

The seven steps to economic meltdown

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What happens if the Strait of Hormuz stays closed?

In this video, I argue that the current conflict involving Iran, Israel, and the USA could trigger a seven-stage global economic crisis that will unfold over the rest of this year.

We are already seeing rising oil prices, higher food costs, and growing fears in financial markets. But I suggest that this may only be the beginning.

I explain:

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Why oil shortages matter far beyond petrol prices

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How inflation could surge again

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Why central banks may make the wrong decisions

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How supply chains could begin to fracture

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Why business failures may follow

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And why this could eventually become a banking crisis bigger than 2008

This is not about panic. It is about understanding economic cause and effect before

events spiral further out of control.

The political response so far has been dangerously complacent. Meanwhile, the economic consequences are already arriving in people's daily lives.

<https://www.youtube.com/watch?v=UunBWAzr9c?si=CYPqZt91ncW4css->

This is the audio version:

https://www.podbean.com/player-v2/?i=m9zy6-1abce32-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

The current crisis arising from Donald Trump's war on Iran has a trajectory, and it will unfold, in my opinion, across seven distinct stages. Each stage will build on the last, accelerating the damage that will be caused, and we have already entered the early stages. The full sequence could play out by Christmas, and understanding these stages now is essential to understanding what is coming our way and the damage it will cause.

What is clear, right now, is that the Strait of Hormuz between Iran and Oman remains completely closed at this point of time, and that Donald Trump has no idea how to reopen it, and may simply be abandoning this problem, resorting to propaganda falsehoods instead.

Meanwhile, Iran is continuing to exploit its asymmetric advantage in this war with considerable success, and the impasse between these parties continues as a result, and the economic consequences are already mounting. The seven stages of development of this crisis are then in play, and that is what this video is all about.

Stage one of this process has already happened. Commodity markets have already noted what is happening in this war and have already responded to it. Almost certainly, they've got their reaction wrong because they assume the crisis will be over soon, but that's just sweet and deeply naive of them. The fact is that oil, gas, fertiliser, and other raw material prices have all gone up heavily already. Oil is now settling at well over \$100 a barrel, and I stress that these are anticipatory price rises ahead of actual real

shortages in the market. Markets are pricing fear right now and not yet reality, but the price signals are real enough and are beginning to feed through, and that leads us into stage two of this crisis.

Stage two of this crisis develops when the raw material price increases seen in stage one begin to flow through to consumers. We are, of course, seeing that this is already happening. The most visible impact so far is at the petrol pump, but food prices are also rising, although not by as much as yet as they are likely to do. Even the Bank of England admits they will increase by a great deal more as this year progresses, and I think they're understating the risk even then. The key point here is though that this stage is also already underway. We are seeing the impact of this war in our pockets right now, but the worst of the supply chain transmission is still ahead. That's the key point to make.

The third stage of the economic crisis that we are in is when central banks begin to make the wrong calls with regard to interest rates. We've already seen all the central banks warning that they might increase interest rates if oil prices remain high, and the likelihood that we're going to see those interest rates rise very soon is very high indeed. It could be as soon as next month. There is a meeting of the Bank of England on 18 June to consider this issue. By then, oil price shortages will be happening, as I will note very soon.

The consequence would be that we would have an increase in the cost of money, which is absolutely the wrong thing for the Bank of England to do at this moment because we do not have an economy that is overheating because of an excess of demand within it, but one that is in crisis because of a shortage of demand within it for most goods and services because people are going to have to reallocate their money towards essentials like fuel, energy, and food, and will not be buying anything else. And therefore, at this moment, an interest rate increase will only make matters worse by reducing demand for all the more peripheral items in life, which are already going to be in crisis because of a supply chain problem. This policy error from our central banks will then make this crisis significantly worse. But it is going to happen, I have no doubt about that, and that is what stage three of this crisis will represent. It is when the central banks move in to make everything worse.

Stage four of this crisis will begin sometime in mid-June, according to all current forecasts, and that is when real shortages of products will begin to hit us. Petrol, diesel, jet fuel, and oil-based energy are the first casualties that we're going to see. Those are likely to happen by mid-June. Reports are already coming through that stock levels are already being reported to be falling rapidly, and they could run out by the middle of June. That is when the shortages will really begin to hit because there will be no buffer left to provide for the shortfall in absolute supply. Those absolute supplies are running at the moment at around 80% of normal levels. That does not mean there will be no petrol, no diesel, no jet fuel, and no gas. It does mean that these things will suffer an absolute shortage of supply, and that means that rationing will take place.

