

From Indian films to Italian wine, Iran war is rippling through the world

• By SWATI PANDEY,
LAURA CURTIS
and MARK NIQUETTE

The supply shock waves from the United States' and Israel's war in Iran are spreading across the global economy, raising concerns about an inflation hit to companies and consumers that will require policymakers to raise borrowing costs.

While US President Donald Trump's chaotic tariff campaign took months to filter through supply chains, the spiking prices for oil, gas, aluminum, fertilizers, and chemicals since the bombing of Tehran began on February 28 have rapidly been felt by factory managers, farmers, and freight carriers.

Now the effects are reaching industries that might have seemed insulated from the fallout or too far away to feel it. And that's unlikely to be reversed soon even as Trump signaled Monday that a potential ceasefire was possible.

In Bengaluru, India, producers of the 6 billion rupee (\$65 million) *Toxic: A Fairy Tale for Grown-ups* have delayed release from March to June for fear of missing out on moviegoers across the Gulf region – a huge market for Indian films due to its vast South Asian diaspora. The delay meant the March 19-22 Eid holiday passed without a major Indian film release for the first time since 2020.

In Calabria, the toe end of Italy's boot, farmers worry about squeezed profits as higher diesel, fertilizer, and pesticide costs intersect with Trump's tariffs to both drive up costs and dampen demand. To conserve fuel in Pakistan, fans of its top cricket tournament were instructed to stay home and watch matches on television.

In the US, the boost from elevated tax refunds to Americans is being eroded as consumers pay steeper prices at the pump. Britain's hospitality industry, pummeled by soaring power rates after Russia invaded Ukraine four years ago, is having flashbacks.

"2022's energy crisis tells us that consumer confidence can freefall quickly and be slow to recover," Saxon Moseley, head of leisure and hospitality at the consultancy RSM UK, said in a statement on March 18. "If the situation continues, we could see input costs increase across food, logistics, and utilities, presenting potential headwinds of higher costs and a further slowdown in demand later this year."

For cash-strapped governments, there's little scope for stimulus to cushion the blow. Fuel subsidies in economies such as Indonesia risk undermining fiscal balances, with emerging economies facing the



A MAN pumps gas at a Shell station in Washington as the price of oil and gas has surged amid the war with Iran. (Ken Cedeno/Reuters)

biggest economic blow. While the blunt instrument of tighter monetary policy can seek to limit pressures that lead to inflation, interest rate hikes on top of surging energy bills would deliver a double hit to households.

AUSTRALIA'S HEAVILY indebted households will pay about A\$100 (\$71) a month more on their mortgages after the war in Iran turned a potential rate increase into a slam dunk on March 17.

Two days later, the Bank of England said it "stands ready to act" against a surge in inflation, prompting traders to ramp up bets on a rate hike as soon as next month. Traders are pricing in almost three quarter-point rate increases this year by the European Central Bank. Bets that the US Federal Reserve will cut borrowing costs this year – something Trump has berated the central bank to do – have dried up, though most Fed policymakers continue to expect one cut this year.

On Monday, Trump postponed for five days a deadline for Iran to reopen the Strait of Hormuz. His move spurred a sharp fall in Brent crude and a rebound in US equities and Treasuries.

It's not just energy and goods that stand to get costlier in a protracted conflict. The World Trade Organization last week warned its forecast for a 1.9% increase in the volume of global goods trade this year would be at risk if the Middle East war keeps energy prices elevated for a sustained period. International services would be hurt, too, given the expected increase in airfares and cargo rates.

"The Middle East is a transportation hub and a tourism hub, and those services are very important to the global economy," WTO Chief Economist Robert Staiger told Bloomberg Television on Friday.

If the high-intensity war continues and Hormuz remains blocked for the next few weeks, a Bloomberg Economics model

puts oil at close to \$110 a barrel, with damage spreading across the global economy. Such an outcome would cut UK and euro-area GDP by about 0.5 percentage points and lift inflation by 1 percentage point, BE finds. In the US, the impact concentrates on prices with inflation around 0.7 percentage points above the pre-war path.

"If the war stretches on for three months – less likely, in our view – oil could approach \$170 a barrel," according to the BE analysts. "At that level, the shock intensifies, and the economic damage to growth and inflation is nearly doubled."

Triggered by the series of hawkish central banker comments over the past week, traders have driven up bond yields, with Treasuries flirting with a loss for the year. Yields on short-term government debt also jumped from Canada and Brazil to the UK and South Korea.

"The market is looking for an offramp; the market is looking for a ceasefire," Bank of America strategist Michael Hartnett said. Financial conditions have been tightening, but the Fed will find it tough to address the squeeze if oil prices are high, he added.

IN INDIA, the spillovers are already spreading beyond the front lines of the energy problems. *Toxic* – the film set in the coastal paradise of Goa, where a powerful drug cartel pulls the strings behind a facade of sun-soaked beaches – is just one of several Indian movies to delay their release.

"The current uncertainty, especially in the Middle East, has created a situation that impacts our goal to reach and connect with the widest possible audience," lead actor and co-producer Yash, who goes by his first name, wrote on X/Twitter. "Therefore, in the interest of our partners and our audience, we have made the difficult but carefully considered decision to reschedule our release."

Movie business analysts have

warned that box office collections in the Gulf region could decline by 20% to 25% as a result of the war. Others peg the combined losses in the UAE-GCC market at close to \$15m.

India is among the economies most exposed to the war's fallout, as it imports about 90% of its crude oil and nearly half of its liquefied petroleum gas. About half of its crude and over three-fourths of LPG imports pass through the Hormuz strait. From factories to restaurants and delivery drivers, the gas shortages are being felt, with the southern city of Pune even halting the use of LPG for cremations.

The impact on prices and growth isn't linear, said Madhavi Arora, economist at Emkay Global Financial Services.

"Oil and gas supply constraints are now impacting demand and operational capacities across industries," she said. "Growth could face headwinds through several transmission channels: softer consumption as household purchasing power erodes, constrained government spending as possibly higher oil subsidies complicate fiscal deficit management, and weaker investment as elevated input costs compress corporate margins and profitability."

Some chief executives have warned of supply strains widening with time unless the bottlenecks are cleared.

"Anybody that manufactures anything has to pay attention to this, and any consumer in our economy has to pay attention to it," John Pfeifer, president and CEO of Wisconsin-based defense contractor Oshkosh Corp., said at an investor conference on March 18.

For Francesco Scala, a third-generation winemaker in Calabria, a 60% jump in the price of diesel couldn't come at a worse time. He's sending out tractors to prepare the soil for the growing season, with intense farming taking place from April through mid-July, when the heat kills off mildew and other pests, and his Gaglioppo and Greco Bianco grapes can mostly take care of themselves. "Everything will be more expensive," Scala said.

Even with diesel available to farmers tax-free from the government, he worries about the affordability of producing everything from wine to pasta. The fuel price pressures are hitting growers and winemakers at the same time as Trump's tariffs. And because wine sales have been slowing not just in the US but around the world, Scala said he's probably going to have to swallow the higher costs himself.

"If we put one euro more on the price of the bottle, I'm sure that we will sell less wine," he said. (Bloomberg/TNS)