



FIFTH THIRD BANK

2022 Economic Outlook: The Reckoning

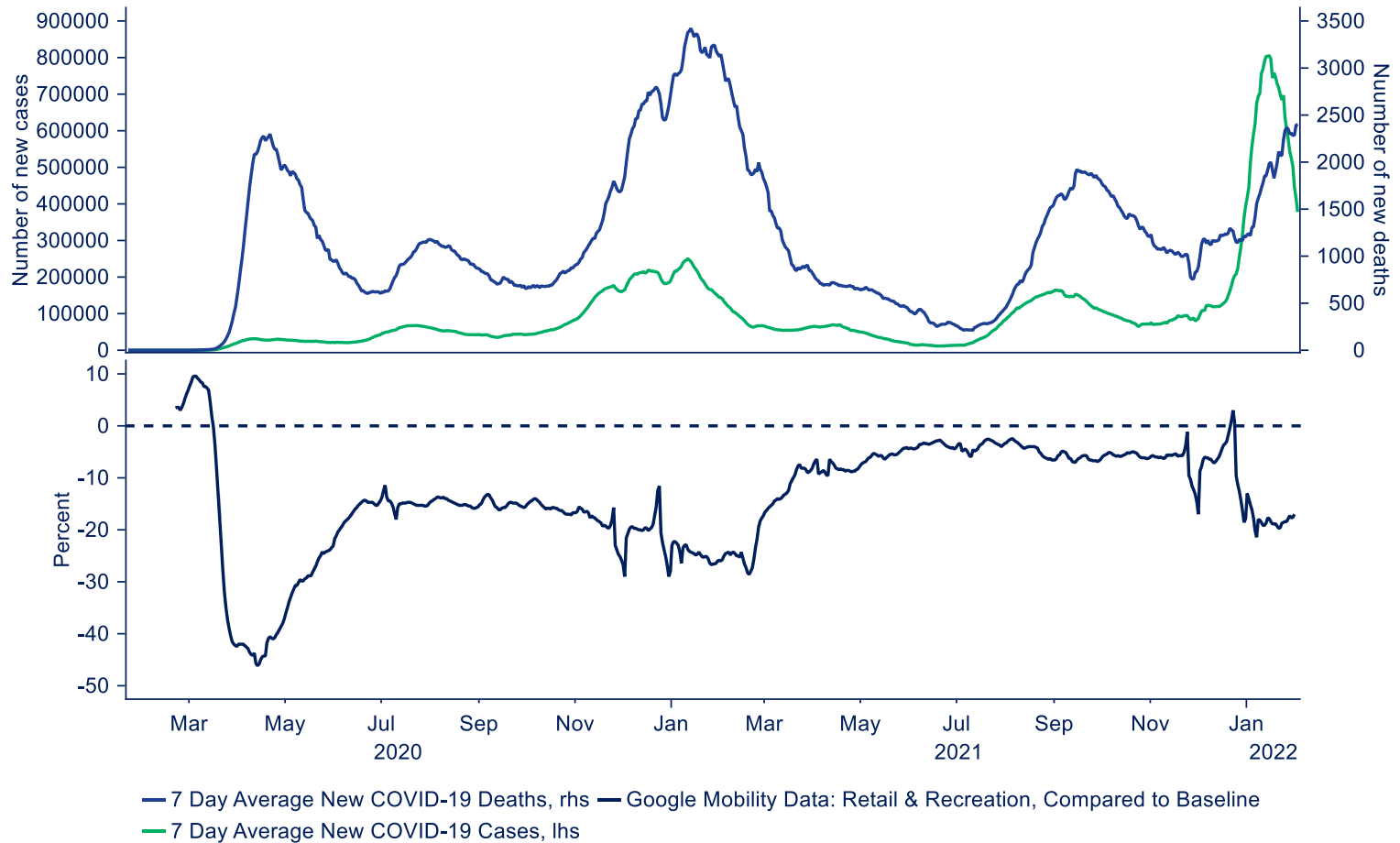
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Executive summary

- The resurgence of COVID is a greater health risk than economic risk.
- All the elements remain in place for above-trend growth.
- The Federal Reserve has signaled a change in tone but remains reluctant to raise interest rates.
- While far from over, we see signs that inflationary pressures and supply chain problems may have peaked.

