FEDERAL RESERVE BANK OF BOSTON™

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

July 5, 2013

Current Economic Developments - July 5, 2013

Data released since your last Directors' meeting show that the economy continues to recover at a moderate pace and suggest that growth is likely to improve a bit in the second half of the year. The housing and auto markets continue to strengthen, and the labor market has shown signs of improvement. Although personal consumption has slowed recently, consumer attitudes continue to improve, which may lead to increased spending in the near term. The manufacturing sector has shown positive signs, but remains subdued. The impact of the federal budget sequester remains an area of concern, and higher interest rates following the June FOMC statement may restrict growth over the second half of the year more than previously anticipated.

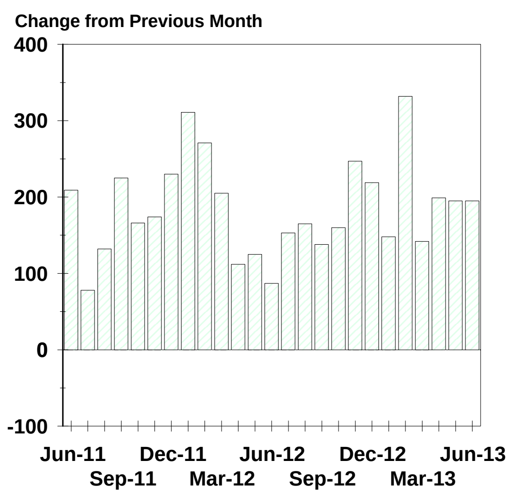
In June, nonfarm payrolls posted a larger than expected gain, and job increases in the previous two months were revised sharply higher. The unemployment rate held steady in June, as recent gains in civilian employment have been matched by increases in the size of the labor force. Initial claims for unemployment insurance fell in June and have reached their lowest quarterly average since the end of 2007. Consumer attitudes were mostly positive in June, due in large part to increased optimism towards the economic outlook. Vehicle sales posted a gain in June to reach their highest sales rate since November 2007. Real incomes increased in May, yet consumption posted only a small increase after an April reading that was revised down to a decrease.

The housing market continued to show mostly positive signs in May. New home sales rose in May to their highest rate in almost five years, and existing home sales jumped to their highest rate since November 2009. Housing starts rose in May, while total building permits fell, depsite an increase in single-family permits. In the manufacturing sector, the ISM index improved above 50 in June, signaling an expansion in manufacturing activity, following a contraction in the previous month. Industrial production and capacity utilization were both flat in May. Orders for both durable goods and nondefense capital goods, excluding aircraft, increased in May, and their year-over-year gains accelerated.

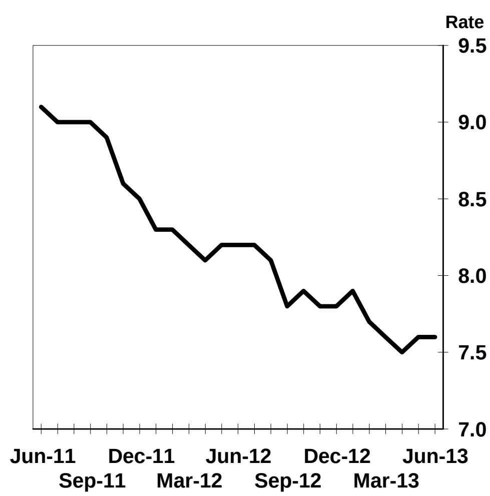
Total price indexes accelerated in May, while core measures eased slightly. Oil prices rose in June but were down slightly on average in the second quarter compared to the first quarter.

Nonfarm payrolls rose by 195,000 in June, more than expected, and gains over the prior two months were revised higher by a total of 70,000 jobs. Payroll growth averaged 196,000 jobs in the second quarter, slightly below the averages seen in the prior two quarters. The unemployment rate was unchanged at 7.6% in June, as the size of the labor force increased.

