July 2024

Monthly Market Update

Industry updates

General sentiment – *Producers grapple with interest rate uncertainty*

In June, monthly farmer sentiment fell as decreasing commodity prices and interest rate concerns weighed on producers. The Federal Reserve is projected to implement only two rate cuts this year, rather than the initially anticipated three due to persistent higher-than-expected inflation. For producers, this translates to continued financial pressure from high interest rates and greater uncertainty. According to the Purdue University-CME Group Ag Economy Barometer, 23% of producers cite rising interest rates as their greatest concern. Simultaneously, food prices are up nearly 30% from five years ago. Tightening margins, coupled with interest rate concerns are creating a challenging environment for producers.

Crop inputs – *Energy and transportation costs are volatile*

Crude oil prices remain volatile, trading between $72 to $81 per barrel in June. Uncertainty around economic growth has tempered demand projections, which have largely offset production cuts by the Organization of Petroleum Exporting Countries (OPEC+), rising geopolitical risk due to conflicts in the Middle East and historically low Strategic Petroleum Reserve levels in the U.S. Intense heat has led to increased power consumption throughout parts of the U.S. and natural gas prices have risen in response.

Shipping costs are rising due to continued disruptions in the Red Sea and Panama Canal, the lack of spare vessel capacity, bottlenecks at various major ports and early peak season buying. Additional shipping capacity will enter later in 2024 and into 2025, which should help ease pressures. Most do not expect disruptions in the Red Sea to end within 2024. Trucking freight rates ticked up in May due to higher costs and goods movement, but the sector remains generally oversupplied, which will help to keep rates down in the near term. The International Longshoremen's Association is in contract negotiations with the U.S. Maritime Alliance for East Coast and Gulf of Mexico ports (contracts are set to expire September 30, 2024). If an agreement is not reached, labor strikes could eventually lead to port congestion on the West Coast as shipping vessels reroute.

Fertilizer prices experienced moderate volatility in June but ended the month flat. Global supply and demand conditions remain generally in balance despite the reimplementation of export controls by China. Rising natural gas prices may push urea and ammonia prices up.

Almonds and pistachios – *Almond supply exceeds demand*

Early estimates suggest the 2024 almond crop will come in large at about 3 to 3.1 billion pounds, a slight increase over last year. A large crop coupled with significant inventory carry over (about 500 million pounds) will keep prices down and pressure producer margins for the 2024-25 season. Initial estimates for 2024-25 crop year suggest a slight decrease in bearing acres (orchards currently in production) and while this may limit future supply growth, a significant proportion of orchards will be entering peak production over the next several years. Peak production for almond trees occurs between ages 10 and 20. As a large percentage of trees are relatively young and have not yet reached their full production potential, almond supply may continue to exceed demand over the next several years.

Early estimates suggest the 2024 pistachio crop will come in at 1.1 to 1.2 billion pounds, down about 20% to 25% from 2023. Most expected the decline as pistachio trees are alternate bearing (production levels switch from relatively large to small annually) and some areas in both the northern and southern growing areas experienced pockets of poor pollination and/or winter weather damage. While some expect prices to soften over the long term, prices on the 2024 crop should come in higher than the last several years given the smaller crop.

Apples – *Producers should benefit from a smaller 2024 crop*

Early estimates suggest the 2024 apple crop will come in at about 120 to 125 million boxes, a level supportive of profitability for both producers and packers. The Honey Crisp variety will likely be smaller than last season which should improve pricing dynamics. The 2023 crop marketing season will likely extend into the 2024 crop marketing season and hold prices down during the fall months. Increasing instances of quality issues on the 2023 crop may lower prices and mitigate some of the overlap; however, Gala and Honeycrisp prices improved about 13% and 9% respectively over the last two months due in part to depleting inventories in the Midwest and Northeast. Diversified producers will likely experience a pear crop that is smaller than average with mixed fruit quality and a lighter than average, high-quality cherry crop with favorable market conditions.

Cattle – *Cattle industry's cautious approach to rebuilding herds*

The prevailing sentiment among cattle producers remains positive, with many anticipating sustained prosperity in the industry extending through 2026. Despite strong demand for beef products in the U.S. and robust cattle prices, domestic production has dwindled. Cattle producers downsized their herds following four consecutive years of drought throughout the major cattle producing regions. In the western U.S., cattle herds have reduced by over 500,000 head since 2019. While cattle prices are now strong and drought recovery has greatly improved feed availability, cattle producers are cautious about herd expansion. Historically high costs for replacement heifers, labor shortages, interest rates and a sharp decline in the cattle market from 2015 to 2021 have all contributed to this cautious approach.

In California and Arizona, expensive replacements have been a challenge for some feed yards. Some yards are pulling back and only stocking 60% to 80% of their capacity while others are supplementing with subleasing to neighbors or cow-calf producers due to the expensive cost of purchasing cattle. While still profitable, many are left wondering when they will see relief from high replacement prices.

Dairy – *Dairy's dilemmas: heat, HPAI, and optimism*

Western milk production totaled 6.25 billion pounds in May, representing a 1.2% decline from the previous year. Production decreases occurred in every state except Washington. The primary reason for lower production is the reduction in herd size. Due to the scarcity of replacement heifers, many dairies are keeping cows longer. Above-average summer temperatures in the West are likely to hinder any short term improvements in milk production. Despite these challenges, there are positive developments. Producer sentiment is rising, with milk prices forecasted to be in the $20 to $21 per cwt range from July to October. Furthermore, feed costs have significantly decreased compared to last year. Dairy farms are moving closer to breakeven levels in the second half of 2024.

As of June 27, Highly Pathogenic Avian Influenza (HPAI) cases have spread to 12 states. Within AgWest's territory, Idaho is the sole state with confirmed HPAI cases, and producers report the disease takes two to three weeks to spread through the herd. The USDA is offering financial help for dairies affected by HPAI. Despite public concern, pasteurization continues to keep dairy products safe for consumption.

