

Northwood University's Monthly Economic Outlook

A monthly publication of the McNair Center for the Advancement of Free-Enterprise and Entrepreneurship.

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Introduction

The heart of the world beats for the people of Ukraine and the Russians who oppose the tyranny of Vladimir Putin. Not since World War II has the world come together to fight a dictator whose mission is so immoral and ill-focused. The thoughts and prayers of Northwood University and its McNair Center for the Advancement of Free Enterprise and Entrepreneurship echo that heartbeat and encourage global support. We call for all who read our Outlook to find and support a charitable cause helping these brave freedom fighters.

Key February/Early March Data

Positive and Negative Signs

US consumer inflation at the end of February on an annualized basis stood at 7.9%, a sizable increase from 7.5% at the end of January 2022. The average national price for a gallon of gasoline on March 10 was \$4.31. This is up from \$3.72 a gallon a week ago; \$3.47 a gallon a month ago; and \$2.81 a gallon a year ago.

The Dow Jones industrial average, NASDAQ and S&P 500 are down dramatically from the end of 2021. The majority of the decline has come since Russia's invasion of Ukraine.

Even though the last couple of U.S. jobs reports and unemployment reports have looked positive, the dirty little secret is a growing number of economists now believe first quarter 2022 U.S. GDP could be as low as 1% with a few outliers predicting GDP growth as low as 0%. Just a few weeks ago, the Atlanta Federal Reserve Bank's GDPNow indicator predicted first quarter 2021 US GDP to be as low as negative 0.3% (their current prediction is +0.5%).

Current Issues

The four factors influencing the current high prices Americans now face are:

1. Inflation – As noted earlier, annualized consumer-price inflation at the end of February is running at 7.9%, up from January's level of 7.5%. Inflation for the month of February relative to January increased at 8% on an annualized basis. What is most troubling for the Biden Administration is that the inflation reported in February does not include most of the price spike from the invasion of Ukraine. In fact, if you discount any energy price increases, inflation is still up 7.3% over the last three months. According to the Bureau of Labor Statistics, from the end of February 2021 to the end of February 2022, prices for shelter were up 4.7%; rental properties were up 4.2%; commodities (including items like wheat, oil, gold) were up 13%; and transportation (from containers to trucking services) were up 21.2%.

2. Supply chain – The U.S. and global supply chain is showing slow, but gradual improvement, but is yet to return to its highly efficient structure due to the negative effects of the COVID-19 pandemic and overreaching vaccine mandates and incentives for truckers to work less or not at all. There are signs that market forces are improving supply chain delays. However, Russia's invasion of Ukraine and worries regarding China and Taiwan are presenting new problems for the industry to handle.

3. Energy policy – We have been critics of President Biden's energy policy since he began signing executive orders to regulate U.S. energy markets the day he assumed the presidency. His policies have:

- Reduced or discouraged U.S. production by executive order or law, which have benefited countries unfriendly to the United States, such as Russia and Iran.
- Weakened the security and economies of Europe and the United States by forcing countries to purchase less American oil and natural gas and more from countries like Russia, Iran and others.
- Resulted in the world buying less clean oil and gas, which adds more greenhouse gases or increases the

world's carbon footprint, making President Biden's energy policies 'dirtier' not 'greener.'

- Caused the U.S. to lose tens of thousands of high-paying oil industry jobs to nations such as Russia, Iran and Venezuela (all countries that are unfriendly to the United States). In addition to the lost wages, billions of dollars in personal income tax revenue will be lost to the U.S. government at all levels (and the same is true for corporations and corporate tax revenue).

- Halted the efficiency of a free-market economic system, thus preventing a wider supply of oil at a lower price to be delivered. As a result, poorer countries that cannot afford the higher price of oil will be forced to purchase less expensive and higher carbon-content fuels such as coal; once again, creating an anti-green, rather than the green energy policy that is being advertised by the Biden Administration.

4. The War in Ukraine – The top wheat producing countries in the world include Russia at No. 3, producing 98.5 metric tons, or 10% of production and Ukraine at No. 9, producing roughly 26.2 metric tons, or 4% of total production. It is estimated almost 184 metric tons of wheat are exported around the world. Russia is the world's leading exporter, exporting nearly 44 metric tons or just under 24% of the world's wheat exports. Ukraine is the No. 5 exporter, exporting almost 16.5 million metric tons or just under 9% of the world's wheat exports. Ukraine is also the world's fifth largest exporter of corn. As a result of growing concern over war in Ukraine and the beginning of the invasion of Ukraine itself, wheat prices increased 50% a bushel from Feb. 17 to March 4. Like the devastating effect petroleum prices have had on derivative products (from cosmetics to pharmaceuticals and golf balls to pacemakers), similar results are beginning to unfold in the commodities market. Higher wheat and corn prices due to inflation and the invasion of Ukraine are driving up prices from bread and pastries to ethanol and bourbon. Unfortunately, we do not see these prices retreating soon.

Conclusion

The recent ban on Russian oil preventing its sale in the United States is to be applauded. However, the surging prices for oil gasoline and related products do not need to be as high as they are today.

If the White House and Congress were driven more by the market process and the principles of a free market and less by political platforms and government outcomes, overall prices would be lower, and Americans would have more in their pockets and could do more for themselves and those bravely fighting for freedom in Ukraine and Russia.

Contact Us

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