

MARKET REPORT JULY 2017

Economic Commission of the IHB • Yakima/USA • August 1st, 2017

With 61,071 mt, the 2016 harvest result in Europe was not only 40% over the results of the very weak harvest of 2015, but also represented in absolute terms the highest result in over 20 years, due to area growth.

The alpha values moved for most varieties in the long-term average and contributed to a good yield. The available spot hops were swiftly sold at a stable level.

With 40,206 mt, the amount of hops harvested in the USA was last seen this high in 2009 – albeit with a completely different portfolio which now includes the booming craft beer segment. This is a 3,800 mt, or 10.5%, increase from the previous year.

Thus the global harvest yield of 109,336 mt meets the demands for the brewing year 2017, in which beer output shows itself to be on a stable level.

The influencing factor important to the global demand of hops remains as before the craft beer segment, which remains a significant driving force with 75% of the global craft market being in the USA. Here the boom levels off somewhat, however, so that a rate of increase of only about 5% is anticipated for 2017.

In parts of the world – especially in Europe, South America and Australia, which account for about 20% of the craft volume, the craft segment continues to grow in double digits.

The worldwide demand of alpha acids for the brewing year 2017 is estimated at around 10,000 mt, which is in line with the production of around 10,400 mt (fresh harvest).

For the 2017 harvest as well, cultivation areas have again broadened in nearly all significant growing regions in the world. Here the USA remains in the lead for the sixth year in a row; with an increase of 2,000 hectares (across all states), its cultivation area has grown by over 9% to a total of 23,430 hectares. Along with the traditional Pacific Northwest Region, cultivation areas have also grown in the meantime in 25 other states, as well as in 7 Canadian provinces which, however, play a lesser role in the total supply.

The area expansions are taking place mainly in the new, flavored beer categories, the licensing rights for which are largely in private hands. However, a new - if marginal - entry of high alpha varieties was recorded, as the increasing prices in Europe apparently makes growing high alpha varieties worth it for US planters.

In Germany, cultivation areas have grown by 945 hectares, corresponding to a 5.0% expansion. Here the high alpha variety “Herkules” especially has made further gains in area and importance; it currently accounts for around one third of the entire cultivation area in the main planting region of Hallertau. Additional amounts are already sold and are needed for the security of the raw materials supply.

As for growth in 2017 no clear determinations can be made at this point in time, as we still have several decisive weeks until the harvest.

In the USA, the state of plants and the good supply of water indicate a harvest within the scope of yields over many years. The general conditions are stable and do not point to any particular deviation. The hops have been largely sold.

In Germany, the view is more mixed. While the southwestern (Tettwang) and eastern (Elbe-Saale) regions were provided with sufficient precipitation during the months of June and July, a clear shortage of rain and high temperatures have been recorded in the main planting region of Hallertau. Subsequently, the early varieties especially show visibly retarded growth development, which may lead to loss of revenues.

The preliminary contract price for Germany stands at over 90% for the 2017 harvest, historically a very high value. The harvests for the subsequent years 2018 to 2020 are also very highly precontracted. The course of growth is likewise mixed in other European countries. While the hops in Poland are suffering from drought, the state of plants in Slovenia and the Czech Republic can be described by and large as normal.

Supplies of all hops products available in commerce and in the breweries correspond roughly to a half year's demand (about 4,000 mt of alpha acids), whereby the supply situation is tight especially with high alpha varieties. The good harvests in 2014 and 2016 did not entirely compensate for the deficient supply in the years 2013 and 2015.

There are however initial indicators that a market saturation may occur in the USA due to American flavored beers.

At this time, prognoses on anticipated market performance would surely be premature. However, with any modest harvest yields in Europe, or rather Germany, it may be that the market will be undersupplied in certain varieties, which could lead to shortages. With this, the need for sensible irrigation concepts in Europe once again returns to the fore.

Pascal Piroué
Deutscher Hopfenwirtschaftsverband e.V. (German Hop Industry Association)
Yakima, August 1st, 2017