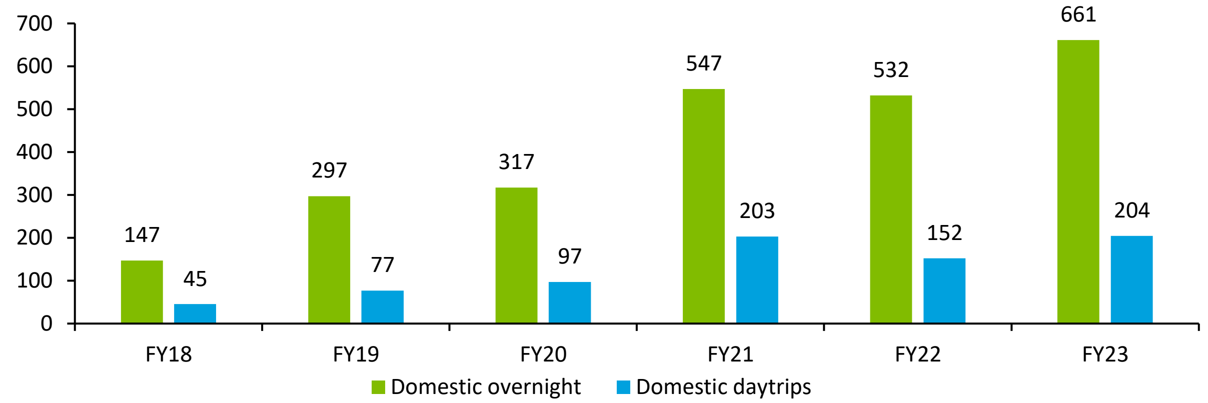
Wineries and breweries continue to attract a much larger number of domestic and international visits than distilleries, with over 8.3 million visits to wineries in FY23 compared to 1.0 million for distilleries. Yet there has been strong growth in the visits to distilleries, which are 16% higher in FY23 compared to the 2% decrease in visits to wineries over the past four years.

d. Data on visits to distilleries by international tourists from 2018 to 2022 has not been included in this analysis as there is no data available for 2021 and only partial data for 2020 and 2022 to allow for comparisons to domestic tourists over this time period.

e. The estimate of 3.5 million visits to distillery doors by patrons in 2023 is not comparable to Tourism Research Australia (TRA) estimate of 857,000 visits for 2022. Estimates derived from the survey include both local residents and visitors (total patrons) to distillery doors while TRA data includes only visitors who are those who travel more than 50km from their place of residence. The difference in time period is also relevant, given some travel restrictions were still in effect in 2022.

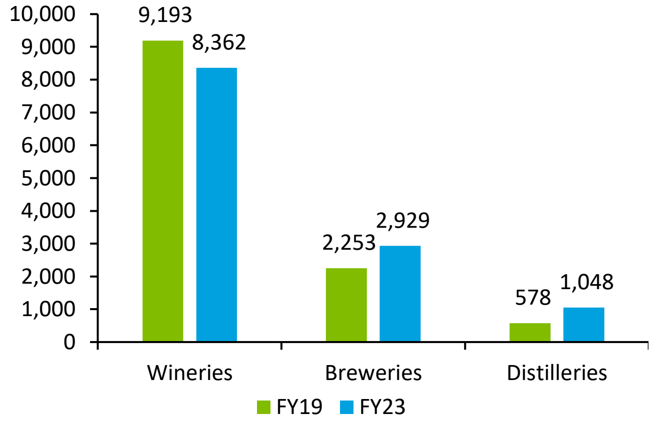
[14]Department of Primary Industries and Regional Development 2022, Western Australian alcoholic spirits: Business opportunity outline

Chart 6: Domestic visits to distilleries (000's), Australia, FY18-FY23



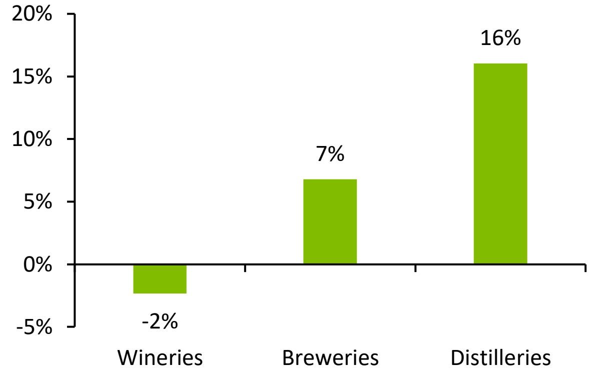
Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

Chart 7: Total visits to selected venues (000s), Australia, FY19 vs FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

Chart 8: Compound annual growth in visits to selected venues, Australia, FY19 vs FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

366 million litres of finished product produced in Australia in FY23, with 82% of respondents producing gin.

Spirits manufacturers produced 366 million litres of finished product in Australia throughout FY23, equivalent to more than 146 Olympic-sized swimming pools.[f,15] RTDs, Rum, Vodka and Gin are the most commonly produced products, making up 95.5% of total volume of spirits produced in FY23.

The Spirits Industry Survey found that nearly 80% of spirits sold within Australia are manufactured locally, which is similar to other industry sources.[16] Almost all of the small spirits manufacturers produce their product locally while larger international spirits manufacturers import some of their spirits from overseas.

Based on the Spirits Industry Survey, spirits manufacturers with headquarters in Australia produced 13% of the total amount of spirits sold in Australia in FY23, reflecting the importance of internationally owned businesses in the Australian spirits industry.

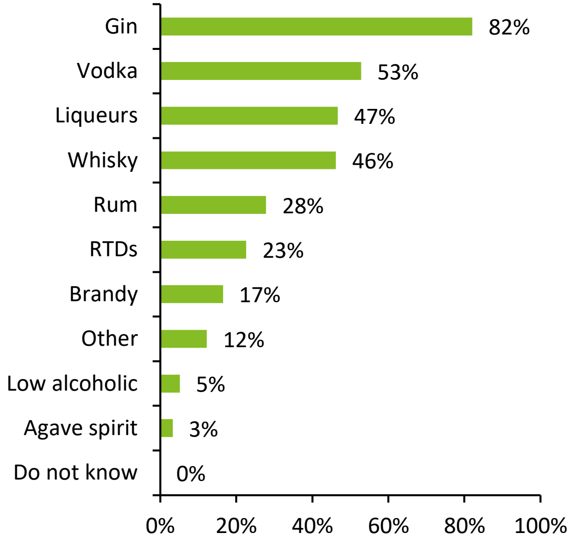
RTDs made up more than 60% of total spirits production volume according to surveyed spirits manufacturers. Rum was the second most commonly produced spirit by volume, accounting for 15% of total volume followed by vodka (13%) and gin (6%).

Larger spirits manufacturers (more than $10 million in revenue) were significantly more likely to produce larger volumes of RTDs than smaller manufacturers. For larger manufactures RTDs represent 97% of total spirits production (see Chart 10). In comparison, rum, vodka and gin comprise the majority of production for smaller manufacturers.

The majority of spirits manufacturers (83%) produce multiple types of spirits. Almost a quarter of spirits manufacturers – typically larger distillers – produce five or more types of spirits. The number of spirits manufacturers diversifying their production is increasing. The 2021 Deloitte Access Economics' report on the national spirits industry found that approximately 65% of spirits manufacturers produced more than one type of distilled product.

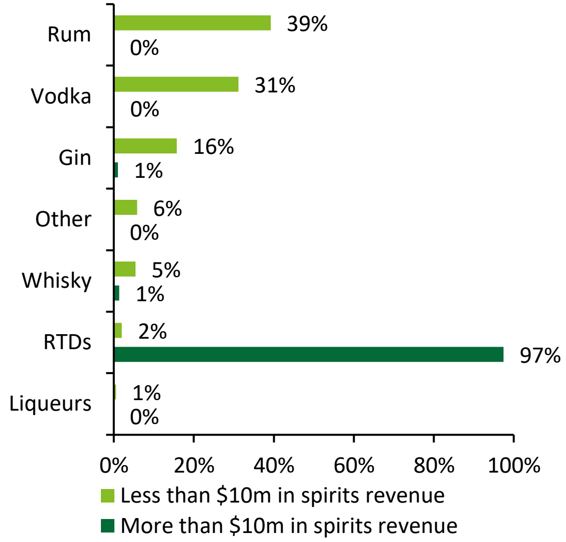
Spirits manufacturers may seek to diversify their product range given consumers' increasing propensity to shift between beverage options, to grow their consumer base, to generate new revenue streams and to experiment with crafting different spirits.[17]

Chart 9: Share of distilleries making each spirit



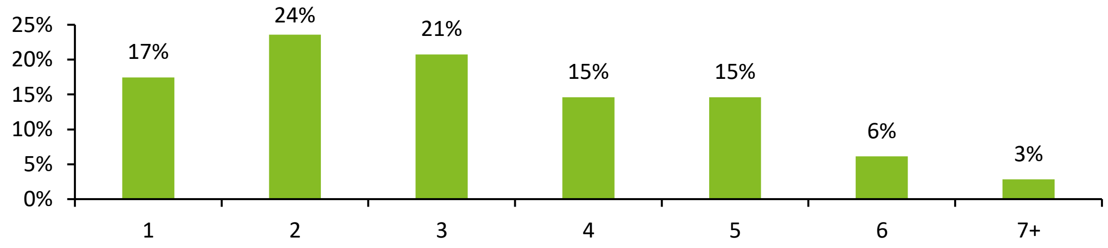
Source: Spirits Industry Survey, Deloitte Access Economics (n=212)
Question: Which of the following spirits and other distilled products does your business produce?

Chart 10: Share of total volume by type of spirit



Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: How many years has your business been in operation?
Note: Volume measured by finished product.

Chart 11: Number of distilled products produced



Source: Spirits Industry Survey, Deloitte Access Economics (n=212) Question: Which of the following spirits and other distilled products does your business produce?

f. Volume produced has been estimated using litres of finished product. Olympic swimming pools contain 2.5 million litres of water.
[15] Bureau of Meteorology n.d., Australia's Water Storage Information
[16] Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry
[17] 1919 Distilling 2023, Does diversification help make better spirits.

$3.2 billion in revenue was generated by spirits manufacturers in FY23.

