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The October 2026 CPI and PPI Reports: A Higher Number, A Similar Story

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A Higher Number, but the Same Story

October's food CPI rose 0.5 percent, the largest monthly increase since April and a break from a flat summer. Food at home rose 0.4 percent, after changes of −0.1, 0.0 and −0.1 percent from July through September, and food away from home rose 0.5 percent. The all items index rose 0.4 percent, and core CPI rose 0.3 percent. Producer prices moved in a similar fashion: the PPI for final demand foods rose 1.3 percent after 1.1 percent in September, its fastest pace since July 2022. Twelve-month changes are not available for most CPI series this month, because BLS could not collect October 2025 data during last year's government shutdown.

Many observers were quick to name rising energy costs as the culprit once again. We read the numbers differently. The headline food CPI is the highest in months, but the underlying dynamics have changed little since the summer. Prices are still largely moving item by item, on product-specific supply and demand, and those moves add up to the aggregate. Energy plays a minor role at most, as it has all year. Upstream, energy actually eased in October as the PPI for final demand energy decreased 0.1 percent and diesel fell 7.9 percent, although diesel is still strongly elevated, 115 percent above a year ago. After three declines from June through August, the two recent gains leave producer food prices only about 0.7 percent above their end-May level and 1.7 percent above a year ago.

This is what we expected in the spring. In March, we argued that an energy shock, even when large and sustained, reaches retail food prices modestly and with a delay. Energy is a small share of the retail food dollar. The USDA's Food Dollar Series puts it at roughly 4 to 7.5 cents of each dollar spent on food at home over the past two decades. Eight months into the conflict, that is how it has played out. Adding up the monthly changes, the food CPI is up about 1.6 percent since February and food at home about 1.0 percent, roughly 2.4 and 1.5 percent at an annual rate. Food inflation over 12 months was 2.5 percent in September, lower than the 3.1 percent recorded in February, before the conflict began.

However, for the first time since May, all of the energy-intensive food items, such as dairy, meats and fresh vegetables, rose at the same time. That could indicate energy working its way into prices through higher transportation costs, but any such effect is marginal next to the item-specific stories below.

Turkey: No Sign of a Thanksgiving Price Shock

Perhaps the most emblematic example of how food-item-specific dynamics are more important than energy is this month's most anticipated food item. In the PPI, processed turkey prices rose 5.6 percent in October. But after four straight monthly declines, they are still 37.6 percent below a year ago, most likely because last year's prices still reflected the aftermath of avian influenza and the relaxation of poultry supply constraints. USDA expects turkey production to rise about 6 percent this year, and wholesale whole-hen prices in the fourth quarter are only 1.6 percent above last year. Whatever energy adds to the cost of feeding, processing and shipping a bird is dwarfed by these market forces.

In the CPI, the category that includes turkey rose 1.9 percent in October after falling 1.2 percent in September. With a weight of less than a tenth of a percent of the CPI, turkeys do not meaningfully move the index, but they show the pattern of large, item-specific swings with their own explanations, and there is currently no sign of a Thanksgiving price shock.

Item by Item: Supply and Market Stories, Not Energy

The other large October moves follow the same pattern.

Lettuce (CPI +7.9 percent seasonally adjusted, +9.5 unadjusted) is supply related. Produce trade reports from October 22 and November 5 describe extremely limited iceberg and romaine, with disease and insect pressure across leafy greens, light weights and prorated orders. The Salinas season is ending, and Yuma production was still about four weeks away on October 22. The rise follows declines of 16.4 and 6.2 percent in July and August, so the index is still roughly 12 percent below its June level. Lettuce is only 0.04 of the CPI.

Fresh and dry vegetables (PPI +26.7 percent, after +30.7 in September and −34.9 in July) are a rebound with overshoot. The level is only about 10 percent above end-June, though the 12-month change is +36.0 percent. The drivers are the same seasonal handoff and supply problems, and USDA's October 28 report shows domestic tomato prices of $40 to $59 per carton, substantially higher than a year ago, as supply shifts toward Mexico. The PPI measures what the grower or shipper receives and excludes third-party freight, so diesel enters through the freight index (+3.9 percent), not this one. Fresh vegetables are under 6 percent of the food-at-home basket and contributed about 0.01 points to the CPI.

