



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

March 1, 2013

Current Economic Developments - March 1, 2013

Data released since your last Directors' meeting show the economy was stronger in the fourth quarter than originally estimated, and recent data suggest growth will pick up further in the first quarter. The housing market continues to strengthen and consumer attitudes have improved, while manufacturing data has been mixed. However, fiscal issues surrounding the budget sequester and potential government shutdown remain areas of concern. Still, the economy remains on track to grow at a moderate pace in the first half of the year.

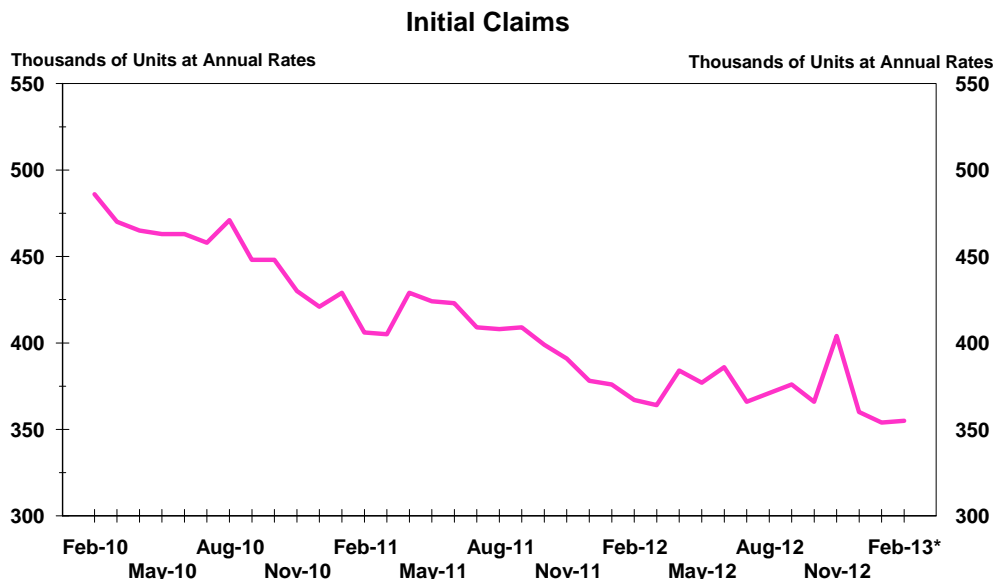
In February, initial claims were relatively unchanged from their January average, and consumer attitudes improved towards both current conditions and future expectations. Real consumption expenditures continued to rise in January, despite a large decline in real incomes.

Housing market data was mostly positive in January, as the sector continues to show signs of improvement. New home sales surged in January, and sales of existing homes increased slightly, as both series continued an upward trend seen since mid-2011. New residential construction data was mixed in January, as single-family permits rose to their highest level since June 2008, while total permits fell. Housing starts also fell in January, albeit from an upwardly revised December number.

Recent manufacturing data was mixed. The ISM index rose in February to its highest level since June 2011, but industrial production eased in January. New orders for durable goods fell in January, yet orders for nondefense capital goods excluding aircraft jumped, suggesting business investment may strengthen.

Inflation remained subdued in January, as energy prices continued to ease. Although oil prices increased slightly on average in February, they ended the month below their January average.

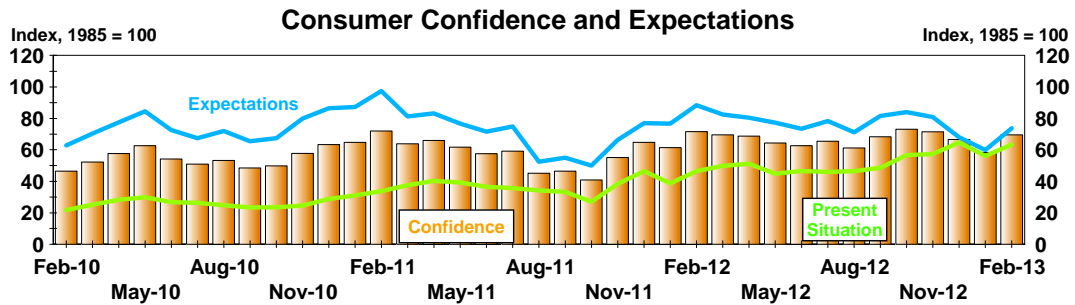
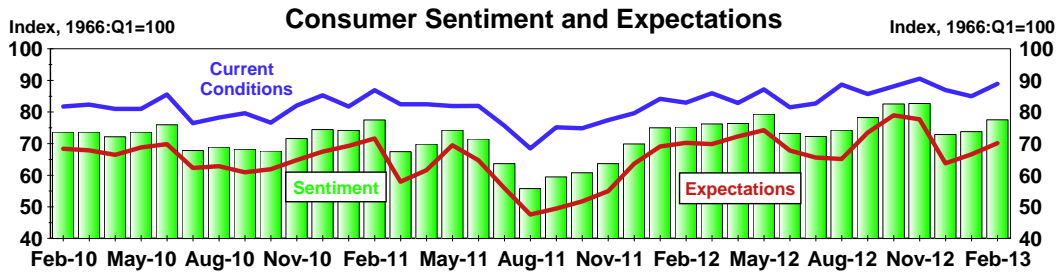
Initial claims for unemployment insurance in February were, on average, only slightly higher than their January level, remaining near a five-year low. Claims are now only slightly above the level seen at the onset of the recession.



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

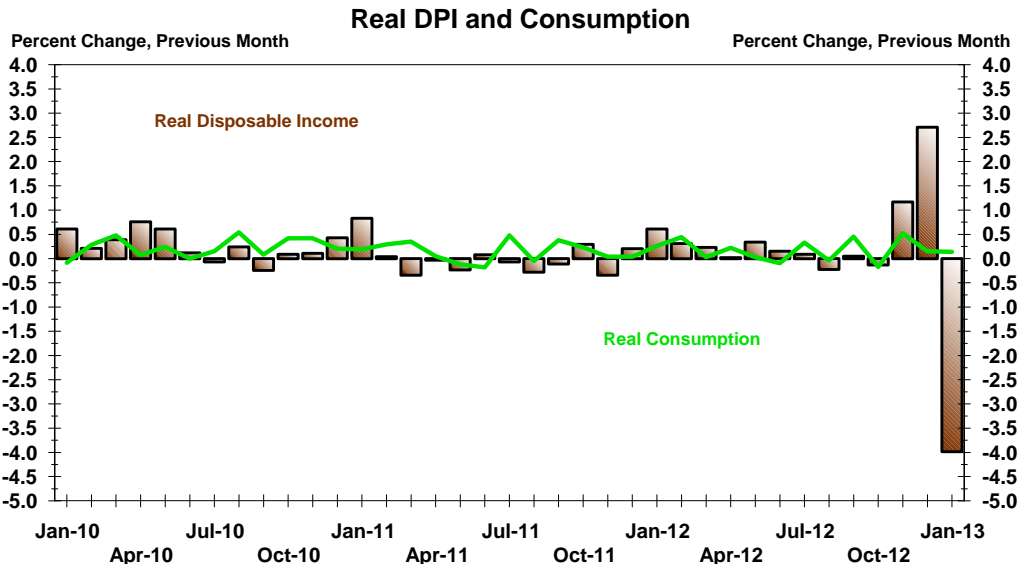
* - 4-wk. ave. ending Feb. 23

Consumer attitudes improved in February, as both confidence and sentiment reached their highest levels since November. Consumers are more optimistic about business and labor market conditions, as concerns over fiscal cliff and payroll tax uncertainty have subsided. Respondents to the University of Michigan survey also reported heightened sensitivity to inflation rates.



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

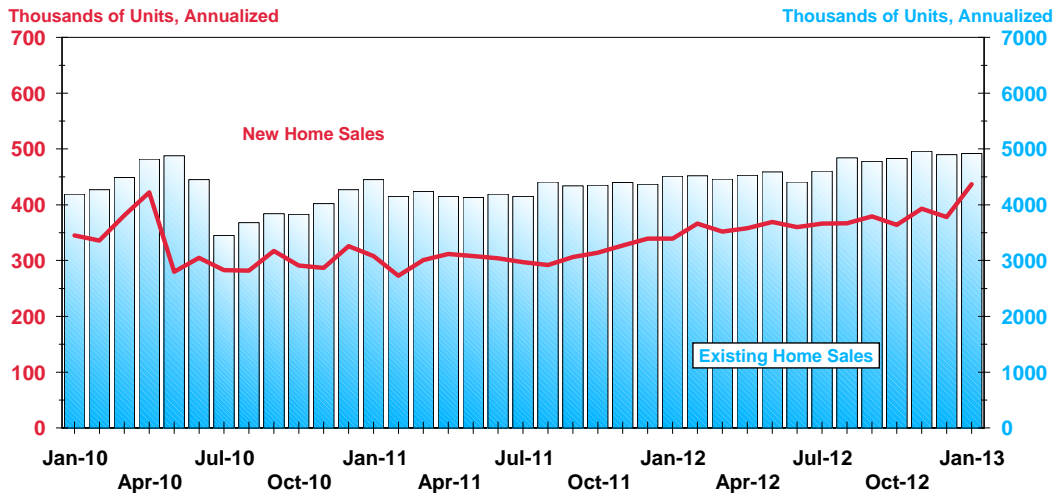
Real disposable incomes plunged in January. The decline was mainly due to the effects of special factors such as the payroll tax increase in January and the pre-tax-hike boost in wages, salaries, and personal dividends, which contributed to the surge in DPI in December. Despite the lower incomes, real consumption increased in January by the same amount as seen in December.



Source: Bureau of Economic Analysis / Haver Analytics.

Housing market data continued to show positive signs in January. New home sales jumped up in January to their highest level since July 2008, and December sales were revised higher. Existing home sales increased above expectations in January, but December sales were revised slightly lower.

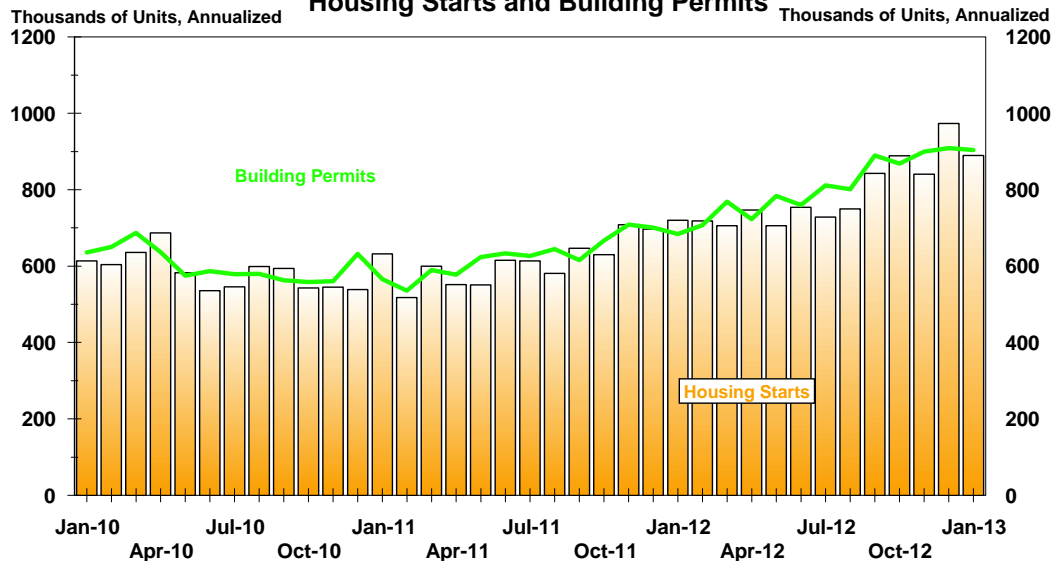
New and Existing Home Sales



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

Housing starts fell below expectations in January, from a level in December that was revised substantially higher. The decline in total starts was due to a decrease in multi-unit starts, as single-unit starts increased in January. Total starts have averaged over 900,000 over the past three months, continuing the rising trend seen since mid-2011. Total building permits fell in January, yet single-family permits rose to their highest level since June 2008.

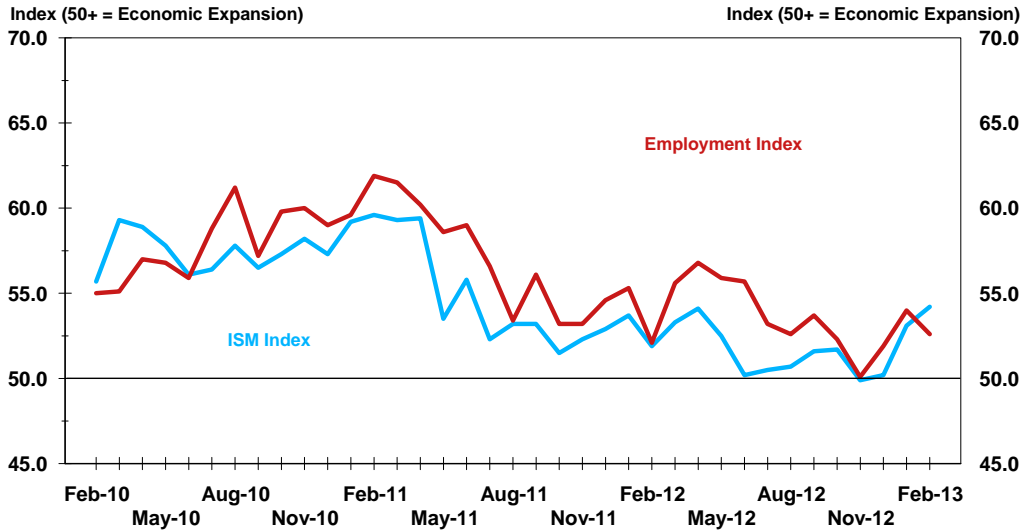
Housing Starts and Building Permits



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

The ISM manufacturing index rose in February for the third straight month, posting its highest reading since June 2011 and signalling further expansion in the manufacturing sector. However, the employment component of the index eased in February, erasing most of the improvement seen in January.

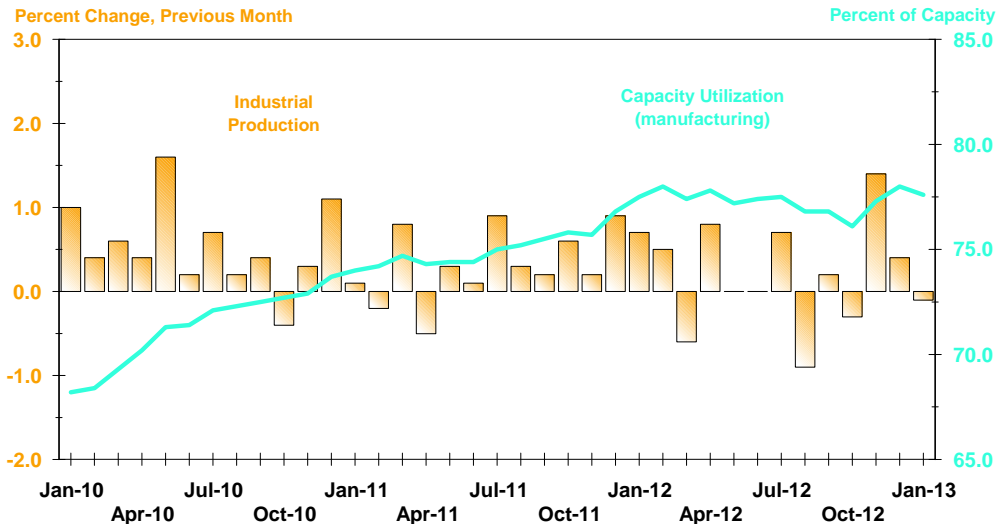
ISM Index



Source: Institute of Supply Management / Haver Analytics.

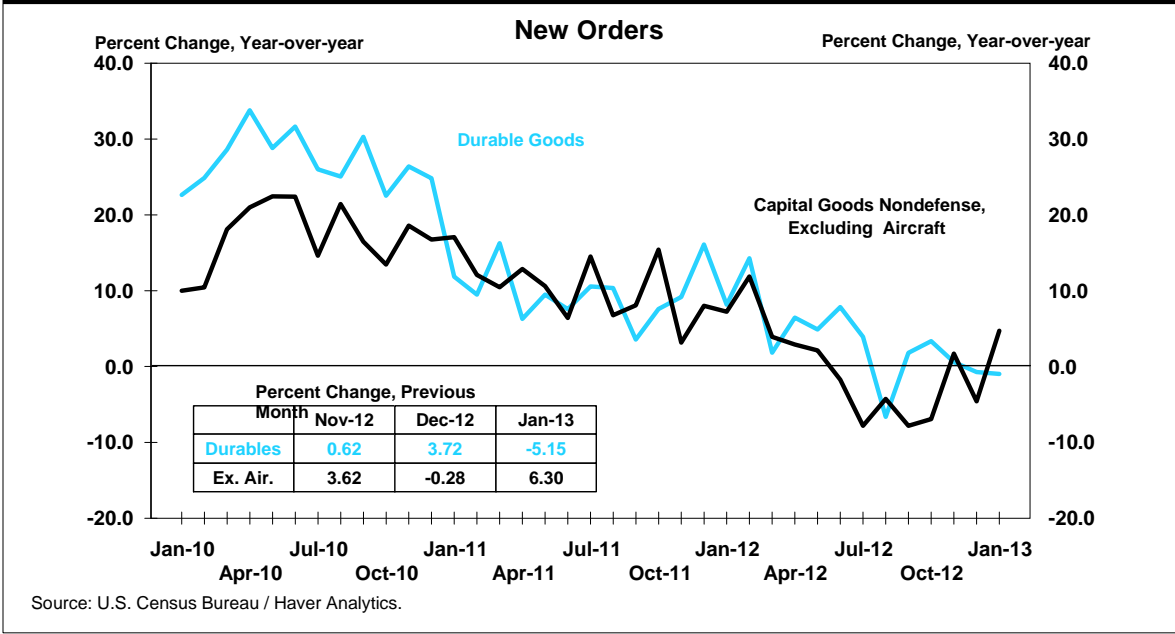
Industrial production eased slightly in January, following an upwardly revised increase in December. The recent seasonably cold weather was a boon to production, as higher demand for home heating fuels increased utilities output. Capacity utilization fell in January, from an upwardly revised December reading.

Industrial Production and Capacity Utilization

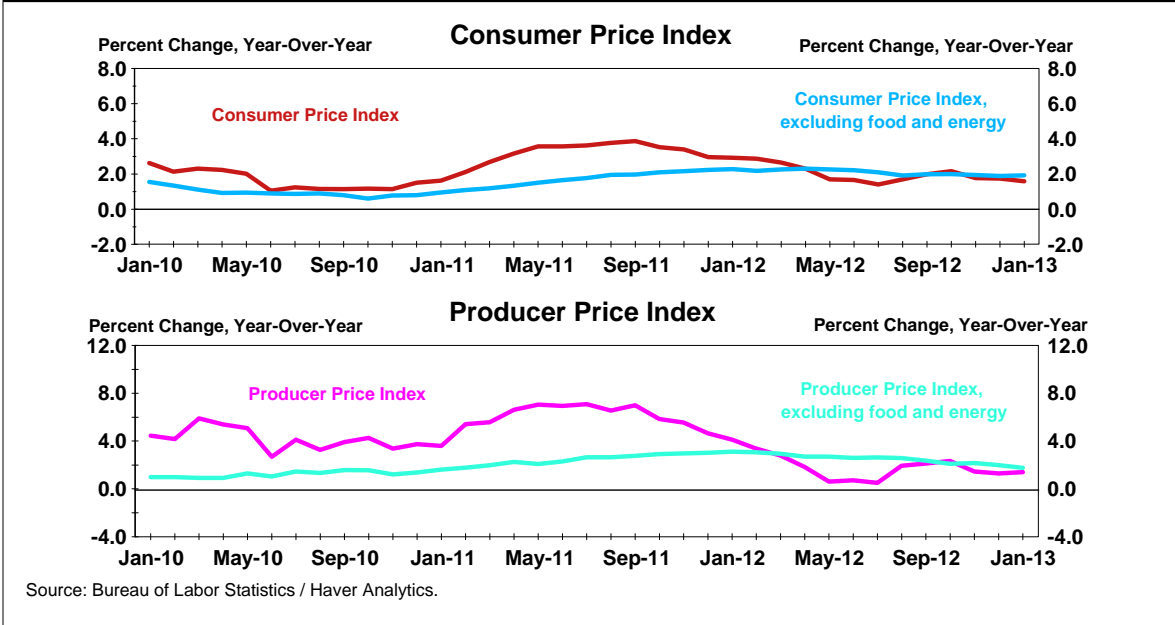


Source: Federal Reserve Board of Governors / Haver Analytics.

In January, new orders for durable goods posted their first monthly decrease since August and continued to decrease on a year-over-year basis, mostly due to a decline in orders for transportation goods. Meanwhile, orders of nondefense capital goods excluding aircraft rose sharply in January, posting their largest monthly gain in nearly three years. The unanticipated strength in core orders in January may signal stronger manufacturing output in the first quarter than previously expected.

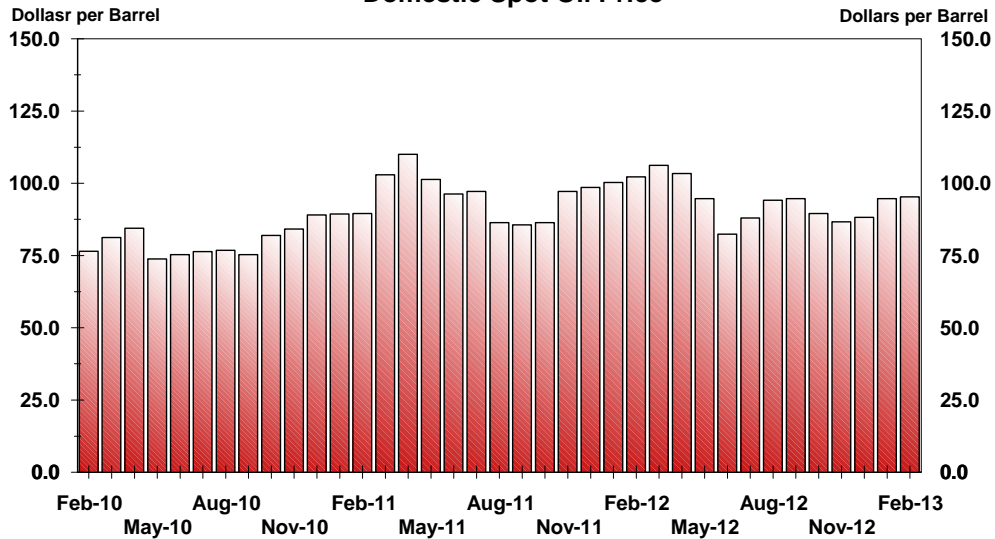


Total consumer price growth continued to decelerate in January, led by falling energy prices, as the headline index reached its lowest level since July 2012. The core index, which excludes food and energy prices, ticked up in January, due in part to an increase in apparel prices. Meanwhile, total producer prices accelerated slightly in January, despite falling energy prices, while the core index decelerated.



On average oil prices posted another small gain in February, although daily closing prices fell slightly during the last week of the month. Prices reached \$92.1 per barrel on February 28th, which was well below the January average.

Domestic Spot Oil Price



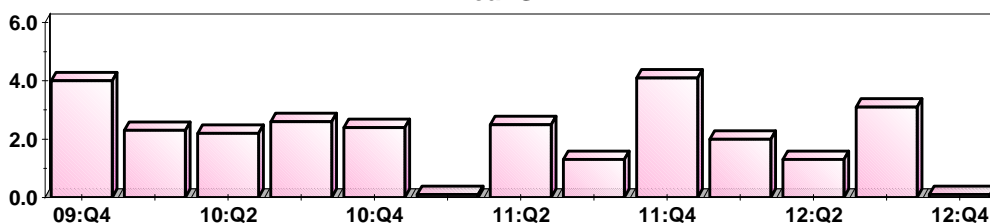
Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the fourth quarter. The higher growth rate primarily reflected an upward revision to exports, a downward revision to imports, and an upward revision to nonresidential fixed investment that were partly offset by a downward revision to private inventory investment.

Revisions to Fourth Quarter Real GDP

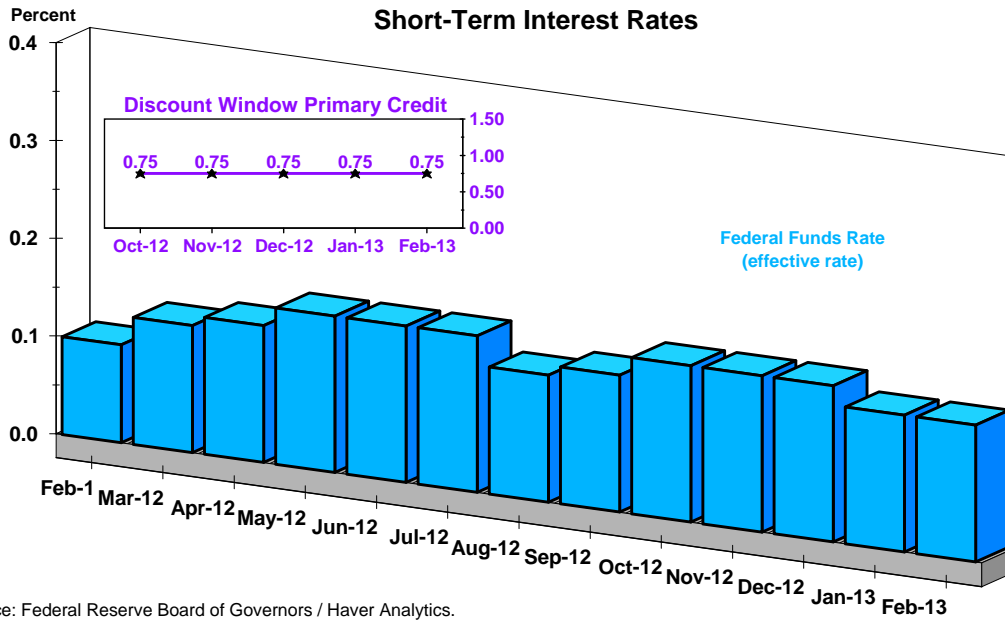
Description	Advance	2nd Estimate
Real GDP	-0.1	0.1
Personal Consumption	2.2	2.1
Business Investment	8.4	9.7
Equipment and Software	12.4	11.3
Residential Investment	15.3	17.5
Government	-6.6	-6.9
Exports	-5.7	-3.9
Imports	-3.2	-4.5
Final Sales	1.1	1.7

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

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Source: Federal Reserve Board of Governors / Haver Analytics.

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

March 7, 2013

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

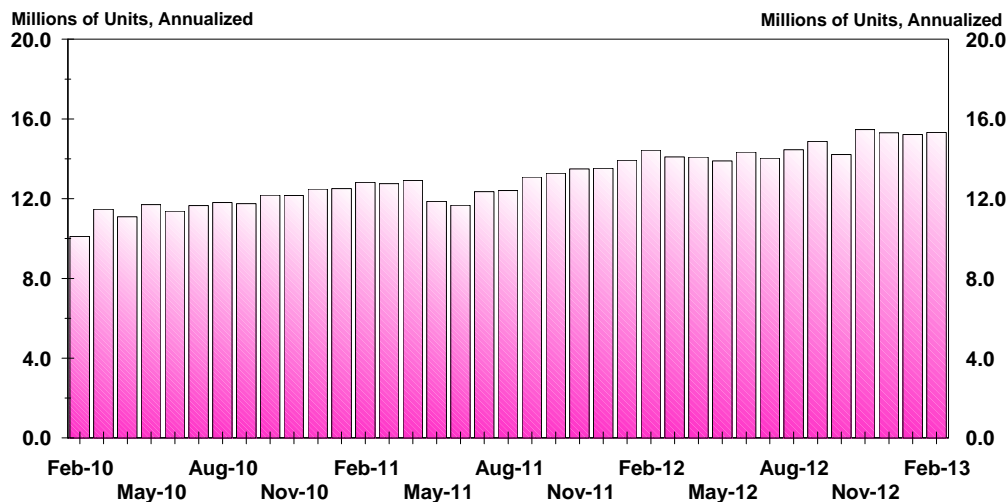
Lightweight vehicle sales rose slightly in February, selling at their fastest annual pace since November. The increase was led by light duty truck sales.

In February, the ISM nonmanufacturing index improved to 56.0, its highest level in one year. The employment index eased to 57.2 in February, but remained well above 50, signaling nonmanufacturing employment is still increasing. In January, manufacturers' orders fell 2.0%, while shipments fell 0.2% and shipments of nondefense capital goods excluding aircraft declined 1.1%.

Employment data from the Bureau of Labor Statistics is due out Friday morning. Market expectations are for payrolls to post a monthly gain of 160,000, slightly more than the January gain of 157,000, and the unemployment rate is expected to hold steady at 7.9%.

Total auto and light truck sales increased slightly in February from January, posting their highest annual sales rate since November. Dealers attributed the stronger sales to more fuel-efficient vehicles and the need for businesses to replace older pickup trucks.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.