

Economic Outlook Robert Fry

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at the University of Delaware
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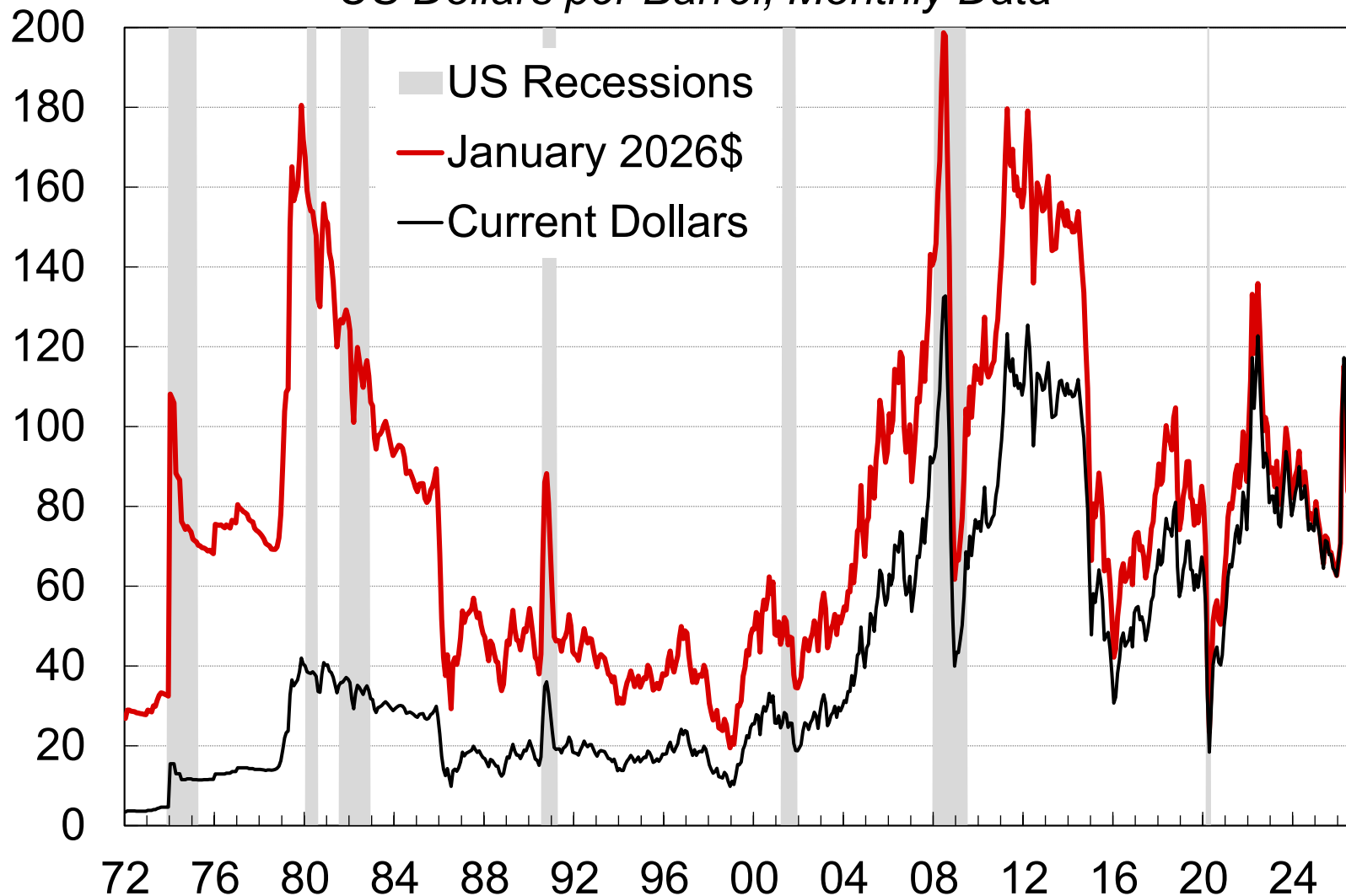
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Brent Blend Crude Oil Spot Price

US Dollars per Barrel, Monthly Data



High oil prices threaten to cause recessions.

Every US recession since 1973 has been preceded by at least a doubling in oil prices.

Closure of Strait of Hormuz sent oil prices much higher.

The spot price of Brent Blend crude oil rose to \$138.21 on April 7, up from about \$65/barrel before the war began on February 28.

Prices came back down but have recently risen above \$100/barrel.

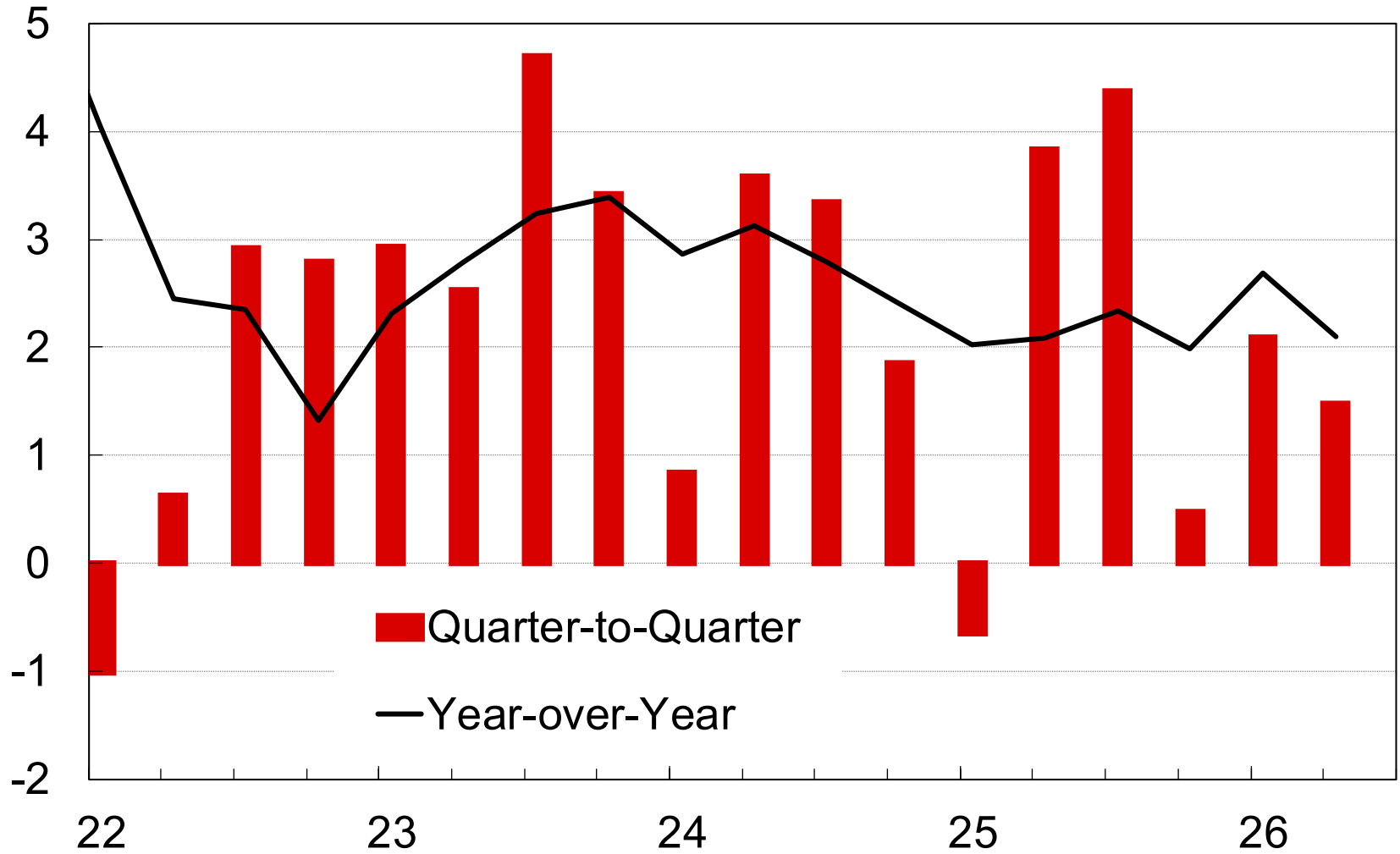
The Economist: “Oil markets are still in La La land.”

Petroleum product prices have risen more than crude prices.

Risks of recession are higher in Europe and Asia than in Americas.

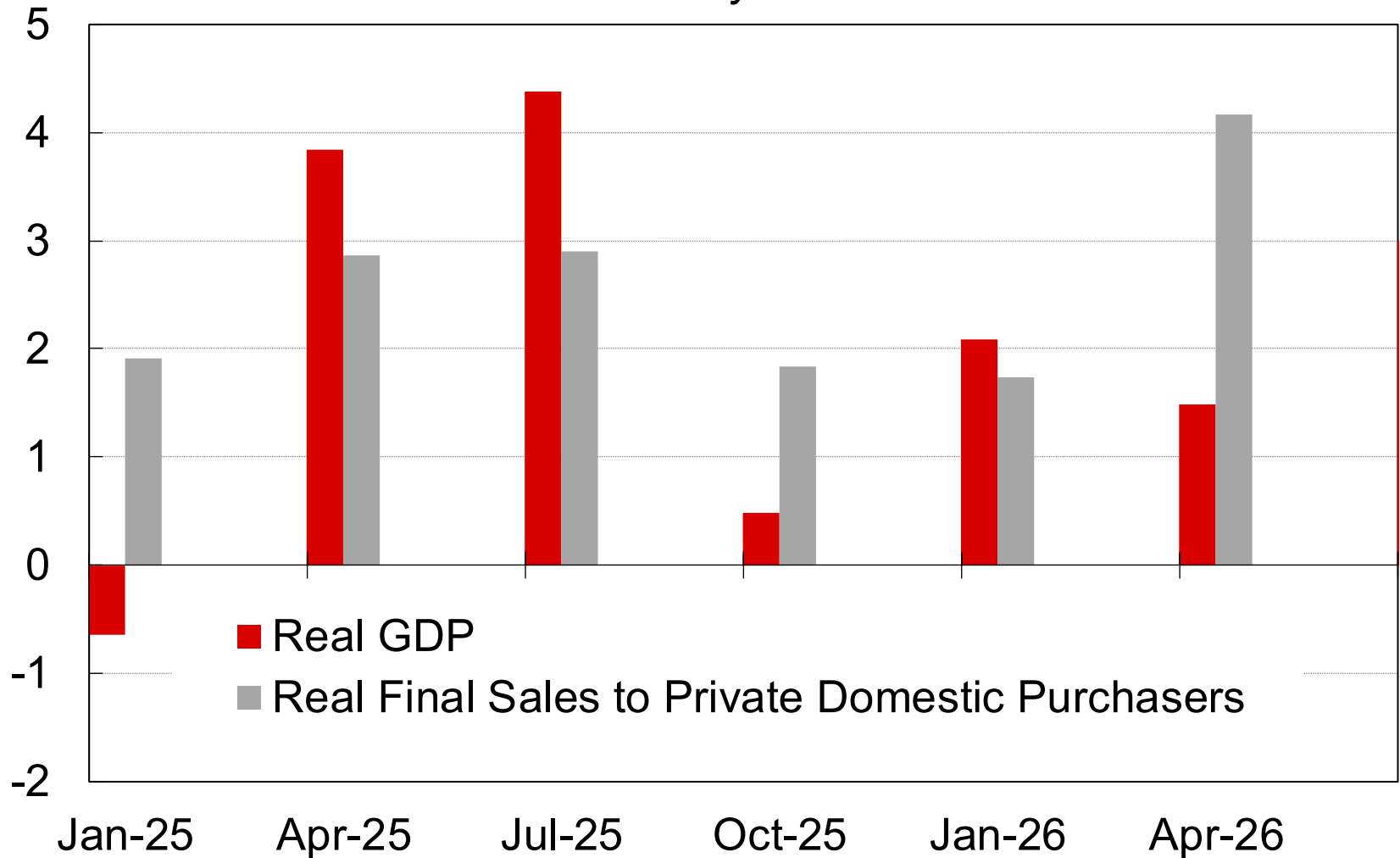
US Real Gross Domestic Product

Annualized Growth Rates



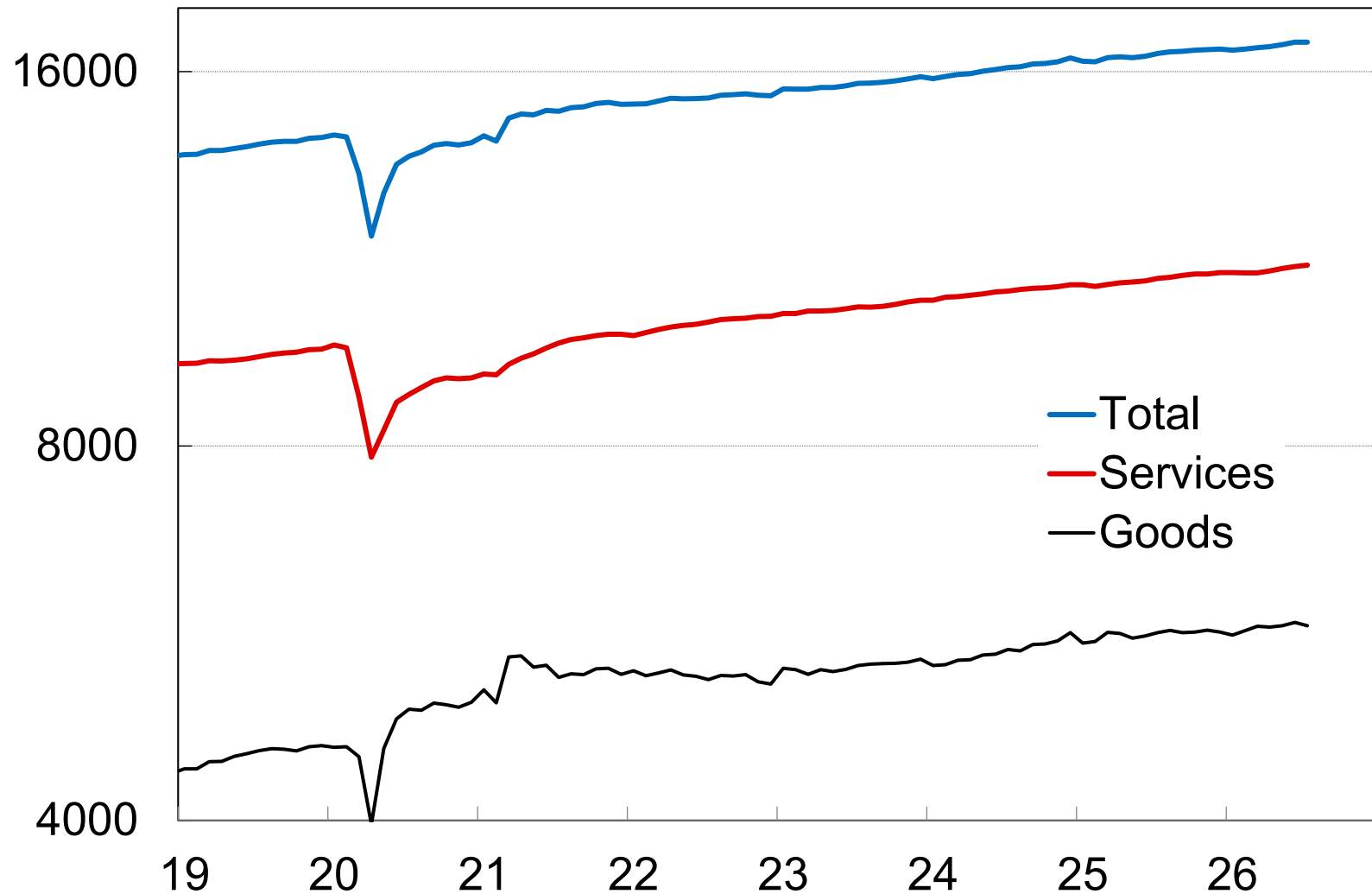
US Real Gross Domestic Product and Final Sales

Annualized Quarterly Growth Rates



US Real Personal Consumption Expenditures

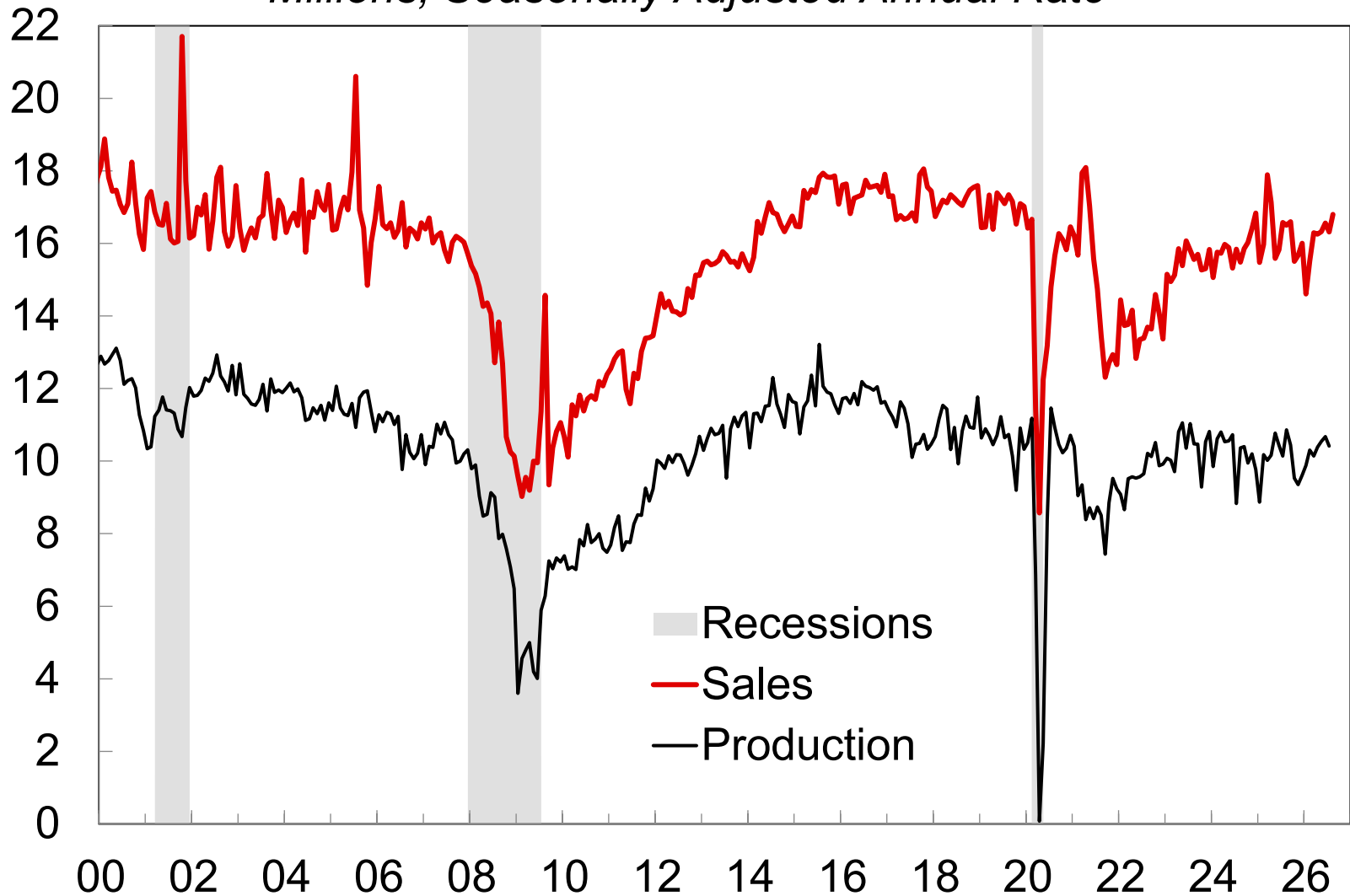
Billion 2017 \$, Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis/FRED

