

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Commentary: The March Fed Meeting Will Be Among the Most Consequential in History

Given January's sharp acceleration in inflation, to a 40-year high of 7.5%, the Fed meeting next month is destined to become the most important since the Volcker era.

Global financial markets and central bankers everywhere will want to see how vigorously Jerome Powell and his Fed colleagues will attack this inflation surge.

There are two strategies the Fed will need to announce next month if they want to successfully cool inflation pressures.

First, begin to tighten monetary policy with a 50 basis point increase. Second, announce a clear plan on when and by how much they will run down the Fed's balance sheets.

Powell needs to demonstrate in concrete terms that the Federal Reserve is ready and willing to act aggressively against inflation. Doing so now will prevent them from hiking a great deal more later and risk choking off economic activity entirely.

Look, there is always a tug of war among the forces that drive inflation. At this moment, the winning side pushing prices higher consists of rising energy costs, scarcities in supplies due to supply chain bottlenecks and escalating wages.

We expect the latter two to ease as goods begin to flow more easily through the economy and with more Americans re-enter the workforce. (The number of people applying for unemployment benefits just dropped for the third week in a row.)

The outlook for energy costs is far more difficult to assess because it is often influenced by geopolitical events.

The best news we can distill from January's CPI and other recent economic reports is that inflation will likely peak in the 1Q --- if, that is, the Fed is ready to show more muscle in wrestling inflation. A meek Fed response, namely a 25 bp increase with

little fresh news on plans to reduce its balance sheet, runs the risk of inflation escalating past 8% this summer.

There is, of course, one looming threat that is out of the Federal Reserve's control and could change everything: A major war in Eastern Europe. Should Putin proceed with a military assault against Ukraine, our analysis shows the US and world economy would face a serious bout of stagflation, specifically depressed economic conditions along with higher inflation.

Historians may well look back at this March meeting as one of the most consequential in recent history.

United States																
	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023	I 2024	II 2024	III 2024	IV 2024
Real Gross Domestic Product (GDP):																
%	6.3	6.7	2.3	6.9	2.2	3.6	4.1	3.3	1.8	2.7	2.5	2.6	2.2	2.7	3.0	2.2
Personal Consumption Expenditures:																
PCE %	11.4	12.0	2.0	3.3	2.1	4.2	3.7	2.9	1.5	2.9	2.8	2.7	2.0	2.7	2.5	2.8
Inflation, end of period, year-over-year:																
CPI %	2.6	5.3	5.4	7.0	7.2	6.1	5.3	3.8	3.3	2.8	2.6	2.3	2.2	2.3	2.3	2.4
Unemployment Rate (end of period):																
%	6.0	5.9	4.7	3.9	3.9	3.9	3.8	3.9	3.7	3.6	3.5	3.7	3.6	3.6	3.6	3.5
Non-farm Payrolls, monthly avg. thousand:																
	513	615	651	365	455	625	665	640	385	510	495	410	275	310	315	325
Treasury 10-yr Note Yield % (end of period):																
	1.75	1.44	1.52	1.51	1.75	1.85	1.90	2.05	2.15	2.25	2.30	2.40	2.40	2.45	2.53	2.45
Federal funds rate % (end of period):																
	0.13	0.13	0.13	0.13	0.38	0.88	0.88	0.88	1.38	1.88	1.88	1.88	1.88	1.88	1.88	1.88

GDP Growth - Global Economy																
Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
US	2.6	1.6	2.2	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.7	3.3	2.4	2.5	
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.7	5.2	3.9	2.4	1.7	
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-9.8	5.7	4.6	2.5	2.0	
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.2	-4.5	2.0	2.8	2.2	1.4	
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.3	4.5	4.2	2.8	2.4	
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-7.5	7.8	7.0	6.4	5.7	
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.3	8.1	4.9	5.2	5.4	
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-4.4	4.4	2.3	3.3	2.7	
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.5	5.0	2.9	2.7	2.4	
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.3	3.1	2.6	2.7	
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-2.9	4.5	2.7	2.4	2.1	
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.4	5.4	4.4	3.4	3.2	

Key Economic & Geopolitical Projections for 2022 & 2023

- Latest revision: February 9, 2022

PROBABILITY	U.S.
HIGH	Odds of recession from 2022 thru 2024 are about 20%, absent any major geopolitical shocks.
Moderate	Federal Reserve begins to raise fed funds rates in 1Q 2022. Expect 50 pb in March and 25 pb in May before pausing.
HIGH	CPI inflation drops to 3% range late 2022 as supply chains improve, wages stabilize and WTI oil slips to \$70s bbl.
Moderate	Treasury 10-yr. yields to hover between 1.80% to 2.10% in 2022, and peaks at 2.55% in 2024.
HIGH	Covid-19 becomes an endemic. Low vaccination rates in Africa & parts of Asia remain breeding grounds for new variants.
Moderate	Congress to pass only parts of "Build, Back Better" plan by 3Q 2022, with no material changes in tax rates.
	FOREIGN
HIGH	Odds are 60% Russia will NOT launch a major invasion into Ukraine. Putin & Russian oligarchs worry costs will be too high.
HIGH	Beijing fortifies naval presence in SCS and ramps up threats against Taiwan.
HIGH	Biden orders greater US naval presence in SCS to defend International Law of the Sea and support regional allies.
HIGH	China's economy to decelerate due to shakeout in property market, broad deleveraging & fresh Covid outbreaks.
HIGH	A cyber World War is underway; likely to result in periodic disruptions to global financial networks and power grids.
HIGH	Iran secretly moves ahead to produce enough fissile material for a nuclear weapon. Israel readies pre-emptive action.
Moderate	Economies of US & Europe to steadily improve in 2022, but recoveries in Africa & Latin America to lag behind 1 - 2 years.

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