Energy shock waves: US food inflation risk in 2026-2027

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Summary

Current geopolitical and energy market dynamics point to elevated inflation risk across the US food system. We expect mid-single-digit food inflation over the next 12 to 18 months, with baseline monthly ranges of 4% to 6% possible through 2027. The near-term catalyst is energy-driven cost pressure tied to the closure of the Strait of Hormuz, which indirectly pushes up fertilizer, packaging, and logistical costs.

Due to uncertainty around the timing and extent of cost pass-through, we express our inflation outlook as ranges. Hedges and longer-term contracts can delay when higher costs show up on shelves and in restaurants, so inflation not realized in one year often rolls into the next as contracts reset and inventories turn.

This analysis draws on our 2021 to 2022 inflation cost-stack work, "Project Radar," which showed that food inflation can stay elevated even after commodity prices cool and that pressures rotate across cost buckets, creating a more complex margin environment than a simple commodities cycle narrative suggests.

Against this backdrop, we expect US food inflation to enter a higher-volatility phase this year, led by energy markets and reinforced by fertilizer, packaging, and logistics costs. Energy matters not only because it raises direct operating costs, but because it lifts the cost floor across the entire system, from farm inputs to processing, cold chain, and distribution. This reinforces a cost-push dynamic that can persist as contracts reset and hedges roll off.

The key difference versus our 2021 to 2022 analysis is the consumer. With consumers having less financial cushion and increasingly bifurcated spending patterns – often described as "K-shaped" – companies' ability to pass through rising costs is constrained. Lower- and middle-income households are more price-sensitive, accelerating trading down, private label substitution, smaller basket sizes, fewer discretionary add-ons, and a "barbell" shift toward trusted value or clearly differentiated premium products and brands.

For food and beverage companies, the main risks through this inflationary cycle are margin compression from constrained pricing power, volume losses that accelerate capacity utilization challenges, greater earnings volatility as input costs swing and timing mismatches emerge, and widening performance dispersion across channels, brand tiers, and income cohorts.

For companies operating in this environment, the priorities are clear: tighter risk management, stronger supply security, cost reduction, and disciplined pricing. Simplifying operations to build supply chain resilience is also critical. At the same time, companies may need to selectively accept some margin erosion to protect volumes, while continuously reassessing price elasticity to maximize profitability.

Supply-side inflation pressure is building

Amid renewed volatility in energy markets and persistent geopolitical tensions, pressure is building across key cost drivers, including energy, farm inputs, logistics, and packaging. Integrating these updated inputs across the full food supply chain, we estimate the following (see Appendix for a detailed breakdown by commodity):

- December 2026 US food inflation of 4% to 6%.[1]
- Full-year 2027 US food inflation of 3% to 5%.[2]

Energy is behind the rise in inflationary pressure

The risk of higher US food prices is rising quickly. Elevated and volatile energy prices, reinforced by geopolitical instability, are pushing up costs through the entire food system, from fertilizer manufacturing to on-farm operations, processing facilities, refrigerated storage, transportation, and packaging. The result is an inflationary pressure that begins upstream and propagates downstream.

This is shaping up as a cost-push cycle. Unlike in 2021 and 2022, demand is unlikely to amplify inflation; instead, it is more likely to constrain pricing power and shift more of the adjustment burden onto food and beverage companies' margins and product mix.

A useful rule of thumb is that a sustained 10% increase in oil prices is associated with roughly 0.5% (or higher) food CPI over time.[3] The degree of pass-through is known to vary with factors such as energy intensity, pricing power, contract structures, and broader macroeconomic conditions, implying that inflation estimates should be treated as directional rather than precise.

Energy remains the dominant variable, but the mechanism linking it to food inflation is best understood as persistent cost pressure that raises the inflation floor rather than a one-to-one translation from oil prices to food CPI.

Many large food companies rely on energy and freight hedges, along with longer-term supply contracts, to manage cost volatility. While these measures delay the immediate impact of inflation, they can also create a false sense of insulation during periods of market stress. As these hedges roll off and contracts reset, underlying cost pressures tend to emerge more visibly.

RaboResearch expects energy to remain elevated for longer, creating a delayed but persistent inflationary effect that is likely to flow through the system into 2027.

Markets, in our view, are overreacting to short-term Iran War ceasefire headlines while underestimating the duration and stickiness of supply-side disruptions. Disruptions in major trade and energy corridors (including the Strait of Hormuz) matter because they can tighten oil, diesel, LNG, and fertilizer markets simultaneously. In this report, we treat these disruptions as scenario amplifiers that influence:

- The level of energy prices.
- The duration of elevated input costs.
- Freight/insurance premiums and lead times.

