



*The*

**President's**

**Report** *to the*

**Board** *of*

**Directors**

June 8, 2012

## CURRENT ECONOMIC DEVELOPMENTS - June 8, 2012

Data released since your last Directors' meeting have been mixed, with little evidence of much additional pickup in activity. Job growth has decelerated, contributions from manufacturing have eased, and the downside risks of the European financial crisis remain. On the brighter side, falling energy prices have fueled an increase in disposable personal income, and consumers remain resilient. However, on an overall basis, the data suggests that economic growth may pick up more slowly than previously expected.

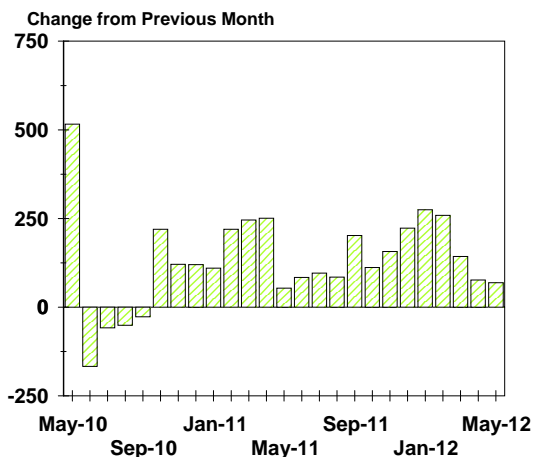
In May, nonfarm payrolls posted their weakest gain in one year, far below expectations, and payroll growth was revised down for the prior two months. The unemployment rate rose one-tenth of a percentage point in May as the labor force increased. Initial claims for unemployment insurance eased a bit in May, although not enough to offset the April jump. Consumer attitudes were mixed in May as confidence fell for the third consecutive month, while sentiment improved to its highest level in well over four years. Auto sales declined in May to their lowest level this year. Incomes increased slightly in April and, along with lower energy prices, have provided a small boost in consumption, which posted a gain in April.

Housing data showed mostly positive signs in April, yet the market remains subdued. New and existing home sales both increased in April, as did housing starts, while permits fell but have been trending upward over the past year. In the manufacturing sector, the ISM index dropped in May but did continue to signal expansion in manufacturing. In April, industrial production surged, while new orders for both durable goods and nondefense capital goods, excluding aircraft, declined.

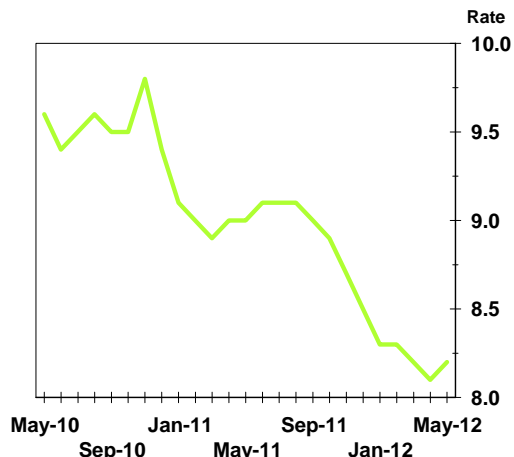
Headline price indices continued to decelerate in April, while auto price increases contributed to the acceleration of the core consumer price index. Oil prices fell consistently throughout May, but crept up a bit in first week of June.

Payroll employment rose by only 69,000 jobs in May, and payroll additions were revised downward by 49,000 for the previous two months. Also in May, the unemployment rate rose one-tenth of a percentage point to 8.2 percent, as a gain in civilian employment was outpaced by a larger increase in the labor force.

### Nonfarm Payroll Employment



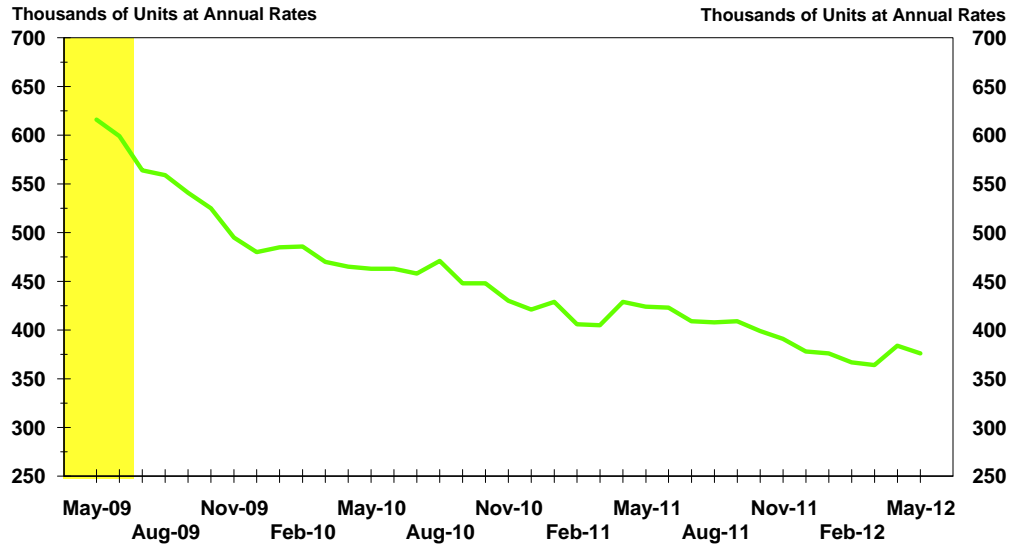
### Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance fell slightly in May to 376,000, following the sharp increase seen in April. So far in the second quarter, weekly claims have averaged 380,000, up from the first quarter average of 369,000, which was a four-year low.

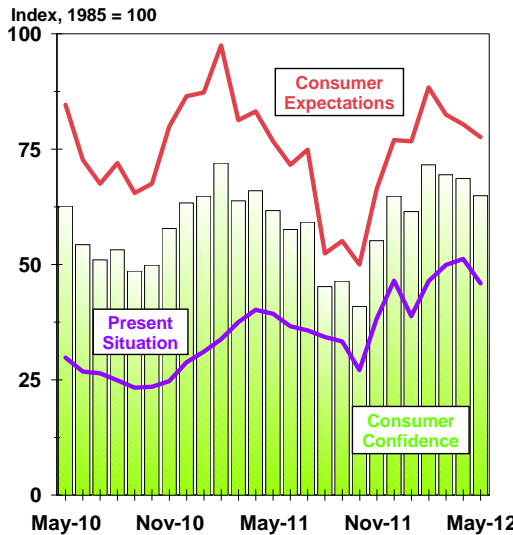
### Initial Claims



Source: Department of Labor, Employment and Training Administration / Haver Analytics.

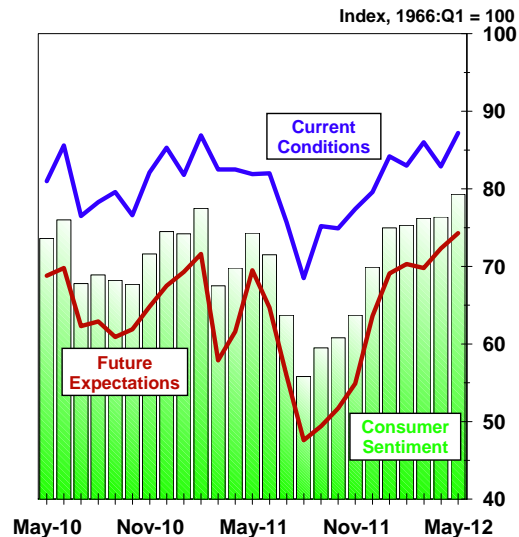
Measures of consumer attitudes were mixed in May, as sentiment improved but confidence fell, due to disparate views on both near-term future expectations and current conditions. The Conference Board survey found respondents to be much more pessimistic about current business and labor market conditions, as well as the short term outlook, while the Michigan survey was boosted by more favorable assessments of the labor market and easing inflation expectations.

### Consumer Confidence



Source: The Conference Board / Haver Analytics.

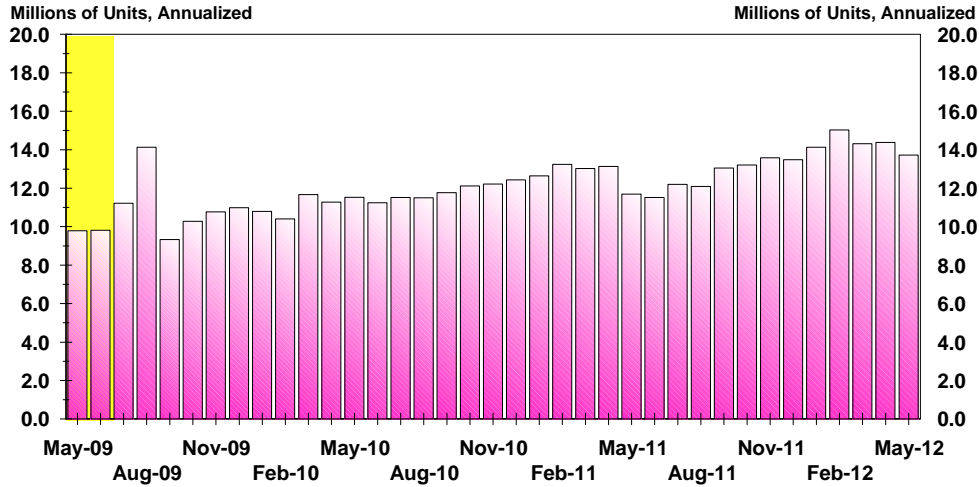
### Consumer Sentiment



Source: The University of Michigan / Haver Analytics.

