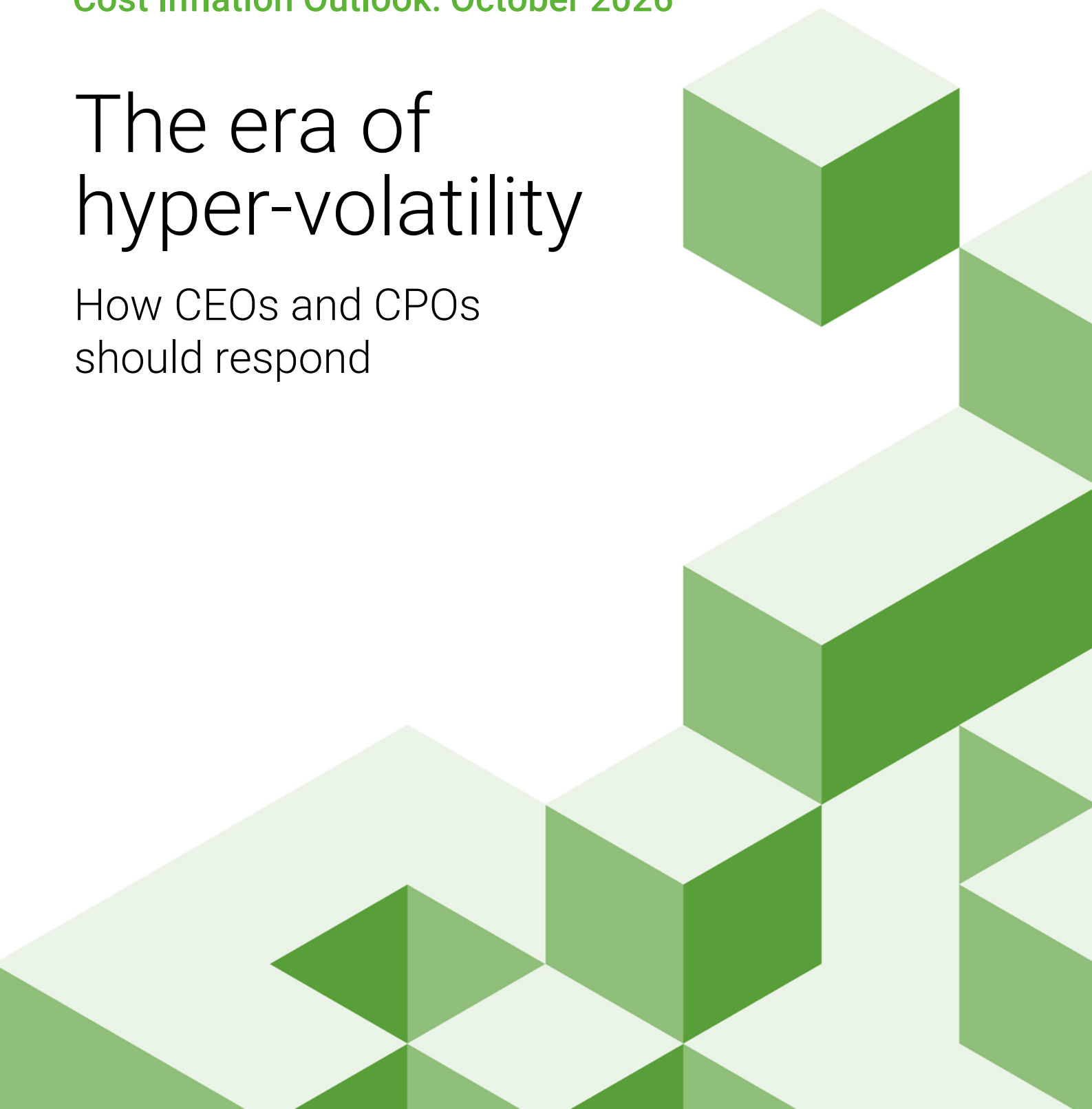




Cost Inflation Outlook: October 2026

The era of hyper-volatility

How CEOs and CPOs
should respond



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1 The era of hyper-volatility

CEOs and CPOs are adjusting to a new normal of hyper-volatility, as overlapping macro shocks drive extreme swings in commodity prices. Boards and CFOs are no longer asking only “What can we save?” They are also asking:

“Are we protected? Do we have supply certainty? Can we respond faster than competitors when the next shock hits?”

2021–2023

Inflation followed one broad, persistent upward trend.



2026 onward

Extreme, rapid, unpredictable two-way swings—geopolitical, trade, climate, and technological forces, all at once.



Scenario planning and active risk management are no longer optional—they are essential.

Five structural forces are sustaining and amplifying this volatility



1.1 Geopolitical instability and supply-chain shock events

Geopolitical tension is now a recurring source of sudden, severe supply shocks across energy, freight, metals, and agriculture.

- The Strait of Hormuz has been effectively closed to routine commercial traffic since February 28, 2026. On August 30, IMF PortWatch recorded six transits against a pre-crisis baseline of around 85 a day.
- On India-Middle East routes, war-risk surcharges of \$2,000 per TEU and up to \$4,000 per FEU¹ were imposed within days, while the higher-volume Asia-Europe routes saw slower but persistent increases (Shanghai-Rotterdam rose 19% in March and Far East-North Europe was 51% above pre-conflict levels by June²).
- The Russia-Ukraine war continues to suppress Ukrainian wheat and maize exports (USDA cut its forecasts down 25% and 39% respectively in August 2026³), putting pressure on global food prices.
- More than 100 Red Sea ship attacks since late 2023 cut Suez container transits by approximately 86% by late 2025⁴. Shipping costs remain elevated, with China-Europe spot rates still 48-79% above pre-crisis levels in mid-2026⁵. Carriers have returned only intermittently, with an early-2026 return shelved amid renewed regional conflict.
- Governments are increasingly intervening directly in trade flows. The U.S. has embargoed specific Chinese companies, and China has reciprocated against selected U.S. firms, fragmenting supply chains and forcing procurement to manage entity-level compliance risk on top of country-level risk.

The implication

Geopolitical shocks are now routine, not rare. Procurement needs pre-qualified backup suppliers, alternative routes, and visibility below Tier 1. The goal is to be ready before the next disruption, not to scramble a response together after it.

1. Hapag-Lloyd, Maersk carrier advisories, March 2026; 2. Drewry World Container Index, March 2026; Xeneta, June 2026. 3. USDA FAS Kyiv, August 2026 report. 4. Reuters, "Houthi attacks on merchant ships in the Red Sea," 2025. 5. BIMCO, Suez Canal analysis, Niels Rasmussen, 2026.



1.2 Tariff uncertainty and trade-flow restructuring

The U.S. tariff regime has been rebuilt in 2026. In February, the Supreme Court held that the International Emergency Economic Powers Act (IEEPA) does not authorize tariffs, and all IEEPA duties ceased collection. They have been replaced by a patchwork of different authorities, increasing uncertainty.

The direct impacts are clear: broad automotive tariffs across the value chain, along with rising pressure on consumer durables, electronics, packaging, and food categories used as trade leverage (e.g., avocados, orange juice, and whiskey). But the second-order effects may prove more significant. As 2025 inventory buffers run out, tariff pass-through is intensifying rather than easing in 2026. In our June 2026 AlixPartners/LaRocco survey, 53% of supply-chain leaders said that war-related surcharges and tariffs had raised costs by 10-20%, and 41% named the Middle East conflict as their single biggest business impact.

Meanwhile, excess capacity in several heavily-tariffed Asian economies (notably China and Vietnam) is opening to non-U.S. buyers—a genuine deflationary opening for European and Asian companies. The gap between tariff-exposed and tariff-insulated buyers is widening.

The implication

Ongoing change in tariff exposure, rather than the tariffs themselves, is now the real source of risk. The companies pulling ahead have mapped exposure by product, supplier geography, and trade flow, and have built mitigation options, rather than reacting to each announcement.



1.3 Inflation re-acceleration

After disinflation through 2024-2025, conditions for renewed inflation are building. Energy shocks, sustained freight surcharges, and food input pass-through are holding back central bank rate cuts. In the same survey, 52% of leaders expected the U.S. economy to weaken within six months and 24% expected a recession by year-end. Fuel was the top inflationary pressure (58%), ahead of raw materials (24%) and freight (18%)⁶.

Wage inflation also persists. In the UK, inflation is projected to reach over 4% in early 2027⁷, according to the Bank of England. Post-Brexit labor shortages continue to tighten the market, while the April 2026 minimum wage rise compounds earlier National Insurance increases. Germany and other EU states face similar dynamics under proposed EU minimum wage directives, especially in retail, hospitality, and services.

The implication

Shocks now compound. An energy spike flows into plastics, then packaging, then freight, eroding margin on several fronts at once. Annual budgets cannot keep pace with correlated shocks like these, while rolling risk management can.

6. AlixPartners/LaRocco Consulting Inc. survey, June 2026; 7. Bank of England, Monetary Policy Report, September 2026



1.4 Climate volatility and commodity concentration risk

More frequent extreme weather is driving sharp, unpredictable swings in geographically concentrated commodities, where a single event can overwhelm supply.

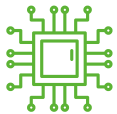
- Cocoa swung approximately 75% peak-to-trough within 12 months⁸, hitting record highs in December 2024 before collapsing as West African output recovered.
- Sugar fell 25% in 2025 but is forecast to rise 15% as weather risk increases⁹. Tin surged by 51% in 2025-26 before a projected 30% correction¹⁰.
- France's 2026 Champagne harvest is forecast to fall approximately 48% versus 2025¹¹, driven by drought, hail, and record summer heat, illustrating how a single extreme season can devastate a geographically concentrated category.

Concentration risk runs beyond agriculture. Rare earths and critical minerals are tightening fast: China controls approximately 90% of rare-earth processing, and germanium prices have more than doubled since early 2025, driven by Chinese export controls and surging defense demand (with a further 28% month-on-month spike in the Chinese market in July 2026)¹².

Climate policy adds another layer of cost pressure. EU carbon prices have settled at around €82 per ton¹³. At the same time, the Carbon Border Adjustment Mechanism (CBAM) enters full enforcement in 2026, while UK Extended Producer Responsibility is becoming a material cost factor for energy-intensive and packaging-exposed sectors.

The implication

For geographically concentrated commodities, procurement needs live alternative-sourcing options and hedging designed for sudden, event-driven swings.



1.5 Technology: cost driver and enabler

Technology is both a cost pressure and one of the most powerful tools for managing volatility.

On the demand side, AI infrastructure is itself a cost driver. Combined capex at the four largest hyperscalers is projected at roughly \$725 billion in 2026, up around 77% on the \$410 billion deployed in 2025, driving up demand for energy, memory chips, and specialist hardware across the broader electronics supply chain. The IEA estimates AI queries use around 10x the electricity of a standard search, and that global data-center energy demand will double from 2025 to 2030¹⁴.

On the enabling side, AI is compressing the cost and speed of knowledge work. AI-powered delivery is reducing delivery time for consulting and professional services work by 30-70%¹⁵, and clients are beginning to expect those cost efficiencies to be reflected in fees. Workforce displacement is already visible in software engineering, legal support, and financial services back offices; as agentic AI matures, those pressures will extend to other knowledge-intensive sectors.

Yet enterprise AI spend is surging despite collapsing unit prices. Even as per-token costs have fallen sharply (roughly 75% in a single year), total enterprise AI spending is projected to rise to \$407 billion in 2026, up nearly 35% year-over-year, with many organizations running two to three times over their token budgets¹⁶. As AI is embedded deeper into workflows, inference is becoming a material and fast-growing line item in indirect procurement budgets.

The implication

Technology costs are entering a new phase of volatility. AI model inference costs have fallen roughly 10x per year at a given capability level, yet total enterprise AI spend is rising as usage outstrips price. Energy remains a structural cost driver, but software and compute elements face rapid, AI-driven deflation that procurement teams can and should exploit.

8. Expana data; 9. Expana data; 10. Expana and LME data; 11. Agreste (French Ministry of Agriculture statistics service) forecast, September 2026; 12. Shanghai Metals Market data; 13. ICE/EEX EU ETS pricing data, 2026; 14. IEA, Energy and AI, 2025. 15. Stanford HAI AI Index 2026; 16. FinOps Foundation; Ramp enterprise spending data

2 2026-2027 cost outlook

According to insights from our data partner Expana, cost movements are becoming increasingly divergent across categories, with continuous corrections driving hyper-volatility. How can companies capitalize on deflationary opportunities while managing two-way risks?

