

Oil prices settling higher than pre-war; but growth risks lower

Despite the sharp fall in crude prices today, the 12-month average forward price is up US\$15/bbl, implying 0.5% of global GDP extra transfer from consumers to oil producers. As they cannot spend windfall gains quickly, this can be a drag on growth. 2nd order effects like on confidence, and Keynesian multipliers (layoffs) amplify the impact. While fiscal interventions globally provide a cushion, that does not happen in the US. There, oil price shocks have historically been closely linked to recessions. But we expect a weaker transmission this time: lower oil intensity, a smaller and shorter shock, and improved monetary policy credibility limit 2nd order effects. The ceasefire further lowers the odds.

08 Apr 2026

Global growth

Iran War

Exhibit 1: Oil shocks usually heralded a recession. This time should be different.

Date	Event	Supply cut (net global)	Price change	Business cycle peak
Nov-73	OPEC embargo	7%	51%	Nov-73
Nov-78	Iran revolution	4%	57%	Jan-80
Oct-80	Iran-Iraq war	4%	45%	Jul-81
Aug-90	Gulf War I	6%	93%	Jul-90
Dec-02	Venezuela and Gulf War II	2%	28%	None

Source: Hamilton (2011), Axis Bank Research

Oil shocks strongly correlated with US recessions and memories of stagflation

The ceasefire signals an end of the escalation-cycle, but supply-chains may take time to normalize (see [report](#) for non-energy trade). Despite the sharp fall in crude oil prices today, the 12-month forward average price is up US\$15/bbl vs. Jan-2026. The annual market-size is thus up US\$0.6tn, 0.5% of global GDP. Hamilton's seminal 1983 [paper](#) showed that all but one of eleven post-WW2 US recessions till then were preceded by a rise in price of crude. In 2011 he [showed](#) that all but one of the 12 major oil price episodes till 2011 were accompanied by U.S. recessions (Fig 1, 9) except the 2003 Venezuelan crisis.

Not just a correlation, causal mechanisms do exist, nature of shock matters

Oil demand being highly inelastic in the short run, a price spike forces cutbacks on other goods and services. As oil-producer windfall gains are unlikely to get spent quickly, this transfer (0.5% of global GDP as seen above) from consumers to producers gets stranded. Government fiscal measures attempt to cushion the impact, which spreads the pain over a longer period. In the US, where this does not happen, the impact equals energy's share of consumption (~4%, Fig 5) multiplied by the price rise. This is before possible second-order effects due to other purchase preferences (e.g., for autos, Fig 8) and confidence, and Keynesian multipliers (like layoffs reducing income) that propagate the shock thereafter.

The nature of modern economies has made oil shocks less costly

Both the magnitude and duration of the price shock are currently well below the two episodes in the 1970s (Fig 2-3). Further, oil intensity (share of oil in both consumption and production, Fig 4-5) has declined meaningfully, mechanically reducing the pass-through from oil prices to inflation and output. The US economy is thus only about a third to half as sensitive to the price of oil as the economy of the 1970s had been. Last, improved monetary policy credibility should help anchor inflation expectations when energy prices rise (Fig 7). These factors reduce the potency of second-order effects discussed above.

