

# RESEARCH BRIEF

## CANADA: MIDDLE EAST CONFLICT

MARCH 2026

### Iran War Spurs Dual-Edged Effects for Canada's Economy

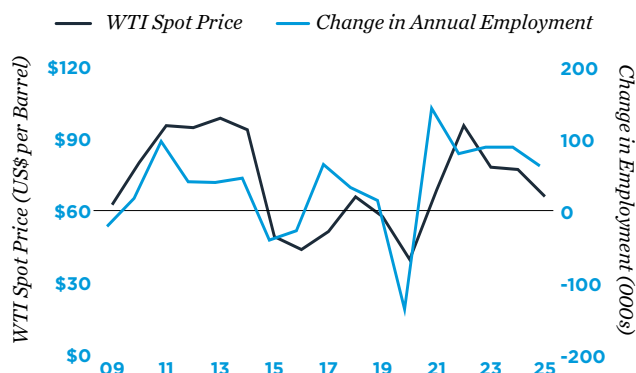
**Middle East conflict rattled global energy market.** Following joint airstrikes by the United States and Israel, Iran closed the Strait of Hormuz in early March, halting tanker traffic through the passage. The strait is one of the world's most critical oil transit chokepoints, carrying roughly 20 per cent of global supply from major Gulf producers to Asia. The disruption — compounded by Iran's attacks on regional oil infrastructure and Gulf Arab nations' subsequent production cuts — sent oil prices sharply higher over the past week. While prices reversed lower on March 9 after the U.S. signalled the conflict could be nearing an end, uncertainty remains elevated, leaving the severity and duration of the disruption unclear.

**Alberta could benefit from a sustained rise in oil prices.** The ongoing conflict is expected to have a limited impact on Canada's economy if hostilities subside in the coming weeks. However, a prolonged conflict resulting in an extended closure of the Strait of Hormuz — especially with lasting damage to Gulf energy infrastructure — could push oil prices well above current levels for the next three to six months. One immediate effect would likely be a boost to Alberta's economy. With a heavy concentration of energy firms, Alberta's labour market is closely tied to oil price fluctuations, as higher prices typically support increased drilling, capital spending, and hiring. The resulting rise in income and investment could provide a short-term lift to provincial growth and demand for commercial space, particularly in oil-focused markets such as Calgary and Edmonton.

**Oil price surge raising stagflation risks.** While Canada may benefit from a widening trade surplus due to higher oil export revenues, a sustained surge in oil prices would likely push up inflation and lift inflation expectations. This could quickly shift Canada's current inflation dynamic from disinflation driven by slowing domestic consumption to reflation fueled by external supply-chain pressures. As a result, firms in non-energy sectors and consumers would face higher input costs and increased living expenses, weighing on household spending and business investment outside the energy sector. The combined effect could reignite concerns of stagflation, with economic growth slowing amid rising inflationary pressures, potentially forcing the Bank of Canada to raise interest rates later this year.

**Space demand and sales activity could face near-term weakness.** A sustained external oil price shock could slow Canada's near-term economic growth and put pressure on space demand across major property sectors nationwide. Businesses in non-energy sectors and households would likely reduce discretionary spending, while tighter monetary policy could further dampen leasing activity. These factors would weigh on investor sentiment, delaying a potential recovery in transaction activity. Nevertheless, Canada's broader economy remains largely insulated from the ongoing geopolitical conflict in the Middle East, and this relative stability could attract certain investors seeking safe-haven opportunities, particularly in core urban markets and well-leased assets.

#### — Alberta's Economy Tied to Oil Prices —



#### — Inflation and Unemployment Rate Trends —

