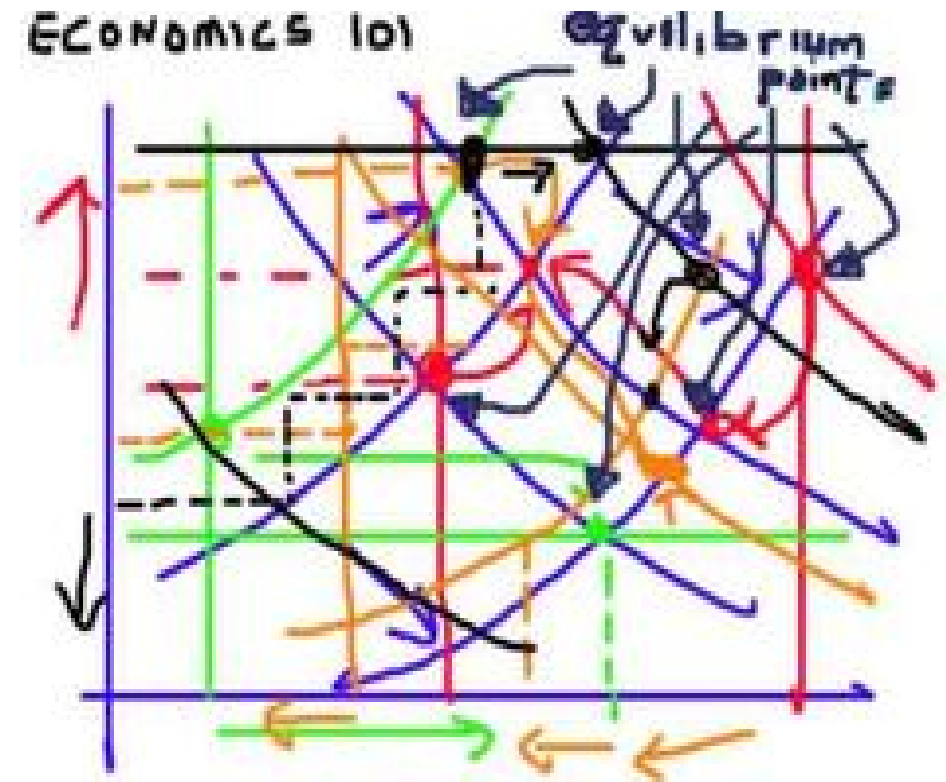




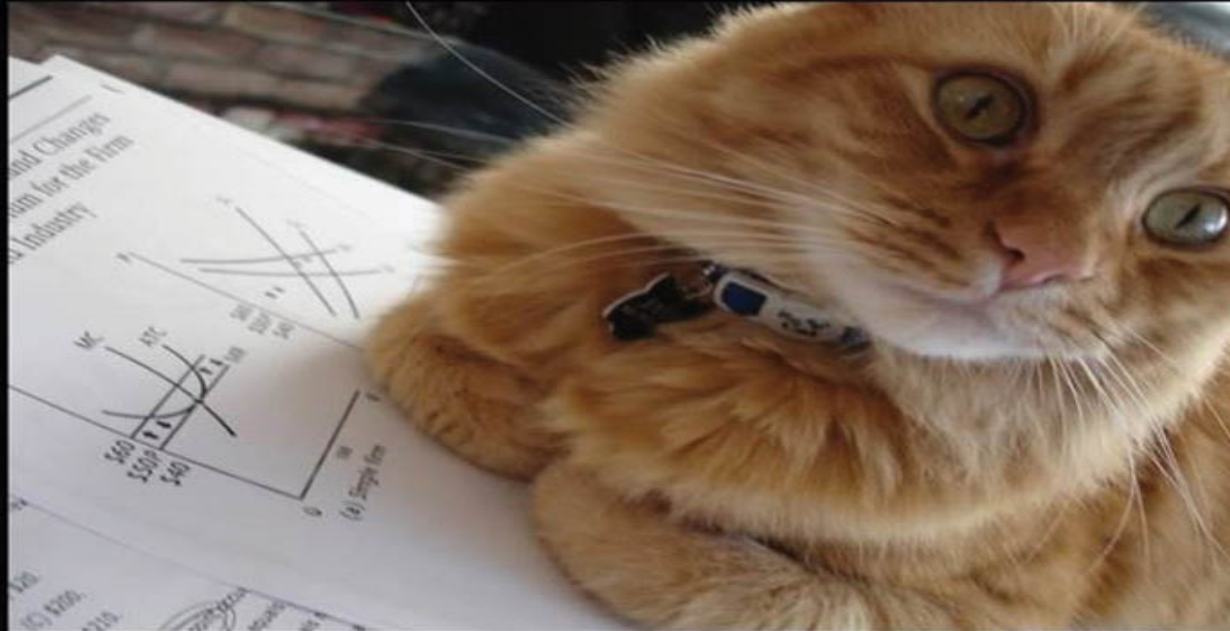
ARMADA

# Economic Update: Is 2022 the Year of “Normal” and Do We Know What “Normal” Is?

**UHY Executive Briefing  
January 19, 2022**



# Some Things Defy Explanation



ECONOMICS

CAN SOMEONE TELL ME WHAT IS GOING ON HERE???????

# The Slide We Hope You Forget

- **The Bold Predictions for 2022**

- GDP growth for 2022 between 4.0% and 4.5% next year but starting slow.
- Inflation at core rate will be around 3.0% by year's end and real rate will be closer to 5.0%.
- Interest rates will start to rise by mid 2022 – reaching between .75% and 1.5% by end of the year. Depends on how aggressive Fed wants to be – talking about three hikes so far.
- Mortgage rates will rise – likely between 3.8% and 4.1%. Car loan rates between 4.5% and 3.8% on average – not much change from 2021
- Unemployment numbers will vary – U-3 at around 4.0% but U-6 closer to 9.0%. Quit rate will stay high and the level of workforce participation will stay around 61%. Latest unemployment numbers near 2019 record of 3.7% (now at 3.9%)
- Trade deficit will worsen as consumers get more aggressive but exports will still be rising. Largest deficit in twenty years as consumers surged in the last holiday season and will keep spending.
- By year's end the pandemic will be seen more as an endemic – seasonal threat like the flu.

