March 2025

Monthly Market Update

Economic headlines

U.S. economy continues solid growth in Q4.

Gross Domestic Product (GDP) in the U.S. increased by 2.3% compared to the previous year. While this represents a slowdown from 3.1% in Q3 2024, it is still signaling a healthy economy. A surge of year-end consumer spending drove the growth during this holiday season. This brings 2024 growth to 2.8%, nearly even with 2023's 2.9%. The U.S. economy has posted growth above 2% for 9 out of the last 10 quarters.

Atlanta Fed signals GDP contraction in Q1 2025.

The Atlanta Fed Tracker is showing a contraction of 2.8% in Q1 2025 as of March 3, 2025, due to a rise in trade deficits in January. Companies frontloaded imports ahead of the new year to avoid tariffs. GDP estimates from other sources continue to forecast growth, but they do not include the new trade data.

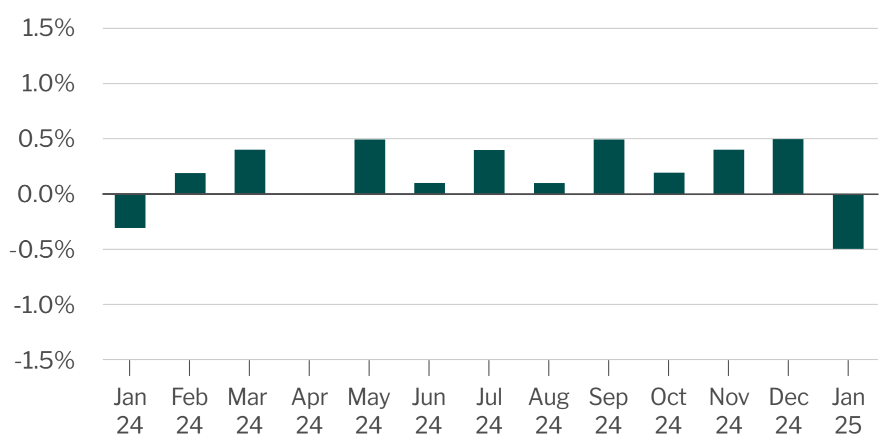
Data supports Fed holding rates steady.

While the Personal Consumption Expenditure (PCE) price index slowed to 2.5% in January, the Consumer Price Index (CPI) accelerated for the fourth consecutive month to reach 3%, suggesting inflationary pressures remain. While lower than expected job gains occurred in February, the unemployment rate and hourly earnings growth remained generally steady at 4.1% and 4%, respectively. Continued inflation and a strong job market will make it harder for the Fed to justify lower rates.

Consumer spending falls.

Despite easing inflation, consumer spending fell 0.5% after adjusting for inflation. This is the largest monthly fall since February 2021. Retail sales followed suit, dropping by the most in two years. While consumers normally pull back spending after the holidays, this drop was larger than expected. Hurricanes, wildfires, higher inflation expectations and an uncertain political environment have impacted consumer confidence.

Changes in real personal consumption expenditures



Source: Bureau of Labor Statistics.

Industry updates

General sentiment – *Livestock thrives while commodity markets struggle amid volatility.*

Producer sentiment remains a mixed bag as tariffs have heightened volatility across all commodity markets. Livestock and dairy producers are enjoying an optimistic outlook, with favorable prices and low feed costs. However, most commodities are contending with persistent low prices and are unlikely to see significant price or profitability improvement in 2025. The current market uncertainty is placing significant pressure on producers as they weigh their options and planting decisions.

Crop inputs – *Falling oil and trucking rates offset rising fertilizer prices.*

Oil prices fall on greater anticipated supply.

West Texas Intermediate (WTI) oil prices fell notably over the last month. While U.S. oil inventories dropped in February, this was offset by the following developments which portend increasing global supplies relative to demand:

- The Organization of Petroleum Exporting Countries (OPEC+) intends to increase production levels over the next month.
- Expectations that non-OPEC+ producers will continue to increase production levels, including the U.S., Canada, Guyana and Brazil.
- Efforts by the Trump Administration to negotiate with Russia suggests a de-escalation of the conflict in Ukraine and an eventual normalization of trade dynamics.
- The Trump Administration's threat and application of tariffs are expected to weaken global economic growth and trade levels.
- Overall sentiment of the global economy has weakened.

