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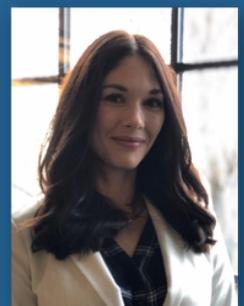
2022 MACROECONOMIC OUTLOOK

# INSIGHTS INTO THE TRAJECTORY OF THE U.S. ECONOMIC RECOVERY



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# MACROECONOMIC OUTLOOK OVERVIEW

## Expectations for economic recovery despite potential risks

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As 2021 comes to an end, everyone wants to know the economic outlook for 2022. One of the biggest questions on business leaders' minds is how the current inflationary environment will impact the outlook for recovery in 2022. To answer this question, it's important to look at not only the near-term risks to recovery but also the longer-term opportunities to mitigate those risks.

Since the massive, unprecedented shock of COVID in March 2020, the economy has been on the path to recovery, with fastest growth in the immediate aftermath of the shutdown. There is some recent evidence of that growth slowing down a little bit, which has been at the top of mind for many business leaders planning for the coming year. However, Prevedere is expecting growth to remain strong despite some risks, driven primarily by robust consumer spending and pent-up demand.

In the coming months, there are some prevalent risks to the potential trajectory of the economic recovery in 2022. The pandemic is still an ongoing risk factor, particularly as it impacts the mobility of people and goods which is currently causing frictions in supply chains and labor markets.

As consumers prepare for potential new waves of the virus, there is a continued risk that inflationary pressures and shortages will persist into the new year. At the same time, however, consumers are well-positioned to absorb some rising costs as wage growth accelerates and consumers draw down excess savings. As the pandemic itself continues to wane in the first half of 2022, pent-up demand for services should keep consumer spending strong and provide enough support to sustain economic recovery.

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# POTENTIAL RISKS TO ECONOMIC RECOVERY

## Inflation, supply chain challenges, and labor market imbalances

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### RISKS FOR 2022

Before diving into the positive opportunities for recovery in 2022, it's important to address the chief concern in today's economy - inflation.

Right now, there are signs that supply-side constraints will persist into the new year. Specifically, distribution bottlenecks and supply shortages will likely continue throughout the first half of 2022 as suppliers work through the limited availability of goods and transportation constraints.

Adding to the supply chain disruptions are risks from the current labor market. The labor market's recovery has been sluggish at best throughout the pandemic as workers have been reluctant to re-enter the workforce. While we continue to see improvement in the headline unemployment rate, employers are struggling to fill vacancies as millions of workers remain on the sidelines.

There are a couple of reasons why labor market recovery may be slow and why workers may be reluctant to reenter, ranging from pandemic concerns to other changing dynamics. We have seen particular demographics demonstrating increased signs of reluctance, such as workers aged 55 and above and working parents, and as we consider the long-term impact of these shifts, it is clear that we have a long way to go before we reach full employment again. The spike in retirements is likely to lead to a permanent adjustment to labor force participation, and the return to work of prime-age workers with children remains uncertain as families grapple with the threat of additional school closures as well as the shifting environment where caregiving is as much of a daily role as gainful employment.

As these factors begin to equalize throughout 2022, labor market recovery should accelerate, although still not likely to reach its full potential by the end of next year. Even in the most optimistic outlook, full labor market recovery will likely not happen until the end of 2022.

# POSITIVE OPPORTUNITIES FOR RECOVERY

## Higher wages and excess consumer savings

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### OPPORTUNITIES FOR 2022

Wage growth can be considered in two ways. On the supply side, wage growth leads to a higher price environment as employers seek to pass on rising costs of labor to the consumer. On the consumer side, however, wage growth allows consumers to absorb some of the impact of rising prices.

Moving forward, the key question is whether wages will continue to grow at a consistent pace and keep pace with consumer price inflation. Based on the most recent employment cost index, wage growth has been extremely robust, especially for households and workers most vulnerable to inflationary cycles such as low-wage frontline workers, which should keep consumer wallets relatively stable.

In addition to higher wages, consumers are sitting on a large pile of excess savings. During the pandemic, there were many funds disbursed to consumers in enhanced unemployment benefits or economic impact payments to help mitigate the expected loss of income. This is coupled with household wealth gains in other asset markets leaving consumers with billions of dollars in excess cash.

The combination of these factors is giving consumers the opportunity to keep spending strong despite higher prices on the shelves. In fact, retail sales data have been consistently strong despite an uncertain economic environment and are showing little sign of deceleration. Moreover, there are few signals indicating consumers are planning on reducing their spending levels by any meaningful measure.

That said, history has shown that as consumers prepare for a longer-term inflationary environment, they will begin reconciling their balance sheets against the many factors impacting spending power: tapering stimulus benefits, child tax credits, and slowing asset growth. Spending plans are expected to neutralize and normalize in accordance with the market at large. Still, for now, there is a lot of reason to expect spending to remain strong and keep economic recovery moving forward.

# KEY TAKEAWAYS FOR ECONOMIC OUTLOOK

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## REASONS TO BE OPTIMISTIC

As the U.S. emerges from the pandemic period, it may be surprising that despite the unprecedented economic stimulus supposed to reignite the economic recovery, other historical factors drove the recovery far more, primarily consumer spending.

While there are some risks to consumers today and overall economic recovery in 2022, there is no reason to be overly pessimistic about it. Consumers are feeling optimistic about their finances, which is evident in the current spending data, and there's still a lot of excess dollars to support pent-up demand.

In the coming months, spending will continue to shift away from the goods sector that comprised the majority of pandemic spending and shift back towards the services sector, which will only add to economic growth.

Overall, despite the risks around supply chain constraints and inflationary pressures, the overall economic outlook for 2022 should be reasonably optimistic.

# COMPANIES PLANNING IN 2022 ARE IN UNCHARTED WATERS

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