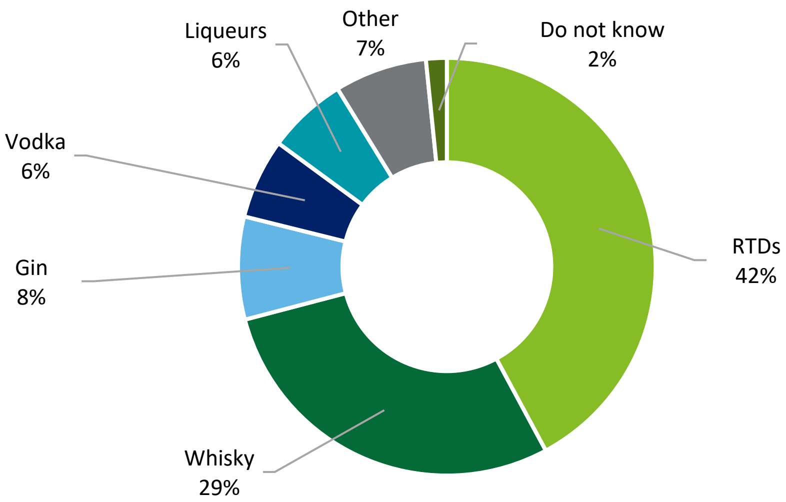
Spirits manufacturers generated $3.2 billion in revenue in FY23. This estimate excludes revenue associated with the alcohol excise. Revenue from RTDs makes up 42% of total revenue for surveyed spirits manufacturers in Australia, while whisky contributed a further 29% of revenue. RTDs make up more than 40% of Australian spirit revenue, despite accounting for less than 30% of consumption (See slide 9).[g]

While locally produced whisky makes up only 2.6% of total spirits produced, it accounted for 29% of total industry revenue in FY23. This was largely driven by the sale of imported premium whisky, with whisky imports worth more than $570 million in FY23.

Victoria (28%), Queensland (26%) and New South Wales (22%) collectively represent more than three quarters of revenue. As the three largest states, it would be expected that these have the most revenue, however Victoria and New South Wales had a lower share compared to their national share of population. Queensland, South Australia (8%) and Western Australia (13%) are overrepresented compared to their share of the national population.

Spirits manufacturers located in metropolitan areas had a median revenue double that of manufacturers in regional area ($505,000 in metropolitan areas compared to $241,000 in regional areas) in FY23. This likely reflects the larger spirits manufacturers based in cities and other metropolitan areas across Australia.

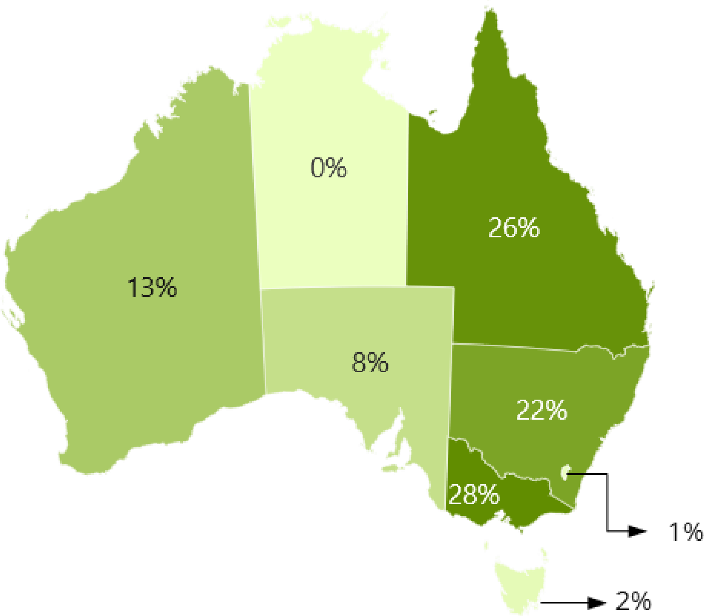
Chart 12: Revenue of spirits manufacturers by spirit type



Source: Spirits Industry Survey, Deloitte Access Economics (n=199) Question: What share (%) of annual revenue related to spirits and other distilled products was from the following sources?

g. Brandy, which is an important export good accounting for 20% of export value in FY23 (Slide 22), makes up less than 1% of spirits manufacturers revenue according to the Spirits Industry Survey. This may be due to the sampling of the 59 brandy manufacturers in the survey.

Figure 4: Revenue share by geography



Source: Spirits Industry Survey, Deloitte Access Economics (n=216 Question: What share (%) of annual revenue related to spirits and other distilled products was from the following geographic locations?

Direct to consumer sales are a key revenue source for smaller spirits manufacturers while off premise is the most common revenue channel for larger businesses.

Spirits manufacturers have a wide variety of revenue sources. The average spirits manufacturer derives revenue from three of the seven revenue channels presented (see Chart 13).

For spirits manufacturers that generate less than $1 million in revenue, the largest source of revenue is direct to consumer sales (which includes distillery door sales) which makes up over a quarter (29%) of total revenue generated. Sales at events, including farmers markets and festivals, was the second largest source of revenue (16%) for this group.

Among these spirits manufacturers with revenue under $1 million, wholesalers (8%) and distributors (14%) represented a smaller share of revenue generation. This may reflect the difficulty in accessing wholesalers and distributors, which benefit from economies of scale from larger producers.

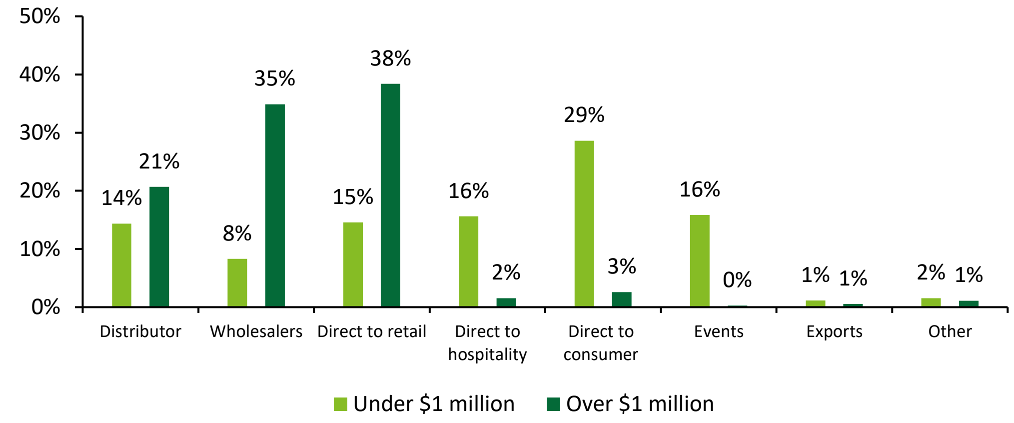
Spirits manufacturers with more than $1 million in revenue per year are more likely to generate revenue from distributors, wholesalers and off premises sales – with 94% of revenue of spirits manufacturers earning more $1 million from these three revenue streams.

With the increase in visitation to distillery doors (as explored earlier in this report), distillery door revenue has become an increasingly important revenue source for all spirits manufacturers and particularly for smaller spirits manufacturers (see Chart 13). Revenue from distillery doors for all spirits manufacturers increased from $31.2 million in FY22 to $45.7 million in FY23. It is estimated the average revenue generated from distillery doors was $750,000 in FY23 – a 15% increase from FY22 ($650,000).

This increase is likely a result of combination of factors – including an increasing number of spirits manufacturers with distillery doors and increasing patronage in FY23 following pandemic-related travel restrictions experienced the prior year. Other factors contributing to the growth were inflation and real spending growth by consumers at the distillery door.

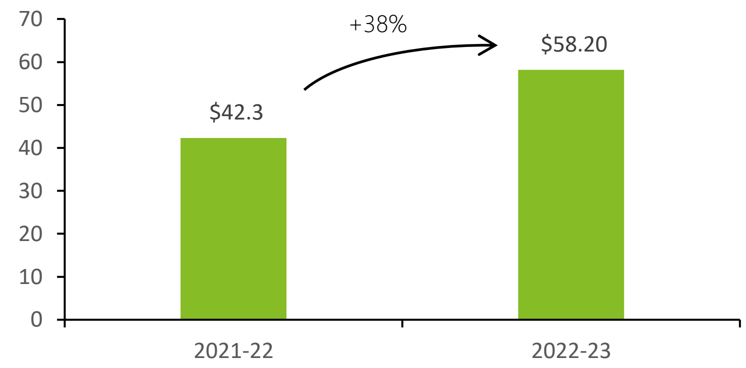
While exports make up a small share of total revenue overall, for the spirits manufacturers that export, on average 10% of revenue comes from exports. Exports are explored in greater detail on page 23.

Chart 13: Sources of revenue for spirits manufacturers, by business size



Source: Spirits Industry Survey, Deloitte Access Economics (n=182) Question: What is your business revenue from sales related to spirits and other distilled products for 2022-23?

Chart 14: Growth in revenue ($ million) between FY22 and FY23



Source: Spirits Industry Survey, Deloitte Access Economics (n=182) Question: What is your business revenue from sales related to spirits and other distilled products for 2022-23?

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ECONOMIC CONTRIBUTION OF THE SPIRITS INDUSTY FY23

$15.5 BILLION

contributed to the Australian economy in 2022-23

$4.7 billion in value add

and

51,300 in FTE employees

in direct contribution

Spirit manufacturers	Liquor wholesalers	Retail	Hospitality
over 5,700 FTE jobs	over 1,900 FTE jobs	over 9,600 FTE jobs	over 34,000 FTE jobs

$10.7 billion in indirect value add

and

48,700 FTE employees

in indirect contribution

- **The spirits industry indirectly contributes to industries such as agriculture, manufacturing and professional services**
- **Every $1 of direct value add from the spirits industry supports another $2.30 throughout the wider economy**
- **Every person employed in the Australian spirits industry supports another person employed elsewhere in the economy.**

The spirits industry contributed $15.5 billion in total value add in FY23, and supported 100,000 FTE roles throughout the economy.

In FY23, the total economic contribution of the spirits industry to the Australian economy was approximately $15.5 billion, measured through value add. In addition, the industry supported nearly 100,000 FTE roles across the country (see Table 1). The industry also paid nearly $3.9 million in production taxes in FY23 with over $3.0 billion related to the excise tax.

This estimate of economic activity includes both direct and indirect economic contributions from the industry. Direct value add captures the main four components of the spirits industry supply chain: spirit manufacturers, wholesaling, retailing and hospitality. The direct operations of the spirits industry contributed over $4.7 billion in value add, and over 51,300 FTEs jobs in the economy.

The spirits industry also contributes to the broader Australian economy through purchases of inputs and other intermediate goods and services. For example, this encompasses anything from the agricultural inputs that feed into spirits distilling to the professional services (such as marketing) utilised by the industry. The value of these purchases is measured through the indirect economic contribution.

The indirect value add by spirit manufacturers totalled $1.6 billion in FY23 (see Table 3).The spirits industry connects into more than 100 different subsectors across the economy, with the top sectors predominantly being professional services which are utilised by spirit manufacturers, wholesalers, retailers and hospitality providers alike.

The economic contribution estimates were based on the Spirits Industry Survey for spirit manufacturers while the estimates of the broader spirits supply chain are based on national estimates of the liquor wholesaling, liquor retailing and hospitality sectors that have been adjusted to account for spirits share and the relative share of for each state. Further details on the methodology used to estimate the economic contribution of the industry are in Appendix B of this report.

