EDITORIAL

ELECTRICITY PRICES IN THE U.S.: A SIGNIFICANT ECONOMIC AND ELECTORAL CONCERN IN THE RUN-UP TO THE MIDTERMS

Optimism surrounding the deployment of artificial intelligence (AI) has become a key driver of economic growth in the United States. But this is not without its drawbacks: the energy-intensive nature of AI is putting pressure on the electricity markets and pushing prices higher – a trend that is set to continue in 2026. This poses a challenge not only for the competitiveness of American businesses but also, due to the resulting inflationary pressures, for households. It also creates a political problem for the Trump administration as the midterm elections draw near, where the issue of affordability will take centre stage. The underlying causes of tensions in the electricity markets are also structural (ageing infrastructure, limited production capacity), while President Trump's ability to respond quickly will be limited by technological constraints and time.

AI AND ELECTRICITY INFLATION: AN ECONOMIC REALITY

US GDP growth is largely supported by stock market optimism about AI and subsequent surge in investments[1]. However, this growth driver raises many economic questions including K-shaped distribution, employment and future profitability to which an additional concern can be added: electricity inflation that is directly linked to growing demand.

The rapid development and geographic concentration of data centers linked to the AI boom is placing significant pressure on local electricity markets. In fact, it is leading to sharp increases in household electricity prices, even as inflation has yet to return to its target after peaking at its highest level in over 40 years. The "electricity" component of the CPI accelerated throughout 2025, reaching +6.9% y/y in November and +6.7% y/y in December (compared to +1.9% y/y in January 2025). This overall figure marks considerable regional disparities, which are influenced by the concentration of these energy-intensive activities. For example, in November 2025, the year-on-year increase in residential retail electricity prices reached +16% in New Jersey and +8.2% in Virginia. These retail prices in the industrial and commercial sectors were also significantly higher in 2025 compared to 2024. This trend is set to continue in 2026, with average electricity inflation expected to exceed +5% for the year.

Consequently, we find ourselves in a paradoxical situation where the main driver of growth in the United States is simultaneously creating new tensions due to competing demands for electricity resources. This issue is impacting business competitiveness as companies are already grappling with rising input costs due to additional tariffs, thus facing a new risk. It also burdens households, which are directly exposed to rising electricity bills and tighter budgets. Finally, on the political front, the urgency of this issue is heightened, given that inflation typically disproportionately impacts the lower-income households, and electricity is a mandatory expense that is difficult to reduce. In addition, there is a tangible risk of second-round effects on services prices.

Even for tech companies, these pressures on the electricity system are problematic, as they threaten to hinder the advancement of AI and consequently impact future revenue streams. Estimates from BNP Paribas indicate that the available energy generation capacity and the electricity grid will limit data centers and AI development until at least 2030. The implementation of new power generation capacity faces multiple constraints, including insufficient gas supplies, lengthy nuclear development timelines, regulatory limitations on renewable, and restrictions on imports of key components such as transformers and battery components.

