



FEDERAL RESERVE
BANK OF BOSTON™

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

September 6, 2016

CURRENT ECONOMIC DEVELOPMENTS - September 6, 2016

Data released since your last Directors' meeting show the economy grew at a slightly slower pace in the second quarter than originally thought, yet growth is expected to pick up in the third quarter and remain above recent trends throughout the second half of the year. Labor markets showed signs of continued strengthening, consumer spending increased, and the housing market continued to improve. However, support from manufacturing was mixed. Overall, economic growth is poised to pick up over the remainder of this year and into the next.

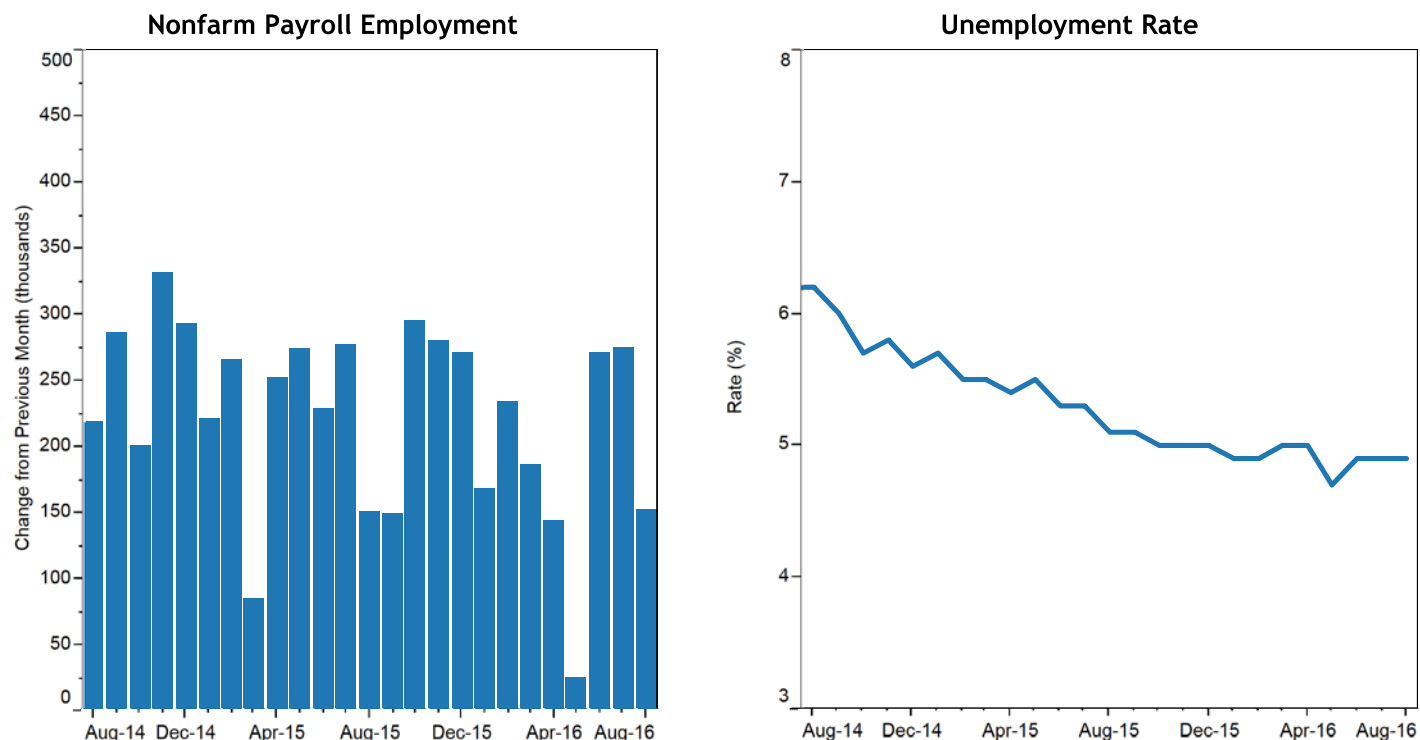
In August, nonfarm payrolls posted a smaller-than-expected increase, while job gains for the previous two months were revised down slightly. The unemployment rate held steady at 4.9% in August. Initial claims for unemployment insurance inched up in August, after falling in July, but remain consistent with further improvements in the labor market.

Consumer attitudes were mixed in August, but remained high. The sentiment index eased, while the confidence index increased as respondents expressed more favorable views of current and expected business and labor market conditions. Vehicle sales fell in August, after increasing in July. Real incomes and consumption both increased in July. Primary measures of real estate activity were mixed in July, as existing home sales fell during the month, while new home sales surged to their highest rate in almost nine years. Housing starts rose in July, while building permits eased, despite an increase in multi-family permits.

In the manufacturing sector, the ISM index declined in August, signalling contraction in the industry for the first time in six months. Industrial production rose in July, and capacity utilization also increased. Orders for durable goods and nondefense capital goods, excluding aircraft, both increased in July on a monthly basis, but declined from their year-ago levels.

Growth in total consumer prices eased in July, 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 were essentially unchanged, on average, in August, and have held relatively steady in the first couple of days in September.