Data from survey respondents was supplemented with:

1. The Honourable Jim Chalmers MP Treasurer of the Commonwealth of Australia, *Final Budget Outcome 2022–23*, September 2023
2. IBISworld – Liquor Retailing in Australia, Liquor Wholesaling in Australia, Cafes and Coffee Shops in Australia, Restaurants in Australia, Catering Services in Australia, Pubs, Bars, and Nightclubs in Australia, Clubs (Hospitality) in Australia, Hotels and Resorts in Australia, Motels in Australia, Casino Operation in Australia.

Table 1: Economic contribution of the spirits industry, FY23

	Direct	Indirect	Total
Value add ($ million)	4,700	10,700	**15,500**
Gross operating surplus	1,700	5,100	**6,800**
Labour income	3,000	5,700	**8,700**
Employment (FTE)	51,300	48,700	**100,000**
Labour income per FTE ($)	58,500	117,000	**87,000**

Source: Deloitte Access Economics

Table 2: Economic contribution of spirit manufacturers, FY23

	Direct	Indirect	Total
Value add ($ million)	980	1,600	**2,600**
Gross operating surplus	430	703	**1,100**
Labour income	550	915	**1,465**
Employment (FTE)	5,700	7,200	**12,900**
Labour income per FTE ($)	96,500	127,000	**113,500**

Source: Deloitte Access Economics

Table 3: Breakdown of top 3 indirect value added sectors for spirits manufacturing and spirits industry as a whole ($m) , 2023

Spirits manufacturing		Whole of spirits industry	
Professional, scientific and technical services	366 (23%)	Professional Services	1,826 (17%)
Accommodation and Food Services	292 (18%)	Rental, Hiring and Real Estate Services	1,624 (15%)
Transport, postal and warehousing	177 (11%)	Financial and Insurance Services	1,078 (10%)

Source: Deloitte Access Economics

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There is greater gender balance among spirits manufacturers than among other beverage types.

Women make up 41% of the spirits workforce, according to the Spirit Industry Survey.[a] This is roughly in line with the proportion of women in distilleries (44%), according to the ABS (see Chart 15). This in contrast to the heavily male-dominated workforces in breweries and wineries, with males comprising 90% and 80% of these workforces, respectively. These findings indicate that the spirits workforce has much greater gender diversity than is seen in other parts of the alcoholic beverage industry.

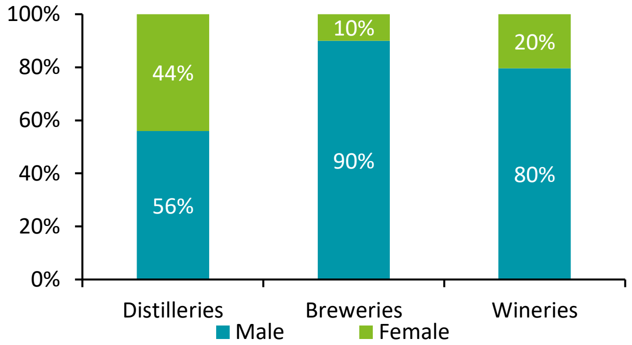
Full time workers make up 56% of the workforce of those surveyed, while a third of the workforce is employed casually and 11% are employed part-time (see Chart 16). This compares to Australia's workforce, where 71% of workers are employed full time and 29% part time or casually.[1]

Women are overrepresented in part-time and casual employment, comprising 58% and 53% of part time and casual workers, respectively for spirits manufacturers.[2] Meanwhile male workers make up 70% of full-time workers. The Spirits Industry Survey similarly found females were overrepresented in part-time and casual employment (see Chart 17).

The Spirits Industry Survey found that the spirits manufacturers workforce is spread across all age groups, with a concentration of 36% among those aged 25-34 years (see Chart 18) which is higher than the 24% of workers in this age range in the Australian workforce as a whole.[3]

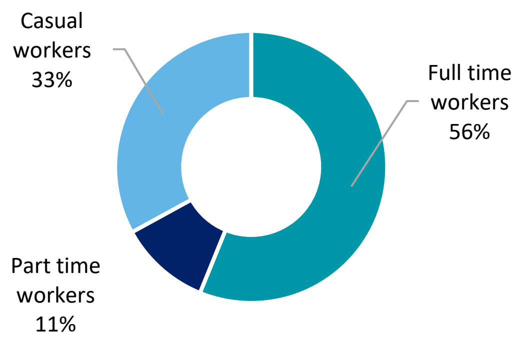
[a] *Respondents were asked for the gender distribution of their business which is likely reflective of areas separate to the direct production of spirits (e.g. sales, management and hospitality).*
[1] *Australian Bureau of Statistics 2023, Labour Force, Australia, Detailed, November 2023*
[2] *Workforce Gender Equality Agency 2022, The gender pay gap by age group*
[3] *Australian Bureau of Statistics 2023, Labour Force, Australia, Detailed, November 2023*

Chart 15: Gender distribution of the alcoholic beverages workforce



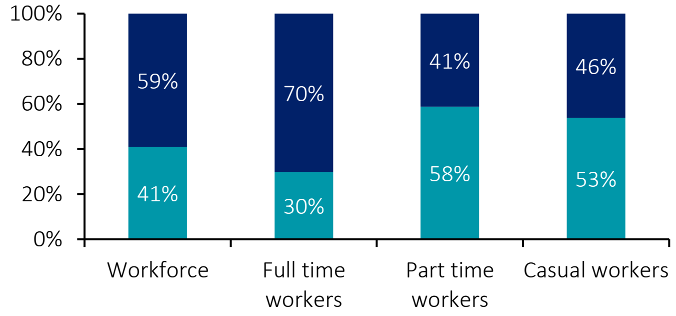
Source: Australian Bureau of Statistics, Census of Population and Housing 2021. Distillery workers are defined by workers which identified themselves as being employed in ANZSIC 1213 Spirit Manufacturing. Brewery workers are those employed as OCCP 831112 Brewery worker, and wineries are those employed as OCCP 234213 Wine maker and 831118 Wine cellar hand.

Chart 16: Work distribution of spirits workforce



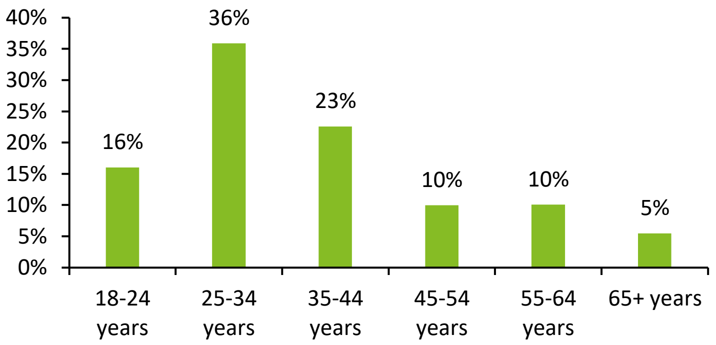
Source: Spirits Industry Survey, Deloitte Access Economics (n=213) Question: How many staff does your business employ?

Chart 17: Gender distribution of employment type



Source: Spirits Industry Survey, Deloitte Access Economics (n=148), Question: What is the gender distribution of your workforce (direct employees only)? Note: "Non-binary" and "Other" are not shown in the chart above due to the small percentages of workers identifying as these groups. As a result some columns may not sum to 100%.

Chart 18: Age distribution of spirits workforce



Source: Spirits Industry Survey, Deloitte Access Economics (n=199), Question: What is the age demographic of your workforce (direct employees only)?

A lack of applicants, particularly those with the required skills, is impacting the spirits industry.

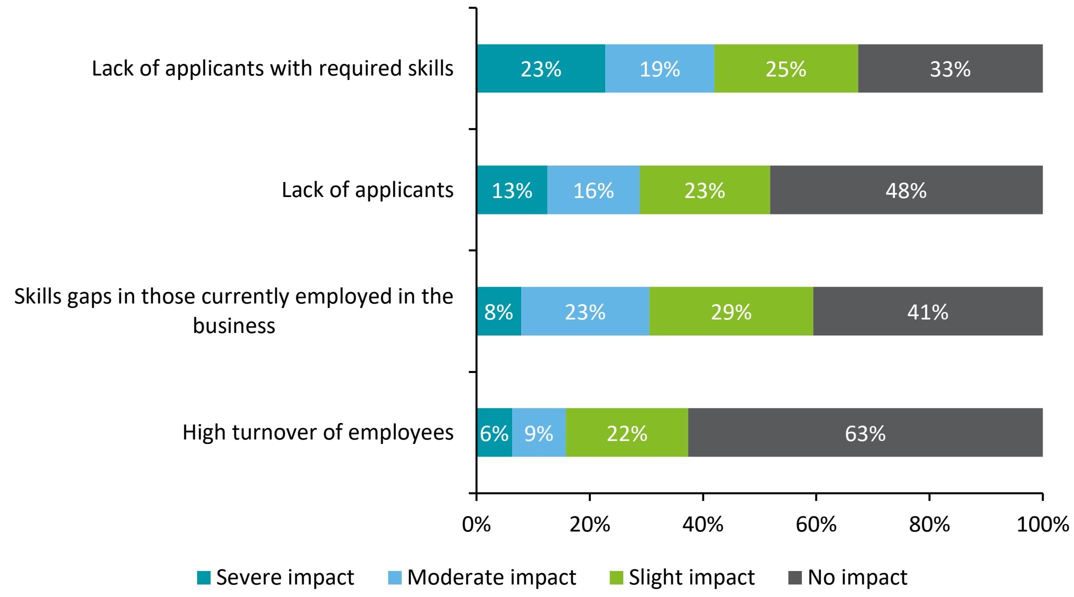
Spirits manufacturers are experiencing challenges with recruitment and existing workers according to the Spirits Industry Survey.

In terms of workforce recruitment, a lack of applicants with required skills and a lack of applicants generally were two of the most common workforce issues, experienced by 63% and 48% of spirits manufacturers and wholesalers/distributors respectively (see Chart 19). A higher proportion of metropolitan survey respondents were impacted by a lack of applicants with required skills than those located in regional locations, though the lack of applicants is prevalent across all locations.

When considering the existing workforce, 60% of respondents are experiencing some type of skills gap. The high prevalence of skills gaps in prospective and current workers indicates that closing this gap could improve industry growth.

