

BRIEF 01 OF 07 · BEFORE YOU RENEW

The Quarter in Focus

Three conditions shaped every category this quarter: producer prices outrunning the index most budgets use, a demographic peak that has already passed, and less predictable federal support.

6.3%

Producer-price inflation, 12 months to Sept 2026, against 3.7% for consumer prices

3.9M

U.S. high school graduates at the 2025 peak, falling to 3.4M by 2041

Dec 2027

New date for the EU AI Act's high-risk obligations covering education

IN THIS BRIEF The Quarter in Focus The Global and Cross-Border View

PART ONE

The Quarter in Focus

Three conditions shaped every category we manage during the third quarter, and they compound one another. Producer prices are rising considerably faster than the consumer index most institutional budgets are built on. The traditional student pipeline passed its peak last year while enrollment has not yet followed it down, which opens a window that is already closing. Federal support has become less predictable, with one significant outcome running in the institution's favor.

What connects them is not scarcity, which the profession has managed before. It is the unreliability of the reference points. A budget indexed to the wrong measure of inflation will be wrong in a direction that favors the supplier. A plan written against a demographic peak that has already passed will misjudge its own timing. A contingency built on the assumption that a budget request becomes an appropriation will misallocate attention. In each case the institution is not short of information. It is working from a reference point that has moved.

What the External Evidence Shows

The divergence between consumer and producer prices is the clearest instance and the one with the broadest reach. The Consumer Price Index for All Urban Consumers rose 3.7 percent over the twelve months ending September 2026, with the index less food and energy at 2.6 percent (Bureau of Labor Statistics, 2026a). Over the identical period the Producer Price Index for final demand rose 6.3 percent, its

steepest twelve-month advance since December 2022, and the producer measure that strips out food, energy, and trade services rose 5.0 percent, nearly double the comparable consumer figure (Bureau of Labor Statistics, 2026b).

The single-month movement sharpened the point rather than softening it: final demand rose 1.3 percent in September alone, the largest monthly increase since March 2022, and final demand goods rose 2.6 percent in the month, the largest since the series began in 2009. Institutions purchase contracted labor, mechanical services, energy, logistics, and equipment. Those sit on the producer side of the divide.

A caution belongs here, because the temptation to sharpen the point is strong. It is sometimes asserted that education specific producer prices run a fixed number of basis points above consumer inflation. No published source supports that claim, and this report does not make it. The defensible statement is narrower and still consequential: economy wide, producer prices moved 2.6 percentage points faster than consumer prices over the same window, a gap that widened from the prior month rather than narrowing, and institutional purchasing sits on the producer side.

On the demographic side, the eleventh edition of Knocking at the College Door projects that the national number of high school graduates reached its maximum in 2025 at approximately 3.9 million, the highest figure since data collection began, and will decline roughly 13 percent to 3.4 million by 2041 (Lane et al., 2024). The projection is unusually reliable because the cohorts in question have already been born.

Enrollment has not yet followed: fall 2025 and spring 2026 each posted aggregate gains near one percent, carried entirely by undergraduates (National Student Clearinghouse Research Center, 2026a, 2026b). That is a recovery plateau sitting immediately ahead of a declining pipeline, and institutional language has not caught up with it. Planning documents across the sector still describe the peak as a forthcoming event.

Net tuition revenue continues to erode at the margin. The average institutional tuition discount rate for first time, full time undergraduates at private nonprofit institutions reached 54.5 percent for the 2024 to 2025 academic year on finalized data, with a preliminary estimate of 57.1 percent for the current year (National Association of College and University Business Officers study, as cited in Inside Higher Ed, 2026).

All three major rating agencies assigned the sector a negative or deteriorating outlook for 2026, and sixteen nonprofit closures were announced during calendar 2025, a figure that includes seven branch campuses (Unglesbee, 2026; Moody, 2025).

Federal conditions supply the third element. The Department of Education has requested 75.7 billion dollars in discretionary funding for fiscal year 2027, a reduction of 4.1 percent below the fiscal year 2026 appropriation, with the TRIO programs and GEAR UP shown at zero in the accompanying congressional justification (U.S. Department of Education, 2026a, 2026b).

