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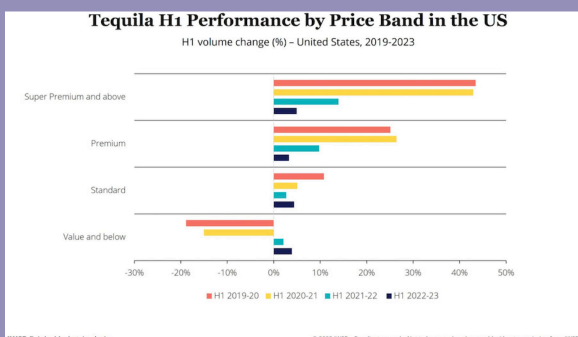
How Will the Agave Price Crash Impact Tequila?

by The IWSR Drinks Market Analysis, www.theiwsr.com

IWSR analyses the impact of the tequila boom on agave prices, and the implications for brand owners.

As agave prices plummet and premium-and-above tequila demand moderates in the U.S. market, brand owners have an opportunity to improve product quality at lower price points, make additional marketing investments — and divert extra supply to international markets with strong growth potential.

While a dramatic reduction in the cost of agave will also enable producers to fund discounts in order to build market share, IWSR believes that brand owners will be wary of sacrificing their recently acquired brand equity by slashing prices.



Agave price crash sparks panic sale

Agave prices in Mexico hit a record MXP32/kg only 18 months ago, but by February 2024 they had plunged to MXP5/kg. Price falls are set to continue thanks to the huge numbers of new plants that have gone into the ground in the past few years (up by more than 10% between 2021 and 2022 alone), and the fact that agave takes several years to reach maturity. According to industry reports, the number of registered agave growers has more than quadrupled since 2018 as well.

"The very large inventory of agave plants, coupled with slowing demand of premium tequila segments in the U.S. after years of rapid growth, has sparked a panic sale among amateur agave growers who have recently joined the industry in a bid to cash in on the agave spirits boom," said Jose Luis Hermoso, IWSR Research Director for Central and South America.

"With such huge numbers of new plants going into the ground in 2021 and 2022, it's entirely possible that pricing will not hit the bottom until 2026."

The peak/trough cycle

Agave is similar to many long lead-time commodities in having an unbalanced production cycle: growers tend to overplant at times of high prices — as has been the case until very recently — which drives prices down as new plants come on stream. Lower prices then cause growers to underplant, diminishing supply and driving prices up again.

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Hood River Distillers Celebrates 90th Anniversary

Hood River Distillers (HRD), the largest and oldest importer, distiller, producer and marketer of distilled spirits in the Pacific Northwest, producing close to one million cases of spirits each year, celebrates 90 years in business this year.

"Since our founding in the shadow of Mt. Hood 90 years ago, Hood River Distillers has been recognized for quality craftsmanship, while embracing innovation — a testament to the passion of our pioneering founders," said Ronald Dodge, Executive Vice Chair. "In a world of global, corporate brands, I'm immensely proud that HRD is still family-owned and operated, while crafting exceptional products and maintaining a commitment to employees, our customers and the Pacific Northwest."

Dodge joined HRD in 1980 as an assistant to the VP of Operations. His grandfather and three business partners purchased Hood River Distillers from the original founders in 1949. He progressed through the ranks becoming Plant Manager in 1988, and then in 1999 became President and CEO. Under his leadership and vision, he transformed the business from a regional value-priced manufacturer of distilled spirits into a national purveyor of premium spirits. His professional journey culminated with the bittersweet sale of Pendleton Whisky to Proximo Spirits in 2018. Introduced to the market in 2003, Pendleton Whisky experienced significant growth, reaching over 250,000 nine-liter cases annually before the divestiture. Post-sale activities have primarily focused on product innovations, streamlining operations and revisiting fundamental business principles.

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