Natural gas prices spiked mid-February due to cold weather and a moderate rise in exports. The Trump Administration is shifting policy to support more Liquified Natural Gas (LNG) exports, including the approval of a major export facility in Louisiana. Greater export capacity will eventually increase demand for U.S. LNG and align domestic prices with those in other regions where prices tend to be higher, including Europe.

Demand for transportation falls.

Weakening global economic conditions, increasing risk of tariffs, de-escalation between the U.S. and Russia, lower prospects of vessel attacks in the Red Sea and the conclusion of the Lunar New Year in China are weighing on both container and bulk shipping prices. Following a surge in trucking rates in January - due largely to inclement weather and companies frontloading imports ahead of tariffs - seasonal trends along with softness in manufacturing activity and retail sales are weighing on demand. Lower energy prices should limit upside price risk for both shipping and trucking transportation in the short term.

Fertilizer prices rise.

Fertilizer prices were up across the board in February, with nitrogen-based products, urea and urea ammonium nitrate (UAN28), leading the way at 6.2% and 7.7%, respectively. Rising prices for natural gas, the primary feedstock for nitrogen fertilizers, and increased estimates for corn acres in both the U.S. and Brazil drove prices higher. Total demand in 2025 remains uncertain as low corn prices could incentivize some growers to reduce application rates. De-escalating tensions between the U.S. and Russia should have a dampening effect on fertilizer prices moving forward.

Almonds and pistachios – *Almond and pistachio prices hold at slightly profitable levels.*

North American and European kernel demand, particularly among pollinizer varieties, is holding strong while inshell demand from India has tapered off due to seasonality. Price spreads between different nut grades have narrowed significantly and may be incentivizing some to prioritize selling lower quality supply. Some orchards, particularly in northern growing regions, experienced a light bloom due to relatively warm weather last season, insufficient chill nights and/or reduced fertilizer applications. There is a national shortage of bees this season and while some were concerned about the impact to almond production, it appears most growers were not impacted. While still early, most expect an average to slightly below average 2025-26 crop size, which should support prices next marketing season.

Pistachio prices are holding at slightly profitable levels. Most expect a large, good quality 2025-26 crop due to alternate bearing and 500,000 young acres coming into production. With little to no carry-over from the 2024-25 crop and stable demand, prices should remain steady over the next year. Early bud set creates a risk factor, with the potential of frost or excess precipitation impacting yields and/or quality.

Apples – *Conditions remain challenging for Northwest apple growers.*

While prices are holding above last season, they remain on average below break-even. Insurance payments for the 2023 crop on Whole Farm Revenue Protection policies are larger than normal, resulting in an added layer of review and the slower processing of claims. Bud set suggests the 2025 crop could be large, though it remains very early in the season and any number of weather events could impact yields. Anecdotal evidence suggests the combination of removing marginal orchards and/or lower yields from minimally managed orchards (where producers reduce pruning, fertilizing, etc.) in 2025 could meaningfully lower total production. Minimally managed orchards can also lead to smaller and lower quality fruit. Also, low reservoir levels in the Yakima Valley may limit access to water. There is a relatively high percentage of young orchards across the Northwest, and some estimate the total production capacity in the region has increased to 135 million boxes before considering minimally managed and/or removed orchards in 2025. On March 4, The Trump Administration announced tariffs on Mexico and Canada, which on average make up about 15% of total sales.

The 2025 pear crop in Northern Washington should rebound following winter damage last season, which would support profitability for diversified tree fruit growers in the region. While too early for official estimates, cherry growers in California are expecting an early start to harvest, and the Northwest may follow suit.

Cattle – *Cow-calf producers navigate record margins in a volatile market.*

Producers, feedlots, and packers are navigating a complex environment marked by competition for shrinking cattle supplies and limited capacity to increase cattle herds.

