

Diesel Supply Crunch Adds to Inflation Pressures

Charles Schwab · Henry Hoenig · 2026-09-08 · English original

The world is struggling to make enough diesel fuel to meet demand, pushing U.S. diesel exports to a record high and driving up costs for businesses and consumers at home.

The oil-supply shock created by the closure of the Strait of Hormuz has naturally attracted more attention. But trouble at refineries around the world has helped drive diesel prices much higher on a percentage basis than crude oil since the Iran war began in late February.

From February 27 through August 25, West Texas Intermediate (WTI) crude oil rose 25% while Gulf Coast wholesale diesel jumped 68%.

WTI crude oil and wholesale diesel prices

Source: FRED via U.S. Energy Information Administration

Record U.S. exports, slower U.S. consumption

In July, diesel exports from Russia, the Middle East, and Asia dropped by the equivalent of about 20% of global seaborne trade compared to a year earlier, according to the International Energy Agency (IEA). In Russia and the Middle East, many refineries have been hobbled by military attacks, while in Asia, refiners are struggling to get crude from the Middle East. Some Middle East refineries have been repaired, but shipping remains a problem.

Meanwhile, since the Iran war started, U.S. refiners, which have access to a mix of domestic and imported crude oil, have responded by cranking up production and fuel exports, particularly diesel, a key input cost for farming, freight transportation, and manufacturing.

As of August 21, the four-week average of U.S. total distillate exports hit a record high of 1.8 million barrels per day, up 64% from the week of February 27. (U.S. distillate exports are "chiefly" diesel fuel, the EIA says.)

Four-week average of total distillate exports

Source: FRED via U.S. Energy Information Administration

Several statistics underscore that higher diesel prices in the United States are the result of global demand and lower refinery output elsewhere, not domestic demand or the inability of U.S. refiners to obtain oil:

- For the first seven months of the year, U.S. refineries processed crude oil at the highest rate since 2019, according to the EIA.
- As of August 21, the four-week average of total distillate (diesel) supplied to the U.S. market was 2.2% lower than a year earlier.

- U.S. diesel inventories have hit their lowest level for this time of year in three decades.

Diesel and consumer inflation

So far, higher diesel prices have had a limited impact on consumers, partly because few consumers buy diesel directly, and businesses haven't passed much of the cost increases along. In July, the Producer Price Index (PPI) for No. 2 low-sulfur Gulf Coast diesel rose 44% from a year earlier, and the PPI truck transportation index rose 8.2%. But the core Consumer Price Index for July rose only 2.5% from a year earlier, while food-at-home costs rose 2.7%.

But some businesses are taking a hit. Fuel surcharges at UPS and FedEx have reached as high as 24%, while some container-shipping fuel surcharges have jumped as much as 75%, according to Reuters, which reported that the charges are a growing source of tension across supply chains. Those charges could soon be passed down to consumers.

Refineries under stress

Wholesale prices could also rise further soon. In their effort to meet global diesel demand, U.S. refineries have been operating at close to maximum capacity—at 97.4% the week of August 21, the highest since 2018—for an unusually long stretch. A Reuters energy columnist said it was the longest stretch at near maximum capacity for more than a quarter century.

U.S. oil refinery utilization

Source: FRED via U.S. Energy Information Administration

That has not only increased the risk of major breakdowns but also made the quickly approaching refinery maintenance season crucial. In an August report, the EIA said it expected refiners to cut fuel output in September and October, with processed crude oil volumes falling by more than 1 million barrels per day by October. This will coincide with the fall harvest and the beginning of the heating season, when demand for diesel rises, at a time when inventories are severely depleted.

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