

ECONOMIC PULSE

UNITED STATES: KEY RATE INCREASE AHEAD

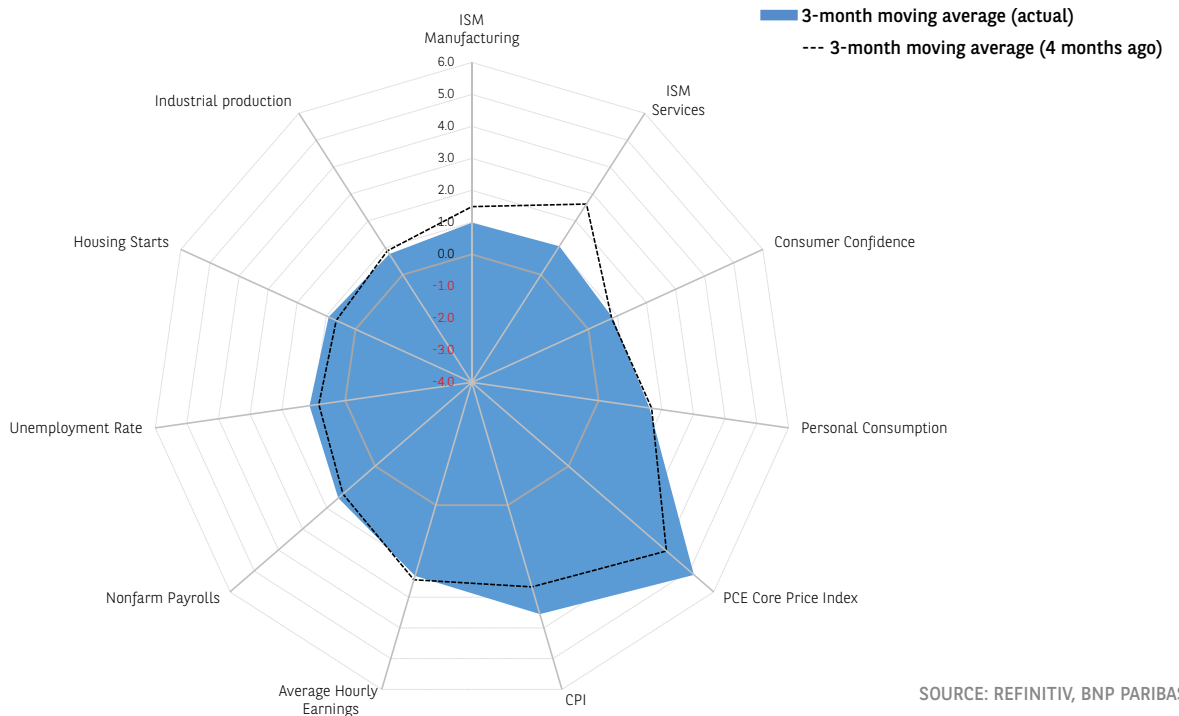
The war in Ukraine, like any war, is above all a human tragedy. It also represents more economic pain for people and government in several countries who have barely recovered from the Covid-19 pandemic. Already under pressure, prices for oil, gas, wheat, oilseeds and most metals have soared to record levels. Inflation rates already hit record highs in early 2022 and are bound to rise further, and the most sensitive items like food products are likely to be hit hardest.

Unlike the European Union, which is relatively dependent on Russian energy, the United States does not have the highest exposure to the shock. As the world's leading hydrocarbon producer, the US can even offset the shortfall of Russian production, at least partially. But in a more uncertain environment that is less propitious for spending, the US economy will not be sheltered. Looking beyond the stock market decline, a few business climate indicators, including the Philly Fed Index and the Empire Manufacturing Index, have already begun to signal a less euphoric environment.

This complicates the task of the US Federal Reserve (the Fed) as it prepares to tighten monetary policy. Chairman Jerome Powell recently reaffirmed his intentions to raise key rates by at least a quarter of a point on 16 March. He undoubtedly has some solid arguments, foremost of which is the rise in shelters, which has become one of the main driving force behind US inflation. This has been accompanied by a rapid expansion in mortgage lending. But beyond that? Although the Fed has warned that there will be several rounds of rate increases and a relatively rapid shrinking of its balance sheet, it has always conditioned any policy changes on economic data. Let's hope that it will be particularly attentive in the months ahead.

Jean-Luc Proutat

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

