



FEDERAL RESERVE
BANK OF BOSTON™

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

May 16, 2017

CURRENT ECONOMIC DEVELOPMENTS - May 16, 2017

Data released since your last Directors' meeting show that economic growth continued to slow in the first quarter, but suggest a rebound in growth in the second quarter. The labor market showed further signs of strengthening, consumer spending improved, and support from manufacturing has picked up, while data on the housing market were mixed. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

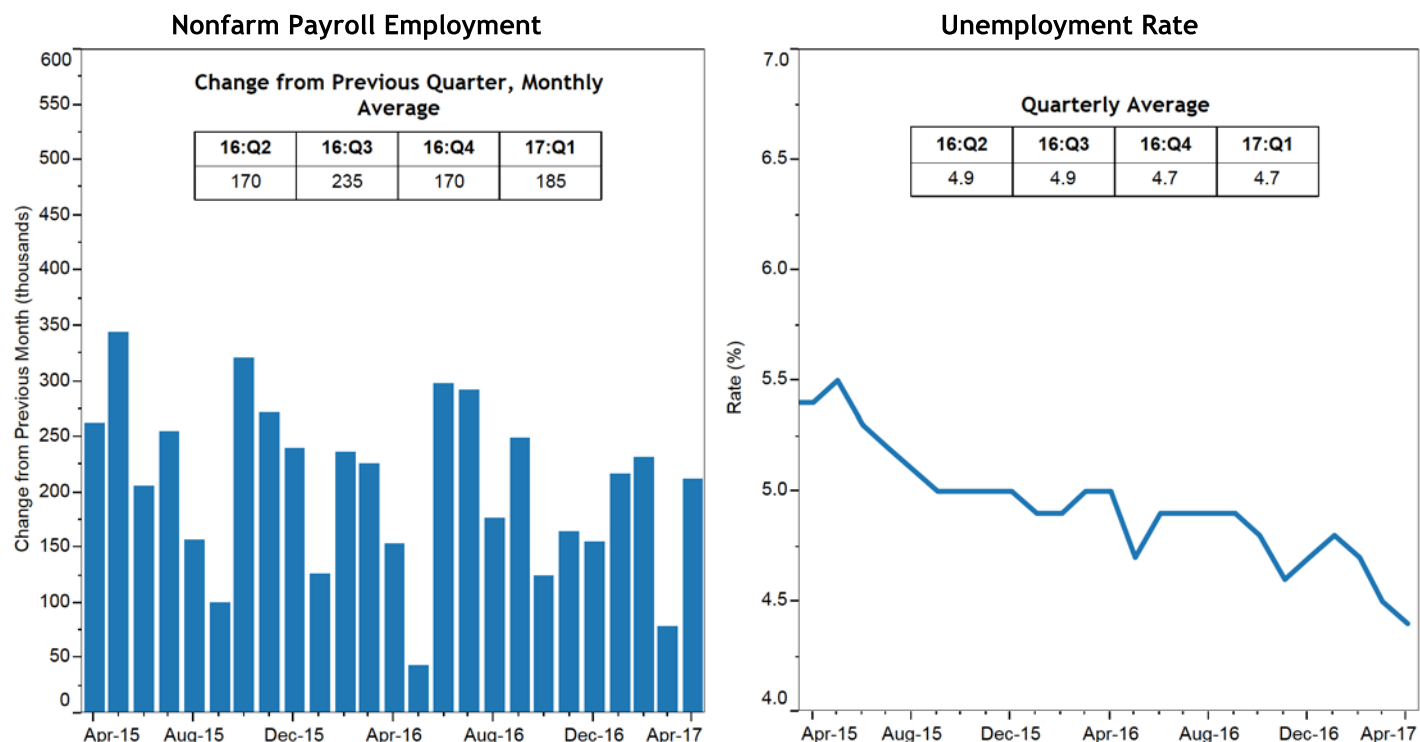
In April, nonfarm payrolls posted a larger-than-expected increase, while net job gains for the previous two months were revised down slightly. The unemployment rate fell one-tenth of a percentage point to 4.4% in April, as the size of the labor force held steady. Initial claims for unemployment insurance declined in April, after falling on average in the first quarter to a 44-year low.

The growth in real GDP in the first quarter primarily reflected positive contributions from nonresidential fixed investment, exports, residential fixed investments, and personal consumption expenditures, that were offset by negative contributions from private inventory investment, state and local government spending, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Consumer spending increased in March, as incomes rose. Consumer attitudes were mixed in April, as the confidence index declined yet remained above its first quarter average, while the sentiment index edged up but was below its first quarter average. Durable goods orders and core orders both increased in the first quarter compared to the second, and on a year-over-year basis. The ISM index fell in April, but continued to suggest expansion in the manufacturing sector. Industrial production rose more than expected in April, and capacity utilization also increased. Home sales data improved in March, as first quarter sales for both new and existing homes posted post-recession highs. Housing starts and building permits both eased in the first quarter and declined below their first quarter averages in April.

Total consumer inflation accelerated in the first quarter, while core consumer inflation held steady. Growth in employment costs picked up in the first quarter. After reaching their highest quarterly average in nearly two years in the first quarter, oil prices rose on average in April compared to March, before falling to \$48.9 per barrel on May 15.

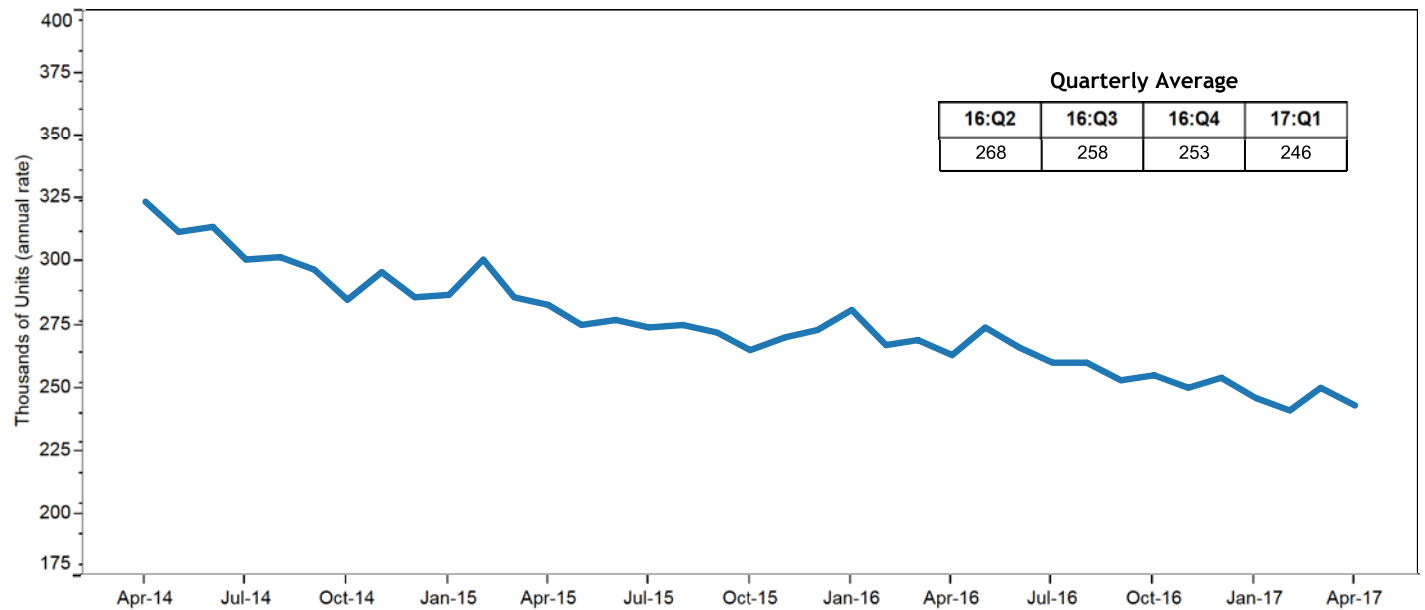
Nonfarm payrolls added 211,000 jobs in April, and job gains for the previous two months were revised down by a net 6,000 jobs. The unemployment rate fell one-tenth of a percentage point to 4.4% in April, as the size of the labor force held steady while civilian employment rose.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance continued to decline in the first quarter, recording their lowest quarterly average in 44 years. Claims edged down in April to just below the first quarter average.

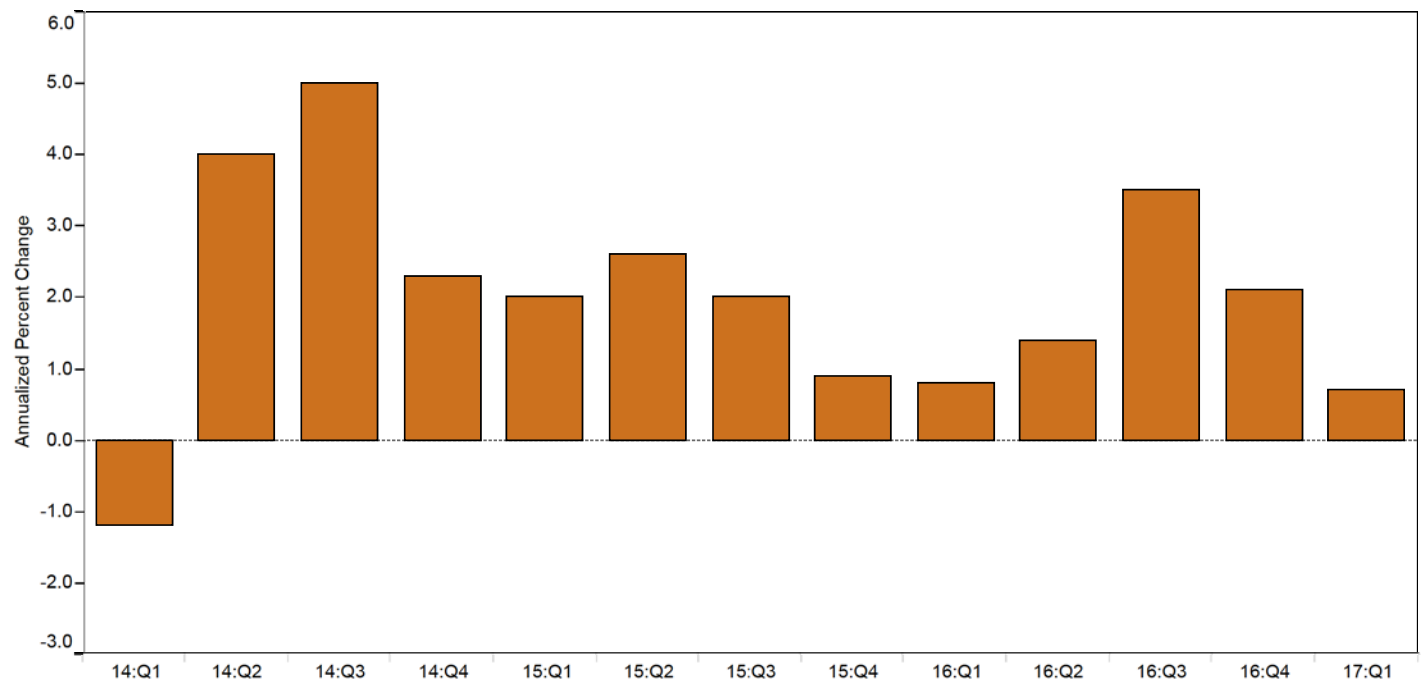
Initial Claims



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

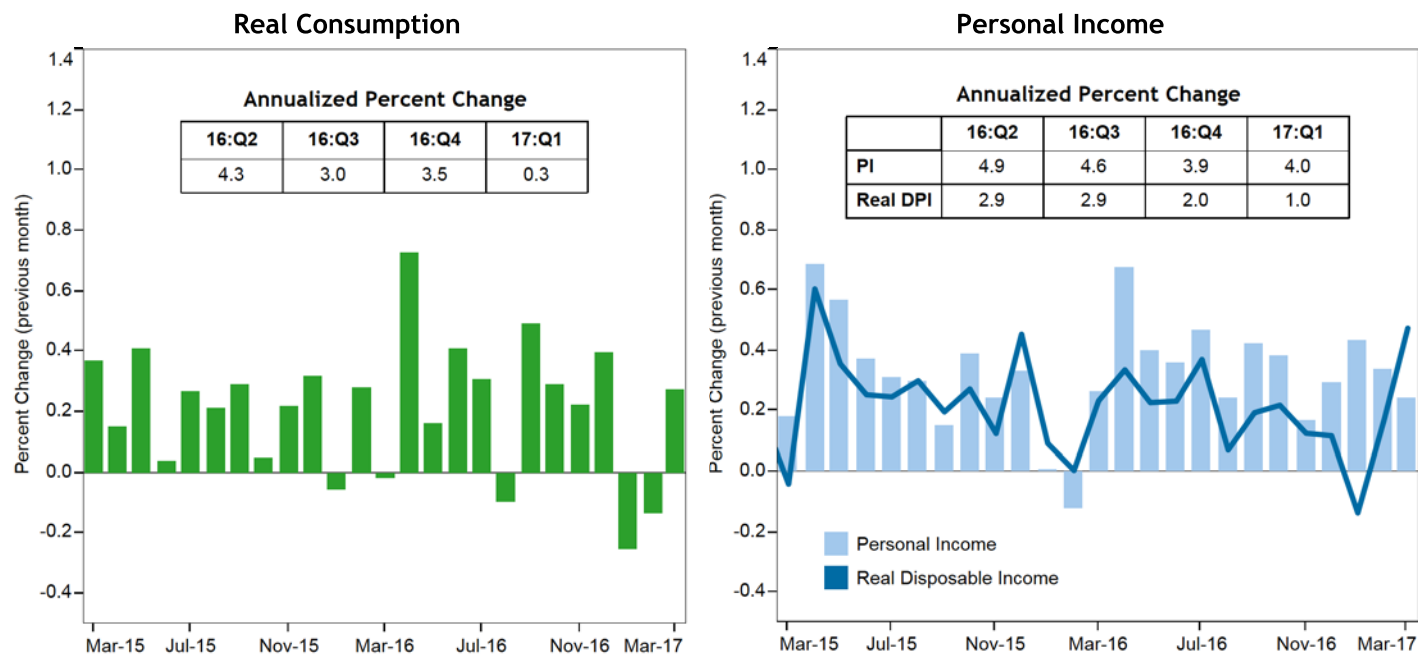
Real GDP growth decelerated in the first quarter. The slower rate was due primarily to a deceleration in personal consumption expenditures and downturns in private inventory investment and in state and local government spending that were partly offset by an upturn in exports and accelerations in both nonresidential and residential fixed investment.

Real Gross Domestic Product



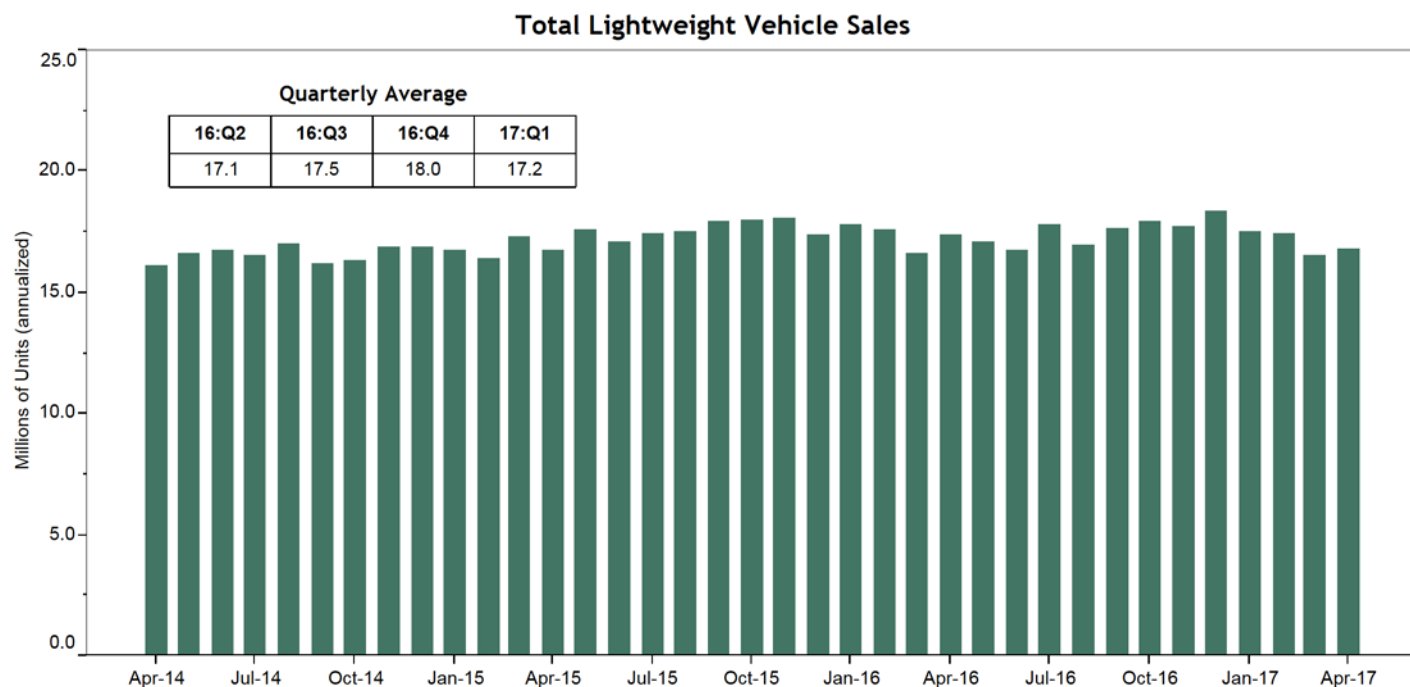
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the first quarter, as real income growth also decelerated. On a monthly basis, consumption rose in March, after falling in each of the previous two months, while real income growth accelerated in March to its fastest pace in nearly two years.



