

MARKET REPORT NOVEMBER 2007

Economic Commission of the IHGC, Nürnberg, 13th November 2007

According to the preliminary crop results available at present, the **world** hop crop is supposed to be approx. 89,000 mts, i.e. approx. 3,500 mts higher than the year before. Worldwide alpha acid production is estimated to be around 7,500 mts alpha (based on time of harvest values), i.e. about 500 mts alpha more than in 2006.

Germany harvested approx. 32,000 mts hops or 2,750 mts alpha, i.e. about 550 mts alpha more than the previous year. The high alpha variety Magnum, however, showed disappointing results as well in yield as in alpha, therefore the bitter and high alpha hops quantity is supposed to be only approx. 190 mts alpha higher than the year before. In contrast, the aroma varieties showed very good yields per hectare and over-average alpha values and will be approx. 360 mts alpha higher than in 2006.

Current estimates for the **USA** are approx. 2,800 mts alpha. The market would therefore have about 300 mts alpha less from US hops than in 2006. Especially the US high alpha crop did not reach expectations.

In spite of increased acreage in **China** the harvested quantity is far below last year's result. This was caused by unusual weather conditions as well as strong infestation with pests and diseases. The crop is estimated at only approx. 500 – 550 mts alpha.

The crop in the **Czech Republic** is also worth mentioning. According to preliminary calculations it was only about 5,500 – 5,550 mts of hops and therefore only slightly higher than in the previous year. Alpha values were again far below the long-year average, too. Because of the bad yields per hectare and the resulting low revenue, the Czech growers refused to deliver the contracted quantities for the second year in a row. They demanded increased prices from the hop trading companies before being prepared to deliver the contract quantities.

The situation in **Poland** was similar. Polish growers did not fulfill the contracts with the hop trade either. The trading companies had to bear significant price increases to receive their hop quantities purchased by contract.

In **Slovenia** a tornado destroyed approx. 40 – 50% of the expected crop quantity. Yields per hectare as well as alpha values of the acreage that could still be harvested were below average.

Already during harvest there was vivid purchasing activity in the German hop growing regions. The aroma varieties Perle, Tradition and Select were sold by growers either at fixed prices of 6.50 – 13.00 EUR/kg or delivered into the hop trade companies' pools. The high alpha varieties Magnum, Taurus and Hercules were purchased at fixed prices between 8.00 and 20.00 EUR/kg (depending on alpha contents) or by the trading pools with down payments.

Where unsold quantities were available, also other hop growing countries developed a spot market very quickly. Prices were at German levels. In all markets, breweries tried to secure hop quantities by purchasing directly at the growers. At present, only very small quantities are supposed to be unsold worldwide. In the meantime the spot market developed directly into the contract market for the coming years. In the main markets USA and Germany, contracts were concluded partly until the year 2014.

An expected beer production of approx. 1,800 million hectoliters in the year 2008 gives a calculated alpha demand of approx. 8,300 mts alpha (time of harvest alpha values). With the above-mentioned calculated production of 7,500 mts alpha, this means a calculated alpha deficit of approx. 800 mts alpha. The international brewing industry is therefore forced to compensate this shortage in hops by various appropriate measures, which include an increased use of downstream products, an overall decrease in alpha dosage or reduced days of inventory.

This will not compensate, however, the structural supply deficit. At present, there is still acreage missing within the hop industry to ensure full supply for the brewing industry on a short-term basis. Depending on the size of global acreage increase the deficit is likely to continue for another couple of years, should beer consumption continue to increase strongly.

The hop industry, however, does not yet have a clear picture of the actual stocks of hops and hop products within the brewing industry. As long as this is not known, the hop industry is in a strategical dilemma. On the one hand, the continuing deficits make it impossible to use existing chances for growth and turnover, on the other hand there is the reasonable worry that an overproduction will sooner or later lead to having to work below production cost again without sufficient profit margins.

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