

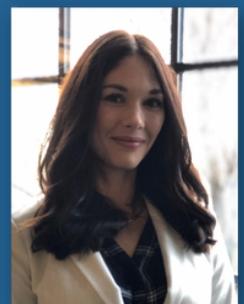
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2022 OUTLOOK

U.S. STATE OF THE ECONOMY



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STATE OF THE U.S. ECONOMY: 2022 OUTLOOK

Expectations for economic recovery despite potential risks

Predicting the future is always a challenge, made even more difficult this year by the continued uncertainty surrounding COVID. The last two years have seen tremendous disruptions to the economy, and there are still many challenges ahead with a great deal of uncertainty remaining. However, the U.S has come a long way in economic recovery and is expected to make continued strides in the coming year.

Businesses in 2021 were faced with many challenges, from supply chain constraints to labor shortages to rising input costs. Still, they also found innovative solutions to keep up with the booming demand for goods. Consumers were flush with extra cash from a combination of government support, rising wages, and excess savings, all of which kept spending strong on products and goods. This consumer spending propelled economic recovery forward and will continue to support growth in the coming year.

As of now, baseline projections for Real GDP growth stand at 3% for 2022, with an upside opportunity of 1.2 percentage points.

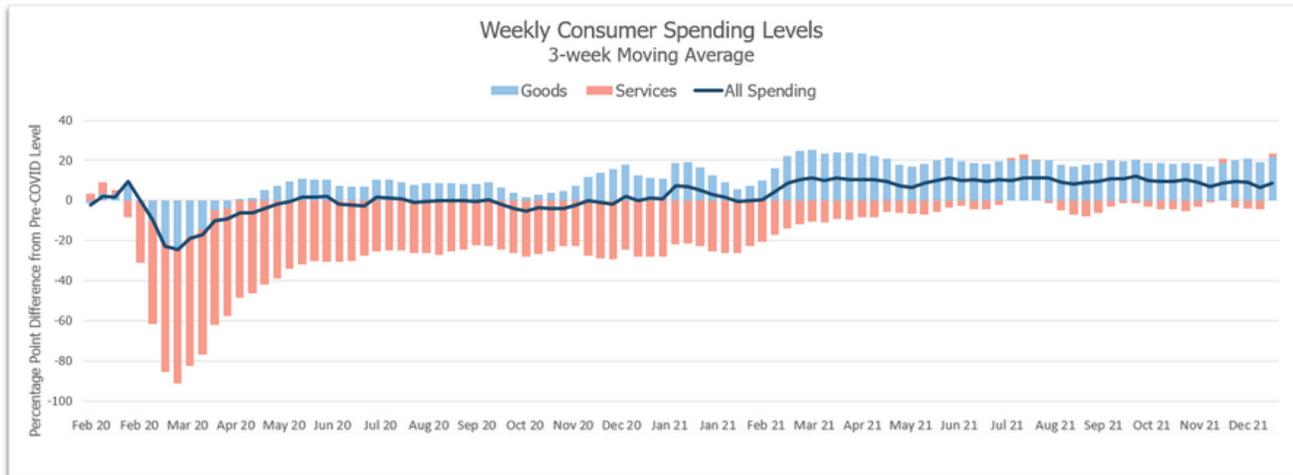
However, despite these baseline projections, threats to economic recovery, such as high inflation, fading government support, and new variants, continue to persist. As consumer spending shifts in response to these factors, economic activity will likely experience a slowdown in 2022.

"Prevedere is expecting growth to remain strong despite some risks, driven primarily by robust consumer spending and pent-up demand."

POSITIVE SIGNALS FOR CONTINUED RECOVERY

Strong consumer spending to drive recovery in 2022

Consumers have long been the engine of the economy. Over the last two years, spending patterns prove that consumers will continue to drive economic growth through 2022. Consumer response to government stimulus was more significant than anticipated in the past year. Many households experienced additional financial gains as wages rose faster than in decades, and spending on goods increased as consumers remained at home. While many people expected this spending to fade as government stimulus and support dissipated and people became more mobile, spending on goods has remained exceptionally strong throughout the year – even as prices have risen and services spending picked up pace.



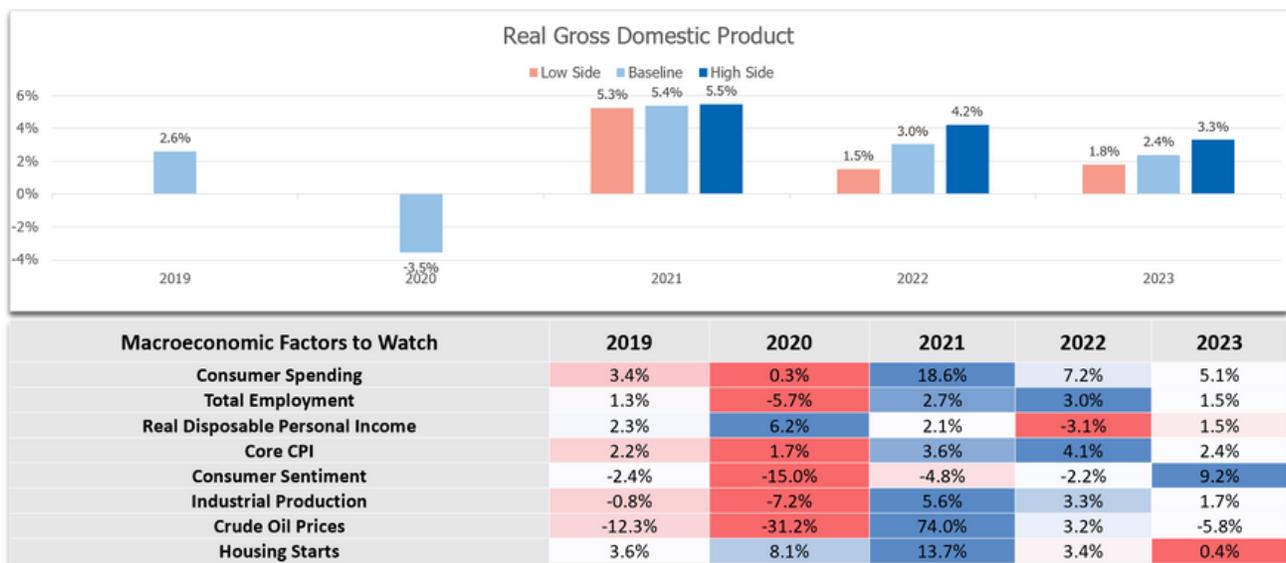
Heading into 2022, consumer spending is expected to remain strong despite risks from Omicron and other potential variants. Mobility continues to recover with respect to both people and goods. Supply chain bottlenecks are beginning to ease up, and the increasing vaccination rates are giving people more confidence to move around. In practical terms, this should provide some leverage to support increased economic momentum in two possible scenarios. If consumers remain cautious about returning to travel and leisure spending, the increased mobility of goods should support spending on physical items.

On the other hand, if consumers revert to pre-pandemic behaviors and spend more time out of the home, the rebound in services spending should support increased economic activity.

POSITIVE SIGNALS FOR CONTINUED RECOVERY

Greater economic mobilization

In either case, greater economic mobilization in 2022 will foster an environment more conducive to economic growth and stability as the pandemic becomes less of a factor in our daily lives. This is even more likely as financial conditions remain favorable to consumers and businesses – with household finances benefiting from rising wages and businesses benefiting from accommodative financial conditions.



While economic recovery will likely slow down in 2022, there is still a lot of evidence to support robust economic activity throughout the year. Inflationary pressures, which are expected to continue through the first half of the year, should begin to dissipate as supply constraints ease.

Though sustained inflation will lead to decreased spending on goods, overall retail sales are expected to remain strong throughout the year as wage gains mitigate the loss of direct government support and the diminishing of excess savings. Production constraints stemming from labor and supply shortages are also expected to improve as the labor market recovery continues and key commodities become attainable.

In total, macroeconomic conditions- as they stand today- suggest the recovery is on a solid footing, even as it slows to a rate more consistent with historical norms.

RISKS TO THE STATE OF THE ECONOMY

COVID variants, sustained inflation, and supply chain disruptions

If the world has learned anything from the last two years, it is that the future is not guaranteed. COVID-related risks remain prevalent and pose a very real threat to economic well-being. Right now is a pivotal moment as the emergence of fast-spreading variants combined with fiscal and monetary policy limitations leave the U.S. in a vulnerable position.

As the Fed seeks to tame inflation with a shift in monetary policy, they run the risk of tightening financial conditions too soon before the structural recovery in labor markets which would ensure stability in household finances. If consumers respond by pulling back on spending in a substantial way, business activity will undoubtedly suffer, and businesses could find it difficult to maintain operations as they balance higher costs against diminishing demand. As the end of the pandemic is nowhere in sight, these current risks are somewhat skewed to the downside.

In the coming months, it is important to consider these risks in context. Overall, we find that there is as much reason for hope as there is for concern. Our engine of economic growth and prosperity - **the consumer** - remains strong and active, with little sign of failing.

However, the road ahead is tumultuous at best and presents many obstacles to overcome. Consumers will be forced to recalibrate their finances in the face of shrinking wallets and adjust their behaviors to adapt to a post-pandemic world throughout the new year. Much will depend on how successful the U.S. is at re-mobilizing our labor force and logistics channels – or, perhaps, redefining them altogether.

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COMPANIES PLANNING IN 2022 ARE IN UNCHARTED WATERS

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