FEDERAL RESERVE
BANK OF BOSTON™

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

August 3, 2012

CURRENT ECONOMIC DEVELOPMENTS - August 3, 2012

Data released since your last Diretors' meeting show economic growth slowed in the second quarter, and growth is not expected to pick up significantly over the next few quarters. While recent signs of improvement in the housing market provide some optimism, softness in the labor market and declining contributions from manufacturing are likely to restrain growth in the near term. Additionally, the downside risks stemming from domestic fiscal issues and the European debt crisis continue to shed some uncertainty on the outlook.

In July, nonfarm payrolls posted their biggest gain since February, but gains in the previous two months were revised down slightly on net. The unemployment rate increased one-tenth of a percentage point in July to reach a five-month high. Initial claims eased in July, and were well below their second quarter average.

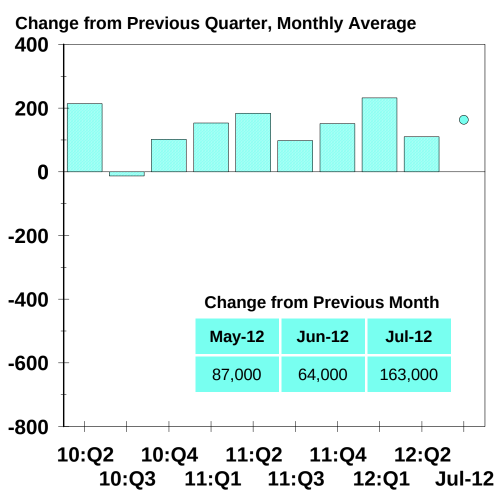
The deceleration in real GDP in the second quarter primarily reflected a deceleration in PCE, an acceleration in imports, and decelerations in residential fixed investment and in nonresidential fixed investment that were partly offset by an upturn in private inventory investment, a smaller decrease in federal government spending, and an acceleration in exports.

Consumer attitudes were mixed in July due to disparate short-term outlooks, but concerns about current job and income conditions were evident in both surveys. Data from the manufacturing sector also came in mostly on the negative side. The ISM index remained below 50 in July, and industrial production and durable goods orders both slowed in the second quarter.

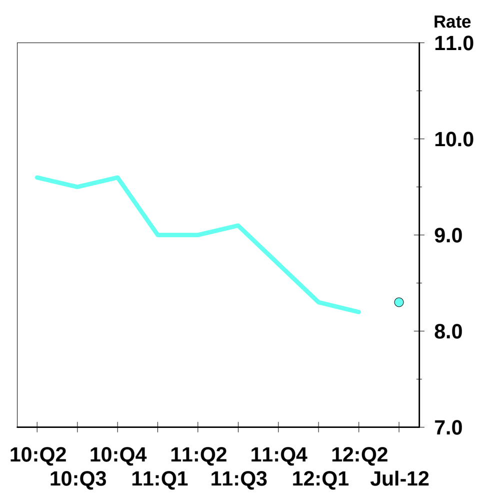
Headline inflation measures eased in the second quarter as oil and gasoline prices fell, and core measures held mostly steady. Compensation costs, as measured by the ECI, also slowed down due to smaller growth in benefit costs. Oil prices ticked up in July after falling steadily in the second quarter.

Nonfarm payrolls added 163,000 jobs in July, while job gains for the previous two months were revised smaller by 6,000. July's gain was the biggest since February, but the unemployment rate still rose one-tenth of a percent to 8.3%. The uptick in the unemployment rate was due primarily to a moderate drop in civilian employment, which outpaced a smaller decline in the size of the labor force.

Nonfarm Payroll Employment

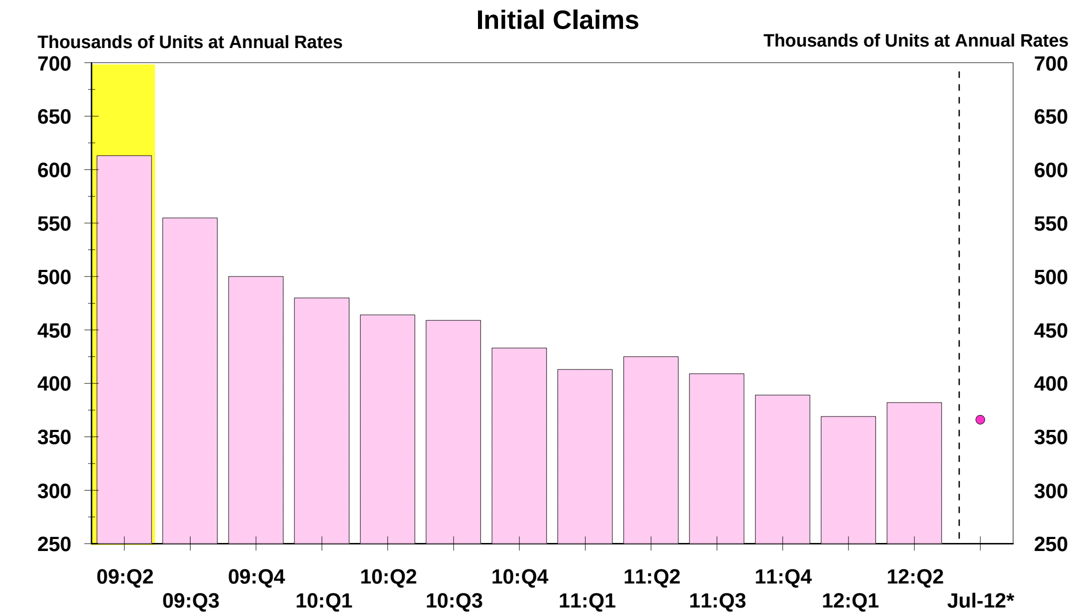


Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytcis.

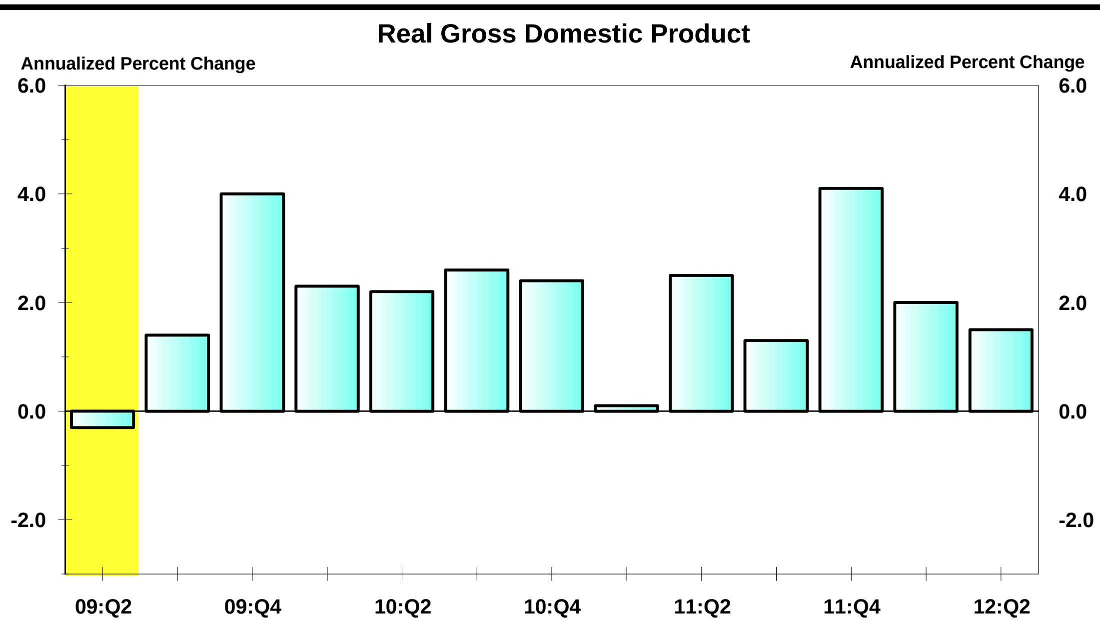
Initial claims for unemployment insurance fell on average in July, reaching their lowest level since March. Previously, elevated levels in the second quarter marked a shift away from the downward trend seen over the previous eleven months.



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

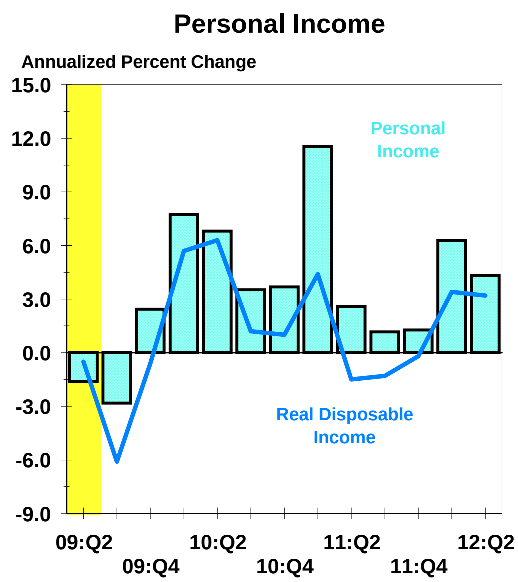
* 4-wk. ave. ending July 28

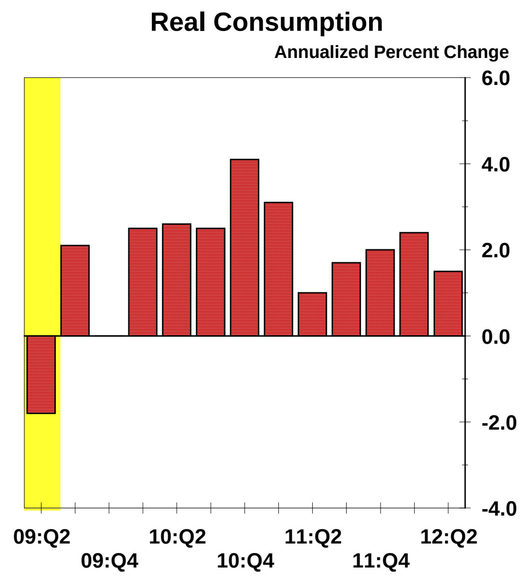
Real GDP growth decelerated in the second quarter to 1.5%, its slowest rate since 2011:Q3, following a 2.0% growth rate in the first quarter. Growth through the first half of the year has averaged only 1.8%, well below the upwardly revised 4.1% growth seen in the fourth quarter of 2011, but little changed from the 2.0% average growth over all four quarters of 2011.



Source: Bureau of Economic Analysis / Haver Analytics.

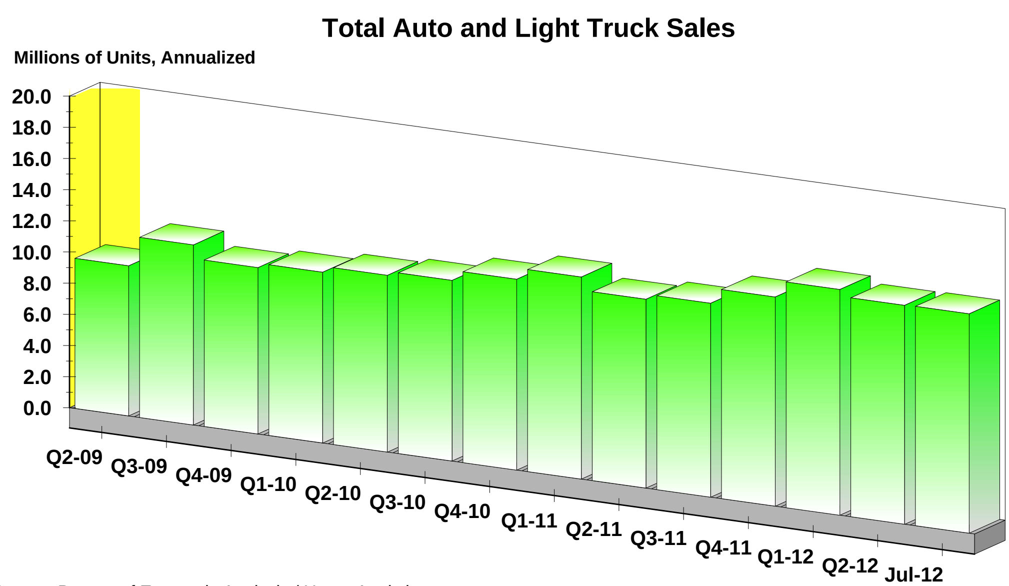
Both nominal and real disposable income growth eased in the second quarter, after posting strong gains in the first quarter. Consumption growth also slowed in the second quarter, after accelerating in each of the three previous months. Without more growth in either jobs or income, consumption is unlikely to improve much in the near term.





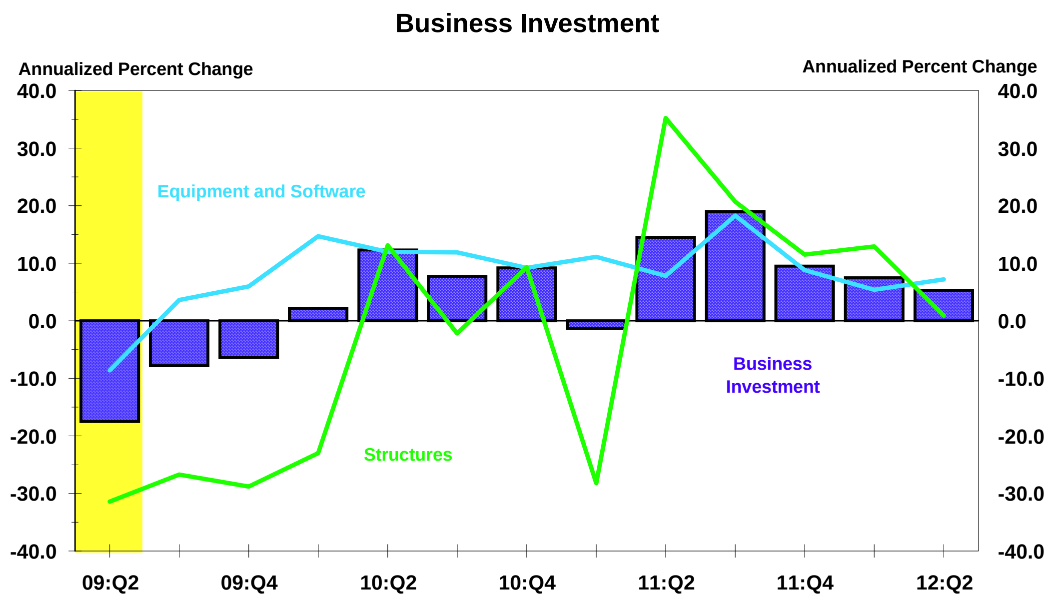
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales eased in July from June, but were little changed from their second quarter average. The small decline in sales in July were due primarily to lower sales to rental car companies, especially for General Motors and Ford. Demand from individual consumers has been mostly steady this year, with a continued focus on more fuel efficient vehicles.



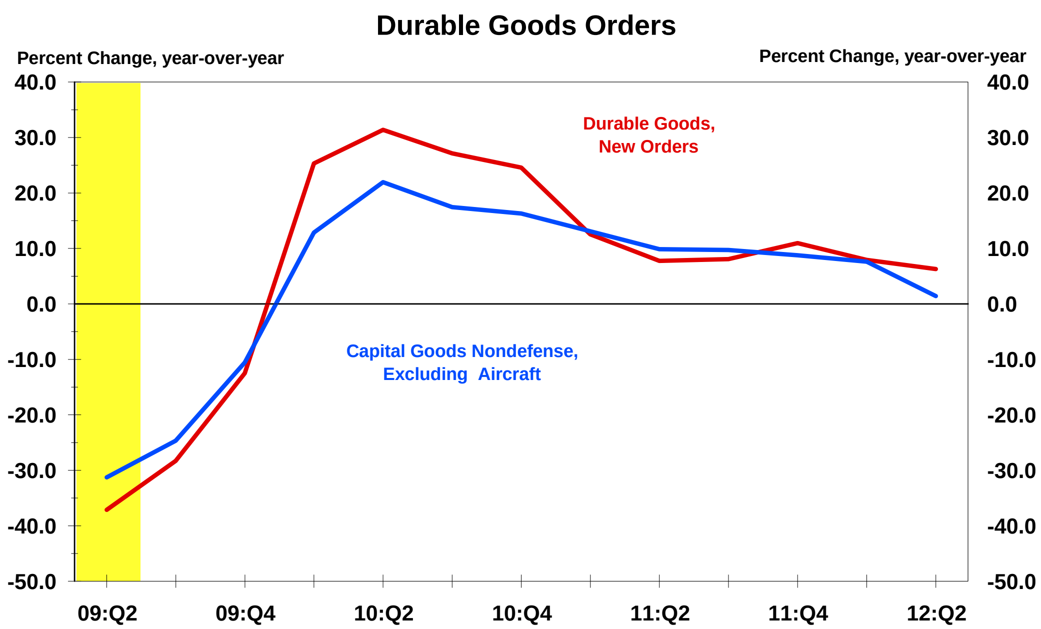
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment decelerated in the second quarter, due largely to a deceleration in investment in structures. Equipment and software investment improved a touch in the second quarter, up slightly from a first quarter pace that was the slowest in two and a half years.



Source: Bureau of Economic Analysis / Haver Analytics.

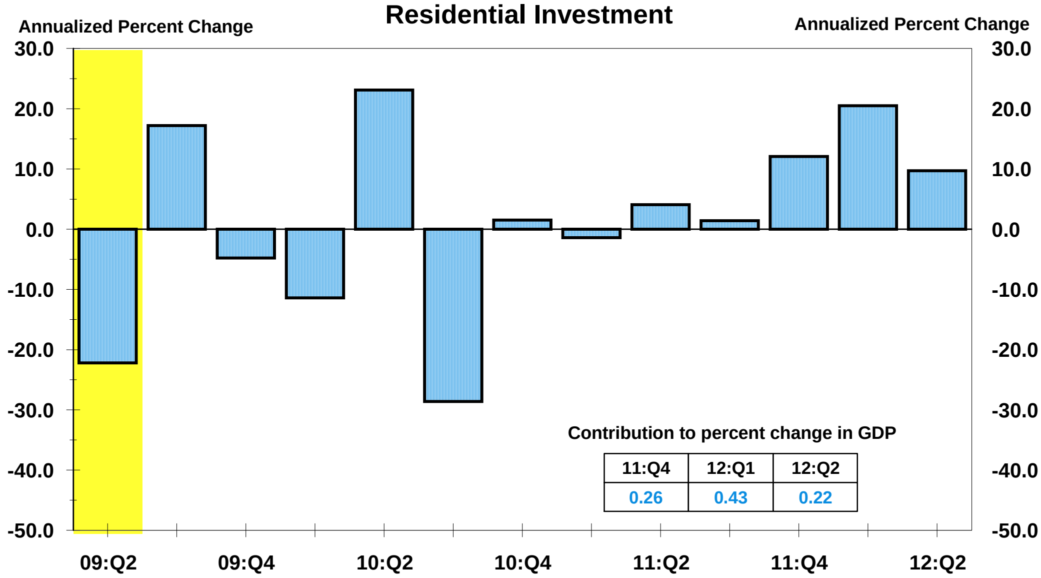
In the second quarter, durable goods orders and orders for nondefense capital goods, excluding aircraft, both posted year-over-year gains that were the smallest so far in this recovery. Gains for core orders have been decreasing steadily for the past two years.



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

Residential investment posted a solid increase in the second quarter, as it had over the previous two quarters, although growth slowed from the nearly two year high seen in the first quarter. Residential investment has provided a small boost to GDP over the past three quarters, following a period of no impact, on average, over the first two years of the recovery.

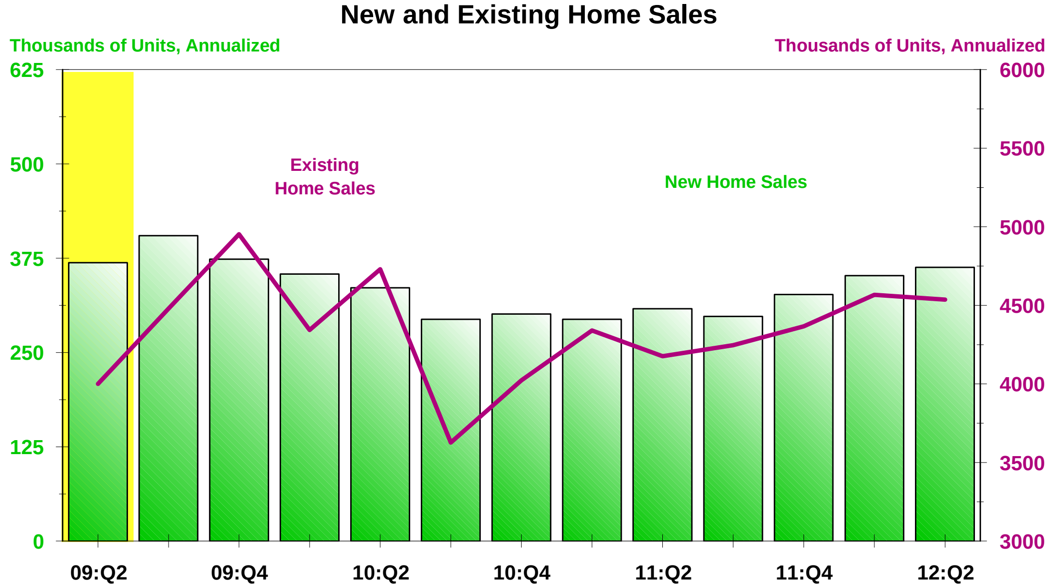
Residential Investment



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

Housing sales were mixed in the second quarter, culminating with lower-than-expected sales in June. New home sales were up overall in the second quarter, and have climbed steadily the past three quarters. Sales of existing homes fell in the second quarter, the first quarterly decrease in one year.

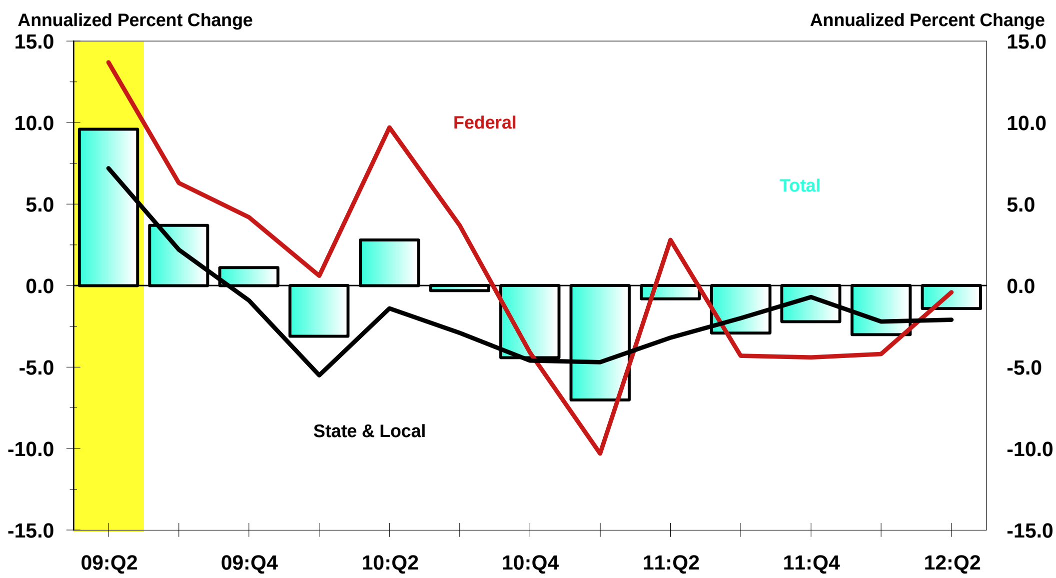
New and Existing Home Sales



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

Government spending fell again in the second quarter, marking the eighth consecutive quarterly decrease, as state and local governments continued to restrict their expenditures. Decreases in federal spending slowed in the second quarter, due primarily to a rebound in defense spending.

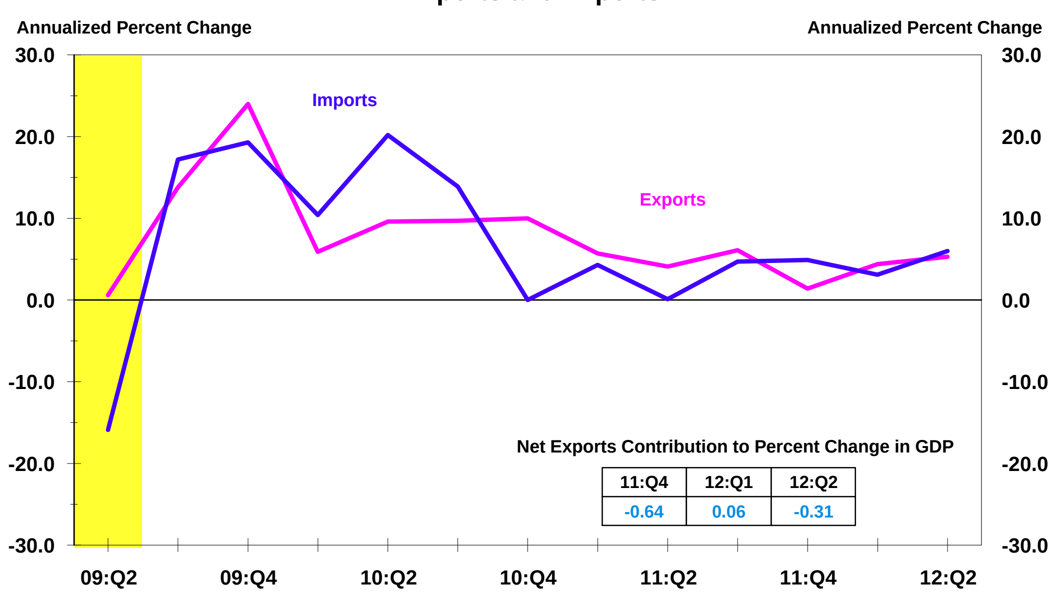
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Import growth picked up moderately in the second quarter, more than offsetting a smaller increase in export growth, which resulted in a small drag on GDP from net exports.

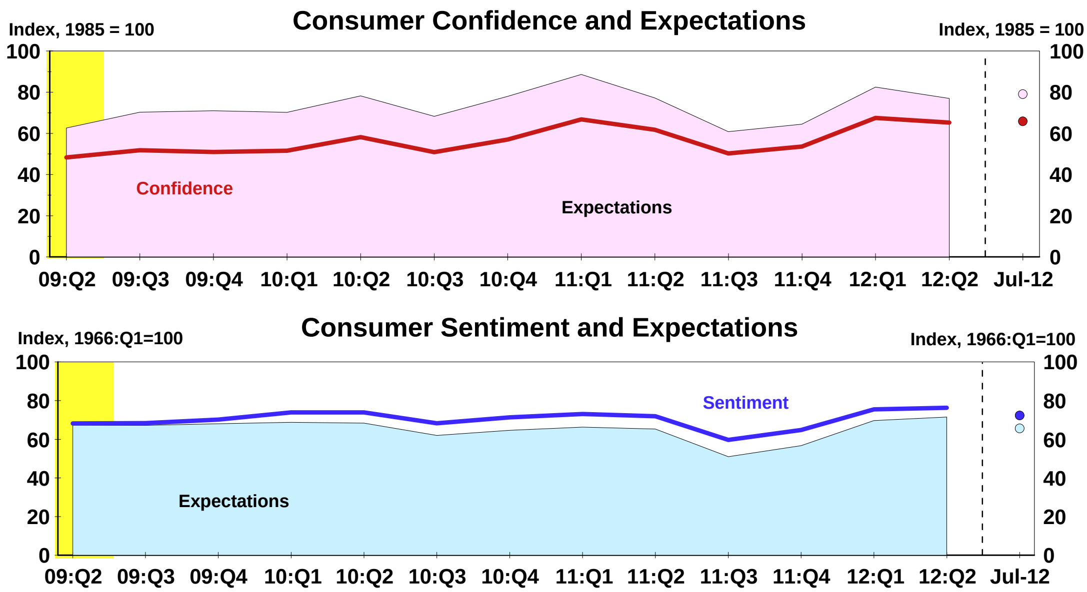
Exports and Imports



11:Q4	12:Q1	12:Q2
-0.64	0.06	-0.31

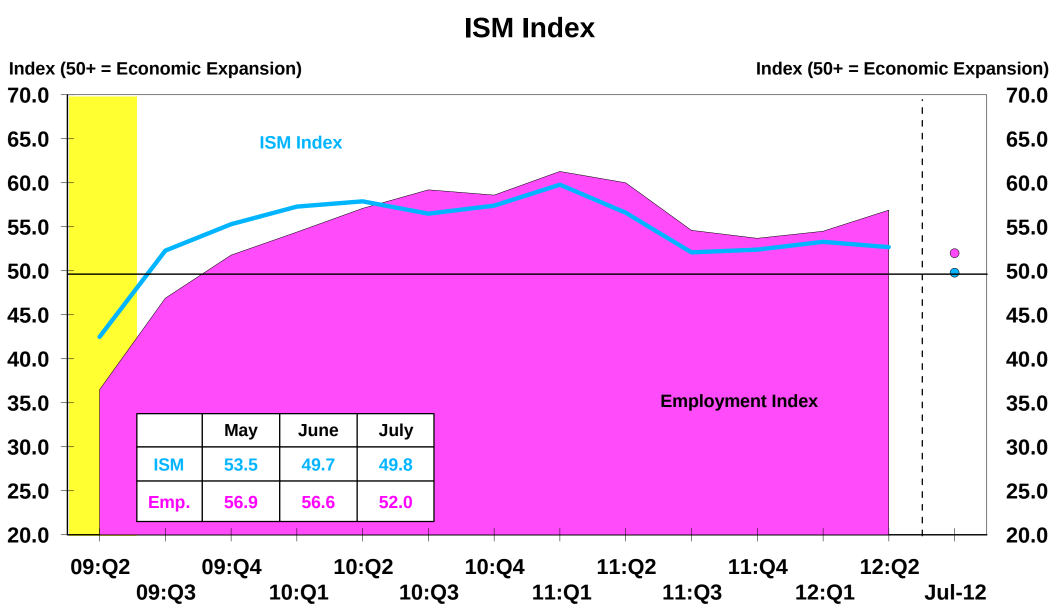
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixes in July, as confidence improved while sentiment worsened. The difference was mostly based in expectations, which improved in the Conference Board survey but declined in the Michigan survey. Assessments of current conditions were little changed in both surveys.



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

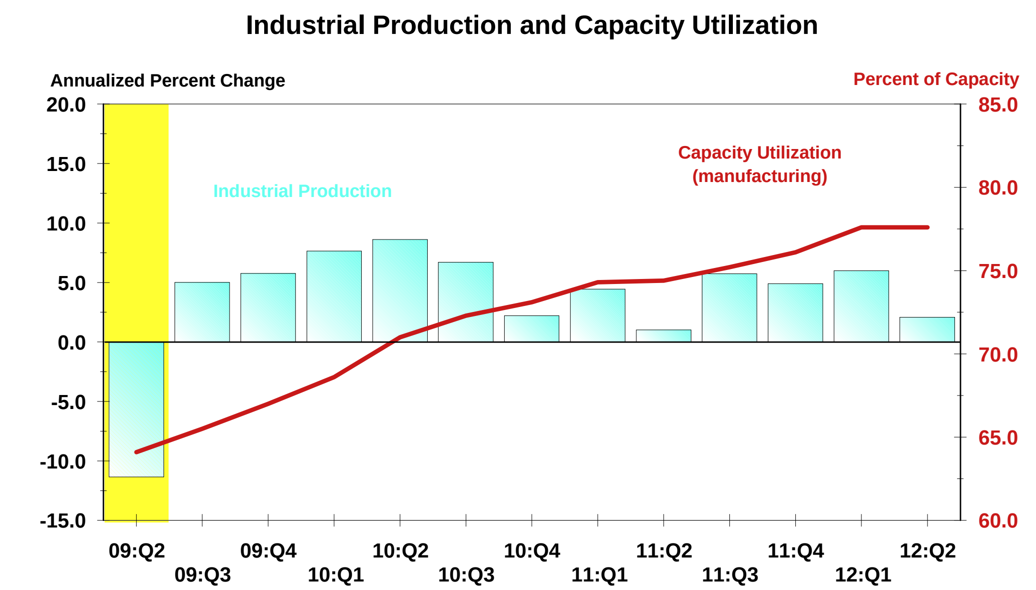
The ISM manufacturing index inched up in July but remained below 50 for the second month in a row, a signal that manufacturing activity is contracting. The employment index fell in July, displaying the largest single-month drop in one year.



	May	June	July
ISM	53.5	49.7	49.8
Emp.	56.9	56.6	52.0

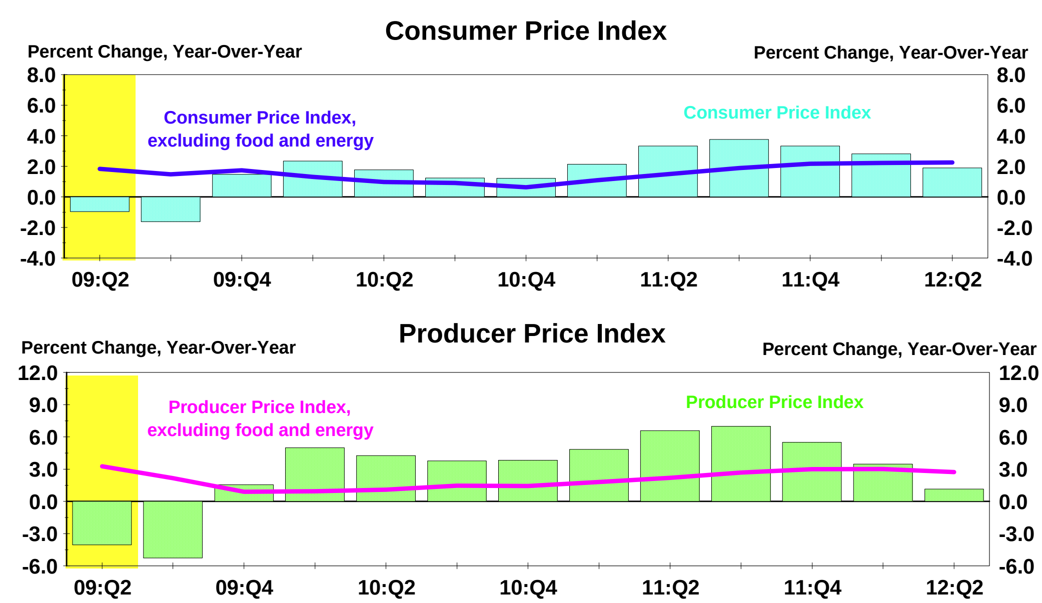
Source: Institute for Supply Management / Haver Analytics.

Growth in industrial production slowed in the second quarter, due primarily to slowing growth in manufacturing production. Capacity utilization was flat in the second quarter, after increasing steadily since the end of the recession.



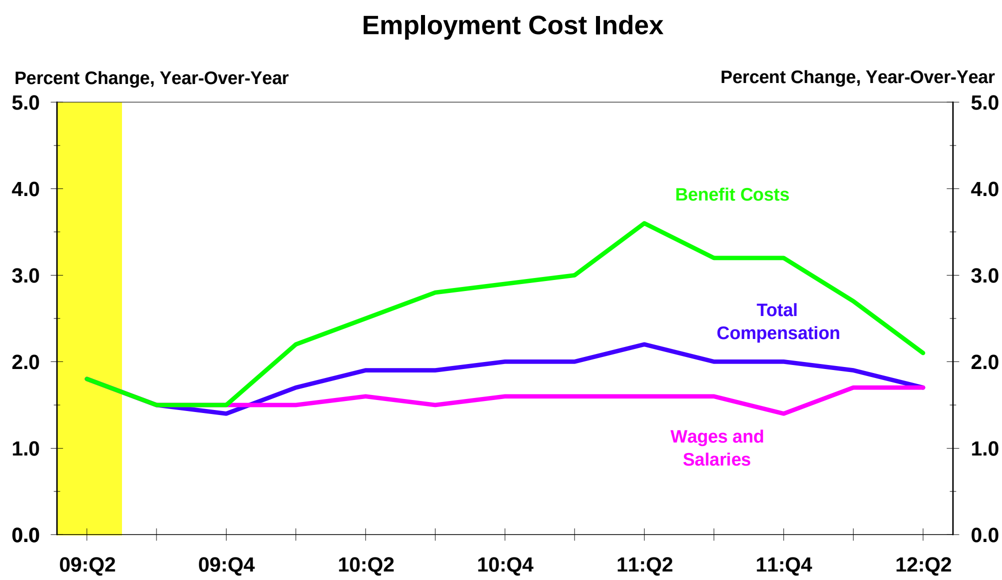
Source: Federal Reserve Board of Governors / Haver Analytics.

Total consumer prices continued to decelerate in the second quarter, growing at their slowest pace since 2010:Q4. The slowdown was due primarily to declining energy prices, as the core index remained relatively flat in the second quarter. Both total and core measures for producers decelerated in the second quarter.



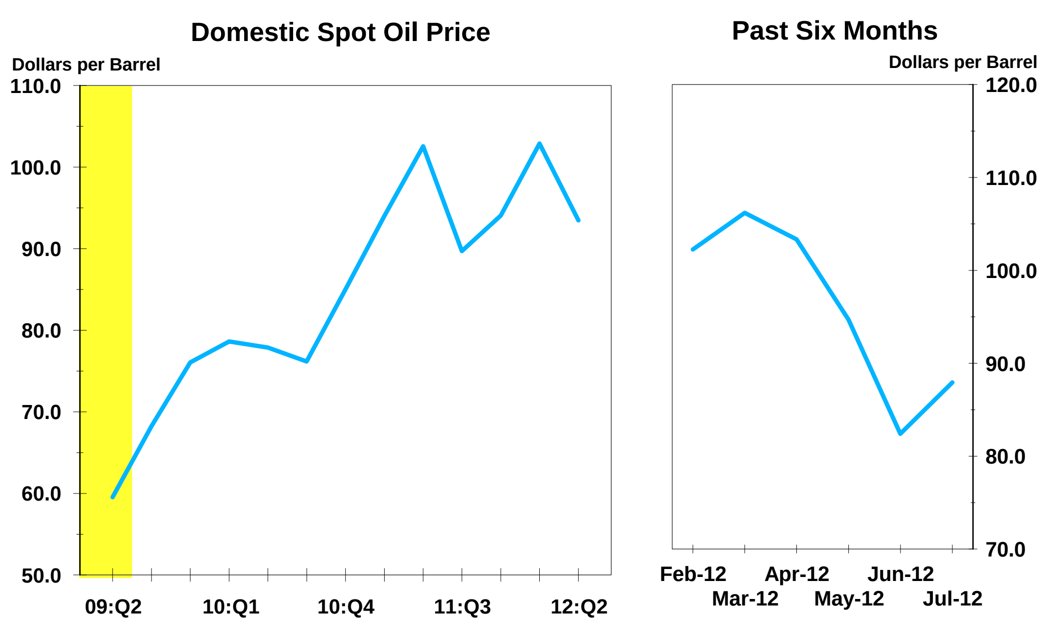
Source: Bureau of Labor Statistics / Haver Analytics.

Growth in wages and salaries has held mostly steady over the past two years, but total compensation cost growth has continued to slow as benefit costs have decelerated sharply. The slowdown in benefit costs in the second quarter was the steepest so far in this recovery.



Source: Bureau of Labor Statistics / Haver Analytics.

After hitting their most recent peak in March, oil prices fell steadily throughout the second quarter. Prices increased in July to around $90 per barrel, from the low-$80's seen in June.



Source: Wall Street Journal / Haver Analytics.

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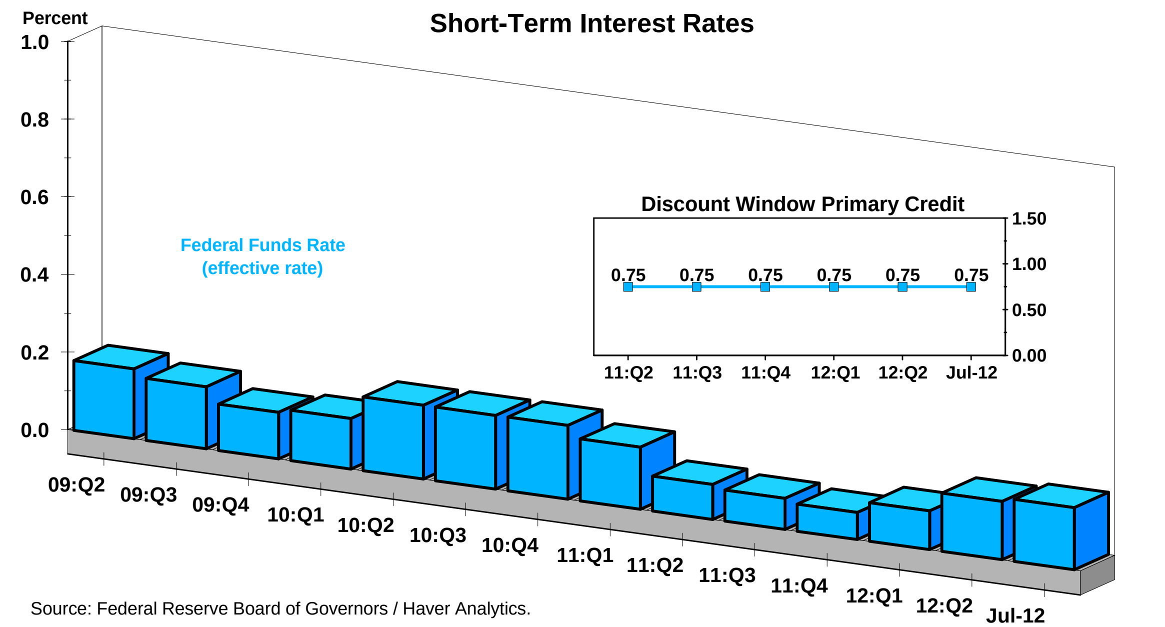


Source: Federal Reserve Board of Governors / Haver Analytics.

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

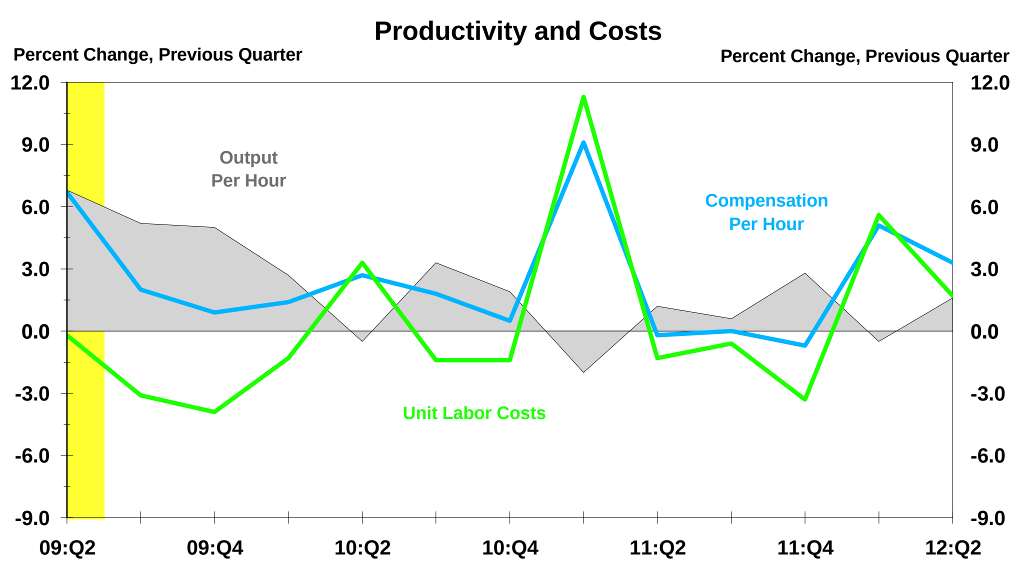
August 9, 2012

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

Productivity rose 1.6% in the second quarter, following a slight decline in the first quarter. Unit labor costs and compensation per hour both slowed in the second quarter, but from first quarter figures that were revised sharply higher. In the first quarter, unit labor costs rose 5.6%, previously reported as a 1.3% increase, and compensation per hour was up 5.1%, previously reported as a 0.4% increase.

Through the first week of August, Redbook sales were down 0.2% compared to July, and up 2.0% compared to the same period last year. Oil prices increased over the past week, averaging $93.7 per barrel as opposed to the previous week's average of $88.1.

Productivity increased in the second quarter, the result of output gains outpacing those of hours worked. Growth in unit labor costs and hourly compensation both slowed during the second quarter. In the first quarter, productivity was revised slightly upward, from the previously estimated 0.9% decrease to a 0.5% decline. The change was due to an upward revision to output and a small downward revision to hours worked.



Source: Bureau of Labor Statistics / Haver Analytics.