February 2025

Monthly Market Update

Economic headlines

Tariffs increase import costs, market volatility and uncertainty for businesses.

President Trump levied tariffs on Canada, Mexico and China, though those for Canada and Mexico were quickly delayed a month following concessions. China retaliated with their own set of tariffs on coal, liquified natural gas, agricultural machinery and certain automobiles. See the impact to agriculture industries in the Industry Updates section below.

Executive orders may impact the economy.

President Trump issued an historic number of executive orders in his first weeks in office, some of which may reduce immigrant labor, limit federal government spending, increase political tensions and disrupt markets. The full extent of these orders remains unclear as many will be challenged in court and possibly rescinded.

U.S. economic outlook mixed.

While Q3 data came in strong and Q4 is shaping up to be as well, forecasters paint a mixed picture of what 2025 will bring. Some analysts predict the U.S. will outperform its peers, driven by robust demand, strong wealth effects and less restrictive monetary policy. On the other hand, others see a continuation of the slowdown that began last year driven by continued restrictive monetary policy and weakening equity values.

Inflation pressures continue.

The December CPI number came in at 2.9%, which was an increase from 2.7% in November. However, the increase was mainly due to volatile energy prices. Core CPI, which strips out energy and food, was at 3.2%, a small decline from 3.3% in November. This is a smaller reduction than economists expected but remains above the 2% target.

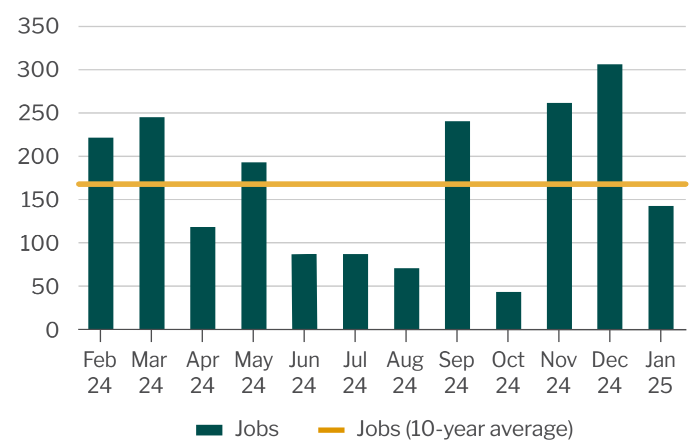
Federal Reserve (Fed) pauses interest rate cuts in January.

The Fed voted to keep interest rates the same at their meeting on January 28-29, as expected. Fed Chairman Jerome Powell gave no signal of when rate cuts would continue, citing uncertainty from lingering inflation and Trump's proposed economic policies. Rates remain restrictive and the pace of rate cuts is anticipated to be more gradual moving forward. The Fed emphasized it will be data-dependent when deliberating on rate decisions.

Labor market remains strong.

The labor market started the year on a soft note with new payrolls coming in below expectation. However, the labor market remains generally strong with persistently low jobless claims and a fall in unemployment in January. The Fed called the job market 'solid' and noted that the unemployment rate seems to have stabilized.

Changes in total employment



Source: Bureau of Labor Statistics.

Industry updates

General sentiment – *Producer sentiment rises amid better commodity prices, but concerns linger.*

According to the Purdue University/CME Group Ag Economy Barometer, producer sentiment has improved slightly, driven by better commodity prices. Despite optimism, tariffs and market volatility are concerns. Some producers are struggling with loans, and a potential trade war adds to market volatility.

Crop inputs – *Crop input costs remain generally stable.*

Energy prices rise temporarily on Russian sanctions.

West Texas Intermediate (WTI) oil prices rallied in the first half of January due to sanctions placed on Russian oil exports. The impact was limited as there is a growing consensus that global oil markets are oversupplied due to lower demand. The ceasefire between Israel and Hamas represents a significant conflict de-escalation and increases stability within the Middle East, a major supplier of oil. Greater stability will help to ensure against supply shocks. Natural gas prices rallied on cold weather from mid-December to mid-January. President Trump is pushing to lower energy costs on multiple fronts:

- **Domestic:** President Trump is seeking to deregulate the oil and gas sector to promote new capacity. Many analysts think this initiative will have little to no impact on supply as current prices are at/near break-even levels for new well construction. Natural gas producers are still reeling from a wave of bankruptcies during the shale boom and are reluctant to invest in new capacity.
- **International:** President Trump is encouraging Organization of Petroleum Exporting Countries (OPEC) to increase oil output; however, Saudi Arabia, the largest producer in OPEC, appears unwilling to do so due to its own national interests.

Trucking demand falls.

Trucking demand ended 2024 on a down note due to lower industrial output and shipping volume following "frontloaded" activity to avoid tariffs. Shipments are falling more than expenditures, resulting in a slight increase in rates. Following two years of capacity reductions, many analysts expect rates to increase moderately in 2025. Much will depend on trade policy and economic growth, two interrelated factors that influence trucking demand. See our Spotlight for an update on shipping conditions.

Nitrogen fertilizers start to rise.

Nitrogen fertilizer prices were mixed in January, with notable gains in anhydrous ammonia and little change to urea. Domestic prices for both could increase due to elevated natural gas prices and tightening global supply conditions. Global drivers include supply disruptions from Iran, restocking ahead of the upcoming agriculture season and increased demand from India. Prices for potassium fertilizers remain stable, but this could change if tariffs are applied to Canada as it is the primary supplier of potash to the U.S. Analysts expect relatively low corn prices in 2025 and this may incentivize lower phosphate and potassium application rates. Lower application rates may put downward pressure on fertilizer prices.

Almonds and pistachios – *Almond prices soften on lower international demand.*

The 2024 almond crop size looks to be 2.58 billion pounds, a 16% decrease from last season. Average almond prices softened slightly the last week in January on lower demand from India, California's largest foreign market. India continues to work through lower priced inventories while the cost to purchase U.S. almonds increased on renewed dollar strength against the rupee. With the slight softening in prices, some growers are electing to increase sales rather than wait for higher prices. The Almond Board's December position report showed year-to-date shipments to both domestic and export markets on par with last season. Declines to India have been offset by increases to the Middle East, including United Arab Emirates, Turkey and Saudi Arabia.

The 2024 pistachio crop size looks to be 1.1 billion pounds, a 36% decrease from last season. Pistachio prices continue to hold flat. While season-to-date exports are down from last year, there are some notable exceptions. As of December, exports on the 2024 crop to Vietnam have doubled to 22.5 million pounds and those to Germany increased 12% to 40 million pounds.

Apples – *Apple prices were mixed in January.*

In January, apple prices decreased for Fuji by 5.6%, Gala 2.9% and Red Delicious 2.7%, held flat for Cosmic Crisp and increased for Honeycrisp by 9.3%. While prices were mixed last month, they remain up year over year from very low levels for most major varieties. Tariffs placed on Mexico and Canada, the two largest export markets for Northwest producers, were delayed by a month. If implemented, retaliatory tariffs are potential risk factors as they could lower demand at a time when prices are weak relative to their historical averages. Northwest producers exported a combined 21.1 million boxes to these countries last season, or about 17% of the total 2023 crop.

