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....

Source: Board of Governors of the Federal Reserve System (US)  myf.red/g/N3X9
....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?

Source: Federal Reserve Bank of St. Louis

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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 Realignments
- 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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