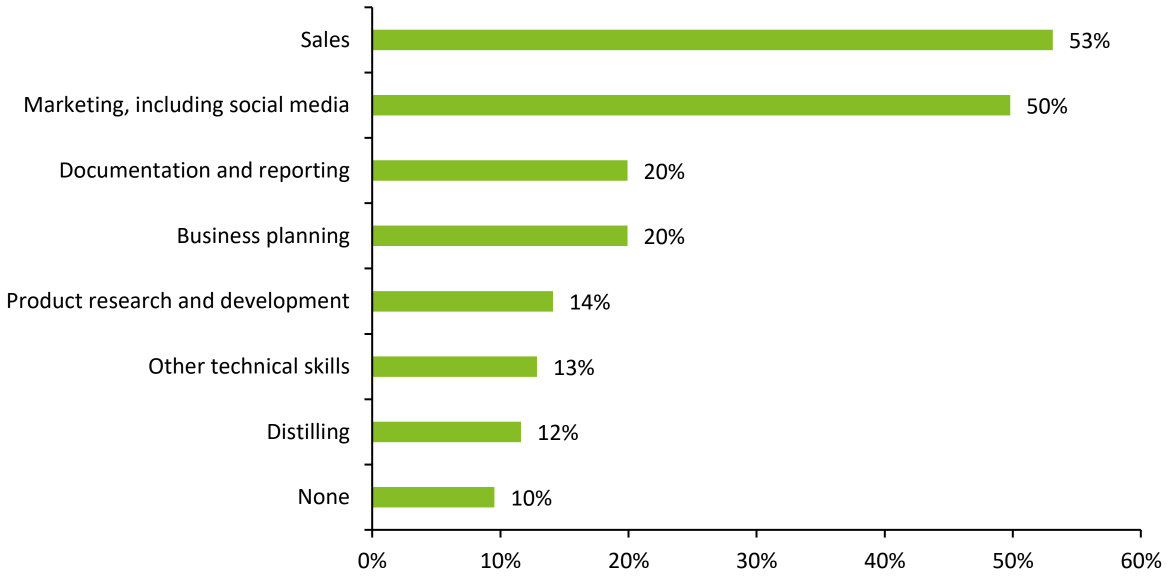
Just over half of surveyed businesses identified sales (53%) and marketing (50%) as key skill areas impacting their growth (see Chart 20). A smaller share of respondents believe their growth is being impacted by a lack of skills in other areas, such as business planning, documentation and reporting and product research and development.

Chart 19: Impacts of recruitment and workforce difficulties



Source: Spirits Industry Survey, Deloitte Access Economics (n=206)
Question: To what extent are the following recruitment and workforce difficulties having an impact on your business?

Chart 20: Skills areas impacting business' growth



Source: Spirits Industry Survey, Deloitte Access Economics (n=206)
Question: What skill areas is your business currently lacking that impact growth?

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The value of spirits exports increased by 69% over the past decade and became more diversified.

The value of spirits exports has grown 69% over the last decade, equivalent to an average annual growth rate of 5.4%.[1,a] This has been somewhat volatile, due to exports with China being highly variable, particularly of South Australian liqueurs, which experienced a large growth and decline between FY18 and FY20.

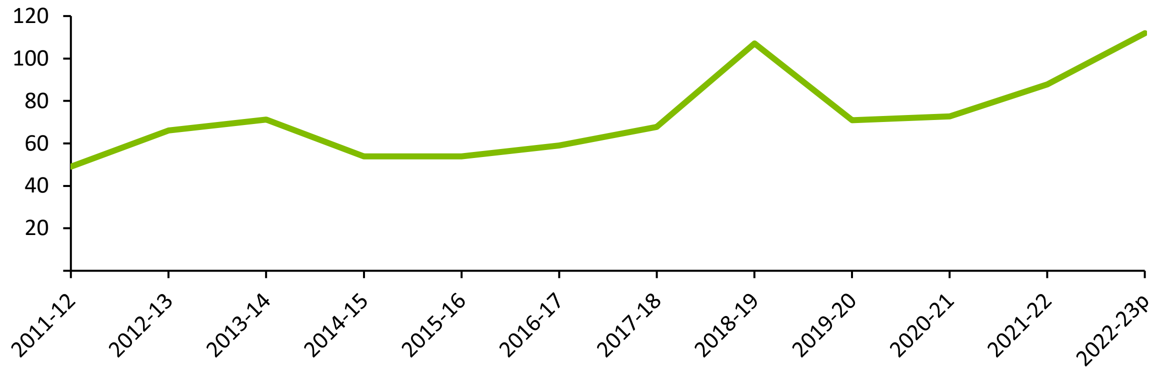
RTDs were the most exported spirit in FY23, making up 28% of total export value of spirits. The value of RTD exports surpassed brandy and grape spirits, which was the most exported type of spirit before FY22. Brandy and grape spirits fell from 44% to 20% of export value between FY18 and FY23, which was driven by both a decrease in the value of brandy exports and an increase in value of other spirits during that time – particularly gin, whisky, rum and liqueurs. Whisky, rum and liqueur exports have all more than tripled over the last five years.

New Zealand has remained the most important destination for Australian spirits exports, accounting for 37% of the export value in FY23. This represents an increase in importance from five years ago when New Zealand accounted for 25% of export value in FY18. The US is Australia's second largest export destination, accounting for 22% of export value, followed by China with 12% of export value. This represents a large increase in the importance of China, which accounted for only 2% of export value in FY18.

New Zealand, the US and China represent almost two-thirds of spirits exports by value in FY23. These countries also tend to have more diversified spirits types being imported compared to Australia's other export partners.

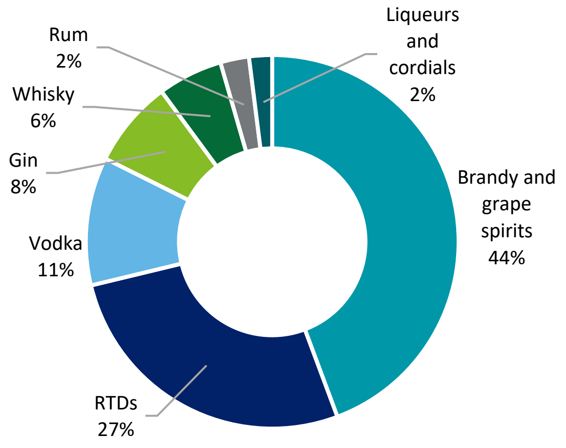
Conversely, the share of spirits exports going to the Netherlands has decreased, with the country being the second largest trading partner in FY18 and accounting for 11% of exports to less than 2% of Australia's exports. This is a fall from $7.4 million to $2.1 million, most of which is driven by a reduction in brandy exports.

Chart 21: Total value of exports of selected spirits from Australia FY12-FY23 ($ millions)



Source: ABS, International merchandise exports, Australia

Chart 22: Export value by type of spirit, FY18



Source: ABS, International merchandise exports, Australia

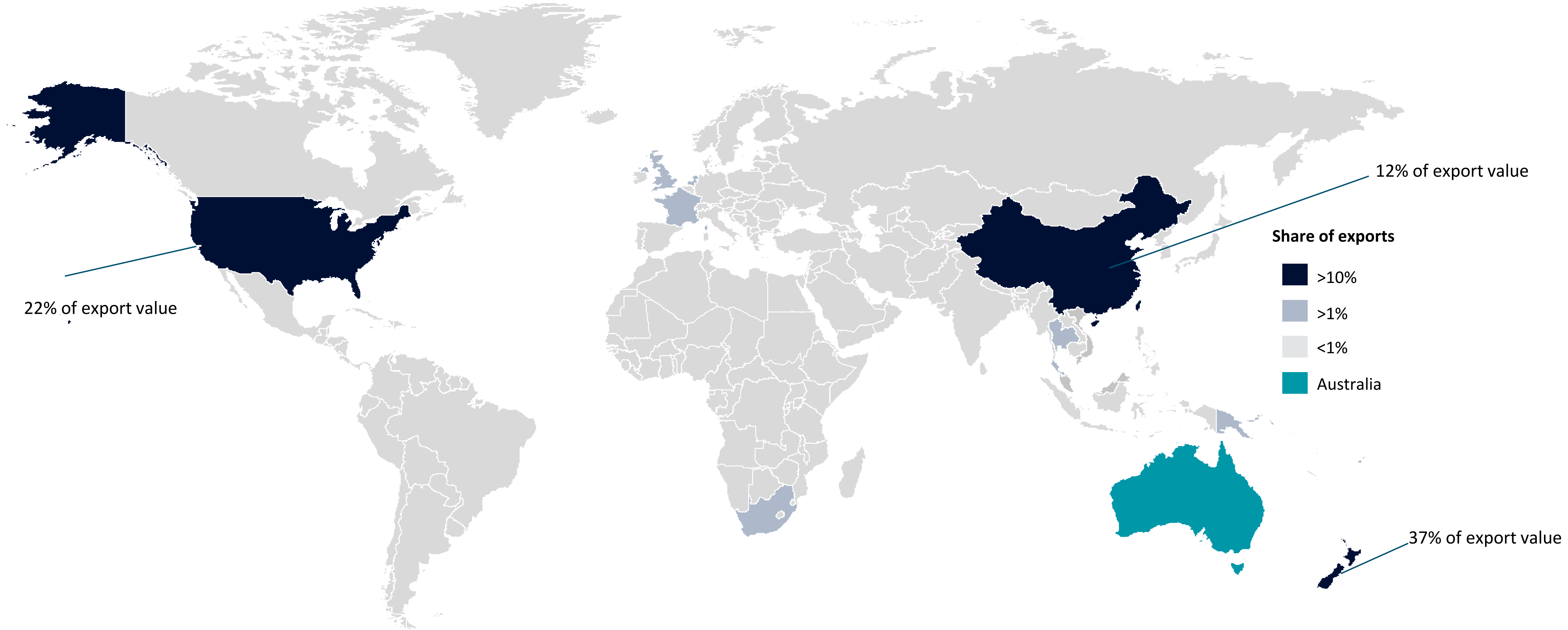
Chart 23: Export value by type of spirit, FY23

Source: ABS, International merchandise exports, Australia

[1] *Australian Bureau of Statistics, International merchandise exports, Australia*
a. Exports of pure alcohol is not included under spirits.

New Zealand, China and the US account for the largest share of spirits exports for surveyed manufacturers.

Figure 5: Export destinations for Australian spirits, FY23



Source: ABS, International merchandise exports, Australia

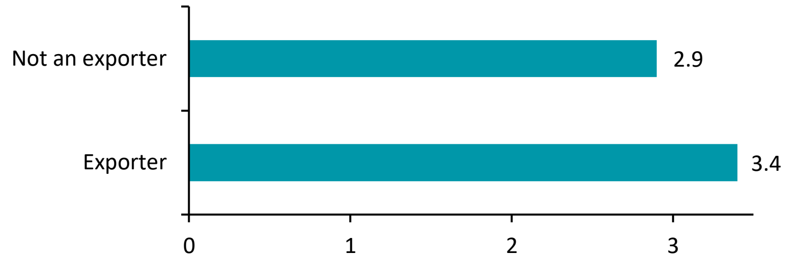
While only 17% of spirits manufacturers currently export, a further 40% are exploring opportunities to export.

Only 17% of spirits manufacturers currently export according to the Spirits Industry Survey. Of the businesses that currently export, the majority (92%) are interested in diversifying their current export markets. The share of spirits manufacturers exporting is set to grow with 40% of producers exploring opportunities to export, while one third are not currently interested in exporting.

Spirits manufacturers located in metropolitan areas are much more likely to be exporters (59%) compared to spirits manufacturers located in regional areas (41%). Current exporters are more likely to be large, with 36% of exporting businesses earning over $2 million, compared to 16% of businesses who do not export.

Spirits manufacturers that export are more diversified in types of spirits, producing on average 3.4 products compared to non-exporters, who produce 2.9 products on average. Interestingly, exporting spirits manufacturers generally expect lower revenue growth than non-exporters. Exporters expect an average of 5% revenue growth in FY24, while non-exporters expect 21% growth. However, this is likely a result of exporters generally being larger, more established businesses. Two-thirds (65%) of businesses which export overseas have revenue greater than $1 million per year, while only 9% of non-exporting businesses have reached that threshold.

Chart 25: Number of products produced by export status

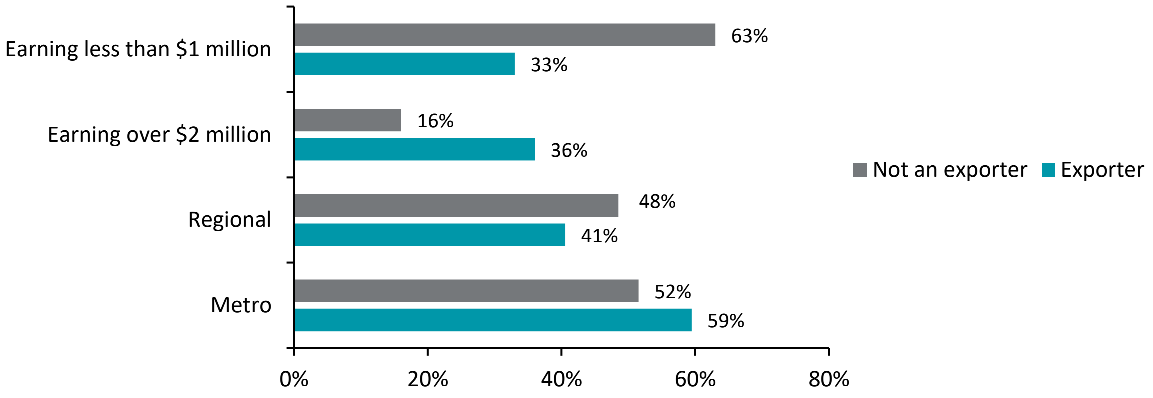


Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Questions: Which of the following best describes your business? ; Which of the following spirits and other distilled products does your business produce?

Chart 26: Interest in exporting by survey recipients

Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: Which of the following best describes your business?

Chart 24: Location, size by export status



Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: Which of the following best describes your business?

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Surveyed spirits manufacturers invested over $343 million in FY23 and 30% expect to invest more in FY24.

Investment activity is an important measure of industry health. Spirits manufacturing requires significant capital expenditure on specialised equipment to begin operations and expand. Surveyed spirits manufacturers invested $343 million in FY23.

Over 90% of capital investment came from spirits manufacturers with over $10 million in annual revenue, despite making up only 7% of survey respondents. This finding is similar to the 2021 Deloitte Access Economics study on the spirits industry, which found that 95% of capital investment in FY19 came from businesses with revenue over $1 million in FY19.[1]

Capital investment in FY24 is expected to increase with 30% of respondents anticipating an increase in the amount invested. If realised, capital investment will rise to $353 million (a 2.6% increase) from the FY23 level.

On average, there have been significant increases in capital investment for businesses with larger revenue. Spirits manufacturers with over $10 million in revenue invested on average $30 million in FY23, while those with revenue between $1 million and $10 million invested an average $300,000 (see Chart 27). The increase in investment by larger spirits manufacturers may be due to economies of scale allowing them to expand.

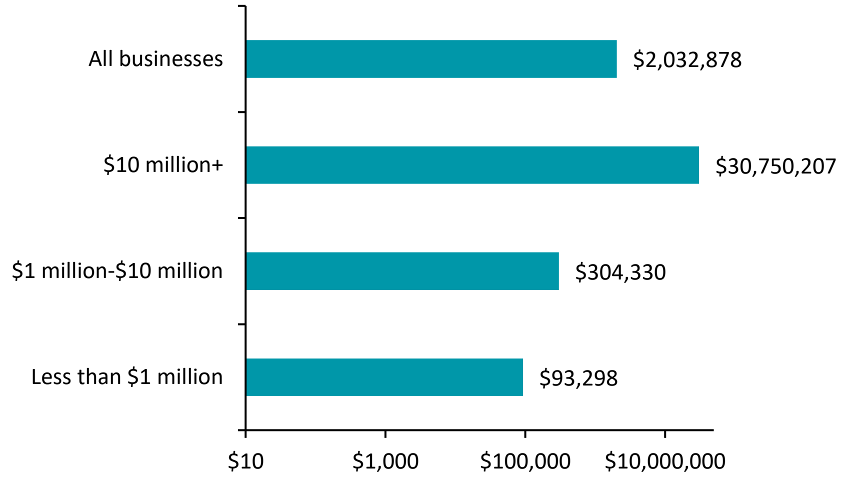
Maturation – the ageing of spirits in barrels (e.g. whisky, rum and brandy) – is another form of investment for the spirits industry as they can get a larger return on the spirits at a later time period.

Spirits manufacturers have 61 million litres of spirits under maturation,[a] comprising 72% rum and 27% whisky. This estimate is based on the survey responses, scaled up to account for non-survey respondents. The remaining 1% of spirits under maturation are brandy and other matured spirits. 42% of spirits manufacturers have some form of spirits under maturation in Australia.

42% of spirits manufacturers had some form of spirits under maturation in Australia in FY23. More than one fifth (23%) of the spirits currently under maturation were produced in FY23. Two thirds of businesses (65%) which placed some spirits under maturation in the year to June 2023 are expecting to produce a greater volume of spirts for maturation in FY24.

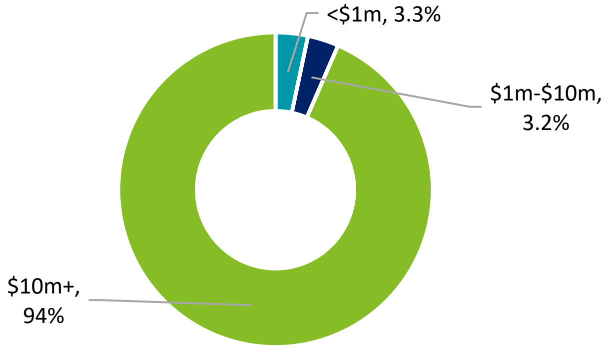
The volume of spirits placed under maturation is expected to grow in FY24 from 16.5 million litres to 17.9 million litres. There is, however, significant variation across distillers, with some cutting back on their planned volumes being allocated to maturation over the next twelve months.[b]

Chart 27: Average capital investment by business size in 2022-23



Source: Spirits Industry Survey, Deloitte Access Economics (n=137) "Question: What is your annual capital investment (including investment in machinery, equipment and building)?" And "What is the value of capital investment you are expecting to undertake in 2023-24?"

Chart 28: Share of total capital investment by business size



Source: Spirits Industry Survey, Deloitte Access Economics (n=277) Question: Do you currently have or intend to have any spirits under maturation?

[a] *This figure may underestimate the true volume of spirits under maturation due to non-responses.*
[b] *The decrease in reported spirits under maturation may also reflect non-responses regarding current/future volumes.*
[1] *Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry*

Most respondents have bootstrapped their business with personal investment. Investment in production or sales are at the front of mind for over half of distillers.

The industry's funding came from a variety of sources. The average respondent used 1.1 sources for capital investment. Businesses with less than 20 employees used 1.0, while larger manufacturers used 2.4 sources.

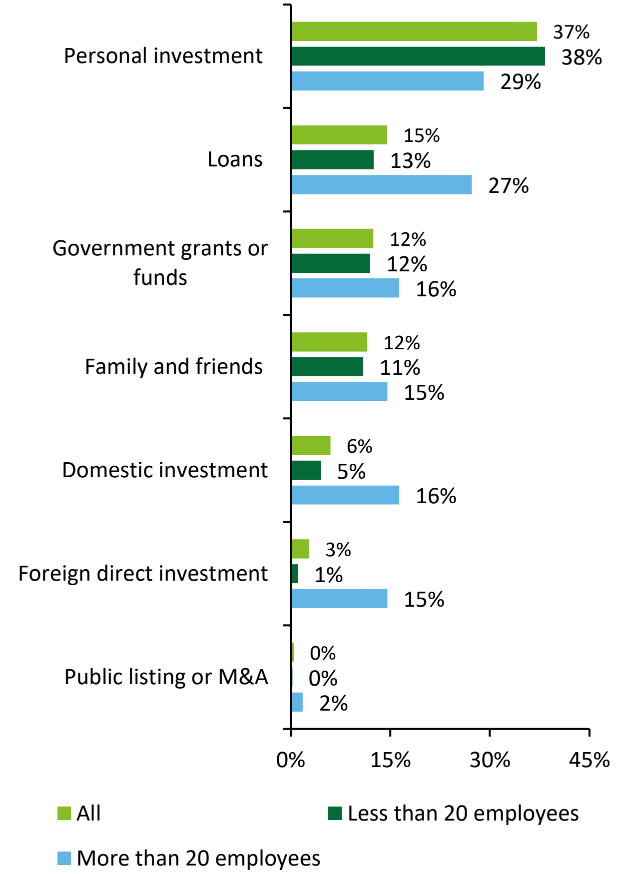
Personal investment was the most common source of capital, used by 84% survey respondents followed by loans (33%) and government grants or funds (28%). Businesses with less than 20 employers were more likely to use loans, government grants and family and friends as sources of capital whereas larger manufacturers used public listing or Mergers and Acquisitions (M&A).

Foreign Direct Investment (FDI) was used by only 3% of survey respondents. The share of businesses using FDI differed by business size, as larger internationally owned businesses were more likely to receive payments from parent companies. Only 1% of smaller businesses (less than 20 employees) used FDI, compared to 15% for larger businesses (more than 20 employees).

While FDI was not widely used by the industry it remains an opportunity for the sector with 77% survey respondents reported a 20% increase in this source of capital would support additional operational activity. Over half of all businesses reported it could support increasing the level of production and sales and marketing activity. Smaller businesses were more likely to report it could support export activity and distillery doors.

