FEDERAL RESERVE BANK OF BOSTON™

The

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

June 4, 2019

CURRENT ECONOMIC DEVELOPMENTS - June 4, 2019

Data released since your last Directors' meeting revealed growth was a bit slower in the first quarter than previously estimated, and suggest growth in the second quarter has slowed closer to potential. Labor markets remain tight with unemployment near historic lows and consumer attitudes remain elevated, while income and spending gains have been inconsistent yet continue to generally trend upward. However, housing and manufacturing data both continue to be softer than last year. Despite slowing from the strong first quarter rate, growth is likely to hold close to potential through the middle of the year.

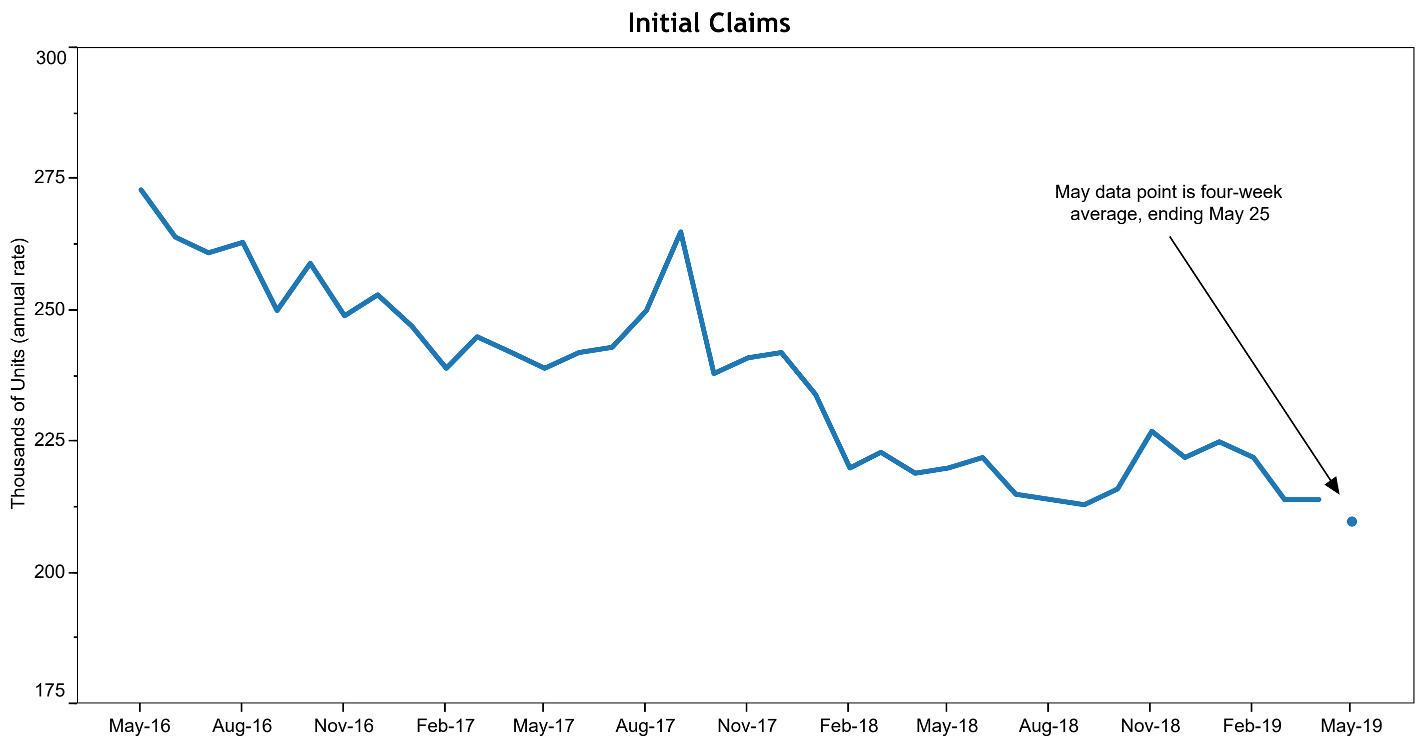
In the four weeks ending May 25th, initial claims for unemployment insurance fell further, on average, and remain at historic lows. Employment data from the Bureau of Labor Statistics are due out on Friday morning and markets are anticipating another solid gain in employment of close to 200,000 with the unemployment rate holding steady at 3.6 percent.

Consumer attitudes remain upbeat. Consumer confidence improved in May, returning close to the 18-year highs seen late last year. Sentiment also improved in May, although faltered later in the month in response to trade tensions. New home sales declined in April - but from first quarter levels that were revised higher - while existing sales held steady. Housing starts rose further in April while permits were essentially flat, although single-family permits continued to fall.

In the manufacturing sector, the ISM index eased but continued to signal expansion. Industrial production and capacity utilization both dipped in April and the declines accompanied downward revisions to previous months' estimates. Most major market groups reported production declines in April. Both total and core durable goods orders fell in April and slowed from the previous year, further evidence of the ongoing soft patch in manufacturing.

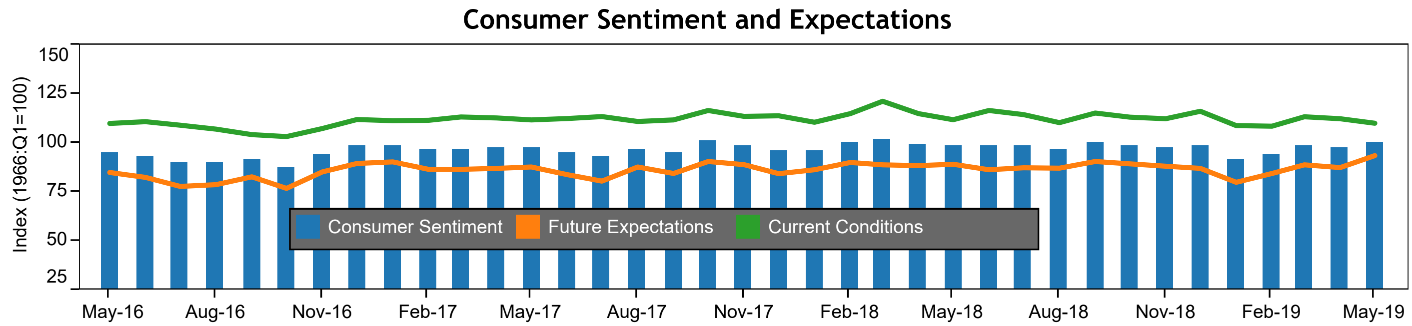
Recent inflation data rose slightly. The core PCE index rose more in April than in prior months, though first quarter growth was revised downward and the 12-month change is still below target at 1.6%. Both total and core CPI ticked up one-tenth in April, year-over-year. Lastly, oil prices have fallen by $10/barrel over the past two weeks, accelerating the downward trend seen since several months of increases peaked in mid-April.

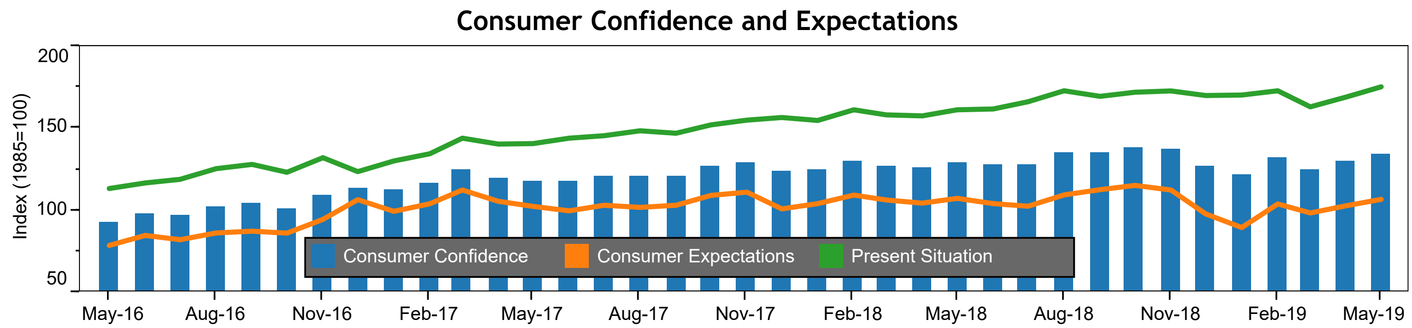
Initial claims for unemployment insurance were flat in April, remaining near historic lows. The 4-week moving average has decreased for three consective weeks, down to 216,750 in the week ending May 25.



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

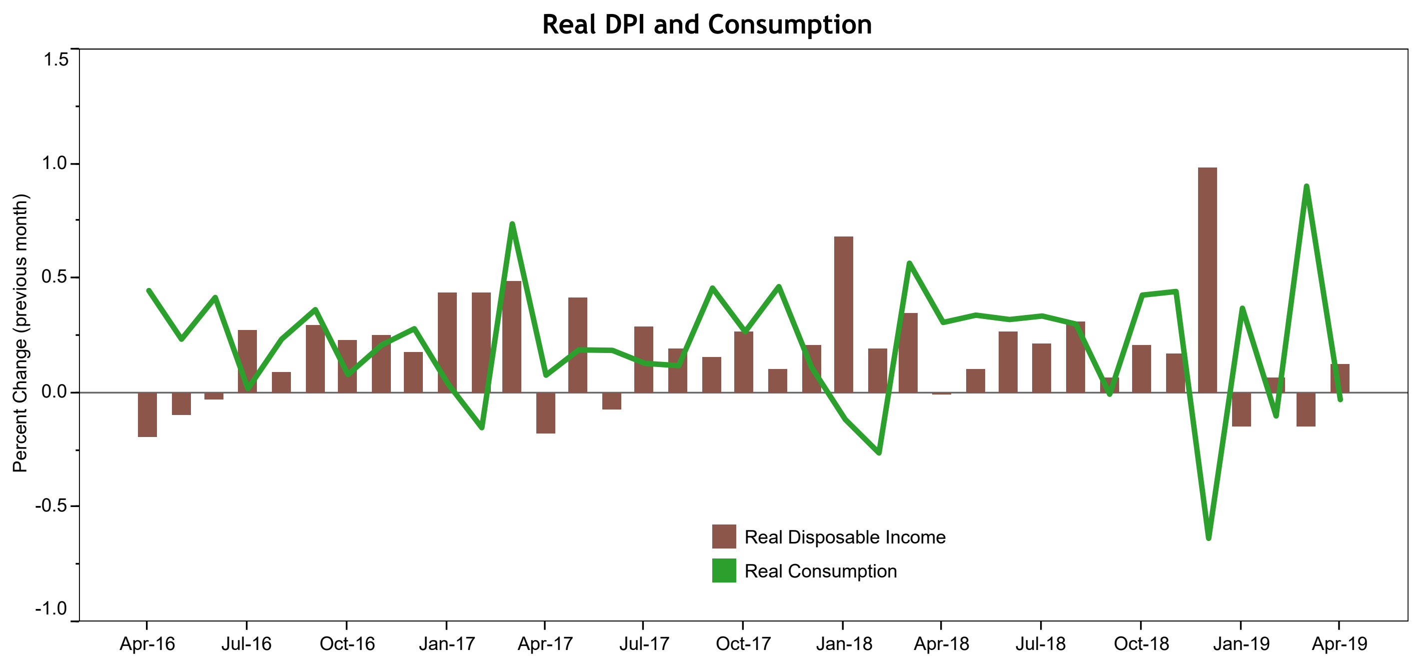
Consumer sentiment rose to 100.0 in May over April's reading of 97.2, despite losing ground later in the month as trade tensions reignited. The expectations index increased to 93.5 in May from 87.4 in April, while the current conditions index declined from 112.3 to 110.0. Consumer confidence rose to a six-month high of 134.1 as both the expectations and present situation components rose.





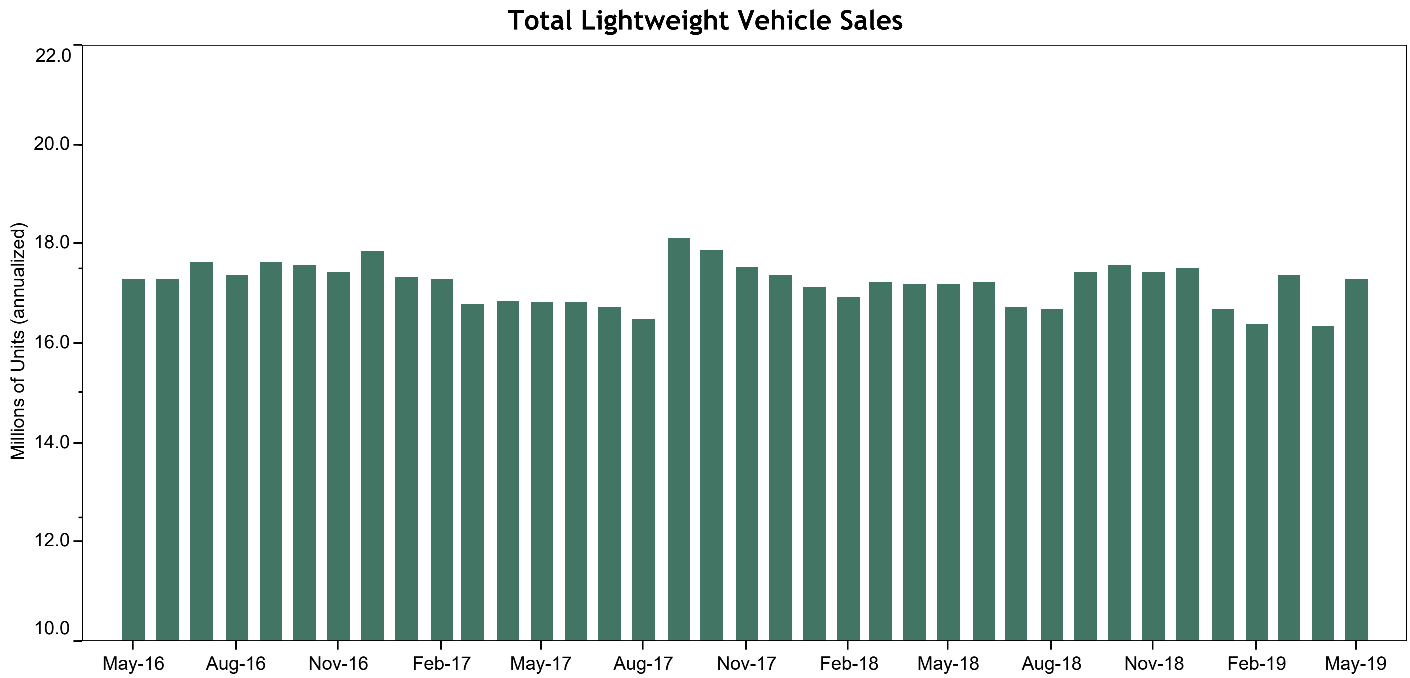
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Real incomes rose 0.1 percent in April while consumption decreased less than 0.1 percent. The increase in income reflected increases in personal interest income, wages and salaries, and government social benefits.



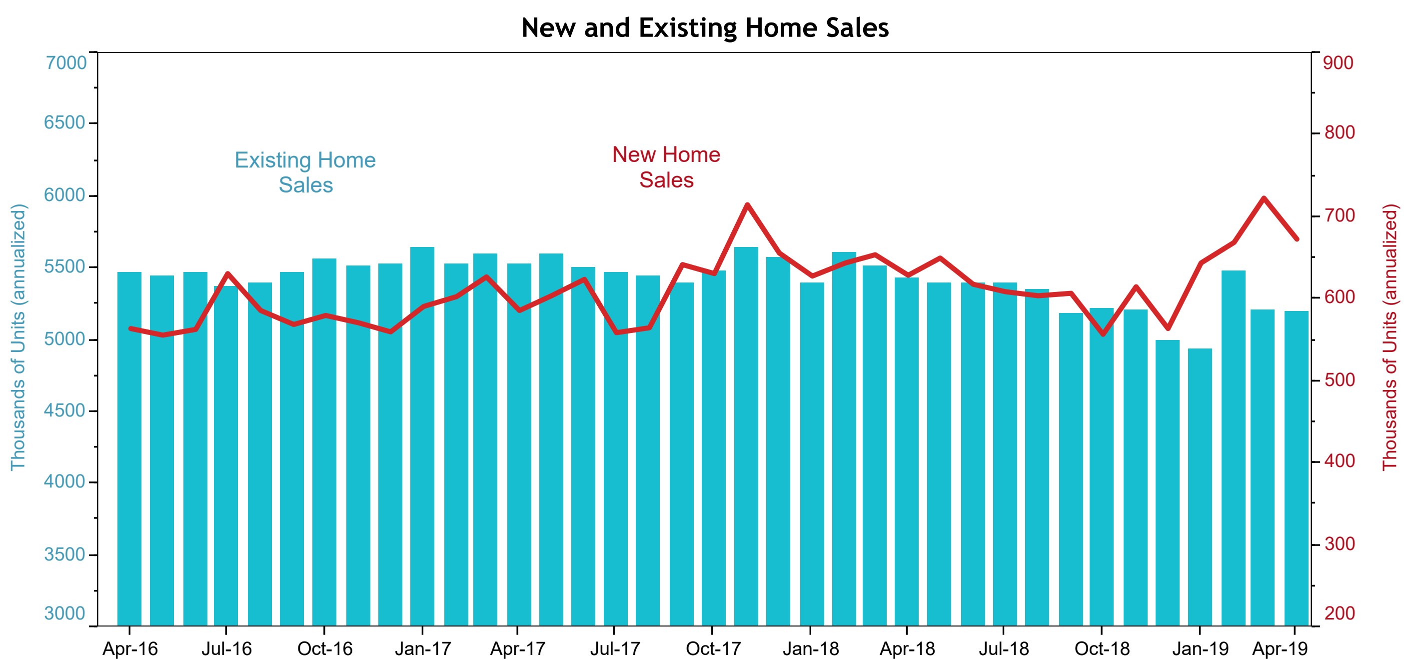
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales rebounded in May to an annual rate of 17.3 million units after faltering in three of the last four months.



Source: Bureau of Economic Analysis / Haver Analytics.

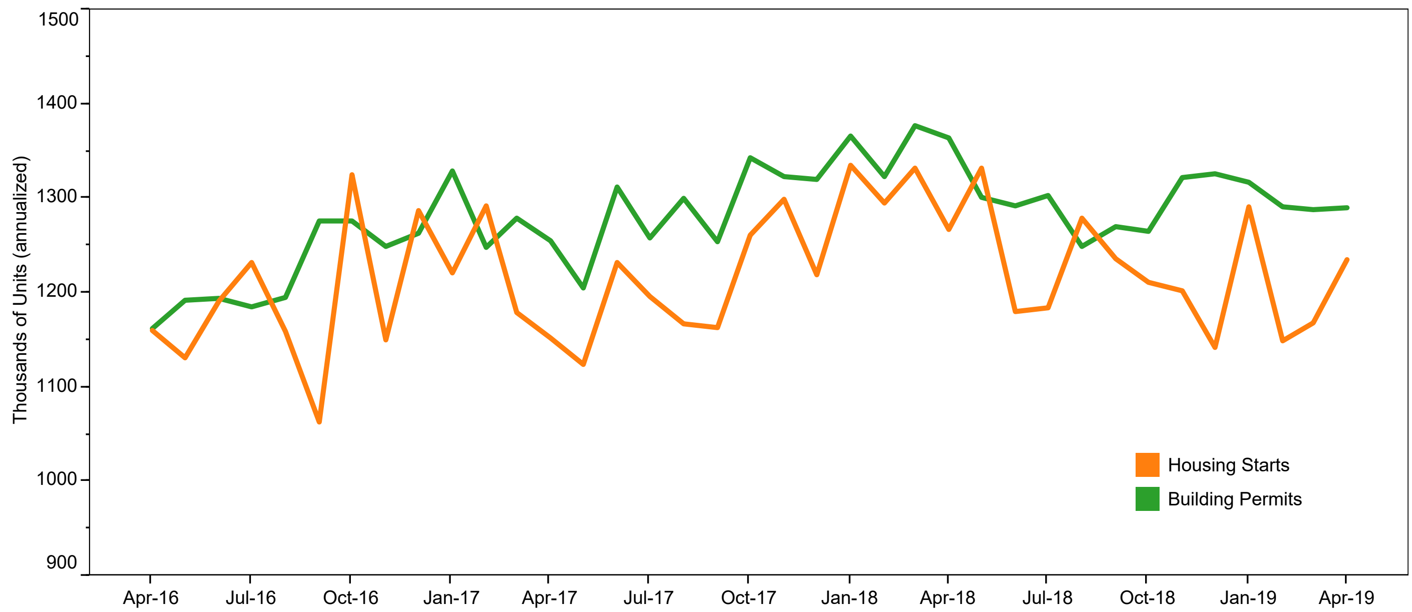
New home sales declined 6.9% in April, but despite the decrease there are still positive signs for the housing market: first quarter numbers were revised up and April sales were up 7.0% year-over-year. Existing home sales essentially held steady in April.



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

New construction data were mixed in April. Housing starts rose 5.7 percent over March, largely due to increases in single-family construction. Yet building permits were mostly flat with single-family permits falling to a two-year low.

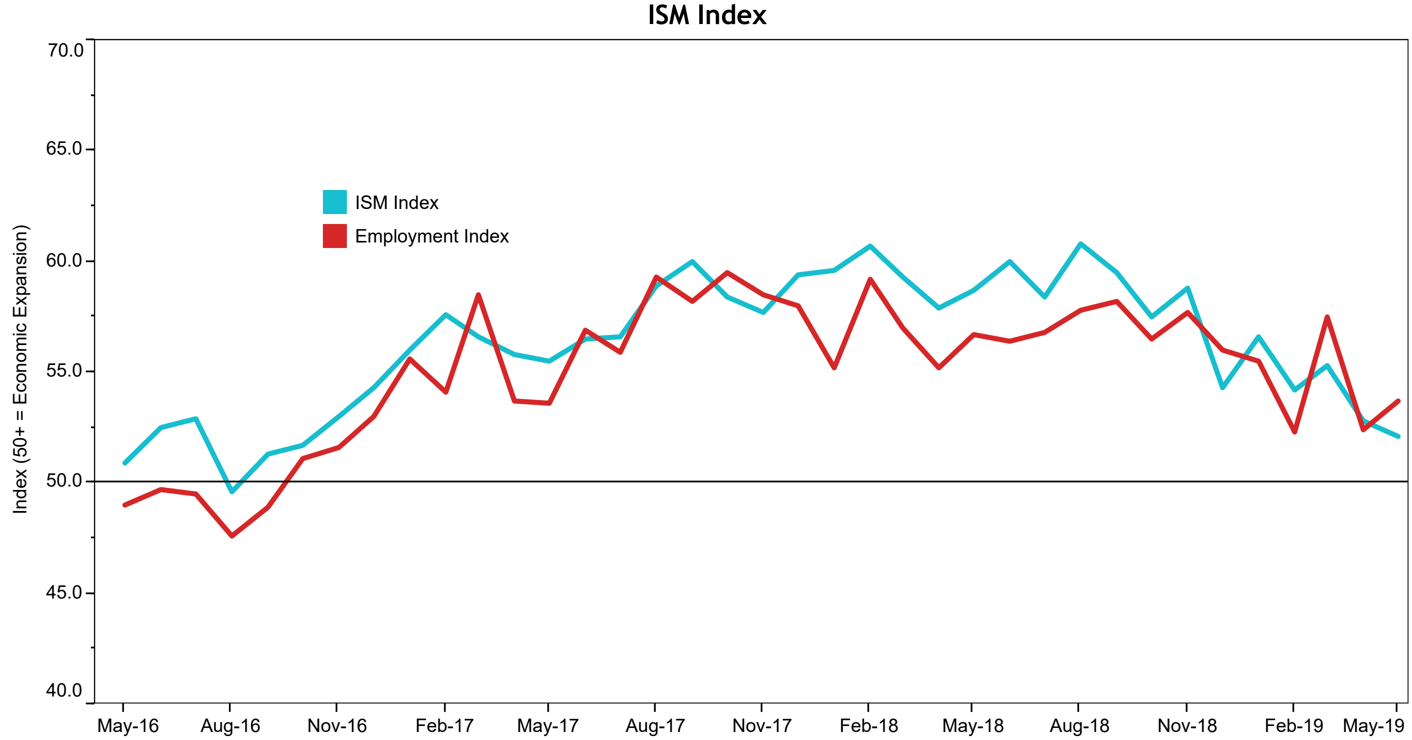
Housing Starts and Building Permits



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

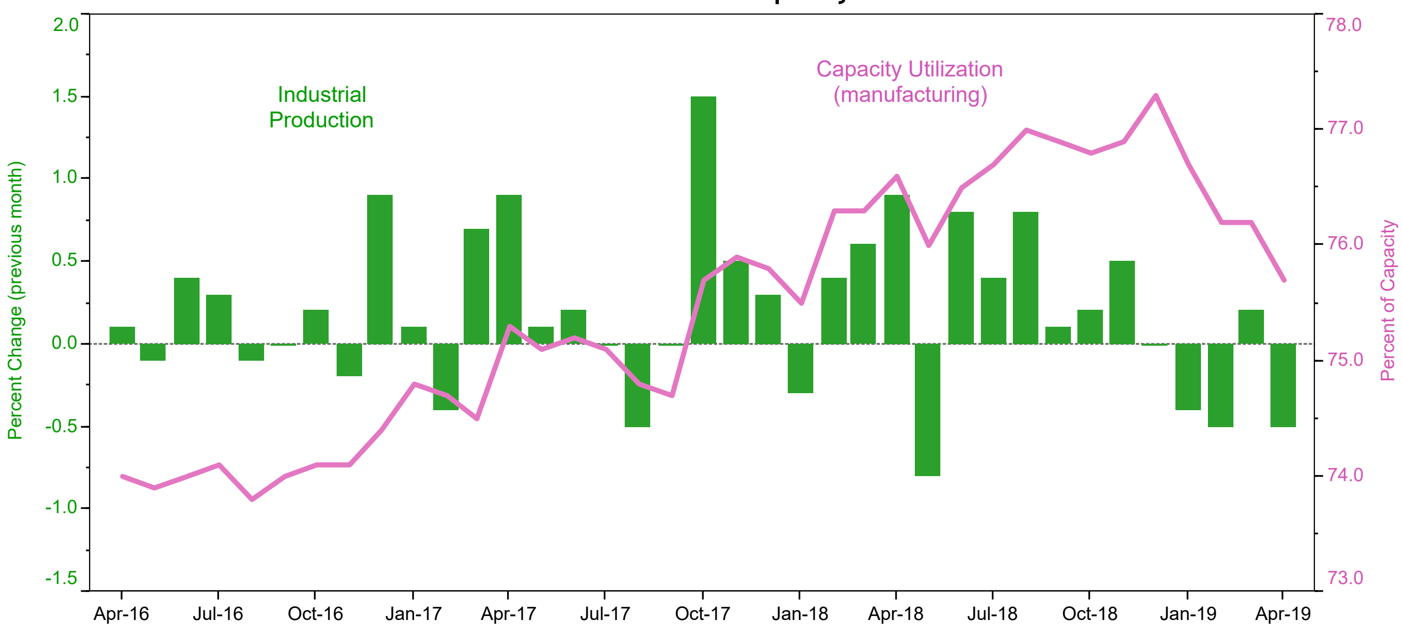
The ISM manufacturing index eased to 52.1 in May, although still signalled expansion of manufacturing activity. The production, inventories, and supplier deliveries components all saw declines. The employment index rose to 53.7 from 52.4.

ISM Index



Industrial production slumped 0.5 percent in April. Most major market groups declined, among them, automotive, chemical products, consumer energy products, and utilities. Capacity utilization fell sharply to 77.9% from an upwardly revised 78.8%.

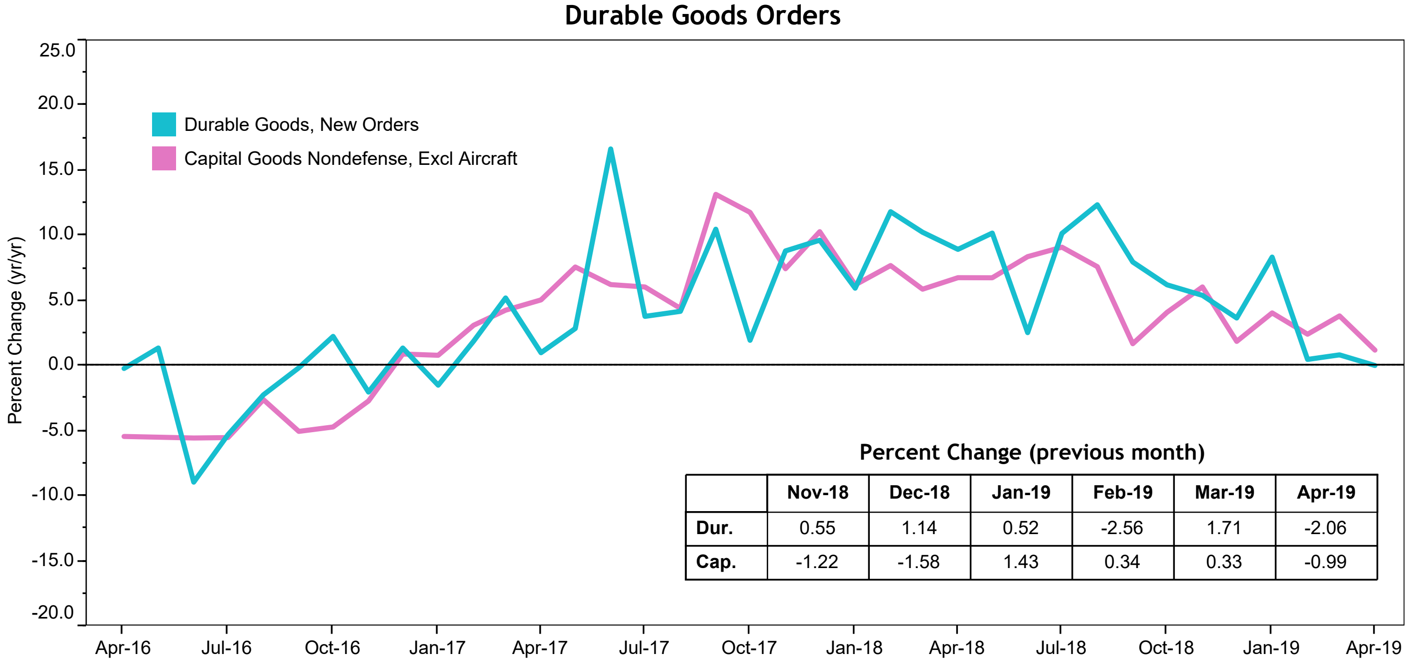
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders fell sharply in April, their second steep drop in three months. Over the past year orders were flat, ending a three-year run of consecutive gains. Core orders also decined in April and slowed on a year-over-year basis.

Durable Goods Orders

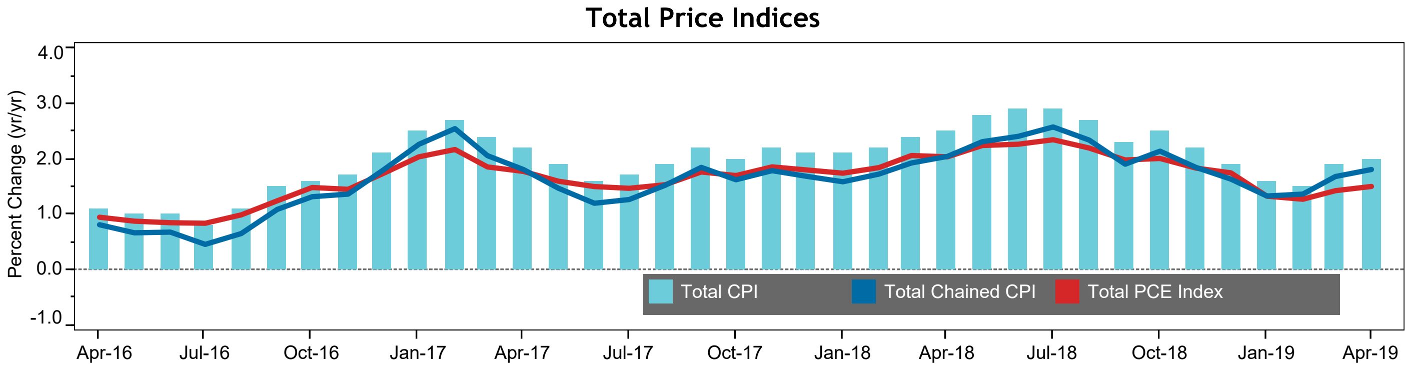


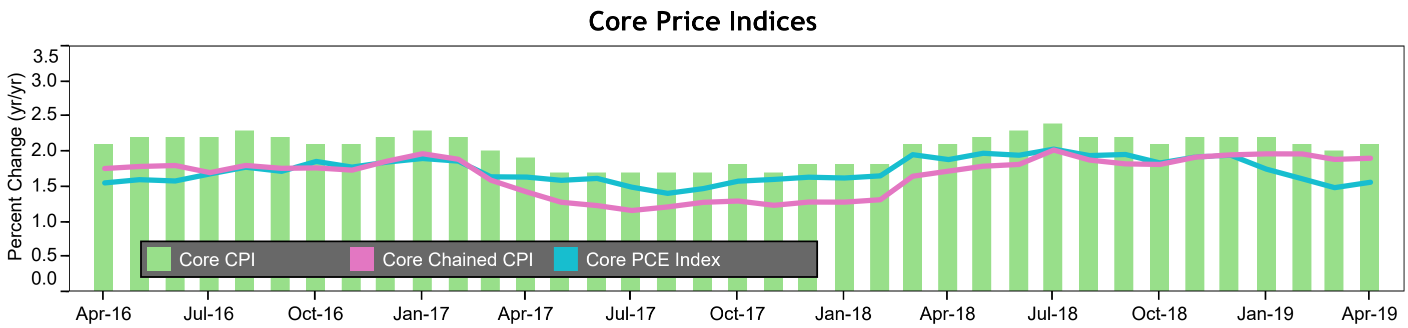
Percent Change (previous month)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Dur.	0.55	1.14	0.52	-2.56	1.71	-2.06
Cap.	-1.22	-1.58	1.43	0.34	0.33	-0.99

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

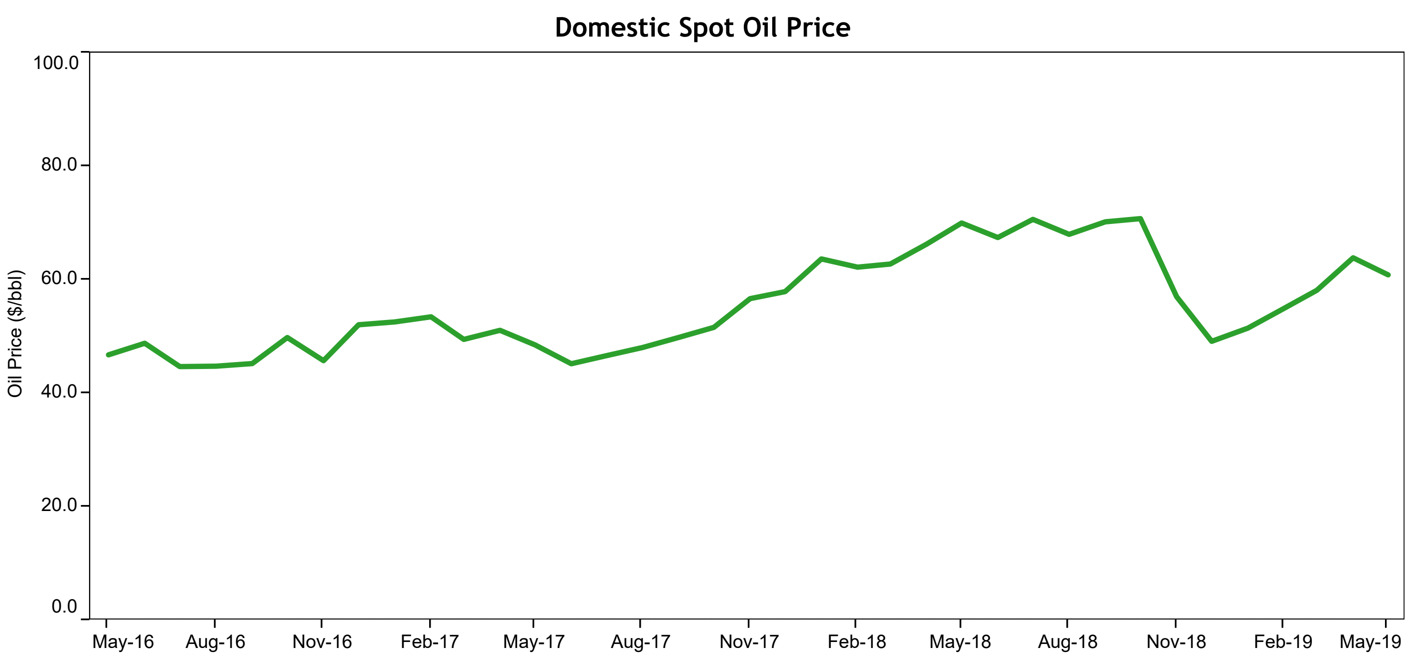
Inflation as measured by total CPI rose 0.3% in April, largely due to higher gas prices. Core CPI was up 0.1 percent for the third consecutive month. PCE inflation increased 0.3 percent in April, while the core measure increased 0.2 percent. On a year-over-year basis, total and core inflation edged up one-tenth for both the CPI and the PCE.





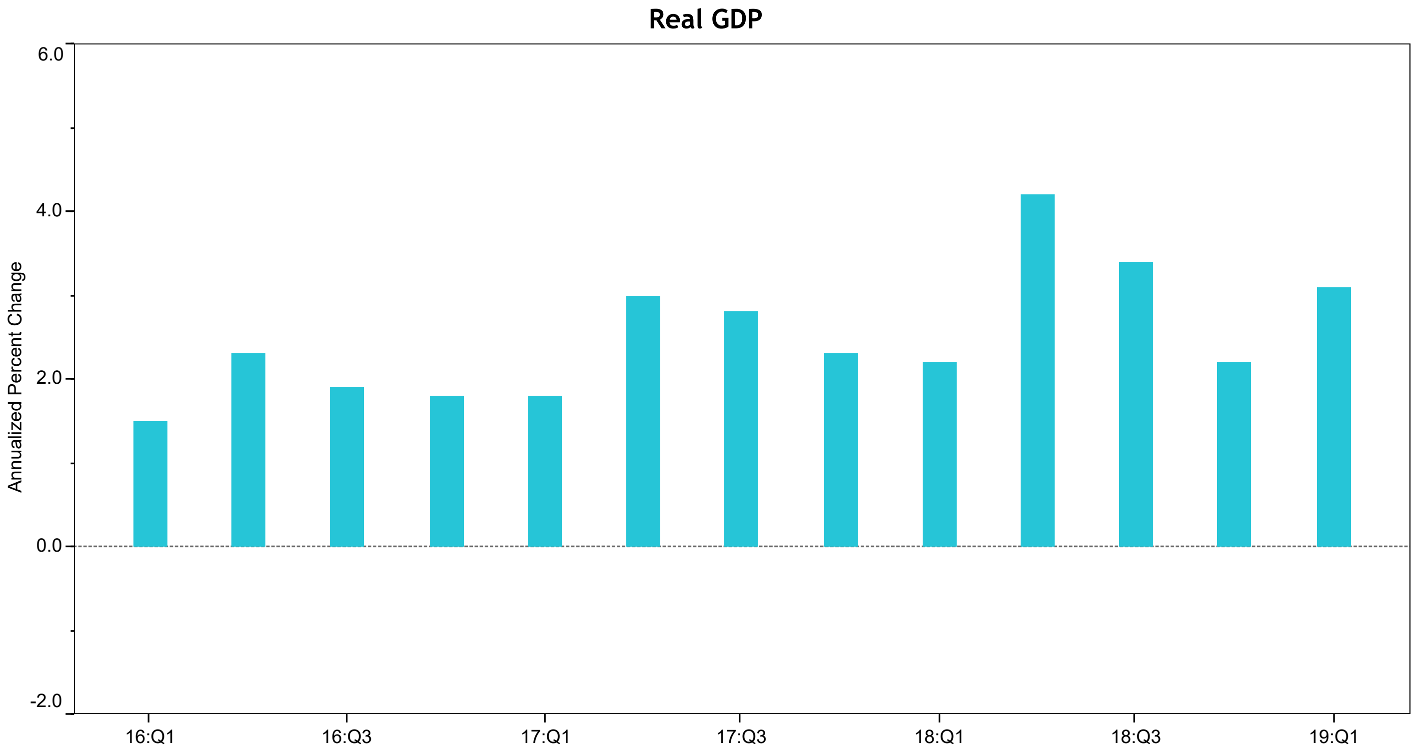
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices fell in May after four consecutive months of increases, ending the month with a daily average of $60.85 per barrel. Prices in the last week have seen further declines, closing at $53.25 per barrel on June 3rd.



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

Real GDP rose at a 3.1 percent annual rate in the first quarter, down from the previous estimate of 3.2 percent. The increase in real GDP in the first quarter reflected positive contributions from PCE, private inventory investment, exports, state and local government spending, and nonresidential fixed investment that were partly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.



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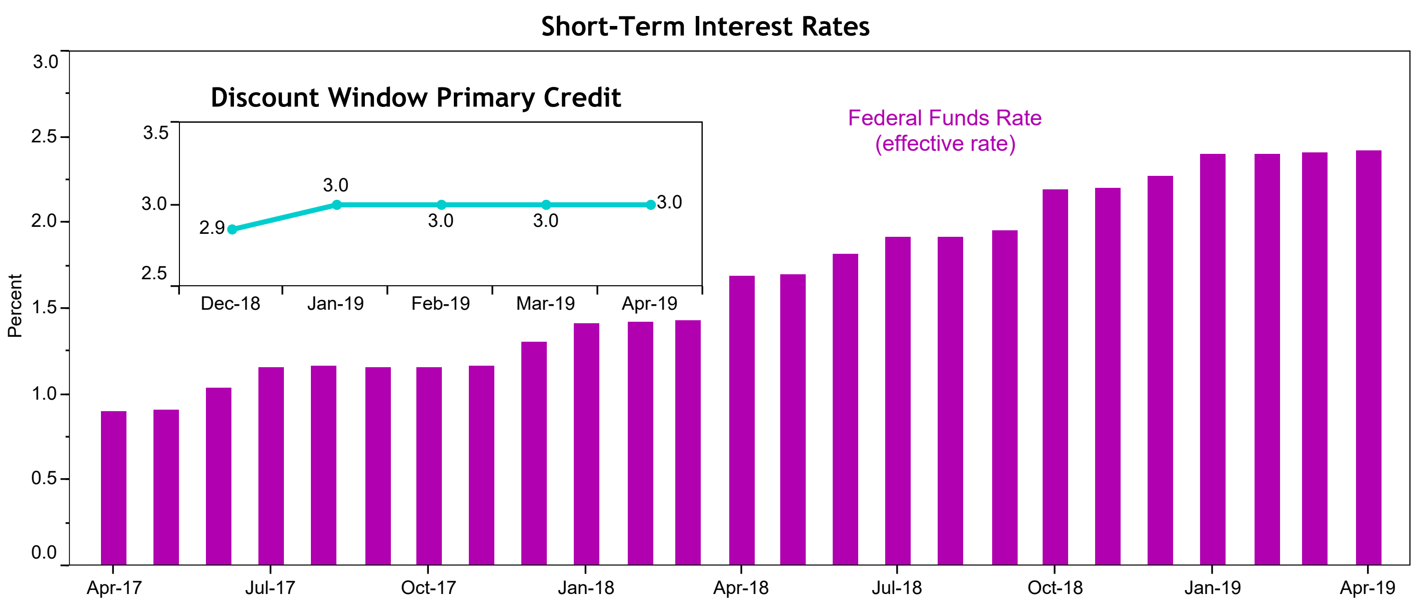

Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Mike Corbett and David Brown.