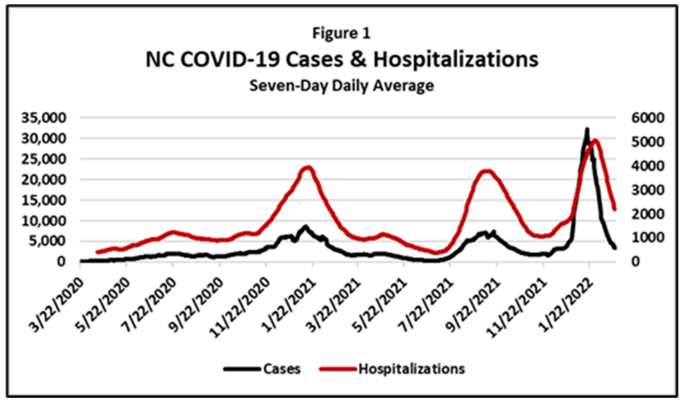
Monthly Economic Update

February 2022

Covid Trends and What to Expect in 2022

The North Carolina labor force and establishment employment data for January 2022 will not be released until mid-March. Therefore, we are going to take a different approach with this monthly newsletter. We will focus on what we expect to see during the coming year – given the easing of Covid restrictions and the new economic disruption associated with Russia's invasion of Ukraine.



First, let's put the public health impact into perspective. Figure 1 provides an overview of the number of Covid cases and hospitalizations found in North Carolina since early 2020. As one can see, the state has experienced three distinctive peaks in new covid infections and daily hospitalizations. These indicators first peaked in January 2021: Covid infections at 8,654 per day (left scale) and hospitalizations at 3,937 (right scale).   The Delta variant of the disease drove the second peak in September 2021 when infections peaked at 7,285 and hospitalization climbed to 3,791. In January 2021, the Omicron variant pushed the seven-day daily average to a peak of 32,163 new cases and a hospital total of 5,049.

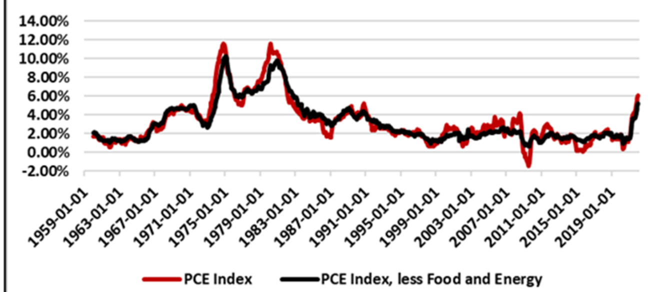
Current news reports keep emphasizing that cases and hospitalizations have fallen considerably. However, one should note that the current seven-day averages continue to be elevated at the end of February 2022 - at approximately 2,800 new daily cases and over 1,800 hospitalizations. Even though mask mandates are being dropped across the nation, the virus is still with us.   While hospitalizations and infections were recently at historic levels, many economic indicators suggest that the disruption associated with Omicron was more moderate than that seen during previous waves. One may make the argument that the US economy may be becoming more resilient to the pandemic. Still, if another substantial outbreak materializes, there could be a variety of implications impacting our overall economy and our local communities.

And now we have the invasion of Ukraine by Russia.   This largest ground war in Europe since World War II comes at a time when the nations of the world are already apprehensive about inflation, rising interest rates, and supply-chain bottlenecks. The uncertainty associated with this incursion, coupled with the sanctions against Russia, only makes these matters worse – particularly regarding energy prices and the subsequent effect upon inflation.

Still, the national economy is strong. After falling by 2.3 percent during 2020 (2019Q4 to 2020Q4), the Gross Domestic Product (GDP) surpassed the pre-pandemic high in 2021Q2 and climbed by 5.6 percent in 2021. Establishment employment climbed by 6.7 million jobs in 2021 (up 4.7 percent), after dropping by 9.3 million (down 6.1 percent) during 2020. The unemployment rate, which stood at 4.0 percent in January, was below the rate at the end of 2020 (6.7 percent in December) and considerably below the pandemic high (14.7 percent in April 2020).

Most forecasters expect the nation's economy to continue to grow in 2022, albeit at a slower rate. For example, the median February 2022 Outlook from the National Association for Business Economics (NABE) shows GDP climbing by 2.9 percent. Nonfarm establishment employment, still recovering from pandemic losses, is projected to expand by 3.8 million, and the unemployment rate should settle around 3.5 percent.

Figure 2
PCE Price Indices
Year-to-Year Change



The forecast is not without headwinds. For example, the personal consumption expenditures (PCE) price indices pictured in Figure 2, which are the inflation gauges used by the Federal Reserve to set monetary policy, have been rapidly climbing this past year. The core PCE index, which excludes food and energy, grew at 5.2 percent in January (year-over-year). This was its highest annual change since April 1983. Similarly, the overall index climbed by 6.1 percent over the year, signaling the fastest rate of inflation since February 1982.

The NABE panel expects inflation pressures to ease in the coming months. The most likely drivers of the easing should come from stricter monetary policy (i.e., an increase in the Federal Funds Rates) and improvements in the pandemic-induced supply-chain bottlenecks that have plagued the economy. Still, it will likely be several years before inflation falls to the Fed's target of 2.0 percent.

The NABE panel forecasts were estimated prior to Russia's invasion of Ukraine. On March 1, 2022, oil prices surged due to the conflict, climbing to more than $100 per barrel and to their highest level since mid-2014. The increase in energy prices adds to the inflationary pressures. In fact, the high rates of inflation found in the 1970s (shown in Figure 2) were largely impacted by high oil prices.

It is important to recognize North Carolina's relationship to the national and global economy. As we have pointed out before, North Carolina has typically grown more rapidly than the US during national expansions, but the State's economy has often suffered relatively more than the nation during recessions. Luckily for us, the recent pandemic-induced recession is an exception. Our statewide economy contracted, but not as severely as the nation.

While North Carolina can better prepare its economy for the future by attracting new industry, as it is successfully doing, the main driver of growth is the national economy – which is not isolated from the rest of the world. We import growth, but are not shielded from inflation, rising interest rates, and climbing gas prices. In fact, like most Americans, we are currently being impacted by these issues today. The implication for the state in 2022 is for a growing economy, but one that expands slower than last year and is impacted by the same negative factors found elsewhere in the nation and across the globe.

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