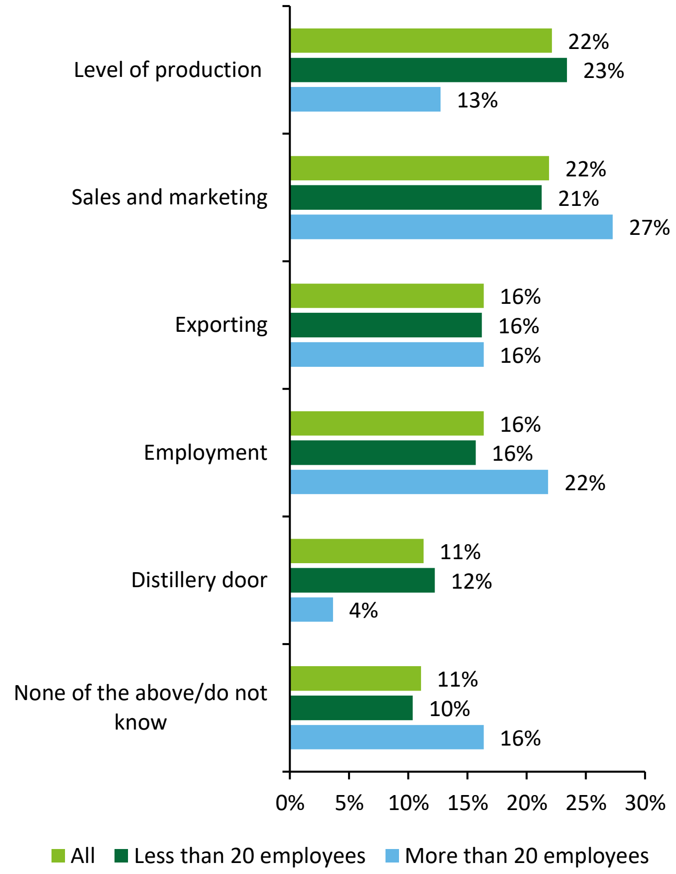
Smaller businesses were more likely to look at exporting production (46%) than larger businesses (18%). In addition, smaller businesses were more likely to know where to invest an increase in FDI than larger businesses.

Chart 29: Proportion of businesses using different sources of capital investment



Source: Spirits Industry Survey, Deloitte Access Economics (n=227) Question: Which of the following sources of capital has your business used to finance its operation or investment?

Chart 30: Most impacted business areas by 20% increase in FDI



Source: Spirits Industry Survey, Deloitte Access Economics (n=163) Question: Which three of the following aspects of your business would be most impacted by a 20% increase in foreign investment?

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The cost-of-living crisis has constrained consumer spending, though population growth is providing support.

Australia's economy in 2023 has been a story of managing two constraints: the cost-of-living crisis (price inflation exceeded wage growth for 12 quarters in a row), and the bitter medicine administered to bring inflation to heel – very rapid interest rate increases.

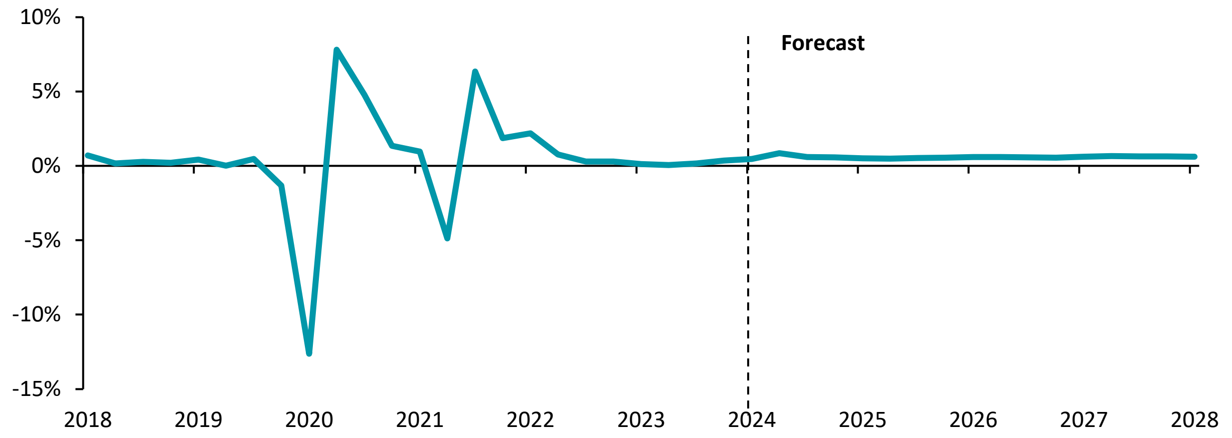
Economic growth moderated to 2.1% in the year to June 2023. Despite growth remaining positive, strong net overseas migration is propping up the economy. On a per capita basis, Australia has been in recession: data has confirmed Gross Domestic Product (GDP) growth was less than population growth over the first half of 2023, with every likelihood this continued over the second half.

The consumer has led this downturn, with real retail spending tracking backwards over the past year (even before population growth is taken into account). Retail businesses have responded with more significant discounting to entice people to spend.

But there are some green shoots. After three years of real wages going backwards (the cost-of-living crisis in a nutshell), quarterly real wage growth was positive in September 2023. As price inflation moderates going forward, albeit slowly, real wage growth will provide some welcome support for consumers, though it will take time for consumers to regain the purchasing power they've lost.

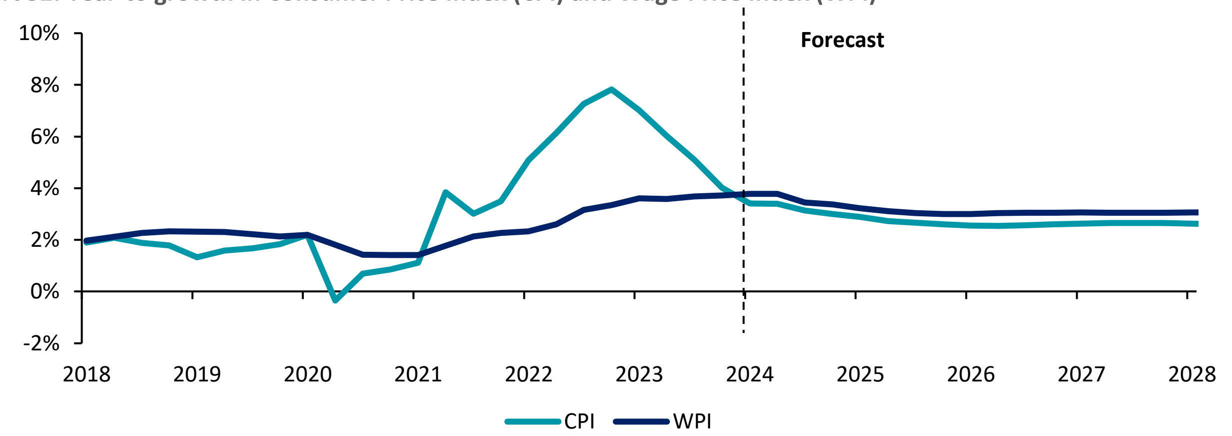
Real wage growth combined with an end to interest rate rises, legislated tax cuts to be delivered in July 2024 and strong ongoing population growth are expected to drive a pick-up in Australia's economic growth through the course of 2024.

Chart 31: Growth in real consumer spending over time



Source: Deloitte Access Economics, ABS, National accounts

Chart 32: Year-to growth in Consumer Price Index (CPI) and Wage Price Index (WPI)



Source: Deloitte Access Economics , ABS, Consumer Price Index, ABS, Wage Price index

More than two thirds (68%) of survey respondents are expecting revenue growth in FY24.

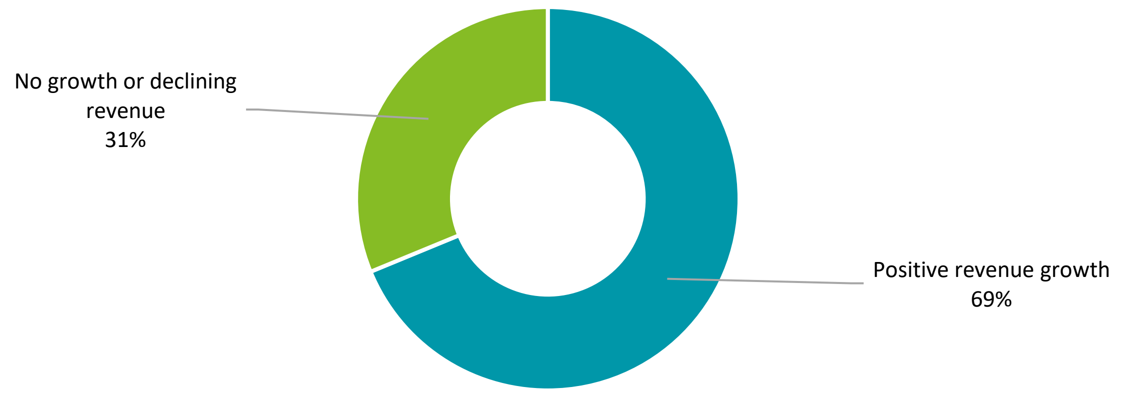
Despite the challenging macroeconomic environment, over two thirds of spirits manufacturers and wholesalers/distributors surveyed expect revenue growth over 2023-24, with the average increase expected being 32% and a median of 10%. However, 31% of respondents that expect no growth or declining revenue over the next financial year.

Those with very high growth expectations mostly have less than $1 million in revenue. In fact, the average revenue growth for this cohort expect 54% growth in the current financial year while the median is 10% growth. These businesses may expect to rapidly expand as they establish operations and build revenue from a low baseline. The large difference between the average and the median suggests that there are small businesses with high expected growth driving the difference.

Businesses that earned over $10 million expect 5% revenue growth on average with a median of 10%. These large businesses are concentrated in Victoria and New South Wales, with both states showing significantly higher expected growth in their smaller businesses. The pace of growth varies across the states of Australia. The largest average expected revenue increase is Victoria with 67%, followed by Queensland with an average of 33%.

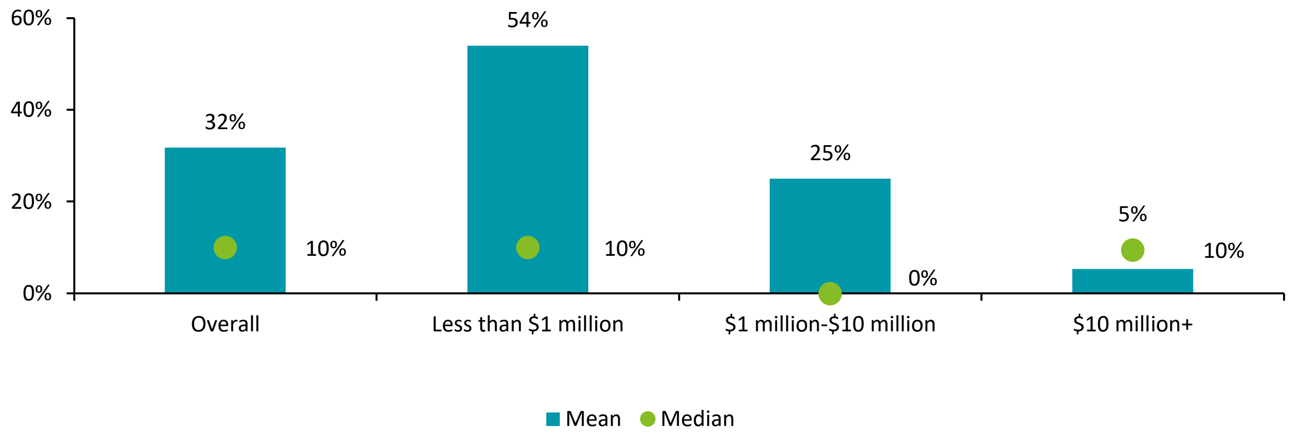
Those located in metropolitan areas are expected to grow by an average of 25% in the current financial year – almost 10 percentage points more than the average expected growth of regional respondents.

