

# **The Economic Outlook: Challenged By Crisis and Disruption**

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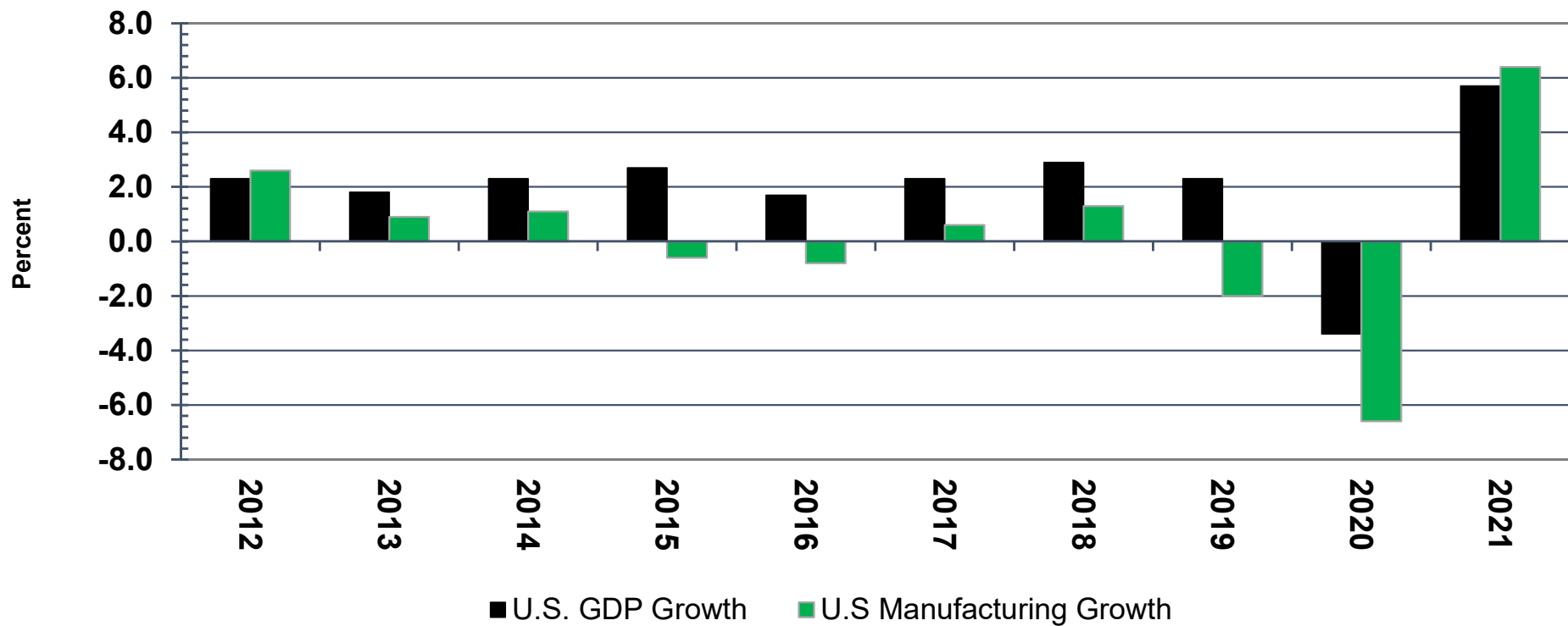


## **An Historic Period of Shocks**

- Trade War
- Pandemic
- Supply Chain Disruption
- Labor Market Disruption
- Inflation
- War in Europe

