Monthly Economic Monitor
Economics and Strategy

NATIONAL BANK OF CANADA
CAPITAL MARKETS

May 2026

World: How has the world coped with the supply shock thus far?

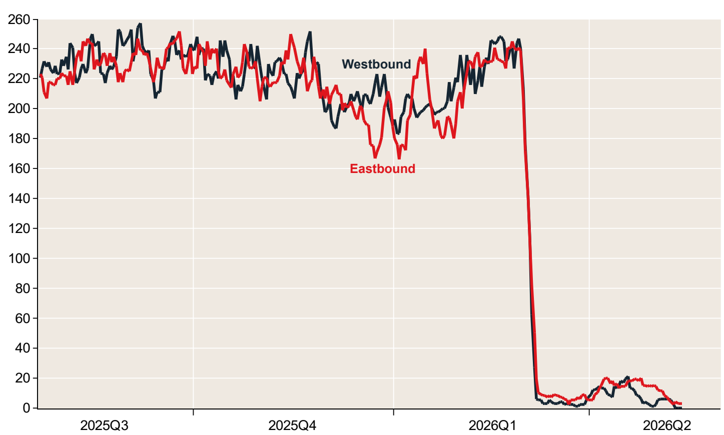
By Jocelyn Paquet

Summary

- As the conflict in the Middle East is about to enter its twelfth week, the Strait of Hormuz remains largely closed to shipping following the failure of a new round of negotiations between the United States and Iran.
- If the crisis is not resolved, what looms is a multi-faceted supply shock that would put considerable pressure on supply chains, drive inflation upwards beyond the sectors most exposed to energy prices, and likely force several central banks to tighten monetary policy.
- Of course, such an outcome is not inevitable, as a negotiated agreement between the two warring parties remains a distinct possibility. Indeed, this is currently factored into our baseline scenario. It is important to note, however, that while a reopening of the strait would lead to better economic outcomes in many regions, it would not resolve all the issues. This is because it would likely take several weeks, or even several months, before maritime traffic could return to its pre-crisis level.
- Thus, even if the political impasse were to be resolved relatively quickly, as we still anticipate, the world would not return to its previous growth trajectory. As our scenario shows, the resilience of the United States would likely be more than offset by the weakness of emerging markets in Asia and Europe. This would result in growth of 3.0% this year and 3.3% next year.

As the conflict in the Middle East is about to enter its twelfth week, the Strait of Hormuz remains largely closed to shipping following the failure of a new round of negotiations between the United States and Iran.

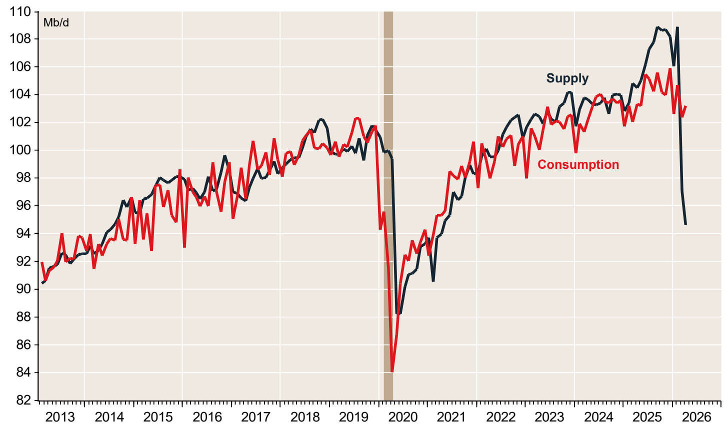
World: The straight of Hormuz remains effectively closed
Number of tankers transiting through the straight of Hormuz, 7-day moving sum



NBC Economics and Strategy (data via Bloomberg)

Oil prices remain high but have not yet skyrocketed, as some had feared. Several factors explain this relative resilience. First, it is worth noting that energy markets entered the crisis in a context of abundance, with approximately 4 million more barrels per day produced than consumed globally in February, according to the IEA. This surplus, however, quickly evaporated, so that by April, consumption exceeded production by about 8.5 million barrels per day.

World: From abundance to scarcity in the blink of an eye
International crude oil and liquid fuels supply and consumption



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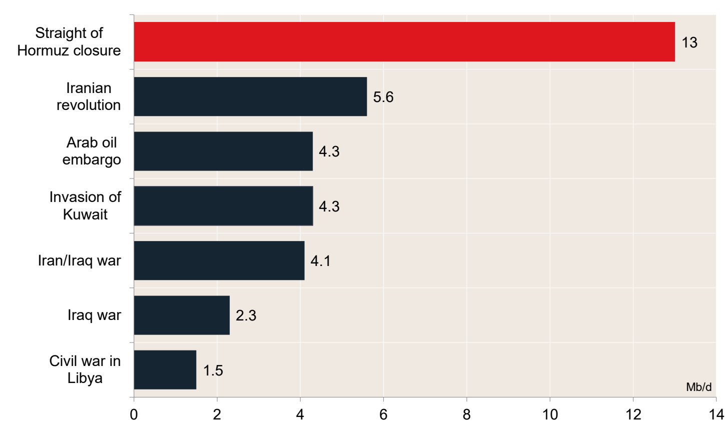
This rapid shift in the outlook is primarily due to a sharp drop in supply resulting from the closure of the Strait of Hormuz, through which approximately 18.3 million barrels per day transited before the crisis. Of those 18.3 million barrels, approximately 5.3 million were quickly rerouted to ports not dependent on the strait, via Saudi and Emirati pipelines. These measures helped reduce the shortfall to about 13 million barrels per day—which remains by far the largest supply shock on record to date.

World: The biggest supply shock of them all
Initial oil supply losses in selected historical episodes

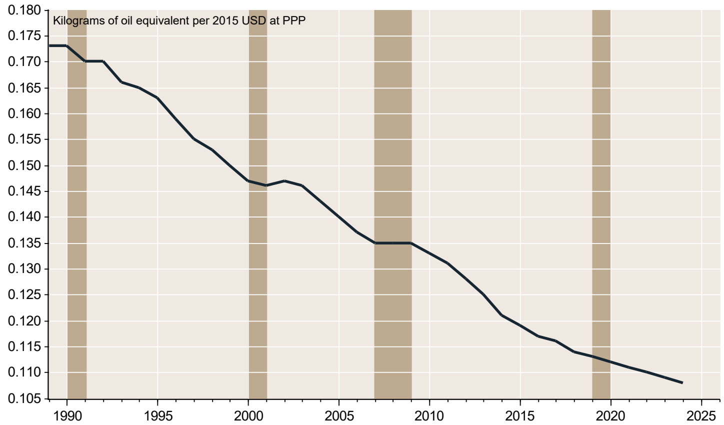


NBC Economics and Strategy (data via the World Bank and NBC calculations)

If the current disruption is more severe than anything we have experienced in the past, why haven't oil prices risen proportionally? There are several reasons for this. The first is that total global oil consumption was lower in the past, which explains why smaller shocks (at least in terms of missing barrels) could result in more pronounced price increases. Another explanation is that the evolution of oil prices during a supply shock depends not only on the number of barrels lost, but also on the duration of the disruption. The Arab oil embargo of the 1970s, for example, lasted about five months.

It is also worth noting the steady decline in the energy intensity of the global economy in recent years, which mitigates the impact of the current shock on global GDP, though it does not eliminate it entirely.

World: The economy has grown much less dependent on oil
Energy intensity of the global economy as defined by the amount of oil consumed per unit of GDP



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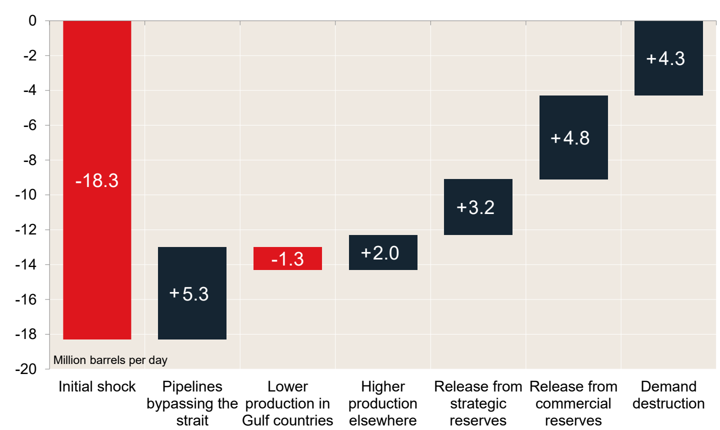
The crisis we are currently facing would nevertheless have had more severe consequences without several other factors, starting with increased production in countries outside the Persian Gulf. Unfortunately, it seems unlikely that production will increase further outside the Middle East in the short term. This is partly because the majority of the spare capacity identified before the conflict began came from the Gulf countries themselves, and partly due to the time required to bring new production sites online. Even U.S. shale producers, reputed to be among the most agile and responsive in the world, would likely need 3 to 6 months before they could bring additional supply to the market.

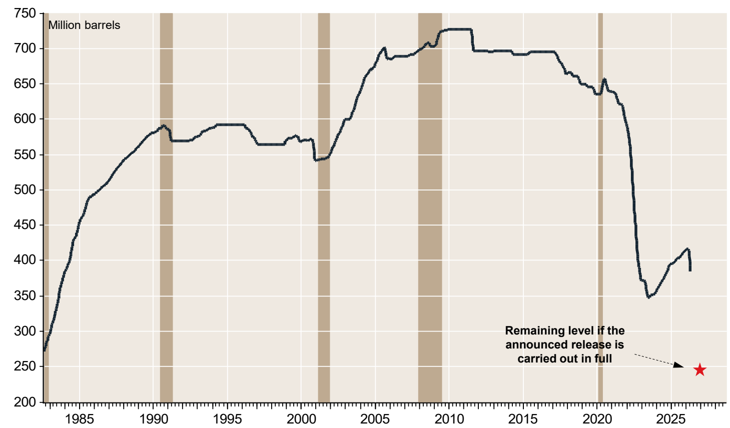
How has the world coped with the biggest oil shock ever up to now?
Decline in oil supply since the start of the conflict and offsetting factors



NBC Economics and Strategy (data via Bloomberg and NBC calculations)

In the meantime, meeting global demand will continue to depend on the release of inventories, whether from government strategic reserves or commercial reserves. To date, these two sources have covered approximately 3.2 and 4.8 million barrels per day of the supply shortfall, respectively. This unprecedented rate of drawdowns will, however, need to slow in the future, as stocks are limited. The United States' strategic oil reserve, for example, is already on track to fall to its lowest level since 1982 if the 172-million-barrel drawdown announced at the start of the conflict is fully implemented. Other countries find themselves in a similar situation.

U.S.: Proposed actions would leave strategic reserves depleted
Strategic Petroleum Reserve



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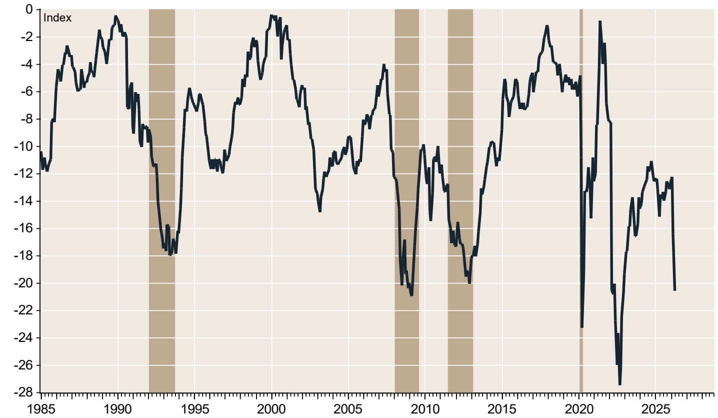
Governments around the world could certainly ignore the risks and continue to draw on their reserves—after all, they exist precisely to respond to crises like the one we are currently facing—but such behavior could have unintended consequences. The volumes thus released onto the market would undoubtedly help lower the spot price of petroleum products, but they could also stimulate future demand, as several countries finding themselves without a safety cushion would likely seek to replenish their reserves as quickly as possible.

A similar dynamic applies to commercial stocks held by producers, refiners, and distributors. The level of these reserves is already causing some operational strain and could reach the critical thresholds necessary for the proper functioning of oil pipelines and refineries by September. To avoid such a scenario, withdrawals will likely need to be reduced gradually going forward.

Assuming that the supply of oil barrels resulting from the reduction in global inventories will decline in the future, only one solution will remain to maintain balance in the energy markets should the crisis continue: the destruction of demand driven by rising prices. This phenomenon is, in fact, already underway, at a rate of approximately 4.3 million barrels per day. The countries most affected so far are in Asia and Africa, and share certain common characteristics, notably being net energy importers and having underdeveloped economies. With their more limited financial resources preventing them from competing with their wealthier counterparts for petroleum products, these countries have had to resort to more damaging mitigation measures, such as capping purchases of certain products, large-scale power outages, and forced reductions in working hours.

If prices were to continue rising, demand destruction would eventually occur in wealthier countries as well, with Europe being particularly vulnerable due to its dependence on energy imports. The aid programs implemented by the governments of several countries on the continent have, so far, helped protect consumers from the worst effects of the energy shock, but households are still under severe strain, as evidenced by the sharp decline in consumer confidence. A prolonged crisis could therefore, in our view, lead to a significant slowdown—or even a decline—in household spending across the eurozone.

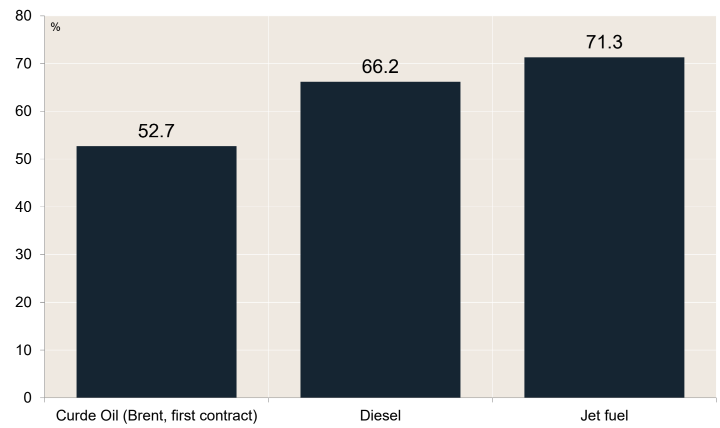
Eurozone: Consumer sentiment takes a turn for the worse
European Commission Consumer Confidence Index



NBC Economics and Strategy (data via Bloomberg)

Even in wealthy energy-producing countries, where an outright shortage is not a concern, the oil shock could weigh on growth in two distinct ways. The first, which goes without saying, is through a reduction in consumer purchasing power, as households are likely to allocate a larger share of their disposable income to expenses such as gasoline. But the economic slowdown could also result from monetary tightening. Admittedly, most of the world's central banks have, so far, refrained from raising their policy interest rates in the face of what until recently seemed to be a temporary shock, but their strategy could eventually change if the crisis begins to generate second-round effects on inflation. (The central banks of Norway and Australia have already tightened monetary policy in response to the crisis in the Middle East.) And in our view, the risk of this happening is high, given that crude oil is not the only commodity whose supply has been disrupted by the conflict in the Middle East. We are referring here to other energy products, such as natural gas, jet fuel, and diesel, which are of paramount importance in determining the prices of electricity, airline tickets, and, more generally, transportation.

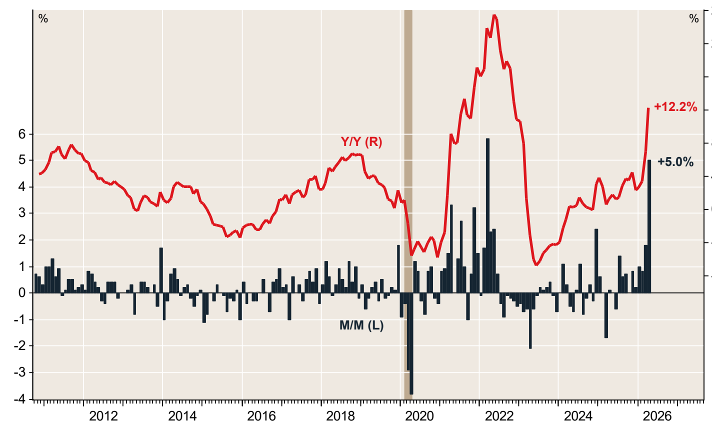
World: A shock that goes beyond crude oil (1)
Price increases for select petroleum products since the start of hostilities in Iran



NBC Economics and Strategy (data via Bloomberg)

And here, we are no longer talking solely about *future* impacts; these are already visible in the data, particularly in the figures tracking U.S. producer prices, which reveal a sharp rise in transportation and warehousing costs.

U.S.: Transport costs are already surging
Producer price index final demand, transportation and warehousing services



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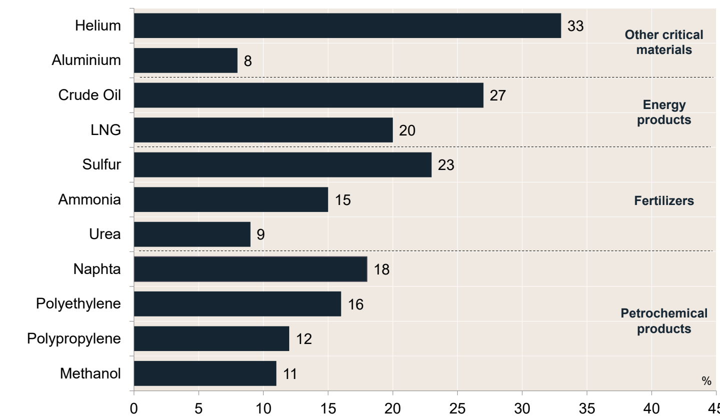
Not to mention other essential inputs stuck in the Persian Gulf, such as fertilizers, helium, and aluminum, all of which are likely to drive up inflation globally. Some are indispensable for food production, while others are used in the manufacture of microprocessors and plastics.

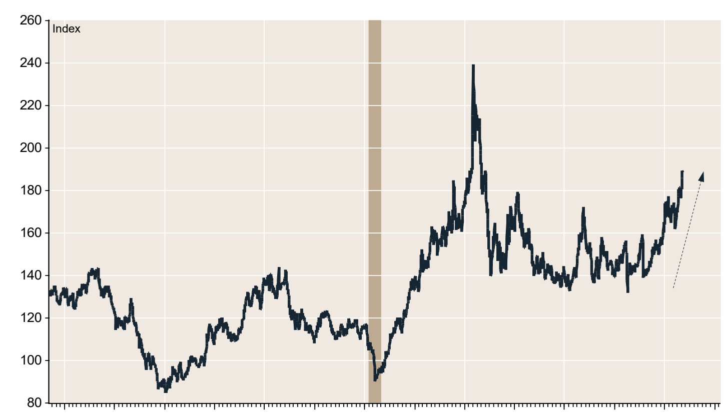
World: A shock that goes beyond crude oil (2)
Share of global production of selected commodities occurring in countries dependant on the straight of Hormuz for exports



NBC Economics and Strategy (data via the World Bank, EIA, IEA, NSDSU, Agricultural Trade Monitor, Bloomberg and Roland Berger)

And unlike oil, demand for some of these raw materials was already outstripping supply even before the conflict began, as evidenced by rising prices for agricultural products and, above all, industrial metals.

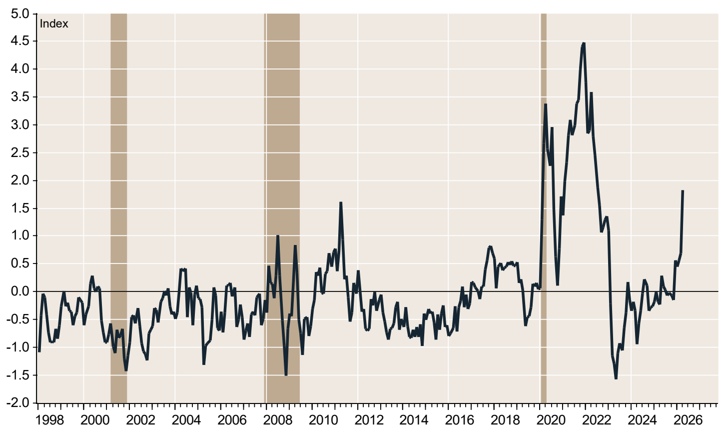
World: A shock that will only reinforce the upward trend in metal prices
Bloomberg Industrial Metals Price index



NBC Economics and Strategy (data via Bloomberg)

What is taking shape, therefore, if the crisis is not resolved, is a multi-faceted supply shock that would put considerable pressure on supply chains, drive inflation upwards beyond the sectors most exposed to energy prices, and likely force several central banks to tighten monetary policy.

World: The conflict is already impacting supply chains. More to come?
New York Fed Global Supply chain Pressure index

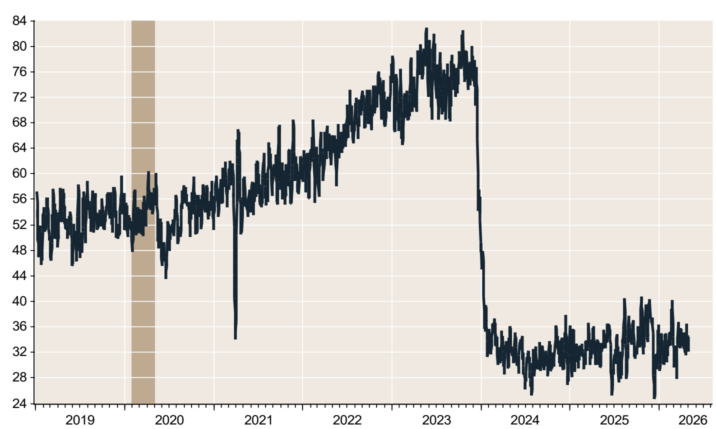


NBC Economics and Strategy (data via the New York Fed)

Of course, such an outcome is not inevitable, as a negotiated agreement between the two warring parties remains a distinct possibility. Indeed, this is currently factored into our baseline scenario. It is important to note, however, that while a reopening of the strait would lead to better economic outcomes in many regions, it would not resolve all the issues. This is because it would likely take several weeks, or even several months, before maritime traffic could return to its pre-crisis level. Ships stranded in the Gulf would likely rush to leave, initially giving a false impression of a return to normalcy, but shipping companies would surely hesitate afterward to send their fleets back to the region, especially if the political situation remained tense.

The example of the Bab el-Mandeb Strait is telling in this regard. Shipping traffic there had plummeted following attacks by Yemen's Houthis on several vessels, and although these attacks have ceased since October 2025, transit volumes remain down by about 40% from usual levels.

World: Will Hormuz follow the example set by Bab al-Mandab?
Number of ships passing through the Strait of Bab al-Mandab, 7 day moving average



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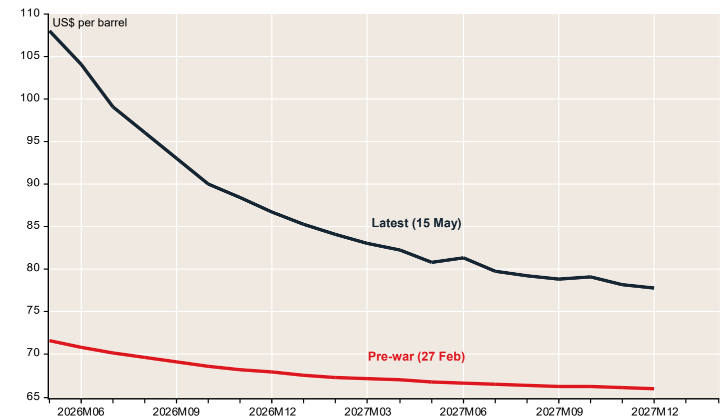
A similar scenario in the Strait of Hormuz, where only about 60 to 70% of normal traffic could be restored, would likely allow global petroleum product inventories to stabilize but would make it difficult to effectively replenish them. Energy markets would therefore likely remain in a situation of excess demand, characterized by high prices, for some time. Financial markets have, in fact, begun to price in such a possibility, judging by the revaluation of oil futures prices.

World: Higher for longer
Brent futures strip, current vs. lookback dates



NBC Economics and Strategy (data via the IMF)

Thus, even if the political impasse were to be resolved relatively quickly, as we still anticipate, the world would not return to its previous growth trajectory. As our scenario shows, the resilience of the United States would likely be more than offset by the weakness in Asia and Europe. This would result in growth of 3.0% this year and 3.3% next year.

World Economic Outlook

	2025	2026	2027
Advanced Economies	**1.9**	**1.7**	**1.8**
United States	2.1	2.4	2.1
Eurozone	1.4	0.8	1.5
Japan	1.2	0.8	1.1
UK	1.4	0.9	1.2
Canada	1.7	1.0	1.4
Australia	2.0	1.9	2.2
Korea	1.0	2.5	2.1
Emerging Economies	**4.4**	**3.8**	**4.2**
China	5.0	4.8	4.6
India	7.6	6.5	6.4
Mexico	0.6	1.3	1.8
Brazil	2.3	2.0	2.1
Russia	1.0	1.4	1.3
World	**3.4**	**3.0**	**3.3**

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