



FEDERAL RESERVE
BANK OF BOSTON™

The
President's
Report *to the*
Board *of*
Directors

April 11, 2017

CURRENT ECONOMIC DEVELOPMENTS - April 11, 2017

Data released since your last Directors' meeting showed that growth in the fourth quarter was a bit stronger than previously estimated, but suggest growth likely slowed in the first quarter. Labor markets showed signs of continued strengthening, consumer attitudes improved, and support from manufacturing has picked up. However, consumer spending has declined. Overall, recent data remain consistent with a moderately growing economy.

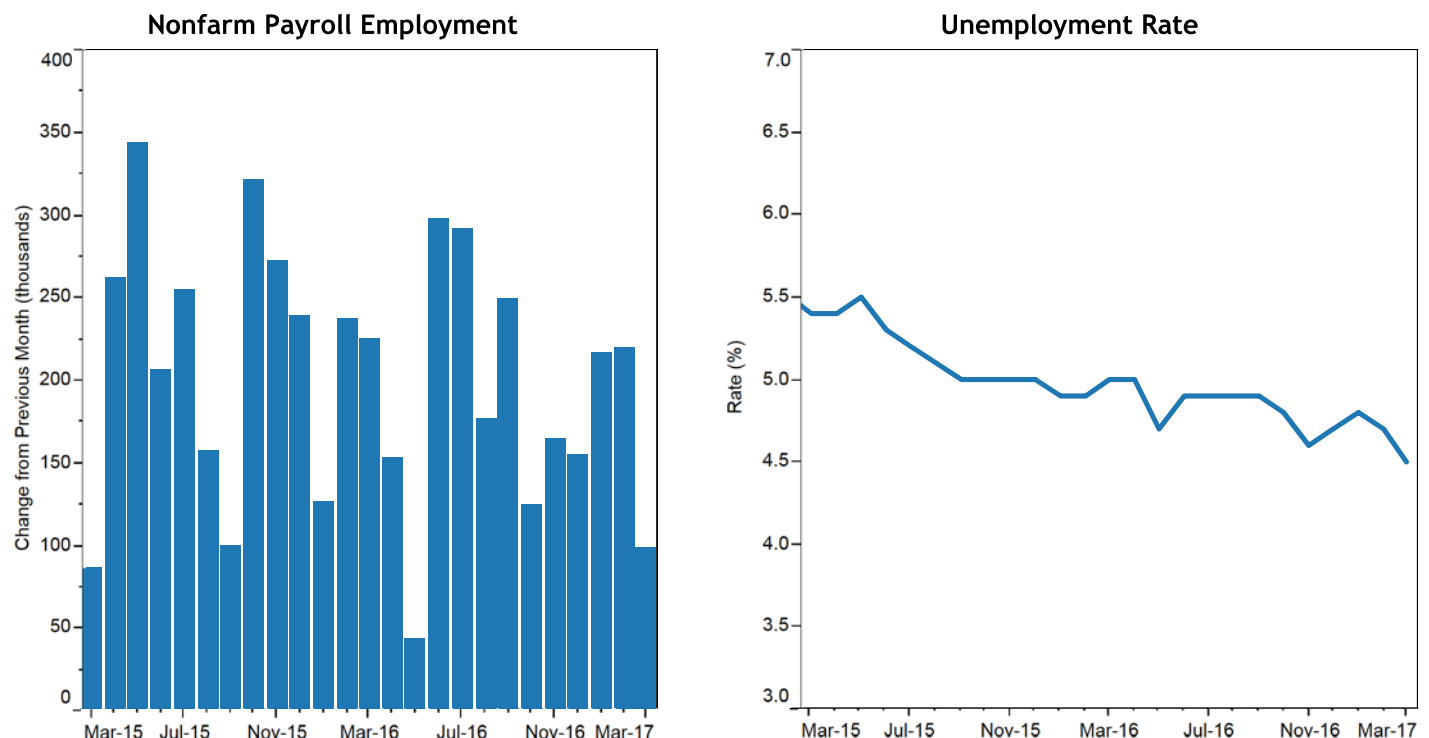
In March, nonfarm payrolls posted a smaller-than-expected increase, while total job gains for the previous two months were revised down. The unemployment rate fell two-tenths to 4.5% in March, due to an increase in civilian employment that outpaced an increase in the labor force. Initial claims for unemployment insurance increased in March, after falling to a 44-year low in February, but remain consistent with further improvements in the labor market.

Consumer attitudes improved in March, as the confidence index rose to its highest level since December 2000, and the sentiment index ticked up. The pace of vehicle sales fell more than expected in March, reaching its lowest rate in two years. Consumption decreased in February, despite a rise in real incomes. Primary measures of real estate activity were mixed in February, as new home sales rose, while existing home sales fell. Housing starts increased in February, while building permits fell, despite an increase in single-family permits.

In the manufacturing sector, the ISM index declined in March, but continued to signal expansion in the industry. Industrial production rose in February, and capacity utilization also increased. Orders for durable goods increased in February on both a monthly and year-over-year basis, while nondefense capital goods, excluding aircraft, fell in February compared to January, but continued to increase on a year-over-year basis.

Growth in total consumer prices continued to accelerate in February, while growth in core prices, which exclude the volatile food and energy sectors, decelerated as measured by the CPI and held steady as measured by the PCE Index. Oil prices fell, on average, in March, but have since picked up in the first several days of April.

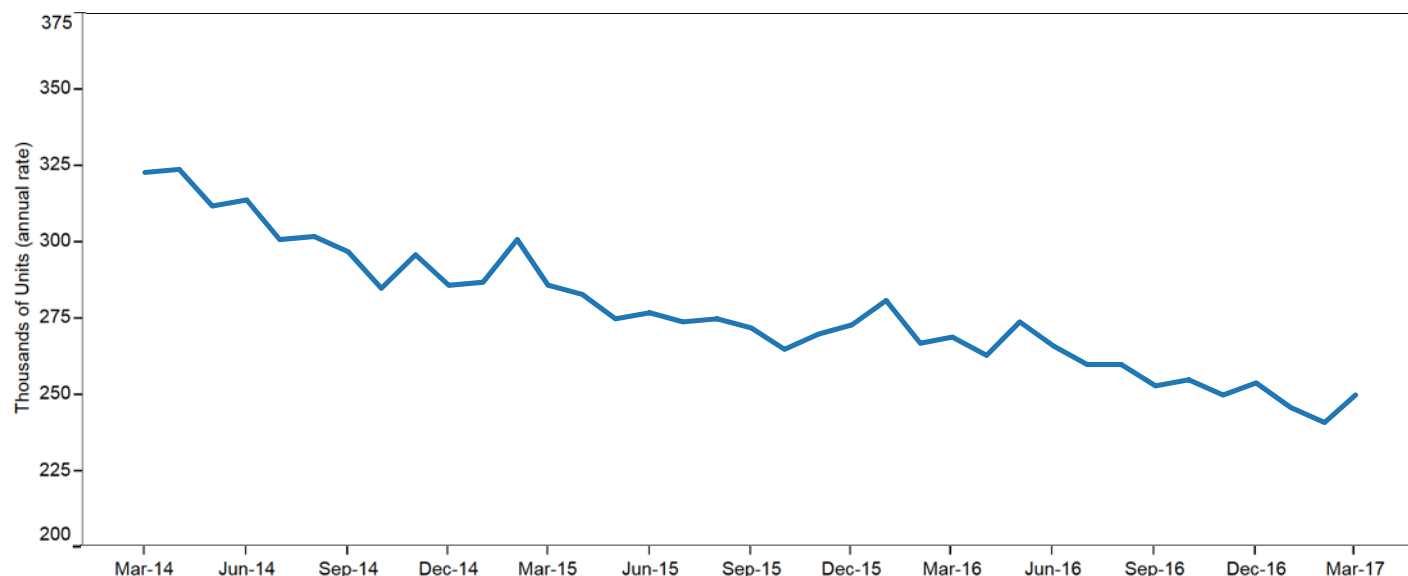
Nonfarm payrolls added 98,000 jobs in March, fewer than anticipated, while job gains for the previous two months were revised down by a total of 38,000 jobs. The unemployment rate fell two-tenths to 4.5% in March, as the rise in civilian employment outpaced an increase in the size of the labor force.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance increased in March, after falling in February to their lowest monthly average since June 1973. Despite the uptick in March, claims remain at a level consistent with further labor market improvement.

