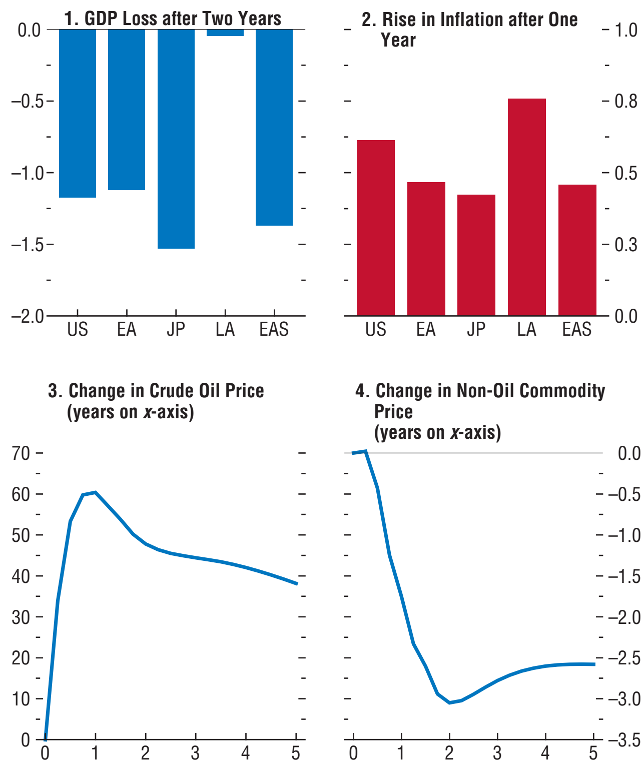
Figure 1.15. WEO Downside Scenario for a Disruption in the Global Oil Supply[1]

(Percent or percentage point deviation from WEO baseline)

This scenario uses a six-region version of the Global Economy Model (GEM) to estimate the global impact of a disruption in global oil supply. The impact on oil prices of intensified concern about an Iran-related oil supply shock (or an actual disruption) would be large if not offset by supply increases elsewhere, given limited inventory and spare capacity buffers, as well as the still-tight physical market conditions expected throughout 2012. Here a negative supply shock raises the real price of oil to average a little over 50 percent above the WEO baseline during the first two years, after which it settles about 40 percent above the baseline. This reduces the already sluggish growth of real household incomes and raises production costs, eroding profitability. These factors undermine the recovery in private consumption and investment growth in all regions except those that are net oil exporters. The macroeconomic impact is presented below. The short-term impact could be significantly larger than suggested if the adverse oil shock damages confidence or spills over to financial markets, effects that are not included in this scenario.



Source: GEM simulations.
[1]US: United States; EA: euro area; JP: Japan; LA: Latin America; EAS: emerging Asia.