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USA ECONOMIC REVIEW

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USA ECONOMIC REVIEW

Global Recovery Hit by Huge Supply Shock

The recovery from the COVID-19 pandemic is being harmed by a possibly massive global supply shock, which could slow growth and raise inflation. The Ukraine conflict and economic sanctions against Russia have jeopardized world energy supplies. Sanctions do not appear likely to be lifted anytime soon. Russia contributes around 10% of the world's energy, including 17% of natural gas and 12% of oil. The increase in oil and gas prices will increase industry expenses and diminish real incomes for consumers. Europe might face complete energy shortages and rationing if Russia's supply is cut off abruptly. Increased energy prices are unavoidable.

Forecasts Cut on Energy Shocks, Rate Hikes

Rating Agencies have lowered global GDP growth predictions for 2022 by 0.7 percentage points to 3.5%, 1.5% points to 3.0% for the eurozone, and 0.2 percentage points to 3.5% for the US. This reflects the pressure from increasing energy costs and a faster-than-expected pace of US interest rate rises. The prediction for global growth in 2023 downward by 0.2 percentage points to 2.8%.

EU's Reliance on Russian Energy Exposed

Russia supplied a quarter of primary energy consumption in the eurozone in 2019. This figure corresponds to OPEC's share of global primary energy production in 1973. Eurozone inflation will average 5% in 2022 due to the increase in European gas costs.

Fed Cannot Help Support Growth this Time

Prior to the Ukraine invasion, the Fed shifted to a hawkish stance and began hiking rates in March. We anticipate that the Fed Funds rate will reach 2% by the end of 2022 and 3% by the end of 2023. Additionally, the ECB indicated an early end to asset purchases in 3Q22, and we now anticipate the ECB raising the main refinancing operations rate by 25bp in 1Q23. By contrast, the People's Bank of China is easing, with inflation remaining low. Additional interest rate and RRR reductions, as well as significant fiscal easing, are expected. However, with consumption and property markets remaining subdued, we forecast growth of only 4.8%, well below the official target. Inflationary pressures and supply shocks might have a significantly greater negative impact on global GDP growth if they result in much more aggressive Fed tightening, push oil prices to USD150 per barrel (bbl), and trigger major European energy restrictions. We explain the consequences in a negative case.

Forecast Highlights

The global economy expanded swiftly at 5.9% in 2021, but the outlook has deteriorated as inflationary pressures have intensified and Russia's invasion of Ukraine and subsequent sanctions have disrupted global energy markets. We now forecast global growth to moderate to 3.5% in 2022, down from 4.2% in December's Global Economic Outlook for 2021. (GEO). Additionally, we reduced our global growth prediction for 2023 by 0.2 percentage points to 2.8%, reflecting the lagged effect of this year's faster-than-expected monetary policy tightening. These predictions for global GDP growth are higher than historical norms, owing to persistent post-pandemic recovery dynamics and strong near-term demand momentum in the United States. However, there are risks to our baseline forecasts, and later in the study, we sketch out a downside scenario in which inflation pressures culminate in a significant growth shock.

Additionally, the global growth prediction for 2023 was lowered by 0.2 percentage points to 2.8%, reflecting the lagged effect of this year's faster-than-expected monetary policy tightening. These predictions for global GDP growth are higher than historical norms, owing to persistent post-pandemic recovery dynamics and strong near-term demand momentum in the United States. However, there are risks to our baseline forecasts, and later in the study, we sketch out a downside scenario in which inflation pressures culminate in a significant growth shock.

Global Recovery on Track Pre-Invasion

The global economic recovery was on pace before to Russia's invasion of Ukraine. China's GDP growth outperformed our forecasts in 4Q21, while historical data adjustments resulted in the eurozone and UK annual growth outturns for 2021 exceeding our December GEO predictions by 0.3pp and 0.6pp, respectively. India's recovery accelerated to 8.1% in 2021 (calendar year). The rise of Omicron cases at the turn of the year had a relatively slight and transient effect on activity in the United States, the United Kingdom, and the eurozone.

