The Strait of Hormuz Crisis: Inflation, Supply Chain Shock, and the Five-Year Recovery Ahead

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An analysis of how the largest energy supply disruption in modern history is driving a structural inflation cycle, and what the recovery timeline means for manufacturing, energy security, and the global economy.

The closure of the Strait of Hormuz is not simply another supply chain disruption. It is a systemic shock, one that strikes at the foundations of the global energy system, commodity markets, and industrial production simultaneously. For those of us advising manufacturers and industrial leaders, the message is clear: this crisis will reshape cost structures, supply chain strategies, and investment decisions for years to come.

Since February 28, 2026, when the U.S.-Israeli coalition launched air operations against Iran, the strait, through which approximately 25% of the world's seaborne oil trade and 20% of global liquefied natural gas (LNG) transits, has been effectively closed. Ship transits collapsed from around 130 per day in February to just 6 in March, a drop of approximately 95%. The International Energy Agency has characterised the situation as the "largest supply disruption in the history of the global oil market."

Even after the April 8 ceasefire between Iran and the United States, traffic through the strait remains far below pre-war levels. The question now is not whether recovery will happen, but how long it will take, and how deeply the inflationary consequences will embed themselves in the global economy.

The Anatomy of an Inflation Shock

The inflationary impact of the Hormuz crisis is not limited to higher fuel prices. It operates through multiple reinforcing channels that make it fundamentally different from a typical commodity price spike.

Energy as the transmission mechanism.

The IMF's April 2026 World Economic Outlook projects global headline inflation rising from 4.1% in 2025 to 4.4% in 2026 under its reference scenario. Under an adverse scenario, one that more closely reflects actual market conditions in late March, inflation could reach 5.4%, with global growth declining to 2.5%. In a severe scenario involving prolonged energy dislocations extending into 2027, inflation would exceed 6% while growth falls to 2%.

These are not abstract forecasts. The European Central Bank has already postponed planned interest rate reductions and raised its 2026 inflation forecast. UK inflation is expected to breach 5% in 2026. In Europe, chemical and steel manufacturers have imposed surcharges of up to 30% to offset surging electricity and feedstock costs.

Beyond oil: the fertiliser and food price channel.

The Strait of Hormuz is central to the global fertiliser trade. Over 30% of global urea, the world's most widely used nitrogen fertiliser, is exported from Gulf countries through the strait. Urea prices have increased by approximately 50% since the start of the war. At the New Orleans import hub, urea costs surged 32% in a single week, leaping from $516 to $683 per metric ton.

The British think tank The Food Policy Institute has warned of long-term increases in food prices due to disruption in fuel and fertiliser markets. The timing is particularly damaging, disruption during the Northern Hemisphere spring planting season threatens to reduce yields of corn in the United States, the main feedstock for beef, poultry, and dairy, potentially increasing global food prices well into 2027.

Industrial materials and the manufacturing cascade; The crisis extends well beyond energy. The Gulf region supplies approximately 21% of global aluminium, a significant share of global polyethylene, methanol, and sulphur, and nearly one-third of global helium. China, the world's largest methanol buyer, faces potential shortages as port inventories approach warning thresholds. Taiwan and South Korea, (home to the world's leading semiconductor manufacturers) are simultaneously dealing with lost energy supplies from the Gulf and shortages of critical minerals essential to chip production.

Roland Berger has noted that even regions like Europe and the Americas, which have less direct reliance on imports transiting the strait, are indirectly impacted through complex, multi-stage global value chains. Raw materials from the Gulf are processed in Asia into intermediate goods, which are then shipped globally. The disruption is therefore not regional, it is systemic.

Why This Inflation Cycle Will Be Structural

The LSE Business Review captured it well: a short closure of the Strait of Hormuz is an oil shock; a long closure becomes an inflation and growth shock.

There are several reasons to believe that the current inflationary impulse will prove more persistent than the 2022 commodity price surge following Russia's invasion of Ukraine:

Infrastructure damage extends the timeline.

According to the IEA, 40 energy assets across nine countries have been severely or very severely affected. Qatar's Ras Laffan facility, the largest liquefaction plant in the world, has been offline since it was first attacked on March 2. The Qatari government estimates that repairs could take three to five years. This is not a disruption that resolves when shipping lanes reopen.

Supply chain structural change is already hardening.

As Kevin O'Marah, Chief Research Officer at Zero100, has warned: "If peace with Iran is not locked in within weeks, structural changes in global supply chains will begin to harden." War risk becomes the baseline assumption, meaning higher insurance and security costs, persistent surcharges, and redesigned shipping networks. These costs do not disappear when a ceasefire is signed.

Regionalization is inflationary by design.

The transition towards regionalized, redundant supply chains, which this crisis is accelerating, comes with inherent cost increases. As industry analysts have noted, this means redundant manufacturing capacity, higher inventories, smaller-scale production assets, and rising transaction complexity. All of these add both capital and operating expense. Rising costs of living are the new normal until the productivity effects of AI and automation can offset the transition costs.

Limited spare capacity constrains recovery.

There is limited potential for increased oil output from producers outside the Middle East in 2026, as most operators are constrained by project cycle times, equipment shortages, and limited transportation options. The IEA estimates that only 3.5 to 5.5 million barrels per day can be redirected through Saudi and Emirati pipelines outside Hormuz, leaving a net shortfall of roughly 14.5 to 16.5 million barrels per day.

The Five-Year Recovery: What Manufacturers Should Expect

Even if the conflict is fully resolved in the coming months, the economic aftershocks will persist for years. A credible five-year recovery timeline involves several overlapping phases.

Phase 1: Acute crisis (2026); Continued supply disruptions, elevated energy and commodity prices, demand destruction in vulnerable economies, and monetary policy paralysis as central banks balance inflation-fighting with recession risk. The IMF's reference forecast already projects global growth slowing from 3.4% (pre-war trajectory) to 3.1% this year. The adverse scenario puts it at 2.5%.

Phase 2: Infrastructure repair and supply normalization (2026–2030); The physical reconstruction of damaged Gulf energy infrastructure, particularly Qatar's LNG facilities, will take years. During this period, LNG markets will remain structurally tight, keeping natural gas prices elevated, particularly in Asia and Europe. Credendo has noted that even if the conflict ends soon, supply chains could take months or even years to recover, as time will be required to repair infrastructure, restart equipment, and clear port bottlenecks.

Phase 3: Supply chain restructuring (2027–2032); Manufacturers will accelerate diversification away from single-chokepoint dependencies. This phase involves qualifying alternative suppliers, redesigning supply networks for redundancy, and building larger inventory buffers. For manufacturing sectors dependent on Gulf-sourced inputs, from petrochemicals to aluminium to fertilisers, this restructuring will require significant capital investment.

Phase 4: New equilibrium (2029–2032); The global economy reaches a new steady state characterised by higher baseline costs for energy and industrial materials, more regionalized supply chains, greater emphasis on energy security as national policy, and accelerated investment in renewable energy as a hedge against chokepoint risk. The world will also start to return into a focus on nuclear energy, as a buffer against further geopolitical disruptions.

Implications for Manufacturing Leadership

For those of us working with manufacturers and industrial businesses, the strategic imperatives are clear.

Cost structures are resetting permanently; The assumption of low, stable energy and input costs that underpinned manufacturing strategies for the past decade is no longer valid. Budgets and pricing models must account for persistent cost elevation and greater volatility.

Supply chain resilience is no longer optional; The Hormuz crisis, following the Red Sea disruption and the pandemic-era supply chain breakdowns, has made resilience a survival requirement. Companies that have not invested in multi-corridor logistics, diversified sourcing, and strategic inventory buffers face existential risk in the next disruption. Focus will continue to shift away from globalization to resional supply chains over the remainder of the decade, and inventory will begin to be viewed as a strategic asset.

Energy transition is accelerating by force; As Bloomberg has observed, the energy transition is being forced upon us in a very painful way. Companies that were slow to invest in electrification and renewable energy integration now face the dual pressure of elevated fossil fuel costs and intensifying policy incentives to transition. Countries are looking at renewables and nuclear energy to fill base load needs.

The recovery is not a return to the old normal; The five-year window ahead will be characterised by structural adjustment, not restoration. The businesses that emerge strongest will be those that treat this crisis as a permanent strategic inflection point, not a temporary inconvenience. If you have not already begun future proofing your supply chain, you you will be trapped by constraints of the current crisis.

The Strait of Hormuz crisis has reminded the world, in the most painful way possible, that the global economy remains critically dependent on a handful of narrow waterways and politically volatile regions. The inflationary consequences of that dependency will take years to fully work through. The time to begin building a more resilient foundation is now.