



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

May 31, 2022

CURRENT ECONOMIC DEVELOPMENTS - May 31, 2022

Data released since your last Director's meeting were mixed. Real GDP fell 1.5% in the first quarter, revised further downward from the advance estimate of a 1.4% decline, though underlying details suggest the economy was stronger than the headline figure would suggest. Inflation has shown some tentative signs of subsiding and tight labor markets and higher incomes continue to buoy domestic demand. 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 April remained indicative of a strong labor market, as 428,000 jobs were added and the unemployment rate held steady at 3.6%. May data for nonfarm payrolls are due out Friday, and markets are expecting an increase of 325,000 jobs and the unemployment rate to tick down one-tenth to 3.5%. Initial claims remain near multi-decade lows despite weekly data trending slightly upward since March.

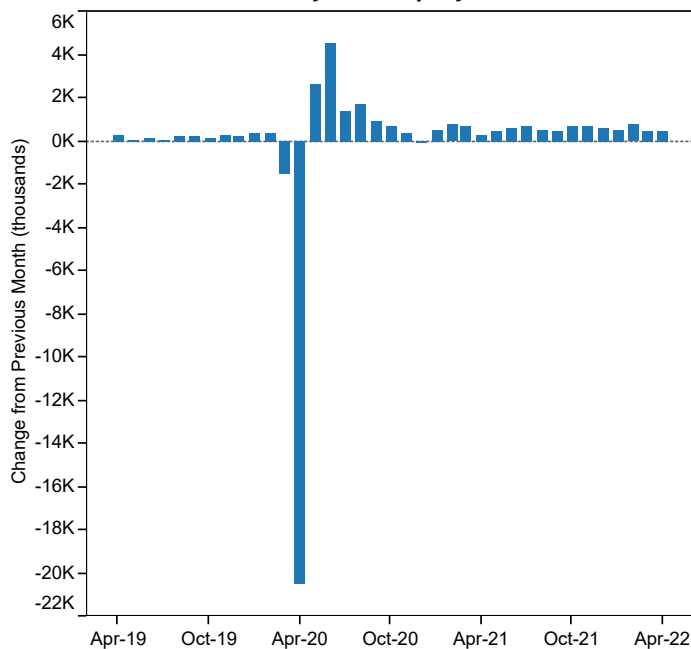
Consumer attitudes fell in May as rising prices weighed on outlooks. Retail sales slowed a bit from March but still posted gains in April. Real consumption accelerated in April and has increased in each month of 2022. Meanwhile, real disposable income was essentially unchanged in April—though the very small gain was its first since October 2021. Due largely to increased prices and tightening financial conditions, housing market data mostly declined in April but remained at elevated levels.

Orders for durable goods rose in April and accelerated on a year-over-year basis. Orders of nondefense capital goods excluding aircraft rose in April but slowed relative to last year. Manufacturing data softened in recent data as both the ISM Manufacturing and Services indices fell in April. Regional surveys from the Federal Reserve also declined in May, with the New York survey signaling contraction for the second time in three months. Industrial production rose in April—its fourth consecutive monthly increase—while capacity utilization in manufacturing continued to rise and has remained above its pre-pandemic levels since September of last year.

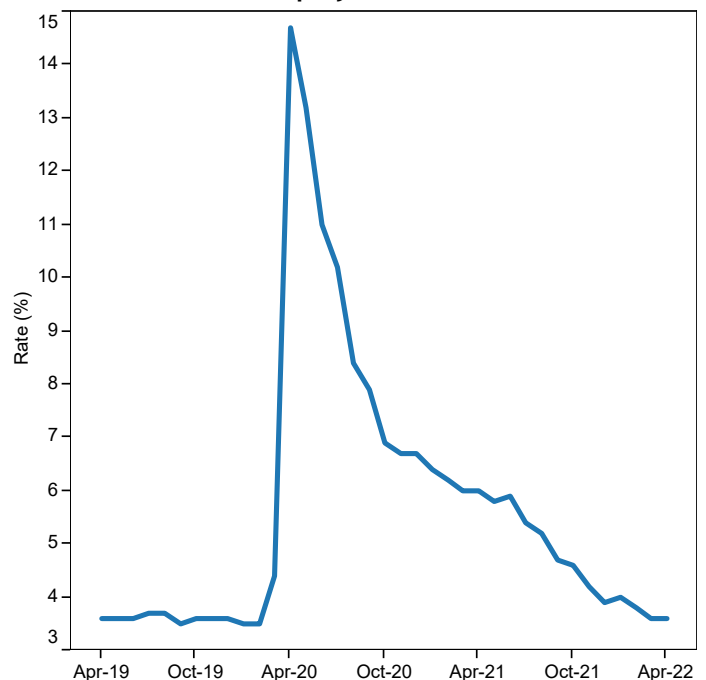
On a year-over-year basis, measures of inflation broadly decelerated in April. On a monthly basis, total CPI and PCE decelerated sharply while core CPI accelerated and PCE was flat. Oil prices rose in May to their highest level in over a decade, more than reversing April's moderation. Daily prices have remained above March's level since May 13th, and closed at \$115.07/barrel on May 27th.

Nonfarm payrolls added 428,000 jobs in April—matching the slightly revised estimate for March—and the unemployment rate was unchanged at 3.6%. Markets are anticipating another solid increase in jobs in May and a further decrease in the unemployment rate. These data are due Friday.

