Will the Iran War generate a global energy & food crisis?

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April 2026

"The war in the Middle East is creating the largest supply disruption in the history of the global oil market. With crude and oil product flows through the Strait of Hormuz plunging from around 20 million barrels per day before the war to a trickle currently..."[1]

International Energy Agency (IEA), March 2026

"Living in the 1970s"

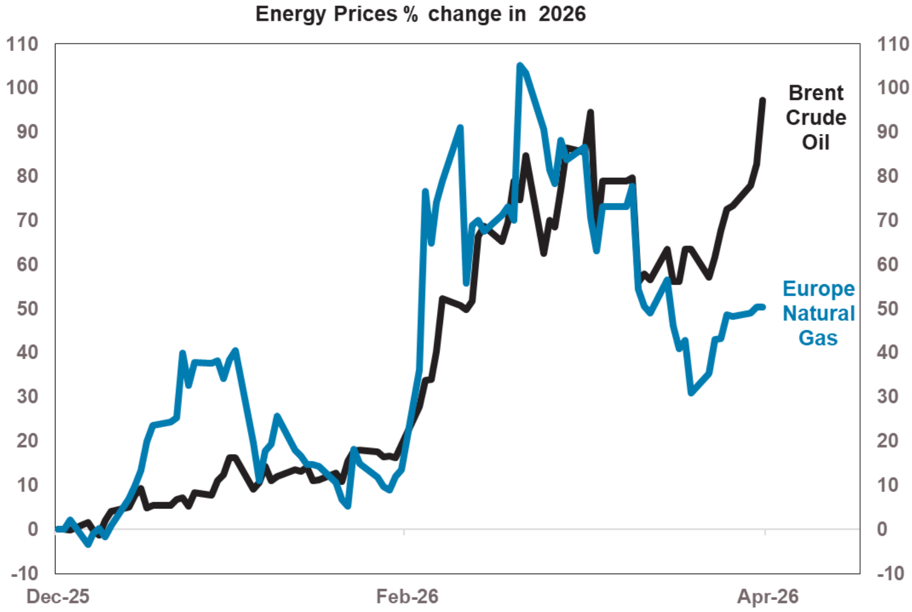
The Middle East is engulfed in a war that is destroying lives. The attack on 28 February 2026 by the US and Israel on Iran has also ignited a wide array of economic consequences that could prove devastating. Iran has responded to this sudden attack by effectively closing the Strait of Hormuz. The Strait of Hormuz is a key maritime transport corridor for the commodity exports of the Gulf States which includes Saudi Arabia, Iraq, United Arab Emirates (UAE), Kuwait as well as Iran. Given this sudden commodity supply shortage, sharp price rises have been recorded in oil, natural gas and fertiliser.

The economic impact of the Iran War could prove to be as dramatic as the '1970s Oil Shocks'. The global economy currently confronts the prospect of both rising inflation and unemployment because of this Iran War. This 'stagflation' mix of both higher inflation and unemployment creates a major policy dilemma for central banks. Should central banks raise interest rates to restrain inflation pressures or lower interest rates to support economic activity and mitigate rising unemployment?

Oil prices can make your blood boil

Global crude oil prices have surged by 97% in US dollar terms this year given the sudden shutdown of the Strait of Hormuz (Chart 1). While the impact on Australian motorists has been partly mitigated by a rising Australian dollar and the Federal Government's decision to cut fuel excise taxes by twenty-six cents until June, the shock is still there for household budgets.

Chart 1: Global crude oil prices have surged this year



Source: LSEG Datastream. Brent oil price is Crude Oil BFO M1 Europe FOB $/BBl. Natural gas is LNG Natural Gas. Data as at 30/04/2026.

Another symptom of this global energy crisis is soaring natural gas prices. Approximately 20% of the global supply of Liquid Natural Gas (LNG) is sourced from Qatar and the UAE. Given the damage sustained to Qatar's and UAE's gas production facilities by Iran's attack as well as the inability to transport LNG, there has been a +50% surge in natural gas prices this year. These rising energy costs have widespread dramatic implications for the global price of goods. The cost of producing plastic packaging, PVC pipes and even garbage bags is heading higher given plastic's dependence on cheap energy.

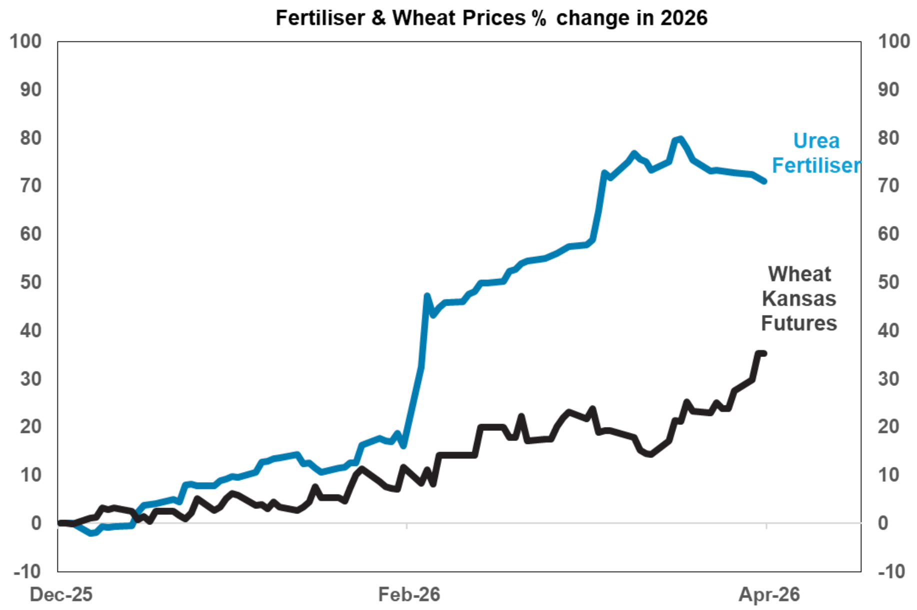
Is a global food crisis looming?

"The 2026 conflict in the Middle East is adding further pressure on fragile agrifood systems and global supply chains, threatening the availability, accessibility, and affordability of food".[2]

Food and Agriculture Organization of the United Nations (FAO)

As the FAO has highlighted in recent research, the Iran War is a threat to food prices. The Strait of Hormuz carries approximately 20% of the global trade in fertilisers. Given their access to cheap energy, Gulf countries such as Qatar and Saudi Arabia are key suppliers of nitrogen fertilisers, such as Urea and Ammonia, as well as Sulphur, which is a major input into producing phosphate fertilisers. The Urea fertiliser price has soared by more than 70% this year given the threat to future supply (Chart 2).

Chart 2: Urea fertiliser price has soared due to the threat of future supply



Source: LSEG Datastream. Urea FOB US Gulf futures contract prices.

The 'double edge' plough for farmers

The longer the Iran War continues, the greater the upside risks to crop prices such as wheat, corn and rice, which frequently depend on fertiliser. The FAO notes that rising fertiliser costs could impact farmer's planting decisions "*for 2026 and beyond*".

The challenge for global farmers is that they confront a 'double edge sword' of both rising fertiliser and fuel costs before ploughing. There is the potential that farmers may consider lower plantings to keep their costs manageable. This will only magnify the impact on final retail food prices given a lower supply of crops.

"Tell us the price"

Given the complex dynamics of global commodity prices, inflation, economic activity as well as politics, a forecaster needs to be either brave or reckless in predicting future outcomes. The International Monetary Fund (IMF) has recognised this in their April outlook by considering two different "*downside scenarios*" (Table 1). The first scenario is called "adverse" and is based on the Iran War ending in 2026. The "severe" scenario contemplates a "*larger and more persistent shock*" that extends into next year.[3]

Table 1: International Monetary Fund's two top-down model-based downside scenarios

IMF "downside scenarios" for global economy	Adverse scenario	Severe scenario
Oil prices	**US$100 in 2026** US$75 in 2027	**US$110 in 2026** US$125 in 2027
Gas prices	Rise of +160% in Q2:26 then "*mostly unwinding*"	+200% rise
Food prices	**Rises +2.5% in 2026**	**+5% rise in 2026** **+10% in 2027**
Global GDP growth impact	Reduces -0.8% in 2026 and –0.2% in 2027	Reduces -1.3% in 2026 and – 1.0% in 2027
Headline consumer inflation impact	**Inflation rises by extra 1.5% in 2026** and 0.4% in 2027	**Inflation rises by extra 1.9% in 2026** and 2.6% in 2027

The IMF's "adverse" scenario has a significant impact in reducing global economic growth by -0.8% to 2.3% and by increasing inflation by 1.5% in 2026. The "adverse" scenario sees the impact of the Iran War moderate in 2027 as the shock subsides. Clearly more troubling is the "severe" scenario which dramatically reduces global growth in 2026 and 2027 and raises inflation by circa 2% for both years.

Are we moving from 'bad to cursed'?

Australian consumers were already troubled by rising consumer prices before this Middle East conflict began. The Federal Government's recent termination of electricity rebates as well as persistent price pressures in food, health and housing were squeezing household budgets. Australia's Consumer Price Index for the year to March 2026 showed annual headline inflation was running at 4.6%. There is the prospect of a further interest rate rise in May by the central bank.

For those households with mortgages, their pain threshold was already being tested by rising interest rates in February and March. The extra "cost of living" squeeze from both rising consumer prices and mortgage interest rates is likely to weigh heavily on Australian consumer spending over coming months. Australia's economy is at risk of suffering stagflation this year with both inflation and unemployment heading higher.

However, this ominous tide of damaging economic consequences could be suddenly reversed if negotiations occur between the warring nations. But this depends on political leaders in the US and Israel realising that their agenda of neutralising Iran's supposed 'imminent nuclear threat' has been achieved and abandoning other objectives such as Iranian 'regime change.' This also depends on Iran's new leadership being willing to talk after the brutal surprise attack. Regrettably, there is still a chasm between the warring parties in terms of trust.

As the IMF warns, there is no predictable path for the Iran War and the global economic impacts:

"The global economic impact will crucially depend on the conflict's duration, intensity, and scope, which are ***inherently unpredictable****."*[4]

References:

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3. ‘World Economic Outlook - Global Economy in the Shadow of War’, International Monetary Fund (IMF), Chapter 1. Global Prospects and Policies, imf.org/-/media/files/publications/weo/2026/april/english/text.pdf, April 2026.
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