

Economic Update

New Hampshire House and Senate Ways and Means Committees

January 12, 2023



Jason Hwang
SVP, Strategic Planning and Research

Disclaimer

The data, material, and information provided in this presentation (“Content”) does not, and is not intended to, constitute legal, accounting, consulting, or other professional advice. The Content is for general informational purposes only, may not constitute the most up-to-date legal, accounting, or other information, and may become stale. Some Content is unaudited. Content identified herein with a third-party source is provided without any independent verification by the Bank, the Bank does not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content, the Bank’s use of such third-party Content does not represent an endorsement or promotion of any kind from that third party, and the Bank expressly disclaims any responsibility for providing any additional information that might be necessary to make the Content not misleading. Accordingly, you are cautioned against placing any undue reliance on the Content. You should consult with your accountants, counsel, financial representatives, consultants, or other advisors regarding the extent the Content may be useful to you and with respect to any legal, tax, business or financial matters. In no event shall the Bank be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. Reproduction of any Content, in any form, is prohibited except with the Bank’s prior written consent.

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?



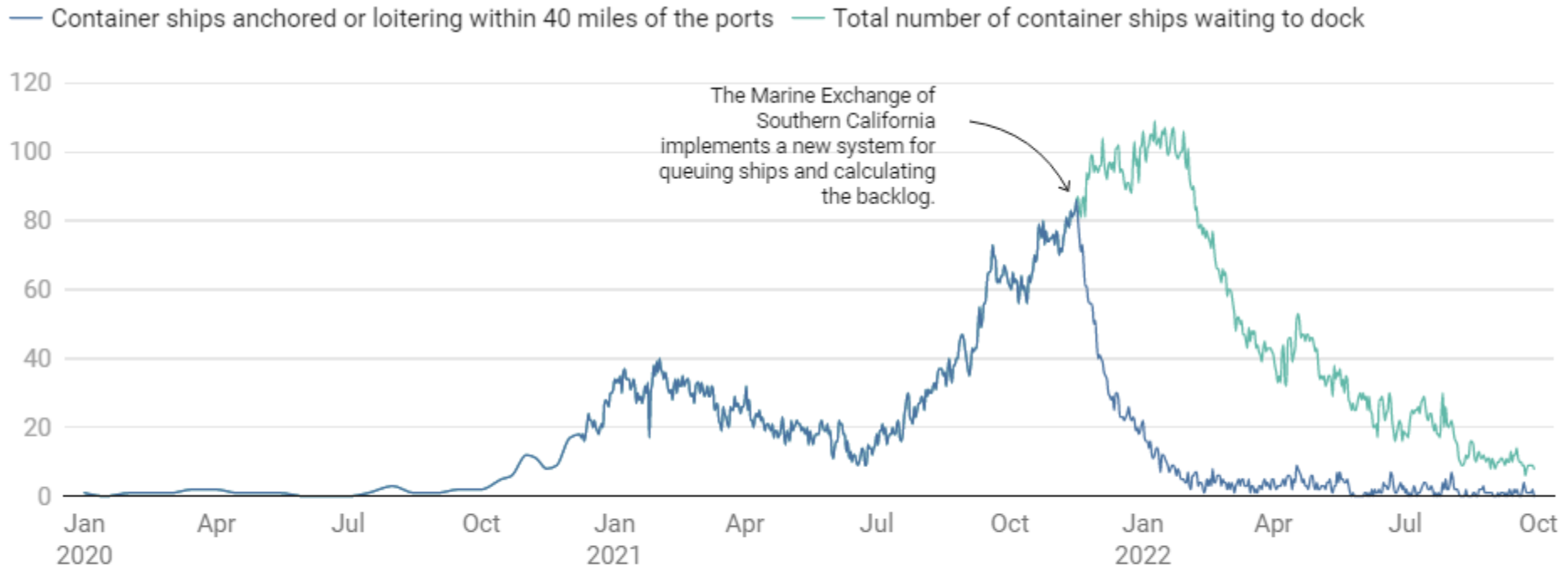


Record Number of Cargo Ships Off the California Coast Shows a Crack in the Supply Chain.

New York Times, 9/23/2021

Source: New York Times, 9/23/2021 (<https://www.nytimes.com/2021/09/23/business/cargo-ships-supply-chain.html>)

Container ship backlog in L.A. ports has eased



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](#)

Source: marketplace.org, 9/29/2022 (<https://www.marketplace.org/2022/09/29/ship-backlog-at-southern-californias-ports-eases/>)

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)

