



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

January 11, 2022

CURRENT ECONOMIC DEVELOPMENTS - January 11, 2022

Data released since your last Director's meeting were mixed. Continued job growth and income gains have supported increased consumption and improved some aspects of consumer attitudes. Those effects, combined with restocking of inventories, suggest a considerable increase in GDP growth occurred in the fourth quarter. However, the economic impacts of the spread of the omicron variant had yet to be fully captured in these data. Growth will likely slow over the first half of 2022, with the evolving public health scenario, high inflation, and continued supply chain issues remaining as downside risks.

Nonfarm payrolls slowed in December—adding 199,000 jobs, below market expectations—but gains in prior months were revised sharply higher and civilian employment posted a strong gain. Meanwhile, the unemployment rate declined to 3.9% as participation remains low. Initial claims for unemployment insurance fell to their lowest level since 1969 in early December, and though rising a bit most recently remain in line with their pre-pandemic levels. In monthly terms, claims have fallen in 10 of the past 11 months.

Consumer attitudes improved somewhat in December, although the improvement in consumer sentiment was up relative to a decade low in November. Moreover, detrimental impacts from increasing price levels are still being reported by respondents. Retail sales were soft in November, likely affected by early holiday shopping done in October. Real consumption remained essentially flat while real disposable income declined (despite personal income growing in nominal terms). Sales of lightweight vehicles remained well below pre-pandemic levels in December, decelerating for the second consecutive month as supply-chain and inventory issues continue.

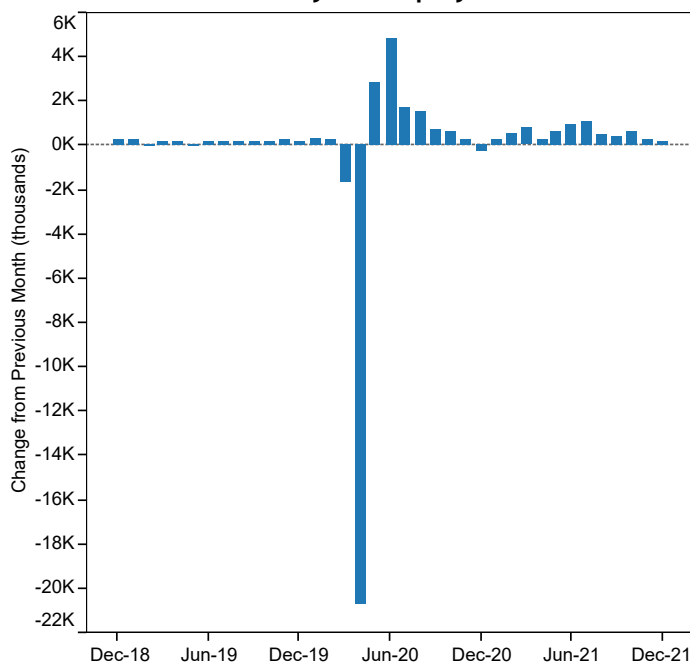
In November, new home sales rose to their highest level since April 2021 and are generally in line with their pre-pandemic levels. However, sales remained below the highs seen at the end of 2020. Sales of existing homes rest at levels well above those seen prior to the pandemic and rose for the third straight month in November, nearly returning to the elevated levels seen in late 2020. Meanwhile, both housing starts and permits rose in November and remained elevated.

Orders for durable goods rose by 2.6% in November from a month prior while accelerating slightly on a year-over-year basis. Orders of nondefense capital goods excluding aircraft were flat in November and decelerated a bit relative to their levels last year. Industrial production and capacity utilization in manufacturing both rose in November. Surveys of the manufacturing sector declined a bit in December but continued to signal expansion. Both the ISM manufacturing and services indices eased in December while regional surveys from the Federal Reserve were mixed.

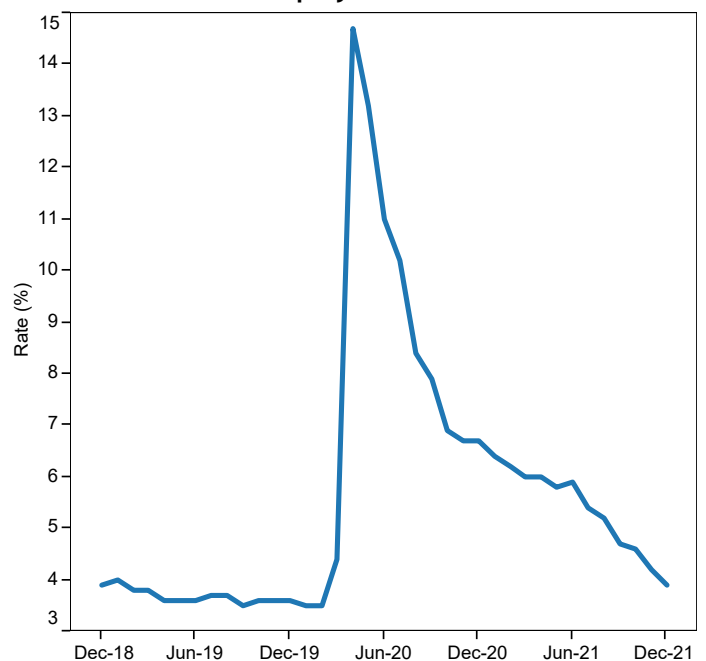
Measures of inflation continued to accelerate in November. From last year, prices as measured by total CPI and PCE increased 6.8%, and 5.7%, respectively— this was the highest reading for both series since 1982. Core CPI rose at its fastest pace since 1991, rising 4.9% year-over-year, while core PCE rose at its fastest pace since 1984, rising 4.7% year-over-year. CPI data for December are due out Wednesday and markets are expecting a 7.0% year-over-year increase in the headline number. On average, oil prices fell further in December from the seven-year high seen in October. However, recent daily prices have been steadily increasing, closing at \$78.23/barrel on January 10th.

Nonfarm payroll employment added 199,000 jobs in December, and job gains in the two prior months were revised higher by 141,000. Also in December, the unemployment rate declined three-tenths from the previous month to 3.9%, as a robust gain in civilian employment more than offset a smaller increase in the civilian labor force. The unemployment rate fell two full percentage points over the second half of 2021.

Nonfarm Payroll Employment

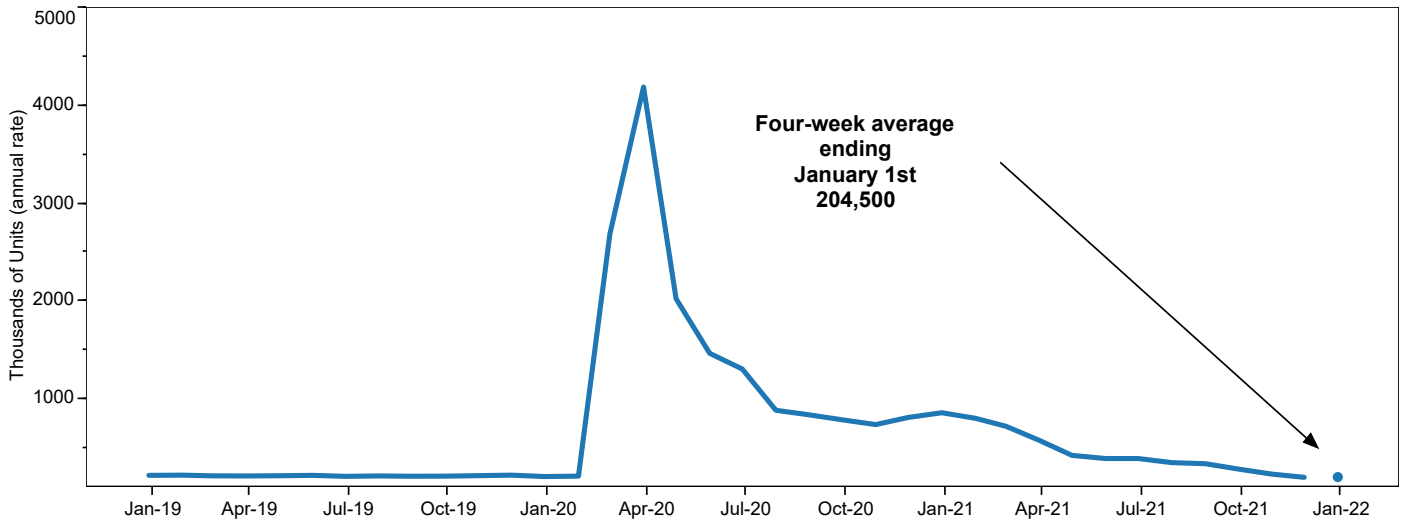


Unemployment Rate



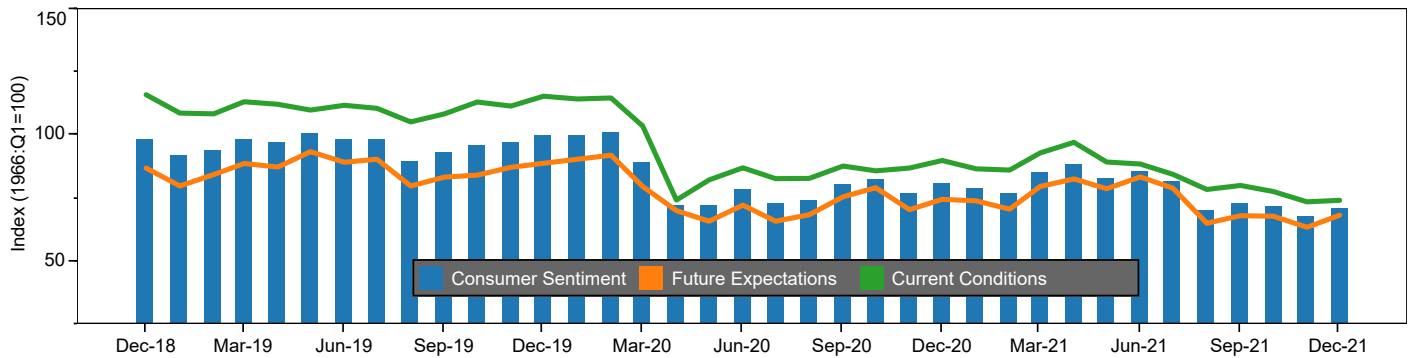
Initial claims for unemployment insurance rose 7,000 to 207,000 in the week ending January 1, holding close to the historic lows seen in December 2021. The four-week moving average also rose a bit last week to 204,500, but remains below its pre-pandemic average.

Initial Claims

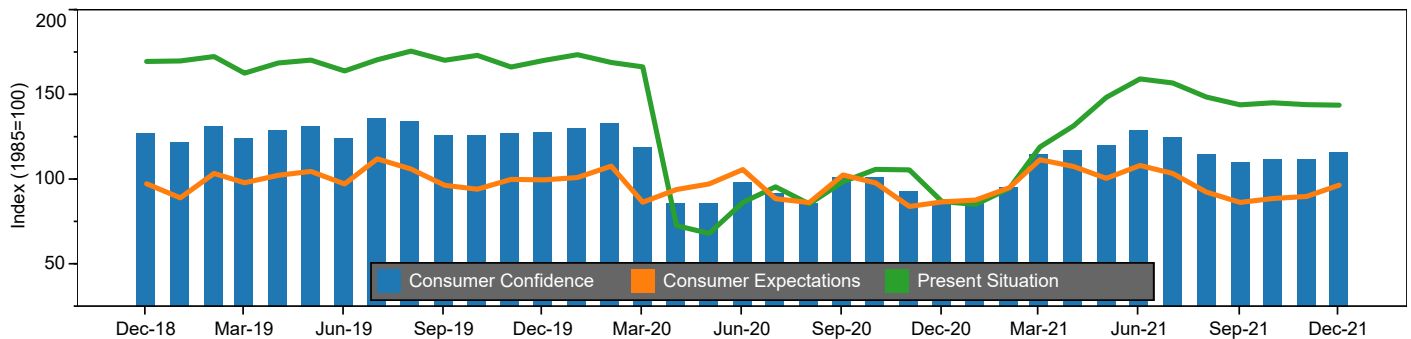


The consumer confidence index rose 3.9 points from the upwardly revised November reading, registering 115.8 in December. The present situation subindex fell slightly from 144.4 to 144.1, while the expectations subindex rose 6.7 points to 96.9. The consumer sentiment index also rose in December, registering 70.6—up from November’s decade-low of 67.4. The current conditions subindex ticked up by less than a point to 74.2 while the expectations subindex rose 4.8 points to 68.3. Recent increases in consumer attitudes are likely due to the improved income expectations of households—the announcement of increased social security payments in 2022 in addition to wage gains seen for younger workers likely helped to buoy attitudes in December. However, inflation concerns still loom large with respondents and the most recent surveys do not fully capture the impact of the Omicron variant of the coronavirus.

Consumer Sentiment and Expectations



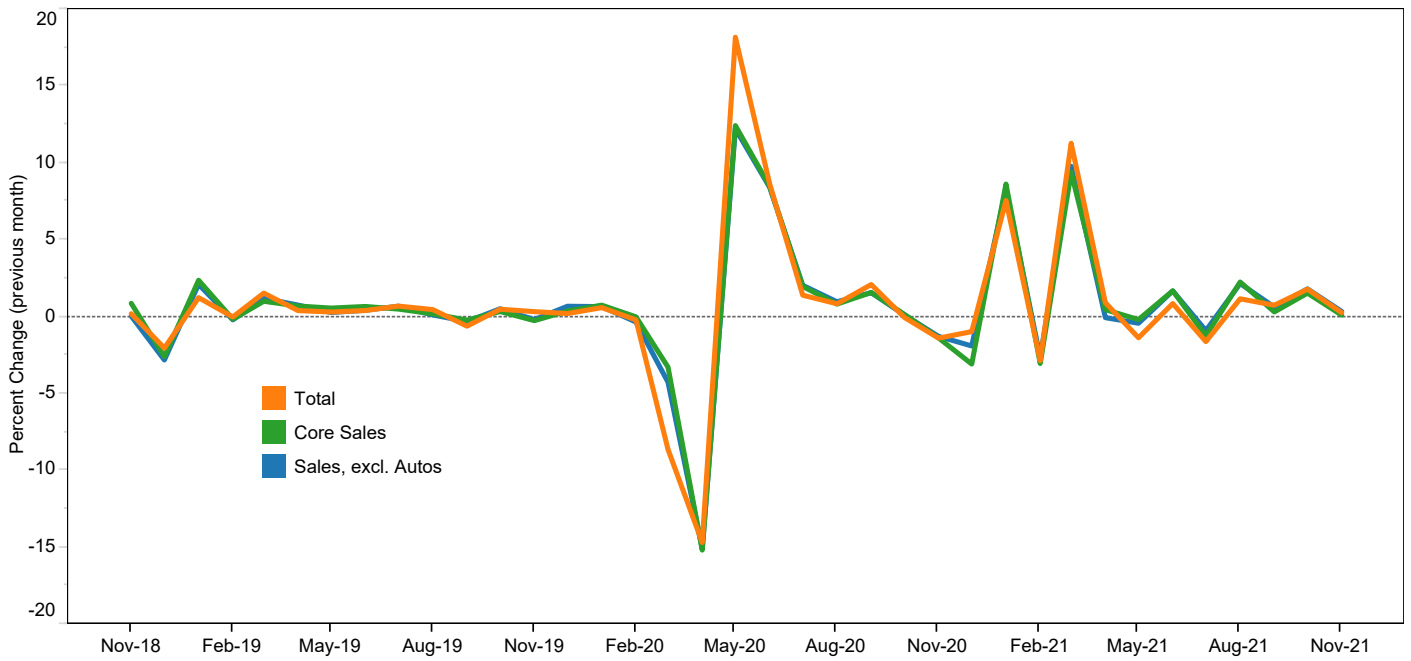
Consumer Confidence and Expectations



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

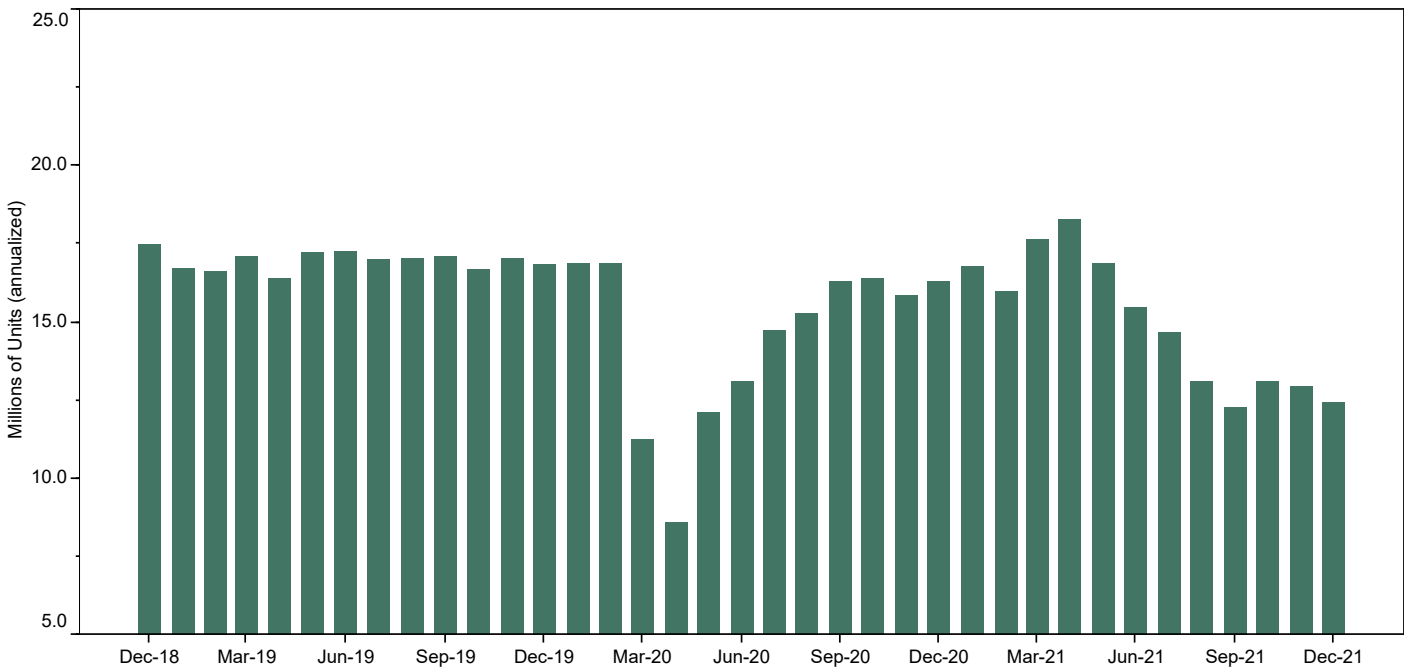
Total retail sales rose 0.3% in November. The slow sales were likely impacted by purchases being pulled forward to October in response to reports of supply-chain issues and shipping delays that were abundant at the end of the third quarter; consistent with this explanation, sales at electronics and general merchandise stores were strong in October with a corresponding softness in November. Retail sales excluding autos also rose 0.3% while core retail sales rose 0.1%. December data are due out Friday.

Retail Sales



Sales of lightweight vehicles continued to decelerate in December, impacted by low inventories and the semi-conductor shortage. Sales fell to a 12.4 million-unit annual rate, down from 12.9 million in November. Total sales in December were 23.6% below sales registered in December of last year, however, total sales in 2021 improved 3.4% from 2020.

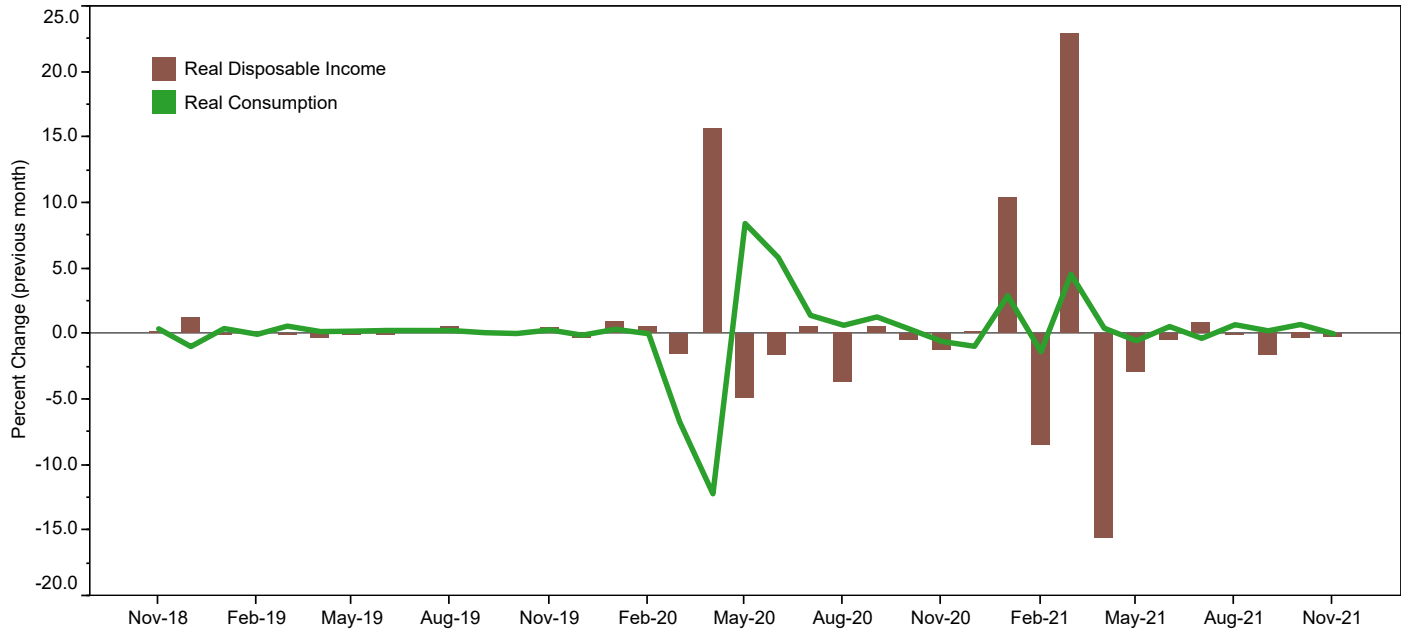
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Personal income rose in nominal terms in November—buoyed by rising wages and advance payments of the Child Tax Credit—but higher consumer prices led to real disposable income falling 0.2%. Real consumption was flat in November as a decline in spending on goods offset an increase in spending on services. Categories sensitive to the virus, like food services, posted increases in November, indicating the impact of the omicron variant had not yet entered the data.

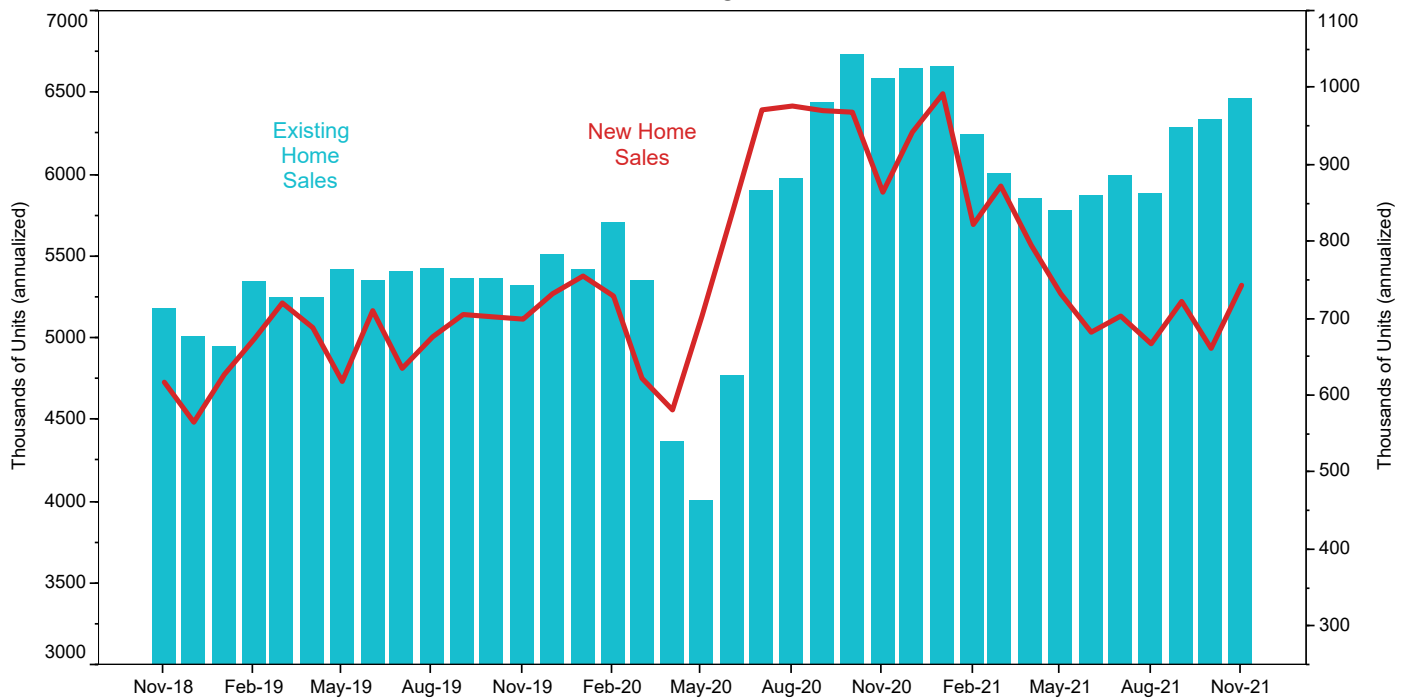
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales rose 12.4% to a 744,000-unit annual rate in November, though the increase was from an October rate that was revised sharply lower. Due partially to increased prices and lean inventories, sales were 14.0% below their level from last November. Meanwhile, existing home sales rose 1.9% to a 6.46-million-unit annual rate.

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 jumped up in November, rising to a 1.68-million-unit annual rate (from 1.50-million). This was the second highest reading since 2006. Both single- and multi-family starts rose substantially. Year-to-date, housing starts are 24% above their levels in November 2019. Also in November, total building permits rose 3.9% from October, reaching a 1.72-million-unit annual rate, with both single- and multi-family permits increasing substantially as well.

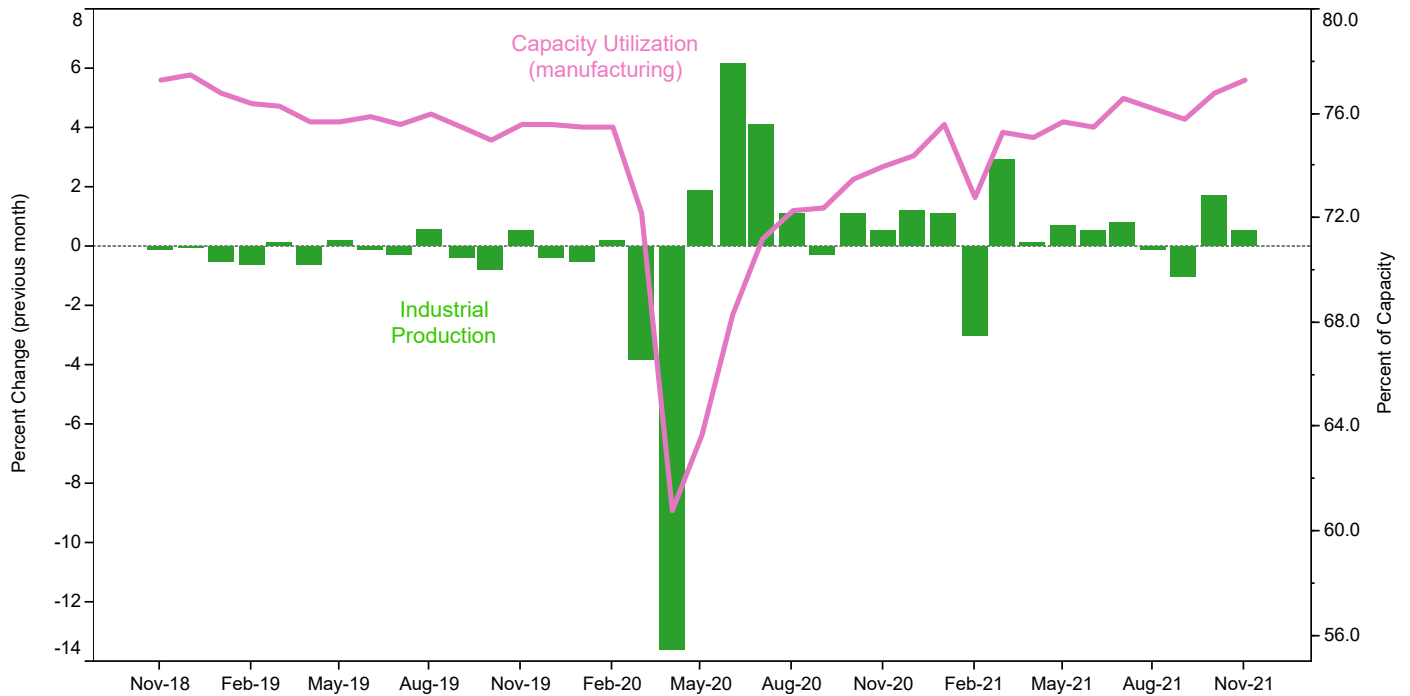
Housing Starts and Building Permits



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

Industrial production rose 0.5% in November following October's 1.7% gain. Gains were led by 0.7% increases in both manufacturing and mining output, while utilities registered a 0.8% decline as mild temperatures reduced consumption of electric and gas utilities. Capacity utilization in manufacturing increased by 0.5 percentage points, rising to 77.3 in November.

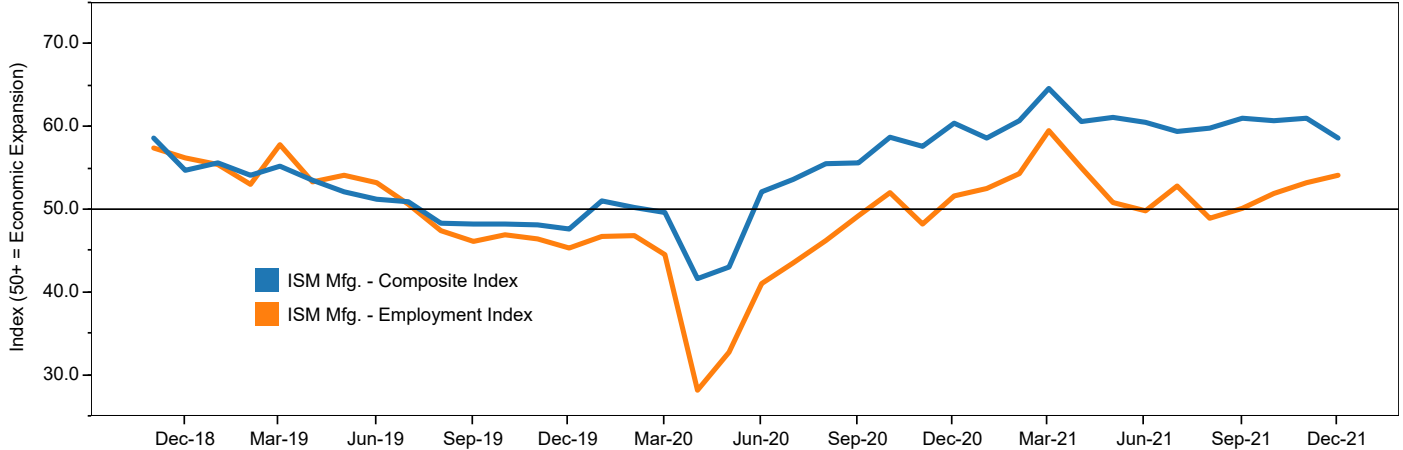
Industrial Production and Capacity Utilization



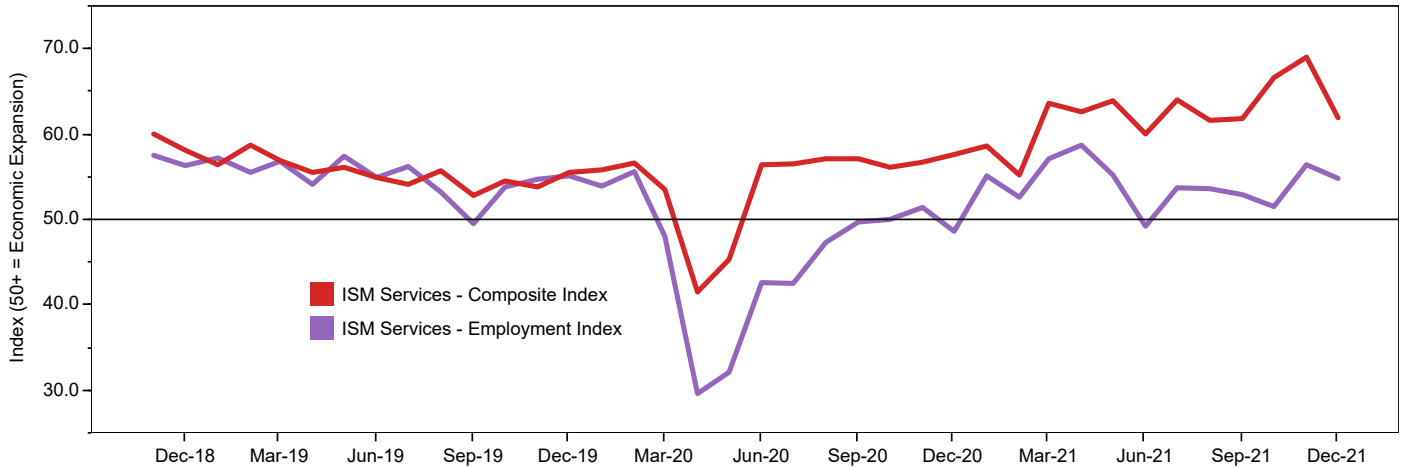
Source: Federal Reserve Board of Governors / Haver Analytics.

The ISM Manufacturing index fell to 58.7 in December, down 2.4 points from November's reading of 61.1. Despite continued supply-chain issues, this marks the 19th consecutive month that the index has indicated expansion. The employment subindex rose to 54.2, up from November's reading of 53.3. The ISM services index fell to 62.0 but also has indicated expansion for 19 consecutive months. The employment subindex fell to 54.9, down from 56.5 in November. Regional surveys from the Federal Reserve were mixed—the Philadelphia survey was the only series to decline—but all remained in expansionary territory.

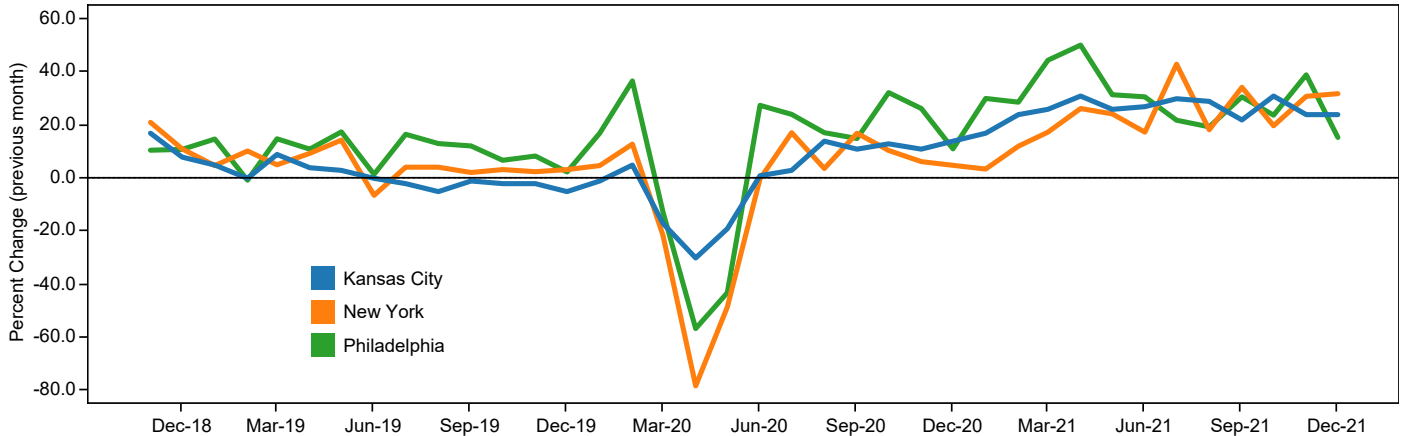
ISM Manufacturing Indices



ISM Services Indices



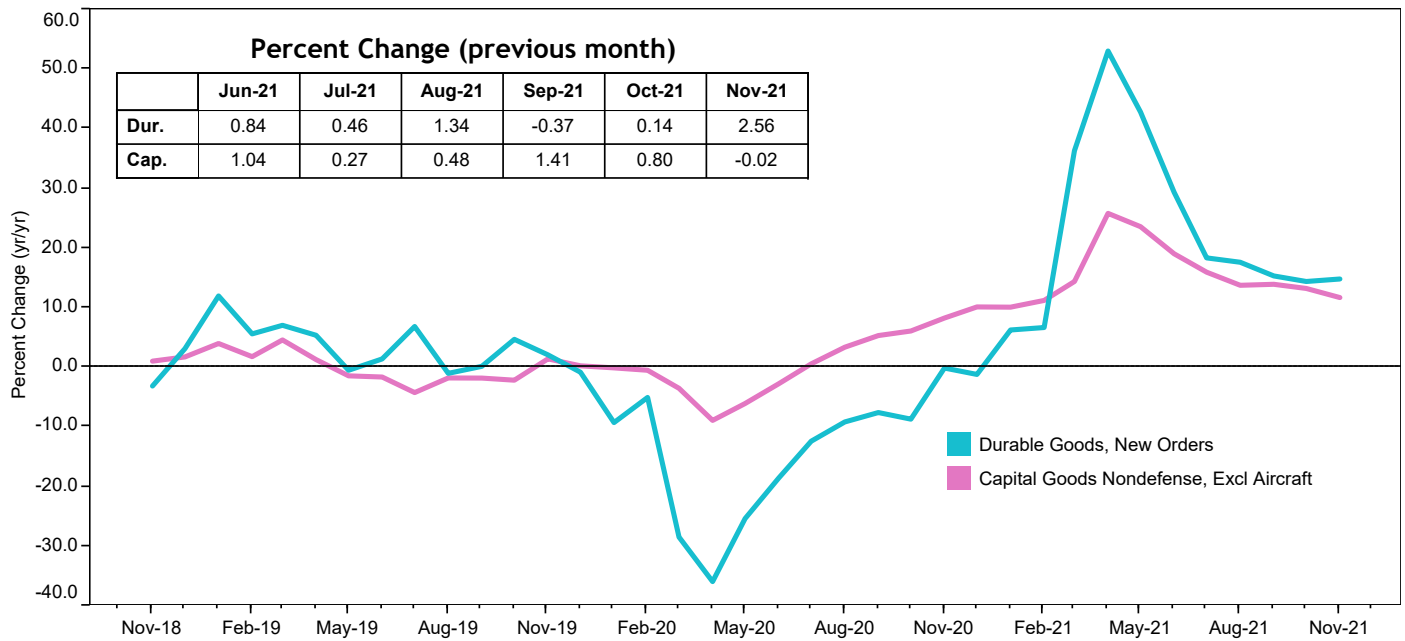
Regional FRB Manufacturing Surveys



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

Orders for durable goods rose 2.6% in November, following a 0.1% increase in October. Meanwhile, orders of nondefense capital goods excluding aircraft were essentially flat in November. Orders for durable goods ticked up slightly on a year-over-year basis, while orders of nondefense capital goods excluding aircraft decelerated a bit. Both series have consistently posted gains since the start of 2021.

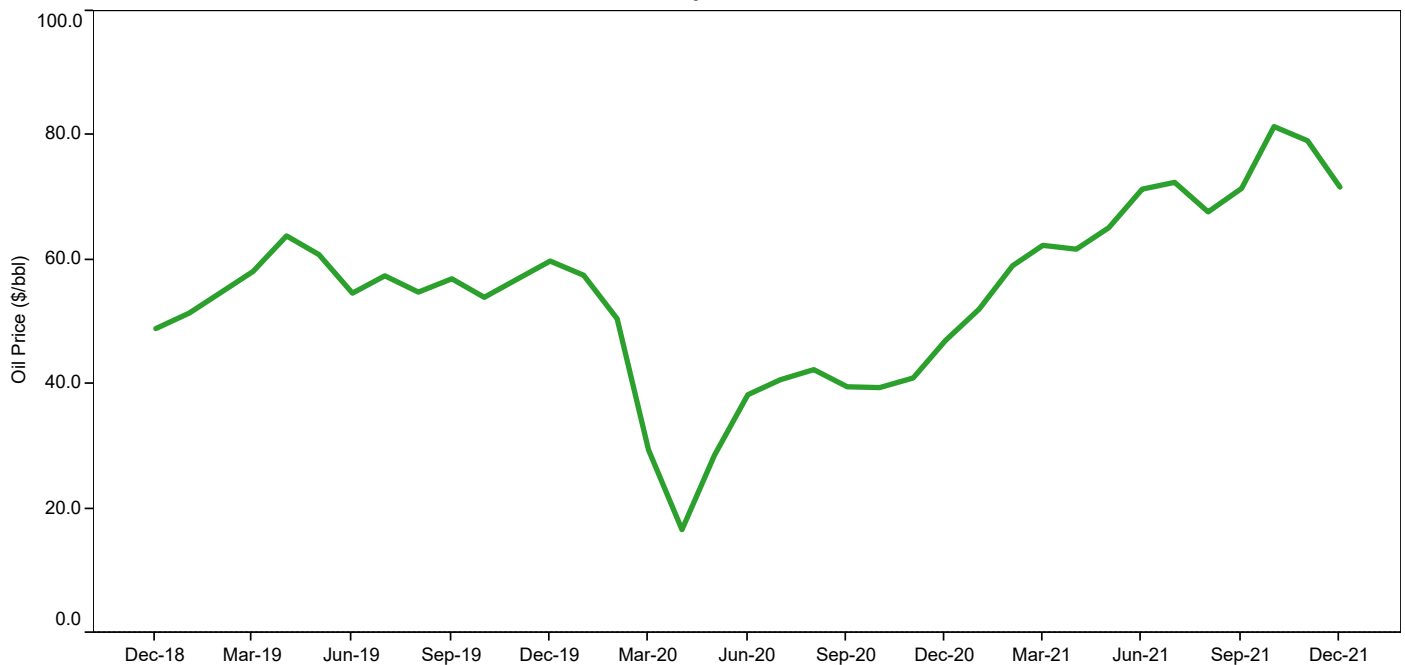
Durable Goods Orders



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

On average, oil prices in December fell for the second straight month after reaching a seven-year high in October. Prices in December averaged \$71.70/barrel. However, recent daily prices have increased steadily—since Christmas, prices have averaged \$77.00/barrel. Prices closed on January 10th at \$78.23/barrel.

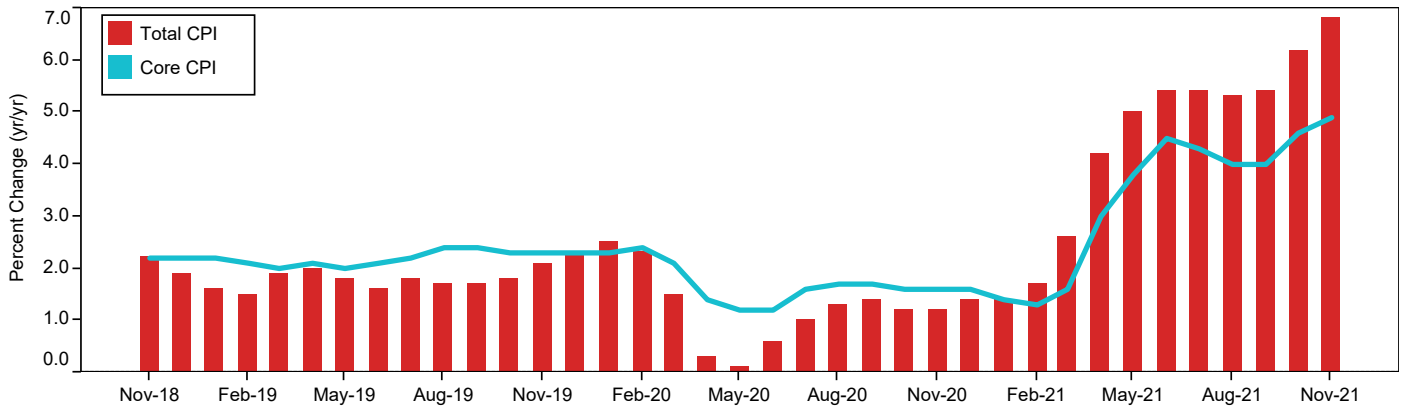
Domestic Spot Oil Price



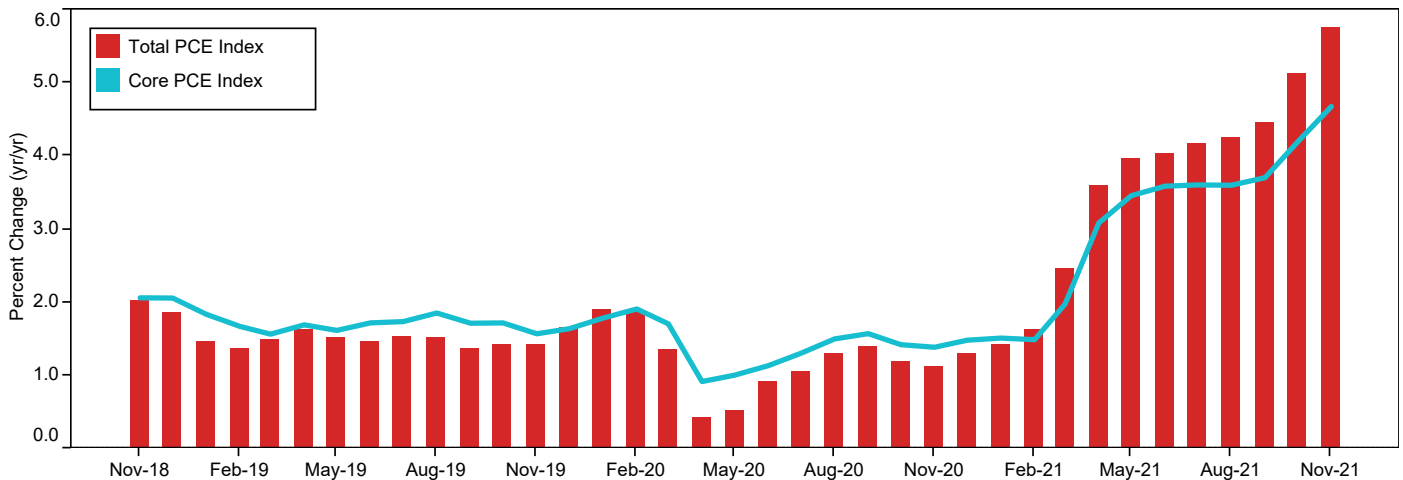
Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

As measured by total and core CPI, prices in November rose 0.8% and 0.5%, respectively, both down one-tenth from the previous month. Over the past year, total CPI jumped 6.8% - the fastest growth rate since 1982. Meanwhile, 12-month growth for core inflation increased 4.9%, the fastest rate since 1991. Increases in the CPI remained broad-based, with notable increases seen for gas, housing, clothing, food, and vehicles. On a monthly basis, inflation as measured by total PCE rose 0.6% in November and core PCE rose 0.5%. On a year-over-year basis, both total and core PCE grew at their fastest rates in nearly 40 years—by 5.7% and 4.7%, respectively. At the wholesale level, total and core PPI registered their fastest annual rates on record in November—rising 9.6% and 6.9%, respectively. On a monthly basis, total and core PPI accelerated by two-tenths and three-tenths, respectively, to 0.8% and 0.7%.

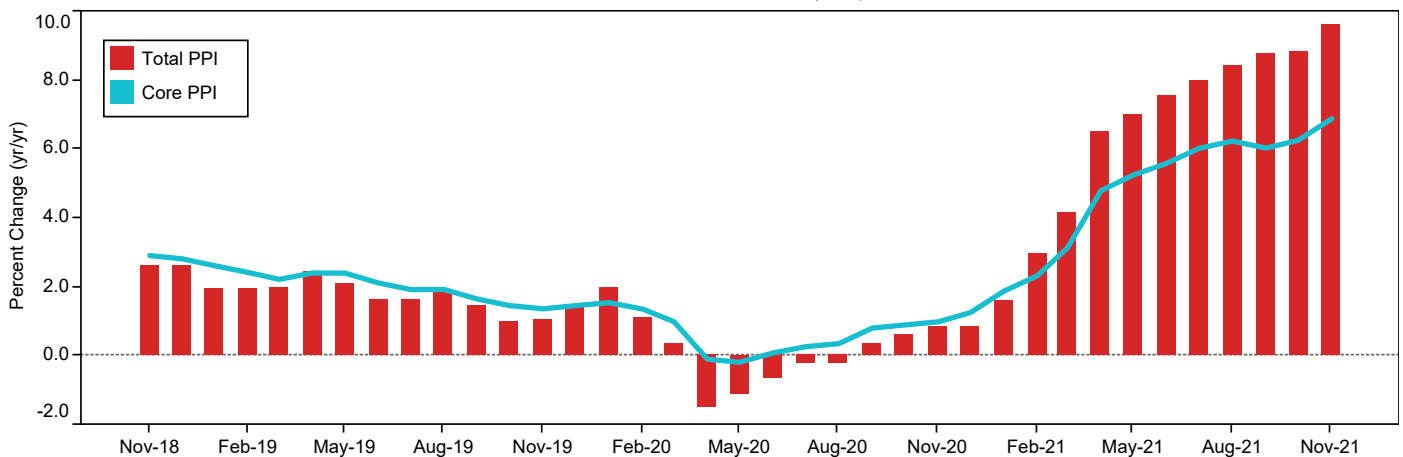
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



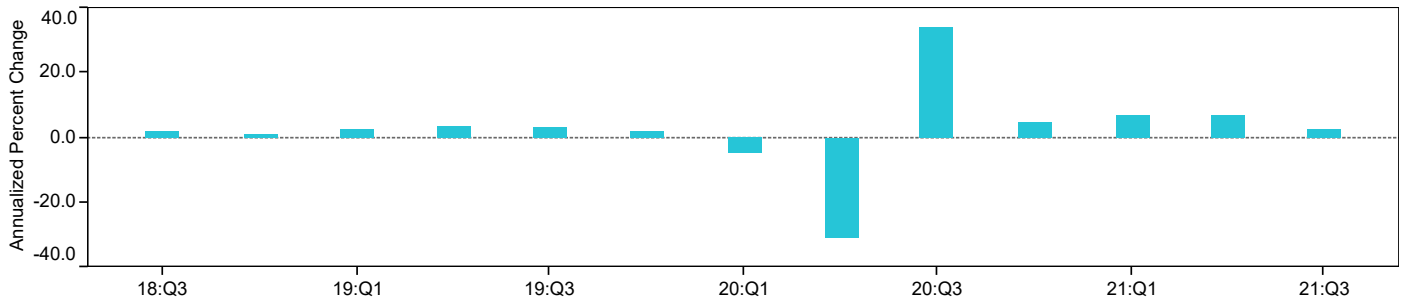
Producer Price Index (PPI)



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

According to the third estimate, real GDP rose 2.3% in the third quarter, revised up from the second estimate of 2.1%. The uptick in the third quarter growth rate reflected upward revisions to PCE for services, inventory investment, residential investment, and a downward revision to imports. These gains were partially offset by a downward revision to exports.

Real GDP



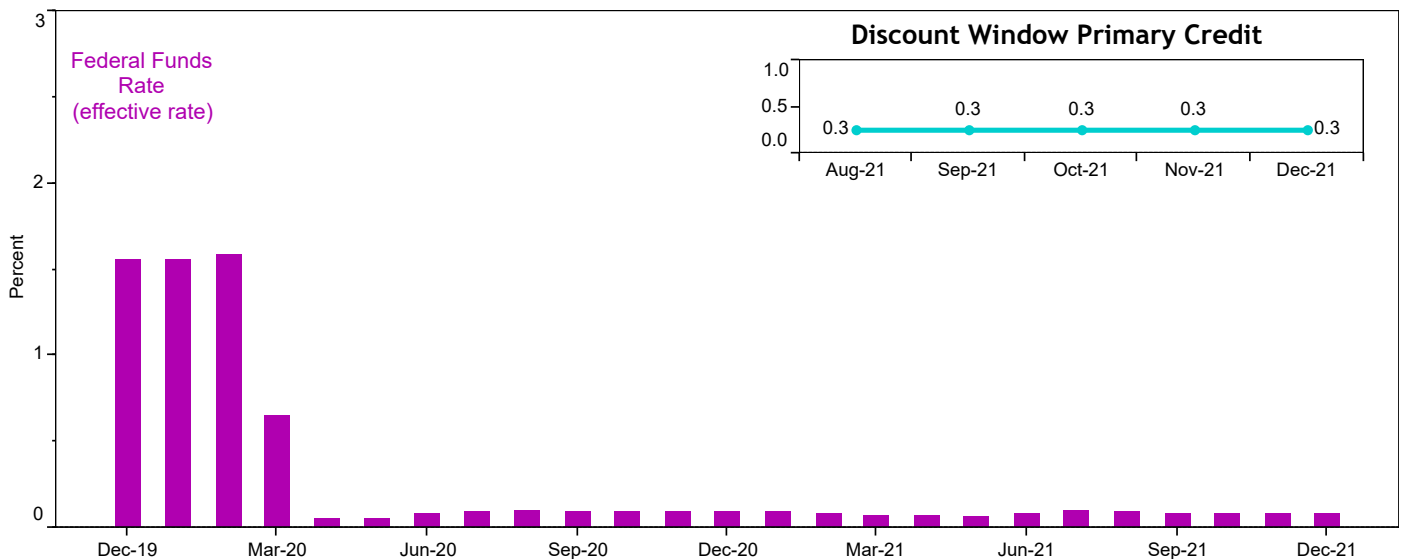
Revisions to Q3 Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.1	2.3
Personal Consumption	1.7	2.0
Business Investment	1.5	1.7
Equipment and Software	-2.4	-2.3
Residential Investment	-8.3	-7.7
Government	0.9	0.9
Exports	-3.0	-5.3
Imports	5.8	4.7
Final Sales	0.0	0.1

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.