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Northwest's craft breweries offer one of the bright spots during the recession

Someone forgot to tell the Pacific Northwest's craft brewers that the economy is in the doldrums. While most other industries incurred some recession-related pain over the last couple years, the region's craft brewers built on a string of unchecked growth that goes back at least five years.

The number of breweries in our five states has grown 36% since 2004, more than doubling the rate (16%) of the rest of the nation, according to the Brewers Association. Washington added 14 breweries in 2009, tops in the nation and more than in any other year since 2004. In 2009, Oregon craft brewers topped the million-barrel production mark for the first time. Montana has the most breweries per capita, while Alaska and Idaho rank in the top 12. It's a healthy industry that supports thousands of jobs and brings in millions of dollars to the Northwest (see table, page 2).

Northwest brewers are on an upward trajectory, but how much longer can it continue? Despite the growth, craft beer still represents a drop in the stein of the nation's beer market. Sales of craft beer in 2009 made up only 4.3% of beer sales by volume, but that was up from 2.4% in 1999, according to the Colorado-based Brewers Association. Craft breweries, which are generally defined as being small and independently owned, made inroads last year: their sales volume grew 7.2%, while overall beer sales declined 2.2%.

In Oregon, the state's craft breweries in 2009 produced 38% of the draft beer consumed in the Beaver State and 12.4% of the beer sold, nearly triple the national rate, according to the Oregon Brewers Guild. Craft beer's penetration in Oregon is no doubt higher when craft beers consumed in the state but brewed elsewhere are figured in.

What sets us apart from other parts of the country? For four of our states, it starts with farmers and proximity. All U.S. hops are grown in the Pacific Northwest. Farm-gate value in 2008: \$253 million in Washington (79% of U.S. value), \$38 million Oregon (12%) and \$29 million Idaho (9%). Montana and Idaho are both in the top three in barley production.

Regional availability of key inputs, hops and barley, has prompted other capital investment. Malteurop North America, based in France, recently built a state-of-the-art plant to process barley into malt in Great Falls. Great Western Maltng Co. does the same in Vancouver, Wash.

Alaska brewers, however, have to barge or fly in nearly all of their ingredients as well as their bottles. Most Alaskan beer

never makes it past the brewery's front door. It's too expensive for most brewers to ship bottles or kegs from places such as Kodiak or Haines to Anchorage, much less Seattle, said Brewers Guild of Alaska president Jim Roberts. Alaskan Brewing Co. and, to a lesser extent, Midnight Sun have overcome those hurdles thanks to economies of scale and are sold in the Lower 48. But most brewers are content to limit sales close to home.

The demand side of the equation

Why the popularity of craft brews in the Pacific Northwest? "The main reason, in Oregon specifically and in the Northwest, is people who live here are people who are interested in their quality of life, and that permeates through everything they do, where they live, what they eat, what they drink," said Rob Widmer of Widmer Brothers, one of the region's early craft brewers.

	2004	2005	2006	2007	2008	2009
Washington	85	93	106	109	109	123
Oregon	83	86	94	96	104	105
Idaho	21	19	21	26	29	30
Montana	17	16	17	17	20	21
Alaska	12	11	15	16	16	17

Source: Beer Institute

Other sources agreed, pointing to the proliferation of farmers' markets and other signs of greater-than-average preference in the Pacific Northwest for what is locally grown and produced. The Montana Brewers Association tag line, "Brewed from the Ground Up," aligns neatly with this bias.

One researcher said that craft beers have done so well because we like higher-end products, citing the increasingly sophisticated regional taste in wine or coffee here as a parallel.

Rules and taxes are hardly uniform

Brewers face widely varying regulations in each of our states. Alaska has the highest state excise tax on beer in the nation. Oregon's is near the bottom. Oregon brewers also pay a privilege tax on their beer sales. In Washington, two measures on the fall ballot would overhaul distribution regulations.

The regulations governing brewpubs present another thicket. Some rules target consumption: Montana brewpubs can sell only their own beer, and have to shut off their taps at 8 p.m. They can't serve a patron more than 48 oz. of beer a day. Alaska brewpubs can get in trouble for serving any patron over 36 oz. of their product a day.

Consolidation has been a common theme

The most recent changes in the Northwest brewing landscape have been among the heavyweights. In 2008, Red Hook Ale Brewing Co., Seattle, and Widmer Brothers Brewing Co., Portland, merged to form Craft Brewers Alliance, the nation's eighth-largest brewing company. It is one of the only publicly traded craft breweries in the country (Nasdaq: HOOK), and its stock is coming off a 52-week high (\$5.24) set July 26. Craft Brewers expanded its lineup in early August when it purchased Hawaii's Kona Brewing Co.

