FEDERAL RESERVE BANK OF BOSTON™

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

August 16, 2013

CURRENT ECONOMIC DEVELOPMENTS - August 16, 2013

Data released since your last Directors' meeting show economic growth accelerated in the second quarter, and growth is expected to pick up a bit over the next couple of quarters. While continued improvement in the housing market and resilient consumer spending provide some optimism, growth in the labor market was below expectations and manufacturing data has been mixed. Rising interest rates and restrictive fiscal policy continue to shed some uncertainty on the outlook.

In July, nonfarm payrolls posted an increase of 162,000 jobs, but gains in the previous two months were revised down. The unemployment rate decreased two-tenths of a percentage point in July to 7.4%, its lowest level since December 2008, as the labor force decreased and civilian employment increased. Initial claims continued to ease in July and early August, as the four-week moving average fell to 332,000 on August 10th, its lowest reading since before the recession began.

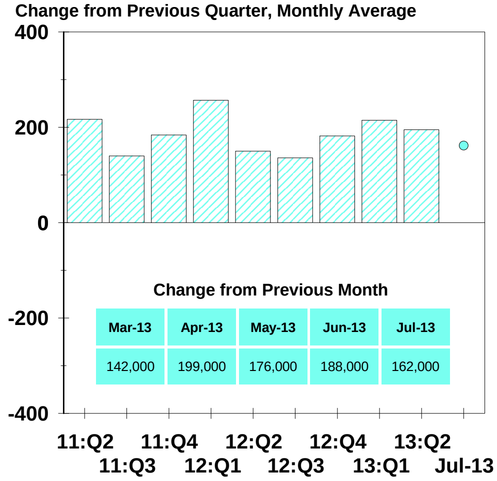
The increase in real GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, private inventory investment, and residential investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Consumer attitudes worsened in mid-August, as the University of Michigan sentiment index showed decreases in both current conditions and future expectations. Data from the manufacturing sector was mixed. In July, the ISM index remained above 50 in July, while industrial production was unchanged and capacity utilization decreased. Durable goods orders increased in the second quarter.

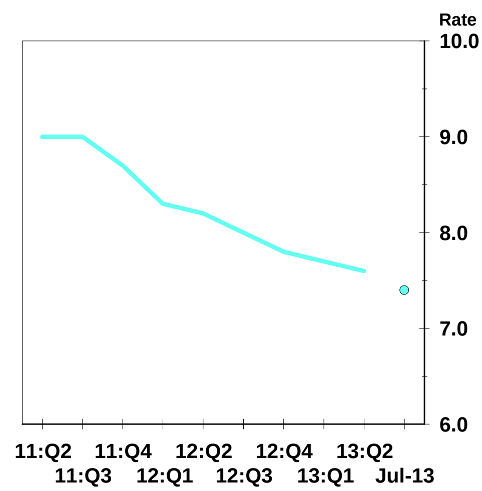
Headline consumer inflation eased in the second quarter as energy prices fell, and the core index also decelerated. Growth in compensation costs, as measured by the ECI, remained flat due to smaller growth in benefit costs and faster growth in wages and salaries. Oil prices rose in July after holding relatively steady in the second quarter.

Nonfarm payrolls added 162,000 jobs in July, while job gains for the previous two months were revised down by 26,000. July's gain was the smallest since March, still the unemployment rate fell two-tenths of a percent to 7.4%. The decrease in the unemployment rate was partly due to a drop in the size of the labor force, in addition to a moderate gain in civilian employment.

