



Higher food prices in Europe are only a matter of time

Contents

Higher food prices are unavoidable	3	Consumers are already visibly pressured	5
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Summary

The prolonged disruption in the Strait of Hormuz is reshaping energy markets, with oil and gas prices now expected to remain elevated well into 2028. Even with a near-term resolution, recovery will be gradual due to damage to critical infrastructure, keeping supply tight.

Higher energy and packaging costs are now feeding through the food value chain and in some cases already eroding food manufacturers' margins. While hedging may delay the impact, those higher input costs will ultimately drive a renewed cycle of mid- to high-single-digit food price inflation across Europe in 2027.

Already, the "higher for longer" energy environment is weighing on European economies. Revised forecasts point to slower growth, weaker consumption, and higher overall inflation and unemployment, with the full impact expected in 2027.

This may leave consumers limited room to absorb further food price increases. As a result, they are likely to cut back on discretionary spending and become even more price-sensitive in their grocery purchases.

For all players in the food market, it will be a challenging balancing act between increasing prices, maintaining margins, and protecting volumes.

It has been almost two months since we published our note [Food price inflation to hit European wallets by Christmas](#), and not much has changed. This is problematic because the expectations of a short-lived conflict haven't materialized, and the longer-term consequences for the global geopolitical order, energy price forecasts, and overall economic projections are significant.

The global energy market to keep waiting for Hormuz's reopening

Although US-Iran negotiations are in full swing and there is reportedly "95%" agreement on a peace deal, the Strait of Hormuz remains closed in practice. Some 20% of global oil and liquified natural gas (LNG) exports, as well as key raw materials like naphtha (plastics) and fertilizers, are stuck in the Persian Gulf. And that blockade will not be resolved overnight.

RaboResearch macroeconomic strategists believe that [any US-Iran deal on Hormuz is unlikely to stick given the underlying differences between the two sides over the issue of highly enriched uranium](#). Iran has no incentive to open the strait, as that undermines its negotiating position. The US has limited options other than to continue blockading Iranian oil exports in the hopes that it will economically "choke" its opponent. That implies that the world's key strait for energy transport will likely remain closed, and our strategists indicate we won't see a resolution to the crisis before September 2026. They also do not rule out more fighting (and potentially more damage to critical energy infrastructure) before a final settlement is reached.

Reopening the strait does not mean an immediate return to normal

Even if the strait opens in September, we will not return to business as usual overnight. It may take weeks if not months to demine shipping lanes and weeks thereafter for all dislocated tankers to resume their normal shipping routes.

Moreover, the billions of dollars in damage that already has been inflicted on refineries, gas plants, petrochemical facilities, and port infrastructure across six Persian Gulf countries adds to the delay. Some 20% to 25% of total refining throughput has allegedly been damaged. Repairing damaged oil refineries, LNG plants, and energy infrastructure across the gulf is expected to last well into 2027, even under optimistic assumptions.

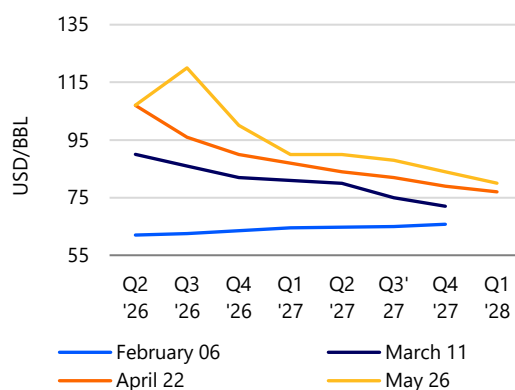
Lastly, shut-in oil wells do not simply resume production at the turn of a valve. When fields are taken offline for extended periods, reservoir pressure drops and wellbore conditions can deteriorate, requiring intervention, workovers, and gradual ramp-ups.

Energy prices are expected to rise further

With every week that reopening is delayed, the worldwide energy deficit grows and more countries' strategic energy reserves are used. By September, winter in the Northern Hemisphere will be closing in – with higher seasonal demand and lower system flexibility. That, in combination with relatively low filling rates in European gas storage, [will put additional upward pressure on gas prices](#) and raise the risk of serious market intervention through export restrictions, forced reshaping of energy flows, and further (temporary) removal of energy sanctions, impeding market pricing signals.