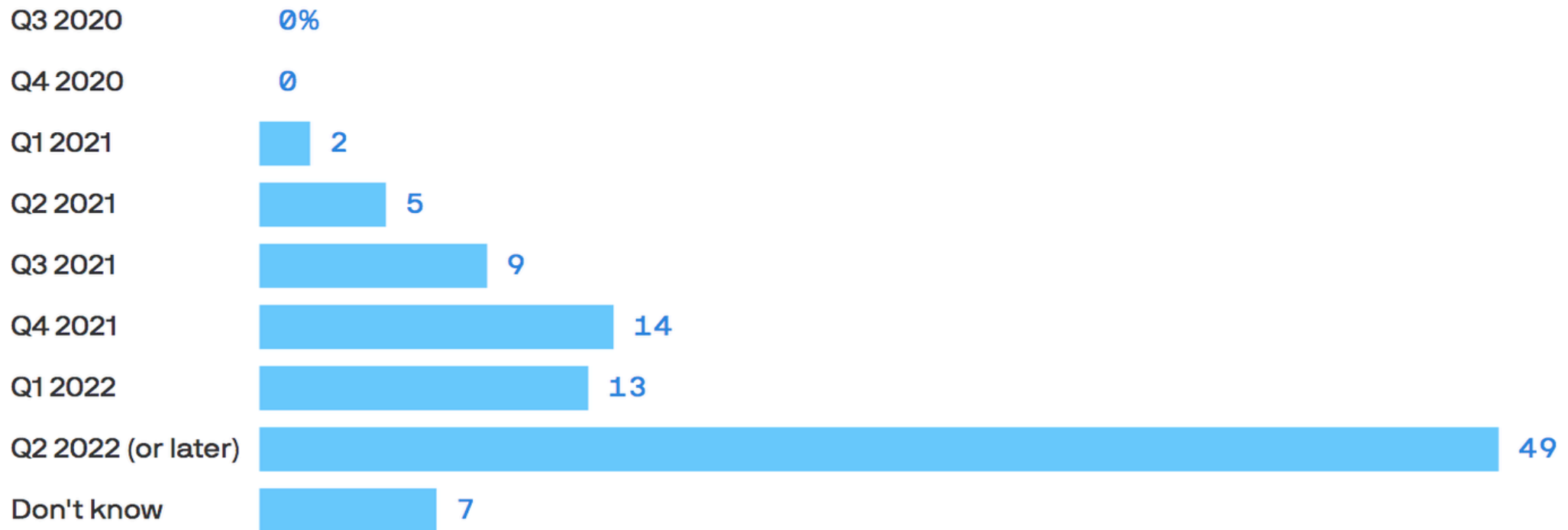
# The Latest Elephant in the Room

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- **Will Pandemic Ever Really End?**
  - Delta, Omicron, what's next?
  - SARS, MERS, Avian Flu etc. – all still with us
- **Economic Impact Thus Far**
  - Markets reacted badly at first but largely recovered
  - Air travel globally affected
  - Some discussion of shutdowns or lockdowns
  - Incentives vs. mandates
  - Consumer caution now causing slowdowns
  - Labor issues due to quarantines, vaccine mandates and other protocols
  - Global obligations as far as vaccine distribution