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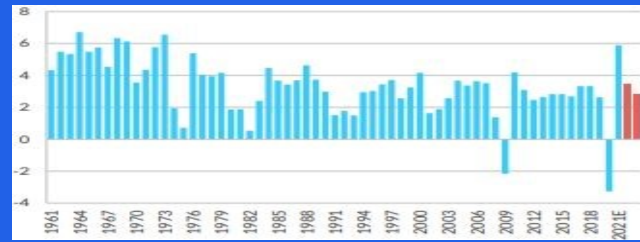


Impact of Russia's Economic Isolation

At the end of February, when Russian armed forces invaded Ukraine, the outlook shifted dramatically. This provoked a rapid, strong, and coordinated response from the US, EU, and UK, among others, aimed at isolating the Russian economy financially. No economy of Russia's size and significance has ever faced such severe sanctions. The Russian economy is the 11th largest in the world, with a GDP of USD1.6 trillion in 2021 (just under 2% of global GDP) and more than USD800 billion in international trade flows (imports plus exports). While much has been made of the fall in global bank exposure to Russia over the last decade, Russia's gross foreign liabilities - which include FDI, portfolio equities and debt, and bank loans – exceeded USD1.2 trillion in September 2021. In terms of potential global economic consequences, 'disconnecting' an economy of this size from the global banking system bears no relation to prior sanctions put on North Korea or Venezuela.

For several economies in eastern Europe, the impending serious recession in Russia will be a big shock to export demand, but exports to Russia account for a tiny proportion of overall exports and GDP in the majority of major economies. Rather than that, the greatest impact is due to Russia's enormous share of world oil and gas production and commerce. Russia produces 13% of the world's oil, 11% of the world's oil exports, and roughly 17% of the world's gas. It is by far the greatest gas exporter in the world, accounting for over a quarter of global exports. Global energy markets are being disrupted by the rising danger of a large section of these energy supplies becoming unavailable.

The United States, the United Kingdom, and Canada have already opted to restrict or phase out Russian oil imports, and while Germany and the EU have so far resisted, political pressure to do so is rising. Additionally, there have been rumours of' 'elf-sanctioning,' in which possible buyers have been unable to deal for political or reputational reasons, commensurate with the Russian oil barrels' increasing price discount to global benchmarks. According to press reports, funding for Russian oil commerce is also becoming more difficult. Russia has also threatened to restrict gas exports in retaliation.

The US economy has largely remained unaffected by the spike in Omicron cases around the turn of the year. GDP growth in 4Q21 was consistent with the December GEO, at 1.7% quarter on quarter (qoq) (7.0% annualised), and monthly data indicate that momentum will continue to be high in early 2022. Consumer expenditure indicators quickly recovered from a modest dip in December, while non-farm payrolls increased by an average of 580,000 in January and February. Although direct trade with Russia is limited, the spike in global oil prices is escalating what was already a serious inflation problem.

US merchandise exports to Russia and Ukraine amount for barely 0.4% of total US exports and 1% of total imports. In 2021, the US was a tiny net exporter of oil and petroleum products, and wholesale gas prices in the US have not risen as sharply as in Europe. However, the surge in global oil prices in the aftermath of Russia's invasion and subsequent sanctions is exacerbating the spike in headline inflation, which reached a 40-year high of 7.9% yoy in February.

GROSS DOMESTIC PRODUCT

According to the Bureau of Economic Analysis, B.E.A.) “advance” estimate, real gross domestic product (GDP) decreased at an annual rate of 1.4% in the first quarter of 2022. Real GDP increased by 6.9% in the fourth quarter of 2021.

The GDP estimate released on April 28, 2022 is based on incomplete source data than were available and is subjected to further revision. However, the drop in real GDP reflected decreases in “private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased.” Additionally, Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased.

According to the Bureau of Economic Analysis, the ongoing economic impact of the COVID-19 pandemic was evident in the increase in first-quarter GDP. In some part of the country the increase in the Omicron variant result in continued disruption in operations of establishments. Payments to businesses in the form of forgivable loans, grants to state and local governments, and social benefits to households also decreased, as provisions of several federal programs expired or tapered off.