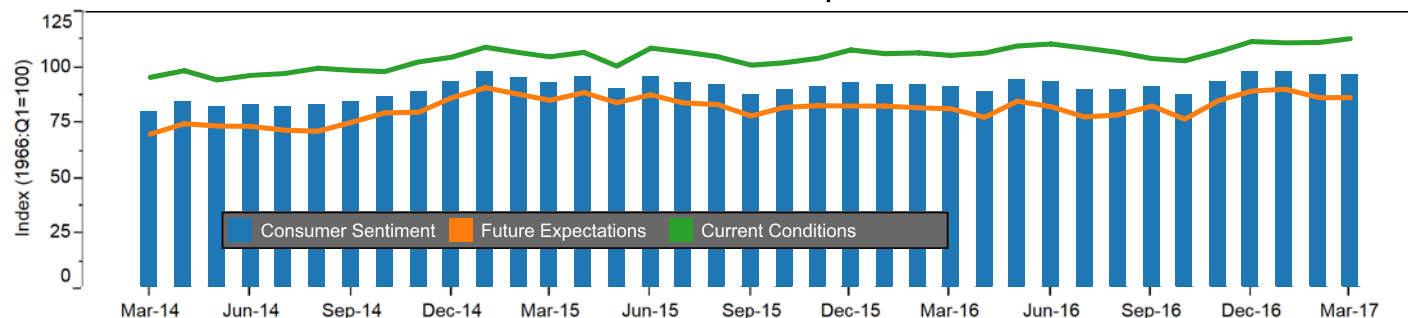
Initial Claims



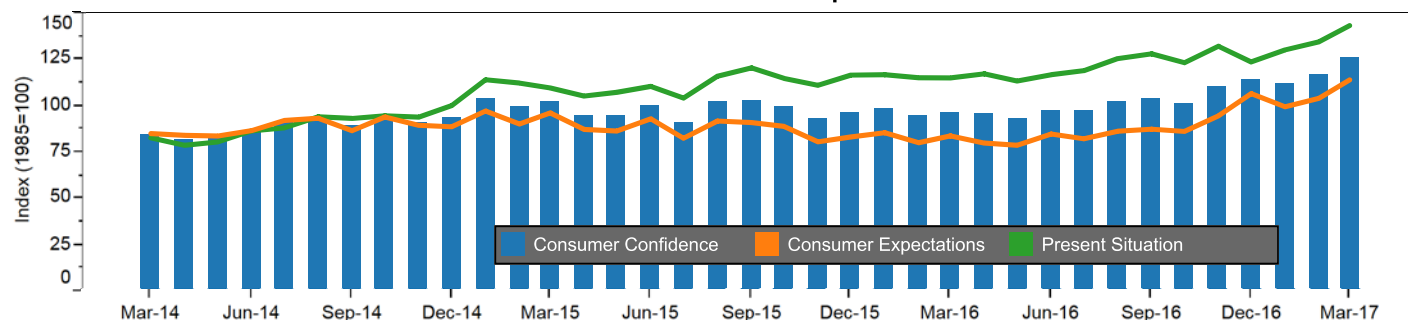
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in March, as the sentiment index ticked up from its February level due to rise in the current conditions component, while the expectations component held steady. Meanwhile, the confidence index jumped in March to its highest level since December 2000 due to increases in both the expectations and present situation components. Consumers expressed more optimism towards the outlook for personal finances and job prospects.

Consumer Sentiment and Expectations



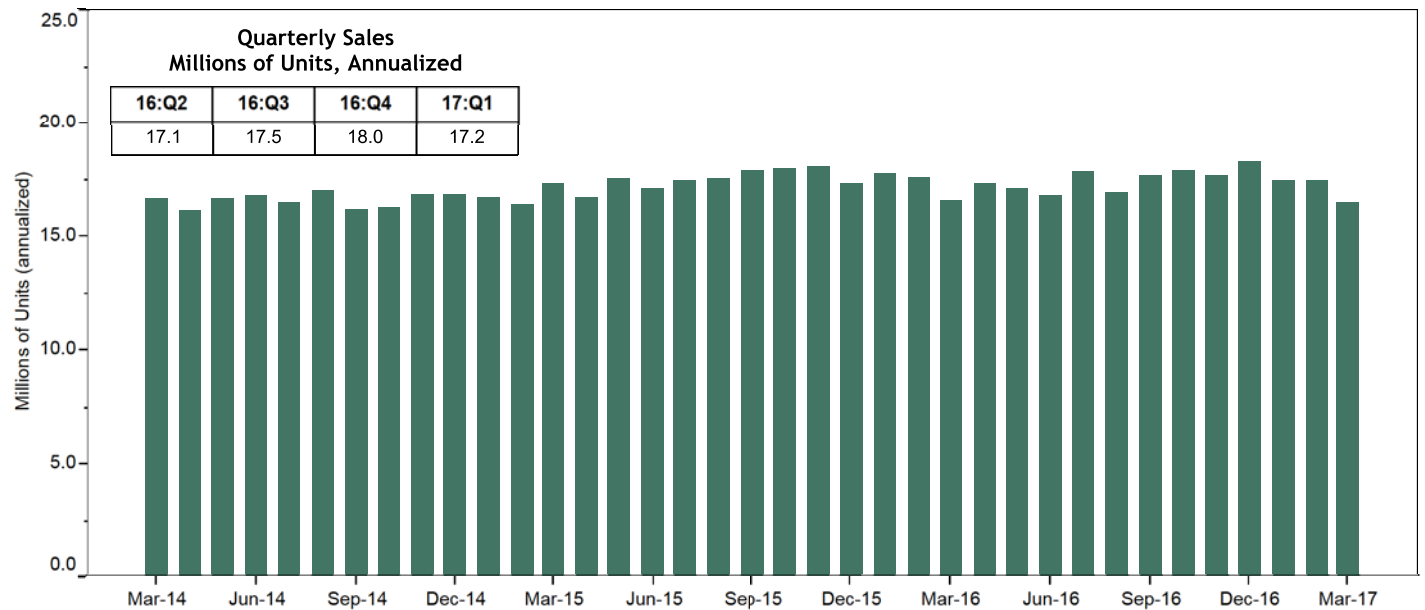
Consumer Confidence and Expectations



Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

The pace of lightweight vehicle sales fell more than expected in March, after holding steady in February, as sales of both autos and light duty trucks slowed. Total sales in March reached the lowest rate since February 2015.

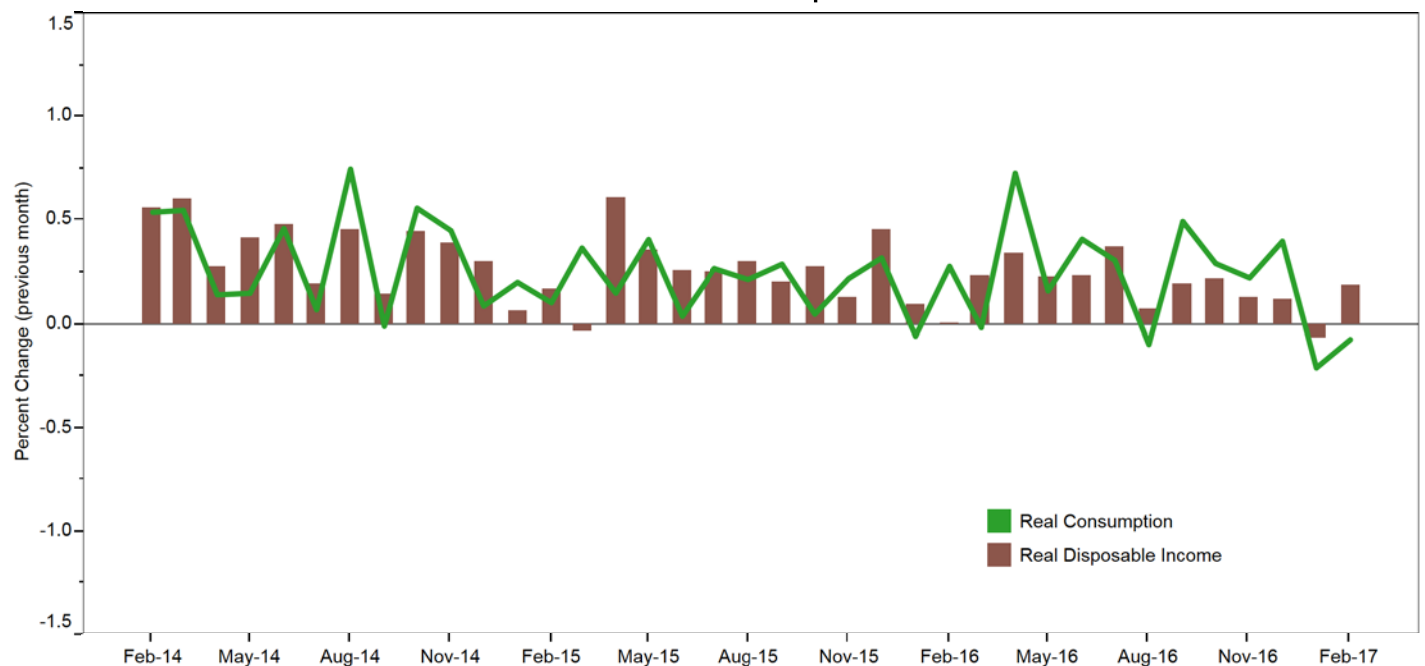
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes increased in February, after declining in January. Despite the higher incomes, consumption fell in February, its second consecutive monthly decrease.

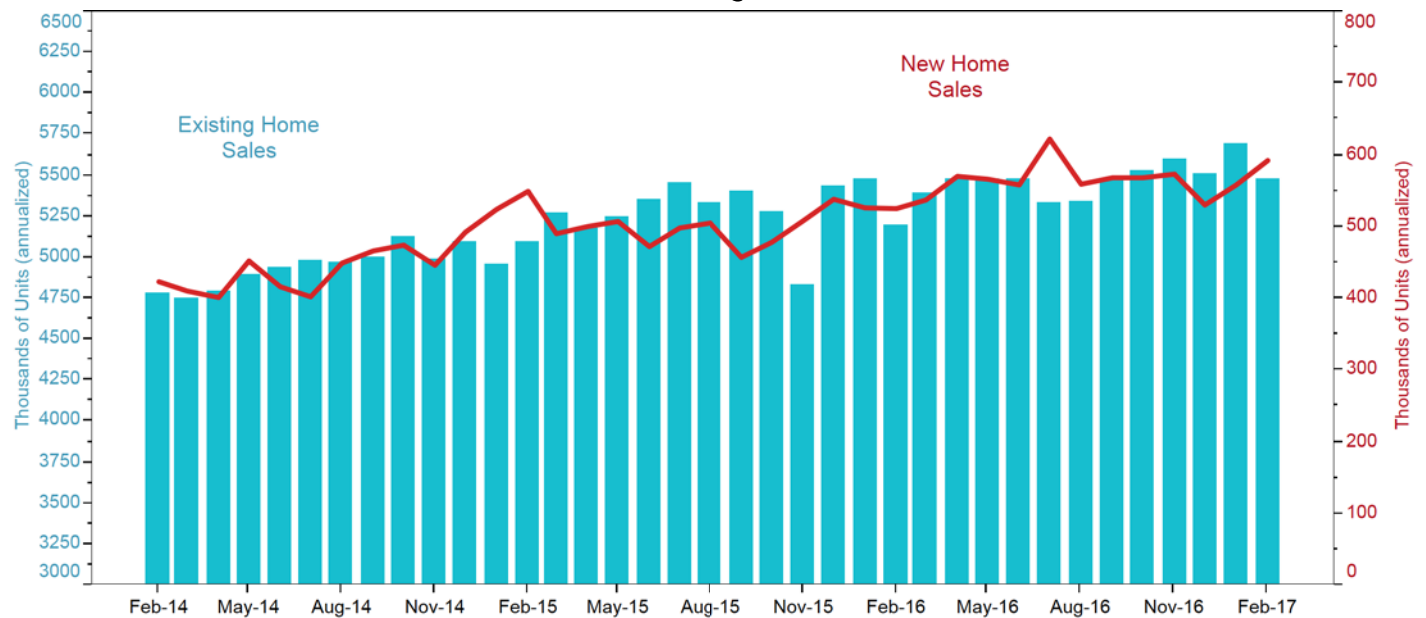
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in February. New home sales rose for the second consecutive month, while existing home sales declined, more than offsetting the increase seen in January.

