April 8, 2026

The New Oil Shock: Scale, Duration, and Inflation Risk

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Why the current Russia-Iran shock is larger in physical scale than 1973 or 1979, but different in how it flows through the global economy.

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On the evening of April 7, a temporary two-week ceasefire between the United States and Iran was announced, and oil prices moved lower in immediate response. We hope the ceasefire holds. But whether it does or not, the more important question for markets – and for inflation – is not the headline, but what happens next in the physical system. Even in a best-case scenario, oil flows do not normalize overnight. A meaningful portion of supply has already shifted into floating storage, which must first be delivered and cleared before normal trade flows can resume. Tankers must reposition, storage must reset, and damaged infrastructure across parts of the Middle East and Russia will take time to repair.

At the same time, the willingness of ships, crews, and insurers to re-enter key transit routes may lag the formal reopening, particularly if confidence in the ceasefire remains fragile. Recent production outages have also been widespread, affecting multiple producing regions at once, suggesting that some supply will remain constrained even as conditions stabilize. Strategic petroleum reserve releases can help smooth short-term disruptions, but they do not replace lost production or resolve logistical bottlenecks. Taken together, these factors suggest that the issue is not simply the recent spike in prices, but the duration of higher average oil prices that may follow. **In our view**, even if prices move off their peak, the average oil price over the coming year is likely to be higher than it was before the conflict. To better understand what that may mean, it is helpful to step back and examine how this shock compares with prior episodes, and how different price paths may affect inflation across major economies.

The current oil shock belongs in the same conversation as 1973 and 1979, but it is not the same kind of event. Today's shock is larger in physical scale than either of the 1970s oil shocks, but its initial inflation impact is materially weaker because major economies now use much less oil and gas per unit of GDP. That difference is important. In 1973, the world was far more hydrocarbon-intensive, OPEC controlled a much larger share of global supply, and the macro backdrop had already been destabilized by the end of Bretton Woods and the devaluation of the dollar. In 1979, the Iranian Revolution removed a large share of supply, but fear, hoarding, and already-embedded inflation psychology magnified the damage. Today, by contrast, vulnerability runs less through raw oil intensity and more through import dependence, refining and LNG logistics, maritime chokepoints, and expectations.

The 1973–74 embargo was therefore not only an oil shock; it was also a monetary-regime shock. After the United States closed the gold window in August 1971, the dollar devalued materially. Oil was priced in dollars, so Middle Eastern producers saw their real revenues erode and moved to reprice a scarce real asset against a weakening paper currency. Using the World Bank monthly crude series employed in this paper, oil rose from a month-average price of about $1.74 in December 1971 to about $40.50 in December 1979 – an increase of roughly 2,228%, underscoring how dramatically crude was repriced in the post-Bretton Woods decade. That is why Bretton Woods belongs in any serious comparison of the first great oil shock.

The 1979–80 episode was different in form but similar in consequence. Iranian output collapsed, but the physical loss alone does not explain the full move. Fear of further disruption and precautionary hoarding turned a supply event into a broader inflation event. That same logic matters today. **Once markets begin pricing duration rather than only missing barrels, inflation risk broadens beyond crude itself and affects products, freight, chemicals, fertilizer, and policy expectations.**

As of March 31, Reuters reports that the disruption to the Strait of Hormuz has left roughly 12 million barrels per day of oil supply compromised, while a separate Reuters estimate puts about 2 million barrels per day of Russian export capacity offline. Brent has traded above $100 per barrel, reaching as high as $118, and has recorded one of the largest monthly gains on record. **The key question is therefore no longer whether this disruption is large enough to matter; it is whether it lasts long enough to turn a price spike into a broader macro regime event.**

The analysis that follows is organized in sequence. We begin by comparing the physical scale, price response, and duration of the 1973–74 embargo, the 1979–80 Iranian shock, and the current 2026 disruption. We then examine the structural exposure of major economies through net import dependence, oil and gas use per unit of GDP, and the imported hydrocarbon burden. Finally, we use those structural differences to frame the first-round and second-round inflation pressures now facing major economies under a range of oil-price scenarios. Each exhibit includes a short interpretive note explaining what the table shows and why it matters.