Chart 33: Share of businesses expecting revenue growth



Source: Spirits Industry Survey, Deloitte Access Economics (n=122) Question: How do you expect your revenue to change in 2023-24?

Chart 34: Revenue expectations by revenue group, percentage change in FY24



Source: Spirits Industry Survey, Deloitte Access Economics (n=122) Question: How do you expect your revenue to change in 2023-24?

Growth in the industry would be supported through addressing key barriers such as the excise tax burden, and inflation and rising costs of inputs.

The most significant barriers to growth for businesses in the spirits industry are excise tax burden, inflation and rising costs of inputs, and economic uncertainty.

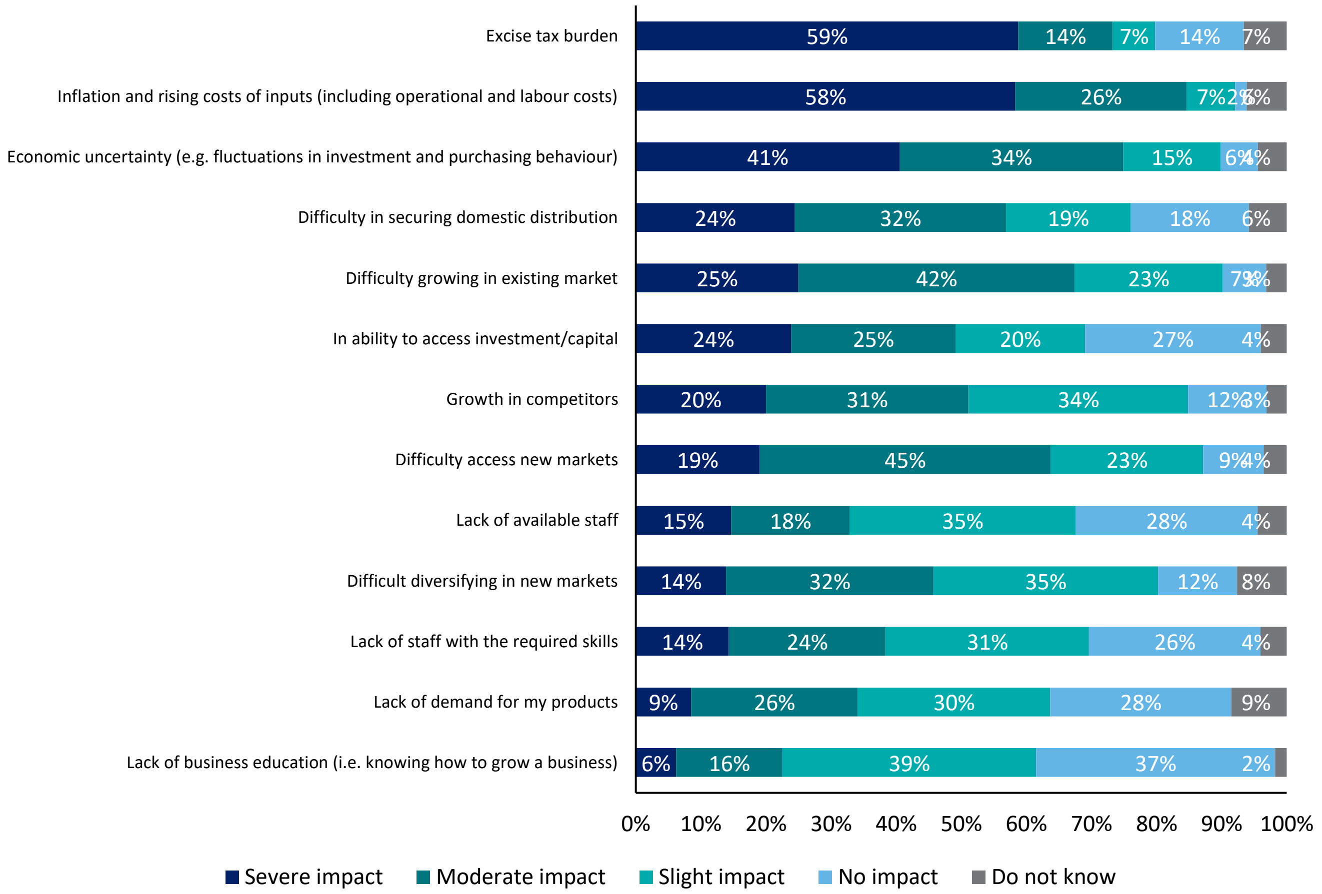
Excise tax burden is one of the key issues impacting the growth and expansion of spirits manufacturers, impacting 80% of survey respondents and severely impacting 59% (see Chart 35). Of surveyed spirits manufacturers above the remission threshold, 87% rated the excise tax burden as having a severe impact compared to 50% of those below the threshold.

Larger businesses are particularly feeling the impact of excise tax, with excise tax burden having a severe impact for 88% of respondents with 20 or more FTE. For businesses with less than 20 FTE, inflation and rising costs of inputs was the key barrier to growth and expansion, having a severe impact for 58% of these spirits manufacturers, followed closely by excise tax burden (56%).

The challenges of the current economic environment are also key barriers to growth. Inflation and rising costs of inputs is impacting (slight, moderate or severe) 92% of respondents, of which 59% are being impacted severely. This impact is higher amongst those not expecting revenue growth next year, severely impacting 67% compared to 53% for those expecting revenue growth. Meanwhile economic uncertainty is impacting 70% of businesses, with almost one-third classifying the impact as severe, increasing to one-half amongst spirits manufacturers not expecting revenue growth next year.

Other prevalent issues are difficulties in growing existing markets and accessing new markets, with these issues impacting about 90% of businesses, although having a less severe impact than some of the other issues mentioned.

Chart 35: Key barriers to growth and expansion



Source: Spirits Industry Survey, Deloitte Access Economics (n=224) Question: What are the key barriers to your business's growth and expansion?

Survey respondents cite excise tax as having most severe impact on the price of products and investment in business facilities.

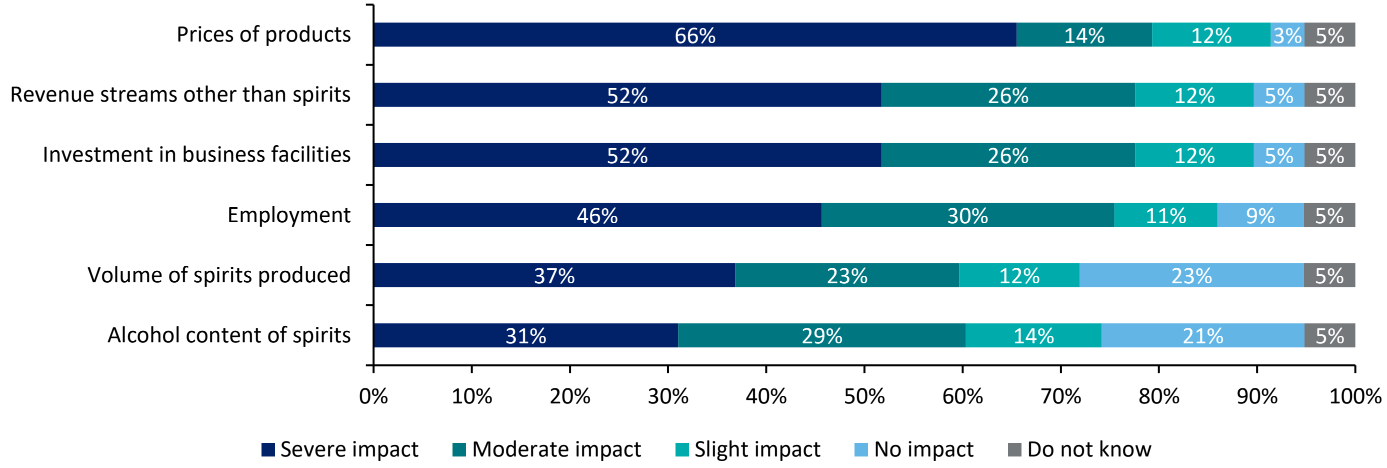
Excise tax was the most common barrier to growth to have a severe impact according to the Spirits Industry Survey.

The excise tax has a remission threshold of $350,0000 in revenue, after which a manufacturer is liable for paying excise. 29% of those surveyed paid excise in FY23. When asked which aspect of their operations were most impacted by the excise tax, two thirds of respondents selected the tax was having a severe impact of prices of products. This was followed by just over half of those surveyed reporting it had a severe impact on revenue streams other than spirits, and investment in facilities.

For those currently not paying excise, nearly two thirds (64%) do not expect to pay excise. The most common reason (cited by 35% of relevant manufacturers) for not expecting to pay excise was an 'other' category. Text responses revealed the lack of expected growth to reach excise level followed by actively ensuring production does not exceed threshold (33%) and products will be under maturation (33%).

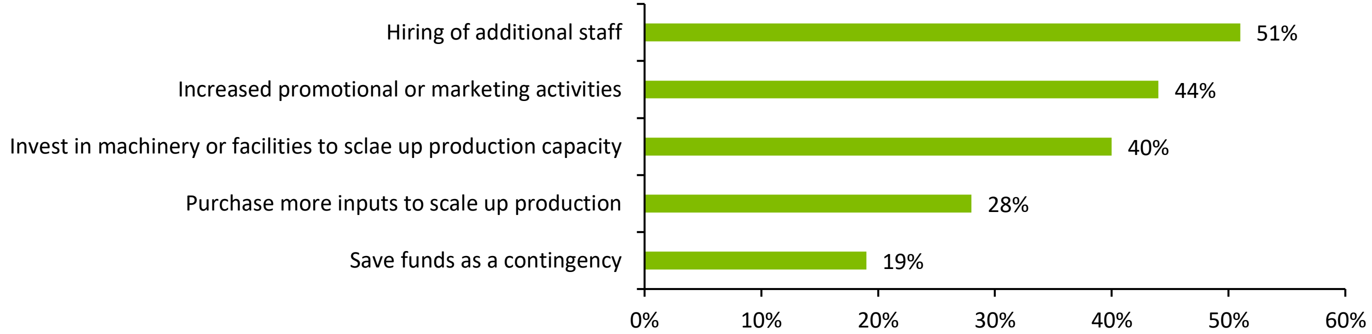
When asked the impact from a pause in excise indexation at currently levels ($100.05 per LAL), the most common impact was hiring of additional staff (51%) followed by increased promotional or marketing activities (44%) and investment in machinery or facilities to scale up production capacity (40%).

Chart 36: Impact of paying excise on decision making



Source: Spirits Industry Survey, Deloitte Access Economics (n=192) Question: How has the Excise duty impacted decision making for the following areas of your business?