Nonfarm Payroll Employment



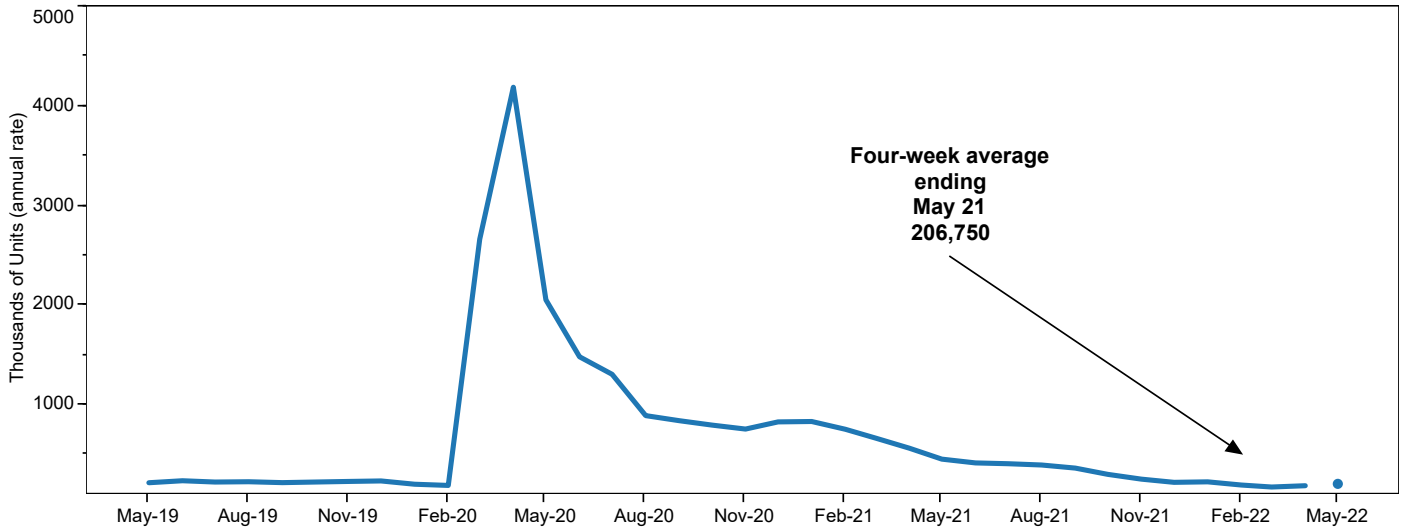
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance remained near historic lows in the week ending May 21—falling by 8,000 to 210,000. Meanwhile, the four-week moving average rose 7,250 last week to 206,750—though remained below its 2019 average of 217,000.

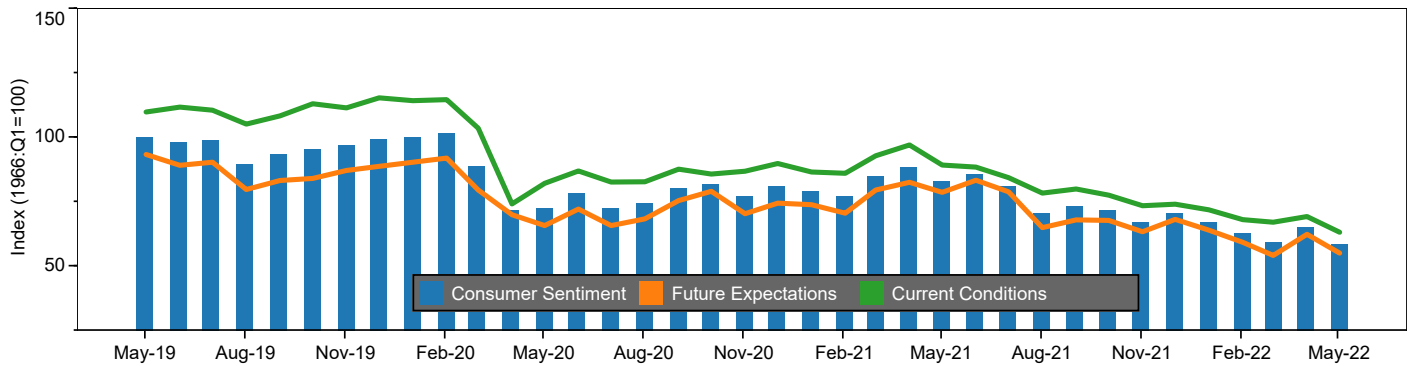
Initial Claims



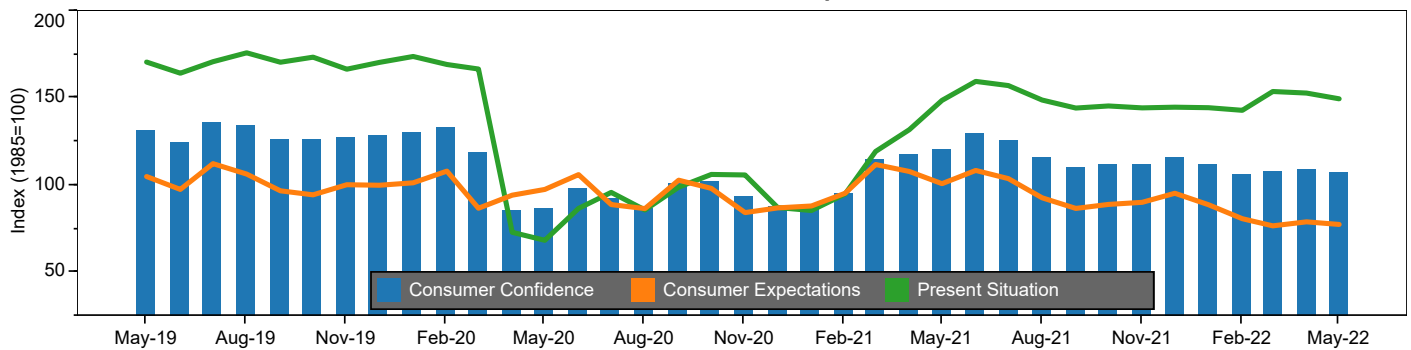
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The consumer confidence index fell to 106.4 in May, down from 108.6 in April (revised up from 107.3). The present situation component declined to 149.6 in May—down from 152.9 in April—and the expectations index fell to 77.5 from 79.0. Meanwhile, the consumer sentiment index fell to its lowest level since 2011—registering 58.4 in May. The expectations component fell to 55.2 in May from 62.5 in April and the current conditions index fell to 63.3 from 69.4. Rising prices continued to be a main concern for respondents—especially for households earning less than \$100,000 per year.

Consumer Sentiment and Expectations



Consumer Confidence and Expectations



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

Total retail sales rose 0.9% in April from a level in March that was revised higher. Sales at food services and drinking places, nonstore retailers, miscellaneous stores, and vehicle and parts dealers all posted strong gains while smaller increases were seen for clothing, furniture, and electronics. Sales decreased for gasoline, building materials, and groceries. Retail sales excluding autos also rose 0.6% in April while core retail sales rose 1.2%.

