FEDERAL RESERVE
BANK OF BOSTON™

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

February 3, 2012

CURRENT ECONOMIC DEVELOPMENTS - February 3, 2012

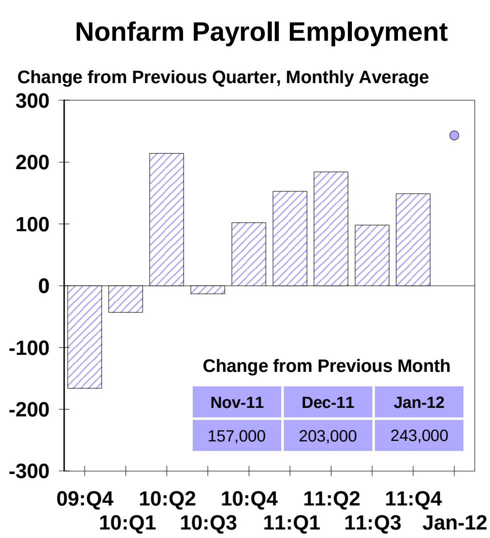
Data since your last Directors' meeting show the economy accelerated in the fourth quarter, growing at its fastest pace since the second quarter of 2010. The improvement is likely to be short lived, though, as growth is expected to slow somewhat during the first half of 2012. The overall picture has not changed much over the past month, as government budget concerns and the European debt situation remain as downside risks. On the upside, improving labor market conditions and consumer attitudes provide increased optimism.

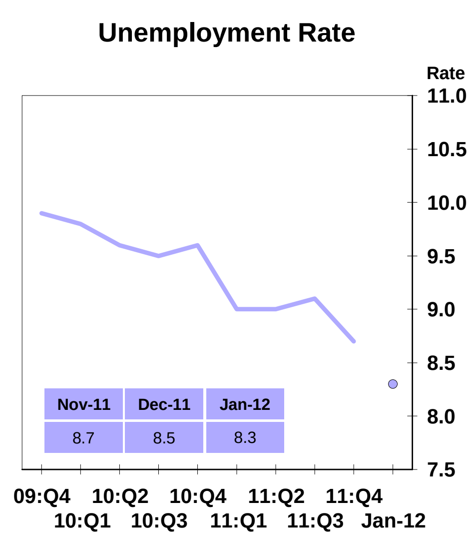
In January, nonfarm payrolls posted another significant gain and the unemployment rate fell another two-tenths of a percentage point. Initial claims were little changed in January from December, but were well below their fourth quarter average. Consumer attitudes were mixed in January, but remained well above their late summer/early fall levels.

In the fourth quarter, the increase in real GDP reflected positive contributions from private inventory investment, personal consumption expenditures, exports, residential investment and nonresidential investment. Those effects were partially offset by negative contributions from government spending and an increase in imports.

Inflation worries remain minimal as headline measures slowed in the fourth quarter, and core measures, although still rising, are expected to ease in the coming months. Unit labor costs increased in the fourth quarter while total compensation, as measured by the ECI, held steady. Oil prices rose a bit in January but closed the month just below $100 per barrel.

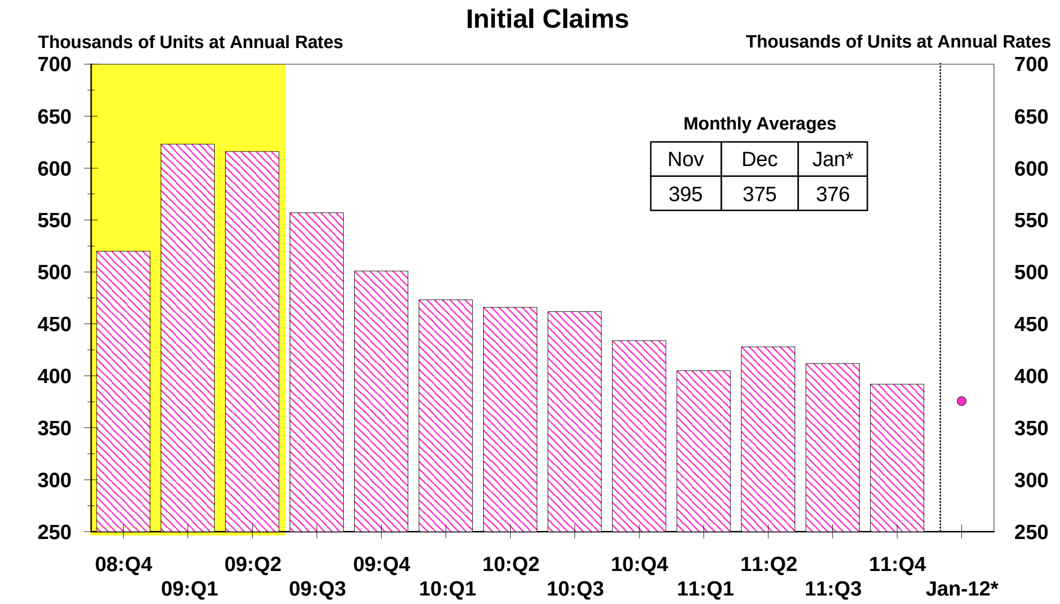
Payroll employment posted another strong increase in January, and revisions to the prior two months' estimates resulted in a gain of 60,000 additional jobs. Payrolls have now recovered just over one-third of the jobs lost during the recession. The unemployment rate fell two-tenths of a percentage point in January to 8.3%, as a large rise in the labor force was more than offset by an even bigger gain in civilian employment. The unemployment rate is at its lowest point in nearly three years.