## Moderate GDP Growth and Weak Manufacturing Growth Disrupted by a Global Health Crisis

U.S. GDP Growth and U.S. Manufacturing Growth, Annual Percent Change



Source(s): U.S. Bureau of Economic Analysis and Federal Reserve Board

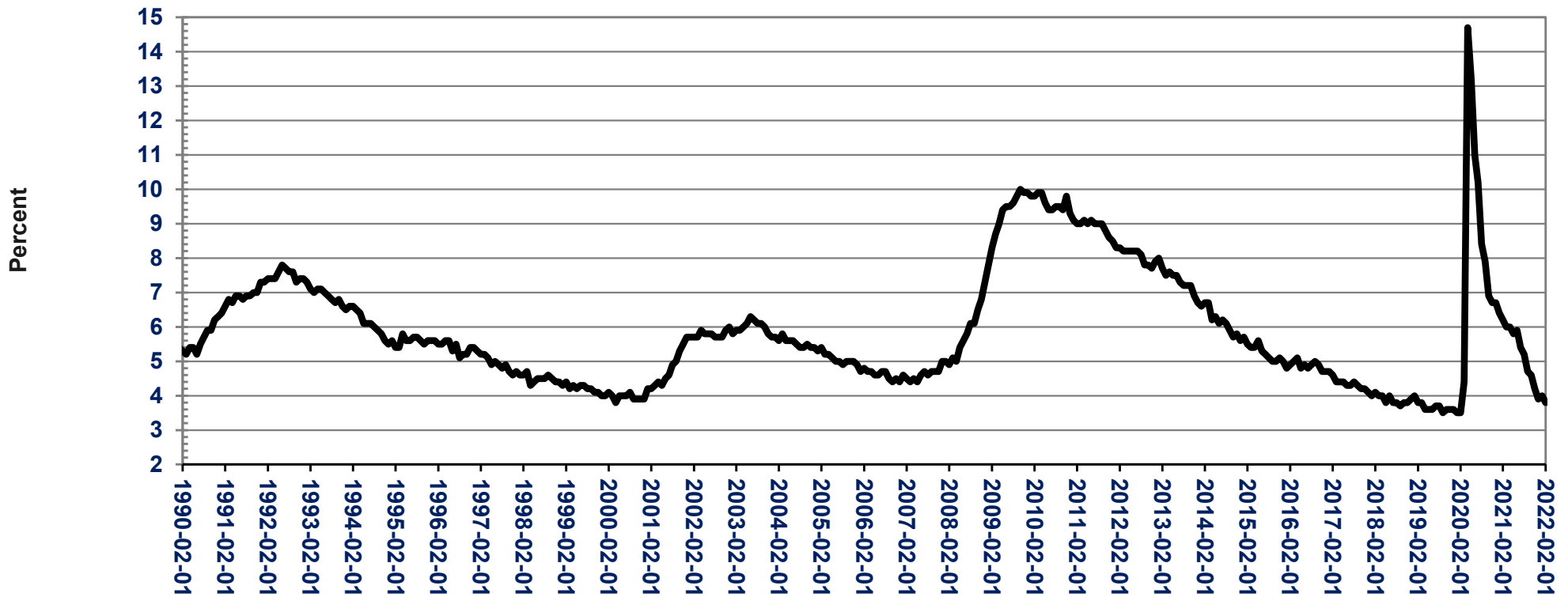


## **Intersecting Dynamics**

- Labor Markets
- Supply Chains
- Inflation
- War

## A Massive Swing in the Unemployment Rate Highlights Labor Market Chaos

U.S. Unemployment Rate, Seasonally Adjusted

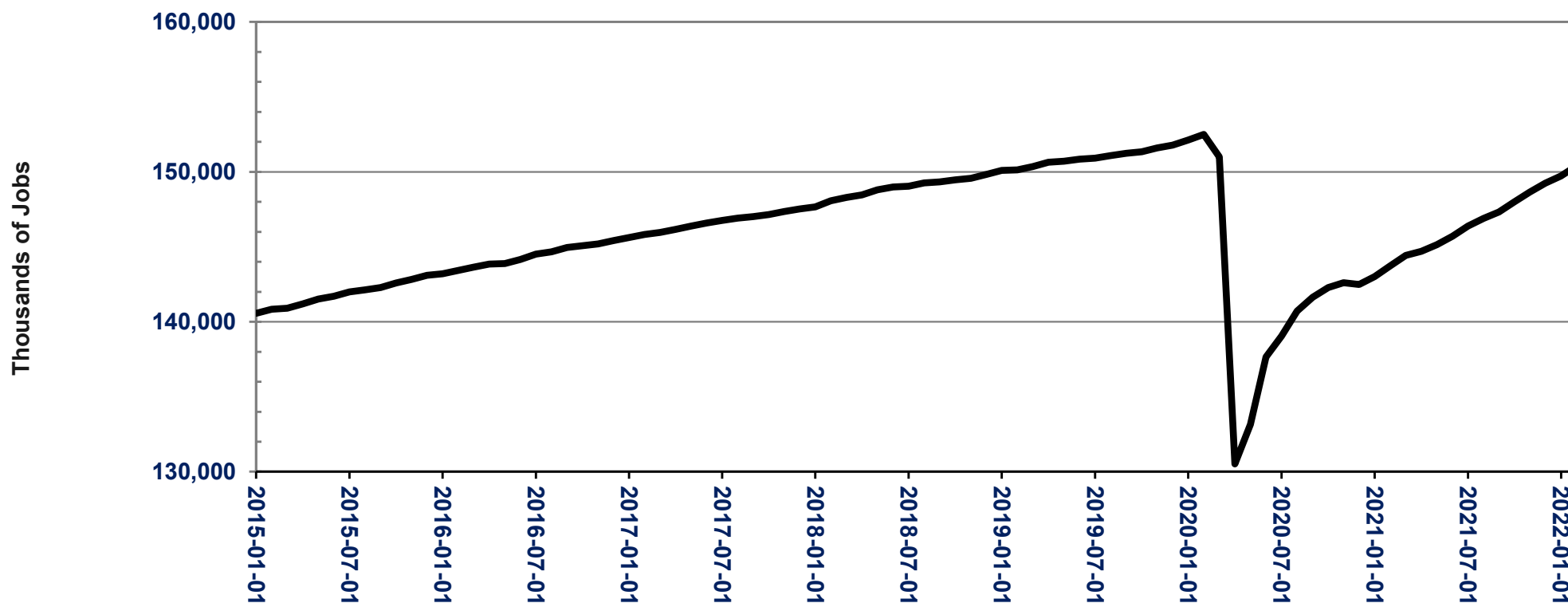


Source(s): Bureau of Labor Statistics



## Strong Recovery Takes Us Close to the Pre-Pandemic Level of Jobs

U.S. Total Nonfarm Payroll Employment, Thousands of Persons, Seasonally Adjusted

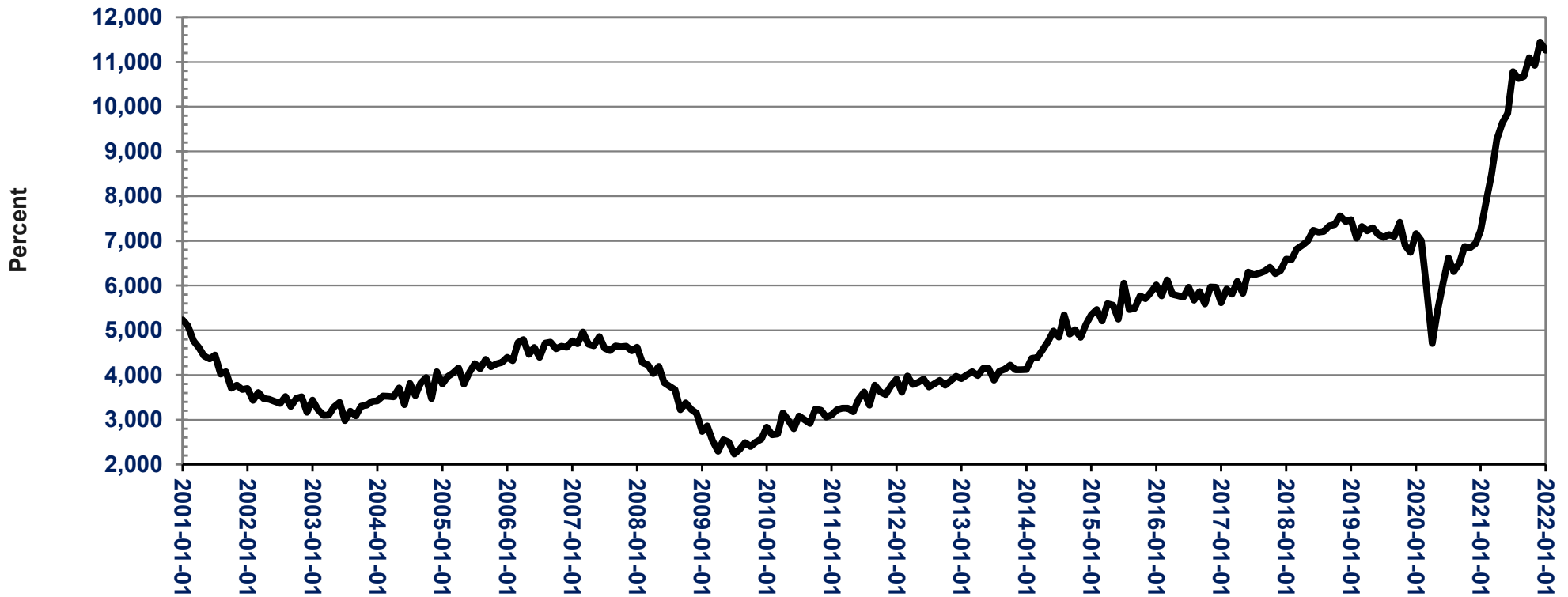


Source(s): U.S. Bureau of Labor Statistics



## But Job Openings Suggest Unusual Labor Market Tightness

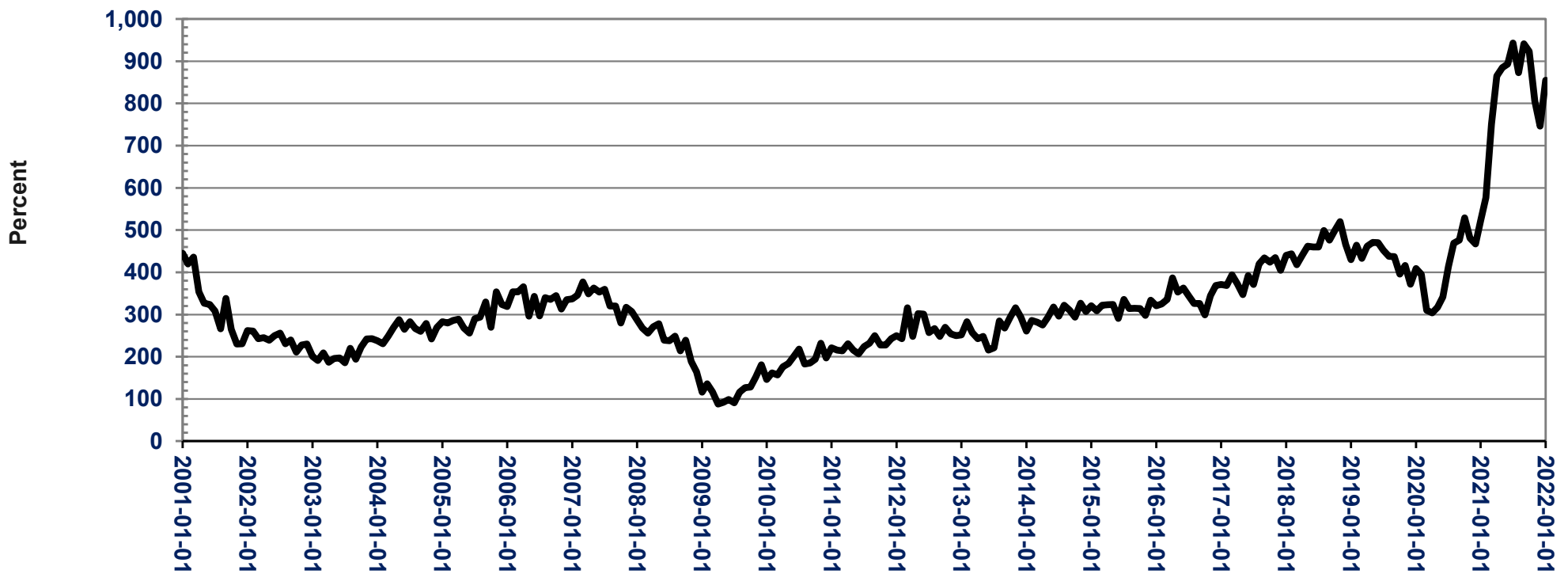
U.S. Job Openings, Total Nonfarm, Level in Thousands, Seasonally Adjusted



Source(s): Bureau of Labor Statistics

# U.S. Manufacturing Struggles With Labor Shortages

U.S. Job Openings, Manufacturing, Level in Thousands, Seasonally Adjusted

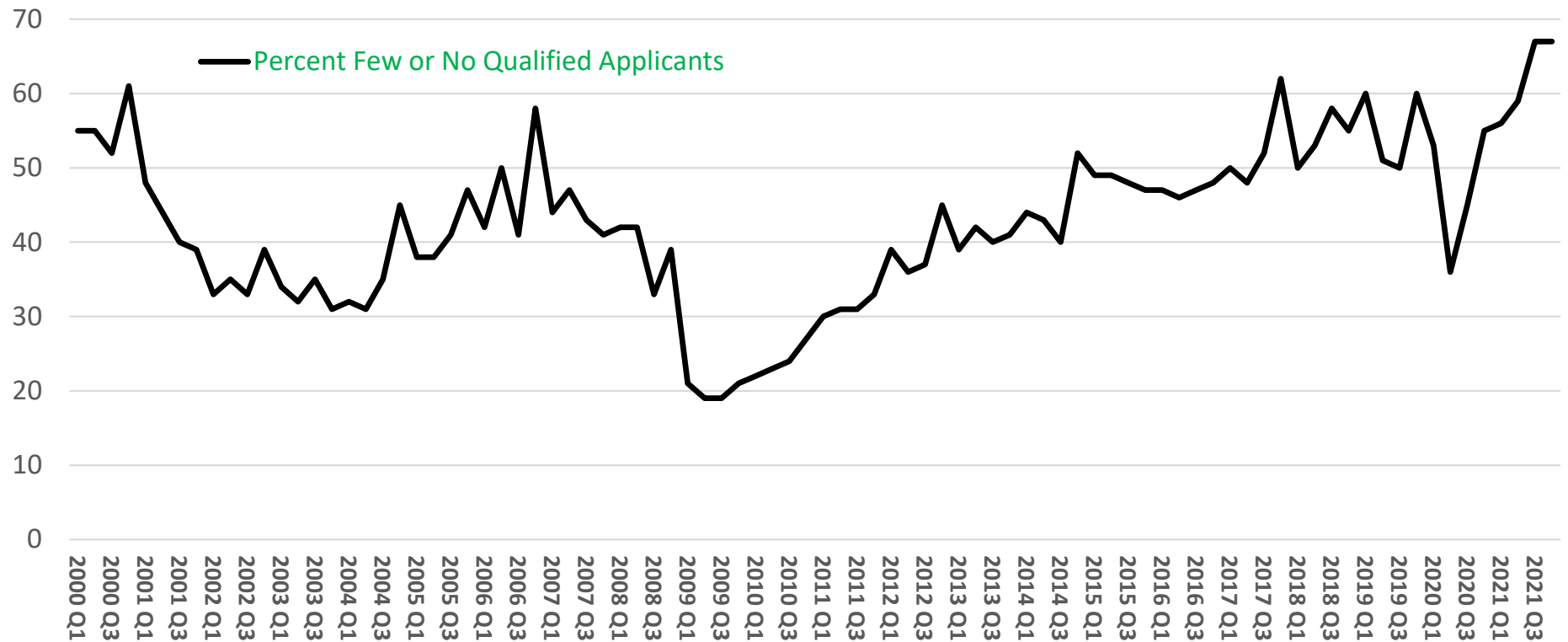


Source(s): Bureau of Labor Statistics





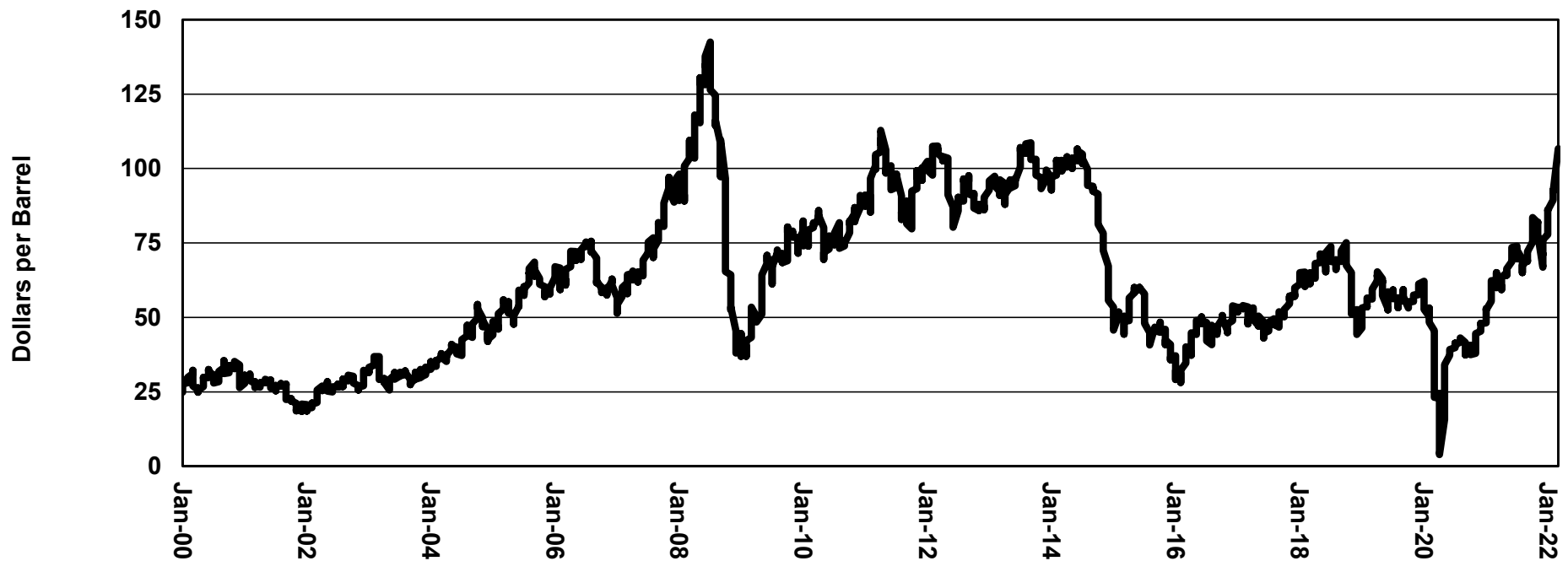
## Small U.S. Manufacturers Struggle With Labor Market Shortages Which Cause Supply Chain Problems



Source: National Federation of Independent Business Research Center

## Oil Prices Reflect Inflation and War

Cushing OK Crude Oil Future

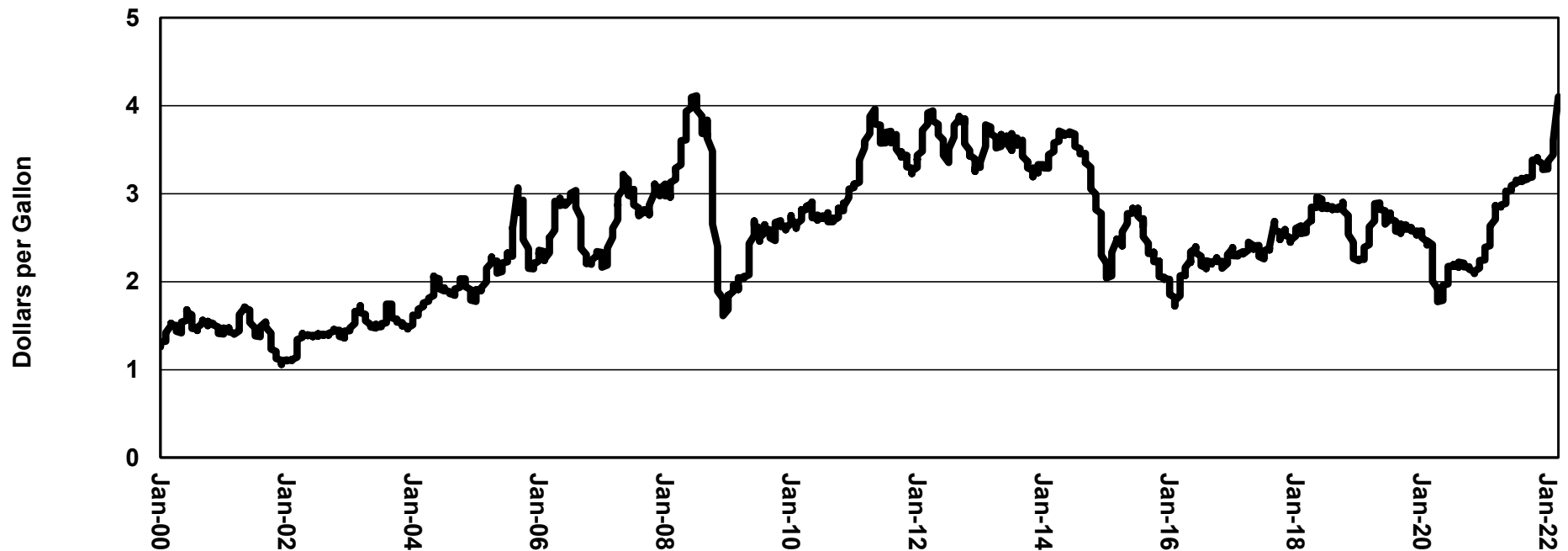


Source(s): U.S. Energy Information Administration



## Oil Prices Create Stress at the Pump

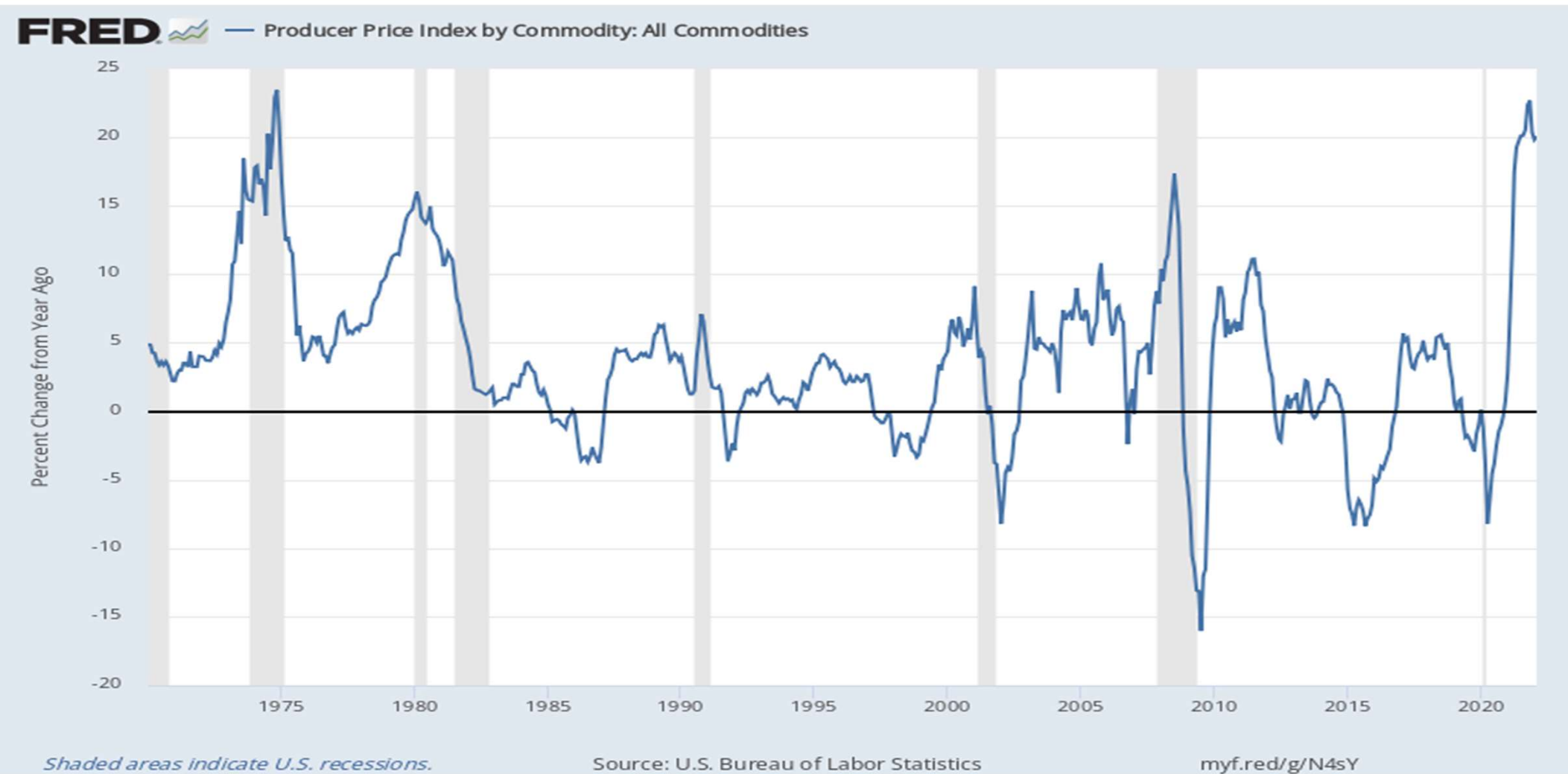
U.S. Regular All Formulations Retail Gasoline Prices



Source(s): U.S. Energy Information Administration

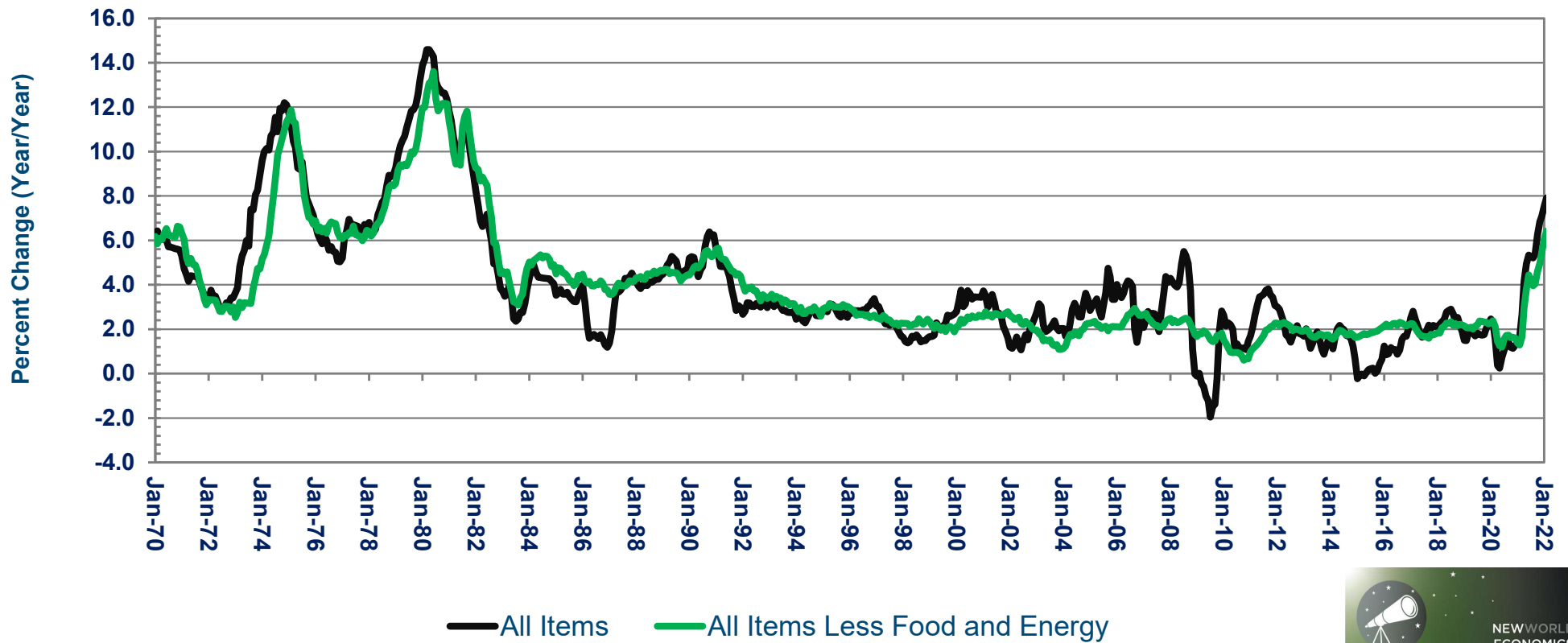


## Input Shortages Generate Commodity Price Spikes



# The Largest Inflation Spike in Four Decades

Total and “Core” Consumer Price Index, Year-Over-Year Percent Change

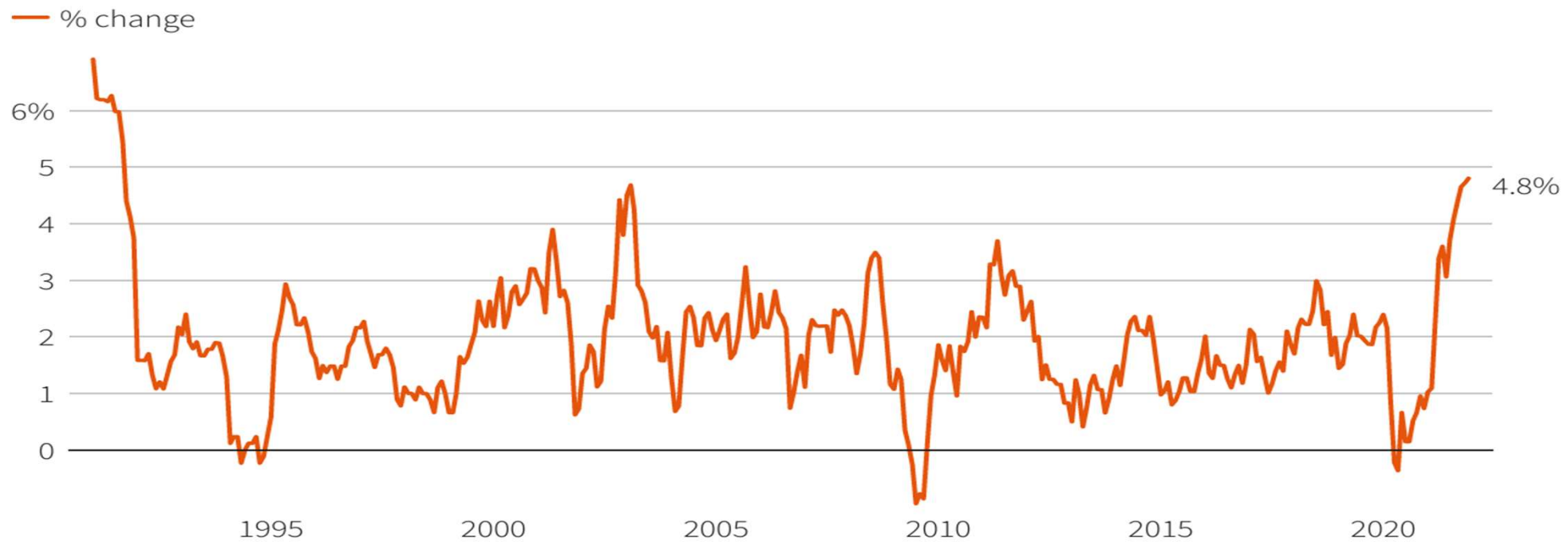


Source(s): Bureau of Labor Statistics



## Inflation is Not Just a U.S. Problem

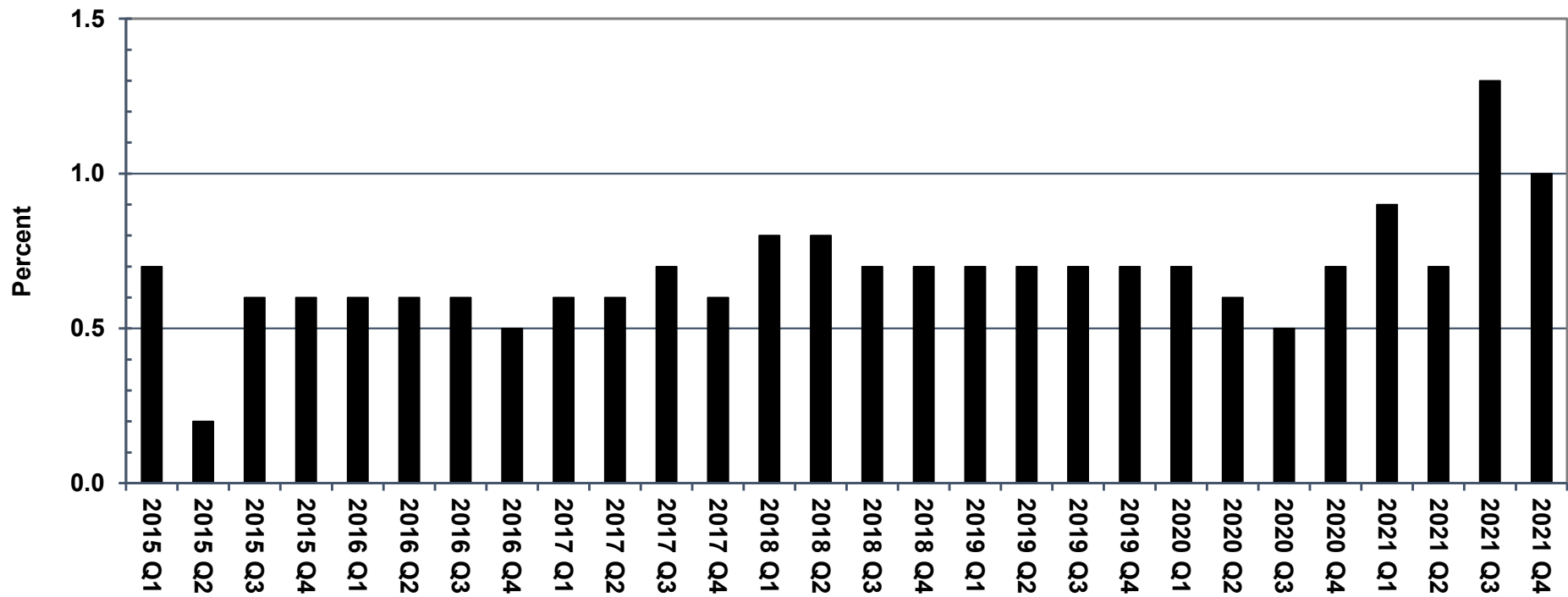
### Canada's annual inflation rate 1991-2021



Source: Statistics Canada

# Tight Labor Market and Inflation Pressures Produce a Compensation Surge

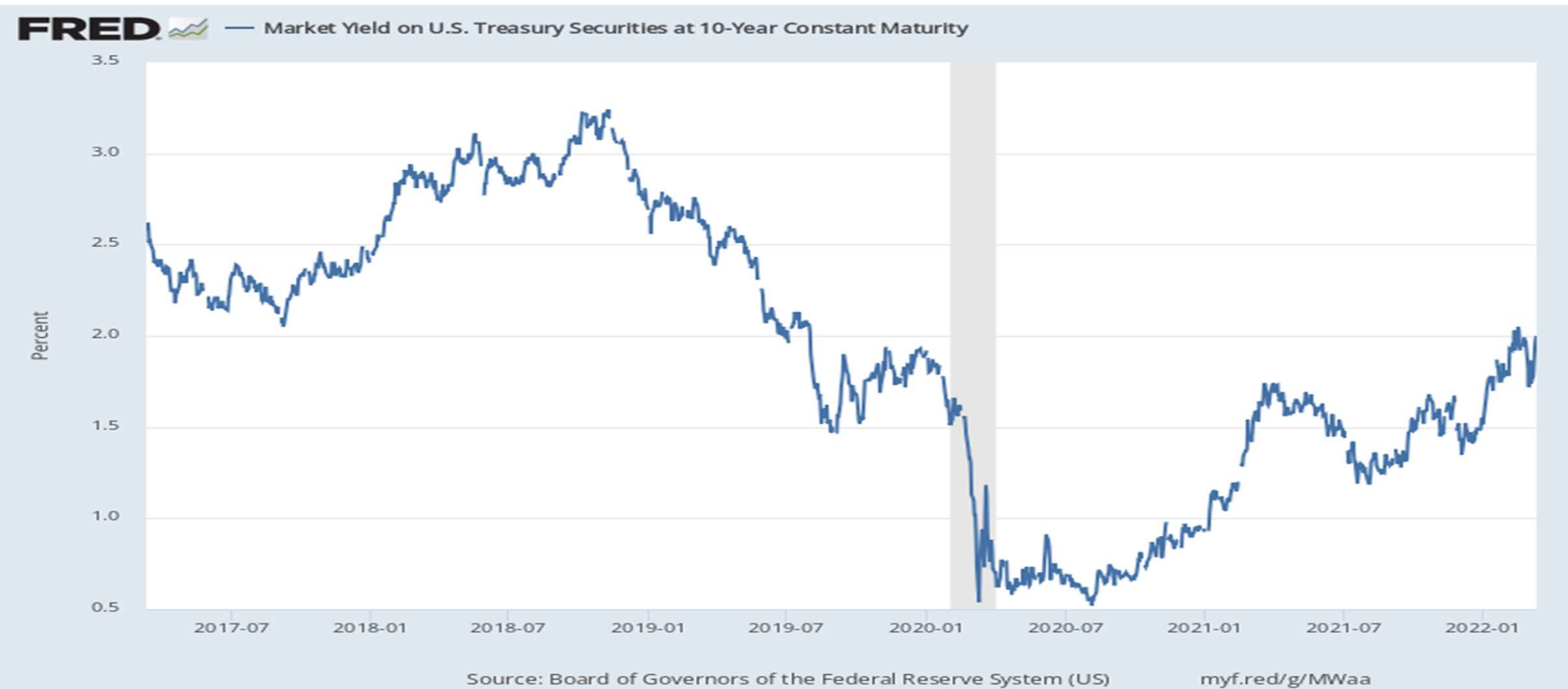
Total Compensation for All Civilian Workers, 3-month Percent Change, Current Dollars



Source(s): U.S. Bureau of Labor Statistics

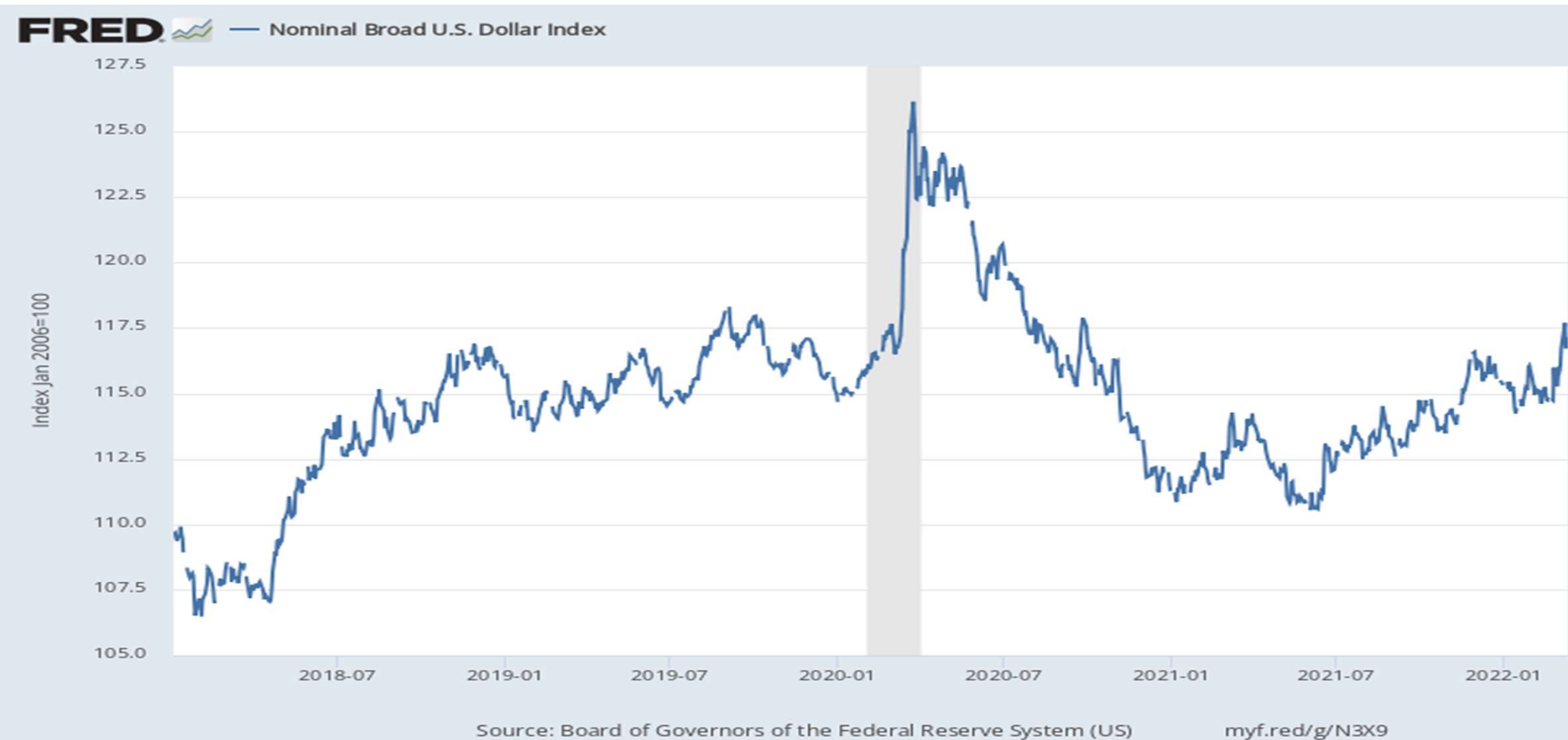


## Markets Anticipated this New Round of Fed Tightening...

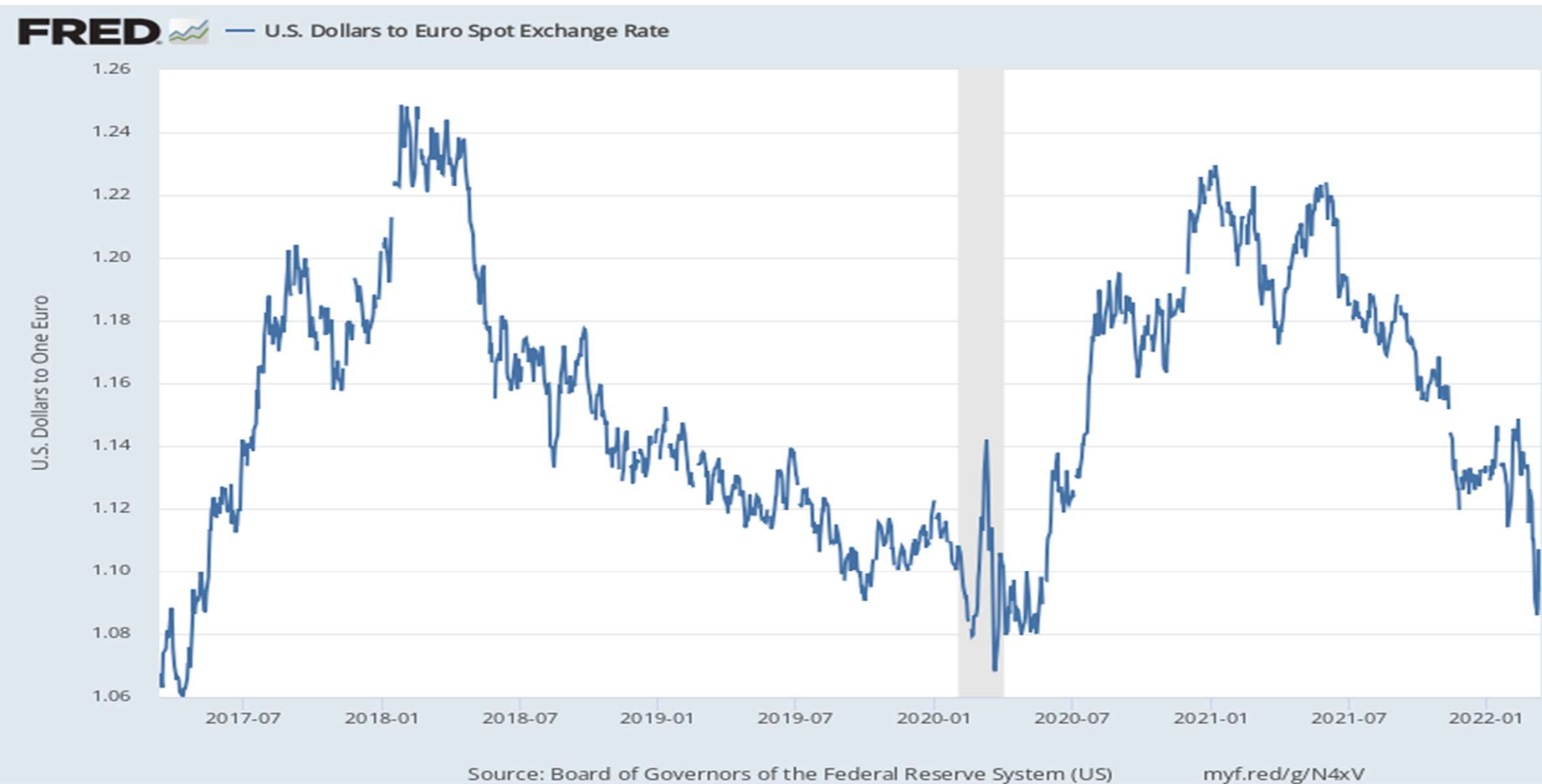




**....Which, Along With High Global Uncertainty, is Putting Unwelcome Upward Pressure on the Dollar....**

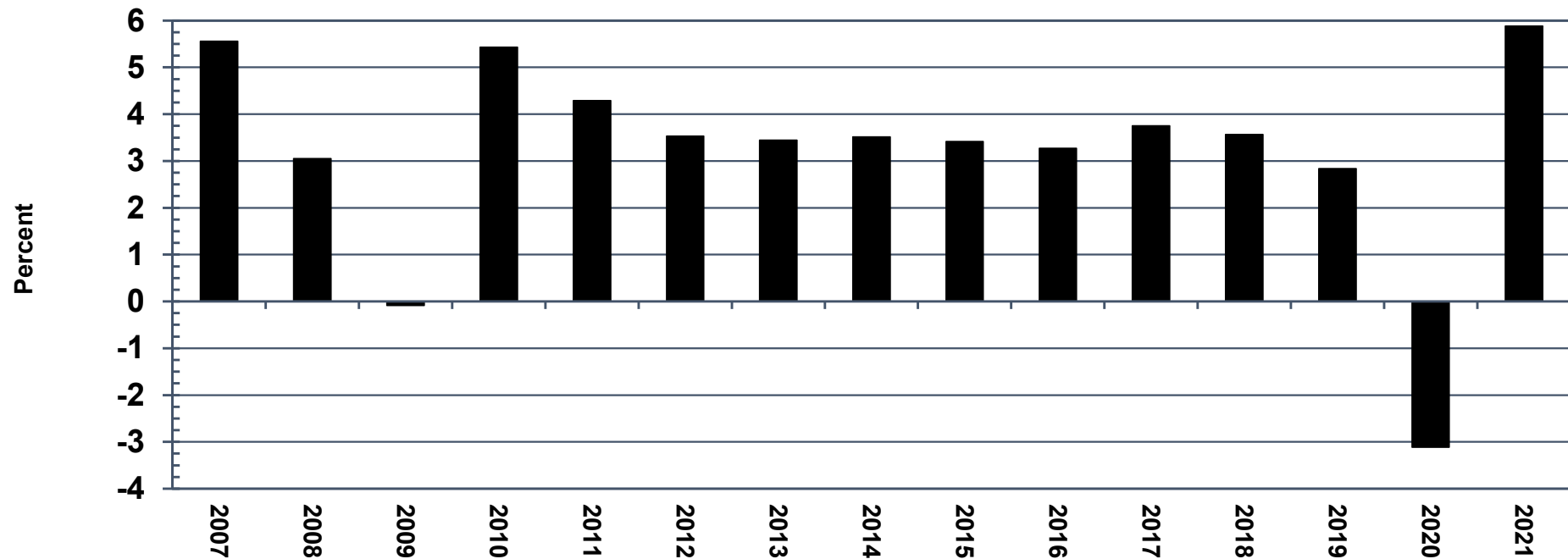


## ....As the Euro Sinks



## Global Growth Recovers From the Pandemic But Is Stressed by Inflation and War

Annual Growth in World GDP, Constant Prices

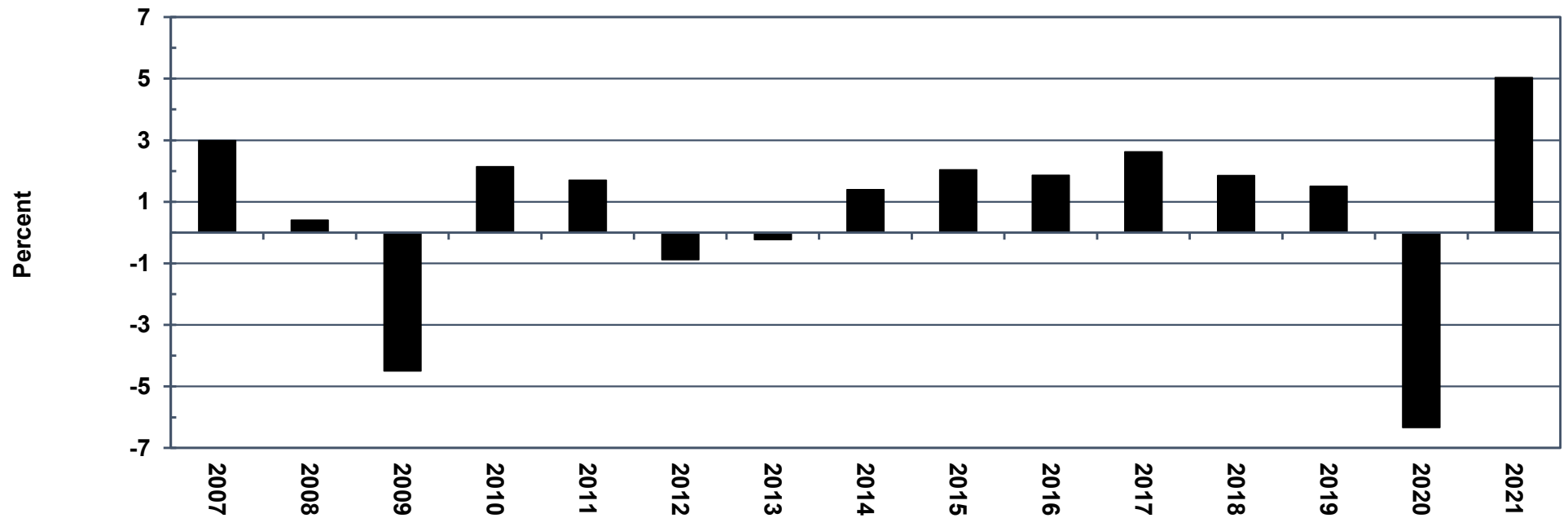


Source(s): International Monetary Fund



## European Growth is Stressed by War and Oil

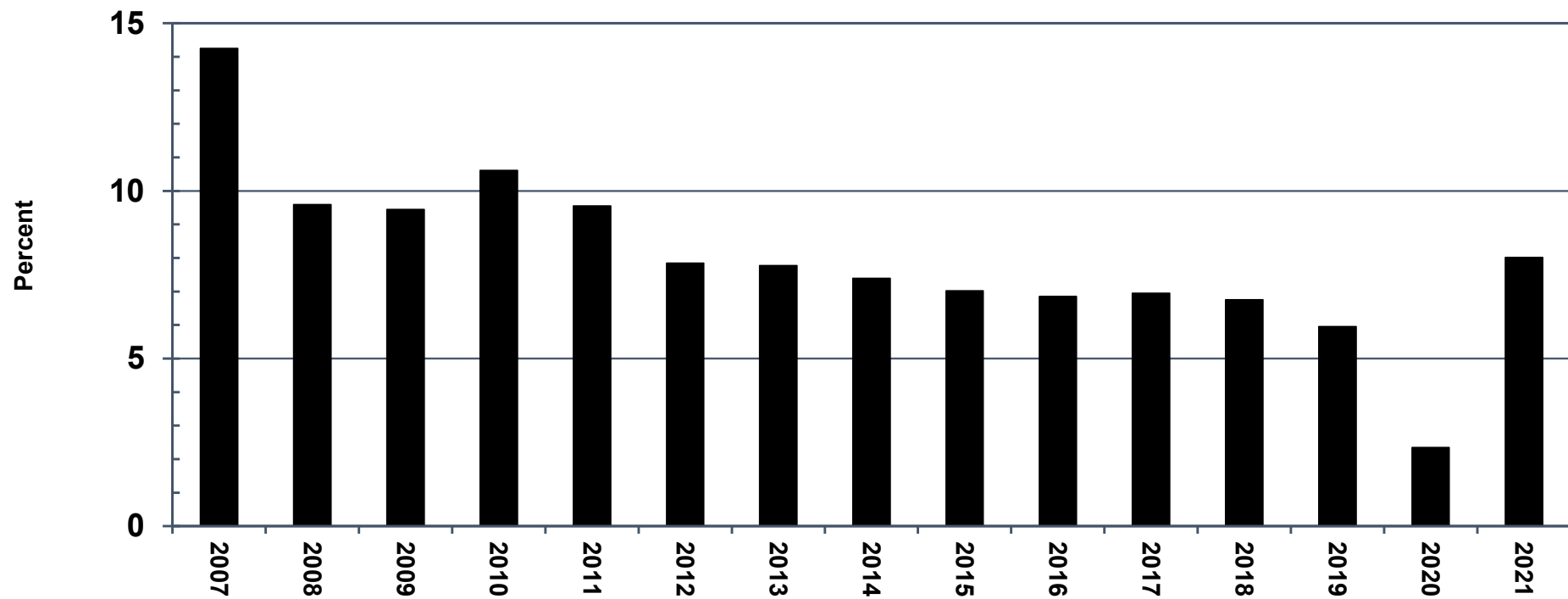
Annual Growth in Euro Area GDP, Constant Prices



Source(s): International Monetary Fund

## A Long-Term Slowdown in China as Demographics and Stresses in the Property Sector Take Hold

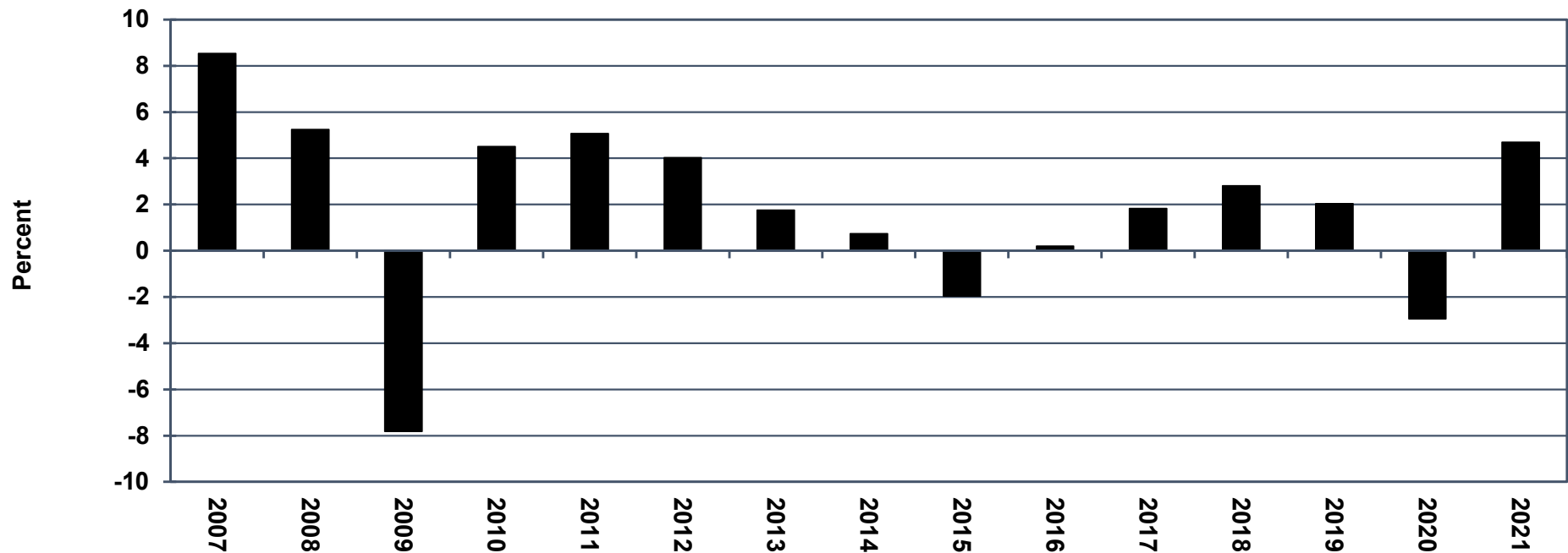
Annual Growth in China GDP, Constant Prices



Source(s): International Monetary Fund

# Will the Russian Economy Collapse?

Annual Growth in Russia GDP, Constant Prices



Source(s): International Monetary Fund



## A Flattening Yield Curve. Should We Worry About a U.S. Recession?



## **Crossroads of Crisis and Disruption**

- The trade war, the pandemic and underinvestment in critical inputs generated supply chain problems.
- Supply chain dislocations, labor market shortages and a Fed which got behind the curve contributed to the worst inflation spike in 4 decades.
- A newly hawkish Fed creates a U.S. recession risk.
- Russia's invasion of Ukraine aggravates the global inflation problem but also creates a global growth risk.





## **Conclusions-For Now**

- Supply chain and inflation instability will be with us for much of 2022.
- Non-trivial Risk of a U.S. Recession by the end of 2022
- The war in Ukraine and the potential downstream impacts of the sanctions on Russia create the risk of a significant global slowdown.

## **The Longer-Term View**

- Defense spending will increase as Cold War uncertainties once again become a part of the global picture.
- Supply Chain Realignment
- A New Period of Higher Interest Rates
- A Structural Slowdown in China
- Dramatically Changed Relationships Between Employers and the Workforce
- The Covid risk is smaller but persistent.

**Thank You!**

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