FEDERAL RESERVE BANK OF BOSTON™

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

July 8, 2014

Current Economic Developments - July 8, 2014

Data released since your last Directors' meeting suggest a rebound in economic growth in the second quarter, following a contraction in the first quarter that was larger than previoiusly estimated. The labor market showed further signs of strengthening and the gains in the auto market remained robust. Although personal consumption has slowed recently, consumer attitudes improved, which may lead to increased spending in the near term. The housing market has shown positive signs, but growth remains subdued. Economic growth is projected to pick up to a moderate pace over the rest of the year, as the effects that contributed to the contraction in the first quarter - namely adverse weather conditions, lower inventory investment, and a decline in exports - are likely to be temporary.

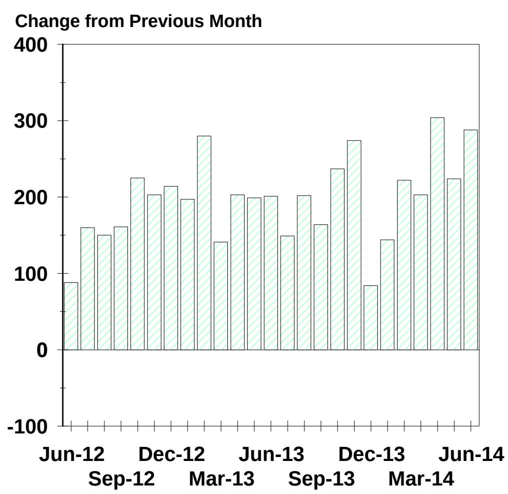
In June, nonfarm payrolls posted a larger than expected gain, and job increases in the previous two months were revised higher. The unemployment rate fell two-tenths of a percentage point to 6.1% in June, as recent gains in civilian employment outpaced an increase in the size of the labor force. Initial claims for unemployment insurance rose in June but fell on average in the second quarter, reaching their lowest quarterly average since 2007:Q3. Consumer attitudes were mostly positive in June, due in large part to increased optimism towards current conditions. Vehicle sales posted another gain in June to reach their highest sales rate since July 2006. Real incomes increased in May, yet consumption posted a decrease for the second consecutive month.

Housing data was mixed in May. New home sales jumped in May to their highest rate in six years, and existing home sales rose to their highest rate since October. Meanwhile, housing starts fell in May, and total building permits also decreased, depsite an increase in single-family permits. In the manufacturing sector, the ISM index eased a bit in June, but continued to signal an expansion in manufacturing activity. Industrial production and capacity utilization both increased in May. Orders for durable goods fell in May and their year-over-year gains decelerated, yet core orders increased and their year-over-year gains were flat.

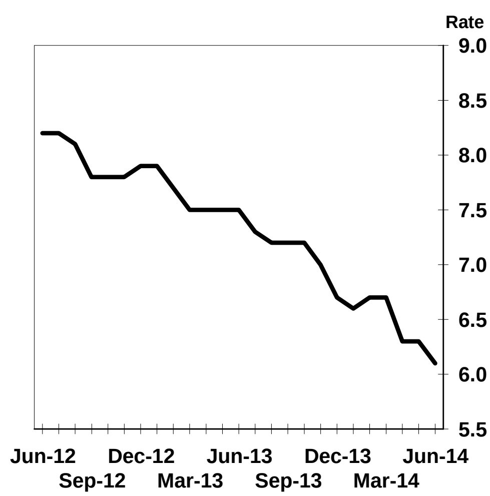
Both total and core price indices continued to accelerate in May. Oil prices rose in June and were up on average in the second quarter compared to the first quarter.

Nonfarm payrolls rose by 288,000 in June, more than expected, and gains over the prior two months were revised higher by a total of 29,000 jobs. Payroll gains averaged 253,000 jobs per month in the second quarter, their highest average since 2012:Q1. The unemployment rate fell two-tenths of a percentage point to 6.1% in June, as an increase in civilian employment outpaced a smaller increase in the size of the labor force.