Rationing can happen in two ways. It can either happen through the price of the product, or it can happen by government intervention to control physical supply. Either way, there is going to be major disruption, and it will become concrete, and it will become unavoidable, and it is going to have a very big real-world impact.

Stage five of this crisis develops when supply chains fracture as a result of fuel shortages. Without physical rationing, that could very easily be by the middle of this summer and with rationing, it's still going to happen, but by early autumn. There simply will be too little fuel by that stage to ensure that everybody gets what they need on time to keep products moving through our economy, and that will create the supply chain disruptions that I'm talking about.

Food supplies will be most vulnerable. They are going to be severely disrupted and quite soon, because, of course, the timescales involved in moving food from field to plate are quite low, but that issue will be exacerbated as well by issues around fertiliser supply. Just getting crops to market might be the big issue with regard to fuel, but whether there are crops at all will be another issue we will have to worry about, and that is going to hit as we move into the autumn.

And, in addition to that, raw material shortages will spread across many sectors of the economy. People will find themselves without essential items, as will businesses, most importantly, and they will not be able to produce. It's quite ridiculous that if you miss a single washer whilst you're building a car and you can't find it anywhere else, then you can't build that car, and that brings the entire supply line to a halt. This may well be the sort of situation that we face. We don't know where supply chains are going to break. That they will break is almost certain, and government intervention will be necessary, but may not come. That's my key point.

That leads us to stage six of this crisis, and I think that this will be something that will be happening by early autumn and stretching on from there towards Christmas, by which time there will be a major issue with regard to businesses failing. Businesses with limited financial reserves will not be able to survive sustained supply chain disruption. That's why businesses had to be supported by the government during the COVID crisis. We will face the same problems again now, and unless businesses are able to meet customer demand, which they will not be able to do if they cannot make or get the products that they need to sell, they will face mounting losses.

The first response might be short-time working. This is what happened in 1973 when we had a crisis with regard to energy supply. But closures will follow as funds run out. If the government is not willing to provide the scale of support that it did during the COVID crisis to prevent our economy falling apart, we will see large parts of UK business fail during the course of this autumn. Unless action is planned and even taken now, this will happen. No ifs or buts. We will see economic failure, and we are in trouble if we do not anticipate it at this moment.

Finally, there is stage seven of this crisis, and that happens when we get a banking crisis. We are going to have such a banking crisis later this year unless we take action, and it could be on a scale bigger than that of 2008. Business failures and job losses will leave both commercial and mortgage customers unable to service their debts to banks. The resulting financial stress will hit the banks directly. This is the point at which the financial system itself comes under threat. And when we also have potential failures in the \$2.5 trillion private credit or secondary banking system, this might just compound the problem. All of this could happen before the end of this year. It's not scaremongering to say so. It is just an exercise in reasonable anticipation. We are in trouble.

And at this moment, any resolution to the war with Iran will come too late to prevent a lot of this happening. That's because political pressure on both the USA and Israel to end this war will not, I think, arise until we reach something like stages six and seven of this crisis, and by then the damage will already be done.

Like 2008 and like COVID, our politicians will react too late. We will be in recession and heading towards depression before they even realise the scale of the problem that's going to hit them. And the scale of the global economic impact is hard to overstate.

That is the problem, and that is because we are in a situation where the impasse in the Strait of Hormuz is holding, and Trump has no credible strategy to reopen that waterway.

Iran has every reason to hold onto its position of strength, and European governments, and maybe that of China, are too cautious to impose meaningful pressure on either the USA or Israel at present to end this war. So nothing is likely to shift before the autumn at the earliest.

What might happen then? We may get a break in the deadlock. But that depends entirely upon the political and economic pressure that is brought to bear on Trump and Netanyahu, either internationally or in the elections scheduled in Israel and the USA then. But none of this is likely to arrive soon enough to prevent this crisis being genuinely described as such.

This is the trajectory, then. Seven stages, some already underway, and each of them accelerating as the year progresses, creating more and more chaos and unpredictability as this process advances. It's going to get serious from early autumn, and maybe even earlier with regard to fuel shortages, and the window of opportunity to act is narrowing with each passing week.

Political and economic pressure must be built now. The cost of inaction will be measured in lost livelihoods, lost opportunity, failed businesses, financial and political crisis, and not just in statistics. We are already inside this crisis and not watching from outside it, and it seems that no one wants to stop it. That is the most worrying thing of

all.

That's what I think. What do you think? There's a poll down below. Please let us have your opinions. Please like this video if that's what you do. Please share it. And if you'd like to make a donation to the work of this channel, we'd be very grateful.

Poll

[poll id="390"]