Craft Breweries Significantly Contribute to Economy

	Direct economic impact (000s)	Brewing, wholesale and retail jobs	National rank based on breweries per capita
Washington	\$1,266,717	20,320	8th
Oregon	1,019,694	14,035	3rd
Idaho	411,614	5,588	12th
Montana	308,386	5,557	2nd
Alaska	170,870	2,251	6th

Source: Beer Institute. Data from 2008.

Anheuser-Busch InBev, the nation's largest brewer, owns nearly 36% of Craft Brewers. That technically excludes it from being a craft brewery, when using the Brewers Association's definition, because it exceeds the 25% limit of a craft brewery's ownership by an alcohol producer that is not also a craft brewer.

The association's definition also limits craft breweries' production to less than two million barrels of beer annually. The Widmer/Red Hook brewery in Portland was the largest in Oregon, brewing about 86,000 barrels of beer in 2009. (Boston Beer Co. is the nation's largest craft brewery and the fifth-largest overall brewing company.)

In 2008, Magic Hat Brewing Co. of Vermont and Seattle-based Pyramid Breweries Inc. merged to form Independent Brewers United. Pyramid in 2009 ranked as the largest craft brewery regionally and 12th-largest nationally. Speculation at press time had a New York-based beer conglomerate looking at buying Pyramid and/or Magic Hat.

Another regional staple, BridgePort of Portland, has been owned by Texas-based Gambrinus Company, which owns four other brands of beer, since 1995.

Looking ahead

Our sources agreed that the market has room to absorb more craft beer without affecting the brewing giants. Only 9 million barrels of craft beer were sold in the U.S. in 2009 out of the total of 206 million. In Oregon, one bullish brewer thought his state's beers could make up half the beer that flows from taps within the Beaver State. Alaska could support another half dozen breweries, one source said. Our sources around the Northwest knew of a handful of other breweries in the process of starting up.

Breweries that stand the best chance at expansion are those that can quickly grow enough to benefit from economies of scale. Sources cited Eugene-based Ninkasi Brewery as

an example. It started in 2006 with 514 barrels. In 2009, it brewed more than 15,000 barrels and expanded its distribution throughout the Northwest and into California. Idaho's Grand Teton and Montana's Big Sky are other success stories.

One demographic that brewers are focusing on as a way to increase sales is women. It may be working. Veteran beer blogger/columnist Jeff Alworth cited a recent Gallup poll that said the percentage of women who said they prefer beer over wine or liquor is 27%, up 6 percentage points from 2009.

Another trend is more nano breweries starting up, producing a few barrels of beer at a time and minimizing brewers' financial risk. Expect to also find more craft beers in cans. That may lead to wider distribution, especially for beers brewed in Alaska, by dropping shipping costs.

Brewpubs have a stable future, our sources said. Our region already embraces them. Boundary Bay in Everett was the largest brewpub by volume in 2009. The McMenamens chain now has more than five dozen brewpubs in Oregon and Washington. Even Homer (population 5,998) has four brewpubs. That's as many as are in Boise (population 205,707).

Washington's craft beer industry arguably has an advantage over its Northwestern peers. The Evergreen State is the only one in our region with a state-funded beer commission to promote the state's craft beers.

A shakeout will eventually happen, our sources said. It might be a decade or two out, but at some point, breweries

PNW Snapshot

Per Capita Personal Income by Metropolitan Statistical Area

MSA	Nat'l rank	2008	2009	% chg
Anchorage	31	\$47,205	\$45,355	-3.9
Bellingham	182	35,592	34,657	-2.6
Bend	180	35,728	34,688	-2.9
Billings	107	38,737	37,997	-1.9
Boise-Nampa	204	35,615	33,997	-4.5
Bremerton-Silverdale	39	42,992	43,051	0.1
Coeur d'Alene	285	32,279	31,265	-3.1
Corvallis	125	37,755	37,030	-1.9
Eugene-Springfield	240	33,522	32,826	-2.1
Fairbanks	84	38,969	38,856	-0.3
Great Falls	133	36,533	36,718	0.5
Idaho Falls	255	33,639	32,318	-3.9
Kennewick-Pasco-Richland	219	33,040	33,383	1.0
Lewiston	217	33,973	33,485	-1.4
Longview	317	29,703	30,008	1.0
Medford	191	34,506	34,256	-0.7
Missoula	179	35,108	34,712	-1.1
Mount Vernon-Anacortes	122	37,989	37,131	-2.3
Olympia	70	39,988	39,597	-1.0
Pocatello	347	28,702	28,102	-2.1
Portland-Vancouver-Hillsboro	89	39,942	38,728	-3.0
Salem	271	32,016	31,837	-0.6
Seattle-Tacoma-Bellevue	15	50,586	48,976	-3.2
Spokane	208	34,011	33,810	-0.6
Wenatchee-East Wenatchee	251	32,737	32,464	-0.8
Yakima	310	30,661	30,409	-0.8

Source: Bureau of Economic Analysis

Leading Brewers in 2009

Rank	Company	Location
1	Anheuser-Busch InBev	St. Louis
2	MillerCoors	Chicago
3	Pabst Brewing Co.	Woodridge, IL
8	Craft Brewers Alliance	Portland
12	Pyramid Breweries	Seattle
13	Deschutes Brewery	Bend
18	Alaskan Brewing Co.	Juneau
22	Full Sail Brewing Co.	Hood River
34	Rogue Ales/Oregon Brewing Co.	Newport
47	BridgePort Brewing Co.	Portland
49	Big Sky Brewing Co.	Missoula

Source: Brewers Association

will close and others will merge. A handful of brewpubs and breweries already have shut their doors among our states the past couple of years. The churn will continue as smaller operations wrestle with high capital costs.

There have been other bumps. Beer sales in restaurants suffered during the recession. While overall beer consumption declined in 2009, wine and spirits continued 10-plus years of growth, according to Craft Brewers Alliance.

Another threat comes from capital-rich macro breweries that are developing new lines of beers that directly target popular types of craft beer such as amber or wheat ales.

A key asset our region's craft beers have going for them is a hardcore and devoted following that can be compared to wine's aficionados or coffee diehards. For the foreseeable future, we can expect to see a steady flow of beer brewed within our states, frequently made with ingredients found only a short drive away, all of which supports tens of thousands of jobs. [M](#)

Is this going to be a big comeback year for agricultural exports?

Pacific Northwest farm exports, helped by a weak dollar and, more notably, a huge run-up in grain prices in 2008, soared nearly 80% in three fiscal years through the summer of 2008.

The fall 2008 global financial panic, which both boosted the dollar's value (a safe haven in uncertain times) and knocked down commodity prices, ended the impressive run. Fresh U.S. Department of Agriculture data show that ag exports from Washington, Oregon, Idaho, and Montana combined fell 13.8% in the fiscal year to the end of September 2009, the first decline in six years (table).

The sharpest decline came in Montana. Wheat is both Montana's most valuable crop and its largest agricultural export. Montana growers averaged about \$5.15 a bushel in fiscal 2009, down 28% from the multi-year high of \$7.14 reached in fiscal 2007.

The export decline in Washington was 6.5%, less than half the national average. Washington is helped by diversity.

Washington produces two-thirds of the nation's apples (worth \$1.8 billion in 2008), but boasts 13 more commodities with annual farm-gate value exceeding \$100 million.

Pacific Northwest farm exports are likely to surge in value in the current fiscal year. The prospect of a short crop in Russia's drought-stricken bread basket has sent the price of wheat soaring more than 60% since early June, the sharpest rise in 50 years. As well as ranking No. 1 in value in Montana, wheat is No. 3 in Washington, No. 4 in Idaho and No. 5 in Oregon. In the four states, only dairy products and beef livestock bring in more farm-gate revenue.

Pacific Northwest states harvested wheat worth \$3.2 billion in 2008, 18% of the U.S. total. All Pacific Northwest states are significant wheat exporters. Adverse weather delayed the Pacific Northwest wheat harvest by up to two weeks, said Thomas B. Mick, CEO of the Washington Grain Alliance. Mick told us only a few growers had sold this year's wheat under contract at low prices. The vast majority of wheat growers are in position to take advantage of the suddenly sky-high price of wheat.

Northwest Agricultural Exports

Fiscal years to September 30 (in millions)

	2005	2006	2007	2008	2009
Washington	\$1,942	\$2,187	\$2,665	\$3,174	\$2,968
Idaho	905	975	1,203	1,815	1,484
Oregon	912	988	1,194	1,551	1,340
Montana	585	566	739	1,257	929
4 states	4,344	4,717	5,802	7,798	6,721

Source: U.S. Department of Agriculture

California is the nation's leading farm-products exporter by a wide margin. Washington ranks No. 10. Montana and Washington rank No. 3 and No. 4, respectively, in wheat exports, after Kansas and North Dakota. In the export of fruits, Washington ranks No. 2, behind only California; Oregon is No. 4. In vegetables (potatoes count), Washington is No. 2, Idaho No. 3, and Oregon No. 8. Oregon, which produces all of the nation's commercial hazelnuts, is the No. 2 exporter of tree nuts after California.

And all of Pacific Northwest agriculture will benefit from the dollar's recent weakness. On a trade-weighted basis, the dollar surged about 5% from mid-April to early June, but it has given up all of the gain in recent weeks. [M](#)

Recent Pacific Northwest bank news: good mixed in with the bad

Even as recently filed quarterly earnings reports back up the sentiment that our region's banks have emerged from the darkest days of the economy come signs that more bumps lie ahead.

Since our last issue, state officials in early August shut down Longview-based Cowlitz Bank and Eugene-based Liberty Bank. Heritage Bank of Olympia took over nine branches of Cowlitz Bank and Bay Bank, a division of Cowlitz. The acquisition gives Heritage a stronger presence along the