Nonfarm Payroll Employment

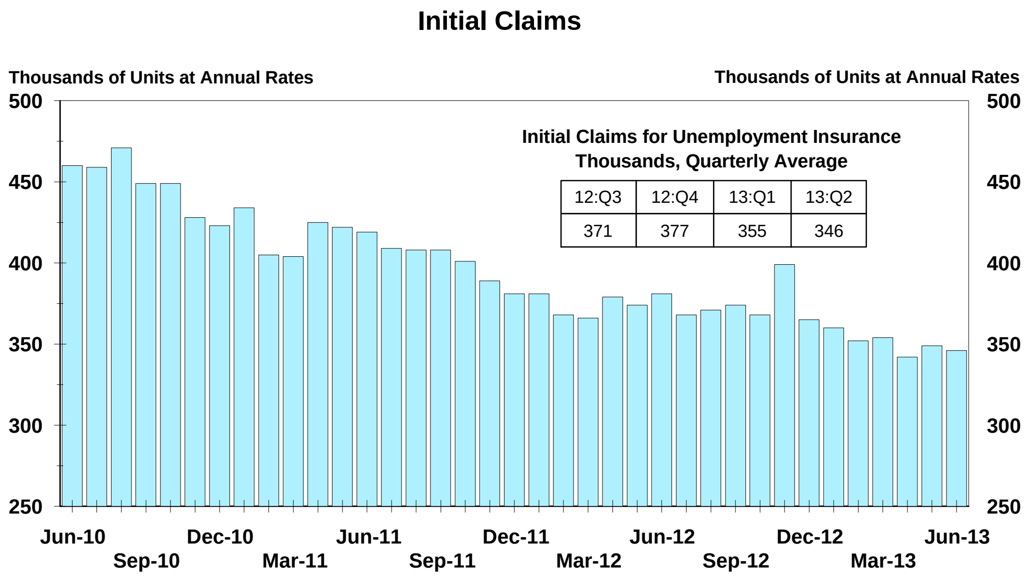


Unemployment Rate



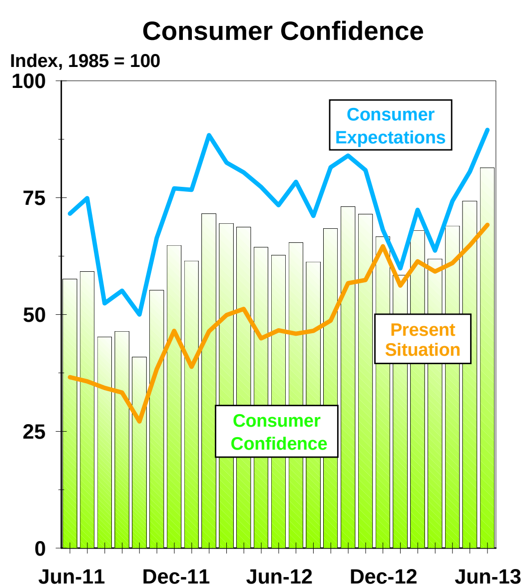
Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance eased in June and were down overall in the second quarter, reaching their lowest quarterly average since the 4th quarter of 2007.

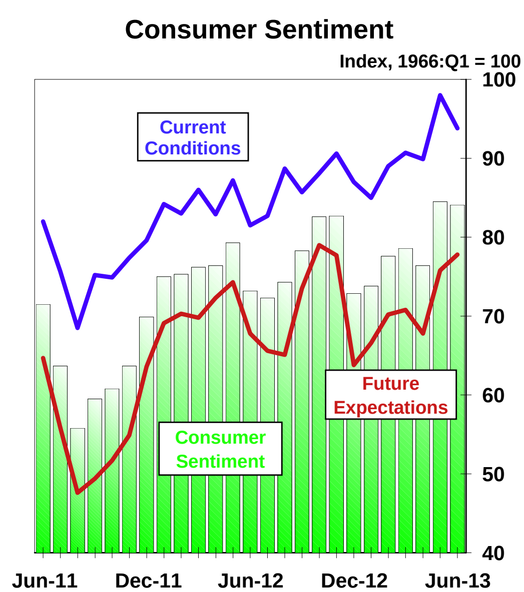


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes were mostly positive in June, as confidence jumped to a more than five year high, and sentiment ticked down slightly from a May level that was the highest in six years. Consumers continue to be more optimistic about future expectations. However, all of the strength in the sentiment index occurred among higher income households.

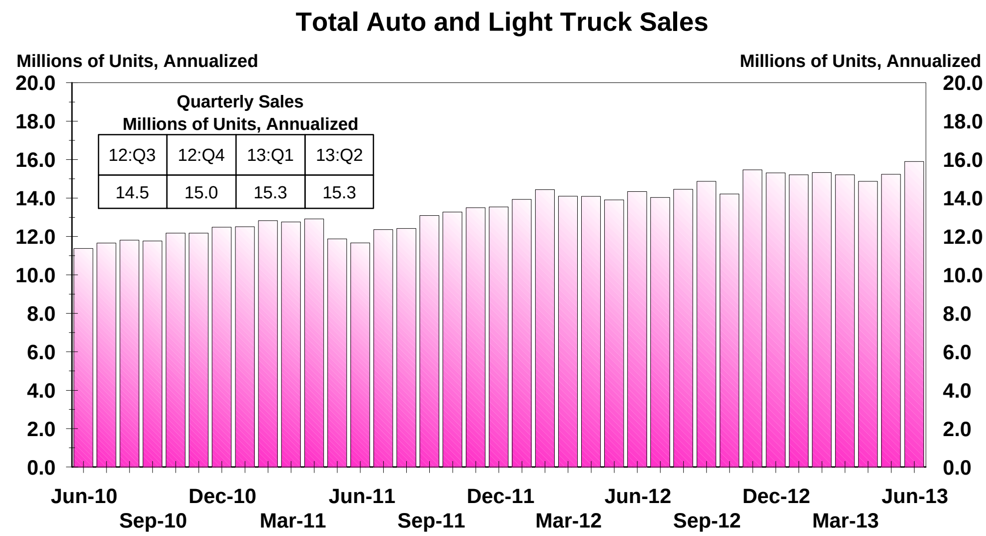


Source: The Conference Board / Haver Analytics.



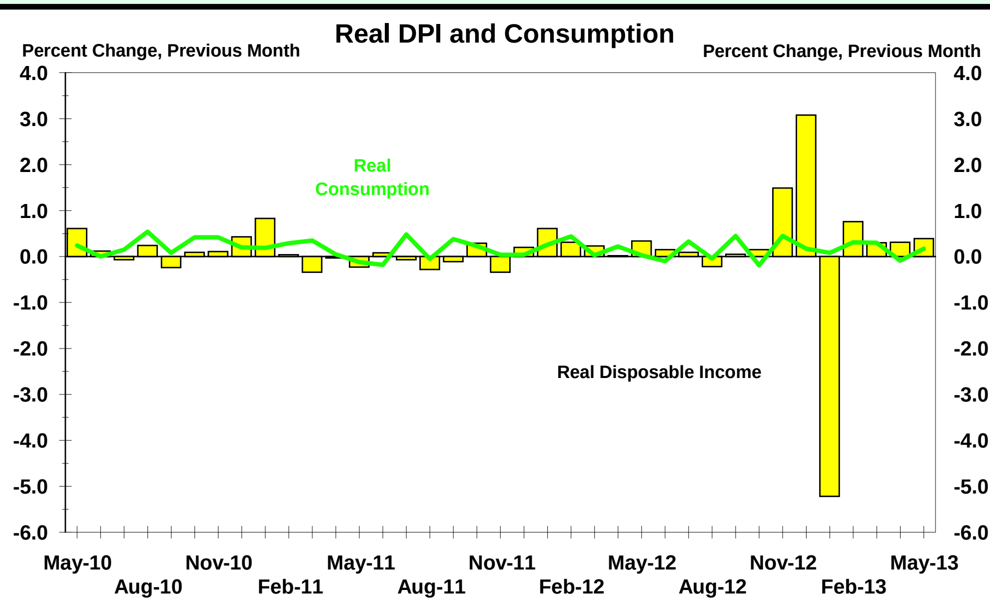
Source: The University of Michigan / Haver Analytics.

Total lightweight vehicle sales improved above expectations in June to reach their highest rate since November 2007. Sales improved for both autos and light trucks in June. Dealers attribute the increase in pickup truck sales this month, in part, to continued recovery in the housing market, lower interest rates, better fuel economy, and the need to replace an aging fleet.



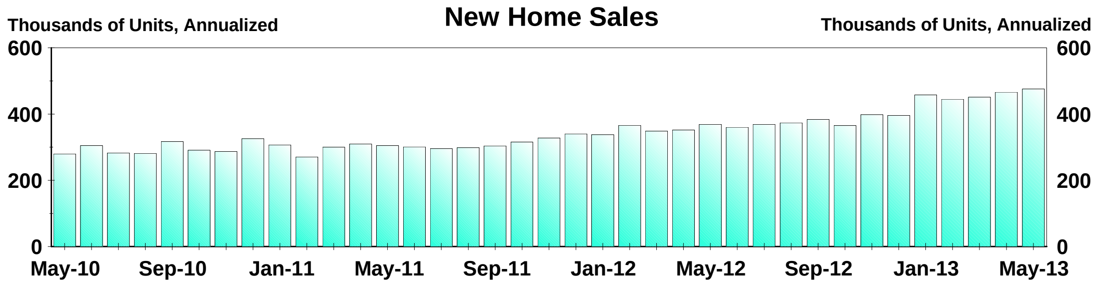
Source: Bureau of Economic Analysis / Haver Analytics.

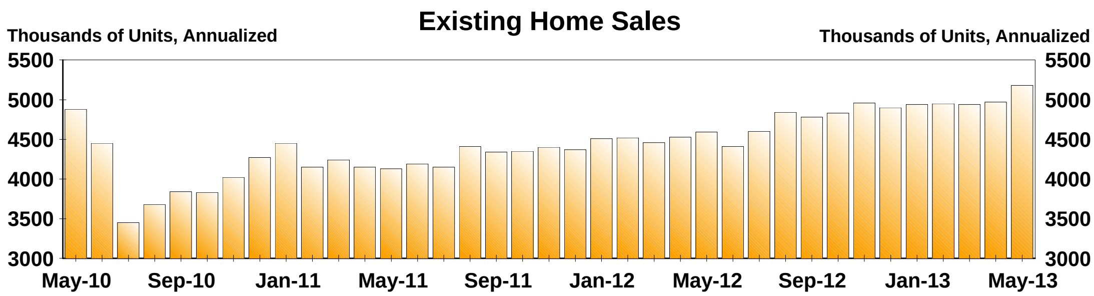
In May, real incomes increased for the fourth consecutive month, and April's increase was revised slightly higher. The higher incomes provided a small boost to consumption in May, but consumption in April was revised down to a decrease. Consumption in April was previously seen increasing 0.1%. The weakness in consumption so far in the second quarter is consistent with the expected effects of the tax increases that occurred earlier this year.



Source: Bureau of Economic Analysis / Haver Analytics.

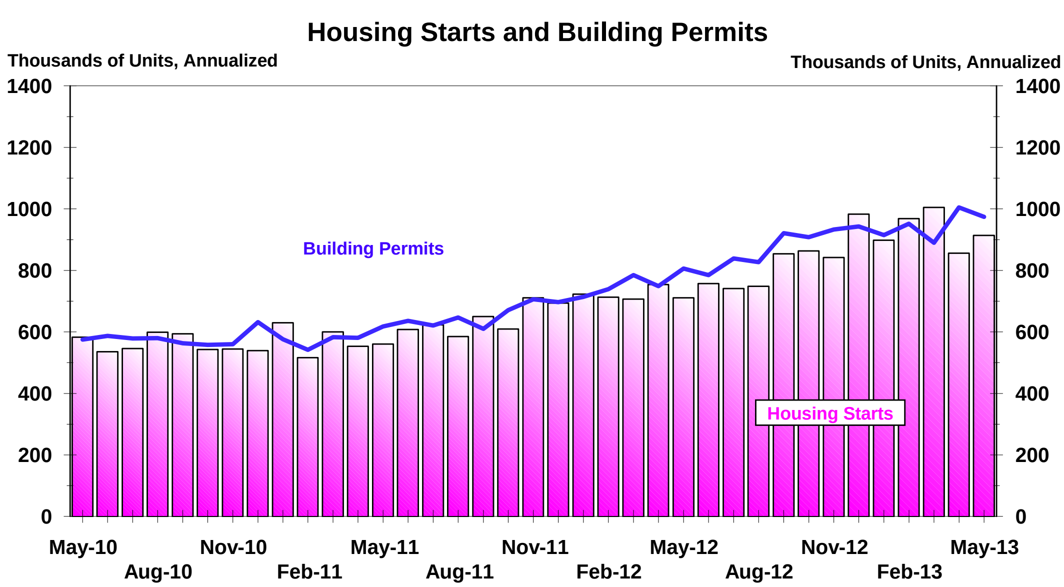
The housing market continued to show signs of improvement in May, with new home sales rising to their highest rate in nearly five years. Sales of existing homes jumped in May to their highest rate since November 2009, which was the peak of the home buyer stimulus credit.





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

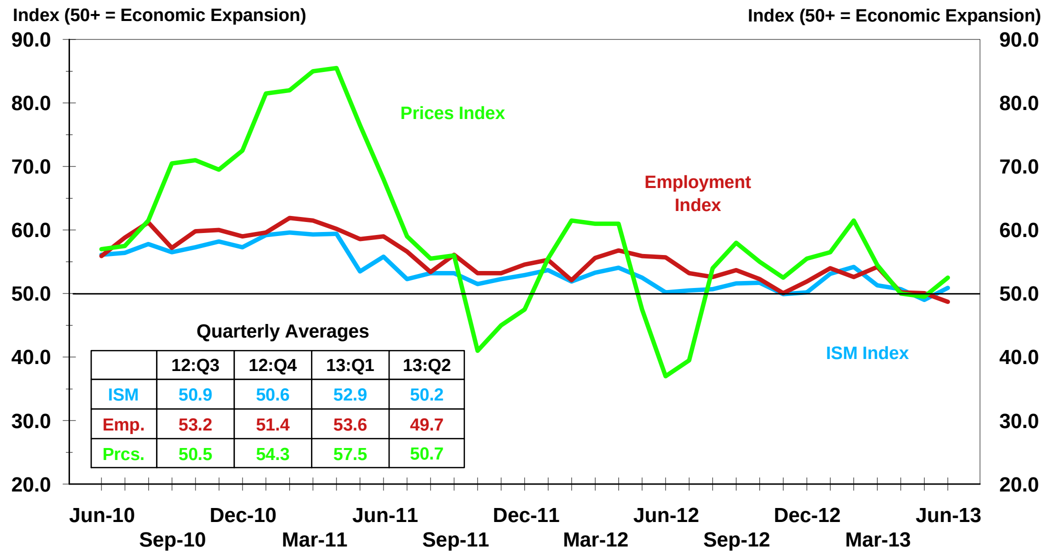
New residential construction data was mixed in May. Housing starts rose in May, but only partly offset the large drop seen in April. Building permits eased in May, but remain near a five-year high. The decline in total permits was due to a decrease in multifamily permits, as single-family permits increased in May.



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

The total ISM index rose above 50 in June, signaling an expansion in manufacturing activity, after falling below 50 in May. The employment index fell below 50 in June for the first time since September 2009, while the prices index rose above 50 in June.

ISM Index

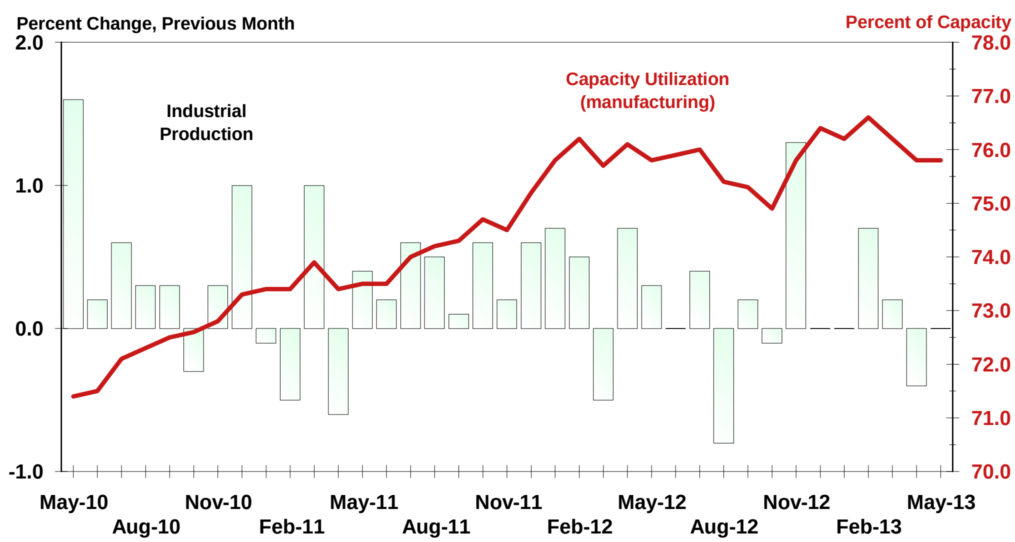


	12:Q3	12:Q4	13:Q1	13:Q2
ISM	50.9	50.6	52.9	50.2
Emp.	53.2	51.4	53.6	49.7
Prcs.	50.5	54.3	57.5	50.7

Source: Institute of Supply Management / Haver Analytics.

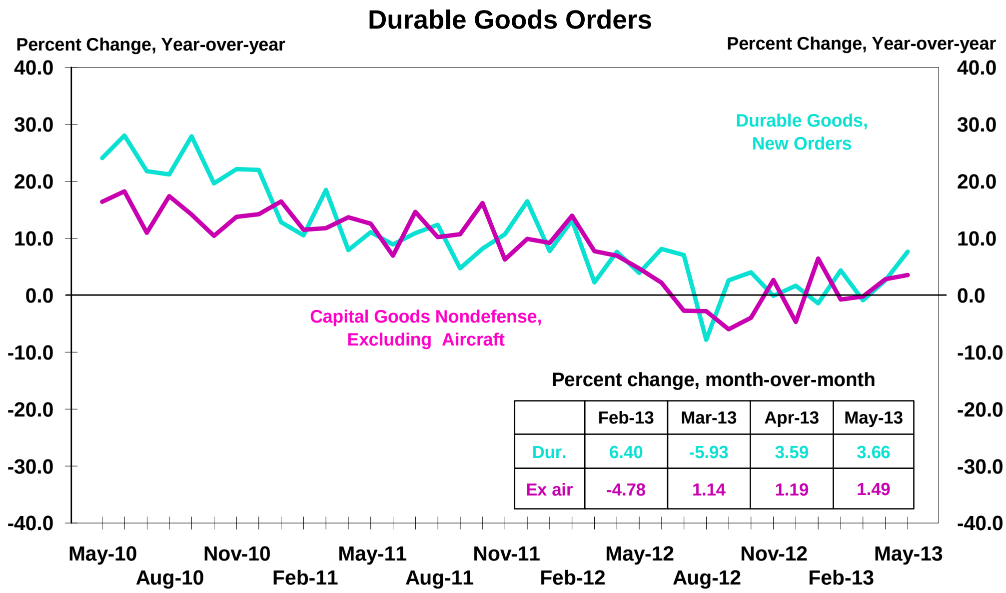
Industrial production was flat in May, after a decrease in April that was revised slightly smaller. The increases seen in February and March were both revised lower. Capacity utilization also held steady in May, after decreasing in each of the previous two months, and is little changed from levels seen a year ago.

Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

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

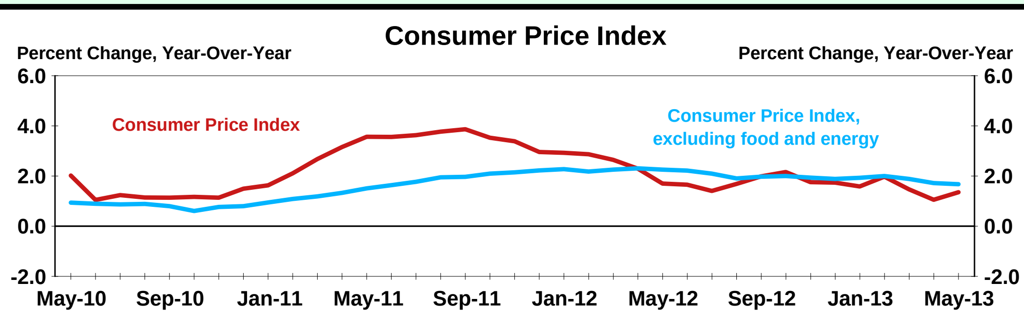


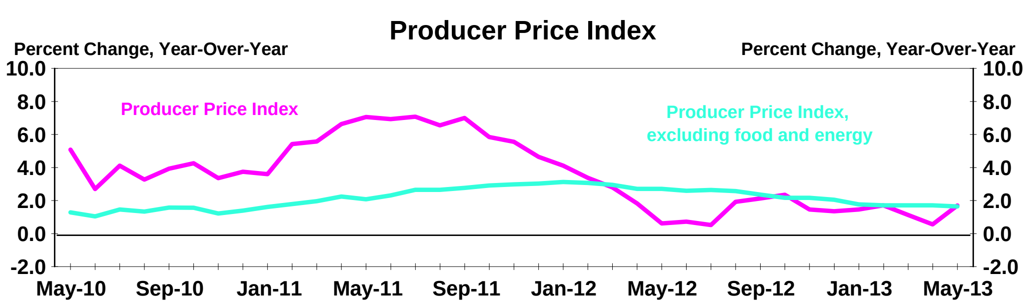
Percent change, month-over-month

	Feb-13	Mar-13	Apr-13	May-13
Dur.	6.40	-5.93	3.59	3.66
Ex air	-4.78	1.14	1.19	1.49

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

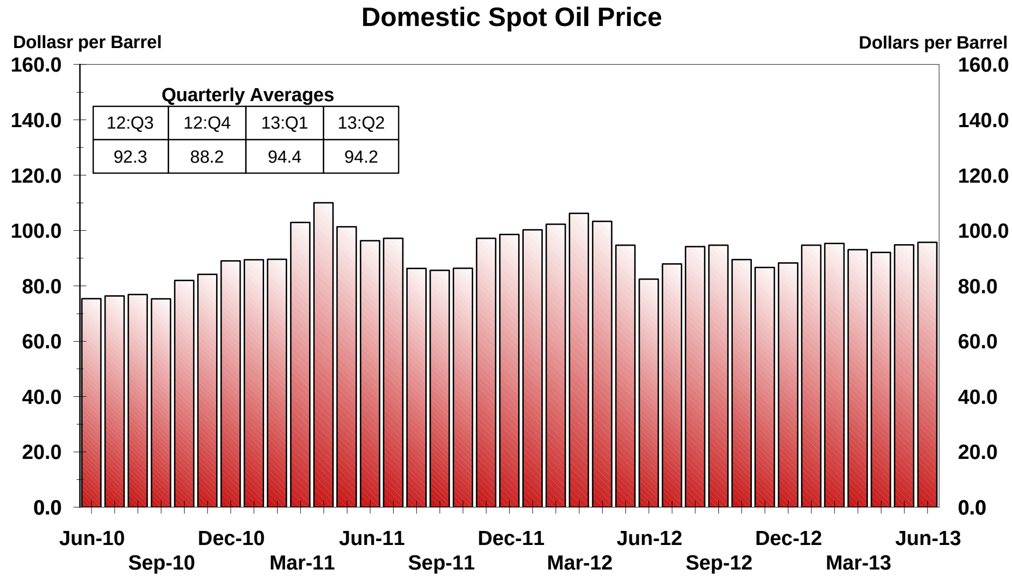
Total prices accelerated in May, as both the consumer and producer price indexes ticked up after decelerating in each of the prior two months. The faster growth rate in consumer prices was due, in part, to higher energy services prices. Core prices eased slightly in May, however, for both consumers and producers.





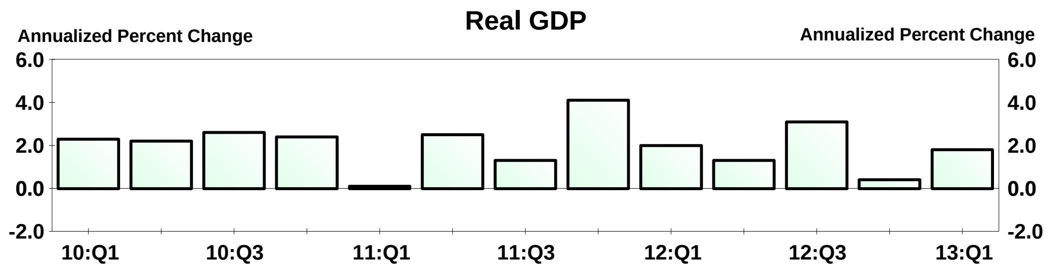
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose in June for the second month in a row, reaching their highest levels since April 2012. Prices continued to rise further in the first few days of July, reaching $101.2 per barrel as of July 3.



Source: Wall Street Journal / Haver Analytics.

First quarter real GDP growth was revised down in the third estimate to 1.8% from 2.4%. The lower growth rate primarily reflected downward revisions to personal consumption expenditures, exports, and nonresidential fixed investment that were party offset by a downward revision to imports.

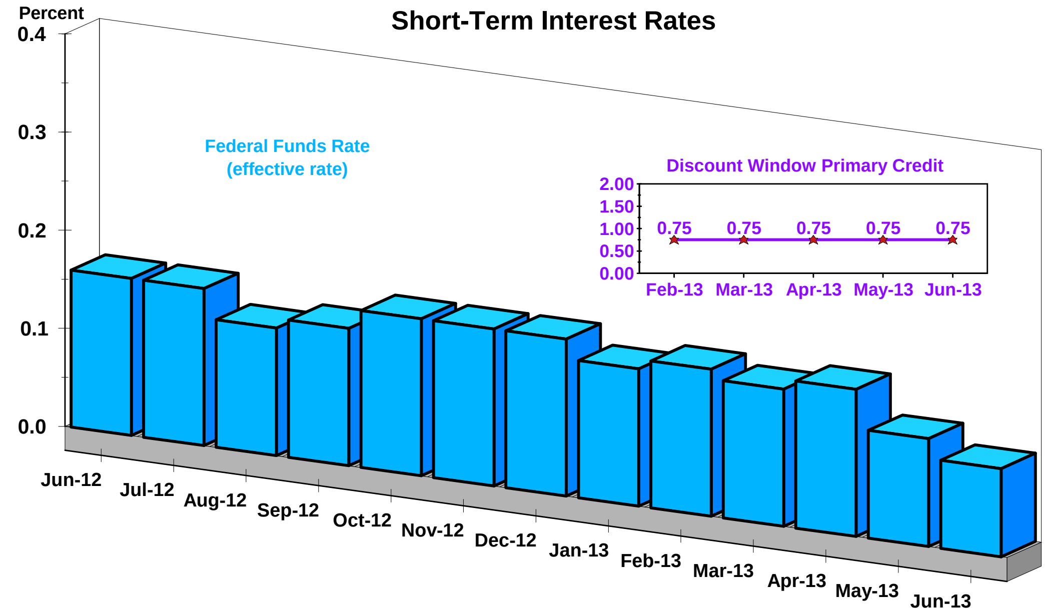


First Quarter Revisions

Description	2nd Estimate	3rd Estimate
Real GDP	2.4	1.8
Personal Consumption	3.4	2.6
Business Investment	2.2	0.4
Equipment and Software	4.6	4.1
Residential Investment	12.1	14.0
Government	-4.9	-4.8
Exports	0.8	-1.1
Imports	1.9	-0.4
Change in Private Inventories	$28.3 (bil. 2005$)	$26.8(bil. 2005$)

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting show that the economy continues to recover at a moderate pace and suggest that growth is likely to improve a bit in the second half of the year. The housing and auto markets continue to strengthen, and the labor market has shown signs of improvement. Although personal consumption has slowed recently, consumer attitudes continue to improve, which may lead to increased spending in the near term. The manufacturing sector has shown positive signs, but remains subdued. The impact of the federal budget sequester remains an area of concern, and higher interest rates following the June FOMC statement may restrict growth over the second half of the year more than previously anticipated.



Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni