



LECG

**Ethanol, Barley and
Beer**

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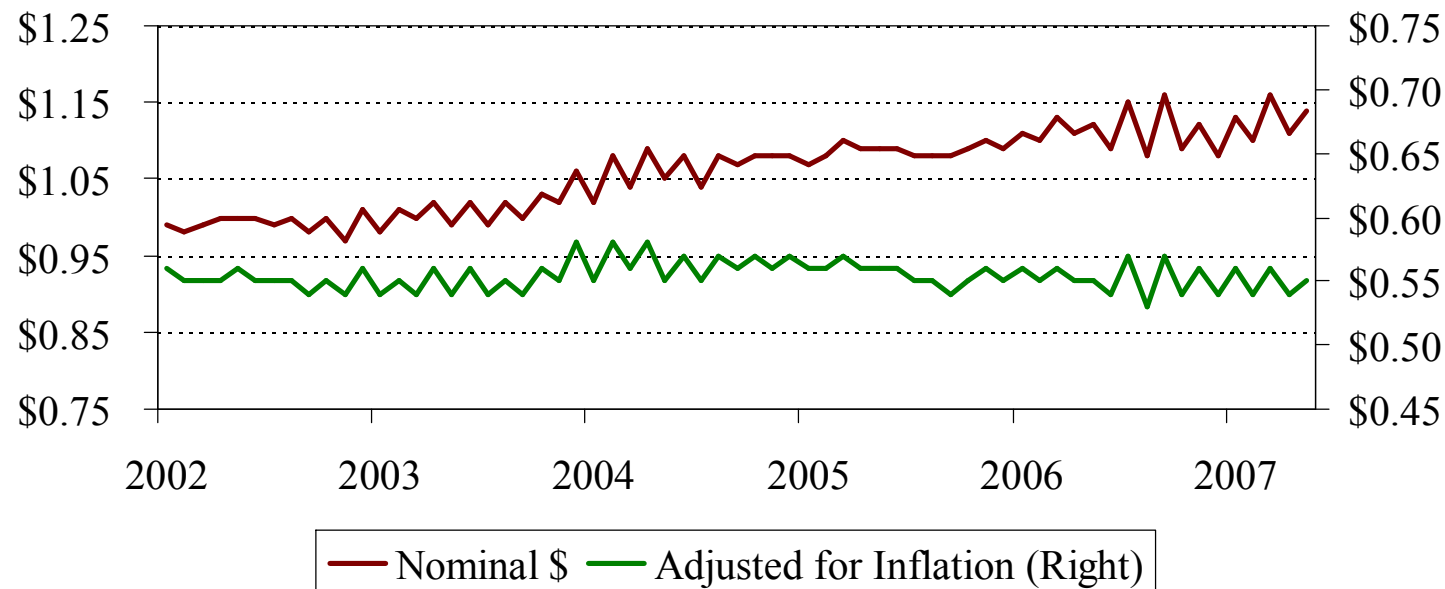


Ethanol, barley and beer

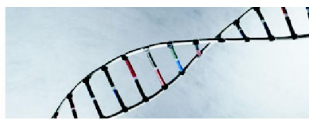
- ❖ Beer producers are claiming that they are being forced to raise prices because of high grain prices caused by ethanol demand.
- ❖ Grain and energy prices have increased sharply over the past year.
- ❖ However retail beer prices have not increased any faster than the overall rate of inflation.
- ❖ Corn and barley prices will moderate as 2007 production increases. Energy prices, labor, packaging and marketing costs will continue increasing.

Beer prices have not increased any faster than overall inflation since 2004.

Unit Price of Malt Beverages, U.S. Average
(\$ per 16 oz. container)