Chart 37: Impacts from a pause in excise indexation



Source: Spirits Industry Survey, Deloitte Access Economics (n=191) Question: If excise indexation was paused at current levels ($100.05 per LAL), which of the following is most likely to occur? Please rank up to three

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APPENDIX A | SURVEY METHODOLOGY & COMPARISON TO OTHER DATA SOURCES

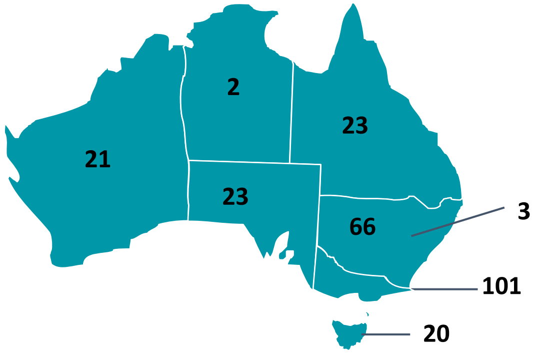
Deloitte Access Economics was commissioned by Spirits and Cocktails Australia to undertake an in-depth analysis of the spirits industry in Australia and develop a comprehensive picture of the industry, including its economic contribution to the economy, updating the prior report developed for Spirits and Cocktails in 2020.

This report is informed by a survey – the Spirits Industry Survey which was fielded by Deloitte Access Economics from 10 November to 1 December 2023. 256 businesses across Australia completed the survey. The responses from the Spirits Industry Survey were supplemented with a similar study for the Department of Energy, Environment and Climate Action (DEECA) on the Victorian spirits industry where questions were matched.

Most respondents were from Victoria or New South Wales, representing 52% of respondents (see Chart A.1). Almost all respondents were manufacturers, representing 95% of respondents (see Chart A.2).

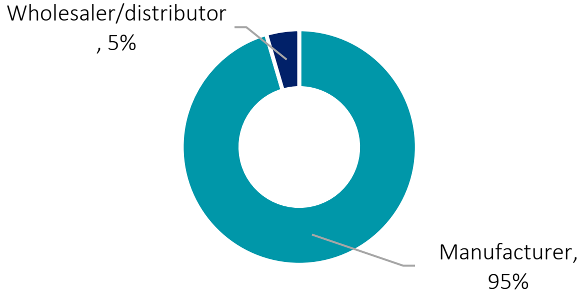
The majority (58%) of respondents have been operating for less than 5 years (see Chart A.3), with most (51%) having a headcount of 1-4 employees (see Chart A.4).

Chart A.1: Completed survey responses by jurisdiction



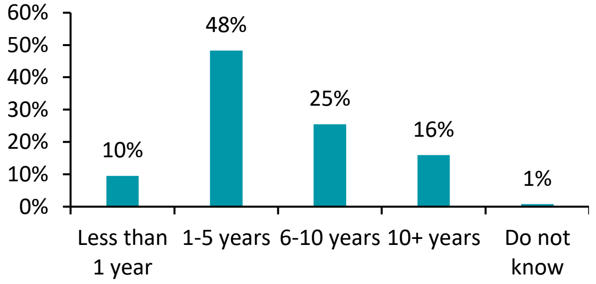
Source: Spirits Industry Survey, Deloitte Access Economics (n=256) Question: Where are your Australian headquarters and operations located?

Chart A.2: Type of business



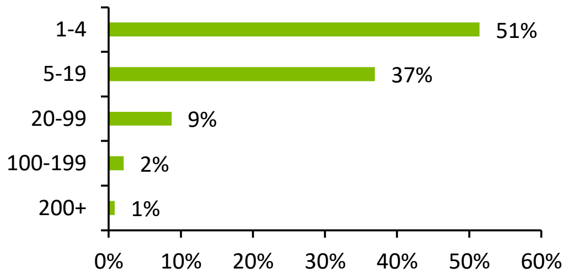
Source: Spirits Industry Survey, Deloitte Access Economics (n=256) Question: Which of the following best describes your organisation??

Chart A.3: Years in operation



Source: Spirits Industry Survey, Deloitte Access Economics (n=263) Question: How many years has your business been in operation?

Chart A.4: Employees (headcount)



Source: Spirits Industry Survey, Deloitte Access Economics (n=263) Question: How many staff does your business employ?

Comparison to other measures of the Australian distilleries sector

Based on the Spirits Industry Survey, there are over 5,700 FTE roles directly supported by Australian spirit manufacturers in FY23. The ABS census estimated that the number of people employed in spirits manufacturing was 806 in 2021.[1] This figure is substantially lower than estimates for this research. The difference is likely due to the Australian and New Zealand Standard Industrial Classification (ANZSIC) classifications that categorises workers into a single industry. In practice many workers may be reflected in broader agricultural roles as the employing business may produce a variety of non-spirit goods.

Similarly, the ABS estimates that there are 177 spirit manufacturers in Australia in FY23,[2] while SCA and ADA spirits manufacturer databases suggests there are 701 distilleries which is likely to reflect the various non-spirit products that businesses produce that may result in the business being classified in other industries.

[1] *Australian Bureau of Statistics, Census of Population and Housing, 2021*
[2] *Australian Bureau of Statistics, Counts of Australian Businesses, 2023*

APPENDIX B | ECONOMIC CONTRIBUTION METHODOLOGY

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in an historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

B.1. Value added

Value added is the most appropriate measure of an industry's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level. Other measures, such as total revenue or total exports, may be easier to estimate than value added, but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

Value added is the sum of:

- **Gross operating surplus** (GOS), which represents the value of income generated by the entity's direct capital inputs, generally measured as earnings before interest, tax, depreciation and amortisation (EBITDA).
- **Labour income**, which represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.
- **Tax on production less subsidy provided for production**, which generally includes company taxes and taxes on employment (given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax). Gross output measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.
- **Employment** is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

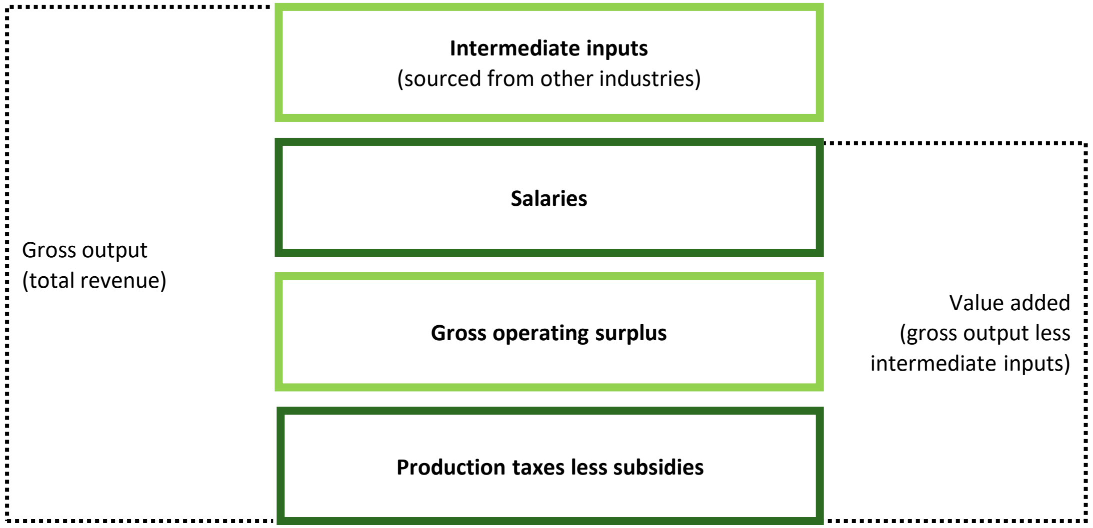
B.2. Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution.

Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals GDP. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

Figure B.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

Figure B.1: Economic activity accounting framework



Source: Deloitte Access Economics.

B.3. Direct and indirect contributions

Direct economic contribution is a representation of the flow from labour and capital within the sector of the economy in question. Indirect contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the sector in question.

Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables, which report the inputs and outputs of specific sectors of the economy. The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

B.4. Estimating economic contribution for the spirits industry

An economic contribution for the spirits industry can be generated using either a 'top-down' (using publicly available data at the sector level) or bottom up (survey of industry members) approach. A mixed approach is used here.

For this analysis, the contribution of the spirit manufacturers is informed by the spirit industry survey. The survey collected financial information flowing directly into our modelling and scaled up using average from survey respondents, as well as data from the Commonwealth Budget, to account for businesses that did not complete the survey or provide financial information.

For the other components of the spirits industry we have used publicly available data sourced from IBISWorld (supplemented by ABS data where possible) to model the direct economic contribution of spirits wholesaling, retailing and hospitality.

We have utilised evidence-based assumptions for the spirits share of operations for downstream sectors. We have drawn on ABS data, state liquor wholesaling data, and industry reports to inform these assumptions (Table B.1). The relative state and territory share of the activity was based on relevant shares of business counts for these components.

To estimate the indirect flow-on contribution of the industry we have findings from the survey of Spirits Industry Survey and utilised the expenditure patterns identified in the relevant IO tables for each of the sectors as identified by the ABS relating to the spirits industry. These expenditure profiles have been adjusted for imports so that only domestic contribution is considered.

spirits wholesalers already includes purchases from manufacturers. Similarly, the direct and indirect effects of the spirits retailing sector includes purchases from wholesalers. To add up the direct and indirect effects for each sector in the supply would result in double counting and an overestimation of total economic contribution. To account for double counting we have excluded backward interactions between supply chain actors in the economic contribution modelling.

Table B.1: Sectors considered in this analysis

Spirits sector	I-O table sector	Spirits share
Spirits manufacturing	Wine, spirits and tobacco	100%
Liquor wholesaling	Wholesale Trade	25%
Liquor retailing	Retail Trade	35%
Café and coffee shops	Food and Beverage Services	1.6%
Restaurants	Food and Beverage Services	4.0%
Pubs, Bars and Nightclubs	Food and Beverage Services	20.4%
Social clubs	Food and Beverage Services	12.0%
Catering Services	Food and Beverage Services	1.0%
Hotels and resorts	Accommodation	0.8%
Motels	Accommodation	0.2%
Casinos	Gambling	0.8%

Source: Deloitte Access Economics.

B.5. Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community.

Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities. This is not to say that the economic contribution, including employment, is not important.

As stated by the Productivity Commission in the context of Australia's gambling industries:

"Value added, trade and job creation arguments need to be considered in the context of the economy as a whole … income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains."

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences — such as 'what would happen to living standards if the firm disappeared?' — should be drawn from them.

The analysis — relies on a national input-output table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium model.

Source: Deloitte Access Economics.

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Chapter 6 – Outlook

1. As a result, the national economy is only expected to grow 1.2% in 2023-24 (real GDP), well below the 2.4% average annual rate seen in the decade to 2022 and that of the prior period 2022-23 (3.3%).
2. The rate of total population growth is expected to decline in the coming years following the 2% increase in the past year
3. Population growth of those ages 15+ years (predominantly alcohol consumers) will consistently outpace the total as it did in the FY23 period (2.3%), driven by record high net overseas migration.

Deloitte.

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