

Economics Briefs

2022 Food Production Could Drop by '100 Million People'

Because of the huge increases in the prices of natural gas around the world, fertilizers have become unaffordable or, in some cases, unavailable to farmers. World wheat output is set to drop by 10 million tons in 2022, according to the French agriculture analysis firm Agritel. Corn production costs are rising 15-20% in the major producers, America and Ukraine. One of the world's top fertilizer firms, CF Industries, projects lower yields of many foods and agricultural products around the world in 2022. Following on widespread famines already in 2020-21, and loss of informal agricultural work in the developing countries, food is entering *global shortage* in 2022.

The *Wall Street Journal's* Jan. 21 article, "'Farms Are Failing' as Fertilizer Prices Drive Up Cost of Food," reported that despite global food prices having risen to the highest level in a decade, rapid food inflation is almost certain to continue in 2022, due to fertilizer prices and accessibility.

This, the paper says, "would exacerbate hunger—already acute in some parts of the world because of pandemic-linked job losses—and thwart efforts by politicians and central bankers to subdue inflation."

And according to the [International Fertilizer Development Center](#), exceedingly high fertilizer prices could result in a reduction of agricultural output in Africa alone "equivalent to the food needs of 100 million people."

German Industry Wants Videoconference with Putin

In light of the impending sanctions against Russia, top managers of German business are planning a videoconference with Russian President Vladimir Putin. The virtual meeting is to be organized by the Ost-Ausschuss der Deutschen Wirtschaft (German Committee on Eastern European Economic Relations), which includes companies such as Allianz, SAP, Siemens, Volkswagen, and BASF, which employ a total of 280,000 in Russia. The organization says it is aiming for March 3, but the date could still change.

Members of the Ost-Ausschuss are currently being asked about their participation. These include Bayer CEO Werner Baumann, Bilfinger Supervisory Board Chairman Eckhard Cordes, tunnel contractor Martin Herrenknecht, and major East Westphalian slaughterhouse and meat processor Clemens Tönnies.

The Uniper energy group said in response to a query, "As a member of the Committee on Eastern European Economic Relations, we have also been invited." It said the group believes it is necessary to maintain dialogue even in difficult times.

The Wolfsburg-based VW Group can certainly imagine participating in the planned meeting. "Volkswagen AG has received an invitation from the Committee on Eastern European Economic Relations to participate in the economic dialogue with representatives of the Russian government," a company spokesman said this evening. Provided that the geopolitical situation does not deteriorate further, "participation is planned," the spokesman added.

Volkswagen operates its own car factory not far from Moscow with about 4,000 employees. Various VW and Skoda models, as well as engines, are manufactured there. There is also a joint venture with Russian manufacturer GAZ in Nizhny Novgorod, east of the capital, where several VW Group models are also produced.

Other participants may be the agricultural equipment manufacturer Claas, building materials producer Knauf, automotive supplier Schaeffler, and mechanical engineering company DMG Mori. Ost-Ausschuss chairman Oliver Hermes himself is the CEO of Dortmund-based pump manufacturer Wilo.

U.S. Attempt To Shut Out Russian Gas Causing Inflation for U.S. Consumers

There is widespread reporting of a sudden price-shock in natural gas futures in U.S. markets for distribution, wherein the gas contract for February delivery jumped by 75% on Jan. 27. This spike was largely a brief artifact of speculation, but behind it was a 10% one-day increase in natural gas contracts for delivery in March, a "normal" wholesale purchase. The so-called "Henry Hub" (Louisiana) spot price reached \$5/1,000 cubic feet, very high for the United States market in recent years.

Causing the pressure is the record level of U.S. exports of liquefied natural gas (LNG), due to some 30 LNG tankers having been sent to Europe under the policy of "replacing" Russian gas supplies to Europe and crushing European nations' objections to punishing Russia by shutting off its

gas exports there.

But European nations would be left in the cold if they agree to rely on these U.S. exports and treat Russia's low-priced gas contracts as "the enemy." The United States currently produces about 9.5 billion cubic feet (bcf) per day of LNG, based on about 70 bcf/day of total natural gas production in the shale basins. This is what America has the infrastructure to liquefy and export—to the entire world. By contrast, Europe's current use of natural gas amounts to about 25 bcf/day in the heating season, and more than 11 bcf/day is being supplied from Russia, at prices far below natural gas otherwise purchased on spot markets. If the United States exported LNG at maximum capacity and only to Europe, denying customers everywhere else in the world, it would still come up short of Europe's usage of Russian natural gas in the winter.

German Economy Contracts by 0.7% in 4th Quarter

The German economy officially contracted by 0.7% in the fourth quarter of 2021, against an expected drop of 0.3%, the Federal Office of Statistics reported, amid many forecasts that the country is entering recession again. Household consumption and construction declined, while government purchases increased. The main reason for the slump is claimed to be the new COVID restrictions. For the year, a 2.8% growth is reported, not enough to regain the pre-pandemic levels.

German dependence on energy from outside resulted in a 13.5% average price increase of all imports over 2021 as a whole, the highest since 1981. However, the price increase in November alone, at 24.7%, was the highest since the 1974 oil crisis. The energy component of import prices increased by 84% (electricity by 216.4%, gas by 138%).

Turkey's Central Bank Expects Inflation To Reach 55%

The Central Bank of Turkey expects inflation to reach 50% by the end of January and 55% in May. This, it claims, will be the "peak" after which it projects a decline to 23.2% by the end of 2022. The latter figure is a revision upwards of the previous forecast of 11.8% inflation. There is no explanation of why it should fall from 55%. Central Bank Governor Şahap Kavcıoğlu said at a meeting held to release the bank's first quarterly inflation report this year, that its target is still to reach 5%, but he did not say when that would be. He also said that the annual inflation forecast for the end of 2023 has been raised to 8.2% from 7%. That appears to be wild optimism. In December the inflation rate was 36%.

"Increase in inflation in the recent period has been driven by distorted pricing behavior due to unhealthy price formations in the foreign exchange market, supply-side factors such as the rise in global food and agricultural commodity prices, supply constraints, and demand developments," Kavcıoğlu said. But in fact, the central bank has rapidly pushed down interest rates despite the Turkish lira collapsing in value against a strengthening dollar. And the government has tried issuing currency directly to compensate Turks for the decline in the lira.

Comparison of 2021 U.S.-China Economic Growth

The early 2021 forecasts of many economists that America would outgrow China in rebounding from the pandemic collapse, were proven wrong. China's 2021 GDP growth was a reported 8.1% over the year. U.S. GDP growth in the fourth quarter was

6.9% relative to the third quarter, but for the full year 2021 it stood at 5.7%. At just under \$16 trillion equivalent, China's GDP, even in nominal dollar terms, is now more than two-thirds that of the United States—just over \$22 trillion—and will overtake it, according to a new forecast, by 2028.

China's national planning and reform body attributed its faster growth to greater, and growing, investment in research and technological innovation. The other key factor is technology in infrastructure; China is investing \$300-\$400 billion a year in new infrastructure, led by high-speed transportation and new power projects in many countries. President Joe Biden's "infrastructure" visit to a Pennsylvania bridge that collapsed hours before he arrived Jan. 28 was poignant; but putting another bridge there is not going to raise America's economic productivity.

China's industrial production grew by 9.6%, fixed asset investment by 4.9%, and 12.69 million jobs were created, according to the National Bureau of Statistics release Jan. 17. China's real disposable personal income, after inflation, rose by 8.1% in 2021. On the other hand, Americans' average real weekly wages fell by 2.4% over the year. U.S. Industrial production was 3% lower than its peak level of mid-2018; manufacturing output was 5% lower. Regarding labor productivity, with labor forces growing fairly rapidly in both countries in 2021, a long-term trend nonetheless continued: China's productivity growth was 1.6%; that of the U.S. economy grew at an annual rate of 0.6% for the first three quarters of 2021, the latest figures available.

The Chinese banking system's loans outstanding, offered both to the domestic economy and to many countries in the Belt and Road Initiative framework, rose by 11.7% in 2021; loans outstanding of the U.S. banking system grew by less than 0.5%.