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Q1 2022 ECONOMIC REPORTS

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GDP GROWTH | EMPLOYMENT | MONETARY POLICY | GLOBAL ECONOMY

GDP GROWTH: TRENDING IN Q1 2022

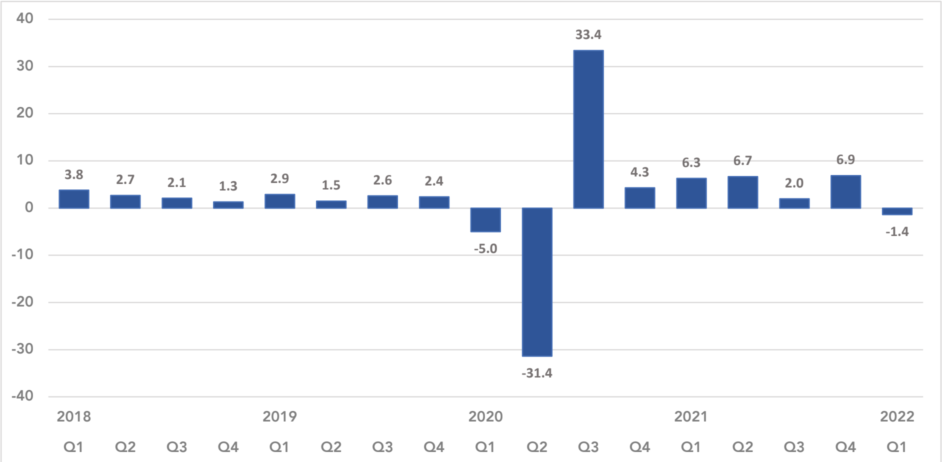
The U.S. gross domestic product contracted at a 1.4% annual rate in the first quarter. It was the weakest quarterly showing in the nation's economy since 2020 and was blamed chiefly on supply disruptions, reduced exports and fading fiscal stimulus. But solid consumer spending and business investment suggest that growth will resume. Nevertheless, the decline was unexpected and in stark contrast to the strong 6.9% GDP reading in the fourth quarter of 2021. Despite the retreat, the Commerce Department said consumer spending – the main driver of the economy – rose at a 2.7% annual rate, which was a 20-basis point improvement on Q4. It should be noted that the jump in consumer spending came amid a 7.8% rise in prices.

An increased trade deficit or "net exports" knocked 3.2 percentage points off the headline GDP, rising 17.8% to an all-time high of $125.3 billion in the first quarter. Imports accelerated 11.4% to $294.6 billion, boosted by a 15% surge in imports of industrial supplies which include petroleum products. There was a 13.6% jump in imports of consumer goods. Motor vehicle imports were up 12%.

Slowing inventory growth trimmed nearly a percentage point off the GDP as companies cut back on Q1 orders after overstocking with goods to ensure supply-chain disruptions didn't leave them with empty shelves during the holiday shopping season.

Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



'It reminds us of the reality that growth has been great, but things are changing and won't be that great going forward' – Simona Mocuta, State Street Global Advisors

Several economists cautioned against reading too much into the negative turn, pointing out signs of momentum. Nevertheless, there are clouds on the horizon. In March the World Bank and IMF each cut their estimates for global growth and there are signals that the economies of Europe and China are slowing.

"In retrospect, this could be seen as a pivotal report," said Simona Mocuta, chief economist at State Street Global Advisors. "It reminds us of the reality that growth has been great, but things are changing and won't be that great going forward." Private fixed investment was up 7.3% and business spending on commercial property and equipment gained 9.2%.

The National Association of Home Builders noted that housing's share of GDP increased to 16.7% in Q1. The more cyclical home building and remodeling component – residential fixed investment – increased to 4.8% of GDP.

Current-dollar personal income increased $268 billion in Q1 compared with a $123.9-billion increase in the fourth quarter. Disposable personal income increased $216.6 billion, or 4.8%, in the first quarter, compared with an increase of $20.1 billion, or 0.4%, at the end of 2021.

