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Higher Commodity Prices Challenge Inflation and Growth

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There are many consequences of Russia's invasion of Ukraine, the foremost of which are the tragic human toll and unfolding humanitarian crisis. Additionally, the military conflict and policy restrictions are disrupting an array of commodities sourced from the region, and many are expected to be in short supply. Russia, Ukraine, and Belarus together account for 11% of global oil and 17% of global natural gas, more than 10% of global barley and wheat, and 20% of global potash. They also are important sources of numerous metals, mining, and precious stones. The disruption to global – and especially European – supply chains is already being felt. While many other factors could dictate the ultimate path of both prices and economic expansion, we look through a series of charts to show that the moves in key energy and food prices could put upward pressure on global inflation and pose a challenge for economic growth.

1.

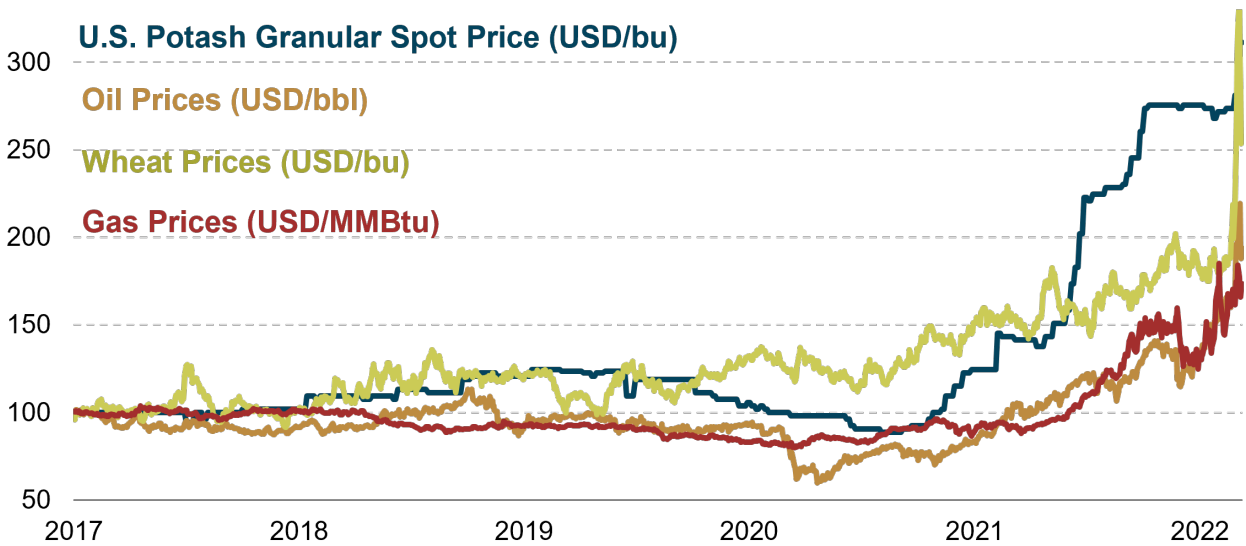
2. Energy and food prices already have shot up

Oil, gas, wheat, and potash prices have all been on an upward trend for more than a year, with a recent sharp acceleration. Potash is a critical component of fertilizer and an important input into agricultural production; scarce or more expensive potash could put additional strain on food prices.

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Key Commodity Prices Up Sharply in 2022

USD, Rebase 1/2017=100, As of 3/11/2022



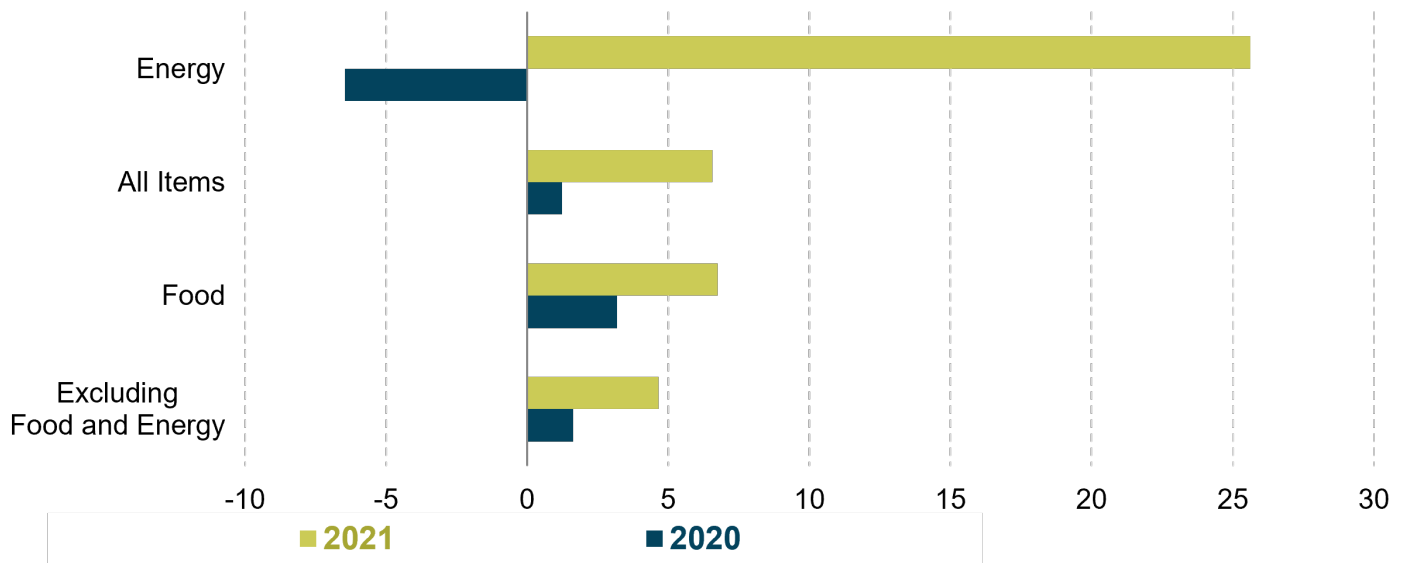
Source: Macrobond, Brandywine Global

Higher energy prices were a big part of 2021 inflation

Inflation rose sharply across many regions of the globe in 2021, with the Organisation for Economic Co-operation and Development (OECD) recording 7.2% annual consumer price inflation (CPI). Energy constituted more than 25% of that increase among OECD countries last year. Food was a much smaller contributor. However, with grain prices as well as many commodity inputs higher, the potential for CPI to rise further in 2022, including from food, is top of mind.

Energy Prices a Major Contributor to CPI in 2021

OECD CPI Components Y/Y % Change, As of 12/31/2021



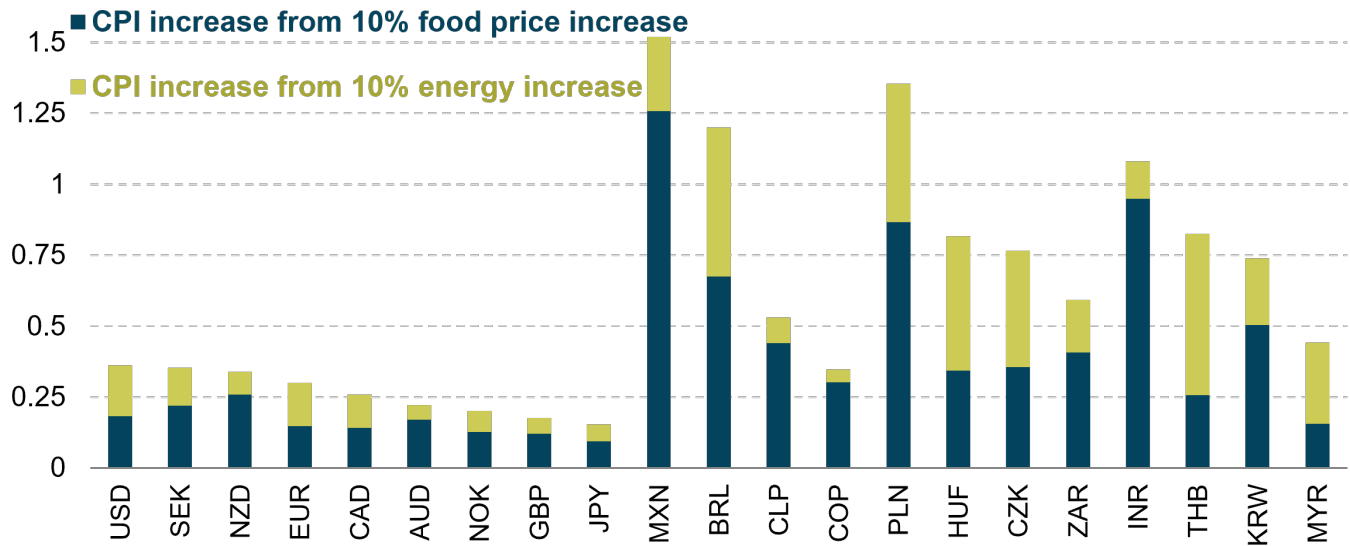
Source: Haver Analytics, OECD, Brandywine Global

Rising commodity prices suggest higher headline inflation ahead

Brandywine Global's calculations on various countries' CPI basket composition suggest that for a 10% increase in energy prices, headline CPI could rise from as little to 0.05% to as high as 0.57%, depending on each country's energy use, source of their energy, price subsidies, and other factors. In addition, a 10% increase in food prices could trigger an increase in CPI of as little as 0.09% to as much as 1.26%. As oil prices are approximately twice where they were a year ago, and wheat—as a main component of food—has increased nearly as much, the impact on CPI could be material. Some emerging markets may be disproportionately impacted by food prices because of the heavier weights of food in their CPI baskets.

Increases in Energy and Food Prices Could Push Up Headline Inflation

% Contribution to Headline Inflation from a 10% Increase in Energy and Food Prices, As of 2/28/22



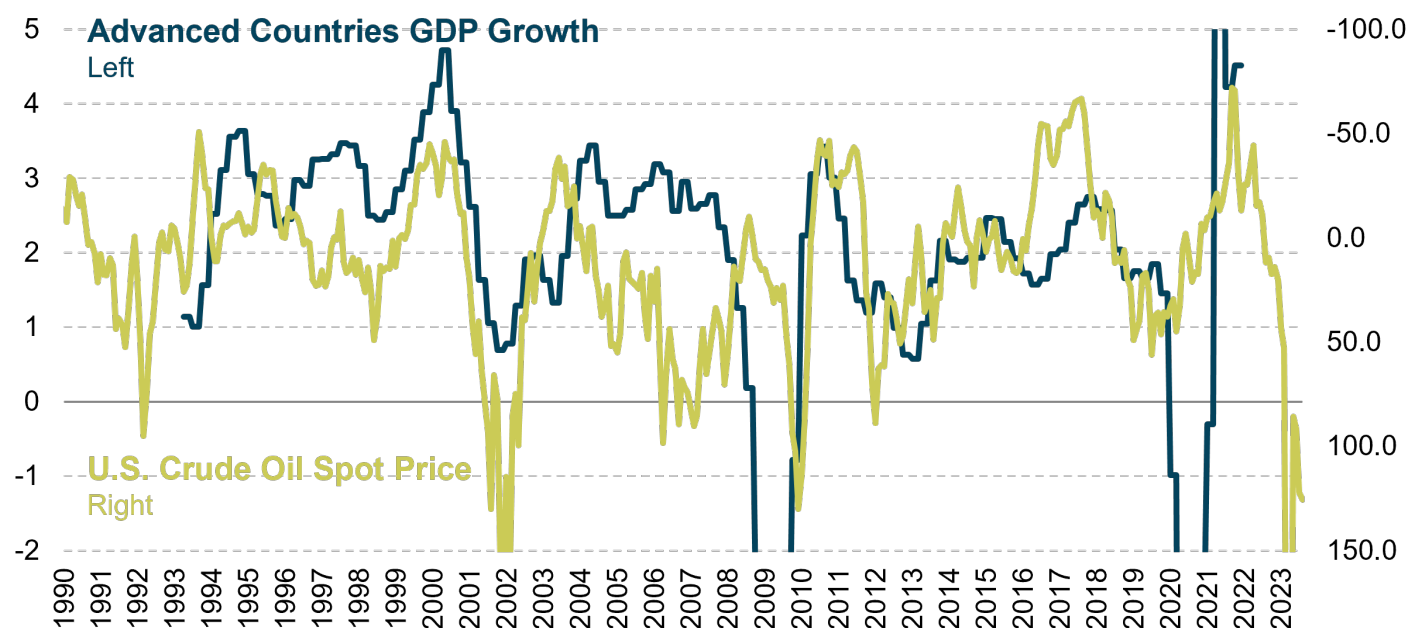
Source: Macrobond, Brandywine Global

Historically, higher energy prices are a headwind for real GDP growth

While many different factors will influence the level of real economic expansion, historically higher oil prices have moved in the opposite direction as gross domestic product (GDP). In other words, when oil prices go higher, economic growth slows, and when oil prices ease, GDP reaccelerates. [Chart 4](#) depicts oil prices inverted to show more clearly how synchronous these moves have been. The recent increase in crude prices is expected to be a headwind for economic activity.

Crude Oil Prices vs. Global GDP Growth

%, As of 3/11/2022



Source: Macrobond, Brandywine Global

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