August 2024

Monthly Market Update

Economic headlines

Economic growth picked up in Q2 2024

The advanced Q2 2024 Gross Domestic Product estimate came in at 2.8%, a notable increase over expectations. Increases in consumer spending, inventory investment and business investments offset declines in the trade balance. Growth is primarily occurring in the service sector.

U.S. trade deficits are near historic highs and growing

The gap between imports and exports (trade deficit) is widening and reaching pandemic-level highs. Rising trade deficits expose the U.S. economy to greater risk from trade restrictions and a weakening dollar, which can ultimately increase prices and/or lower supply of goods. Accordingly, trade and fiscal policy may become increasingly important issues leading up to and following the 2024 presidential election.

Manufacturing sector weakens

Two key indicators (ISM Manufacturing Survey and S&P Global U.S. Manufacturing PMI) registered contraction for the manufacturing sector in July. New orders declined, suggesting lower demand, uncertainty heading into the 2024 election cycle and reduced future production activity. Capital investments remain subdued due in large part to elevated interest rates. Production levels in excess of new orders may contribute to inventory gains in the coming months.

Federal Reserve (Fed) holds interest rates flat, but signals September cut

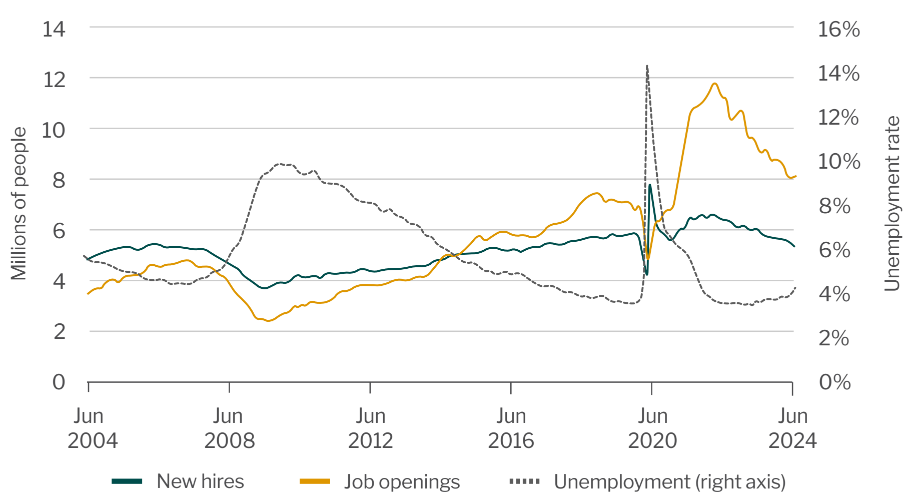
The Fed held the prime rate between 5.25% and 5.50% at their July meeting, but suggested a rate cut is possible following their September meeting. Markets currently expect three rate cuts to finish out 2024 given softer inflation and a weakening labor market (see chart below). The prime rate could be 4.25% - 4. 5% by mid-December.

Job openings and new hires are falling rapidly.

The unemployment rate increased to 4.3% in July.

Job openings, new hires and unemployment

Source: Bureau of Labor Statistics.



Industry updates

General sentiment – *Improved farmer sentiment amid anticipated rate cuts*

In July, the Purdue University/CME Group Ag Economy Barometer reported an improvement in monthly farmer sentiment, even though key commodity prices have been decreasing. High interest rates have been a top concern for many producers, and the improvement in sentiment could be attributed to the anticipated rate cuts by the Federal Reserve in September. While the impact of a rate cut will not be felt right away, there is hope amongst producers that this is a crucial step towards easing financial headwinds and stabilizing their operations in the long term. Given the current economic climate, effective risk management is essential to navigate high interest rates and fluctuating commodity prices.

Crop inputs – *Energy and fertilizer costs are down, but transportation costs increase*

Crude oil prices declined in July and early August. Recession fears have dampened demand, and higher production levels in the U.S. are offsetting declines in domestic inventories and escalating tensions in the Middle East.

Average global container shipping rates increased 20% in July and are up 75% since January. There are several drivers, including: 1) a surge in imports to the U.S. in the first half of 2024; 2) diversions from the Suez Canal route to the longer Cape of Good Hope route continue at a significant level as shippers avoid the Middle East; 3) inclement weather at the Cape of Good Hope (common this time of year) recently slowed throughput; and 4) new environmental regulations are forcing older vessels to travel more slowly to reduce emissions. While average container rates have increased, rates for ships going from North America's West Coast to Asia fell in June and held flat in July. Greater import volumes are likely leading to spare container availability for exporters. Bulk shipping rates were flat in July. Increased demand for trucking over the last several months, in large part due to an increase in imports, have some industry experts predicting higher rates going forward; however, much will depend on the health of the U.S. economy.

Fertilizer prices were flat to down in July on stagnant demand, driven in part by lower input costs, improving global production/supply prospects and flat corn prices. (Fertilizer prices are highly correlated to corn prices.) Fertilizer affordability among agriculture producers has returned to its ten-year average following pandemic-era lows, due in large part to lower costs and higher food prices. (See chart in Data and Trends for more information.)

Almonds and pistachios – *Almond supply exceeds demand*

Updated estimates now suggest the 2024 almond crop will come in at 2.8 billion pounds, a seven percent decline from the initial estimate, but 13% greater than 2023's crop. Year-over-year gains in Carmel, Monterey and Nonpareil varieties will offset declines in Butte, Independence and Padres varieties. Favorable spring weather, followed by dry conditions in May, supported the relatively large crop size. Hot weather in June and July has increased pest pressures and irrigation needs, which may increase costs and lower margins for some producers.

Almond hull split (a critical part of the maturing process) is underway and harvest is expected to start on time. Prices were relatively unchanged in July. Almond harvest is beginning this week for some growers in the Central Valley. Sales activity has slowed over the past couple of weeks due to buyers being reluctant to purchase at the current price levels. Carryover into 2024 crop is expected to be in the 450-500 million pound range.

Estimates for the 2024 pistachio crop are about 900 million to 1 billion pounds. Nut-fill (where nut meat enlarges and fills the shell) seems to be proceeding well despite the hotter-than-usual temperatures since early July. Blanks (empty nut shells) seem to be at the standard range. While there are pockets of poor pollination and/or winter weather damage reported, the crop is generally progressing as normal. Carryover for the 2023 crop is expected to be less than 250 million pounds and prices have remained steady from last month.

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

The Washington State Tree Fruit Association's first official estimate for the 2024 crop came in at 124 million 40-lb boxes, but anecdotal reports suggest it could be closer to 122 million boxes. Intense summer heat is impacting orchards with water limitations and/or without shade cloth, leading to smaller fruit sizes, sunburn, a greater potential for internal quality issues. There is increased concern fruit may not store well over the 2024 marketing season. While heat stress will create challenges for many producers, it may also lower the overall crop size and support higher prices. The 2023 crop (about 136 million boxes) will extend into the 2024 marketing season, which will likely keep prices and profitability down over the next several months.

The 2024 Northwest cherry crop is about 10% - 15% smaller than average. Pricing has been generally strong with some moderate volatility. Most growers are benefiting from strong markets (particularly those with June and/or August harvests); however, some will experience reduced profitability due to the smaller crop. The 2024 pear crop is down significantly, with some estimates suggesting a 35% - 40% decline. Frost rings are apparent on fruit coming from northern Washington, which may also lower prices. The smaller and mixed quality crop will lower profitability for some packers and producers, but growers with good quality and volume should experience strong returns.

Cattle – *Western wildfires challenge ranchers*

Cattle producers are concerned about whether consumers will continue paying higher retail beef prices. Despite financial stressors like high interest rates, rising credit card debt and inflation, average per-person expenditure on beef has increased even as per-capita supply has declined. The beef market is expected to stay strong as competition among feedlots and packers intensifies due to fewer cattle.

As of August 1, over 2.9 million acres in the West were affected by active fires, with every state in AgWest's territory experiencing ongoing blazes. Although ranchers are prepared to move their cattle in cases of emergency, rapid fire spread can hinder timely evacuation. In eastern Oregon, two major fires merged, burning over 420,000 acres and resulting in cattle losses. Over 390,000 acres have burned in a Northern California fire with statewide wildfire activity 28 times greater than this time last year. These fires will reduce available pasture, forcing ranchers to delay grazing and purchase additional feed for this year. Some affected producers are considering early weaning of spring calves, marketing them earlier than planned and at lighter weights to mitigate pasture losses. Without the calf, cows might better handle tougher pasture conditions than cow-calf pairs.

Western pasture remains dry, similar to 2023. Montana faces the largest drought increase, with more than double the acres in moderate or more extreme drought compared to last year. Grasshopper issues in eastern Montana are leading to lower cattle body condition scores. Drought may push producers to bring more calves to market sooner, potentially causing a seasonal decline this fall. Despite this, prices remain above historical averages. Feeder steer auction prices across the West are forecast to average 8% higher year over year. This holds true for Montana where feeder prices are up 8%. California's and Washington's prices have stabilized but remain historically strong.

Dairy – *Milk production drops again, while producer optimism rises*

In June, U.S. milk production experienced its eleventh consecutive month of decline, dropping by 1% year over year. Although milk production has dropped, components have increased. The western U.S. faces even steeper production declines than other regions, with New Mexico, Arizona and California seeing year-over-year reductions of 12.5%, 3.9%, and 1.8%, respectively. Given that milk production numbers are released three weeks after the end of the month, it is anticipated that July's milk production will show an even greater decrease due to the extreme heat experienced during the month. Death loss is becoming less of an issue during extreme heat as facilities modernize with soakers, fans and other improvements.

Dairy market reports have been bullish, with Class III (cheese) milk futures projected to remain above $19.50 per hundredweight (cwt) for the rest of the year, and Class IV (butter and NFDM) milk futures expected to stay above $21 per cwt in the near term. These higher prices and falling feed costs will benefit dairies but are not sufficient to offset the losses incurred from lower prices in the first half of 2024. Despite some improvements in margins, they are unlikely to be enough to incentivize growing herds. Additionally, increases in beef-on-dairy breeding programs and the high costs for springers (young cows) complicate potential herd expansion decisions for dairies.

As of August 5, 179 dairy herds nationwide have been infected with highly pathogenic avian influenza (HPAI) since it was first detected in March. Idaho remains the only state in AgWest's territory impacted with a total of 30 herds infected. So far, most herds can recover from HPAI with temporary reductions in milk production. Financial help is available through the USDA for dairies affected by HPAI.

Forest products – *Forest products industry faces weak markets*

Lumber prices were flat and production levels down this month due to a sluggish housing market. The Federal Reserve is widely expected to lower interest rates later this year; however, it will likely not be sufficient to improve housing demand in 2024. Two small, specialty mills closed in Oregon, increasing the closure count to six in Oregon and nine overall in the Northwest in 2024. Weak markets, high operating costs and/or challenges with sourcing labor were noted as contributing factors in the closures. Skilled and unskilled labor shortages are an increasingly common occurrence among mills in rural areas. The U.S. Department of Commerce announced the preliminary countervailing duty rates on Canadian lumber imports. The final average rate is likely to increase from the current 8.05% to 13.89%. It remains unclear how impactful this will be in tightening lumber markets.

Lower sawmill production levels are dampening log demand and prices. Pulpwood log markets remain very weak due to mill curtailments, mill closures, excess residual supplies and substitution of recycled materials over wood chips. Much of Oregon's timberland is in limited or restricted shutdown status for industrial activities due to wildfire risk.

Timberland values remain strong despite depressed log and lumber prices. There have been a relatively high number of Pacific Northwest offerings in the first half of 2024; however, it remains to be seen whether they will translate into transactions. While carbon, solar energy and other climate-based services appear to be a factor in sales activity, the full extent of their influence is not well disclosed.

Hay – *Heatwaves and soft export demand challenge hay producers*

Across the West, wildfires have impacted more than 3 million acres with the largest fires located in eastern Oregon and northern California. While most acres burned were concentrated in pasture and rangeland, smoke from these fires can create longer drying times for hay and in some cases impact hay color. Arizona's alfalfa crop is in good to excellent condition, with only 3% rated as poor to very poor. However, pasture and range conditions are declining, and native forage production is forecast to drop 15-30% below the historical average. Producers may need to purchase additional hay to compensate for this shortfall and ensure their livestock have enough feed. In California's Imperial Valley, 160,000 acres of hay and grasses have temporarily turned off their water usage through the Deficit Irrigation Program, where farmers limit water use during a 45-60 day period in exchange for compensation. Consecutive days above 100°F have hurt alfalfa quality and yields in California. In the San Joaquin Valley, hay prices were forecast to average $210 per ton in 2024. However, $210 per ton is closer to the top prices producers are receiving for early cuttings. This may serve as an early warning sign for continued weakness in hay prices for western growers. California, particularly the San Joaquin Valley, plays a crucial role in setting hay prices for the rest of the western U.S. due to its significant production and export capacity.

In Washington-Oregon's Columbia Basin, hay quality has been good with favorable growing conditions and decent supply. Some growers have decided to plant beans following their first timothy cuttings and despite a tighter but manageable timothy hay supply. In Idaho, scattered storms have impacted some hay growers with second cuttings wrapping up, and third cutting 16% complete across the state. Anecdotally, growers have reported lower yields, especially for grasses. In Montana, hay yields are 15-30% lower than in 2023, with producers attributing lower yields to the cool, wet spring. July saw heat with several days in the triple digits and little rainfall causing 43% of the state to be in moderate or worse drought.

Alfalfa export demand is soft. Exporters have abundant supplies remaining from last year that they still need to ship. Low milk prices, both domestically and internationally, have made it hard for dairies to afford feed, resulting in reduced alfalfa demand. For export hay, this issue is further exacerbated by a strong U.S. dollar and economic challenges in East Asia. To stabilize milk prices, China plans to limit milk production, which will financially hurt dairy producers and further hinder their ability to buy hay. Export demand is expected to stay low until hay prices decrease, the U.S. dollar weakens (likely due to the Federal Reserve cutting interest rates), or a combination of both factors occurs.

Lemons and oranges – *2024 crops look favorable*

In California, harvesting of the 2023-24 navel crop wrapped up in July with prices down moderately year over year, particularly on smaller fruit. Anecdotal reports suggest a smaller 2025 navel crop; however, more information should be available next month following USDA's Objective Measurement Report. The 2024 Valencia crop is doing well with strong supplies, quality and prices. Imports from Chile (the largest foreign supplier to the U.S.) kicked off in July and USDA expects slightly lower volumes to the U.S. market due to lower production levels. In contrast, production in and imports from South Africa (the third largest supplier to the U.S.) are expected to increase from last year. Imports from Chile and South Africa typically last from July to November.

Domestic lemon supply declined in July as District 1 (Central Valley region) growers wrapped up harvest on the 2023-24 crop. Remaining supplies will compete with imports from Argentina, whose fruit is reportedly large. Greater supply of larger fruit may indicate strong prices for smaller fruit sizes to finish out the season. Crop quality is generally good in California. In Arizona, anecdotal reports suggest favorable yields but lower production due to tree removal and some wind damage.

Potatoes - *Early harvest shows promising yields and restaurant slowdowns*

Producers hoped the upcoming crop would balance out supply and demand, supporting higher prices. However, this seems unlikely. In 2023, a historically large crop allowed processors to run at full capacity after two years of shortages, but open market prices fell below breakeven, forcing some producers to sell excess potatoes to feedlots. This year, processors had enough potatoes in storage to reduce contracted acres, leading to 2.5% fewer acres planted (with an estimated 5,000 fewer acres in Idaho, 3,000 fewer acres in Oregon, and 16,000 fewer acres in Washington). Producers hoped the reduced acreage would rebalance the market, but ideal weather has led to higher yields. This increase in yields will likely prevent producers from achieving a better demand-supply balance and create headwinds for open market prices.

A major potato processor has lowered its financial outlook for the remainder of 2024 citing slow restaurant sales and slowdowns in key international markets as the primary drivers. The Restaurant Performance Index, which measures the health of the restaurant industry and can serve as a proxy for French fry demand, has shown contraction for seven consecutive months. Higher menu prices and inflation are driving consumers to eat at home instead of dining out. Food prices away from home have increased 4.1% year over year, while food at home prices have only risen 1.1%. Restaurants are feeling the pressure of reduced consumer demand, with McDonald's reporting its first quarterly sales decline in four years. The U.S. has been losing global French fry market share to the EU and other countries, which have increased their share over the past decade. Meanwhile, U.S. exports of frozen potato products have stagnated or declined. From June 1, 2023, to May 31, 2024, U.S. exports of frozen potato products decreased 7.8% year over year.

Wheat - *Wheat growers face tight margins as prices hit multi-year lows*

As of August 5, 2024, the nationwide winter wheat harvest is 88% complete, in line with the five-year average. Spring wheat harvest is at 6%, behind 2023's 8% and the five-year average of 10%, but conditions are good with less than 4% of spring wheat in poor or very poor condition. Barley harvest is slightly behind the five-year average. In Oregon, timely rains have benefited the wheat crop, while in Washington, winter wheat yields are generally good to average despite some drier conditions in the eastern part of the state. Overall, yields across the Pacific Northwest are ranging from average to above average. Some regions including central Washington are setting record yields. However, protein levels in the crops are lower than usual. In Montana, some producers have experienced challenges with sawflies and lower protein.

Warm weather and better moisture conditions have increased hard red winter (HRW) wheat production by 27% year over year. However, HRW wheat has struggled in the export market due to a large Russian crop and lower prices. With a larger crop this year, it will be challenging for U.S. HRW prices to rebound. Spring wheat prices rallied in May after frost damage in Russia, but this was short-lived as the U.S. spring wheat crop is expected to be larger. Overall, wheat prices are down year over year, reaching their lowest levels in the last 3.5 years. Typically, this is the time of year when prices bottom out and then stabilize. Lower prices have boosted exports, with wheat export sales up 50% year over year. However, low prices continue to pressure already tight margins for wheat growers.

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

Wine and wine grapes – *Wine grape crops generally favorable across the West*

Wine grape crops are generally in favorable condition across the West; however, the region is experiencing wildfires and intense heat this summer. While vineyards in the Northwest remain largely unaffected due to being early in their seasonal growth cycle, those in California may have experienced some level of slower growth and sugar accumulation. Future crop quality and yields will largely depend on the intensity and duration of heat and wildfires since vineyards become more susceptible to damage following veraison (when fruit begins to turn from green to red).

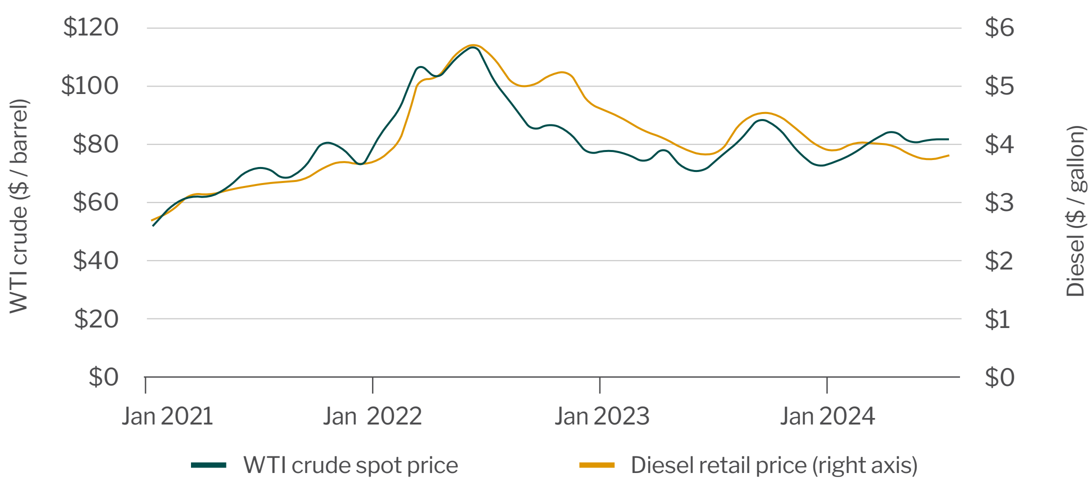
An oversupply of grapes and slowing sales continue to characterize the wine industry. Year-over-year sales volumes are down across each category, including off-premise (-6%), on-premise (-.5%) and direct-to-consumer (-21%). Some analysts attribute the significant decline in direct-to-consumer sales to fewer tasting room visits and lower e-commerce demand. Lower consumer wealth and reduced alcohol consumption remain headwinds.

Data and trends

Data and trends include select economic indicators to help you gauge the direction of your business. These metrics reflect current market dynamics and their potential impact on operations

WTI crude oil and diesel prices

Source: U.S. Energy Information Agency.

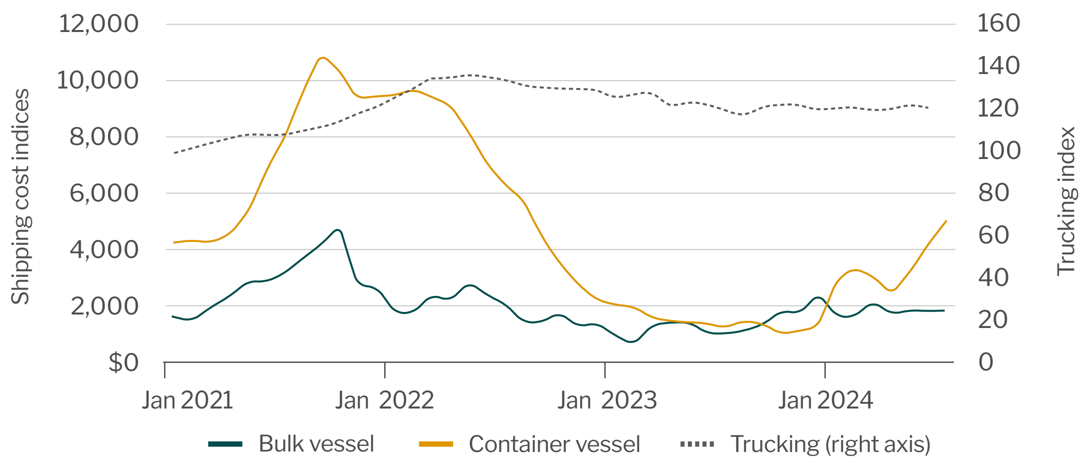


Observation: Crude oil prices softened in July largely due to rising fears of a global recession.

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

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



Observation: Container shipping rates have risen due to slower shipping times, longer routes and a spike in goods demand.

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

Fertilizer affordability index

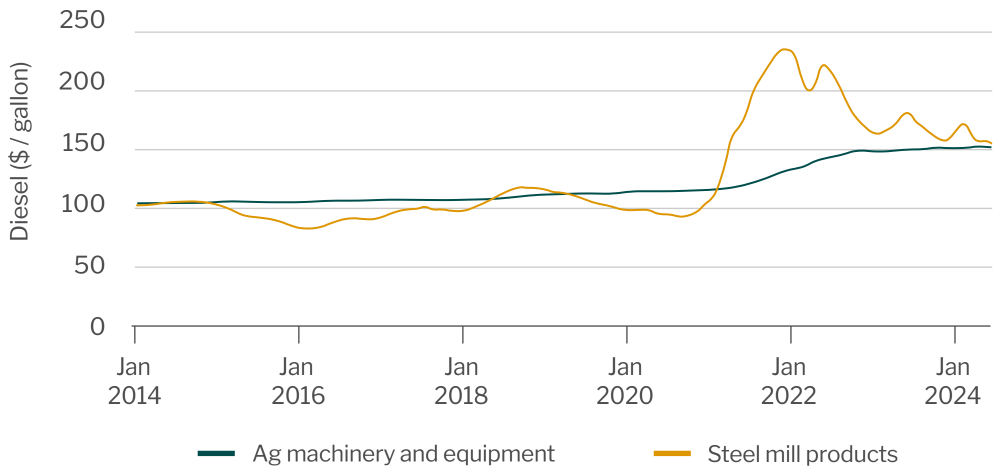
Source: Bureau of Labor Statistics. Producer Price Index (PPI). Consumer Price Index (CPI).

Observation: Fertilizers have become more affordable since 2022 due to lower nitrogen, potassium and phosphate prices and higher food prices.

About this indicator: The Fertilizer Affordability Index measures the ability of agriculture producers to purchase fertilizers and is calculated by dividing average fertilizer prices by average food prices. This index provides insight into the relative cost of applying fertilizer in agriculture..

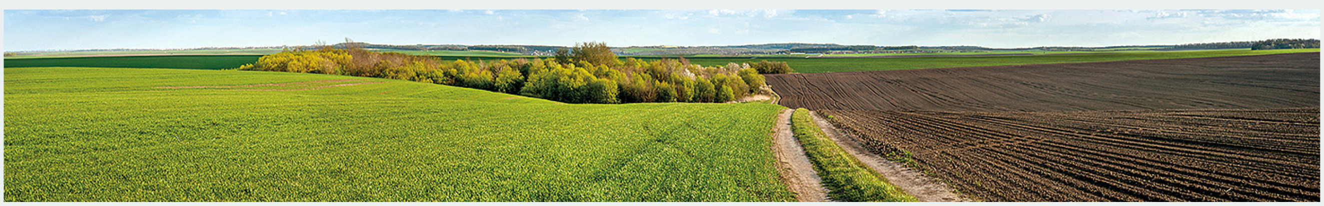
Steel mill products and ag equipment and machinery

Source: Bureau of Labor Statistics. Producer Price Index (PPI).



Observation: Steel prices have fallen significantly from pandemic levels due to lower construction and manufacturing activity and strong Chinese exports. Lower steel mill product prices could put downward pressure on ag equipment and machinery costs, which have largely flattened in 2024.

About this indicator: Steel is the primary input for ag machinery and equipment, including shipping vessels. As such, it's helpful to track changes in steel prices as they may ultimately impact how much agriculture producers pay to replace and/or replace equipment.



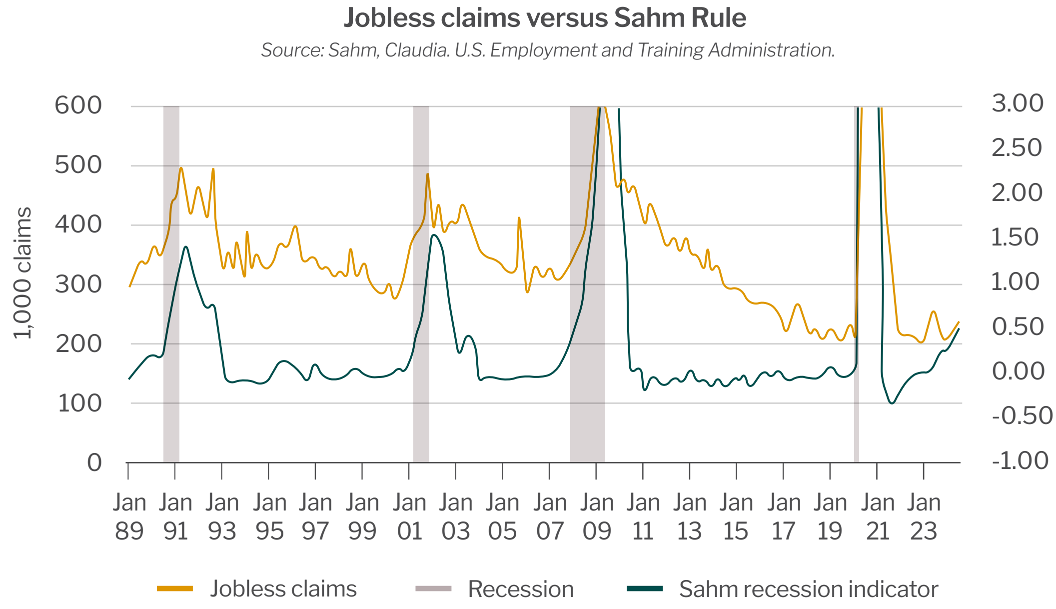
Spotlight

Sahm's Rule and what it means for producers

Following an August 2 employment report, economic headlines raised alarm flags about a potential recession signaled by the Sahm Rule. While recession talks have been ongoing for nearly three years, this spotlight will explain the Sahm Rule, its role in predicting economic downturns and the implications for producers.

What is Sahm's Rule and why is it making headlines now?

The Sahm Rule is a recession indicator developed by Claudia Sahm, a former economist at the Federal Reserve. It is designed to provide an early warning of U.S. economic downturns by monitoring changes in the unemployment rate. Specifically, the Sahm Rule signals the onset of a recession when the three-month moving average of the national unemployment rate (U3) rises by at least 0.5 percentage points above its lowest point during the previous 12 months. Since its introduction, the Sahm Rule has consistently signaled the early stages of recessions. Jobless claims tend to increase just prior to the Sahm Rule being invoked, or coincide with it. While jobless claims have not risen to a level consistent with the Sahm Rule flag yet, analysts are wondering if the Sahm Rule applies in this economic environment.



Note: Jobless claims are released weekly, while the Sahm Recession Indicator is released monthly.

While the Sahm Rule is an early indicator, economists are careful not to call a recession this early as it can potentially lead to businesses and financial institutions making further cuts to their labor forces, investments and credit availability. There is a risk of a downward spiral in which such predictions cause actions leading to further economic weakness.

Does this mean a recession is guaranteed?

Although the Sahm Rule can reliably indicate economic downturns, even Sahm is not convinced that a recession is inevitable, stating, “We are not in a recession now… but the momentum is in that direction.” The recent trigger of this rule might not indicate an upcoming recession due to a stronger labor supply. Currently, about half of the unemployment increase is coming from new labor force entrants, unlike past recessions dominated by laid-off workers. This rise in unemployment is expected to decrease as job availability catches up with new job seekers, potentially fostering economic growth. With likely interest rate cuts in September, it is possible to mitigate economic pressures and avoid further headwinds. Nonetheless, the situation bears watching as conditions can change quickly, and the risk of a recession remains.

What does this mean for producers?

For agricultural producers, recognizing the early warning signs of economic downturns can help in planning and risk management. Having a risk management plan is vital to the success of agricultural producers, ensuring they can navigate economic challenges effectively.

