

Economics

THE WEEK AHEAD

March 9 - 13, 2026

War, oil and inflation: Thumbing through some rules of thumb

by Avery Shenfeld avery.shenfeld@cibc.com

Economists were sent scrambling to adjust their inflation forecasts for the outbreak of war in the Middle East, familiar territory given that region's powder-keg history. The first step entails thumbing through some rules of thumb, or in economist's lingo, elasticities, that capture what models have to say about how a given oil price shock flows through into the CPI. But adjusting those historical norms to present circumstances has its challenges.

Modelers typically look at a permanent, one-time shock, with oil prices climbing to a new level, and staying there. That allows for crude costs to fully impact gasoline, transportation services like airfares, and goods prices through shipping costs. Further out, there's a risk that these first rounds of inflation then feed into rising inflation expectations, faster wage gains, and a more protracted inflationary spiral.

It's that threat that can set off alarms at the central bank. The risk is greater when inflation is already running above target, when labour markets are close to full employment, and when the demand side of the economy looks heated. Those conditions are much closer to being in place in the US than in Canada, which makes it odd that markets moved to price in almost a full half a rate hike to expectations for the Bank of Canada this year.

But even in the US, a very short conflict that quickly restores oil flows through the Straits of Hormuz, and which leaves production facilities undamaged, won't have time to ripple across the economy through shipping costs. If so, it won't be a replay of the consequences of higher energy and grain prices after the Russian invasion of Ukraine. Readers likely won't remember the CPI hit from last June's 12-day Iran war, which saw WTI crude spike from \$61/bbl to \$73, but fully unwind in two months.

We're not military strategists, but the wisdom of crowds is worth looking at. Oil traders are assuming that this crisis will last somewhat longer than last June's. While near term futures have topped \$80, WTI futures for December are sitting at roughly \$69/bbl. That's up about \$9 from a month ago, but judging by where short term futures had already moved when the onset of war was just a possibility, about half of that climb

is likely a risk premium that buyers are willing to pay to lock in a price while the war still rages. The underlying assumption is likely a return to the \$65 range in a few months time.

There are of course risks of a protracted conflict, given that an ideologically-driven Iranian regime might be prepared to fight on even amidst severe damage. But an end to active warfare in a month or so, and a recovery in oil shipments thereafter, still looks like a plausible base case, given the negative US political impacts of sustained gasoline price hikes, Trump's proclivity for quick declarations of success, and his seeming willingness to negotiate without a full regime change.

In that case, we're mostly talking about the direct impacts of a few months of elevated fuel costs, rather than broader ripple effects on inflation. Similarly, the window would be too short to have much to say about the real economy, either on the positive side in terms of North American energy sector activity, or the negatives from strained consumer spending room. So our focus at this point is on first round effects that could fade away in a few months, rather than a lasting shock to our forecast.

If so, what do those rules of thumb tell us about the inflation numbers ahead? Model results do differ, but a recent Fed analysis would suggest a peak CPI impact of about 0.5% to 0.6% from the run-up we've seen thus far, with a much smaller lift to core prices. For Canada, Bank of Canada and other models tend to see a lighter bump, but that captures a historical cushioning impact on import prices as oil's rally lifts the loonie, an effect that we don't tend to see much of these days. We'll therefore tack on a similar half point to the CPI outlook in upcoming months.

