State of the Economy April 2022

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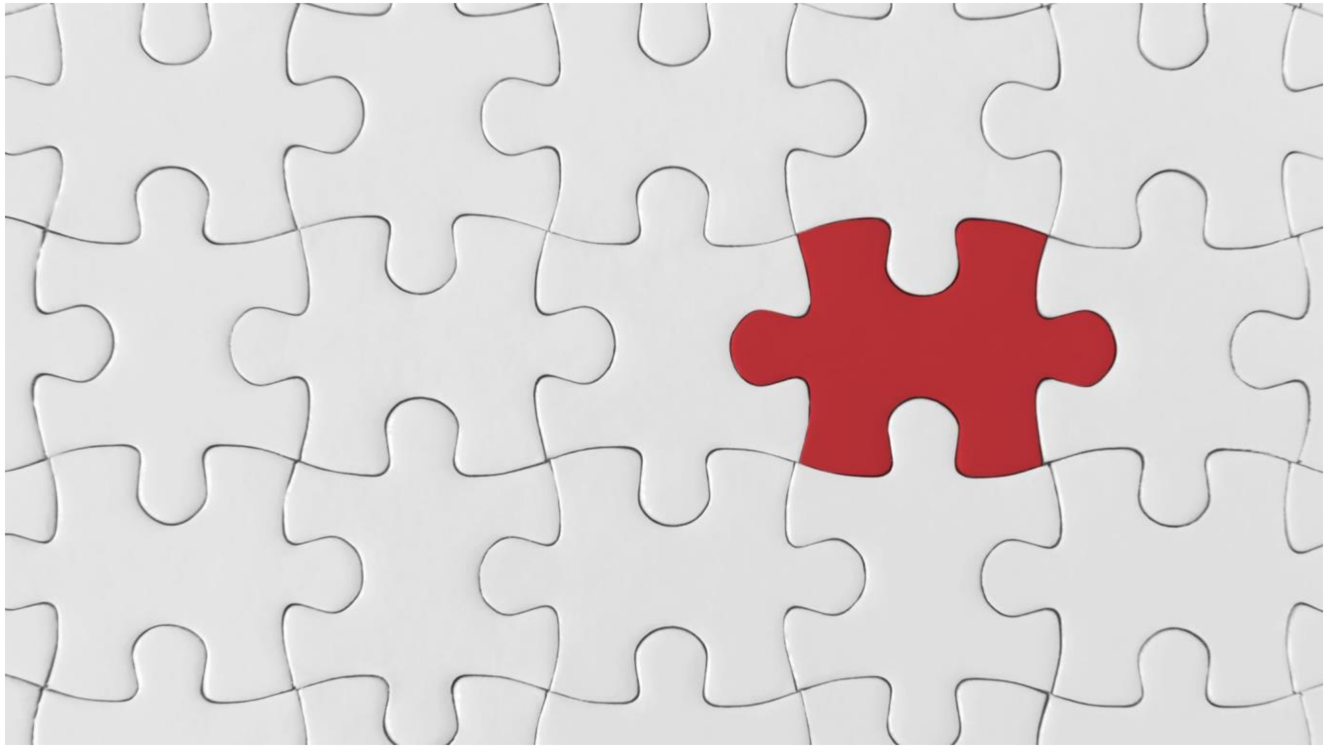

State of the U.S. Economy – Inflation- Gas Prices, Ukraine

Near-term upward revisions in the:

1. Prices of food and energy, the supplies of which from Russia and Ukraine are now in question
2. A tightening of financial conditions leading up to, and immediately after, the invasion as some investors shifted toward safer assets while assessing newly elevated risks

And a markdown of global growth prospects, which varies importantly by country

Europe is especially dependent on Russian energy supplies.

Initial assessment of the economic, financial, and political fallout from the Russian invasion of Ukraine, shows real GDP growth of 3.3% for 2022, revised down from 3.7% last month.

Uncertainty around the base case is extraordinarily high.

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Inflation forecast:

- Measured 4th-quarter-to-4th-quarter, core personal consumption inflation for 2022 is revised up from 3.4% to 4.1%.
  - The upward revision to headline inflation - CPI, which includes the prices of food and energy, is much more dramatic (6.2%).

Expectation are that the US Economy will continue to expand, and the expansion will be supported by:

- Still somewhat-accommodative monetary policy,
- the transition from COVID pandemic to endemic,
- and a gradual increase in labor force participation.

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GDP growth to slow to 1.0% in Q1...

First-quarter growth will be restrained by a sharp decline in inventory investment from the unsustainable Q4 pace

But will rebound in Q2

As the rate of COVID infections wanes and warmer weather encourages outdoor activities, we expect an acceleration in consumer spending on services to reinforce a rebound in vehicle production, pushing Q2 growth up to 3.3%—revised down from 4.3% in last month’s forecast.

Biggest impact from Ukraine is mid-year growth of PCE

The largest impacts on consumer spending from the war in Ukraine occur in the second and third quarters of this year, when our projections of growth in consumption is projected to go down by roughly a full percentage point. Measured 4th-quarter-to-4th quarter, the forecast for growth of consumption for 2022 is revised down by half a percentage point, to 2.1%

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Near-term price pressures to ease by year-end

New upward price pressures arising from the war in Ukraine are expected to ease in the second half of the year, allowing a sequential decline in annual inflation rates. The CPI is projected to rise 6.2% this year and then, as energy prices decline, 2.6% next year, followed by 2.1% in 2024.

Fed lift off in March, five rate hikes this year

For now, the Fed's concern that high inflation will lead to an increase in long-term inflation expectations outweighs its concern that developments in Ukraine threaten the US expansion.

Fiscal developments: shifting priorities?

The Biden Administration's social agenda is on hold, stalled in the Senate and now overshadowed by current events as focus has shifted to near-term financial support for war-torn Ukraine. Longer-term, a likely ramification of the war in Ukraine will be a shift from nondefense to defense fiscal priorities.

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The near-term price of Brent crude has been revised up roughly $30, to $100 reflecting the potential for a sharp decline in Russian exports of crude oil.

The potential for disruption of agricultural exports out of Russia and Ukraine suggests higher lines for prices of US farm output and consumer foods.

The increasing uncertainty surrounding events in Ukraine, combined with the potential lower corporate earnings (due to slower global growth), has made the equity risk premium to increase and projected stock prices to decrease.

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Two More Thoughts:

1- Inverted Yield Curve:

As yields on two-year Treasury notes this week moved above yields on 10-year notes, Wall Street analysts sent up warning signals.

When short-term interest rates are higher than long-term interest rates, we have an inverted yield curve, which is usually a strong signal of recession in near future.

The closely watched differential between yields on two-year and 10-year Treasury notes inverted this week.

On Friday, the yield on two-year Treasury notes hit 2.44% and on 10-year notes was at 2.38%

In the early and late 1980s, before recessions, yield curves inverted. It happened again in the early 2000s and mid-2000s before recessions.

In normal times, the longer it takes to pay back a loan, the higher the interest rate you have to pay. Lending money over a longer duration entails more risk and thus demands a higher return.

The interest rate for a three-month loan, in other words, should be less than the interest rate for a two-year loan, which should be less than on a 10-year loan. When these relationships invert, it's a signal of turbulence on the horizon that often involves the Federal Reserve.

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2 - Wealth Tax

The White House is proposing a new “billionaire minimum income tax,

The tax isn’t limited to billionaires, and it applies to more than income.

It’s a new tax on Americans with $100 million or more in assets whose effective tax rate in any year is less than 20% of their income. But these taxpayers already pay a 23.8% tax rate on capital gains and 37% on ordinary income. The average tax rate for the top 1% of taxpayers in 2019 was 25.6%.

Here’s the trick: The 20% minimum tax rate would apply both to ordinary income and the increase in the value of assets each year. This means taxing unrealized capital gains, which currently aren’t taxed until assets are sold and income is actually realized. In other words, this is a new tax on wealth

Some details of the plan aren’t fleshed out, but the targets would appear to have nine years to pay the 20% tax on the growth in their assets from the first day they accumulated them. Going forward they’d have five years to pay the tax on their annual unrealized capital gains.

Stimulus, Stimulus, and more Stimulus

GDP and unemployment forecast (in percentage) for 2021 with and without stimulus:

	GDP	Unemployment Rate
With $2.2 T stimulus (Mar 2020)	3.5%	6.2%
Add $900 B	4.0%	5.9%
Add $1.9 T (Rescue Plan)	5.5%	5.5%
Yet to Come:		
Add $1.0 T (IIJA)	??	??
Add $2.0 T (BBB)	??	??

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WHAT WAS IN ECON RESCUE PLAN:

1. $1,400 stimulus payment - Cost estimate: $465 billion
2. State and local government aid - Cost estimate: $350 billion ($1,200 per capita) ($4 B for AL)
3. Extended and increased supplemental unemployment insurance - Cost estimate: $350 billion
4. Funding for national coronavirus vaccination and testing program - Cost estimate: $160 billion
5. Funding for K-12 and higher education - Cost estimate: $170 billion
6. Expanded refundable child tax credit - Cost estimate: $120 billion
7. Rental support - Cost estimate: $30 billion
8. Support for childcare providers - Cost estimate: $25 billion
9. Other Provisions: $200 billion

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WHAT IS IN AMERICAN IIJA (Infrastructure):

The goal is to rebuild the nation's deteriorating roads and bridges and fund new climate and broadband initiatives.

With $550 billion in new federal spending, the measure would provide:

$65 billion to expand high-speed internet access;

$110 billion for roads, bridges and other projects;

$25 billion for airports;

And the most funding for Amtrak since the passenger rail service was founded in 1971, $66 B.

The administration had initially proposed a $2.3 trillion infrastructure plan.

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WHAT COULB BE IN BBB Act:

Extend the Child Tax Credit Expansion: The credit, which was boosted from $2,000 to $3,600 per child under age 6 ($3,000 per child ages 6-17), is now being sent out in monthly payments to households who opt-in

Lower Child Care Costs: The BBB act would cap childcare costs at 7% of income for middle-class families, saving the average family $14,800 per year. The BBB also aims to make preschool free for 3- and 4-year-olds.

Lower Higher Education Costs (?)

Close the Medicaid Coverage Gap

Paid Family and Medical Leave (?)

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Stimulus Money after Corona- How Is it Justified?

A driving principle behind the Biden $5-trillion plan is that “we have to rebuild trust in government to solve big problems.”

The American public’s trust in government eroded over the past few decades in part as backlash to the big-spending programs of the 1960s, which critics said didn’t work as hoped, and blamed for the stagnation and high inflation of the 1970s.

The Biden economic program is rooted in a core belief that the American economy is now riddled with market failures that only Washington can fix.

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But - is there a cost to all this? Intended or Unintended?

What if there was not any stimulus money?

Would the economy now be healthier, with much less inflation, fewer shortages, and more consumer and business confidence?

The Bureau of Economic Analysis estimates that GDP expanded 5.7% in 2021.

That’s the fastest annual growth since the 1980s.

The recovery from the pandemic was always going to take off, with or without the stimulus.

Politicians shut the economy down for much of 2020, then poured cash into consumer pockets to compensate, and the Federal Reserve flooded the economy with more money. A boom for the ages was poised to happen in 2021.

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GDP growth in Q4 2021 was a solid 6.9%, accelerating from 2.3% in the third quarter that was affected by the surge in the Delta Covid variant.

But by far the biggest contributor to GDP, however, (4.9 percentage points) was a buildup of inventories.

Consumer spending contributed 2.25 %, but much of that came from spending down accumulated savings from all that government stimulus.

The personal saving rate fell to 7.4% from 9.5% in the third quarter.

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And, inflation, is running at 7% in the consumer-price index.

Real wages after inflation are falling for most Americans, despite businesses paying far more to retain workers.

Real disposable income, after inflation, fell 5.8% in the fourth quarter after falling 4.3% in the third.

The 2021 spending blowout caused a surge in demand that met with a historic supply shortage.

The consumer sugar high from government transfer payments is wearing off as 2022 begins.

The uncertainty from future fiscal policy elements vows to challenge businesses with new regulation added to the supply problems.

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Speaking of Inflation

Inflation has fundamentally picked up and price gains are feeding back into wage gains.

Inflation-adjusted gas prices aren't at record highs. But March prices average of $4.22 a gallon is the biggest month-over-month price increase since EIA records began in the mid-'70s. The next-highest increase was after Hurricane Katrina in 2005.

In addition to the gasoline process, there's a lot of pressure on the supply side on both commodities and labor.

Wages are rising quickly in all parts of the economy, from high-paying finance jobs to lower-paying restaurant and manufacturing positions.

Labor costs are actually accelerating, and firms have already demonstrated that, in the aggregate, they have significant pricing power to pass those rising costs along to their customers.

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Example: McDonald's executives have estimated that U.S. menu prices increased about 6% last year on an annual basis, because of increasing costs for labor, food, packaging and other materials.

The fast-food company reported a 7.5% increase in U.S. same-store sales for its fourth quarter ended Dec. 31, with the chain attributing the growth to menu price increases.

Federal Reserve policy makers now consider the labor market to be at or near full employment, despite the fact that the economy has only recovered about 84% of the jobs it had before the pandemic.

With the unemployment rate now at 3.6%, the Fed is shifting gears from providing stimulus to the economy to fighting inflation while trying to maintain the labor-market recovery.

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Numbers- The Bottom-Line Forecast

Real GDP rose 5.7% in 2021 as annualized growth increased from 2.3% in the third quarter to 6.7% in the fourth.

Growth slows to 3.3% in 2022 and 2.8% in 2023.

Spending jumped 8.0% in 2021. It will slow to 3.0% in 2022 and 2.4% in 2023.

Business fixed investment jumped by 7.4% in 2021 and remains strong at 6.2% in 2022 and 3.9% in 2023.

Fiscal policy: Income support drops from $2.7 trillion (annualized) in first half of 2021 to $0.5 trillion in 2022.

Fed keeps the funds rate at the zero bound through March 2022.

Average price of crude oil rises from $42 per barrel in 2020 to $71 in 2021, $104 in 2022 and $94 in 2023.

Core personal consumption (CPE) price inflation increased from 1.4% in 2020 to 4.2% in 2021. It will increase to 5.5% in 2022 and to below 3% in 2023.

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Supply Chain – Labor and Commodities

During the pandemic the participation rate fell far more than could be accounted for by normal cyclical variation.

Among the reasons for this are concern about safety in the workplace, the sudden lack of availability of daycare services, the shift of schools to virtual learning, a surge in wealth that may have encouraged early retirements and emergency unemployment benefits that may have discouraged work.

Products

Another manifestation of supply shortages has been a sharp drawdown of inventories that has pushed the aggregate inventory/sales ratio to record low levels.

The forecast shows inventory investment should make a positive contribution to GDP growth in 2022 as firms raise production and start rebuilding depleted stocks.

Economy of the State – Alabama – Forecast

Forecast for 2022 and 2023

Economy of the State – Alabama – Forecast

- Prior to the current downturn, the Alabama's labor market performance was robust and strong.
- Payroll employment registered positive trends from May 2012 to March 2020.
- The performance of the labor market for 2019 averaged at 41,000 additional jobs per month.
- The trend, however, was reversed in March and April of 2020.
- The State lost 200,000 and 167,000,126,000 and 109,000 jobs in April, May, June, and July relative to same months in 2019.

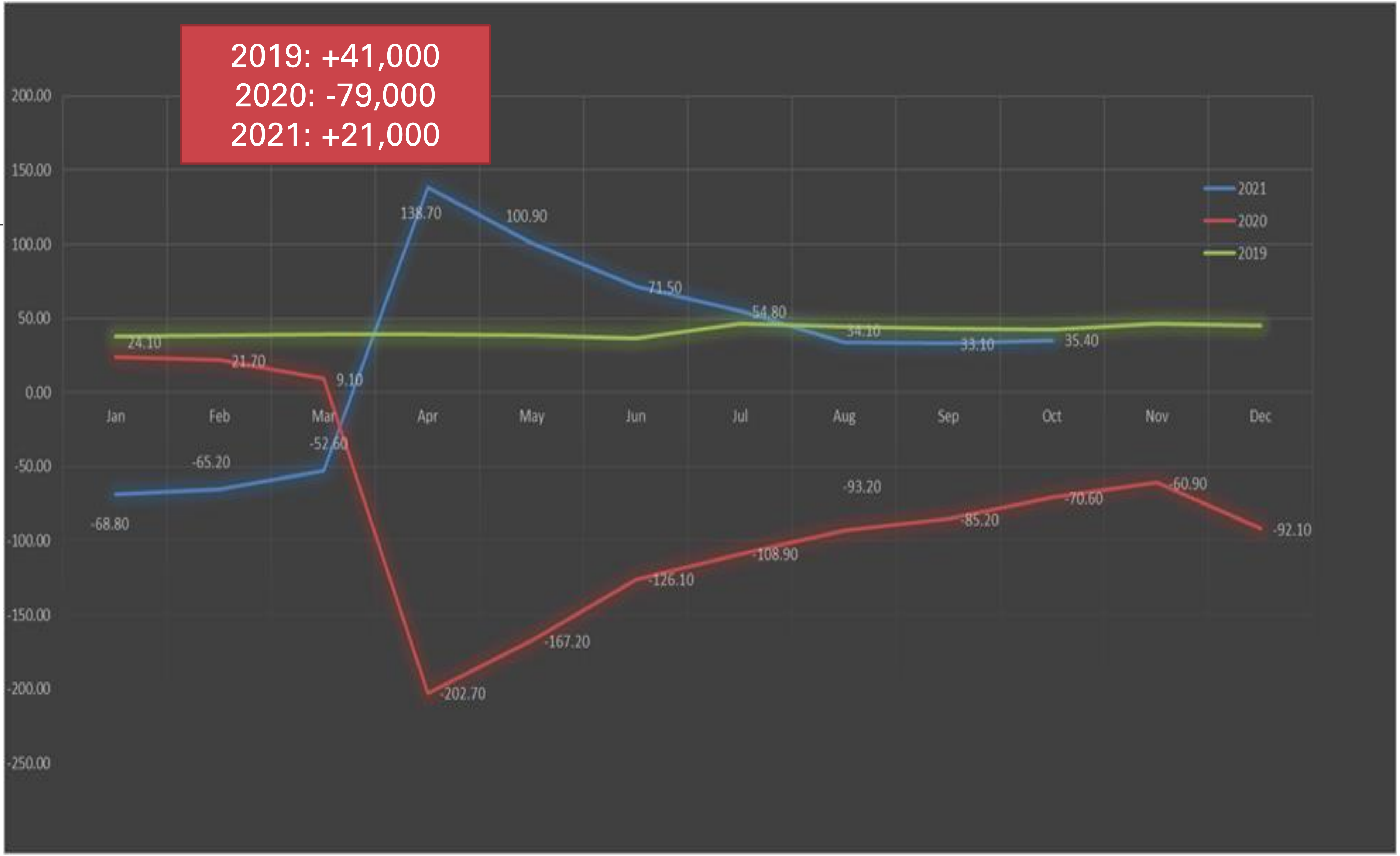
Economy of the State – Alabama – Forecast

While the impact of the pandemic on the Alabama economy was substantially devastating, labor market recovery has been steady and fast pace.

For example, as of November 2020, Alabama Department of Labor reports that a cumulative total of 800,00 Alabamians have applied for unemployment benefits.

That is a huge negative number.

However, based on most recent reports released by the Alabama Department of Labor, Alabama's unemployment rate is at 3.3% and majority of the economic sectors are experiencing recovery during 2021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2021: +21,000
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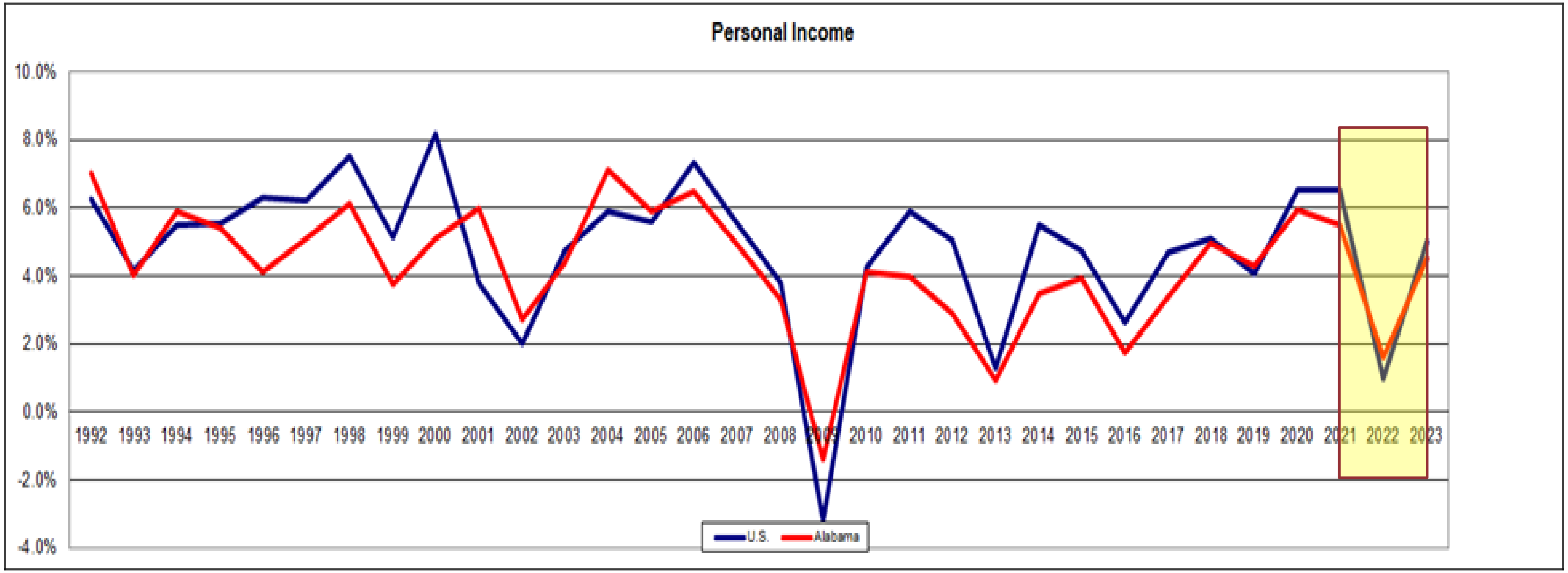
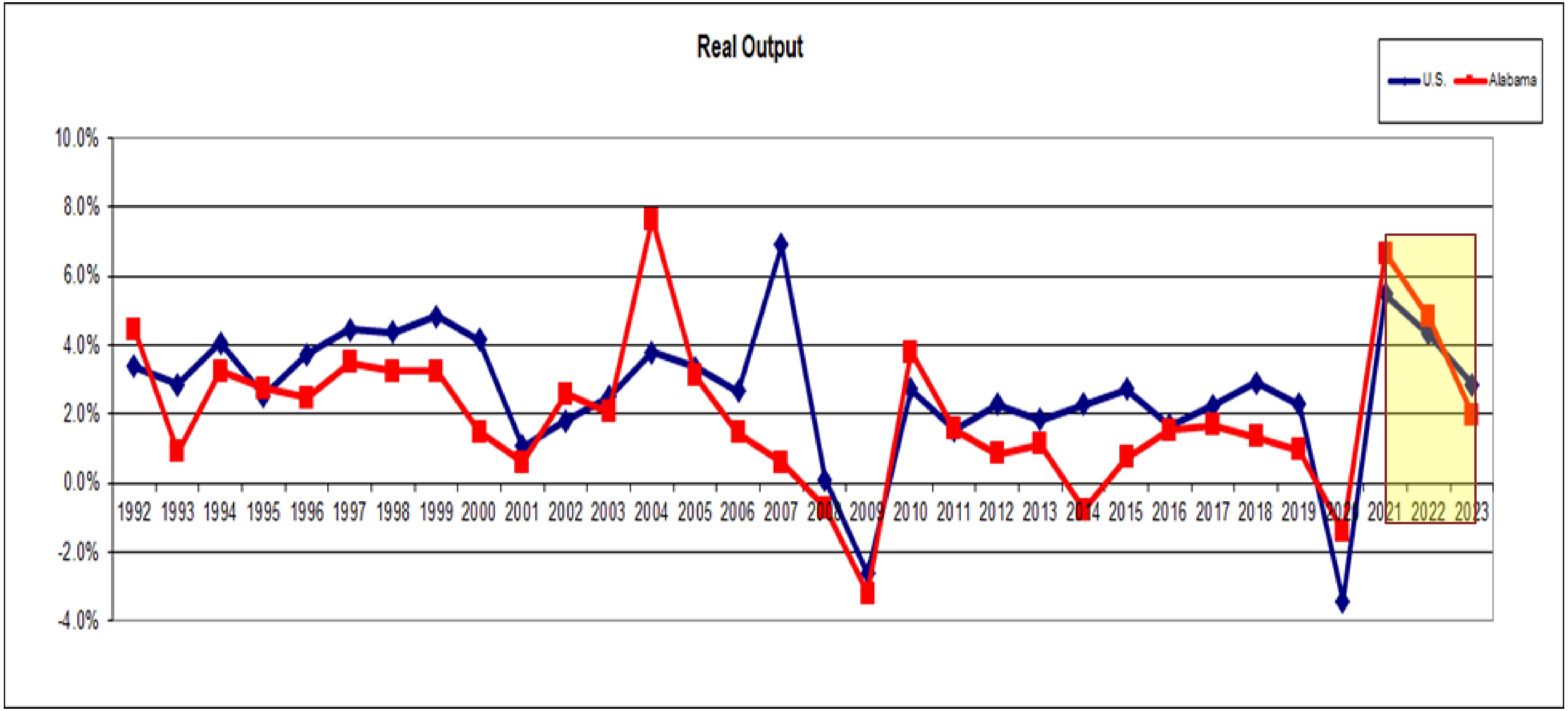
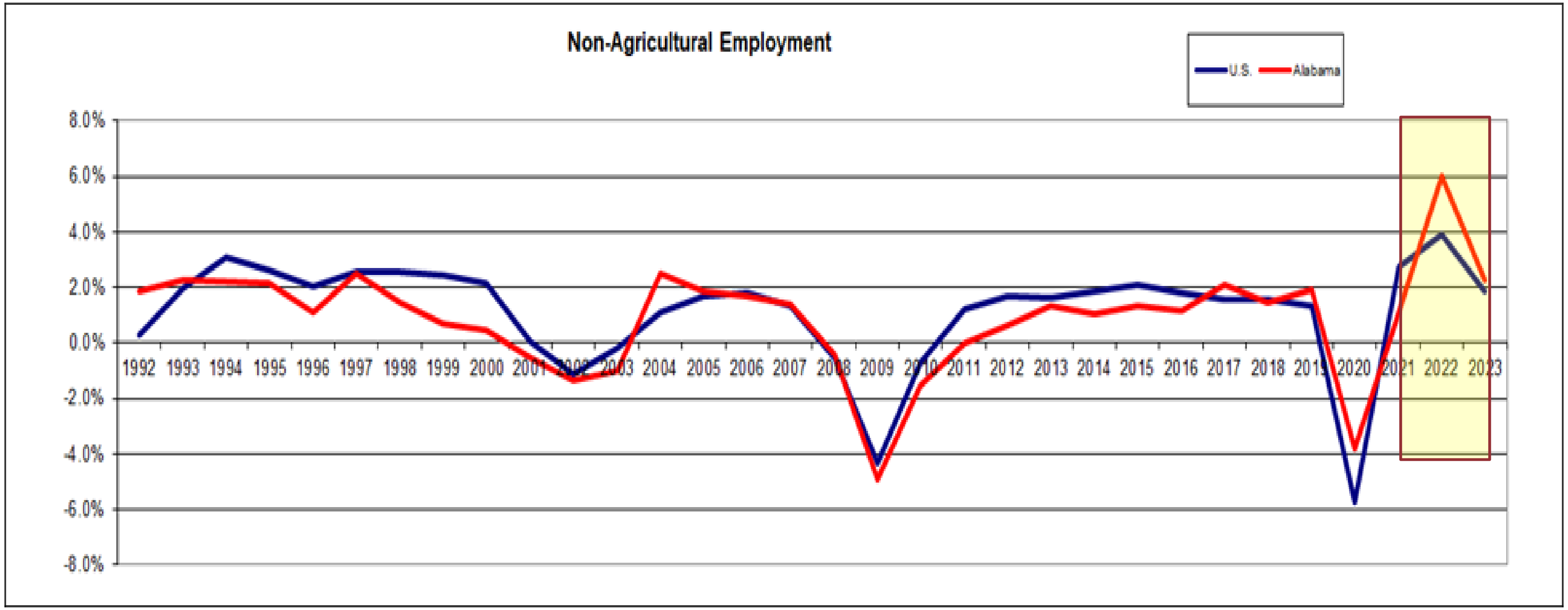


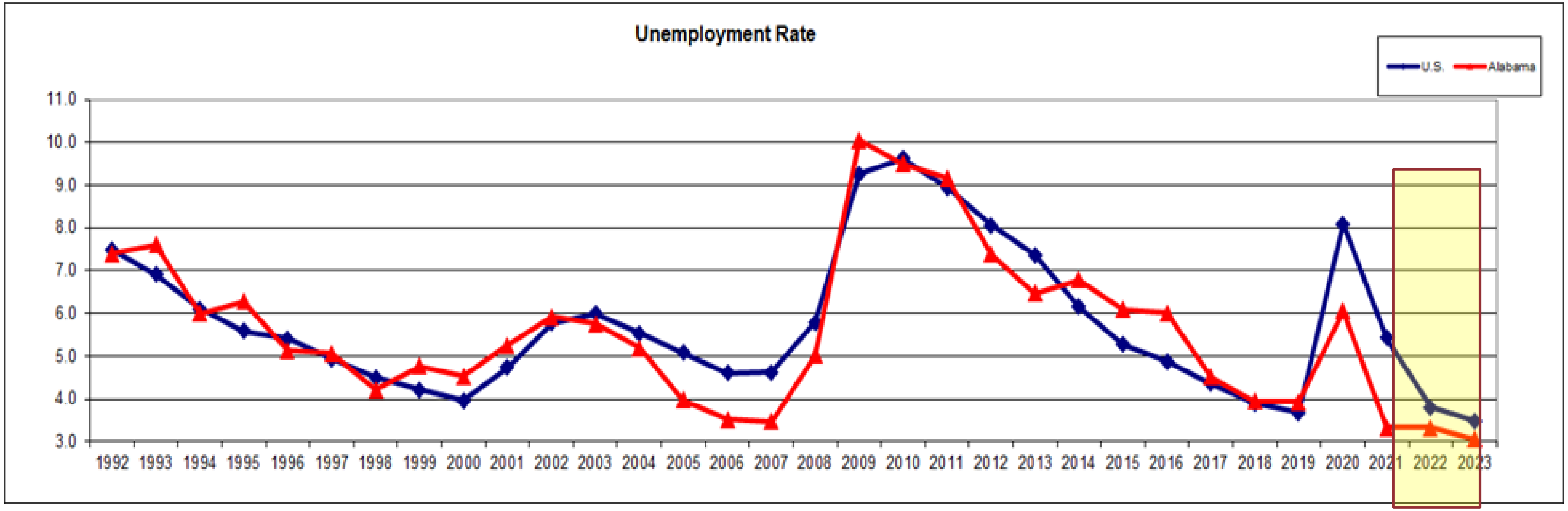
	2019	2020	2021	2022	2023
Percentage Change in Personal Income	4.3%	5.9%	5.5%	1.6%	4.5%



	2018	2019	2020	2021	2022	2023
Total Real Gross Domestic Product - Alabama	1.3%	1.0%	-1.4%	6.6%	4.8%	2.0%



	2018	2019	2020	2021	2022	2023
Total Nonfarm	1.5%	1.9%	-3.8%	1.1%	6.0%	2.3%



	2018	2019	2020	2021	2022	2023
	3.9%	3.9%	6.1%	3.3%	3.3%	3.1%

Commercial Real Estate

QUESTIONS?