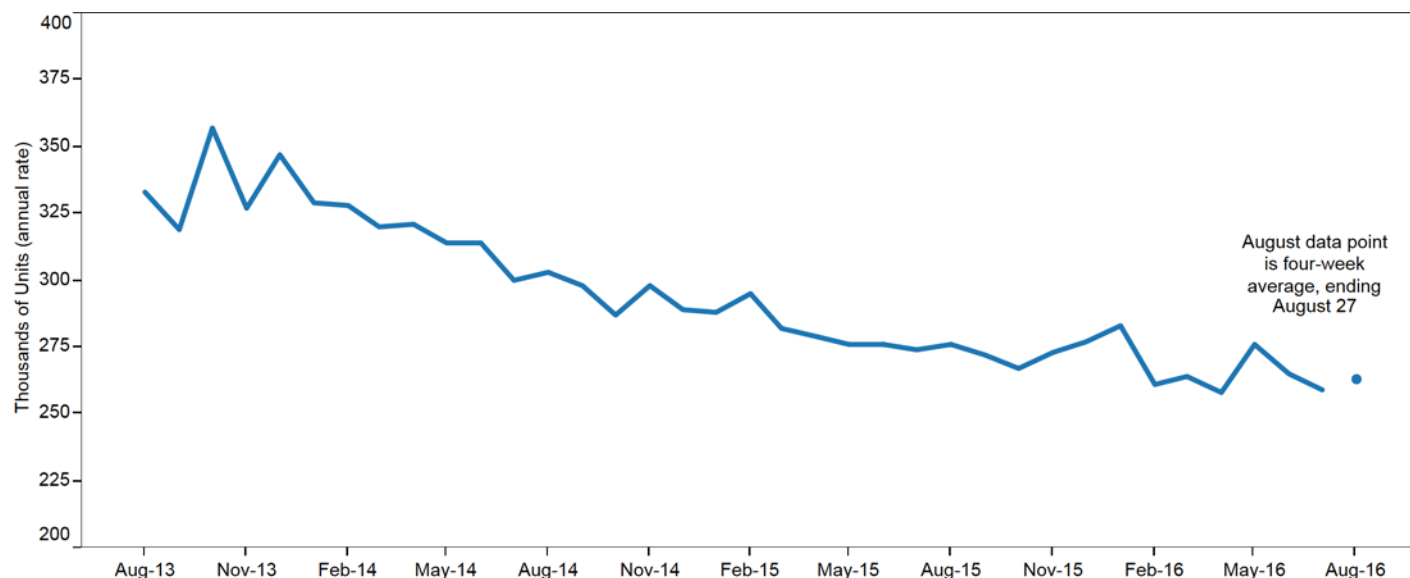
Nonfarm payrolls added 151,000 jobs in August, fewer than anticipated, while job gains for the previous two months were revised down by a net 1,000 jobs. The unemployment rate held steady at 4.9% in August.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance ticked up, on average, in the first four weeks of August, after falling in each of the prior two months. However, weekly claims remain at a level consistent with further labor market improvement.

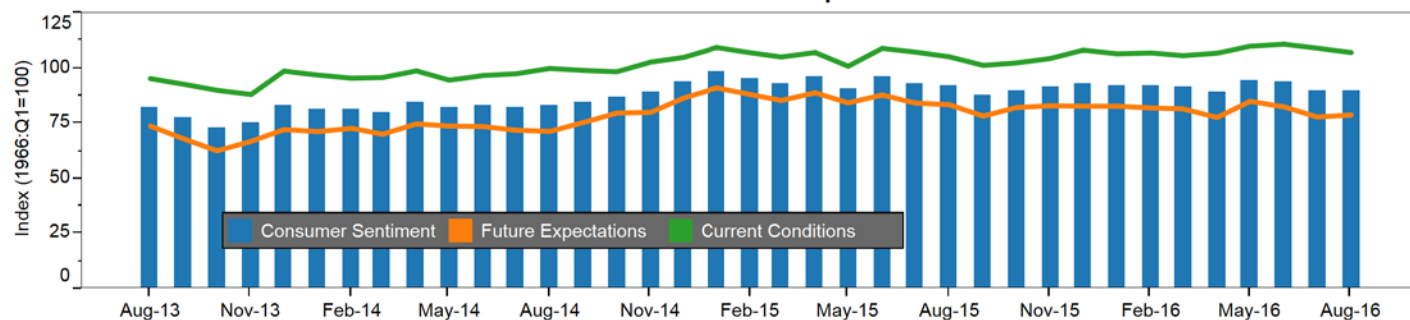
Initial Claims



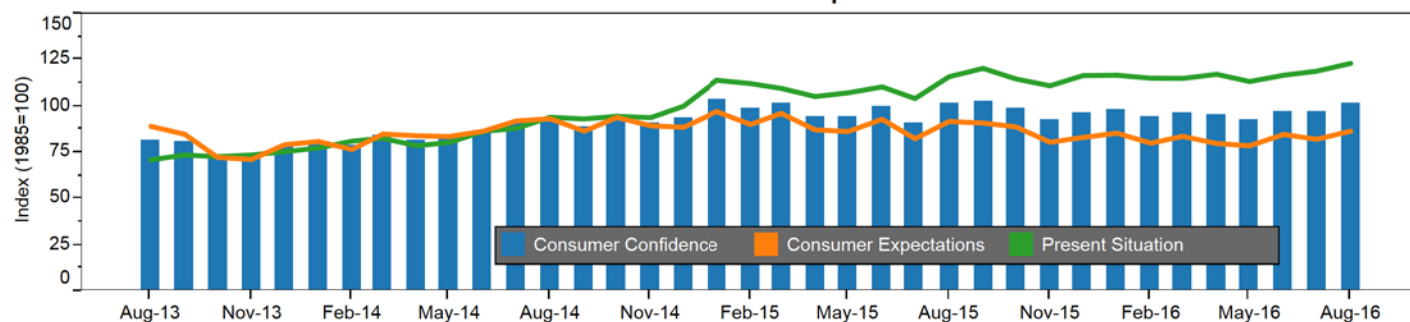
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in August. The sentiment index eased due to a decrease in the current conditions component. Respondents to the sentiment survey expressed weaker assessments of their personal finances, yet were more optimistic towards the overall economic outlook. Meanwhile, the confidence index increased in August to its highest level since September 2015. Respondents to the confidence survey recorded moderate improvement in both current and expected business and labor market conditions.

Consumer Sentiment and Expectations



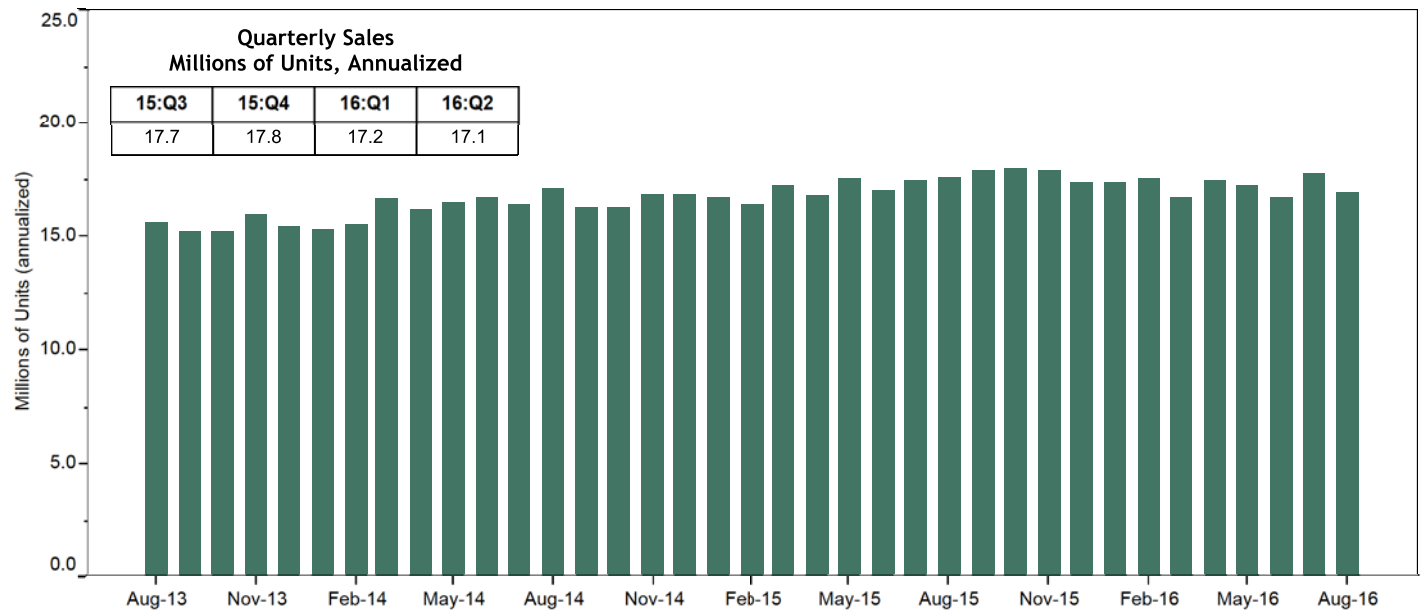
Consumer Confidence and Expectations



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

Lightweight vehicle sales fell more than expected in August, after rising in July, as both auto and light duty truck sales decreased. Total sales in August were below the second quarter average.

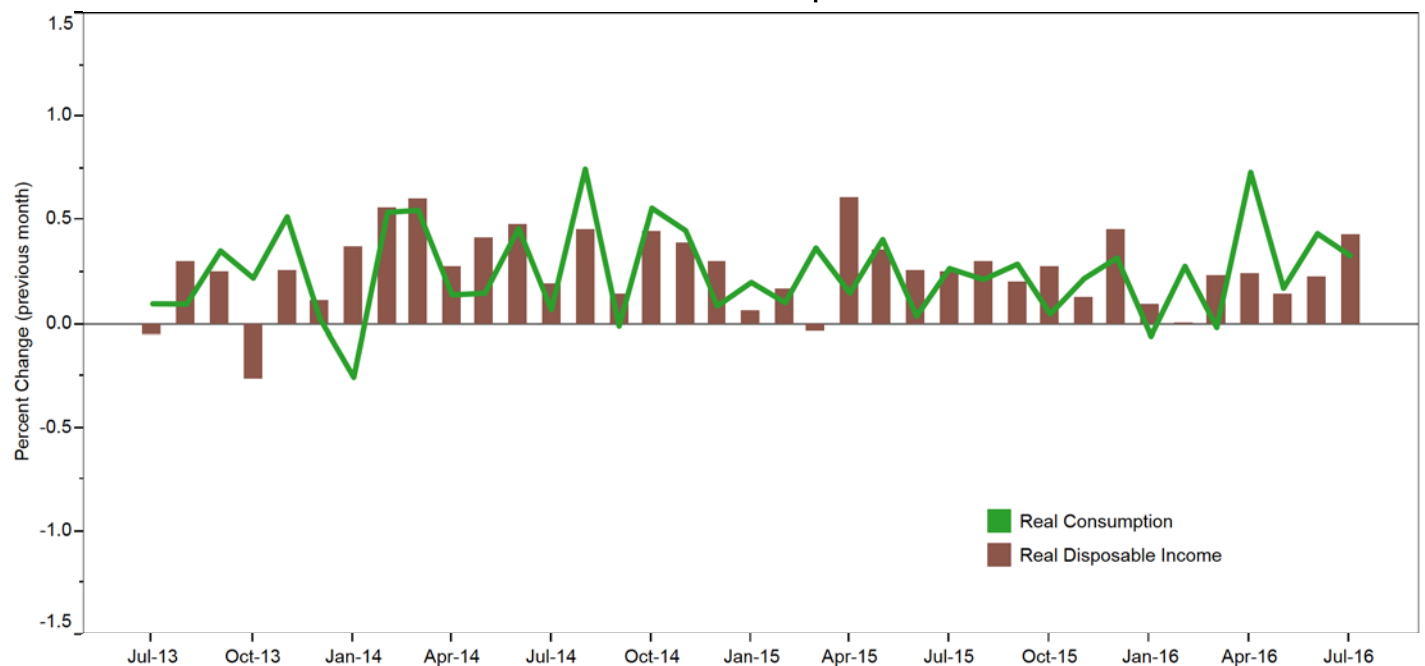
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Growth in real incomes accelerated in July, and real incomes have now increased in each of the past five months. Consumption also rose in July, but at a slightly slower pace than the upwardly revised rate seen in June.

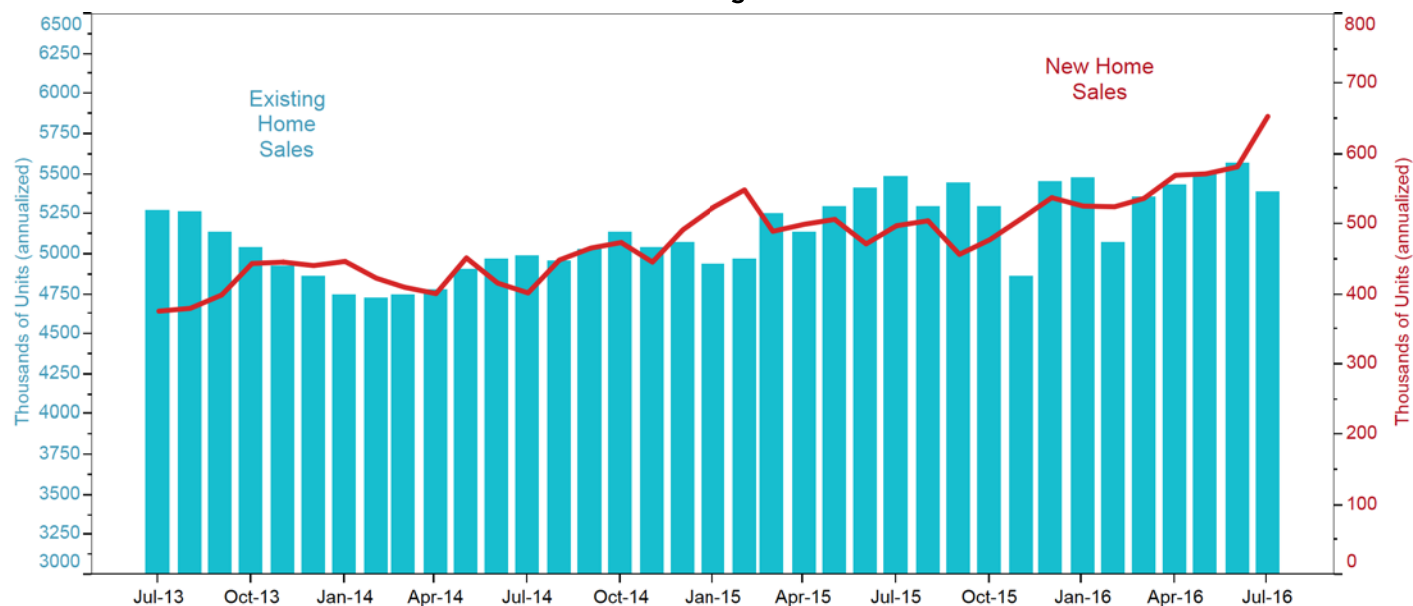
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in July. Existing home sales fell, after increasing in each of the past four months, while new home sales surged to their highest rate since October 2007.

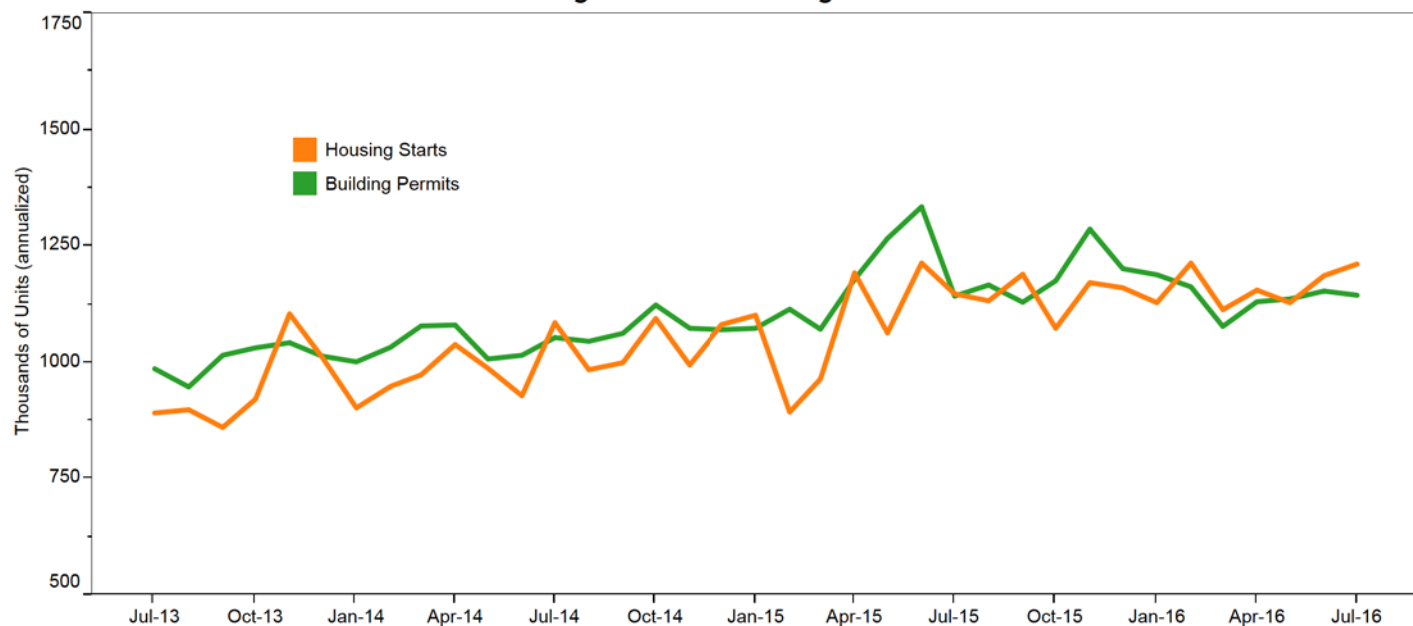
New and Existing Home Sales



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

Housing starts rose in July, due to increases in both single- and multi-family starts. Meanwhile, building permits eased a bit in July, due to a decrease single-family permits, while multi-family permits increased.

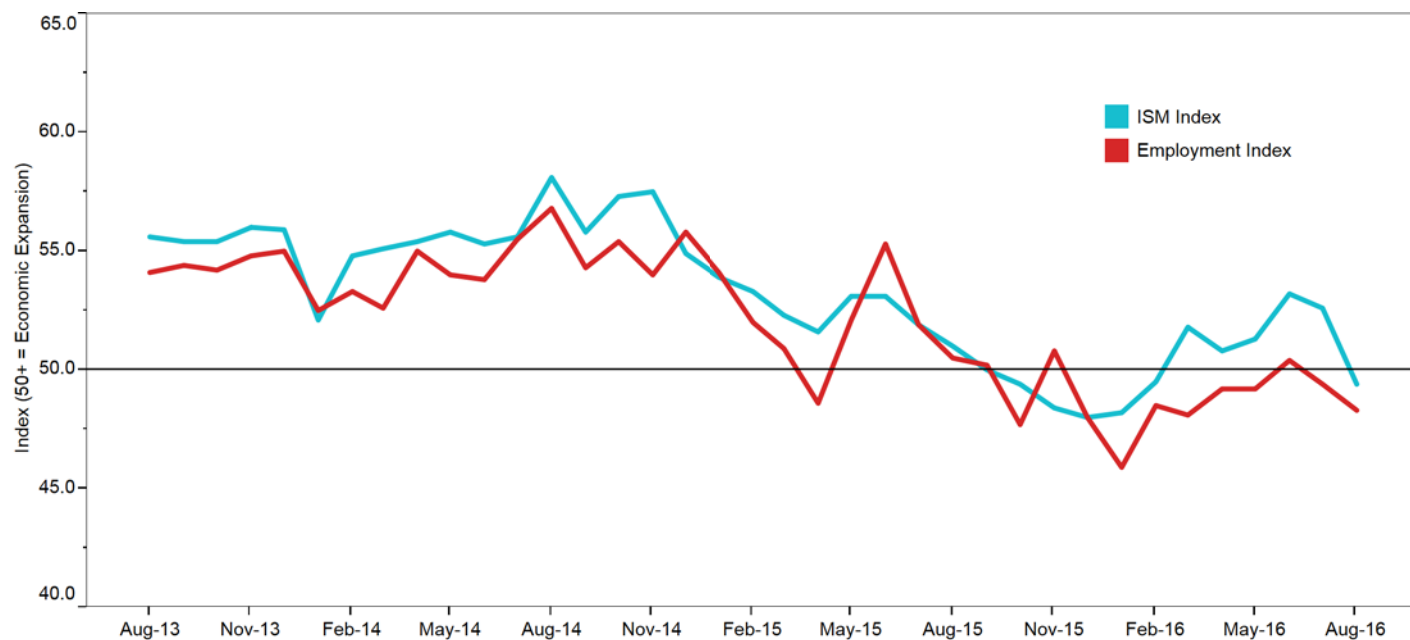
Housing Starts and Building Permits



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

The ISM manufacturing index fell below 50 in August, signalling contraction in the manufacturing industry for the first time in six months. Meanwhile, the employment component of the index also decreased in August, after falling in July.

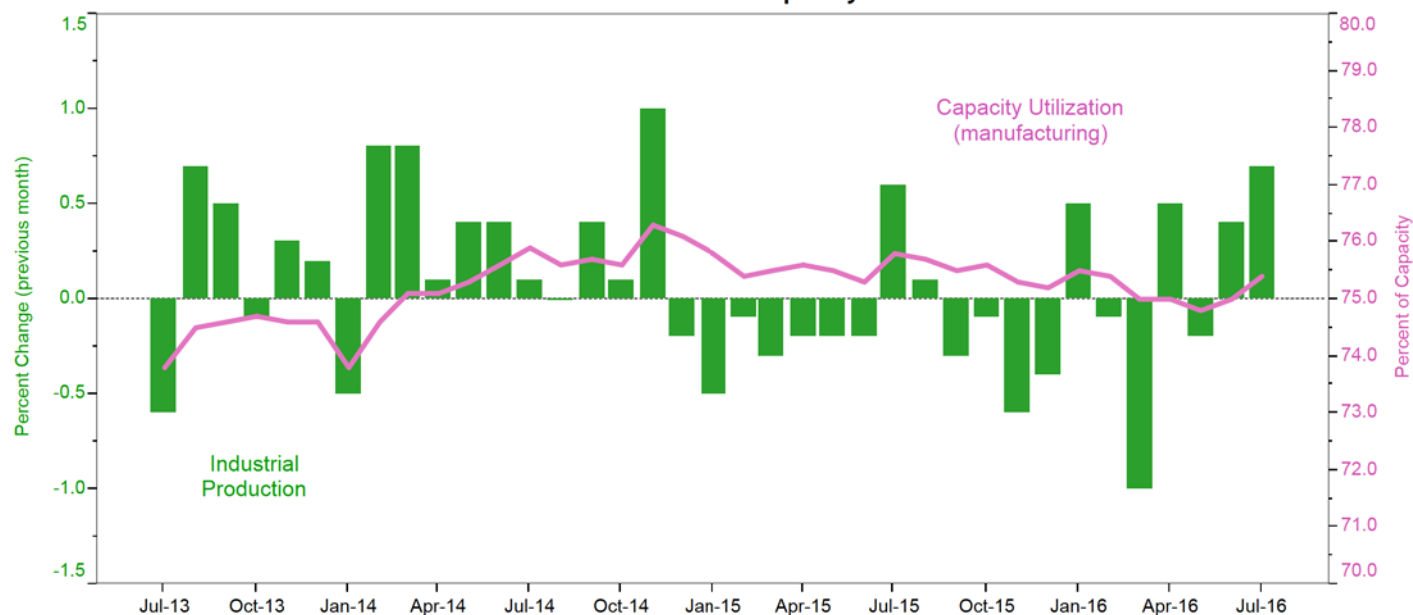
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in July, following an increase in June that was revised down slightly. Manufacturing, mining, and utilities production all posted increases in July. Capacity utilization also rose in July, after increasing in June.

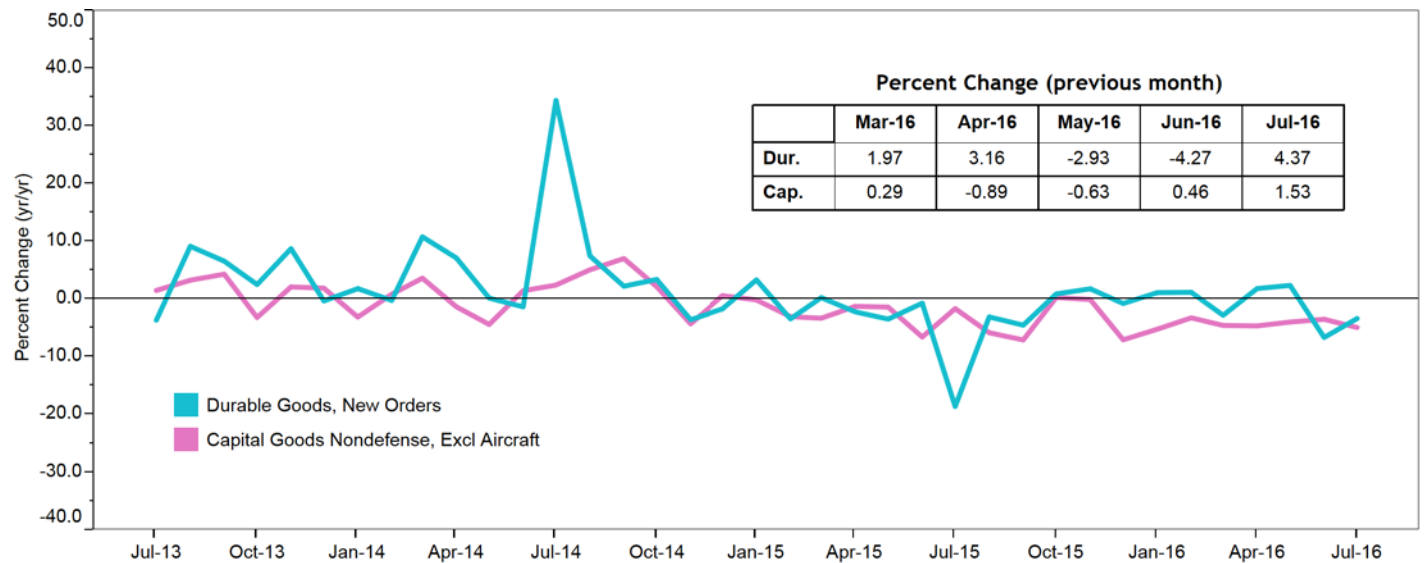
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in July, after falling in each of the previous two months, and orders for nondefense capital goods, excluding aircraft, also increased. However, both durable goods and core orders continued to decline from their year-ago levels in July.

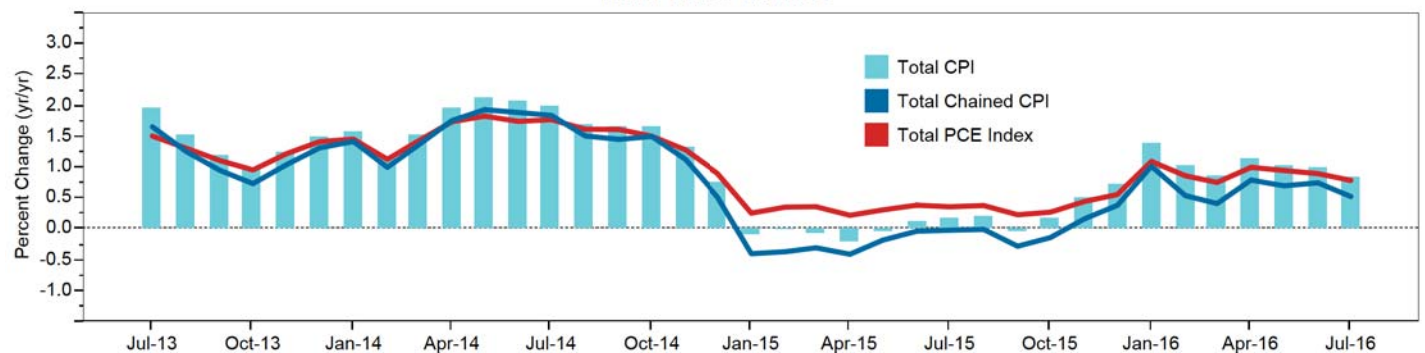
Durable Goods Orders



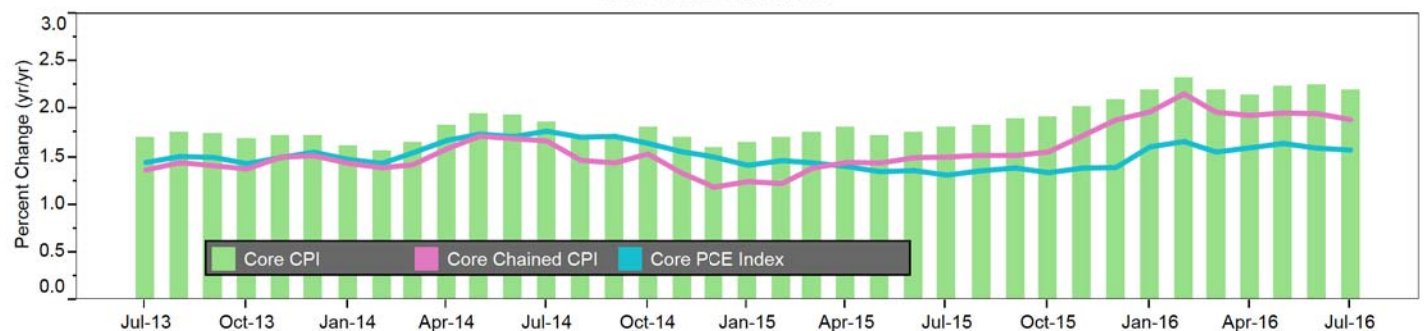
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices eased in July, after holding relatively steady in June. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, also eased in July, as measured by the CPI. The core PCE Index was essentially unchanged in July.

Total Price Indices



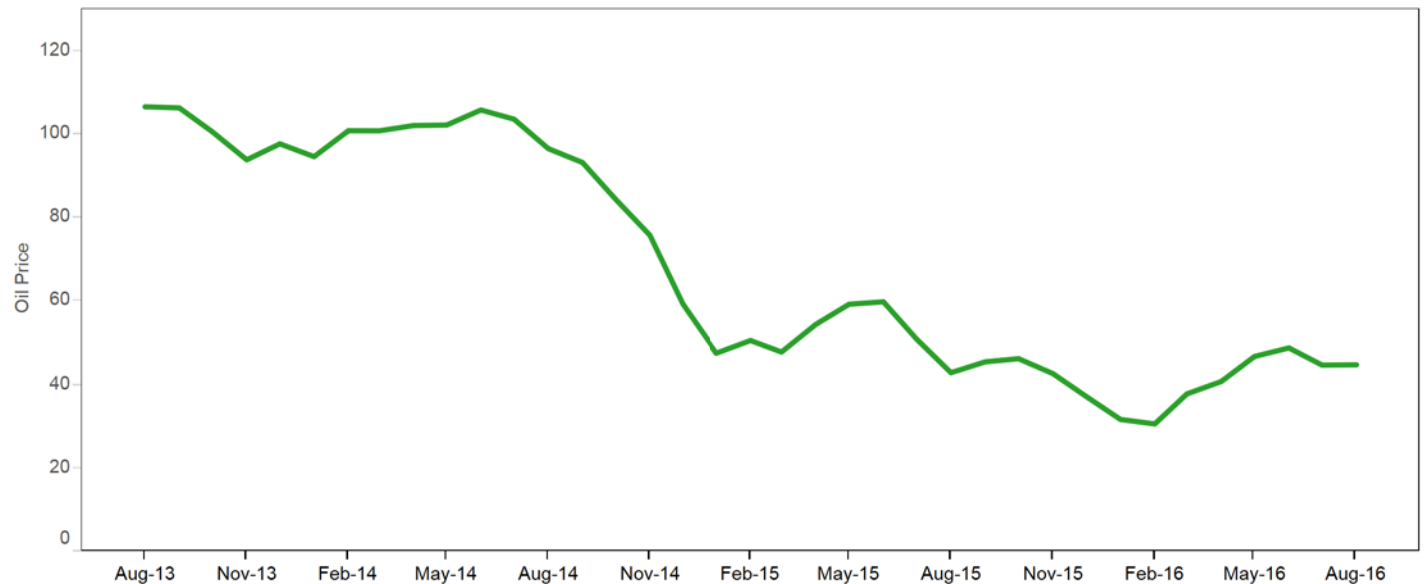
Core Price Indices



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

Oil prices were essentially unchanged, on average, in August, after declining in July. Prices have shown little change in the first couple of days in September, registering \$44.4 per barrel on September 2.

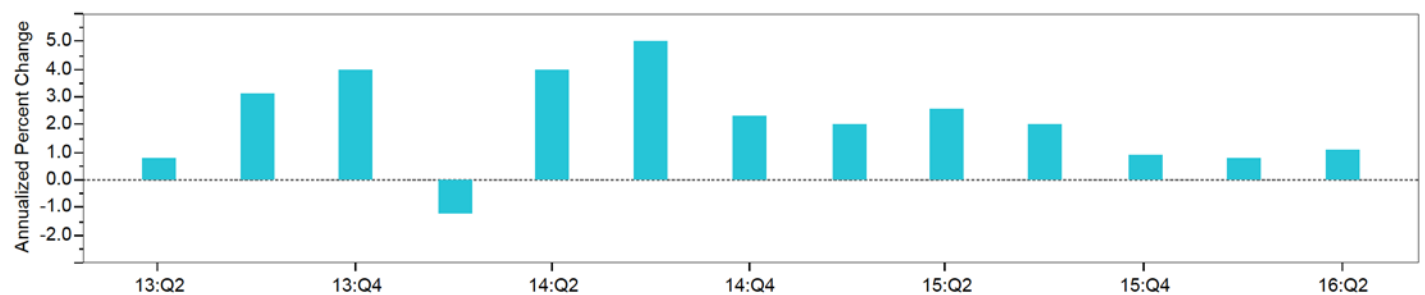
Domestic Spot Oil Price



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

Second quarter real GDP growth was revised down in the second estimate to 1.1% from 1.2%. The lower rate primarily reflected downward revisions to state and local government spending and to private inventory investment and an upward revision to imports. These were partly offset by upward revisions to nonresidential fixed investment and to personal consumption expenditures.

Real GDP



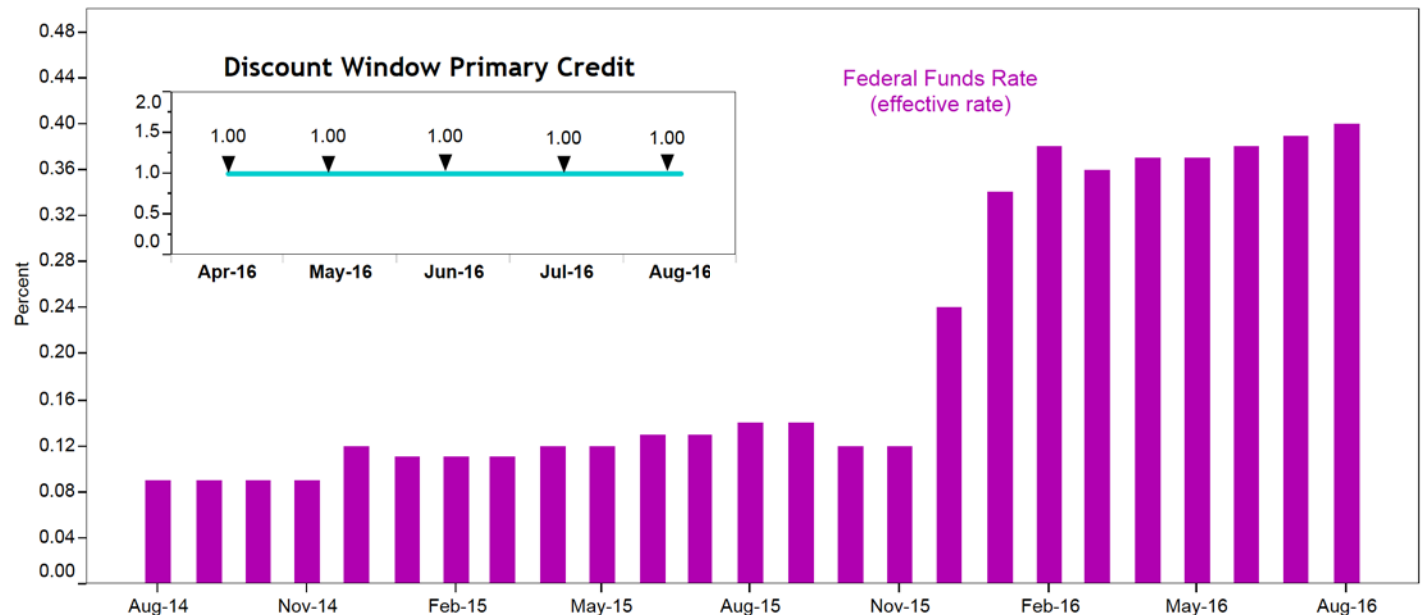
Revisions to Second Quarter Real GDP

| Description | Advance Estimate | Second Estimate |
|------------------------|------------------|-----------------|
| Real GDP | 1.2 | 1.1 |
| Personal Consumption | 4.2 | 4.4 |
| Business Investment | -2.2 | -0.9 |
| Equipment and Software | -3.5 | -3.7 |
| Residential Investment | -6.1 | -7.7 |
| Government | -0.9 | -1.5 |
| Exports | 1.4 | 1.2 |
| Imports | -0.4 | 0.3 |
| Final Sales | 2.4 | 2.4 |

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.