Source: U.S. Bureau of Labor Statistics

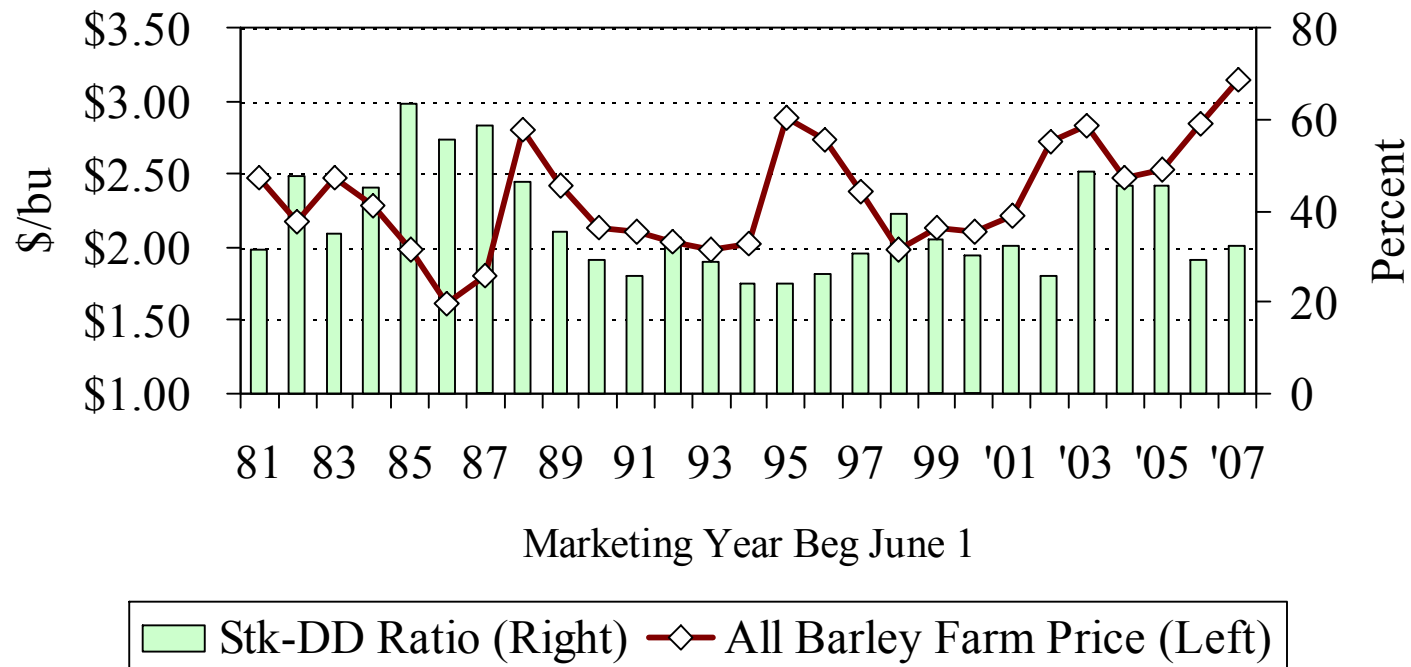


Malting versus Feed Barley

- ❖ The brewing industry prefers malting varieties for quality and pays a premium over feed varieties.
- ❖ Historically, the primary market for barley has been the feed industry, however malting varieties now account for the largest share of barley planted in North Dakota, Montana, and Idaho.
- ❖ Farmers typically plant malting varieties and pray for rain. When protein quality increases due to dry weather, malting barley can be used for feed more easily than feed varieties can be used for brewing.

U.S. Barley prices have increased recently as stocks have tightened.

