January 2026

Monthly Market Update

Industry updates

General sentiment – *Supply surpluses and higher costs weigh on producer outlook.*

According to the Purdue/CME Group Agricultural Economy Barometer, farmer sentiment weakened during the final months of 2025, reflecting growing unease across the agricultural sector. The broader agricultural economy is in a phase in which supply is outpacing demand, creating prolonged downward pressure on commodity prices. Compounding these challenges, input costs such as fertilizer, fuel, and crop protection products remain poorly aligned with the prices farmers receive for their crops. As margins tighten, financial stress on crop producers continues to mount. Weaker farm incomes and reduced cash flows are forcing many operations to rely more heavily on operating loans and other forms of credit, underscoring the increasing strain on producer balance sheets heading into the next production cycle.

Crop inputs.

Oil markets remain oversupplied.

Crude oil prices remain subdued on excess supply. Geopolitical developments surrounding the war in Ukraine, tensions in the Middle East, and U.S. military intervention in Venezuela have led to moderate price volatility, where headlines move markets for a few days. While the Trump Administration has indicated its intention to increase oil output from Venezuela, the impact to oil markets is unlikely to materialize for several years due to inadequate infrastructure. The Organization of Petroleum Exporting Countries (OPEC+) increased production rates in 2025, but anecdotal reports suggest this will not continue into 2026 due to relatively weak demand.

Fertilizer prices are mixed.

Urea prices gradually softened over the last few months due to lower demand and increased supply from the Middle East. It remains unclear if this trend will continue, particularly as India is starting to replace depleted inventories. The U.S. lifted sanctions on Belarus and many expect this will increase global supply of potash. (Belarus is the third largest global producer of potash.) Phosphate fertilizer prices softened in December following the removal of U.S. import tariffs and reduced fall applications by domestic producers. However, unlike urea, global phosphate supplies remain tight, and production costs are rising. These structural pressures could place upward pressure on phosphate prices moving forward, even though short term prices eased last month.

Changes to wage rates have big implications.

Several changes were made to the Adverse Effective Wage Rate (AEWR), which sets base wages for H2A labor. A two-tiered structure has been implemented along with a downward compensation adjustment for workers who receive free housing (with the caveat being rates cannot fall below states' minimum wage). Tier 1 rates are applied to positions that require little to no training, while Tier 2 rates are for those requiring at least three months of training (the vast majority of agriculture workers fall under Tier 1). The Department of Labor will now source wage data from the Occupational Employment and Wage Statistics (OEWS) survey rather than the Farm Labor Survey (FLS), which was discontinued in August 2025. The impact of this change remains unclear. In 2026, minimum wages are increasing year over year in Arizona (3.1%), California (2.4%), Montana (2.8%) and

Washington (2.8%) in 2026. Oregon has not released rates as they are updated in July. Idaho's minimum wage typically does not change from year to year.

Almonds and pistachios – *Almond prices soften while those for pistachios strengthen.*

The Almond Board's November position report showed sharp season-to-date declines in both domestic and international shipments. Almond prices softened accordingly in December. Domestic demand has softened. Buyers across key export markets are purchasing almonds in smaller increments due to slower local sales, adequate inventories and/or hopes of securing lower prices later in the season. Continued weakness in the Indian rupee is increasing import costs and buyers are reluctant to fully restock falling inventories. Crop receipts (an indicator of crop size) were also down but did not provide price support. While the industry generally expects the crop size to come in at 2.7 billion pounds, there remains a fair degree of uncertainty as late season precipitation pushed harvest back and slowed processing. A clear picture of the crop size should emerge over the next month or two. The Almond Board will discontinue funding of the annual Objective Measurement report due to concerns around its ability to accurately forecast crop sizes. The Subjective Forecast, an early assessment of potential crop size based on a survey of growers, will continue.

Pistachio prices continued to increase in December on strong demand and low global supply. As of November, exports are up 19% year over year and driven primarily by gains to Southeast Asia, Hong Kong and the Middle East. While China is experiencing a sharp fall in pistachio imports from the U.S., traders may be rerouting product through other Asian countries to avoid increased tariff rates. Low production levels in Turkey are likely helping to drive international demand for U.S. pistachios.

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

Apples – *Prices are mixed, with signs suggesting gains to come in the spring.*

Apple prices were mixed in December, with gains observed in Gala (9.9% month over month), Red Delicious (9.2%) and Honeycrisp (5.7%) varieties. In contrast, Cosmic Crisp and Fuji varieties were down 2.4% and 2.9%, respectively. A smaller than expected Northwest crop with mixed quality has reduced the supply outlook, which is supportive of prices. Demand remains stable, with season-to-date shipments at average levels. Many expect prices to continue improving this spring as new buyer contracts reflect evolving supply and demand dynamics. In the near term, a relatively large Michigan crop will soften demand for Northwest fruit in Midwest and East Coast markets. (Estimates suggest apple crops in Michigan and New York, the second and third largest domestic producers, are up 10% and down 1% year over year, respectively.) Reservoir levels in the Yakima region have recovered following increased precipitation in December. While low water levels did not impact yields this season, some producers were forced to find creative solutions to irrigate their apples and worried that another dry year could have material impacts.

