



FEDERAL RESERVE
BANK OF BOSTON™

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

July 12, 2016

CURRENT ECONOMIC DEVELOPMENTS - July 12, 2016

Data released since your last Directors' meeting suggest growth in the second quarter likely accelerated from the upwardly revised rate seen in the first quarter. Labor markets continued to improve, consumer spending increased, and consumer attitudes remained high. However, support from manufacturing was mixed. Overall, economic growth is projected to pick up over the course of the year, but uncertainty surrounding the impact of Brexit presents a downside risk.

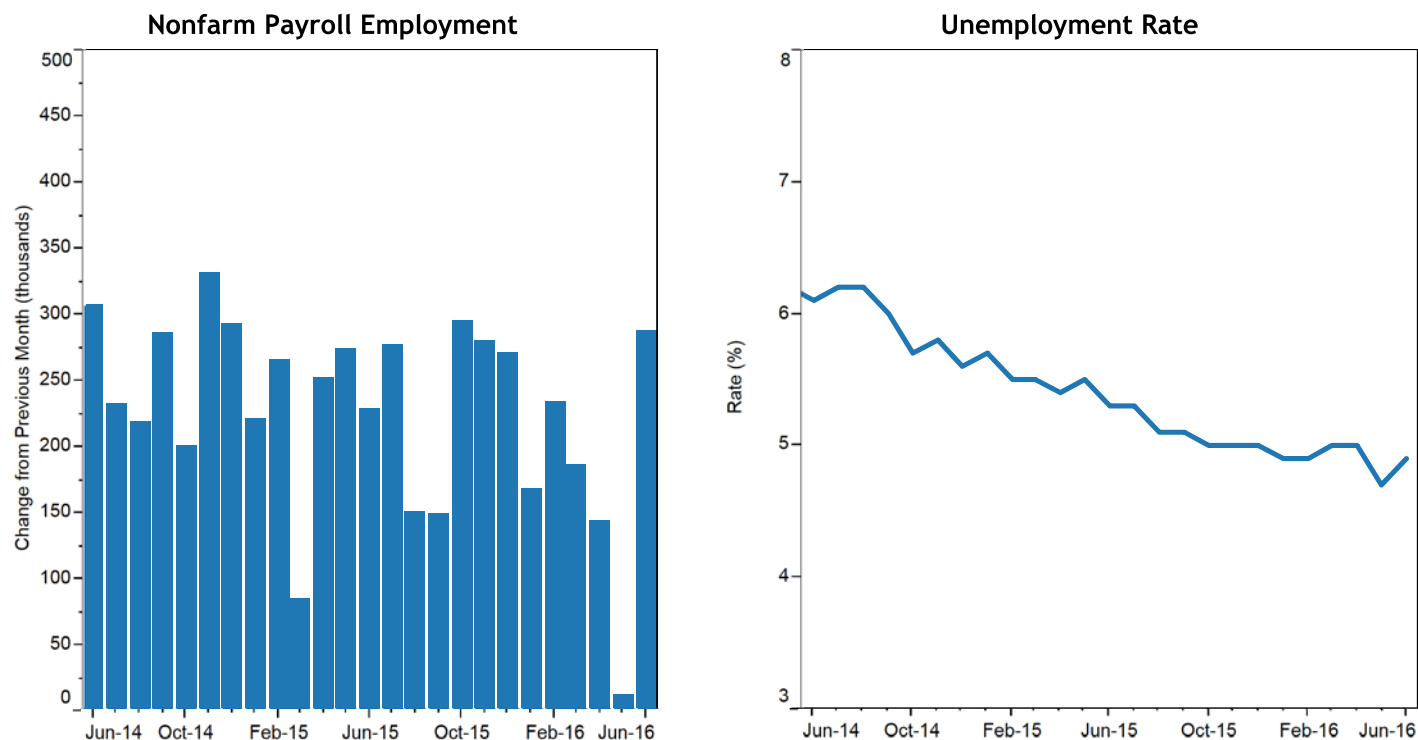
In June, nonfarm payrolls posted a larger-than-expected increase, while job gains for the previous two months were revised down slightly. The unemployment rate rose two-tenths to 4.9% in June, due to an increase in the labor force. Initial claims for unemployment insurance fell in June, after rising in May, and remain consistent with further improvements in the labor market.

Consumer attitudes were mixed in June, but remained high. The sentiment index eased slightly, while the confidence index increased as respondents expressed more favorable views of current and expected business and labor market conditions. Vehicle sales fell in June to their lowest rate since March. In May, real incomes and consumption both increased, albeit at slower rates than seen in April. Primary measures of real estate activity were mixed in May, as existing home sales rose during the month, while new home sales fell. Housing starts eased in May, despite a slight rise in single-family starts, while building permits inched up.

In the manufacturing sector, the ISM index rose in June and continued to signal expansion. Industrial production declined in May due to decreases in manufacturing and utilities production, and capacity utilization also fell. Orders for durable goods fell in May, but registered improvement over their year-ago level, while nondefense capital goods, excluding aircraft, decreased in May on both a monthly and year-over-year basis.

Growth in total consumer prices eased in May, yet growth in core prices, which exclude the volatile food and energy sectors, accelerated as measured by the CPI and held steady as measured by the PCE Index. Oil prices continued to rise in June, reaching their highest monthly average in nearly one year, but have fallen slightly in the first several days of July.

