Office of the Comptroller of the Currency

# ECONOMIC SNAPSHOT



April 2022

## Ukraine war and high inflation weigh on U.S. economy

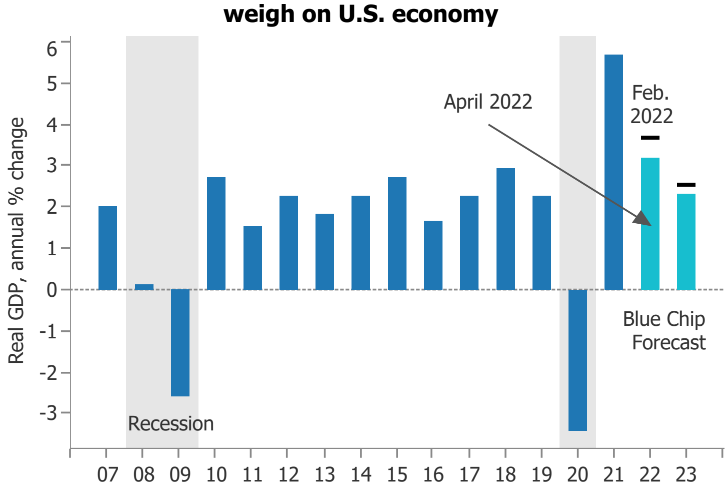
• **Real GDP forecast is for strong but slower growth in 2022.** The Blue Chip Consensus (Consensus) expects only a modest direct impact on real activity from the Ukraine conflict because the U.S. has limited economic ties with the conflict countries. See Figure 1. But the war is expected to boost current inflationary trends. As a result, the Fed might tighten policy more aggressively than expected even a short time ago, increasing the possibility of recession. There are other risks as well. An escalation of the conflict could result in an abrupt spike in energy prices, dragging down consumer confidence. This would place additional pressure on real activity.

• **Inflation is originating mostly from food, energy, autos, and rent.** See Figure 2. Although mounting inflation pre-dated the Ukraine conflict, the event has exacerbated price pressures, especially for food and energy. Inflation is forecast to slow as the Fed increases interest rates. However, the war could prolong existing supply-chain issues. A wage-price spiral could also set in raising the potential for at least mild stagflation where unemployment and inflation remain elevated for an extended period of time.

• **The unemployment rate fell to just 3.6 percent in March, near a 50-year low.** See Figure 3. Businesses are being constrained by the inability to hire all the labor they want, creating upward wage pressures. The labor force participation rate is currently 62.4 percent, below the 63.4 percent rate just prior to the pandemic. And older workers are less likely to return to the labor force, keeping supply tight. Job growth is expected to slow later this year, but primarily due to a lack of labor supply rather than weak labor demand.

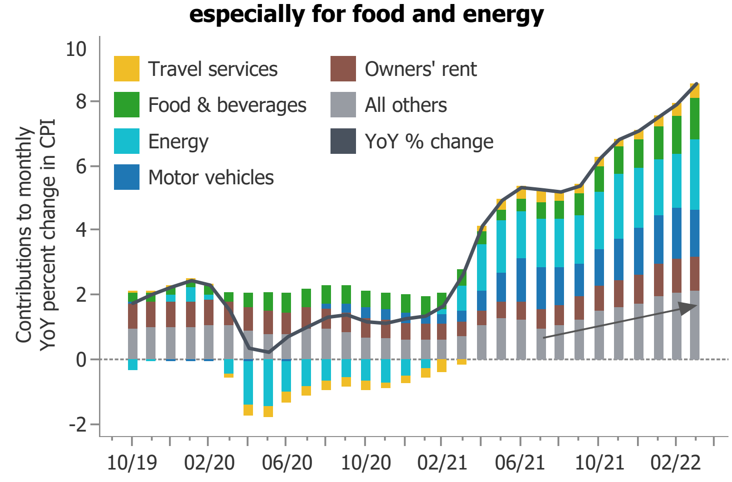
• **The Federal Reserve has signaled it will prioritize price stability over growth.** The Ukraine conflict has increased uncertainty about the eventual amount of tightening. The Consensus expects the 3-month Treasury yield to reach 2.6 percent by the end of 2023, up from a pre-conflict forecast of 2.1 percent. But a significant number of forecasters expect this yield to rise higher, reaching 3.2 percent. The 10-year Treasury yield is forecast to increase to 3.0 percent by the end of 2023 on moderating but still solid economic growth. See Figure 4.

**Figure 1: Ukraine war and high inflation weigh on U.S. economy**



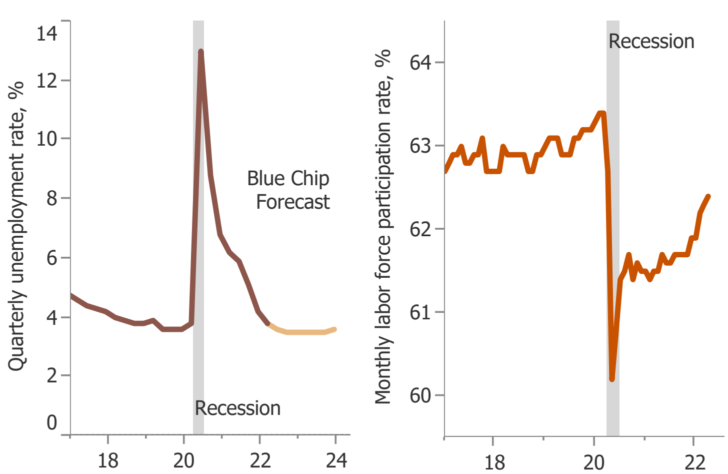

Sources: BEA, Blue Chip Economic Indicators (April 2022)

**Figure 2: Ukraine conflict has exacerbated price pressures, especially for food and energy**



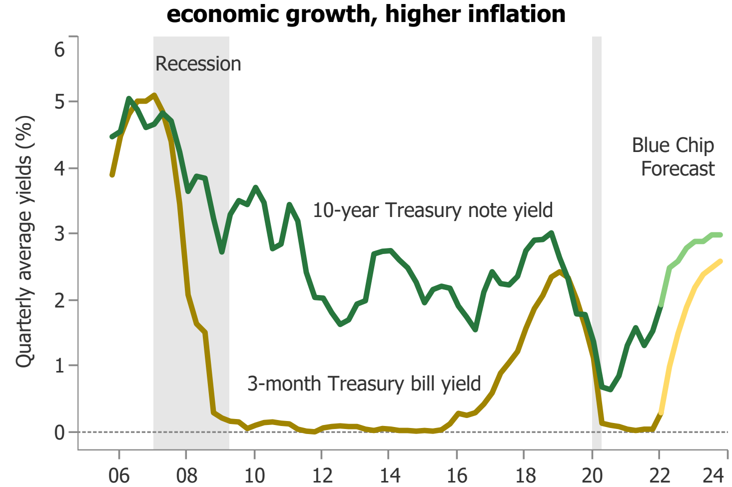

Source: BLS (March 2022)

**Figure 3: The labor market is very tight**




Sources: BLS (March 2022), Blue Chip Economic Indicators (April 2022)

**Figure 4: Long rates to edge up on continued economic growth, higher inflation**




Sources: Federal Reserve (1Q:2022), Blue Chip Economic Indicators (April 2022)