Global Economic Outlook March 2022

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GLOBAL ECONOMIC OUTLOOK

Highlights:

Fitch Ratings has cut its world GDP growth forecast for 2022 by 0.7pp to 3.5%, with the eurozone cut by 1.5pp to 3.0% and the US by 0.2pp to 3.5%. This reflects the drag from higher energy prices and a faster pace of US interest rate hikes than anticipated. Experts have lowered our forecast for world growth in 2023 by 0.2pp to 2.8%.

On February 24th, 2022, Russia initiated a further invasion of Ukraine that contributed to the recent sharp increase in the Brent and WTI crude oil prices. Experts increased their forecast price of Brent crude oil to USD 116/barrel and the price of WTI crude oil to USD 112/barrel for the second quarter of 2022. They also expect gasoline prices to average about USD 4.10/gallon during the second quarter of 2022 and then decline through the rest of the year.

In the US, initial claims for unemployment insurance across the US were 227,000 for March, equivalent to 5.1% of unemploment rate. In the EU, the unnemployment rate still remains high at 7.0% this month. Among European countries, Greece is currently suffering the worst unemployment rate at 13.3%, followed by Spain at 12.7% while Czechia has the lowest unemployment rate in Europe, at 2.2%.

The CPI rose by 7.9% through February, the fastest pace of annual inflation in 40 years. But even taking out energy and food, core inflation was at a 6.4% increase year over year – still far above the Federal Reserve's 2% inflation target.

After the meeting in 15-16th March, the Federal Reserve approved its first interest rate increase in more than three years by a 25 basis points. That will bring the rate now into a range of 0.25%-0.5%.

At this moment, President Biden's infrastructure bill is unlikely to pass. However, if it passes, it will most certainly be far smaller than anticipated. As a result, federal budget policy is on a far more moderate course than was anticipated six months ago.

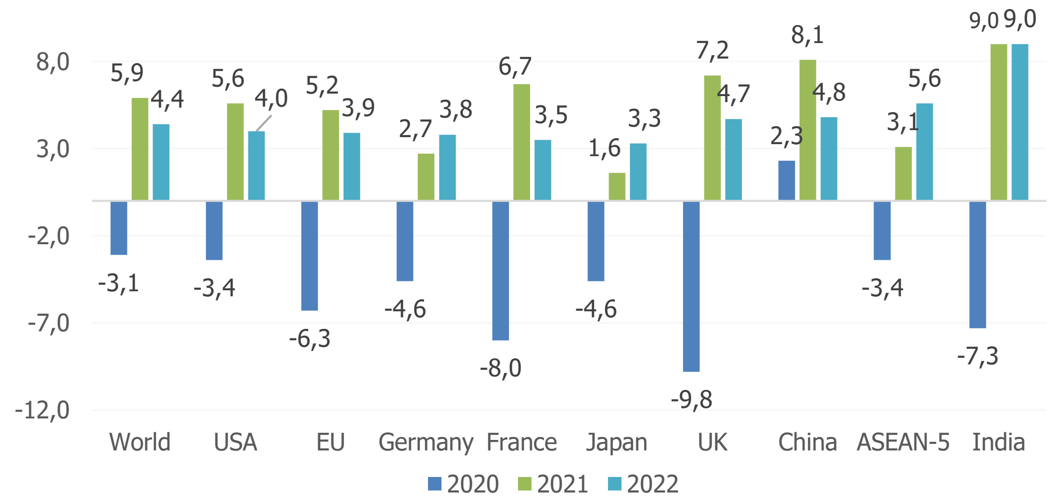
World Economic Outlook

Economic growth

The post-Covid-19 pandemic recovery is being hit by a potentially huge global supply shock that will reduce growth and push up inflation. The war in Ukraine and economic sanctions on Russia have put global energy supplies at risk. Sanctions seem unlikely to be rescinded any time soon. Russia supplies around 10% of the world's energy, including 17% of its natural gas and 12% of its oil. The jump in oil and gas prices will add to industry costs and reduce consumers' real incomes. Outright shortages and energy rationing are possible in Europe if there is an abrupt halt to Russian supply. Higher energy prices are a given.

Fitch Ratings has cut its world GDP growth forecast for 2022 by 0.7pp to 3.5%, with the eurozone cut by 1.5pp to 3.0% and the US by 0.2pp to 3.5%. This reflects the drag from higher energy prices and a faster pace of US interest rate hikes than anticipated. Experts have lowered our forecast for world growth in 2023 by 0.2pp to 2.8%.

Major countries' GDP forecast (%)



Source: IMF

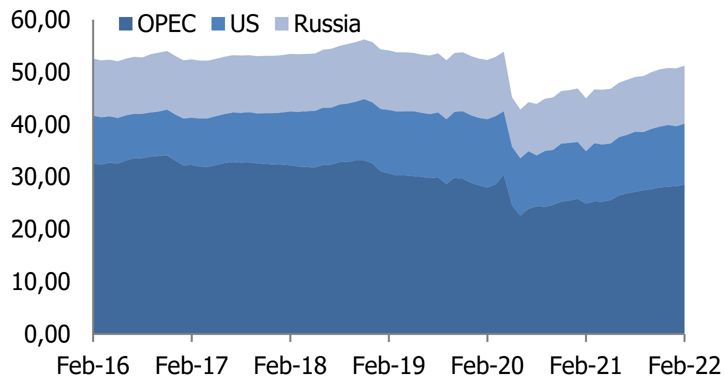
Oil Market

On February 24th, 2022, Russia initiated a further invasion of Ukraine that contributed to the recent sharp increase in the Brent and WTI crude oil prices. This sharp rise in crude oil prices reflects increased geopolitical risk and uncertainty regarding how announced and potential future sanctions may affect global energy markets.

In the March Short-Term Energy Outlook, experts increased their forecast price of Brent crude oil to USD 116/barrel and the price of WTI crude oil to USD 112/barrel for the second quarter of 2022. They also expect gasoline prices to average about USD 4.10/gallon during the second quarter of 2022 and then decline through the rest of the year.

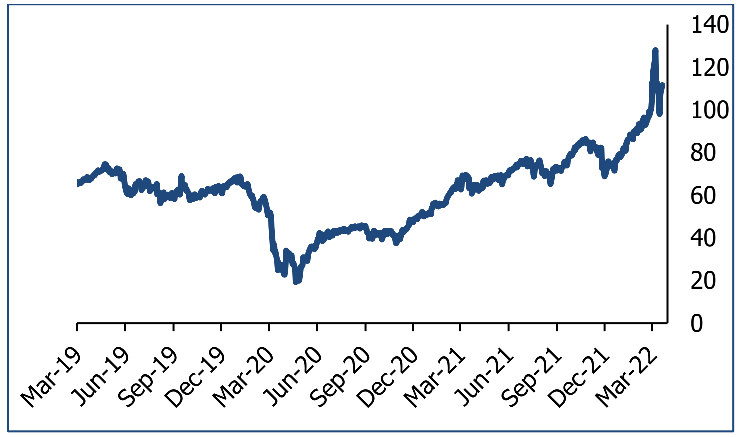
On March 8, President Biden announced that the United States would ban imports of oil, liquefied natural gas, and coal from Russia. The United Kingdom announced that it will phase out imports of oil from Russia over the course of 2022, and the European Union announced a plan to significantly reduce the amount of fossil fuels that Europe imports from Russia before 2030. In addition, several international oil companies announced plans to stop their operations in Russia and end partnerships with Russian firms, which could limit future crude oil production in Russia. The new announcements could put additional upward pressure on crude oil prices.

Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



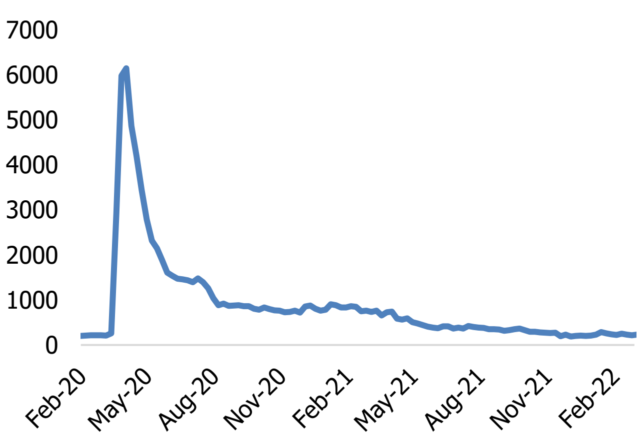
Source: Bloomberg

Labor Market

In the US, initial claims for unemployment insurance across the US were 227,000 for March. This represented an increase of 11,000, equal to 5,1% of unemploment rate. Employers have more than 11 million unfilled job openings, or about two for every unemployed worker, but they are struggling to fill many of them. Most are offering higher pay and benefits to attract new employees.

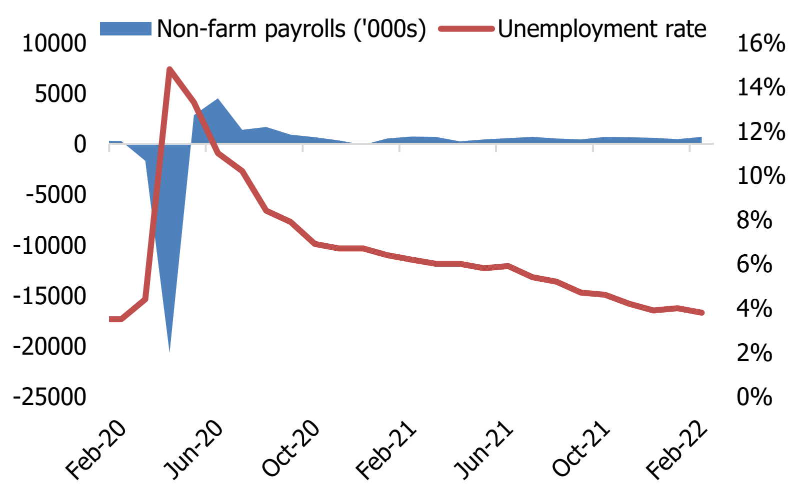
Unemployment across the whole of the European Union still remains high at 7.0% this month, in the wake of the Coronavirus pandemic and subsequent lockdowns enforced by national governments. Among European countries, Greece is currently suffering the worst unemployment rate at 13.3%, followed by Spain at 12.7% while Czechia has the lowest unemployment rate in Europe, at 2.2%.

Initial weekly jobless claims in the U.S. ('000)



Source: Bloomberg

US unemployment rate and non-farm payrolls



Source: Bloomberg

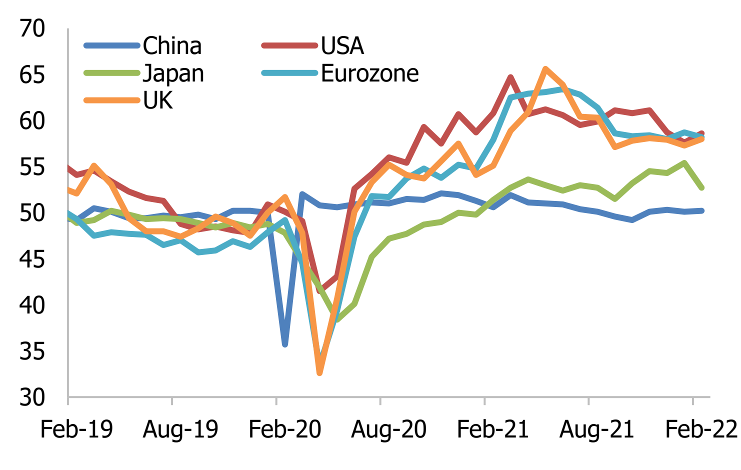
Manufacturing and consumption

Prices climbed at the fastest pace in decades in the month leading up to the war in Ukraine, underlining the high stakes facing the United States — along with many developed economies — as the conflict promises to drive costs higher.

The CPI rose by 7.9% through February, the fastest pace of annual inflation in 40 years. But even taking out energy and food, core inflation was at a 6.4% increase year over year – still far above the Federal Reserve's 2% inflation target.

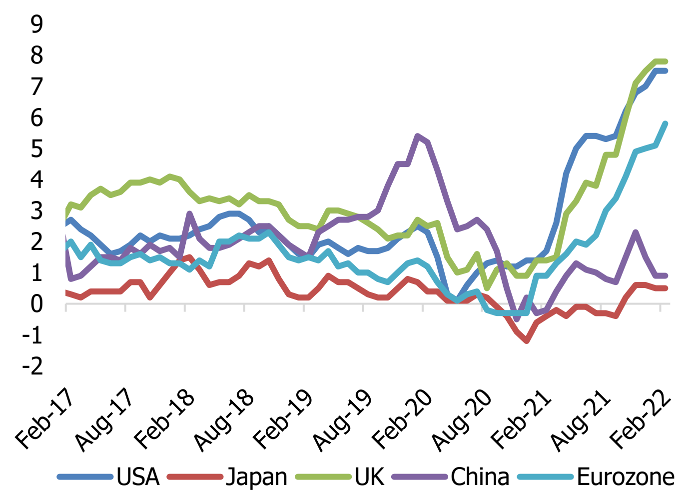
Rising food and rent costs contributed to the big increase, the Bureau of Labor Statistics said, as did a nascent surge in gas prices that will become more pronounced in the March inflation report. The February report caught only the start of the surge in gas prices that came in response to Russia's invasion of Ukraine late last month. Economists expect inflation to pick up even more in March because prices at the pump have since jumped to record-breaking highs. The average price for gas reached USD 4.32/gallon.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

Policies

Monetary policy

After the meeting in 15-16th March, the Federal Reserve approved its first interest rate increase in more than three years, an incremental salvo to address spiraling inflation without torpedoing economic growth.

After keeping its benchmark interest rate anchored near zero since the beginning of the Covid pandemic, the policymaking Federal Open Market Committee said it will raise rates by a 25 basis points. That will bring the rate now into a range of 0.25%-0.5%. The move will correspond with a hike in the prime rate and immediately send financing costs higher for many forms of consumer borrowing and credit. Fed officials indicated the rate increases will come with slower economic growth this year.

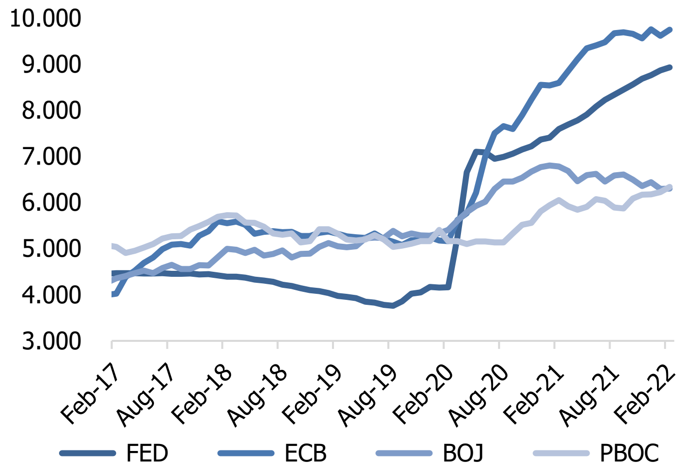
Along with the rate hikes, the committee also penciled in increases at each of the six remaining meetings this year, pointing to a consensus funds rate of 1.9% by year's end. That is a full percentage point higher than indicated in December, 2021. The committee sees three more hikes in 2023 then none the following year.

Fiscal Policy

In the US, there are 2 infrastructure bills. The hard infrastructure bill has passed, while the social infrastructure bill was passed only in the White House. Total spending in the bills is USD 3 trillion. They are multi-year plans in which spending in 2022 could be about USD 250 billion, equaling 1.2% of GDP for both bills. However, at this moment, President Biden's infrastructure bill is unlikely to pass. However, if it passes, it will most certainly be far smaller than anticipated. As a result, federal budget policy is on a far more moderate course than was anticipated six months ago.

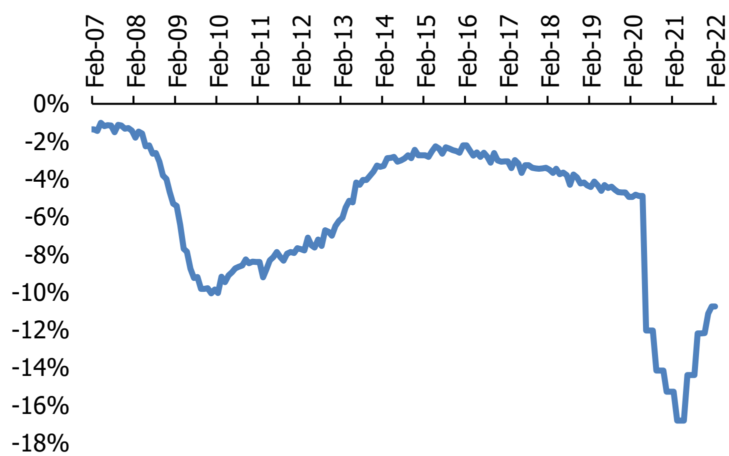
It's true that the already-passed infrastructure bill will increase government expenditure over the next ten years. This expenditure will expand the economy's capacity and, as a result, assist to promote some further productivity growth. However, the majority of this increased spending occurs at the end of our prediction horizon. It's also little in comparison to the overall economy. According to the Congressional Budget Office, the plan will add nearly USD 61 billion to the government deficit in 2026, the peak year of spending. This is around 0.2% of anticipated GDP. The infrastructure package is expected to have a good and considerable impact on US public capital, but it is by no means a major fiscal stimulus.

Total assets on major CB's balance sheets (USD bn)



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

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