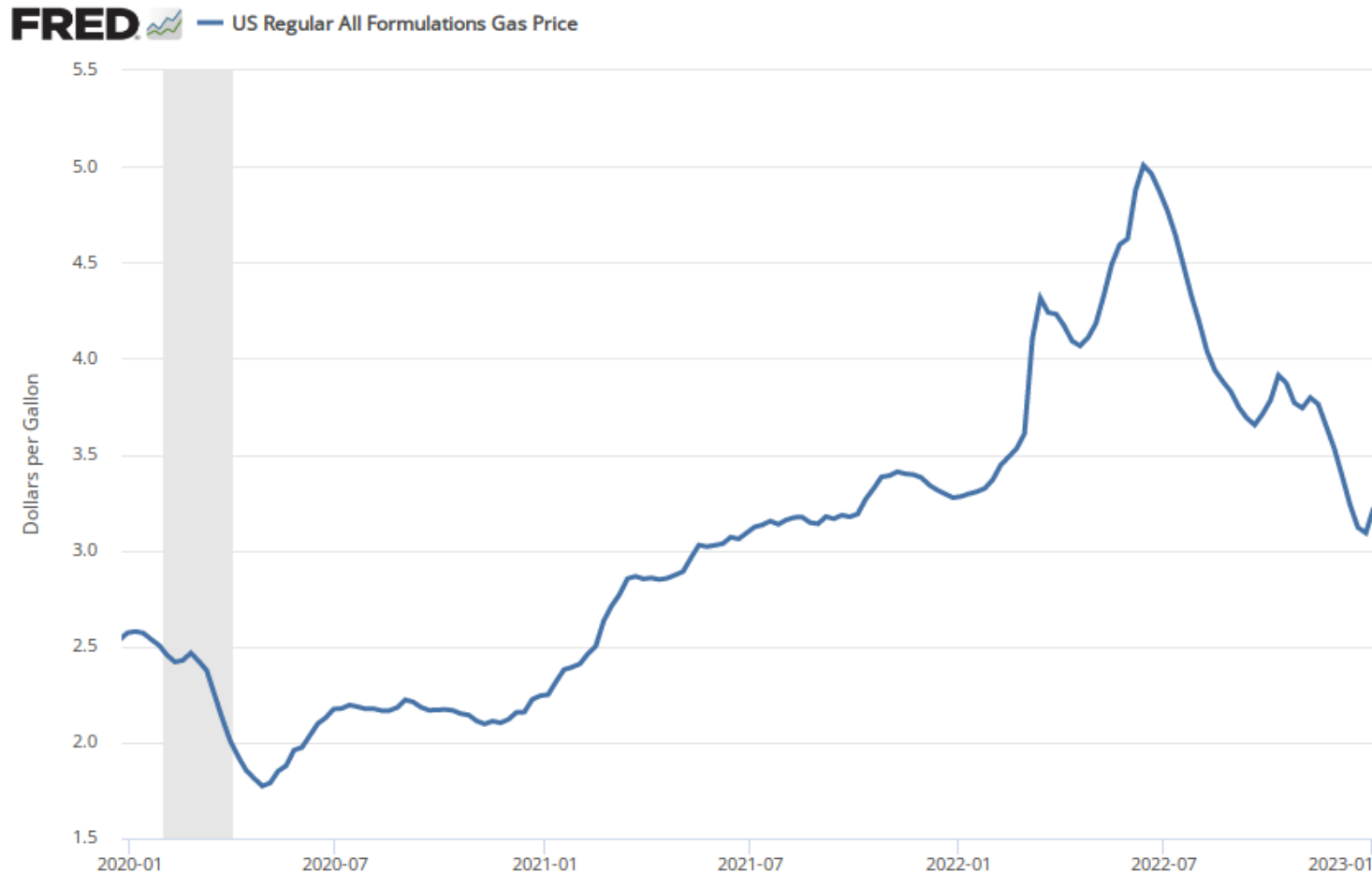


\$5 Gas Is Here: AAA Says Nationwide Average Hits New High.

Associated Press, 6/11/2022

Source: apnews.com, 6/11/2022 (<https://apnews.com/article/united-states-business-fdcf2e9fbb835cd9bc3886b8dc4a7bc0>)

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

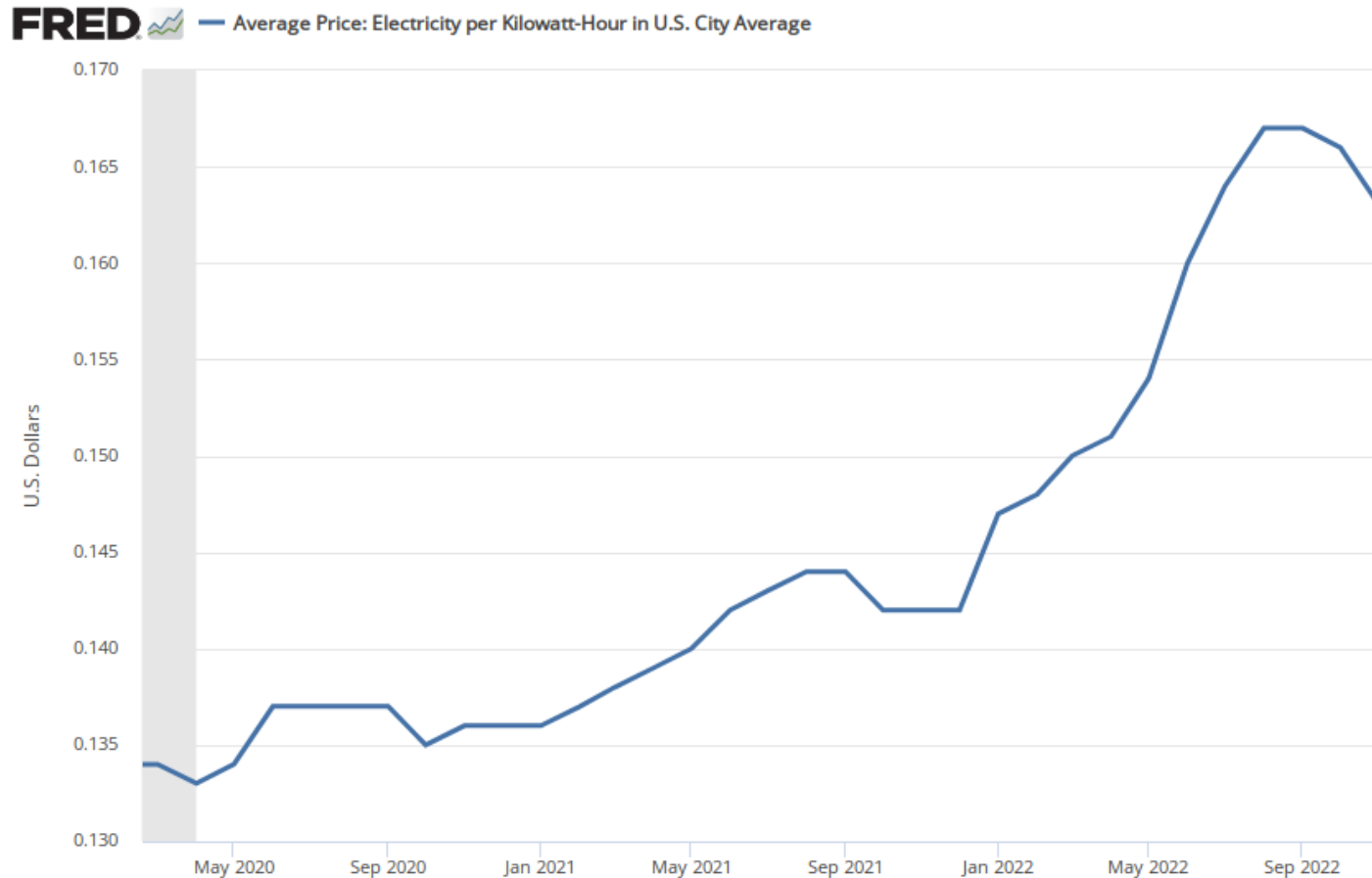


Source: U.S. Energy Information Administration

myf.red/g/Yrjq

U.S. Energy Information Administration, US Regular All Formulations Gas Price [GASREGW], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GASREGW>, January 9, 2023.

