The U.S. economy's performance in the past few months has been better than most people expected, or even realized.

While Omicron took infection rates to a new high, little trace appeared in economic data. Inflation and related problems, such as tangled supply chains, may continue to challenge business leaders and policymakers, but the U.S. economy is performing well by most measures.

The unemployment rate is already back to the full employment level. The labor force participation rate has started to pick up, as some of the folks who left the labor force are coming back to work.

Corporate profits are more than satisfactory. Profits in Q3 2021 were 21% above the pre-pandemic level which is substantially better than many businesses had expected when the pandemic first hit in March 2020.

Strong profits have supported business investment. The pandemic shifted investment away from buildings and toward equipment and information products. The willingness to invest suggests that businesses are surprisingly optimistic about the future.

The pandemic drove the implementation of technology and, consequently, appears to have accelerated labor productivity growth.

Previous economic forecasts assumed trend productivity was less than 1%, but productivity growth has remained surprisingly strong during the recovery from the pandemic, about 2% over the four quarters to December 2021.

If productivity growth remains high, many of the long-term issues facing the U.S. economy, such as financing social security, will likely become considerably easier to solve.

But just as Omicron's potential to impact the economy waned, geopolitical tensions increased.

The Russian invasion of Ukraine is not likely to derail the U.S. recovery, but it will push up inflation in the short run.

The U.S. economy is likely to feel the impact of a continuing Ukraine crisis through two main channels.

Most importantly, the price of oil is likely to remain higher than it would have without the crisis, although, how much higher is still an unknown.

Russia produces about 12% of global crude oil supplies. Sanctions will limit this oil supply, as the United States, and possibly some European countries, reduce or end purchases of Russian oil.

Oil, however, is a global commodity and Russia can still sell oil to non-boycotting nations. That would release other oil for shipment to boycotting countries without affecting the global price of oil.

On the other hand, payments may be more difficult, and Russia may need to sell its oil at a discount, but the size of the supply shock may be more limited than that 12% figure suggests.

Europe's heavy dependence on Russian natural gas suggests that the EU's economy will experience slower growth or, in the extreme case, a recession.

The EU is a major trading partner with the United States, accounting for more than 15% of U.S. exports.

Additionally, a decline in demand and a dollar appreciation would affect the relative safety of the United States and make goods less competitive. Both would reduce the contribution of exports to U.S. GDP growth.

The combined impact is not large enough to generate a recession in the United States, but growth could slow down, and inflation would pick up, at least in the short term.

Economic forecasts assume a U.S. $15 per barrel rise in the price of oil, which leads to an extra half a percentage point rise in the consumer price index (CPI) in 2022, with most of the rise occurring in the second quarter.

That's not huge, but during a period when the Fed is struggling to control inflation, it presents policymakers with a big problem.

Before the invasion, a total of five 25-basis-point Fed hikes were projected in 2022, starting in March.

Despite this jump in inflation, the Fed's interest rate trajectory is unlikely to change because the Fed knows that the extra inflation is likely transitory, and the extra inflation will be associated with some additional unemployment, which would call for the Fed to ease.

The reasons for easing offset the reasons for raising rates, leaving policy unchanged from the pre-invasion path.

There could be an additional small impact on exports.

First, growth in Europe is likely to take a hit by as much as half a percentage point, even if natural gas deliveries from Russia aren't interrupted.

Second, any geopolitical crisis pushes investors to buy safe assets, mainly U.S. dollars. The dollar's appreciation will make U.S. exports less competitive.

Also, keep in mind, COVID-19 hasn't totally gone away. While the probability of the disease becoming both less deadly and endemic is rising, new mutations could change things quickly.

Unfortunately, COVID-19 could once again negatively affect the economy.