Global Economic Outlook June 2022

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GLOBAL ECONOMIC OUTLOOK

Highlights:

The World Bank lowered its annual global growth forecast for 2022 by nearly a full percentage point, down from 4.1% to 3.2%, citing the impact that Russia's invasion of Ukraine is having on the world economy. Other factors behind the slowdown in growth from January's forecast include higher food and fuel costs being borne by consumers in developed economies across the world.

Crude prices fell in May to trade in a narrow USD 10/bbl range above USD 100/bbl. ICE Brent last traded around USD 105/bbl and WTI USD102/bbl. Rapid May advances on the sixth round of EU sanctions for Russia drove renewed price tensions. High crude prices and exceptional product cracks are supporting strong inflation trends.

The US unemployment rate was unchanged at 3.6 percent in May of 2022, the same as in the previous two months, remaining the lowest since February 2020 and compared with market expectations of 3.5 percent. The number of unemployed people increased by 9 thousand to 5.950 million, while employment levels rose by 321 thousand to 158.426 million.

Inflation accelerated further in May, with prices rising 8.6% from a year ago for the fastest increase since December 1981. The consumer price index, a wide-ranging measure of goods and services prices, increased even more than the 8.3% Dow Jones estimate. Excluding volatile food and energy prices, so-called core Surging shelter, gasoline and food prices all contributed to the increase.

In the months ahead, policy rates are generally expected to rise further and record-high central bank balance sheets will begin to unwind, most notably in advanced economies. In emerging market and developing economies, several central banks also tightened policy, adding to those that had already done so in 2021. One exception is China, where inflation remains low and the central bank cut policy rates in January 2022 to support the recovery.

The World Bank is "preparing for a continued crisis response, given the multiple crises," Malpass told reporters. "Over the next few weeks, I expect to discuss with our board, a new 15-month crisis response envelope of around USD 170 billion to cover April 2022 through June 2023." This Ukraine crisis financing package is even larger than the one the World Bank organized for Covid-19 relief, which topped out at USD 160 billion.