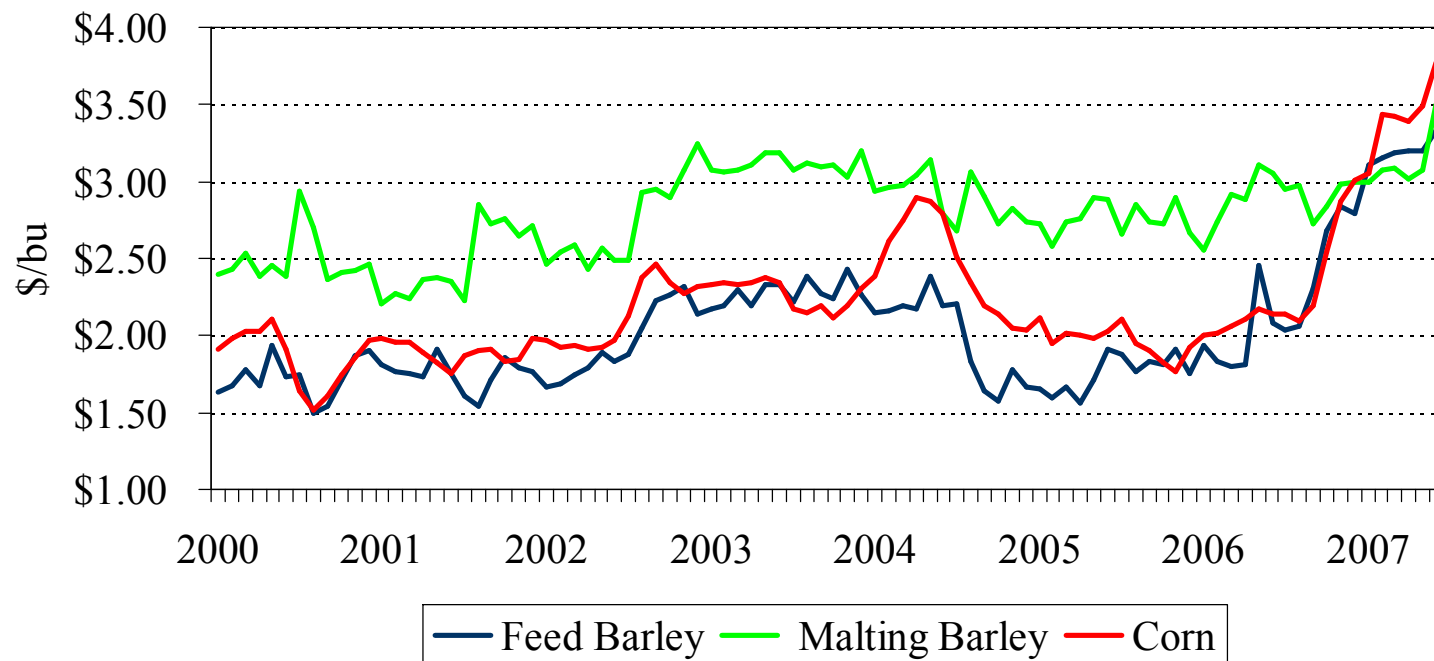
U.S. Farm-Level Barley Prices and Barley Stocks