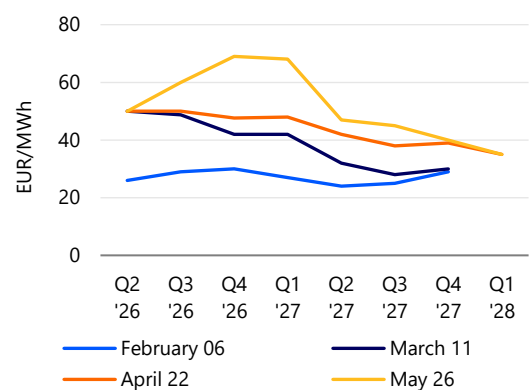
RaboResearch's recently adjusted gas and oil price forecasts clearly illustrate the impact of a prolonged conflict (see figures 1 and 2). Forecasts for May 26 prices in 2026 and 2027 not only surpass projections from early February, they exceed those from March and April, indicating a sustained period of elevated oil and gas prices extending well into 2028.

Figure 1: Brent price forecasts have been revised to reflect higher prices for longer



Source: RaboResearch 2026

Figure 2: Natural gas (TTF) price forecasts are also revised upward



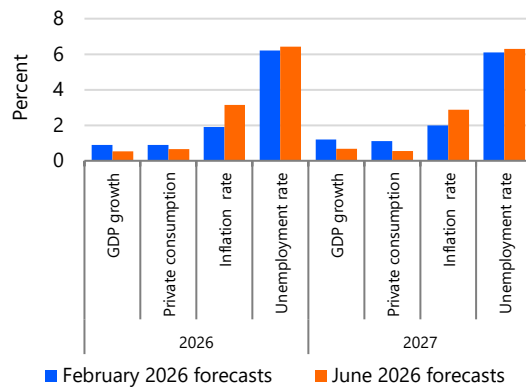
Source: RaboResearch 2026

A less favorable macroeconomic environment will result

Persistently high energy prices are expected to weigh on European economies, as reflected in the [revised outlook](#) of RaboResearch macroeconomists. The impact is likely to emerge in the final quarter of 2026, with the full effect materializing in 2027.

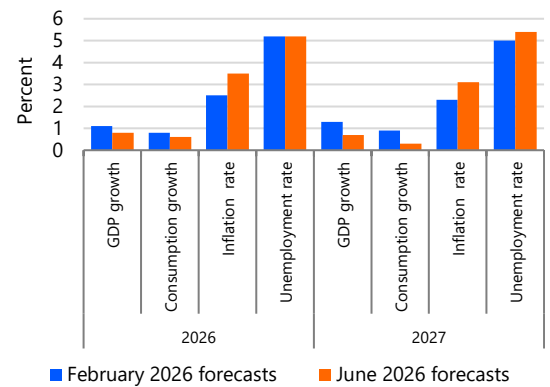
Compared to earlier expectations, RaboResearch now anticipates slightly slower GDP growth and weaker consumption, alongside higher unemployment and inflation.

Figure 3: New forecasts for the eurozone reflect the adverse impact of higher energy costs



Source: RaboResearch 2026

Figure 4: Lower growth is now expected in the UK as well



Source: RaboResearch 2026

Higher food prices are unavoidable

The forecasts for higher oil and gas prices do not bode well for the food industry, although the impacts will not be felt right away. Many food producers learned from the 2022 energy crisis and have more risk management tools in place, so the bulk of their energy usage will be covered by forward contracts, shielding them from the current day-to-day volatility.

But as we warned in our publication in April, a prolonged period of higher energy prices means that these increases will ultimately end up in the costs of materials – either directly, when forward contracts need to be renewed at substantially higher prices, or indirectly via the supply chain in the form of higher costs for fertilizers, packaging, diesel, milling, grinding, or [agricultural raw materials](#).

Assuming the strait reopens in September, RaboResearch forecasts average oil and gas prices to hit USD 84/bbl and EUR 50/MWh (TTF) in FY2027. For reference, in the last quarter of 2025, average oil and gas prices stood at USD 63.7 and EUR 30, respectively.

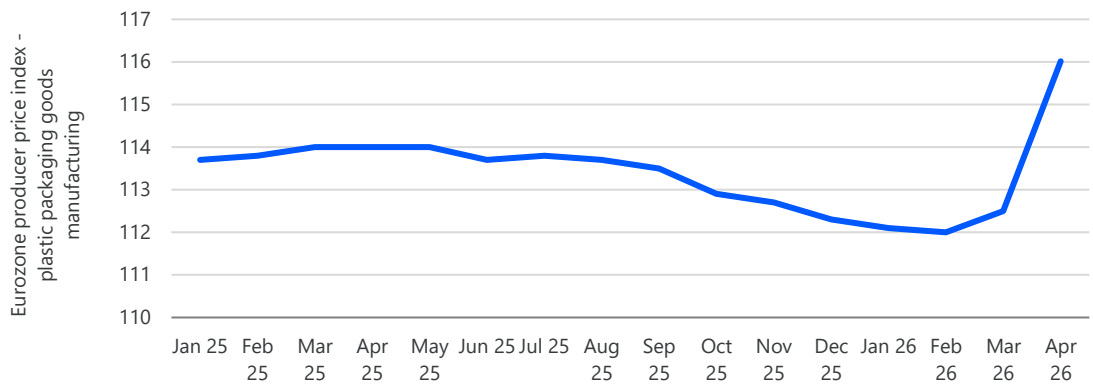
For food manufacturers, costs are already edging up