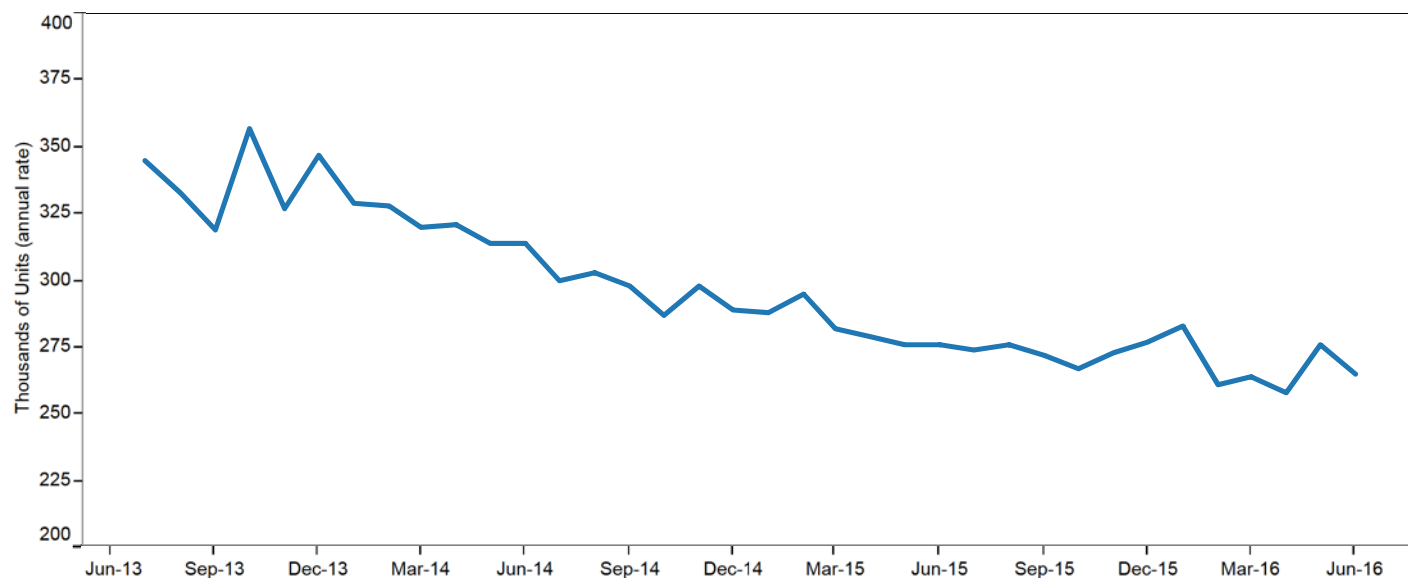
Nonfarm payrolls added 287,000 jobs in June, more than anticipated, while job gains for the previous two months were revised down by a net 6,000 jobs. The unemployment rate rose two-tenths to 4.9% in June, as an increase in the size of the labor force outpaced the rise in civilian employment.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance declined in June, after rising in May. Weekly claims remain at a level consistent with further labor market improvement.

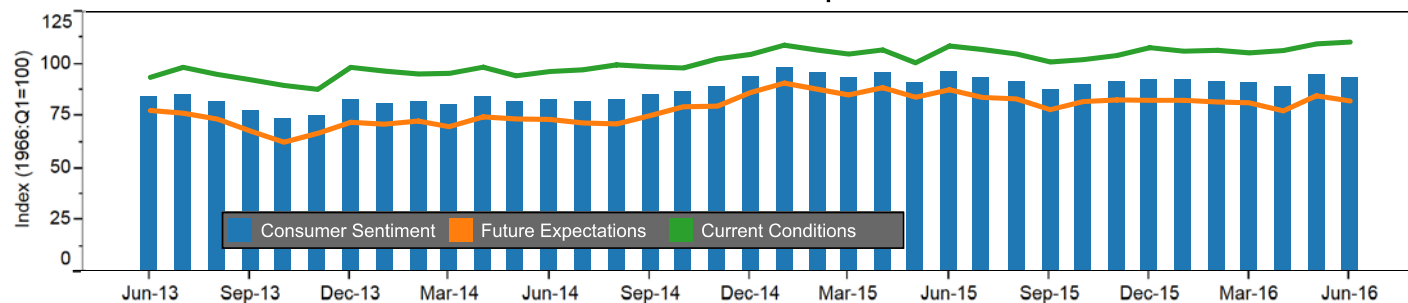
Initial Claims



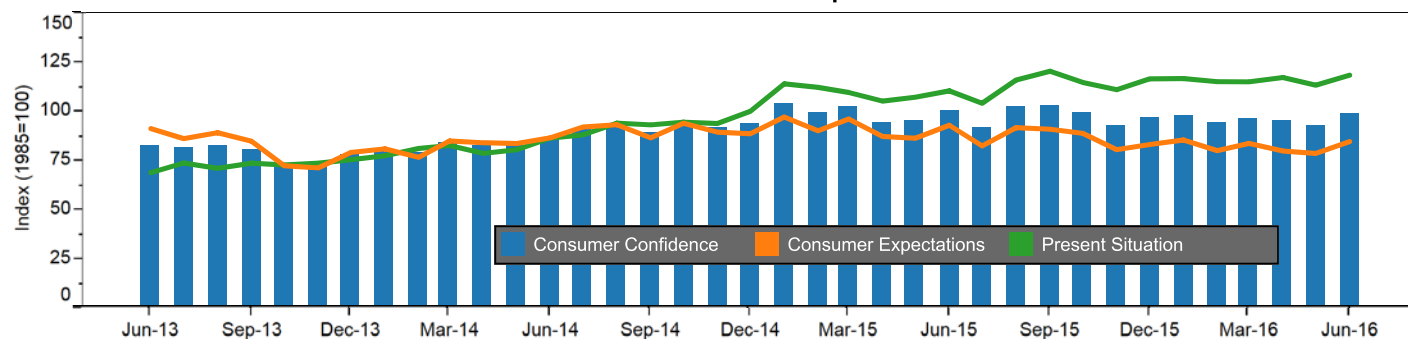
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in June. The sentiment index eased due to a decrease in the future expectations component. Respondents to the sentiment survey were less optimistic towards prospects for the economy, yet expressed stronger assessments of their personal finances. Meanwhile, the confidence index increased in June to its highest level since October. Respondents to the confidence survey recorded moderate improvement in both current and expected business and labor market conditions.

