FEDERAL RESERVE
BANK OF BOSTON™

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

March 8, 2022

CURRENT ECONOMIC DEVELOPMENTS - March 8, 2022

Data released since your last Director's meeting were mixed. GDP growth has likely slowed in the current quarter due to slower inventory investment and net exports, but domestic demand likely remained strong. The optimism from improving public health conditions and a strong labor market is weighed down by continued high inflation, supply-chain issues, and uncertainty stemming from Russia's invasion of Ukraine. Direct impacts from the war on the domestic economy are expected to be small, but this depends largely on the scope and longevity of the crisis. In the near term, as COVID transitions from pandemic to endemic and many health-related restrictions are removed, labor force participation should increase and demand will shift more to services from goods, supporting continued US expansion.

Nonfarm payroll employment posted an above-expectations gain of 678,000 jobs in February and previous month's increases were revised upward. The unemployment rate declined two-tenths to 3.8% and the participation rate rose one-tenth to 62.3%. Initial claims for unemployment insurance remain in line with their pre-pandemic levels, as recent weekly data registered levels only slightly higher than the historic lows seen at the close of 2021.

Consumer attitudes largely declined in February and have been trending downward since mid-2021 when they nearly regained their pre-pandemic levels. Retail sales—likely reflecting seasonal effects—were strong in January, regaining ground lost in December. Real consumption grew in January—after declining in December for the first time since July 2021—while real disposable income declined for the sixth consecutive month. Sales of lightweight vehicles declined in February and remain well below their pre-pandemic levels.

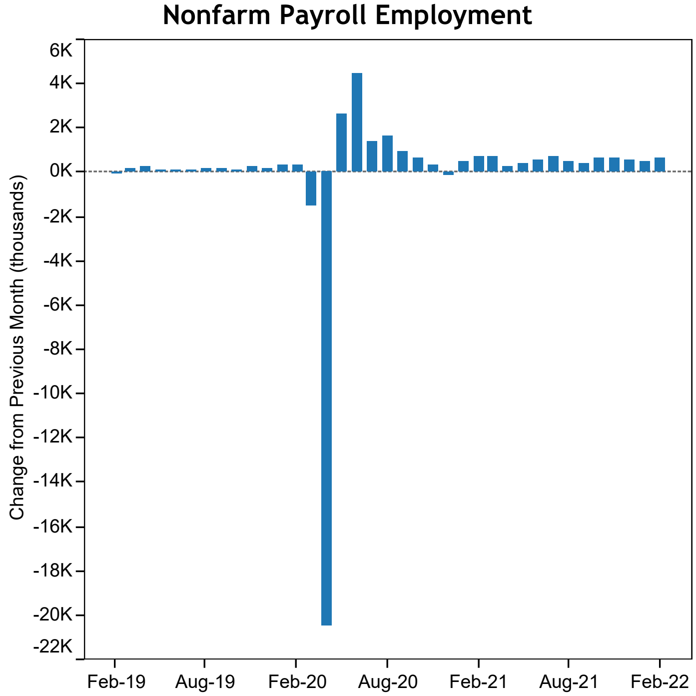
Recent housing market data were mostly positive in January and remained at elevated levels. New home sales slowed a bit in January after rising sharply in both November and December, and existing home sales rose. Housing starts decreased in January, falling for both single- and multi-family homes, but permits increased for a fourth consecutive month. The recent strength in permits suggest starts will also pick up again in the coming months.

Orders for durable goods rose 1.6% in January while decelerating slightly on a year-over-year basis. Also in January, orders of nondefense capital goods excluding aircraft rose 1.0% and maintained the year-over-year pace set in December. Industrial production posted a 1.4% increase in January and capacity utilization in manufacturing ticked up one-tenth from December's reading to 77.3. Recent surveys of the manufacturing sector were mixed but continued to signal expansion. In February, the ISM manufacturing index increased while the ISM services index declined, and two of the three regional surveys from the Federal Reserve increased.

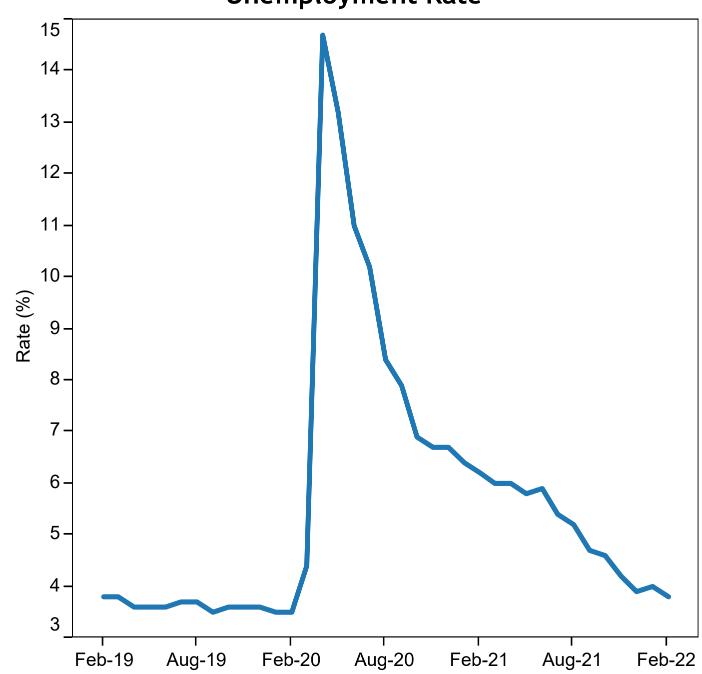
Measures of inflation continued to accelerate in January. From last year, prices as measured by total and core CPI rose 7.5% and 6.0%, respectively—these were the highest readings since 1982. Meanwhile, total and core PCE also grew at their fastest rates in nearly 40 years. CPI data for February are due out Thursday and markets are expecting a 7.8% year-over-year increase in the headline number. On average, oil prices rose to $91.60/barrel in February—up nearly $20/barrel since December. Amid the uncertainty of the Russia/Ukraine conflict, oil prices have continued to accelerate, closing at $119.40/barrel on March 7th.

Nonfarm payroll employment added 678,000 jobs in February and gains in the previous two months were revised upward, adding 92,000 more jobs than previously reported. Also in February, the unemployment rate declined two-tenths from the previous month to 3.8%. The labor force participation rate increased another one-tenth of percentage point in February to 62.3% and is now up six-tenths since October after mostly holding steady over the previous year.

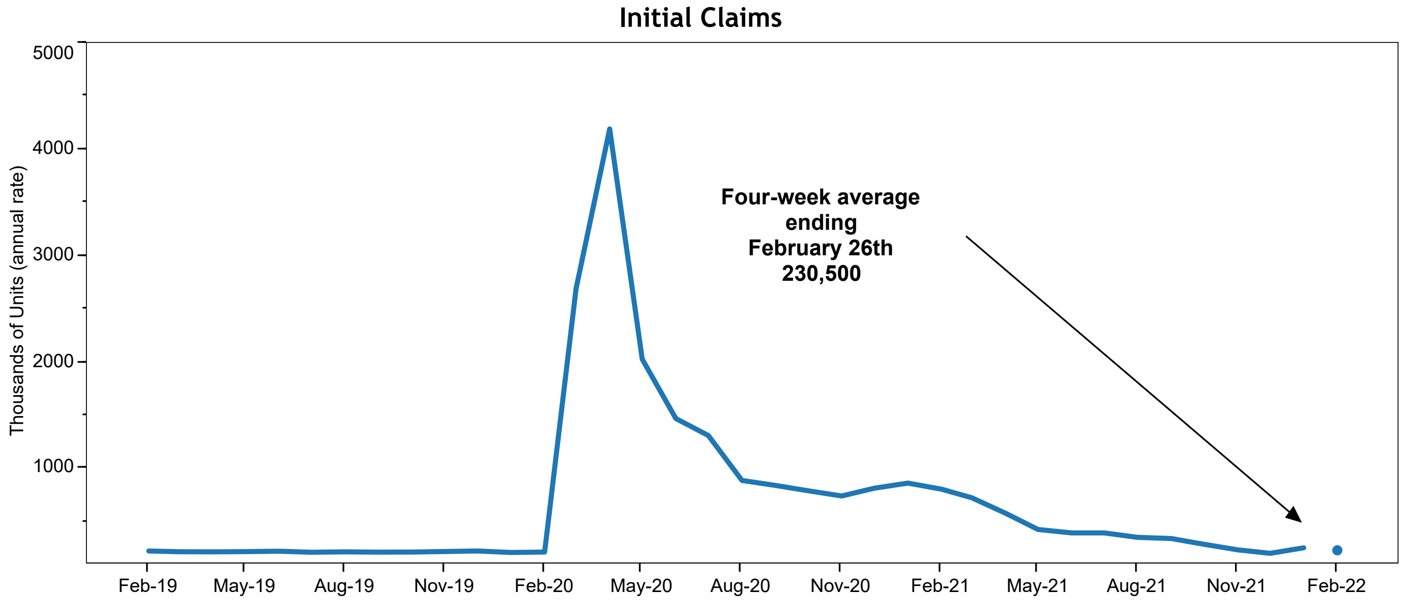
Nonfarm Payroll Employment



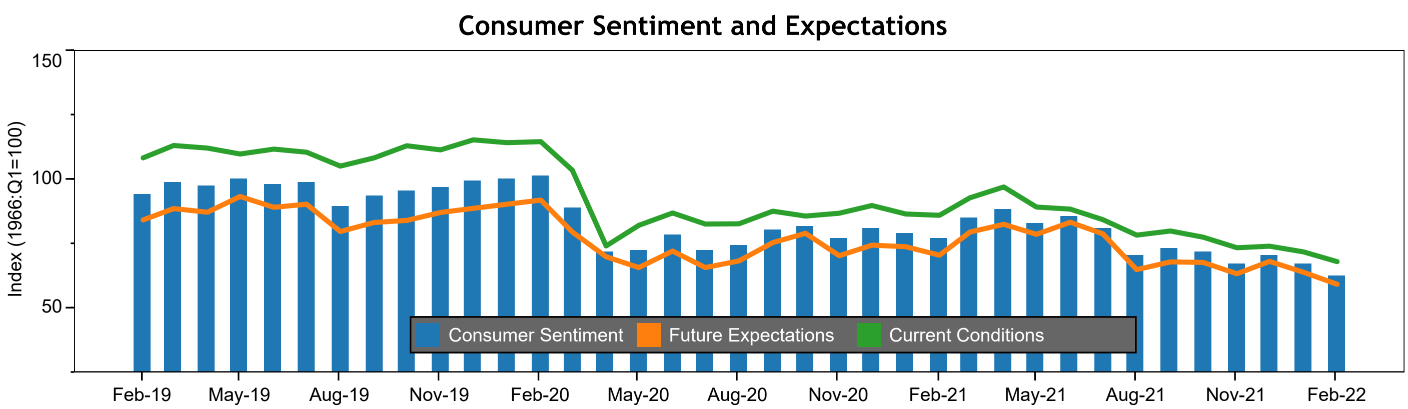
Unemployment Rate

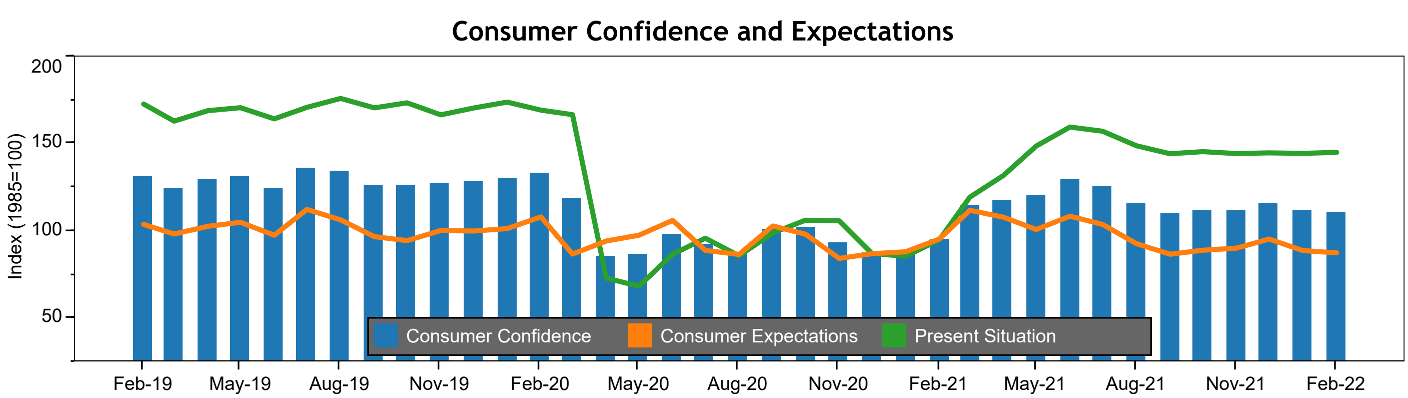


Initial claims for unemployment insurance fell 18,000 to 215,000 in the week ending February 26, reaching their lowest level so far in 2022. The four-week moving average declined by 6,000, falling to 230,500.



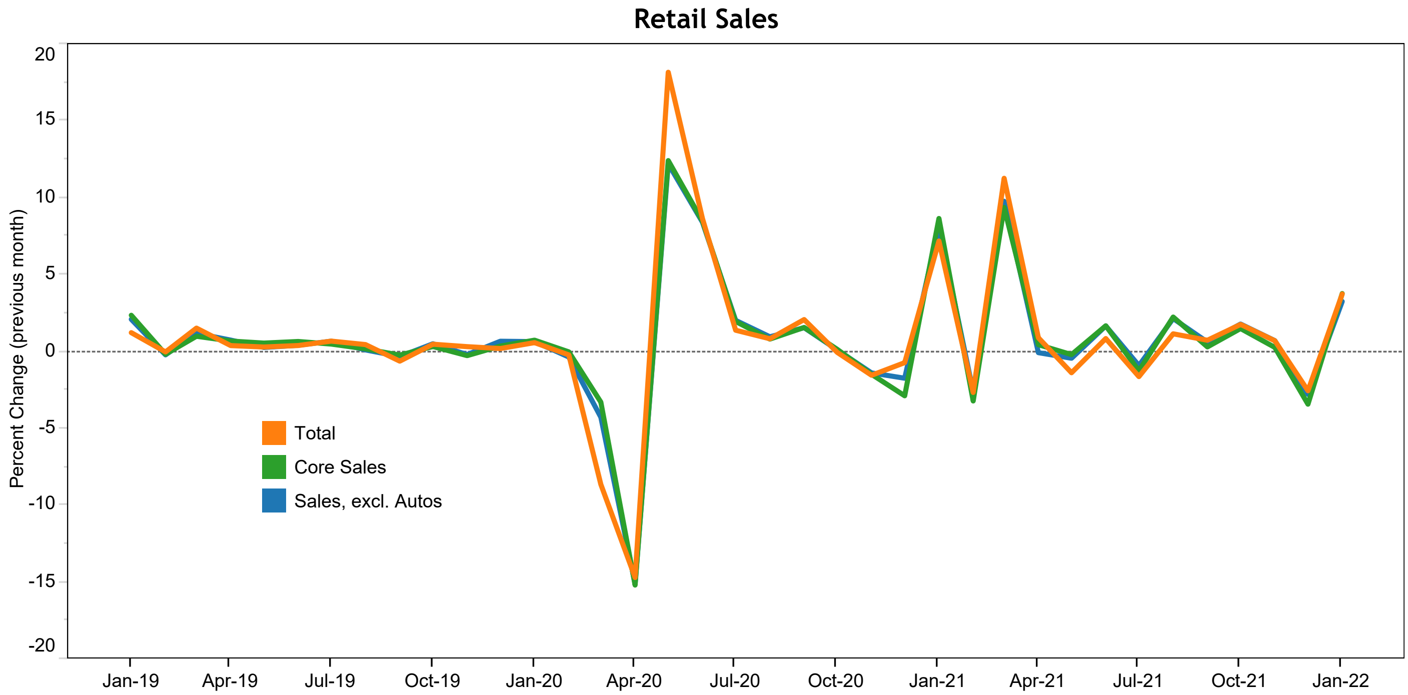
The consumer confidence index eased further in February, declining 0.6 point to 110.5 after falling 4.1 points in January. The present situation subindex rose slightly in February from 144.5 to 145.1, yet the expectations subindex fell from 88.8 to 87.5. Meanwhile, the consumer sentiment index fell from 67.2 in January to 62.8 in February, although the index gained some ground back relative to the mid-February reading. The final February reading was the lowest since 2011, despite being conducted prior to the escalation of the Russia/Ukraine conflict. The current conditions subcomponent fell from 72.0 to 68.2 while the expectations subindex fell from 64.1 to 59.4.



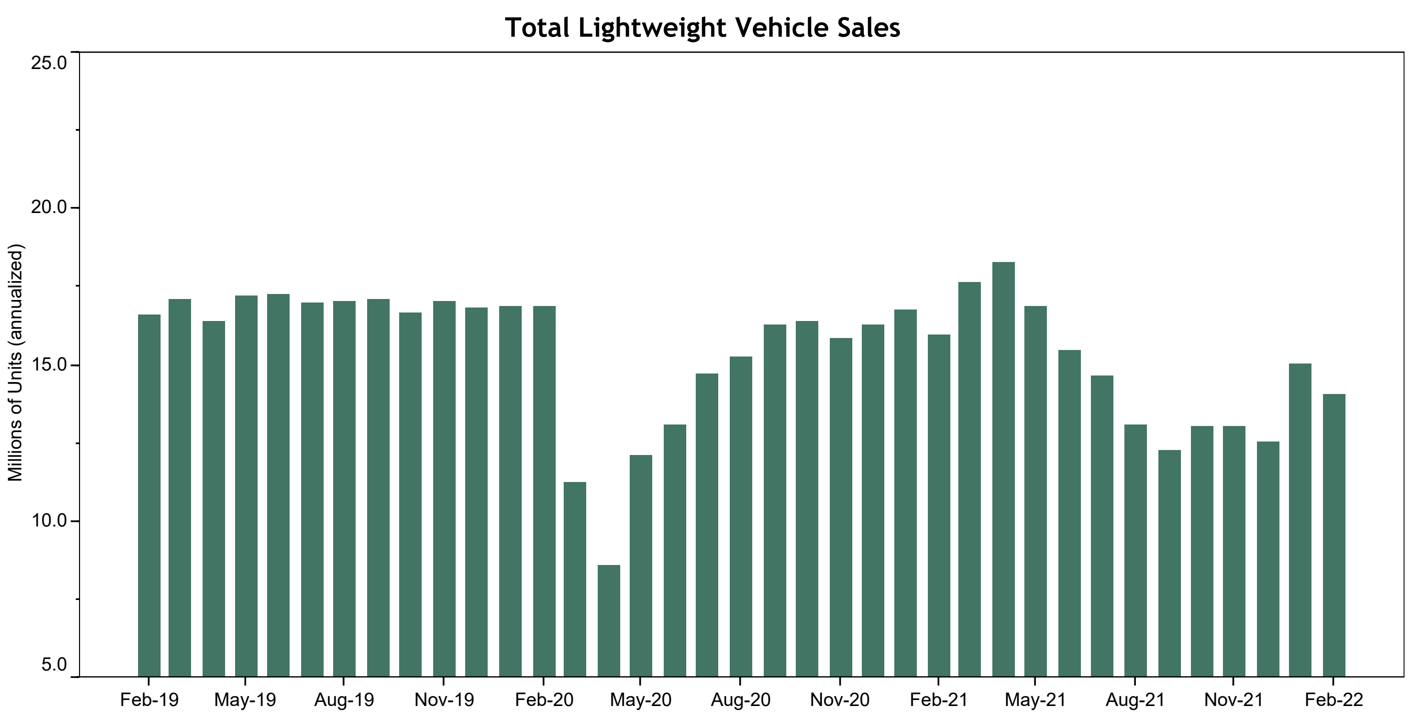


Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Total retail sales rose 3.8% in January, rebounding from a weak December. Retail sales excluding autos rose 3.3% and core retail sales rose 3.8%. While high prices and seasonal adjustment were factors in the January numbers, the strong report was consistent with the expectation for elevated consumer spending to continue in the first quarter.



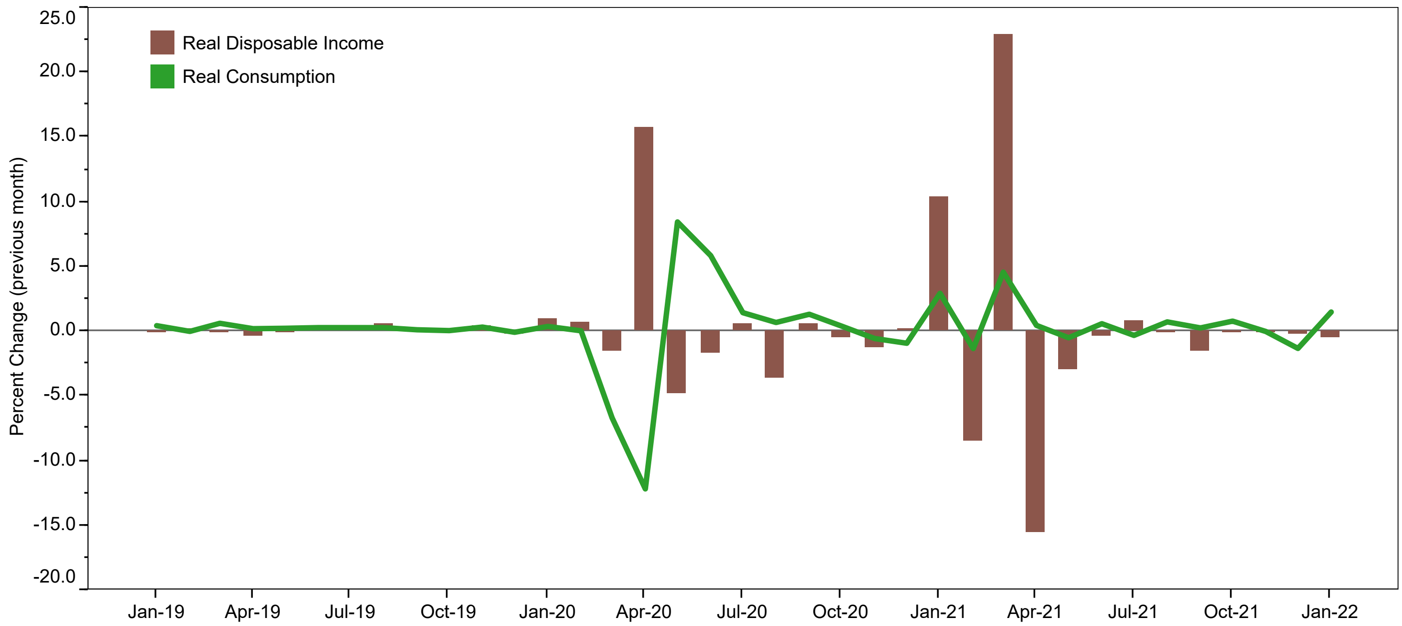
Sales of lightweight vehicles decelerated in February, falling to a 14.1-million-unit annual rate, down from 15.0 million in January. Limited inventories and high prices continue to weigh on sales.



Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable incomes declined for the sixth consecutive month in January, falling by 0.5%. Despite the lower incomes, real consumption increased in January—as a substantial boost in spending on goods was further aided by a smaller increase in spending on services—more than offsetting December's decline. Categories sensitive to the virus, like food services, posted decreases in January—indicating that the recent upturn in optimism regarding the spread of omicron had not yet entered the data.

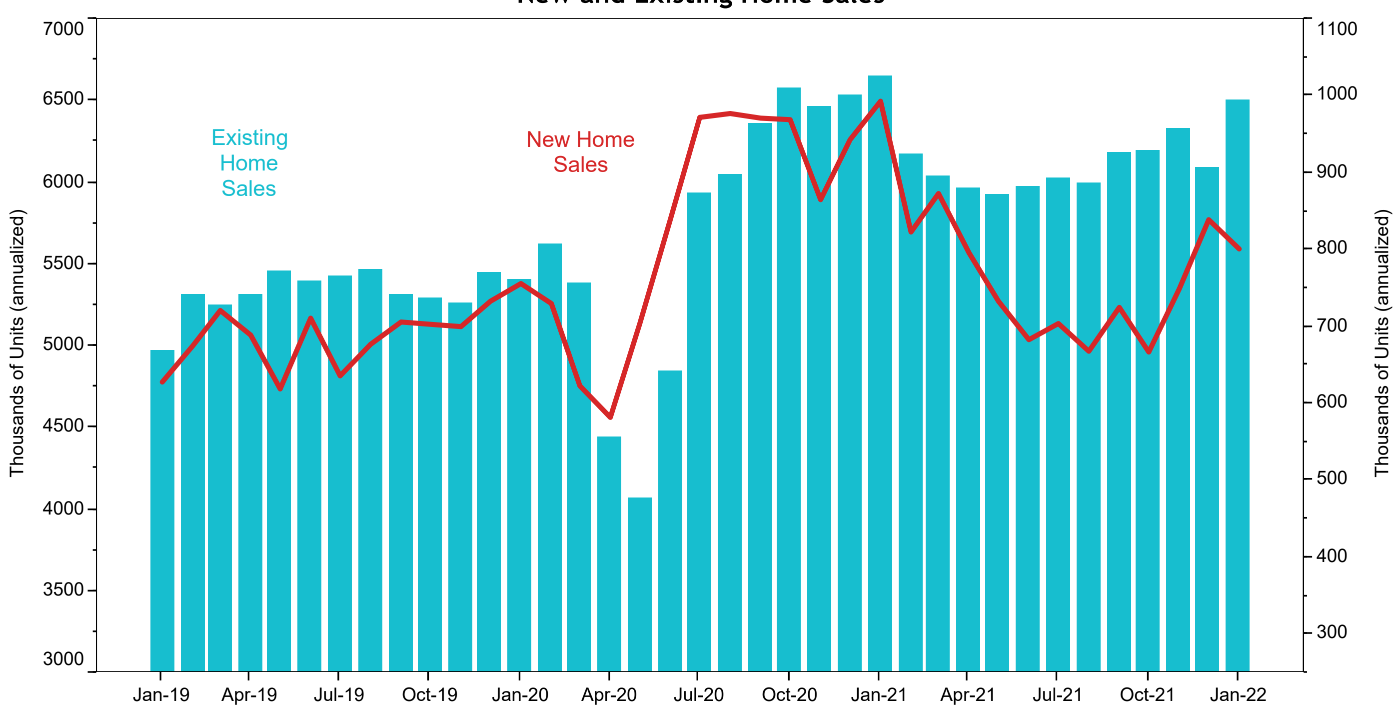
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

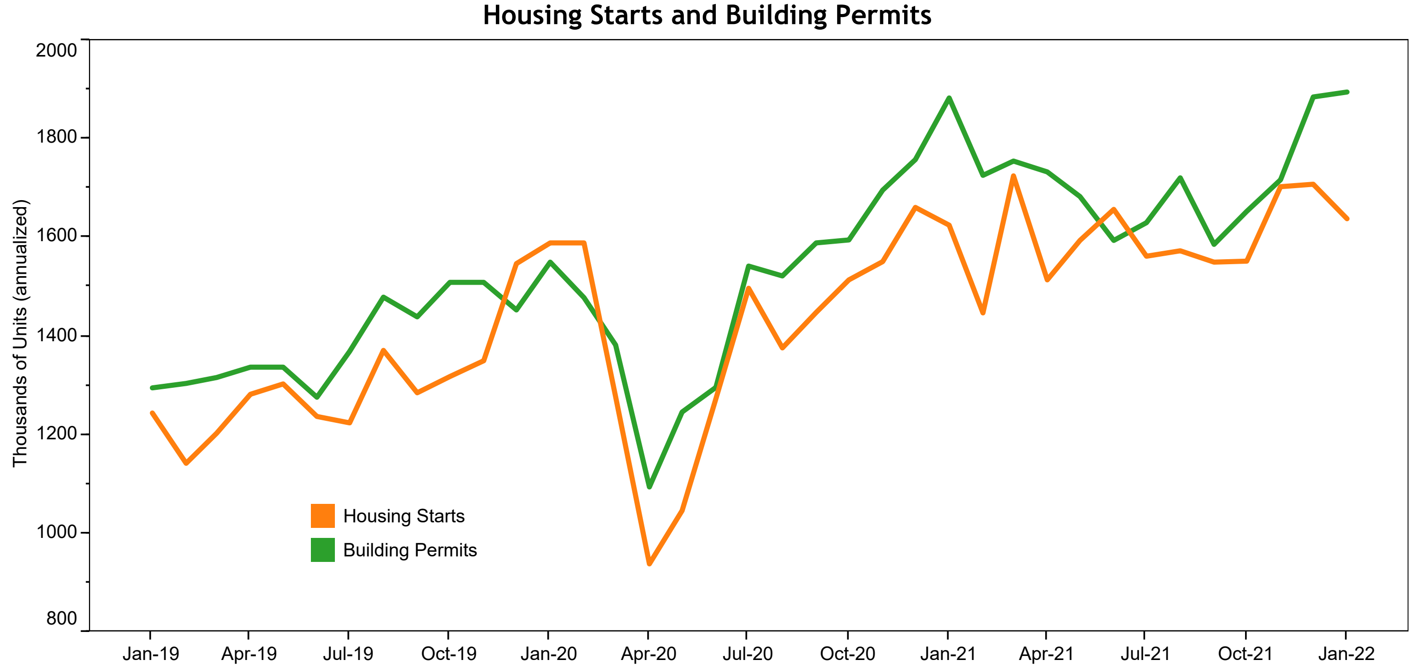
After posting consecutive 12% increases at the end of 2021, new home sales declined in January—falling 4.5% to an 801,000-unit annual rate. While sales remained above their pre-pandemic levels, they were nearly 20% below their level last year. Meanwhile, existing home sales rose 6.7% to a 6.50-million-unit annual rate in January, continuing the mostly upward trend seen since last May.

New and Existing Home Sales



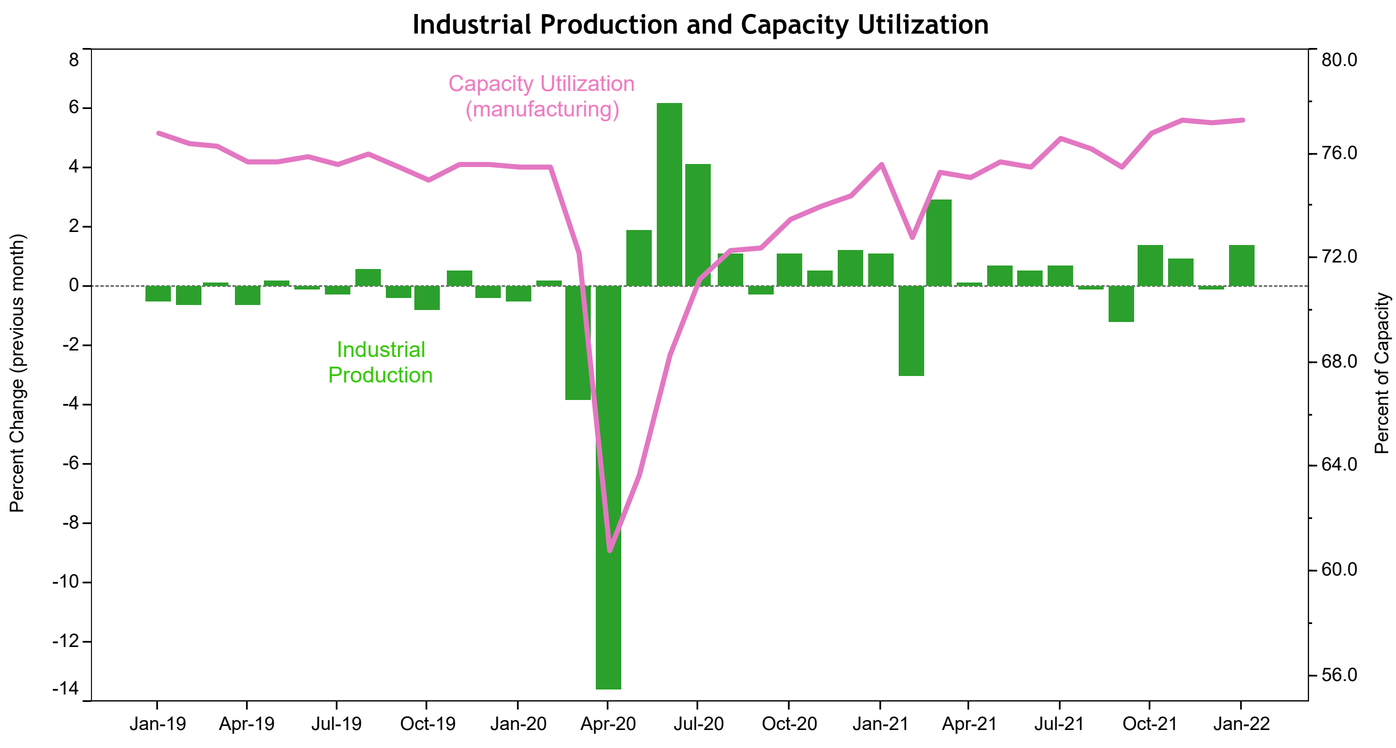
Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.

Total housing starts slowed a bit in January—falling 4.1% to a 1.64-million-unit annual rate—though remained in line with the 15-year highs seen recently. Both single- and multi-family starts declined in January. Total building permits rose for the fourth straight month in January, reaching a 1.90-million-unit annual rate—the highest since May 2006. Single-family permits rose 7.5% in January while multi-family permits fell from the 30-year high seen in December.



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

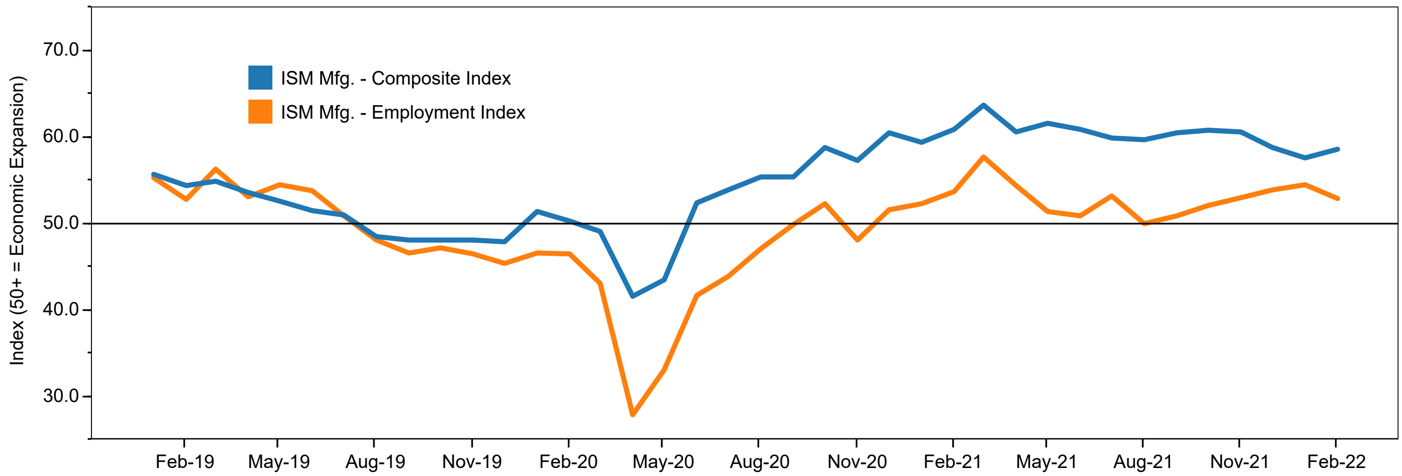
Industrial production rose 1.4% in January following a 0.1% decline in December. All major market sectors saw gains, led by a record-high 9.9% increase in utilities output, due to unusually cold temperatures. Manufacturing and mining output rose 0.2% and 1.0%, respectively. Meanwhile, capacity utilization in manufacturing increased by 0.1 percentage point, rising to 77.3 in January.



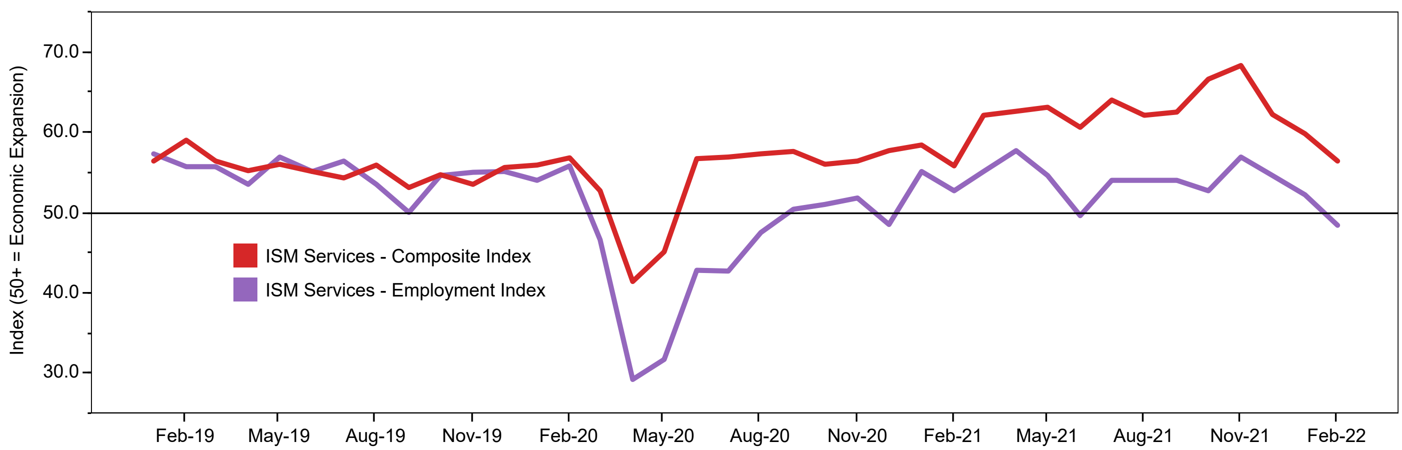
Source: Federal Reserve Board of Governors / Haver Analytics.

The ISM Manufacturing index rose one full percentage point from January—registering 58.6 in February. Despite continued supply-chain issues, this marks the 21st consecutive month that the index has indicated expansion. The employment subindex dipped to 52.9 in February from 54.5 in January and has not indicated contraction since November 2020. However, the ISM services index fell for the third straight month yet also continued to indicate expansion. The index registered 56.5 in February, down from the January reading of 59.9. The employment subindex indicated contraction in February as it fell to 48.5 from 52.3 in January. Regional surveys from the Federal Reserve were mixed—after briefly signaling contraction in January, the New York survey gained 3.1% in February—once again placing all surveys in expansionary territory.

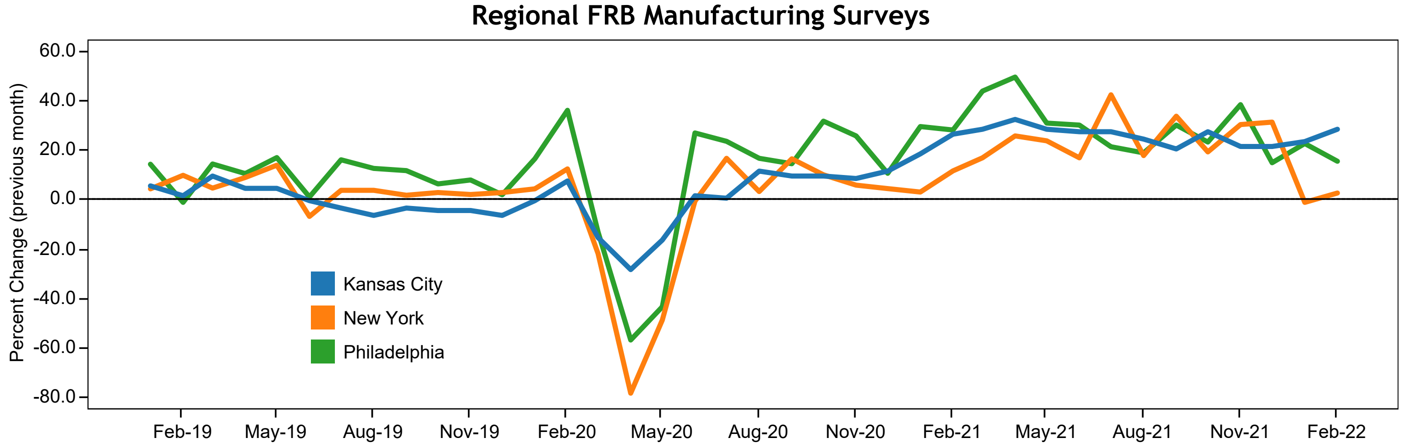
ISM Manufacturing Indices



ISM Services Indices



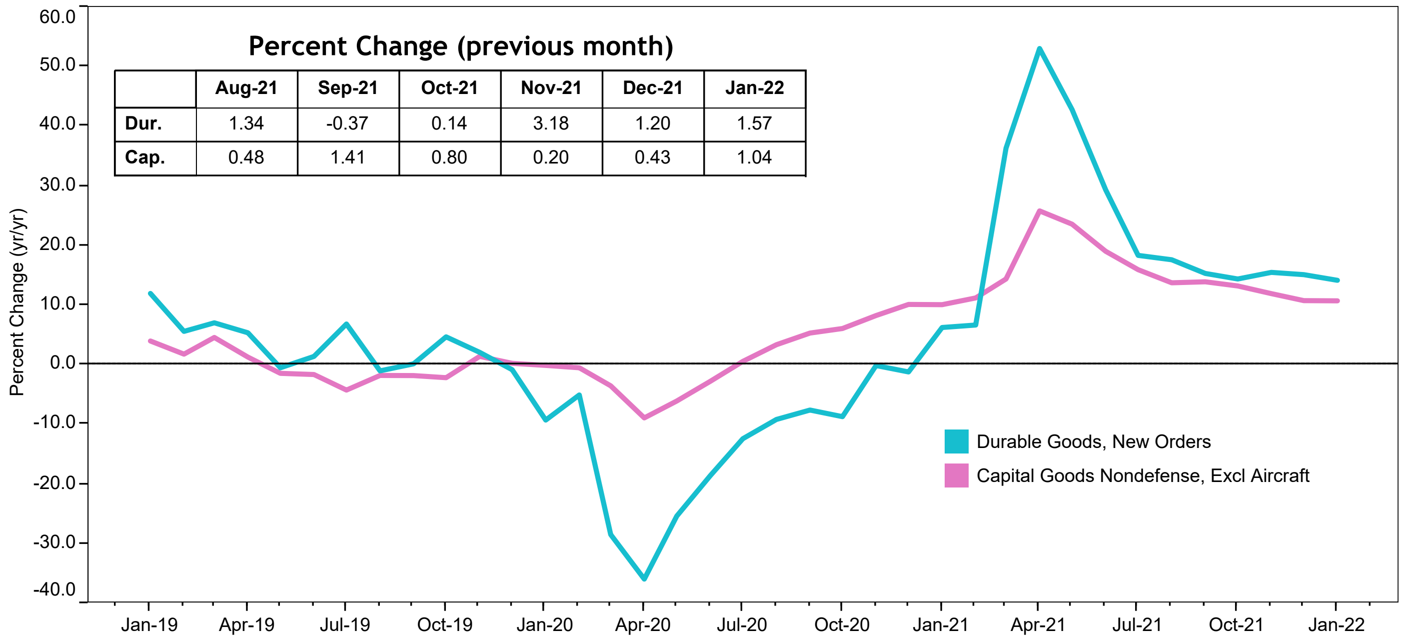
Regional FRB Manufacturing Surveys



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

Orders for durable goods rose 1.6% in January, following a 1.2% increase in December. Meanwhile, orders of nondefense capital goods excluding aircraft rose 1.0%. On a year-over-year basis, growth of both total and core orders remained robust. Nominal data within manufacturing (orders, shipments, inventories) have been rising steadily recently, boosted by rising prices.

Durable Goods Orders

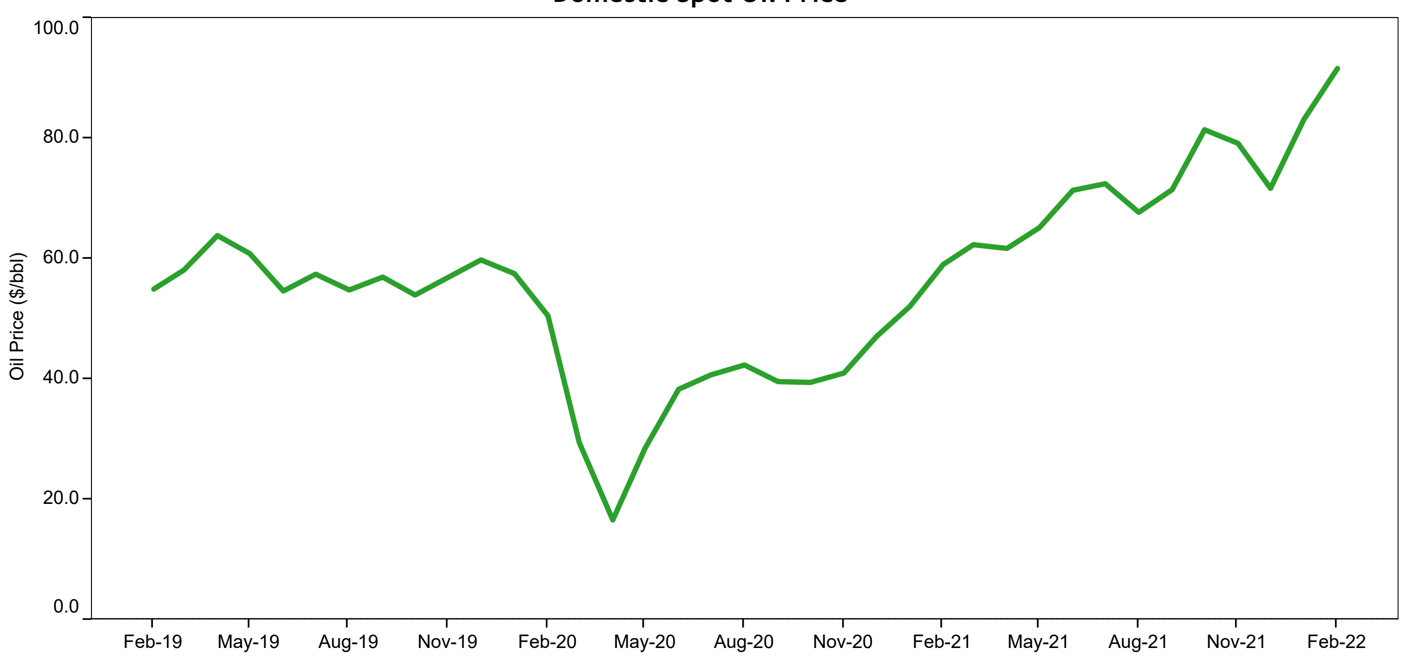


	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Dur.	1.34	-0.37	0.14	3.18	1.20	1.57
Cap.	0.48	1.41	0.80	0.20	0.43	1.04

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

Oil prices have risen sharply in response to the Russia/Ukraine conflict. West Texas Intermediate oil prices closed at $119.40/barrel on March 7th, up from $103.66/barrel on March 1st. These latest increases follow an upward trend already in place that saw average daily prices climb nearly $20/barrel from December ($71.71) to February ($91.65).

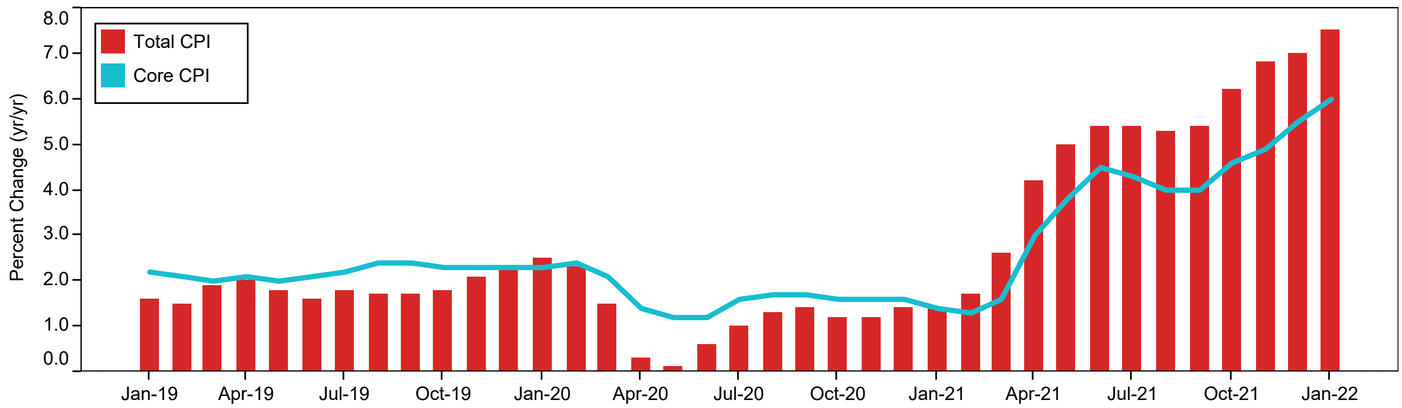
Domestic Spot Oil Price



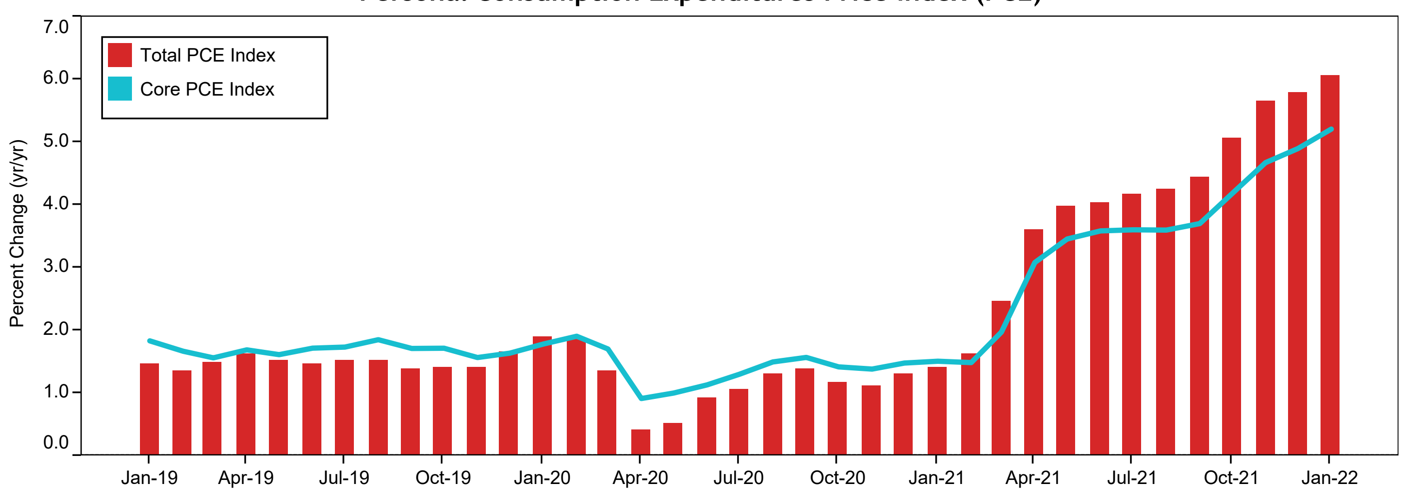
Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

In January, monthly total and core CPI were unchanged at 0.6%. Over the past year, total and core CPI rose at their fastest rates since 1982—registering 7.5% and 6.0%, respectively. Increases in the CPI remained broad-based, with notable increases seen for food, clothing, airline fares, used vehicles, and medical care services. February CPI data are due Thursday, and markets expect further acceleration of 12-month growth rates. As measured by the PCE index, monthly inflation readings were also little changed in January and year-over-year inflation was the highest in nearly 40 years—at rates of 6.1% and 5.2%, respectively. At the wholesale level, total and core PPI both decelerated by one-tenth in January after reaching record highs at the end of 2021. The 12-month growth for total PPI was 9.7% while core PPI fell to 6.9%. On a monthly basis, total and core PPI accelerated by six-tenths and five-tenths, respectively, to 1.0% and 0.9%.

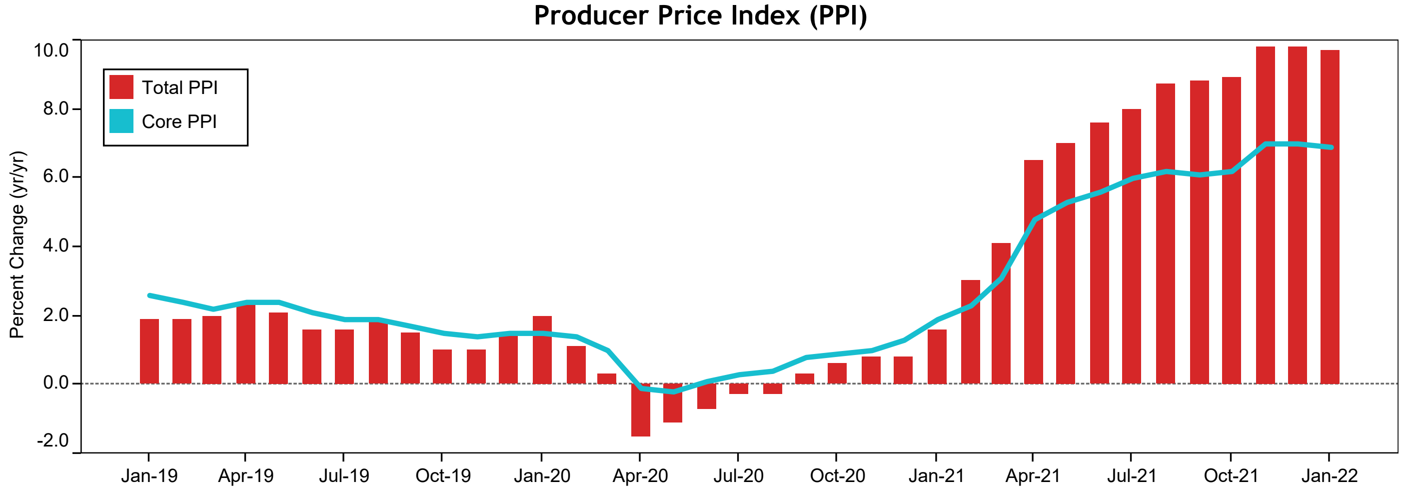
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)

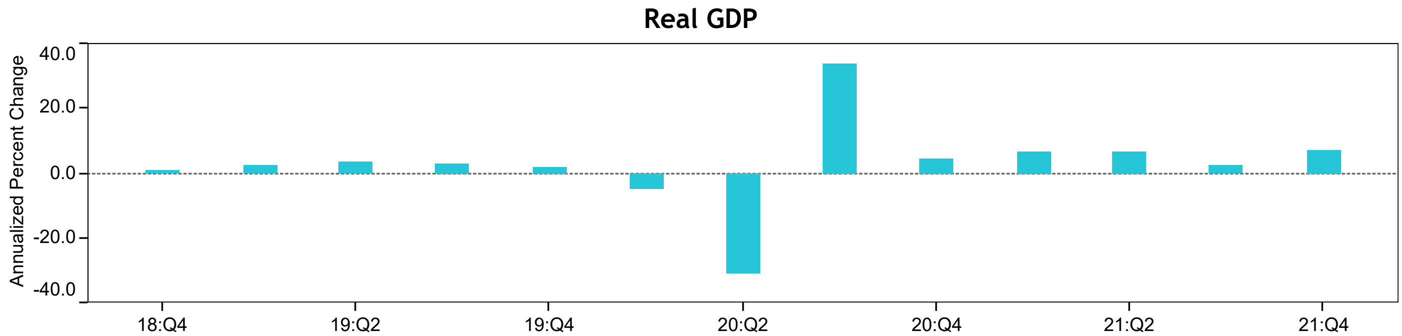


Producer Price Index (PPI)



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

According to the second estimate, real GDP rose 7.0% in the fourth quarter, revised up from the advance estimate of 6.9%. The uptick in the fourth quarter growth rate reflected upward revisions to nonresidential fixed investment, state and local government spending, and residential fixed investment and a downward revision to imports. These effects were partly offset by downward revisions to consumer spending, exports, and federal government spending.

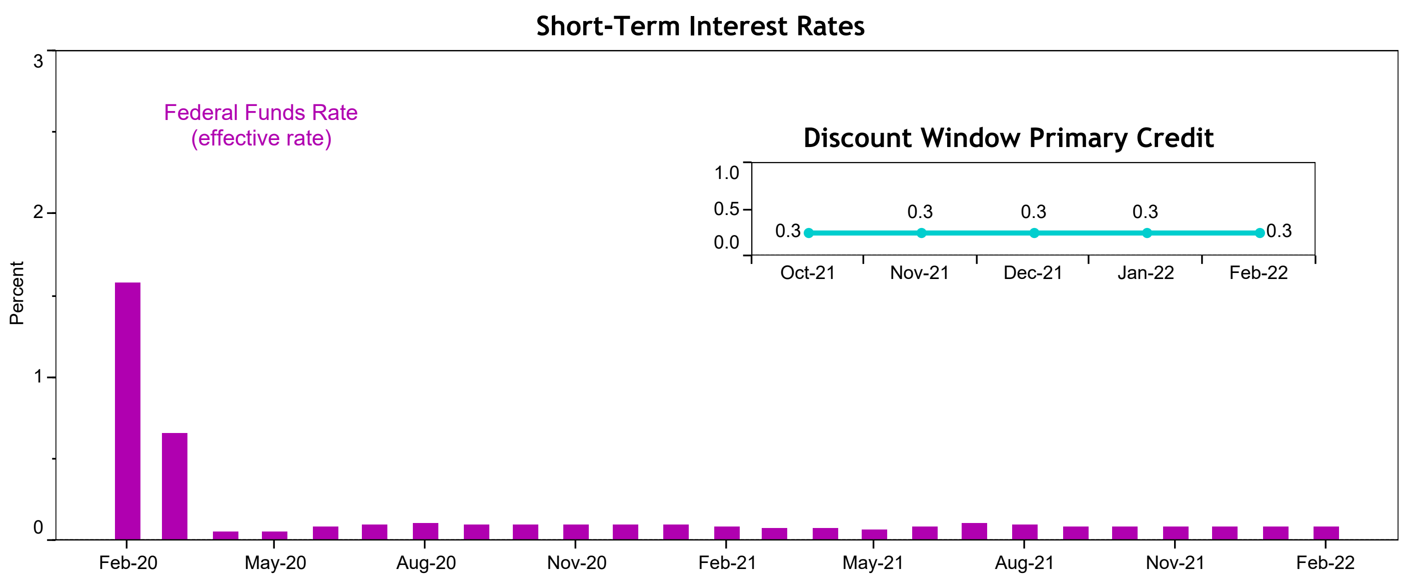


Revisions to Q4 Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	6.90	7.00
Personal Consumption	3.30	3.10
Business Investment	2.00	3.10
Equipment and Software	0.80	2.40
Residential Investment	-0.80	1.00
Government	-2.90	-2.60
Exports	24.50	23.60
Imports	17.70	17.60
Final Sales	1.90	2.00

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Director's meeting were mixed. GDP growth has likely slowed in the current quarter due to slower inventory investment and net exports, but domestic demand likely remained strong. The optimism from improving public health conditions and a strong labor market is weighed down by continued high inflation, supply-chain issues, and uncertainty stemming from Russia's invasion of Ukraine. Direct impacts from the war on the domestic economy are expected to be small, but this depends largely on the scope and longevity of the crisis. In the near term, as COVID transitions from pandemic to endemic and many health-related restrictions are removed, labor force participation should increase and demand will shift more to services from goods, supporting continued US expansion.



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