Pear prices were mixed in December, with the Bartlett variety up 14.2% and D'Anjou and Bosc down nearly 4%. Crop quality and shipments to retailers remain strong.

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

Cattle – *Turbulence fades as fundamentals support strong cattle prices.*

The cattle markets have experienced significant volatility over the past several months. Despite this turbulence, underlying supply and demand fundamentals remain intact. In September, renewed discussions around reopening the U.S.–Mexico border to cattle; expanding Argentine beef imports; and political rhetoric aimed at lowering retail beef prices all contributed to a softening in both futures and cash markets. Seasonal factors also played a role, as calf supplies typically increase during this time of year. Together, these dynamics led to a roughly six-week decline in cattle futures and weakening in the cash market. However, by late December, both futures and cash prices had rebounded to record levels and continue to strengthen in early 2026. This rebound underscores the strength of underlying market fundamentals, and reinforces expectations for sustained and likely higher cattle prices heading into 2026.

Looking ahead to 2026, beef production is expected to decline further. USDA forecasts production at roughly 25.7 billion pounds, down about 1% year over year. However, this outlook appears optimistic, as many analysts anticipate a steeper decline of 2–3%. USDA's estimate might also have assumed a partial reopening of the U.S.–Mexico border to feeder cattle imports, an outcome under discussion since late 2025. Recent developments suggest reopening is unlikely in the near term. Two cases of New World Screwworm (NWS) were reported in northern Mexico in late December 2025, and one in early January, further complicating prospects for resumed trade.

If the border remains closed, the U.S. feeder cattle supply could be reduced by approximately 5%, or about 1.2 million head. Even if reopening were to occur early in the year, it would likely take several months for the border to become fully operational. Additionally, Mexican feeder cattle typically take up to 12 months from import before they are ready for slaughter, and there remains a risk of renewed border shutdowns similar to those experienced in 2025. These factors point to lower cattle placements for much of 2026.

Competition among packers for cattle is expected to remain intense in 2026, even with a modest reduction in processing facilities. Tyson Foods recently announced the closure of one of its beef processing facilities that accounted for 5% of daily U.S. beef slaughter. With this facility closing, it is estimated that the new capacity utilization will nationally be closer to 90%. Anecdotally, in the Western U.S. meat packers have seen less of an impact and higher utilization compared to plants in the Midwest and Southern U.S. However, in an environment of lower production and sustained demand, cattle producers are positioned for another year of strong cattle prices.

On the consumer side, while political pressure to reduce beef prices continues, strong demand suggests that relief for retail prices is unlikely in the near term. Instead, it may take several years before retail beef prices decline in a sustained and meaningful way. On the export front, global trade dynamics continue to evolve. Brazil is expected to surpass the U.S. as the world's largest beef exporter in 2025, reflecting productivity gains and competitive pricing that have shifted trade flows. Meanwhile, China's beef trade policy remains highly volatile. In December, China imposed an additional 55% tariff on beef imports exceeding quota levels from key suppliers, including the U.S., to support its domestic cattle industry. The near-term impact on U.S. exports is expected to be limited. In recent years the U.S. has shipped well below the new quota amount. Modest market access gains are possible in 2026 if China relists additional U.S. facilities, but policy uncertainty remains and exports are unlikely to exceed quota limits in the near term.

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

Dairy – *Strong supplies pressures prices.*

Global and domestic milk production remains strong entering 2026, with ample supplies continuing to weigh on market sentiment. Nearly all major dairy exporting countries are reporting growing milk supplies. U.S. milk production totaled 18.8 billion pounds in November, an increase of 4.5% year over year, supported by strong cow numbers and expanded processing capacity in several states.

Within the AgWest region, milk production increased 6.9% year over year, driven by higher yields and larger cow herds in most states. Part of this growth reflects California's recovery from the highly pathogenic avian influenza (HPAI) outbreak that suppressed production in late 2024. While California's production was up 10.4% year over year, this figure overstates true growth; when compared with November 2023 levels, output increased only 1.6%, indicating recovery rather than meaningful expansion. Idaho, Oregon, and Arizona posted more modest gains of 5.6%, 4.1%, and 3.2%, respectively. Washington was the exception, with production down 6.6% due primarily to a reduction in the state's herd.

Nationally, producers are maintaining herd levels. U.S. dairy cow numbers in November were unchanged from October and remained higher than a year earlier, suggesting limited herd contraction despite declining milk prices. Futures markets reflect this pressure, with Class III milk futures now below $16 per cwt and Class IV prices in the $13–$14 per cwt range for spring, reinforcing expectations for continued margin stress in the near term.