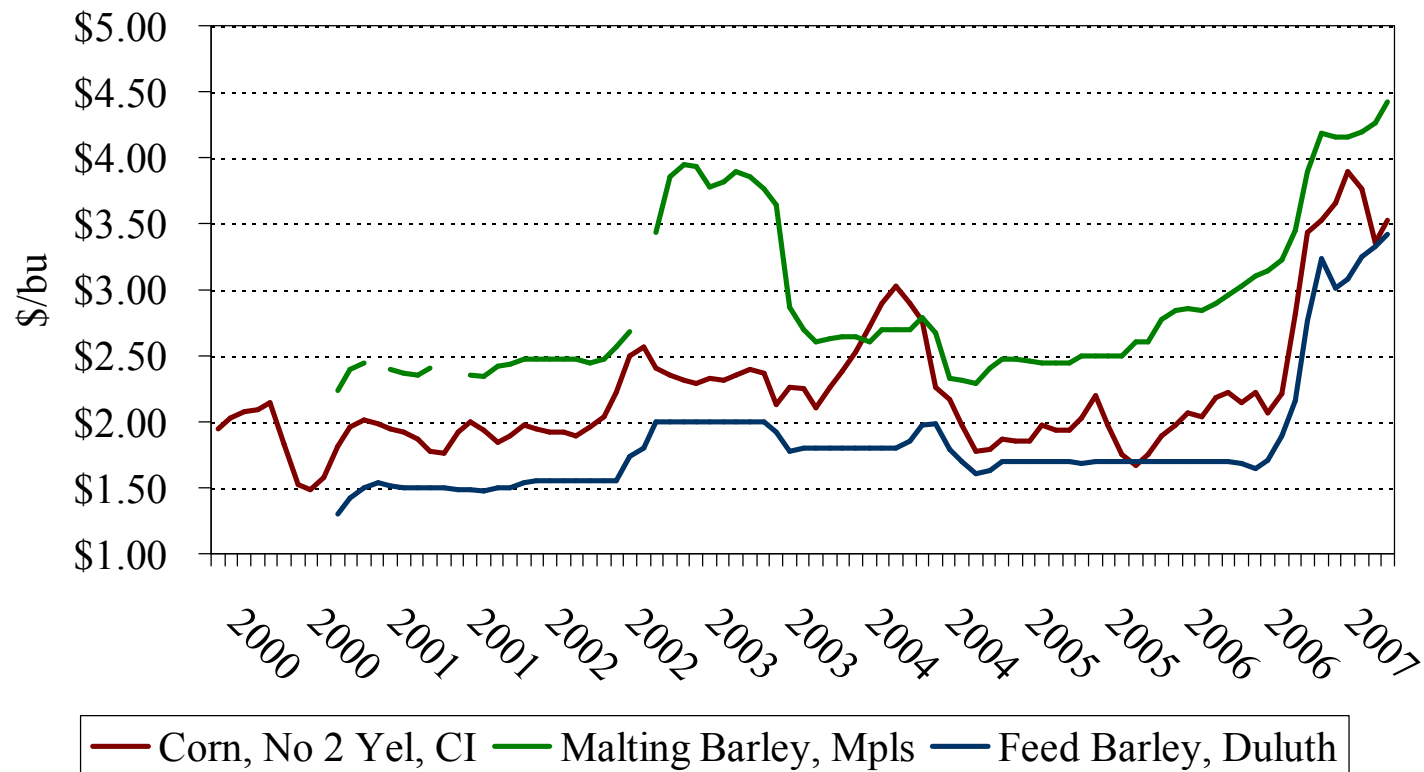
Source: USDA ERS/NASS

All grain prices have increased however the increase in malting barley prices is more recent.

Average Price Received by Farmers



Market prices have increased faster than farm prices.





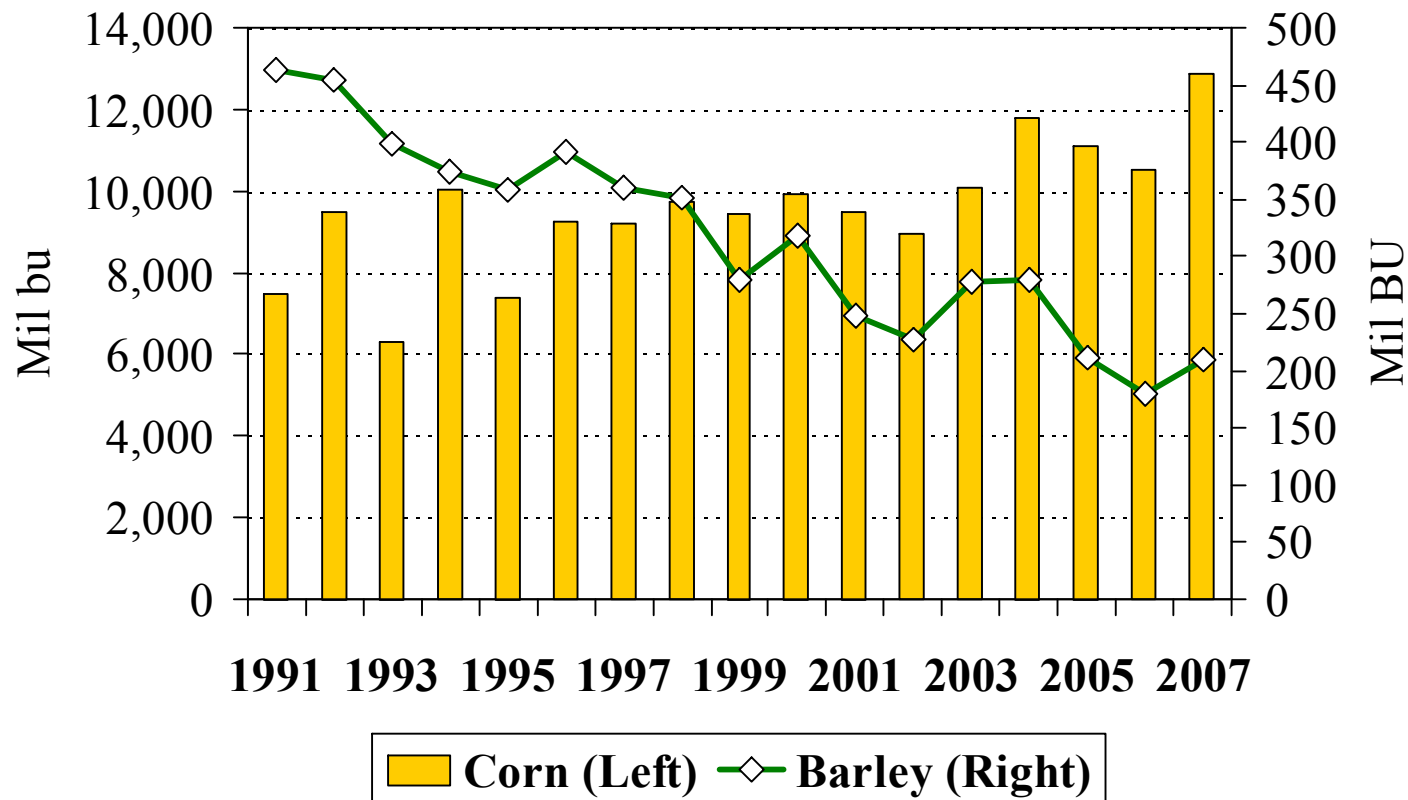
Feed barley prices are highly correlated with corn prices. Since they serve different markets, malting barley prices have a low correlation with corn.

