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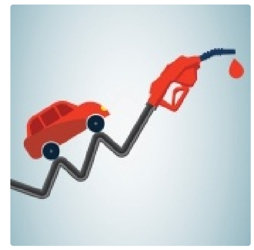
Pressure at the Pump: Will High Gas Prices Shake the U.S. Economy?

Gasoline prices surged sharply in early 2026 following disruptions caused by the Iran war, creating concerns about inflation, consumer spending, and overall economic growth. The national average price of regular gasoline climbed from $2.98 per gallon in late February to more than $4.50 per gallon by Memorial Day weekend, with prices exceeding $6 per gallon in California and averaging around $4 per gallon in Mississippi. Although prices eased somewhat by June, Americans were still paying nearly 50% more at the pump than before the conflict began.



The U.S. economy has weathered high fuel prices before, but it may be a rocky ride this summer.

The primary driver of higher gasoline prices has been the increased cost of crude oil. According to the U.S. Energy Information Administration, crude oil accounts for roughly 52% of the price consumers pay for gasoline. Restrictions on shipping through the Strait of Hormuz—a vital passage that normally handles about 20% of the world's oil supply—caused global oil prices to spike. Even though the United States produces more oil than any other country and imports relatively little through the strait, oil is a global commodity, meaning worldwide supply disruptions affect prices everywhere.

Regional differences also influence gas prices. States along the Gulf Coast and throughout much of the South typically enjoy lower prices because of lower fuel taxes, a high concentration of refineries and pipelines, and less restrictive fuel regulations. In contrast, West Coast states generally experience higher prices due to higher taxes, fewer refining resources, and stricter fuel standards.

Federal policymakers have taken several steps to help ease supply pressures, including releasing oil from the Strategic Petroleum Reserve, easing certain restrictions on Russian oil shipments, and suspending some domestic shipping requirements. Additional proposals, such as temporarily suspending the federal gas tax, have also been discussed. However, these measures are more likely to slow future increases than significantly reduce prices in the near term.

Higher fuel costs are affecting much more than gasoline purchases. Americans have already spent tens of billions of dollars more on gasoline and diesel than they did during the same period last year. Increased diesel and jet fuel costs are raising transportation expenses, which can contribute to higher prices for a wide range of goods and services. Fertilizer costs have also increased, creating additional pressure on farmers and potentially leading to higher food prices later in the year.

Some are concerned about a growing "K-shaped" economy, where higher-income households continue spending while lower-income households struggle under rising costs. Inflation reached 3.8% in April, while wage growth slowed to 3.6%, marking the first time in several years that inflation outpaced wage increases. Because consumer spending drives roughly two-thirds of U.S. economic activity, prolonged pressure on household budgets could weigh on future growth.

Looking ahead, the Federal Reserve faces a difficult balancing act. Persistent inflation may delay expected interest-rate cuts or even lead to additional rate increases. While higher rates can help control inflation, they can also place additional strain on consumers who rely on credit. Although the U.S. economy successfully weathered a similar fuel-price shock in 2022, the combination of elevated gas prices, inflation pressures, and slowing wage growth could make for a challenging economic environment in the months ahead.

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