Forest products – *Forest products industry adapts to lower prices*

Lumber prices continue to trade within a tight range near break-even levels for Northwest producers. Green douglas-fir lumber (lumber that has not been kiln dried) has unexpectedly fallen over the last two months as wet weather in California slowed residential construction. Many expect green lumber prices to rebound as the summer progresses. Mills are adapting operations in response to low prices, including prioritizing lower-cost supply contracts, harvesting from internally owned timberlands and/or mixing up their product offerings. While lumber production capacity continues to expand in the Southern U.S., there are signs that migration to this region is slowing and leading to lower residential construction.

Douglas-fir log prices in the Columbia River and Willamette Valley/Southern Oregon regions are converging at slightly lower levels with those in the Puget Sound region due to lower demand. Log inventories are generally down across the region and are unlikely to increase until markets improve. Log demand from Japan remains stable; however, Chinese demand remains down and some analysts do not expect it to recover to strong levels seen following the Great Recession.

Hay – *Steady prices, soft demand, and yen woes*

Hay prices have remained steady across most of the Western states. However, both export and domestic demand have remained soft, impacting the overall market. In California, extreme heat has affected hay quality test results and demand from dairies has softened. The alfalfa crop in Arizona is in good to excellent condition as harvest wraps up with only 4% of the crop rated as poor to very poor. The Idaho hay market is stabilizing as the first cutting has concluded, and the second cutting is beginning. Hay sales in Montana have been slow as ranchers turn their cattle out to summer pasture.

In the Columbia Basin, Washington, alfalfa and timothy quality has been good with strong yields. While export movement is starting to pick up, there are concerns about pricing due to Japanese exchange rates affecting export demand. Japan is a major international buyer for hay and Japan's weakening currency is due to their central bank policy. Until recently, Japan kept interest rates low to stimulate growth. Paradoxically, this policy has made it more expensive for Japan to import U.S. hay, offsetting any potential relief from lower hay prices.

Lemons and oranges – *2024 crop looks favorable*

Early indications suggest good quality, average to large-size 2024 crops for oranges and lemons, a welcome change following two years of smaller-than-average crops. Current prices support profitability; however, input costs continue to rise and pressure margins. Some growers of Myers lemons are switching to more traditional varieties (or avocados in Ventura County, California) due to falling restaurant demand.

Potatoes - *Potatoes abundant, water woes resolved*

As of June 1, 2024, U.S. potato storage reached 66.8 million cwt, a 19% increase from the previous year and the highest since 2019. In the Northwest, potato storage on June 1 rose by 27.5% compared to last year. Potatoes grown in the Columbia Basin, Washington, had favorable growing conditions, but due to processor cutbacks, there are fewer planted acres. While 2024 acres are only down slightly from the large 2023 crop, weather issues in Idaho will make the 2024 potato crop more manageable. Even with a smaller crop, open market prices are unlikely to be affected and are forecasted to remain below breakeven levels.

In Eastern Idaho, approximately 330,000 acres could have been affected by water shutoff in mid-June due to a water curtailment order, which would have been devasting for farmers with existing potato acres. However, a settlement was reached between the Surface Water Coalition (SWC) and groundwater districts. While producers in Eastern Idaho no longer face large-scale water shutoffs, they have until October 1 to create a long-term solution addressing a new water rights plan with the surface and groundwater users.

Wheat - *Uncertainty looms for wheat growers*

Wheat growers will face many challenges this year. For the 2024 crop, some growers have experienced winterkill, rust issues, and grasshoppers continue to pose challenges in eastern Montana. Favorable weather conditions have led to potential above-average winter and spring wheat yields in the Pacific Northwest, although some areas including eastern Washington will see lower spring wheat yields due to late frost and lack of heat. Prices are low and winter wheat futures lost more than $1 per bushel during June. Basis has also eroded due to harvest pressures and lack of demand. Storage remains a concern for grain elevators, with unsold grain from the previous crop still on hand. This excess grain could keep prices further depressed. Working capital has significantly decreased for producers, and many growers will rely on insurance guarantees for the new crop.

Arizona experienced an unusual amount of rainfall this year, about three inches this winter, compared to the usual average of one inch per year. Although this higher-than-average rainfall could have a negative impact on wheat quality, producers mitigated the additional rainfall by irrigating less. Desert durum (grown in California and Arizona) production is forecasted up 33% year over year. Despite prices also declining throughout June, desert durum producers are optimistic that demand will remain strong and could provide relief to prices.

International wheat production estimates have been revised downward, potentially benefiting U.S. wheat prices. Russia, the world's largest wheat exporter, declared a state of emergency in one of its major wheat-producing regions due to severe weather conditions, including drought and frost. However, market sentiment remains poor even with a more bullish international outlook.

Wine and wine grapes – *Challenging market conditions persist*

Premium wine markets continue to strengthen while those in the low- to mid-range categories experience flat to declining sales growth. Rising income inequality, premiumization (consumers trading up to more expensive options), generational preferences and consumers' willingness to pay more for the same brands are largely driving this trend. White wines are outperforming reds, leading to an oversupply in notable varieties such as Cabernet Sauvignon. Inventories are drawing down as wholesalers seek to reduce inventory costs.

California – In the Central Coast, indications suggest a potentially light wine grape crop for early season varietals and this may help to alleviate oversupply in the bulk market. There are increasing instances of growers putting vineyards up for sale (in some cases to manage financial obligations) or removing acres near the end of their economic lifecycle. The North Coast is reportedly showing a variance in crop size and quality based on variety.

Washington – Washington should have a high-quality, average-size crop; however, severe winter weather impacted some producers in Walla Walla, Chelan and northern Washington. Many uncontracted producers are removing acres and either leaving the land fallow or replanting with different varietals or row crops. Districts with junior water rights may face water limitations this season.

