

Beyond Energy: Inflation Heats Up as Fed Gathers

Charles Schwab · Henry Hoenig · 2026-10-27 · English original

Inflation is getting hotter. And it's not just energy prices.

As the Federal Reserve meets today and tomorrow, it faces accelerating price increases for a range of items that exclude energy and food.

The Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) price index, due October 29, is expected to show that core prices rose 0.34% month over month in September, according to the median forecast in a survey by The Wall Street Journal.

That would be the biggest month-over-month increase since January, before the Iran war started.

While energy prices accounted for a majority of overall inflation in September, according to the Consumer Price Index (CPI), robust and accelerating price pressures showed up in multiple, heavily weighted non-energy categories, underscoring the risk that inflation could spread beyond oil and gas prices.

Core CPI, which excludes energy and food prices, rose 0.3% in September from August, accounting for 44% of the CPI's overall 0.6% month-over-month increase. And it's not just one month. Core inflation has been running hot for several months. Through September, it rose at an annualized rate of 3.4% over the previous three months versus a six-month annualized rate of 2.9%. The Fed's target is 2% inflation as measured by the overall PCE price index.

Services prices

As is often the case, services prices were the largest non-energy contributor to inflation in September, according to CPI data, accounting for 38% of the CPI's month-over-month rise. Excluding energy-related services, services prices rose 0.4% from a month earlier and accounted for 37% of overall inflation. The three-month annualized rate hit 3.8%.

Going the wrong way: Three-month annualized price gains

Within services, rent of shelter rose the most since April, jumping 0.4% from August and hitting a three-month annualized rate of 3.3%. The broader housing index, of which energy-related components account for nearly 8%, also rose 0.4%.

Fed officials say AI investment is also driving price increases in some technology categories. At the consumer level, computer software and accessories rose 28% in September from the same month a year earlier, while computers, peripherals, and smart home assistants were 9.7% higher. At the wholesale level, Producer Price Index (PPI) data showed prices for electronic components and accessories had risen 27% from a year earlier, transformers and power regulators were up 7.6% over that period, and electronic computers and computer equipment rose 23% from the same month a year ago.

Upstream pressures

Other PPI data for September showed upstream price pressures building, increasing the risk that businesses will eventually pass price increases down to consumers. PPI for final demand, the headline index, rose 1.3% from a month earlier, the biggest one-month jump since 2022. Excluding energy, food, and trade services (a gauge of wholesale and retail margins), PPI for final demand rose a robust 0.5% from the previous month.

Energy prices drove overall goods prices 2.6% higher than a month earlier. That was the biggest one-month increase in goods prices since 2009. Services prices rose 0.8%, the biggest gain since April. Further upstream, at the intermediate-demand stage, price increases were "broad-based," the BLS said.

The Fed meeting

The Fed raised rates unanimously just last month, following a split vote at its previous meeting. Since that hike, Fed speakers have offered differing takes on the state of inflation. Energy prices remain the foremost concern, but AI investment and supply chains were also frequently mentioned.

Still, the probability of a rate increase at this month's meeting stood at only 9.4% as of October 27, according to the CME Group's FedWatch Tool.

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