Data released since your last Directors’ meeting show that the economy continues to expand slowly. The labor market remained weak in May as nonfarm payrolls fell and the unemployment rate rose. The four-week moving average of initial claims posted estimates above 400,000 for the past fourteen weeks and the help wanted index continued on a downward spiral in April, indicating employers remain reluctant to hire new workers. Despite the weak labor market, consumer confidence continued to improve in May and the housing market remained strong. But, the manufacturing sector remains weak and business investment needs to pick up before the economy will show real improvement. Inflation decelerated in April, in part because oil prices fell.

Real growth during the first quarter was somewhat stronger than originally estimated, reflecting stronger consumer spending and an upward revision to exports. These effects were partly offset by weaker business investment in equipment and software and an upward revision to imports.

Nonfarm payroll employment fell in May, following a revised estimate of no change in April. Annual revisions to employment data show job losses since January were about one fourth of the number previously estimated.
Still, the unemployment rate rose in May to 6.1 percent, hitting its highest level since July 1994.


Initial claims improved somewhat in May, but have been above 400,000 since February. The help wanted index continued to decline in April, indicating employers remain reluctant to hire new workers.

Source: Department of Labor (initial claims) and The Conference Board (help wanted).
Despite the bleak labor market, consumer confidence rose for a second consecutive month in May, hitting its highest level in the past six months. May's rise in consumer confidence was due to rising expectations. Current conditions fell in May.

Real consumption was nearly flat in April. And retail sales in May, as measured by the Redbook, suggest future spending may be weak.
Vehicle sales eased somewhat in May, compared to April. But, sales so far during the second quarter are higher than the average seen during the first quarter.

Consumers continued to buy homes in April, as new and existing home sales rose. In fact, April's new home sales hit their third-highest level on record.
Other housing data were somewhat mixed in April. Building permits rose, while housing starts eased.

The manufacturing sector remains weak. Industrial production and capacity utilization continued to fall in April. And business investment has yet to pick up, as suggested by April's poor performance in capital goods orders.
The ISM index rose in May, following four months of declines. Still, the index remains below 50.

On the inflation front, consumer and producer price increases decelerated in April, as oil prices fell.
Import prices also fell in April, led by lower oil costs.

Oil prices were basically flat in May, compared to April.
Real growth in the first quarter was slightly stronger than originally estimated, as consumer spending and exports were revised upward. On the other hand, business investment was slightly weaker than originally estimated and there was an upward revision to imports.

All in all, the economy is expanding slowly. But with businesses reluctant to invest and hire new employees, future consumer spending remains in question.