

Some of the critical questions and issues we will be answering today

- What are the major drivers of inflation around the world?
- Why are some economies seeing larger price gains than others?
- Which inflationary forces are temporary, and which are persistent?
- What is being done to tame inflation in major economies?



Today's Speakers



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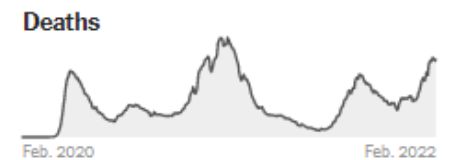
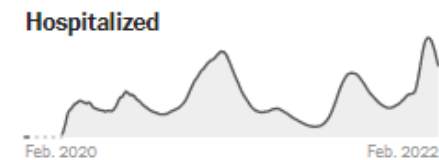
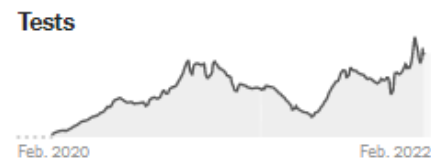
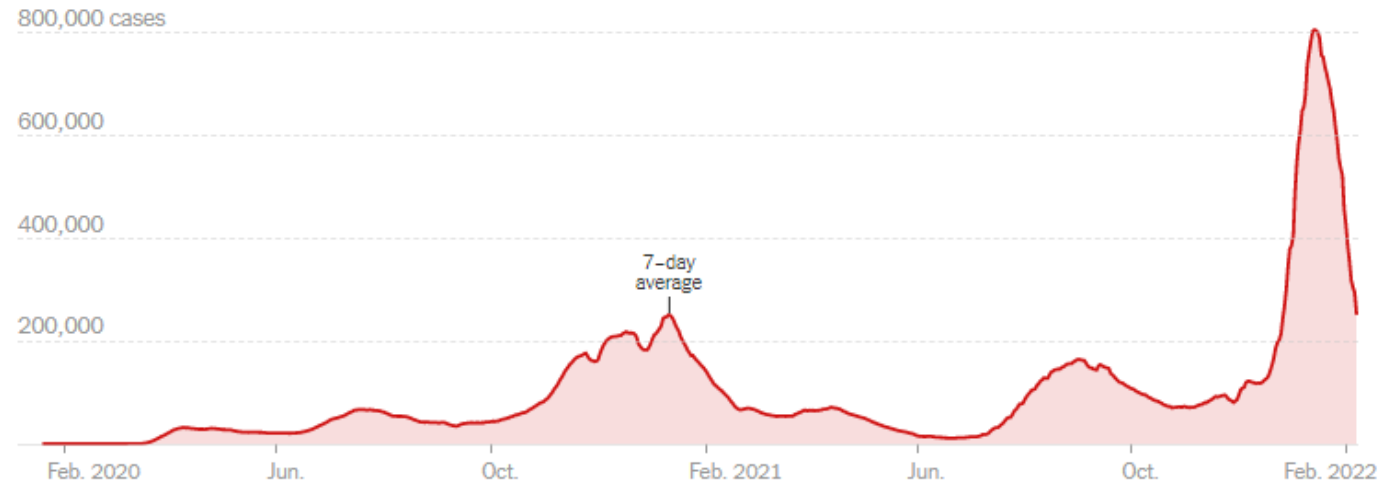


US Outlook

New cases of Omicron are declining rapidly, but the pandemic remains a risk to growth

- Our recent forecasts assumed that a 'winter wave' of COVID-19 would emerge in Q1 2022 and slow US economic growth.
- Omicron resulted in a much larger surge than anticipated, but new cases have been dropping rapidly.
- Key implications of Omicron include: staffing shortages, closures, consumer sentiment, supply chain disruptions, inflation.

New reported cases

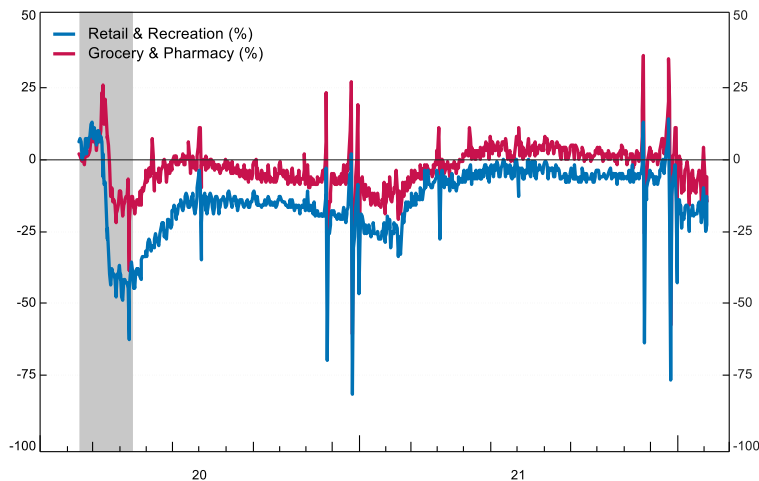


Source: New York Times

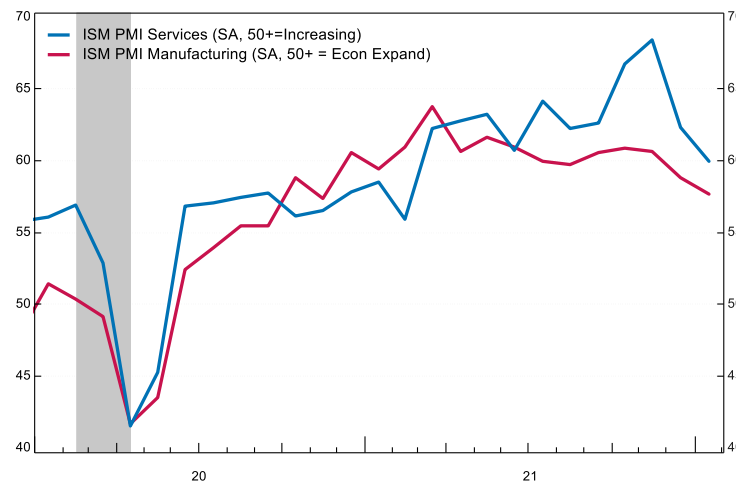
January economic indicators ticked down, as expected, but the damage could have been far worse

- New COVID-19 infections associated with Omicron far exceeded previous waves of the pandemic
- However, the economic indicators we have for January (thus far) did not plummet accordingly
- The US economy appears to have become more resistant to the impact of COVID-19

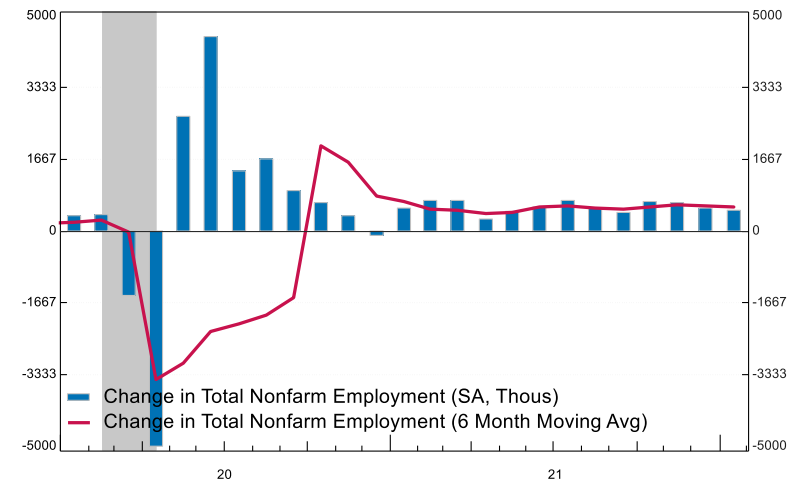
Google Mobility (Visits Relative to Pre-Pandemic)



ISM PMIs (>50 = Increasing)



Change in Non-Farm Employment (1000s)



High inflation and more aggressive Fed policy will weigh on growth

THE CONFERENCE BOARD US ECONOMIC OUTLOOK, 2020-2021-2022-2023 Percentage Change, Seasonally Adjusted Annual Rates*

	2020				2021				2022				2019	2020	2021	2022	2023
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q*	IV Q	I Q	II Q	III Q	IV Q					
Real GDP	-5.1	-31.2	33.8	4.5	6.3	6.7	2.3	6.9	2.0	2.8	2.6	2.4	2.3	-3.4	5.7	3.5	2.6
Real disposable income	3.1	48.5	-16.6	-8.3	54.7	-29.1	-4.3	-5.8	0.7	1.0	1.5	2.0	2.3	6.2	2.2	-3.2	2.2
Real consumer spending	-6.9	-33.4	41.4	3.4	11.4	12.0	2.0	3.3	2.4	3.7	2.2	1.9	2.2	-3.8	7.9	3.3	2.2
Residential investment	20.3	-30.8	60.0	34.4	13.3	-11.7	-7.7	-0.8	1.0	3.0	2.5	2.0	-0.9	6.8	9.0	-0.7	1.5
Nonresidential investment	-8.1	-30.3	18.7	12.5	12.9	9.2	1.6	2.0	6.1	5.2	4.8	4.9	4.3	-5.3	7.3	4.5	4.4
Inventory change (bln chn '12\$)	-30	-253	25	89	-88	-169	-67	174	125	75	65	60	75	-42	-38	81	40
Total gov't spending	3.7	3.9	-2.1	-0.5	4.2	-2.0	0.9	-2.9	3.0	3.0	3.8	4.1	2.2	2.5	0.5	1.5	4.2
Exports	-16.3	-59.9	54.5	22.5	-2.9	7.6	-5.3	24.5	7.1	6.1	5.1	4.0	-0.1	-13.6	4.6	7.8	4.4
Imports	-13.1	-53.1	89.2	31.3	9.3	7.1	4.7	17.7	5.0	4.5	4.0	4.0	1.1	-8.9	14.0	7.1	3.9
Unemployment rate (%)	3.8	13.0	8.8	6.8	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.4	3.7	8.1	5.4	3.6	3.1
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.3	5.5	5.6	4.8	4.1	3.0	1.5	1.2	3.9	4.4	3.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	4.6	5.0	4.3	3.9	3.2	1.7	1.4	3.3	4.1	3.0