Oregon – Oregon producers are also expecting a high-quality, average-size crop. While the state is slightly oversupplied and experiencing a decline in Direct-to-Consumer sales, market conditions remain generally favorable.

Economic headlines

Economy expands at a moderate pace.

The final Q1 2024 Gross Domestic Product (GDP) reading came in at 1.4%, reflecting decelerations in consumer spending, exports and government spending. Residential fixed investments partially offset these movements. The Federal Reserve forecasts GDP to grow at 2.1% in 2024 and 2.0% in 2025 and 2026.

Monetary policy expected to ease by Q4 2024 or Q1 2025.

Federal funds futures and policymaker guidance suggest cuts totaling 50 basis points for this year, with the first 25 basis point rate cut occurring at the September Federal Open Market Committee meeting. Quantitative Tightening (the process of reducing bond holdings) decreased 37% to $60 billion per month in May.

Some consumers are financially stressed.

Consumer loan delinquencies have increased every quarter since Q3 2021, though they remain below the 20-year average. This trend may be in part due to the cumulative impacts of high inflation over the last four years.

Commercial real estate worries persist.

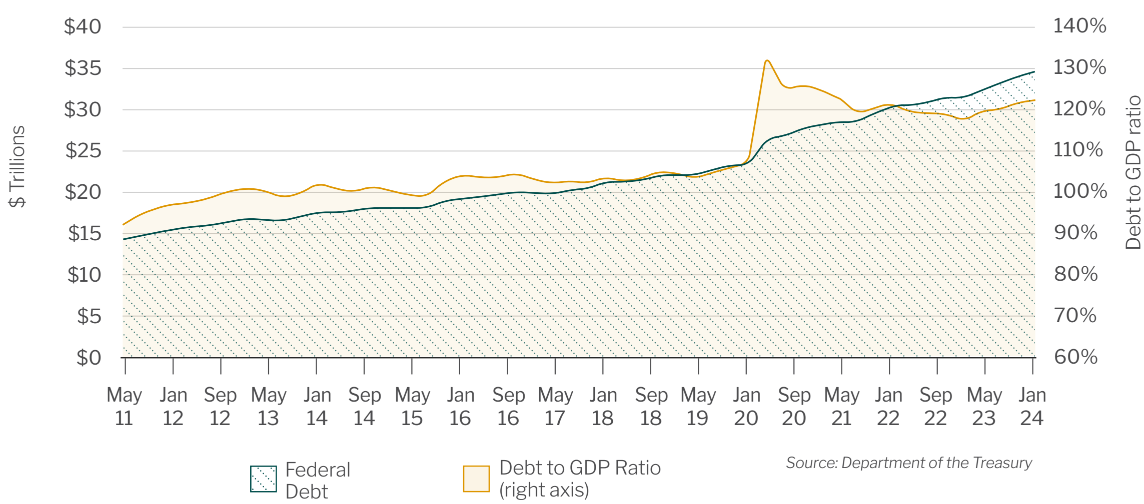
Concern over the deterioration of commercial real estate (CRE) values is a concern for some regional banks like New York Community Bank. It remains too early to determine if weakness in CRE will spread to other investment classes. Delinquency rates for CRE loans increased 53% year over year to 1.18% in Q1 2024 but remain below their historical average.

Fiscal policy is an increasing concern.

The current pace of federal spending adds about $1 trillion to the national debt every 100 days (see chart below). The supply of treasury bonds is growing and may eventually put upward pressure on interest rates, taxes and/or inflation.

A rising debt to GDP Ratio will eventually become a drag on the U.S. economy.

Federal debt and debt to GDP ratio



Source: Department of the Treasury

Monthly spotlight

The impact of economic growth on crop inputs.

Economic activity directly impacts agriculture input prices, particularly for gas, diesel, fertilizers and transportation. Economists predict a weaker economy in the coming year, which could impact living standards and consumer spending, but might also ease cost pressures for agriculture producers.

Background

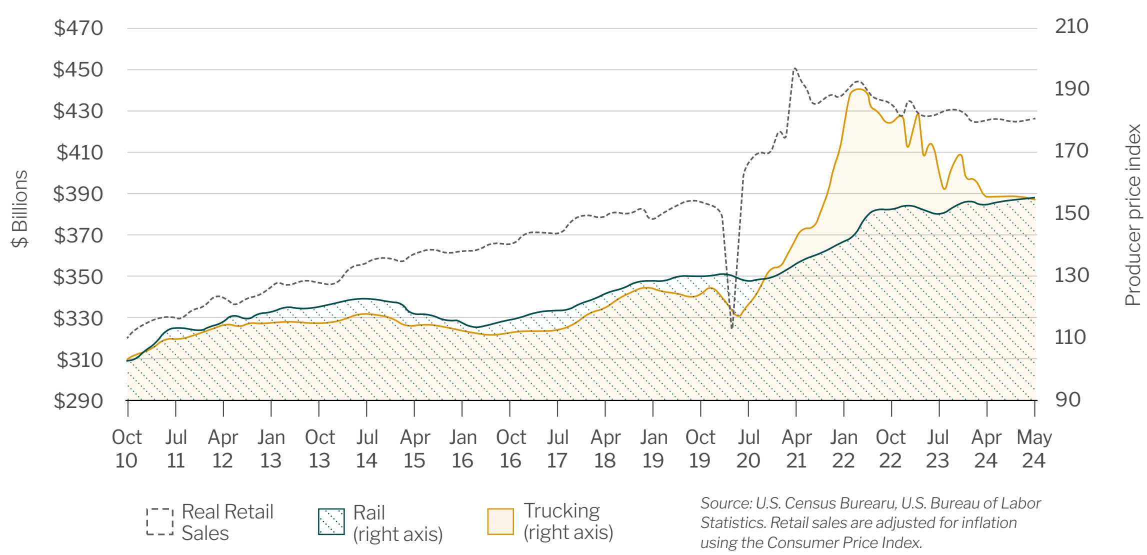
Consumer spending is the largest driver of the U.S. economy, making up about 70% of the Gross Domestic Product (GDP). In this context, a 'strong' economy suggests consumers are buying high levels of goods and services, which increases demand for:

- Gasoline, as consumers drive to/from work, retail stores and vacation spots.
- Diesel, as trucks and shipping vessels transport goods across the supply chain.
- Natural gas (the primary input for nitrogen fertilizers), as industrial facilities produce the goods demanded by consumers.
- Trucks, rail cars and shipping vessels, as raw, intermediate and final products move down the supply chain.

