The
President’s
Report to the
Board of
Directors

June 1, 2021
Data released since your last Director’s meeting indicate largely improving economic conditions, supported by government stimulus and the convalescent public health scenario. The second estimate of first quarter real GDP growth was unrevised at 6.4% and growth is likely to accelerate in the second quarter as states continue to decrease restrictions on businesses and more than 50% of the adult population becomes fully vaccinated. Overall, despite possible headwinds from what remains of the virus-related economic constraints and supply chain issues, strong GDP growth is positioned to continue through the rest of the year.

Initial claims for unemployment insurance fell once again to their lowest levels since the pandemic began. Nearly half of US states have announced they will soon drop the Federal Pandemic Unemployment Compensation benefit, representing a truncation from a program originally slated to expire in September. Consumer attitudes were mixed in May but largely moved downward, with the reduction in stimulus income and a concern over rising prices. Total retail sales were flat in April while core sales fell, although both remained at elevated levels. In April, real disposable income and real consumption both fell from March’s stimulus-inflated levels while housing market data also declined despite remaining at or above pre-pandemic levels.

Recent data on manufacturing remained strong despite being restrained somewhat by the semi-conductor shortage. Total durable goods orders declined in April while core goods orders rose – both measures remain at or above their pre-pandemic levels. The ISM manufacturing survey ticked up slightly while regional surveys from the Federal Reserve all posted declines. All surveys still signaled expansion and remained at elevated levels. Industrial production and capacity utilization both ticked up slightly in recent data.

Measures of consumer prices all increased, though the sizable year-over-year gains were due in part to the comparison with the pandemic-related lows seen last year. Oil prices reached their highest level since late 2018, registering, on average, $65.20 per barrel in May.

Initial claims for unemployment insurance fell 38,000 to 406,000 in the week ending May 22nd and the four-week moving average fell to 458,750. Both metrics registered their lowest number since mid-March 2020.
Consumer confidence ticked down to 117.2 in May from 117.5 in April, after April’s reading was revised down from 121.7. The present situation subcomponent registered 144.3 in May, rising 12.4 points from April’s reading due largely to responses regarding the tightening labor market. The expectations subcomponent fell 8.8 points from April’s reading to 99.1 in May. Consumer sentiment fell 5.4 points from April to 82.9 in May—however, the reading remained essentially flat relative to the mid-month measurement, suggesting some stability in the outlook of consumers. The current conditions subcomponent fell 7.8 points from April to 89.4 in May, while the expectations subcomponent fell 3.9 points in May to 78.8.

Real disposable income plunged 15.1% in April after March’s spike due to federal stimulus payments. Real consumption ticked down 0.1% in April after March’s 3.6% gain was revised further upward to 4.1%. Despite these declines, expectations are for strong consumption to continue in May and into the summer.
Retail sales were essentially flat in April after climbing an upwardly revised 10.7% in March. Despite stalling in April, sales were more than 30% above their pre-pandemic levels. Core sales and sales excluding autos fell a bit in April, but they were also from March readings that were revised higher and were above pre-pandemic levels.

Sales of new homes slowed in April to a seasonally adjusted annual rate of 863,000 units after far-surpassing the pandemic-related lows of last year. Over the last year, sales are up 48.3%. Sales of existing homes are also at elevated levels but registered their third consecutive monthly decline, reaching a 5.85-million-unit annual rate in April. Both series remain at levels that are more than those seen for the decade prior to the pandemic.
Total permits fell modestly in April, offsetting the similar gain seen in the previous month. Single-family permits fell in all four regions in April, and despite remaining at strong levels, these declines more than offset gains in multi-family permits. Housing starts fell nearly 10% in April to a 1.569 million annual rate, falling in line with the elevated levels seen prior to the pandemic. Multi-family starts edged up slightly in April but were more than offset by steep declines in single-family starts.

Industrial production rose by 0.5% in April, decelerating from a 2.2% increase in March. Both of these readings moved down slightly from what they were prior to annual revisions released on May 28th. Those revisions moved capacity utilization in manufacturing to slightly higher levels in recent months than they were previously, registering 75.1 in April, up from March’s post-revision reading of 74.9.
The ISM manufacturing index remained at elevated levels in May, rising to 61.2 from April’s reading of 60.7. The employment index moved down for the second consecutive month. May data for the ISM services index are due out Thursday and markets anticipate a slight further decline after easing in April from March’s record high. Regional surveys from the Federal Reserve all declined in May from April and remained in expansionary territory.

Orders for durable goods fell 1.3% in April after rising for 11 consecutive months, restrained by motor vehicle orders due to the semi-conductor shortage. If you exclude transportation, orders rose. Orders of nondefense capital goods excluding aircraft rose 2.3% in April, the eleventh gain in the last twelve months. Year-over-year gains mirror this strength but are somewhat distorted by the virus-related troughs of last year.

As the economy re-opened, consumer demand and supply chain constraints contributed to an acceleration in consumer prices in recent data. In April, both total and core CPI rose from the previous month, 0.8% and 0.9%, respectively. In the same month, prices as measured by total PCE increased 0.6% from the previous month as core PCE rose 0.7%. On a year-over-year basis, total CPI accelerated by 1.6 percentage points to 4.2% while core CPI rose 1.4 percentage points to 3.0%-the fastest in 25 years. Also relative to last year, total and core PCE both rose 1.2 percentage points to 3.6%, and 3.1%, respectively. Notably, these recent annual comparisons are relative to the troughs seen last year as the worst of the pandemic’s economic costs set in.
On average, oil prices rose to $65.2 per barrel in May continuing their upward trend from their pandemic-related troughs. Prices have reached their highest level since October 2018. Recent daily prices closed the month of May out at $66.32 per barrel.

Real GDP growth in the first quarter was unrevised at 6.4%. Consumer spending, nonresidential fixed investment and residential investment were revised upward but those increases were offset by downward revisions to net exports, private inventory investment and state and local government spending.
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Source: Federal Reserve Board of Governors / Haver Analytics.
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