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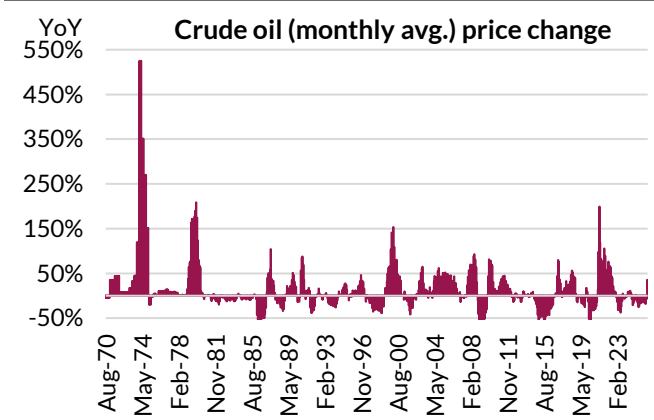
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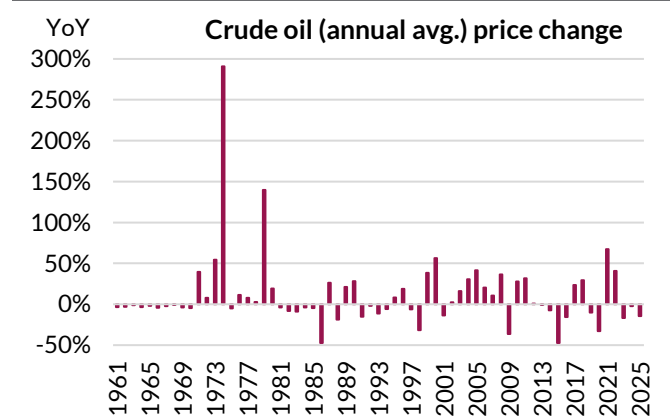
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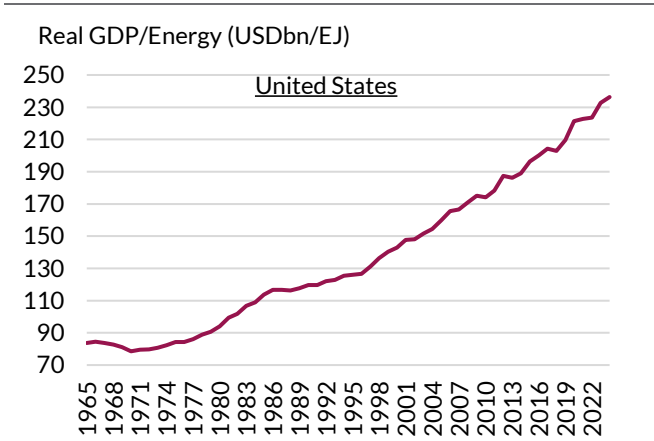
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Exhibit 2 – Crude oil price shocks in 1970s were larger


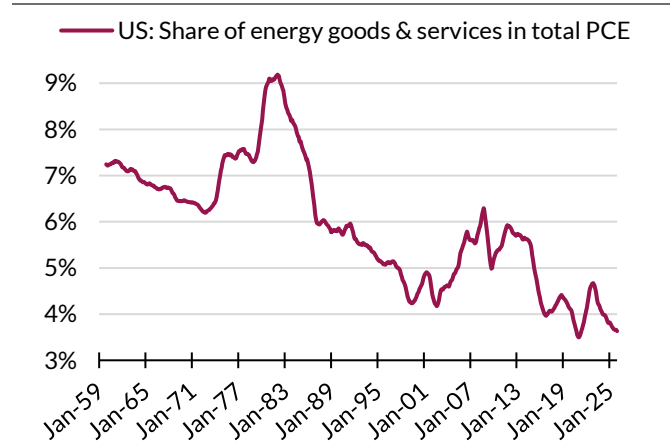
Source: World Bank, Axis Bank Research

Exhibit 3 – Duration of the shock matters as well


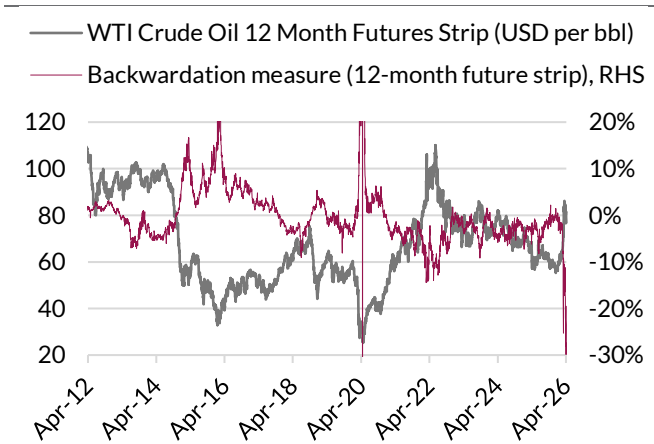
Source: World Bank, Axis Bank Research

Exhibit 4 – Moreover, in terms of energy shocks, US may be about a third to half as sensitive vs. 1970s


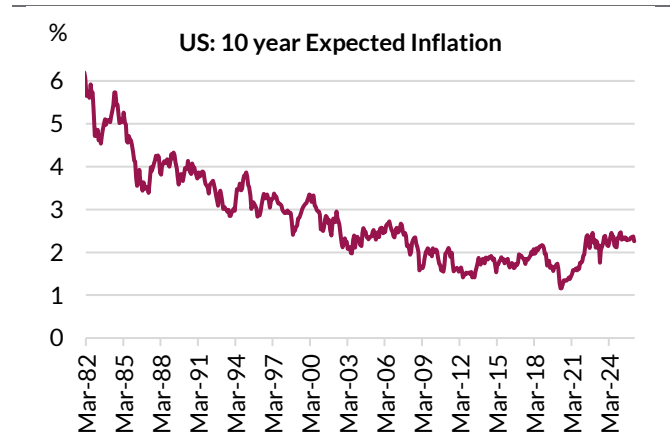
Source: Energy Institute, World Bank, Axis Bank Research

