



FEDERAL RESERVE  
BANK OF BOSTON™

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

July 6, 2012

## Current Economic Developments - July 6, 2012

Data released since your last Directors' meeting show the economy continues to grow slowly, but also suggest that growth is unlikely to improve much in the near term. The domestic economic picture has shifted slightly recently, as consumer attitudes and manufacturing have retreated, while the housing market is showing small signs of recovery. The labor market remains an area of concern, and the ongoing financial and economic issues in Europe continue to pose downside risks.

In June, nonfarm payrolls posted a small gain and the unemployment rate held steady. Initial claims for unemployment insurance rose in June, offsetting the decrease seen in May. Consumer attitudes worsened in June, due in large part to decreased optimism towards the economic outlook. Vehicle sales posted a moderate gain in June due to a variety of reasons, including lower fuel prices. Real incomes increased in May, but consumption posted only another small increase.

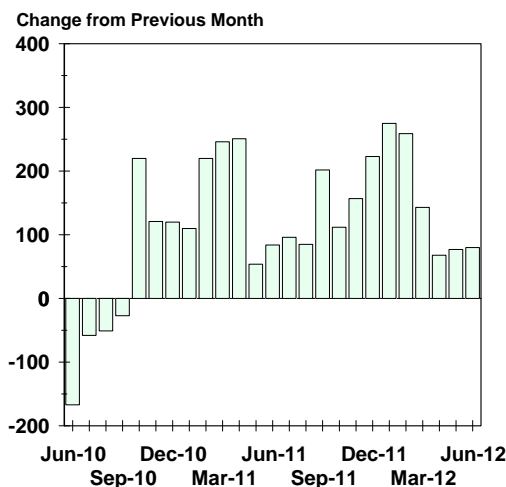
The housing market showed some positive signs in May, yet the market remains subdued. New home sales jumped in May to their highest level in two years, while existing home sales declined slightly but remain well above levels from one year ago. Building permits rose in May, continuing the upward trend seen over the past year. Total housing starts eased in May, but single-family starts increased.

Contributions to the recovery from the manufacturing sector are softening, as most recent data has come in on the negative side. The ISM index unexpectedly fell below 50 in June, signaling a contraction in manufacturing activity, and industrial production and capacity utilization both eased in May. Orders for both durable goods and nondefense capital goods, excluding aircraft, increased in May, but their year-over-year gains continued to decelerate.

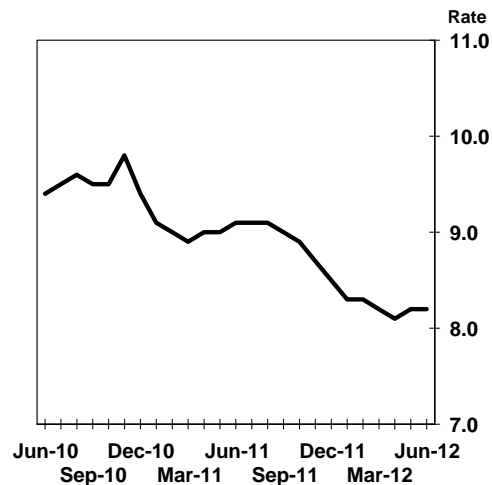
Total price indices continued to ease in May, while core measures held steady. Oil prices fell further in June and were down on average in the second quarter compared to the first quarter.

Nonfarm payrolls rose by 80,000 in June, fewer than expected, and job gains over the prior two months were revised lower by a net 1,000. Payrolls grew by only 225,000 jobs in the second quarter, the lowest quarterly total in nearly two years. The unemployment rate was unchanged at 8.2% in June.