Low cattle inventories continue to sustain strong margins for most cow-calf producers. Improved moisture in the Pacific Northwest and Montana has eased the need for herd reductions, while drought in the Southwest and Midwest has sharply cut cattle numbers. On California's central coast, concerns persist over insufficient rainfall and poor pasture conditions, leading some producers to consider relocating cattle. Sustained dry conditions in most major cattle producing areas are expected to constrain herd rebuilding which will support cattle prices through 2025.

Feedlots remain profitable despite high feeder cattle costs. Historically strong margins are supported by feed costs which are at their lowest since 2021. January's national average feed cost is $25 per cwt lower than the previous year, driven by lower corn and hay prices. (Hay prices, however, are beginning to rise.) Low feed costs have encouraged feedlots to extend feeding periods to increase the weight of cattle sent to packers. Higher weights have helped to offset some of the impacts from a smaller feed cattle supply. Meanwhile, the resumption of livestock imports from Mexico is helping to boost feeder cattle supplies. (In November, New World Screwworm was detected in Chiapas, Mexico and cattle imports were suspended.)

Packers are facing their narrowest margins since 2012 due to high cattle costs. Given these tight margins and a lack of competition, packers are hesitant to ramp up slaughter rates in the near term. Growth in direct-to-consumer sales has prompted some producers to move away from packers, opting instead for mobile butcher trailers or investing in local butcher facilities.

Despite the expectation of high cattle prices and cow-calf producer profitability in 2025, the pressures squeezing meatpacker profitability could eventually ripple back to producers.

Dairy – *Dairy markets face volatile outlook.*

Dairy operations are showing improvements in milk production following disease-related reductions, even as concerns about tariffs weigh on markets.

January's increase in national milk production highlights the recovery of western dairy herds from Highly Pathogenic Avian Influenza (HPAI). National milk production rose for the first time since October, up 0.1% year-over-year. This modest rise indicates HPAI has passed through California, which had been weighing down overall U.S. production. Although California's January production was still 5.7% lower year over year, January's year-over-year milk production drop is an improvement from previous months, signaling herd recovery. Idaho also saw milk production gains, increasing by 6.4% in January.

The announcement of tariffs has caused steep price downturns in dairy markets, posing risks to the long-term outlook for dairy profitability. Producers need strong milk prices to maintain recent profitability. While lower feed costs help, they vary by region. In California, feed costs are expected to rise in 2025 due to Sustainable Groundwater Management Act (SGMA) pumping restrictions. Producers may need to reconfigure cropping plans to optimize water use, impacting feed costs. Across the West, hay and corn silage prices are discouraging plantings. Producers should explore risk management options, and assess feed sources and costs to mitigate volatility.

Forest products – *Trump Administration issues executive order to increase log supply.*

The Trump Administration issued the 'Immediate Expansion of American Timber Production' executive order on March 1. It takes a multi-stage and multi-agency approach to increase timber production on federal lands by reducing/streamlining regulations, updating procedures and setting target harvest levels, among other actions. The long-term impact remains unclear. Industry participants are unlikely to change operations until there is more certainty, which may take multiple years. USDA announced a public-private partnership with Sierra Pacific Industries to place fuel breaks on national forests in California and Oregon over a three-year period. This should reduce wildfire risk while slightly increasing timber supply. Public-private partnerships may become more common as the Trump Administration prioritizes wildfire prevention.

Lumber prices have slowly increased since mid-2024 and are now up 18% year over year. Uncertainty around trade policy is adding pressure to the housing sector, which is already struggling with persistently high interest rates and building costs. The National Association of Home Builders Housing Market Index fell to 42 in February following several months of increases, indicating weak sentiment among home builders. Timber prices have held relatively constant and are likely to continue doing so until the housing sector picks up.

Hay – *Hay prices remain low.*

Hay producers face a difficult operating environment marked by low prices, higher-than-normal inventory levels and increased operating debt. To move inventory, some growers are selling hay at discounted prices.