World Economic Outlook

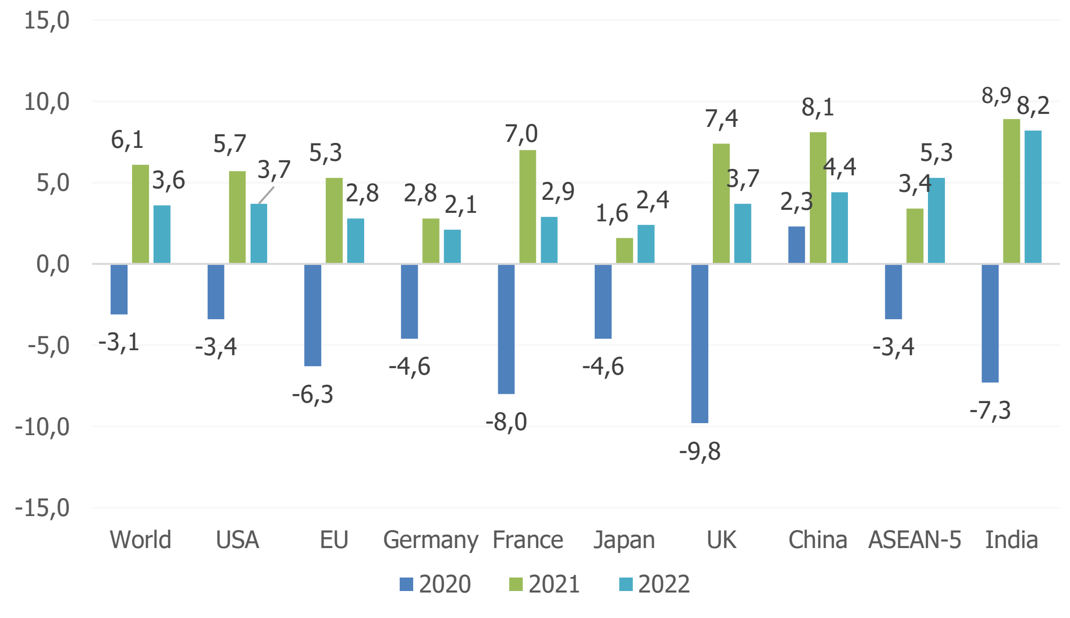
Economic growth

The World Bank lowered its annual global growth forecast for 2022 by nearly a full percentage point, down from 4.1% to 3.2%, citing the impact that Russia's invasion of Ukraine is having on the world economy. World Bank President David Malpass told reporters on a conference call that the largest single factor in the reduced growth forecast was a projected economic contraction of 4.1% across Europe and Central Asia, according to Reuters.

Other factors behind the slowdown in growth from January's forecast include higher food and fuel costs being borne by consumers in developed economies across the world, said Malpass. These are partly the result of Western sanctions on Russian energy, which have driven up the price of oil and gas worldwide. Supply disruptions to Ukrainian agricultural exports are also cited as contributing factors to pushing prices higher.

Last month, the World Bank projected that Ukraine's annual GDP would fall by 45.1%, an astonishing figure for a country of more than 40 million people. The World Bank predicted that Moscow's GDP would fall 11.2% this year as a result of the sanctions.

Major countries' GDP forecast (%)



Source: IMF

Oil Market

World oil demand growth is forecast to slow to 1.9 mb/d in 2Q22 from 4.4 mb/d in 1Q22 and is now projected to ease to 490 kb/d on average in the second half of the year on a more tempered economic expansion and higher prices. As summer driving escalates and jet fuel continues to recover, world oil demand is set to rise by 3.6 mb/d from April to August. For 2022, demand is expected to increase by 1.8 mb/d on average to 99.4 mb/d.

Russia shut in nearly 1 mb/d in May, driving down world oil supply by 710 kb/d to 98.1 mb/d. Over time, steadily rising volumes from Middle East OPEC+ and the US along with a slowdown in demand growth is expected to fend off an acute supply deficit amid a worsening Russian supply disruption. Excluding Russia, output from the rest of the world is set to rise by 3.1 mb/d from May through December.

Global refinery margins have surged to extraordinarily high levels due to depleted product inventories and constrained refinery activity. Throughputs in May fell 1.4 mb/d to 78 mb/d, the lowest since May 2021, largely driven by China. Between now and August, runs are forecast to ramp up by 4.7 mb/d.

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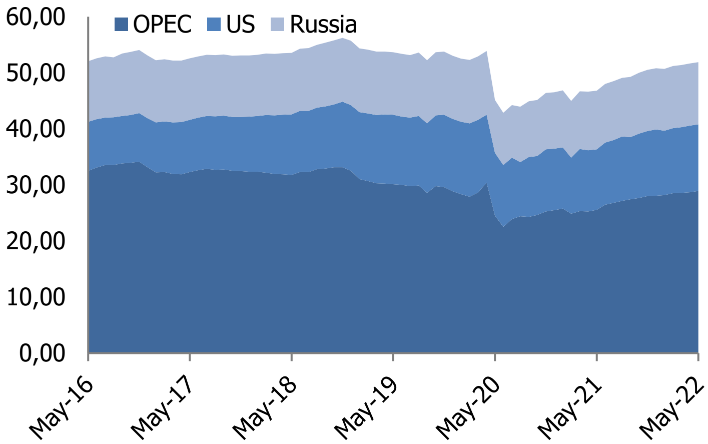
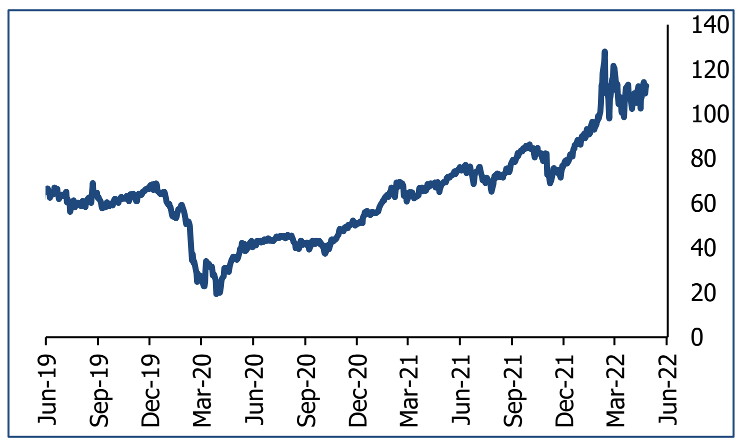
Crude oil output (million barrels/day)



Source: Bloomberg

Brent oil price (USD/barrel)



Source: Bloomberg

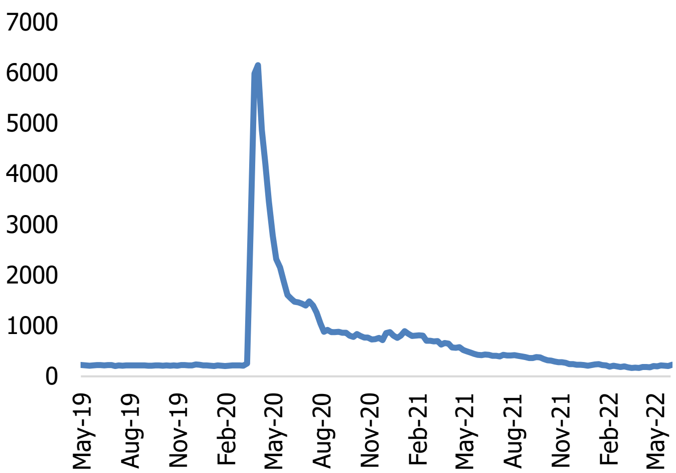
Labor Market

The US unemployment rate was unchanged at 3.6 percent in May of 2022, the same as in the previous two months, remaining the lowest since February 2020 and compared with market expectations of 3.5 percent. The number of unemployed people increased by 9 thousand to 5.950 million, while employment levels rose by 321 thousand to 158.426 million. Meanwhile, the labor force participation rate edged up to 62.3 percent in May from a 3-month low of 62.2 percent in April.

The survey of establishments showed that nonfarm payrolls increased by 431,000 jobs last month. The broad increase in payrolls was led by the leisure and hospitality industry, which added 112,000 jobs. Professional and business services payrolls increased by 102,000 jobs, hoisting employment in the sector 723,000 above its pre-pandemic level.

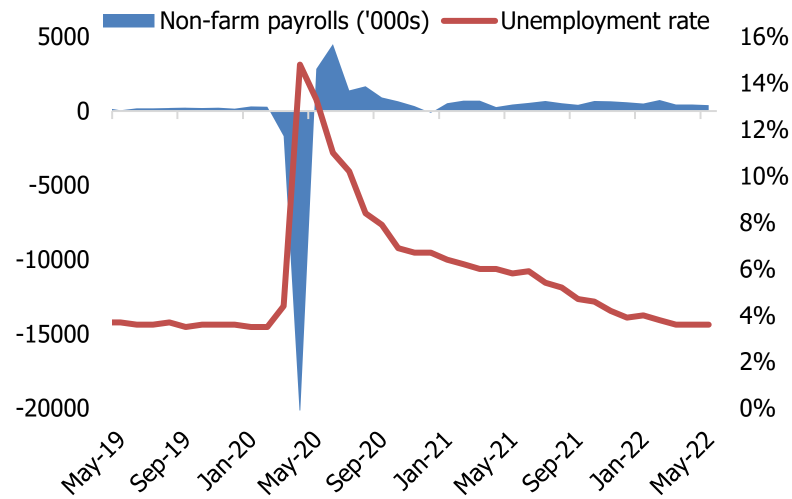
The econoy created 105,000 more jobs in the first 5 months than initially estimated. Overall employment is now 1.4 million jobs below its pre-pandemic level, with many economists predicting all the jobs lost will be recouped by July. Economists polled by Reuters had forecast payrolls increasing 440,000 in May. Estimates ranged from as low as 200,000 to as high as 700,000.