Nonfarm Payroll Employment

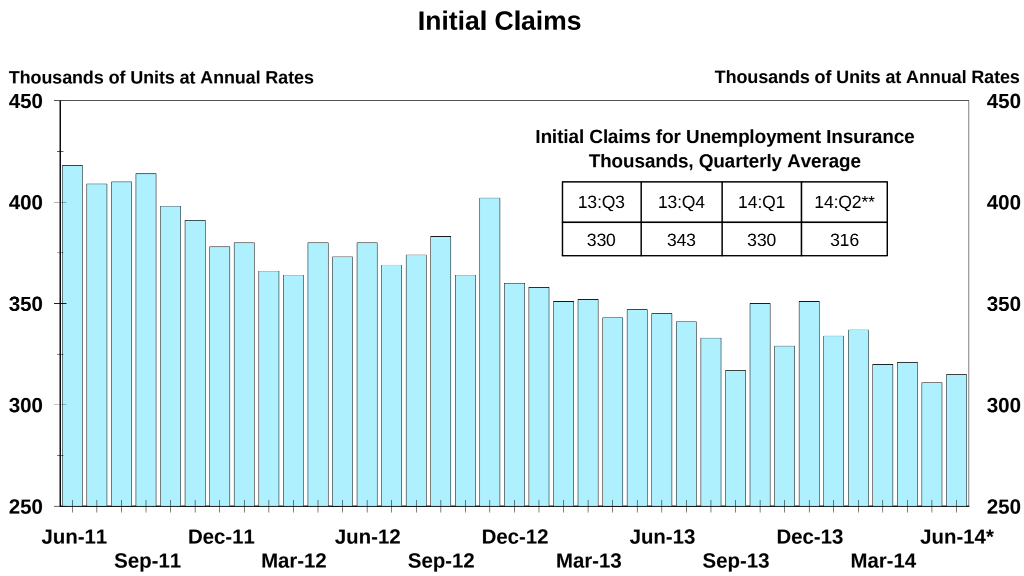


Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance increased in June but were down overall in the second quarter, reaching their lowest quarterly average since the 3rd quarter of 2007.

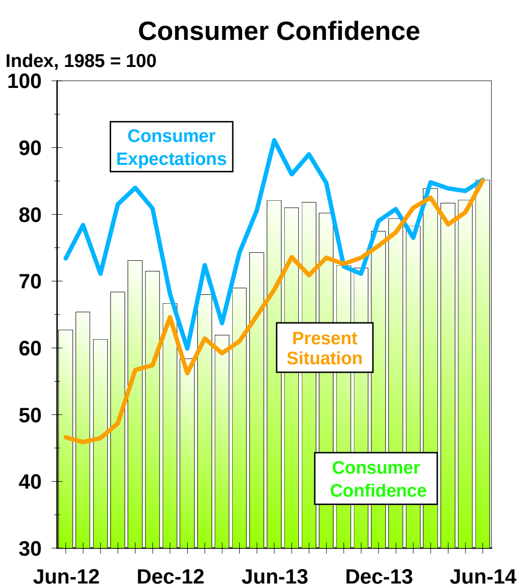


13:Q3	13:Q4	14:Q1	14:Q2**
330	343	330	316

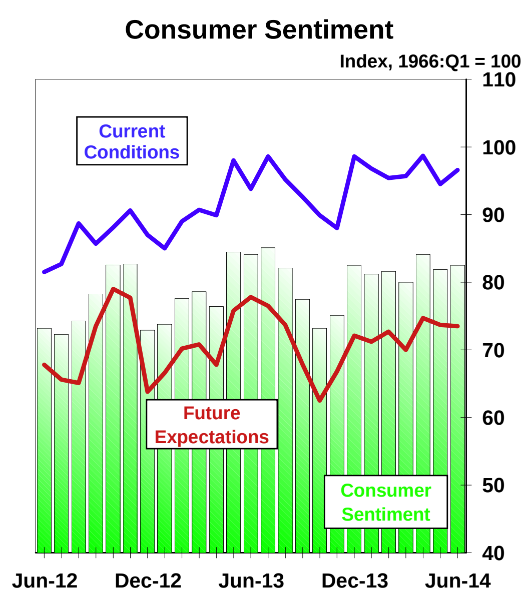
* 4-wk. ave. ending June 28
** Ave. as of June 28

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

Measures of consumer attitudes were mostly positive in June, as confidence rose to a more than six year high and sentiment increased despite a slight easing of the future expectations index. Consumer attitudes towards current conditions improved, while respondents to the sentiment survey were less optimistic about future income and job prospects.

