

Agri-Food Institute

# Quarterly Update – Q3 2024

## Economic Developments

Wells Fargo Economists look for the Federal Open Market Committee (FOMC) to begin the easing cycle by cutting the target federal funds rate by 25 bps in September, with further cuts in Q4 and in 2025. Fed officials have previously stated that there would be no rate cuts until they have stronger indication that inflation is moving back towards 2% on a sustainable basis.<sup>1</sup>

Based on the latest economic data, the U.S. economy has decelerated recently, as real GDP rose only 1.4% in Q1 2024, after growing at an annualized rate of 3.4% in Q4 2023. Wells Fargo economists look for the economy to continue to expand moderately in the next few quarters, but at an annual average growth rate less than the 2.4% that characterized the 2010-2019 economic expansion.<sup>1</sup>

The current economic slowdown has been led by recent declines in real personal consumption expenditures (PCE). After growing at a 2.7% annualized rate over the course of 2024 on a quarter-over-quarter basis, real PCE rose at an annualized rate of only 1.5% on a sequential basis in Q1 2024. Current expectations are that growth will remain at essentially the same rate for the upcoming quarter.<sup>1</sup>

While consumers are still spending, indications are that the current rate of spending is not sustainable. Growth in real disposable income is not keeping pace with the current growth in real consumer spending. As a result, the amount of outstanding credit card debt has risen by 25% since early 2022, and delinquency rates on credit cards and auto loans currently exceed pre-pandemic levels. In addition, the household savings rate, which averaged about 6% of disposable personal income over the course of the 2010-2019 economic expansion, currently stands below 4%.<sup>1</sup>

The current rate of private sector job growth has slipped from levels in Q1 2024 while the unemployment rate, which started 2024 at 3.7%, has risen to 4.1%. Furthermore, softer labor market conditions have driven the year-over-year change in average hourly earnings to trend down from 4.4% in January to 3.9% in June.<sup>1</sup>

## What's Happening in Food and Agribusiness

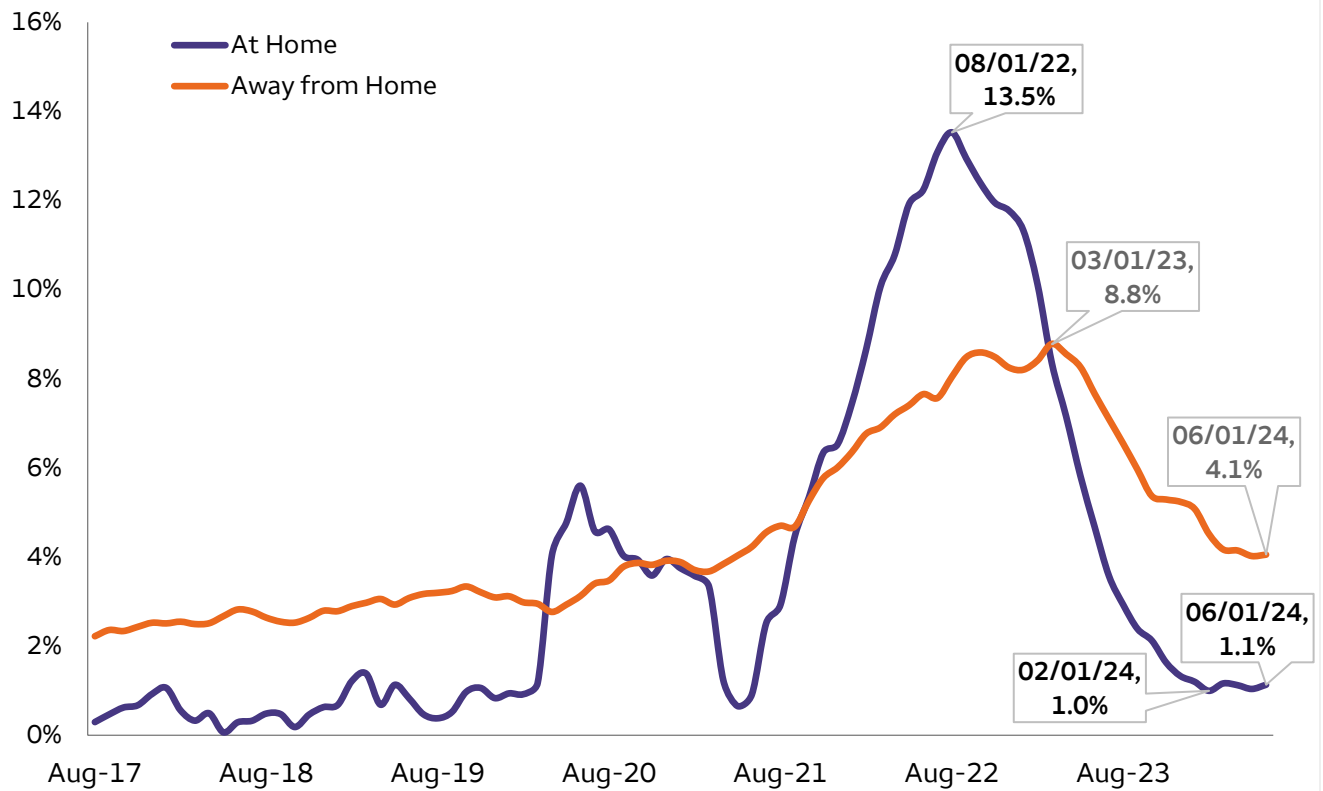
- The agricultural economy faced headwinds in 2023. Net farm income fell from record levels as major grain crop prices returned to a historic average range. The USDA Economic Research Service outlook for 2024/25 shows a likely further decrease in farm income. However, with grain futures moderating, livestock prices remaining elevated, and feed costs declining in 2025, there is potential for the overall net farm income to stabilize.<sup>2</sup>
- The United States Farm Bill, last signed in 2018 has been extended through September 2024. The American Farm Bureau and more than 500 other stakeholder groups united to send a letter to Congress calling for passage of the new Farm Bill.<sup>3</sup>

# Food highlights

United States Department of Agriculture (USDA) forecasts show retail food prices softening through the end of 2024 and into 2025.<sup>4</sup> For June 2024, several food-at-home categories were lower year over year including fish and seafood, dairy products, fresh fruits, and fresh vegetables. Meanwhile, beef and veal prices increased by 0.5% in June for the fourth straight month.<sup>5</sup> In 2025, food-away-from-home prices are predicted to increase 3%.<sup>4</sup> According to NielsenIQ, rising food prices is the leading concern of U.S. consumers.<sup>6</sup>

Overall, United States consumers' protein intake has increased, but is shifting from traditional forms to protein shakes, cottage cheese, beans, tofu, and frozen meats. The consumption of 25 grams of protein in meals has increased 9% year over year and 15% from a four-year average.<sup>6</sup> Gen Z's diverse palate is driving a transformation in food consumption by emphasizing fresh and healthy foods, thus, creating a more health-conscious consumer.<sup>7</sup>

## Year over Year % Change in Food Inflation



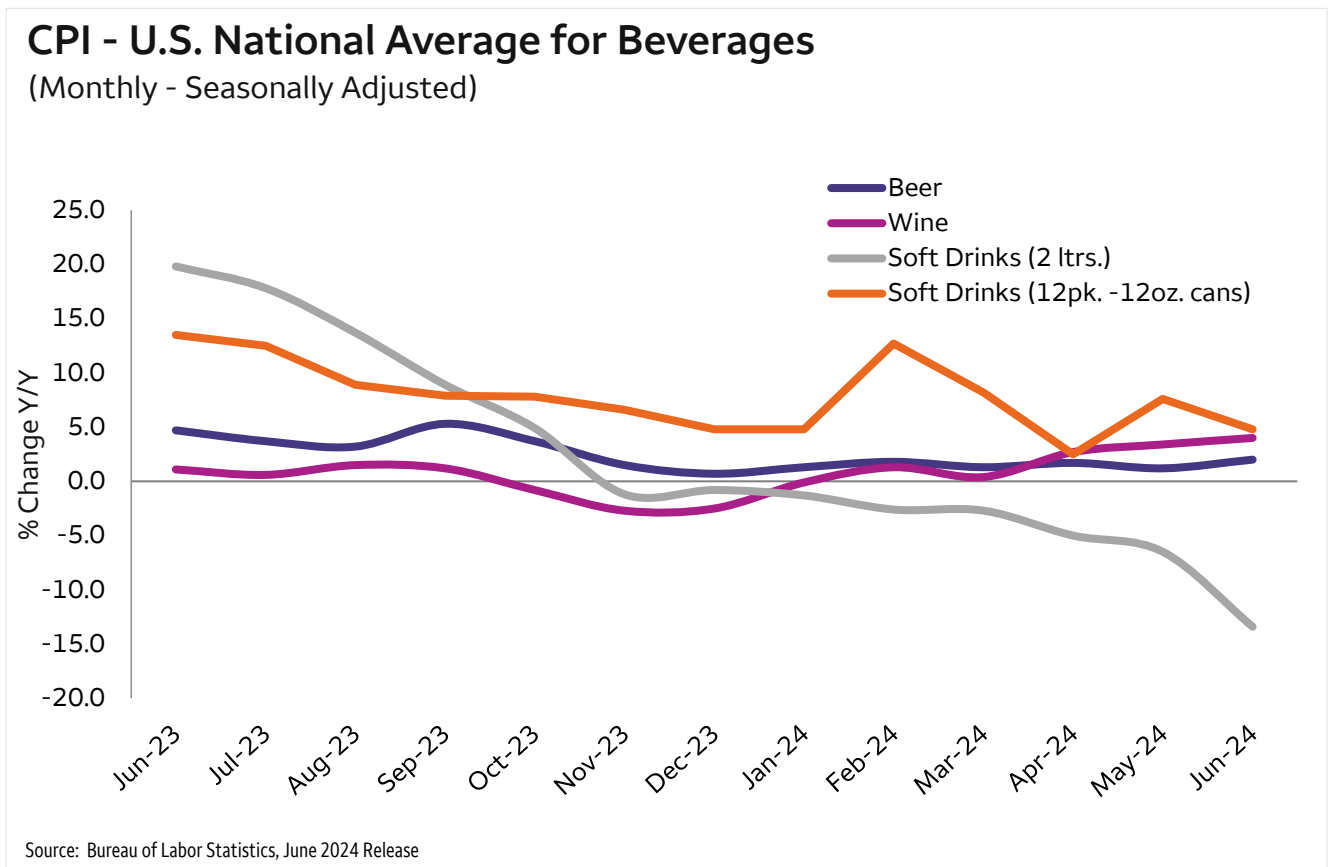
Source: Bureau of Labor Statistics, June 2024 release

# Beverage highlights

Beer prices are up 2.0% from this time last year with a national average price of \$1.77 for a pint.<sup>8</sup> The most recent data shows beer prices starting to flatten out with small increases. Michelob Ultra held on as the top-poured tap beer, up 13.8% from last year. Health-conscious consumers' desire for lower carb and caloric intake options continues to impact food and beverage segments across the board.<sup>9</sup>

Average wine prices are up 4% overall from this time last year, which may be one result from lower supplies. Attendees of the 2024 Allied Grape Growers meeting in California noted that approximately 30,000 acres of vineyards had been recently removed across the state.<sup>10</sup> California produces 80% of U.S. wine and is the world's 4th-largest producer.<sup>10</sup>

Pricing trends are downward for soft drinks in both formats - 12-ounce single-serve cans and 2-liter bottles.<sup>8</sup>



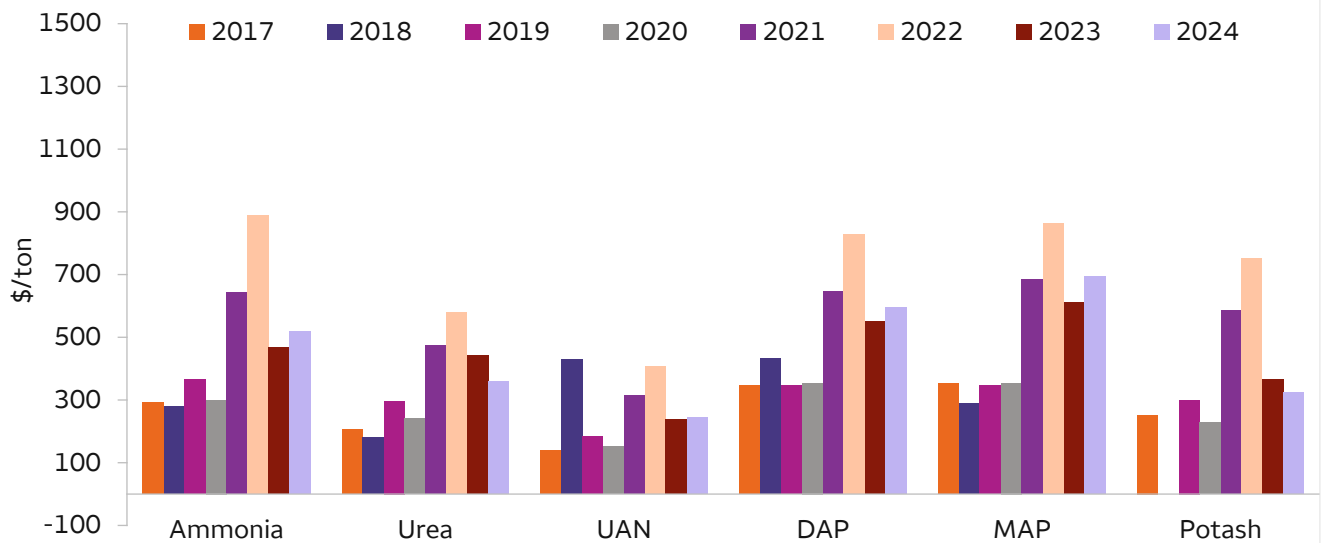
# Commodity highlights

## Crop Inputs

Glyphosate continues to be a primary chemical used for weed control around the world, with a market size of \$10.6 billion in 2023. This herbicide accounts for roughly 10-20% of sales for crop input suppliers. Glyphosate was applied to over 285 million U.S. acres in 2023, or 32% of all croplands.<sup>11</sup> The glyphosate market price has declined 33% in 2024, resulting in lowering gross margins for crop input suppliers. Three main factors are driving this decline: 1) a lack of demand from South American Suppliers as they work through existing high inventory levels; 2) a highly competitive landscape driven by low prices world-wide; and 3) just-in-time inventory management practices wherein crop input retailers buy at the last minute to supply growers.<sup>12</sup>

Compared to 2023, fertilizer prices are expected to average lower in 2024 and 2025 but remain well above 2015-19 levels due to robust domestic demand and some export restrictions (particularly for China) and sanctions (mainly Belarus). Upside risks to the forecast include potential increases in input costs, especially natural gas. The downside risk would be driven by low corn prices impacting demand.<sup>13</sup>

### Corn Belt Wholesale Fertilizer Prices in End-July



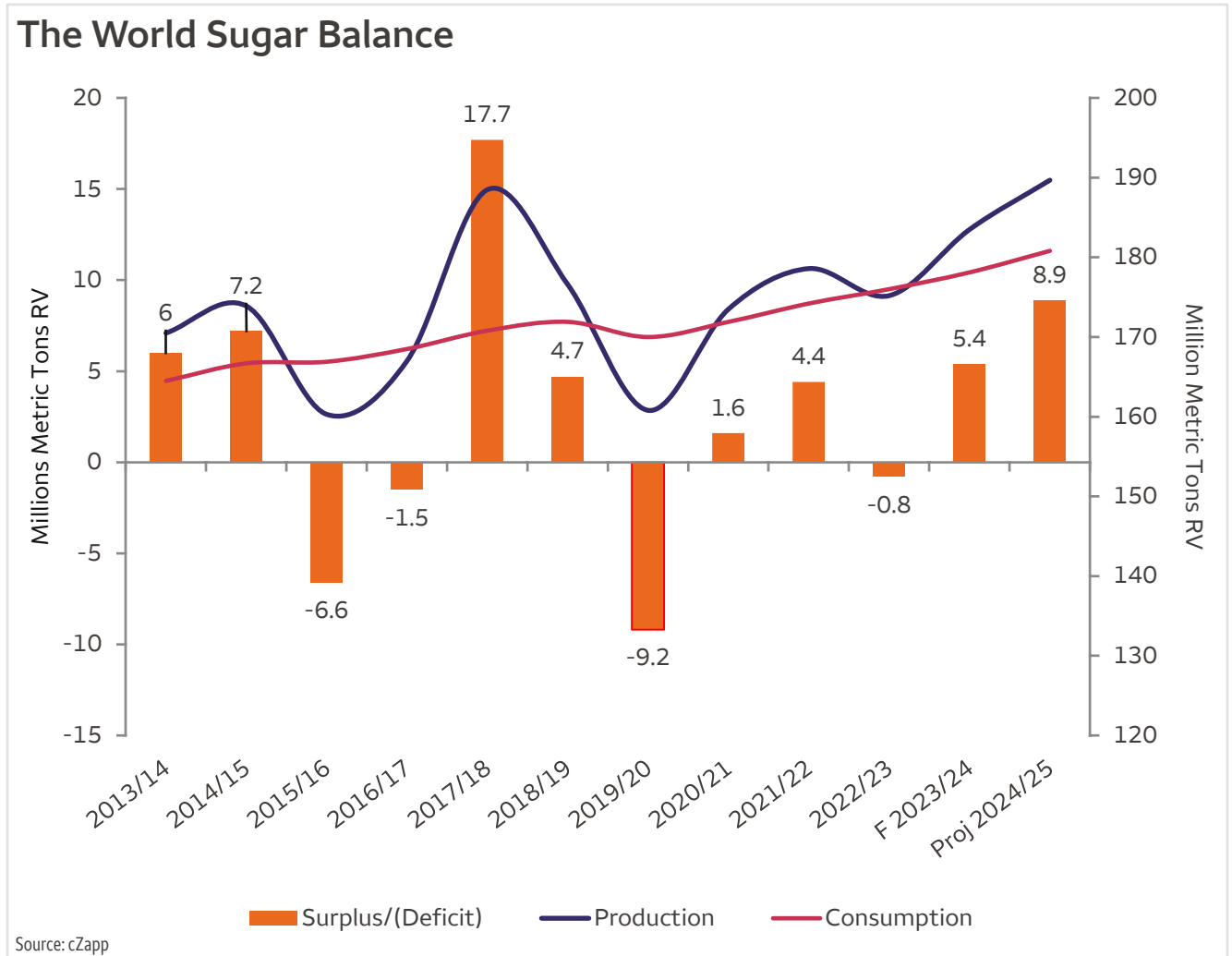
Source: Green Markets

Seed treatments have developed into a significant income source for crop input suppliers and are becoming more popular as seed costs increase. The seed treatment market size was \$6.1 billion in 2022 and is expected to reach \$9.2 billion in 2027. The treatments are unique and developed for regional needs, which differentiate the suppliers and enhance margins. Seed treatments are biological, physical, and/or chemical materials added to seed prior to planting. These materials can be biological organisms, nutrients, colorants, or chemicals. Treatments can protect the seed from pests and diseases, support seed health, promote growth, and reduce growing challenges.<sup>14</sup>

According to University of Wisconsin research, seed treatments on soybeans offer a high probability of payback, especially when soybean prices are at least \$9/bushel.<sup>15</sup>

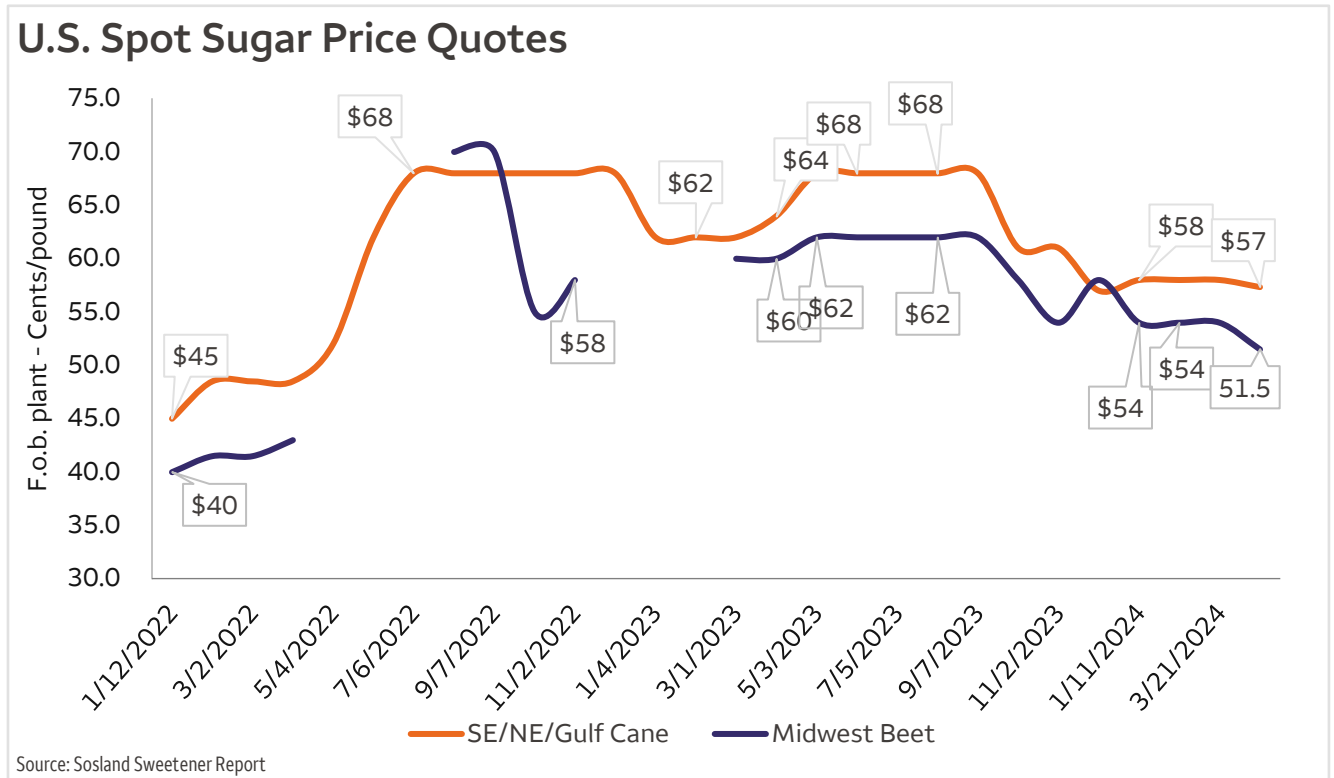
# Sugar

With the 2023/24 crop season winding down, global sugar production is expected to reach 183.5 million MT (up 1.2% Y/Y) resulting in a 4.7% Y/Y increase in global sugar surplus (net of consumption) of 5.4 million MT compared to a net deficit in the prior crop year.<sup>16</sup> Current markets have reacted to this higher overall production as the Sugar No. 11 future. October spot price declined to a 21-month low on July 24th as the apparent tightness in global sugar supplies appears to have eased. Current forecasts for the upcoming 2024/25 crop year are for a global production increase of 3.4% Y/Y to 189.7 million MT. Higher production in India, China, Thailand, and Mexico are expected to offset lower production in Brazil, a result of lower cane quality and more of the crush being channeled to ethanol. With production exceeding consumption and global ending stocks continuing to decline (projected down 24% since 2020/21 crop year), world prices remain under pressure.<sup>17</sup>



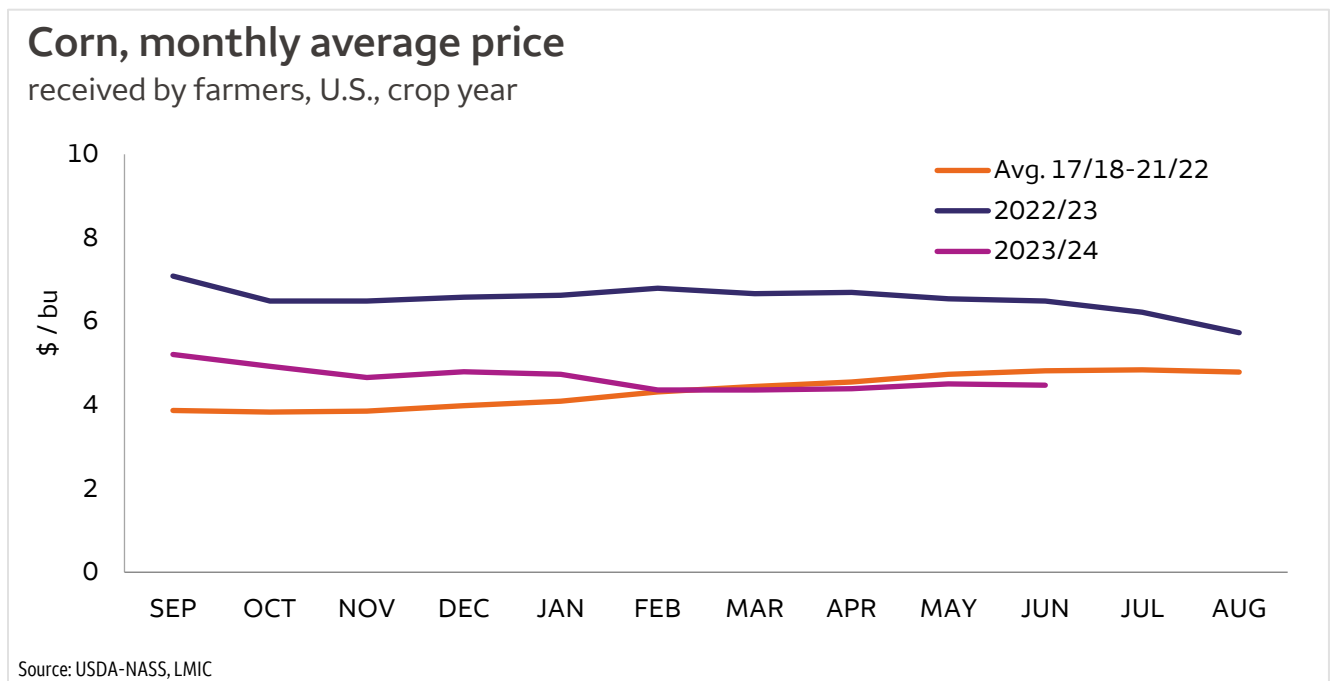
On the domestic front, in the July 2024 USDA WASDE report, domestic sugar production and import volume for 2023/24 crop year was projected by the USDA to increase over June estimates resulting in sharply higher ending stocks (up 15.2% M/M), yielding an increase in the stocks-to-use ratio to 15.6%. As a result, higher beginning stocks for the 2024/25 crop year coupled with a projected increase in beet sugar production more than offset lower import volume from Mexico, resulting in a 13.5% stocks-to-use ratio for the upcoming crop year.<sup>17</sup> Due to increased global supply and projected strong domestic production, current spot prices are retreating from historic highs.

## Sugar (cont'd)



## Grain and Oilseeds

In its *Crop Progress* report, USDA pegged 67% of the corn and soybean crops are in good/excellent condition.<sup>18</sup> The remaining spring wheat crop was reported at 77% good/excellent. These ratings are among the historical highs for late summer estimates. These ratings, combined with adequate precipitation, have kept prices in low ranges with corn roughly \$4.00/bushel and soybeans \$10.50/bushel (Chicago Board of Trade: July 2024). These are the lowest respective crop prices since 2020.



## Grain and Oilseeds (cont'd)

U.S. all-wheat production for 2024/25 is forecast at 2 billion bushels, the largest wheat crop since 2016/17. This level of production is 11% higher than the previous year. Stronger U.S. supplies are expected to pressure wheat prices lower, but will make U.S. wheat more competitive on the global market, contributing to higher exports. Total U.S. exports are forecast at 825 million bushels, the largest since 2020/21.<sup>19</sup>

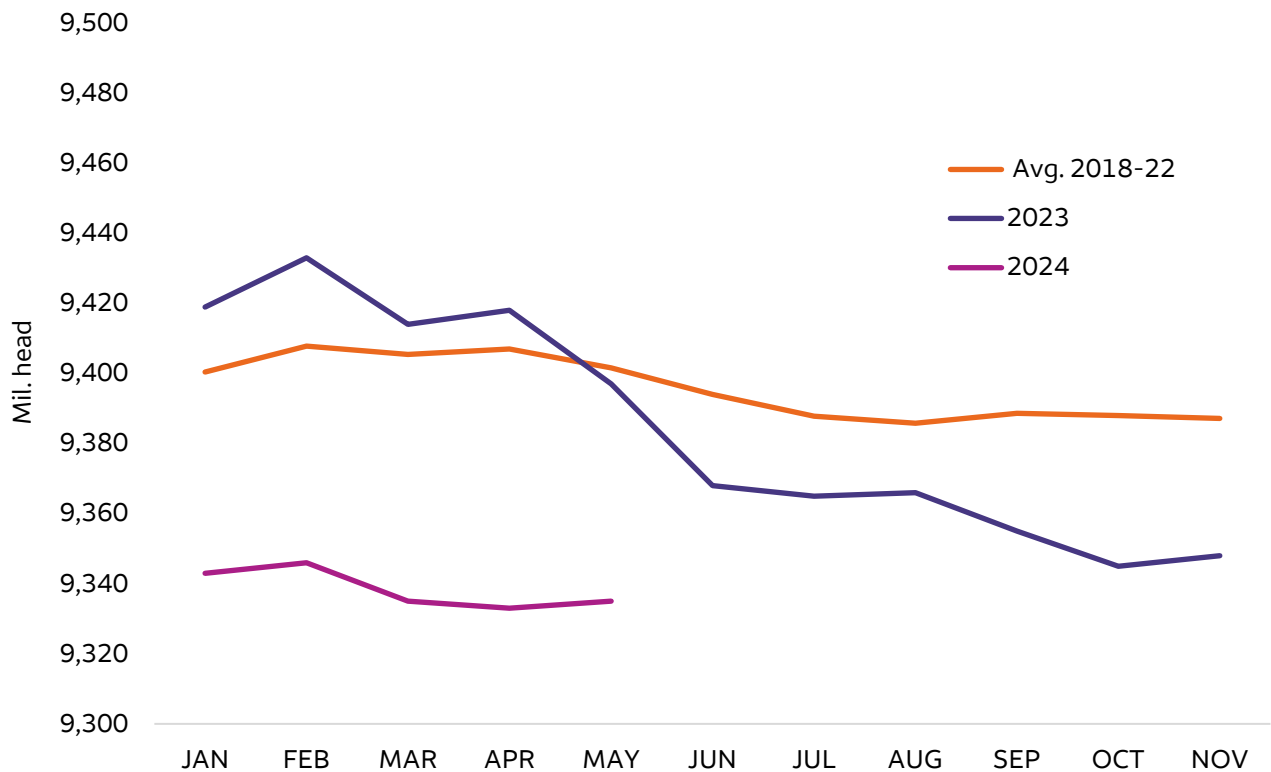
The Biden administration, with bipartisan support, has set a goal of increasing sustainable aviation fuel (SAF) production from 16 million gallons today to three billion gallons by 2030. Producing three billion gallons of sustainable aviation fuel would require the use of 811 million acres of corn (~10% increase) or 35-50 million acres of soybeans (~50% increase), depending on how rapidly crop yields increase over the next six years.<sup>20</sup> This would likely result in strengthening grain demand and forthcoming price increases. However, uncertainty exists over the quantity of other oils that could be substituted such as canola, palm, sunflower, used cooking oil, etc.

## Dairy

U.S. milk production in June was down 1% from last year, marking the 11th consecutive month of year-over-year decline. Dairies in the Midwest faced production challenges from Bovine flu outbreaks and above-average temperatures in June.<sup>21</sup>

The national milk cow herd was estimated at 9.3 million head, down 62,000 head from last year, which is significant as demand for cheese and butter is increasing. Replacement heifer prices are at record highs. Holstein heifers sold at \$3,200 per head, up from \$2,000 per head last year. Hence, dairies are selling calves as opposed to raising them to milk. This indicates the milk cow herd has aged, and yields could trend lower in the coming months.<sup>21</sup>

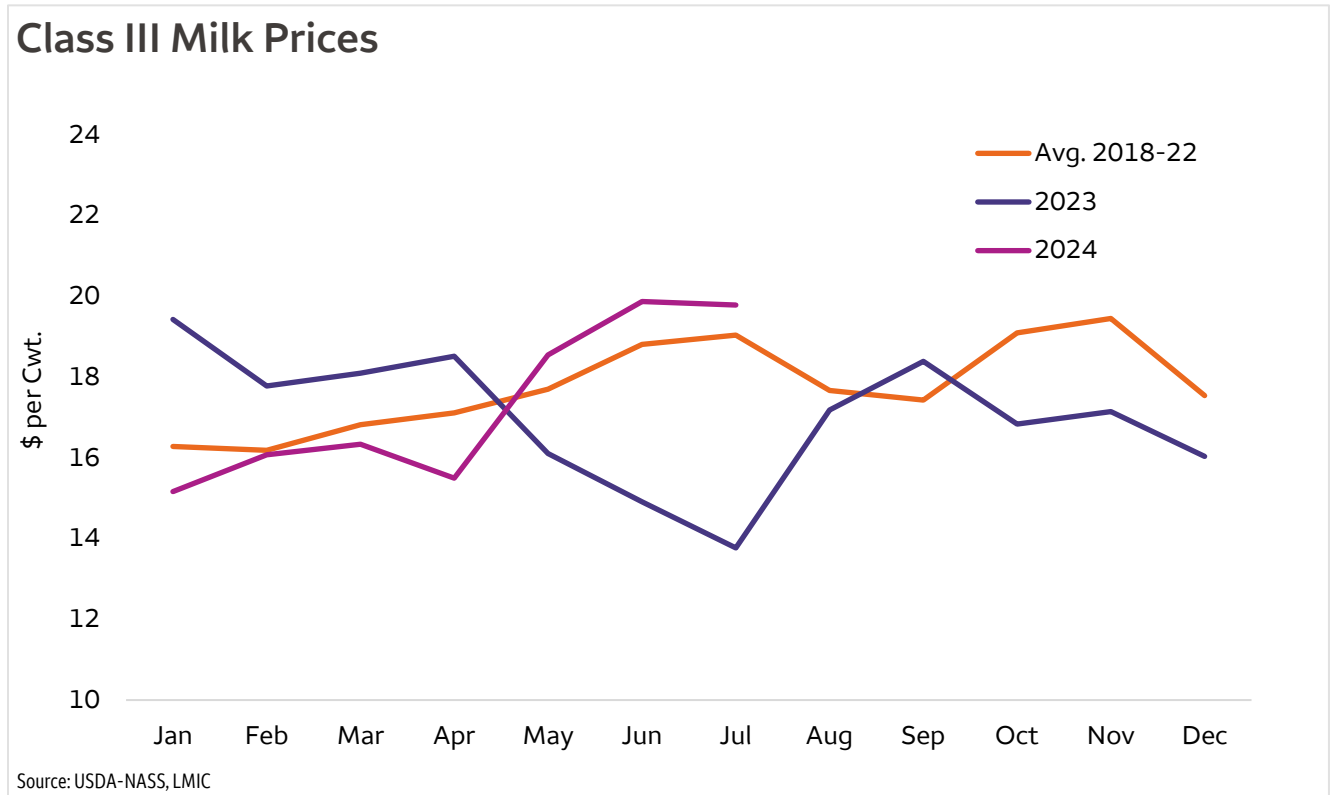
### U.S. Dairy Cow Inventory



Source: USDA-NASS

## Dairy (cont'd)

Dairy farm margins are looking strong for the second half of 2024, with Class III futures averaging above \$20.00 per hundredweight, while the Class IV average is near \$21.50. Plus, feed costs are down dramatically compared to a year ago, and income from calves and cull cows remains near record highs. Since dairy heifers are still in short supply, milk production will continue to contract, which should support milk prices in the second half of the year.<sup>22</sup>



The outlook for U.S. cheese exports is promising, with exports through May already 28% higher than the same period in 2023, bolstered by global economic recovery and a significant price advantage against competitors in the first quarter of 2024. The addition of new production capacity has helped boost export volumes. The overall outlook suggests that 2024 could be a record-breaking year for U.S. cheese exports. Exports are forecast at 1.03 billion pounds, an 8% increase from 2023.<sup>23</sup>

USDA issued its Recommended Decision on the uniform pricing formulas for the proposed changes to the Federal Milk Marketing Order. USDA listed five significant updates including:

1. Changing formulas for pricing milk composition factors.
2. Proposed elimination of the barrel price from the Dairy Products Mandatory Reporting Program survey and using only the 40-lb. block Cheddar price.
3. Increasing make allowances that are allotted to processors.
4. Class I pricing would revert to the higher of the Class III or Class IV skim milk price in the calculation used to determine base Class I prices.
5. Increasing Class I differentials across the United States.

A public comment period will be open until September, followed by a 60-day review period for USDA. Once completed, the USDA will issue its Final Decision, and the 11 Federal Milk Marketing Order will then vote on whether to adopt the changes.<sup>24</sup>



## Fresh Produce

The 2024 berry season remains plentiful with strawberries hitting markets across the country from the Santa Maria and Salinas Valley growing regions. Fair weather has kept the late spring crop producing and berry companies in Salinas are gearing up to transition to the fall crop.<sup>25</sup> For the 2024 season YTD, volume for growers is up 21% with prices per tray down 12%. Crop value is up 7% over last year with prices set to increase as we head into the fall season.<sup>26</sup>

The 2024 table grape season has begun in California, starting in Southern California in the Coachella Valley in May, and moving into Central California mid-summer. USDA NASS production forecasts for the season will be released in August 2024. USDA, AMS movement data shows early season volumes from Southern California up 19% year over year through mid-July.<sup>27</sup> California Table grape acreage remains flat while table grape imports from Chile and Mexico continue to rise.

The Tomato Suspension Agreement is up for renewal. The agreement is an anti-dumping measure in-place for 25 years, requiring producers/importers of Mexican-grown tomatoes to sell at or above an established TSA reference price. The Florida Tomato Exchange has lobbied the Department of Commerce to allow the agreement to expire in favor of tariffs. A decision is expected by September, which will then determine how fresh tomato importers will need to alter or adjust business.<sup>28</sup>

Processing tomato harvest is gearing up with predictions of less production and lower prices for growers in 2024. Processors contracted less acreage for 2024 to mitigate surplus inventory risk. The industry is still expecting to experience moderate to strong results for the next several years. The CTGA price is down 18% to \$112.50 per ton. This increases breakeven costs for growers, while providing more favorable prices for processors.<sup>29</sup>

## Tree Nuts

The USDA Objective Estimate for almonds was released at 2.8 billion pounds, 200 million pounds less than the Subjective Estimate. Since the 2.8 billion pound crop was announced, prices have already increased \$0.20 - \$0.30 per pound. California is on-pace to ship 2.7 billion pounds from the 2023 crop.<sup>30</sup>

California experienced record production for walnuts in 2023, with most of the crop shipped at lower prices. The 2024 crop is expected to be 10-20% less according to California growers.<sup>30</sup> It is hopeful some upward pressure on pricing occurs as the Chilean crop is short, which may put more demand on California walnuts.

California harvested a record 1.49 billion pound pistachio crop in 2023 with shipments on track to set a record with over 1.1 billion pounds shipped.<sup>31</sup> Record shipments will reduce the 2023 crop carry-forward inventory to a very manageable amount. The 2024 crop is the "off-year" with production estimated near 1.1 billion pounds. Pistachio pricing is anticipated to remain moderate to strong.

## Citrus

The California citrus season for 2023/24 has ended with companies relying on imports to supply year-round demand for mandarins and navels. With two consecutive wet winters, California experienced a thrip insect issue in several citrus orchards that reduced production by 10-20% for some districts. Growers are anticipating a better year for the 2024/25 growing season.<sup>32</sup>

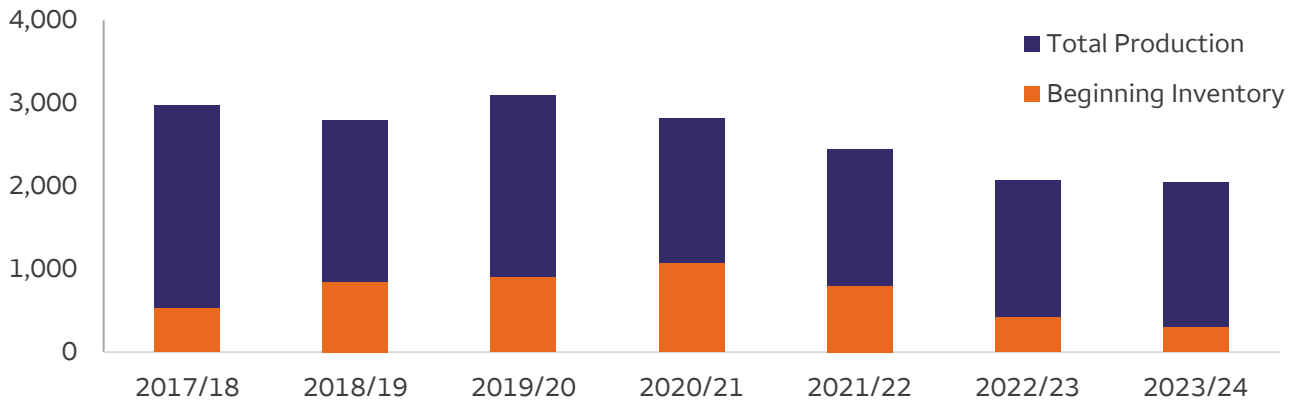
The USDA has once again adjusted its forecast for the Florida citrus harvest. The latest figures estimate the 2023-24 season's orange production at 17.97 million boxes, a slight rise from the previous forecast. Despite this upward revision, the output remains modest compared to the industry's zenith in the late 1990s.<sup>32</sup>

## Citrus (cont'd)

While the global production of oranges for the 2023/24 crop year is projected to increase by 1% year-over-year to 47.4 million tons, global orange juice production is projected to decline for its fifth straight season, down 3% year-over-year to 1.5 million tons (65 degrees brix) due to reduced fruit available for processing. Globally, Brazil, Mexico, and the U.S. are the top three juice-producing countries accounting for over 89% of total global orange juice production.<sup>33</sup> However, orange production in these regions has been flat to declining the past three crop years which has resulted in a 16.6% decline in availability of orange juice globally.<sup>34</sup>

### Orange Juice Supply Trend

(Millions of Gallons - Single Strength Equivalent)

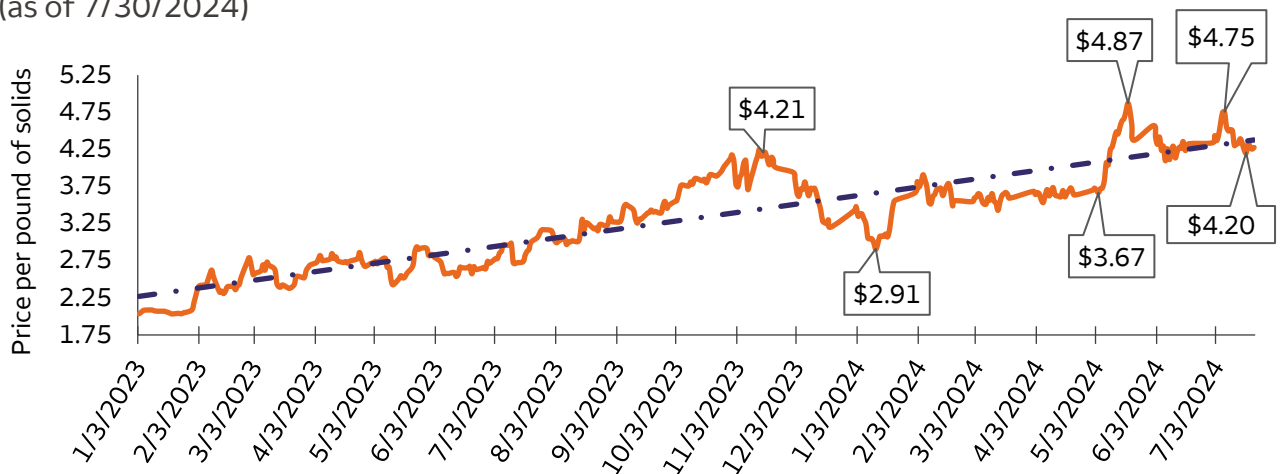


Source: USDA FAS Global Citrus Market Report

The primary driver of the recent decline in global orange juice production has been four consecutive seasons of smaller orange crops in Brazil (produces ~ +70% global orange juice) Mexico, and the U.S. as a result of weather events (hurricanes, freezes, extreme droughts due to El Niño including periods of intense heat during flowering) combined with continued issues with citrus greening. As a result of this increased uncertainty about orange juice availability, combined with the fact that approximately 90% of production from Brazil and Mexico is exported to the rest of the world, orange juice prices have experienced significant upward pressure during 2023 that continues to this day.<sup>33</sup> The futures market for frozen concentrated orange juice (FCOJ) closed at a record high on 5/28/2024 before falling 14% to its current level by the end of July.<sup>35</sup> Given the projected orange crop yields for the upcoming season, expectations are that orange juice prices will remain elevated for at least the next 12 months.

### FCOJ Monthly Average Nearby Futures Settlement Price

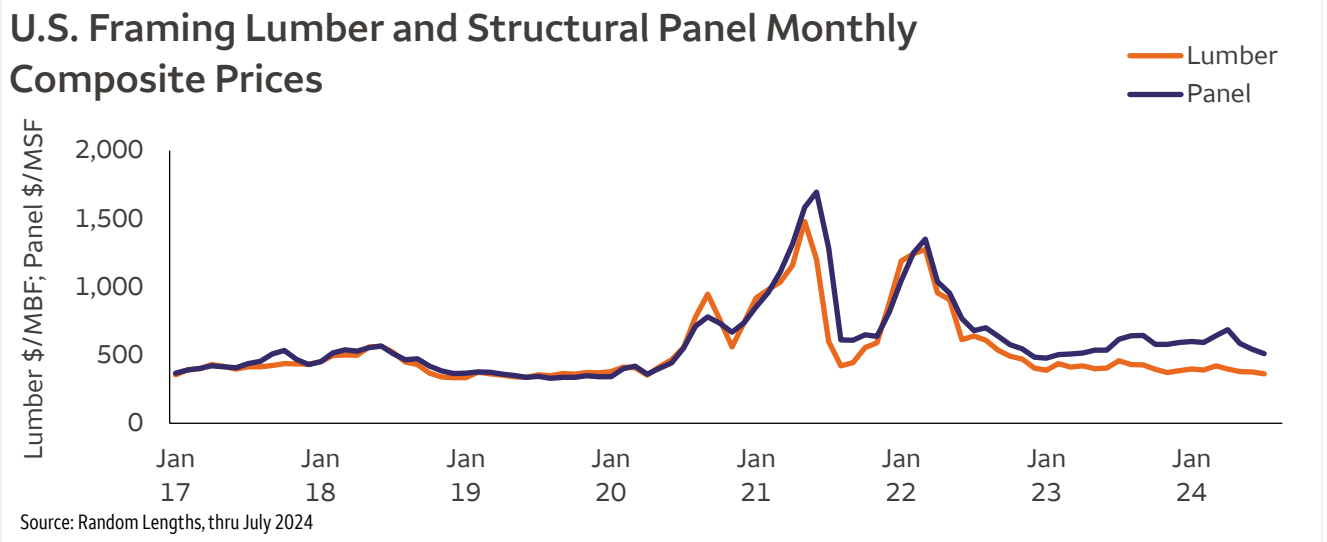
(as of 7/30/2024)



Source: Intercontinental Exchange (ICE)

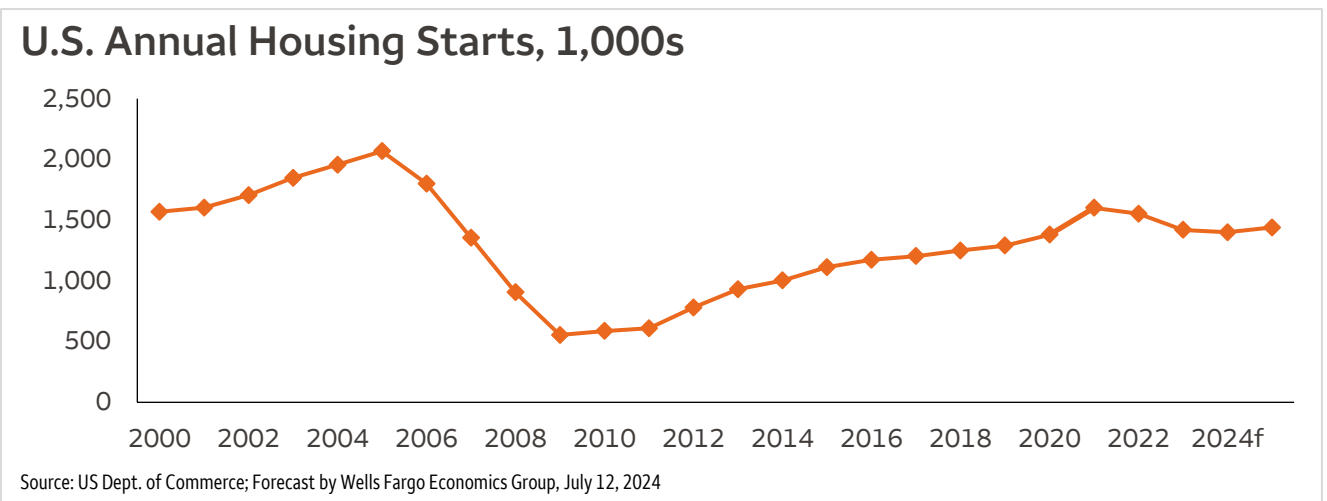
## Forest Products

Softwood framing lumber prices in 2024 are in an extended, severe trough. The market is unprofitable for lumber producers across the board and across the continent. The composite price dropped to \$363/MBF in July 2024, the lowest monthly average value since October 2019.<sup>36</sup> The market is guardedly optimistic with lumber futures currently pricing in a 5-10% gain through the end of the year., Structural panel prices have fallen steadily each month since hitting a two-year high point in April 2024. The strength of the most recent price gains was based upon a good OSB market, but now that product line is seeing significant price erosion too. The July 2024 average panel price composite dropped to \$510/MSF, the lowest price since 1Q23, and a decline of over 25% since April.<sup>36</sup> Financial results for large integrated forest products companies had been buoyed by the previously recovering panel markets, but now those markets too are much weaker.



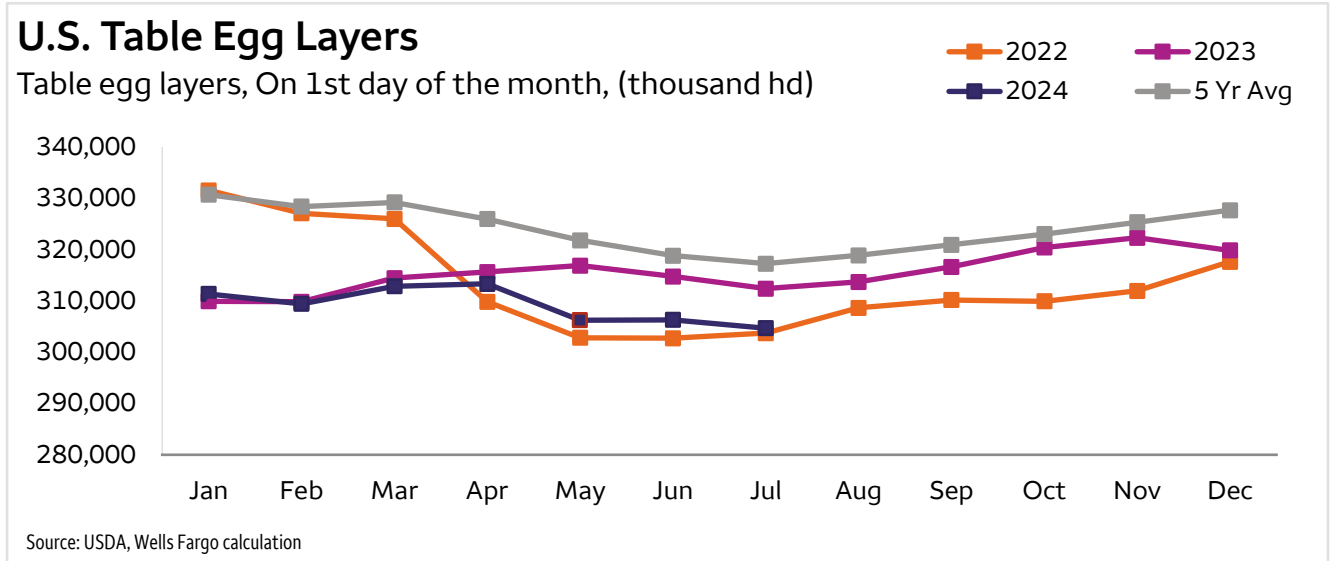
In July 2024, the Wells Fargo Economics Group decreased its 2024 U.S. housing starts forecast to 1,400,000 total starts, which is a -1.4% year-over-year decrease from 2023. This would mark the third consecutive year of declines in the housing market, which can certainly be considered a market correction. Wells Fargo Economics forecasts total U.S. housing starts of 1,440,000 in 2025, which would be a 2.9% gain year over year.<sup>37</sup>

Headwinds remain with the high cost of housing and challenging mortgage rates, where 30-year fixed conventional rates have only recently dropped again below 7.0% to 6.8%.<sup>36</sup> There may be some interest rate relief coming from the Fed, perhaps by September, but first-time home buyers find the combination of a high purchase price and significant mortgage P&I payments to be off-putting.

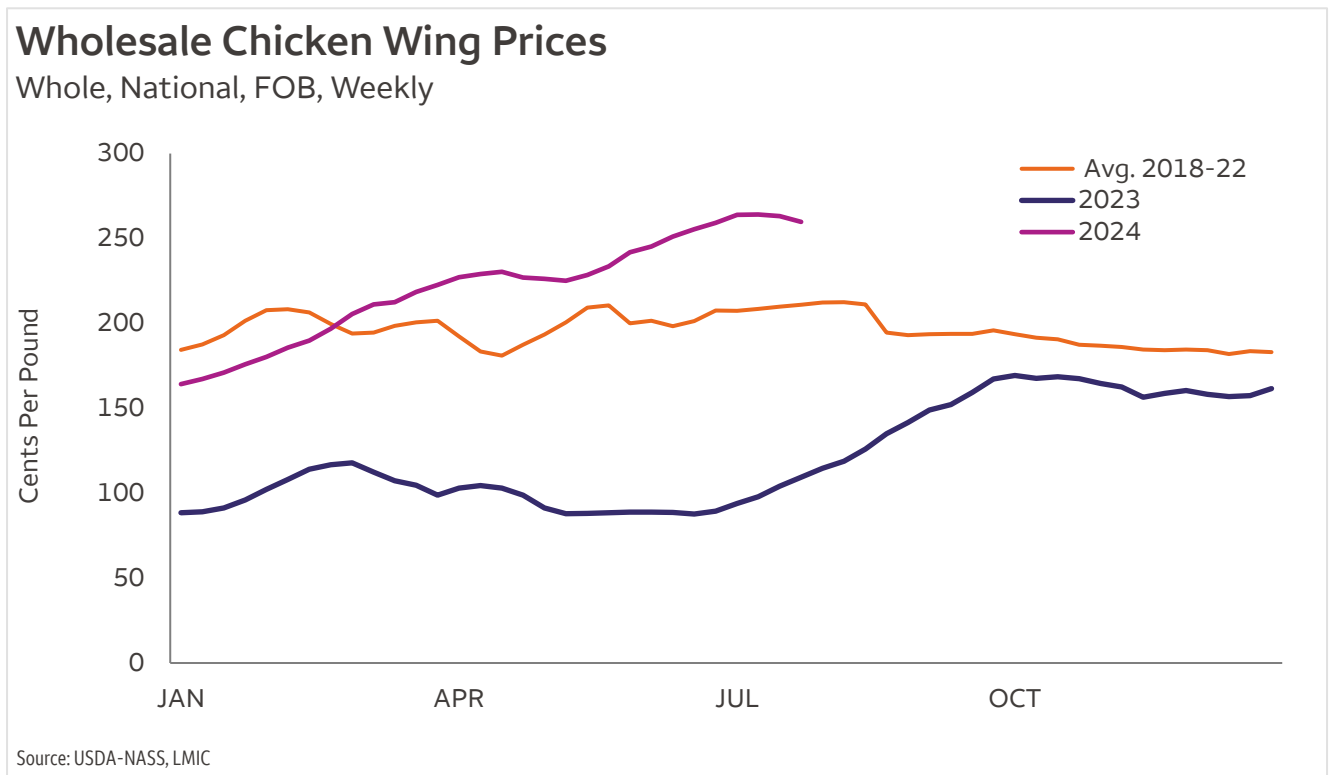


## Protein

**Eggs:** Highly Pathogenic Avian Influenza (HPAI) outbreaks in table layers have continued across the U.S. this summer. Over 8.7 million commercial table layers were impacted in Q2 2024.<sup>38</sup> As a result, the U.S. flock size has once again dipped close to 300 million.<sup>39</sup> The last time the flock dipped to this level was summer of 2022 when egg prices began to skyrocket as a result of lower supplies.<sup>40</sup> Egg prices are currently high compared to most prior years, and are expected to remain volatile.



**Chicken:** Improving domestic demand has been supportive to chicken product prices. Wholesale breast prices in July were up 51% and wing prices up 160%, year-over-year.<sup>41</sup> Chicken export demand is sluggish, down 10% year to date, as the U.S. is not competitively priced.<sup>42</sup> Additionally, chicken paw trade to China remains restricted for many major chicken producing states due to HPAI outbreaks



## Protein (cont'd)

**Chicken:** The broiler industry continues to deal with lingering bird productivity due to fertility problems in layers and bird health issues. The U.S. broiler-type hatching layer flock size is 4% lower year-over-year as of the first of June.<sup>40</sup> As a result, major supply expansion appears limited at this time.

**Cattle:** U.S. cattle herd rebuilding continues to make slow progress with some analysts now predicting until 2026 for significant herd rebuilding. Higher input costs and strong pricing for calves have been headwinds for ranchers retaining heifers.

**Beef:** Strong U.S. beef prices have attracted beef imports. Year-to-date beef imports are up 19% year-over-year, led by higher imports from Australia and Uruguay.<sup>42</sup> Despite higher beef prices, U.S. demand for beef appears to be relatively solid.

**Pork:** A higher number of hogs slaughtered plus heavier weights increased Q2 2024 pork production over last year.<sup>41</sup> Even with higher production, the pork cutout price in Q2 averaged 5% higher year-over-year, driven by strong ham pricing in July. Ham prices could face headwinds in early Q3 as high prices soften demand from Mexico and consumers pull back due to a recent listeria outbreak in deli meats.

## Seafood

Inflation is impeding seafood sales growth. For period of 2019 to May 2024, consumers are spending 33% more for the same food items.<sup>43</sup> Based on June 2024 retail data from 210 Analytics, even though U.S. retailers have started to reduce their prices for seafood, it has not helped grow the overall sales volume. Total reported seafood sales for the month of June 2024 of \$1.53 billion was down 2.2% from prior June sales due to a combination of lower average prices and lower unit sales in fresh seafood (down 2.3%) offset by gains in frozen seafood (+0.8%) and shelf stable (+5.7%).<sup>44</sup>

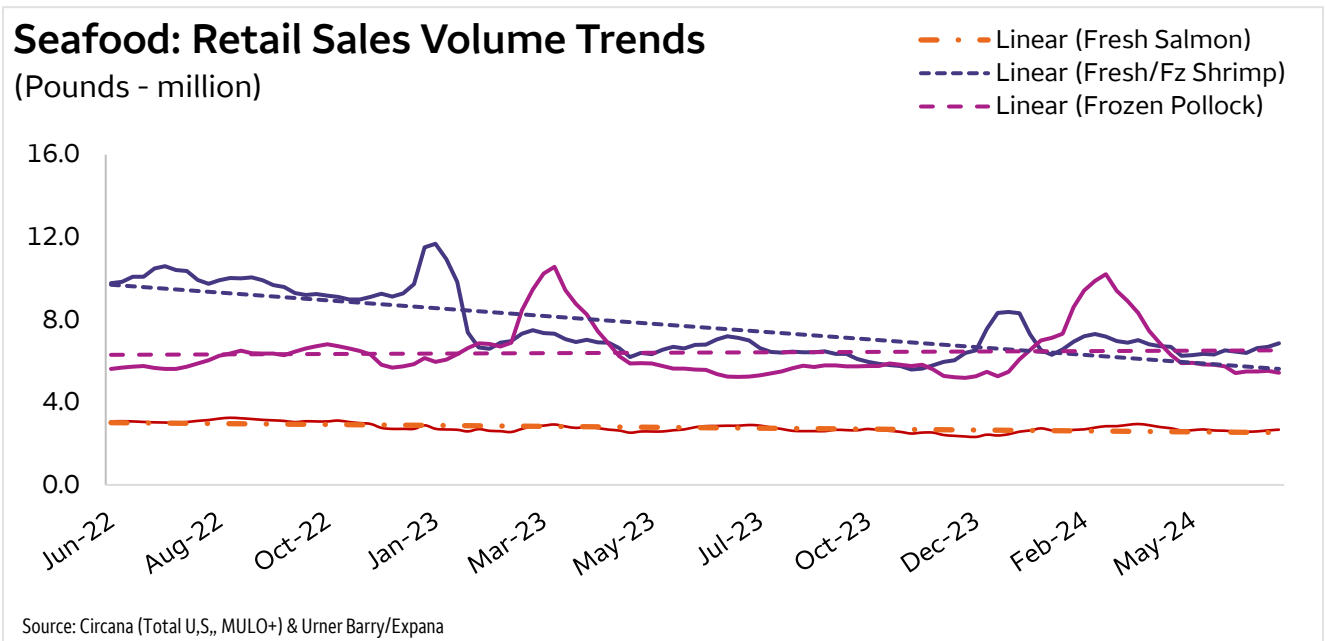
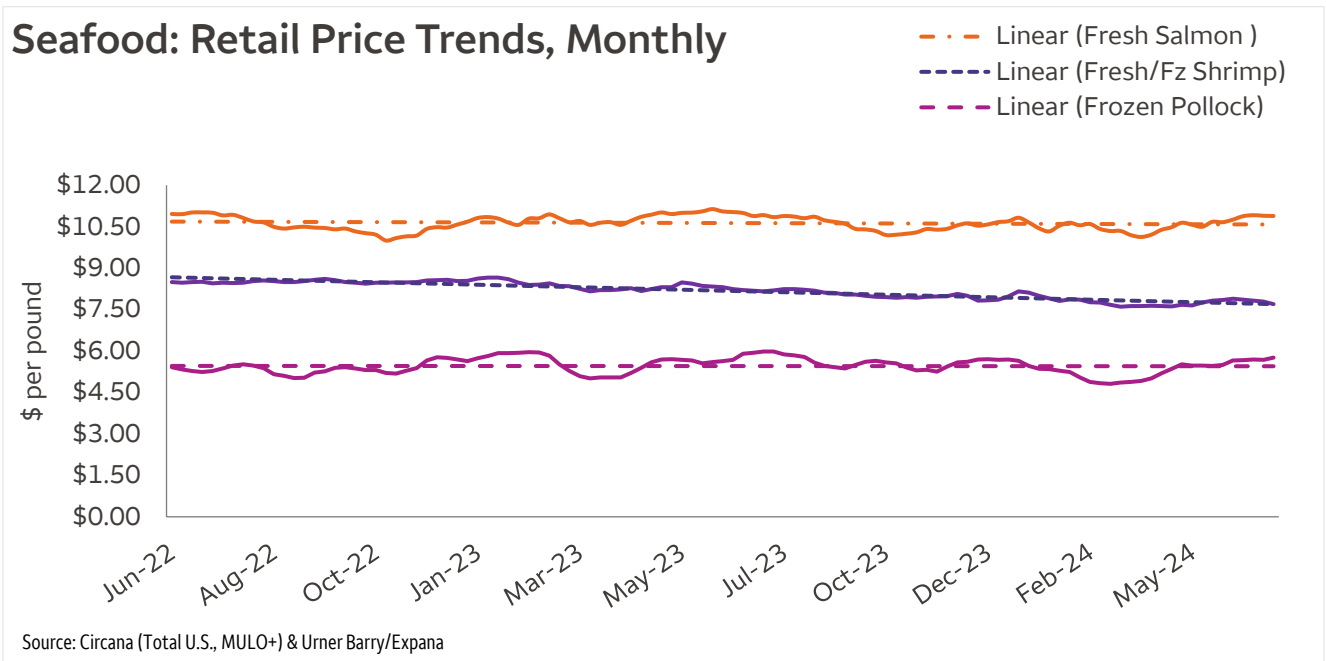
Type	4 weeks ending June 30, 2024				52 weeks ending June 30, 2024			
	\$ Sales	# vs M/M	Lbs	Lbs vs. M/M	\$ Sales	# vs YA	Lbs	Lbs vs. YA
Fresh Salmon	\$187.2M	-1.9%	16.6M	(13.6%)	\$2,348M	(9.30%)	218.2M	(10.40%)
Frozen Salmon	\$267.M	1.7%	3.1M	1.7%	\$396.6M	(30.9%)	3.07M	16.8%

Sources: Circana (Total US, MULO+) & Urner Barry-Expana; 210 Analytics

While overall seafood prices have declined 1.9% over the past year, shoppers' economic concerns persist. And seafood is still an expensive option at \$9.57 per pound, on average in June, compared to other animal proteins such as beef, pork, and chicken at \$6.86, \$3.26, and \$3.05 per pound, respectively.<sup>45</sup> This significant price difference is a key factor in the decline of both fresh and frozen seafood sales. According to 210 Analytics, across the meat and seafood departments, consumers are foregoing the premium, higher-priced cuts and are "trading down" to lower priced proteins.

Below is a comparison of some weekly retail price and sales volume trends since June 2022 for fresh salmon, fresh/frozen shrimp (combined), and frozen pollock. Note that while price trends appear relatively flat, average retail prices for this period are \$10.83/lb. for salmon, \$8.19/lb. for shrimp, and only \$5.46/lb. for pollock. Given the lower price point of pollock, it is noted that sales volume for both fresh salmon sales and shrimp have trended down over this period by 20% and 39.58%, respectively, while sales of frozen pollock has increased 8.3% on a trendline basis during this same period.<sup>45</sup>

## Seafood (cont'd)



## Coffee

The coffee C price is currently flirting with 10-year highs at 231.20¢ (cents). In July 2024, the C price eclipsed 249¢ for the first time in a decade.<sup>46</sup> Drought and unfavorable weather conditions continue to impact coffee growing regions.<sup>47</sup>

The cocoa CC price continues to be elevated at \$8127 per metric ton.<sup>46</sup> Cocoa prices have steadily risen over the past six months as global production continues to be challenged in Ghana and the Ivory Coast due to dry weather and crop disease.<sup>48</sup> North Africa is the largest cocoa production region, globally.

## Wine grapes

Significant inventory remains available on the bulk market and pricing has been softening to stimulate buyer interest and clear tank space ahead of the coming harvest.<sup>49</sup>

Given the soft wine market, many smaller suppliers will struggle for cashflow or to make payments on time, will resize operations or remove vines, or attempt to sell their businesses on a viticultural real estate market that naturally mirrors the wine market: few transactions, reduced prices.<sup>49</sup>

## Hay and Cotton

U.S. hay prices have trended lower on soft export and domestic demand. U.S. hay export trade has improved from last year's low levels but remain below the five-year average level.<sup>50</sup> Exports continue to face headwinds with a strong U.S. dollar. U.S. export trade with China is sluggish on low domestic dairy prices and restored relations with Australia increasing oat hay imports.

Cotton futures prices have fallen from their Spring highs on weak global textile demand and improving U.S. crop conditions, which have increased forecasted cotton production.<sup>51</sup>

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