While hedging strategies may temporarily mitigate or delay the direct impact of higher energy prices for most food producers, energy-related costs are already weighing on food manufacturers' margins: most notably, transportation (diesel) and packaging costs.

Many transport companies have diesel clauses in their contracts, which places the burden of the already circa 30% higher diesel prices year-on-year directly on their clients, be they food producers or food retailers.

In packaging, sharp price increases in finished resins and naphtha – the key feedstocks used in plastic production – have driven plastic packaging prices higher. The naphtha price currently hovers around 30% above February levels (see figure 5), despite a recent correction. Given the wide range of plastics used in food packaging and the different types of supply contracts, actual cost increases will vary in both magnitude and timing across materials, but the overall trend is clearly upward.

Figure 5: Plastic packing goods are already edging up, and all types are expected to be affected



Source: Eurostat, RaboResearch 2026

Naphtha – and, consequently, polymer prices – are expected to continue rising, albeit at a more moderate pace. Even if the Strait of Hormuz were to reopen quickly, recovery in production capacity would likely be gradual, as damage to petrochemical assets will take time to repair. As a result, higher input costs are expected to be passed on to customers, although with some delay due to existing contractual arrangements.

The same applies to paper packaging, where higher energy and chemical costs are expected to ultimately translate to higher prices for customers once contracts expire. Other packaging materials face similar pressures. Aluminum is particularly exposed due to its high energy intensity and the strategic role of the Gulf States, which account for approximately 8% to 9% of global primary aluminum production. Glass production is equally vulnerable, as it is highly energy-intensive and sensitive to gas price increases. Any further increases will depend on developments in energy prices and supply-demand dynamics.

As margin pressure bites, negotiations to increase prices will start

These price dynamics present food producers with an unenviable dilemma: either approach their food retail clients now with a relatively small price hike, knowing that more and higher price increases will likely be necessary in the not-too-distant future, or absorb the current cost inflation in hopes of keeping the necessary selling price adjustment confined to a single occasion later in the year.

Given the low average operating margins in the food industry, food manufacturers generally have limited capacity to absorb further cost inflation. A prolonged period of energy prices remaining more than 60% above historical levels will most certainly push the envelope. Higher energy prices will very likely be *the* central issue in the upcoming 2027 price negotiations between food producers and retailers/foodservice operators later this year.

Current profitability levels in food retail and foodservice also make it unlikely that they will be able to cushion (all) cost inflation. Consumers are therefore likely to face another round of food price increases starting by the end of the year and flowing over into 2027.

Whether consumers are prepared for a renewed period of mid- to high-single-digit inflation in their grocery baskets remains an open question that is likely to create for the whole sector a tight balancing act between higher prices and maintaining volumes.

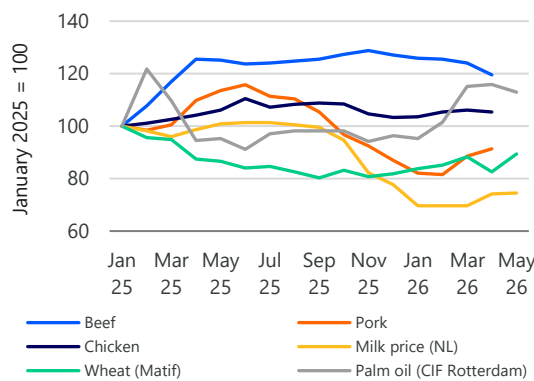
No big differences in food price inflation expected across Europe

However, the upcoming wave of food price inflation is not expected to reach the peaks observed in 2023, largely due to more stable agricultural commodity prices. The FAO Food Price Index was just 5% higher in April 2026 than in January 2025, compared with a 40% increase between January 2021 and March 2022. Food commodity prices relevant to Europe show no generalized inflationary trend, with changes ranging from -25% to +20% since January 2025.

Despite these differences, some of the underlying dynamics are likely to be similar, particularly the time lag between rising energy costs and the materialization of food inflation. Food prices are therefore expected to begin increasing again in the coming months, with the full impact likely to be felt by consumers in 2027.