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



Source: Bloomberg

US unemployment rate and non-farm payrolls



Source: Bloomberg

Manufacturing and consumption

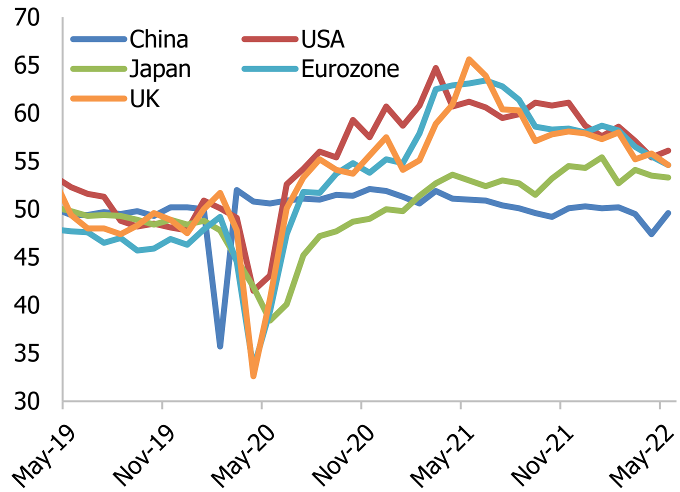
Inflation accelerated further in May, with prices rising 8.6% from a year ago for the fastest increase since December 1981. The consumer price index, a wide-ranging measure of goods and services prices, increased even more than the 8.3% Dow Jones estimate. Excluding volatile food and energy prices, so-called core Surging shelter, gasoline and food prices all contributed to the increase.

Energy prices broadly rose 3.9% from a month ago, bringing the annual gain to 34.6%. Within the category, fuel oil posted a 16.9% monthly gain, pushing the 12-month surge to 106.7%. Shelter costs, which account for about a one-third weighting in the CPI, rose 0.6% for the month, the fastest one-month gain since March 2004. The 5.5% 12-month gain is the most since February 1991. CPI was up 6%, slightly higher than the 5.9% estimate. Finally, food costs climbed another 1.2% in May, bringing the year-over-year gain to 10.1%.

The S&P Global US Manufacturing PMI was revised slightly higher to 52.7 in June of 2022 from a preliminary of 52.4, but still pointed to the slowest growth in factory activity since July of 2020. New orders fell, due to inflationary pressures, weak client confidence in the outlook and supply-chain disruptions. Firms utilised their current holdings of inputs and finished goods to supplement production, with input buying stagnating and supply chain delays easing.

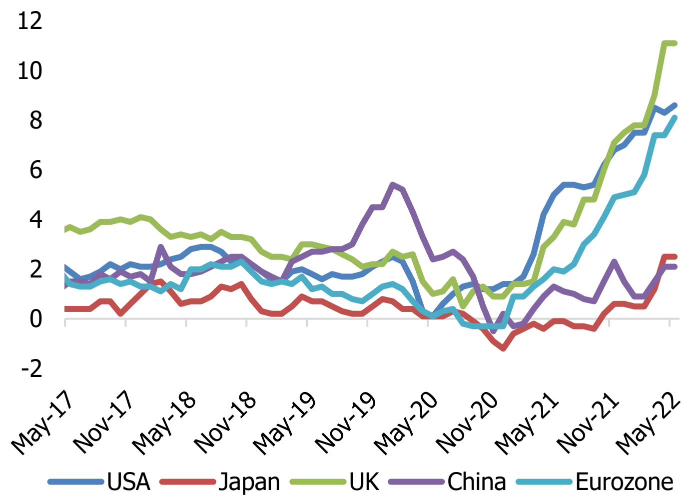
A reduction in new orders, combined with a sustained rise in employment led to greater success clearing backlogs of work, which increased at a notably weaker pace. On the price front, input price inflation was the lowest in three months and output charge inflation also moderated. At the same time, inflationary concerns were once again cited by firms, as business confidence regarding the year-ahead outlook slumped to the lowest level since October 2020.

Manufacturing PMI of major countries



Source: Bloomberg

Inflation rate (% YoY) in major economies



Source: Bloomberg

Policies

Monetary policy

Even before the war, inflation had risen significantly, and many central banks tightened monetary policy. This contributed to a rapid increase in nominal interest rates across advanced economy sovereign borrowers. In the months ahead, policy rates are generally expected to rise further and record-high central bank balance sheets will begin to unwind, most notably in advanced economies. In emerging market and developing economies, several central banks also tightened policy, adding to those that had already done so in 2021.

One exception is China, where inflation remains low and the central bank cut policy rates in January 2022 to support the recovery. Expectations of tighter policy and worries about the war have contributed to financial market volatility and risk repricing. In particular, the war and related sanctions have tightened global financial conditions, lowered risk appetite, and induced flight-to-quality flows. In Russia, the sanctions and the impairment of domestic financial intermediation have led to large increases in its sovereign and credit default swap spreads. Emerging market economies in the region, as well as Caucasus, Central Asia, and North Africa, have also seen their sovereign spreads widen.

Fiscal Policy

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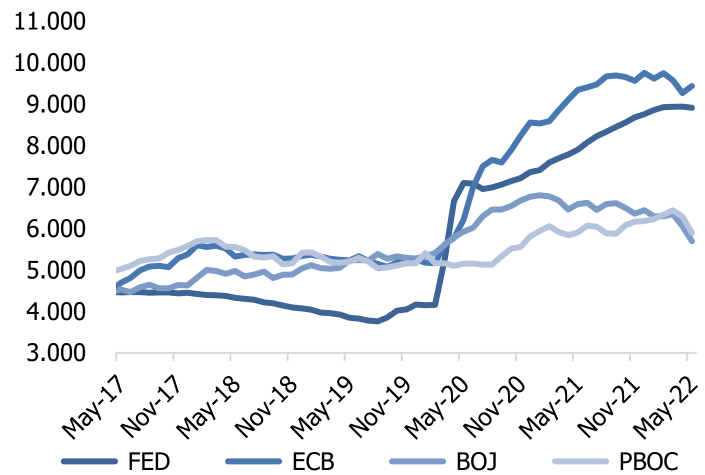
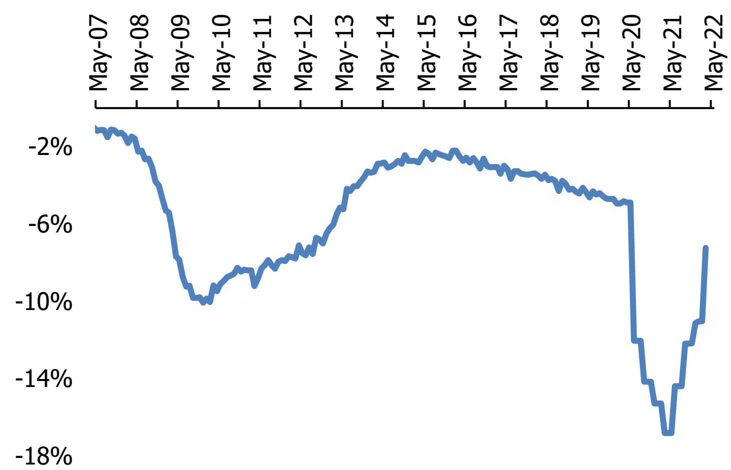
In the US, there are 2 infrastructure bills. The hard infrastructure bill has passed, while the social infrastructure bill was passed only in the White House. Total spending in the bills is USD 3 trillion. They are multi-year plans in which spending in 2022 could be about USD 250 billion, equaling 1.2% 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.

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



Source: Bloomberg

US budget deficit (%GDP)



Source: Bloomberg

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