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Subject: Will AI Strain the Electric Grid?; other Kiplinger forecasts
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To:

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Have a great weekend ahead. DeMarie

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The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

The AI boom has raised another major issue:

Can the electric grid keep up with demand? Data-center demand for power will rise 22% this year and is now on pace to triple by the end of the decade.

It's one of many factors raising power prices and questions about the system's long-term reliability.

THE GRID

Washington, October 30, 2025

Economic Forecasts

GDP growth NEW
1.8% in '25, 1.8% in '26; shutdown dings '25 a bit

Interest rates
10-year bond remains at 4.0% during labor market slowdown

Inflation
3.4% at end '25, 3.0% at end '26

Unemployment
4.5% at end '25. Peaking at 4.7% mid-2026. 4.5% at end '26

Crude oil
Trading at $55 to $60 per barrel this fall

Heavy-duty truck tariff
25% starting Nov. 1, likely to affect only trucks from China

Complete economic outlook at kiplinger.com/outlooks

Grid watchers now warn of a “five-alarm fire” that is already threatening power providers, who must respond to higher demand while grappling with more-variable sources of electricity (such as solar and wind), more extreme weather, supply chain snags and local opposition to building new infrastructure.

Utilities aren’t even sure how much to build, fearing that many projections for electricity demand from data centers are overstated. The difference of a few percentage points in these power load forecasts could affect billions of dollars in investments and bills.

It may take a few years to see the full scope of the issue, enough time to determine whether AI will prove as power-hungry as the forecasts expect.

Amid uncertainty, a few things seem likely:

First, many Americans will have higher electric bills. Prices have increased faster than inflation since 2022 and will continue to do so through next year, at least. The Pacific (26%), New England (19%), Mid-Atlantic (19%) and Mountain (14%) regions have seen the biggest rate hikes in that time, all more than the national average (13%).

Second, utilities will continue to invest in new, more resilient infrastructure, which may prove to be a bigger driver of high power prices than the new data centers. A recent Berkeley Lab study attributed the bulk of the increased cost of electricity in recent years to such investments, including wildfire mitigation in Western states.

Third, NIMBYism and supply chain issues will continue to slow these efforts. Until recently, data centers have been able to take advantage of existing infrastructure that was left unused by America’s deindustrialization. The current build-out, plus all of the power lines and more that will be needed to make it happen, will occur closer to residential areas and thus be more likely to encounter opposition. Meanwhile, there is an ongoing shortage of key grid components, most notably transformers.

The Trump administration is trying to speed up the regulatory process, allowing faster connections to the grid and faster construction of infrastructure. This is easier said than done, and long-term progress will likely depend on Congress passing a long-debated permitting reform bill, which remains stuck in limbo.

Power demand growth will be a windfall for grid equipment manufacturers, who are investing hundreds of millions of dollars in new and existing U.S. capacity. GE Vernova, Mitsubishi Electric and Eaton are among the companies doing so, preparing to make more of everything from turbines and transformers to switchgear.

U.S. ECONOMY

The Federal Reserve is clearly more worried about jobs than inflation, as evidenced by its quarter-point cut to its benchmark interest rate this week. Last week's lower-than-expected inflation report enabled the Fed to lower rates to boost the economy. The government shutdown means no reports on monthly job creation for now, but the Fed thinks the labor market is still weak.

Look for another quarter-point cut from the Fed on Dec. 10, and then a pause so the central bank can assess whether inflation or unemployment is the bigger risk.

Speaking of inflation, it hasn't been vanquished, even though the Sept. data on prices showed a smaller rise than expected. The Consumer Price Index still rose 3% from a year earlier, and we look for inflation to accelerate slightly as the year ends. Tariff costs are starting to show up in more categories of goods in the inflation data. Unfortunately, inflation is more categories of goods in the inflation data. Unfortunately, inflation is the only major federal economic data available for now. With agencies closed, most other statistical reports are on hold. Even after the end of the shutdown, there will be continuing reporting lags. Delays may extend into 2026.

Even if the latest wave of layoffs is short-lived, consumers will be spending less.

Fewer new jobs and slowing pay gains all but guarantee it. The increase in consumption has already slowed from a 3.4% annual pace in 2024 to 1.5% in the first two quarters of this year, a deceleration we expect to continue. Income from savings accounts and similar assets will also be falling as the Fed trims rates.

TRADE

Shippers are getting whipsawed by tariff threats that they often learn about on social media. President Trump has taken to announcing new tariffs on his Truth Social platform, often with effective dates that are only weeks away. Such was the case with his recent plan to levy 100% rates on Chinese imports on top of existing tariffs. Threatened tariffs also get walked back by Trump on short notice. As a result, some shippers whose goods usually move by water rush to bring in items quickly by air instead, causing air freight rates to spike, or fall when a tariff gets axed. Items that normally ship by air tend to be high-value things like electronics and drugs.

GLOBAL ECONOMY

While GDP growth in the top Latin American economies has been resilient... backed up by steady consumer demand and tight labor markets... there are clear signs that growth is starting to slow in Mexico, Argentina and Brazil.

Mexico's labor market is starting to show signs of weakness as a result of tight financial conditions, slowing domestic spending and external uncertainty. Its economy likely contracted in the third quarter amid weakness in manufacturing, which will probably continue for the rest of the year and prevent a broader recovery.

A new fiscal deal with the U.S. will help Argentina's slowing economy, which has been hit by weak domestic demand, faltering private consumption and reduced investment. President Javier Milei secured a $20 billion currency swap with the U.S. Treasury to help stabilize financial conditions in the country. The deal was confirmed a week before legislative elections, which likely helped Milei's party to win 41% of the vote. Public fatigue with austerity measures has risen in Argentina, but Milei will be able to continue his reform agenda. Meanwhile, inflation is rising in Brazil and GDP growth cooled in the third quarter, but its economy is holding up.

Japan's new prime minster will focus on the country's elevated inflation, which is still above 2%. Sanae Takaichi, who assumed office on Oct. 21, is unlikely to push for interest rate cuts. Instead, her new government is preparing a package to tackle the cost-of-living crisis, including some tax cuts and cash handouts. Higher defense spending... targeting 2% of Japan's GDP...will also be a priority for her.

Takaichi will seek to strengthen ties with President Trump. During his visit to Japan this week, Trump praised Takaichi and the two sides inked two agreements. One reaffirms the previously negotiated trade deal, while the other pledges cooperation on expanding the supply chain for rare earth metals, a top priority for Washington. Takaichi is likely to up U.S. imports and direct investment to foster ties with the U.S.

POLITICS

While Republican loyalty to President Trump is generally

unwavering…

Some GOP lawmakers are pushing back at a few of his recent moves, trying to thread the needle of voicing their concerns without stoking Trump's ire.

One of them: **A White House plan to import more beef from Argentina**. The president says it's intended to lower the price of beef at the grocery store. But some GOPers say the move runs counter to his "America first" trade agenda. Senate Majority Leader John Thune (R-SD) isn't a fan of the plan and hopes the president will reconsider. Moreover, he isn't the only GOPer with that view.

Other negative headlines could be a headache for Republican lawmakers in swing states and swing districts. Case in point, the president's pardon of former Republican Rep. George Santos has divided opinion within the party, particularly among lawmakers from the convicted felon's home state of N.Y.

For now, these disagreements rarely translate into concrete actions.

It's politically dangerous to oppose Trump, given how popular he is among Republicans. The support of the GOP's voters has kept lawmakers loyal to the president, despite his nationwide approval rating remaining underwater.

CONGRESS

Signs are emerging that the government shutdown could end soon. While it likely will drag on into early Nov., the parties finally are talking and sharing ideas with each other on how to end the month-long funding lapse.

Talks will kick into high gear once Nov. 1 arrives, when open enrollment for Obamacare starts. Unless Congress extends expiring federal subsidies, a key Democratic demand, health insurance premiums will increase for millions of Americans. And nothing motivates folks on Capitol Hill more than a deadline.

Other pressure points are driving lawmakers to reopen the government. SNAP and WIC, the low-income food aid programs, will run out of money in days. And airport delays will worsen until air traffic control and security workers get paid.

THE WORLD

Lawmakers are rekindling efforts to impose additional sanctions on Russia amid its ongoing war with Ukraine. Congress had paused for several months on bipartisan legislation, while waiting for a green light from President Trump.