Exhibit 1A. Physical scale of major oil shocks

Shock	Oil off the market (mb/d)	Lost supply as % of world daily demand	Duration (days)	Cumulative lost barrels	Cumulative loss as % of annual world demand
1973–74 Arab oil embargo	~4.5 mb/d	~7.6%	152	~684 million barrels	~3.2%
1979–80 Iranian revolution / oil strike	4.8 mb/d gross; ~2.6–3.3 mb/d net after offsets	~7.3% gross; ~4–5% net	136	~653 million barrels gross; ~359–449 million net	~2.7% gross; ~1.5%–1.9% net
Current 2026 shock	~14–16 mb/d peak combined estimate	~13.3%–15.4% peak	32 so far	~448–512 million barrels peak-rate equivalent	~1.2%–1.3% so far

Exhibit 1A shows that the current 2026 disruption is larger than either 1973 or 1979 on a peak daily basis, though its cumulative scale remains smaller to date, as the shock is still unfolding.

Lost supply as a percentage of daily world oil demand measures the immediate size of the shock. Cumulative loss, as a percentage of annual world demand, measures the total barrels removed over the shock period relative to one full year of world oil demand. The first is a daily-intensity metric; the second is a duration-adjusted scale metric. 1979 is shown on both a gross and net-after-offsets basis; 2026 is shown to date as the disruption is ongoing.

Exhibit 1B. Market response and supply structure

Shock	Global crude price move	Price increase	% increase	OPEC share of the global supply
1973–74 Arab oil embargo	$2.70 → $13.00/bbl	+$10.30/ bbl	+381%	~53%
1979–80 Iranian revolution / oil strike	$12.80 → $39.54/bbl	+$26.74/ bbl	+209%	~43%
Current 2026 shock	~$70.89 → ~$102.01/bbl (monthly avg.)	~+$31.12/ bbl current	~+43.9% current	~35%

Exhibit 1B shows that, on a consistent monthly-average price basis, the current percentage price move still trails the 1970s episodes. But the absolute dollar move has already been large enough to matter materially for first-round inflation, which is why the burden proxies later in the paper remain significant even in a less hydrocarbon-intensive world.

Exhibit 1B uses monthly average crude prices rather than intra-month highs. The historical rows use the World Bank monthly crude oil average spot series; the 2026 row uses the final February 2026 and March 2026 Brent monthly averages from EIA/FRED.

Exhibit 1C. 2026 duration-risk table

Assumes a constant 14–16 mb/d combined disruption rate for illustration; this is a sensitivity table, not a forecast.

Duration	Oil off market (mb/d)	Lost supply as % of world daily demand	Cumulative lost barrels	Cumulative loss as % of annual world demand	Equivalent to IEA 400 mb release
45 days	14–16	13.5%–15.4%	630–720 mb	1.66%–1.90%	1.6x–1.8x
60 days	14–16	13.5%–15.4%	840–960 mb	2.21%–2.53%	2.1x–2.4x
90 days	14–16	13.5%–15.4%	1,260–1,440 mb	3.32%–3.79%	3.2x–3.6x
120 days	14–16	13.5%–15.4%	1,680–1,920 mb	4.43%–5.06%	4.2x–4.8x

Duration is the key swing factor in 2026. At 45 days, cumulative losses exceed the roughly 400-million-barrel coordinated emergency reserve release; by 60 days, reserve releases can cushion the shock but cannot plausibly offset it. At 90 days, the duration-adjusted loss approaches the scale of the 1973 embargo; at 120 days, the disruption begins to look less like a short-term war premium and more like a macro regime event.

A supply shock does not become an inflation shock in proportion to the number of barrels alone. It becomes an inflation shock based on how much oil and gas an economy still uses per unit of output, how much of that use must be imported, how long the price move lasts, and how much of the move spills into wages, freight, food, and expectations.

Exhibit 2. Net import/export dependence by major economy

Metric: Net imports of oil + gas as a % of domestic oil + gas demand. Positive = net importer. Negative = net exporter. Latest available = latest complete year in the common dataset for each country; for Canada and Mexico, latest available = 2024.

Major economy	1973	1979	Latest available	Net
United States	24.1%	31.0%	-7.0%	Exporter
Canada	-29.6%	-9.4%	-113.0%	Exporter
Mexico	3.4%	-52.9%	26.2%	Importer
Germany	87.9%	89.9%	95.4%	Importer
France	94.3%	94.1%	99.2%	Importer
Italy	88.4%	90.1%	93.9%	Importer
United Kingdom	82.3%	19.6%	51.5%	Importer
China	1.5%	-12.7%	62.7%	Importer
India	68.0%	56.6%	81.1%	Importer

This exhibit shows who is structurally exposed to imported hydrocarbons. The United States has moved from a meaningful net importer in the 1970s to a modest net exporter today, while continental Europe remains heavily import-dependent, and China and India are far larger marginal importers than they were in earlier shock periods. Japan remains a structural outlier: low energy self-sufficiency and heavy dependence on Middle Eastern crude leave it among the most exposed developed-market losers in the event of a prolonged Hormuz disruption. Japan, however, has 250 days of demand in storage, the highest among major economies.

Exhibit 3. Oil + gas intensity by major economy

Metric: Combined oil + gas consumption per $1,000 of real GDP. Unit: MWh per $1,000 of real GDP on an energy-equivalent basis. We use combined oil + gas rather than oil alone because Brent shocks often spill into LNG, power, and industrial energy costs, especially in import-dependent economies. Latest common year: 2022.

Major economy	1973	1979	2022	% change vs. 1973	% change vs. 1979
United States	2.766	2.331	0.961	-65.3%	-58.8%
Canada	2.918	2.592	1.377	-52.8%	-46.9%
Mexico	1.004	1.205	0.975	-2.9%	-19.1%
Germany	1.514	1.475	0.511	-66.2%	-65.4%
France	1.525	1.291	0.440	-71.1%	-65.9%
Italy	1.486	1.304	0.647	-56.5%	-50.4%
United Kingdom	1.520	1.359	0.549	-63.9%	-59.6%
China	0.520	0.680	0.444	-14.6%	-34.7%
India	0.360	0.410	0.323	-10.3%	-21.2%

This exhibit shows why modern oil shocks are less inflationary than in the 1970s on a first-round basis. Most major economies now use far less oil and gas per unit of GDP, reducing the direct energy burden even before accounting for policy responses, inventory draws, and supply substitution.

Exhibit 4. Imported hydrocarbon intensity

Metric: (Oil + gas intensity) × (net import dependence). Higher positive = more imported oil and gas embedded in each unit of GDP. Negative = structural net exporter / relative insulation. Recent = 2022 oil + gas intensity × latest available oil + gas net import share in the common dataset; for Canada and Mexico, recent uses 2024 import dependence.

Major economy	1973	1979	Recent
United States	0.667	0.723	-0.068
Canada	-0.863	-0.242	-1.556
Mexico	0.034	-0.638	0.255
Germany	1.331	1.326	0.488
France	1.438	1.215	0.437
Italy	1.314	1.175	0.607
United Kingdom	1.251	0.267	0.283
China	0.008	-0.086	0.279
India	0.245	0.232	0.262

This exhibit combines intensity and import dependence into a single measure of structural vulnerability. Higher positive values indicate more imported hydrocarbons embedded in output; negative values indicate a net-export cushion. On this basis, the United States and Canada are far better insulated than in the 1970s, while parts of Europe remain exposed despite significant efficiency gains.

Exhibit 5. First-round hydrocarbon inflation pressure score

Metric: Hydrocarbon intensity × oil price % increase measured over each shock window using monthly-average crude prices. Interpretation: not a CPI forecast; a non-normalized cross-period pressure score. Higher = more first-round inflation pressure per unit of GDP.

Major economy	1973 shock	1979 shock	2026 current shock	2026 as % of 1973	2026 as % of 1979
United States	10.5	4.9	0.4	4.0%	8.7%
Canada	11.1	5.4	0.6	5.4%	11.2%
Mexico	3.8	2.5	0.4	11.2%	17.0%
Germany	5.8	3.1	0.2	3.9%	7.3%
France	5.8	2.7	0.2	3.3%	7.2%
Italy	5.7	2.7	0.3	5.0%	10.4%
United Kingdom	5.8	2.8	0.2	4.2%	8.5%
China	2.0	1.4	0.2	9.8%	13.7%
India	1.4	0.9	0.1	10.3%	16.5%

This exhibit converts hydrocarbon intensity into a non-normalized first-round inflation pressure score by applying each shock window's percentage oil price increase rather than nominal dollar moves, making the historical comparison cleaner. Within this framework, 2026 generates meaningful first-round pressure, but it remains far below the shock burden of 1973 and 1979 in most major economies because hydrocarbon intensity is much lower today, and the monthly average percentage price move has been smaller than in the 1970s.

Exhibit 6. Imported hydrocarbon inflation pressure score

Metric: Imported hydrocarbon intensity × oil price % increase measured over each shock window using monthly-average crude prices. Higher positive = more imported oil and gas inflation pressure embedded in GDP; negative = exporter cushion. This is a non-normalized cross-period pressure score, not a point inflation forecast.

Major economy	1973 shock	1979 shock	2026 current shock
United States	2.5	1.5	0.0
Canada	-3.3	-0.5	-0.7
Mexico	0.1	-1.3	0.1
Germany	5.1	2.8	0.2
France	5.5	2.5	0.2
Italy	5.0	2.5	0.3
United Kingdom	4.8	0.6	0.1
China	0.0	-0.2	0.1
India	0.9	0.5	0.1

This exhibit adds trade position to the same pressure-score framework, highlighting external vulnerability more directly. The United States now screens close to neutral because domestic production offsets much of the external shock. Europe remains more exposed on this measure, while Canada retains a large exporter cushion. The key message is that import dependence still matters, but the 2026 imported-hydrocarbon shock burden remains materially below the peaks of the 1970s for most major economies.

Sidebar. How to read the shock-pressure exhibits

Oil-shock inflation pressure score asks a simple question: if oil prices jump, how much hydrocarbon cost pressure sits inside each unit of GDP before considering trade position? It is a domestic first-round pressure measure built from hydrocarbon intensity multiplied by the percentage oil-price shock.

Imported hydrocarbon inflation pressure score goes one step further: how much of that hydrocarbon burden must be sourced from abroad? This is the better measure of external vulnerability because imported energy shocks tend to affect trade balances, currencies, refining margins, and domestic inflation expectations more directly.

What these proxies do well: they show, in one line, why 2026 is unlikely to mechanically recreate 1973 or 1979 in the United States, and why Europe and major Asian importers remain vulnerable.

What these proxies do not do: they are not CPI forecasts. They do not capture subsidies, hedging, exchange rates, reserve releases, refinery bottlenecks, wage-setting, demand destruction, or central-bank reaction functions. They are pressure scores, not point inflation estimates.

2026 U.S. Inflation Scenarios at Different Full-Year Brent Averages

For the United States, oil still matters, but it does not impact the economy with anything close to the same force it did in 1973 or 1979. The U.S. uses far less hydrocarbon energy per unit of output than it did in the 1970s, which is why the first-round inflation impulse from a given oil shock is structurally smaller today. That lower intensity is reinforced by the U.S. no longer being the large net hydrocarbon importer it once was.

A practical way to translate Brent into U.S. inflation is to combine three anchors. First, the February 2026 Brent monthly average – about $70.9 per barrel – is the pre-shock reference point for the 2026 scenario work. Second, a Federal Reserve staff DSGE model by Presno and Prestipino (2024) finds that a 10% increase in real oil prices from an adverse foreign oil supply shock raises U.S. headline inflation by about 0.15 percentage point in the first year, an estimate that already incorporates both the direct energy-price effect and the model's endogenous pass-through into core prices through higher marginal costs and sticky wages. Third, the March 2026 FOMC projections put median 2026 PCE inflation at 2.7%, providing a clean baseline from which to frame scenario ranges rather than precise forecasts.

Two caveats apply. The Fed model was calibrated when the U.S. was still a net oil importer; today the U.S. is a modest net exporter, which means domestic production revenues partially offset the consumer cost shock and the true pass-through is likely somewhat smaller than 0.15 percentage point per 10% oil move. The model was also tested against a 30% oil-price shock in the 2022 episode, and the relationship may not scale linearly to the larger moves considered in the $120 and $150 scenarios below. Both caveats suggest the estimates here are more likely to overstate than understate the inflation impact, particularly at higher price levels.

Exhibit 7. 2026 U.S. inflation scenarios at different full-year Brent averages

Illustrative, not mechanical forecasts. Uses the February 2026 Brent monthly average (~$70.9/bbl) as the pre-shock reference and the Presno-Prestipino (2024) oil-shock estimate as the pass-through anchor. This coefficient includes both the direct energy-price effect and the model's endogenous pass-through into core prices. The $150 case is best viewed as a longer-duration stress scenario rather than a simple price extrapolation.

Full-year Brent average	Increase vs. Feb 2026 avg (~$70.9)	Model-based headline inflation add*	Illustrative U.S. inflation outcome**
$85/bbl	+20%	~+0.3 pp	~3.0% total PCE; low-3s inflation overall
$100/bbl	+41%	~+0.6 pp	~3.3% total PCE; low-to-mid-3s inflation overall
$120/bbl	+69%	~+1.0 pp	~3.7% total PCE; upper-3s inflation overall
$150/bbl	+112%	~+1.7 pp	~4.4% total PCE; mid-4s inflation before broader duration-dependent effects

The interpretation is straightforward. At roughly $85 Brent for the full year, inflation pressures begin to re-emerge after recent disinflation. At $100, inflation reaccelerates. At $120, the pressure becomes broader and more meaningful. The $150 case is best understood as a longer-duration stress scenario – one in which inventories erode further, physical shortages deepen, and duration-dependent effects beyond the model's scope become likely.

Exhibit 8. U.S. inflation sensitivity: model-based effect and duration-dependent extension

Illustrative framework. All figures below are incremental to the current 2.7% 2026 PCE baseline and are intended to frame scenario ranges rather than precise forecasts. The model-based column reflects the Presno-Prestipino (2024) headline pass-through, which already includes endogenous core effects. The duration-dependent column captures additional inflation risk from channels the model does not fully represent such as prolonged freight and logistics cost pass-through, food and fertilizer price transmission, broadening wage pressure, and de-anchoring of inflation expectations.

Full-year Brent avg.	Approx. Brent move vs. Feb 2026 avg (~$70.9)	Duration label	Model-based headline effect (Presno-Prestipino)	Duration-dependent additional effect	Combined inflation effect	Illustrative implication for U.S. inflation
$85/bbl	+20%	Short disruption / partial normalization	~+0.3 pp	~0.0 to +0.1 pp	~+0.3 to +0.4 pp	Inflation pressures begin to re-emerge after recent disinflation
$100/bbl	+41%	Moderate duration / tighter balances	~+0.6 pp	~+0.1 to +0.2 pp	~+0.7 to +0.8 pp	Inflation reaccelerates
$120/bbl	+69%	Prolonged disruption / broader pass-through	~+1.0 pp	~+0.2 to +0.5 pp	~+1.2 to +1.5 pp	Broad and meaningful inflation pressure builds
$150/bbl	+112%	Long-duration stress / shortage regime	~+1.7 pp	~+0.5 to +1.0 pp	~+2.2 to +2.7 pp	Regime-risk inflation scenario emerges

This exhibit separates what the model can quantify from what depends on duration and judgment. The model-based column uses the Presno-Prestipino (2024) pass-through, which already incorporates the endogenous effect of higher oil prices on core inflation through marginal costs and wage stickiness. The duration-dependent column estimates the additional inflation risk from channels the DSGE framework does not fully capture: the broadening of cost pressure into freight, food, chemicals, and utilities; the pass-through into service-sector wages; and the risk that inflation expectations begin to de-anchor. That additional risk is small in the $85 case, where the disruption is short and the price move is modest. It widens in the $120 and $150 cases because at those levels the disruption must persist long enough for physical shortages to deepen, inventories to erode, and the inflation impulse to spread beyond direct energy channels.

Two additional considerations apply at the upper end of the range. First, the Presno-Prestipino coefficient was estimated against a 30% oil-price shock; at +112%, the linear extrapolation likely overstates the direct pass-through because demand destruction would begin to offset the cost impulse. Second, sustained oil prices at $120 or above would almost certainly trigger a tighter monetary policy response than the model's baseline Taylor rule assumes, which would dampen realized inflation at the cost of additional output drag. These two forces – demand destruction and policy tightening – partially counter the duration-driven upside risk, so the combined ranges should be read as scenario boundaries rather than precise point estimates.

When the incremental effects in Exhibit 8 are added back to the current 2.7% 2026 PCE baseline, the implied U.S. inflation outcomes are roughly 3.0%–3.1% at $85 Brent, 3.4%–3.5% at $100, 3.9%–4.2% at $120, and 4.9%–5.4% at $150. Those levels would remain well below the PCE inflation rates reached in 1974 (10.04%) and 1980 (9.64%). Even a severe 2026 oil shock would be unlikely to recreate the inflation extremes of the 1970s because the U.S. economy is far less hydrocarbon-intensive, the country has shifted from a net importer to a net exporter, and direct dependence on Middle Eastern barrels is far lower than it was during earlier shocks. But that should not be mistaken for immunity. The real risk is that duration turns a large oil shock into a broader and more persistent inflation problem. It may not produce a straight replay of 1974 or 1980, but it would still drive a meaningful rise in inflation and make that inflation harder to reverse.

The bottom line is straightforward. **Price** determines the size of the first-round shock. **Duration** determines whether second-round inflation takes hold. The current disruption is large enough to matter, but its ultimate macro significance will be determined less by the opening price spike than by how long supply remains constrained. A brief disruption would likely produce a sharp but temporary inflation pulse. A prolonged disruption would be more consequential: cumulative losses would rise, inventories would tighten, supply shortages would deepen, and higher oil prices would last long enough to broaden the inflation problem. That is the point at which it stops being a market event and becomes a macro event.

Authors Note

This analysis is intentionally focused on oil and the physical hydrocarbon system. Broader forces such as fiscal deficits, elevated debt levels, and monetary conditions may influence inflation over time, but they are separate from the supply-demand dynamics outlined here.

Sources

Historical context and Bretton Woods background: Federal Reserve History. Price windows in Exhibit 1B and the shock-pressure exhibits: World Bank monthly crude oil average spot series for the 1973–74 and 1979–80 shock windows; EIA/FRED Brent monthly series for February 2026 and March 2026. Current 2026 shock backdrop and duration-risk framing: Reuters reporting through April 1, 2026, including Reuters/Barclays disruption estimates and IEA emergency reserve release reporting. Country energy and GDP tables: Our World in Data / Energy Institute energy dataset and author calculations. U.S. inflation scenario calibration: Ignacio Presno and Andrea Prestipino (2024), “Oil Price Shocks and Inflation in a DSGE Model of the Global Economy,” FEDS Notes, Board of Governors of the Federal Reserve System, August 2, 2024; March 2026 FOMC projections; and BEA historical PCE inflation data.

Questions? Reach out to the Century Management Team.

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