Coffee (CPI −3.6 percent, the largest monthly decline on record; PPI roasted coffee +2.5 percent) fell on a record Brazilian crop, again not energy. USDA's June projection put Brazil's 2026/27 crop at 71.9 million bags, and Conab's September 24 estimate has arabica output up 34.8 percent. Arabica futures are well below their 2025 peaks above $4 a pound, but the retail drop lags: roasters were selling stock bought at earlier prices and generally use temporary promotions as costs deflate. Because producer-level roasted coffee has not yet followed, the October decline looks more like retail promotion than sustained cost relief. Coffee took about 0.1 point off food at home.

Dairy (CPI +0.6 percent after −0.9; cheese +1.3, butter +1.4, milk −0.3) reflects supply and product mix. Milk output is ample, with the herd at its largest in four decades. Cheese and butter prices were near historic lows in late September, while nonfat dry milk and Class IV prices were strong, and PPI raw milk rose 8.2 percent. Diesel and feed costs squeeze farm margins, but nothing ties them directly to October's retail increase.

Does PCE Hide an Energy Shock Through Substitution?

Is the energy shock being understated by the inflation numbers? Personal Consumption Expenditures (PCE) is the Federal Reserve's preferred inflation gauge. Because its weights on items adjust in response to actual consumption, it would be easy to conclude that it directly reflects substitution and conservation as the energy weight adjusts to higher prices. If that were the main story, energy's role in food prices could be larger than the headline numbers suggest. Such a reading is likely incomplete.

The reason is that energy's share of spending changes for several reasons at once, and substitution is only one of them. When energy gets more expensive, households do cut back where they can, by driving a little less or lowering the thermostat. But much of their energy use, such as commuting, heating and cooling, is hard to change quickly, so most households end up spending more on energy, and its share of the budget rises. Other forces move the share too. As incomes grow, energy takes a smaller slice of the budget even when prices hold steady, and more efficient cars, appliances and buildings deliver the same comfort and travel from less energy. A change in the share therefore cannot be read as a measure of how much households have substituted away from energy.

To examine this further, we recomputed PCE inflation holding energy's share of spending fixed at its 1993 level of 5.4%, a period of calm energy prices, and compared the result with the published index.

The gap is small. In September 2026, PCE inflation was about 3.6%, against about 3.8% with the share frozen, a difference of roughly a quarter point. A similar gap appeared in mid-2022. Energy's actual share of spending rose from 3.6% in February, just before the conflict, to 4.1% in September. That is what we would expect if households cannot easily substitute away from energy.

The historical comparison is also instructive. During the energy shocks of the 1970s and 1980s, the actual and counterfactual indexes diverged in the opposite direction from what we observe during the Russia–Ukraine and current energy shocks. Although the differences remain relatively small, this pattern suggests that the long trend of development and adoption of more energy-efficient systems dominates the energy portion of the PCE over time.

An alternative test holds energy's weight at its pre-shock level. Had energy's share stayed at its February 2026 level of 3.6%, 12-month PCE inflation in September would have been about 3.5%, compared with 3.6% as published. Because energy's actual share of spending rose to about 4.1% while energy prices climbed much faster than other prices, PCE's updated weights added, if anything, a few hundredths of a percentage point to measured inflation. Re-weighting did not pull the PCE down during this episode.

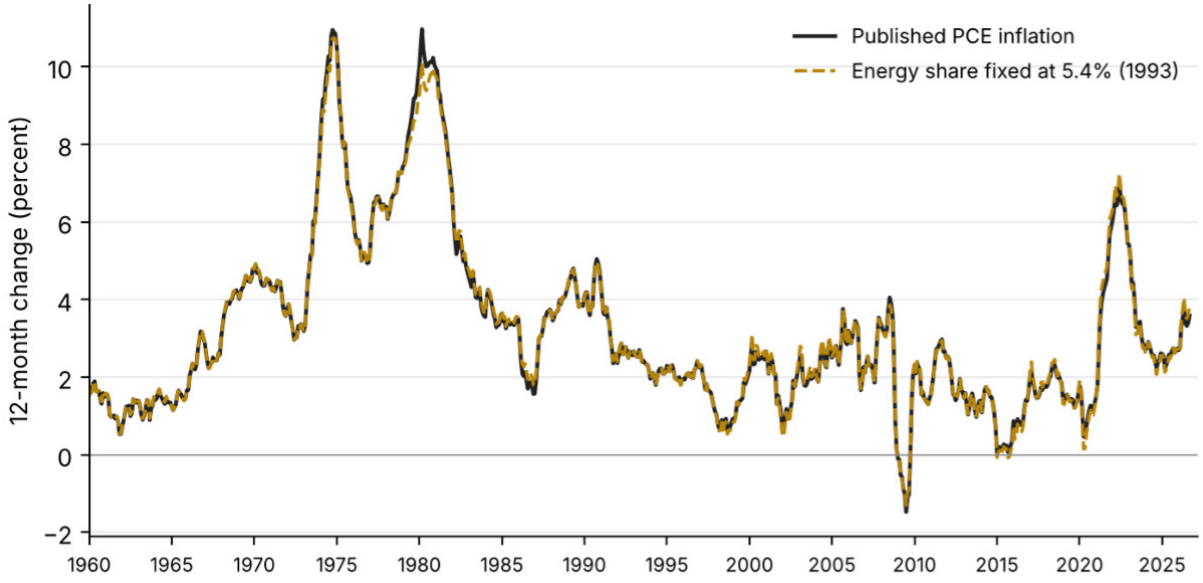
Again, the gap is not a pure measure of substitution. It also reflects income effects, efficiency gains and changes in relative prices, and it varies with the base year chosen. It does suggest that re-weighting explains little of the picture.

Looking Ahead: Farm Costs and the 2027 Crop

Next year's farm costs are already being laid in. As temperatures fell last week, Corn Belt farmers began applying anhydrous ammonia for the 2027 corn crop. DTN's October 26–30 survey had anhydrous at $1,007 per ton (+19 percent from a year earlier), urea at $669 (+12 percent) and UAN28 at $446 (+8 percent), and PPI diesel is still 115 percent above a year ago. Much of the 2026 crop was unaffected because the conflict began on February 28, after most fertilizer and fuel had been applied or forward-priced.

Figure 1

PCE inflation: published index and a counterfactual with energy's share of spending fixed at its 1993 level, 12-month percent change



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures, via FRED; authors' calculations

We expect the 2027 effects on retail food prices to be small and delayed. ERS puts agribusiness inputs such as seed, fertilizer and machinery at about 2 cents of the food dollar (2022), and fertilizer is a small part of that. At the farm level, fuel and fertilizer are a smaller share of the food dollar than energy is across the whole food system. Winter vegetables could show the first effects, but they are a small part of the retail basket. The larger effects come later in 2027 as more crops are harvested.

We now expect little change in crop mix. The 2026 shift to soybeans (corn 95.3 million acres, down 3 percent; soybeans 85.4 million, up 5 percent) reflected biofuel policy more than fertilizer and fuel costs. Farmers will keep following their comparative advantages, so targeted effects on individual foods are unlikely, even if the Strait of Hormuz remains severely disrupted.

The Bottom Line

October's higher number is the sum of item-specific stories, from turkey to lettuce to coffee, not a sign that energy has finally reached the grocery aisle. The PCE counterfactual points the same way: reweighting energy changes measured inflation by only about a quarter point, and energy's share of spending has risen rather than fallen during this episode. We will keep watching transportation costs and next spring's fertilizer pass-through for any change.

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Earlier briefs in this series: Foster & Dalheimer (2026), available at ag.purdue.edu/commercialag.