

The seven stages of meltdown, coming our way

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I complained yesterday that the BBC, in particular, had reported weekend events and claims about what was happening in the Strait of Hormuz without appropriate caveats being provided.

I was sceptical of the US claims that two ships had been escorted through that Strait by US naval vessels. Tracking data did not support the claim. Iranian sources claimed it was wrong.

What was undoubtedly true was that Iran's missile attacks were happening at the same time as these claimed passages were occurring. The likelihood of US success appeared to be low, and now all my doubts have been confirmed, as it seems that Donald Trump has, as Donald Trump always seems to, chickened out again. The claimed policy of supporting ships to pass through the Strait of Hormuz has now ceased, 24 hours after it began.

As I suspected, Trump has not the slightest idea how to reopen this route and has walked away from the problem, yet again, and the impasse in this war continues, with Iran continuing to exploit its asymmetric advantage with considerable success to effectively secure the defence of its own country, whilst the consequences of Trump's actions continue to create economic mayhem around the world.

So, where are we now?

The reality is that Donald Trump has very clearly got no idea how to get himself out of the mess he is in, but his own capacity for what might fairly be described as bullshit provides him with no available route to solve the impasse that he has created. At the same time, and perhaps unsurprisingly, the Iranians see no strategic advantage in backing down from the position of strength they have developed. We do, as a consequence, face the likelihood that this situation will last for many more months.

Some suggest that conflict intensification is more likely. I continue to think that is unlikely. The fact that the USA is short of weaponry is, in fact, the best explanation for

its current refusal to deploy long-range missiles in Germany at present. A spat with the German Chancellor is just an excuse. They do not have the missiles available for this deployment, or for the resumption of hostilities against Iran on any scale. In that case, we have to consider a very different outcome to this war, which is most likely to continue at a low level of aggression but with massive consequences nonetheless for some time to come.

What might that mean? First, as I previously explained, the only prospect of the stalemate being broken will arise if pressure is brought to bear on both the USA and Israel to do just that.

I have previously explained that I think that this might involve the imposition of sanctions on Israel and, as the international situation worsens, possible measures against the USA.

However, European governments with the most power to impose these are at present far too frightened to do so, but as the situation in their domestic economies worsens, I suspect that this mood will change, although nothing will happen before the autumn at the earliest.

This is going to feel like a long, grinding process that might only be broken by sanctions and rejection of Benjamin Netanyahu at the ballot box in Israel, and by the rejection of Trump at the midterm elections, with the prospect of impeachment to follow, in the USA.

In that case, we have to anticipate further development in the economic cost of the war. The development of these costs is going to be fairly rapid and potentially disastrous as we move through a number of stages as the crisis evolves.

We have already seen the first response. Markets have, almost certainly inaccurately, appraised the risks of economic shortages and have increased the price of oil, gas, fertiliser and other raw materials that are going to be in major short supply for some time to come.

The second stage of the response is that these increases in the price of raw materials are going to be reflected through supply chains, and initial impacts are already being seen, most particularly at petrol pumps. Food prices are also being impacted, but not by anything like as much as might happen before this conflict is over.

The third stage of this response is that the world's central banks have begun to notice this crisis and are threatening to respond by raising interest rates, albeit wholly inappropriately. That error will arise because, as I have already suggested, the inflation we are going to get is not the consequence of an overheated economy, but of an absolute shortage of essential products, which will actually reduce demand within the economy as a whole, to which an increase in interest rates is a wholly inappropriate

response. That response will happen nonetheless, making this crisis very much worse than it needs to be, with this stage beginning within a month or so.

Fourthly, absolute shortages will begin to develop. These will first happen with petrol, diesel, jet fuel, and other oil-based energy sources. Reports are now appearing that stocks of all such products are declining rapidly. The forecasts of absolute shortages from sometime during June onwards appear to be accurate. This is when the consequences of this war begin to have a very direct impact on our well-being.

Fifthly, supply chains then become disrupted. This will most obviously be the case with regard to food, but this will also become apparent in the supply of a whole range of other raw materials, and as it does, major economic obstruction will develop and absolute shortages will appear, with people being forced to go without essential items unless government intervention happens. This will be happening over the summer, and most certainly by early autumn.

Sixthly, we then begin to see economic failure as a consequence of what is happening. Companies with limited financial reserves will not be able to sustain their operations as they suffer critical shortages in their supply chains and will not, as a result, be able to meet customer demand, potentially generating unsustainable losses in their operations that will force them to impose short-time working in the first instance, or straightforward closure as their funds run out. This will, at the latest, be happening during the autumn.

Seventhly, at this point, we end up with a banking crisis as both business and mortgage customers of banks find themselves unable to settle their debts, either because of business failure or job loss, creating a financial meltdown in the banking system greater than that seen in 2008.

All of this might happen by Christmas. And I do not see the conflict between the USA and Iran as likely to be resolved by then. The political pressure to find a resolution will not exist until the crisis has reached this seventh stage, in my opinion, and by then the damage will have been done. We will be in recession and heading for depression, and the impact on the overall world economy will be on a scale hard to imagine.

So, what can we do now?

First, talk about this.

Second, put in place contingency plans. As I have already said, take precautionary action with your savings and realise cash if you can.

Third, look at replenishing your store cupboard. If you can afford it, and I know that by no means everybody can, this is a moment to build up stocks of things that have very long use-by dates, and which you might eventually eat anyway.

Fourth, apply pressure on politicians. Ask them how they will react to this developing situation. Making them aware that you know this might happen helps change their mindset.

Fifth, discuss the need for political responses to this situation of the sort that I have discussed, including the adoption of wartime-style economic measures that will be necessary, including considerable increases in taxation on those with wealth and high incomes to lower their consumption so that resources can be allocated to meeting the needs of those who might otherwise go without. Hardship will be very much worse if this does not happen, and soon.

Sixth, support demands for changes in the structure of our economy so that it becomes more caring, resilient and, in the long term, hopeful, when all these qualities are currently missing.

Seventh, pray, if that is your inclination. At the very least, increased focused attention upon the issue of concern will create an environment in which change is possible, and since this is what prayer is, my comment is not entirely flippant.