FEDERAL RESERVE
BANK OF BOSTON™

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

May 3, 2022

CURRENT ECONOMIC DEVELOPMENTS - May 3, 2022

Data released since your last Director's meeting show that real GDP fell 1.4% in the first quarter, though the weakness was due to declines in inventory investment and net exports that are unlikely to persist in subsequent quarters. Domestic demand remained strong, supported by a tight labor market and higher incomes. Growth is likely to rebound in the second quarter, but risks to the outlook remain tilted to the downside. The ongoing war in Ukraine, the potential for further supply-chain disruptions due to new COVID variants, high inflation, and tighter financial conditions are all contributing to a higher level of uncertainty.

Employment growth remained strong in March and increases in previous months were revised upward. The unemployment rate continued to fall, decreasing by 1.1 percentage points between September and March. April data are due out this Friday and market expectations are for an increase of around 400,000 jobs and for the unemployment rate to decline a bit further to 3.5%. Initial claims for unemployment insurance remain near multi-decade lows.

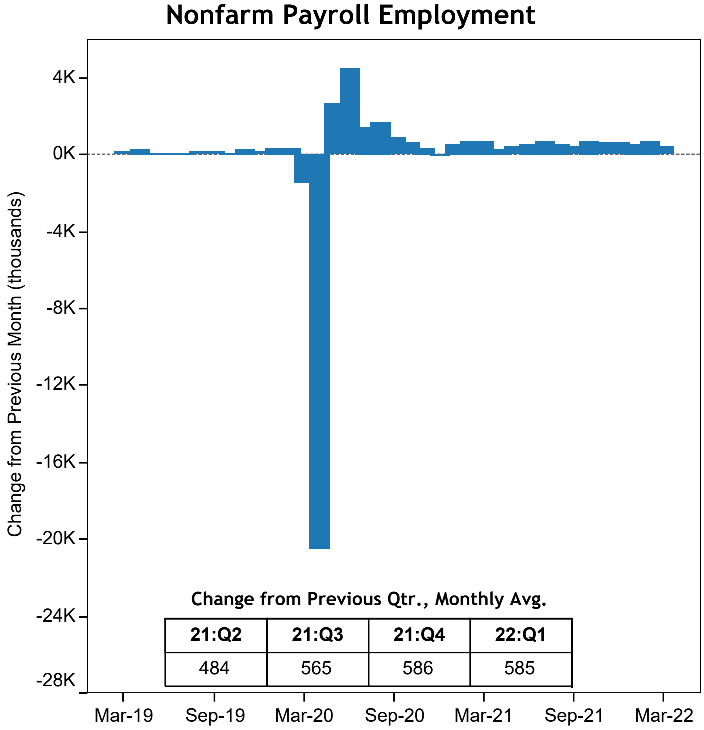
Real consumption accelerated a bit in the first quarter despite February and March remaining nearly flat. Personal income increased in March and accelerated in the first quarter on an annualized basis, but real disposable income fell in both March and in the first quarter. In April, consumer confidence remained essentially flat while sentiment improved a bit—both remained at depressed levels. Housing market data remained at elevated levels but were mixed, as starts and permits rose in March yet home sales declined further.

Orders for durable goods posted a gain in March, though decelerated in the first quarter and year-over-year. Orders for nondefense capital goods excluding aircraft rose in March while also decelerating in the first quarter. The ISM manufacturing index declined in April though remained in expansionary territory, and regional manufacturing surveys from the Federal Reserve—while mixed—all signaled expansion. Industrial production accelerated in the first quarter while capacity utilization in manufacturing continued to rise above its pre-pandemic level.

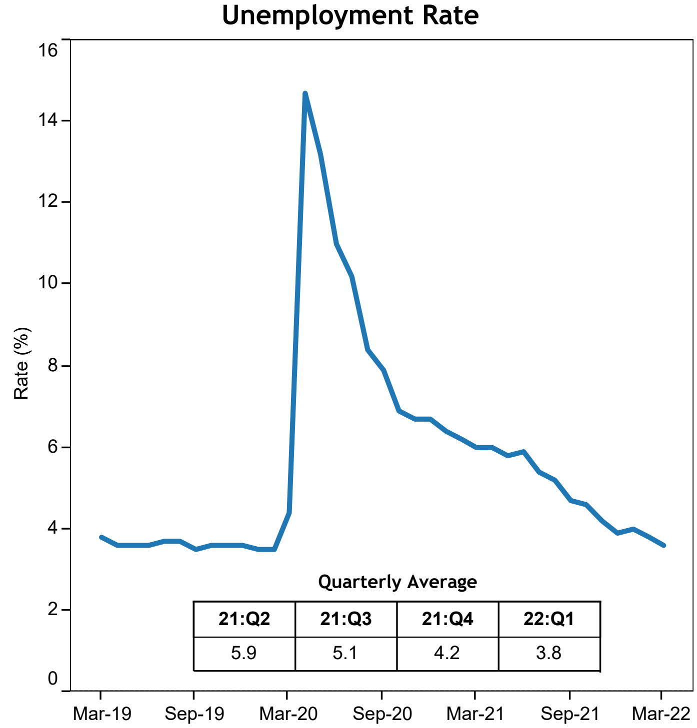
Inflation measures accelerated again in the first quarter on a year-over-year basis. In March, annual growth in total and core CPI registered the fastest paces since 1981 and 1982, respectively. Also in the first quarter, both total and core PCE accelerated from the fourth quarter, despite core PCE easing a bit in March. Compensation per hour, unit labor costs, and wages and salaries all accelerated in the first quarter. On average, oil prices have continued their upward trend in every quarter since the start of the pandemic and recent daily prices have hovered above $100 per barrel.

Payroll employment increased by 431,000 in March, and prior gains were revised up by 95,000. Job gains continued in sectors such as leisure and hospitality and manufacturing. The unemployment rate fell two-tenths from February—reaching 3.6% in March due to a large gain in civilian employment that more than offset growth in the labor force. Employment data for April are due Friday, with market expectations for a 400,000 increase in jobs and a slight decrease in the unemployment rate to 3.5%.

Nonfarm Payroll Employment



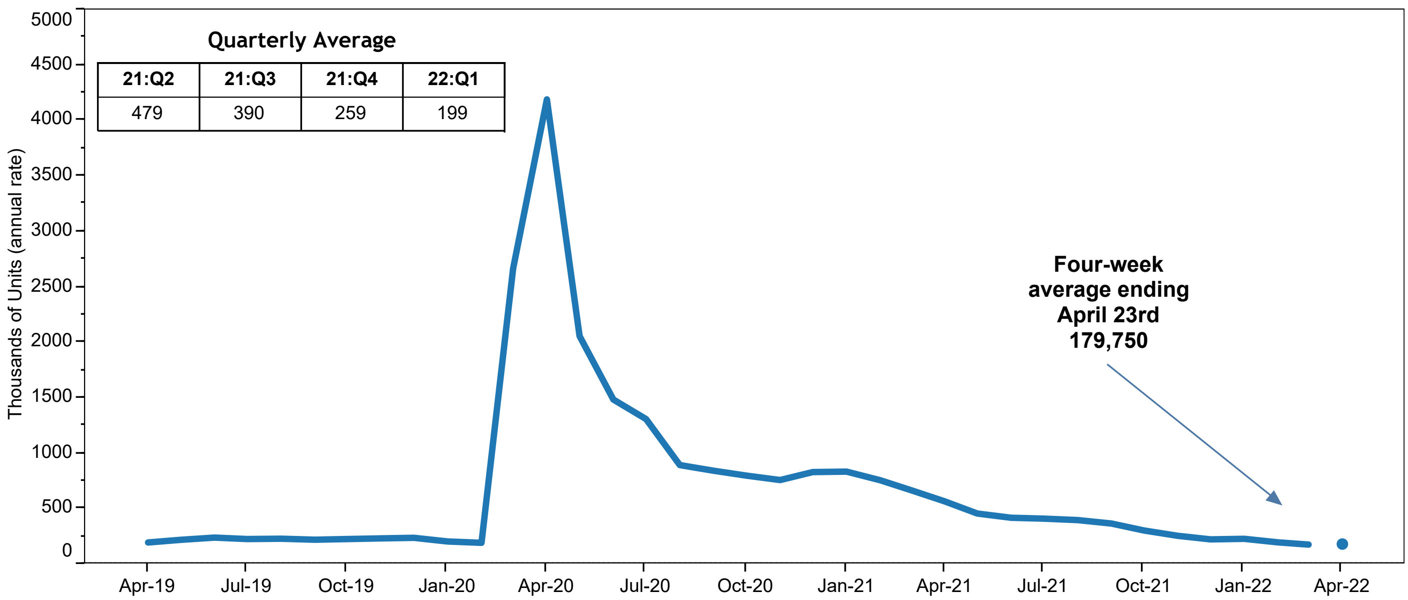
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance remained near historically low levels in recent data—falling 5,000 in the week ended April 23 to reach 180,000. The four-week moving average rose 2,000 to 179,750.

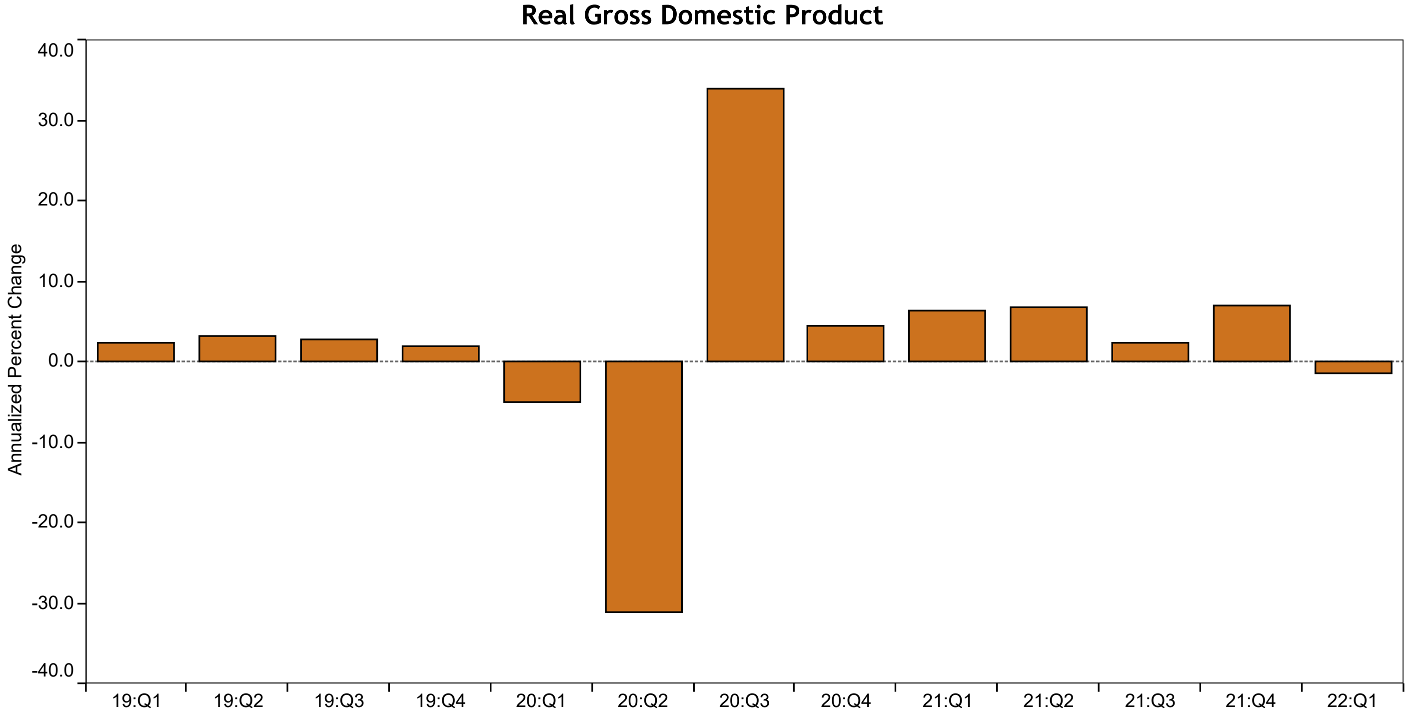
Initial Claims



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

Real GDP decreased 1.4% in the first quarter, the first decrease since the start of the pandemic. The decline in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending. Personal consumption expenditures, nonresidential fixed investment, and residential fixed investment increased. First quarter growth was largely restrained by negative contributions from inventory investment and net exports, which are likely to ease in the second quarter. Final sales to private domestic purchases-an indicator of aggregate demand-rose sharply in the first quarter, also suggestive of a rebound in GDP growth in the current quarter.

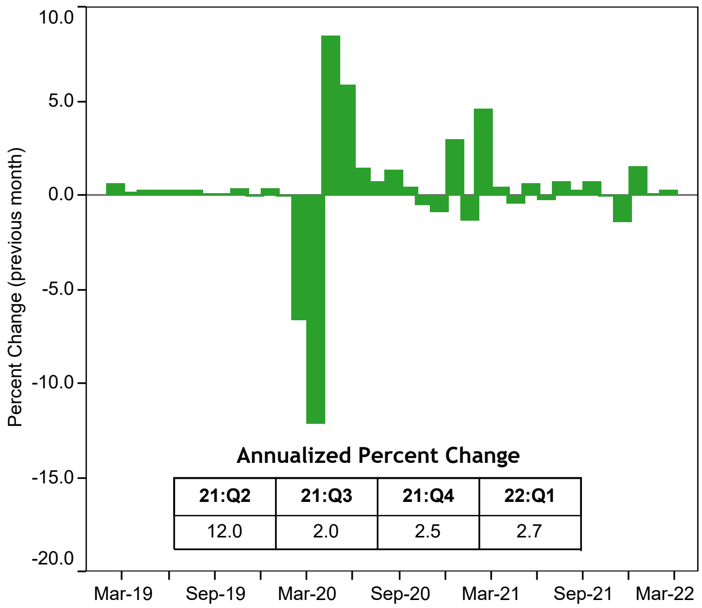
Real Gross Domestic Product



Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption rose 0.2% in March as an increase in spending on services more than offset a decline in spending on goods. Gains in services were led by transportation and food services, while spending on goods was weighed down primarily by declines in spending on durable goods and motor vehicles and parts. In the first quarter overall, real consumption rose at a 2.7% annualized rate. Personal incomes increased 0.5% in March and rose at a 5.2% annualized rate in the first quarter. Real disposable income, however, fell 0.4% in March and fell at a 2.0% annualized rate in the first quarter.

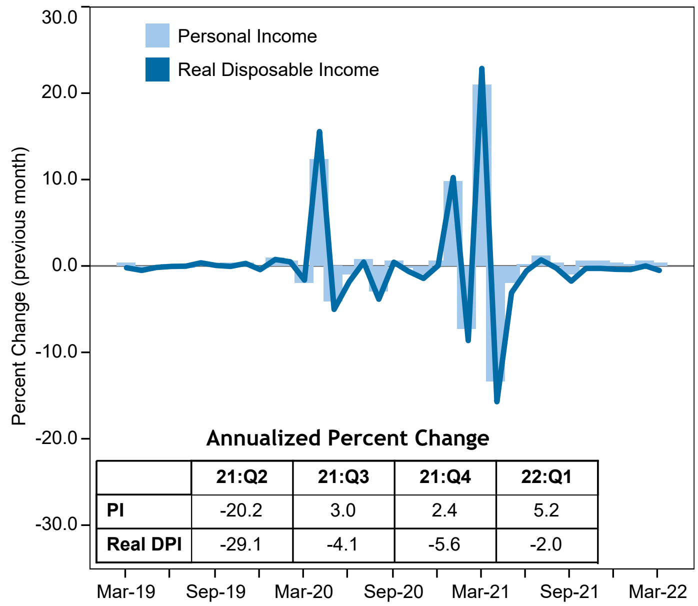
Real Consumption



Annualized Percent Change

21:Q2	21:Q3	21:Q4	22:Q1
12.0	2.0	2.5	2.7

Personal Income



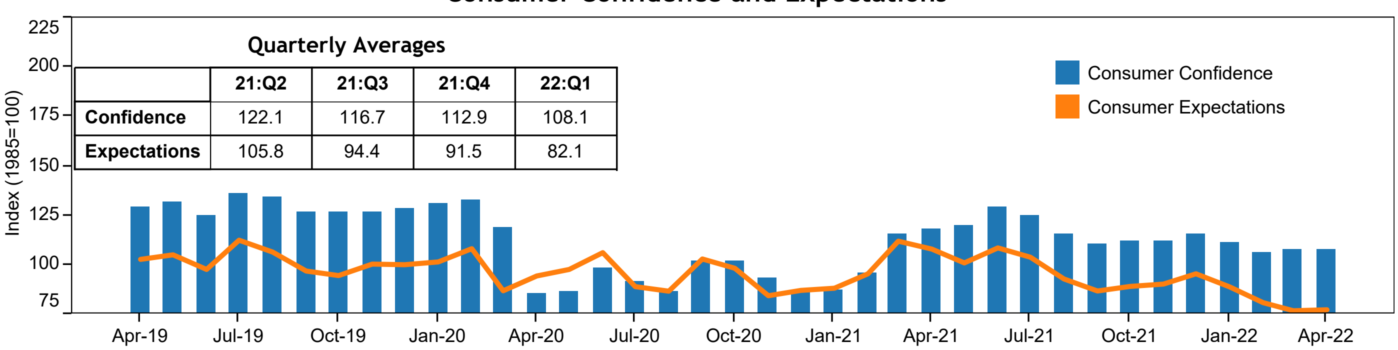
Annualized Percent Change

	21:Q2	21:Q3	21:Q4	22:Q1
PI	-20.2	3.0	2.4	5.2
Real DPI	-29.1	-4.1	-5.6	-2.0

Source: Bureau of Economic Analysis / Haver Analytics.

The consumer confidence index declined a bit to 107.3 in April from 107.6 in March. The expectations component rose by 0.5 point while the present situation component fell by 1.2 points. The consumer sentiment index rose to 65.2 in April—up 5.8 points from the 11-year low seen in March. Both the expectations and the current conditions subcomponents rose in April from March—by 8.2, and 2.2 points, respectively.

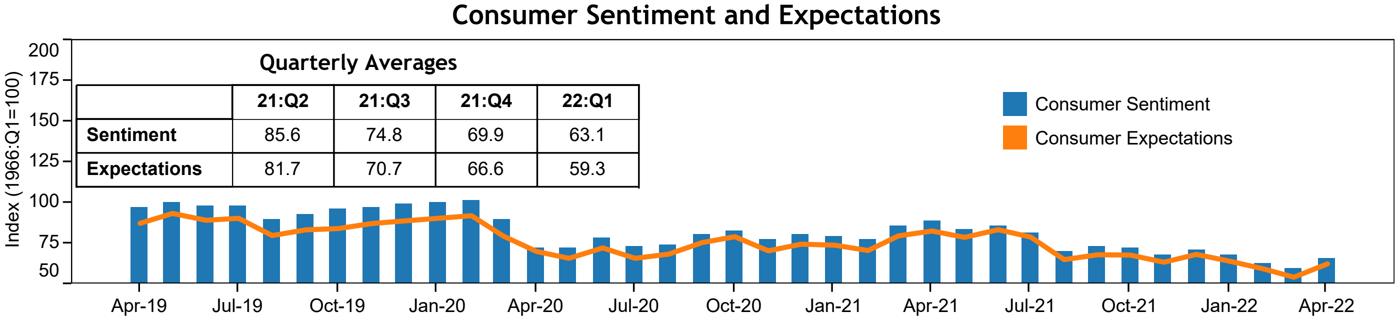
Consumer Confidence and Expectations



Quarterly Averages

	21:Q2	21:Q3	21:Q4	22:Q1
Confidence	122.1	116.7	112.9	108.1
Expectations	105.8	94.4	91.5	82.1

Consumer Sentiment and Expectations



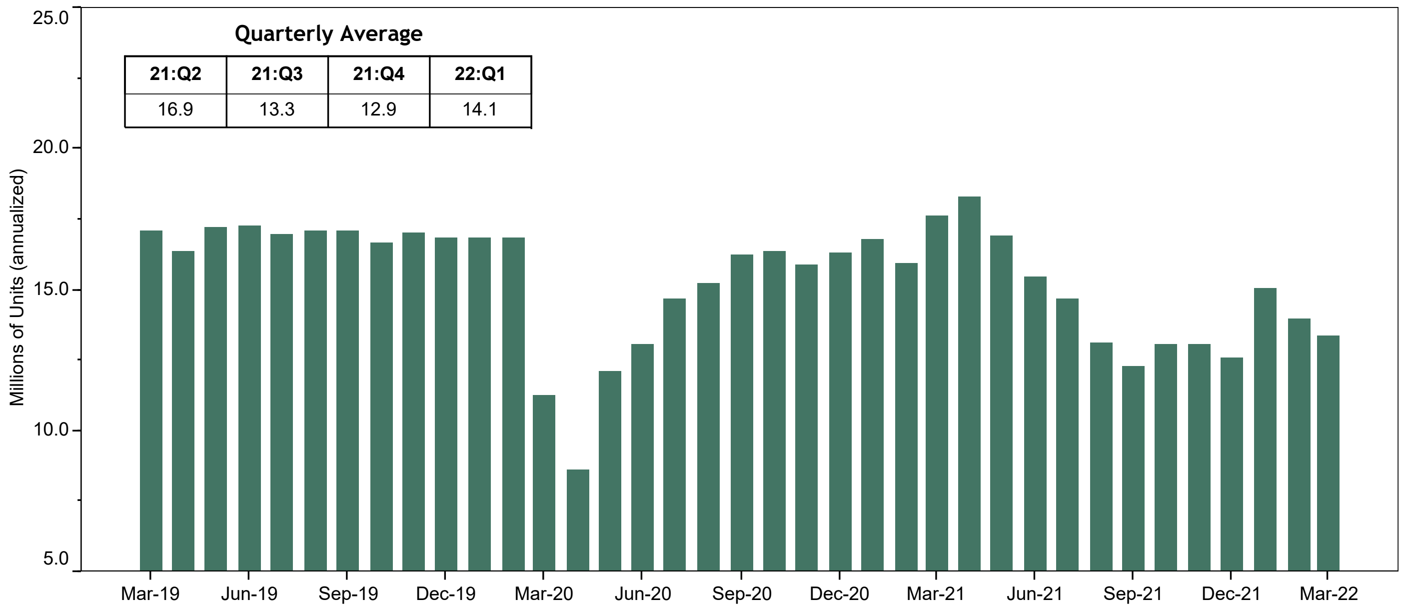
Quarterly Averages

	21:Q2	21:Q3	21:Q4	22:Q1
Sentiment	85.6	74.8	69.9	63.1
Expectations	81.7	70.7	66.6	59.3

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

Sales of lightweight vehicles fell to a 13.3 million-unit annual rate in March as supply-chain issues and high prices continued to weigh on the sector. Due to a spike in January sales, first quarter sales accelerated from the prior quarter—rising to a 14.1 million-unit annual rate from 12.9 million in the fourth quarter. However, the January surge was due to a seasonal fluke—seasonal adjustments were built to expect a large decline in January, the relative absence of which was registered as an unusually large increase. Estimates of April sales data will be available Wednesday morning, with markets anticipating a 13.6 million-unit annual rate.

Total Lightweight Vehicle Sales

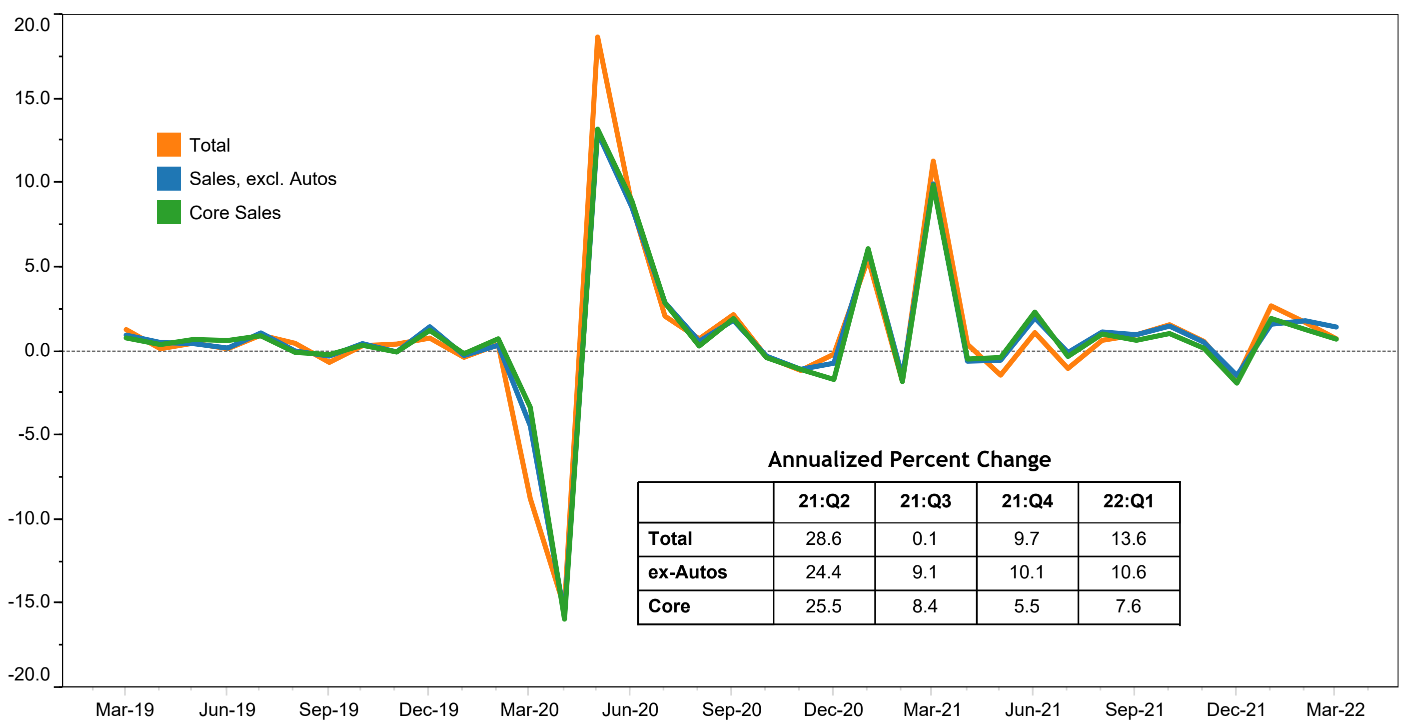


Quarterly Average

21:Q2	21:Q3	21:Q4	22:Q1
16.9	13.3	12.9	14.1

Total retail sales rose 0.7% in March, from a level in February that was revised higher. Sales excluding autos and core sales also posted solid gains in March following upward revisions in February. Overall, in the first quarter, retail sales accelerated from the fourth quarter, reflecting both higher incomes and rising prices.

Retail Sales



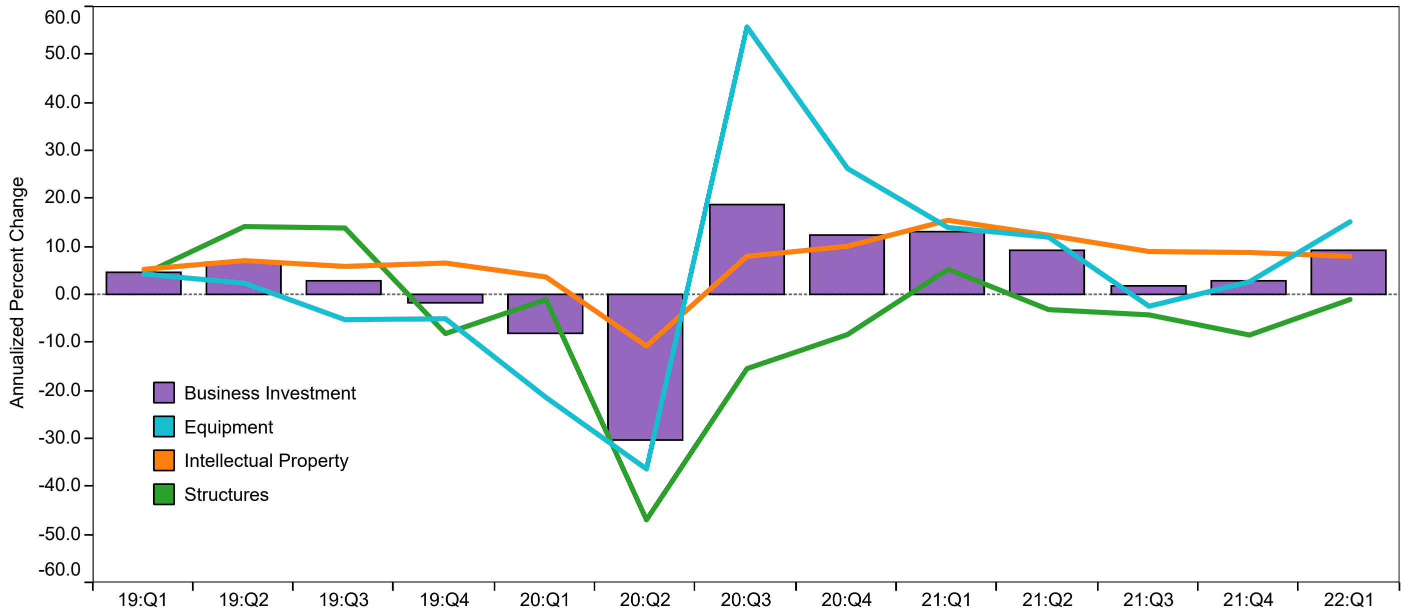
Annualized Percent Change

	21:Q2	21:Q3	21:Q4	22:Q1
Total	28.6	0.1	9.7	13.6
ex-Autos	24.4	9.1	10.1	10.6
Core	25.5	8.4	5.5	7.6

Source: U.S. Census Bureau / Haver Analytics

Business investment increased at an annualized rate of 9.2% in the first quarter, the fastest pace since the second quarter of last year. Healthy increases in intellectual property and equipment more than offset a small decrease in structures.

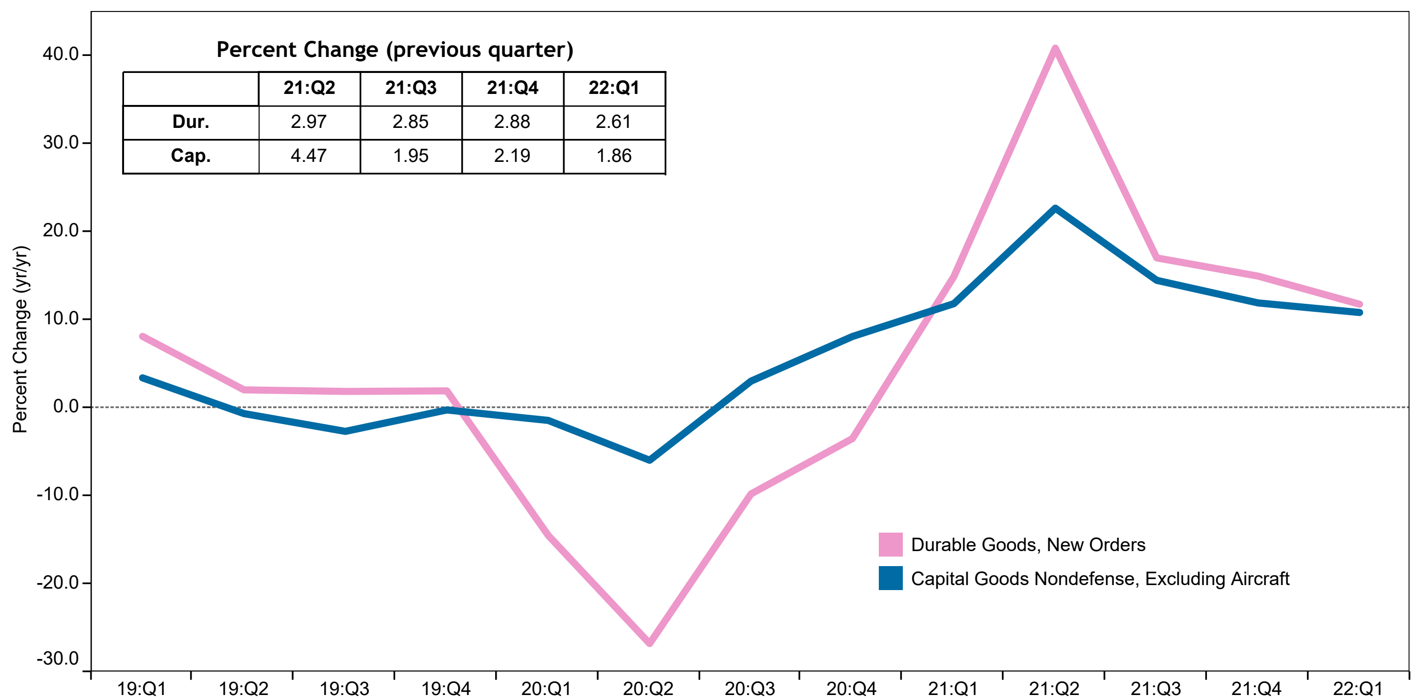
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

Orders for durable goods rose 1.1% in March, following a 1.7% decline in February. Year-over-year growth slowed for the fourth consecutive month in March but remained elevated. However, much of the recent upward trend in orders reflects higher prices—after adjusting for inflation, real orders have remained essentially flat since late 2020. Orders of nondefense capital goods excluding aircraft increased 1.3% in March, more than offsetting a slight February decline.

Durable Goods Orders



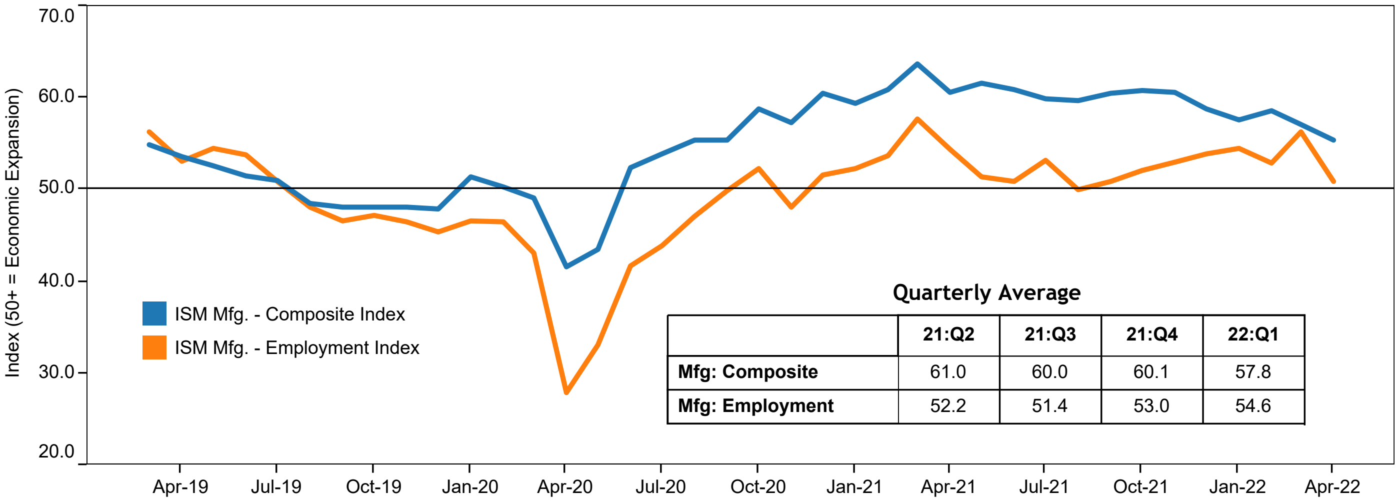
Percent Change (previous quarter)

	21:Q2	21:Q3	21:Q4	22:Q1
Dur.	2.97	2.85	2.88	2.61
Cap.	4.47	1.95	2.19	1.86

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

The ISM manufacturing index fell to 55.4 in April from March's reading of 57.1 and the employment component fell from 56.3 to 50.9. Regional surveys from the Federal Reserve were mixed in April, though all signaled expansion. The Philadelphia and Kansas City surveys both declined in April, while the New York survey rebounded sharply after signaling contraction in March. Looking further back, the ISM services index edged higher in March, and markets expect the index to hold steady in April (data due Wednesday).

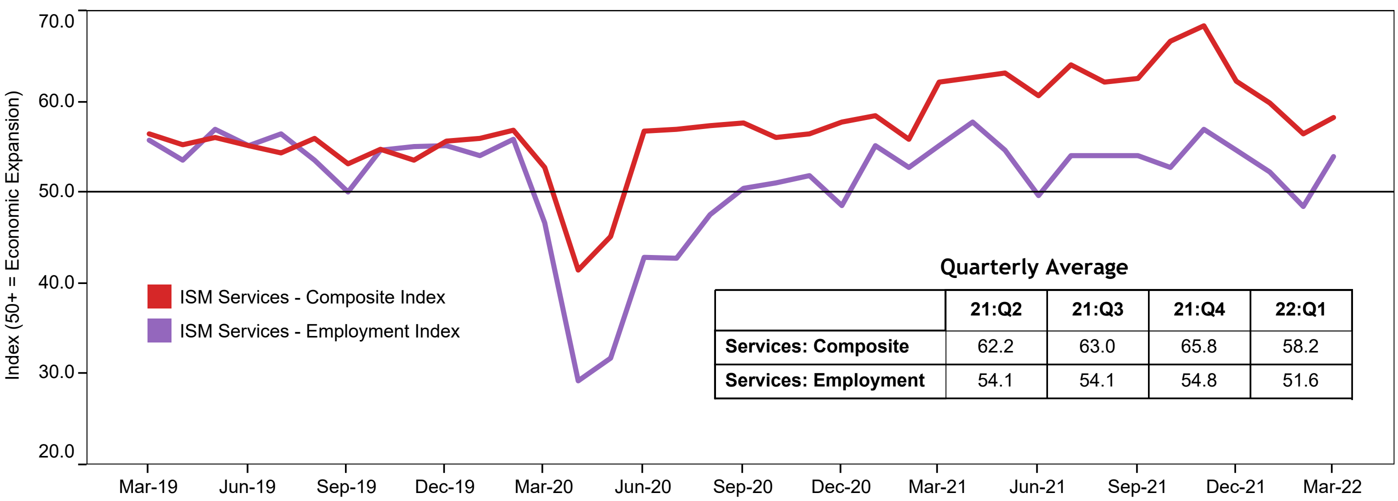
ISM Manufacturing Indices



Quarterly Average

	21:Q2	21:Q3	21:Q4	22:Q1
Mfg: Composite	61.0	60.0	60.1	57.8
Mfg: Employment	52.2	51.4	53.0	54.6

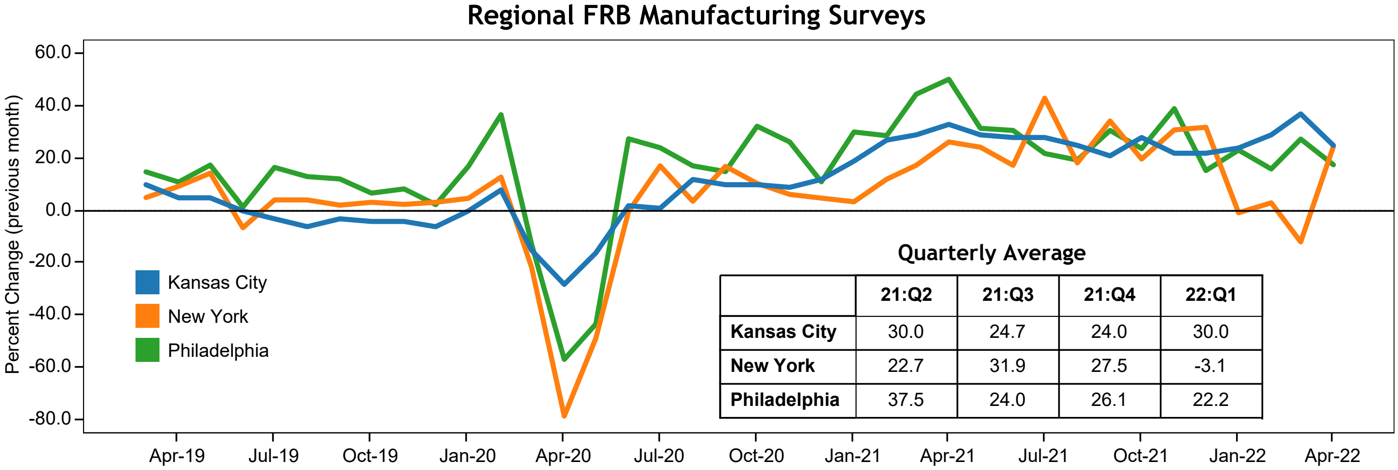
ISM Services Indices



Quarterly Average

	21:Q2	21:Q3	21:Q4	22:Q1
Services: Composite	62.2	63.0	65.8	58.2
Services: Employment	54.1	54.1	54.8	51.6

Regional FRB Manufacturing Surveys



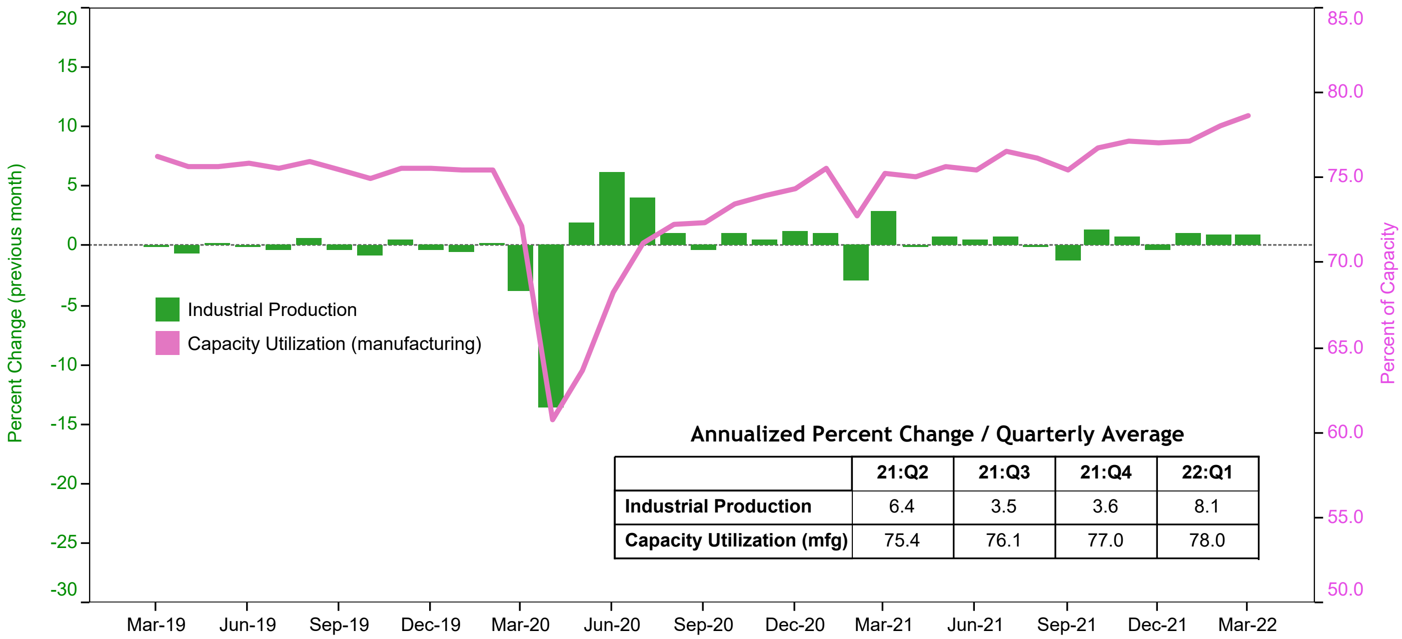
Quarterly Average

	21:Q2	21:Q3	21:Q4	22:Q1
Kansas City	30.0	24.7	24.0	30.0
New York	22.7	31.9	27.5	-3.1
Philadelphia	37.5	24.0	26.1	22.2

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

Industrial production rose 0.9% in March and February's reading was revised up from 0.5% to 0.9%. All major market categories saw increases in March, with mining output up 1.7%, manufacturing output up 0.9%, and utilities output up 0.4%. Output in manufacturing was buoyed by strength in output for motor vehicles and parts—an industry group that has been hit hard by the pandemic and supply-chain issues. Capacity utilization in manufacturing rose to 78.7 in March and accelerated, on average, in the third quarter to 78.0.

Industrial Production and Capacity Utilization



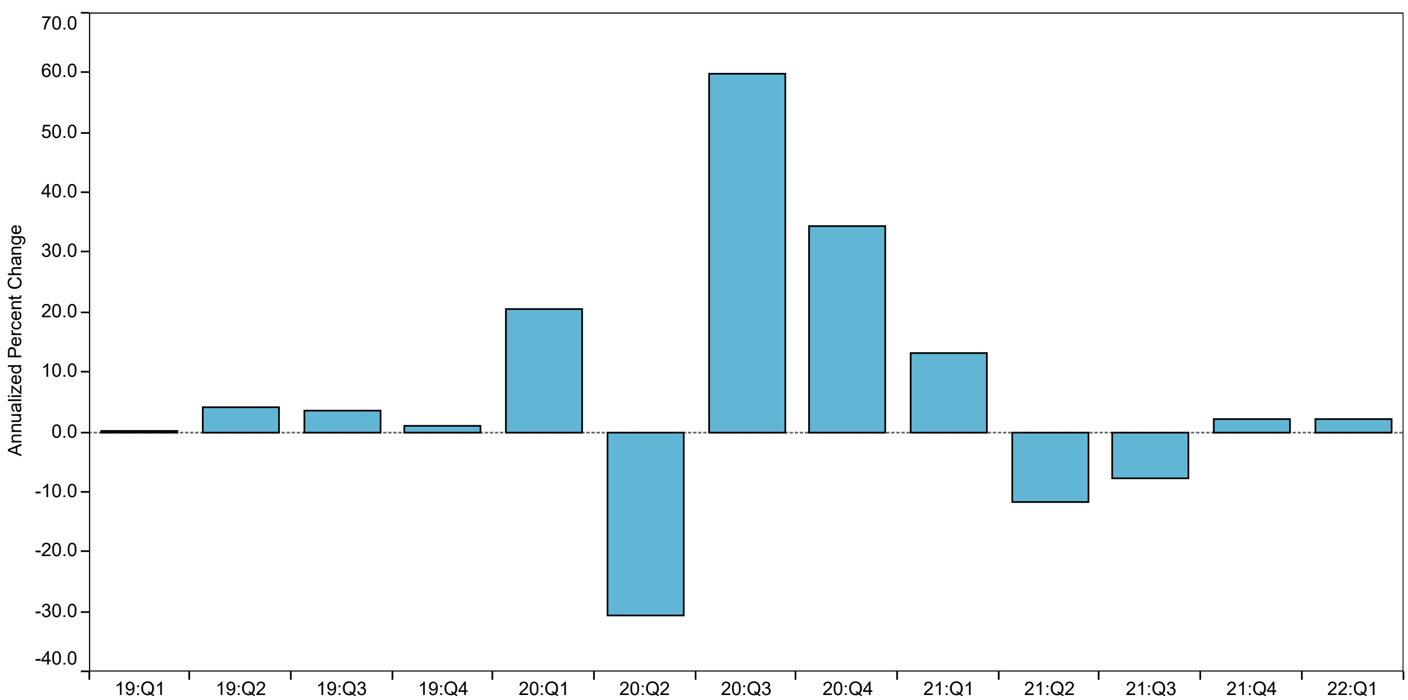
Annualized Percent Change / Quarterly Average

	21:Q2	21:Q3	21:Q4	22:Q1
Industrial Production	6.4	3.5	3.6	8.1
Capacity Utilization (mfg)	75.4	76.1	77.0	78.0

Source: Federal Reserve Board of Governors / Haver Analytics.

Growth in residential investment fell slightly first quarter, easing one-tenth of a percentage point from the fourth quarter to an annualized rate of 2.1%.

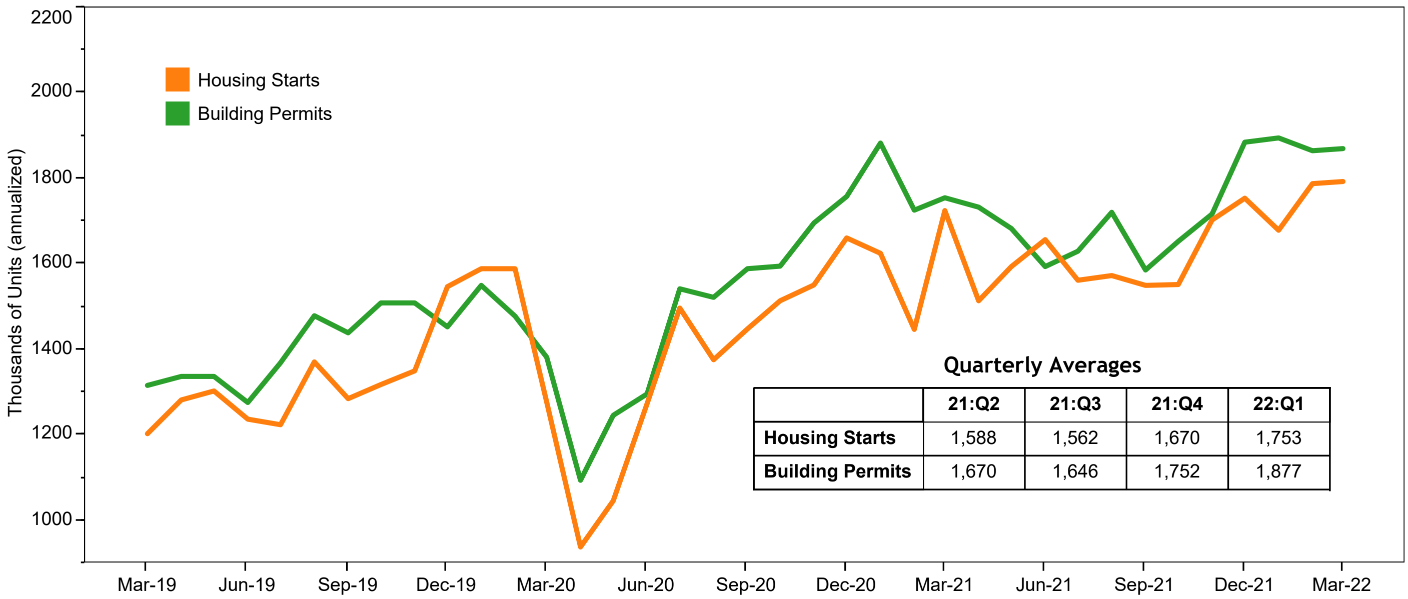
Residential Investment



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

Housing starts and permits both rose a bit in March with the gains for both series being centered in the multi-family sector. Multi-family starts in the first quarter were the highest since 1986, due largely to a real estate tax law change in Philadelphia, which helped the Northeast region post a 117% increase in the sector. Multi-family permits also posted the best quarterly reading since 1986. Both single-family starts and permits declined a bit in March but both series still posted their second highest quarterly readings since 2006.

Housing Starts and Building Permits



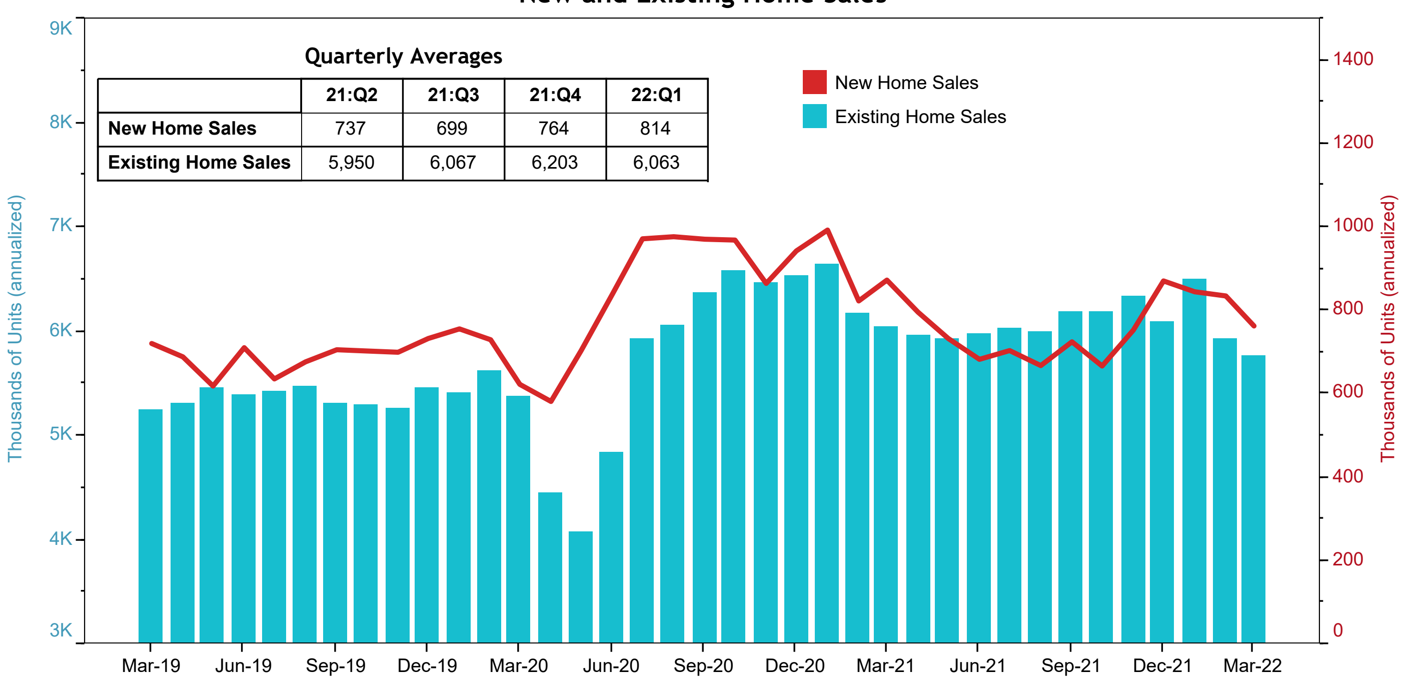
Quarterly Averages

	21:Q2	21:Q3	21:Q4	22:Q1
Housing Starts	1,588	1,562	1,670	1,753
Building Permits	1,670	1,646	1,752	1,877

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

Sales of new and existing homes fell in March—by 8.6% and 2.7%, respectively. On average, sales of new homes in the first quarter rose from the previous quarter and remained at elevated levels. Sales of existing homes fell to a 21-month low in March and declined, on average, in the first quarter. However, the sales pace set in March for existing homes was still above the levels the prevailed for several years prior to the pandemic.

New and Existing Home Sales



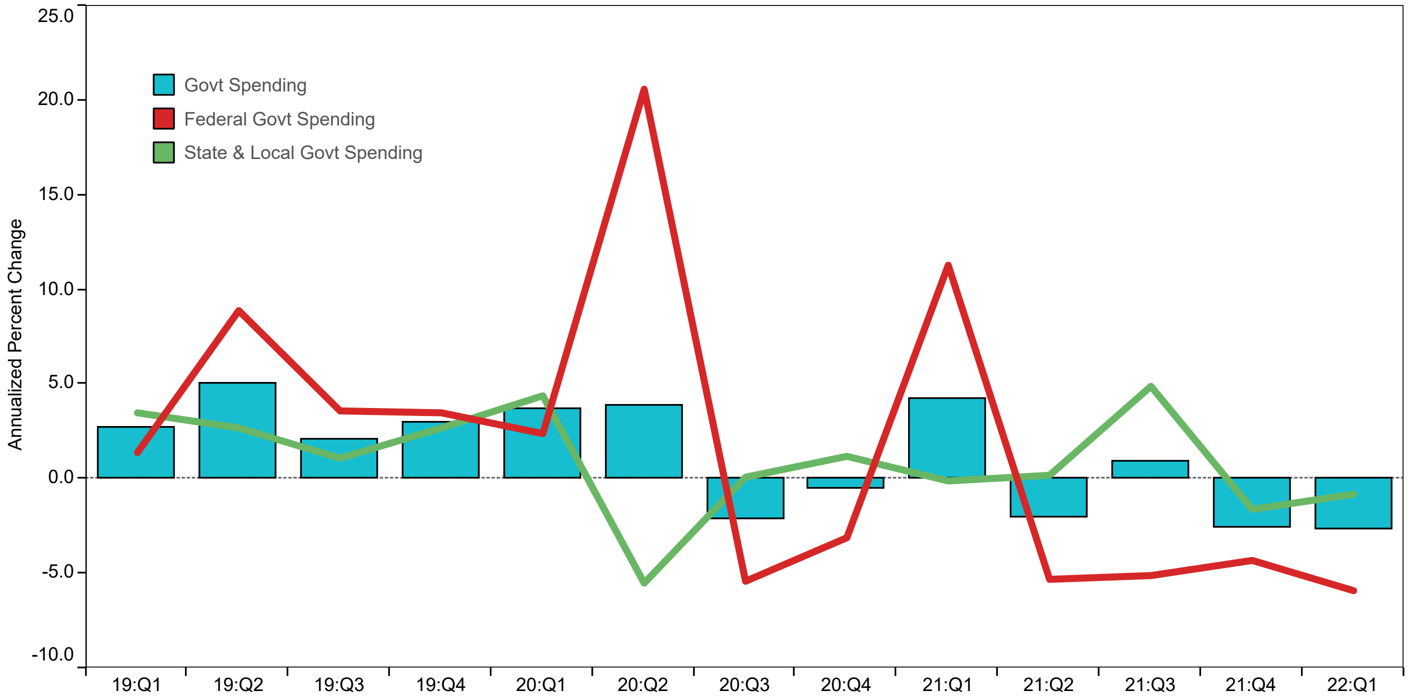
Quarterly Averages

	21:Q2	21:Q3	21:Q4	22:Q1
New Home Sales	737	699	764	814
Existing Home Sales	5,950	6,067	6,203	6,063

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

Government spending decreased at an annualized rate of 2.7% in the first quarter, as federal spending fell 5.9% and state and local spending eased 0.8%. The decrease in federal spending primarily reflected declines in defense spending on intermediate goods and services.

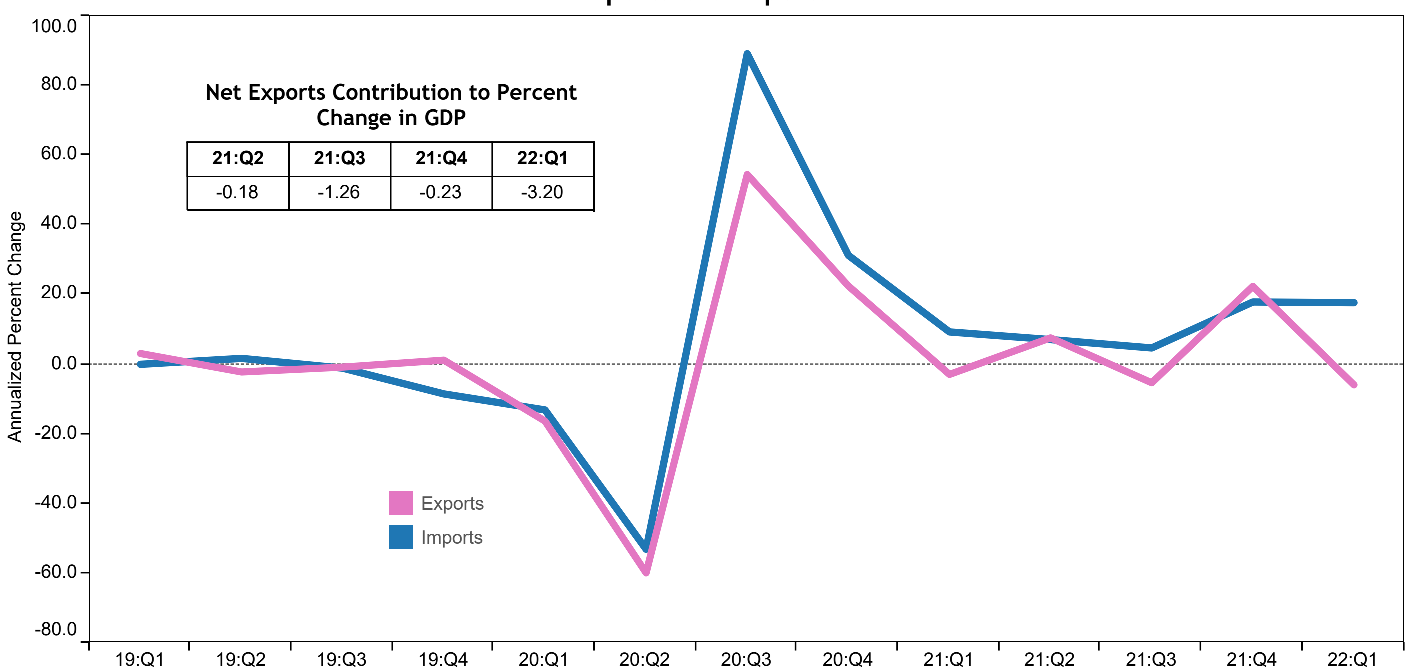
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Net exports weighed on GDP for the seventh consecutive quarter. A 3.2% decrease in exports in the first quarter reflected declines in nondurable goods that were only partially offset by an increase in “other” services (mainly financial services). A surge in imports also weighed on growth and reflected an increase in durable goods.

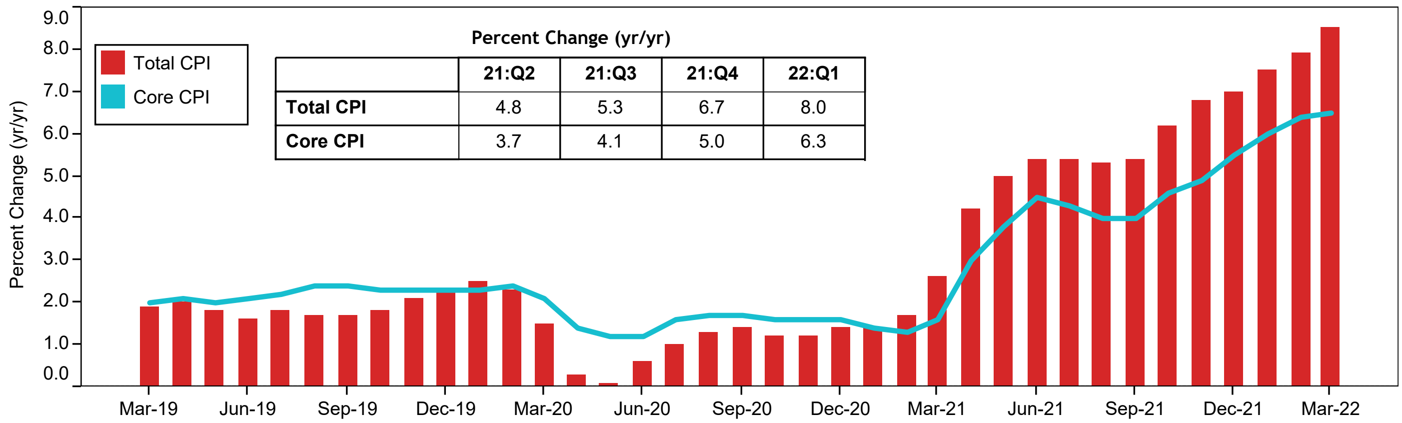
Exports and Imports



Source: Bureau of Economic Analysis / Haver Analytics.

Inflation measures mostly continued to accelerate in March. On a year-over-year basis, total CPI accelerated by six-tenths in March to 8.5%-the fastest growth since December 1981. The gain was led by higher gas prices, which were up 48.0% from the previous year. Core CPI accelerated by one-tenth to 6.5%-the fastest growth in just under 40 years. As measured by the PCE, total inflation rose three-tenths in March to a 40-year high of 6.6%, though the core CPI slowed by one-tenth to 5.2%. At the wholesale level, total and core PPI also accelerated in March—increasing by nine-tenths and three-tenths, respectively.

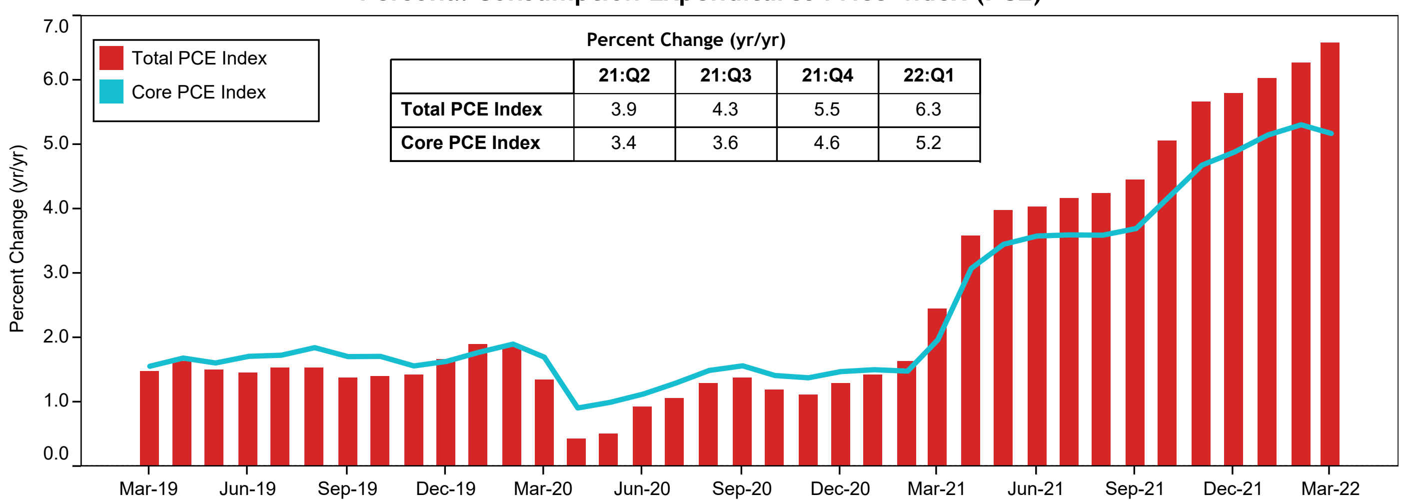
Consumer Price Index (CPI)



Percent Change (yr/yr)

	21:Q2	21:Q3	21:Q4	22:Q1
Total CPI	4.8	5.3	6.7	8.0
Core CPI	3.7	4.1	5.0	6.3

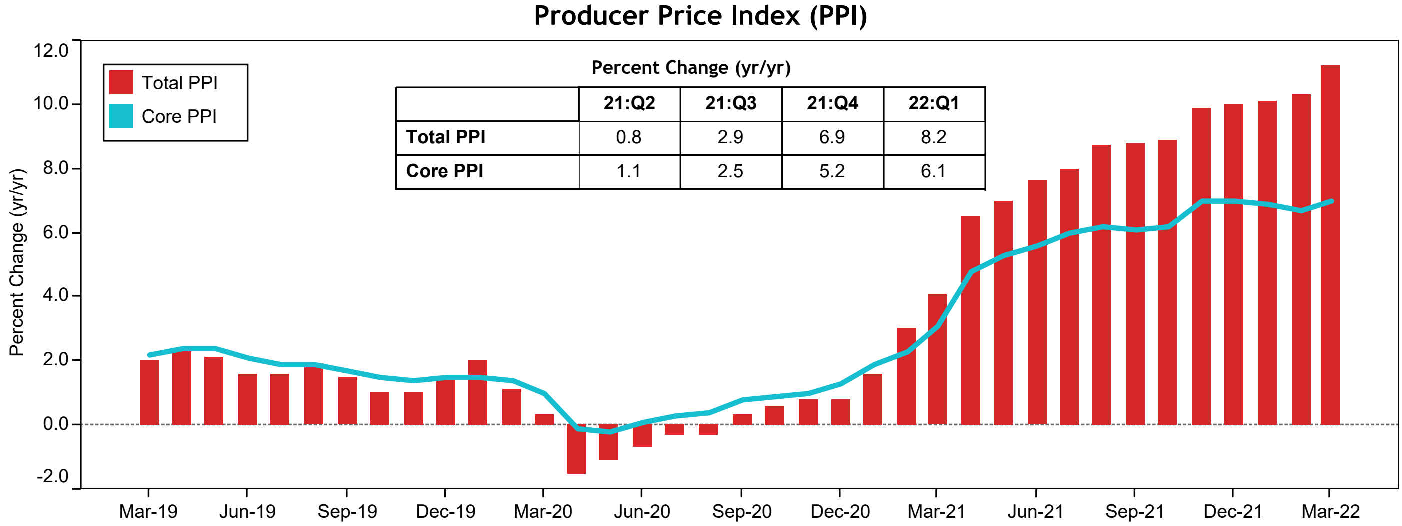
Personal Consumption Expenditures Price Index (PCE)



Percent Change (yr/yr)

	21:Q2	21:Q3	21:Q4	22:Q1
Total PCE Index	3.9	4.3	5.5	6.3
Core PCE Index	3.4	3.6	4.6	5.2

Producer Price Index (PPI)

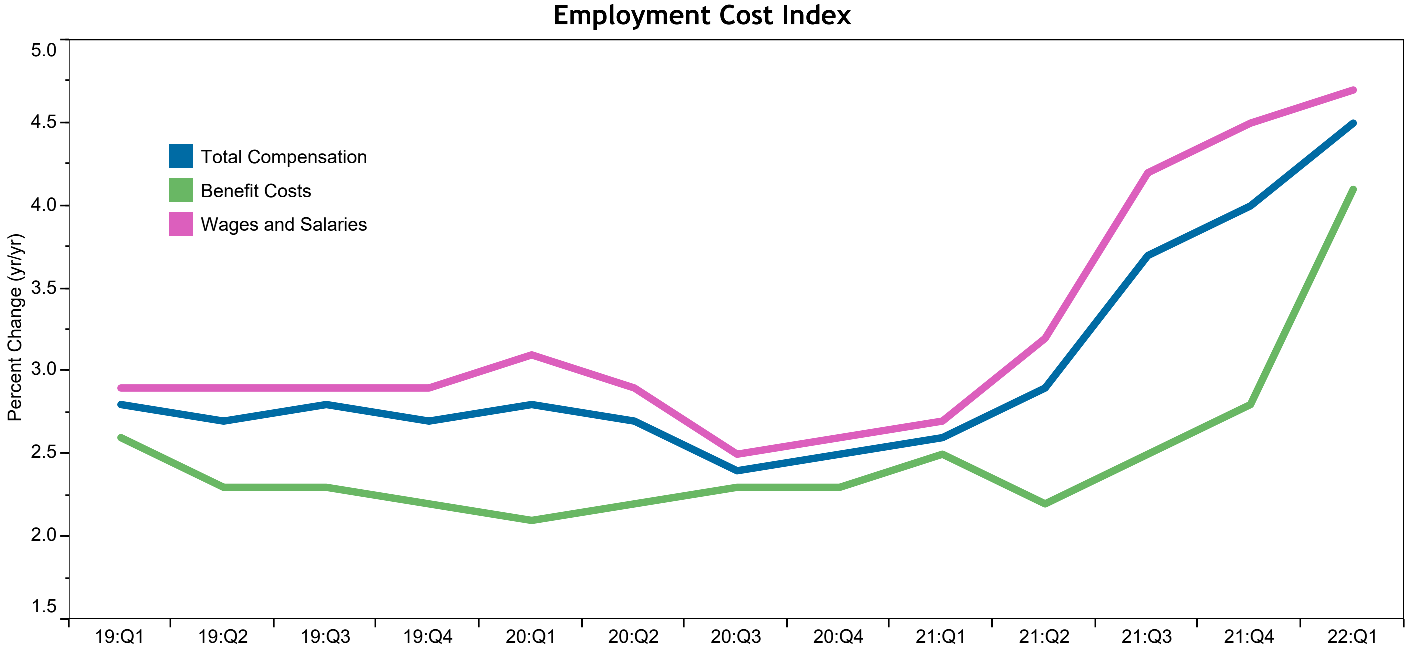


Percent Change (yr/yr)

	21:Q2	21:Q3	21:Q4	22:Q1
Total PPI	0.8	2.9	6.9	8.2
Core PPI	1.1	2.5	5.2	6.1

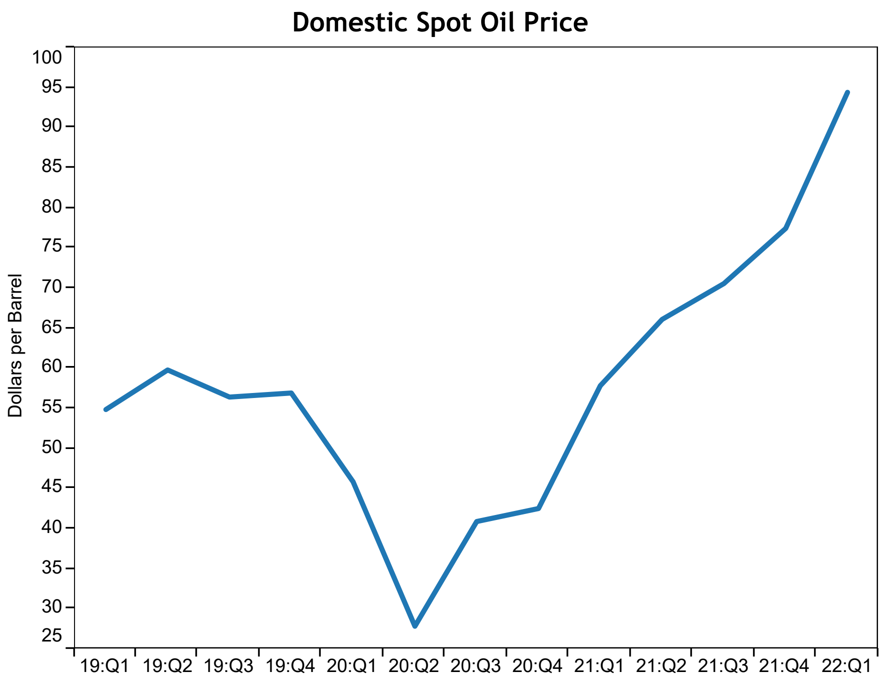
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

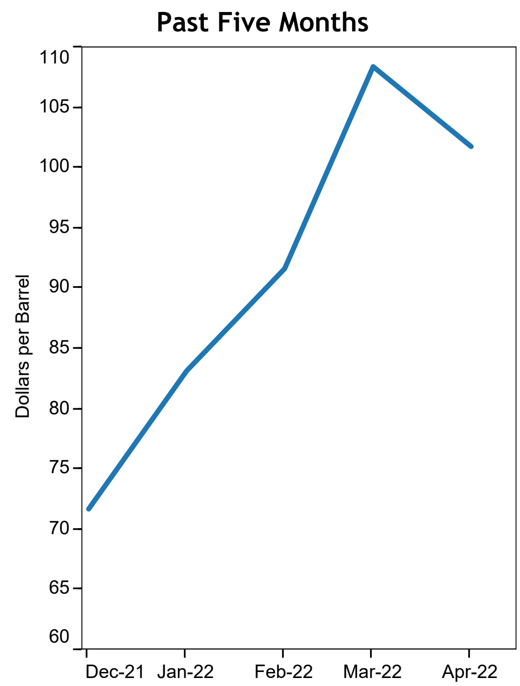
The Employment Cost Index grew 1.4% in the first quarter—its fastest pace since 1990. On a year-over-year basis, total compensation grew 4.5%—its fastest growth rate since 1991. Wages and salaries registered their fastest growth since 1984—rising 4.7% from last year. Growth in benefit costs rose 4.1%, marking their fastest growth rate since 2005.



Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices fell in April to $101.78/barrel from $108.41/barrel in March. Daily prices have crept higher again recently, closing at $105.17/barrel on May 2.

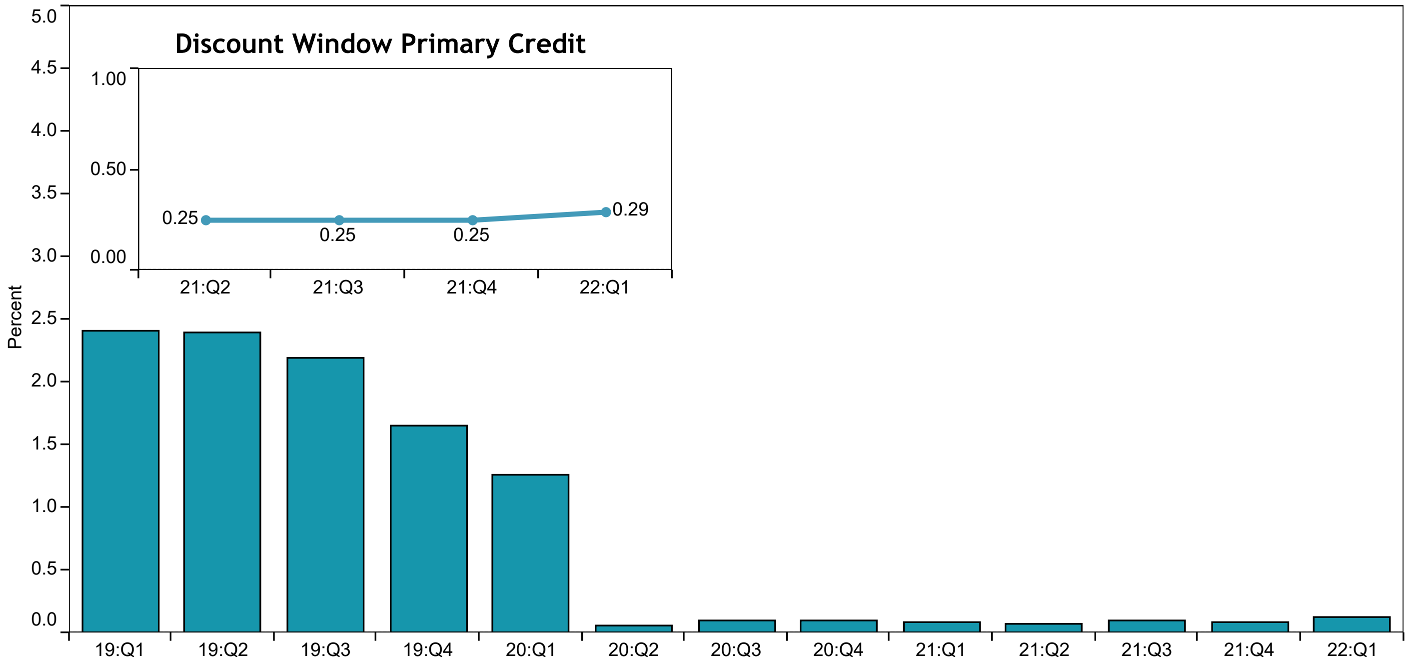




Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

Data released since your last Director's meeting show that real GDP fell 1.4% in the first quarter, though the weakness was due to declines in inventory investment and net exports that are unlikely to persist in subsequent quarters. Domestic demand remained strong, supported by a tight labor market and higher incomes. Growth is likely to rebound in the second quarter, but risks to the outlook remain tilted to the downside. The ongoing war in Ukraine, the potential for further supply-chain disruptions due to new COVID variants, high inflation, and tighter financial conditions are all contributing to a higher level of uncertainty.

Short-Term Interest Rates



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