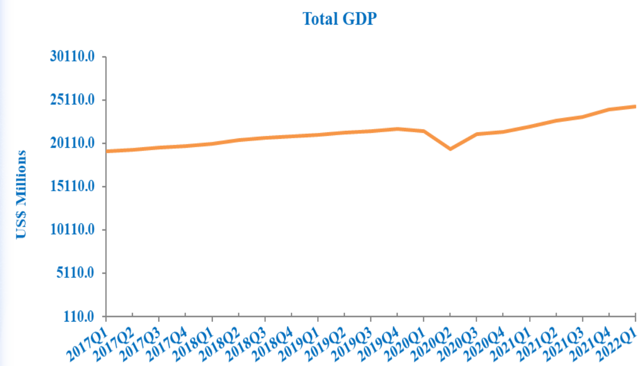
The decline in private inventory investment was due to a decrease in wholesale trade (mainly motor vehicles) and retail trade (led by motor vehicles dealers and other retailers). The decrease in exports reflected decreases in nondurable goods, however; offset by a rise in “other” business services (mainly financial services). While the decrease in federal government spending was mainly due to a decline in defense spending on intermediate goods and services.

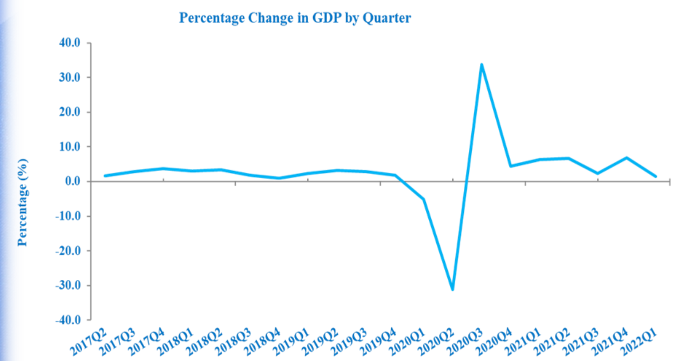
The increase in PCE was due to an increase in services, led by health care and offset by a decline in goods. Notably, the decline in goods is due to a decrease in gasoline and other energy goods, this decline was offset by an increase in nondurable goods (mainly motor vehicles and parts). The increase in imports “was led by increases in durable goods (notably, nonfood and nonautomotive consumer goods),” according to BEA. The increase in nonresidential fixed investment was mainly due to a rise in intellectual property products and equipment.

In the first quarter, current-dollar GDP increased 6.5% on an annual basis, or \$379.9 billion, to \$24.38 trillion. GDP increased by 14.5%, or \$800.5 billion, in the first quarter. Furthermore, the price index for gross domestic purchases increased 7.8% for the first quarter, in contrast to a 7.0% increase in the fourth quarter. The PCE price index increased 7%, compared with an increase of 6.4%. Excluding food and energy prices, the PCE price index increased 5.2%, compared with an increase of 5%.

Personal Income

Current-dollar personal income climbed \$268 billion in the first quarter, compared with an increase of \$123.9 billion in the fourth quarter. While, disposable personal income increased \$216.6 billion, or 4.8%, in the first quarter, compared with an increase of \$20.1 billion, or 0.4%, in the fourth quarter. Real disposable personal income decreased 2.0 percent, compared with a decrease of 5.6 percent. While, personal savings was \$1.21 trillion in the first quarter, compared with \$1.39 trillion in the fourth quarter.





UNEMPLOYMENT

In April, total nonfarm payroll employment increased by 428,000. The unemployment rate was stable at 3.6% which is 5.9 million persons in April 2022. Notably, these measures are little different from their values in February 2020 (3.5% and 5.7 million, respectively), prior to the coronavirus (COVID-19) pandemic. The job growth was spread across various industries, with leading gains in leisure and hospitality, in manufacturing, and in transportation and warehousing. However, nonfarm employment is down by 1.2 million, or 0.8%, from its pre-pandemic level in February 2020.

