economic development collaborative
SONOMA COUNTY

Agriculture Industry Insider

2024

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2024

Executive Summary

Recent Performance

Early reports indicate a promising 2024 harvest for Sonoma County wine grape growers, thanks to nearly ideal weather conditions throughout the year. This reflects the industry's resilience amid climate challenges and the COVID-19 pandemic. Building on 2023's strong performance, the total value of crops produced in the county increased by approximately 19%, according to the 2023 Sonoma County Crop Report.

Production metrics for wine grapes were particularly encouraging in 2023, with total grape volume rising by 26%. There was also a slight increase in the average value per ton. Consequently, wineries experienced a 31% surge in total wine grape value. Per the California Grape Crush Report, Sonoma County's wine grape values rank second statewide, behind only Napa County.

Sonoma's wine industry stands in contrast to the outlook for dairy, Sonoma's second-largest crop. The value of livestock and poultry products fell by 7% compared to 2022, mainly due to decreases in both milk production and its market value.

Industry Outlook

Looking forward, Moody's Analytics projects limited direct effects on Sonoma County's agricultural sector from the incoming administration's economic policies. However, weaker global trade stemming from proposed isolationist policies could present challenges, particularly for Sonoma County's wineries. Although, fluctuations in the value of the U.S. dollar, driven by potential tariffs, withdrawal from trade agreements, and weakened alliances, may have the most significant impact on local export values.

While favorable climate conditions have supported recent successes, Moody's highlights climate change as a long-term risk. Additionally, decades-high inflation and policy tightening could dampen consumer spending, posing further risks to Sonoma County's agricultural economy. Therefore, adapting to evolving consumer preferences, particularly among millennials, remains essential for sustaining demand.

Recent Performance. After a strong harvest season for wine grape growers in 2023, early reports from the 2024 harvest are similarly upbeat. The harvest season began in mid-August and was a welcome return to normal after a delayed start in 2023. Nearly perfect weather conditions bode well for the quality of the harvest: an initially cool spring, before warming up with long periods of hot weather during the peak of growing season and culminating with more mild temperatures and cool nights as harvest season approached. Overall, these early reports indicate that wine grape volume and quality should be strong when next year's grape crush report is compiled.

Sonoma County's agriculture industry had a bounce-back year in 2023, per the latest Sonoma County Crop Report and the latest data available. More favorable precipitation levels and better weather for the county's stable of crops led to a swift recovery in production values. The county finally emerged out of a multiyear drought, while above-average rainfall replenished groundwater supplies and filled reservoirs. This, in turn, lowered input costs and led to strong harvests across a variety of crops. According to the 2023 Sonoma County Crop Report, the total value of crops produced in the county increased by around 19%.

Production across different crop varieties was positive in 2023. Higher precipitation again was a bright spot for the crucial wine grape growers. Total wine grape volume surged 26%, and a quality harvest season also led to a slight uptick in average value per ton for wine grapes. Combined, this led to a 31% increase in total wine grape value. According to the California Grape Crush Report, wine grape values in Sonoma County rank second among all counties in the state, behind only Napa County. For context, wine grapes are by far the largest crop produced in the county, and the value of wine grapes is nearly 15 times higher than dairy, the next-largest crop by value.

Dairy producers had a more difficult year in 2023. The value of livestock and poultry products decreased 7% compared with 2022, mostly because of declines in milk production and value.

Macro drivers. President-elect Trump laid out his economic policy agenda in broad terms on the campaign trail. Based on his first term as president, he will pursue policies consistent with his campaign rhetoric, albeit not to the degree that he articulated them during the campaign. He will also likely implement these policy changes soon after becoming president early next year. Unlike his first term, when it took nearly all of his first year to put an administration together and begin implementing his policies, Trump is well-prepared and ready to go this time. Moreover, his next administration will be run by like-minded officials who have had plenty of time to think through their policies. He likely also thinks that he has voters' approval for his policies, given the magnitude of his election victory.

Arguably, the most significant economic policy change will be the adoption of higher broader-based tariffs on imports to the U.S. On the campaign trail, he talked about an across-the- board tariff of 10% or even 20%, 60% on imports from China, and 100% plus on certain products. Talk of tariffs this high is likely political bluster or possibly a negotiating stance with U.S. trading partners. But it would not be surprising if tariffs are significantly in- creased on China and other countries that have benefited from the diversion of Chinese trade due to current tariffs. Mexico and Vietnam stand out in this regard. Trump has also called out other countries that appear likely to face higher tariffs, including Japan, South Korea and Canada. Taken together, we assume that the effective tariff rate across all imported goods will increase from its current 3% to closer to 7.5%. For context, before Trump's tariff hikes during his first term, the effective tariff rate was closer to 1%.

We expect the tariffs to be phased in throughout 2025 due in part simply to logistical and legal impediments, the desire to limit their inflationary impact, and to enhance the U.S.'s negotiating stance as countries see how far Trump is willing to go. We assume Trump will announce tariffs on China via executive order soon after he is inaugurated, with the effective tariff rate on Chinese imports doubling to 40% from the current level close to 20%. Tariffs on vehicles produced in the European Union, Japan, South Korea and Mexico will likely follow. Next are tariffs on imports from countries that have benefited from the diversion of trade from China since tariffs were imposed in Trump's first term, including Mexico, Vietnam, and other mostly Southeast Asian nations.

Trump's economic policies and geopolitical positions can be characterized as largely isolationist and will further impair globalization via less trade, immigration and foreign investment. Globalization is a primary factor for the low inflation environment, so a retreat of globalization will broadly put upward pressure on prices.

The direct impacts on Sonoma County's agriculture industry will likely be small, but downside risks abound should any of these countries retaliate. Weaker global trade will be a headwind, and there are risks that crucial trading partners will enact retaliatory tariffs targeting key U.S. exports. This could include wine or other crops produced in Sonoma County; however, that is not our baseline outlook. The most direct way volatility will flow through commodity prices is through the value of the U.S. dollar. The nominal trade-weighted dollar is at the same level as in late 2022—and given the U.S. economy's relative strength, the dollar will remain strong. However, the Federal Reserve's interest rate decisions and potential Trump ad- ministration policies will also influence its value. While the Fed's decisions will be well-telegraphed, Trump tends to surprise markets with social media announcements. An abrupt message about imposing tariffs, backing out of trade deals, or weakening historical alliances could quickly and meaningfully move exchange markets.

Industry drivers. Vastly improved weather conditions and groundwater and reservoir replenishments augur a continued improvement for Sonoma County's crucial agriculture industry. Farms struggled under severe drought conditions in previous years, but those have completely dissipated thanks to higher precipitation levels in the past two years. According to the U.S. Drought Monitor, only a handful of areas in the Central Valley are even considered abnormally dry. Improved soil quality and more abun- dant groundwater will benefit Sonoma Country farmers in many ways. Wine grape tonnage should improve if these favorable weather patterns persist, and input costs will pull back, given that reservoirs are far above their levels of recent years.

A continued pullback in interest rates will also provide a modicum of support. The Fed has begun interest rate cuts that will proceed in the next two years, which will provide some modest relief. While still elevated relative to 2019, retreating interest rates will lower the cost of borrowing and could entice some capital improvements and expansions among Sonoma County farmers.

Long-term outlook. Sonoma County's agriculture, notably its vital wine industry, has shown resilience amid climate challenges and the COVID-19 pandemic. Despite improved drought conditions, climate change poses significant long-term risks, including more erratic weather patterns potentially harming crop yields. In the past two decades, California farmers have received about $3 billion in Federal Crop Insurance payments due to extreme weather, highlighting the financial impacts of climate disruptions. Additionally, as millennials become the largest wine-consuming group, the demand dynamics for Sonoma County's wines are shifting. The county's grapes, second in price only to Napa's, maintain a competitive edge, but adapting to millennial preferences is crucial for sustained demand. Simultaneously, the dairy sector faces pressure from a growing preference for nondairy alternatives, signaling a need for adaptation in this area as well. Overall, while Sonoma County's agriculture sectors face challenges, adapting to changing consumer preferences and climate conditions will be key to their future success.

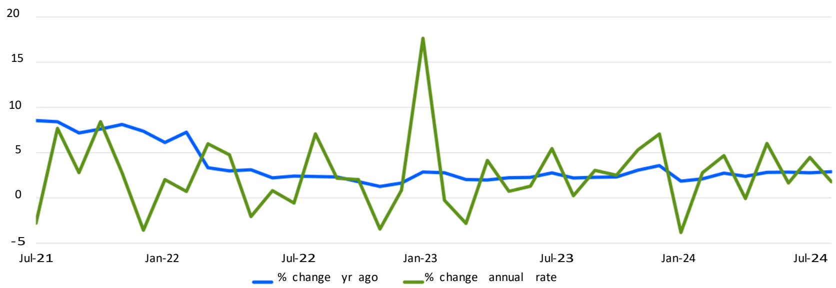
Upside risks. Decades-high inflation and policy tightening by the Fed to bring it down will weigh on consumer spending. Nevertheless, the insatiable U.S. consumer has thus far been sur- prisingly strong. The baseline forecast could again underestimate consumer spending, which would result in faster growth. As much of the income is spent, the economy would grow above expectations, which would benefit Sonoma County's agriculture producers if consumer spending comes in above expectations.

Downside risks. Climate change remains a particularly important downside risk for Sonoma County's wine industry. Another severe drought or wildfire could deal a more serious blow to vines and production facilities. The California wildfire season is getting progressively longer; as a result, insurers are growing hesitant to shield county businesses against wildfire risk, given the enormous losses suffered in recent years.

Colin Seitz
December 2024

Spending Remains Healthy but Volatile

Real consumer spending

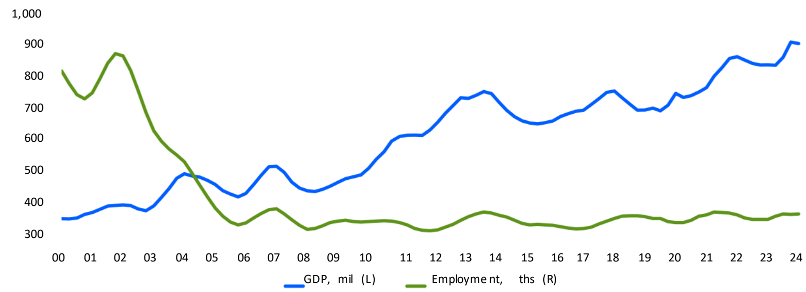


Sources: BLS, Moody's Analytics

Real consumer spending growth will gradually retreat to about 2% and remain there for an ex- tended period. While inflation will slow and jobs will remain available, job and wage gains are slowing, inflation remains a drag, and growth in wealth will slow. Real consumer spending rose 3% in 2022 and 2.5% last year. Growth, though inconsistent quarter to quarter, has temporarily improved and will hit 2.7% in 2024. It will remain near that rate next year before slowing to near 2% by 2026.

Agriculture Payrolls Have Held Steady While Output Climbs

Agriculture employment and gross domestic product, Sonoma County



Sources: BLS, Moody's Analytics

Sonoma County's agriculture industry has gained some momentum in recent years, though payrolls have roughly held steady since 2005. Improved drought conditions have led to a significant in- crease in crop yields over the past year, but this has not led to a sizable improvement in agriculture employment. Efficiency gains in agriculture broadly ensure that employment will likely remain steady even as production improves.

Milk Prices Beginning to Rebound but Will Stabilize

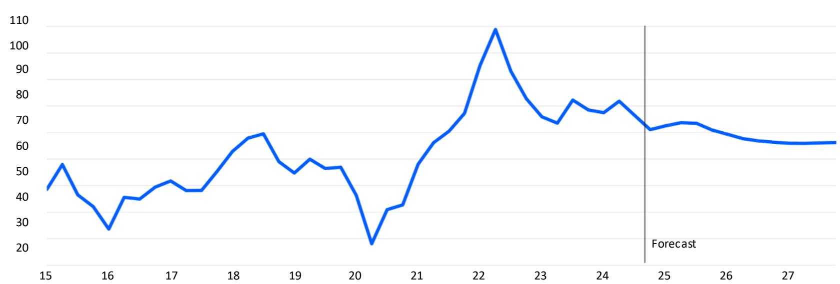
Milk prices, $ per cwt, SA

Sources: U.S. Department of Agriculture, Moody's Analytics

Sonoma County dairy farmers faced a double-edged sword of falling milk prices and sky-high input costs due to the surge in fuel prices in 2022. Overall, milk production nationally was weak again this year, and milk prices have pressed higher in recent months. Prices will likely stabilize as production improves throughout the year. Overall, milk production pulled back in 2024 but is beginning to tick higher. After a tough last year and change, prospects are brighter given these abating headwinds.

Oil Prices Will Recede

WTI price per bbl



Sources: EIA, Moody's Analytics

Lower fuel costs will be a boon to agriculture producers in Sonoma County. After surging in mid-2022 following the Russian invasion of Ukraine, the oil market has since corrected, and strong U.S. production will help keep oil prices stable. Moody's Analytics expects oil prices to remain in the range of $75 to $80 per barrel through next year, which will help keep input costs for agriculture producers much lower than in previous years. Combined with improved drought conditions, this will result in lower input costs.

About Moody's Analytics

In an increasingly interconnected and complex operating environment, organizations face challenges decoding the intricacies of the global economy. Moody's Analytics Economics team delivers timely and in-depth data, forecasts and analysis of the global economy's latest developments and trends-empowering organizations and policymakers to identify and manage risks, seize new growth opportunities, respond to geopolitical threats, and thrive in an ever-evolving landscape.

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