

# Economy Watch

## The Global Economic Implications of the Ukraine Crisis

March 9, 2022



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

- What does the conflict mean for global energy and commodity prices?
- Will already high inflation rates get materially worse?
- How will the conflict impact economic growth around the world?
- What kinds of scenarios should businesses be prepared for?



# Today's Speakers



**Hiba Itani**  
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**Research**



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**The Conference Board**



**Dr. Lori Esposito Murray**  
President  
**Committee for Economic**  
**Development of The**  
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# Ukraine Crisis: Geopolitical Overview



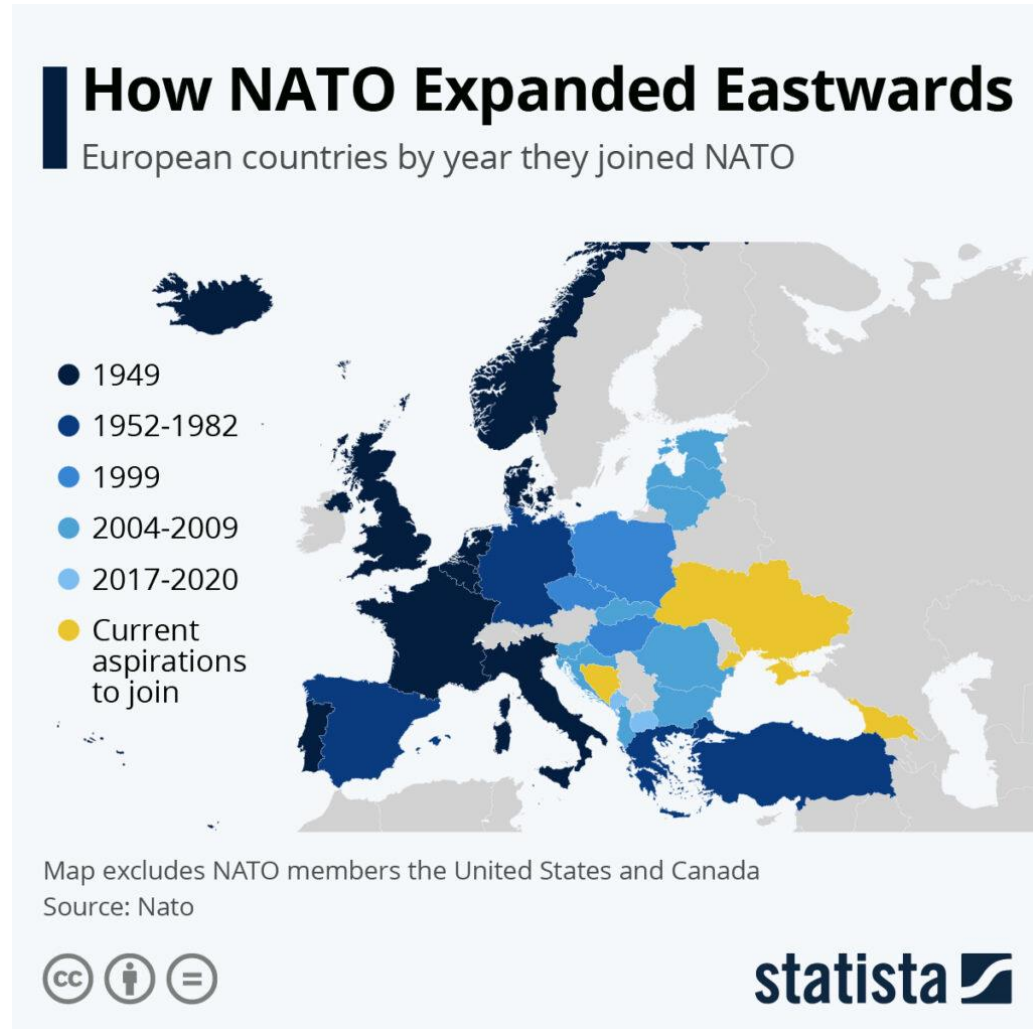
## What events led up to the Russian invasion?



- 1991 The Collapse of the Soviet Union
- 1991 December Ukraine votes for independence
- 1994 December Budapest Memorandum Ukraine agrees to be a non-nuclear weapons state
- 2000 Putin comes to power in Russia
- 2004 Orange Revolution
- 2008 NATO considering NATO membership Ukraine Georgia; Russia invades Georgia; Talks open with EU
- 2013 Yanukovich stops talking to EU; Maidan protests



## What events led up to the Russian invasion?



- 2014 Yanukovich flees to Russia; Russia annexes Crimea and backs separatist war in Dombas ; Minsk agreements signed;
- 2017 Lethal defensive arms sales to Ukraine
- 2019 constitutional amendment committing Ukraine to become member of NATO/EU
- 2019 Zelensky elected President; June deeper commitment to NATO;
- 2021 February Zelensky crack down on pro-Moscow oligarchs
- 2021 April –Russia 100,00 troops on border largest since 2014
- 2021 June summit Putin/Biden
- 2021 August Putin publishes article On the Historical Unity of Russians and Ukrainians; sends to military
- 2021-2022 Putin Security guarantees; February Invasion

## NATO in Europe 2022



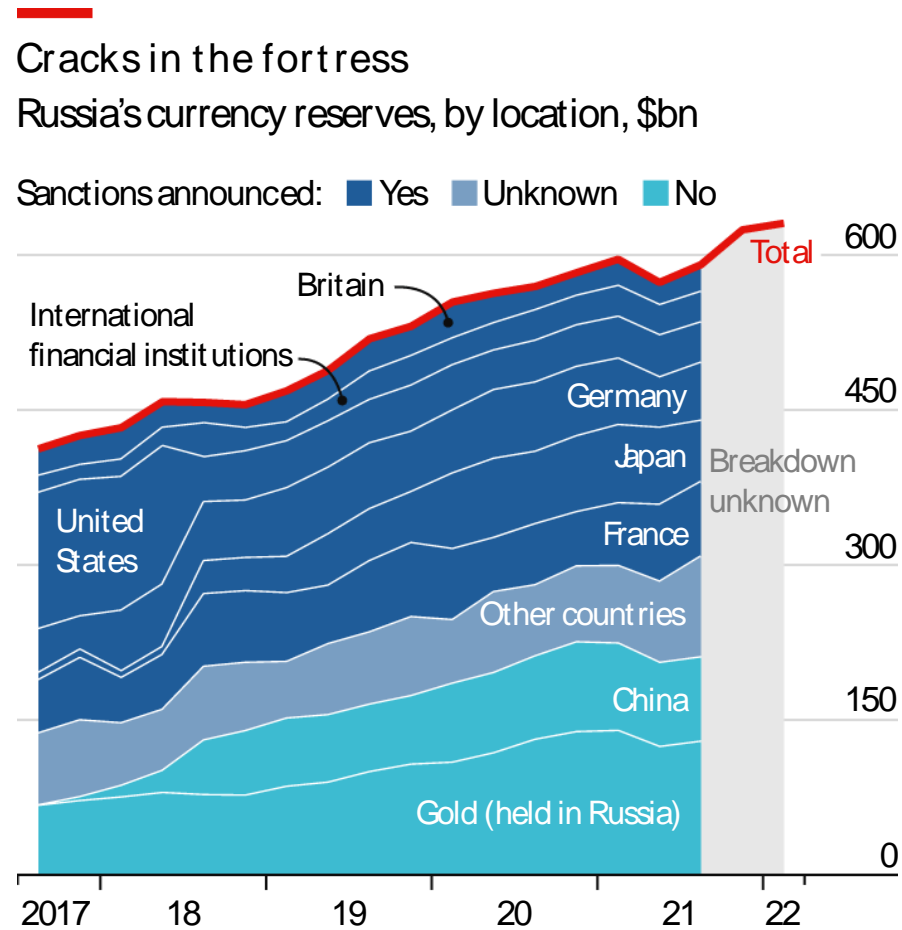


## What actions have been taken to confront Russia?

- **Over 30 countries**, representing well over half the world's economy have announced sanctions that impose immediate and debilitating economic costs on Russia.
- **Many businesses** have suspended or withdrawn operations from Russia,
- **Who Hasn't?** Most notably China and India



# Sanctions on Russia's Central Bank



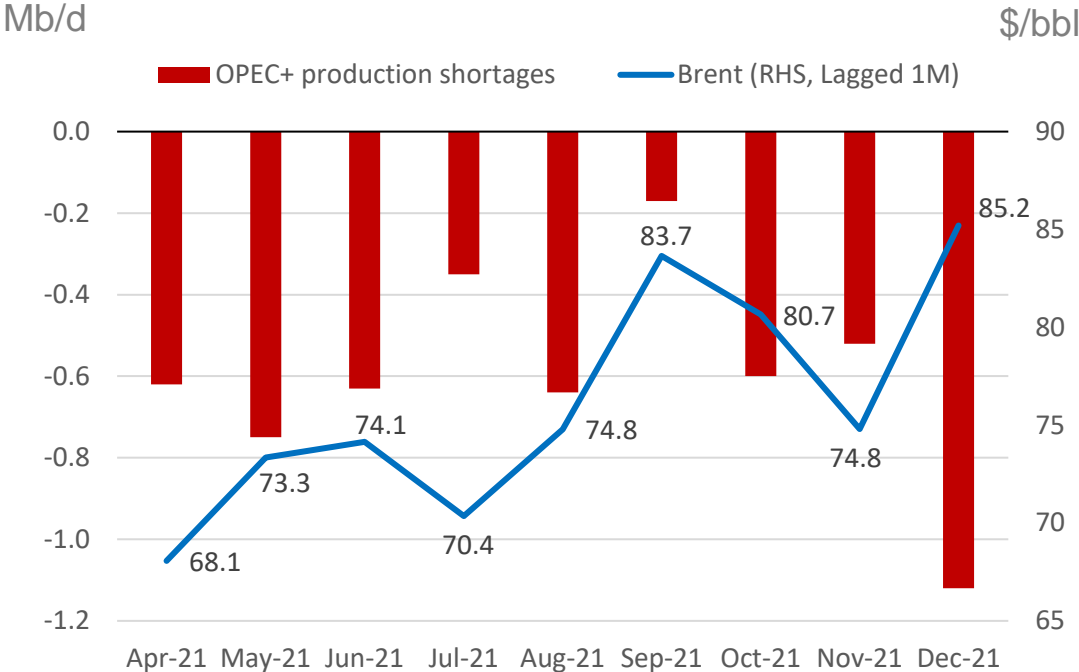
Source: Bank of Russia



# Global Energy Implications

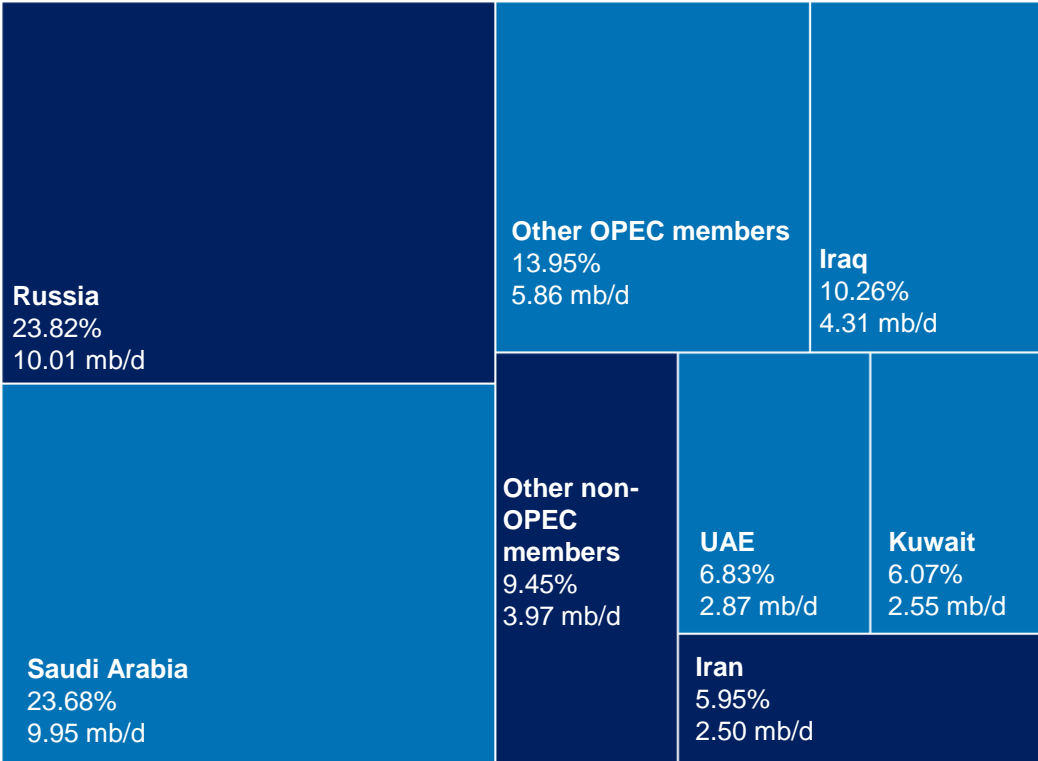
# OIL SUPPLY – The global economy is heading towards a tight oil market throughout 2022. Will OPEC+ 5-year partnership come to an end?

## OPEC+ continuously falling short of their production targets



Source: S&P Platts, Haver

## OPEC+ January 2022 production



Source: S&P Global Platts

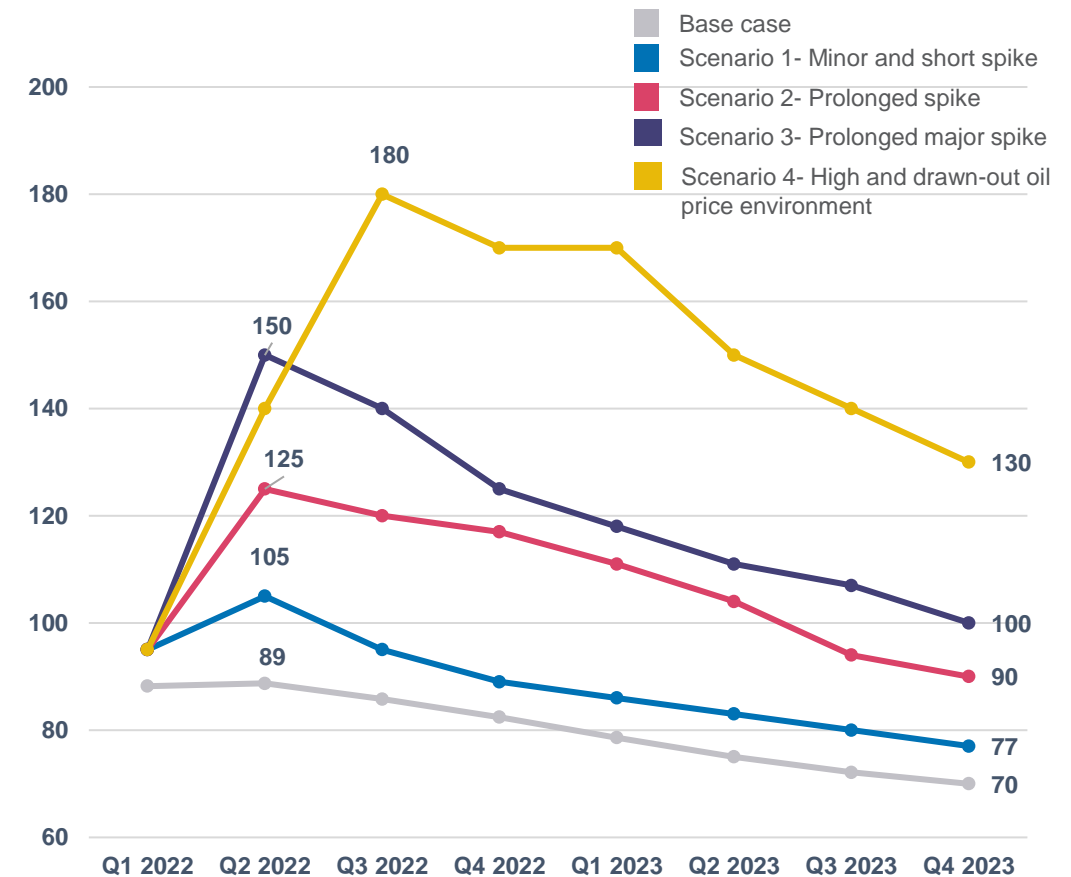




# Oil price scenarios for 2022 & 2023 hint at a sustained high oil price environment

- Uncertainty and volatility cloud more than ever the oil market. Although we ended 2021 with low global oil inventories levels, a fragile market balance and heightened geopolitical tension, the “Russian military operation in Ukraine” scenario had a low probability. However, on February 24<sup>th</sup>, the full invasion scenario became a reality. Hence, we recrafted a set of scenarios that could impact the oil market in light of the ongoing developments and the nature of sanctions by the EU, US and other NATO members that might be imposed in the future.
- **Oil Scenario 1** – In case of a full invasion of Ukraine, sanctions are imposed on Russia – however US and EU shield the oil market by not politicizing the oil market. This will result in a **minor and short spike in oil prices**.
- **Oil Scenario 2** – Russia intensifies its aggression on Ukraine, as strict financial sanctions (limiting access to credit and SWIFT) are imposed. The turmoil appears to last for several months before reaching an agreement. Major oil companies exit from Russian projects. Oil prices will go through a **prolonged spike**.
- **Oil Scenario 3** – Intense military shelling jeopardizes the gas pipelines from Russia to Ukraine. Oil importers start to shy away from Russian oil as a result of credit restrictions and fear of energy sanctions. OPEC+ intervention in the market remains negligible in face of rising Russian oil and gas shortages. The oil supply gap widens resulting in a **prolonged major spike**.
- **Oil Scenario 4** – Oil and gas embargo is imposed on Russia (Russian oil exports averaged 4.6mb/d in 2020) as threats of use of nuclear weapons intensify. China takes advantage of the oil sanctions to absorb some of the volume at a discounted price. The US and OECD oil exporters will then intervene extensively by increasing shale production and releasing barrels from SPR, and OPEC and Iran will try to fill the gap. However, the market remains unbalanced resulting in a **high and drawn-out oil price environment** despite an oil demand slump.

Scenarios for Brent Oil Price in 2022 and 2023

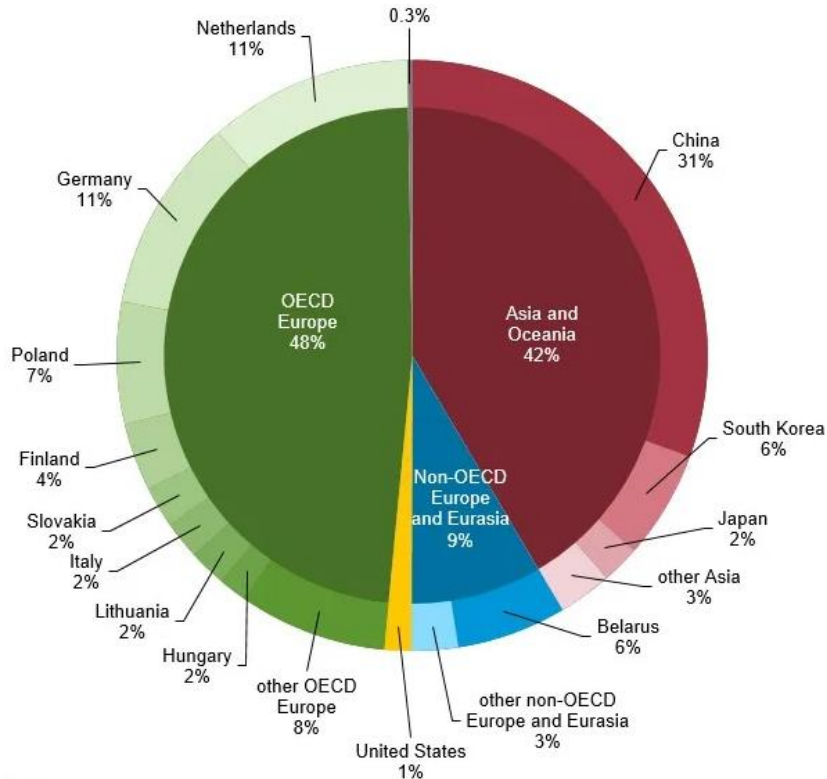


Source: The Conference Board



# Can LNG import increase to compensate a reduction of imports of gas pipeline from Russia?

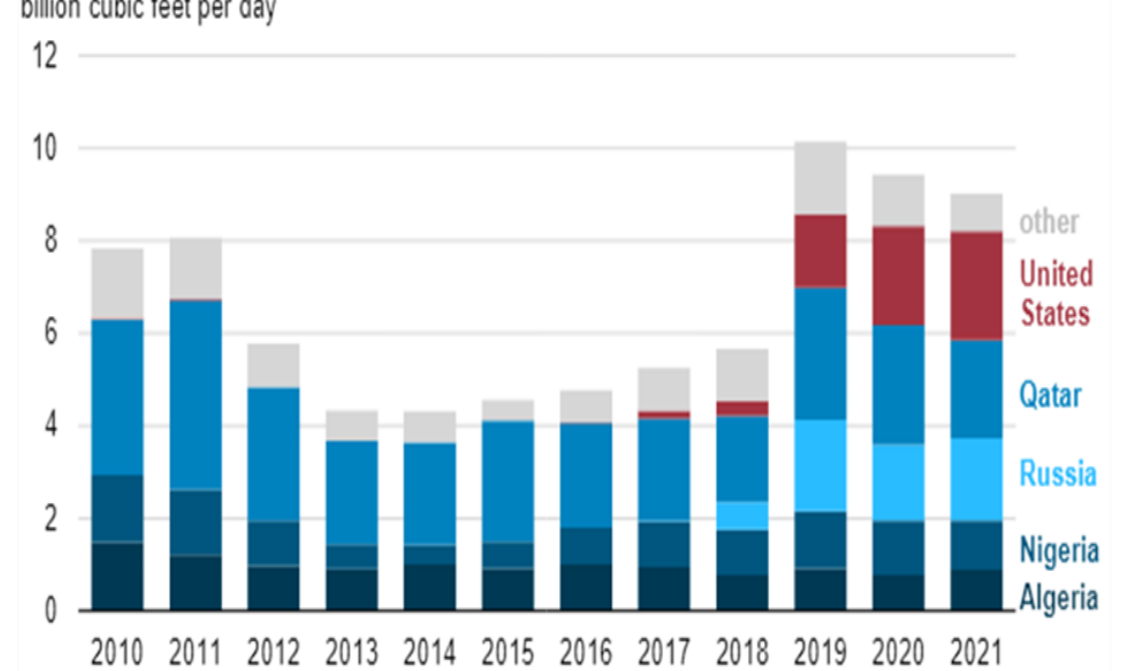
Russian crude oil and condensate export by destination, 2020



Source: Graph by the U.S. Energy Information Administration, based on Russian export statistics and partner country import statistics from Global Trade Tracker

Source: EIA

Europe (EU-27 and the UK) liquefied natural gas imports by source country (2010–2021)



Source: EIA



# Global Economic Implication

## The Conference Board Russia-Ukraine Conflict Economic Scenarios: Five Simultaneous Shocks

- Shock 1. Spikes in **Brent crude oil price** to US\$105/bbl, US\$125/bbl, and US\$150/bbl
- Shock 2. Surge in global **food commodity prices** given outsized Ukraine and Russian shares of total global production
- Shock 3. Surge in **base and precious metal prices** given outsized Ukraine and Russian shares of total global production
- Shock 4. **Recessions in Russia and Ukraine** having spillover effects to Europe
- Shock 5. Reductions in European business output and thereby investment given intensified **disruptions in supply chains for intermediate goods** from Russia and the Ukraine

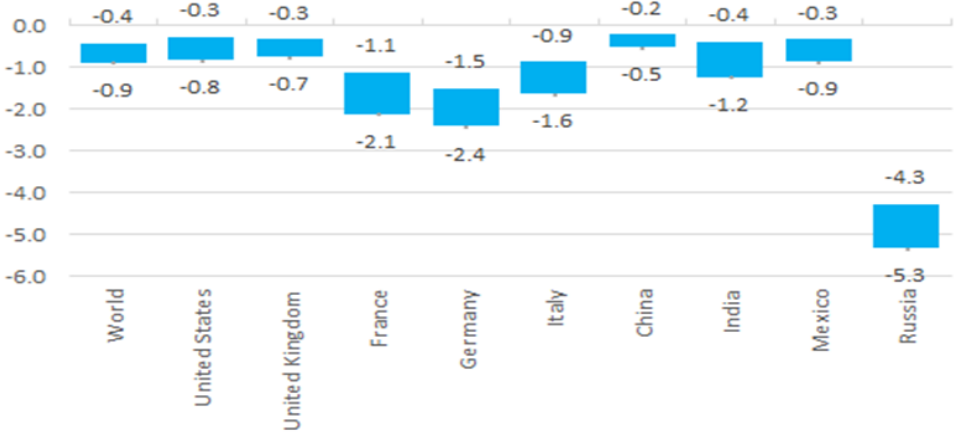
Source: The Conference Board.



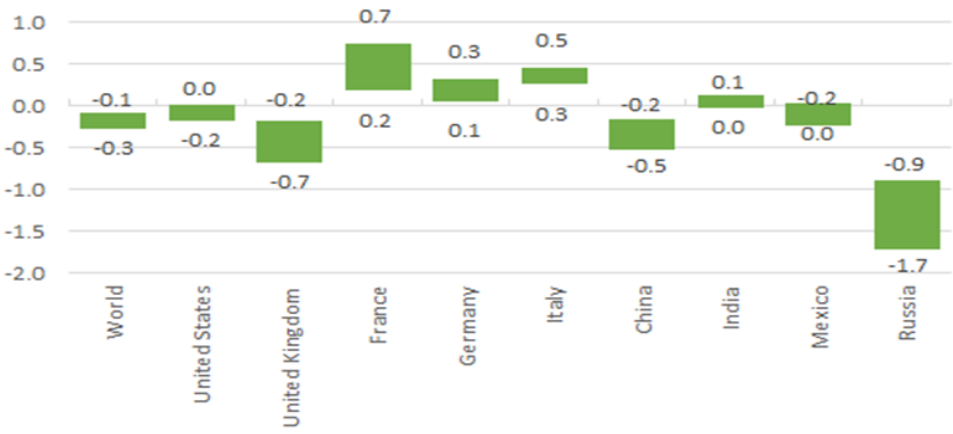


# Ranges of Impact on Real GDP Growth and Total CPI Inflation

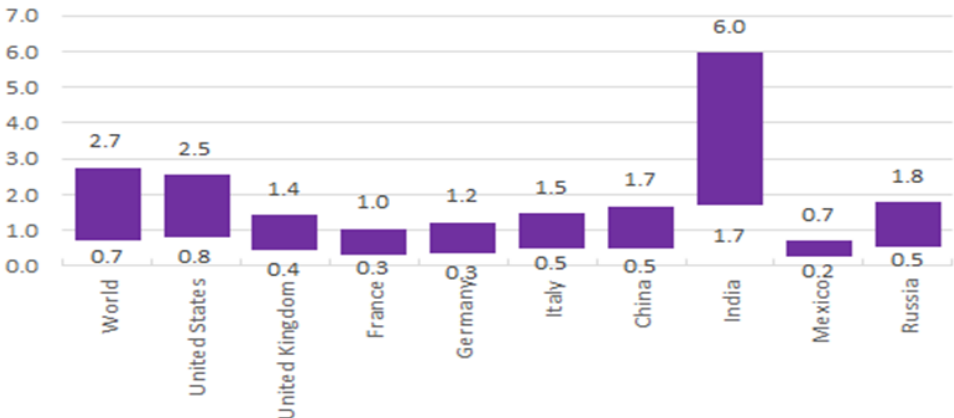
2022: Estimated Range of Change in YoY% Real GDP Growth (Percentage Points)



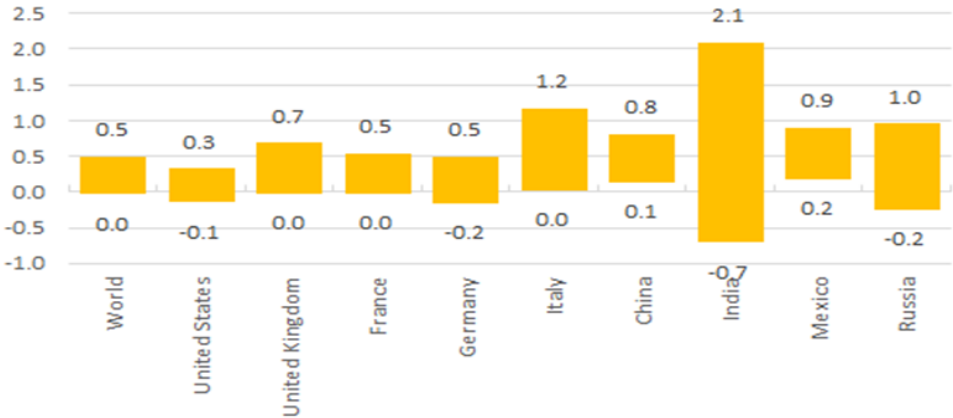
2023: Estimated Range of Change in YoY% Real GDP Growth (Percentage Points)



2022: Estimated Range of Change in YoY% CPI Inflation (Percentage Points)



2023: Estimated Range of Change in YoY% CPI Inflation (Percentage Points)

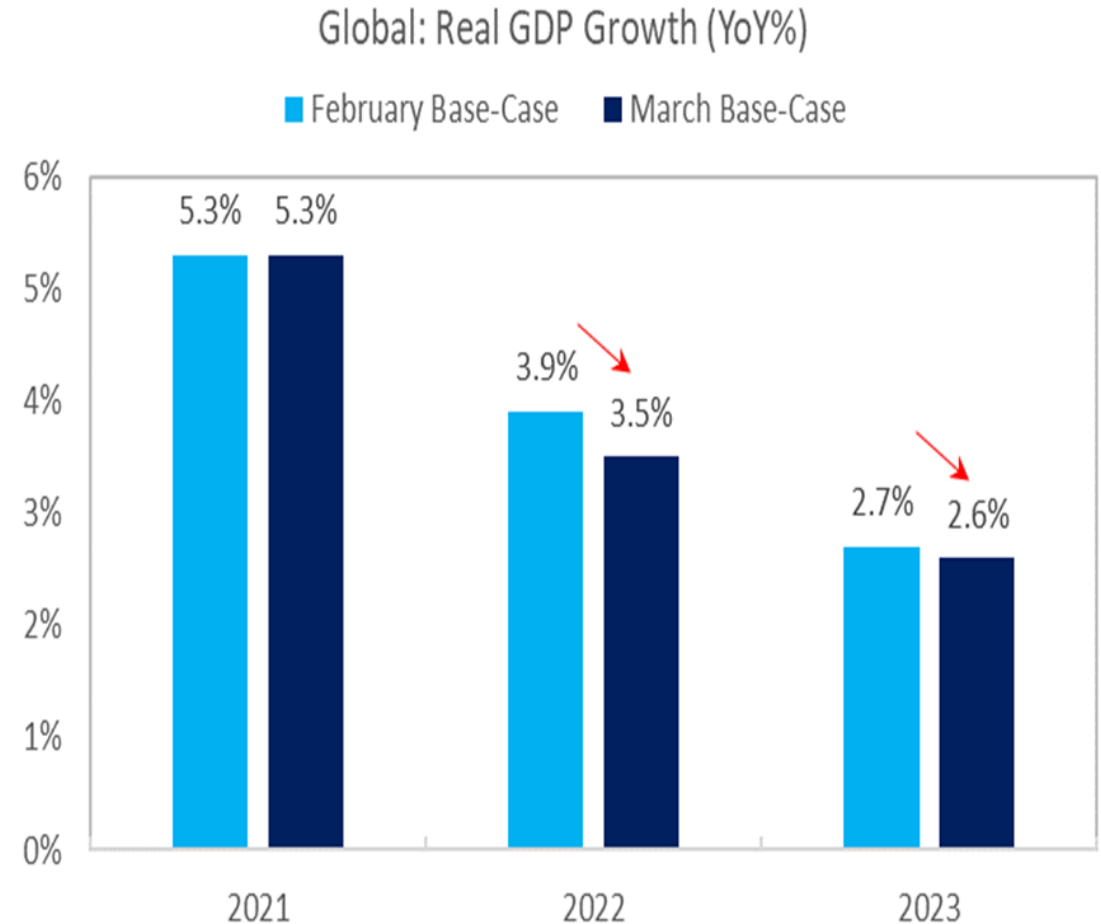


Source: Oxford Economics Global Economic Model and The Conference Board estimates.



# The Global Fallout: The New Base-Case and Economic Implications

- What happens if oil averages \$125/bbl in 2Q?
- Global recession is not anticipated, but there will be regional recessions and pockets of economic weakness.
- Consumer price inflation globally is poised to rise notably given upward pressures on energy, food, and metals prices.
- Given increased inflationary pressures and currency weakness, some central banks may remain on course for tightening.
- There will be implications for labor markets in the affected region but also across the globe.
- There likely will also be continued volatility in financial markets.



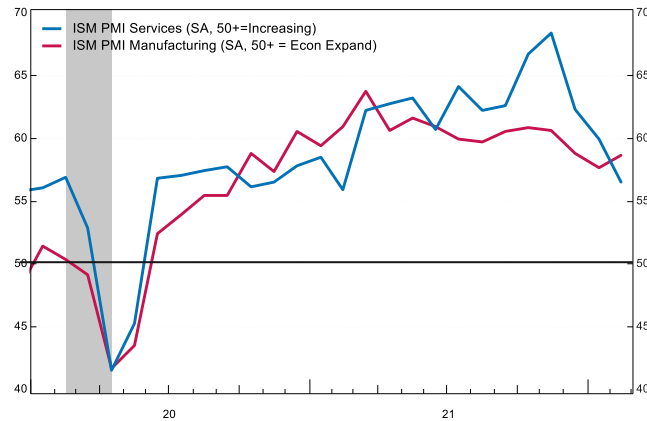
Source: The Conference Board.



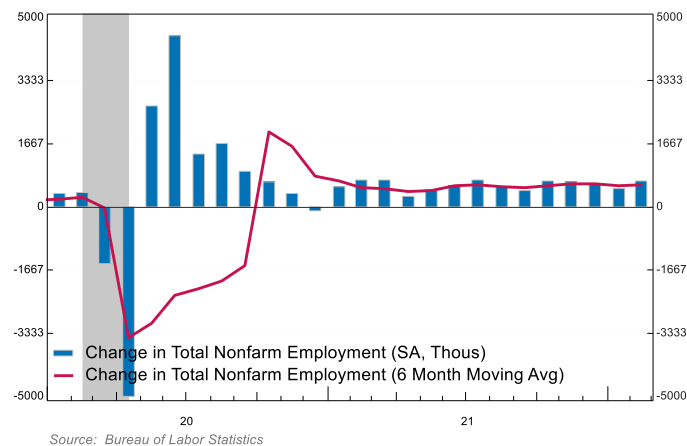
# US Economic Implications

# US economy pushed through Omicron wave and started 2022 on a strong footing

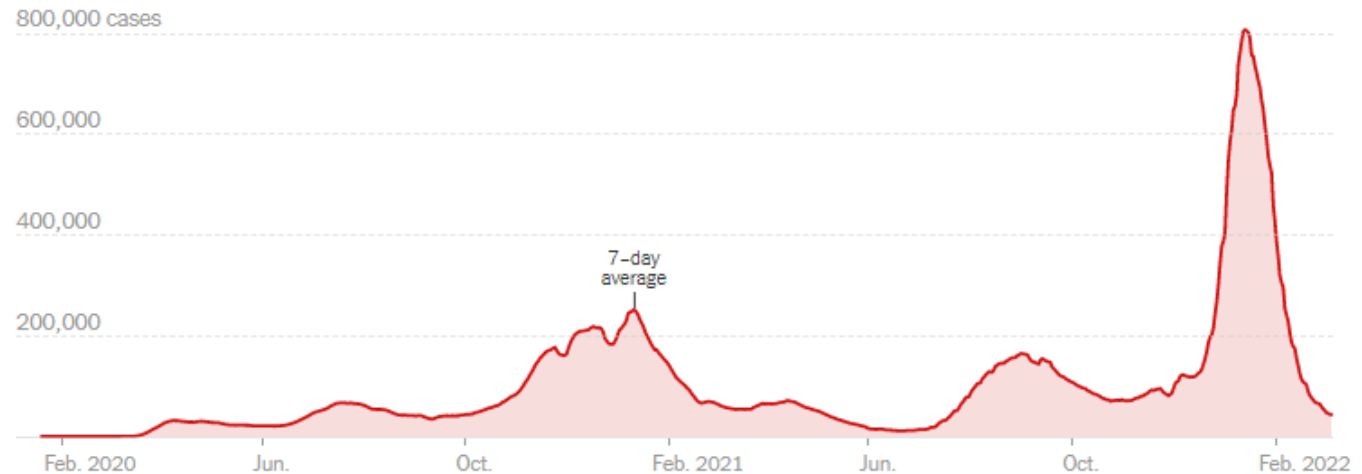
ISM PMIs (>50 = Increasing)



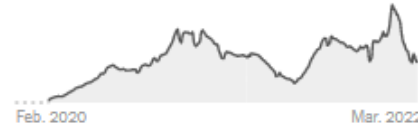
Change in Non-Farm Employment (1000s)



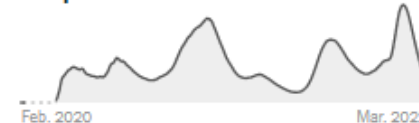
New reported cases



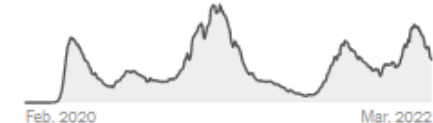
Tests



Hospitalized



Deaths



Source: New York Times





## Inflation Implications: All three scenarios yield higher inflation in 2022

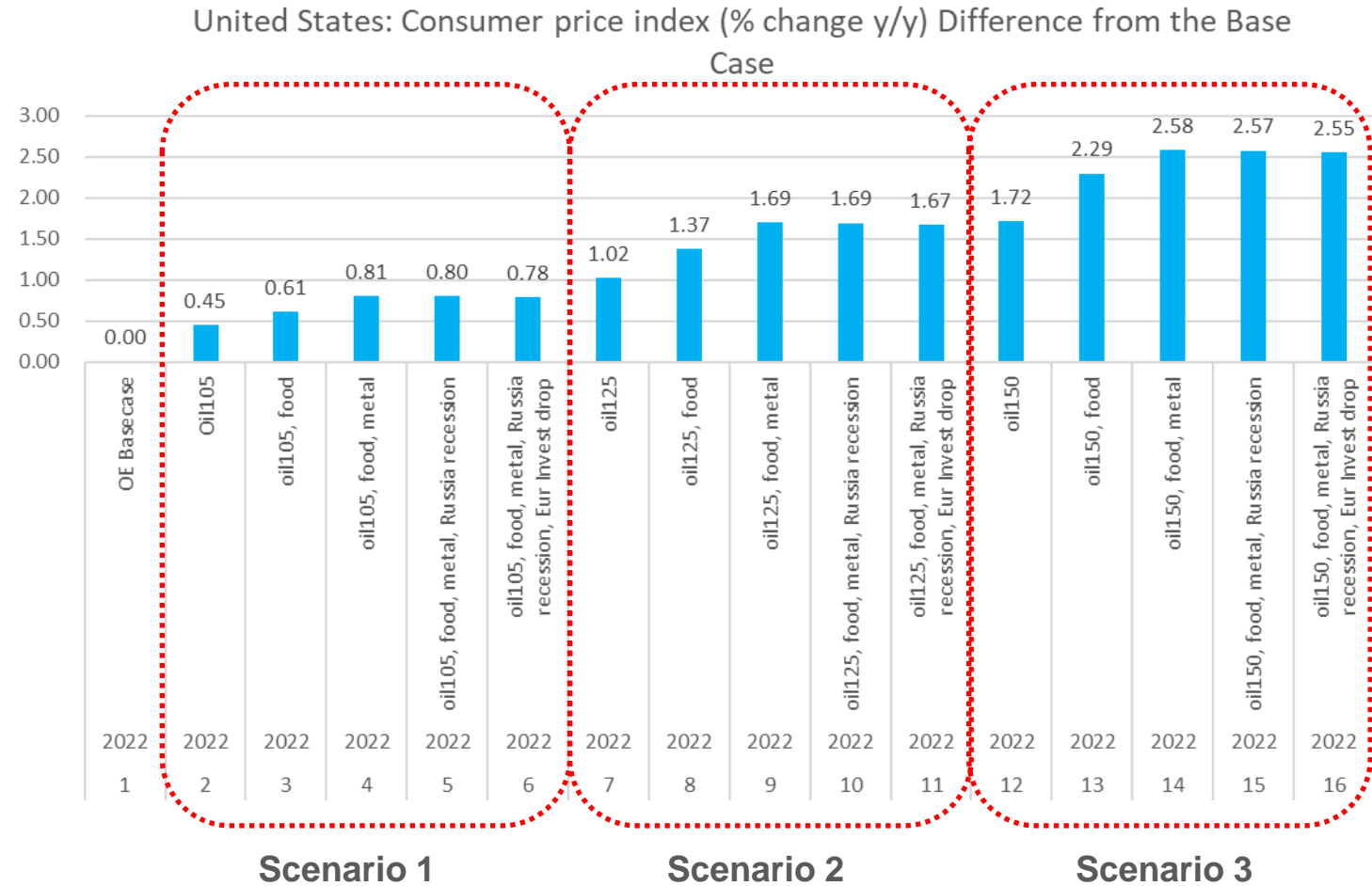
Prior to the war, we expected inflation to begin to creep down in the US in Q1 2022. This is no longer the case.

US CPI inflation is impacted in all three scenarios:

- Scenario 1: +0.8% y/y
- Scenario 2: +1.7% y/y
- Scenario 3: +2.5% y/y

These projections will have implications on inflation in 2023 as well.

US consumers will see purchasing power erode and overall economic activity will be hurt.



# GDP Implications: All three scenarios hurt growth in 2022, but no recession

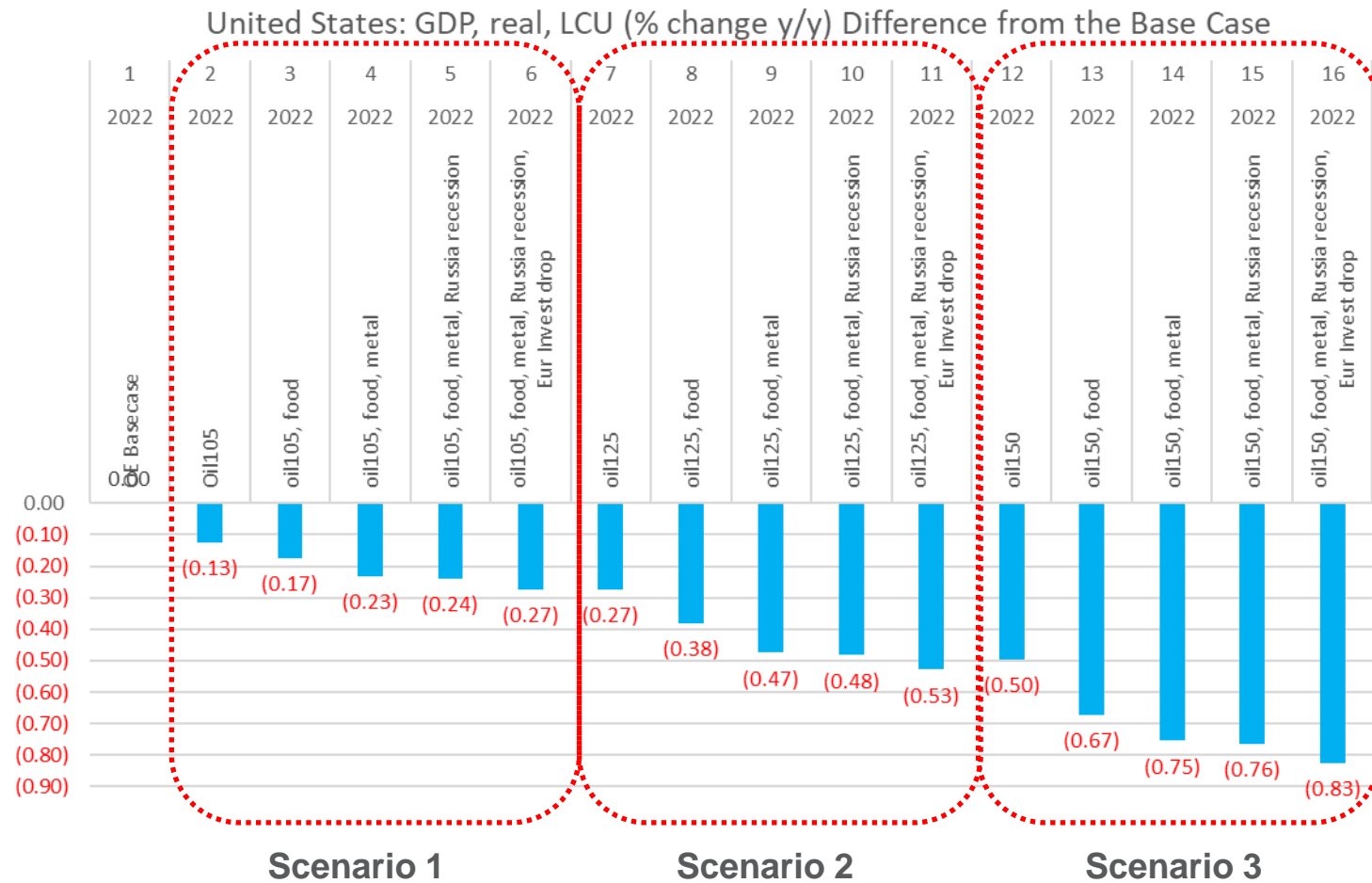
Prior to the war, we expected another year of robust growth following the pandemic recession.

US GDP is impacted in all three scenarios:

- Scenario 1: -0.3% y/y
- Scenario 2: -0.5% y/y
- Scenario 3: -0.8% y/y

The primary drag on growth results from lower consumption.

However, these shocks do not induce a recession in the United States.



## Ukraine crisis weighs on US economic growth &amp; inflation outlook

THE CONFERENCE BOARD US ECONOMIC OUTLOOK, 2019-2020-2021-2022-2023  
 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	7.0	1.7	1.3	1.7	2.2	2.3	-3.4	5.7	3.0	2.3
Real disposable income	3.1	48.5	-16.6	-8.3	54.7	-29.1	-4.1	-5.6	0.5	0.3	1.0	1.4	2.3	6.2	2.2	-3.4	1.7
Real consumer spending	-6.9	-33.4	41.4	3.4	11.4	12.0	2.0	3.1	2.0	1.4	0.9	1.6	2.2	-3.8	7.9	2.5	1.7
Residential investment	20.3	-30.8	60.0	34.4	13.3	-11.7	-7.7	1.0	1.0	0.0	0.5	1.0	-0.9	6.8	9.1	-1.2	1.0
Nonresidential investment	-8.1	-30.3	18.7	12.5	12.9	9.2	1.6	3.1	5.9	3.4	3.8	4.0	4.3	-5.3	7.4	4.2	4.0
Inventory change (bln chn '12\$)	-30	-253	25	89	-88	-169	-67	171	120	75	60	45	75	-42	-38	75	35
Total gov't spending	3.7	3.9	-2.1	-0.5	4.2	-2.0	0.9	-2.6	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	23.6	6.6	4.0	3.7	3.7	-0.1	-13.6	4.6	7.0	4.0
Imports	-13.1	-53.1	89.2	31.3	9.3	7.1	4.7	17.6	4.5	1.6	1.5	2.0	1.1	-8.9	14.0	5.9	3.0
Unemployment rate (%)	3.8	13.0	8.8	6.8	6.2	5.9	5.1	4.2	3.9	3.7	3.6	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	6.0	6.6	6.3	4.2	1.5	1.2	3.9	5.8	3.1
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	4.6	5.2	5.9	5.1	4.4	1.7	1.4	3.3	5.2	3.1

Source: The Conference Board

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



# European Economic Implications

## Russia and Europe: strong mutual dependence

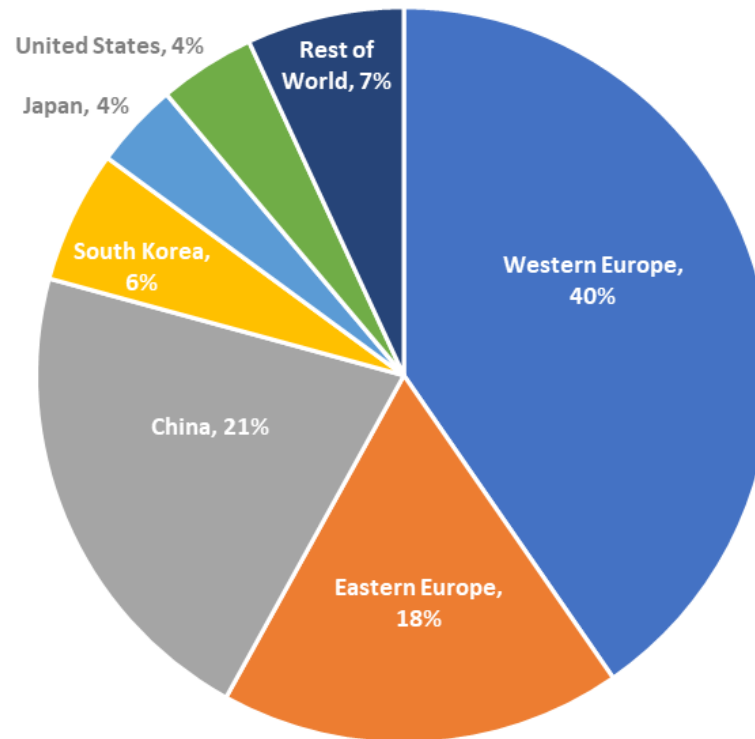
Russia and Europe **rely heavily on each other**: Russia is Europe's main provider of energy while Europe is Russia's biggest customer. This link has only grown stronger over the last decade.

Biggest exposures:

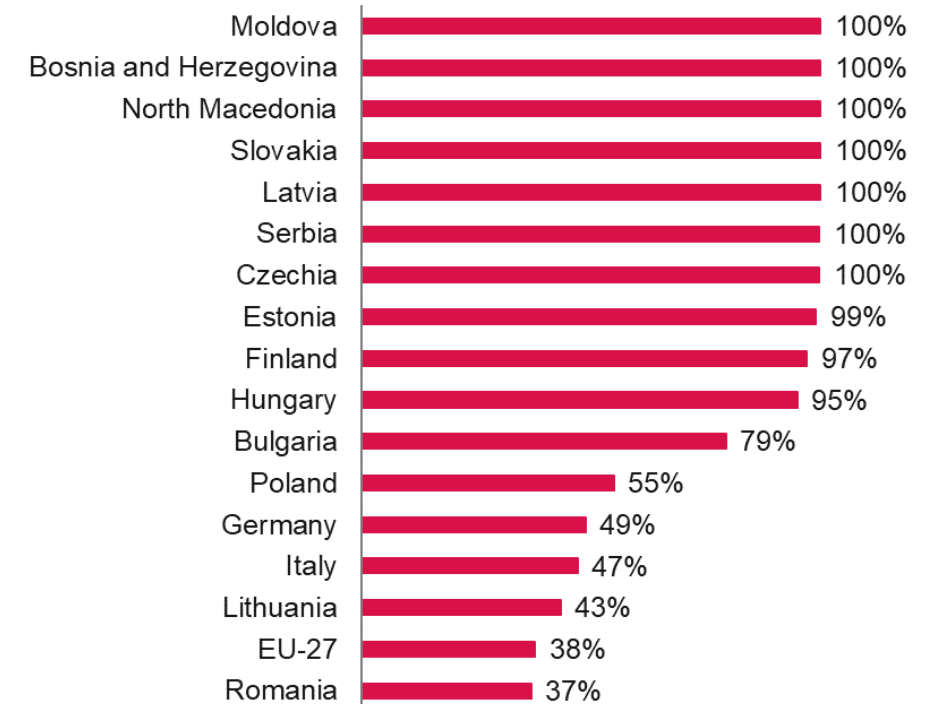
- **Countries**: Central and Eastern Europe (including Germany)
- **Industries** (direct+indirect): Basic metals, Glass (products), paper products and printing, chemicals

8 March: EU plans to **cut Russian gas imports** by two thirds in 2022.

Russia - Exports of Oil and Natural Gas (%): 2020



Share of imported natural gas from Russia (2019)



Source: ITC Trade Map, UN COMTRADE, Eurostat and The Conference Board.



## The logistics crisis about to unfold in Europe

Just before the Russian invasion of Ukraine, European manufacturers were finally seeing supply chain pressures easing.

This is likely to get worse in the coming weeks as ship, air, rail and road transport are disrupted.

Also, a large share of truck drivers in Europe are from Ukraine.

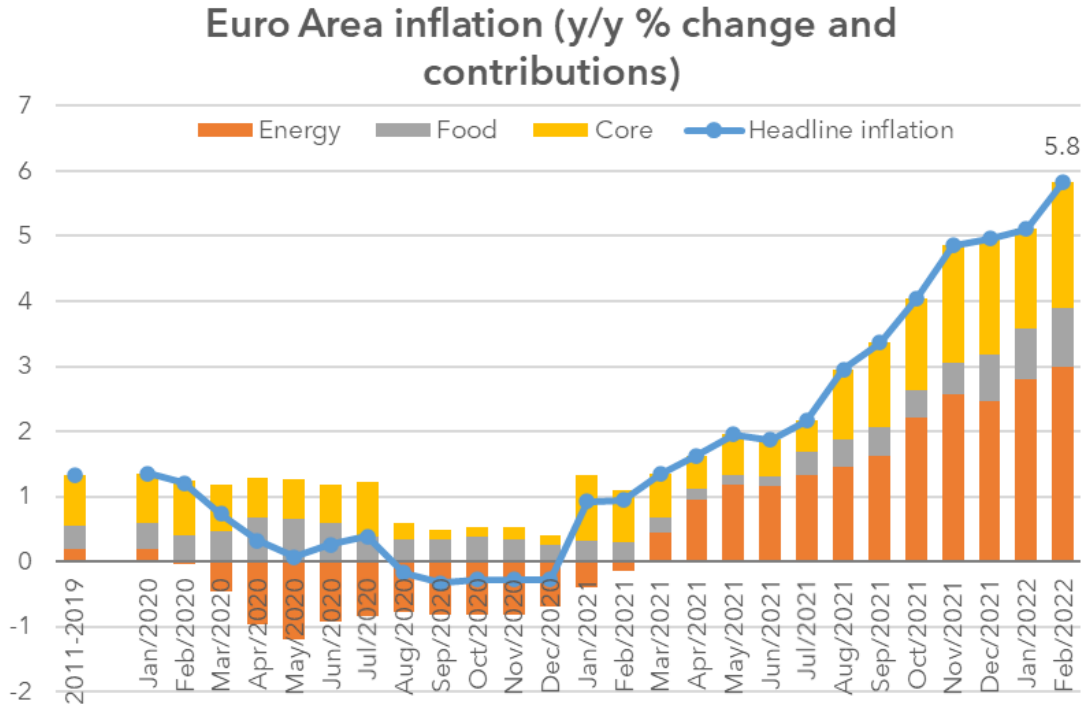


Note: Last datapoint is for February 2022.

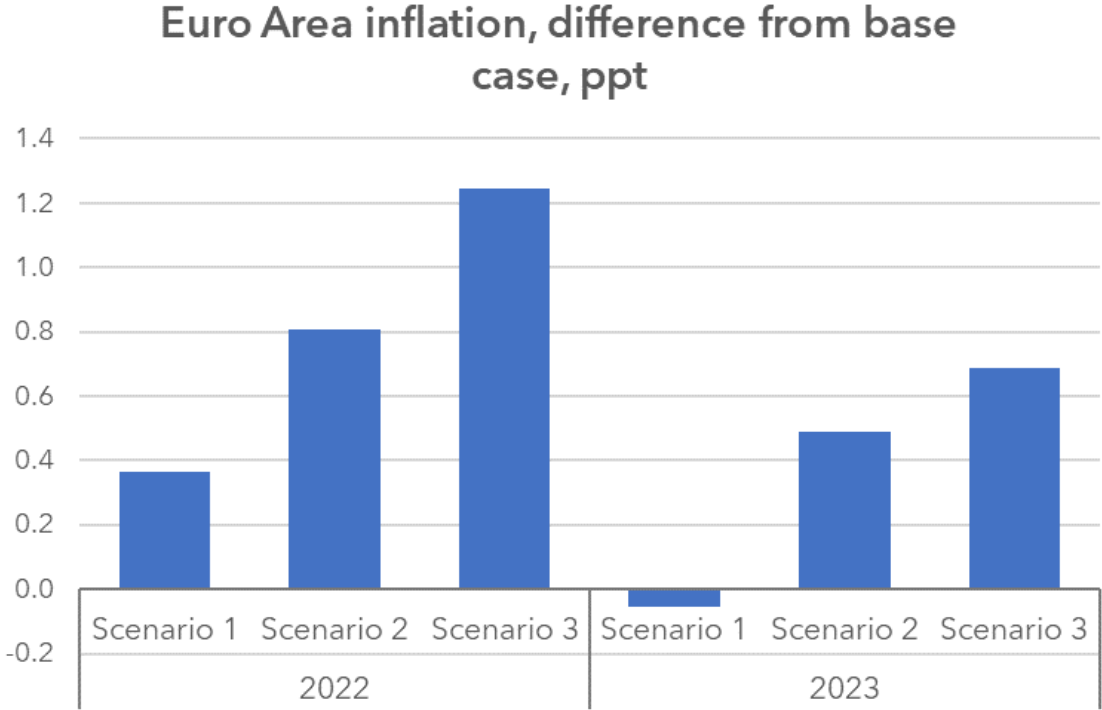
Source: IHS Markit



# Euro Area inflation likely to get worse before it gets better



Source: The Conference Board Calculations using data from Eurostat.



Notes: Scenario 1: assumes average Q2 2022 oil at 105\$bbl; 2: 125\$bbl; 3: 150\$bbl; for additional assumptions please see slide 13.  
Source: The Conference Board.



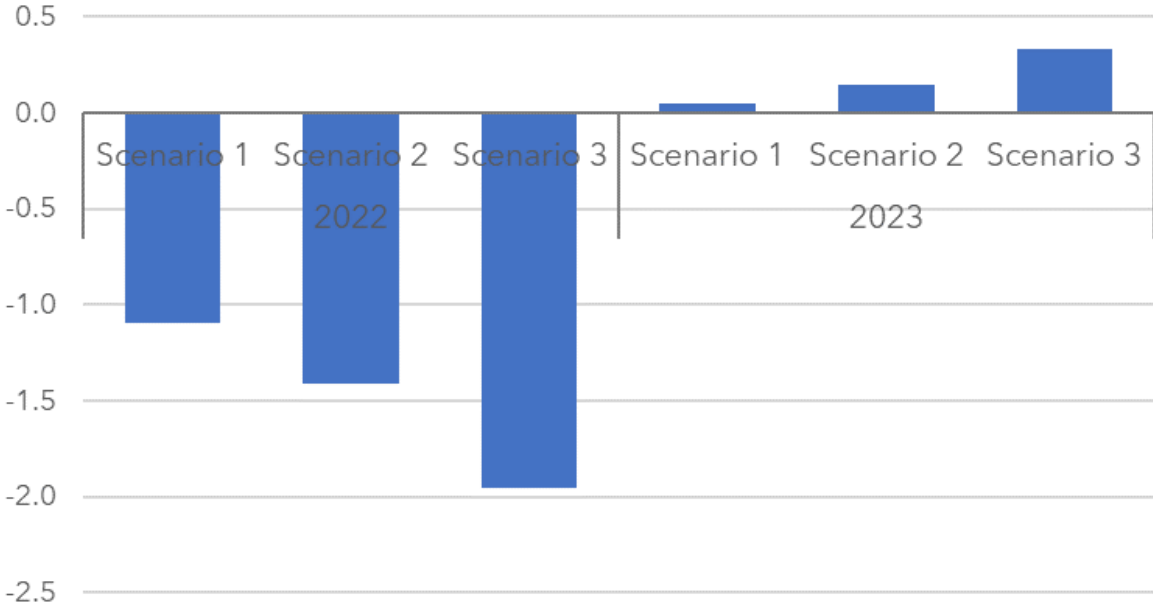
# Bigger slowdown in GDP growth than initially expected, though no recession

Real GDP growth, % change

	2011-2019	2020	2021	2022	2023
Europe	1.6	-6.5	5.4	3.0	1.6
Euro Area	1.2	-6.9	5.1	2.8	1.5
Germany	1.7	-4.6	2.9	1.7	1.6
Italy	0.1	-9.1	6.6	3.0	1.6
France	1.4	-8.0	7.0	3.1	1.5
United Kingdom	2.0	-9.4	7.5	3.9	1.3

Source: [The Conference Board Global Economic Outlook](#) (March 2022).

Euro Area real GDP growth, difference from base case, ppt



Notes: Scenario 1: assumes average Q2 2022 oil at 105\$bbl; 2: 125\$bbl; 3: 150\$ bbl; for additional assumptions please see slide 13.  
Source: The Conference Board.



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