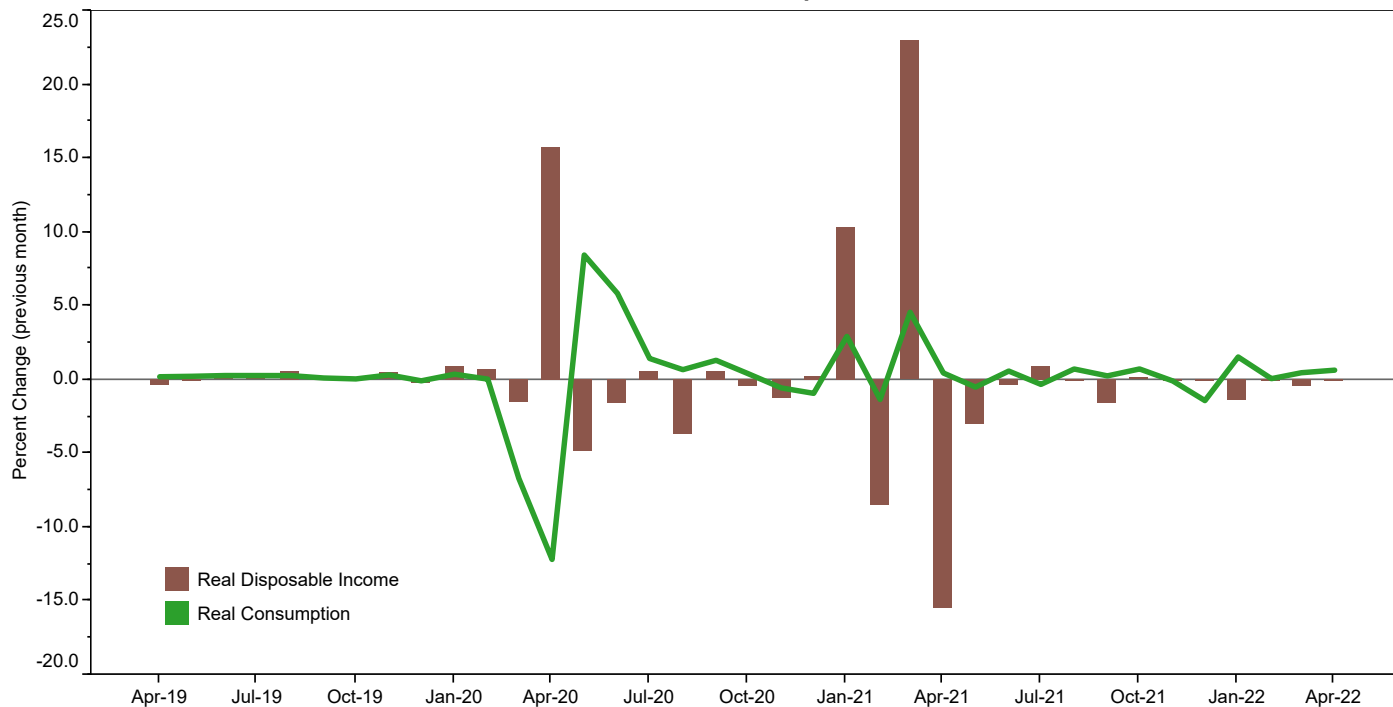
Retail Sales



Source: Census Bureau / Haver Analytics.

Personal income rose 0.4% in April driven by gains in wage and salary income. Meanwhile, real consumption rose 0.7% in April, following a 0.5% increase in March (revised up from 0.2%). Spending improved for both services and goods--rising 0.5% and 1.0%, respectively. Real disposable income remained essentially flat in April.

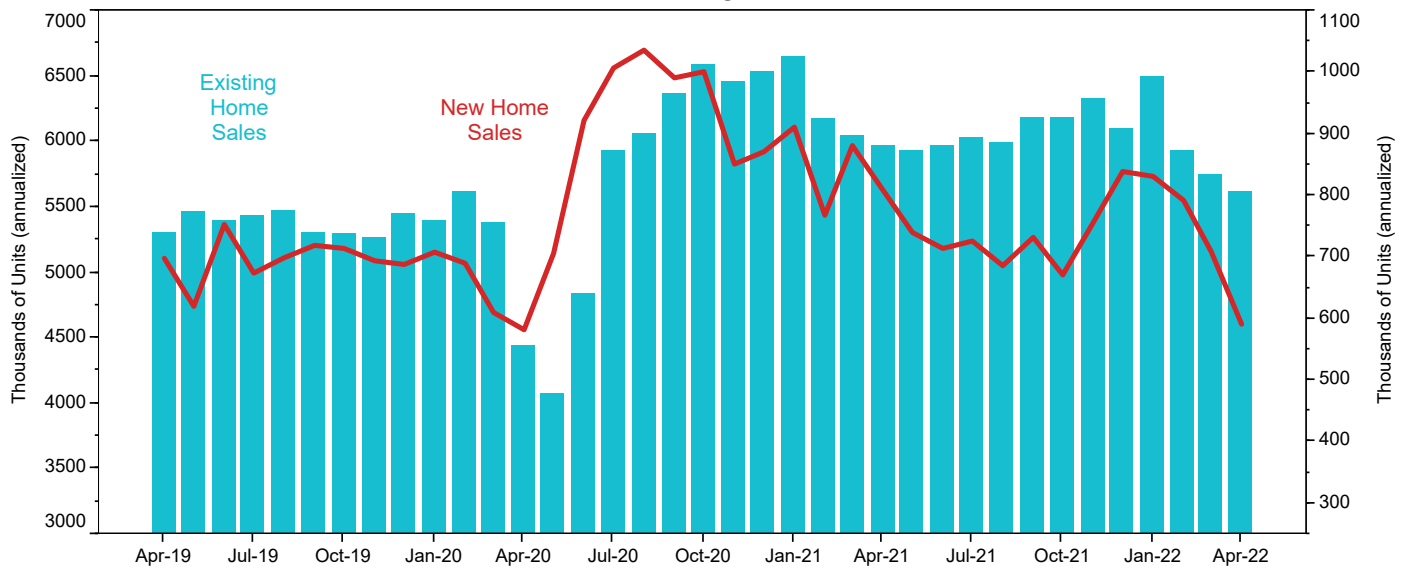
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

In April, new home sales fell to the lowest level since April 2020—dropping 16.6% to a 591,000-unit annual rate. Sales rates were revised lower for each of the first three months of 2022, yet first quarter sales on average were still higher than in the three prior quarters. Due partially to increased prices and rising mortgage rates, sales were 27.0% below their level from last April. Existing home sales also fell in April, declining 2.4% from March to a 5.61-million-unit annual rate—a 21-month low. Sales of existing homes were 5.9% 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.

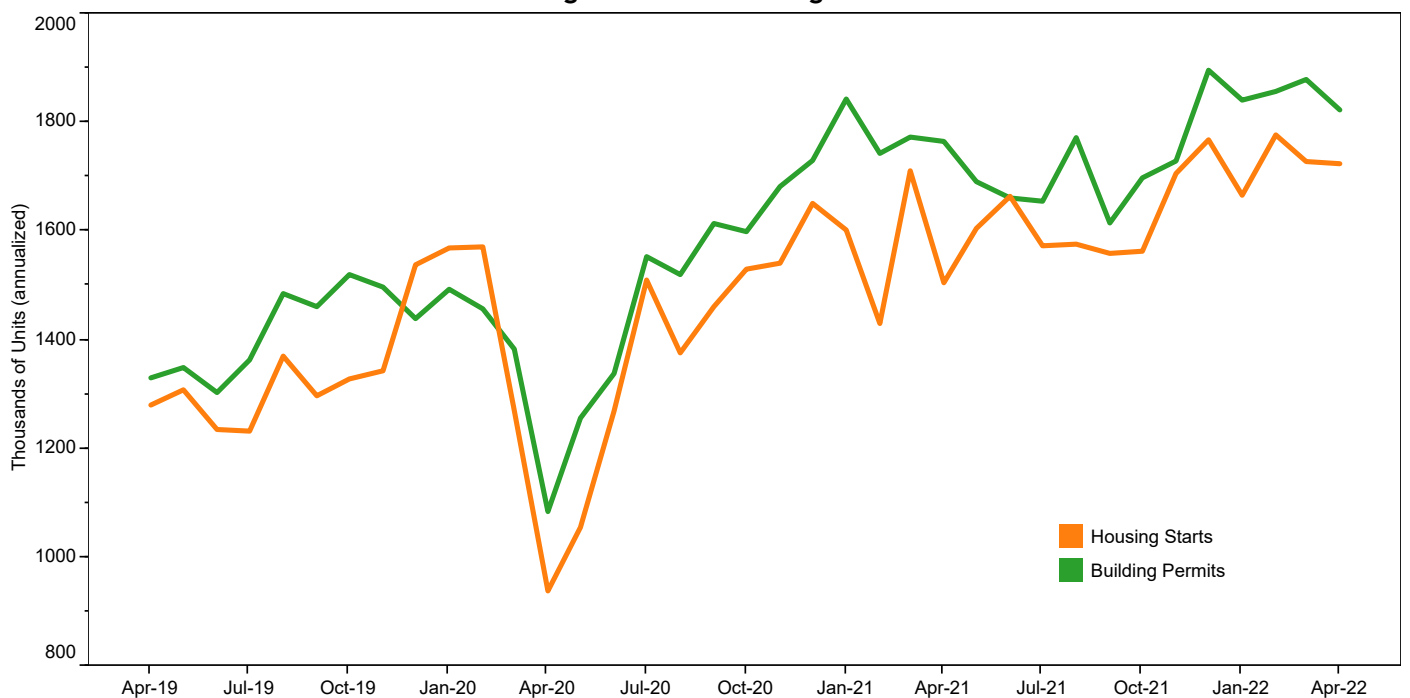
New and Existing Home Sales



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 April—despite remaining well-above their pre-pandemic levels. Housing starts were nearly flat—falling only 0.2% from March to a 1.72-million-unit annual rate—with a boost in multi-family starts (which climbed to a 35-year high) more than offsetting a decline in the single-family sector. Housing permits fell 4.6% in April to a 1.11-million-unit annual rate. Both single- and multi-family permits declined in April, though multi-family permits still posted their third-highest reading of the past 30 years.

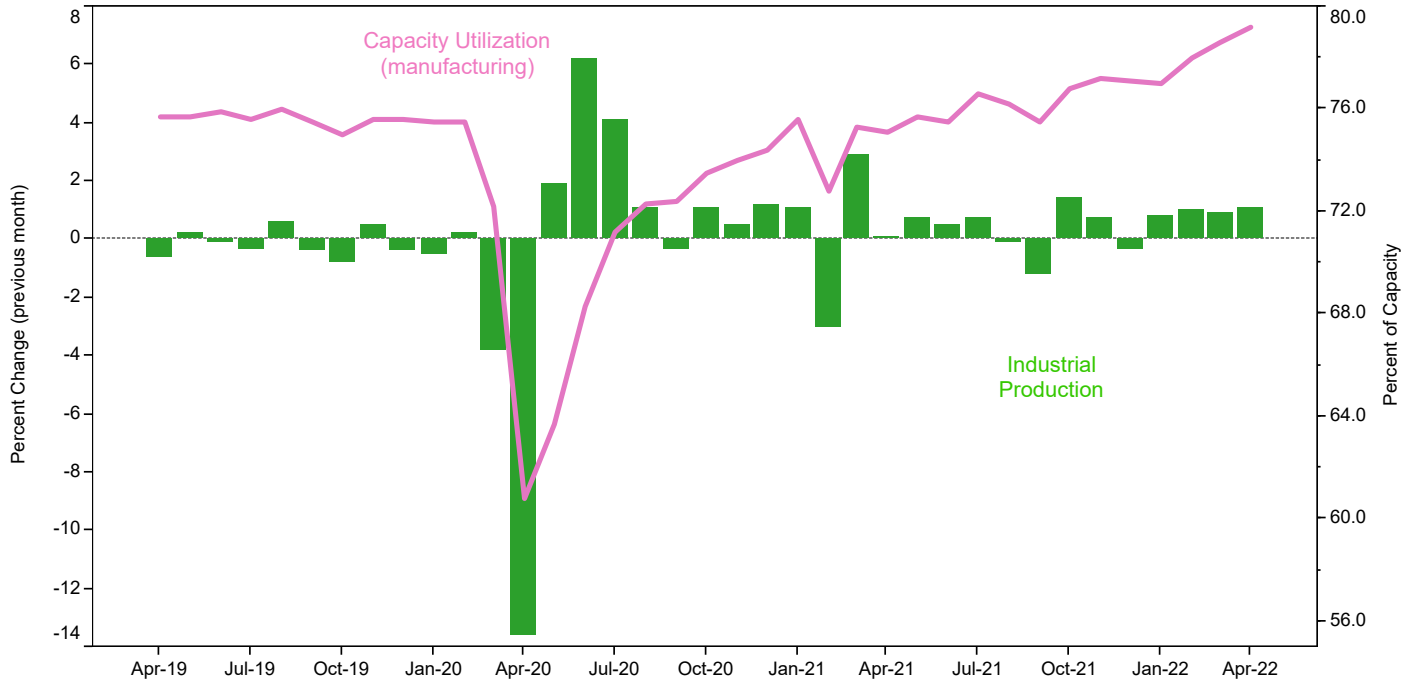
Housing Starts and Building Permits



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

Industrial production rose 1.1% in April following similar gains in each of the first three months of 2022 placing it at 4.2% above its pre-pandemic level. All major market categories posted gains, with utilities output up 2.4%, mining up 1.6% and manufacturing up 0.8%. Capacity utilization in manufacturing increased by 0.6 percentage points, rising to 79.2 in April.

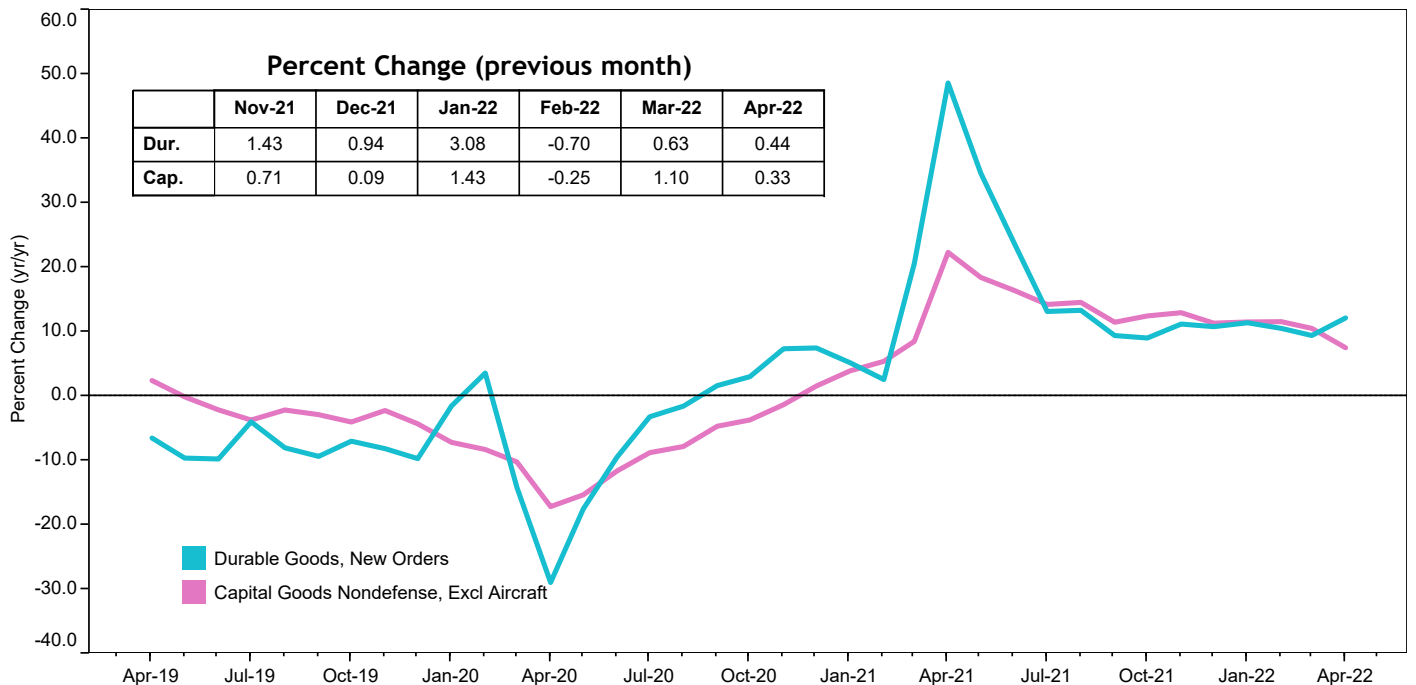
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose 0.4% in April, following a 0.6% increase in March. Orders of nondefense capital goods excluding aircraft also increased in April—rising 0.3% after increasing 1.1% in March. Orders for durable goods accelerated on a year-over-year basis, while orders of nondefense capital goods excluding aircraft decelerated a bit.

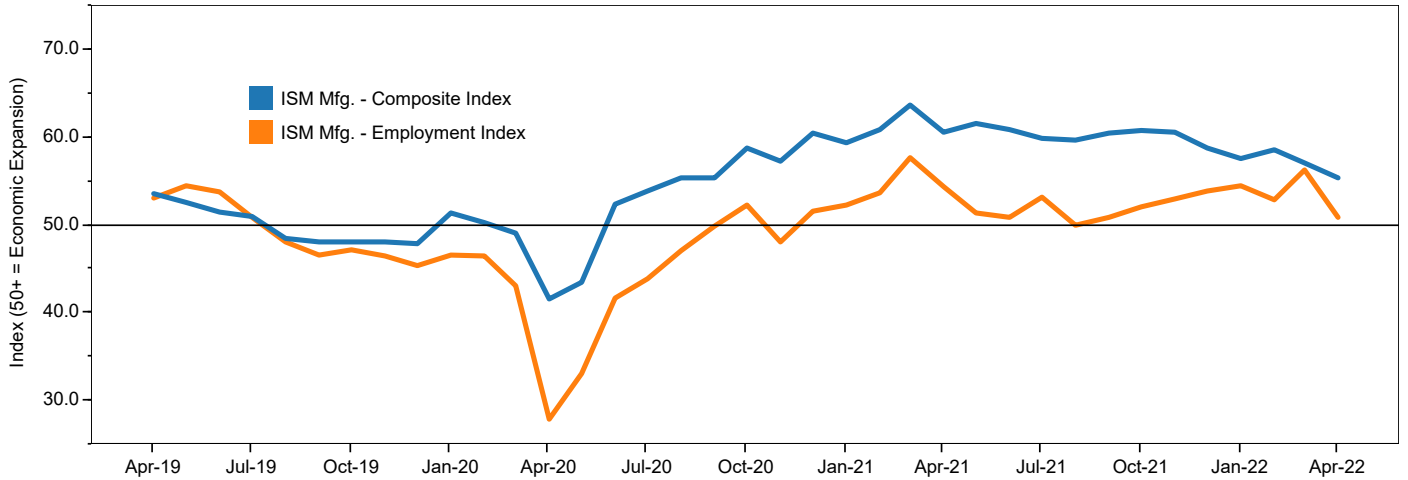
Durable Goods Orders



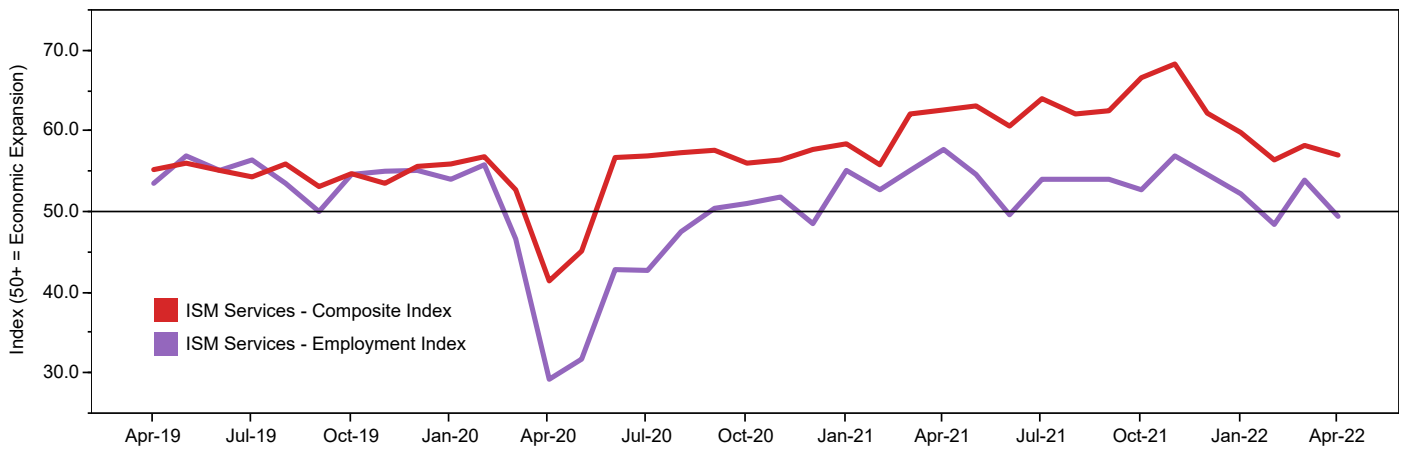
Source: U.S. Census Bureau / Haver Analytics.

Measures of manufacturing activity all posted declines in recent data. In April, the ISM Manufacturing index fell 1.7 points from March to 55.4 with the employment index falling 5.4 points to 50.9. The ISM Services index fell 1.2 points to 57.1 with the employment index falling 4.5 points to 49.5—signaling contraction for the second time this year. May data for the Manufacturing and Services surveys are due out on Wednesday and Friday, respectively. Markets are expecting small declines for both. Regional surveys from the Federal Reserve all declined in May—the New York survey was the only to fall far enough to signal contraction—doing so for the second time in three months.

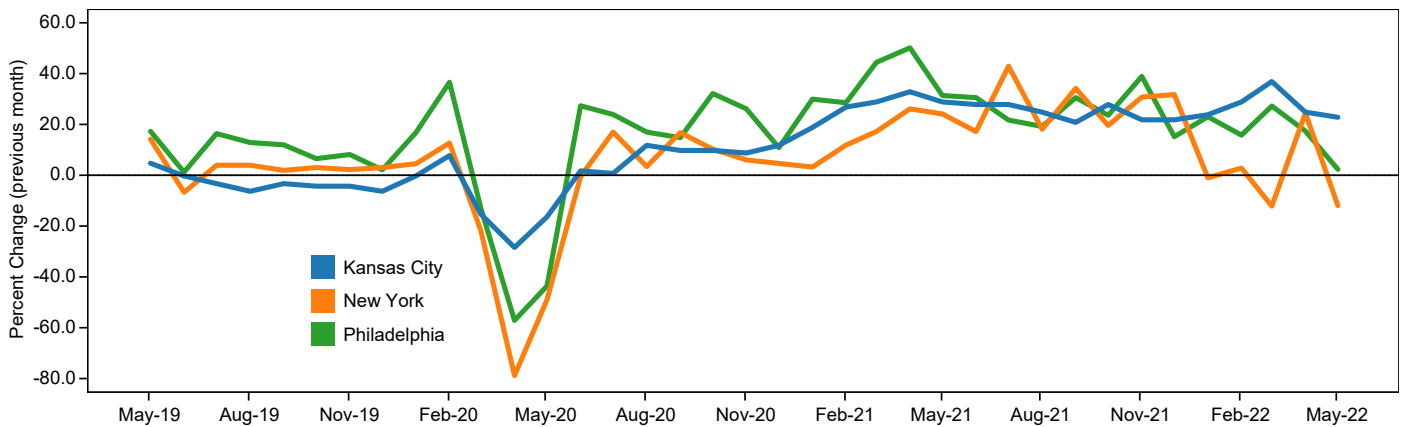
ISM Manufacturing Indices



ISM Services Indices



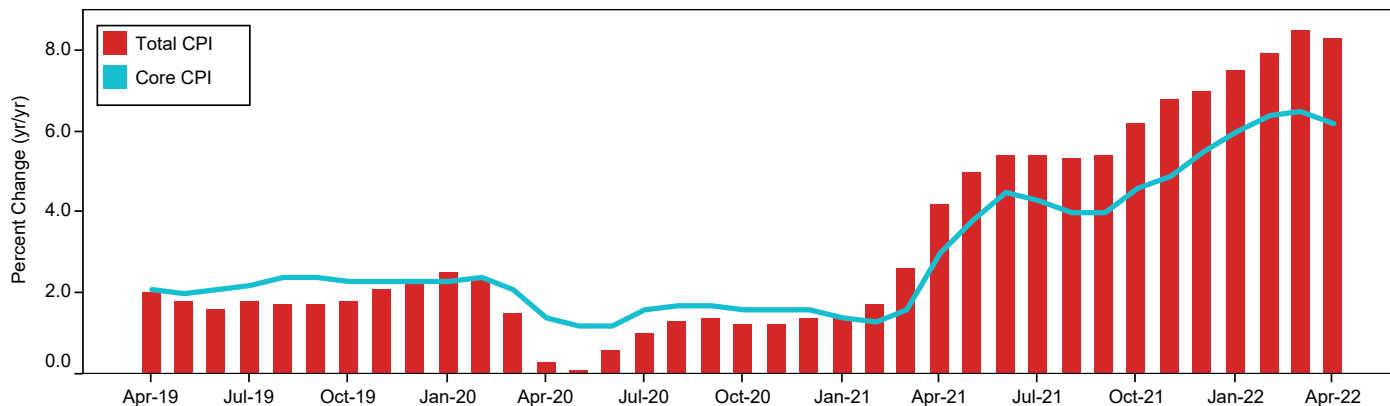
Regional FRB Manufacturing Surveys



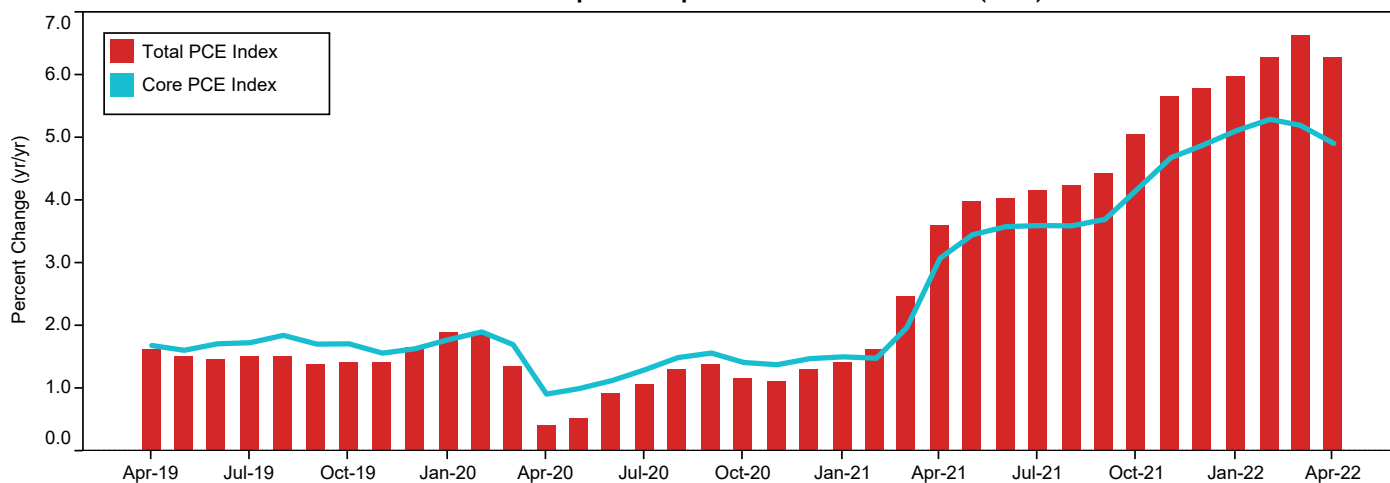
Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Due largely to decreases in energy prices, total prices as measured by the CPI and PCE decelerated sharply in April. Total CPI rose 0.3%—slowing nine-tenths from March’s pace—while the total PCE index rose 0.2%—decelerating seven-tenths from the prior month. Prices as measured by core CPI rose 0.6%—accelerating three-tenths from March, while core PCE rose 0.3%—holding steady at the pace set in March. Over the past year, both total and core CPI decelerated in April from their March rates—which were the fastest since 1981—slowing to 8.3% and 6.2%, respectively. Twelve-month growth for total and core PCE inflation also decelerated in April—slowing to 6.3% and 4.9%, respectively. Along with a drop in gas prices in April, the used vehicle CPI fell for the third consecutive month. At the wholesale level, total and core PPI slowed a bit from the March’s record pace, decelerating five- and two-tenths, respectively, to 11.0% and 6.9%. On a monthly basis, total and core PPI decelerated by eleven-tenths and three-tenths, respectively, to 0.5% and 0.6%.

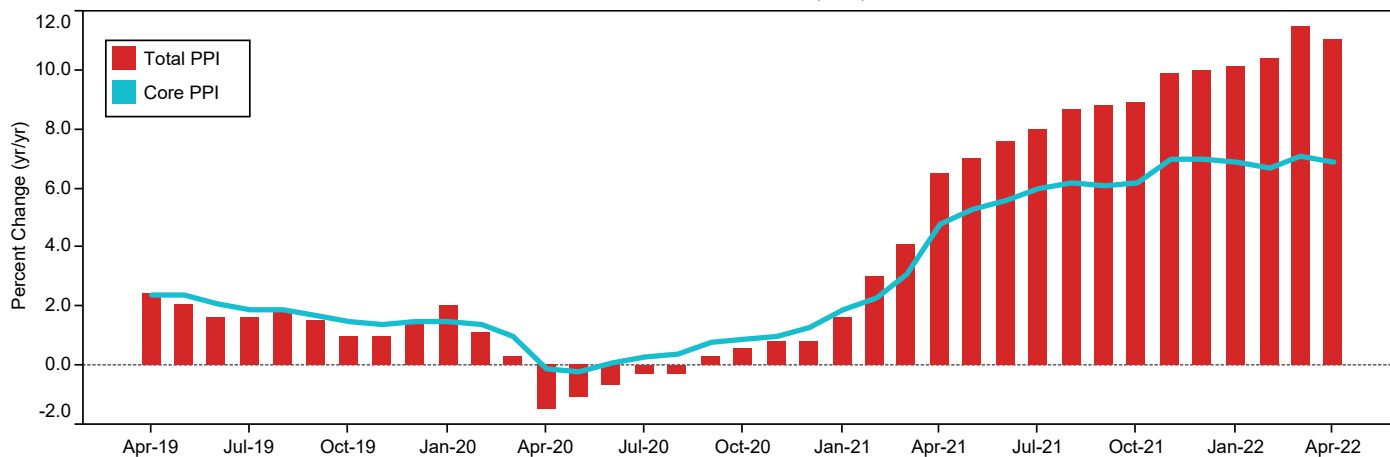
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



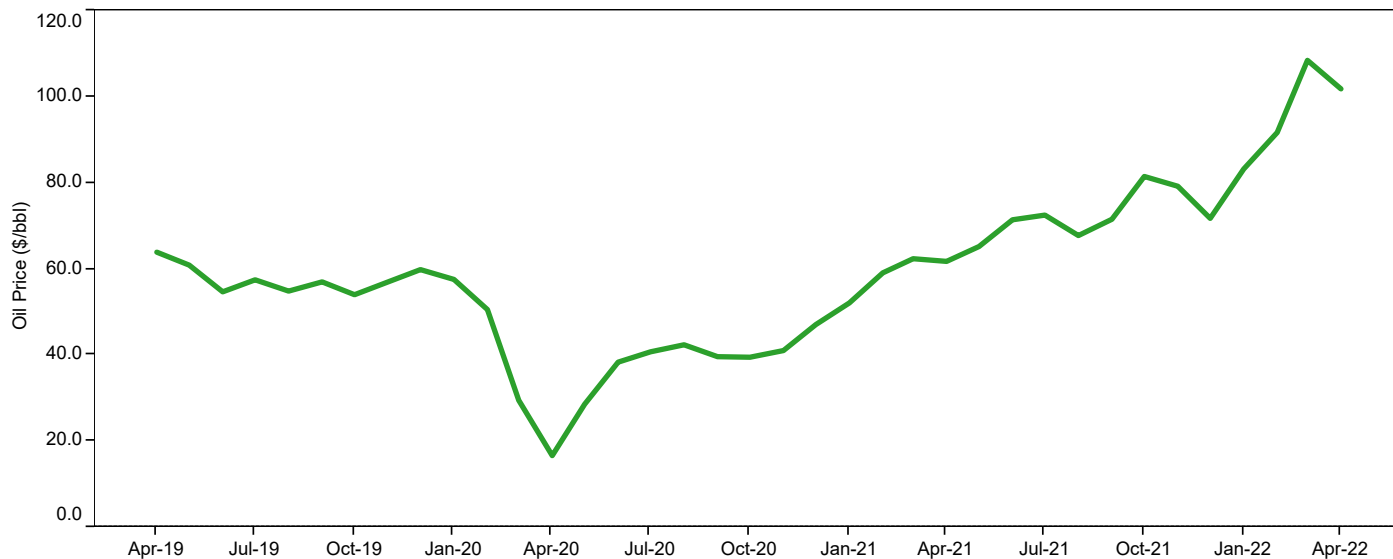
Producer Price Index (PPI)



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

After falling in April, oil prices turned higher again in May. The average for the month of May—missing only one data point for May 31—is currently \$109.09/barrel, the highest in 11 years. Recent daily prices closed on May 27th at \$115.07/barrel.

Domestic Spot Oil Price



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

According to the second estimate, real GDP fell 1.5% in the first quarter, revised further downward from the 1.4% decline reported in the initial estimate. The decline primarily reflected downward revisions to private inventory investment, residential fixed investment, and upward revisions to imports that were mostly offset by upward revisions to consumer spending and exports.

Real GDP



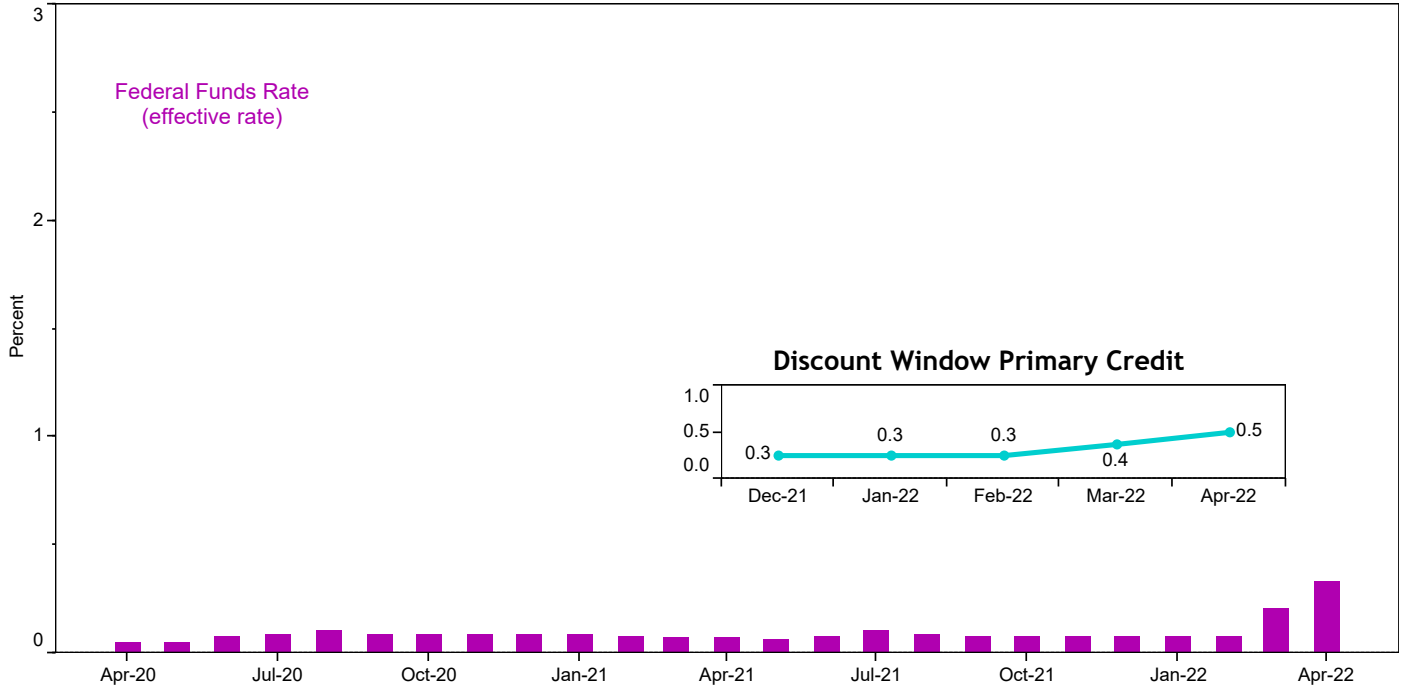
Revisions to Q1 Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	-1.4	-1.5
Personal Consumption	2.7	3.1
Business Investment	9.2	9.2
Equipment and Software	15.3	13.2
Residential Investment	2.1	0.4
Government	-2.7	-2.7
Exports	-5.9	-5.4
Imports	17.7	18.3
Final Sales	-0.6	-0.4

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.