## In what quarter do you expect the real GDP to regain its 2019 Q4 level?

NABE survey of 235 members, July 30 to Aug. 10, 2020

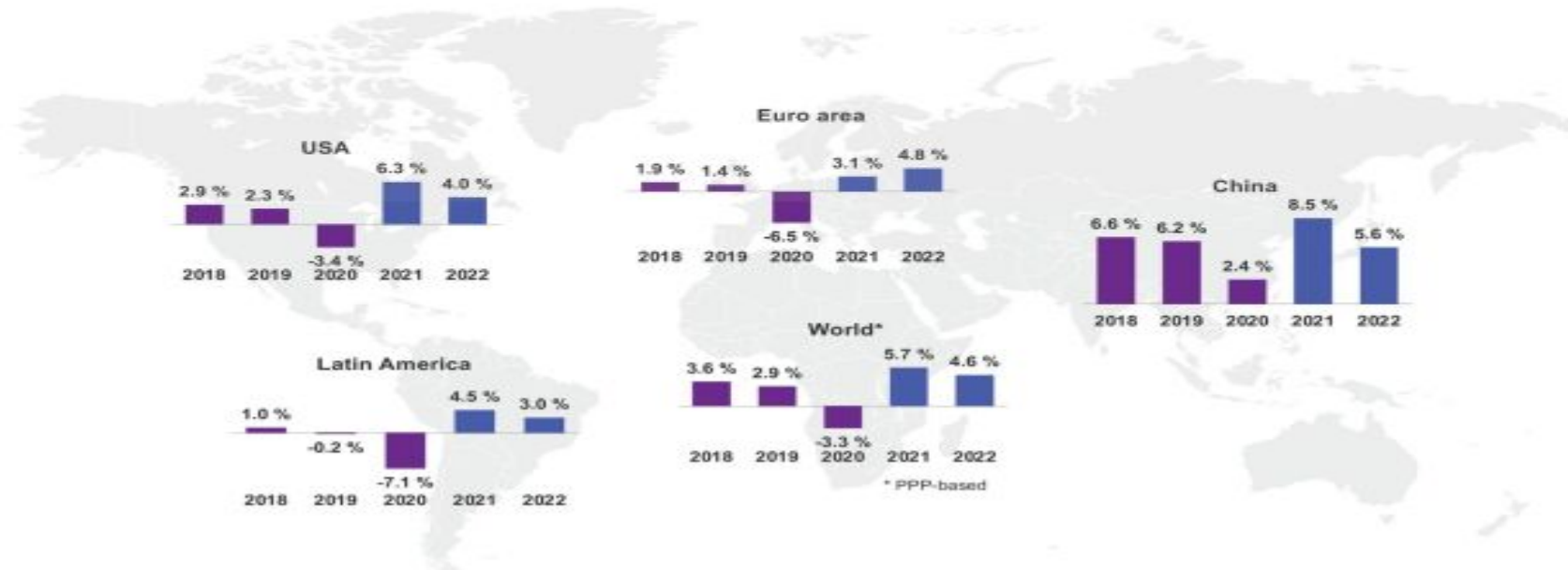


# How is Recovery Going?

## Global recovery in 2021, continuing growth supports business

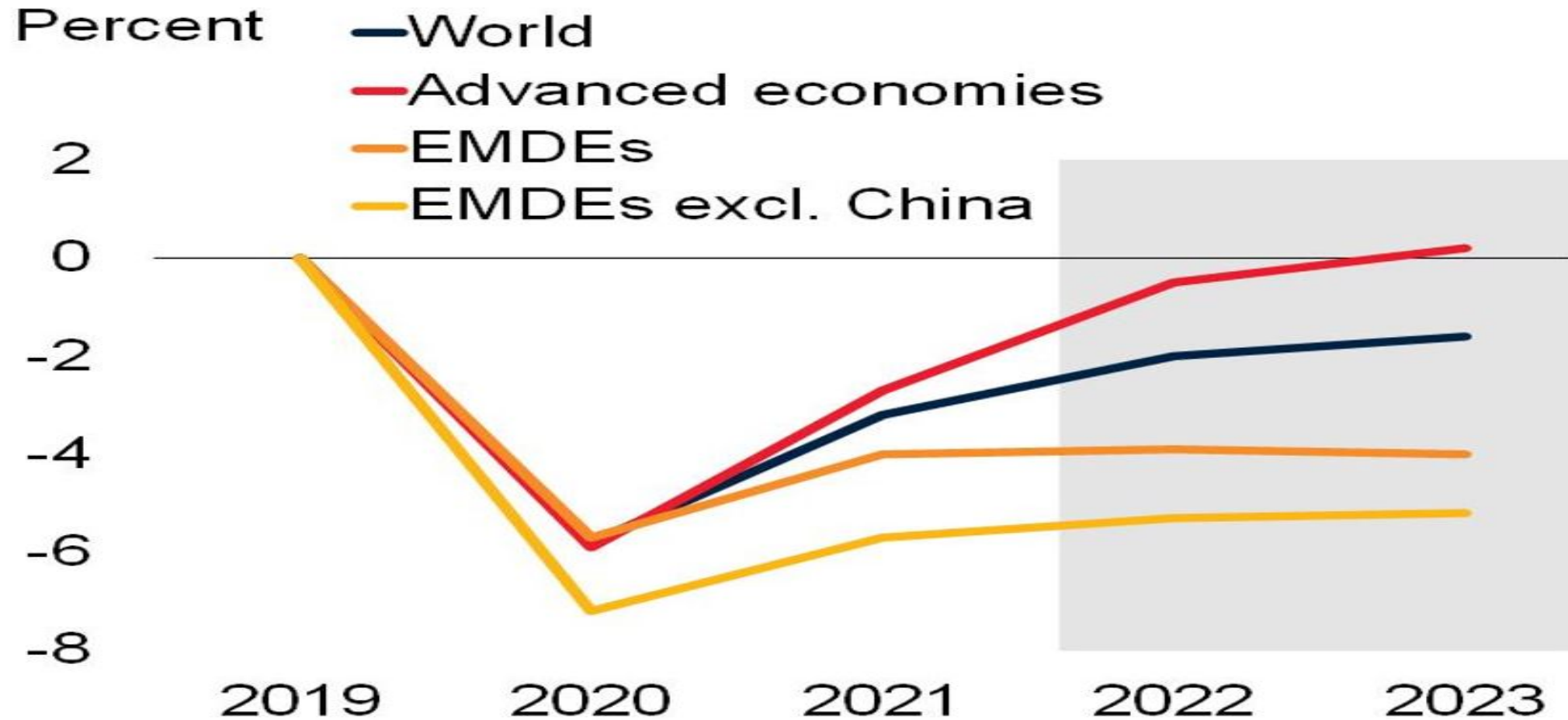


Forecast revised: 6/2021, updated 09/2021; annual real GDP growth





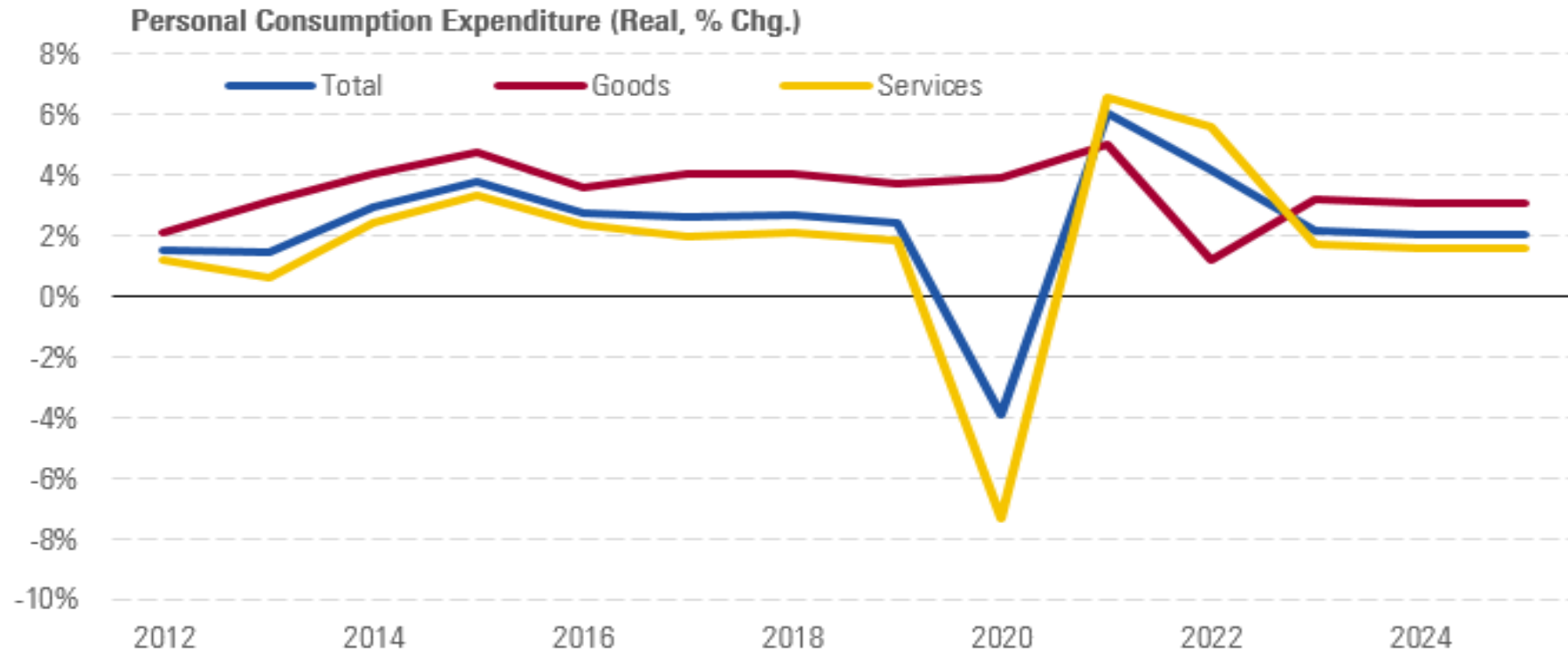
# Flattening?





# Surge Followed by Fade

## Services Will Lead the Consumer Recovery in 2021 and 2022

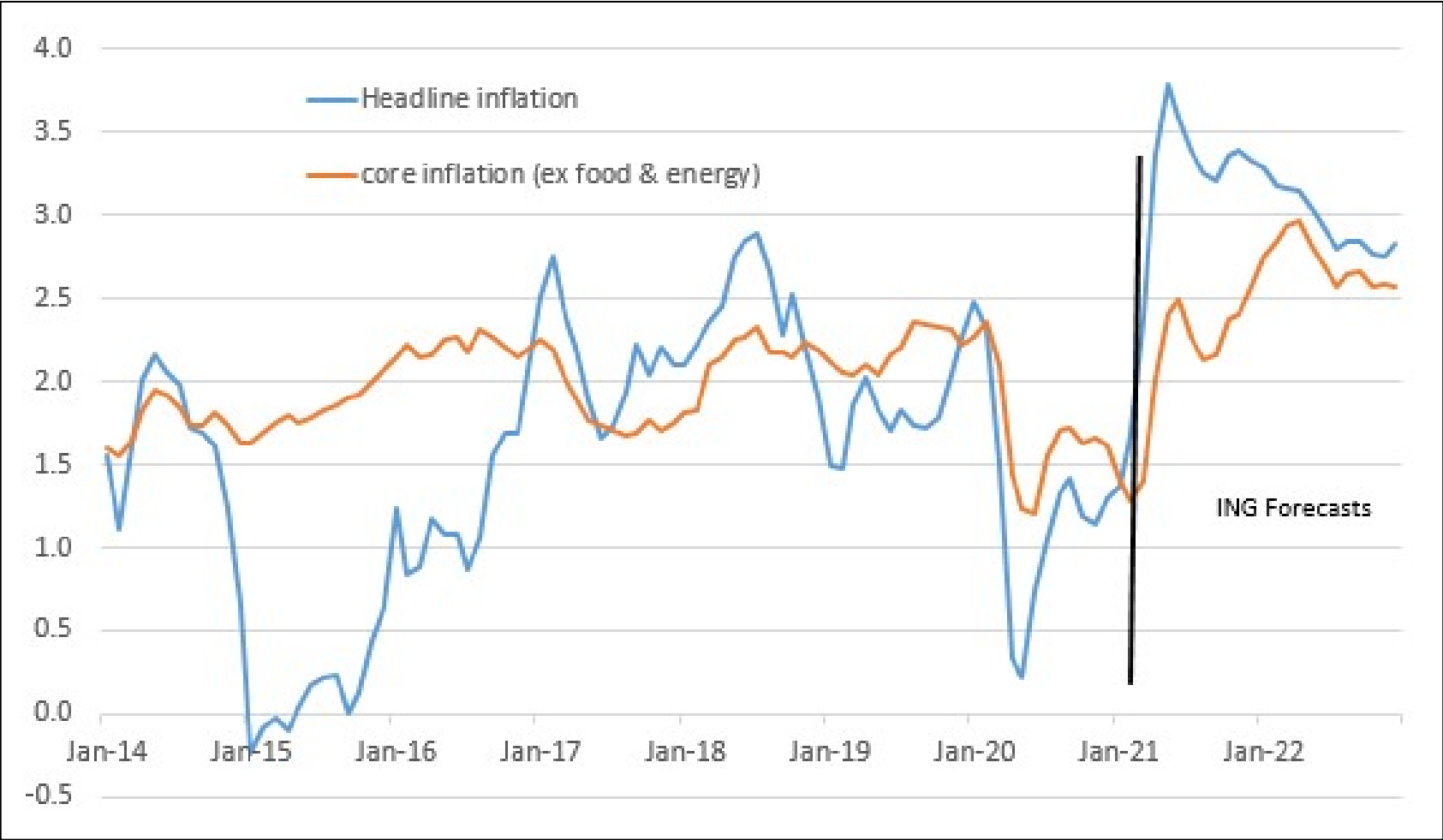


Source: U.S. Bureau of Economic Analysis, Morningstar.