But in both countries, our base case will be a short-lived war that sees oil flowing again in a month or so, and an unwinding of most these impacts by the second half of the year. Given the softening US labour market, that could push back the timing, but not cancel, the two quarter point Fed rate cuts we had in our forecast for June and July, and will be no reason for the Bank of Canada to hike rates in the face of current growth challenges.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 9	-	-	-	-	-	-	-
Tuesday, March 10	-	AUCTION: 3-M BILLS \$12.2B, 6-M BILLS \$4.4B, 1-YR BILLS \$4.4B	-	-	-	-	-
Wednesday, March 11	-	AUCTION: 2-YR CANADAS \$6.0B	-	-	-	-	-
Thursday, March 12	-	AUCTION: 10-YR CANADAS \$5.3B	-	-	-	-	-
Thursday, March 12	8:30 AM	MERCHANDISE TRADE BALANCE	(Jan)	(H)	-\$0.8B	-\$1.0B	-\$1.3B
Thursday, March 12	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Jan)	(M)	-0.5%	-0.6%	2.0%
Thursday, March 12	8:30 AM	BUILDING PERMITS M/M	(Jan)	(M)	-	-	6.8%
Friday, March 13	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jan)	(M)	-3.0%	-3.3%	0.6%
Friday, March 13	8:30 AM	EMPLOYMENT CHANGE	(Feb)	(H)	25.0K	-	-25.0K
Friday, March 13	8:30 AM	UNEMPLOYMENT RATE	(Feb)	(H)	6.6%	6.6%	6.5%
Friday, March 13	8:30 AM	CAPACITY UTILIZATION	(4Q)	(L)	-	-	78.5%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 9	-	-	-	-	-	-	-
Tuesday, March 10	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Tuesday, March 10	10:00 AM	EXISTING HOME SALES SAAR	(Feb)	(M)	-	3.9M	3.9M
Tuesday, March 10	10:00 AM	EXISTING HOME SALES M/M	(Feb)	(M)	-	-1.2%	-8.4%
Wednesday, March 11	-	AUCTION: 10-YR TREASURIES \$39B	-	-	-	-	-
Wednesday, March 11	7:00 AM	MBA-APPLICATIONS	(Mar 6)	(L)	-	-	11.0%
Wednesday, March 11	8:30 AM	CPI M/M	(Feb)	(H)	0.3%	0.2%	0.2%
Wednesday, March 11	8:30 AM	CPI M/M (core)	(Feb)	(H)	0.3%	0.3%	0.3%
Wednesday, March 11	8:30 AM	CPI Y/Y	(Feb)	(H)	2.4%	2.5%	2.4%
Wednesday, March 11	8:30 AM	CPI Y/Y (core)	(Feb)	(H)	2.5%	2.4%	2.5%
Wednesday, March 11	2:00 PM	FEDERAL BUDGET BALANCE	(Feb)	(L)	-	-	-\$94.6B
Wednesday, March 11	8:30 AM	Speaker: Michelle W. Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, March 12	-	AUCTION: 30-YR TREASURIES \$22B	-	-	-	-	-
Thursday, March 12	8:30 AM	INITIAL CLAIMS	(Mar 7)	(M)	-	-	213K
Thursday, March 12	8:30 AM	CONTINUING CLAIMS	(Feb 28)	(L)	-	-	1868K
Thursday, March 12	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jan)	(H)	-	-\$67.9B	-\$70.3B
Thursday, March 12	8:30 AM	HOUSING STARTS SAAR	(Jan)	(M)	1360K	1340K	1404K
Thursday, March 12	8:30 AM	BUILDING PERMITS SAAR	(Jan P)	(H)	1410K	1392K	-
Thursday, March 12	11:00 AM	Speaker: Michelle W. Bowman (Governor) (Voter)	-	-	-	-	-
Friday, March 13	8:30 AM	PCE DEFLATOR Y/Y	(Jan)	(H)	2.8%	2.9%	2.9%
Friday, March 13	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jan)	(H)	3.0%	3.1%	3.0%
Friday, March 13	8:30 AM	PERSONAL INCOME M/M	(Jan)	(H)	0.6%	0.5%	0.3%
Friday, March 13	8:30 AM	PERSONAL SPENDING M/M	(Jan)	(H)	0.2%	0.3%	0.4%
Friday, March 13	8:30 AM	DURABLE GOODS ORDERS M/M	(Jan P)	(H)	0.5%	0.4%	-1.4%
Friday, March 13	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jan P)	(H)	0.4%	0.4%	1.0%
Friday, March 13	8:30 AM	GDP (annualized)	(4Q S)	(H)	-	1.4%	1.4%
Friday, March 13	8:30 AM	GDP DEFLATOR (annualized)	(4Q S)	(H)	-	-	3.6%
Friday, March 13	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Mar P)	(H)	-	56.3	56.6
Friday, March 13	10:00 AM	JOLTS Job Openings	(Jan)	-	-	-	6542K

Week Ahead's market call

by Avery Shenfeld

In the **US**, we'll get a picture of where inflation stood just ahead of the war, but a decimal place here or there won't really matter for forecasts of what lies ahead in March and April data. Even after downward revisions to that month's payrolls, personal income looks to have seen a solid gain in January, but as for spending, not so much. The tone from recent retail data suggests a note of caution that is showing up in a deceleration for consumption, perhaps capturing worries about job prospects and a less-steep climb for wealth levels. While Q1 GDP will see a big bounce from a rebound in government spending, a less robust spending pace by consumers suggests softer quarter growth thereafter, particularly with gasoline prices set to cut into real incomes in Q2.

In **Canada**, the jobs numbers could see a weather-related improvement from January, but a rebound from a statistically suspect drop in labour force participation could send the unemployment rate up a tick. If so, we'll be just that much further away from full employment, reinforcing our view that a one-off shock in energy prices is not an ingredient for a Bank of Canada hike this year.

