Economic Update
New Hampshire House and Senate Ways and Means Committees
January 12, 2023

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Today’s topics

- Introduction
- Why is inflation so high?
  - COVID restrictions resulted in supply chain bottlenecks
  - War in Ukraine led to surge in energy and commodity prices
  - Relaxation of COVID restrictions led to surge in demand for travel/transportation
  - Household savings surged during pandemic aided by federal stimulus
  - Home prices rose dramatically during the pandemic
  - Significant labor shortage across industries is leading to wage growth
- Federal Reserve Monetary Policy
- Outlook for U.S. Economy
- New England Economy
A little about myself…

- Senior Vice President, Strategic Planning and Research, Federal Home Loan Bank of Boston
- Ph.D. Economics, Harvard University
- Oversee strategic and business planning efforts, performance monitoring and forecasting, and research into economy and financial industry trends
- Frequent speaker about the economy and Federal Home Loan Bank of Boston
Congress passed legislation in 1932 that created the FHLBank System

2022 marked our 90th anniversary

Mission of FHLBank System is to provide reliable liquidity to member institutions to support housing finance and community development

Privately capitalized and receives no federal funding

Regulated by Federal Housing Finance Agency

Longest continuing FHLBank Boston member: Salem Co-Operative Bank in New Hampshire (joined on January 30, 1933)
New Hampshire Members of FHLBank Boston

American European Insurance Company
Bank of New England
Bank of New Hampshire
Bellwether Community Credit Union
Claremont Savings Bank
First Seacoast Bank
Franklin Savings Bank
Granite State Credit Union
Holy Rosary Credit Union
Mascoma Bank
Members First Credit Union of NH
MEMIC Casualty Company
MEMIC Indemnity Company
Meredith Village Savings Bank
Merrimack County Savings Bank
Millyard Bank
New Hampshire Federal Credit Union
Northeast Credit Union

Northway Bank
Peerless Insurance Company
Piscataqua Savings Bank
Primary Bank
Profile Bank
Safeco Insurance Company of America
Salem Co-Operative Bank
Savings Bank of Walpole
Service Credit Union
St. Mary’s Bank
Sugar River Bank
The Hanover Insurance Company
The Ohio Casualty Insurance Company
Triangle Credit Union
Woodsville Guaranty Savings Bank
Why is Inflation So High?
Record Number of Cargo Ships Off the California Coast Shows a Crack in the Supply Chain.


Container ship backlog in L.A. ports has eased

The Marine Exchange of Southern California implements a new system for queuing ships and calculating the backlog.

Note: Counts between Dec. 29, 2021, and Jan. 8, 2022, were recorded at 7 a.m. Pacific time. All subsequent counts occurred at noon Pacific time.

Chart: Dylan Miettinen • Source: Marine Exchange of Southern California • Get the data • Created with Datawrapper

Supply chain pressures are easing globally

Oct 2019 – Nov 2022

- Global Supply Chain Pressure Index (GSCPI) based on cross-border transportation costs and delivery time in manufacturing sector.
- High values indicate increasing supply chain pressures (i.e. higher costs and growing backlogs)
$5 Gas Is Here: AAA Says Nationwide Average Hits New High.

Associated Press, 6/11/2022

Gasoline prices decreased since June 2022 peak, lower compared to a year ago

Electricity prices peaked in Sep. 2022, declined in Oct. and Nov.

After rising sharply, food commodity prices stabilizing.
“Revenge Travel’ is Surging...”

NPR, 6/16/2022

After rising sharply in early 2022, airfares declining and lodging prices stable

Used car prices rose dramatically in 2021 and began declining in late 2022. New car prices increasing at a slower rate.

“Everyone’s Pandemic Savings Are Getting Smaller – How Will It Affect the Economy?”

Yahoo Finance, 12/26/2022

Excess savings have been exceptionally high during the pandemic

- Savings = Disposable Income – Consumption – Other Outlays
- Excess savings may help households get through difficult economic periods
- Also important because excess savings may be fueling high levels of spending for some households, contributing to high inflation
- Federal Reserve study estimates that during 2020 and 2021, households accumulated excess savings of $2.3 trillion due to:
  - Higher Disposable Income
    - Federal transfers from CARES and ARP acts, more than offsetting reductions in wage income
  - Lower Consumption
    - Sharp decline in services consumption, particularly leisure, hospitality, recreation, more than offsetting increase in goods consumption
  - Lower Other Outlays
    - Lower interest payments reflecting forbearance on student loans, lower interest rates, and lower household debt balances
Excess savings are decreasing, expected to provide less of a boost to consumption and inflationary pressures over time

- Currently households, in the aggregate, have a buffer of extra savings that are supporting consumption and ongoing recovery.
- Some economists estimate that excess savings are falling by $100 billion per month. If true, households will exhaust excess savings roughly by the end of 2023.


Americans Are Draining the Money They Saved During the Pandemic, VOX, 12/13/2022 (https://www.vox.com/policy-and-politics/2022/12/13/23500066/pandemic-savings-inflation-recession)
“Home Prices Fell in October for Fourth Straight Month.”

*Wall Street Journal, 12/27/2022*

Home prices rose dramatically in 2020 and 2021, are major contributors to overall inflation

Early signs that a cooling housing market will lead to moderation in inflationary pressures in 2023

- CPI Rent inflation, by design, tracks average rent expenditures across all tenants, not just those signing new leases. This means that CPI Rent necessarily lags indices of newly observed rent index.
- Federal Reserve, Bureau of Labor Economics, and Zillow economists estimate that CPI Rent lags indices of newly observed rent (such as Zillow Observed Rent Index) by about 12 months.
- The highest year-over-year increase in rent in the Zillow Observed Rent Index occurred in March 2022. Since then the rent index increase has slowed.
- With a 12-month lag, we should start seeing slowing of CPI Rent inflation in March 2023.
- Home prices are flat or falling in many markets across the U.S.
“Hiring, Wage Gains Eased in December, Pointing to a Cooling Labor Market in 2023.”

*Wall Street Journal, 1/6/2023*

Payroll growth continues to be very strong, though slowing

Nonfarm payrolls, monthly change

December: +223,000

‘2019 average. Note: Seasonally adjusted.
Source: Labor Department

Wage growth higher than pre-pandemic by 3 percentage points. Unclear if the rate of increase is moderating.
Ratio of job openings to unemployed persons is the highest it has ever been, raising concern about wage growth

<table>
<thead>
<tr>
<th></th>
<th>Jan 2020</th>
<th>Sep 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Openings (millions)</td>
<td>7.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Unemployed Persons (millions)</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Ratio of Job Openings / Unemployed</td>
<td>1.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

- Does the U.S. economy have a “structural labor shortage” problem?
- Economists point to a number of factors that may have permanently reduced available workers
  - Early retirement
  - COVID-related deaths
  - Reduced immigration
Recruiting efforts by companies continue to be very strong, though the number of new job postings is declining.

Unemployment rate is back at pre-pandemic lows

Federal Reserve Policy

▪ Current federal funds rate target range of 4.25% to 4.50%.
▪ Futures market projecting fed funds rate to reach 5.0% by June 2023 and begin to decline in the second half of the year.
▪ November 2022 12-month PCE inflation of 5.5%. Target inflation of 2.0%.
▪ Expects inflation to moderate significantly in 2023
▪ Ongoing concern that labor market remains extremely tight, and wage growth is well above what would be consistent with 2.0% inflation.
## U.S. Economic Outlook

<table>
<thead>
<tr>
<th></th>
<th>Source</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>FOMC SEP</td>
<td>0.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>FOMC SEP</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>PCE Inflation</td>
<td>FOMC SEP</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Core PCE Inflation</td>
<td>FOMC SEP</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Federal Funds Rate</td>
<td>FOMC SEP</td>
<td>5.1</td>
<td>4.1</td>
</tr>
<tr>
<td>30-Yr Fixed Mortgage Rate</td>
<td>Fannie Mae</td>
<td>6.3</td>
<td>5.6</td>
</tr>
<tr>
<td>YoY Change in Home Sales</td>
<td>Fannie Mae</td>
<td>-20.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Home Price Appreciation</td>
<td>Fannie Mae</td>
<td>-1.5</td>
<td>-1.4</td>
</tr>
</tbody>
</table>


Fannie Mae Housing Forecast: December 2022 ([https://www.fanniemae.com/media/45801/display](https://www.fanniemae.com/media/45801/display))
## New England Labor Force Participation and Unemployment

<table>
<thead>
<tr>
<th>State</th>
<th>Unemployment Rate, Nov-22</th>
<th>Labor Force Participation Rate, Nov-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3.6</td>
<td>62.3</td>
</tr>
<tr>
<td>Connecticut</td>
<td>4.2</td>
<td>62.2</td>
</tr>
<tr>
<td>Maine</td>
<td>3.7</td>
<td>58.0</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>3.4</td>
<td>65.3</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>2.6</td>
<td>65.8</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>3.6</td>
<td>63.8</td>
</tr>
<tr>
<td>Vermont</td>
<td>2.5</td>
<td>61.7</td>
</tr>
</tbody>
</table>
New Hampshire companies continuing recruiting effort at very strong pace

Indeed, Job Postings on Indeed in New Hampshire [IHLCHGUSNH], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/IHLCHGUSNH, January 9, 2023.
Questions?
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