A request is a planning signal rather than an outcome, and this year demonstrated the distinction: the National Science Foundation request proposed a 56.9 percent reduction, and the agency was funded at 8.75 billion dollars with research and related activities level at 7.18 billion (U.S. Senate Committee on Appropriations, 2026).

Running the other way, the National Institutes of Health cap of 15 percent on negotiated facilities and administrative rates was held unlawful by the First Circuit in January 2026, the administration declined further review in April, and parallel appeals at three other agencies were dropped (Federation of Associations in Behavioral and Brain Sciences, 2026). Negotiated rates stand.

What This Means by Segment

- **Higher education.** Research universities and comprehensive institutions carry the producer price exposure most heavily, because scale multiplies contracted services, energy, and equipment spend simultaneously. The indirect cost outcome matters disproportionately here as well: universities reported 6.8 billion dollars in indirect cost under recovery in fiscal year 2023, and capital equipment purchases sit among the categories that shortfall displaces (Attain Partners, 2026). The opportunity is to reprice escalation terms against the correct index while enrollment is still stable enough to permit deliberate action.
- **K-12.** Districts absorb the same forces in compressed form and without the cushion of federal relief. Elementary and Secondary School Emergency Relief funds carried an obligation deadline of September 30, 2024 and a regulatory liquidation deadline of January 28, 2025 (U.S. Department of Education, 2025). Districts that used those funds for recurring costs are now carrying them in operating budgets that did not grow to match. Where internal category capacity is thinnest, a single renewal shock absorbs a disproportionate share of a constrained budget, and cooperative leverage matters most.

PART TWO

The Global and Cross-Border View

The most consequential cross border development of the quarter is the one our research team forecast incorrectly in June, and it deserves to be set out precisely because a number of institutions will have planned against the original August 2026 date.

Regulation (EU) 2026/1744, adopted July 8, 2026 and in force from July 27, 2026, amends the Artificial Intelligence Act as part of what the European Commission describes as a targeted simplification of the artificial intelligence rulebook while preserving safeguards (European Commission, 2026a). The practical effect is a substantial deferral.

Obligations for stand alone high risk systems listed in Annex III, which include artificial intelligence used in education and in systems that may determine access to education, move from August 2, 2026 to December 2, 2027. Obligations for high risk systems embedded in regulated products under Annex I move to August 2, 2028.

What did take effect on August 2, 2026 are the Article 50 transparency obligations, with a grace period to December 2, 2026 for the marking and detection requirements in Article 50(2) as they apply to systems placed on the market before that date (European Commission, 2026b). Those are the provisions that reach vendor documentation and contract language in the near term, which is why the second half of our June forecast held even as the first half did not.

A United States institution may reasonably ask why a European statute belongs in its procurement planning. The answer has not changed: the rules travel through the supply chain. Institutions that enroll European students, operate programs abroad, or license analytics, admissions, proctoring, and student success tools from vendors serving the European market will encounter documentation requirements and transparency expectations that originate in the Act.

What has changed is the timing, and the honest guidance is that the deferral is runway rather than reprieve. Procurement teams that treat data governance, model transparency, and exit rights as standard contract terms now will be prepared when the high risk obligations arrive in December 2027, rather than discovering them mid negotiation.

The commercial dimension of the global picture again appears in vendor consolidation, and again in the same portfolio. In March 2026 the Cloud Infrastructure Service Providers in Europe association filed a competition complaint with the Directorate General for Competition over Broadcom's termination of the VMware Cloud Service Provider programme in Europe, stating that the cumulative practices have increased costs by more than one thousand percent and seeking interim measures (CISPE, 2026).

Separately, Microsoft implemented commercial pricing increases effective July 1, 2026 across several Microsoft 365 and Office 365 tiers, alongside a repackaging that added bundled components to the same stock keeping units (Microsoft, 2026). Education specific pricing is not addressed in that announcement, and this report does not extrapolate campus figures from commercial ones.

The pattern, however, is the one the cooperative model exists to offset: as enterprise software consolidates into fewer global suppliers, the leverage of any single institution declines and the value of demand aggregation rises.

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