



# **“Thoughts on the Economy”**

**Tennessee Tombigbee  
Waterway Development  
Authority  
August 11, 2022**



# **My High School Reunion**

## Marriage Wisdom

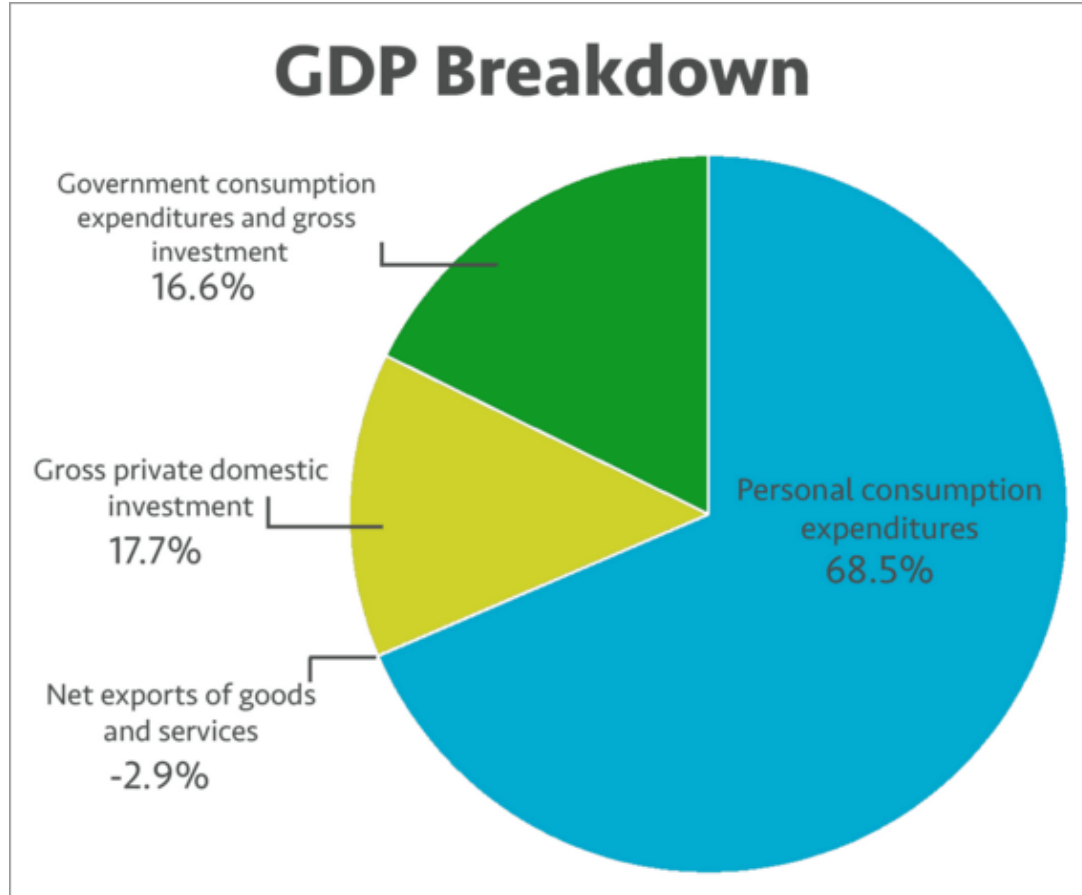
**Marry a short gal and keep  
your guns on the top shelf**



**She still might get ya, but  
you'll hear her dragging the  
chair across the floor**

# The National Economy:

# Components for RGDP

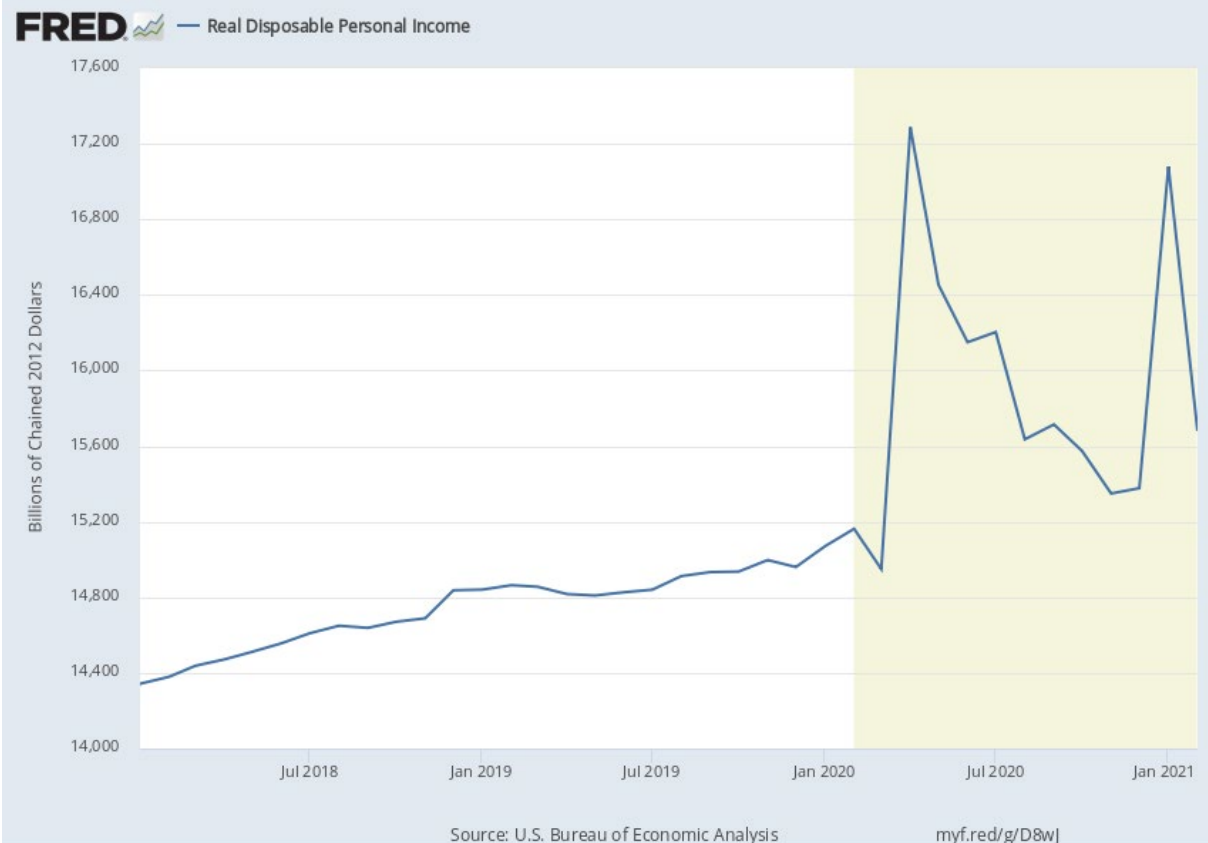


# RGDP Actual 2020

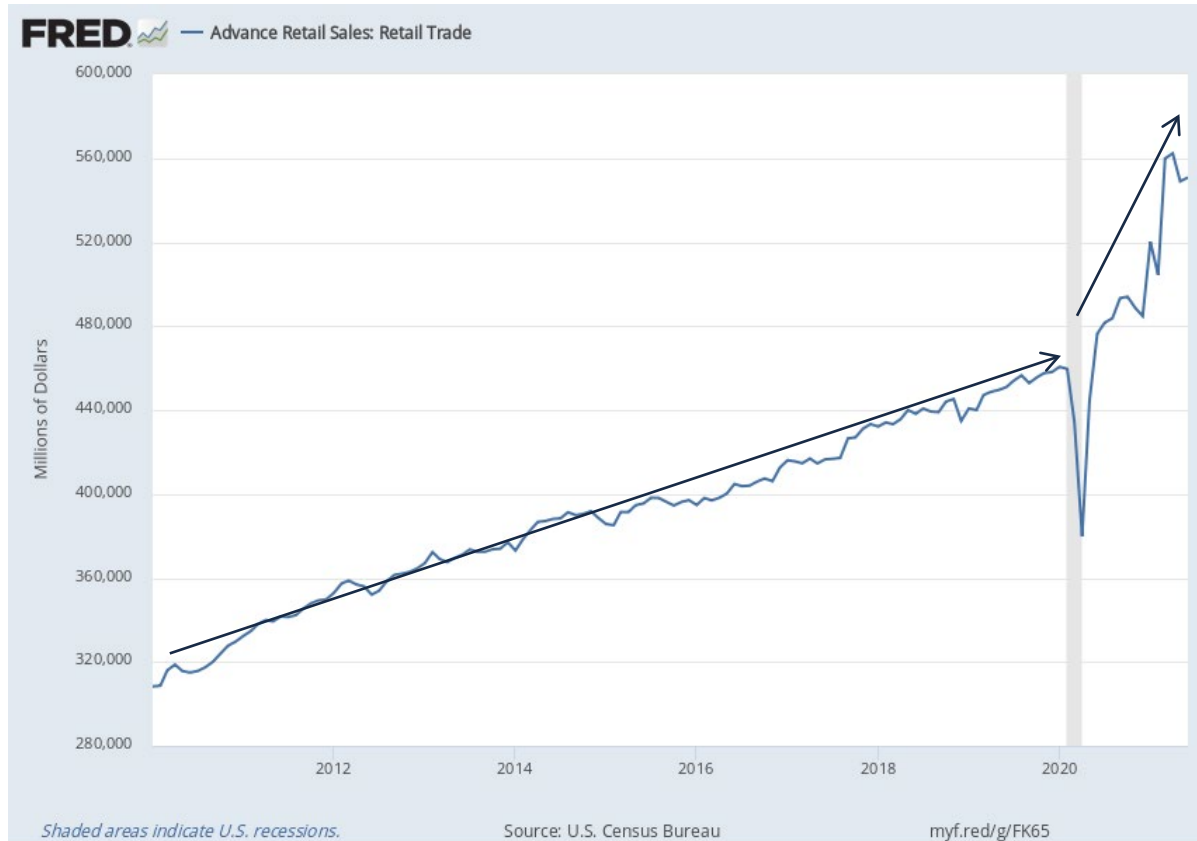
<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
20-I	-5.0%	-5.0%
20-II	-31.7%	-31.7%
20-III	33.4%	33.4%
20-IV	4.3%	4.3%
21-I	6.4%	6.4%