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

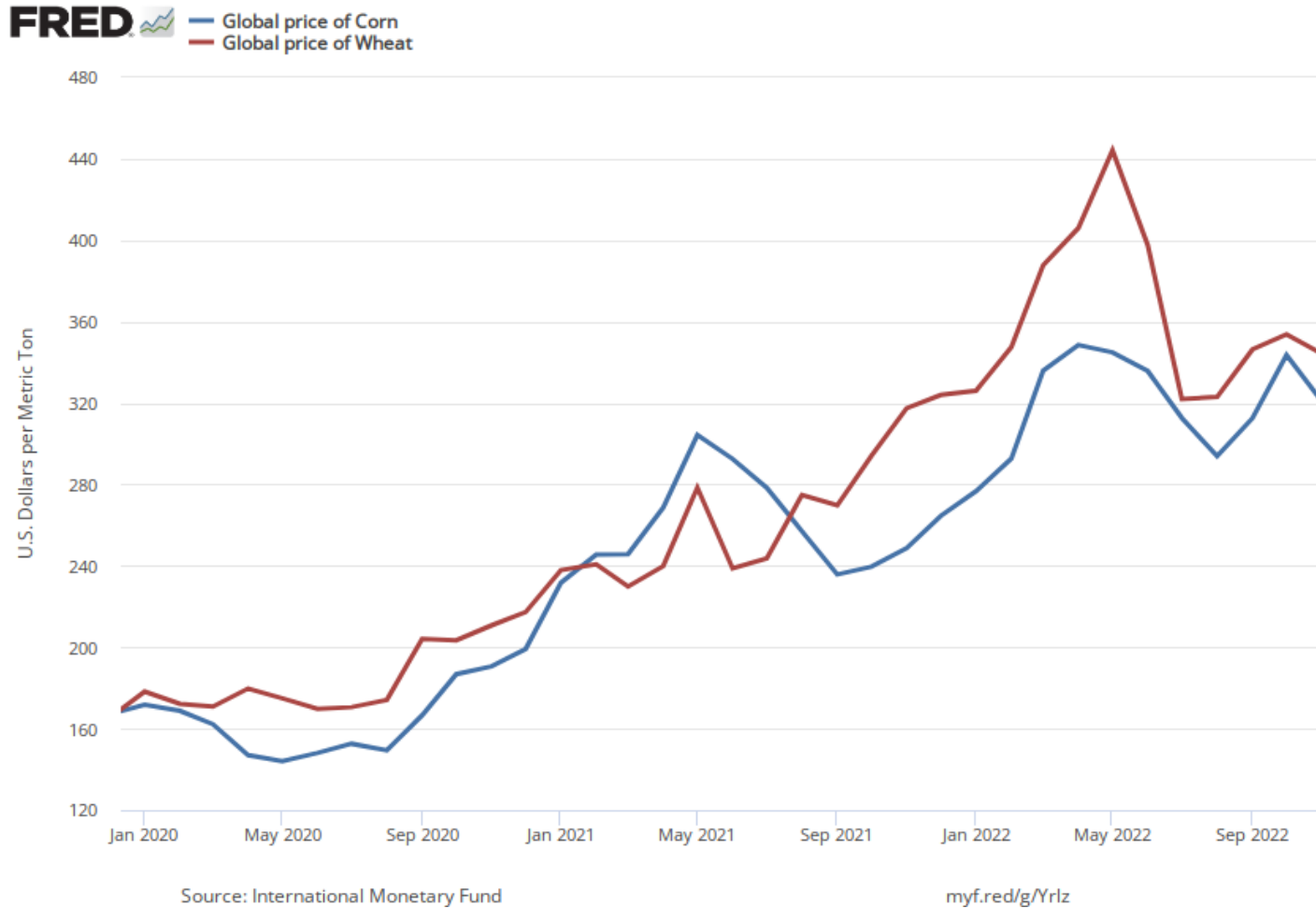


Source: U.S. Bureau of Labor Statistics

myf.red/g/Yrk7

U.S. Bureau of Labor Statistics, Average Price: Electricity per Kilowatt-Hour in U.S. City Average [APU000072610], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/APU000072610>, January 9, 2023.

After rising sharply, food commodity prices stabilizing



International Monetary Fund, Global price of Wheat [PWHEAMTUSDM], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PWHEAMTUSDM>, January 9, 2023.

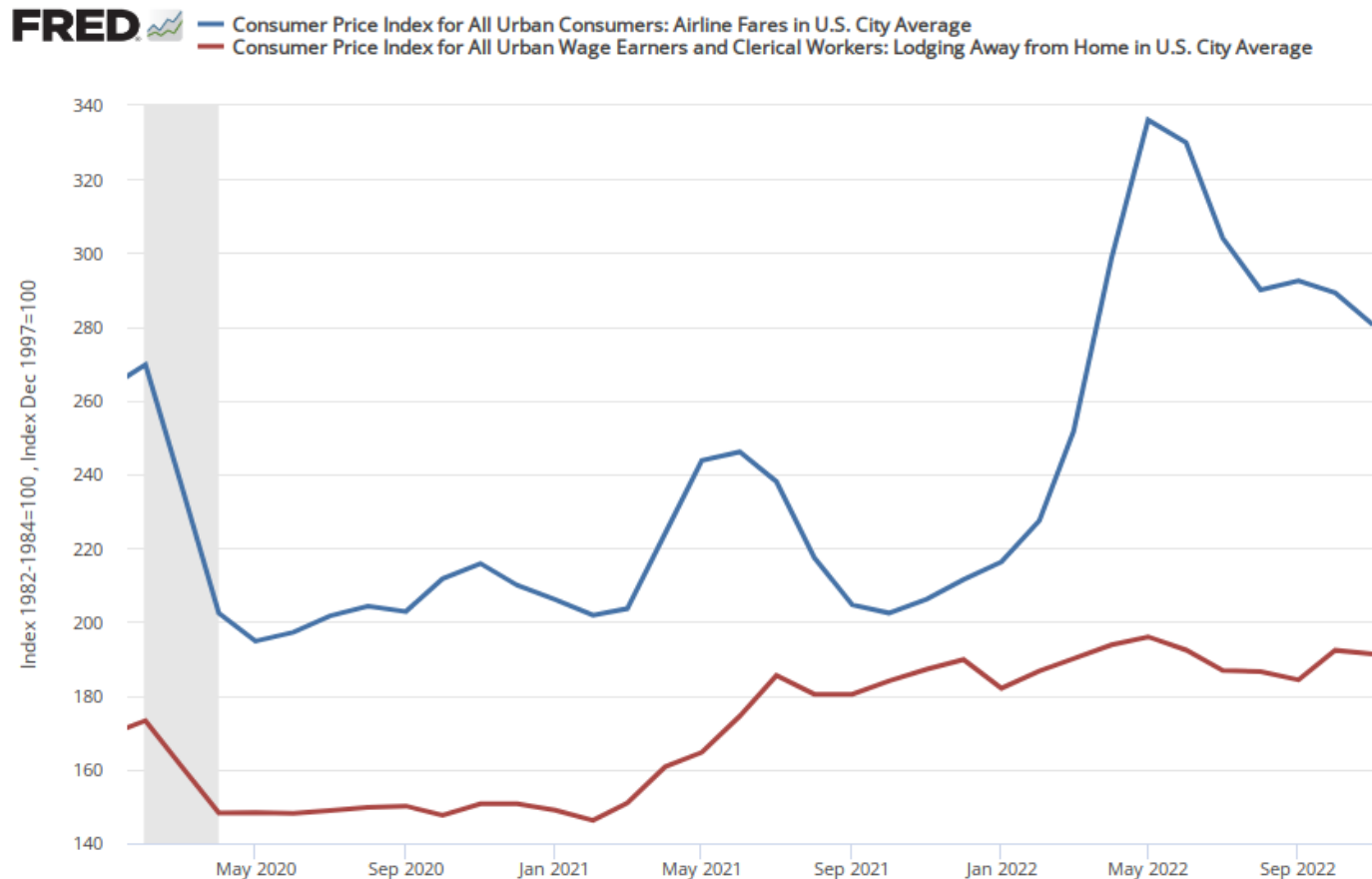


“Revenge Travel’ is Surging...”

NPR, 6/16/2022

Source: npr.org, 6/16/2022 (<https://www.npr.org/2022/06/16/1105323610/flight-tickets-inflation-pandemic-revenge-travel-vacation-europe-recession>)

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

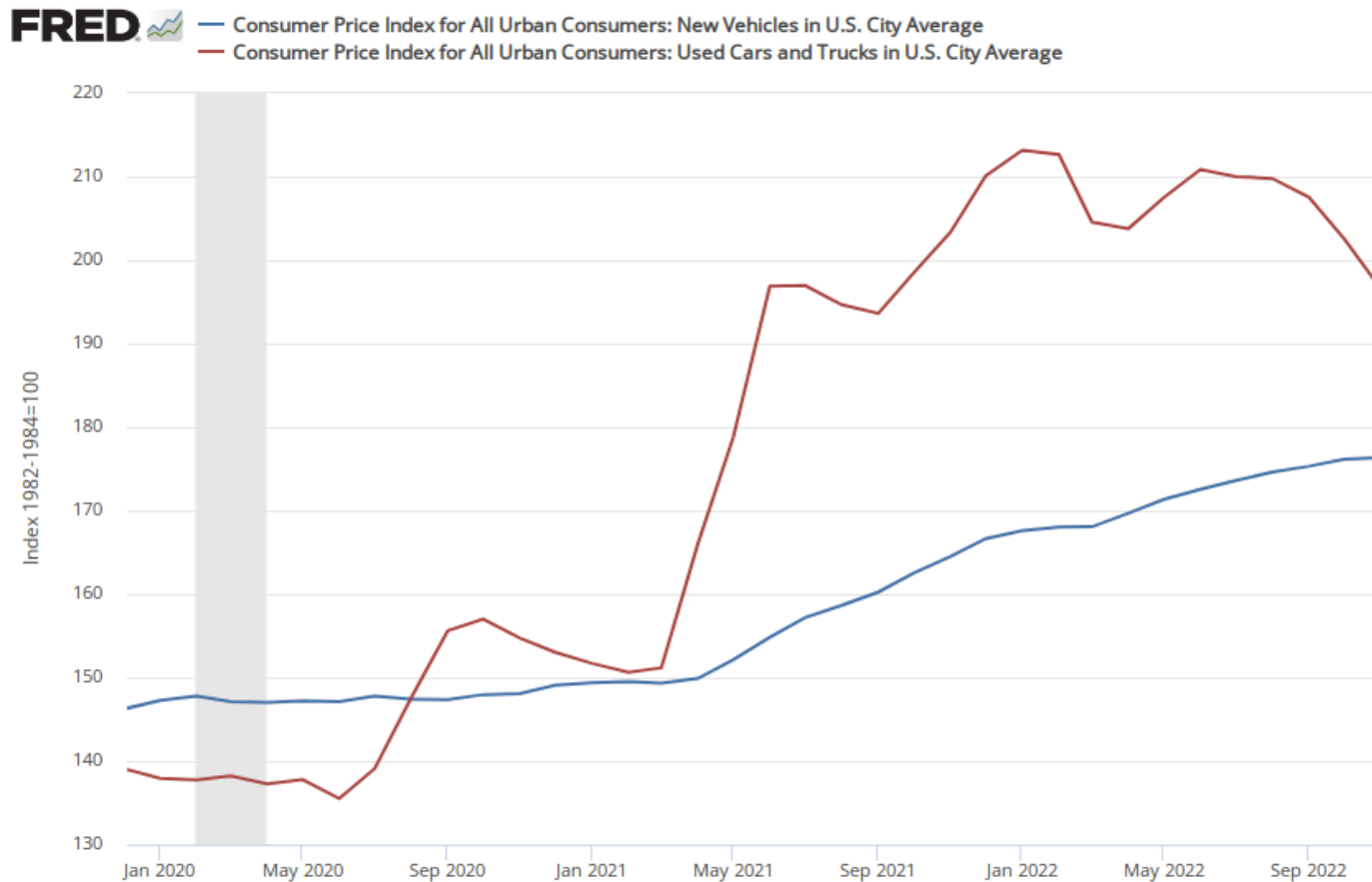


Source: U.S. Bureau of Labor Statistics

myf.red/g/Yrmj

U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Wage Earners and Clerical Workers: Lodging Away from Home in U.S. City Average [CWSR0000SEHB], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CWSR0000SEHB>, January 9, 2023.

