FEDERAL RESERVE BANK OF BOSTON™

The

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

April 5, 2012

Current Economic Developments - April 5, 2012

Data released since your last Directors' meeting suggest the economy grew further during the first quarter, but likely at a lower rate than seen during the fourth quarter. Labor markets have continued to improve, contributing to better consumer attitudes and increased consumption. Downside risks associated with fiscal issues in Europe and rising energy costs have eased somewhat, and the economy continues on track to grow at a moderate pace in the first half of the year.

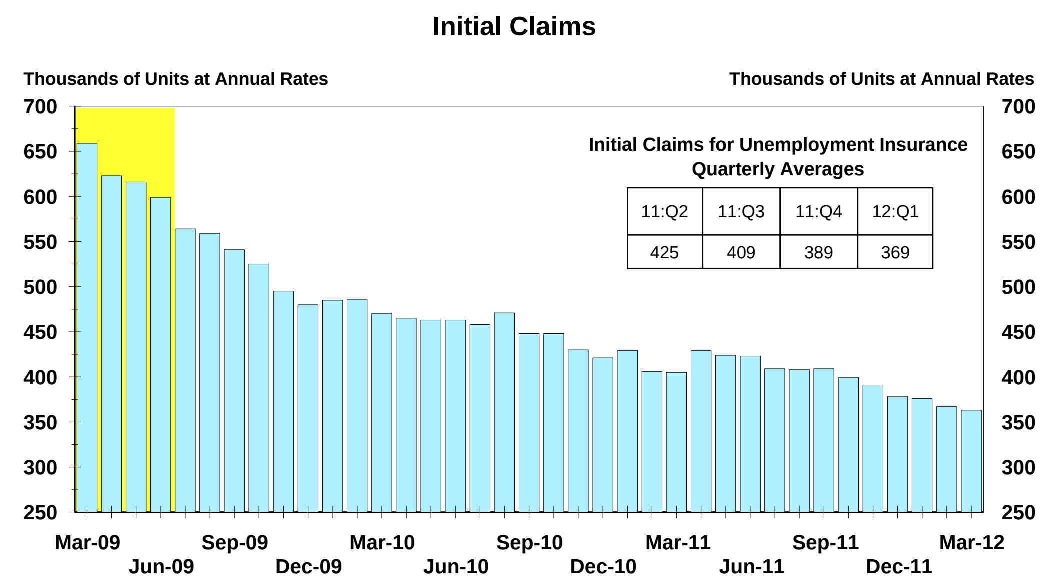
In March, initial claims for unemployment insurance continued to fall and consumer attitudes were mixed, though the improving employment conditions boosted optimism about current conditions. Vehicle sales slowed in March but finished the first quarter with their best quarterly sales pace in four years. In February, real consumption increased again despite falling real incomes.

The housing market took a step back in February, but overall has started the year on a more positive note then seen since the end of the recession. Existing home sales eased slightly in February, but have had their best start to a year since 2007. New home sales also decreased in February and are down overall this year, following a strong fourth quarter. New residential construction data was mixed in February, with permits up to their highest level in over three years while starts eased somewhat.

In the business sector, the ISM index rose in March for the fourth time in five months, a sign that manufacturing is still expanding. In February, industrial production was flat while capacity utilization rose further. New orders for durable goods increased in February, as did orders for nondefense capital goods excluding aircraft. However, the lower than expected increase in "core" orders fell short of offsetting the prior month's decrease, suggesting first quarter business investment will be lower than previously anticipated.

Headline inflation accelerated in February due to higher energy prices, but core indices have eased slightly and remain more steady.

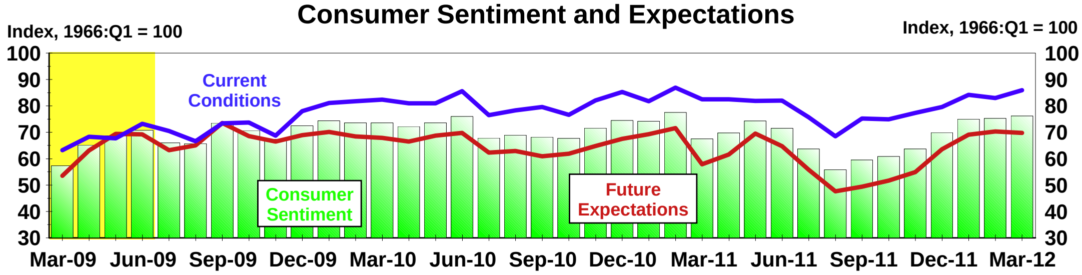
Initial claims for unemployment insurance continued to decrease in March, falling to their lowest level in nearly four years.



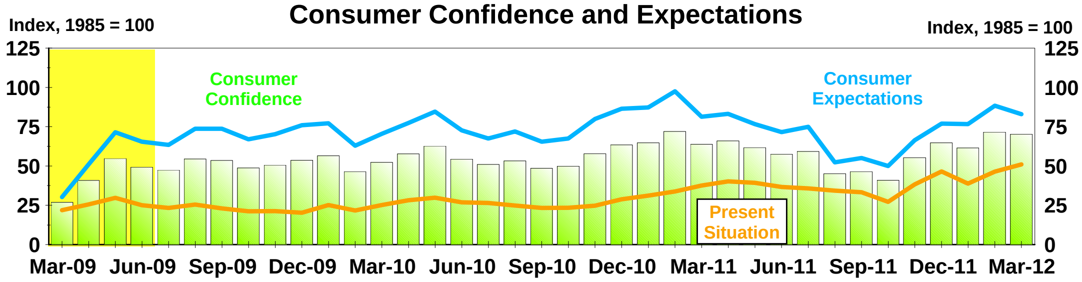
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in March, but overall have started the year on a more positive note. Sentiment increased in March for the seventh month in a row, and though confidence dipped from its 12-month high in February, its first quarter average was the highest in four years. Consumers were more optimistic about current economic conditions, specifically in the labor market, but less optimistic about short-term economic conditions.

Consumer Sentiment and Expectations



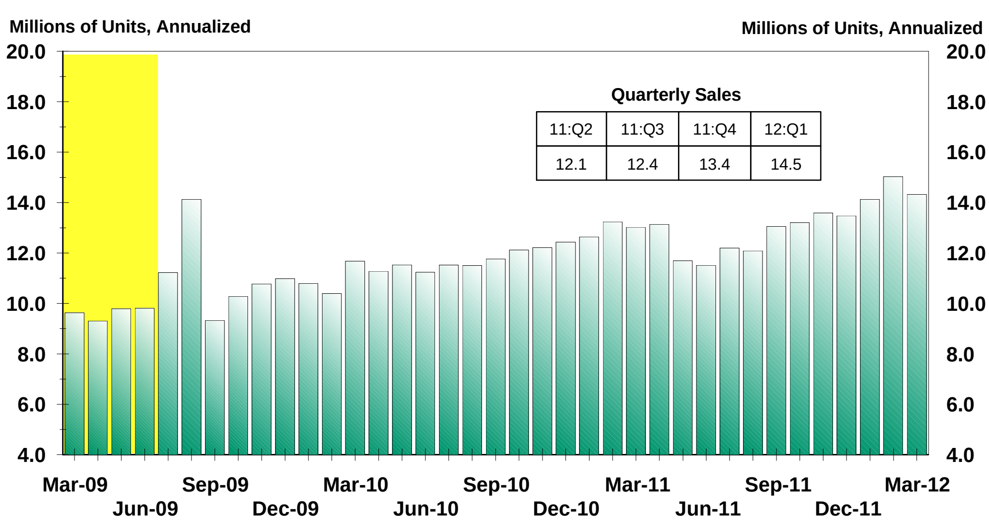
Consumer Confidence and Expectations



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

Total vehicle sales were below expectations in March, and down from the four-year high seen in February. Despite the lower total sales in March, first quarter sales were the strongest since the first quarter of 2008, due in part to more favorable economic conditions, more fuel-efficient vehicles, and unseasonably warm weather.

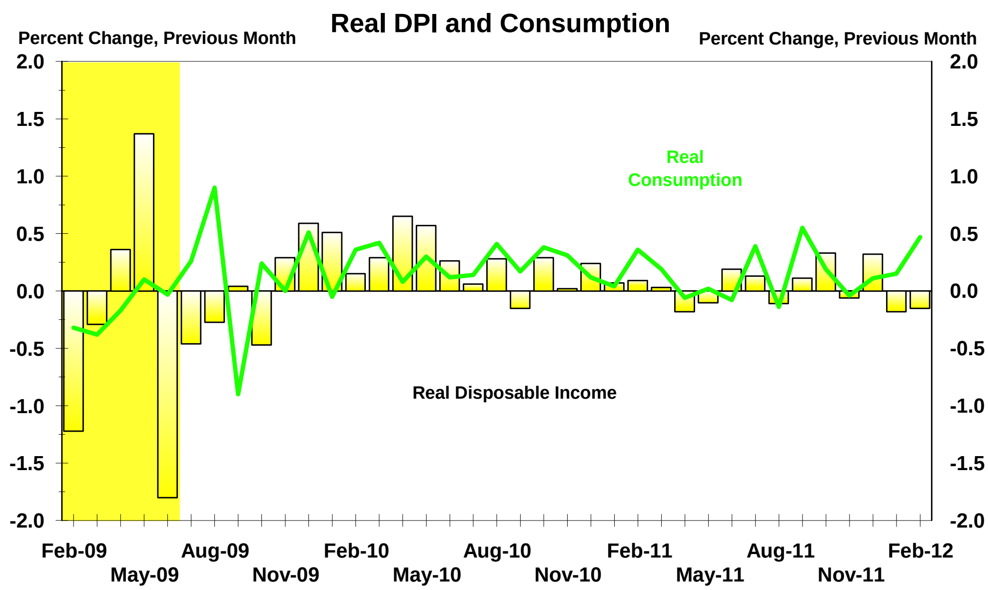
Total Auto and Light Truck Sales



11:Q2	11:Q3	11:Q4	12:Q1
12.1	12.4	13.4	14.5

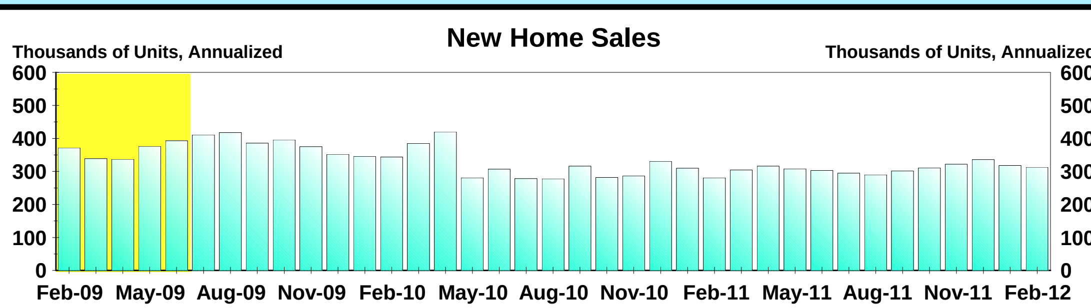
Source: Bureau of Economic Analysis / Haver Analytics.

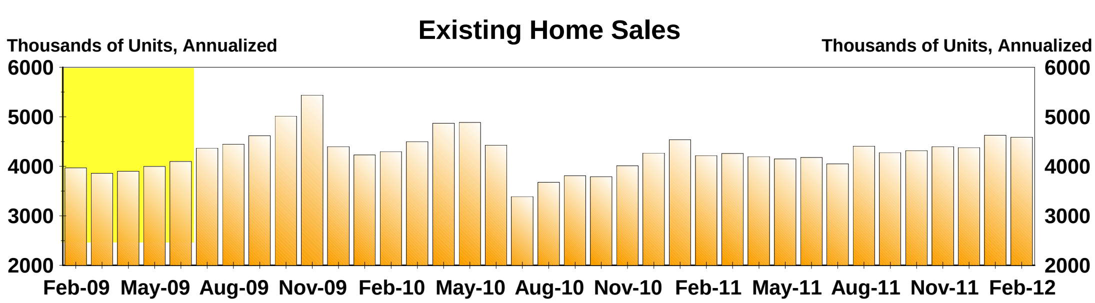
Real disposable income declined again in February, and has now fallen in three of the past four months. Despite the decreases, real consumption continued to rise in February. Given those disparate measures, the personal saving rate fell to match its lowest level since 2007.



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales declined slightly in February, from a level in January that was also revised lower. Sales in December, however, were revised sharply higher, resulting in fourth quarter sales that were the highest since the spring of 2010. Sales of existing homes also eased in February, but still managed their best start to a year since 2007.

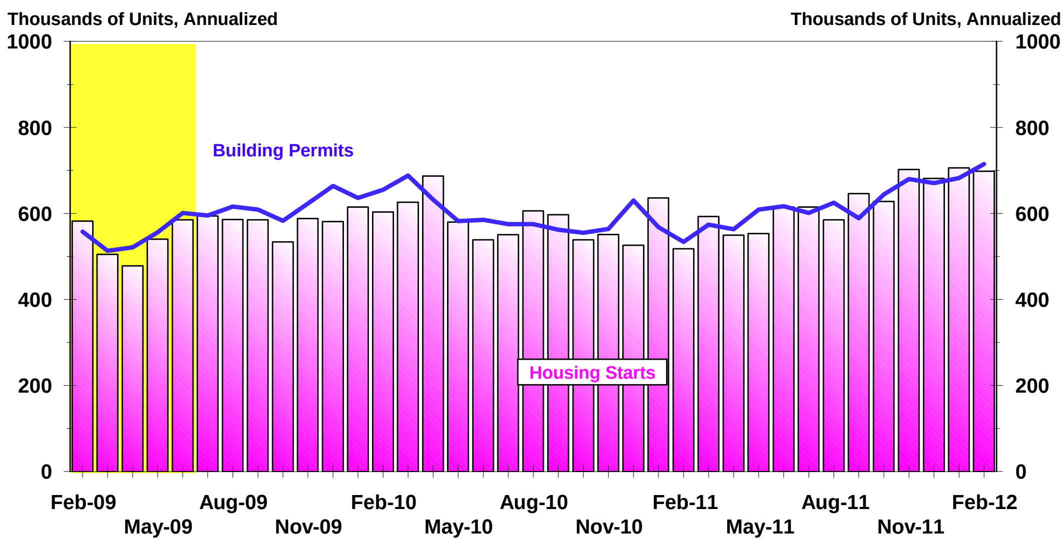




Sources: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

Housing starts fell in February, due to a sharp decline in single-family starts, likely the effect of seasonal weather changes. However, the average of starts since November is the highest four-month average since the end of 2008. Building permits increased in February to the highest level since October 2008.

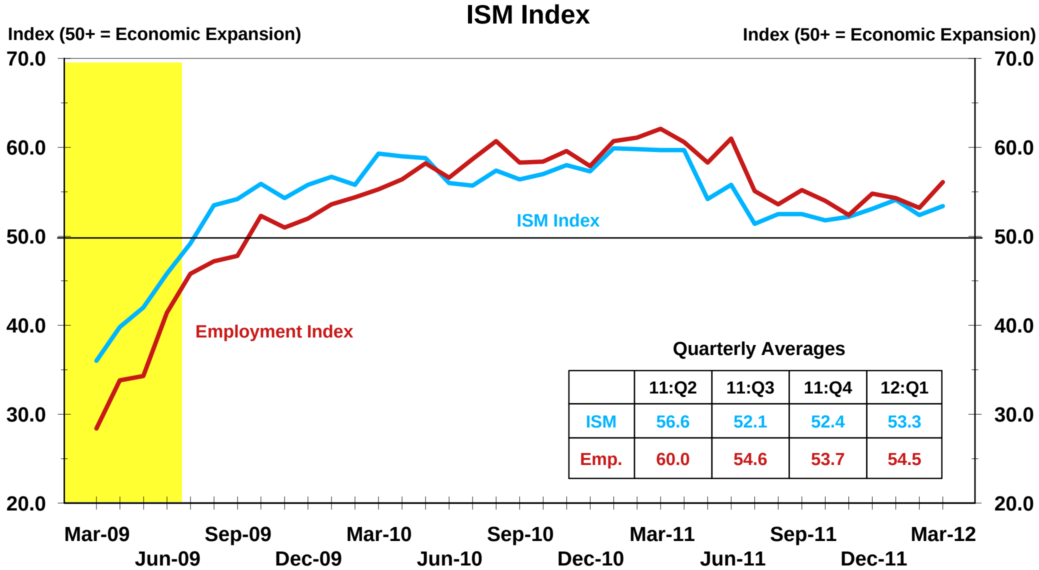
Housing Starts and Building Permits



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

The ISM manufacturing index rose in March, marking its fourth increase in the past five months. The employment index also increased sharply in March, reaching its highest level since June. The index continues to signal that the manufacturing sector is expanding, further evidence of the key role it has played in the ongoing recovery.

ISM Index



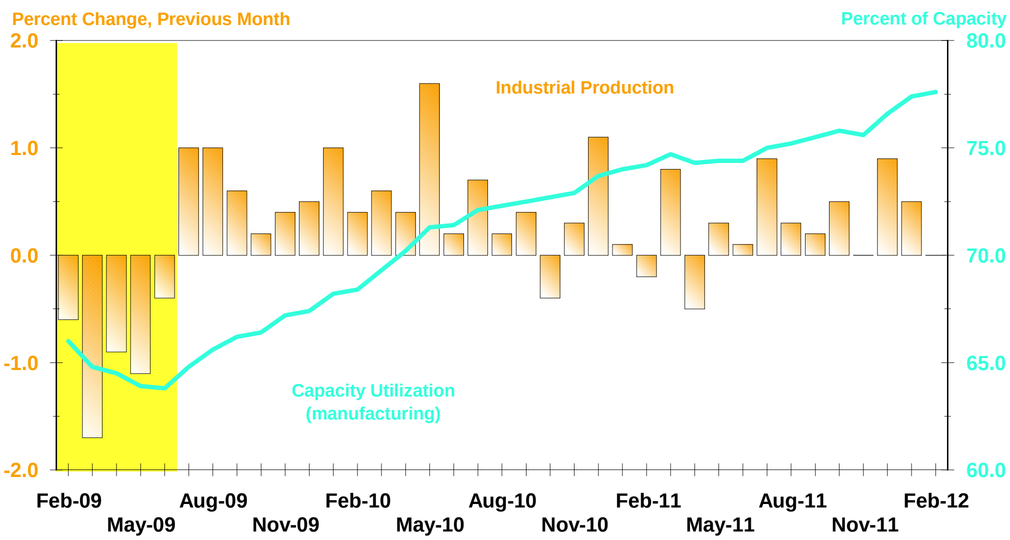
Quarterly Averages

	11:Q2	11:Q3	11:Q4	12:Q1
ISM	56.6	52.1	52.4	53.3
Emp.	60.0	54.6	53.7	54.5

Source: Institute of Supply Management / Haver Analytics.

Industrial production was unchanged in February, but from a level in January that was revised higher. The continuing warm weather kept demand for heating fuels low, resulting in a slight decrease in utilities production. Capacity utilization improved further in February, reaching its highest level since February 2008.

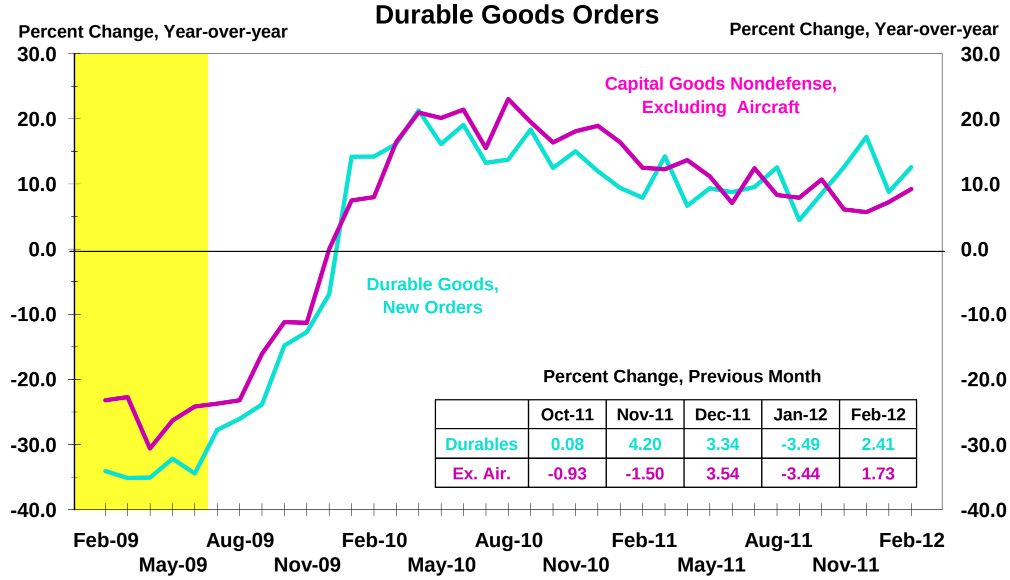
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods rose in February, marking their fourth increase in the past five months. Orders of nondefense capital goods excluding aircraft also rose in February, but the increase was weaker than anticipated and fell well short of offsetting the decrease seen in January. Both series continued to post moderate year-over-year gains.

Durable Goods Orders

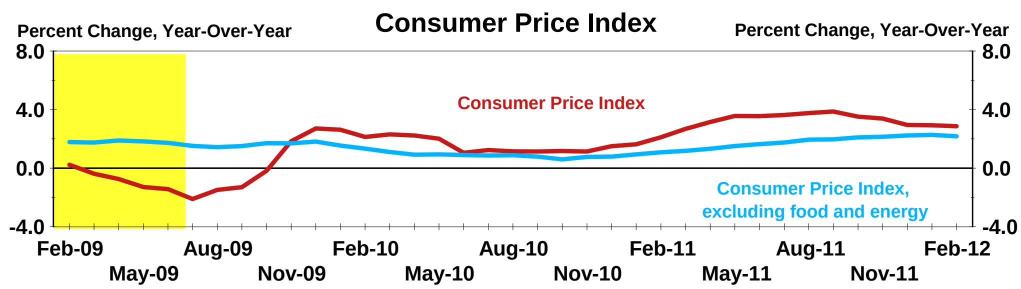


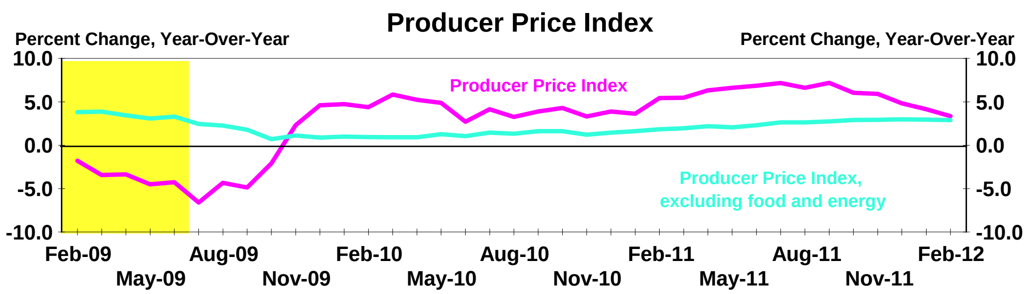
Percent Change, Previous Month

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12
Durables	0.08	4.20	3.34	-3.49	2.41
Ex. Air.	-0.93	-1.50	3.54	-3.44	1.73

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

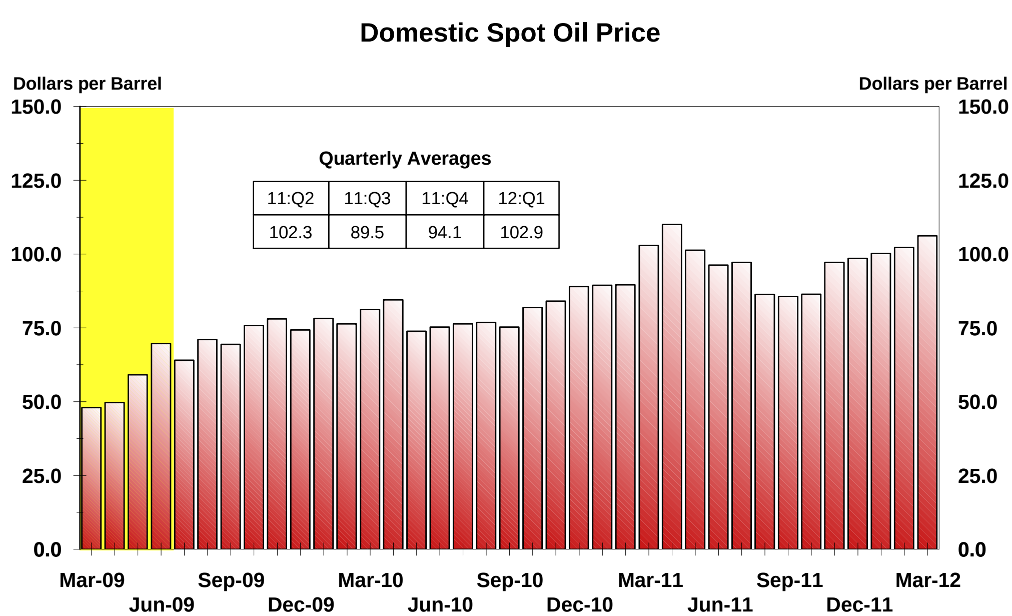
Total consumer prices continued to ease in February on a year-over-year basis, despite a sharp increase from January due to rising gas prices. Excluding the effect of the higher energy costs, core CPI eased in February, both monthly and year-over-year. Producer price measures underwent similar changes. The 12-month change in total prices continued its downward trend while core inflation held mostly steady.





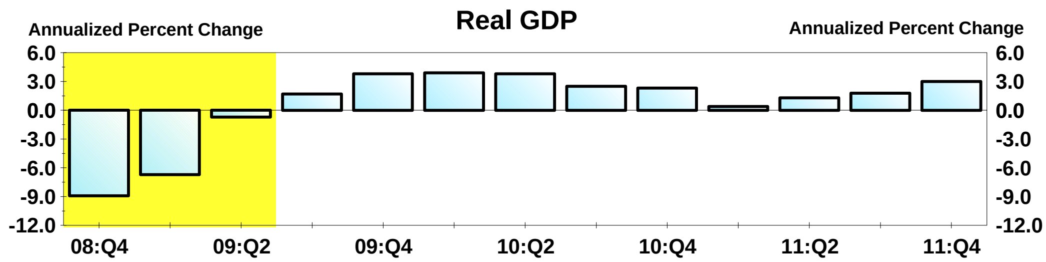
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices continued to rise in March, amid ongoing supply concerns stemming from geopolitical tension in the Middle East. March prices were the highest since April 2011, and the first quarter average was the highest since the third quarter of 2008.



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was unrevised in the final fourth quarter estimate, primarily reflecting a downward revision to exports that was offset by an upward revision to nonresidential fixed investment. The other primariy components of GDP were either unchanged or underwent only minor revisions.

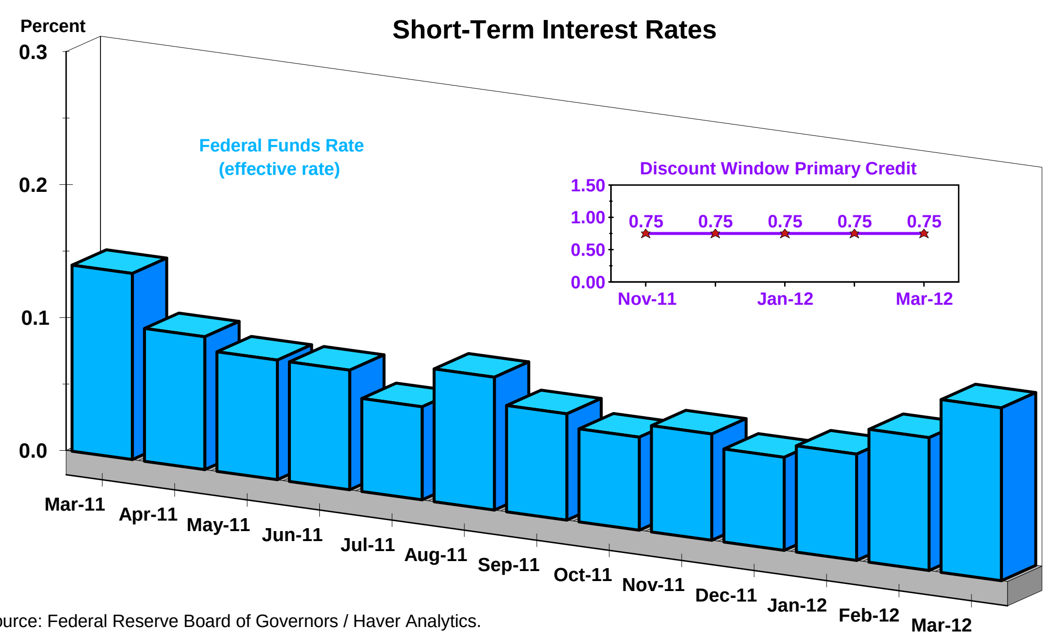


Fourth Quarter Revisions

Description	Second Estimate	Third Estimate
Real GDP	3.0	3.0
Personal Consumption	2.1	2.1
Business Investment	2.8	5.2
Equipment and Software	4.8	7.5
Residential Investment	11.5	11.6
Government	-4.4	-4.2
Exports	4.3	2.7
Imports	3.8	3.7
Final Sales	1.1	1.1

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 likely at a lower rate than seen during the fourth quarter. Labor markets have continued to improve, contributing to better consumer attitudes and increased consumption. Downside risks associated with fiscal issues in Europe and rising energy costs have eased somewhat, and the economy continues on track to grow at a moderate pace in the first half of the year.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

April 12, 2012

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

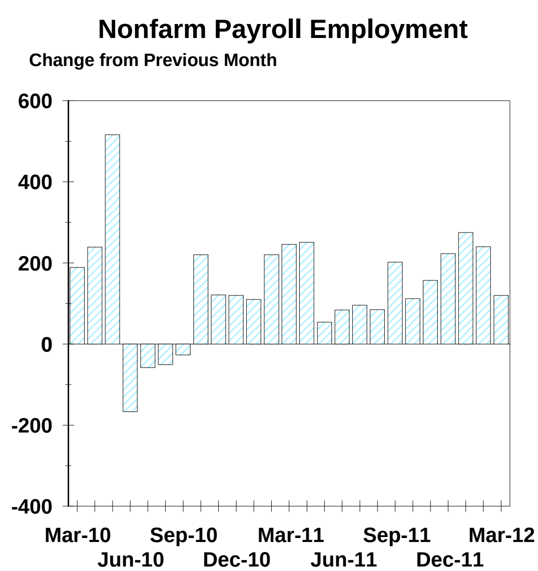
Nonfarm payrolls grew well below expectations, adding 120,000 jobs in March, the smallest monthly increase since October 2011. However, in the first quarter overall, payrolls added 676,000 jobs, it's strongest quarter in six years. The unemployment rate fell to 8.2% in March, due primarily to a sizeable decrease in the labor force, which more than outweighed a small drop in civilian employment.

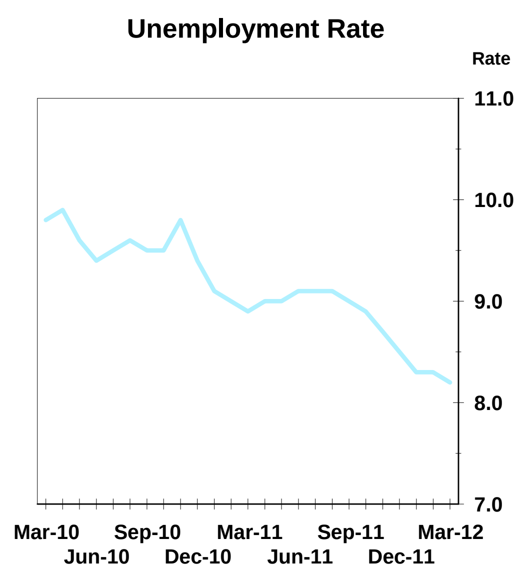
In March, import prices rose 1.3%, following a downwardly revised 0.1% decrease in February. The March increase was the first since November and was mainly due to rising oil prices. Prices for exports advanced 0.8% in March, the third monthly increase this year.

Wholesale inventories rose 0.9% and wholesale trade rose 1.2% in February, both from upwardly revised January numbers. The inventory/sales ratio held at 1.17 for the fifth consecutive month in February.

Redbook sales rose 0.8% through the first retail week of April, compared to March, and were up 4.1% from the same period last year. Oil prices decreased over the past week, averaging $102.1 per barrel compared to last week's average of $104.1.

Payroll employment increased by 120,000 jobs in March, well below expectations and the weakest gain in five months. Despite March's disappointing results, payrolls grew an average of 212,000 jobs per month in the first quarter, up from an average of 164,000 in the fourth quarter. The unemployment rate eased further to 8.2% in March, due to a decline in the labor force.





Source: Bureau of Labor Statistics / Haver Analytics.