Even with tightening margins from lower milk prices, it typically takes several consecutive months of financial pressure before meaningful reductions in milk production occur. At present, strong beef prices are helping offset weaker milk-over-feed margins for dairy producers. The most recent projections put milk margins over feed costs at $10.52 per cwt, a number last seen in May 2024. Milk margins are expected to reach lower levels in 2026, yet beef income is providing an important buffer, in some cases adding as much as $5 per cwt to producers' bottom lines.

On the demand side, consumer behavior remains mixed, though several emerging trends are providing targeted support for dairy demand. The growing use of GLP-1 weight loss medications (now estimated to be used by more than one in eight U.S. adults) has increased consumer focus on protein intake to prevent muscle loss. This shift has benefited high protein dairy products. In addition, updated U.S. dietary guidelines, called the New Food Pyramid, place greater emphasis on whole milk and naturally sourced protein foods, including dairy. While dietary guidelines typically have limited influence on individual purchasing decisions, they do influence USDA programs including WIC, SNAP and nutritional guidance education. These federal programs will recalibrate according to these guidelines, likely increasing whole milk sales.

With global milk supplies expanding and demand remaining uneven, a sustained recovery in milk prices is unlikely before summer. In the near term, abundant production is expected to keep prices under pressure, even as protein-focused consumer segments provide pockets of support.

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

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

Average lumber prices rose about 6% in December, driven largely by increased trading activity for Southern Yellow Pine. Lumber supply remains stable despite declining imports from Canada, as U.S. producers make up the difference. Still, many mills continue to limit operations due to scheduled maintenance and weak demand conditions. Home affordability improved slightly in the second half of 2025 due to lower mortgage rates and higher real wages. While improved affordability is likely to pull prospective buyers off of the sidelines in 2026, the timing and extent to which this will occur are unclear. Inventory levels, active listings and the number of days a listing stays on the market have been trending up over the last two years and suggest ongoing challenges in the housing sector. Inventory delisting rates have jumped to a 10-year high in Q3 2025, suggesting a misalignment between buyers and sellers.

Northwest log markets remain subdued due to weak wood product demand and strong mill log inventories. Price declines for Douglas-fir were observed in the Columbia River, Southern Oregon and Willamette Valley regions in November. Winter weather and flooding have hampered logging activity across much of the Northwest.

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

Hay – *Ample supply, soft demand.*

Across the West, hay supplies remain ample and demand has struggled to gain traction. Hay trade remained slow through December, reflecting both the holiday period and broader demand weakness. Softer milk prices have significantly weighed on dairy profitability. Demand for hay has been further pressured by unseasonably warm winter weather. Mild conditions have extended grazing opportunities and reduced the urgency to purchase supplemental forages, contributing to stagnant trading activity despite abundant hay availability.

In Arizona and California's Imperial Valley, haying conditions have been challenging this winter due to persistent wet weather and a series of storm systems moving through the region. Some producers were able to get hay baled ahead of major storms, though scattered fields experienced quality impacts from excess moisture. Wet field conditions have also limited access in some areas, slowing harvest and movement. Livestock range conditions in general are very good, further limiting hay demand next summer. Despite these challenges, retail hay prices across the Imperial Valley have remained generally steady with modest volumes traded. Extended periods of forage availability and cautious buying behavior continue to limit demand, keeping transactions selective and price movement muted.

Export markets remain a significant source of pressure across the U.S. Year-to-date hay shipments for 2025 are down 18.9% compared to 2024, with exports to four of the five major international buyers declining more than 9%. Many exporters continue to hold sizable alfalfa inventories, reflecting several years of slower export movement.

The pullback in Chinese demand has been particularly difficult for West Coast exporters. Over the past decade, substantial export press capacity was built to serve China's growing dairy industry. Demand has since contracted sharply, with hay exports to China down roughly 20% in 2025 compared to 2024. The decline reflects not only reductions in China's dairy herd, but also broader economic challenges across several Asian importing countries. These factors were compounded by elevated U.S. hay prices following the severe droughts of 2021 and 2022, as well as a strong U.S. dollar that made American hay less competitive. During this period, exporters were forced to navigate heightened price volatility and currency risk, further eroding margins.

For producers, market conditions remain challenging. Hay prices have been under pressure for roughly three consecutive years—longer than in previous downturns. If export demand remains subdued, producers could face another difficult season in 2026. The outlook for hay acres is cloudy. On one hand, the prospects for increased hay demand are limited. On the other hand, there are few, if any, profitable alternative crops. Additional acreage shifting into hay would risk prolonging oversupply and delaying meaningful price recovery.

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

Lemons and oranges – *Lemon and navel orange harvests progress.*

Lemon harvest in the Desert Region, consisting of the Coachella and Imperial Valleys, is nearing completion and picking up in the Central Valley. Fruit quality and sizing are favorable. Prices are down year over year, particularly for larger fruit. Weather has been favorable and while recent rains in California may delay harvest in the short-term, they will likely result in larger fruit over the coming months. The U.S. and Argentina appear to be nearing a trade deal, and some producers are concerned this may lead to a sharp rise in Argentine lemon imports and—consequently—lower prices. Argentina is among the top exporters of lemons to the U.S.

Navel harvest is progressing and about 20% complete. Year-over-year prices for large fruit are down due to excess supply, while those for smaller fruit are up. In addition to a larger than average size profile, there are reports of rot and delayed color development. Quality remains favorable overall and utilization rates (percentage of fruit going to fresh markets) are strong. Some Florida growers are finding success with the Citrus Under Protective Screen (CUPS) growing method, which uses large screens to prevent citrus greening (a bacterial infection spread by insects). If widely adopted, CUPS could rejuvenate Florida's citrus industry over the coming years. While Brazil's 2025-26 crop is facing excessively dry weather and citrus greening, production levels are likely to exceed the previous season and orange juice prices are unlikely to strengthen.

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

Potatoes – *Potato yields reach new highs as U.S. production declines.*

The U.S. potato market enters 2026 with a mix of record-breaking yields and persistent pricing pressures that create a challenging environment for growers and processors alike. U.S. potato production is estimated at 412 million cwt for 2025, down 2 percent from last year, according to USDA projections. This decline comes despite a record-high average yield of 461 cwt per acre, the highest in the past decade, as planted area fell to 901,000 acres, the lowest in ten years.

Despite lower production, low open-market prices—especially in Idaho and other major shipping regions—are fueling overall potato shipments as growers and shippers work to clear contract overages and manage abundant supplies. U.S. fresh potato shipments rose in November despite one fewer business day. Adjusted for that, movement was up 8.8% nationwide. Idaho led the overall increase, posting its strongest November in at least 25 years. Shipments from Idaho were up 18.1% season-to-date, while Columbia Basin gains were modest. Nationwide, early-season disappearance totaled 144.4 million cwt, down 1.7% from 2024. Dec. 1 stocks were 267.7 million cwt, 2.4% lower than a year ago.

Processing use matched last year's pace nationwide, with frozen demand offsetting weaker dehydrated usage. Carryover supplies from 2024 displaced some new-crop demand. Although contract volumes for the 2025 crop have been significantly reduced, raw-product supplies are still tracking above budget, largely due to higher-than-expected yields in regions such as Idaho and the Columbia Basin. Fryers purchased contract overages during harvest, but those procurements have mostly ceased, signaling for now that processors are well covered.

Grower returns are under strain, and concerns are mounting about overages leading to additional storage needs and even potential dumping or cattle feed usage. For now, the U.S. potato market stands at a crossroads: abundant supply and steady demand on one side, economic and competitive pressures on the other.

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. continue to face a difficult wheat market shaped by record global supplies, intense export competition and rising input costs. Global wheat production for the 2025 crop is projected at a record 837.8 million metric tons, adding pressure to prices and eroding U.S. export competitiveness as lower-cost suppliers like Russia and Argentina gain market share.

In the Pacific Northwest, cash wheat prices remain subdued, closely tracking weak futures and limited export demand. Although basis levels for soft white wheat have held relatively steady, overall cash values are constrained by strong global competition, narrowing premiums and reflecting ample domestic and exportable supplies. Until export demand improves, Portland prices (a major export gateway for U.S. wheat) are expected to move largely in step with futures rather than benefit from basis strength.

Elevated input costs continue to squeeze margins, with analysts warning that 2026 may be the most expensive wheat production year on record. Some relief will come from a one-time Farmer Bridge Assistance Program payment, expected before February 28, 2026, based on 2025 planted acres. Eligibility is based on 2025 planted acres, with estimated per-acre payments of $39.95 for wheat, $20.51 for barley, $23.57 for canola, $26.46 for large chickpeas, $33.36 for small chickpeas, $23.98 for lentils, and $8.05 for flax. While these payments will not fully offset margin pressure, they should provide short-term cash flow support.

As 2026 begins, wheat markets remain firmly supply driven. Record global production and strong export competition are weighing on prices. Government support payments will provide some temporary relief, but sustained improvements in wheat prices are unlikely. Risk management strategies will remain critical for wheat producers in 2026.

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

Wine and wine grapes – *Winegrape yields fall short as market adjusts to shifting demand.*

California's 2025 winegrape harvest wrapped up in early November after a cool, extended growing season, yielding a smaller crop than historical norms. While weather supported gradual ripening, growers scaled back inputs and left some fruit unharvested, signaling continued structural adjustments in supply.

Despite headlines suggesting a decline, U.S. adults' alcohol consumption remains remarkably stable at roughly 10–12 drinks per week—a level consistent for decades, with only a marginal drop of about one drink from recent peaks. Notably, steep declines in alcohol sales volumes are largely driven by shifts from high-volume drinks like beer and wine toward lower-volume spirits, rather than a fundamental change in drinking habits.

December wine sales fell 8.4% in value and 8.6% in volume year over year. Younger consumers show mixed engagement, favoring wine experiences over purchases, while older cohorts remain key for premium segments. Direct-to-consumer channels held steady, and seasonal trade-up behavior lifted average bottle prices, but overall demand softness underscores shifting preferences and cautious spending.

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

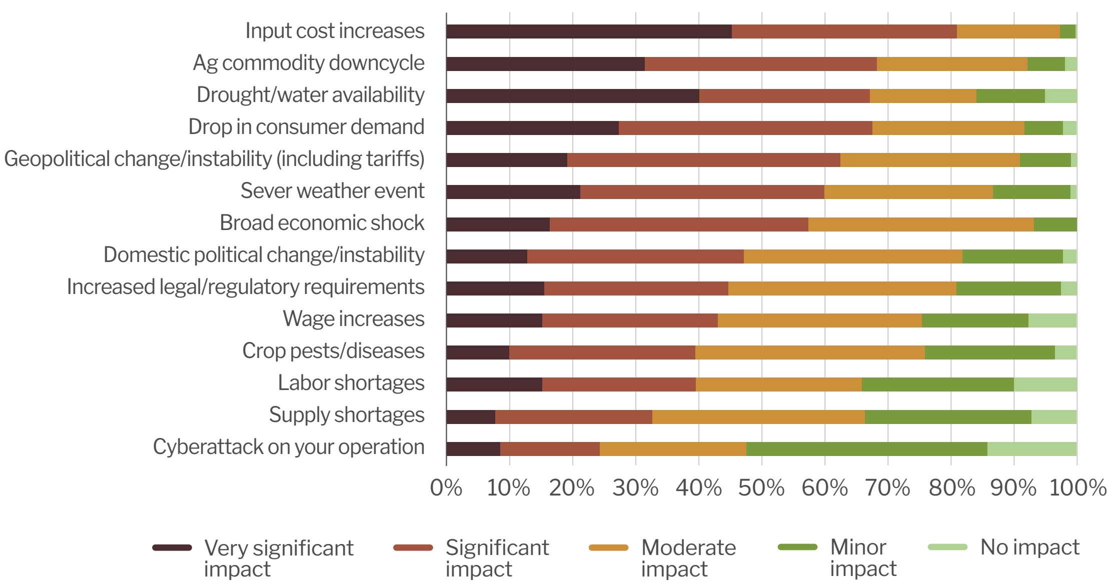
Spotlight: Ag trends

AgWest AgTrends Survey: Key customer insights for the next 18 months

As the new year begins, it's crucial to examine the trends that are likely to influence the agricultural landscape. This article provides a snapshot of key opportunities and threats ag producers anticipate over the next 18 months. These findings are from AgWest's AgTrends Survey, completed by 419 AgWest customers this fall.

Producers expect to face several significant challenges over this period. The top five threats identified by AgWest producers include rising input costs, agricultural commodity downturns, drought, declining consumer demand and geopolitical change (including tariffs).

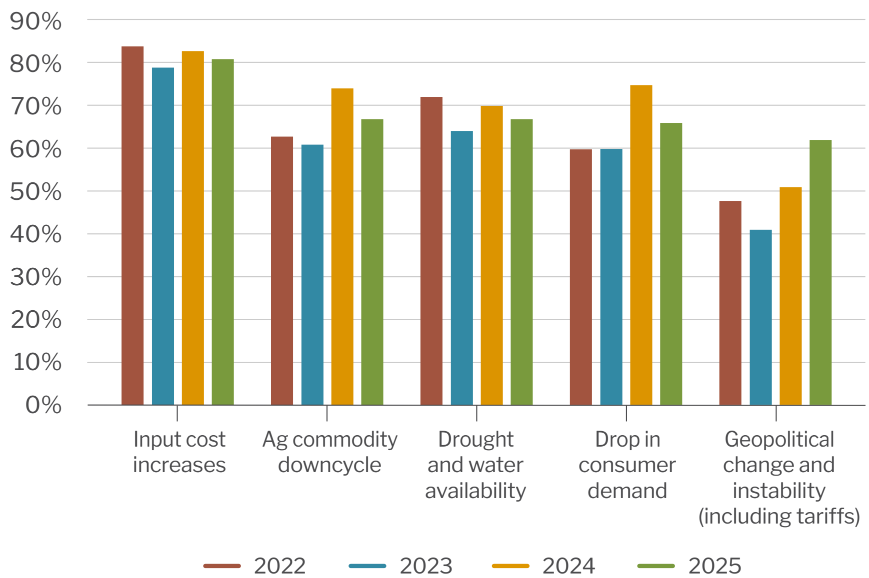
Top 10 expected threats to agricultural operations over the next 18 months



Source: AgWest AgTrends Survey.

Compared to last year's survey, four of the top five threats have remained consistent. Input cost increases have been the top cited threat since 2022. This year, geopolitical change replaced "severe weather event" in the top five. It is worth noting that, this year, tariffs were specifically called out as a part of geopolitical change, possibly explaining its rise in threat level.

Top threats over time

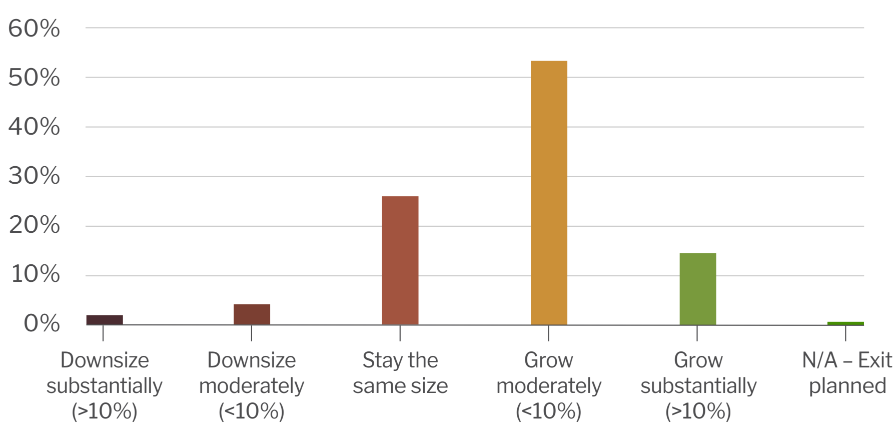


Source: AgWest AgTrends Survey.

Producers are adapting and innovating in response to evolving market dynamics. Nearly 40% of respondents are likely to enter new markets, focusing on niche markets, exports, retail and direct-to-consumer channels. More than half of respondents are planning to invest in new technology, while nearly 40% plan to adopt regenerative agriculture practices.

In the next five years, over two-thirds of producers are expecting modest growth in their business. Increasing market share and land purchases were the top two opportunities identified by respondents. In the next decade, more than half of producers aim to transition their businesses to the next generation.

Projected business growth over the next five years



Source: AgWest AgTrends Survey.

The next 18 months will undoubtedly be a period of significant change for the agricultural industry. By staying informed and proactive, producers can navigate these challenges and seize the opportunities that lie ahead, ensuring a resilient future for their operations.

Quarterly economic update

Executive summary

Federal Reserve (Fed) policy changes were the most impactful drivers of the U.S. economy over the last quarter. The Federal Open Market Committee (FOMC) continued to cut policy rates as labor market concerns outweighed those related to inflation. Liquidity pressures within the banking system led the Fed to end Quantitative Tightening (QT), a process that could put upward pressure on inflation. Several factors bode well for the U.S. economy heading into 2026, including low energy prices, increases in federal government spending, easing regulatory pressures and adoption of Artificial Intelligence (AI) across multiple sectors of the economy. Policymakers, markets, and businesses will remain focused on inflation dynamics, the labor market path, and the outcome of key trade policy decisions that may shape the trajectory of the U.S. economy in the year ahead.

Economic drivers

Fed cuts interest rates

The FOMC cut the fed funds rate by 25 basis points at both its October 2025 and December 2025 policy meetings. While the Personal Consumption Expenditures (PCE) continues to exceed the Fed's target of 2%, the unemployment rate moved higher. Further, there is increased uncertainty related to the balance of labor supply and demand. While increased immigration law enforcement is reducing labor supply, increased productivity through adoption of Artificial Intelligence (AI) and broader labor market trends appears to be reducing demand.

Lack of liquidity pressures the banking system

The Fed ended QT in response to tightening liquidity conditions resulting from excess federal government deficits. QT is the process of not reinvesting maturing Treasury notes and bonds and/or mortgage-backed securities, which can reduce liquidity in the financial system. In addition to ending QT, the Fed will purchase short-term Treasury securities (T-bills) to address liquidity stress (largely using proceeds from maturing bonds). There is debate among economists as to whether this policy change represents Quantitative Easing (QE), or perhaps the first step in that direction. Regardless, Fed intervention in markets could put upward pressure on inflation.

Several factors support economic growth heading into 2026

- Relatively low energy prices are moderating production costs and consumer inflation.
- Monetary policy may become less restrictive as the Fed supports the labor market.
- Higher tax rebates and equity prices may give a boost to consumer spending.
- Investments in AI are expected to integrate further into the financial, manufacturing and logistics sectors, resulting in greater productivity.
- Greater regulatory relief in the financial sector is expected, which would result in easing capital requirements and increasing lending activity for banks.

Risks to the economy

- Trade tensions, particularly surrounding an expected Supreme Court ruling on the Administration's tariff authority under the International Emergency Economic Powers Act (IEEPA), may create ongoing volatility and reduce business investment.

- Labor market cooling could continue into mid-2026, with unemployment expected to remain near its current level of 4.6%, and with the potential for a decline to 4.4% by year-end.
- President Trump's expected nomination of a Fed Chair aligned with his policy agenda, together with a pending Supreme Court case on presidential authority over the Federal Reserve, has renewed concerns about the Fed's independence. While these developments pose reputational and policy risks, the Fed's committee structure and statutory mandate provide meaningful safeguards against any single individual exerting outsized influence.
- The debt to GDP ratio has risen from about 30% in the early 1980s to 118% today. High federal debt levels could increase inflation and treasury yields, weaken the U.S. dollar and reduce the capacity of the U.S. government to respond to an economic crisis and war. Sustained growth in debt could lead to a fiscal debt crisis, and subsequently hardship for the American people.
- Rising prices and debt loads lead to greater financial stress, particularly among low wage earners who spend more of their income on essentials. Coupled with a weaker equity market and deterioration in the wealth effect, this may eventually slow consumer spending and pressure home affordability. Delinquencies for consumer credit cards and auto loans are trending higher.

Economic data and trends

Fed updates and treasury yields

The Fed released its latest forecast for the economy as part of its monetary policy statement on December 10, 2025. Inflation is projected to trend lower, possibly finishing the year near 2.5%. Look for the 2-year Treasury yield to fluctuate over the next several months in a range of 3.25-3.65% while 10-year Treasury yields range between 3.8-4.25%. Yields are generally expected to slowly trend lower throughout the year, though larger than expected changes in economic growth, inflation and/or employment could greatly alter the outlook. The new Fed Chairman will likely face pressure from President Trump to lower policy rates. The outlook for 2026 portrays a U.S. economy navigating moderating growth, evolving inflation pressures, and a shifting policy landscape. This will likely be a difficult environment for the central bank to navigate as monetary policy is best suited to either accelerate or slow economic growth. Adjusting rates to balance support for the labor market while limiting inflation will likely be challenging.

Federal Reserve projections as of December 2025

Indicator	2025	2026	2027	2028	*Longer run
Real GDP growth *September projection*	1.7% *1.6%*	2.3% *1.8%*	2.0% *1.9%*	1.9% *1.8%*	1.8% *1.8%*
Unemployment rate *September projection*	4.5% *4.5%*	4.4% *4.4%*	4.2% *4.3%*	4.2% *4.2%*	4.2% *4.2%*
PCE inflation *September projection*	2.9% *3.0%*	2.4% *2.6%*	2.1% *2.1%*	2.0% *2.0%*	2.0% *2.0%*
Core PCE inflation *September projection*	3.0% *3.1%*	2.5% *2.6%*	2.1% *2.1%*	2.0% *2.0%*	
Federal funds rate *September projection*	3.6% *3.6%*	3.4% *3.4%*	3.1% *3.1%*	3.1% *3.1%*	3.0% *3.0%*

**Longer-run projections for core PCE inflation are not collected.*
Source: Federal Reserve Board.

The Fed will remain in the headlines as Jerome Powell transitions out of his Chairmanship on May 15, 2026. He will have two more years remaining as a Fed Governor, but it remains unclear if he will stay on the board after his chairmanship ends. Look for President Trump to nominate a new Fed chairman over the next few months.

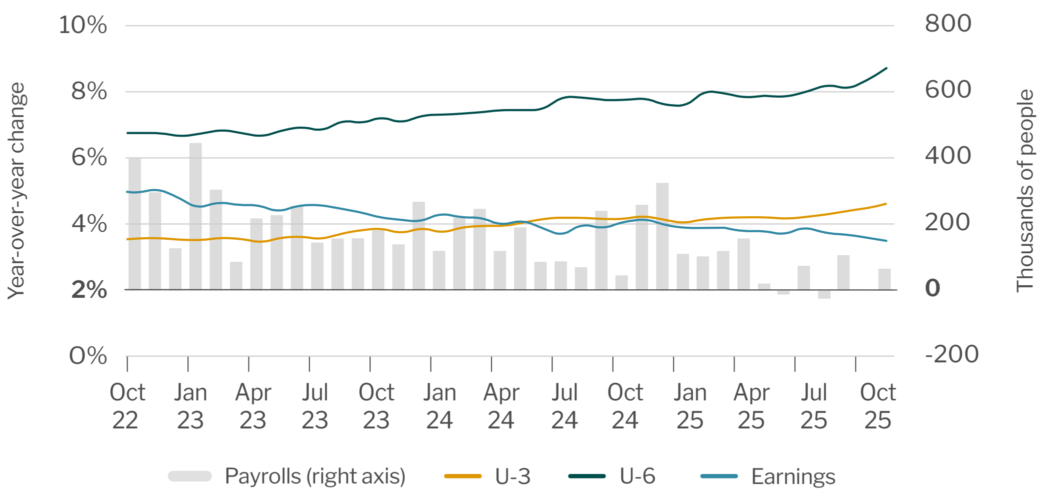
Employment

The unemployment rate for November rose to 4.6%, up from both 4.2% a year earlier and 4.0% at the start of the year, highlighting a gradual softening in labor conditions. Nonfarm payrolls showed a modest gain of 64,000 jobs in November following October's steep decline of 105,000, suggesting that while hiring has slowed, outright contraction has not taken hold. Much of the weakness stemmed from job losses in the public sector. In contrast, the private sector posted moderate gains, adding 52,000 jobs in October and 69,000 in November as employers continue to adjust to shifting demand.

Labor supply increased more rapidly than labor demand. From September through November, the labor force expanded by 323,000 people, whereas the number of employed grew by only 96,000, resulting in an increase of 228,000 unemployed individuals. Despite these signs of softening, wage growth remains steady: average hourly earnings rose 0.4% in November and 3.7% year over year, broadly in line with the decade-long trend.

Additional indicators showed resilience in the labor market. The JOLTs survey reported 7.7 million job openings, signaling that employers continue to seek workers. The absence of the Household Survey for October, combined with demographic and immigration-related measurement challenges, complicates interpretation, but the broader picture suggests a labor market gradually rebalancing after years of elevated tightness.

Jobs, unemployment and hourly earnings

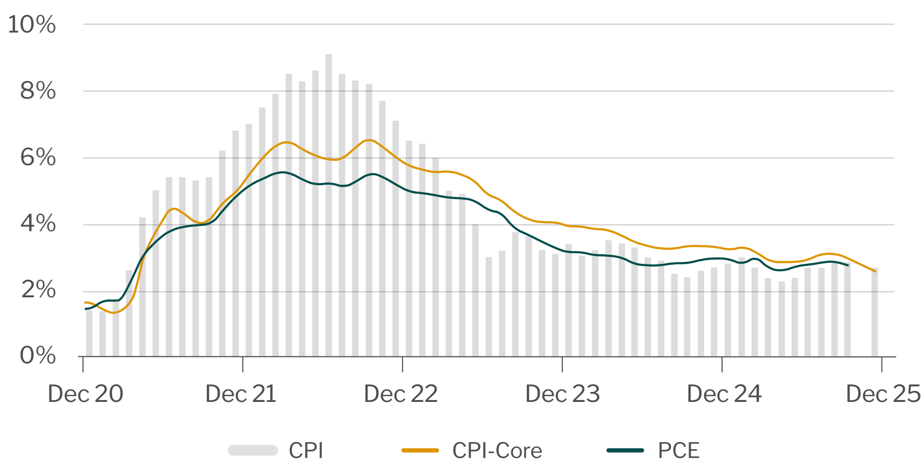


Source: U.S. Bureau of Economic Analysis.

Inflation

No inflation data for October was collected or reported by the Bureau of Labor Statistics (BLS). The BLS used carry-forward imputed data to develop a November report for the Consumer Price Index. Based on a combination of estimated and actual data, inflation conditions for November showed price pressures eased but remain uneven across various inflation items. Headline CPI slowed to 2.7% year over year, down from 3.0% in September, while core CPI, which excludes food and energy, decelerated to 2.6%, also down from 3.0% earlier in the fall. Monthly data, though limited, showed mixed movements: gas prices fell in October before rebounding in November, and both new and used car prices posted small but positive increases in each of the last two months. We will get a clearer picture of inflation trends when the December and January reports are released.

Consumer Price Index

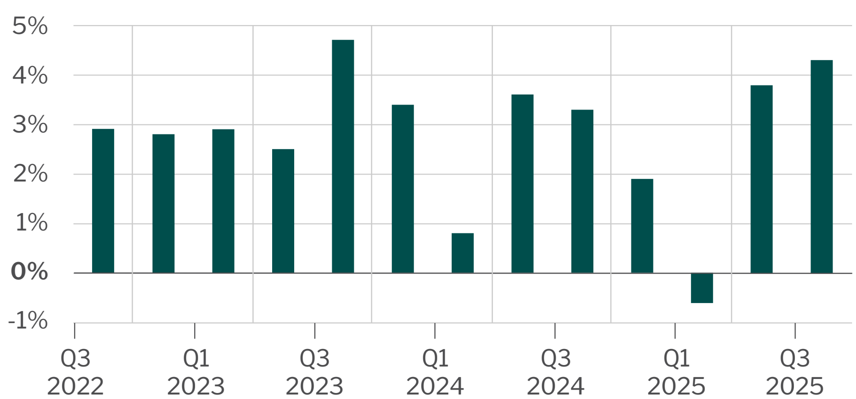


Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis.

Gross Domestic Product

Real GDP grew 4.3% in Q3, driven primarily by robust consumer spending and solid contributions from net exports. This follows a strong rebound from Q1's contraction, with growth of 3.8% in Q2. Business spending continued to expand at 2.8%, while the housing sector remained a drag, contracting 5.2%. Looking ahead, forecasters expect more moderate growth. For Q4 2025, projections range from 1.0% to 3.0%, with uncertainty tied to the government shutdown's temporary impact. Early estimates for Q1 2026 suggest steadier growth around 2.1–2.2%. Overall, the economy remained resilient through late 2025, with expectations for more moderate but stable growth moving into early 2026.

Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis.