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MARCH 2022 U.S. ECONOMIC OUTLOOK

U.S. Economic Outlook Report: **Geopolitical Impact on Inflation and Economic Growth**

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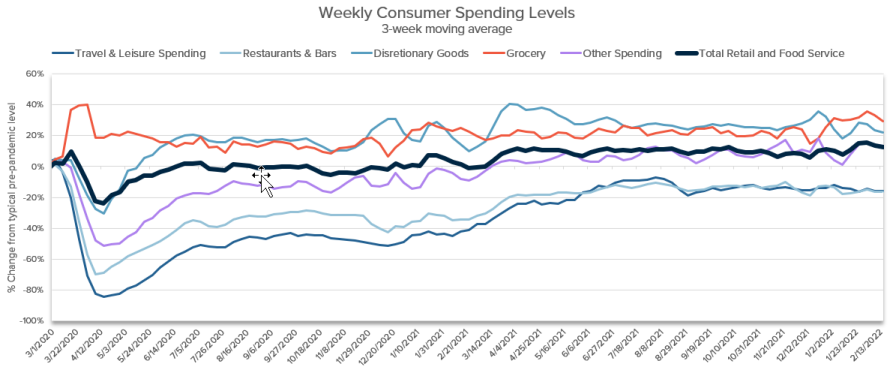
Prevedere Director of Economic Services, Michelle Green, provides a personal view on topical economic issues

While consumer spending continues to propel a strong recovery, this update focuses on the growing international conflict and factors that could slow down a strong recovery.

High-Frequency Data Show Consumer Resilience

The recovery remains on solid footing, being propelled forward by strong consumer spending. It has been incredibly resilient, first propped by the unprecedented government support and then by extremely robust wage growth later in the recovery period. Despite the highest inflation seen in decades, consumers have largely maintained very robust spending according to weekly debit and credit card transactions compiled by the Bureau of Economic Analysis. Other factors include the drawdown of excess savings accumulated during the pandemic and an extremely tight labor market that continues to put upward pressure on wages. Remarkably, even has spending on travel, leisure and food service has improved; spending on durable goods, home improvement and groceries remains well above pre-pandemic levels, which-all things being equal- we would expect to continue at a slower pace through the remainder of this year. But, as we learned last week, all things are not equal, and we are facing yet another external shock that throws the trajectory of the recovery into question.



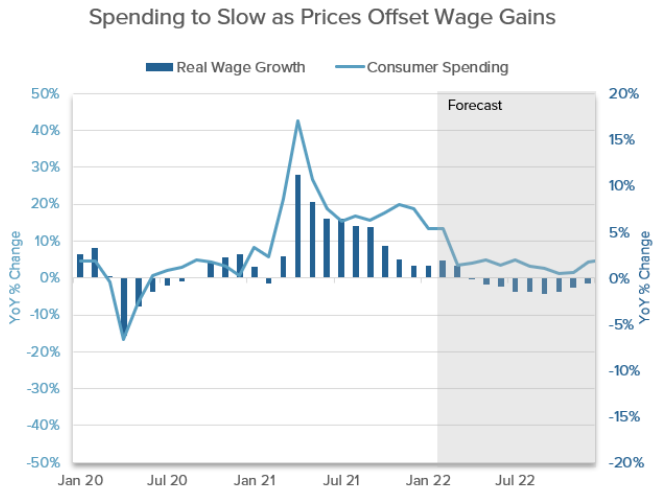
Source: Bureau of Economic Analysis

Higher Energy and Food Prices to Limit Spending

Uncertainty is once again on the rise as business leaders and consumers seek to understand how recent geopolitical events impact the economic recovery. The most immediate impact of the Russian invasion of Ukraine is perhaps the most worrisome for the U.S. economy. Ukraine and Russia are some of the largest exporters of wheat and energy, respectively. Headline Consumer Prices are already at multi-decade highs. We expect the current conflict will add to pricing pressures for both food and energy, making persistently high prices even higher for a little longer. This problem is made potentially worse as an already fragile global supply chain is forced to cope with yet another external shock. Analysts will be watching the Fed closely now as they embark on the delicate dance of trying to tame high prices in an increasingly uncertain global market.

Higher Energy and Food Prices to Limit Spending (cont.)

Inflation is still expected to peak in the first half of this year as demand for goods softens, but a prolonged conflict in Europe means prices could remain elevated for a longer. Workers, who have remained on the sidelines until now, are considering whether it is a good time to re-enter the labor force. The pandemic situation is improving, which makes the likelihood of school and office closures more and more remote. The prospect of higher wage levels may provide added incentives to workers who have been hesitant until now to return. In the longer term, we do expect a more structural labor market recovery to cause a deceleration in wage growth toward the back half of this year and into next, which will contribute to more normalized levels of inflation and spending patterns as the recovery proceeds.



Source: Prevedere Forecast

Recovery Expected to Continue Despite Elevated Risk

Given the rise in uncertainty, both in the geopolitical climate, and with respect to the pandemic, business leaders should consider a range of scenarios to better plan for the future and make strategic decisions to mitigate exposure to these risks. Our base case suggests that consumers are still in a strong position to keep the recovery moving forward, at least in the near term. Though consumer spending is expected to decelerate substantially in response to higher prices, we expect spending growth to continue through the year, supporting economic growth at a much slower pace. Downside risks from a prolonged conflict in Europe, new COVID-19 variants, and extended supply chain constraints do have the potential to slow us down significantly, especially if wage growth begins to lose steam. However, a strong, more robust labor market recovery does provide upside potential as an overall higher level of wages allows consumers to absorb higher prices at the register. A cautious Fed will be looking to tame inflation quickly, which will help avoid a major slow-down in economic activity. Much will depend on the duration of the conflict in Europe, and how well world leaders are able to navigate the increasingly difficult political and economic situation. In this highly volatile world, there's no better time than now to consider a range of scenarios like these to improve business planning and agility

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WE HELP YOU PLAN WITH CERTAINTY.

Unprecedented times.

Almost all businesses have had forecasts and plans adversely impacted by pandemic sourced volatility. Some industries saw unprecedented gains while others saw severe losses.

A 'new norm' is needed for strategic planning and forecasting. Businesses now need to pay very close attention to relevant external influences and to economic and industry signals, especially those that are leading indicators for their current and future business.

We can help.

For years, as a predictive AI technology and solution provider, Prevedere has been helping enterprises predict and incorporate industry, economic and behavioral volatility into their planning processes. We help clients leverage global data, correlation analysis, predictive AI and econometric modelling to create three-month to five-year economic baseline forecasts, economic guard rails, future market insight and growth/share projections.

Get in touch.

We help companies plan and forecast more intelligently in the new world.

We would love to talk with you about adding predictive AI and economic intelligence to your business to plan for what's next.

Contact us today.

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