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ECONOMIC OUTLOOK

Economic data from the last month makes the U.S. economy appear worse than it probably is, while the opposite is potentially true for Europe and China. The U.S. economy grew 5.5% in 2021 but started 2022 on a very soft note. The U.S. economy fell 1.5% in the first quarter, though many of the factors that drove this decline are likely temporary and should largely reverse in the second quarter.

U.S. domestic demand in the first quarter was firm at 2.7%. Quarterly domestic demand averaged 1% between 2010 and 2019, the last expansionary period. Excluding the economic recovery in 2020 and 2021, you would have to go back to 1984 to find domestic demand that outpaced 2.7%. In the first quarter, consumer spending rose 3.1%, business fixed investment was up 9.2%, and home building rose 0.4%.

The negative results in the first quarter were driven by downward shifts in net exports and inventory investment which together lowered GDP by 4.3 percentage points. Net exports should positively contribute to U.S. GDP in Q2 while inventory investment is slowing which translates into a slowing of growth of GDP, meaning a negative contribution to GDP. Consumer spending started off strong in the second quarter while the shipment of capital goods (i.e. business investment) is softening. Taken together, we expect the economy to expand about 2.5% in the second quarter.

In Europe, the EU economy grew 0.4% (1.8% annualized) in the first quarter. There was a lot of uncertainty as to how the European economy would perform in the aftermath of Russia's invasion of Ukraine. COVID-related lockdowns in the fourth quarter of 2021 had contained growth to just 0.5% (1.8% annualized). Europe's largest economy, Germany, saw its economy contract in the final months of 2021. Another contraction in the first quarter would officially mean Germany was in recession and this was a very distinct possibility given its strong reliance on Russian energy exports. But Germany's economy grew 0.2% (0.9% annualized), staving off a recession for now.

While Europe avoided a decline in the first quarter, it will continue to face a multitude of headwinds in the coming quarters. Eurozone inflation hit a record 8.1% in May, driven by surging energy and food costs fueled by Russia's war with Ukraine. The European Central Bank (ECB) has a very challenging environment to contend with. In the U.S., the Federal Reserve faces a relatively strong economy and too much inflation. But in Europe, the ECB faces a weak economy and too much inflation. It has thus far resulted in the ECB moving more cautiously than the Fed. The ECB will likely raise rates three times this year, effectively ending its negative interest rate policy. This will be the first time in a decade that the ECB has lifted rates. The next few quarters will be very challenging ones for Europe.

In both the U.S. and Europe, there is lingering demand for capital goods, in part because supply chain disruptions have limited supply. Rising rates in both the U.S. and now Europe will dampen this demand over time. Already, housing sales are slipping in the United States. New home sales dropped by a sharp 16.6% in

April to an annualized pace of 591,000 units, the slowest pace in two years.

China's economy grew 4.8% year-over-year in the first quarter, outpacing expectations. But the economy is slowing rapidly and China is likely to miss its growth target of 5.5% for 2022. The unemployment rate across 31 major Chinese cities rose to 6% in March, the highest on record according to official data going back to 2018. Many areas of China are just now starting to emerge from extended COVID lockdowns that began in April suggesting the economy likely slowed sharply in the second quarter. China's zero COVID policy likely means more lockdowns in the future and further supply chain disruptions.

The three key themes we laid out last month continue to hold: geopolitical uncertainties remain high in the shadow of Russia's invasion of Ukraine, inflationary pressures are wreaking havoc on wide swaths of the economy, and China's COVID lockdowns are exacerbating supply chain disruptions.

8.1%

The euro area saw annual inflation hit 8.1% in May, up from 7.4% in April. Higher energy and food costs as a result of Russia's invasion of Ukraine drove inflation to its highest annual level since the euro was created in 1999.

\$7,625

Drewry's composite World Container Index decreased marginally by 0.1% to \$7,625.56 per 40ft container. This is the lowest level in roughly a year.

30%

There is a 30% chance the U.S. economy will be in recession within the next 12 months.

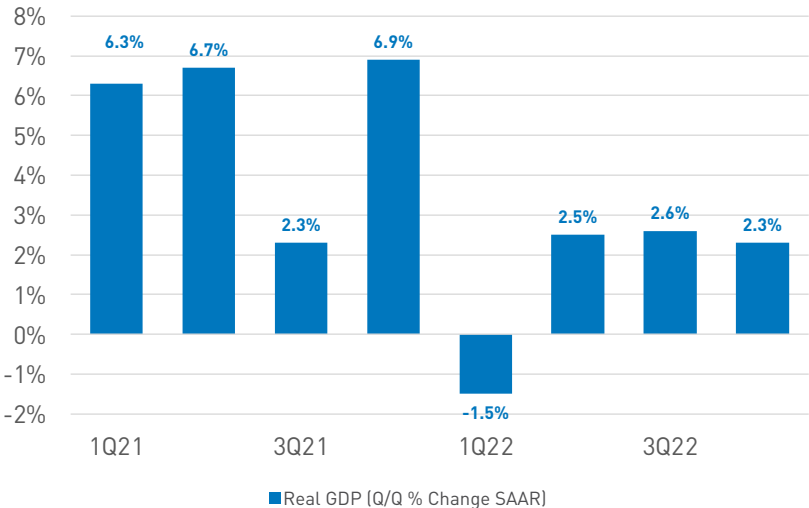
19.3%

The U.S. defense and space equipment manufacturing sector rose 1.3% last month and is up 19.3% from pre-pandemic levels.

