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MARKET REPORT JULY 2015

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For the first time in four years, world hop acreage increased relative to the previous year. The increase was a moderate one of 1,500 ha (+3.3 %). The global crop yield of approx. 96,500 mt (+16 %) surpassed expectations. In Germany in particular, harvest volume was above average, which was accounted for principally by the main varieties Herkules and Perle. In total, the year-on-year increase worldwide amounted to 13,250 mt of hops and approx. 1,050 mt of alpha.

On the other hand, the crop yield in the USA, the second main pillar of the world hop market, seemed rather disappointing at first sight. An increase in hopgrowing area of approx. 1,130 ha (+7.9 %) translated into production volume growth of only 2.4 %. The poor yields were caused on the one hand by the large proportion of new plantings (approx. 1,950 ha) and the consequently lower yield of the young hops and above all, however, by unusually high temperatures during the vegetation period in July and early August.

Overall, with regard to the alpha balance, crop year 2014 clearly undersupplied the world market with hops for the second year in succession. The high alpha/bitter hop category is no longer at such rock-bottom prices as it was in crop years 2009 to 2012, but this segment is still far from healthy. The world market is still depressed by considerable quantities that were largely sold to and have been stockpiled by breweries. Consequently, in view of the sizeable high alpha crop in Germany, it is hardly surprising that 2014 spot market prices slipped significantly below the forward contract levels paid prior to the harvest.

It is noticeable that over the past five years the growing of high alpha varieties in the USA has been reduced in favour of flavour hops which are not yet available in sufficient quantities for the US and world craft beer sectors. In this period, roughly 4,700 ha of high alpha varieties have been removed from hop farms. Producers in Germany increasingly regard the development in the rapidly changing farming structure in the USA as an opportunity and are in turn significantly expanding acreage of their high alpha variety Herkules.

Looking at the longer-term statistics, it is apparent that since 2006 high alpha acreage has been reduced worldwide by 11 %, while aroma hop acreage has been increased by only approx. 3 %. It is therefore hardly surprising that fine aroma and flavour hops harvested in 2014 are reported to be sold out. Only aroma varieties such as Perle and Tradition are still on the market in small quantities.

The hop market is on the threshold of fundamental change. This is being driven by the internationally growing preference, particularly among young consumers, for more intensely flavoured beers. This trend, which until recently had either remained unnoticed or been considered a potentially shortlived phenomenon, is irreversible. Consequently, the USA will soon overtake Germany as the world's biggest hop-growing nation in terms of acreage.

At the same time, it will leave the field of high alpha hop farming to Germany largely without a fight, as the expansion of the acreage required to satisfy the growing appetite for US flavour hops is very expensive and the business of selling aroma and flavour hops is significantly more lucrative than high alpha hop growing. In addition, the low external value of the euro relative to the US dollar is causing sales to shift to the high alpha hops grown in Germany.

If the double-digit growth rates of the US craft segment continue over the next five years and, at the same time, the global success story of India pale ale (IPA) goes on, the hop industry will be faced with huge investments. There is every indication that the brewing industry is being confronted with substantial changes in consumer behaviour. The brewing industry and with it the hop industry are in the midst of a process of realignment.

However, the hop industry's legitimate joy about the development of the craft segment should not obstruct the view on the brewing industry in its entirety. The sales figures known to date suggest a weak world beer output in 2015. Germany made a loss of 2.35 % from January to April. During the same period sales figures dropped by 2.2 % in Russia and by 2.7 % in the United States. Brazil's beer production plunged dramatically by 6.78 % from January to June. Finally China as growth driver due to its significant entire beer output reports a decline by 4 – 5 % from January to May.

The development of the segments on the world beer market is extremely discrepant. Therefore, it becomes increasingly crucial for the hop industry to draw the correct conclusions for the production and marketing possibilities of particular variety groups and varieties from these opposed tendencies.

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The quantities indicated in mt alpha acids are based on the calculated alpha values at time of processing. Storage losses until processing have been considered, processing losses and further storage losses until use have not been considered.

All figures mentioned herein correspond to the opinion of the majority of the members of the German Hop Industry Association.The figures published by single member companies may slightly deviate.