The proposal calls for a 500% tariff on imported goods from countries that buy Russian oil, gas, uranium and other products. It would let the president waive sanctions for several months, giving him some flexibility to negotiate an end to the war. The length of the waiver period, which will likely be at least 180 days, could be a sticking point, as Republicans want a longer timeframe than Democrats.

But senators are growing impatient and want to move on the bill soon, particularly after a proposed summit between Russian President Vladimir Putin and Trump in Budapest was called off last week. Lawmakers were ready to move on the bill in July but agreed to wait in the hope the leaders would reach a deal.

Republican leaders say Trump is generally on board with the legislation but is seeking some changes. GOP leaders haven’t yet scheduled floor votes for the bill, but they’re getting antsy and are pressing Trump for his final OK.

Any bill would build on the Trump administration's recent sanctions on Russian oil companies, a sign of the president's growing frustration with Moscow.

LABOR

The Trump administration is proceeding with a federal workplace heat rule after employers asked the Occupational Safety and Health Admin. to weaken, instead of ditch, the regulation. It's still unclear what changes regulators will make to the Biden-era draft rule, which required employers to provide access to water, shade and paid breaks during heat waves. The agency will end its public comment period for the updated rule at the end of the month, after which it could take multiple years to finalize, as the administration hammers out details and fends off legal challenges.

AI

With the risk of overspending on AI data centers, there's lots of uncertainty.

Here are some forecasts we *can* make: **There will be a flurry of new AI services** from leading AI firms in the next year or two to tap new revenue to cover rising costs. OpenAI, for example, recently launched an AI video social media app called Sora and a new web browser. AI companies will push harder into digital advertising and online shopping, both promising markets for AI web search and AI chatbots.

Though free options are here to stay, AI price hikes are coming. Top tiers of service, which provide the highest-quality AI responses and much more usage, will see higher prices. Consumers and businesses will have to pay more for AI tools from Microsoft, OpenAI, Alphabet, Anthropic, etc. Generative AI is being integrated into most software, from photo editing to sales tools, and prices are sure to rise.

AI companies will push harder to tap potentially lucrative new markets… education, government, medicine, energy, defense and more. Education seems ripe for making a lot more revenue in the near term, as both colleges and K-12 schools adopt AI tech. However, note that there's lots of pressure to show that the tech pays off, such as finding clear evidence that AI makes accurate medical diagnoses.

Market volatility is likely with bubble fears rising. Remember DeepSeek? The Chinese AI company sparked a major sell-off of AI tech stocks, plus other stocks in the AI sphere. Some investors thought a new breakthrough meant AI companies wouldn't need as many chips. That wasn't true, but expect more DeepSeek moments, with jitters stemming from concerns related to tech advances or spending slowdowns.

DRUGS

Another area where artificial intelligence is already making great inroads:

Drug discovery. Most major pharmaceutical companies are developing tools intended to hasten the creation of new medicines, as are numerous start-ups. Researchers think AI could be particularly helpful for discovering new protein targets, the key to addressing more hard-to-treat maladies. Humans have 10 trillion proteins, only 850 of which are targeted by Food and Drug Admin.–approved treatments.

The hope is to cut down on the time and price of a process that can take over a decade, costs roughly $2 billion, on average, and frequently ends in failure.

TELECOM

Turning fiber-optic cables into smart sensors is sparking renewed interest.

Fiber lines can be used to detect traffic, fiber cuts, pipe leaks, earthquakes and much more by analyzing the tiny disturbances in the light that passes along fiber. Those vibrations, strains and temperature changes can reveal detailed information. Such sensing is not new and has been used for border security…detecting vehicles or people near border fences…and to detect leaks in gas lines. But the technology is not widely used in telecom or other industries. Recent research shows that sensing can be done on the same wire as broadband without disturbing broadband signals.

There's lots of potential for smart cities, especially if paired with other data from cameras, wireless signals, other sensors, etc. The tech can detect traffic patterns car crashes and even find potholes (from the vibrations of cars driving over them). It can detect fires in tunnels, soil erosion, foot traffic, gunshots and much more.

Expect telecom firms to launch new fiber sensing projects in coming years. New efforts will try to lower costs, improve AI detection and create tech standards. Fiber sensing firms include Luna Innovations, Omnisens, Bandweaver and Prysmian.

Yours very truly,

Knight Kiplinger

October 30, 2025

THE KIPLINGER WASHINGTON EDITORS

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FUTURE
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