In January, D'Anjou and Bosc pear prices increased 5.7% and 4.1%, respectively. Stable demand and a short crop continue to support prices, which are up significantly from last season.

Cattle – *Uncertainty in the beef market amid herd decline and trade tensions.*

The U.S. beef markets are challenged by declining cattle inventory and international trade tensions. Maintaining record prices will depend on continued strong consumer demand.

The annual cattle inventory report indicates a sixth straight year of decline in the national herd, suggesting that U.S. cattle supply won't recover soon. As of January 1, the cattle inventory was 86.7 million head, down over 8 million since the peak in 2019. Rebuilding herds in 2025 would need a significant reduction in beef cow slaughter, but the cattle on feed report suggests this is unlikely. The high percentage of heifers, 38.7%, in feedlot inventories will prolong herd rebuilding efforts. Despite a smaller cattle herd, beef production has been maintained by heavier carcass weights, averaging 848 lbs, nearly 40 lbs heavier than in 2019. There has also been a large influx of beef imports into the U.S. as importing nations (Brazil, Australia, and New Zealand) capitalize on low U.S. beef inventories.

With a shrinking herd and competition for feeder and fed cattle, prices are likely to remain elevated. Spring 2025 live cattle futures contracts are above $200 per cwt. Record cattle prices depend on sustained consumer beef demand.

Cattle and beef markets face uncertainty due to potential tariffs and other issues with Canada and Mexico. These countries are major cattle trade partners, accounting for about 2% and 5% of U.S. feedlot placement respectively.

On Nov. 22, 2024, USDA temporarily suspended livestock imports from Mexico after detecting New World Screwworm (NWS) in Chiapas. Only one cow and a bull calf were affected, with all neighboring herds testing negative and under surveillance. USDA and Mexico are working on an enhanced protocol to resume cattle imports. The resumption of equine imports in late January suggests that resumption of cattle imports may soon follow.

Dairy – *Dairy market faces mixed signals amid HPAI and price stabilization.*

The dairy market is experiencing mixed signals. Bullish factors include market price stabilization, a smaller national herd, and lower production per cow due to highly pathogenic avian influenza (HPAI). Bearish factors including the threat of tariffs, rapid growth of cheese in cold storage, and less competitive U.S. prices on the global market.

December's milk production fell for the second month, reaching 18 billion lbs, down 0.4% from the previous year. National milk production per cow fell, with California experiencing the largest declines, down 6.8% year-over-year due to more than half of the state's herds having HPAI cases. The drop in California's milk production was expected and less severe than many analysts anticipated. The number of active HPAI cases in California has been decreasing, and herd numbers have remained relatively stable, indicating that many culled cows have been replaced.

Lower milk production and fewer cows have helped to support and stabilize milk prices; however, the market remains a mixed bag. The impacts of lower production from HPAI are offset by bearish market factors including the threat of tariffs, the rapid growth of cheese in cold storage, and U.S. prices being less competitive on the global landscape. Dairies can use risk management programs like Dairy Margin Coverage (DMC) to help navigate these challenges. The 2025 enrollment period for DMC is open until March 31, 2025.

USDA announced a final rule amending the uniform pricing formulas for the Federal Milk Marketing Orders (FMMOs). This final ruling, published on Jan. 17, will be implemented on June 1, 2025. The estimated impact on FMMOs will vary depending on each marketing order. Those FMMOs that are less dependent on Class I milk (which includes Arizona, California, and Pacific Northwest FMMOs) will likely not receive as much benefit as other FMMOs from these updated guidelines.

Forest products – *Tepid housing market continues to pressure industry.*

Lumber prices rose modestly in 2024 Q4, largely due to lower supply from capacity curtailments. Newly issued housing permits have trended sideways over the last year, suggesting housing starts are unlikely to pick up this spring. (Housing permits lead construction.) Persistently elevated mortgage rates are likely to continue pressuring home sales in the first half of 2025. Insurance rates are reportedly up 24% on average from 2020 levels, further decreasing affordability. It's unclear if and how natural disasters around the Los Angeles area and Southeast U.S. might lead to an increase in wood products demand. It will take time for insurance companies to compensate homeowners for losses and how, and to what extent, rebuilding takes place remains unclear.

Log prices are largely trending sideways across the Northwest, except for Southern Oregon where low inventory levels have led to a short-term bump in purchases and prices. Cedar sawlog prices in Idaho have strengthened on increased regional demand.

The U.S. exported $8.6 billion in forest product goods (wood products and logs) in 2024 as of November, of which $2.1 billion went to Canada, $1.5 billion to China and $803 million to Mexico. While President Trump's tariffs in early February were delayed, retaliatory tariffs could eventually have a large impact on Northwest exports.

Hay – *USDA Revises 2024 hay production estimates downward.*

The USDA has revised its 2024 hay production estimates down by 7.6% nationally. Despite this, sluggish demand is likely to keep hay prices stable. Western states saw significant revisions, with harvested acre estimates overestimated by 11.67% (typically off by 2-3%). The largest reductions were in Montana (330,000 acres), Washington (100,000 acres), Arizona (30,000 acres), Idaho (30,000 acres), and Oregon (20,000 acres), which contradicts anecdotal regional information.

Western hay demand remains weak. Cow inventories are at their lowest in 76 years, and a mild winter has allowed ranchers to conserve hay. While cold weather could increase interest, many ranchers have ample supplies. Export demand is slow due to many international buyers having sufficient hay stocks, a strong U.S. dollar, and milk oversupply in China, the third-largest western hay export destination. Given these dynamics, hay markets were less reactive to potential tariffs than other commodity markets. Feed alternatives to alfalfa in the dairy industry are also tempering alfalfa demand, with prices for many alternatives historically low..

Lemons and oranges – *Navel prices stabilized, while those for lemons fell.*

Average navel prices stabilized in January and are about 16% below this time last year. Anecdotal reports suggest quality and size profile improved in the second half of the month due to increased rain and chilly nights, which may be supportive of prices. The 2024 clementine crop came in with good quality and normal to above average production. International juice prices remain near historically high levels due to reduced exports from Brazil. Brazilian orange production has been below average for five seasons now, with projections for the 2024/25 crop coming in at record low levels, or 30-35% below its 20-year average. Low production levels are attributed to hot, dry weather and lack of irrigation. Falling juice demand in some international markets has been partially offset by lower production levels in Florida. USDA forecasts 2024/25 orange production in Florida to decrease by 33% from last season.

Lemon prices declined in January, with the biggest moves occurring in smaller, choice grade fruits. Falling prices are likely the result of quality issues and excess small fruit supply. Harvest in the D3 growing region (Coachella Valley, Imperial Valley and parts of San Diego County) will be wrapping up soon, which may help bring down supply and support prices.

