FEDERAL RESERVE
BANK OF BOSTON™

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

November 30, 2021

CURRENT ECONOMIC DEVELOPMENTS - November 30, 2021

Data released since your last Director's meeting were mixed. Continued job growth and income gains have supported increased consumption, and recovery from Hurricane Ida and some improvement in vehicle production provided a boost to manufacturing. However, inflation measures accelerated further and supply chain issues remain. Most recently, a potentially more transmissible variant of the coronavirus has emerged, though it is too early to judge the effects it may have on public health outcomes or if any policy measures will be undertaken to help contain its spread. While this development adds additional uncertainty to the outlook, recent data suggest a considerable increase in GDP growth in the fourth quarter.

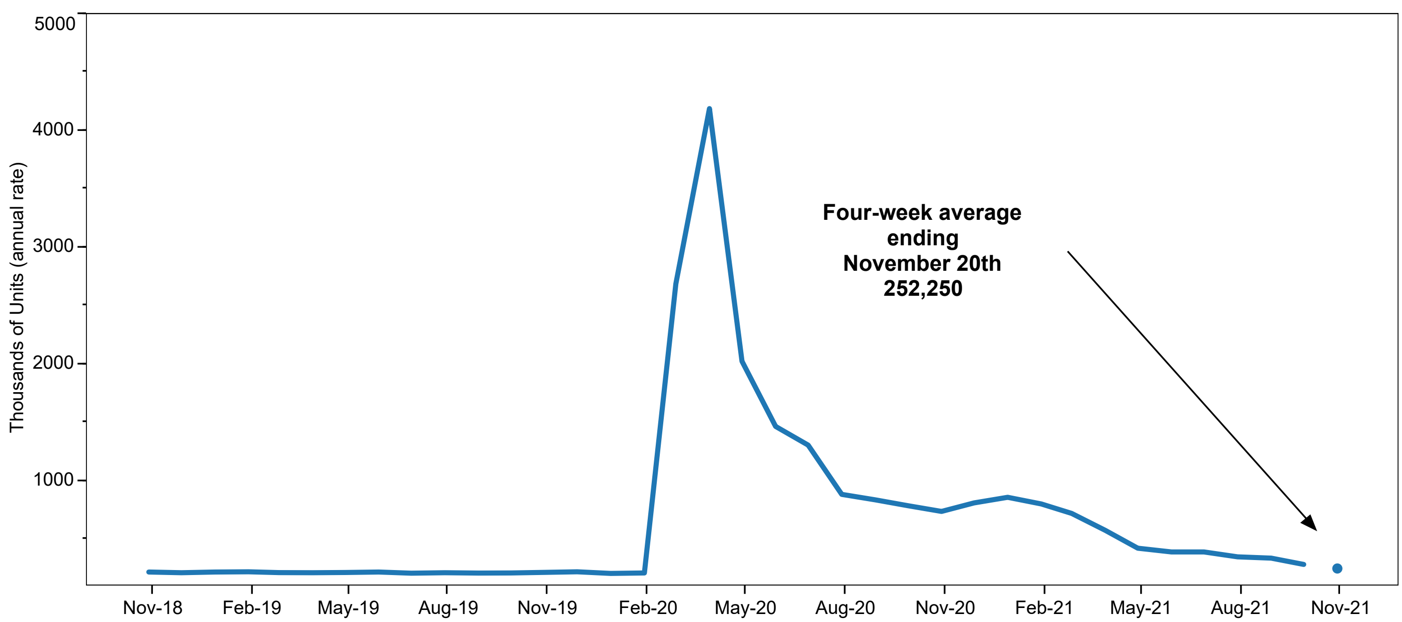
Initial claims fell to a 52-year low in recent weekly data while the four-week moving average fell to yet another pandemic low, as employers focus on retaining workers in a tight labor market. The November employment report is due Friday, and markets are expecting a modest decline in the unemployment rate and a gain of nearly 600,000 jobs, adding to the improvements seen in October. Consumer sentiment and confidence both declined in November amid continued inflation concerns, though the depressed attitudes have yet to impact spending. Retail sales and real consumption both rose in October and were revised higher for September, though inflation led to a decline in real disposable income. Home sales rose in October from the month prior, but both new and existing home sales are below their levels last year. Housing starts declined a bit in October yet permits rose, suggesting construction would be greater if not for land and supply shortages.

Both industrial production and capacity utilization in manufacturing rose in October as recovery from Hurricane Ida buoyed all major market groupings. On a monthly basis, orders for durable goods fell in October (due entirely to a decline in orders for passenger planes) while orders of nondefense capital goods excluding aircraft rose; both measures decelerated a bit on a year-over-year basis but have been rising consistently since the beginning of the year. The ISM manufacturing and services indices are due later this week, with markets anticipating small gains, keeping both safely in expansionary territory.

Inflation measures continued to increase in October. Monthly growth in both total and core CPI and PCE accelerated, and year-over-year growth climbed to 30-year highs. Several components have contributed to recent inflation increases, including vehicles, housing, clothing, and for travel-related items such as airfares and lodging. Oil prices have declined a bit from October but remain elevated relative to their pre-pandemic levels.

Initial claims for unemployment insurance fell to 199,000 in the week ending November 20—the lowest level since November 1969. The four-week moving average fell to the lowest level since March 2020—reaching 252,250 in the latest week. While initial claims have been steadily declining in recent weeks, the steep drop last week was likely due in part to the seasonal adjustment process, which was made more difficult by the sharp increase in claims early in the pandemic.

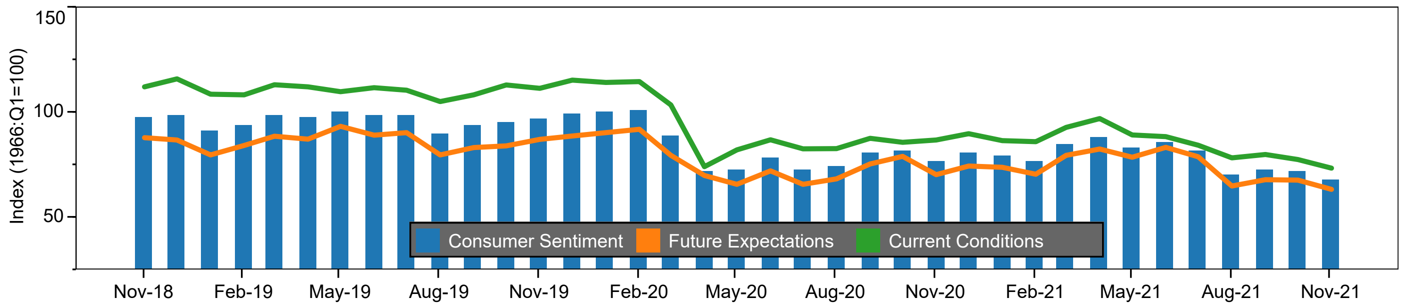
Initial Claims



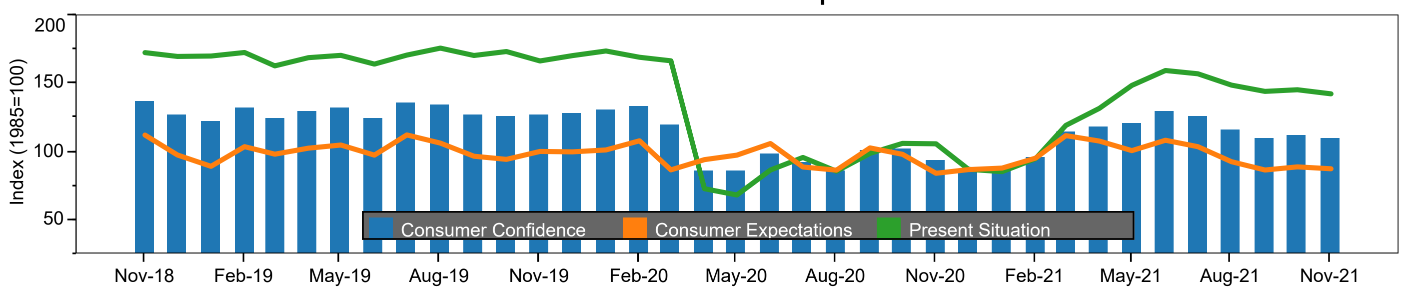
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The consumer confidence index declined 2.1 points in November, falling to 109.5. The present situation subindex fell 3.0 points to 142.5 while the expectations subindex fell 1.4 points to 87.6. The consumer sentiment index fell 4.3 points in November to 67.4—the lowest reading in a decade. The current conditions subindex fell 4.1 points to 73.6 while the expectations subindex fell 4.0 points to 63.9. Recent declines in consumer attitudes have been due primarily to inflation concerns and are unlikely to significantly impact spending behavior.

Consumer Sentiment and Expectations



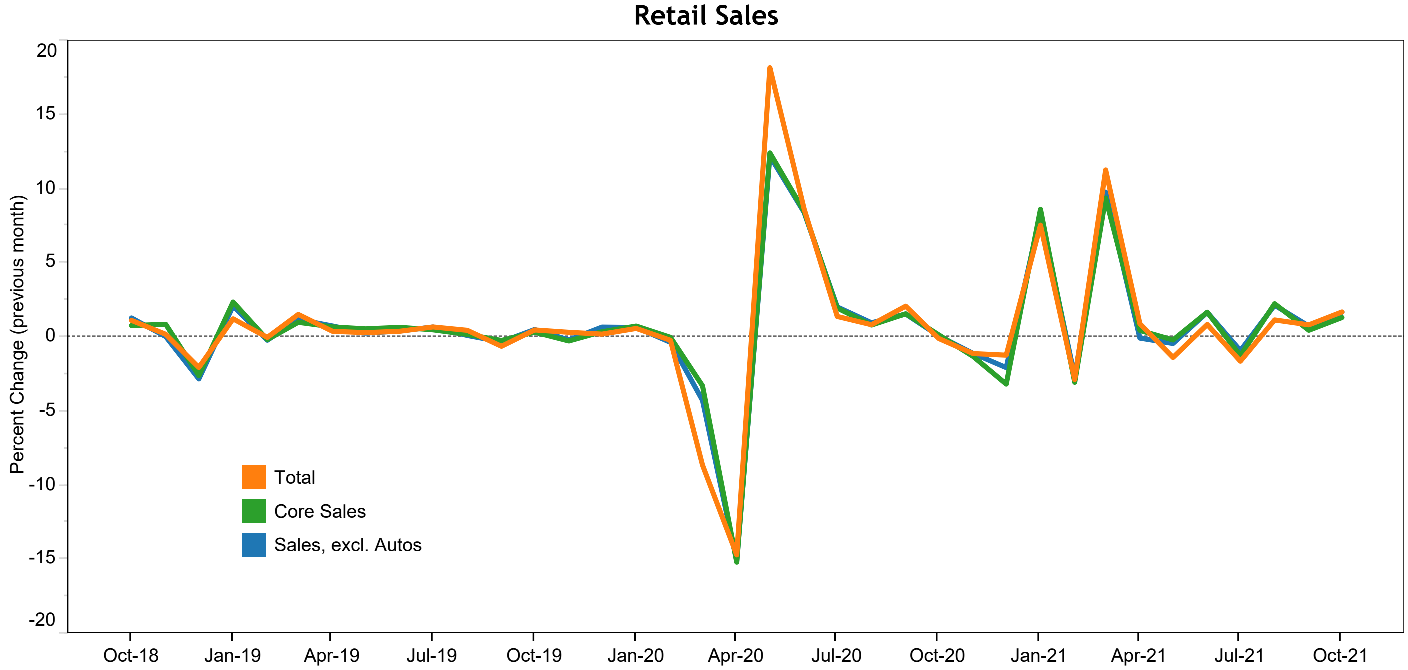
Consumer Confidence and Expectations



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

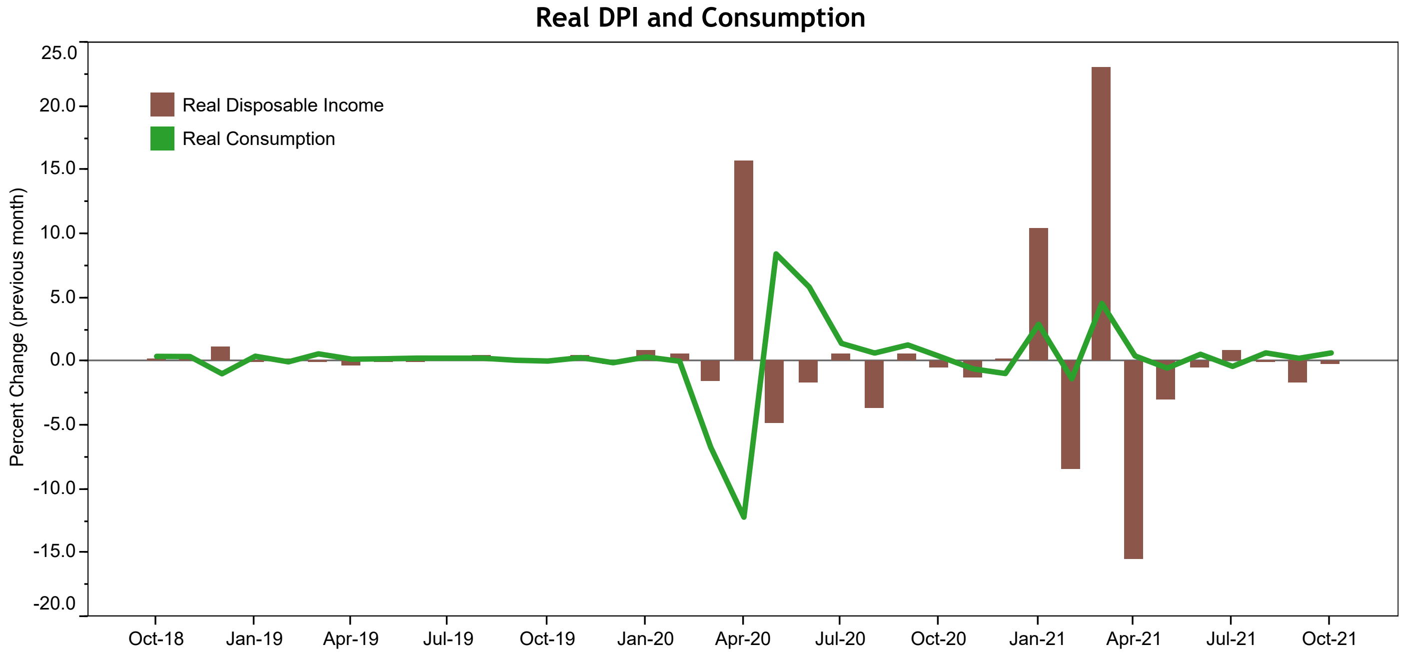
Retail sales rose 1.7% in October, reflecting in part both an early start to holiday shopping and higher prices. Notable gains were seen at gas stations, electronics and appliance stores, and online retailers. Also in October, retail sales excluding autos rose 1.7% while core retail sales rose 1.3%.

Retail Sales



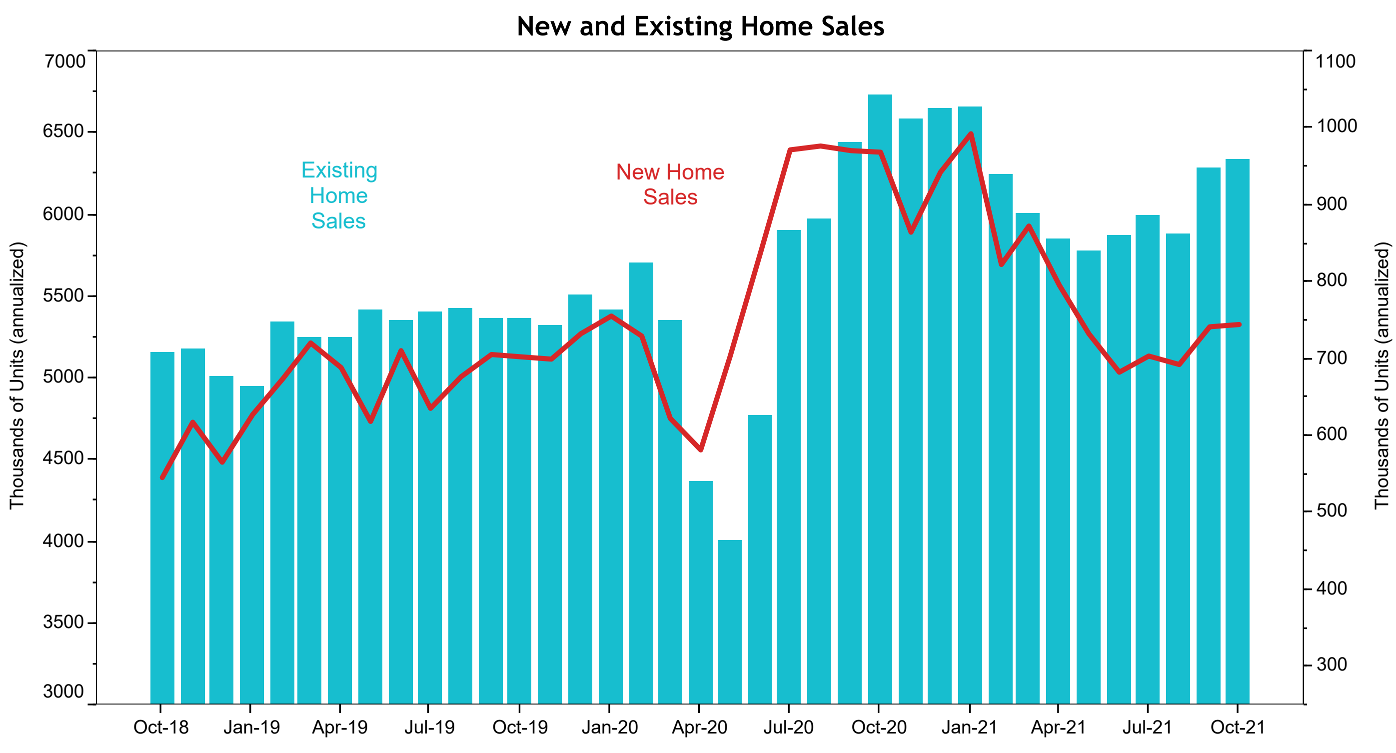
Source: Census Bureau / Haver Analytics.

Personal income rose in October in nominal terms, but higher consumer prices led to a 0.3% decline in real incomes. Meanwhile, real consumption rose 0.7% — buoyed by a rebound in spending on motor vehicles and parts. Notably, the services sector also saw gains in spending—however, declines were seen in some virus-sensitive categories, like food services and accommodations.



Source: Bureau of Economic Analysis / Haver Analytics.

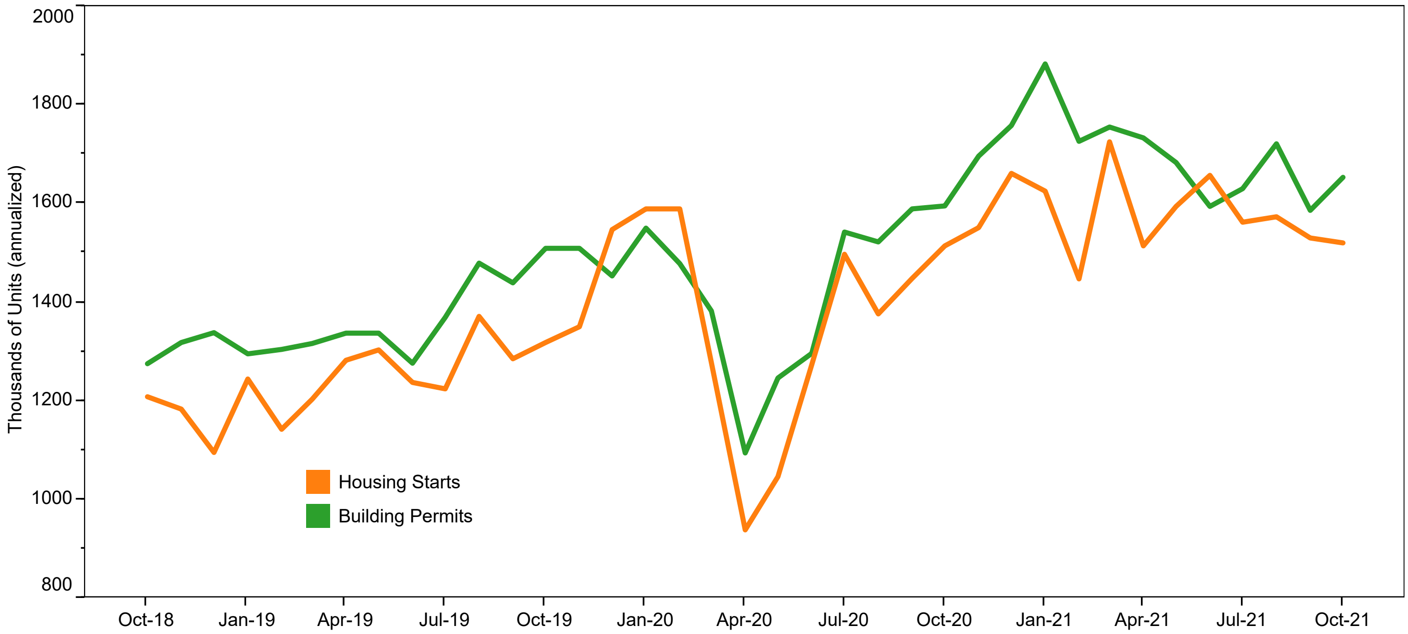
New home sales rose 0.4% to a 745,000-unit annual rate in October, though the increase was from a September rate that was revised sharply lower. Due partially to increased prices and lean inventories, sales were 23.1% below their level from last October. Meanwhile, existing home sales rose 0.8% to a 6.34-million-unit annual rate—the fastest pace since January. Still, existing home sales were down 5.8% over the past year.



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

Total housing starts declined a bit in October, falling to a 1.52-million-unit annual rate (from 1.53-million). Multi-family starts rose 7.1% in October, but those gains were more than offset by a 3.9% decrease in single-family starts. Also in October, total building permits rose 4.2% to a 1.65-million-unit annual rate, with both single- and multi-family permits increasing.

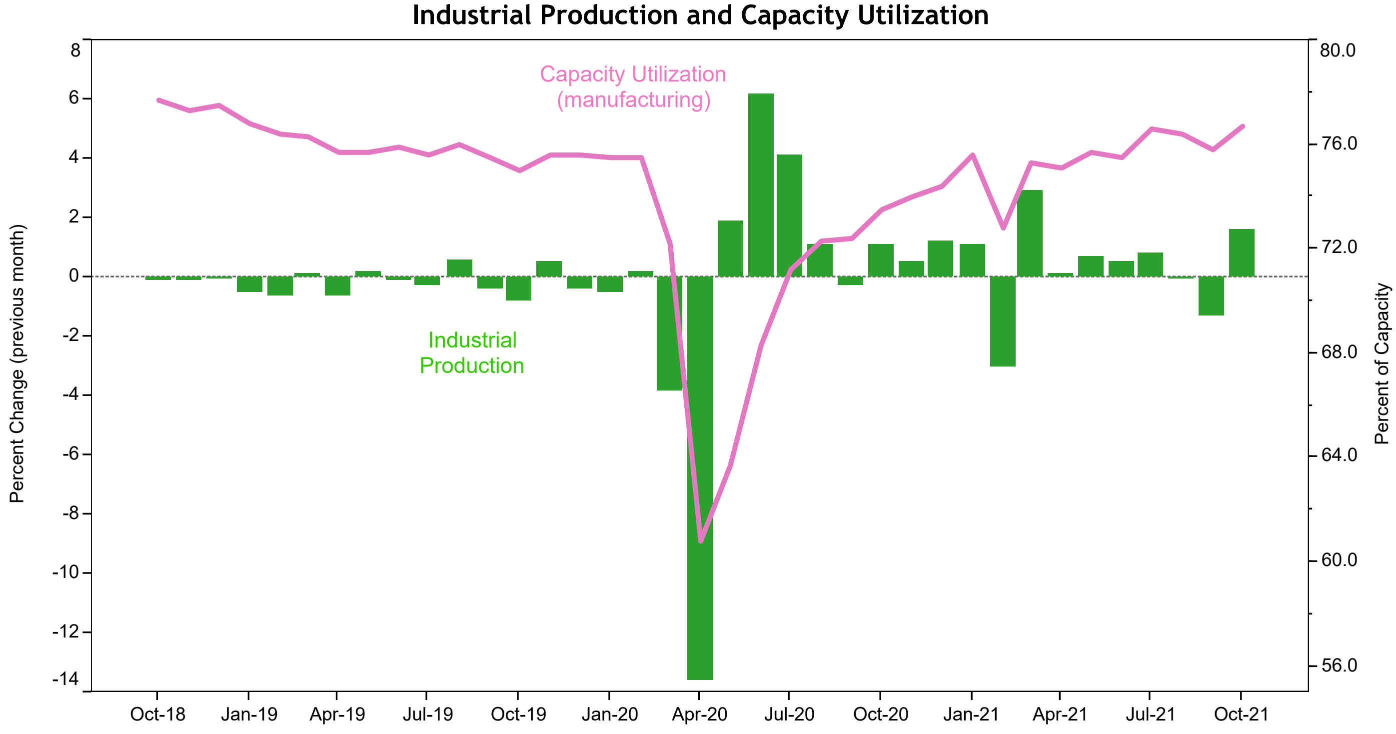
Housing Starts and Building Permits



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

Industrial production—boosted by the effects of the recovery from Hurricane Ida—rose 1.6% in October, more than offsetting September's decline. Gains were led by a 4.1% increase in mining output, while manufacturing and utilities both registered 1.2% gains. Capacity utilization in manufacturing increased by 0.9 percentage points, rising to 76.7 in October.

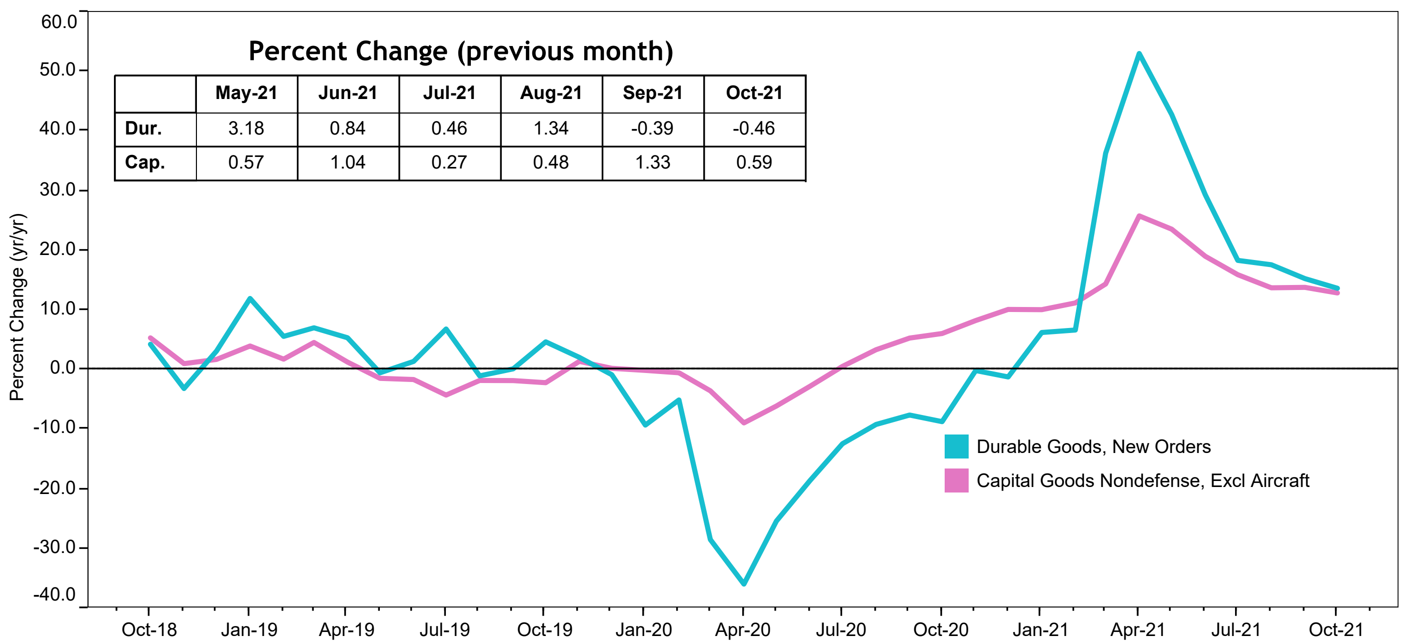
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell 0.5% in October, after falling 0.4% in the previous month. However, October's decline was entirely due to fewer orders for passenger planes, a highly volatile category. Meanwhile, orders of nondefense capital goods excluding aircraft rose 0.6% in October. Both measures of orders decelerated on a year-over-year basis in October, but both have consistently posted gains since the start of 2021.

Durable Goods Orders



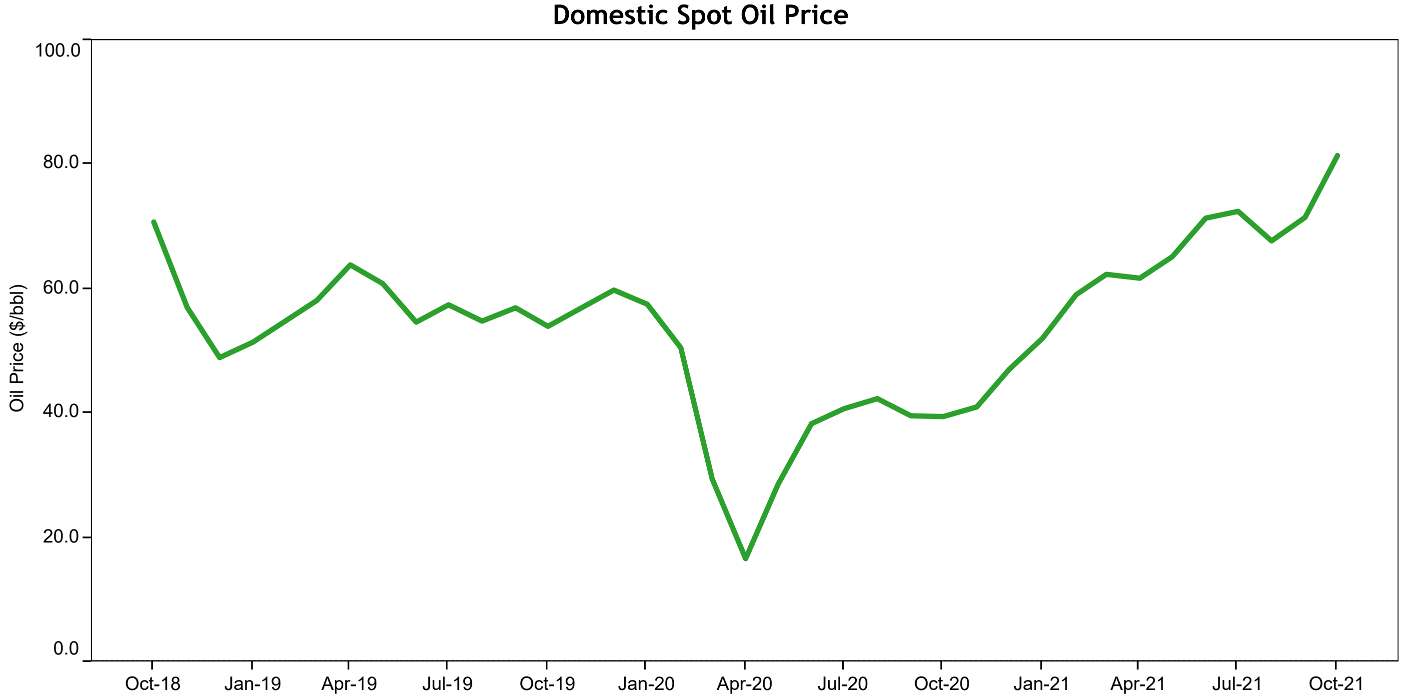
Percent Change (previous month)

	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Dur.	3.18	0.84	0.46	1.34	-0.39	-0.46
Cap.	0.57	1.04	0.27	0.48	1.33	0.59

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

On average, oil prices in November have fallen slightly from October. With November data nearly complete, prices averaged $79.27/barrel, down from October's average of $81.44—which was a seven-year high. Daily prices on November 29th closed at $69.95/barrel.

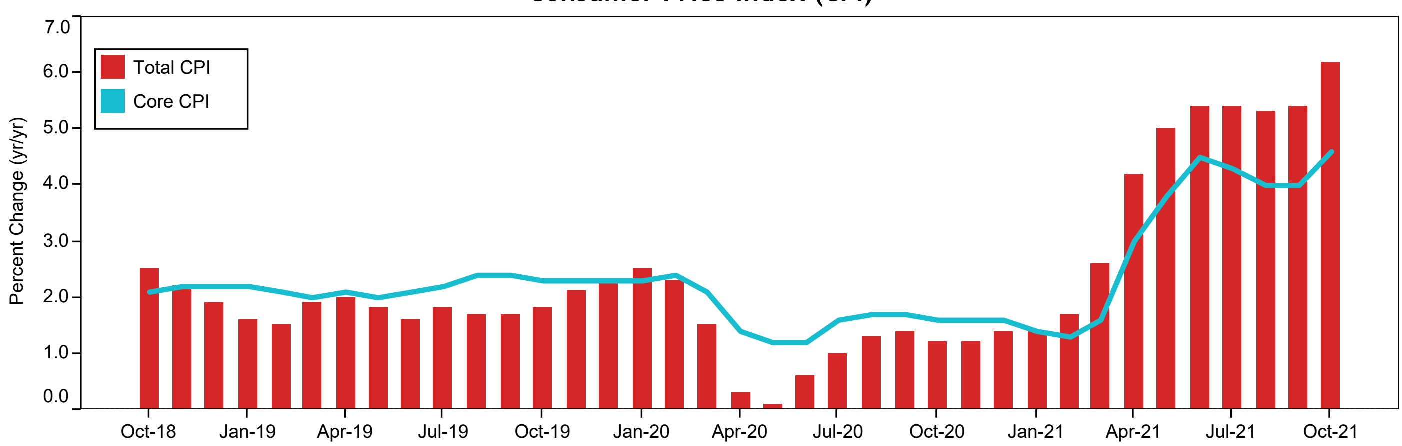
Domestic Spot Oil Price



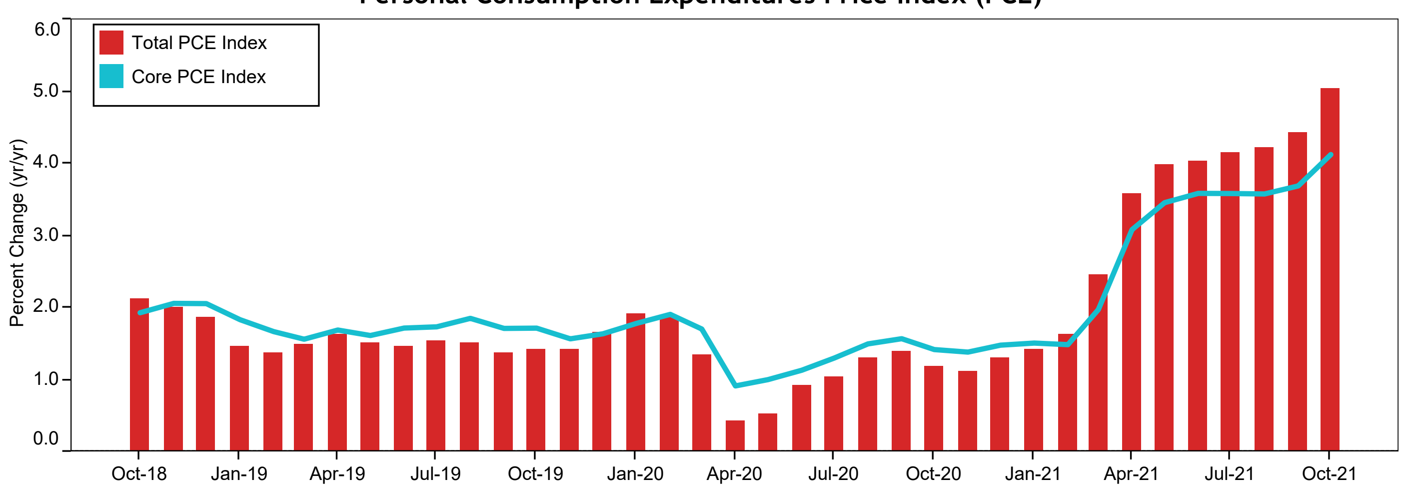
Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

As measured by the total CPI, prices in October rose 0.9%, accelerating from 0.4% in September to match a 13-year high. The total CPI jumped 6.2% over the past year, the fastest growth rate since 1990. Core inflation also picked up in October, with 12-month growth accelerating to a 30-year high of 4.6%. Inflation as measured by the PCE showed similar increases, with both the total and core indices also growing at their fastest 12-month rates in 30 years. At the wholesale level, total and core PPI rose on a monthly basis, by 0.6% and 0.4%, respectively. On a year-over-year basis, total PPI remained flat at 8.6% in September while the core index accelerated three-tenths to 6.2%.

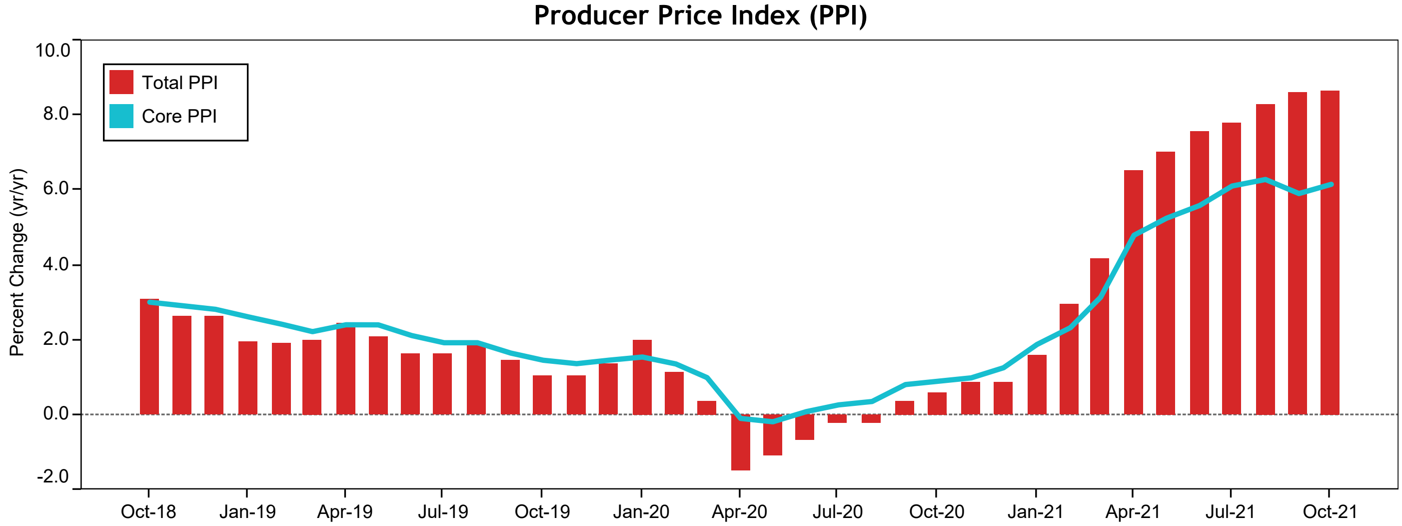
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



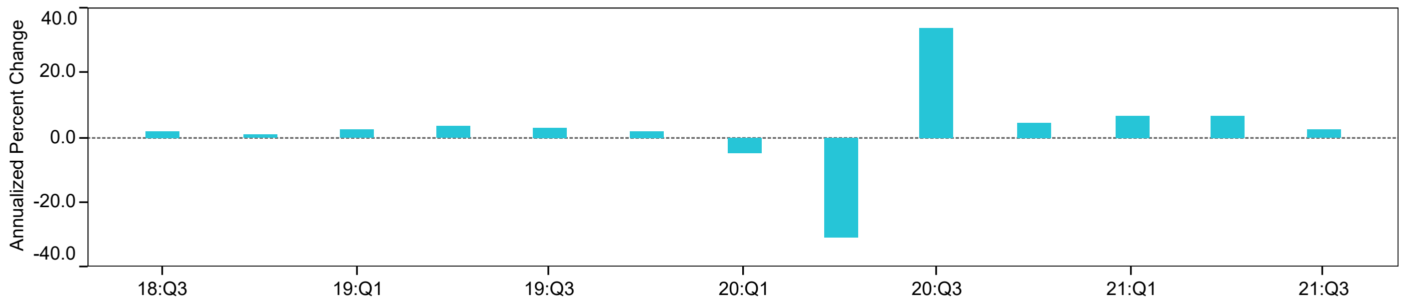
Producer Price Index (PPI)



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

According to the second estimate, real GDP rose 2.1% in the third quarter, revised up from the advance estimate of 2.0%. The uptick in the growth rate reflected upward revisions to PCE, private inventory investment, state and local government spending, and a downward revision to imports. These gains were partially offset by downward revisions to exports, nonresidential fixed investment, residential fixed investment, and federal government spending.

Real GDP



Revisions to Q3 Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.0	2.1
Personal Consumption	1.6	1.7
Business Investment	1.8	1.5
Equipment and Software	-3.2	-2.4
Residential Investment	-7.7	-8.3
Government	0.8	0.9
Exports	-2.5	-3.0
Imports	6.1	5.8
Final Sales	-0.1	0.0

Source: Bureau of Economic Analysis / Haver Analytics.

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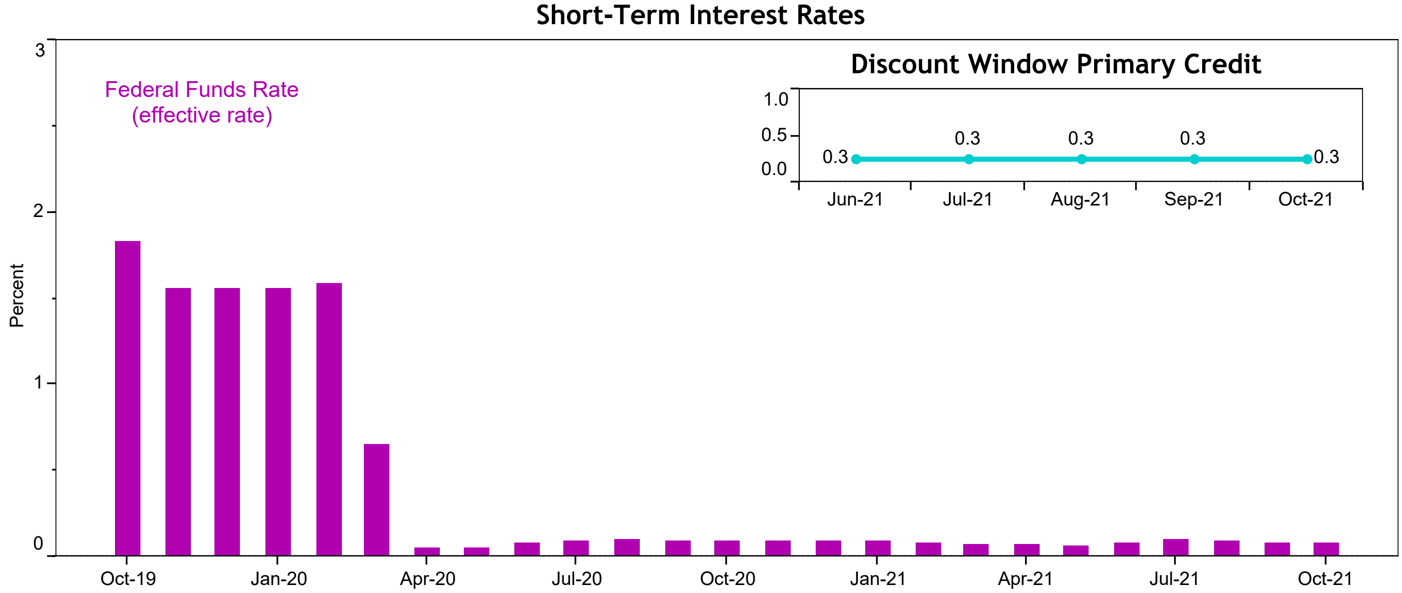
Short-Term Interest Rates



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