Source: Bureau of Economic Analysis / Haver Analytics.

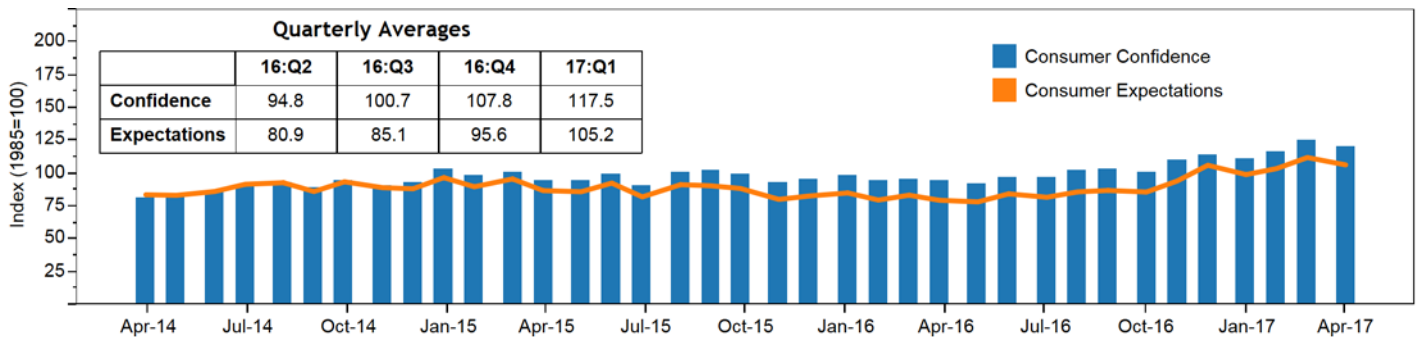
Total lightweight vehicle sales in April were below their first quarter average, but rose a bit from their March pace. The increase in total vehicle sales in April was due to rises in both light duty truck sales and auto sales.



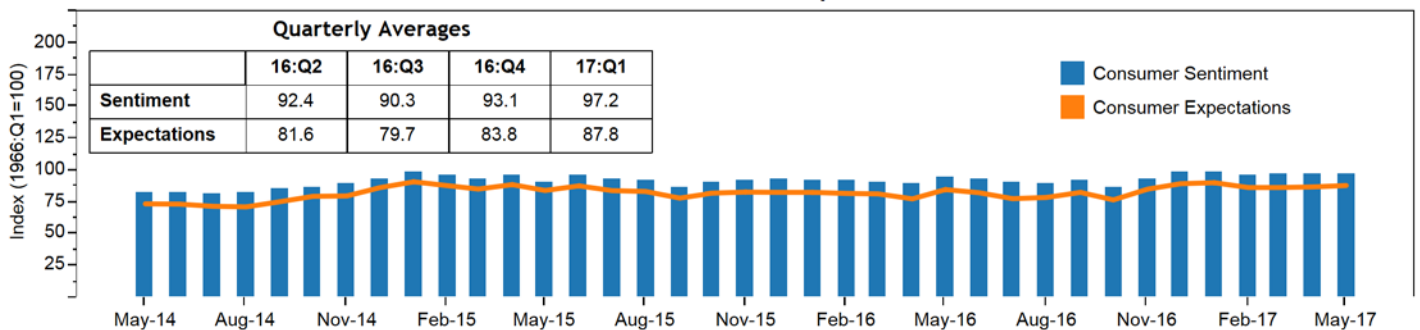
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in April, as the confidence index declined but was above its first quarter average, while the sentiment index ticked up but was slightly below its first quarter average. In early May, the sentiment index increased further, due to a rise in the expectations component. Respondents to the confidence survey had less favorable assessments of current business and labor market conditions, and were less optimistic towards the short-term economic outlook.

Consumer Confidence and Expectations



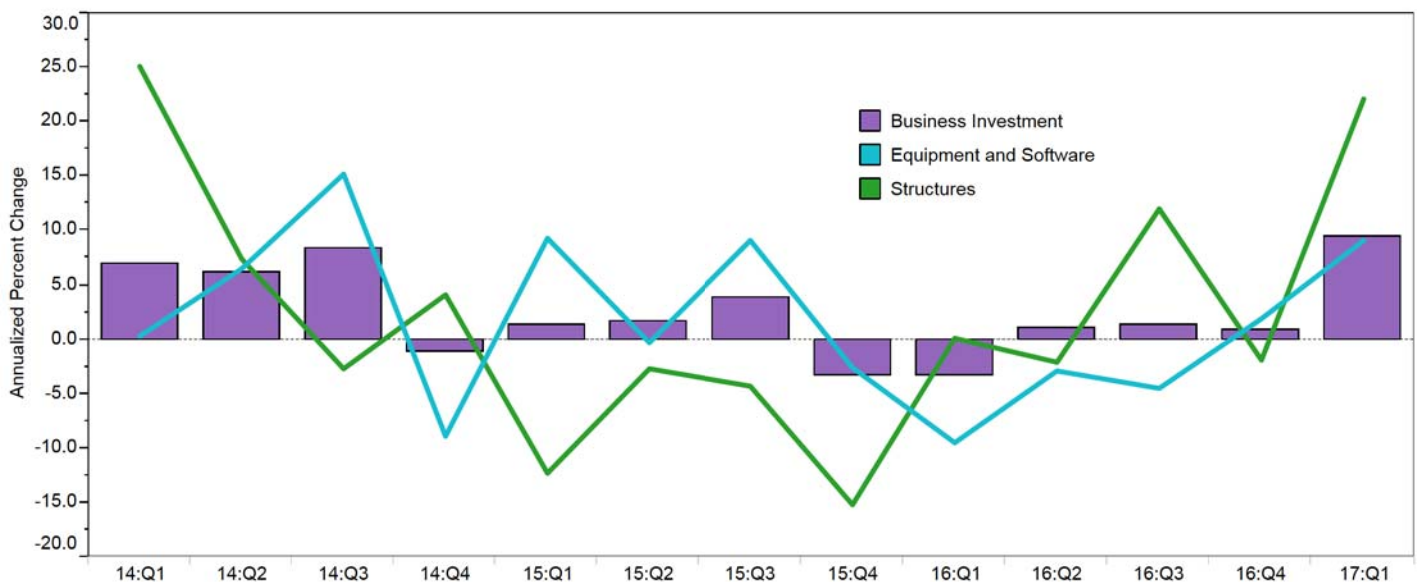
Consumer Sentiment and Expectations



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

Business investment picked up in the first quarter, registering its fastest growth rate in over three years, due to a rise in structures investment and an acceleration in equipment and software investment growth.

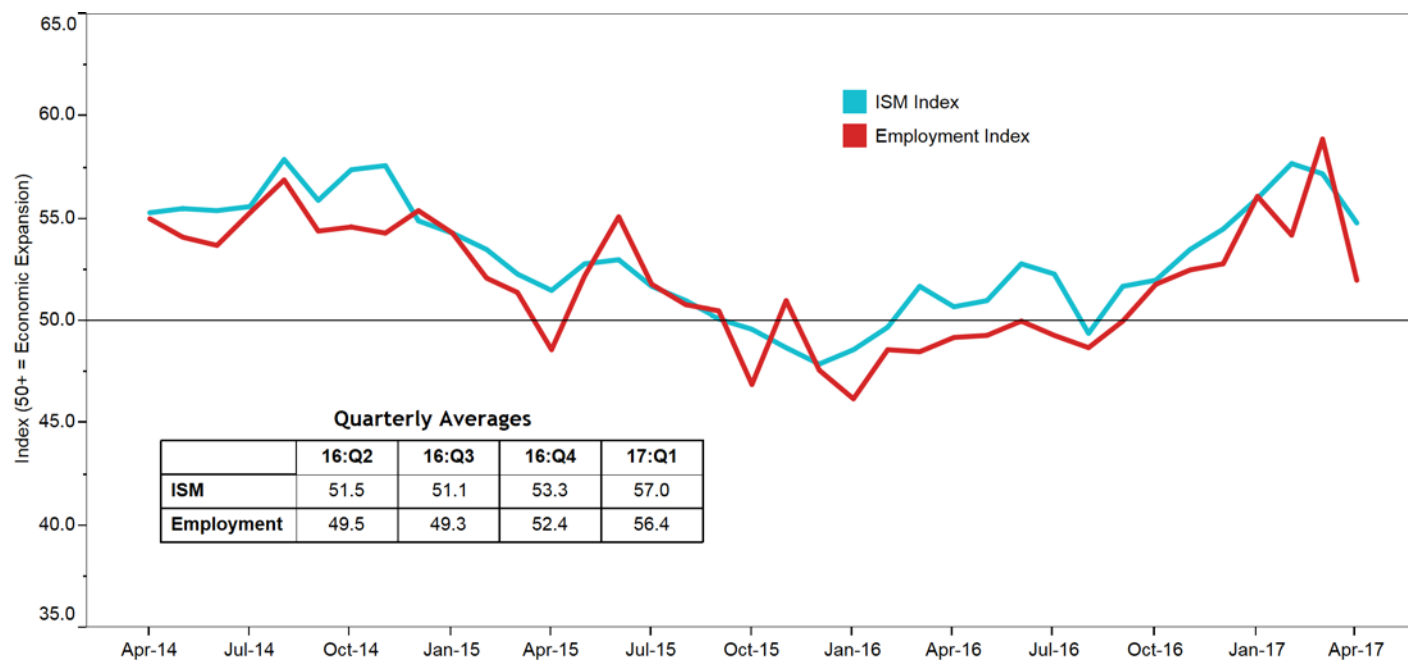
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM index declined in April to below its first quarter average, yet continued to indicate expansion in the manufacturing sector. The employment index also fell in April and was below its first quarter average.

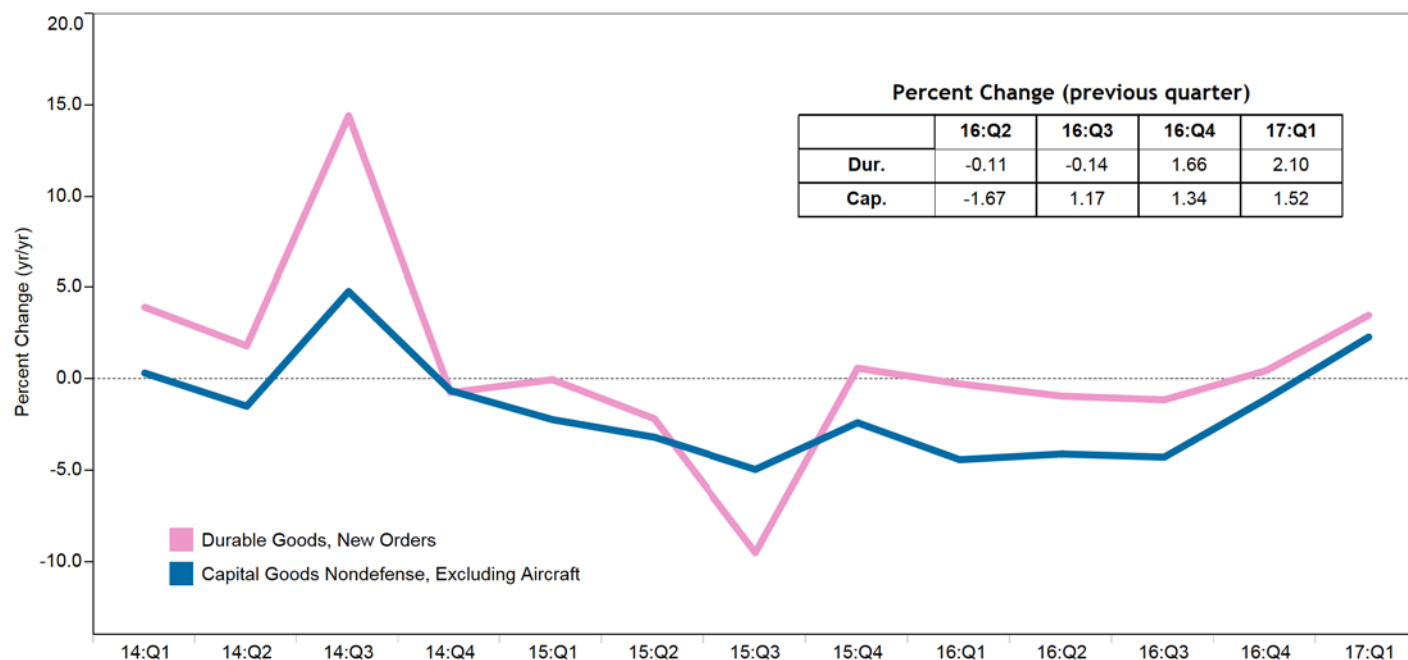
ISM Index



Source: Institute of Supply Management / Haver Analytics.

In the first quarter, durable goods orders continued to rise on a year-over-year basis, and also increased when compared to the prior quarter. Orders for nondefense capital goods, excluding aircraft, also increased on both a year-over-year and a quarterly basis.

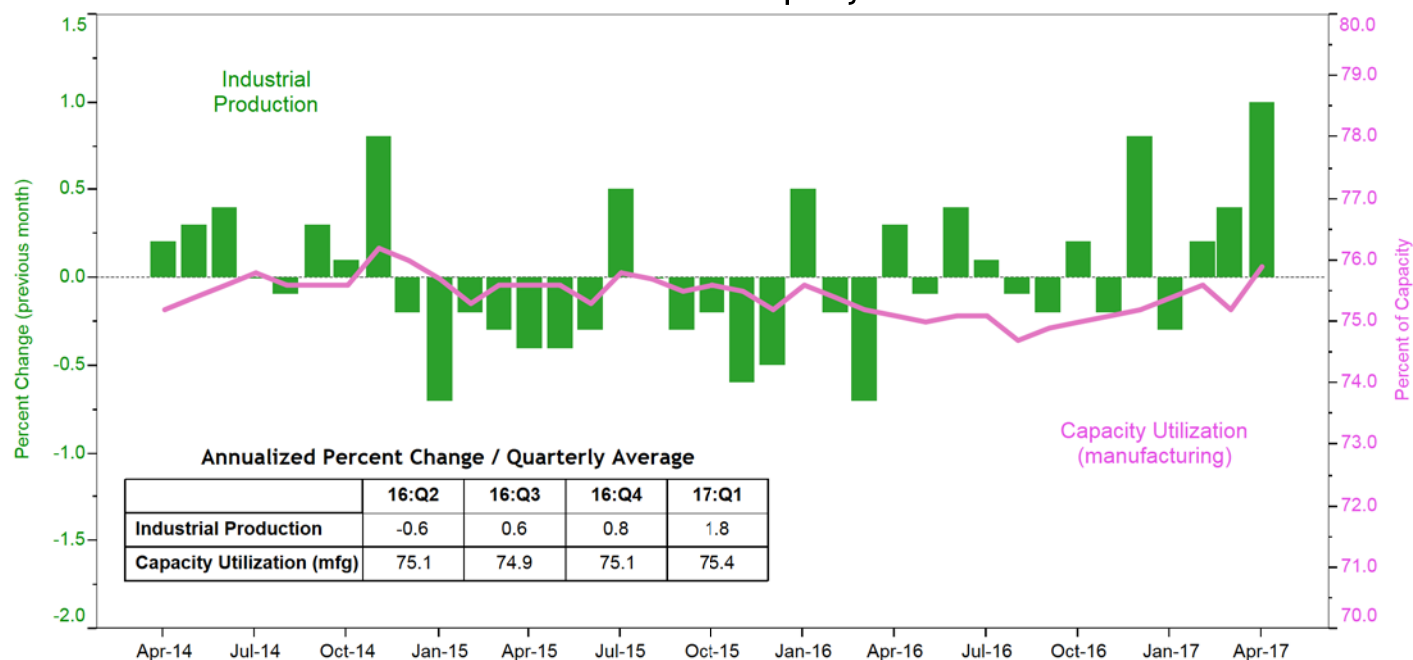
Durable Goods Orders



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

Industrial production and capacity utilization both picked up in the first quarter. In April, industrial production posted a larger-than-expected increase, as manufacturing, mining, and utilities production all rose. Capacity utilization also increased in April, reaching its highest level since December 2014.

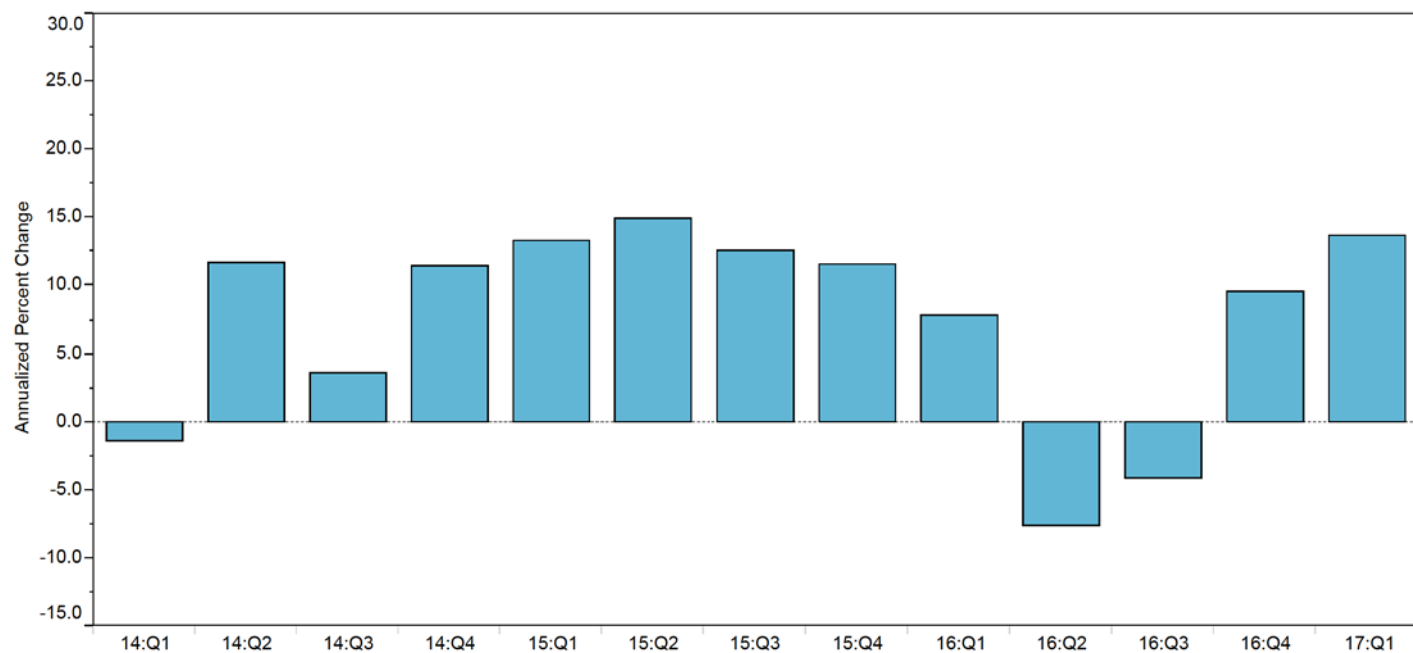
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Growth in residential investment accelerated in the first quarter, reaching its fastest pace in nearly two years.

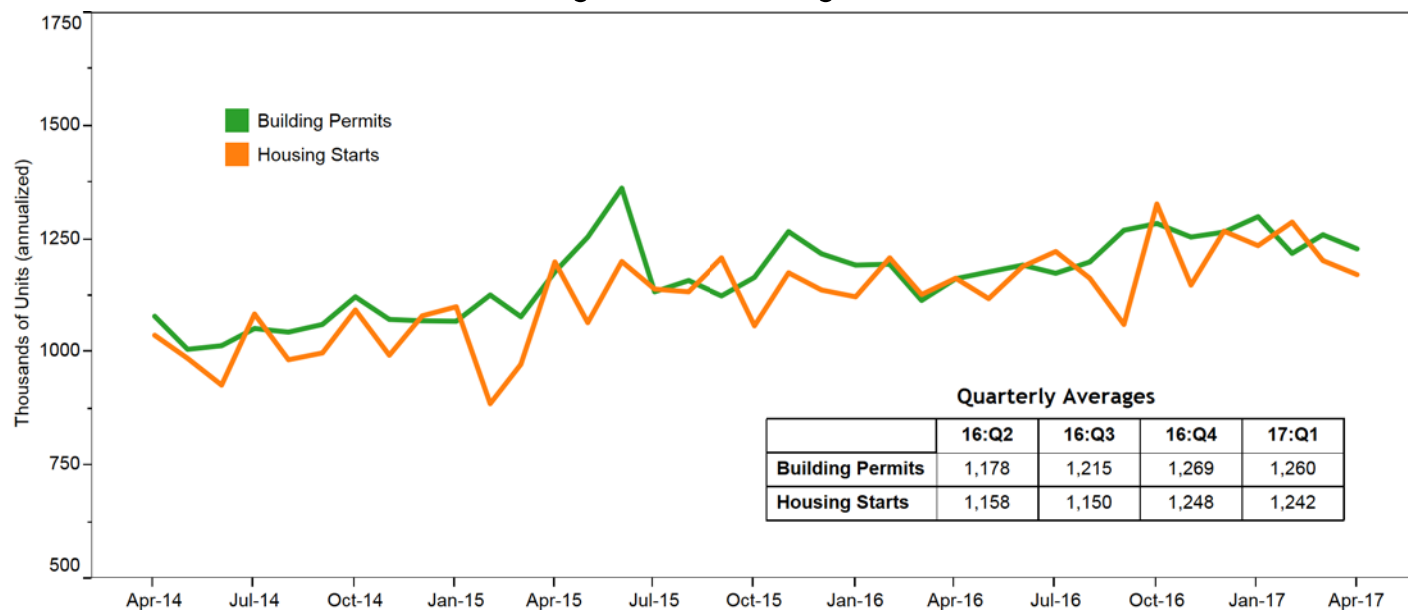
Residential Investment



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

Housing starts and building permits both eased a bit in the first quarter. In April, housing starts fell below their first quarter average, as an increase in single-family starts was more than offset by a decline in multi-family starts. Building permits also fell below their first quarter average in April, due to a drop in single-family permits. Multi-family permits increased in April.

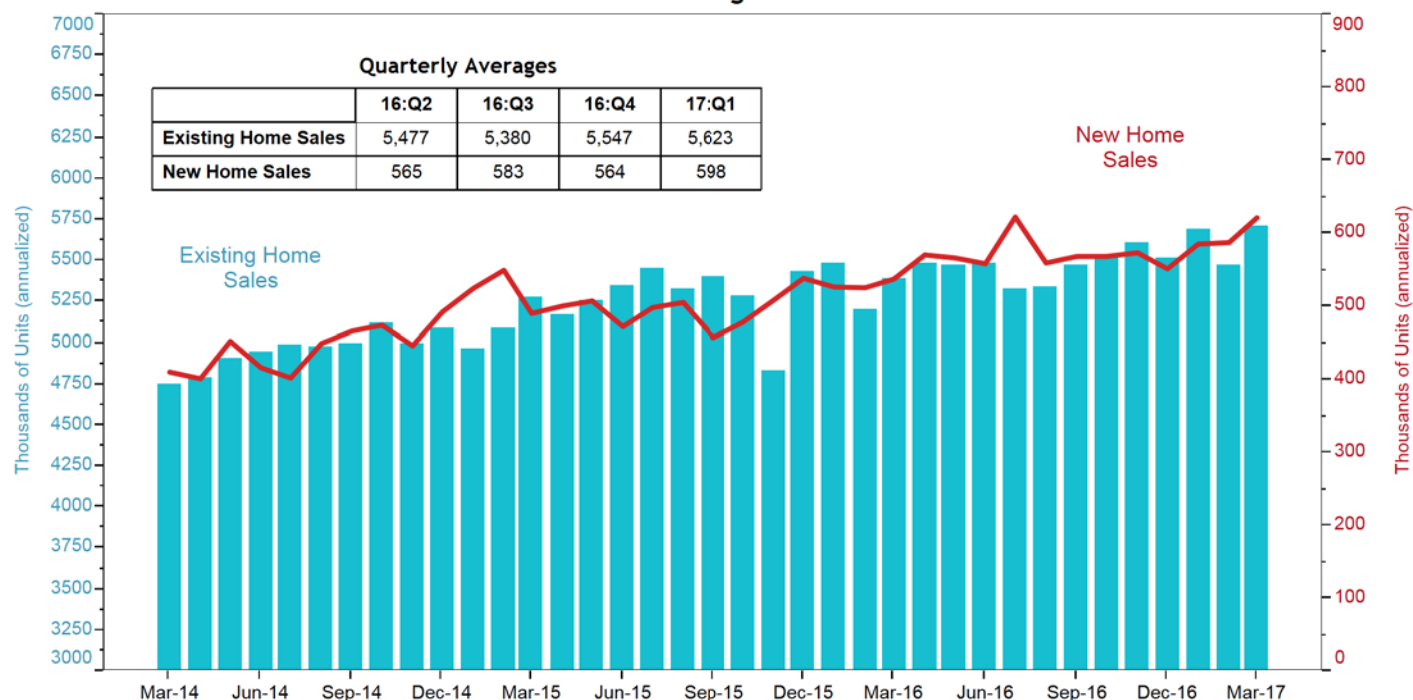
Housing Starts and Building Permits



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

Housing data was mostly positive in the first quarter. Existing home sales increased to their highest quarterly average in ten years, while new home sales rose to their highest quarterly average in nine years. Both new and existing home sales picked up in March from their February pace.

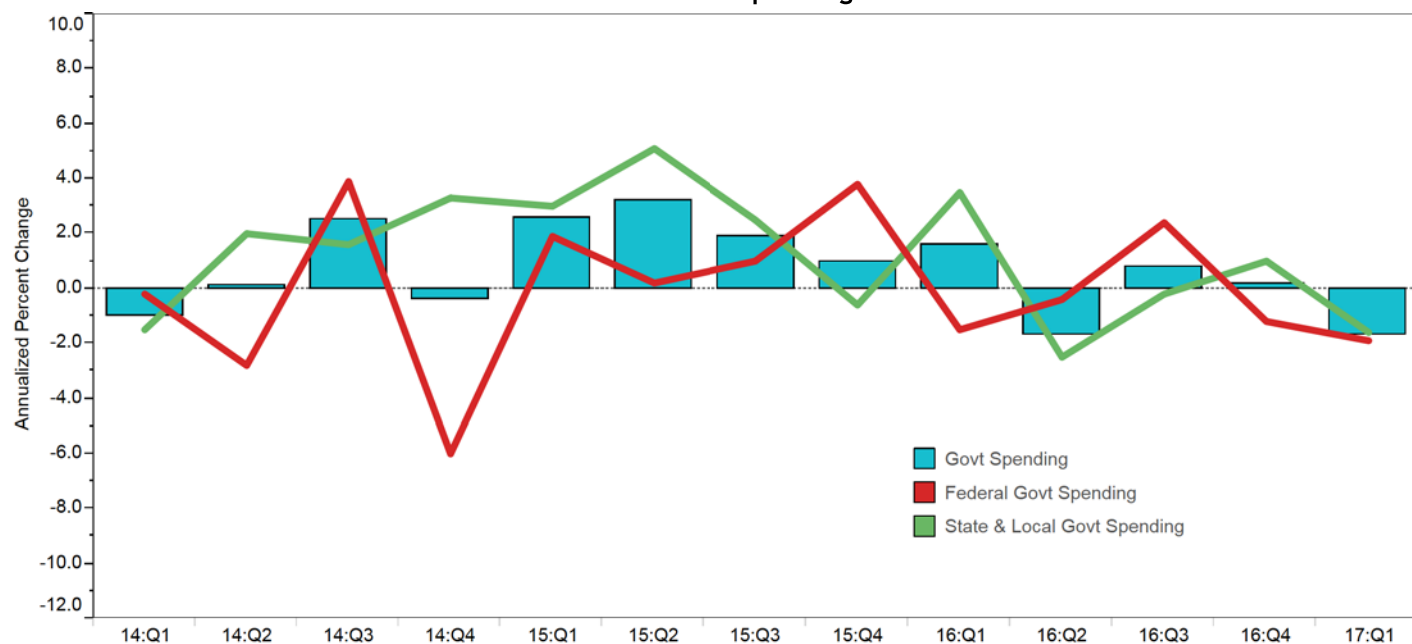
New and Existing Home Sales



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

In the first quarter, government spending fell, after edging up in each of the previous two quarters. The decrease was due to declines in both federal government and state and local government spending.

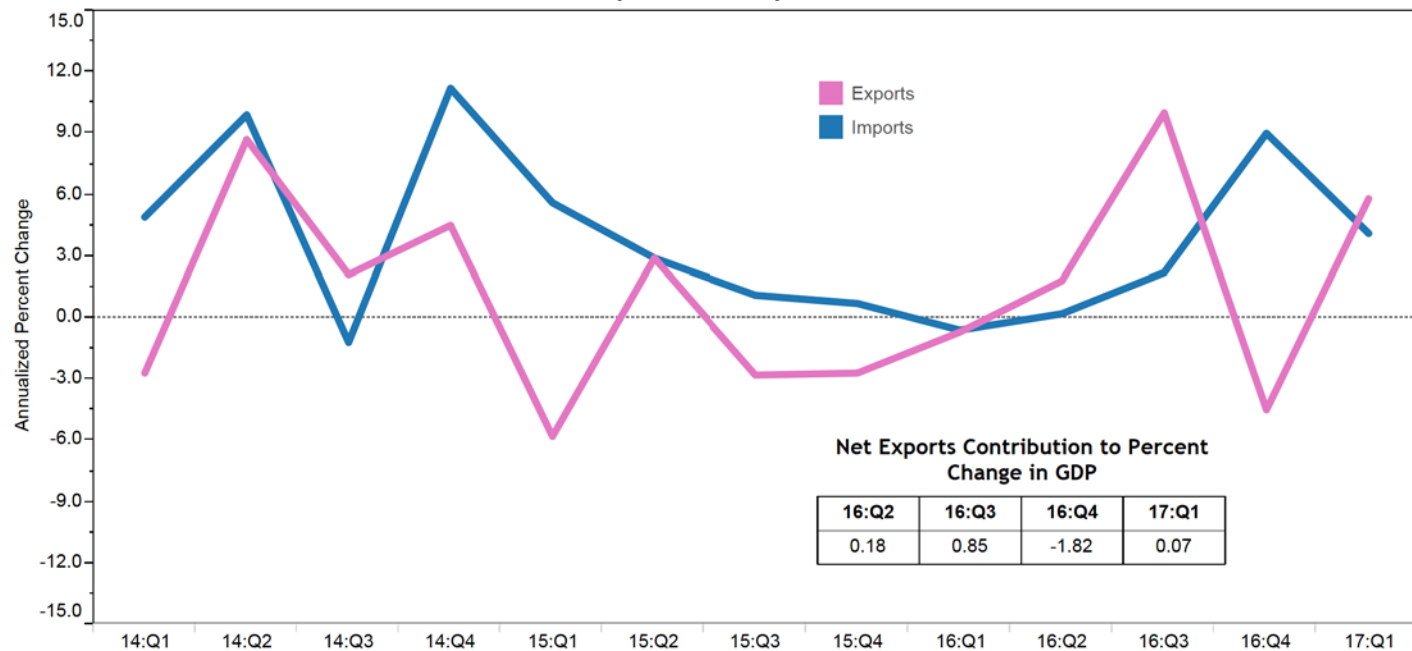
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

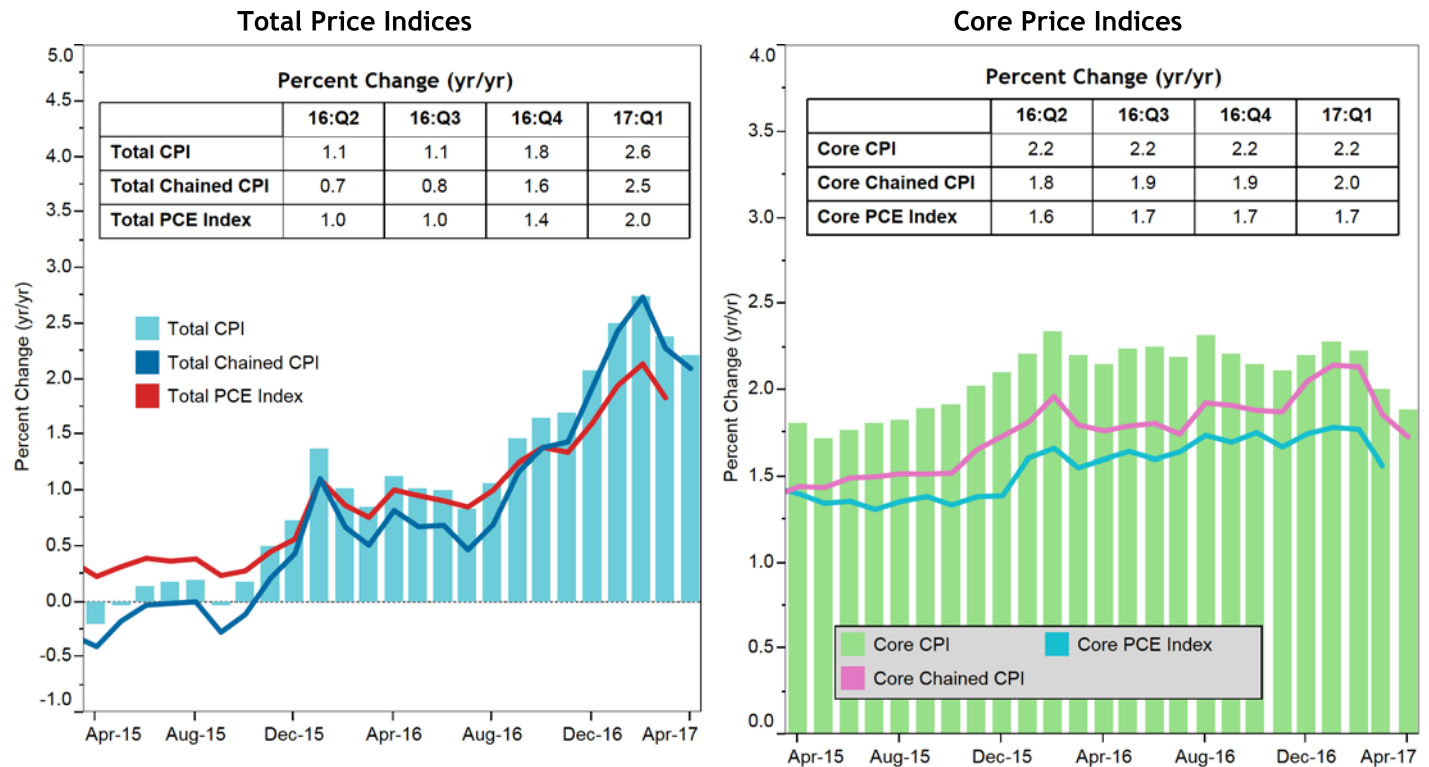
Exports rose in the first quarter, after declining in the fourth quarter, and offset a smaller increase in imports, which resulted in a slight boost to GDP from net exports.

Exports and Imports



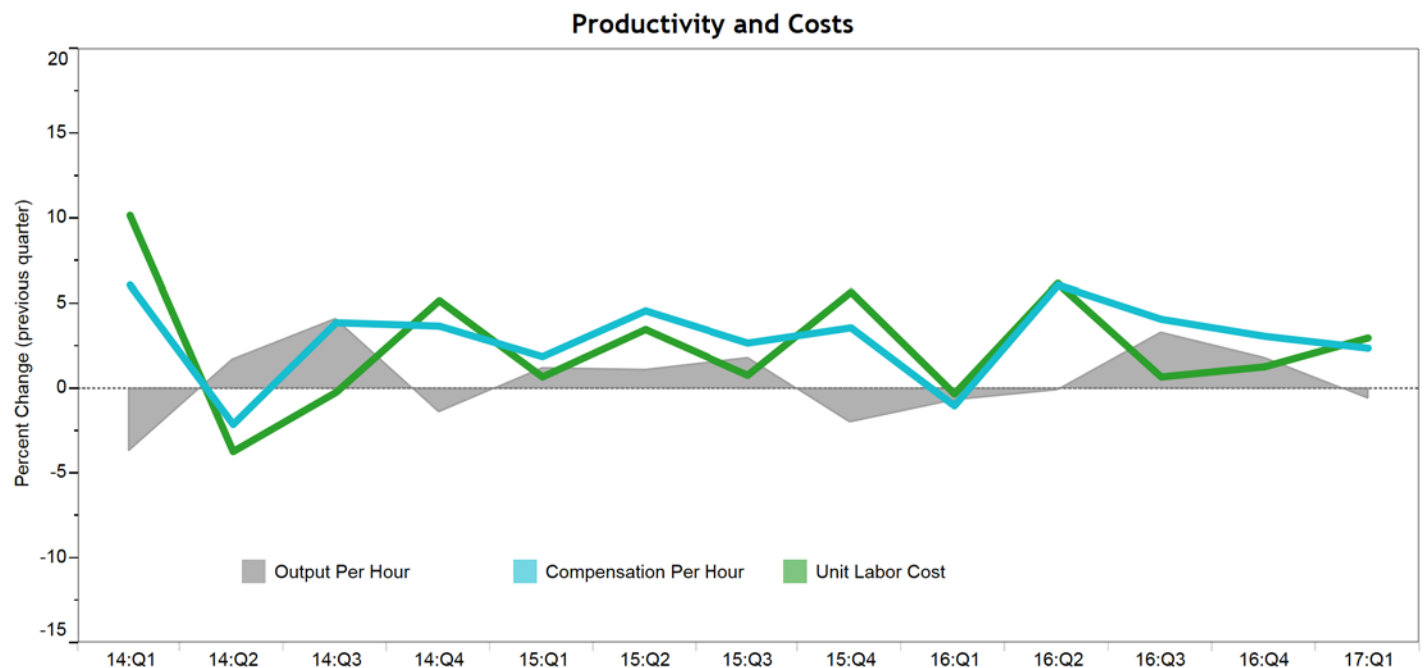
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in total consumer prices accelerated in the first quarter. Excluding the volatile food and energy sectors, growth in core prices was essentially unchanged in the first quarter. In April, growth in both total and core prices decelerated, as measured by the Consumer Price Index. Data measured by the Personal Consumption Expenditure price index for April are due out at the end of the month.



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

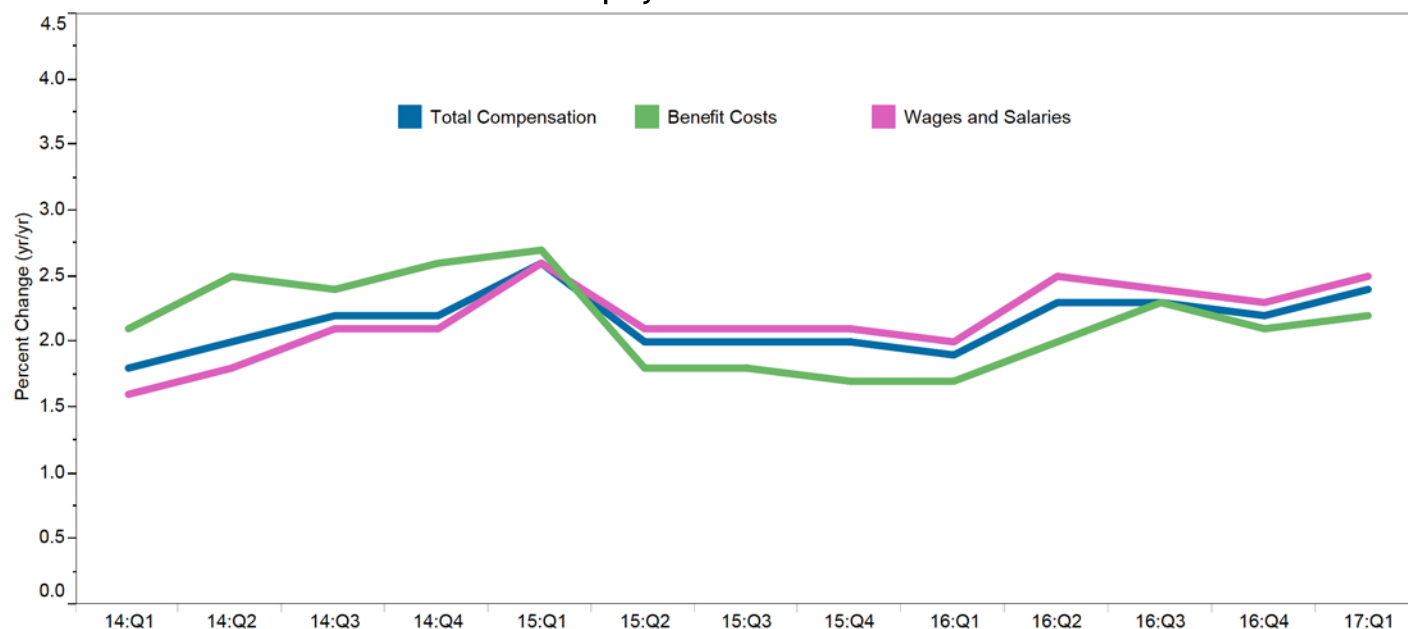
Productivity fell a bit in the first quarter, after rising in each of the previous two quarters, as output increased less than hours worked. Growth in compensation eased a bit in the first quarter, while growth in unit labor costs accelerated.



Source: Bureau of Labor Statistics / Haver Analytics.

In the first quarter, total compensation growth picked up from the rate seen in the fourth quarter. Benefits costs growth and wages and salaries growth also accelerated in the first quarter.

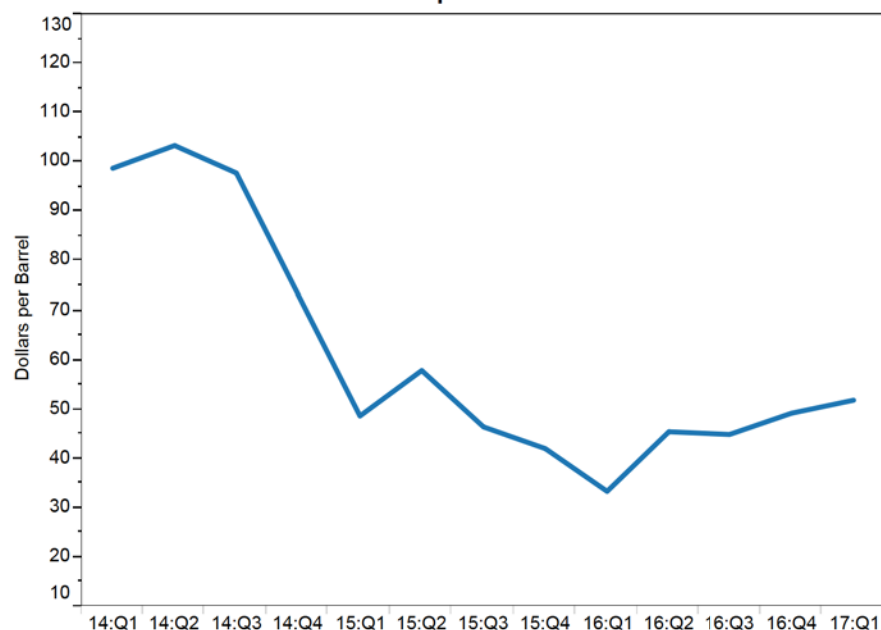
Employment Cost Index



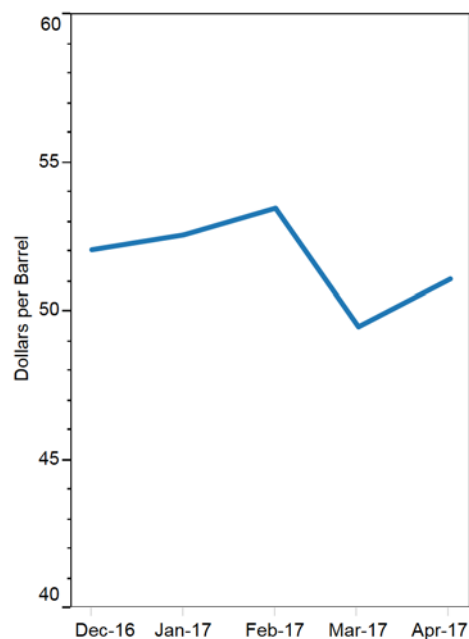
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices rose in April but were a bit below the levels seen in the first quarter, which was the highest quarterly average in almost two years. The daily closing prices have fallen a bit in the first half of May, reaching \$48.9 per barrel on May 15.

Domestic Spot Oil Price



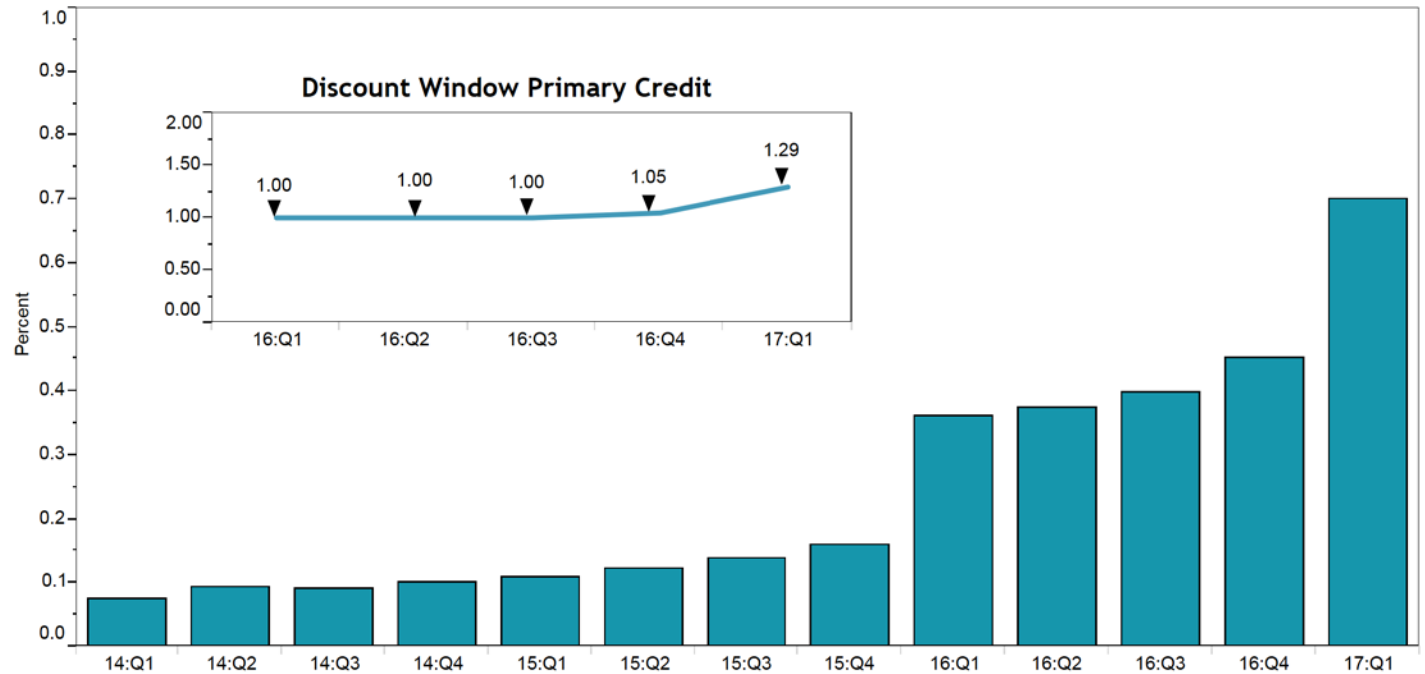
Past Five Months



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

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Short-Term Interest Rates



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