FEDERAL RESERVE
BANK OF BOSTON™

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

June 9, 2020

Data released since your last Director's talk have shown some signs that the worst of the pandemic effects are behind us, though economic conditions remains weak and the months ahead are full of uncertainty. Despite some improvement in some measures in May, and the boost from states beginning to re-open their economies, second quarter GDP growth almost certainly contracted at an historic rate. First quarter growth was also revised down a bit. Looking ahead, strength and speed of the recovery will hinge largely on medical advances to treat the virus and continued adherence to precautions designed to limit the likelihood of a second wave.

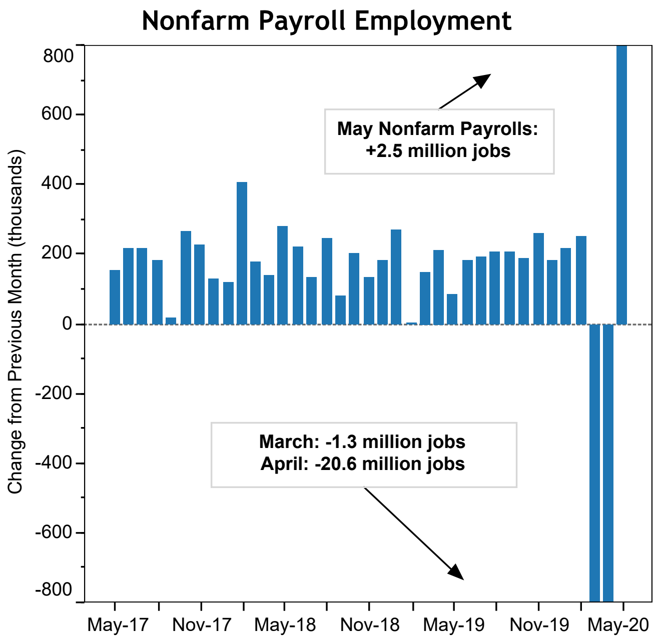
The May employment report surprised to the upside, as nonfarm payrolls rose by 2.5 million jobs and the unemployment rate recovered slightly from April's historic highs. These developments were in sharp contrast to the expectation of further job losses and another jump in the unemployment rate. Still, job losses in March and April were revised a bit higher. It may take a few months for a clearer employment picture to emerge, as recent data have been impacted by mis-classification and repsonse rate issues. While initial unemployment claims remain historically high, the weekly totals have been trending steadily downward since the end of March.

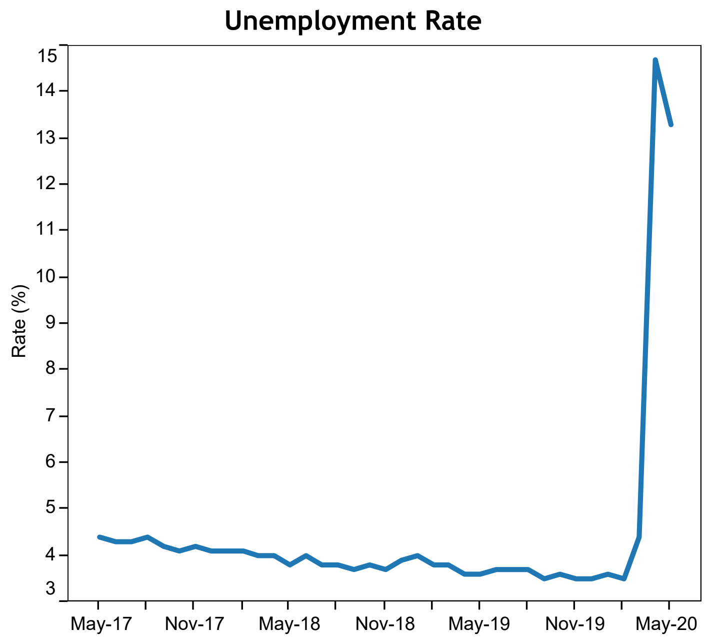
Real consumption posted another record decline in April while incomes soared, bouyed by government payments to individuals. Consumer attitudes leveled off in May following successive steep declines, likely boosted by those payments and fewer restrictions on mobility. Lightweight vehicle sales in May recovered some of the ground lost after April's 50-year low. Sales of new homes rose in April after declining 20 percent over the last two months. Existing home sales in April saw their largest one-month decline since 2010. Both housing starts and permits plunged in April, with starts registering their slowest pace since February 2015,and permits falling 20 percent from March.

Durable goods orders declined sharply in April with both total and core orders down from March and year-over-year. Much of the declines have been driven by severe drops in motor vehicle orders. Industrial production recorded its largest monthly drop in the 101-year history of the index while capacity utilization in manufacturing fell to just below its recession trough of June 2009. The ISM Manufacturing and Non-Manufacturing indices, as well as regional Federal Reserve manufacturing indices, all ticked up slightly in May after historic lows seen in April. Despite the upward movement, the indexes all continue to signal contraction in manufacturing activity by remaining below their respective thresholds.

Once again, falling energy prices drove consumer inflation measures to slow further in April. Total and core prices fell from March for both the CPI and PCE indexes. Core CPI saw a record monthly drop though food prices posted their largest monthly gain in over 30 years. On a year-over-year basis, total CPI and PCE both slowed and core inflation fell to a nine-year low. In April, oil prices fell to a 20-year low, but rebounded a bit in May and continued to rise in early June.

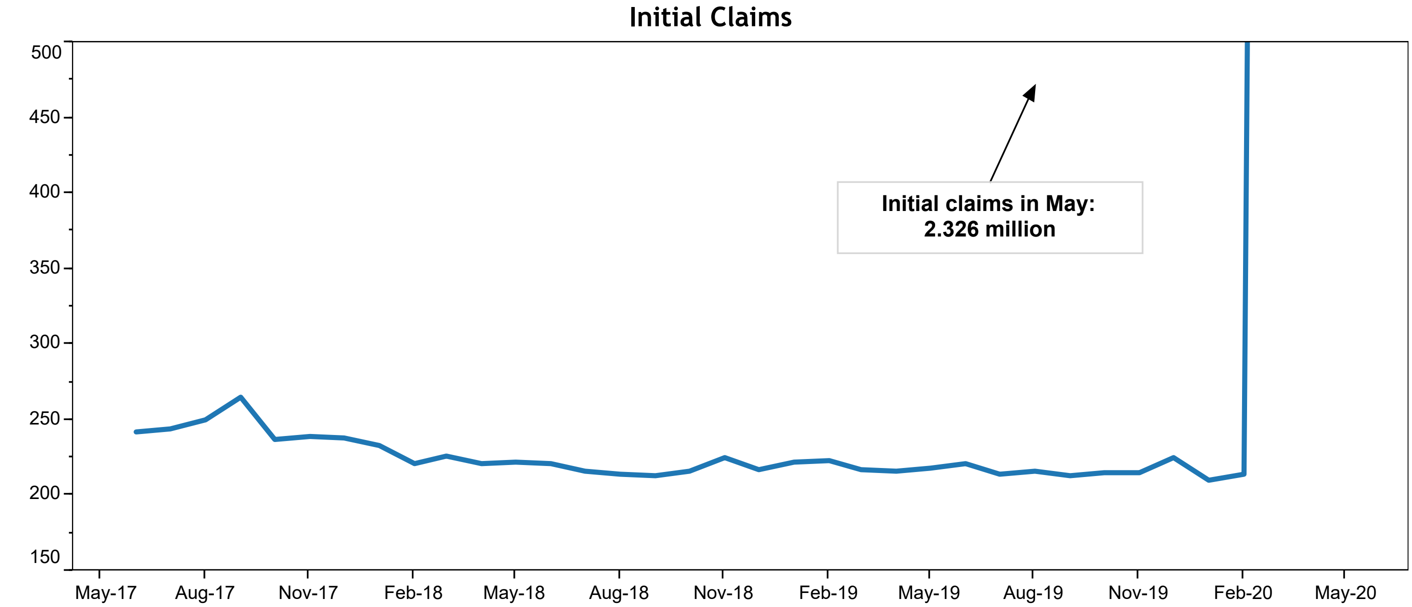
Nonfarm payrolls rose by 2.5 million jobs in May, after April's job losses were revised upward from 20.5 million to 20.7 million. The unemployment rate decreased to 13.3 percent in May from 14.7 percent. However, as was the case in April, many workers were incorrectly classified as "employed - but absent from work". If these workers had been reported accurately, the unemployment rate would have been closer to 16 percent. Participation also rebounded a bit in May, rising to 60.8 percent from 60.2 percent.



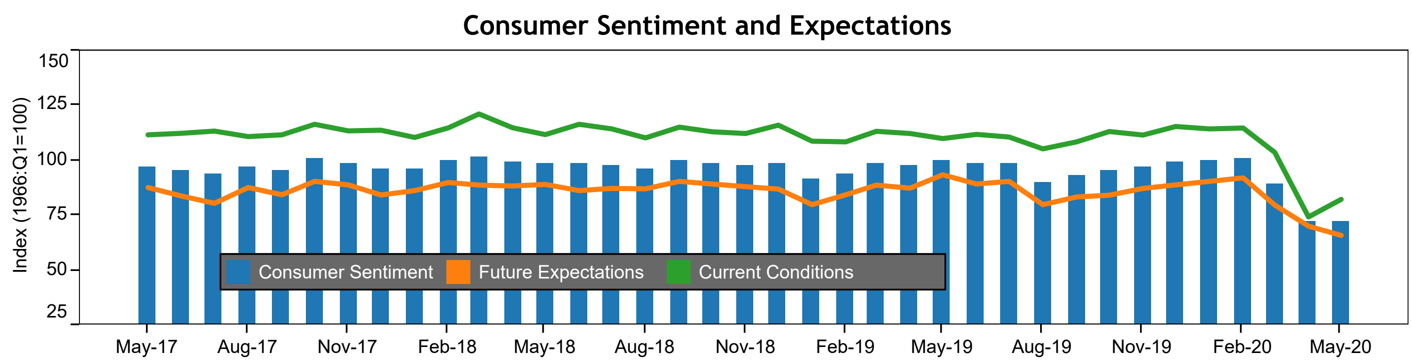


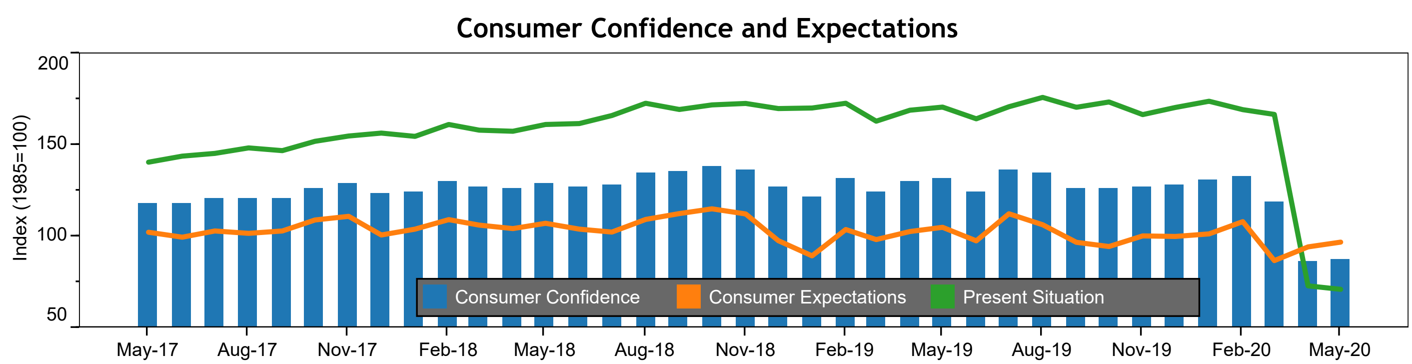
Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance rose 2.326 million in May, after rising 4.558 million in April. Claims have been trending downward since peaking in late March, with 1.877 million claims filed in the week ending May 30th and the four-week moving average declining to 2.284 million. Over the past 11 weeks of consecutive seven-figure claims, a total of 38.8 million (not seasonally adjusted) claims have been filed in the aftermath of the pandemic and the related shutdowns.



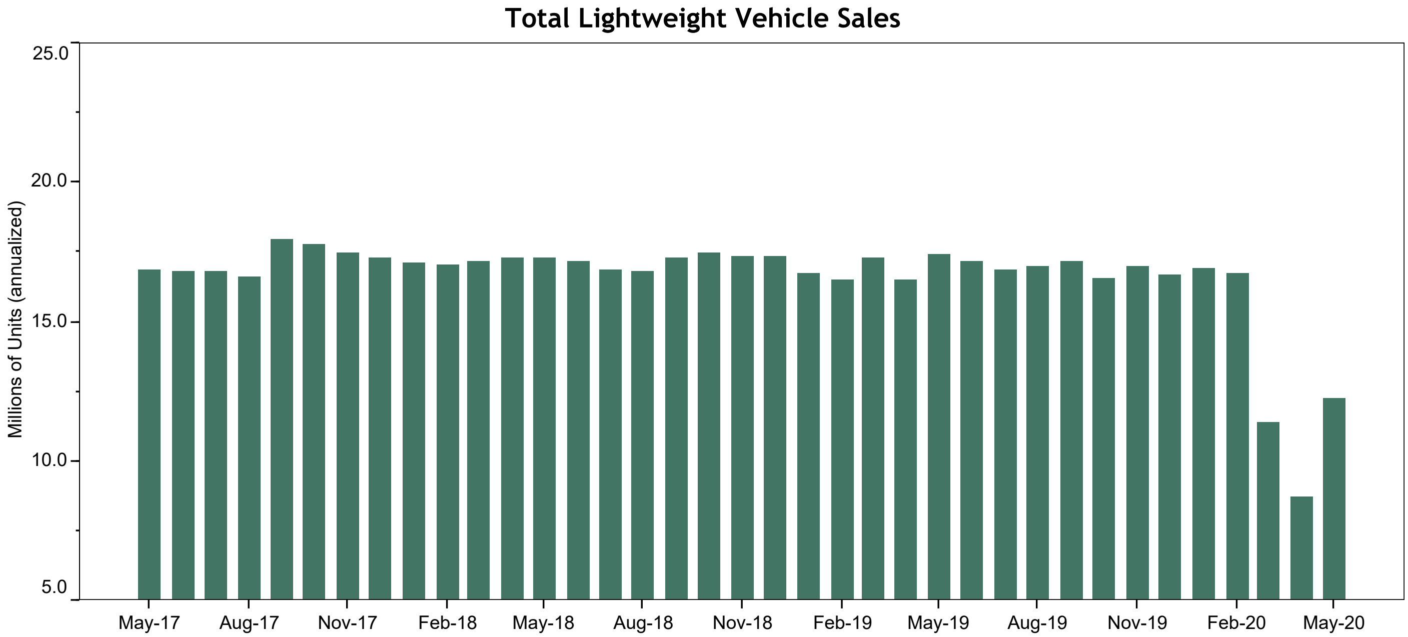
The consumer sentiment index ticked up to 72.3 in the final May reading after falling 29.2 points between February and April. The current conditions subindex rose in May to 82.3 from April's reading of 74.3. Meanwhile, the expectations subindex fell further from April's reading of 70.1 to 65.9 in May. The consumer confidence index rose to 86.6 in May from 85.7 in April. As with the sentiment index, the expectations component and the present situation subcomponents diverged. The expectations index rose to 96.9 in May from 94.3 in April, while for the same period, the present situation index fell to 71.1 from 73.0.





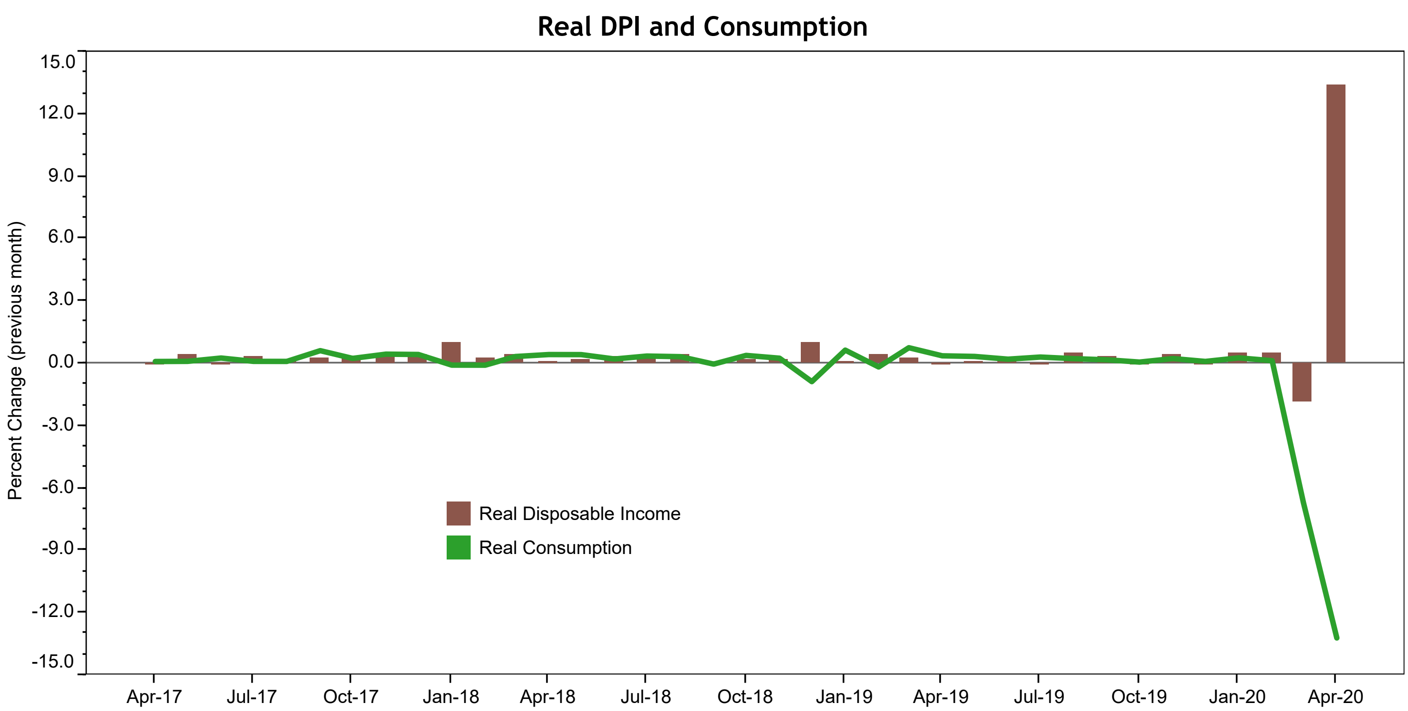
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

As restrictions on economic activity loosened in May, the pace of lightweight vehicle sales rebounded to an annualized 12.2 million units from April's rate of 8.7 million units. Expanding online sales and improving manufacturers' incentives helped mitigate the economic headwinds resulting from COVID-19.



Source: Bureau of Economic Analysis / Haver Analytics.

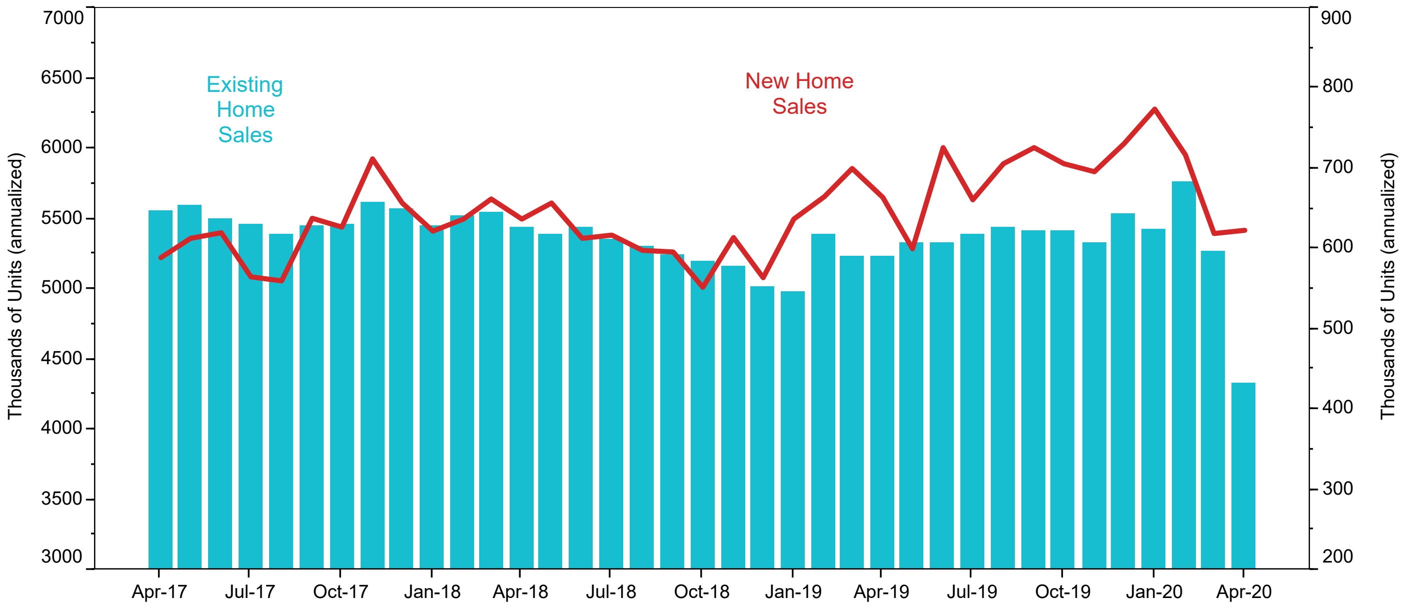
April data for real disposable income rose 13.4 percent, due largely to the $300 billion in direct payments to individuals provided by the CARES Act of 2020, as well as the expansion of pandemic-related unemployment insurance benefits. Meanwhile, real consumption plummeted 13.2 percent in April. Notable drivers of the drop were decreases in spending on food services and healthcare.



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales rose slightly in April data after plummeting 15 percent in March. Existing homes sales numbers fell 17.8 percent in April, the largest one-month decline since July 2010. All four regions saw double-digit declines.

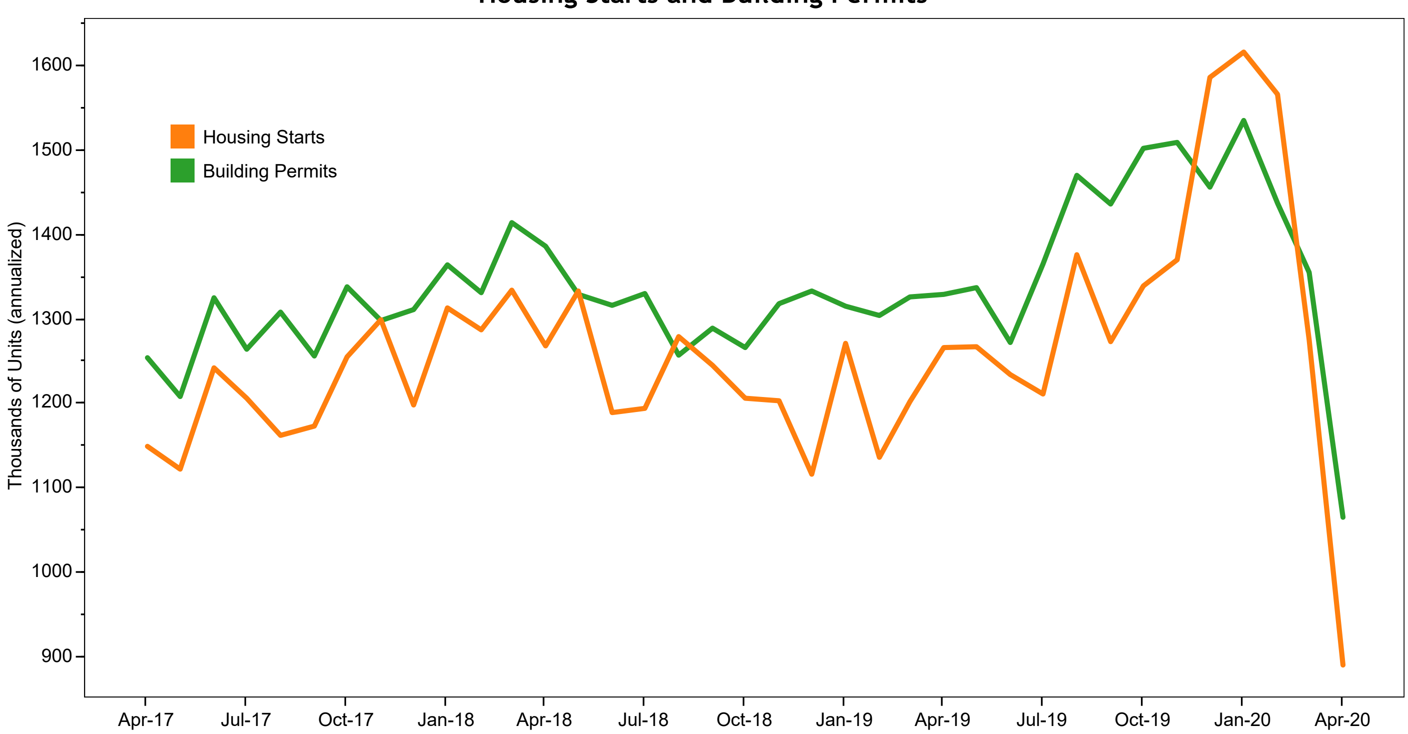
New and Existing Home Sales



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

In April, housing starts registered their slowest pace since February 2015, falling 30.2 percent from March. Building permits plunged as well, falling 20.8 percent over the same period. Single- and multi-family components of both series saw decreases. Permits in all four regions posted double-digit declines, while single-family starts saw a record low in the Northeast.

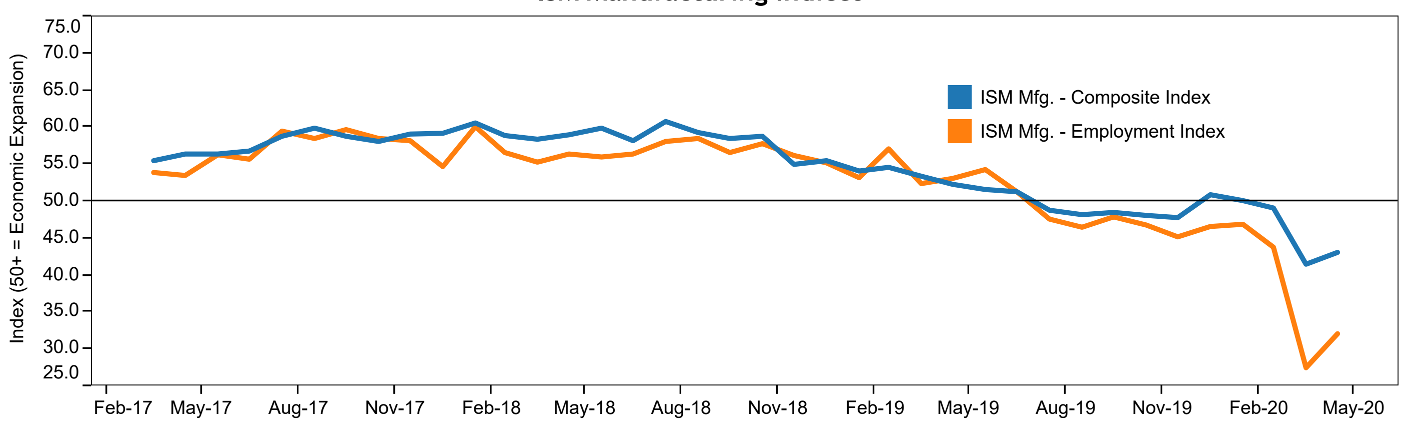
Housing Starts and Building Permits



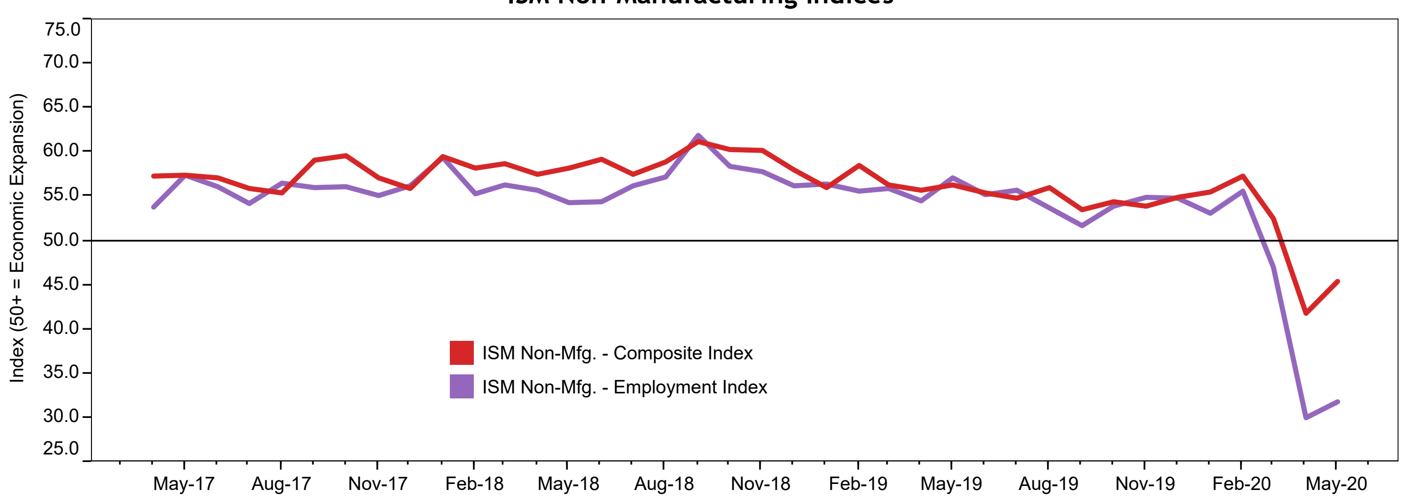
Source: U.S. Census Bureau / Haver Analytics.

Recent manufacturing data showed some positive signs after April's lows, although the series still indicate contraction. The ISM Manufacturing Index rose for the first time since January in May, improving to 43.1 from 41.5 in April. The Non-Manufacturing Index similarly rose from 41.8 in April to 45.4 in May. The employment components of both ISM indexes regained some ground lost in April. Regional surveys from the Federal Reserve also recovered a bit in May. The New York Fed manufacturing index increased from April's reading of -78.2 to -48.5 in May. The Kansas City manufacturing index rose to -19 from -30 in April, while the Philadelphia manufacturing index rose from -56.6 in April to -43.1 in May.

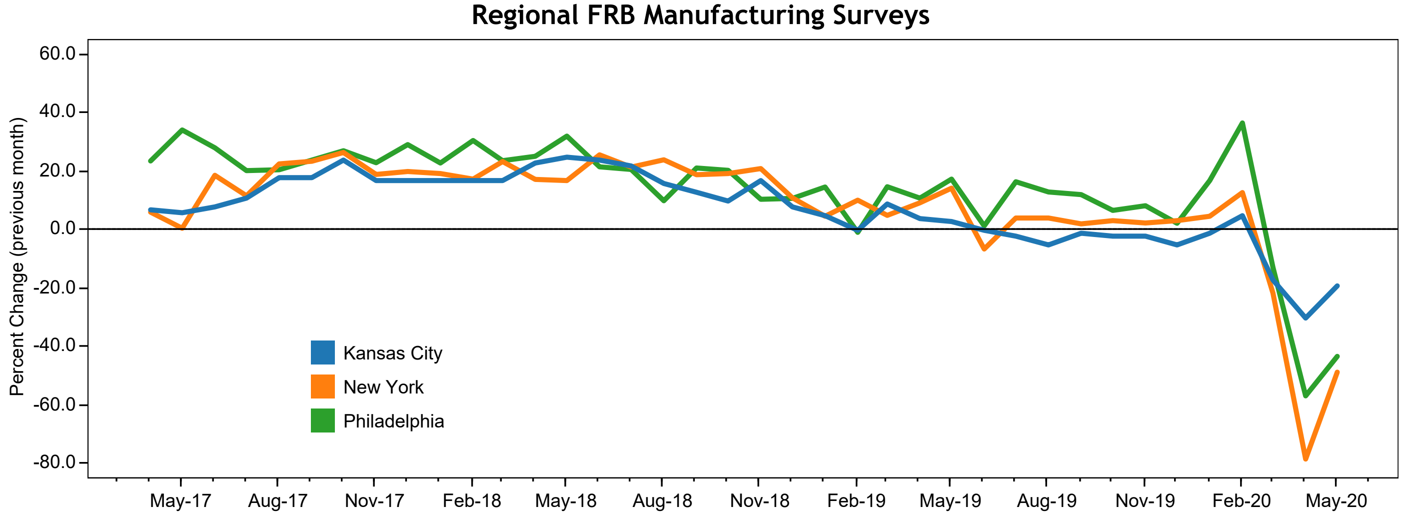
ISM Manufacturing Indices



ISM Non-Manufacturing Indices



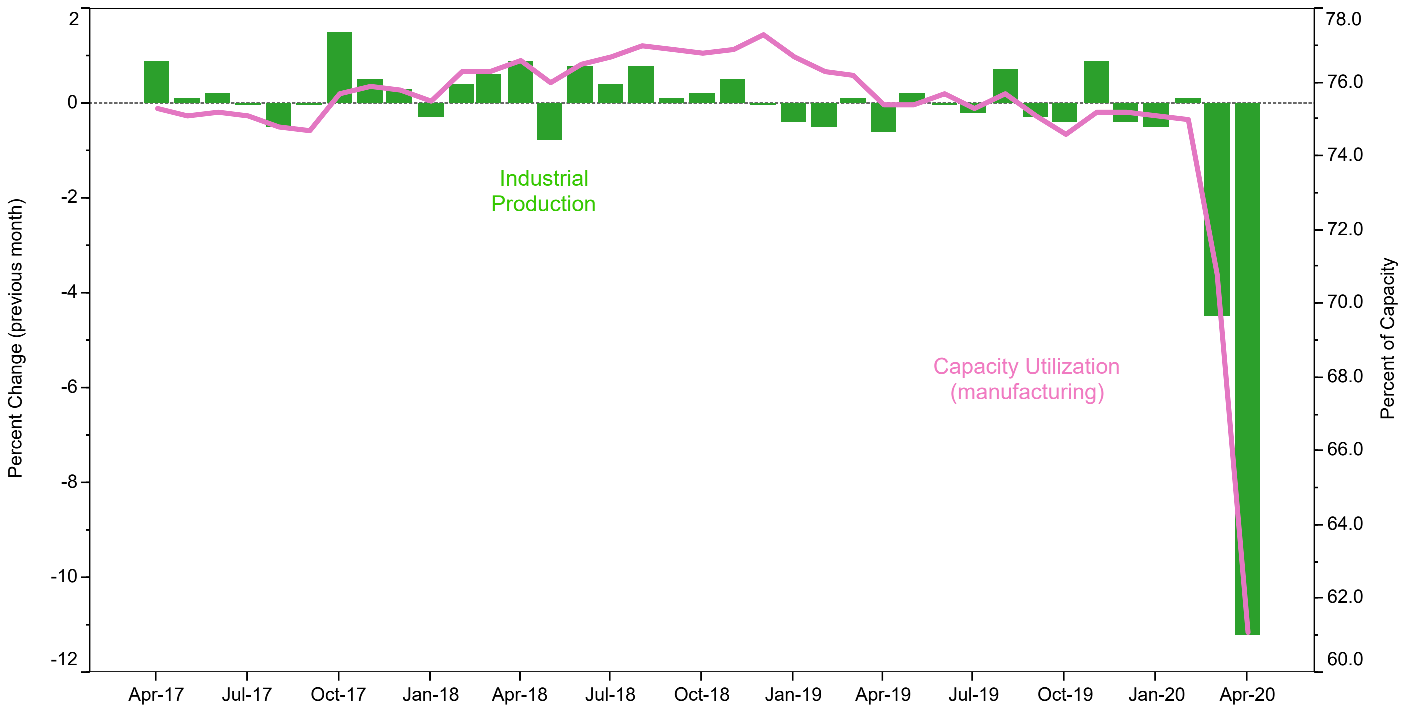
Regional FRB Manufacturing Surveys



Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Industrial production recorded its largest monthly drop in the 101-year history of the index, falling 11.2 percent in April. Manufacturing output dropped 13.7 percent as all major industries posted decreases. The indexes for mining and utilities decreased 6.1 percent and 0.9 percent, respectively. Capacity utilization for manufacturing fell to 61.1 percent, a reading that is 2.6 percentage points below its recession trough of June 2009.

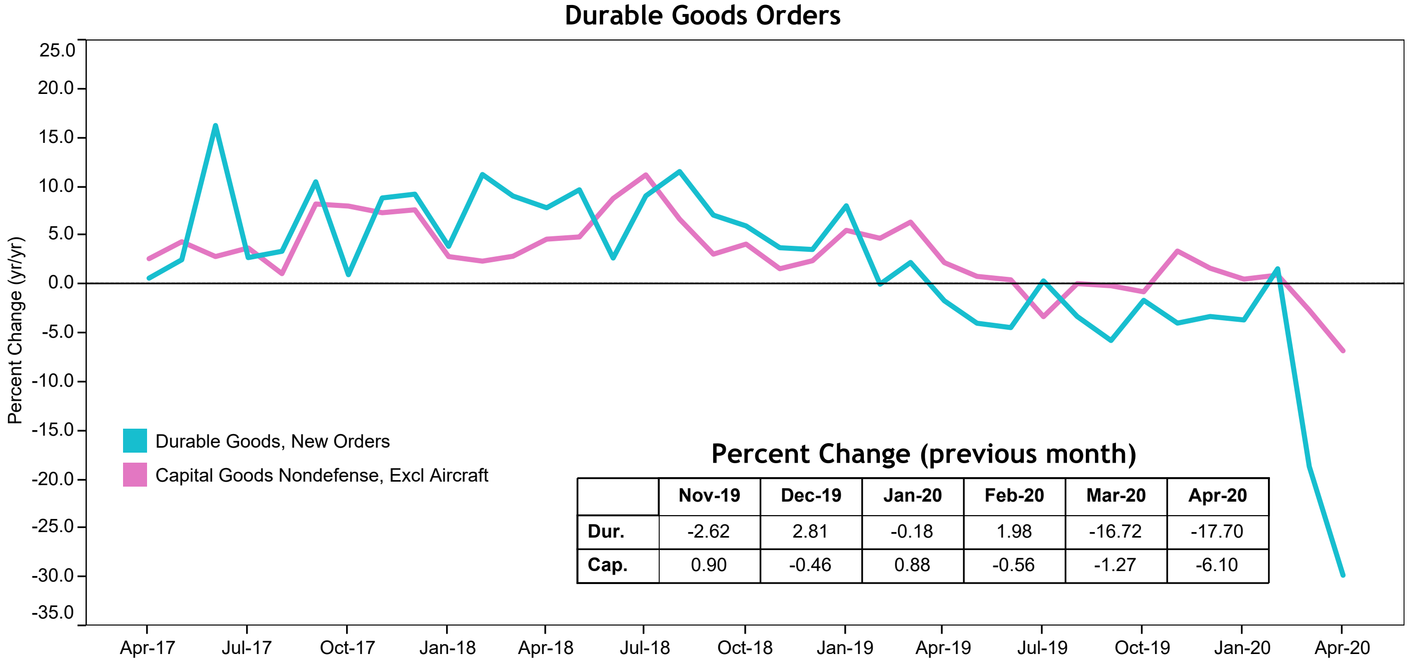
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders posted another sharp drop in April, as manufacturing has been greatly impacted by the coronavirus. Orders have fallen by 31.5% over the past two months, easily the largest such drop on record. Core orders also continued to fall, with the April drop being the biggest in ten years. While the weakness in orders has been widespread, the leading cause has been a severe reduction in motor vehicle orders (down 62.5% over the past two months). Consistent with the sharp monthly drops, total and core orders also posted sizable year-over-year declines.

Durable Goods Orders

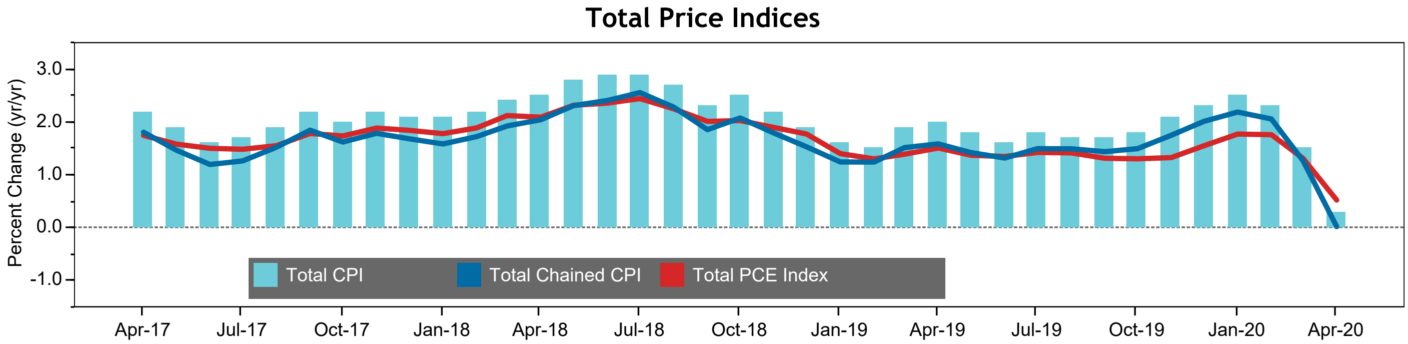


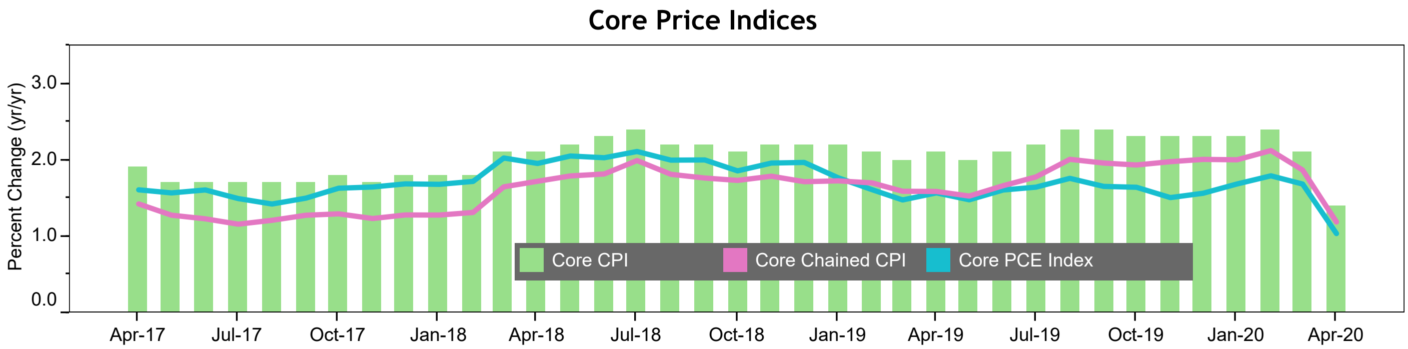
Percent Change (previous month)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Dur.	-2.62	2.81	-0.18	1.98	-16.72	-17.70
Cap.	0.90	-0.46	0.88	-0.56	-1.27	-6.10

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

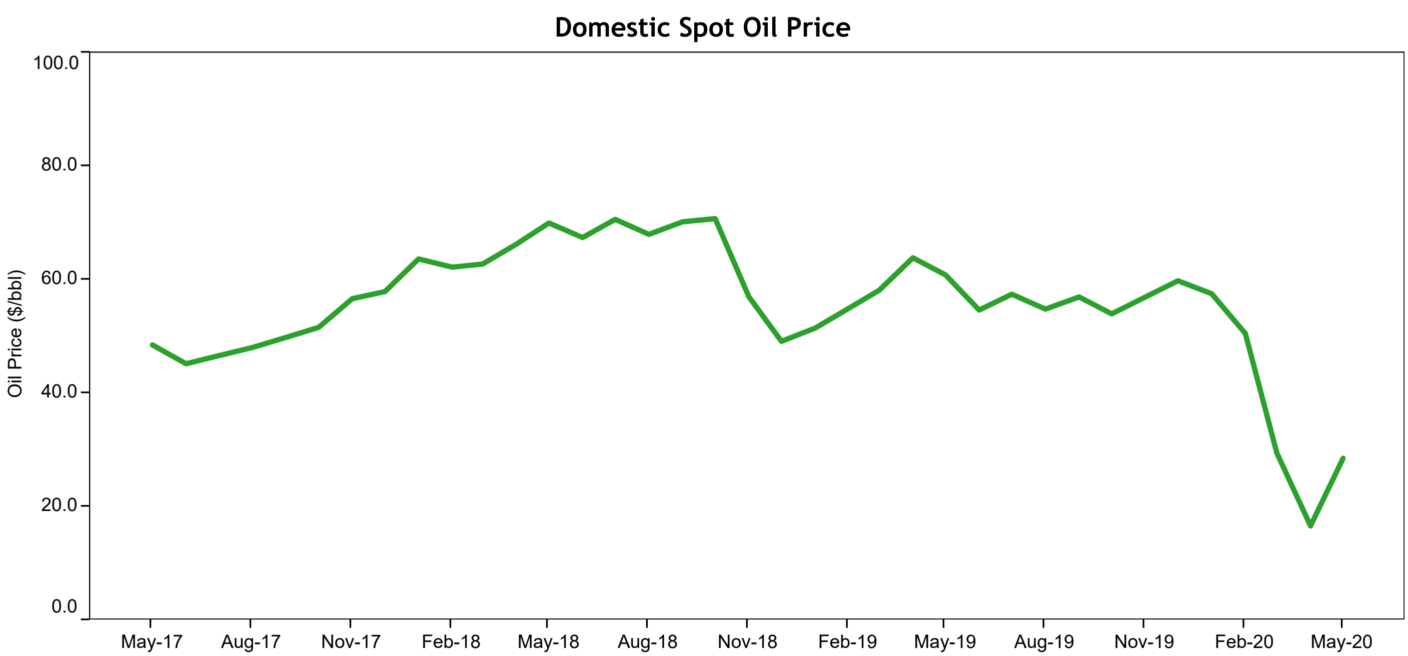
Consumer price inflation slowed further in April, with total and core prices falling from March for both the CPI and the PCE index, due mostly to falling energy prices. The 0.4% drop in the core CPI was a record, dating back to 1957. Food prices, however, posted their largest gain in over 30 years. Over the past year, total CPI and PCE both slowed to their lowest growth rates in over four years, while core inflation fell to a nine-year low. CPI data for May will be released Wednesday, with markets expecting prices to hold steady at their April levels.





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

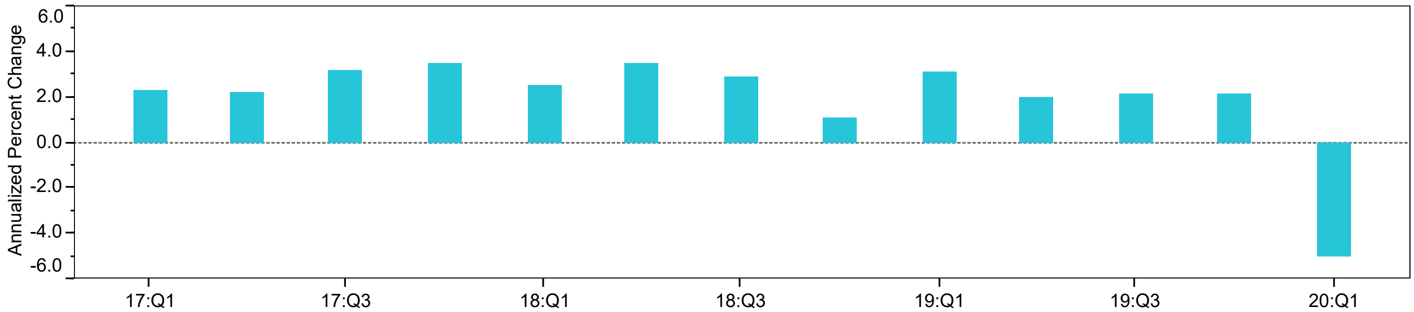
Oil prices rebounded a bit in May, after falling to their lowest level since 1999 in April. With mobility restrictions easing, prices have continued rising in early June, climbing to $38.19 per barrel on June 8th.



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

Real GDP fell 5.0% in the first quarter according to the second estimate, revised down from the advance estimate of a 4.8% decline. The larger decrease primarily reflected a downward revision to inventory investment that was partly offset by upward revisions to personal consumption and nonresidential fixed investment.

Real GDP



Revisions to First Quarter Real GDP

Description	Advance Estimate	Second Estimate
Imports	-15.3	-15.5
Equipment and Software	-15.2	-16.7
Exports	-8.7	-8.7
Business Investment	-8.6	-7.9
Personal Consumption	-7.6	-6.8
Real GDP	-4.8	-5.0
Final Sales	-4.3	-3.7
Government	0.7	0.8
Residential Investment	21.0	18.5

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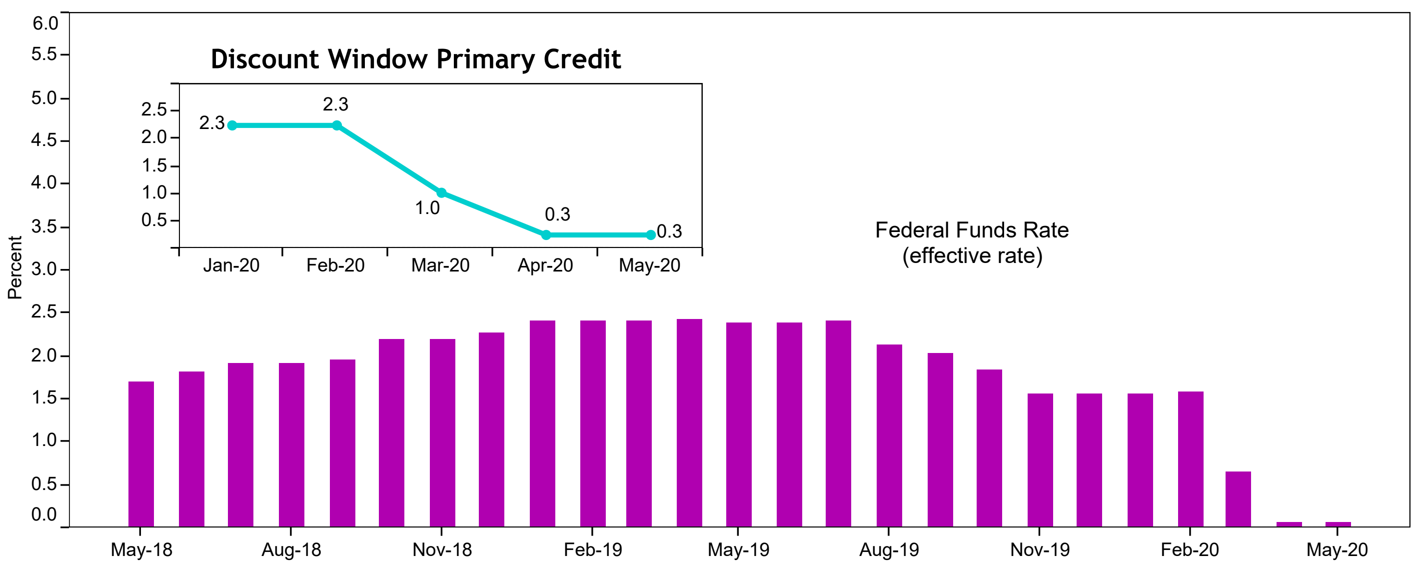
Short-Term Interest Rates



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