



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

December 1, 2011

## CURRENT ECONOMIC DEVELOPMENTS - December 1, 2011

Data released since your last Directors' meeting has generally been more positive than in recent months, but not likely strong enough to lead to a significant increase in growth in the near term. Employment and confidence data has improved, and manufacturing data continues to be mostly positive. But the failure of the Congressional Super Committee and the threat of tax break expirations, along with the ongoing fiscal crisis in Europe, provide considerable downside risks. Uncertainty is likely to surround the economic outlook until these issues are addressed.

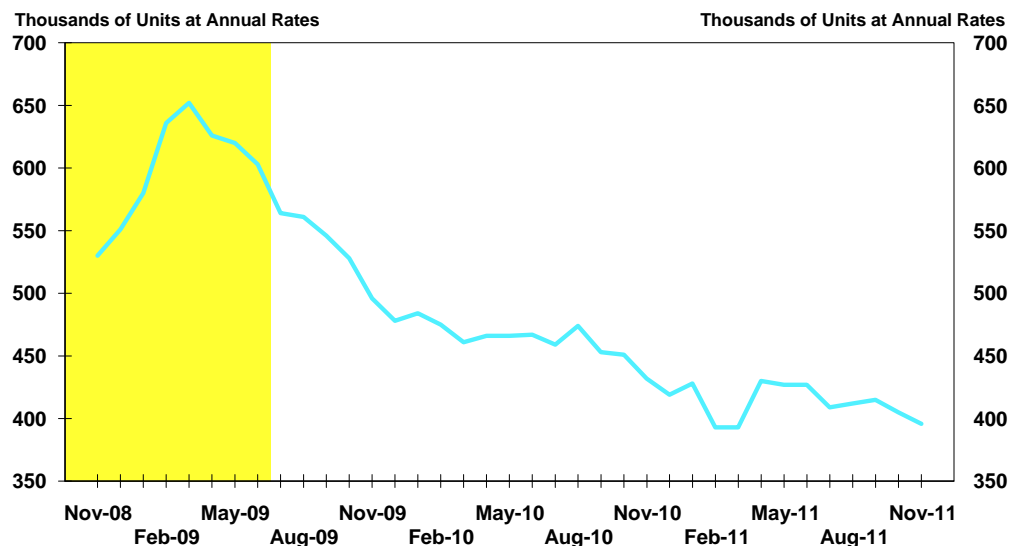
In November, initial claims fell to their lowest level since the spring and consumer attitudes improved. In October, real consumption rose again as incomes increased for the first time in four months.

The real estate market continued to show little change in October. New and existing home sales posted small gains, but remained in line with the levels seen over the past year. New construction data also showed some improvement in October, but is still weak in comparison to past history. In the manufacturing sector, the ISM index improved in November to reach its highest level since June. Industrial production rose in October for the first time in three months, while capacity utilization continued to improve. Orders for both durable goods and nondefense capital goods, excluding aircraft, fell in October but were well above their year-ago levels.

Total price indices for both consumers and wholesalers slowed in October, but core measures rose further, with core CPI reaching its highest level in three years. Oil prices rose in November, while unit labor costs fell in the third quarter, following a downwardly revised second quarter estimate.

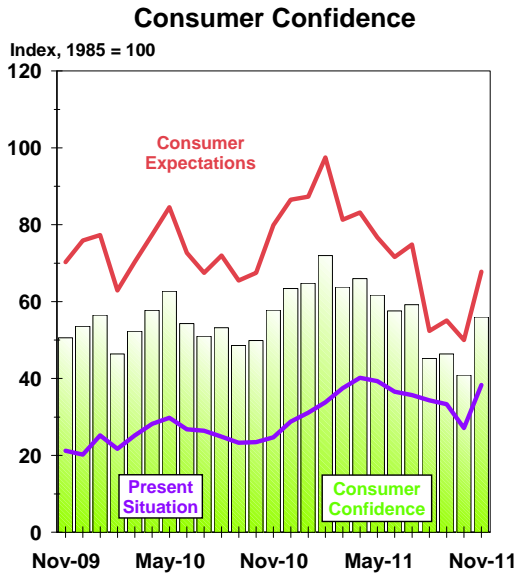
Initial claims for unemployment insurance fell further in November, dropping below 400,000 for the first time since March. Despite the drop, claims are still well above a level more consistent with a healthy economy.

### Initial Claims

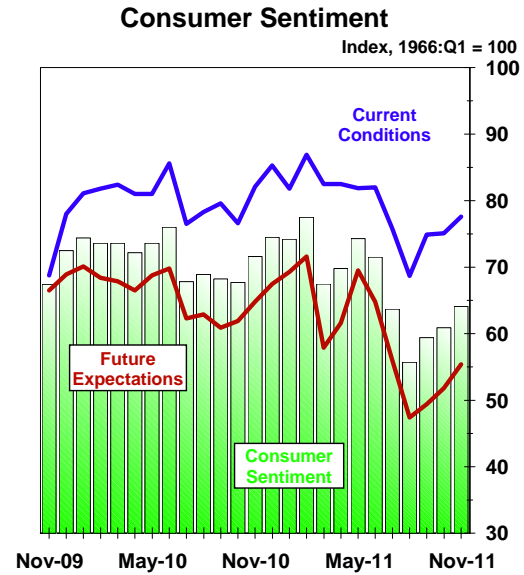


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in November, as respondents felt more positive about both present conditions and the short-term outlook. While confidence levels are still low by historical standards, the increased optimism could translate into stronger spending heading into the holiday season.

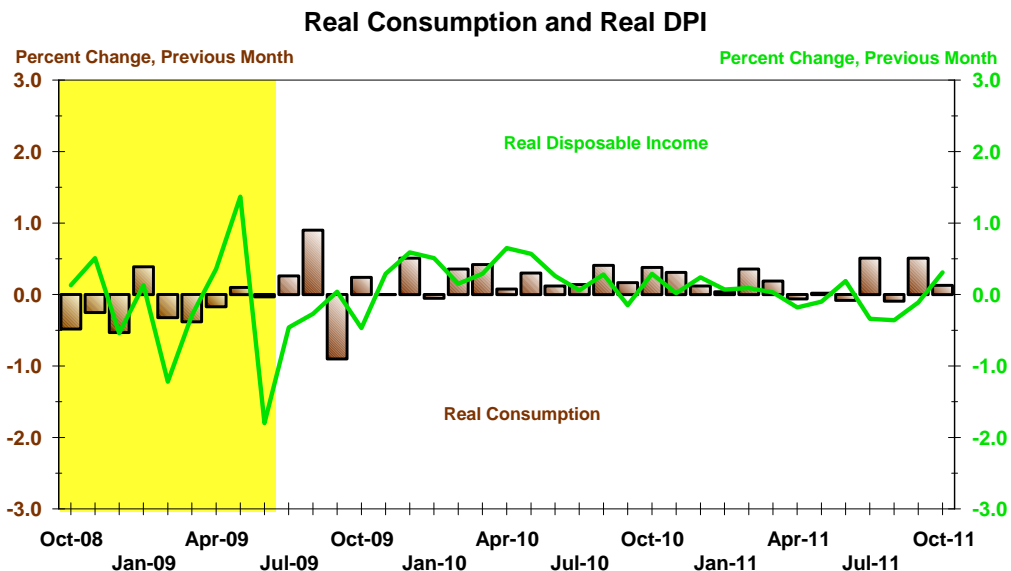


Source: The Conference Board / Haver Analytics.



Source: The University of Michigan / Haver Analytics.

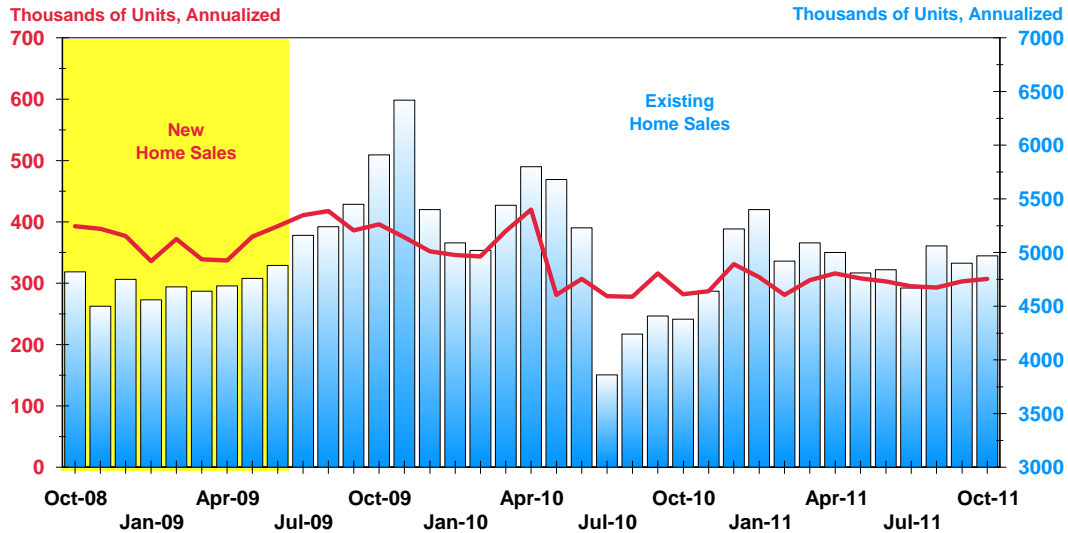
Consumption posted a small increase in October, aided by the first gain in disposable incomes since June.



Source: Bureau of Economic Analysis / Haver Analytics.

The housing market showed some slight improvement in October, as both new and existing home sales posted small gains. Over the past year, however, the real estate market has been little changed. The October sales pace of both series was nearly identical to their respective 12-month averages.

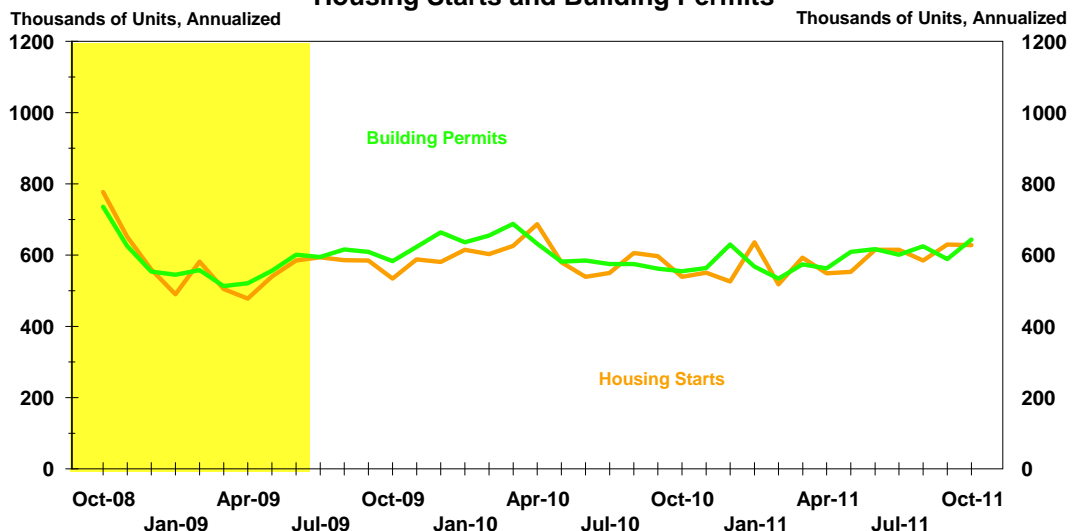
### New and Existing Home Sales



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

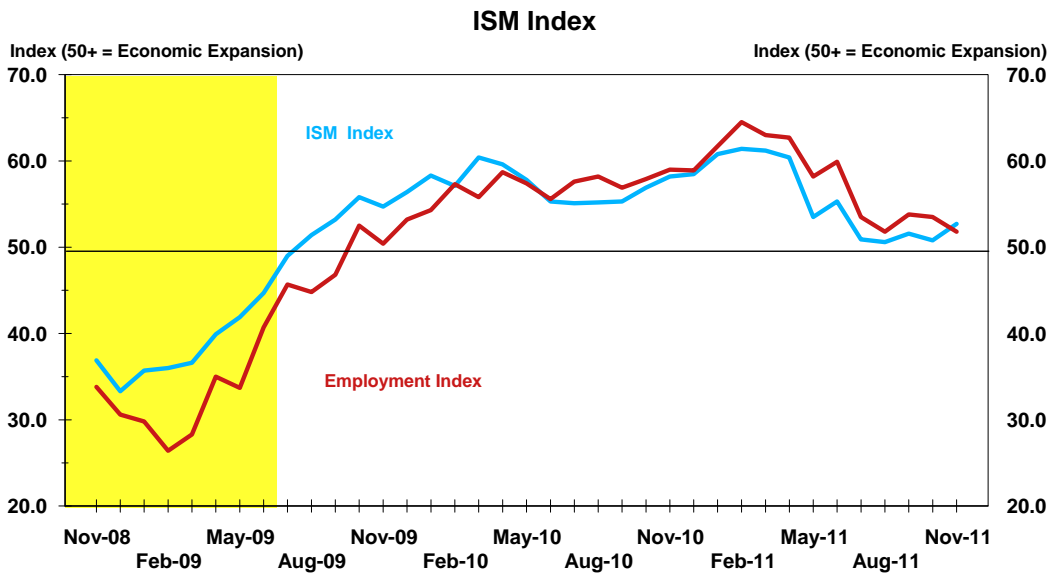
New residential construction data was more promising in October, as both measures came in above expectations. Housing starts eased slightly but still registered one of their best months of the year, and building permits were at their highest since March 2010. Despite the recent improvements, both series are nearly 50% below their pre-recession levels.

### Housing Starts and Building Permits



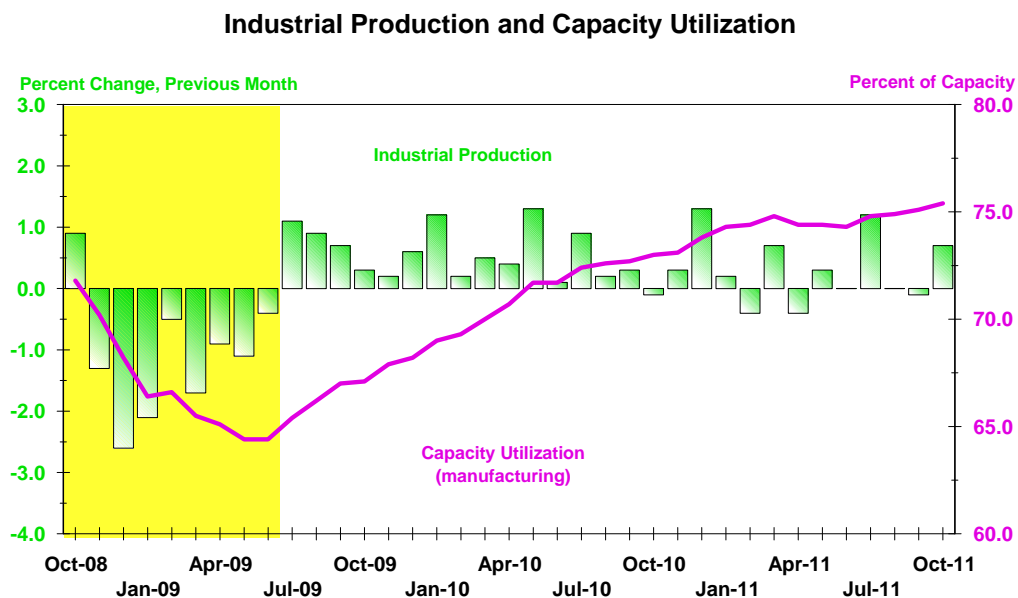
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index rebounded in November, led by increases in new orders and production. The employment component of the index declined in November but remained above 50, signaling manufacturing employment continues to rise, but at one of its slowest paces seen in the past two years.



Source: Institute for Supply Management / Haver Analytics.

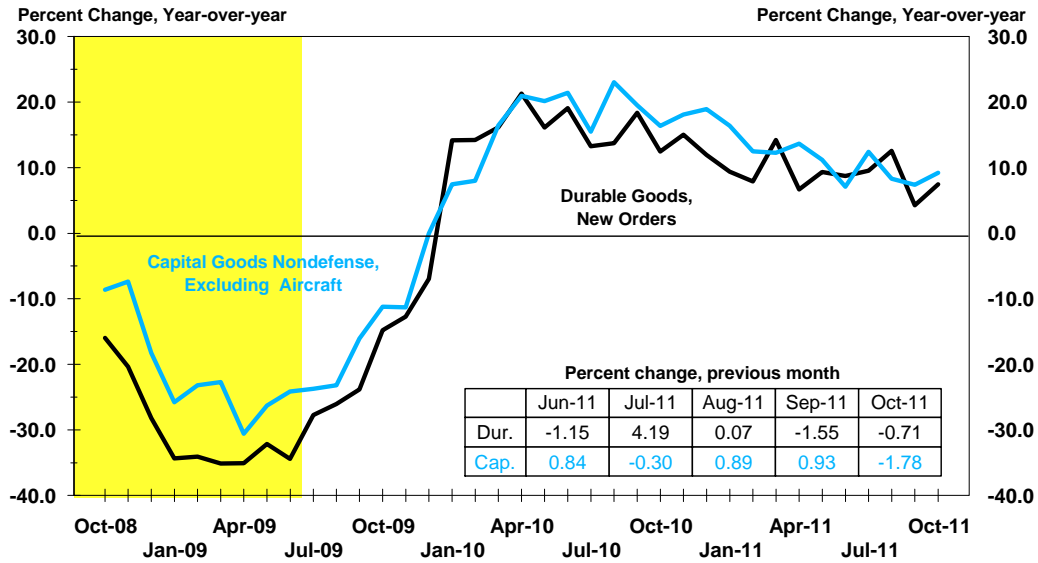
Industrial production posted a strong gain in October, following two months of little change. Capacity utilization rose further in October, reaching its highest level in over three years.



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for both durable goods and nondefense capital goods excluding aircraft fell in October, with the latter posting its biggest decline since January. Both series also saw their September estimates revised sharply lower. Despite the monthly declines, both series showed improvement on a year-over-year basis.

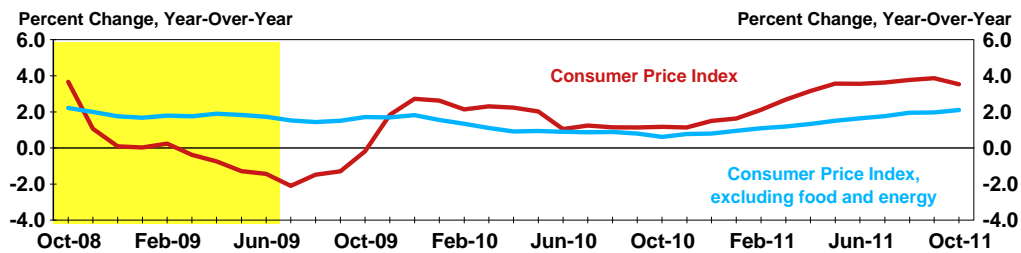
### Durable Goods Orders



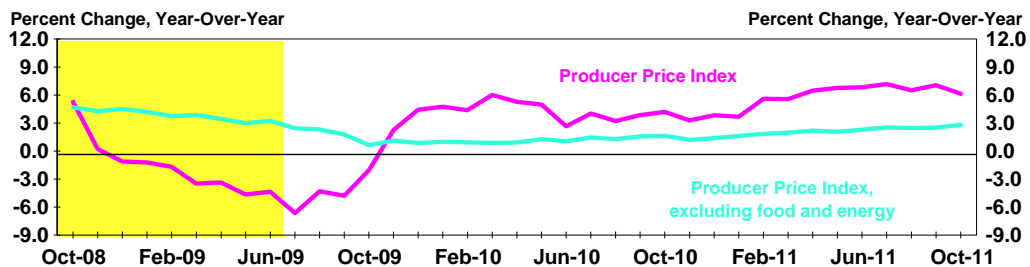
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer price growth slowed in October, due primarily to slower growth in food and transportation costs. The core index continued to rise, however, growing at its fastest pace in three years. Measures of producer costs were similar, as the total index slowed while the core index accelerated.

### Consumer Price Index

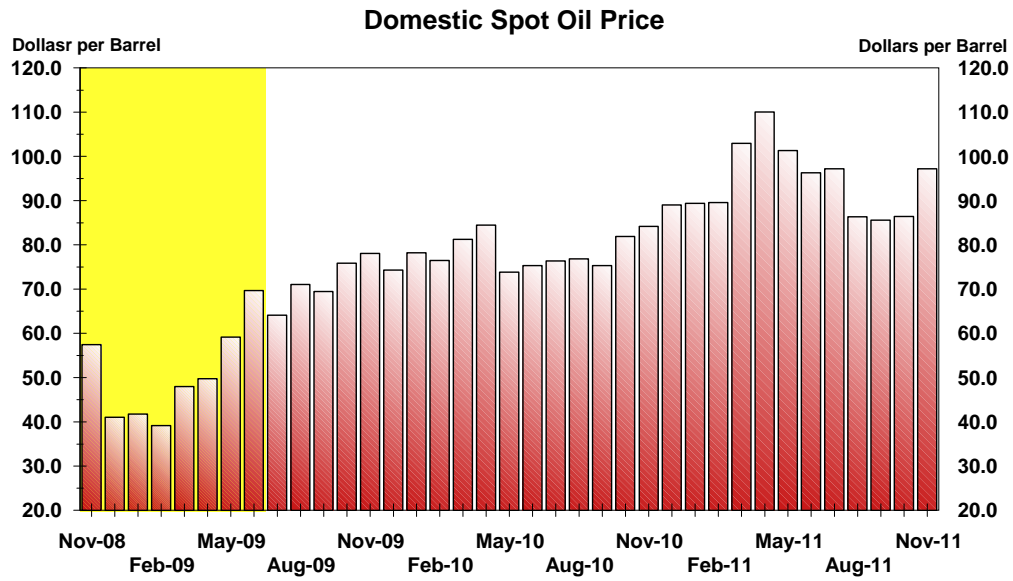


### Producer Price Index



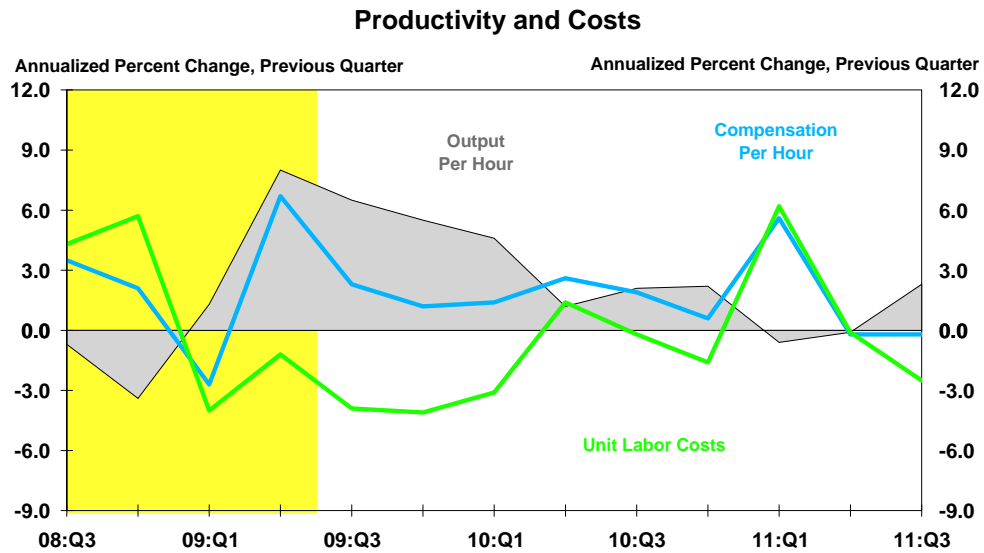
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose sharply in November, after holding mostly steady for three months. Despite the rising oil prices, gas prices have been falling, providing a small boost to consumers.



Source: Wall Street Journal / Haver Analytics.

Productivity was revised lower in the third quarter, reflecting downward adjustments to both output and hours worked. Significant downward revisions were made to costs in the second quarter, with compensation per hour falling 0.2% and unit labor costs easing 0.1% (down from the previous respective increases of 2.7% and 2.8%).

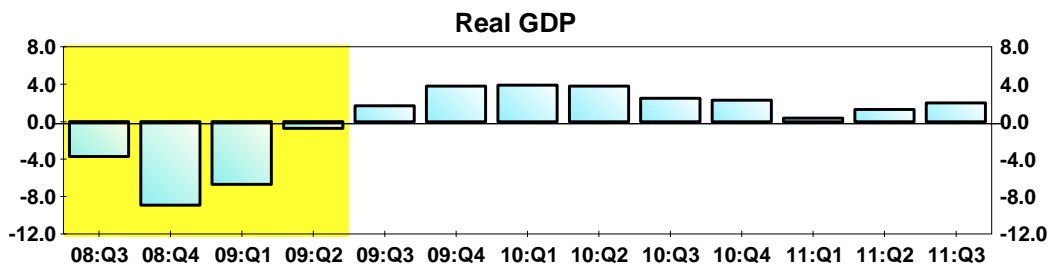


Source: Bureau of Labor Statistics / Haver Analytics.

Real GDP growth in the third quarter was slower than originally thought. The lower growth rate was due primarily to downward revisions to private inventory investment, nonresidential fixed investment, and personal consumption expenditures. Those effects were partly offset by a downward revision to imports.

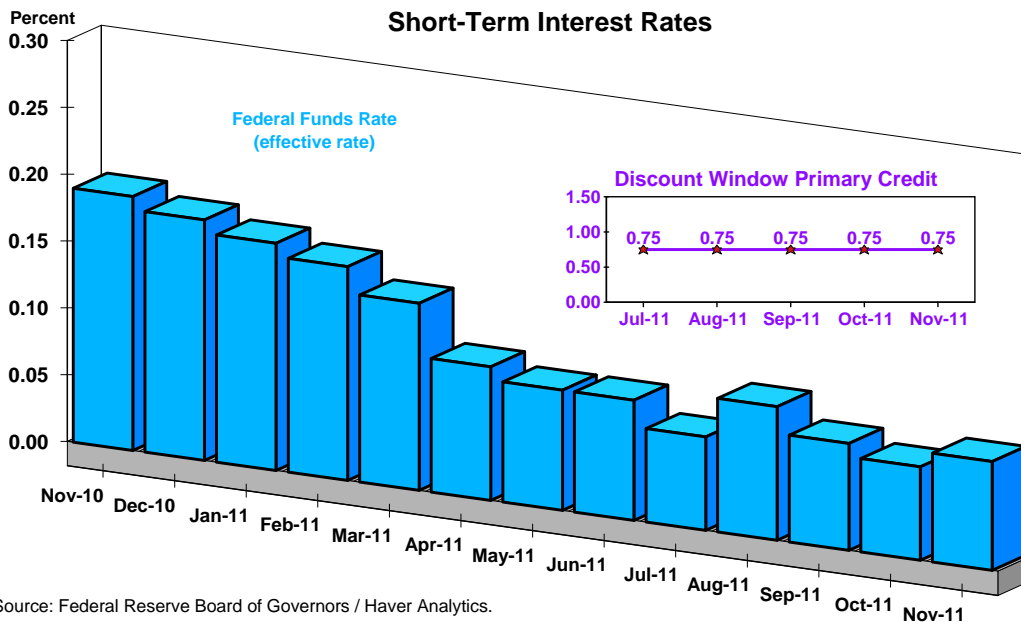
### Revisions to Third Quarter Real GDP

Description	Advance	2nd Estimate
Real GDP	2.5	2.0
Personal Consumption	2.4	2.3
Business Investment	16.3	14.8
Equipment and Software	17.4	15.6
Residential Investment	2.4	1.6
Government	0.0	-0.1
Exports	4.0	4.3
Imports	1.9	0.5
Final Sales	3.6	3.6



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting has generally been more positive than in recent months, but not likely strong enough to lead to a significant increase in growth in the near term. Employment and confidence data has improved, and manufacturing data continues to be mostly positive. But the failure of the Congressional Super Committee and the threat of tax break expirations, along with the ongoing fiscal crisis in Europe, provide considerable downside risks. Uncertainty is likely to surround the economic outlook until these issues are addressed.



Source: Federal Reserve Board of Governors / Haver Analytics.



PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,  
FEDERAL RESERVE BANK OF BOSTON

December 8, 2011

Current Economic Developments - Addendum: Data released in the past week

Payroll employment rose by 120,000 in November, in line with expectations and the fifth consecutive gain of 100,000 or more. The unemployment rate fell four-tenths of a percentage point to 8.6%, its lowest level since March 2009. The lower unemployment rate reflected both a large increase in civilian employment and a sharp drop in the labor force.

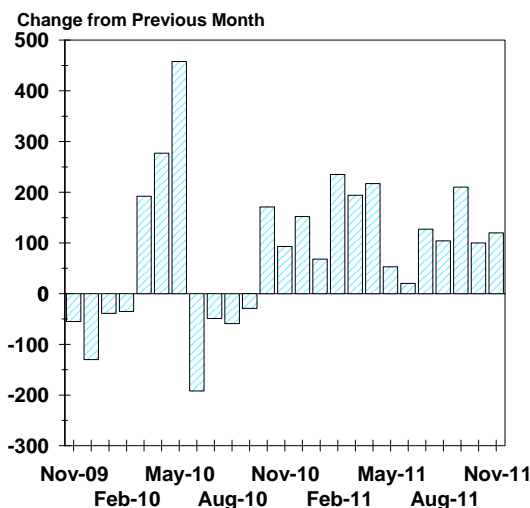
Lightweight vehicle sales rose again in November, selling at their fastest rate since August 2009 during the 'Cash-for-Clunkers' campaign. While gains were broad across many models and manufacturers, lower gas prices and wider availability of Japanese models were specifically cited by automakers as contributing factors to the higher sales.

In October, manufacturers' orders fell 0.4% while total shipments rose 0.6%. Orders of durable goods excluding aircraft in October were revised to show a smaller drop than previously estimated, and the September increase was revised upward. In November, the ISM nonmanufacturing index declined to 52.0, its lowest level in nearly two years.

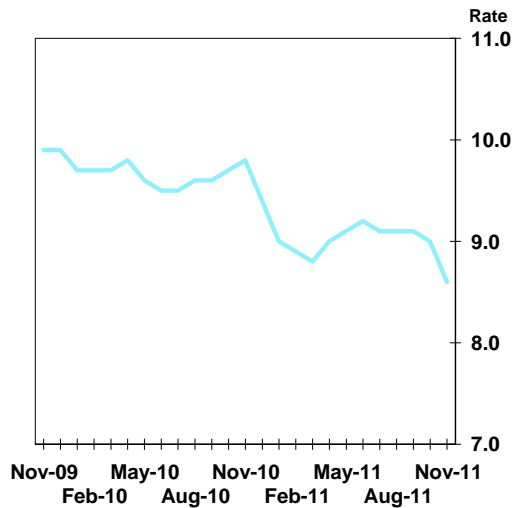
Redbook sales fell 2.6% through the first week of December, compared to November. Sales in the week ending December 3rd were 3.2% higher than during the same period last year. Oil prices rose during the past week, averaging \$100.8 per barrel compared to the previous week's average of \$98.1.

In November, nonfarm payrolls added 120,000 jobs and the unemployment rate fell to 8.6%. Over the previous two months, payroll gains were revised higher by 72,000 jobs. Earlier estimates saw these payrolls up by 238,000 jobs in October and September, while updated data show an increase of 310,000. Private payrolls added 140,000 jobs in November, though government payrolls continued to shrink.

**Nonfarm Payroll Employment**



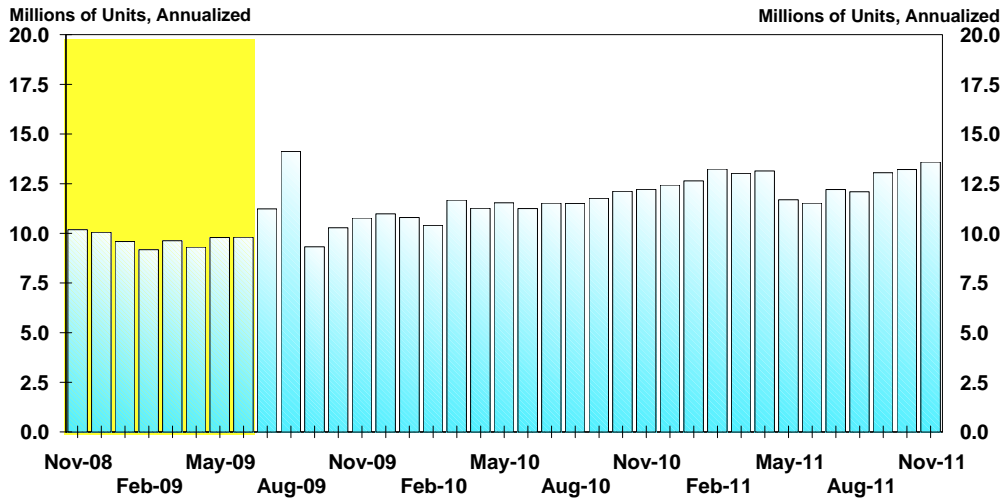
**Unemployment Rate**



Source: Bureau of Labor Statistics / Haver Analytics.

Total auto and light truck sales rose further in November, continuing the mostly upward trend seen since the middle of the year. Manufacturers are on track to sell roughly 12.7 million vehicles in 2011, up about 10 percent from the 2010 total of 11.5 million. In the ten years preceding the recession, however, annual sales averaged almost 17 million.

### Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.