Personal saving was $1.21 trillion in the first quarter compared with $1.39 trillion in Q4. Personal saving as a percentage of disposable income was 6.6% in the first quarter compared with 7.7% at the end of last year. The 5.9% decrease in federal government spending primarily reflected an 8.5% drop in defense orders for intermediate goods and services.

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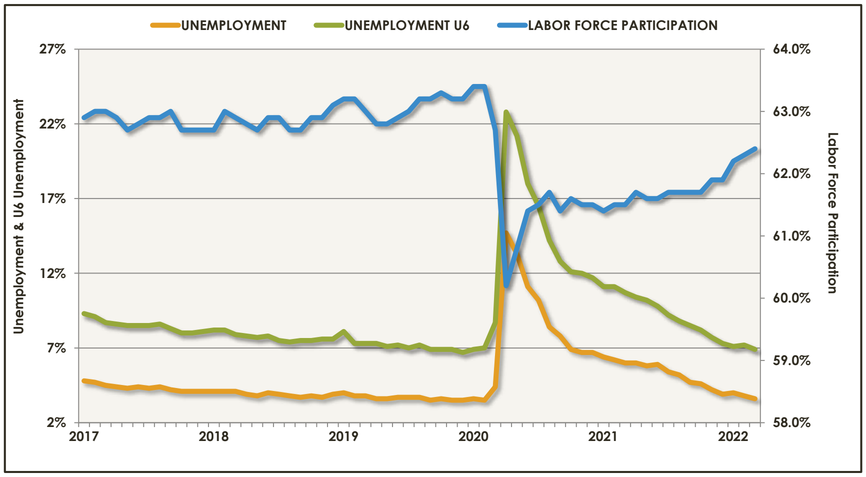
EMPLOYMENT: TRENDING IN Q1 2022

The U.S. unemployment rate at the end of March fell to 3.6%, down 30 basis points since the end of 2021, and closed out the first quarter nearly matching the lowest jobless rate since 1969. Additionally, the number of long-term unemployed declined by 274,000 in March to 1.4 million, the Labor Department said.

There were 431,000 new jobs added in March with notable employment gains in leisure and hospitality, professional and business services, retail trade and manufacturing. In the first quarter, monthly job gains averaged 562,000, virtually the same pace as average monthly job creation in 2021. The U.S. Bureau of Labor Statistics reported that 10% of all workers worked remotely because of the pandemic. That rate decreased from 13% in February. Additionally, among those not in the labor force 874,000 persons were prevented from looking for work due to the pandemic, down from 1.2 million the previous month.

Leisure and hospitality gained 112,000 jobs in March but the category is down by 1.5 million workers since February 2020. There were about 102,000 added jobs in professional and business services in March, up 723,000 jobs since February 2020. More than 22,000 of the new jobs in March were connected to real estate, 18,000 in accounting and bookkeeping, 15,000 in management and technical consulting services, 12,000 in computer systems design and related services and 5,000 in scientific research.

United States Unemployment



There were 19,000 added construction jobs in March, returning the sector to its pre-lockdown employment level.

Employment in retail trade increased by 49,000 in March and is 278,000 jobs ahead of filled positions prior to the lockdown. Jobs selling general merchandise gained more than 20,000 in March. Food and beverage jobs were up 18,000 but health and personal care jobs lost 5,000 positions.

Manufacturing employment was up 38,000 in March but since February is down by 128,000 jobs. There were 22,000 durable goods manufacturing jobs added in March, led by the manufacture of transportation and electrical equipment and appliances. Non-durable goods jobs added 16,000, including a gain of 7,000 positions in chemicals.

Social assistance employment increased by 25,000 jobs in March but is down by 126,000 jobs, or 2.9% since February 2020. There were 19,000 added construction jobs in March, returning the sector to its pre-lockdown employment level.

Average hourly earnings for all employees on private nonfarm payrolls rose by 13 cents to $31.73 in March. Over the past 12 months, average hourly earnings have increased by 5.6%. In March average hourly earnings of private sector production and nonsupervisory employees rose by 11 cents to $27.06.

