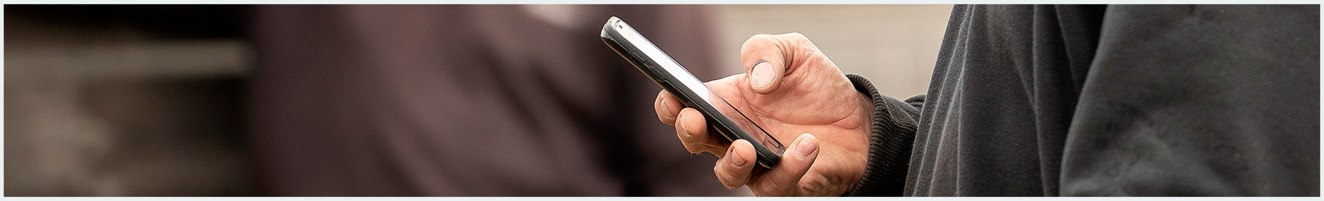
October 2024

Monthly Market Update



Economic headlines

Treasury yields fall as Fed cuts interest rates.

The 2-year and 10-year Treasury yields have traded lower over the last several months in anticipation of a rate cut, as well as lower inflation levels and weaker labor reports. The Federal Reserve (Fed) cut the federal funds target by 50 basis points to a range of 4.75-5%. Fed officials view the risks of rising unemployment and higher inflation as roughly balanced and do not want to see further weakness in the labor market.

Equity markets set records.

Equity markets have performed better than expected in 2024 despite persistently elevated interest rates and softening employment, among other concerns. The major indexes have established several record highs over the last few months.

Rising federal debt sparks worries, but action is unlikely.

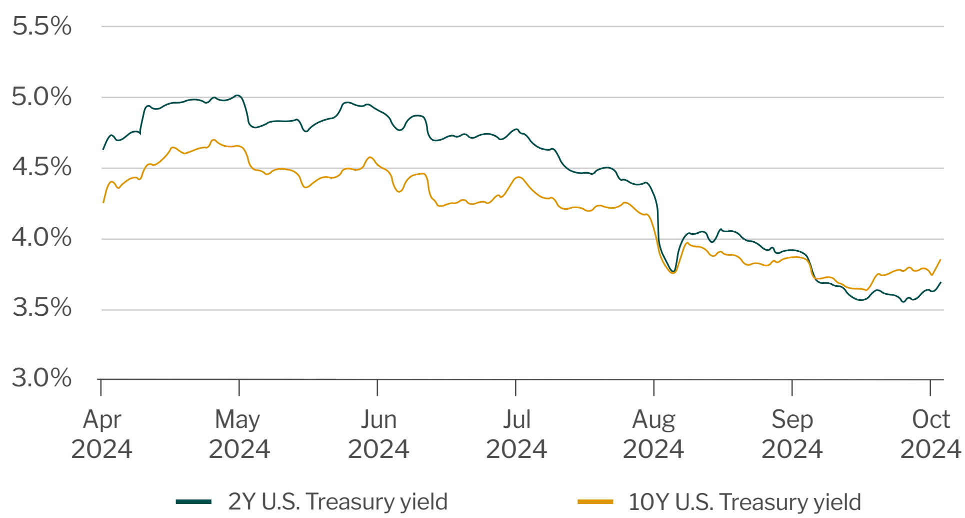
Federal debt now represents 120% of Gross Domestic Product (GDP) and continues to grow. Rising debt levels could increase both inflation and treasury yields, weaken the U.S. dollar, and reduce the capacity of the U.S. government to respond to an economic crisis or international event such as war. Congress is unlikely to respond until a crisis arises or it creates significant hardship on the American people.

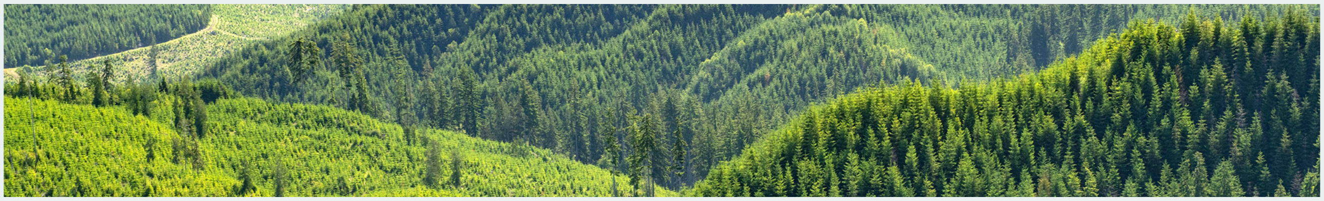
Global conditions present risk to U.S. economic growth.

Escalating conflict in the Middle East, continued war in Ukraine, shipping disruptions in the Red Sea, and increasing collaboration among Russia, China, India and Brazil (among other smaller countries) present significant risks to the U.S. economy. These developments could further disrupt supply chains and weaken the U.S. dollar.

Treasury yields

Source: U.S. Department of the Treasury.





Industry updates

General sentiment – *Harvest time sees declines in producer sentiment.*

The long-term outlook for most commodities is bearish, with low prices persisting and elevated input costs lingering. Low producer sentiment has declined further as many commodity prices have fallen throughout harvest. The Purdue University/CME Group Ag Economy Barometer, which measures producer sentiment, dropped to its lowest level in eight and a half years. Although there was some producer optimism after the Fed cut interest rates by 50 basis points in September, it was not enough to boost overall sentiment. While low prices tend to correct over time, this period can be challenging for producers. Effective risk management strategies are essential to navigating cyclical downturns.