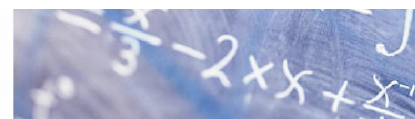
Correlation Coefficients
Average Price Received by U.S. Farmers
Marketing Year Averages, 1980-2003

	Corn	All Barley	Feed Barley	Malting Barley	Winter Wheat
Corn	1.000				
All Barley	0.730	1.000			
Feed Barley	0.926	0.856	1.000		
Malting Barley	0.594	0.954	0.702	1.000	
Winter Wheat	0.392	0.319	0.432	0.198	1.000

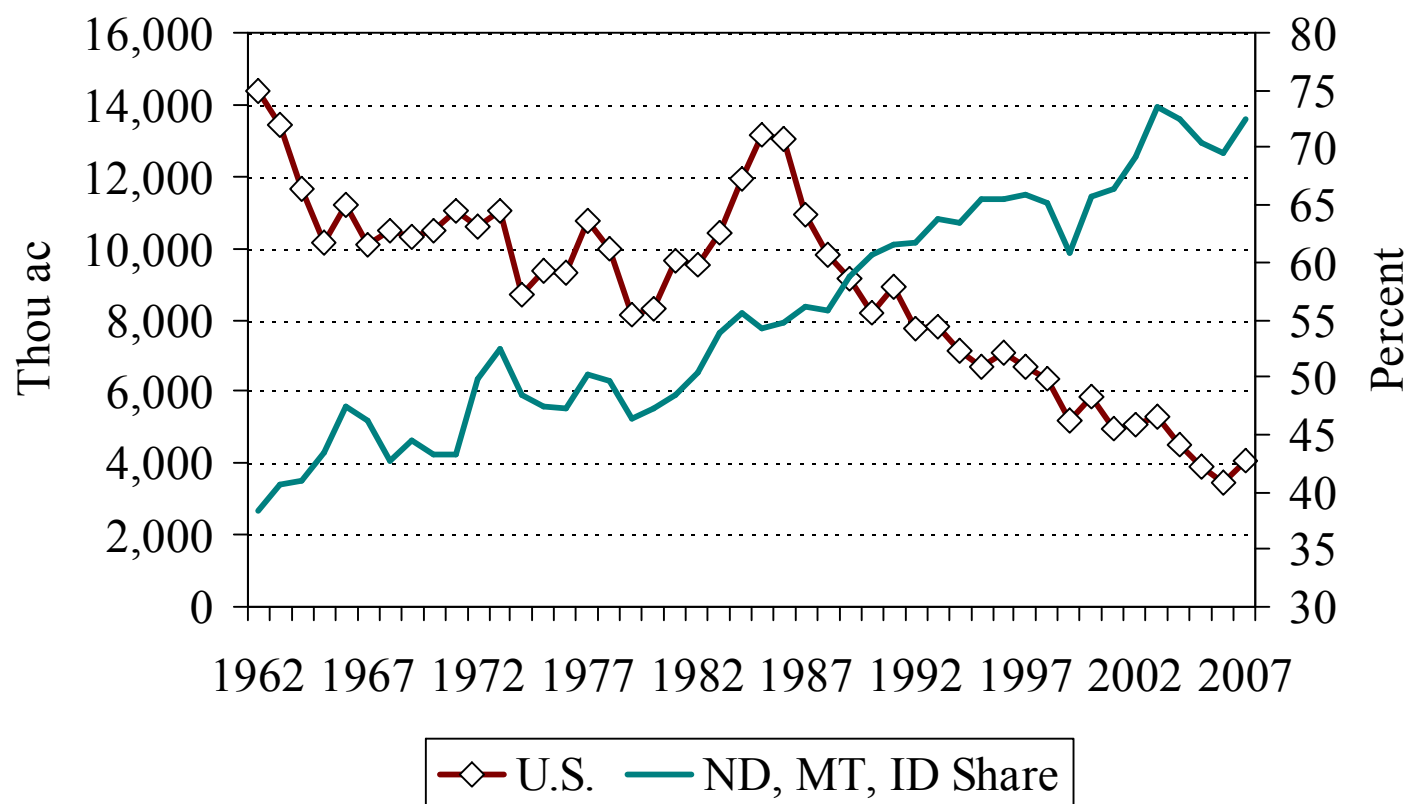