COVID and the consumer

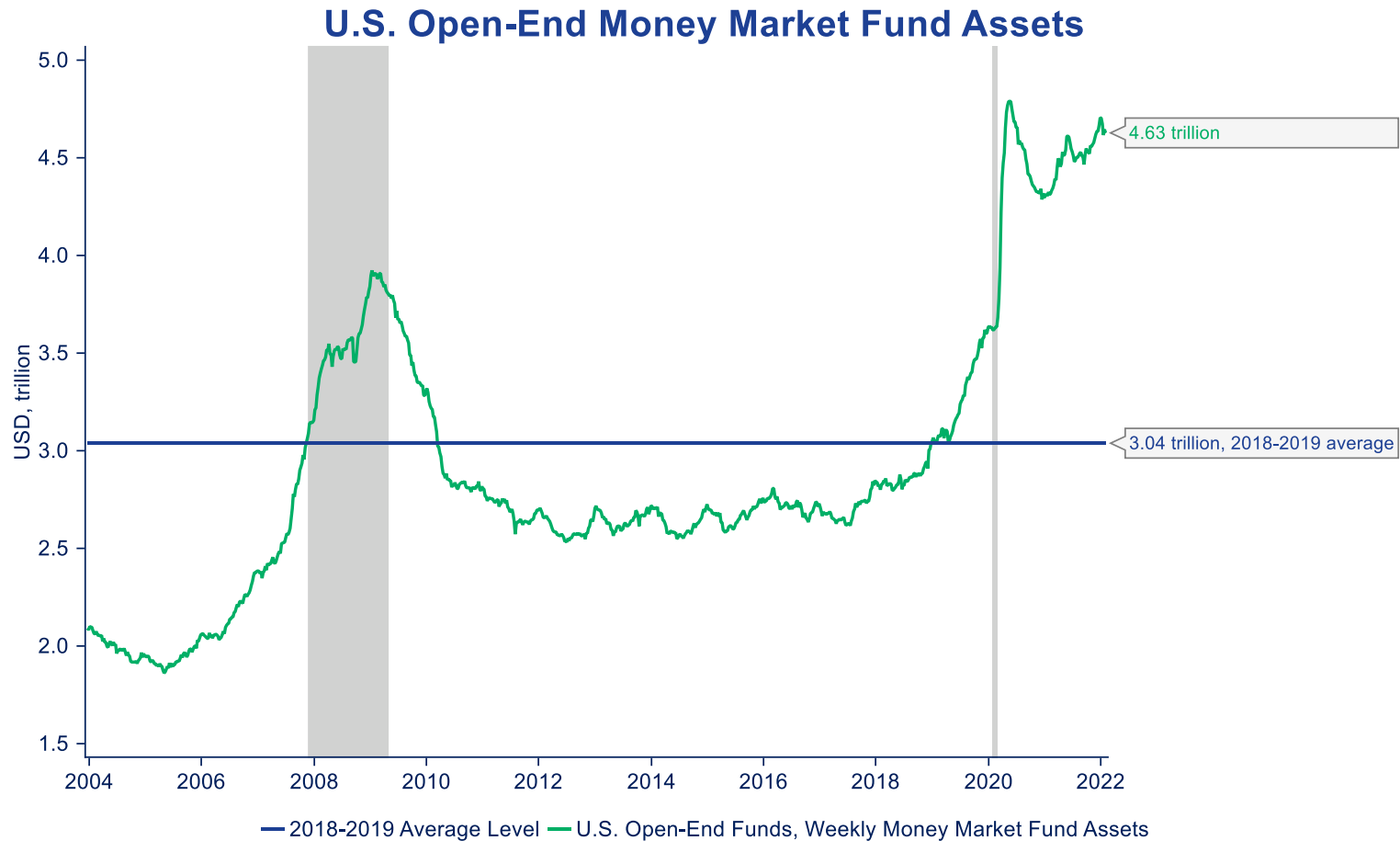


Source: Macrobond, CDC, Google, as of 2/4/2022

Assessing economic risk of COVID variants

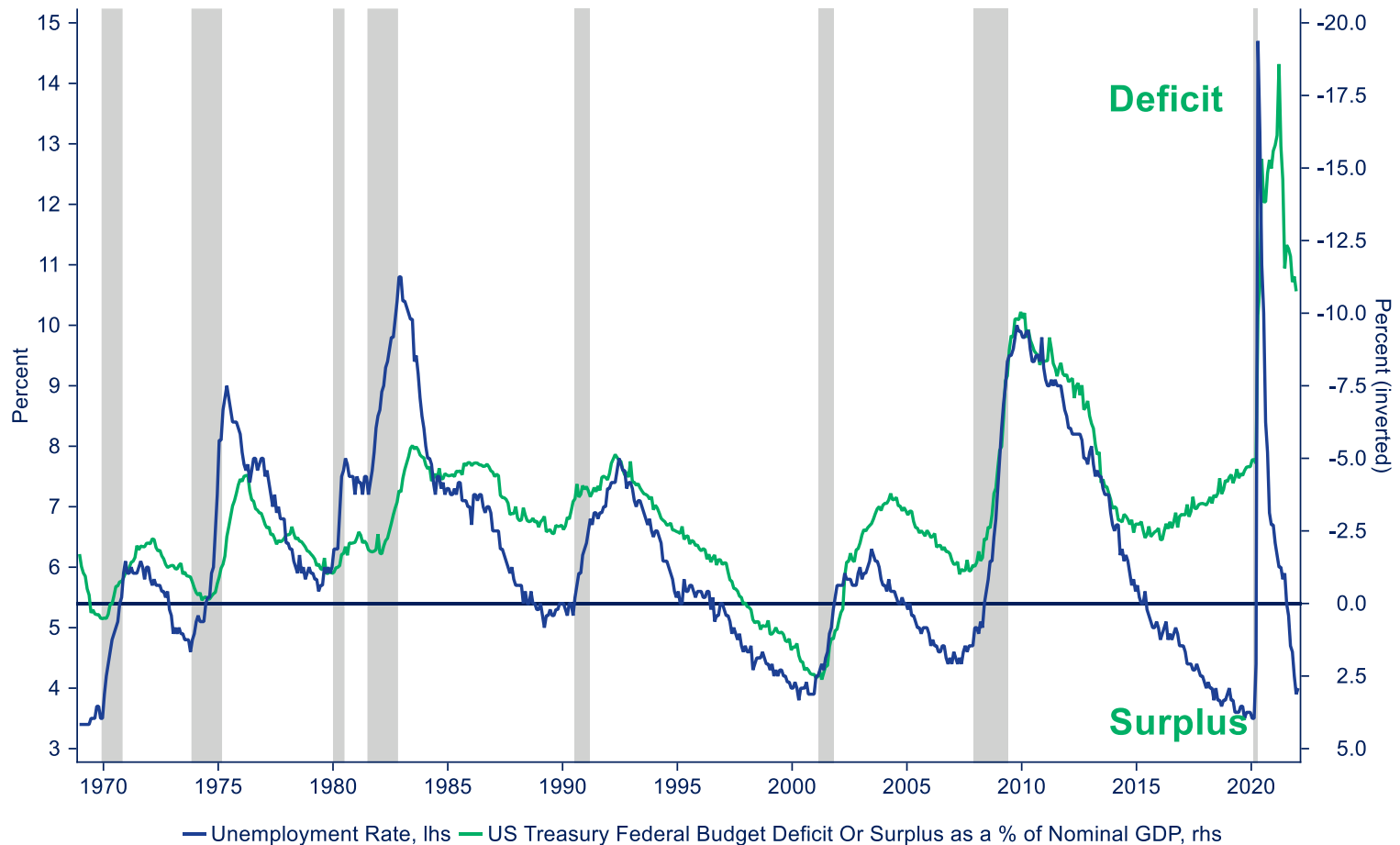
- Transmissibility
- Lethality and age/precondition vulnerability
- Effectiveness of vaccines or therapeutics
- Hospital/healthcare capacity
- Geographic spread
- Domestic, foreign or supply chain risk
- Likely government policy response
- Likely consumer response

Support for growth: money on the sidelines



Source: Macrobond, ICI, as of 2/4/2022

Support for growth: record-setting fiscal stimulus

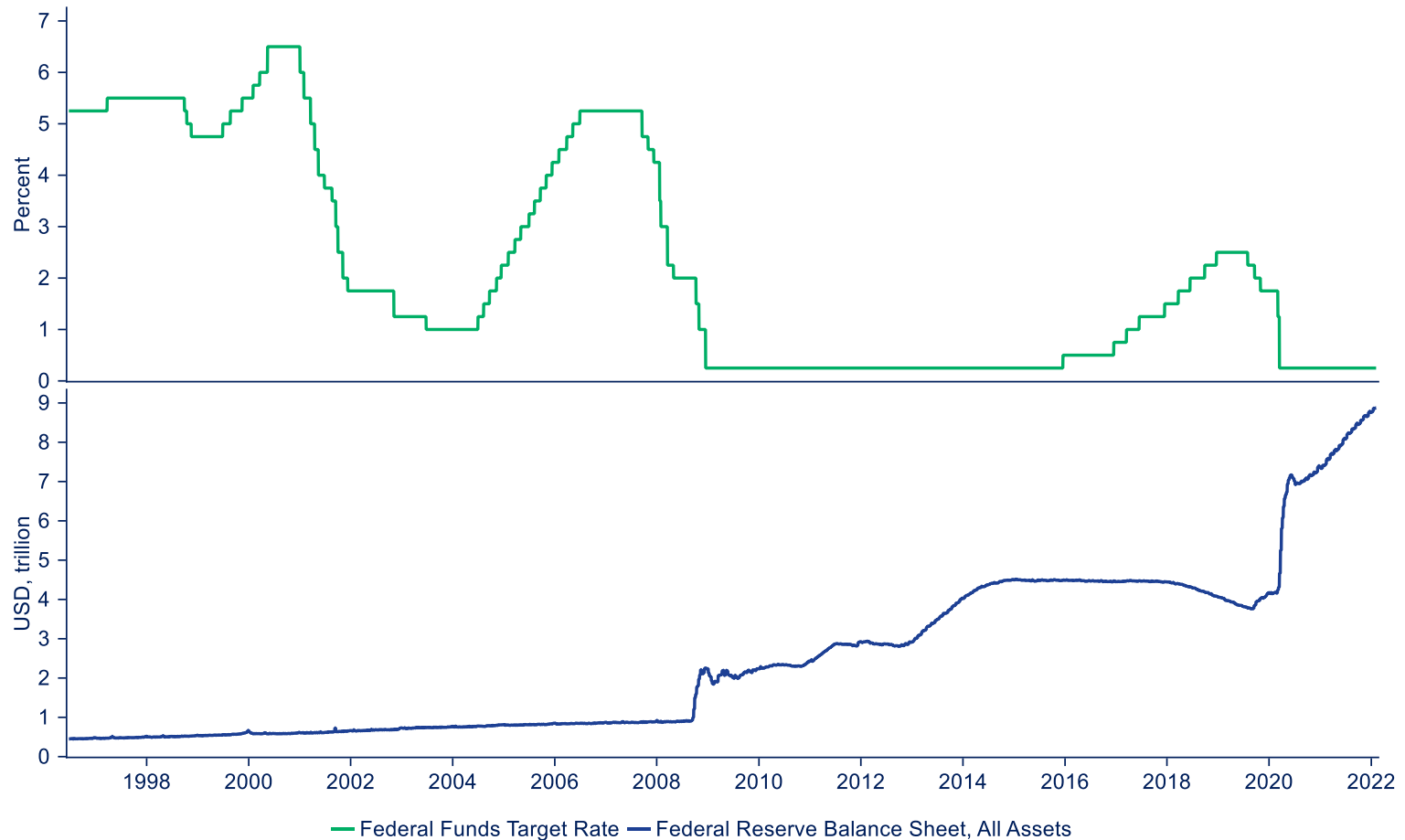


Source: Macrobond, BLS, as of 2/4/2022



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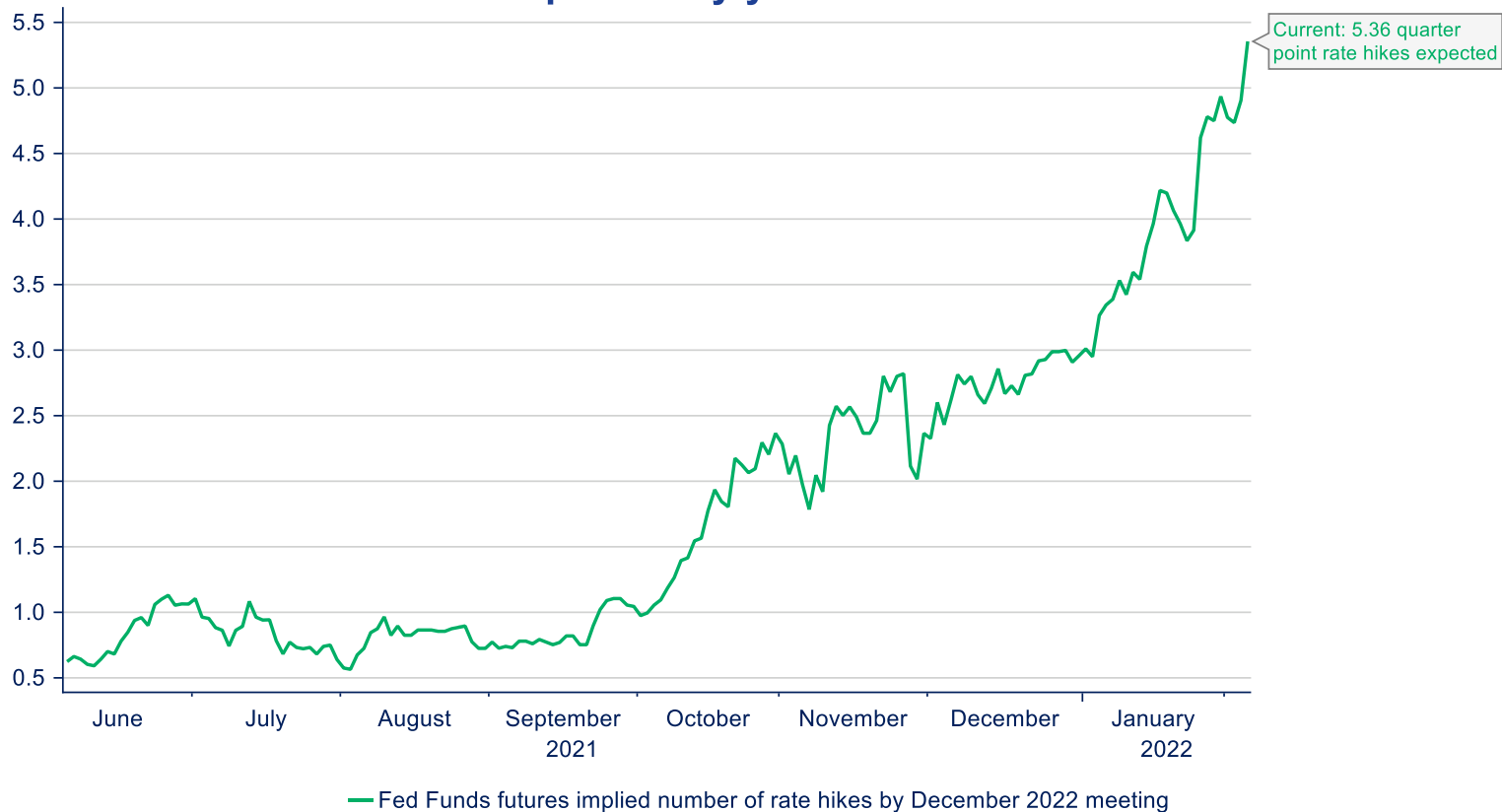
Support for growth: monetary policy shifting but still supportive



Source: Macrobond, Fed, as of 2/4/2022

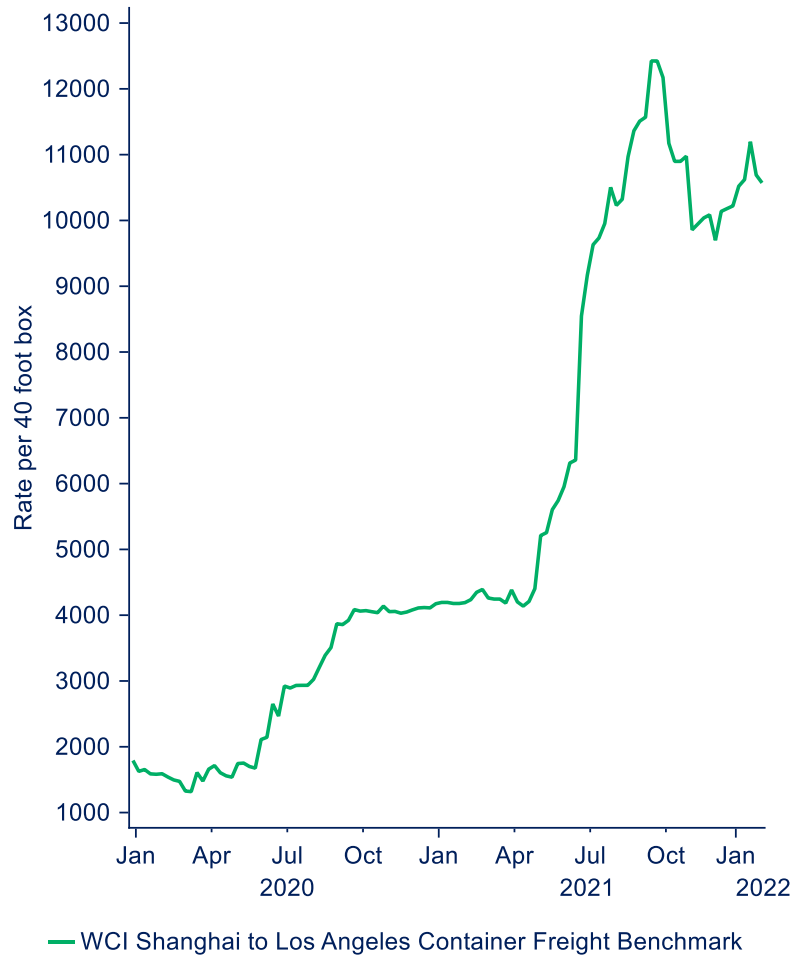
Change of tone at the Fed

Market-implied number of 25bp rate hikes expected by year-end 2022

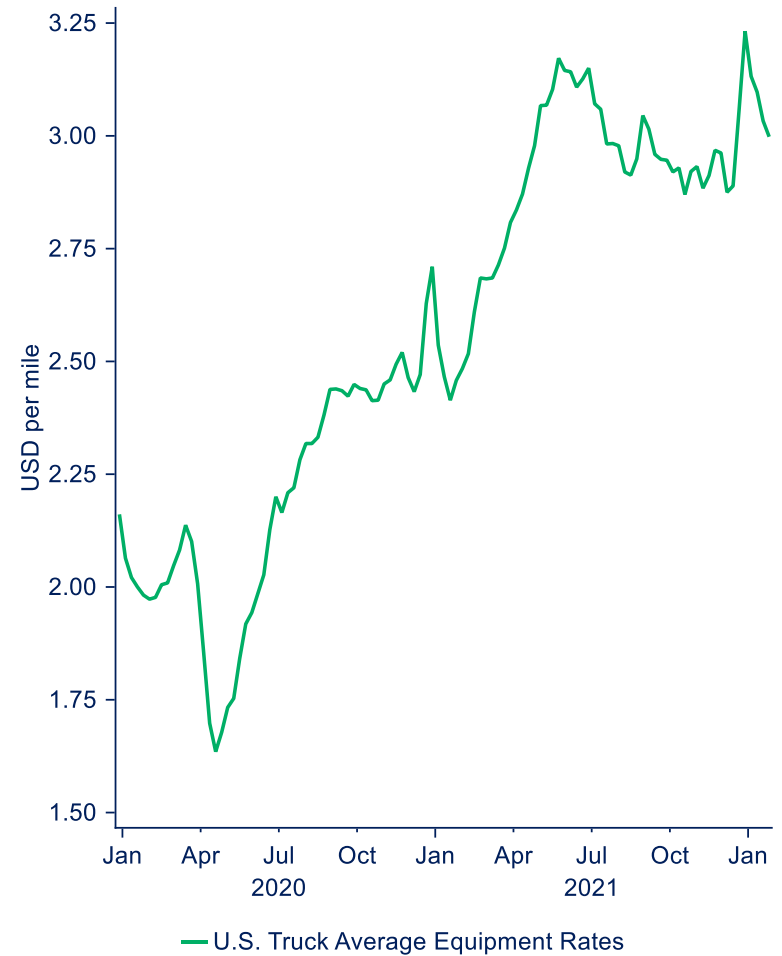


Source: Macrobond, Bloomberg, as of 2/4/2022

Supply chain healing

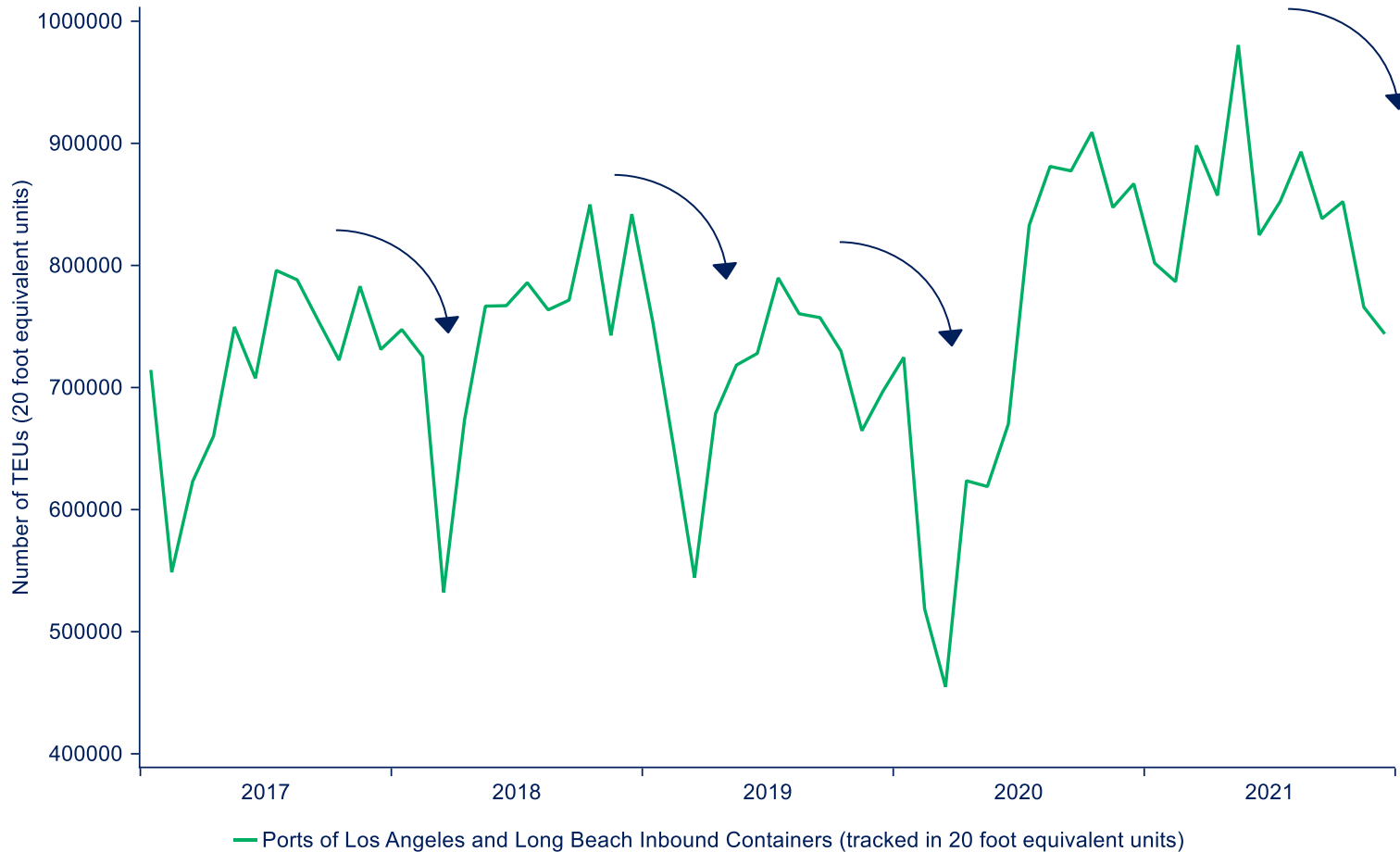


Source: Macrobond, Bloomberg, Cornerstone Macro Research as of 2/4/2022



Source: Macrobond, Bloomberg, Truckstop.com, Cornerstone Macro as of 2/4/2022

Supply chain healing: seasonality



Source: Macrobond, Bloomberg, Ports of Los Angeles and Long Beach, Cornerstone Macro, as of 2/4/2022



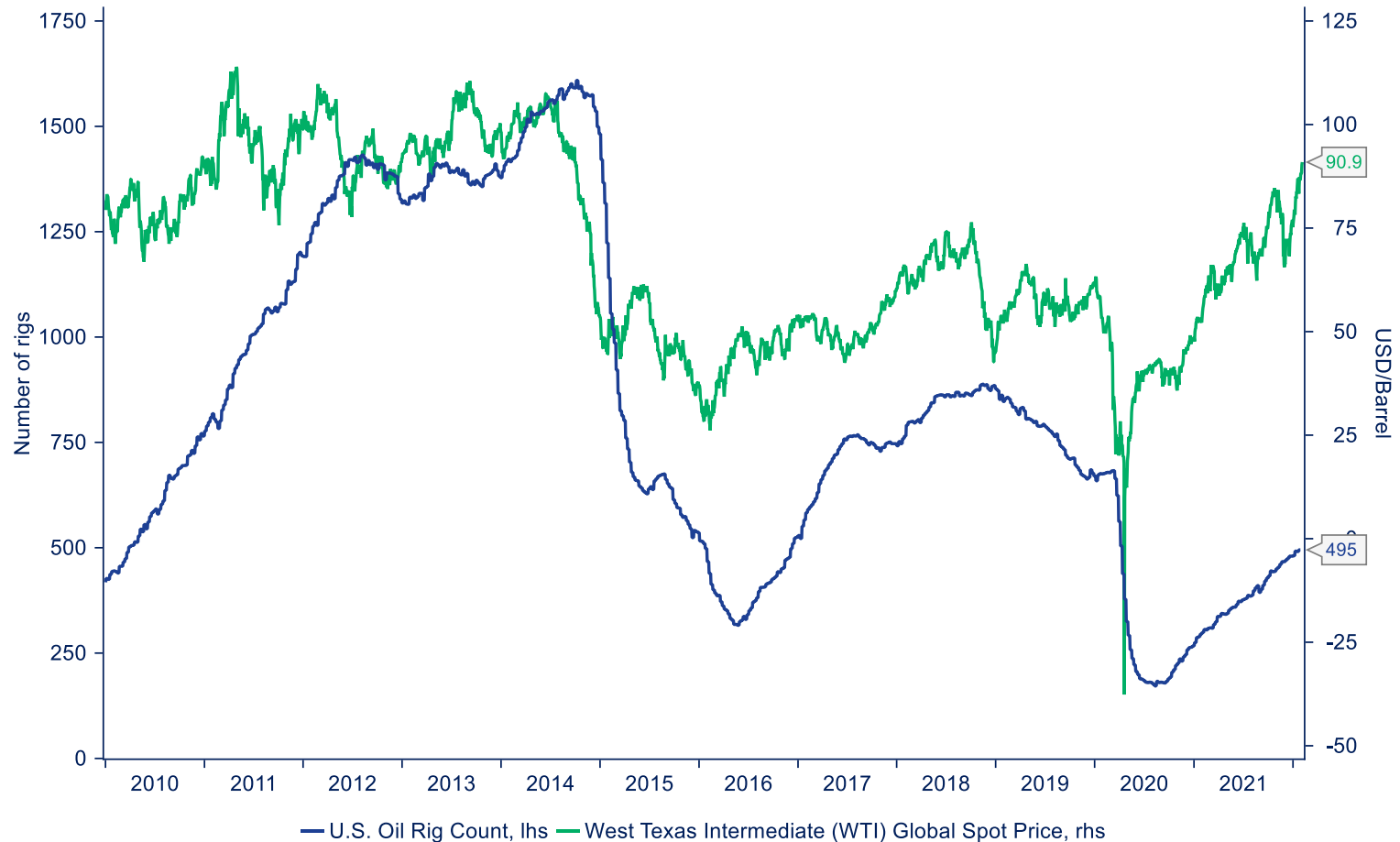
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The case for peak inflation: strong dollar



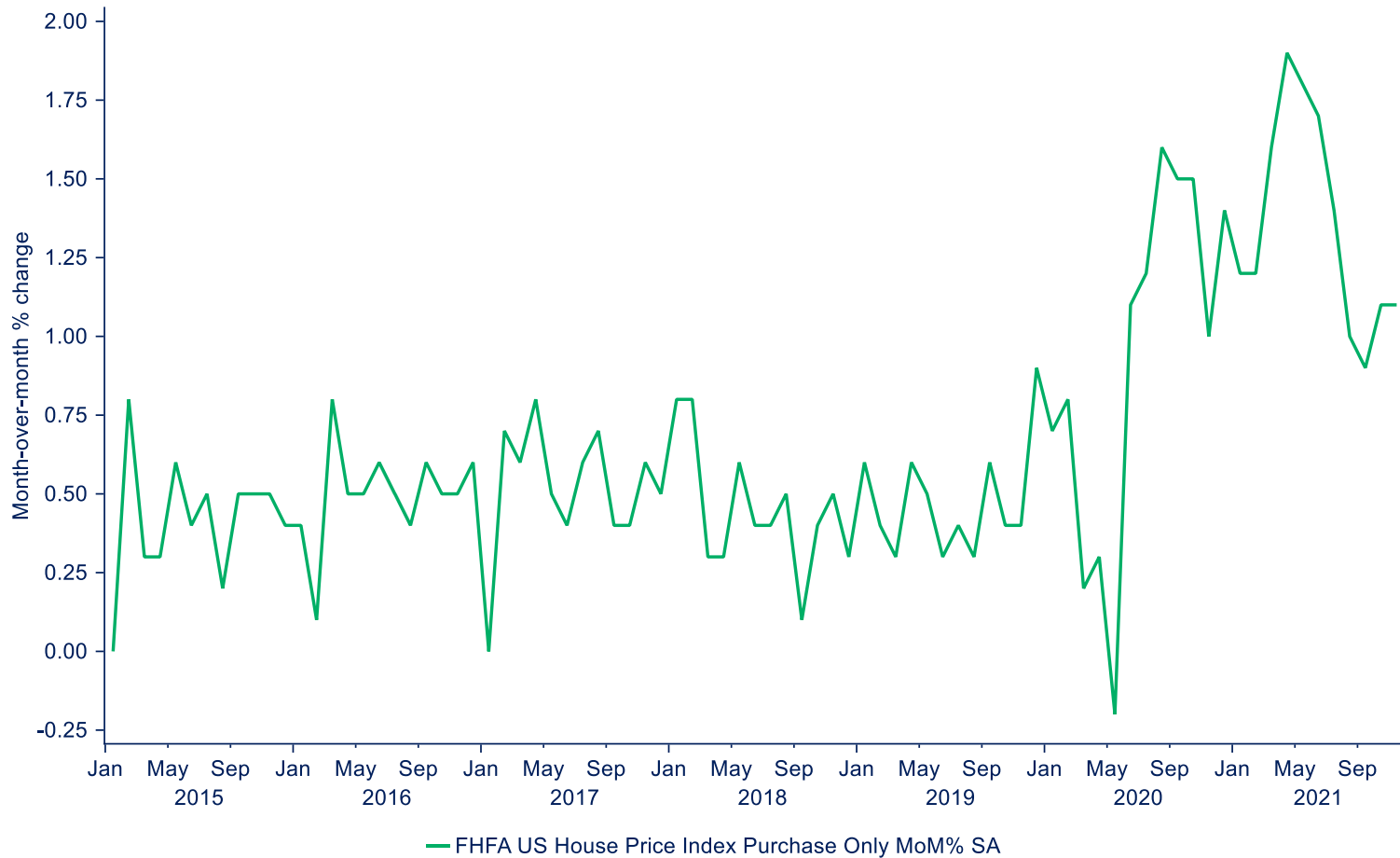
Source: Macrobond, Bloomberg, as of 2/4/2022

Peak inflation: the cure for high commodity prices...



Source: Macrobond, Baker Hughes, as of 2/4/2022

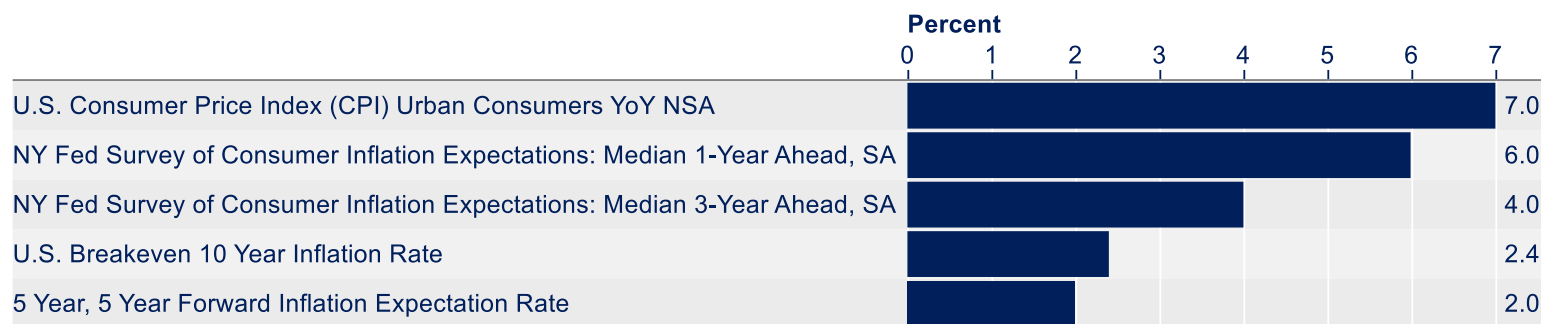
Peak inflation: home price gains slowing



Source: Macrobond, Bloomberg, as of 2/4/2022

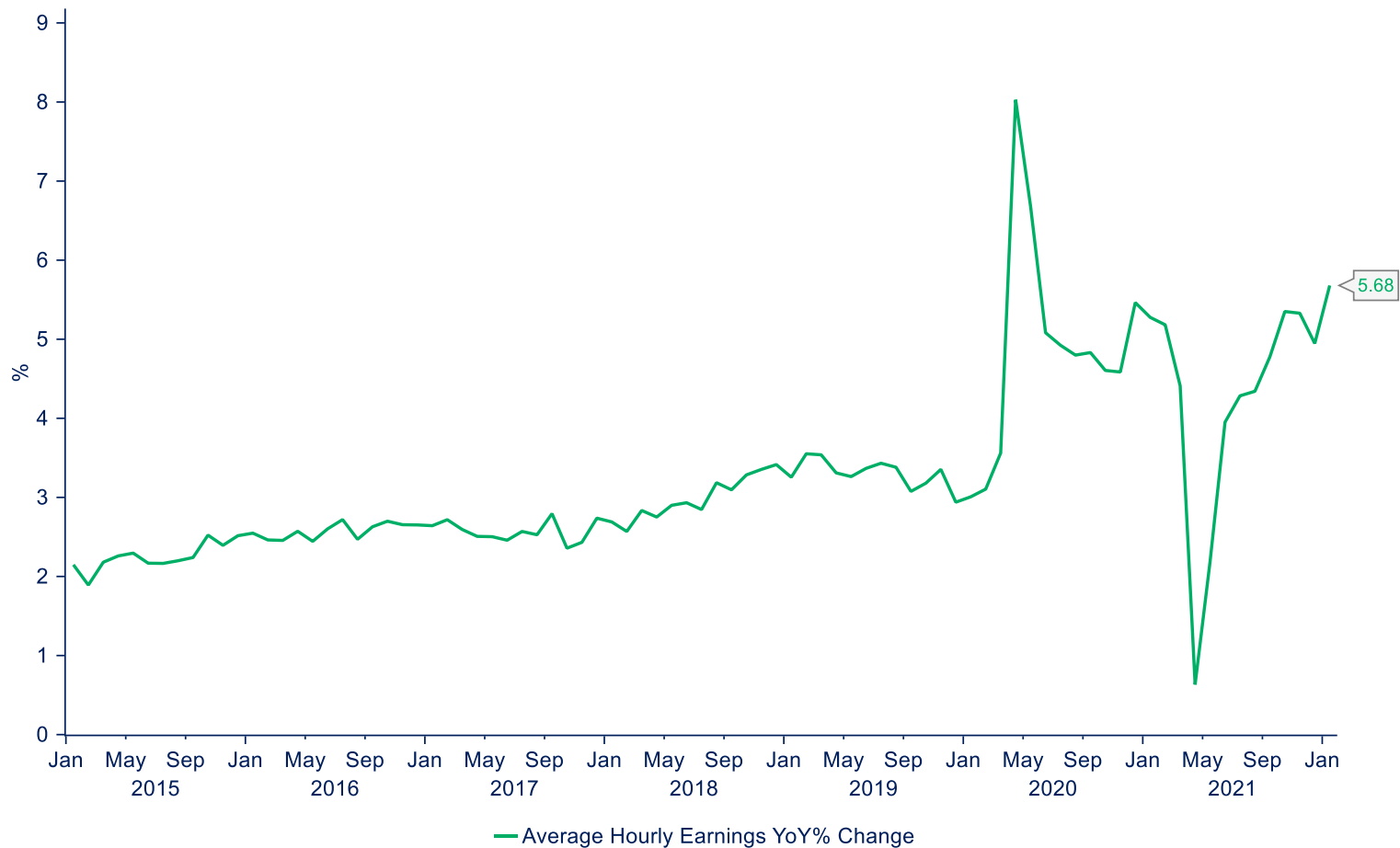


The risk of inflationary psychology



Source: Macrobond, Bloomberg, as of 2/4/2022

The labor question



Source: Macrobond, BLS, as of 2/4/2022

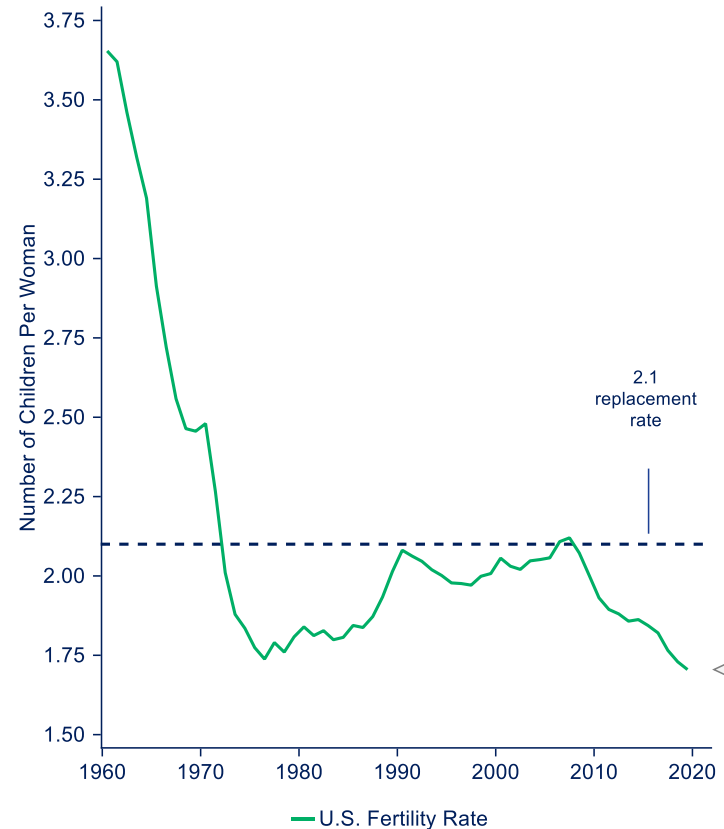


Labor: challenge and opportunity

Immediate Issues

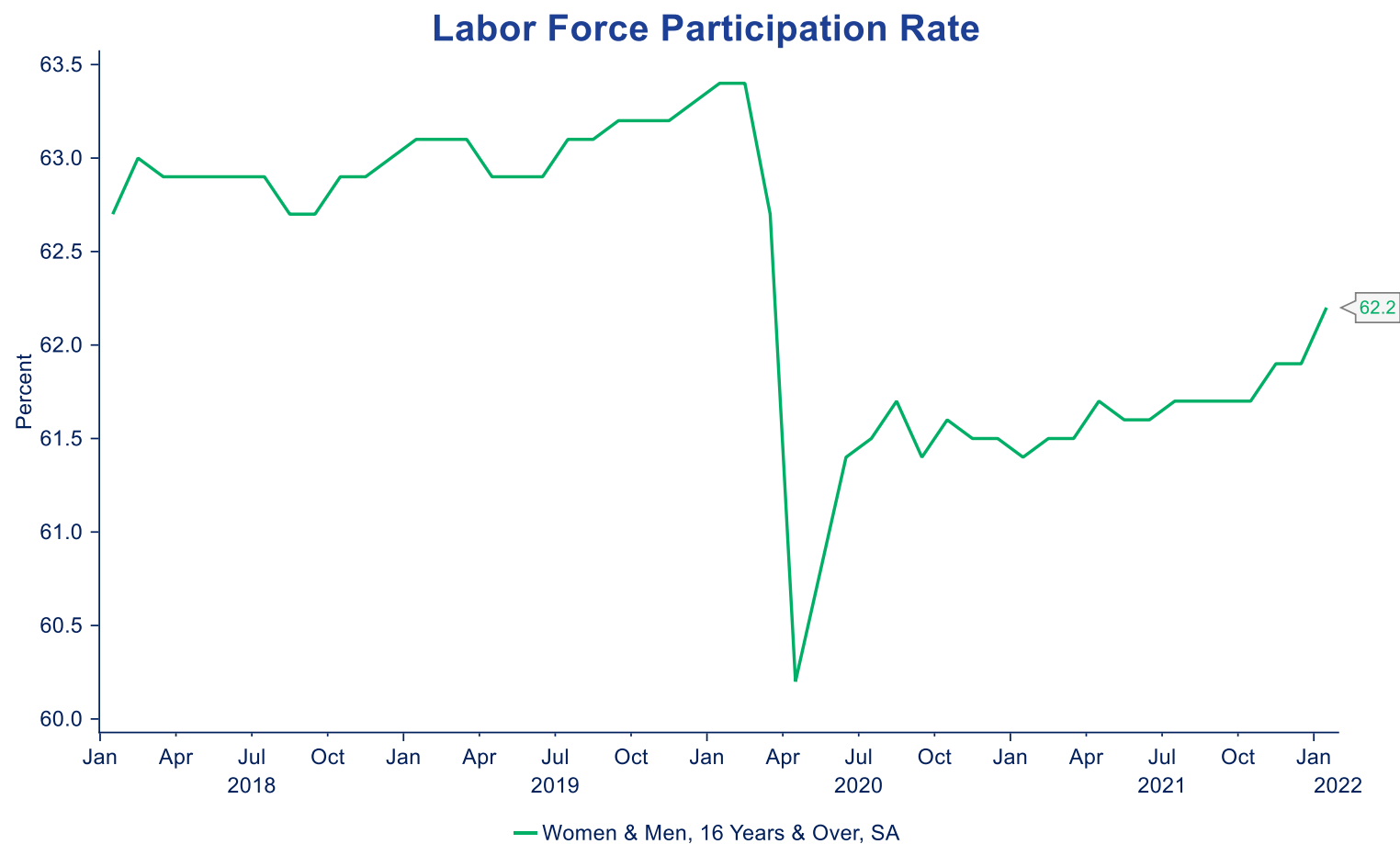
- Reallocation friction
- Augmented unemployment benefits
- Millennial women and child rearing
- Older workers stay away
- The social ills of post-2009 return
 - Long-term unemployment
 - The opioid epidemic
 - Criminal justice involvement

Structural Issues



Source: Macrobond, World Bank, as of 2/4/2022

Labor market healing



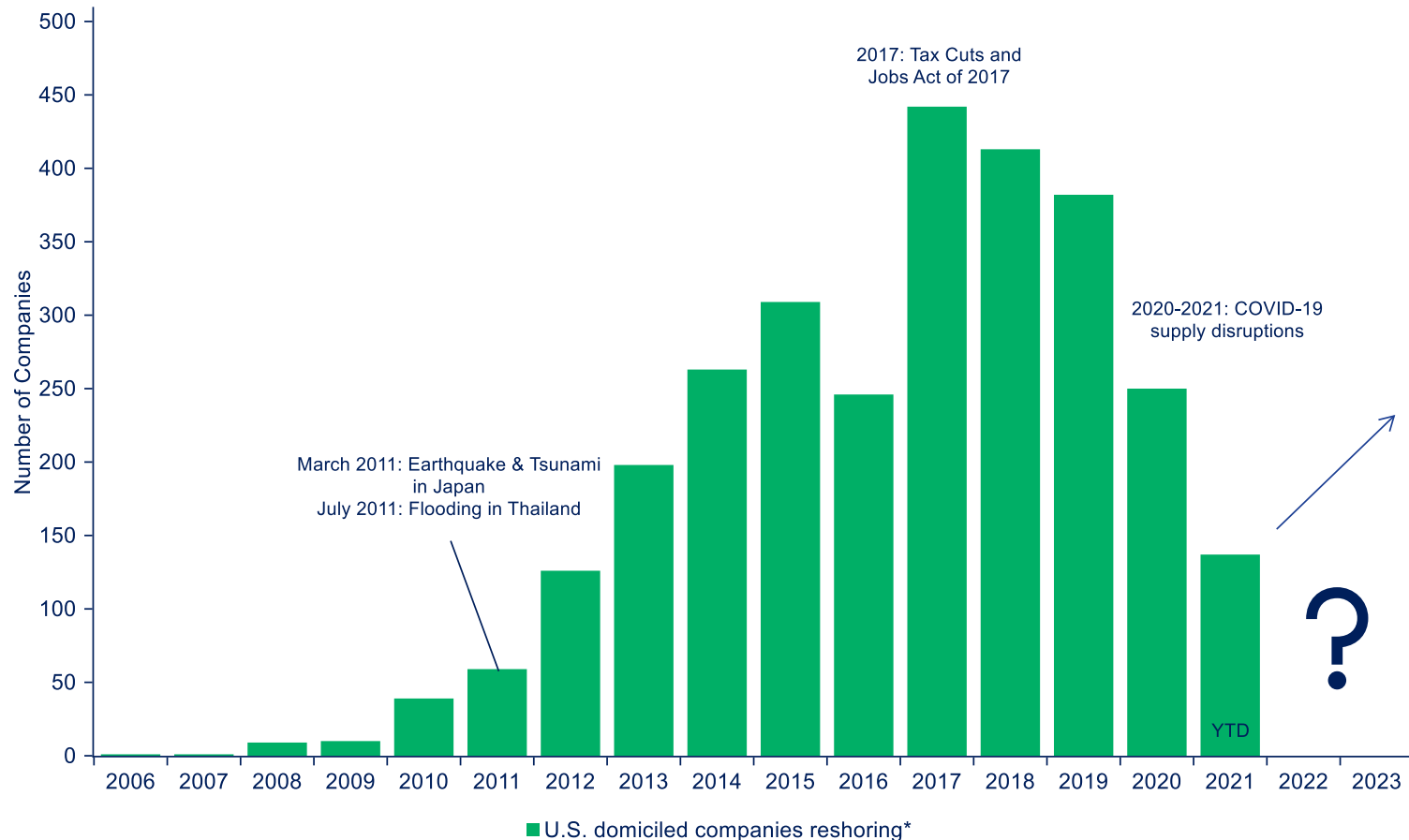
Source: Macrobond, BLS, as of 2/4/2022

The disrupted economy: city office space in use



Source: Kastle Systems; weekly occupancy report from Kastle Access Control System Data

The disrupted economy: reshoring of manufacturing

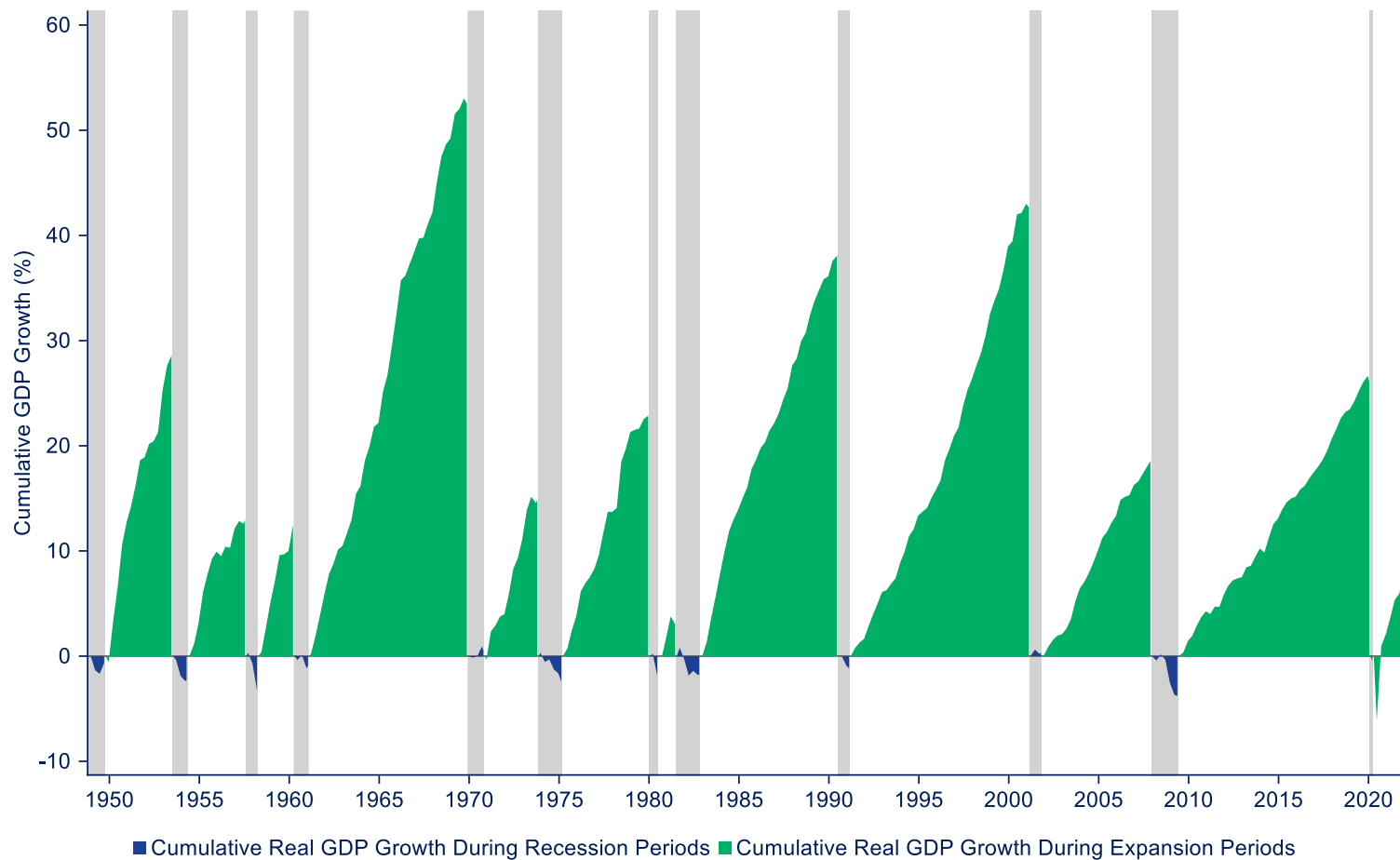


Source: Macrobond, Cornerstone Macro Research, as of 5/27/21

* Figures represent the number of U.S. domiciled companies that have announced reshoring some, or all, of their supply chain



The long view



Source: Macrobond, NBER, BEA, as of 12/31/2021

Questions?

Thank you

Definitions

Google mobility reports chart movement trends over time by geography, across different categories of places such as retail and recreation, groceries and pharmacies, parks, transit stations, workplaces and residential.

Money market funds are mutual funds that invest in highly liquid, near-term instruments including cash and cash equivalents.

U-3 Unemployment Rate is the total unemployed as a percentage of the civilian labor force. **U-6 Unemployment Rate** is the total unemployed, plus all persons marginally attached to the labor force, plus total employed parttime for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force.

The U.S. Treasury Federal Budget Deficit or Surplus is reported in the monthly Treasury statement of Receipts and Outlays of the U.S. Government. This statement summarizes the financial activities of the Federal Government and off-budget federal entities conducted in accordance with the budget of the U.S. Government.

Total Public Debt as a Percent of Gross Domestic Product (GDP) is calculated using Federal Government Debt, Total Public Debt and Gross Domestic Product.

The Federal Funds Rate (Fed funds) is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.

The Federal Reserve balance sheet tracks the aggregate assets and liabilities of the Federal Reserve.

The U.S. dollar index spot rate indicates the general international value of the U.S. dollar by averaging the exchange rates between the U.S. dollar and major world currencies.

West Texas Intermediate (WTI) crude is a light crude oil that serves as one of the main global oil benchmarks.

The FHFA House Price Index tracks changes in residential property prices.

The Consumer Price Index is a measure of prices paid by consumers for a basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

The New York Federal Reserve Survey of Consumer Expectations is a nationally representative, Internet-based survey of a rotating panel of approximately 1,300 household heads. The inflation expectations measure tracks the median one-year and three-year ahead expected inflation rates.

The Breakeven 10-Year inflation rate is calculated by subtracting the real yield of the inflation-linked maturity curve from the yield of the closest nominal Treasury maturity. The result is the implied inflation rate for the term of the stated maturity.

The 5-Year, 5-Year Forward Inflation Expectation Rate measures expected inflation (on average) over the five-year period that begins five years from today.

Average hourly earnings tracks total hourly remuneration (in cash or in kind) paid to employees in return for work done (or paid leave).

The fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

The labor force participation rate is a measure of the economy's active workforce. It is the sum of all workers who are employed or actively seeking employment divided by the total noninstitutionalized, civilian working-age population.

GDP (Gross Domestic Product) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

Disclosures

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