U.S. OUTLOOK

ECONOMIC GROWTH

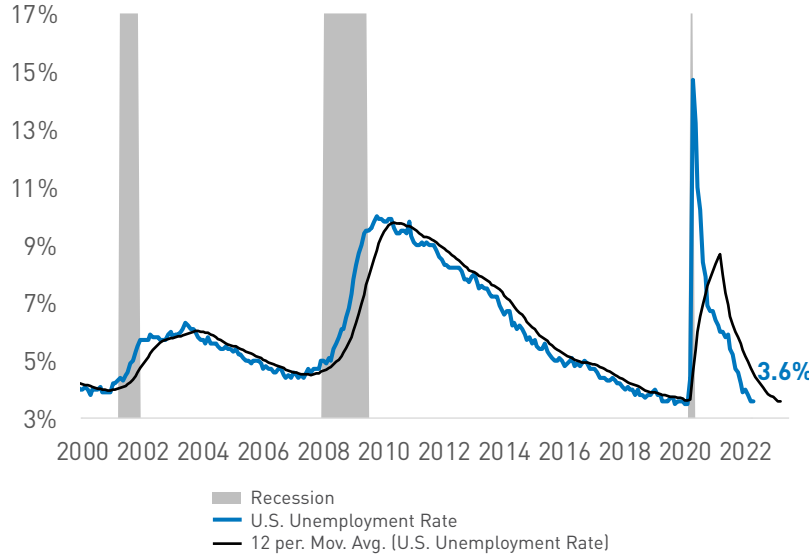
The economy fell in the first quarter, dragged down by several forces which are mostly temporary. Real GDP fell 1.5% in the first quarter, lagging our expectation for 0.8% growth and the consensus call for 1% growth. In the first quarter, consumer spending and business investment improved while net exports and government spending provided headwinds. Imports rose sharply during the quarter while exports fell, pushing GDP down 3.2 percentage points. Inventories rose at a slower pace than they did in 4Q21, which lowered GDP in the first quarter by an additional 1.1 percentage points. The economy should grow about 2.5% in the second quarter as some of these headwinds reverse. But weakness in exports could continue to be a challenge as growth slows outside of the United States. We have lowered our forecast for the year to 2.6%, down from 3.2% last month.



	2022 ECONOMIC GROWTH (GDP % Change)	2023 ECONOMIC GROWTH (GDP % Change)	2022 EXCHANGE RATE (v. USD)	2023 EXCHANGE RATE (v. USD)
UNITED STATES	2.6%	2.1%	N/A	N/A
CANADA	3.8%	3.0%	1.24	1.25
MEXICO	1.7%	2.3%	20.51	20.93
EURO AREA	2.7%	2.4%	1.13	1.17
CHINA	5.0%	5.2%	6.47	6.37

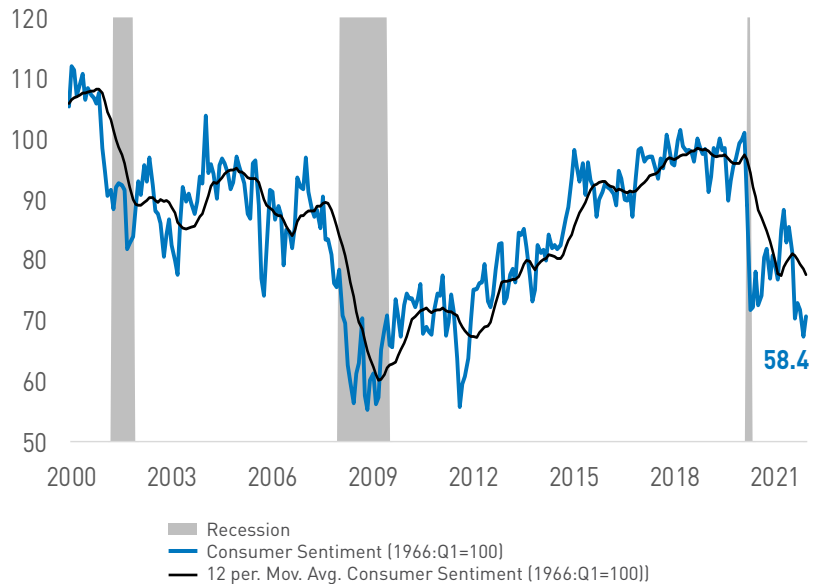
EMPLOYMENT

The economy added 428,000 new jobs in April. The largest increases were in leisure & hospitality (+78,000), education & health services (+59,000), manufacturing (+55,000), and transportation & warehousing (+52,000). The unemployment rate remained steady at 3.6%. The total number of hours worked rose 0.4% and average hourly wages grew 0.3% and are up 5.5% over the last year. The total number of hours worked reached a new high, surpassing the previous peak. This growth is good news but it is important to remember that the labor market is still about 1.2 million workers smaller than pre-COVID levels. Over the last year, consumer prices are up 8%, so wage growth, while historically strong, is not keeping up with inflation.