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[1] The upper end of the December 2026 estimate reflects a tail-risk scenario in which disruption in the Strait of Hormuz is prolonged and energy costs remain elevated.

[2] The upper end of the 2027 estimate reflects persistent after-effects of the same tail-risk scenario but assumes some cost pass-through has occurred.

[3] There is variance in literature on cost pass-through. Some studies, such as work referenced by the US Energy Information Administration, suggest a lower figure closer to 0.3%, while others point to higher outcomes depending on the period, geography, and structure of supply chains.

In other words, geopolitics increases the range of inflation outcomes, even if demand limits how far pricing can run.

How cost pressures move through the food supply chain

One of the most obvious sources of inflation pressure is at the farm level. Fertilizers – especially nitrogen and phosphate – and certain agrochemicals can become more expensive quickly when energy prices rise. This increases farmers' production costs, can reduce yields, and may keep inflation elevated even when supplies remain available and there are no actual shortages. Lower yields can later feed through into additional cost pressures.

Supply-side transmission: Farm inputs → row crops → feed → proteins

These higher costs move through the system in a predictable chain: More expensive crop inputs raise the cost of growing grains and oilseeds, which increases the price of animal feed. In turn, rising feed and operating expenses push up the cost of producing meat and dairy.

The US remains broadly well supplied in grains and oilseeds, but the key risk is shifting away from physical availability toward rising marginal production costs and increased price volatility as fertilizer and fuel costs rise. These pressures are expected to keep crop and input markets on an inflationary footing, particularly for seed oils, which are more structurally exposed due to their linkage to biofuel demand and energy markets. The same cost dynamics flow through into animal proteins via higher feed and operating expenses, though impacts vary by species: Beef remains the most supply-constrained, with tight herd levels and slow rebuilding limiting its ability to respond to rising costs. Poultry, with faster production cycles, is likely to see more moderated pricing. Pork is more flexible from a production standpoint but remains exposed to feed-driven volatility and episodic disruptions.

Fresh produce: Localized price volatility

Produce markets are increasingly reflecting cost pressure through sharp, localized price spikes rather than broad shortages. Elevated fertilizer, fuel, and freight costs continue to push prices higher, particularly in labor- and logistics-intensive categories. Recent market behavior underscores this dynamic: Leafy greens and brassicas have seen pronounced volatility, with lettuce and broccoli prices surging due to tight supply, lighter yields, and weather-related disruptions during seasonal transitions. While some normalization is expected as coastal production ramps up, perishable categories remain highly sensitive to regional conditions, reinforcing episodic price swings. We provide detailed forecasts and assumptions in the appendix at the end of this report.

Dairy: Supply stability, rising margin pressure

Dairy is expected to remain well supplied in the near term, which should help keep consumer price inflation relatively contained. However, underlying cost pressures, particularly from feed and energy, are likely to compress margins as existing risk management measures roll off. As a result, outcomes across the dairy complex are expected to be mixed, with relatively stable fluid milk pricing alongside more cyclical movement in products like cheese and butter, and continued volatility in protein and solids markets. The key risk is less about shortage-driven inflation and more about a potential cost reset, with the possibility of a rebound in prices if supply tightens or demand strengthens.

Bakery: Building input cost pressure

Bakery inputs face rising medium-term inflation risk despite generally adequate supply. Wheat and flour are increasingly influenced by higher input costs, trade uncertainty, and structural changes in US milling capacity. Sugar markets may also see shifting dynamics over time, while vegetable oils carry the clearest upside risk given their strong linkage to energy markets and biofuel demand. See the appendix for detailed forecasts and supporting assumptions for these categories.

Across these selected sectors, the near-term risk outlook is less about systemic shortages and more about a higher, more volatile cost structure that could potentially push inflation through the chain, with demand conditions shaping how much is passed through to prices versus absorbed in margins.

Logistics and packaging cost pressure

Higher logistics costs, led by trucking

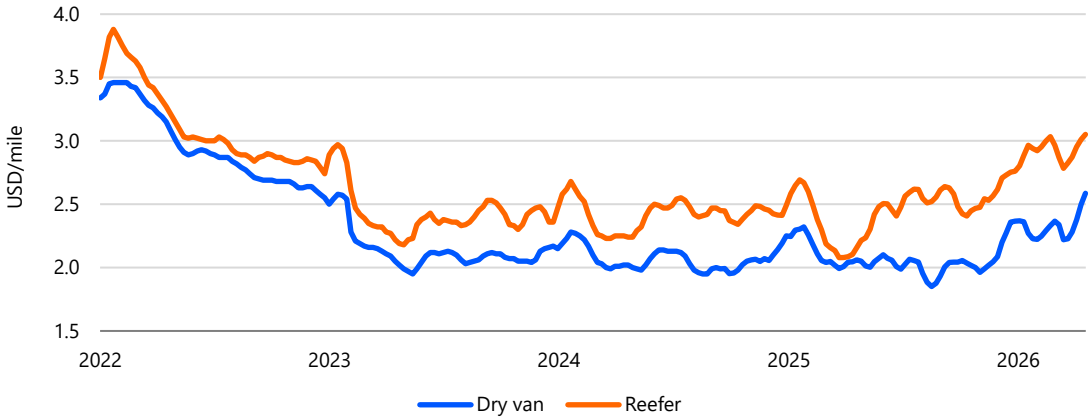
Logistics is a meaningful but bounded component of food pricing. Transportation and storage represent a small share of the consumer food dollar, but exposure varies by product. Domestically produced foods rely mainly on trucking, while imports include ocean container shipping costs and can face higher logistics intensity depending on origin and category.

The trucking story is turning. After a prolonged market downturn since 2023 – marked by weak demand, low prices, and elevated bankruptcies following excess capacity additions – signals suggest the cycle has bottomed. Capacity is tightening and spot rates have been improving, setting up trucking costs to rise faster than inflation in 2026.

Ocean containers remain a different market altogether. Structural oversupply continues to dominate, meaning that even with periodic volatility, pricing power generally sits with shippers rather than carriers over the near term.

Thus, food inflation is more likely to feel modest pressure from trucking than from ocean freight. Under current energy assumptions, an approximately 10% average increase in trucking costs (including fuel) would translate to roughly a half-point lift in food inflation.

Figure 1: US trucking spot rates, including fuel, Jan 2022-Apr 2026



Source: Truckstop.com, RaboResearch 2026

Energy-linked packaging costs

Food and beverage packaging is on relatively strong footing in the US, supported by competitive polyolefin plastic feedstocks, adequate but evolving resin availability, and steady demand. However, the solid resin balance is becoming more nuanced, as incremental US polyolefin

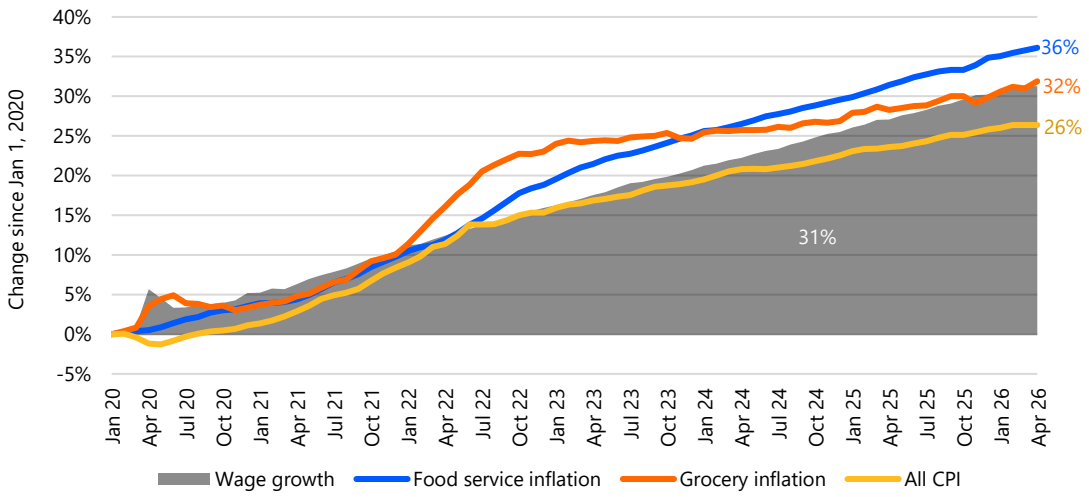
capacity is increasingly pushed into export markets, influencing domestic supply dynamics. Fiber-based packaging shows a similar trajectory, with capacity rationalization and disciplined supply contributing to firmer pricing as demand stabilizes. Across substrates, prices are expected to trend modestly higher as supply-demand balances tighten. As input costs rise, converters face margin compression unless increases can be passed through, keeping packaging a steady source of upstream cost pressure that can feed into broader food inflation.

The key driver remains energy. Packaging costs are closely tied to the petroleum value chain through energy inputs including fuel, power, and process heat. Polyolefin plastics are directly linked to crude- and natural-gas-based feedstocks, while aluminum, glass, and fiber-based packaging are all energy-intensive to produce. Higher energy and fuel costs also raise freight and logistics expenses, amplifying pressure across the value chain. Constraints on energy-linked inputs can tighten supply and extend lead times, turning packaging from a background cost into a more direct contributor to food inflation.

A new inflation cycle with a weaker consumer

The supply backdrop described above points to a clear cost-push inflation setup from 2H 2026 through 2027: Farm inputs are rising again, packaging remains energy-linked, and trucking is positioned to add incremental cost pressure. It's also important to note that this new inflationary cycle is emerging just as food inflation had begun to ease following the 2021 to 2022 surge, during which prices rose by roughly 30% to 35% in total (see figure 2).

Figure 2: Cumulative US inflation and wage growth, Jan 2020-Apr 2026

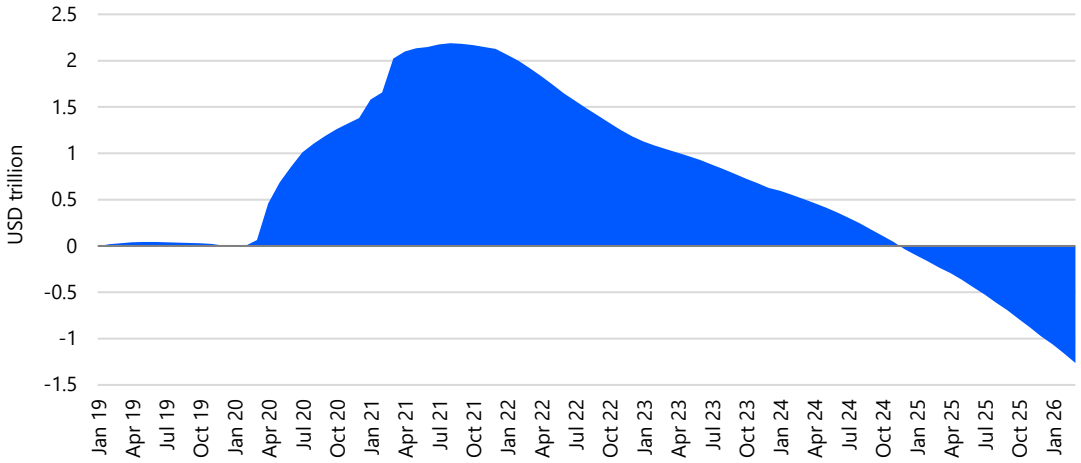


Source: USDA, Bureau of Labor Statistics, RaboResearch 2026

Weaker, uneven demand response

The key difference compared to 2021 and 2022 is what could happen on the grocery store shelf and at restaurants. Even if headline food CPI moves higher, we expect the consumer response to be materially softer than five years ago. In the prior cycle, excess savings helped absorb price shocks and, in many categories, supported further price increases. Today, that cushion is largely gone, which means demand is more likely to act as a brake – reflected in trading down, mix shifts, smaller basket sizes, and greater promotion sensitivity.

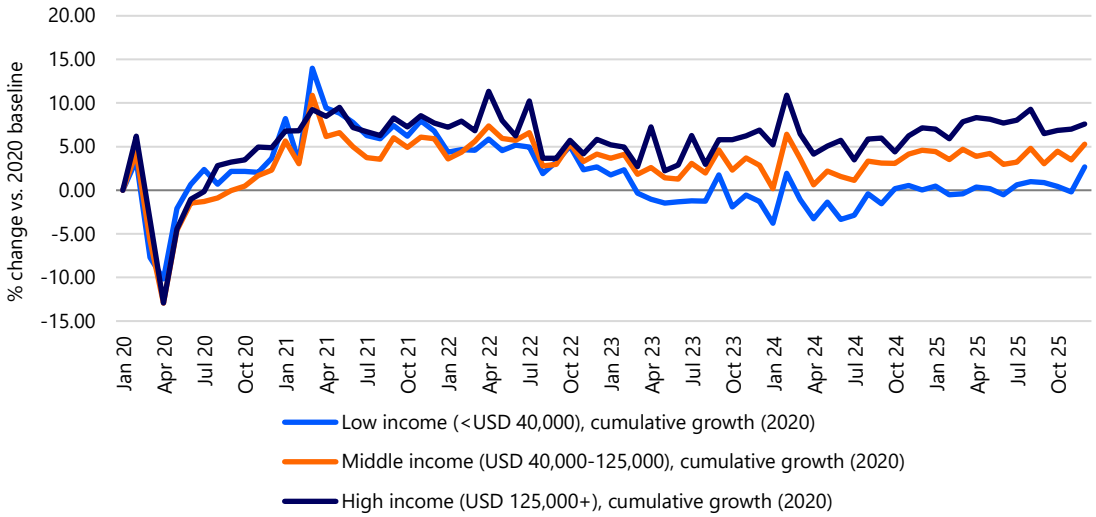
Figure 3: US cumulative aggregate pandemic-era excess savings, Jan 2019-Feb 2026



Source: US Bureau of Economic Analysis (BEA), RaboResearch calculations 2026

A more bifurcated consumption trend is central to our demand view. Inflation has weighed most heavily on lower- and middle-income households, and the next leg of price pressure is likely to land unevenly again. Higher-income consumers can often maintain spending and adjust within premium tiers. Lower-income cohorts typically respond more quickly by trading down, shifting to private label, migrating to value channels, and increasing deal-seeking behavior. This divergence matters for brand owners because it increases the likelihood that volume softness will concentrate in mainstream and discretionary categories, even if current price levels holds.

Figure 4: Cumulative retail/consumer spending growth by income group, Jan 2020-Dec 2025



Source: Federal Reserve Bank of New York, Economic Heterogeneity Indicators, RaboResearch 2026

Energy pressure on household budgets

Rising energy prices reinforce the same dynamic on both sides of the equation, raising costs across the food system while also compressing household budgets directly. When fuel and power costs increase, consumers typically tighten trip behavior and basket discipline. This often shows up as fewer trips, stricter adherence to shopping lists, more aggressive deal-seeking, trading down within proteins, and substitution away from convenience formats when price gaps widen.

Within that broader energy squeeze, higher gasoline prices tend to have a real but usually short-lived impact on food demand, most visibly in restaurant spending. The mechanism is straightforward: The pump competes directly with discretionary dollars, and higher fuel costs can also strain restaurant economics through delivery costs and broader supply chain expenses.

During major price spikes, consumers typically trade down and trim orders rather than stop dining out. Survey findings indicate that roughly half of consumers reduce restaurant spending during periods of high gas prices, often by skipping add-ons like beverages, desserts, and appetizers. Operators feel the pressure as well, with about two-thirds reporting negative impacts during high-price periods.

Diverging consumer behavior

Overall, food inflation's impact on demand is uneven across channels and becomes most visible once gas prices rise to levels that materially alter consumer spending. Rather than leading to an outright collapse in spending, the more common outcome is a sorting of demand toward the extremes, in a "K-shaped" pattern, in which consumers:

1. **Trade down:** Consumers migrate toward cheaper, highly trusted value options, such as reliable quick-service restaurants and value menus, bundle deals, and familiar chains where price certainty is highest.
2. **Trade up (selectively):** Consumers still "splurge," but they do so more deliberately – saving discretionary dollars for fewer, clearly "worth it" premium experiences.

Consumers keep buying, but they adjust how often they purchase and how they allocate their spending. The middle (where offerings aren't the cheapest or the most differentiated) gets squeezed first, and the next wave of cost inflation is likely to widen that gap.

The same polarization shows up in retail food. As budgets tighten, shoppers tend to trade down to lower-priced options within the basket – such as private label, value tiers, and smaller pack sizes – while also cutting back on discretionary add-ons. Meanwhile, they still preserve a smaller set of high-conviction premium purchases, with a focus on quality, health/protein, or "treat" items. This creates a "barbell" dynamic at the shelf: Value segments grow through substitution and promotions, premium holds where differentiation is clear, and mid-tier brands face the toughest combination of rising costs and higher elasticity.

Structural demand headwinds

Beyond gasoline, several structural forces add downside risk to US food sales volume growth and help explain why this inflation episode should be less demand-supported than the last one:

1. **GLP-1 adoption** is already reshaping consumption, with pressure in some center-aisle categories.
2. **Evolving dietary guidance** is increasing category dispersion, with performance more tied to health positioning and protein exposure.
3. **Slowing population growth** is reducing baseline volume tailwinds.
4. **SNAP reductions** are constraining purchasing power for the most price-sensitive households, accelerating trading down and value substitution.

Overall, our base case is persistent supply-driven inflation, softer volumes, and a more bifurcated category landscape shaped by income cohort and value architecture. The key upside risk to inflation (and downside risk to volumes) would be a return of broad, pandemic-style fiscal transfers that reinject demand into a cost-pressured system and push outcomes closer to the 2021-2022 playbook.

Conclusion: Higher costs, softer volumes, and widening K-shaped demand

We expect US food inflation in 2026 and 2027 to be structurally different from the 2021 to 2022 cycle, reflecting a more cost-driven environment and weaker demand. Our outlook calls for food inflation to reach 4% to 6% by December 2026, year-over-year, and to continue at 3% to 5%

through 2027. This outlook is driven primarily by energy costs and reinforced by both direct and indirect impacts to fertilizers, logistics, and packaging. The key point is not that the system is heading for broad supply shortages, but that the cost base is resetting at a higher level with greater volatility, extending the duration of inflation as contracts reprice and hedges roll off.

The critical difference versus the last surge is demand resilience. Pandemic-era excess savings have largely been drawn down, leaving households less able and less willing to absorb another step-up in prices. At the same time, spending outcomes have become increasingly K-shaped, with higher-income consumers maintaining more flexibility while lower- and middle-income cohorts show sharper sensitivity to price and promotions. This widening K-curve is already reshaping behavior – with more trading down, premium private label substitution, smaller baskets, fewer discretionary add-ons, and a "barbell" pattern where value and clearly differentiated premium categories hold up better than the middle.

For companies across the food and beverage supply chain, the risk set is broadening. Upstream input inflation – particularly in energy, fertilizers, and packaging – raises working capital needs, increases performance volatility, and heightens the risk of margin compression when pass-through is constrained. Midstream manufacturers and distributors face the most challenging operating environment, marked by timing mismatches between cost resets and price realization, customer resistance, and higher promotional intensity. Retailers face a faster shift toward value tiers and private label, while restaurants confront both demand sensitivity and direct cost pressures.

The bottom line is that US food inflation is set to ramp up again to the mid-single digits. But this cycle is cost-driven and will likely put pressure on food company margins. As consumers trade down and spending becomes increasingly K-shaped, pricing power will remain constrained, amplifying the importance of value architecture, mix management, and price elasticity.

Appendix: Commodity inflation and CPI forecasts

Product	*2026*	*2027*
📊 Total food CPI	⬆️ 4-6% (Dec YOY)	⬆️ 3-5% (FY)
🥩 Beef	⬆️ 9-11%	⬆️ 5-7%
🍗 Chicken (exports)	⬆️ 1-3%	⬇️ (1-3%)
🐖 Pork	⬇️ (3-5%)	⬇️ (3-5%)
🧀 Dairy – Cheese	⬇️ > 5%	⬆️ 3-5%
🥛 Dairy – SMP	⬆️ 20%	⬇️ > 5%
🧈 Dairy – Butter	⬇️ > 5%	⬆️ 3-5%
🥛 Dairy – Milk	➡️ 0%	➡️ 0%
☕ Coffee (S. America)	⬇️ (3-5%)	⬆️ 1-3%
🍊 Orange juice (S. America)	➡️ 0%	⬆️ 1-3%
🍬 Sugar	⬇️ (3-5%)	⬆️ 3-5%
🍫 Cocoa	⬇️ > 5%	⬇️ > 5%
🥔 Potatoes	⬆️ 7-9%	⬆️ 1-3%
🥬 Produce – Lettuce	⬆️ 1-3%	⬆️ 1-3%
🧅 Produce – Onions	⬆️ 3-5%	⬆️ 1-3%
🍅 Processed tomatoes	➡️ 0%	⬆️ 1-3%
🌾 Flour	➡️ 0%	⬆️ 5-7%
🌱 Canola	⬆️ 3-5%	⬆️ 1-3%
🌻 Sunflower	⬆️ 7-9%	⬆️ 1-3%
🌽 Corn	⬆️ 7-9%	⬆️ 1-3%
📦 Packaging – Fiber	⬆️ 3-5%	⬆️ 3-5%
🧴 Packaging – Plastic	⬆️ 5-7%	⬆️ 1-3%
🚚 Logistics – Labor	⬆️ 3-5%	⬆️ 3-5%
⚡ Logistics – Energy	⬆️ 9-11%	➡️ 0%

Source: RaboResearch 2026

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