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How the war in Ukraine hurts the U.S. economy

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4 minutes

Russia's invasion of Ukraine threatens to pull the rug out from under our previously pretty sweet economic recovery. It's kind of a *Godfather 3* moment — just when you think you're out, they pull you back in.

Why it matters: We just went through a massive economic upheaval. The recovery is still fragile — supply chains aren't fully recovered, and inflation is at record highs. Now, add on the fallout from both the war itself and the crippling economic sanctions levied against Russia for its unprovoked attack.

- We've never ripped an economy as large and as interconnected as Russia's out of the global economic fabric. Russia's economy is reeling, as intended, but you can't do that kind of extraction without hurting yourself in the process.

- There already are, and will be more, disruptions to the flow of goods and money in our intricately connected world.

Energy: This is the key pain point, and Europe will feel it most acutely. The EU got 45% of its natural gas from Russia last year.

- Even though sanctions have not yet cut off the EUs supply, prices are rising in anticipation of disruption. Energy operates in a global market, so if there's a problem in one part of the globe, everyone feels it.
- Gasoline and oil prices in the U.S. are soaring, as energy markets adjust to life without a supply of Russian oil and gas.
- The U.S., U.K. and Australian bans on Russian energy imports, announced last week, will put further pressure on the system, even though we import only a small percentage of oil from Russia.

Cars: Price spikes in metals produced in Russia, like palladium and nickel, will filter out into U.S. inflation more slowly. The commodities are used to manufacture automobiles, both electric and gaspowered.

- That'll pile on to the pandemic-era computer chip issues we're still dealing with, which also slowed down auto production. (Read more about the commodity issues.)

Food: Russia and Ukraine produce a lot of wheat, and prices are surging already.

- The U.S. is not a major importer, but a disruption on the other side of the planet isn't good news at a time when food prices are already rising.

Supply chain: Remember when we didn't have to talk about the supply chain? I don't. Already we're seeing backups of ships at some ports because of the war, the New York Times reports.

- Expect more snarls, as energy constraints and commodity shortages could curtail manufacturing.

The big picture: It's ugly, folks. All of these hits add to an increased risk of recession and more inflation, as Axios' chief economic correspondent Neil Irwin explains.

What to watch: The financial markets. They're jittery, with stocks down for the year so far, the S&P

500 seeing increased volatility — and investors on watch for potential losses at major financial institutions.

- Information is trickling out about how much exposure banks and financial firms have to Russian assets. Already, BlackRock funds lost roughly $17 billion on Russian securities, the FT reported.
- A market dislocation could affect the value of retirement accounts, kids' college funds, or savings for a home purchase.

Yes, but: For now, there are reasons to be optimistic. Unemployment is low, the job market is humming along and people still have money to spend.

The bottom line: Waging war — even economic a purely economic one — still has a cost.