Consumer Sentiment and Expectations



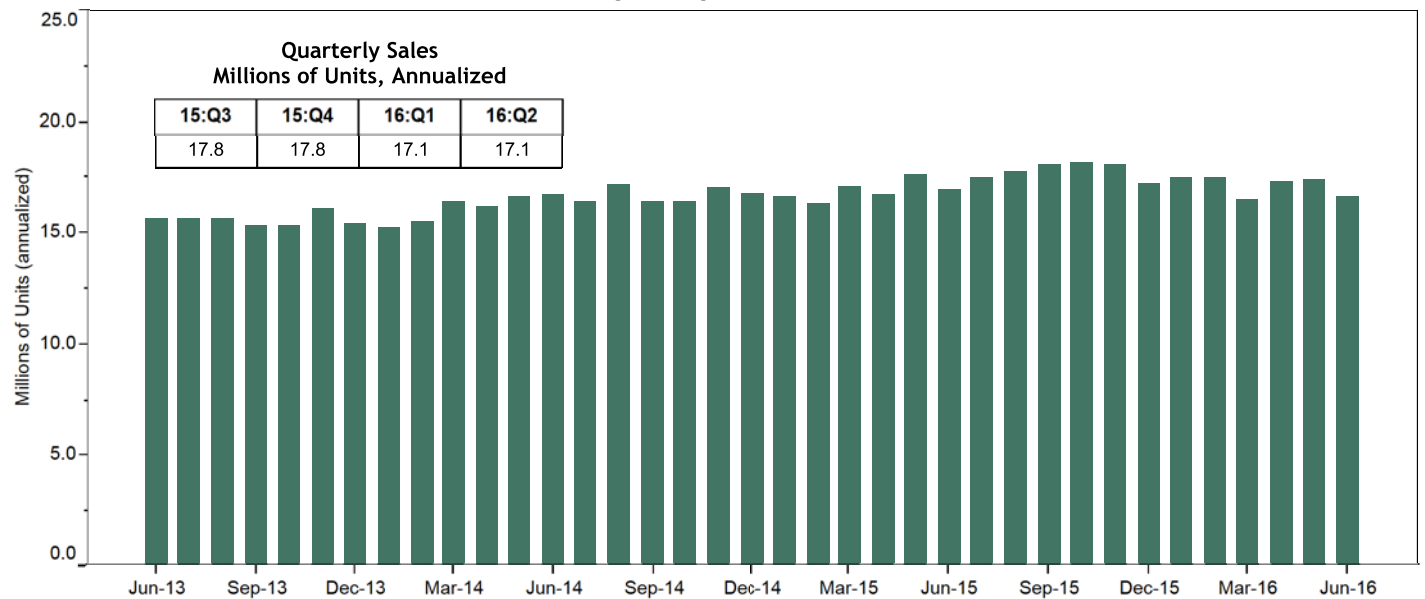
Consumer Confidence and Expectations



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

Lightweight vehicle sales unexpectedly fell in June, after rising in each of the prior two months, as both auto and light duty truck sales decreased. On average, sales in the second quarter were in line with the rates seen in the first quarter but below those seen throughout the second half of 2015.

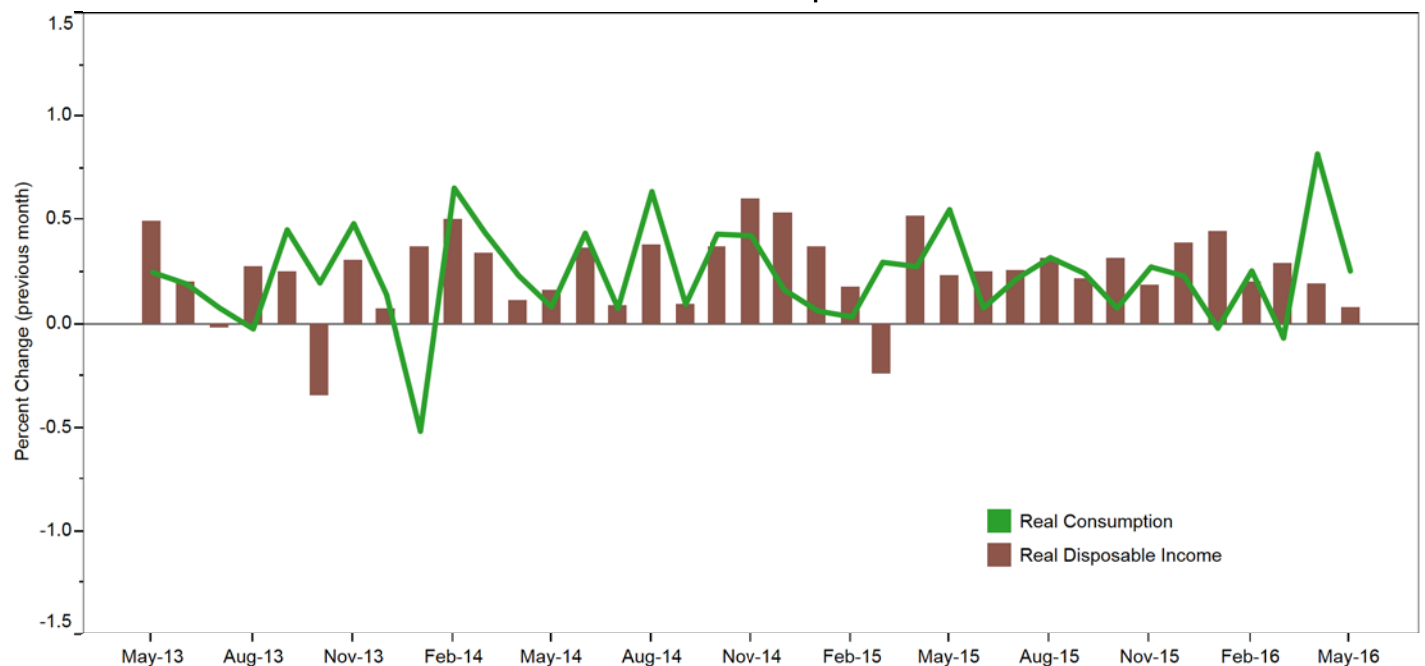
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes continued to rise in May, albeit at their slowest pace since March 2015. Consumption also rose in May, but at a slower pace than the upwardly revised rate seen in April.

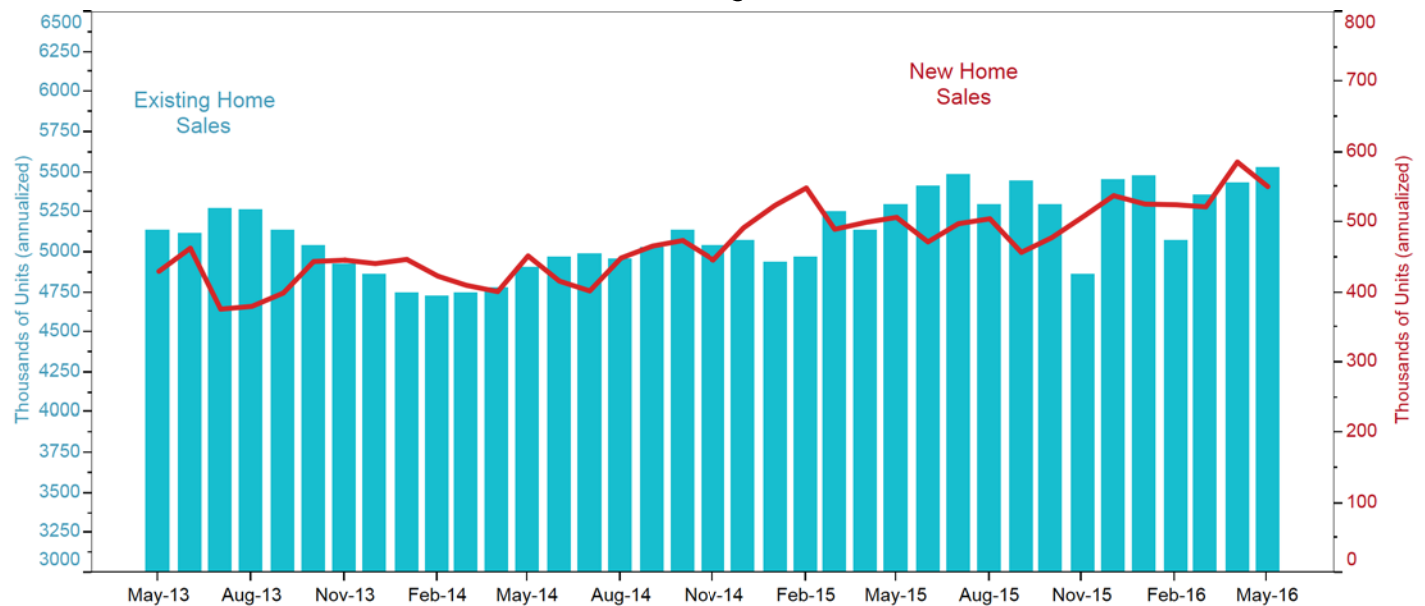
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in May. Existing home sales increased to their fastest rate since February 2007, while new home sales fell in May, partially offsetting the increase seen in April.

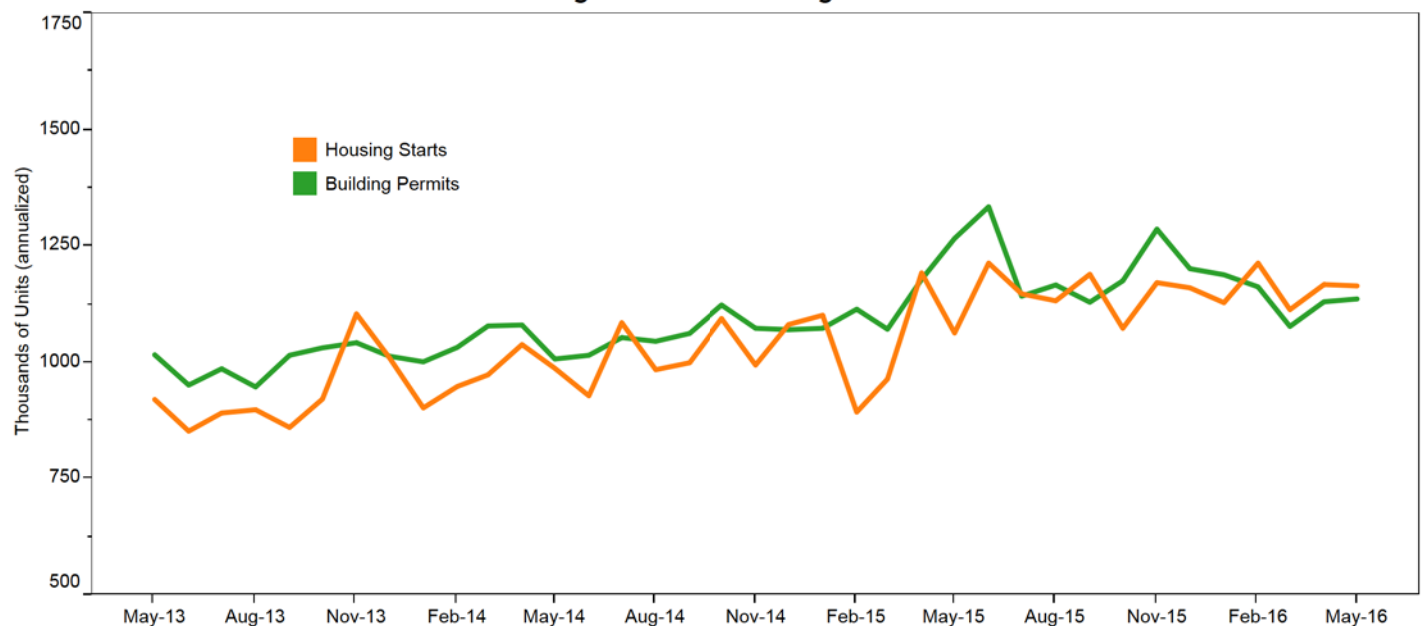
New and Existing Home Sales



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

Housing starts eased slightly in May, due to a decrease in multi-family starts, while single-family starts ticked up. Meanwhile, building permits rose a bit in May, due to an increase multi-family permits, while single-family permits declined.

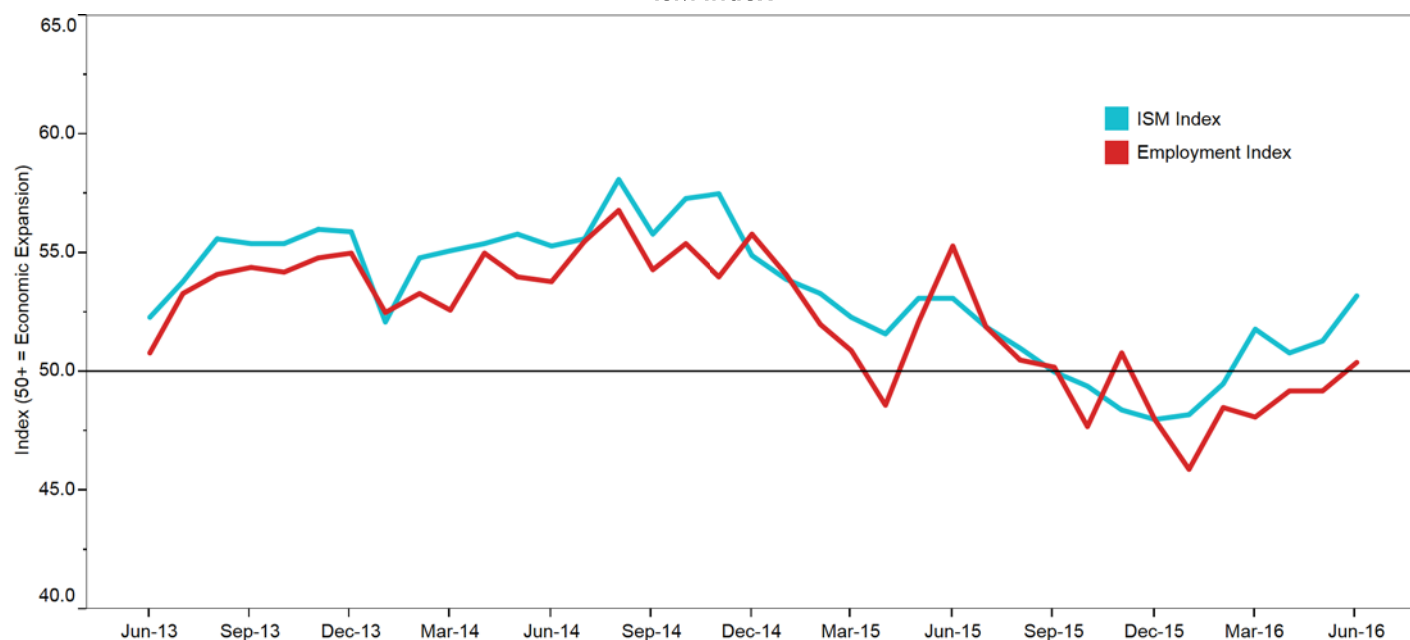
Housing Starts and Building Permits



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

The ISM manufacturing index increased in June, after rising in May, and continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in June, after holding steady in May.

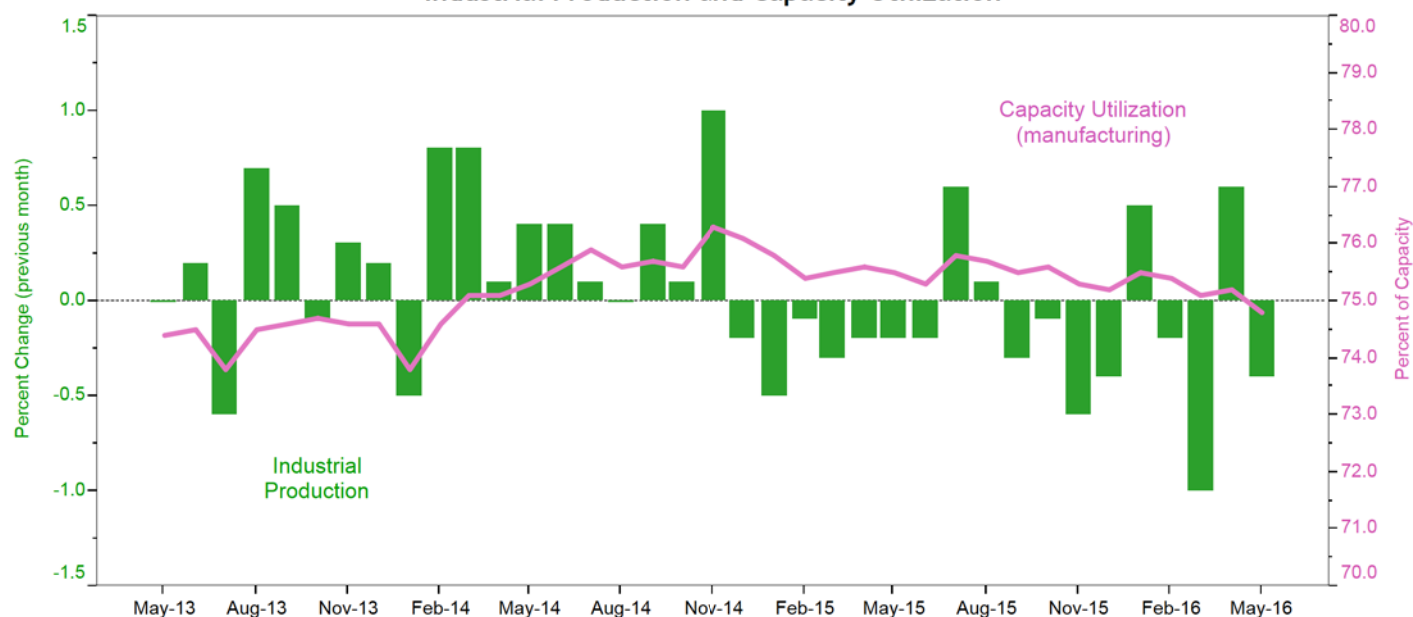
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in May, following an increase in April that was revised down slightly. Both manufacturing and utilities production posted decreases in May, while mining output increased. Capacity utilization declined in May, after rising slightly in April.

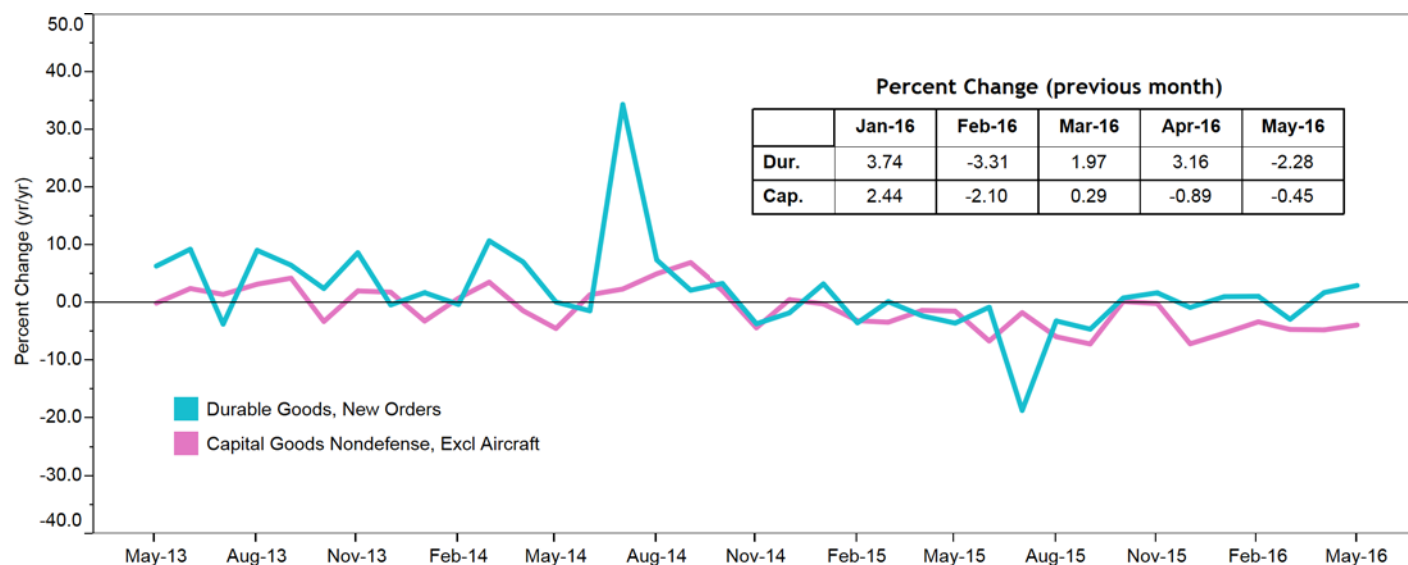
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in May, after rising in April, yet picked up a bit from their year-ago level. Meanwhile, orders for nondefense capital goods, excluding aircraft, fell in May as compared to the prior month and continued to decrease on a year-over-year basis. Core orders have declined from their year-ago levels in each of the past seven months.

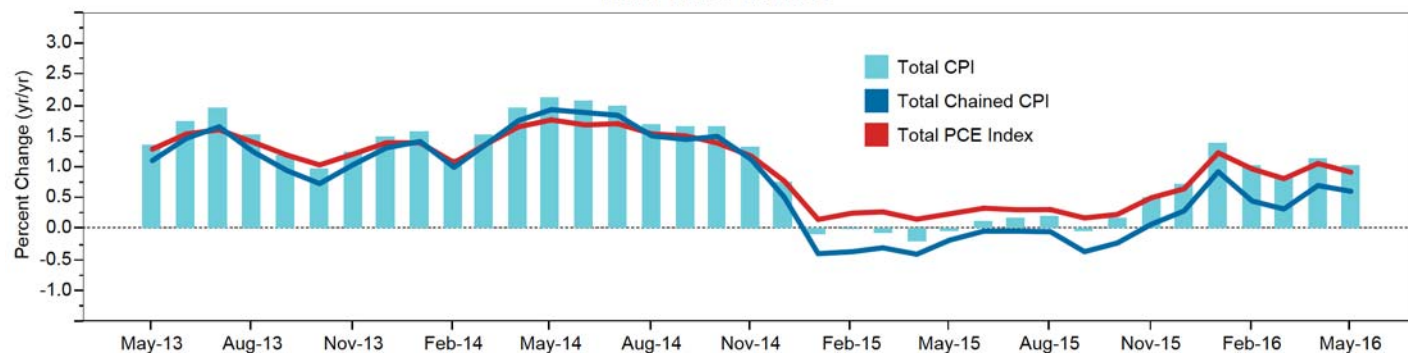
Durable Goods Orders



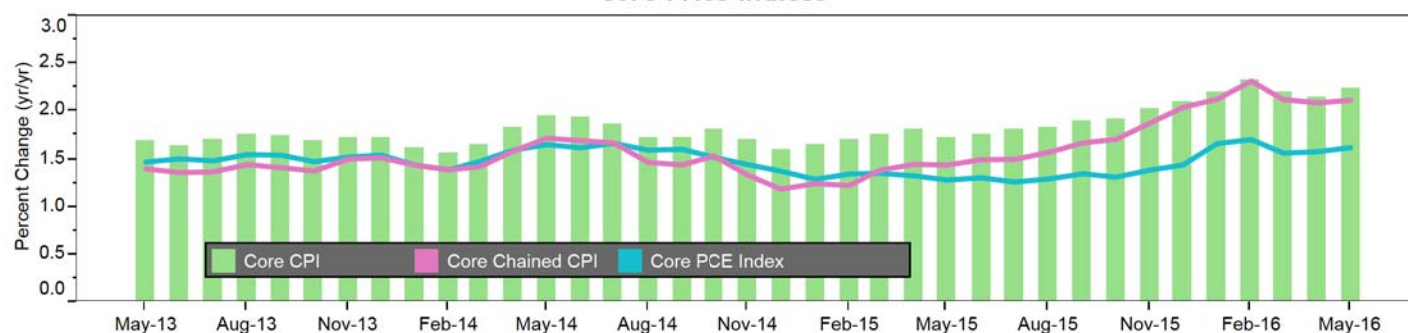
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices eased in May, after accelerating in April. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, ticked up in May, as measured by the CPI. The core PCE Index was essentially unchanged in May.

Total Price Indices



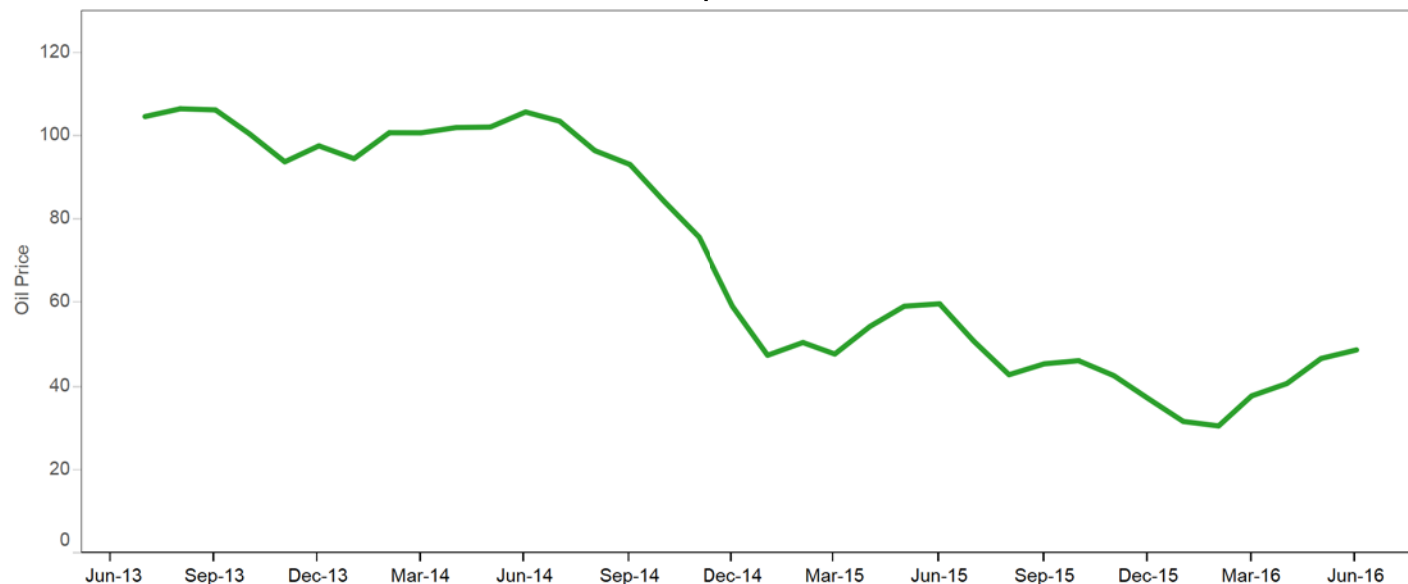
Core Price Indices



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

Oil prices continued to rise in June, reaching their highest monthly average since July 2015. Prices have decreased a bit in the first several days of July, registering \$44.8 per barrel on July 11.

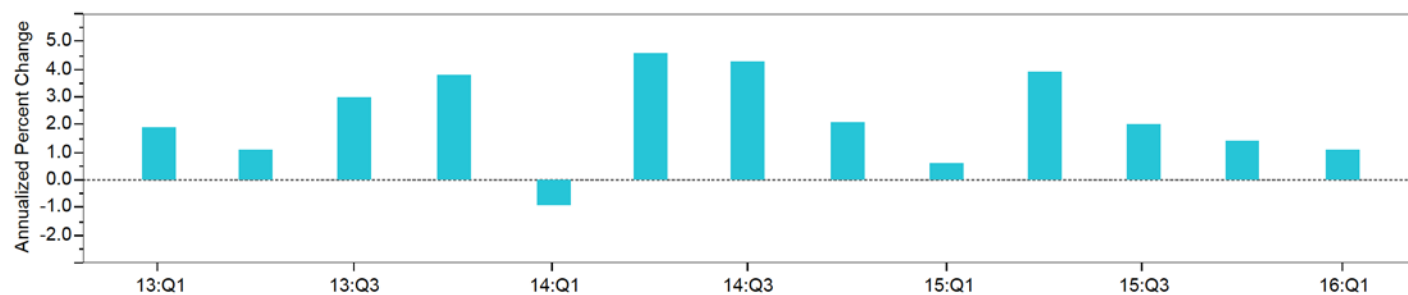
Domestic Spot Oil Price



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

First quarter real GDP growth was revised up in the third estimate to 1.1% from 0.8%. The higher rate primarily reflected upward revisions to exports and to nonresidential fixed investment that were partly offset by a downward revision to personal consumption expenditures.

Real GDP



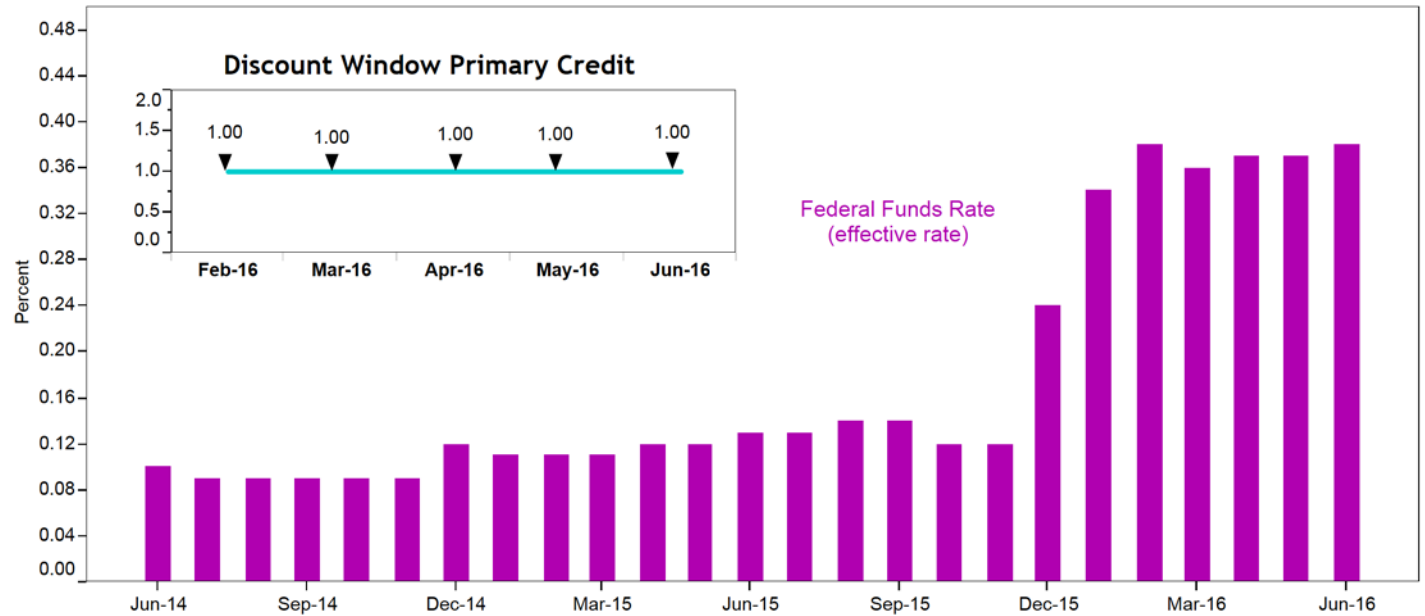
Revisions to First Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	0.8	1.1
Personal Consumption	1.9	1.5
Business Investment	-6.2	-4.5
Equipment and Software	-9.0	-8.7
Residential Investment	17.1	15.6
Government	1.2	1.3
Exports	-2.0	0.3
Imports	-0.2	-0.5
Final Sales	1.0	1.3

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.