Potatoes – *Potato growers express concern about contract prices and securing favorable contracts.*

Potato markets are facing uncertainty due to risk in fertilizer price and mixed market performance in 2024. Prospects for 2025 are influenced by production costs and other market dynamics.

The potato market in 2024 showed mixed results. Domestic retail sales of potatoes increased by 3.1% year over year, with volume sales growth in all categories. However, by value, fresh potato sales totaled $4.07 billion, down 4.9%. Prices averaged $0.92 per pound, a 7.7% year-over-year reduction. U.S. restaurant sales peaked in August 2024 and declined through the rest of the year. Global frozen potato and French fry exports have improved from the previous year but remain below pre-pandemic volumes.

Looking ahead to the 2025 growing season, growers anticipate reductions in planted acres with overall flat to down potato production. Open market potato returns fell by over 8% from October to December 2024 compared to 2023. Contract prices are anticipated to be 5% lower than the previous year, with few more profitable crop alternatives available. Potato growers face headwinds as they cannot anticipate spring fertilizer prices due to potential tariffs and trade disruptions impacting local fertilizer and chemical suppliers. With fertilizer making up about 20% of potato operating costs, estimating actual production costs becomes challenging.

Wheat – *Potential tariffs looms over wheat markets while Russia cuts wheat exports.*

Wheat markets are focused on geopolitics and international trade. Prospects for improved pricing are mixed with downside risk from tariffs and upside potential from export markets.

U.S. grain markets were roiled in January by the threat of U.S. tariffs levied against Canada and Mexico. Ahead of the Trump Administration's February 1 tariff deadline, grain markets saw selloffs. Traders took short positions to reduce the risk of price impacts from retaliatory tariffs. Although the full implementation of these tariffs was delayed, markets saw a preview of expected bearish impacts on U.S. wheat and pulse crop markets should tariffs come to pass. Impacts to prices may be blunted if Mexico and Canada exclude grains as U.S. commodities subject to retaliatory tariffs. (Many analysts expect this to be the case.)

Russia's 2025 wheat export forecast has been cut to the lowest levels in five years due to a self-imposed reduction in export quotas. This action indicates a rapid depletion of Russia's domestic grain supplies and a shift towards meeting domestic needs. Russia faced a tough production year, with nearly 30% of the wheat crop in poor condition. This resulted in a 10.9% reduction in production from the previous year, while record Russian wheat exports during first half of the marketing year (July-December) depleted on-farm wheat stocks by 25%.

The global wheat stocks-to-use ratio is at 32%, the lowest amount in over 11 years. Excluding China's stocks, the global wheat stocks-to-use ratio drops to 19%, the lowest since 2007/08. Despite this, higher prices are unlikely without significant production cuts.

Wine and wine grapes – *Negative press threatens public perception.*

Alcohol is in the news again, and public perception is at risk of turning negative on moderate amounts of alcohol consumption. The Surgeon General issued an advisory in January 2025 stating alcohol is the third leading, preventable cause of cancer. This follows on the heels of the World Health Organization's claim that any amount of alcohol consumption is carcinogenic. While the advisory cites numerous studies, it does not cite the extensive research suggesting moderate levels of consumption can be beneficial, or at least not harmful. An in-depth posting by Harvard's School of Public Health directly contradicts these most recent claims, concluding that the effects of alcohol are complex and "blanket recommendations about alcohol are out of the question." Wine Business Monthly published an article in March 2024 showing how a few temperance organizations are finding success in shaping perception and consequently, public policy.

The dollar value of on-premise and off-premise wine sales fell 4% and 7% year-over-year in December, respectively. WineBusiness Analytics reports the number of wineries declined in California by 3%, Oregon by 5% and Washington by 2% in 2024. Wine exports could be negatively impacted by countervailing tariffs. The U.S. exported $1.17 billion of wine in 2024 as of November, of which nearly $400 million went to Canada, $82 million to China and $22 million to Mexico.

Land values

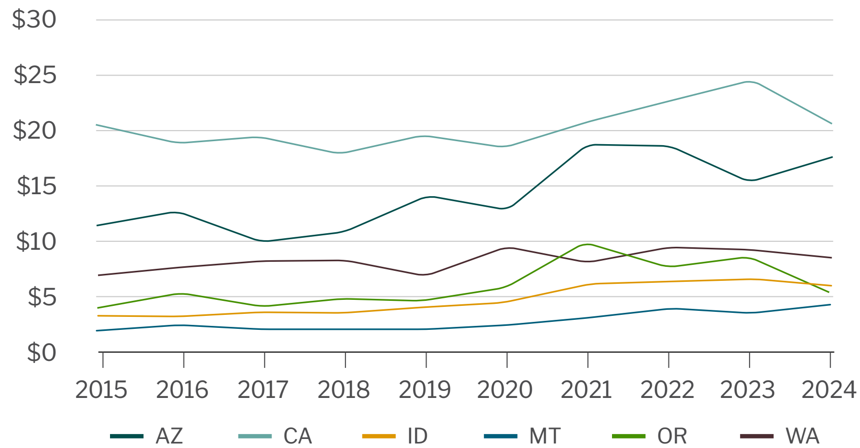
Executive summary

Land values are generally stable across the West; however, declines have been observed in California, Idaho, Oregon and Washington largely due to the following reasons:

- **California** - Rising water constraints and falling prices for certain permanent plantings, including almonds, walnuts, table grapes and wine grapes.
- **Idaho and Oregon** - Limited availability of high-quality properties (rather than falling demand).
- **Washington** - Falling prices for certain permanent plantings, including uncontracted wine grapes, apples (low-productive properties) and hops, and limited availability of high-quality properties.

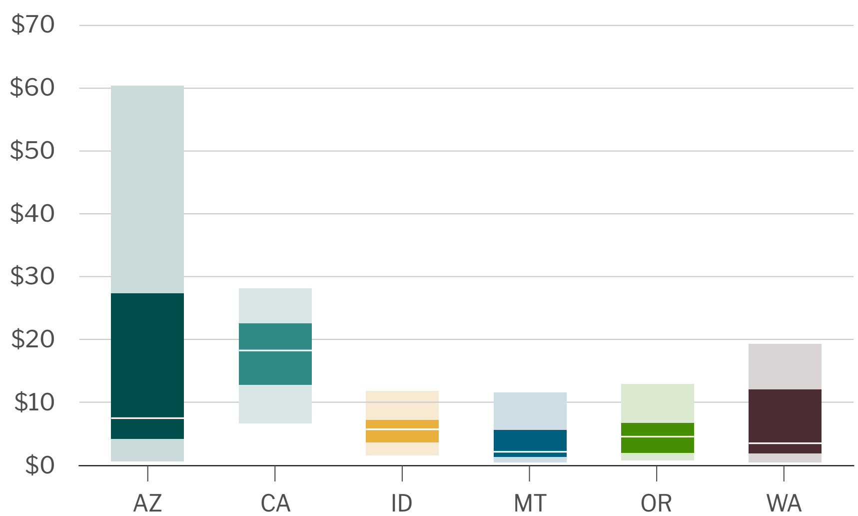
Persistently elevated interest rates and changing regulations continue to pressure demand across the West. Even where values are increasing, they are doing so at a slower rate. Property inventories for sale are increasing in California and Arizona but remain limited across the Northwest. Local operators, absentee operators, institutional investors and developers are active in the marketplace; however, development acquisitions have decreased primarily due to elevated financing costs. Some areas are reporting longer listing times and decreases in listing prices, though final sales prices indicate generally stable values.

Average land values, thousands of dollars per acre



Source: AgWest's proprietary sales database. Industrial, commercial and site sales excluded. Data represents a 12-month rolling average. Data collection lags about six months and is subject to change.

Average land values, thousands of dollars per acre (box plot)



Source: AgWest's proprietary sales database. Industrial, commercial and site sales excluded. Data represents a 12-month rolling average. Data collection lags about six months and is subject to change.

Land value considerations

Interest rates – Relatively high interest rates were a frequently reported deterrent to land acquisition. Greater instances of creative financing, such as owner-carried notes, have been reported.

Rural residential/recreational – Most rural residential and recreational markets continue to cool, largely due to high interest rates. Longer listing times are becoming more common and prices appear to be stabilizing.

Availability – Inventories of agricultural land are low in much of AgWest's territory, which continues to bolster values despite elevated interest rates. A notable exception to this trend is in portions of California and Central Washington, where broker reports and AgWest's internal market data indicate supply is outpacing demand.

Farm income/commodity prices –The relationship between land values and commodity prices in recent years has been weak as many perceive land as a stable, long-term investment. However, this relationship appears to be getting stronger in areas such as central Washington and California's Central Valley as commodity prices continue to trend down. Visit our ***Industry Insights webpage*** for industry specific updates.

Drought – Precipitation across much of the Pacific Northwest was strong towards the end of 2024 and drought concerns are mixed throughout the West. Extended drought conditions have the potential to negatively impact land values. See our ***Drought and Water Update*** for more information.

Arizona

- Agricultural cropland prices are stable to slightly increasing in the Yuma area. Farmers are not actively seeking land to purchase, although existing tenants will often decide to buy a farm offered for sale. Investor activity has slowed due to water concerns and elevated interest rates.
- Land values in southeast and central Arizona remain stable. Investor demand for agricultural land surrounding the Phoenix Metropolitan Area is largely driven by a rising population, though this trend has recently slowed due to elevated interest rates and long-term water concerns.
- Developers are purchasing older dairy facilities around the Phoenix Metropolitan Area and taking them out of production due to increasing land values associated with urban development. Dairy producers have used funds from property sales and/or leases from vacant facilities to purchase dairies in other locations, which is helping to stabilize facility prices.
- Colorado River user states are embroiled in contentious negotiations to decide how to re-allocate water as the 100+ year-old Colorado River Compact expires in 2026. Lower Basin states (Arizona, California and Nevada) are demanding that the Upper Basin states (Colorado, New Mexico, Utah and Wyoming) agree to proportionally larger cuts, creating an impasse.
- Drought and poor Colorado River conditions in recent years have led to reduced Central Arizona Project deliveries and increased water rates for irrigation districts in Central Arizona and Pinal County.
- Declining groundwater levels and expanding groundwater regulations are exerting some negative pressure on agricultural land values in rural Arizona, particularly in Cochise and Graham counties.
- The pecan industry generally expects the market for average to good-quality orchards to remain stable; however, low prices and higher interest rates may slow sales activity.
- Pistachio orchard values remain relatively high as they are rarely offered for sale due to high profitability and ownership concentration.

California

- Water access is the primary driver of values in the San Joaquin Valley, with buyers preferring properties with multiple sources. Secondary drivers include elevated interest rates and falling commodity prices.
- The unfolding implementation of the Sustainable Groundwater Management Act (SGMA) and related pumping restrictions have decreased underlying land value across much of the San Joaquin Valley, particularly in areas without access to surface water deliveries (often referred to as white areas).
- Persistently low prices for almonds, walnuts and table grapes have resulted in lower land values in the San Joaquin and Sacramento Valleys. Except for pistachios, the premium landowners would receive for planted nut trees as opposed to open land has decreased significantly. Some tree nut orchards have been sold for open land value less removal costs.
- Land values in the Sacramento Valley have remained steady overall despite weakness among tree nut orchards. Cling peach and prune orchard values are strong. Rice ground values are diverging on opposite sides of the valley – west-side values are trending lower due to water supply curtailments while those in the east-side are trending higher due to greater water security.
- Listing times across the San Joaquin and Sacramento Valleys are increasing as supply outpaces demand, a trend compounded by the liquidation of multiple large vertically integrated grower/packers and agricultural investor groups. Tens of thousands of additional acres are on the market.
- Dairy facility demand is decreasing due to weak markets. The buyer pool is limited and prefers newer, more efficient facilities. Less efficient facilities are typically redeveloped into feed cropland or used as heifer facilities after purchase. Although once common, purchases for redevelopment to tree nuts have halted due to falling nut prices, water supply concerns and high interest rates.
- Demand for premium wine grape orchards in the Central Coast has fallen due to weakening markets, leading to lower values. An exception to this trend is vineyards located in Paso Robles.
- Irrigated cropland supply in the Central Coast capable of vegetable and strawberry production is very limited and in high demand, particularly in the Santa Maria Valley.
- Rangeland values are stable. Properties are usually directly marketed to a well-known buyer/lessee pool and typically sell quickly.

- Imperial Valley land values and rents remain strong, although market activity is slower due to high interest rates and decreased commodity prices. This region appeals to large regional growers and investors who seek high-seniority rights to the Colorado River to hedge against water risk.

Idaho

- Agricultural land values in Idaho remain stable to slightly increasing when compared with previous years. There continues to be low supply of good quality agricultural ground which helps support demand.
- An agreement was reached in November 2024 between the Idaho Department of Water Resources (IDWR) and several groundwater districts to avoid curtailments in the Eastern Snake Plain Aquifer. To ensure sufficient access to water for surface water users, groundwater users will be subject to updated mitigation and conservation requirements in exchange for long-term water right protections. The agreement will be revisited every 4 years.
- The recreational market has slowed and properties are seeing longer listing times. Prices in this sector are difficult to track as there is relatively little data. Relatively high interest rates have pushed some prospective buyers out of the market.
- The rural residential market continues to stabilize across much of the state, largely due to persistently elevated interest rates. Prices are leveling off and listing times are increasing, but properties still sell in a reasonable timeframe.

Montana

- Agricultural land sales are strong throughout the state, primarily for higher quality production properties.
- While no longer at peak levels, demand for recreational ranch properties remains strong, particularly those with high amenities (recreational streams and ponds, good habitat for wildlife, access to public land, etc.). The TV show Yellowstone, which romanticizes ranch life in Montana, continues to drive demand from outside buyers for some properties, often referred to as the "Yellowstone Effect." Lower-amenity recreational properties are starting to linger on the market longer and some are even seeing prices decline.
- Other good-quality agricultural real estate outside of ranching properties continues to be in high demand. Demand for lower-quality agricultural properties has softened, with longer listing times reported.
- Production agriculture still drives land values in many parts of the state, with many transactions taking place privately between landlords and tenants or between neighbors.
- Demand for rural residential properties has cooled from previous highs, due primarily to interest rates. Rural residential properties are seeing longer listing times and price reductions are increasingly common.

Oregon

- Demand for good quality agricultural properties remains adequate throughout most of the region, with a low number of listings reported. Values for lower quality agricultural properties have an increased risk of softening. Marketing times are generally increasing.
- Although demand remains strong for most property types, particularly from large operators and institutional investors, buyers are generally careful to ensure properties fit well within their existing operations.
- Elevated interest rates have led to a drop-off in demand and longer listing times for recreational properties. Evidence provided by the limited number of sales in this market segment suggests a possible downturn in recreational properties.
- Demand for rural residential properties varies depending on location but there is a general lack of inventory. Due to continued high interest rates, however, prices have leveled off from previous highs and longer listing times are common.
- Catastrophic wildfires in multiple areas of Oregon will result in widespread operational challenges over the next several years for some producers and this will likely reduce availability of grass/pasture leases on Bureau of Land Management and/or U.S. Forest Service land.

Washington

- Irrigated and dry cropland values are holding stable or increasing throughout the state. Many permanent planting properties, however, are seeing longer listing times and weakening values, particularly for hops, uncontracted wine grapes, and marginal apple orchards in Central Washington
- The Columbia Basin Irrigation Project, which serves the largest irrigation district in the United States, is attracting out-of-area buyers in search of quality farm ground with reliable access to water and a diversity of crop options.
- Longer listing times and discounts have been seen on marginal quality orchards over the last few months as supply outpaces demand. Demand for orchards has softened, and those with long-term inefficiencies and out-of-date varietals are experiencing the largest change in values.
- In areas where a recreational market exists, few sales have occurred, and extended listing times are common.

- Rental rates are beginning to soften in some areas, which may suggest land prices follow if commodity prices remain depressed.
- The rural residential market has slowed significantly due to elevated interest rates; however, demand still exists for good-quality properties outside of larger communities. There is upward pressure on farmland surrounding population centers.

Share your feedback! *Click Here* to complete a two-minute survey about this Snapshot.

About AgWest Farm Credit Appraisal Services

AgWest appraisers provide appraisal services on rural properties throughout the West. The Appraisal Services team continually researches sales and tracks market data throughout Arizona, California, Idaho, Montana, Oregon and Washington. They compile the market data and analyze it using a central database.

This report provides a high-level look at trends and market characteristics and does not provide details for specific areas or land types. The report should not be used to identify the value of a specific property. This information is limited only to an analysis of trends in identified land values within the geographic area served by AgWest Farm Credit.

Learn more

For more information or to share your thoughts and opinions, contact **CustomerFeedback@AgWestFC.com**.

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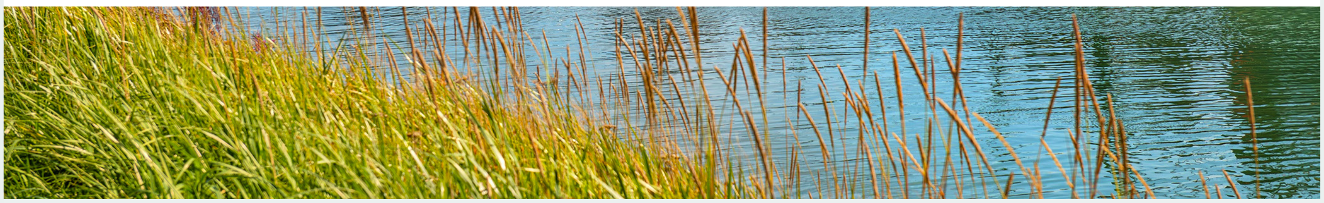
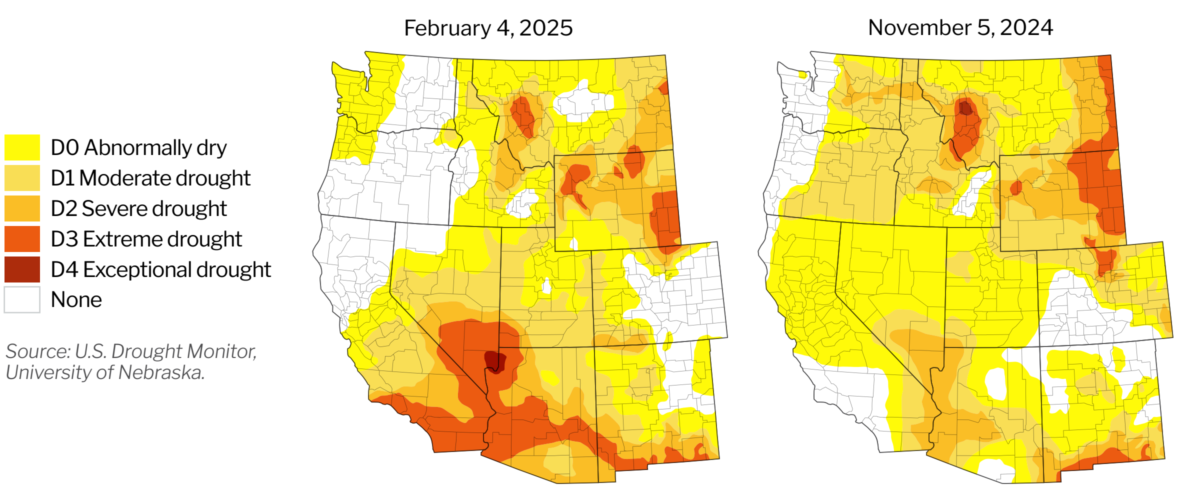


Drought and water update

Drought monitor

Increased precipitation levels have decreased drought conditions in both scale and severity across Idaho and Montana, though significant portions remain in severe condition. Oregon and Washington are nearly out of drought outside of coastal regions. Severe and extreme conditions have expanded south of Sacramento, California and into much of Arizona. For the latest on weather, please see AgWest's **Weekly Weather Updates with Eric Snodgrass**.



Source: U.S. Drought Monitor, University of Nebraska.

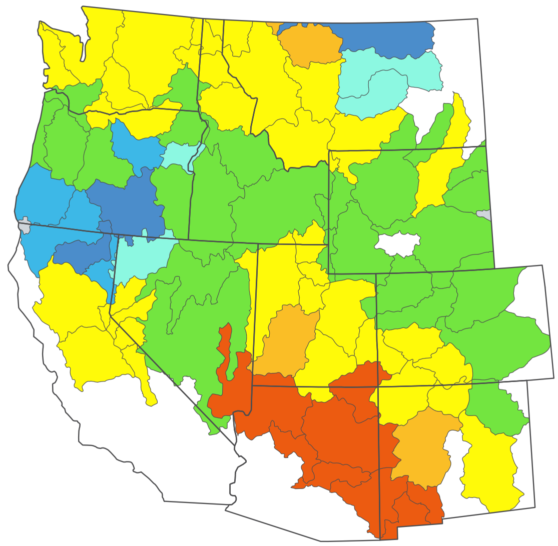
Description: The U.S. Drought Monitor provides a comprehensive look at drought conditions across the U.S., categorizing areas by intensity (no drought to exceptional drought). This tool helps agriculture producers understand water availability and make informed decisions about crop management.

Year-to-date precipitation

Year-to-date precipitation levels (Oct. 1 – Feb. 5, 2025) are mixed across the West. While those in Oregon, Southern Idaho and portions of Montana are at/above their historical averages, much of the region remains below.

- > 150%
- 130% - 149%
- 110% - 129%
- 90% - 109%
- 70% - 89%
- 50% - 69%
- < 50%
- No basin value

Source: Natural Resources Conservation Service. NWCC Interactive Map. Data as of February 6, 2025.



Description: The NWCC Year-to-date Precipitation Map provides a detailed overview of precipitation levels across the U.S., comparing current data to a historical average. Similar to the Drought Monitor, this tool helps agriculture producers understand water availability and make informed decisions about crop management.

Reservoirs with low water levels

Reservoir levels strengthened across much of the West, with the number of those notably under their historical average decreasing from 17 to 9. Significant improvements were seen in the Rogue River Basin and Southeastern Oregon. Except for the Cle Elum reservoir, the Yakima River and Deschutes River Basins experienced modest improvements.

Reservoirs with water levels below 80% of their historical average

Location / Region	Reservoir	Percent of average level	Percent of previous year
Colorado River Basin	Lake Powell	57%	101%
	Lake Mead	54%	94%
Deschutes River Basin, OR	Crescent Lake	32%	127%
Rogue River Basin, OR	Four Mile Lake	64%	108%
Yakima River Basin, WA	Bumping	37%	26%
	Cle Elum	26%	47%
	Kachess	42%	99%
	Keechelus	37%	61%
	Rimrock	37%	44%

Data as of February 6, 2025. Source: Bureau of Reclamation: Reservoir Storage. California Department of Water Resources. Arizona Department of Water Resources.

Description: Reservoirs are an important source of water for agriculture producers throughout the West. This section identifies those with water levels at 80% or below of their historical average for the given period. Reservoirs at or above 80% of their historical average water levels are not included in this list.

Updates impacting water access

Arizona

The Colorado River Basin is just shy of its mid-January median, meaning Arizona could experience water cuts through 2026. Runoff is projected to fall to 82% of average in 2025, which may lead to a continued Tier 1 Shortage declaration in 2026. Central Arizona Project (CAP) agricultural irrigation districts are likely to continue facing increased costs and reduced deliveries.

Arizona Department of Water Resources (DWR) issued an order designating the Willcox Groundwater Basin as an Active Management Area (AMA). Irrigators who have used groundwater over the five years proceeding October 2024 will continue to have access, while others will not. This action also sets guidelines on grandfathered rights and measurement/reporting requirements.

The Fifth Management Plans, a set of plans designed to align groundwater usage with recharge rates throughout Arizona's AMAs, will begin implementation in 2025. Key changes include a 5% reduction in water duties for the top 25% of high-water-use farms and the implementation of a new Best Management Practices framework to incentivize efficient water use.

The Colorado River Compact, an agreement that manages water allocations to lower basin states (Arizona, California and Nevada) and upper basin states (Colorado, New Mexico, Utah and Wyoming), expires in 2026. Contentious negotiations among the states are ongoing. Lower basin states want the upper basin to take a greater share of future cuts, and Arizona wants other states to help ensure that CAP water continues flowing.

California

Drought is once again becoming a concern for the current water year in California. In particular, the southern half of the state has been very dry, which contributed to devastating wildfires in the Los Angeles area. As of Feb. 6, statewide snowpack is at 41% of the April 1 average, the typical yearly high point.

President Trump issued a wide-sweeping executive order that may impact water access in California. While the resulting actions are not yet clear, and this order may be challenged in court, it authorizes federal entities to identify and change existing activities, regulations and policies that unduly restrict water deliveries for various uses, including wildfire fighting and hydropower.

California DWR increased allocations to 20% for the State Water Project from the 15% announced in January 2024. Storms in November and December 2024 helped to saturate the ground and modestly support reservoir levels, which are currently near their historical averages.

Farmers with land in the Tule and Tulare Lake subbasins under the jurisdiction of the Tri-County Water Authority GSA have until March 1 to register any well with annual pumping of more than two acre-feet or face a $150 per month penalty.

The San Luis-Delta Mendota Water Authority will receive $204 million in federal funding to help repair the Delta-Mendota Canal, which should restore the canal to its maximum delivery capacity and provide relief to local agricultural contractors and wildlife refuges.

The Kern Subbasin's fourth Groundwater Sustainability Plan was deemed inadequate by the State Water Resources Control Board (SWRCB) in a preliminary review. Probationary Status would empower SWRCB to enact well registration and reporting requirements, limit water pumping, and authorize an interim plan to supersede Kern Subbasin's sustainability plan until it is deemed satisfactory by the SWRCB.

The Westside District Water Authority imposed a ban on all groundwater pumping within 2.5 miles of a 30-mile segment of the California Aqueduct. The California Aqueduct, which conveys water for the State Water Project, has suffered damage due to land sinking, likely caused by excessive groundwater pumping in the area.

The Metropolitan Water District of Southern California agreed to provide $141.6 million to fund planning and pre-construction projects for the Delta Conveyance Project, which intends to modernize water infrastructure in the Central Valley. The project faces stiff opposition from environmental advocacy groups due to potential impacts on endangered/threatened fish species.

The U.S Bureau of Reclamation (USBR) and water agencies of the Bay Area and the San Joaquin Valley have agreed to begin a nearly $1 billion project to increase the capacity of San Luis Reservoir. The reservoir's dam will be raised by about 10 feet, increasing water storage capacity by about 130,000 acre-feet. Federal funding will cover approximately 30% of the project's costs, while local agencies will contribute the balance.

The Sacramento Area Sewer District began implementing a new project known as "Harvest Water," which would allow the distribution of recycled sewer water to local agricultural districts in the Sacramento Valley. This program will reduce groundwater demand by supplying up to 50,000 acre-feet per year of drought-resistant water irrigating more than 16,000 acres of agricultural lands.

User fees are under consideration for the Paso Robles Groundwater Basin to help pay for sustainability projects. Agriculture producers could pay anywhere from $64 to $246 per acre-foot of water depending on the chosen rate structure. It remains unclear when this would go into effect.

Idaho

Snowpack conditions of the Upper Snake River are generally adequate, but more snowpack and favorable runoff conditions may be required to ensure full allocations for irrigators.

Idaho DWR finalized the 2024 Stipulated Mitigation Plan, an agreement between the surface water users (collectively called the Surface Water Coalition) and groundwater districts in eastern and southern Idaho. The plan is designed to protect water resources for surface water users while meeting the needs of groundwater users. The primary differences in this agreement to its predecessor include:

- Water allocations expanded from one-year to four-year terms. Groundwater users will be responsible for managing their supply over the four-year period.
- Groundwater districts taking part in this agreement are required to collectively conserve 205,000 acre-feet of water annually.

Oregon

Oregon has experienced good snowpack this winter and is nearly fully out of drought.

Governor Kotek signaled water quality and availability are among her top priorities this legislative session and is likely to put particular attention on overdrawn water basins and groundwater contamination in Eastern Oregon and other critical groundwater areas. This may result in changes to Oregon's Groundwater Quality Protection Act and greater authority for the state to manage water allocations and regulations.

A federal appeals court ruled that the USBR can restrict the Klamath Drainage District's (KDD) withdrawal of water from the Klamath River per a 1946 contract. A federal judge issued an injunction in 2023 stopping KDD from withdrawing water without USBR's permission.

Researchers from the University of Oregon discovered a massive aquifer located at the crest of the central Oregon Cascades. It is reportedly among the largest of its kind. While uncertainty remains around its full size and recharge rates, the discovery may eventually impact nearby water users.

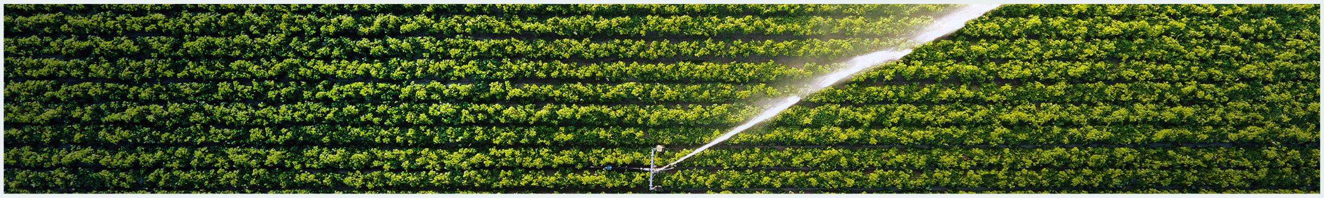
Montana

Drought conditions have improved in Montana as snowfall picked up in January. Snowpack levels are improving in the mountains and while some areas are still below average, they appear to be catching up. Moisture levels in the plains have improved as well, though much more is needed to return to normal conditions. There is increasing optimism that irrigation water availability will improve for the upcoming growing season.

Washington

While year-to-date precipitation remains below average for much of the state, much of the snow accumulation season is still ahead. Water supply forecasts are generally near normal.

Washington's Department of Health is considering changing how it exempts small farms from certain testing and quality requirements. While the department argues the current language is outdated, the proposed policies (recertification every five years) could raise costs for producers who house workers onsite at a time when many of them face a very difficult operating environment.



Spotlight

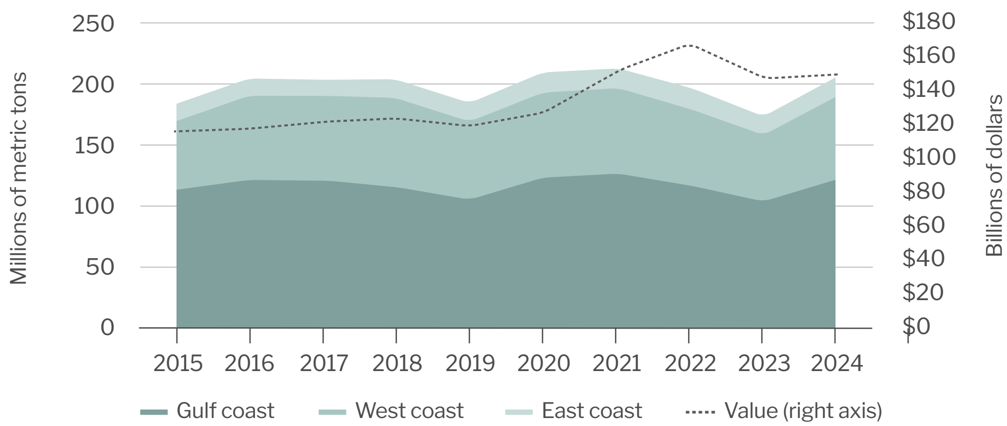
Shipping disruptions ease

Summary: Agriculture exports out of West Coast ports totaled $61.7 billion in 2024. This time last year the shipping industry faced massive disruptions that led to reduced capacity, long delays and higher costs. Conditions have improved in both the Panama Canal and Red Sea, which has led to greater shipping availability and reduced costs for West Coast producers.

Background on 2024 shipping

The Panama Canal faced severe drought conditions in the first half of 2024, which led to shipping being limited by one-third. Attacks in the Red Sea forced shipping companies to reroute to the Cape of Good Hope along the southern coast of Africa, which went from transiting less than 15% of ocean shipping to 85%. This led to the average price of a 40-foot container increasing by over 100% compared to 2023, with the Baltic Dry Index up 25%.

Export by port district regions



Source: U.S. Census Bureau. Data does not include Great Lakes region.

The state of ocean shipping in 2025

Drought in the Panama Canal has eased due to heavier rains over the past few months and conditions should remain stable with more precipitation anticipated going forward. In the Middle East, Israel and Hamas have agreed to a six-month ceasefire, leading the rebel Houthi group to stop attacks on non-Israeli shipping vessels. While this could eventually return shipping volumes to normal in the Red Sea, the top three container shipping companies indicated they will wait until the situation becomes more stable.

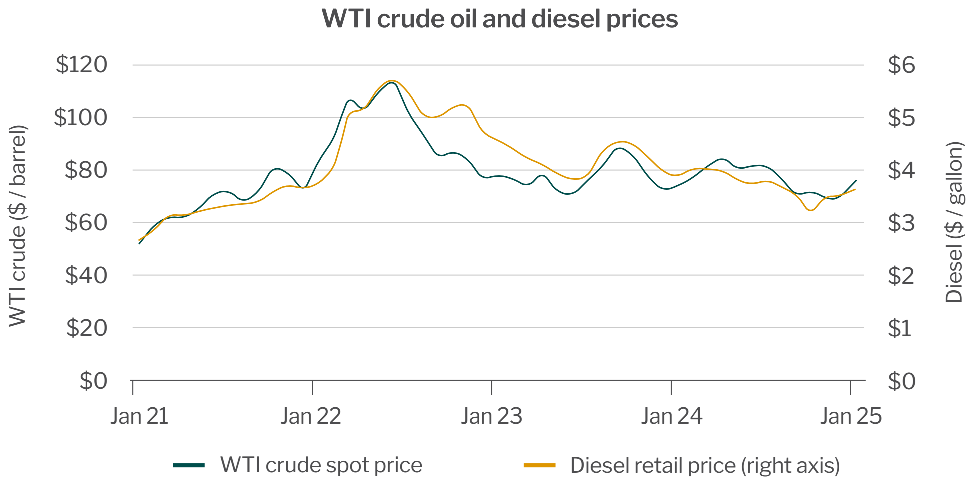
Looking to the future

Export markets are important to U.S. producers, as U.S. agriculture exports totaled $197.4 billion in 2022 with over 70% transported through ocean ports. Improving shipping conditions may lower transportation costs and improve export capacity for producers at a time when low commodity prices and elevated input costs are compressing margins. However, there are still risks on the horizon including the following:

- Geopolitics in the Middle East: Despite the ceasefire, the impact on prices and delays will last as long as shipowners are wary of sending vessels through the Red Sea. With limited capacity, prices will continue to linger higher. If the situation continues to improve, traffic through the Red Sea will likely increase and lower shipping costs for exporters.
- Economic uncertainties: Forecasts vary, but most expect some level of global economic deceleration in 2025. While this may challenge many businesses, it may also improve shipping availability for agriculture producers.
- Workforce shortages: Like many industries, shipping is facing a shortage of labor with an expected 89,000 positions to be open in 2026. Shortages are amplified in skilled positions such as IT specialists and engineers. Recent labor strikes are also a concern.

Data and trends

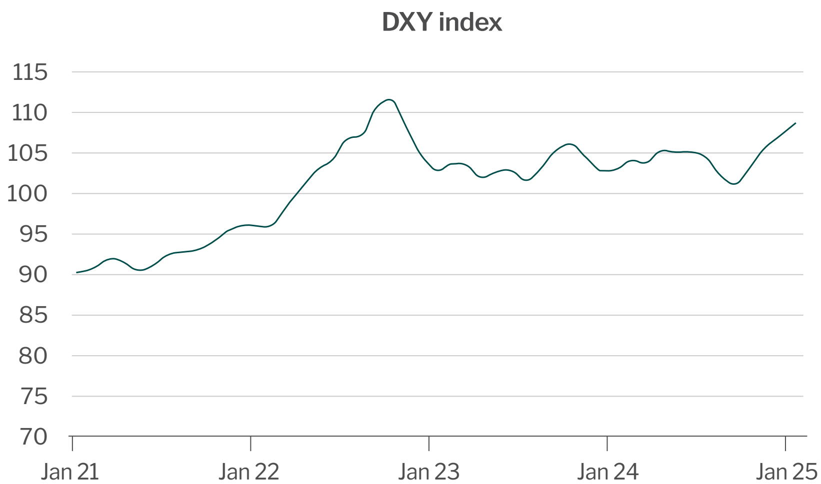
This section presents select economic indicators to help producers gauge the direction of their business. These metrics reflect current market dynamics and their potential impact on operations. Come back each month to stay informed and adapt swiftly to the ever-changing economic landscape.



Source: U.S. Energy Information Agency.

Observation: Oil prices increased mid-January as markets anticipated disruptions from U.S. sanctions on Russia, which target their oil and gas revenues. This was coupled with higher demand due to cold weather in the Midwest and Europe. Despite these factors, supply and demand conditions seem relatively balanced.

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.

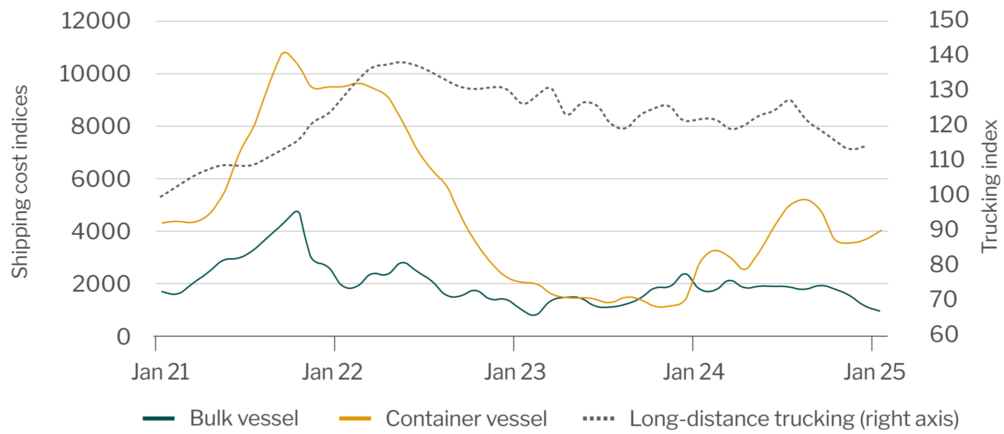


Source: Bloomberg.

Observation: The dollar has climbed to two-year highs, driven by stronger-than-expected employment data in early January and the general perception that President Trump's reelection is positive for the U.S. economy.

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 & exports become less competitive, and vice versa.

Transportation price indices

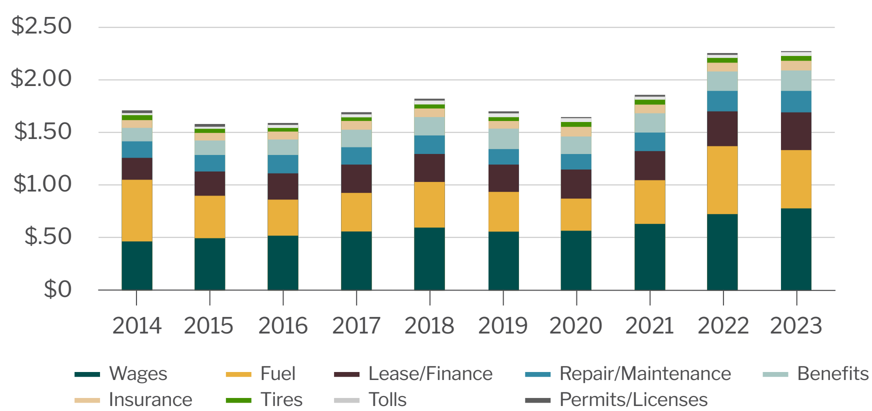


Source: Bloomberg. Freightos. U.S. Bureau of Labor Statistics.

Observation: Container shipping costs rose as buyers frontloaded cargo ahead of Trump's inauguration and China's Lunar New Year. National trucking rates ticked up in December as shipments fell more than expenditures. Meanwhile, bulk vessel prices dropped significantly due to lower Chinese demand, excess vessel capacity and the stabilization of Panama Canal crossings.

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).

Operating costs for trucking



Source: American Transportation Research Institute.

Observation: Trucking operating costs rose significantly from 2021 to 2023, driven largely by increases in wages, fuel, finance, repair/maintenance and insurance. While trucking demand appears to be falling, the cost of transporting goods is unlikely to come down.

About this indicator: The American Transportation Research Institutes conducts an annual analysis of operational costs for trucking. Transportation is an important cost factor for agriculture producers.