FEDERAL RESERVE BANK OF BOSTON™

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

October 5, 2021

CURRENT ECONOMIC DEVELOPMENTS - October 5, 2021

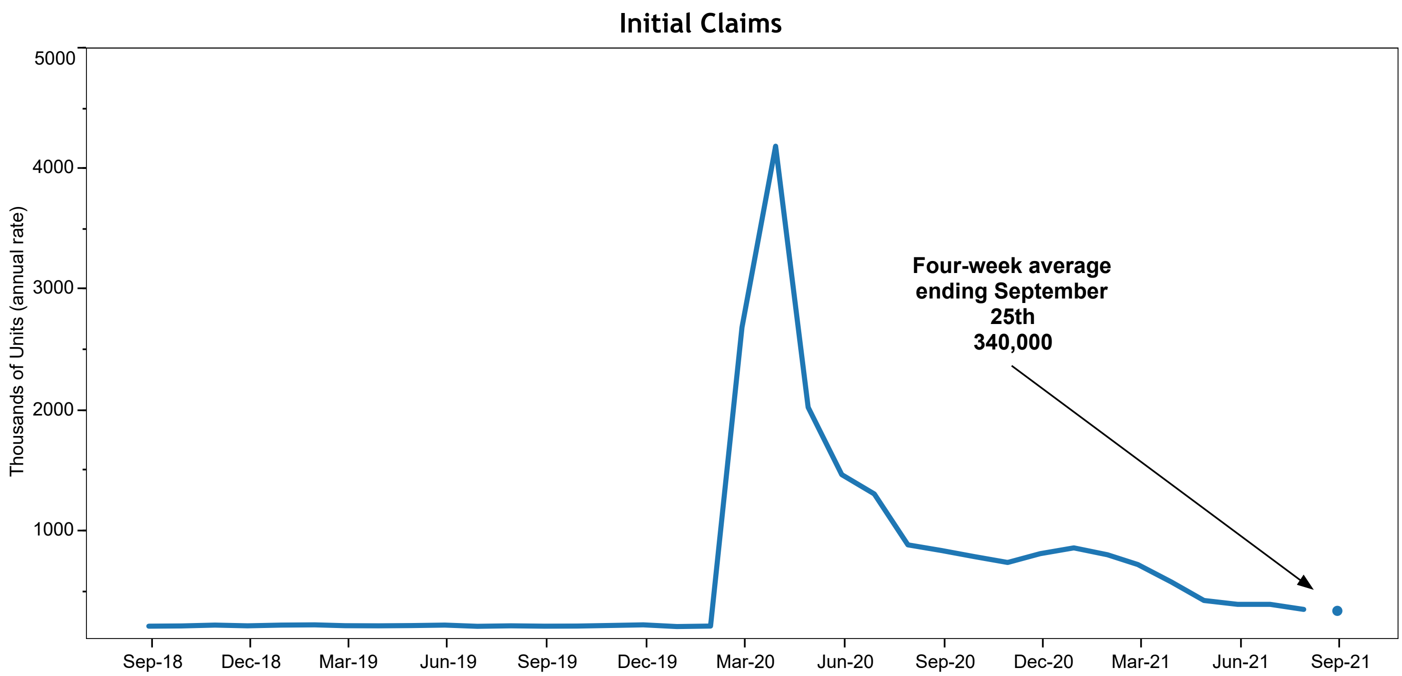
Data released since your last Director's meeting have been mixed, and point to slower third quarter growth than previously expected. Supply chain issues persist and, while not dramatically, the latest wave of the coronavirus due to the Delta variant has altered some consumer behavior, particularly related to travel and other services. However, virus cases have been steadily declining over the last two months and just over two-thirds of the adult population has been fully vaccinated. While a great deal of uncertainty remains regarding the continued evolution of the virus, the outlook for growth remains largely positive, with GDP likely to pick up in the fourth quarter and into next year as supply bottlenecks are addressed, labor supply improves, and inflationary pressures ease.

The September employment report is due out on Friday and the market is expecting nonfarm payrolls to rise by 485,000 with the unemployment rate ticking down to 5.1%. Initial claims for unemployment insurance have risen for three consecutive weeks—reaching a seven-week high in latest week of data and leaving the four-week moving average at 340,000. Prior to the pandemic, claims hovered around 215,000. Consumer attitudes were mixed in September, with consumer confidence falling to its lowest level since February and consumer sentiment recovering a bit after falling to its lowest level since 2011 in August. Despite real incomes declining in August for the third time in four months, personal consumption increased. Retail sales rose in August, including a strong increase in core sales, while lightweight vehicle sales fell for a fifth straight month in September amid lean inventory and high prices.

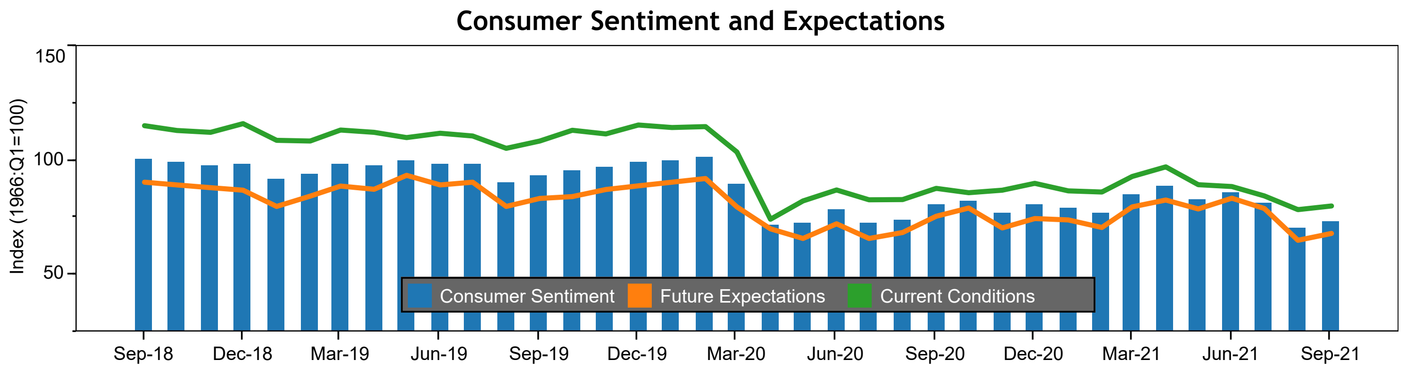
Housing market data remained elevated in August, despite cooling from the beginning of the year. New home sales rose in August following substantial upward revisions to July data. Existing home sales remained above their pre-pandemic levels but declined a bit in August. Both housing starts and building permits rose in August as strength in multi-family activity offset softness in the single-family sector. Industrial production rose further in August and surpassed its pre-pandemic level while capacity utilization in manufacturing rose as well—attaining its highest level in over two and a half years. Orders for durable goods and orders of nondefense capital goods excluding aircraft continued to rise in August and remained at elevated levels, though recent gains have largely been nominal due to sharply rising prices in manufacturing. The ISM activity indices both posted small gains September and both surveys' employment components signaled increased hiring. Regional surveys from the Federal Reserve were mixed in September but also continued to signal expansion.

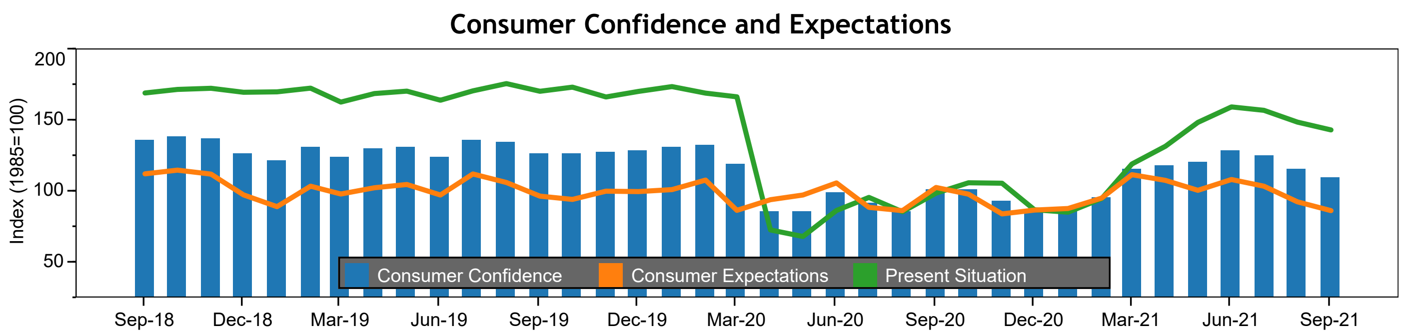
Inflation as measured by the CPI slowed in August from the previous month, but remained at elevated levels. Year-over-year growth for both total and core CPI decelerated a bit in August—the former down from the 13-year high seen in both June and July. As measured by the PCE, inflation measures largely held steady in August. On average oil prices rose in September, after falling in August, and have continued to rise in early October, increasing to nearly $78 per barrel in recent days.

Initial claims for unemployment insurance rose by 11,000 to 362,000 last week, the third consecutive weekly increase since falling to a pandemic-low of 312,000 in early September. The four-week moving average rose 4,250 to 340,000 in the latest week. After federal emergency unemployment benefits expired on September 4th, the total number of weeks claimed under all benefit programs fell by over six million to roughly five million in the week ending September 11th.



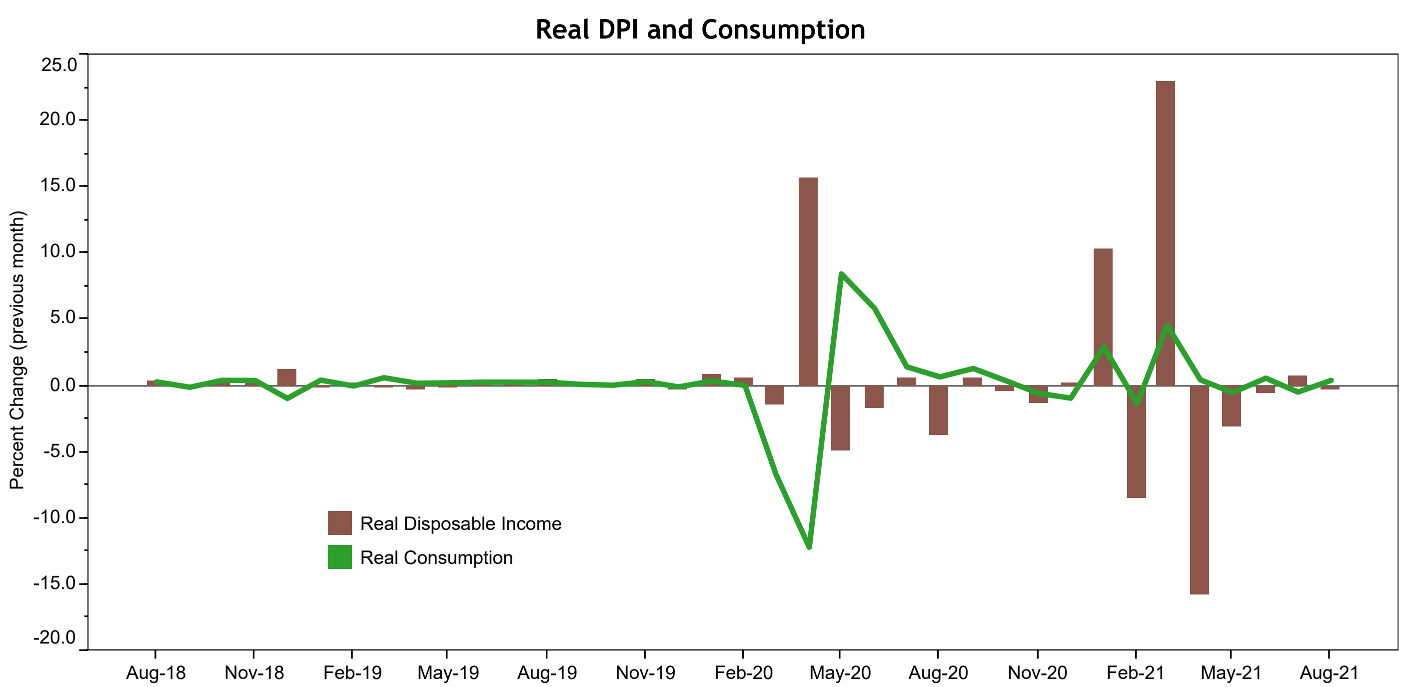
In September, the consumer confidence index fell to 109.3, down from the August reading that was revised up from 113.8 to 115.2. Both subindices contributed to the decline, as the present situation index fell 5.5 points to 143.4 while the expectations index fell 6.2 points to 86.6. The consumer sentiment index fell to a pandemic low in August and recovered some ground in the September reading – rising to 72.8 from 70.3. The expectations subindex rose to 68.1 in September from 65.1 in August, while the current conditions subindex rose to 80.1 from 78.5.



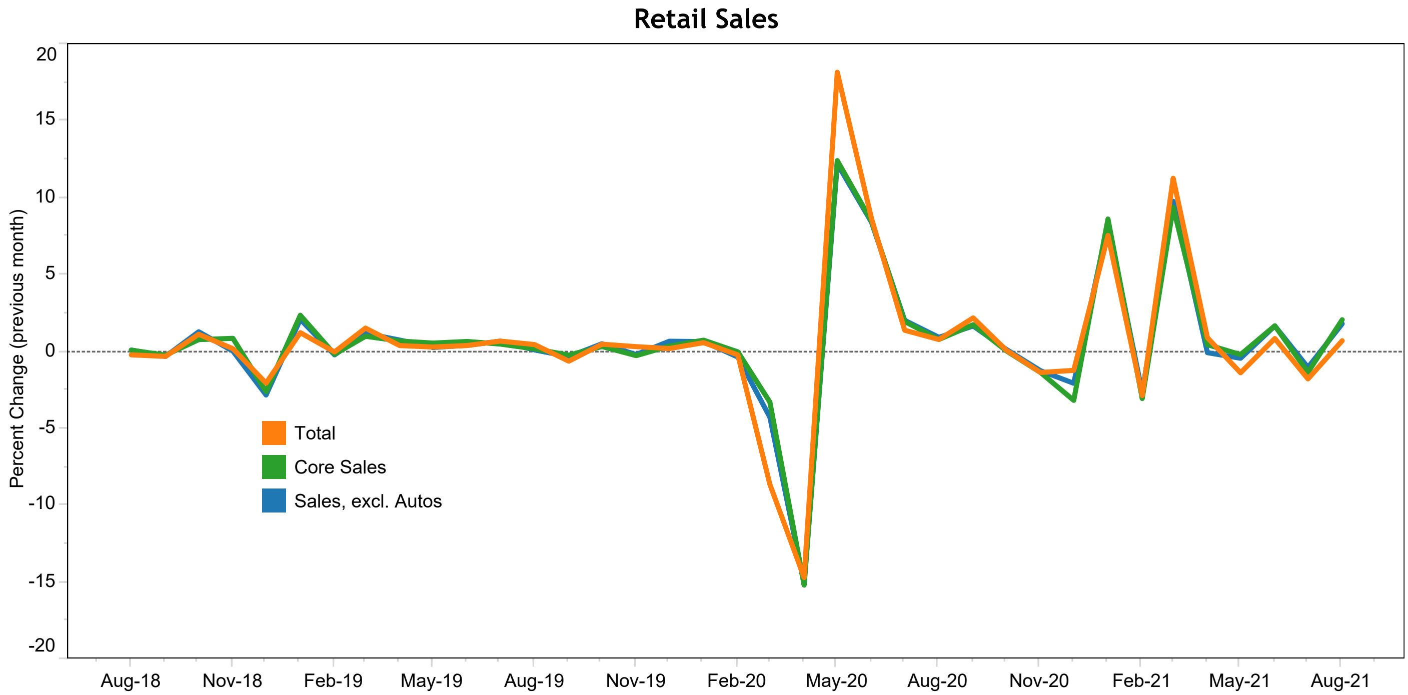


Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

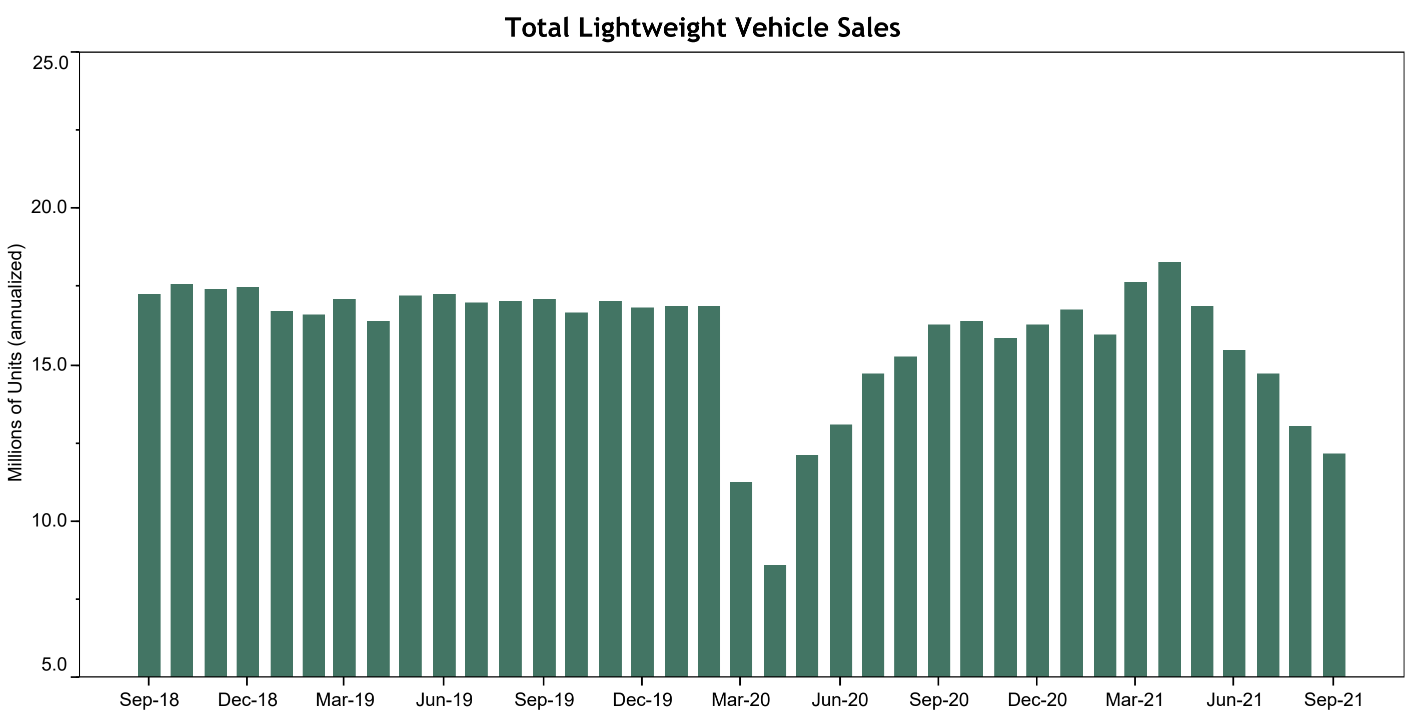
In August, personal income rose 0.2%, again led by wage and salary income growth of 0.5%. The gains follow July's increases—which were the largest since November 2020— when both measures increased 1.1%. Real disposable income fell 0.3% in August following a 0.7% increase in July. Real consumption rose 0.4% in August rebounding from July's downwardly revised decline of 0.5%.



Retail sales rebounded in August - perhaps boosted by back-to-school shopping - following drops in July that were revised further downward. While total sales were again restrained by a decline in vehicle sales, many retail sectors saw gains in August, led by home furnishings, general merchandise, and nonstore retailers. Both core sales and sales excluding autos climbed to record highs in August.



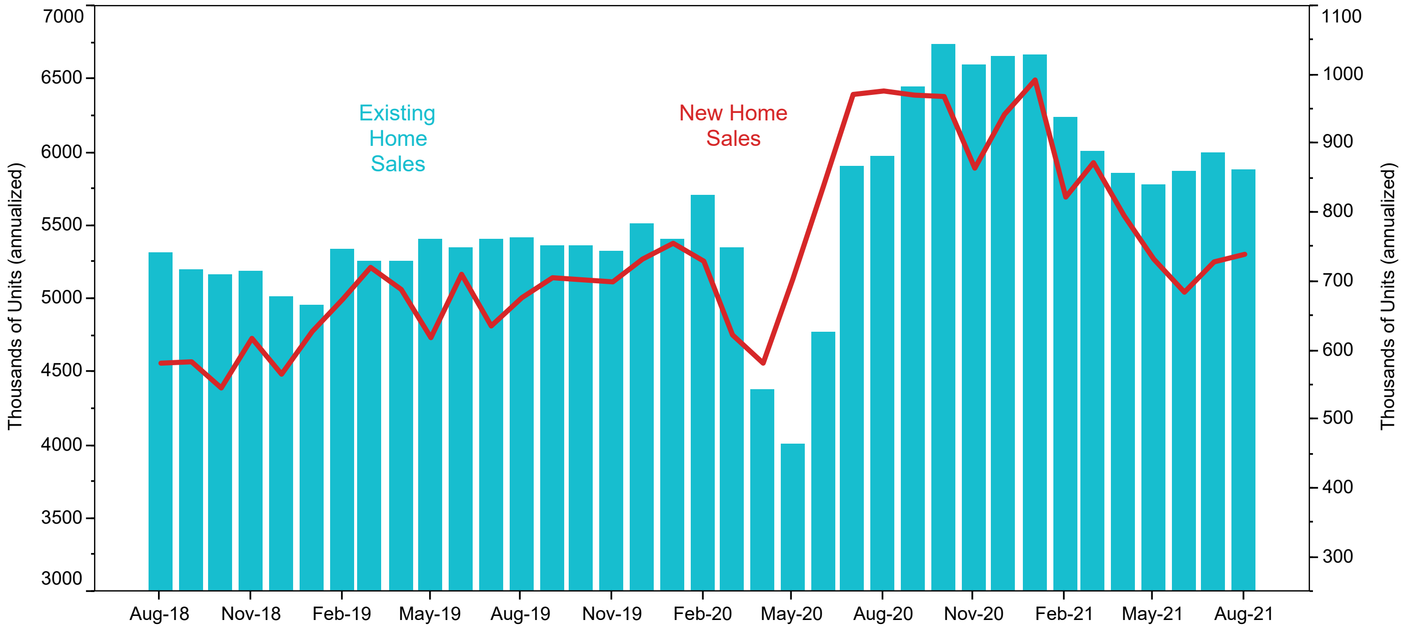
Sales of lightweight vehicles decelerated for the fifth consecutive month in September, falling to a 12.2 million-unit annual rate, down from the previous month's rate of 13.0 million (revised downward from 13.1). September's rate represents the slowest sales rate since May 2020 and, excluding the pandemic lows, the slowest rate since June 2011. Ongoing supply-chain issues and the resulting low inventory continue to weigh on the industry. Days' supply of new cars available for sale has fallen to less than half of pre-pandemic levels.



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales rose 1.5% to an annual rate of 740,000 units in August, following a July sales rate of 729,000 units which was revised up from 708,000. Sales in June, however, were revised down by a similar amount. Existing home sales fell 2.0% in August, registering an annual sales rate of 5.88 million units, following a small upward revision to July's estimate. Sales of new homes are hovering near levels seen prior to the pandemic while existing home sales remain moderately above their pre-pandemic levels.

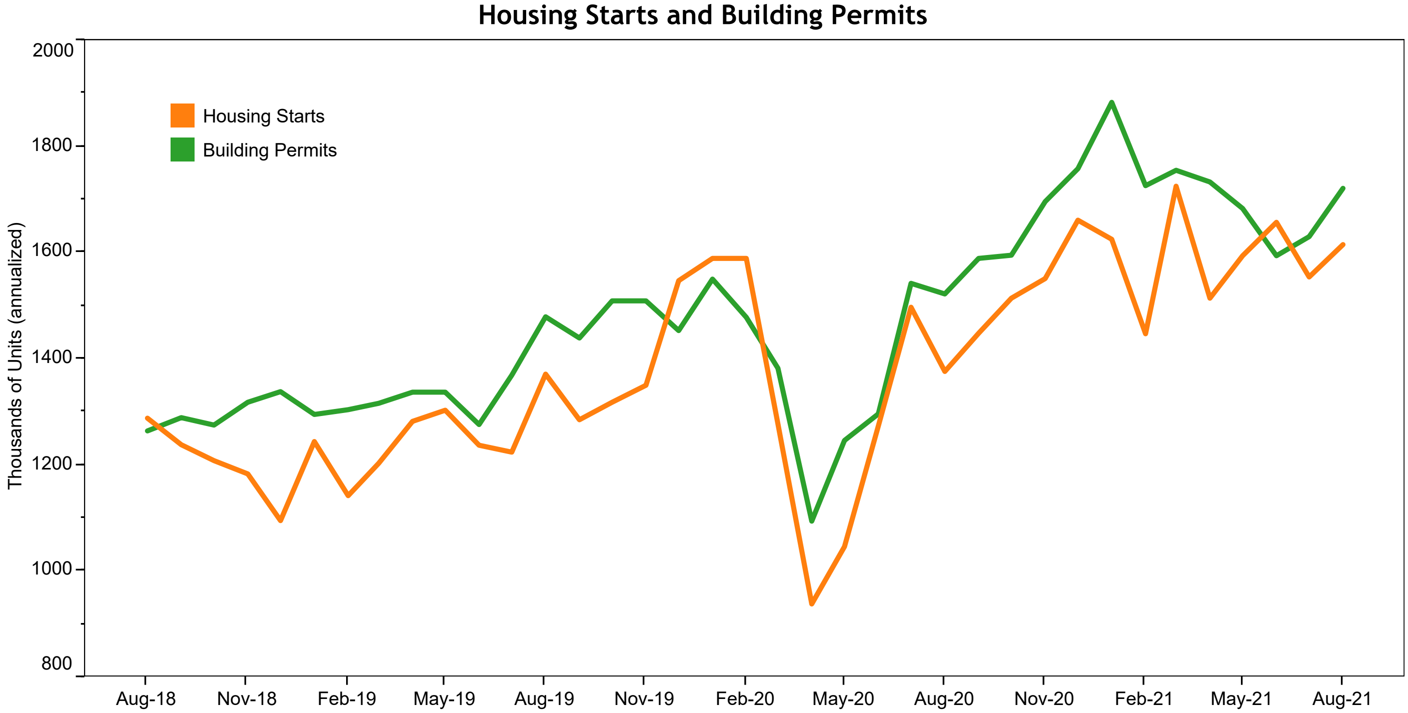
New and Existing Home Sales



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

Housing starts increased to a 1.62 million-unit annual rate in August, while June and July data were revised slightly upward. Multi-family starts posted a sizable gain in August—reaching their second-highest reading since 1987—and more than offsetting a decrease in the single-family sector. Housing permits also rose in August, reaching a 1.72 million-unit annual rate. Both single- and multi-family permits rose, but the multi-family sector drove the gains—rising to their highest monthly since June 2015.

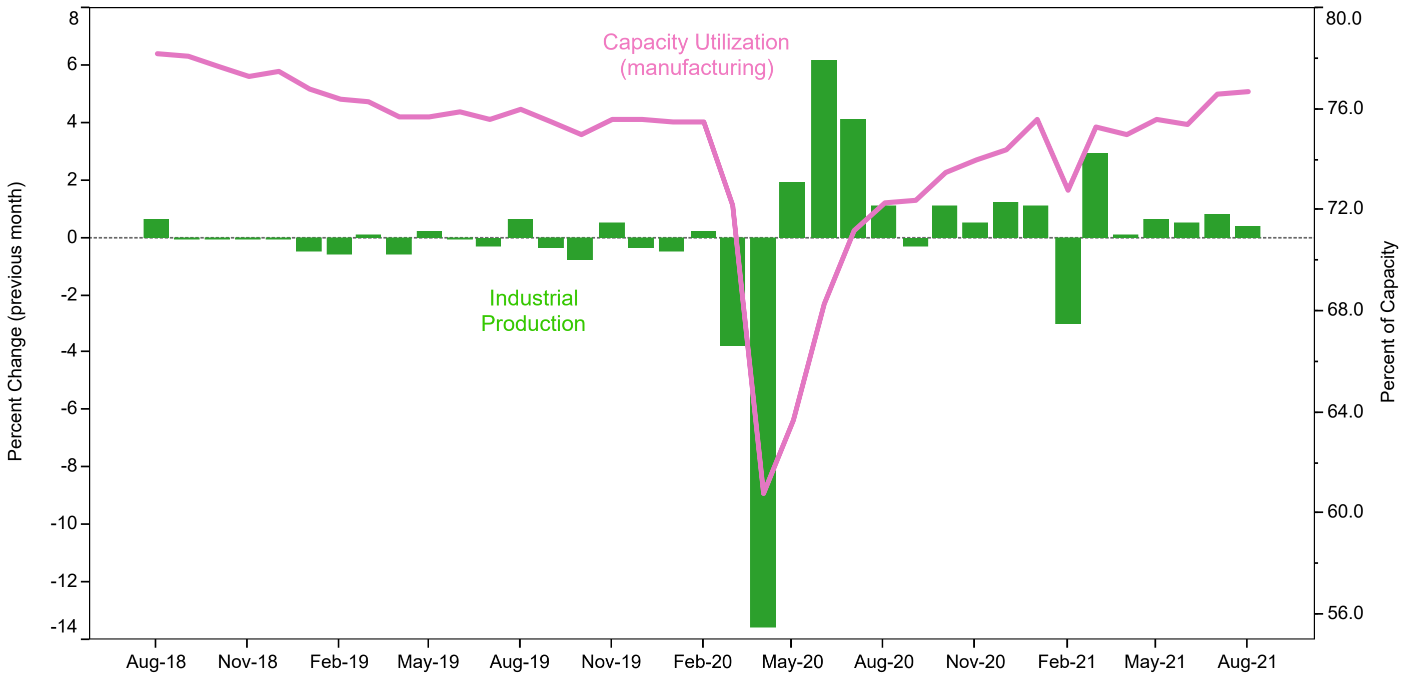
Housing Starts and Building Permits



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

Industrial production increased in August and surpassed its pre-pandemic level for the first time. The effects of Hurricane Ida held down the gain in industrial production by an estimated 0.3 percentage point, though total IP still grew 0.4%. August’s increase was led by utilities output—which posted a 3.3% gain—while manufacturing output increased 0.2%. Mining output fell 0.6%. Capacity utilization in manufacturing ticked up to 76.7% in August–the highest reading since January 2019.

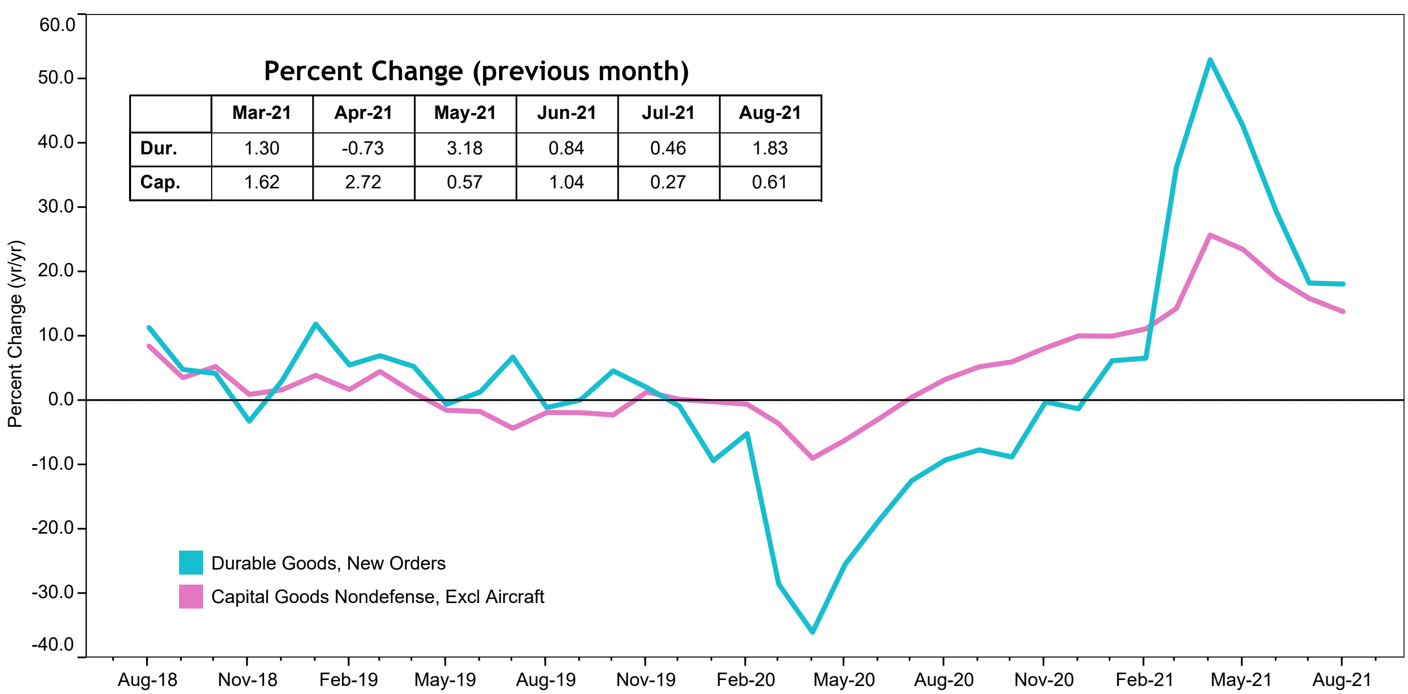
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose 1.8% in August following a 0.5% July increase. Orders of nondefense capital goods excluding aircraft rose 0.6% in August after a 0.3% increase in July. Due in part to pandemic-related distortions, the year-over-year growth measures for both series remained elevated despite slowing in every month since April 2021.

Durable Goods Orders

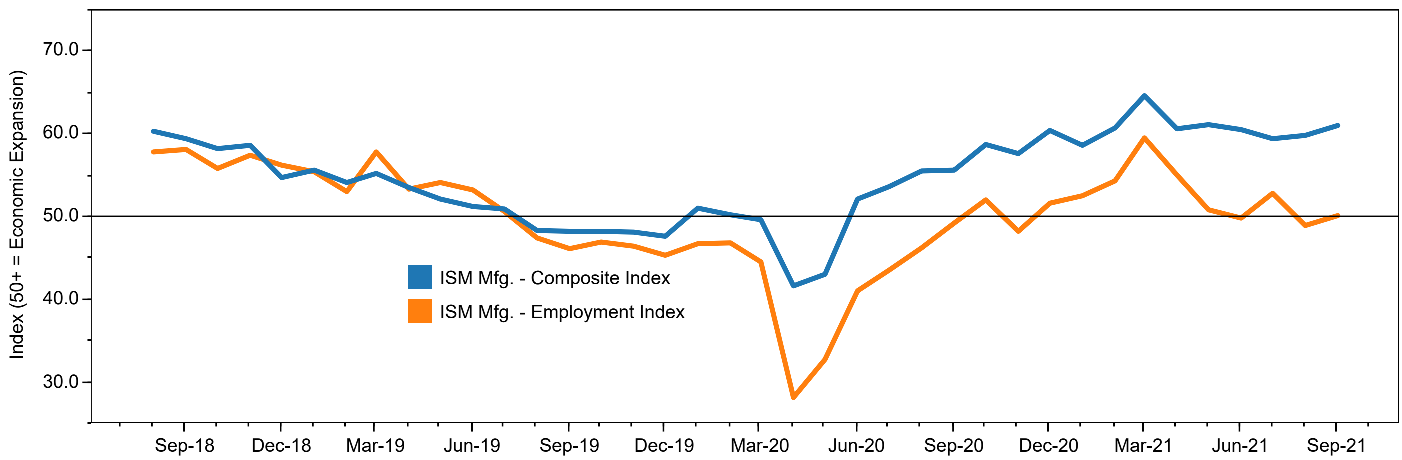


	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Dur.	1.30	-0.73	3.18	0.84	0.46	1.83
Cap.	1.62	2.72	0.57	1.04	0.27	0.61

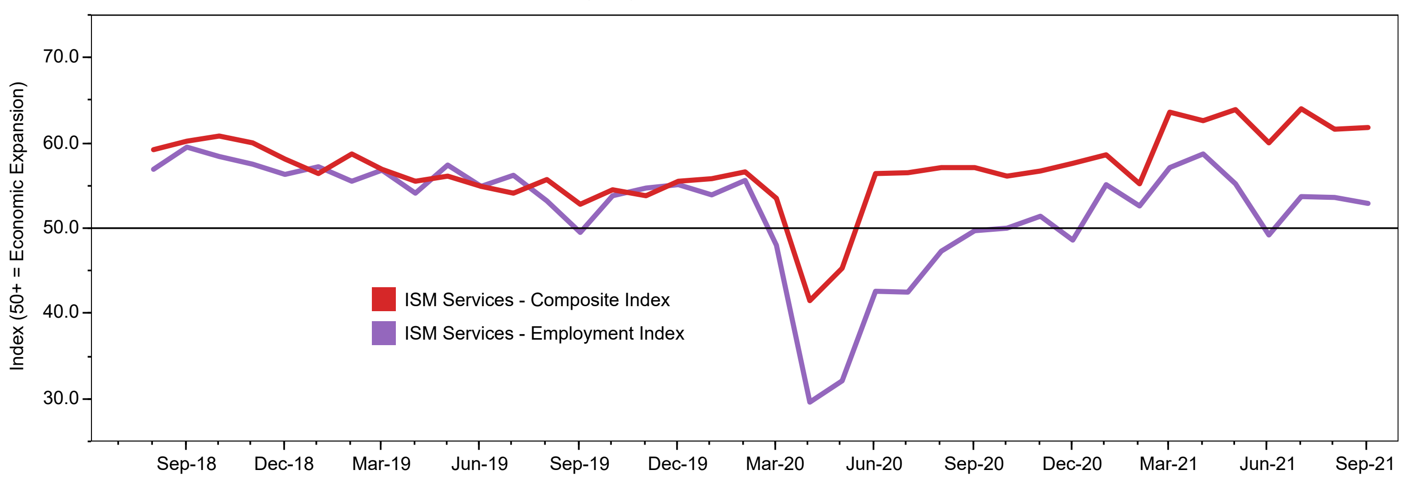
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index rose slightly to 61.1 in September from the August reading of 59.9. However, as factories experience supply-chain-related delays, the supplier delivery time component of the index increases. This is normally a sign of a healthy economy, but here it largely signifies another headwind for the sector. The employment component rose to 50.2, crossing into expansionary territory following the previous month's contraction. The ISM services index continued to signal expansion and ticked up two-tenths in September to 61.9 while the employment component ticked down seven-tenths to 53.0. Regional surveys from the Federal Reserve were mixed September – the Kansas City survey was the only one to decline – but all remained in expansionary territory.

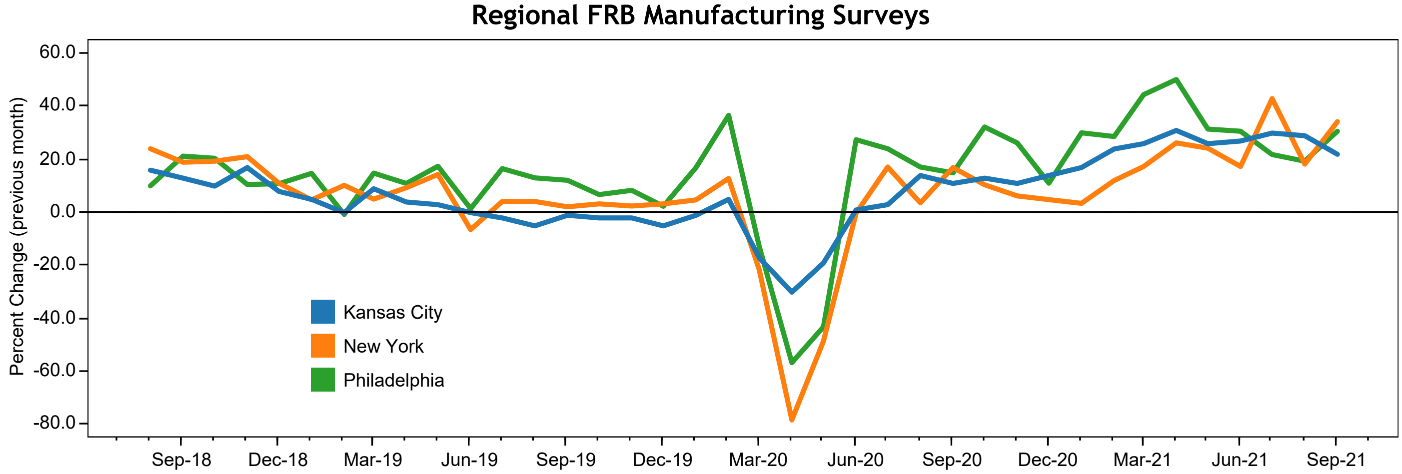
ISM Manufacturing Indices



ISM Services Indices

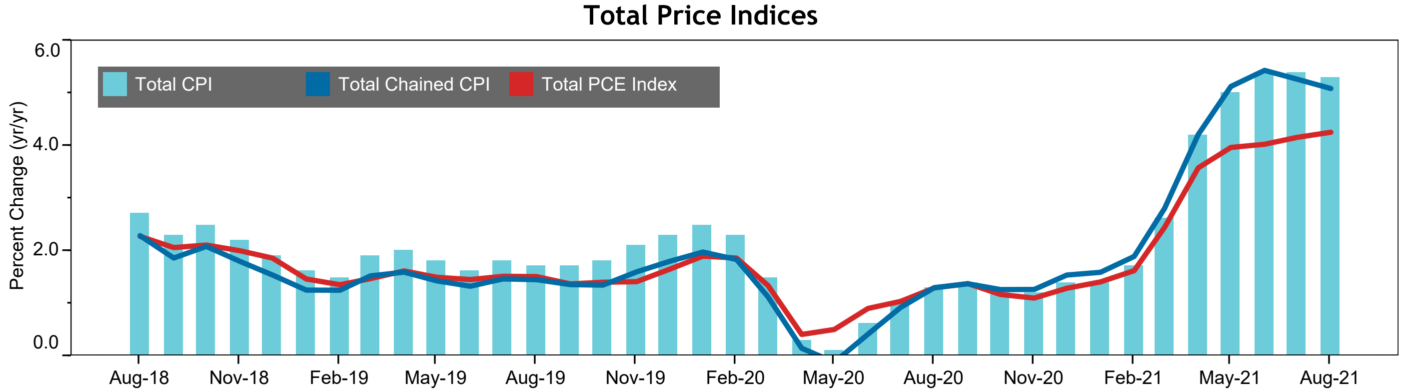


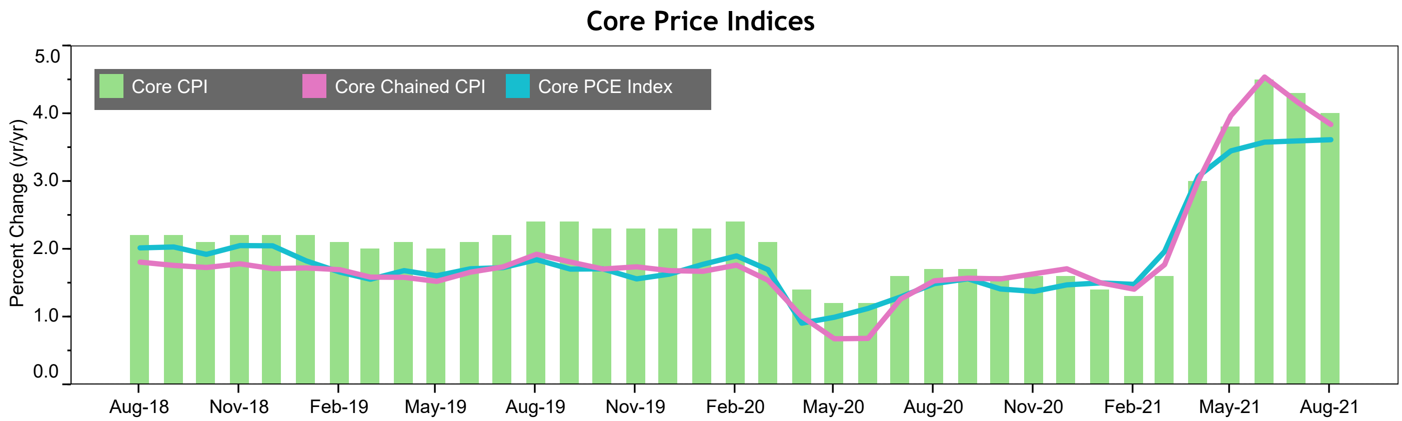
Regional FRB Manufacturing Surveys



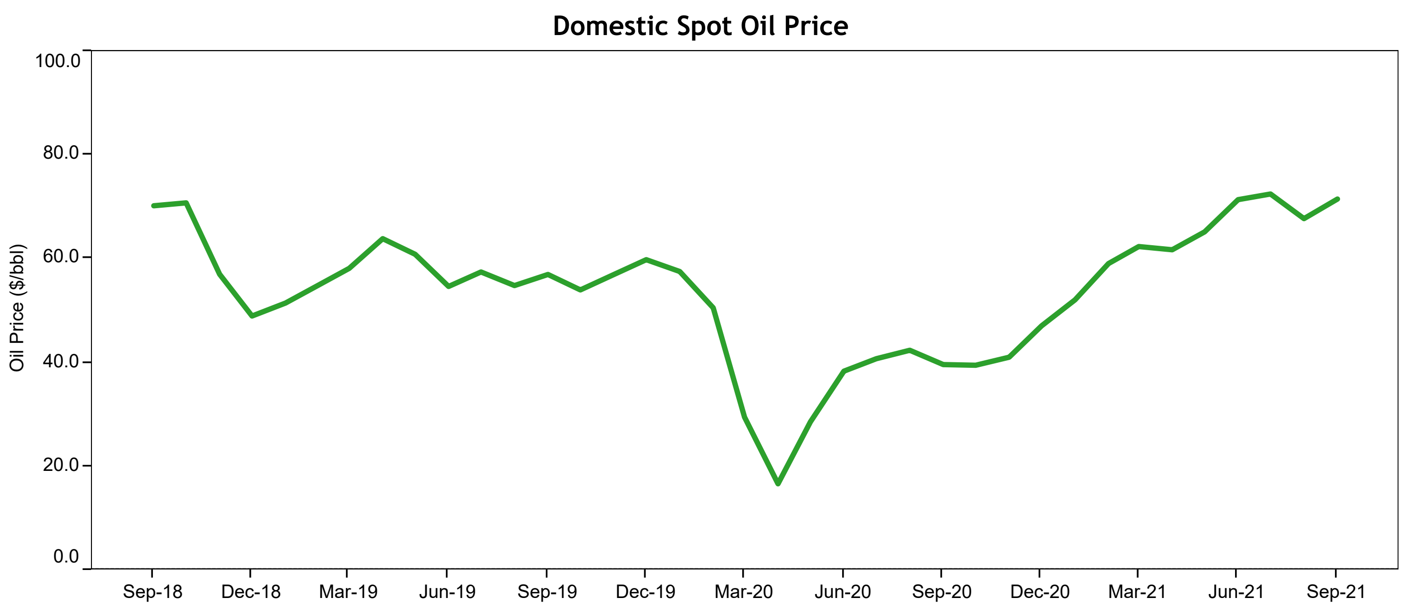
Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

On a monthly basis, consumer inflation as measured by the total CPI slowed to 0.3% in August - down from 0.5% in July and the slowest growth since January. The core CPI followed suit, increasing only 0.1% in August, the smallest increase since February. Total and core CPI also decelerated on a year-over-year basis, by one- and three-tenths, respectively. Inflation as measured by the PCE mostly held steady in August. Monthly growth in the total and core PCE were unchanged at 0.4% and 0.3%, respectively, and year-over-year growth in the core index held steady at 3.6%. Year-over-year growth in the total index edged up one-tenth to 4.3%.



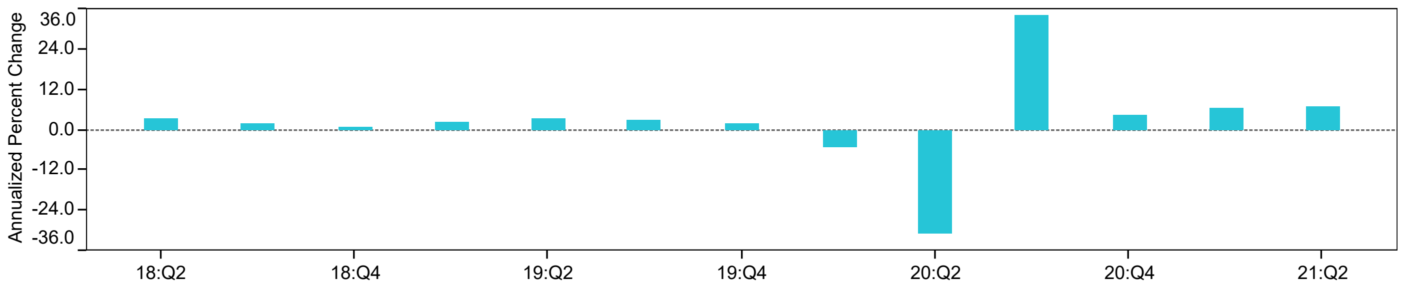


On average, oil prices rose to $71.50 per barrel in September up from $67.70 per barrel in August. Recent daily prices in October have continued to rise, closing at $77.62 per barrel on October 4th –the highest price in nearly seven years.



In the third estimate, second quarter real GDP growth was revised up slightly to 6.7% from the second estimate of 6.6%. Upward revisions to PCE, nonresidential fixed investment, exports and government spending were partially offset by downward revisions to private inventory investment, residential fixed investment, and an upward revision to imports.

Real GDP



Revisions to Q2 Real GDP

Description	Second Estimate	Third Estimate
Real GDP	6.6	6.7
Personal Consumption	11.9	12.0
Business Investment	9.3	9.2
Equipment and Software	11.6	12.1
Residential Investment	-11.5	-11.7
Government	-1.9	-2.0
Exports	6.6	7.6
Imports	6.7	7.1
Final Sales	7.9	8.1

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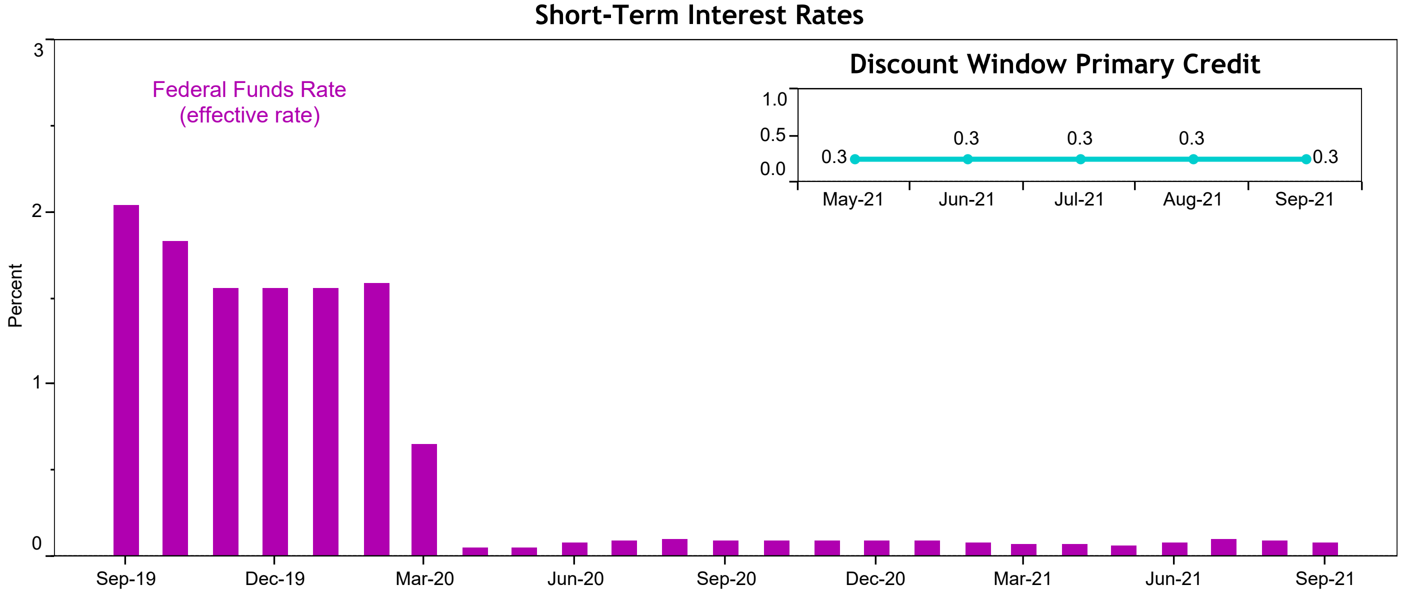
Short-Term Interest Rates



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