

October 2026

Monthly Market Update



Industry updates

General sentiment – *Short-term headwinds persist, while long-term confidence holds.*

Producer sentiment has weakened in September according to the Purdue/CME Ag Economic Barometer as rising production costs continue to pressure farm profitability. Input costs remain the top concern among producers, with more than half reporting that higher expenses are the primary factor limiting improvements in their operation's financial performance. Diesel prices have become a lynchpin, increasing costs across nearly every aspect of farm operations. As margins tighten and uncertainty persists, many producers are becoming more cautious with capital expenditures, expansion plans and other long-term investments.

Despite these near-term challenges, the longer-term outlook for agriculture remains more positive. USDA's Chief Economist projects that stronger commodity prices, tightening supplies and government support payments will help bolster farm income in 2027. At the same time, producers should expect operating costs to remain elevated, even as some supply disruptions and geopolitical pressures subside. This suggests a future characterized by stronger revenues but continued focus on cost management. Producer sentiment toward the long-term outlook remains positive, reflecting confidence in the underlying strength and resilience of the agricultural sector.

Crop inputs

Diesel prices reach new highs.

Crude oil prices remained elevated and diesel prices reached record highs during September as ongoing conflict in the Middle East and disruptions to Russian energy exports continued to impact global energy markets. The International Energy Agency (IEA) lowered its 2026 supply outlook, citing prolonged production outages, shrinking diesel inventories, and delays in the return of normal Gulf oil exports, while attacks on energy infrastructure and shipping routes continued to support prices. IEA and Organization of Petroleum Exporting Countries (OPEC) have reduced their estimates for oil consumption in 2026 due in large part to high fuel prices and reduced availability. Lower demand should help to dampen price increases, though it remains unclear by how much. Demand remains near historical levels, and both IEA and OPEC expect consumption rates to rebound in 2027.

Fertilizer prices move slightly higher.

Fertilizer prices moved slightly higher through September as growers prepared for fall applications and global supplies remained tight. According to DTN Retail Fertilizer Trends, prices for six of the eight major fertilizers tracked in the U.S. increased compared to the prior month. Nitrogen fertilizers continue to be a key area of concern, with anhydrous ammonia prices running about 25% above year-ago levels amid ongoing global supply constraints, including disruptions linked to conflict in the Middle East. China's export restrictions on phosphate products expired on Aug. 31, though it remains unclear how quickly additional exports will improve global supplies. China is the world's largest producer of phosphate products and was historically one of the largest exporters before export restrictions were introduced in 2021. Potash markets have been comparatively stable.

Higher fuel costs increase transportation rates.

Transportation costs moved higher during September as rising diesel prices, tightening truck capacity, and ongoing ocean-shipping disruptions increased pressure across supply chains. In the trucking sector, elevated fuel costs pushed

all-in freight expenses higher, while tender rejection rates remain elevated primarily due to reduced carrier availability. (Higher tender rejection rates, or the percentage of contracted freight loads that trucking carriers decline when shippers offer, generally signal tighter trucking capacity and/or carriers choosing more profitable loads.) Container imports also remained stronger than expected, extending the traditional peak shipping season into September as importers continued to rebuild inventories and move product ahead of potential trade-policy changes. Shipping traffic through the Strait of Hormuz remained below normal levels due to ongoing Middle East security concerns. Meanwhile, continued water-related operational constraints at the Panama Canal and increasing competition for vessel slots have created additional challenges for bulk commodity exporters. As a result, agricultural shippers are increasingly evaluating alternative transportation routes and coastal gateways, adding complexity and potential costs to grain and fertilizer supply chains.

Almonds and pistachios – *Harvest is largely complete on the almond crop.*

Almond prices remained well above previous year's levels on strong export demand, tight inventories, and expectations for a smaller crop, although buyer resistance increased in the second half of September. Harvest is largely complete, with industry estimates generally ranging between 2.5 and 2.6 billion pounds. Favorable weather conditions allowed for a relatively quick harvest. Smaller kernel sizes have tightened supplies of larger premium nuts, contributing to stronger pricing for those categories. While spider mite damage, red leaf blotch, and water stress have been reported, overall quality appears favorable and supportive of low rejection rates at processors. Recent trade negotiations between the U.S. and China could eventually reduce tariff rates on U.S. almonds entering China, improving the competitiveness of California almonds in a historically important export market.

Pistachio prices continued to strengthen as the industry increasingly observes one of the smallest crops in recent years at roughly 600 million pounds, or about two-thirds below last season's production. The most significant losses occurred in Kerman varieties, particularly in the southern San Joaquin Valley, where some orchards were not harvested due to extremely light yields. Processors are prioritizing long-standing customers and allocating limited supplies rather than pursuing new business. Some growers are utilizing huller-run facilities, where pistachios receive only hulling services and bypass traditional processing functions such as sizing, drying, and roasting. This allows growers to sell raw product directly to buyers rather than through traditional processing and marketing channels, resulting in faster payments while taking advantage of strong market pricing. The short crop has increased interest in the huller-run model, which also carries lower processing costs. Despite recent growth, huller-run volumes remain a relatively small share of industry production and are not expected to materially impact processor profitability.

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

Apples – *The 2026 apple crop trends smaller.*

Anecdotal reports suggest Washington's 2026 fresh apple crop continues to trend smaller. While cooler late-season weather has improved fruit color and internal quality across most varieties, quality issues remain with the Honeycrisp variety and SugarBee, a club variety. Growers with lower quality fruit are weighing their options, with some choosing to collect on their crop insurance quality policies. Despite these challenges, market fundamentals have improved from recent crop years. Processor markets have also strengthened on higher demand and reduced imports, particularly apple juice concentrate from China. The stronger pricing for processed grade fruit has increased the floor for fresh fruit prices, further strengthening grower returns. Smaller crops across North America and Europe are reducing available supply and should create market opportunities for Northwest producers. Producers await the results of Mexico's anti-dumping investigation on apple imports from the U.S. Mexico is the largest export market for U.S. apples.