### Nonfarm Payroll Employment



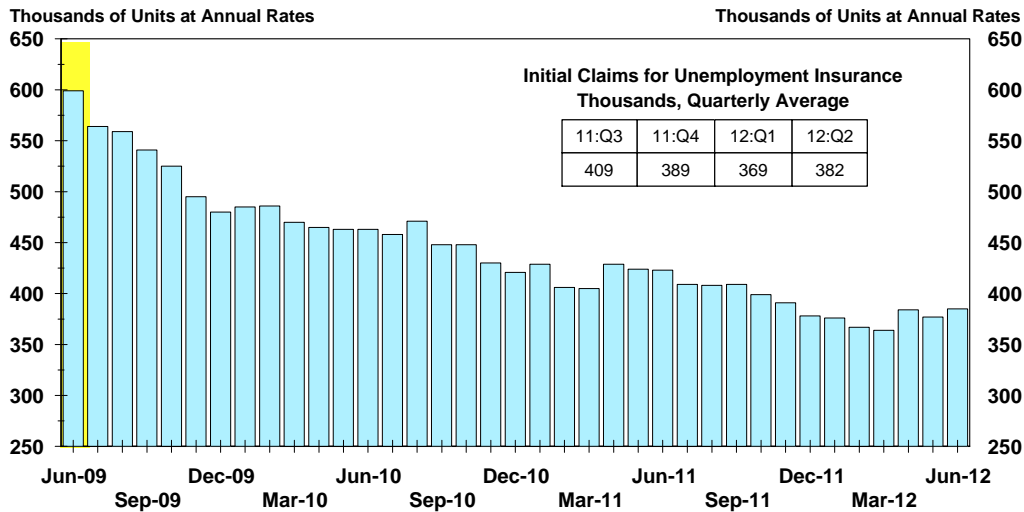
### Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance increased in June and were up overall in the second quarter, erasing most of the improvement seen in the first quarter.

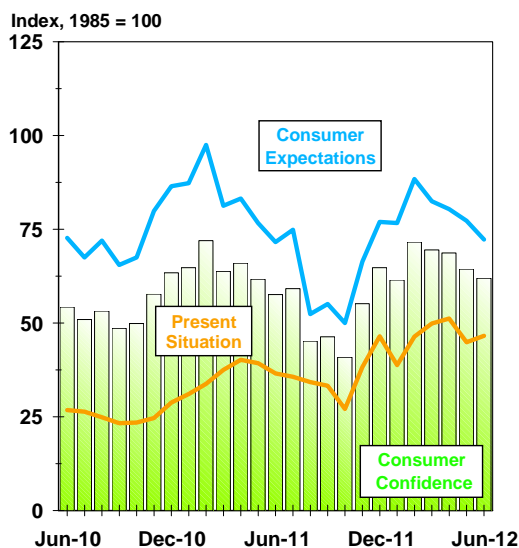
### Initial Claims



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

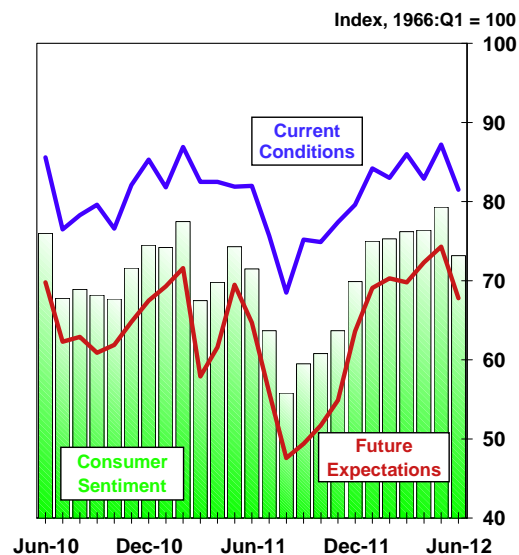
Measures of consumer attitudes fell in June, due mostly to renewed concerns about the general economic outlook. Personal financial concerns and income worries, combined with the more pessimistic economic outlook, are likely to restrain spending in the near term.

### Consumer Confidence



Source: The Conference Board / Haver Analytics.

