FEDERAL RESERVE
BANK OF BOSTON™

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

February 7, 2014

CURRENT ECONOMIC DEVELOPMENTS - February 7, 2014

Data since your last Directors' meeting show that growth in the economy picked up over the second half of the year, despite decelerating in the fourth quarter. Growth is expected to decelerate further during the first quarter of 2014, as the inventory buildup that contributed to acceleration in the second half of 2013 is expected to slow. On the upside, support from business investment and consumer spending remains reslilient, yet improvement in the housing market has shown signs of slowing.

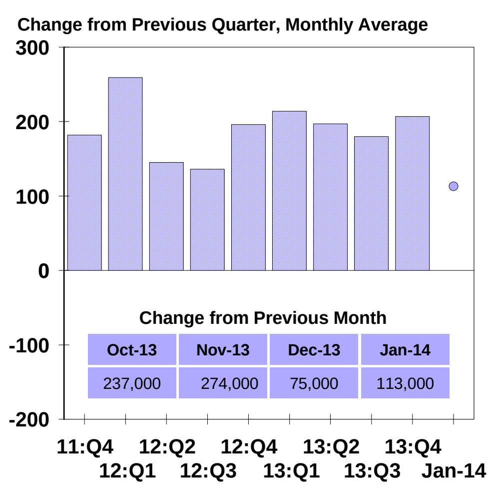
In January, nonfarm payrolls posted a weaker-than-expected increase, while job gains in the previous three months were revised higher. The unemployment rate fell one-tenth of a percentage point to 6.6% in January, its lowest level since October 2008. Initial claims declined in January from December and were well below their fourth quarter average. Consumer attitudes were mixed in January, as confidence improved while sentiment declined, but continued to show positive signs.

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

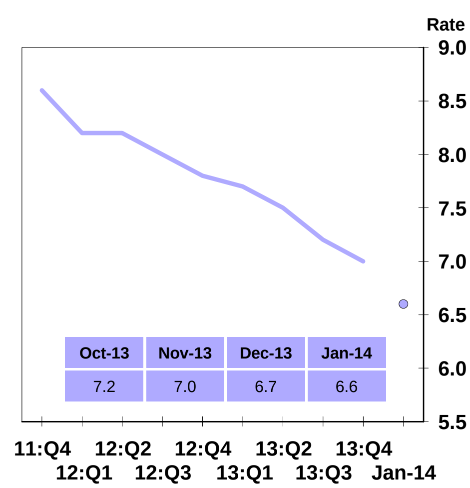
Inflation remained subdued as both headline and core measures eased slightly in the fourth quarter. Unit labor costs decreased in the fourth quarter while total compensation growth, as measured by the ECI, picked up. Oil prices fell, on average, in January but increased to over $97 per barrel in the first week of February.

Payroll employment posted an increase of 113,000 jobs in January, well below the fourth quarter monthly average of 207,000, while upward revisions to the estimates in the previous three months resulted in a gain of 71,000 additional jobs. The unemployment rate fell one-tenth of a percentage point in January to 6.6%, as gains in civilian employment outpaced growth in the labor force.

Nonfarm Payroll Employment

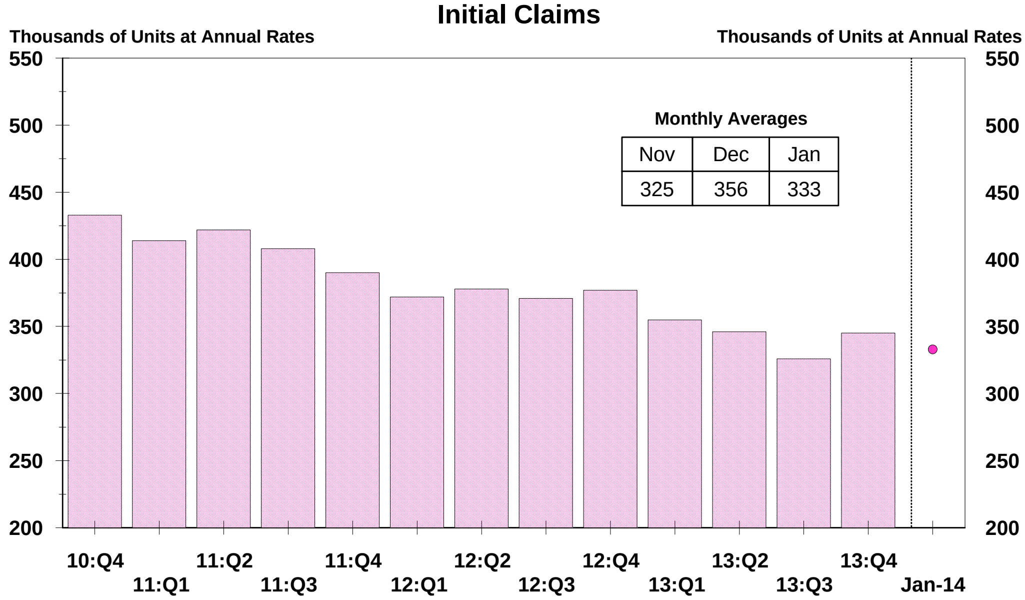


Unemployment Rate



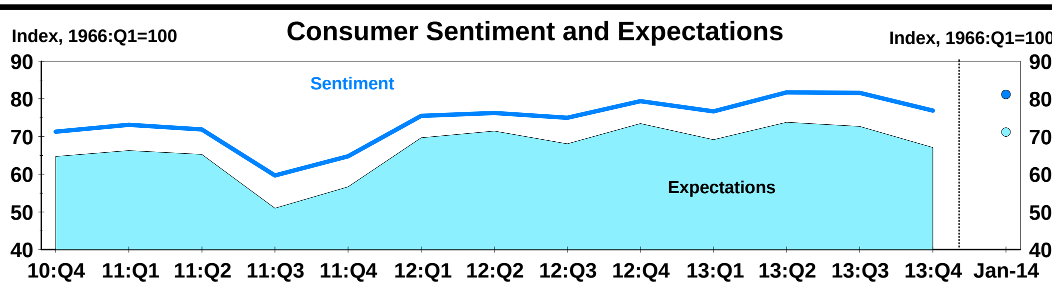
Source: Bureau of Labor Statistics / Haver Analytics.

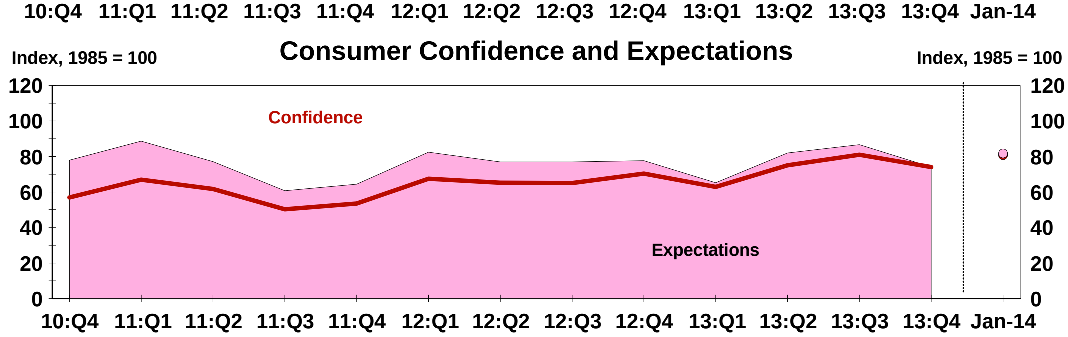
On average, claims rose in the fourth quarter from a six-year low in the third quarter. Claims declined in January from December, but not enough to return to the levels seen in the third quarter.



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

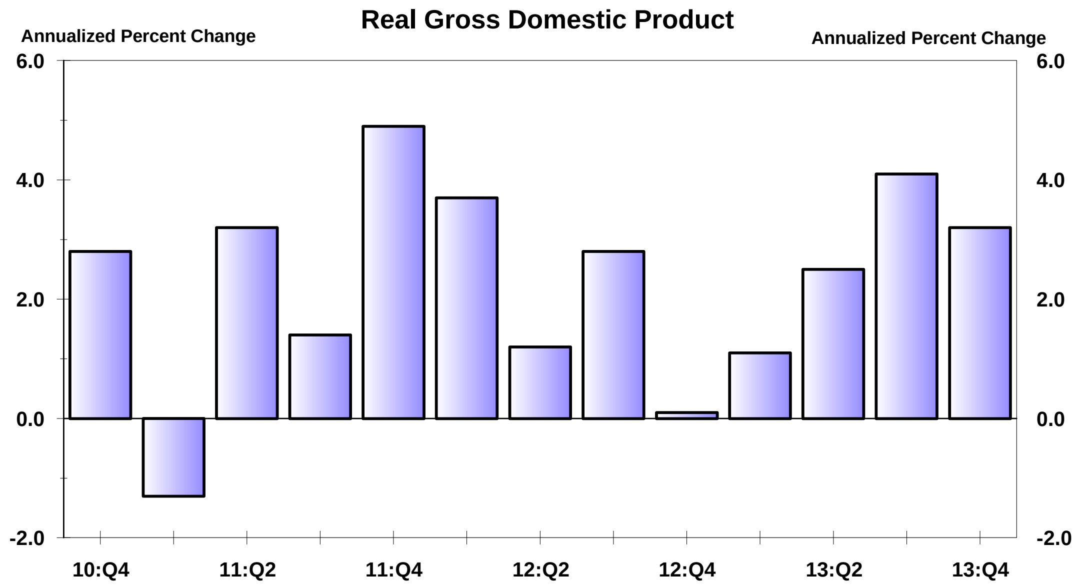
Consumer attitudes were mixed in January, as the confidence index improved while the sentiment index declined, but remained resilient. Respondents to the confidence survey were more optimistic towards current business conditions, as well as expectations for economic and earnings improvment. Meanwhile, expecations towards personal finances and the economy as a whole were areas of concern in the sentiment survey.





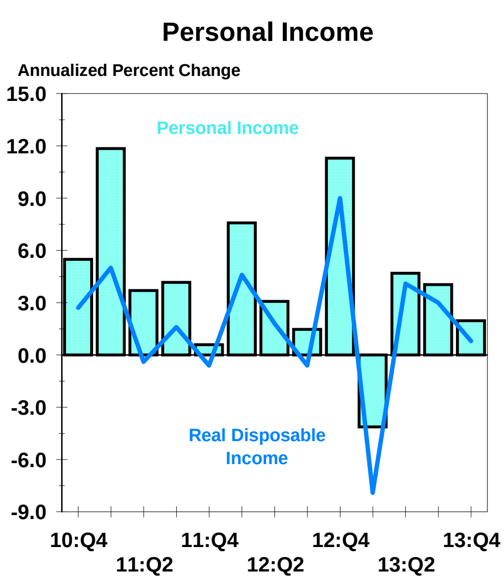
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

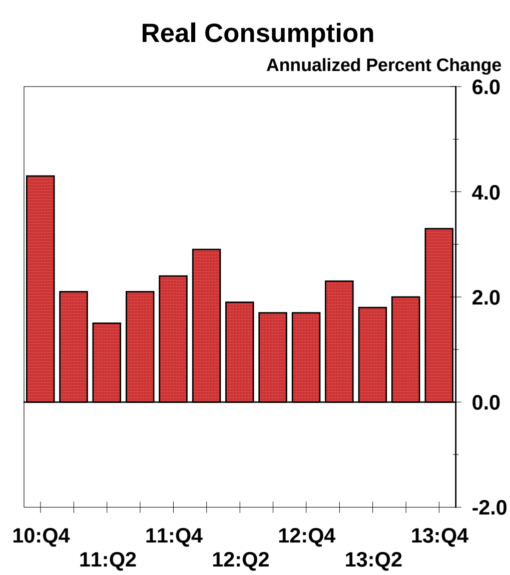
Real GDP rose in the fourth quarter, but slowed from the rate seen in the third quarter that was the highest since 2011:Q4. The deceleration reflected a slowdown in private inventory investment, a larger decrease in federal government spending, a downturn in residential fixed investment, and decelerations in state and local government spending and in nonresidential fixed invesetment that were partly offset by accelerations in exports and in PCE and a decleration in imports.



Source: Bureau of Economic Analysis / Haver Analytics.

Personal income and real disposable income continued to decelerate in the fourth quarter, reaching their lowest growth rates since the first quarter. Despite the slower income growth, consumption picked up in the fourth quarter to its highest growth rate in three years.





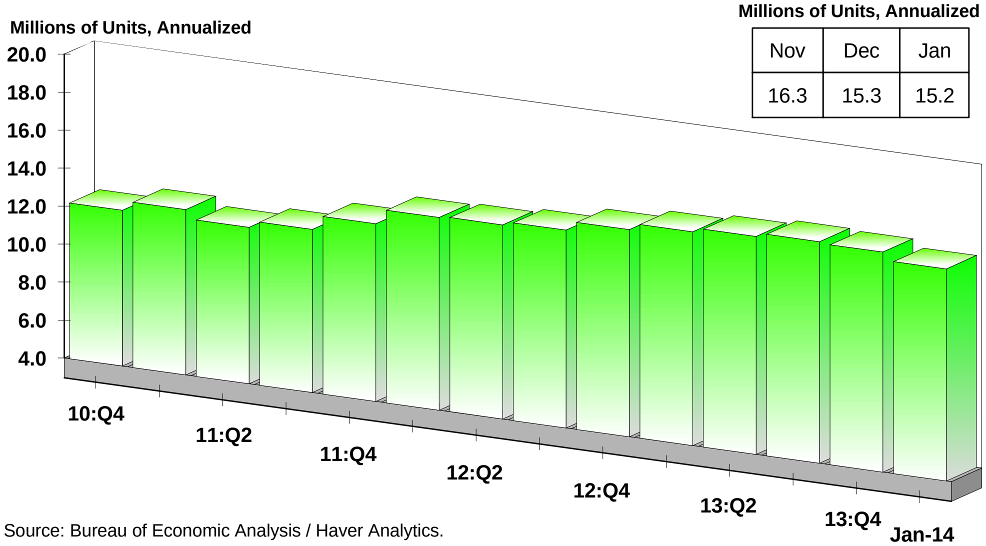
Source: Bureau of Economic Analysis / Haver Analytics.

Vehicle sales eased on average in the fourth quarter and fell a bit further in January, likely an effect of unseasonably cold weather. Domestic vehicle sales rose in January, led by an increase in light duty truck sales that more-than-offset a decline in domestic auto sales.

Total Auto and Light Truck Sales

Millions of Units, Annualized

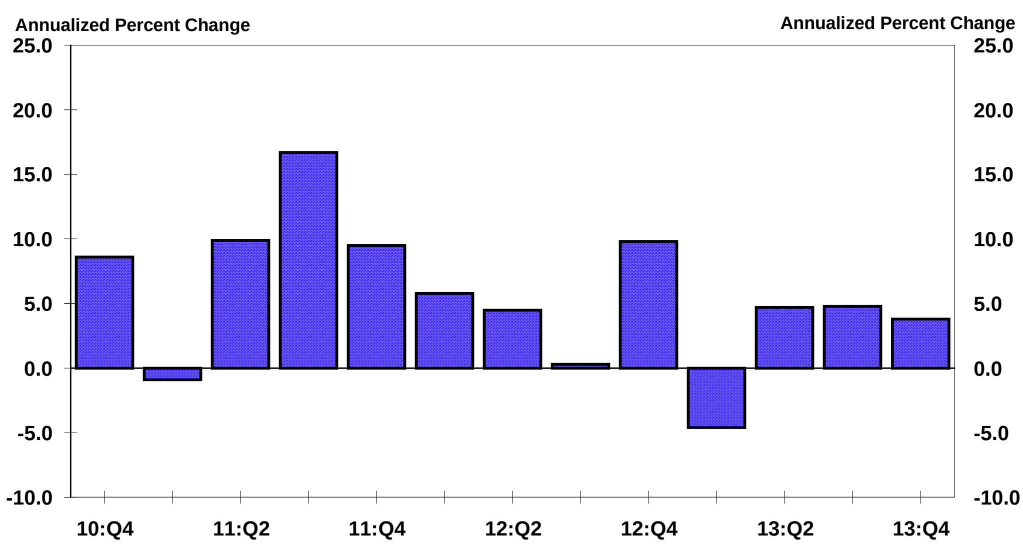
Nov	Dec	Jan
16.3	15.3	15.2



Source: Bureau of Economic Analysis / Haver Analytics.

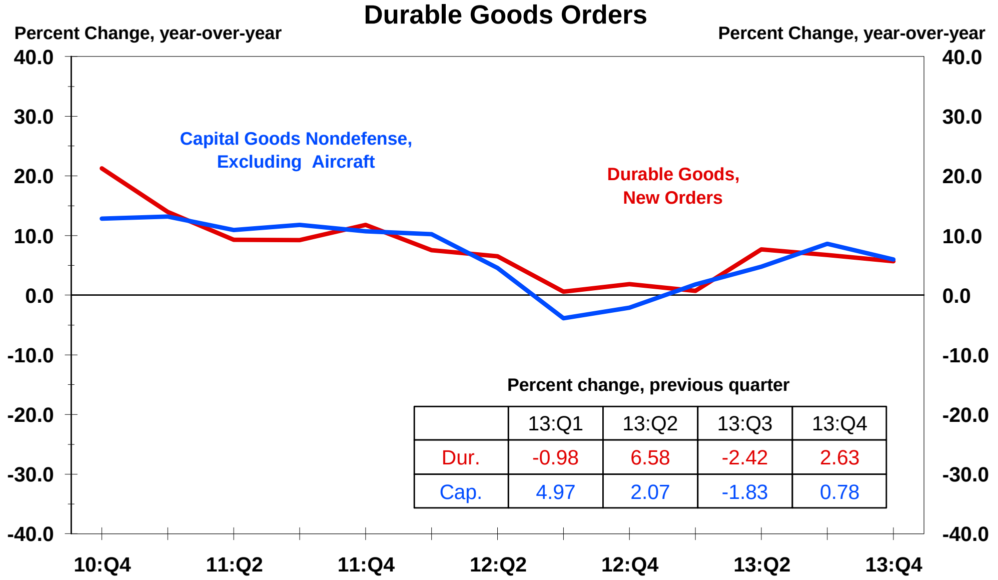
Business investment was mostly steady in the fourth quarter, posting its third consecutive quarterly increase. The increase in the fourth quarter was due primarily to an upturn in investment in equipment, as investment in structures eased.

Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the fourth quarter, durable goods orders and orders for nondefense capital goods, excluding aircraft, both grew compared to a year ago, albeit at slightly slower rates than seen in the third quarter. Both total and core orders increased in the fourth quarter compared to the third.

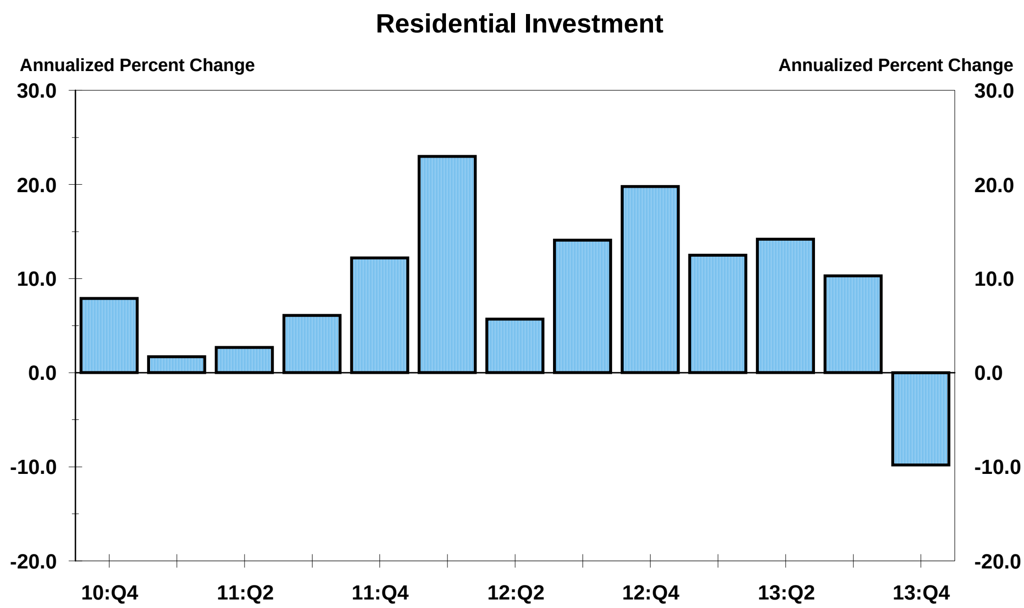


Percent change, previous quarter

	13:Q1	13:Q2	13:Q3	13:Q4
Dur.	-0.98	6.58	-2.42	2.63
Cap.	4.97	2.07	-1.83	0.78

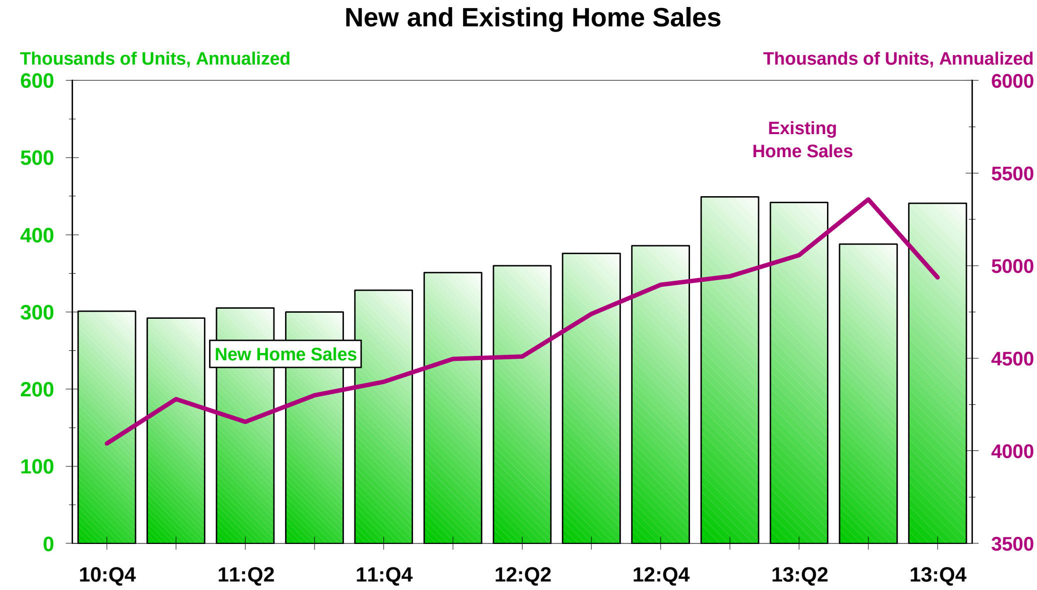
Source: U.S. Census Bureau / Haver Analytics.

Residential investment fell in the fourth quarter, its first quarterly decrease in over three years.



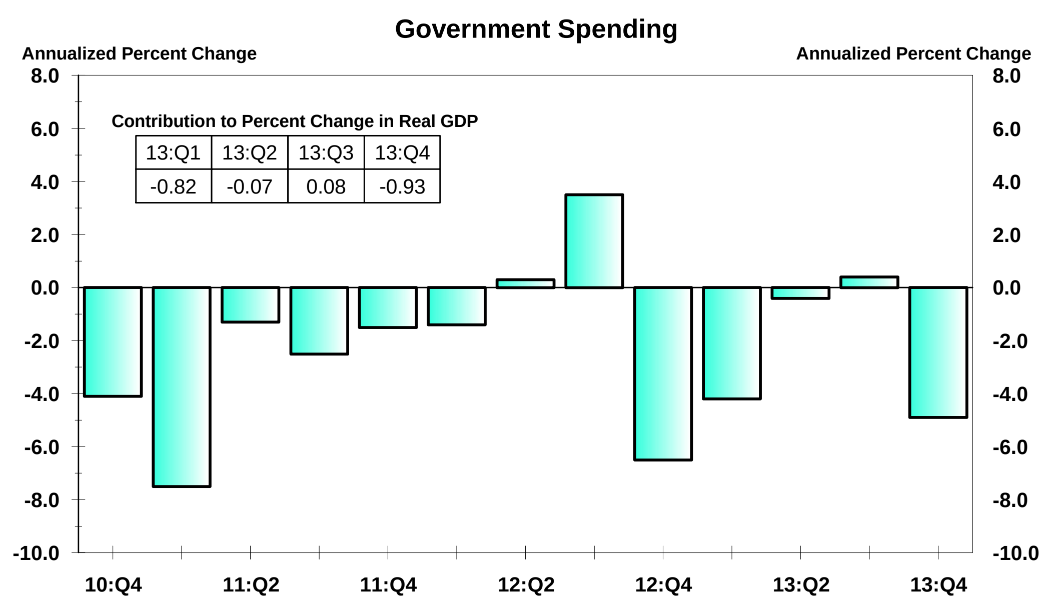
Source: U.S. Census Bureau / Haver Analytics.

New home sales picked up on average in the fourth quarter, after falling in each of the two prior quarters. Meanwhile, existing home sales fell in the fourth quarter, their first quarterly decrease since 2011:Q2, and are now in line with levels seen at the beginning of the year.



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

Government spending posted a sharp decline in the fourth quarter, subtracting almost one percentage point from GDP growth. The decline was due to large cutbacks in federal spending, as state and local government spending increased.

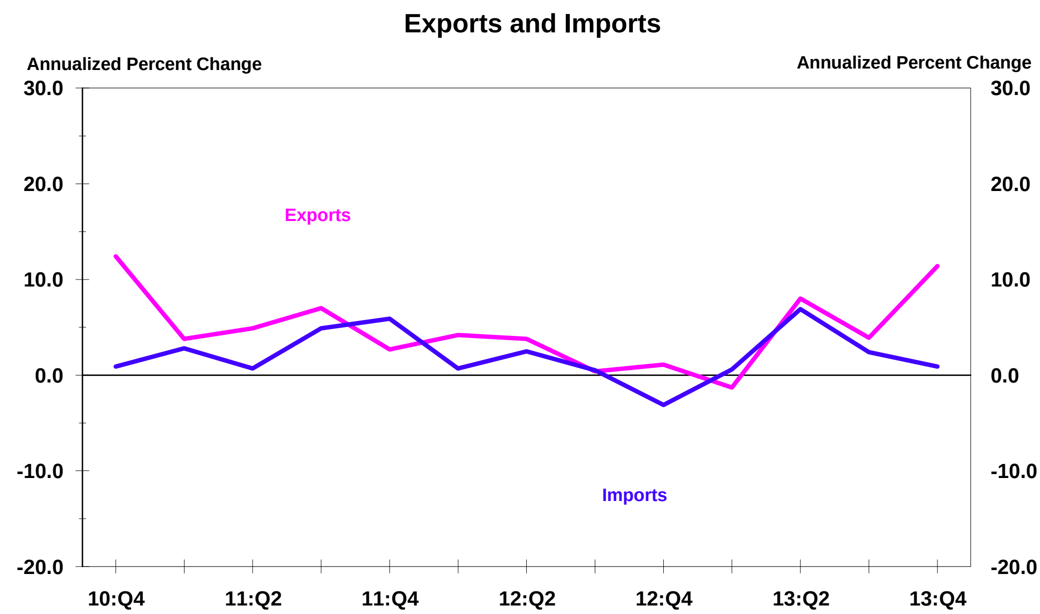


Contribution to Percent Change in Real GDP

13:Q1	13:Q2	13:Q3	13:Q4
-0.82	-0.07	0.08	-0.93

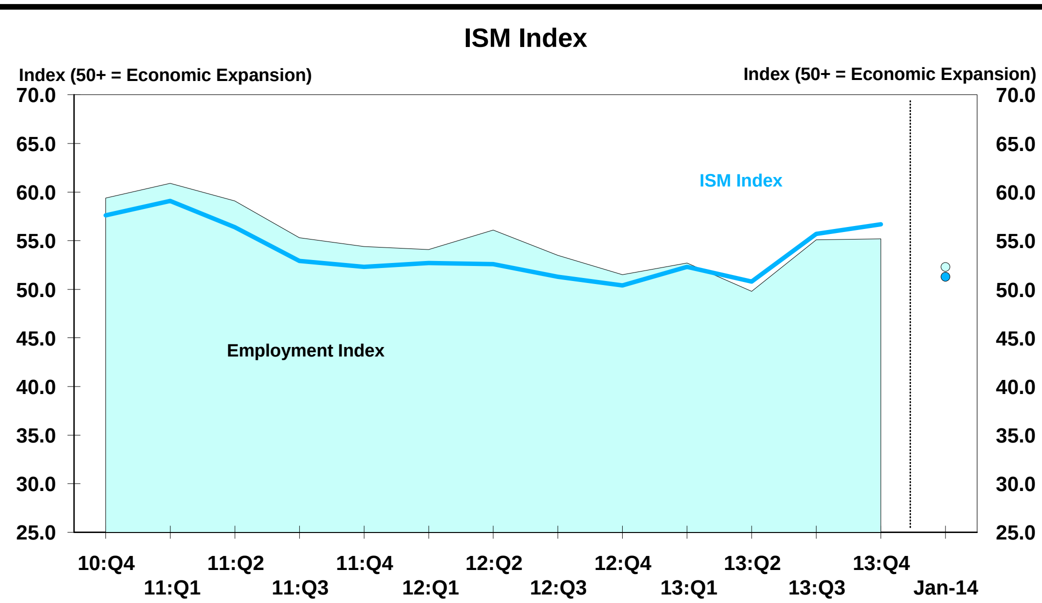
Source: Bureau of Economic Analysis / Haver Analytics.

Exports surged in the fourth quarter to their largest quarterly increase in three years. Meanwhile, imports decelerated for the second consecutive quarter, growing at a much slower pace than exports.



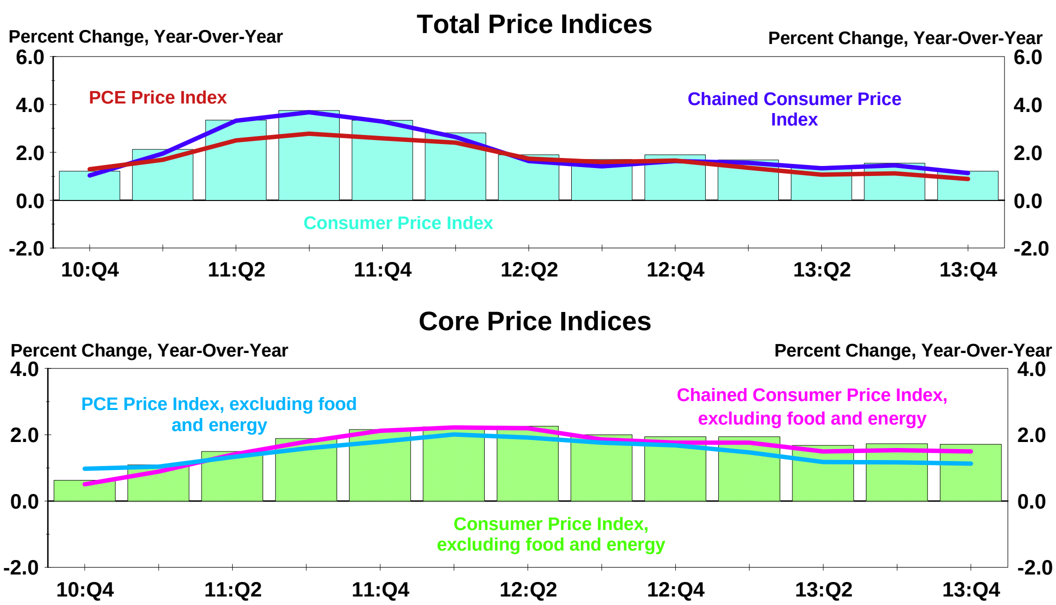
Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index declined in January to its lowest level in eight months after rising on average in the fourth quarter. The index remained above 50 in January, continuing to signal expansion in the manufacturing sector. The employment component of the index also fell in January, after improving slightly in the fourth quarter.



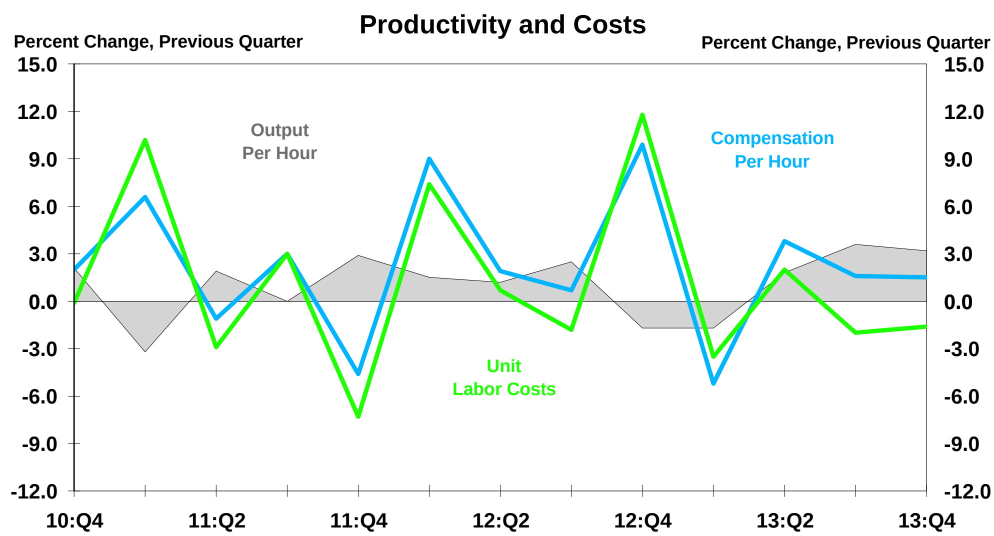
Source: Institute for Supply Management / Haver Analytics.

Growth in total consumer prices eased in the fourth quarter, after accelerating a bit in the third quarter. Growth in core prices was little changed from that of the prior two quarters, registering a slight deceleration in the fourth quarter and remaining subdued.



Source: Bureau of Labor Statistics / Haver Analytics.

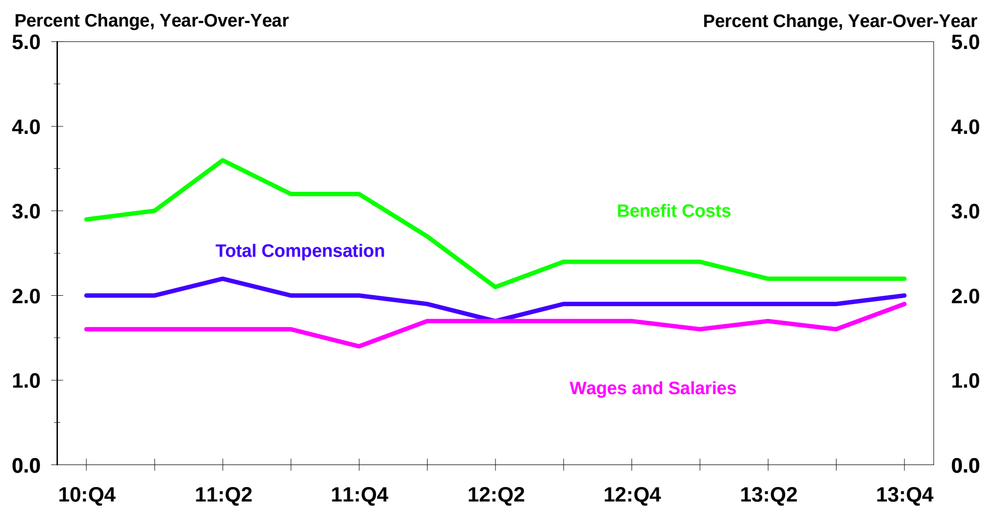
Productivity rose in the fourth quarter, albeit at a slower pace than the upwardly revised rate in the third quarter, as output increased more than hours worked. On average over the second half of the year, productivity grew at its fastest two-quarter pace in four years. In the fourth quarter, growth in compensation was little changed from its rate in the prior quarter, and unit labor costs declined for the second consecutive quarter.



Source: Bureau of Labor Statistics / Haver Analytics.

In the fourth quarter, total employment cost growth ticked up, due to an acceleration in wages and salaries growth. Benefit cost growth held steady in the fourth quarter.

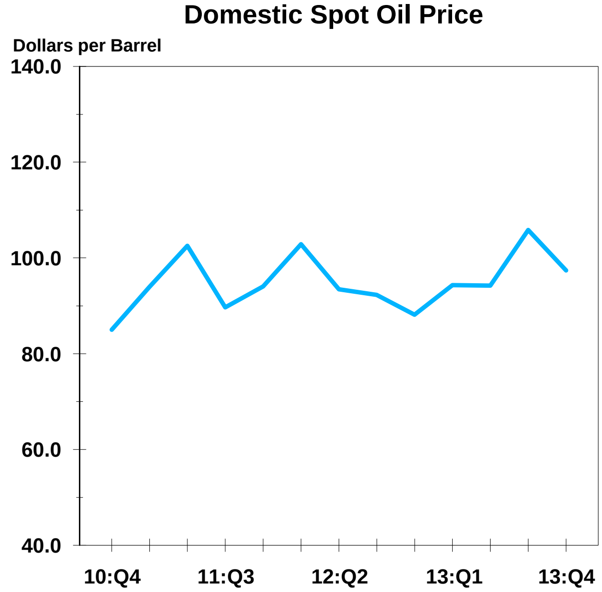
Employment Cost Index



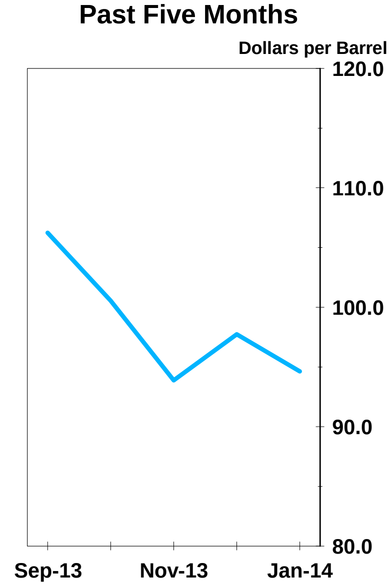
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices fell in January from December, after falling on average in the fourth quarter. Prices averaged just under $95 per barrel during the month, but have crept up over the past couple of weeks to $97.8 per barrel as of February 6th.

Domestic Spot Oil Price

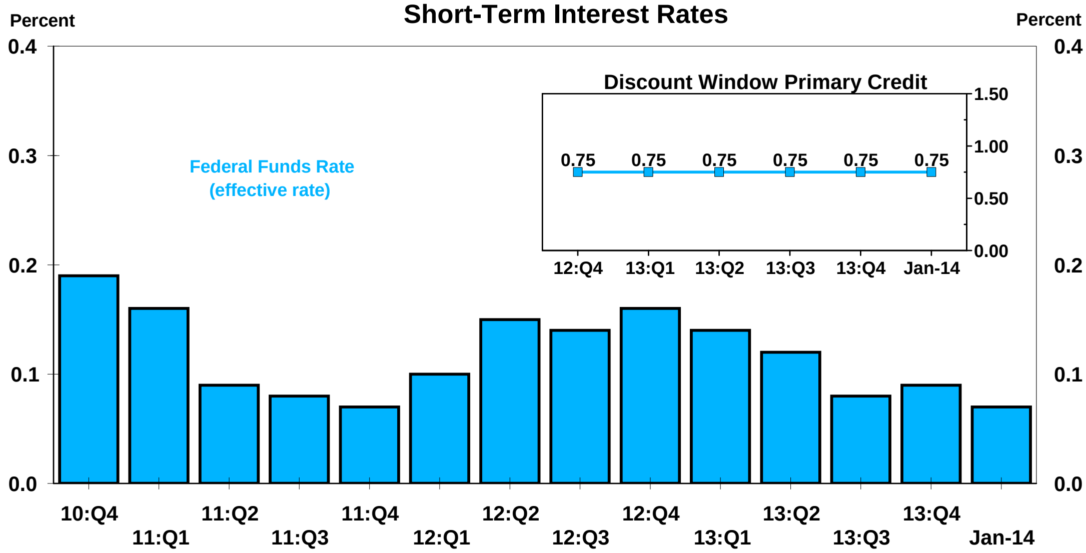


Past Five Months



Source: Wall Street Journal / Haver Analytics.

Data since your last Directors' meeting show that growth in the economy picked up over the second half of the year, despite decelerating in the fourth quarter. Growth is expected to decelerate further during the first quarter of 2014, as the inventory buildup that contributed to acceleration in the second half of 2013 is expected to slow. On the upside, support from business investment and consumer spending remains reslilient, yet improvement in the housing market has shown signs of slowing.



Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni