

ECONOMY

What will 2022, 2023's GDP Look Like?

THINK STRATEGICALLY:



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As we began 2021, we did so with strong tailwinds following the worst exogenous shock in history. The economy will close with real gross domestic product (GDP) having risen 4.5 percent, or by \$21.48 trillion. As the year progressed, so did the pace of the economic recovery, at the following growth rates:

- March 31: 6.3 percent, or \$22.04 trillion
- June 30: 6.7 percent, or \$22.74 trillion
- Sept. 30: 2 percent, or \$23.17 trillion

As the economy began to normalize from its pandemic lull, so did the growth rate with the outsize increases now behind us. As COVID-19 vaccinations increase worldwide, we also expect more medical treatments to fight the disease, combined with unusually high consumer demand. Meanwhile, the challenging global supply chain disruptions will only be solved when supply outpaces demand or, at the very least, when the supply meets the demand.

While the out-of-stocks, empty shelves and higher prices, and longer shipping times, rising shipping costs and labor shortages are being re-thought and re-worked, we project that for 2022, global GDP will be in the 4 percent to 4.75 percent range, as we see most developed economies will continue growing at a fast pace through the 2nd quarter, and then at a slower pace.

Another concern is the continued deterioration of the Chinese economy—we are likely to see worsening market conditions. We have long suspected

China had a bigger hit from COVID-19 than it was willing to admit. Let's examine the latest numbers of China's real GDP year-over-year:

- Sept. 30: 4.9 percent
- June 30: 7.9 percent
- March 31: 18.3 percent
- Dec. 31: 6.5 percent

China's real GDP of 4.9 percent is its worst in years, and when you add the rising problems of giant Chinese developers Evergrande and Fantasia, you begin to piece together that its economic shape has been impaired.

It would be wise to state that no one was expecting the enormous inflation-led increases spiked primarily by consumers, who are the root of the problem. As we combine the sales increases, manufacturers' strain, shipping costs and labor shortages with unusually high consumer demand, the result is a drastic increase in inflation that translates to the goods we purchase most.

We note that the year-ahead inflation expectation for the United States is at 5.31 percent, compared with 2.98 percent last year, which is much higher than the average 2.93 percent. If consumer demand continues to outpace production, inflation will continue rising. Also, as employers raise wages to address the labor shortage, this too will impact inflation levels, which translates to higher prices for some time to come.

Our projection points to a global GDP of 4.5 percent during 2022 and quite solid numbers for most developed economies. We highlight our 2022 and 2023 projections below.

Real GDP Growth Outlook: 2022-2023

- World 4.50 percent; 3.00 percent

- United States 4.00; percent 2.40 percent
- European Union 4.30; percent 2.10 percent
- Germany 4.30 percent; 2.00 percent
- France 4.00 percent; 2.20 percent
- Italy 4.30 percent; 1.90 percent
- Spain 5.80 percent; 3.10 percent
- Japan 2.60 percent; 1.30 percent
- United Kingdom 5.00 percent; 2.00 percent
- Canada 4.00 percent; 2.40 percent
- China 5.50 percent; 5.40 percent
- India 7.80 percent; 6.50 percent
- Brazil 1.80 percent; 2.30 percent
- Russia 2.50 percent; 2.10 percent
- Puerto Rico 2.00 percent; 1.10 percent

In closing, as the whole world and policymakers focus on economic growth to break the COVID-19 financial meltdown, we will see creative ideas surface and allow economies to prosper again; the world sorely needs to distribute more wealth and less poverty.

Week in Markets: Rotation, Build Back Better, Bullish Investor Sentiment Prevail

As the markets go into the Thanksgiving holiday, the four primary stock market indices we follow have accrued double-digit growth so far in 2021. Their year-to-date (YTD) performance follows:

- Dow Jones: 16.32 percent
- S&P 500: 25.08 percent.
- Nasdaq Composite: 24.59 percent
- Birling Capital Puerto Rico Stock Index: 46.15 percent

This year has been solid for investors, and we think most have taken advantage of the stock rotations that have engulfed the markets. YTD returns are above 23 percent; except for the Dow,

the market has all the traits of a strong bull market.

We have seen dramatic initial public offerings, strong corporate earnings, outsize performance from the tech stocks with a healthy dose of solid gains.

Some experts have compared this market to the '90s dot-com bubble. While we disagree with the comparison, it is worth noting that there have been instances of insane speculation that defy conventional wisdom such as the case with AMC, GameStop and cryptocurrencies that have risen.

To highlight this, allow me to compare the numbers of Rivian Automotive's (RIVN) recent IPO, to those of Ford (F).

– **Rivian Automotive (RIVN)** has not made a single sale; it has 55,000 customer orders and a pledge from Amazon to purchase 100,000 vehicles. The stock closed at \$128.60, up \$50.60 since the \$78 IPO, and a market capitalization of \$114.61 billion.

– **Ford Motor Co. (F)** has YTD revenue of \$98.7 billion, net income of \$5.65 billion, and has sold more than 1.6 million cars. Its stock closed at \$19.39, just below its 52-week high of \$20.51, with a market capitalization of \$77.49 billion.

I think it is pretty impossible to justify a valuation higher than Ford's, or most large automakers'. While we are not suggesting the Rivian will not be a worthy opponent to Ford and all automakers, the stock's euphoric rise has all the underpinnings of a bubble. Its stock is rising on the promise of becoming an actual manufacturer with production and actual sales one day.

While we do not think similarly speculative stocks pose a threat, they will change sentiment and volatility if the promise is not realized.

Meanwhile, the House of Representatives passed the \$1.75 trillion Build Back Better bill, sending the president's ambitious spending plan to the Senate. We think it will undergo painful surgery, and passing it will not be easy; the best hope is it is voted on in December and is approved before the year's end. This bill would add billions of dollars in Medicaid for Puerto Rico—north of \$3.6 billion if it becomes law. It also included the Supplemental Security

Income increases to Pell Grants, public housing and other significant grants.

Wall Street Monthly Review for November 19, 2021,

- The Dow Jones Industrial Average closed at 35,601.98, down 498.33 points, or 1.38 percent, for a YTD return of 16.32 percent
- The Standard & Poor's 500 closed at 4,697.96, up 15.11 points, or 0.32 percent, for a YTD return of 25.08 percent
- The Nasdaq Composite Index closed at 16,057.44, up 196.48 points, or 1.24 percent, for a YTD return of 24.59 percent
- The Birling Capital Puerto Rico Stock Index closed at 2,988.72, down 26.07 points, or 0.86 percent, for a YTD return of 46.15 percent
- The U.S. Treasury 10-year note closed at 1.54 percent.
- The U.S. Treasury 2-year note closed at 0.52 percent.

The Final Word: Austria in Full COVID Lockdown

Amid rising COVID-19 cases in the United States and Europe, Austria, which at 64 percent has one of the lowest vaccination rates in Western Europe, had announced a lockdown for all the unvaccinated. It then declared a national lockdown starting Monday after an 16.88 percent case increase over 14 days. In the rest of Europe, the worst-case increases include Germany, at 10.85 percent; Russia, 5.72 percent; and the United Kingdom, at 5.23 percent.

Meanwhile, the U.S. case rise is 2.31 percent, and in Puerto Rico, it is 1.03 percent.

—Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.

Weekly Market Close Comparison	11/19/21	11/12/21	Return	YTD
Dow Jones Industrial Average	36,601.98	36,100.31	-1.38%	16.32%
Standard & Poor's 500	4,697.96	4,682.85	0.32%	25.08%
Nasdaq Composite	16,057.44	15,860.96	1.24%	24.59%
Birling Puerto Rico Stock Index	2,988.72	3,014.79	-0.86%	46.15%
U.S. Treasury 10-Year Note	1.54%	1.58%	-2.53%	0.71%
U.S. Treasury 2-Year Note	0.52%	0.53%	-1.89%	0.70%