Transformation

Data centers: At the intersection of economics and policy

20 November 2026

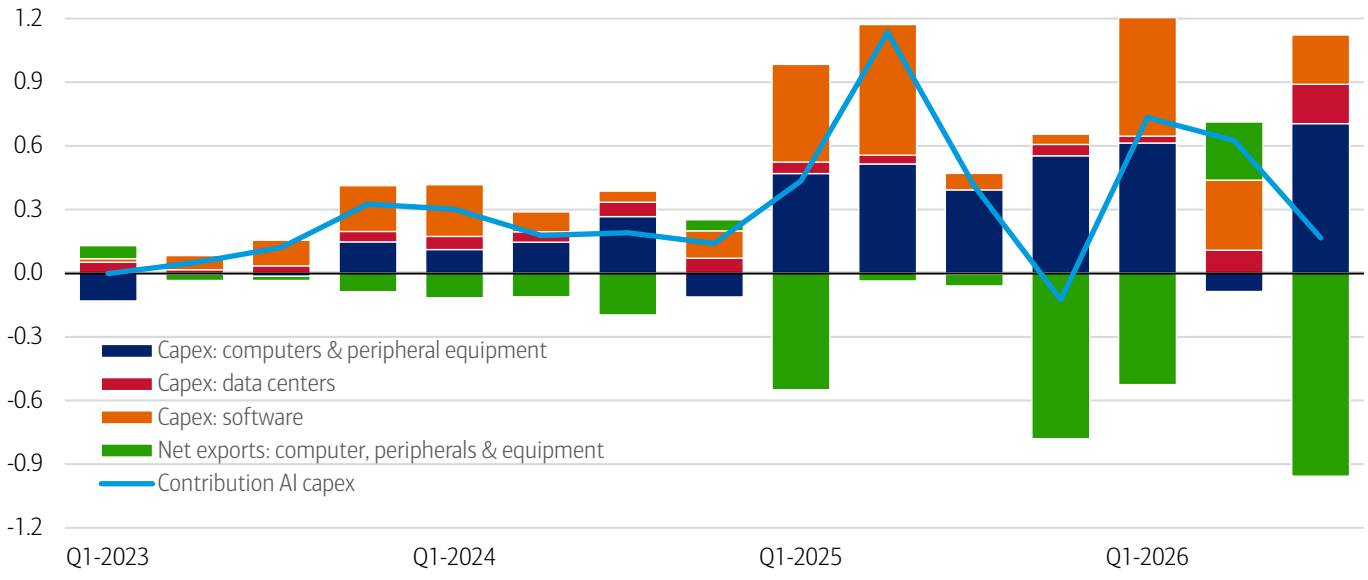
Key takeaways

- Data center investment has become a meaningful driver of economic growth. BofA Global Research estimates it added nearly 70 basis points to growth in the first half of 2026, while supporting jobs and wages in manufacturing and construction and helping offset weaker hiring in some AI-exposed industries and among recent college graduates.
- Policy will play an important role in shaping the next phase of data center development. Strong hyperscaler spending and a sizable project pipeline suggest investment could remain elevated, while state and local policies will help determine the pace, location and broader economic effects of development.
- Policymakers are balancing efforts to attract data center investment with concerns about its local impacts. New measures aim to limit costs to ratepayers and address environmental and resource-use concerns, though they could also raise development costs or slow investment. Recent midterm election results could add to these pressures, potentially prompting further state and local restrictions on data center development.

What role have data centers played in the economy?

The surge in data center construction has provided a meaningful boost to economic growth and may help explain some of the economy's resilience, according to BofA Global Research. Using a methodology developed by Federal Reserve economists, BofA Global Research estimates that data center investment added nearly 70 basis points (bp) to growth in the first half of 2026 and contributed positively in all but one of the past 14 quarters (Exhibit 1).

Exhibit 1: AI investment has contributed to growth in all but one quarter since Q1 2023
Contribution of AI capex to quarter-over-quarter annualized GDP growth (percentage points)

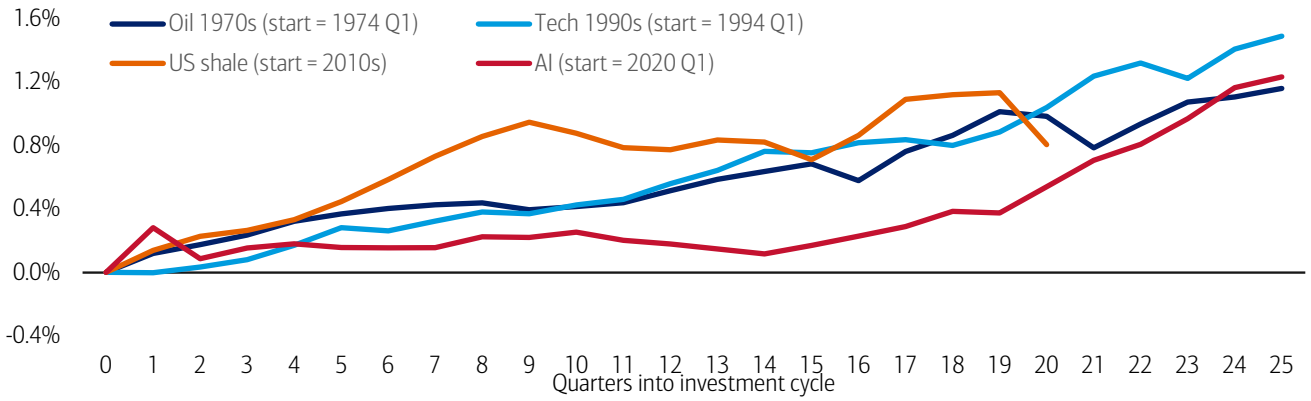


Source: Federal Reserve Board, BofA Global Research

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The current expansion is surpassed only by the 1990s technology boom at the same stage of the investment cycle (Exhibit 2). BofA Global Research also finds this spending is supporting net job creation and generating positive income effects.

Exhibit 2: The AI investment surge now only trails the 90s tech boom
Investment cycles - Capex by sector (% of GDP, change from initial quarter)

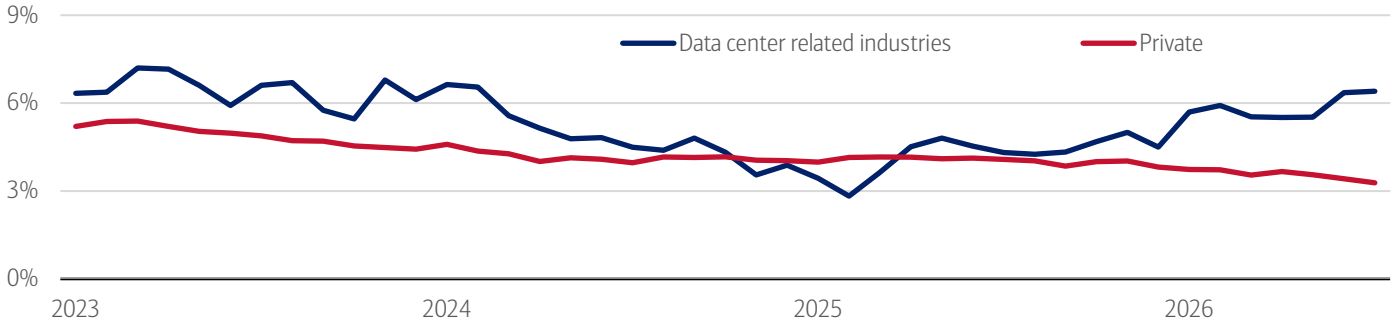


Source: Bureau of Economic Analysis (BEA), BofA Global Research
Note: BofA Global Research uses the following line items from the national account data to define each investment cycle: (1) 1970s oil: mining shafts & wells, mining & oilfield machinery, petroleum & natural gas wells. (2) Tech 1990s: communication equipment, computers & peripheral equipment, communication facilities and software. (3)1990s oil: mining shafts & wells, mining & oilfield machinery, petroleum & natural gas wells. (4) AI: Computers & peripheral equipment, software, data centers.