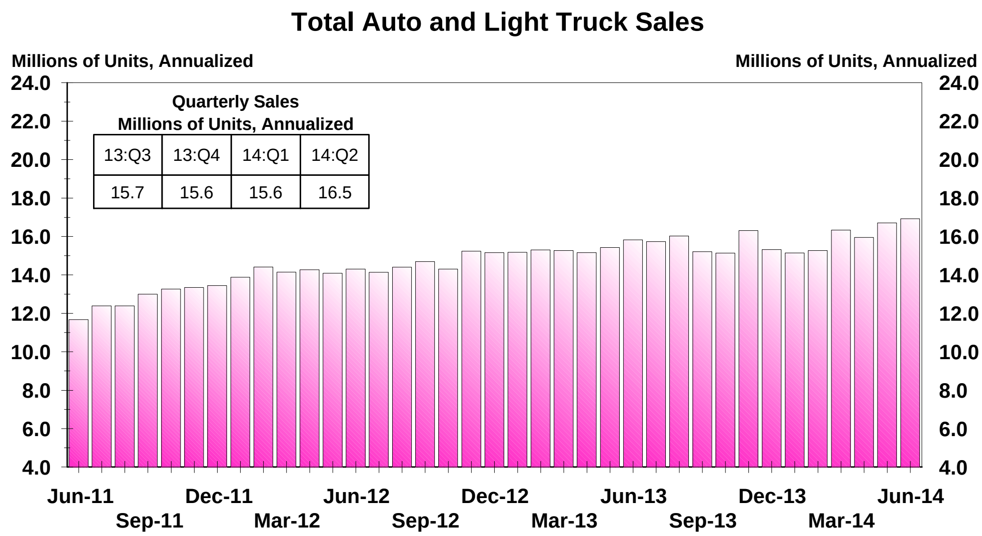


Source: The Conference Board / Haver Analytics.



Source: The University of Michigan / Haver Analytics.

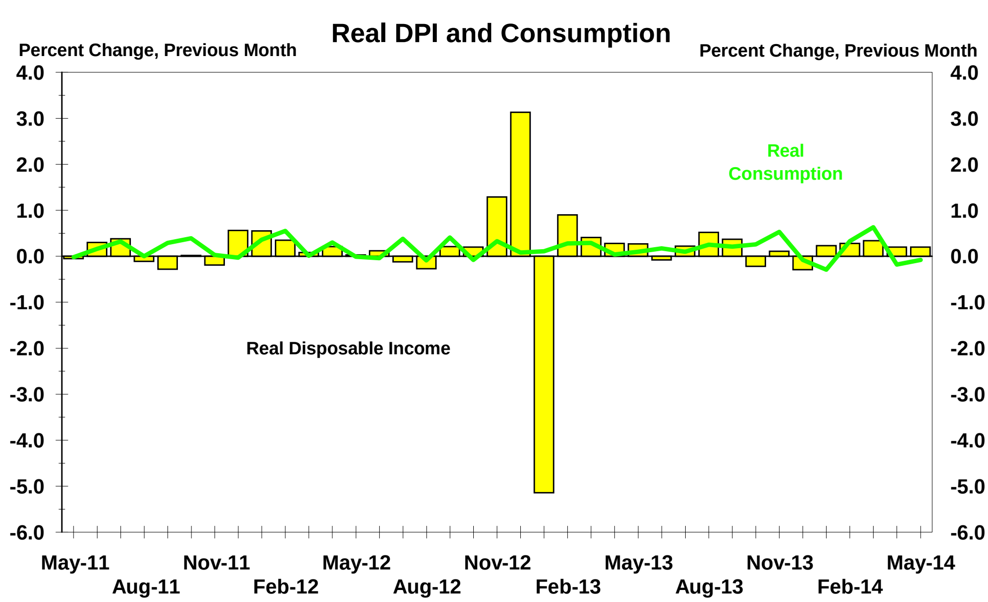
Total lightweight vehicle sales improved above expectations in June to reach their highest rate since July 2006. The increase in total sales was driven by auto sales, as light duty truck sales eased slightly in June. Dealers attribute the increase sales this month, in part, to a stronger economy, pent-up demand after the harsh winter weather, lower-cost financing, and an increase in leasing.