Exhibit 5 – The share of energy in the US economy is smaller as well


Source: FRED, Axis Bank Research

Exhibit 6 – 12-month forward strip at USD76/bbl (+16 vs. Jan)


Source: Bloomberg, Axis Bank Research

Exhibit 7 – Inflation expectations remain well anchored


Source: Federal reserve bank of Cleveland, Axis Bank Research

Exhibit 8 – US: Real GDP growth (SAAR) and contribution of autos to overall GDP

Period	GDP growth rate	Contribution of autos
1Q 1974- 1Q 1975	-2.5%	-0.5%
2Q 1979- 2Q 1980	-0.4%	-0.8%
2Q 1981- 2Q 1982	-1.5%	-0.2%
3Q 1990- 3Q 1991	-0.1%	-0.3%
4Q 2007- 4Q 2008	-0.7%	-0.7%

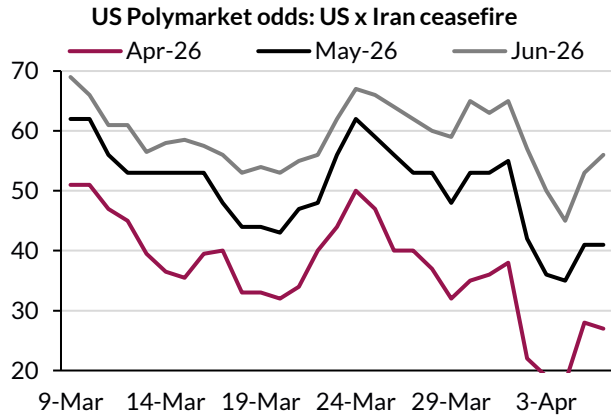
Source: *Historical Oil Shocks, James D. Hamilton (NBER Working Paper 16790)*

Exhibit 9 – Summary of significant postwar events

Gasoline shortages	Price increase	Price controls	Key factors	Business cycle peak
Nov 47- Dec 47	Nov 47-Jan 48 (37%)	no (threatened)	strong demand, supply constraints	Nov-48
May-52	Jun 53 (10%)	yes	strike, controls lifted	Jul-53
Nov 56-Dec 56 (Europe)	Jan 57-Feb 57 (9%)	Yes (Europe)	Suez Crisis	Aug-57
none	none	no	---	Apr-60
none	Feb 69 (7%) Nov 70 (8%)	no	strike, strong demand, supply constraints	Dec-69
Jun-73 Dec 73-Mar 74	Apr 73-Sep 73 (16%) Nov 73-Feb-74 (51%)	yes	strong demand, supply constraints, OAPEC embargo	Nov-73
May 79-Jul 79	May 79-Jan 80 (57%)	yes	Iranian revolution	Jan-80
none	Nov 80-Feb 81 (45%)	yes	Iran-Iraq War, controls lifted	Jul-81
none	Aug 90-Oct 90 (93%)	no	Gulf War I	Jul-90
none	Dec 99-Nov 00 (38%)	no	strong demand	Mar-01
none	Nov 02-Mar 03 (28%)	no	Venezuela unrest, Gulf War II	none
none	Feb 07-Jun 08 (145%)	no	strong demand, stagnant supply	Dec-07

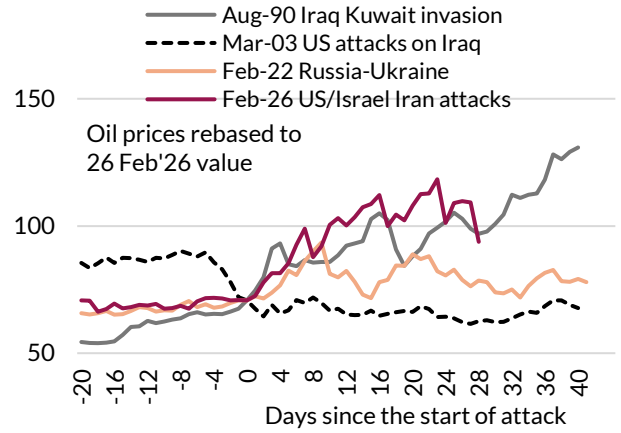
Source: *Historical Oil Shocks, James D. Hamilton (NBER Working Paper 16790)*

