



The
President's
Report *to the*
Board *of*
Directors

April 5, 2022

CURRENT ECONOMIC DEVELOPMENTS - April 6, 2022

Data released since your last Director's meeting were once again mixed. While domestic demand remains strong, headwinds remain in the form of continued high inflation, supply chain issues, and uncertainty stemming from Russia's invasion of Ukraine. The public health situation continues to improve and the labor market remains strong, though rising wages could apply additional upward pressure on inflation. In the near term, GDP growth is likely to pick up again in the current quarter following a first quarter slowdown stemming from sharp declines in inventory investment and net exports.

Nonfarm payroll employment posted a gain of 431,000 jobs in February and previous months' increases were revised upward. The unemployment rate declined two-tenths to 3.6% (a pandemic-era low) even as participation increased further. Initial claims for unemployment insurance have been trending downward and remain in line with their pre-pandemic levels.

Measures of consumer attitudes were mixed in March but have generally been trending downward since mid-2021 when they nearly regained their pre-pandemic levels. Total retail sales increased slightly in February, from a January level that was revised sharply higher. Sales of lightweight vehicles declined in March for the second consecutive month and remain well below their pre-pandemic levels. Real consumption fell in February while real disposable income declined for the seventh consecutive month.

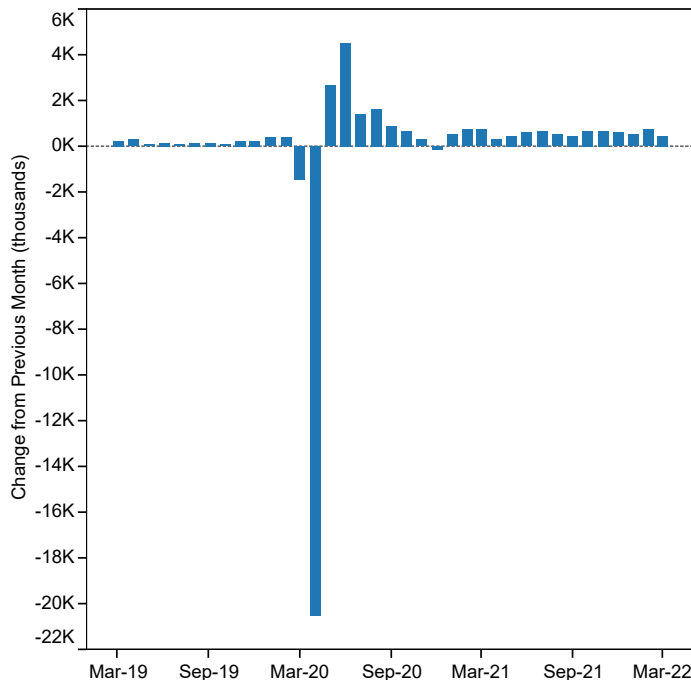
Housing market data were mixed in February but remained at elevated levels. New home sales have declined over the last two months following the surge seen at the end of 2021, while existing home sales also declined in February. Housing starts rose in February, reaching their highest level since 2006, as both single- and multi-family starts contributed to the gain. Meanwhile, both single- and multi-family permits decreased in February.

Orders for durable goods declined in February while decelerating slightly in each of the last three months on a year-over-year basis. Orders of nondefense capital goods excluding aircraft also eased in February but accelerated slightly on a year-over-year basis. Industrial production rose further in February following a strong gain in January, while capacity utilization in manufacturing rose nearly a full percentage point. Both the ISM manufacturing and services indices signaled expansion in March—however, the ISM manufacturing index fell slightly while the ISM services index rose. The Kansas City and Philadelphia Fed manufacturing surveys continued to signal expansion, while the New York Fed survey fell to its lowest level since May 2020 and has signaled contraction in two of the last three months.

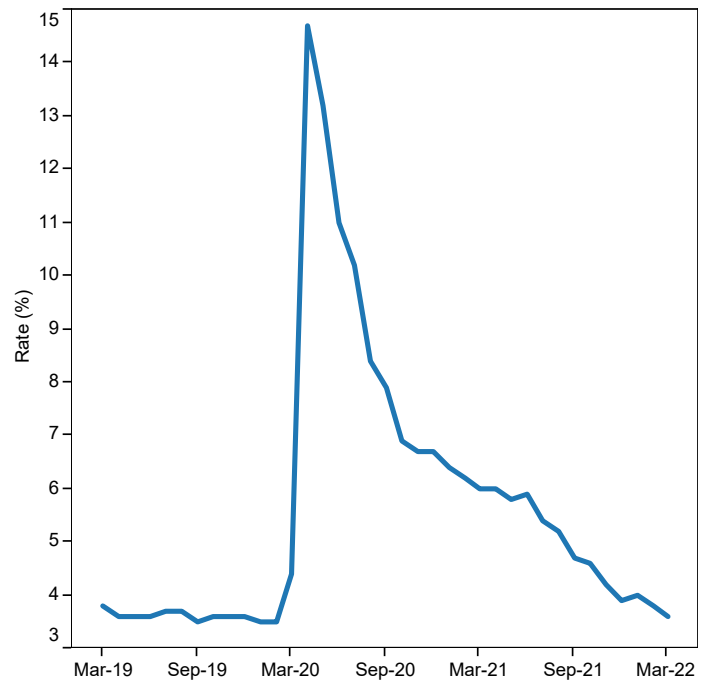
Measures of inflation continued to accelerate in February. On a year-over-year basis, prices as measured by total and core CPI rose 7.9% and 6.4%, respectively—the highest readings since 1982. Total and core PCE also grew at their fastest rates in nearly 40 years. Due largely to the uncertainty surrounding the Russia/Ukraine conflict, oil prices rose, on average, to \$108.40/barrel in March—up nearly \$17/barrel from February's average. Recent daily prices have decelerated slightly, closing at \$103.28/barrel on April 4th.

Nonfarm payroll employment added 431,000 jobs in March and gains in the previous two months were revised upward, adding a net gain of 95,000 more jobs than was previously reported. Also in March, the unemployment rate declined two-tenths from the previous month to 3.6%. The labor force participation rate increased another one-tenth of percentage point in March to 62.4% and is now up seven-tenths since October after mostly holding steady over the previous year.

Nonfarm Payroll Employment

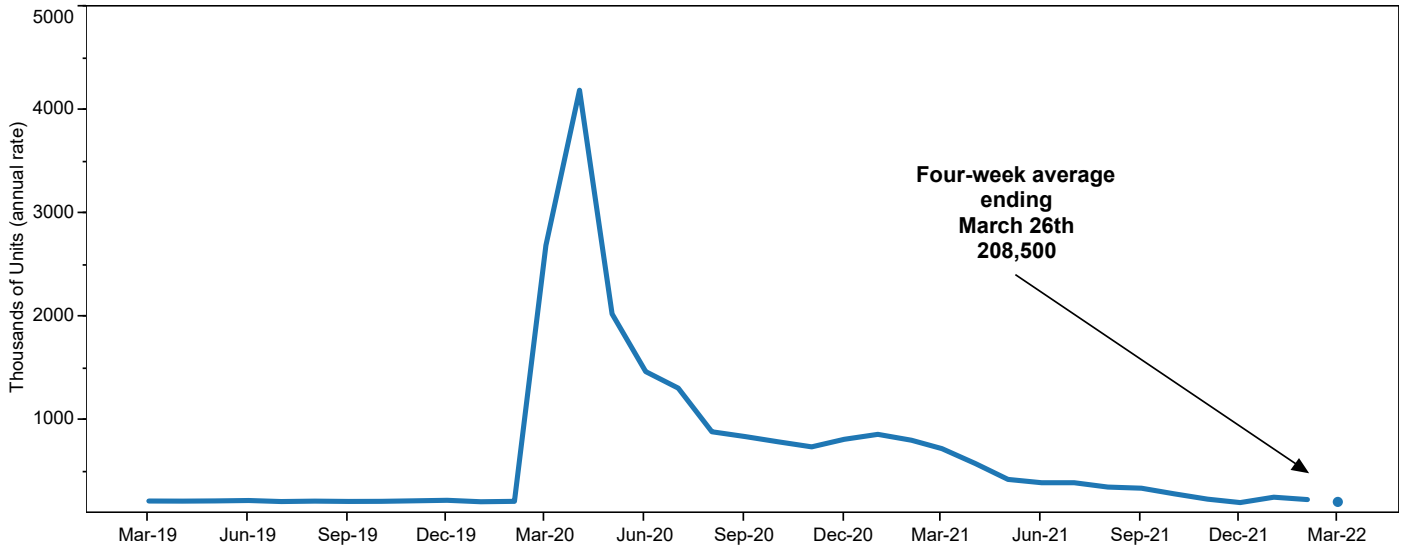


Unemployment Rate



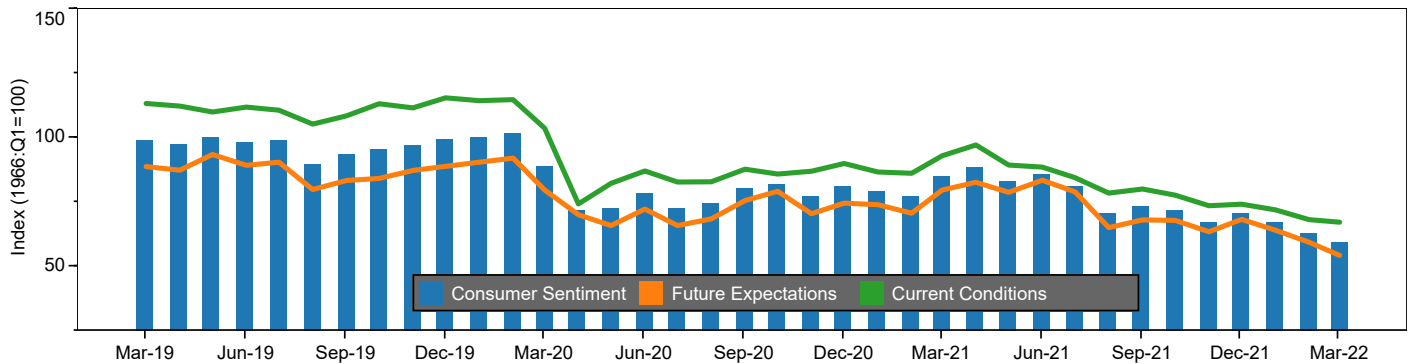
Initial claims for unemployment insurance rose by 14,000 to 202,000 in the week ending March 26th, after falling by 27,000 in the previous week to the lowest level since 1969. The four-week moving average decreased by 3,500 to 208,500 in the latest week.

Initial Claims

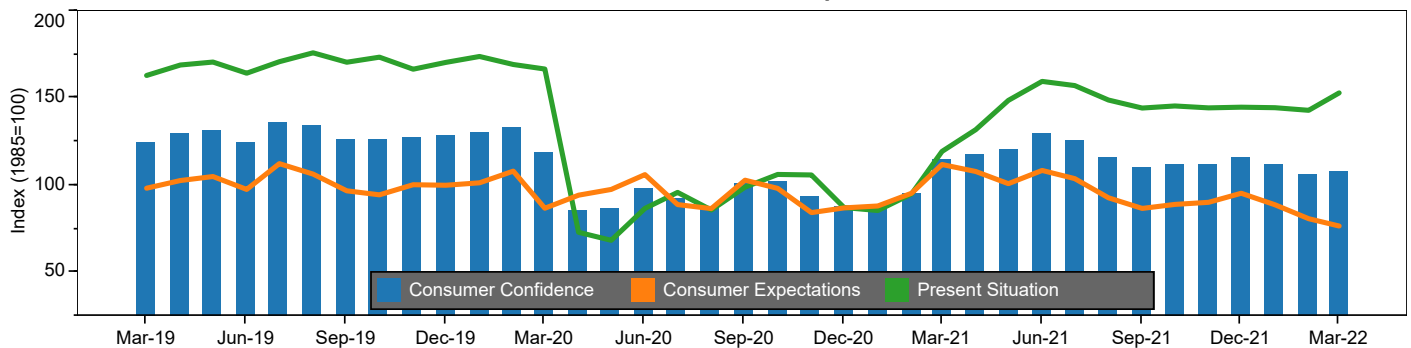


The consumer confidence index rose slightly to 107.2 in March from the February reading of 105.7. The present situation subcomponent increased to 153.0 from 143.0 in February, yet the expectations subcomponent declined from 80.8 to 76.6. The consumer sentiment index registered 59.4 - falling from February's reading of 62.8 to reach the lowest level since August 2011. The current conditions subcomponent eased from 68.2 in February to 67.2 in March and the expectations subcomponent declined from 59.4 to 54.3.

Consumer Sentiment and Expectations

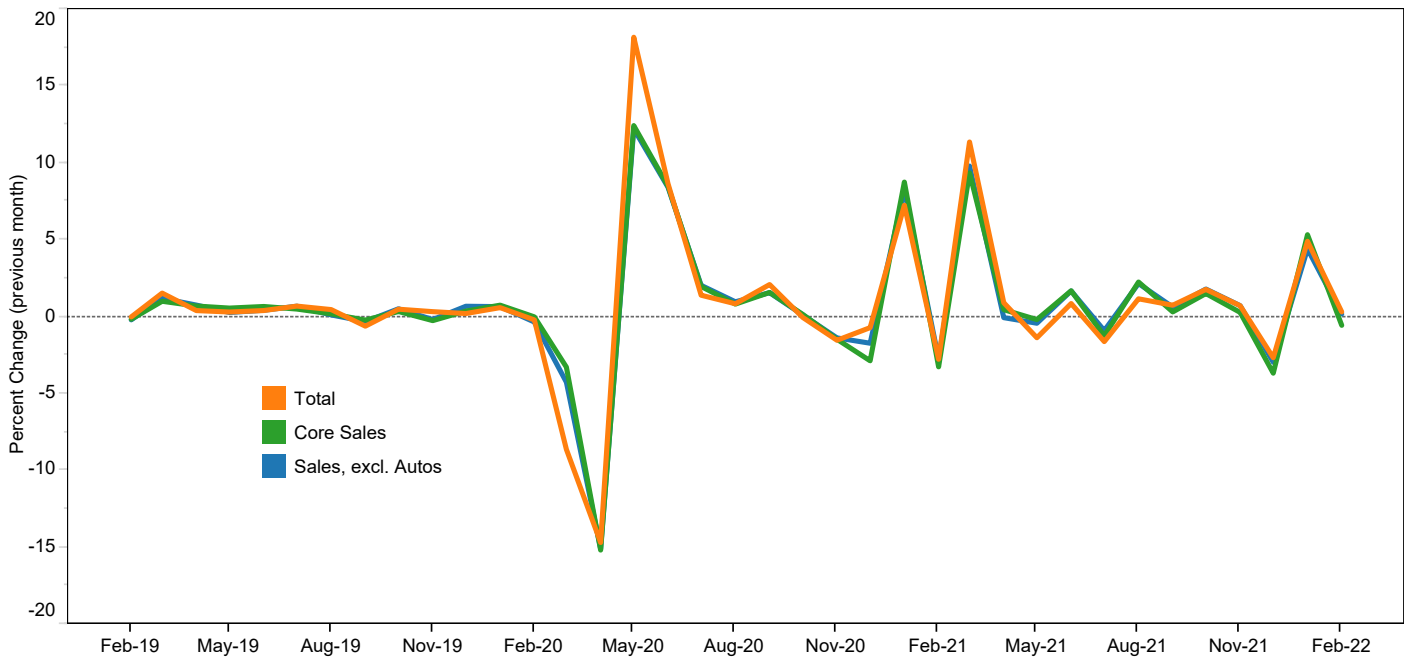


Consumer Confidence and Expectations



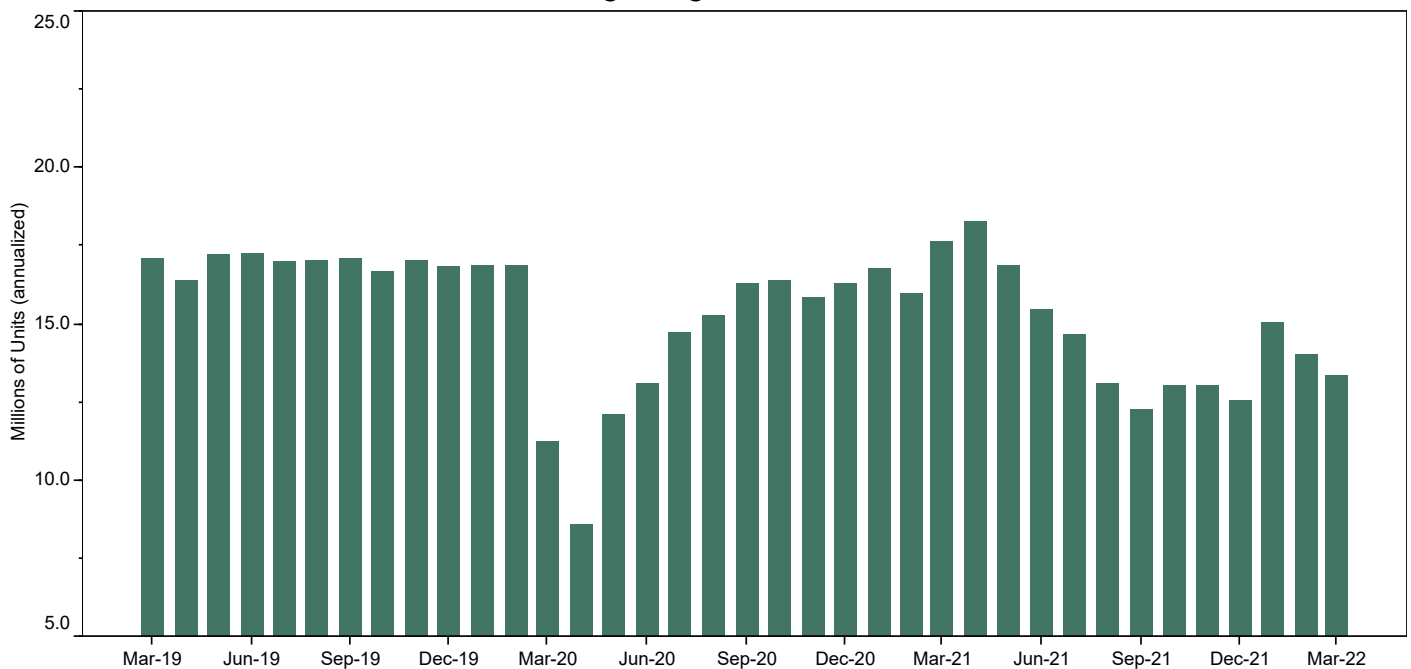
Total retail sales rose 0.3% in February – a sharp deceleration from the 4.9% increase seen in January (revised up from 3.8%). Sales at food services establishments and gas stations posted notable gains though most other major categories saw deceleration or decline, including nonstore retailers, furniture and electronics stores, building supply stores, and auto dealerships. Also in February, retail sales excluding autos rose 0.2% while core retail sales fell 0.6%.

Retail Sales



Continued supply chain issues and chip shortages weighed on sales of lightweight vehicles in March, as sales fell to a 13.3-million-unit annual rate—down from 14.0 million in February. Some raw materials used in the production of semiconductors come from Russia and Ukraine, adding to the ongoing supply issues.

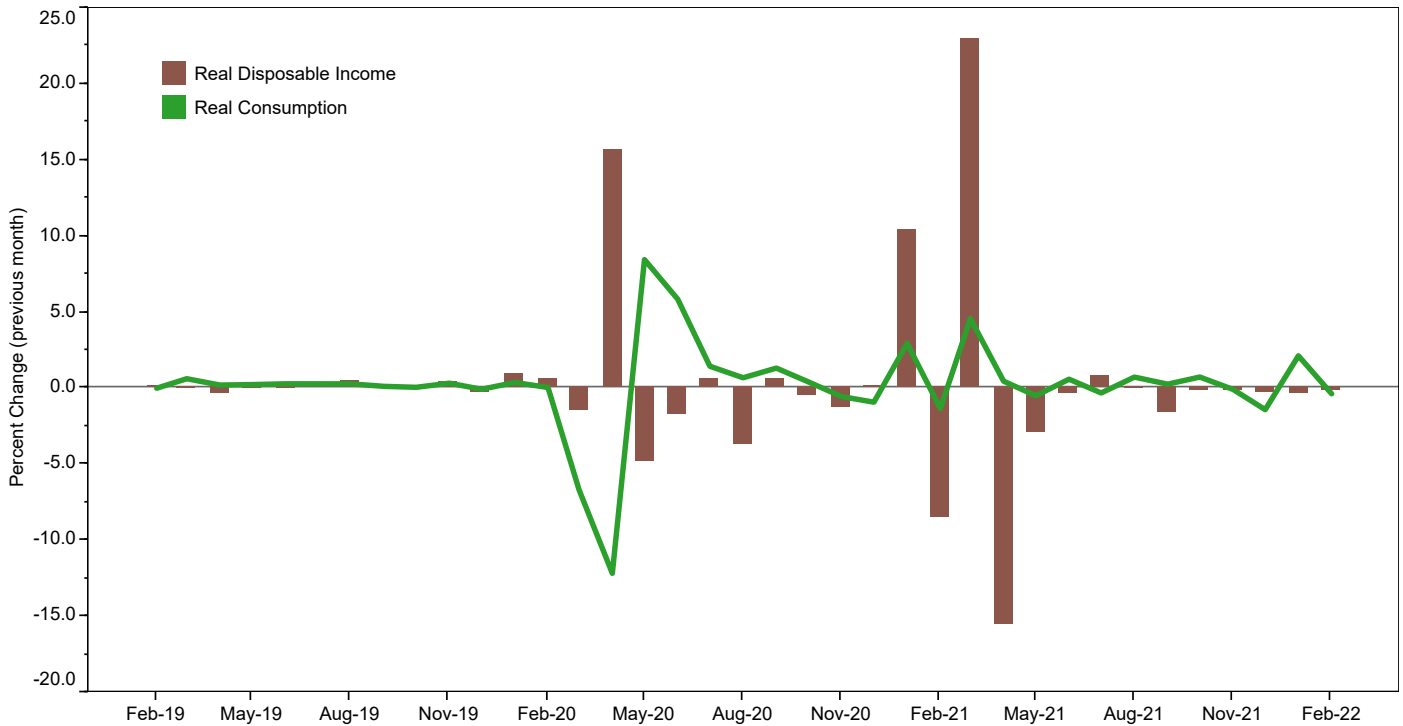
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