13:Q3	13:Q4	14:Q1	14:Q2
15.7	15.6	15.6	16.5

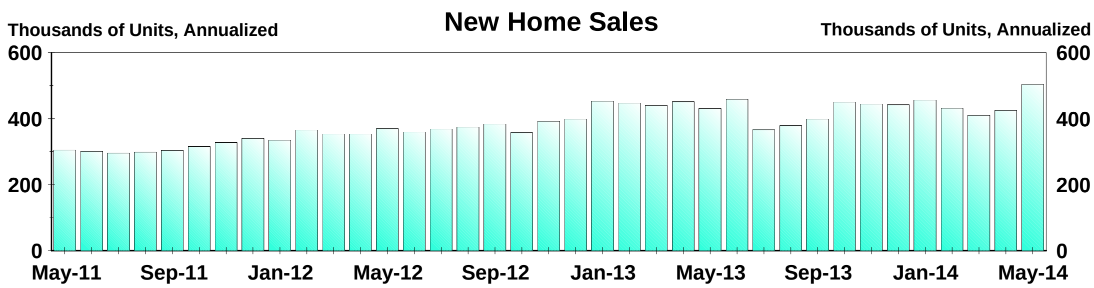
Source: Bureau of Economic Analysis / Haver Analytics.

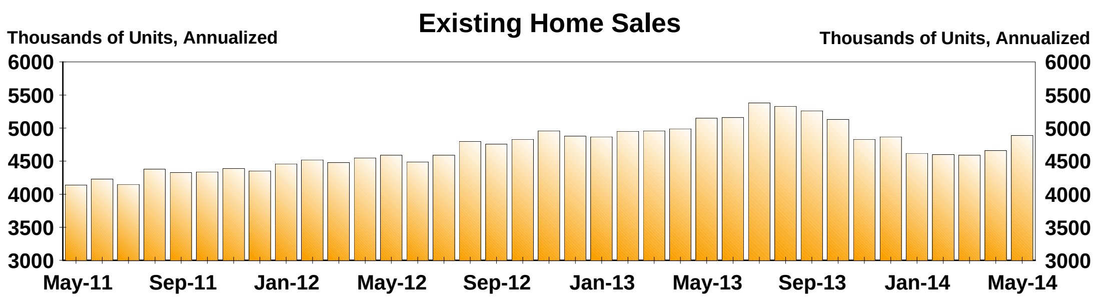
In May, real incomes increased for the fifth consecutive month. However, the higher incomes failed to boost spending, as consumption decreased in May, albeit at a slightly slower rate than seen in April. The decline in consumption in May was due to a decrease in services, as consumption of goods increased.



Source: Bureau of Economic Analysis / Haver Analytics.

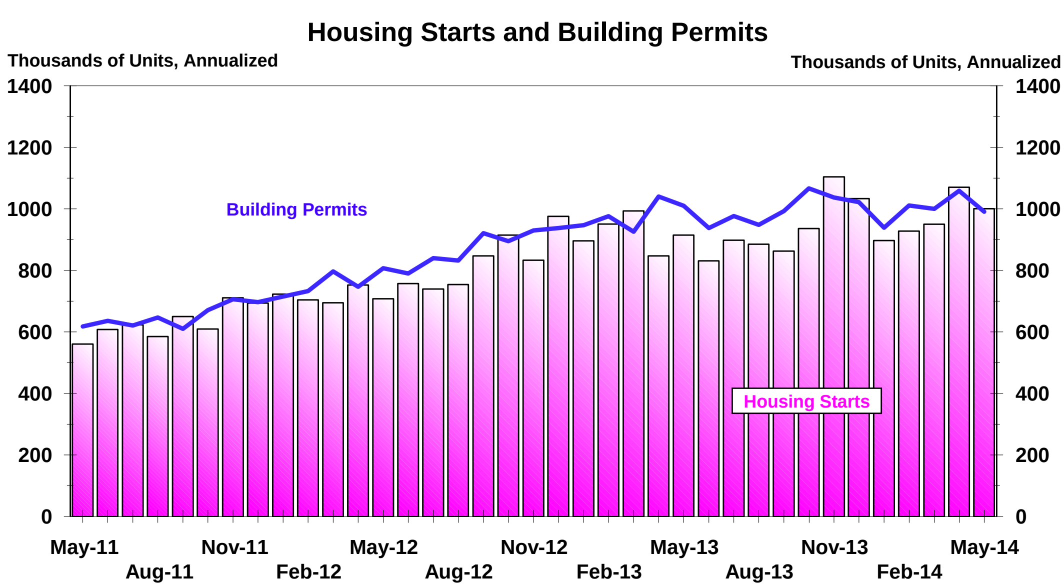
Home sales showed signs of improvement in May, with new home sales rising to their highest rate in six years. Sales of existing homes also increased in May, reaching their highest rate since October.





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

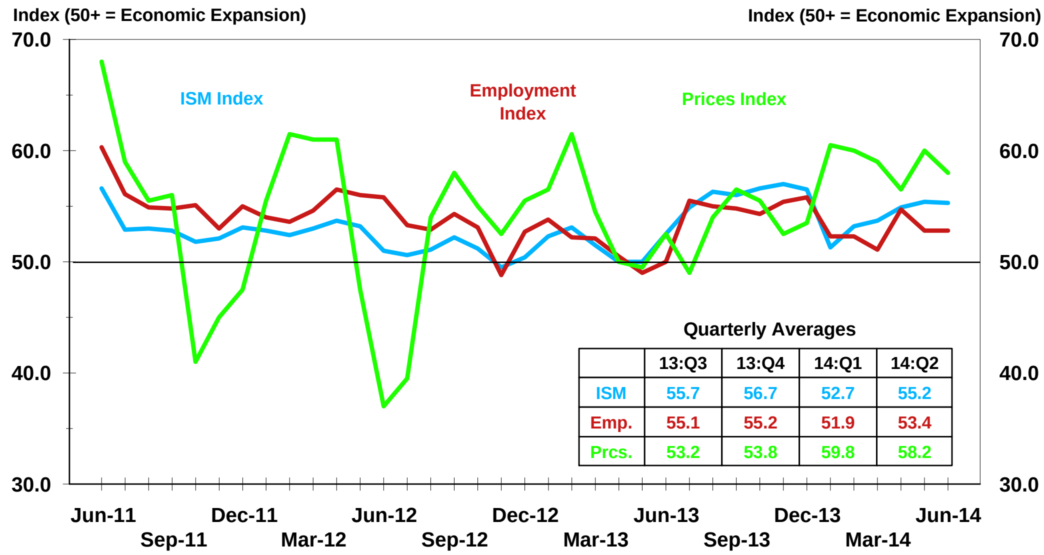
Housing starts fell in May, but only partly offset the increase seen in April. Building permits also decreased in May. The decline in total permits was due to a decrease in multifamily permits, as single-family permits increased in May.



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

The total ISM index edged down slightly in June, but remained well above 50, continuing to signal expansion in manufacturing activity. The employment index held steady in June, while the prices index fell.

ISM Index



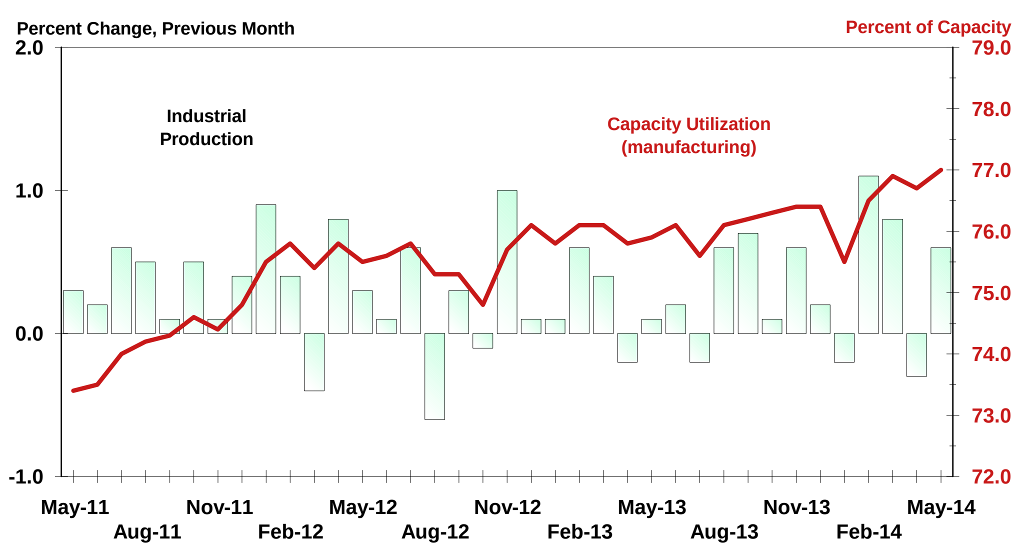
Quarterly Averages

	13:Q3	13:Q4	14:Q1	14:Q2
ISM	55.7	56.7	52.7	55.2
Emp.	55.1	55.2	51.9	53.4
Prcs.	53.2	53.8	59.8	58.2

Source: Institute of Supply Management / Haver Analytics.

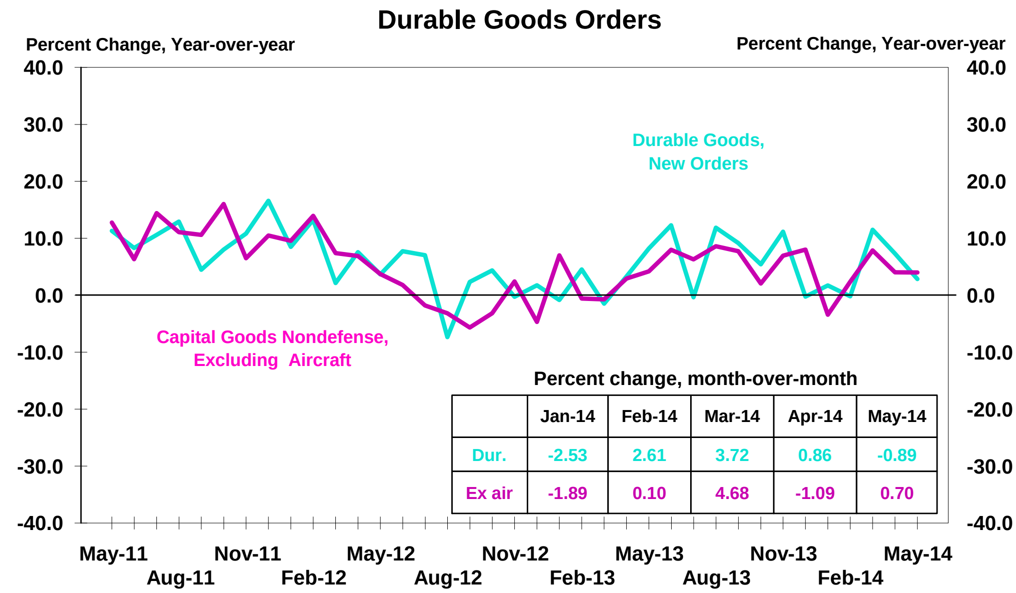
Industrial production increased in May, following a decrease in April that was revised smaller. Both manufacturing and mining production posted gains in May, while utilities output declined. Capacity utilization increased in May, after easing in April.

Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders fell in May compared to April, their first monthly decline since January, and their year-over-year growth rate decelerated. Meanwhile, orders for nondefense capital goods excluding aircraft increased in May, and their annual pace held steady.

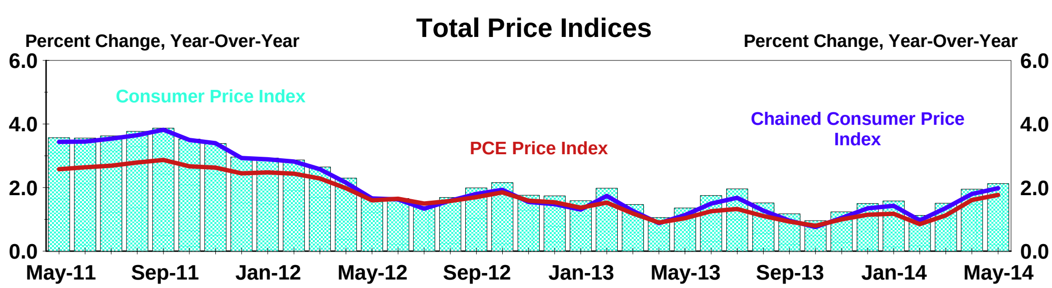


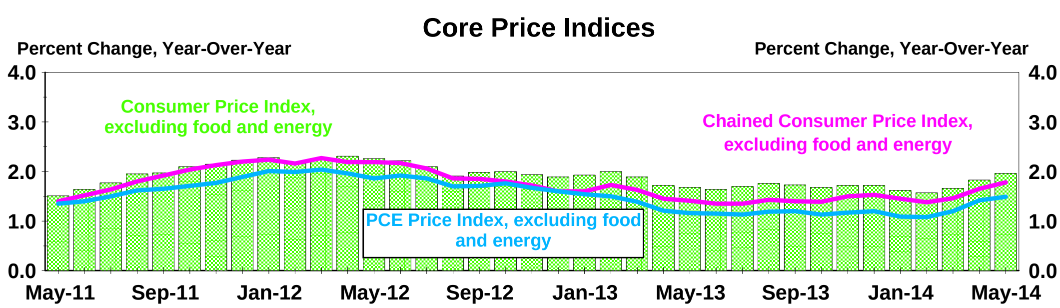
Percent change, month-over-month

	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Dur.	-2.53	2.61	3.72	0.86	-0.89
Ex air	-1.89	0.10	4.68	-1.09	0.70

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

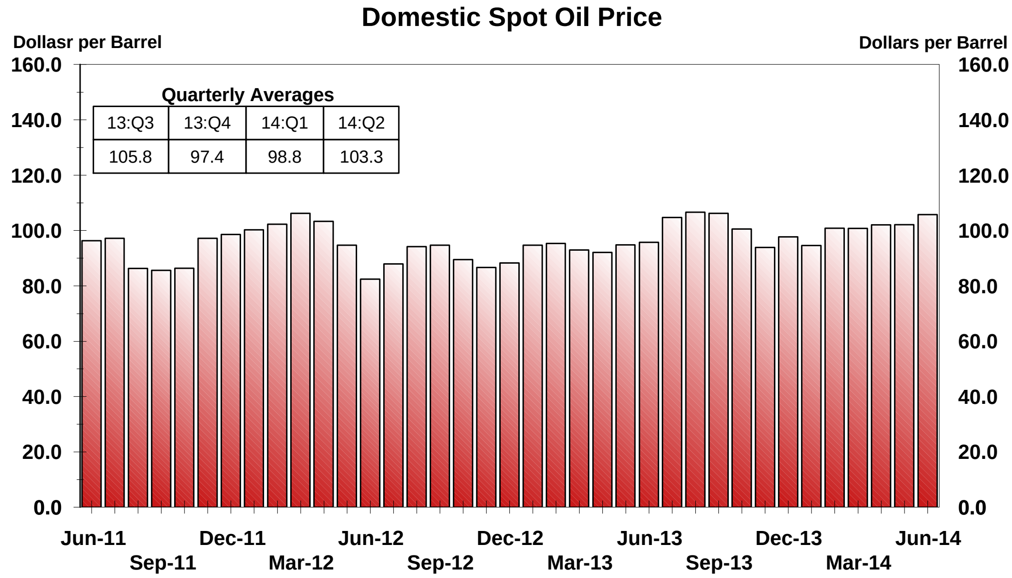
Headline consumer prices continued to accelerate in April, as both the CPI and the PCE index reached their highest rates since October 2012. Core prices, which exclude food and energy, also accelerated in April for the third consecutive month, and both the CPI and the PCE index reached their highest rates in over one year.





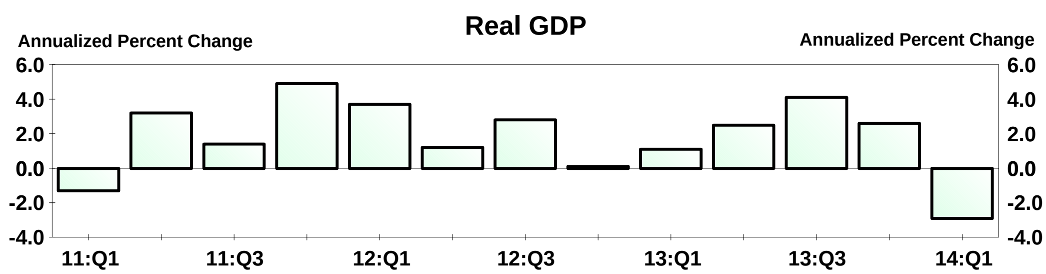
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices rose in June for the third month in a row, reaching their highest levels since September. Prices edged down a bit in the first few days of July, reaching $103.5 per barrel as of July 7.



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

First quarter real GDP growth was revised down in the third estimate to -2.9% from -1.0%. The lower growth rate primarily reflected downward revisions to personal consumption expenditures and to exports and an upward revision to imports.



First Quarter Revisions

Description	2nd Estimate	3rd Estimate
Real GDP	-1.0	-2.9
Personal Consumption	3.1	1.0
Business Investment	-1.6	-1.2
Equipment and Software	-3.1	-2.8
Residential Investment	-5.0	-4.2
Government	-0.8	-0.8
Exports	-6.0	-8.9
Imports	0.7	1.8
Change in Nonfarm Inventories	$30.4 (bil. 2005$)	$26.9(bil. 2005$)

Source: Bureau of Economic Analysis / Haver Analytics.

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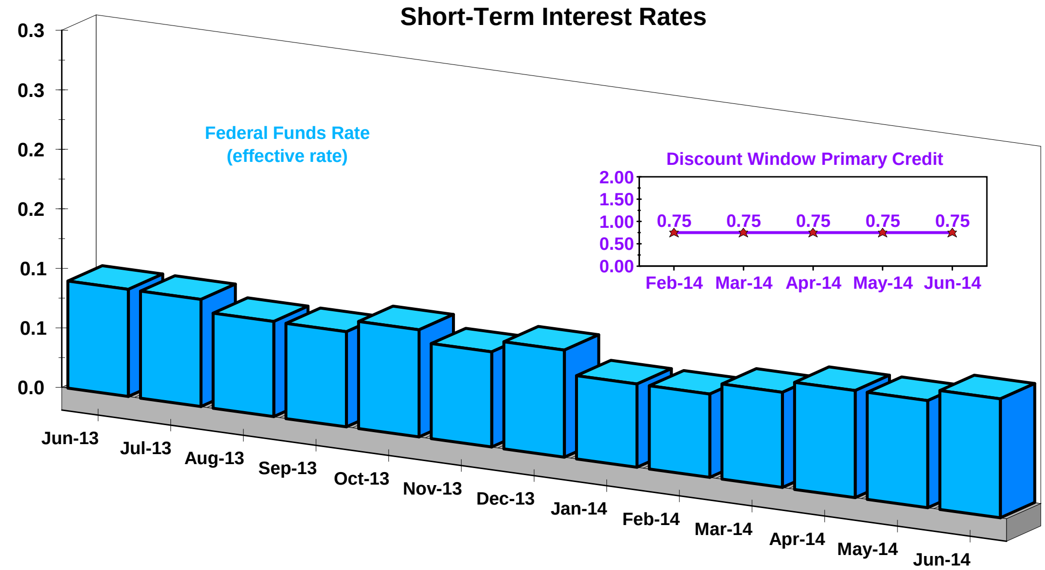

Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni