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# Macroeconomic impact of global shocks: US-Iran conflict and tariffs

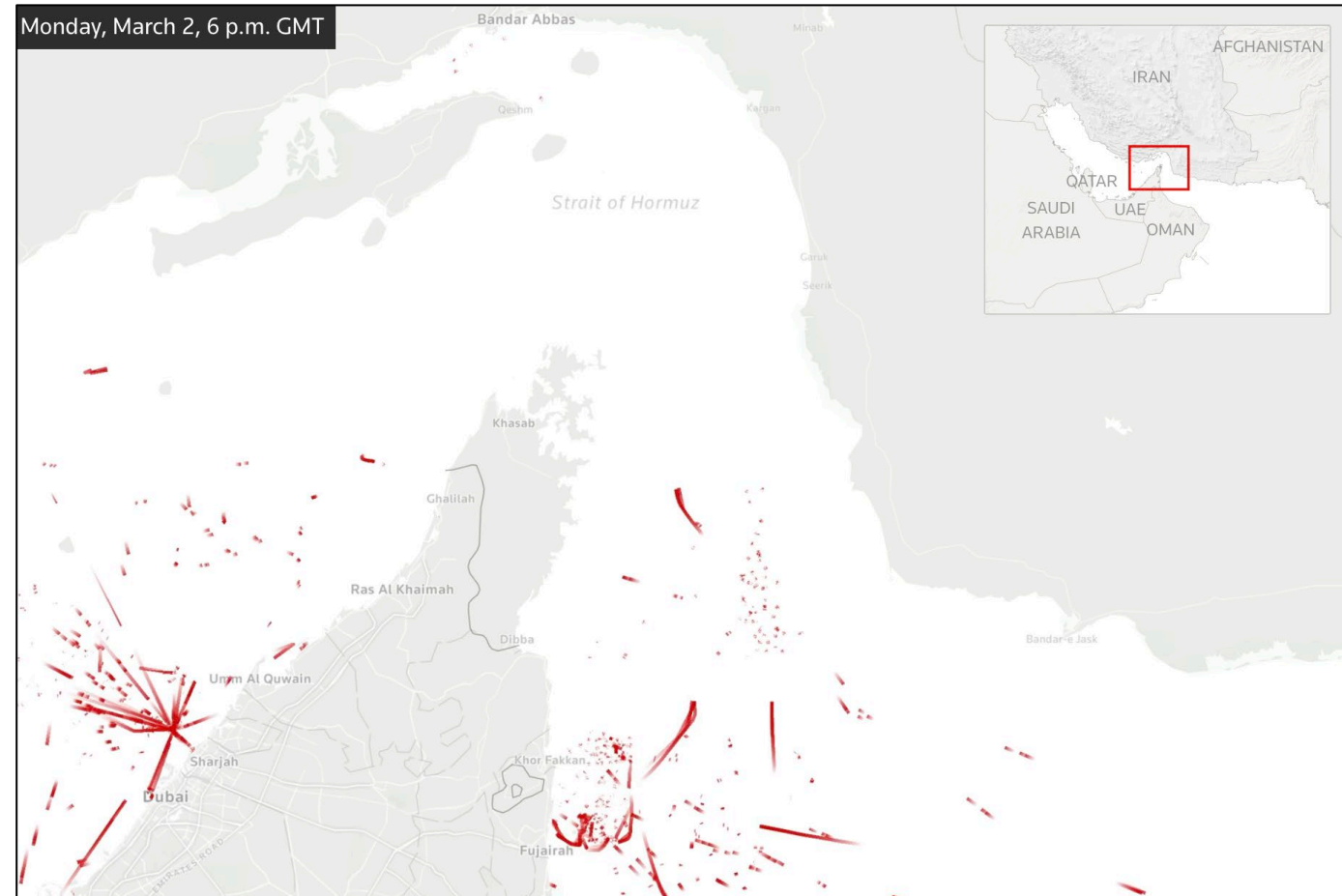
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Linda L. Tesar  
University of Michigan & NBER

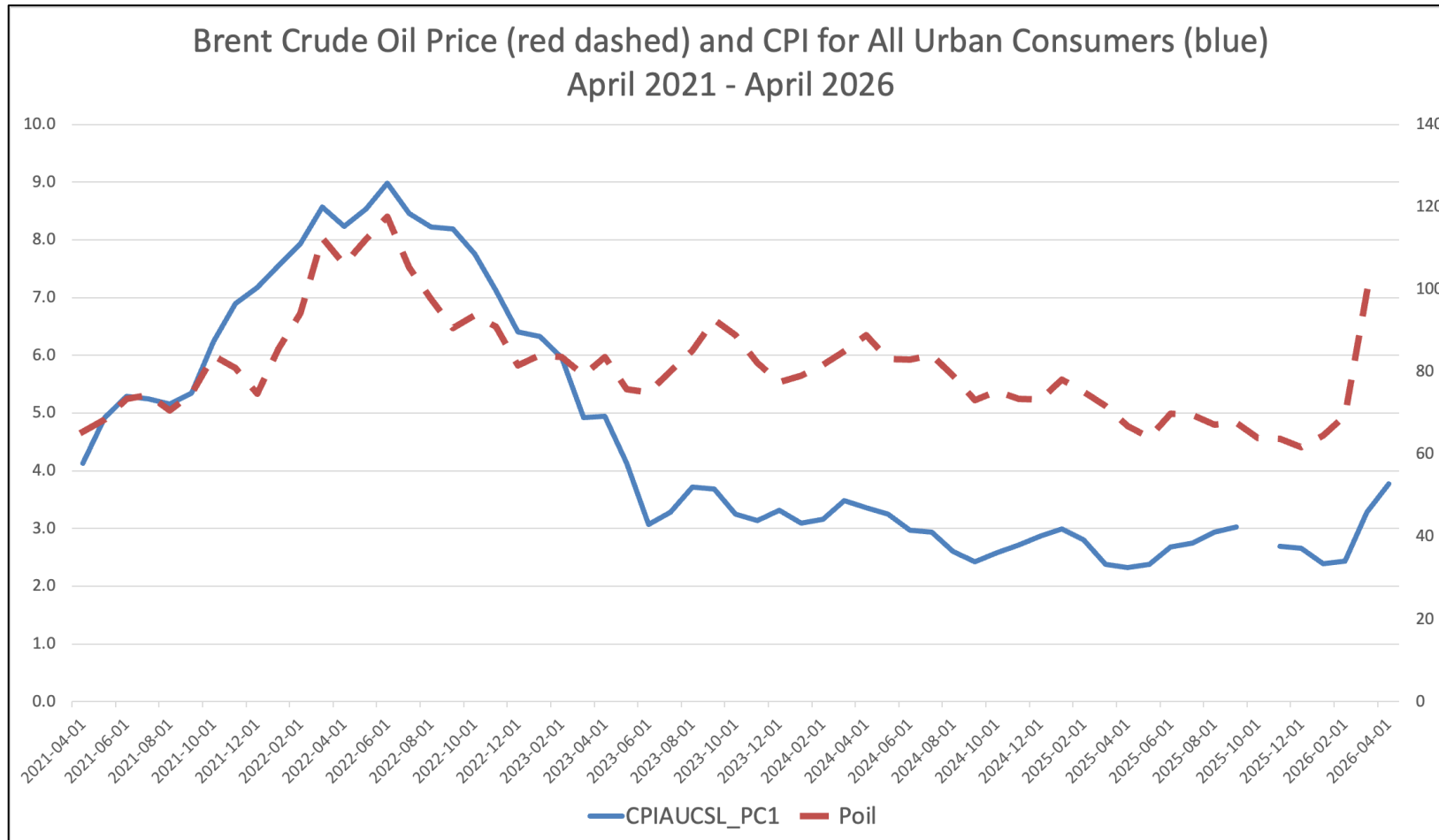
*Prepared for the Federal Reserve Bank of Chicago Advisory Board  
May 2026*

# The Strait of Hormuz

- US-Iran Conflict began Feb 28 2026
- Strait of Hormuz carries about:
  - ~ 20% of total global oil consumption
  - ~ 30% of seaborne-traded crude oil
  - ~ 20% of global LNG trade
- Estimates vary, but traffic since March 1 has been operating at roughly 5-10% of normal volume
- Impact on fertilizer supplies; Gulf countries account for 30-35% of world trade in urea and 20-30% of ammonia
- 10 days ago, oil slick near Kharg Island in the Persian Gulf raises concerns about the condition of Iran's oil infrastructure.
- Global drain of oil inventories – could reach critical level by summer
- Industry analysts predict that it could be months before shipments of crude oil return to anything close to normal



# Impact of Oil Price Shock



Uptick in the price of oil and the CPI

Forward oil price is lower than the spot price, indicating that markets are banking on a resolution to the crisis

- Risk is underpriced?

