FEDERAL RESERVE
BANK OF BOSTON™

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

February 7, 2013

CURRENT ECONOMIC DEVELOPMENTS - February 7, 2013

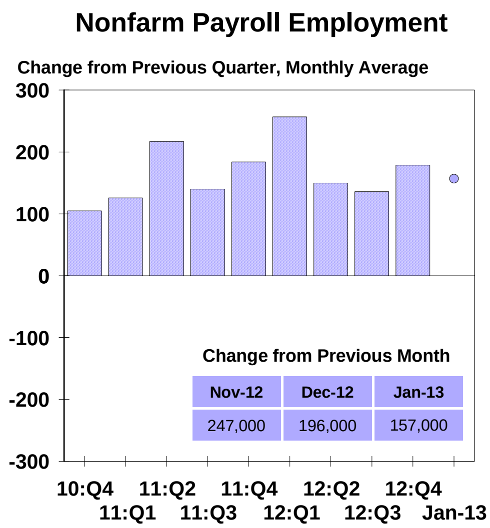
Data since your last Directors' meeting show that the economy contracted in the fourth quarter, with growth turning slightly negative for the first time in over three years. However, growth is expected to pick back up during the first quarter of 2013, as the fourth quarter decline was mostly due to temporary factors such as a large cutback in defense spending, a decline in inventories, and aftereffects of Hurricane Sandy. On the upside, improving labor market and housing market conditions, as well as resilient consumer spending, provide increased optimism. Government budget concerns remain as a downside risk.

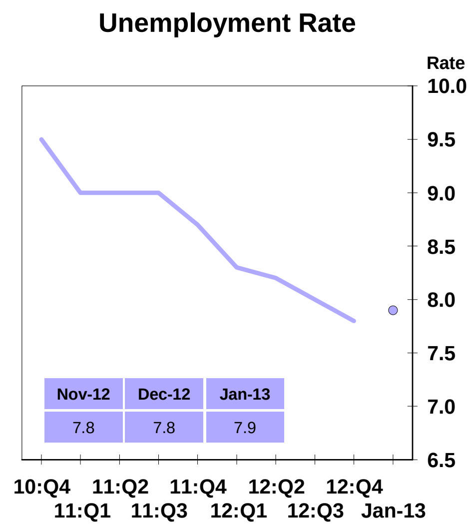
In January, nonfarm payrolls posted another gain and job increases in the previous two months were revised highter. However, the unemployment rate rose one-tenth of a percentage point. Initial claims declined in January from December, and were well below their fourth quarter average. Consumer attitudes were mixed in January, as sentiment improved while confidence dropped to its lowest level in over a year.

In the fourth quarter, the decrease in real GDP primarily reflected negative contributions from private inventory investment, federal governement spending, and exports that were partly offset by positive contributions from personal consumption expenditures, nonresidential fixed investment, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Inflation worries remain minimal as headline measures increased slightly in the fourth quarter, but core measures continued to ease. Unit labor costs increased in the fourth quarter while total compensation growth, as measured by the ECI, slowed. Oil prices rose in January and reached over $96 per barrel in the first week of February.

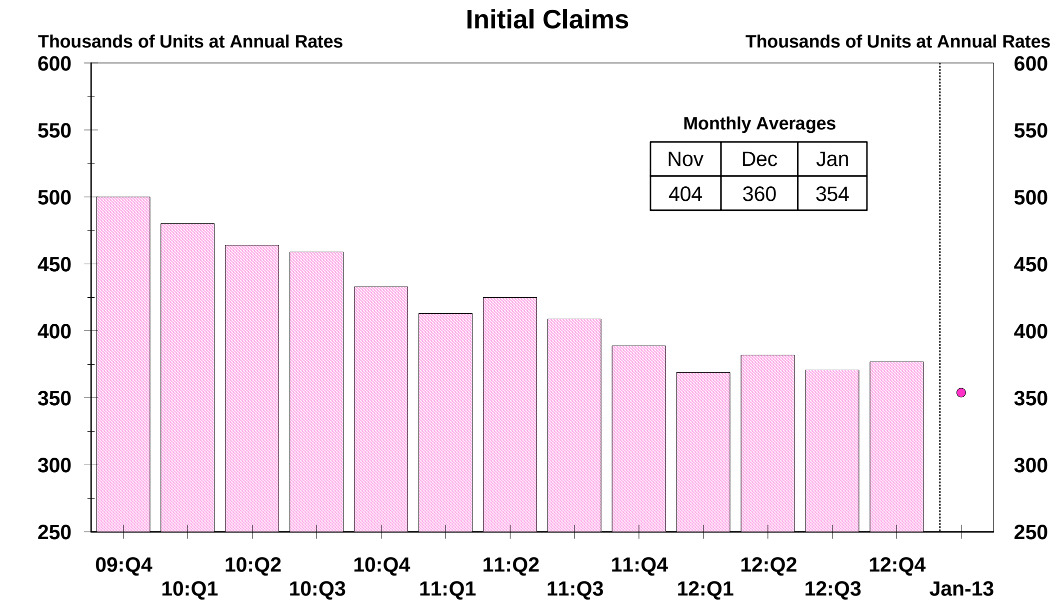
Payroll employment posted an increase of 157,000 jobs in January, below the fourth quarter monthly average of 179,000, but upward revisions to the December and November estimates resulted in a gain of 126,000 additional jobs. The unemployment rate rose one-tenth of a percentage point in January to 7.9%, up from the fourth quarter rate of 7.8%, as growth in the labor force outpaced gains in civilian employment.





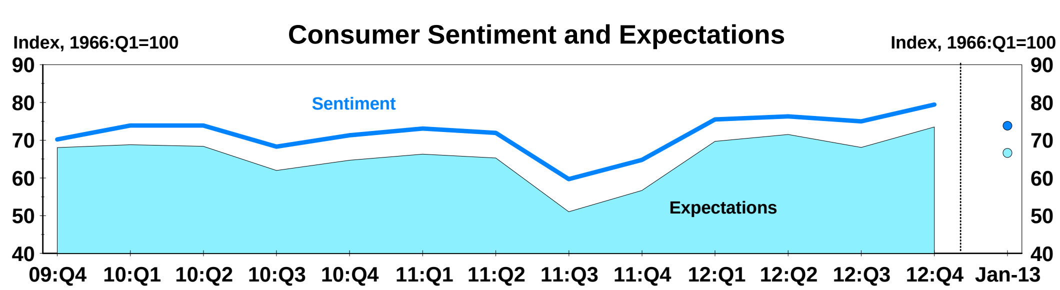
Source: Bureau of Labor Statistics / Haver Analytics.

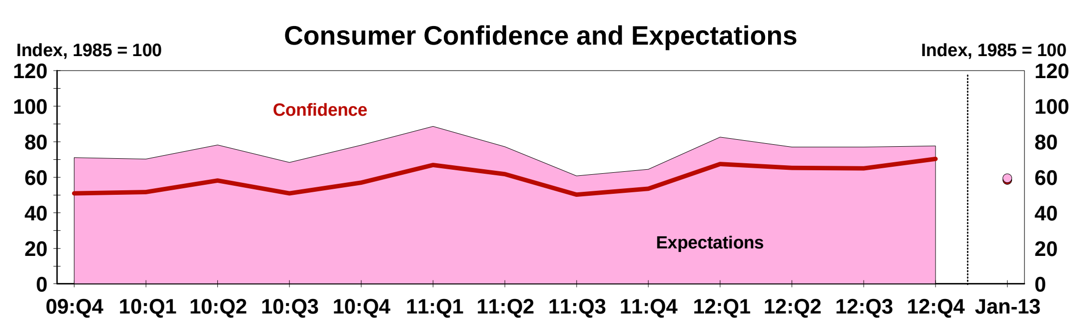
Initial claims for unemployment insurance were volatile in Janaury, rising in the first and last weeks of the month, while reaching a five-year low mid-month. On average, claims rose in the fourth quarter but fell in January from December.



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

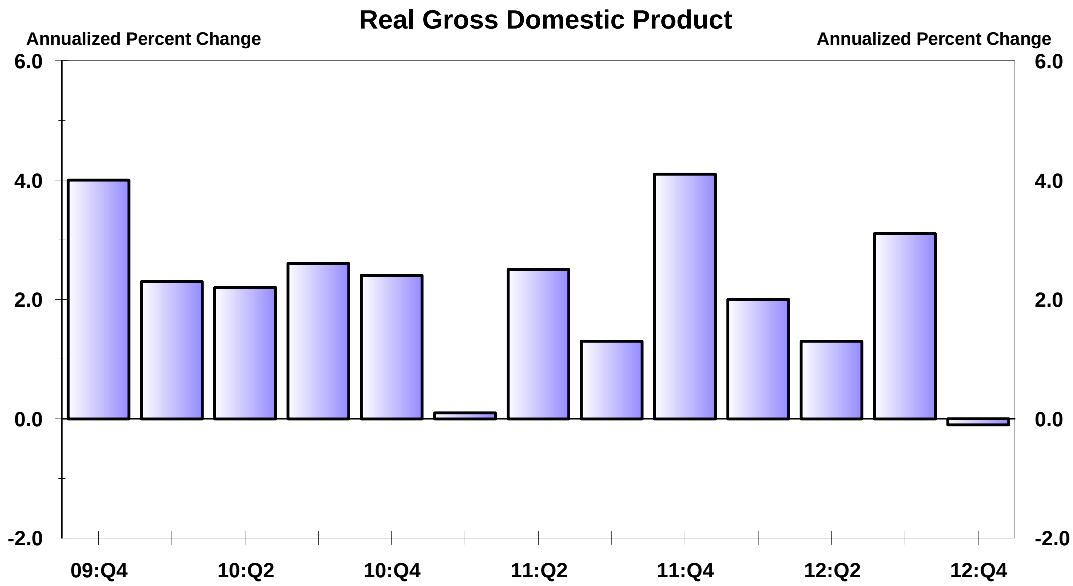
Consumer sentiment improved in January, but remains about 10% below the 5-year highs seen in October and November. Confidence declined below expectations in January to its lowest level since November 2011. The payroll tax increase and concerns about federal spending reductions likely contributed to consumers' more pessimistic outlook on their financial situation and the economy in general.





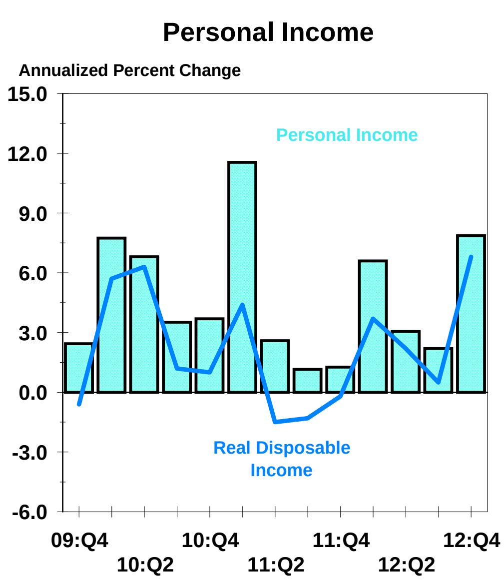
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

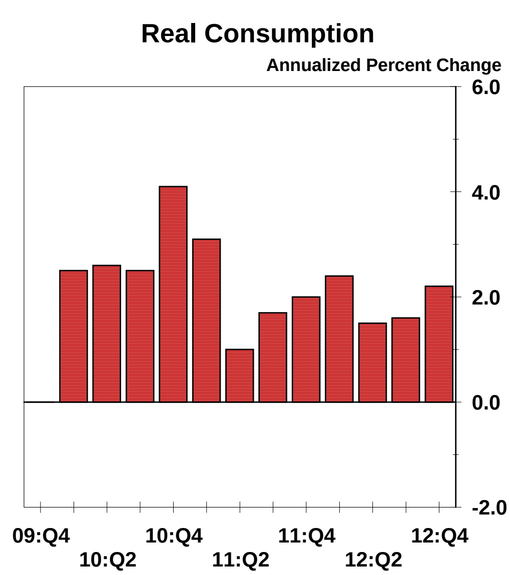
Real GDP decreased in the fourth quarter, following a solid rise in the third quarter. The downturn primarily reflected decreases in private inventory investment, in federal government spending, in exports, and in state and local government spending that were partly offset by an upturn in nonresidential fixed investment, a larger decrease in imports, and an acceleration in PCE.



Source: Bureau of Economic Analysis / Haver Analytics.

Personal income accelerated in the fourth quarter at its fastest pace since 2011:Q1, and real disposable income grew at its fastest pace in over four years. The higher incomes helped lead to another increase in consumption, which has increased in each of the past twelve quarters.





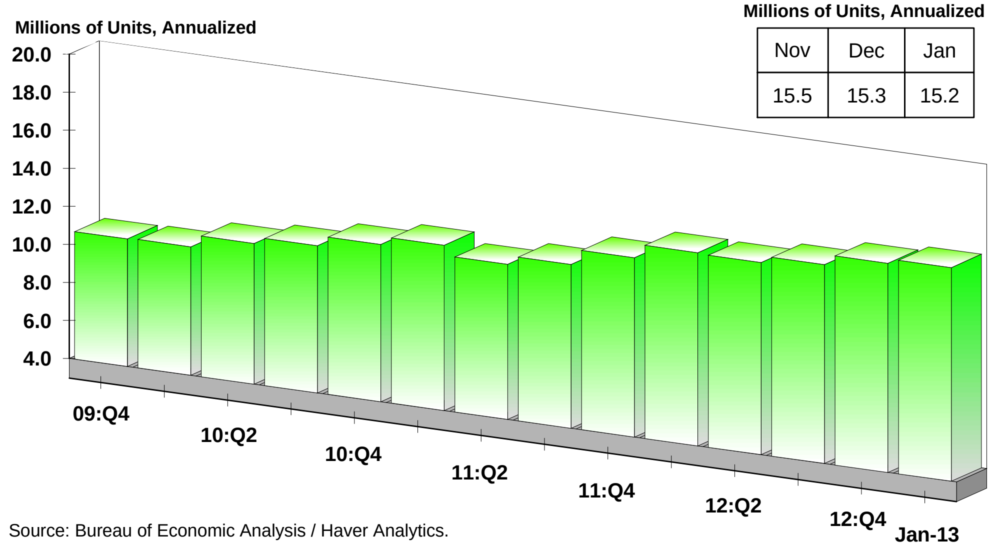
Source: Bureau of Economic Analysis / Haver Analytics.

Vehicle sales in the fourth quarter reached their highest level since 2008:Q1. Sales in January fell a bit compared to the prior month, but remained above the fourth quarter average. Domestic vehicle sales rose in January.

Total Auto and Light Truck Sales

Millions of Units, Annualized

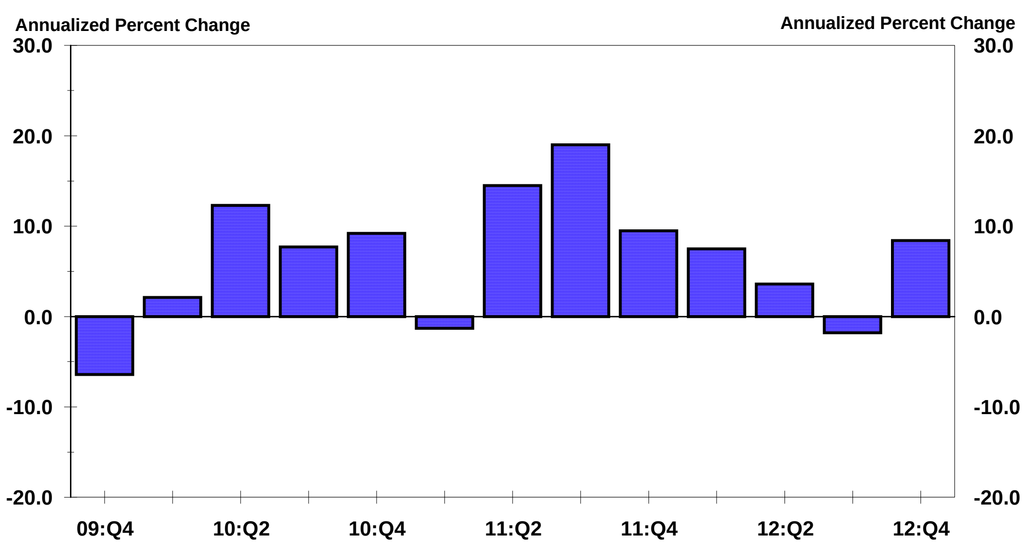
Nov	Dec	Jan
15.5	15.3	15.2



Source: Bureau of Economic Analysis / Haver Analytics.

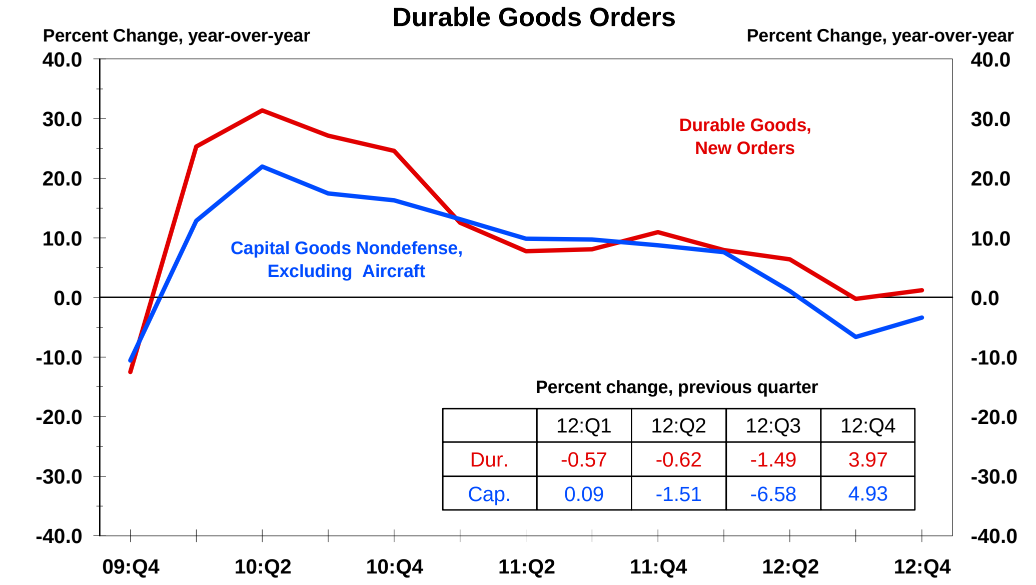
Business investment grew at a solid pace in the fourth quarter, after falling in the third quarter. The increase was due primarily to an upturn in investment in equipment and software, as investment in structures eased in the fourth quarter.

Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

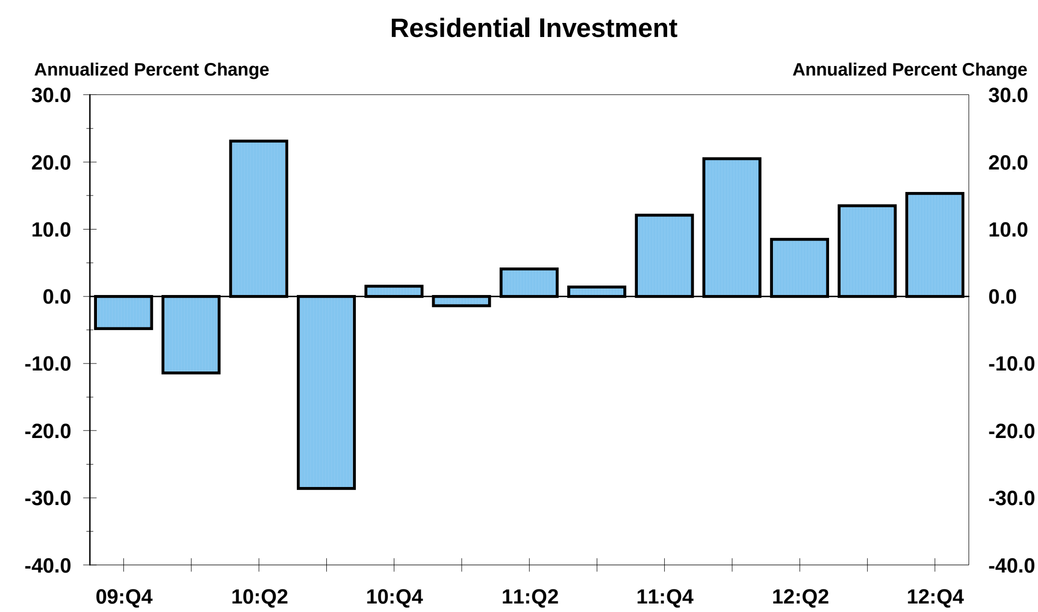
In the fourth quarter durable goods orders grew slightly compared to a year ago, after falling in the third quarter. Meanwhile, orders for nondefense capital goods, excluding aircraft, decreased for the second straight quarter on a year-over-year basis. However, both total and core orders increased in the fourth quarter compared to the third.



	12:Q1	12:Q2	12:Q3	12:Q4
Dur.	-0.57	-0.62	-1.49	3.97
Cap.	0.09	-1.51	-6.58	4.93

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

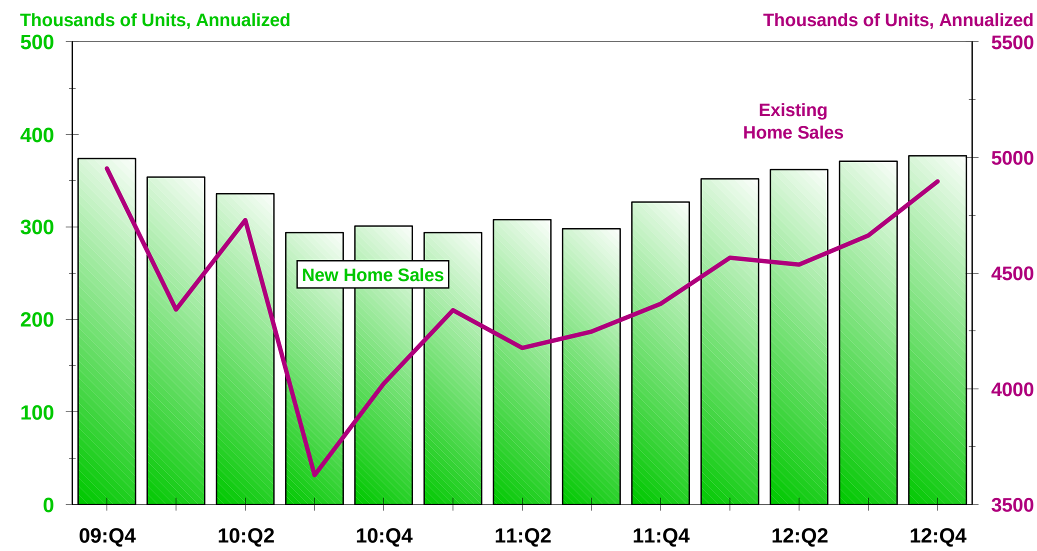
Residential investment growth accelerated in the fourth quarter. Investment had been quite volatile since the end of the recession but has now increased in seven straight quarters, the first such streak in seven years.



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

Home sales continued to climb in the fourth quarter, with both new and existing home sales reaching their highest levels since late 2009. While the recent improvements may be a sign of the real estate market having stabilized, the sector remains far below its prerecession level.

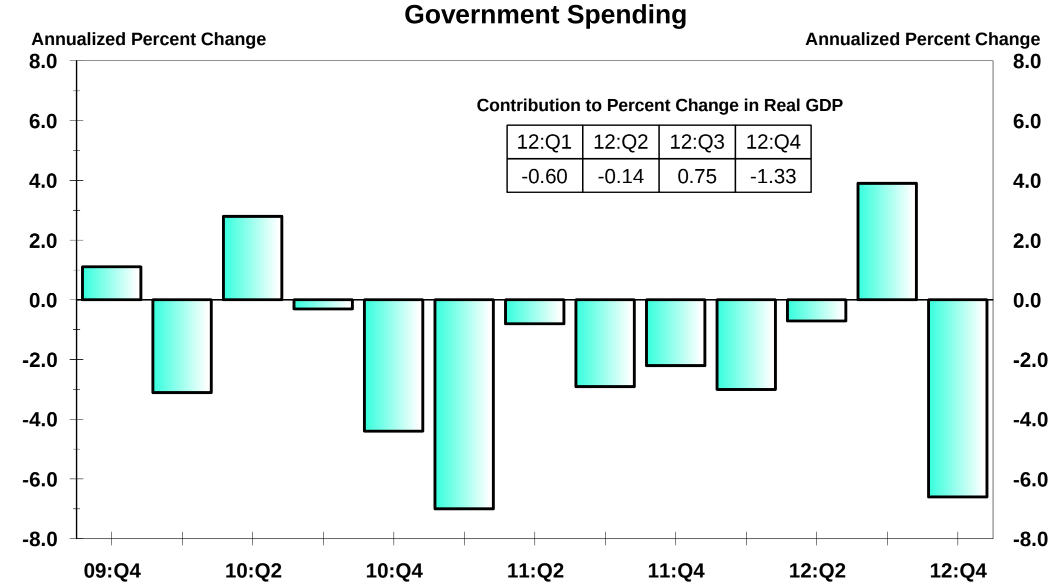
New and Existing Home Sales



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

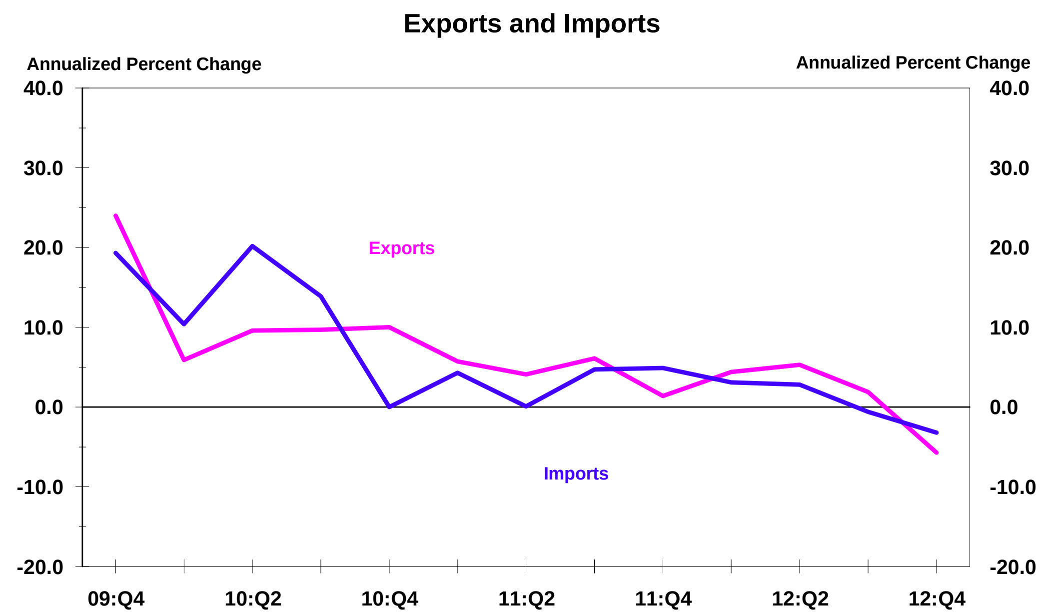
Government spending posted a sharp decline in the fourth quarter, subtracting over one percentage point from GDP growth. Most of the decline was due to a large cutback in federal defense spending, although state and local government spending also fell.

Government Spending



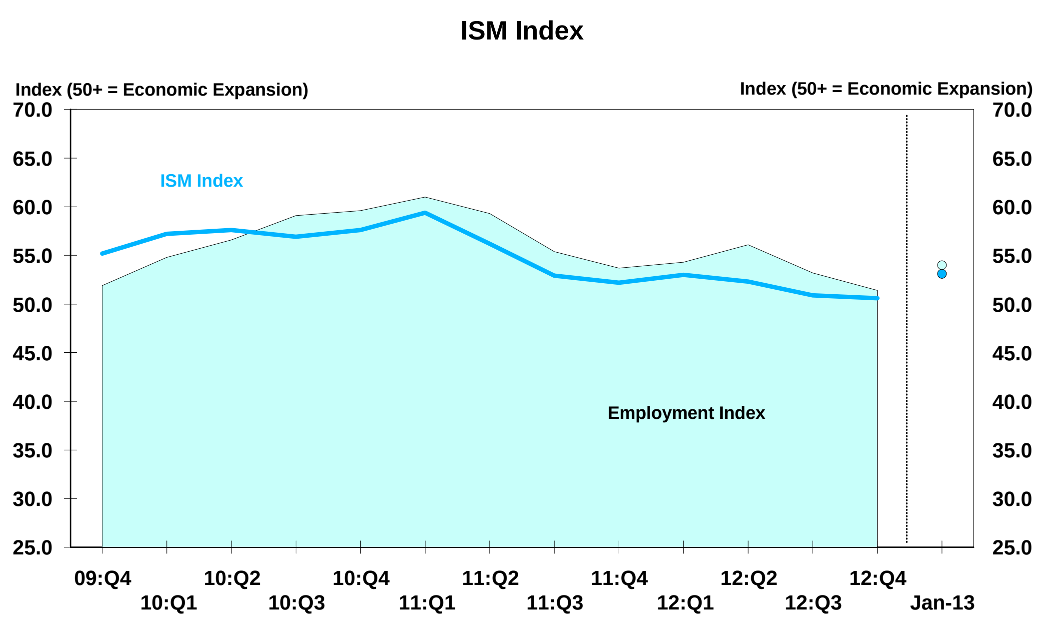
Source: Bureau of Economic Analysis / Haver Analytics.

Imports fell in the fourth quarter for the second straight quarter. Meanwhile, exports decreased for the first time since 2009:Q1, falling at a faster pace than imports.



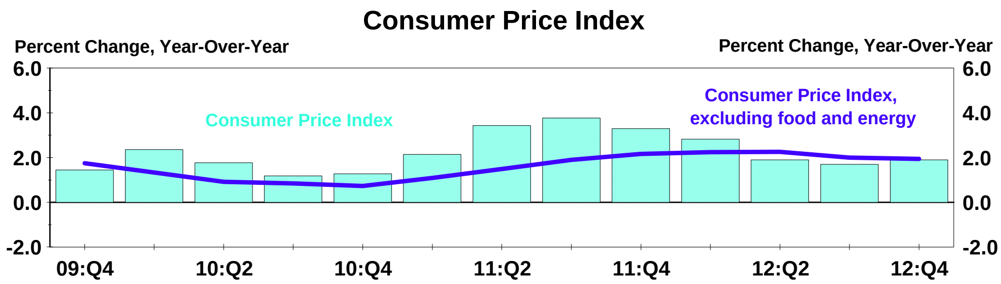
Source: Bureau of Economic Analysis / Haver Analytics.

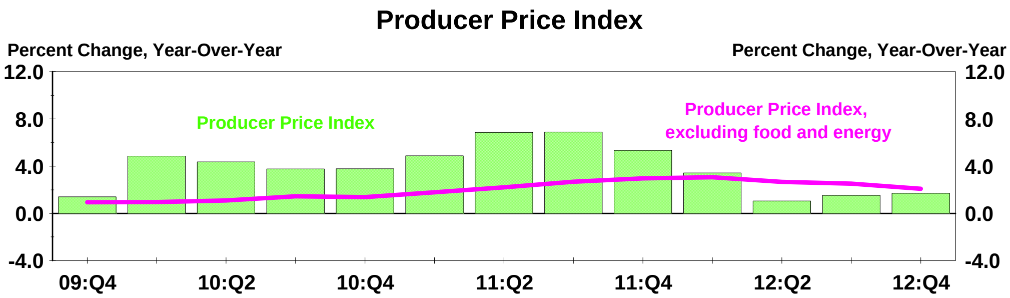
The ISM manufacturing index improved in January, and after easing on a quarterly basis throughout 2012, is now back in line with the levels seen at the beginning of the year. The employment component of the index also rose in January, above its third and fourth quarter averages.



Source: Institute for Supply Management / Haver Analytics.

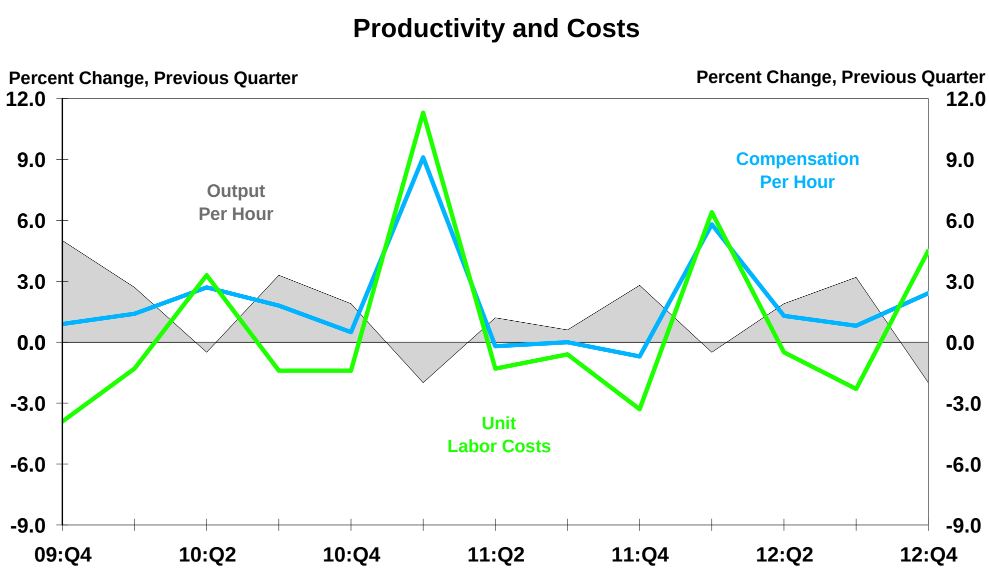
Headline consumer inflation accelerated slightly in the fourth quarter, primarily due to increasing energy prices. The core index, which excludes food and energy, slowed further in the fourth quarter. Producer price indices exhibited similar behavior in the fourth quarter.





Source: Bureau of Labor Statistics / Haver Analytics.

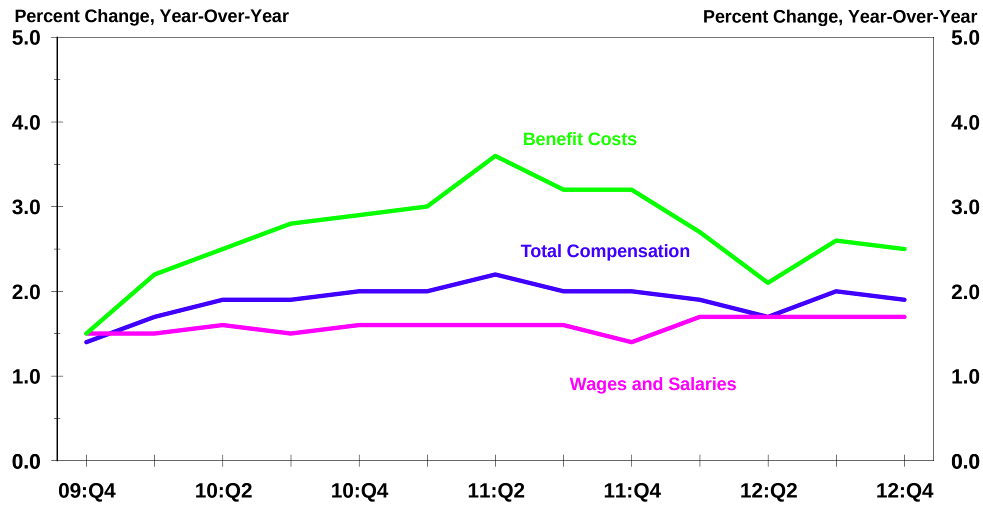
Productivity fell in the fourth quarter, as hours worked increased more than output. Growth in compensation picked up in the fourth quarter after slowing in each of the previous two quarters. Unit labor costs posted a gain in the fourth quarter, following declines in the prior two quarters.



Source: Bureau of Labor Statistics / Haver Analytics.

In the fourth quarter, total employment cost growth slowed, due to a deceleration in benefit cost growth. Wages and salary cost growth held steady in the fourth quarter. Overall, compensation costs grew at a slightly slower pace in 2012 than they did in 2011, as slower benefits growth more than offset a rise in wage costs.

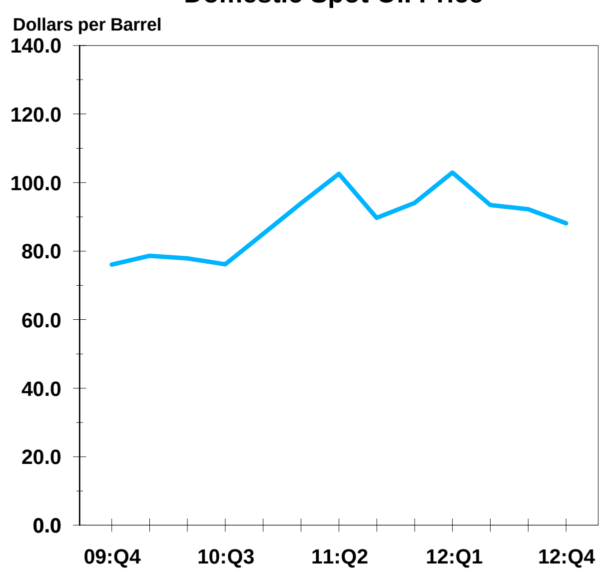
Employment Cost Index



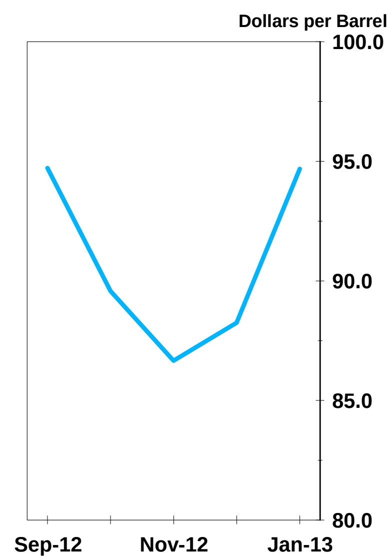
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose higher in January from December, after falling on average in the fourth quarter. Prices averaged just under $95 per barrel during the month, and have crept up slightly during the first week in February.

Domestic Spot Oil Price

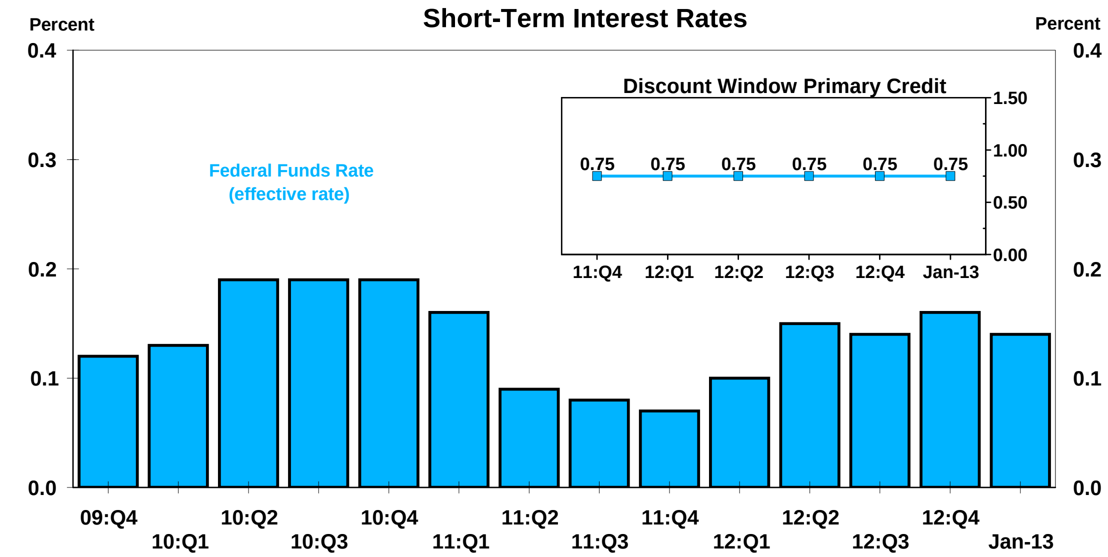


Past Five Months



Source: Wall Street Journal / Haver Analytics.

Data since your last Directors' meeting show that the economy contracted in the fourth quarter, with growth turning slightly negative for the first time in over three years. However, growth is expected to pick back up during the first quarter of 2013, as the fourth quarter decline was mostly due to temporary factors such as a large cutback in defense spending, a decline in inventories, and aftereffects of Hurricane Sandy. On the upside, improving labor market and housing market conditions, as well as resilient consumer spending, provide increased optimism. Government budget concerns remain as a downside risk.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

February 14, 2013

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

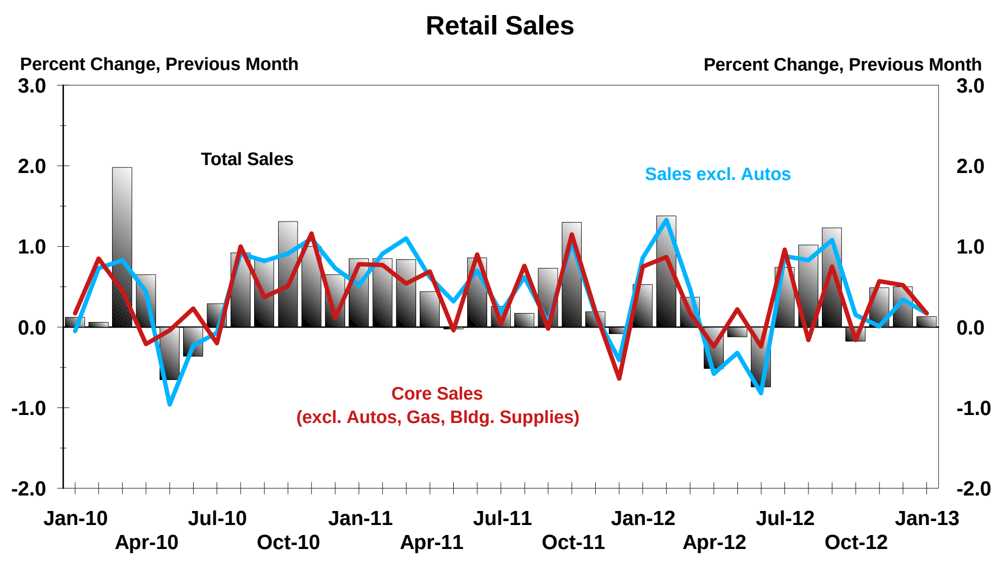
Retail sales inched up 0.1% in January, a deceleration from the increases of 0.5% seen in both November and December. Sales excluding autos and core sales each rose 0.2% in January.

In January, import prices rose 0.6%, following decreases of 0.5% and 0.7%, respectively, in December and November. The January increase was mainly due to rising fuel import prices. Prices for exports increased 0.3% in January, after falling in each of the previous two months.

Business inventories rose 0.1% in December, their smallest increase since June, and business sales increased 0.3%. The inventory/sales ratio decreased to 1.27 in December, down from 1.28 in November.

Through the first full week of February, Redbook sales were up 1.1% compared to January, and up 2.4% compared to the same period last year. Oil prices increased a bit over the past week, averaging $97.5 per barrel as opposed to the previous week's average of $96.6.

Retail sales increased 0.1% in January, after rising 0.5% in each of the previous two months. The deceleration in total sales was due, in part, to a decline in auto sales. Sales excluding autos and core sales each edged up 0.2% in January, and sales excluding autos have now increased in each of the past seven months. Total retail sales are up 4.4% compared to one year ago.



Source: Bureau of Labor Statistics / Haver Analytics.