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The world economic outlook turns grim as 'once in a lifetime' shocks take their toll

By Jim Puzzanghera Globe Staff June 18, 2022

WASHINGTON — Americans' psyches and finances are increasingly stressed close to their limits by $5 per gallon gas and rocketing inflation, but the worst could still be ahead.

The pernicious forces largely responsible for those problems also are rippling through economies across the globe, as war in Europe combines with continued pandemic disruptions to pile new hardships onto a world still reeling from the devastating effects of COVID-19.

Soaring prices for energy and food since Russia's invasion of Ukraine are slowing growth in nations large and small, sharply reversing the roaring economic gains of last year. That high inflation, and efforts to contain it by hiking interest rates, are roiling financial markets and raising the risk of recession while adding to the pain of the world's poorest people as hunger and starvation increase amid food price spikes and looming shortages.

The US is better positioned to deal with the slowdown than most other countries, experts said, because of its economic strength coming into this year and its ability to produce almost all the food and energy it needs. But decades of globalization have bound the world so tightly together that no nation is immune from the effects of crises flaring on any continent, and the effects have spilled over onto our shores.

Americans are getting slammed by sky-high gasoline prices dictated by global markets that have been shaken by sweeping sanctions placed on Russia, the world's third-largest oil producer, after it invaded Ukraine.

Food prices, already elevated by higher transportation costs, have been pushed up further because the war has caused fears of grain shortages. And renewed global economic troubles have boosted the value of the dollar as companies and investors seek financial safety, a development that hurts US exports by making them cost more abroad.

“The problems that we’re seeing overseas are having an effect on the US economy on a scale that’s never happened before,” said **Bernard Baumohl, chief global economist at the Economic Outlook Group**, a forecasting firm. “Many of these are ‘once in a lifetime’ kind of shocks that have all occurred at about the same time.”

In a sobering report this month, the World Bank slashed its forecast for 2022 global economic growth to 2.9 percent. That’s about half of last year’s growth rate, which was the strongest since 1973 as the world bounced back from the short, severe recession triggered by the initial pandemic shutdowns. The new slowdown has been spurred by the Ukraine war, more COVID lockdowns in China, and continued supply chain disruptions that “are hammering growth,” said World Bank President David Malpass.

“For many countries, recession will be hard to avoid,” he warned in releasing the bank’s latest Global Economic Prospects report on June 7.

The United States is one of those countries. The World Bank lowered its forecast for economic growth here to 2.5 percent this year. But conditions are changing so rapidly — the Bureau of Labor Statistics reported on June 10 that the annual inflation rate in the US surprisingly shot up to 8.6 percent — that those numbers already appear out of date.

Federal Reserve officials on Wednesday downgraded their forecast for US economic growth this year to 1.7 percent from 2.8 percent in March as they enacted their biggest interest rate hike in nearly 20 years to slow growth in an attempt to reduce inflation, which is rising at the fastest annual rate in 40 years.

That pace of economic growth, and a similar 1.7 percent Fed forecast for 2023, is above the level of a recession, which generally is defined as at least six straight months of contraction. But the Fed’s rate hike, and its promise of more to come this year and next, led Bloomberg Economics to forecast a 72 percent probability of a recession in the US by the beginning of 2024.

Fed Chair Jerome Powell told reporters Wednesday that he still expected the central bank could slow the economy enough to reduce inflation without pushing the nation into recession, but acknowledged the task is getting more difficult because of international factors. “There is a path for us to get there,” he said. “It’s not getting easier. It’s getting more challenging because of these external forces.”

President Biden, who has limited options to reduce gas prices, said Thursday that a US recession is “not inevitable.” But he put the blame for record high gas prices on Russia’s invasion of Ukraine, which caused already elevated prices to skyrocket this year.

“I made it clear with helping Ukraine, and organizing NATO to help Ukraine, that this was going to cost,” Biden told the Associated Press. “There was going to be a price to pay for it.”

Even if the United States avoids a recession, it could face a period of stagnant growth and high inflation — a debilitating combination called stagflation — like it did in the dark economic decade of the 1970s.

“Inflation has become a really major problem now, and inflation pressures at this point look unrelenting,” Brian Coulton, chief economist at credit rating firm Fitch Ratings, said on a webinar Thursday after releasing a report that also downgraded its global economic forecast this year to 2.9 percent.

But even as American consumers are hurt by gas prices, which AAA said hit a nationwide average record high of nearly $5.02 a gallon on Tuesday, the broader economic effect is somewhat offset by the increased revenues the US gets from its large oil production, said Joseph E. Gagnon, a senior fellow at the Peterson Institute for International Economics think tank.

“There are winners and losers in these big oil and energy commodity price changes,” he said. “We all have losers in our countries, consumers who buy these things and that’s tough and they’ll have to cut back their other spending. But we have more winners in America than they do in Japan or Europe, like the oil producers.”

Other nations aren’t so fortunate.

“There are many countries that are in a precarious situation,” said Monika Tothova, an economist with the Food and Agriculture Organization of the United Nations. “Over the last year, we have experienced yet another spike in hunger across the world.”

About 193 million people in 53 countries and territories around the world already were experiencing “acute food insecurity” in 2021, an increase of 40 million from the previous year, according to a

May report by the UN’s World Food Programme. The war in Ukraine, one of the major wheat producers, has exacerbated the problem.

Russia has blocked the export of wheat from Ukraine’s ports, pushing the average cost of a bushel of wheat up 56 percent in May compared to a year earlier, said Eric Munoz, senior policy adviser for agriculture at Oxfam America, a global organization fighting poverty and injustice. That’s caused the problem of access to food to spread beyond poor nations to middle-income ones like Egypt that are dependent on wheat imports from Ukraine and Russia and have had to scramble to find increasingly more expensive replacements. Rising interest rates make it more difficult for those nations to borrow money to offset the higher food costs.

A new report this month on hunger by the two UN agencies warned that as many as 49 million people in 46 countries could be at risk of falling into famine or famine-like conditions. That included 750,000 people in what the report called “catastrophic conditions,” in Ethiopia, Afghanistan, Nigeria, Somalia, South Sudan, and Yemen.

“Ukraine was, in many ways, at least for food prices, the straw that broke the camel’s back,” said Munoz.

Biden said this past week that the US was working on ways to get grain out of Ukraine by train. And a $40 billion Ukraine aid package he signed last month included $5 billion in global food assistance. But faced with potential food shortfalls at home, some countries like India have banned exports of wheat or other products.

“We’re seeing nations taking it upon themselves to actually restrict or ban food exports from their country because they want to make sure they have enough domestic supplies. That’s also putting upward pressure on food prices,” said **Baumohl**, the economist.

It all adds up to great uncertainty that is dragging down economic growth, he said.

“There are many benefits to globalization,” **Baumohl** said. “But when suddenly the world experiences a series of truly historical, unique, exogenous shocks, then we find out just how vulnerable all the countries are because they’re so linked.”

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