FEDERAL RESERVE
BANK OF BOSTON™

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

July 12, 2022

CURRENT ECONOMIC DEVELOPMENTS - July 12, 2022

Data released since your last Director's meeting were mixed. Continued weakness in net exports and inventory investment and softer consumption likely resulted in another decrease in GDP in the second quarter, but those effects are expected to lessen in the second half of the year. Conversely, the labor market remains tight, incomes have risen further, and there have been some tentative signs that inflation is starting to slow, especially outside of food and energy. Still, the ongoing war in Ukraine, supply-chain disruptions, high prices, and tighter financial conditions all contribute to a higher degree of uncertainty for the economic outlook.

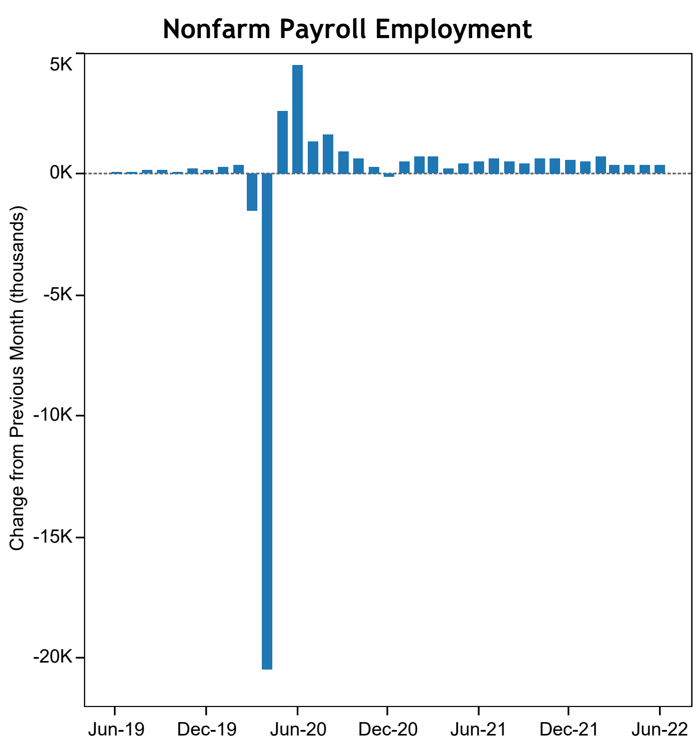
Employment data in June remained indicative of a strong labor market, as 372,000 jobs were added and the unemployment rate held steady at 3.6%. Other indicators are also consistent with a tight labor market, as vacancies remain high and initial claims for unemployment insurance remain low, despite trending upward a bit since March.

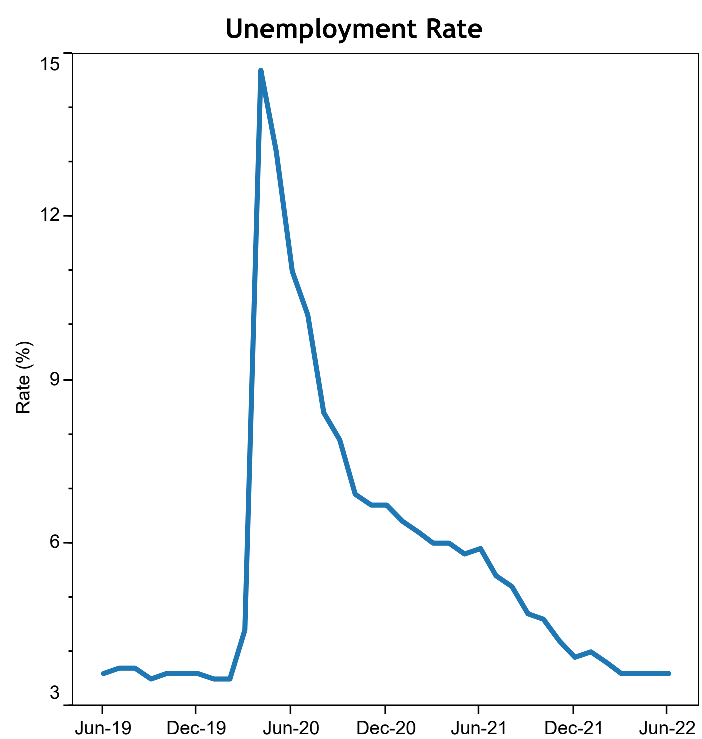
Consumer attitudes fell broadly in June—with the sentiment survey falling to a record low—as rising prices continued to weigh on outlooks. Retail sales slowed in May amid a mixed demand for goods, lower auto sales, and increased spending on gas and dining out—one indicator of the ongoing recovery in services. Lightweight vehicle sales rebound a bit in June but the sector continues to face headwinds. Real incomes eased in May while real consumption fell, as a drop in goods more than offset an increase in services. Due largely to increased prices and tightening financial conditions, housing market data mostly declined in May—though new home sales rose for the first time this year. Both sales and new construction remained in line with their pre-pandemic levels.

Both total and core orders for durable goods rose in May and continued to exhibit strength on a year-over-year basis—however, recent gains have largely been driven by price increases. Survey measures of the manufacturing sector softened in recent data as both the ISM Manufacturing and Services indices fell in June, with both employment subindices signaling contraction. Regional surveys from the Federal Reserve were also weak in June. The Philadelphia survey signaled contraction for the first time since May 2020 and the New York survey—despite increasing in June—signaled contraction for the third time in four months. Industrial production rose slightly in May, while capacity utilization in manufacturing declined a bit though remained close to a 20-year high.

On a year-over-year basis, headline measures of inflation accelerated in May while core measures decelerated. On a monthly basis, total CPI and PCE accelerated sharply while growth in core CPI and PCE held steady. CPI data for June are due out Wednesday and markets anticipate another small acceleration in total CPI but further moderation in core CPI. Oil prices rose in June to their highest level in nearly 14 years but have receded again through the first few weeks of July. Daily prices have averaged $103.67/barrel so far this month and closed at $104.09/barrel on July 11th.

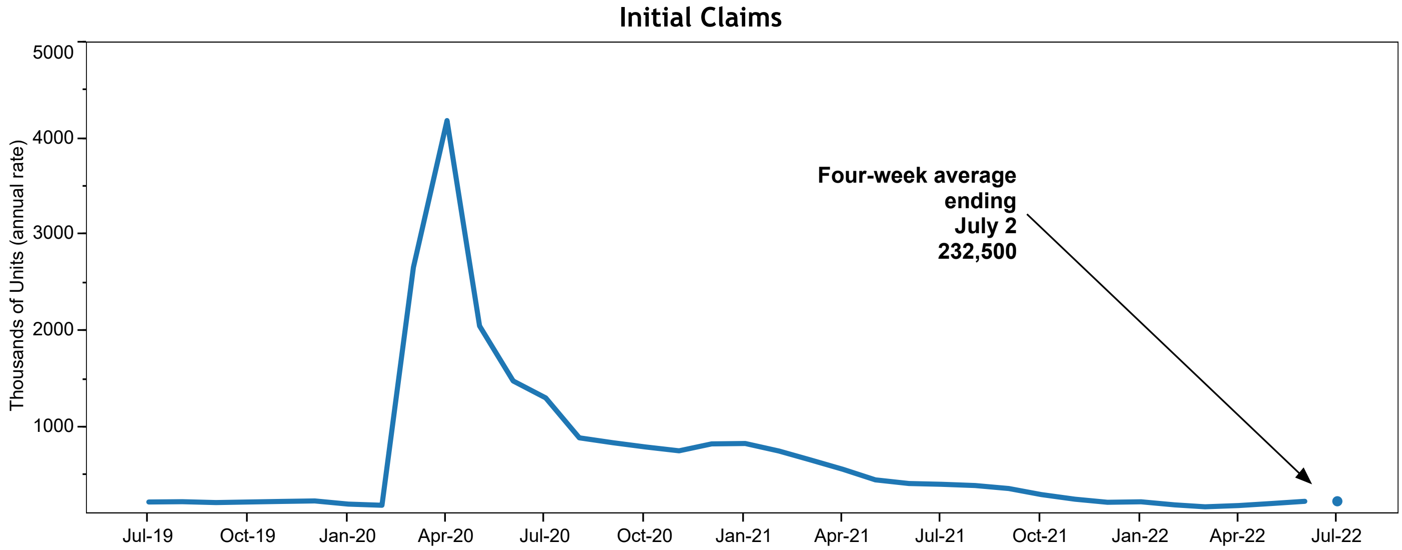
Nonfarm payrolls exceeded expectations in June by adding 372,000 jobs—although May and April gains were revised downward by a total 74,000 jobs. Notable job gains were seen in the business services, leisure and hospitality, and health care sectors. Also in June, the unemployment rate was unchanged at 3.6% as the labor force and civilian employment posted similar declines.





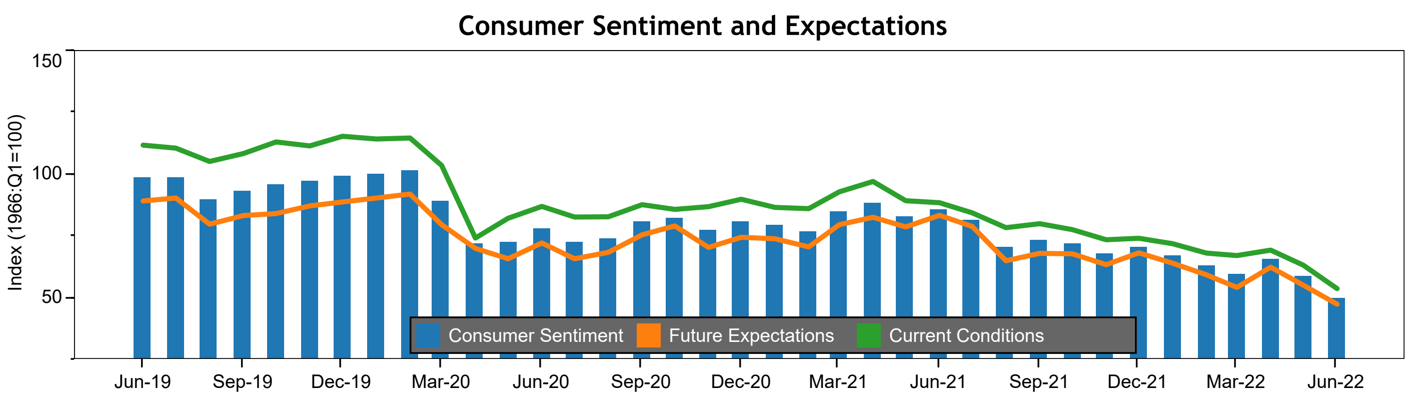
Source: Bureau of Labor Statistics / Haver Analytics.

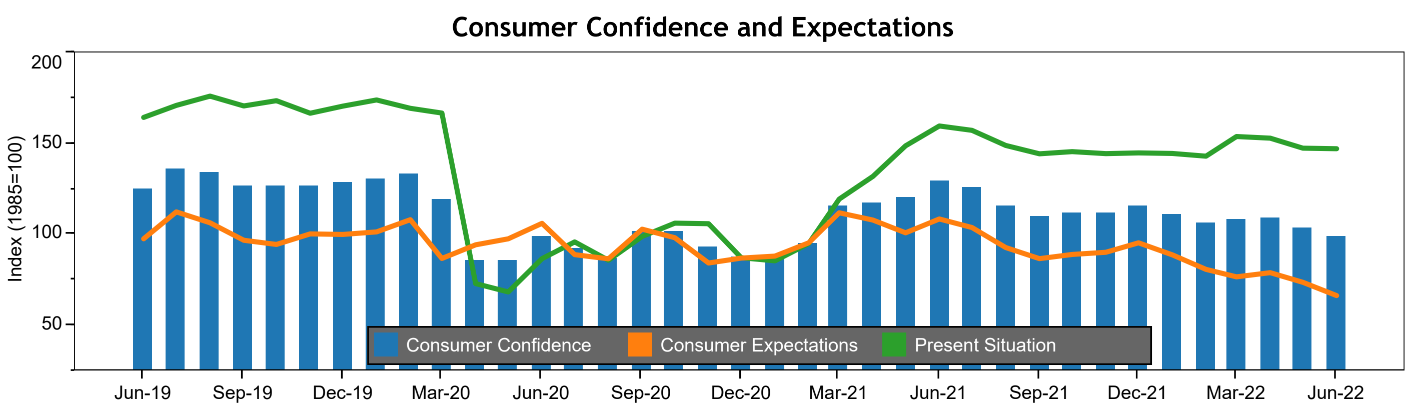
Initial claims for unemployment insurance rose by 4,000 to 235,000 in the week ending July 2, after falling by 2,000 in the previous week. Meanwhile, the four-week moving average rose by 750 to 232,500.



Source: Department of Labor, Employment and Training Administration / Haver Analytics.

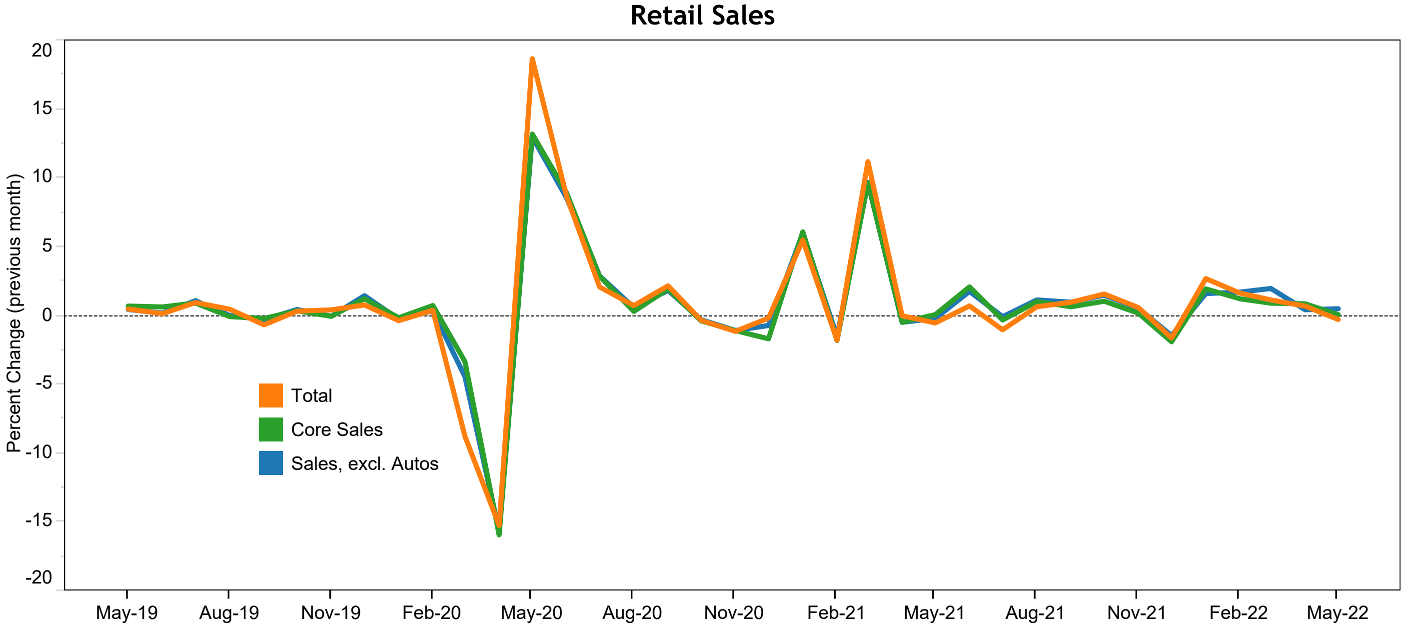
The consumer confidence index fell to 98.7 in June, down from 103.2 in May (revised down from 106.4). The present situation component declined to 147.1 in June—down slightly from the final May reading of 147.4—and the expectations index fell to 66.4 from 73.7. Meanwhile, the consumer sentiment index fell to its lowest level on record—registering 50.0 in June. The index is down 43% since April 2021. The expectations component fell to 47.5 in June from 55.2 in May and the current conditions index fell to 53.8 from 63.3. Nearly half of survey respondents, according to the survey, "blamed inflation for eroding living standards".





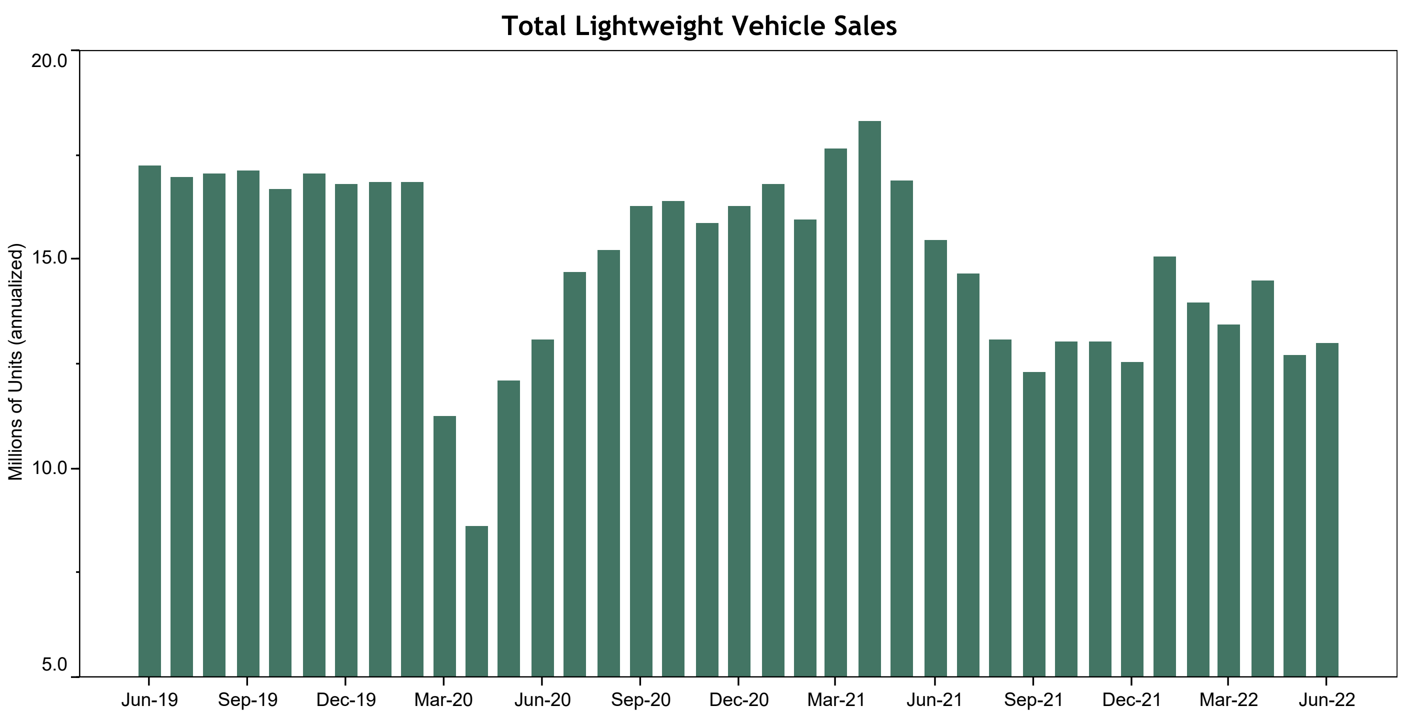
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Total retail sales fell 0.3% in May while April's initially reported 0.9% gain was revised lower to 0.7%. Motor vehicle sales posted a 3.5% decline due to continued limitations on supply, while smaller declines were seen at electronics and appliance stores, miscellaneous stores and nonstore retailers. Meanwhile, sales at food services and drinking places continued to improve in May—posting a 0.7% increase that places the sector 17.5% above its level in May of last year. Nominal gas station sales saw a 4.0% gain (although real sales were flat). Retail sales excluding autos also rose 0.5% in May while core retail sales rose 0.1%.



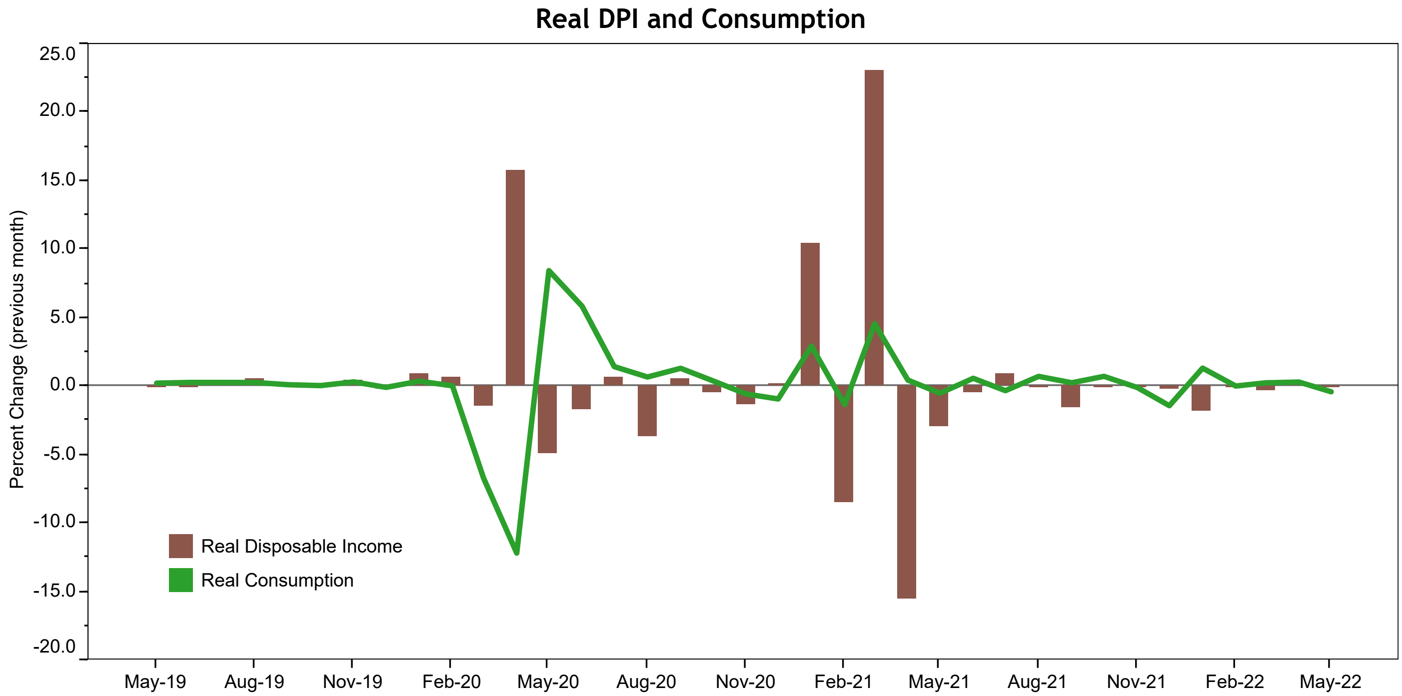
Source: Census Bureau / Haver Analytics.

Lightweight vehicle sales rose to a 13.0-million-unit annual rate in June – up from 12.7 in May. Along with the broader consumer sector, the auto industry continues to face challenges from supply-chain issues, the conflict in Ukraine, and tightening financial conditions. However, demand has been pent up over the last few years and should serve to buoy the sector over the medium to long term.



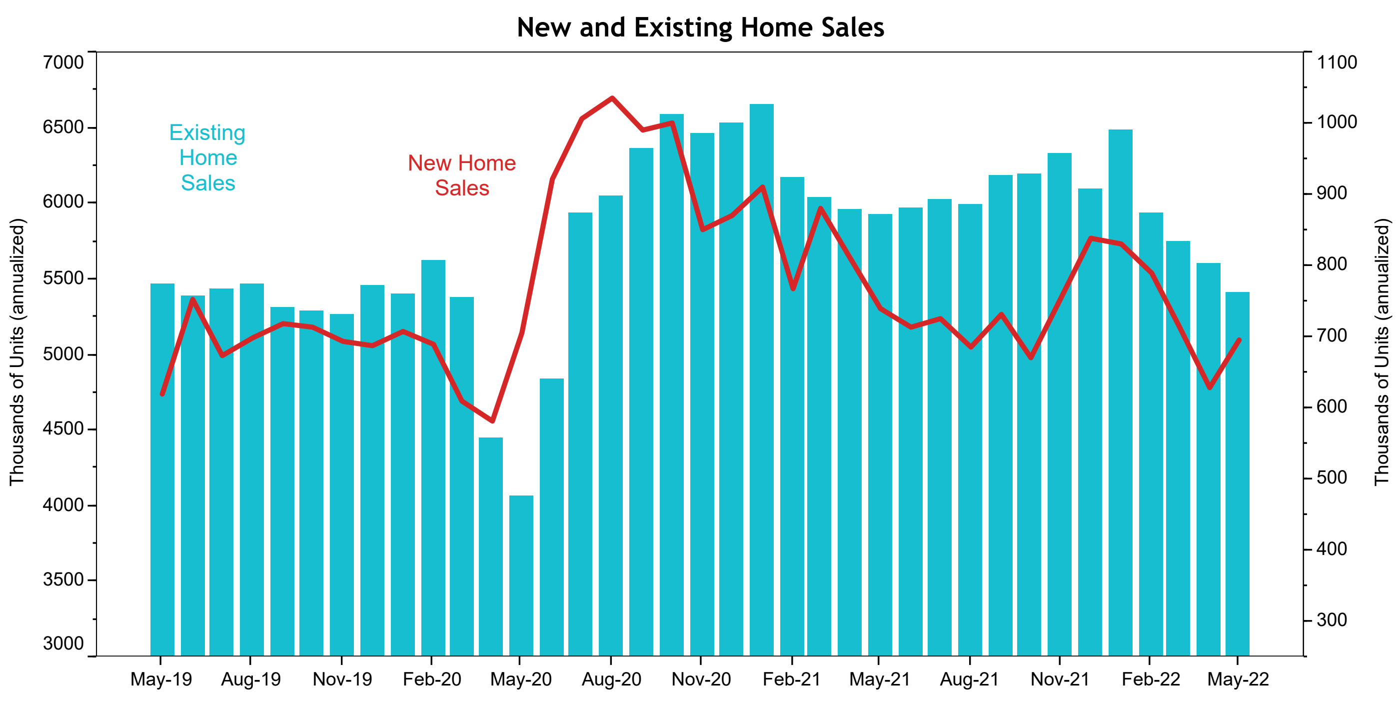
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption fell 0.4% in May, following a 0.3% increase in April that was revised down from 0.7%. Spending on services improved by 0.3% but was offset by a 1.6% decline in spending on goods. Real disposable income remained essentially flat in May, declining by less than one-tenth of a percentage point.



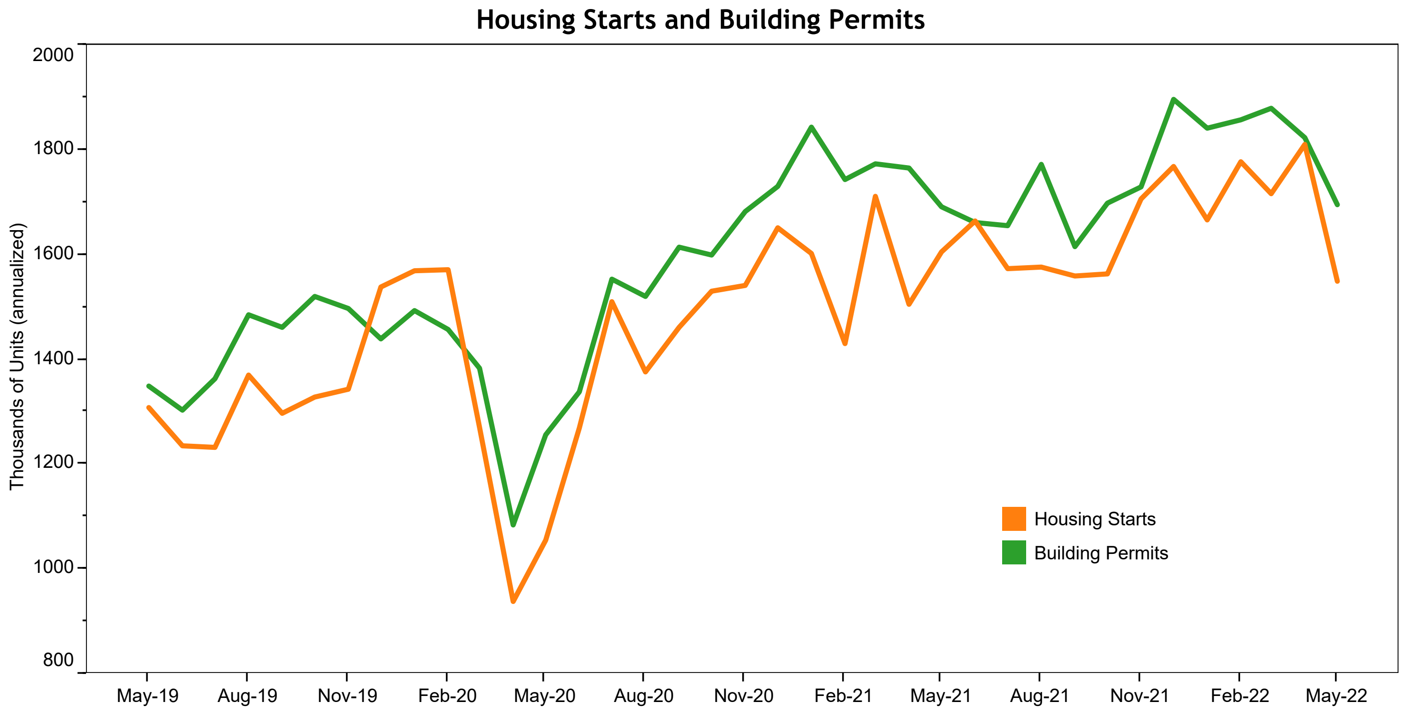
Source: Bureau of Economic Analysis / Haver Analytics.

In May, new home sales rose 10.7% to a 696,000-unit annual rate. Due partially to increased prices and rising mortgage rates, sales were 5.9% below their level from last May and posted year-over-year declines in 11 of the last 12 months. Existing home sales fell in May, declining 3.4% from April to a 5.41-million-unit annual rate—the lowest rate since June 2020. Sales of existing homes were 8.6% below their levels seen this time last year and have declined on a year-over-year basis in every month since August of last year.



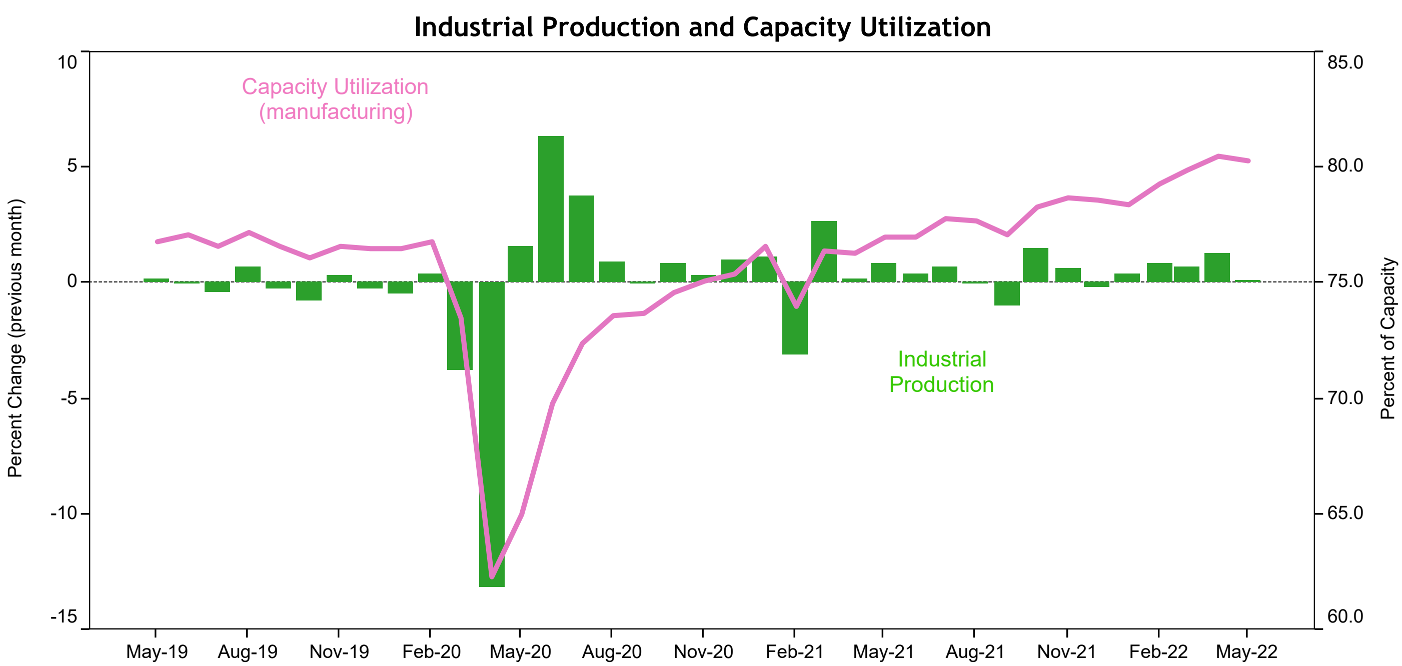
Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.

Housing starts and permits both declined in May—albeit from elevated levels. Permits fell to a 1.70-million-unit annual rate but remained above their pre-pandemic levels. Single-family permits fell 5.2% in May—the third consecutive monthly decline—while multi-family permits fell 9.8%. Total housing starts fell as well—declining 14.4% to a 1.55-million-unit annual rate—just below the 1.57-million-unit annual rate seen in February 2020. Also in May, single-family starts fell 9.2% and multi-family starts fell 23.7%—however, multi-family starts fell from their highest reading since 1986.



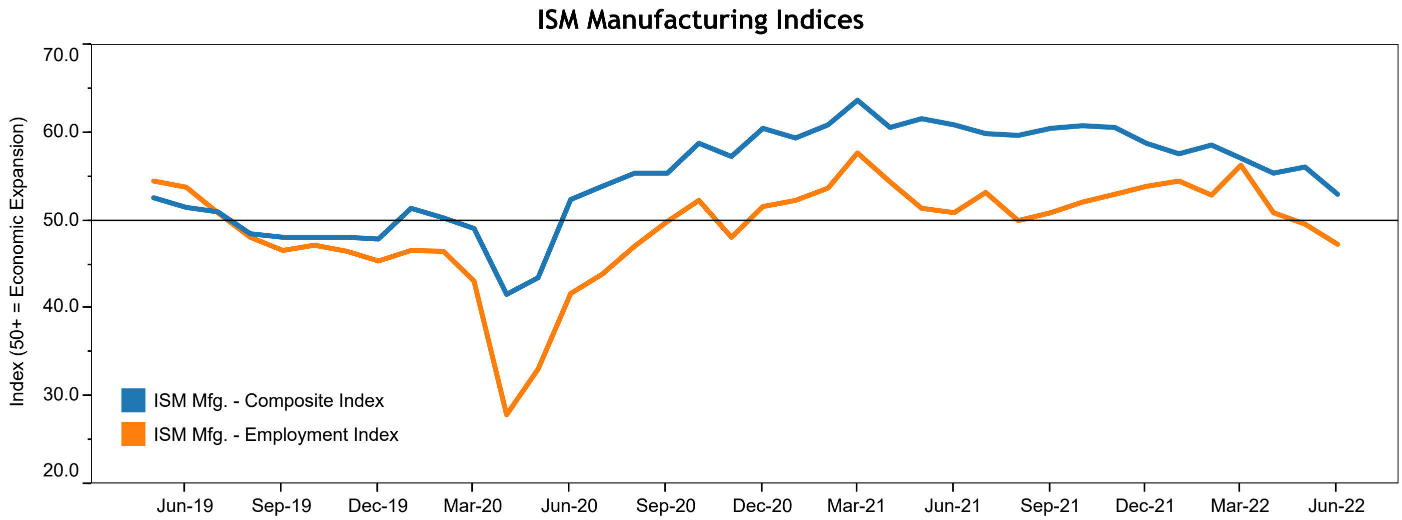
Source: U.S. Census Bureau / Haver Analytics.

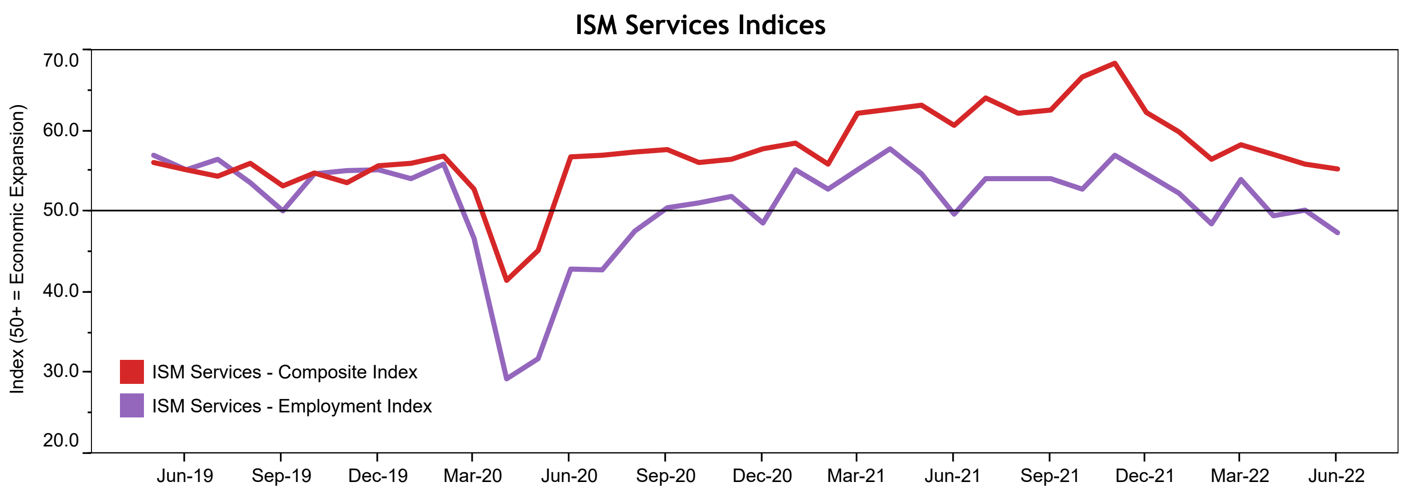
Industrial production rose 0.1% in May following a 1.3% gain in April. Utilities and mining output rose in May—by 0.9% and 1.0%, respectively—while manufacturing output declined 0.2%. Also in May, capacity utilization in manufacturing declined a bit—falling 0.2 percentage points to 80.3 after reaching a 20-year high in April.

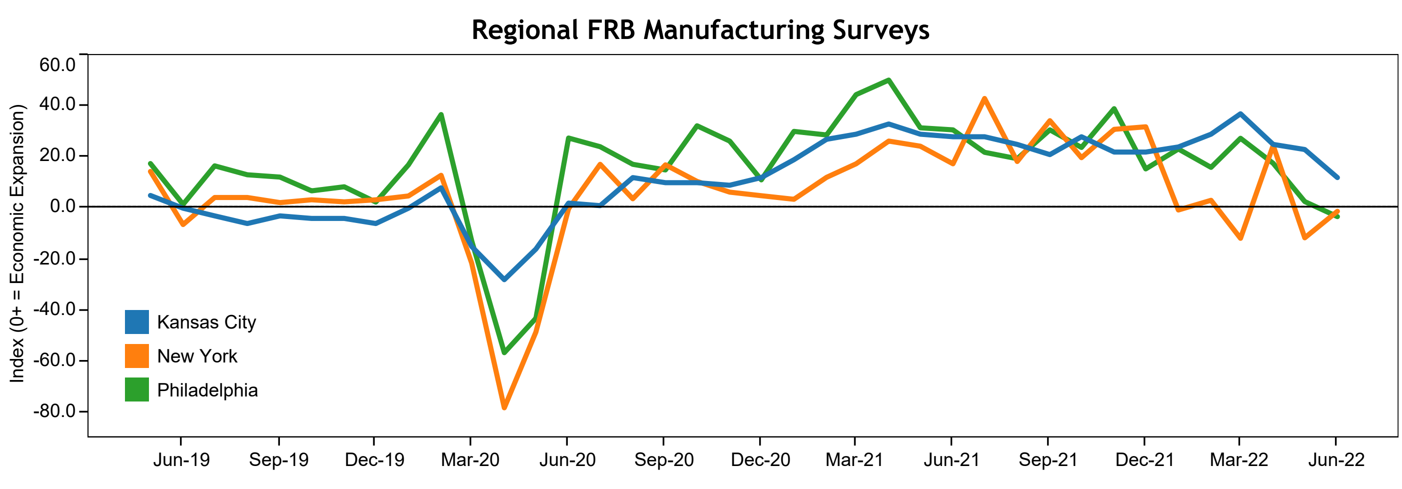


Source: Federal Reserve Board of Governors / Haver Analytics.

Measures of manufacturing activity largely declined in recent data. In June, the ISM Manufacturing index fell 3.1 points from May to 53.0 with the employment index falling 2.3 points to 47.3—signaling contraction for the second consecutive month. The ISM Services index fell 0.6 points to 55.3 with the employment index falling 2.8 points to 47.4—signaling contraction in two of the last three months. Regional surveys from the Federal Reserve were mixed in June—the Philadelphia survey declined and joined the New York survey by signaling contraction (a reading below zero). The Philadelphia index had last been negative in May 2020, but the New York survey—despite improving in June—was negative for the fourth time in the first six months of 2022. Meanwhile, the Kansas City survey also declined but remained in expansionary territory.



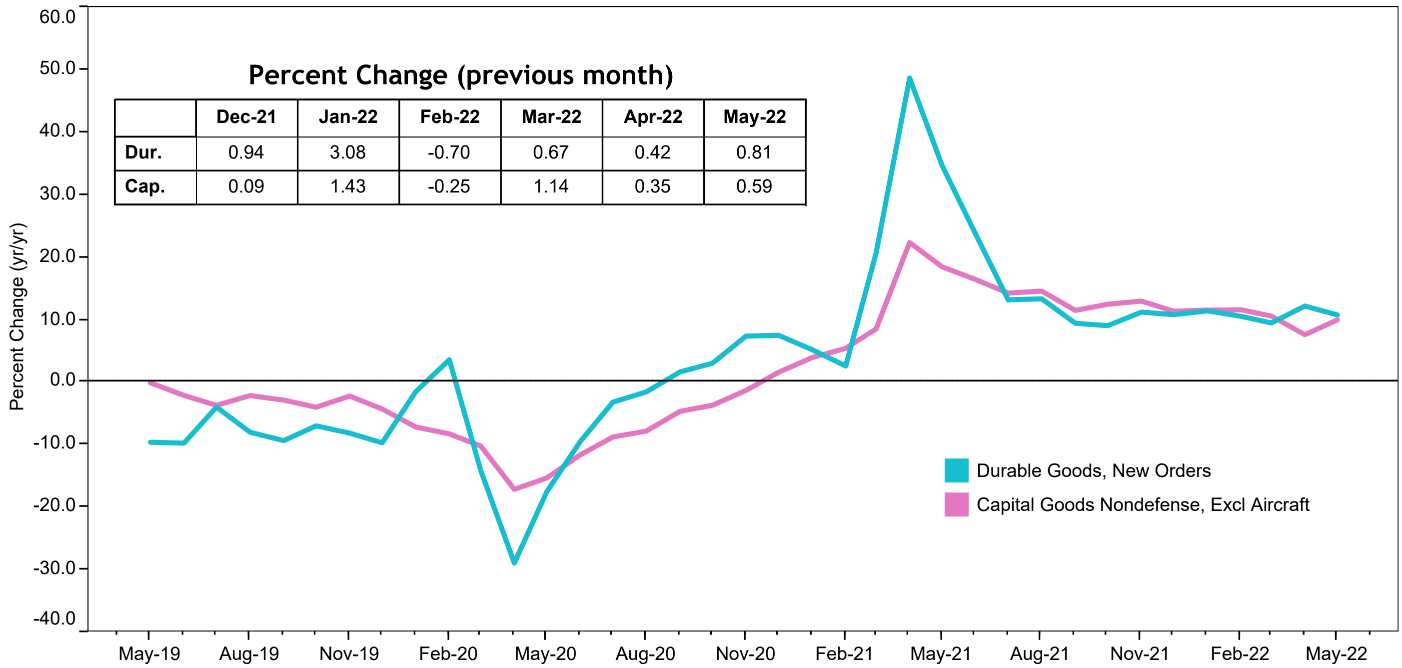




Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Orders for durable goods rose 0.8% in May, following a 0.4% increase in April. Orders of nondefense capital goods excluding aircraft also increased in May—rising 0.6% after increasing 0.4% in April. On a year-over-year basis, growth of both total and core orders remained robust—however, much of the growth in these nominal figures is being driven by price gains.

Durable Goods Orders



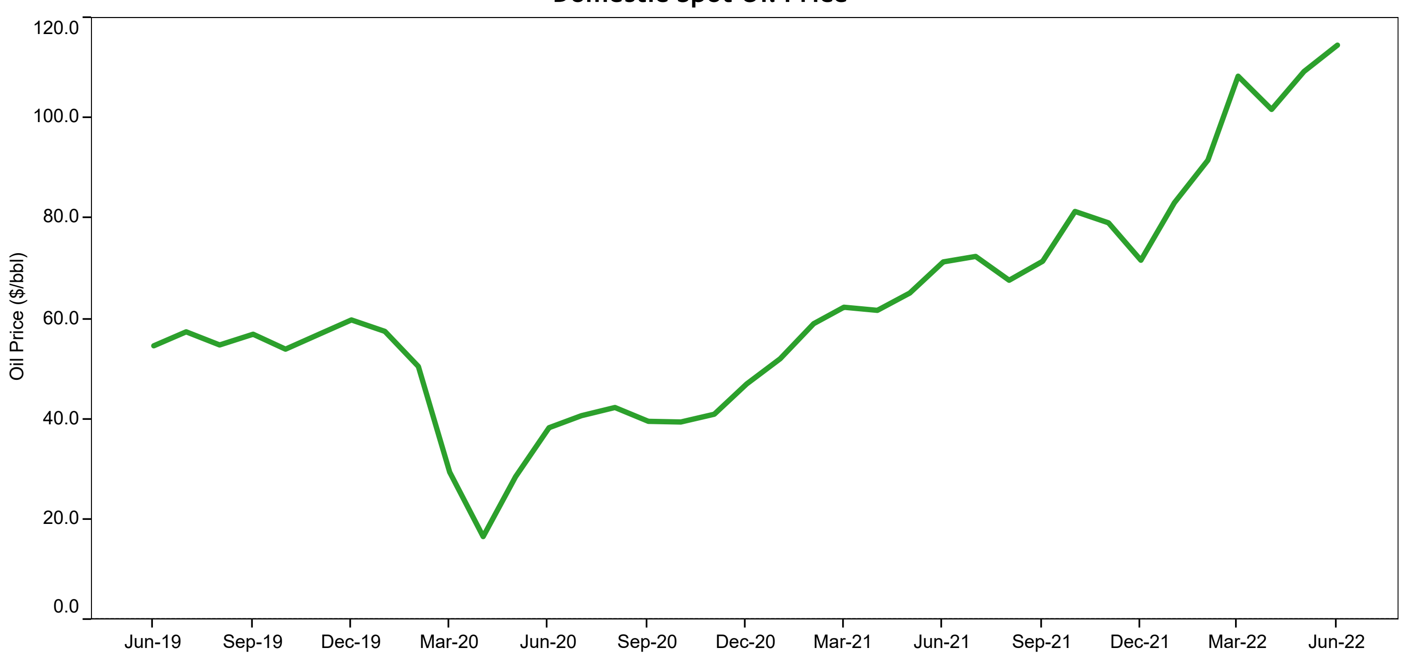
Percent Change (previous month)

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Dur.	0.94	3.08	-0.70	0.67	0.42	0.81
Cap.	0.09	1.43	-0.25	1.14	0.35	0.59

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

Oil prices, on average, turned higher again in June, rising to $114.60/barrel, the highest monthly average since August 2008. Recent daily prices closed on July 11th at $104.09/barrel.

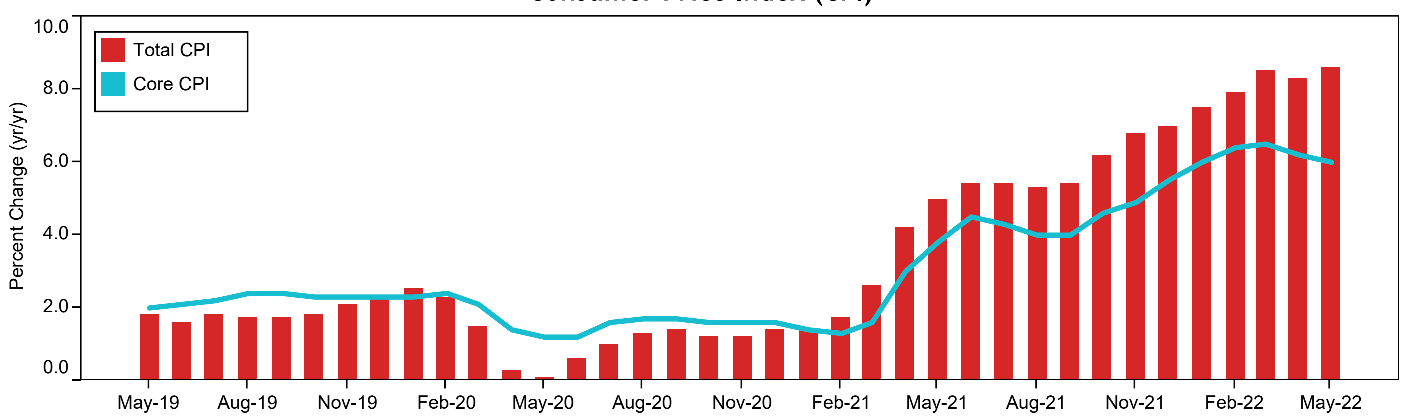
Domestic Spot Oil Price



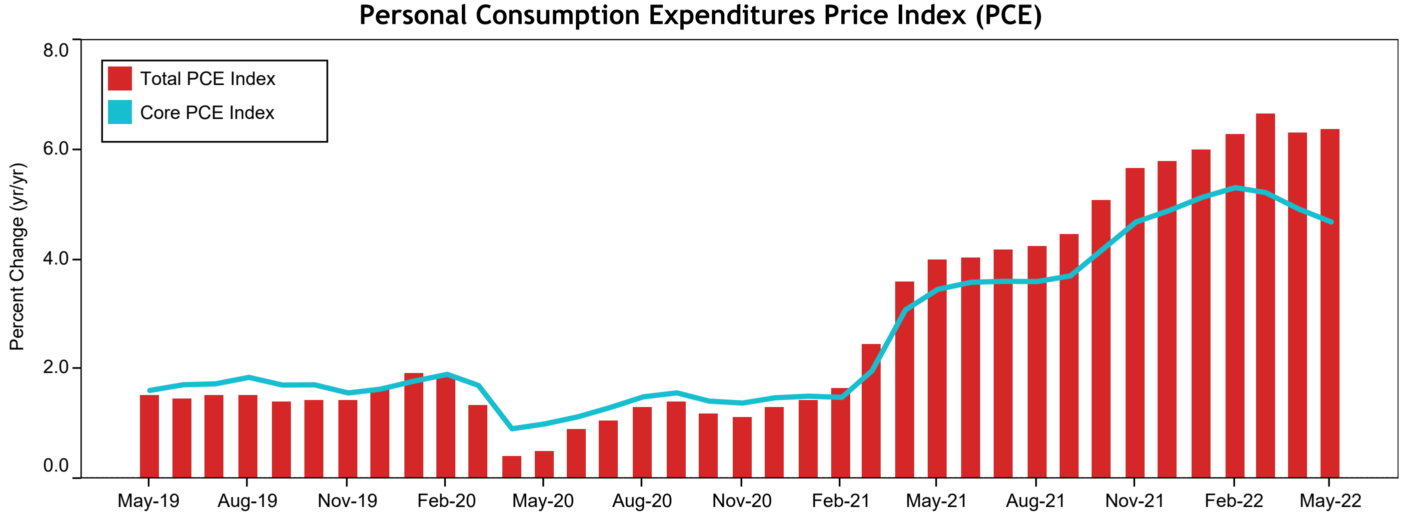
Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

In May, monthly inflation as measured by total CPI rose seven-tenths to 1.0%, while total PCE rose four-tenths to 0.6%. For both, the increase was due largely to increases in food and energy prices—both core CPI and PCE growth remained essentially flat. Over the past year, total CPI accelerated to its highest rate since 1981—rising three-tenths in May to 8.6%—meanwhile, total PCE accelerated slightly (less than one-tenth). Twelve-month growth for both core CPI and PCE inflation decelerated in May—slowing to 6.0% and 4.7%, respectively. At the wholesale level, total PPI slowed a bit from April's pace—decelerating one-tenth to 10.8%—while core PPI held steady at 6.8%. On a monthly basis, total and core PPI accelerated by four-tenths and one-tenth, respectively, to 0.8% and 0.5%.

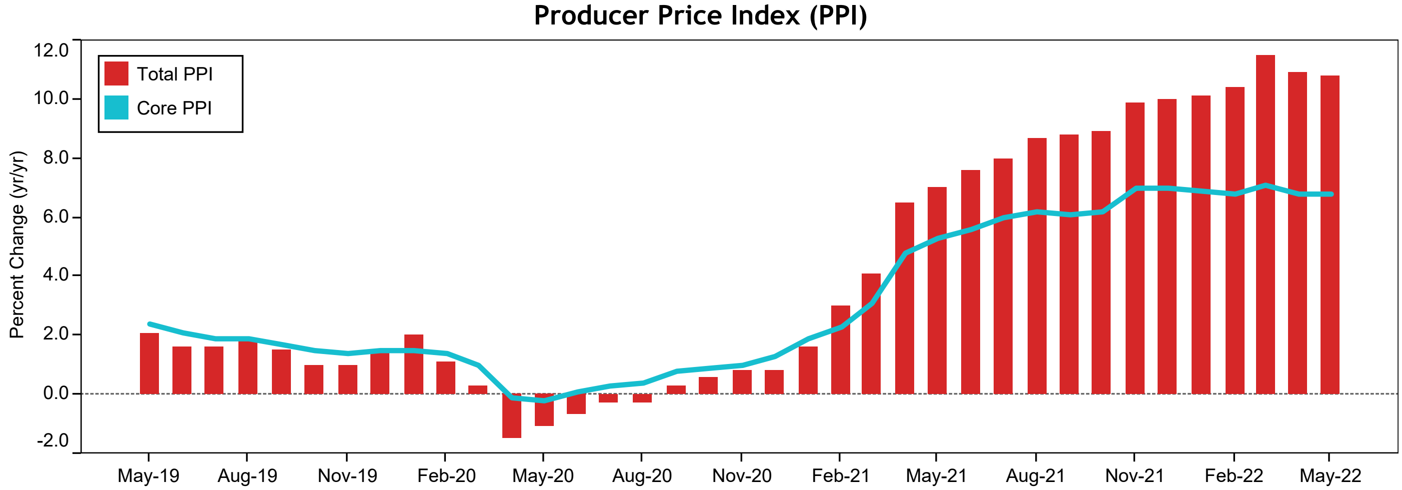
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



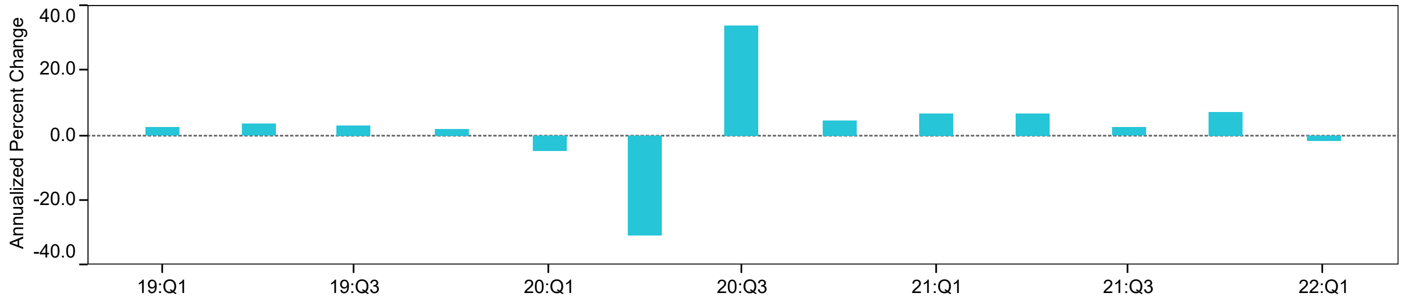
Producer Price Index (PPI)



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

According to the final estimate, real GDP fell 1.6% in the first quarter, revised further downward from the 1.5% decline reported in the second estimate. The decline primarily reflected downward revisions to PCE and federal government spending and an upward revision to imports, that were mostly offset by upward revisions to private inventory investment, nonresidential fixed investment, exports, state and local government spending, and residential fixed investment.

Real GDP



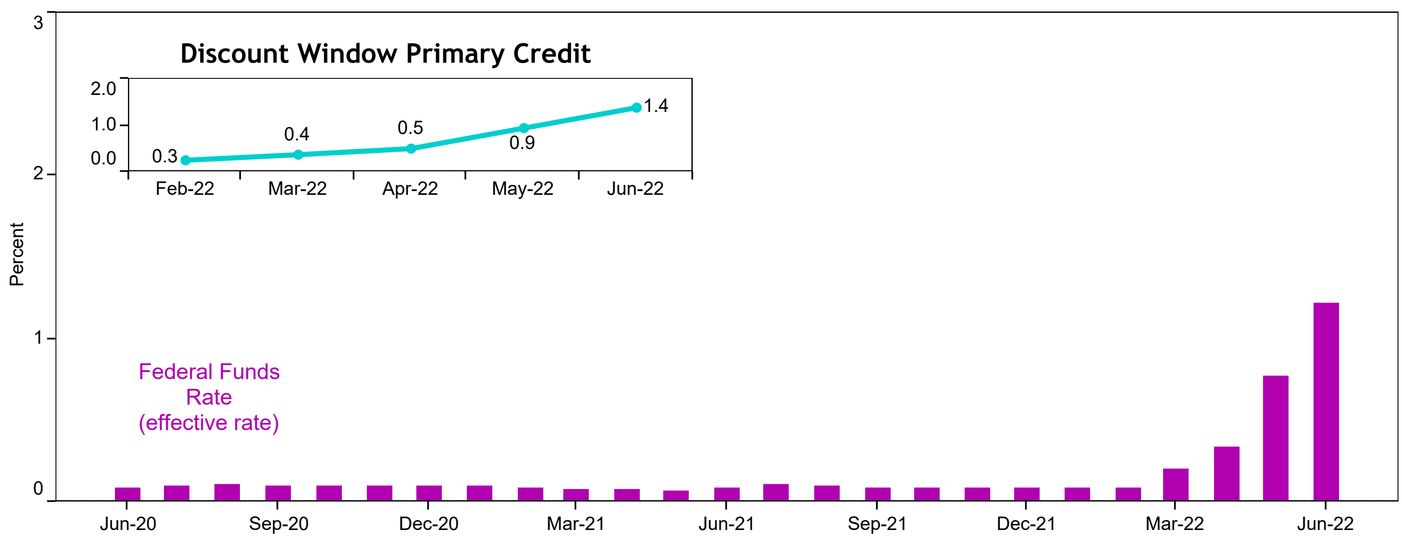
Revisions to Q1 Real GDP

Description	Second Estimate	Third Estimate
Real GDP	-1.5	-1.6
Personal Consumption	3.1	1.8
Business Investment	9.2	10.0
Equipment and Software	13.2	14.1
Residential Investment	0.4	0.4
Government	-2.7	-2.9
Exports	-5.4	-4.8
Imports	18.3	18.9
Final Sales	-0.4	-1.2

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Director's meeting were mixed. Continued weakness in net exports and inventory investment and softer consumption likely resulted in another decrease in GDP in the second quarter, but those effects are expected to lessen in the second half of the year. Conversely, the labor market remains tight, incomes have risen further, and there have been some tentative signs that inflation is starting to slow, especially outside of food and energy. Still, the ongoing war in Ukraine, supply-chain disruptions, high prices, and tighter financial conditions all contribute to a higher degree of uncertainty for the economic outlook.

Short-Term Interest Rates



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