Total lightweight vehicle sales unexpectedly fell in May to their lowest level this year, but remain well above 2011 levels. The weak May sales, in comparison to earlier months this year, are likely an after-effect of unseasonably warm weather that may have driven sales up during the winter months.

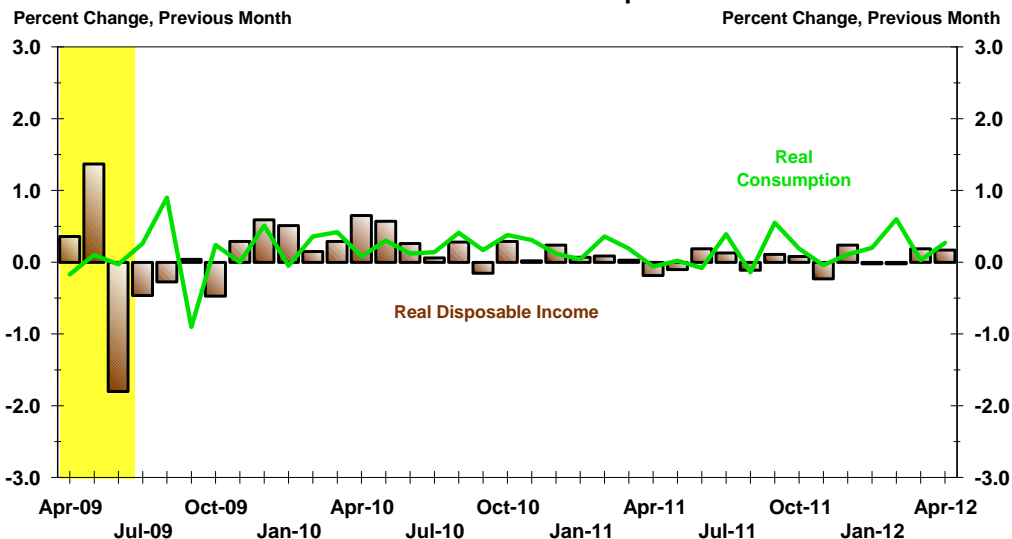
### Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable incomes edged up 0.2% for the second consecutive month in April, after exhibiting no change in the first two months of the year. Consumption grew 0.3% in April, up from no change in the previous month, and on par with the average growth seen in the first quarter. Due to spending outpacing income growth, the savings rate fell slightly to match its February level, the lowest since the start of the recession.

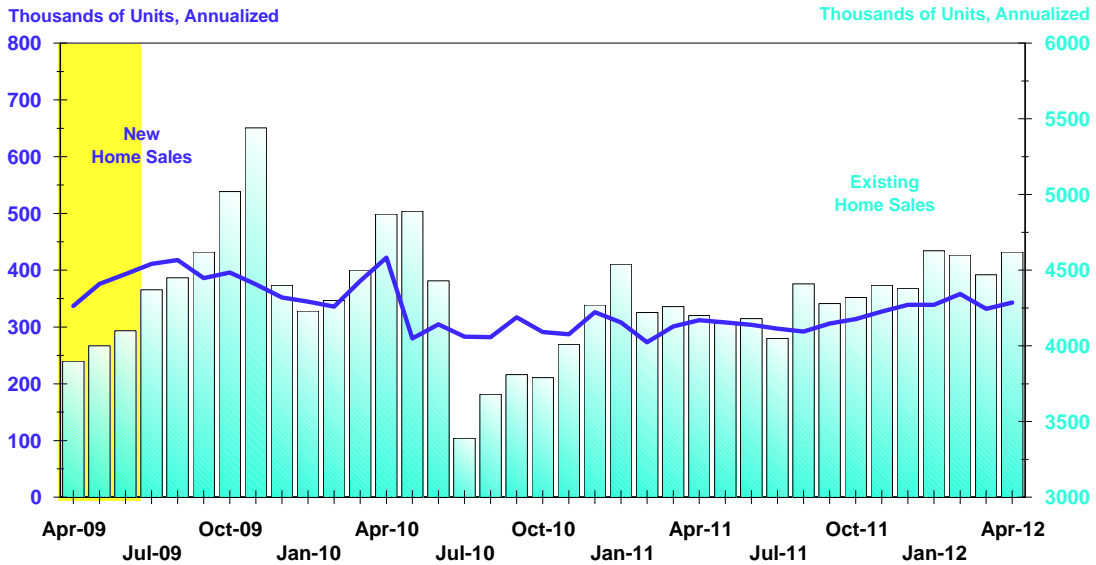
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Housing data in April continued the moderate upward trend seen since mid-2011. New home sales rose during the month after a decrease that was revised larger in March. Existing home sales jumped in April to a level that nearly erased the decline seen over the past two months. The four-month averages for both series are at their highest levels in almost two years.

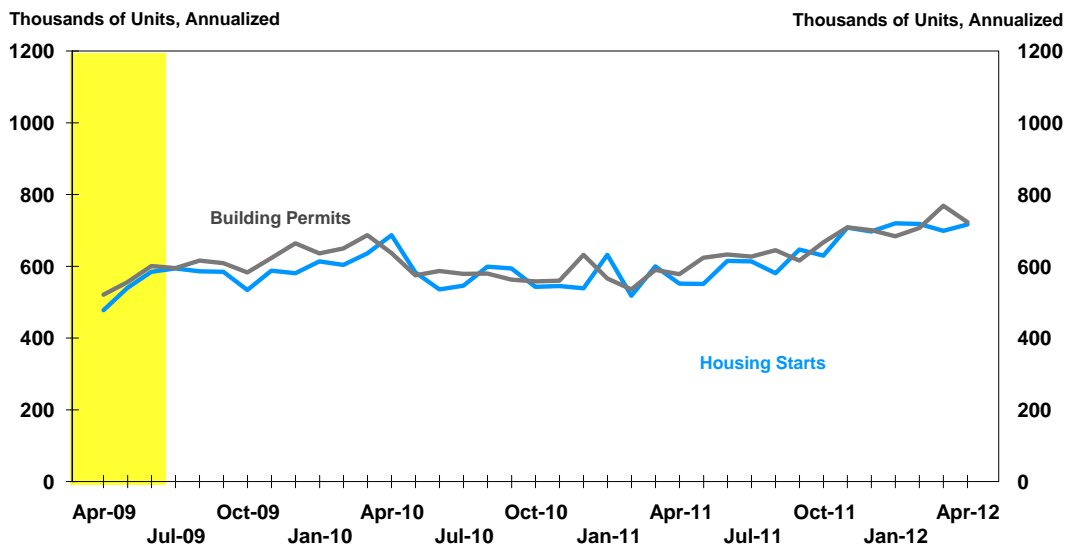
### New and Existing Home Sales



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

New residential construction data was mixed in April. Housing starts increased during the month, but have generally leveled off since late last year. Building permits fell in April, due to a large decrease in multi-unit permits, but their three-month average is the highest seen since October 2008.

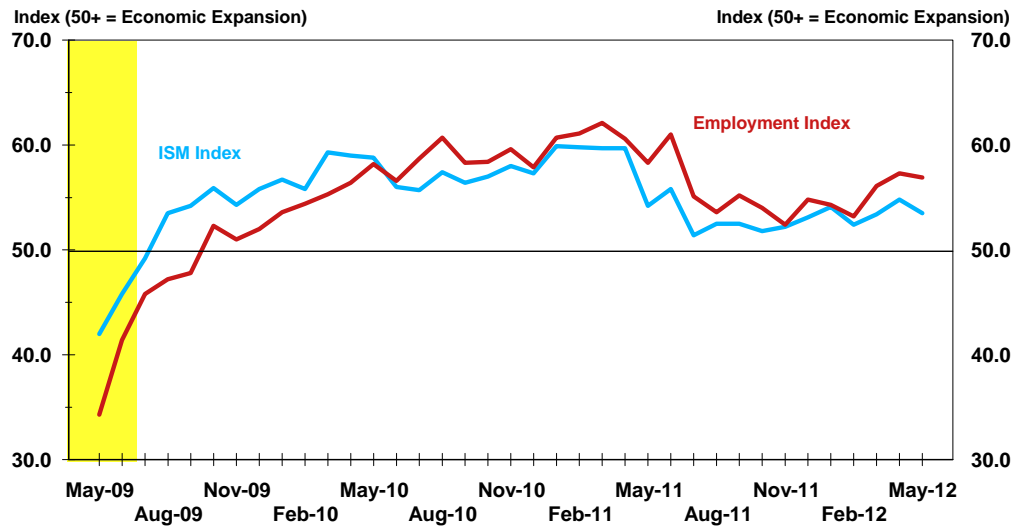
### Housing Starts and Building Permits



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

The ISM manufacturing index fell in May, after increasing the previous two months, but is still slightly above the 12-month average. The index has remained above 50 since August 2009, signalling continued increases in manufacturing activity. The employment component of the index also fell in May, but its three-month average is the highest since mid-2011.

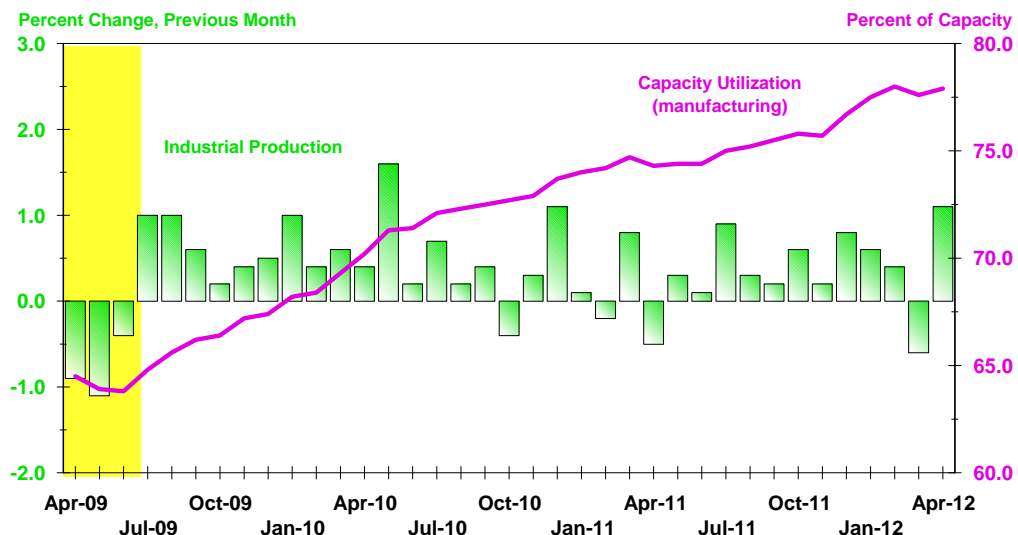
### ISM Index



Source: Institute of Supply Management / Haver Analytics.

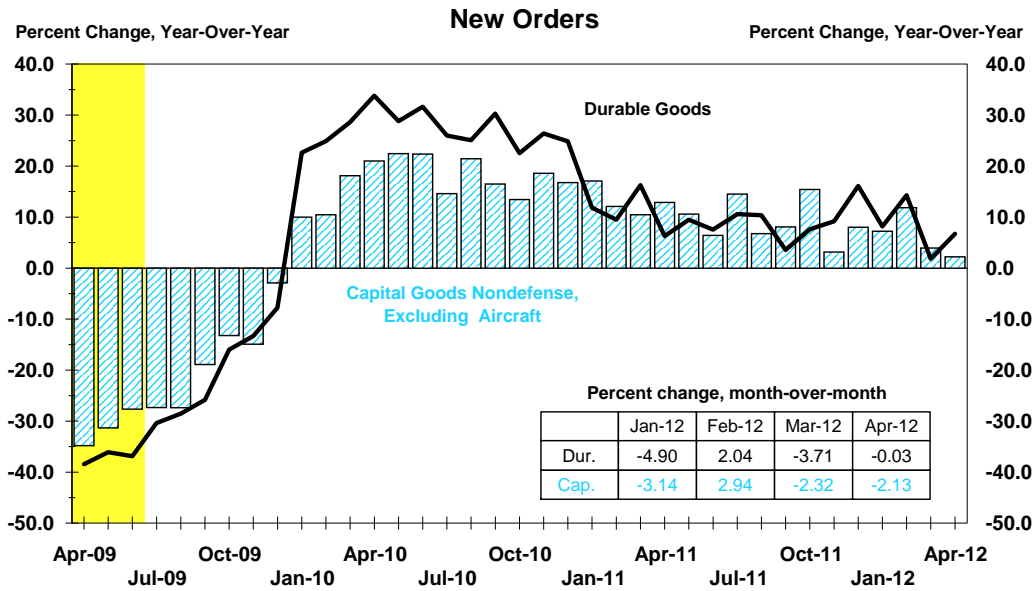
Industrial production jumped up in April, its largest gain since December 2010, after decreasing in March. Capacity utilization rose in April, nearly offsetting the decline seen last month.

### Industrial Production and Capacity Utilization



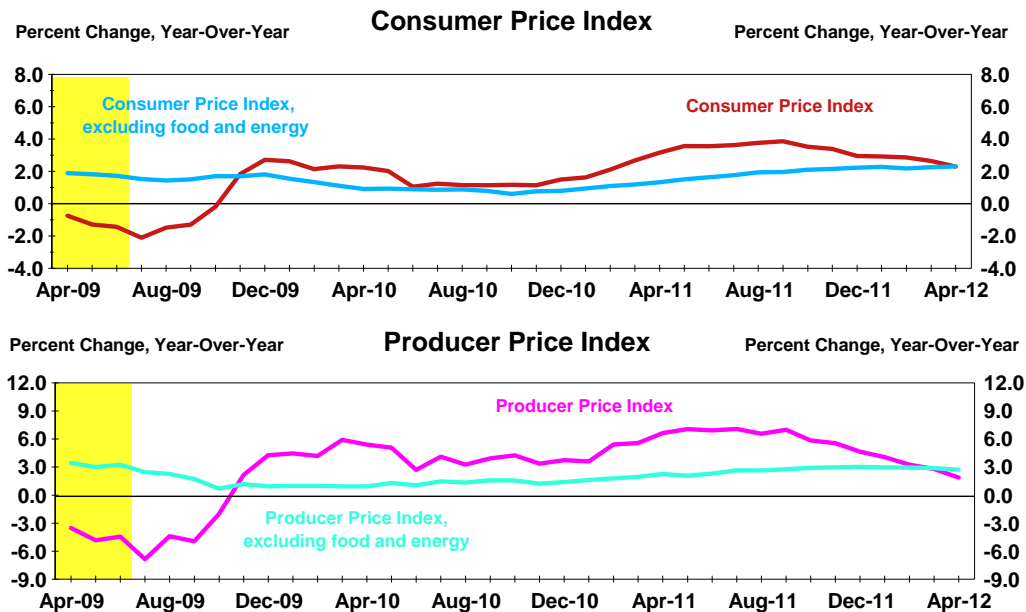
Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods were essentially unchanged in April, but accelerated a bit on a year-over-year basis. Orders of nondefense capital goods, excluding aircraft, fell again in April, the third decrease in four months. Year-over-year increases in that series have reached their lowest level since December 2009.



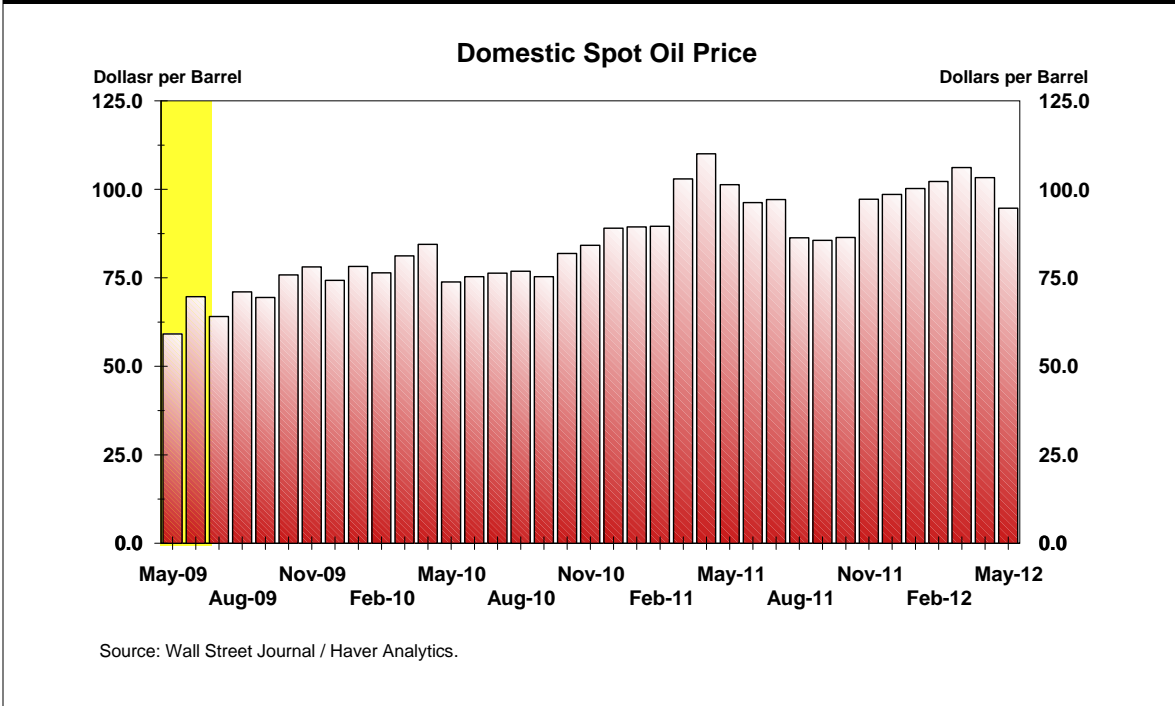
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices decelerated in April for the seventh consecutive month. Meanwhile, the core index continued its gradual acceleration to reach its highest level since September 2008. The total producer price index told a similar story, as its growth slowed to the lowest point since October 2009. The core index has also been decelerating so far this year, reaching an 8-month low in April.

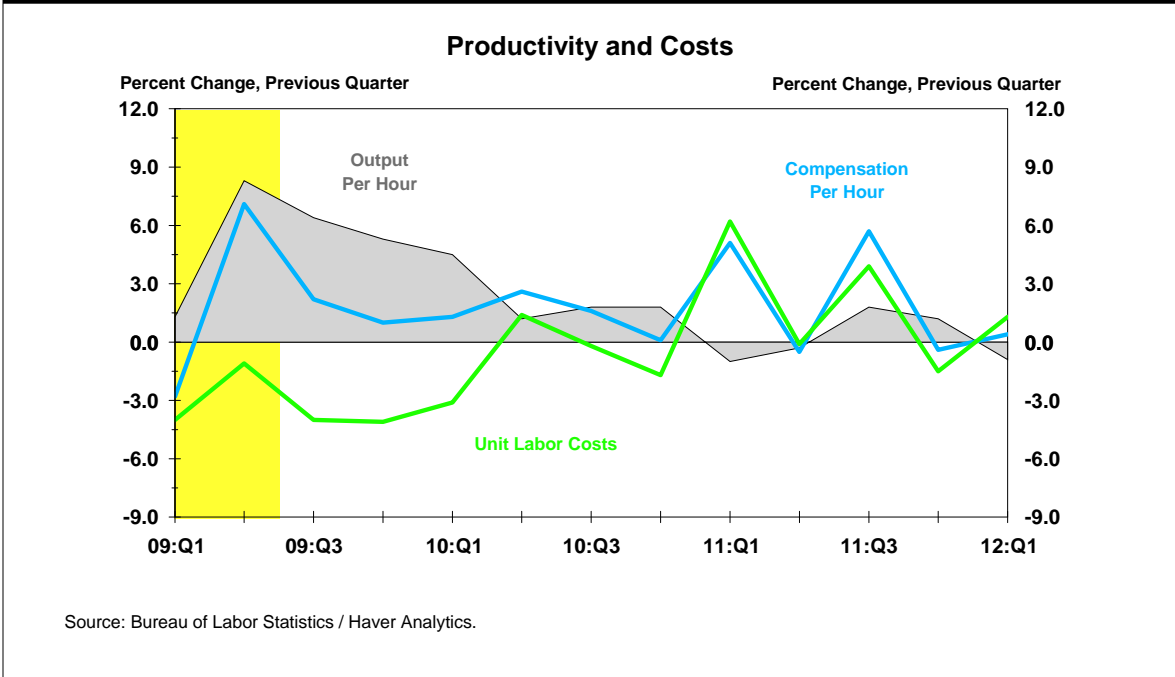


Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices fell sharply throughout May, and their monthly average is the lowest since October 2011. Prices fell close to \$83 per barrel on June 1st, but have since crept back up to \$85.



Productivity growth was revised lower in the first quarter, reflecting smaller growth in output than previously estimated. Most notable in the revisions was a 0.4% decrease in compensation during the fourth quarter, previously reported as a 3.9% gain. Unit labor costs were also revised downward in the fourth quarter, to a drop of 1.5% from the previous estimate of a 2.7% increase.



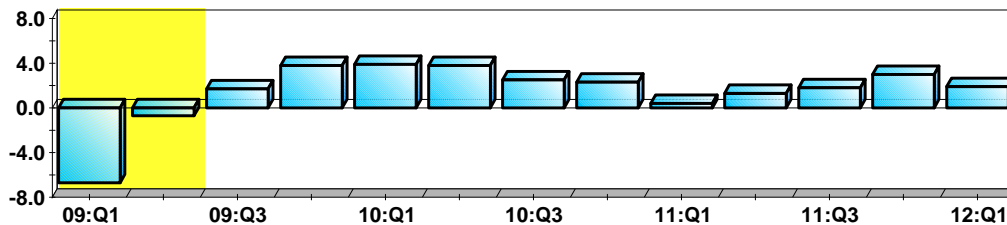


First quarter GDP growth was revised down in the second estimate to 1.9% from 2.2%. The lower growth rate primarily reflected downward revisions to private inventory investment, state and local government spending, and personal consumption expenditures, and an upward revision to imports. Those effects were partly offset by upward revisions to nonresidential fixed investment and to exports.

### Revisions to First Quarter Real GDP

Description	Advance Estimate	2nd Estimate
Real GDP	2.2	1.9
Personal Consumption (PCE)	2.9	2.7
Business Investment	-2.1	1.9
Residential Investment	19.1	19.4
Government	-3.0	-3.9
Exports	5.4	7.2
Imports	4.3	6.1
Final Sales	1.6	1.7
Change in Nonfarm Inv. (\$2005 Bil.)	79.2	67.8

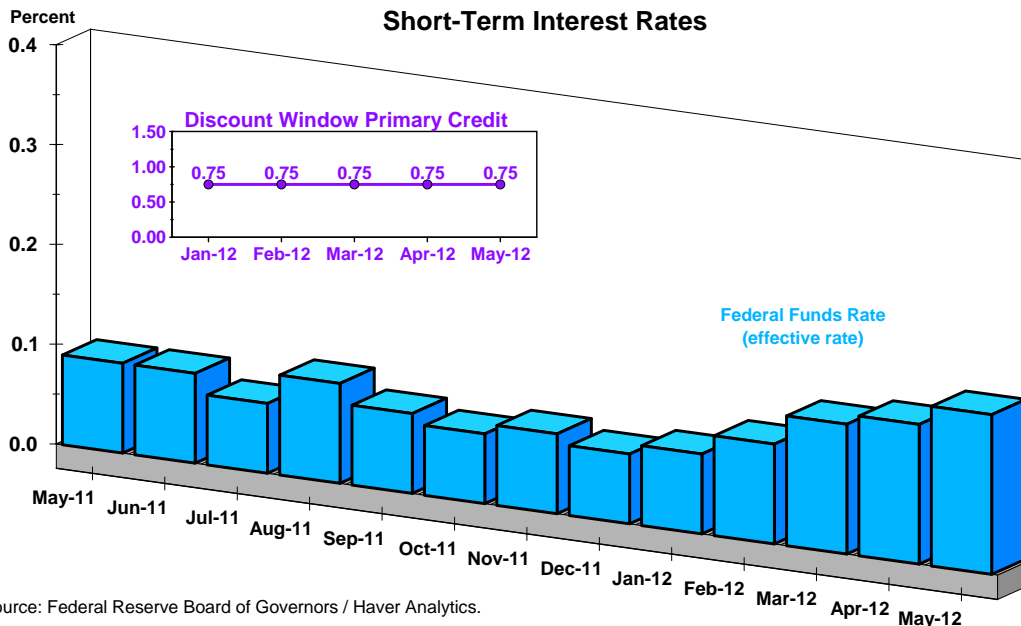
### Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting has come in mostly below expectations but show that the economy continues to recover, albeit at a slow pace. Job growth has slackened, contributions from manufacturing have eased, and the downside risk of the European financial crisis remains. On the brighter side, falling energy prices have fueled an increase in disposable personal income. However, on an overall basis, the data suggests that economic growth may pick up more slowly than expected.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.

# PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS, FEDERAL RESERVE BANK OF BOSTON

June 14, 2012

## Current Economic Developments - Addendum: Data released in the past week

Headline producer prices fell 1.0% in May, the largest drop in nearly two years, while core prices rose 0.2% for the second consecutive month. Retail sales fell 0.2% in May for the second month in a row, while core sales crept up 0.1%.

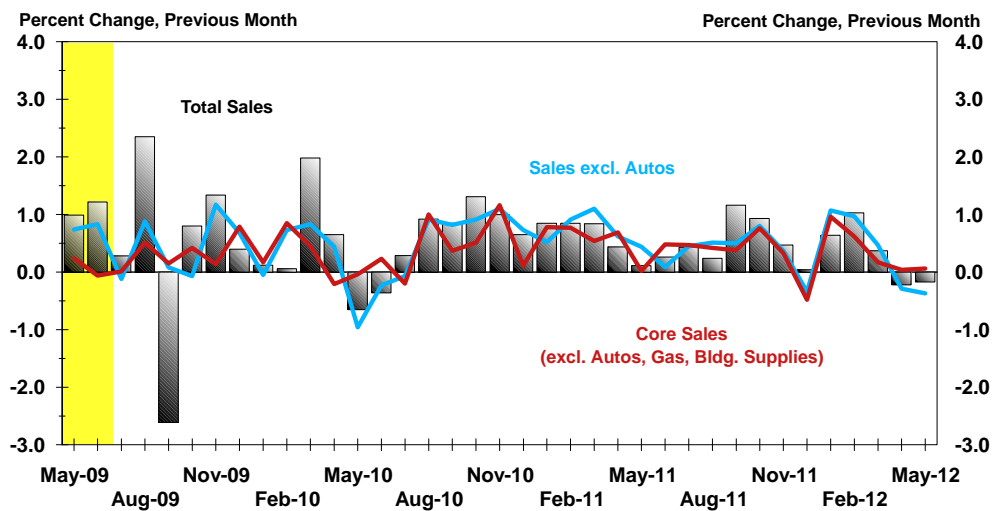
In May, import prices fell 1.0%, following a flat reading in April that was previously reported as a 0.5% decline. The May decrease was the first since October and was mainly due to falling energy and food prices. Prices for exports dropped 0.4% in May, the first monthly decrease this year.

Business inventories rose 0.4% and business sales increased 0.2% in April, while the inventory/sales ratio held at 1.26 for the fourth consecutive month.

Redbook sales increased 0.6% through the first two weeks of June, compared to May, and were up 2.0% from the same period last year. Oil prices eased a bit in early June, averaging \$84.0 per barrel in the week ending June 12th, compared to \$85.2 in the previous week.

Retail sales fell in May for the second consecutive month, marking the first back-to-back decrease in nearly two years. April sales were previously reported as showing a small gain. The drop in total sales was due, in part, to a decline in gas prices. Sales excluding autos also fell in May for the second month in a row, while core sales edged up slightly.

### Retail Sales



Source: Census Bureau / Haver Analytics.