Furthermore, among the major worker groups, the unemployment rates for adult women (3.2%) declined in April. The jobless rates for adult men (3.5%), teenagers (10.2%), Whites (3.2%), Blacks (5.9%), Hispanics (4.1%), and Asians (3.1%) showed little change over the month.

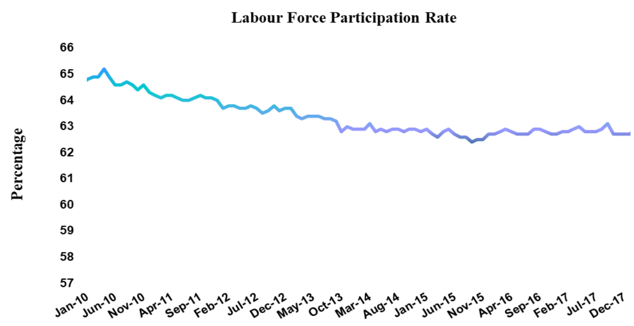
According to the BEA, among the unemployed, the number of permanent job losers was unchanged at 1.5 million persons in April after a 191,000 decline in March 2022 level of 1.4 million person. The number of persons on temporary layoff was little changed over the month at 853,000. Additionally, the long-term unemployed accounted for 25.2% of all unemployed persons in April. The number of long-term unemployed (those jobless for 27 weeks or more) is 362,000 higher than February 2020. While the number of persons on temporary layoff was at 853,000 in April.

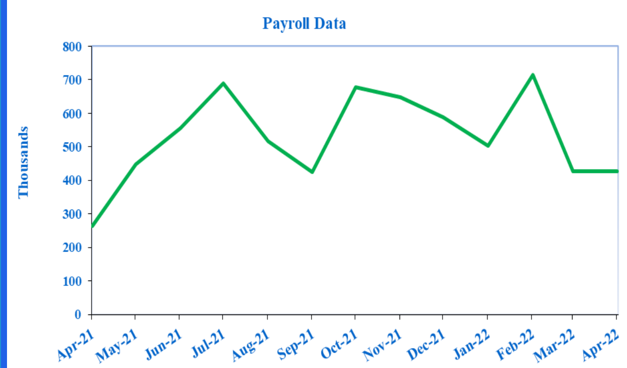
The labour force participation rate for April 2022 stood at 62.2%, while the employment-population ratio also stood at 60.0%. The number of persons not in the labor force who currently want a job changed little to 5.9 million in April, "This measure is above its February 2020 level of 5.0 million". A total of 1.6 million individuals were slightly attached to the labour force. Of the marginally attached, 456,000 persons were classified as discouraged workers in April.

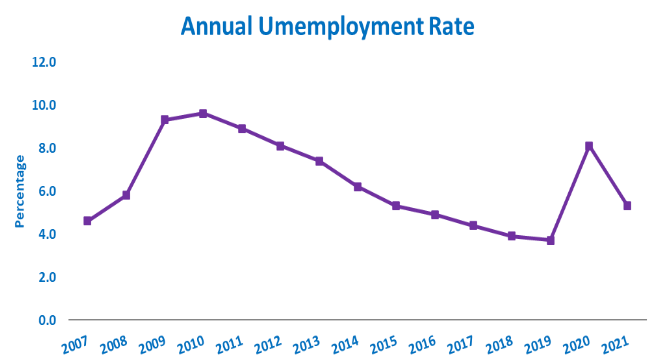
"In April, 1.7 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic--that is, they did not work at all or worked fewer hours at some point in the 4 weeks preceding the survey due to the pandemic. This measure is down from 2.5 million in the previous month. Among those who reported in April that they were unable to work because of pandemic-related closures or lost business,19.0% received at least some pay from their employer for the hours not worked, little different from the prior month," as per U.S Bureau of Labor Statistics.

Nonetheless, persons employed part-time for economic reasons stood at 4.0 million in April, down by 357,000 from its February 2020 level. Based on BLS assessment, "these individuals, who would have preferred full-time employment, were working part time because their hours had been reduced or they were unable to find full-time jobs."