2007 promises to be a big year for corn and barley production!





Farmers are not diverting acreage from barley to plant corn. Plantings for 2007 are up 17%, reversing four years of decline.

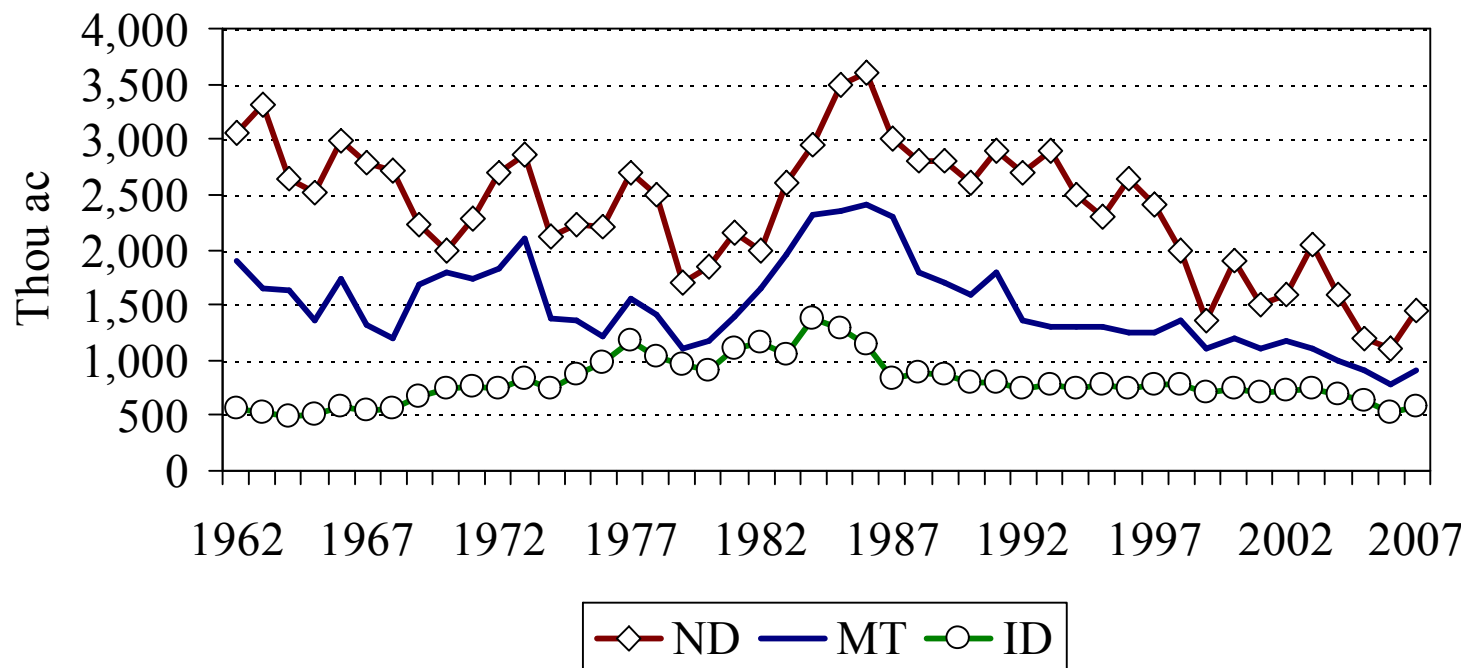


Source: USDA/NASS

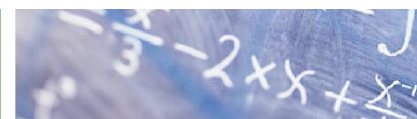


Barley area increased in each of the three major states with area planted in North Dakota, the largest producing State, up 32%.