Many economists use U.S. retail sales as a barometer for economic activity and the chart below shows how this variable correlates with trucking and rail prices. After spiking in 2021, trucking costs followed retail sales down while rail cost growth declined significantly.

Changes in transportation costs are often, though not always, preceded by changes in consumer spending.

Inflation adjusted U.S. retail sales and truck/rail price indices

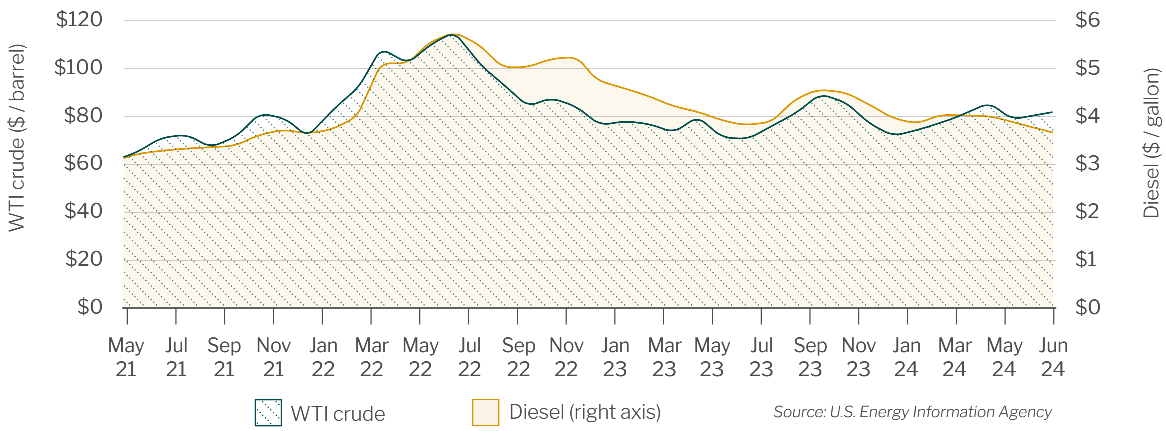


Source: U.S. Census Burearu, U.S. Bureau of Labor Statistics. Retail sales are adjusted for inflation using the Consumer Price Index.

Data and trends

In “Data and Trends” we present select economic indicators to help you gauge the direction of your business. These metrics reflect current market dynamics and their potential impact on your operations. Come back each month to stay informed and adapt swiftly to the ever-changing economic landscape.

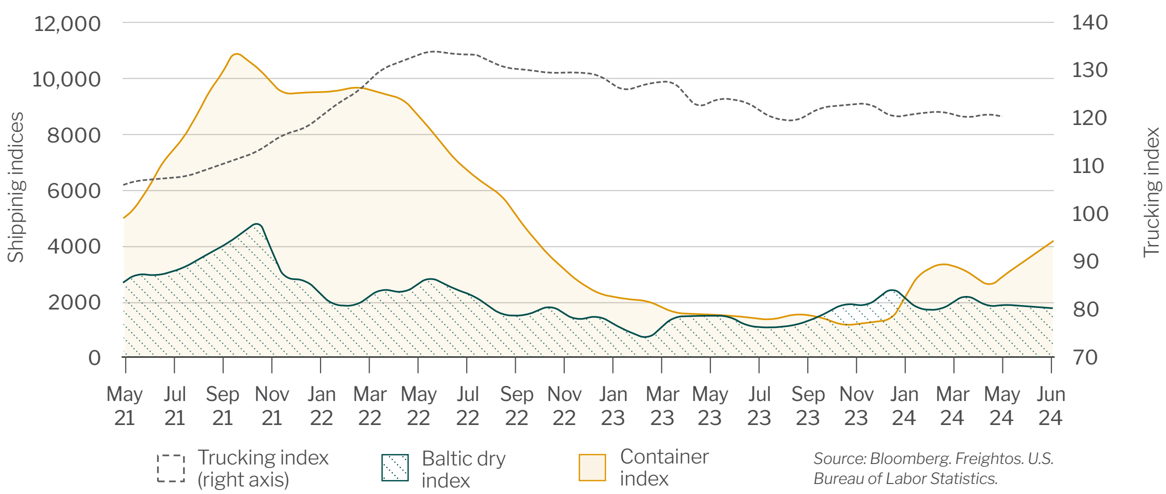
WTI crude oil and diesel prices



Observation: Crude oil prices remain volatile, trading between $72 to $81 per barrel in June. Uncertainty around economic growth has tempered demand projections.