Exhibit 10 – Polymarket betting odds were poor predictors



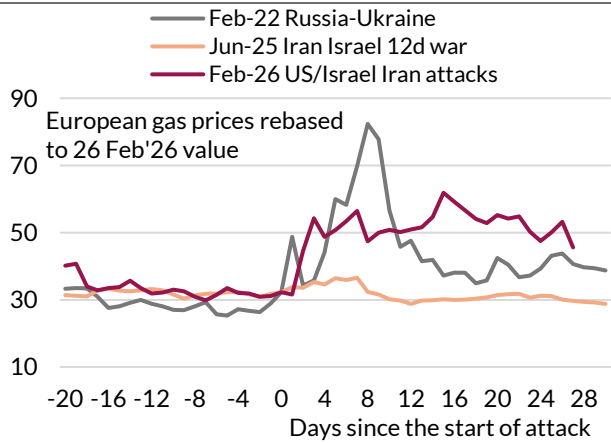
Source: Polymarket, Axis Bank Research

Exhibit 11 - Crude oil prices path not worse vs. 1st Gulf war



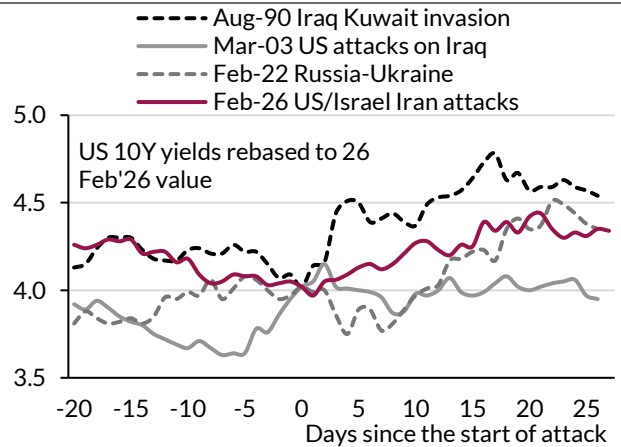
Source: Bloomberg, Axis Bank Research

Exhibit 12 - European gas prices at elevated levels for longer



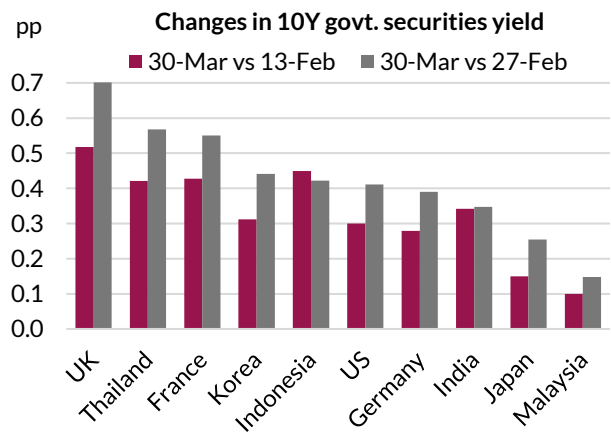
Source: Bloomberg, Axis Bank Research

Exhibit 13 - US 10Y yields reaction similar to past wars



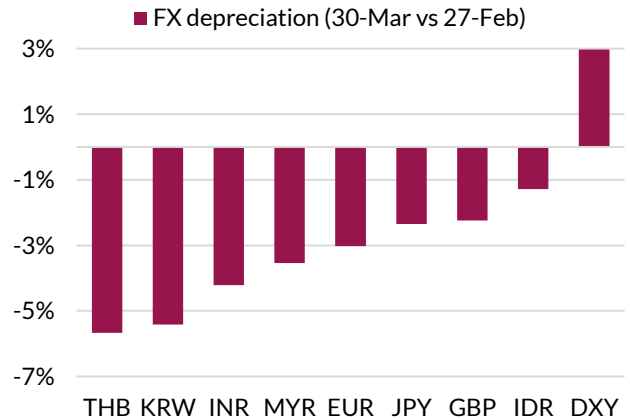
Source: Bloomberg, Axis Bank Research

Exhibit 14 – Yields had jumped everywhere, now recovering



Source: Bloomberg, Axis Bank Research

Exhibit 15 – Most major currencies had depreciated vs. USD



Source: Bloomberg, Axis Bank Research

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