

Agri-Food Institute

## Quarterly Update – Q2 2024

## Economic Developments

Wells Fargo Economists share the market's overwhelming expectation that the Federal Open Market Committee (FOMC) will leave the fed funds target rate unchanged at 5.25%-5.50% at the conclusion of its April 30-May 1 meeting. Stubborn inflation and resilient economic activity through the first few months of 2024 have provided the FOMC little reason to ease policy in the near term. Fed officials have indicated in various public communications that there is currently no sense of urgency for cutting rates. Current expectations are that the FOMC will keep rates steady through the summer. <sup>1</sup>

In short, inflation has been stickier and the economy more resilient than was initially anticipated by many economists at the beginning of the year. The year-over-year change in the core PCE deflator, typically used by the Fed as the best measure of the underlying rate of consumer price inflation, continues to edge downward and slipped below 3% at the turn of the year while the deflator's 3-month annualized rate of change moved to only 1.6%. Thus, while the year-over-year rate has continued to edge lower, the 3-month annualized rate increased to 3.5% in February, indicating that progress toward the FOMC's target of 2% has stalled. <sup>1</sup>

One key metric for tracking consumer health is the saving rate. Per the latest report, spending outpaced income growth in February as the personal saving rate slid to 3.6%, marking the lowest rate at which households saved in 14 months. Further, the latest data suggests lower-income consumers are struggling to save at all. Saving less on a monthly basis in order to sustain spending can continue to add to an already robust spending trajectory this year, but it raises the vulnerability of the household sector generally. <sup>1</sup>

## What's Happening in Food and Agribusiness

In the 2024 Farm Sector Income Forecast, published by the USDA Economic Research Service, Net Farm Income, a broad measure of profits, is forecasted at \$116.1 billion, a 25.5% Y/Y decline and a 37% decline from the 2022 record high of \$185.5 billion.<sup>2</sup>

- Overall farm cash receipts are forecasted to decrease by \$21.2 billion (4.2%) Y/Y to \$485.5 billion (based on 2024 nominal dollars)
  - Total crop receipts to decline to \$16.7 billion (6.3%) based on lower receipts for corn and soybeans.
  - Total animal/animal product receipts to decline by \$4.6 billion (1.9%) as receipts for eggs, turkeys, cattle/calves and milk are forecast to fall relative to 2023.
- Total production expenses are forecasted to increase by \$16.7 billion (3.8%) to \$455.1 billion. Livestock/poultry purchases and labor expenses are expected to see the largest increase while spending on fuels/oils is projected to decline Y/Y.
- 2024 direct government farm payments of \$10.2 billion reflect a 15.9% decline Y/Y driven primarily by projected lower supplemental and ad hoc disaster assistance to farmers and ranchers.
- Farm sector equity is expected to increase by 4.7% to \$3.74 trillion (2024 nominal dollars).
  - Assets are forecasted to increase 4.7% (\$193.2 billion) to \$4.28 trillion based primarily on increased in the value of farm real estate assets.
  - Debt is forecasted to increase 5.2% (\$27.0 billion) to \$547.6 billion.
  - As a result, debt-to-asset levels for the sector are forecasted to worsen slightly from 12.73% to 12.78%, while working capital is forecasted to fall 16.6% Y/Y.



## Food highlights

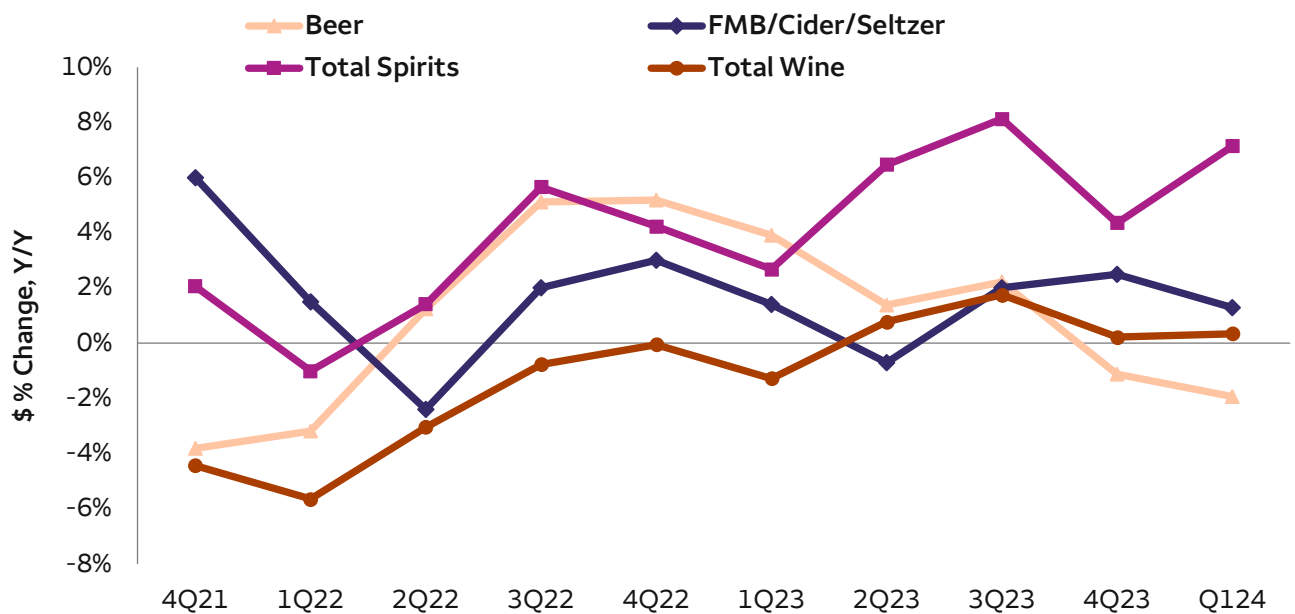
As we look forward to 2024, uncertainties abound in our food system which has been impacted by an unstable climate, food price inflation, ongoing wars, and Washington's political deadlock including the stalled Farm Bill.<sup>3</sup> While manufacturers have historically been able to raise prices to cover these cost increases over the last few years, the increase in total household debt in Q4 2023 (up \$212 billion to \$17.5 trillion)<sup>4</sup> coupled with continued inflationary pressures have consumers either trading down to lower priced products or cutting back on amount purchased altogether. This is now impacting the ability of manufacturers to continue to raise prices.<sup>5</sup> A recent consumer research survey by the International Food Information Council (IFIC) provides some insights on what consumers will be focusing on in 2024.<sup>5</sup>

- Heightened emphasis on transparent food labeling by the U.S. Food & Drug Administration (FDA) is occurring with a push for a new “front-of-package” nutrition label based on updating the definition of “healthy” food by putting more emphasis on clarifying the meaning of labels such as “clean, cold pressed, fermented, fresh, low in sugar, and good source of protein.”
- Social media-induced snacking and cooking trends will continue into 2024. According to IFIC's survey, social media content continues to influence Americans to try new recipes (51%), try a new brand or product or a new restaurant (29%), and 28% say they have re-evaluated their relationship with food.
- 2024 will bring increased consumer interest on how smart food and beverage choices can support mental and emotional health and wellness, to assist with sleep, stress reduction, and support mood.
- The boom in flavored sparkling water and the premium hydration category will continue to take center stage, redefining the way we hydrate with beverages that contain “clean caffeine,” drinks to support better sleep, and added pre- and probiotics for gut health.

# Beverage highlights

- Beer prices were down 1.9% Y/Y for the first quarter of 2024 due to lower demand and increased competition from other beverage types.<sup>6</sup>
- Total flavored malt beverages (FMB), hard cider, and seltzer prices increased 1.3% for the four quarters ending in Q1 2024<sup>6</sup> due to increased demand for “ready-to-drink” (RTD) products, with hard tea and hard seltzers posting 39% and 38% Y/Y sales growth, respectively.<sup>6</sup>
- Spirit prices including bourbon, tequila, vodka, and prepared cocktails are up 7.1% Y/Y, driven primarily by the growth in popularity of products coupled with “premiumization,” as consumers drink less but “trade-up” to premium-priced alcoholic beverages.<sup>7</sup>
- Wine prices increased 1.2% from this time last year. While wine prices are up versus last year by 0.3%, they have declined slightly (-0.1%) from last quarter.<sup>6</sup> According to a recent published by YouGov, price is the most important factor for consumers in wine purchases, with 45% of survey respondents indicating they pay an average of \$11-\$20 for a bottle of wine, 13% purchased wine at less than \$10 a bottle, and only 6% will pay more than \$50.<sup>8</sup>

## Beverage Nielsen Retail Trends, Sales Volume % Change



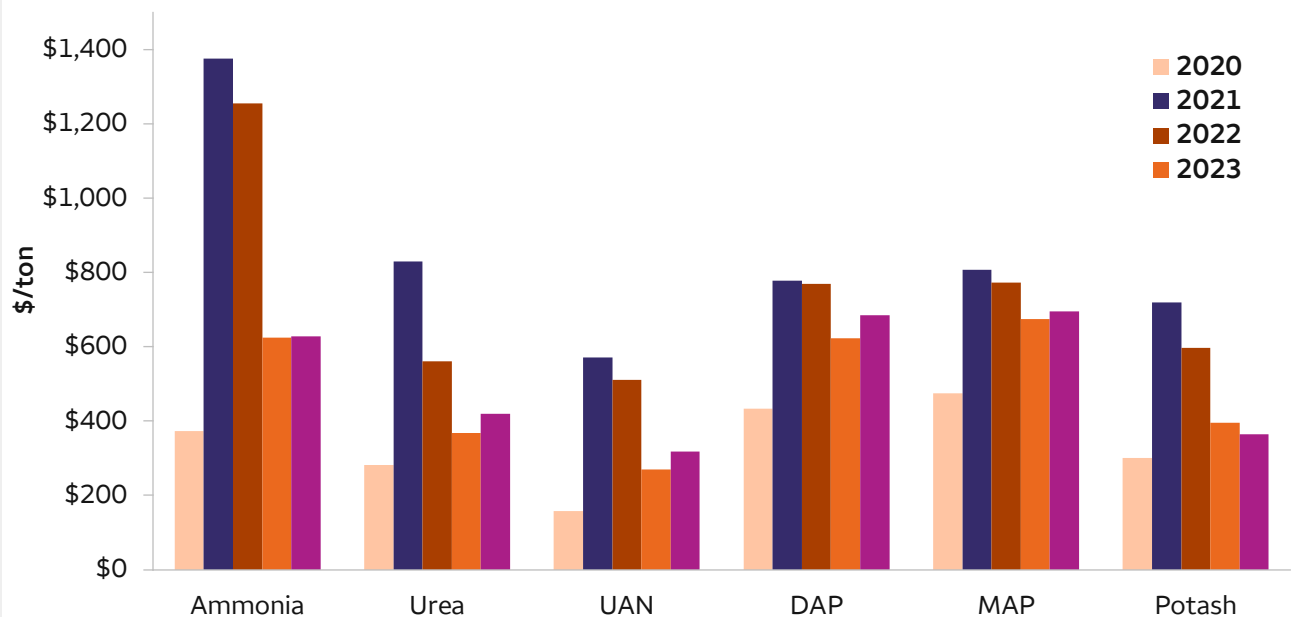
Source: Data reported by Nielsen (“NIQ”) through its Discover for the Beer, FMB/Cider/Seltzer, Total Spirits, Total Wine, U.S. data for the 17-quarter period ending 03/30/2024

# Commodity highlights

## Crop Inputs

- There has been both bullish and bearish news for the urea fertilizer market internationally, with the bearish news more immediate and impactful. India returned to the market for another purchase at the end of March. After receiving over 3,000,000 metric tons of offers, India decided to only accept 340,000 tons, substantially less than expected, reflecting much lower demand. World urea benchmark prices fell immediately following the news. On the other hand, an escalation in Middle East tensions is raising concerns that urea exports from the Arab Gulf may see disruptions.<sup>9</sup>
- Although fertilizer costs have varied over time, the average cost of fertilizer per acre from 2006 to 2021 was around \$125, not adjusting for inflation. Costs jumped to an average of \$256 per acre in 2022, and then fell to an estimated \$187 in 2023. This represents an 89% increase from 2021 to 2022 followed by a decrease of 17% from 2022 to 2023. In other terms, Fertilizer costs accounted for about 22% of total corn production costs per acre from 2006 to 2016, then fell to historical lows averaging around 17% from 2017 to 2021. In 2022, price spikes resulted in fertilizer costs jumping to about 24% of total costs.<sup>10</sup>

## Corn Belt Wholesale Fertilizer Prices in Mid-April



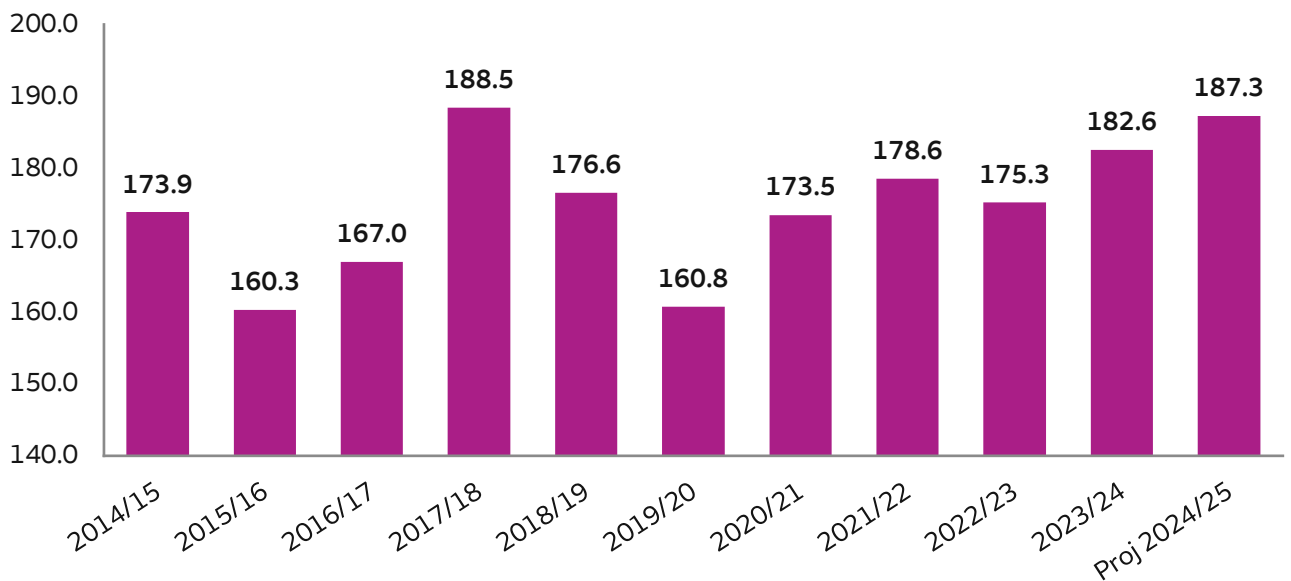
Source: Green Markets

- On April 2, the Iowa Senate approved a bill that would grant immunity to pesticide companies from civil lawsuits related to damages caused by U.S. EPA-approved pesticides. Bayer, producer of Roundup with the active ingredient glyphosate, lobbied for the bill and argued that Americans should be able to trust the EPA label as enough protection. The Iowa Farm Bureau and Iowa Corn Growers Association also favor the legislation. The bill is now before the Iowa House of Representatives, and it is unclear whether it will have enough support to pass.<sup>11</sup>

## Sugar

- With the 2023/24 crop season coming to a close, global sugar production is expected to reach 183m tons resulting in a surplus (net of consumption) of 5 mm MT. As a result of higher overall production, No. 11 world raw sugar futures have declined to a 15-month low as the apparent tightness in global sugar supplies appears to have eased. Most of the relief came from Brazil's 2023/24 crop year (4/23-3/24) which recorded a record-high cane crush of 654 mm MT (+19 % Y/Y) with 49% directed to sugar production totaling 42 mm MT of sugar, up 26% Y/Y.<sup>12</sup>

### World Sugar Production (1,000 metric tons, raw value)

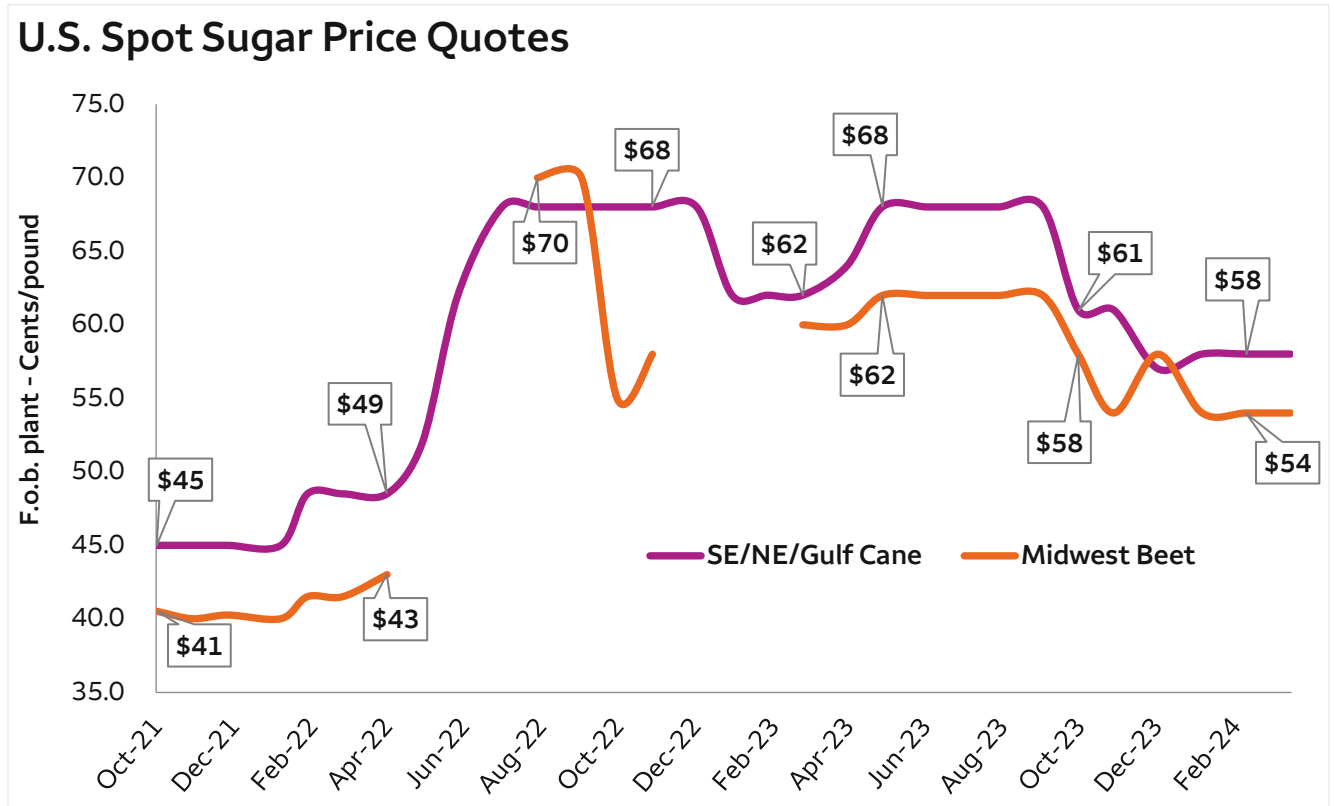


Source: USDA, <https://www.czapp.com/analyst-insights>, 4/16/2024

- The current El Niño, which began in June 2023 and brought warmer weather patterns and dry conditions to parts of Asia, West Africa, and Australia and heavy rainfall to Brazil and the U.S., is projected by most global climate models to transition to an El Niño-Southern Oscillation -neutral ("ENSO") by April-June 2024 (85% chance), and potentially becoming a La Niña weather pattern by June-August 2024 (60% chance).<sup>13</sup>
- Looking ahead to 2024/25, expectations are for global sugar production to increase to 187m MT as production from India, Thailand, and Australia rebound due to better weather as the climate in the Northern Hemisphere is expected to be more favorable for sugarcane development. A rebound in projected EU, UK, and Russian beet plantings are also helping to drive this growth.<sup>14</sup> Note this is a preliminary estimate and actual production is dependent on favorable weather in many of the world's major sugar-producing regions; however, there are already concerns about the performance of cane in Center-South Brazil region (the world's largest sugar producer) for the 2024/25 season. February's rainfall and humidity, coupled with unfavorable weather in March has reduced projected sugar production to date, and with the current projections that the El Niño will switch to a La Niña has potential to further impact cane production in the Center-South region.<sup>15</sup>

## Sugar (cont'd)

- On the domestic front, according to the latest USDA WASDE report, domestic sugar production is projected to decline by 35,000 tons due primarily to a combination of lower overall beet sugar content of this year's crop and higher beet pile shrinkage. In addition, due to continued drought, projected import volume from Mexico is down 57% Y/Y resulting in the USDA having to increase the amount of TRQ and high-tier import volumes to fill the gap as consumption is projected to remain relatively flat in order to maintain a stocks-to-use ratio of 13.5%.<sup>16</sup> As a result of increased global supply and projected strong domestic production, current spot prices are retreating from historic highs.



## Grain and Oilseeds

- The USDA Crop Progress report for April shows winter wheat was over 55% in good-to-excellent condition nationwide. This figure was only 28% last year and is the highest for this time of year since 2020.<sup>17</sup> The International Grains Council forecasts a record global grain crop in the 2024-2025 marketing season, reinforcing concerns about a global glut. Winter wheat prices in the upper \$5/bushel range reflect this oversupply as these prices are roughly 20% lower than the high prices this past winter.<sup>18</sup>
- The USDA Prospective Planting Intentions report states that farmers intend to plant 90 million acres of corn this year, down 5 million acres from 2023. Soybean intentions came in at 87 million acres, an increase of 3 million acres from last year. This is a significant shift from corn to soybeans compared to last year and likely reflects the demand for soybeans due to the soybean crush expansion for renewable diesel.<sup>19</sup>
- Negotiations continue regarding the Black Sea shipping agreement. Russia, Ukraine, and Turkey have had ongoing talks but have not been able to finalize an agreement. Negotiations began early in 2024 and are critical to the world grain trade.<sup>20</sup> Shipping has been historically slow as fewer companies are active in the region due to uncertainty.

## Grain and Oilseeds (cont'd)

- The debate over the new Farm Bill has been ongoing with no projected time frame for completion. Tom Vilsack stated in comments to the North American Agricultural Journalists that the challenge of passing a bipartisan Farm Bill amidst a closely divided Congress has been challenging. He mentioned the Farm Bill negotiations stalled over issues like crop subsidies, climate funding, crop insurance premiums and Supplemental Nutrition Assistance Program (SNAP).<sup>21</sup>
- The Biden administration, with bipartisan support, has set a goal of increasing sustainable aviation fuel (SAF) production from 16 million gallons today to three billion gallons by 2030. Producing three billion gallons of sustainable aviation fuel would require the use of eight to 11 million acres of corn or 35 to 50 million acres of soybeans, depending on how rapidly crop yields increase over the next six years.<sup>22</sup> This would likely result in strengthening grain demand and forthcoming price increases.

## Dairy

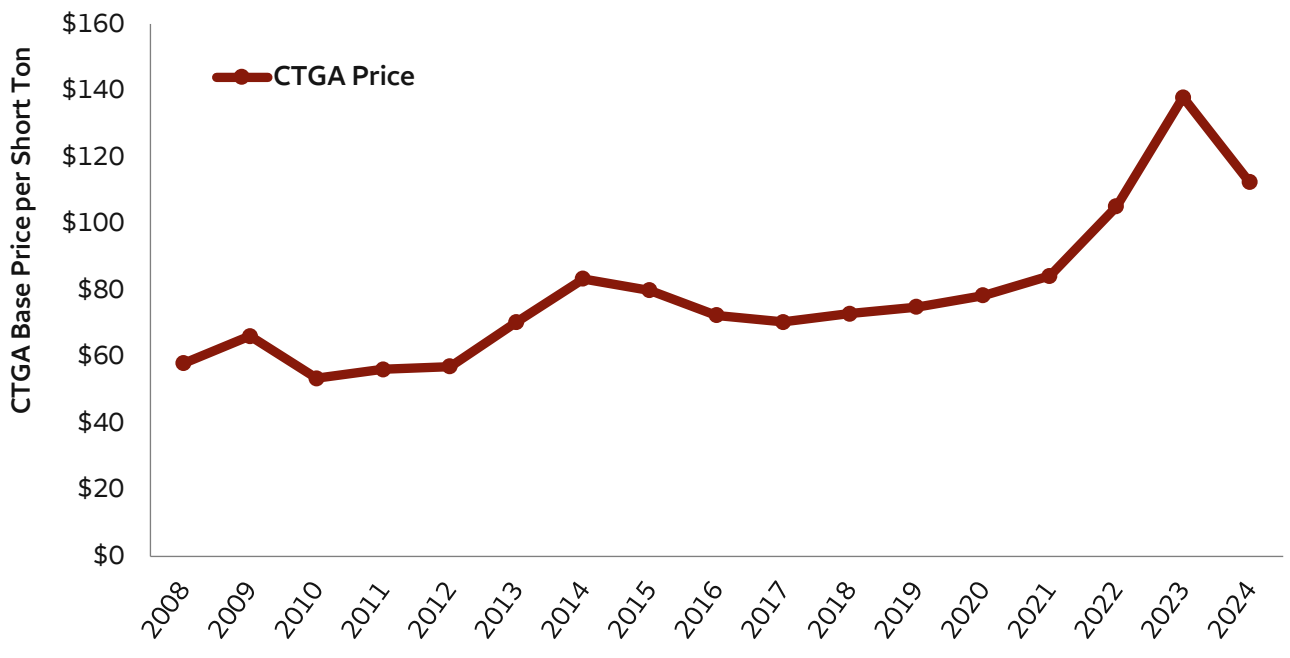
- The U.S. has experienced an outbreak of highly pathogenic avian influenza (HPAI) in dairy herds across the U.S. The first case was reported on March 25th, with HPAI introduced to herds in Texas and Kansas by wild birds. While lethal to poultry, cows have recovered well.<sup>23</sup>
- Retail dairy products are one of the few products helping to lower inflation. The Consumer Price Index (CPI) for dairy and related products was 266 in March (1982-84=100), 2% lower than in March 2023. The cheese CPI was 3% lower than in March 2023. These figures contrast with Y/Y CPI for food, which was 2 % higher and food away from home which was 4% higher.<sup>24</sup>
- The USDA has lowered the 2024 milk production forecast. Milk per cow is projected to experience slower growth while cow numbers are constant at 9 million head. USDA now projects that 2024 milk production will total 226 billion pounds, down 100 million pounds from 2023's output.<sup>19</sup>
- The USDA's butter price forecast for 2024 continues to be strong at \$2.92 per pound, on continued strength in demand. Projected prices for cheese, nonfat dry milk, and dry whey prices for 2024 are lower as follows: cheese, \$1.62 per pound, nonfat dry milk, \$1.18 per pound, and dry whey, 0.43 cents per pound. USDA's Class III price is estimated to average \$16.20 per hundredweight, due to lower cheese and dry whey price forecasts. The all-milk price for 2024 is projected at \$20.90 per hundred.<sup>25</sup>

## Fresh Produce

- Over the last five years, U.S. vegetable production declined 3% as Mexico exports increased by almost 40%. Mexico has increased volumes of asparagus, cucumbers, tomatoes, and bell peppers to the United States.<sup>26</sup>
- Peruvian and Mexican exports to the U.S. faced challenges in late 2023 and early 2024 due to El Nino conditions impacting growing regions. Table grapes and berries have seen increased prices due to shorter supplies. As U.S. crops come into season, berries and grapes should experience promotable prices in the coming months.<sup>27</sup>
- On April 23, 2024, the CTGA agreed to a \$112.50 short ton price for the 2024 crop year. Last year's bumper crop improved inventory levels bringing relief to the industry. Given the improved inventory levels, the industry is expecting less contracted acreage.<sup>28</sup>

## Fresh Produce (cont'd)

### California Tomato Growers Association (CTGA) Base Price per Short Ton



## Citrus

- The U.S. Department of Agriculture's (USDA) latest citrus harvest forecast indicates a stable industry, with an estimated 19 million boxes of oranges to be harvested in Florida for the 2023-24 season. Supporting this positive outlook, the Florida Legislature approved \$47 million in assistance for the citrus industry, with \$18 million allocated for treatment and growing therapies.<sup>27</sup>
- California citrus growers are expecting average production volume for all products this season with the March 2024 USDA forecast projecting a 1% drop in production at 5 million tons.<sup>10</sup>
- Depending on the variety, growers will experience mixed results this year. Oranges are expected to be up 11%. Lemons are expected to be down 25% with 95% of U.S. lemons grown in California. The USDA has also dropped its forecast of mandarins/tangerines with production expected to be down 7%.<sup>10</sup>

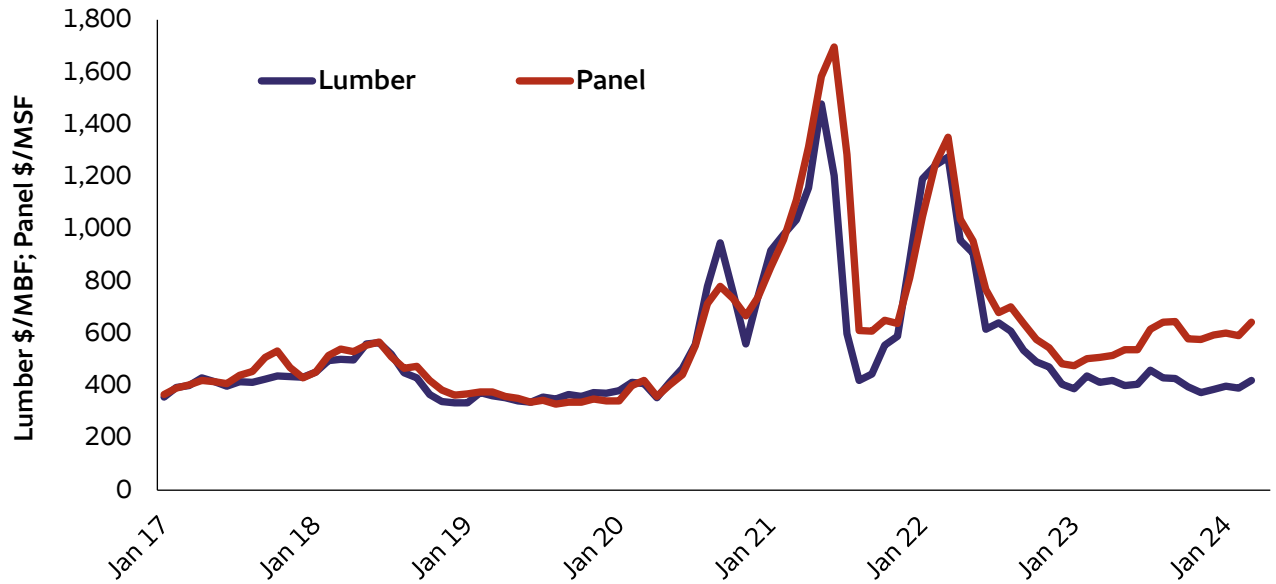
## Forest Products

- Softwood framing lumber prices continue to be sluggish thus far in 2024, after dropping to a multi-year low point in 4Q23. In March 2024, the framing lumber market reached an average of \$421/MBF, but the last few weeks of slipping prices have discouraged traders looking for some good news. Nonetheless, the outlook is guardedly optimistic with lumber futures currently pricing in a 5-10% gain over the summer.<sup>29</sup>
- Structural panel prices have continued to steadily improve nearly every month since hitting a low point in January 2023. Panel composite prices are nowhere near the historic peaks, but the latest numbers are solid for many products with better OSB prices leading the group. The March 2024 average panel price composite rebounded to \$642/MSF.<sup>29</sup>



## Forest Products (cont'd)

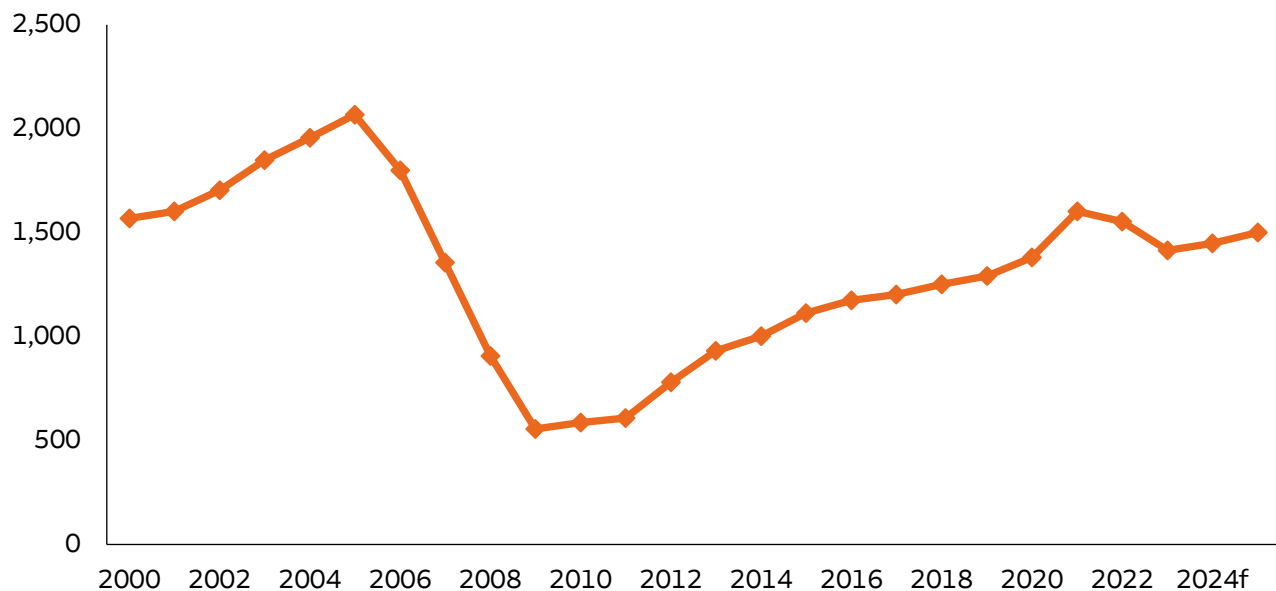
### U.S. Framing Lumber and Structural Panel Monthly Composite Prices



Source: Random Lengths, thru Mar 2024

- In April 2024, the Wells Fargo Economics Group increased its U.S. housing starts forecast to 1,450,000 total starts in 2024, which is a 2.6% YOY increase from 2023. Additionally, its forecast for 2025 total U.S. housing starts was revised 3.4% higher YOY to 1,500,000.<sup>30</sup>
- Headwinds remain the high cost of housing and challenging mortgage rates, where 30-year fixed conventional rates have again approached 7.0% after several consecutive months of rates in the mid-6.0% range. The current mortgage rates remain a challenge to first-time home buyers who now see significant P&I payments.<sup>29</sup>

### U.S. Annual Housing Starts, 1,000s

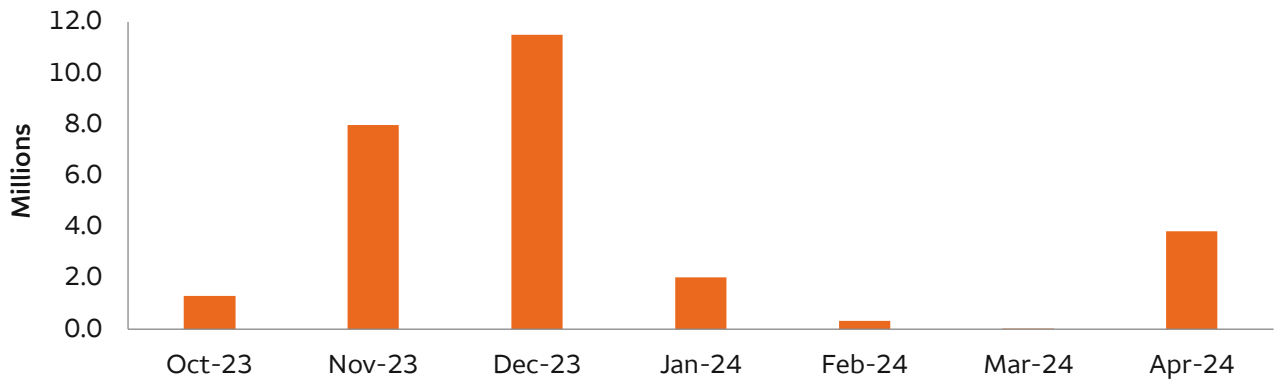


Source: US Dept. of Commerce; Forecast by WF Economics Group, Apr 11, 2024

## Protein

- After a relatively quiet first quarter, April has seen an increase in highly pathogenic avian influenza (HPAI) cases in table egg layers. This is likely due to the Spring migration of wild birds. As of April 16, 2024, there have been almost 27 million birds impacted since beginning of October 2023. Table egg layers represent most of the cases at 18 million birds, followed by over 3 million turkeys and 3 million broilers.<sup>31</sup>

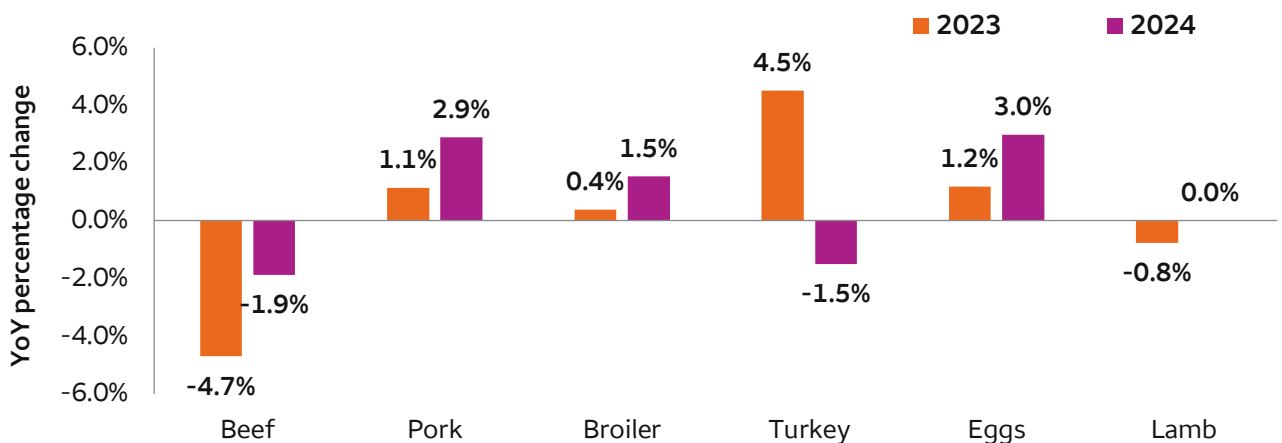
### HPAI outbreaks since October 2023 commercial flocks, number of birds, by month



Source: USDA-APHIS, As of April 16, 2024

- Lower feed costs, particularly for corn, have reduced input costs for protein producers and improved margins. Estimated first quarter margins for chicken processors are back to profitable levels.<sup>32</sup> Farrow-to-finish hog producers margins remain negative but continue to show monthly improvement since the start of the year.<sup>33</sup> Like hog producers, cattle feedlot margins remained negative but showed improvement in March.<sup>34</sup>
- The first case of Bovine Influenza A Virus (BIAV) also known as highly pathogenic avian influenza (H5N1) was announced in a dairy herd in March 2024. However, as of April 17, 2024, there have been no confirmed cases of BIAV in beef cattle.<sup>31</sup>
- The USDA April forecast for 2024 U.S. total red meat and poultry production is up almost 1% Y/Y. While beef production is still forecasted lower for 2024, higher carcass weights are helping increasing beef production. Strong pigs per litter numbers in the first quarter are offsetting the smaller hog herd size. Heavier bird weights and hatchery data also point towards increasing broiler production.<sup>35</sup>

### USDA Meat Production Forecasts

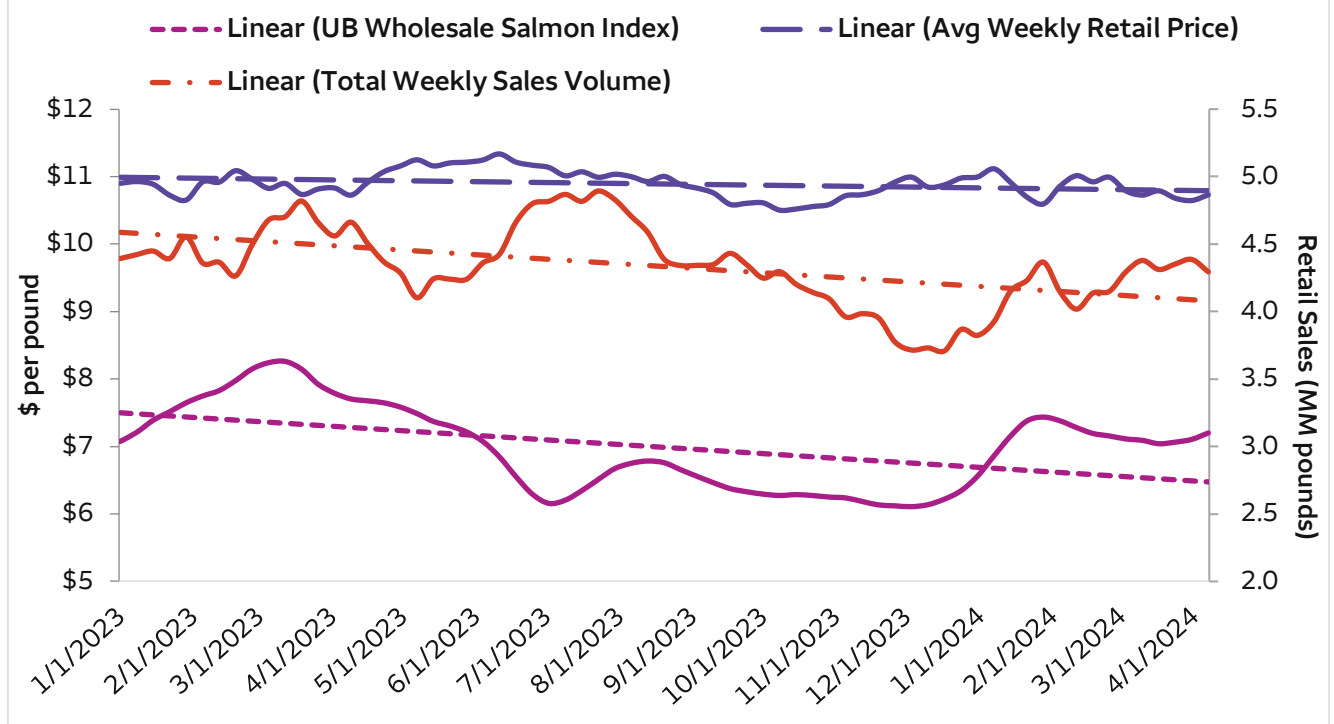


Source: USDA-WASDE - April 2024

## Seafood

- Following Covid, the seafood industry experienced what could be considered “abnormal market behaviors” as evidenced by a general trend of rising retail prices while both wholesale prices and retail sales volume trended downward. This trend can be attributed to the increased inflationary environment that drove increased operating costs coupled with retailers needing to sell excess high-cost inventory without sacrificing margins.<sup>36</sup>
- It appears that this trend has finally reversed as reflected in the most recent retail data. In this latest analysis, although retail sales volume and wholesale prices have continued to decline, retail prices for seafood through April 2024 are now also trending downward, indicating that the market is beginning to reflect a more normal behavior as shown in the graph of Salmon price trends.<sup>36</sup>

### Salmon: Retail Sales Volume vs. Price for 2023 - 4/2024



- A recent report by 210 Analytics comparing retail data published by Circana for February 2024 showed the volume of frozen seafood sales for February were up 6% Y/Y while the value of these sales declined almost 3% for the same period. It was also noted that the average price for frozen seafood was 8% lower, reflecting long-needed deflation in a market that has been dealing with inflation for more than a year. Despite the positive momentum for frozen seafood, sales volume for fresh seafood items fell 8.7% Y/Y while retail value dropped 8.8%, although the average price per pound was flat at \$9.30.<sup>37</sup>

## Coffee

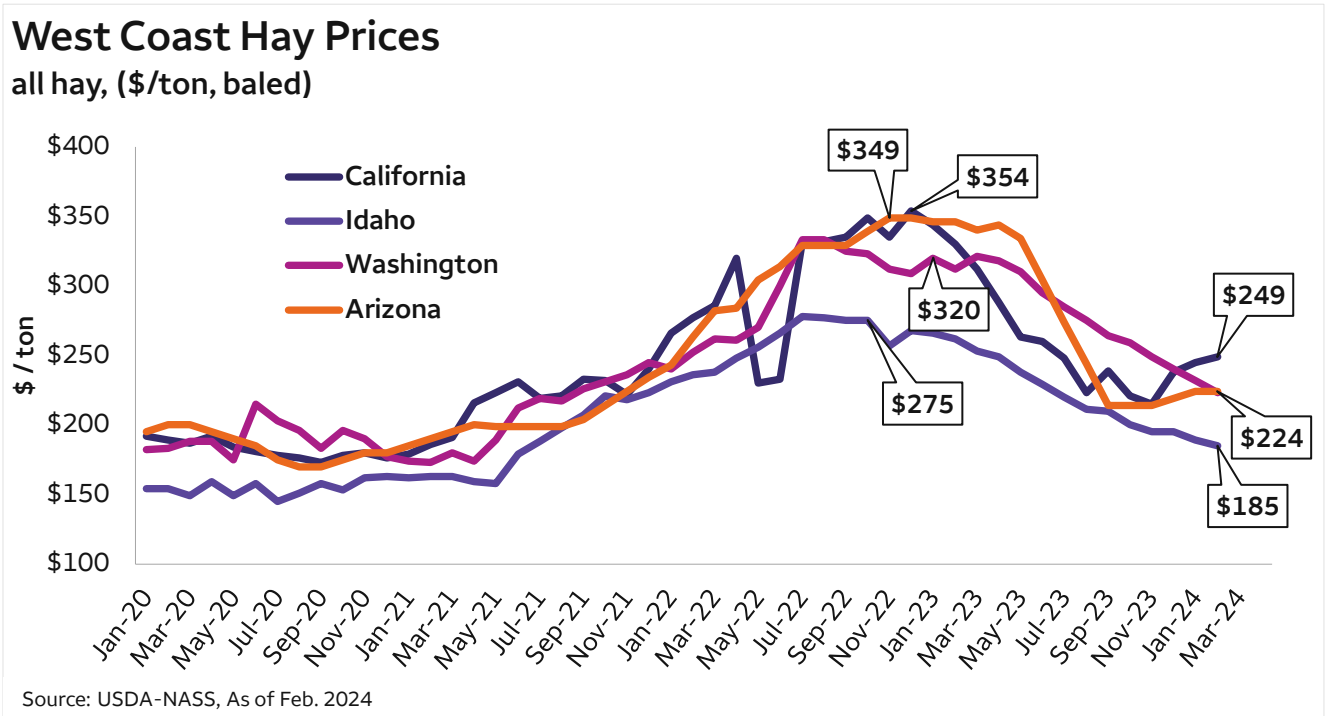
- Coffee C price continues to be volatile as both arabica and robusta are trading higher due to tighter supplies in various growing regions.<sup>38</sup>
- Outlook for the 2023/24 crop year is that production will be higher by almost 6% at 178 million bags with Arabicas share at 57.4% and Robusta at 43.6%. This is different as Arabica typically experienced a 70% share of the market.<sup>38</sup>

## Wine grapes

- The grape market continues to be quiet and slow with more vineyards being out of contract this year compared to last year.<sup>39</sup>
- Unless a frost event or force-majeure event occurs, it is expected that more vineyards will be out of contract this year given high inventories of bulk wine and cheaper prices.<sup>39</sup>
- Bulk wine demand is cautious with little pattern or momentum regarding varietals or appellations needed. Buyers are calculated with purchases fulfilling the needs of longstanding programs.<sup>39</sup>

## Hay

- Hay prices on the west coast continue to be soft driven by plentiful supplies and sluggish demand from both exporters and dairies.<sup>40</sup>
- New groundwater rules, restrictions and fees in California are a central concern for hay producers in the region and future hay supplies.<sup>40</sup>
- The January 1, 2024 Cattle Inventory report showed the U.S. dairy herd size down over 40,000 cows compared the previous year.<sup>19</sup>



## Tree nuts

### Almonds

- March 2024 shipments were above industry expectations at 237 million pounds, but still 44 million pounds lower than last year's record. That said, YTD shipments of 2B pounds represent an increase of 40 million pounds compared to last year's movement.<sup>41</sup>
- Prices in California have continued to decrease by approximately \$0.10 per pound due to expectations of a larger 2024 crop.<sup>42</sup>
- The industry wants to ship an average of 200 million pounds for the remaining months of the crop year to record a lower carryout number going into next year's larger expected crop.<sup>42</sup>

## Pistachios

- Last year's record crop of 1.5B pounds is either shipped or committed, leaving a potential small carry-over into the 2024 harvest.<sup>43</sup>
- The 2024 crop will be the alternate bearing year estimated at 1.2B pounds. The industry anticipates shipping from CY2023 to be a record 1.1B pounds following a record shipment year the previous year with 902 million pounds shipped. A concern for the industry is a large enough crop not being produced in 2024 to meet current market demand.<sup>44</sup>
- Anticipated grower pricing has improved due to anticipated record shipments and a smaller 2024 crop.<sup>44</sup>

## Walnuts

- March 2024 recorded the fourth consecutive month of record walnut shipments from California. With Chile opening their crop, California walnuts were priced at a discount to compete.<sup>42</sup>
- California is in a comfortable position with five months remaining in the crop year. California still has walnuts to purchase, but they are in limited volumes. Market prices are stable.<sup>42</sup>
- Expectations is that the market will slow given some markets will move to the Chilean crop to cover summer shipments.<sup>42</sup>

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### Sources:

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