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A SEQUEL WE DON'T WANT:

What the 2026 Oil Price Shock Will Cost Canadians

by **Jim Stanford**
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This report is part of the **False Profits** project hosted by the Centre for Future Work. It investigates the impact of fossil fuel prices and profits on inflation, real incomes, and living standards of Canadians. Learn more at:

falseprofits.ca

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Summary

The conflict in the Persian Gulf has caused the greatest disruption in world oil supply in history. Canadians have felt immediate consequences from this oil shock, through much higher prices for gasoline and other petroleum products. But that is just the beginning of the impact on the Canadian economy. Spillover price effects on other goods and services, which use petroleum products in their own production, are already being experienced, and those effects will get larger in coming weeks. The Bank of Canada is ready to increase interest rates as soon as broader inflation becomes visible. That in turn will slow economic growth and job creation, already hampered by the side-effects of President Donald Trump's erratic trade war. Even if the U.S. and Iran implement a peace agreement and the Strait of Hormuz reopened immediately, these repercussions would last for months—due to delays in transcontinental oil shipping, damage to export infrastructure in the Persian Gulf, and depleted global oil inventories. If the closure of the Strait persists, the damage will get much worse.

This report reviews the impacts on Canadians of this latest global oil price shock, informed by previous research into the effects on Canada of the previous (but less severe) shock following the Russian invasion of Ukraine in 2022. The analysis considers three possible scenarios: one in which the Strait is immediately reopened, one in which it remains closed for another three months, and one in which it remains closed for another six months.

Summary of Projections			
Strait of Hormuz Scenario	**Immediate Reopening**	**Closed 3 months more**	**Closed 6 months more**
Higher Direct Fuel Costs ($b)	$12.3	$30.6	$41.8
Higher Indirect Supply Chain Costs ($b)	$38.0	$70.1	$87.3
Total costs to consumers ($b)	$50.3	$100.7	$129.1
Consumer price inflation (%)	4.2%	6.9%	8.6%
Extra petroleum upstream revenue ($b)	$64.7	$116.1	$155.9
Impacts measured over 12-month period following start of the war on Iran.			

- In the best-case scenario of immediate reopening, Canadian consumers would pay an additional $12 billion over 12 months in direct higher fuel costs, $38 billion in extra indirect costs through higher prices for other goods and services (totaling $50 billion in extra costs), and the inflation rate would increase to 4.2% on average over the same 12-month period.
- If the Strait remains closed for three additional months, Canadian consumers would pay $30 billion in additional direct fuel costs, $70 billion in additional indirect costs (for a total of $100 billion), and the inflation rate would increase to 6.9%.
- In the worst-case scenario (six further months of closure), consumers would pay $42 billion in extra direct costs, $87 billion in indirect costs (for total combined costs of $128 billion), and the inflation rate would rise to 8.6%.

In any of these scenarios, the Bank of Canada will respond with higher interest rates that may serve to suppress the inflationary side-effects of the oil price shock, but will increase the pain through other channels (including billions of dollars in additional interest charges to consumers, and hundreds of thousands of foregone jobs).

With soaring revenues and stable production costs, the Canadian petroleum industry will receive a revenue windfall from this price shock. Over 12 months, that windfall would range from $65 billion under immediate reopening, to $155 billion in the case of six months additional closure.

Canada is a major net exporter of petroleum, so it is not inevitable that Canadians must experience such significant consequences from a geopolitical event on the other side of the world. That Canadians are experiencing these consequences is due to policy choices, not economic laws of nature. The report concludes by considering ways to reduce Canadians' exposure to this and future oil shocks: including by regulating domestic prices, redistributing excess petroleum profits, and accelerating the transition to renewable forms of energy.

Introduction

At time of writing, it has been almost three months since the U.S. and Israel launched their attack against Iran. The human consequences of the war have been deadly: thousands killed (mostly in Iran and Lebanon, but with significant casualties among Americans, Israelis, and residents of other countries in the Persian Gulf region). The economic costs of the war are also enormous, and are being experienced around the world. The closure of the Strait of Hormuz has blocked up to 20% of normal world oil supply from leaving the Persian Gulf. It has also drastically reduced global supplies of other critical commodities—including liquefied natural gas (LNG), urea, helium, and various chemicals used in manufacture of products from pharmaceuticals to fertilizers. Prices for affected commodities, led by oil, have risen dramatically, and physical shortages and rationing are now occurring in many parts of the world.

There is little indication that the conflict will end soon, despite erratic and contradictory pronouncements to that effect from the U.S. President. Even if the conflict ceased immediately, however, it is clear that supplies and prices of oil and other affected products will be disrupted for months to come. Because of time lags associated with intercontinental shipping, crude oil and other products that left the Persian Gulf before the war began did not arrive at final destinations until late April. That time lag initially delayed the impact of the blockage of the Strait on final deliveries of oil in far-off destinations. But by that same logic, there will be an equal or longer delay before oil can again arrive at those destinations, even after normal deliveries from the Gulf recommence. Moreover, loading and processing infrastructure in several Persian Gulf countries has been damaged by the conflict, and will take considerable time to be repaired; in some cases (such as destroyed LNG processing plants), it will be years before export volumes can recover.

Another buffer temporarily moderating the impact of the conflict on world supply chains has been an unprecedented drawdown of inventories of oil and refined petroleum products around the world. Analysts estimate that drawdown totaled 8-9 million barrels per day during April and early May[1], sourced from commercial onshore reservoirs, strategic reserves maintained by some governments, and floating inventories. That offset as much as 40% of the supply reduction resulting from the Hormuz closure, but cannot continue for long without reserves falling below minimum operational thresholds, with further disruption to normal fuel supplies.[2] When oil and other commodities begin flowing again from the Persian Gulf, replenishing those inventories will be an urgent priority, further delaying the stabilization of oil markets and prices.

For all these reasons, the economic consequences of the war on countries around the world (including Canada) will continue for months, and will almost certainly get worse before they begin to improve—even if the outright conflict ends soon. And the broader macroeconomic and inflationary impacts of this catastrophic conflict, labeled by the President of the International Energy Agency as the "biggest energy security threat in history," are just beginning to be felt.

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[1] See, for example, U.S. Energy Information Administration, "Short-Term Energy Outlook,: May 12, 2026, https://www.eia.gov/outlooks/steo/report/global_oil.php.

[2] Tsvetana Paraskova, "Morgan Stanley: Oil Buffers Could Run Out Before Hormuz Reopens," OilPrice.com, May 11, 2026, https://oilprice.com/Latest-Energy-News/World-News/Morgan-Stanley-Oil-Buffers-Could-Run-Out-Before-Hormuz-Reopens.html.

[3] Eva Mathew, "IEA Chief Warns Of 'Biggest Energy Security Threat In History' As Hormuz Crisis Deepens: 'Getting Worse Every Day'," Yahoo Finance, April 25, 2026, https://finance.yahoo.com/sectors/energy/articles/iea-chief-warns-biggest-energy-133112427.html.

Canadians noticed the impact of the war on their pocketbooks within hours of its outbreak. Retail prices for gasoline and other petroleum products (such as home heating oil, widely used in Atlantic provinces) soared immediately after the first attack. By early May, retail prices for gasoline and diesel had soared 50% year-to-date.[4] The speed and scope of this price impact was rightly puzzling, even infuriating, for Canadians. After all, the fuel being delivered in the days after the conflict began had been extracted, refined, and delivered to market weeks before the war began. Its cost of production was unaffected by events in the Persian Gulf, yet Canadian consumers were required to pay much more for it.

Even adjusting for lag times associated with the extraction, refining, and distribution of these products, the rationale for Canadian prices to soar because of a war on the other side of the world is not self-evident. Since Canada is a large net exporter of oil and gas, it is not inevitable that Canadian prices for these products must track global trends—let alone soaring within hours of an event on the other side of the world. Most Canadian petroleum demand is sourced from Canadian oil production. Indeed, Canada produces close to three times as much oil as it consumes,[5] with the rest being exported (mostly by pipeline to the U.S., with smaller amounts shipped by ocean to the U.S. and other continents). Canada imports modest amounts of oil and refined petroleum products into eastern Canada, equal to some 750,000 barrels per day (or about 15% of domestic production). Almost none of those imports are sourced from the Persian Gulf—although imports of oil from any source will naturally experience price increases in line with global trends. For Canadian production, however, the fact that Canadian prices rose so immediately and dramatically following a global shock reflects a policy choice regarding how domestic energy prices are regulated, not the inexorable forces of 'supply and demand'. (The relationship between domestic and global oil prices will be explained further below.)

Whatever the rationale for this pricing system, the steep rise in Canadian petroleum prices during the Persian Gulf conflict will have immense macroeconomic and social consequences here. Large price increases for gasoline and other petroleum products will damage consumer prices, inflation, and the cost of living. This direct impact, however, is just the beginning. Prices for most other goods and services produced in Canada will also rise, as their producers pass on higher costs for energy which they use in production. Some of those indirect impacts are already being felt (such as higher airfares, fuel surcharges for delivery services, etc.), but most will take longer to be passed on. Input-output data from Statistics Canada indicates that the final costs to consumers from those indirect effects of higher oil prices will be almost twice as large, in aggregate terms, as the direct costs experienced through higher prices for gasoline and other petroleum products.

A third, painful tranche of cost increases will be experienced when the Bank of Canada increases interest rates to fight the resulting spread of inflation throughout the broader economy. The Bank has already warned that it will do so, once it confirms that the oil shock is causing price increases in the broader basket of goods and services sold in Canada—an outcome which is inevitable. Higher interest rates will then siphon billions of dollars

[4] A temporary reduction in federal excise taxes of 10 cents per litre for gasoline, and 4 cents per litre for diesel, offset a small share of those price increases beginning April 20. That holiday is set to end on Labour Day, at which point those fuel prices will jump again—on top of whatever further price increases may have been experienced by then.

[5] Calculations from Statistics Canada Table 25-10-0063-01.

of income away from households, through higher debt service charges on mortgages, credit cards, and other loans. Higher interest rates, in turn, will exact yet another economic toll, in the form of reduced employment and income opportunities for Canadians.

In short, even though Canada produces far more oil and gas than it consumes, and those domestic supplies are unaffected (in either cost or quantity terms) by events in the Middle East, Canadians are about to experience a painful reprise of a similar cycle that occurred in 2022. That was the last time world oil prices spiked due to a geopolitical conflict: the Russian invasion of Ukraine. In that case, the physical supply of oil to world markets was not significantly affected. Ukraine does not produce oil, and Russian production and export was hardly affected. Total world oil supply grew steadily following the invasion. Once this became clear, world oil prices fell quickly, falling back to their pre-invasion norms (of around $60 U.S. per barrel) by late 2022. However, the damage to economies around the world (including Canada) continued for years. That oil price spike was the biggest single cause of the acceleration in consumer price inflation in Canada, that reached a peak of 8.1% (year-over-year) by June 2022. That in turn led to higher interest rates, and slower growth and job-creation, lasting through 2023 and 2024.