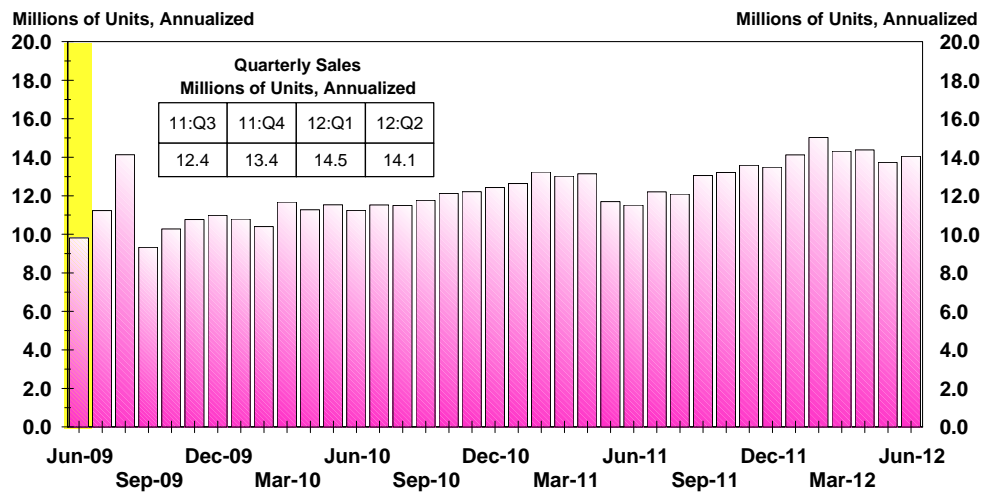
### Consumer Sentiment



Source: The University of Michigan / Haver Analytics.

Total lightweight vehicle sales improved in June but were down overall in the second quarter. However, sales have posted their strongest 6-month average so far in this recovery. Multiple factors contributed to the increase in sales this month, including lower fuel prices, new products, more available credit, and a growing need to replace older vehicles.

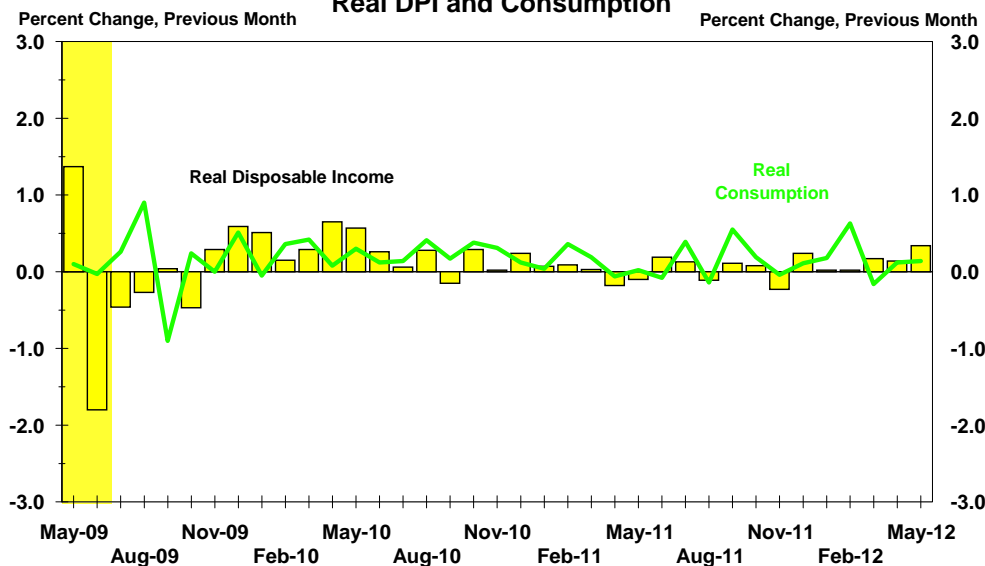
### Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