THE ADMINISTRATION FACES DETERIORATING HOUSEHOLD SENTIMENT

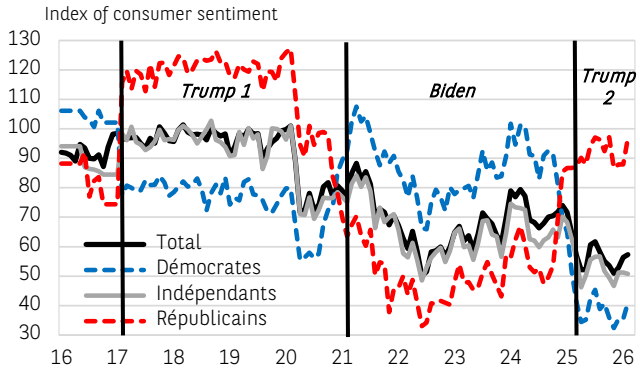

CHART 1 SOURCE: UNIVERSITY OF MICHIGAN, BNP PARIBAS

DATA CENTERS ARE NOT THE ONLY CAUSE OF ELECTRICITY INFLATION

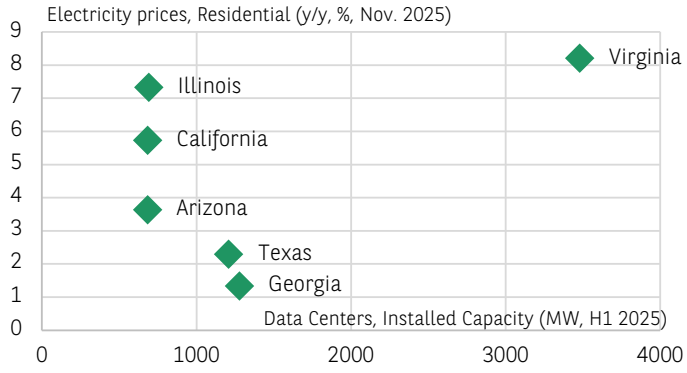

CHART 2 SOURCE: U.S. EIA, FITCH, BNP PARIBAS

1 See our Chart of the Week for 19 December 2025: United States, a K-shaped investment.

EDITORIAL

ELECTRICITY: A NEW OBSTACLE TO AFFORDABILITY AHEAD OF THE MIDTERM ELECTIONS

The year 2026 will witness midterm elections involving 35 of the 100 Senate seats (including 22 held by the Republicans) and the entire House of Representatives. The Trump administration will be risking its "trifecta" – the control of both chambers of Congress and the presidency by the same party[2]. From the administration's perspective, it is crucial to maintain the current state of affairs in order to pursue its economic policy and secure appointments (for example, to the Fed, the Supreme Court, and Cabinet positions) amid deep polarization. Consequently, rising electricity prices poses a challenge: it exacerbates the affordability issue and puts the incumbent majority at risk of potential defeat due to the economic context.

Like his predecessor, President Trump faces a divergence between strong US macroeconomic performance (we anticipate GDP growth of +2.9% in 2026, after +2.3% in 2025, while the Misery Index[3] has remained relatively stable since January 2025) and households' deteriorating microeconomic perception. Household sentiment, as measured by the University of Michigan, has only seen a minimal and partial recovery since the low point reached in April-May 2025, which followed the announcement of new tariffs (dubbed "Liberation Day"). Moreover, the decline at the aggregate level (from 74 in December 2024 to 57.3 in February 2026) is even more pronounced among independent voters (dropping from 70.2 to 50.8), which could swing the most contested races. While the administration can boast of the resilience of sentiment among Republican voters, it is considerably less bullish than under Trump 1 (see *Chart 1*). This scenario may deteriorate further if electricity bills increase.

In response to the increasing dissatisfaction among households, authorities are taking urgent action at both federal and local levels, influenced by immediate electoral pressures. For example, the proposal to freeze household electricity prices was a key factor in the election of New Jersey Governor Mikie Sherill (Democrat) last January. At the federal level, the US administration has mandated the operator of the largest regional electricity grid (PJM, which serves 13 states and Washington D.C., encompassing 67 million consumers) to issue an emergency market call to increase electricity generation capacity. More broadly, Donald Trump has explicitly targeted electricity in his campaign for affordability. However, his proposals seem relatively distant or vague, including measures to speed up building permits and impose higher costs for tech giants like Microsoft. The latter point could potentially lead to a pricing formula that would require data centers operators to absorb the marginal costs of the last energy sources used (which would influence wholesale prices). The proposal has not advanced further for now, with the administration remaining cautious about implementing measures that could be seen as price controls.

THE CHALLENGES RELATED TO THE IMPLEMENTATION OF DATA CENTERS ADD TO EXISTING TECHNICAL VULNERABILITIES AND CONSTRAINTS

It appears somewhat premature to single out AI as the sole culprit. Indeed, as is often the case in the American context, it is important to consider regional particularities (see *Chart 2*). Some states are spared from this surge in electricity prices, despite experiencing rapid data centers expansion.