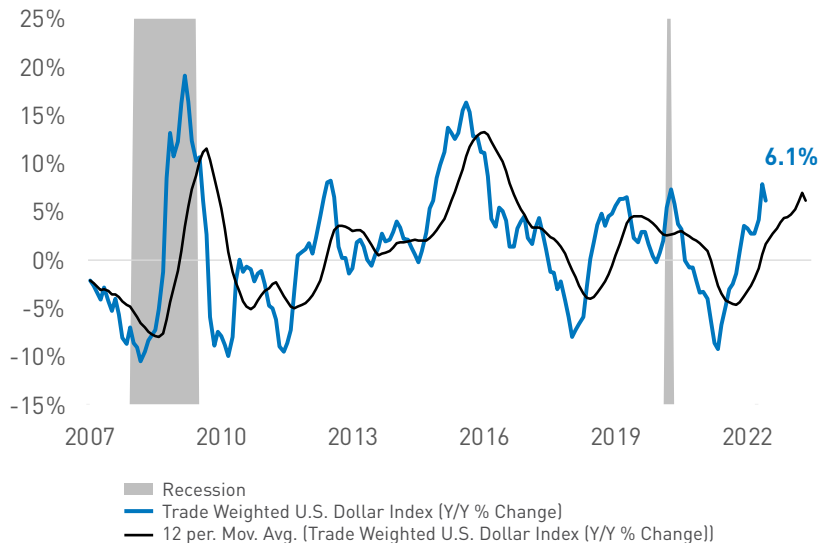
SENTIMENT

Consumer sentiment continues to trend downwards, weighed down by the high prices, financial market volatility, and growing economic uncertainty. After rising in April, sentiment again turned down in May. The Consumer Sentiment Index fell 10.4% in the month, returning to essentially the same level as March. The consumers' assessment of their financial position compared to a year ago reached its lowest level since 2013. A third of the respondents blamed inflation for their current financial situation. The buying conditions for durable goods reached its lowest level since the question began appearing on the monthly surveys in 1978, due to higher prices and supply chain shortages that are limiting the availability of numerous products. Short-term inflation expectations remain high, suggesting that consumer sentiment is likely to remain muted for the foreseeable future.



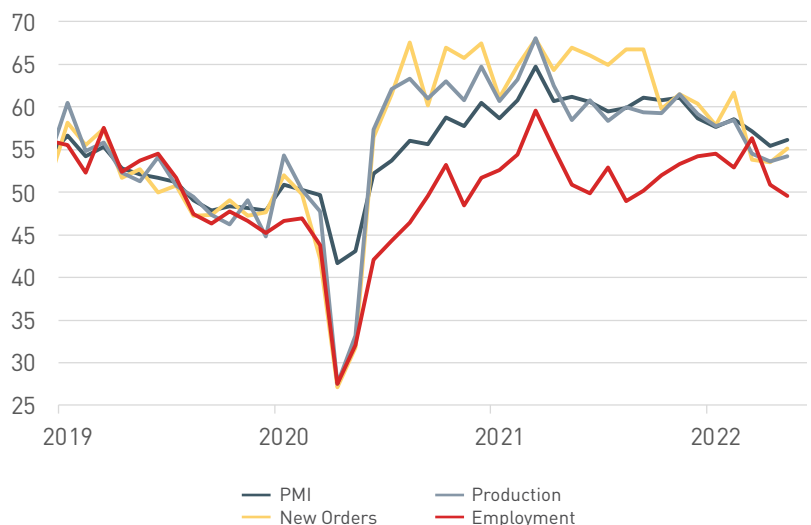
TRADE-WEIGHTED U.S. DOLLAR INDEX

The U.S. dollar rose 2.2% in April but returned about 45% of that increase in the second half of May. The Trade-Weighted Dollar Index fell about 1.2% in May but is up about 6.1% over the last year. The dollar has been weighed down by interest rate differentials narrowing among the major currencies as other Central Banks look to raise rates more aggressively and Fed rate hike odds pulled back somewhat. The US Dollar (DXY) Index reached a 20-year high in mid-May, having appreciated 9% since late February. The dollar could reach parity with the euro by the end of the year which is something that has not been seen since 2002.



MANUFACTURERS' SENTIMENT (PMI)

The U.S. manufacturing sector expanded in May for the 24th consecutive month. The May PMI increased 0.7 percentage points to 56.1 percent. The New Orders Index rose 1.6 percentage points to 55.4 percent. The Employment Index fell into contraction territory, meaning fewer firms are expanding their workforce. This shift likely reflects the continued difficulty of finding new workers as opposed to a desire to shrink the number of workers. The Supplier Deliveries Index fell 1.5 percentage points and the Customers' Inventories Index fell 4.4 percentage points. Both of these moves reflect continued supply chain bottlenecks. The Import Index fell into contraction, perhaps a further sign of the difficulty to get needed components. We also saw backlogs rising as a result of continued supply chain disruptions.



U.S. END MARKETS FOR ELECTRONICS

U.S. Industrial production rose 1.1% in April, continuing its strong post-pandemic recovery. The manufacturing sector, led by the auto sector, was the primary driver of gains in April. Manufacturing rose 0.8% in April. Auto production jumped 3.9% while non-auto manufacturing rose 0.5%. The mining sector (i.e. oil rigs in the Gulf) also continues to report gains, increasing output by 1.6% during the month. High oil prices should drive further gains for the mining sector. Industrial production is now 4.2% above pre-pandemic levels.



AUTOMOTIVE PRODUCTS

Auto production rose 3.9% in May. Production is up 17% over the last year and 0.8% over pre-pandemic levels even with parts shortages that have curtailed production gains.



TRANSIT EQUIPMENT

Transit equipment production rose 3.3% over the last month. The sector is up 13.7% over the last year and 7.5% from pre-pandemic levels.



INFORMATION PROCESSING & RELATED EQUIPMENT

Production in the information processing and related equipment sector increased by 0.7% during the month. The sector is up 4.8% over the last year and 7.1% from the start of the pandemic.



INDUSTRIAL & OTHER EQUIPMENT

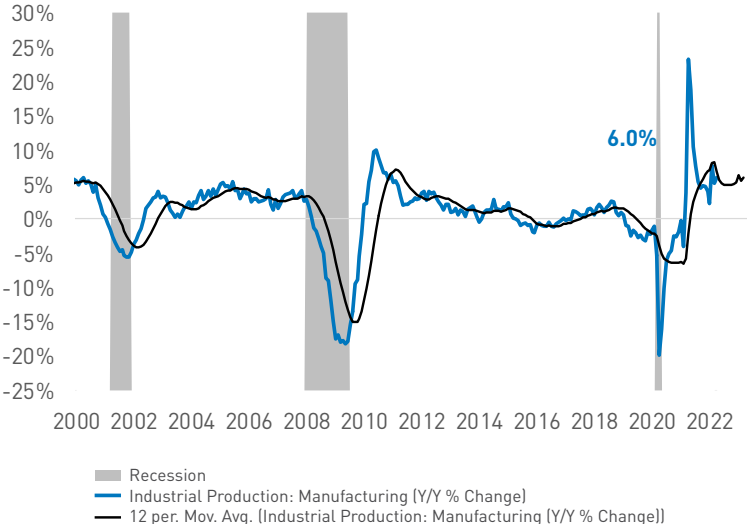
The industrial sector moved 0.2% higher during the last month. The sector is up 6.8% over the last year and up 5.2% from the start of the pandemic.



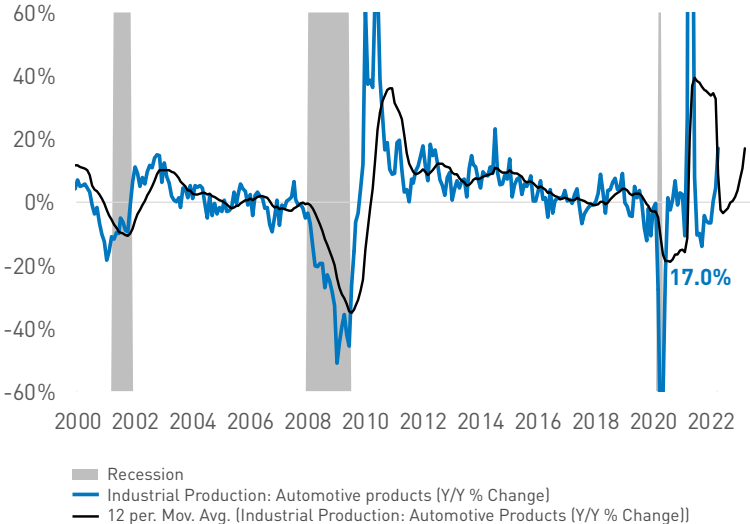
DEFENSE & SPACE EQUIPMENT

The defense and space equipment segment rose 1.3% last month. The sector is up 9.3% over the last year and 19.3% since the pandemic began. This is the largest increase among the sectors we track.

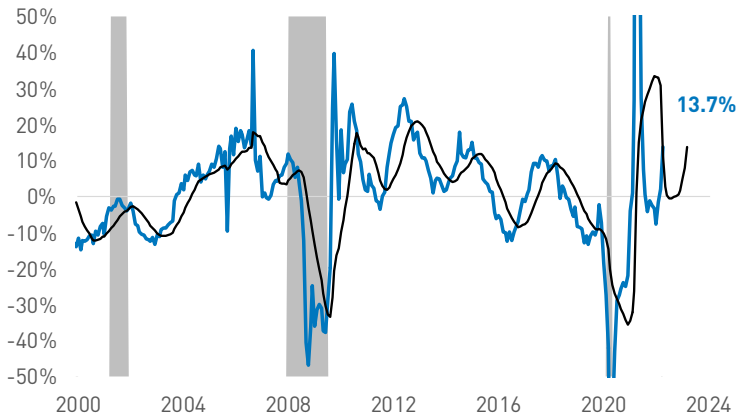
Manufacturing



Automotive Products

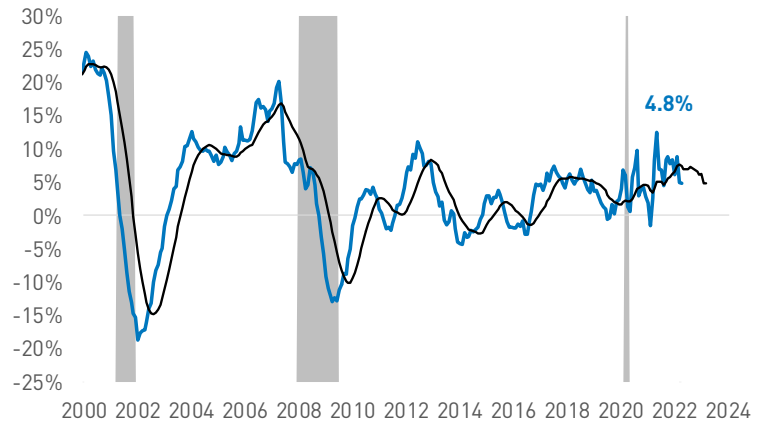


Business Transit Equipment (Y/Y % Change)



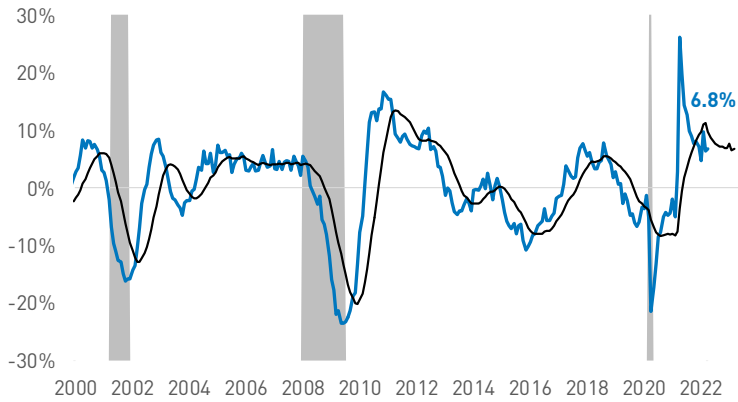
Recession
 Industrial Production: Business Transit equipment (Y/Y % Change)
 12 per. Mov. Avg. (Industrial Production: Business Transit equipment (Y/Y % Change))

Information Processing & Related Equipment (Y/Y % Change)



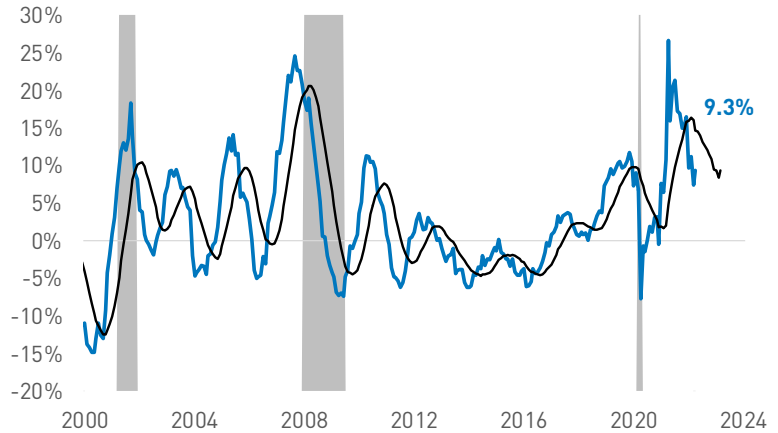
Recession
 Industrial Production: Information processing and related equipment (Y/Y % Change)
 12 per. Mov. Avg. (Industrial Production: Information processing and related equipment (Y/Y % Change))

Industrial & Other Equipment (Y/Y % Change)



Recession
 Industrial Production: Industrial and other equipment (Y/Y % Change)
 12 per. Mov. Avg. (Industrial Production: Industrial and other equipment (Y/Y % Change))

Defense & Space Equipment (Y/Y % Change)

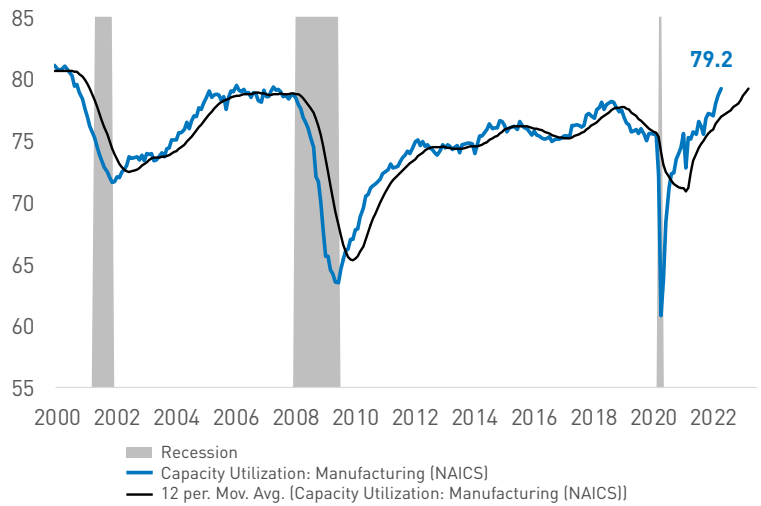


Recession
 Industrial Production: Defense and space equipment (Y/Y % Change)
 12 per. Mov. Avg. (Industrial Production: Defense and space equipment (Y/Y % Change))

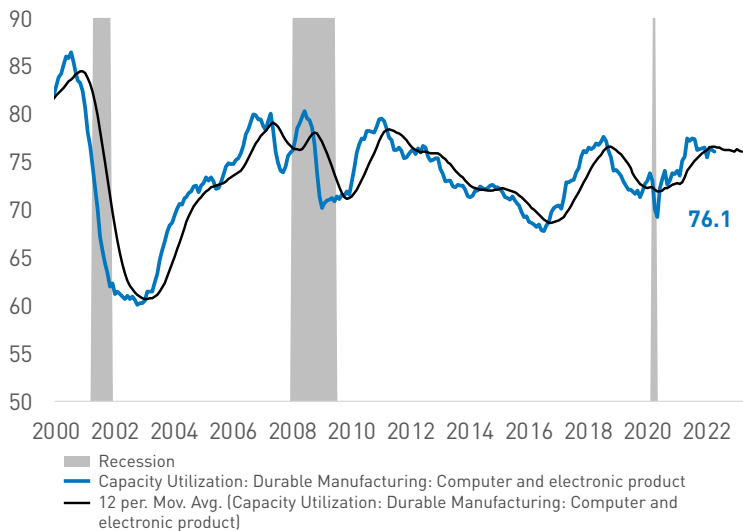
MANUFACTURING CAPACITY UTILIZATION

Overall capacity utilization increased during April, rising from 78.2% to 79%. Manufacturing capacity rose from 78.6% to 79.2%. This is the highest capacity utilization since 2007. Computer and electronic production capacity utilization fell 0.2% (0.1 percentage points) to 76.1%. It is 3.2% above pre-pandemic levels. Electrical equipment, appliances and components utilization fell 0.7% to 81.7%. Capacity utilization for the motor vehicles and parts sector rose 3.9% to 75.2% but is still down 0.1% from pre-pandemic levels. Finally, utilization in the aerospace and miscellaneous transportation equipment sector rose 2.1% to 75.7%. This is 17.1% above pre-pandemic levels.

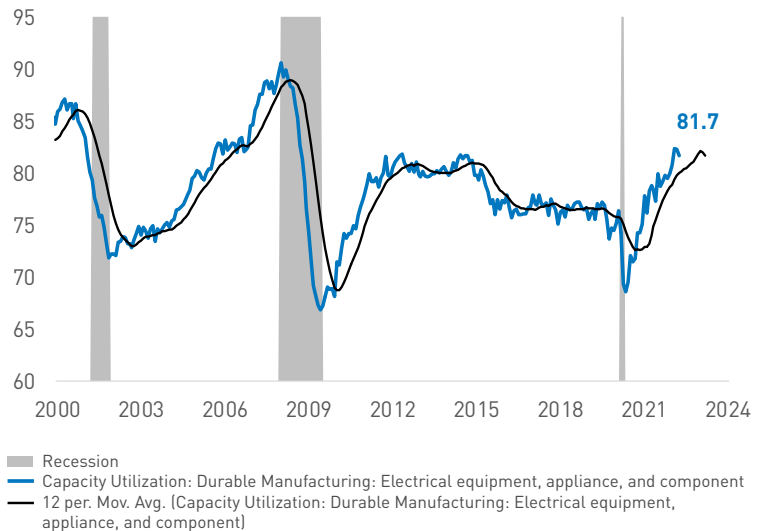
Manufacturing (NAICS)



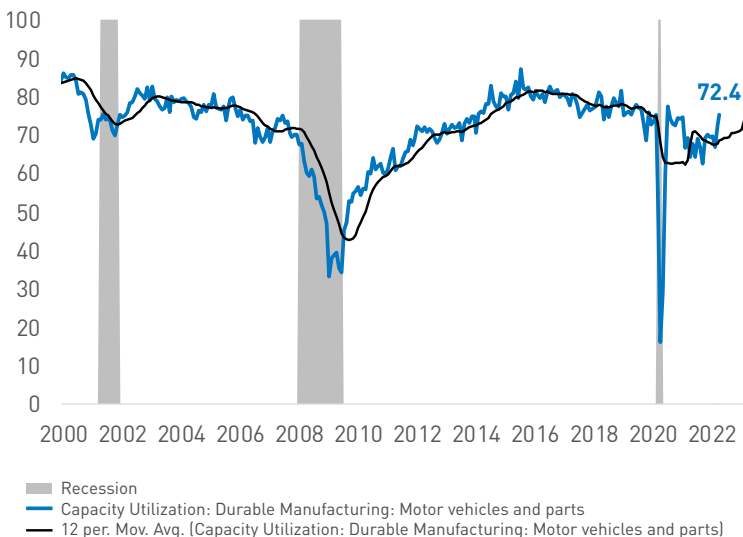
Computer & Electronic Product



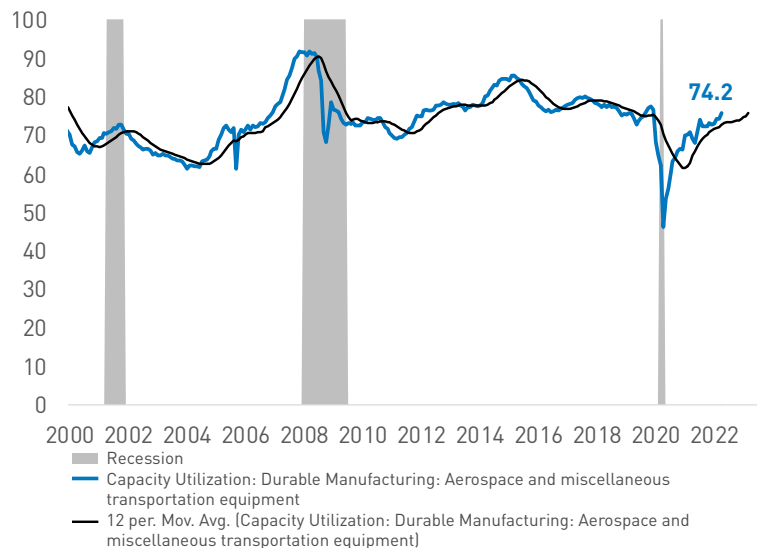
Electrical Equipment, Appliance, & Component



Motor Vehicles & Parts



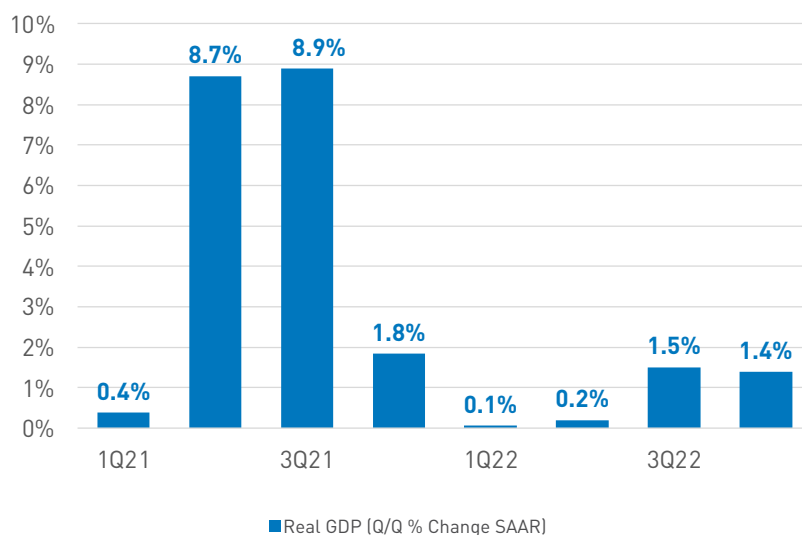
Aerospace & Miscellaneous Transportation Equipment



EUROPEAN OUTLOOK

ECONOMIC GROWTH

European economic growth proved somewhat resilient in the first quarter of the year, despite the headwinds from the omicron Covid-19 variant and Russia's invasion of Ukraine. GDP in the euro area rose 0.3%, revised up from an initial 0.2%, compared to the previous quarter. Growth in the EU rose 0.4%. On a year-over-year basis, economic growth is up 5.1% and 5.2% respectively. Most euro area economies avoided a decline in economic output during the first quarter. Germany, Europe's largest economy, grew 0.2% and is up 3.8% over the last year. Germany avoided a technical recession after declining 0.3% in the fourth quarter of last year. A weaker euro and lower real interest rates should help the German economy, but supply bottlenecks and energy price hikes caused by the Ukraine conflict will work to mute economic growth in the coming quarter. France, Europe's second-largest economy saw flat growth in the first quarter. We have lowered our outlook by one-tenth of a percentage point for both 2022 and 2023 economic growth.

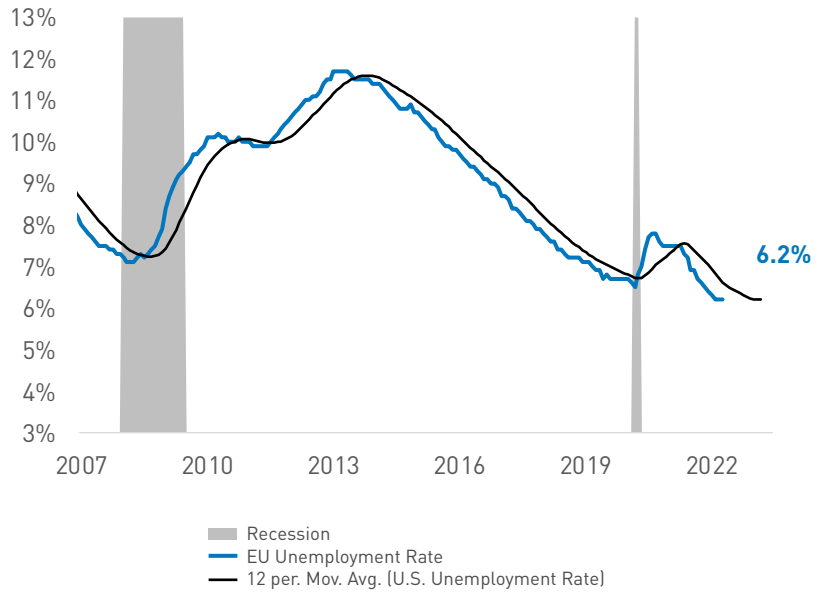


	Q/Q PERCENTAGE CHANGE				Y/Y PERCENTAGE CHANGE			
	2021Q2	2021Q3	2021Q4	2022Q1	2021Q2	2021Q3	2021Q4	2022Q1
EURO AREA	2.2%	2.2%	0.3%	-0.3%	14.6%	4.1%	4.7%	5.1%
EU (27)	2.1%	2.2%	0.5%	-0.4%	14.0%	4.2%	4.9%	5.2%
GERMANY	2.2%	1.7%	-0.3%	-0.2%	10.4%	2.9%	1.8%	3.7%
FRANCE	1.5%	3.0%	0.8%	0.0%	19.1%	3.5%	5.5%	5.3%
ITALY	2.7%	2.5%	0.7%	-0.2%	17.6%	3.9%	6.2%	5.8%
SPAIN	1.1%	2.6%	2.2%	-0.3%	17.8%	3.5%	5.5%	6.4%

	2022 ECONOMIC GROWTH (GDP % CHANGE)	2023 ECONOMIC GROWTH (GDP % CHANGE)
EURO AREA	2.6%	2.3%
GERMANY	2.1%	2.6%
FRANCE	3.0%	2.1%
NETHERLANDS	2.9%	1.9%

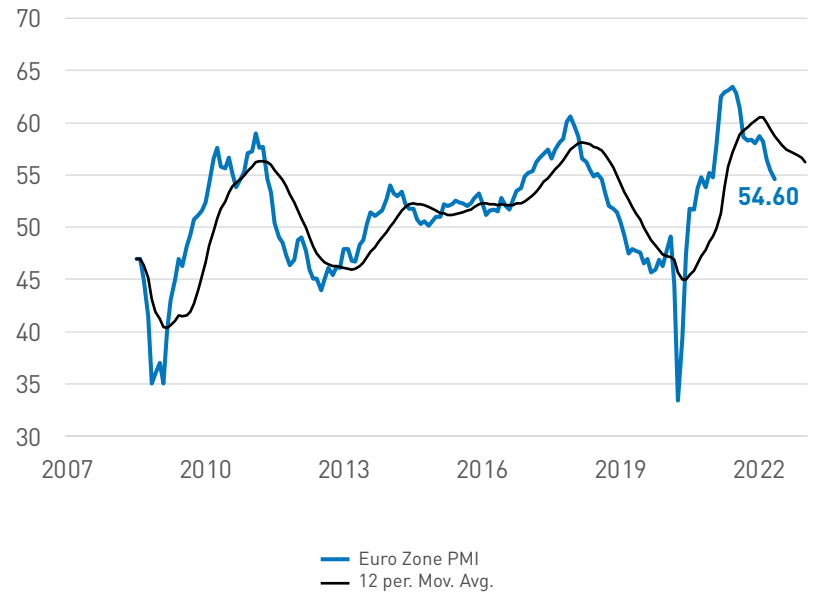
EMPLOYMENT

The euro area seasonally-adjusted unemployment rate remained at 6.8% in March and April. The EU unemployment rate was 6.2% in April. Also unchanged from the prior month. Employment increased by 0.5% in the euro area and by 0.4% in the EU in the first quarter of 2022, compared with the previous quarter. Employment is up 2.6% over the last year in the euro area and by 2.5% in the EU. Czechia reported the lowest unemployment rate in the EU at 2.4%, followed by Germany (3%), Poland (3%), Malta (3.1%), and the Netherlands (3.2%).



MANUFACTURERS' SENTIMENT (PMI)

The Eurozone manufacturing sector has continued to slow over the last few months as record inflation, COVID lockdowns in China, and the Russia-Ukraine war impact production levels, pricing, and confidence. New orders fell for the first time since June 2020. Confidence is at its lowest levels since the fall of 2020. Delivery times weakened to the second-weakest levels since the beginning of 2021, highlighting the continued pressure from supply chain disruptions. Manufacturers are reporting steep cost pressures. Businesses are in turn raising prices to offset higher costs. The rate of output price inflation was the second-strongest in the series' history last month.



E.U. END MARKETS FOR ELECTRONICS

Manufacturing output fell 1.2% in March, the first decline since October 2021. Manufacturing output is up 0.7% over the last year and up 1.7% since the start of the pandemic.



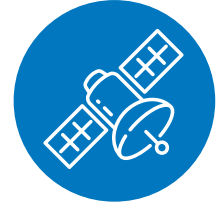
COMPUTER, ELECTRONIC & OPTICAL PRODUCTS

The electronics industry, which includes categories such as components, loaded boards, computers, communications equipment and consumer electronics, saw output increase 0.8% in February. The sector is up 16.6% from pre-pandemic levels.



MOTOR VEHICLES

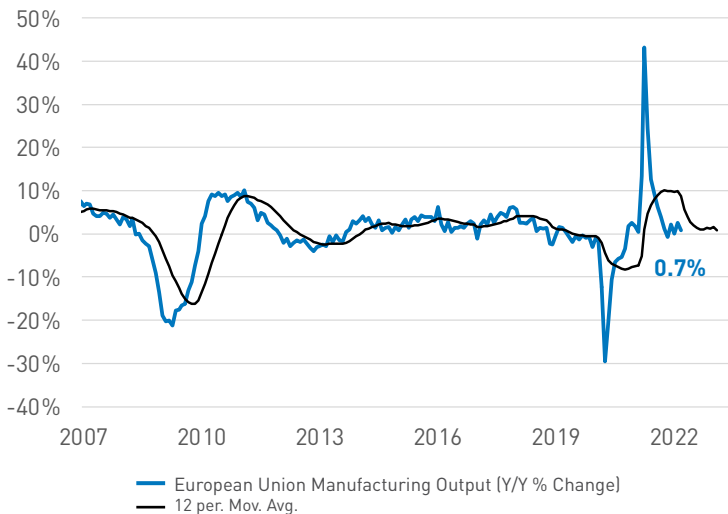
Motor vehicle manufacturing production declined 14.5% in March. Auto production, a volatile sector even in normal times, continues to be hampered by supply shortages. Auto production in the European Union remains off 24% from a year ago and 40.4% from pre-pandemic levels.



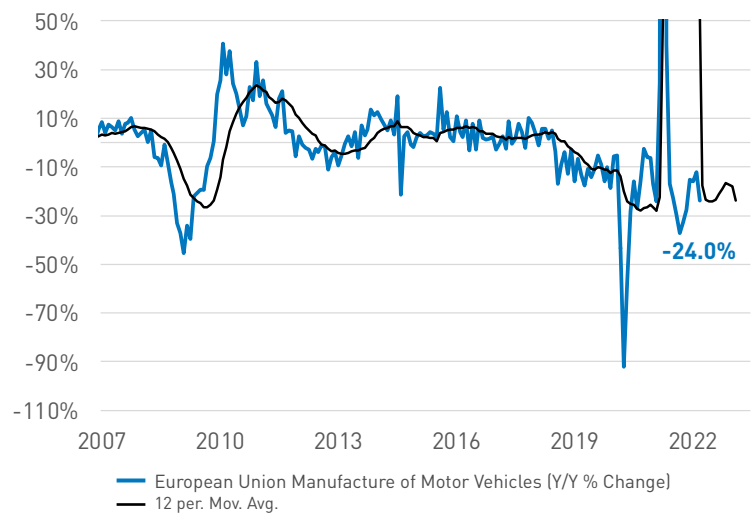
AIR & SPACECRAFT & RELATED MACHINERY

The air and spacecraft manufacturing sector rose 1.4% in March. The segment is up 7.6% over the last year but off 18.6% over the last two years.

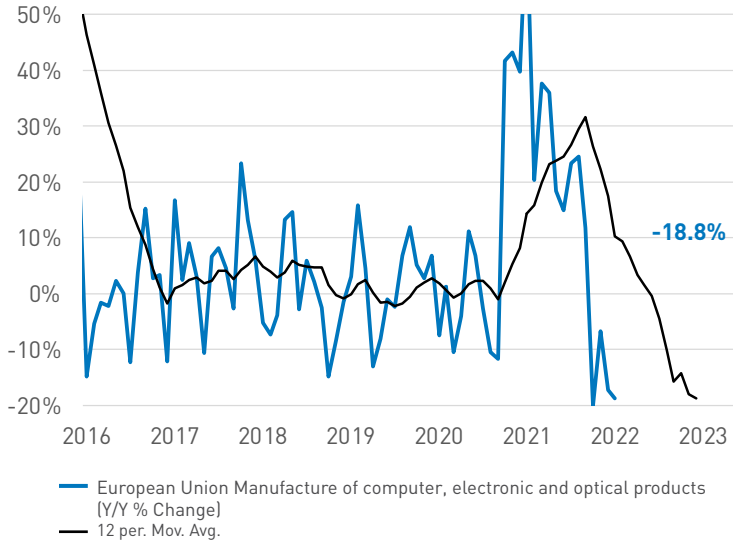
E.U. Manufacturing Output



E.U. Manufacture of Motor Vehicles



E.U. Manufacture of Computer, Electronic & Optical Products (Y/Y % Change)



E.U. Manufacture of Air & Spacecraft & Related Machinery (Y/Y % Change)