Week Ahead's key Canadian number: Labour force survey—February

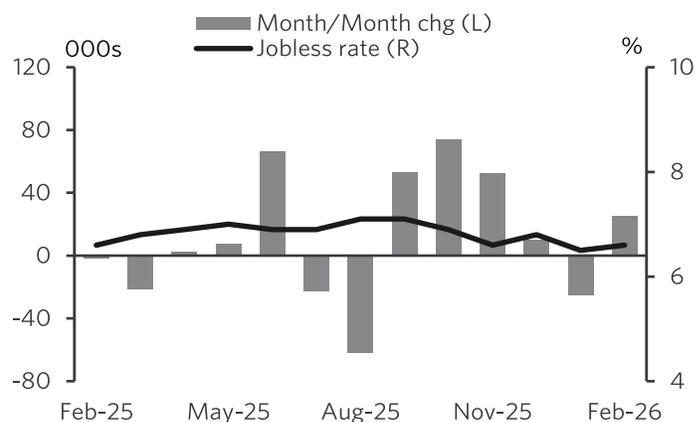
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	25.0K	-	-25.0K
Unemployment rate	6.6%	6.6%	6.5%

Friday the 13th may not prove entirely unlucky for the Canadian labour market. Employment may recover the ground lost in January, with that prior month's report treated with some skepticism due to the potential impact of large snowfall in Ontario during the survey week. However, we would also expect to see at least a partial rebound in labour force participation, with the prior month's slump going well beyond what can be explained by demographics alone. That increase in participation will mean that, despite close to zero population growth, the gain in employment may not keep pace with the increase in labour supply during the month, seeing the jobless rate tick up to 6.6%.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Employment growth is expected to remain uneven in the near-term, with companies still reluctant to increase staffing levels due to US tariff and other uncertainties. Any further reduction in the unemployment rate this year will be only gradual, before hopefully accelerating later in the year and into 2027 if some of these uncertainties fade.

Other Canadian releases: Merchandise trade—January

(Thursday, 8:30 am)

Higher oil prices and volumes likely boosted exports in January, while further gains in the price of gold could have also flattered the headline figures. Weather disruption may have played a factor in driving a reduction in manufacturing shipments during the month (some of which may well have been export orientated), and imports may have also been negatively affected. Overall, we expect a narrowing of the goods trade deficit to \$0.8bn in January.

Week Ahead's key US number: Consumer price index—February

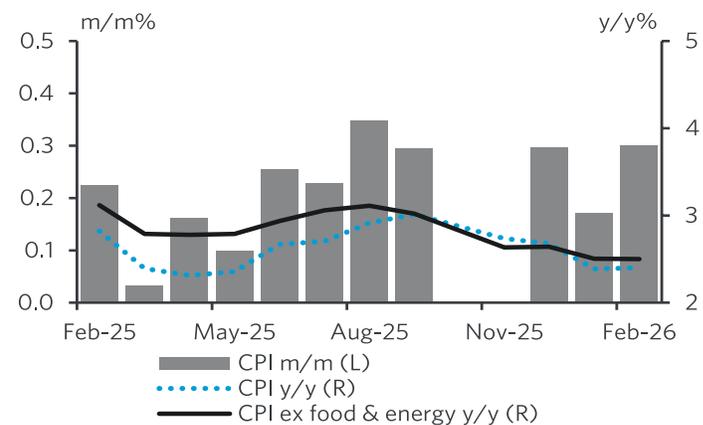
(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.2	0.2
Headline CPI (y/y)	2.4	2.5	2.4
Core CPI (m/m)	0.3	0.3	0.3
Core CPI (y/y)	2.5	2.4	2.5

Both core and headline prices likely rose by 0.3% m/m in February, keeping the annual pace steady at 2.5% and 2.4%, respectively. There will be some upside from higher service costs tied to health care premiums rising upon the expiration of ACA subsidies. But leaning against that will continue to be tame inflation in shelter prices tied to weak demand on population outflows.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — Oil prices will boost headline inflation in March, but with inflation expectations relatively anchored and the labor market keeping a lid on wages, we don't think that will prevent the Fed from considering rate cuts around mid-year, especially if oil prices settle back down following in the coming months.

Market impact — We are above the consensus on the monthly pace for both headline and core, which could see bond yields rise.

Other US Releases: Personal income & outlays—January

(Friday, 8:30 am)

A strong labor market will have driven solid income growth in the US in January, however, spending was thwarted by poor weather conditions, and likely slowed to 0.2%. The Fed's preferred inflation gauge, core PCE prices, likely stayed at 3.0% y/y pace on a 0.3% m/m increase, which will keep the Fed on the sidelines for now, especially given inflation upside from the surge in oil prices.

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