Source: The Conference Board

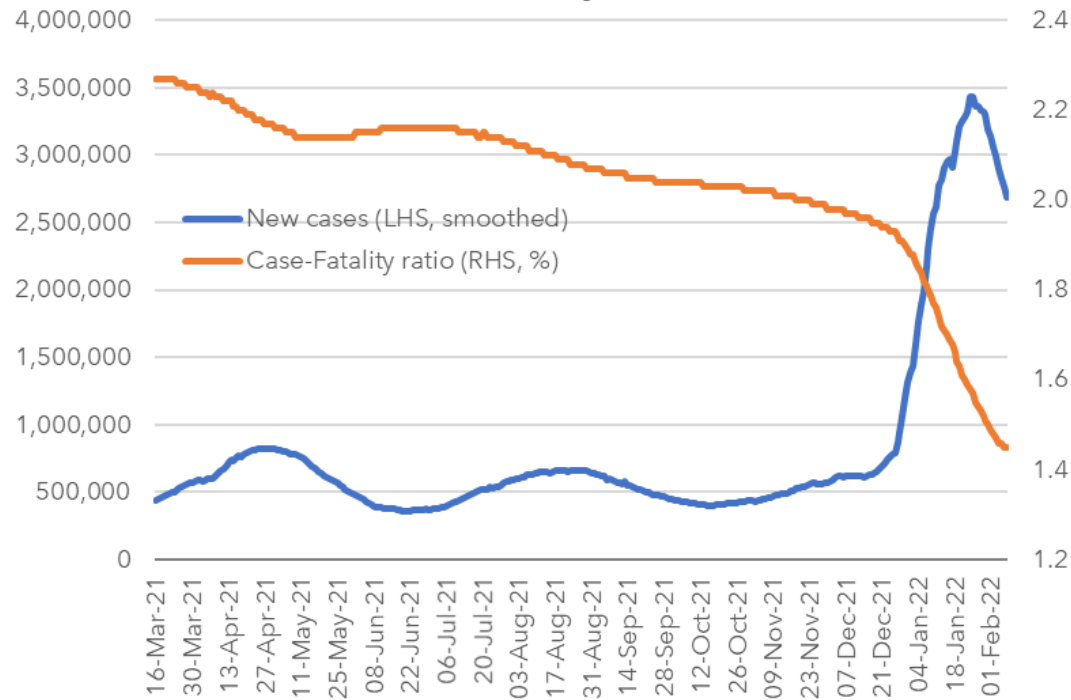
*Units: Quarterly growth rates are QoQ SAAR unless otherwise noted.
Annual growth rates are year-over-year unless otherwise noted



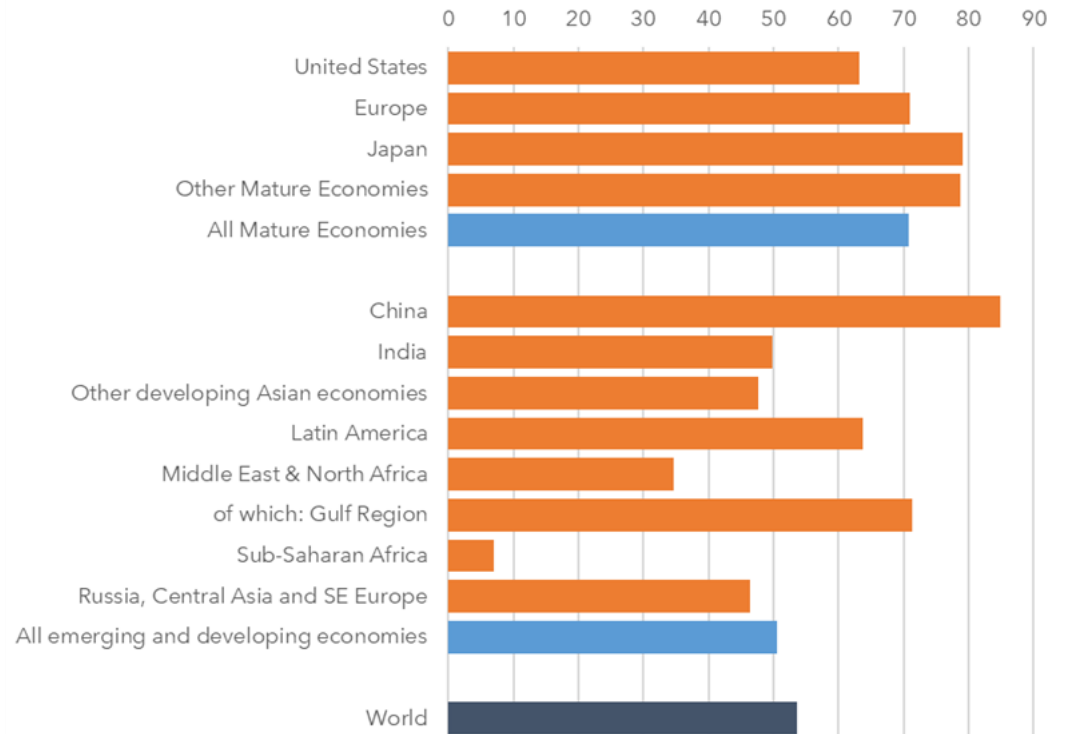
Global Outlook

Does the arrival of the Omicron variant herald a beginning to the end of the pandemic - or continued disruption to the global economy?

World: COVID-19 new cases (smoothed) and case-fatality ratio



Share of population fully vaccinated (%)



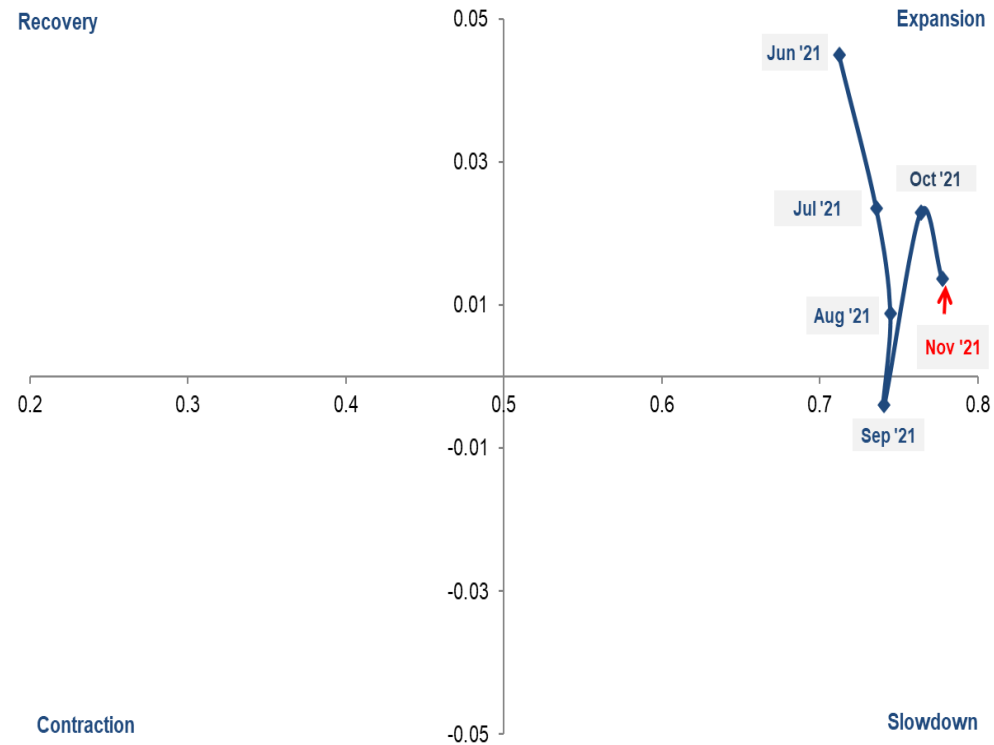
Note: Data as 9 February 2022.

Source: The Conference Board calculations using data from Haver analytics.

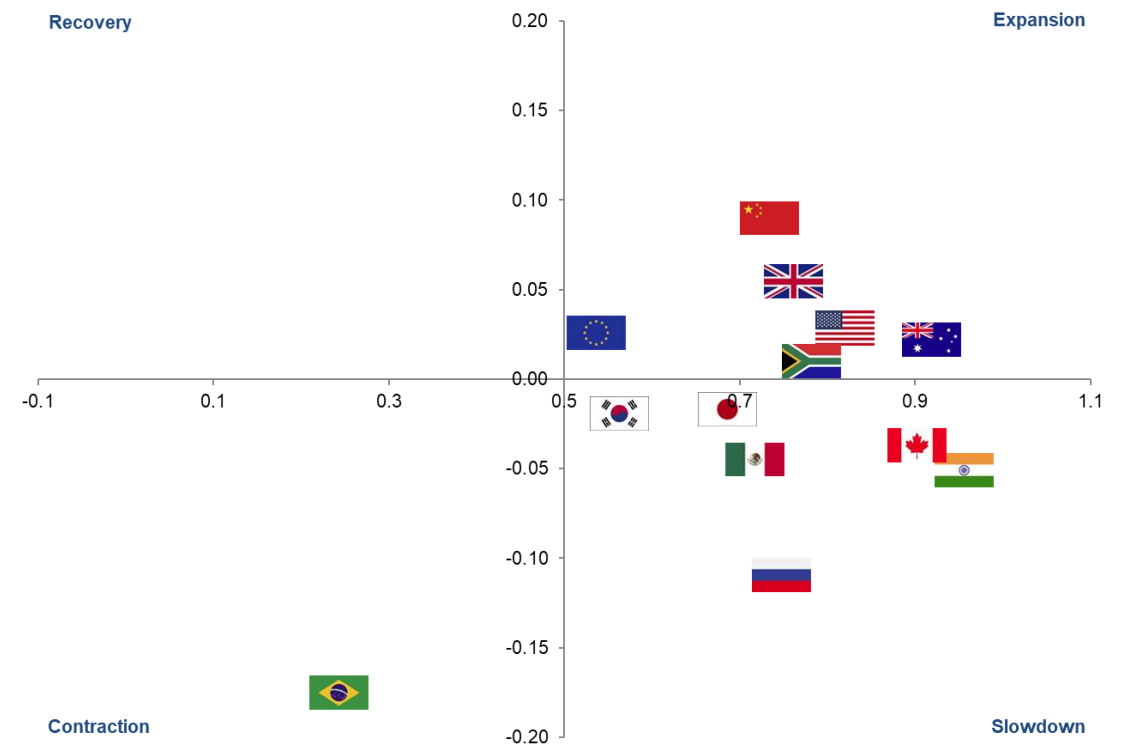


Global Leading Indicators remained in expansionary territory, but growth in 2022 could slow

