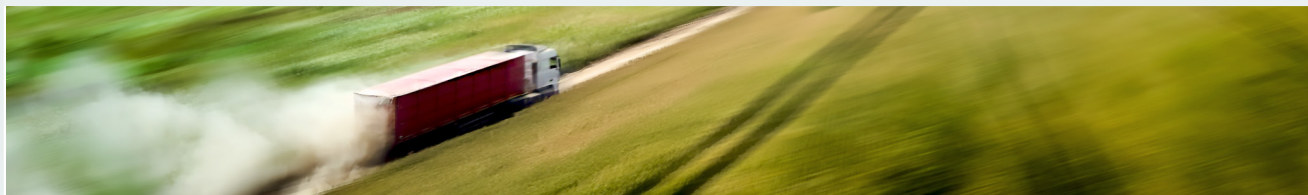


May 2026

# Monthly Market Update



## Industry Updates

### **General sentiment – *Rising fuel costs and geopolitical tensions weigh on farmer sentiment.***

Farmer sentiment declined in April, according to the Purdue University/CME Group Ag Economy Barometer, as rising input costs and global instability continues to pressure producers' outlook. Producers remain highly sensitive to volatility in energy and fertilizer markets, particularly amid the ongoing conflict in Iran, which has disrupted natural gas and fertilizer supplies. Two-thirds of respondents indicated the conflict is expected to have a negative impact on net farm income in 2026, underscoring the growing concern around margin compression.

Financial conditions also remain strained at the farm level. Only 15% of producers reported their operations were better off than a year ago, while 28% expect financial performance to worsen over the next 12 months. Broader sentiment indicators reflect a similarly cautious outlook. According to the Farm Journal Ag Economists' Monthly Monitor, 63% of economists believe producers are worse off than a year ago, and 31% expect further deterioration in the year ahead. High input costs continue to dominate producer concerns, with nearly half of respondents identifying them as their primary issue. In response to this weaker outlook, willingness to invest in large capital expenditures has fallen to its lowest level in over a year, with producers increasingly prioritizing debt reduction over new investments.

### **Crop inputs**

#### **Oil price volatility continues with Iranian conflict.**

Front month future prices for West Texas Intermediate crude oil experienced immense volatility in April, ranging from \$83.85 to \$112.95 per barrel. U.S. diesel prices softened slightly in April but remain 50% above pre-conflict levels. The Strait of Hormuz remains closed, choking off about 13% of global oil and oil product supply (a significant portion of what was transported through the Strait has been rerouted via pipelines). Many analysts warn oil remains underpriced relative to current risk levels, inventory drawdowns and disrupted production (oil production facilities are not easily shut down and restarted). Regions heavily dependent on natural gas imports, including Europe and Asia, appear to be the hardest hit. Statements made by the Trump Administration as to the planned duration of military intervention change frequently and often conflict with those made by Iran's leadership. On May 4, President Trump announced the U.S. Navy will guide commercial ships through the Strait of Hormuz. It remains unclear how successful this will be and whether it will lead to an escalation of the conflict. The Trump Administration has started withdrawing crude oil supply from the Strategic Petroleum Reserve, which now sits at about half of peak levels.

#### **Transportation costs rise on higher energy costs.**

The Baltic Dry Index, a measure of average bulk shipping rates, increased 37% on average in April due to strong grain demand, tighter vessel capacity and rising bunker fuel prices. According to DAT Freight and Analytics, spot trucking rates rose 12% for flatbeds, 6% for vans and 5% for reefers in April. Higher trucking rates are in large part due to rising diesel costs, and some companies are exploring alternatives such as rail. The 2026 CVSA International Roadcheck, an annual event assessing vehicle safety and driver compliance in the U.S., Canada and Mexico, will occur mid-May and is expected to result in lower trucking capacity. The trucking industry continues to experience a wave of bankruptcies in Q1 2026 due to tight margins and excess capacity. While not yet reflected in the data, rail costs are also likely to rise due to higher fuel costs.

### **Fertilizer costs continue to rise.**

Phosphate prices increased at a moderate pace in April, while urea and anhydrous ammonia prices rose sharply. The conflict in Iran has reduced global supplies of nitrogen and phosphate fertilizers by stopping exports out of Persian Gulf countries. A survey by the American Farm Bureau suggests that fertilizer pre-booking rates were just 31% in the West heading into spring planting, meaning many producers are exposed to rising prices. The Trump Administration is responding in several ways, including issuing waivers to the Jones Act (a policy intended to support domestic shipbuilding capacity but limits available vessel capacity); removing restrictions on fertilizer imports from Venezuela; coordinating with the fertilizer industry to increase production rates; investigating the fertilizer industry for potential anti-trust violations; and pushing for streamlined permitting processes for new capacity.

### **Almonds and pistachios – Weather impacts both almond and pistachio crops.**

Almond prices increased in April. The Almond Board of California's latest position report showed a notable increase in shipment levels in March, leading to more bullish sentiment among sellers. (Position reports can have notable impacts on prices as buyers and sellers readjust their expectations.) Export and domestic shipments increased 4.6% and 17.2% month over month, with large gains observed for Latin America, China, Japan and Europe. Exports made up 78% of total shipments as of March, or 1.38 billion pounds. Uncommitted inventory levels are now on par with March 2025 levels, reducing concerns that there will be excess inventory carry-over into the 2026 marketing season. LandIQ estimates total almond acres fell to 1.39 million in 2025, or 3.3%, with the largest declines observed in Kern, Merced, Stanislaus, and Fresno counties. This estimate represents the first acreage decline on record. April experienced cooler and wetter conditions than March, and while this led to reduced water consumption, it increased the risk of fungus infections on developing nuts and foliage. There are also increased reports of pest pressures, including leaf-footed plant bugs, stink bugs and boxelder bugs. With reduced acreage and variable weather conditions, the 2026 crop is unlikely to be excessively large.

Pistachio prices fell notably in April following a significant run-up that started in January. The Administrative Committee for Pistachio's latest shipment report showed a sharp decline in exports in March, particularly to the Middle East. The conflict in Iran disrupted access to Saudi Arabia, Jordan and the United Arab Emirates. Strong inventories in Europe have also softened demand. Exports made up 81% of total shipments as of March, which is in line with historical averages. Inventories are 20% higher than this time last season, though there is little risk of an excessively large carry-over into next season. The 2026 crop may come in notably smaller than previously thought as hot temperatures resulted in poor pollination, maligned bloom and the premature dropping of petals for many producers. Growers in more southern regions of California appear to be most impacted. While California received sufficient chill hours, Arizona reportedly did not, and this may further impact yields. (Pistachio trees require a certain number of hours between 32 and 45 degrees.) Despite these challenges, demand remains strong and supportive of higher prices.

Visit our [almonds and pistachios webpage](#) for information on trade fundamentals and tariffs.

### **Apples – Apple prices strengthen.**

Apple prices increased moderately across several varieties in April, including Honeycrisp, Cosmic Crisp, Fuji and Gala. According to the Washington State Tree Fruit Association, season-to-date shipment levels are up 4.9% year over year on favorable demand from both export and domestic markets. Inventory levels heading into the 2026-27 marketing season are likely to come in at average to slightly above average levels. Cosmic Crisp inventories are relatively high due in part to increasing production levels. It is also the result of the variety's marketing season, November through October, being later than other varieties. (A later marketing season and increasing production levels means inventory carry-over from season to season will begin to increase over time.) While still too early for estimates, some in the industry are suggesting the 2026 crop in the Northwest could come in near historical average levels, or between 115 – 125 million boxes. Washington, Michigan and New York, key growing regions within the U.S., all experienced bouts of cold weather in April and may face some level of frost damage.

Pear prices were mixed in April, with those for Anjous increasing and Bosc decreasing. The 2025 pear crop is nearly wrapped up, with about 18% of remaining. Cherry harvest is underway in California and initial reports suggest the crop has a relatively small size profile, some rain damage, and below average pack-out rates (the percentage of fruit going to fresh markets). Washington cherry growers experienced favorable bloom conditions, though some experienced light bud set and various levels of frost damage. Both California's and Washington's crops are coming on early and the risk of overlapping harvests appears minimal.

Visit our [apples webpage](#) for information on trade fundamentals and tariffs.

### **Cattle – Tighter supplies, slower slaughter.**

USDA lowered its beef production forecast in response to slower than expected steer and heifer slaughter rates early in 2026. Total commercial cattle slaughter declined 8.5% in the first quarter, reflecting tighter fed cattle availability. Heavier carcass weights, up more than 34 lbs on average during the quarter, helped offset some of the decline in slaughter but were not sufficient to prevent an overall reduction in beef production.

Commercial slaughter echoed national trends across the Western states. First quarter slaughter declined in California, Idaho, Oregon and Washington, consistent with broader national reductions. In Montana, first quarter cattle slaughter was relatively stable compared to 2025, though more recent reports indicate slaughter activity has softened in April due to lighter animals.

Despite reduced slaughter levels and tight supplies, beef demand remains resilient. Packers continue to search for additional lean beef to blend with excess fat currently on the market in order to support ground beef demand even as production tightens. Heifers accounted for 37.3% of cattle on feed, unchanged from last year. This indicates minimal herd retention and suggests limited near term expansion in the U.S. cow herd. Anecdotal reports suggest some Western producers are diversifying operations by maintaining base cow herds, retaining heifers and marketing bred heifers, creating more consistent revenue streams across both spring and fall.

Drought conditions are intensifying and remain a key constraint to herd rebuilding efforts. Pasture conditions and upcoming hay production will be critical in determining cattle production capacity heading into 2026. As of May 5, 61% of national U.S. cattle production areas were experiencing drought, up sharply from 31% a year earlier. Within AgWest states, Idaho and Montana are facing some of the most severe conditions, while drought across much of the remaining Western U.S. remains comparatively manageable. In contrast, conditions are worsening across some of the largest cattle production areas in the Central and Southern Plains, where 52% of Oklahoma, 71% of Texas, and 75% of Nebraska cattle regions are currently classified in D2 (severe) drought or worse.

Cattle prices remain historically strong. Feeder and fed cattle prices have held firm, reflecting tight supplies and continued demand. On average, 550 pound steer prices increased 33% year over year to exceed \$5.05 per pound nationwide in April. Fed steer prices are also higher, rising 14% year over year to average more than \$2.47 per pound. While the fed cattle cash market softened earlier in April, prices strengthened again toward month's end.

On the global stage, elevated U.S. beef prices are weighing on export competitiveness. U.S. beef prices remain significantly higher than those of other major exporters, limiting opportunities in price sensitive markets. Beef exports are projected to decline 8% in 2026. Elevated export prices continue to support producer returns but are reducing U.S. competitiveness in key international markets.

Visit our [cattle webpage](#) for information on trade fundamentals and tariffs.

### **Dairy – Dairy herd growth moderates.**

U.S. dairy herds continue to expand, though growth has moderated from last year. Through the first quarter of 2026, the national dairy herd increased by 55,000 head (0.6%), supporting stronger milk production. U.S. milk output rose 4.4% in the first quarter, with March production up 2.3% from a year earlier, driven by both additional cows and improved productivity per cow.

Across the Western U.S., all states posted increases in milk cow numbers during the first quarter except California. California's herd declined by 5,000 head (-0.2%) during the period, reflecting a combination of low milk prices and processing capacity constraints. The closure of a cheese processing facility, which has since relocated to Texas, reduced in state capacity, while over base milk penalties imposed by at least one processor have sharply discounted milk shipped above monthly base volumes. For some producers, limited milk dumping has occurred to avoid these over-base charges which can be quite substantial.

In contrast, Idaho continues to post strong herd growth, supported by expanding processing capacity. The first confirmed case of highly pathogenic avian influenza (HPAI) in 2026 was identified in a dairy herd in Idaho. After causing meaningful production losses and revenue impacts in 2024, HPAI activity has remained largely muted since mid 2025, making this the first confirmed case since December 2025. USDA officials have indicated that this case likely reflects localized circulation rather than a broader outbreak. There is cautious optimism that it remains contained.

In Washington, the milk cow herd increased by 1,000 head during the first quarter of 2026, following a significant contraction in 2025 when herd size declined by 19,000 head (-7.5%). Last year's culling was tied to tightening margins and processor disruptions that weighed heavily on milk checks. The recent return to modest herd growth signals improving financial conditions for producers in the state.

Ample milk supplies are keeping U.S. processors highly competitive in global markets. On a total solids basis, U.S. dairy product exports increased 8% in March compared to the previous year. U.S. cheese and butter prices have enhanced competitiveness abroad, with cheese exports up 28.7% and butter exports surging 109.9% year over year. Nonfat dry milk (NDM) monthly exports fell in March due to reduced shipments to Mexico and Southeast Asia. Despite the March pullback, NDM exports remain more than 5% higher year-to-date, and spot prices reached record highs amid tight domestic inventories and ongoing strength in both domestic and export demand.

Visit our [dairy webpage](#) for information on trade fundamentals and tariffs.

### **Forest products – Lumber prices gain slightly as industry enters peak construction season.**

Average lumber prices rose moderately again in April. Single family home starts jumped in March as peak construction season got underway. While this is supportive of lumber demand, many remain concerned about home buyer affordability going into the 2026 season. According to Zillow, total homeowner payments as a share of income are 33% as of February 2026, a notable rise from pre-pandemic levels when they averaged about 25%. (Zillow considers anything above 30% as unaffordable.) The National Association of Home Builders (NAHB) / Wells Fargo Housing Market Index continues to show weak sentiment within the industry, with the subcomponent ‘Traffic of Buyers’ in April near 2008-09 lows. Residential improvements as measured by private residential fixed investment spending fell slightly in Q1 2026 and are now down 3% year over year. Despite the soft reading, spending on residential improvements remains near historically high levels.

Reports suggest log prices are steady to slightly increasing throughout western Oregon and Washington as some mills increase log purchases. Log exports have been relatively strong in Q1 2026, and this has in small part been supported by China reopening their market to U.S. producers.

Visit our [forest products webpage](#) for information on trade fundamentals and tariffs.

### **Hay – Western drought deepens, pressures 2026 hay outlook.**

As of May 4, approximately 46% of U.S. alfalfa hay acreage was experiencing drought conditions, underscoring persistent moisture deficits across key growing regions. These conditions are particularly evident in the West, where below-normal snowpack, warmer-than-average winter temperatures and limited spring precipitation continue to raise concerns about irrigation availability and forage production throughout the growing season.

U.S. hay export volumes declined in the first quarter of 2026, reflecting ongoing adjustments in global demand and logistics. National export volumes fell 7.9% year over year, though stronger prices limited the decline in export value to 4.7%. The outbreak of conflict in the Middle East further disrupted shipping, forcing hay to be rerouted or transloaded and driving up logistics costs. As a result, March shipments to the region plunged 52.3% from a year earlier. March’s export volumes to Saudi Arabia fell 45.5% month over month and shipments to the United Arab Emirates were down 23.9% from the previous month.

Regional trends varied, however, with some export channels showing signs of recovery. Exports through the Seattle and Columbia–Snake River terminals increased 5.3% compared to the first quarter of 2025, suggesting that exporters in the Pacific Northwest are beginning to right-size operations and regain market footing. In contrast, shipments through Southern California ports remained under pressure, with volumes down 25.4% year over year, reflecting ongoing pressure from weaker demand (this region is the primary hay exporter to the Middle East) and higher costs.

Hay prices have edged slightly higher across the West, supported by solid demand amid drought concerns. Alfalfa prices improved during the first quarter, but rising fuel costs are adding pressure across the hay supply chain. In Washington’s Kittitas County, diesel prices averaged \$6.82 per gallon as of May 3 (a 60% year-over-year increase) raising costs for fieldwork, transportation, and custom services. As a result, many operators have added fuel surcharges, increasing delivered hay costs for livestock producers and end users.

#### **Conditions by state:**

- **Arizona** - Drought remains a dominant concern in Arizona, with 78% of pasture and range rated in poor or very poor condition as of May 4. Roughly 75% of the state’s cattle inventory is currently impacted by moderate or greater drought conditions. Alfalfa prices have strengthened in Arizona, with all grades averaging roughly \$15 per ton higher year-to-date, supported by strong retail demand. Quality challenges in new-crop hay have weighed on export demand, which has been further pressured by disruptions in the Middle East (a key export destination).
- **California** - Weather challenges continue to shape California hay markets. In Northern California, persistent rainfall has delayed fieldwork and harvests, while wet conditions in the Central Valley have delayed cuttings,

weighing on feed quality. In contrast, first cutting in the Imperial Valley began nearly a month early due to the dry winter. However, demand for the new crop has been stable with high-quality hay prices approximately \$10 per ton higher than a year ago.

- **Idaho** - Hay demand in Idaho remains steady, with most existing inventories largely sold out. Concerns surrounding drought and reduced irrigation allocations are beginning to intensify following the governor's statewide drought emergency declaration. These conditions have increased early season interest from cattle producers looking to secure forage. Idaho hay prices have risen notably, with USDA reporting average hay prices up \$15 per ton year over year in March and lower quality hay gaining \$20 to \$30 per ton. Tight remaining hay stocks and a rapidly expanding dairy herd continue to support prices.
- **Montana** - Dry conditions continue to impact Montana's forage outlook, with nearly half of the state's pastureland rated in poor to very poor condition as of late April. As drought conditions intensify, available hay supplies have tightened, leading to improved demand and rising prices. While some areas received scattered precipitation in April, much of the state's cattle inventory remains in drought-affected regions. Ranchers are increasingly concerned about summer grazing conditions and may need to rely more heavily on supplemental feeding. USDA data indicates average hay prices have reached \$157 per ton in March, up 12.9% year over year.
- **Oregon** - In southern Oregon, particularly in the Klamath Basin, ongoing dry conditions are beginning to influence acreage decisions. The Drought Response Agency is offering between \$250 and \$300 per acre for land idling, creating a financial incentive for producers to reduce planted acreage. As a result, total hay and grain production in the region is expected to decline, which could further tighten supply and support prices later in the season.
- **Washington** - First cutting is underway in the Columbia Basin, with early reports indicating generally stable prices. However, demand signals are mixed. Export activity has been relatively slow, and dairy demand has softened compared to earlier periods. Feedlots are showing interest in purchasing hay, but primarily at lower price points, suggesting some price sensitivity remains in the market.

Visit our [hay webpage](#) for information on trade fundamentals and tariffs.

### **Lemons and oranges – Challenging weather conditions impact lemons and oranges.**

Lemon prices increased in April across most fruit sizes. Harvest is wrapping up in the Central Valley and getting underway along the coast. Quality is reportedly good and the size profile large. Argentina's crop is coming in relatively early and is expected to start arriving to the U.S. in May. Argentina is the largest exporter of lemons to the U.S, followed by Chile and Mexico.

Orange harvest should be wrapping up over the next couple of months. Prices are slowly falling and this may be due to quality issues such as granulation, fruit puff and low acidity. USDA increased its initial production estimate for Florida by 1.7% to 12.2 million boxes and while this is on par with last season, it is still at historical lows for the state. Citrus greening and storm damage have severely reduced Florida's production capacity over the last two decades. The Environmental Protection Agency (EPA) approved a genetically modified rootstock with resistance to citrus greening, called CarriCea T1. Disease resistant rootstocks have the potential to transform an industry by increasing production levels. This should benefit both Florida producers and California growers, where citrus greening is present but remains limited in its impact.

Visit our [lemons and oranges webpage](#) for information on trade fundamentals and tariffs.

### **Potatoes – Acreage pullback, prices under pressure.**

Across AgWest's territory, drought concerns, contract reductions, and elevated production costs are contributing to a reduction in planted acres. North American Potato Market News projects 2026 U.S. potato acreage at 878,000 acres, down 2.7% from 2025, with the largest reduction in Idaho (15,000 acres) and smaller declines across several other states.

USDA data show April 1 U.S. potato stocks at 127.3 million cwt, down 1.4% year over year, driven largely by lower inventories in Washington. Processing use increased 10.4% during February and March, led by frozen products. Fresh shipments continue to run ahead of last year, particularly for Russets, but spot prices remain historically weak. Acreage reductions point toward improved supply balance later in the year. However, near term price recovery is unlikely because current potato supplies remain ample.

Visit our [potatoes webpage](#) for information on trade fundamentals and tariffs.

### **Wheat – Low prices drive historic drop in U.S. wheat acres, while Western wheat remains an anchor.**

The USDA is forecasting the smallest wheat planted acreage in more than 100 years, with all classes of wheat expected to see declines. Large domestic and global wheat supplies have pressured prices in the current marketing year, reducing producers' incentives to plant wheat. USDA currently estimates total wheat planted acreage at 43.8 million acres, the lowest level since the survey began in 1919.

However, wheat acreage in the Western U.S. is not expected to follow the national trend. California, Oregon, and Washington are projected to see relatively stable wheat acreage. Arizona and Idaho are forecasted to post modest acreage increases. Montana is the notable exception, with an anticipated reduction of 440,000 acres (down 8.3%). While Montana wheat acreage has been trending lower over the past five years, this represents a sharper year-over-year reduction compared to the more gradual declines (-0.8% to -3.8% year over year) observed in prior years.

National acreage declines are expected given low prices, while increases in parts of the West are understandable. For many Western producers, there are few profitable alternative crops, and wheat offers stronger risk protection through crop insurance and government support programs. Nevertheless, prices remain persistently low, and many wheat producers remain concerned as rising fuel and fertilizer costs continue to put pressure on input expenses.

Winter wheat has emerged from dormancy. As of May 4, winter wheat heading is ahead of schedule across much of the Western U.S. Despite ongoing concerns about dry conditions, winter wheat conditions remain strong in many western states, with 95% rated good to excellent in California, 87% in Idaho, 58% in Oregon, and 84% in Washington, well above the national average of 31%. Montana was an exception with only 23% of winter wheat acres in good to excellent condition. The Soft White Wheat growing regions of Eastern Washington and northeast Oregon experienced significantly above average rainfall during April helping improve the yield prospects. Spring wheat planting is on pace with historical averages, and overall conditions in the West appear favorable for a strong spring wheat crop.

Wheat prices strengthened during April, largely in response to growing weather concerns in the Central Plains. Persistent dryness and deteriorating crop conditions have re-entered the market's focus. As of May 4, 44% of Kansas wheat was rated very poor to poor, along with 67% of winter wheat in Nebraska and 56% in Texas. Wheat in this region is two weeks ahead of normal crop development which means that coming rains are less likely to be beneficial. While these weather issues have supported near term futures prices, gains remain largely weather driven, contrasting with longer term pressure from strong global production expectations.

In the Northwest, wheat producers benefited in the cash market. At Portland, FOB prices increased across most wheat classes during the month. As of April 30, Hard Red Winter (HRW) wheat was priced at \$7.49 per bushel, up \$0.48 from March, while Hard Red Spring (HRS) increased by a similar \$0.48 to \$8.06 per bushel. Soft White Winter (SWW) wheat prices were relatively stable but weakened slightly, down about \$0.05 per bushel, reflecting softer demand fundamentals. For Western producers, elevator bid prices for both HRW and HRS also moved higher, and on a year-over-year basis, bids remain notably stronger, with HRW prices more than \$1.00 per bushel higher than last year.

Visit our [wheat webpage](#) for information on trade fundamentals and tariffs.

### **Wine and wine grapes – Inventory overhang persists as demand stays soft.**

Wine grape markets remain in a prolonged downturn heading into the 2026 season. Vineyard conditions and water availability are improved, but structural oversupply, elevated inventories, and weakening demand continue to pressure grape prices and winery cash flow. Elevated bulk wine inventories in particular continue to weigh on market conditions, limiting near term rebalancing despite recent production adjustments. Warm March weather across AgWest's territory accelerated vine development well ahead of normal timelines, complicating yield and harvest outlooks.

At the winery level, revenue increased in 2025 despite lower consumption. Market research firm BW166 reports that total U.S. wine sales reached more than \$115 billion in 2025, up 2.5% from the prior year, despite a 2.4% decline in total case volumes. This reflects gains driven by premiumization (consumers trading up to higher-priced bottles) and price inflation. Similarly, DtC shipment values rose for the first time in a year even as volume remained down, mirroring the broader industry pattern.

The outlook remains mixed as more acreage is removed and wine volume adjusts to consumption patterns. There is optimism longer term with more meaningful improvement potentially emerging in late 2027 and 2028.

Visit our [wine and wine grapes webpage](#) for information on trade fundamentals and tariffs.



## Economic headlines

### U.S. GDP rebounds, led by investment and consumer spending.

Gross domestic product rose at a 2% annualized rate in Q1, up from 0.5% in Q4, according to the Commerce Department. Consumer spending accounted for about two-thirds of growth, with services up 1.6% annualized and business investment climbing. Exports and government outlays also contributed, as the economy entered the Iran conflict on solid footing.

### AI-driven investment supports business growth.

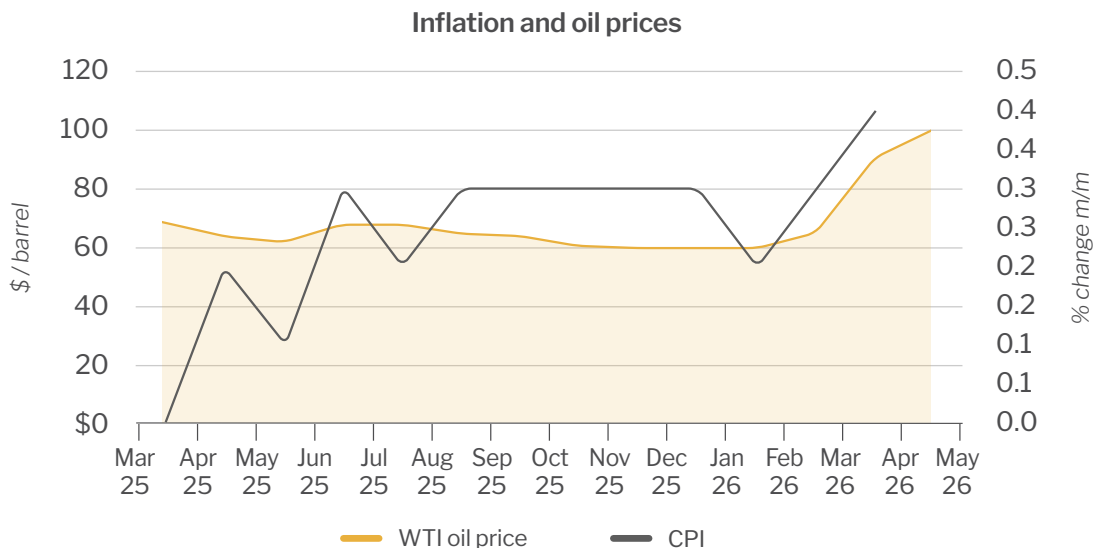
Business investment in equipment and software jumped 10.4% annualized in Q1, the highest rate since mid-2023. Economists attribute this strength to continued expansion in artificial intelligence infrastructure, which is helping offset weaker investment in other sectors.

### Energy prices climb, fueling inflation and impacting CPI.

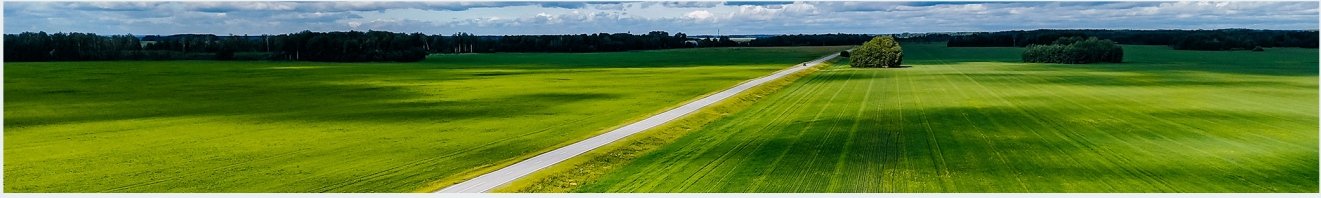
Oil prices remain above \$100 per barrel, pushing U.S. gasoline prices higher and raising costs for households and businesses. Economists note a strong correlation between energy prices and the Consumer Price Index (CPI), with the current supply shock contributing to elevated inflation readings. The International Energy Agency warns that the Iran conflict has triggered the largest disruption in the history of the global oil market, with global oil supply plunging by about 10.1 million barrels per day in March. Economists also note that persistent high energy prices could erode discretionary consumer spending, a core driver of GDP.

### Fed holds rates steady as Powell departs.

The Federal Reserve kept interest rates unchanged, marking the most dissents since 1992, and cited resilience in the economy despite new inflation risks from energy markets and low job growth. Three regional Fed Presidents (Hammack, Kashkari, and Logan) voted against the inclusion of an easing bias in the post-meeting statement, signaling they believe rate hikes are now as likely as cuts. Fed Governor Miran, the vocal proponent for lower rates, dissented in favor of a 25bp cut. Outgoing Chair Jerome Powell expects growth to remain above 2% and emphasized the Fed's commitment to bringing inflation back toward target as tariff-driven goods inflation is fading, however, energy-related price shocks could complicate the inflation path in the coming months.



Source: U.S. Energy Administration Information, Bureau of Labor Statistics.



## Spotlight: U.S.–Mexico–Canada Agricultural Trade

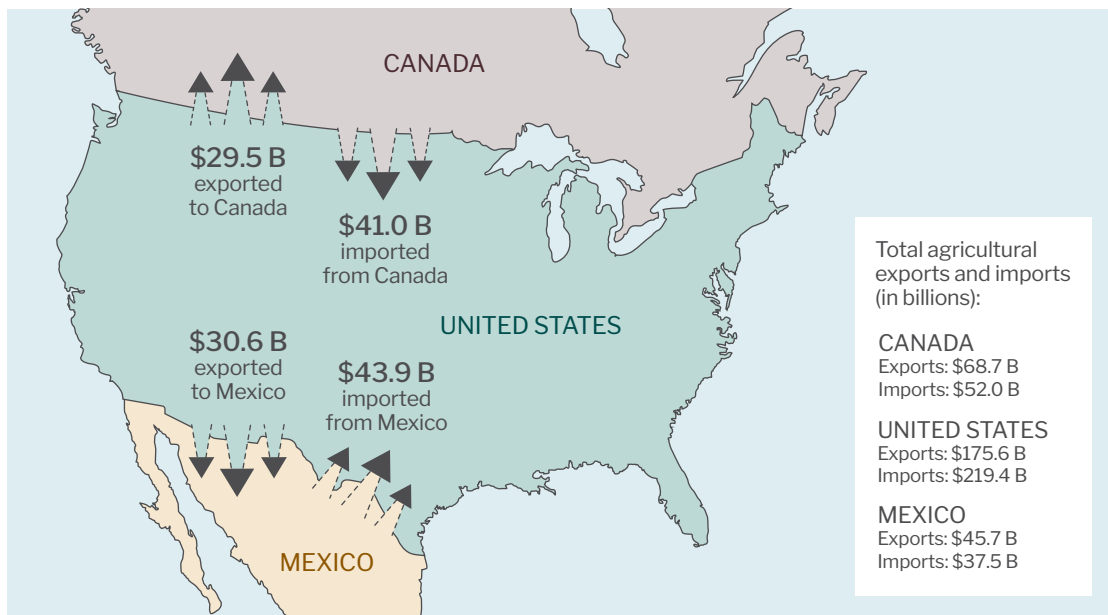
The upcoming United States–Mexico–Canada Agreement (USMCA) review will determine whether North American trade stability continues or shifts toward greater uncertainty. The USMCA has direct implications for U.S. agriculture. The 2026 review is a mandatory, six-year check-in that will determine whether to extend the agreement for another 16-year term or risk its termination in 2036 and is the first step toward renewal or renegotiation, sets the trajectory for long-term planning. For ag producers, the primary risk of renegotiation is not necessarily market access loss, but increased policy uncertainty, targeted disputes and stricter enforcement that could weigh on trade.

### Why does USMCA matter?

USMCA's importance reflects the scale of economic impact and regional integration. Although the U.S., Canada, and Mexico represent just 6.3% of the global population, they account for roughly 29.6% of global GDP (International Monetary Fund) and nearly 20% of global agricultural exports (World Trade Organization). This concentration underscores the region's outsized role in global trade and U.S. farm income.

The integration of agricultural markets among the three countries is deep. Canada and Mexico account for more than one-third of U.S. agricultural exports, totaling about \$29.5 billion and \$30.6 billion, respectively. At the same time, the U.S. relies heavily on imports from both, with \$41.0 billion from Canada and \$43.9 billion from Mexico (see chart below for more details). While supply chain integration does create competitive pressure in some domestic agricultural industries, it also supports year-round availability and overall efficiency.

### Agricultural exports between the U.S., Mexico and Canada, in USD



Source: USDA Economic Research Service, WorldBank.

Note: Minor discrepancies exist across countries due to differences in how agricultural products are defined and classified.

### What can be expected from this review?

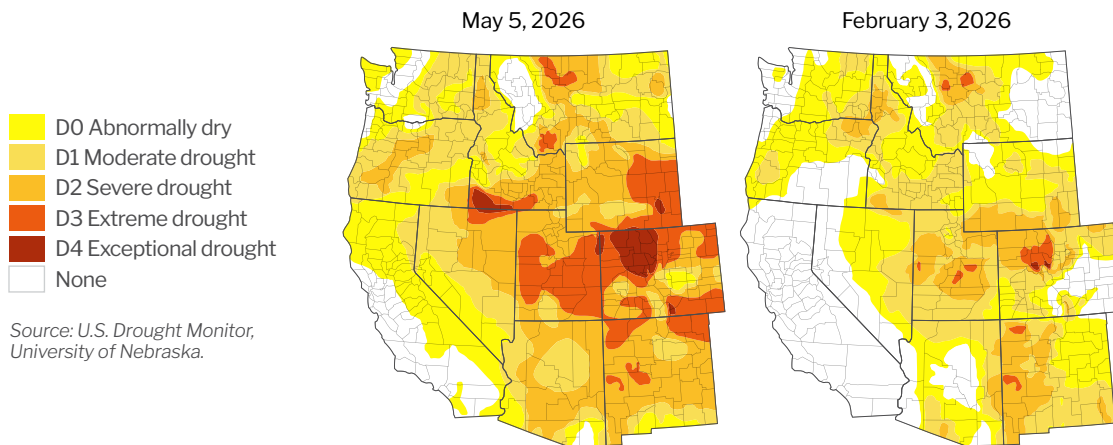
Maintaining stable market access will be critical to U.S. agricultural competitiveness. Recent discussions have raised potential concerns around fruit and vegetable trade with Mexico and dairy provisions with Canada. While these issues may surface, the broader priority will likely be preserving the integrated trade framework. The outcome will directly shape trade relationships, investment decisions, and economic conditions across North American agriculture.



# Drought and water update

## Drought monitor

Drought conditions worsened across the West, largely due to warmer-than-normal temperatures dominating March and April. Northern California's drought conditions have grown, while other states experienced dry conditions advancing from D0 and D1 conditions to D2 and D3 (see map below). For the latest on weather, see AgWest's [Weekly Weather Updates with Eric Snodgrass](#).

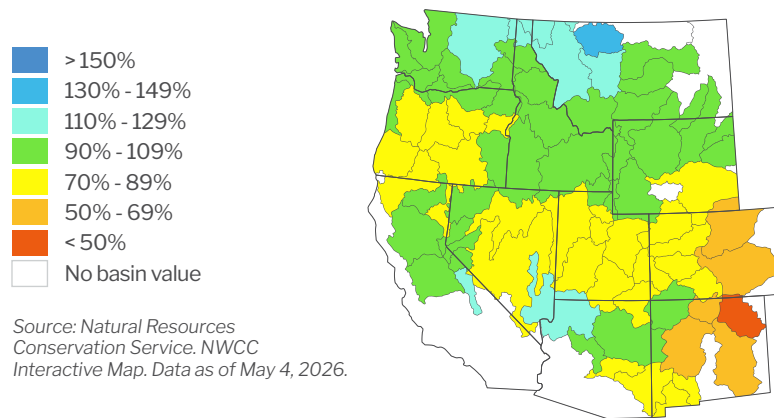


Source: U.S. Drought Monitor, University of Nebraska.

**Description:** The U.S. Drought Monitor provides a comprehensive look at drought conditions across the U.S., categorizing areas by intensity (no drought to Exceptional Drought). This tool helps agriculture producers understand water availability and make informed decisions about crop management.

## Year-to-date precipitation

The West has experienced largely dry conditions throughout the winter and average spring precipitation; however, mountain snowpack is at very low levels and this may reduce water availability later in the season.



Source: Natural Resources Conservation Service. NWCC Interactive Map. Data as of May 4, 2026.

**Description:** The NWCC Year-to-Date Precipitation Map provides a detailed overview of precipitation levels across the U.S., comparing current data to a historical average. Similar to the Drought Monitor, this tool helps agriculture producers understand water availability and make informed decisions about crop management.

## Reservoirs with low water levels

Reservoir levels have improved throughout much of the West, with those in California and Washington all at or near their historical averages. Several reservoirs in Idaho and Oregon remain notably below average. Lake Powell and Lake Mead levels remained steady, albeit at historically low levels.

### Reservoirs with water levels below 80% of their historical average

Location / Region	Reservoir	Percent of average level	Percent of previous year
Colorado River Basin	<a href="#">Lake Powell</a>	40%	73%
	<a href="#">Lake Mead</a>	50%	95%
Idaho	<a href="#">American Falls</a>	76%	79%
	<a href="#">Ririe</a>	75%	79%
	<a href="#">Palisades</a>	47%	68%
Oregon	<a href="#">Cold Springs</a>	73%	106%
	<a href="#">Crescent</a>	51%	119%
	<a href="#">Emigrant</a>	79%	71%
	<a href="#">Fourmile</a>	42%	47%
	<a href="#">Haystack</a>	63%	68%
	<a href="#">Ochoco</a>	77%	60%
	<a href="#">Prineville</a>	73%	70%
	<a href="#">Hyatt</a>	56%	69%
	<a href="#">Phillips</a>	70%	58%

Source: Bureau of Reclamation: Reservoir Storage. California Department of Water Resources. Arizona Department of Water Resources. Data as of May 4, 2026.

**Description:** Reservoirs are an important source of water for agriculture producers throughout the West. This section identifies those with water levels at or below 80% of their historical average for the given period. Reservoirs at or above 80% of their historical average water levels are not included in this list.

## Updates impacting water access

### Arizona

Conditions deteriorated quickly in 2026, with 87% of the state now classified in moderate (D1) or greater drought; a 53% increase over the past three months. Snow water equivalent levels remain below average following the hottest January through March period on record. Dryness persisted through April, with above-normal temperatures and minimal precipitation. Reservoir levels continue to worsen, with Lake Mead and Lake Powell well below historical averages and unlikely to see meaningful improvement in the near term. Forecasts indicate Lake Powell will receive less than one-third of normal spring inflows, reinforcing expectations that the Colorado River Basin will remain in a Tier 1 shortage. For Arizona, this translates to an approximately 30% reduction in Central Arizona Project water deliveries, or roughly 512,000 acre-feet below normal.

Uncertainty around future Colorado River management remains elevated, adding risk for long-term water access. Lower basin states (Arizona, California, and Nevada) and the upper basin states (Colorado, New Mexico, Utah, and Wyoming) failed to reach a replacement agreement by the Feb. 14 deadline, prompting federal officials to begin drafting new management options. Early drafts of the federal plan emphasize reductions tied to actual hydrologic conditions rather than fixed legal allocations, a shift that could result in larger cuts for high use lower basin states such as Arizona and California during drought years. Lower Basin states have proposed a separate plan to reduce allocations by 20% through 2028, including an additional 700,000 acre-feet of conservation. Meanwhile, Arizona has allocated \$3 million for legal defense, with an additional \$1 million proposed as negotiations stall and the risk of litigation grows.

Within the state, a recent court ruling could ease regulatory pressure on agricultural water users by reinforcing limits on how state agencies implement groundwater restrictions. A Maricopa County judge struck down the Arizona Department of Water Resources' "unmet demand" rule, which had broadly restricted access to groundwater based on

projected shortages primarily in the Phoenix area. For agricultural producers, the decision reinforces that water availability determinations must follow established legal processes and cannot be expanded through new interpretations without formal rulemaking.

### **California**

California has shifted from drought-free to 60% of the state classified as abnormally dry over the past three months. Snow water equivalent levels are significantly below average across the northern half of the state. Low snowpack could negatively affect water availability and reservoir recharge later in the season.

The Department of Water Resources (DWR) found that the Phillips Station, a critical snow indicator, recorded no measurable snow in April. Record warm March conditions, combined with early atmospheric river events in February, melted snowpack in the Sierra Nevada months ahead of schedule. While reservoir storage levels are currently above average, this early runoff could create challenges for water supply later in the season. As of May 7, statewide snowpack measured just 22% of normal. In the Northern Sierra Nevada, home to many of the state's largest reservoirs, snowpack is just 6% of average. In response to growing concerns over weather conditions and water management, DWR has expanded its monitoring efforts, including the addition of a mid-month snow survey.

The Bureau of Reclamation announced updates to the Central Valley Project (CVP) allocations that will modestly increase water deliveries for some users. Water allocations for Cross Valley and south of Delta agricultural contractors were raised from 15% to 20% of their contracted supply. In addition, south of Delta users will have access to about 220,000 acre feet of additional water, roughly a 10% increase, that had previously been rescheduled for later use.

The U.S. Department of the Interior announced \$540 million in federal funding for water infrastructure upgrades across California. The funding includes \$235 million for repairs to the Delta Mendota Canal and \$200 million to address subsidence along the Friant Kern Canal. Additional investments include \$50 million for improvements to the San Luis Canal and \$15 million for the Tehama Colusa Canal to increase flow rates and system performance. Shasta Dam will receive \$40 million to support planning and early construction activities for raising the dam; a project expected to increase water storage capacity by approximately 634,000 acre feet.

The Friant Water Authority and the Eastern Tule Groundwater Sustainability Agency (GSA) reached a court settlement resolving a dispute over damage to the Friant Kern Canal, of which a 33-mile stretch sank due to excessive groundwater pumping. The settlement replaces the prior agreement with new pumping penalties to help fund canal repairs, eliminates Eastern Tule's groundwater allocations for the 2026 water year, and directs all collected penalties to Friant.

The city of Arroyo Grande will ask voters in November to approve changes allowing the city to buy state water outside of drought emergencies. Currently, Arroyo Grande is only authorized to buy state water during emergencies, which limits planning flexibility. City officials say the proposed change would not mandate immediate water purchases but would provide an option to secure additional supplies if needed.

The State Water Resources Control Board considered and ultimately denied eight requests from Tule Subbasin groundwater sustainability agencies to exempt local producers from Sustainable Groundwater Management Act (SGMA) probation requirements under the law's "good actor" clause, including groundwater pumping reporting and state imposed fees. Farmers testified that SGMA compliance and local GSA restrictions have already cost producers millions of dollars and significantly reduced access to groundwater. Despite those concerns, the Board voted unanimously to move forward with probationary sanctions, requiring groundwater reporting by May 1 and imposing fees estimated to total up to \$12 million annually across the subbasin.

In contrast, similar enforcement actions in the Tulare Lake Subbasin were delayed after the Kings County Farm Bureau filed suit against the State Water Board. While the Tule decision resolves the exemption requests, it underscores rising financial and regulatory pressure on Tulare County producers as state oversight intensifies. The case is scheduled to go to court in early June, and fees tied to this report will not be collected until after the preliminary injunction is resolved.

### **Idaho**

Drought conditions have worsened, with moderate drought (D2) now covering 46% of the state, up 35% over the past three months. Idaho experienced its second-warmest winter on record (October–March snow accumulation period), prompting the governor to issue a statewide drought emergency declaration. This declaration allows water users to apply for temporary changes to their water rights and makes the state eligible for federal drought assistance. Snowpack and snow water equivalent levels were at record lows on April 1, with most SNOTEL sites reporting historically low values.

While the season remains early, the Natural Resources Conservation Service (NRCS) indicates that irrigation shortages will be a significant challenge this year. Snowmelt is occurring several weeks ahead of schedule, prompting early reservoir releases. As a result, water that would typically arrive later in the season is being released now, increasing concerns about water availability during peak irrigation demand in August.

The Idaho Department of Water Resources (IDWR) reported that senior surface water users on the Snake River Plain are projected to face a record shortfall of 181,600 acre feet. According to IDWR, the projected deficit includes 43,900 acre feet owed to American Falls Reservoir District No. 2 and 137,700 acre feet owed to water users served by the Twin Falls Canal Co. The shortfall has placed junior groundwater pumpers at the center of ongoing water rights enforcement, as they must either participate in an approved mitigation plan or face shutoffs of their water rights.

The U.S. Department of the Interior announced \$30 million in funding for Idaho to support improvements to the Lewiston Irrigation District's pump storage project.

### **Montana**

Drought conditions deteriorated notably over the past three months, with much of the state shifting from abnormally dry and moderate drought (D0–D1) into moderate to severe drought (D1–D2) classifications. Montana is facing its sixth consecutive year of abnormally dry spring conditions following an unusually warm winter that produced low snowpack and heightened concerns about rapid spring runoff.

Snow at elevations below 6,500 feet melted roughly one month earlier than normal, increasing the risk of early river and stream peak flows, and reduced baseflows later this summer if timely precipitation does not occur. Statewide snowpack remained below normal in April. Although recent storms boosted snow water equivalent in parts of central and western Montana, warmer temperatures quickly eroded much of these gains, leaving existing deficits largely intact. As a result, water availability later in the irrigation season remains a significant and growing concern.

Fairfield, a town of about 800 residents in north central Montana, is facing an escalating water shortage. This shortage has been driven by a combination of worsening drought conditions and severely aging infrastructure, with nearly two thirds of its water pipes dating back to 1946 and an estimated 50% of pumped water lost to leaks. Several of the town's eight wells are already non-operational or running at partial capacity, and officials warn that additional failures could force the use of portable toilets at schools and businesses. The crisis extends beyond town residents to surrounding agricultural operations, where farmers and ranchers face reduced water availability.

### **Oregon**

Drought conditions deteriorated moderately over the last three months with more than 70% of the state in moderate (D1) or more severe drought conditions. Snow water equivalent levels reached an all-time low and range from 0% to 46% of average on May 7, which could lead to lower water availability in the summer and increased wildfire risks.

Proposed Oregon House Bill 3419 has sparked growing concern among well drillers and agricultural producers across the state, as it would introduce new monitoring and reporting requirements for most existing wells and water systems. While the bill is framed as a resource management effort, critics argue it disproportionately targets agricultural producers who have relied on established water rights.

Data centers in The Dalles consume about 40% of the city's total water supply, a sharp year over year increase that is fueling concern among residents as drought conditions persist and the data center footprint grows.

### **Washington**

Drought conditions have eased slightly over the past three months, supported by late spring precipitation events, though 40% of the state remains in moderate drought (D1). Dryness concerns are increasing in Eastern and Central Washington, where snow water equivalent levels range from 23% to 60% of average. Snowpack remains well below normal due to warmer than average temperatures and limited spring precipitation, which may constrain water availability later this summer.

Washington has declared a statewide drought emergency. State leaders warned that insufficient snowpack limits natural water storage needed to sustain rivers and reservoirs through the dry season, raising the likelihood of reduced irrigation, low streamflows and heightened wildfire danger. This marks the fourth consecutive year Washington has declared a drought emergency.