FEDERAL RESERVE
BANK OF BOSTON™

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

April 7, 2011

Current Economic Developments - April 7, 2011

Data released since your last Directors' meeting suggest the economy grew further during the first quarter, but most likely by a smaller amount than seen during the fourth quarter as recent expectations of first quarter growth have been revised downward. Labor markets have shown signs of more consistent improvement, but consumers are dealing with the effects of higher gas prices and the housing market continues to disappoint. Also, while manufacturing continues to be a key source of support, recent data has come in below expectations.

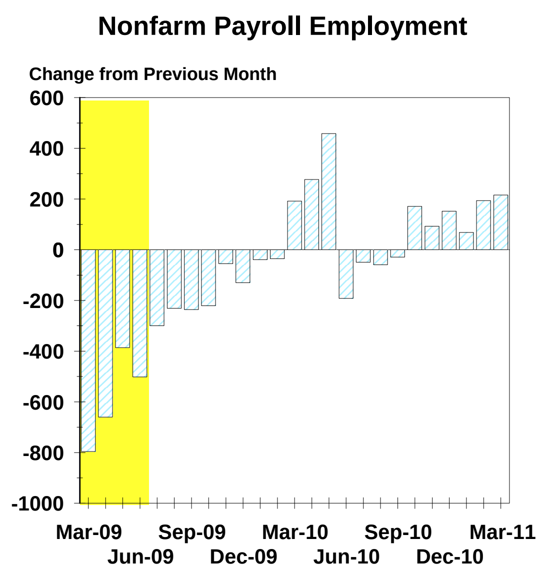
In March, nonfarm payrolls posted a solid gain and the unemployment rate fell further, while initial claims for unemployment insurance were flat. Consumer attitudes deteriorated during the month, as respondents grew more concerned about the combination of rising prices and stagnant incomes. Vehicle sales slowed in March but finished the first quarter with their best quarterly sales pace in nearly three years. In February, real consumption increased despite a small decrease in real disposable income.

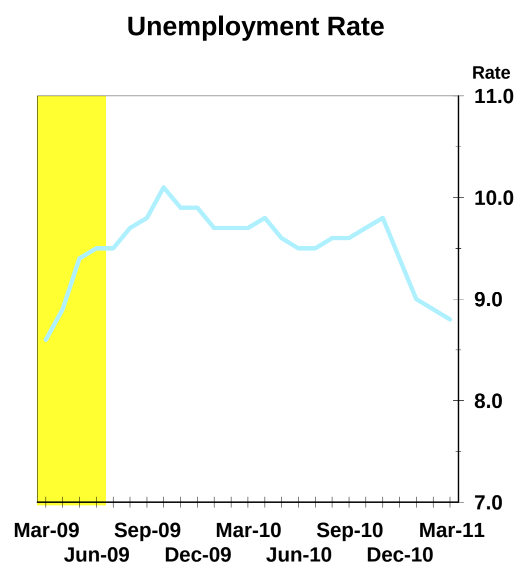
The housing market continued to pose a downside risk in February with most data coming in below expectations. New home sales fell to a record low and existing home sales dropped 10 percent, while housing starts and building permits fell to near-record lows. House prices also continued to fall in January.

In the business sector, the ISM index eased a bit in March but remained above 60, a sign that manufacturing is still expanding significantly. In February, industrial production was flat while capacity utilization rose further. Orders for both durable goods and nondefense capital goods, excluding transportation, fell slightly in February from January but were up moderately from their year-ago levels.

Headline inflation accelerated in February due to higher food and energy prices, but core indices have been more steady and remain relatively low.

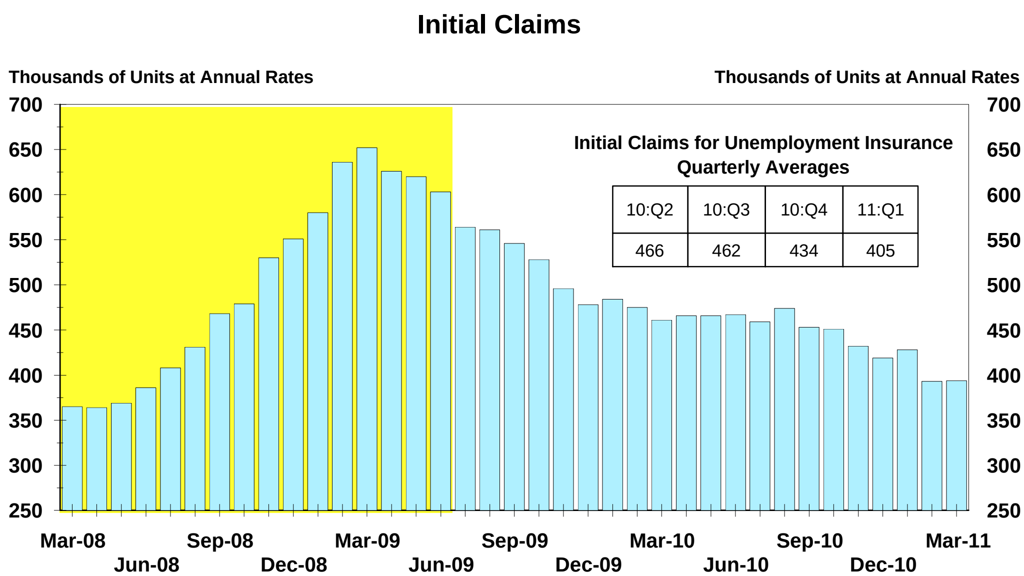
Payroll employment increased by a net 162,000 jobs in March, the sixth consecutive monthly gain. Payroll increases have average about 150,000 per month during that time. The unemployment rate eased further to 8.8% in March, and has fallen one full percentage point since November.





Source: Bureau of Labor Statistics / Haver Analytics.

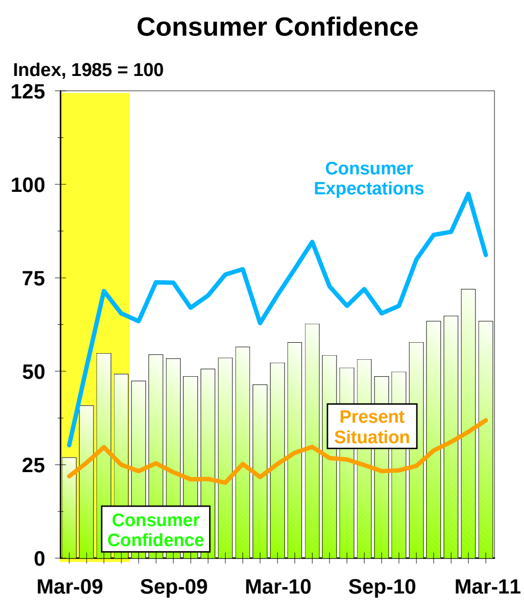
Initial claims for unemployment insurance were essentially unchanged in March, and their first quarter average represents nearly a three-year low.



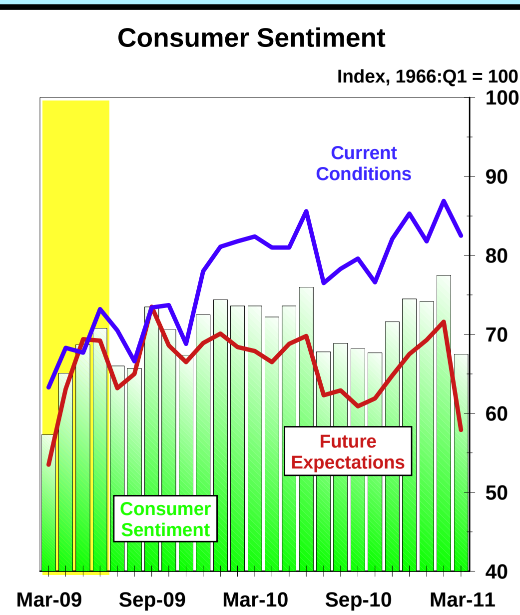
10:Q2	10:Q3	10:Q4	11:Q1
466	462	434	405

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

Primary measures of consumer attitudes deteriorated in March, due primarily to severe decreases in expectations. Consumers were most concerned about rising prices and weaker income prospects, a combination that could impact future spending decisions.

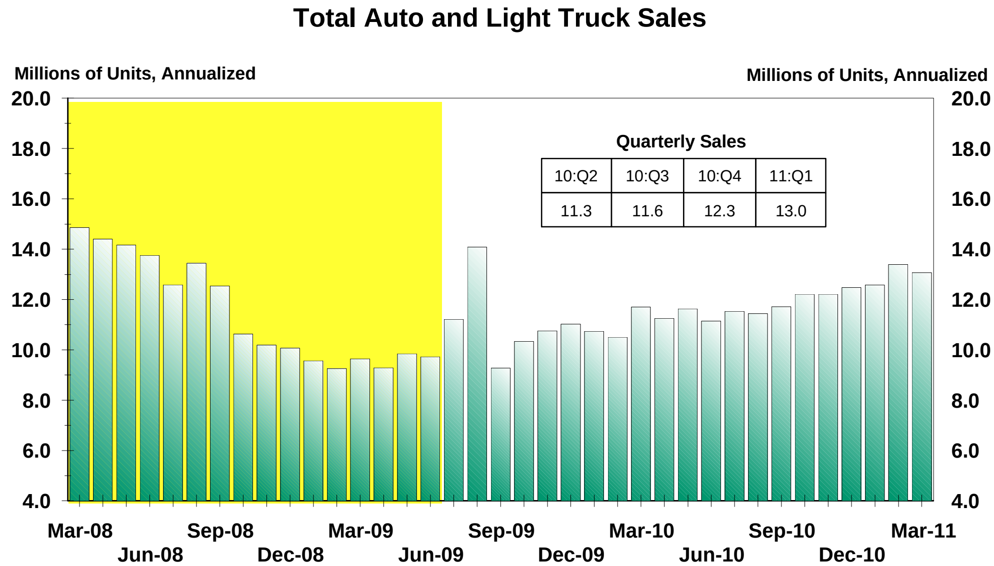


Source: The Conference Board / Haver Analytics.



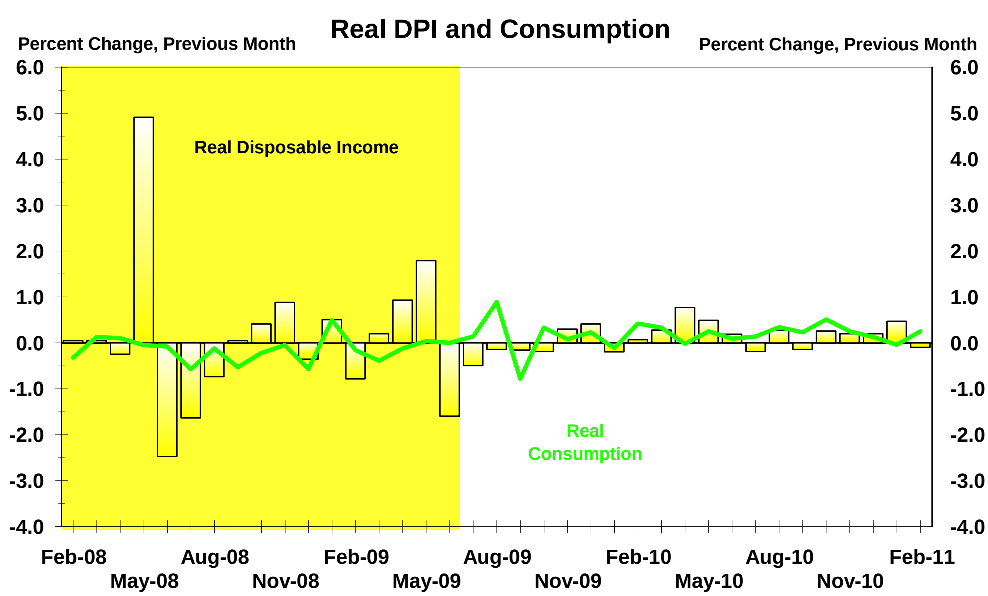
Source: The University of Michigan / Haver Analytics.

Total vehicle sales slowed a bit in March, as an increase in auto sales was more than offset by a larger decrease in truck sales. Despite the lower total sales in March, first quarter sales were the strongest since the second quarter of 2008.



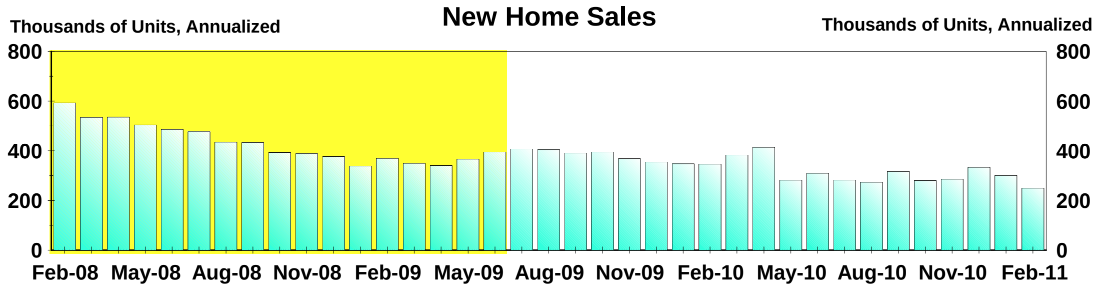
Source: Bureau of Economic Analysis / Haver Analytics.

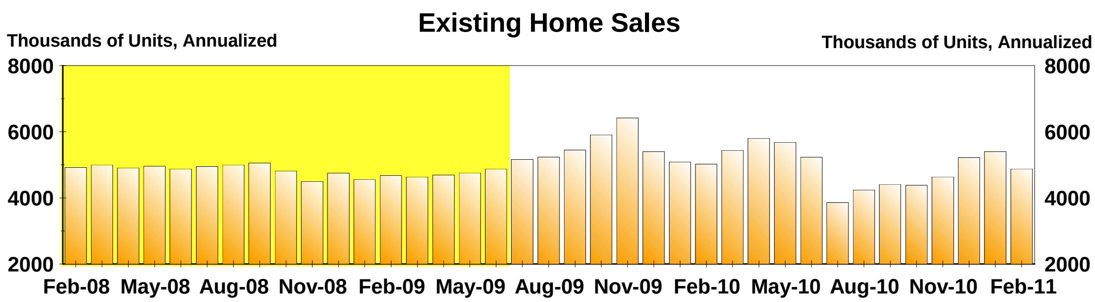
Despite a small decrease in real disposable incomes, consumption rebounded from a flat reading in January to post its ninth increase in the past ten months.



Source: Bureau of Economic Analysis / Haver Analytics.

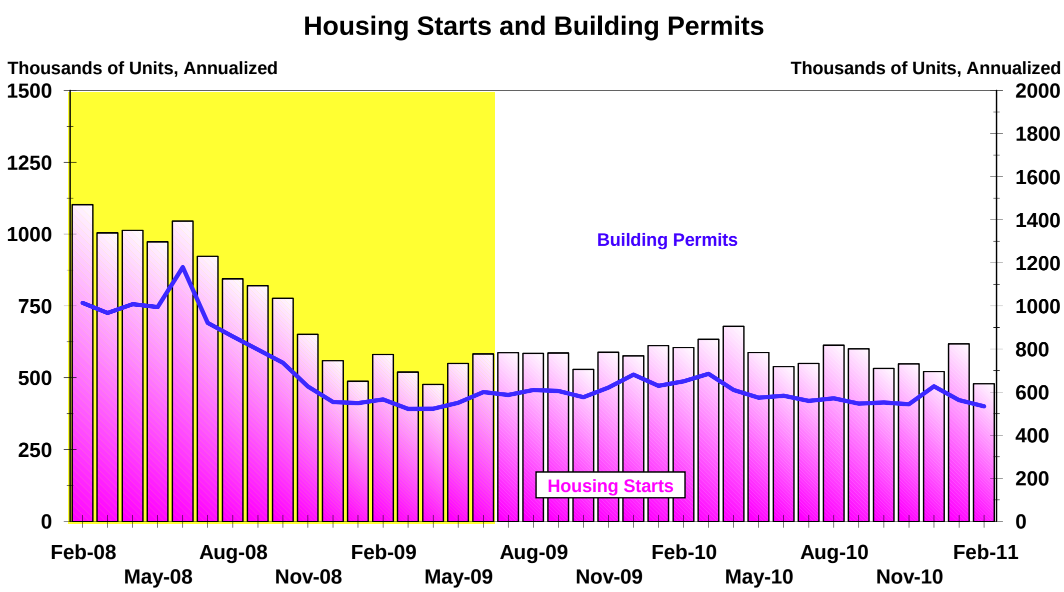
Home sales data continued to disappoint in February, as new homes sold at a record low pace and existing home sales fell almost 10 percent. House prices also continued to fall in January, perhaps leading some potential buyers to simply hold out for a better deal in the months ahead.





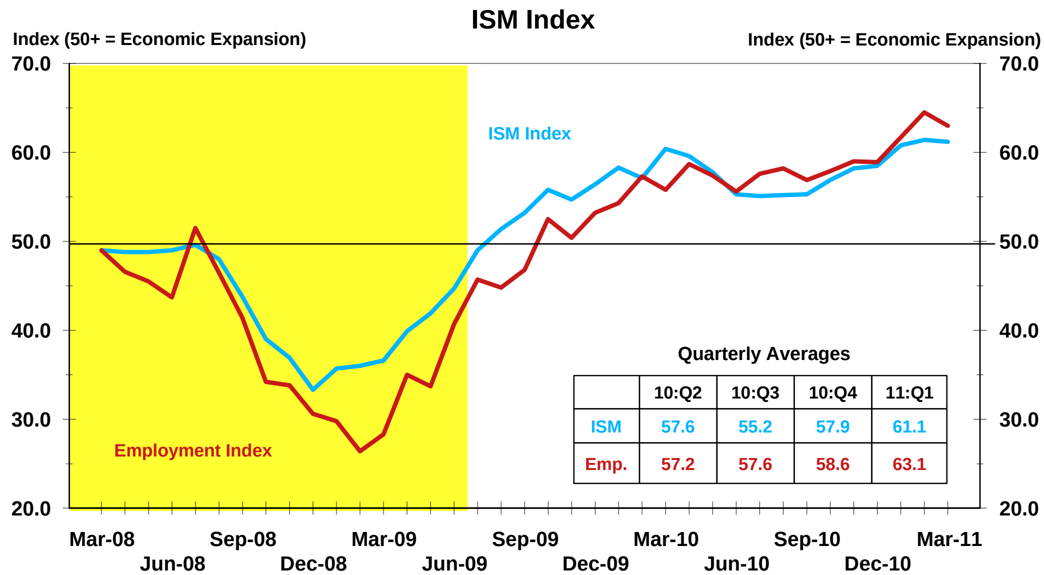
Sources: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

Housing starts fell sharply in February, more than offsetting the strong gain seen in January. Building permits also fell further in February. Both series are now only slightly above the record lows established in the spring of 2009, just before the end of the recession.



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

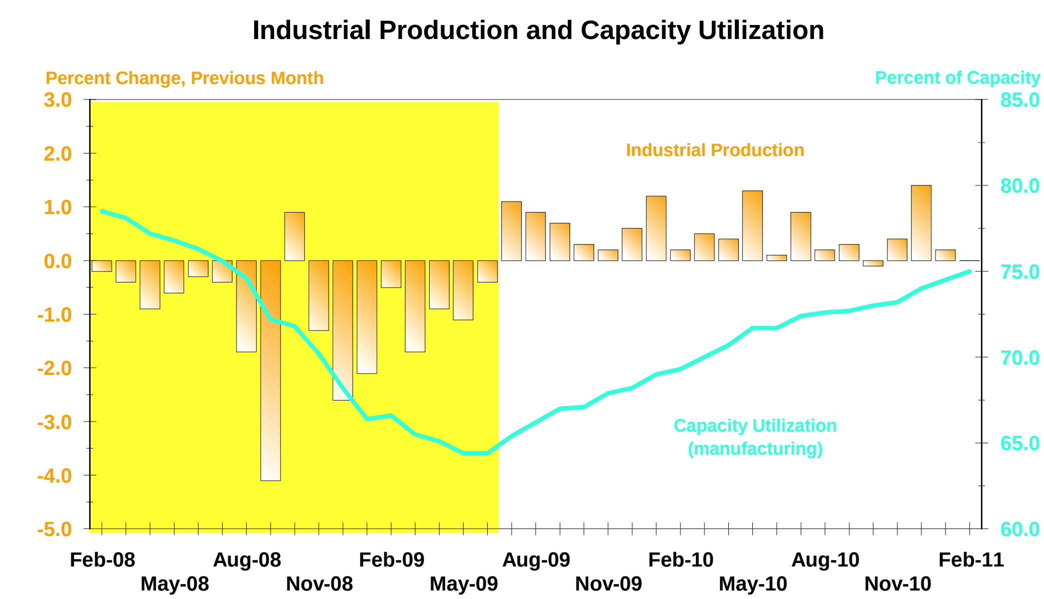
The ISM manufacturing index was essentially unchanged in March, holding above 60 for the third consecutive month and registering its best quarter since 1983. The employment index eased in March, but its first quarter average was the highest since 1973. The manufacturing survey data has provided some of the strongest evidence of the ongoing recovery.



	10:Q2	10:Q3	10:Q4	11:Q1
ISM	57.6	55.2	57.9	61.1
Emp.	57.2	57.6	58.6	63.1

Source: Institute of Supply Management / Haver Analytics.

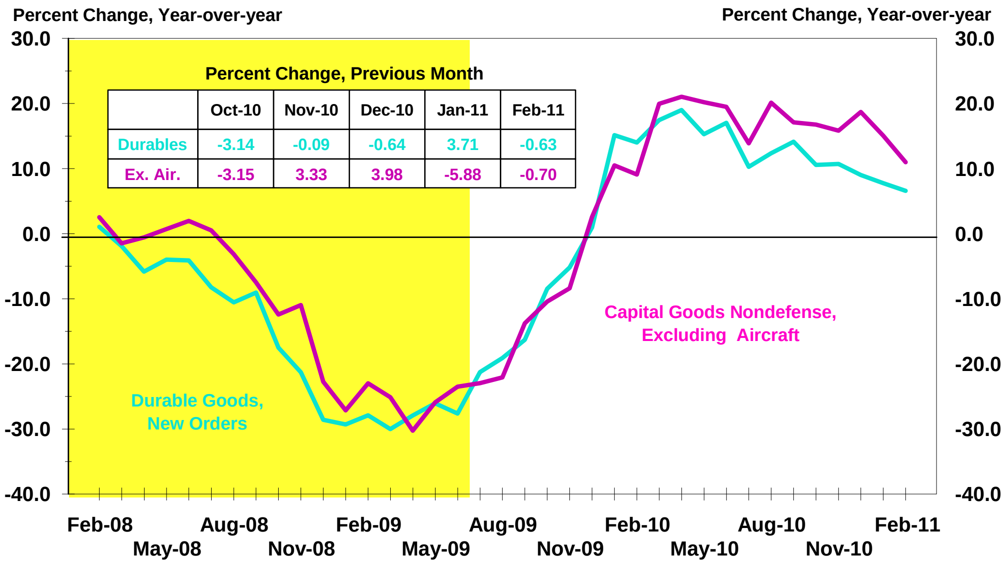
Industrial production was flat in February, following three consecutive monthly gains. Despite all the improvement seen over the past 20 months, production has recouped only 55% the losses experienced during the recession. Capacity utilization improved further in February, reaching its highest level since August 2008.



Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods fell slightly in February from January, and have fallen in four of the last five months overall. Orders of nondefense capital goods, excluding aircraft, also fell a bit in February. While the year-over-year gains for both series have continued, those increases have been consistently slowing over the past ten months.

Durable Goods Orders

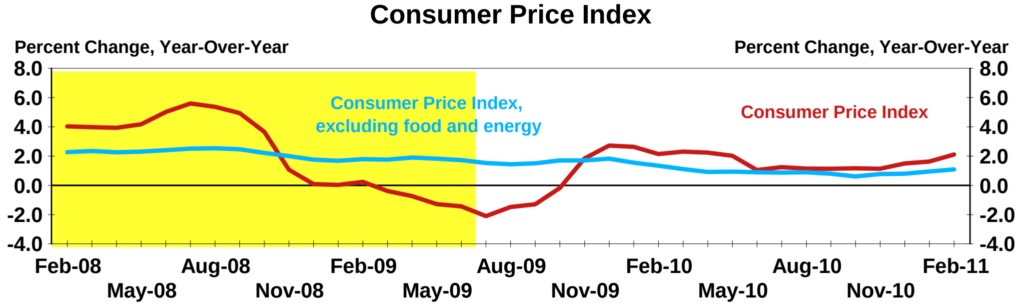


	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Durables	-3.14	-0.09	-0.64	3.71	-0.63
Ex. Air.	-3.15	3.33	3.98	-5.88	-0.70

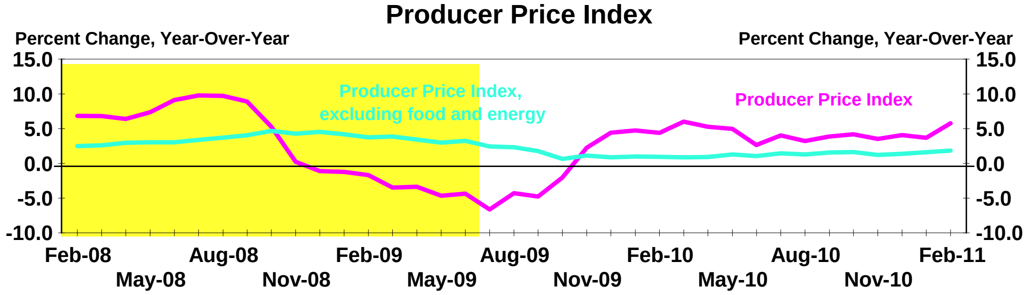
Source: U.S. Census Bureau / Haver Analytics.

Total inflation accelerated in February, led by higher food and energy prices. To date there is no evidence of those effects having passed through to core inflation, as those measures have picked up only a bit over the past few months and remain relatively low.

Consumer Price Index

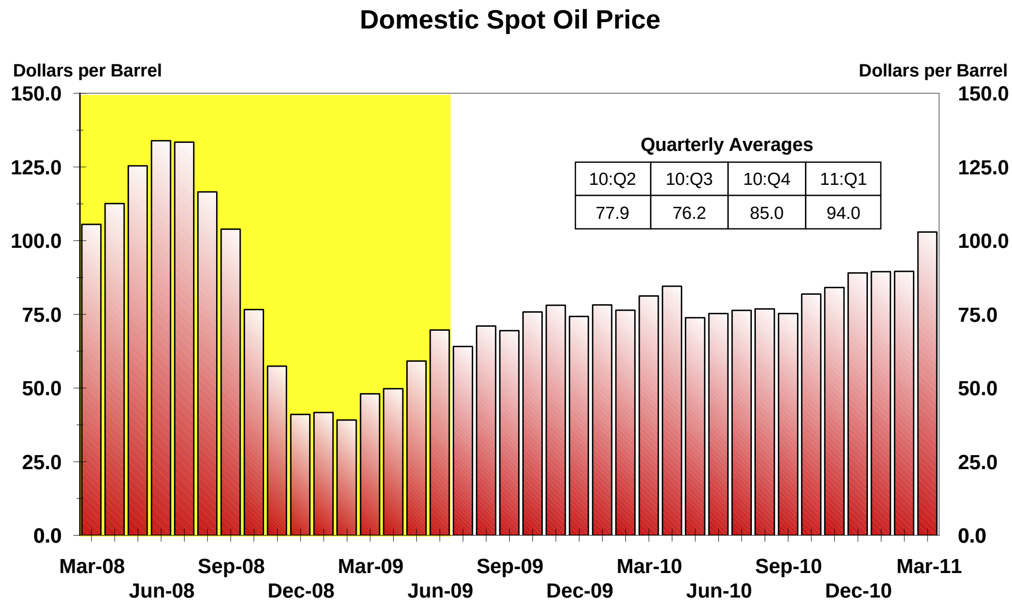


Producer Price Index



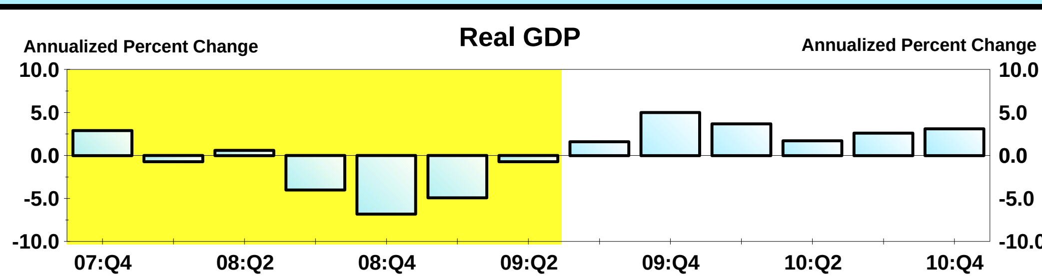
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose sharply in March, amid rising concerns that political issues in the Middle East could disrupt supply lines. Average prices in March were the highest since September 2008.



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the final fourth quarter estimate. The higher rate primarily reflects upward revisions to private inventory investment and nonresidential investment that were partly offset by a downward revision to exports.

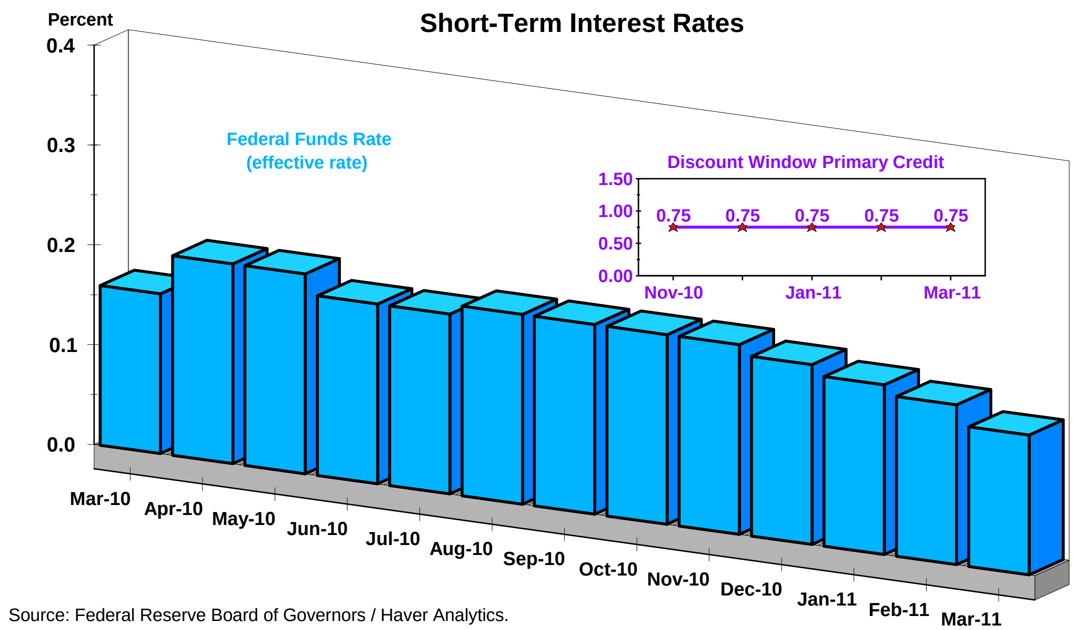


Fourth Quarter Revisions

Description	Second Estimate	Third Estimate
Real GDP	2.8	3.1
Personal Consumption	4.1	4.0
Business Investment	5.3	7.7
Equipment and Software	5.5	7.7
Residential Investment	2.8	3.3
Government	-1.5	-1.7
Exports	9.6	8.6
Imports	-12.4	-12.6
Final Sales	6.7	6.7

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting suggest the economy grew further during the first quarter, but most likely by a smaller amount than seen during the fourth quarter as recent expectations of first quarter growth have been revised downward. Labor markets have shown signs of more consistent improvement, but consumers are dealing with the effects of higher gas prices and the housing market continues to disappoint. Also, while manufacturing continues to be a key source of support, recent data has come in below expectations.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

April 14, 2011

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

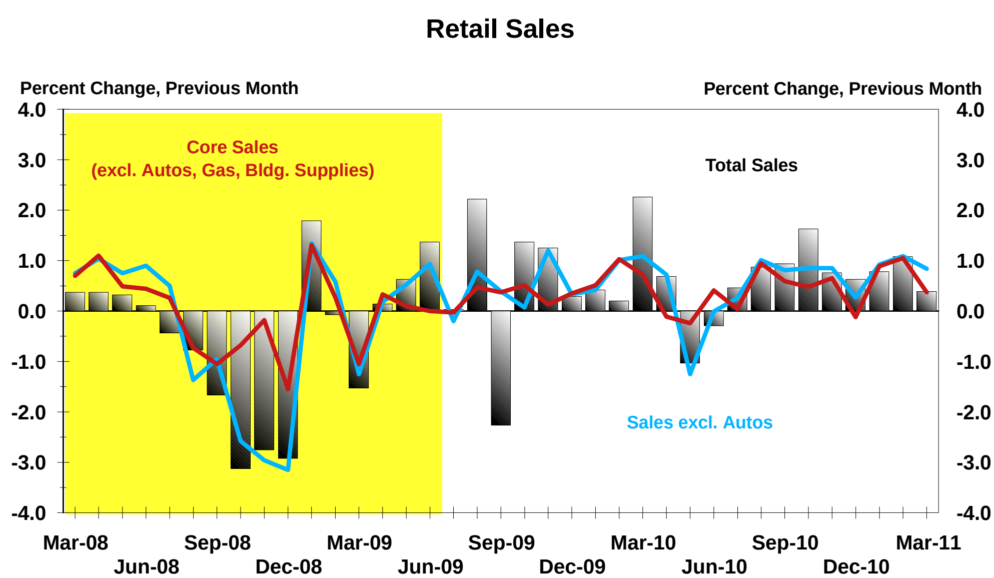
The past week was relatively quiet in terms of data releases, with the biggest news being the budget agreement and aversion of a government shutdown. The most prominent data release showed retail sales rising again in March, completing a solid first quarter. "Core" sales (sales excluding vehicles, gasoline, and building supplies) grew 1.9% in the first quarter, their best quarter in five years.

The U.S. international trade deficit narrowed by 2.6% in February to $45.8 billion, as a 1.7% decrease in imports more than offset a 1.4% decline in exports. The deficit in January was revised slightly wider, to $47.0 billion from $46.3 billion. In March, import prices rose 2.7% and prices for exports advanced 1.5%. The increase in import prices was the largest since June 2009, and was due primarily to higher fuel prices.

Wholesale inventories rose 1.0% in February, while business inventories advanced 0.5% during the month. Conversely, wholesale trade fell 0.8% and business sales increased only 0.2% in February, after rising by at least 1.5% in each of the previous four months.

Redbook sales rose 0.9% through the first two retail weeks of April, compared to March, and were up 4.7% from the same period last year. Oil prices increased over the past week, averaging $109.6 per barrel compared to last week's average of $107.1.

Retail sales rose for the ninth consecutive month in March, due primarily to higher gas prices. Sales excluding gas rose only 0.1%. Sales excluding autos and core sales also continued to rise in March, but like total sales, the increases were smaller than those seen in January and February.



Source: Census Bureau / Haver Analytics.