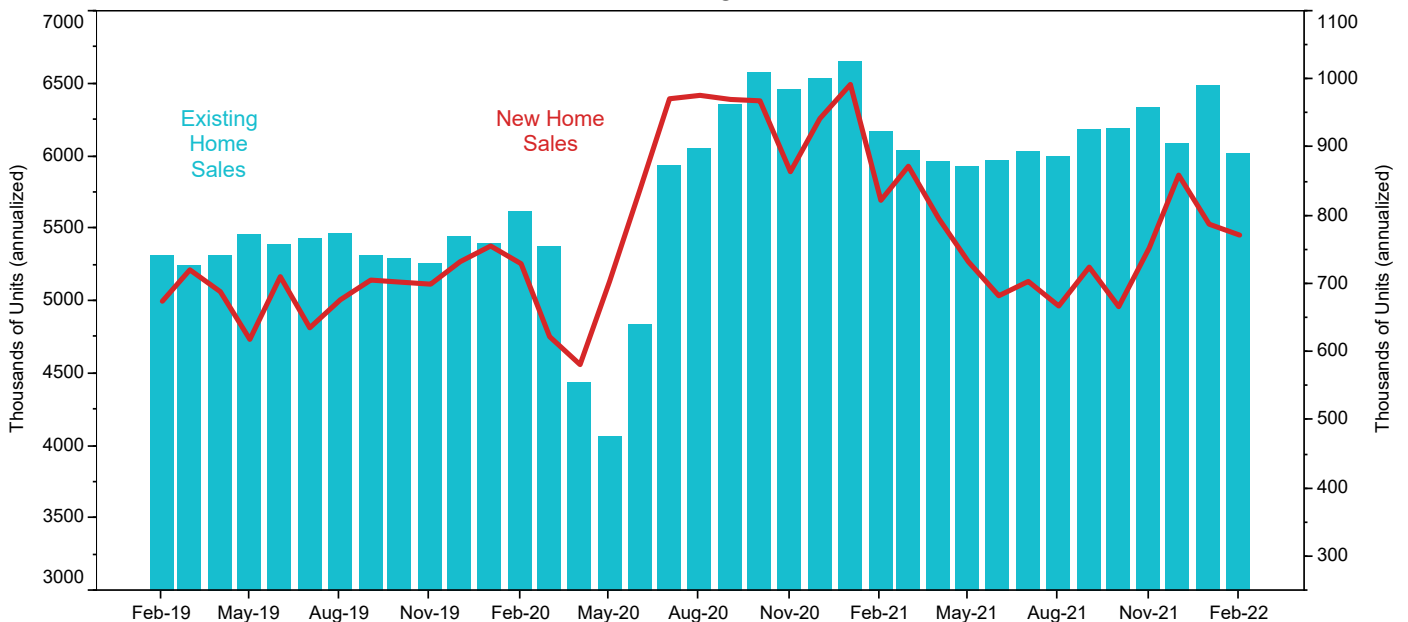
Real consumption declined 0.4% in February, down from a 2.1% increase seen in January—which was revised up from 1.5%. February's decline was due to a large drop in spending on goods while spending on services saw the strongest gain in seven months. Real disposable incomes declined for the seventh consecutive month in February as rising wages continued to be offset by high inflation.

Real DPI and Consumption



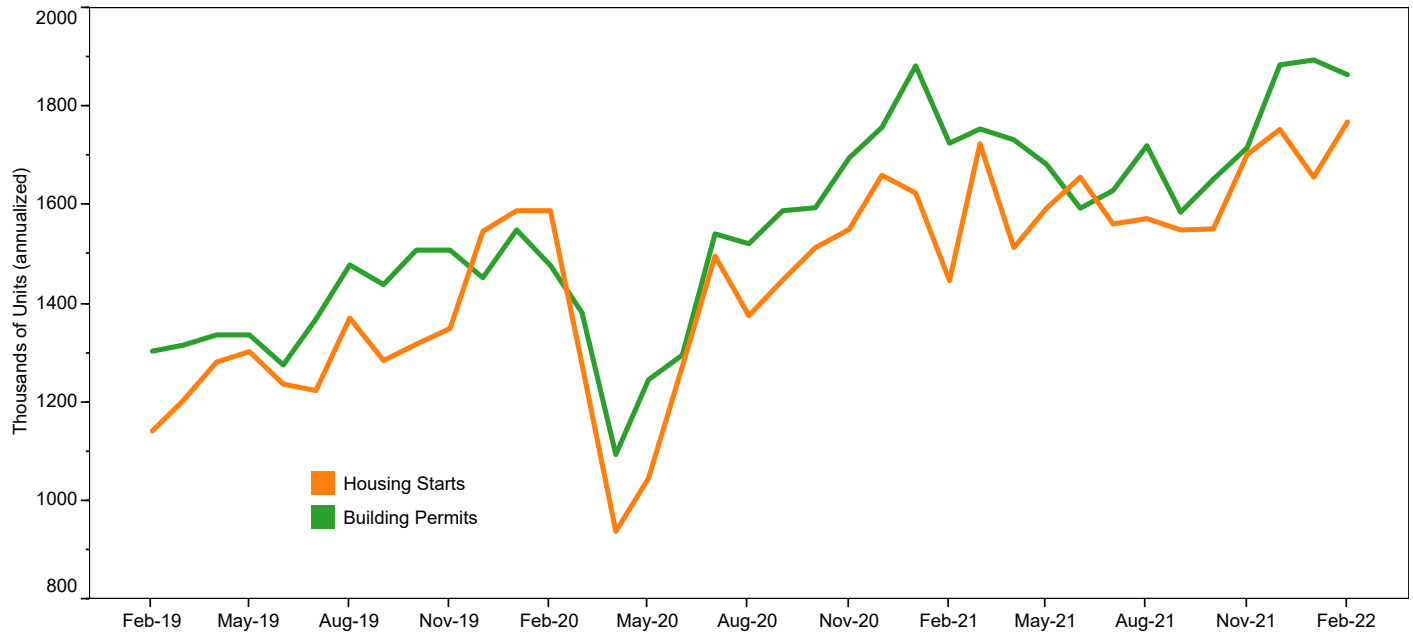
New home sales declined in February—falling 2.0% to a 772,000-unit annual rate. Existing home sales fell 7.2% to a 6.02-million-unit annual rate in February. Relative to last year, sales of new homes are down 6.2%, while sales of existing homes are down 2.4%. The declines were likely due in part to affordability issues, as potential buyers now face higher mortgage rates in addition to steadily rising prices.

New and Existing Home Sales



In February, total housing starts climbed to their highest reading since June 2006—rising 6.8% to a 1.77-million-unit annual rate. Both single- and multi-family starts rose in February, with multi-family starts reaching their second-highest reading since 1986. Also in February, total building permits fell for the first time since September—declining to a 1.87-million-unit annual rate. Both single- and multi-family permits fell in February, though both remained close to 15-year highs.

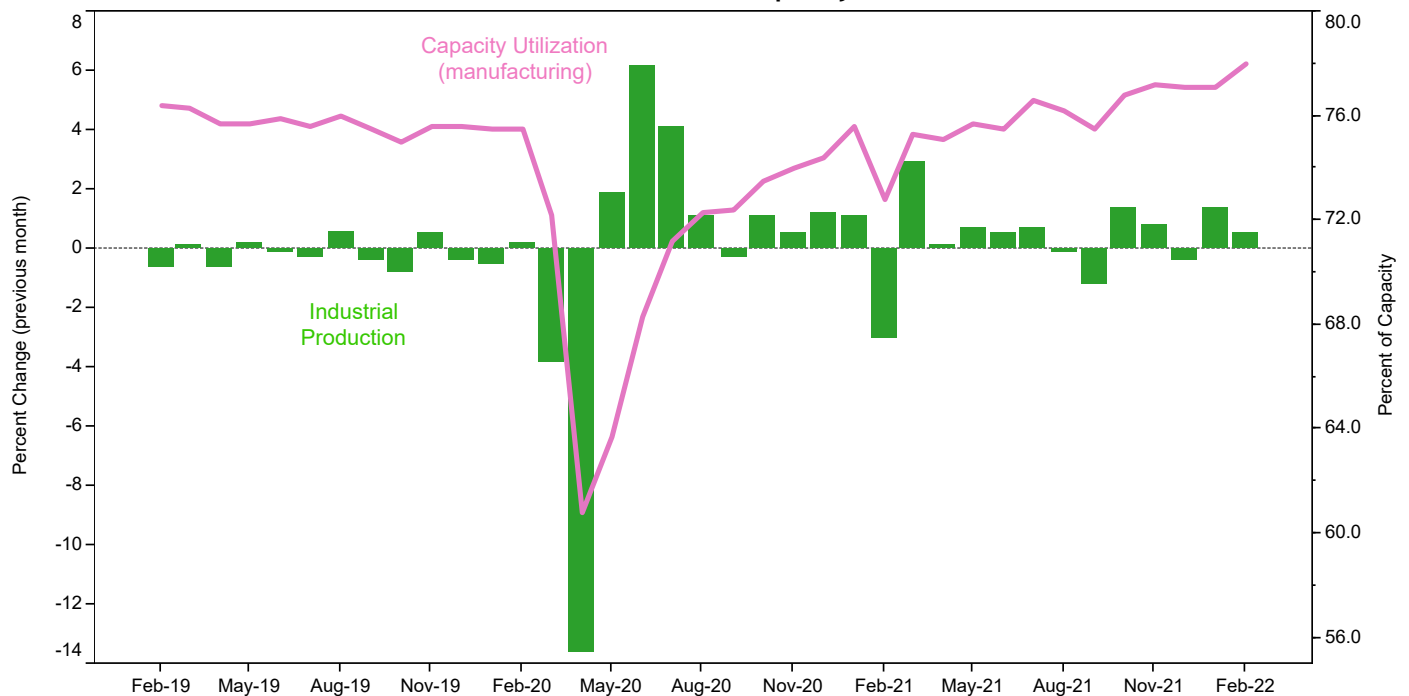
Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

Industrial production rose 0.5% in February, decelerating from the 1.4% increase seen in January. Output for manufacturing and mines both rose in February—by 1.2% and 0.1%, respectively. Meanwhile, output from the utilities market declined by 2.7%, due largely to February's return to seasonable temperatures following a colder-than-average January. Meanwhile, capacity utilization in manufacturing increased by nearly a full percentage point, rising to 78.0 in February, from 77.1 in January.

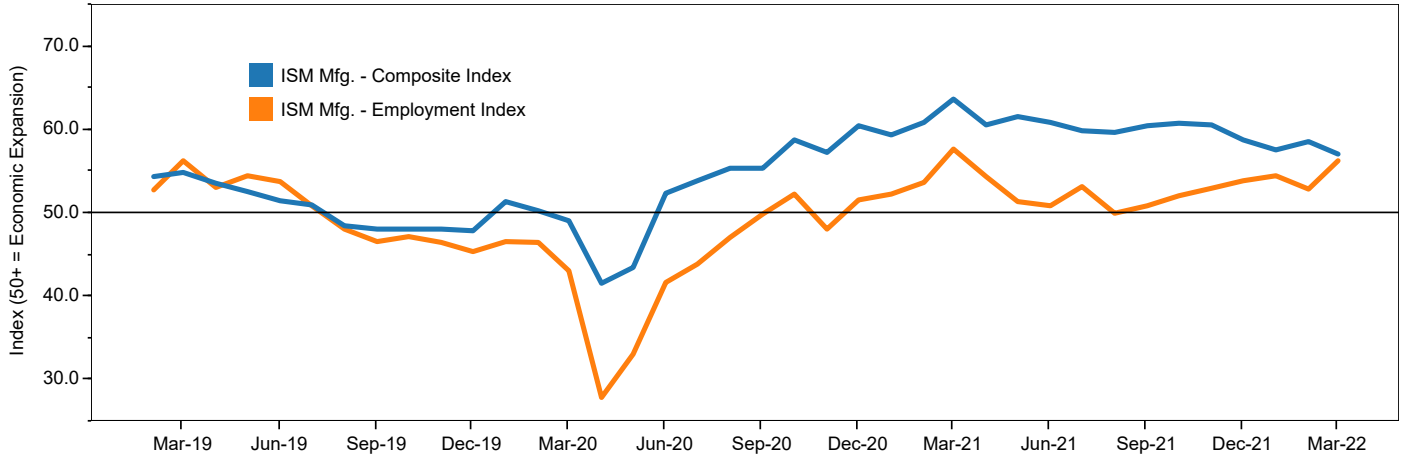
Industrial Production and Capacity Utilization



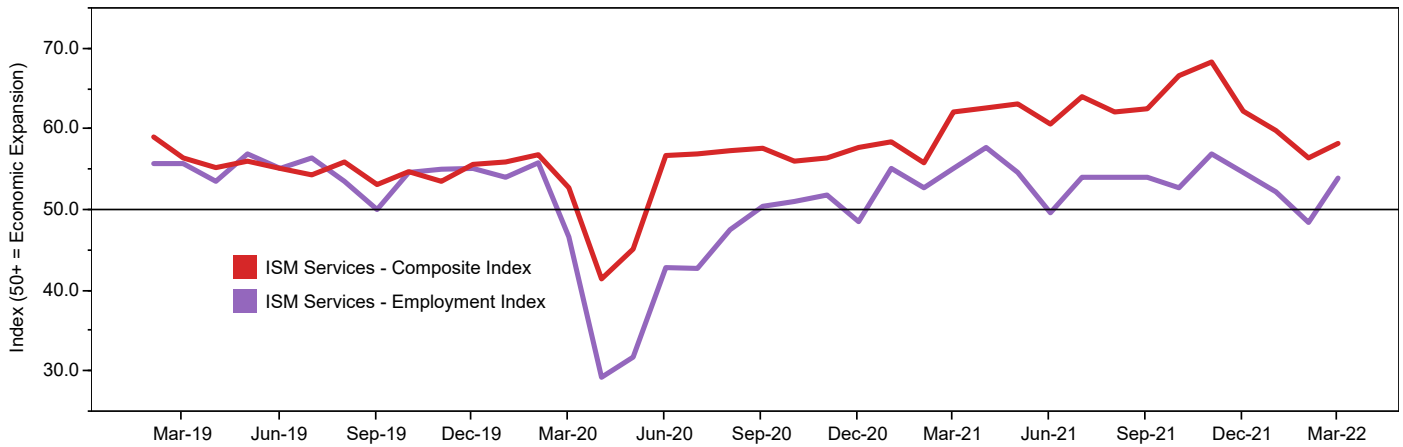
Source: Federal Reserve Board of Governors / Haver Analytics.

The ISM Manufacturing index fell 1.5 percentage points from February—registering 57.1 in March. Despite continued supply-chain issues, this marks the 22nd consecutive month that the index has indicated expansion. The employment subindex rose to 56.3 in March from 52.9 in February and has not indicated contraction since November 2020. The ISM services index rose in March—registering 58.3, up from the February reading of 56.5. The employment subindex rebounded as well in March after signaling contraction in February—rising to 54.0 from 48.5. Regional surveys from the Federal Reserve were mixed. While the Kansas City and Philadelphia surveys both increased and remained in expansionary territory, the New York survey fell 14.9 points to -11.8 in March—signaling contraction for the second time in the first three months of 2022.

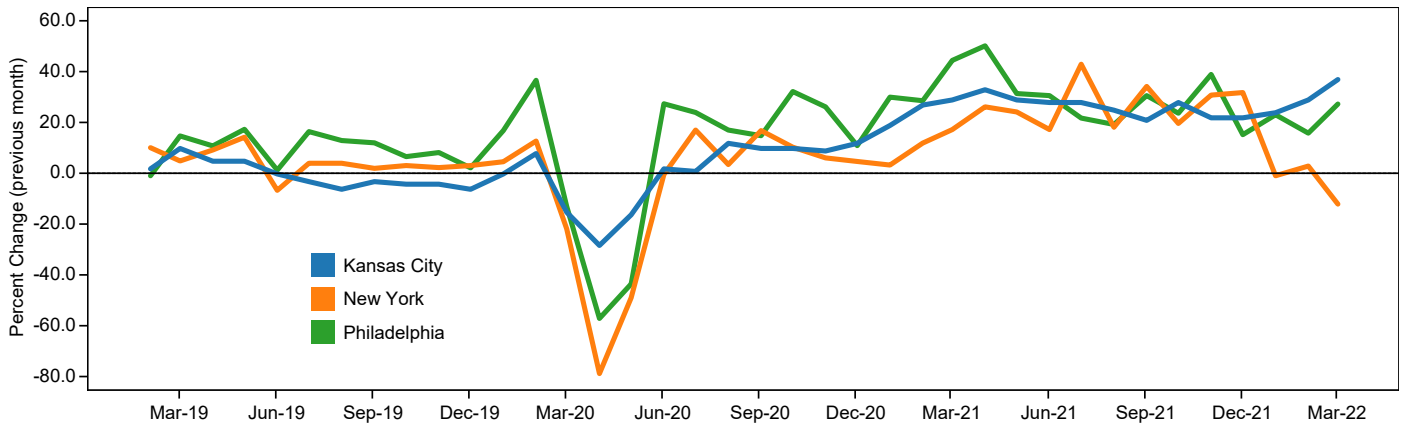
ISM Manufacturing Indices



ISM Services Indices



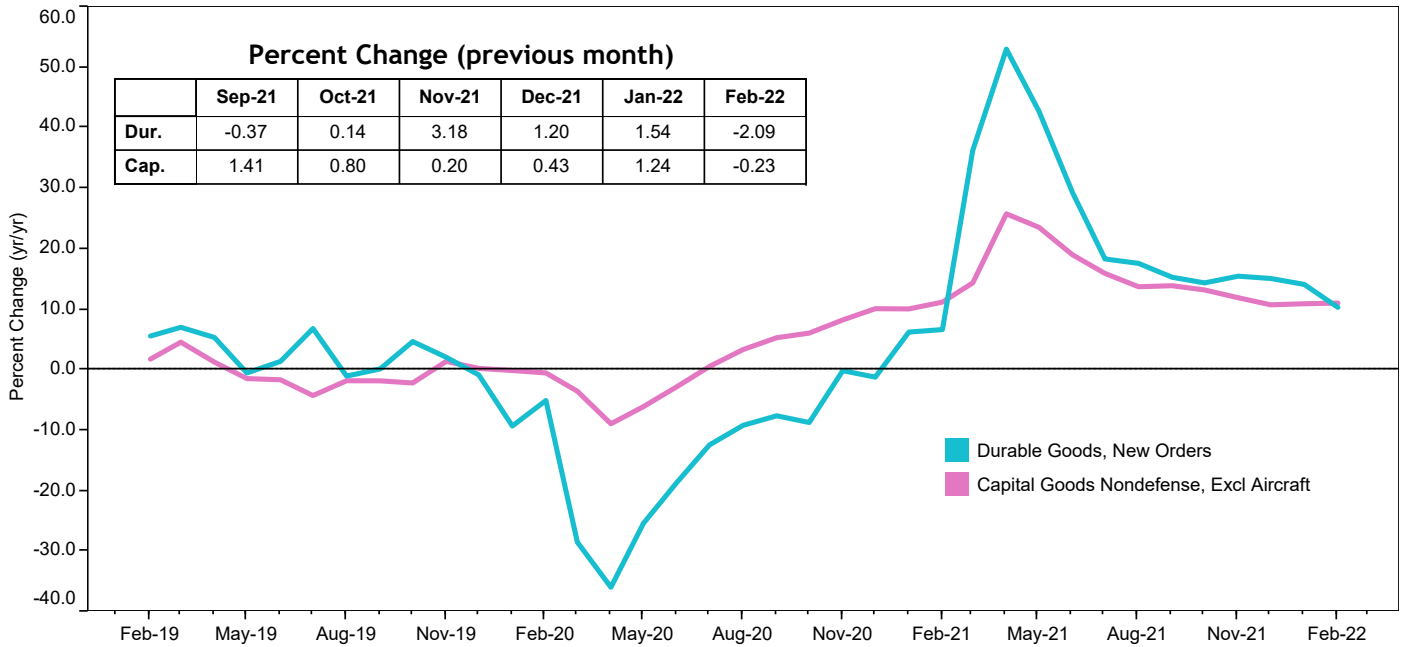
Regional FRB Manufacturing Surveys



Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Orders for durable goods fell for the time in five months in February—declining by 2.1% after January’s 1.5% increase. Meanwhile, orders of nondefense capital goods excluding aircraft fell 0.2%. On a year-over-year basis, growth of both total and core orders remained robust. Nominal data within manufacturing have been rising—boosted by rising prices—although February saw some deceleration relative to the last several months.

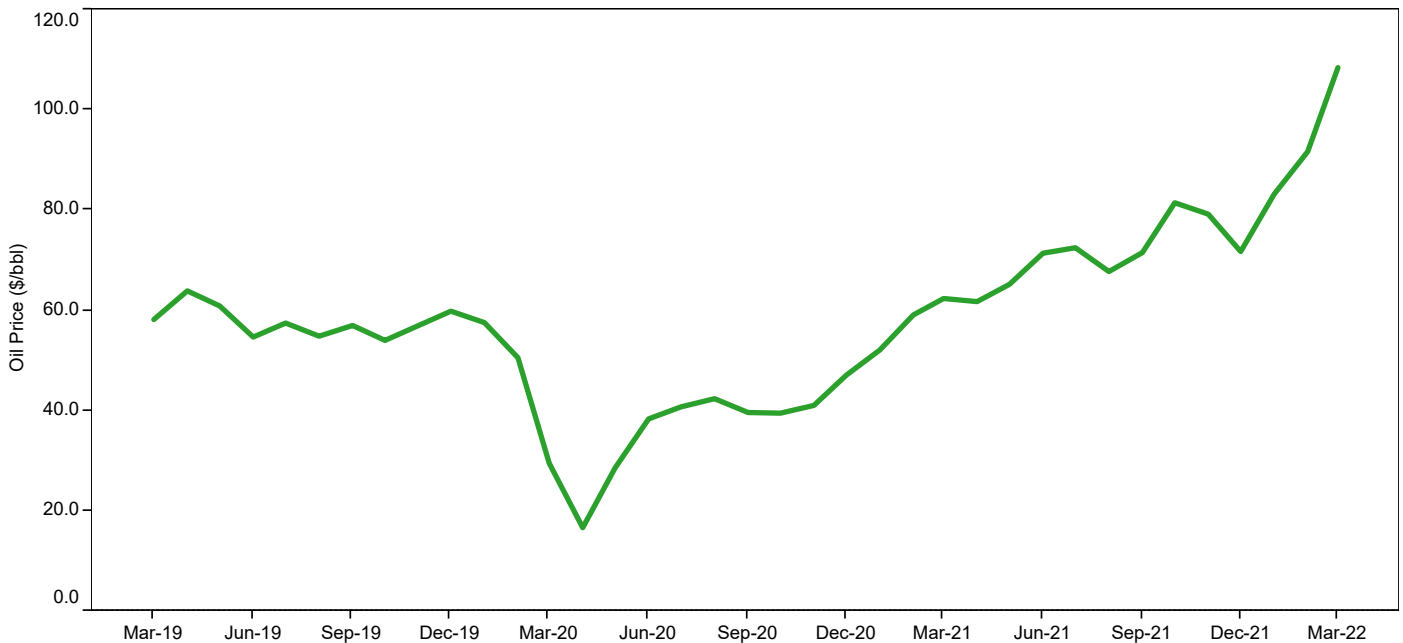
Durable Goods Orders



Source: U.S. Census Bureau / Haver Analytics.

Due largely to the effects of the Russia/Ukraine conflict, oil prices rose sharply in March from the previous month, continuing the upward trend seen since December. On March 8th, prices closed at \$123.64/barrel - the highest since 2008. Although prices declined from this level over the course of the month, prices averaged \$108.41/barrel in March—up from \$91.65/barrel in February. On April 4th, prices closed at \$103.28/barrel.

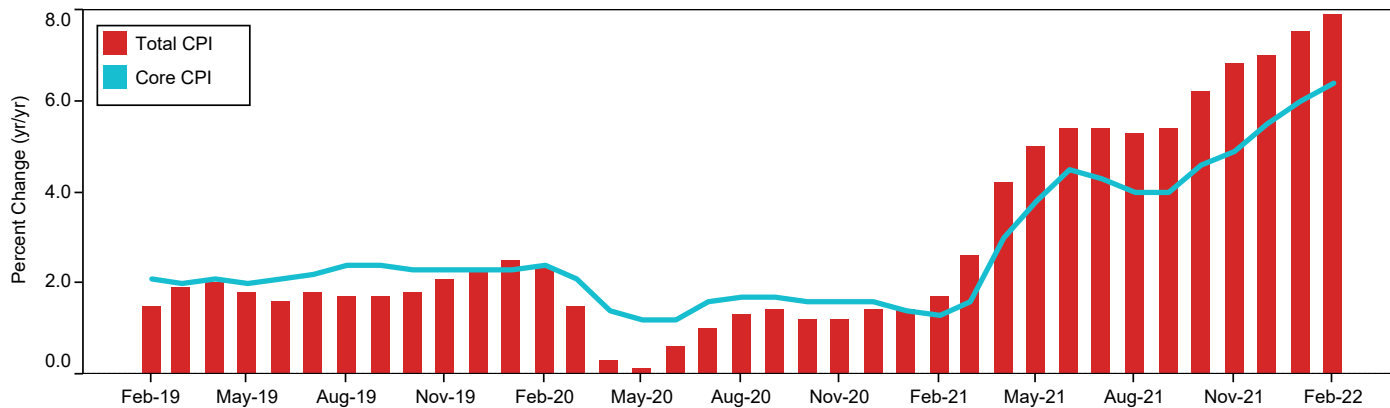
Domestic Spot Oil Price



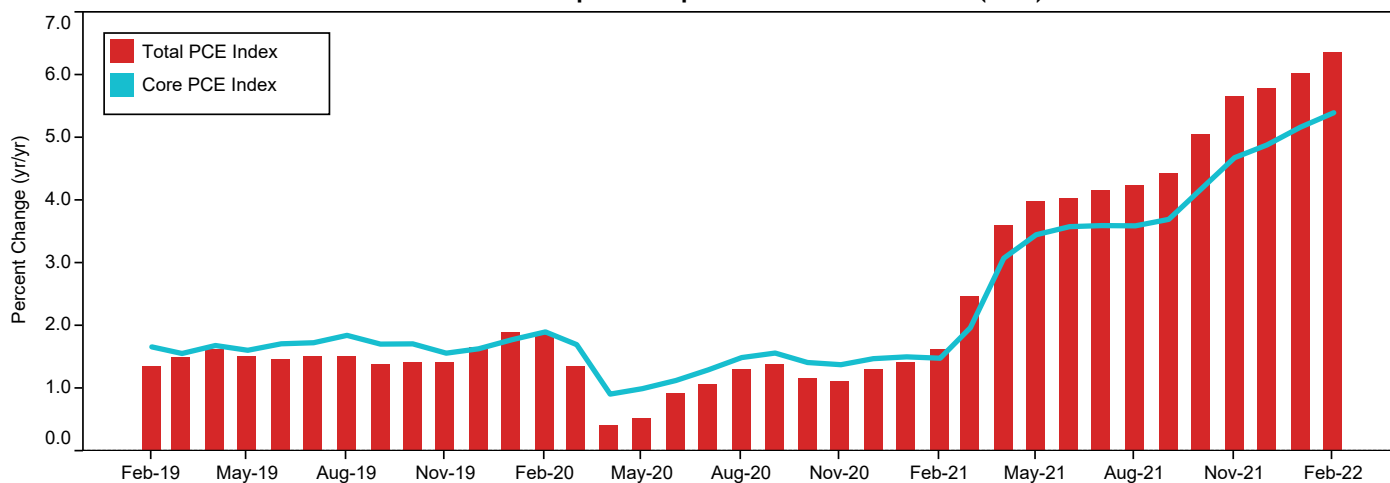
Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

In February, monthly total CPI rose two-tenths to 0.8% while core CPI decelerated one-tenth to 0.5%. Over the past year, total and core CPI both rose four-tenths—registering 7.9% and 6.4%, respectively. Monthly prices as measured by total PCE rose one-tenth in February to 0.6% while core prices decelerated one-tenth to 0.4%. On a year-over-year basis, total PCE rose four-tenths to 6.4% while core PCE rose two-tenths to 5.4%. Year-over-year inflation rates for both the CPI and PCE were the highest in 40 years. At the wholesale level, the 12-month growth for total PPI was 10.0%—unchanged from January—while core PPI fell two-tenths to 6.6%. On a monthly basis, total and core PPI decelerated in February—by four- and six-tenths, respectively, to 0.8% and 0.2%.

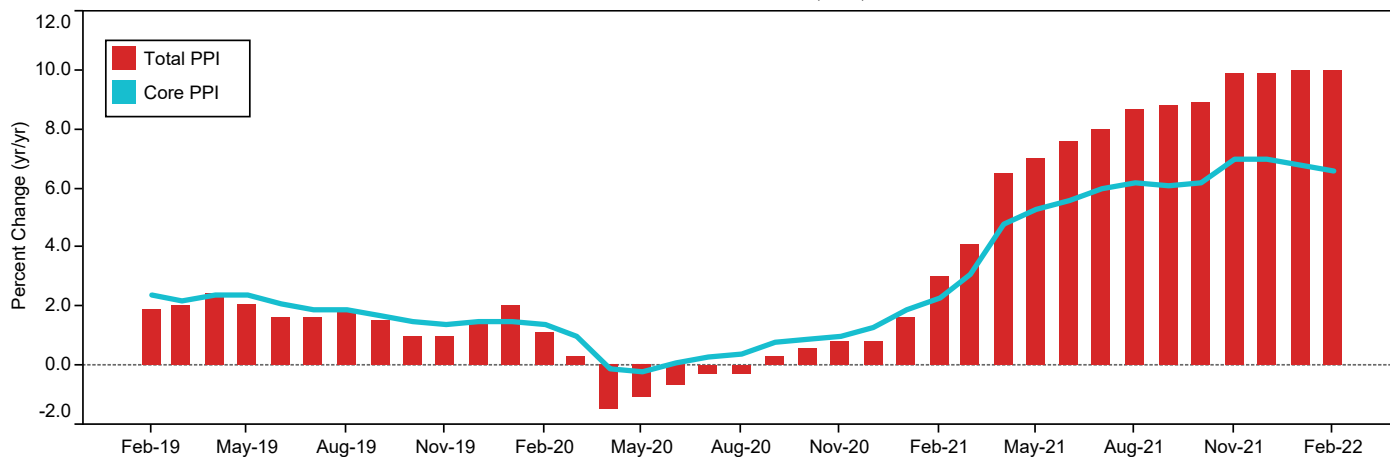
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



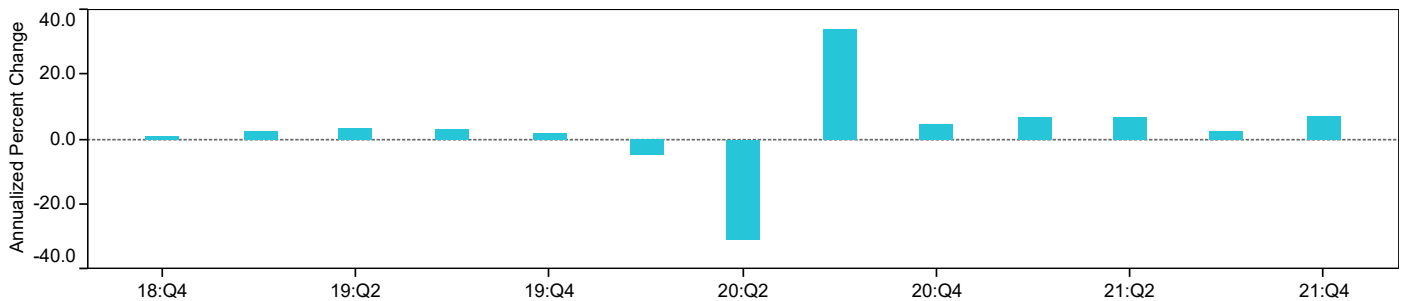
Producer Price Index (PPI)



Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

According to the final estimate, real GDP growth in the fourth quarter increased 6.9%—0.1 percentage point lower than the second estimate. Downward revisions to PCE, exports, nonresidential fixed investment, and state and local government spending were partly offset by upward revisions to private inventory investment, residential fixed investment, and federal government spending. Imports were revised up.

Real GDP



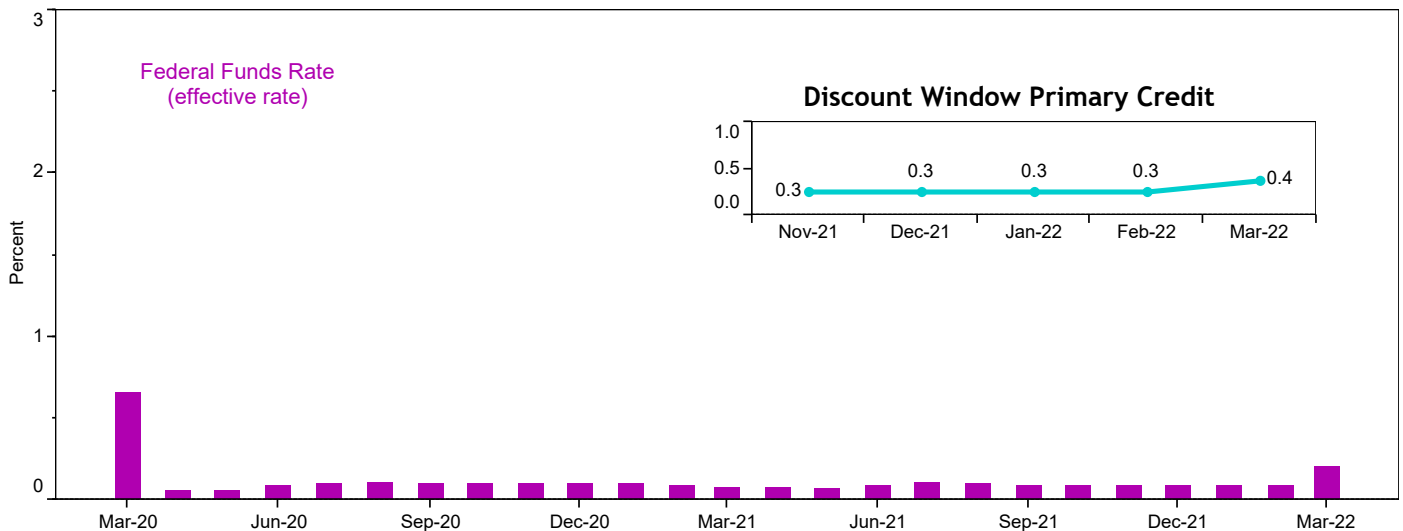
Revisions to Q4 Real GDP

Description	Second Estimate	Third Estimate
Real GDP	7.0	6.9
Personal Consumption	3.1	2.5
Business Investment	3.1	2.9
Equipment and Software	2.4	2.8
Residential Investment	1.0	2.2
Government	-2.6	-2.6
Exports	23.6	22.4
Imports	17.6	17.9
Final Sales	2.0	1.5

Source: Bureau of Economic Analysis / Haver Analytics.

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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Mike Corbett and David J. Brown.