Cost area	Sep 2026 Price change	2027 Cost outlook	AlixPartners Volatility indicator	Price movement drivers
Food and beverage				Extreme two-way volatility is reshaping soft commodities. Cocoa (+41% outlook) and sugar (+16%) face sharp upward pressure from West African weather disruption and supply concentration risk, while coffee eases on improved harvests. Sunflower oil reverses sharply (−32%) after a strong price run-up. Flour and chicken remain broadly flat, with low volatility.
Flour*	↔	↔		
Sugar	↔	↑		
Chocolate	↓	↑		
Coffee	↓	↓		
Chicken*	↔	↔		
Sunflower oil	↑	↓		
Industrials				Petrochemical derivatives (PP +17%, HDPE +27%) continue to surge, driven by elevated feedstock costs linked to Hormuz disruption and tight European supply. Tin corrects sharply (−22%) after a speculative bubble, while aluminum eases (−8%) on weak Chinese demand. Steel remains marginally inflationary (+3%), supported by tariff-driven European demand.
Aluminum	↑	↔		
Steel	↑	↔		
Tin	↑	↓		
PP*	↑	↑		
HDPE*	↑	↑		
Packaging				PET prices continue upward (+13%), driven by sustained feedstock cost pressure and reduced European production capacity. Pulp and paper softens slightly (−5%) as demand weakens and wood cost inflation moderates. Specification optimization opportunities arise due to the divergence.
PET*	↑	↑		
Pulp and paper*	↔	↔		
Transportation				Freight rates are correcting sharply across all lanes following the extreme spikes of the past year, as new vessel capacity comes online and trade volumes adjust to tariff-driven rerouting. However, volatility remains very high on Asia routes, reflecting ongoing geopolitical uncertainty around the Red Sea and Strait of Hormuz. Rate relief creates a window for contract renegotiation.
Shipping U.S.-EU	↑	↓		
Shipping China-EU	↑	↓		
Shipping China-U.S.	↑	↓		
Energy				Fuel oil surges (+45%) on Hormuz-related supply disruption, while gas (−30%) and electricity (−25%) correct sharply from prior highs as European storage recovers and renewables capacity expands. Volatility remains extreme across the energy complex.
Oil	↑	↑		
Gas*	↑	↓		
Electricity*	↑	↓		
Labor				Steady, modest wage growth (+2.7%) is being driven by inflation-linked pay adjustments and tight labor markets. Low volatility reflects the structural nature of labor costs.
Labor*	↔	↔		

Magnitude of arrows: ↓ <-10% ↘ -10% to -2% ↔ -2% to 2% ↗ 2% to 10% ↑ >10%

Volatility indicator: 1 Low 2 Normal 3 High 4 Very high 5 Extreme

Notes: This outlook (accurate as of August 2026) is built using data-driven insights and projections based on commodity market trends and supply chain insights from our partner Expana. 2026-27 forecast ranges are based on price changes using August 2026 as a price base. The analysis considers global prices; cost areas with an asterisk (*) are based on regional prices. This perspective does not include the additional impact on imports for U.S. companies.

Source: Expana, AlixPartners' analysis, AlixPartners' Supply Chain Market Update

2026-2027 cost outlook (continued)

Insights from our partner Green Cabbage show that AI is reshaping the indirect cost landscape—driving inflation in infrastructure while unlocking opportunities in services.

Cost area	Sep 2026 Price change	2027 Cost outlook	Price movement drivers
Indirect categories			Indirect technology and services costs present an increasingly bifurcated picture.
 Cloud			IT hardware & infrastructure remains the outlier, as AI-driven demand and memory shortages sustain double-digit inflation through 2027, even though the rate is easing from peak levels.
 Hosting			
 IT hardware & infrastructure			Cloud services see modest increases, but colocation and hosting face steeper pressure from energy and real estate constraints.
 Professional services			Services categories such as professional services and software development show average increases of 3-5%, but this headline figure masks significant variation. In practice, many engagements are achieving flat or reduced pricing, particularly in routine application development, maintenance, and commoditized consulting, where AI-enabled productivity, offshore delivery expansion, and intensifying provider competition are creating genuine deflationary conditions.
 Software development			
			Average pricing is being pulled upward by scarce specialist skills (AI, cyber, data engineering), which continue to command premiums of 10-20%. Buyers should focus negotiations on total delivery cost and productivity commitments rather than rate cards alone.

Magnitude of arrows:  <-10%  -10% to -2%  -2% to 2%  2% to 10%  >10%

Volatility indicator: 1 Low 2 Normal 3 High 4 Very high 5 Extreme

Notes: This outlook (accurate as of September 2026) is built using Green Cabbage's perspective. The analysis considers global market trends rather than referring to specific tools and services.
Source: Green Cabbage, AlixPartners' analysis

3 How procurement is evolving

From cost function to value creator: the procurement mandate in the age of hyper-volatility

The 2026 World Procurement Congress (WPC 2026) framed the implications for procurement as a shift from an efficiency-first to an agility-first operating posture—one of the defining shifts in supply-chain strategy today. AlixPartners is helping companies make that shift on two fronts: repositioning procurement as a value driver and rebuilding how the function operates.



3.1 Procurement as a value driver

Procurement's mandate is now margin protection, supply continuity, and growth, delivered with the business rather than in isolation from it.

- **Working with the business, not around it.** The highest-value work embeds procurement in commercial planning and P&L decisions, and turns supplier relationships from negotiation into partnership. Strategic suppliers co-develop and, critically in a volatile market, provide preferential access during shortages—delivering supply-security value, not just cost value.
- **Resilience is now part of the value case.** Tier 1 visibility is no longer enough. Hormuz showed that upstream shocks hit faster than teams can react. This shift is no longer theoretical: we are seeing companies explicitly prioritizing supply-risk mitigation over minimizing total cost, even in automotive, one of the most cost-squeezed industries. This resilience-first posture, unthinkable a few years ago, reflects how deeply the volatility of recent years has changed boardroom risk appetite.
- **Fact-based cost intelligence unlocks savings others miss.** Even in partly deflationary markets, suppliers do not volunteer pass-through, and contracts often block it. AI-driven should-cost modeling via our Corus platform tests pricing against commodity, energy, and labor movements, exposing increases that aren't cost-justified. Specification, design-to-value, e-auctions, and advanced sourcing create additional savings opportunities.



3.2 New ways of working

The experimentation phase is over. Running isolated pilots is no longer a defensible position: leading companies have moved past proofs-of-concept and are already capturing value at scale, pulling further ahead of those still trialing tools. The levers above only sustain that value if the operating model deploys them continuously, not just in crises. The gap between leaders and laggards is now a capability gap, not an information gap, and it starts with digitalization.

- **Data foundations before tools.** Our June 2026 survey found 46% of supply-chain leaders are still not using AI in decisions, with data quality (23%) and talent (29%) the top barriers. The test for any CPO: is the spend cube current, is the supplier master data clean, and is the contract repository structured? Those foundations set the ceiling on what technology can deliver.
- **A live digital engine, not an annual cycle.** Leading functions now run on platforms that connect live market signals to commercial and operational action prompts: real-time should-cost at scale, N-tier supply-chain mapping, and probabilistic forecasting that produces scenario distributions rather than single-point estimates. The shift is from annual budget lock-in to continuous, rolling risk management that keeps pace with correlated shocks.
- **AI-enabled workflow requires leadership to deliver value.** AI is moving from analysis into execution: automating workflow bottlenecks such as contract redlining, P2P orchestration, and alternative-supplier identification and onboarding, as well as pairing diagnostics with data-driven negotiation so insight converts into P&L impact. But WPC 2026 made it clear that technology deployment is the easy part: leadership, governance, and cultural change are what separate the functions capturing value at scale from those still stuck in pilots.

4 How AlixPartners accelerates the shift

Procurement's shift from a cost function to a value driver only delivers full value when execution speeds up. AlixPartners' experienced practitioner-consultants work side by side with client teams to deliver results and build capability. We bring the horsepower and expertise to accelerate impact, and we embed sustainable skills and AI-enabled tools that compress timelines and deliver results, organized around three areas of impact:

4.1 Rapid assessment and diagnostics

AI-powered forensic analysis that delivers insights materially faster than traditional diagnostics, helping pinpoint savings and resilience opportunities in days rather than weeks. This helps clients size the opportunity and risk across direct, indirect, and packaging spend, flags supply-chain exposure below Tier 1, and prioritizes the highest-value, shortest-payback actions—giving leadership a fact-based mandate to move before the next shock hits.

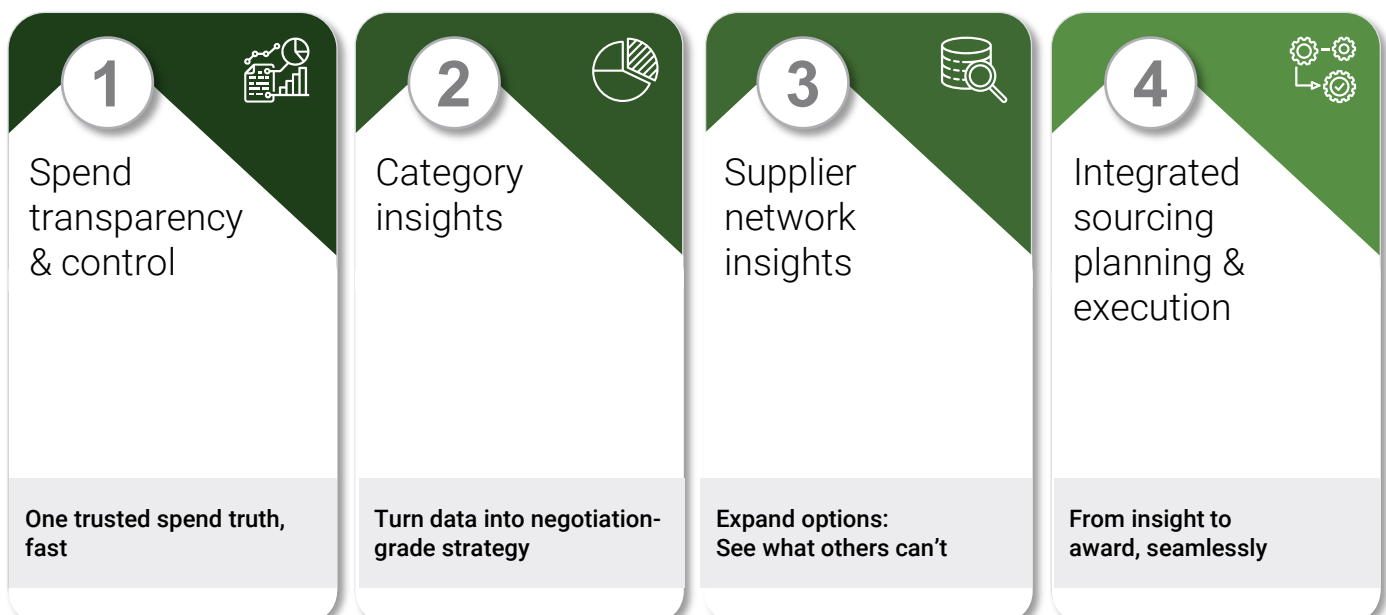
4.2 Accelerated negotiation and cost intelligence

We turn cost facts into negotiated outcomes at speed. Automated negotiations run competitive, multi-round events at scale with minimal manual effort; AI-led SKU rationalization removes the specification and portfolio complexity that inflates cost; and AI-driven should-cost modeling tests supplier pricing against commodity, energy, and labor movements to expose increases that aren't cost-justified. Together, these give buyers the evidence to negotiate from a position of strength, mitigating around 15% of inflationary pressure in one industrial engagement and taking 15-25% off conversion cost/margin adders in one chemicals case.

4.3 AI strategy, enabled by Corus

We help companies move beyond pilots to embed AI across internal procurement workflows and external supplier-facing processes, from should-cost modeling and forecasting to contract automation and alternative-supplier identification. Our Corus platform provides the digital backbone—including live market signals, N-tier mapping, and scenario-based rolling risk management—but the greater strategic value lies in helping CPOs define the role AI should play in their function, build the data foundations it requires, and land the governance and change management needed to turn tools into a sustained capability.

Our AI-powered source-to-contract intelligence platform unifies procurement strategy and control with deep insights and rapid execution



Contact our EMEA cost transformation leaders to navigate and address market complexity, including how to:



Overcome market trends to secure savings even in rising markets—and capitalize on deflationary opportunities



Leverage advanced sourcing tools to secure the best market prices



Implement should-cost and design-to-value initiatives to optimize demand and specification

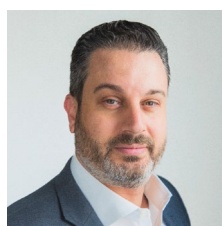


Implement robust dual/multi-sourcing strategies to mitigate procurement risks



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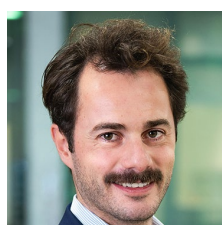
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AlixPartners

ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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