

THE QUARTERLY

*Focused on the industries
financed by CoBank*

October 2025

AI won't eliminate need for college grads

Artificial intelligence is a tool that enhances problem-solving, teamwork and communications – the skills hiring managers are looking for in new hires.

Executive Summary

Despite rising fears, artificial intelligence is unlikely to spark a jobs apocalypse for recent college graduates – essential hiring attributes remain problem-solving, teamwork, and communication, and AI is a tool to enhance these skills rather than replace jobs. Despite the massive surge in AI adoption in 2025, college graduates' employment and wage premiums have remained stable.

Macroeconomic uncertainties remain in the face of tariffs, declining immigration, and massive AI investments, but the Federal Reserve is expected to continue lowering rates well into 2026 – a silver lining for beleaguered crop farmers.

While U.S. farmers are harvesting record large row crops, prices remain in the doldrums. Corn exports are robust, but domestic demand growth is minimal. Soybean exports continue to struggle but new domestic crush facilities are providing some support. Crop production costs remain elevated with extremely high fertilizer prices and crop input tariffs up from 1% to nearly 12%. Delayed renewable volume obligations and small refinery exemption reallocations cloud the biofuels demand outlook.

Strong demand for meat and dairy products, combined with low feed costs, continue bolstering livestock profitability. Already tight beef cattle supplies are now at risk from New World Screwworm. “Beef-on-dairy” calves have significantly boosted dairy farm revenues, contributing to the largest U.S. dairy herd in over 30 years.

Large investments in new data centers could temporarily raise residential rates but may help control costs in the future by supporting needed infrastructure. ■

This quarterly update is prepared by the Knowledge Exchange division and covers the key industries served by CoBank, including the agricultural markets and the rural infrastructure industries.

Topics in this issue:

- *Easing interest rates provide some help with row crop costs*
- *Record fall harvest arrives amidst trade uncertainty*
- *Rising plug prices are causing anxiety*

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SPOTLIGHT

AI unlikely to cause a jobs apocalypse for recent college grads



By Rob Fox

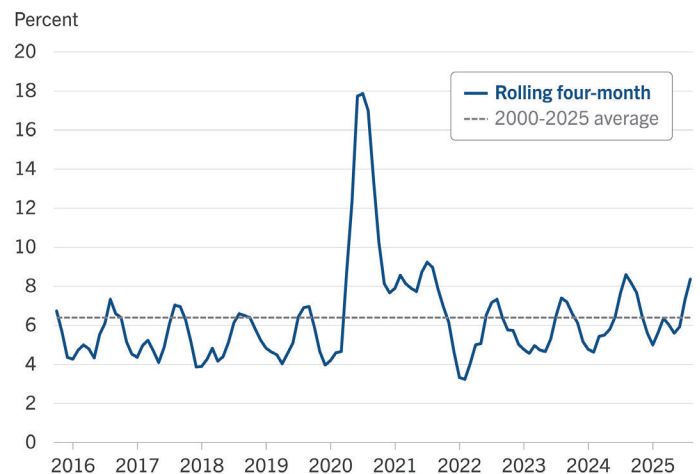
2025 is the year artificial intelligence exploded into our lives – global ChatGPT queries have risen 500% from a year ago to reach 2.5 billion per day. Given the rapid integration of AI into daily life, people are rightly concerned about what comes next, particularly for their jobs. A recent Gallup poll found that a majority of U.S. adults (57%) say the risks of AI for society are high or very high, with job losses cited as a reason. Handshake, the leading job posting board for college students, found in a recent poll that 61% of students in the class of 2026 are somewhat or very pessimistic about their career prospects with almost half blaming the impact of generative AI. Dario Amodei, head of AI firm Anthropic, recently predicted that AI tools would result in a loss of half of entry-level white-collar jobs (never mind that his objective is to create buzz around Anthropic’s AI-related capabilities).

These fears are overblown considering the evidence at hand. While signs of a slowdown in college hiring this year have been modest, that mirrors a general slowdown in ALL hiring, blue-collar jobs included. Handshake’s job postings have declined by 15% from 2024 levels but so have overall job openings. Popular broad-based general job posting board Indeed has seen listings drop 17% over the same period. Yes, unemployment levels for recent college graduates have crept up slightly this year, but that is relative to the favorable labor conditions of 2022-2023 (*Exhibit 1*). Unemployment for recent grads remains largely in line with historic norms.

Moreover, the median wage premium for college graduates versus high school-only graduates has actually edged up slightly over the past year (*Exhibit 2*). Note the college premium has remained remarkably steady over the past 25 years at around 60% and has never fallen below 58% over that time. For workers ages 25 and older, the median college graduate currently makes \$31,000 per year more than the median high school-only graduate, according to the BLS Current Population Survey. There is no evidence that the earning power of college graduates is in decline. Could it happen? Sure – but it hasn’t yet.

1 There is scant evidence that the AI boom is jeopardizing long-term job prospects for college graduates.

EXHIBIT 1: Unemployment rate of recent college graduates



Source: U.S. Bureau of Labor Statistics, Unemployment Rate - College Graduates - Bachelor's Degree, 20 to 24 years

The ever-escalating cost of tuition is often cited by those who question the value of a college education, yet since 2010, corresponding wages have risen equally – roughly 45% (*Exhibit 3*). Interestingly, while the economic outcome of attending college hasn't shifted much in recent years, societal attitudes on the importance of attending college sure have. Per ongoing polling by [Gallup](#), the percentage of Americans who say college is “very important” has fallen to 35% in 2025, a huge drop from 73% in 2010.

What are companies looking for in new hires?

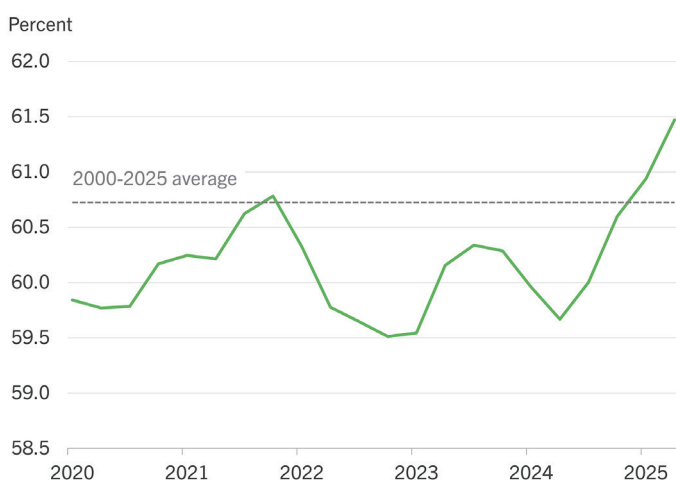
The attributes employers are seeking from new college graduates remain consistent from year to year, according to the National Association of College and Employers' annual survey. The top three: The ability to problem-solve, work in teams and write. AI is a tool to boost those capabilities, not replace them. A recent study found that 77% of all ChatGPT queries involved practical guidance, information seeking, and [help with writing](#). That sounds like a recipe for enhanced problem solving and communication.

Hiring managers appear to be much more optimistic about job trends. A Handshake poll of over 1000 companies found that 55% of hiring managers agreed that AI would create jobs while only 19% disagreed. Students responded with inverted results: only 24% agreed while 49% disagreed. Yet recent college graduates are the ones most well positioned to make good use of AI – 57% of college seniors are already using it at least weekly.

Throughout history, new technologies have always raised concerns about job losses. The recurring theme is job transformation, not elimination: jobs change, and new roles emerge. This time isn't any different. The college graduates of 2025 are already deeply familiar with using AI and its strengths and weaknesses – that's an asset, not a liability. Hiring managers appear to agree. ■

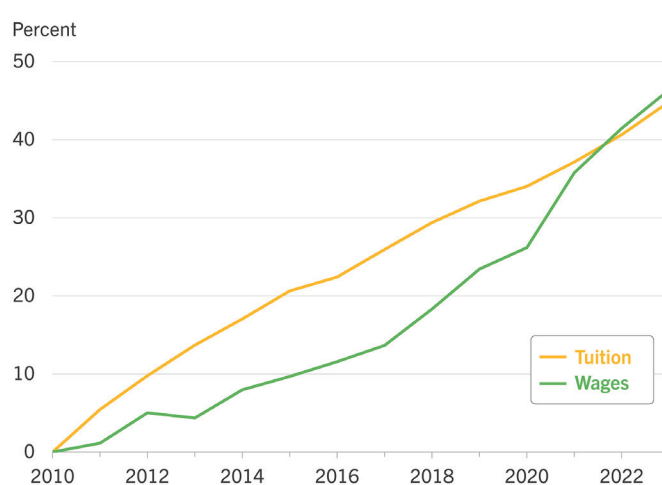
2 The attributes companies seek in new hires largely remains unchanged: the ability to problem-solve, work in teams, and communicate.

EXHIBIT 2: Wage premium for bachelor's degree vs. high school only



Sources: U.S. Bureau of Labor Statistics, Median usual weekly nominal earnings, CoBank Calculations

EXHIBIT 3: Growth in cost of public college tuition vs. wages of workers with bachelor's degree



Sources: National Bureau of Education Statistics 2024, Digest of Education Statistics 2023, Table 330.10; BLS earnings data; CoBank calculations

MACROECONOMIC OUTLOOK

Easing interest rates provide some help with row crop costs



By Rob Fox

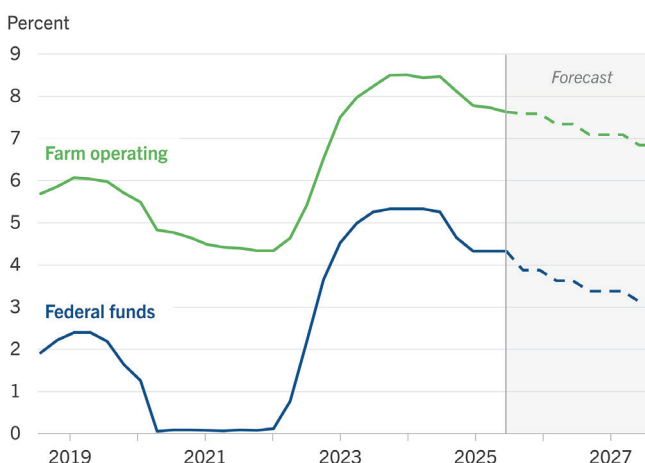
Big downward revisions to historic monthly payroll estimates in early August led the market to anticipate a path to more aggressive Fed rate cuts. However, since then, the economic data has generally been positive (particularly with a big upward revision in second quarter GDP) and expectations for aggressive rate cuts have again been tempered. Tariff-related policy uncertainty, the abrupt drop in immigration and massive and unprecedented private investments in AI and its related infrastructure have made it difficult to sort out what traditional economic indicators mean. Sharp swings in monthly import volumes, a flattening of working-age population growth, and a soaring stock market make it difficult to gauge how “Main Street” America is doing economically. The sharp politicization of attitudes has rendered longstanding public sentiment surveys erratic and unhelpful in gauging actual economic conditions. The federal government shutdown and potential loss of scheduled economic reports will make it even more difficult to gauge the economy and therefore make prudent business decisions.

Despite all the uncertainty, a steady unemployment rate and inflation running hotter than the target 2%, the Fed has started to move rates lower, responding to the seemingly clear signs that the labor market is weakening (particularly declining job openings, new hires and wage growth). Where will rates go from here? Weighing both the market odds on CME's Fedwatch alongside the FOMC's own projections, it seems the most likely outcome is four or five additional 25bps cuts by the end of 2026, leaving the overnight rate around 3.0% by the end of 2026. Across the country, fixed farm operating loan rates have come down by about 75bps since peaking in early 2024 and we expect a similar decline in the coming year (*Exhibit 1*).

1 Tariff policy uncertainty, the sharp decline in immigration, and the unprecedented surge in AI investment has made interpreting regular economic reports more difficult.

2 Despite steady consumer spending and unemployment, we expect the Fed to drop its rates another 1.00%-1.25% by the end of 2026.

EXHIBIT 1: Midwest farm operating loan and Federal Reserve overnight rates



Source: Chicago Fed Seventh District Ag Credit Conditions

Of course, the actual outcome depends heavily on how the economic data looks and how successful the White House is in influencing monetary policy. Chairman Powell's last meeting will be April 28-29, 2026. After that, a new chair will be installed who will likely share President Trump's strong bias for lower interest rates. Although there is a chance that a less independent Fed could scare investors (thereby raising longer-term rates), we see no sign of that happening yet.

Arguably the most important economic signals, personal consumption and unemployment, have held steady in the face of the uncertainty, but there are other signs that the economy may be slowing. We mentioned the labor market cooling, but personal income growth, adjusted for inflation, has fallen from 4% in early 2024, to about 2% today. Consumers have responded by dipping into savings to maintain their spending habits (*Exhibit 2*). While not alarming yet, this consumer plan can't continue unabated forever.

A potentially slowing economy and declining interest rates should put downward pressure on the dollar, and that has been the case for the broad-based weighted index of our trade partners' currencies. However, the effect for U.S. agricultural exports has been much more muted as the dollar has not declined as much relative to our largest agricultural export partners (*Exhibit 3*). That has proved unhelpful to our row crop producers in particular, as grain is traded on dollar terms so the more stable currency relationship with those trade partners has not provided the hoped-for support. ■

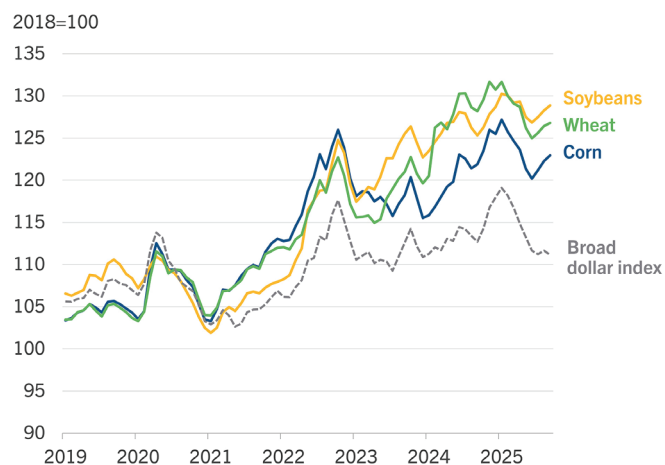
3 Row crops exports have not experienced the benefit of the weakening dollar relative to the currencies of our largest grain export partners.

EXHIBIT 2: As disposable income growth slows, saving declines



Source: U.S. Bureau of Economic Analysis via FRED, Federal Reserve Bank of St. Louis

EXHIBIT 3: Trade partner weighted dollar indices



Source: Agricultural Exchange Rate Data Set | Economic Research Service

GOVERNMENT AFFAIRS

Political grandstanding trumps economy and constituents



By Lauren
Sturgeon Bailey

Following the American Revolution, the Constitutional Convention called for the creation of the U.S. House of Representatives, to serve as the body of proportional representation in Congress. The House's explicit powers include impeachment of federal officials, electing the president in case of an electoral tie, and most importantly, to initiate revenue bills. The primary responsibility of the "People's House" has been forgotten, and our elected officials have seemingly decided that

the American pocketbook is far less important than the political grandstanding of this current representative democracy.

The United States government currently sits in shutdown mode, with no end in sight. With no more funds to support most federal programs or pay many public servants working in government, the suspension of most revenue-generating capabilities are halted and will likely negatively impact the economy as time goes on. The speaker of the house refuses to call members back to Washington until the Senate can pass a proposal. We once again are watching the blame game come from both parties, as neither has proposed a compromise.

The Great Compromise of the Constitutional Convention gave the United States this bicameral government. In the present time the word compromise has not been uttered by either side on Capitol Hill. Individuals who previously maintained friendships across party lines are now political rivals and the idea that nothing for the opposition is better than 60% for the home team is now the prevailing principle in American politics.

As if the dysfunction of the federal government alone isn't discouraging, leaders in Washington are questioning the efficiencies and hard work of American farmers and those in the industry. The abundance of agricultural commodities, once praised for "feeding the world," is no longer allowed and no longer an asset but now a liability to the dirt-covered hands of many Americans. We await tariff policy decisions and certified trade agreements that we hope will once again incentivize farmers to sell into the market and let the market drive profitability. Tariffs have ultimately shut out American commodities to many countries and fractured relationships that will take decades to rebuild.

Today's agricultural producers are struggling with the reality of producing the largest crop ever with nowhere to send it. The administration is expected to announce \$10 billion-\$15 billion in farm aid to struggling producers but may be delayed because of the government shutdown. Americans across the country brace for continued economic uncertainty while members of Congress wait to be called back to Washington. Grassroots efforts are seemingly losing their effect, as a top-down approach appears to be the current practice in Washington. ■

1 The ongoing shutdown and lack of congressional action have led to **widespread political uncertainty.**

2 Tariffs have restricted access to international markets, **turning agricultural abundance from an asset into a liability.**

3 The administration is expected to announce **more farm aid to producers.**

GRAINS AND OILSEEDS

Record fall harvest arrives amidst trade uncertainty



By Tanner Ehmke

U.S. farmers are harvesting a record-large corn crop and the second-largest soybean crop in five years following the largest wheat harvest in five years (*Exhibit 1*). The supply abundance is welcomed news for grain elevators looking to capture bigger carries in the futures market while increasing asset turnover with more bushels. The demand outlook for corn, soybeans and wheat, though, is clouded by geopolitical uncertainty.

Corn and wheat sales enter the fourth quarter historically strong, aided by a cheap dollar and low rail transportation rates. Soybean sales, though, are abysmally low from China's boycott and record crop in South America (*Exhibit 2*).

Corn

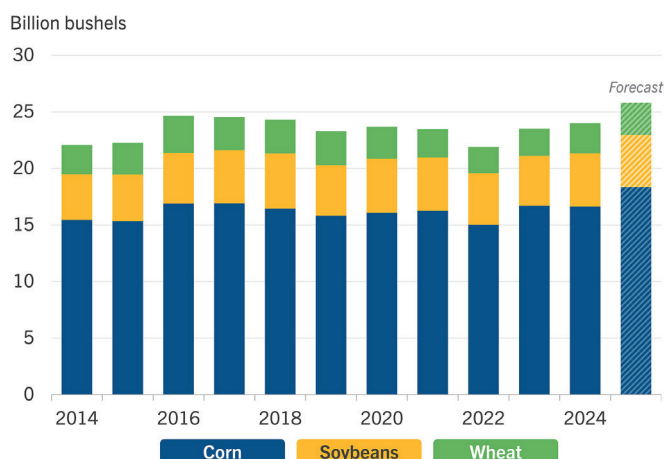
Record yields on expanded acreage are projected to produce a record corn crop of 16.814 billion bushels this fall, according to USDA-NASS. However, deteriorating crop conditions from corn rust disease and dryness in the eastern Corn Belt has limited yield potential in some regions and trimmed future estimates on total production. Supply, though, will still be record large and strain storage capacity and logistics.

Corn has maintained a remarkable export pace with export sales heading into peak harvest up 77% YoY as top customers Mexico, Japan, Colombia and Korea each show notable increases in purchases (*Exhibit 3*). Corn's domestic demand outlook, though, is foundering. Implied corn usage in the last quarter of the 2024/25 marketing year – June to August – fell 3.8% YoY to 3.111 billion bushels despite a robust export program. Grain sorghum on the Plains is displacing corn in ethanol production, and feed demand faces headwinds of smaller cattle and hog herds and a reduced poultry flock.

1 The record fall crop of corn, soybeans and grain sorghum following the largest wheat harvest in five years is straining U.S. storage and transportation infrastructure.

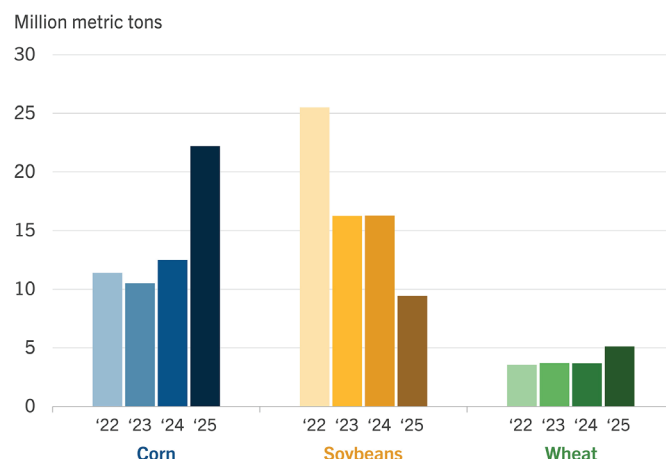
2 Corn and wheat exports enter Q4 with historically strong export sales, but soybean sales languish from lack of Chinese demand.

EXHIBIT 1: U.S. corn, soybean and wheat production



Source: USDA-NASS Crop Production

EXHIBIT 2: Outstanding export sales in mid-September



Source: USDA-FAS Export Sales

Soybeans

The U.S.-China trade row has stagnated soybean exports with sales to other nations only slightly improving. Heading into the peak shipping season for soybeans, total export sales at the start of the fourth quarter are down 72% YoY. U.S. soybean exports to Mexico, Taiwan, the EU, and Pakistan are up versus prior years but have not replaced the loss of China, which typically accounts for nearly half. Low water levels on the Mississippi River also threaten to slow exports (*Exhibit 4*).

The continual expansion of U.S. crush capacity is a bright spot for soybean demand with two new plants in Nebraska and South Dakota starting operations in the fourth quarter. Growing demand for soybean oil for use in renewable diesel has improved crush margins for U.S. soybean crushers. Soybean basis weakened by the loss of Chinese export demand will further cushion processor margins. Ample soybean meal supplies have depressed meal prices, stimulating new export demand.

Attention next quarter turns to the South American soybean crop where Brazilian farmers are struggling with dry planting conditions. However, soybean acreage is expected to expand, aided by record exports to China.

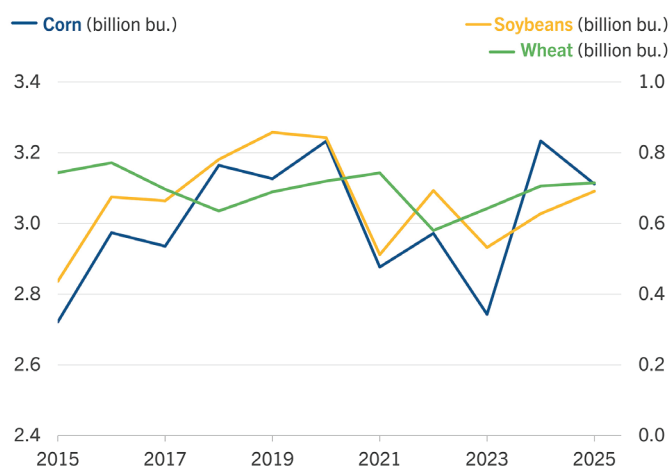
Wheat

Acreage for the 2026/27 U.S. winter wheat crop is expected to drop slightly YoY as wheat's falling prices make it less competitive versus other planting options. Ample moisture on the Plains, though, may prompt some farmers to reduce fallowed acreage and expand wheat acreage.

Increased sales to Mexico, Southeast Asia, and Japan led to wheat's impressive export pace. Strong exports and rising export prices in the Black Sea region may turn wheat prices around. The arrival of larger crops in Australia and Argentina will create headwinds for wheat's export pace. ■

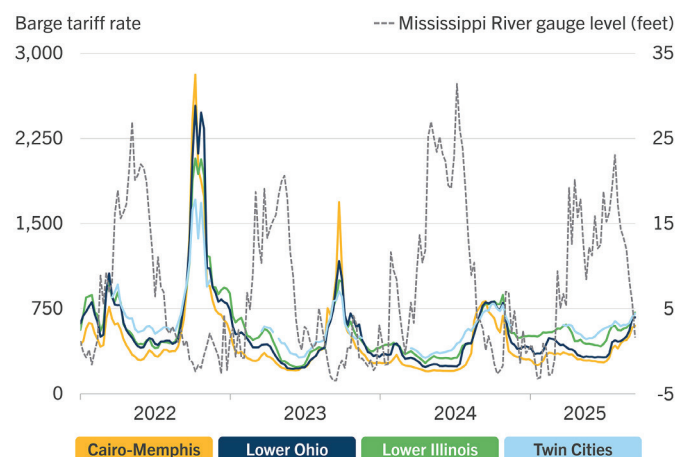
3 Low water levels on the Mississippi River for the fourth consecutive year threaten to **slow grain and oilseed exports during the peak shipping season.**

EXHIBIT 3: Corn, soybean and wheat usage (Jun 1 - Sep 1)



Source: USDA-NASS Grain Stocks

EXHIBIT 4: Downbound grain barge rates vs. Mississippi River level



Source: USDA-AMS

FARM SUPPLY

Tariffs on crop inputs to push prices higher



By Jacqui Fatka

Elevated crop input costs will squeeze margins for farmers in this lower commodity price cycle, forcing crop producers to stall purchases as they take a hard look at input costs versus needs for their 2026 crop. Farmers will likely make input decisions after harvest once additional information about yields is available. Crop input suppliers have been able to navigate the massive tariffs impacting the crop input business so far this year, but with the longevity of tariffs unknown, suppliers are treading lightly with fall pricing.

Overall tariffs on agricultural inputs are projected to increase from less than 1% to nearly 12% (*Exhibit 1*), according to the latest [Agricultural Trade Monitor published by North Dakota State University](#). The reciprocal tariffs established by the International Emergency Economic Powers Act range from 10% to 50% and involve many countries; the U.S. Supreme Court is scheduled to assess their legal validity in November.

Tariffs could have an 8%-28% impact on the pricing of agrochemicals, or roughly \$10 to \$34 increase per gallon of product, according to private estimates. The exposure to these tariffs is contingent on the type of production used for a particular crop protection product, depending on the use of imported bulk finished products versus domestic production using imported active ingredients. Larger, more differentiated companies are better positioned to avoid passing tariff-related cost increases to growers immediately, often absorbing short-term impacts to protect market share and customer relationships.

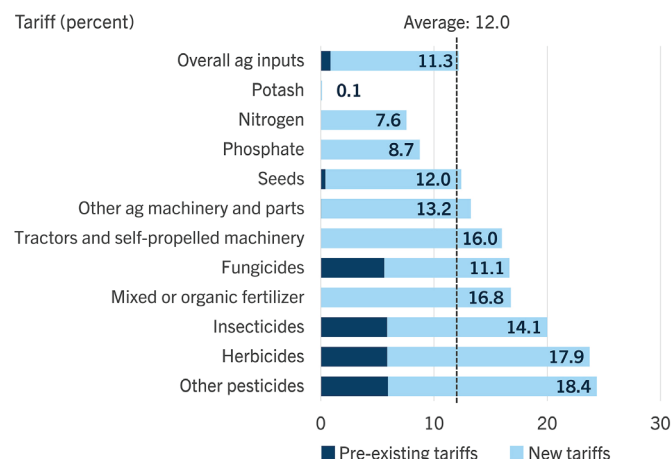
Fertilizer prices remain the biggest headwind for producers, contributing to poor return prospects. Farmers will be reassessing and potentially reducing their usage rates of nitrogen, phosphorus and potassium, and likely use more nitrogen stabilizers. Fall applications do tend to result in greater nutrient losses, which may lead to fewer fall applications to preserve nutrients. However, shifting more applications to the spring will create high spring demand prone to supply chain hiccups. Inventories ended last spring at low levels and continual demand limited refilling the system. ■

1 Steady to rising crop input prices will likely further erode producer profitability.

2 Due to reciprocal tariffs, the average tariff on crop inputs has increased from 1% to nearly 12%.

3 Elevated fertilizer prices are likely to lead farmers to reduce fall applications while they strive to minimize nutrient losses.

EXHIBIT 1: Ag input prices see increasing impact from tariffs



Source: North Dakota State University Trade Monitor

BIOFUELS

Biofuels policy still creating unknowns



By Jacqui Fatka

Regulatory policy delays on final renewable volume obligations and small refinery exemption reallocation are casting a cloud over future demand for biofuels. However, current biofuel demand is a silver lining on the crop side of the current agriculture economy.

The Environmental Protection Agency proposed 2026 and 2027 renewable volume obligations in the summer, anticipating it would release final levels by the statutory deadline of Nov. 1. However, because comments on the delayed SRE reallocation proposal of either 50% or 100% are due Oct. 31, the final RVO decision will likely be postponed until early 2026. EPA's proposed 2026 RVO for biomass-based diesel is more than 2 billion gallons higher than 2025 volumes and the largest year-over-year increase in program history. The proposed RVO rewards only 50% renewable identification number values to imported feedstocks, boosting demand for domestic feedstocks if finalized as proposed.

Renewable diesel supply remains tight, with industry sources estimating production capacity utilization near 60% to end the third quarter as producers work through the long transition from the Blenders Tax Credit to 45Z. With the policy shift, domestic margins remain compressed for renewable diesel and biodiesel producers (*Exhibit 1*). Production will need to rise heading into 2026 to meet higher projected RVO levels.

Expect ethanol margins to stay positive to close out the year, benefiting from plentiful corn supplies from the anticipated record harvest and low natural gas and corn prices. Ethanol exports for the first three quarters of the year are 10.4% ahead of the same period in 2024 and on track for a record-breaking year.

Canada remains the top buyer of U.S. ethanol.

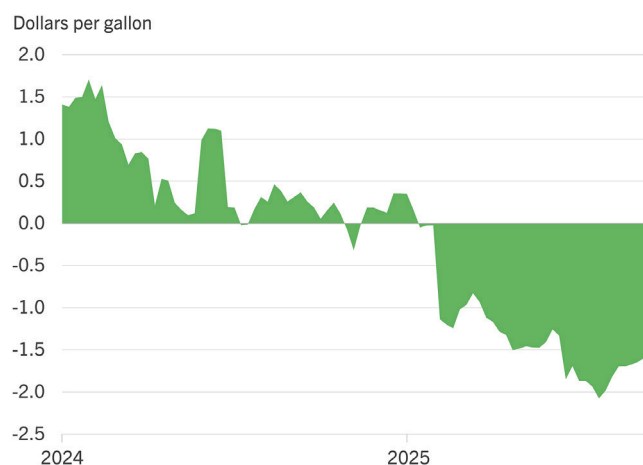
Ethanol production is projected to consume 33% of the anticipated record corn crop in 2025. Industry groups continue pushing for legislation allowing year-round E15. The National Corn Growers Association estimates that full E15 adoption would utilize 2.38 billion more bushels of corn or 47.1% of corn use. If year-round E15 could be adopted, it would likely result in a gradual buildup of increased demand. This reality would be a welcomed market stabilizer for producers. ■

1 EPA is unlikely to finalize next year's renewable volume obligations before 2026.

2 With the tax policy transition and lower mandated levels, renewable diesel and biodiesel margins will stay in the red.

3 Industry groups are pushing for E15 to utilize more corn domestically from anticipated record crop.

EXHIBIT 1: Biodiesel return over operating costs



Source: Iowa State CARD

ANIMAL PROTEIN

Summer is out, but protein is still in



By Brian Earnest



and Abbi Prins

As the 2025 grilling season came to a close over Labor Day weekend, the animal protein segment benefitted from strong demand and low feed costs. Recent Circana sales data showed dollar sales up for every animal protein category in the grocery store, led by beef.

Across the grocery aisles, protein labels can be seen far and wide. As tariffs and inflation have squeezed consumer purchasing power, more meat products are being featured at the retail level ahead of the holiday season.

Trade and international relationships are still front of mind for the entire sector as exports play a critical role in supply and pricing for U.S. producers. Animal protein export volume has declined 4% (418 million lbs.) YoY for the period from January-July (*Exhibit 1*).

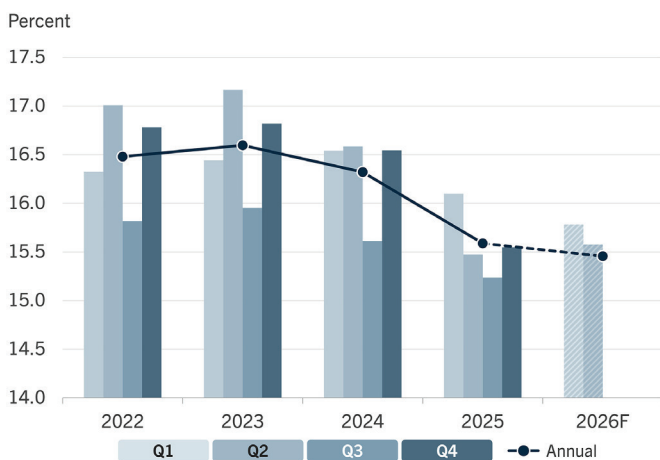
This is a moderate decline considering Mexico and Canada remain top destinations. In contrast, Brazil continues to grow its export program for animal protein, which is up a combined 5% YoY.

The top two drivers of profitability in the animal protein sector, inputs and demand, remain squarely in favor of producers. While integrated production systems are benefiting, beef packing margins have suffered from fragmentation. Another record yield for corn and soybean crops continues to pressure the outlook for feed costs (*Exhibit 2*), keeping the animal protein outlook favorable. However, other factors including capital costs and labor challenges are moderating expansion and growth ambitions.

1 Through mid-year, the animal protein sector remains a primary benefactor of strong demand and suppressed feed costs.

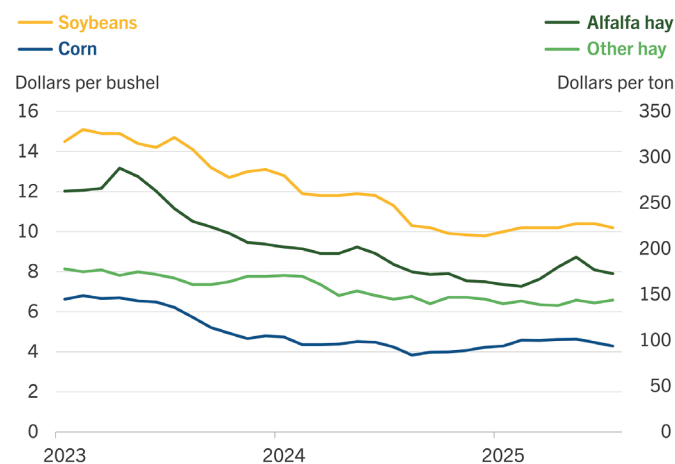
2 While U.S. animal protein supplies struggle to keep up with domestic demand, Brazil's meat and poultry sales are expanding globally.

EXHIBIT 1: U.S. beef, pork and poultry production that is exported



Source: USDA, ERS CoBank Calculations

EXHIBIT 2: Feed costs have largely stabilized from recent highs



Source: USDA-NASS

Chicken

With beef prices hitting all-time highs and red meat supply feeling the strain of tight cattle and hog supplies, the U.S. broiler segment saw opportunity to provide consumers a value offering during the peak of grilling season this year. And by nearly all accounts, chicken rose to the occasion. The quick-service restaurant segment offered a multitude of chicken limited time options focused on strips with new flavors. At retail, USDA's feature index rose from 87% in 2024, to 89% this year.

Low breast meat prices observed by market participants during December 2024 largely spurred the onslaught of chicken featuring during the spring and summer of 2025. The market frenzy that ensued sent boneless skinless breast meat values from \$1.50/lb. to record-high territory of more than \$2.70/lb. during the first quarter of 2025 (*Exhibit 3*). White meat values held high through the second and into the third quarter but have since softened. Still, the elevated market values accompanied an uptick in production.

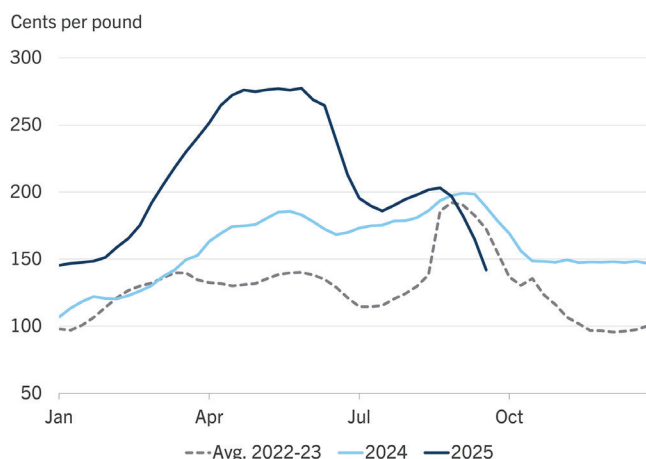
Last quarter, we noted a 2% YoY increase in chick placements which was expected to boost broiler harvest through the balance of the summer. Indeed, broiler harvest was up an average of 4 million head per week, or 2.4% YoY on through the 12-week period ending Sept. 19. Liveweights continued to rise throughout the period as well, eclipsing previous records at more than 6.8 lbs. on average in recent weeks. Chick placements are hovering around 193 million per week (*Exhibit 4*), which should increase broiler harvest by a very manageable 0.5% to 1% YoY during the fourth quarter.

Moving through the balance of the year, production is expected to remain elevated. Softening white meat values during the remainder of the year are likely to crimp margins, but again position U.S. chicken as a competitive value offering for 2026.

1 Ongoing focus on chicken at retail and food service boosted white meat values through August.

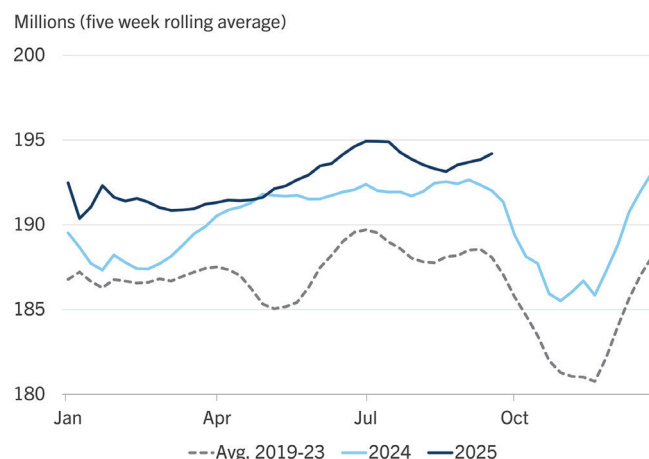
2 Production growth remains moderate, spurring optimism amidst a favorable feed cost environment.

EXHIBIT 3: USDA boneless/skinless breast meat



Source: LMIC, USDA

EXHIBIT 4: Weekly broiler chick placements



Source: LMIC, USDA, CoBank calculations

Beef

According to recent Circana sales data, retail ground beef dollar sales grew by double digits in August, up 13% YoY at \$1.7 billion. Beef prices were bolstered on tight cattle supplies, but demand proved key to boosting overall sales, and volume kept pace. However, record beef prices are not unique to U.S. The Food and Agriculture Organization's global meat price index hit new records throughout the third quarter (*Exhibit 5*). FAO's beef price index for Australia and Brazil were at record levels as well, as tight supplies met strong demand.

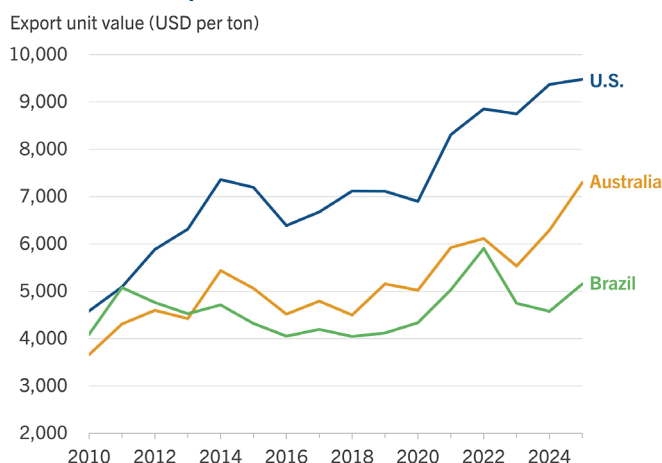
From a historical perspective, imported cattle from Mexico represent about 5% of the U.S. feeder cattle population. Cross-border imports of feeder cattle have largely been closed since November of 2024 due to discovery of New World Screwworm (NWS). Arguably, Texas cattle feeders have felt the most pronounced impact (*Exhibit 6*). As a result of cattle availability concerns, cattle are staying on feed for longer to add more pounds into the system. Even though these extra pounds of beef have partially offset the dampened cattle supplies, feed conversion deteriorates with more days on feed. This trades muscle mass for fat, broadening the need for lean beef trim in ground formulations.

Domestic cattle prices rose throughout much of the third quarter, setting new records and boosting returns to ranchers, but complicating beef market dynamics otherwise. Fed cattle values have kept pace. However, beef values stammered following the Independence Day retail rush. While packers continued to pay higher prices to fill shackles, returns suffered. The bottom line is that while beef demand remains strong, several factors are limiting growth and forcing many cattle producers to reassess their future business plans.

1 Beef packer margins struggled during the third quarter amidst record high cattle prices.

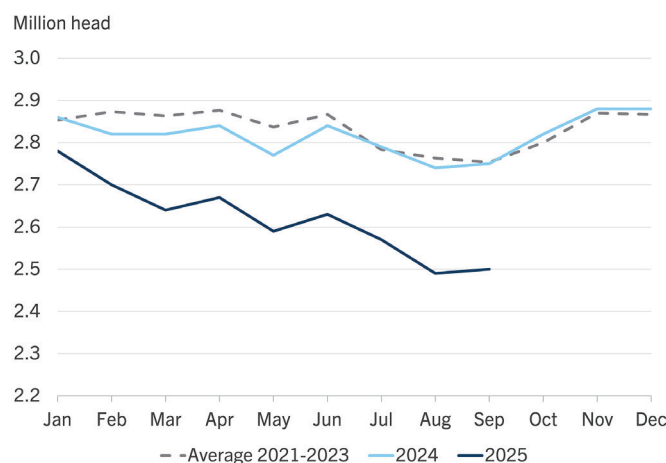
2 New World Screwworm has spread within 70 miles of the border, intensifying the threat to U.S. cattle supplies. Mexican feeder cattle imports remain blocked.

EXHIBIT 5: Beef prices continue to rise globally on FAO meat price index



Source: Food and Agriculture Organization

EXHIBIT 6: Fewer cattle on feed in Texas



Source: USDA-NASS

Pork

A slimming U.S. hog herd has presented a unique market opportunity with fewer animals available for slaughter, bumping up market prices. Price rallies for lean hog futures and feeder pigs persisted over the summer settling at 20% and 48% higher year-over-year, respectively, in late September. Feeder pig prices have followed counter-seasonal trends since May compared to a year ago and the three-year average (*Exhibit 7*). Historically, feeder pig prices will rally early in the year as those pigs will hit the market during peak lean hog prices in the summer. However, 2025 has been unprecedented with sustained momentum in the feeder pig market, along with 8.2% more hogs coming from Canada year-to-date in September.

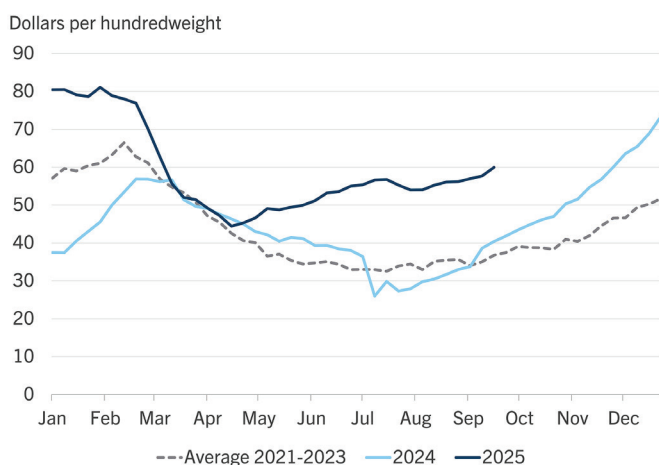
Lean hog futures had the highest and longest rally this summer since July 2022, peaking at \$112.81 per cwt. in June with 12 weeks over \$100 per cwt. This boasted well for producer margins, which have posted profits for 17 consecutive months. Farrow-to-finish margins in August were \$52.58 per head, the highest since June 2021, according to Iowa State University.

Export demand has slowed slightly in 2025 compared to 2024, which was a record export year for U.S. pork. Year-to-date through July, pork exports in dollars and pounds were down 3.6% from the prior year. One of the major impacts of China importing less pork from the U.S. is Chinese hog farmers are currently under pressure to reduce their hog herd to improve margins after experiencing falling hog prices. China's hog herd largely rebounded after a bout of African Swine Fever a few years ago, which required heavier purchasing of U.S. pork to supplement the country's supplies and demand. On the bright side, Mexico bumped up U.S. pork purchases by 2% to 1.5 billion pounds in 2025 through July (*Exhibit 8*). ■

1 Feeder pig demand has been strong, with prices up 48% YoY, while imports from Canada are up 8% YoY for the period from Jan-Sept.

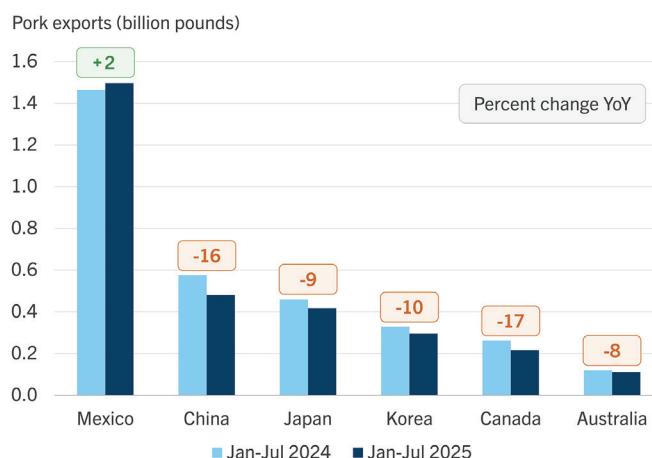
2 U.S. pork purchases have been down slightly in 2025 compared to a year ago, but Mexico still reigns as the No. 1 destination.

EXHIBIT 7: Feeder pig prices are unseasonably high



Source: USDA, LMIC

EXHIBIT 8: Mexico remains top buyer for U.S. pork YTD-July 2025



Source: USMEF, USDA

DAIRY

New price signals reshape dairy farms' decisions



By Corey Geiger

Revenue diversification has been a game changer on U.S. dairy farms. The pivot to using beef semen on a portion of the dairy cow herd has created a more robust income stream and bolstered dairy farms' bottom lines. Just one year ago, day-old, beef-on-dairy calves were bringing \$600 to \$800 per head at U.S. auction markets. That number has leapt to a \$1,000 to \$1,200 range, with some auctions even reporting a \$1,500 top-side number.

Unlike some other alternative revenue sources on dairy farms, every dairy farmer has the option to enhance revenue with beef-on-dairy. The combined cull cow and calf sale category netted about \$1 per hundredweight (cwt.) on a typical dairy farm in 2021. Fast forward four years and the financial contribution has grown exponentially. Cull cow sales alone moved to a \$1.50 per cwt. contribution with calf sales jumping to \$2.50 per cwt. for a net gain of over \$4 per hundredweight by the summer of 2025.

The beef-on-dairy market opportunity shows no signs of slowing over the next three years with a potential longer run as the U.S. beef cow herd is the smallest since 1961. As a result, numbers of steers and heifers destined for feedlots remain incredibly low, sending cattle futures to record highs. These new margins for beef in turn have caused the U.S. dairy cow herd to balloon to 9.52 million head, the highest total in over 30 years.

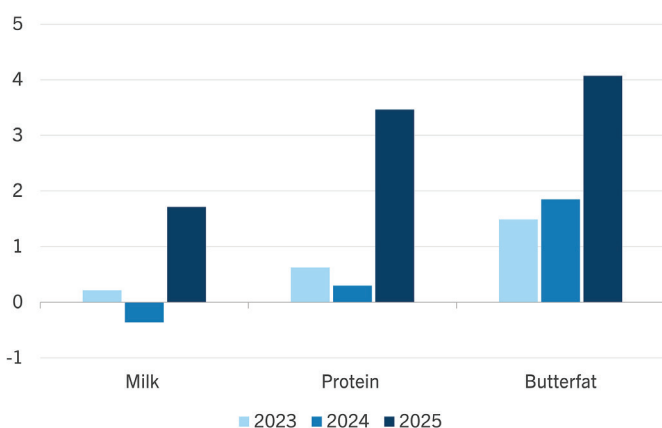
While milk production margins had been somewhat favorable, strong output in recent months significantly changed the price forecasts. Rather flat milk production in both 2023 and 2024 helped to keep milk markets in balance (*Exhibit 1*). Milk production

1 Beef's contribution to the dairy farm's bottom line has moved from \$1 to \$4 per cwt. over the past four years.

2 The U.S. dairy herd has climbed to the highest level in over 30 years, in part, to capitalize on revenue from beef-on-dairy calves.

EXHIBIT 1: Change in production January through August

Percent change year-over-year



Source: USDA and FMMO Data

EXHIBIT 2: Class III milk futures have turned lower

Class III futures (dollars per hundredweight)



Source: CME Group

began to rebound, growing 1.7% in the first eight months this year. While milk production is important, milk components have become a major market force. In 2023 and 2024, protein and butterfat production from U.S. dairy farms grew less than 2%. However, this year components have moved sharply higher with protein improving by 3.5% and butterfat jumping 4.1%. In the past three months, butterfat production has accelerated to over 5% growth year-over-year.

While appetite for protein seems insatiable, with the past year's sales volume growth at 10% for yogurt and 14% for cottage cheese, the U.S. is simply making too much butterfat. Even though domestic butter sales have grown 4.5% and butterfat exports are a whopping 253% higher than last year, butter churns are running near capacity. Butter buyers believe that there will be ample supplies for the upcoming holiday season.

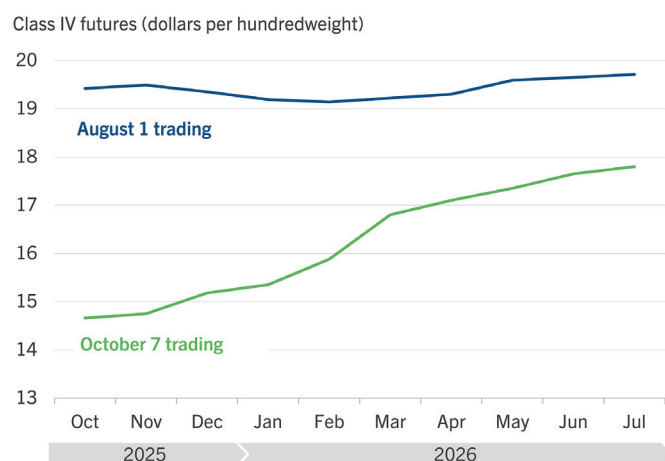
All of this butterfat caused spot butter prices to tumble nearly 80 cents since Aug. 1 trading to settle near \$1.65 per pound at time when butter prices would typically be at a seasonal high. As a result, Class III and Class IV milk futures moved lower during the past two months (*Exhibit 2 and Exhibit 3*). Lower butter prices are largely responsible for the downward pressure on Class IV. Meanwhile, Class III has turned sluggish due to slower foot traffic at many quick service restaurant chains, and that's a concern as half of all cheese is consumed away from home.

Due to these market conditions, the dairy margin outlook has shrunk considerably in the past months (*Exhibit 4*). In a traditional dairy environment, these market signals would tell dairy farmers to turn off the growth spigot. However, the lowest feed prices in over five years and record values for beef have changed everything, which means strong production from the nation's dairy farms could continue. Should beef prices fall, everything changes in this narrative. ■

3 Butterfat production is in overdrive due to the growing dairy herd, combined with improved genetics and feeding practices.

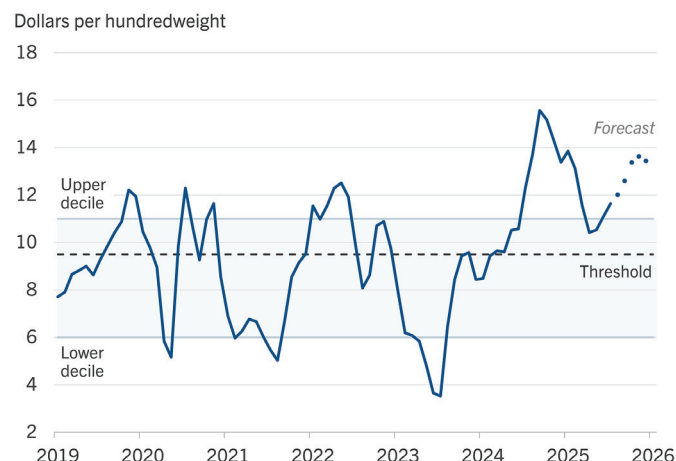
4 Ample butterfat supplies have sent milk futures lower, which would usually signal dairies to reduce milk production. However, profit margins for beef may be the stronger signal at this moment.

EXHIBIT 3: Softer butter markets have turned Class IV bearish



Source: CME Group

EXHIBIT 4: Actual and forecast dairy margins after feed costs



Source: Dairy Margin Coverage

COTTON, RICE AND SUGAR

Cotton and rice growers dogged by lethargic export demand



By Tanner Ehmke

Cotton

A slowing global economy with consumers financially stressed from inflation and rising unemployment continues weighing on clothing and apparel sales, pushing cotton prices lower. U.S. cotton exports have languished amid the weakening economic outlook. As of mid-September, cumulative U.S. export commitments of upland cotton were down 18% YoY with important markets like Pakistan, Mexico,

Turkey and China each taking notably less U.S. cotton this year. Meanwhile, Vietnam stands out as the only major buyer expanding purchases over last year (*Exhibit 1*). Trade agreements are needed to resume a faster export pace.

With typically 80% of the U.S. cotton crop exported, the slowing export pace is cause for concern for U.S. cotton farmers in the midst of harvesting the 2025/26 crop. USDA estimates the U.S. cotton crop at 13.22 million 480-lb. bales, down 8% YoY. Brazil – the main export competitor with the U.S. – begins planting its 2025/26 cotton crop in the coming weeks with production expected to climb 7.4% YoY.

Rice

Rice prices have continued to suffer from persistent downward global pressures since India resumed rice exports in 2024. Increased export competition from South America into the important Western Hemisphere market has only added to the global headwinds.

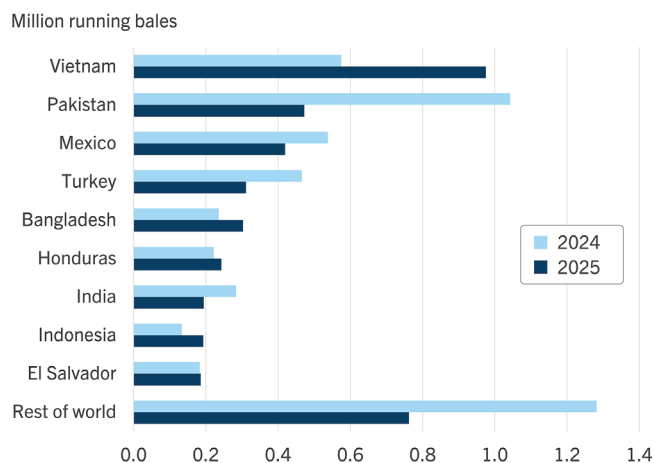
U.S. rice exports have been directly impacted. Accumulated export commitments of U.S. rice for the current marketing year starting Aug. 1 are down 26% YoY with sales to

1 Despite a smaller U.S. crop, cotton prices remain depressed.

Export sales fell 18% YoY on trade uncertainty and a slowing economy.

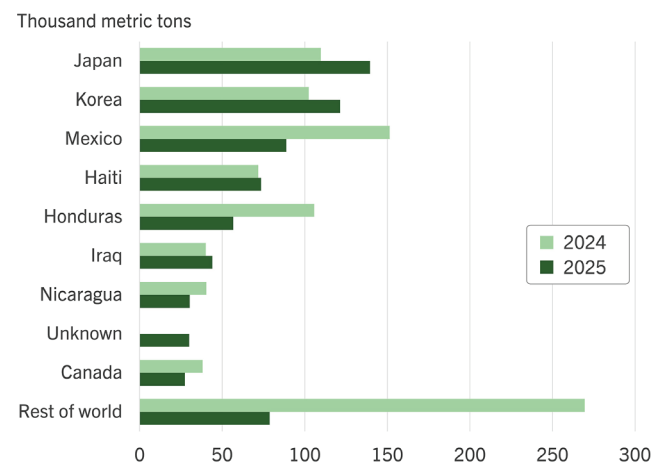
2 Ample global supplies of competitively priced rice, especially from India and South America, have eroded U.S. export market share and dragged U.S. export sales down 26% YoY.

EXHIBIT 1: Cumulative U.S. cotton export commitments by marketing year



Source: USDA-FAS Export Sales as of mid-September

EXHIBIT 2: Cumulative U.S. rice export commitments by marketing year



Source: USDA-FAS Export Sales as of mid-September

important destinations like Mexico, the Caribbean and Central America conspicuously weaker than prior years. Stronger sales of medium-grain rice to Japan and Korea, though, have been a bright spot in U.S. rice trade (*Exhibit 2*).

The total U.S. rice harvest is figured to be down 6.0% YoY at 208.8 million hundredweight. While U.S. tariffs on imported rice have offered some support to U.S. prices, global rice abundance threatens to hold prices at multi-year lows.

Sugar

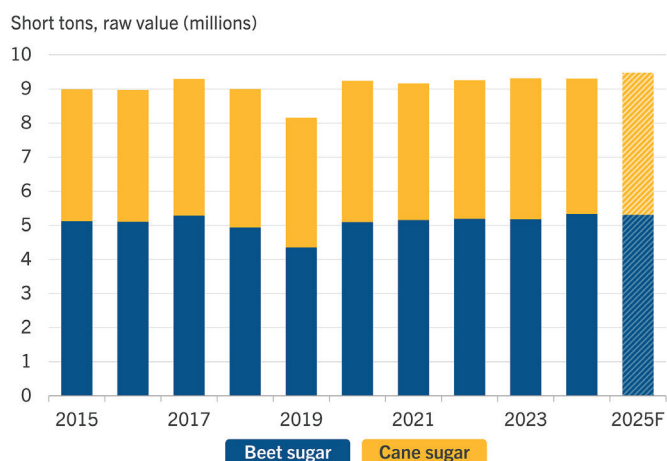
Sugar beet and sugarcane harvest is underway in the U.S. just as ample global supplies have pulled sugar prices to the lowest in more than four years. U.S. sugar beet farmers are expected to produce 5.303 million short tons raw value (STRV), down 0.5% YoY, while cane sugar producers are expected to harvest a crop totaling 4.167 STRV, up 5.0% YoY. Total U.S. sugar production is expected to rise 1.8% YoY (*Exhibit 3*).