- Prices will rise as inventories are depleted ?

Source: CPIAUCSL\_PC1 and POILBREUSD, FRED

# Is this a “typical” oil price shock?

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- Bigger than previous oil market disruptions

- 1973 Yom Kippur War
- 1979 Iranian Revolution
- 1980 Iraq-Iran War
- 1990 Persian Gulf War



Each reduced global oil supplies by 4 – 6 %

- Current shortfall is more than 20 % of world supply
- US is better situated this time around due to increased use of natural gas and reduced energy imports
- Impact on global economy is potentially worse, given the key role of oil in manufacturing and agriculture
- Just-in-time inventories and greater dependence on supply chains and shipping

# Alternative scenarios

- Kilian, Plante and Richter, “What the closure of the Strait of Hormuz means for the global economy,” FRB of Dallas WP March 2026
- Consider a 20% oil supply disruption; DSGE model of the impact on oil prices and output under varying lengths of the Strait closure

**Table 1: Effect on WTI oil price by duration of closure**

	One-quarter closure	Two-quarter closure	Three-quarter closure
Q1	\$60	\$60	\$60
Q2	\$98	\$98	\$98
Q3	\$68	\$115	\$115
Q4	\$67	\$76	\$132

NOTES: Quarter 1 is the average West Texas Intermediate (WTI) price over the three months ended in January. The closure of the Strait of Hormuz is assumed to start in the second quarter.

**Table 2: Global real GDP growth effects by duration of closure**

	One-quarter closure	Two-quarter closure	Three-quarter closure
Q1	0	0	0
Q2	-2.9	-2.9	-2.9
Q3	+2.2	-1.2	-1.2
Q4	+0.1	+2.7	-1.1
Q4/Q4	-0.2	-0.3	-1.3

NOTE: Closure of the Strait of Hormuz is assumed to start in the second quarter.

Two-quarter closure:

Near doubling of oil price

GDP growth falls 1 – 3 %

If crisis resolves, GDP picks up as price of oil falls

Forecasted effects depend on how readily alternative shipping paths are formed and whether oil refineries can quickly recover

## “..not all oil price shocks are the same...”

One transitory shock after another....

Geopolitical oil price shocks differ systematically from those observed during normal market conditions. They combine elements of traditional supply disruptions with **heightened uncertainty** and **forward-looking behaviour**, leading to distinct dynamics in both the oil market and the broader economy. These episodes are characterized by **sharp price increases, declines in production, and a persistent buildup of inventories driven by precautionary motives.**

Verduzco-Bustos and Zanetti,  
“Geopolitical oil price shocks: Why these shocks hit harder” CEPR WP April 2026



Caldara, Dario and Matteo Iacoviello (2022), “[Measuring Geopolitical Risk](#),” American Economic Review, April, 112(4), pp.1194-1225.

# Current state of US tariffs



## Overview of the United States' tariffs announced between 1 February 2025 and 27 February 2026

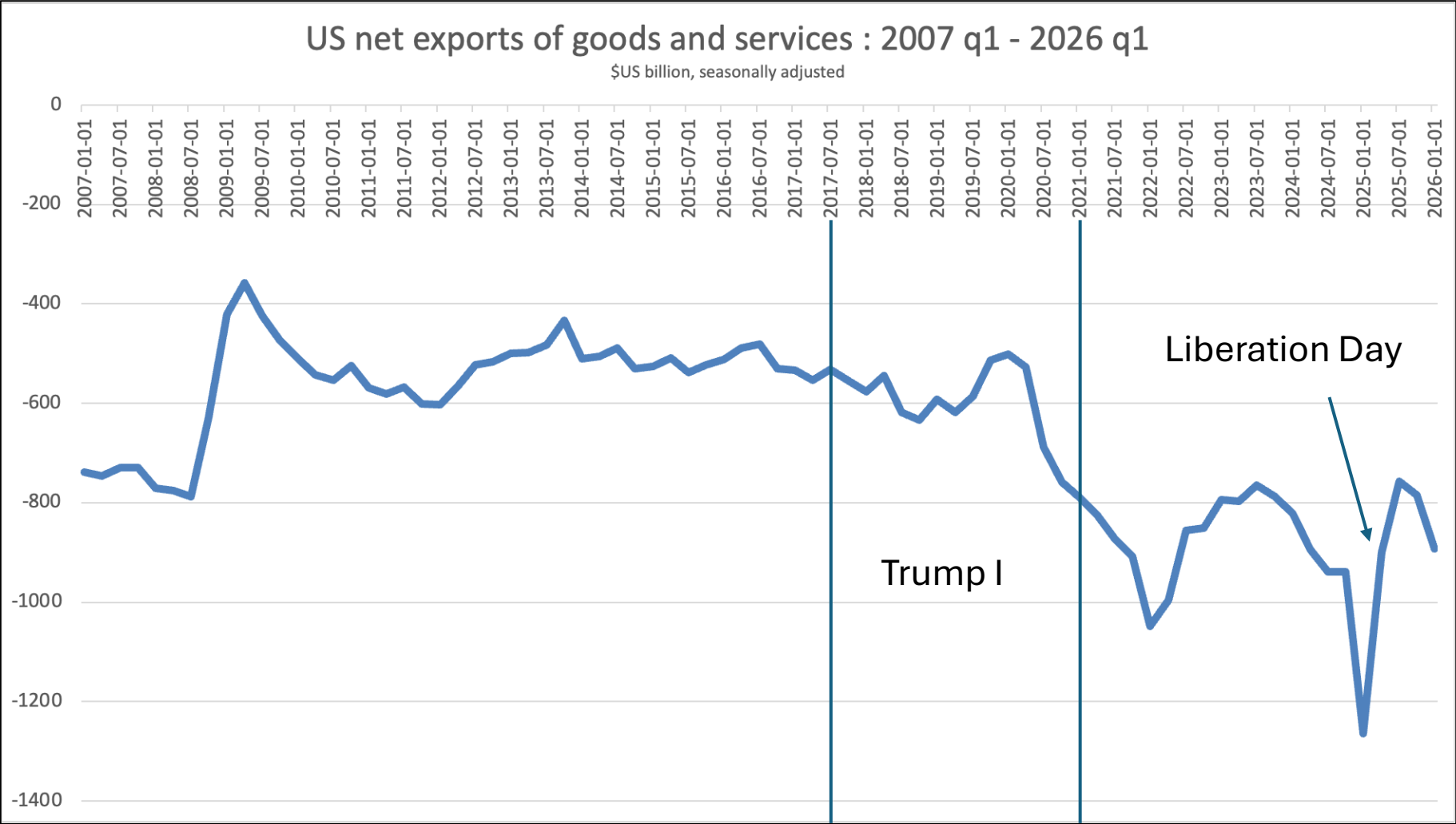
Additional tariffs currently in effect are applied on top of pre-January 2025 tariffs, based on presidential actions.

%	Tariffs imposed under Section 122 of the Trade Act of 1974
+10	on all countries, except for goods listed under Annex I and II to the Proclamation of 20th February 2026
%	Sector-specific national security tariffs, Section 232 (exempted from Section 122 tariffs)
+50	on iron or steel and derivatives of steel; except for  the United Kingdom 25%
+50	on aluminium and derivatives; except for  the United Kingdom 25% and  Russian Federation 200%
+50	on copper and derivatives
+25	on automobiles and parts; except for  the United Kingdom ( $\leq 10\%$ ), and  the European Union,  Japan and  South Korea ( $\leq 15\%$ )
+25	on semiconductors and their derivative products
10-25%	on timber, lumber and derivatives; except for  the United Kingdom (10%), and  the European Union  Japan and  South Korea ( $\leq 15\%$ )
10-25%	on medium- and heavy-duty vehicles, their parts, and buses

Section 122 allows POTUS to impose temporary import surcharges (up to 15%) or quotas for up to 150 days to address "large and serious" balance-of-payments deficits or imminent currency depreciation. These expire in July 2026

Section 232: POTUS may impose for national security.

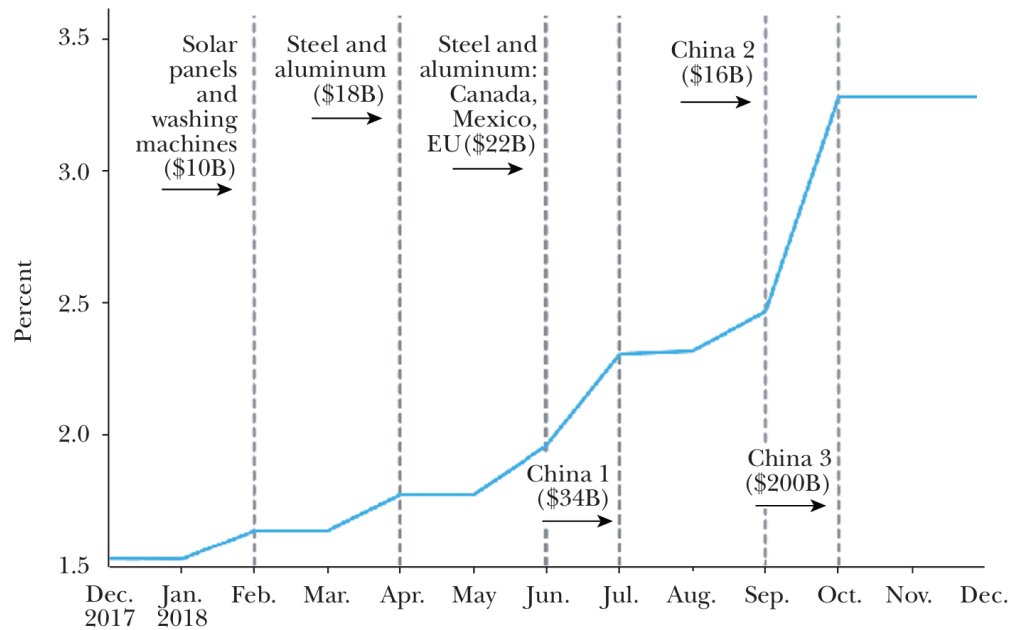
# Tariffs and US trade deficit



FRED: Net Exports of Goods and Services, Billions of Dollars, Quarterly, Seasonally Adjusted Annual Rate

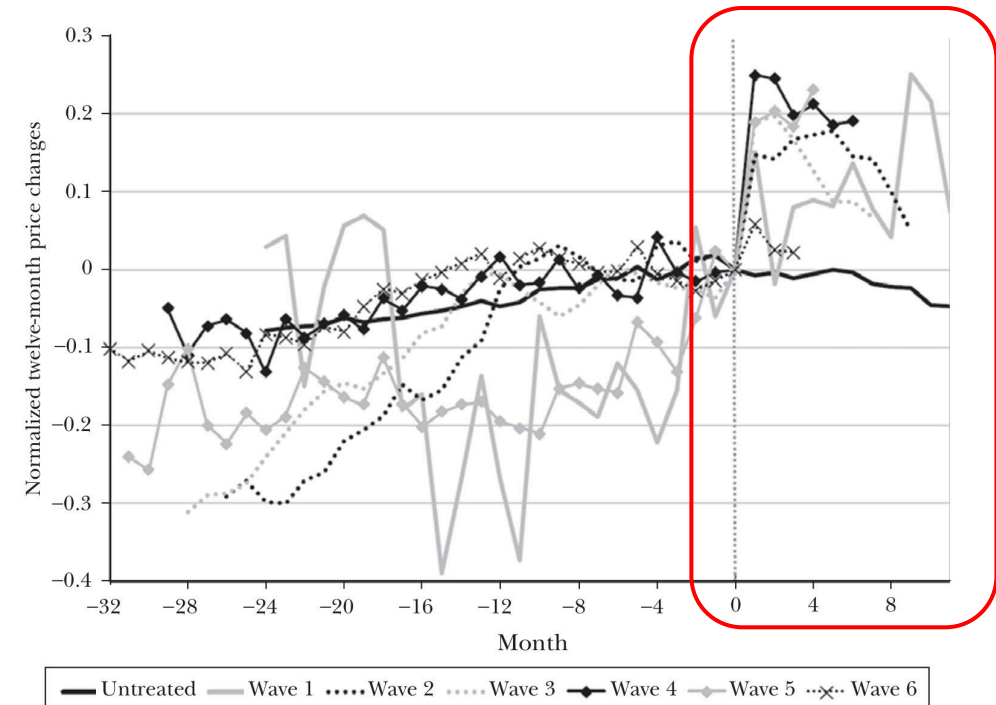
# Trump I tariffs: Pass through of tariffs to prices

Figure 3  
Average Tariff Rates



Amiti and Weinstein, JEP 2018.

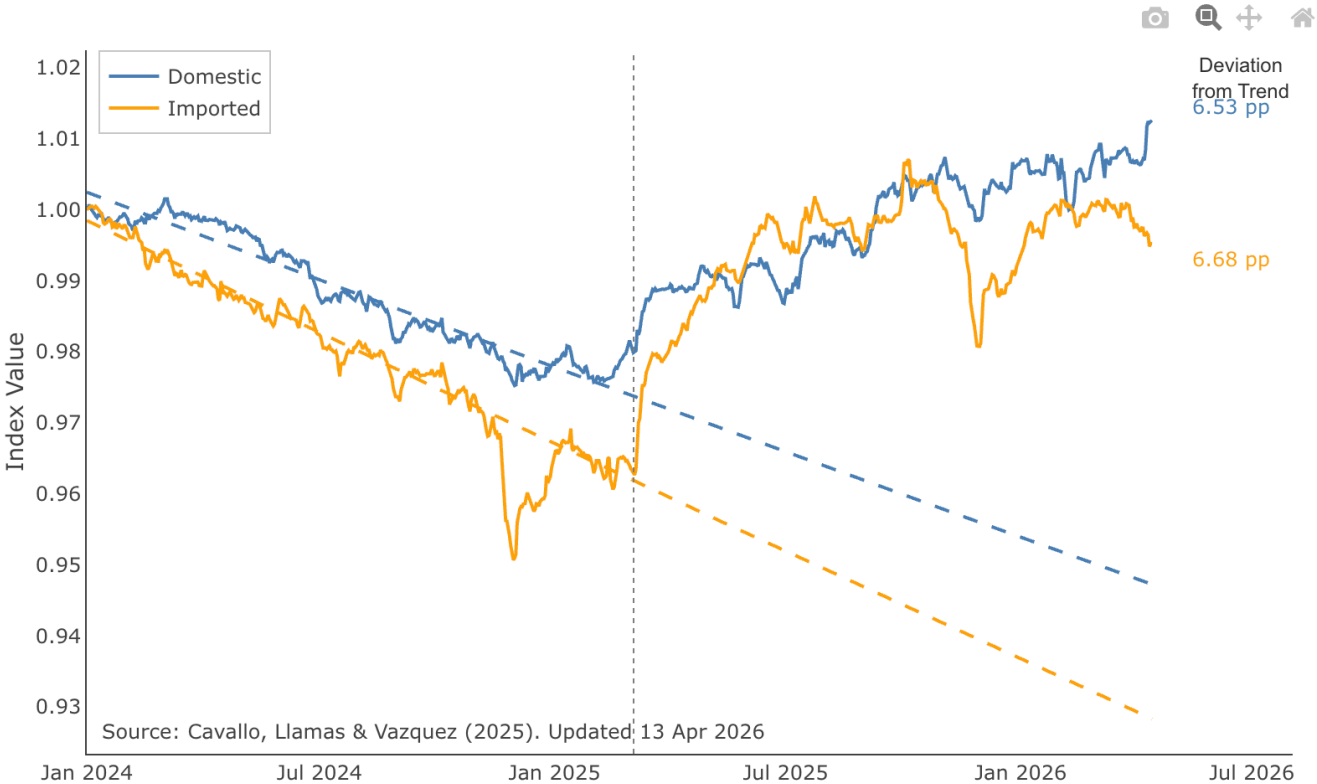
Figure 4  
Twelve-Month Proportional Change in Import Prices by Tariff Wave



“...much of the tariffs were passed on almost immediately to US importers and consumers.”

# Liberation Day and Trump II: Pass through of tariffs to prices

## Domestic vs Imported with Longer Trends – January 2024

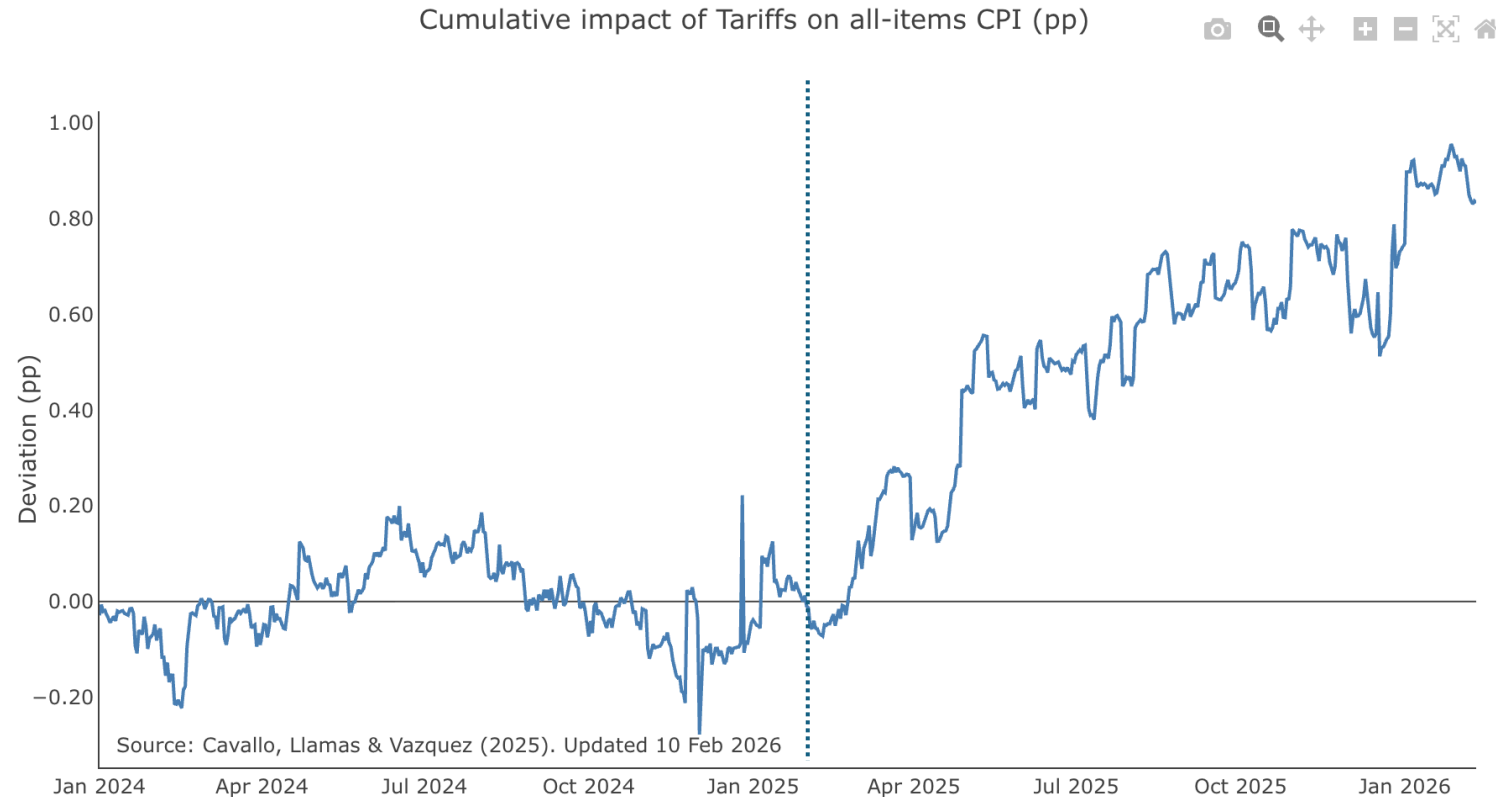


Daily price indices based on online data from five major U.S. retailers.

Detailed information on country of origin and tariff classifications for 350,000 goods

# Pass through of tariffs to prices

## Cumulative Impact on all-items CPI (CPI-U NSA)



“Prices began rising immediately after the broader tariff measures were announced in early March and continued to increase gradually over subsequent months, with **imported goods rising roughly twice as much as domestic ones. Retail tariff pass-through reached 24 percent, contributing about 0.76 percentage points to the all-items Consumer Price Index** by October 2025. Tariff costs were gradually but steadily transmitted to U.S. consumers, with additional spillovers to domestic goods.”

# Does de-globalization matter?

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- Overall, the impact of Trump steps toward deglobalization has been somewhat muted
  - Trade not that important for the US economy
  - Most of trade through multinational firms
  - Trade through alternative “connector” countries
- Long-run growth? Productivity? Efficiency?