Source: Bureau of Labor Statistics / Haver Analytics.

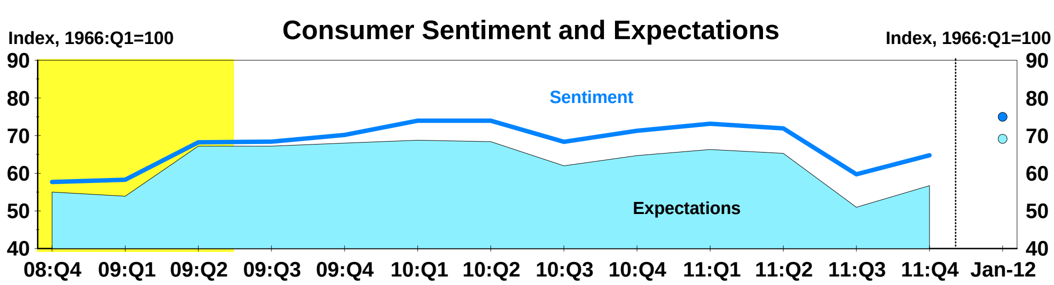
Initial claims for unemployment insurance were volatile in Janaury, spiking above 400 at the start of the month before falling to a nearly four-year low the following week. On average, however, claims were essentially unchanged from their December level.

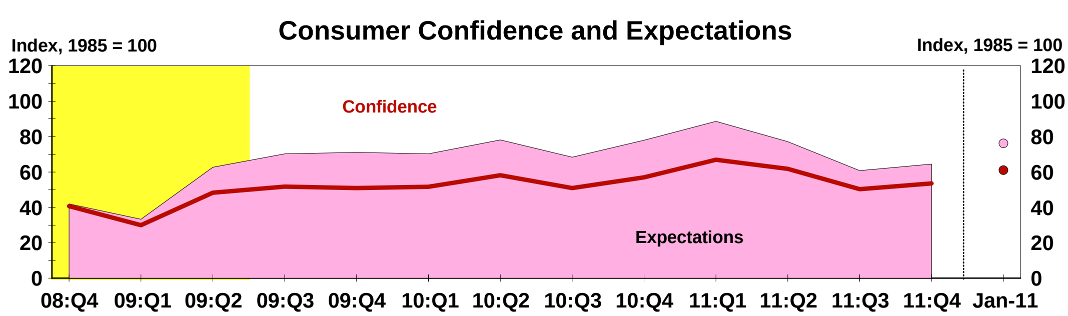


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

* 4-wk. ave. ending January 28

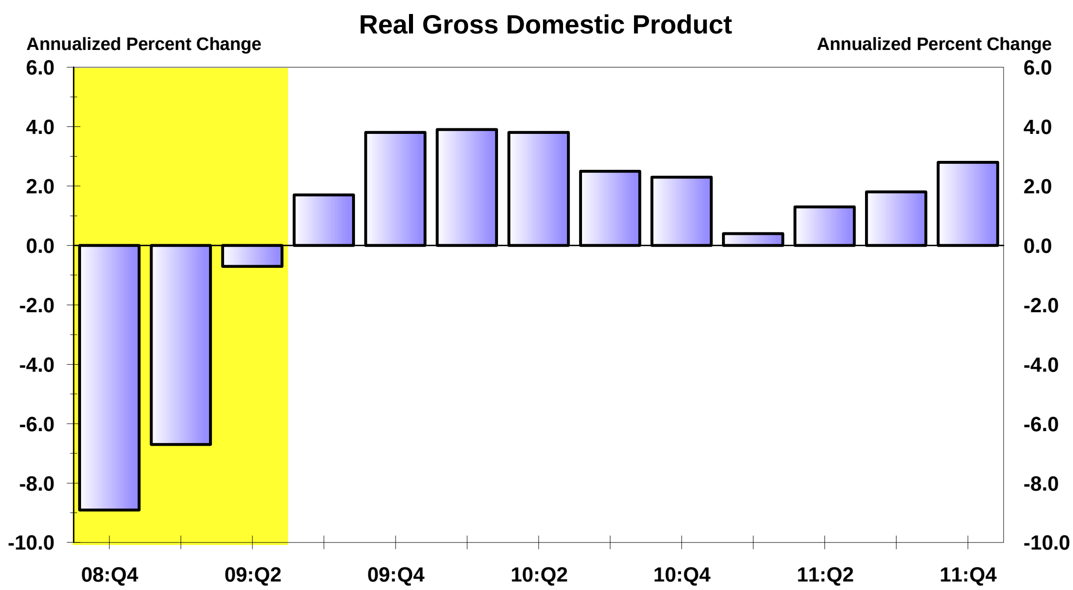
Consumer sentiment improved again in January, reaching its highest level since the prior February. Confidence unexpectedly declined in January, but was still higher than its fourth quarter average. In general, consumers are more upbeat about employment conditions but still don't expect their personal financial situations to improve much.





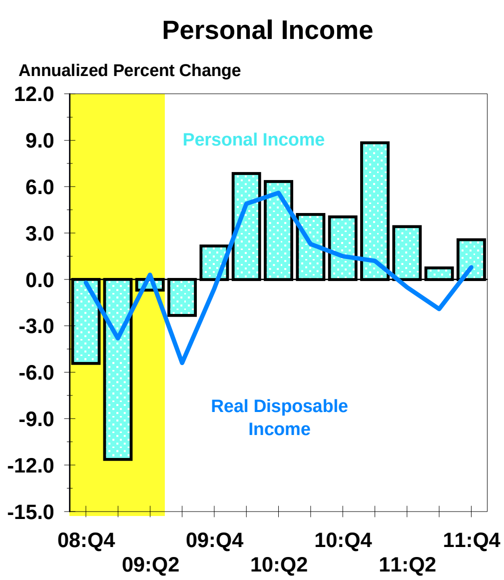
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

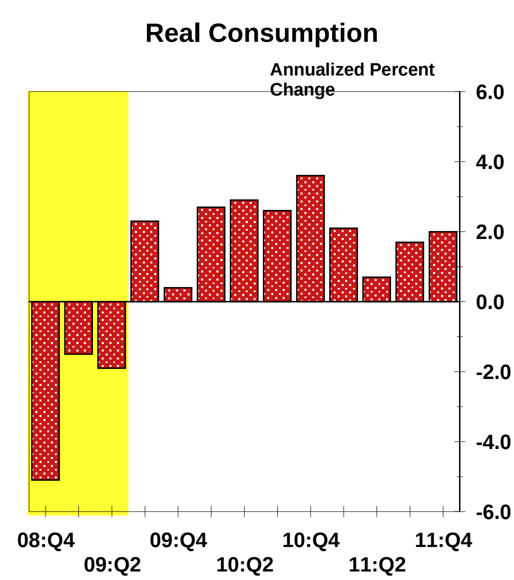
The acceleration in real GDP in the fourth quarter primarily reflected an upturn in private inventory investment, and accelerations in PCE and residential fixed investment. Those effects were partly offset by a deceleration in nonresidential fixed investment, a downturn in federal government spending, an acceleration in imports, and a larger decrease in state and local government spending.



Source: Bureau of Economic Analysis / Haver Analytics.

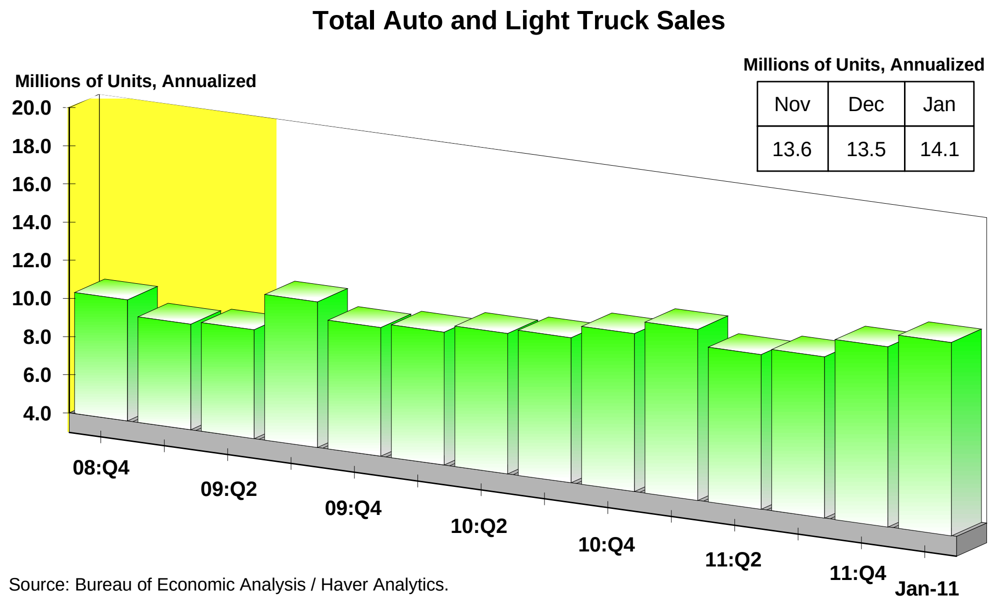
Personal income accelerated in the fourth quarter, and real disposable income posted its first increase since the first quarter. The higher incomes helped lead to another increase in consumption, which also grew at its fastest pace since the first quarter.





Source: Bureau of Economic Analysis / Haver Analytics.

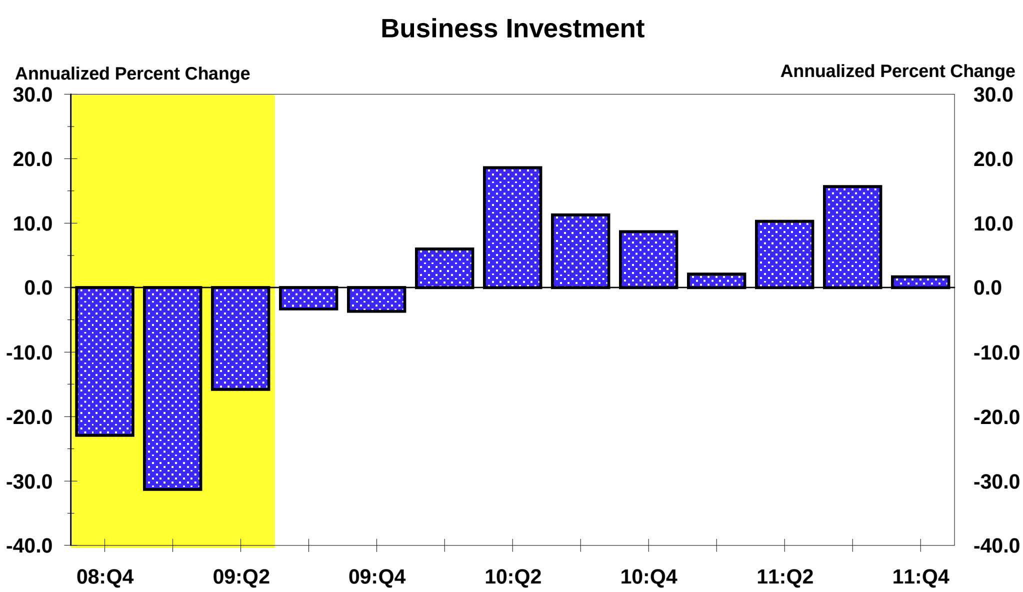
After rising steady through the second half of 2011, vehicle sales rose further in January. The annual sales pace in January was the highest since April 2008, narrowly beating out the 'CARS'-induced sales of August 2009. The January increase was led by strong demand for cars, which more than offset a decline in truck sales.



Nov	Dec	Jan
13.6	13.5	14.1

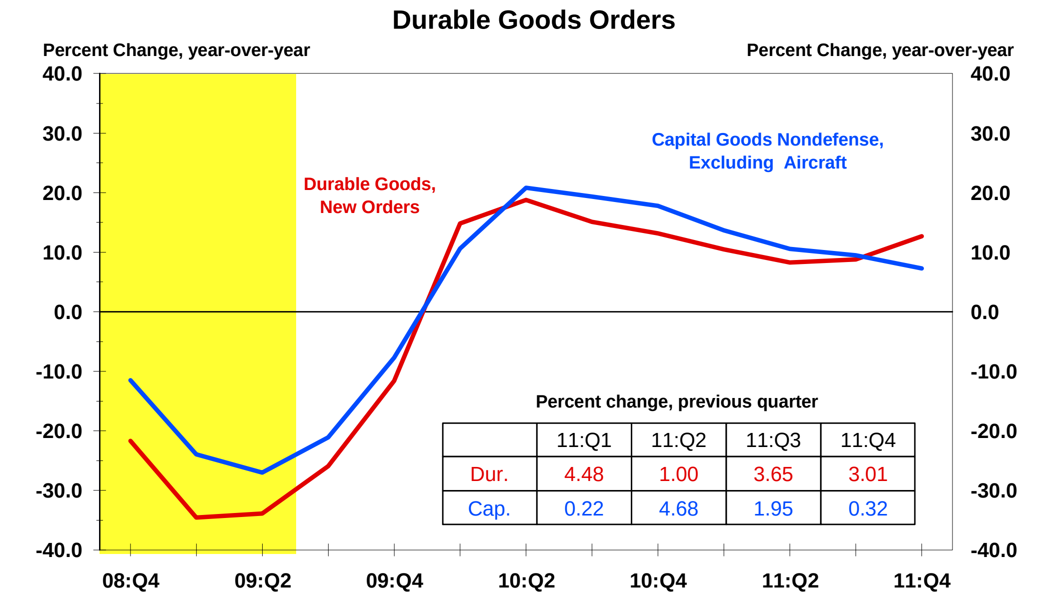
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in business investment slowed dramatically in the fourth quarter, growing at its slowest pace since the end of the recession. The lower growth rate was due primarily to a decrease in investment on structures, but investment in transportation and industrial equipment also slowed substantially.



Source: Bureau of Economic Analysis / Haver Analytics.

In the fourth quarter durable goods orders continued to show year-over-year improvements, accelerating to their best rate of the year. Data for the forward-looking capital goods measure slowed further, but still suggests manufacturing investment will continue to be positive in the coming months.

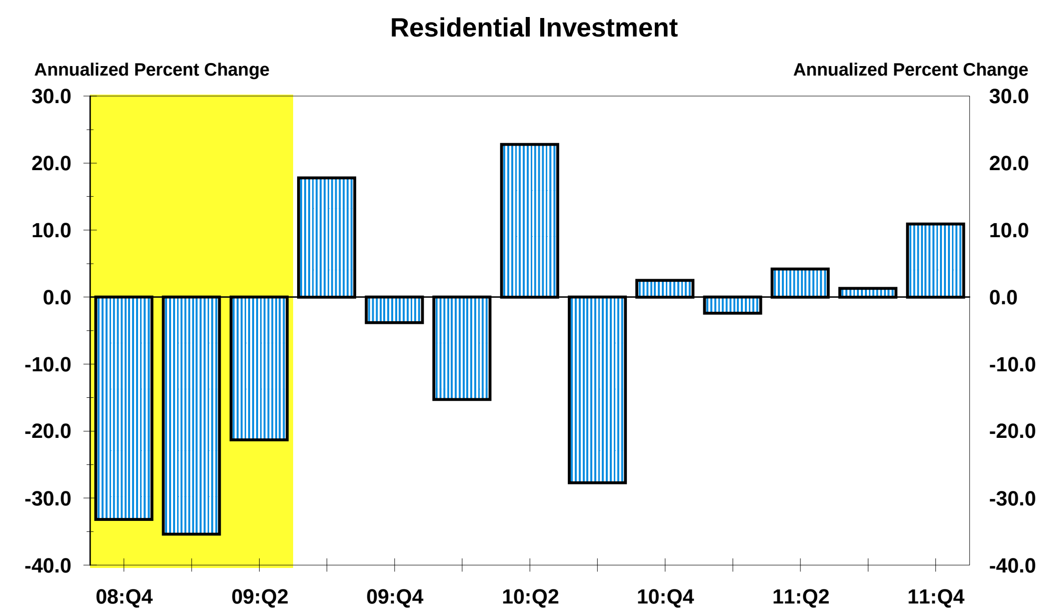


Percent change, previous quarter

	11:Q1	11:Q2	11:Q3	11:Q4
Dur.	4.48	1.00	3.65	3.01
Cap.	0.22	4.68	1.95	0.32

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

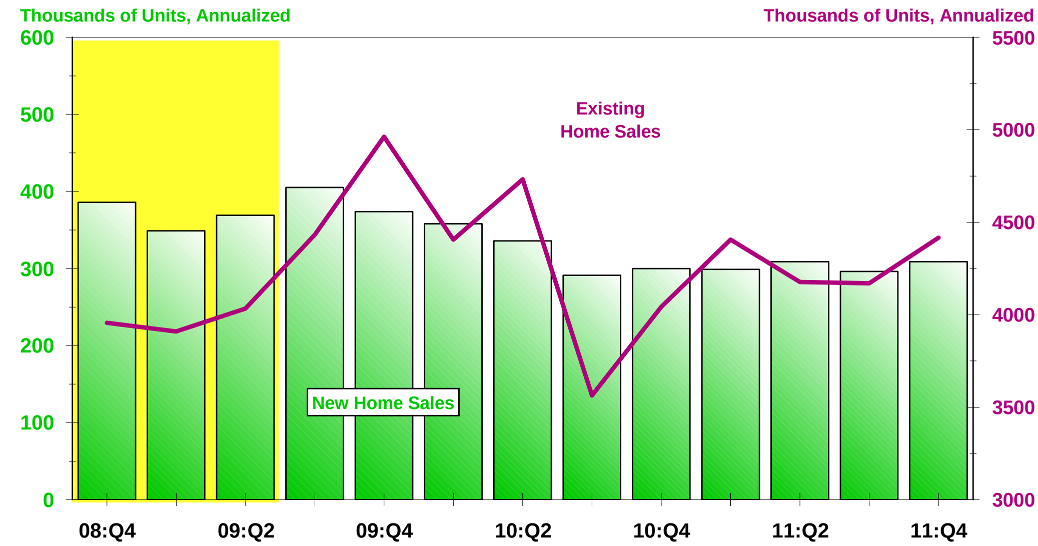
Residential investment posted a solid gain in the fourth quarter. Investment had been quite volatile since the end of the recession but has now increased in three straight quarters, the first such streak in six years.



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

Home sales rose in the fourth quarter, with new home sales erasing the decline seen in the third quarter and sales of existing homes reaching their highest level since mid-2010. While the recent improvements may be a sign of the real estate market having stabilized, the sector remains far below its prerecession level.

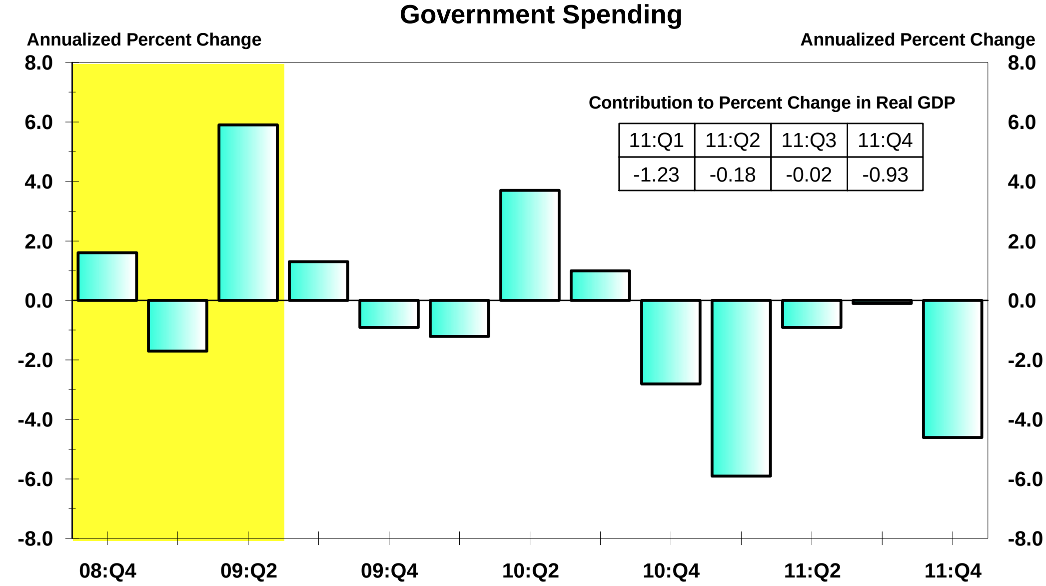
New and Existing Home Sales



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

Government spending posted another sharp decline in the fourth quarter, subtracting nearly a full percentage point from GDP growth. Most of the decline was due to cutbacks in federal defense spending, although state and local government spending also continued to fall.

Government Spending

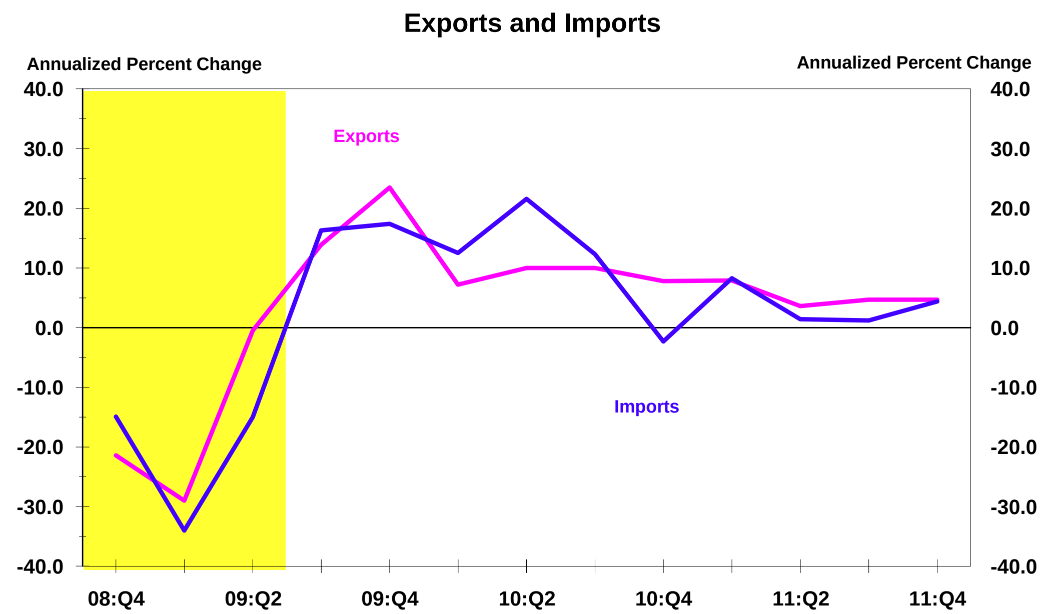


Contribution to Percent Change in Real GDP

11:Q1	11:Q2	11:Q3	11:Q4
-1.23	-0.18	-0.02	-0.93

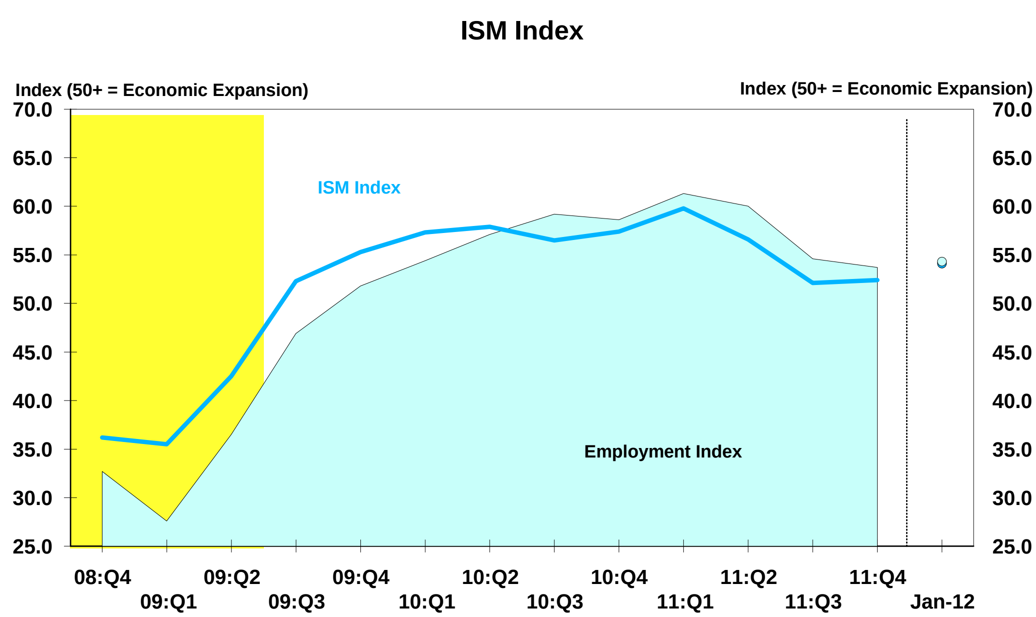
Source: Bureau of Economic Analysis / Haver Analytics.

Import growth accelerated in the fourth quarter, led by a large increase in food imports and a rebound in imports of pertroleum. Export growth held steady in the fourth quarter.



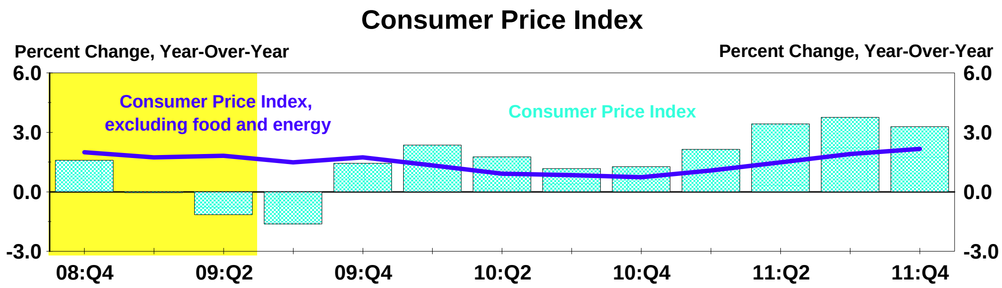
Source: Bureau of Economic Analysis / Haver Analytics.

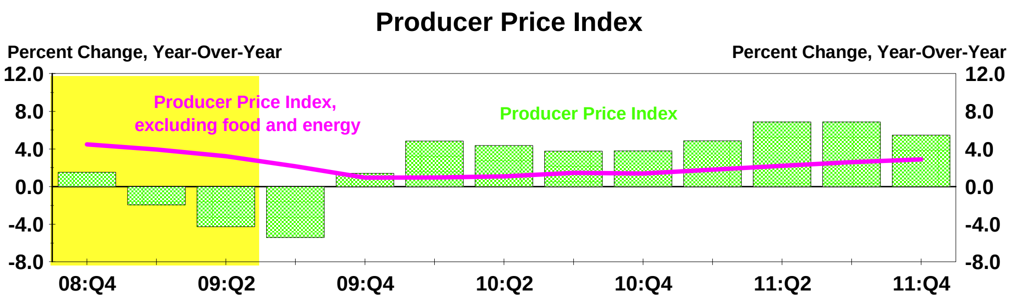
The ISM manufacturing index improved further in January, building on the increase seen in the fourth quarter. The employment index was also higher in January than its fourth quarter average, but declined slightly from the December reading.



Source: Institute for Supply Management / Haver Analytics.

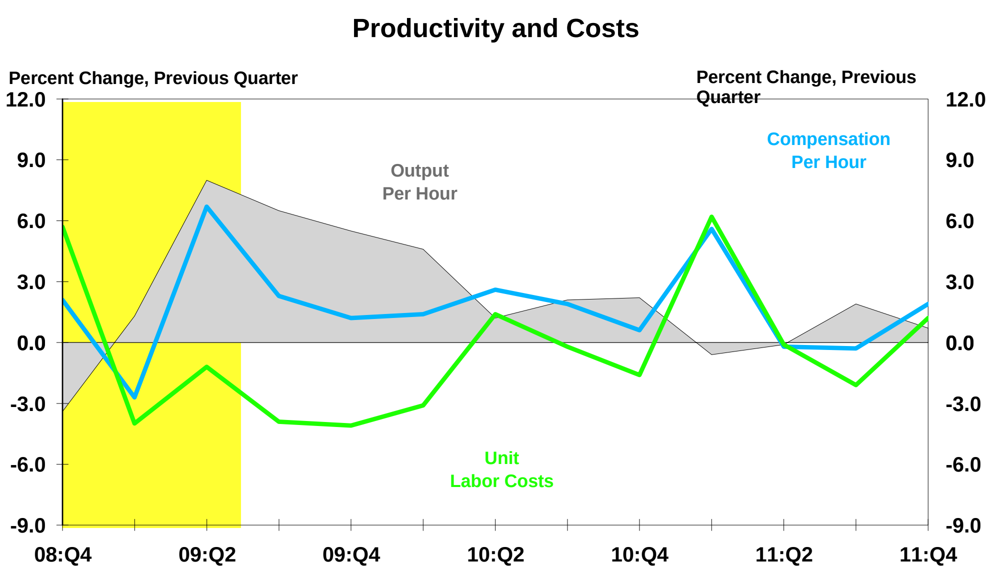
Headline consumer inflation eased during the fourth quarter, as slowing energy prices helped offset increases in many other areas. The core index continued to accelerate in December, but is expected to ease in the coming months. Producer price indices exhibited similar behavior in the fourth quarter.





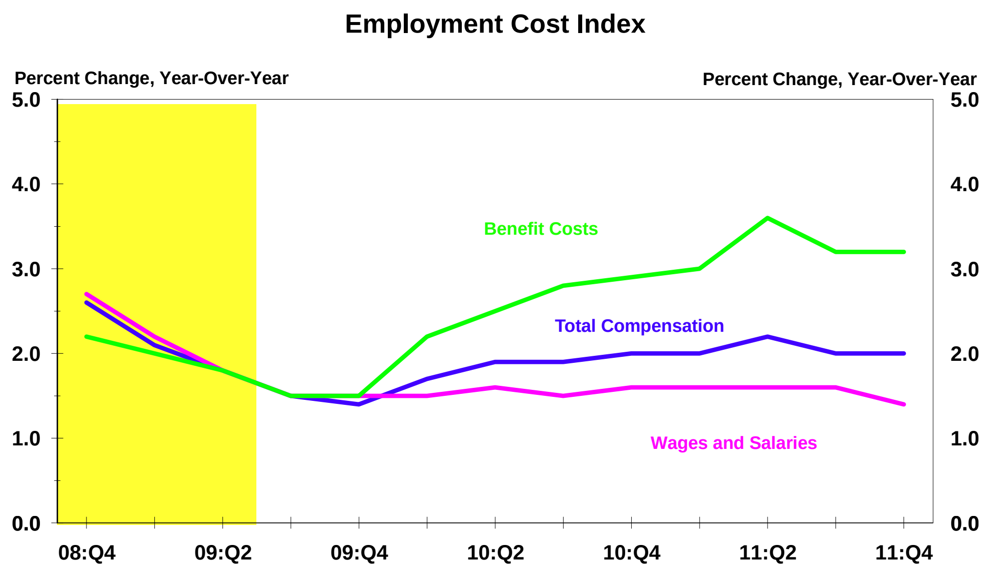
Source: Bureau of Labor Statistics / Haver Analytics.

Productivity slowed in the fourth quarter, as hours worked increased nearly as much as output. Unit labor costs and compensation both posted modest gains in the fourth quarter after declining in each of the previous two quarters.



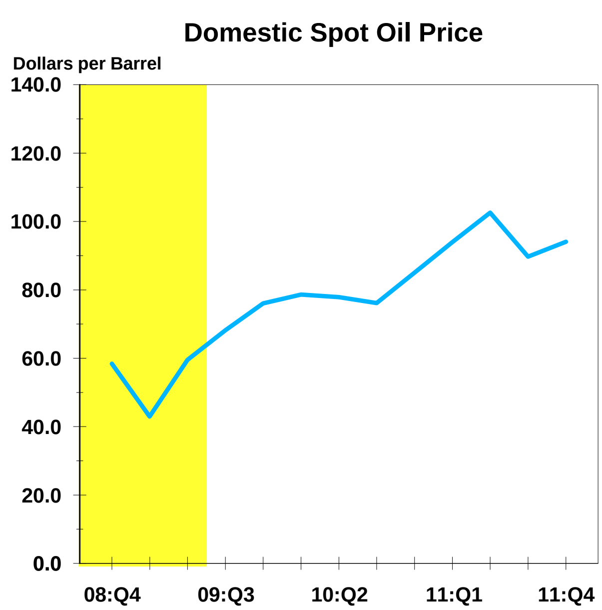
Source: Bureau of Labor Statistics / Haver Analytics.

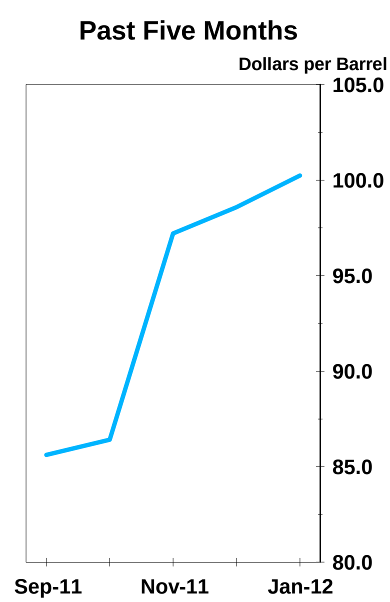
In the fourth quarter total employment costs grew at the same pace as seen in the third quarter, despite a deceleration in wage and salary growth. Benefit cost growth held steady in the fourth quarter. Overall, compensation costs grew at the same pace in 2011 as they did in 2010, as slower wage growth offset escalating benefits costs.



Source: Bureau of Labor Statistics / Haver Analytics.

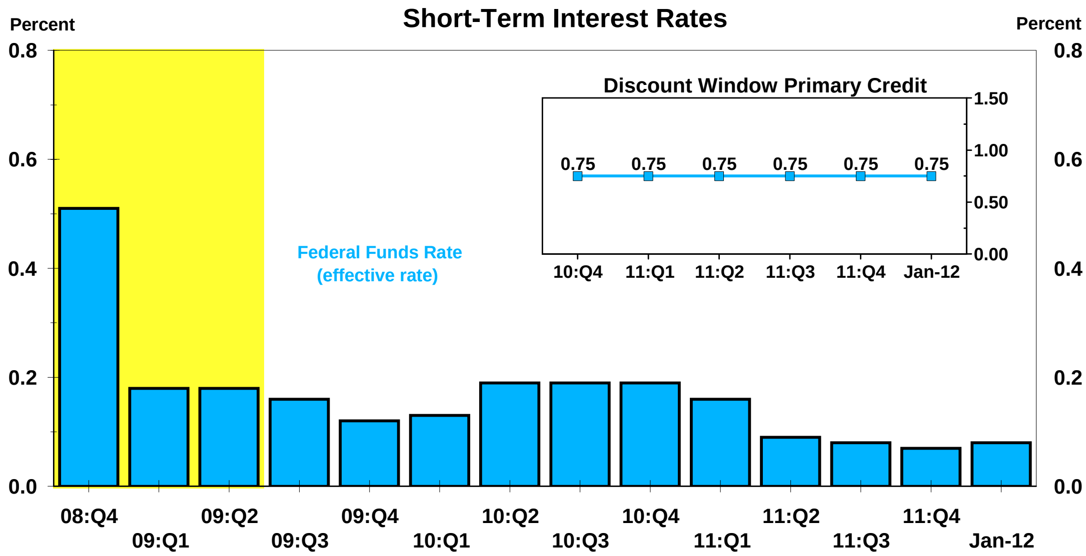
Oil prices rose a bit higher in January from December, averaging just over $100 per barrel during the month.





Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy accelerated in the fourth quarter, growing at its fastest pace since the second quarter of 2010. The improvement is likely to be short lived, though, as growth is expected to slow somewhat during the first half of 2012. The overall picture has not changed much over the past month, as government budget concerns and the European debt situation remain as downside risks. On the upside, improving labor market conditions and consumer attitudes provide increased optimism.



Source: Federal Reserve Board of Governors / Haver Analytics.