LNG PRICES: A PERSISTENT GAP BETWEEN THE UNITED STATES AND EUROPE

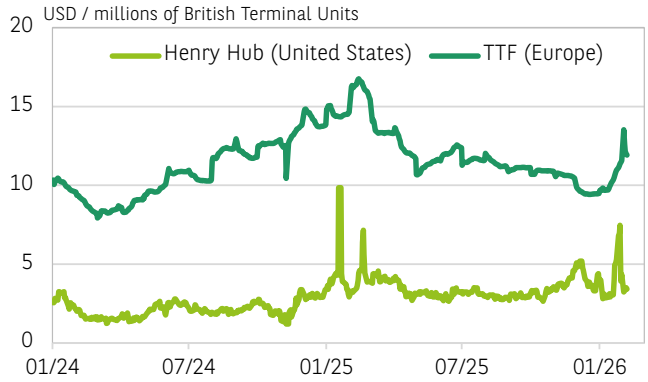

CHART 3 SOURCE: IEA, BLOOMBERG, BNP PARIBAS

For example, Texas (+2.3% y/y in November 2025) benefits from a sufficient (and largely decarbonised) electricity supply along with an adequate infrastructure. In other cases, the inflation in electricity prices is fueled by the need to invest in an inadequate network. In California (+5.7% y/y in November 2025), for example, the rising costs are attributed to the upgrading of the electricity network following the recent major wildfires. The issue of electricity inflation cannot therefore be solely attributed to the advancement of AI. It is further complicated by significant structural factors, including disparities between states, ageing infrastructure and the risk of natural disasters.

Another important factor - albeit indirect - is the fluctuation of natural gas prices on the US market. Wholesale price of electricity is determined by the marginal cost of the last energy source used, which, according to the U.S. Energy Information Administration (EIA), is predominantly gas nationwide. However, in 2025, wholesale electricity prices exceeded those of 2024 on the main trading platforms. Admittedly, the transmission of wholesale price changes to the final price is indirect and occurs with a delay. Nevertheless, given that the cost of generation, which includes the cost of the feedstock, accounts for around 60% of the final electricity price, the price of gas has a significant impact on the price of electricity paid by the end consumer.

WHAT ARE THE PROSPECTS?

In this context, and with the elections approaching, what are the most realistic prospects?

For households, despite clear political intent to regulate electricity prices, the impending election (10 months away) limits the scope for action. For example, the decision to increase production capacity in certain regions will not affect prices in the short term. In the case of the grid operator PJM, the establishment of new combined cycle gas-fired power plants (which are best suited to satisfy the demands of the technology sector) is projected to take around four years. Similarly, the development and interconnection of electricity grids entail significant costs and will take several years to complete. By way of comparison, the estimated cost of the German or French electricity grid develop-

2 Since 1980, only George W. Bush has not emerged from midterm elections with a divided government (2002 midterms).
3 Sum of the year-on-year inflation rate and the unemployment rate.

ment plans (which are smaller than those of the United States) for the coming decade is estimated to be at least 4% of GDP (over the entire period).

Furthermore, the outlook for the US gas market remains highly uncertain. In the short term, the rigidity in major demand components (liquefaction and the requirements of the technology sector) and potential delays between shifts in demand and the implementation of new supply capacity are likely to increase price volatility. Temporary price increases are therefore possible in the short term (see *Chart 3*).

For businesses, we expect the impact of electricity inflation on competitiveness to remain broadly contained. The U.S. EIA projects that industrial electricity prices will increase by 1.8% over the whole of 2026. This would preserve i/ a notably advantage for the United States compared to the European Union (EU), where electricity prices for the industrial sector are twice as high (according to H1 2025 data, although the gap may have narrowed since then); and ii/ a significant unfavourable gap with Chinese manufacturers, who benefit from electricity prices that are around 50% lower.

With the midterm elections just a few months away, the Trump administration appears to have few options for easing tensions over electricity prices. Any direct intervention on prices could face regulatory limitations or have little impact, as it would only influence one aspect of the electricity pricing structure. The direct allocation of purchasing power to households remains a possibility, such as through a stimulus. However, getting this through Congress would be fraught with challenges and would come at a cost to public finances. Time is therefore not on the administration's side, which aims to prevent being defeated by electricity bills.

Anis Bensaidani & Pascal Devaux