

# Massive AI buildout poses latest inflation threat



A shopper looks over Apple MacBook laptops on display in a Costco warehouse on June 2 in Sheridan. DAVID ZALUBOWSKI — ASSOCIATED PRESS FILE

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WASHINGTON >> American consumers — and the Federal Reserve — are being hit with another high-cost headache.

The gusher of investment in data centers — likely topping \$700 billion this year — to power artificial intelligence has made memory chips, computer processors and other equipment, as well as electricity, more expensive. Economists expect it will continue to push up inflation at least through the end of this year.

While it won't be as large a spike as occurred in 2021-2023, when inflation peaked at 9.1%, massive AI spending is likely to keep prices rising more quickly than the Federal Reserve would like. Such increases could lead the central bank to lift its key interest rate later this year to cool spending and bring down inflation. Higher rates from the Fed often boost borrowing costs for auto loans, mortgages, and business loans.

Fed officials will closely watch June's inflation report, to be released Tuesday, for further signs of AI's impact on prices. Inflation last month likely cooled as gasoline prices have fallen after a ceasefire was reached between the U.S. and Iran, though whether

that trend continues is now unclear as the U.S. and Iran have resumed fighting.

AI spending is lifting prices for consumer electronics

Just four large tech companies — Google parent Alphabet, Amazon, Meta Platforms, and Microsoft — are expected to invest \$720 billion this year, mostly on data centers.

Those data centers use a lot of semiconductors, and chip supplies have run low. As a result, economists at JPMorgan Chase estimate that the cost of some computer memory chips will have soared by as much as 400% between 2024 and the end of this year. Note

Americans are already seeing higher prices for a range of consumer electronics, including laptops, smartphones, video game consoles, and computers. Electricity prices are also jumping as data centers absorb a growing share of new electrical capacity.

In a high-profile announcement last month, Apple announced it was boosting prices for laptops and iPads by about 15% to 25%. A topline MacBook will now cost \$1,999, up from \$1,699.

Many analysts expect price hikes will come for iPhones next.

“The rapid expansion of AI data centers has created an extraordinary surge in demand for memory and storage,” Apple said in a statement. “We have never seen a component price increase this much, this quickly.”

On the same day, Microsoft announced that the price of its Xbox video game console will increase \$100 by Aug. 1, citing higher prices for memory chips. Sony is also charging more for the PlayStation, while Dell Computer and HP have raised prices for their laptops. A “wave of AI-related cost pressures spilling over into consumer prices is still in the early stages of building,” analysts at investment bank Evercore ISI recently wrote.

It's the latest in a series of waves that have boosted inflation

The impact on broader measures of inflation may be relatively modest, with many economists forecasting that AI investment will boost core consumer prices, which exclude food and energy, by roughly a half-percentage point by the end of this year.

Still, that could be enough to offset declining prices elsewhere, as the impact of President Donald Trump's tariffs continues to fade and as rental costs cool. Core inflation, according to the Fed's preferred measure, was 3.4% in May and some economists now expect it may decline only slightly by the end of the year, remaining well above the Fed's 2% target. Note

The boost from AI may prove temporary, but it follows previous waves of higher prices stemming from tariffs and the gas price spike resulting from the Iran war. The Fed typically “looks through,” or ignores, temporary price increases, rather than boosting rates to fight them, but an ongoing series of temporary price shocks could threaten to create more sustained inflation, which has already been above the Fed's target for more than five years.

“In isolation one or two such shocks is perhaps transitory, something they're willing to live with,” said Abiel Reinhart, an economist at J.P. Morgan. “A sustained series of shocks, or a wider range of shocks, becomes more concerning to them.”

Fed policymakers are increasingly focused on AI's inflationary impact. Kevin Warsh, who took over as chair May 22, has said he believes that over time AI will make the U.S. economy more efficient, which should reduce inflation even as growth accelerates.

He acknowledged in remarks July 1, however, that AI investment is now boosting demand, but declined to speculate on how inflationary the impact would be.

Yet many Fed officials worry that demand for AI-related gear will continue to outstrip available supply, a recipe for persistent price increases.

“If this creates a sustained impulse to demand relative to supply in inflation, I do think that's the kind of situation where you don't look through this,” John Williams, president of the Federal Reserve Bank of New York, said Thursday. Williams is also vice chair of the Fed's rate-setting committee. Williams has supported keeping rates unchanged, but his comment suggests that under some scenarios he could support a hike.

According to the minutes of the Fed's June 16-17 policy meeting, released Wednesday, many other officials share Williams' concerns.

Another channel through which AI could raise inflation is through its huge demand for electricity, which has caused many utilities to raise prices. Power companies throughout the U.S. are adding more capacity, an expensive step that can also boost electricity costs. *Note*

According to the government's consumer price index, electricity prices rose 5.9% in May compared with a year earlier, a bigger increase than overall inflation, which was 4.2%. After a pandemic spike, electricity price gains had dropped back to about 2% annually in early 2025. *Note*

While prices for computer chips could peak this year and then decline, experts expect electricity demand from AI will push up utility costs into 2028 or even beyond. In February, economists at Goldman Sachs forecast that electricity prices will rise 6% this year and next, and an above-average 3% in 2028.