Nonfarm Payroll Employment

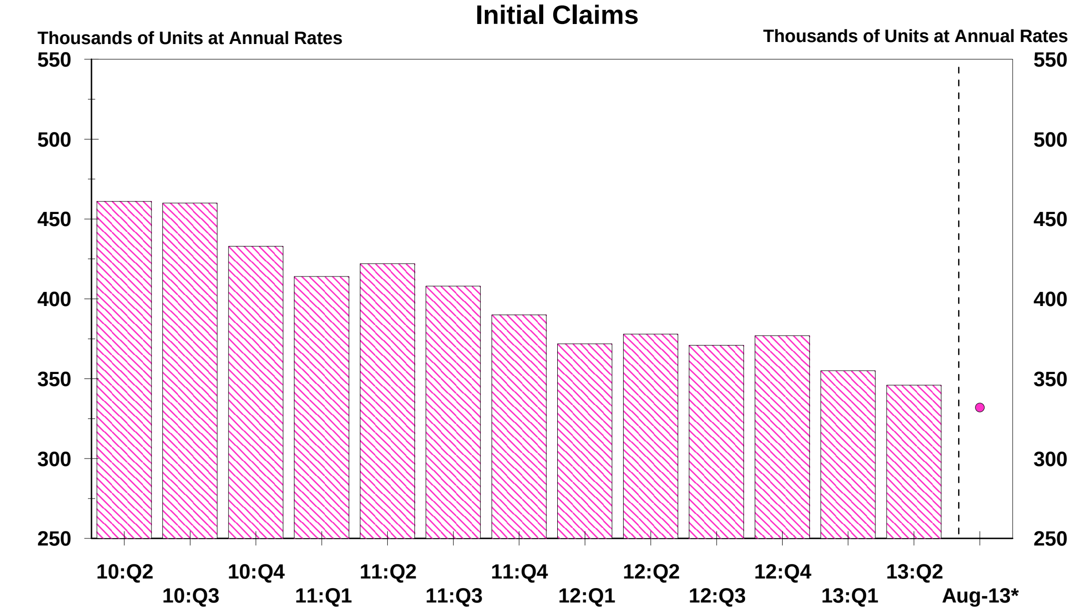


Unemployment Rate



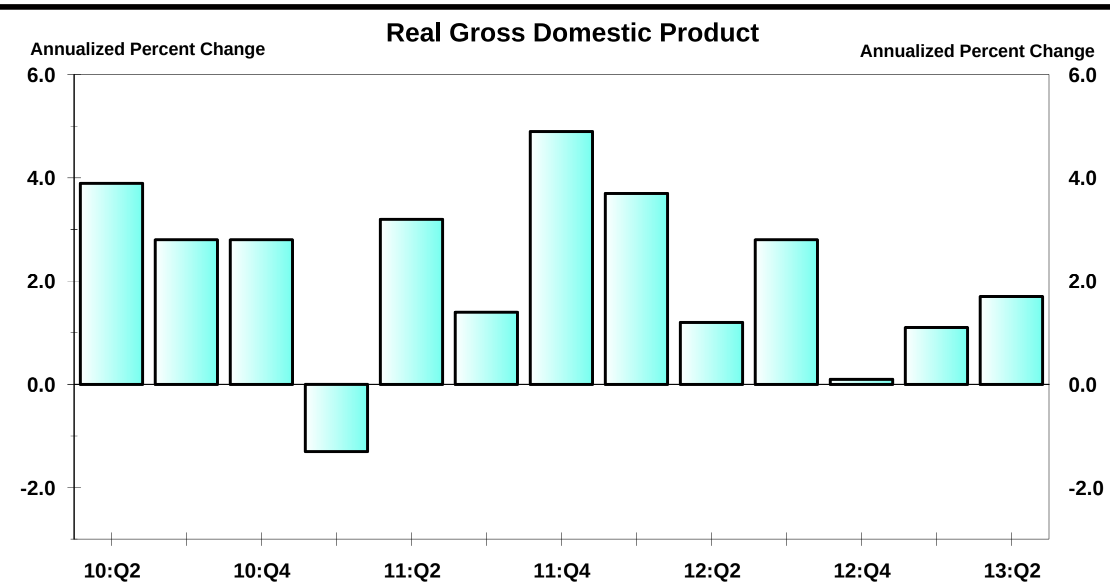
Source: Bureau of Labor Statistics / Haver Analytcis.

Initial claims for unemployment insurance have fallen on average throughout July and early-August. The most recent four-week moving average has hit its lowest level since November 2007.



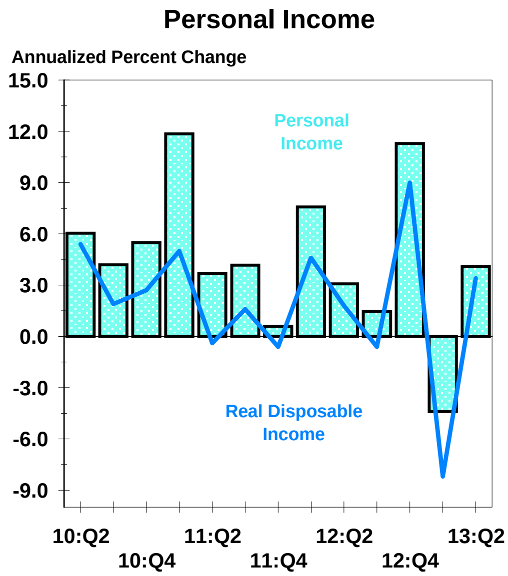
Source: Department of Labor, Employment and Training Administration / Haver Analytics. *4-week moving average on Aug 10th

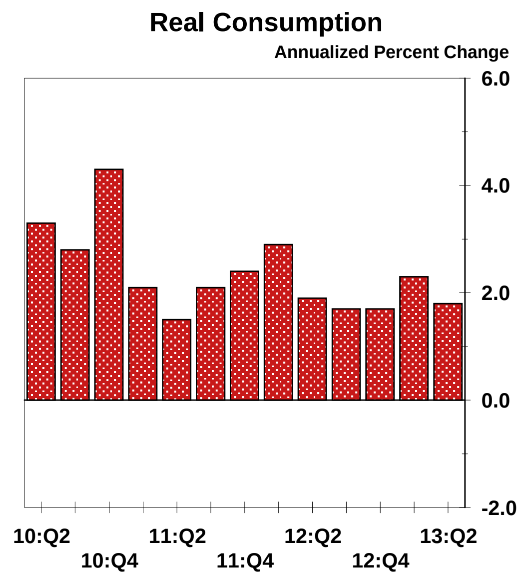
Real GDP growth accelerated in the second quarter to 1.7%, its fastest rate since 2012:Q3, following a 1.1% growth rate in the first quarter. The acceleration of GDP in the second quarter primarily reflected upturns in nonresidential fixed investment and in exports, a smaller decrease in federal government spending, and an upturn in state and local government spending that were partly offset by an acceleration in imports and decelerations in private inventory investment and in PCE.



Source: Bureau of Economic Analysis / Haver Analytics.

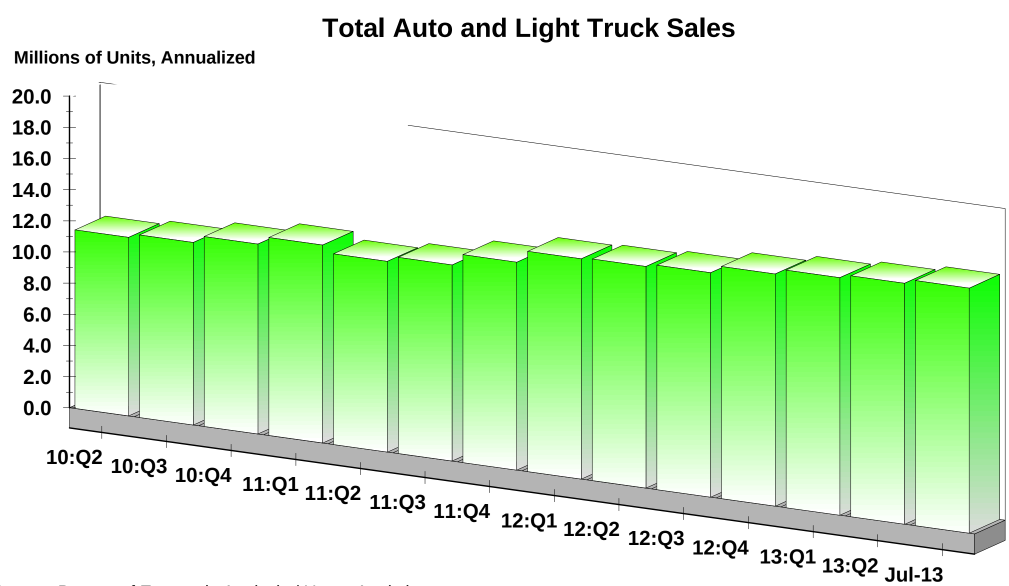
Both nominal and real disposable income growth posted gains in the second quarter, after decreasing in the first quarter. Meanwhile, consumption growth slowed in the second quarter, after accelerating in the first quarter to its highest rate in one year. Without more growth in either jobs or income, consumption growth is unlikely to improve much in the near term.





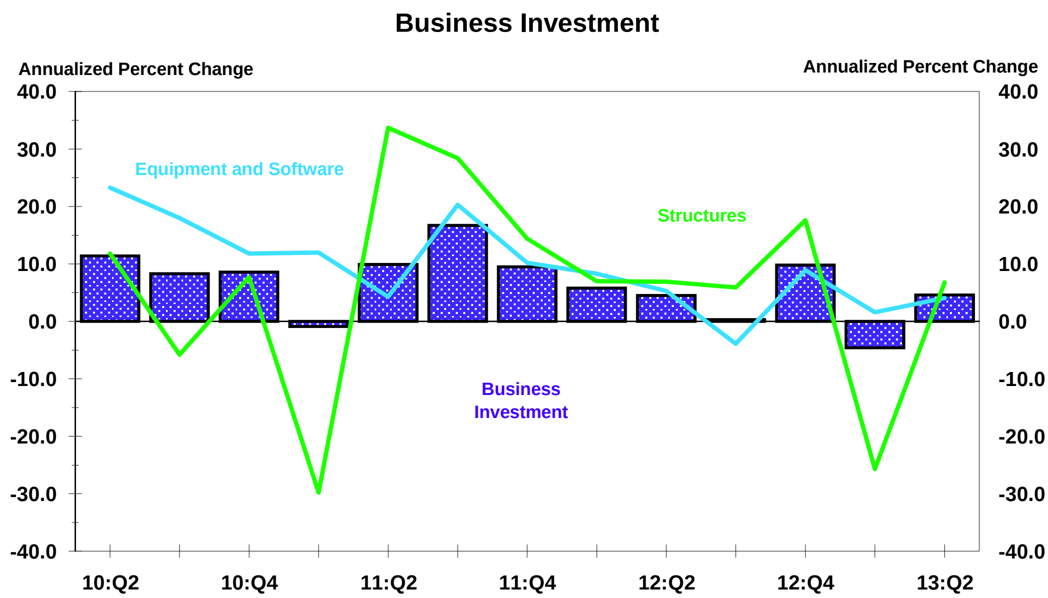
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales eased slightly in July from June, but were above their second quarter average. The decline in sales in July was due primarily to lower light duty truck sales. Total domestic vehicle sales also decreased in July. However, strong sales in smaller, more fuel efficient cars continue to support the overall strength in the auto industry.



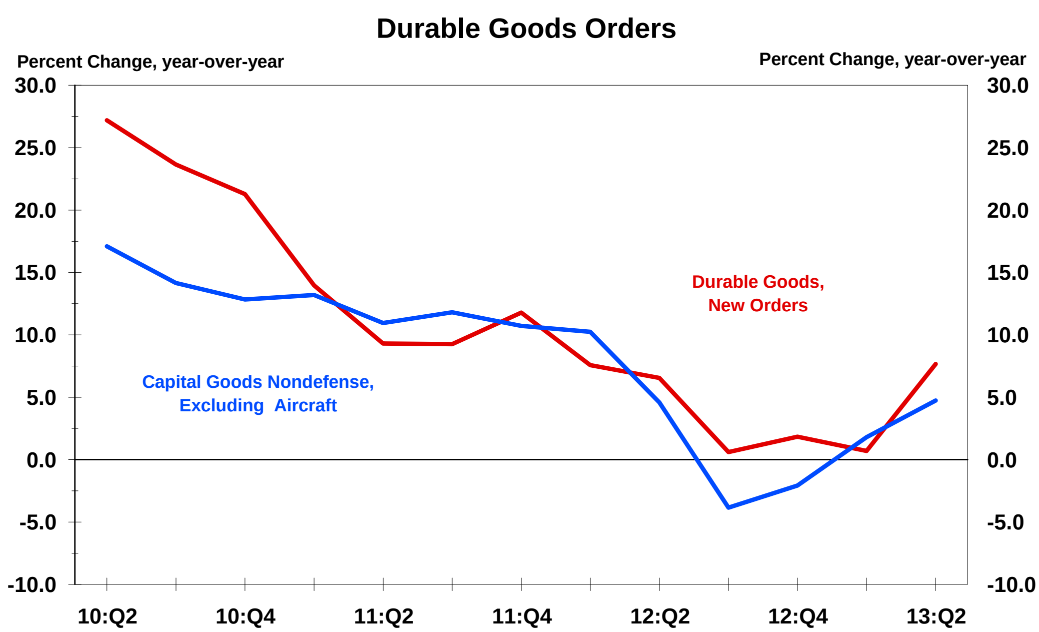
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment increased in the second quarter, offsetting the decrease seen in the first quarter. Investment in both equipment and software and structures improved in the second quarter, with investment in structures up from a first quarter pace that was the slowest in two years.



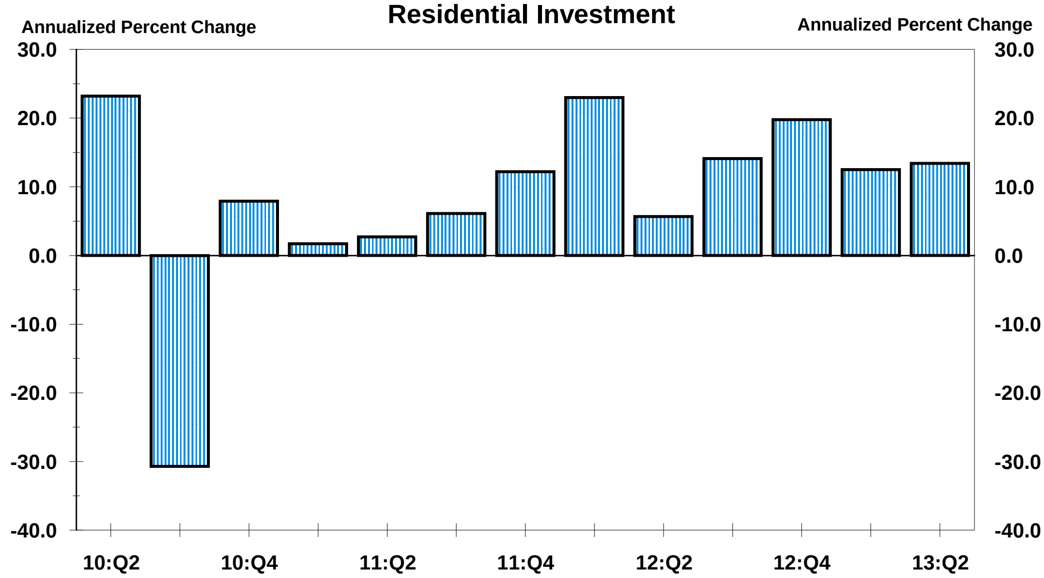
Source: Bureau of Economic Analysis / Haver Analytics.

In the second quarter, durable goods orders and orders for nondefense capital goods, excluding aircraft, both posted their largest year-over-year gains in over a year. Core orders have been on a steady rebound after falling in 2012.



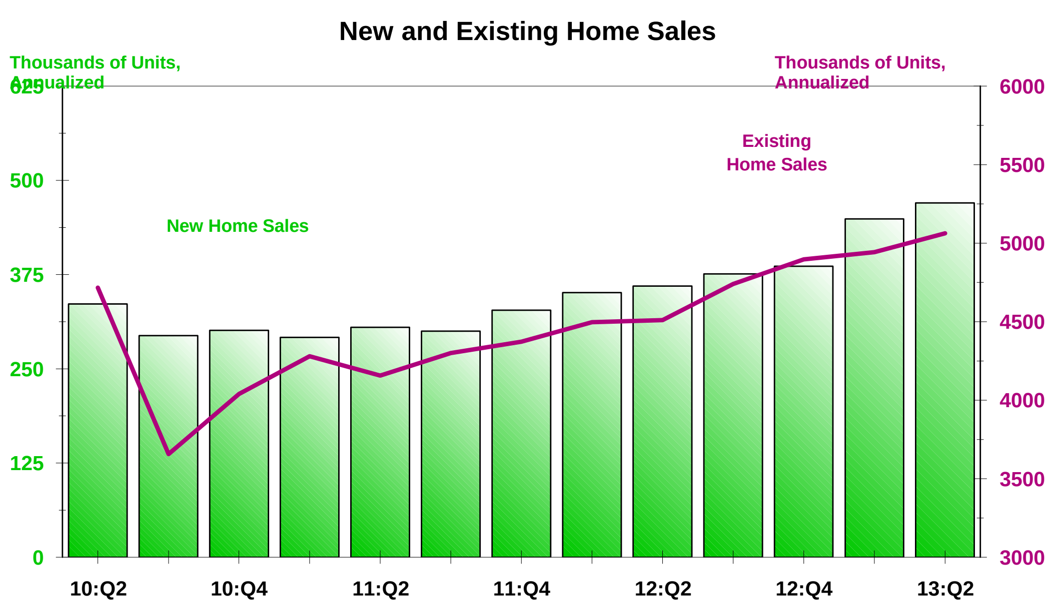
Source: U.S. Census Bureau / Haver Analytics.

Residential investment posted another solid increase in the second quarter, as growth accelerated slightly from the pace seen in the first quarter. Residential investment has now increased in elevel straight quarters, the first such streak in eight years.



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

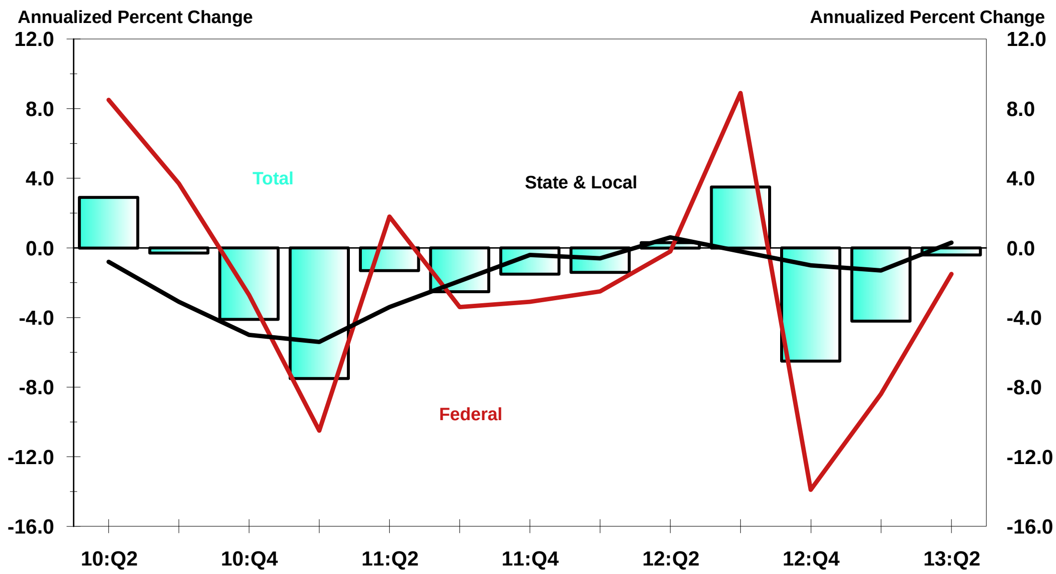
Housing sales improved in the second quarter, continuing the upward trend seen since mid-2011. Both new and existing home sales were up in the second quarter, reaching their highest rates in five and six years, respectively.



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

Government spending fell again in the second quarter, but at a slower pace than seen in the previous two quarters. Decreases in federal spending also slowed in the second quarter, due primarily to a smaller decrease in defense spending. State and local government spending increased in the second quarter for the first time since 2012:Q2.

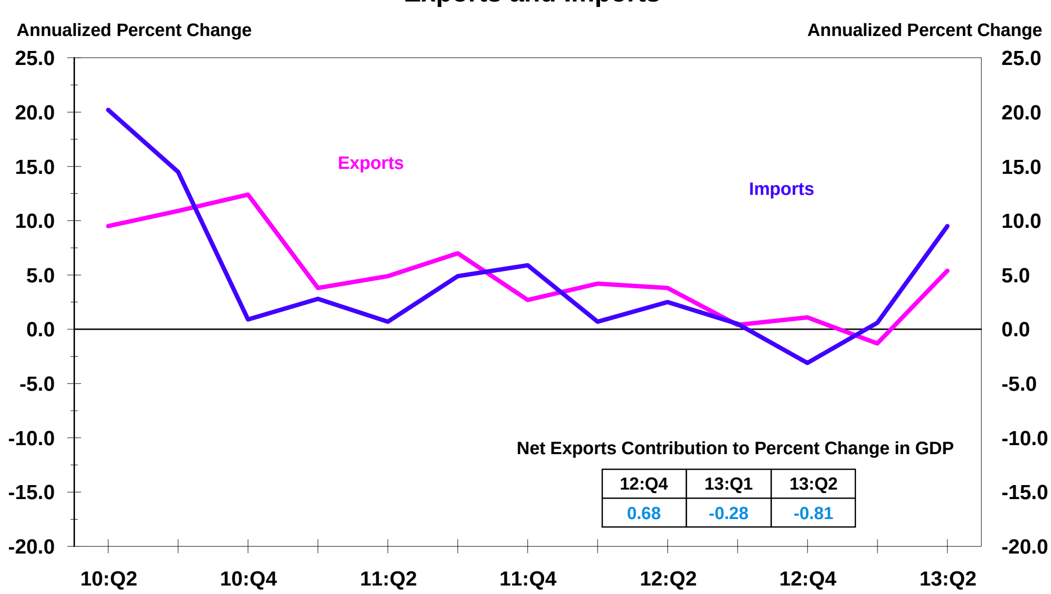
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

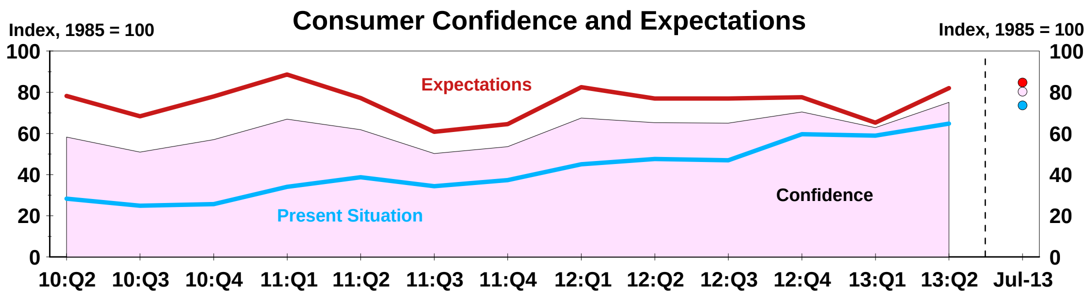
Growth in imports picked up in the second quarter at a faster pace than exports, resulting in a drag on GDP from net exports that was larger than the one seen in the first quarter.

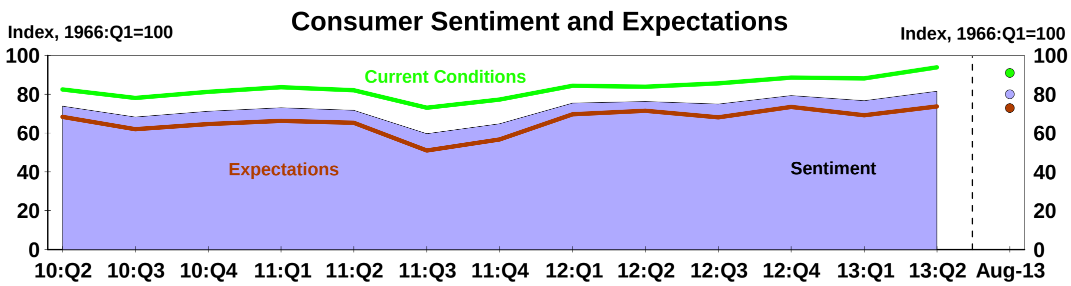
Exports and Imports



Source: Bureau of Economic Analysis / Haver Analytics.

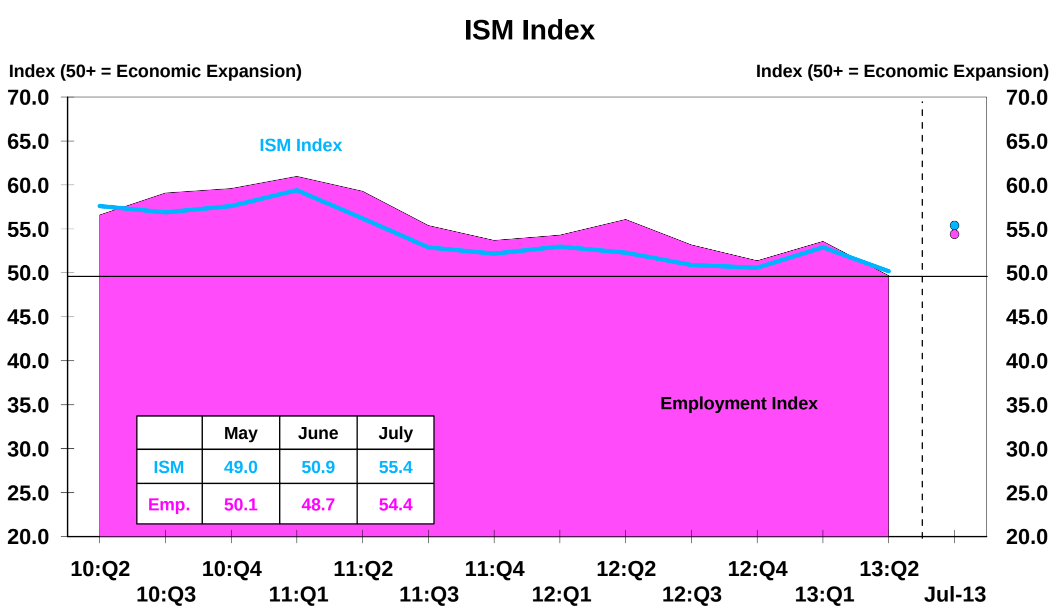
Measures of consumer attitudes have recently declined, as confidence worsened in July and sentiment fell in mid-August. The decrease was due in part to falling expectations in both surveys. Current conditions in the sentiment index also showed a large drop.





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

The ISM manufacturing index increased in July, remaining above 50 for the second month in a row, a signal that manufacturing activity is expanding. The employment index also rose in July, displaying the largest single-month jump in four years.

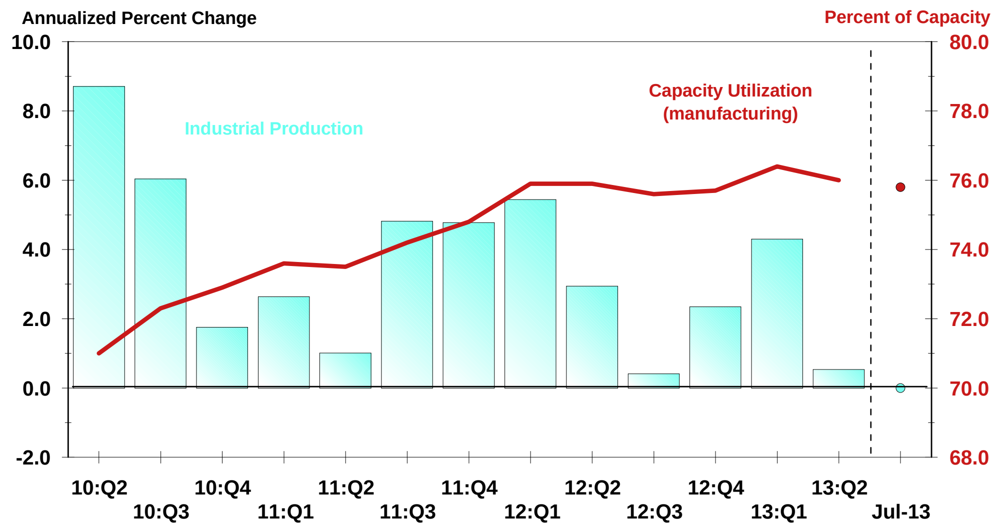


	May	June	July
ISM	49.0	50.9	55.4
Emp.	50.1	48.7	54.4

Source: Institute for Supply Management / Haver Analytics.

Growth in industrial production was unchanged in July, as both manufacturing and utilities production declined, while mining increased. Capacity utilization decreased in July to slightly below its second quarter average.

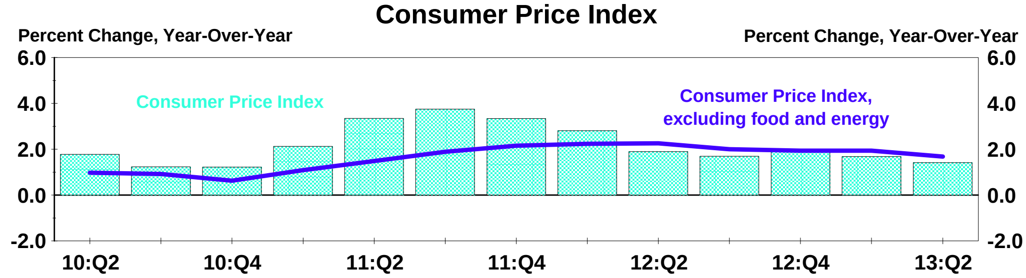
Industrial Production and Capacity Utilization



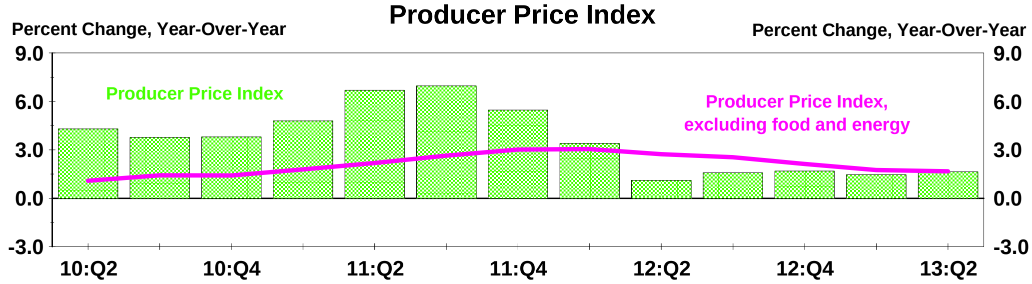
Source: Federal Reserve Board of Governors / Haver Analytics.

Total consumer prices continued to decelerate in the second quarter, growing at their slowest pace since 2010:Q4. The slowdown was due in part to declining energy prices, however the core index also decelerated in the second quarter. Meanwhile, total producer prices accelerated in the second quarter, while the core index slowed a bit.

Consumer Price Index

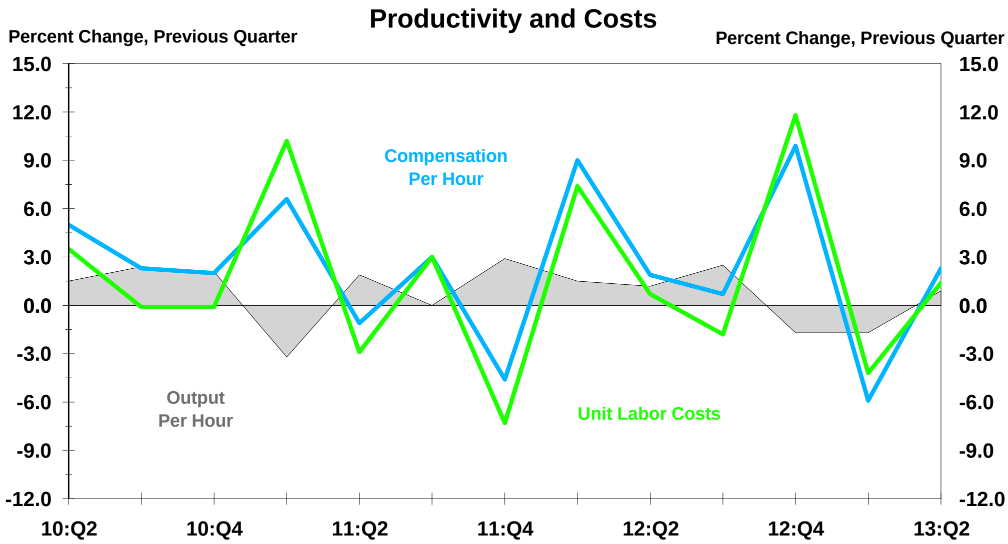


Producer Price Index



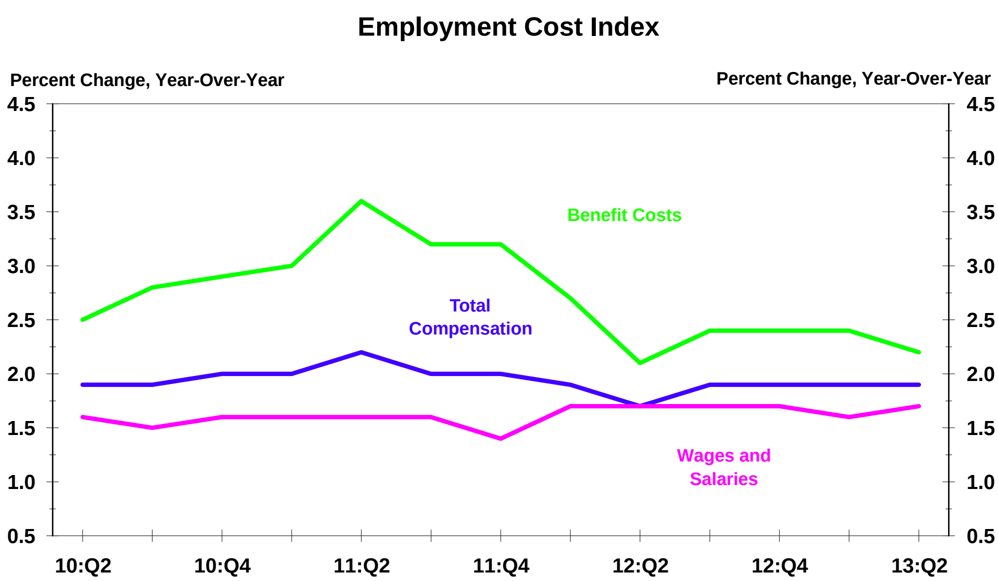
Source: Bureau of Labor Statistics / Haver Analytics.

Productivity increased in the second quarter after falling in the previous two quarters, the result of output gains outpacing those of hours worked. Growth in unit labor costs and hourly compensation both increased during the second quarter after falling in the prior quarter. In the first quarter, productivity was revised sharply downward from the previously estimated 0.5% increase to a 1.7% decline, due to benchmark revisions to the National Income and Product Accounts.



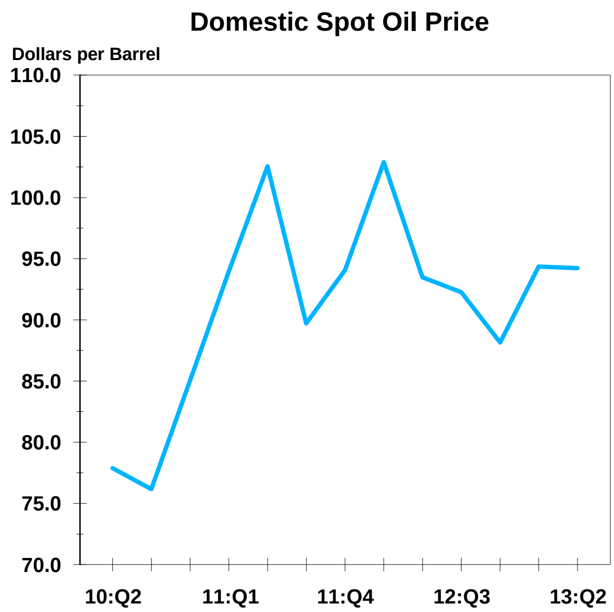
Source: Bureau of Labor Statistics / Haver Analytics.

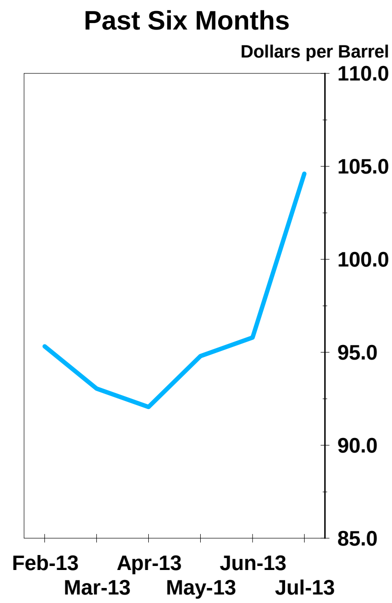
Growth in total compensation costs held steady in the second quarter, as wages and salaries growth accelerated while growth in benefit costs slowed. The pace of total compensation growth has held steady for the past three quarters.



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices held relatively steady on average in the second quarter as compared to the first quarter. However, prices increased in July to around $105 per barrel, from the mid-$90's seen in June.





Source: Wall Street Journal / Haver Analytics.

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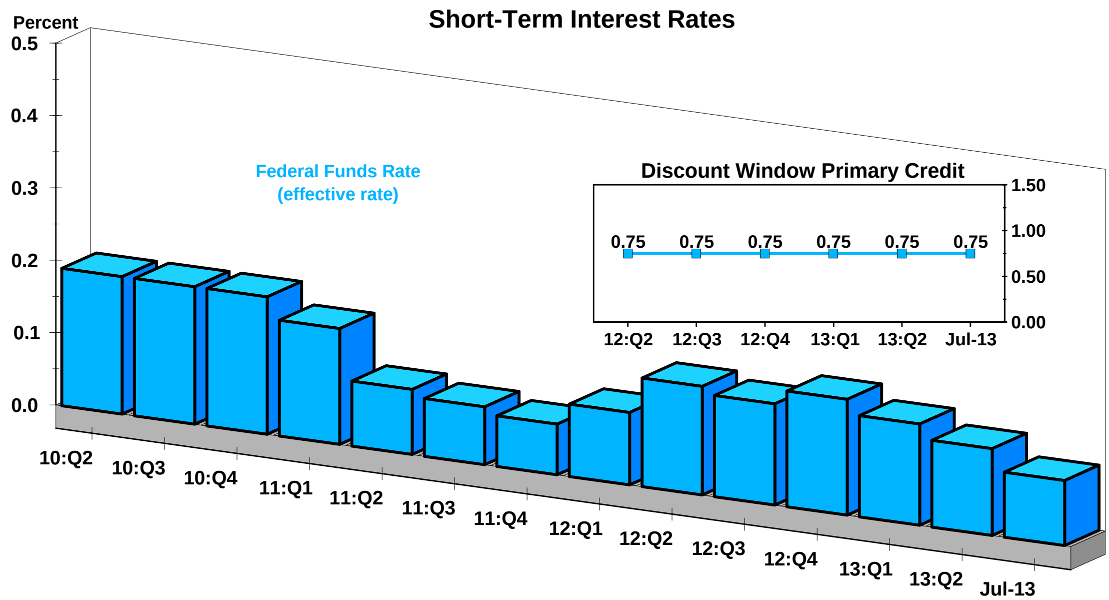


Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni

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

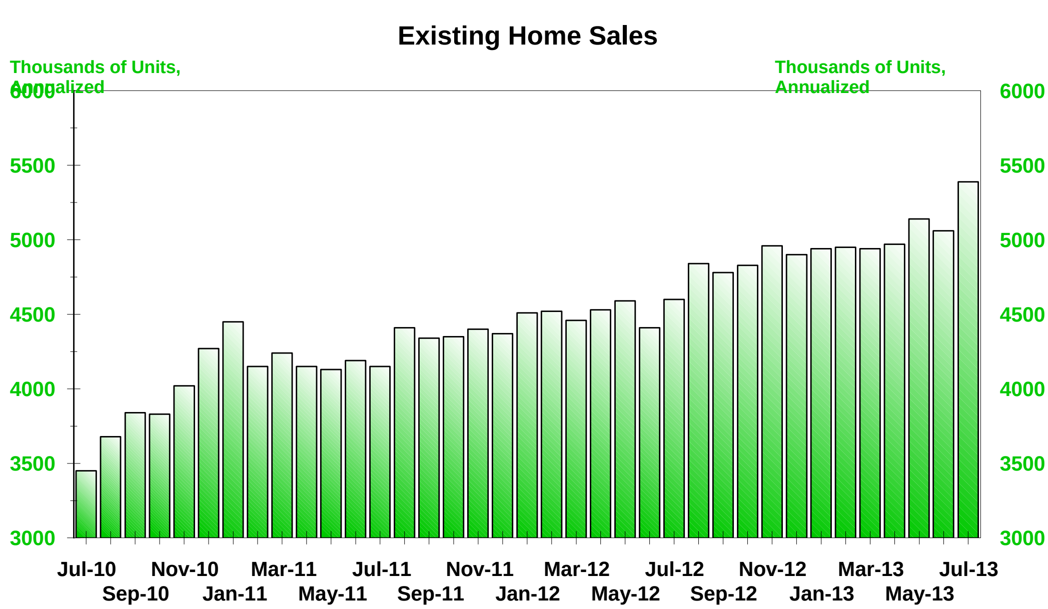
August 22, 2013

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

Existing home sales rose above expectations in July to an annual rate of 5.39 million units, their highest level since November 2009. New home sales data from the U.S. Census Bureau is due out Friday morning. Market expectations are for sales of new homes to drop to an annual rate of 485,000 units in July, down from the rate of 497,000 seen in June.

Through the first two weeks of August, Redbook sales were up 0.2% compared to July, and up 3.4% compared to the same period last year. Oil prices fell slightly over the past week, averaging $105.0 per barrel as opposed to the previous week's average of $106.8.

Existing home sales jumped 6.5% in July to reach their highest level since November 2009, the peak of the home buyer stimulus credit. Meanwhile, sales in June were revised slightly lower to show a 1.6% decline, which was previously reported as a 1.2% decrease.



Source: National Association of Realtors / Haver Analytics.