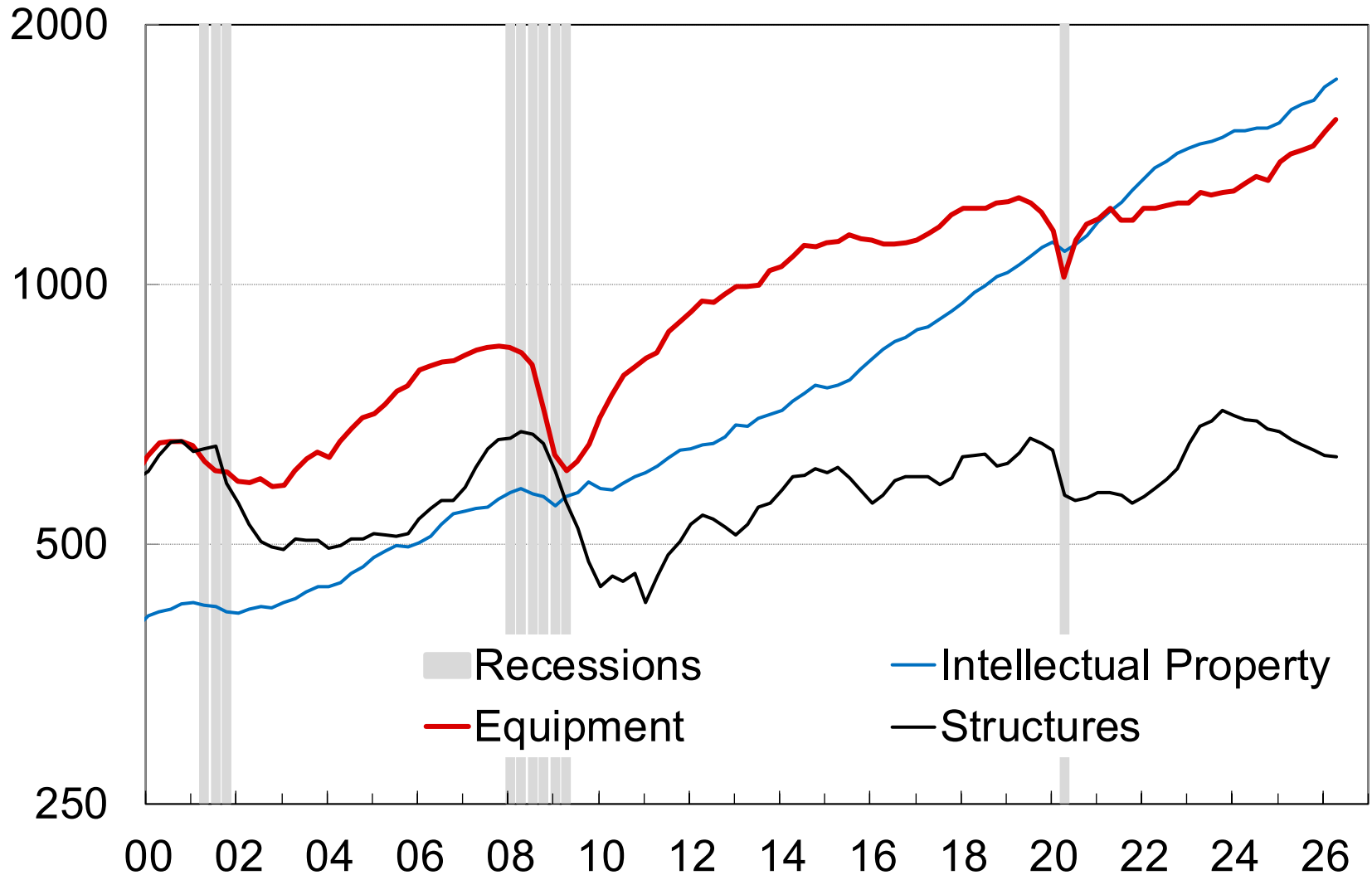
US Light Vehicle Sales & Production

Millions, Seasonally Adjusted Annual Rate



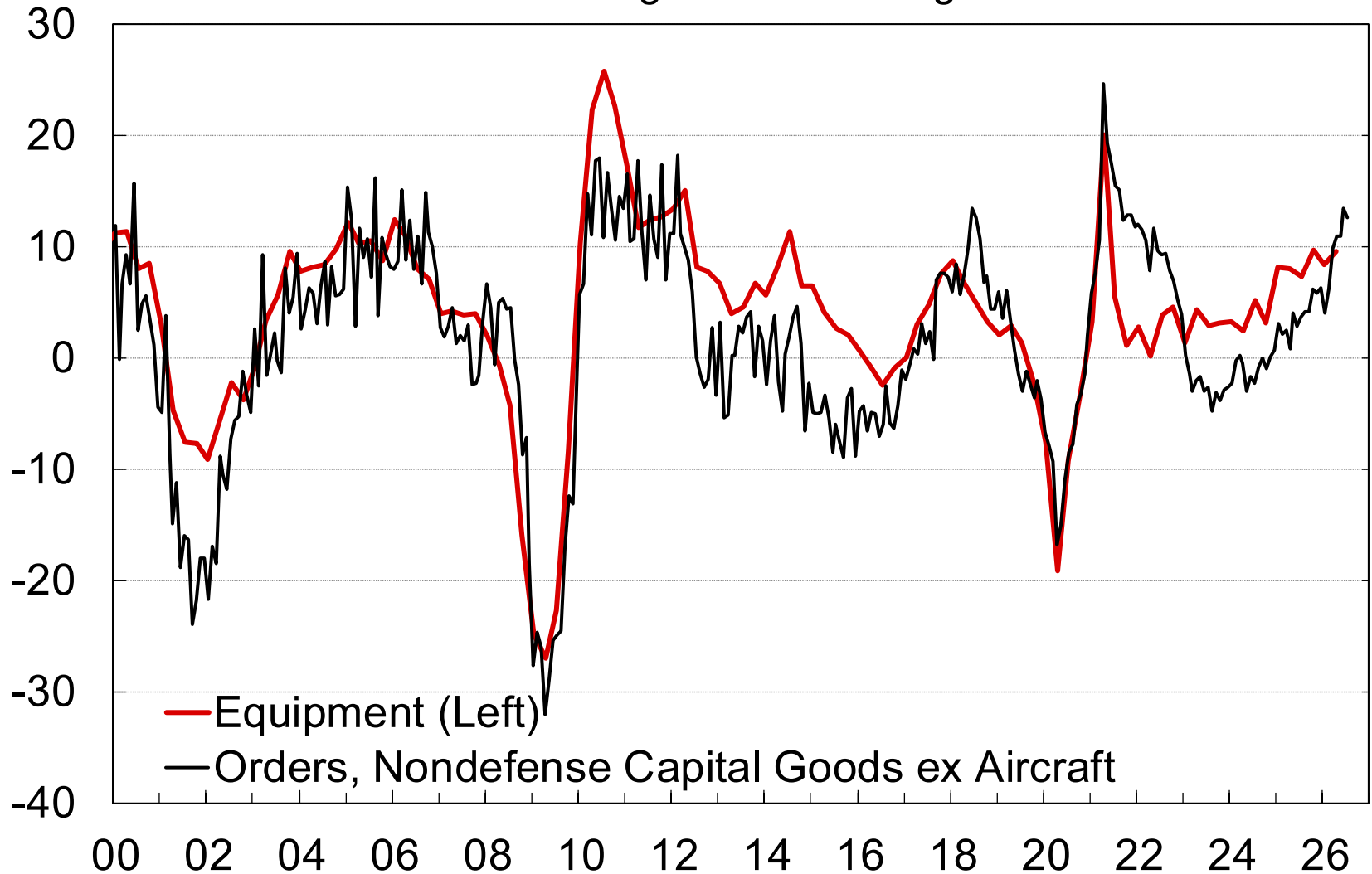
US Nonresidential Fixed Investment

Billion Chained 2017 Dollars

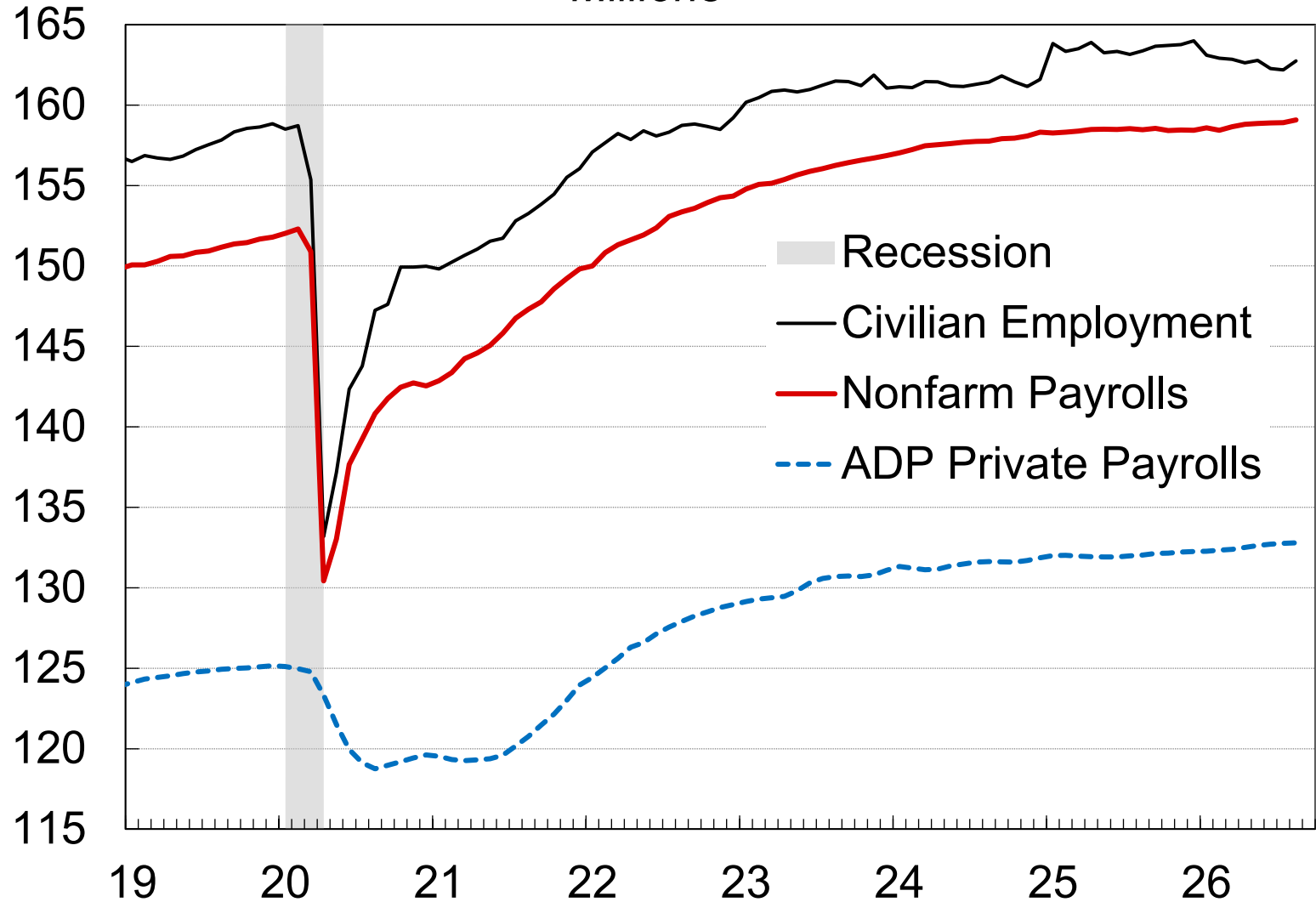


Real Investment in Equipment vs Capital Goods Orders

Percent Change from Year Ago

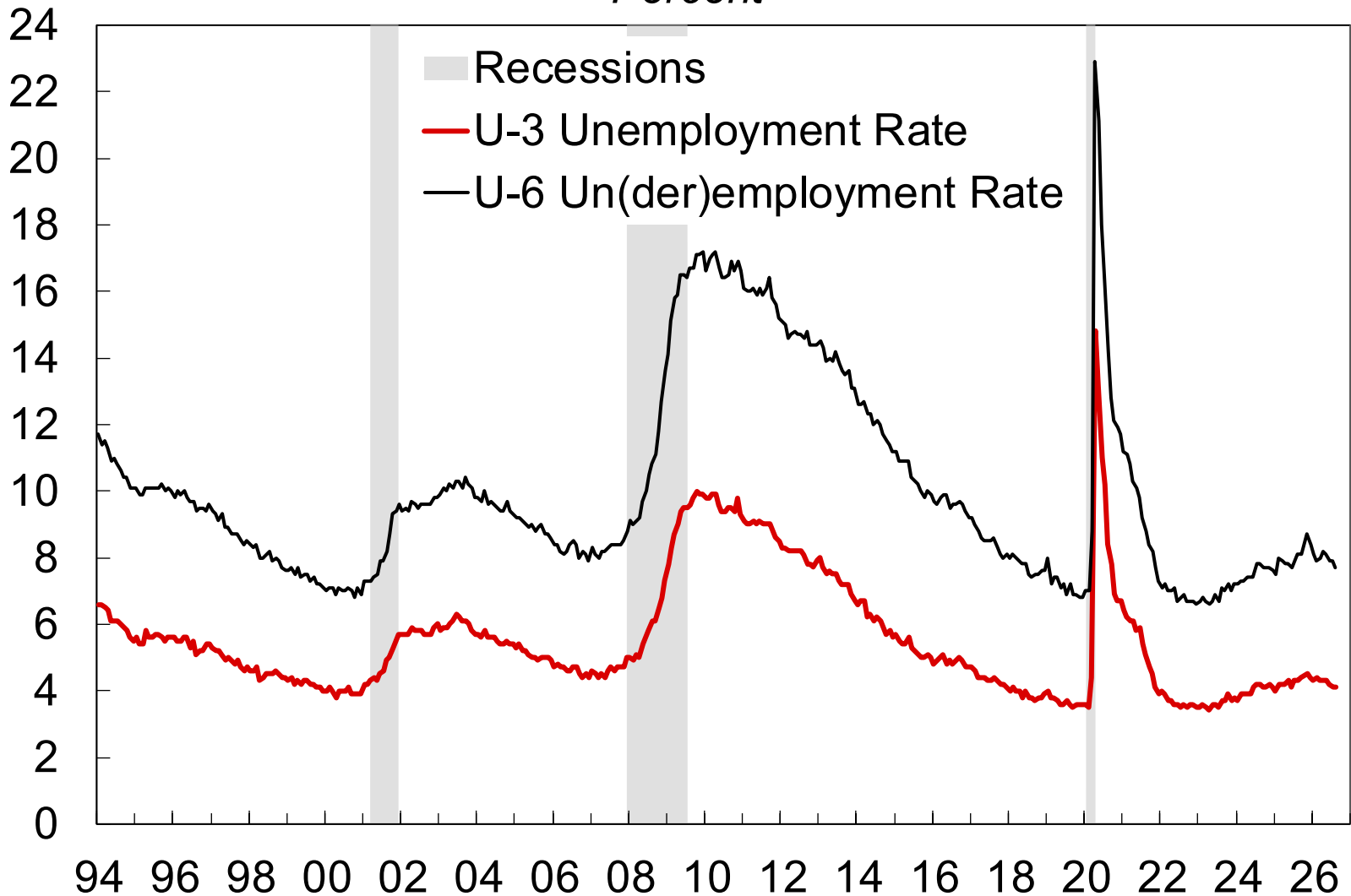


US Employment *Millions*

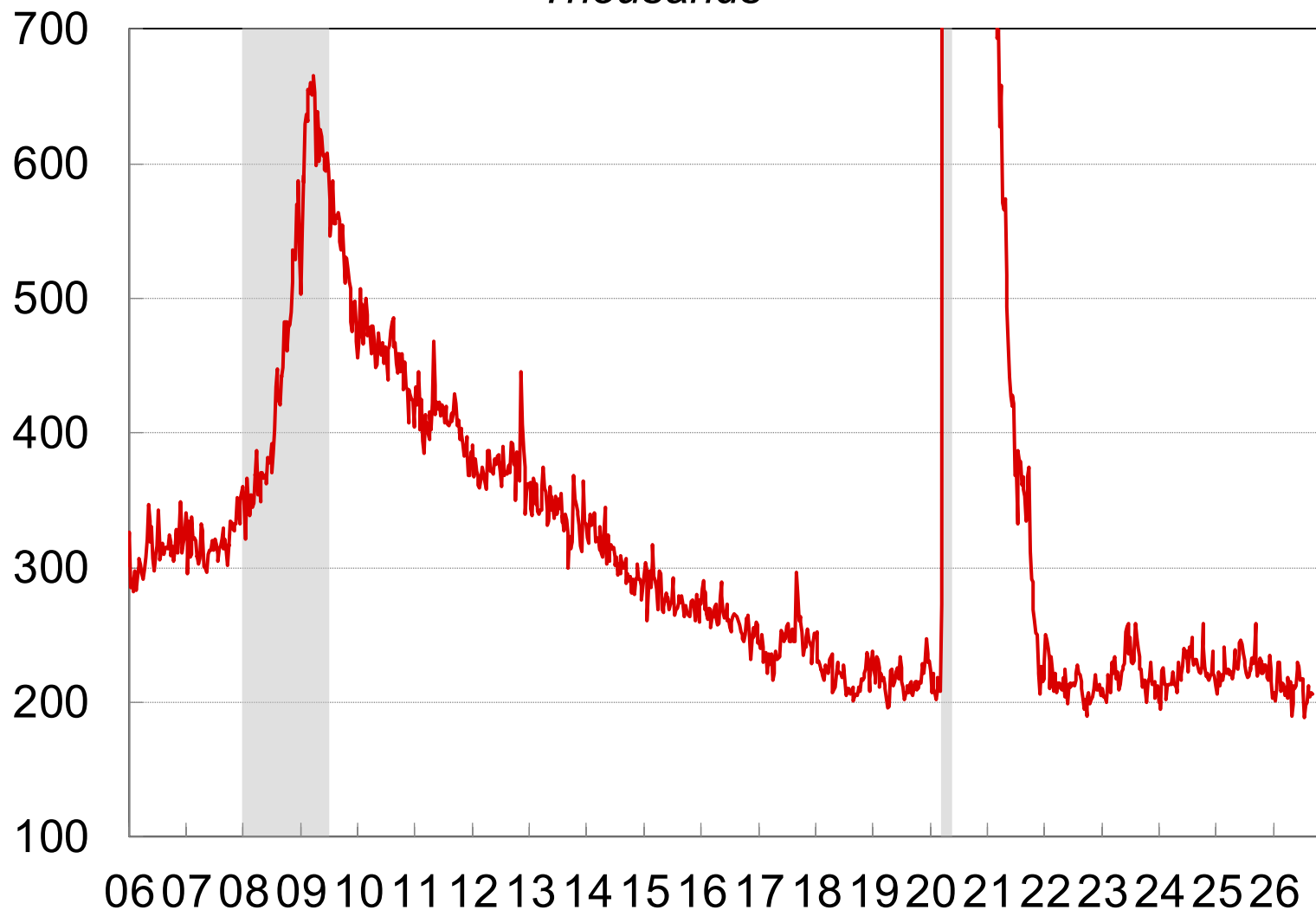


US Civilian Unemployment Rate

Percent



Initial Claims for Unemployment Insurance *Thousands*



Source: U.S. Employment and Training Administration/FRED

Why haven't oil prices caused a recession?

Oil prices haven't doubled.

- Oil inventories were much larger than we realized.
- China has drastically reduced oil imports. Other countries have cut demand too.
- Oil is getting out of the Gulf, either by pipeline or at night with transponders off.

Economy not nearly as energy-intensive as in the past.

US is now a net exporter of petroleum.

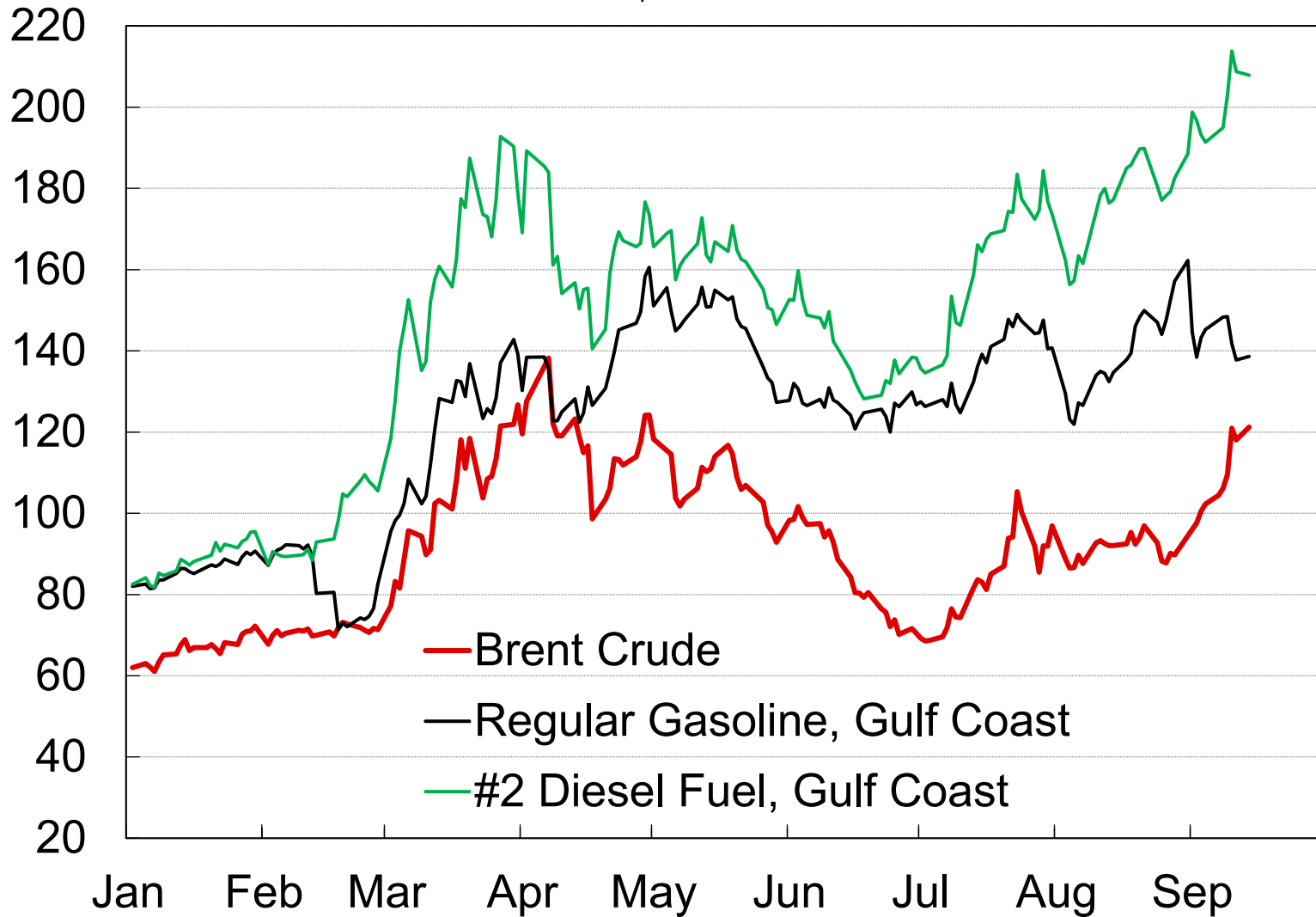
Fiscal policy has been very stimulative under One Big Beautiful Bill Act.

- Immediate expensing is by far the best part of the OBBBA.
- Even bad tax cuts boost growth in the short run.

AI buildout is offsetting damage to rest of the economy.

Crude Oil and Petroleum Product Prices

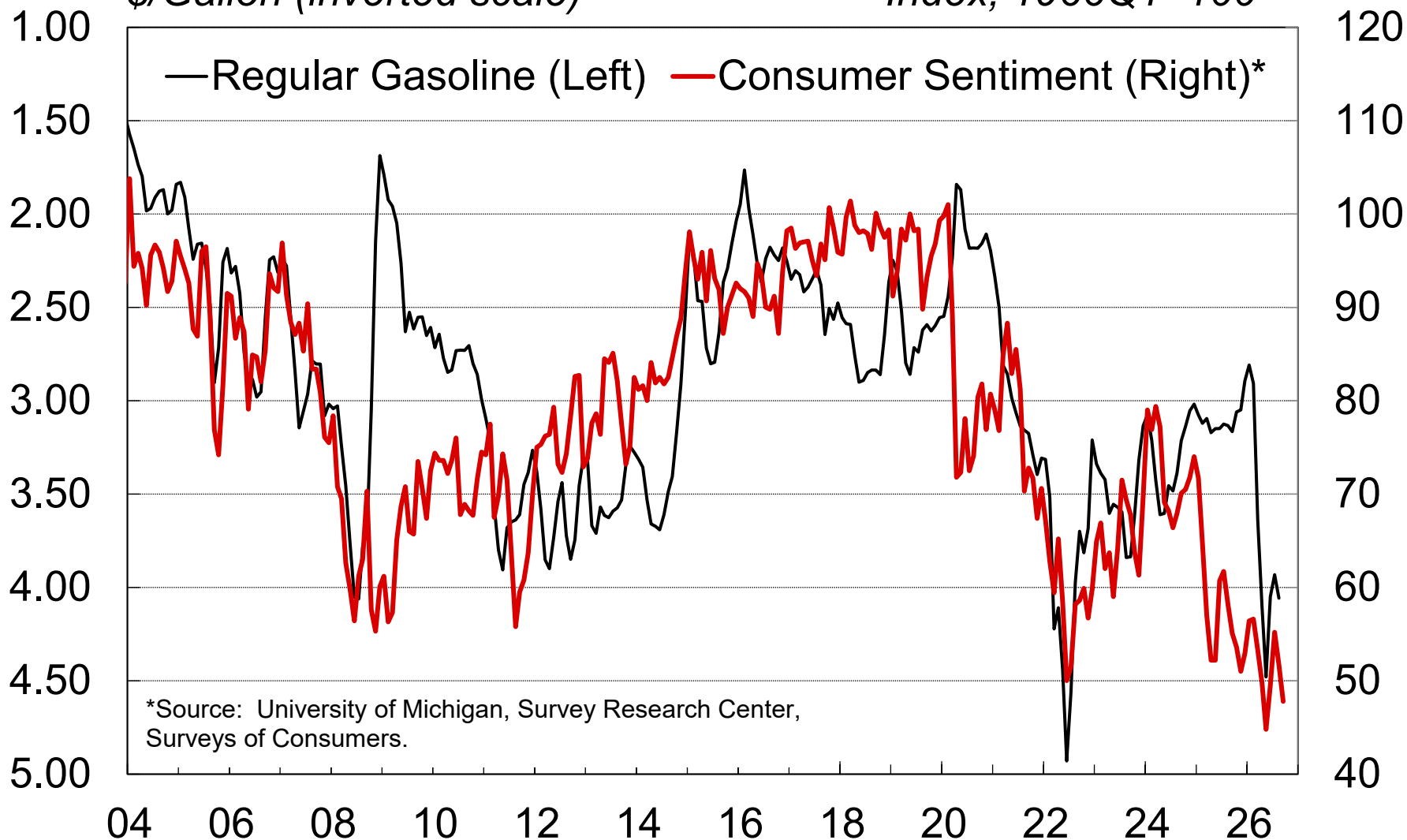
\$/barrel



Gasoline Price and Consumer Sentiment

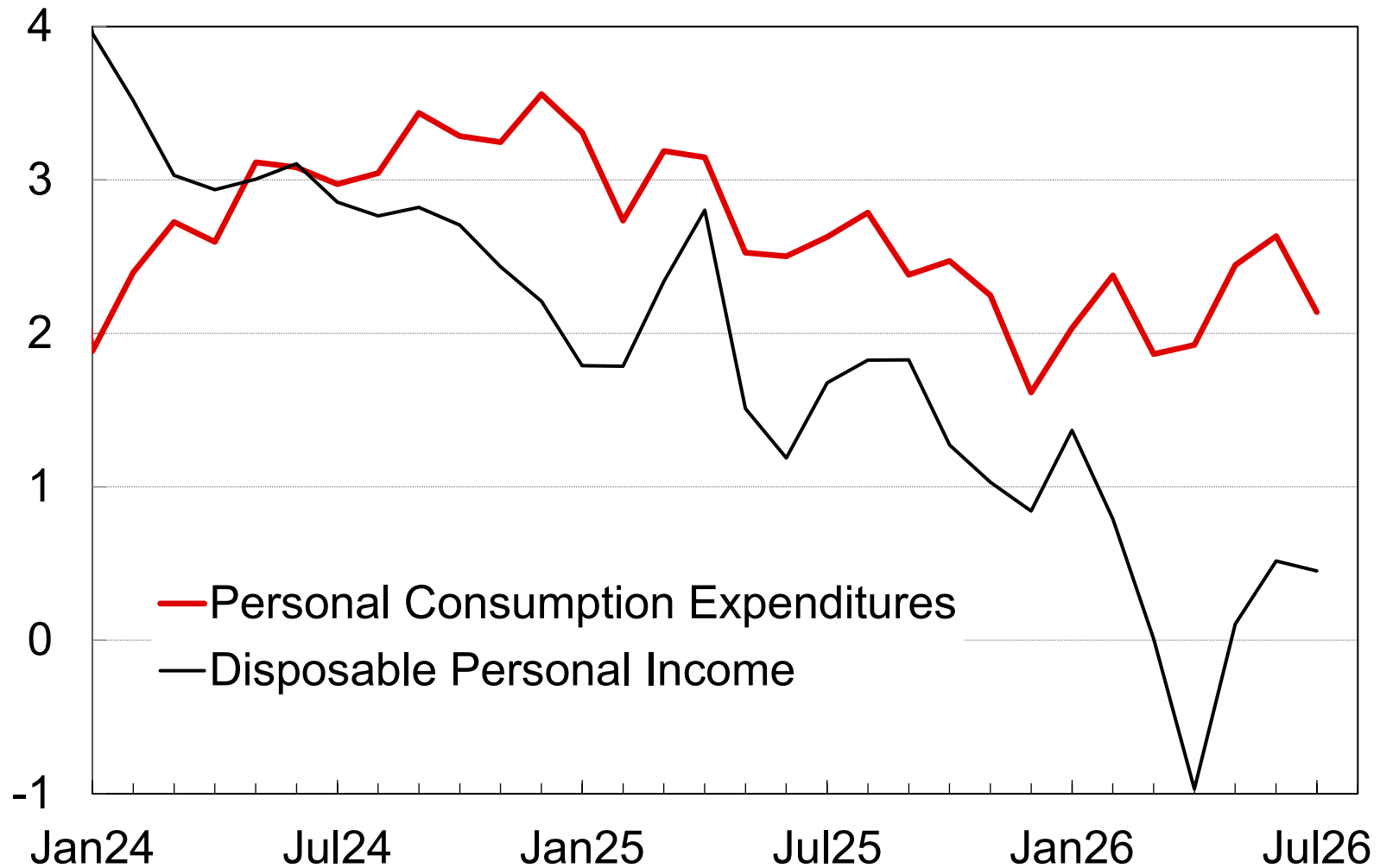
\$/Gallon (inverted scale)

Index, 1966Q1=100

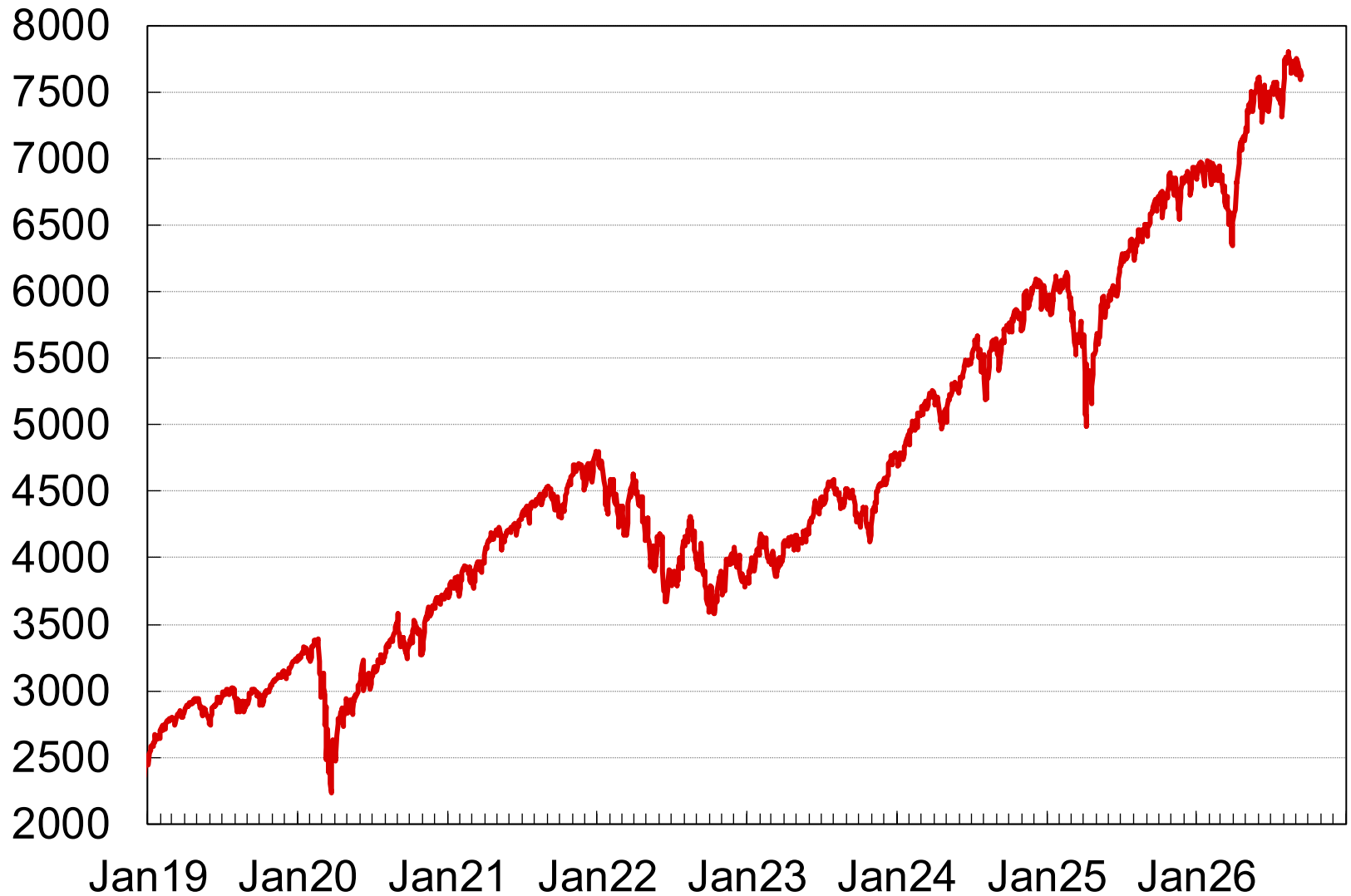


US Real Consumer Spending

Percent Change from Year Ago, Chained 2017 Dollars



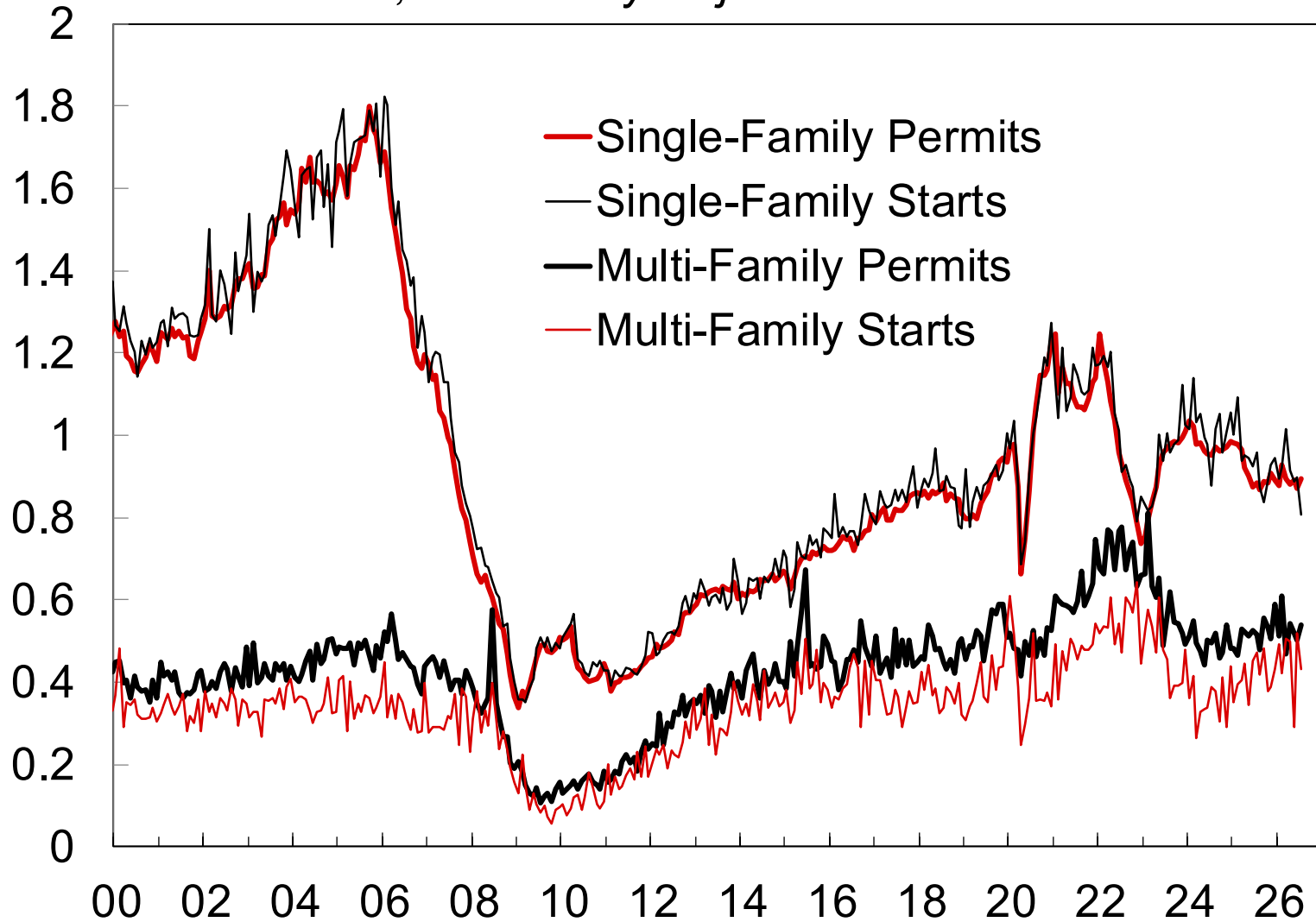
S&P 500 Stock Price Index



Source: S&P Dow Jones Indices LLC/FRED

US Housing Starts & Building Permits

Millions, Seasonally Adjusted Annual Rate

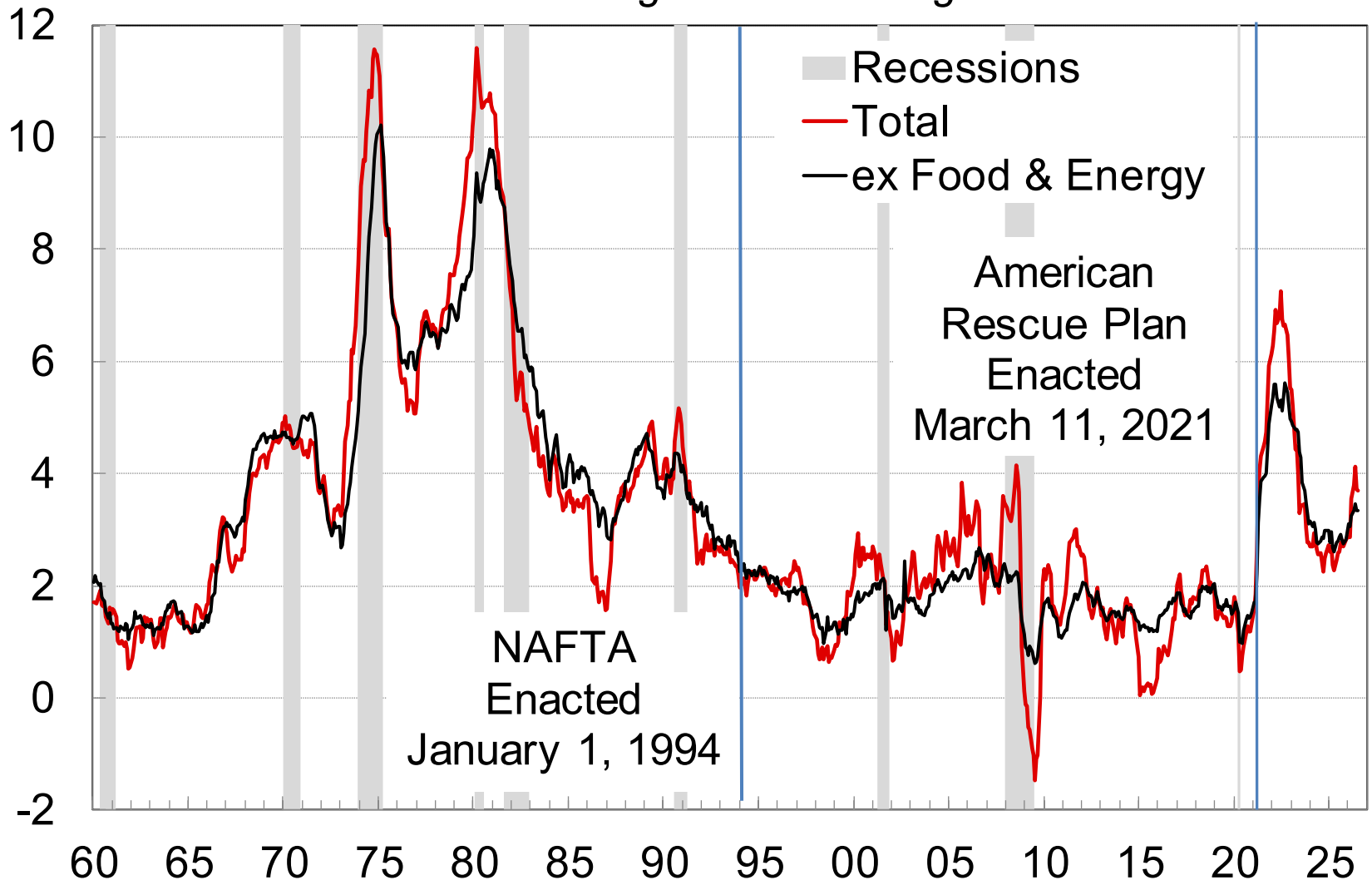


But the economy is still at risk

**Petroleum product prices have risen much more than crude prices.
High gasoline prices have driven consumer sentiment to record lows.
High diesel prices may be even more important than gasoline prices.
Consumers are saving less so they can keep spending.
Record stock prices are supporting consumer spending, for now.
The housing sector, usually a leading indicator, remains weak.**

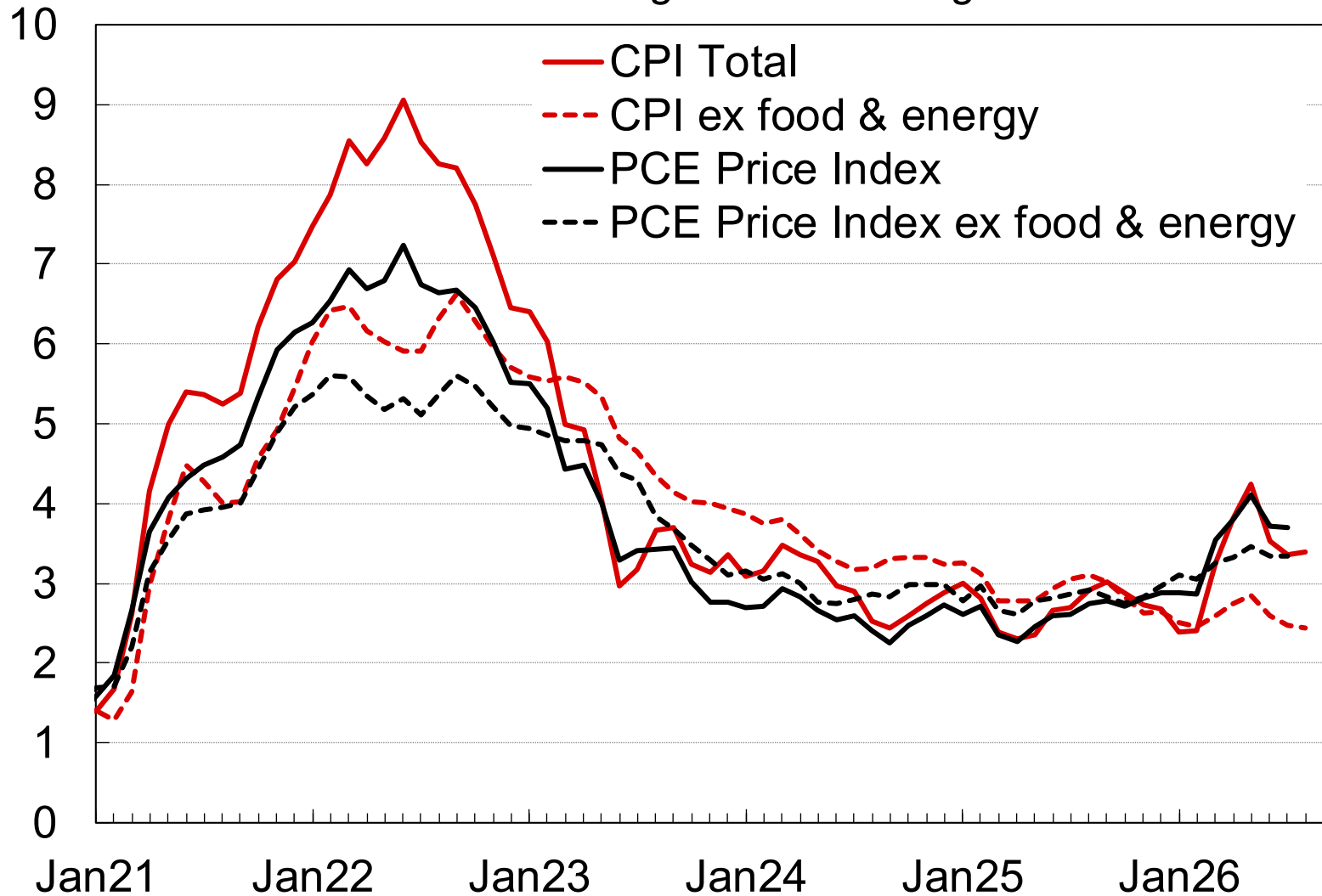
US Personal Consumption Expenditures Price Index

Percent Change from Year Ago



US Price Indexes

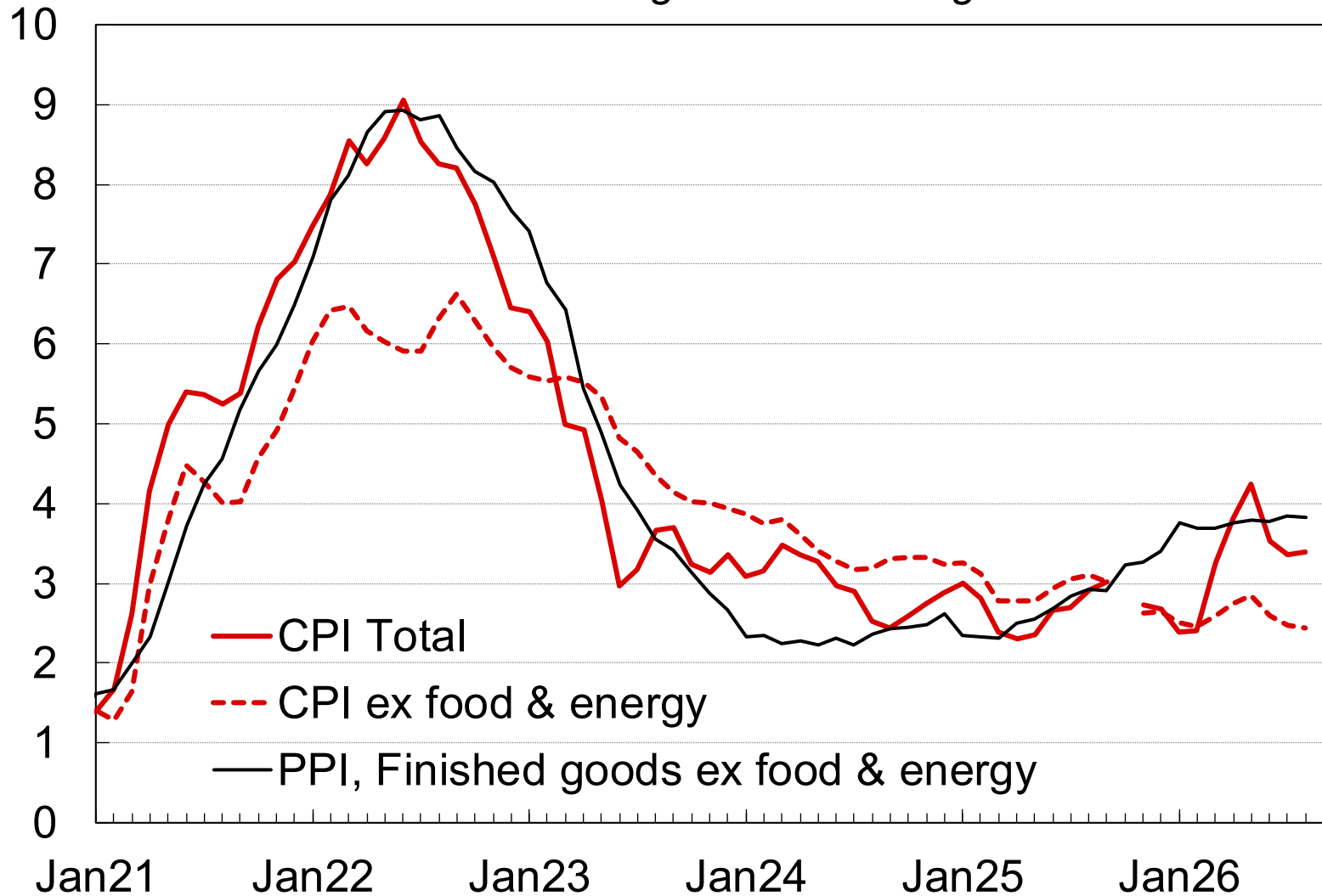
Percent Change from Year Ago



Source: U.S. Bureau of Labor Statistics/FRED

US Consumer & Producer Price Indexes

Percent Change from Year Ago



Source: U.S. Bureau of Labor Statistics/FRED

What should/will the Fed do?

Inflation is still above the Fed's 2% target and is no longer declining.

Housing, the most interest-sensitive sector, is very weak.

Monetary policy is not an effective tool in response to supply shocks.

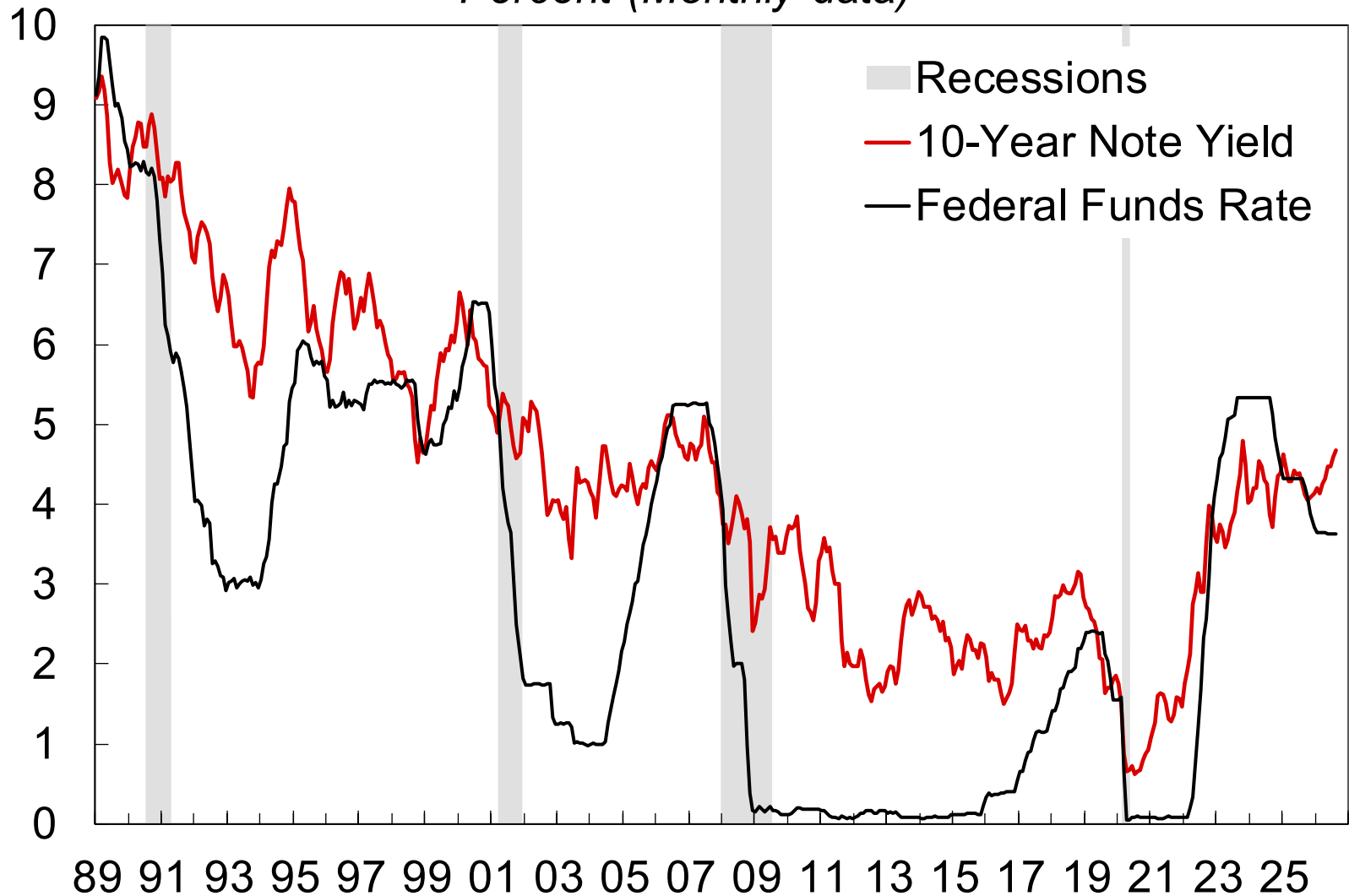
Maybe interest rates don't matter as much as we think.

- The household sector is a big net creditor; rate cuts reduce interest income.
- The nonfinancial business sector is now a net creditor; rate cuts reduce earnings.
- As a result, rate cuts aren't as stimulative as they once were; **they might even be contractionary.**
- Interest rates still matter for individual sectors (e.g., housing, small business) and for financial markets but not so much for overall economic growth.

If inflation doesn't resume its decline, rates will have to rise.

US Interest Rates

Percent (Monthly data)



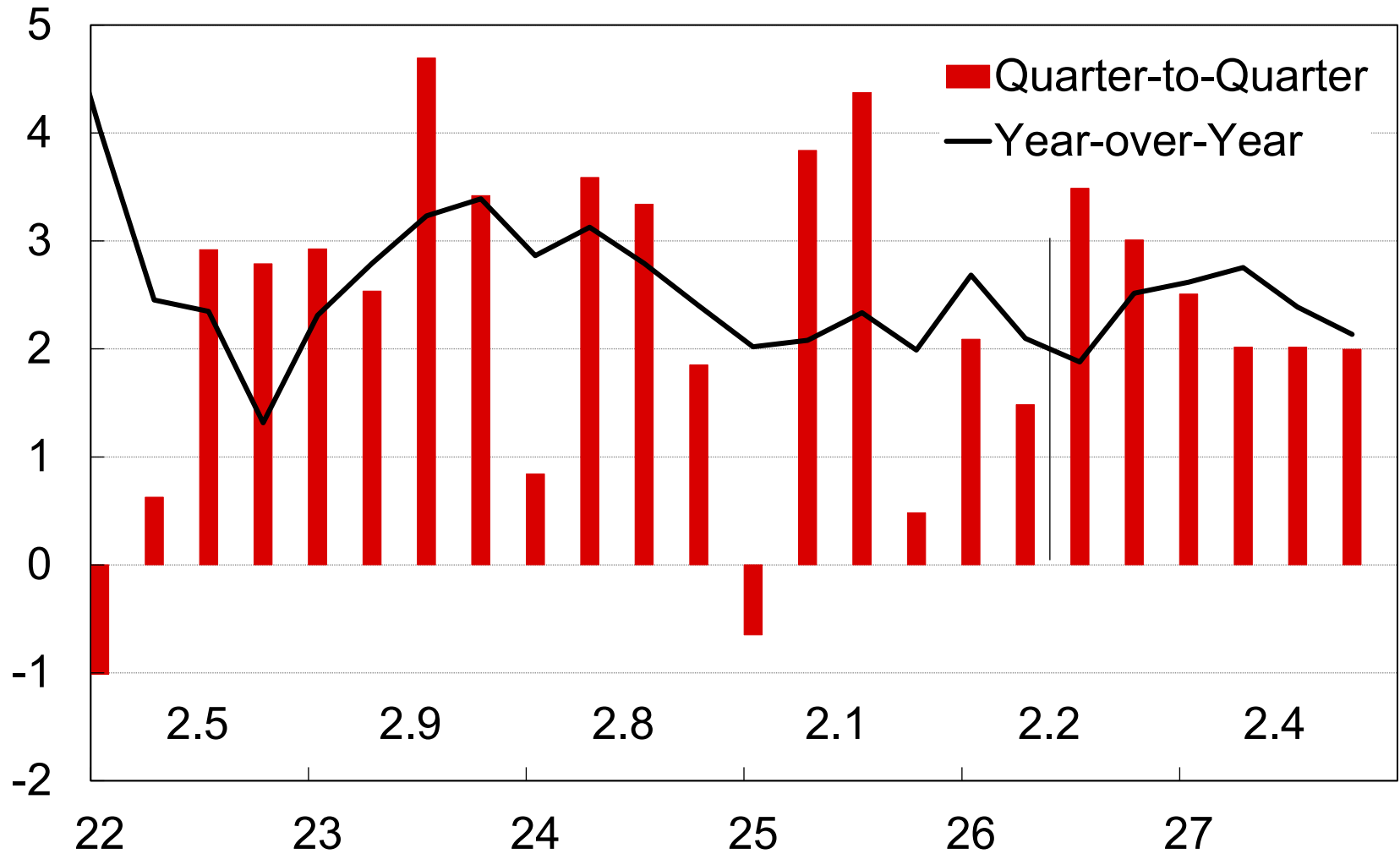
**“Prediction is very
difficult, especially
about the future.”**

**Niels Bohr, 1885-1962
Nobel Laureate, 1922**



US Real Gross Domestic Product

Annualized Growth Rates



US Macroeconomic Summary

Oil prices at current levels will not cause a US recession, but oil prices could rise further if the Strait of Hormuz remains closed.

- Brent spot price > \$130/barrel for two months would probably trigger a recession.

Investment in AI is bolstering growth.

Fiscal policy is boosting growth in the short run, but the resulting increase in government debt could hurt growth in the long run.

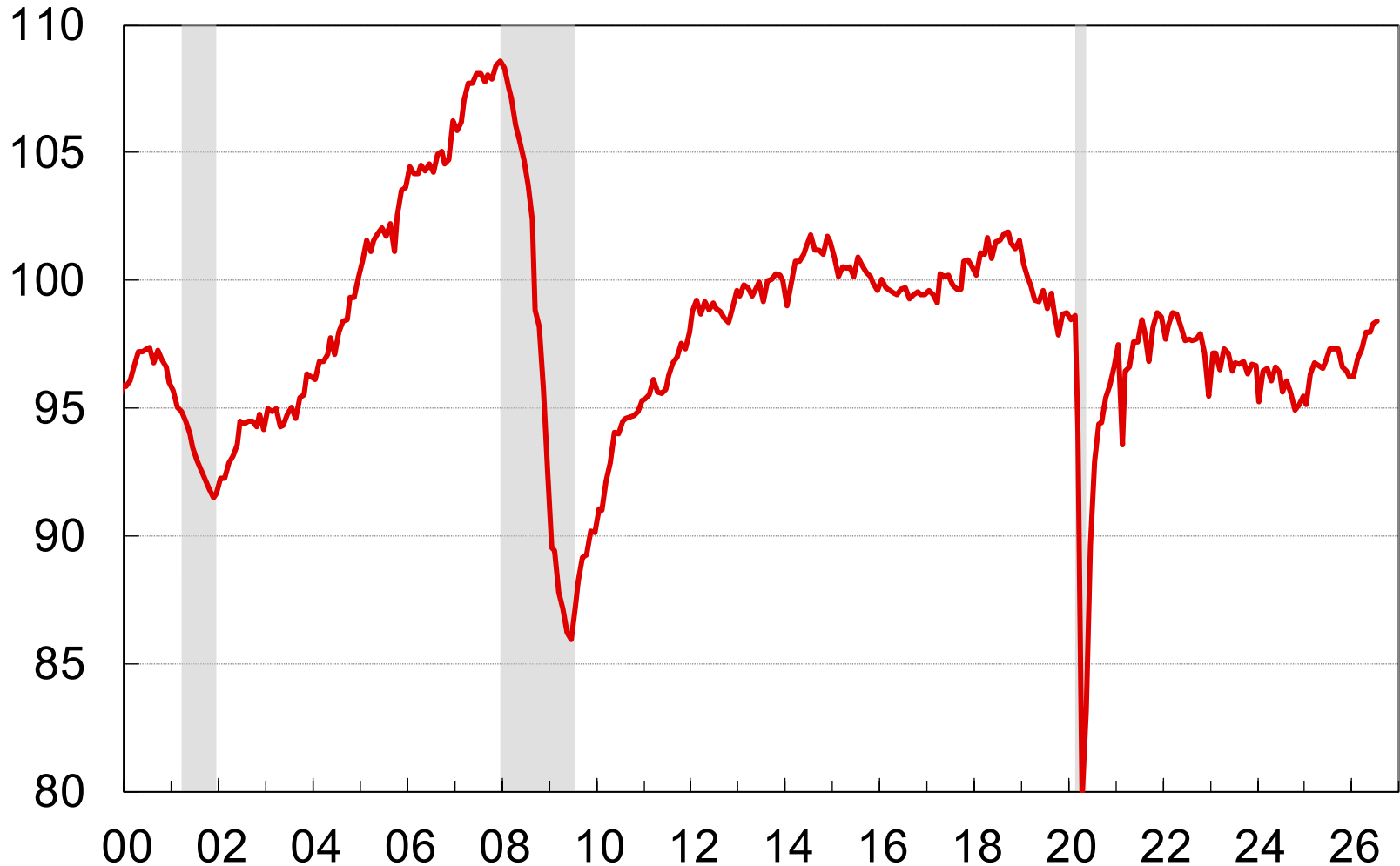
Inflation remains above the Fed's 2% target.

- The boost to inflation from higher oil prices is temporary.
- Even if energy prices are excluded, inflation is too high.

Industry Detail

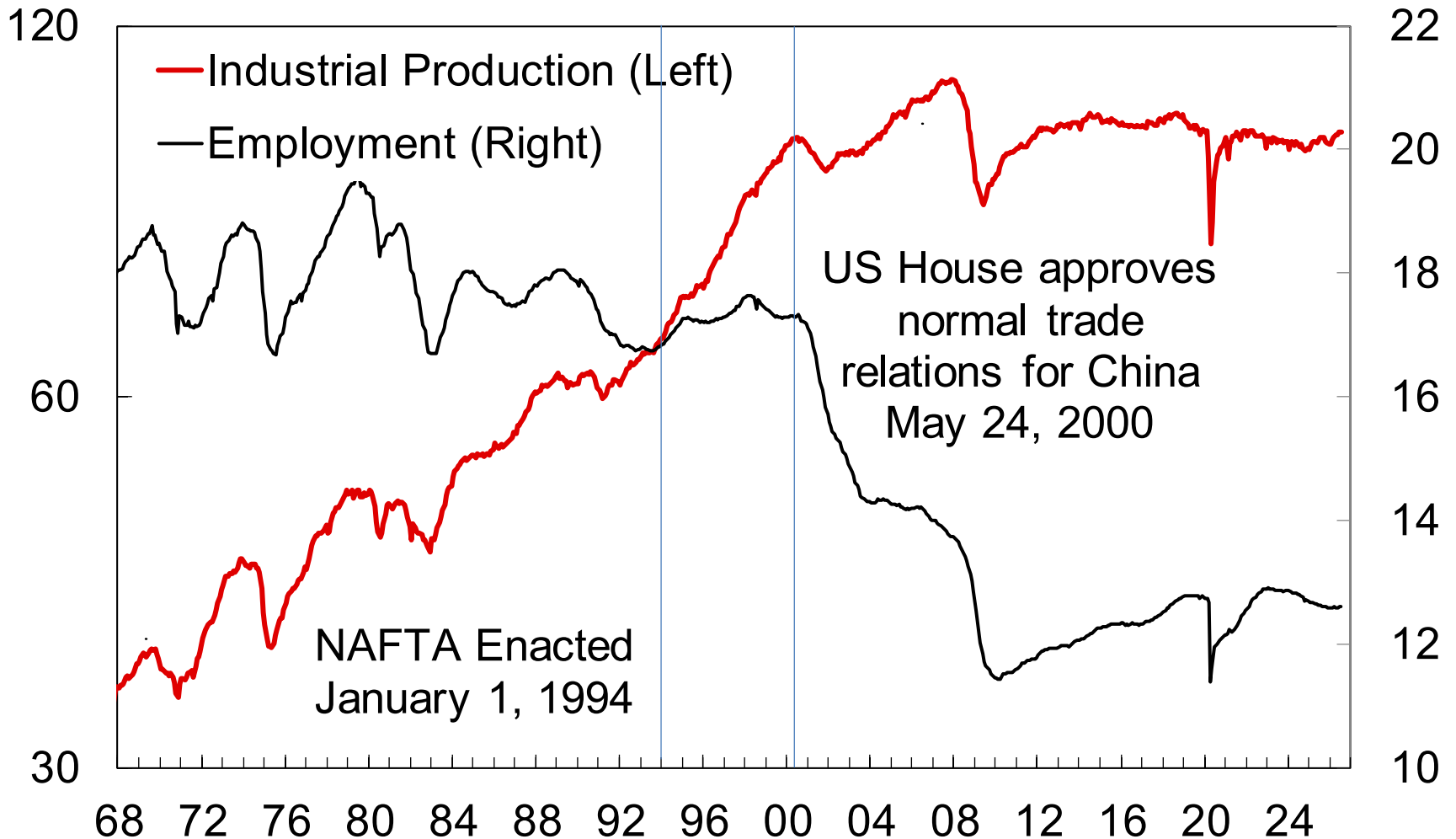
US Industrial Production: Manufacturing

Index, 2017=100

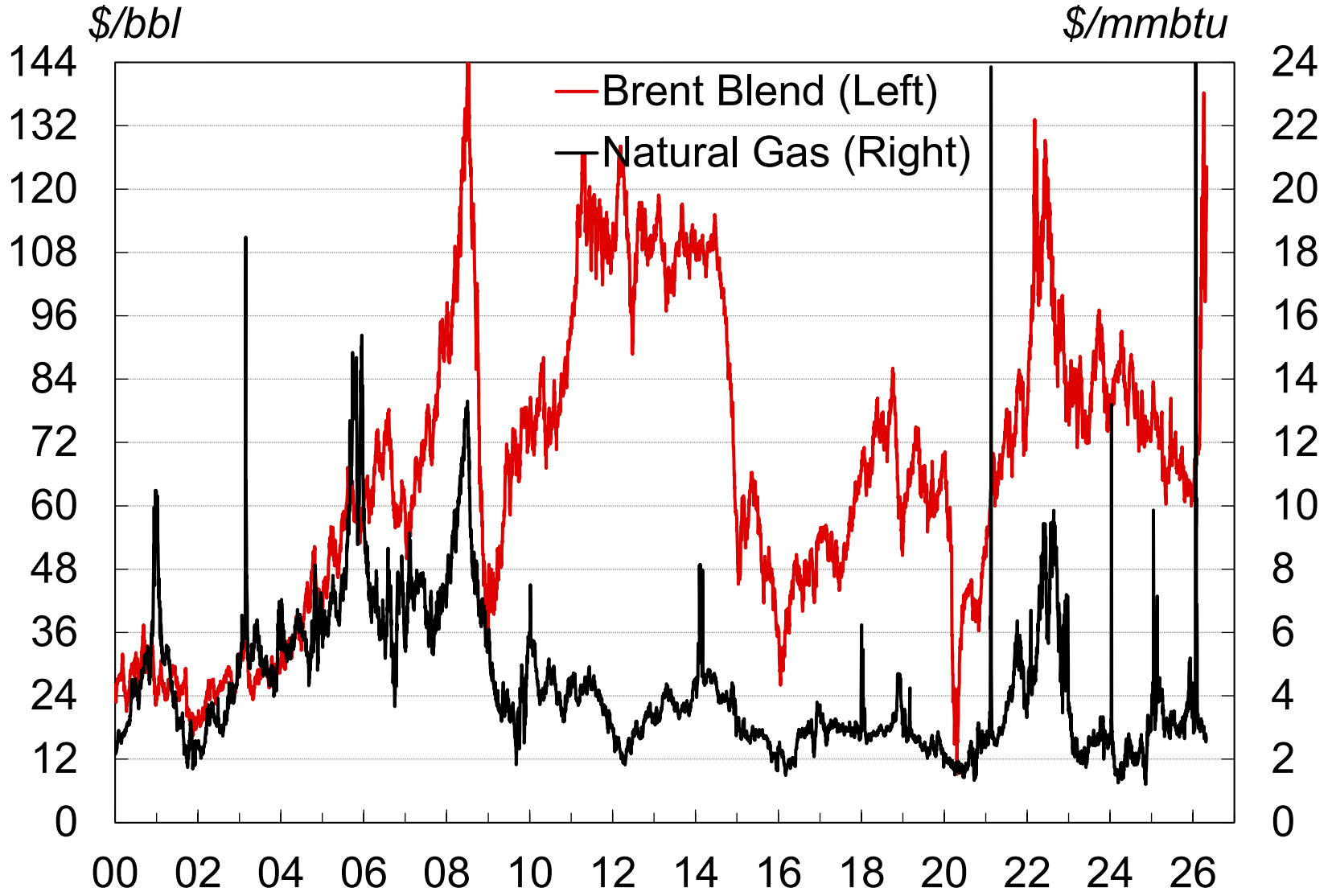


US Industrial Production & Employment: Manufacturing

Index, 2017=100 *Millions*



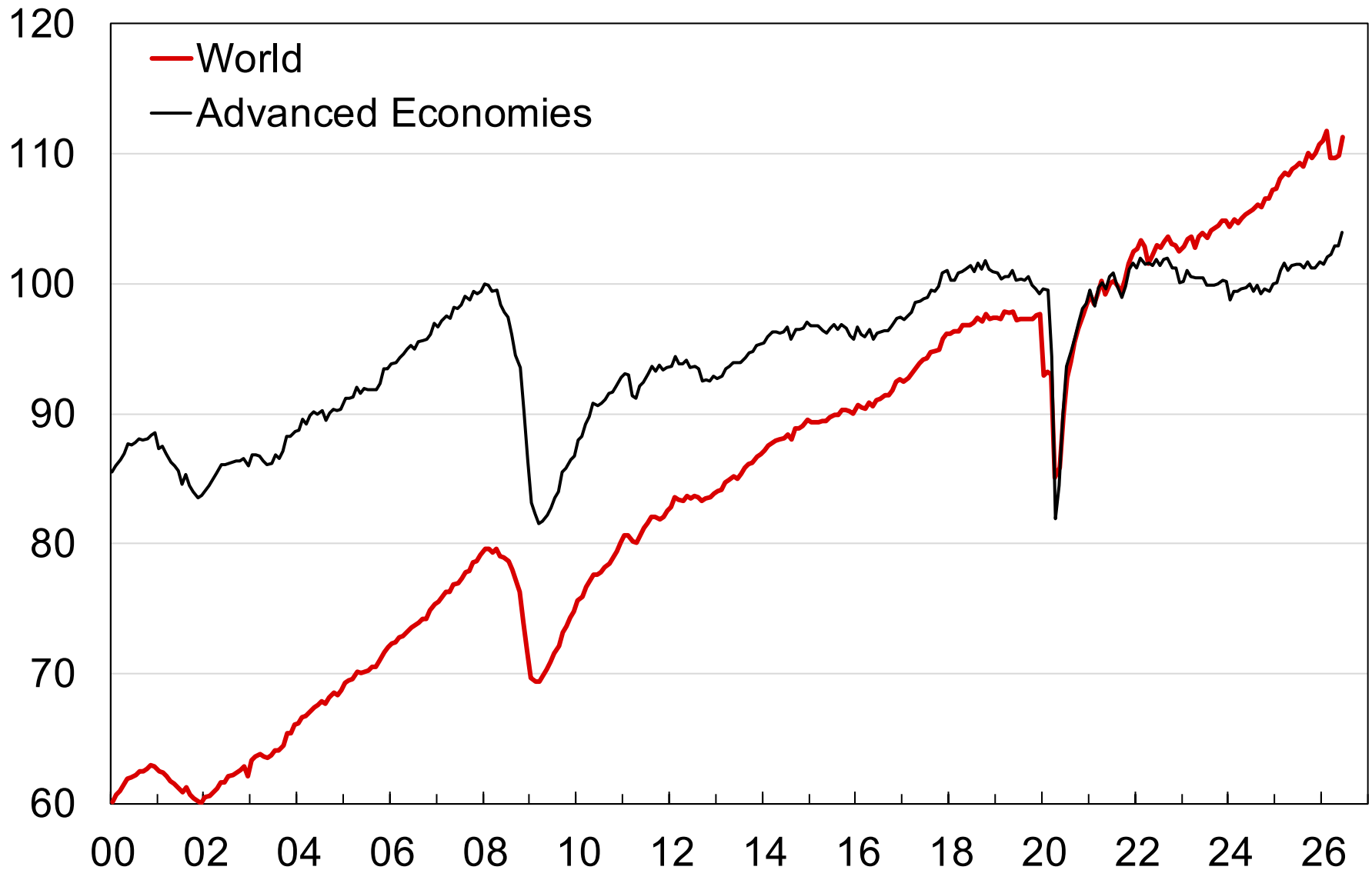
Global Crude Oil and US Natural Gas Spot Prices



Global Overview

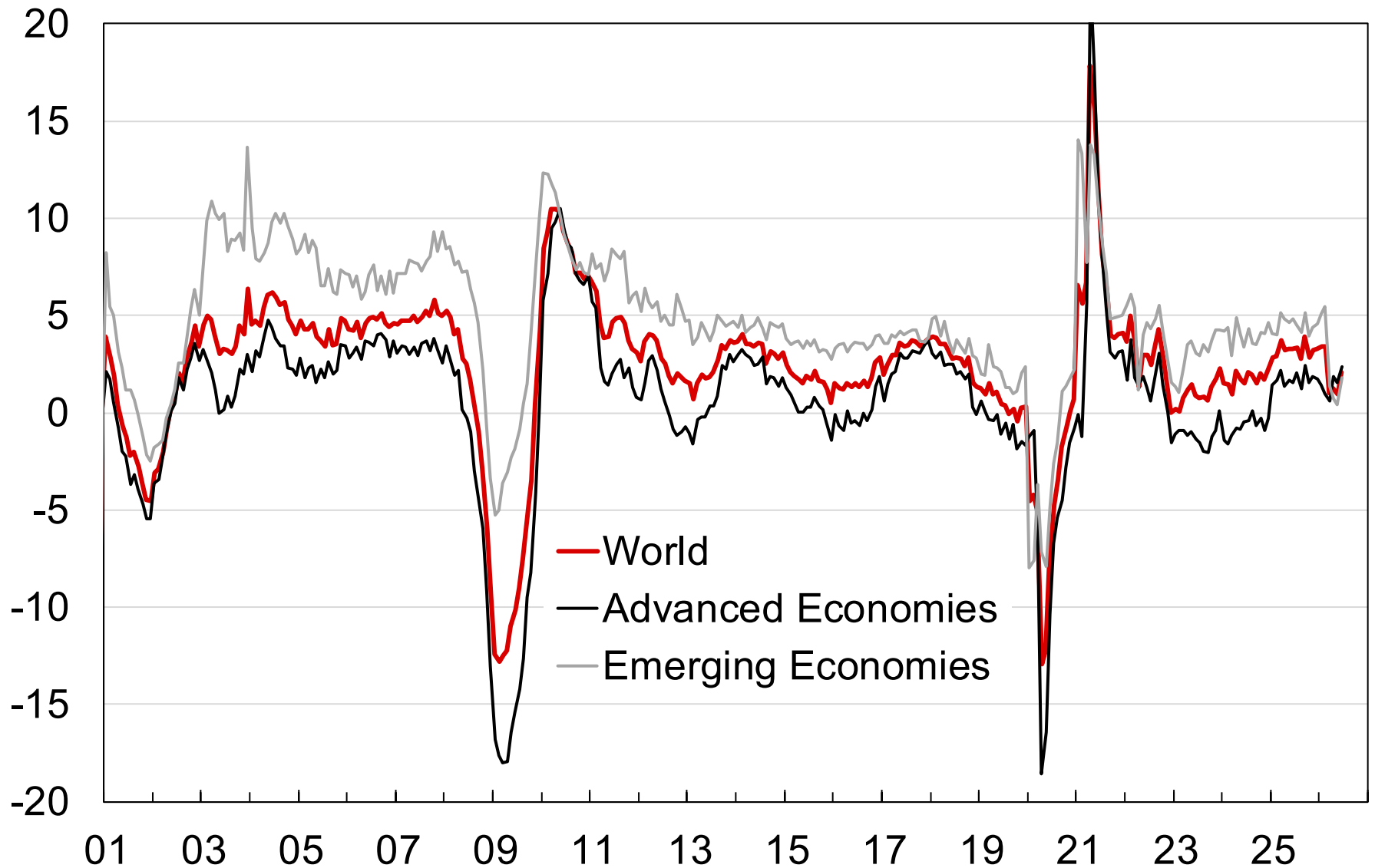
Industrial Production ex Construction

Index, 2021 = 100



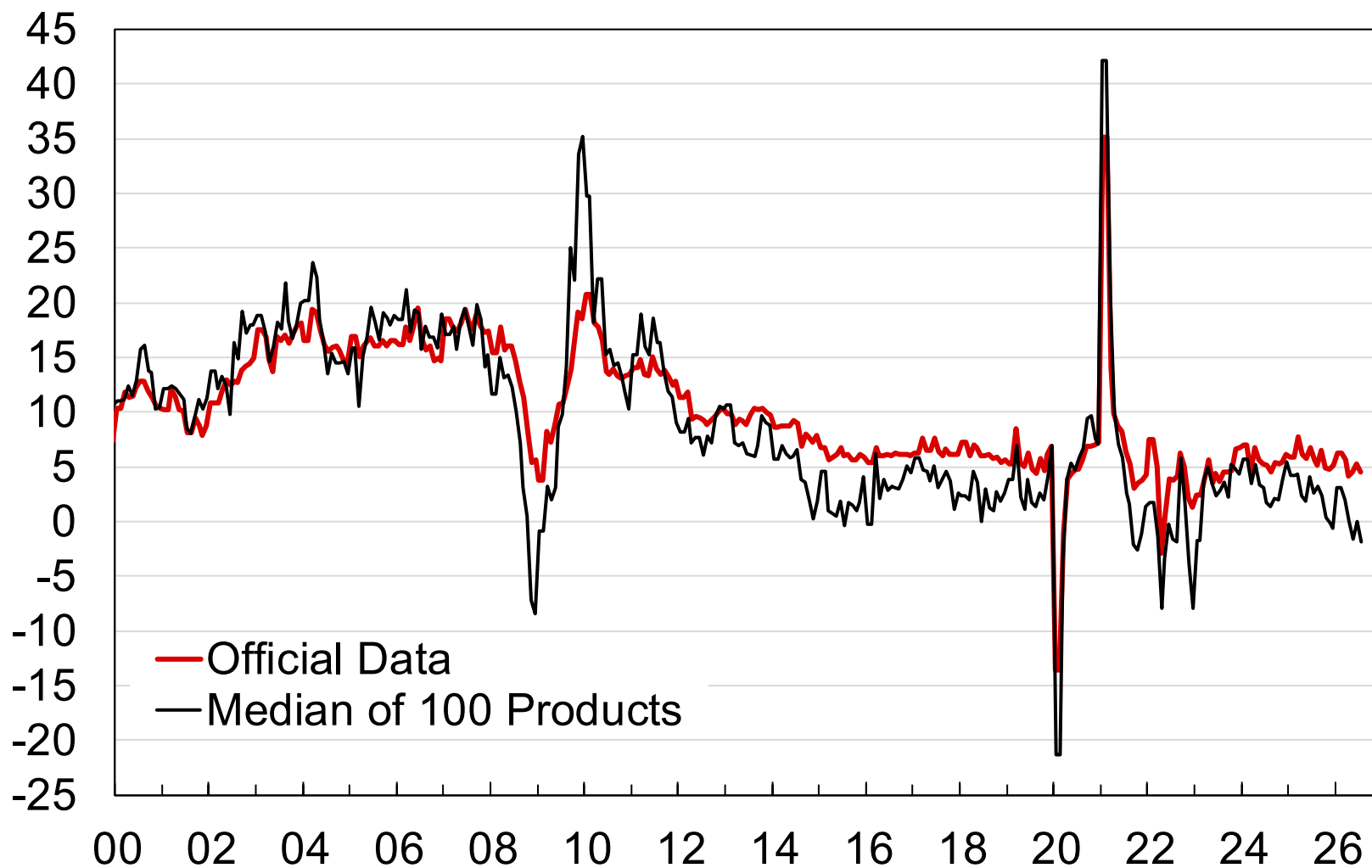
Industrial Production ex Construction

Percent Change from Year Ago



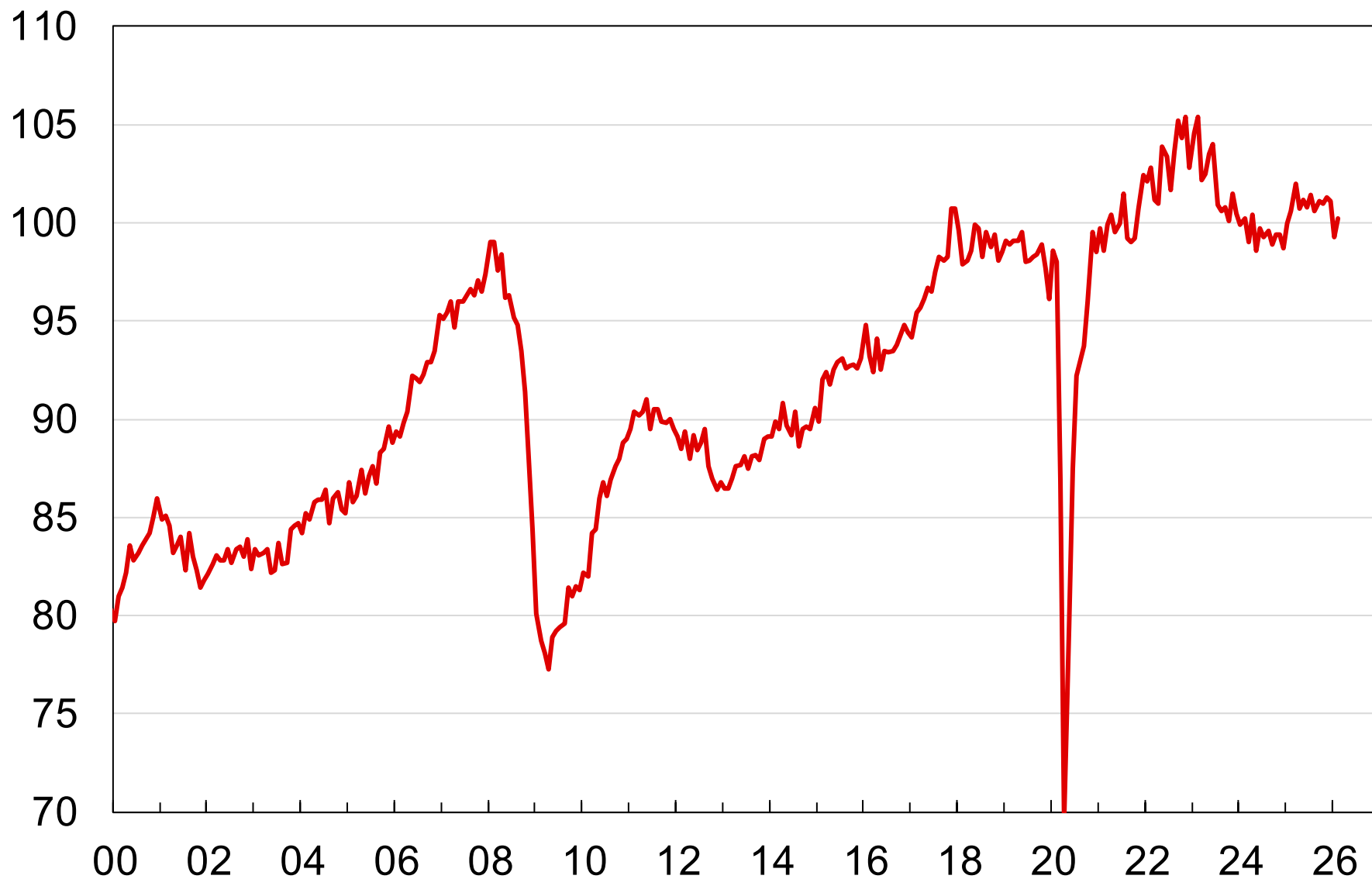
Value Added of Industry (Industrial Production): China

Percent Change from Year Ago



Industrial Production, Manufacturing: European Union

Index, 2021 = 100



Key takeaways

So far, the global economy and especially the US economy has been amazingly resilient in the face of higher oil prices, probably because oil inventories were bigger than we realized.

But . . .

The longer the Strait of Hormuz remains closed, the higher oil prices will go.

The higher oil prices go, the greater the hit to economic growth and inflation.

Oil importing countries in Europe and Asia will be hit much harder than will the United States.

Robert Fry Economics LLC

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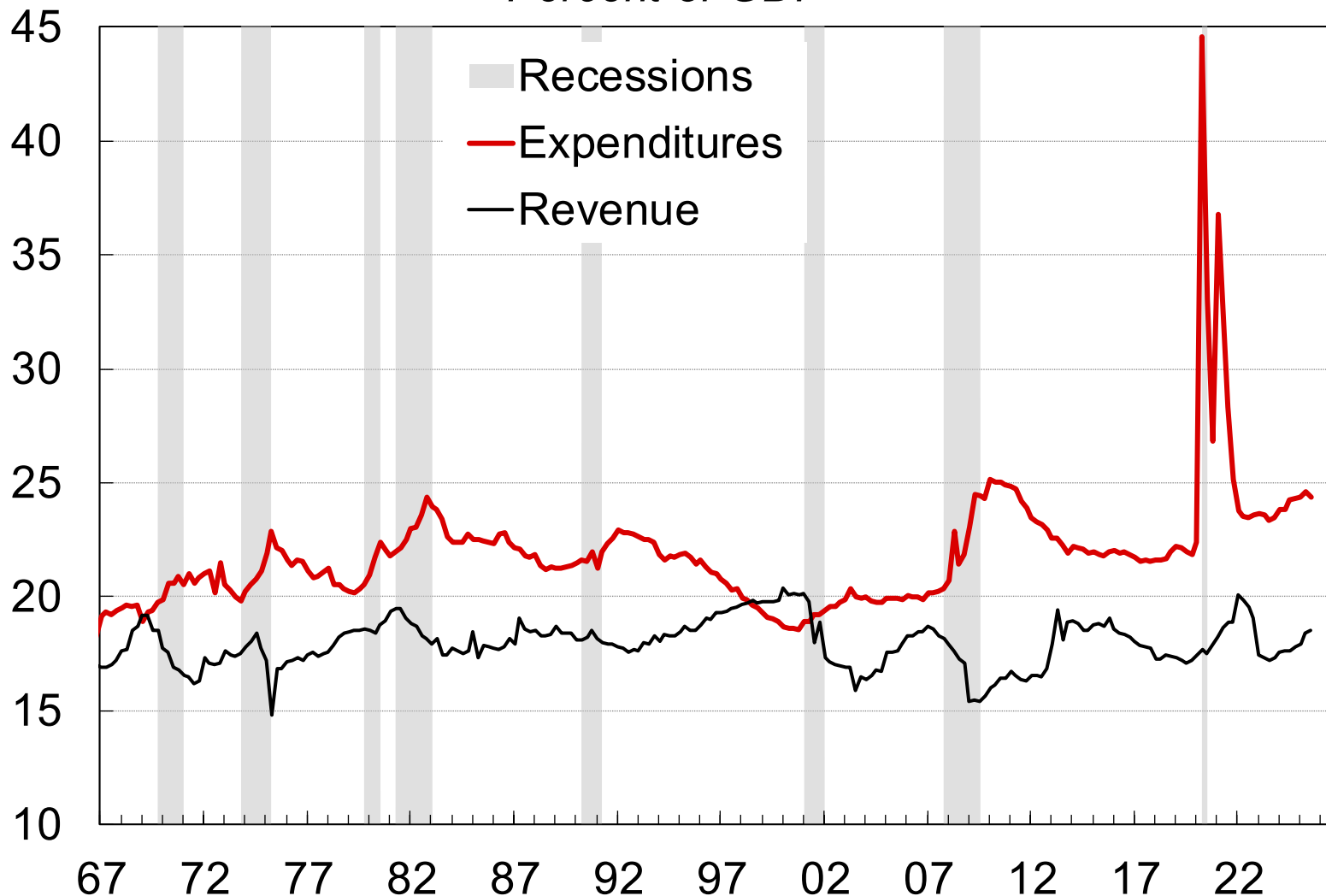
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US Federal Govt Current Expenditures & Revenue

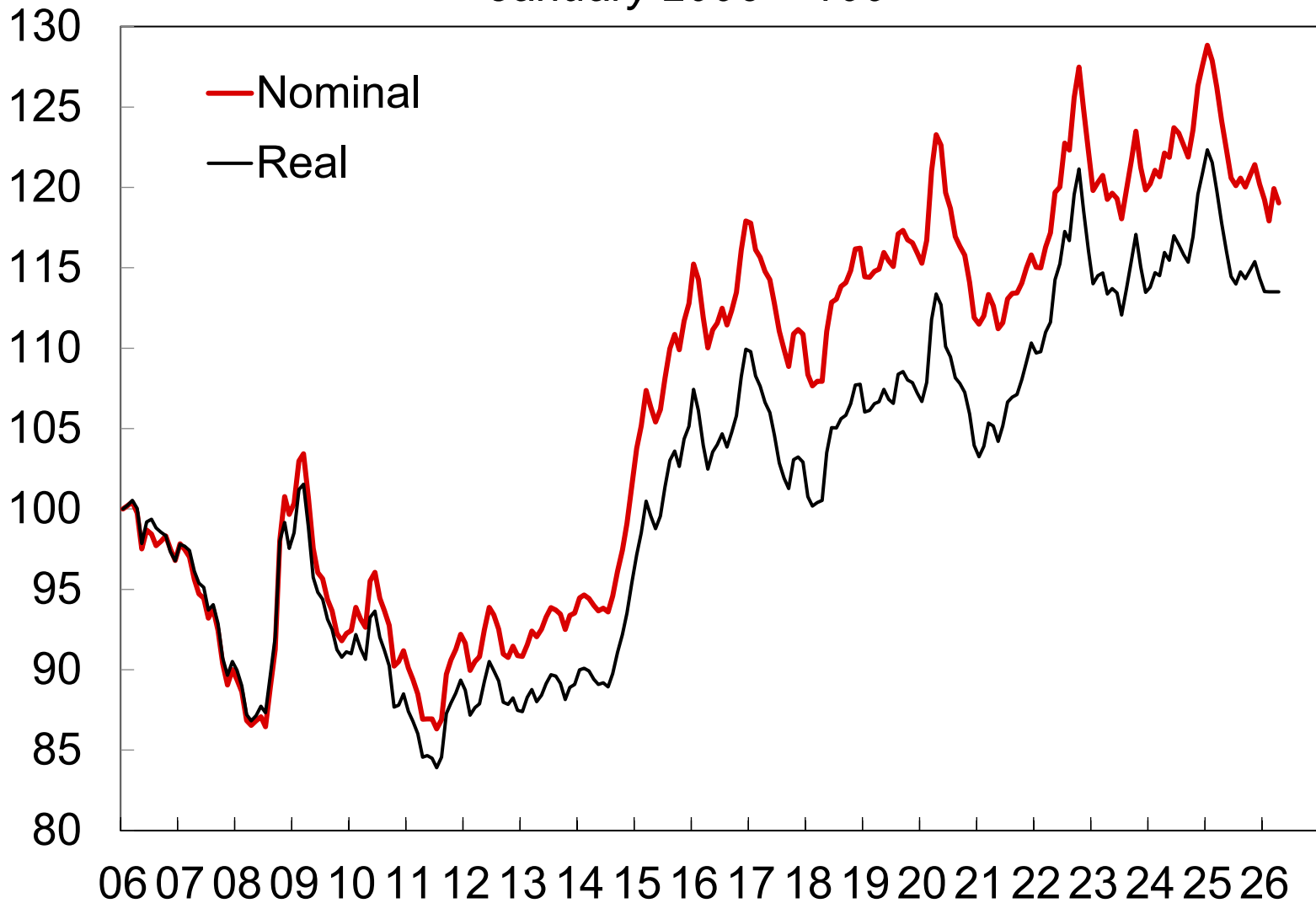
Percent of GDP



Source: U.S. Bureau of Economic Analysis/FRED

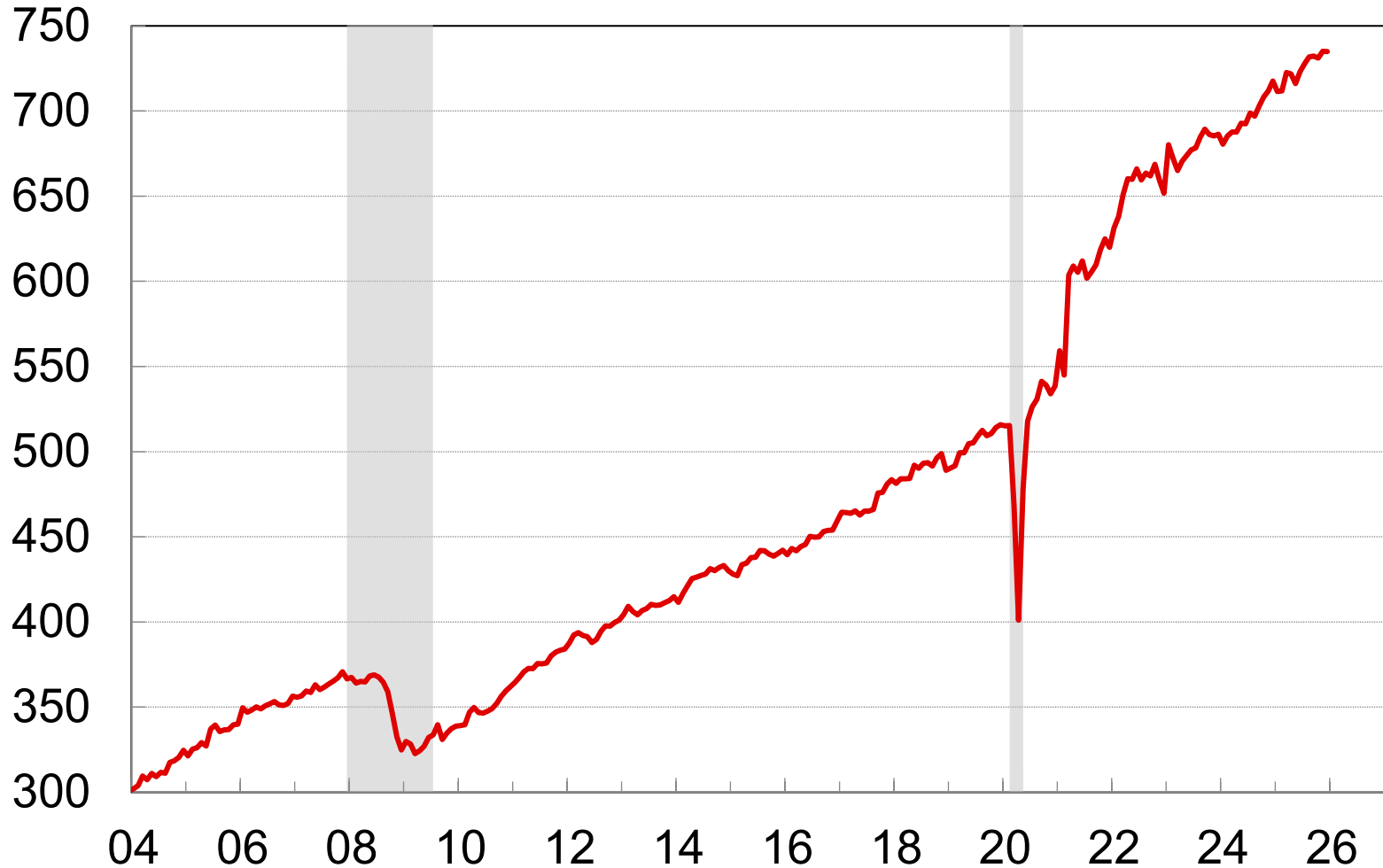
Federal Reserve Broad Dollar Index

January 2006 = 100



Retail Sales: Retail and Food Services

Billions of \$, Monthly, Seasonally Adjusted



Source: U.S. Census Bureau/FRED