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Additionally, BofA Global Research analysts find evidence that data center construction is supporting demand for manufacturing and construction workers. Wage growth in these industries has also accelerated alongside the increase in data center development (Exhibit 3).

Exhibit 3: Data center construction has led to faster wage growth
Average hourly earnings production and nonsupervisory workers (year-over-year (YoY)%)

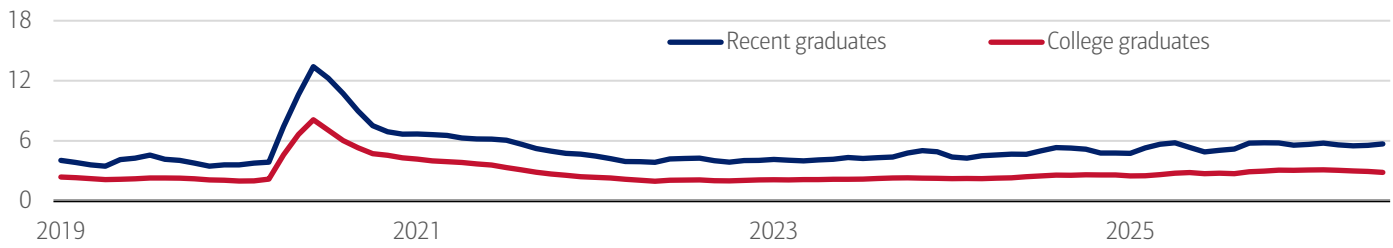


Source: BLS, BofA Global Research
Note: BofA Global Research includes the following industries in their data center definition: other electrical equipment and components, electric connectors/miscellaneous electrical components, plate work/fabricated structural product, nonresidential building construction, and electrical contractors.

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Stronger demand for blue-collar workers is helping to offset weaker hiring in AI-exposed industries and among recent college graduates, according to BofA Global Research (Exhibit 4). As a result, the labor market effects associated with AI investment have so far been more mixed across industries and worker groups.

Exhibit 4: Unemployment rates of recent graduates continue to edge higher while overall college graduates' unemployment rates have declined recently
Unemployment rate (%)



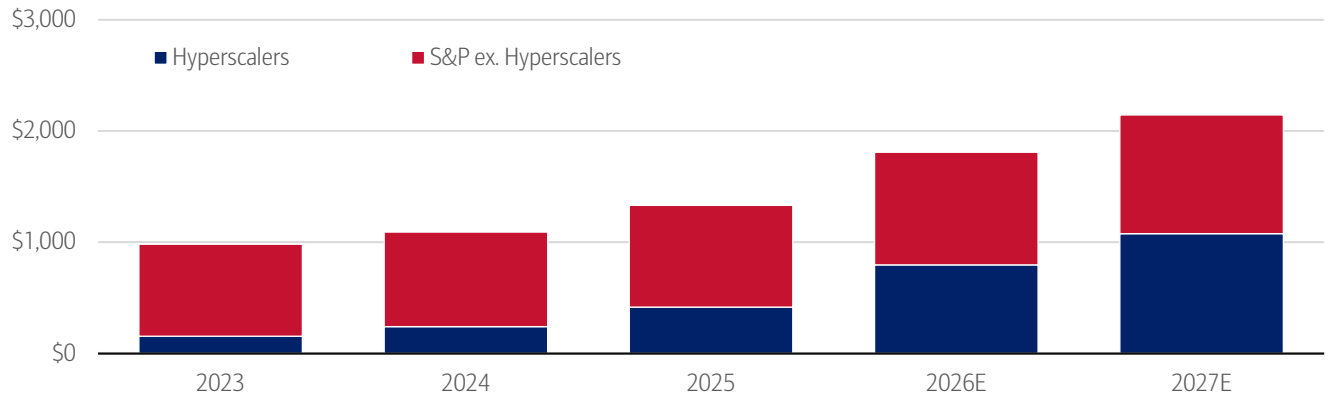
Source: NY Fed, BofA Global Research
Note: Recent graduates are those aged 22-27.

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Looking ahead, the growth tailwind from AI investment is likely to moderate as the as the growth rate of investment levels off. However, the contribution is unlikely to fade in the near-term: estimates of hyperscaler capex point to growth of roughly 35% next year, while the pipeline of planned and ongoing projects remains large relative to existing data center stock (Exhibit 5).

To the extent these projects proceed**,** with potential state and local regulatory changes representing an important source of uncertainty, data center construction could continue to provide support to the broader economy, according to BofA Global Research.

Exhibit 5: Hyperscalers' capex is expected to grow more than 90% YoY in 2026 and decelerate to 35% in 2027
S&P 500 and hyperscalers actual and consensus capex ($, billions), as of 9/4/2026



Source: BofA Global Research, FactSet
Note: Excludes capital leases for comparability across the index.

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Who controls data center regulation?

Data center development is subject to oversight at the local, state and federal levels:

- Local governments: Typically exercise the most direct authority over individual data center projects. Through zoning decisions, land-use requirements, conditional-use permits, and development agreements, local governments can approve, reject or impose conditions on proposed developments. They may also temporarily restrict new approvals or construction through moratoriums.

- State governments: Shape the broader policy environment by setting incentives, regulations and other requirements governing data center development. States may also impose moratoriums, or, depending on state law, limit local authority over project approvals. Governors generally have less direct authority over individual projects, but state-level reviews, permitting processes and other administrative actions can affect the timing of development. State utility commissions also play an important role in determining how costs associated with serving data center demand are allocated among developers and households.

- Federal government: At the federal level, White House policy and actions by agencies such as the Department of Energy (DOE), Federal Energy Regulatory Commission (FERC) and Environmental Protection Agency (EPA) can influence data center development by impacting land use, energy infrastructure and permitting. Congress can also enact legislation affecting the sector. In practice, however, many of the decisions governing data center siting and development are made at the state and local levels.

What is federal policy towards data centers?

To date, the White House has supported AI and data center investment. President Trump issued a 2025 executive order aimed at accelerating federal permitting approvals for large data center projects, making certain federal land and brownfield and Superfund sites available for development, and addressing supply-chain constraints.

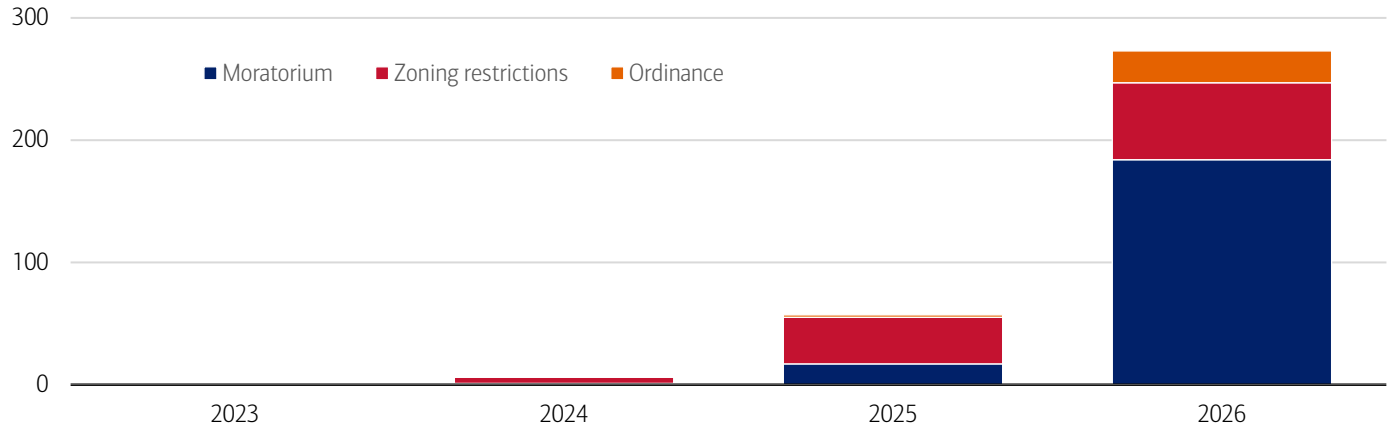
Perhaps the most significant policy changes came through the One Big Beautiful Bill Act (OBBBA), which lowered the after-tax cost of certain AI infrastructure investments. The law restored full expensing for qualifying property investment, including certain capital expenditures. It also restored immediate expensing for domestic research and experimental expenditures and expanded interest-expense deductibility, reducing financing costs for some firms. Together with rising costs for AI-related inputs and intense competition in model development, these changes have helped accelerate investment in data center infrastructure.

How are state and local data center policies evolving?

Local governments have taken the lead

Local governments have played a significant role in data center regulation to date, reflecting their authority over zoning and land-use decisions. Through October 13, 2026, local governments adopted 184 data center moratoriums, temporarily pausing new development or approvals as jurisdictions considered potential changes to their regulatory frameworks. In addition to these moratoriums, local governments adopted 63 zoning restrictions and 26 ordinance changes related to data center development (Exhibit 6).

Exhibit 6: Local governments ramped up moratoriums on data center construction this year
Local level regulation of data centers in recent years (count), through October 13, 2026



Source: datacentertracker.org CC-BY-4.0, BofA Global Research

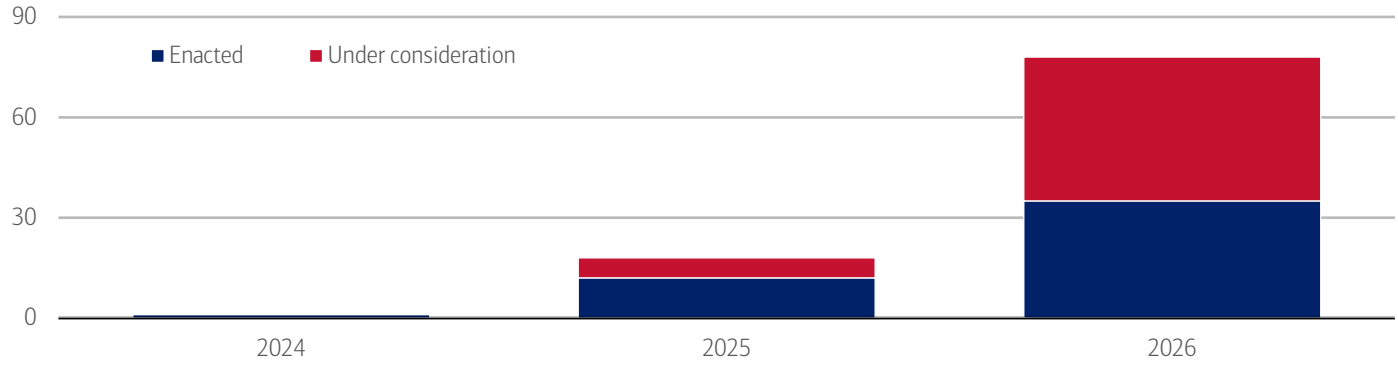
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Regulation is expanding beyond moratoriums

State legislators are also pursuing broader regulation of the sector (Exhibit 7). Ratepayer protections are among the most common state bills, with the goal of limiting the extent to which households bear additional utility costs associated with data center development. Environmental reviews, water-use restrictions and changes to tax incentives are also becoming more common focuses of state legislation.

These policies generally do not prohibit data center construction, but they can increase development costs or affect the pace of investment at the margin. At the same time, some states are maintaining or expanding tax incentives, highlighting the competing considerations states face as they seek to address local concerns while continuing to attract investment. The balancing act highlights a tension for policymakers: capturing the economic benefits associated with data center investment while addressing concerns about how the costs of that development are distributed locally.

Exhibit 7: State legislators have ramped up legislation aimed at data center construction
Statewide data center legislation (count), through October 13, 2026



Source: datacentertracker.org CC-BY-4.0, BofA Global Research

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