The 2022 price shock could have been a wake-up call for Canada to reconsider its existing approaches to energy regulation and monetary policy. Alternative strategies for managing prices for oil, petroleum products, and natural gas could be considered. And the assumption that the only response to inflation caused by an oil price shock on the other side of the world is to deflate the national economy through high interest rates, is also open to critical scrutiny. Alas, neither of these status-quo practices have been seriously evaluated in mainstream policy discourse since the 2022 experience. Hence the whole painful cycle will now be repeated, in a sequel that Canadians are not prepared for and hardly want to see. Moreover, since this price spike (unlike 2022) is associated with a major disruption in actual physical oil supplies, it will almost certainly be worse, and last longer, than the 2022 shock.

The pain about to be experienced by Canadians in all provinces (including those that produce oil) belies the common claim that since Canada is a net exporter of petroleum, higher oil prices must be ‘good’ for Canada. To the contrary, for most Canadians this shock will increase living costs, reduce real incomes, increase debt servicing charges, and undermine job security. Given the lingering pain and anger from the previous price shock and its impact on affordability, it will also likely cause further polarization and radicalization in some communities, thus damaging Canadian civil society and even democracy itself.

This report considers the likely impacts for Canadians from the current oil price shock. First, it briefly reviews how petroleum prices in Canada are set, shedding light on the puzzling connection between domestic prices and global futures markets. Next, it summarizes the effects of the 2022 price shock, based on previous research published through the Centre for Future Work’s False Profits project. The cumulative aggregate impacts of that shock serve as a benchmark, from which to project the likely consequences of this shock. The next section outlines three possible scenarios for the continuation and conclusion of the current conflict in the Persian Gulf, and associated impacts on oil prices, petroleum product prices, inflation, and interest rates. The following section then provides estimates of the likely costs to Canadians arising from each of those scenarios. The following section turns attention to the major Canadian ‘winner’ from this price shock: the petroleum producers whose revenues are soaring, even though their operating costs are mostly unaffected, and whose profit margins will widen dramatically. The industry will pocket its highest profits in history this year, even as Canadians experience sinking real living standards. The final section broadly considers alternative policy approaches to reduce Canada’s vulnerability to the side-effects of this and future supply shocks in the global oil system.

How Petroleum Prices in Canada are Set

For decades after the Second World War, domestic prices for oil in Canada were regulated through a range of different policy instruments. Under the National Oil Policy beginning in 1961, consumers in Ontario and Western Canada were required to use Canadian-produced oil, in order to support domestic exploration and development. That oil was sold at prices above then-world levels. Consumers in Quebec and Atlantic Canada were allowed to use cheaper imported oil, largely from the Middle East. Following the twin OPEC shocks of the 1970s, the federal government introduced new price regulations for oil and petroleum products, hoping to buffer Canadians from the full impact of world price volatility. It also created a state-owned oil company, Petro-Canada, to enhance a Canadian presence in the industry and apply competitive pressure on the multinational oil companies that then dominated the sector. Later, under the National Energy Program from 1980 through 1985, domestic prices were kept below global prices—although prices were raised over time to stimulate more investment in Canadian production, which was also supported through exploration subsidies and other incentives.

These efforts to regulate oil prices in Canada, and actively manage the Canadian petroleum industry, were mostly abandoned after 1985. The Conservative government of Brian Mulroney dismantled the National Energy Program, and largely deregulated oil prices. Oil companies were given the right to set prices at whatever the market would bear. Combined with the development of extensive petroleum exports, this created an environment in which Canadian prices began to closely track world trends. Prices for gasoline and other petroleum products also were deregulated; in this case, two-way trade in refined products (which are both exported from and imported to Canada) reinforce the link between domestic prices and global trends.

While petroleum prices in Canada now broadly follow world trends, governments retain some regulatory powers over pricing. For example, regulations on pipeline tolls and distribution charges for oil and natural gas control those components of final prices for oil and gas. Four provincial governments (in Atlantic Canada) regulate how quickly gasoline and fuel oil prices can change, and their relationship to global benchmarks.[6] Domestic taxes on petroleum products create a wedge between retail gasoline and other prices in Canada, and corresponding prices in other countries. Gasoline is cheaper in Canada than in most industrial countries largely because taxes on gasoline are lower here—but Canadian gasoline taxes (and prices) are higher than in the U.S.[7] Despite these slight differences, for the most part petroleum product prices in Canada closely track world trends. This is why the sharp spike in oil prices caused by the U.S.-Israeli attack on Iran was immediately and proportionately projected into Canadian prices, even though the supply and cost of petroleum and petroleum products in Canada was unaffected.

On the production side of the industry, there is an additional wedge between prices for produced Canadian oil, and global prices. World oil markets are led by a small number of highly financialized futures markets. These markets do not buy and sell physical oil: rather, they trade in paper contracts for the future delivery of oil.

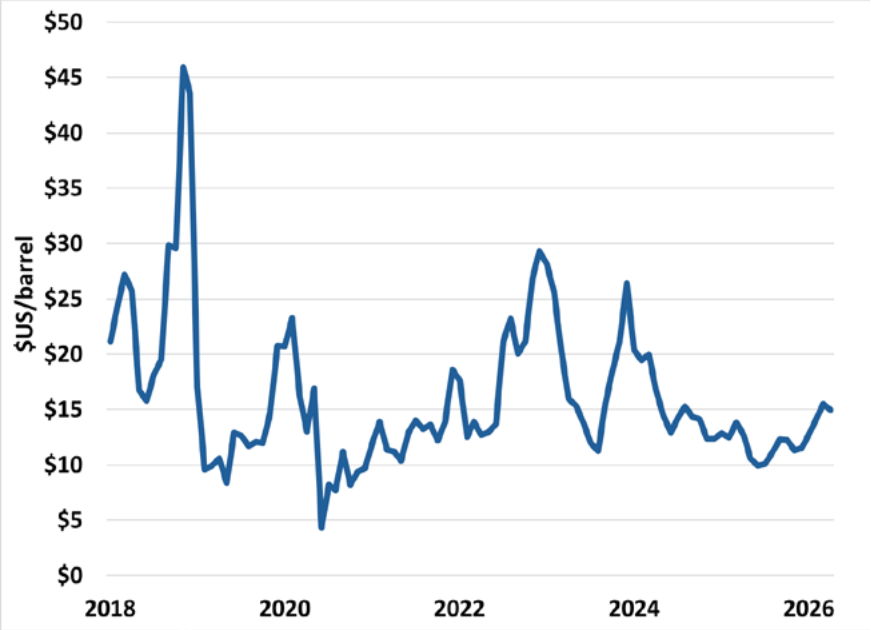
[6] The goal of these practices is to regulate retail margins for these products; since the Atlantic provinces import most refined petroleum products they use, those provinces do not have power to regulate the actual level of gasoline prices.

[7] According to the OECD, government gasoline taxes (both federal and provincial) in Canada are the third lowest among industrial countries, constituting 29% of total retail prices for regular unleaded gasoline in 2022; see OECD, "Taxation of premium unleaded (94-96 RON) gasoline (per litre)," https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/consumption-tax-trends/taxation-premium-unleaded-gasoline-ctt-trends.xlsx. An unintended benefit of Canadian gasoline taxes being higher than in the U.S. is that the proportionate increase in gasoline prices since the Iran war began has been smaller in Canada, because of the buffering impact of that larger tax margin on changes in the final price. As of early May, U.S. gasoline prices had increased 65% since the start of 2026, considerably more than Canadian prices.

Active futures markets exist for a small number of key 'benchmarks' of crude oil. The most important are Brent crude (a blend of crudes produced in the North Sea) and West Texas Intermediate (WTI, a blend of oils produced in Texas). The former is the most important benchmark for pricing oil in Europe and much of Asia; the latter leads prices in the Western Hemisphere. A few other futures prices also influence global trends (such as Tapis, Murban, and Urals). These benchmark crudes account for only a small portion of total world supply. But prices fetched for specific sources of oil are determined in relation to those benchmarks, adjusted for quality factors, transportation costs, and local or regional market conditions.

Canadian oil production is priced in relation to those global benchmarks. Canadian production from Alberta and Saskatchewan follows the WTI price. The major benchmark in that region is Western Canada Select (WCS), a representative blend of heavier crude reflecting the composition of typical production in Western Canada (which now consists mostly of output from the bitumen fields of northern Alberta). There is a price differential between WCS and WTI that fluctuates over time, in response to various factors—including market demand, available refining capacity in the U.S. (heavier WCS requires specialized and more expensive refining), and pipeline capacity. The WCS price differential has fluctuated widely in recent years; it was very wide in 2018, but has narrowed since (see Figure 1). After the completion of the expanded Trans Mountain Pipeline (TMX) in mid-2024, the WCS differential narrowed somewhat further, since producers are now able to sell more output to a broader array of destinations beyond the traditional Midwest and Gulf Coast markets in the U.S. (including by ship to the West Coast of the U.S., and to markets in Asia). However, even with the TMX expansion, WCS fetches significantly less than other benchmark oils, due to its inferior quality and higher transportation costs. The WCS differential has increased modestly in absolute terms (to around $15 U.S. per barrel in recent weeks) since the outbreak of the war against Iran. This means that the increase in revenues to Western Canadian producers has not quite matched in per barrel terms the increase in global benchmarks (like WTI). Oil produced from offshore Newfoundland is priced in relation to the Brent benchmark, again adjusted for quality differentials (most East Coast production is now heavy oil from the Hebron field) and higher transportation costs to overseas markets.

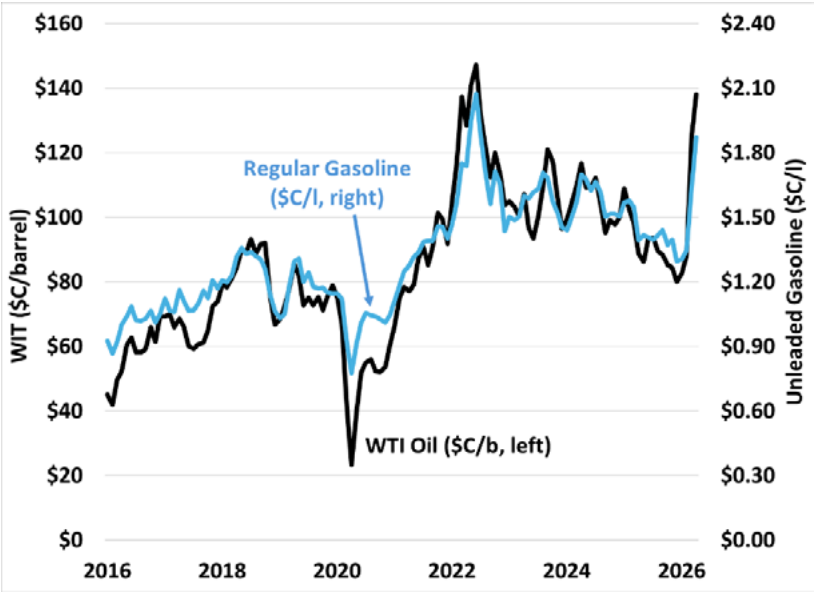
Figure 1. Price Differential, Western Canada Select versus WTI, 2018-2026



Source: Calculations from Alberta Economic Dashboard and U.S. Energy Information Administration.

Another source of divergence between Canadian and world oil prices is the Canadian dollar exchange rate. When converted into Canadian dollar terms (for sales into the Canadian market), oil and petroleum product prices will be higher when the Canadian currency is relatively weak—and vice versa, when the currency is strong. This is because producers, evaluating alternative marketing options, will adjust Canadian prices for the exchange rate, and demand more when the currency is weak (on pain of diverting their production to other countries, mostly the U.S.). The Canada-U.S. exchange rate has been relatively stable since the outbreak of the Iran war, so this factor has had no impact in either direction on the prices paid by Canadians for their own oil this year.

Figure 2. Canadian Gasoline and WTI Prices, 2016-2026



Source: Calculations from U.S. Energy Information Agency, Bank of Canada, and Statistics Canada Table 18-10-0001-01.

For Canadian consumers, the significant WCS discount on most Canadian oil production, which consequently sells for prices lower than world benchmarks, does not generate any savings on the prices they pay for gasoline and other refined petroleum products. In the deregulated energy market, sellers of oil and refined petroleum products in Canada match world price trends, no matter the cost of the oil that went into the gasoline they sell. Consumer prices for gasoline in Canada thus rise quickly with world oil prices, regardless of the evolution of the WCS price differential. Benchmark world prices serve as signals for refiners and retailers to collectively adjust their prices, even though those adjustments have no relation to changes in the cost of producing what they sell.

Figure 2 illustrates the average price of unleaded gasoline sold in Canada (measured in dollars per litre on the right axis), in comparison to the price of benchmark WTI (converted to Canadian dollars per barrel, measured on the left axis). The two series track very closely. Changes in the Canada-U.S. exchange rate are passed through to Canadian gasoline prices, indicating that it is the world price (in U.S. dollars) that leads domestic prices. The WCS price differential thus has no impact on Canadian gasoline prices. The fact that Canadian oil sells for less than world prices, does not mean Canadian gasoline prices are any lower.

It is interesting (and maddening) to note that increases in the WTI price are immediately reflected in higher gasoline prices. However, significant drops in oil prices are not always reflected as quickly in lower gasoline prices. Oil price reductions in 2017, 2020-21, and mid-2023 had delayed reflection in gasoline prices. This reflects the acknowledged phenomenon that corporations are often able to lift prices in response to rising costs faster and more fully than they reduce prices in response to falling costs.

One final aspect of oil prices that should be appreciated is the financialized and highly speculative nature of the futures markets that set prices for those leading benchmark blends in the first place. As noted above, oil futures markets trade financial instruments (paper contracts for future delivery), not physical oil. There are far more futures contracts trading on the major markets at any point of time, than there is oil produced in the entire world. In 2024, for example, just the two largest futures markets (for Brent and WTI) traded contracts for close to 500 billion barrels of oil—thirteen times total global oil production the same year.[8] Most traders on futures markets

[8] See Jim Stanford and Erin Weir, "Counting the Costs: Impacts of the 2022 Oil Price Shock for Canadian Consumers and Workers," Centre for Future Work, March 2025, https://centreforfuturework.ca/wp-content/uploads/2025/04/FalseProfits-March2025-Counting-the-Costs.pdf, for more details on the evolution and behaviour of oil futures markets.

have no interest in either buying or selling physical oil; they are, rather, financial investors placing bets on future changes in oil prices. Most futures contracts are cancelled (through offsetting transactions) before the specified date for delivery of the physical oil arrives. Changes in futures prices are dominated, especially in the short run, by shifts in the speculative judgments of financial traders, not by changes in real oil supply, demand, or cost of production. Futures markets became dominant in oil pricing through the 1980s and 1990s, alongside the expansion of other highly financialized institutions in the global economy (including equity, bond, foreign exchange, and derivative trading). They thus constitute a highly volatile and at times irrational mechanism for setting the price of one of the most important commodities in the global economy.

The needless volatility of futures markets, and the damage their gyrations can cause, was especially evident during the 2022 oil price shock. Recall, there was no significant disruption in world oil supply at all during that shock. The whole episode was driven by speculative overreaction to the uncertainty caused by the Russian invasion. In 2026, however, there clearly is a real supply shock underlying the explosion of oil prices: the blockage of up to 20 percent of total world supply. If anything, it is possible this time that futures market are underreacting to the disruption in real oil supply. Evidence to this effect includes the fact that prices in smaller spot markets for physical oil have been frequently higher than the more commonly reported futures market benchmarks.[9] Another infuriating dimension to the current price shock has been the manipulation of futures markets by traders wielding inside information on developments in the conflict (including apparently advance notice of Trump's market-moving social media posts) to capture large speculative gains on resulting sudden movements in futures prices.[10]

What Happened Last Time

To better understand the likely impacts of the current turmoil in global energy prices, it is instructive to review the lessons of the similar episode that unfolded in 2022, following the Russian invasion of Ukraine in February 2022. Brent futures prices peaked above $120 (U.S.) per barrel in March, and stayed above $100 (U.S.) for six months. The spike in prices was relatively short-lived; prices began retreating in July, and by the end of 2022 had fully reversed those increases. However, even though prices retreated almost as quickly as they rose, that oil price shock was the biggest single factor setting off the subsequent inflationary surge that spread around the world.

No disruption in physical world oil supply was experienced that year. World production grew modestly following the Russian invasion. Russia's production fell by about 600,000 barrels per day (about 5% of pre-invasion output levels)[11], reflecting modest supply disruptions related to the war and the (limited) impact of Western sanctions. However, production in the rest of the world increased by more than enough to offset that slight decline. All told, global production increased by 700,000 barrels per day (or 0.7%) from the end of 2021 to the spring of 2022—simultaneous with the most extreme price increases. So there was no 'supply shock,' and the dramatic and painful increases in oil prices cannot be characterized as an efficient economic reaction to supply shortages.

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[9] Chris Wilson-Smith, "Business Brief: Why oil now costs more than oil next month," The Globe and Mail, April 16, 2026, https://www.theglobeandmail.com/business/article-business-brief-why-oil-now-costs-more-than-oil-next-month/.

[10] Nick Marsh, "The insider trading suspicions looming over Trump's presidency," BBC News, April 20, 2026, https://www.bbc.com/news/articles/cge0grppe3po, and Paul Krugman, "Grand Theft Oil Futures," Substack, May 7, 2026, https://t.co/Co14ajCcbN, show the correlation between large short positions (whereby investors use derivatives to profit from a future decline in a market price) and various Trump social media posts proclaiming imminent (but never realized) peace negotiations with Iran. This advance and insider-informed trading generates hundreds of millions of dollars in speculative profits from resulting price movements.

[11] Calculations from U.S. Energy Information Administration, "Quarterly petroleum and other liquids production."

More genuine supply disruptions did occur in natural gas markets as a result of the Russian invasion. European countries reduced their purchases of Russian gas (previously received via pipelines and liquefied marine shipments), while moving quickly to mobilize alternative sources of supply (from other LNG producers around the world) and accelerate development of renewable energy systems. Gas prices spiked in Europe, prompting many governments there to impose price caps and excess profit taxes on gas and electricity companies.[12] This price pressure spilled over into global gas markets, driving prices very high (especially in Europe and Asia).

The global price shocks for oil and gas were transmitted quickly into Canada, via the mechanisms described above. Previous work in the Centre for Future Work's False Profits research project[13] quantified the impact of the 2022 price shock in four broad categories. These findings are summarized below, and provide good context for considering the impacts of the 2026 price shock:

1. **Direct consumer prices for oil and gas:** Gasoline and other motor vehicle fuels jumped by over 50% in the months following the Russian invasion. Fuel oil prices jumped over 75%, and residential natural gas prices grew by over 25%.[14] All told, increases in the costs of these fossil fuel commodities directly accounted for 43% of the total aggregate increase in Canada's consumer price index (CPI) from the beginning of 2021 to June 2022—when consumer price inflation peaked at 8.1% (on a year-over-year basis). Prices came down gradually over the subsequent two years, but remained higher than earlier levels (measured relative to 2019 pre-COVID levels). Over the three years 2022 through 2024, Canadian consumers paid a cumulative total of $61 billion extra for motor vehicle fuels, heating oil, and natural gas than they would have paid evaluated at 2019 prices.
2. **Indirect costs experienced through supply chains:** Fossil fuels (including oil, refined petroleum products, and natural gas) accounted for about 2% of all input purchases by Canadian businesses in 2021, representing total input costs of $80 billion.[15] Industrial input price indexes for these products grew more sharply than consumer prices (since the latter are buffered by higher taxes and unit costs for distribution and retailing). Year-over-year inflation for a composite index of input fossil fuel purchases ranged between 60% and 80% for most of 2022 and early 2023. Measured relative to 2019 price benchmarks, these higher prices added $107 billion to input costs over the three years from 2022 through 2024.
3. **Higher debt service costs resulting from higher interest rates:** To combat inflation resulting from the oil price shock (and other factors, including lingering supply chain disruptions from the COVID pandemic), the Bank of Canada raised interest rates ten times in 2022 and 2023, by a total of 4.75 percentage points. The first of these hikes occurred one week after the Russian invasion of Ukraine (and the resulting spike in oil prices). Higher interest rates increased aggregate household interest costs by $65 billion over the three years from 2022 through 2024. Not all of that monetary policy response can be ascribed to the oil price shock, but a significant portion can. Acknowledging that the Bank of Canada will 'look through' initial volatility in energy prices in interest rate decisions, but will act quickly when energy prices feed into broader inflation, an estimated 35% of the interest rate tightening is ascribed to the oil and gas price shock—equal to the share of direct and indirect fossil fuel price effects in longer-run consumer price increases from 2019 through 2022. On that basis, 35% of the increased interest costs borne by households (some $23 billion over the 2022-2024 period) can be fairly ascribed to the oil and gas price increases.

[12] These measures are reviewed in European Commission, "Actions and measures on energy prices," 2025.

[13] See Stanford and Weir, ibid., 2025.

