



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

May 31, 2013

CURRENT ECONOMIC DEVELOPMENTS - May 31, 2013

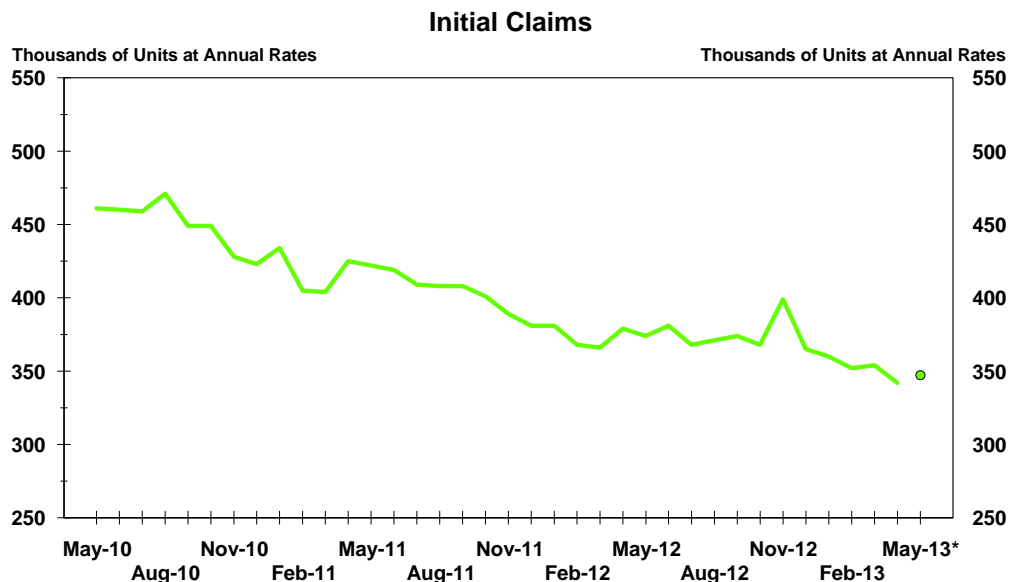
Data released since your last Directors' meeting show that the economy continues to recover at a moderate pace. Consumer spending remains resilient, consumer attitudes have improved, and the housing market continues to strengthen, yet manufacturing data have been mixed. The impact of the federal budget sequester is expected to remain a downside risk into the third quarter, but economic growth is projected to pick up a bit by the end of the year.

Initial claims for unemployment insurance eased in April to their lowest average in over five years but have begun to rise in the first few weeks of May. Consumer attitudes were positive in May as consumers were more optimistic about both the current situation and future expectations. In April, real incomes and real consumption inched up, but growth in both series has decelerated over the past two months.

The housing market continued to show mostly positive signs in April. New and existing home sales increased in April, with sales of existing homes reaching their highest rate in nearly two and a half years. Housing starts fell in April, but building permits jumped to their highest level in almost five years, signaling a likely improvement in starts in the coming months. In the manufacturing sector, industrial production fell and capacity utilization continued to ease in April. However, both new orders for durable goods and orders for nondefense capital goods, excluding aircraft, increased in April and improved on a year-over-year basis.

Headline price indices continued to decelerate in April, due in large part to lower energy prices. The core consumer index also eased slightly, while the core producer index held steady. Oil prices fell on average in April, but they ticked up in May before ending the month only slightly above their April average.

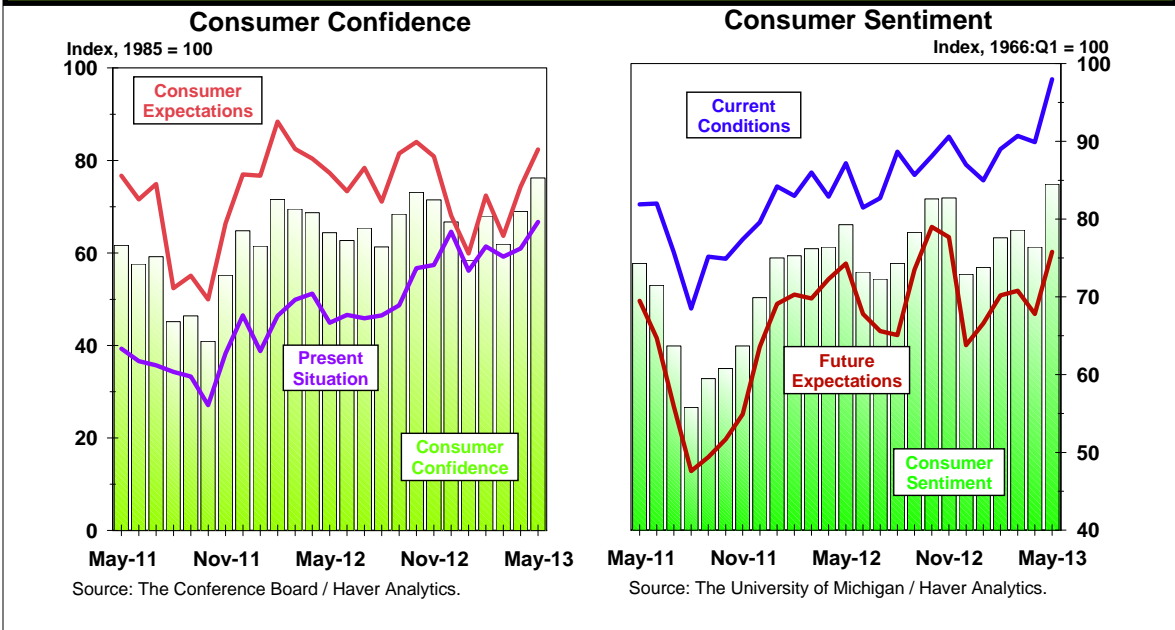
Initial claims for unemployment insurance fell to 342,000 on average in April, a more than five year low. Weekly claims have crept up a bit in May, and the four-week moving average rose to 347,250 in the week ending May 25.



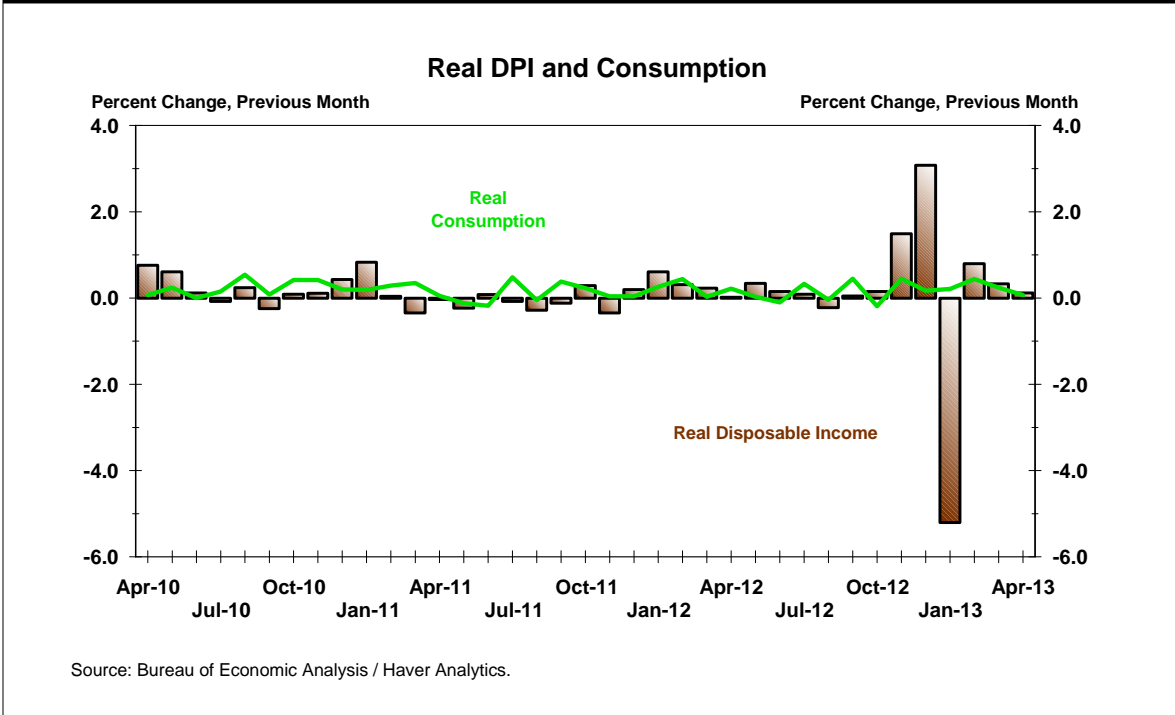
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

* 4-wk. ave. ending May 25

Primary measures of consumer attitudes were positive in May. The confidence index increased to its highest level in over five years, and the sentiment index rose to a nearly six year high. Consumers were more optimistic about business and labor market conditions, as well as their personal financial situations. Gains were led by upper income households, but the sentiment survey reported improvements in the attitudes of middle and lower income households in late May.

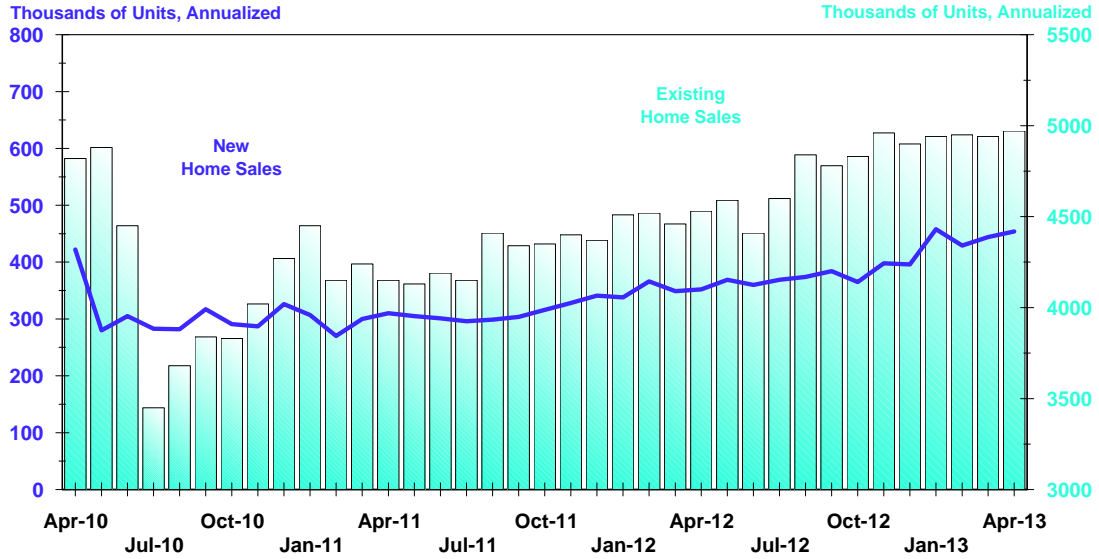


Real disposable incomes ticked up 0.1% in April, and have grown 0.4%, on average, over the past three months. Despite the slow income growth, real consumption edged up 0.1% in April and has posted an increase in each of the past six months.



Housing data in April continued the upward trend seen since mid-2011. New home sales rose above expectations in April, following an upwardly-revised increase in March. Sales of existing homes also increased in April, reaching their highest sales rate since November 2009.

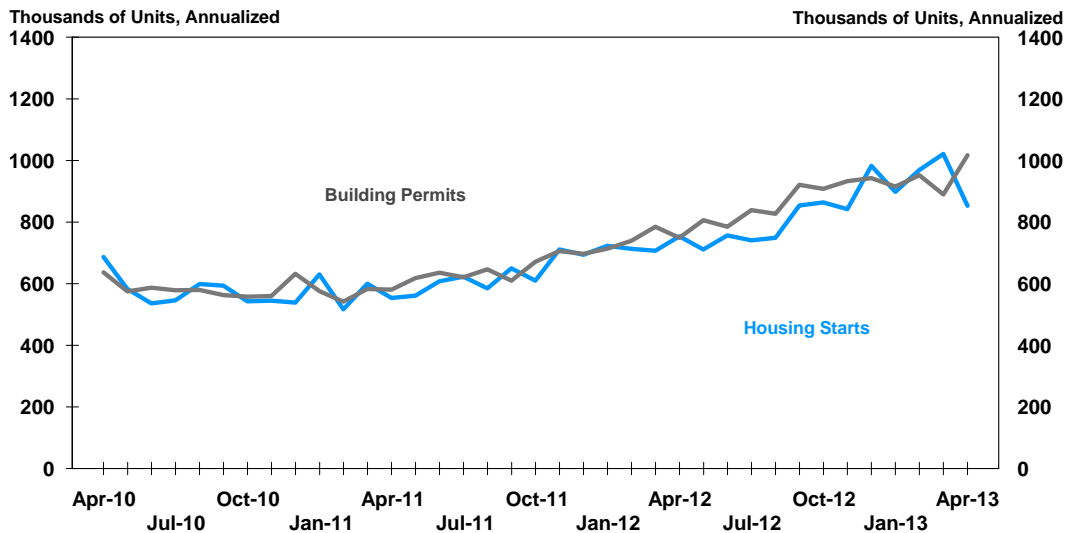
New and Existing Home Sales



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

Housing starts plunged in April to their lowest level since November, due mostly to a large decrease in multifamily starts. Meanwhile, building permits jumped in April to their highest level since June 2008.

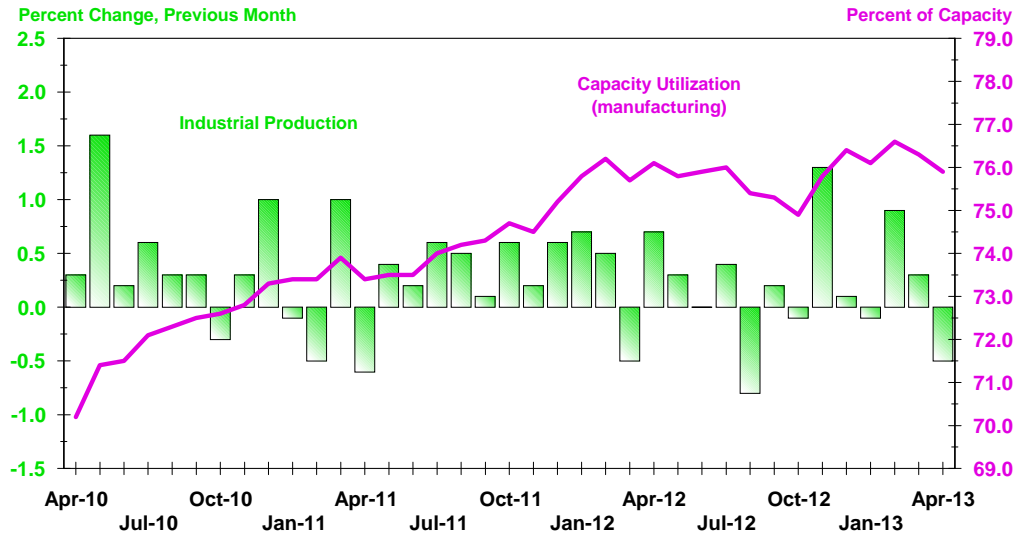
Housing Starts and Building Permits



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

Industrial production fell more than expected in April, and gains in each of the prior two months were revised lower. Capacity utilization continued to ease in April, reaching its lowest level since November.

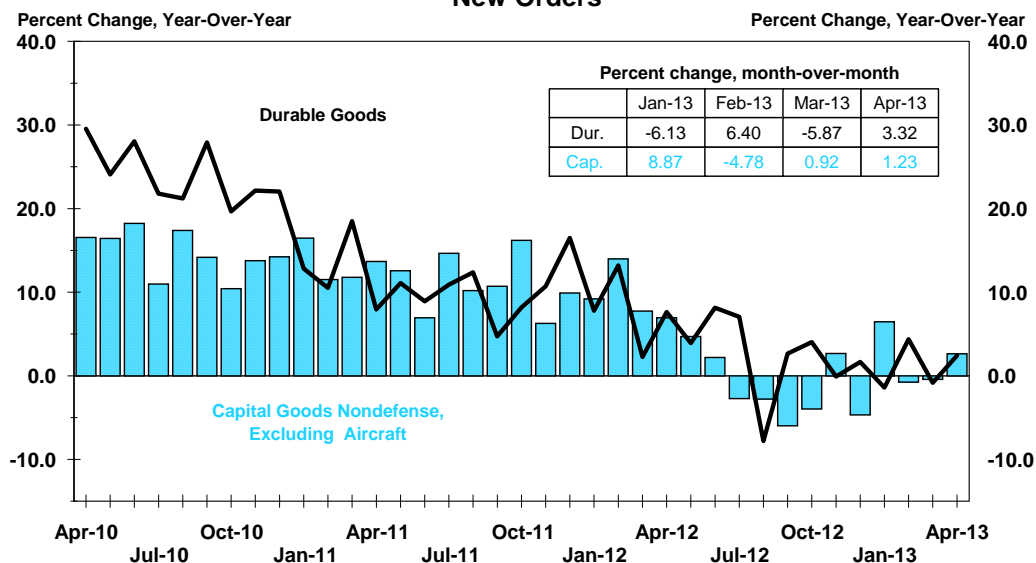
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

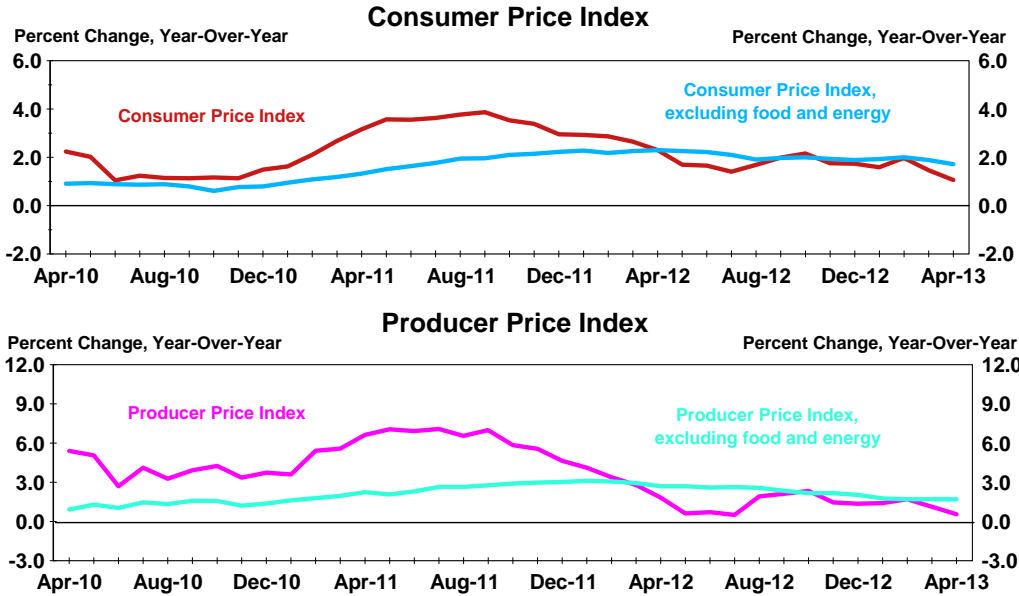
New orders for durable goods rose in April, following a decrease in March that was revised smaller. Orders of nondefense capital goods, excluding aircraft, also rose in April. Both series showed improvement on a year-over-year basis in April, after declining in the previous month.

New Orders



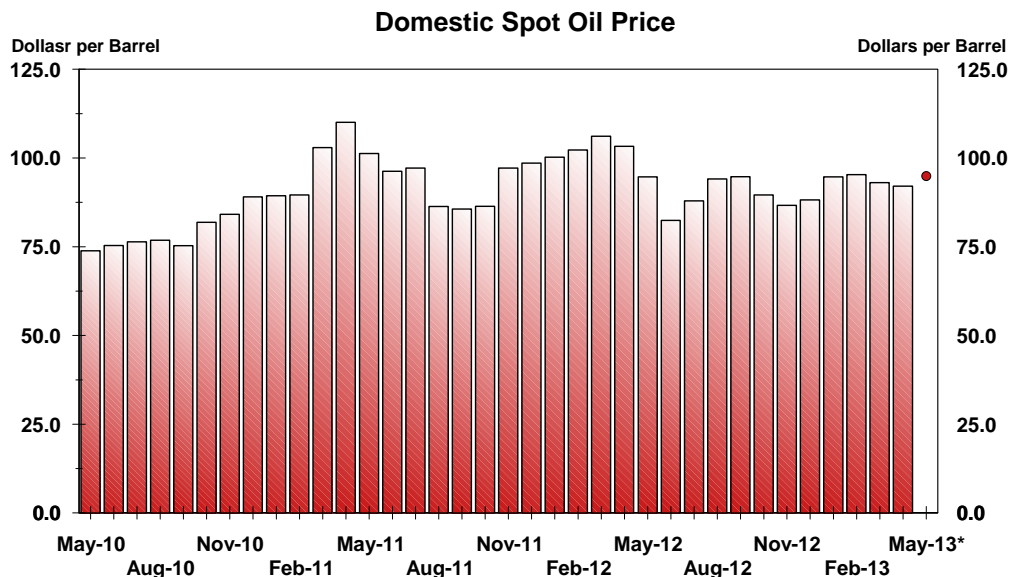
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices continued to decelerate in April, growing at their slowest pace since June 2010 and reflecting a further decline in gasoline prices. Growth of the core index also slowed in April, reaching a 22-month low. The headline producer price index told a similar story in April, as prices grew at their slowest pace since June. Meanwhile, the core producer price index held steady for the third consecutive month.



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices declined slightly in April, reaching their lowest monthly average so far this year. However, prices increased slightly in May before falling to \$93.6 per barrel as of May 30.



Source: Wall Street Journal / Haver Analytics.

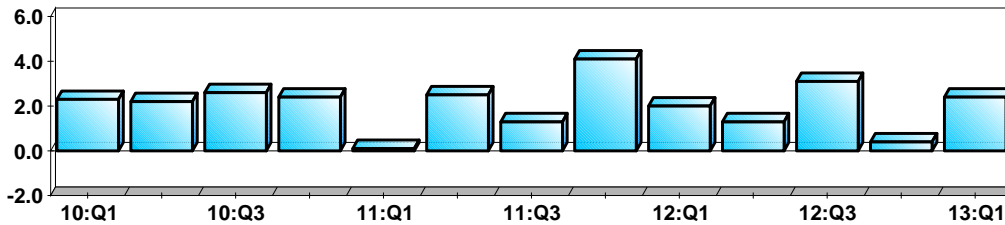
* Daily ave. ending May 30

First quarter GDP growth was revised down slightly in the second estimate to 2.4% from 2.5%. The lower growth rate primarily reflected downward revisions to private inventory investment, to exports, and to state and local government spending that were partly offset by a downward revision to imports and an upward revision to personal consumption expenditures.

Revisions to First Quarter Real GDP

Description	Advance Estimate	2nd Estimate
Real GDP	2.5	2.4
Personal Consumption (PCE)	3.2	3.4
Business Investment	2.1	2.2
Residential Investment	12.6	12.1
Government	-4.1	-4.9
Exports	2.9	0.8
Imports	5.4	1.9
Final Sales	1.5	1.8
Change in Nonfarm Inv. (\$2005 Bil.)	42.6	28.3

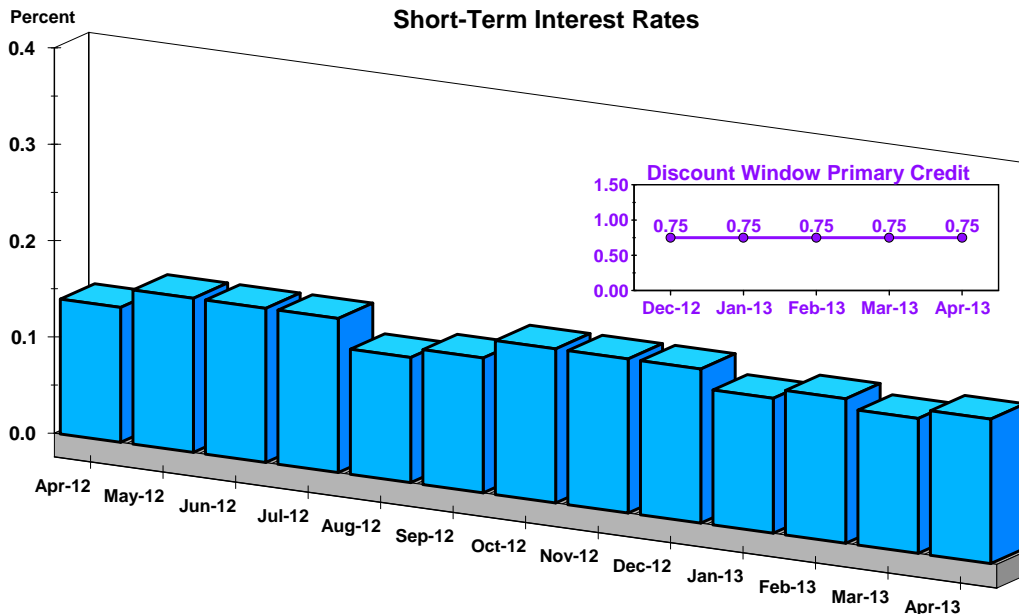
Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni

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

June 6, 2013

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

Lightweight vehicle sales rose in May, selling at their fastest annual pace since February. The increase was seen in both auto and light duty truck sales.

In May, the ISM manufacturing index dropped below 50, signalling contraction in the manufacturing sector. The employment index eased in May, but remained slightly above 50. However, the nonmanufacturing sector expanded further in May as the ISM nonmanufacturing index increased to 53.7. The employment index decreased to 50.1 in May, its lowest level since July.

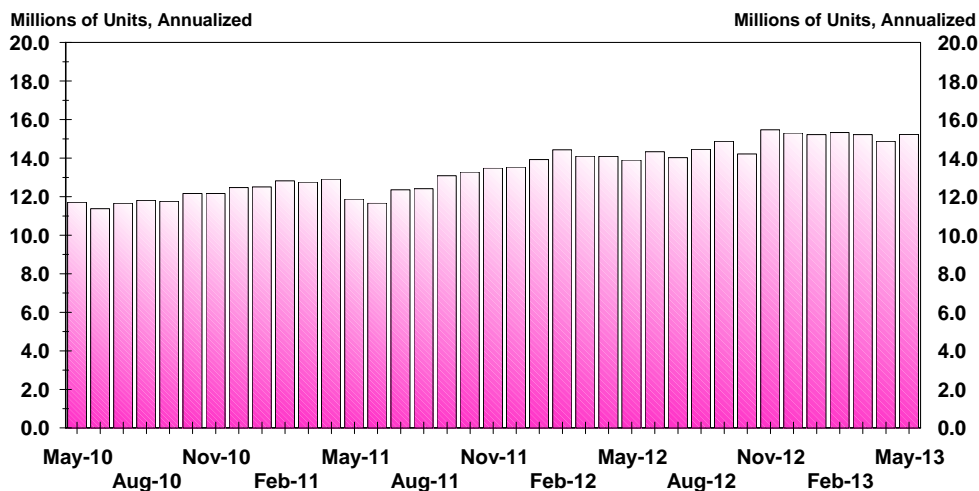
In the first quarter, productivity rose, but compensation per hour posted its largest decline since at least 1947. Unit labor costs also fell sharply in the first quarter. In April, manufacturers' orders rose 1.0%, while shipments fell 0.7% and shipments of nondefense capital goods excluding aircraft declined 1.3%.

Oil prices eased a bit in early June, averaging \$93.1 per barrel in the week ending June 4th, compared to \$94.4 in the previous week.

Employment data from the Bureau of Labor Statistics is due out Friday morning. Market expectations are for payrolls to post a monthly gain of 172,000, more than the April gain of 165,000, and the unemployment rate is expected to hold steady at 7.5%.

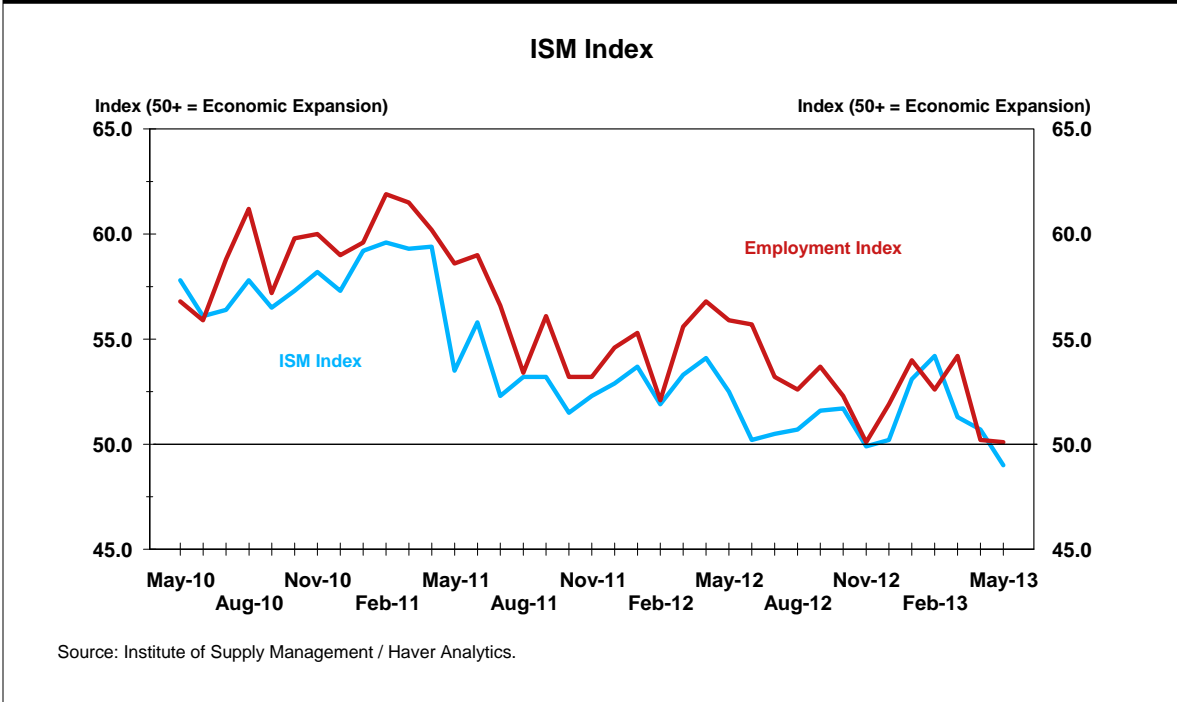
Total lightweight vehicle sales rose in May after dropping in April. Sales in May were in line with rates seen in the first quarter, reflecting the resilience of consumer spending in light of the tax increases this year. Dealers attribute May's increase, in part, to rising light truck sales, which stem from growing demand in the construction industry coinciding with the recovery in the housing market.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index fell in May, recording its third consecutive monthly decrease. The index dropped below 50 for the first time since November, signalling contraction in the manufacturing sector. The employment component of the index edged down in May, but remains slightly above 50.



Productivity rose in the first quarter, as output increased faster than hours worked. Compensation per hour and unit labor costs both fell sharply in the first quarter, following increases that were revised much higher in the fourth quarter. The 3.8% drop in compensation per hour was the largest decline since at least 1947, when the Bureau of Labor Statistics began keeping track of the series.