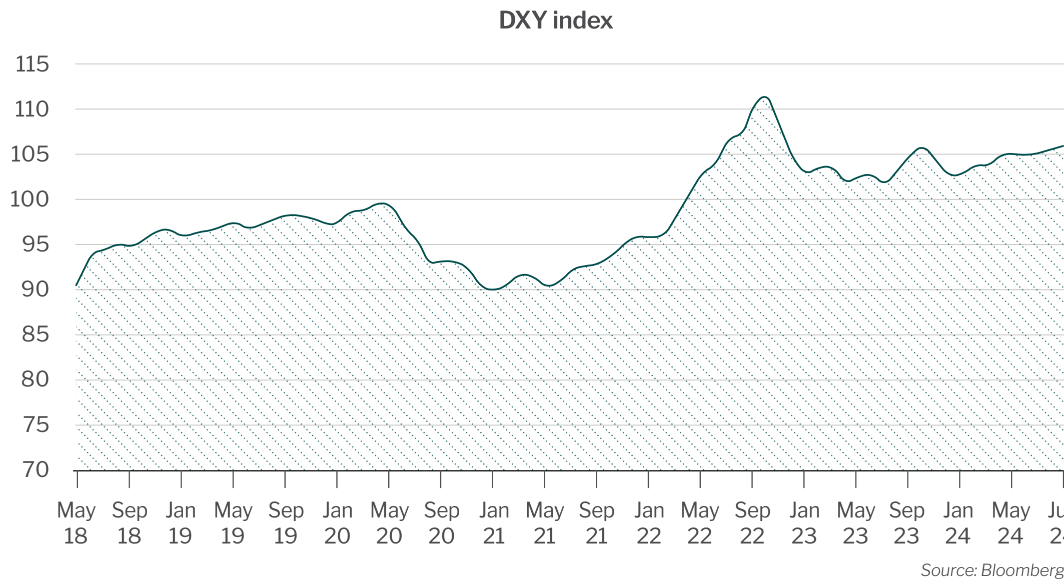
About this indicator: The West Texas Intermediate (WTI) crude oil price is a benchmark for oil pricing and influences the cost of fuels like diesel, which is essential for running farm equipment and transporting goods. Diesel prices serve as an indicator of the average cost of diesel fuel on the West Coast.

Transportation



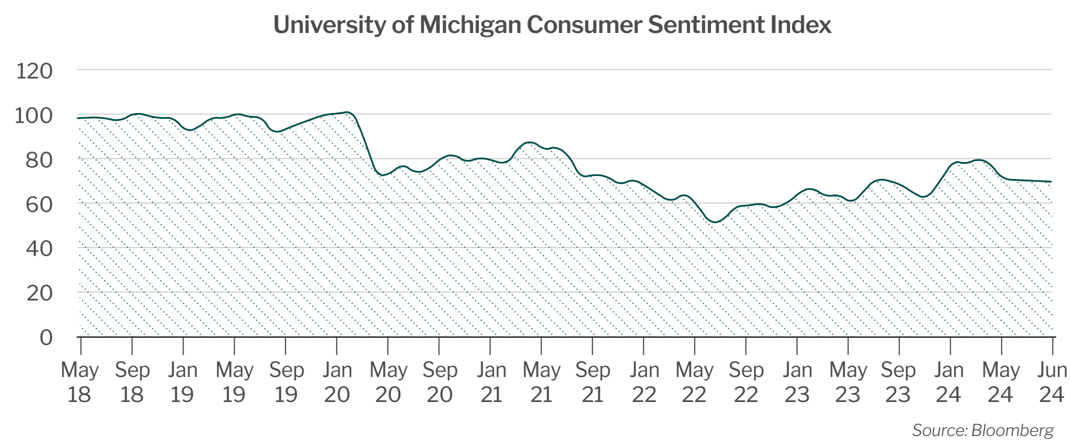
Observation: Shipping costs have risen recently, but many analysts expect cost pressure to ease in the second half of 2024.

About this Indicator: The trucking index measures the changes in trucking freight rates over time. The Baltic Dry Index measures the cost of shipping raw materials (such as grains, sugar, metals, coal, and other bulk products) in varied sizes of dry bulk shipping carriers. For farmers, a high index suggests strong demand and potentially higher shipping costs, while a low index could indicate weaker demand and lower shipping costs. The container index measures the average cost of shipping containers and reflects the demand and supply dynamics of container shipping services. For producers, changes in the container index can impact the cost of exporting their products or importing supplies.



Observation: The DXY index has been rising since December 2023, indicating an appreciating U.S dollar. Higher interest rates and elevated geopolitical risk support a strong U.S. dollar in the near-term.

About this indicator: The DXY index measures the strength of the U.S. dollar against a basket of foreign currencies. This index is an important indicator for farmers on the competitiveness of U.S. agricultural exports. A stronger dollar can make U.S. exports more expensive for foreign buyers, potentially reducing demand, while a weaker dollar can make imports more expensive, increasing costs for farmers who rely on imported goods such as machinery or fertilizers. When the DXY index is above 100, the U.S. dollar is appreciating versus other major global currencies.



Observation: Consumer sentiment has been declining since March, primarily due to concerns over increasing interest rates and high inflation. This waning confidence is likely to impact discretionary spending, potentially leading to a slowdown in economic growth if the trend continues.

About this indicator: The University of Michigan Consumer Sentiment Index is a measure of consumers' attitudes and expectations about the overall economic prospects of the country. A higher index indicates increased consumer confidence, which can lead to more consumer spending on goods and services, including agricultural products. For farmers, a rising index can signal a potential increase in demand for their products, while a falling index may suggest a decrease in demand and lower prices for their crops.

Quarterly economic update

Executive summary

Economic growth will likely continue at a modest pace despite financial headwinds, political uncertainty, persistently tight monetary policy, fading fiscal tailwinds and the accumulated impact of high consumer inflation over the last four years. Federal deficits, weakness in the commercial real estate sector, elevated geopolitical risk and weak global growth are also concerns.

For the remaining of 2024, look for hourly earnings and wages to expand by 3.5% to 4%, inflation to be near 3% and unemployment to remain slightly above 4%, which support personal consumption, business spending and Gross Domestic Product (GDP) growth of 1% to 2% (annualized). The first half of 2025 will likely see GDP growing by a similar rate of 1.5% to 2% (annualized), the Consumer Price Index (CPI) dropping below 3%, weakening job growth and unemployment around 4% to 4.5%. Signs of slower inflation and weaker job growth should allow the Federal Reserve to start easing policy rates towards the end of the year or early 2025 with two to four 25 basis point rate cuts throughout 2025.

The economy expands at a modest pace with a reduced probability of recession.

The pace of economic growth for Q1 2024 slowed to 1.4%. During this period, consumer spending grew by 1.5% with contributions from business spending and the housing sector. Government spending slowed and inventories and net exports were an outright drag on growth. The Federal Reserve (Fed) forecasts real GDP will expand by 2.1% in 2024 and hold steady at 2.0% for 2025 and 2026. The impact of persistently elevated interest rates continues to affect areas of the economy differently.

- Home buyers are struggling with 7% or higher 30-year fixed mortgage rates. Housing starts are at the lowest level in four years and year over year, existing home sales are down 2.8% and home prices are up nearly 7%. Despite this weakness, the average price for previously owned homes continues to increase at an annual rate of nearly 6%.
- Higher interest rates, in addition to persistently elevated inflation and weakening job markets, may be leading to weaker consumer confidence. This may indicate a slowdown in spending. Consumer spending is the primary driver of economic growth in the U.S.

The unemployment rate has trended higher as the labor force grows faster than household employment, largely due to immigration flows and demographic trends. A sharp increase in unemployment to the 5% to 6% range would likely indicate the economy is in or nearing a recession. The average unemployment rate has been 5.7% since the late 1980s.

Monetary policy could start easing by Q4 or early 2025.

Many analysts expect the Fed to start easing monetary policy within the next six months, provided inflation pressures start subsiding and employment growth cools.

- Recent federal funds futures and policymaker guidance suggest cuts totaling 50 basis points for this year from the current target rate of 5.25% to 5.50%, with the first 25 basis point rate cut occurring at the September FOMC meeting. Policymakers may wait for concrete signs of progress on inflation toward the Fed's 2% target for core-PCE (personal consumption expenditures minus food and energy). Core-PCE is currently at 2.75% and forecasted to decline to 2.3% by year end 2025.
- The FOMC trimmed the pace of Quantitative Tightening (the process of reducing bond holdings) to sustain market liquidity by 37% to $60 billion per month during their meeting in May. Federal Reserve balance sheet holdings of Treasury and agency mortgage-backed assets are currently valued at $6.8 trillion, down 11.5% year over year.
- The Long-term Rate Projection increased from 2.5% to 2.75% for June 2024, which was unchanged from June 2019 to December 2023. Market analysts are unsure about what this signifies. For instance, it could mean officials think the 2.0% core-PCE target is too low or the spread between the 2.0% target and the policy rate should be wider (more restrictive).

Equity markets are resilient, but the pace of growth is a concern.

Equity markets have performed better than expected given persistently elevated interest rates, largely due to a small selection of high-tech stocks. The S&P-500 index is up over 26% from a year ago and nearly 15% year to date. Some investors are concerned that growth is too narrowly concentrated and/or major equity indexes have risen too fast.

Some consumers are financially stressed.

Consumer loan delinquencies have increased every quarter since Q3 2021, though they remain below the 20-year and 30-year averages. This trend reflects growing financial stress among consumers (particularly among those who earn less than $50,000 per year) and may be due in part to the cumulated impact of high inflation over the last four years. Wages have not kept up with the increase in consumer prices, as the total CPI index has increased over 22% while average hourly earnings are up 17.5%.

Fiscal policy is an increasing concern.

The current pace of federal spending adds about $1 trillion to the national debt every 100 days, which now equates to over 122% of GDP. The supply of treasury bonds is growing and may eventually put upward pressure on interest rates, tax rates and/or inflation. While most agree the growth in debt is unsustainable, Congress is unlikely to respond until a crisis arises or it creates significant hardship on the American people.

Commercial real estate worries persist.

Concern over the deterioration of commercial real estate (CRE) values is a worry for some regional banks, namely New York Community Bank. It is too early to determine if weakness in CRE will spread to other investment classes, but it bears watching.

Global conditions present risk to outlook.

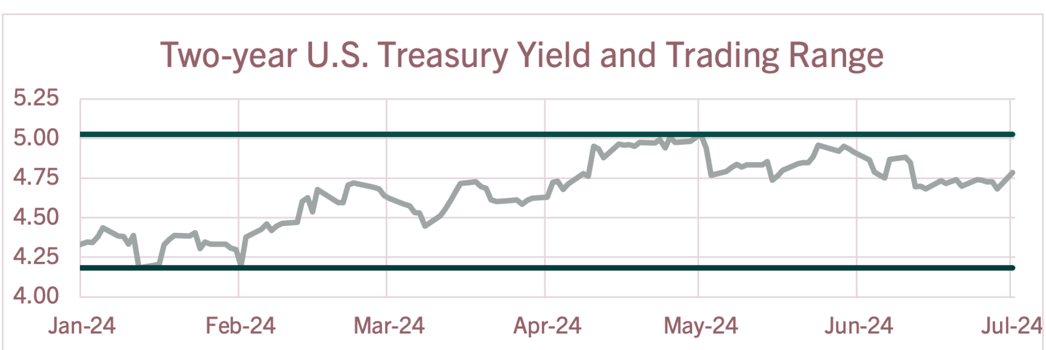
Conflicts in the Middle East and Ukraine continue to disrupt global trade flows and dampen economic growth. Shipping companies are adapting to longer trade routes as major throughputs in the Red Sea and Panama Canal remain limited and major ports experience delays and/or disruptions. There is increasing evidence that China's economy is weakening, which may lower demand for raw materials while also increasing demand for physical assets such as gold. Rising gold demand and prices could impact financial and stock markets in the U.S.

Interest rates review

U.S. Treasury yields: The six-month trading range for the 2-year Treasury has been stable at 4.18% to 5.03% as the Fed remains on hold (short-term yields are driven by monetary policy). From the March Market Commentary, the top of the range moved lower to 5.03% from 5.22% while the bottom of the range was unchanged at 4.18%. Many market observers believe policymakers have done enough to bring inflation under control and the federal funds rate has reached its terminal rate for this Fed tightening cycle.

The market is projecting the Fed will cut rates by a total of 50 basis points this year with the first and second rate cuts occurring at the September and December FOMC meetings. Looking ahead to 2025, futures suggest we can expect 25 basis point rate cuts at the January, April and July FOMC meetings as well. This amounts to a total of 125 basis points in cuts over the next year.

The Fed's economic projections from the June policy statement indicate one rate cut this year with the potential for 100 basis points in rate cuts in 2025. Recent speeches from officials suggest the December FOMC meeting is when a rate cut may be announced.



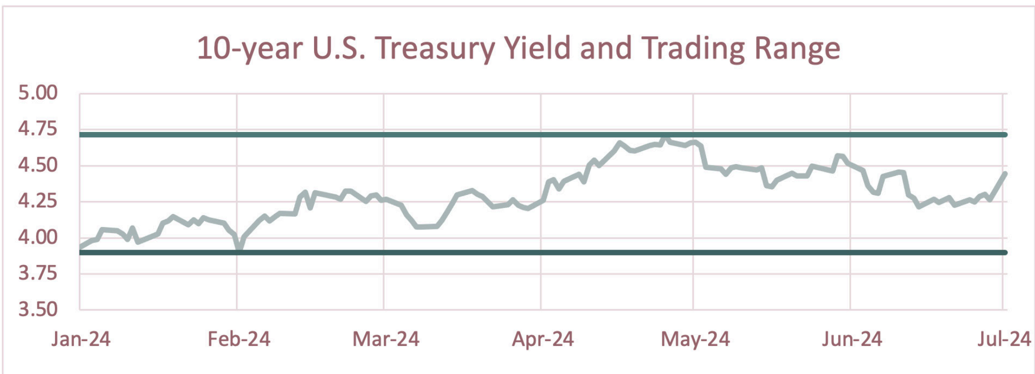
The trading range for the 10-year Treasury yield narrowed to between 3.83% and 4.72% (the top end came down from 4.97%). Outlooks for economic growth and inflation typically drive yields for 10-year treasuries.

The runup in yields in April was related to a string of stronger-than-expected economic reports and record highs for the major equity indexes, which caused the Fed to indicate potential rate cuts would likely be delayed. Federal Reserve Chair Jerome Powell said it would likely take “longer than expected” for the FOMC to gain confidence that inflation is on a sustainable path toward the Fed’s target of 2%.

The slope of the yield curve remains inverted as there is uncertainty over when the first cut in policy rates may occur. The 10-year yield has been lower than the 2-year yield since July 5, 2022, and the 3-month Treasury Bill yield since November 8, 2022, which is the longest inversion on record.

Yield curve inversions are the result of the Fed increasing monetary policy rates to a level that exceeds long-term yields. Typically, policy rates are increased in response to a perceived imbalance in the economy by the Fed (i.e. excessive demand). As banks lend long and borrow short (deposits) profit margins are squeezed and credit contracts.

A recession has been slow to develop during the current cycle as banks have kept the rate paid on savings accounts very low while the increase in short-term interest rates has not been as challenging as compared to past tightening cycles. The commercial bank prime lending rate has increased to 8.5%. While bank lending has slowed somewhat, it hasn’t been widespread enough to cause a recession.



Economic highlights

Employment: The Establishment Survey from the U.S. Bureau of Labor Statistics reported nonfarm payrolls surged by 272,000 for May, which exceeded market expectations. The new jobs level remains sufficient to support the current rate of unemployment. The labor sector has been much more resilient than economists expected given 525 basis points in monetary tightening. Nonfarm payrolls have exceeded 125,000 for 41 consecutive months ranging from 939,000, as we were emerging from the pandemic lockdowns in July 2021, to 136,000 in December 2022. Education and health services, government employment, and leisure and hospitality sectors continue to lead job growth.

The Household Survey indicated the unemployment rate for May rose 0.1 percentage points to 4.0%, the highest it has been since November 2021. The increase in unemployment was the result of a 408,000 decline in employment while the labor force shrank by a smaller 250,000 resulting in 157,000 more unemployed. Compared to a year ago, the labor force has grown by 909,000 while the number of employed has increased 376,000, resulting in 533,000 more Americans being unemployed.

The labor force participation rate, which includes those working or actively looking, decreased 0.2 percentage points to 62.5%. The broader measure of unemployment that encompasses discouraged workers and those holding part-time jobs for economic reasons was unchanged at 7.4%.

Average hourly earnings increased 0.4%, or 14 cents to $34.91, which is up from $33.54 a year ago, representing a 4.1% year-over-year increase in nominal terms. Adjusting for inflation, so-called real average hourly earnings increased 0.8% compared to a year ago.

Leading indicators suggest the labor market has softened somewhat but remains relatively stable as the four-week average for initial claims for jobless benefits has increased to 232,750 from 214,500 in early May. While job openings declined in April to 8.1 million, which is down from 9.9 million a year ago, openings are well above the 5-year average of 6.1 million from April 2014 to April 2019, just prior to the COVID-19 outbreak. Additionally, job openings continue to exceed the number of unemployed by nearly 1.6 million.

Despite modest weakness, the continued resilience of the labor market may contribute to the Fed maintaining policy rates at higher levels.

	May-24	Apr-24	Mar-23	Feb-24	Jan-24	Dec-23	Nov-23
New Nonfarm Payrolls (thousands)	272	165	310	236	256	290	182
Unemployment Rate (U-3)	4.0%	3.9%	3.8%	3.9%	3.7%	3.7%	3.7%
Unemployed (millions)	6.7	6.5	6.4	6.5	6.1	6.3	6.3
Part-time for Economic Reasons (millions)	4.4	4.5	4.3	4.4	4.4	4.2	4.0
Part-time for Non-economic Reasons (millions)	22.7	22.3	22.9	22.3	22.2	22.5	21.9
Average Hourly Earnings Change (yoy)	4.1%	4.0%	4.1%	4.3%	4.4%	4.3%	4.3%
Unemployment Rate (U-6)	7.4%	7.4%	7.3%	7.3%	7.2%	7.1%	7.0%

Economic growth

Gross Domestic Product: The most recent estimate for Q1 2024 real GDP (inflation adjusted) showed the U.S. economy expanded by 1.4%, a slight upward revision from the second estimate of 1.3%. The accumulation of more complete data from prior updates showed consumer spending was losing momentum coming into quarter end. Recent weaker retail sales reports reflected the slowing trend for consumer spending. Upward revisions to business and government spending were offset by weakness in inventory investment and net exports. Looking ahead to the Q2 2024 growth, forecasters are projecting the economy expanded by about 2%. We will get the advance report on Q2 2024 GDP on July 25.

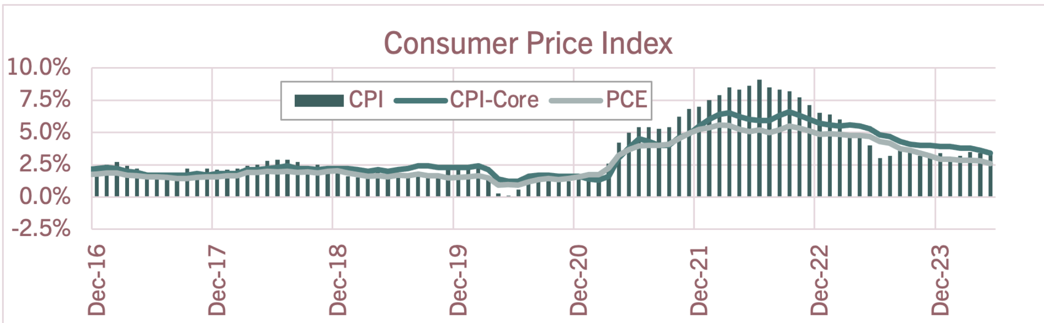
	Q1 2024 3rd Est.	Q1 2024 2nd Est.	Q1 2024 1st Est.	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Real GDP	1.4%	1.3%	1.6%	3.4%	4.9%	2.1%	2.2%
Personal Consumption	1.5%	2.0%	2.5%	3.3%	3.1%	0.8%	3.8%
Business Investment	4.4%	3.3%	2.9%	3.7%	1.4%	7.4%	5.7%
Residential Investment	16.0%	15.4%	13.9%	2.8%	6.7%	-2.2%	-5.3%
Government Spending	1.8%	1.3%	1.2%	4.6%	5.8%	3.3%	4.8%
Change in Inventories	-$26.3b	-$27.1b	-$19.5b	-$22.9b	$62.8b	-$12.2b	-$124.7b
Net Exports	-$41.7b	-$56.8b	-$54.7b	-$12.1b	-$2.5b	$6.9b	$30.5b
GDP Price Index	3.1%	4.3%	3.1%	1.6%	3.3%	1.7%	3.9%
Nominal GDP	4.5%	5.1%	4.8%	5.1%	8.3%	3.8%	6.3%

Consumer inflation

Consumer Price Index (CPI): Despite consumer inflation slowing from the June 2022 peak, it remains elevated with year-over-year U.S. inflation at 3.3% for May 2024. CPI inflation has remained above the low of 3% from nearly a year ago. Shelter prices, which account for about a third of overall CPI, are running at 5.7%. A deeper look into the data indicates food prices are up 2.1% year over year while gas prices are up 2.2%.

Stripping out volatile food and energy prices, the so-called core rate of inflation is increasing at 3.4%, which is largely being held higher by services-based inflation (+5.3%) while commodity-based price inflation is actually falling at -1.7% compared to a year ago. This is largely due to decreases in used car and truck prices.

The Fed's preferred measure for inflation, the core PCE (Personal Consumption Expenditure), increased by 2.6% year over year as of May. The Fed's target for core PCE is 2.0%.



Monetary policy: The table below summarizes recent monetary policy actions by the Federal Open Market Committee. The next FOMC meeting is scheduled for July 30-31. Federal funds futures suggest policymakers will trim rates by 25 basis points in September and December.

In their June Summary of Economic Projections statement, Federal Reserve officials indicated they believe one 25 basis point cut in rates would be appropriate. This would likely occur at the November or December FOMC meeting.

At the May FOMC meeting, the Committee reduced quantitative tightening by decreasing the runoff of Treasury security holdings from $60 billion per month to $25 billion. This will slow the runoff of Treasury securities from the Fed's portfolio and help support liquidity for the U.S. Treasury bond market.

Directives to the Open Market Desk at the Federal Reserve Bank of New York

	Jun. 24	May 24	Mar.24	Jan. 23	Dec. 23	Nov. 23
Fed. Funds Target Range	5.25-5.50%	5.25-5.50%	5.25-5.50%	5.25-5.50%	5.25-5.50%	5.25-5.50%
Interest on Excess Reserves	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Overnight Reverse Repo	5.30%	5.30%	5.30%	5.30%	5.30%	5.30%
Treasury QT (billion)	-$25	**-$25**	-$60	-$60	-$60	-$60
Agency MBS QT (billion)	-$35	-$35	-$35	-$35	-$35	-$35