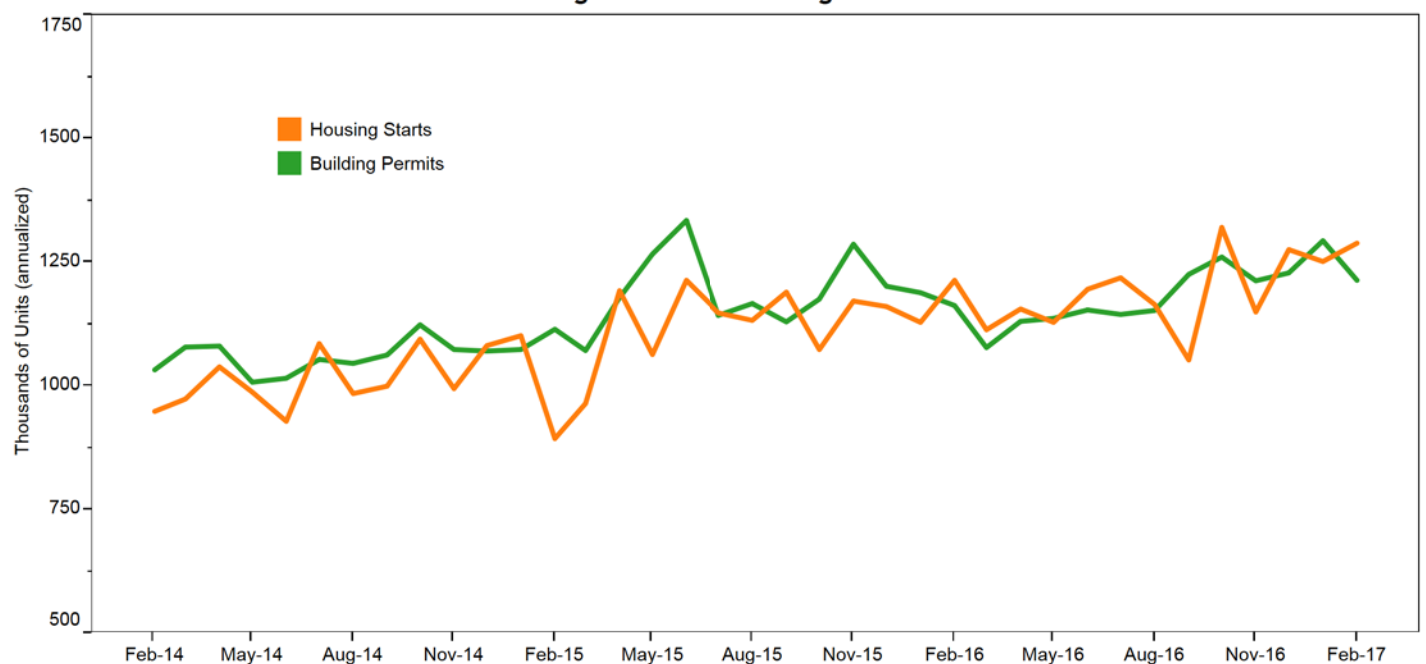
New and Existing Home Sales



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

Housing starts rose in February, as an increase in single-family starts more than offset a decline in multi-family starts. Meanwhile, building permits fell in February, due to a drop in multi-family permits. Single-family permits increased in February.

Housing Starts and Building Permits



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

The ISM manufacturing index eased in March, following six consecutive monthly increases, but continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index increased in February, reaching its highest level since June 2011.

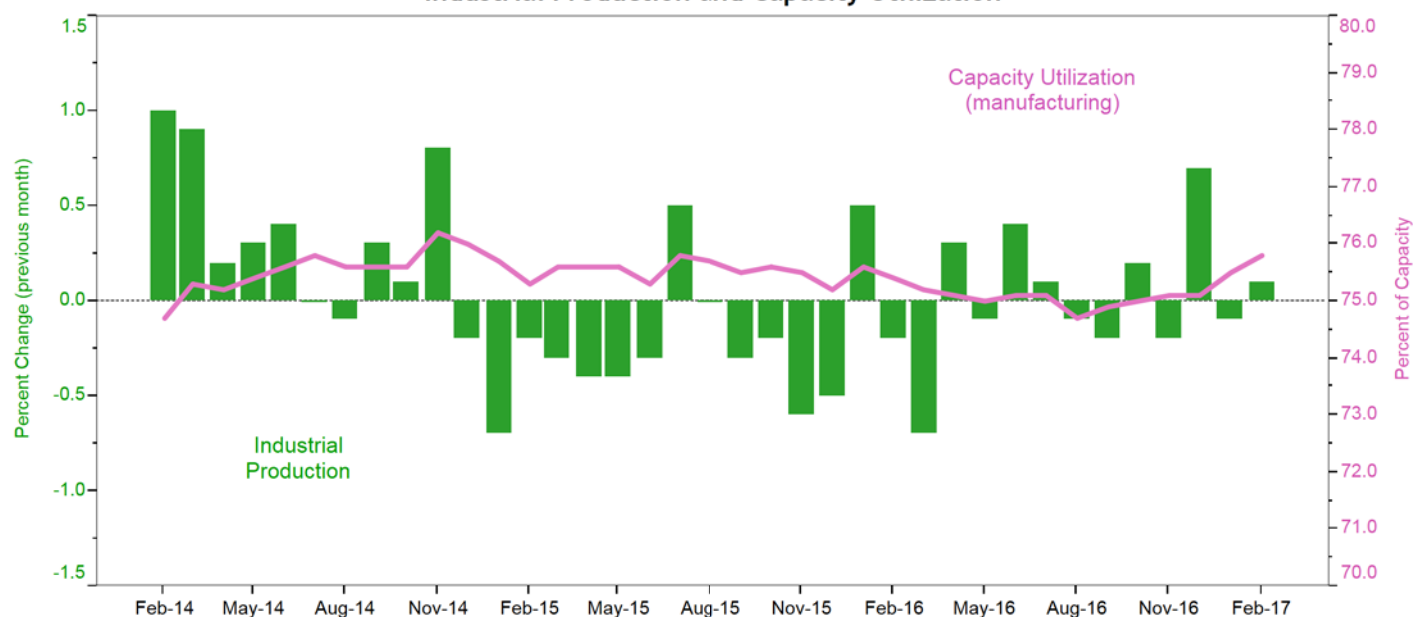
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production ticked up in February, following a slight decrease in January. Both manufacturing and mining production posted increases in February, while utilities output decreased. Capacity utilization rose for the second consecutive month in February, reaching its highest level since July 2015.

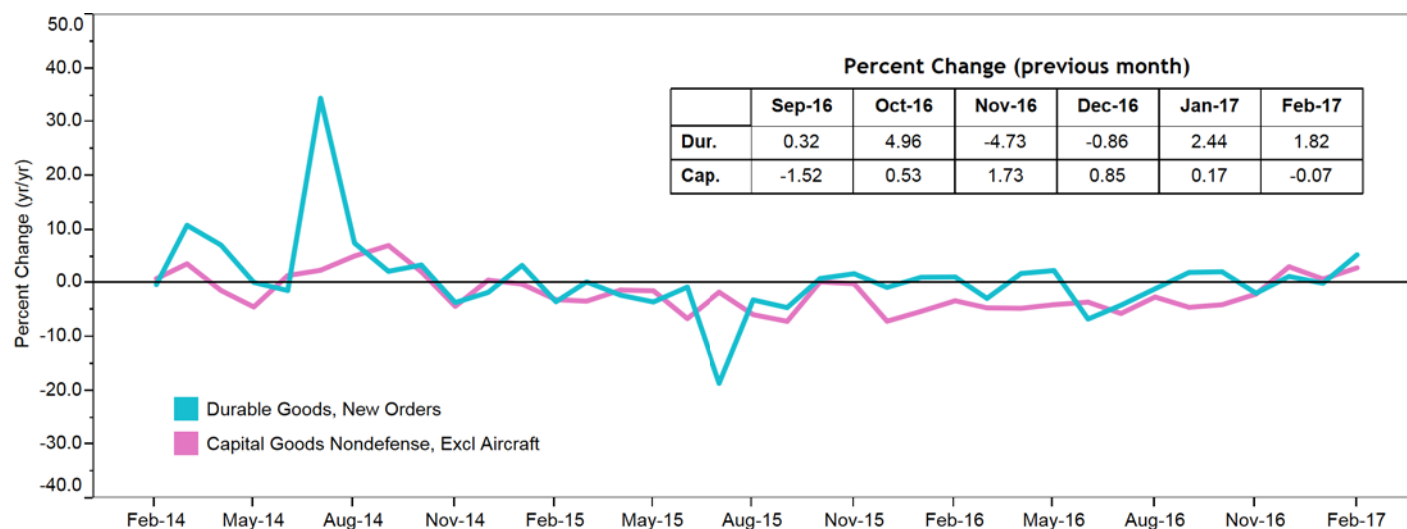
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in February, after increasing in the prior month, and were up from their year-ago level. Orders for nondefense capital goods, excluding aircraft, edged down in February, after increasing in each of the past four months, yet continued to rise on a year-over-year basis.

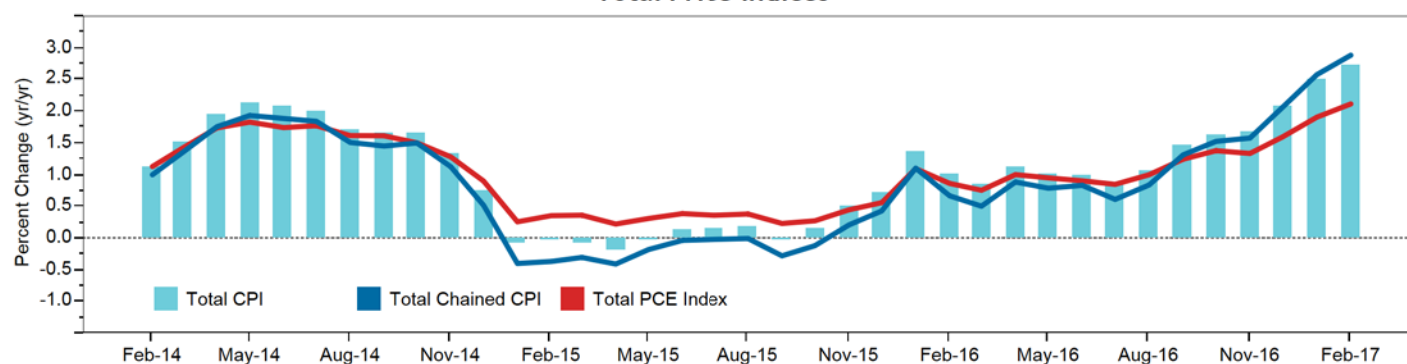
Durable Goods Orders



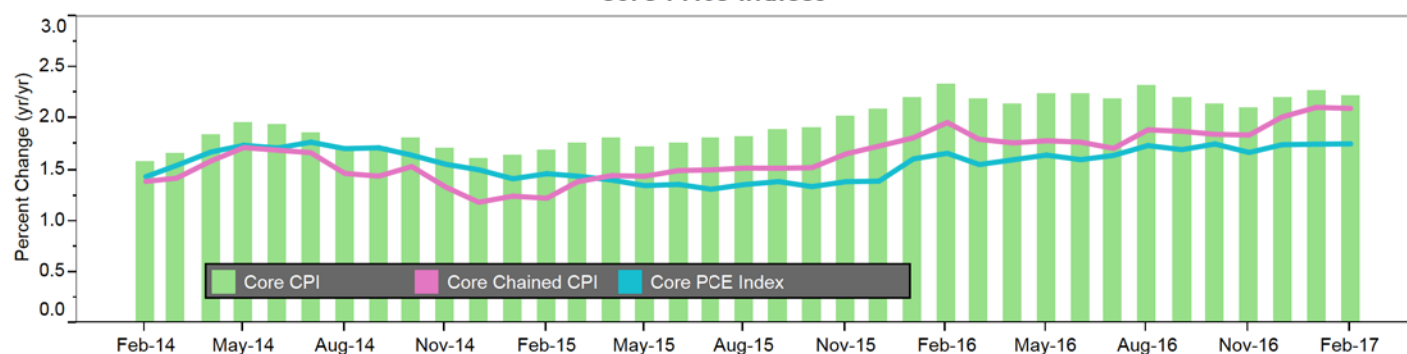
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to accelerate in February, as both the Consumer Price Index and the Personal Consumption Expenditure Price Index reached their highest rates in five years. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, eased a bit in February, as measured by the CPI. The core PCE Index held steady in February.

Total Price Indices



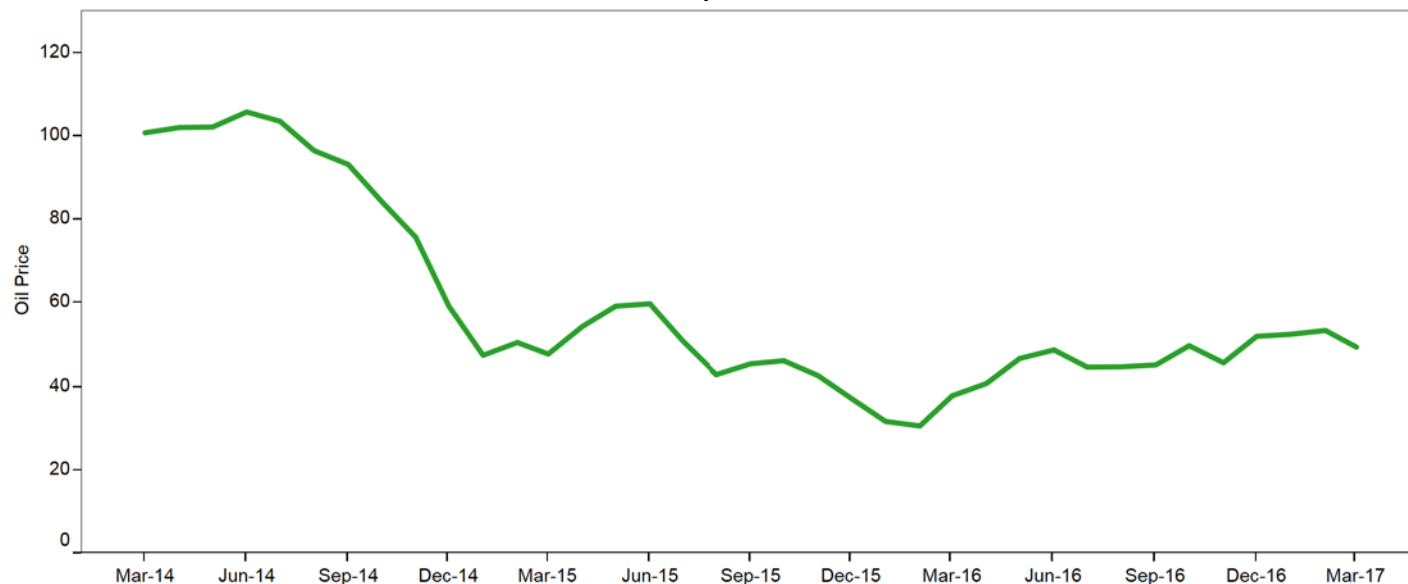
Core Price Indices



Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices declined on average in March, reaching their lowest monthly average since November, after rising in each of the prior three months. Prices have since increased in the first several days of April, registering \$53.1 per barrel on April 10.

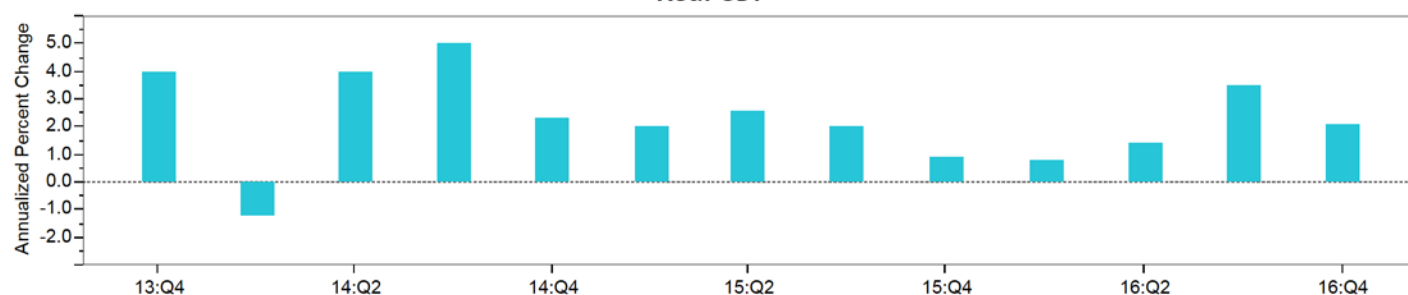
Domestic Spot Oil Price



Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

Fourth quarter real GDP growth was revised up in the third estimate to 2.1% from 1.9%. The higher rate primarily reflected upward revisions to personal consumption expenditures and to private inventory investment that were partly offset by downward revisions to nonresidential fixed investment and to exports.

Real GDP



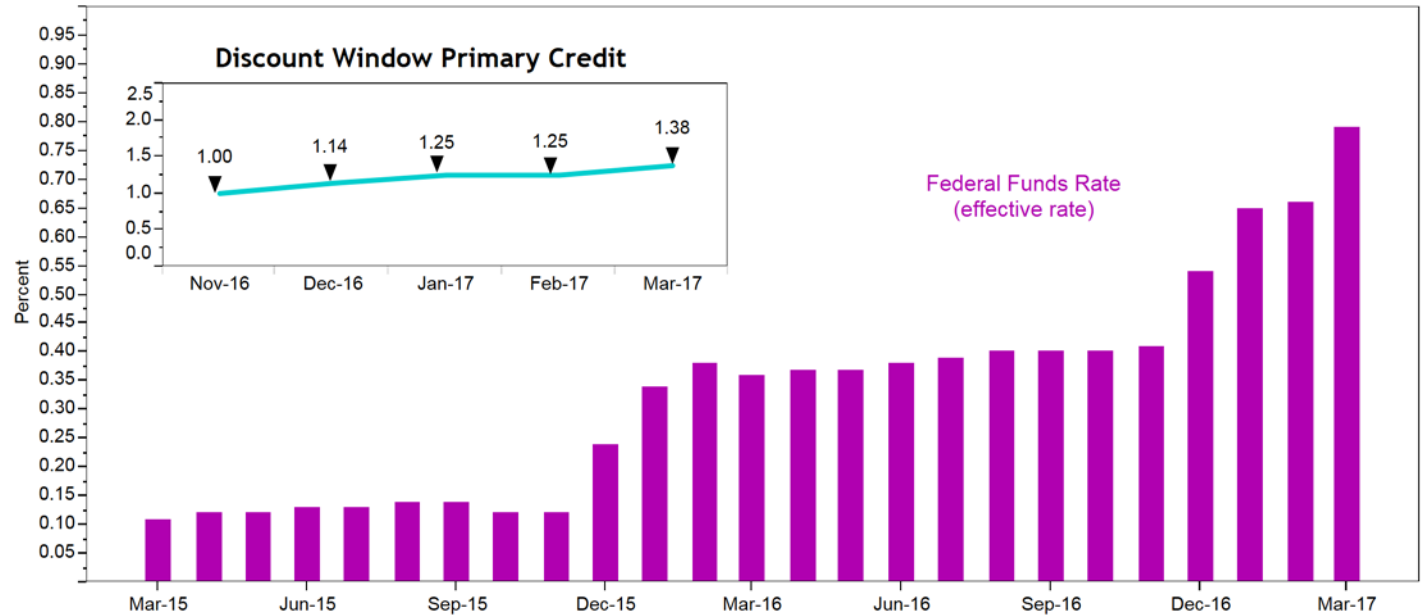
Revisions to Fourth Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	1.9	2.1
Personal Consumption	3.0	3.5
Business Investment	1.3	0.9
Equipment and Software	1.9	1.9
Residential Investment	9.6	9.6
Government	0.4	0.2
Exports	-4.0	-4.5
Imports	8.5	9.0
Final Sales	0.9	1.1

Source: Bureau of Economic Analysis / Haver Analytics.

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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.