In the Northwest, demand for hay has improved in both export and domestic markets, but buyers remain price sensitive. Muddy conditions in many areas of the Northwest are driving increased purchases for straw. In Montana, significant February snowfall spurred hay purchases. Irrigation concerns may further improve demand for hay in north-central Montana. Delays in the St. Mary Canal project may lead to partial or no irrigation water deliveries through July (depending on runoff).

In the Imperial Valley area of California and Arizona, first cutting has started, with hot weather providing ideal conditions for high-quality hay. Anecdotal reports suggest fewer alfalfa acres will enroll in the Deficit Irrigation Program (DIP) this year. (Producers can enroll alfalfa, Bermuda grass, or Klein grass in DIP, avoiding irrigation for 45-60 days in exchange for a $300 per acre-foot conservation payment.) Enrolled alfalfa acres are now facing weed issues and challenges with the first cutting, leading some producers to reconsider re-enrollment. Bermuda and Klein grass did not face the same challenges.

Given prevailing supply and demand dynamics, producers expected modest price gains, but do not anticipate major increases for at least another year or two unless a severe drought occurs. This will require producers to closely manage input costs and implement risk management strategies.

Lemons and oranges – *Profitability is mixed for lemon and orange growers.*

Orange growers are about 50% through navel harvest. While prices are down due to the small size profile, quality is generally good and later season fruit may begin to size up. Juice prices remain strong and provide a floor for smaller and lower quality fruit. Some are optimistic that fresh fruit exports will pick up through the remainder of the season. South Korea and Canada make up more than half of orange exports by value, followed by Japan at 11%, Mexico at 10% and Hong Kong at 8%. On March 4, The Trump Administration announced tariffs on Mexico and Canada, which could disrupt typical trade flows.

Lemon harvest in the coastal region is underway following the end of the season in the San Joaquin Valley. While fruit quality is good, growers face weak demand and a small size profile. There are reports of lemon acres being removed and replanted with other crops, including avocados. Some growers are not harvesting the current crop due to prices being below harvest costs.

Potatoes – *Processors cut contracted acres as potato surplus persists.*

Potato industry dynamics from 2024 provide a strong indication of what producers can expect in 2025. The

Northwest's 2024 potato crop was 4.6% smaller than the previous year due to surplus production, leading processors to reduce acres. The Columbia Basin in Washington saw a 5.3% reduction in acres, but due to high yields only a 3% reduction in overall production. Idaho faced greater production losses due to weather, despite smaller acreage cuts. Despite reduced acreage and production, there were still ample potatoes, and below breakeven prices for open market potatoes persisted.

In 2025, Northwest potato growers are expected to further reduce planting despite few profitable crop alternatives. Processors have cut contracted acres in the Columbia Basin and Idaho. Following the announcement of tariffs on March 4, anecdotal reports suggest that some producers have experienced contract cancelations, adding further uncertainty to the market. Below breakeven open market prices will discourage planting, as will irrigation constraints in affected potato production areas. (Potatoes are a water intensive crop.) While potato producers should anticipate another challenging year, these actions could help balance regional potato supply with processor demand (assuming year-over-year yields are steady to down).

Wheat – *February rally short-lived amid bearish market.*

Wheat producers face another challenging year in 2025. Prices are projected to remain below breakeven levels, fluctuating between $5.45-$6.00 per bushel in 2025. Growers also face higher costs including rising repair and maintenance costs, along with inland basis and transportation expenses exceeding a $1.00 per bushel. This follows on the heels of a difficult 2024, where most growers experienced financial losses and decreased working capital.

Wheat markets are generally bearish with few prospects for improvement. Producers had hoped for a sustained price rally given the deteriorating outlook for Russia's wheat crop. (As of Feb. 28, 37% of Russia's crop was in poor condition and production estimates have been repeatedly reduced). Prices did rally by $0.60 per bushel in early February but ended the month lower than they started given favorable weather in key global growing regions and a 2% increase in USDA's 2025-26 wheat planting projection.

In the West, rapid spring temperature changes in Idaho, Montana and Washington caused flooding and excess water in fields. While the winter wheat crop seems undamaged, there was some soil erosion. Anecdotal reports indicate some landlords are struggling to find producers willing to rent wheat ground.

A robust risk management strategy will help growers mitigate losses expected for 2025.

Wine and wine grapes – *Conditions remain challenging for much of the wine industry.*

While wineries with niche markets and/or strong in-person Direct-to-Consumer sales are generally faring well, those focused on producing low to mid-tier wines distributed through large retail outlets are facing markets with excess supply and falling demand. Wine grape properties for sale are increasing with minimal buyer interest and many growers are having to decide between removing acres and/or not harvesting for a year.

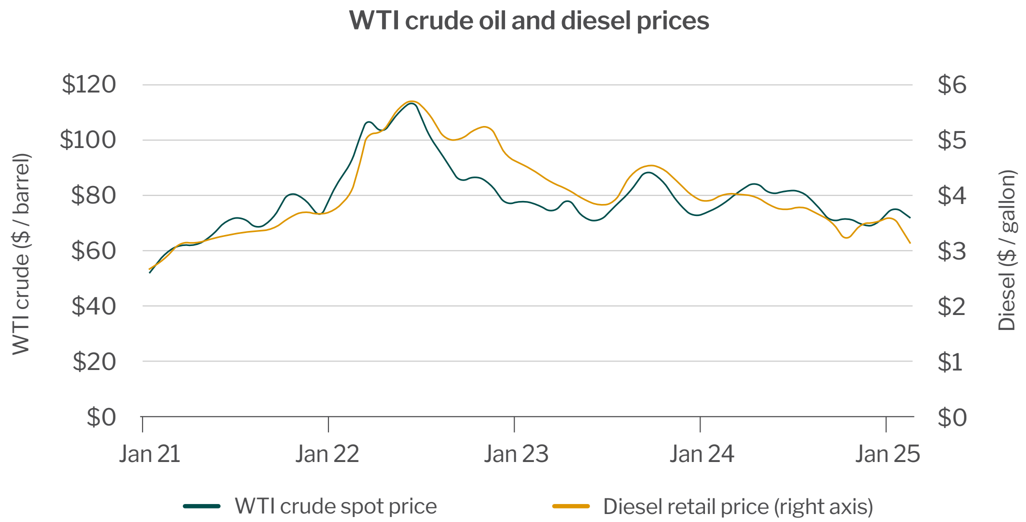
California – Bud break just kicked off in the Central Coast, nearly 45 days earlier than average due to warm weather. (Early bud break increases the risk of damage from frost and/or excess precipitation.) USDA's latest Grape Crush Report shows a shift toward white wines (now at about 50% of total production) and that 2024 experienced the lowest production level in five years. Contracts among growers and processors are increasingly hard to come by and are decreasing in duration and value. Small, low producing and/or vineyards with less popular varieties are increasingly for sale. Some estimate approximately 45K acres will be pulled out of production in 2025, which should help align supply with demand over the next two to three years. Excess bulk inventories continue to weigh on prices.

Oregon – Excess wine inventories continue to weigh on prices; however, demand for Oregon wine remains strong and conditions could rapidly improve if the 2025 crop comes in small. While still uncommon, some growers are considering selling properties or not harvesting the 2025 crop, particularly on lower quality sites.

Washington – Following two years of significant cuts, there are more reports of wine grape contracts being terminated. There is little to no demand for uncontracted grapes, and many growers are having to decide whether to remove acreage and/or not harvest until 2026. Many expect an additional 10,000 acres to be removed in 2025 (primarily for Cabernet Sauvignon, and to a lesser extent Chardonnay, Merlot and Syrah varieties), which would help to better align supply with demand over the next several years. Wineries with niche markets and/or strong DtC sales continue to fare well.

Data and trends

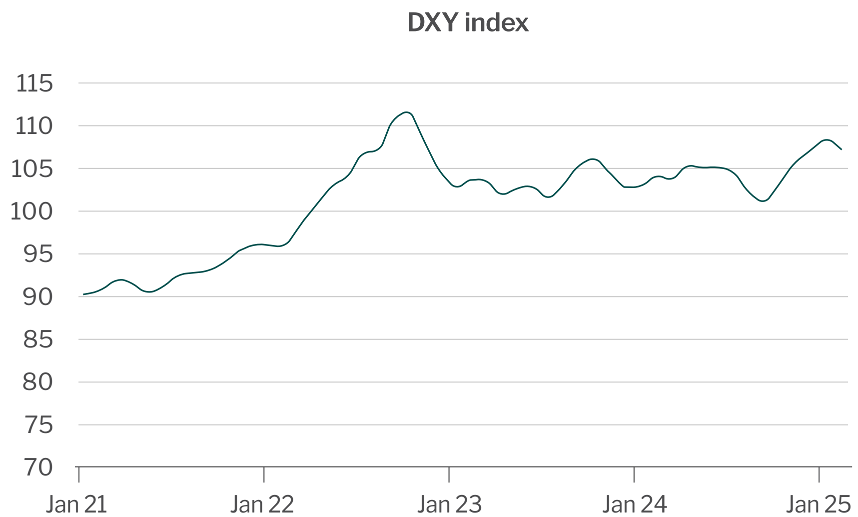
This section presents select economic indicators to help producers gauge the direction of their business. These metrics reflect current market dynamics and their potential impact on operations. Come back each month to stay informed and adapt swiftly to the ever-changing economic landscape.



Source: U.S. Energy Information Agency.

Observation: Oil prices fell month over month due to anticipated supply increases from both OPEC+ and non-OPEC+ members as well as lower demand from weakening economic activity. De-escalating tensions between the U.S. and Russia should help to normalize trade flows and further reduce demand.

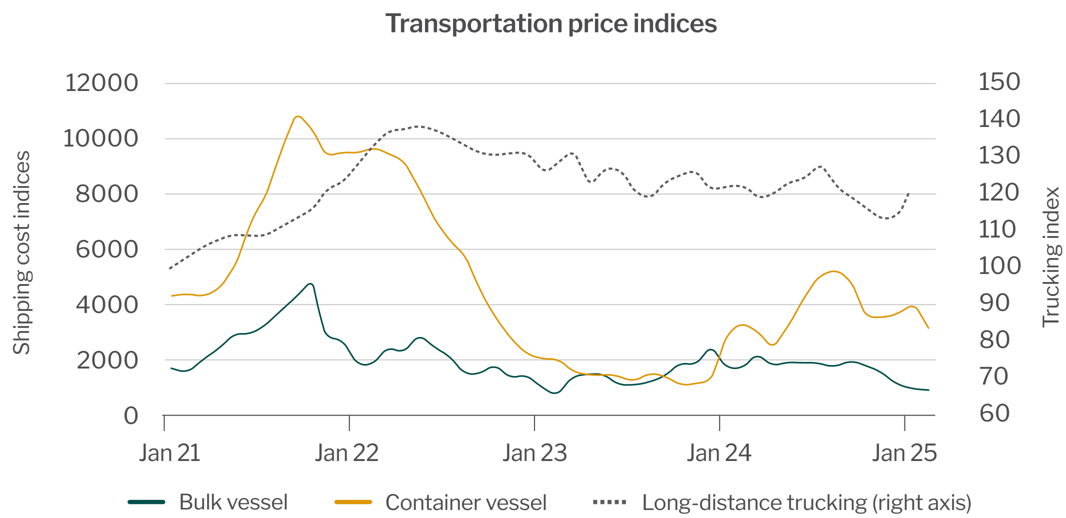
About this indicator: The West Texas Intermediate (WTI) crude oil price is a benchmark for oil pricing and influences the cost of fuels like diesel, which is essential for running farm equipment and transporting goods.



Source: Bloomberg.

Observation: The dollar weakened in February and into the first week in March due primarily to escalating trade tensions and weaker than expected economic data in the U.S. Other factors may include narrowing yields between the U.S., Japan and Europe and recent commitments by Europe to increase defense spending.

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.



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

Observation: Weakening global economic conditions, increasing risk of tariffs, de-escalation between the U.S. and Russia, lower prospects of vessel attacks in the Red Sea and the conclusion of the Lunar New Year in China are weighing on shipping rates. Seasonal trends along with softness in manufacturing activity and retail sales are weighing on trucking demand.

