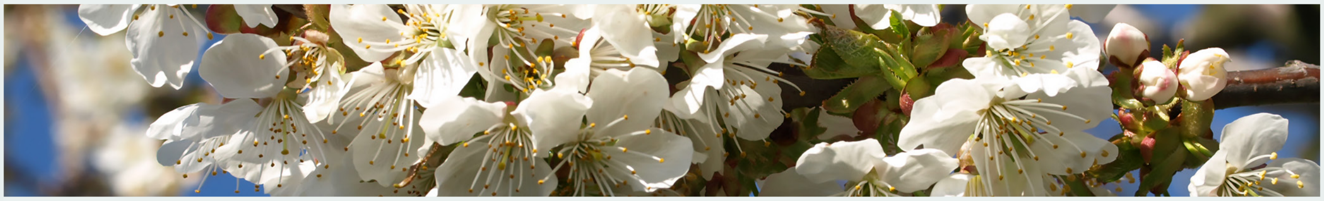
December 2025

Monthly Market Update



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.

Summary: The distribution of profitability across agriculture held relatively stable this quarter. Low prices, persistently elevated input costs and trade policy remain headwinds. Slight changes in profitability occurred over the last quarter, with almonds, pistachios and cow-calf industries strengthening, and oranges, forest product mills, dairy and wine grapes weakening. Conditions are unlikely to change much over the next year for most industries. The following table 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		A smaller than expected 2025 crop along with reasonably strong demand are supporting prices.
Apple producers	Unprofitable		X		A large 2025 crop with mixed quality will continue to pressure prices over the next year.
Apple packers	Profitable		X		Large 2024 and 2025 crops and strong consumer demand should continue to support packer profitability.
Cattle feeders	Profitable		X		Tight calf supplies and robust demand have intensified competition for feeder cattle. Profitability is expected to remain resilient, supported by cost-of-gain efficiencies and strong box beef prices.
Cow-calf producers	Very profitable		X		Historically tight cattle inventories, limited availability of replacement heifers, and firm calf prices continue to underpin profitability for cow-calf operations.
Dairy	Breakeven	X			Milk prices remain weak, and while lower feed costs and beef-dairy income offer support, margins are likely to tighten over the next year, increasing the risk of losses if prices or demand soften further.

Industry	Current profitability	12-month outlook			Factors dictating 12-month outlook
		Bearish	Neutral	Bullish	
Lemons	Breakeven		X		Relatively weak demand and prices continue to challenge lemon growers.
Hay (alfalfa)	Breakeven		X		Profitability is expected to stay under pressure as sluggish demand, weak prices, and cheaper alternative feed options weigh on alfalfa growers.
Hay (timothy)	Slightly profitable		X		Timothy hay demand has improved recently, particularly in premium export segments, providing some price stability.
Mills	Breakeven			X	Profitability is mixed, with less efficient mills experiencing the most pressure. Most are optimistic construction activity will pick up in 2026 and support wood product demand.
Oranges	Slightly profitable		X		Early reports suggest the navel crop has good quality with a large size profile, which should align well with market demand and support prices.
Pistachios	Profitable		X		Demand remains strong and the 2025 crop has come in smaller than initial estimates, resulting in increasing prices.
Potatoes (contracted)	Slightly profitable		X		Contracted potatoes are supported by stable agreements and processor purchases of overages at \$2–\$3 per cwt, though margins remain thin.
Potatoes (uncontracted)	Slightly unprofitable	X			Uncontracted potatoes remain under significant pressure, with oversupply leaving most growers below breakeven despite exceptional yields and quality.
Timberlands	Slightly profitable		X		While weak lumber markets are resulting in soft log demand, prices remain generally profitable for timberland owners.
Wheat	Unprofitable		X		Persistently low wheat prices, driven by abundant global supplies and export competition, will continue to pressure profitability. Margins are expected to remain tight, leaving producers vulnerable to further downside risk.
Wine	Slightly unprofitable		X		Wine demand continues to soften and pressure the industry, particularly in the lower- to mid-range segments.
Wine Grapes	Unprofitable		X		While the 2025 wine grape crop will come in smaller than average, excess wine inventories will continue to limit grape demand.

Industry updates

General sentiment – *Harvest highs, financial lows.*

Livestock prices, particularly cattle, remain a bright spot in the ag economy. While 2025 was a strong year for crop production, the large harvests exacerbated the challenges of low commodity prices and uncertain global demand. Weakening farm finances and reduced cash flows for crop producers have increased reliance on loans. A survey of 450 agricultural lenders indicates that only 52% of agricultural borrowers are expected to be profitable in 2025. Looking ahead, 2026 appears even more challenging, with fewer than half of producers projected to breakeven. As a result, lenders anticipate a rise in farm debt, driven by tighter working capital and increased dependence on credit.

Crop inputs.

Oil markets remain oversupplied.

Crude oil markets remain oversupplied. U.S. inventories are strong and production levels hit a new record in November. The Organization of Petroleum Exporting Countries (OPEC+) announced it will keep production levels stable through Q1 2026. Moderate price volatility occurred in response to developments in the Ukraine war and rising tensions between the U.S. and Venezuela. The Trump Administration is pushing to increase domestic energy production, including financing nuclear infrastructure and supporting offshore drilling near California and the Gulf of America. Natural gas prices are steadily increasing as exports to Europe rise and cold weather increases demand.

Trucking industry faces declining capacity.

Van and reefer trucking rates rose again in November due to falling capacity. The industry faces rising bankruptcies as well as stricter enforcement of both immigration law and training standards among schools. Bulk shipping prices rose across several size categories due to strong demand. A recent Intermodal report highlights that while steel demand in China has fallen, its iron ore demand remains steady due to its declining quality. Iron ore shipments are a key driver of bulk shipping prices. Container rates fell in November after a modest rise in October.

Anhydrous ammonia prices continue to rise.

Most fertilizer prices were flat in November on balanced supply and demand conditions. Anhydrous ammonia was the exception, increasing 2.6% due in part to winter applications, continued global supply disruptions and rising natural gas prices. Fertilizer prices are up between 10% and 29% year over year, with the biggest gains seen in urea ammonium nitrate (28%), diammonium phosphate (25%), anhydrous ammonia (21%) and urea (19%). Global supply constraints, particularly export controls in China, coupled with higher production costs have pushed prices higher.

Almonds and pistachios – *Pistachio prices gain on strong demand and lower than expected supply.*

Almond prices held relatively flat in November. Season-to-date crop receipts as of October are down 8% from last season, likely due to several factors including a smaller than estimated crop size and prolonged harvesting / processing due to late season rains. Most expect the crop to come in between 2.6 and 2.8 billion pounds. There are some concerns late season rains may result in quality issues and increase rejection rates at processing facilities. Season-to-date crop sales (shipments plus unshipped commitments) are down about 11% from last year, driven by declines in both domestic and international markets. Lower shipment levels to India, China, Turkey and United Arab Emirates have offset increases to Western Europe as of October. Anecdotal reports suggest demand from China and India picked up in November.

Pistachio prices increased in November. Kernel prices are providing a price floor for in-shells due to strong demand and constrained supply. Season-to-date crop receipts have come in at 1.57 billion pounds as of October, which aligns with more recent sentiment on crop size. (Initial estimates were for about 1.7 billion pounds, but forecasts came down over time.) While total marketable inventory is near 2023 levels when factoring inventory carry-over (145 million pounds), prices will likely remain strong due to higher demand. The industry will likely pace shipments and maintain price discipline to ensure adequate inventory carry-over heading into the 2026 season, particularly given it will be an off year in pistachios' alternate bearing cycle. Season-to-date exports are up 28% from last year, and strong gains to Vietnam, Hong Kong and Malaysia offset a sharp decline to China. While China has reportedly substituted some pistachios with almonds due to price dynamics, shifting trade flows may reflect traders trying to skirt increased tariff rates. Pistachio production in Turkey, the second largest producer behind the U.S., is down 61% in 2025 and this may support demand from export markets.

Visit our **almonds and pistachios webpage** for information on trade fundamentals and tariffs.

Apples – *A large crop impacts producers and packers differently.*

Harvest has wrapped for apples and the crop appears to have come in at about 131.5 million boxes; notably smaller than the initial 142 million box estimate but still large by historical standards. While the total marketable crop may come in below this level as retailers prioritize higher quality fruit, prices are unlikely to rebound enough to support profitability for growers. Anecdotal reports suggest more quality issues than are typical for early season varieties due to excess summer heat, particularly with respect to the Honeycrisp and Gala varieties in northern growing regions. Prices were mixed in November, with slight gains in Red Delicious and Gala varieties offset by declines in Granny Smith and Fuji. Season-to-date exports are up 5% year over year, driven by increases to Mexico (7.8%), Canada (6.4%), Latin America (7.6%, excluding Mexico) and India (102%). The apple crop in Turkey, a top supplier to India, is reportedly down 48% due to drought conditions. (India is an important market for Northwest producers who grow the Red Delicious variety.) More broadly, export markets will play an important role this season as Northwest producers look to move a larger than average crop.

Pear harvest has wrapped up and the crop size appears to have come in at 19 million boxes, 25% above the five-year average. Pear prices fell notably in November as markets adjusted to the large crop. Year-over-year supply is up across all varieties, including Bartlett (54%), Anjou (76%) and Bosc (258%), but the percentage increases are deceptively large as the 2024 crop was particularly small. Crop quality appears strong.

Visit our **apples webpage** for information on trade fundamentals and tariffs.

Cattle – *Cattle market volatility and tariff update.*

Volatility has recently emerged in the cattle markets, diverging from typical seasonal trends. While late summer and fall usually bring a surge of calves and lower prices, this year saw prices peak by mid-October before declining. Nationally, 500-600 lb steer calf prices dropped 9% from October to November, as the market priced in the possibility of reopening the Mexican border, reduced tariffs on Brazilian beef and increased Argentinean beef imports, versus seasonal factors. Despite the decline, prices remain historically strong. Even with the strong income, producers face rising production costs.

Tight cattle supplies are driving challenges for feedlots and packers, with processing facilities running at just 76% capacity, the lowest in over a decade. If low utilization persists, some facilities may close in 2026. While the planned closure of two plants will reduce overall capacity by 7.5%, there will still be 20,000 more hooks than the beef available for packers.

The sharp rise in retail beef prices, up over 13% from last year and 25% from the five-year average, has sparked significant debate. The presidential administration has called for a renewed investigation into meat packers, though a similar investigation occurred in 2021. It's unlikely that government investigations will lead to lower retail beef prices in the near term. Meanwhile, consumers continue to buy beef despite high prices.

What are the tariff rates for beef, and how do they impact U.S. producers?

For U.S. producers, maintaining strong international trade relationships and market share is critical. Given shifting trade policies, year-to-date U.S. beef exports are down 10% compared to last year, with exports to China—the third-largest market—dropping 39%.

On Aug. 1, the presidential administration revised tariff rates. The top five export markets for U.S. beef—Japan, South Korea, China, Mexico, and Canada—account for 76% of all U.S. beef exports. The U.S. primarily exports beef cuts less popular domestically, such as short plate cuts, short ribs, chuck short ribs, and gooseneck rounds. Current import duties for South Korea (which represents 21% of total export value) and Japan (accounting for 18% of exports) are 2.7% and 21.6% respectively. Meanwhile Canada (13% of export value) and Mexico (13% of export value) remain exempt from additional tariffs under the USMCA agreement. China's trade restrictions on U.S. beef have been volatile. In May, reciprocal tariffs raised the import duty on U.S. beef to 147%. Additionally, many U.S. beef processing facilities lost their export licenses to China (which previously accounted for 15% of export value). Since then, tariffs have dropped to 32% (as of the date of this report), and some facilities have regained export approval. There is potential for further market access, as China may relist 20 more U.S. plants for beef imports in the near term. While these developments offer hope for increased trade, ongoing negotiations and policy shifts mean uncertainty about the future of U.S.-China beef trade persists.

On the import side, tariff adjustments have also been made. About 70% of these imports are lean beef trimmings used for ground beef. Australia now faces a 10% duty (up from 0%), and New Zealand's rate increased to 5%. Argentina's tariff quota quadrupled to 80,000 metric ton with duty rates unchanged.

On Nov. 14, an executive order reduced Brazil's beef tariff by 40%, lowering the effective rate to 26.4%. Earlier this year, higher tariffs had slashed Brazil's beef shipments to the U.S., forcing U.S. processors to turn to higher-cost suppliers. As a major supplier of lower-end beef cuts, Brazil's reduced presence strained the market.

Brazil's tariff reduction is expected to lower costs for U.S. meat processors and improve market access, helping to protect market share. During the period of elevated tariffs, Brazil redirected much of its beef exports to Mexico and China, potentially impacting U.S. competitiveness.

In the short term, U.S. meat processors will remain reliant on imported beef to meet domestic demand, maintain affordable beef prices, and make operational adjustments, at least until the U.S. cattle herd expands. Some packing plants closing facilities. It's reasonable to anticipate that during this downturn, packing plants facing financial losses may close or reduce shifts at their least efficient or oldest facilities.

Visit our **cattle webpage** for information on trade fundamentals and tariffs.

Dairy – *First dip in milking herd in 2025.*

USDA's October milk production report revealed the first monthly decline in the U.S. dairy cow inventory for 2025. The national herd contracted by 6,000 head from September to October, bringing the total to 9.58 million cows. Despite this dip, the herd remains over 200,000 head larger than a year ago, reflecting earlier expansion trends. This reduction aligns with historically tight replacement heifer inventories, which have fallen to a record low of 2.922 million head, with a heifer-to-cow ratio of 41.9, the lowest since 1991.

Class IV milk prices have dropped sharply throughout 2025, falling over $6 per cwt to $14.30 in October, down from earlier highs. Class III prices have also softened, averaging $16.91 per cwt in October, though their decline has been less severe. These price drops have pressured producer margins and future stability could be threatened by herd expansion or weakening consumer demand.

Despite the smaller herd, October milk production rose 3.7% year over year to 19.5 billion pounds, driven by a 1.5% increase in productivity per cow and higher milk component levels. California, Idaho, and Kansas led production gains, while Washington and New Mexico saw declines.

Butter production surged over the summer, with August output up 8% year over year, supported by new processing capacity in the Pacific Northwest and California. This expansion has weighed on prices, with butter prices below $2 per pound for the first time since early 2024. Competitive pricing and abundant supply have positioned the U.S. as a leading butter exporter. Butter exports are up more than 130% over the past 12 months, reaching 10-year export highs. This is largely attributed to butter prices being more than $0.75 and $1.00 lower than New Zealand and European exports, respectively.

Cheese production has grown more modestly, with August output up less than 1% year over year. However, prices have softened significantly. Spot prices for cheese barrels dropped $0.31 from late October to late November, averaging $1.49 per pound in the last week of November. Cheese block and barrel prices have declined 20–30% from last year, fueling record export demand. Year-to-date cheese exports are up 14.1% and are set to surpass the record 1.12 billion exported pounds in 2024.

While producer margins have been supported by lower feed costs and supplemental income from beef-on-dairy sales, risks remain. Cooperative assessments in states like Washington and California are adding financial strain. If milk prices continue to weaken or consumer demand softens, profitability could erode further. Strong holiday demand for butter and cheese may provide short-term price support, but structural oversupply in butterfat markets suggests continued volatility heading into early 2026.

Visit our **dairy webpage** for information on trade fundamentals and tariffs.

Forest products – *Forest products sector continues to feel pressure.*

Average lumber prices declined 15% in November following a brief rise in October. Lumber sales activity was down due in large part to the Thanksgiving holiday. Two National Association of Home Builders (NAHB) indices suggest home builder confidence remains very weak for single family home sales and generally favorable for repair and remodeling activity. Reports suggest builders are offering more incentives and cutting prices to encourage demand, though this has not yet resulted in increased construction activity. Extended holiday mill downtimes are expected in the U.S., and Interfor recently announced it will reduce lumber production by about 145 million board feet through the end of December, or 12% of its normal output. Canada announced $500 million in loan guarantees for their softwood lumber industry along with incentives to support the use of domestic wood in construction. The forest product sector in Canada, a major competitor to U.S. producers, continues to see mill closures / curtailments due to falling log supply, weak lumber markets and increased duty rates on exports to the U.S.

Log demand is weak across the West, with mills limiting purchases and log yards generally full heading into winter. Douglas-fir log prices declined in October, while those for whitewoods held relatively flat. The Washington Forest Practices Board adopted a new riparian buffer rule to take effect August 2026. The new rule will widen buffers (non-harvestable zones) along non-fish-bearing streams and result in an estimated 200,000 acres of timberland coming out of production. The Washington Forest Protection Association, a trade association representing private forest landowners, has filed a litigation challenging the new rules.

Visit our **forest products webpage** for information on trade fundamentals and tariffs.

Hay – *Pressure builds amidst weak demand.*

U.S. hay production remained relatively stable this year, posting a modest 0.8% increase compared to the previous season. Prices, however, have remained subdued reflecting heavy inventories and weak demand. Many regions report prices $5 to $10 below last year's already low levels, with good-quality alfalfa hay averaging $130 to $170 per ton and grass hay ranging from $180 to $260 per ton. At the same time, input costs continue to weigh on producers. USDA Prices Paid Index climbed nearly 10% year over year in August, driven largely by higher fuel costs.

Domestic demand has been sluggish across much of the western U.S. Some hay growers have cut prices to move inventory, while others are holding stocks in anticipation of winter demand. Record warm fall weather and unusually late snowfall allowed ranchers to keep cattle on pasture longer, delaying supplemental feed purchases. However, a cold snap in late November is expected to boost winter feed purchases.

Exports have also been under pressure. August hay shipments fell 6% year over year, following a weak July that saw a 24% decline from 2024 levels. Many exporters continue to hold large alfalfa inventories. While China's recent tariff reduction, from 34% to 10% on U.S. hay, offers some optimism, challenges persist. China's shrinking dairy herd and price sensitivity limit upside potential for U.S. exporters. Japan and South Korea remain key buyers, but overall export volumes are well below historical norms.

Looking ahead, producers are cautiously optimistic that colder weather will lift domestic hay demand. However, high input costs, weak export activity, and heavy inventories suggest continued price pressure through early 2026. Strategic marketing and inventory management will be critical as growers navigate a challenging environment.

Visit our **hay webpage** for information on trade fundamentals and tariffs.

Lemons and oranges – *Lemons and oranges benefit from strong fruit quality.*

In California, lemon harvest has wrapped up along the coast and is nearing halfway in the desert region. Harvest on Meyer lemons is getting underway in the Central Valley and anecdotal reports suggest volumes are down slightly. Fruit quality is reportedly good, with minimal thrip (insect) damage observed. Turkish lemon production is down significantly due to inclement weather. Turkey is the second largest global producer of limes and lemons, and lower production levels may slightly improve export opportunities for Californian producers.

Navel harvest is underway, and anecdotal reports suggest relatively fewer and larger fruit is being picked, resulting in similar volumes to last season. Large, good quality fruit is leading to strong utilization rates (the amount of fruit heading into fresh markets) and should support demand among retailers. Prices across most sizes have softened over the last two weeks as more supply comes online. The Trump Administration removed tariffs on a broad group of fruit products, including oranges (mandarins were not included). However, this may not greatly impact domestic supply over the coming months as imports peak between July and November. USDA announced it will purchase fresh citrus fruits—including oranges, mandarins and tangerines—across its food and nutrition assistance programs.

Visit our **lemons and oranges webpage** for information on trade fundamentals and tariffs.

Potatoes – *Oversupply and weak pricing continue to challenge grower profitability.*

Across AgWest's territory, the 2025 potato harvest delivered exceptional yields and quality, yet market dynamics continue to limit grower returns. USDA estimates the 2025 U.S. potato crop at 412.06 million cwt, down 2.2% from 2024, with Idaho production up 2.3% and Washington down 10.4%.

Idaho's harvest wrapped up under near-perfect conditions, and yields have generally exceeded expectations. In Southern Idaho, growers report above-trend yields and strong quality, which has required additional storage. Anecdotally, a few growers chose not to finish harvesting once their storage was full to avoid additional harvest and storage costs for potatoes without a market outlet. Returns remain low at $3–$4 per cwt but are better than expected, as the crop has exceeded early-season expectations for lower quality. Oversupply is evident, and some excess will be diverted to cattle feed.

Eastern Idaho shows similar trends with strong yields and stable storage. Anecdotal reports suggest processors purchased overages (production over contracted levels) at $2–$3 per cwt, a notable improvement from last year when excess supply was often dumped. Irrigation water availability under current contracts appears to be on track, though below-average snowpack raises late-season irrigation concerns for 2026. Packing sheds confirm returns in the $3–$4 range, and land sales remain strong despite weak commodity pricing. Seed growers face potential overproduction for 2026, but so far prices have held steady.

In Washington, yields and quality were above average despite acreage reductions. Contracted potatoes are performing well. Processors are taking overages at $2.00–$2.50 per cwt, which is better than selling potatoes for cattle feed but still below breakeven for fresh and processed production.

Despite exceptional yields and quality across AgWest's territory, persistent oversupply and weak pricing continue to challenge grower profitability, underscoring the need for strategic planning ahead of 2026.

Visit our **potatoes webpage** for information on trade fundamentals and tariffs.

Wheat – *Winter wheat conditions improve, but challenges persist.*

Producers in the western U.S. are facing a tough wheat market, shaped by global oversupply and rising input costs. The 2025 global wheat crop is projected to hit a record 29 billion bushels, driven by strong production and aggressive export pricing from Russia and Argentina, which have eroded U.S. export competitiveness. U.S. wheat output for 2025 is estimated at about 1.98 billion bushels, up slightly from last year. U.S. exports are forecast at 800–825 million bushels, well below historical highs, as global competitors dominate key markets. However, there is a glimmer of hope as China has resumed U.S. wheat purchases after a year-long pause.

Wheat prices remain under pressure. In the Pacific Northwest, cash bids for soft white wheat are just above $6 per bushel at the port, hard red winter wheat prices are below $6 per bushel, and dark northern spring (hard red spring) wheat bids are around $6.50 per bushel. Rising input costs are further squeezing already thin producer margins, with analysts warning that 2026 could be the most expensive wheat production year on record. To manage costs, some are reducing labor or selling equipment, while others are relying on government payments, such as PLC and ARC, to stay afloat.

Alternative crops provide little relief, as prices for pulse crops have dropped significantly. Lentil prices have fallen from $0.34 to $0.20, while small chickpea prices have dropped as low as $0.09 to $0.10 and large chickpeas are priced at $0.17. These price declines have left many producers uncertain about what to plant in 2026, as few crops appear profitable. In Washington, some growers are exploring canola as an alternative crop. Improved winter-hardy varieties have made canola more viable, but it remains a niche option. Spring crop planting intentions are being driven by what will lose the least amount per acre.

U.S. winter wheat emergence is at 87% in late November, aligned with the five-year average of 89%. Nationwide, conditions remain generally stable as winter dormancy approaches. The Pacific Northwest continues to benefit from improved moisture levels and winter wheat conditions are favorable. Montana is an outlier. Given continued dry conditions following seeding, 29% of its winter wheat rated as poor or very poor.

Visit our **wheat webpage** for information on trade fundamentals and tariffs.

Wine and wine grapes – *2025 harvest volumes down across the West.*

The winegrape industry is under pressure as oversupply and acreage reductions reshape the market. Anecdotal reports suggest California's harvest came in between 1.8 and 2.2 million tons, a notable decline from initial estimates and 40%-50% below the five-year average. An estimated 7% of vines were removed in 2025, totaling 38,134 acres. Yields were down as growers reduced horticultural activities (i.e. fertilizer applications) and left a significant amount of grapes unharvested. In Oregon, yields were slightly lighter than the past two years, but overall quality was strong, with favorable growing conditions, minimal smoke exposure, and timely harvest. Washington continues efforts to right-size production, with substantial acreage idled or removed. Early estimates place the 2025 crop at 100k–125k tons (down from 150k in 2024), with average yields and good quality.

As wine demand softens, many wineries are reducing grape purchases to align inventory and improve cash flow. NielsonIQ (NIQ) data shows the $222 billion beverage alcohol market declined 1% year over year, with wine down 3% by value and 6% by volume. Year-over-year sales declined across multiple categories, including rosé (9%), red (7%), white (4%) and sparkling (4%). In contrast, wine-based Ready-to-Drink (RTD) and "click and collect" wine e-commerce sales increased 15% and 8%, respectively. On- and off-premise wine sales values fell 6% and 1% year over year in October, while those for Direct-to-Consumer (DtC) held relatively steady. The average bottle price for DtC sales rose to $73.64 in October, which is typical for this time of year as consumers tend to trade-up during the holidays.

Visit our **wine and wine grapes webpage** for information on trade fundamentals and tariffs.

Economic headlines

Government shutdown ends, but economic aftershocks linger.

The longest government shutdown in U.S. history concluded after 43 days, restoring federal operations and benefits like SNAP. While federal workers are receiving backpay and agencies are reopening, the shutdown's effects (delayed data releases, disrupted services, and lingering uncertainty) are expected to weigh on economic activity and consumer confidence for weeks to come. The funding bill extends government operations only through January, leaving the risk of another shutdown on the horizon.

Tariffs reshape inflation and employment patterns.

New, higher U.S. tariffs have produced complex effects: initial increases in unemployment and declines in inflation, followed by a rebound in inflation as supply chains adjust. The average effective tariff rate has risen sharply, with most costs passed on to consumers. While tariffs are intended to protect domestic industries, they have also contributed to higher prices for durable goods and created uncertainty for businesses and households. The long-term impact remains difficult to predict, given the unprecedented scale of recent tariff changes.

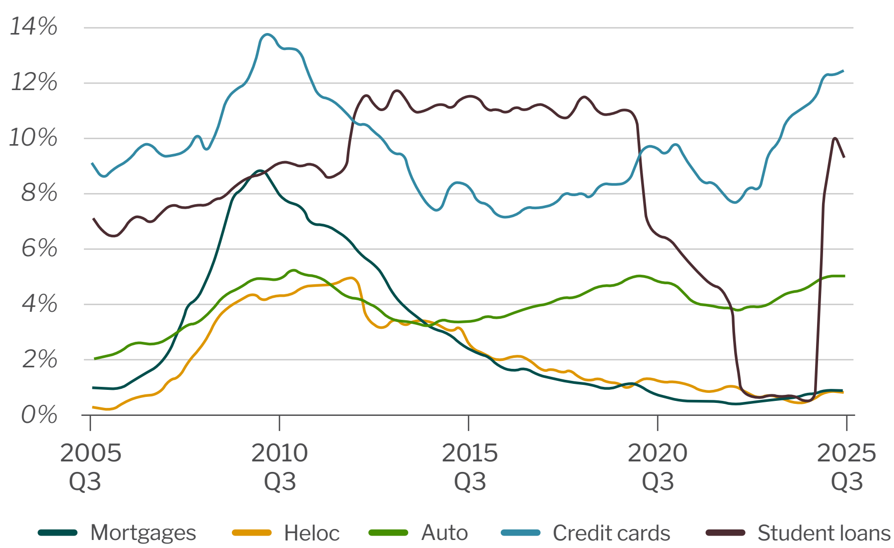
Immigration curbs slow labor force growth and GDP.

Tighter immigration policies and increased deportations are projected to reduce U.S. GDP growth by up to one percentage point this year, according to Federal Reserve studies. Labor shortages are emerging in key sectors, and the slowdown in immigration is expected to have lasting effects on both the labor market and consumer demand. While some economists argue the impact will be modest, others warn of significant repercussions for business growth and innovation.

Household debt climbs to new highs, with credit card balances surging.

Total U.S. household debt reached $18.59 trillion in the third quarter, up $197 billion from Q2. Mortgage balances grew to $13.07 trillion, while credit card debt rose by $24 billion to $1.23 trillion—a 5.75% increase year over year. Delinquency rates remain elevated, especially for student loans, and more consumers are relying on credit and "buy now, pay later" plans to manage rising costs. The data reflects both the resilience and the strains facing American households as inflation and interest rates remain above pre-pandemic levels.

Debt moving into 90+ day delinquency



Source: Federal Reserve Bank of New York.

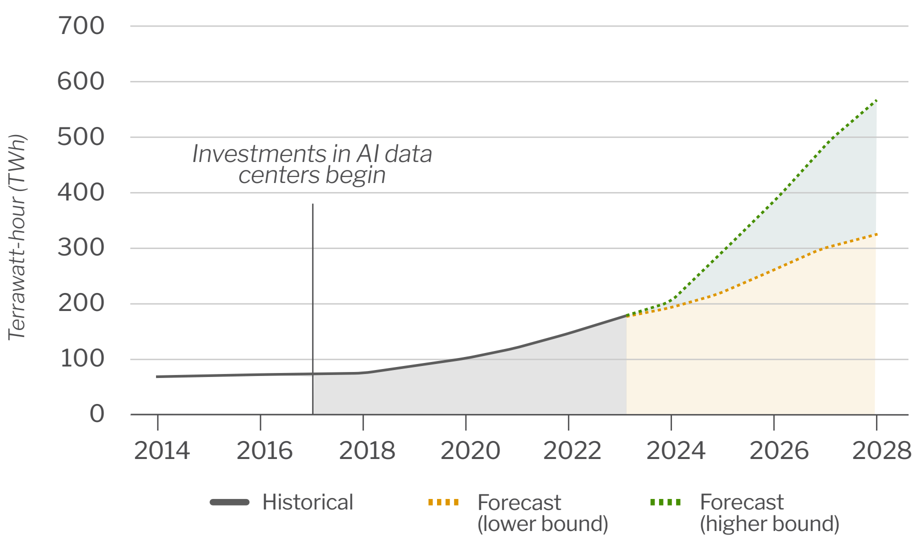
Spotlight: Technology

As the demand for artificial intelligence (AI) continues to surge, so does the need for data centers to support its operations. These facilities require significant land and, crucially, immense amounts of electricity to function. For agricultural producers, this rapidly growing demand introduces a critical challenge, as it creates direct competition for one of their most vital resources: energy. However, this shift also presents an opportunity for advancement in efficiency and useful applications on operations.

The power behind the processing

AI data centers are enormous consumers of electricity. The U.S. currently hosts over 1,200 operational data centers, with 550 additional facilities either announced or under construction, including hyperscale sites designed for AI workloads. A Department of Energy report found that data centers used approximately 4.4% of total U.S. electricity in 2023. This is expected to surge, potentially consuming between 6.7% and 12% of the nation's electricity by 2028.Within the next decade, industry forecasts suggest the U.S. will require over 1,000 new large-scale data centers due to AI and cloud computing growth.

Total U.S. data center electricity use



Source: 2024 United States Data Center Energy Usage Report, December 2024.

This unprecedented demand is putting a heavy strain on local power grids. To keep up, utility companies are investing billions of dollars in infrastructure upgrades. These costs are often passed on to all consumers, in the form of higher electricity rates. In Oregon, a study revealed that between 2015 and 2024, energy costs rose unevenly between data centers and households. While data centers saw an increase of 2.08 cents per kilowatt-hour, households experienced a much steeper rise of 7.63 cents, largely because many large data centers managed to offset their costs, leaving the burden to other energy users.

What this means for your operation

The rapid expansion of AI technology presents a complex landscape of challenges and opportunities for agricultural producers. The primary challenge lies in the rising cost of energy. As data centers continue to be built, often in rural regions where land is available, competition for grid capacity will likely intensify, driving electricity prices upward.

On the other hand, AI offers significant benefits that can enhance the resilience of agricultural operations. It can be used to optimize farming practices, improve resource management, and enhance decision-making processes, ultimately leading to greater efficiency and profitability.

Furthermore, advancements in energy efficiency within data centers could help mitigate grid strain over time. On the policy front, states are beginning to recognize the need to protect rural energy users. In Oregon, legislation has been passed to create a separate customer class for data centers, ensuring that the costs of grid expansion and infrastructure required to power these facilities are not shifted onto residential and agricultural customers

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