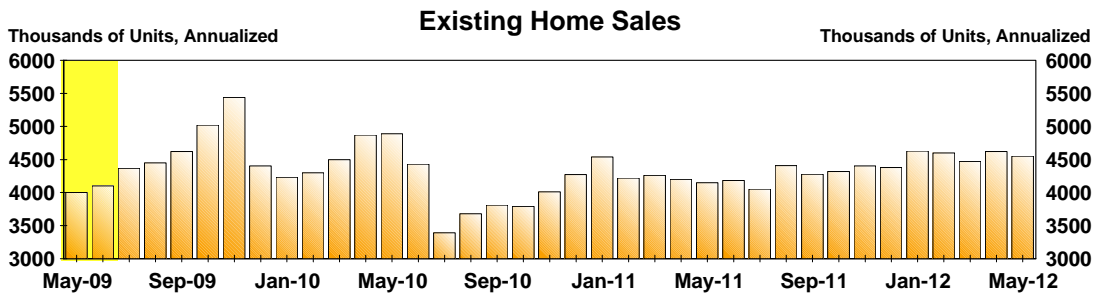
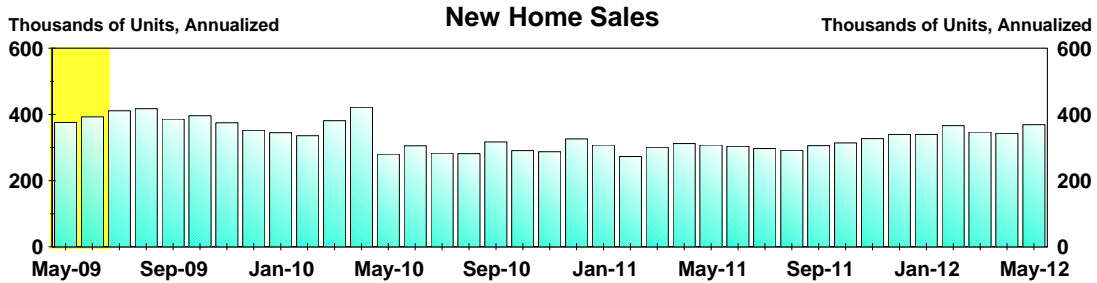
In May, real incomes posted their largest monthly increase in two years. The higher incomes did little to boost consumption, however, which posted only another small gain in May. Consumption was also revised down a bit in each of the previous two months. Given the weakness in consumption so far this quarter, overall second quarter growth in spending is likely to be well below its first quarter rate.

### Real DPI and Consumption



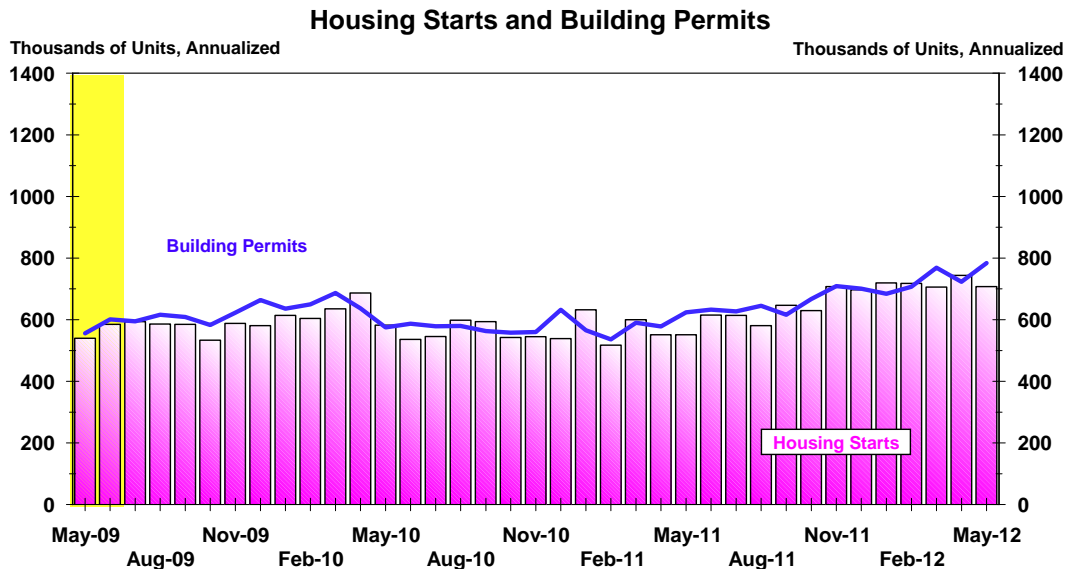
Source: Bureau of Economic Analysis / Haver Analytics.

The housing market showed signs of improvement in May, with new homes sales rising to their highest level in two years. Sales of existing homes eased in May but are up nearly 10% over the past 12 months.



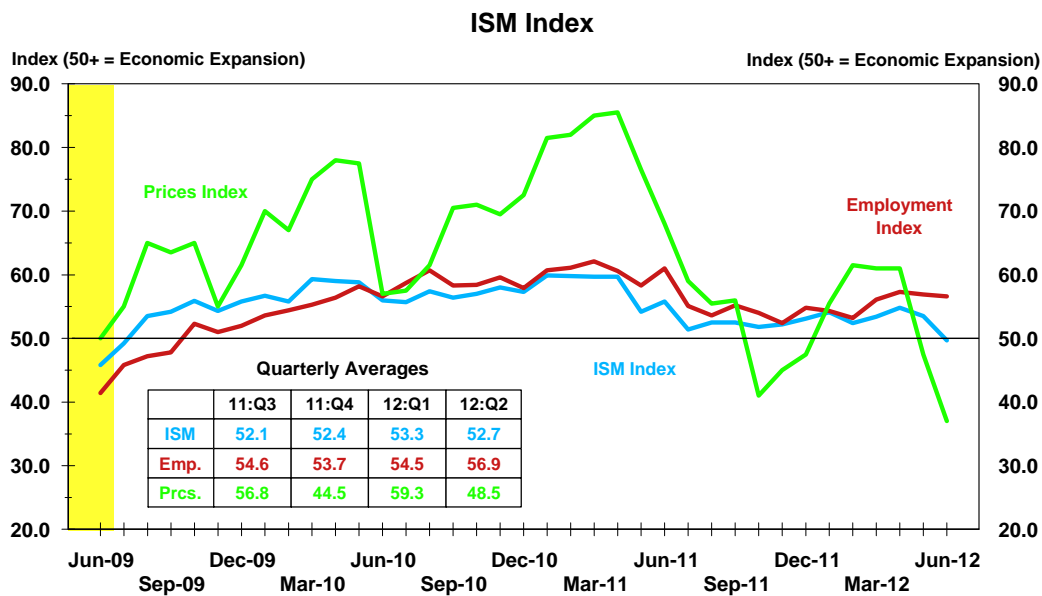
Source: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

New residential construction data was mixed in May. Building permits continued to trend mostly upward, reaching their highest level since September 2008. Housing starts eased in May, but from a level in April that was revised sharply higher. The decline in total starts was due to a decrease in multifamily starts, as single-family starts increased in May.

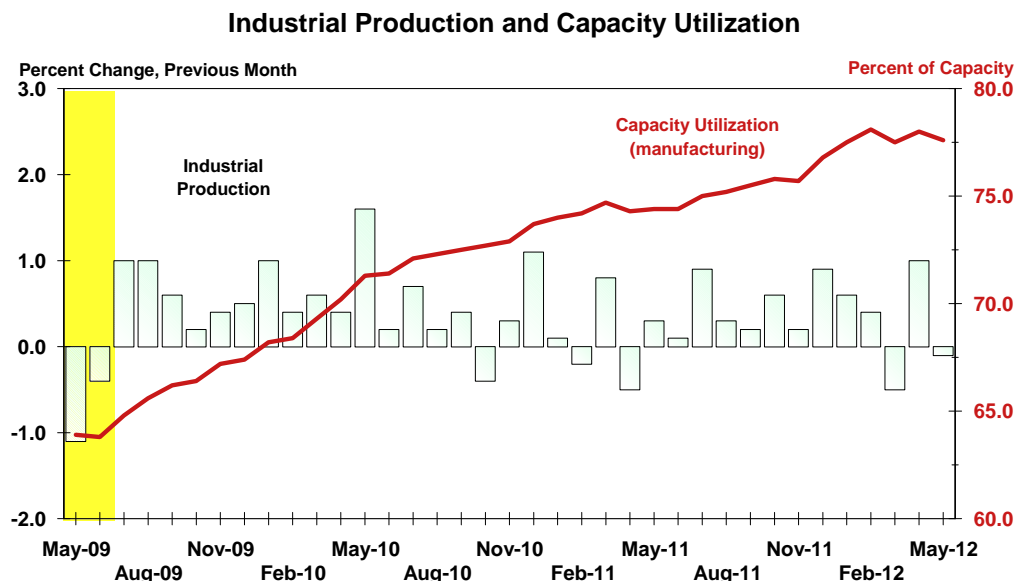


Source: U.S. Census Bureau / Haver Analytics.

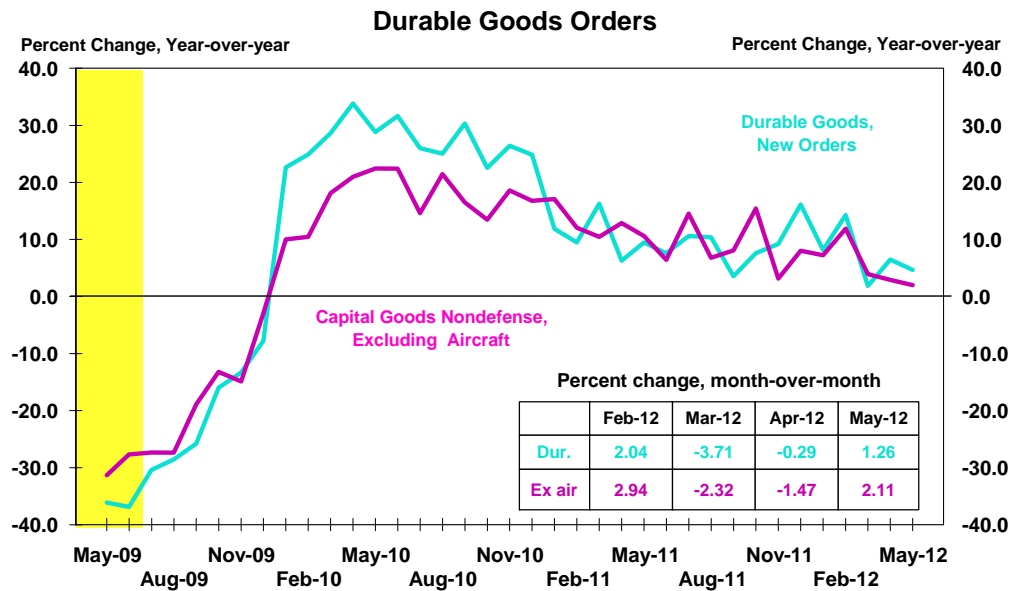
The total ISM index fell below 50 in June for the first time in nearly three years, signaling a contraction in manufacturing activity. The employment index decreased slightly, while the prices index plunged sharply again in June, as oil and commodity prices continued to ease.



In May, industrial production posted a small decrease after jumping up in April, and capacity utilization fell to erase most of the increase seen the previous month. After improving consistently from mid-2009 through the end of last year, production and capacity data have shown signs of leveling off over the past few months.

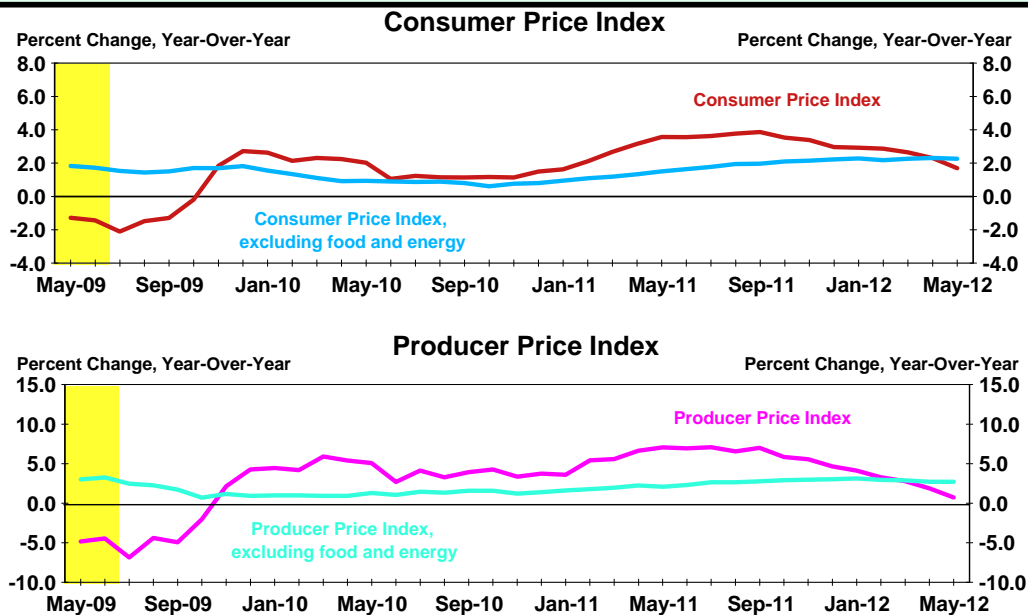


Durable goods orders rose in May compared to April, but their year-over-year growth rate decelerated. Similarly, orders for nondefense capital goods excluding aircraft increased in May, but their annual pace slowed a bit.



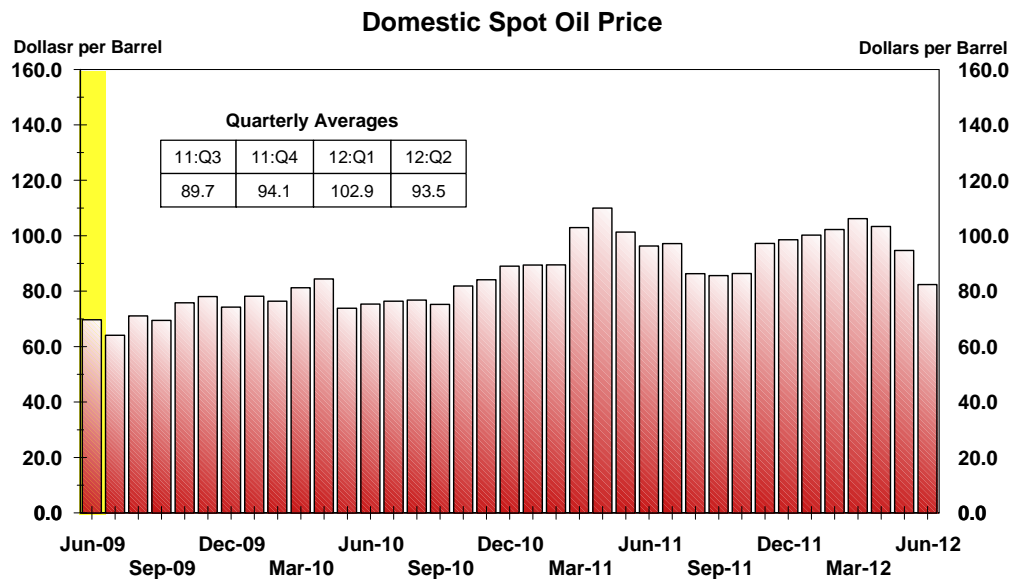
Source: U.S. Census Bureau / Haver Analytics.

Total price indices continued to decelerate in May. Headline consumer prices advanced at their slowest rate since January 2011, and total producer prices grew at their slowest rate since October 2009. Core prices held steady in May, however, for both consumers and producers.

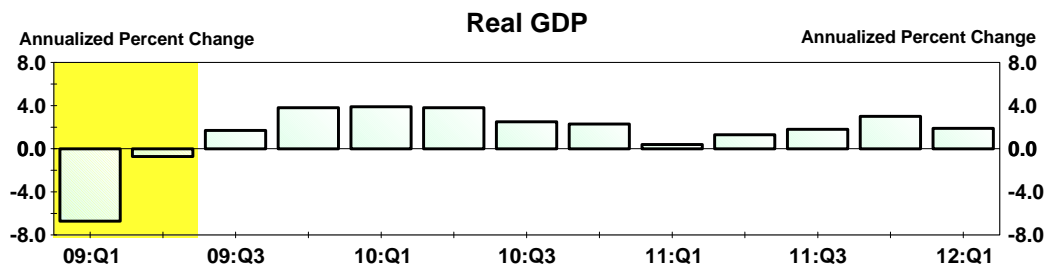


Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices fell in June for the third consecutive month, reaching their lowest levels since last autumn. Oil prices are expected to decline further in the coming months due to global economic concerns and increased oil supply.



First quarter real GDP growth was unrevised in the third estimate, primarily reflecting a downward revision to imports and an upward revision to nonresidential fixed investment that were offset by downward revisions to exports, personal consumption expenditures, and private inventory investment.



**First Quarter Revisions**

Description	2nd Estimate	3rd Estimate
Real GDP	1.9	1.9
Personal Consumption	2.7	2.5
Business Investment	1.9	3.1
Equipment and Software	3.9	3.5
Residential Investment	19.4	20.0
Government	-3.9	-4.0
Exports	7.2	4.2
Imports	6.1	2.7
Change in Private Inventories	\$67.8 (bil. 2005\$)	\$64.5 (bil. 2005\$)

Source: Bureau of Economic Analysis / Haver Analytics.



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