FEDERAL RESERVE
BANK OF BOSTON™

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

January 5, 2012

CURRENT ECONOMIC DEVELOPMENTS - January 5, 2012

Data released since your last Directors' meeting suggest economic growth accelerated in the fourth quarter, but any improvment is not expected to last through the first half of 2012. Employment has picked up, consumer attitudes have brightened, and business investment continues to provide support. Yet income growth has been stagnant and the housing market remains weak. Broader issues such as domestic fiscal questions and the ongoing European debt crisis also cloud the outlook and pose downside risks.

In December initial claims continued their descent, falling to their lowest levels in over three years. Consumer attitudes improved during the month, and have now erased most of the decline seen over the summer and early fall. Auto sales eased slightly in December, but fourth quarter sales overall were still the strongest since mid-2008. In November, real consumption posted a small increase despite disposable incomes essentially holding steady.

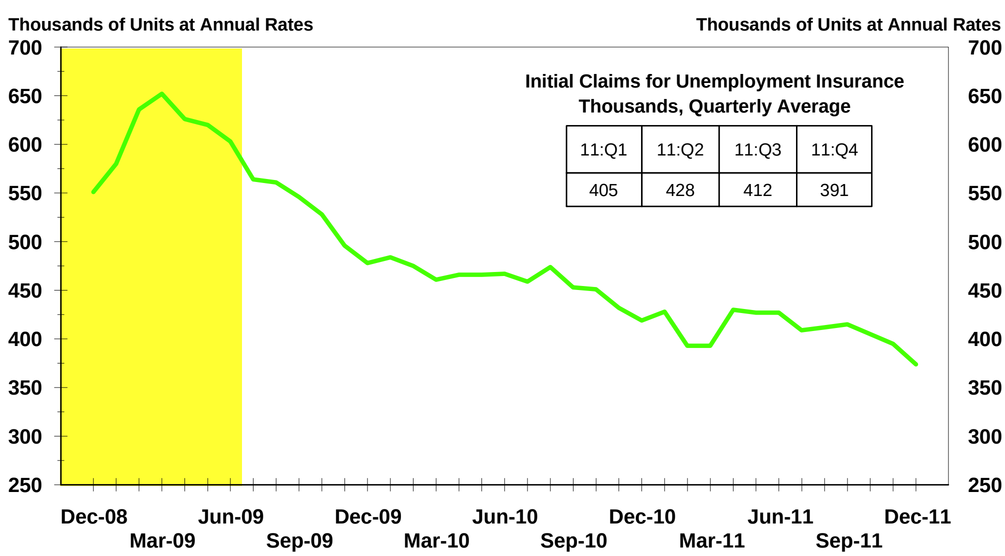
Primary measures of real estate activity improved in November, but overall the sector remains quite weak. New and existing home sales rose a bit during the month yet are still very low historically and housing starts permits data remains in line with the levels seen over the past three years.

In the business sector, recent data has been mixed. The ISM index rose further in December, reaching its highest level since June. Durable goods orders rose sharply in November, but orders for nondefense capital goods, excluding aircraft, fell. Industrial production and capacity utilization both eased in November, following over two years of mostly steady improvement.

Total consumer price growth decelerated in November, and the core index held mostly steady. Oil prices rose only slightly in December, but still reached their highest level since May.

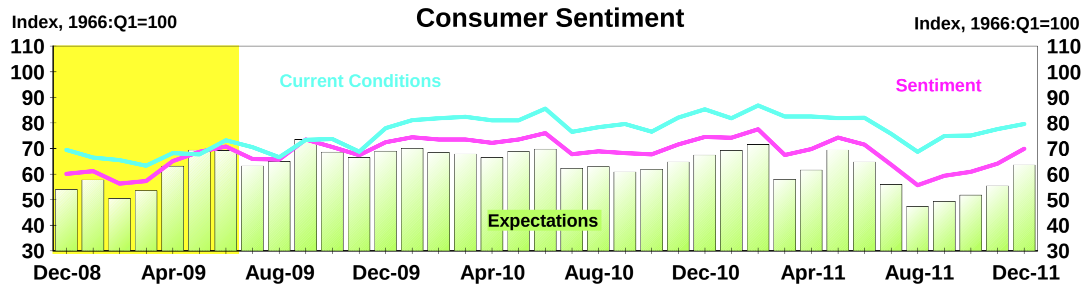
Initial claims for unemployment insurance continued to fall in December, dropping to their lowest levels since mid-2008. Claims are down 10% over the past three months, after holding mostly steady through the first nine months of 2011.

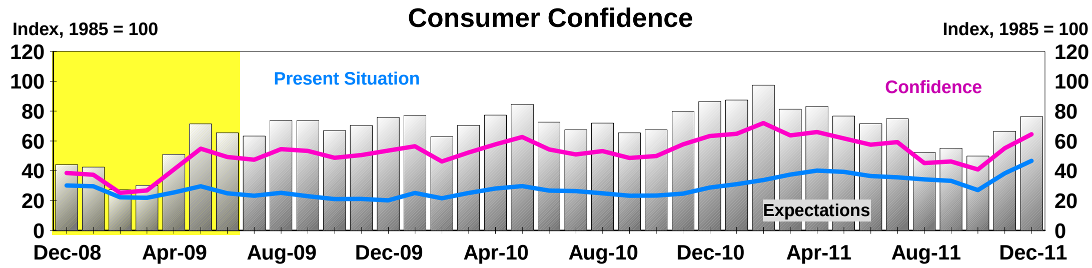
Initial Claims



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

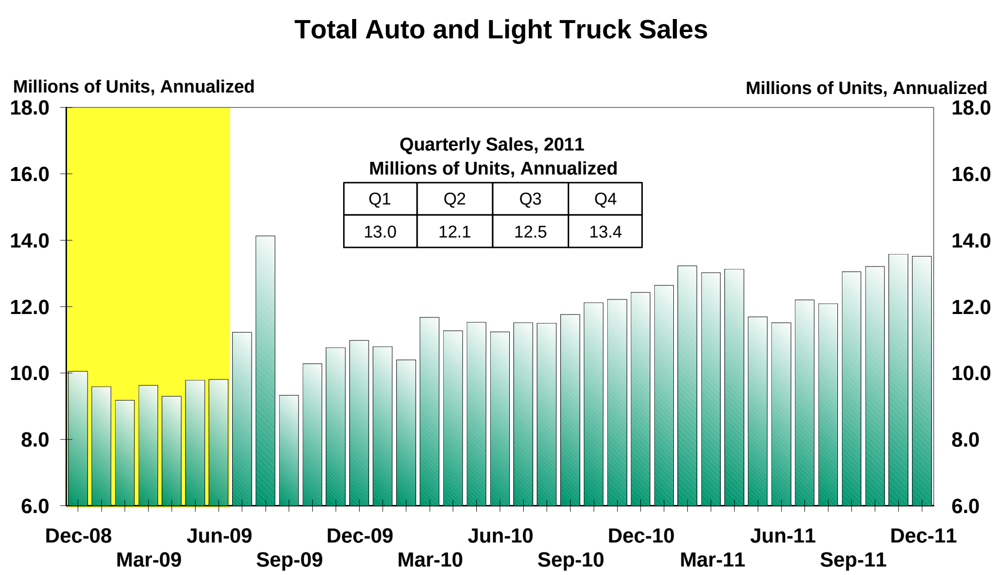
Consumer attitudes continued to improve in December. The increase in sentiment was due primarily to a gain in the expectations index, while confidence reflected sizable gains in both the present situation index and expectations. Despite the improvements, confidence and sentiment data is little changed from where they stood at the beginning of 2011.





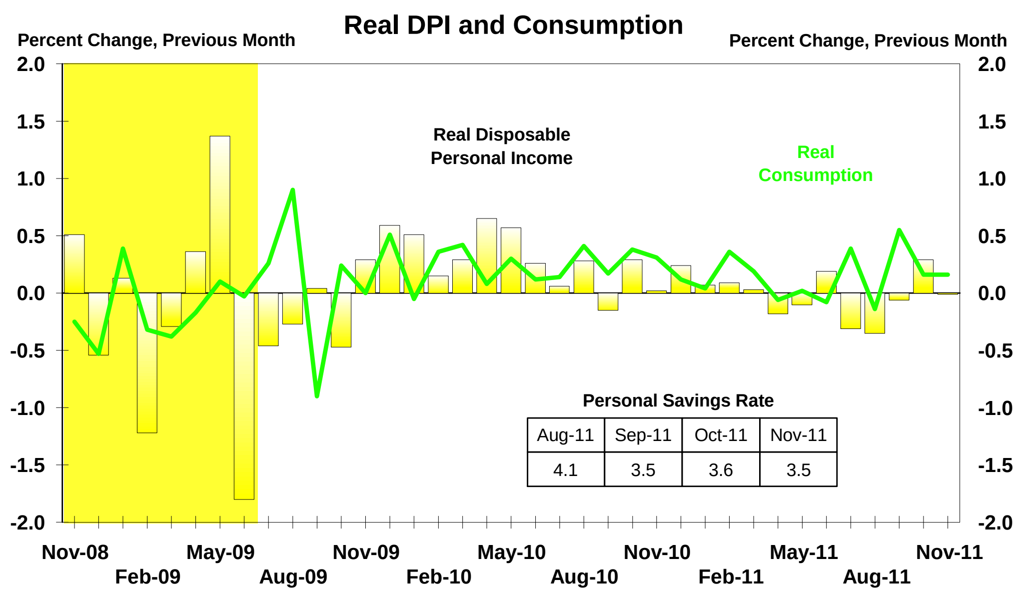
Source: University of Michigan (top panel) and The Conference Board (bottom panel) / Haver Analytics.

Lightweight vehicle sales posted another strong month in December, ending 2011 with the highest annual sales since 2008. Manufacturers expect the strong sales to continue into the new year, due to better consumer confidence, pent-up demand, and the increasing age of the fleet of cars currently on the road.



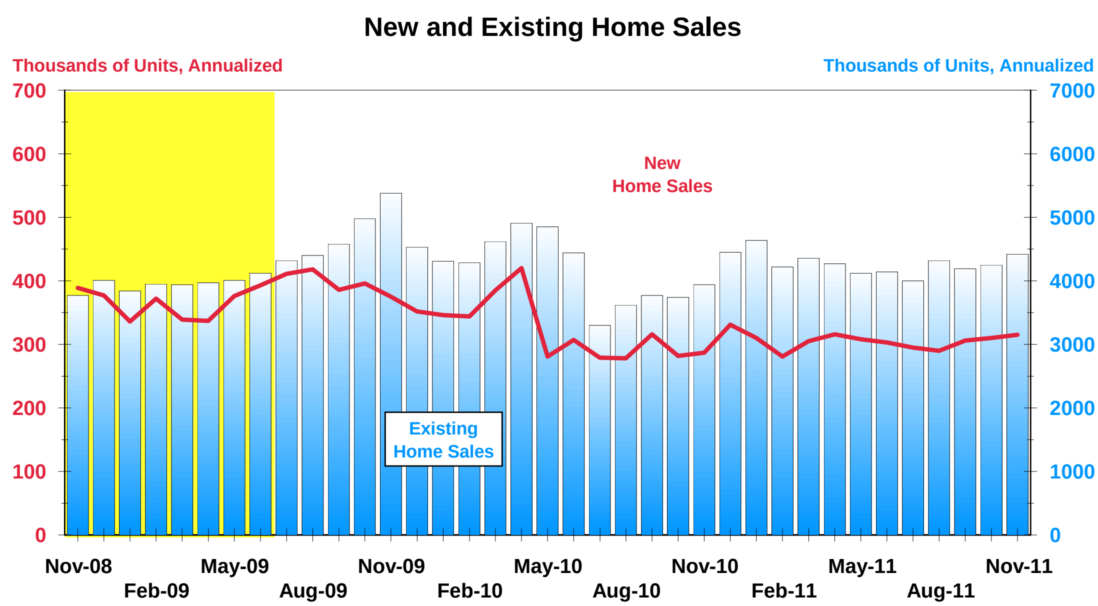
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption rose in November at the same rate seen in October, and overall has increased in four of the past five months. Conversely, incomes have mostly fallen during that time, so the recent spending has come at the expense of saving. As such, the personal savings rate, which peaked at 8.3% during the recession, is back down to pre-recession levels.



Source: Bureau of Economic Analysis / Haver Analytics.

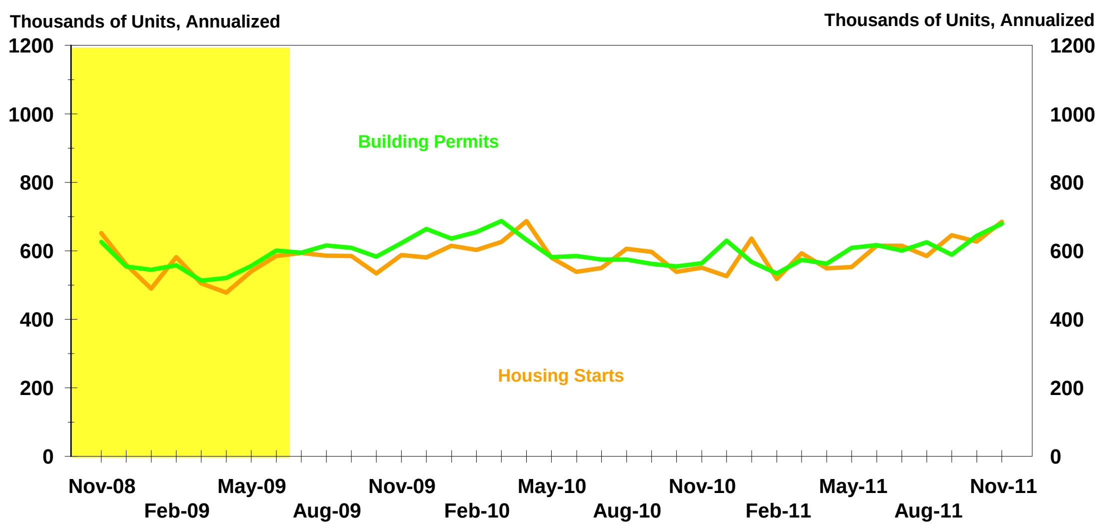
New home sales increased a bit further in November, but remain closely in line with the record lows seen over the previous eighteen months. Sales of existing homes also improved in November, selling at their fastest annual rate since January.



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

New construction activity continued to accelerate in November, with both starts and permits reaching their highest levels since the spring of 2010. Much like sales data, however, current levels are far below their pre-recession highs. Starts and permits are both roughly 70% below where they stood in late 2005/early 2006.

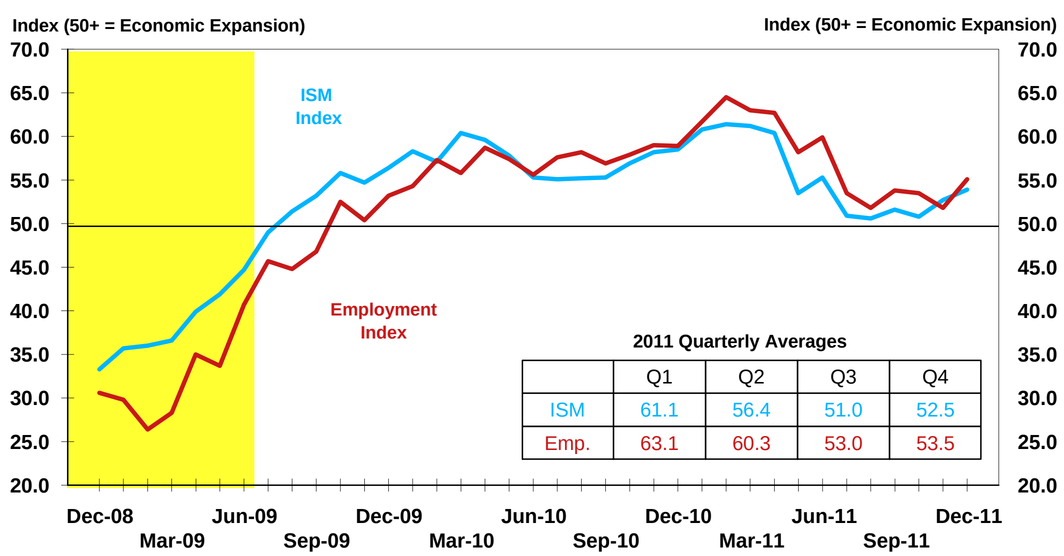
Housing Starts and Building Permits



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

Both the ISM diffusion and employment indices improved in December, reaching their highest levels since June. Both measures were strong througout the year, estimated above 50 and signaling expansion during each of the twelve months of 2011.

ISM Index



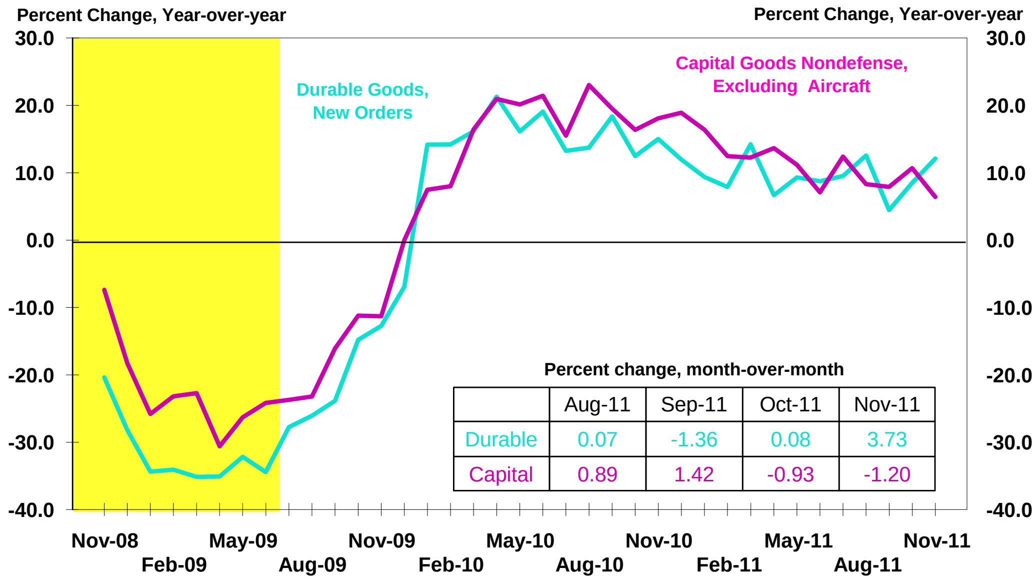
2011 Quarterly Averages

	Q1	Q2	Q3	Q4
ISM	61.1	56.4	51.0	52.5
Emp.	63.1	60.3	53.0	53.5

Source: Institute for Supply Management / Haver Analytics.

New orders for durable goods rose sharply in November, on both a monthly and year-over-year basis. However, orders for nondefense capital goods, excluding aircraft, posted a second consecutive monthly decline in November, suggesting future business investment may be lower than recent levels.

Durable Goods Orders



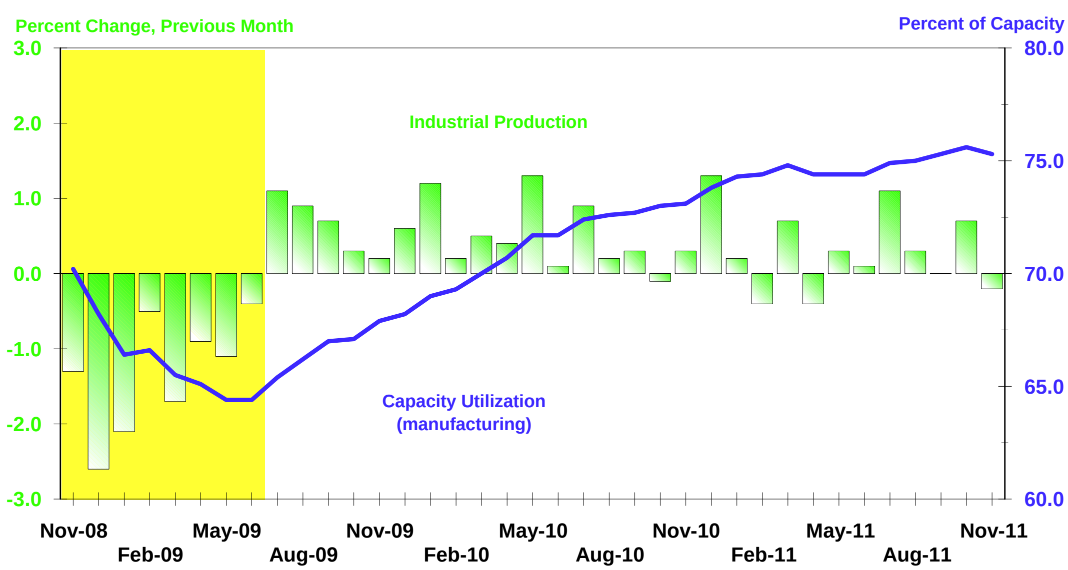
Percent change, month-over-month

	Aug-11	Sep-11	Oct-11	Nov-11
Durable	0.07	-1.36	0.08	3.73
Capital	0.89	1.42	-0.93	-1.20

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

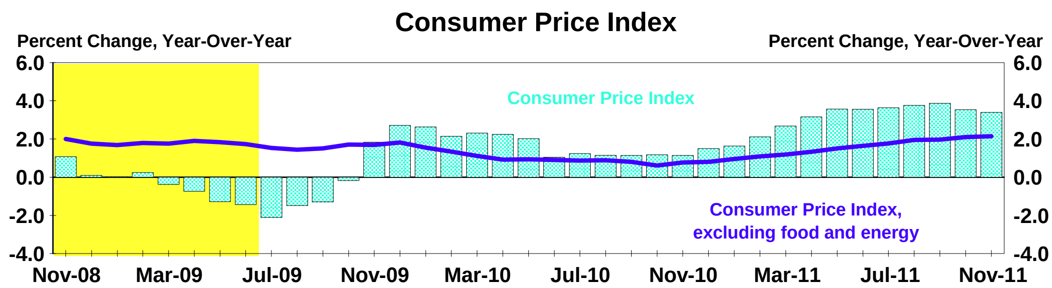
Industrial production declined in November, due primarily to a decrease in the manufacturing index. Production rose in both mining and utilities. Capacity utilization in manufacturing also fell in November, its first drop since April.

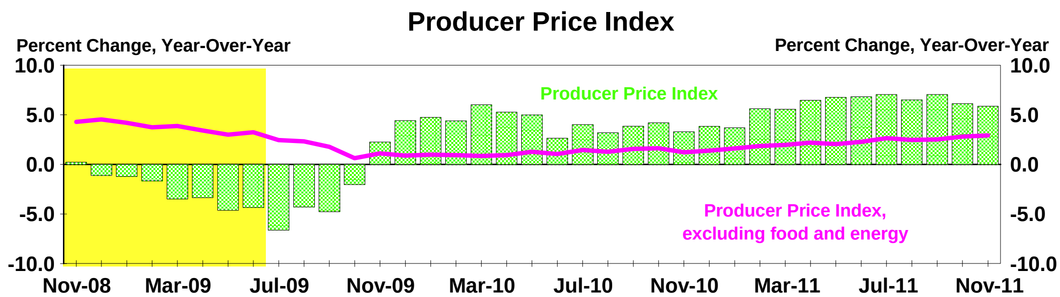
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

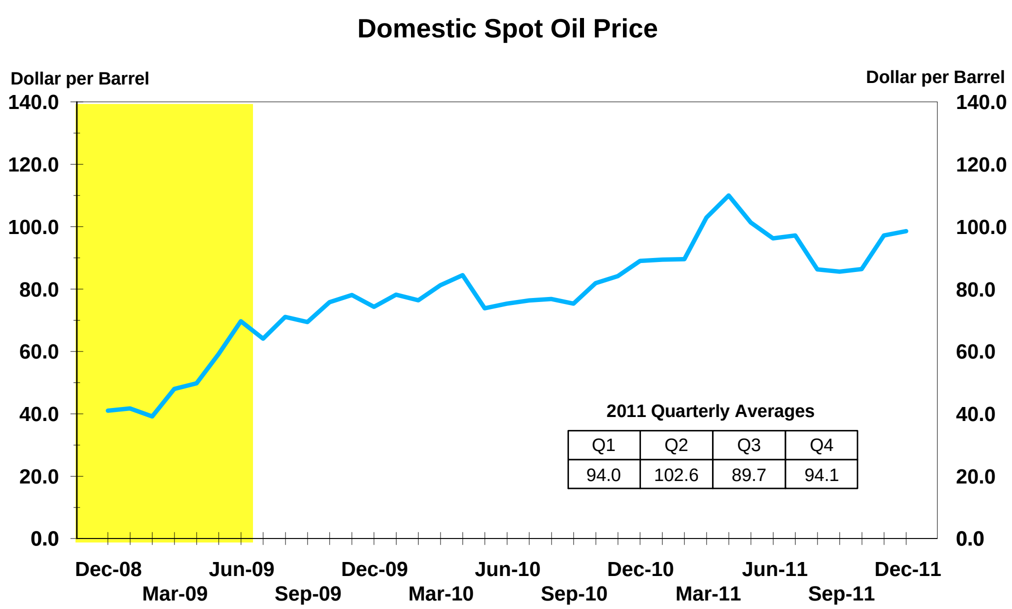
Headline inflation measures continued to decelerate in November, growing at their slowest paces since the spring. Consumers have benefited from falling energy prices, helping offset higher costs for food and apparel. Core indices crept up slightly in November, continuing the trend seen over the past year.





Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose slightly in December, closing the year with their highest monthly average since May. Prices were also up overall in the fourth quarter compared to the third.

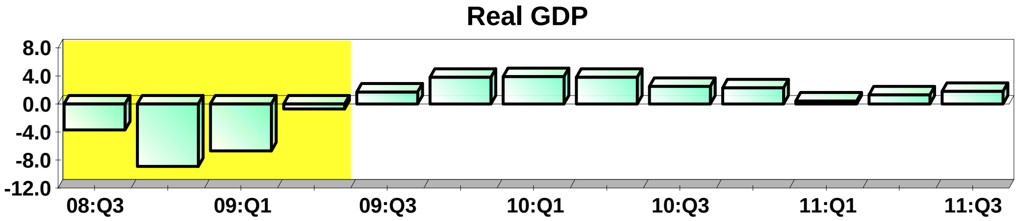


2011 Quarterly Averages

Q1	Q2	Q3	Q4
94.0	102.6	89.7	94.1

Source: West Texas Intermediate, Wall Street Journal / Haver Analytics.

Real GDP growth was revised slightly downward in the final third quarter estimate. The slower rate primarily reflects a downward revision to personal consumption that was partly offset by an upward revision to inventory investment. Despite the lower rate, growth was still the strongest since 2010:Q4.

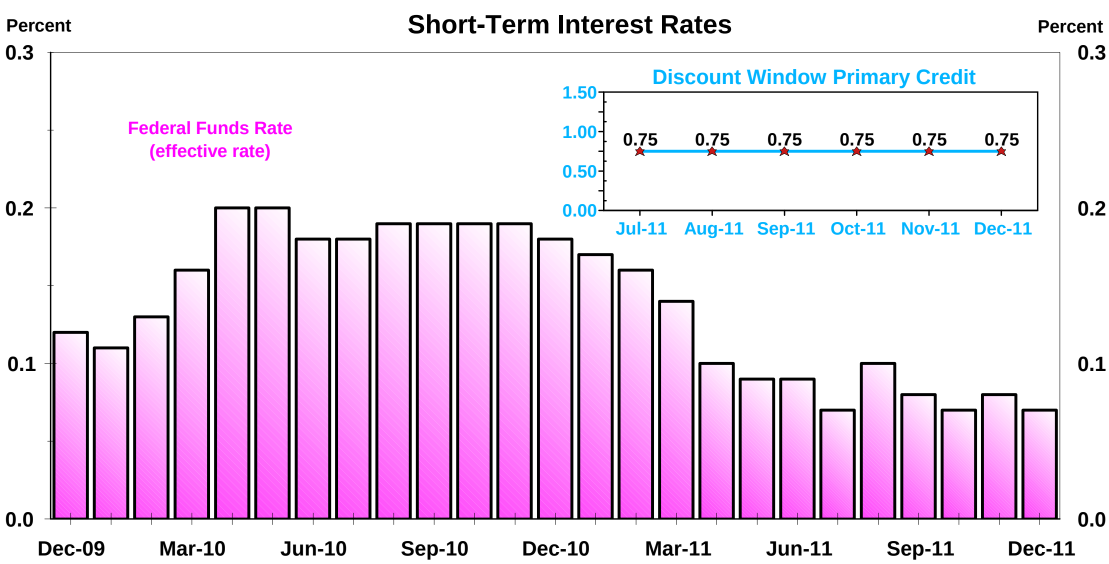


Revisions to Third Quarter Real GDP

Description	2nd Estimate	3rd Estimate
Real GDP	2.0	1.8
Consumption	2.3	1.7
Business Investment	14.8	15.7
Equipment & Software	15.6	16.2
Residential Investment	1.6	1.3
Government	-0.1	-0.1
Exports	4.3	4.7
Imports	0.5	1.2
Final Sales	3.6	3.2

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting suggest economic growth accelerated in the fourth quarter, but any improvment is not expected to last through the first half of 2012. Employment has picked up, consumer attitudes have brightened, and business investment continues to provide support. Yet income growth has been stagnant and the housing market remains weak. Broader issues such as domestic fiscal questions and the ongoing European debt crisis also cloud the outlook and pose downside risks.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

January 12, 2012

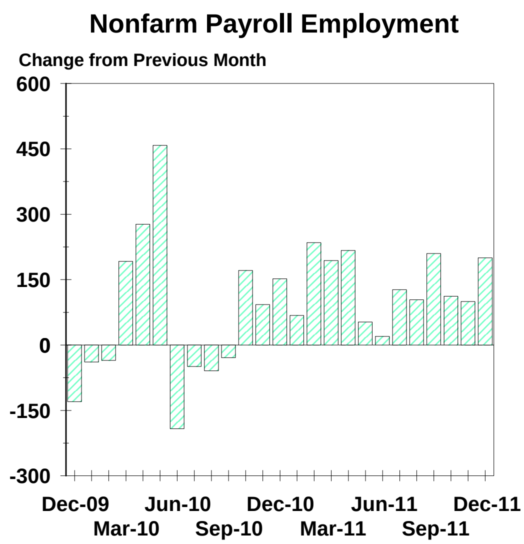
Current Economic Developments - Addendum: Data released in the past week

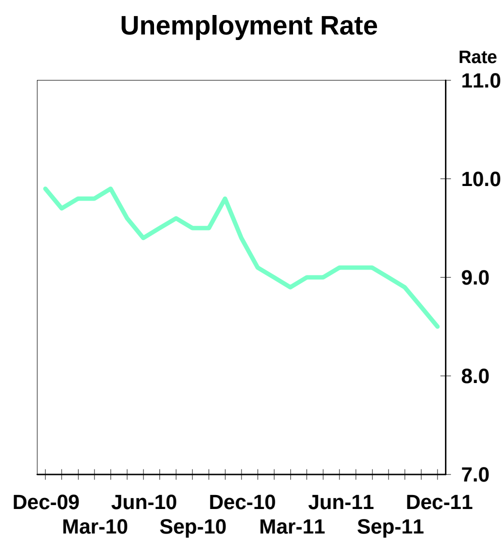
In December payroll employment increased by a more-than-expected 200,000 jobs, and the unemployment rate fell two-tenths of a percentage point to 8.5%. The lower rate primarily reflected a strong increase in civilian employment, but there was also a small decrease in the labor force. Revisions to prior data resulted in a more trend-like decline in the unemployment rate over the past few months, as opposed to the previous data which only showed a sharp drop in November. Average weekly hours rose in December, although weekly earnings held steady.

Wholesale inventories inched up 0.1% during November, and sales at the wholesale level rose 0.6%. Oil prices rose a bit over the past week, averaging $102.0 per barrel compared to the previous week's average of $100.2. Redbook sales decreased 1.2% in the first week of January, compared to December, but were up 3.3% over the same period last year.

There are many data releases due out Thursday and Friday, and the data is expected to come in mostly on the positive side. Small improvements are expected in retail sales, business inventories and consumer sentiment, while the foreign trade gap is expected to widen slightly.

Payroll employment increased by more than 400,000 in the fourth quarter, bringing total job additions for 2011 to 1.6 million. Payrolls have risen 2.7 million since March 2010, but those gains offset only a fraction of the nearly 9 million jobs lost during the recession. The unemployment rate averaged 8.7% in the fourth quarter, its lowest level since the first quarter of 2009.





Source: Bureau of Labor Statistics / Haver Analytics.