- First recession in modern history where people did not de-leverage

# Demand Side: Personal Income Bump Stimulus Checks, Child Tax Credit



# Consumption Spending Indicator:

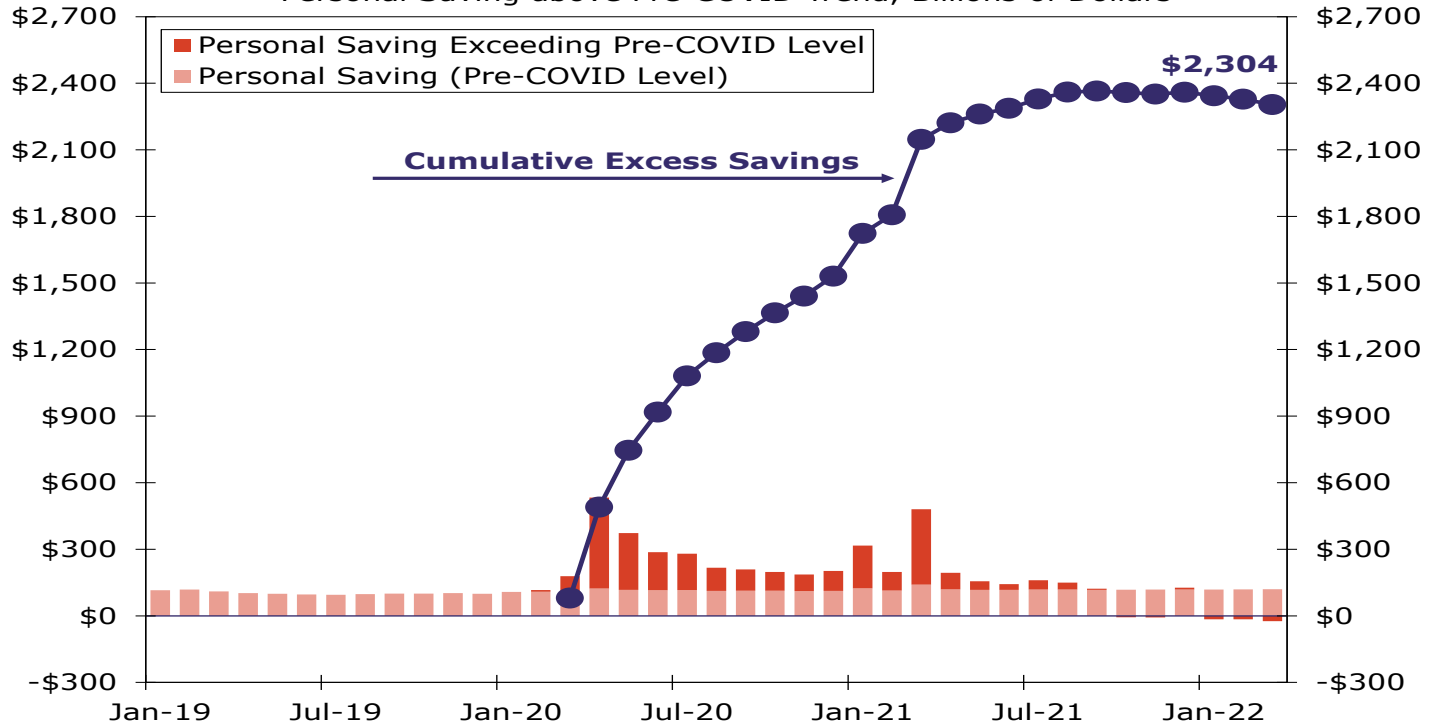




**But they did not  
spend it all!**

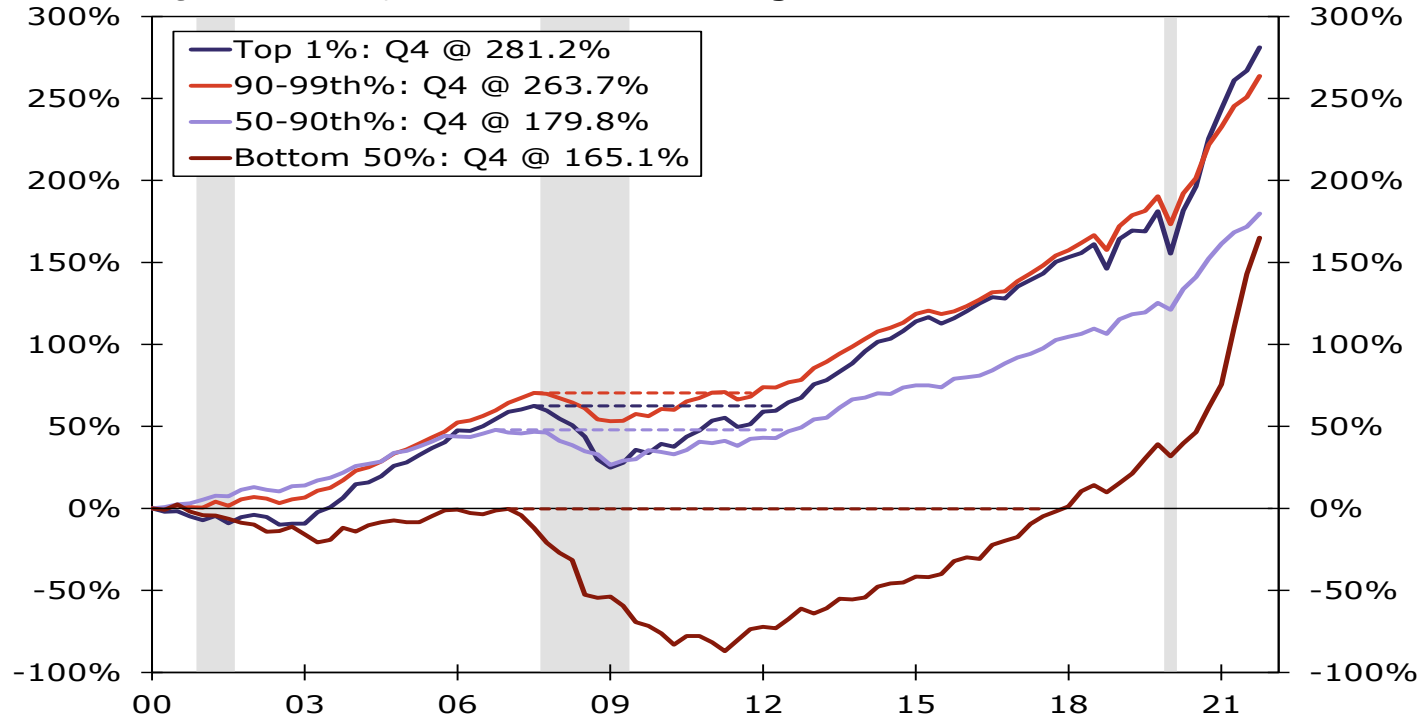
# "Excess" Household Savings

Personal Saving above Pre-COVID Trend, Billions of Dollars



## Net Worth by Wealth Percentile

Q1-2000=0%, Dashed Lines=Reaching Pre-2008-09 Recession Peak



# RGDP Actual

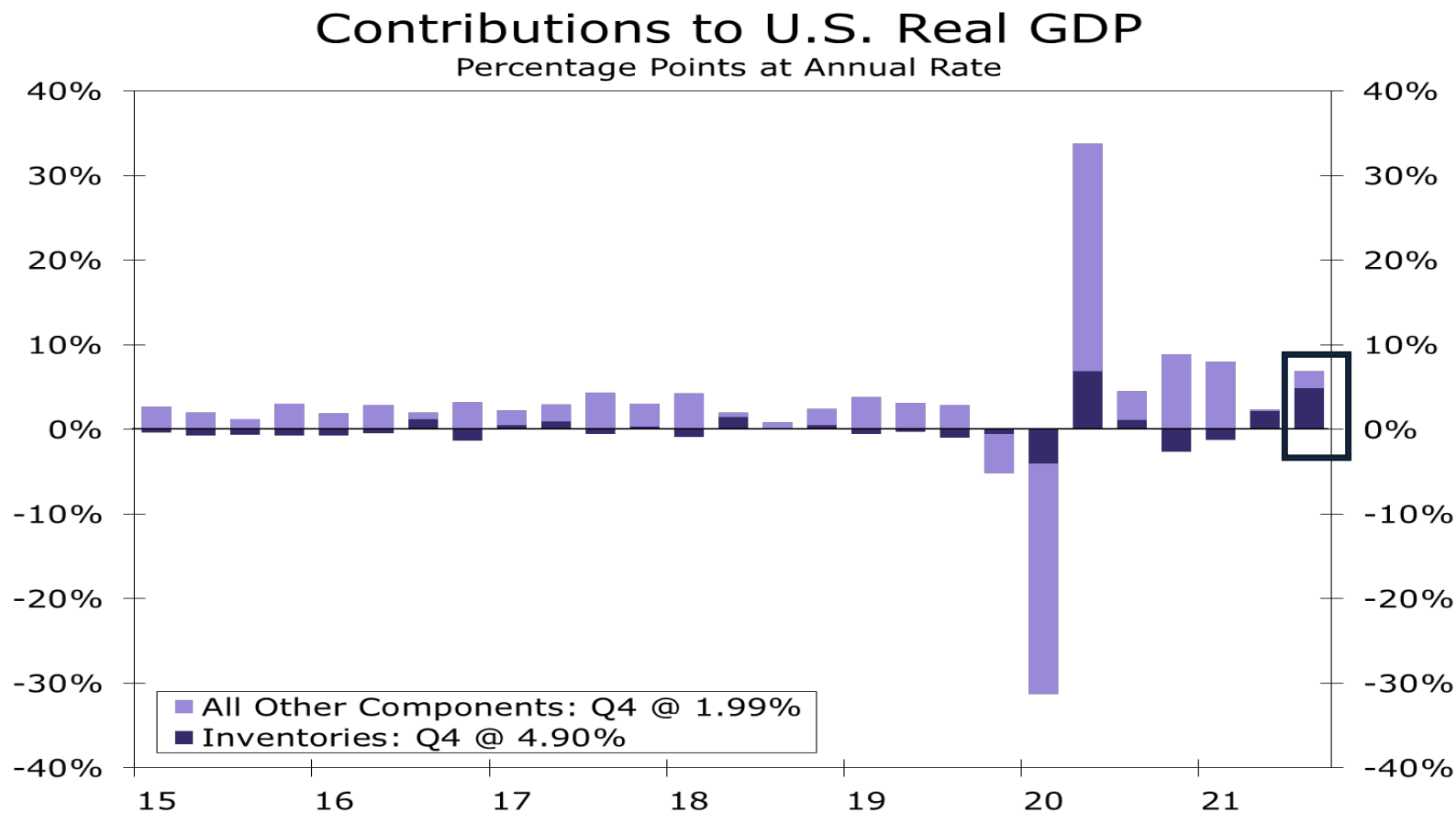
<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
<b>21-I</b>	<b>6.4%</b>	<b>6.4%</b>
<b>21-II</b>	<b>6.7%</b>	<b>6.7%</b>
<b>21-III</b>	<b>2.3%</b>	<b>2.3%</b>
<b>21-IV</b>	<b>6.9%*</b>	<b>6.9%*</b>

