FEDERAL RESERVE BANK OF BOSTON™

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

April 9, 2019

CURRENT ECONOMIC DEVELOPMENTS - April 9, 2019

Data released since your last Directors' meeting suggest growth in the first quarter was little changed from the downwardly revised fourth quarter rate. Labor markets continued to tighten, consumer attitudes rebounded, and incomes have been trending upward. Still, consumption slowed late last year and remained slow at the start of this year. Housing data have been mixed and manufacturing data have been softer than last year. Overall, growth is likely to remain close to potential as we move through 2019.

In March, nonfarm payrolls picked up again following the small gain in February, keeping average monthly growth at a healthy level in the first quarter. The unemployment rate was unchanged at 3.8 percent in March, although participation declined two-tenths from a five year high. Initial claims for unemployment insurance fell further in March to just above the multi-decade low seen in September.

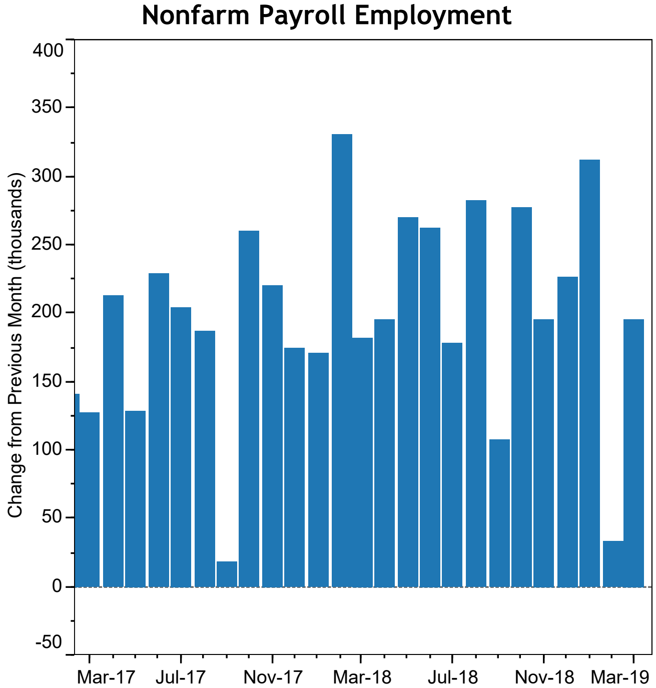
Consumer attitudes were mixed in March - as sentiment improved and confidence declined - but have generally recovered since falling in January amid the goernment shutdown. Vehicle sales rebounded in March, but were still down overall in the first quarter compared to the fourth quarter. Consumption picked up a bit in January but remains soft despite the income gains experienced over the past several months. Primary measures of real estate activity continue to be mixed. New and existing home sales both increased in February, with existing sales rebounding sharply from a four-year low. Yet housing starts and building permits both fell and single-family construction activity continued to trend lower.

In the manufacturing sector, the ISM index picked up a bit in March, boosted by a strong gain in the employment index. Industrial production was flat in February - following small declines in December and January - restrained by another drop in manufacturing production. Capacity utilization also fell further. Orders for durable goods fell in February after rising in each of the previous three months, while core orders edged down slightly. On a year-over-year basis, both total and core orders continued to rise.

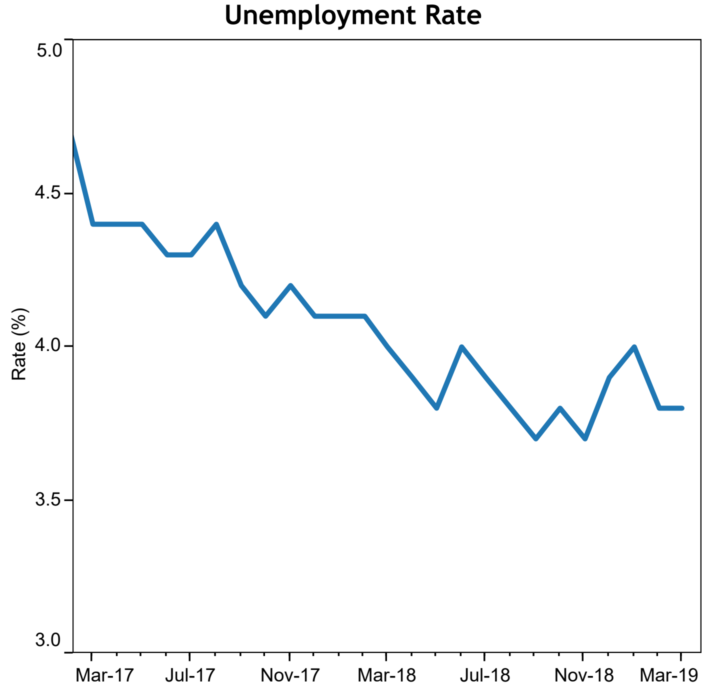
Growth in both the total and core consumer price indices slowed in February, and inflation as measured by the PCE indices slowed in January. Total inflation has been trending down since last summer, while core inflation has held mostly steady. Oil prices rose steadily through March and have moved a bit higher over the first few days of April.

Nonfarm payrolls added 196,000 jobs in March, while job gains for the previous two months were revised up by a total of 14,000 jobs. The unemployment rate held steady at 3.8% in March, as both the labor force and civilian employment posted moderate declines.

Nonfarm Payroll Employment

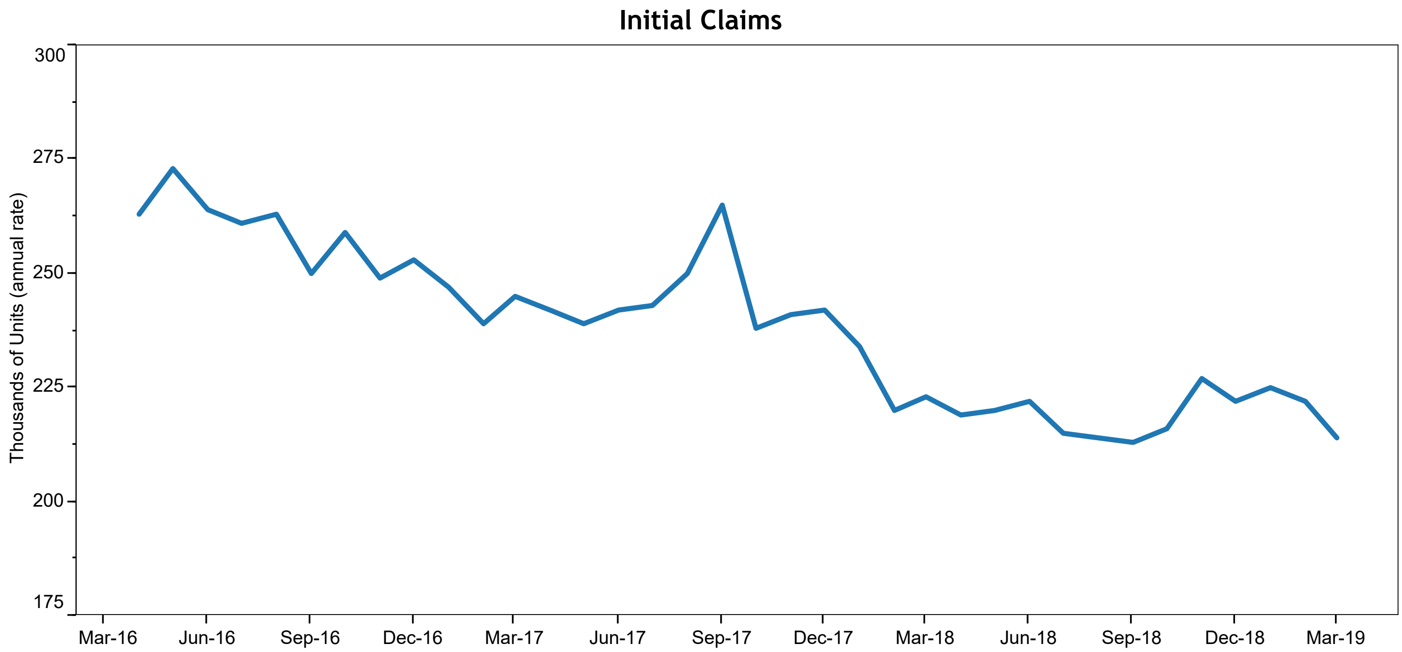


Unemployment Rate

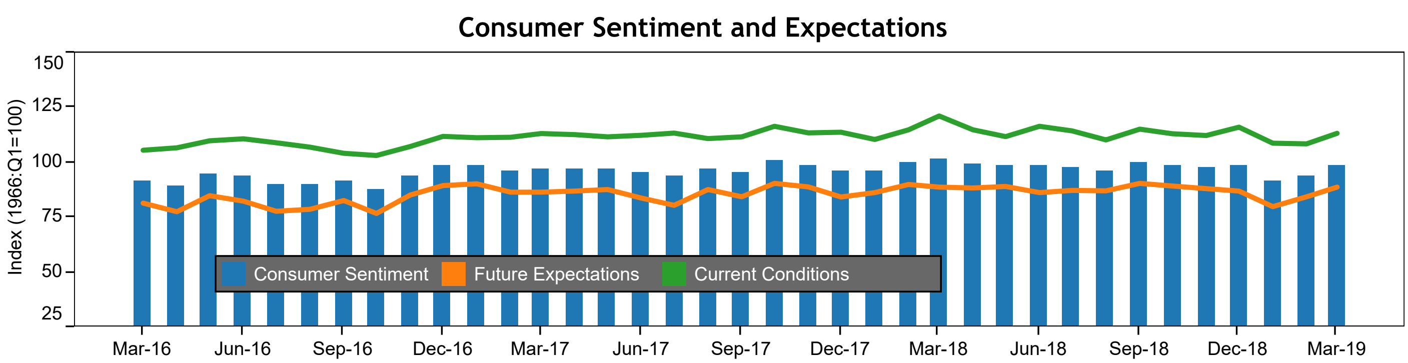


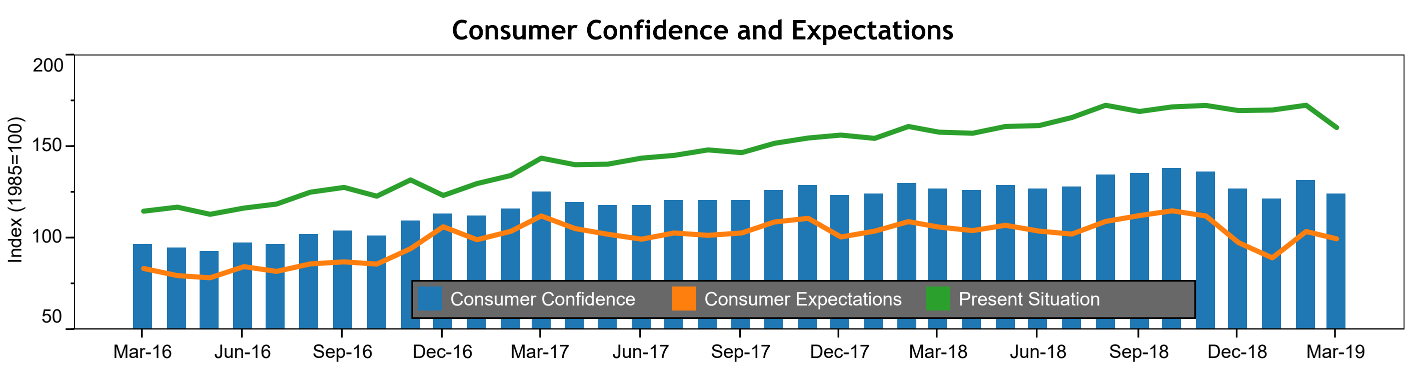
Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance declined further in March, returning close to the historic lows seen in the fall. Claims fell to 202,000 in the last week of the month - the fewest in nearly 50 years.



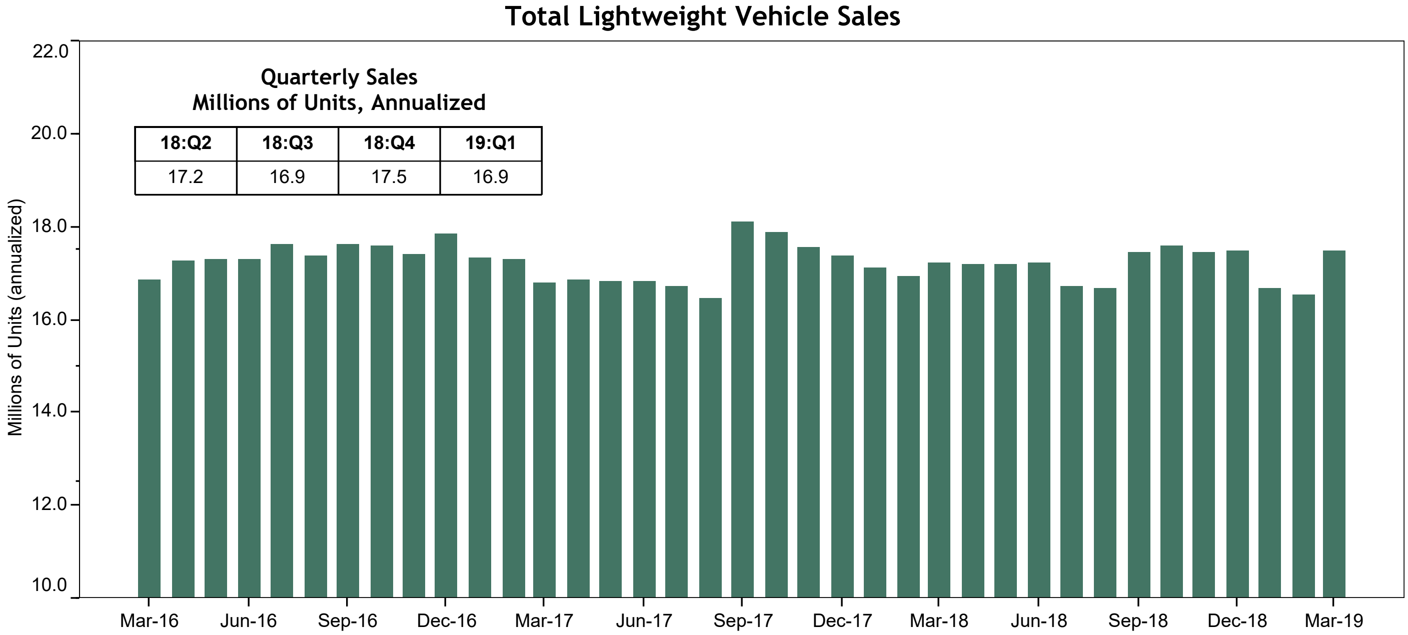
Measures of consumer attitudes were mixed in March, as sentiment improved while confidence declined. Overall, attitudes have generally recovered from the losses seen in December and January that were triggered by financial market turbulence and the shutdown, although this is more evident in the sentiment data. While these two series are not completely in sync, consumer attitudes remain favorable, boosted by income gains and optimism about personal finances.





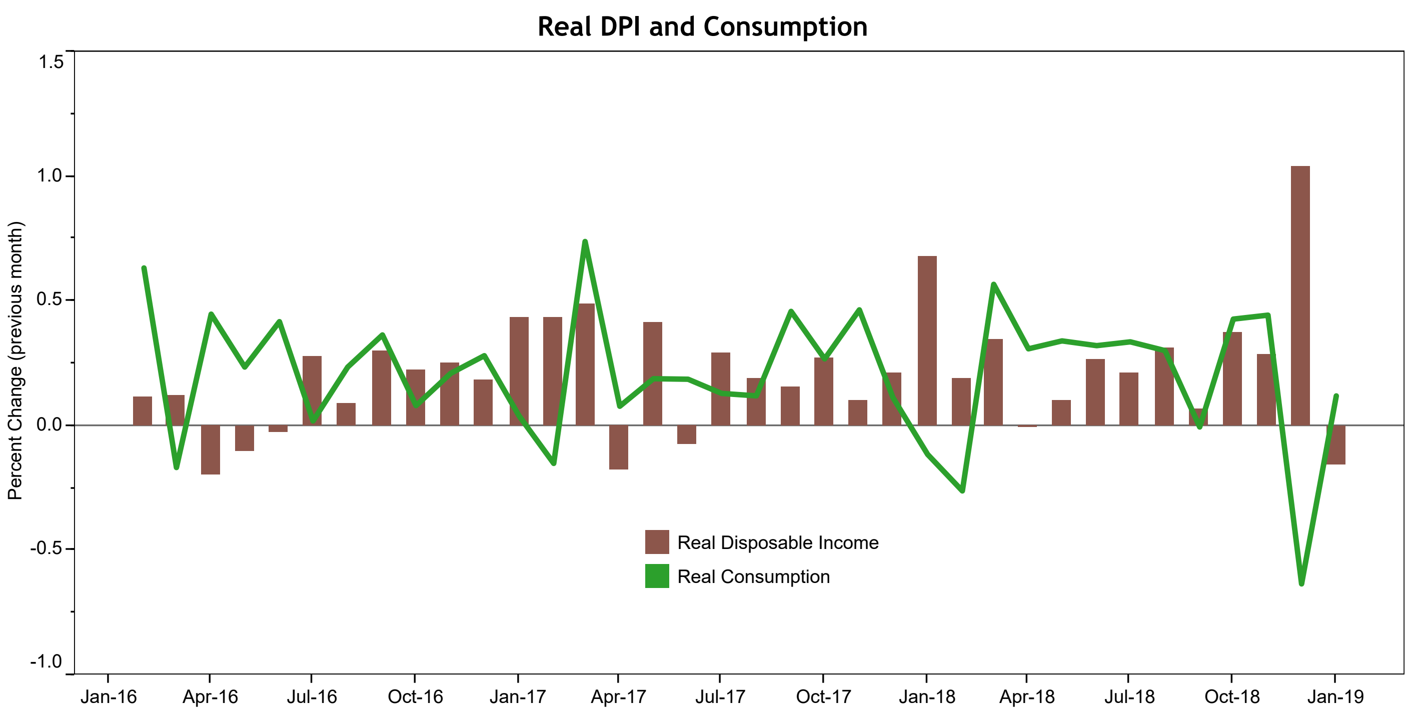
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

The pace of lightweight vehicle sales rebounded more than expected in March, returning to the levels seen late last year. Still, the slower sales in January and February kept first quarter sales well below the fourth quarter rate.



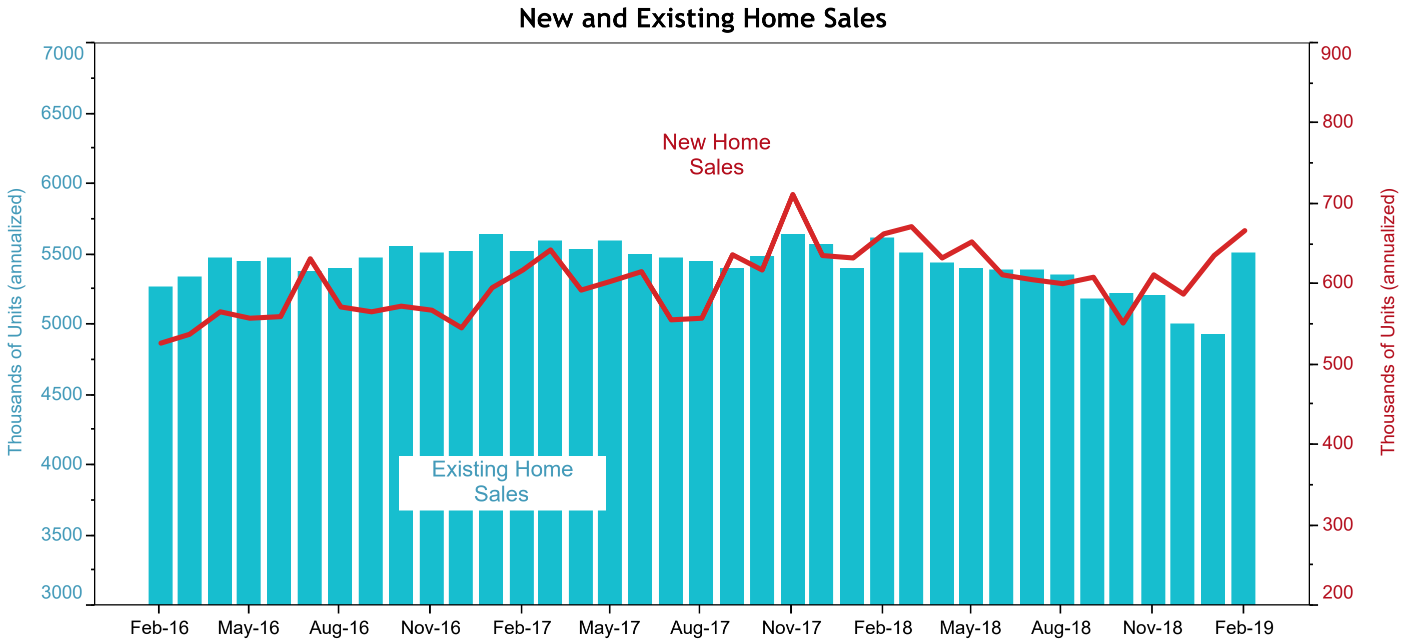
Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes declined in January, pulling back after growing in December at their fastest rate since December 2012. Despite the lower incomes, real consumption rebounded slightly in January after falling sharply in December. Real income and spending data remain delayed due to the government shutdown, but will return to normal with the release of both February and March data later this month.



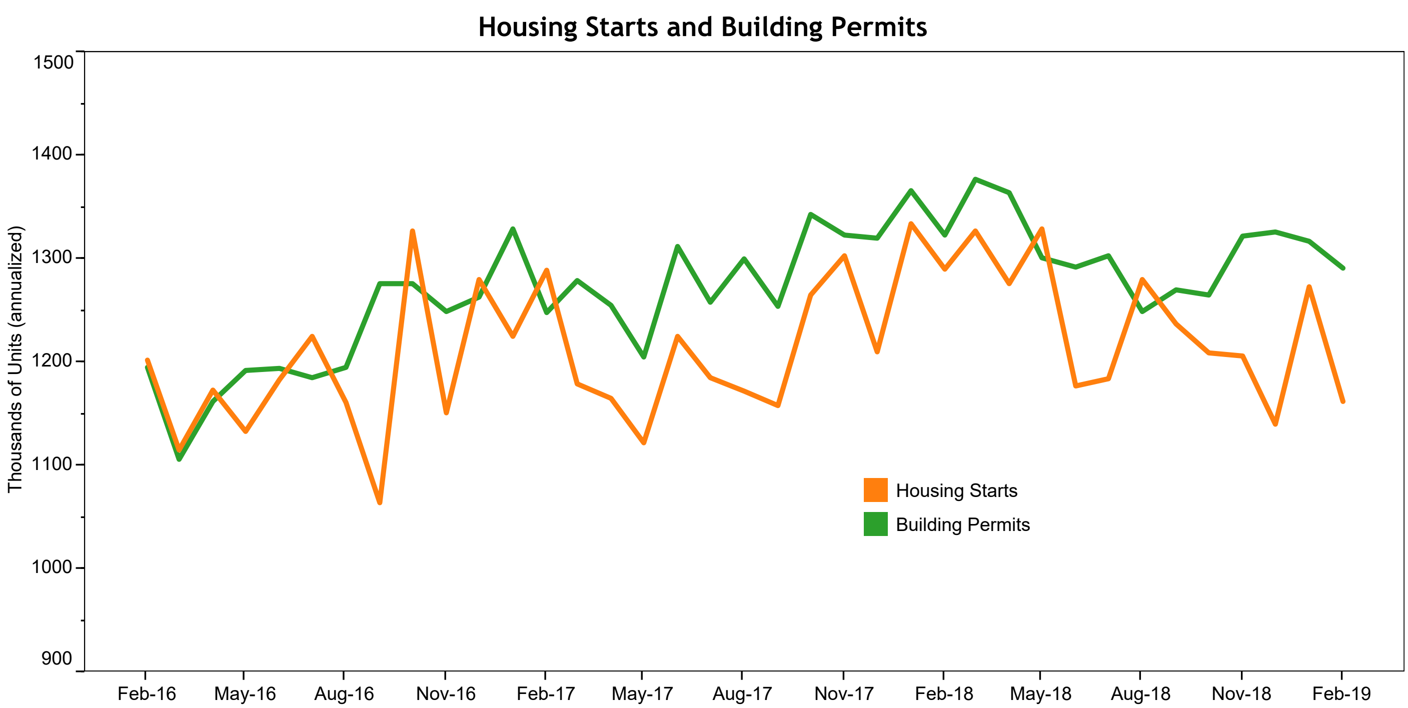
Source: Bureau of Economic Analysis / Haver Analytics.

Home sales picked up in February. After dropping to a nearly four-year low in January, existing home sales surged in February to match their fastest sales pace of the past year. New home sales, which had been trending up in recent months, rose further in February to also reach their highest level in nearly a year.



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

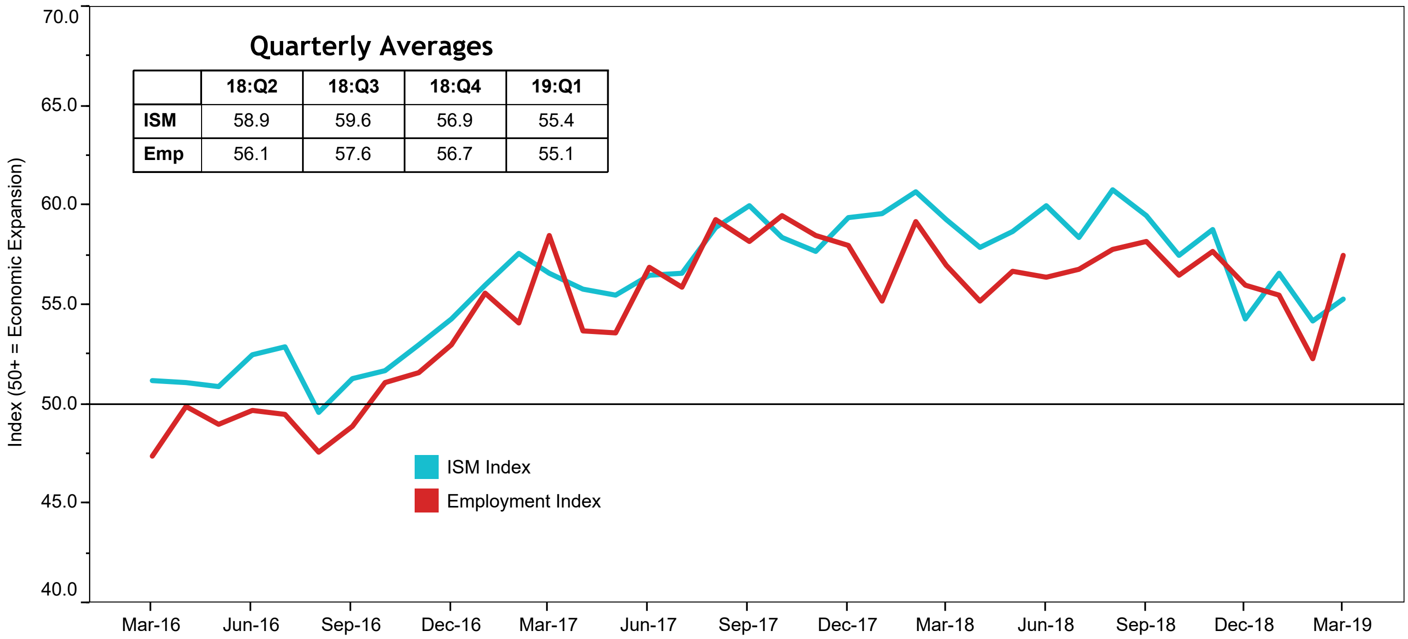
Conversely, new construction data decreased in February. Housing starts fell sharply, reversing most of the gain seen in January. The drop was due entirely to a plunge in single-family starts, while multi-family starts rose modestly. Building permits fell a bit further in February, as both single- and multi-family permits declined. Single-family permits have been trending down for about a year and currently stand at their lowest level since August 2017.



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

The ISM manufacturing index rebounded a bit in March, remaining above 50 to continue to signal expansion of manufacturing activity. Three of the five components of the index improved in March, led by the employment index and the new orders index. The employment index rose sharply in March to its highest level since November. Despite the March improvements, both the total and employment indices fell on average in the first quarter.

ISM Index

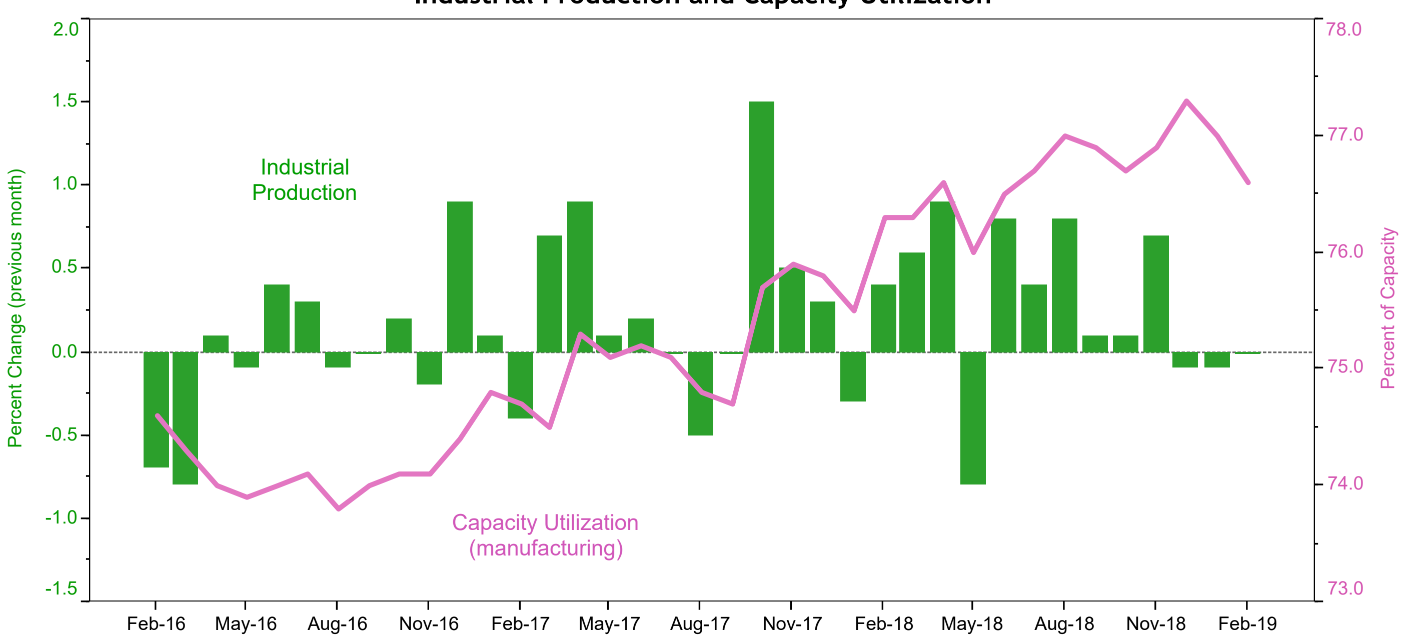


	18:Q2	18:Q3	18:Q4	19:Q1
ISM	58.9	59.6	56.9	55.4
Emp	56.1	57.6	56.7	55.1

Source: Institute of Supply Management / Haver Analytics.

Industrial production was flat in February, after easing slightly in each of the previous two months. In February, lower production in both manufacturing and mining was offset by increased utilities production. Capacity utilization in manufacturing fell further in February to an eight-month low.

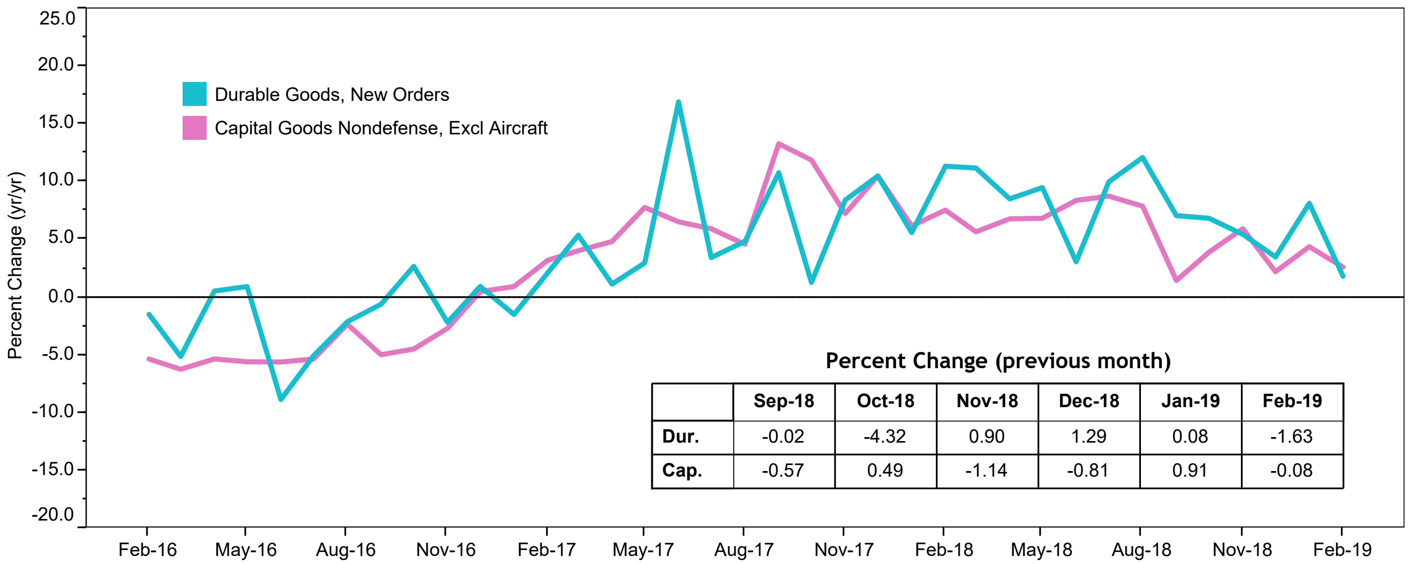
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in February, after rising in each of the previous three months. Orders for nondefense capital goods, excluding aircraft, edged down in February - their third decrease in the past four months. Both measures continued to rise in February on a year-over-year basis, albeit at slower rates than seen in January.

Durable Goods Orders



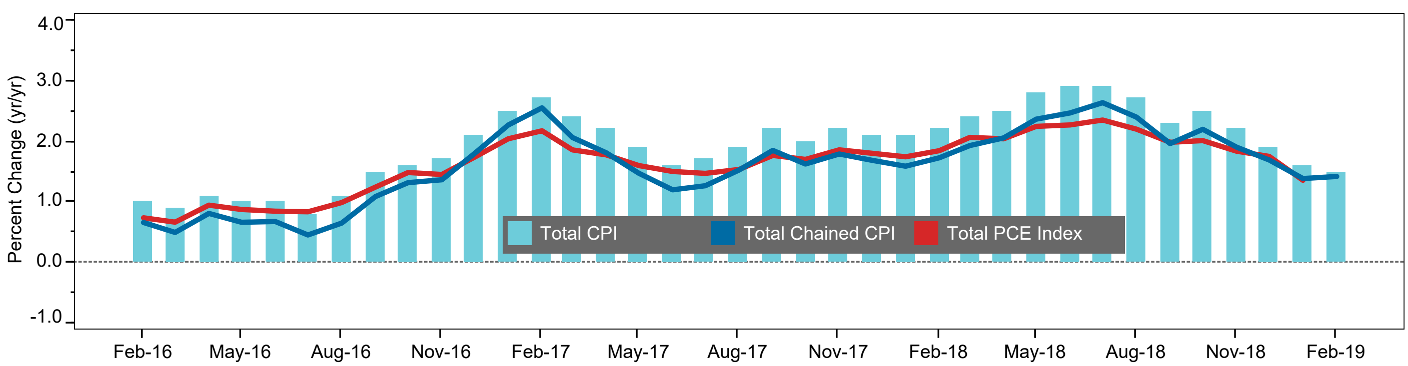
Percent Change (previous month)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Dur.	-0.02	-4.32	0.90	1.29	0.08	-1.63
Cap.	-0.57	0.49	-1.14	-0.81	0.91	-0.08

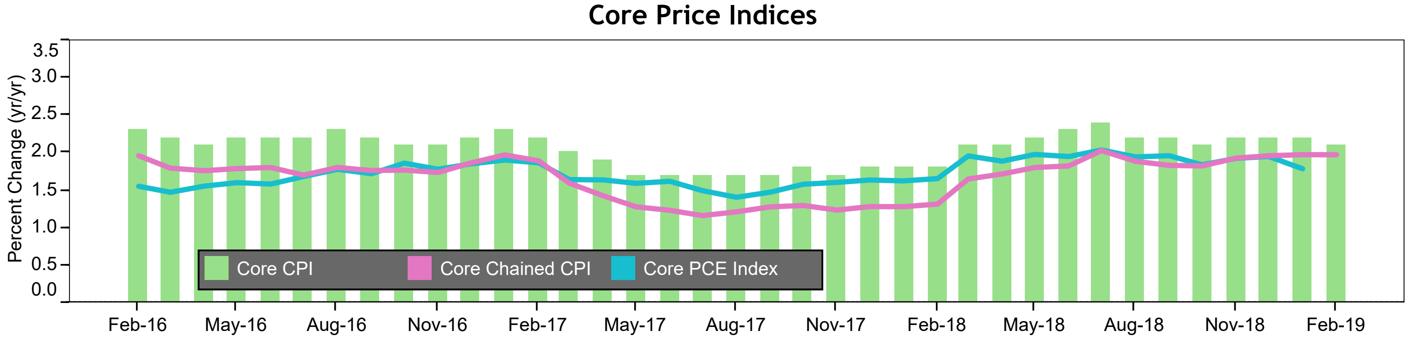
Source: U.S. Census Bureau / Haver Analytics.

Inflation as measured by the total CPI slowed a bit further in February, growing at it's slowest pace since September 2016. The core CPI also slowed by one-tenth in February but has generally been little changed over the past seven months. PCE inflation, which is running a month behind due to the shutdown, slowed in January. The total index fell four-tenths (also reaching its lowest level since September 2016) while the core index slowed by two-tenths.

Total Price Indices



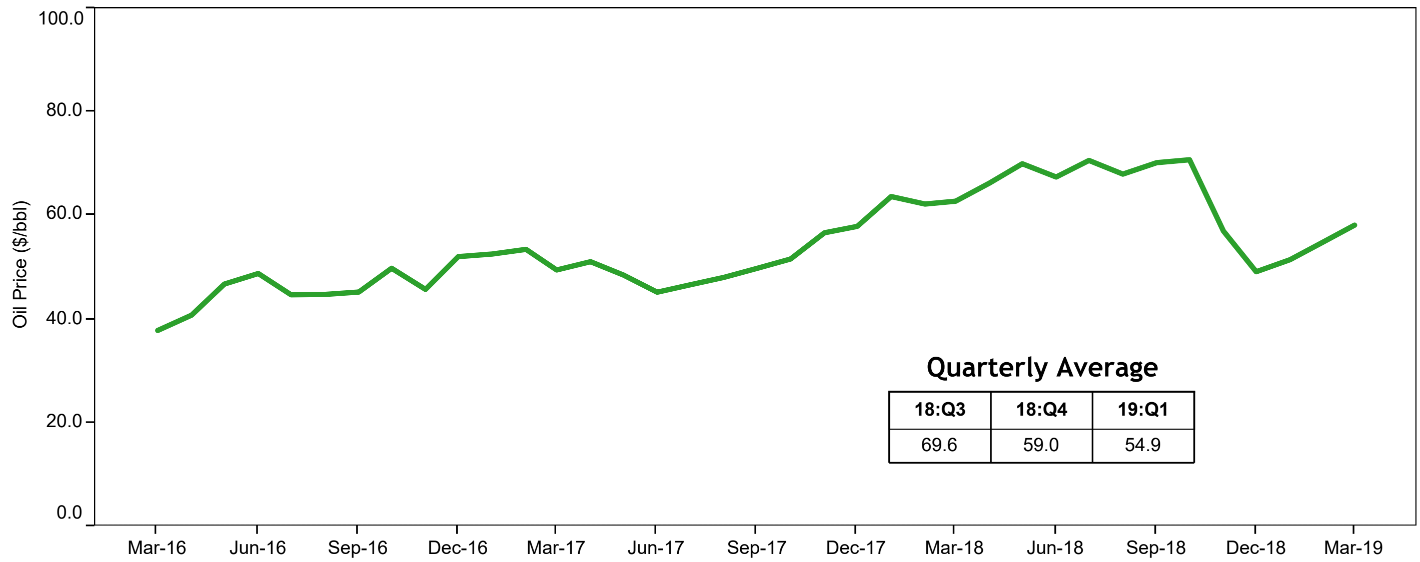
Core Price Indices



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

Oil prices rose throughout much of March, continuing the upward trend seen since the beginning of the year. Still, prices on average in the first quarter were below their fourth quarter average. Prices have risen further through the first week of April, closing at $64.40 per barrel on April 8th, their highest price since the end of October.

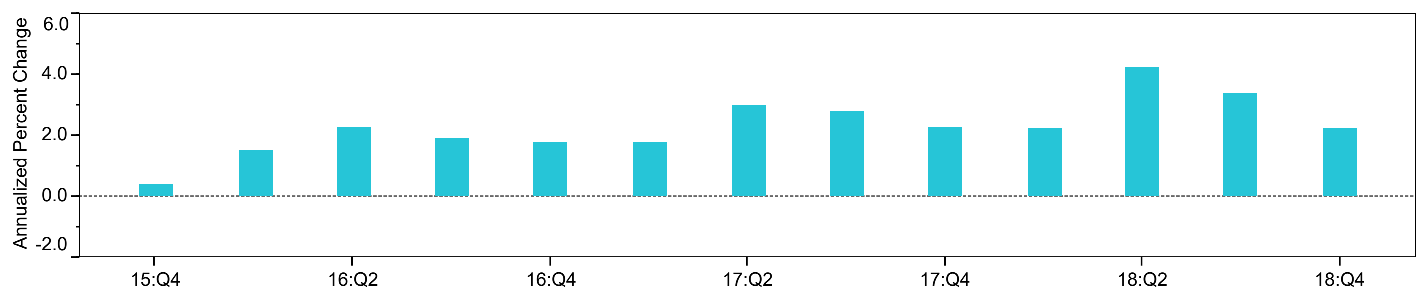
Domestic Spot Oil Price



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

Real GDP grew at 2.2 percent in the fourth quarter, revised down from the previous estimate of 2.6 percent. The slower growth rate primarily reflected downward revisions to PCE, state and local govermment spending, and nonresidential fixed investment that were partly offset by a downward revision to imports. Despite their designations, due to the government shutdown only two estimates of Q4 GDP were released, opposed to the usual three.

Real GDP



Revisions to Fourth Quarter Real GDP

Description	"Initial" Estimate	Third Estimate
Real GDP	2.6	2.2
Personal Consumption	2.8	2.5
Business Investment	6.2	5.4
Equipment and Software	6.7	6.6
Residential Investment	-3.5	-4.7
Government	0.4	-0.4
Exports	1.6	1.8
Imports	2.7	2.0
Final Sales	2.5	2.1

Source: Bureau of Economic Analysis / Haver Analytics.

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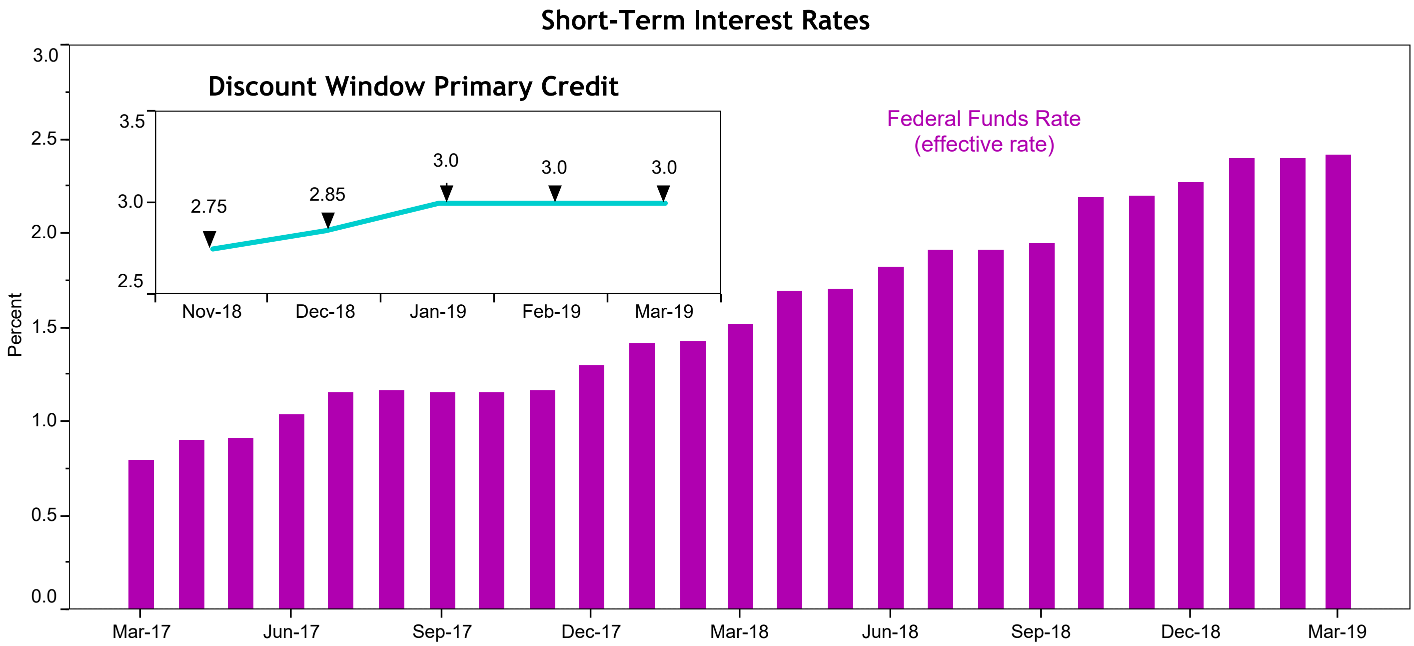

Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by David Brown.