

# Week of February 20<sup>th</sup> Updates

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### **Inflation Edged Higher, but Consumer Spending Still Rose in January**

- Spending by U.S. households rose a seasonally adjusted 1.8% in January MoM
  - o This likely leaves the Fed on track to continue raising rates over the next few months
- The PCE rose 5.4% YoY in January; core PCE (excludes food and energy) rose 4.7%
- We are likely going to have to keep tamping down the economy to fight inflation as household income still rose 0.6% in January MoM along with the personal saving rate increasing to 4.7% in January from 4.5% in December
- The Commerce Department said the U.S. economy grew at a 2.7% annual rate in Q4, adjusted for seasonality and inflation
  - o Lower than Q3's rate at 3.2%
  - o Q4 expansion was mainly driven by a buildup in inventories
- The Fed will likely cool the economy this year through raising rates
  - o Forecasts from S&P Global Market Intelligence estimate that GDP would contract at a 0.7% rate in the first three months of the year

### **Airlines are Posting Profits After Raising Fares and Cutting Costs**

- A year ago, airlines were burning cash as all countries hadn't reopened and some were slow to
  - o Now, with borders fully open, airlines posted big profits
- Results are mainly driven by pent-up demand from consumers in addition to cost-cutting measures from airlines seen during the depths of the pandemic
  - o Airlines also got a large cushion from government funds that helped keep them solvent
- Consumers' willingness to pay high airfares has helped carriers
  - o Carriers are still scrambling to hire staff and get planes back in the air, limiting the number of seats and flights, thereby driving up prices
  - o Overbooked maintenance companies, sold-out aircraft-leasing firms, shortages of spare parts and delays of new aircraft (from both Airbus and Boeing) are also restricting airlines
- In Asia and the Pacific, airlines have lagged in recovery
  - o China kept its borders shut until recently lifting its strict Covid restrictions
  - o Passenger volumes were only 52% of pre-Covid levels, compared to 72% globally
  - o Airports Council International expects Asia-Pacific traffic to rise to 2019 levels by the end of 2024

### **More Americans Are Turning to Part-Time Jobs**

- The number of Americans working part time rose by 1.2 million in Dec and Jan
  - o Interesting to note, most of that increase (857k workers), was driven by people who worked part time by choice, not because they were unable to find full-time work, or their hours were cut
- The total number of people working part time voluntarily (22.1 million in Jan) is almost six times the 4.1 million who are working part time but would prefer full time
  - o This is the highest ratio in two decades
  - o In the first three months of the pandemic, the numbers were about even because people couldn't find full time jobs or saw their hours cut
  - o In the 20 years prior to COVID, the ratio was between 3:1 and 5:1
- 16.3% of the 160 million employed Americans worked part time hours (defined as 35 or less hours per week)
- The pandemic led to burnout and drove many to change their careers, leading many to shift to part time roles
  - o Additionally, with high inflation and rising prices of necessities like food, housing, and energy, those who had retired or opted out of the workforce are taking on part time jobs for more income
  - o Then, there's the more long-lasting reason for people choosing part time work such as caregiving responsibilities, health issues, and school commitments
- The shift of many Americans' attitude and decisions towards work as compared to pre-covid has been noneconomic related

### **The Expansion of Clean Energy in The U.S.**

- Billions have been going into U.S. clean energy as factories are cranking out everything from solar and wind equipment to batteries and low-carbon fuel
  - o Corporate investment dollars, spurred by new tax breaks, are also transforming the U.S. into a real player in the alternative energy space
- Biden earmarked \$370 billion for clean energy in the Inflation Reduction Act in August
  - o Since then, there have been 76 announcements of clean-energy projects
  - o Of those, 40 have specified dollar amounts, totaling \$77 billion
- It is still pretty difficult to invest in clean-energy companies
  - o Products like solar panels and batteries trade like commodities, with little differentiation between companies
  - o Products such as wind turbines sell into highly regulated industries where returns are partially controlled by regulators
- Most of the new investment has gone into battery factories, primarily to supply electric vehicles
  - o Reason being, there are subsidies for those plants, and auto makers need North American batteries to qualify for the largest tax benefits

- However, factory expansion also threatens profitability
  - o Some predict that the U.S. market could be oversupplied by mid-decade as capacity ramps up (putting pricing pressure on battery manufacturers down the road)

### ***Biden is Nominating Former Mastercard CEO to Lead World Bank***

- Biden intends to nominate Ajay Banga to serve as president of the World Bank
  - o US is the largest shareholder in the World Bank, so they typically select the leader
  - o However, the bank's board will still have to officially appoint Ajay Banga
- Previous leader was David Malpass
  - o An appointee of President Trump and announced he was stepping down from the role
- The Biden administration has sought to focus the World Bank's work more directly on addressing climate change
  - o Janet Yellen claims the World Bank could do this by stretching its balance sheet, better mobilizing private capital to invest in the developing world, and providing more financing directly to localities

### ***Two More Key Economic Positions Will Soon be Filled in the Administration***

- Labor secretary
  - o Marty Walsh is stepping down
  - o Julie Su is the current leading candidate to succeed Walsh
- Vice chair of the Federal Reserve
  - o Lael Brainard stepped down to start her new role as director of the National Economic Council
  - o Janice Eberly and Karen Dynan are under consideration for the position