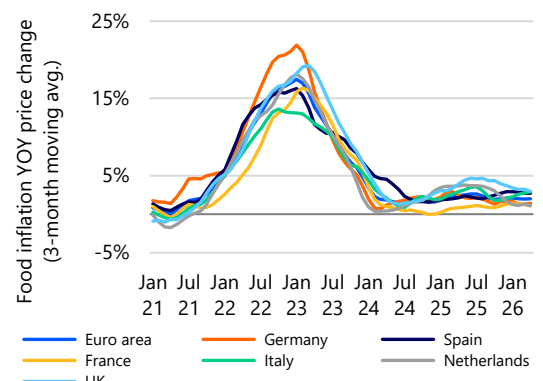
Preliminary research into individual markets – specifically, the Netherlands and the UK – points to mid- to high-single-digit peaks in food price increases in 2027. While all markets will be affected, the extent of inflation will vary across European countries, as seen in 2022/23 when Italy and Germany were outliers. Differences in energy production, energy costs, and household consumption patterns drive this variation, but prices for most countries move in a relatively narrow range (see figure 7).

Figure 6: No generalized increases in food commodity prices in Europe



Source: RaboResearch 2026

Figure 7: European countries follow similar food inflation patterns



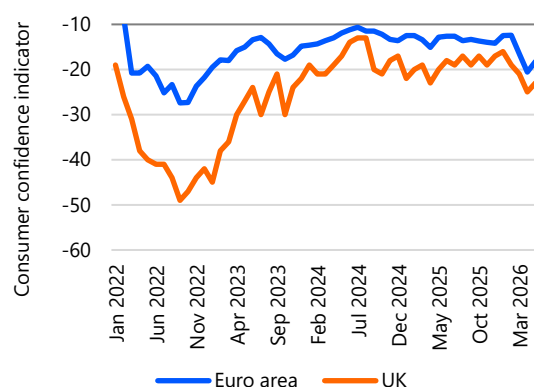
Source: Eurostat, ONS UK, RaboResearch 2026

Consumers are already visibly pressured

However, the uncertain geopolitical situation is already affecting European consumers. Since March, confidence indicators have taken a nosedive, driven by rising concerns about unemployment, inflation, and deterioration in household finances. In a consumer confidence survey, consumers indicated that the next 12 months aren't a good time for major purchases. While that doesn't apply to food, this spending-adverse mood may spread to other categories.

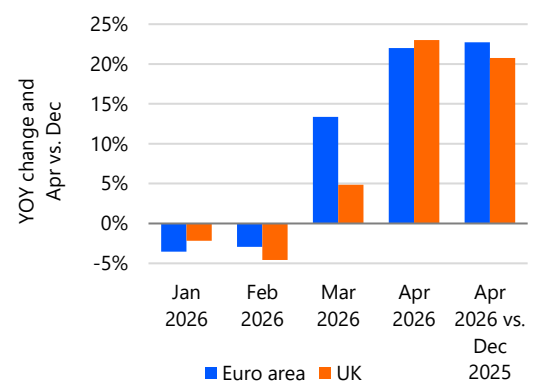
Many consumers' budgets are also suffering the direct impacts of the current energy crisis. For those who drive fuel-powered automobiles, filling the tank is now 20% to 25% more expensive than it was at the end of 2025. Fuel represents around 5% of total household spending but often is a regular and unavoidable expense, and a price increase affects sentiment as well as diminishes the budget left for discretionary use.

Figure 8: A visible deterioration in European consumer sentiment



Source: Eurostat, GFK, RaboResearch 2026

Figure 9: Fuel prices for automobiles are already 20% more expensive since December



Source: Eurostat ONS, RaboResearch 2026

As elevated fuel and gas prices persist, European households are set to face rising energy bills, particularly when colder weather increases demand in autumn. Automobile fuel and household energy together account for nearly 10% of average eurozone household spending. While this share may appear modest, a 20% increase would effectively redirect around 2% of total household expenditure away from other categories.

As discussed above, the shopping basket is also expected to be more expensive toward the end of the year and in 2027, compounding the impact of increases in other essential costs.

Since many household expenditures, such as housing costs, health, insurance and other essential services, or subscriptions, are relatively fixed in the short term, consumers will need to adjust elsewhere. As a result, discretionary categories such as clothing, foodservice, and leisure activities are likely to bear the brunt of these budget reallocations. Even groceries, despite being a necessity, may be affected, as consumers often perceive some flexibility in what and how they purchase. Suppliers should start weighing the implications of such a possibility now.

Imprint

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