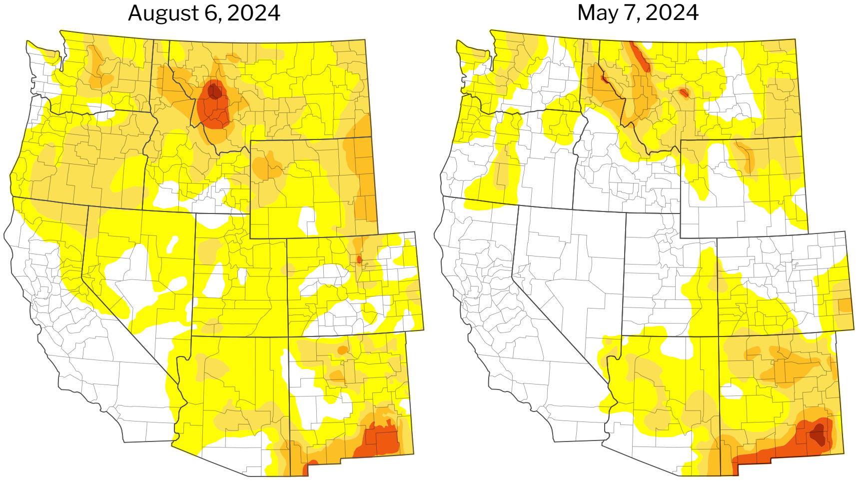
To explore additional indicators used to identify business cycle turning points, visit the St. Louis FRED’s NBER Turning Points dashboard.

Drought and water update

Drought monitor

Drought conditions worsened notably in Washington, Oregon, Montana and Northern California over the last three months. Hot and dry conditions dominated the West in July and early August, leading to the expansion of multiple drought categories ranging from D0 to D4 (see maps below) and numerous large fires. Wildfire potential for the remainder of August is above normal. For the latest on weather, please see AgWest's Weekly Weather Updates with Eric Snodgrass.

August 6, 2024 | May 7, 2024



- D0 Abnormally dry
- D1 Moderate drought
- D2 Severe drought
- D3 Extreme drought
- D4 Exceptional drought
- None

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

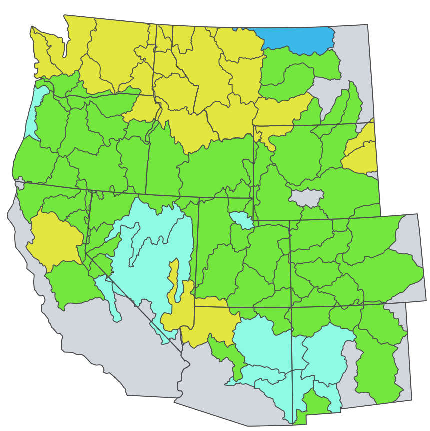
Description: The U.S. Drought Monitor provides a comprehensive look at drought conditions across the U.S., categorizing areas by intensity (no drought to exceptional drought). This tool helps agriculture producers understand water availability and make informed decisions about crop management.

Year-to-date precipitation

Year-to-date precipitation levels are close to their historical averages across the West, with notable exceptions in Washington, northern Idaho, western Montana, north San Joaquin Valley in California and northwest Arizona.

Oct 1, 2023 - Aug 6, 2024

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



Source: Natural Resources Conservation Service. NWCC Interactive Map.

Description: The NWCC Year-to-Date Precipitation Map provides a detailed overview of precipitation levels across the U.S. comparing current data to an 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

While reservoir levels across California are strong, Arizona, Oregon and the Yakima River Basin in Washington face challenging conditions.

Reservoirs with water levels below 80% of their historical average

Data as of August 9, 2024. Source: Bureau of Reclamation: Reservoir Storage. California Department of Water Resources. Arizona Department of Water Resources.

Location / Region	Reservoir	Percent below average
Colorado River Basin	Lake Powell	59%
	Lake Mead	55%
Deschutes River Basin, OR	Crescent Lake	29%
Rogue River Basin, OR	Emigrant	54%
	Four Mile Lake	34%
	Howard Prairie	66%
	Hyatt	74%
Southeastern OR	Mason Dam/Phillips Lake	75%
	Thief Valley Dam	29%
Upper Snake River, ID-WY	Grassy Lake	73%
Yakima River Basin, WA	Cle Elum	46%
	Kachess	70%
	Keechelus	33%

Description: Reservoirs are an important source of water for agricultural 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

In a new proposal to the federal government, Arizona, California and Nevada collectively agreed to cut their water use when the Colorado River watershed levels dip below certain thresholds. Estimates suggest Arizona would have to cut water use by an average of 27% each year.

California

The Department of Water Resources (DWR) increased the State Water Project (SWP) allocation from 15% in February 2024 to 40% in April 2024, reflecting favorable water supply and snowpack conditions. Gains were experienced across each region. Attachment A of the Notice to State Water Project Contractors shows allocation by district.

Bureau of Reclamation increased the Central Valley Project (CVP) water allocation for south-of-Delta agricultural contractors from 40% to 50% of their contracted supply. North-of-Delta contractors remain at 100% of their contracted supply.

California's DWR finalized its first public facing Long-term Drought Plan for California. Proposed actions include modernizing SWP infrastructure in the Delta, identifying and investigating water storage opportunities throughout the state, further planning for drought salinity barriers on the West Fals River, advancement of DWR's Forecast-Informed Reservoir Operations and seasonal forecasting, and investing in habitat creation, restoration of tidal wetlands, floodplains and rearing habitat for juvenile salmonids.

Idaho

A temporary agreement was reached between the Idaho Department of Water Resources (DWR) and several groundwater districts to avoid curtailments in the Eastern Snake Plain Aquifer. While this represents a win in that producers will continue to access water this season, negotiations will need to resume to arrive at a long-term solution. Estimates vary, but curtailments could impact 330-500 thousand acres of farmland in eastern and southern Idaho.

Montana

Due to a siphon(s) blowout near the head of the Milk River at St. Mary in northern Montana, it is reported that the irrigation districts along the Milk River may have severely depleted irrigation water availability until the new siphon system is completed. The project is slated for completion until August 2025. This will greatly affect producers along the Milk River in north central Montana.

Minimal snowpack this winter has limited irrigated water availability along the eastern front of the Rocky Mountains. The Greenfields Irrigation District (GID) in north central Montana was allocated 1 acre-foot of water, when they normally get 2 acre-feet. Reports suggest that as of August 4, 2024, many of the flood-irrigators in the GID ran out of water two weeks ago, and pivot irrigators may be soon to follow. Pondera County Canal and Reservoir Company (PCCRC) in north central Montana was allocated 4 inches of irrigation water, when they are normally allocated 1 acre-foot. Operators ran out of water very early in the PCCRC. Several irrigation projects/districts in western/northwestern Montana face similar water limitations.

Oregon

There are some specific areas around Burns, Redmond and Klamath Falls experiencing irrigation water concerns due to historic drought/water table issues and/or environment concerns.

Washington

Junior water rights users of the Yakima River will have their access to water cut back to 51% of their normal allocation due to low precipitation and storage in the Yakima Basin Reservoirs.

Drought across Washington is expected to expand due to low snowpack and precipitation levels. On April 16, 2024, the Washington State Department of Ecology issued an emergency drought declaration for the entire state, which may open up tools such as public funding to mitigate the impact of lost crops. Impacted commodities may include hay, wheat and tree fruit.

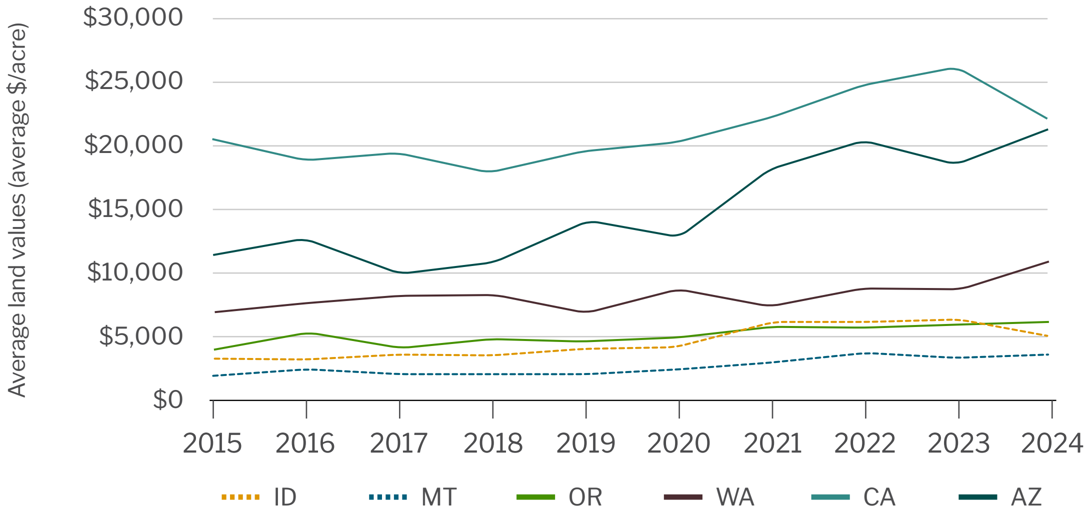
Land values

Executive summary

High interest rates, generally low inventories, falling farm income, wildfires and shifting water availability, and regulations are among the main drivers impacting land values in the West. Land values in most of AgWest's region remain strong as demand outpaces available inventory; however, these drivers have led to decreased buyer interest and/or lower land values for various permanent plantings, including hazelnuts, almonds, walnuts and table grapes. The slight drop in land values in Idaho shown in the chart below is more indicative of fewer high-quality properties being sold rather than an overall decline in property values.

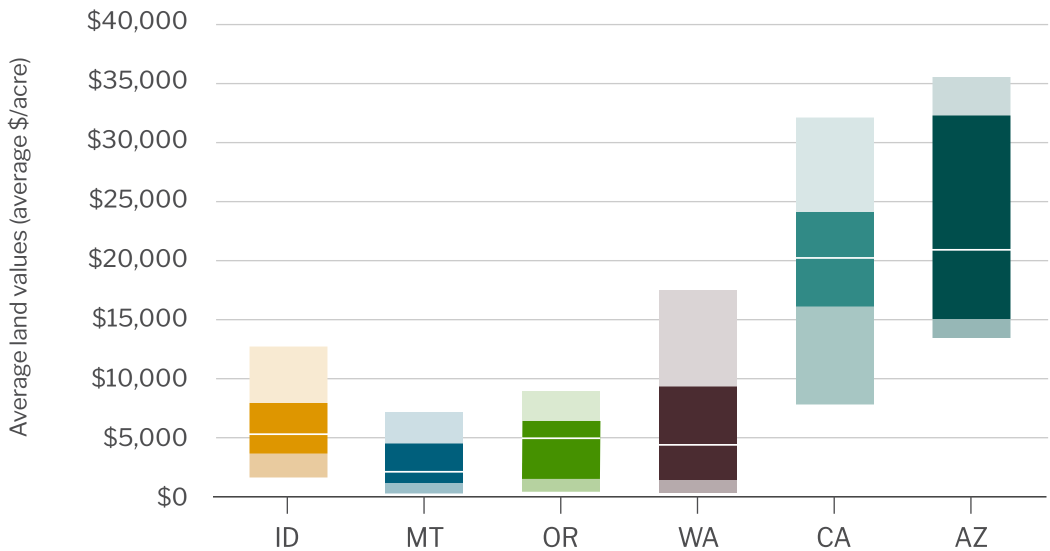
Market participants for land include a combination of local operators, absentee operators and institutional investors. Developers remain a player in the market, but acquisitions for development have decreased due to persistently elevated interest rates. Some areas are reporting longer listing times for properties and decreases in listing prices, although final sales prices indicate stable to increasing land 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.

Land values (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 – High interest rates were one of the most frequently reported deterrents to land acquisition in the first half of 2024. Greater instances of creative financing such as owner-carried notes have been reported. Interest rates are expected to come down over the next several months.

Rural residential/recreational – The rural residential and recreational markets in most areas 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, where reports 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, with the exception of some permanent planting properties. While the outlook for agriculture industries is mixed, little if any negative impacts on land values have been seen by verified sales outside of certain isolated regions. Visit our Industry Insights webpage for more industry information and market updates.

Drought – Drought concerns are mixed throughout the West, with much of Washington, northern Idaho, Montana, and northern Arizona showing below average year-to-date precipitation levels and similar drought conditions as a year ago. Concerns over future water availability in Arizona are causing hesitancy among some buyers. The remainder of the territory shows at or above average year-to-date precipitation. Although specific areas have water concerns, overall delivery of irrigation water through the remainder of the 2024 growing season is reportedly positive. 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.
- While land values in and around Yuma have increased, statewide averages have fallen as relatively high interest rates and concerns around water supply reduce investor activity.
- Land values in the Phoenix Metropolitan Area have risen due to its increasing population and urban sprawl; however, this trend is slowing due to concerns about long-term water availability.
- In a new proposal to the federal government, Arizona, California and Nevada collectively agreed to cut their water use when Colorado River watershed levels dip below certain thresholds. Estimates suggest Arizona would have to cut water use by an average of 27% each year.
- Water deliveries in 2023 were cut substantially due to the Tier 2 shortage declared in August 2022. Deliveries improved in 2024 due to wetter conditions last spring and winter in the Colorado River watershed.
- Developers are purchasing older dairy facilities around the Phoenix Metropolitan Area and taking them out of production due to increasing land values. 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.
- Most participants in the pecan industry expect the market for average to good-quality orchards to remain stable; however, low prices and higher interest rates may slow sales activity. Pistachio orchards are rarely offered for sale due to high profitability and ownership concentration in the industry, keeping orchard values relatively high.

California

- Water availability, particularly access to surface water, is the primary driver of land values in the San Joaquin Valley. Pumping restrictions and state intervention will increase the importance of groundwater recharge. Secondary drivers include elevated interest rates and falling commodity prices.
- Declining commodity prices are beginning to put downward pressure on land values in the San Joaquin Valley, notably in the tree nut and table grape sectors. This trend is also present in tree nut orchard values in the Sacramento Valley.
- Listing times are increasing as supply outpaces demand, a trend that has been compounded by the liquidation of multiple large vertically integrated grower/packers and agricultural investor groups based in the southern San Joaquin Valley. Tens of thousands of additional acres are on the market.
- Dairy facility demand is decreasing due to weak domestic markets. There is a limited pool of buyers and they prefer newer, more efficient facilities. Less efficient facilities are typically purchased and redeveloped into feed cropland or used as heifer facilities.

- Increased orchard plantings over the last several years reduced available land for sale in the Sacramento Valley, leading to higher land values. More recently, this trend is slowing as commodity prices fall. Rice ground values are diverging on opposite sides of the valley – west-side values are trending lower due to water supply curtailments while east-side values are trending higher due to relative water security.

- Premium wine grape vineyards in the Central Coast, with the exception of those located in the desirable western Paso Robles area, are seeing reduced demand due to a glut in the U.S. wine industry. Established winery sales activity appears to be slowing.

- The supply of Central Coast irrigated cropland capable of vegetable and strawberry production is very limited and in high demand, particularly in the Santa Maria Valley. Properties are usually directly marketed to a well-known buyer/lessee pool and typically sell quickly, keeping values elevated.

- Imperial Valley land values remain stable as large, regional growers look to expand operations and investors seek high-seniority rights to the Colorado River to hedge against water risk.

Idaho

- A temporary agreement was reached between the Idaho Department of Water Resources (DWR) and several groundwater districts to avoid curtailments in the Eastern Snake Plain Aquifer. While this represents a win in that producers will continue to access water this season, negotiations will need to resume to arrive at a long-term solution. Estimates vary, but curtailments could impact 330-500 thousand acres of farmland in eastern and southern Idaho.

- Demand for agricultural properties continues to exceed available inventory, resulting in elevated competition and prices.

- Southern Idaho experienced increased precipitation and snowpack levels during February and March following a dry start to winter. Reservoir storage and water availability in the southern part of the state remains favorable. Central and northern Idaho have seen lower-than-average precipitation levels, which could mean a return to drought-like conditions. Extended drought conditions have the potential to negatively impact agricultural land values.

- 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 slow across much of the state due to high interest rates. Prices are leveling off and listing times are increasing, but properties still sell in a reasonable timeframe.

Montana

- Following a dry start to the year, much of Montana has received above-average spring moisture and this has eased concerns across much of the state, particularly in eastern Montana. Drought conditions remain a concern among producers with irrigated farmland where mountain snowpack was significantly below-average, such as in the north central region. Overall, agricultural land sales are still 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 stay longer on the market and some are even seeing price decreases.

- 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 to interest rates. Rural residential properties are seeing longer listing times, with price reductions becoming more common.

Oregon

- Demand for good-quality agricultural properties remains strong throughout most of the region, with a low inventory of listings reported. Hazelnut plantings are a notable exception to this trend as low prices have lowered demand and softened land values.
- Although demand continues to be 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.
- Upward pressure on agricultural lands in eastern Oregon is coming from investors and market participants in Idaho in search of more affordable lands.
- The current outlook for irrigation water throughout the majority of the state is positive for the 2024 growing season, easing concerns over drought-related challenges that have the potential to impact land values.
- There are some specific areas around Burns, Redmond, and Klamath Falls experiencing irrigation water concerns due to historic drought/water table issues and/or environmental concerns.
- Elevated interest rates have led to a drop-off in demand and longer listing times of 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 a lack of inventory is generally keeping demand in excess of supply. Due to continued high interest rates, however, prices have leveled off from previous highs and longer listing times are common.
- Strict zoning laws to limit building have resulted in a premium on properties improved with dwellings or the ability to construct one, especially near population centers.
- Wildfires in Oregon have impacted a record-setting 1.4 million acres, and the fires are expected to continue until precipitation arrives in the fall.

Washington

- Agricultural land remains in strong demand as low inventories limit transaction levels; however, more properties are being sold through listings rather than word of mouth, which may be an early indicator of a slowing market. When sales occur, they indicate stable to slightly increasing prices.
- The Columbia Basin Irrigation Project is gaining nationwide attention, attracting out-of-area buyers looking for investment in quality farm ground with reliable water availability and a diversity of crop options.
- Drought across Washington is expected to expand due to below average snowpack and precipitation levels. On April 16, 2024, the Washington State Department of Ecology issued an emergency statewide drought declaration. Reliable water availability remains a top priority for market participants as extended drought conditions could negatively impact annual returns and land values.
- In areas where a recreational market exists, few sales have occurred and listing prices have seen reductions. Extended listing times are common.
- 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.

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.

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For more information or to share your thoughts and opinions, contact the Business Management Center at 866.552.9193 or bmc@AgWestFC.com.

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