## **The Weird Event:**

**Fear of supply chain issues led  
to build up in inventories**

**November & December retail  
sales way below expectations**

**Result: Largest inventory  
buildup in history**

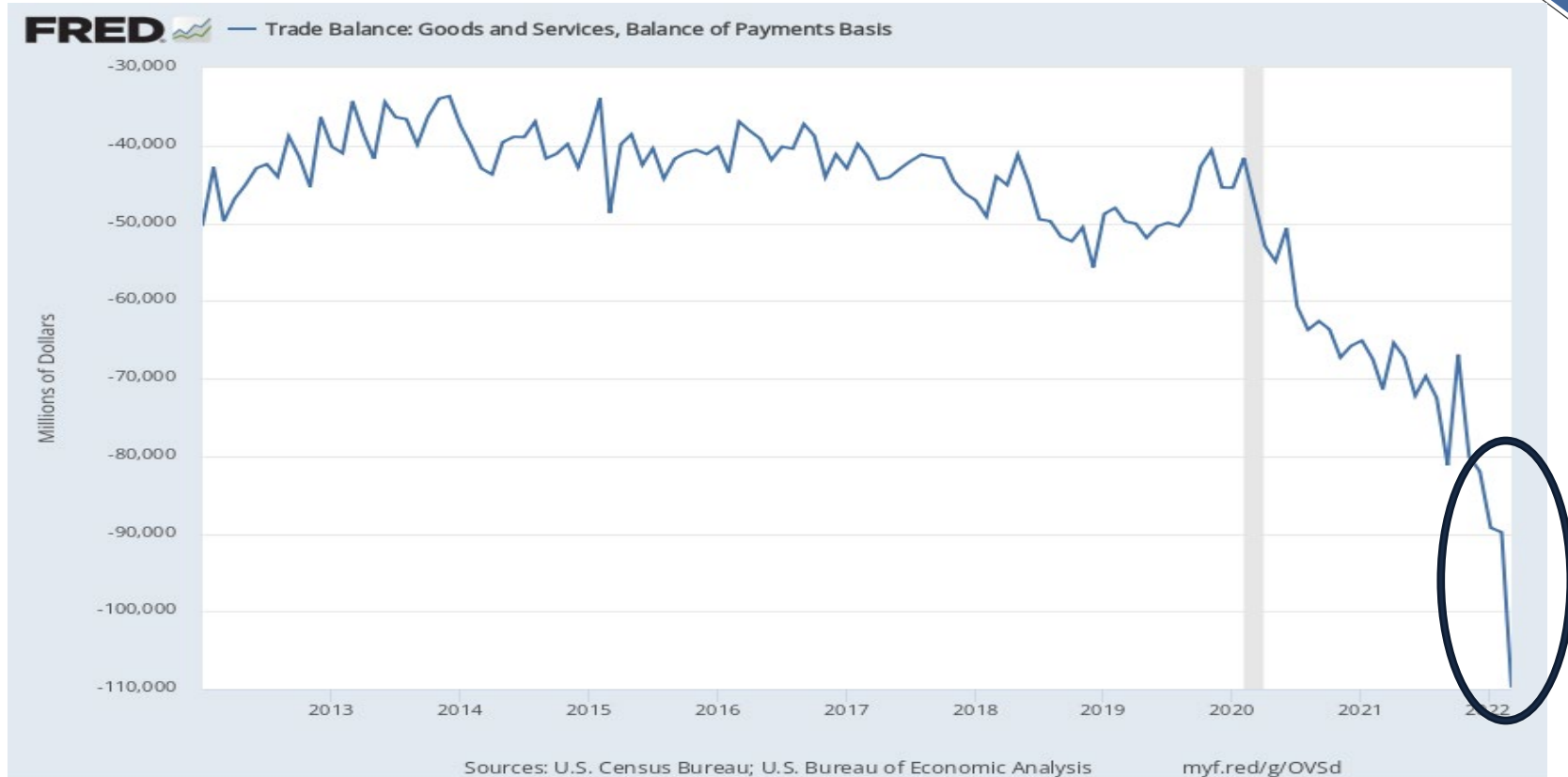


# Was This 1<sup>st</sup> Sign of Recession?

<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
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<b>21-IV</b>	<b>6.9%*</b>	<b>6.9%*</b>
<b>22-I</b>	<b>-1.6%*</b>	<b>-1.6%*</b>



# US Recovers Faster Than Trading Partners (Trend Reversed in April)





**In the Background:**  
**PCE still rolling**  
**But going to run out of the**  
**savings pool**

# RGDP Forecasts(7/22)

<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
<b>21-I</b>	<b>6.4%</b>	<b>6.4%</b>
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<b>22-I</b>	<b>-1.6%*</b>	<b>-1.6%*</b>
<b>22-II</b>	<b>-0.9%</b>	<b>-0.9%</b>

- **2 Quarters down = recession?**
- **Weak inventories = -2 percentage points**
- **Do not think NBER will call this a recession**

# RGDP Forecasts(7/22)

<u>Quarter</u>	<u>Wells Fargo</u>	<u>Consensus</u>
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<b>22-II</b>	<b>-0.9%</b>	<b>-0.9%</b>
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<b>22-III</b>	<b>1.6%</b>	<b>1.7%</b>
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<b>22-IV</b>	<b>0.7%</b>	<b>1.2%</b>
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<b>23-I</b>	<b>-0.8%</b>	<b>0.8%</b>
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<b>23-II</b>	<b>-2.3%</b>	<b>0.8%</b>
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<b>23-III</b>	<b>-1.4%</b>	<b>1.1%</b>
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<b>23-IV</b>	<b>2.8%</b>	<b>1.7%</b>
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## Recreational Wisdom

- You do not need a parachute to skydive.
- You need a parachute to skydive twice

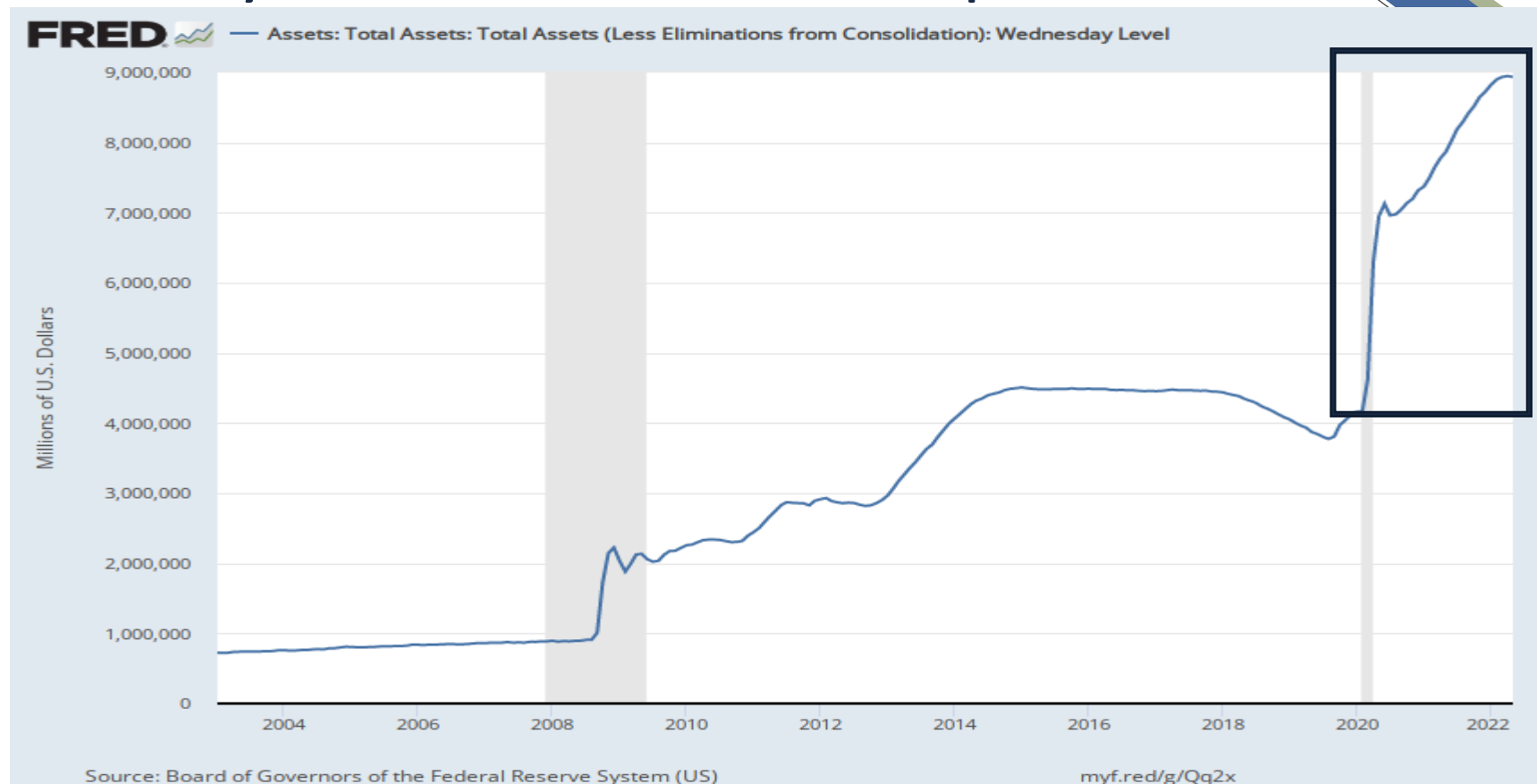
**Plus Problem: CPI +9.1%**  
**Worst in 40 years**  
**Now the Fed suddenly**  
**looms large**  
**Must Act Aggressively**

## 2 Key Reasons for Slower Growth

- **1. Monetary Policy: Anti-inflation measures**
  - **OMO: From adding to balance sheet to subtracting**



# Why 9.1% Inflation? Balance Sheet Up 4.5X!



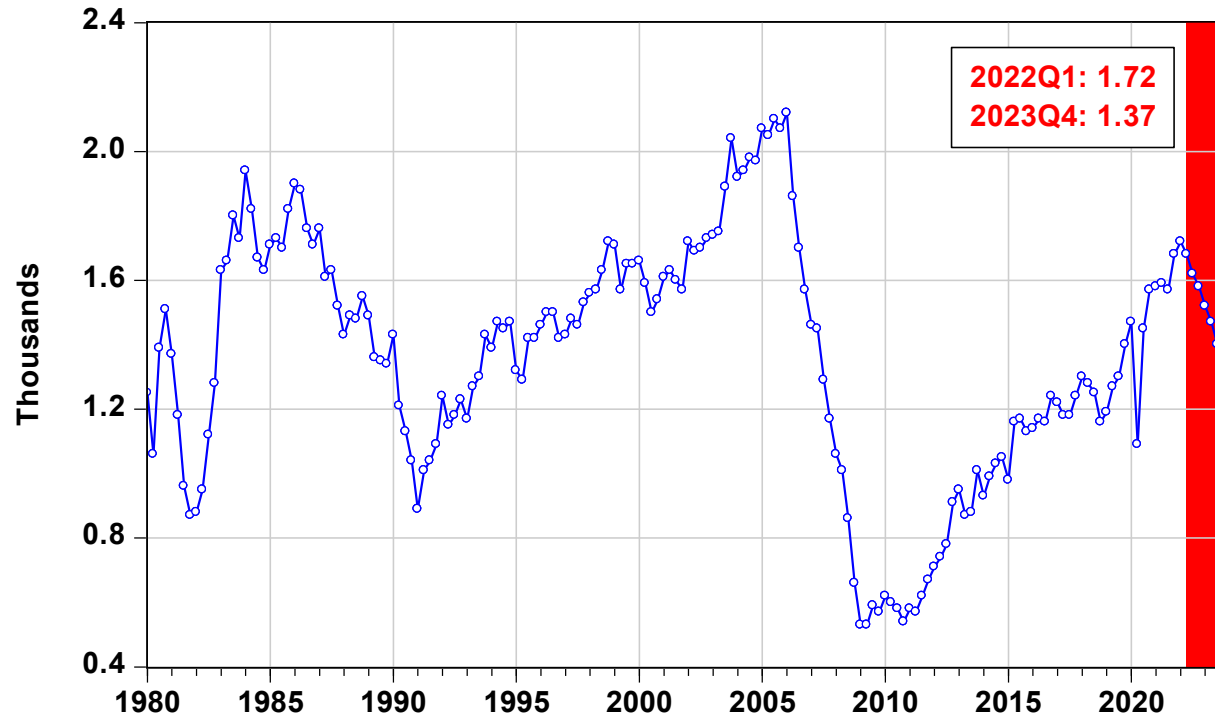
## 2 Key Reasons for Slower Growth

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  - **Interest rate increases**
    - 75 basis point increases in June (largest since 1994)
    - +75 basis point increase at July 27<sup>th</sup> meeting
    - +200 basis point increases by end of next year
    - Cool off interest-rate sensitive spending (housing)?



# Works Way Through Furniture & Appliances

## Housing Starts



Source: FRED & Wells Fargo

# 2 Key Reasons for Slower Growth

## 2. Fiscal Policy

1. No more stimulus checks
2. \$300 UI supplement gone
3. Temporary Child Tax Credit gone
  1. \$300 per child under 6 years old
  2. \$250 per child 6-17 years old

## Marriage Wisdom

**HUSBAND:**

I want you to have this bracelet. It belonged to my Grandmother.

**WIFE:**

Why does it say,  
"Do not resuscitate?"

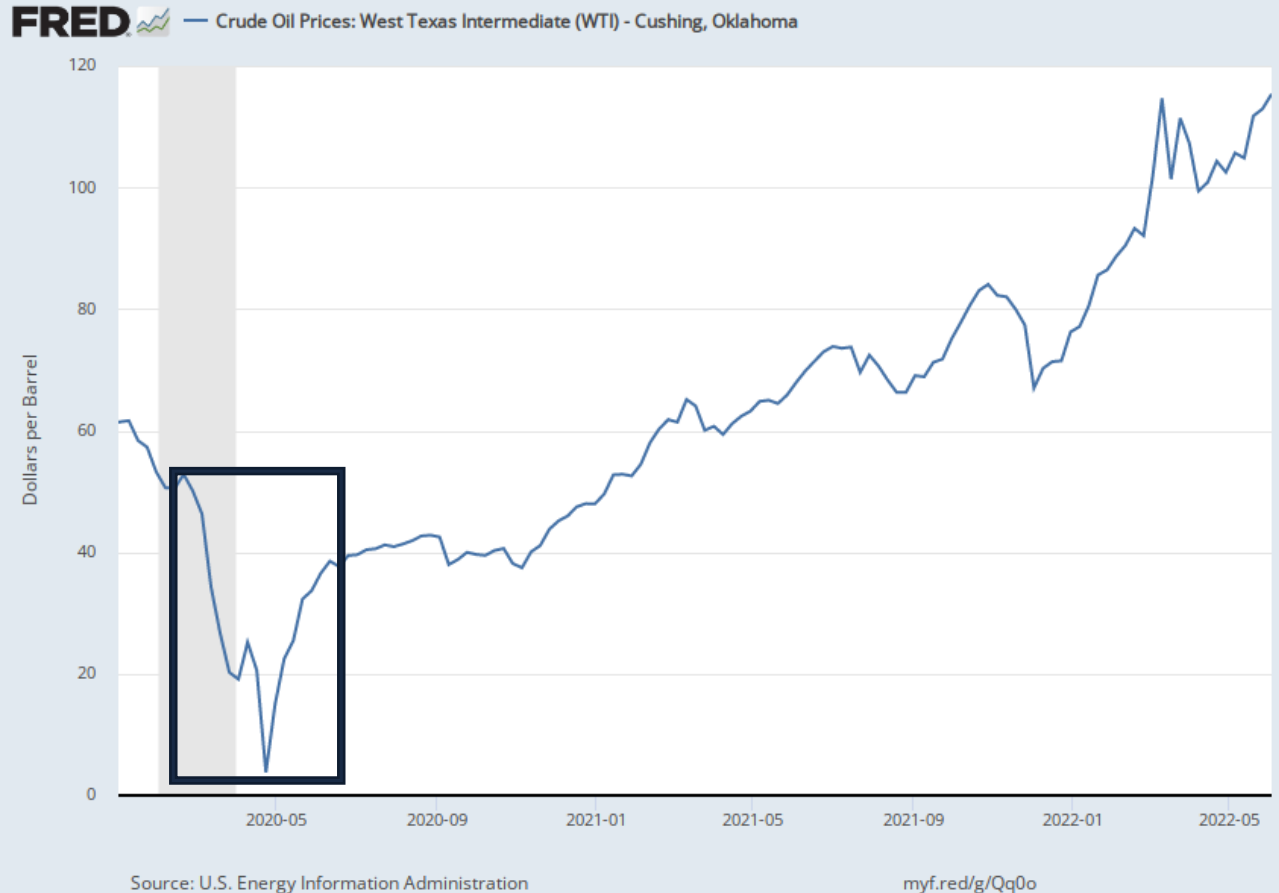
# **Oil Prices**

## **Demand Side Down – Recession**

## **The Supply Side:**

## **Egad!!!**

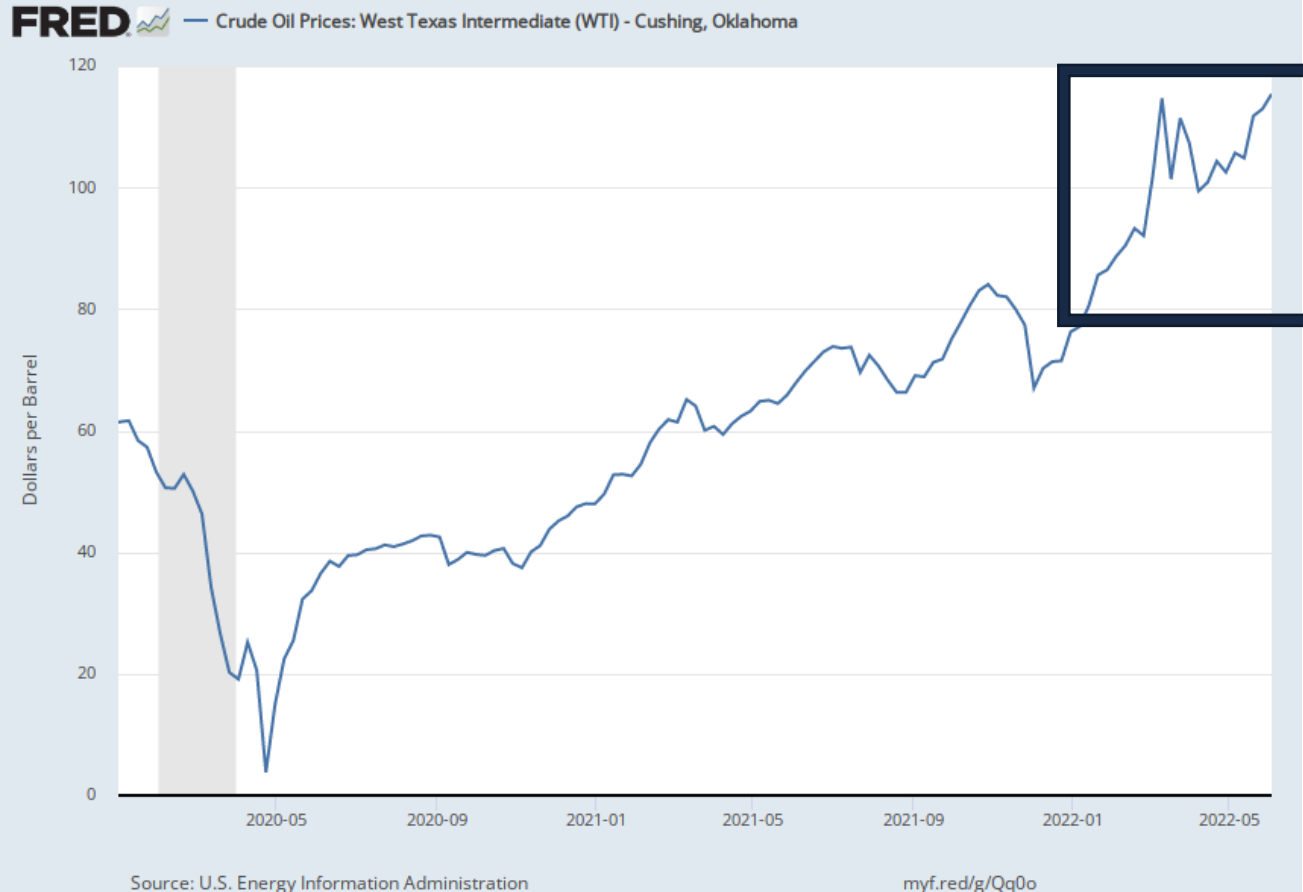
# Recent Trends: Recovery From Initial Decline



# Why the Recent Uptick?

- Initially Driven by Supply Side: OPEC
- OPEC+ Alliance actions
  - 9.7 mmb/d in cuts in May & June 2020
  - 5/11/20: Saudis, UAE & Kuwait announced they will cut another 1.2 mmb/d in addition to the above.
- When price started rising...
  - 12/20: decided to add 500K in January, then meet monthly on subsequent moves.
  - By early July 2021: Restored almost 4 mmb/d of cuts; about 5.8 mmb/d left;
  - July 18th agreement adding 432,000 b/d each month through September 2022 to fully restore remaining 5.8 mmb/d in cuts.
    - As of August 2<sup>nd</sup>, still 3 mmb/d short of pre-COVID

# Recent Trends: Note War Impact



# Russia-Ukraine War Impact

- Russia Produced about 10% of global oil production
- By May 2022, **1.4 mmb/d Russian oil off the market**---about 1.5% of global output
  - US & UK embargoes
  - EU has cut 15% (deep dependence hampers total cut)



# Russian Oil Pipelines to EU



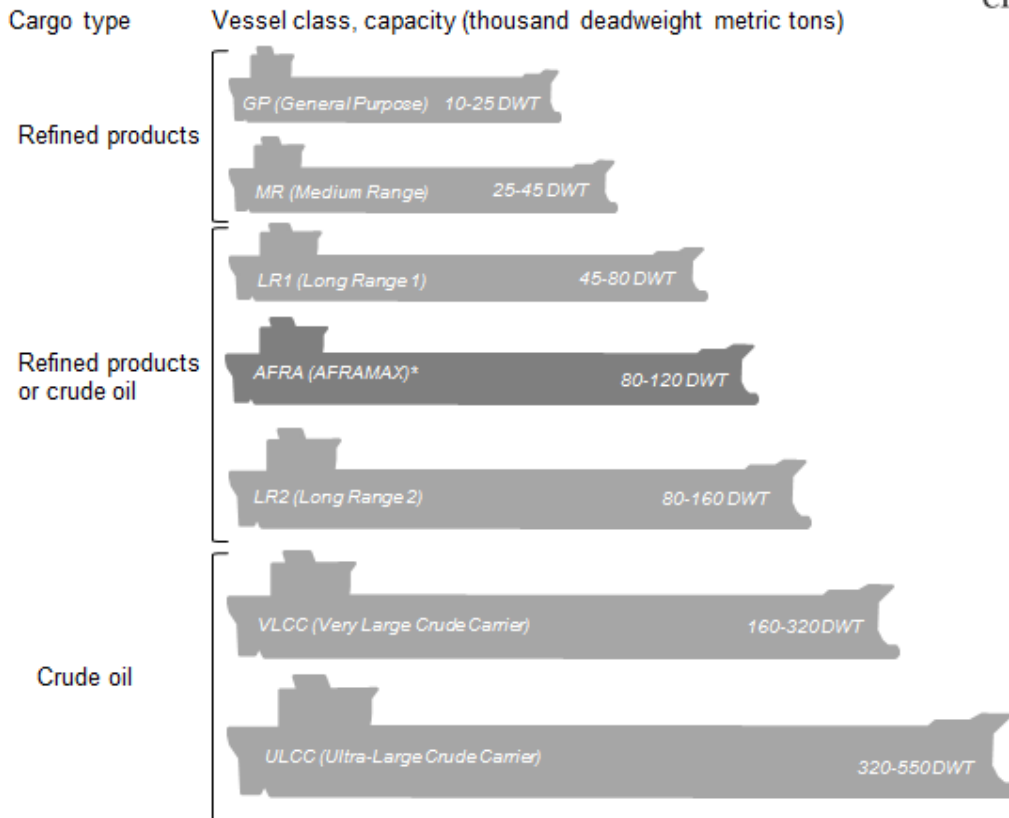
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  - US & UK embargoes
  - EU has cut 15% (deep dependence hampers total cut)
  - Decline in Russia domestic demand
  - India (+730,000 b/d) & Turkey (+180,000 b/d) have stepped up purchases to partly offset, as has China
- When EU ---biggest destination for Russian oil---fully embargoes Russian oil---loss rises to **3 mmb/d**, Russia's lowest level in 2 decades
- Remember: demand for oil very inelastic