The bigger U.S. crop arrives amidst a copious world crop, with total global production forecast to rise 4.7% YoY to 189.3 MMT – the largest crop in eight years as major exporters Brazil, Thailand and India expand production (*Exhibit 4*). The global abundance continues to anchor U.S. sugar prices, which fell last quarter to the lowest level in four years.

Biofuel policies in India, though, may limit India's future sugar exports. India's government in September lifted restrictions on producing ethanol from sugarcane. With more Indian sugar expected to be used for ethanol production, global sugar supplies may tighten, putting a stronger floor under U.S. and world sugar prices. ■

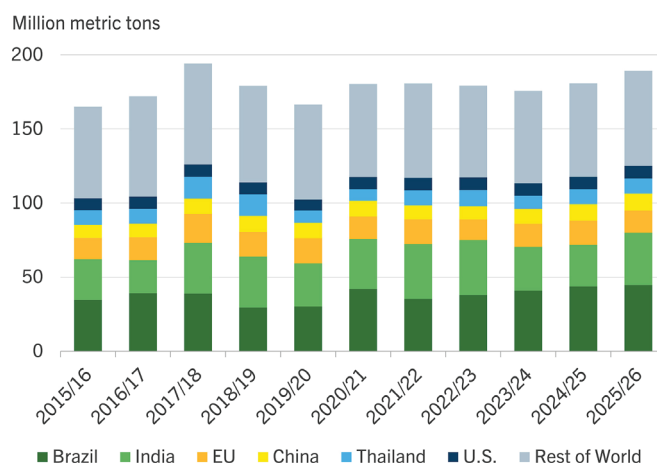
3 The biggest sugar crop in eight years has pulled sugar prices to the lowest level in four years. However, India may divert more sugar to ethanol production and tighten global supplies.

EXHIBIT 3: U.S. sugar production



Source: USDA-ERS Sugar and Sweeteners Yearbook Tables

EXHIBIT 4: World sugar production



Source: USDA-FAS PS&D

SPECIALTY CROPS

Lumber market faces housing downturn, fresh produce cash receipts decline



By Billy Roberts

Slipping lumber prices lead to sawmill slowdowns

Wood prices are sliding, and mills are cutting back because of market uncertainties and growing signs of a building slump. Lumber future prices hit a three-year high at the beginning of August (*Exhibit 1*) but have since dropped 24%. That drop likely would have been even more considerable had not two of North America's biggest sawyers indicated they will curtail output. On-the-spot prices for lumber are also down. Trade publication *Random Lengths* notes its framing lumber composite index is down 12% since the beginning of August.

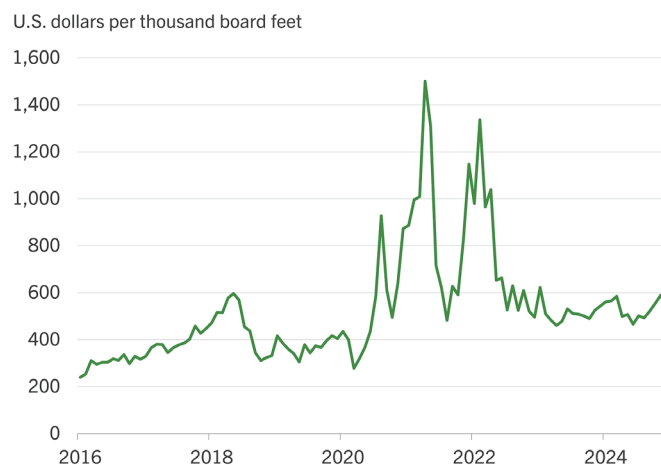
Lumber prices have experienced considerable ups and downs over the past decade, fluctuating from a low of \$240 per 1,000 board feet in January 2016 to well over \$1,500 by April 2021. More recently, prices increased when the White House noted it would investigate national security aspects of imported lumber and threatened steep tariffs on all Canadian goods earlier this year. The USDA in May announced a \$200 million investment to boost timber harvest and improve forest health and productivity. USDA's goal is to increase annual timber harvest by 25% by FY28, which is approximately 4 billion board feet. The Forest Service timber sales FY14 to FY23 (*Exhibit 2*) averaged 2.979 million thousand board feet, falling short of the average annual target of 3.314 million thousand board feet.

With USDA's announcement and the temporary reduced threat of tariffs, prices retreated. But they surged again in May when buyers began to stock up ahead of an increase in existing Canadian lumber duties and potentially increased tariffs. As of September, indicators of a building slump and glut of lumber product have pushed prices down again, to \$526.50 per 1,000 board feet, per *The Wall Street Journal*.

1 Diverse agriculture sectors are seeing similar volatility in their markets.

2 Indications of a home-building slump are leading to a notable drop in lumber prices, coming just as the USDA seeks to boost U.S. lumber production.

EXHIBIT 1: Monthly price of lumber in the U.S., Jan. 2016-Dec. 2024



Source: Statista

As a result of the dropping prices, lumber producers are cutting output. Interfor will drop production by 12% across its sawmills in the southern U.S., Pacific Northwest, British Columbia and eastern Canada. The result will be a production decline of roughly 145 million board feet through the end of the year. Domtar is similarly slowing down production at its sawmills in the U.S. and Canada.

Produce receipts expected to fall for the year

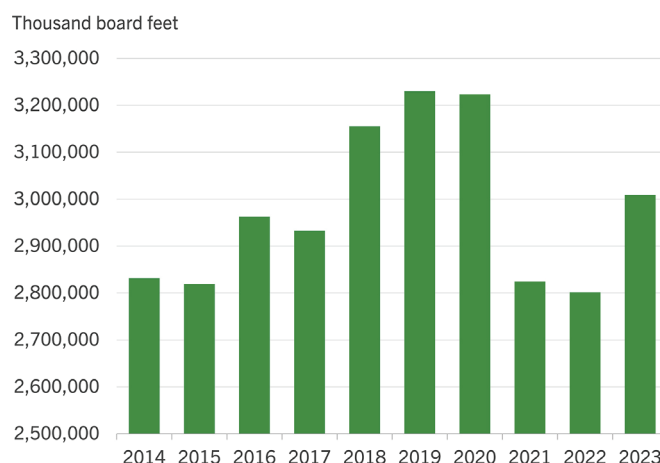
USDA projects 2025 cash receipts for all crops to be \$236.6 billion. The 2.5% decline from 2024 reflects continuing challenges from imports and increased production costs. Slightly higher cash receipts for fruit and nuts are expected to be offset by a drop in those for vegetables. USDA notes a pair of pressures are combining to reduce receipts overall: a widening trade deficit fueled by imports, as well as a rise in input costs, especially labor prices.

Fruits and vegetables are seeing significant increases in labor costs, which is especially impactful as this sector is already among the most labor-intensive in agriculture. Most of these crops require hand-harvesting, pruning and close crop management. Production expenses across the farm sector will reach \$467 billion in FY25, a 2.6% increase from a year ago and more than 36% higher than in 2018, notes *Southern Ag Today*.

The U.S. agriculture trade balance has been negative since 2021. Last year proved no exception, as FY24 saw exports at \$15.9 billion, while horticultural imports (excluding nuts, alcoholic beverages, cut flowers, and essential oils) tallied \$48.8 billion, roughly a quarter of all agricultural imports. ■

3 Fresh-produce growers face declining cash receipts and significant challenges from a trade imbalance.

EXHIBIT 2: Forest Service timber sold, FY14-23



Source: Government Accounting Office analysis of Forest Service Data

FOOD AND BEVERAGE

Deconsolidation proves breaking up can be hard to do



By Billy Roberts

Merger and acquisition activity continues in the food and beverage space, as evidenced by marquee deals including the merger of Mars and Kellanova and Ferrero's acquisition of WK Kellogg. However, deconsolidation and divestitures are becoming equally common across the food and beverage industry, as a number of companies are spinning off units or brands into more focused, independent organizations. Some companies are willing to forgo

diversifying their portfolios (and exposure across multiple categories) in favor of a more focused approach that affords greater flexibility to respond to consumer trends toward at-home meal solutions and healthier options.

In one of the most prominent such deals, Kraft Heinz is unraveling the biggest deal of a decade ago and is splitting into North American Grocery Co. and Global Taste Elevation Co. The entities will be better positioned to allocate capital and pursue growth in each of their respective strengths but do face headwinds. Global Taste is, as the name suggests, directly exposed to global risks of currency swings, tariffs, and fluctuations in commodity prices. The North American business faces much slower growth rates and even includes a brand that Kraft Heinz reportedly tried to divest as recently as this spring, Oscar Mayer. This unit is comprised largely of processed foods, which are facing not only regulatory oversight but also slimmer margins as inflation has all but eliminated potential pricing adjustments.

In an uncommon move, Keurig Dr Pepper is buying coffee brand/chain JDE Peet's but will immediately split into two companies, one for coffee brands and the other for non-coffee beverages, including carbonated soft drinks, sparkling waters and energy drinks. Coffee supply challenges will be confined to only one of the entities but will benefit from greater scale and diversification, not to mention branding potential of Peet's. The other-beverage business, on the other hand, boasts growing energy drink brands and a carbonated soft drink – Dr Pepper – that is at least growing in an otherwise lackluster category (*Exhibit 1*).

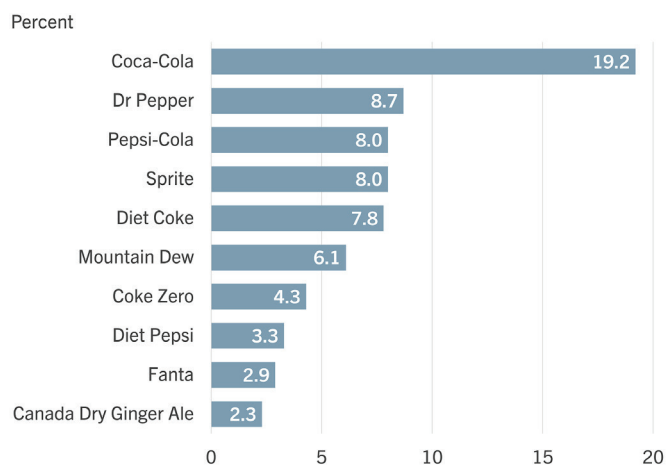
As consumers shift toward more cost-effective at-home meal solutions, they are likely also to drift toward healthier options. Even snacking, which had long been presumed resilient, has struggled; a study by Kroger's 84.51° found that 43% of shoppers are open to switching to lower-cost brands for snacks and candy. As such, some brands are focusing on key areas of expertise and positioning themselves to be agile enough to address specific consumer needs. ■

1 M&A activity in 2025 featured Ferrero's planned acquisition of WK Kellogg and Mars' purchase of Kellanova, which faces distinct regulatory hurdles.

2 At the same time, the biggest M&A deal of a decade ago is unraveling, as Kraft Heinz is splitting into two companies.

3 Shifts toward at-home meal solutions and healthier options are leading brands to focus on expertise and agility.

EXHIBIT 1: Leading carbonated soft drink brands, U.S., 2024, based on volume share



Source: Beverage Digest, Statista

POWER, ENERGY AND WATER

Rising plug prices are causing anxiety (and a little craziness...)



By Teri Viswanath

Our last Quarterly installment focused on domestic oil supply and the importance of stable affordable gasoline prices for the economy and public sentiment. Over the summer, Bloomberg columnist Liam Denning, offered a different perspective on how energy prices are contributing to the optimism (or surliness) of the nation given the growing consumer dependence on electricity – the largest share of residential demand is tied to electricity use (44%), with natural gas dependency a close second (41%) and petroleum consumption a far third (9%). It appears to be Liam’s opinion – and, for that matter, a growing chorus of energy journalists – that “plug prices are emerging as the new pump prices for economic anxiety.”

Denning examined rising residential electricity prices in his August opinion piece by breaking down the consumer power bill into the three primary components: generation, transmission and distribution. Of the three, distribution – the lower-voltage networks delivering power locally – has accounted for roughly two-thirds of the increase in average prices over the past decade, according to Jim Murchie, co-founder of Energy Income Partners LLC. Denning laments, “given the complexities behind power bills, everyday Americans can understandably struggle to properly assign responsibility for inflation.”

Under the “assignment of fault” category, a competing number of energy-related news articles would squarely pin the blame for rising electricity bills on data centers. A recent Bloomberg News analysis of wholesale electricity prices found that electricity now costs up to 267% more for a single month than it did five years ago in areas located near significant data center activity. However, the Bloomberg study appears to have cherry-picked its baseline year of 2020 – a year that marked the largest annual decrease in U.S. energy consumption in both percentage and absolute terms for EIA’s consumption data series dating back to 1949. That is not to say that the inability to build power plants fast enough to satisfy growing data center demand won’t impact consumer electricity bills.

Last December, the energy consultancy Energy + Environmental Economics (E3) rigorously quantified the grid and customer impacts of continued data center growth in Virginia. They readily acknowledge that the potential impacts of data centers will be profound and transformative but point out that current electricity rates appropriately allocate costs to the customer classes responsible for incurring those costs. Or to

1 Electricity prices are climbing more than twice as fast as inflation, which is cause for concern.

2 The problem of rising electricity prices really predates the rise in data center demand.

put it another way, Virginia’s utilities have done a pretty good job in ensuring that data centers pay their fair share of the bill. Yet, down the road, E3 points out that secondary impacts upstream from distribution systems, such as increasing tightness in energy and capacity markets, will eventually lead to upward pressure on rates for all ratepayers. The question is whether this moment has already arrived.

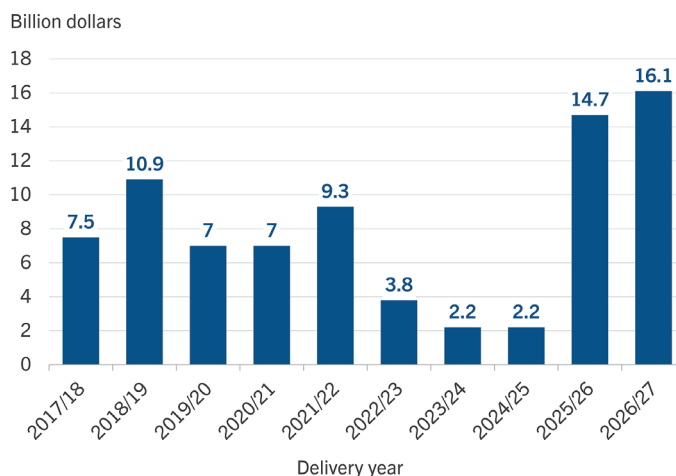
In PJM’s territory, the epicenter of Big Tech data center expansion, rising power demand is now at odds with years of declining electricity supply across that region, resulting in a capacity shortage and increased auction prices (*Exhibit 1*). Concerns about cost allocation for system capacity have even prompted 11 of the 13 PJM coordination states to form a “governors’ collaborative” to work on reforms to address upstream cost-shifting related to the large-loads. That said, the North American Electric Reliability Corporation has long warned of supply shortfalls – making it clear that the problem of rising electricity prices pre-dates the rise of data center demand. What’s more, regulatory misalignment or the mis-apportionment of system costs could deter the timely beneficial load growth that these large-load consumers bring that might fix the rising plug price problem for the rest of us.

Indeed, it is possible that the data center investment splurge underway could be the catalyst for modernizing the U.S. electric grid and ultimately help lower rates for all customers. Just how, you ask? These emerging big electricity consumers increase utility revenues that can in turn be reinvested to shore up scarce supplies. Is there still work to be done by the industry to ensure that data centers and other large customers pay their equitable share and that the revenues are re-invested appropriately? Sure, but let’s not lose something valuable (beneficial load) while trying to get rid of something undesirable (cost shifting). Data centers might very well add to immediate cost pressure for electricity consumers but will ultimately aid in the infrastructure investment required to keep prices down over the long run.

With electricity prices climbing more than twice as fast as inflation, there is cause for concern but limiting pathways for a solution could limit opportunities for a solution. ■

3 Mis-apportioning system costs could deter timely beneficial load growth that could fix the rising plug price problem.

EXHIBIT 1: PJM capacity auction costs



Source: PJM Interconnection

DIGITAL INFRASTRUCTURE

Fueling the future: Data centers, power, and the race to keep AI on U.S. soil



By Jeff Johnston

Can trees really grow to the sky? Judging by the money flowing into artificial intelligence infrastructure, it almost feels that way. The AI Supercycle we are in shows no signs of slowing – if anything, the pace is accelerating. That momentum creates a unique opportunity for rural America, as hyperscalers and data center developers search for land and a clear path to power.

The evidence supporting continued, large-scale AI infrastructure investment is everywhere. For example, Microsoft's capital expenditure guidance for the first quarter of FY2026 (ending September 2025) came in at \$30 billion. On an annualized basis, that equates to \$120 billion, well above the \$88 billion the company spent in fiscal 2025. In total, hyperscaler capex for calendar year 2025 could approach \$400 billion, up from about \$235 billion spent in 2024.

Oracle, another major AI infrastructure provider, blew away expectations this quarter. The company guided its cloud infrastructure business to grow 77% this fiscal year to \$18 billion, with projections over the next four years of \$32 billion, \$73 billion, \$114 billion, and \$140 billion. Meanwhile, Broadcom reported that its AI semiconductor revenue will rise 63% year-over-year and expects even stronger growth in the next fiscal cycle. Together, these signals confirm that we are still in the early innings of AI-related capital investment.

But the road ahead is not without challenges. Chief among them is power. The looming supply-demand imbalance in U.S. energy markets is very real and risks becoming a bottleneck for growth. Former Google CEO Eric Schmidt recently projected that the country will require an additional 92 gigawatts of power by 2030 just to support AI data center demand. Meeting that need will be a daunting task, requiring an “all-of-the-above” strategy to generate enough electrons. Without it, the risk grows that critical AI training activities could migrate overseas.

The geopolitical implications are intensifying. The U.S. is locked in an AI race with China, and China is rapidly expanding its energy infrastructure to support that growth. Enerdata reports that China added roughly 357 GW of new wind and solar capacity in 2024, followed by another 268 GW of renewable capacity in just the first half of 2025. By contrast, the American Public Power Association notes the U.S. added 62.8 GW of new power capacity in 2024. While China's larger population and industrial base help explain the disparity, the bottom line is clear: China is outpacing the U.S. in energy production – a factor that could emerge as a significant geopolitical headwind in the global AI race. ■

1 Hyperscaler capex could hit \$400 billion in 2025, up from \$235 billion last year.

2 Oracle, Microsoft, and Broadcom expenditures and revenue point to explosive AI infrastructure growth.

3 AI needs 92 GW of new power by 2030 – or AI training risks shifting overseas.

This quarterly update is prepared by the Knowledge Exchange Division and covers the key industries served by CoBank, including the agricultural markets and the rural infrastructure industries, as well as relevant legislative and regulatory developments.

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**CoBank's Knowledge Exchange Division welcomes readers' comments and suggestions.
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