The average workweek for all employees on private nonfarm payrolls fell by 0.1 hour to 34.6 hours in March. In manufacturing, the average workweek for all employees was unchanged at 40.7 hours, and overtime fell by 0.1 hour to 3.4 hours. The average workweek for production and nonsupervisory employees on private nonfarm payrolls declined by 0.1 hour to 34.1 hours.

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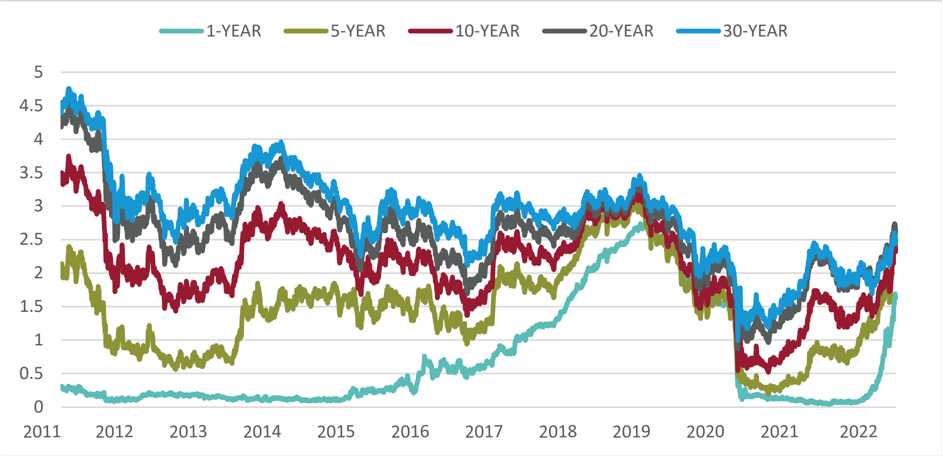
MONETARY POLICY: TRENDING IN Q1 2022

The Federal Reserve raised interest rates twice so far this year – a quarter percentage point in March and a half percentage point in early May – making good on its pledge to move aggressively to curb rising inflation now at a 40-year high. The two increases lifted the benchmark short-term borrowing rate from near zero, and officials at the central bank said they expect rates to climb nearly 2% on average this year and 3% in 2023. The Federal Reserve also said that in the second quarter it would begin unloading some of the $4.5 trillion in assets it purchased during the pandemic. It is a three-year plan with a goal of shedding $95 billion a month in mortgage-backed securities and treasuries.

Russia's war on Ukraine was cited by Fed officials as a key risk that may fuel higher inflation and reduce economic activity. The elevated concern caused the committee to scale back its interest rate hike from a half point that previously was favored. There was unanimous consent for the rate hike at the March meeting with one member of the 10-member committee advocating for a half-point increase.

Fed Chair Jerome Powell said after the meeting that he believes the Fed can engineer a "soft landing," where the central bank raises borrowing costs just enough to cool the economy and reduce inflation without negatively affecting employment or the GDP.

Daily Treasury Yield Curve Rates (Decade Trend)



'In my view the probability of a recession within the next year is not particularly elevated' – Fed Chair Jerome Powell

"In my view the probability of a recession within the next year is not particularly elevated. All signs are that this is a strong economy. Household and business balance sheets are strong," Powell said.

Soon after the pandemic hit, the Fed acted aggressively to ensure liquidity in financial markets by cutting rates to near zero and through the purchase of securities at the rate of $120 billion a month. Officials pledged to leave rates unchanged while inflation was less than 2% and until the labor market returned to levels consistent with maximum employment.

The employment goal has been reached, but the current annual inflation rate for the last 12 months through March is 8.54%. Bringing prices down will require a combination of steady hikes plus aggressive balance sheet reduction, Fed officials say. "I think we can all absolutely agree inflation is too high and bringing inflation down is of paramount importance," said Lael Brainard, a member of the Fed's board of governors who recently was confirmed as vice chair.

Brainard said the Fed "will continue tightening monetary policy methodically through a series of interest rate increases and by starting to reduce the balance sheet at a rapid pace as soon as our May meeting."

She said policymakers "are prepared to take stronger action," if warranted by readings on inflation, while remaining alert to the yield curve for signs of downside risks to the economy.

GLOBAL ECONOMY: TRENDING IN Q1 2022

Russia's unprovoked war on Ukraine has added pronounced stress to economies worldwide that already were grappling with inflation and the lingering effects of Covid.

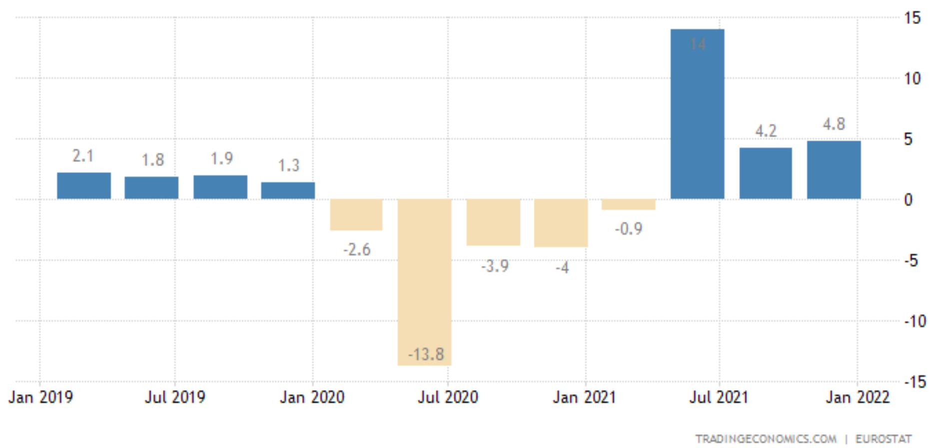
At the close of the first quarter, the International Monetary Fund forecast that global growth would slow from 6.1% in 2021 to 3.6% this year and 2023. The World Bank cut its 2022 growth forecast to 3.2%.

The IMF now expects global prices to increase 7.4% this year, more than double the 3.2% it forecast in late 2020. The increases will be notable throughout commodity markets, trade and financial channels, the fund said, and will complicate the balance sought by central banks aimed at safeguarding growth.

Inflation is expected to remain elevated for longer than in the IMF's previous forecast, driven by broadening price pressures and war-induced commodity price increases. For 2022 inflation is projected at 5.7% in advanced economies and 8.7% in emerging market and developing countries – 1.8 to 2.8 percentage points higher than in the IMF's January's forecast.

Beyond 2023, the IMF forecasts growth to decline to about 3.3%, assuming the current war doesn't widen and that further sanctions on Russia would exempt its energy sector.

European Union GDP Annual Growth Rate



Russia's attack on Ukraine was a 'massive setback' for the world economy – Kristalina Georgieva, chair and managing director of the IMF.

David Milpass, president of the World Bank, said the "severe overlapping crisis" are expected to drive up global poverty rates as the world copes with sudden increases of energy, fertilizer and food. Rising interest rates will slow growth and exacerbate inequality, Milpass said.

Officials at the IMF and World Bank have issued numerous advisories since Russia attacked its democratic neighbor in late February. The latest statement from the IMF talks of a "narrowing fiscal space" faced by governments and likelihood that any near-term improvement in public finances from higher inflation will soon be offset by rising food and energy prices along with increasing interest rates.

Both the fund and World Bank forecast a double-digit drop in GDP for Ukraine and severe contraction in Russia. The effects of the war will be felt by nearby countries in Central Asia and Europe.

Although a gradual resolution of supply-demand imbalances and a modest pickup in labor supply are expected, the IMF said uncertainty over when price inflation will begin to ease clouds its forecast. "Conditions could significantly deteriorate," the IMF said. "Worsening supply-demand imbalances and higher commodity prices could lead to persistently high inflation, rising inflation expectations and stronger wage growth."

Russia's attack on Ukraine was a "massive setback" for the world economy, said Kristalina Georgieva, chair and managing director of the IMF. "In a world where war in Europe creates hunger in Africa; where a pandemic can circle the globe in days and reverberate for years; where emissions anywhere mean rising sea levels everywhere – the threat to our collective prosperity from a breakdown in global cooperation cannot be overstated," she said.

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