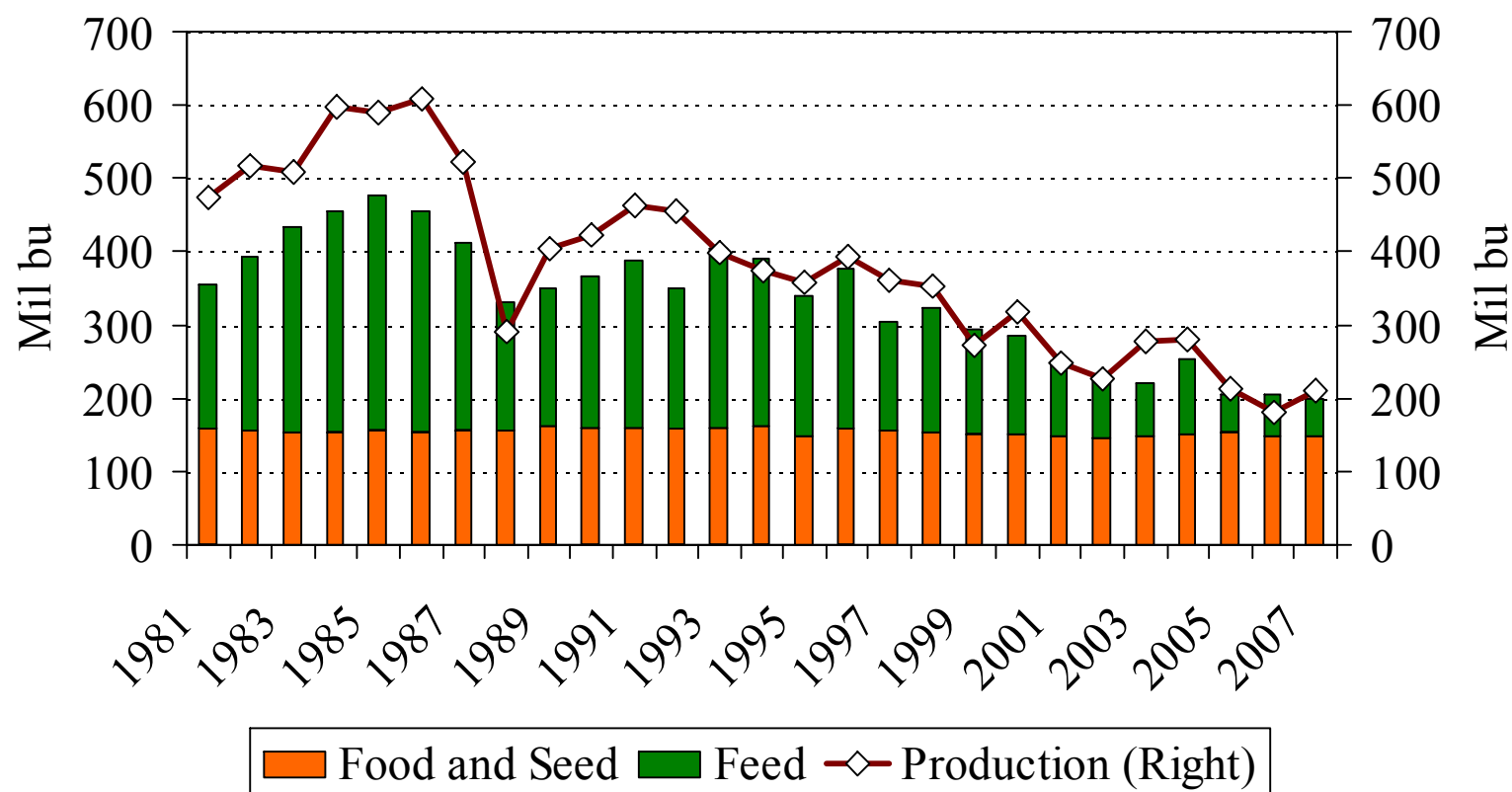
Barley Acreage Planted



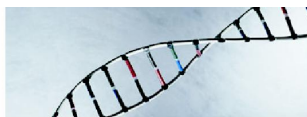
Source: USDA/NASS



Feed demand for barley has declined over time along with production. Food use has been stable.