Crop inputs – *U.S. agriculture producers avoid fallout from dockworkers' strike.*

Oil prices held relatively flat in September, then spiked in early October on escalating conflict in the Middle East (a major producing region). Demand remains low due to weak economic activity and continues to offset some supply risks, including relatively low domestic inventories, production curtailments in Libya, and the Organization of Petroleum Exporting Countries' decision to postpone production hikes. China announced a significant economic stimulus program; however, it remains unclear how successful these efforts will be. Russia continues to supply international markets, especially India and China, despite sanctions.

Dockworkers from the International Longshoremen's Association (ILA) went on strike across 14 Gulf and East Coast ports on Oct. 1. A tentative agreement reopened ports on Oct. 3, extending the current contract through Jan. 15, 2025, and providing additional time to negotiate remaining issues. Should a permanent deal fail to be brokered, it has the potential to result in goods shortages, lower export volumes (14% of the nation's agricultural exports), and supply chain bottlenecks (53% of national agricultural imports) as shipbrokers reroute vessels to West Coast ports. Lower diesel prices have helped soften transportation costs; however, trucking rates reportedly ticked up in September on higher demand. Dry bulk shipping rates increased 16% in September, in part due to rising U.S. grain exports. Container freight rates fell 14% due to lower export volumes out of China.

Fertilizer prices softened slightly in September due to weaker-than-expected demand and strong supply. Hurricanes Francine and Helene led traders to sit on the sidelines, and tropical storms in India reduced global demand for urea. Urea prices remain significantly above pre-pandemic levels, leading some analysts to wonder if global agricultural producers will reduce their use. Phosphate supplies are tightening as major producers, including the U.S., Morocco and China, shift their export strategies. Global potash supply is strong as Russia continues to supply international markets, particularly India and China.

Labor cost and availability are a top concern for producers across the West. Expanded worker protection rules under the H2A Visa Program and new thresholds for overtime in Washington and Oregon have added to the complexity and cost of sourcing labor.

Almonds and pistachios – *Almond and pistachio crops to come in light.*

Almond prices appear mixed, with increases for kernels and little to no movement for inshells. Demand from India, a large consumer of inshell nuts, is tepid in part due to inventory carryover from purchases earlier in the year. Harvest is well underway, and reports suggest a light crop with smaller-than-average nut sizes due to hot summer weather. Yields will likely come in below USDA's official 2.8-billion-pound estimate. The Almond Board of California's August Position Report shows an inventory carryover of 502 million lbs, but there is some indication of shipment rates increasing in September. A lighter-than-expected crop, along with depleting inventories, should improve the balance of supply and demand over the next year, which should bolster prices.

Pistachio harvest is underway, and the industry expects the 2024 crop to come in between 950 million and 1.1 billion lbs. This level is a notable decrease from 2023 due to it being an off year for production. (Pistachio trees are alternate bearing, producing a large crop one year and a small the next). Prices are holding firm and may increase on the shorter supply; however, this is unlikely to compensate for the loss in volume. Base prices are flat from last season, but bonus payments (provided at end of the season) should improve, assuming pistachio prices increase.

Apples – *Cautious optimism for the 2024 apple crop.*

The apple industry is cautiously optimistic for the 2024 marketing season. The smaller 2024 crop should support prices by early 2025, which in turn should improve producer margins. The organic sector continues to see strong growth in consumer demand.

Harvest has kicked off and fruit quality and color appear generally favorable. Intense summer heat has resulted in a smaller-than-average size profile. Prices strengthened across most varieties in September with the exception of Galas due to increased supply. Galas are among the first varieties harvested in a season. Honeycrisp supply is significantly down on the 2024 crop, enabling packers to better clear inventories from the 2023 crop. A significant number of growers have reported issues with bitter pit (damage due to nutrient deficiencies, often resulting from excess heat) for the Honeycrisp crop. Diversified producers in Washington and Oregon may experience the smallest pear crop in 40 years. Pear prices are rising, which may lead to above average returns for growers.

Cattle – *Heavier carcass weights offset decline in production.*

Analysts forecasted a 4-5% decline in 2024's beef production, but by mid-September, production was down only 1.1% from the previous year. This discrepancy is due to heavier carcass weights. Steer carcass weights averaged 930 lbs in August 2024, up 29 lbs from a year ago. Heifer carcass weights are up 20 lbs from the previous year. The increase in carcass weights is largely driven by a reduction in cattle numbers, incentivizing longer feeding periods to maintain feedlot inventories. Decreasing feed prices also encourage longer feeding periods as the value of gain exceeds the cost. Corn prices were under $4 per bushel in August, before rising by $0.29 per bushel during September. Hay prices have fluctuated but remained below 2023 levels for feeder quality hay. Northwest feedlots had access to ample, low-cost potato silage due to an oversupply of potatoes in 2023.

Producers are optimistic due to strong cattle market performance. Western producers have seen phenomenal fall sale prices, with some calves selling for over $3 per cwt. Despite increasing drought conditions in parts of the West, the availability of inexpensive and abundant hay has boosted confidence. Even with the expected seasonal price softening during the fall, producers remain positive.

Starting Nov. 5, all ear tags for cattle, including all dairy and sexually intact beef breeds over 18 months, must be electronically readable for interstate shipment. Cattle going directly to slaughter and those moving across state lines to graze pasture are exempt, and ear tags applied before this date are grandfathered in. The USDA aims to increase traceability for disease outbreaks, enabling quicker responses and supporting international buyer trust. However, some ranchers are concerned about data security and find electronic tags could be cost-prohibitive for smaller operations in the long term (tags averaging $3 per head). Opponents also argue that for the system to be fully prepared for a foreign animal disease outbreak, approximately 70% of cattle would need to be traceable, whereas this new rule would only affect about 11-12% of cattle.

Dairy – *Milk production falls for 14th month as prices improve.*

Dairy prices are expected to remain strong in the near term, supported by constrained milk production. For an unprecedented 14 consecutive months, U.S. milk output declined year-over-year, down 0.1% from August 2023. This reduction in milk output has been driven by low milk prices, high cull cow prices, and the impact of highly pathogenic avian influenza (HPAI), commonly known as bird flu.

Uniform milk prices (blended) were below $20 per cwt for Arizona, California, and the Pacific Northwest from February 2023 through May 2024. In May, Arizona prices rose above $20 per cwt, and California and the Pacific Northwest FMMO prices followed in June. Prices below $20 per cwt were making it difficult for dairies to break even. Many dairies decided to capitalize on rising cull cow prices and cull their less productive cows. Smaller herds meant dairies had to either keep the cows they already had, wait for their heifers to mature, and/or purchase expensive replacement heifers. This has led to dairies holding onto their older, less productive cows. This, combined with lower output from cows affected by HPAI and intense heat in July and August, has contributed to consistently lower national milk production.

Producers are more optimistic about dairy profitability for the rest of the year. Milk futures are projected to be in the $20-$23 per cwt range, and butter futures reached an all-time high in September, supporting Class IV milk prices. Although futures prices have fallen some, they still offer favorable prices for dairies. Feed costs are decreasing due to a large corn and soybean crop, and weaker export demand for hay. The Dairy Margin Coverage milk margins above feed costs rose to $13.72 per cwt in August, up 112.4% from the previous year. The Fed cut interest rates 50 basis points in September; the first rate cut in over four years. This cut will directly impact producers' operating line rates, helping to reduce operating expenses for dairies.

Regionally, the dairy market presents a mixed picture. Washington dairy producers face some of the highest agricultural wage rates in the nation and significant processor milk check retains. In California's San Joaquin Valley, an additional 53 dairy herds have been confirmed to have HPAI in the last 30 days as of October 2. Meanwhile, in Idaho's Magic Valley, a new ice cream and powder blending facility has been announced, with expected completion in 2026. Arizona producers experienced favorable conditions and minimal monsoon activity. As the temperature begins to cool, southwest producers will enjoy decent margins the last quarter of 2024 though at least the first half of 2025.

Forest products – *A weak housing market impacts lumber and log producers.*

Lumber prices remained flat in September. While some are hopeful that recent interest rate cuts by the Fed could boost housing activity in Q4 2024, it is unlikely to have a material impact on prices and profitability until 2025. There are some indications that supply may be approaching a better balance with demand due in part to production curtailments in the southern U.S. and falling imports from Canada.

Log prices were flat to down in September. Some timberland operators have reportedly reduced harvest levels and inventories appear to be coming down. Year-to-date Douglas fir and western hemlock exports as of July are down 9% and 30% from 2023 levels. Anecdotal reports suggest continued softening in August and September. Demand is down from Japan, South Korea and China (key markets for U.S. producers). The Chinese government announced a significant economic stimulus program; however, it is not yet clear if this will translate into greater demand for U.S. logs.

Hay – *Demand remains mixed despite low prices.*

The hay market has been struggling. Anticipated price improvements have yet to materialize and export demand remains slow. Alfalfa hay harvests continue across the West, with cutting schedules aligning with the five-year average.

Dairy demand for hay remains a mixed bag. Higher milk prices (up $3 per cwt year over year) should encourage purchases, but lower grain costs (corn silage prices are down 17% from 2023) are creating headwinds. Dairy quality hay prices have dropped 11% to 26% from 2023's already low levels. While dairies are purchasing hay, resistance remains. Some dairies are switching to add more affordable almond husks into their feed rations, potentially reducing long-term hay demand.

Demand for feed quality hay may rise as fall pasture conditions are less than ideal due to hot, dry weather. Over 40% of cattle rangeland in Montana and Oregon is in moderate or worse drought conditions. California cattle ranchers experienced the hottest summer on record. This may lead these ranchers to pull cattle off pasture early and supplement their diets with hay.

International buyers are trying to cut costs as global dairy prices remain challenging, leading to price discounting by exporters and slowing sales as buyers wait for prices to bottom out. Alfalfa hay demand from exporters has been sluggish, though the timothy hay export market has been a bright spot. A smaller timothy crop due to reduced acres in Idaho and Washington, coupled with rain damage to some of the Idaho crop, has increased demand and boosted prices for quality timothy.

Lemons and oranges – *Navel and mandarin 2024 crop sizes to increase.*

Estimates suggest navel and mandarin crop sizes will increase year over year by 2% and 38%, respectively. Pest damage is reportedly minimal and crop quality strong, though growers who did not apply treatments in a timely manner may face lower quality fruit. Most expect the larger supply to meet strong markets. Intense summer heat may impact the size profile of navels in central California. Juice prices are strong, particularly for organic Valencias. According to USDA's latest Fruit and Tree Nut Outlook, California surpassed Florida as the largest orange producer in the U.S. in the 2023/24 marketing season.

While prices are up slightly year over year, lemon markets remain oversupplied due to excess production capacity and rising imports from Mexico and Argentina. Anecdotal reports suggest some producers are removing acres or not fully harvesting the 2024 crop.

Potatoes – *Western potato growers navigate heatwave and market pressures.*

The 2024 potato harvest is underway with good yields and high-quality crops, but growers are facing challenges. In Washington's Columbia Basin and in Oregon, the heat has been manageable, though some fields died off earlier than usual. Production in the Columbia Basin is expected to decrease by 10% from 2023 due to fewer contracted acres and closure of a processing plant facility. In Idaho, the crop condition is mixed, as intense heat caused a smaller-than-average size profile. Idaho's crop is projected to be the third largest due to increased acreage, but still below 2023's record. Extreme heat in California has caused quality issues and yield reductions of up to 20%, though yields remain above the five-year average.

The large 2023 crop carry-over, with 66.8 million cwt of potatoes in storage as of June 1—over 10 million cwt more than the previous year—has impacted margins and open market prices. Prices for Russet and Norkotah potatoes have dropped 6%-17% year over year. Looking ahead, contracted acres for the 2025 crop will likely decrease due to the 2024 oversupply, reducing contract prices. With fewer potato acres, growers face limited profitable crop alternatives as most major commodities are near or slightly below breakeven levels.

Wheat – *Wheat producers face strong yields but low prices in 2024.*

Wheat producers are navigating a complex landscape of strong yields, low prices, and lingering high input costs. Despite record yields in some regions, such as central Montana and central Washington, many Western producers still anticipate needing insurance payments to cover their costs.

Western 2024 winter wheat production was 332.9 million bushels, a 17.6% increase year over year. Timely rains boosted Oregon and Washington winter wheat production, forecasted up 20.6% and 22.9% year over year, respectively. Durum production has been lackluster for AgWest producers, with steady production but lower quality and yields. However, national durum production increased by 25.9% due to North Dakota's large crop, which was 1.6 times larger than the 2023 crop. The silver lining is that durum prices were higher compared to other wheat prices. Spring wheat production increased due to stronger yields, with Idaho and Washington seeing significant yield improvements of 7 and 5 bushels per acre, respectively, thanks to improved drought conditions from 2023.

Wheat markets rallied briefly in mid-September in response to reports of dry weather in Russia and Ukraine, with prices for white wheat rallying to $6 per bushel before retreating to $5.70-$5.95 per bushel. However, large quantities of unsold wheat, some of which are stored in piles outside of elevators, are keeping prices low, leaving many wheat producers at or near breakeven levels. Crop insurance prices for 2025 were set at $7.09 for winter wheat and $6.49 for spring wheat. Typically, spring wheat is sold at a premium above winter wheat prices, and some producers are planning to exclude planting spring wheat in 2025. Looking ahead, winter wheat planting for the 2025 crop is off to a good start, with many producers optimistic due to decent moisture levels.

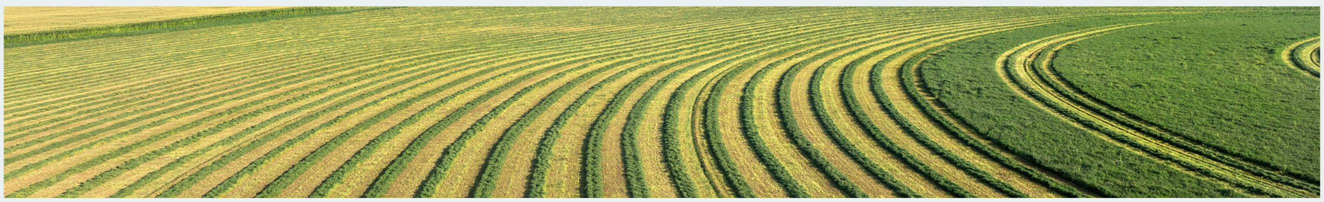
Wine and wine grapes – *2024 wine grape crops are mixed.*

Supply of wine and wine grapes continues to exceed demand across the West. Prices for uncontracted wine grapes have fallen significantly. High inflation over the last two years has impacted consumer willingness to travel, resulting in fewer visits to wineries and lower Direct-to-Consumer sales (down 9% year over year by value and 18% by volume in August). Off-premise and on-premise sales value declined 4% and 2% year over year in August. Efforts to reduce alcohol consumption by various temperance organizations and the World Health Organization may be driving some of the weaker consumer demand (in addition to other factors). Some in the industry expect these efforts to strengthen and eventually influence policy.

California – Anecdotal reports now suggest the wine grape crop could come in 10-40% smaller than last year due to frost damage, excessive heat and stressed vines from the large 2023 crop. A significantly smaller crop could negatively impact grower margins, but wineries may benefit from better flavor concentration and quality fruit. A smaller crop may help to rebalance supply with demand and improve movement for excess 2023 bulk wine still in inventory. Overall, demand for bulk wine is down as wineries scale back production to match current demand levels.

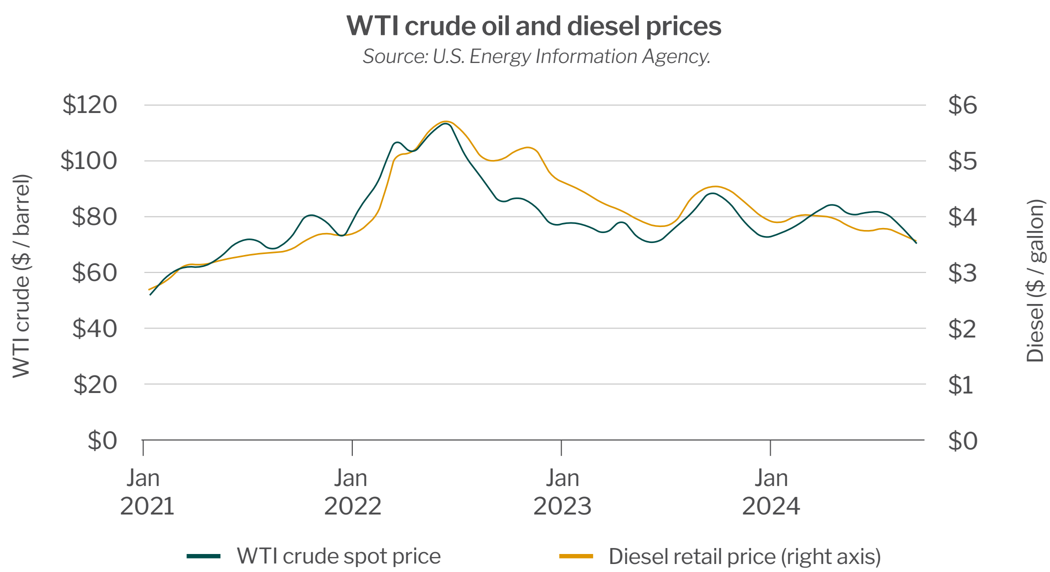
Oregon – Harvest is underway and expectations are now for an average size crop. Some growers are reportedly not harvesting their entire crop due to weak markets. Quality is generally good, but there are some reports of smoke taint (wine grapes impacted by wildfire smoke) in southern Oregon and powdery mildew across the Willamette Valley.

Washington – Wine grape yields are looking average to above average for the 2024 crop. Fruit quality is strong, but there are reports of a significant level of smoke taint.



Data and trends

This section presents select economic indicators to help producers gauge the direction of their business. These metrics reflect current market dynamics and their potential impact on operations. Come back each month to stay informed and adapt swiftly to the ever-changing economic landscape.

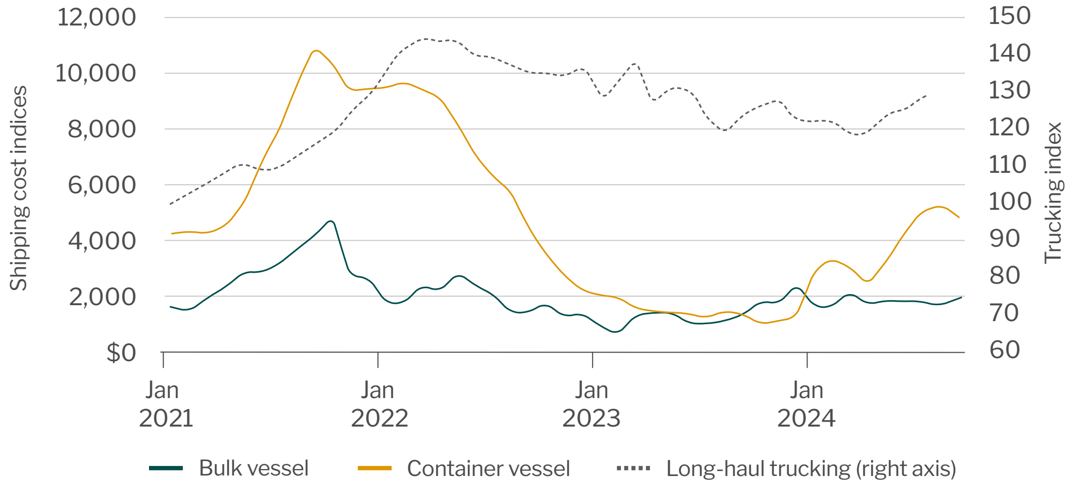


Observation: Economic concerns continue to weigh on energy markets and pressure prices; however, escalating conflict in the Middle East is leading to higher prices (not yet reflected in the chart data).

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.

Transportation price indices

Source: Bloomberg. Freightos. U.S. Bureau of Labor Statistics.



Observation: Trucking rates have risen on higher demand. Bulk shipment rates increased in the second half of September, in part due to rising grain exports out of the U.S. Container rates have softened on lower exports out of China.

About this indicator: The long-haul trucking index measures the changes in trucking freight rates over time. The Baltic Dry Index measures the average global cost of shipping bulk materials, including grains, sugar, metals, and others. The container index measures the average global cost of shipping containers. Shipping prices vary by route and carrier size based on market dynamics and may move independently from global averages (i.e. the cost to ship goods from the West Coast to Asia could remain flat even if global rates are increasing).

DXY index

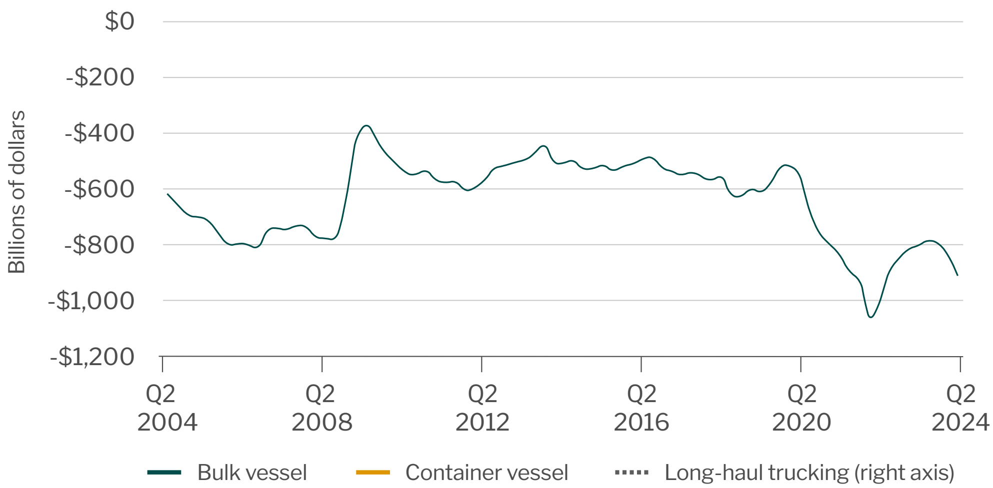
Source: Bloomberg.

Observation: The DXY Index fell in September due to lower interest rates, but started increasing in October due to the escalating conflict in the Middle East (the U.S. dollar is considered a safe haven asset). The dollar may further strengthen if the Fed signals slower-than-expected rate cuts (greater incentive to hold U.S. dollars).

About this indicator: The DXY index measures the strength of the U.S. dollar against a basket of foreign currencies. The strength of the U.S. dollar impacts the competitiveness of agriculture producers in foreign markets. As the dollar strengthens, U.S. producers become less competitive, and vice versa.

Trade deficits

Source: U.S. Bureau of Economic Analysis. Trade Deficit = Exports - Imports.



Observation: Trade deficits are growing as imports increasingly exceed exports. Growing trade deficits may eventually weaken the U.S. dollar and lead to higher inflation.

About this indicator: Trade deficits occur when a country imports more than it exports. While most countries rely on trade surpluses to increase their foreign currency reserves (critical for purchasing imports), the U.S. dollar's unique position as the reserve currency in global trade means the U.S. can, for now, run large trade deficits while still being able to purchase foreign goods.

Spotlight

Why aren't farmer incomes keeping up with food prices?

Summary: Profitability in agriculture is largely down despite rising food prices. On average, farmers, processors, packers and retail outlets are receiving less revenue as a percentage of total spent on food by U.S. consumers, whereas food services and advertising are receiving more. Also, food prices have not kept pace with rising input costs over the last several years and this has further compressed producer margins.

Revenue shifts throughout agriculture supply chain.

The USDA tracks how revenue is spread across agriculture's supply chain in what it calls the Food Dollar Index (see table below). According to 2022 data, the latest available, the percentage of revenue going to farm production, processing, packaging and retail trade is below historical averages. In contrast, the percentage of revenue has increased for food services (food away from home) and advertising. Since 2022, this trend has likely continued as the impact of pandemic lockdowns on dining out eased.

Revenue by food supply chain sector

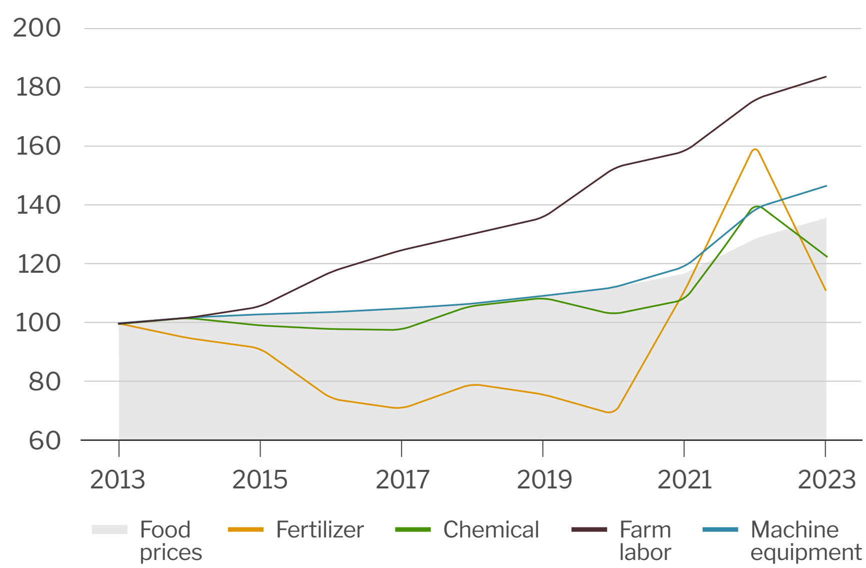
Industry	2022	5Y average	10Y average	30Y average
Farm production	7.9%	7.7%	8.3%	8.4%
Processing	14.4%	15.2%	15.3%	16.6%
Packaging	2.7%	2.8%	2.8%	3.4%
Retail trade	12.4%	13.0%	13.2%	13.3%
Food services	34.1%	32.4%	31.3%	29.5%
Advertising	3.4%	3.1%	3.0%	2.6%
Other	25.1%	25.8%	27.5%	26.2%

Source: USDA, Economic Research Service, Food Dollar Series. Food services include places that prepare, serve and sell food to the public. Others: transportation, energy, finance and insurance, and wholesale trade.

Food prices have not kept pace with input costs.

The cost of inputs, particularly for labor, machinery, and equipment, have outpaced the rise in food prices (see chart below). Labor is perhaps the most significant of these inputs as it makes up on average 10-12% of the total cost of production. This percentage is much higher in many cases.

Food price and input cost indices



Source: Bureau of Labor Statistics. Consumer Price Index (food). Producer Price Index. Labor cost index calculated using farmworker and laborers median hourly wage.

Implications for producers.

Receiving less revenue as a percentage of total spent on food, and input costs rising faster than food prices have reduced producer margins. This trend has several implications, including: 1) less ability for farmers to invest in their operations, 2) greater consolidation to achieve economies of scale, 3) pressure on land values (this has not yet been observed in a notable way in the West), and 4) reduced ability for new producers to enter agriculture. Ultimately, food prices will need to rise to ensure a healthy agriculture sector.

Quarterly economic update

Executive summary

Economic growth has exceeded most expectations over the past several quarters as consumers maintain spending levels. Despite choppy data, the growth trend is slowly moderating due to financial headwinds, political uncertainty, fading fiscal tailwinds, increases in the unemployment rate and the accumulated impact of high consumer inflation over the last four years. Rising Federal deficits, weakness in the commercial real estate sector, elevated geopolitical risk and weak global growth remain concerns.

Economic drivers

Federal Reserve (Fed) eases monetary policy.

Fed officials view the risks of rising unemployment and higher inflation as roughly balanced and do not want to see further weakness in the labor market. These developments led policymakers to cut the federal funds target rate range by 50 basis points on September 18 to 4.75-5%. Looking forward:

- Federal funds futures suggest the Fed will cut the funds rate by an additional 75 basis points by year-end and another 100 basis points in 2025. This would bring the federal funds rate range to 3-3.25% by the end of 2025.
- In September, Fed officials suggested trimming the funds rate by another 50 basis points by year-end would be appropriate. The Fed's Summary of Economic Projections suggests the funds rate will be reduced to 3.25-3.50% by year-end 2025, with the potential for another 50 basis point reduction in 2026.

Equity markets perform well.

Equity markets have performed better than expected in 2024 despite persistently elevated interest rates, softening employment and other concerns. The major indexes have established several new record highs over the last few months. The S&P-500 index is up nearly 34% from a year ago and over 20% year-to-date. Some investors worry growth may have occurred too quickly, and values may be excessive.

Economy stronger than expected.

Real Gross Domestic Product (GDP) grew by 1.6% and 3% for the first and second quarters, largely due to strong consumer spending. During this time, the unemployment rate increased from 3.7% in January to 4.1% in September, while total year-over-year Consumer Price Index (CPI) declined from 3.1% to 2.5%. Looking ahead, the table below summarizes the Fed's most recent projections for the economy. For the next few quarters, look for a gradual slowing in inflation, a gradual increase in unemployment and modest economic growth.

Federal Reserve projections *Source: Federal Reserve Board.*

Indicator	2024	2025	2026	2027
Real GDP growth	2.00%	2.00%	2.00%	2.00%
Unemployment rate	4.40%	4.40%	4.30%	4.20%
PCE inflation	2.30%	2.10%	2.00%	2.00%
Federal funds rate	4.50%	3.50%	3.00%	3.00%

Consumer loan delinquency rates rise.

While consumer spending is projected to expand at decent levels, consumer loan delinquencies for credit card and autos are trending higher. This likely reflects growing financial stress due to rising prices and debt loads.

Fiscal policy is an increasing concern.

Federal debt now represents 120% of Gross Domestic Product (GDP) and is continuing to grow as if the economy needs fiscal support due to a recession. Rising debt levels have the potential to increase both inflation and treasury yields, weaken the U.S. dollar, and reduce the capacity of the U.S. government to respond to an economic crisis as well as international events such as war. Congress is unlikely to respond until a crisis arises or it creates significant hardship on the American people.

Global conditions present risk to economic outlook.

Conflicts in the Middle East and Ukraine continue to disrupt global trade flows and dampen economic growth. Shipping companies continue to adapt to longer trade routes due to disruptions in the Red Sea, while drought concerns with shipping through the Panama Canal have eased. Increasing collaboration among Russia, China, India and Brazil (among other smaller countries) could weaken the U.S. dollar over time. There are reports China is working to spur economic growth via monetary and fiscal policy actions. This may result in higher prices for raw materials, provided their efforts are effective.

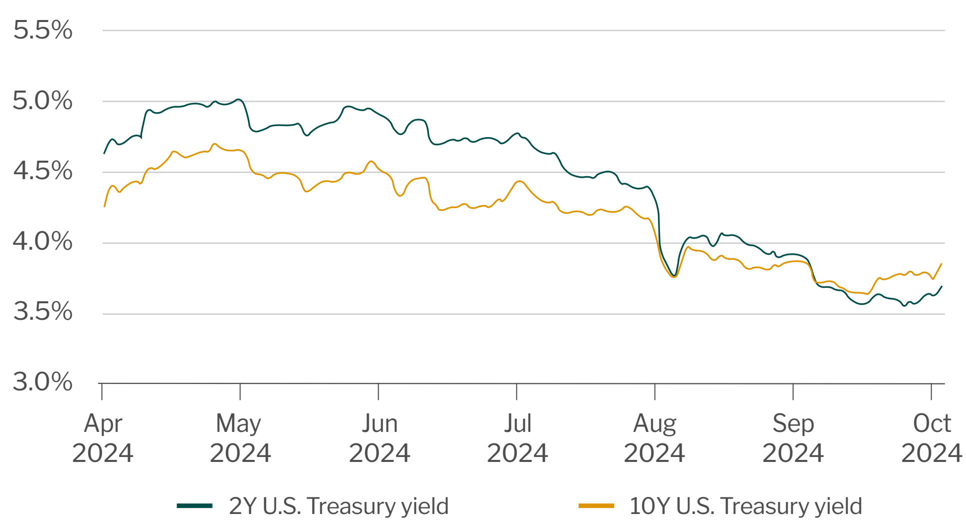
Economic data and trends

Interest rates

U.S. Treasury yields have declined by 65-115 basis points since July 1 in response to lower inflation levels and weaker labor reports. The 2-year U.S. Treasury security is yielding about 3.6% while the 10-year yields 3.8%. The slope of the 2-year to 10-year yield curve is no longer inverted, which is typical when the Fed shifts from a tightening bias to an easing bias. A shift in policy bias can be a recessionary signal. However, there are many factors that may alter the signal at this time, which include the large amount of fiscal stimulus over the past 3-4 years, immigration flows, and extreme monetary policy measures (i.e. quantitative easing and tightening).

Treasury yields

Source: U.S. Department of the Treasury.

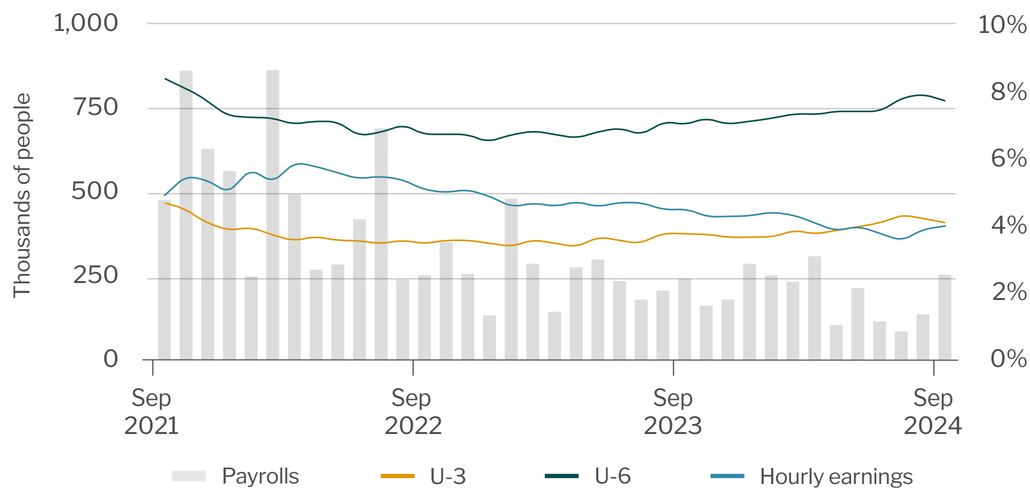


Employment

Nonfarm payrolls rebounded in August and September (see chart below), with September's reading beating expectations. This follows a downward revision of -818,000 jobs for the year ending March 2024, an average decrease of 68,000 per month. The unemployment rate fell to 4.1% in September, but remains above the low of 3.4% in January 2023. The U-6 unemployment rate, a broader measure that includes marginally attached and discouraged workers, decreased to 7.7% in September, but has been trending higher over the past year. The annual rate of increase in average hourly earnings has slowed and is now growing at about 4%. Jobless claims do not appear to be signaling a recession.

Jobs, unemployment and hourly earnings

Source: U.S. Bureau of Labor Statistics.

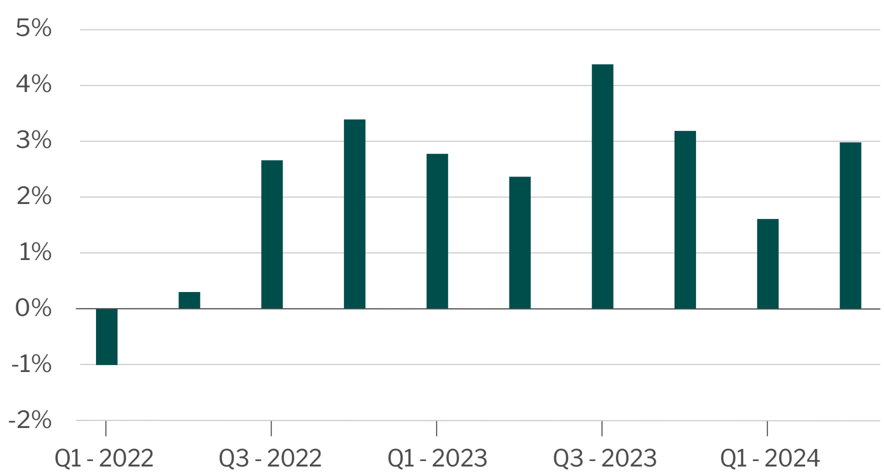


Gross Domestic Product

The third estimate for Q2 2024 GDP came in at 3%, somewhat stronger than Q1 2024, but much weaker than Q3 and Q4 of 2023. The Fed expects GDP to expand by an average of 2% over the next couple years. Consumer spending is expected to drive growth with contributions from business spending and government spending. While mortgages rates remain elevated, contributions from housing will likely remain muted. The Federal Reserve Bank of Atlanta forecasts Q3 2024 GDP growth at 2.5%, which is less than the 3% projection by the New York Fed staff.

Real Gross Domestic Product (GDP)

Source: U.S. Bureau of Economic Analysis.



Inflation

Inflation has been trending lower the last two years. The Consumer Price Index (CPI) is down from 9.1% in June 2022 to 2.5% in August 2024. Over the last four years, the CPI is up 21% with the food and shelter components up 23%. Core-CPI (CPI less food and energy) increased 3.2% year over year in August, driven largely by shelter (+4.9%) and transportation (+7.9%). New and used vehicle prices are falling, but only make up 5% of the index. Core-Personal Consumption Expenditure (Core-PCE), the Fed's preferred inflation metric, increased 2.7% in August. The Fed's target for core PCE is 2%. Further declines in inflation may be challenging as the Fed shifts toward supporting the labor market.

Consumer Price Index

Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis.