The immediate consequences of the war in Ukraine

The global impact of the Russia-Ukraine conflict: first chapter. The human consequences of the war in Ukraine are already all too visible in the first month of the conflict. From an economic perspective, the countries most affected will be Ukraine (because of the destruction this war is causing) and Russia (because of the sanctions imposed by its main trading partners). However, the effects of the war will be felt in many other territories. Indeed, its most immediate effects are already becoming apparent: prices of the main commodities have soared, adding more inflationary pressure, uncertainty and social tension around the world. In this regard, in the first month of the conflict, the average price of oil was 19% higher than in the previous month, while that of natural gas was 64% higher. The geopolitical risk (GPR) index, meanwhile, surged to levels not seen since the Iraq War.

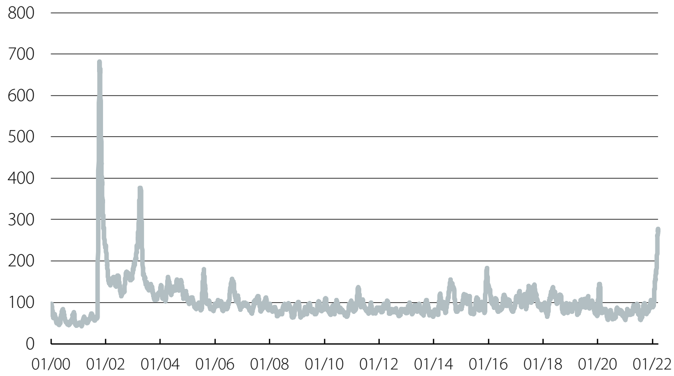
A global but uneven impact. The «barometer» of available indicators is already showing a significant shift. Whereas in March the Purchasing Managers' Index (PMI) fell in the euro area (54.5 *vs.* 55.5 in February), it registered a considerable increase in the US (58.5 *vs.* 55.9). Specifically, in the euro area, the PMI reflected a significant deterioration in the outlook, with widespread cost increases and an intensification of the bottlenecks. In the breakdown by sector, manufacturing is confirmed as the hardest hit, although services also registered a slowdown in growth. Similarly, the European Commission's economic sentiment indicator (ESI) also weakened, accompanied by a deterioration in confidence among consumers, industry and the retail sector.

Eastern Europe shows signs of economic weakness. In Poland and the Czech Republic, the confidence indicators registered a sharp deterioration in March and around 50% of Polish firms in some manufacturing sectors (such as the manufacture of metal or transport equipment) are already citing commodity supply problems among the main factors limiting their production. Among the countries most exposed to potential supply problems as a result of the conflict are the Baltic countries, Bulgaria and Cyprus, all with strong links to Russia, whether due to their dependence on its commodities, the ties of their manufacturing sectors or even those of their services sectors (see the Focus «European dependence on Russia: a primary issue» in this *Monthly Report*).

Euro area: less growth, more inflation and greater uncertainty. While any economic forecast in the current circumstances needs to be taken with a grain of salt, the rise in the cost of energy and the uncertainty generated by the outbreak of the war in Ukraine will mean slower economic growth in 2022 and higher inflation. In this regard, we have revised our growth forecast for the euro area down by 1.4 pps, to 2.6%, and the inflation forecast up by almost 1.0 pp, to 5.3%, marking a new high since the start of the series in 1997. By country, the most substantial downward revision of growth for 2022 is for the German economy (–2.1 pps, to 1.2%), because of its greater dependence on supplies of gas from

Global: geopolitical risk index

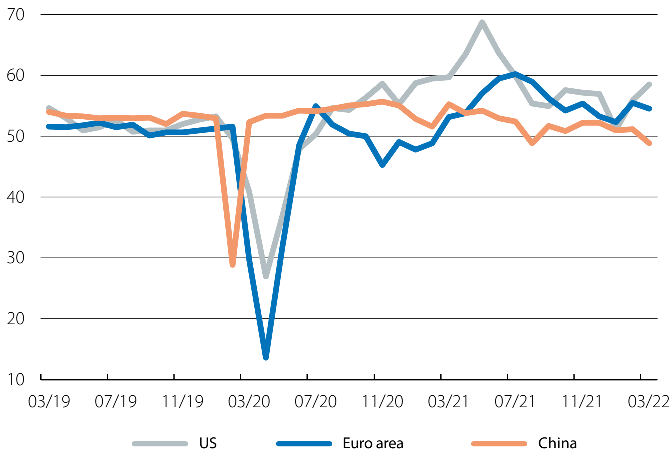
Level (100 = average for the period 1985-2019)



Notes: *The geopolitical risk (GPR) index is built on the basis of newspaper articles, searching for keywords related to geopolitical risks. A higher value of the index indicates a greater increase in geopolitical risk.*
Source: *CaixaBank Research, based on data from D. Caldara and M. Iacoviello (2021). «Measuring Geopolitical Risk». American Economic Review, April, 112(4), pages 1,194-1,225 (data downloaded from https://www.matteoiacoviello.com/gpr.htm on 25 March 2022).*

Global: PMI

Level



Source: *CaixaBank Research, based on data from PMI Markit and the National Statistics Office of China, via Refinitiv.*

Global: inflation tracker

	Latest value	Average in 2021	Average in 2020	Average in 2019	Average in 2014-2018	Average in 2000-2020
Global						
Baltic Dry Index (level)	2,358	2,963	1,085	1,325	990	2,259
FBX Global Container Index ($)	9,743	7,180	1,800	1,357	1,336	1,471
Industrial Metals Index (level)	212.0	156.6	111.0	116.0	117.0	127.2
Brent oil ($/barrel)	107.9	71.5	41.6	64.6	65.1	64.3
Natural gas: Henry Hub ($ MBTU)	5.6	3.2	2.4	2.4	3.3	4.3
Natural gas: TTF (€/MWh)	98.6	32.0	14.3	18.1	16.5	16.4
Semiconductor index (level)	9.7	63.3	36.8	16.5	24.3	13.6
FAO Food Price Index (% change)	20.7	28.4	3.2	–0.7	–3.9	4.1

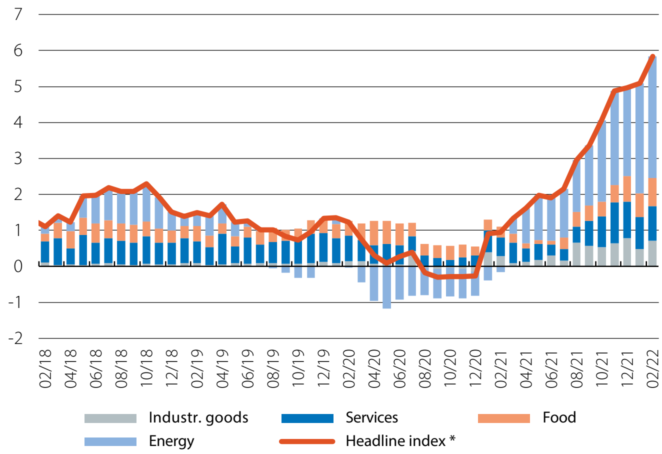
Source: *CaixaBank Research, based on various sources, via Refinitiv.*

Russia and the greater relative weight of the manufacturing industry, a sector particularly affected by bottlenecks and rising commodity prices (see the Focus «Impact of the war on the economic outlook: lower growth and higher inflation» in this same *Monthly Report*). For the US, which has substantially lower ties to Russia and Ukraine, we cut the growth forecasts for 2022 by 0.3 pps (to 3.2%), mainly due to the intensification of the global supply problems, higher inflation and the consequent tightening of financial conditions, with a more rapid withdrawal of the monetary stimulus now expected.

Inflation: soaring food and energy prices, active fiscal policy in the EU. Inflation has soared in the euro area in March, reaching 7.5%, compared to 5.8% in February. This spike has been mainly due to further increases in the price of food and energy. In Germany, where headline inflation reached 7.6% (*vs.* 5.5% in February), marking a 40-year high, the energy component registered inflation of 39.5%, compared to 22.5% in February. In Spain, while headline inflation hit 9.8% (*vs.* 7.6% in February), core inflation stood at 3.4%, indicating that a very significant part of the rally observed in March has been driven by food and energy. In view of these surging prices, the European Commission has announced the new State aid Temporary Framework, providing Member States with ample room for manoeuvre to support those businesses hardest hit by the consequences of the increase in energy prices. In this regard, the packages of measures already announced by various European countries to soften the blow of higher energy costs on businesses and households would exceed 0.5% of GDP this year. In Germany, the government announced fuel duty cuts and subsidies for households and workers, estimated at 0.5% of GDP. In France, meanwhile, measures such as a 15-cent cut in fuel prices and support for businesses experiencing difficulties were announced, estimated at 0.7% of GDP. In the US, where inflation had already hit 7% before the conflict irrupted and with a larger portion of this rally driven by core components, the Fed has already raised rates and will continue to do so throughout 2022 (see the Financial Markets section).

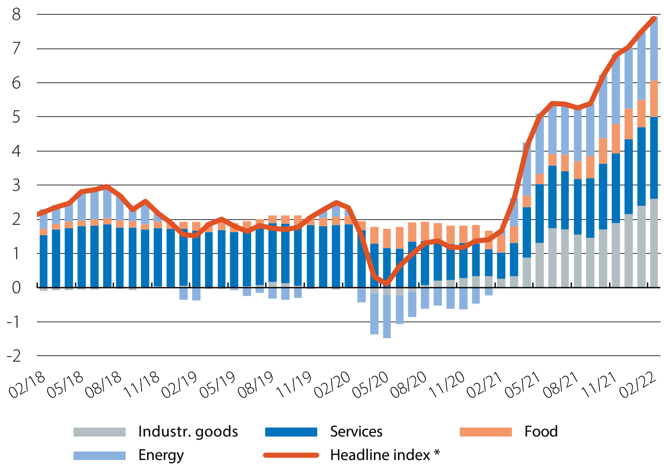
COVID and China: yet another source of risk in the global puzzle. The recent outbreaks of COVID-19 in major production and logistics centres in the country, such as Hong Kong, Shenzhen and Shanghai, once again remind us that the pandemic still poses significant risks to the global economy. We must not forget that China is the heart of the Asian manufacturing chain, and new restrictions in the region could lead to new pressures on already-stressed global supply chains. Also, following a good start to the year, with economic activity indicators exceeding expectations in January and February, the composite PMI fell in March to 48.8 points (*vs.* 51.2 in February), with a drop of more than 3 points in the non-manufacturing PMI. Given the lockdown in Shanghai announced at the end of the month, the Chinese economy is likely to be contracting more than these indicators suggest.

Euro area: contribution to inflation by component
(pps)



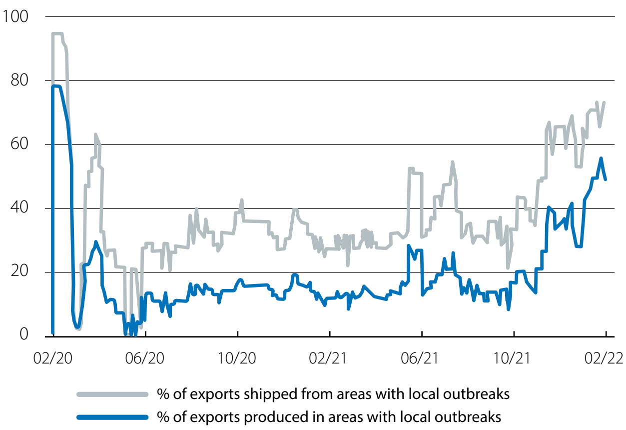
Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from Eurostat.*

US: contribution to inflation by component
(pps)



Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the BLS, via Refinitiv.*

China: exports from areas with local outbreaks
(% of total exports)



Note: *A local outbreak is defined as a minimum of 10 positive cases reported in a city over the past 14 days.*
Source: *Capital Economics.*