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).

Spotlight

Rising federal debts and The Department of Government Efficiency

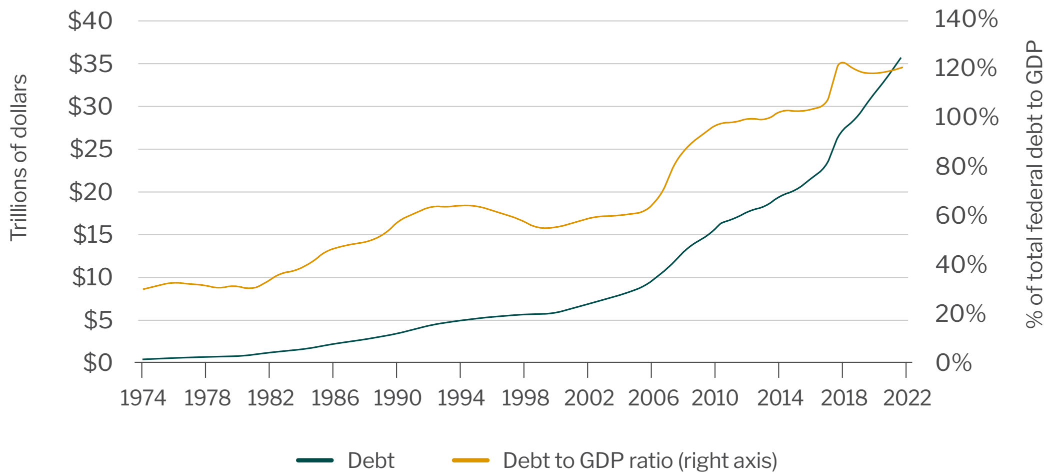
Summary: Efforts by the newly created Department of Government Efficiency (DOGE) to reduce federal spending and streamline/remove regulations will have mixed impacts on the economy, including the agriculture sector.

The U.S. federal debt is climbing rapidly (see chart below), which may lead to:

- **Higher interest rates:** Deficit spending increases the supply of treasury bonds used to fund federal government activity. Increased supply without additional demand puts upward pressure on interest rates.

- **Higher inflation:** Rising debt levels increase the supply of money. A greater amount of currency spread across the same number of goods and services increases prices.
- **Higher taxes:** Debt incurred today will need to be repaid. Without cuts to spending, taxes would need to increase.
- **Weaker economy:** As interest, inflation and tax rates increase, consumers will have less discretionary income to spend on goods and services, assuming wages do not rise at similar levels. Consumer spending makes up about 70% of the U.S. economy.
- **Reduced government services:** As a greater share of federal expenditures goes toward interest payments, there may be less capacity to fund social services, defense and natural disaster responses.

Debt and debt to gross domestic product ratio



Source: Department of Treasury. Office of Management and Budget.
Debt: Total federal debt. GDP: Gross Domestic Product.

DOGE was created to address rising debt levels and improve operational efficiency within the federal government. These goals are being met largely by terminating grants, contracts and real estate leases, reducing the federal workforce (currently at about 3 million) and streamlining/removing policies and regulations that inhibit economic activity. DOGE seeks to cut $1 trillion in spending by September 2025 but has not indicated a target debt to GDP ratio. In the short-term, lower federal spending will result in lower GDP readings and higher unemployment levels as federal workers seek new jobs. In the long-term, it should support economic activity by increasing the skilled workforce for the private sector, reducing regulatory compliance costs for businesses and avoiding the negative effects mentioned above.

The full impact of DOGE's efforts on agriculture is likely to be mixed. In the long-term, producers should benefit from flat to lower interest, inflation, tax and regulatory compliance costs, as well as a stronger economy. However, cuts to both funding and workforces at the U.S. Department of Agriculture (USDA), National Oceanic and Atmospheric Administration (NOAA), U.S. Agency for International Development (USAID) and the Environmental Protection Agency (EPA) may directly impact farmers. Possible outcomes include:

- Longer processing times for crop insurance payments and data reporting, and/or the elimination of specific data reports.
- Reduced support for conservation efforts, technical/extension assistance, academic/government-led research, weather forecasting, forest management and regulatory enforcement.
- Reduced demand for commodities such as corn, soybeans and wheat previously used by USAID to support international development programs.
- Fewer ag-related professions, particularly at the federal level.

The impact of DOGE will be mixed, with economic benefits partially offset by reduced capacity for the government to support the agriculture sector.

Profitability

What is this? AgWest conducts a profitability analysis of its core industries every quarter by surveying its lending, appraisal and insurance staff and having discussions with industry experts. Results provide a high-level overview of the health of each industry. Actual profitability may vary significantly by operation. Below is a summary of our latest results for Q4 2024. See below for methodology.

Summary: Agriculture industries mostly range between unprofitable to profitable. Low prices coupled with persistently elevated input costs are pressuring margins, and trade policy uncertainty is weighing on producer sentiment. AgWest expects these conditions to persist for the next year, though some producers/processors should eventually benefit from higher prices. The following details current profitability and the 12-month outlook by industry in AgWest's territory.

Industry	Current profitability	12-month outlook			Factors dictating 12-month outlook
		Bearish	Neutral	Bullish	
Almonds	Slightly Profitable			X	Almond prices should continue to improve on strengthening North American and European demand.
Apple producers (2024 crop)	Unprofitable			X	Prices for certain varieties should improve throughout the season as supplies wind down. Growers with a solid mix of Honeycrisp will fare relatively well compared to others due to its strong pricing.
Apple packers (2024 crop)	Slightly profitable		X		Packers will continue to benefit from the larger than average 2024 crop.
Calf feeders	Profitable	X			As feedlots grapple with tightening cattle supplies, competition may continue to ratchet the cost of feeder cattle higher. This could offset the financial benefit of lower feed costs.
Cow-calf producers	Profitable		X		Low national cattle inventories continue to bolster cow-calf profitability. However, already tight packer margins could weigh on cattle prices if rising beef prices outpace consumer demand.
Dairy	Slightly profitable		X		Profitable milk prices and a tight supply of replacement heifers have provided tailwinds to dairy profitability. However, current market volatility will pose challenge.
Forest product mills	Slightly profitable		X		Lumber prices are unlikely to increase meaningfully given weakness in the housing sector. It remains unclear whether home construction will pick up in 2025.

Industry	Current profitability	12-month outlook			Factors dictating 12-month outlook
		Bearish	Neutral	Bullish	
Lemons	Slightly unprofitable		X		Weak demand will continue to weigh on lemon growers.
Hay (alfalfa)	Slightly unprofitable		X		Sluggish demand has kept alfalfa prices low. While potential improvements in milk prices and weather conditions could offer some relief, prices remain below breakeven levels.
Hay (timothy)	Slightly profitable		X		Timothy producers will benefit from increased export demand.
Oranges	Slightly profitable		X		Good quality and improving fruit sizes should continue to support demand. Some expect exports to increase later in the season.
Pistachios	Slightly profitable		X		A good quality 2025 crop, minimal inventory carry-over and strong demand should continue to support prices.
Potatoes (contracted)	Breakeven		X		Stable pricing agreements benefit contracted potatoes, but many producers face reductions in contracted acres.
Potatoes (uncontracted)	Slightly unprofitable		X		Recent surpluses of open market potatoes have driven prices down and will keep them below breakeven levels in the near term.
Timberlands	Slightly profitable		X		Log prices are unlikely to improve until home construction picks up.
Wheat	Slightly unprofitable		X		Wheat producers will face headwinds from market volatility, bearish prices and unpredictable trade conditions.
Wine	Breakeven		X		Wineries with strong Direct-to-Consumer sales should continue to benefit from solid demand, while those focused on low to mid-tier products and large retail distribution outlets face excess supply and falling demand. Wine inventories remain high and will continue to pressure prices.
Wine grapes	Slightly unprofitable		X		Grower profitability ranges widely, and in part depends on whether growers have contracts or not (particularly in Washington). Excess production capacity, wine inventories and falling wine demand will continue to pressure the industry.