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



Source: U.S. Bureau of Labor Statistics

myf.red/g/YyzS

U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average [CUSR0000SETA02], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUSR0000SETA02>, January 9, 2023.



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

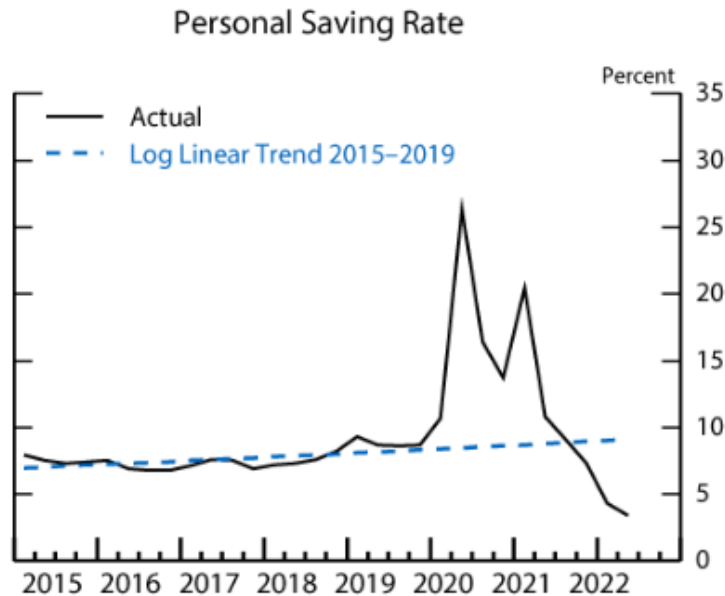
Yahoo Finance, 12/26/2022

Source: finance.yahoo.com, 12/126/2022 (<https://finance.yahoo.com/news/everyone-pandemic-savings-getting-smaller-123132088.html>)

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.

Source: Excess Savings during the COVID-19 Pandemic, FEDS Notes, 10/21/2022 (<https://www.federalreserve.gov/econres/notes/feds-notes/excess-savings-during-the-covid-19-pandemic-20221021.html>)

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>)




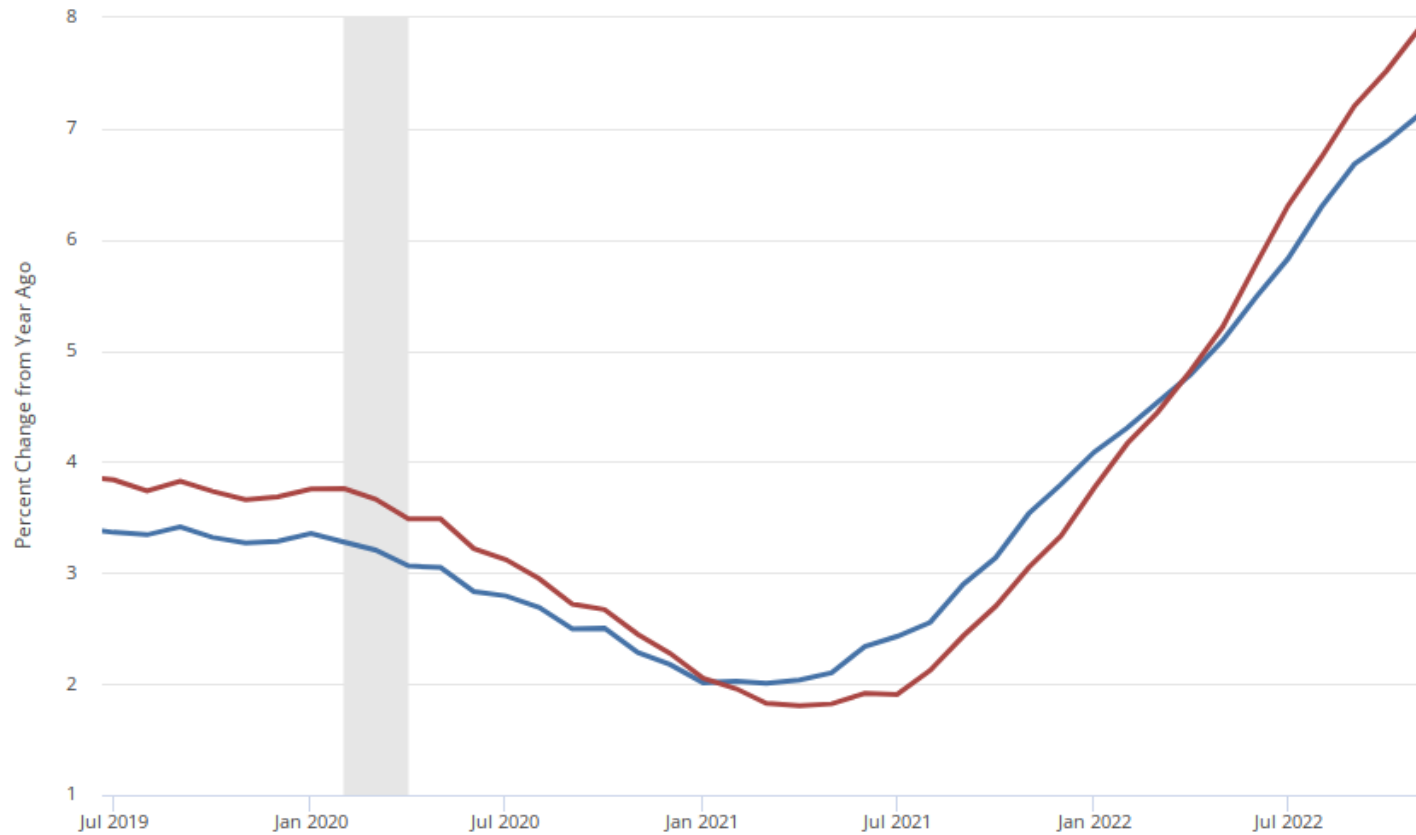
**“Home Prices Fell in October
for Fourth Straight Month.”**

Wall Street Journal, 12/27/2022

Source: Wall Street Journal, 12/27/2022 (<https://www.wsj.com/articles/home-prices-fell-in-october-for-fourth-straight-month-11672150911>)

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

FRED  — Consumer Price Index for All Urban Consumers: Owners' Equivalent Rent of Residences in U.S. City Average
 — Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average



Source: U.S. Bureau of Labor Statistics

myf.red/g/YyCQ

U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average [CUUR0000SEHA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUUR0000SEHA>, January 9, 2023.

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.

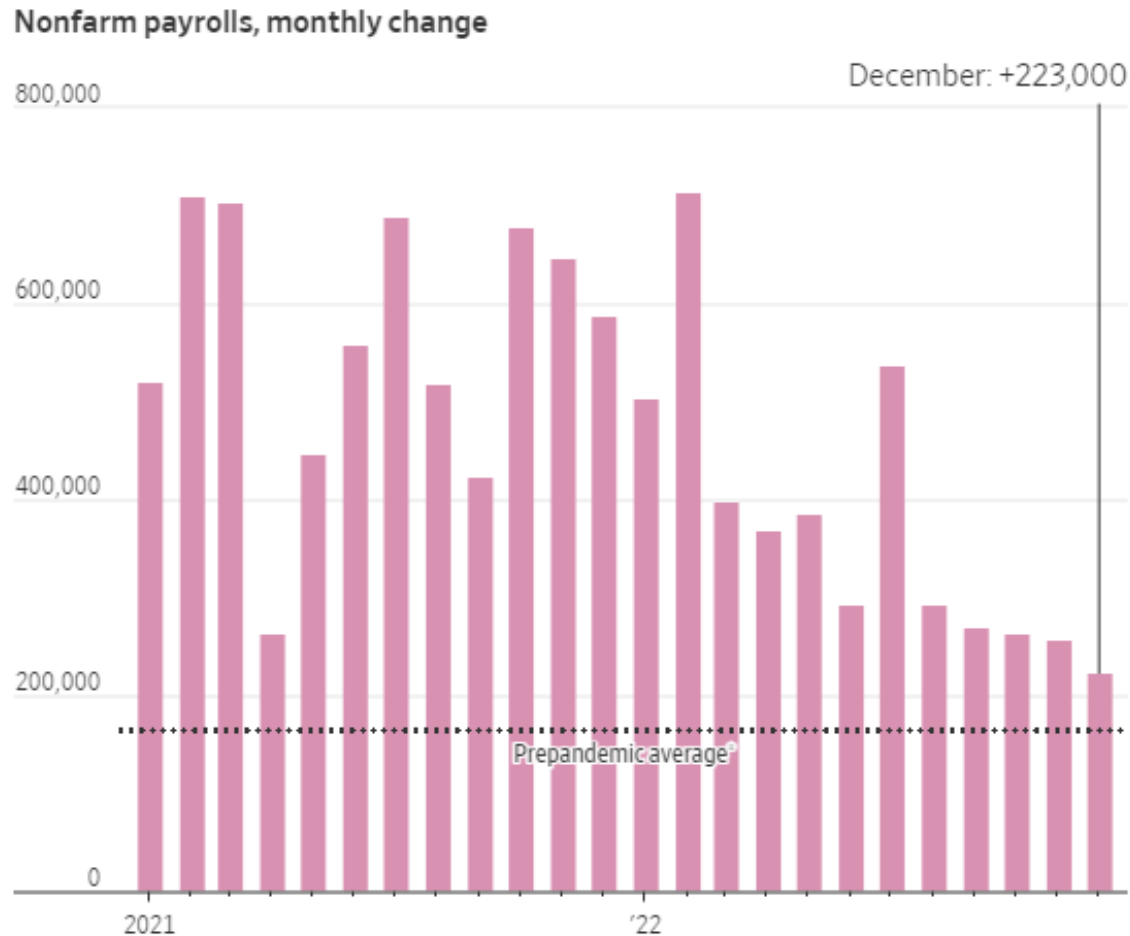


“Hiring, Wage Gains Eased in December, Pointing to a Cooling Labor Market in 2023.”

Wall Street Journal, 1/6/2023

Source: Wall Street Journal, 1/6/2023 (<https://www.wsj.com/articles/december-jobs-report-unemployment-rate-economy-growth-2022-11672961227>)

Payroll growth continues to be very strong, though slowing



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

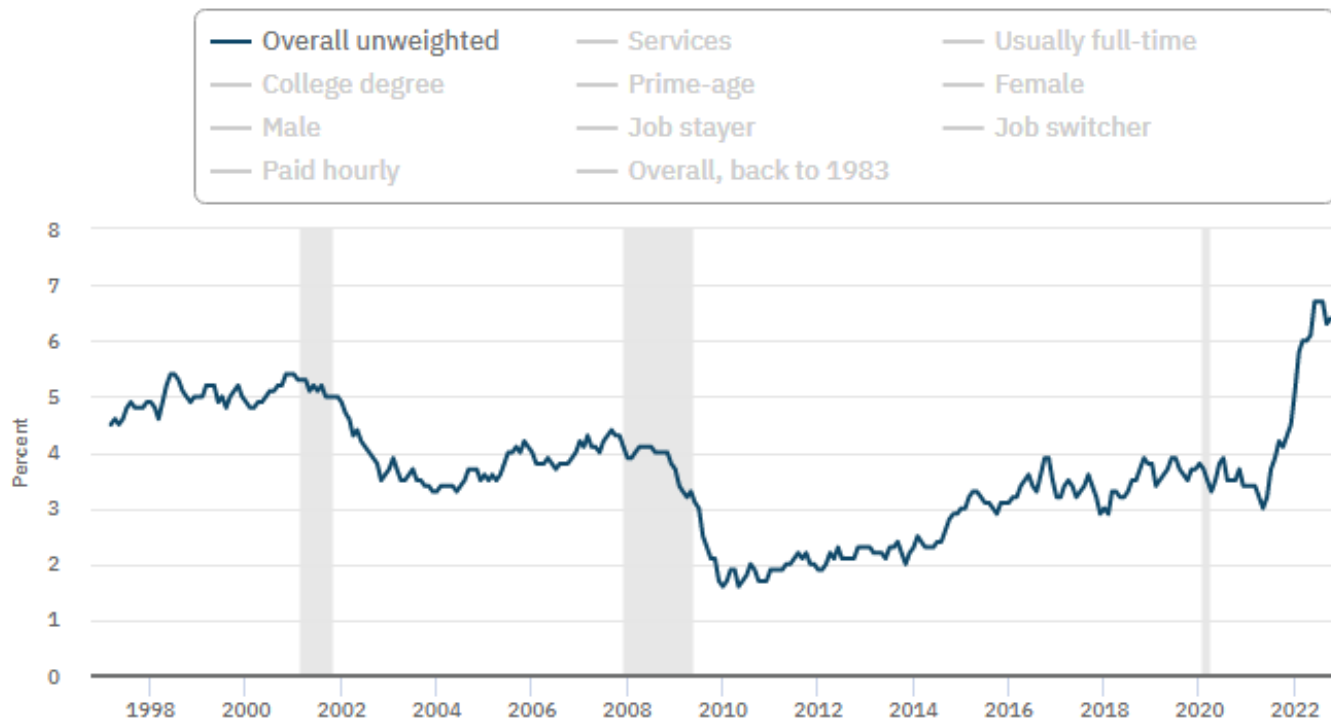
Wall Street Journal, 1/6/2023 (<https://www.wsj.com/articles/december-jobs-report-unemployment-rate-economy-growth-2022-11672961227>)

Wage growth higher than pre-pandemic by 3 percentage points. Unclear if the rate of increase is moderating.

Wage Growth Tracker

Export

three-month moving average of median wage growth, hourly data



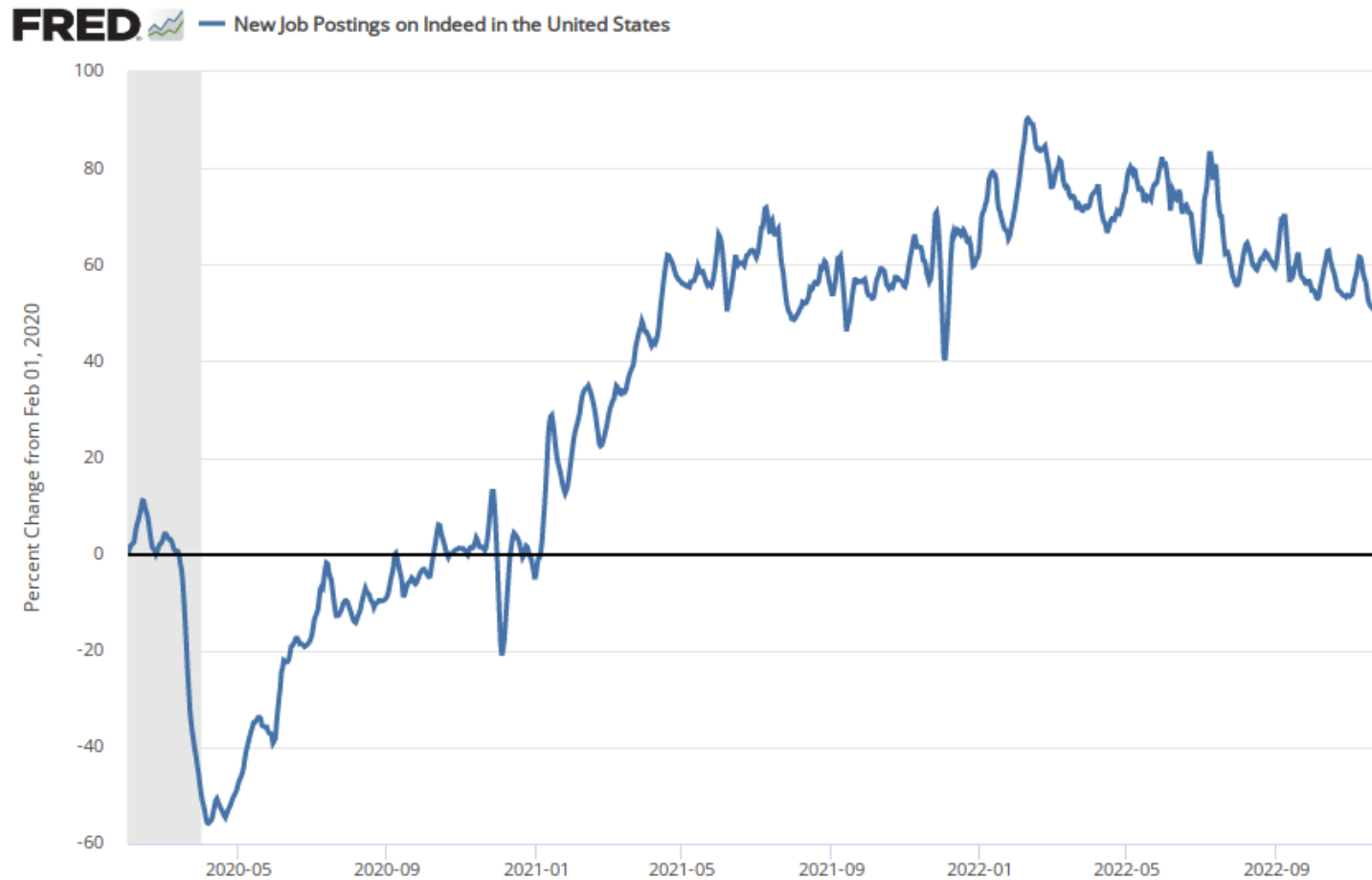
Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

Ratio of job openings to unemployed persons is the highest it has ever been, raising concern about wage growth

	Jan 2020	Sep 2022
Job Openings (millions)	7.2	10.7
Unemployed Persons (millions)	5.8	5.8
Ratio of Job Openings / Unemployed	1.2	1.8

- 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



Source: Indeed

myf.red/g/YyIW

Indeed, New Job Postings on Indeed in the United States [IHLCHGNEWUS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/IHLCHGNEWUS>, January 9, 2023.

Unemployment rate is back at pre-pandemic lows



Source: U.S. Bureau of Labor Statistics

myf.red/g/Yyjh

U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATE>, January 9, 2023.

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

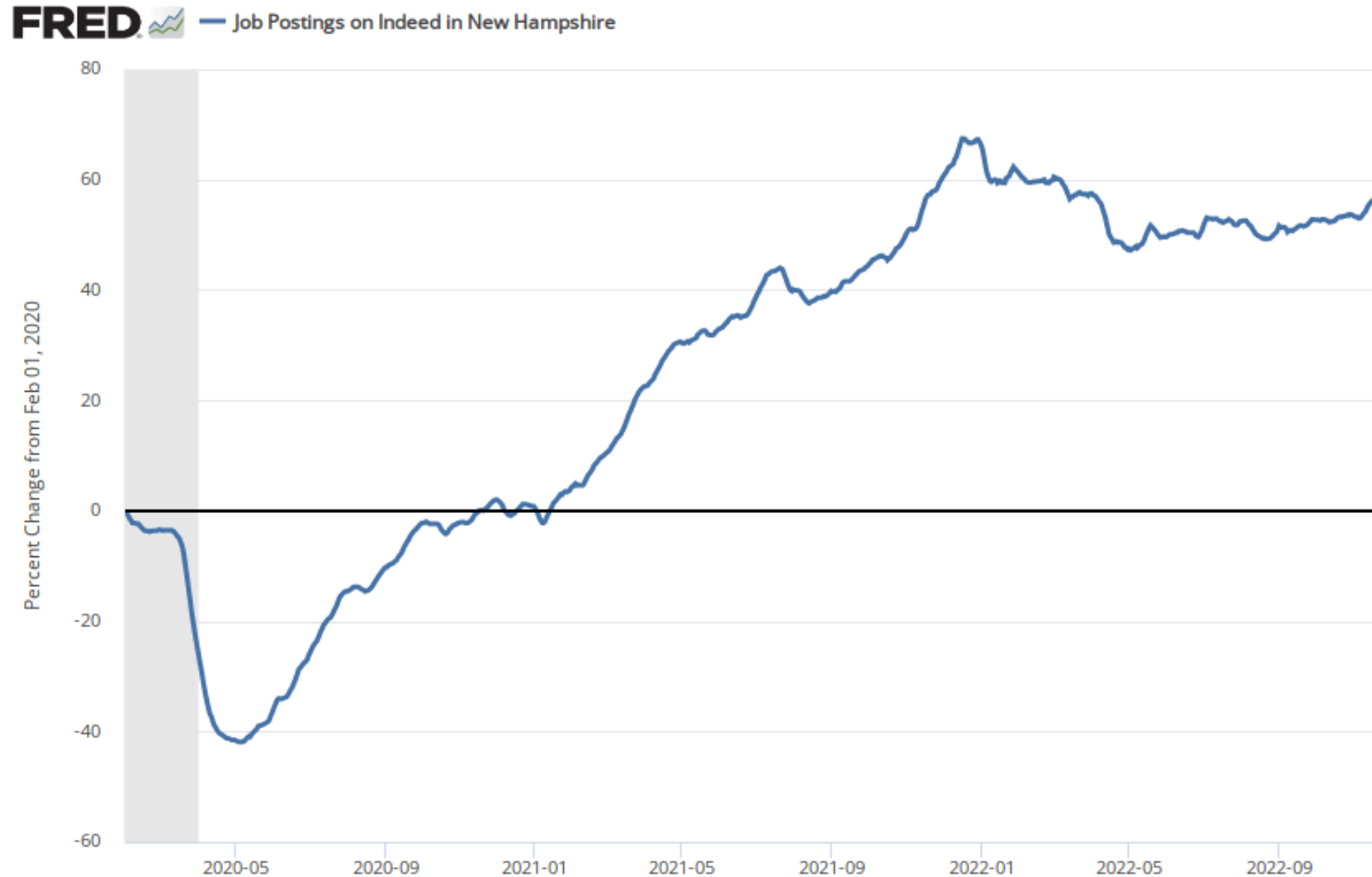
	Source	2023	2024
Real GDP growth	FOMC SEP	0.5	1.6
Unemployment Rate	FOMC SEP	4.6	4.6
PCE Inflation	FOMC SEP	3.1	2.5
Core PCE Inflation	FOMC SEP	3.5	2.5
Federal Funds Rate	FOMC SEP	5.1	4.1
30-Yr Fixed Mortgage Rate	Fannie Mae	6.3	5.6
YoY Change in Home Sales	Fannie Mae	-20.2	14.7
Home Price Appreciation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

Source: FOMC Survey of Economic Projections, 12/14/2022 (<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20221214.htm>)
 Fannie Mae Housing Forecast: December 2022
<https://www.fanniemae.com/media/45801/display>

New England Labor Force Participation and Unemployment

	Unemployment Rate, Nov-22	Labor Force Participation Rate, Nov-22
United States	3.6	62.3
Connecticut	4.2	62.2
Maine	3.7	58.0
Massachusetts	3.4	65.3
New Hampshire	2.6	65.8
Rhode Island	3.6	63.8
Vermont	2.5	61.7

New Hampshire companies continuing recruiting effort at very strong pace



Source: Indeed

myf.red/g/YyV2

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?

Economic Update

New Hampshire House and Senate Ways and Means Committees

January 12, 2023



Jason Hwang
SVP, Strategic Planning and Research