[14] Since Canadian gas supplies are not well integrated into global markets, the impact of the global shock on Canadian gas prices was relatively muted; this will change in the future, if Canadian LNG export capacity grows as industry proponents hope.

[15] This excludes purchases of oil as input to the petroleum refining industry.

4. **Lost employment income resulting from reduced employment:** The desired purpose of higher interest rates is to slow economic growth and job-creation, restoring a 'desired' cushion of unemployment to soften purchasing power and suppress wage demands. By this standard, the Bank of Canada's strategy was 'successful': after a lag period of several months, the employment rate (measuring the proportion of working age Canadians employed in any form) began to decline. Using a pre-pandemic benchmark as the norm, aggregate wage and salary income lost due to suppressed employment totaled $21 billion over the three years from 2022 through 2024. Once again ascribing 35% of that loss to the portion of higher interest rates reflecting the role of higher oil and gas prices, this suggests that the oil price shock reduced subsequent employment income by $7.5 billion.

Combined losses across these four channels of impact are summarized in Table 1. Across the four categories of impact, these costs totaled almost $200 billion over three years, or $12,000 per household. This attests to the far-reaching and long-lasting impacts of that price shock on Canadian living standards. Canadians continue to grapple with affordability concerns, and affordability is still identified as the most pressing problem facing by Canadian voters.[16] The 2022 oil and gas price shock was the biggest single cause of those affordability issues—a fact ignored in most economic and political discussions. Now Canadians are facing another, likely worse threat to their living standards in the form of another oil price shock. The lessons from previous oil price volatility have not been learned.

Table I: Total Costs to Canadians from Fossil Fuel Price Shock, 2022—2024

Effect	Benchmark	Cost ($bil.)
Direct CPI Impact	2019 CPI	$61.4
Indirect Supply Chain Costs	2019 PPI	$106.8
Extra Interest Expense	2019 effective interest rate	$22.9
Lost Employment Income	2019 employment rate	$7.5
Total Costs		**$198.7**
Number of Households (July 1 2024, million)		16.547
Cost per Household ($)		$12,007

Source: Calculations from Stanford and Weir (ibid.).

1. Cost cumulated over 2023-2024.

[16] For example, recent Abacus polling finds 62% of Canadians identified the rising cost of living as one of their top three concerns, far ahead of the next most important issue; see David Coletto, "New Abacus Poll: Liberal Lead Holds After Floor Crossing as Turnout Advantage Widens," Abacus Data, March 1, 2026 https://abacusdata.ca/new-abacus-poll-liberal-lead-holds-after-floor-crossing-as-turnout-advantage-widens/.

Three Scenarios

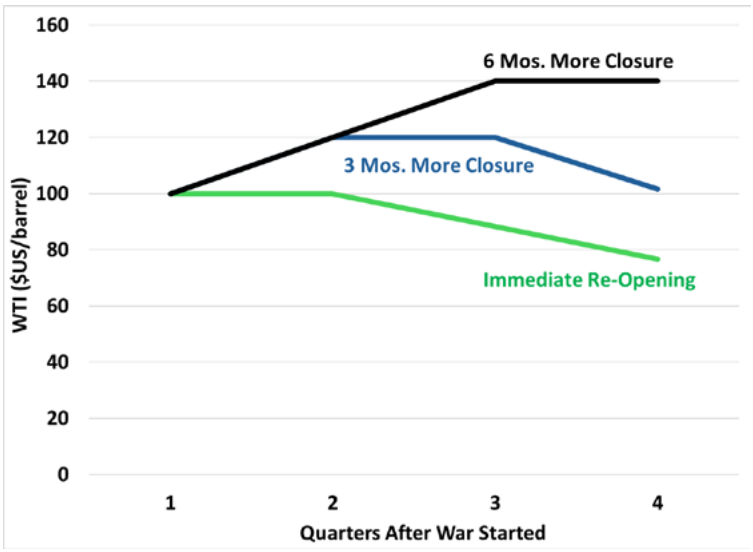
We now move on to consider the likely consequences of the current Middle East conflict for Canadian energy prices, inflation, and macroeconomic performance. Of course, the future evolution of that conflict is unknowable, subject to the unpredictable actions of the protagonists, the responses of other countries in the region, and interventions from other national and international players. The impact of the closure of the Strait of Hormuz on global oil markets and prices is also highly uncertain, dependent on the expectations of futures market participants, supply and demand responses in various parts of the world, and the development of alternative transportation arrangements (such as Saudi Arabia's pipeline to the Red Sea). Given this fundamental uncertainty, we consider three scenarios which we will then use to consider potential impacts on Canada's economy:

1. **Immediate Reopening:** The most optimistic scenario involves a peace agreement between the U.S. and Iran, the immediate reopening of the Strait of Hormuz, and restoration of normal tanker traffic from the Persian Gulf. For the reasons described above, even in this scenario, it would take several weeks before oil supplies return to pre-conflict norms, due to delays in loading and transporting oil by tanker to global ports, damage to export infrastructure across the Gulf region, continued uncertainty among futures market participants, and a likely sustained increase in the perceived risk premium attached to oil futures contracts. World benchmark oil prices (which have averaged around $100 U.S. per barrel in recent weeks) will remain elevated. We project another 3 months of prices around $100 after reopening, followed by a gradual decline over the subsequent 6 months to pre-conflict prices (around $65 U.S. per barrel). This projection is consistent with scenarios recently published by several leading analysts, who are assuming an imminent reopening of the Strait.[17]
2. **Three More Months of Closure:** In this scenario, the Strait remains closed for another three months, bringing the total period of closure to six months. Prices rise to $120 (U.S.) per barrel over those subsequent three months, and then stay at that level for another three months after reopening (for the same reasons identified above). After that, they begin a gradual descent back to pre-conflict norms over the subsequent six months.
3. **Six More Months of Closure:** In this scenario, the Strait remains closed for another six months. With depleted inventories and more intense physical shortages around the world, prices rise to $140 (U.S.) per barrel over that additional period of closure, and stay there for another three months after reopening, before commencing a gradual six-month return to pre-conflict norms. This is a relatively conservative projection of the consequences of an extended closure of the Strait; some analysts have projected prices much higher if the Strait remained closed.[18]

[17] See, for example, Michael Race and Osmond Chia, "Oil price predicted to remain above $100 for rest of year," BBC, May 11, 2026; or Reuters, "Goldman Sachs raises oil price forecasts on tight supply," April 26, 2026, https://www.reuters.com/business/energy/goldman-sachs-raises-oil-price-forecasts-tight-supply-2026-04-26/.

[18] See, for example: BNN Bloomberg, "Crude prices could surge to around US$150 per barrel: TD," April 29, 2026, https://www.bnnbloomberg.ca/video/shows/commodities/2026/04/29/crude-prices-could-surge-to-around-us150-per-barrel-td/; John Power, "Could oil hit $200 a barrel? Analysts no longer think it is far-fetched ," Al Jazeera, March 19, 2026, https://www.aljazeera.com/news/2026/3/19/could-oil-hit-200-a-barrel-analysts-no-longer-think-its-far-fetched; Thomson Reuters, "The US-Iran War: The potential economic impact and how businesses can react," March 4, 2026, https://www.thomsonreuters.com/en-us/posts/corporates/iran-war-economic-business-impact/. Jon Haubert, "The return of $100 oil," Enervus, March 24, 2026, estimates that each additional month of closure of the Strait raises the global oil price by $10-15 (U.S.) per barrel.

Figure 3. Persian Gulf Conflict Oil Price Shock Scenarios



Source: Projections as described in text.

Figure 3 illustrates projected oil prices for these three scenarios, measured in quarterly increments (starting with the commencement of the war in late February). The one-year forecast extends to late February 2027.

The impacts of these benchmark oil price scenarios on the Canadian economy depend on some additional parameters, including the price differential on Canadian oil production (the WCS differential discussed above), the Canada-U.S. exchange rate, and the historically close relationship between WTI prices (in Canadian dollar terms) and domestic prices for gasoline and other refined petroleum products in Canada. The projections below assume stability in each of those parameters: the WCS differential stable at $15 (U.S.) per barrel below the WTI price (its recent magnitude), the Canada-U.S. exchange rate equal to its April average (72.7 cents U.S.), and the relationship between WTI prices (in Canadian dollars) and regular unleaded gasoline matching the pattern observed in Figure 2 above.[19]

Table 2 summarizes the main components of the three scenarios described above. It also provides actual data from the six month period corresponding to the Russian invasion of Ukraine in 2022, since that experience will inform projections of the impacts on Canada of the current price shock. Table 2 also provides actual data from April 2026 (most recent monthly data at time of writing). This confirms that the Immediate Reopening scenario described above (in which oil prices remain elevated at around $100 U.S.) would be broadly comparable to the 2022 experience. In other words, Canadians have seen this movie before—so they should know what to expect from the sequel.

Table 2: Oil Supply Shock Scenarios

	Actual		Scenarios: Length of Strait Closure		
	Feb-July 2022	April 2026	Immediate Reopening	3 More Months	6 More Months
WTI Future ($US/bbl)	$104.66	$100.32	$100	$120	$140
WCS Differential ($US/bbl)	$14.50	$14.96	$15	$15	$15
Canada-U.S. Exchange Rate	0.7833	0.7272	0.7272	0.7272	0.7272
WCS ($C)	$115.10	$117.38	$116.88	$144.39	$171.89
Gasoline Price ($c/l)	$1.83	$1.87	$1.87	$2.48	$2.89

Source: Actual data from U.S. Energy Information Administration, Oil & Gas Magazine, Statistics Canada Tables 18-10-0001-01 and 36-10-0124-01.

[19] On the basis of the historical pattern illustrated in Figure 2, the price for regular unleaded gasoline is assumed to equal 1.5% of the price of a barrel of WTI in Canadian dollar terms.

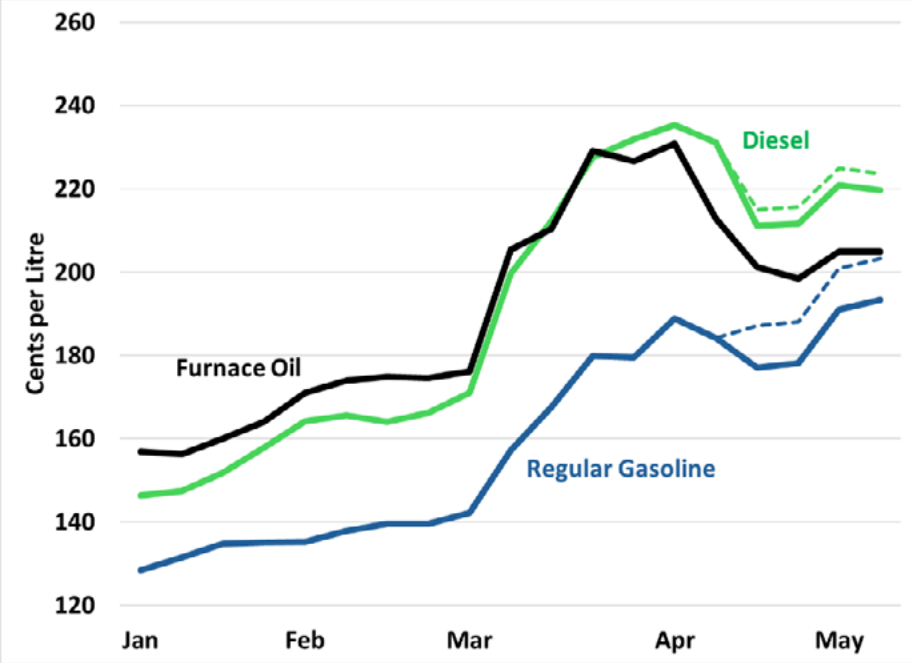
Effects of the 2026 Oil Shock on Canada

This section describes the likely impacts of each of the three scenarios proposed above on Canadian petroleum product prices, supply chain costs, inflation, interest rates, and economic growth. The projections are informed by analysis of the actual impacts that prevailed following the 2022 price shock.

Direct Fuel Price Impacts

The most immediate and visible effects of the Persian Gulf conflict on Canadians are being experienced through rising prices paid by consumers for gasoline and other refined petroleum products (including diesel fuel and home heating oil). Figure 4 illustrates the rapid increases in retail prices for those fuels since the conflict erupted in late February. By early May 2026, retail gasoline prices had increased 36% compared to year-earlier levels; diesel prices were up 53% year-over-year, and home heating oil prices had increased 43% compared to year-earlier levels. Year-over-year price increases for gasoline and diesel would have been even larger (43% and 56%, respectively) were it not for a temporary holiday on the federal excise tax on those two fuels, which came into effect on April 20. That holiday will reduce final retail prices by 10 cents per litre for gasoline, and 4 cents per litre for diesel, but will end on Labour Day (at which point prices for both fuels will increase, on top of whatever other developments have occurred by then).

Figure 4. Retail Petroleum product Prices, January-May 2026



Source: Natural Resources Canada. Dashed lines indicate prices without temporary federal excise tax holiday.

In the Immediate Reopening scenario described above, fuel prices will remain at these elevated levels for another three months, even if the Strait of Hormuz reopens and tanker traffic rebounds. In the other scenarios (with continued closure of the Strait for three or six more months), prices will rise further. In the 3-month additional closure scenario, gasoline prices would rise to near $2.50 per litre by August. In the 6-month additional closure scenario, they would rise to near $2.90 by year's end. Prices for other refined products would rise proportionately to gasoline in all three scenarios.

Table 3 describes the impact of these scenarios on Canadian consumers. The projection uses 2025 average prices and total consumer expenditure as a baseline. In 2025, consumers spent at total of $54 billion on motor vehicle fuels. Statistics Canada data does not disaggregate motor vehicle fuel expenditures between gasoline and diesel; we assume 95 percent was spent on gasoline, and 5 percent on diesel.[20] Canadians also spent close to $3 billon on home heating oil in 2025.

Table 3: Direct Consumer Fuel Cost Impacts

	Gasoline	Diesel	Furnace Oil	Total	Share 2025 Consumer Spending
2025 Average Price ($/l)	$1.46	$1.57	$1.55		
2025 Spending ($b)	$51.4	$2.7	$2.8		
Price					
Immediate Reopening	$1.87	$2.24	$2.11		
3 More Months	$2.48	$2.85	$2.71		
6 More Months	$2.89	$3.26	$3.13		
Extra Cost (Annual)					
Immediate Reopening	$10.7	$0.9	$0.7	$12.3	0.70%
3 More Months	$27.2	$1.7	$1.6	$30.6	1.74%
6 More Months	$37.4	$2.3	$2.2	$41.8	2.38%

Source: Calculations from sources as described in text. Actual data from Statistics Canada Tables 18-10-0001-01 and 36-10-0124-01.

The difference between 2025 average prices, and the expected prices that would prevail under the three scenarios described above, results in substantial increases in fuel costs to Canadians. Even in the Immediate Reopening scenario, Canadian consumers would spend an additional $10.7 billion on gasoline (in the first year after the conflict began), and another $1.6 billion extra on diesel and heating oil. The total cost impact in this best-case scenario would be $12.3 billion in additional fuel costs. That represents a penalty equal to 0.7% of total Canadian consumer spending on all goods and services.

The cost impacts are much worse in the other scenarios. If the Strait of Hormuz remains closed for three more months, the total cost impact over the first 12 months following the start of the conflict grows to $30 billion (a penalty equivalent to 1.7% of all consumer spending). If the Strait remains closed for an additional six months, the total cost impact grows to $42 billion (or 2.4% of all consumer spending). In any scenario, the conflict will cause a significant direct negative impact on affordability and living standards in Canada.

[20] Diesel accounts for a larger proportion of total motor vehicle fuel used in Canada (over 25 percent of all sales transport fuel sales by volume), but most diesel use is for commercial transport and industrial purposes, and thus not counted in data on consumer spending. The indirect impacts of higher diesel costs on final prices for other goods and services is captured in the following section.

In the 2022 price shock, rising natural gas prices in Canada played a secondary role in exacerbating the cost impact experienced by Canadian consumers. Spot prices for Canadian gas doubled in spring 2022, reaching peaks of over $6 (Cdn.) per gigajoule in June. Within a year, prices had retreated to the relatively depressed levels that prevailed before the Russian invasion. This natural gas price shock resulted in significant but less dramatic increases in consumer natural gas costs, which rose by over 25 percent for 2022 as a whole.[21] Those higher gas prices amplified the impacts of the shock on Canadian energy costs and inflation in 2022. So far, however, there has been no similar impact on gas prices in Canada from the 2026 Persian Gulf conflict. While global LNG prices (for the European and Asian markets) have risen dramatically since the conflict began (due to the blockage of LNG exports from the Persian Gulf), so far this has had no visible impact on Canadian spot gas prices, which have remained historically low. Therefore, our analysis of the impacts on consumers of the current price spike does not include any price changes for natural gas.[22]

Indirect Price Impacts

More petroleum is consumed in Canada by businesses, than by final consumers. So the final impact on overall costs and prices in the economy will be amplified by the indirect impacts of higher petroleum prices on the costs faced by those businesses. Their higher costs for purchases of petroleum products will be passed on to consumers in higher prices for non-petroleum goods and services.

Table 4 lists industrial sectors which rely heavily on purchases of petroleum products as inputs to their own businesses.[23] The table includes all industries spending over 5% of their total input costs on petroleum products. All transportation industries, and many manufacturing and resources sectors, depend heavily on petroleum products. Trucking, air transport, and chemicals manufacturing rely on petroleum products most intensively, accounting for up to 20% of total input costs. Across the whole economy, petroleum products make up about 1.5% of all input costs for businesses.

[21] Because transportation and distribution costs account for the majority of final residential natural gas bills (not the purchase of the gas itself), and gas is often purchased under longer-term contracts, the temporary spike in spot market prices in 2022 had only a partial impact on residential gas costs.

[22] The weak integration between Canadian gas supply and global markets explains this lack of transmission of higher European and Asian gas prices into Canadian prices. While this frustrates petroleum producers, it has been a source of stability for Canadian gas consumers. The growth of LNG export capacity from Canada would change this pattern significantly, exposing Canadian gas consumers more fully to global gas price shocks in the future.

[23] This list excludes the petroleum refining sector itself, which obviously uses petroleum as its major input.

Table 4: Industries Which Intensively Use Petroleum Products

Industry	Share of Petroleum Products in Total Input Costs (%, 2024)
Truck Transport	20.0%
Basic Chemicals	18.9%
Air Transport	17.7%
Utilities	14.2%
Rail Transport	12.4%
Water Transport	11.8%
Forestry	11.7%
Urban Transit	11.6%
Taxi and Limousine	10.6%
Diamond Mining	10.4%
Other Transit	9.7%
Transportation Construction	9.6%
Non-Metallic Minerals Mining	9.1%
Couriers & Delivery	8.2%
Resin and Synthetic Rubber	8.0%
Fishing and Hunting	7.1%
Coal Mining	7.0%
Cannabis Production	6.4%
Iron Ore Mining	5.9%
Construction Services	5.8%
Repair and Maintenance	5.4%
Stone Mining and Quarries	5.0%
Greenhouses	5.0%
Total Industry[1]	**1.5%**

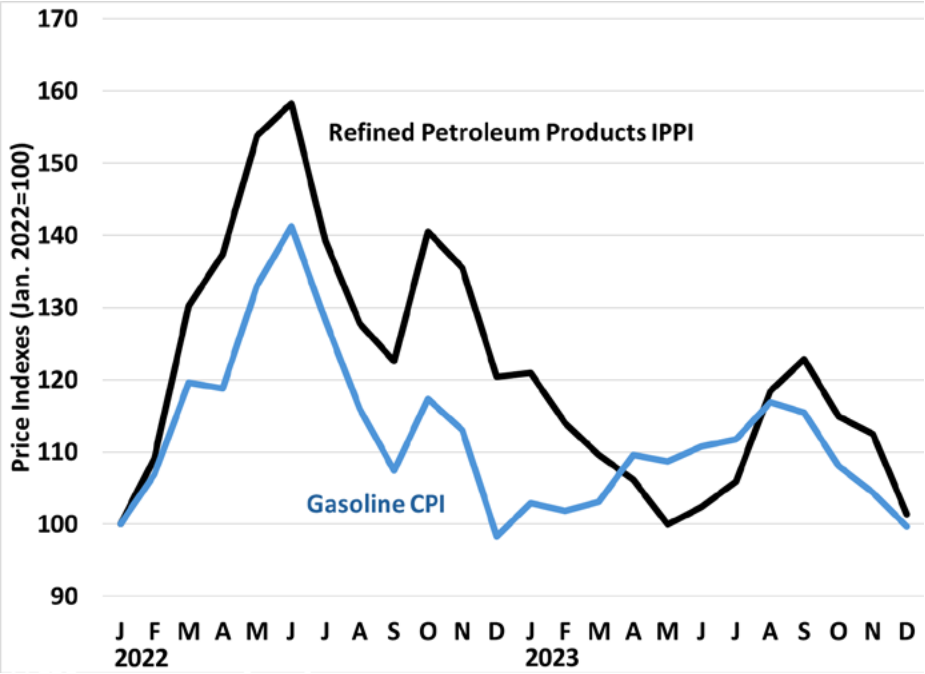
Source: Calculations from Statistics Canada Table 36-10-0001-01.

1. Excludes petroleum refining sector.

In addition to the fact that industry consumes most petroleum in Canada, the effect of higher oil and petroleum product prices on businesses is proportionately larger for another reason. Consumer prices for energy include various taxes levied by federal and provincial governments, as well as proportionately higher distribution and retail costs (that are lower per unit of energy consumed for industrial and commercial customers who buy larger quantities). Those taxes and other charges serve to buffer the impact of higher oil prices on final costs to consumers. For industrial and commercial users, taxes and other charges are lower, and hence a shock in oil prices (and subsequent refined petroleum products prices) will be experienced more fully in their own costs. This

phenomenon was visible during the 2022 oil price shock. Figure 5 illustrates industrial input costs for refined petroleum products (purchased by industrial and commercial users), compared to consumer prices for gasoline. Input prices for businesses rose higher than did final prices for consumers: the increase in industrial input prices for refined petroleum products was 17% higher (as a share of pre-shock starting prices) than for consumer prices. Moreover, industrial prices rose faster, and took longer to return to pre-shock levels: about 6 months longer than for consumer gasoline prices. Both factors will serve to amplify the impact of the current oil price shock on indirect production costs.

Figure 5. Consumer and Industrial Petroleum Product Prices, 2022-2023



Source: Calculations from Statistics Canada Tables 18-10-0004-01 and 18-10-0266-01.

The impact of higher petroleum prices in the three scenarios described above on indirect costs for non-petroleum industries in Canada can be projected as follows. We assume industrial and commercial input costs for petroleum products rise proportionately higher than for consumer prices, on the basis of the 2022 experience (with the price increase reaching a peak 17% higher as a share of starting prices). We also assume the decline in prices after the Strait of Hormuz is reopened takes 12 months (instead of 6 months, as assumed for consumer prices). Table 5 describes the results of these projections.

Table 5: Indirect Cost Impacts

	Scenario		
	Immediate Reopening	3 More Months	6 More Months
Petroleum Product Input Purchases (2024)			
Aggregate Cost ($b)[1]	$97.3		
Share Total Input Purchases[1]	1.52%		
Effects of 2026 Price Shock on Indirect Input Costs			
Input Price Impact	39.1%	72.0%	89.7%
Extra Cost ($b)	$38.0	$70.1	$87.3
Share GDP	1.2%	2.2%	2.7%

Source: Calculations from sources as described in text. Actual data from Statistics Canada Tables 18-10-0001-01 and 36-10-0124-01.

1. Excludes purchases by the petroleum refining industry.

In 2024, Canadian industries purchased almost $100 billion worth of refined petroleum products as inputs to their own operations (close to twice as much as was purchased by consumers). That accounted for 1.52% of their total input costs. Effective price increases resulting from the three scenarios are projected on the basis of the anticipated changes in gasoline prices, amplified by the larger proportional increase explained above, and the longer time required to return to price norms after the reopening of the Strait. In the Immediate Reopening scenario, average industrial input prices for petroleum products grow by 39% (compared to 2025 averages) over the 12 months following outbreak of the conflict, resulting in a $38 billion increase in input costs. If the Strait remains closed for another three months, that cost impact is larger: with a 70% increase in average prices, and a $70 billion cost impact over 12 months. Six months of additional closure boosts the price increase further, to 90% on average for the 12 month period, and an $87 billion cost impact.

These cost increases are larger than the cost increases experienced directly by consumers (which ranged from $12 to $42 billion across the three scenarios, as described in Table 3). They will significantly damage the overall cost competitiveness of Canadian businesses. Measured as a share of Canadian GDP, they represent a cost shock to the economy ranging between 1.2% of GDP in the best-case scenario (Immediate Reopening) to 2.7% in the case of six months' additional closure.

Impacts on Inflation

Higher consumer prices for petroleum products have an immediate impact on measured inflation in Canada, via the consumer price index (CPI). Higher costs to businesses producing other goods and services will have an additional, larger impact on ultimate prices and inflation.

The direct impact of higher petroleum costs on the CPI reflects the significance of these purchases in the overall bundle of goods and services purchased by consumers. Table 6 summarizes the current weighting of motor vehicle fuels and home heating oil in the overall consumer bundle whose prices constitute the CPI.

Table 6: Petroleum Product Weights Consumer Price Index, 2024

	Percent
All items	100
Fuel oil and other home fuels	0.21
Gasoline	3.71
Fuel, parts and accessories for recreational vehicles	0.30

Source: Statistics Canada Table 18-10-0007-01.

These categories imperfectly measure the relative importance of petroleum products, as they exclude some purchases (such as diesel) and merge some non-fuel costs (such as for recreational vehicles) intro broader categories. Nevertheless, this is a reasonable approximation of the relative importance of these purchases in overall consumer spending. Across these three categories, 4.21% of the CPI reflects petroleum product purchases. In the projections below, we assume that RV fuel prices closely track gasoline prices, and that 5% of consumer transport fuel purchases are for diesel (as above).

On this basis, the projected direct impact of higher petroleum prices on the CPI is indicated in the first row of Table 7. Direct fuel costs would add 1.2% to the CPI on average over the 12 months following the outbreak of the conflict. At peak, the impact would be somewhat greater (since in the Immediate Reopening scenario, prices decline over the last half of that 12-month period). If the Strait of Hormuz remains closed for longer, the direct impact on the CPI is larger: 2.9% on average over 12 months in the case of three months additional closure, and 4.1% in the case of six months additional closure.

Table 7: Impacts of Oil Price Shock on Inflation

Scenario	Immediate Reopening	3 Months Additional Closure	6 Months Additional Closure
Direct Fuel Costs	1.2%	2.9%	4.1%
Indirect Input Costs	1.2%	2.2%	2.7%
Total Impact	2.4%	5.1%	6.8%
Pre-Conflict Inflation (Feb. 2026)	1.8%		
Total Inflation (12-month average)	4.2%	6.9%	8.6%

Source: Calculations as described in text. Actual data from Statistics Canada Table 18-10-0004-01.

The effect of higher supply chain costs on broader inflation can be proxied on the basis of the indirect cost impacts described above. Measured as a share of total GDP, those higher input costs range from 1.2% in the Immediate Reopening scenario, to 2.7% in the event the Strait remain closed for six additional months. We use those ratios as a broad measure of the inflationary impact of higher indirect costs. Even though the aggregate size of those indirect impacts is larger than the direct consumer costs in aggregate dollar terms, they are spread across a larger base (that includes all output in the economy, not just consumer purchases), and this dilutes their proportional impact on inflation.

As summarized in Table 7, the combined impact of direct and indirect cost impacts arising from the oil price increases would constitute an additional 2.4% of inflation in the Immediate Reopening scenario, 5.1% if the Strait remains closed for another three months, and 6.8% if it remains closed for another six months. Again, those estimates measure the average impact on inflation over the full 12-month period following the outbreak of the conflict (that is, in the 12 months ending late February 2027). Peak inflation impacts will be higher, experienced at specific points during the year. Preceding the war, Canadian CPI inflation was running slightly below the Bank of Canada's 2% target: year-over-year CPI inflation was 1.8% in February 2026. With the incremental direct and indirect impacts from higher petroleum prices, that suggests total inflation will average 4.2% over the 12-month period if the Strait reopens immediately; 6.9% if it remains closed for another 3 months; and 8.6% if it remains closed for another six months. Of course, this forecast does not take into account the potential impact of other developments—such as the effect of compensating wage increases that might occur to offset higher prices, or the deflationary impact of higher interest rates (which will almost certainly occur, as discussed below).

Clearly, this latest oil price shock is precipitating an inflationary shock to the broader Canadian economy that is as bad as, and potentially worse than, the shock experienced in 2022, when year-over-year CPI inflation peaked at 8.1% within months of the initial jump in oil prices.

Impacts on Future Interest Rates

The Bank of Canada aims to maintain inflation within a band around 2% per year, plus or minus one percentage point. So far, the Bank has acknowledged that the Middle East conflict is increasing inflationary pressure inside Canada through higher direct prices for gasoline and other petroleum prices. In March, 2026, CPI inflation jumped by 0.6 percentage points (from 1.8% year-over-year in February, to 2.4% in March), as a result of higher fuel costs. The Bank has not yet increased interest rates to counter this inflationary pressure. While its target is defined with respect to all items CPI (including energy costs), it tends to 'look through' immediate fluctuations in highly volatile prices (such as energy and food) in making its interest rate adjustments. However, the Bank has stressed that if higher oil and petroleum product prices begin to show up in higher prices for the broader constellation of goods and services (through the indirect supply chain effects described above), it will move quickly to lift interest rates. In its April 29 interest rate decision (when it held its policy rate steady at 2.25%), the Bank was clear in its communication:

> "Governing Council is looking through the war's immediate impact on inflation but will not let higher energy prices become persistent inflation. As the outlook evolves, we stand ready to respond as needed."[24]

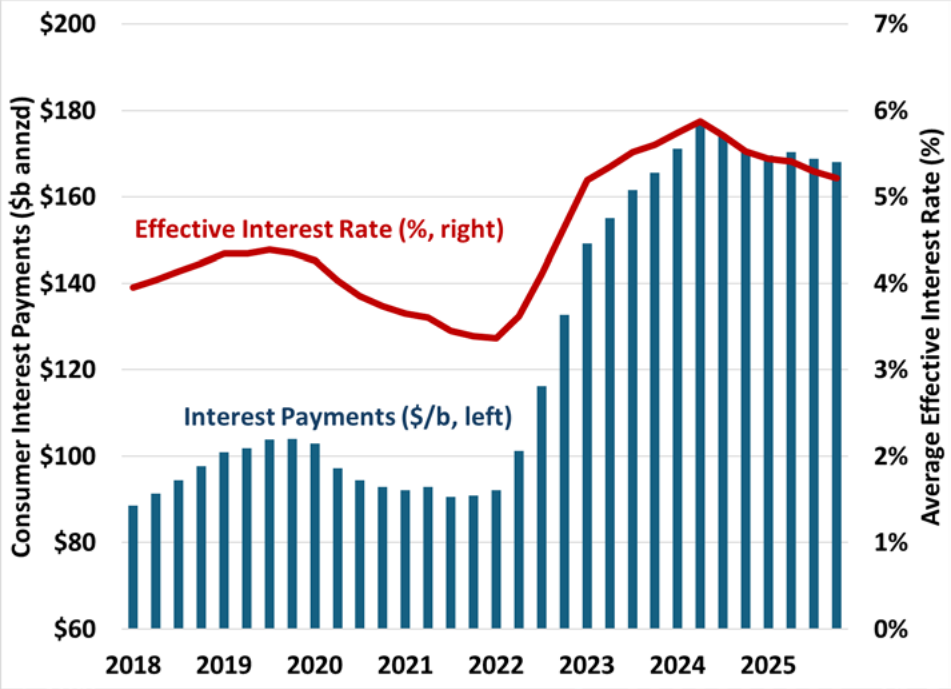
Higher interest rates will thus become another painful channel through which the consequences of the oil shock are borne by Canadian consumers.

The impact of high oil prices on interest rates was very important in the aftermath of the 2022 oil price shock. When the Russian invasion of Ukraine began, interest rates in Canada were unusually low—the legacy of aggressive measures taken by the Bank of Canada to support the economy through the COVID pandemic. Within one week of the commencement of the Russian invasion, the Bank implemented the first of ten increases in its policy rate, taking it from 0.25% in February 2022 to 5.0% by July 2023. That tightening, the fastest in history, had a severe impact on the domestic economy: discouraging business investment, construction, and consumer lending, and diverting tens of billions of dollars of household income from purchases of goods and services to debt service payments. The economy's rapid rebound from the COVID recession was cut short. Growth slowed, unemployment increased, and the hardship of higher petroleum prices was exacerbated by the additional burden of higher interest payments on mortgages and other loans.

The impact of the 2022-23 interest rate hikes on Canadian households is illustrated in Figure 6. Interest payments by Canadian consumers roughly doubled in the two years following the initial oil price spike—rising from about $90 billion per year (annualized) at end-2021 to almost $180 billion by early 2024. The impact of higher interest rates is felt with a delay, due to the time required before mortgages are renegotiated and other loans roll over. Nevertheless, the average effective interest rate paid on all household debt grew by 2.5 percentage points between end-2021 and spring 2024. Since then interest costs have gradually receded, reflecting several interest rate reductions by the Bank of Canada that began in June 2024 (which reduced its policy rate to 2.25% at present). Again, the impact of those rate cuts on consumer debt payments is felt with a significant lag.

[24] Bank of Canada, "Bank of Canada maintains policy rate at 2¼%," April 29, 2026, https://www.bankofcanada.ca/2026/04/fad-press-release-2026-04-29/.

Figure 6. Consumer Interest Costs, 2018-2025



Source: Calculations from Statistics Canada Tables 11-10-0065-01 and 38-10-0238-01.

This progress will almost certainly be halted and reversed, as a result of this latest oil price shock and its impacts on inflation. While it takes some time for higher oil and petroleum product prices to be reflected in prices for other goods and services, this process is already happening in Canada—for example, with higher costs for air transportation and delivery and courier services. If it follows through on its stated determination to prevent spillover of high oil prices into broader inflation, it is clear (as shown in Table 7) that the Bank will have to lift rates sooner, rather than later. Inflation will quickly exceed the upper bound of the Bank's target band, and will likely surpass 4% within a few months after that. The Bank will not stand by while inflation rises so far.

The pace of interest rate increases will depend on many other factors, including the impact of Donald Trump's trade war on Canadian industries. We do not here try to project timing for future rate hikes, beyond noting they are virtually inevitable on the basis of events that have already transpired—let alone if the Strait of Hormuz remains closed for a significant period of time, and oil prices rise further. Total outstanding household debt in Canada presently equals some $3.2 trillion (including mortgages, credit card balances, and other loans). A pass-through of just one percentage point of higher interest rates into the effective average rate paid by Canadians would thus cost consumers an additional $32 billion per year in interest charges. That would rival the direct cost experienced through higher prices for gasoline and other petroleum products. The impact of high oil prices on interest rates is thus one of the most painful channels through which this oil shock will punish Canadians, reviving memories of the painful 2022 experience that are all too fresh.

Impacts on Future Growth and Employment

The purpose of higher interest rates in combatting inflation is to deliberately reduce spending in the economy. The underlying assumption is that inflation is caused by 'excess demand': that is, by 'too much money chasing too few goods'. This simplistic motto is hardly fitting for a situation in which higher prices result from a geopolitical shock on the other side of the world. Higher interest rates cannot address the root cause of this imported inflation. But they can suck out enough spending power from the economy to create offsetting disinflationary pressure and thus eventually neutralize the impact of higher oil prices. In this regard, the Bank of Canada's response to oil-fueled inflation in 2022 was 'successful', as long as the pain imposed on innocent Canadians from that response is ignored.

The impact of the Bank's tightening in 2022 and 2023 on growth and job-creation in Canada was both obvious and painful. Real GDP growth slowed dramatically: from 5% year-over-year at the time of the Russian invasion, to barely above zero by mid-2023. Employment growth slowed accordingly, and the employment rate (which measures the proportion of working age Canadians in employment of any kind) declined by about one percentage point. The lost earnings resulting from reduced employment contributed further to the affordability challenges faced by Canadians in that time (as discussed above and summarized in Table 1).

This latest oil price shock will affect growth in Canada through various channels. Higher prices directly undermine consumer spending and other components of aggregate demand. Higher interest rates to fight oil-fueled inflation will have a powerful negative effect on growth. There may be some expansion of petroleum industry output and employment as a result of high prices and higher profits (discussed further below), although indications to date indicate that little of the industry's extra revenue is being reinvested in expanded operations. As noted in a recent Alberta Treasury Branch report, for example:

> "Higher oil prices will lead to higher incomes (primarily via higher producer and government revenue). That's a given. But the impact on employment and investment is far less clear. Even in this more optimistic scenario, we don't expect a surge in oil and gas investment."[25]

On a net basis, the last price spike clearly had overall negative impacts on Canadian GDP and employment (including via higher interest rates). If a similar balance unfolds in this case, we can expect to see further erosion of Canada's already-weak labour market. A one percentage point decline in the employment rate (akin to what happened following the 2022-2023 interest rate hikes) would imply about 350,000 foregone jobs.

[25] Mark Parsons, "Not just energy - Food security in the spotlight," Alberta Treasury Branch, March 13, 2026, https://www.atb.com/company/insights/the-twenty-four/atb-economics-the-seven-march-13-2026/. See also Amanda Stephenson, "Canada oil and gas profits to surge on Iran war, but firms hold off new investment," Reuters, April 14, 2026, https://www.reuters.com/business/energy/canada-oil-gas-profits-surge-iran-war-firms-hold-off-new-investment-2026-04-14/.

Summary

As was the case following the 2022 oil price shock, the dramatic increases in oil prices resulting from the U.S.-Israeli attacks on Iran will impose large costs on Canadian consumers, through a complex range of channels. Table 8 summarizes the main projections:

Table 8: Impacts of 2026 Oil Price Shock on Canadian Workers and Consumers

Scenario	Immediate Reopening
Direct Consumer Prices	Increased costs for direct consumer purchases of petroleum products of $12-$42 billion[1] over 12 months.
Indirect Cost Impacts	Increased costs for business purchases of petroleum products of $38-$87 billion[1] over 12 months.
Inflation	Increase in overall inflation rate to 4.2% (immediate reopening) to 8.6% (6 months additional closure).
Interest Rates	Interest rates rise when higher oil prices are reflected in broader prices; a one percentage point increase in effective average rate increases consumer interest costs by $32 billion.
Growth and Employment	Higher interest rates, higher prices, and uncertainty will reduce growth and job-creation; a one percentage point fall in employment rate corresponds to 350,000 foregone jobs.

1. Estimates range across three scenarios: immediate reopening of the Strait of Hormuz, three months additional closure, and six months additional closure.

Direct impacts on consumer prices for petroleum products have been highly visible since the Middle East conflict started, and are getting worse by the day. The federal government's temporary removal of its excise tax on gasoline and diesel fuel has not stopped the upward climb of prices. The indirect effects on prices experienced through the broader economic supply chain are becoming visible, led by higher prices for the most fuel-sensitive products (such as transportation and delivery charges). Eventually, they will be reflected in higher prices for all goods and services which use petroleum as an input—and that will inevitably spark higher interest rates from the Bank of Canada, and consequently slower growth and job-creation.

Once again, Canadians are being victimized by a geopolitical misadventure occurring on the other side of the world. It is not inevitable that these consequences need be experienced so fully and painfully. However, as a result of key policy choices (namely, to tie Canadian petroleum prices to global futures markets, and to rely solely on higher interest rates to combat inflation, regardless of its causes), this is the painful reality Canadians now face.

Benefits to the Oil Industry

The majority of Canadians are exposed to the negative consequences of the current oil price shock described above, through higher prices for petroleum products (and soon most other goods and services), imminent increases in interest rates, and slower future growth and employment opportunities. This is equally true for Canadians who live in one of the oil-producing provinces: they are not spared from the higher living expenses and falling real incomes that will result from this price shock. Indeed, in the 2022 oil price shock, workers in Alberta experienced the largest decline in real wages from the resulting inflation, of workers in any province.[26]

[26] See Jim Stanford, "The Alberta Wage Disadvantage: Evidence on Alberta's Continuing Suppression of Wages and Salaries," Alberta Federation of Labour and Centre for Future Work, January 2025, https://centreforfuturework.ca/wp-content/uploads/2025/01/The-Alberta-Wage-Disadvantage-Update.pdf.

However, one constituency which unequivocally benefits from higher oil prices is the Canadian petroleum industry. Energy policy in Canada allows the industry to charge Canadian consumers (as well as export customers) full world prices. This freedom is backed up by the industry's capability to divert Canadian production to external markets if Canadians (again, even those in oil-producing provinces) do not pay world prices. Costs of production in Canada (including extraction, processing, and refining) are not significantly affected by the supply disruptions in the Middle East—although broader inflation arising from those oil prices will eventually blow back on the industry in the form of higher operating costs. For now, the combination of large price increases for oil and refined petroleum products, with stable production and operating costs, will produce a revenue and profit windfall for the Canadian industry.

The potential size of benefits to the Canadian petroleum industry from a global price spike is confirmed by the industry's experience during 2022. Global oil prices rose that time about as much as they have already in the current price shock, even though there was no significant disruption in physical oil supplies around the world. The WCS price differential widened during 2022, by about $5 (U.S.) per barrel, offsetting some of the increase in world prices. However, the Canadian dollar depreciated by about 4% relative to its U.S. counterpart that year, which amplified the benefit of higher world prices for Canadian producers. Those two effects largely offset each other, so Canadian producers captured almost all of the proportional gain in world prices in higher prices for their Canadian output (measured in Canadian dollars). Total oil production in Canada also grew in 2022, by some 2.5% (or 120,000 barrels per day), magnifying the benefits for the Canadian industry. With much higher prices, slightly higher output, and stable operating costs, the industry reaped the largest single-year profits in its history—even as Canadians were grappling with the after-effects of a pandemic, and the biggest decline in real wages and living standards in a generation.

Table 9: Revenue and Profit Gains from the 2022 Oil Price Shock

	2022 Total	Change	
		Amount	Percent
Upstream Revenue	$262.4	$79.3	43.3%
Downstream Revenues	$215.7	$65.9	44.0%
Upstream After-Tax Profit	$48.4	$14.4	42.2%
Downstream After-Tax Profit	$19.4	$11.5	146.8%
Total After-Tax Profit	$67.8	$25.9	61.9%

Source: Calculations from Statistics Canada Table 33-10-0225-01.

Combined revenue data for the upstream and downstream sectors is not meaningful, because of the flow-through of higher oil input purchases by the downstream sector into its own sales revenue.

Table 9 summarizes the improved financial performance of the Canadian upstream and downstream petroleum industries.[27] Revenues for both segments of the industry surged by over 40% in 2022. After-tax profits grew by a similar proportion in the upstream industry, and by a much larger proportion (almost 150%) in the downstream segment. This reflects the typically pro-cyclical nature of petroleum refining, whereby margins swell when prices are rising and shrink when prices are weak. Combined after-tax profits in the two portions of the industry reached $68 billion, up 62% from 2021. The after-tax profit margin reached 18.4% in the upstream industry, and 14.2% in the downstream side. In contrast the after-tax profit margin in the rest of the Canadian economy was just 7.1% in 2022—less than half as large.

The 2022 oil price shock produced by far the most profitable single year in the Canadian petroleum industry's history. However, that record will surely be broken in 2026. We can estimate the scale of the industry's coming windfall on the basis of the same three price scenarios described above. Table 10 extrapolates those three oil price scenarios into projected aggregate Canadian upstream revenue. In the scenario assuming immediate reopening of the Strait of Hormuz (and assuming a broadly stable WCS price differential and Canada-U.S. exchange rate), the average WCS price (in Canadian dollar terms) will increase by over $30 per barrel over the 12 month period following the outbreak of the conflict. That translates into $65 billion in additional revenue for the upstream industry—bringing total revenue close to $300 billion. If the Strait stays closed for three additional months, the revenue gain widens to $116 billion. If it stays closed for six additional months, the revenue gain swells to $156 billion, brining total upstream revenue to over $385 billion. Canadian oil production will likely increase modestly in 2026, and this would boost the industry's revenue gains even further.[28]

Table 10: Oil Industry Upstream Revenue Gains

	Scenario		
	Immediate Reopening	3 More Months	6 More Months
Canadian Production (Dec.2025, million b/d)	5.6		
Average WCS Price (2025, $C)	$75.10		
Total Upstream Revenue (2025, $C b)	$230.6		
Increase in WCS ($C/b)	$31.67	$56.81	$76.28
New Revenue ($C bil)	$64.7	$116.1	$155.9
Total Revenue ($C b)	$295.3	$346.7	$386.5

Source: Calculations as described in text from Canadian Energy Regulator, Alberta Economic Dashboard, Statistics Canada Table 33-10-0225-01, and Federal Reserve FRED data. Assumes no increase in production and stable WCS price differential and Canada-U.S. exchange rate. Forecasts refer to 12 month period following outbreak of conflict in the Persian Gulf.

[27] The upstream industry includes oil and gas extraction and support services; the downstream industry refers to petroleum refining. Statistics Canada does not report separate profitability data for petroleum product retailing (which is considered part of a broad 'Other Retail' sector), and hence this data understates the full extent of petroleum industry profits.

[28] It is interesting to note that this methodology of estimating revenue gains for the Canadian petroleum industry on the basis of production levels and the change in price of WCS in Canadian dollars would underestimate the actual recorded gain in upstream revenues experienced in 2022. Hence the estimates in Table 10 can be considered conservative.

How this revenue windfall translates into bottom-line profits for the industry depends on several unpredictable factors. A share of revenue is received by provincial governments in royalty payments to compensate the owners of the resource (the populations of those provinces) for its sale to the petroleum industry. Some new revenues will also be collected in higher corporate income taxes, by federal and provincial governments. Some may be dissipated through higher operating costs, depending on operational decisions and the ability of various stakeholders in the industry to capture a share of record profits via higher supplier prices or wages and salaries. The ultimate distribution of profits between the upstream and downstream segments of the industry will also depend on a range of factors, including market demand conditions.

In any event, it is clear that Canada's petroleum industry will set new profit records this coming year, just on the basis of events that have already transpired. After-tax profits for the industry could easily double in the coming year. If the conflict drags on, producing more death and destruction, and more global economic disruption, the industry's profits will grow even further. Given extreme inequality in the ownership of financial wealth (including ownership of petroleum companies), record profits for the petroleum industry will inevitably widen income and wealth inequality. A review of the distributional impacts of U.S. oil industry profits after the 2022 price shock showed that 50% of all financial gains from higher fossil fuel prices accrued to the richest 1% of the population; just 1% accrued to the poorest 50% of the population.[29] The maldistribution of these gains will not be much better in Canada. Therefore, the coming record profits for the petroleum sector will certainly lead to a widening of the already worrisome gap between the wealthy and the rest of the population.

[29] Isabella Weber and Gregor Semieniuk, "We can tell you who will really get rich from this oil crisis – and how we can stop them," The Guardian, March 19, 2026, https://www.theguardian.com/commentisfree/2026/mar/19/oil-crisis-research-rich-costs-wealth-redistribute.

Conclusion and Policy Implications

Canada's economy has traversed several historic disruptions over the last six years: starting with the COVID pandemic, its aftermath (disrupted supply chains and other aftershocks), a seemingly pointless oil price spike in 2022, a historic run-up in interest rates, a near-recession, and most recently the impacts of U.S. President Donald Trump's erratic trade policies. Canadians are weary, worried about their economic futures, and in many cases angry.

Into this already-fragile economic and political environment has been thrown a new challenge: yet another explosion in prices for oil and petroleum products. Unlike the price shock of 2022, this one can be explained on the basis of real disruptions in global oil supply—namely, the unprecedented closure of a vital shipping corridor on the other side of the world, that has blocked the transport of some 20% of world supply. Because of the real supply factors behind this price shock, it will almost certainly push prices higher, and for longer, than did the previous price shock in 2022. That shock was the biggest single cause of the resulting cycle of inflation, monetary tightening, and macroeconomic stagnation that has so pained Canadians. Unfortunately, this time will be worse.

Since Canada is a major net exporter of oil, there is no self-evident reason why petroleum prices, inflation, and interest rates in Canada need to be roiled so directly by events in the Persian Gulf. Some analysts conclude that as a net exporter of oil, high oil prices must be 'good' for Canada.[30] That assumption is wrong: since the country does not 'share' its revenue from various sources like a unified, happy family, the record profits coming to the domestic petroleum industry have no direct impact on incomes or living standards for Canadians (other than those who own substantial stakes in the petroleum industry). Even Canadians in oil-producing provinces will be net losers from this price shock. They, too, must pay inflated prices for petroleum products, higher prices for other goods and services, and higher interest rates, yet they will not receive any significant share of the resulting revenue windfall captured by the petroleum industry. Petroleum lobbyists proclaim that thanks to royalties and corporate income taxes (policies which they normally advocate fiercely to reduce), Canadians will share in the windfall generated by this price shock, but these claims are exaggerated. Certainly the fiscal position of oil-producing provinces will be strengthened by high prices. But those governments will face higher costs, as well, due to higher petroleum prices, higher inflation, and higher interest rates. And in other provinces, and at the federal level, there is little fiscal spillover from the industry's windfall.

As weary Canadians confront the prospect of another cycle of inflation, falling real wages, higher interest rates, and potential job loss, they would do well to reconsider the policy framework within which this war on the other side of the world is so badly disrupting their day-to-day lives. It was a policy choice in the 1980s that Canadian oil prices would follow global trends. This practice is not universal: many oil exporting countries regulate domestic prices to keep them below the prices they charge for exports, and many other countries (including China) regulate domestic prices to stabilize inflation and meet other policy goals. Prices for other forms of energy in Canada (including electricity, and the transportation and distribution charges that make up the majority of natural gas charges), are also regulated in line with cost of production and (where relevant) a reasonable return for private suppliers. The Atlantic provinces regulate retail prices for gasoline, to prevent unreasonable price hikes during periods of price volatility. The assumption that petroleum prices must inevitably or naturally follow the gyrations of financialized global futures markets is unjustified.

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[30] See, for example, Heather Exner-Pirot, "Canada one of the very few winners from this mess, on a macroeconomic scale at least," X, March 21, 2026, https://x.com/exnerpirot/status/2035450841822552392.

Even if the general practice of allowing petroleum companies to charge world prices for sales of Canadian energy inside Canada is sustained, other policy instruments could limit the negative macroeconomic and distributional consequences of price shocks like the one now being experienced. One obvious response would be to repatriate a share of excess profits petroleum companies are capturing from a price shock which has no relationship to the real supply or production cost conditions of the Canadian industry. Many countries in the world (including oil-producing industrial countries like the U.K. and Norway) set higher taxes (of 50% or more) for petroleum profits generated during periods of high prices. The revenues collected through additional profits on high petroleum industry profits could be used for financing various purposes: rebates to consumers (in Canada's case, perhaps through an expanded GST credit targeted at low- and middle-income households), contributing to investments in energy infrastructure (including renewable energy projects), or other fiscal policy changes (such as adjustments to other income, sales, or other tax settings).

Ultimately, the most certain way to reduce Canadians' exposure to future volatility in oil prices will be to reduce the role of those products in the national energy system. There are many reasons to support and accelerate the coming transition toward renewable and non-emitting sources of energy, including fulfilling Canada's climate commitments and reducing energy costs. The consequences of the current oil price shock reinforce those motivations. From supporting the adoption of electric vehicles, to encouragement for residential heating conversions (especially in the Atlantic provinces), to accelerating investments in renewable electricity generation and electrification, the faster the energy transition proceeds, the smaller will be the impacts of the next oil price shock.

Regardless of whether Canadian governments pursue any of these policy responses to this latest oil shock, Canadians should at least expect honesty regarding its causes and consequences. Dominant ideology asserts these price hikes are the natural, inevitable result of market forces. This is a lie intended to prevent Canadians from asking hard questions about why their living standards are being undermined by a far-off war that does not involve them. Prices for petroleum products have not shot up because of natural market forces. Events in the Persian Gulf are dramatically affecting our economy because of a policy choice, not laws of economic nature. While Canada is a net exporter of these products, the vast majority of Canadians (including those living in oil-producing provinces) will be significantly harmed by this price shock. The only clear winner is the petroleum industry: its coming record profits, obtained partly at expense of Canadians, will further exacerbate inequality and social tension.

And contrary to petroleum industry dogma that Canada cannot afford to protect the climate (whether through carbon pricing, regulations on emissions, or incentives for renewable energy), by far the biggest damage to affordability in Canada is being done by continued reliance on oil and other fossil fuels. That was proven in 2022, and it is now being proven again.

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