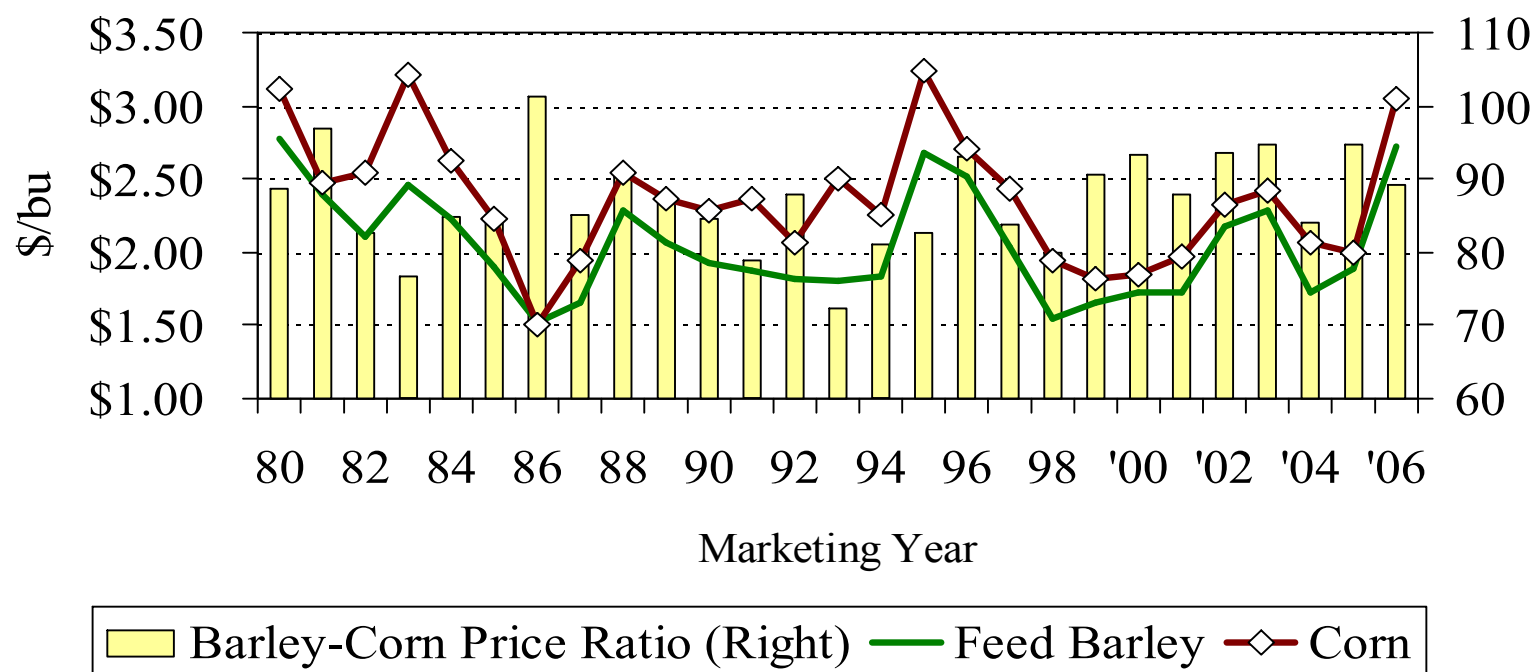


Source: USDA/ERS/Feed Situation



Since both are feed grains, farm-level feed barley closely tracks corn prices.

U.S. Farm-Level Feed Barley and Corn Prices



56 pound bushel corn and 48 pound bushel barley
USDA ERS/NASS



Conclusion

- ❖ Grain and energy prices have increased sharply over the past year.
- ❖ 2007 will be a big year for corn and barley production and grain prices will continue moderating.
- ❖ Energy prices, labor, packaging and marketing costs will continue increasing.
- ❖ Retail beer prices have not increased any faster than the overall rate of inflation. The beer industry is using ethanol demand as a justification for trying to push through a price increase.