



Will the War in Ukraine Derail the U.S. Economy?

The war in Ukraine has roiled financial and energy markets around the world. So far, the effects on the U.S. economy have been relatively minor, but the economic fallout is likely to grow the longer the war goes on.

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As if a global pandemic weren't enough, now there is a European war wreaking havoc with markets and economies across the globe. The Russian invasion of Ukraine has already caused a dramatic spike in energy prices, disrupted supply chains, and helped bring about a stock market correction. Not only does the war itself hurt companies that do business with Ukraine, but the sanctions imposed on Russia -- and Russian reprisals to sanctions -- could have a cascading effect on a wide range of industries.

The Good News: Overall Growth Expected to Stay Positive

The U.S. economy is exposed to Russia and Ukraine mostly through energy channels. Although U.S. trade with both countries is relatively small compared to the American economy, the disruption of supplies of oil, gas, and other commodities will likely take a toll on U.S. growth, at least for the short-term.

Since the start of the Russian invasion in late February, economists have trimmed their estimates of U.S. economic growth. Forecasters currently predict real GDP to increase at an annual rate of 1.8% in the first quarter of 2022, down from 3.9% in the last survey on predicted growth.* But GDP is expected to bounce back in the second quarter, and show above-trend growth of 3.2% for the year, as it continues to rebound from the omicron wave.¹ What's more, unemployment remains low, at 3.8%, and consumer spending remains robust.

The Bad News: Higher Inflation...

Russia is the largest exporter of natural gas and the second largest exporter of petroleum products in the world. Although the U.S. imports little oil from Russia, energy markets are global, so supply disruptions affect prices across the globe. Anyone with a gas-powered car is already feeling the pinch. A gallon of gas now averages over \$4 in the U.S., and has hit over \$6 in parts of California. The war, and Russian sanctions, helped push the price of Brent crude to over \$125 a barrel -- its highest level in over 10 years. Though oil prices have since dropped some, consumers are still feeling the bite of higher energy prices -- at the pump and at home -- and can expect more pain in the months ahead.

Prices have also risen on other commodities -- from uranium to palladium to wheat and nickel -- as a result of the war and Russian sanctions. The Bloomberg index of commodities reached a new high after rising more than 25% since the beginning of the year.² What's more, Ukraine is among the major exporters of certain agricultural commodities, such as sunflower oil, wheat, and corn. As a result, U.S. consumers can expect to see higher prices on a number of products as the shortages work their way through supply chains to consumers' wallets.

...and More Volatility

The U.S. stock market has already undergone a correction -- a drop of over 10%

from its most recent high. As of March 31, 2022, the S&P 500 had recovered ground, but was still down 5.5% from its early January peak. Much of the decline can be attributed to other factors. Well before Russia started amassing troops on Ukraine's border, inflation was rising and the Federal Reserve was signaling future rate increases. The first of those increases was made on March 16, and others are on the way. The Russian invasion has only added to the volatility, as investors ponder the business disruptions caused by the war and sanctions, and the political uncertainties of shifting global alliances.

Stay Tuned

Slower growth, supply chain disruptions, higher prices, and stock market volatility are all expected in the coming months. But unlike Europe, the U.S. economy is more self-sufficient and well positioned to weather the storm. Still, much could change in the weeks and months ahead. The ultimate impact of the war on the U.S. economy will largely depend on how long the conflict lasts, if it spreads, and to what extent it disrupts global markets. So stay tuned.

*Federal Reserve Bank of Philadelphia, [*First Quarter 2022 Survey of Professional Forecasters*](#), February 2022.

¹Source: CNBC, [*War Fallout: U.S. Economy to Slow, Europe Risks Recession and Russia to Suffer Double-Digit Decline*](#), March 6, 2022.

²Source: EFG, [*Commodity markets and the war in Ukraine*](#), March 14, 2022.