# 3,700 Crude Carriers

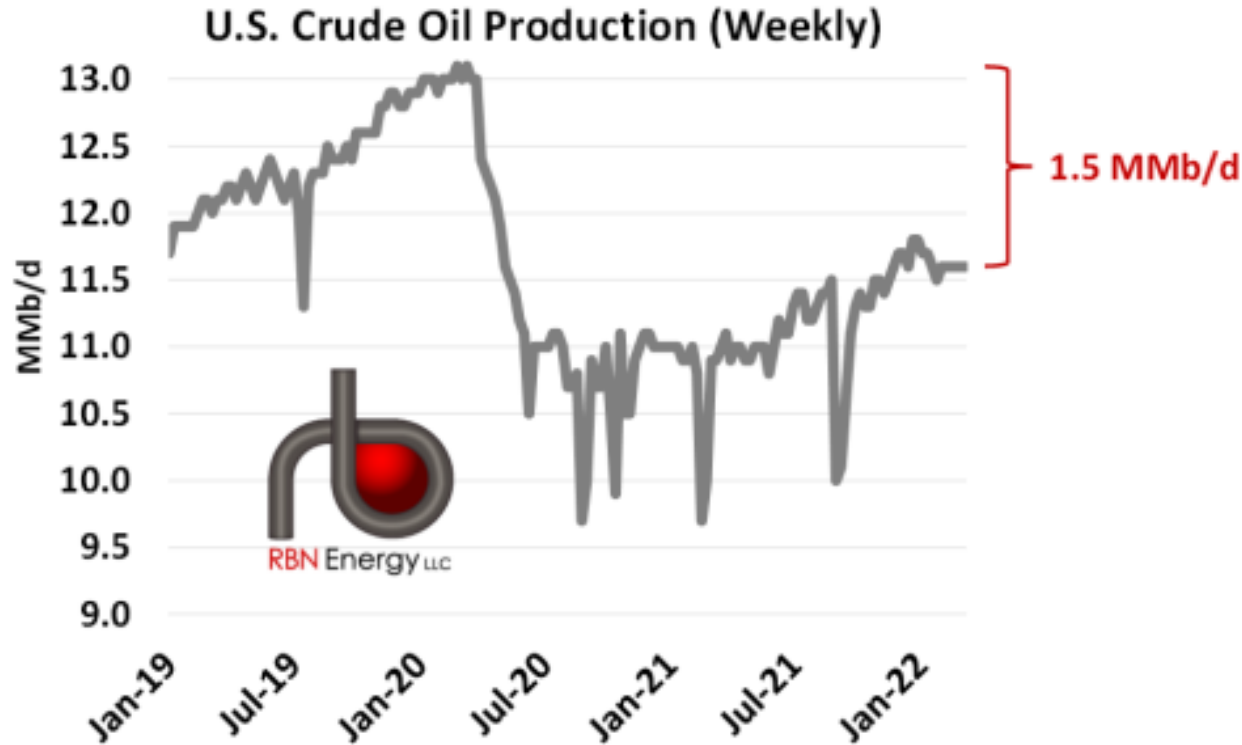
## Impact of \$40 Discount of Urals to Brent

### Average Freight Rate Assessment (AFRA) Scale - Fixed

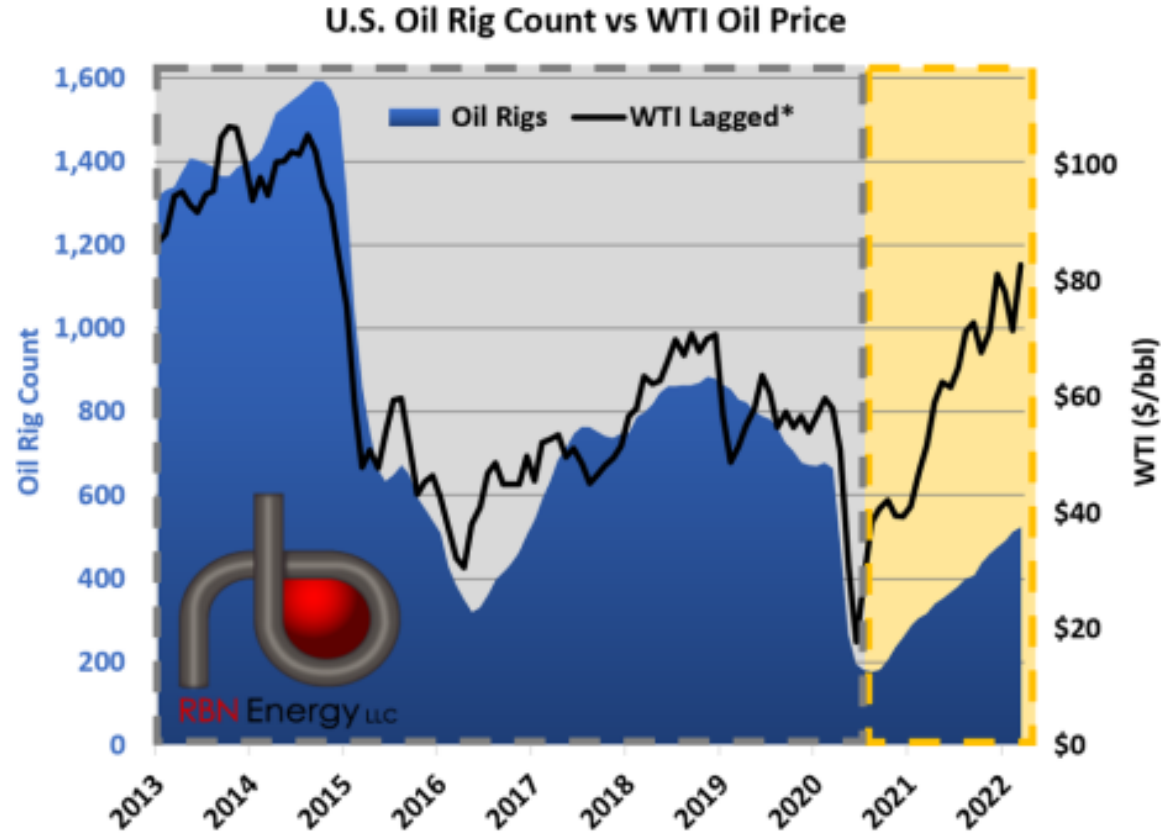


## Meanwhile: US Production

# OPEC Adding 432,000/d Each Month to September; But in the Meanwhile Back in the US....



# Correlation Broken: Rig Count to WTI



# #1: Choking Off of Capital to E&P

- **Publically-held**: heavily influenced by **ESG-minded institutional investors**---pension funds, mutual funds, university endowments—wanting greener investments & less fossil fuels
- Major Banks implementing aggressive ESG mandates
- Smaller **privately-held** E&Ps much harder to raise capital
- Moving from strategy of growth stocks to yield equities; slashing capex and prioritizing free cash flow generation to boost shareholder returns
- Continental Resources & Matador Resources stock hammered when indicated capex increase

## #2: Biden Anti-Fossil Fuels Agenda

- Stopped XL Pipeline
- Moratorium on lease sales on public land and waters
- Lease sale held last November---nullified by federal judge
- End of latest 5-Year leasing plan 6/30/22; No new offshore plan offered yet; Steps:
  - Draft proposed rule
  - Proposed rule
  - Final rule
  - There are two more steps before a new plan can be released. API official says **unlikely to have new lease sale in GOM before end of 2023.**



## #2: Biden Anti-Fossil Fuels Agenda

- **Under Proposed Inflation Reduction Act Plan:**
  - Forces DOI to do lease sales and reinstate last November sale
  - Levies 16.4 cents a gallon tax on imported crude oil and refined products (revival of Superfund tax); index fee to inflation
  - Methane fee on oil & gas produced on public lands
  - Increases royalty fee from 12.5% to 18.5%; latest plan reduces # of acres available
- **An unelected official with the EPA says may soon issue ruling that Permian Basin (43% of U.S. oil production) is in “non-attainment” status under agency’s ozone regulations; direct governmental assault on country’s most active & productive oil & natural gas region**

**These policies remind  
me...That awkward moment  
when a Zombie is looking for  
brains....**

**...and walks right on by  
these people.**

## Will Rogers Wisdom

- There are 3 kinds of people
  - 1. The ones that learn by reading
  - 2. The few who learn by observation
  - 3. The rest of them have to pee on the electric fence for themselves.

# Latest OPEC+ Decision

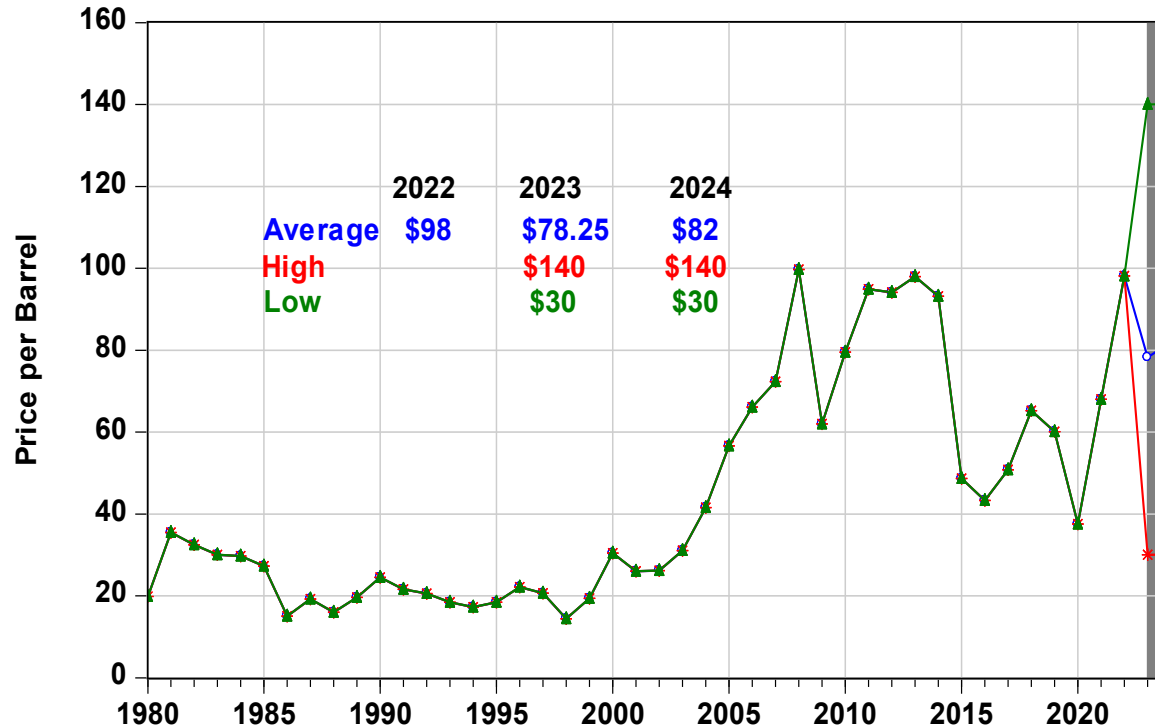
- 6/2/22: Agreed to bump addition to 648,000 additional b/d in July & August;
- will Saudis make up for any shortfalls from Russia?
- September: +100,000 b/d

## “Market” Speaks on Oil Prices

- What does “the market” say about the future of oil price movements? (8/2/2022)
  - 9/22: \$ 94.42
  - 10/22: \$ 93.22
  - 11/22: \$ 92.29
  - 12/22: \$ 91.33
  - 6/23: \$ 86.24
  - 12/23: \$ 82.65
- Resolution of war in Ukraine?
- Recession (worldwide) reduces demand

# Scientific Statistical Issue

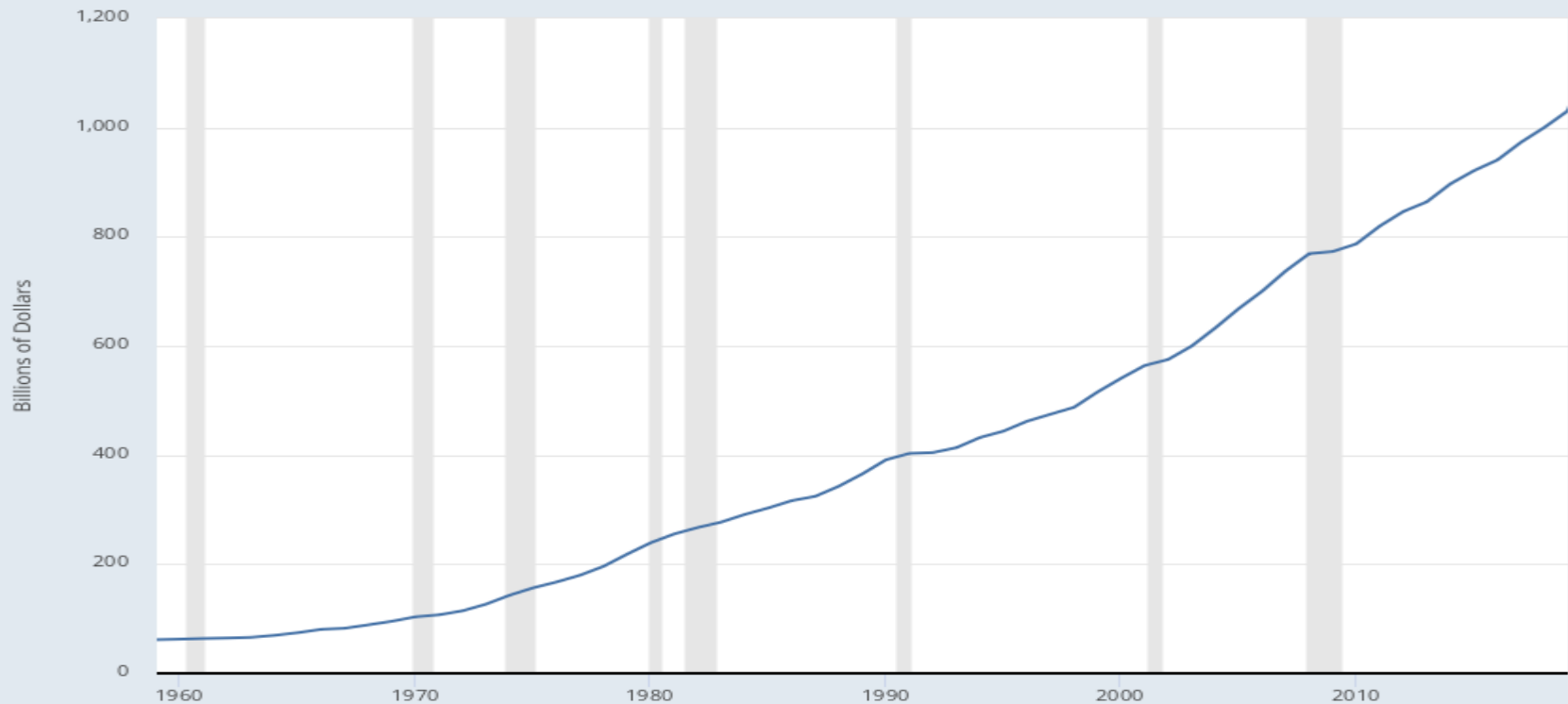
## Oil Price Forecasts





**FRED** 

— Personal consumption expenditures: Food



*Shaded areas indicate U.S. recessions.*

Source: U.S. Bureau of Economic Analysis

[myf.fred/g/OTp8](https://myf.fred.stlouisfed.org/g/OTp8)

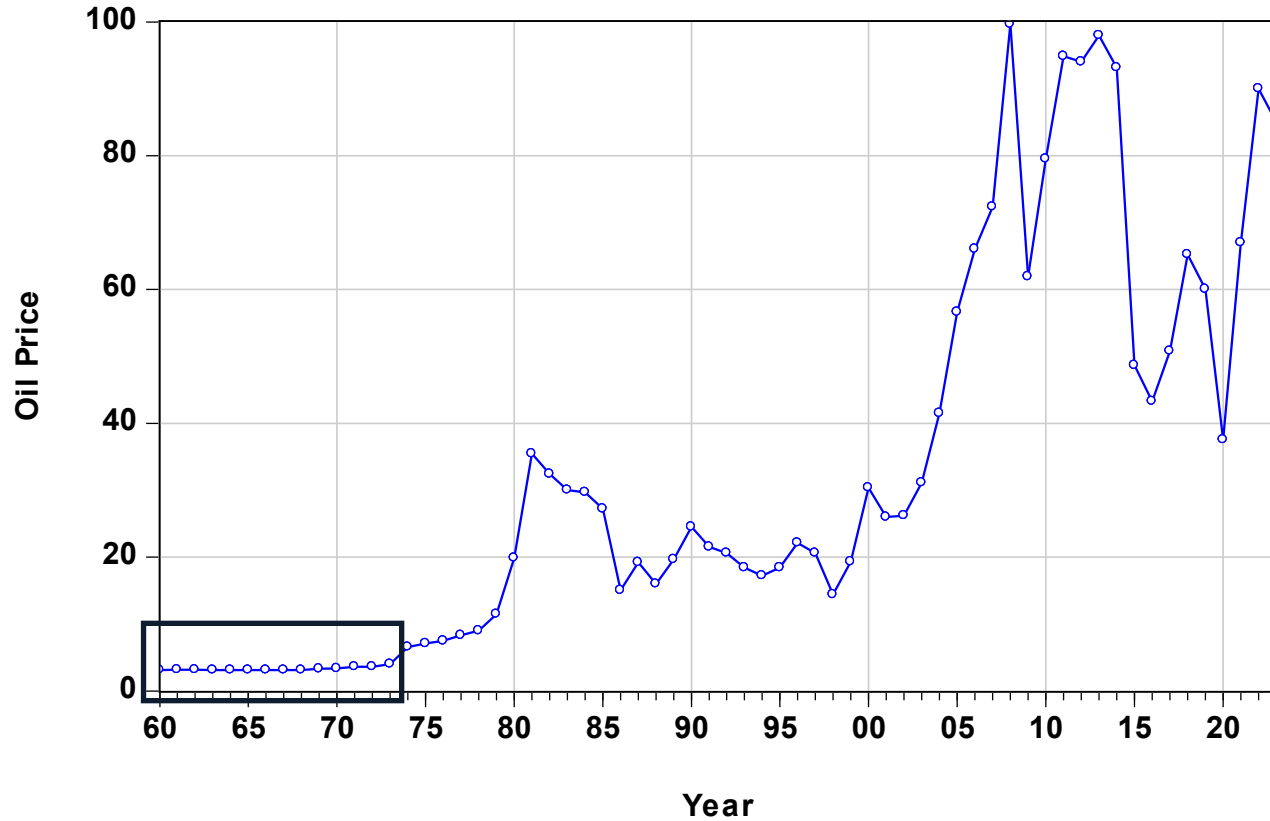


**"I asked my new assistant to get  
me a sheet of graph paper."**



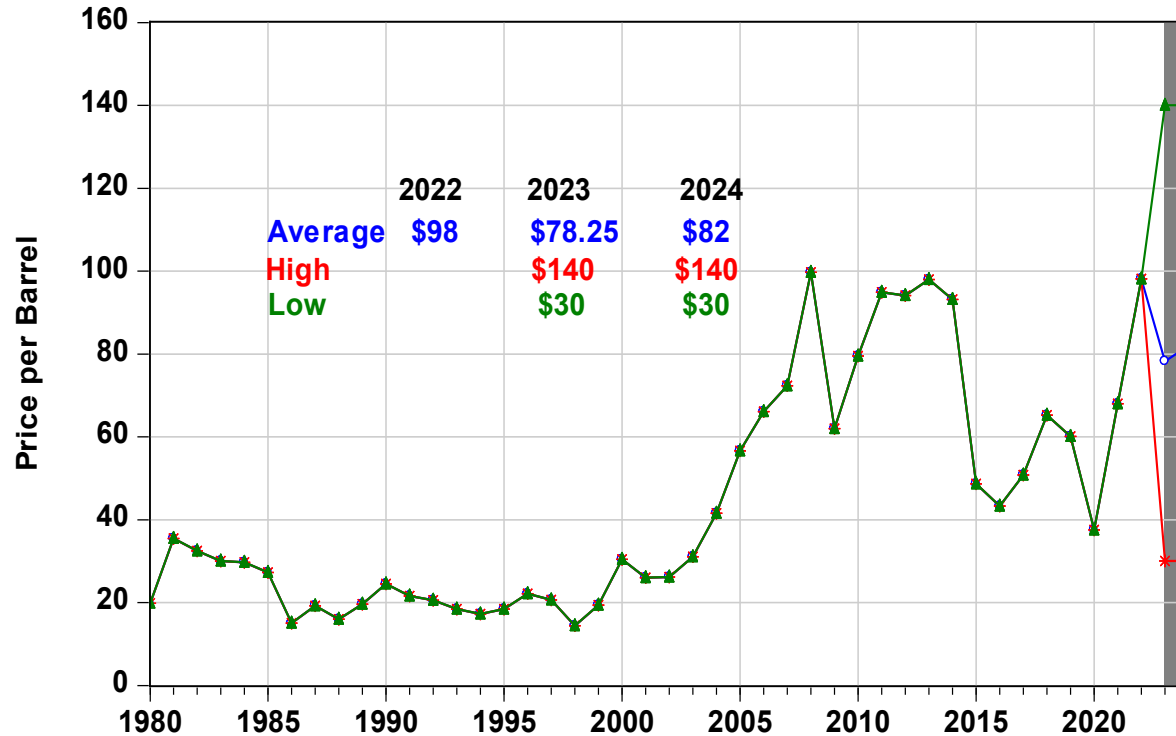
# Used to Be Easiest Thing to Forecast

## Historical Price of Oil

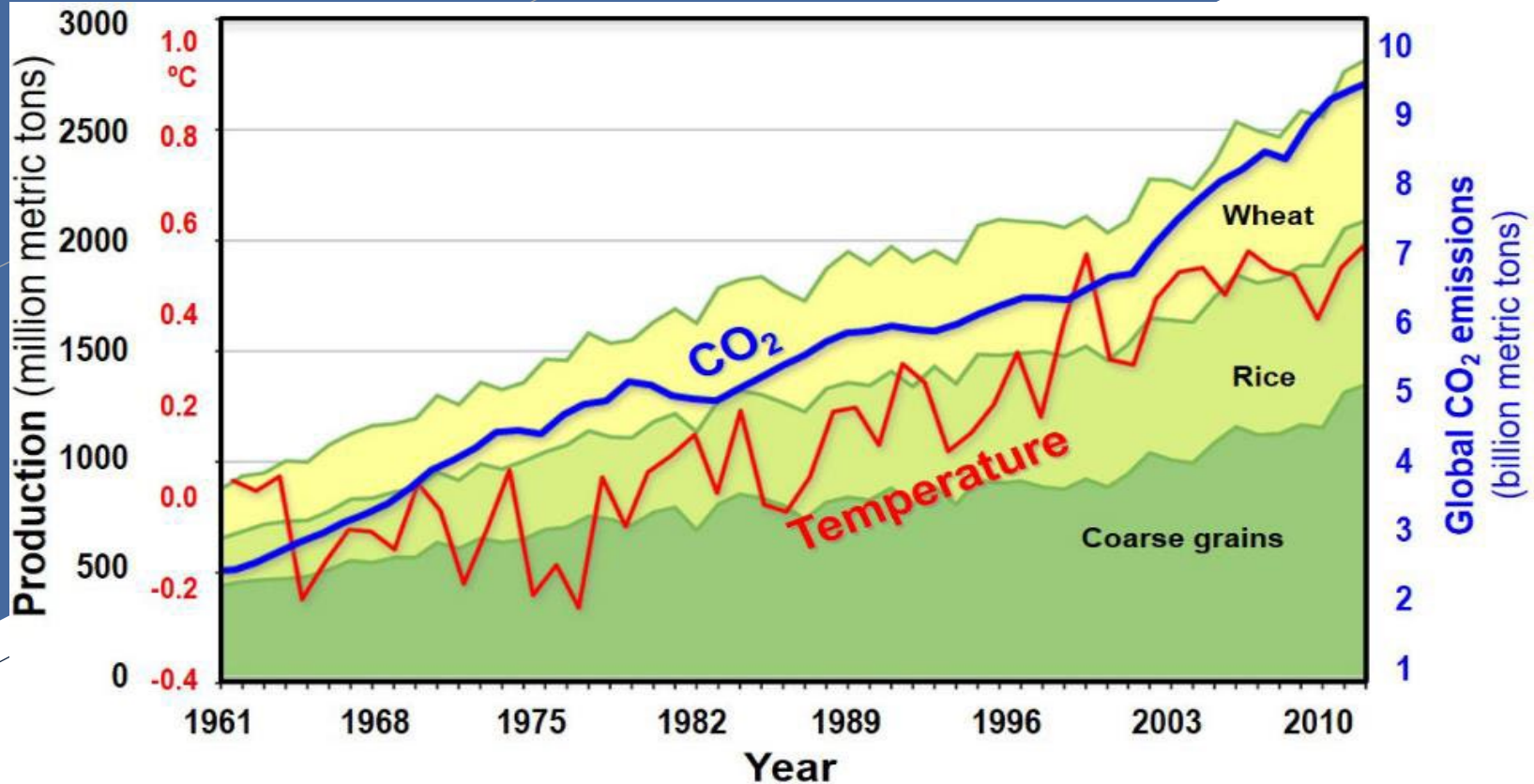


# Scientific Statistical Issue

## Oil Price Forecasts

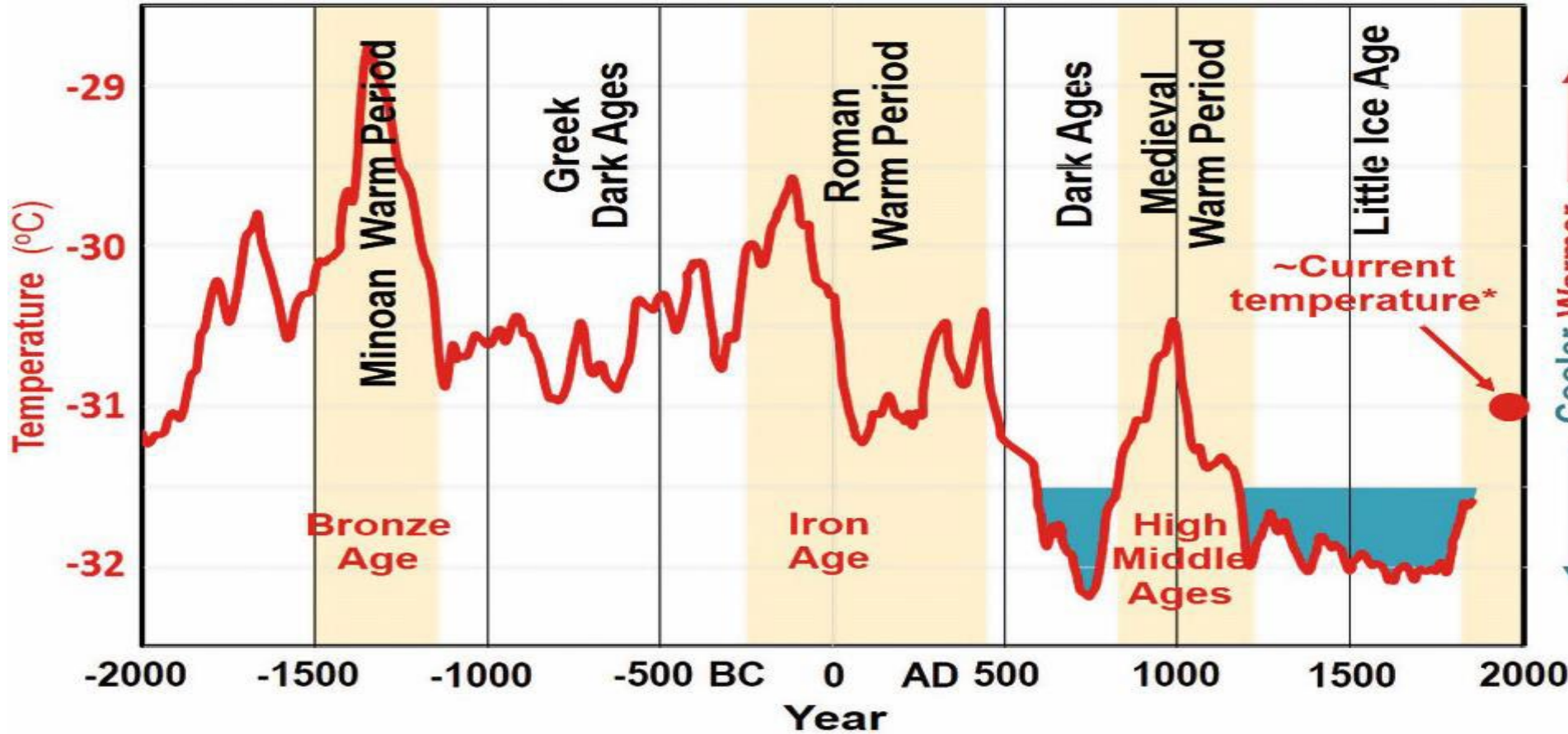


# Food/grain production excels



# Daniel Fahrenheit: 1<sup>st</sup> reliable measure 1714

## Proxies: Bore Holes in Greenland; Tree Rings



# Dietary Wisdom

**Did you know?**

**By replacing your potato chips  
with grapefruit as a snack  
you can lose up to 90%  
of what little joy you still  
have left in your life.**



© DEPOSITPHOTOS  
© BRIGHTSIDE

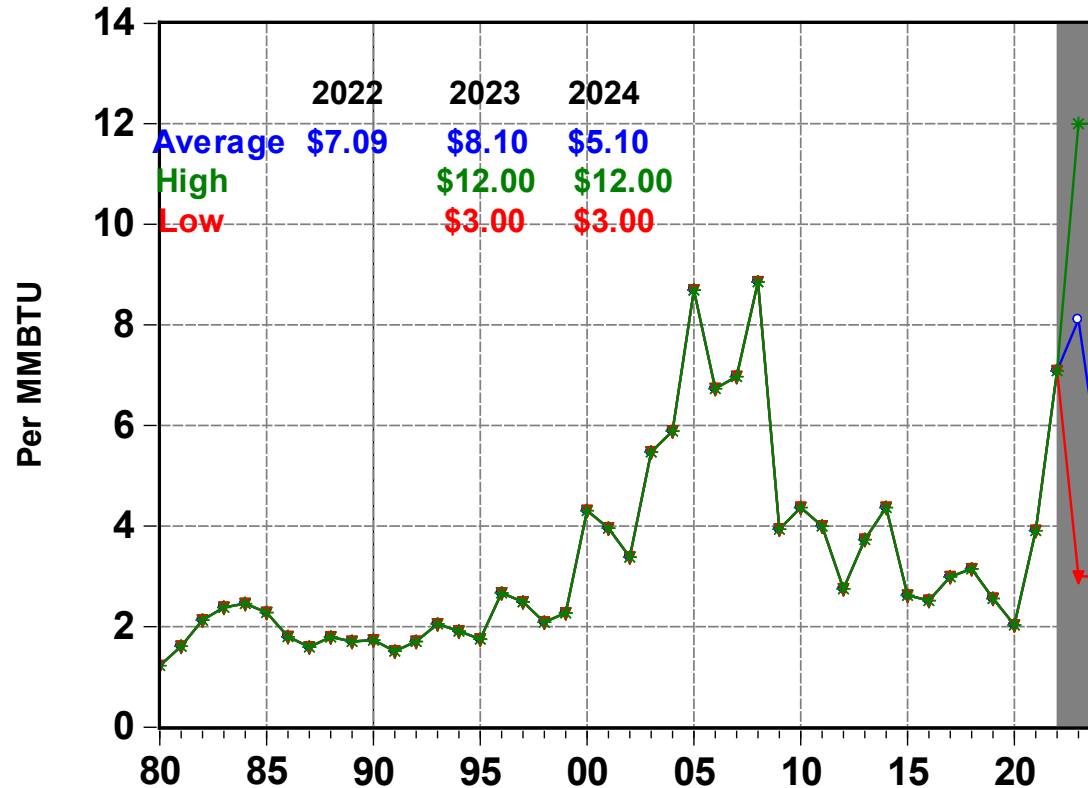
# **The Natural Gas Market**

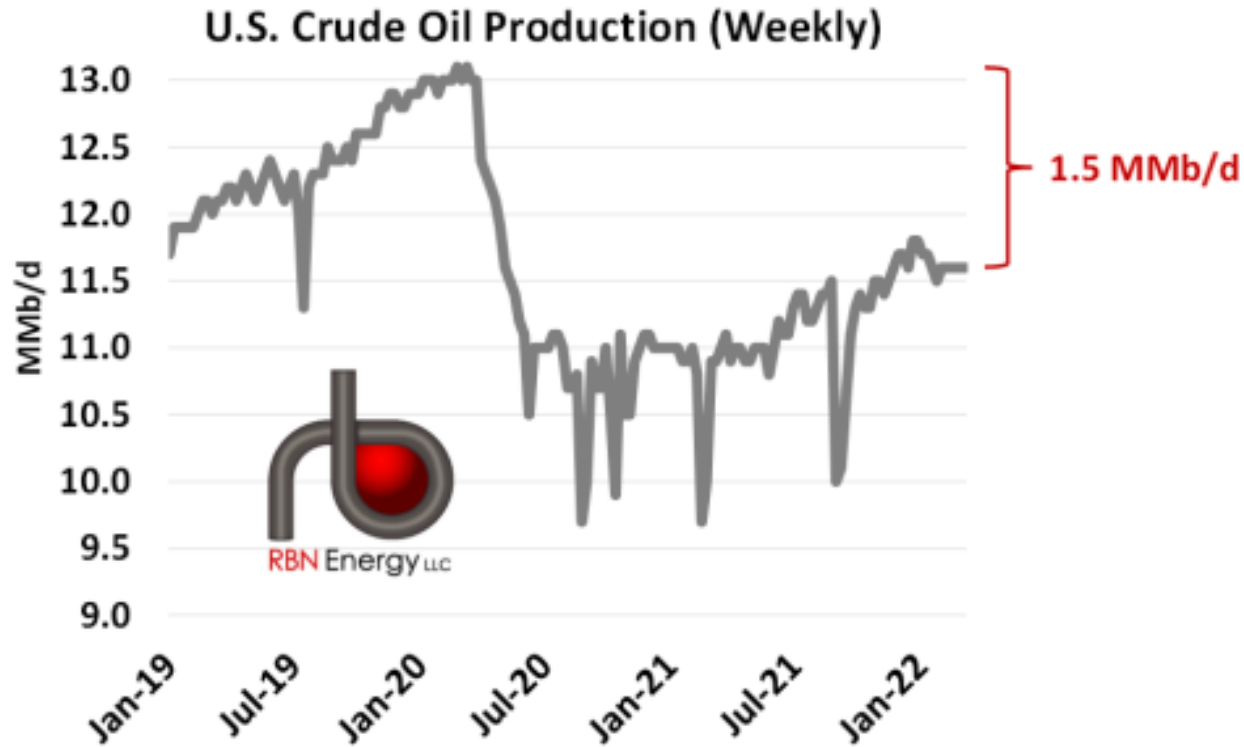
**Russia-Ukraine War?  
Wind In North Sea?**

# Upward Bump: Demand & Supply

## LNG Exports & Less “Associated” Natural Gas

### Price of Natural Gas: Henry Hub





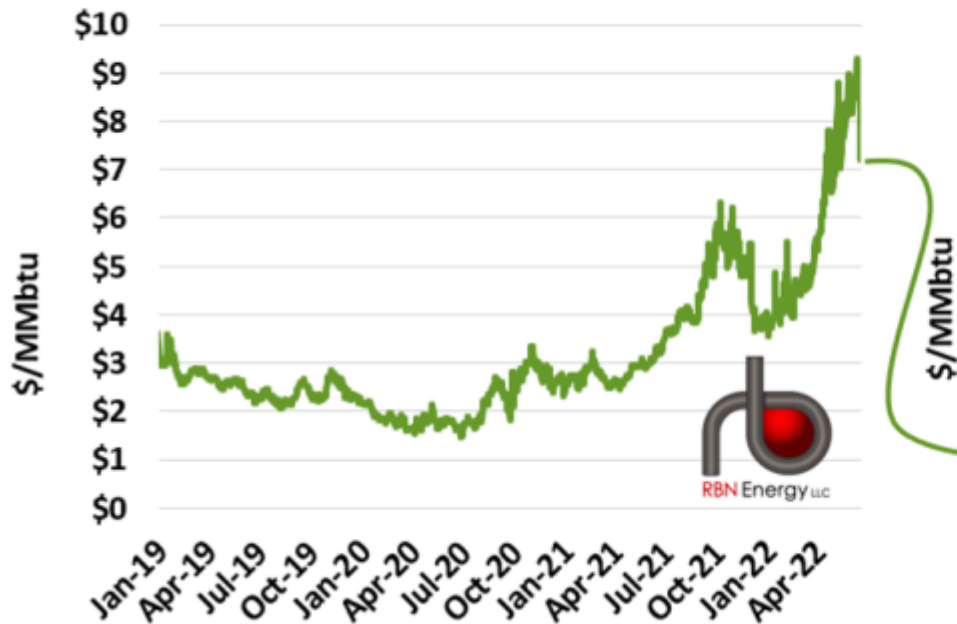


July 2022:

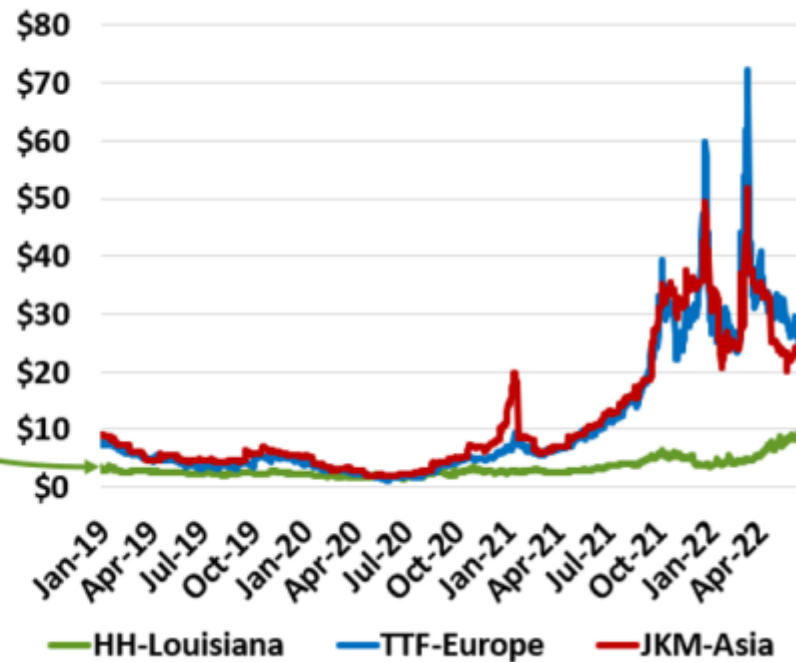
TTF: \$54.78 JKM: \$38.03 HH: \$6.03

Fire At Freeport LNG: 90 days to recover

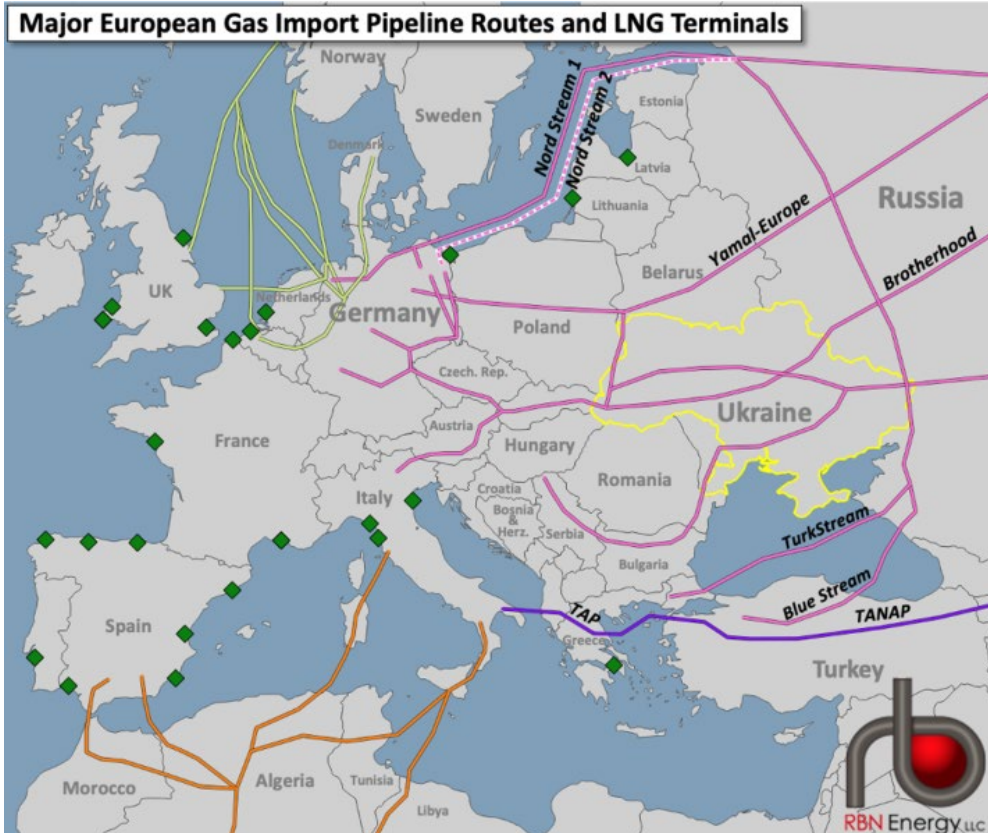
Henry Hub - Louisiana



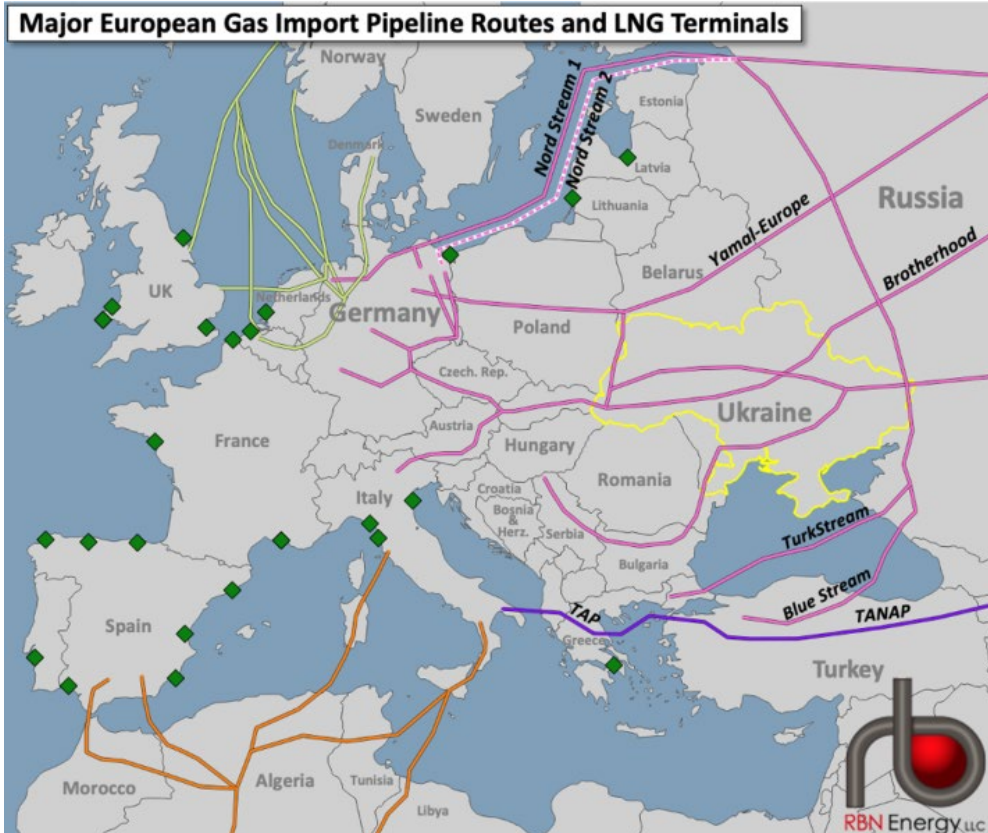
Japan LNG, Europe, US Gas



# Russian Gas Pipelines to EU



# Note Green Diamonds



# Russia-Ukraine War

- EU Consumes: 40 bcf/d
- Domestic: 10 bcf/d
- Imports: 30 bcf/d
  - **Russia: 15+ bcf/d (9 bcf/d to Germany)**
- **Plan A**
  - **+4.8 bcf/d LNG imports by end of 2022; +519 cargos (capacity?)**
    - **+ price in US**
    - **+ LNG export projects**
  - **+ pipeline imports from North Africa (+1.4 bcf/d?)**
  - **+ renewables**
  - **- usage**

## Remember Where Europe Is!





# **BASF Ludwigshafen, Germany: 200 Plants; 39,000 Employees; 60 Miles of Roads; 8 Restaurants; 4% of Germany Gas Demand**



**Where is the world going  
to go for chemicals?**

# Parental Wisdom

- Child: “I feel like you are always making up rules and stuff.”
- Mom: “Like what?”
- Child: “Like if I don’t clean up my room a portal will open and take me into another dimension.”
- Mom: “Well, that’s what happened to your older brother.”
- Child: “What older brother?”
- Mom: “Exactly.”



**We need to figure a smart  
way to handle this  
uncertainty**

**Be as smart as Charley  
Boswell**

# Charley Boswell

## Blind Golfer Hall of Fame





**LCS**  
Dr. Loren C. Scott  
& Associates Inc.

## Thank You!



**Dr. Loren C. Scott**



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