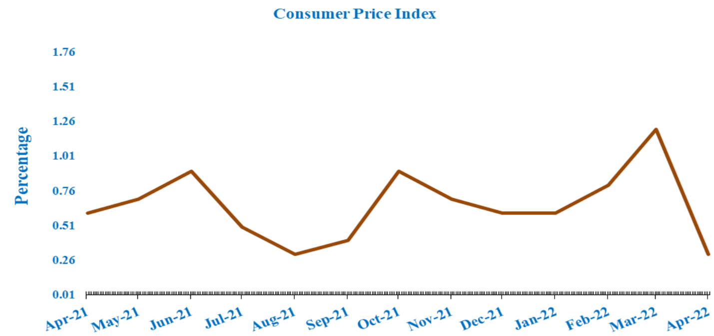
Total nonfarm payroll employment rose by 428,000 in April but is down by 1.2 million, or 8%, from pre-pandemic level in February 2020. Job growth averaged 562,000 per month in the first quarter of 2022. In the pass month Manufacturing services added 55,000 jobs in April 2022. Employment in leisure and hospitality continued to trend up in April (+78,000). Retail trade added 29,000 over the month. Additionally, employment in social assistance added 25,000 and construction added 19,000. Other sectors such as health care (+34,000), Financial activities (+35,000), and professional and business services (+41,000) added to total employment. While employment in transportation and warehousing rose by 52,000, wholesale trade and mining went up 22,000 and 9,000, respectively. Also, there was little changed shown in information, construction and other services, and government.

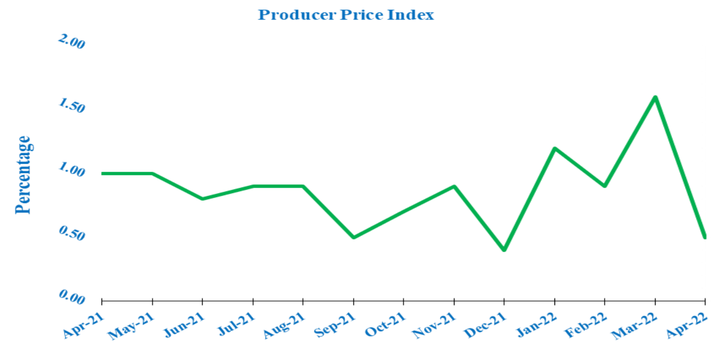






Labour Force in Thousands	Jan-Mar	Apr-Jun	Jul-Sep	Oct - Dec
Year	Q1	Q2	Q3	Q4
2017	437,406	439,138	440,693	442,035
2018	444,015	446,253	447,645	448,865
2019	450,572	452,192	453,246	454,715
2020	455,638	401,328	421,393	427,388
2021	431,175	435,533	440,619	445,897
2022	451,163	-	-	-





CONSUMER PRICE INDEX

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3% in April 2022, on a seasonally adjusted basis, according to U.S. Bureau of Labour Statistics (BLS) after a 1.2% increase in March. The all-items index rose 8.3% before seasonal adjustment over the last year to an index level of 289.109 (1982-84=100).

The all-items less food and energy index climbed 0.6% in April 2022 compared to March 2022 0.3% increase. Notably, this was due to indexes for shelter, airline fares, and new vehicles, the indexes for medical care, recreation, and household furnishings and operations all increased in April. However, the increase was offset by a decline in the indexes for apparel, communication, and used cars and trucks over the month. The all items less food and energy index increased 6.2% for the 12 months ending April 2022.

The shelter, food, airline fares, and new vehicles index were the largest contributors to seasonally adjusted all items increase. The food index also contributed to the increase in the all-item index with a 0.9% month over month growth, due to a 1% increase in the index for food at home. While the energy index declined due to a 6.1% decline in gasoline, however, offset by an increase in natural gas and electricity. The all items index climbed 8.3% for the 12 month ending April (March 8.5%).

Under all items less food and energy, the index shelter monthly increase was 0.5% in April (March 0.5%). The rent index increased 0.6% over the month in April and owners' equivalent rent index increased 0.5%, while there was a 1.7% increase in lodging away from home after advancing 3.3% in March. The index for airline fares continued to rise month over month, there was a sharp 1.8% increase in April, Notably "the largest 1-month increase since the inception of the series in 1963" as per U.S. Bureau of Labor Statistics.

Other major component indexes that experience an increase in April are, new vehicles (1.1%) and Medical care (0.4%) due a 0.5% increase in hospital services and 0.2% rise in physicians. Also, the index for recreation (0.4%), Household furnishings and operations (+0.4%), motor vehicle insurance (0.8%), personal care (0.4%), education (0.2%), alcoholic beverages (0.4%) and tobacco (0.4%) rose in April.

Furthermore, among the declining indexes are apparel (-0.8%) ending a string of six consecutive increase, communication (-0.4%) and used cars and trucks (-0.4%) both reporting their third consecutive decline.

The index for food rose 0.9% in April, after a 0.1% increase in March. The index for food at home increased 1.0% after a 1.5% increase in March, while the index for food away from home rose 0.6% in April. Over the last 12 months, the index for food at home and food away from home increased 10.8% and 7.2%, respectively.

Furthermore, Under the index for food at home, five of the six major store food group indexes increased in April, meats, poultry, fish and eggs (+1.4%), cereals and bakery products (+1.1%), dairy and related products (+2.5), non -alcoholic beverages (+2.0), and other food at home (0.7%). While fruits and vegetables declined 0.3% over the month, due to fresh fruits dropping by 0.5% amd fresh vegetables being stable.

The food away from home 0.6% increase was mainly due to the index for full-service meals which rose 0.9% and the index for limited-service meals 0.3% increase in April.

Over the last 12 months all six indexes for food at home increase since the period ending November 1980, notably, "The index for meats, poultry, fish, and eggs increased 14.3% over the last year, the largest 12-month increase since the period ending May 1979. The other major grocery store food group indexes also rose over the past year, with increases ranging from 7.8% (fruits and vegetables) to 11.0% (other food at home)," according to the Bureau of Labor Statistics. Furthermore, "the index for full service meals rose 8.7% over the last 12 months, the largest 12-month increase since the inception of the index in 1997. The index for limited service meals rose 7.0% over the last year, while the index for food at employee sites and schools fell 30%, reflecting widespread free lunch programs."

The index for energy decreased 2.7% in April, after a 11% increase in April. This movement was due to a 6.1% increase the gasoline index. Meanwhile, the index for natural gas increased 3.1% whereas the electricity index increased 0.7% in April.

The energy index rose 30.3% over the past 12 months with all major energy component indexes increasing. This increase was due to the gasoline index's increase of 43.6% over the last 12 months, while natural gas and electricity rose 22.7% and 11.0%, respectively.

PRODUCER PRICE INDEX

The seasonally adjusted Producer Price Index for final demand gained 0.5% in April 2022, according to the US Bureau of Labor Statistics. Following gains of 1.6% in March and 1.1% in February 2022. Final demand prices increased 11.0% for the 12 months ended April 2022 on an unadjusted basis.

The increase in the final demand index in April can be attributed to a 1.3% increase in final demand goods prices. Notably, "more than half of the broad-based increase in April can be traced to a 1.0% advance in prices for final demand goods less foods and energy. The indexes for final demand energy and for final demand foods also moved higher, 1.7% and 1.5%, respectively," according to the U.S Bureau of Labor Statistics.

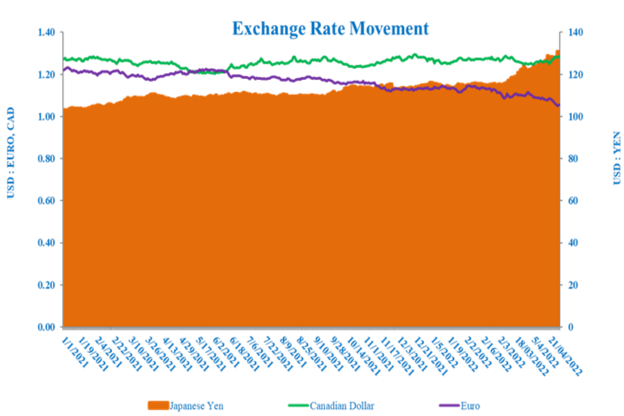
Following a 1.2% increase in March 2022, prices for final demand services was unchanged in April 2022. Notably, in April, prices for final demand transportation and warehousing services increased 3.6%. In contrast, the indexes for final demand trade services and for final demand services less trade, transportation, and warehousing decreased 0.5% and 0.1%, respectively.

The final demand foods index rose 1.5% (March 2.5%) and the index for energy rose 1.7% (March 6.4%). Prices for final demand products, excluding food, energy and trade services increased by 0.6% in April. For the 12 months ended in April, the index for final demand less foods, energy, and trade services increased 6.9% (March 7.1%).

U.S. DOLLAR

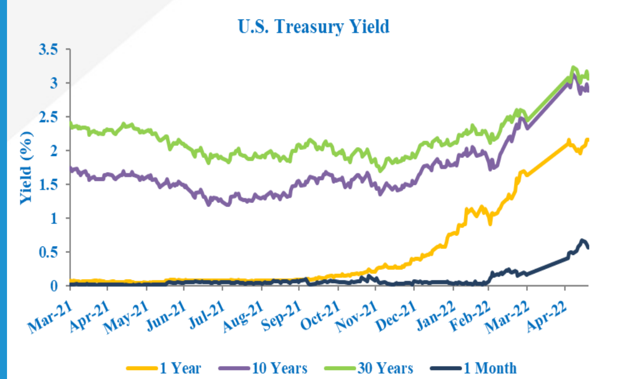
For April 2022, the EUR/USD pair closed at $1.055 versus $1.104 at the start of the month, a 4.51% decrease. According to FX empire, this decrease is as a result of “EUR/USD is currently trying to settle above the resistance at 1.0550, while the U.S. dollar is under pressure against a broad basket of currencies.” Also, “The U.S. Dollar Index managed to settle below the support level at 103.25 and is trying to settle below the next support at the 103 level. In case this attempt is successful, the U.S. Dollar Index will head towards the support level at 102.75, which will be bullish for EUR/USD.”

Looking ahead, “The Euro is up late on Friday as the U.S. Dollar slipped on profit-taking and position-squaring ahead of next week’s U.S. Federal Reserve monetary policy meeting on May 3-4. The Fed is widely expected to raise its benchmark interest rate 50-basis points, a move that has been largely priced in.”



U.S. TREASURY YIELD CURVE

The 3-month Treasury bill rate stood at 1.03% up from March’s 0.52%. The 5-year rate rose to 2.89% in April 2022 relative to 2.42%, a month earlier. The 10-year rate (also constant maturity) increased to 2.88%, from March’s 2.32% and February’s 1.83%.



GOVERNMENT DEBT/ DEFICIT

The Congressional Budget Office (CBO) indicated that the federal budget deficit amounted to $360 billion for the first seven months of fiscal year 2022.

Furthermore, for the first seven months of the fiscal year 2022, CBO estimates receipts to amount to $2,986 billion, $843 billion more than in the similar period in 2021.

However, based on CBO estimates for the first seven months of the fiscal year 2022, outlays are estimated to total $3,346 billion, a $729 billion less relative to the same period last year.

Budget Totals, October-April Billions of Dollars	Actual, FY2021	Preliminary, FY 2022	Estimated Change
Receipts	2,143	2,986	843
Outlays	4,075	3,346	-729
Deficit (-)	-1,932	-360	1,572

FEDERAL RESERVE MINUTES

The Federal Reserve raised interest rates by a half-percentage point to get a handle on the worst inflation America has seen in 40 years. The Federal Reserve highlighted that household spending and business fixed investment remained strong, though overall economic activity edged down in the first quarter. Job gains have been robust in recent months, and the unemployment rate has declined substantially.

Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. Moreover, the invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain. The invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks.

The Federal Reserve cites, "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong." To support these goals, the Committee decided to raise the target range for the federal funds rate to 3/4 to 1 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee decided to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities on June 1st, 2022.

The Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.