Trajectory of the global LEI in the last seven months



Latest monthly data for the thirteen economies

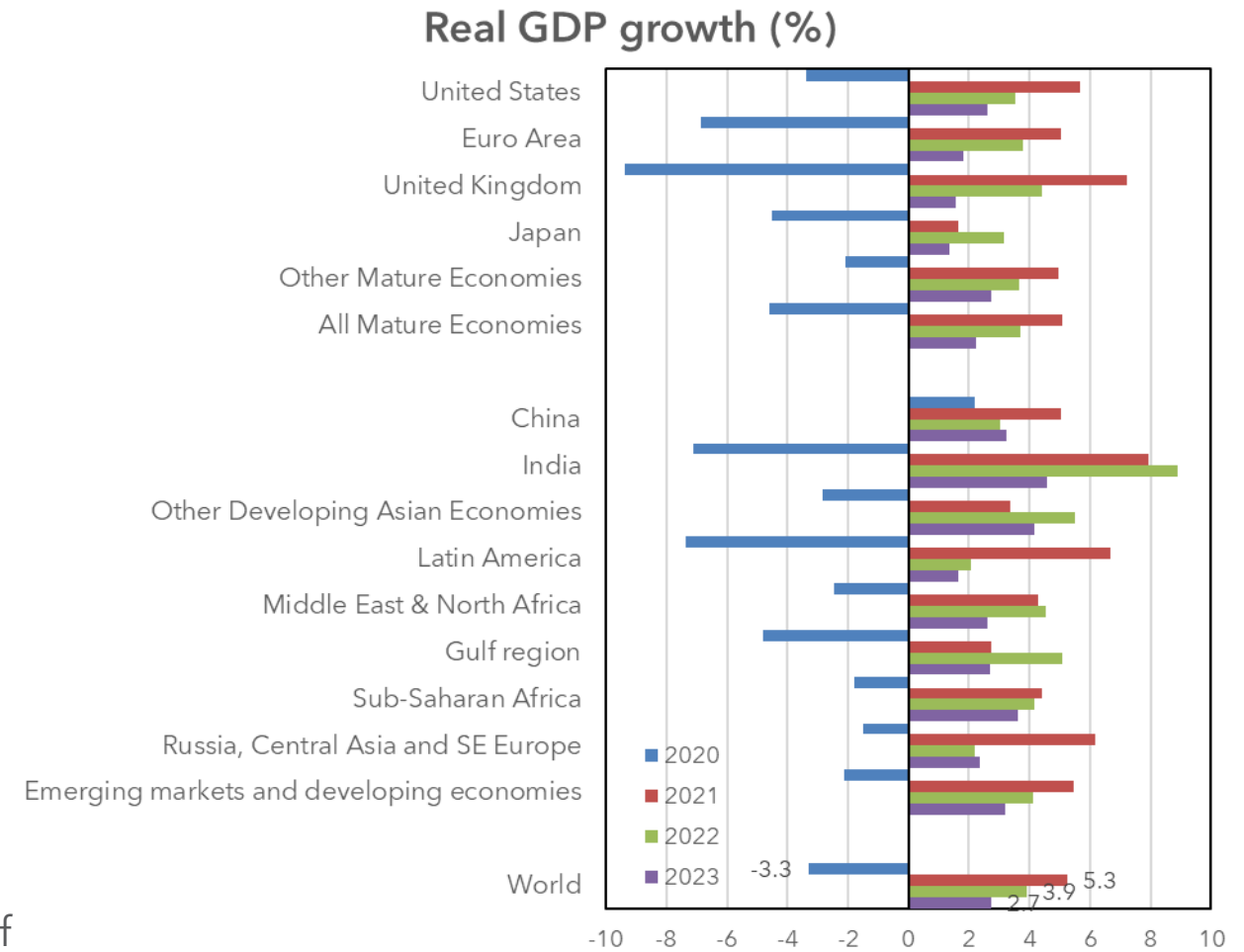


Source: The Conference Board



Despite ongoing pandemic headwinds, the global economy rebounded swiftly in 2021, but growth is likely to cool this year and next

- The global economic rebound has been impressive, but challenges regarding growth this year and next are mounting:
 - ✓ Supply chain disruptions
 - ✓ Pandemic resurgence
 - ✓ Inflationary pressures and shortages of material and workers
 - ✓ Policy tightening (monetary and fiscal)
 - ✓ Unbalanced recovery
 - ✓ Geopolitical risks
- Looking further out, global growth is likely to slow, largely due to ageing populations and slower investment growth
 - ✓ Increased productivity growth may offset some of this slowing

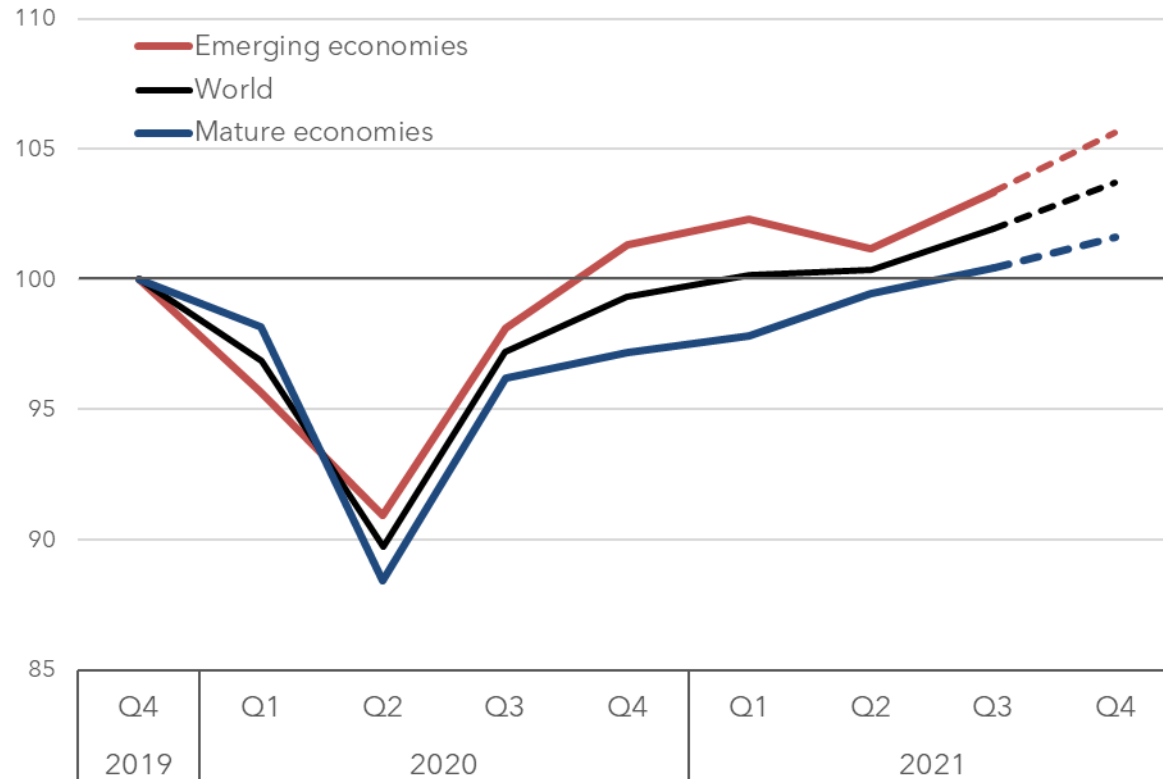


Note: Regions are aggregated based on nominal GDP in international dollars (PPP converted).
Source: [The Conference Board Global Economic Outlook](#) (February 2022).



Global growth held up well in 2021, but will likely slow this year and next as tailwinds from policy support and pent-up demand fade

Real GDP indices, Q4-2019=100



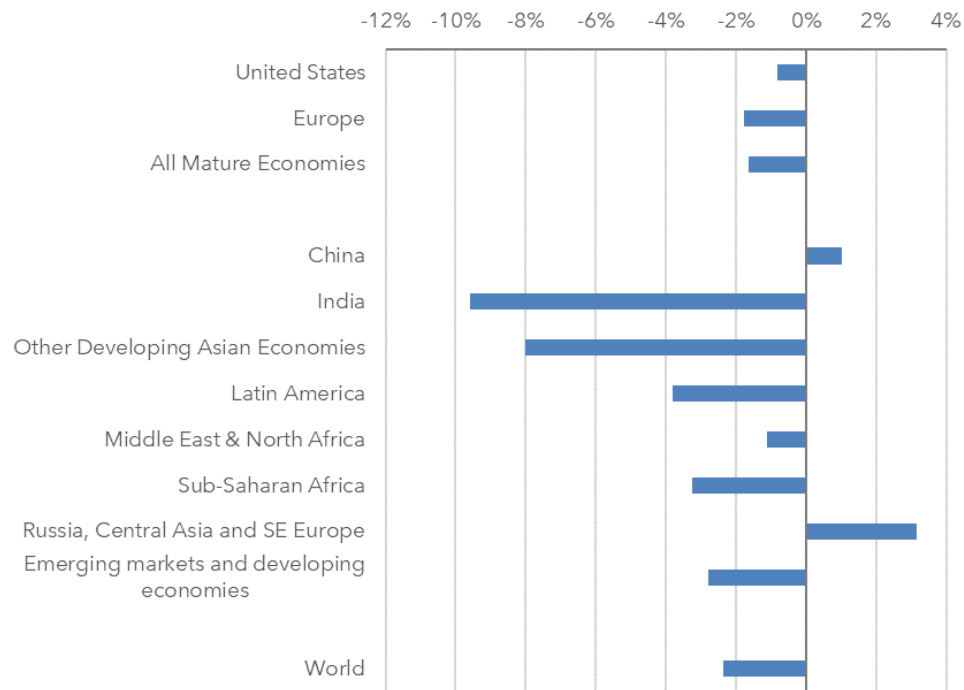
GDP growth (% change)	2020	2021	2022	2023
Mature economies	-4.6	5.1	3.7	2.2
Emerging economies	-2.1	5.4	4.1	3.2
World	-3.3	5.3	3.9	2.7

Note: Regions are aggregated based on nominal GDP in international dollars (PPP converted).
Source: [The Conference Board Global Economic Outlook](#) (February 2022).



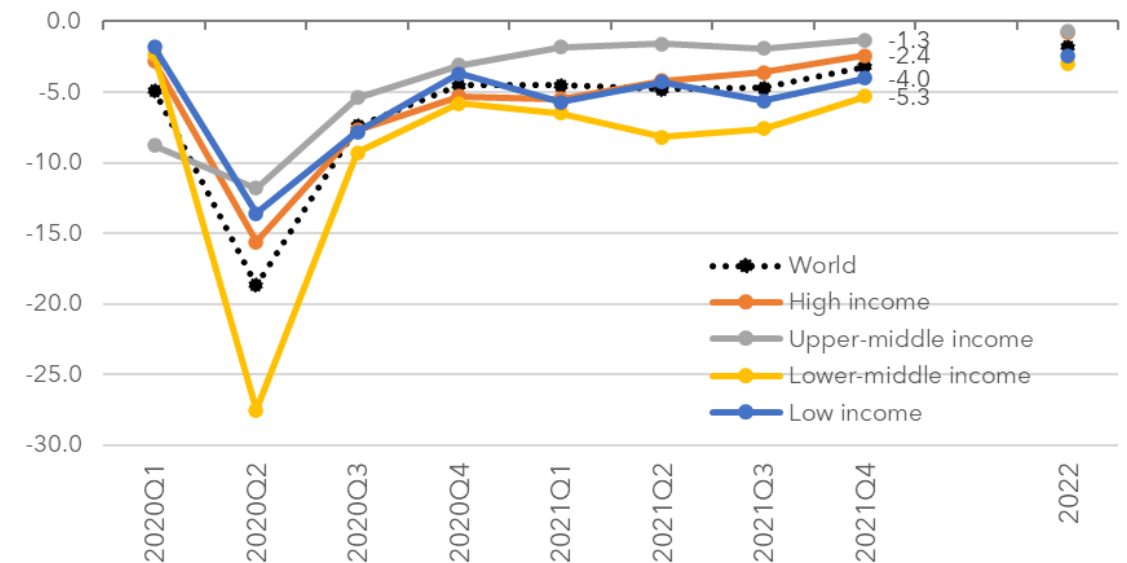
Pandemic recovery much weaker in low-income economies

Gap in GDP with pre-pandemic trend in 2022 (%)



Notes: Figure shows percent deviation between 2022 levels of GDP as projected in the October 2019 GEO compared to the most recent update. A negative (positive) value means projected level of output in 2022 is below (above) pre-pandemic projections. Source: The Conference Board Global Economic Outlook.

Total hours worked relative to Q42019



Source: UN International Labor Organization



Pandemic disruptions, inflation and labor shortages to shape 2022 business environment in major economies

Q: Select the external factors that you think will have the greatest impact on your business next year.

CEOs GLOBALLY		US CEOs		Europe CEOs		China CEOs		Japan CEOs	
COVID-19 related disruptions	1	Labor shortages	1	Rising inflation	1	COVID-19 related disruptions	1	COVID-19 related disruptions	1
Rising inflation	2	Rising inflation	2	Recession risk	2	Recession risk	2	Impact of climate change	2
Labor shortages	3	Supply chain disruptions	3	Supply chain disruptions	3	Changes in consumer behavior	3	Labor shortages	3
Supply chain disruptions	4	COVID-19-related disruptions	4	Labor shortages	4	Rising inflation	4	Changes in consumer behavior	3
Changes in consumer behavior	5	Cybersecurity	5	Global political instability	5	Global political instability	4	Recession risk	5
Recession risk	6	Recession risk	6	Volatility in commodity prices	6	Margin compression	6	Volatility in energy prices	6
Global political instability	7	Regulation	6	Volatility in energy prices	7	Global trade disruptions	6	Global political instability	7
Margin compression	8	Changes in consumer behavior	8	Cybersecurity	8	Supply chain disruptions	8	Cybersecurity	7
Cybersecurity	9	Global rise in authoritarianism	9	Regulation	9	Labor shortages	9	Supply chain disruptions	9
Global trade disruptions	10	Corporate tax rates	9	COVID-19-related disruptions	10	More agile competitors	10	Global trade disruptions	9

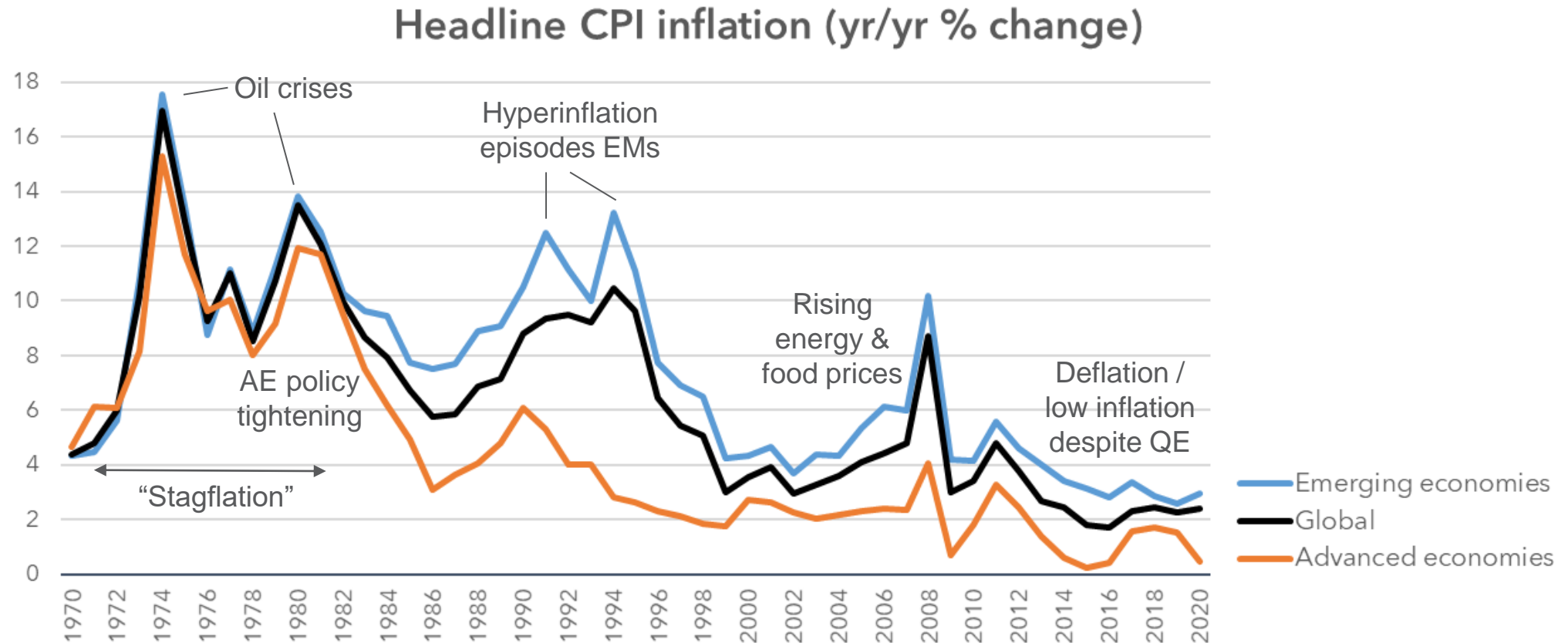
Note: 917 CEOs responded globally.

Source: The Conference Board® C-Suite Outlook 2022



Global Inflation in 2022

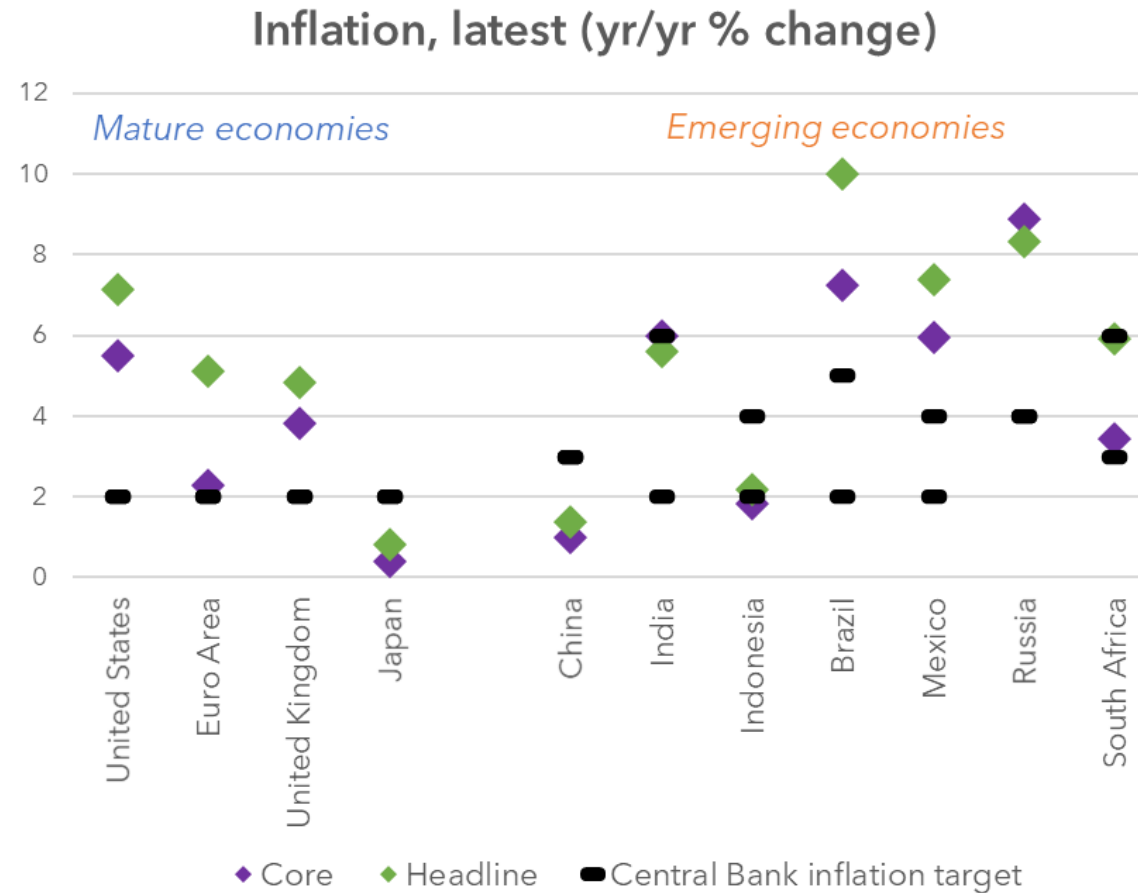
Global inflation has declined sharply from the mid-1970s



Note: Aggregation based on the median inflation rate.
 Source: Ha, Jongrim, M. Ayhan Kose, and Franziska Ohnsorge (2021). "One-Stop Source: A Global Database of Inflation." Policy Research Working Paper 9737. World Bank, Washington DC



Inflation rates in many economies are above central bank targets



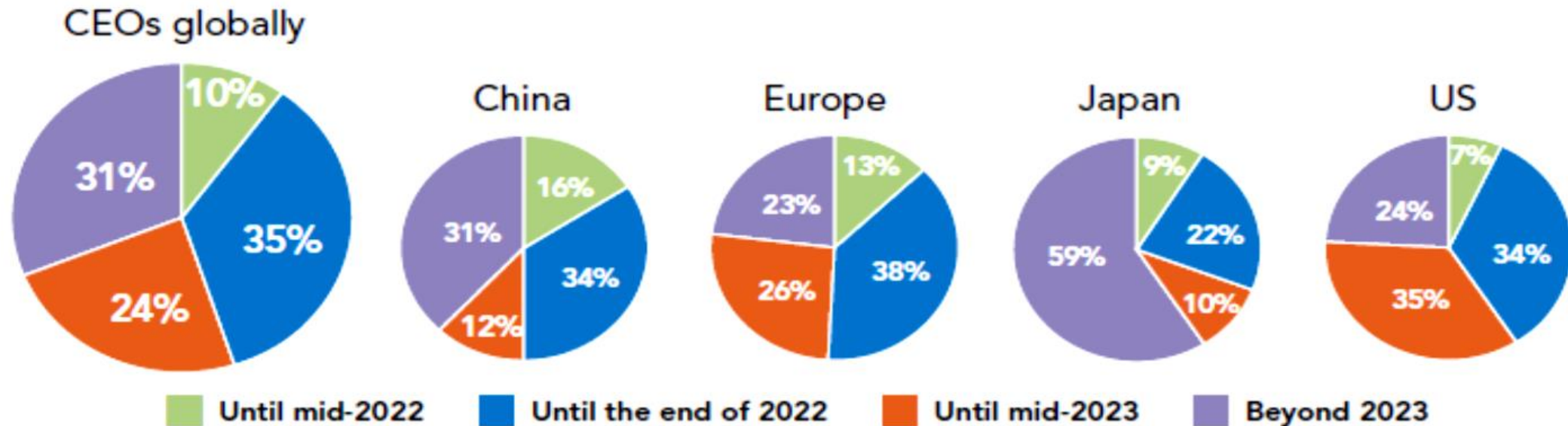
Note: Data for December 2021, except for Euro Area and Indonesia (January 2022).
 Source: Haver analytics.



Audience Poll Question

Majority of CEO's expect elevated pricing pressures to last until next year or beyond

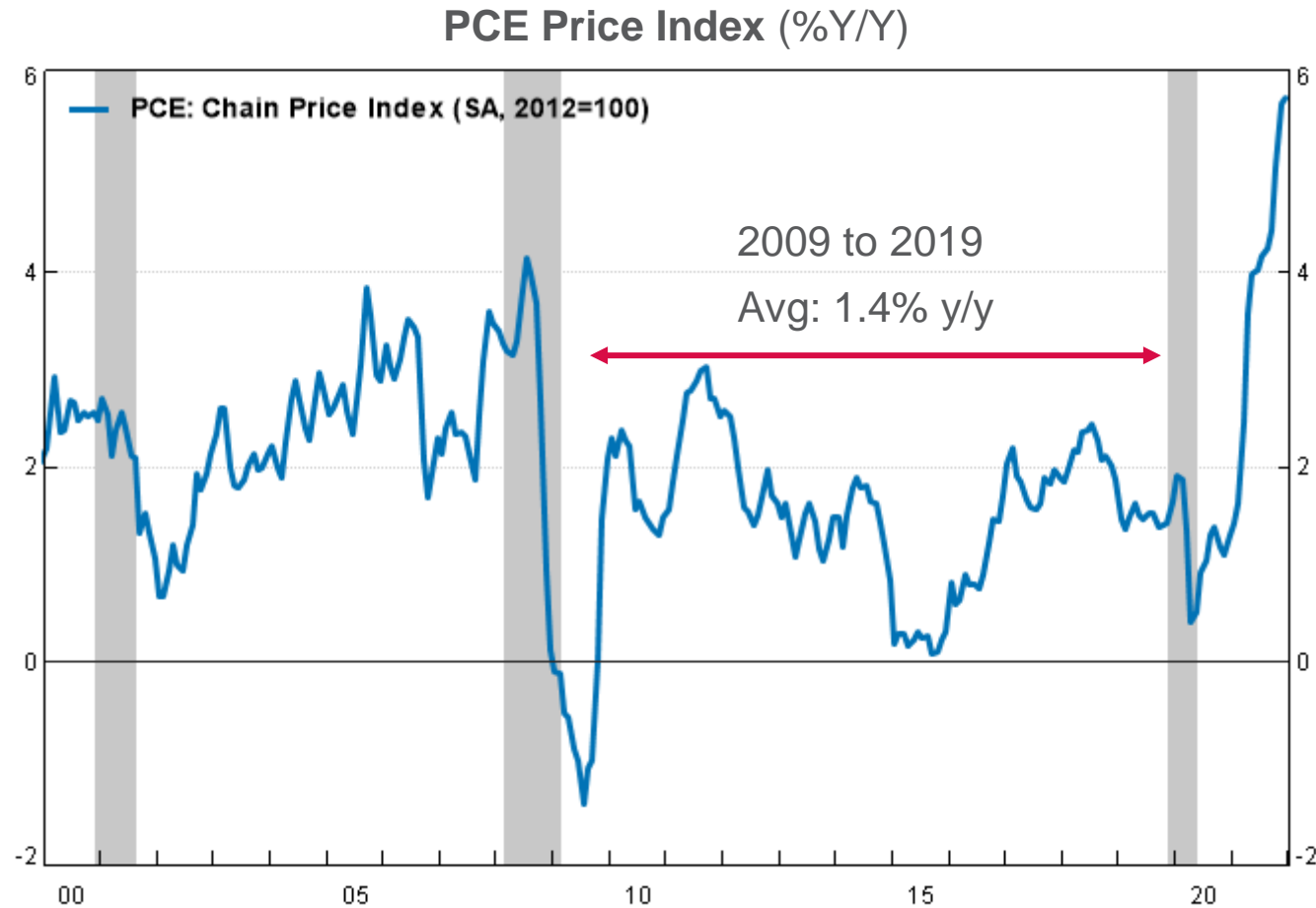
How long do you anticipate elevated pricing pressure to last?



Note: 917 CEOs responded globally
 Source: [The Conference Board C-Suite Outlook 2022](#).



Following the Global Financial Crisis, the US went through a prolonged period of low inflation

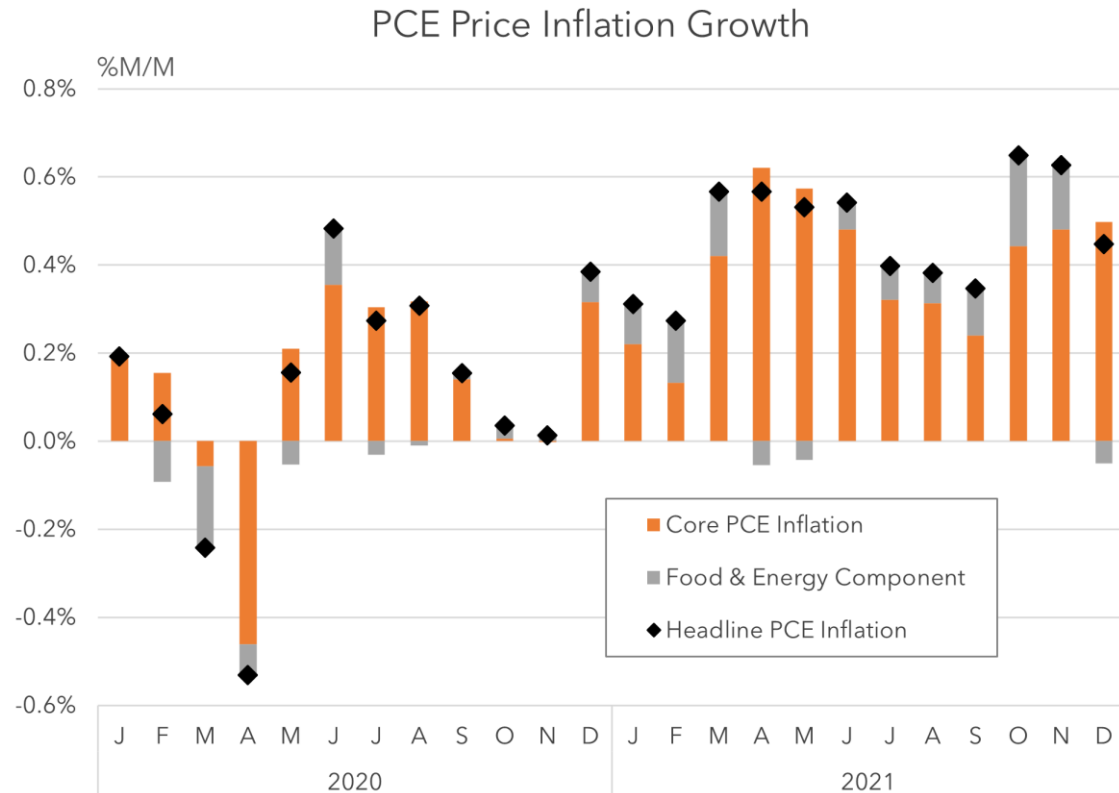


Source: Bureau of Economic Analysis



Pandemic inflationary trends: A mix of factors have driven prices higher

- Headline and Core PCE Price Inflation data both showed a multi-decade YoY high in December
- However, the MoM growth rate for the Headline Price Index slowed for a second month
- At the surface, this appears to be good news and indicative of moderating inflationary pressures. It is not. The deceleration is due to moderating food & energy prices.
- Indeed, for three consecutive months Core PCE price growth has been accelerating, not decelerating.
- With the Omicron disruption in January, we may see Core prices continue to accelerate for at least another month.



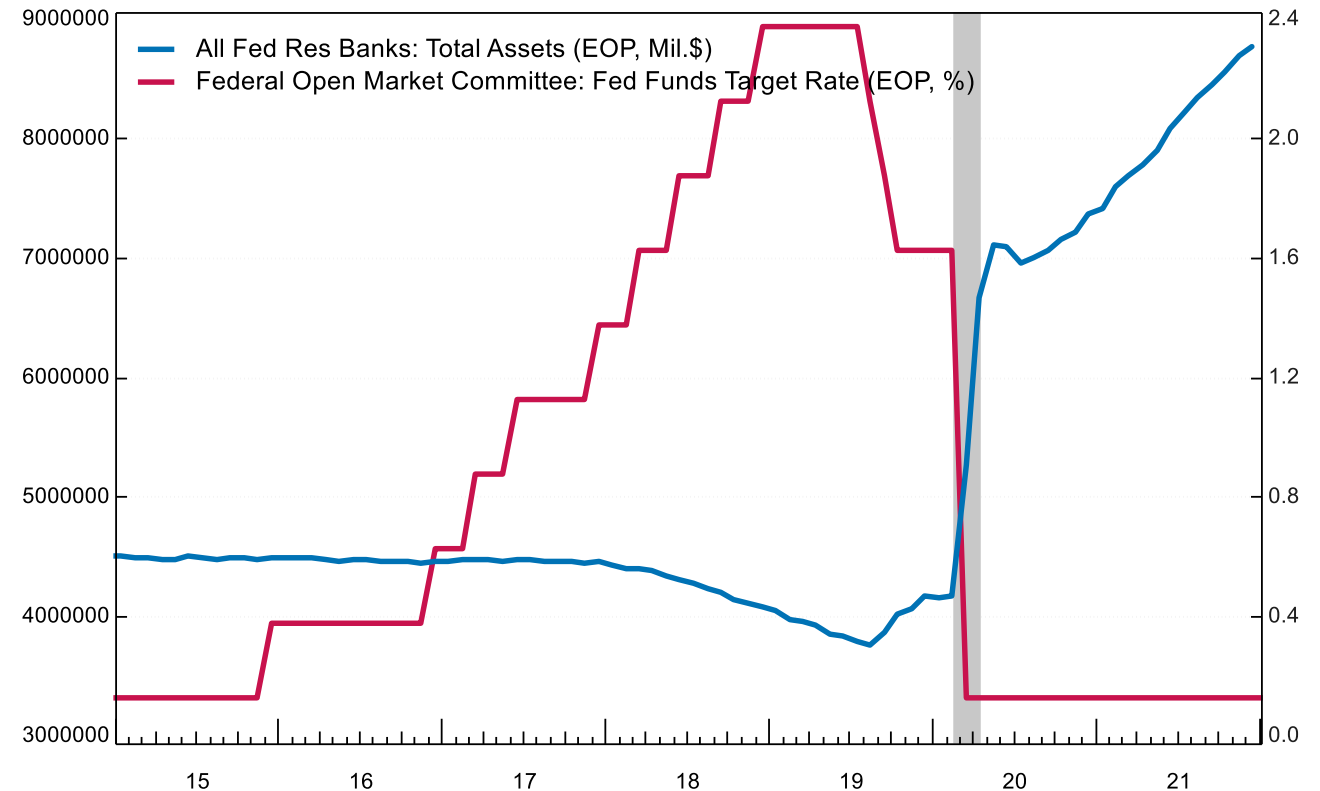
Source: BEA, The Conference Board

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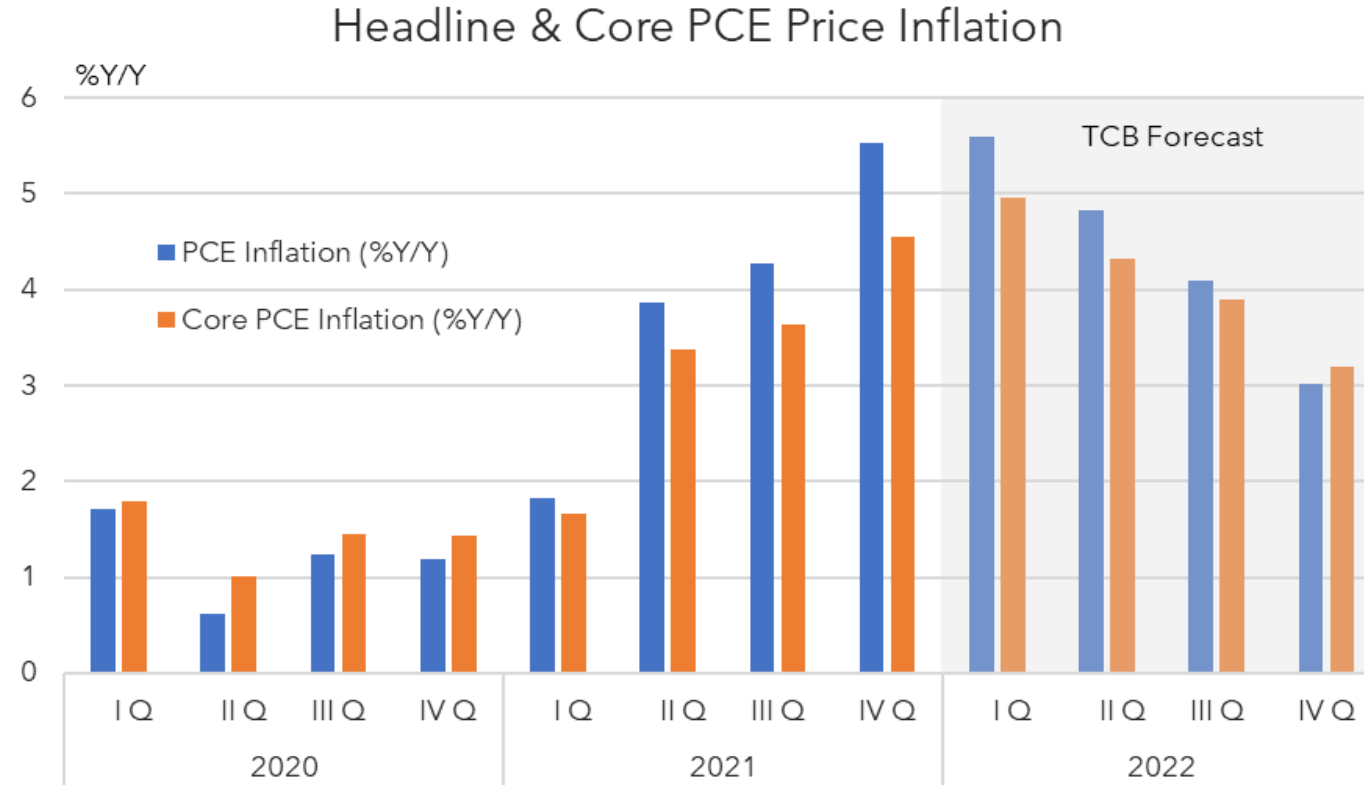


Fed signals that it will tighten monetary policy more aggressively to combat inflation

- Persistent price increases and progress on unemployment are yielding a more aggressive Fed
- Large Scale Asset Purchases should conclude by March
- Expect at least 4 rate hikes in 2022, with perhaps 2 more in 2023
- Expect Fed to begin to unwind balance sheet by end of year
- Economic growth should cool somewhat as a result



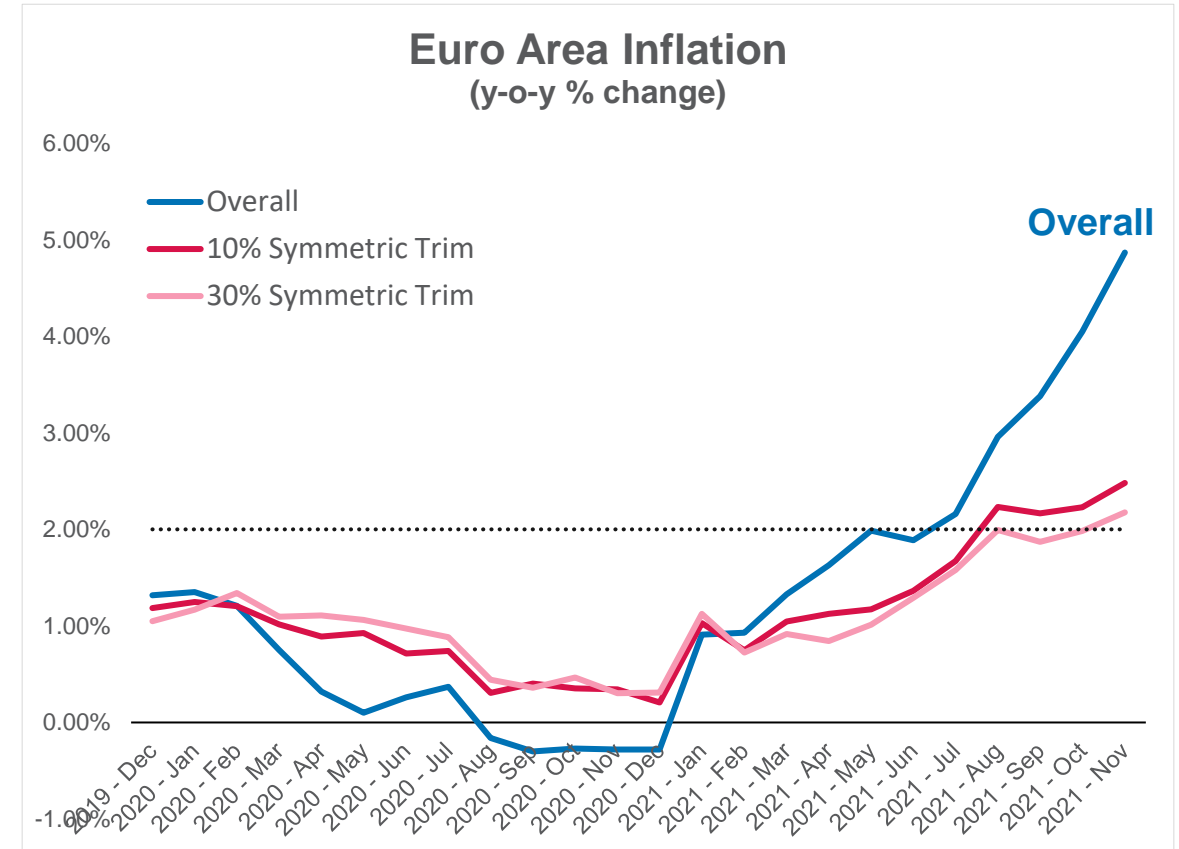
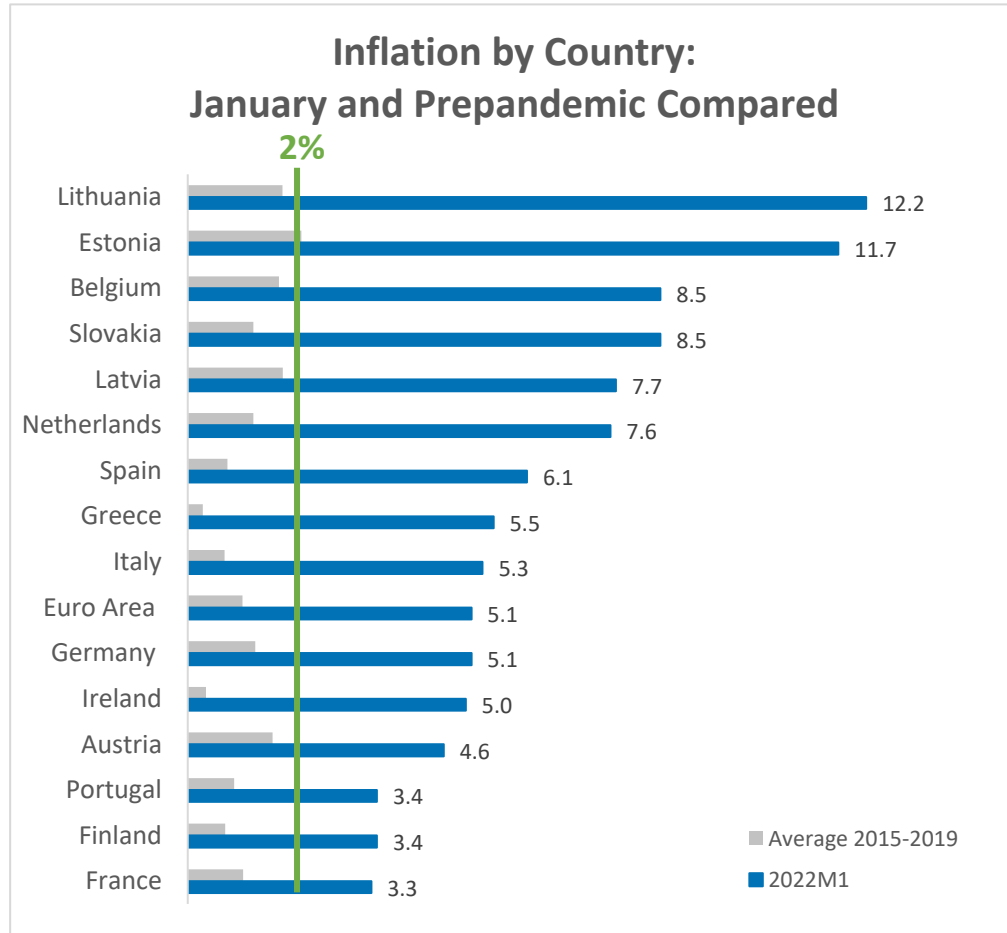
Inflation forecast: Price increases will moderate, but remain elevated



Source: BEA, The Conference Board



Analysis suggest that the current pressure on prices is not only strong, but also – to some extent – persistent



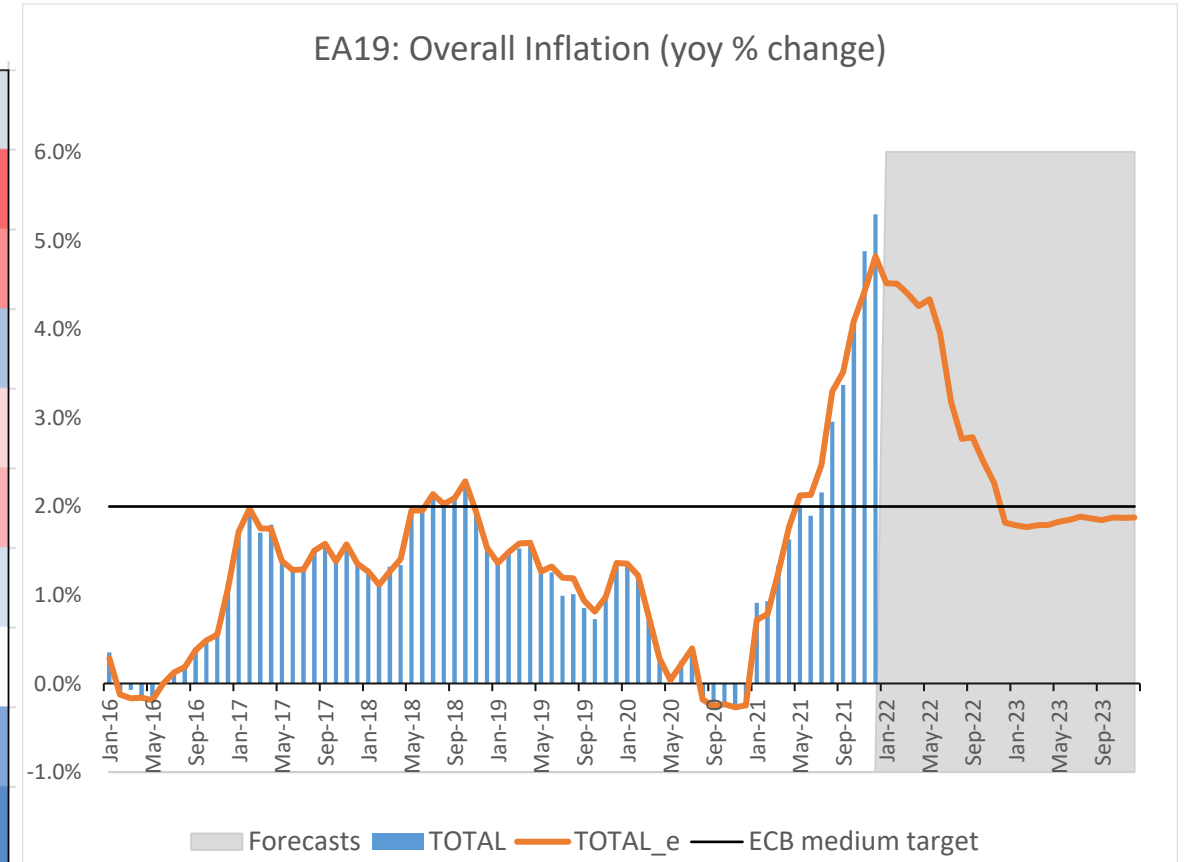
Source: Eurostat, Haver, The Conference Board



During 2022: the pressure on prices is expected to moderate. Drivers of inflation will also change

What do you believe is driving consumer/customer prices higher?
(Select no more than three)

	Overall CEO	China	Europe	Japan	USA
Supply chain bottlenecks	1	1	1	7	1
Labor shortages	2	3	4	5	2
Energy prices	3	2	2	2	7
Insufficient supply for inputs to our product/service	4	9	3	2	4
Government regulations	5	5	5	6	3
High demand for our product/service	6	7	8	1	6
Workers demanding higher wages	7	4	7	9	5
Increased pricing power amid strong economic	8	6	6	4	8
Minimum wage hikes where my business is located	9	8	9	8	9

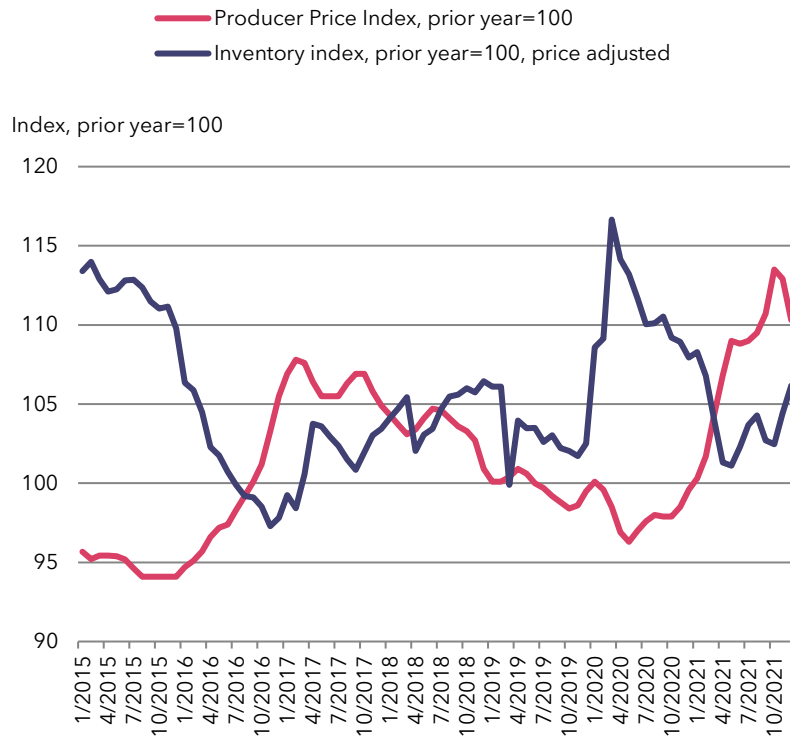


Source: The Conference Board, [January 2022](#)



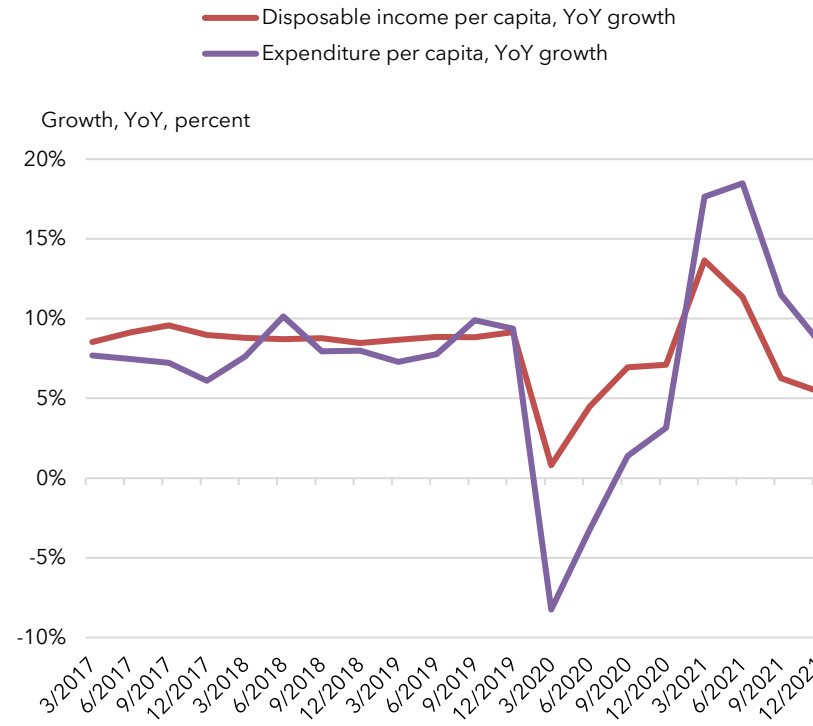
China inflation outlook: inflation is expected to ease in 2022

Industrial inventory is rising, and factory-gate inflation is easing



Sources: CEIC, TCB

Household income is growing at a lower rate compared to pre-COVID level

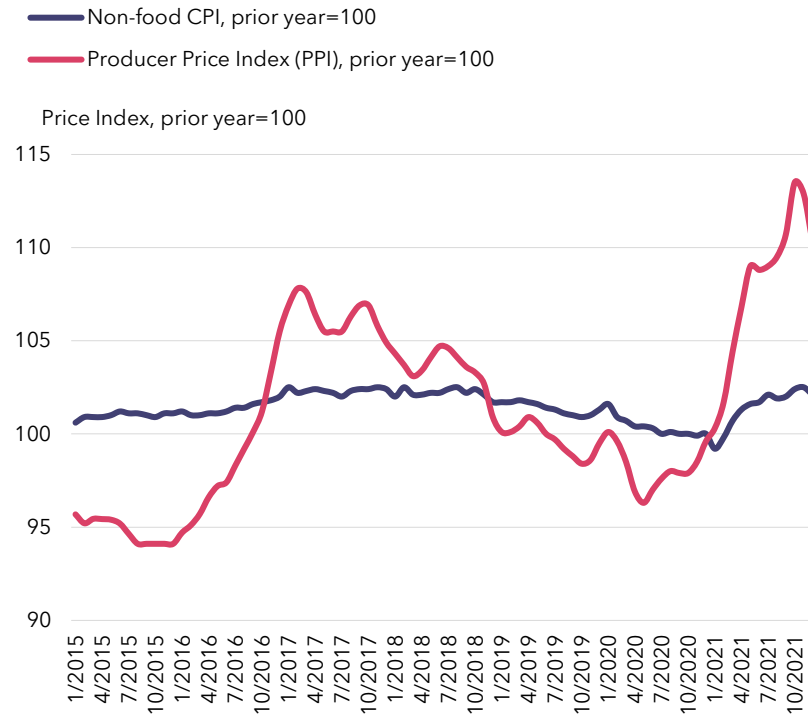


Sources: CEIC, TCB



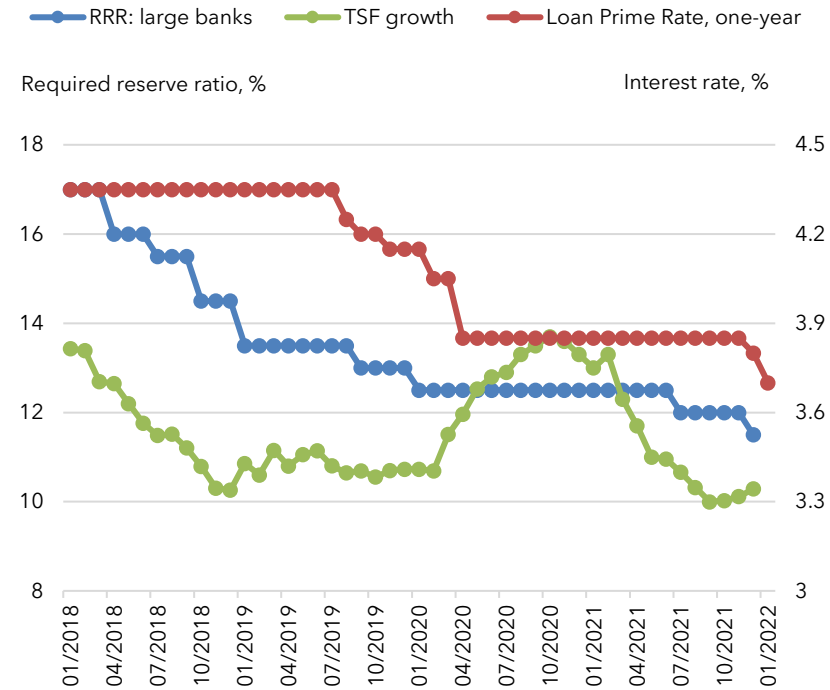
Chinese monetary policy expectations: more monetary easing expected in 2022

A large gap between PPI and CPI growth presents upward pressure on CPI growth, but weak demand is likely to keep CPI growth moderate in 2022



Sources: CEIC, TCB

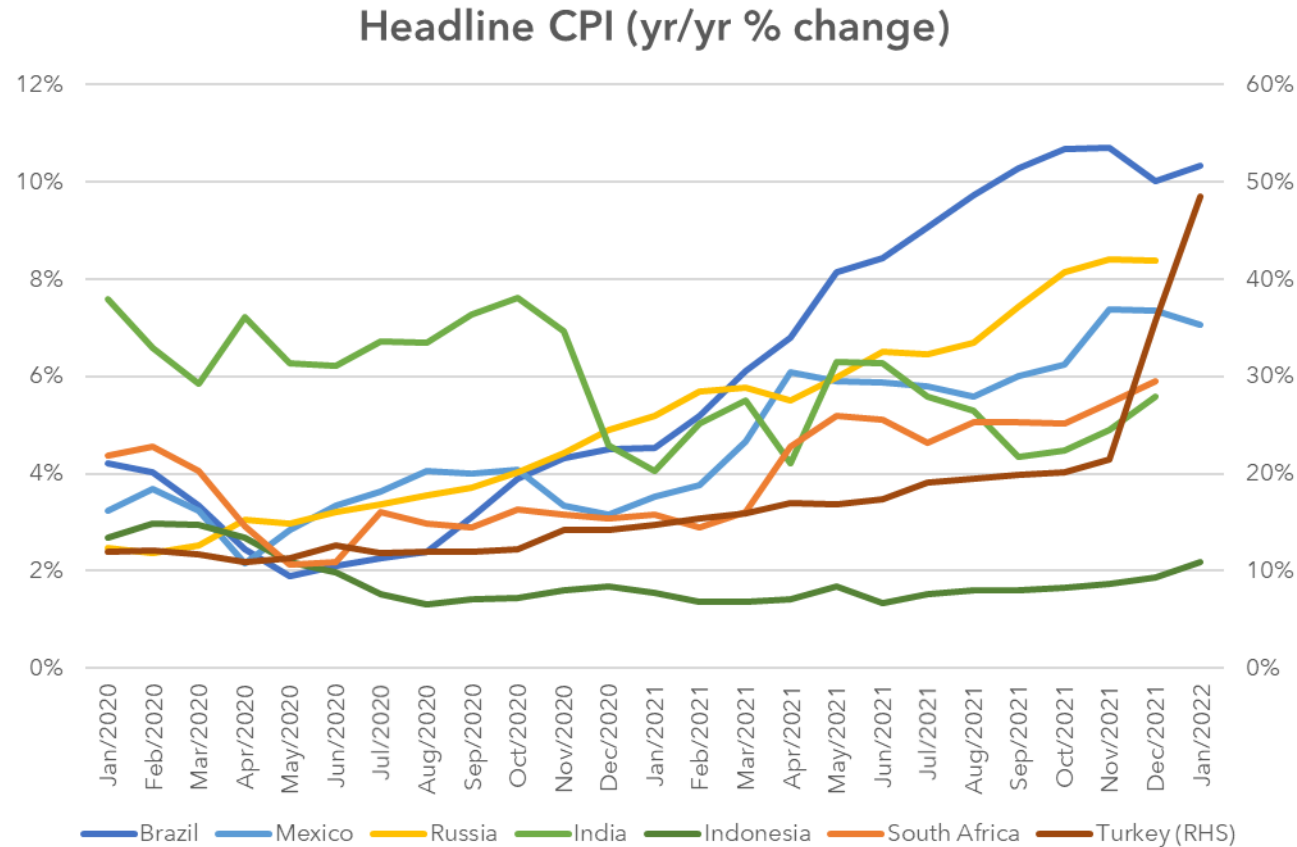
Monetary easing is taking place; both RRR cuts and benchmark rate cuts are expected in 1H 2022



Sources: PBoC, CEIC, The Conference Board



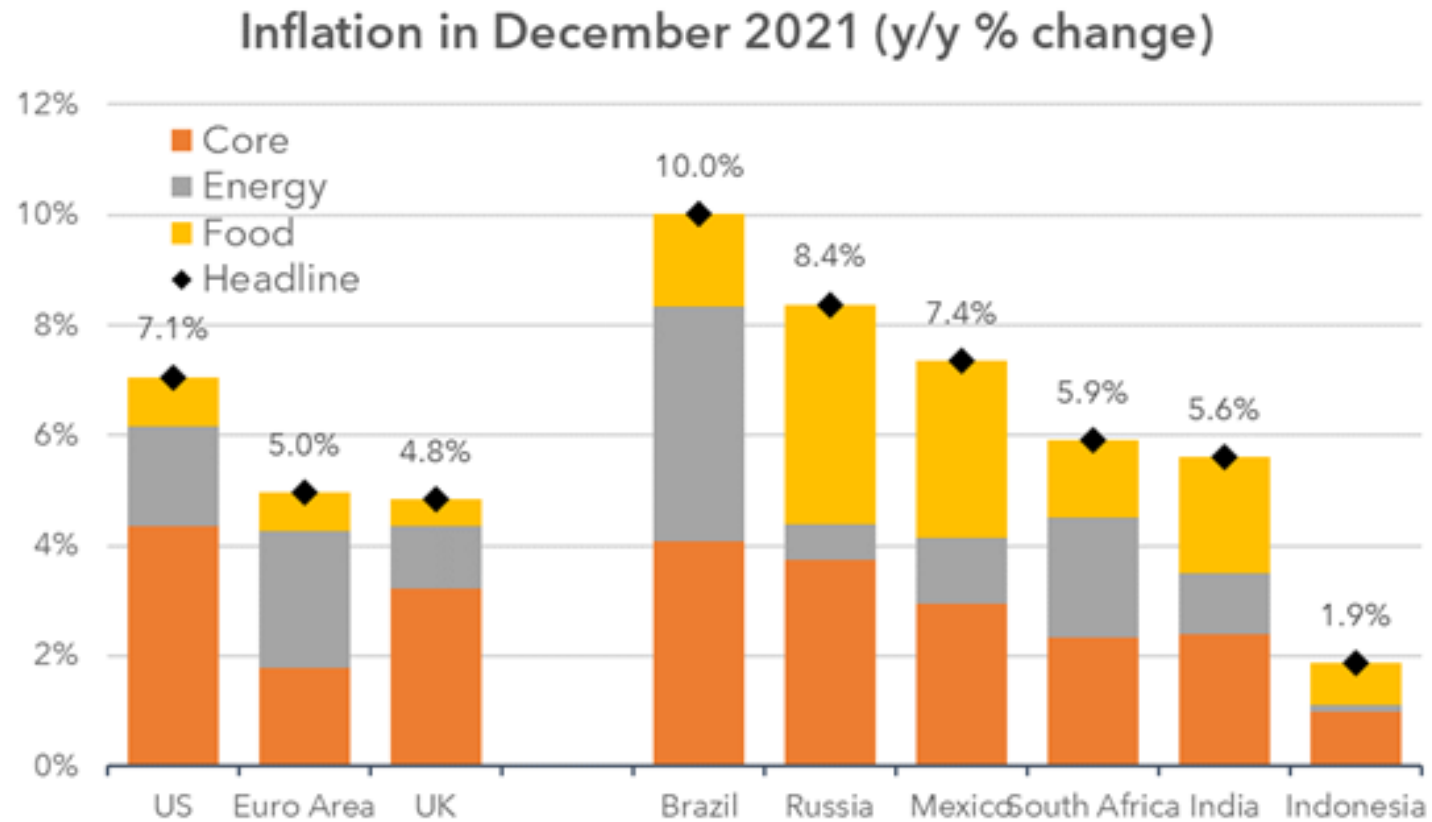
Inflation rates have crept up in emerging markets in recent months, with Asia so far being an exception



Source: Haver analytics.



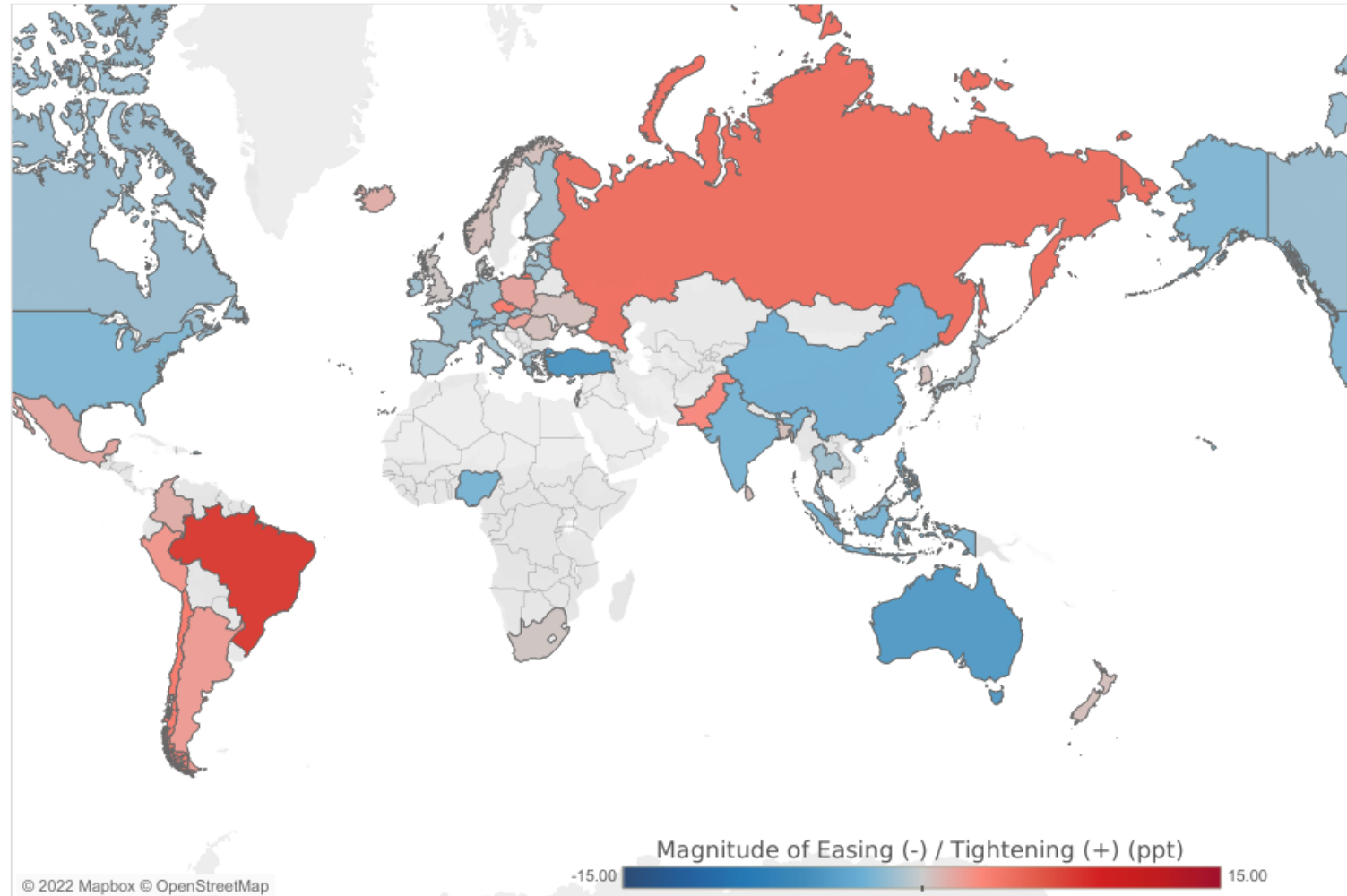
Rising food and energy prices account for a large part of price pressures in emerging economies



Source: The Conference Board calculations using data from Haver analytics.



Monetary policy is rapidly tightening in many emerging economies



Source: [CFR Global Monetary Policy Tracker](#) (December 2021).



Long-term inflation trends depend on a number of factors

Temporary factors	Persistent factors	Offsets
Strong demand for goods	Continued demand for goods	Monetary policy tightening
Emerging demand for services	Continued demand for services	Retail competition / discounting
Energy price volatility	Semiconductor chip shortage	Automation
Easy monetary, fiscal policy	Millennial housing demand	Greater efficiency
Strong demand for housing	Work from home v. cities	Online shopping
Factory closures abroad	Labor shortages	Contract work / gig economy
Supply chain bottlenecks	Deglobalization	Remote work
Transportation costs	Transition to renewables	Outsourcing
Commodity prices	Easy monetary, fiscal policy	More supply
Semiconductor shortage		Better infrastructure
Wages – labor shortages		Technological advancements
Wages – great resignation		More free trade agreements
		Greening of the economy
		Currency appreciation

Source: [The Conference Board Straight Talk \(December 2021\)](#).



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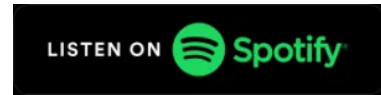


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