The pear outlook is stronger than a year ago. Growers are generally reporting an average-to-good quality crop with a size at / near average levels, creating a more balanced market environment. Producers are cautiously optimistic that lower supplies in Washington and reduced production in competing regions such as Argentina will support improved returns. Early pack-outs have been encouraging, organic pears continue to perform well, and demand from both fresh and processing channels is providing additional support to the market.

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

Cattle – *Record highs fade, but cattle fundamentals remain bullish.*

Cattle markets have retreated from the record highs reached earlier this year, but underlying fundamentals remain supportive. The pullback reflects a market moving off exceptional highs rather than a meaningful shift in outlook.

Feedlot inventories totaled 11.1 million head on Aug. 1, up 2% from a year earlier, as longer feeding periods and the gradual return of Mexican feeder cattle imports helped offset lower placements earlier in the year. Even so, beef production continues to run below previous expectations as slaughter rates remain historically low, prompting USDA to reduce its 2026 beef production forecast.

Cattle and beef imports are providing some relief to tight supplies, though uncertainty remains regarding their impact on the broader market. The reopening of the Douglas, Arizona, and Santa Teresa, New Mexico, crossings has improved confidence in feeder cattle flows, with more than 18,000 head entering the U.S. during the past six weeks. The crossings were previously closed due to concerns surrounding New World screwworm, a flesh-eating parasite first detected in the U.S. on June 3. Since then, cases have slowed markedly, declining from 31 detections in the first month to just four over the past month. All cases have remained confined to southern New Mexico and Texas. Although the situation has improved, the industry continues to monitor the pest closely, as a broader outbreak would pose a significant threat to U.S. cattle production.

Markets have also focused on the expanded 300,000-metric-ton tariff-rate quota for imported lean beef trimmings. Beginning Sept. 1, the first 100,000 metric tons became eligible to enter the U.S. at a reduced tariff rate, with the goal of increasing supplies used in ground beef production and easing retail beef prices. The initial tranche alone exceeds the 70,000-80,000 metric tons of lean beef trimmings typically imported. However, the market impact remains difficult to isolate. While cattle prices have eased from the record highs reached in May, it remains difficult to determine how much of the decline can be attributed to increased imports versus typical seasonal pressures. The fall calf run traditionally weighs on prices as large numbers of spring-born calves enter the market, although many contracted calves continue to command prices above \$4.00 per cwt. Retail beef prices have shown little sign of meaningful relief. The market impact of expanded lean beef imports remains unclear and continues to be closely monitored by producers and industry analysts.

Demand remains one of the market's strongest pillars. Consumers have continued purchasing beef despite elevated retail prices, while historically low beef cow numbers and slow herd rebuilding continue to underpin the longer-term outlook. Competition from expanding pork and poultry production, along with growing beef imports, may create headwinds, but the broader market story remains unchanged: cattle supplies are tight, demand is resilient, and fundamentals continue to support the sector despite recent price consolidation.

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

Dairy – Strong whey and powder markets offset weakness in cheese and butter.

Milk production continues to expand as the latest USDA report showed U.S. milk output up 1.7% from a year ago. The national dairy herd has grown by more than 167,000 head over the past year and now stands at its largest size in nearly three decades. Meanwhile, milk production per cow has remained relatively flat, highlighting that herd expansion is fueling increased milk supplies. This additional milk is largely going towards butter and cheese production, at a time where both dairy products are already well supplied. While strong export demand has helped absorb some of the additional output, continued growth in milk production could keep pressure on milk prices in the months ahead.

In AgWest's territory, dairy production trends were mixed. After three years of contraction, Washington's dairy herd appears to be stabilizing. August 2026 inventories were down 5,000 cows year over year, a substantial improvement from the 29,000-head reduction recorded a year earlier. In contrast, Idaho and Arizona posted modest milk production gains of just over 1%, supported by larger herds. Oregon recorded the strongest growth in the region, with milk production increasing 7.8% year over year, driven by a gain of 10,000 more dairy cows over the past year. For the entire AgWest region, expanding cow numbers continue to offset generally flat milk production per cow, supporting additional milk supplies and further growth in dairy product manufacturing.

Cheese markets remain under pressure. U.S. cheese production and cold storage inventories are running 2.4% and 2.3% above year-ago levels, respectively, as weaker domestic demand and slowing restaurant traffic have limited consumption growth. Record cheese exports have not been sufficient to absorb growing supplies. Cheddar block prices have fallen to six-year lows, weighing heavily on Class III milk prices. Adding to concerns, both cheese and butter inventories typically begin to decline ahead of the holiday season as demand strengthens, but stocks remain elevated this year, signaling that supply continues to outpace demand.

The disconnect in dairy markets can largely be traced to the ongoing consumer focus on protein. Whey, a byproduct of cheese manufacturing, has been one of the biggest beneficiaries of the protein boom, with demand from sports nutrition and high-protein food products pushing dry whey prices to their highest levels in four years. U.S. whey production is up 8% year over year, exports have reached record levels, and strong whey values have encouraged cheese plants to maintain aggressive production schedules. While cheese is also high in protein, it has not benefited from the same consumer perception, causing cheese production to expand faster than demand. Even with U.S. cheese exports running 7% above year-ago levels, export growth has not been sufficient to absorb growing supplies. The contribution from whey prices has not been large enough to overcome the sharp decline in cheese prices. Until cheese demand improves or inventories begin to tighten, Class III milk prices are likely to remain constrained despite the strength in protein markets.

