More in Economy

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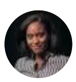
Iran war will jolt U.S. inflation, new analysis finds



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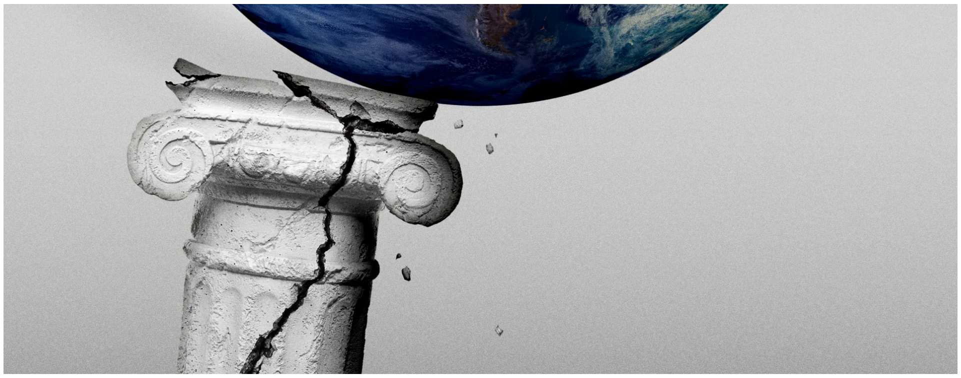

Illustration: Maura Losch/Axios

The Middle East conflict wiped out what would have been a modest upgrade to global growth and a stable inflation picture.

- That has been replaced with a fresh warning about soaring energy costs and U.S. prices, which are projected to run far hotter than expected.

Why it matters: What was a more manageable inflation story now looks like a pressure test for central banks that may need to raise interest rates — or hold off on further cuts — even as growth weakens.

- Governments already carrying huge debt loads might need to spend more to cushion the blow for households.

What they're saying: "The energy price surge and the unpredictable nature of the evolving conflict in the Middle East will raise costs and lower demand, offsetting the tailwinds from strong technology-related investment and production, lower effective tariff rates and the momentum carried over from 2025," the Organisation for Economic Co-operation and Development, a Paris-based research and policy group, wrote in its economic outlook released Thursday morning.

- Still, the group expects those new inflation pressures to fade by the end of 2027, with U.S. inflation projected to decline to 1.6% — a rate that is actually 0.7 percentage point lower than its last forecast.

It's a similar story across major economies: G20 inflation is projected to be 4%, up 1.2 percentage point from its December forecast.

- Yet inflation is expected to be stickier than in the U.S. — it will fall to 2.7% by next year, though that is roughly 0.2 percentage point above its December global inflation expectations.

Zoom in: The OECD forecasts the global economy to grow 2.9% this year — the same rate expected in December and a slowdown from the 3.3% growth rate in 2025.

- Its projections for the U.S. economy are rosier compared with the rest of the G20, with a 2% growth rate anticipated this year. That is roughly 0.3 percentage point above its previous growth estimate, the biggest upgrade seen across the economies tracked by the OECD.

Yes, but: Energy price pressures will still weigh on the economy in the near term.

- "In the United States, strong growth momentum in the first quarter of 2026 is expected to be offset by a slowdown in consumer spending, owing to the combination of declining purchasing power, weakening labor force growth and depleted household savings," the OECD warns in the report.

prices evolve in line with financial market expectations, with oil, gas and fertilizer prices moderating in the middle of the year.

- "A significant downside risk to the outlook is that persistent disruptions to exports from the Middle East that raise energy prices even further than assumed and aggravate shortages of key commodities, add to inflation and reduce growth," its economists wrote.

On the upside, the global economy can prove more resilient, and the Middle East conflict can resolve quicker than expected, the OECD says.

- It also notes that AI technology yields stronger-than-expected productivity gains that push growth higher.

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