# Let's Talk Inflation for a Moment

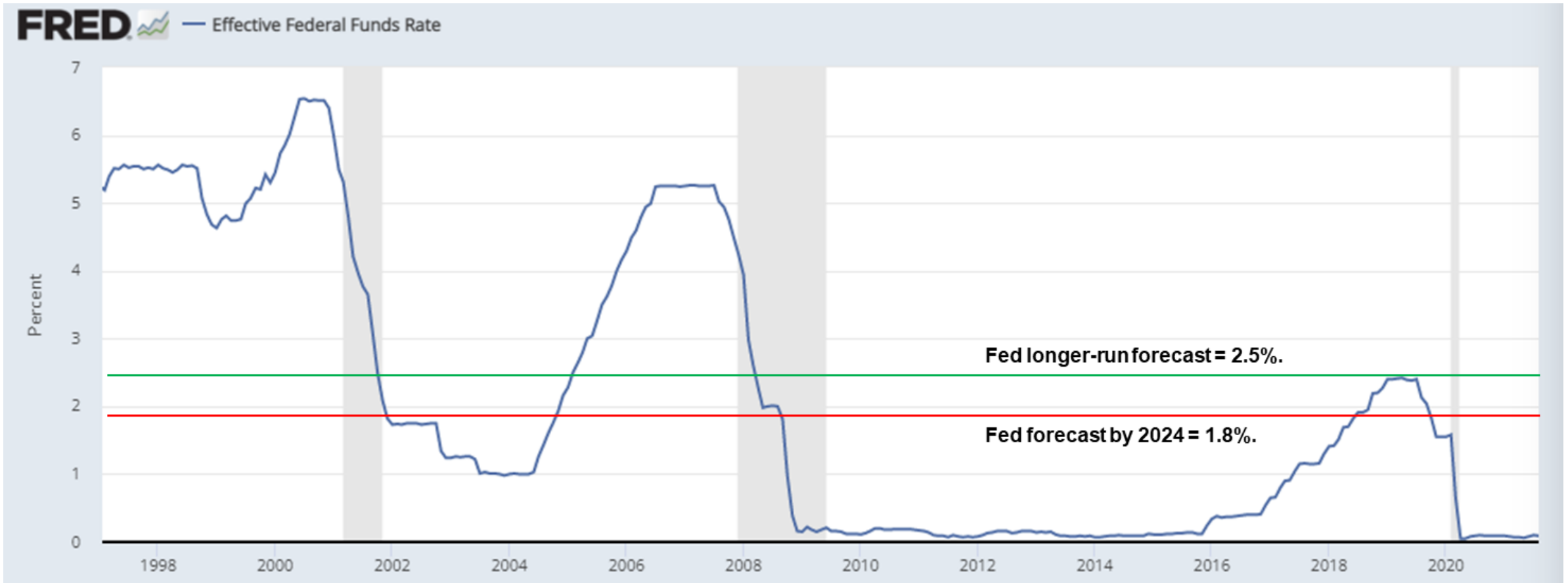
- **Are we really facing hyperinflation or stagflation? NO!!!**
  - Hyperinflation is 50% levels of inflation over several months – think of the Weimar Republic in Germany in the 1930s. We are at 5.0%.
  - Stagflation is double digit inflation with double digit levels of unemployment. We are at 5.0% inflation with 4.7% unemployment.
- **What ARE we facing as far as inflation?**
  - Commodities are indeed transitory – they do go up and down but timing is hard to figure.
  - Wages are more worrying as once they go up they do not come down. Most of the hikes are with skilled workers but white collar is up as well. Wage/price spiral
  - Money supply issue has faded as consumers spent. This is the only part of inflation the Fed can really impact.

# More Likely to Trend Down than Up



# What Does a 1.5 Point Hike Look Like on a Historic Basis?

- There are just no forecasts showing interest rates returning to anything that looks historically high...
- Rates are expected to remain accommodative.

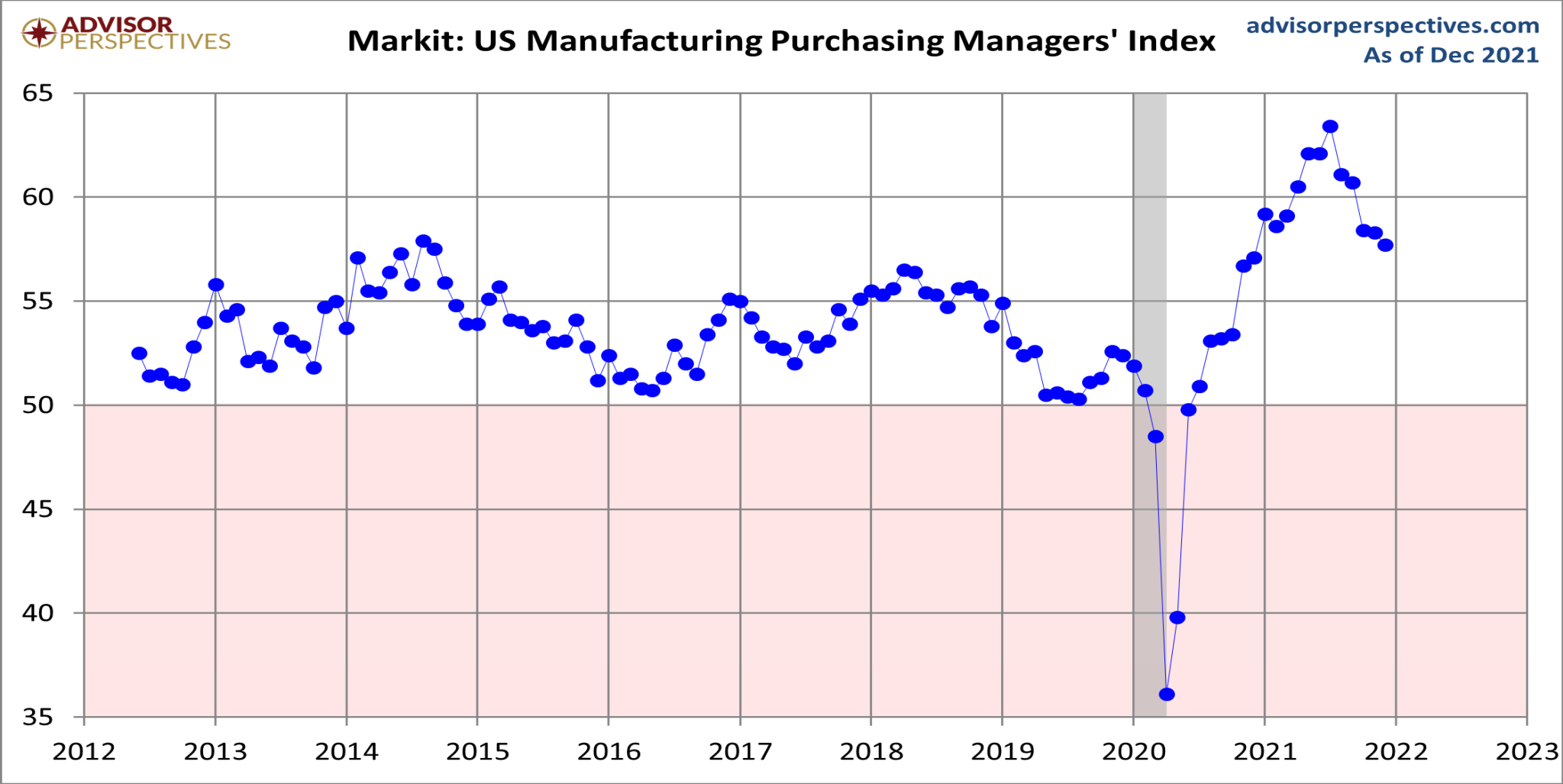


# Job Openings Still Near All-Time Highs – Wage Inflation Never Really Adjusts Back Down.

- Manufacturing still has 858,000 jobs open.
- Update: 6.3 million unemployed in December...
- Unemployment rate in December was 3.9%, pre-pandemic (2019) = 3.5%

Name	Level in Thousands			M/M	Y/Y
	Nov-21	Oct-21	Nov-20	Percent	Percent
Total Nonfarm Industry	10,562	11,091	6,766	-4.8%	56.1%
Total Private	9,601	10,173	6,078	-5.6%	58.0%
Construction	345	455	261	-24.2%	32.2%
Manufacturing	858	955	514	-10.2%	66.9%
Durable Goods	522	552	250	-5.4%	108.8%
Non-durable Goods	336	402	263	-16.4%	27.8%
Trade, Transportation and Utilities	1,955	1,972	1,204	-0.9%	62.4%
Retail Trade	1,044	1,057	720	-1.2%	45.0%
Professional and Business Services	1,801	1,871	1,261	-3.7%	42.8%
Education and Health Services	1,970	2,043	1,335	-3.6%	47.6%
Health Care and Social Assistance	1,802	1,869	1,234	-3.6%	46.0%
Leisure and Hospitality	1,482	1,750	859	-15.3%	72.5%
Arts, Entertainment and Recreation	172	178	110	-3.4%	56.4%
Accommodation and Food Services	1,310	1,571	749	-16.6%	74.9%
Government	962	918	688	4.8%	39.8%
State and Local	800	781	584	2.4%	37.0%
Census Region					
Northeast	1,892	1,839	1,166	2.9%	62.3%
South	3,950	4,198	2,623	-5.9%	50.6%
Midwest	2,323	2,569	1,455	-9.6%	59.7%
West	2,397	2,485	1,522	-3.5%	57.5%

# Still Strong but Some Retreat



# Inventory levels are improving slightly...but still too low.

- Inventories to sales ratios are the key metric to watch
- Until they balance...no relief.

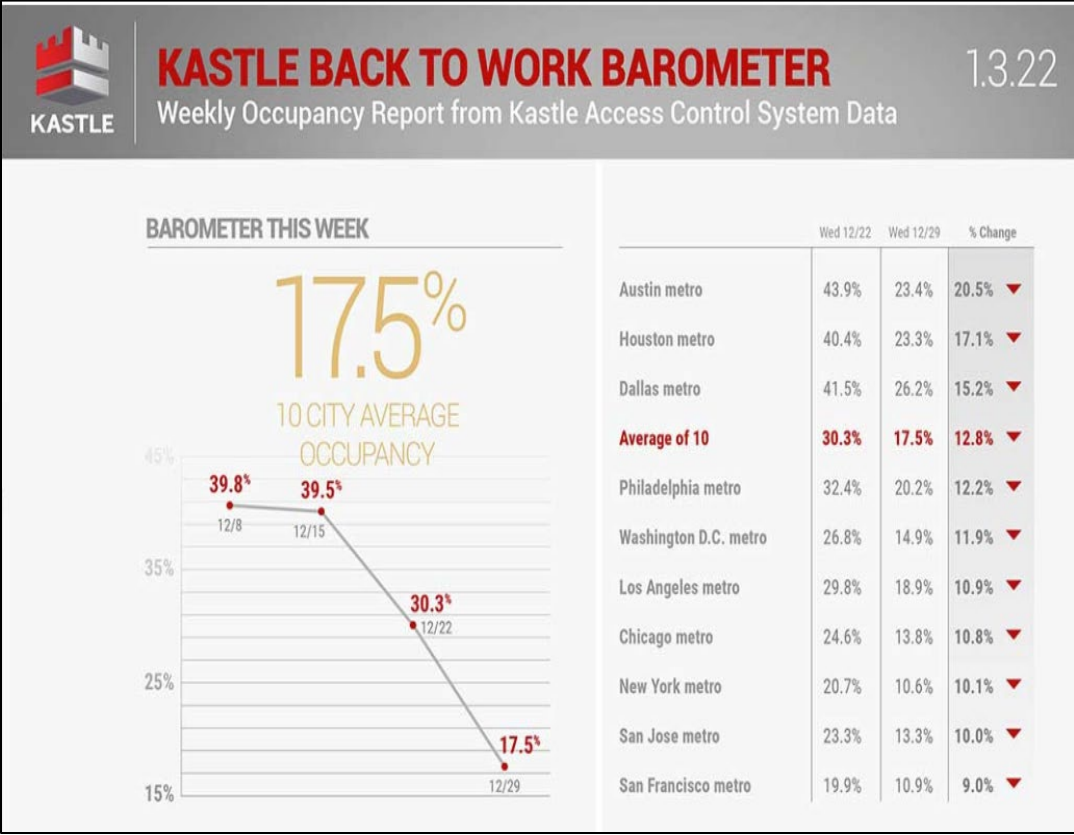
	MoM	YoY vs. 2020	YoY vs. 2019
Total Business	0.0%	-6.7%	-11.9%
Retailers	-0.9%	-10.7%	-25.9%
Manufacturing	0.0%	-3.3%	-0.7%
Wholesale Trade	0.0%	-7.5%	-8.2%
Automotive	-22.5%	-79.7%	-81.6%



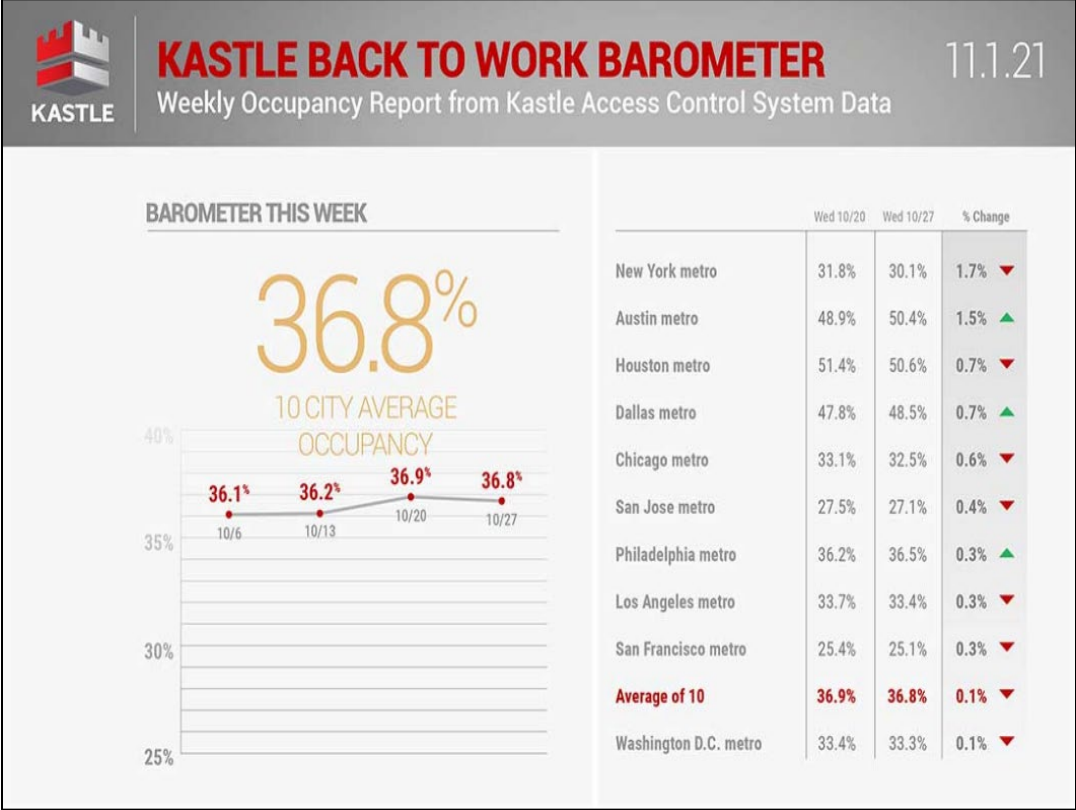
Source: Federal Reserve; Congressional Budget Office

# Commuters Aren't Commuting - Yet

## December '21



## November '21



Source: Kastle



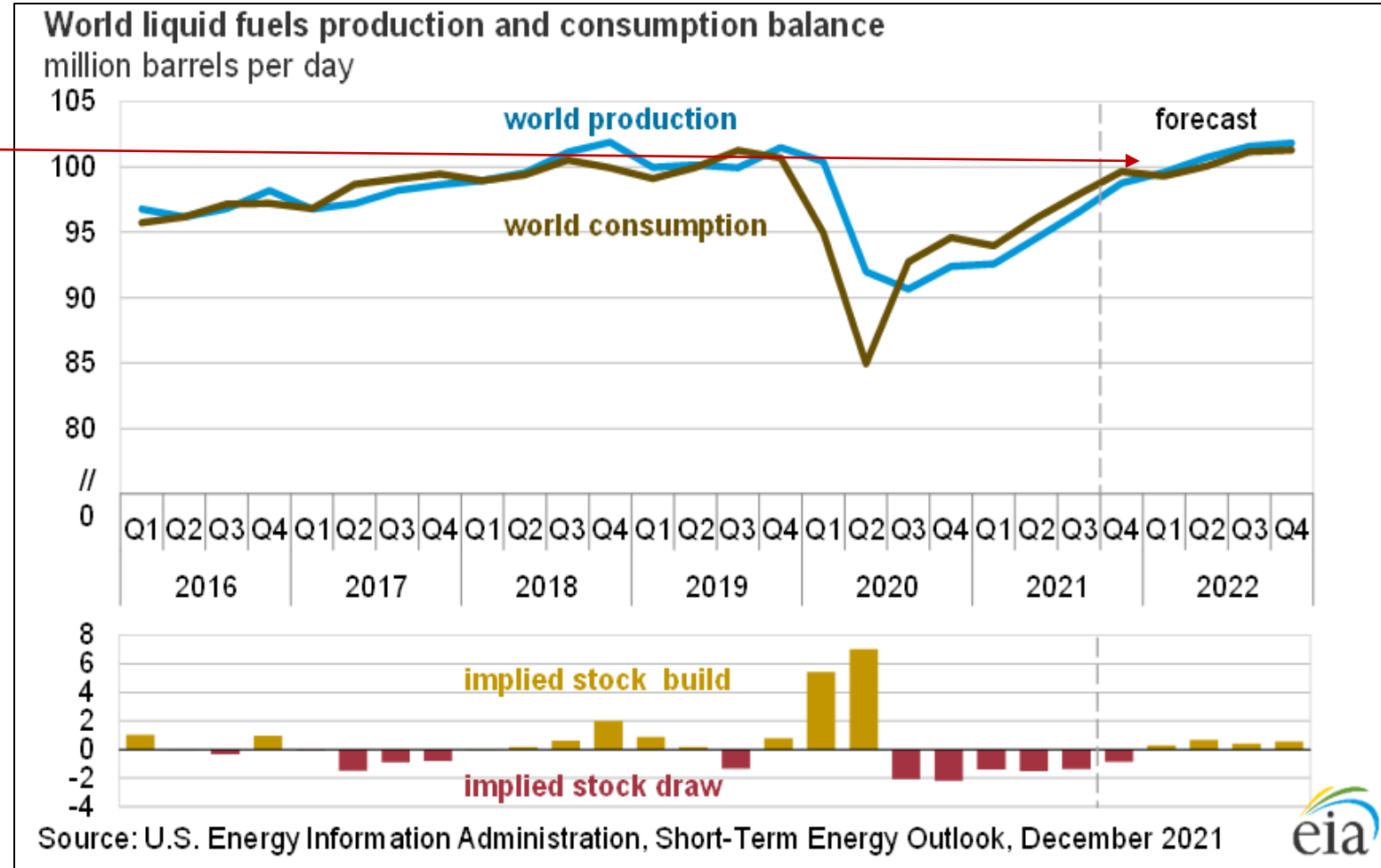
# Fuel Prices Touch All-Time High on West Coast, Nationwide Remain Elevated

- Regular gasoline prices are 31.5% higher than they were a year ago.
- Diesel on the other hand, has been 26.9% higher in the first week of January.
- Crude oil prices are currently driving 55% of the price for a gallon of gasoline, 50% for a gallon of diesel (the remainder is taxes, distribution and marketing, and refining).



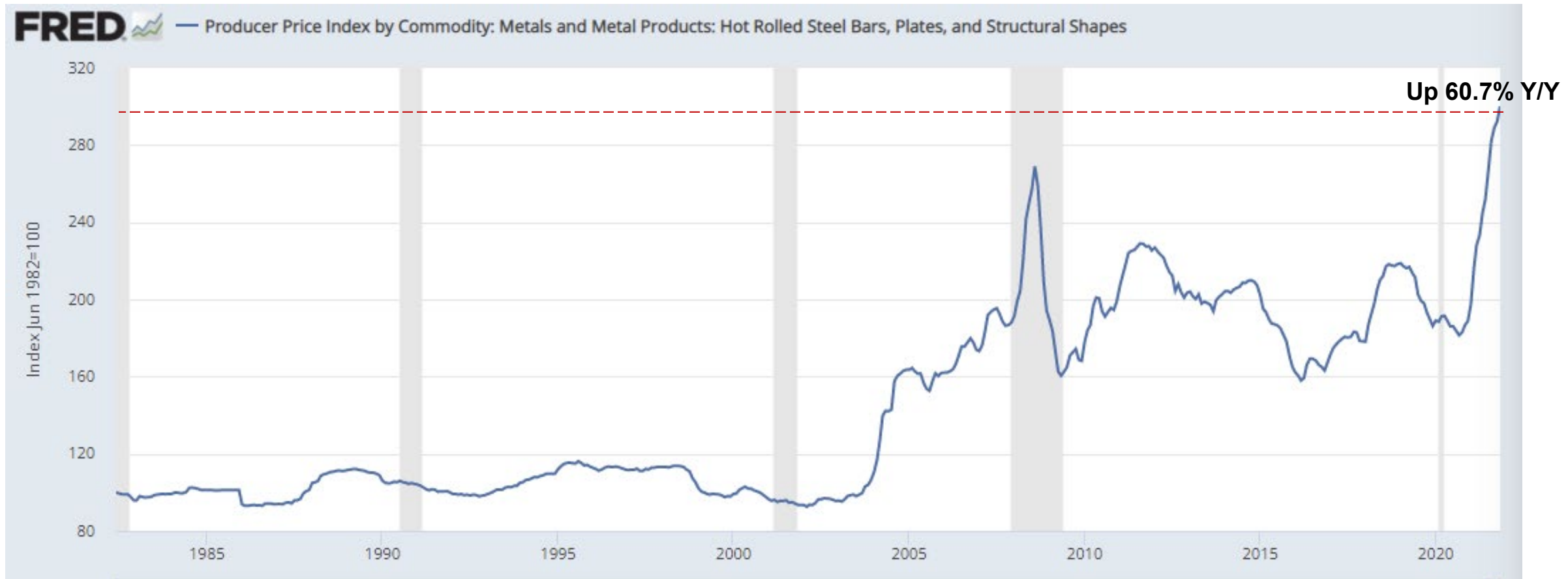
# EIA Forecast on Balance Between Oil Supply/Demand

- Global production is expected to return to pre-pandemic levels this quarter.
- Global oil supplies are expected to return to a “net build” situation according to this EIA forecast. Some expect this to shift to new draw when the new outlook is released.



# Structural Steel Second Highest Prices in History

- Producer prices for steel continue to rise despite reports that prices are softening in some segments.
- China's reduction of smelter capacity (down 30%) will play into prices as US steel makers may be asked to fill more global orders.



# Warehouse Levels on Most Commodity Metals are Still Falling – Especially Aluminum

5 Year LME Aluminium Warehouse Stocks Level



5 Year Aluminium Spot



# What to Watch This Year...

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- **Issues in China**
  - COVID continues to be a problem in China
  - Low vaccination rates, isolation, less effective vaccine
  - Timing of Lunar New Year and Olympics
  - 5<sup>th</sup> Annual Congress Starts during peak season
  - Xi wants “blue skies” (keep smelter production low, energy costs will continue to be tight)
- **Supply Chain Adjustments**
  - Near shoring and on-shoring
  - Expanded use of technology and robotics
- **Labor Shortage**
  - Getting women back into workforce
  - Reforming immigration policies
  - Delaying retirement

# Just Can't Get Enough??



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