Class IV milk prices have been more resilient. Robust demand for milk powders has helped lift nonfat dry milk prices above \$2.10 per pound, offsetting weakness in butter prices and providing significant support to the Class IV formula. The sustainability of this strength will depend on export demand, particularly as U.S. milk powder prices trade at a premium to competing suppliers.

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

Forest products – Forest products markets were flat in September.

Lumber prices held relatively flat in September as falling production levels in the U.S. helped offset weak demand. While single family home starts increased modestly in August, the homebuilder sentiment index declined to 32 in September as elevated mortgage rates, rising construction costs, labor shortages, and weak buyer traffic continued to weigh on residential construction activity (the 10-year average is 57). Housing affordability remains the industry's primary challenge and this is unlikely to change with the average 30-Year fixed mortgage rate back above 7%.

Log markets across Oregon and Washington remain generally stable, with most mills reporting adequate inventories and little urgency to secure additional volume. Export markets continue to weaken, particularly for Douglas-fir and hemlock, although this softness has not yet been fully reflected in the trade data. Weak pulp and chip markets remain a significant challenge following several mill curtailments and closures in British Columbia and the Pacific Northwest. Wildfire activity temporarily disrupted logging operations in parts of the region, while salvage harvesting of fire-damaged ponderosa pine in Eastern Washington could increase log supplies and place downward pressure on pine prices. Transportation costs are also becoming a greater consideration as mills adjust procurement decisions to manage rising hauling expenses.

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

Hay – Tighter supplies support Western hay markets.

Western hay markets are finding support from tighter supplies, even as export demand remains subdued. Drought conditions across portions of the West have limited forage availability, while higher diesel, feed commodity, and transportation costs are raising the expense of producing and moving hay.

A strong U.S. dollar and weaker Asian currencies continue to erode the competitiveness of U.S. hay in global markets. From January through August, U.S. all-hay exports totaled 1.7 million metric tons, below the same period in 2025. West Coast shipments fell sharply in June and recovered modestly in July, but remained below the five-year average. Overall, U.S. hay exports have declined for a fourth consecutive year.

Overall, the long-term contraction in Western alfalfa acreage should provide a price floor in hay markets. However, the outlook is increasingly regional, and supply- and quality-dependent. High-testing dairy hay should retain a premium where supplies are limited, while lower-quality hay may continue to benefit from demand for more economical rations. Export-oriented markets face greater risk unless overseas buying improves.

Conditions by state:

Arizona – Hay demand remains mixed. Dairy and export demand has been inconsistent as higher freight costs, weather concerns, and softer dairy economics have reduced buying interest. Recent rainfall and insect pressure affected hay quality in some areas, leading to wider price spreads between premium and lower-quality lots. Export interest for alfalfa and bermuda hay persists, but buyers remain price sensitive. Water availability and future Colorado River allocations continue to create uncertainty for forage production, helping support some forward purchasing activity. Retail alfalfa prices are among the strongest in the West as horse and hobby-farm demand stays active.

California - Hay markets remain generally stable. Dairy buyers continue to purchase cautiously as lower milk prices and elevated diesel costs pressure margins, resulting in more hand-to-mouth buying. Late-season alfalfa yields have been lighter than expected across portions of the Central Valley, helping support prices despite slower movement. Fair-quality alfalfa continues to move well due to affordability. Retail demand remains strong, and concerns about future water restrictions continue to encourage some buyers to secure hay supplies early.

Idaho - Markets have softened modestly as dairy demand slows. Many buyers built their hay inventories earlier in the season. For those still in need of feed, corn silage harvest and weaker Class III milk prices have reduced immediate purchasing interest. Despite softer demand, growers have generally resisted lower offers. Fair-quality hay continues to see the strongest movement, while higher-testing alfalfa faces more resistance from dairy buyers. Export demand remains present but slower than earlier in the year.

Montana - Markets remain relatively firm with moderate to good demand. Recent rainfall improved grazing conditions in some areas, reducing immediate feeding needs and tempering demand. However, many producers remain concerned about entering winter with limited forage supplies and could begin supplemental feeding earlier than normal if conditions deteriorate. Hay continues to move into drought-affected neighboring states where prices remain more attractive. Supplies are generally adequate, although straw inventories are tight.

Oregon - Hay markets continue to perform well, while dairy-quality alfalfa prices have remained mostly steady. Recent rains affected portions of southern and central Oregon creating issues with third cutting hay, leading to some quality discounts but supporting local demand for lower-grade hay.

Washington - Hay markets have been stable. Local demand from dairies, feedlots, and ranchers continues to provide a solid base of support. Premium export-quality alfalfa remains in demand, though the market is narrow and highly selective. Demand for timothy hay has been slower, particularly second-cutting supplies which had quality issues limiting buyer interest. Export demand has softened compared to historical levels, and fewer hay exporters continue to operate than in prior years. Nevertheless, strong local demand and limited supplies of top-quality forage have helped maintain generally firm prices.

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

Lemons and oranges – Valencia harvest wraps up.

California orange growers are wrapping up the Valencia harvest and preparing for the early clementine season. Crop conditions appear generally favorable, with growers reporting good fruit sizing and stable pricing. However, weather remains the primary concern heading into the new crop cycle. El Niño could bring increased rainfall and lead to harvest disruptions, quality challenges, and potential packinghouse backlogs if picking is interrupted and later resumes at a rapid pace. Growers are also monitoring citrus mealybug pressure, which has emerged as a quality concern in some production areas. USDA forecasts the 2026-27 navel crop at 84 million cartons, 2.4% above the 2025-26 crop and 15% above the five-year average. Fruit size is about average while trees per acre and fruit set are up slightly. It remains unclear if the larger crop will negatively impact prices.

Lemon harvest in the coastal growing region is wrapping up and reports suggest fruit quality has been favorable. While prices remain above last season's levels, returns remain near break-even levels for many growers. Some growers are reportedly skipping late-season harvest as expected returns do not justify harvest costs. Lemon acreage continues to be removed and replanted to avocados in Ventura County. Harvest is accelerating in the desert growing region and while sizing is reportedly favorable, reports suggest excessive heat, humidity and wind have led to some quality issues. Harvest in the Central Valley has started and production levels, along with fruit size and quality, are reportedly favorable.

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

Potatoes – Improved supply-demand balance.

The 2026 potato crop is expected to be smaller than 2025 due to reduced acreage and weather-related yield challenges in several major growing regions. In Idaho, summer heat pressured yields, while lower planted acreage further reduced open-market potato supplies. Washington's Columbia Basin was one of the few production areas to benefit from favorable growing conditions, resulting in strong yields and good crop quality.

Tighter supplies have supported stronger prices compared to a year ago. Russet shipping-point prices remain well above 2025 levels, reflecting improved grower bargaining power and expectations for a smaller crop. As a result,

grower return indices have strengthened significantly from year-earlier levels. International trade continues to provide additional support. U.S. fresh potato exports reached record levels during the 2025/26 marketing year, driven largely by strong demand from Mexico and Canada.

Looking ahead, export demand is expected to remain an important outlet for U.S. production, although expanding Canadian production could increase competition in certain fresh potato markets during the coming season. In the Pacific Northwest, processing potato supplies are expected to be better aligned with demand than in recent years, reducing the likelihood of large surplus volumes entering the open market.

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

Wheat – National supplies tighten as Pacific Northwest yields excel.

Earlier this year, concerns about the U.S. wheat crop intensified as drought conditions spread across key production regions. Those concerns ultimately materialized in the smallest U.S. wheat harvest in more than 50 years. National wheat production totaled just 1.53 billion bushels, down 23% from a year earlier due to widespread drought-driven abandonment and lower yields. Winter wheat was hit particularly hard, with production dropping to its lowest level since 1965. Spring wheat, durum wheat, and barley production also declined. Tight supplies have carried into the new marketing year, with Sept. 1 wheat stocks down 13.5% from the same time last year.

Despite the challenging national outlook, wheat producers across much of the Pacific Northwest benefited from a favorable growing season and harvested one of the region's strongest crops in recent years. Timely moisture and favorable growing conditions supported above-average yields across much of the region, although lower protein levels resulted in discounts for some soft white wheat. Washington led the region with average yields of 72.9 bushels per acre, nearly 10 bushels higher than in 2025, while Oregon and Montana also reported strong production. Idaho was the exception, with yields falling below the five-year average. Producers also benefited from relatively firm wheat prices, with Portland soft white wheat trading near \$7.40 per bushel. Higher prices have provided some relief amid rising production expenses, particularly increased fuel costs. Market support has come largely from uncertainty surrounding the conflict in the Black Sea region, which remains a key driver of global wheat trade and price direction.

Looking ahead, export demand and developments in the Black Sea region will likely remain the primary drivers of wheat markets. While tighter U.S. supplies provide an underlying layer of support, abundant global production and aggressive competition from major exporters continue to cap price rallies. For Pacific Northwest producers, maintaining access to export markets and managing production costs will be critical to profitability. Although the region has benefited from strong yields and relatively favorable prices this year, margins remain sensitive to input costs and shifts in global market conditions.

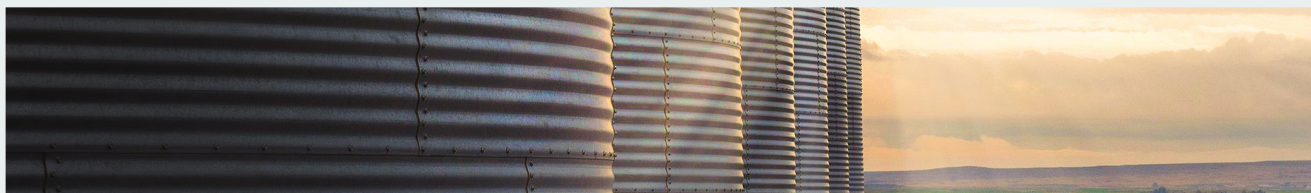
Visit our [wheat webpage](#) for information on trade fundamentals and tariffs.

Wine and wine grapes – Wine grape production declines.

Wine markets remain relatively weak. NielsenIQ reported U.S. year-over-year wine sales declined 2.8% by value and 4.7% by volume as of mid-September. Excess inventory levels, weak consumer demand, and growing pressure on mid-sized wineries remain the primary headwinds. Despite these challenges, operators with strong direct-to-consumer programs, wine clubs, premium brands, and differentiated customer experiences continue to outperform the broader market. Smaller wineries with strong marketing and loyal customer bases appear to be navigating the downturn more successfully than those reliant on distribution or tasting room traffic alone. Industry consolidation continued in September 2026 with increased acquisitions of wine brands, inventories, and intellectual property.

Wine grape harvest is progressing across the West Coast and year-over-year production declines are expected. This decline is due to a combination of reduced and/or idled acres, efforts to realign supply with demand, weather related impacts, and smoke taint in Oregon and Washington. Powdery mildew has also been observed in the Willamette Valley. California yields vary by location, with some growers reporting declines ranging from 20%-60%. Washington's crop is likely to fall 5%-10% from the previous season. Grape demand remains weak and prices remain under pressure. Profitability increasingly depends on flexibility, production efficiency, strong winery relationships, and growing varieties aligned with current consumer preferences, particularly white wines.

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



Quarterly Economic Update

Executive summary

The U.S. economy remains resilient despite geopolitical uncertainty, evolving trade policy, and structural shifts related to artificial intelligence investment and demographic change. Consumer spending, employment, and business investment continue to support economic growth, while higher energy prices and persistent inflation pressures remain key challenges. The Federal Reserve remains focused on returning inflation to its 2% target, contributing to expectations that interest rates may remain elevated for longer than previously anticipated. Long-term Treasury yields have risen sharply, reflecting a combination of inflation expectations, economic growth, federal borrowing, strong demand for capital, geopolitical uncertainty, and investor sentiment. While the outlook remains constructive, risks include renewed inflation pressures, tighter credit conditions, escalating geopolitical conflicts, softening labor market conditions, and growing fiscal and debt related vulnerabilities.

Economic drivers

Monetary policy remains focused on inflation.

The Federal Reserve continues to prioritize price stability as inflation remains above its 2% target. Core Personal Consumption Expenditures (core-PCE), the Fed's preferred inflation measure, increased 3.0% year over year in August. The Fed raised policy rates by 25 basis points to a target range of 3.75% to 4.00% at its September Federal Open Market Committee meeting. Policymakers generally view economic growth, employment, and consumer spending as sufficiently resilient to withstand additional policy tightening should inflation remain elevated. Financial markets continue to anticipate a higher-for-longer interest rate environment, reflecting persistent inflation pressures, resilient economic activity, and elevated energy prices.

Long-term Treasury yields move higher amid multiple pressures.

Treasury yields have risen sharply over the past quarter, with the 10-year Treasury yield increasing from approximately 4.5% to 5.3% as of early October. Unlike short-term rates, which are closely tied to Federal Reserve policy, long-term rates reflect a broader combination of factors including inflation expectations, economic growth, supply and demand for capital, Treasury borrowing needs, geopolitical uncertainty, and investor sentiment.

Large federal deficits, increased capital demand associated with AI infrastructure investment, elevated energy prices, and shifting expectations regarding inflation and economic growth have all contributed to upward pressure on long-term yields. Higher rates increase borrowing costs for households and businesses, and may eventually weigh on investment and economic activity if sustained.

Consumer spending supports growth but remains vulnerable.

Consumer spending remains the primary driver of U.S. economic growth. Retail sales rose 1.2% in August and are up 6.0% from a year ago, supported by steady employment conditions and ongoing household spending. Some economists suggest consumers may be accelerating purchases due to expectations of future price increases, though spending growth is expected to moderate in coming months.

While overall spending remains healthy, inflation continues to disproportionately affect lower income households, where food, housing and energy account for a larger share of household budgets. Consumer resilience ultimately depends on continued employment growth, wage gains, asset values, and confidence. An equity market shock or protracted bear market could eventually reduce spending and slow economic growth through a weaker wealth effect.

Geopolitical tensions increase inflation and market risks.

The conflict involving Iran, as well as the Russia-Ukraine war, continues to disrupt global energy markets. Higher oil, gasoline, and diesel prices have increased inflation pressures, volatility across financial markets, and transportation, manufacturing, and agricultural production costs.

While the conflict has not materially expanded beyond the region, current developments suggest risks remain elevated. Continued instability in energy markets could slow progress toward lower inflation, contribute to upward pressure on interest rates, and increase uncertainty for businesses and consumers.

Risks to the economy

- **Geopolitical and energy market risks:** Escalation of the conflict involving Iran or other geopolitical disruptions could further pressure energy markets, increase inflationary pressures, raise business uncertainty, and weigh on global economic growth.
- **Inflation and monetary policy risks:** Inflation may prove more persistent than expected due to energy costs, trade policy developments, or resilient consumer demand. In that scenario, the Federal Reserve may respond too aggressively and/or hold rates too high for too long.
- **Credit and financial conditions risks:** Higher interest rates and economic uncertainty could lead to tighter lending standards, weaker collateral values, reduced access to credit, and growing refinancing challenges for some borrowers.
- **Consumer and labor market risks:** Consumer spending remains a key source of economic strength, but rising household debt burdens, elevated prices, weaker asset values, or labor market deterioration could reduce spending and slow economic growth. Delinquencies on consumer credit cards and auto loans are trending higher.
- **Fiscal and long-term interest rate risks:** Large federal borrowing needs could contribute to upward pressure on Treasury yields and borrowing costs. Rising debt levels may also reduce fiscal flexibility and limit policymakers' ability to respond to future economic downturns or geopolitical shocks.

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 September 16, 2026. Real Gross Domestic Product (GDP) growth projections were revised higher as economic activity is expanding at a solid pace on resilient consumer spending and modest unemployment. A minor decrease in unemployment was reported as job gains are expected to keep pace with the workforce (see table below). Inflation is projected to trend higher as energy prices respond to weaker supplies due to the war in Iran.

Federal Reserve projections indicate the federal funds rate will top out at 4.25%, which is only one rate hike above the current level of 4.0%. The market's view suggests the funds rate will reach 4.75%, which equates to three more rate hikes. Officials expect the funds rate to move lower in 2028 as core-PCE inflation declines to 2.1%. As stated above, efforts to maintain inflation below wage growth also supports lower income households and thus economic activity.

Market indications signal the 2-year Treasury yield will fluctuate in a range of 4.65-5.15% for the next couple of months while 10-year Treasury yields range between 5.3-5.6%. This outlook could change dramatically due to developments in the Middle East and other risks to the outlook.

Federal Reserve projections as of September 2026

Indicator	2026	2027	2028	2029	*Longer run
Real GDP growth	2.3%	2.4%	2.2%	2.1%	2.0%
<i>June projection</i>	2.2%	2.3%	2.2%		2.0%
Unemployment rate	4.1%	4.1%	4.1%	4.1%	4.2%
<i>June projection</i>	4.3%	4.3%	4.2%		4.2%
PCE inflation	3.7%	2.3%	2.1%	2.0%	2.0%
<i>June projection</i>	3.6%	2.3%	2.0%		2.0%
Core PCE inflation	3.4%	2.5%	2.2%	2.1%	
<i>June projection</i>	3.3%	2.5%	2.1%		
Federal funds rate	4.1%	4.1%	3.9%	3.6%	3.2%
<i>June projection</i>	3.8%	3.6%	3.4%		3.1%

*Longer run projections for core-PCE are not collected.

Source: Federal Reserve Board.

Employment

Despite payrolls employment data for September being a little softer than expected and a slight uptick in the unemployment rate, the data suggest there are few signs of labor market stress. Hiring was weaker than projected as September payrolls increased by 29,000 versus the 90,000 expected. The prior two months' data were revised down by 60,000. Monthly gains have averaged 41,000 over the past year, which is near the break-even number of jobs required to sustain the unemployment rate at a level sufficient to support stable and moderate consumer spending.

Unemployment edged higher to 4.2% from 4.1% as labor force growth outpaced employment growth. A year ago, the jobless rate was 4.4%. Wages grew modestly, up 0.1% compared to the prior month and 3.0% year over year.

Compared to a year ago, both the labor force and the number of employed declined. Unemployment has not increased due to the decline in the labor force exceeding the decrease in employment. Despite the unemployment rate staying relatively low, the decline in the labor force is a concern over the long-term as it may limit domestic demand and economic growth.



Source: Bureau of Labor Statistics.

Inflation

Inflation remains elevated, primarily due to higher fuel prices. Food and non-energy commodity inflation remains limited.

Consumer prices rose 0.4% in August, up from 0.1% in July, while annual inflation held at 3.4%. Gasoline prices drove much of the increase, rising 3.9% for the month and 27.4% year over year, while food and other non-energy goods saw more modest increases.

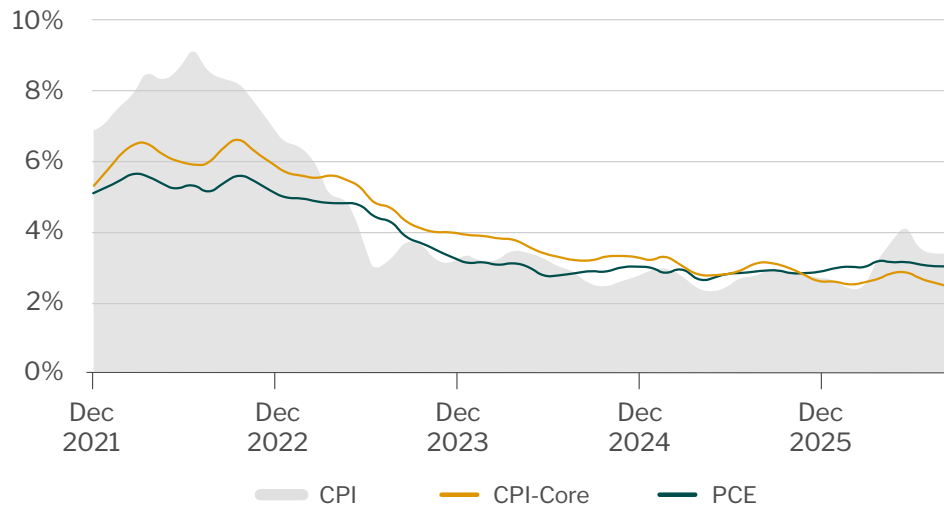
Core Consumer Price Index (CPI), which excludes food and energy, rose 0.3% monthly, but its annual growth eased to 2.4% from 2.5%.

Key sources of inflation include:

- Oil, fuel and fertilizer prices, fed through the supply chain
- Tariff pass-through and trade uncertainty
- Seasonality and services inflation
- Structural forces such as deglobalization and supply chain realignment

Core-PCE inflation, the Fed's preferred measure, rose on a year ago basis of 3.0% for June, July and August. Differences between CPI and PCE reflect differences in composition, weighting and market dynamics.

Consumer inflation



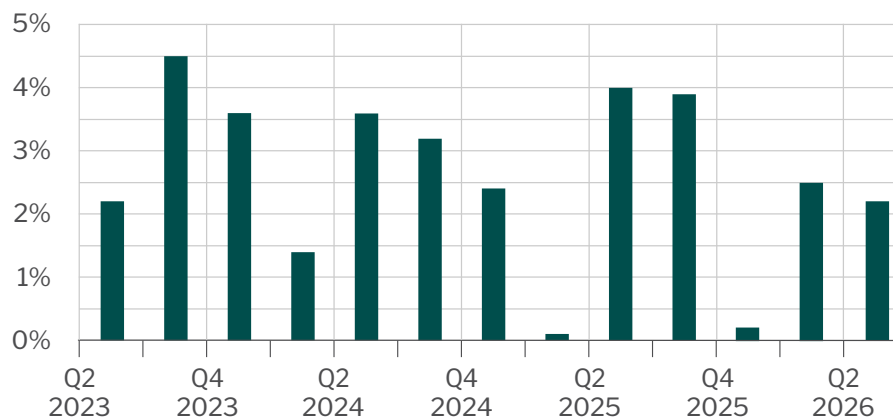
Source: U.S. Bureau of Labor Statistics. U.S. Bureau of Economic Analysis.

Gross Domestic Product

Stronger consumer spending and domestic investment continued to support growth while government spending and net exports continued to weigh on growth. Nominal GDP grew at an 8.5% rate, with the annualized GDP price index at 5.6% and the core-PCE price index at 3.3%. The third estimate for real second quarter GDP growth was revised up to 2.2% from 1.5% on stronger consumer spending and annual revisions made by the Bureau of Economic Analysis. Q1 GDP growth was revised up 0.4 percentage points to 2.5%.

Growth could accelerate to roughly 3% in Q3, with forecasts ranging from 2.5% to 3.7%. Consensus forecasts put annual growth at 2.2% for both 2026 and 2027, slightly below Federal Reserve projections. Modest growth is projected to be supported by continued wage growth and service sector strength. Economic activity is being constrained by higher interest rates, excessive consumer and fiscal debt, and geopolitical uncertainty. The probability of recession within the next 12 months is estimated at approximately 20%, reflecting modest downside risk.

Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis.

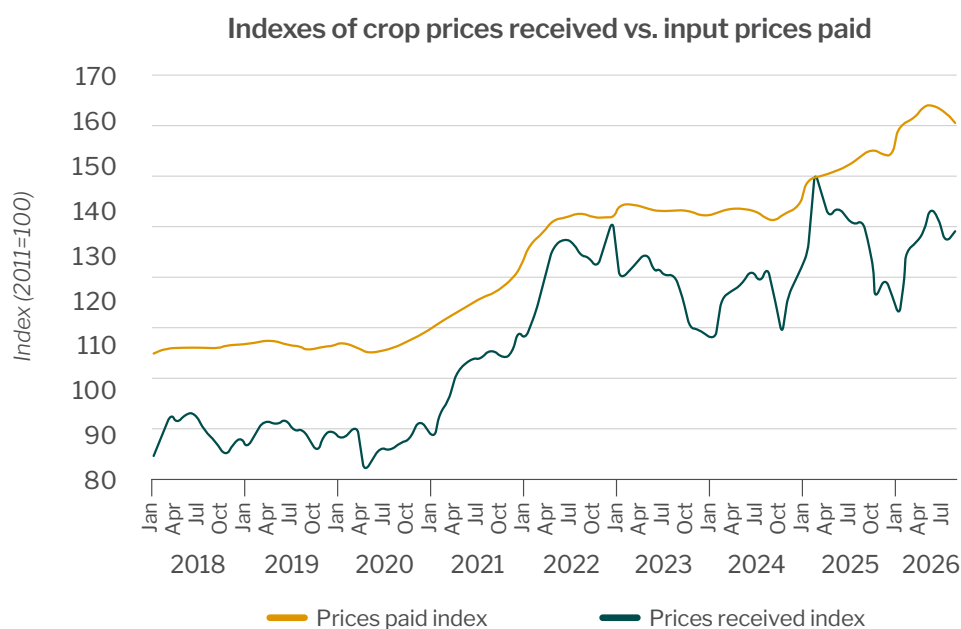


Spotlight: Producer perspectives

During recent discussions among AgWest's Local Advisory Committee (LAC), producers shared updates on their operations and industry outlooks, revealing four common concerns echoed across commodities and regions: rising input costs, weather and drought pressures, labor challenges, and trade uncertainty. This spotlight explores these key issues and the trends shaping the agricultural economy.

1. Rising input costs are a top concern.

The most frequently cited challenge was the continued rise in production expenses. Producers across a diverse range of commodities expressed concern that costs remain elevated while commodity prices have become increasingly volatile. As one producer noted, "The continued gray cloud over the industry is operational costs. They are unrelenting." The chart below highlights this challenge for producers: commodity prices may rise and fall with market conditions, but input costs rarely move lower with the same speed or magnitude. As production expenses continue to rise, producers are increasingly reliant on strong commodity prices to maintain profitability.



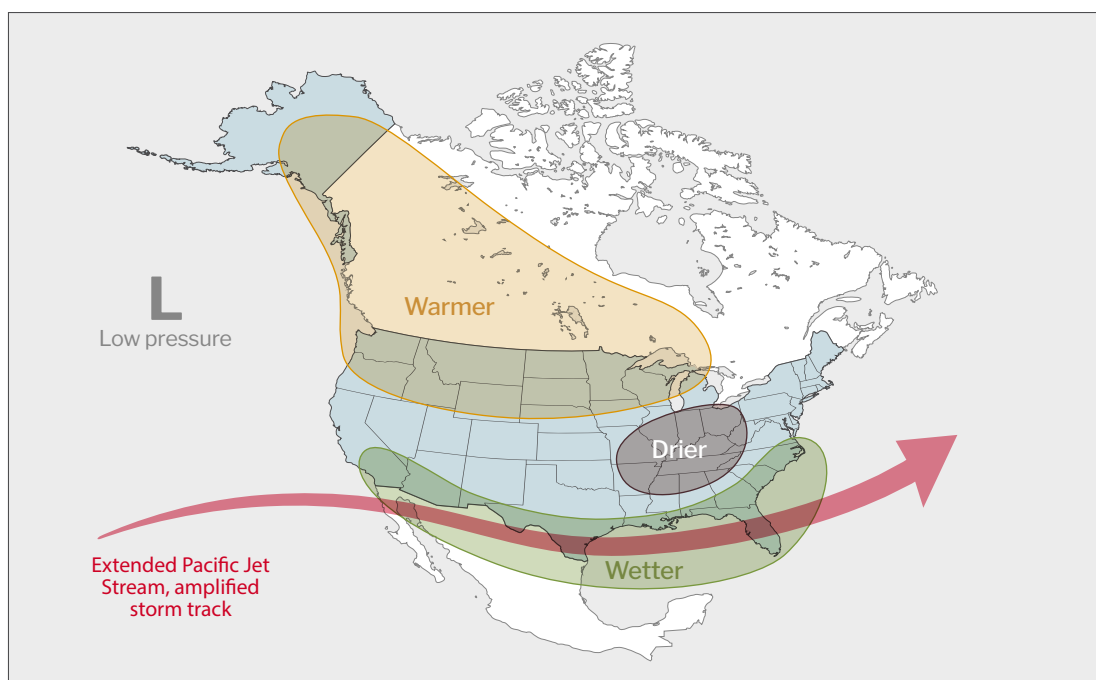
Source: USDA National Agricultural Statistics Service.

2. Drought and weather continue to challenge producers.

Weather and water availability ranked among the top concerns raised by producers across AgWest's territory. The 2026 growing season highlighted agriculture's continued vulnerability to weather extremes. Much of the West experienced drought, below-normal precipitation, prolonged heat, and tightening water supplies. Idaho declared a statewide drought emergency in April. Meanwhile, July became the hottest month on record for the contiguous U.S., with Arizona and eastern Montana experiencing record-breaking temperatures. These conditions reduced yields, strained water resources, and increased production risks for many Western producers.

Looking ahead, weather uncertainty remains elevated. Forecasts point to the development of a strong El Niño, with some meteorologists characterizing it as a potential "super El Niño." Historically, El Niño has brought drier conditions to the Pacific Northwest and Montana while increasing precipitation across the Southwest. After several years of weather volatility, producers are closely monitoring forecasts and preparing for another potentially challenging year.

Typical El Niño weather



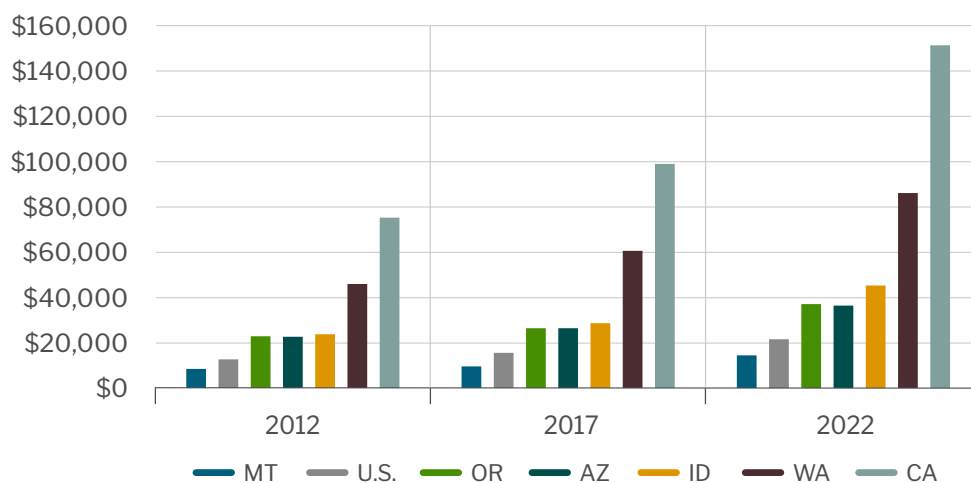
Source: National Oceanic and Atmospheric Administration.

3. Labor costs and availability remain structural challenges.

While worker availability remains a concern, producers increasingly point to rising wages, regulatory requirements and workforce uncertainty as a growing threat to profitability. These factors are forcing producers to reconsider long-term business strategies. As one producer noted, “Labor’s always going to be an issue. I don’t know how that’s ever going to change.”

Data from USDA Census of Agriculture highlights the magnitude of the challenge. Hired labor expenses per operation are substantially higher across most AgWest states than the national average, reflecting the labor-intensive nature of many of the region’s agricultural industries. In response, where profitability allows, some producers are investing in automation and efficiency improvements to reduce labor dependence and remain competitive.

Hired labor expense per farm operation, U.S. average vs. AgWest states



Source: USDA Census of Agriculture, AgWest Farm Credit.

4. Trade uncertainty clouds the export outlook.

Trade uncertainty emerged as another major concern, with producers citing tariffs, shifting trade relationships, and uncertainty surrounding future export demand and market access. As one participant noted, "We don't have the export markets available that we used to," while another described the current environment as "the fear of unknown demand."

These concerns are particularly relevant for AgWest producers given the region's strong reliance on international markets. Nationally, approximately one out of every five dollars generated by U.S. agriculture comes from exports. Export dependence is even greater in the West as many export-oriented commodities benefit from direct access to major Pacific ports, with California exporting more than 35% of its agricultural output and Arizona more than 20%. Disruptions to trade flows or export demand can have an outsized impact on Western producers.

Optimism endures despite challenges

Despite these challenges, a common theme emerged throughout the discussions: resilience. Despite rising costs, weather uncertainty, labor challenges, and shifting markets, producers expressed confidence in their ability to adapt and persevere. One producer captured the sentiment shared across many sectors of agriculture: "We'll survive. There's no doubt there's going to be tough times coming for all of us. We'll make it... Because whether we're producing iceberg lettuce, beef, sheep, timber, or fish out of the Bering Sea, billions of people rely on us to eat. We don't lose the optimism." While the challenges facing agriculture are significant, so is the resilience of the producers who continue to invest, innovate, and adapt.