Indirect effects of the Russian-Ukraine war likely to exacerbate existing health care trends

While the Russian invasion of Ukraine in late February likely won't have a direct impact on the supply chain because neither country is a big exporter of health care products, the indirect impacts are likely to compound existing supply and price trends. In case of severe sanctions against Russia, the country could also retaliate by targeting critical supply chain companies and infrastructure, including in the aerospace, defense, energy and agriculture sectors.

- **Higher costs in transportation and shipping** are likely due to the loss of Russian energy imports that account for 10 percent of the global supply of oil and 17 percent of the global supply of natural gas, with Europe's natural gas prices more than doubling in the last two weeks. West Texas Intermediate (WTI) crude quickly surpassed $100 per barrel on March 1 – the first time since 2014. In addition, Ukraine's state gas company could be forced to close parts of its network as a precaution or due to damage which could affect reserves and gas prices in the winter of 2022-2023. These increases compound existing high demand and high prices in the energy sector which has led to elevated transportation and shipping costs, as well as product costs if oil is a key raw material.
- **Increases in the costs of raw materials** needed to manufacture health care products are likely for those who rely on Russian or Ukrainian raw materials.
    - One of the top five producers of steel, nickel and aluminum, Russia also is a big source of heavy metals such as cobalt, used in gamma-radiation sterilization. We have contacted several who use gamma radiation sterilization to confirm they source cobalt elsewhere. But if the Russian supply is no longer accessible, it could strain global supply. Prior to the war, pricing for key commodities, such as nickel, used in joint replacements and stents, had already reached record highs, while prices for aluminum, used in the manufacturing of diagnostic tools, surgical devices, stethoscopes, trocars and disposable tools, have also already been higher.
    - The war could also interrupt the supply of critical gases used to manufacture semiconductors that are mainly sourced in Ukraine. Ukraine reportedly produces up to 90 percent of semiconductor grade neon that is exported to the U.S. Russia could also restrict the global supply of palladium, a key metal used in the semiconductor industries.
    - Disruptions to agricultural commodity exports are likely to occur in the coming days, leading to higher prices for commodities such as corn and wheat. The closure of Russia's commercial ports in the Sea of Azov will further add to the price pressure.

Vizient's Disaster Preparedness team will continue to monitor the situation. We are in close contact with our largest pharmaceutical, medical/surgical and capital suppliers as well as our largest distributors to assess the impacts so we can alert you about changing conditions.

Conflicting signals in the U.S. economy

Despite the economic upheaval of war and the inflationary trends before the war, economists recently surveyed by the *Wall Street Journal* believe the U.S. economy is on solid ground and can withstand the economic shocks. They note retail sales remain strong, increasing by 3.8 percent in January over the previous month, and in February, unemployment inched closer to the pre-pandemic rate of 3.5 percent, with millions of job openings.

However, others note the biggest concern is the uncertainty that a war injects into the economy. The uncertainty and the potential for a drawn-out conflict could worsen inflation and supply chain challenges, which could lead to economic downturn if not checked.

In addition, higher energy prices are most likely to affect the broader U.S. economy. Inflation climbed to another record high of 7.9 percent with gasoline accounting for over a third of that increase, according to the latest U.S. Bureau of Labor Statistics (BLS) report. The Core CPI has also reported that commodities, other than food and energy, have recorded a monthly 0.5 percent or greater increase for the last five months.

The Federal Reserve announced on March 16 that it is raising interest rates by a quarter-point to ease inflationary trends as the U.S. comes out of the pandemic and combats economic uncertainty in the wake of the Russian war in Ukraine, and it is highly likely there will be additional increases through 2022.

Sources: Vega Economics, CBS News article: “Federal Reserve announces interest rate hike: on March 16, 2022”