

# New Hampshire ECONOMIC CONDITIONS

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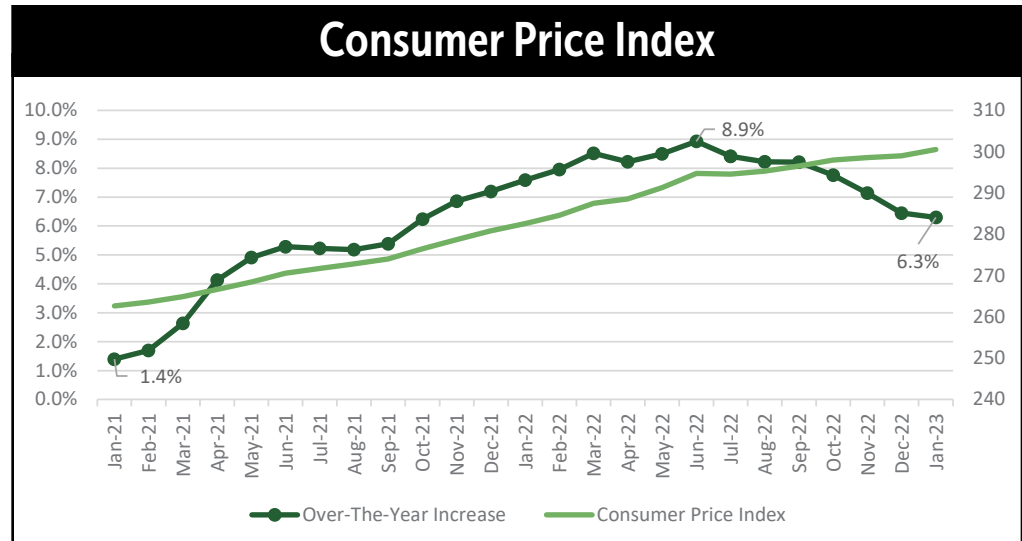
Maple Grades and Samples PHOTO CREDIT

March 2023

## Inflation is Slowing, But Heating Fuel Prices Remain High

The Consumer Price Index (CPI) increased 6.3 percent over-the-year in January 2023, the lowest rate of increase since October 2021. The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.<sup>1</sup> The CPI is produced every month by the U.S. Bureau of Labor Statistics (BLS) and indicates the change in price for the basket of goods and services as a whole, from month-to-month, as well as year-over-year. The Federal Reserve has a target inflation rate of two percent per year, which encourages price stability and high employment while giving the Federal Reserve flexibility to cut interest rates during economic downturns.

The price of goods and services began to increase at a faster rate in March 2021, when the CPI increased 0.6 percent over-the-month.<sup>2</sup> Inflation peaked in June 2022, when the CPI increased 8.9 percent over the previous June. Since then, the rate of inflation has slowed, with over-the-year increases declining in every month through the end of 2022. Although the over-the-year increase



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

in CPI remained well above the target inflation rate of two percent, most of the price increases occurred prior to June 2022. Between December 2021 and June 2022, CPI increased 4.9 percent; between June 2022 and January 2023, prices increased just 2.0 percent.

### Food and Energy Prices

Between March 2021 and June 2022, energy prices<sup>3</sup> increased at a faster rate than overall inflation and played a large role in the increase in total CPI. Energy prices peaked in June 2022, before declining over the second half of the year. Between June and January 2023, energy prices declined 10.8 percent, although they remained 8.4 percent higher than January 2022 prices.

Food prices increased at a faster rate than total CPI throughout most of 2022 as well. Food prices took longer to slow, with the over-the-year price increase peaking in August 2022 at

11.3 percent. Food prices continued to increase through the end of the year, although the rate of increase slowed steadily, falling from a 1.1 percent over-the-month increase in July to 0.5 percent in January 2023.

Energy and food prices can be volatile, so “core” CPI, which excludes these goods, is a more accurate measure of overall inflation trends. Because energy and food prices rose faster than most other goods and services, core CPI was lower than total CPI throughout 2022. The gap between these two measures reached 3.0 percent in June 2022, although it narrowed as gas prices fell in the second half of 2022. Core CPI increased 5.5 percent over-the-year in January 2023, 0.8 percentage points lower than overall CPI. While this gap shows the effect increasing food and energy prices had on the overall cost of goods and services, core CPI exceeded five percent throughout 2022, indicating that price increases were not limited to food and energy.

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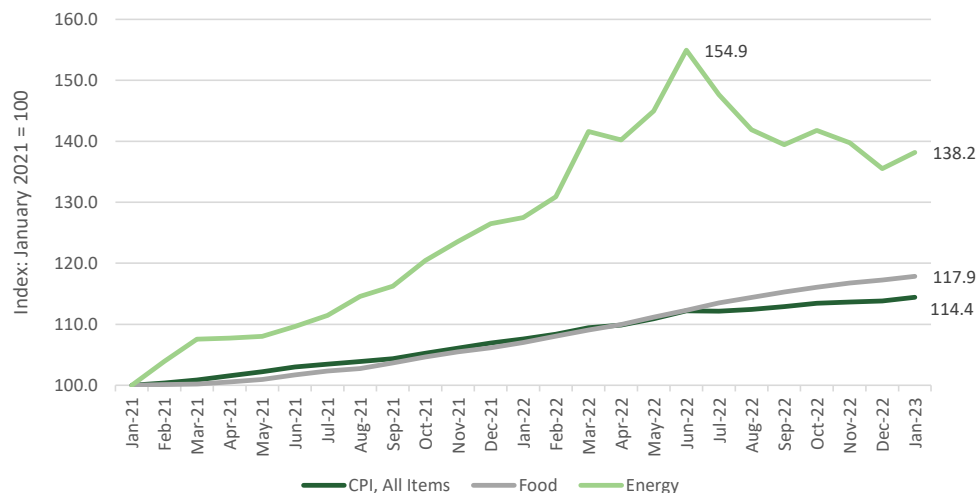
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<sup>1</sup> U.S. Bureau of Labor Statistics, Consumer Price Index Frequently Asked Questions: <https://www.bls.gov/cpi/questions-and-answers.htm>.

<sup>2</sup> CPI is adjusted to account for seasonal variation in prices.

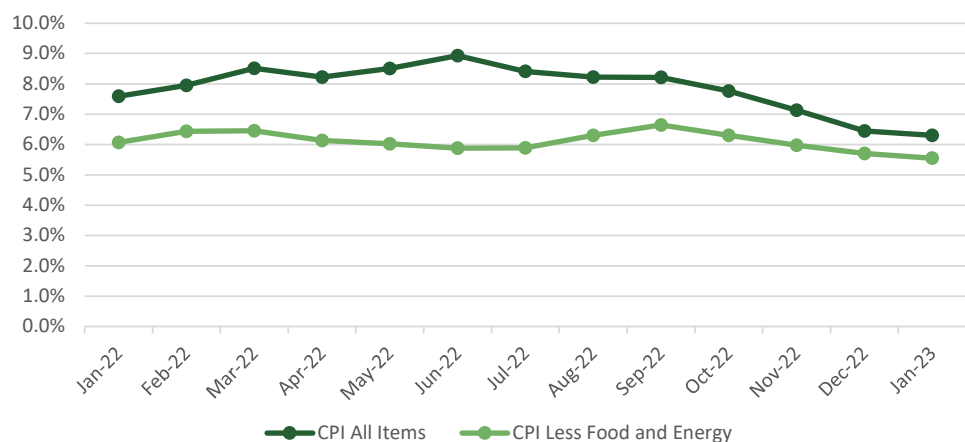
<sup>3</sup> Energy has two components, motor fuels and household energy. Household energy includes electricity and home heating fuels such as fuel oil and propane.

## Food and Energy Prices Have Outpaced Overall Inflation



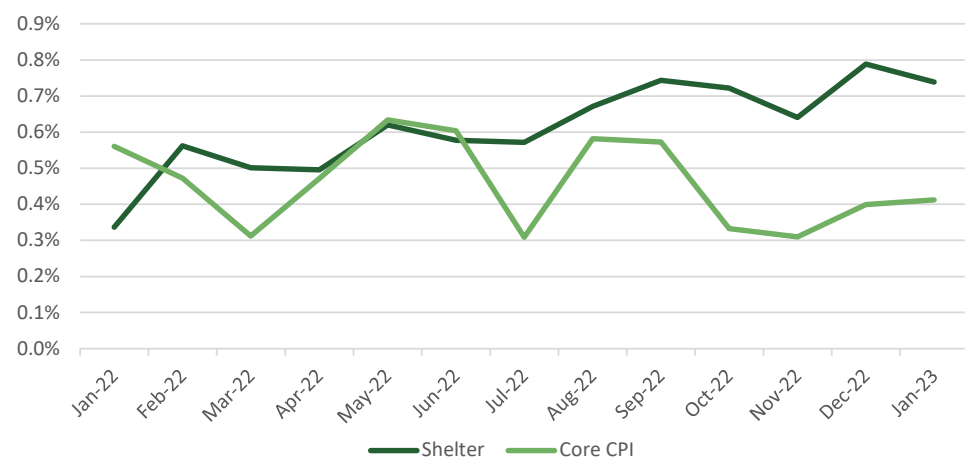
Source: U.S. Bureau of Labor Statistics, Consumer Price Index

## Over-the-Year Increase, Core CPI vs Total CPI



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

## Over-the-Month Change in Price



Source: U.S. Bureau of Labor Statistics, Consumer Price Index

While the over-the-year increase in total CPI began to decline in July, this was largely due to falling energy prices, and core CPI increased for several more months. The over-the-year increase in core CPI reached its peak in September 2022 at 6.6 percent. Among goods and services included in core CPI, shelter appears to be the largest factor driving inflation in 2022. Between January 2022 and January 2023, the price of shelter increased 7.9 percent, and while the increase in core CPI slowed in late 2022, the increase in the price of shelter accelerated. Shelter is a major expense, accounting for just over a third of all expenditures measured by the CPI.

Rising interest rates were likely responsible for the core CPI rate slowing in late 2022. The Federal Reserve raised interest rates from between 0.00 and 0.25 percent in March 2022 to between 4.50 and 4.75 percent in February 2023. Higher interest rates increase the cost of borrowing money, slowing economic growth and lowering demand for goods and services.

### Heating Fuel Prices

Home heating fuels are a significant expense for New Hampshire households, particularly lower-income households. The U.S. Energy Information Administration (EIA) projected that during the winter of 2022-2023, the average household in the northeastern U.S. will pay between \$1,094 and \$2,354 on home heating fuel, depending on fuel source.<sup>4</sup> For New Hampshire households, in the northern part of this region, fuel consumption and expenditures will likely be higher than the regional average.

During the 2021-2022 winter heating season (the EIA defines the winter heating season as October through March) prices for propane, fuel oil #2

<sup>4</sup> U.S. Energy Information Administration, Average Consumer Prices and Expenditures for Heating Fuels During the Winter. <https://www.eia.gov/outlooks/stco/tables/pdf/wf-table.pdf>.

and natural gas, which approximately 80 percent of New Hampshire households use as a primary heating source, reached all-time highs.

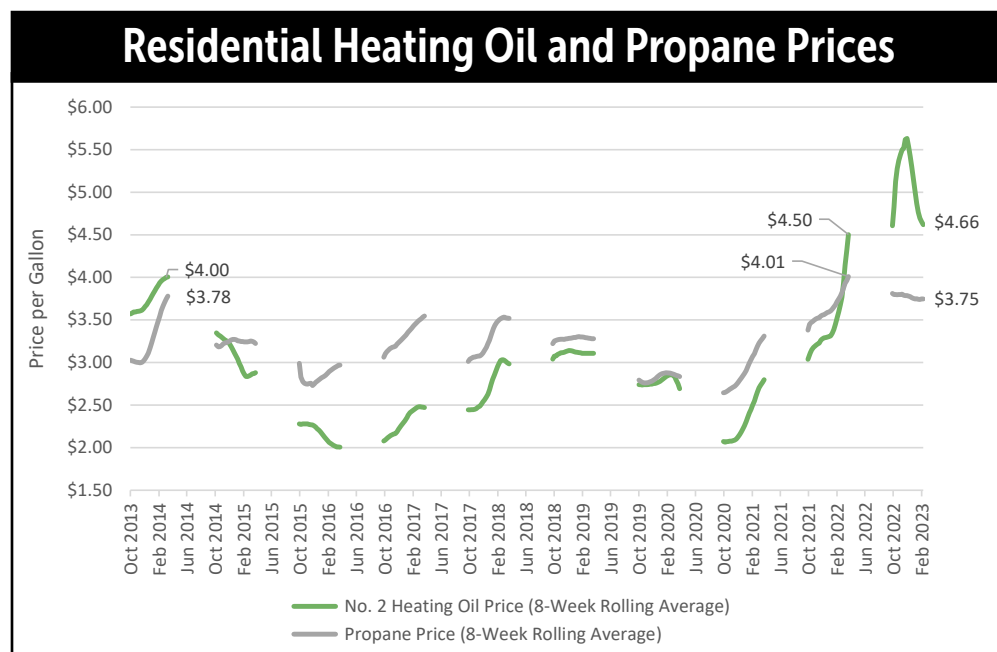
While propane prices during the 2022-2023 heating season (through February 13, 2023) were lower than the previous heating season, fuel oil and natural gas prices exceeded last winter's highs. After averaging \$4.50 per gallon over the last eight weeks of the 2021-2022 heating season, fuel oil prices started the heating season at \$4.61 per gallon, with the eight-week average reaching \$5.63 per gallon in the first week of December. Fuel oil prices began to fall in late November, with the eight-week average reaching \$4.66 per gallon during the week of February 13, 2023.

Natural gas prices also exceeded previous highs during the 2022-2023 heating season. The average price for natural gas in October 2022 was \$29.76 per thousand cubic feet, 30 percent above the previous October high of \$22.75 per thousand cubic feet, set in October 2017.<sup>5</sup> The average price in November 2022 exceeded the previous November high, set in November 2021, by more than 40 percent.

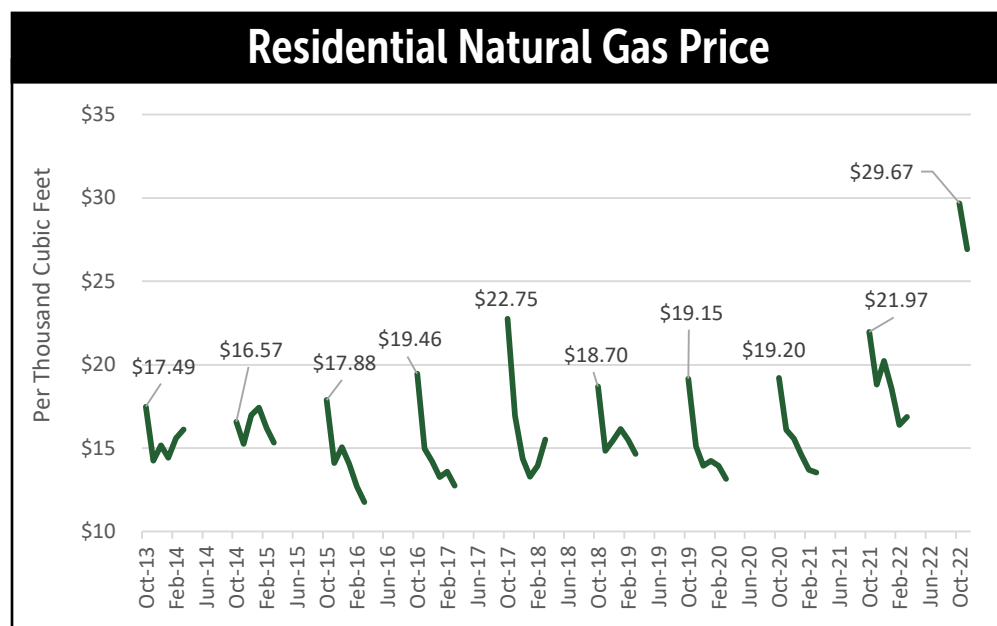
Energy price increases in 2021 and 2022 were initially a result of supply issues.<sup>6</sup> Production of liquid fuels<sup>7</sup> was disrupted by the coronavirus pandemic, and liquid fuel consumption exceeded production, driving up prices. The Russian invasion of Ukraine also contributed to fuel price increases during the first half of 2022. In spite of these

challenges, fuel production exceeded consumption in 2022, and EIA expects this to continue over the next two years, bringing fuel prices down in 2023 and 2024. However, EIA notes that there is a lot of uncertainty in their forecast. The war in Ukraine, easing COVID restrictions in China (leading to higher economic activity and greater fuel consumption), and a potential recession in the U.S. could all impact supply and demand for liquid fuels.

– Greg David, Economist



Source: U.S. Energy Information Administration



Source: U.S. Energy Information Administration

- 5 Most natural gas consumed in the U.S. is used to generate electricity; residential heating uses a fraction of all natural gas consumed in the U.S. Unlike propane and heating oil, natural gas prices are highest in the summer, when demand for electricity is highest, and generally reach their lowest point around March or April.
- 6 U.S. Energy Information Administration, Short-Term Energy Outlook. [https://www.eia.gov/outlooks/steo/pdf/steo\\_full.pdf](https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf).
- 7 Liquid fuels are defined as petroleum and products of petroleum refining, which include heating oil and propane.