FEDERAL RESERVE
BANK OF BOSTON™

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

January 3, 2014

CURRENT ECONOMIC DEVELOPMENTS - January 3, 2014

Data released since your last Directors' meeting have been mostly positive, signaling stronger-than-expected growth in the second half of the year. However, growth likely slowed in the fourth quarter compared to the third, reflecting an unsustainable buildup of inventories. Consumer attitudes have improved, consumer spending has strengthened, and contributions from manufacturing have expanded. Growth in the housing market remains strong but has shown signs of slowing.

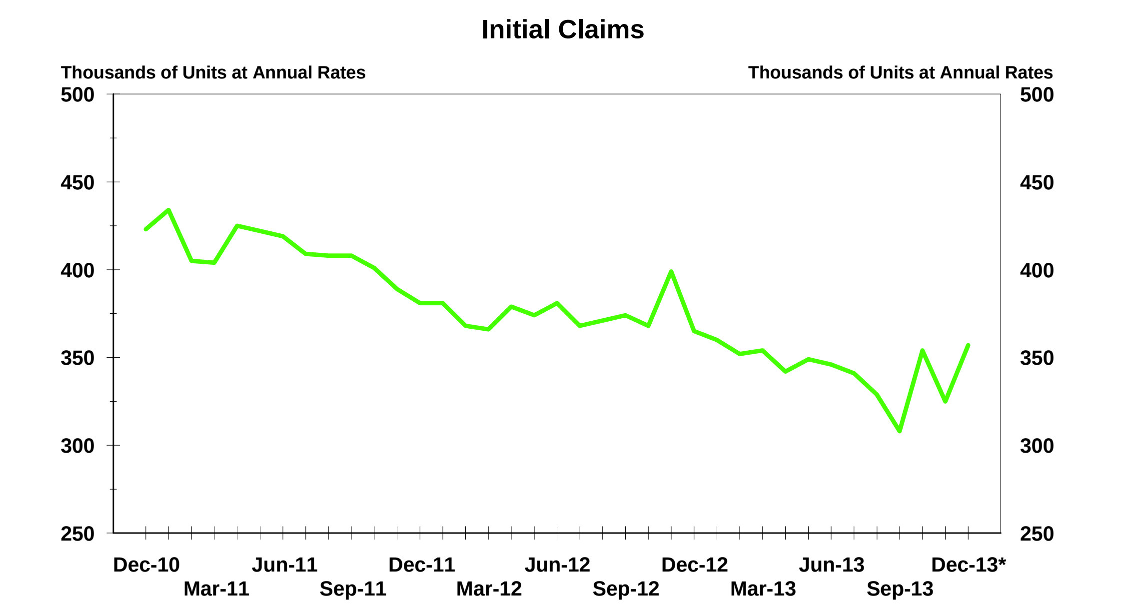
Initial claims increased in December, offsetting the fall in November, likely reflecting seasonal volatility due to the holidays. Consumer attitudes improved during December, indicating more optimism towards both current conditions and expectations. In November, real incomes and consumption both rose, as consumption posted its largest increase since February 2012.

Primary measures of real estate activity mostly slowed in November, but remain well above the levels seen over the previous few years. New and existing home sales fell during the month, and building permits declined, yet housing starts surged in November to their highest level since February 2008.

In the business sector, recent data has mostly improved. The ISM index fell slightly in December, but remained above 50, continuing to signal expansion. Durable goods orders and orders for nondefense capital goods, excluding aircraft, both increased in November, on a monthly and year-over-year basis. Industrial production and capacity utilization both rose in November.

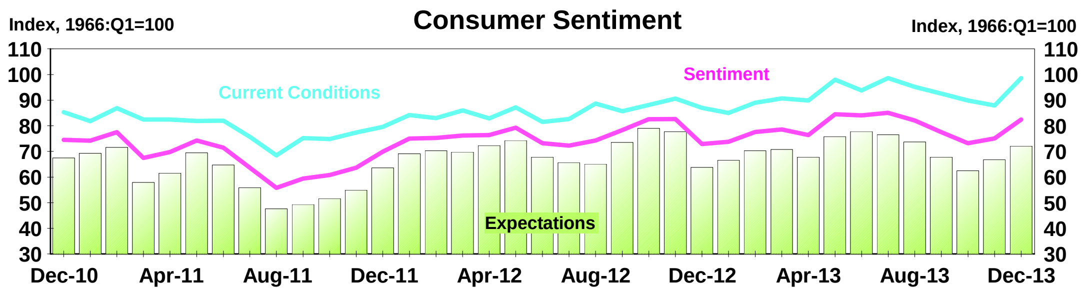
Total consumer price growth accelerated in November, as did the core index. Oil prices rose in December, but were down overall in the fourth quarter compared to the third. Unit labor costs fell in the third quarter, following an upwardly revised second quarter increase.

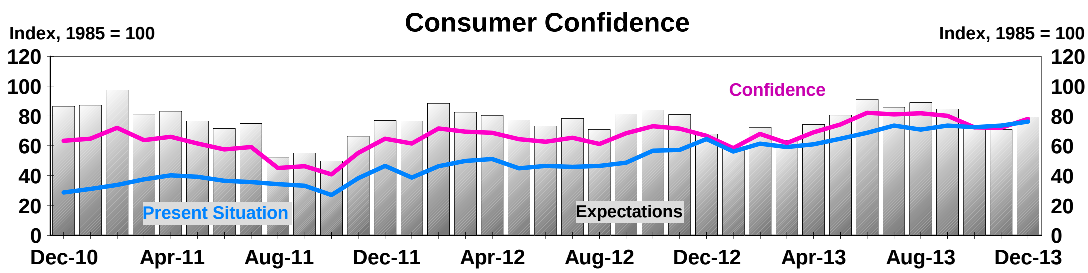
Initial claims for unemployment insurance rose in December, more than offsetting the decline seen in November. However, the rise in December likely reflects temporary holiday-season volatility.



Source: Department of Labor, Employment and Training Administration / Haver Analytics. *Four-week moving average, ending December 28.

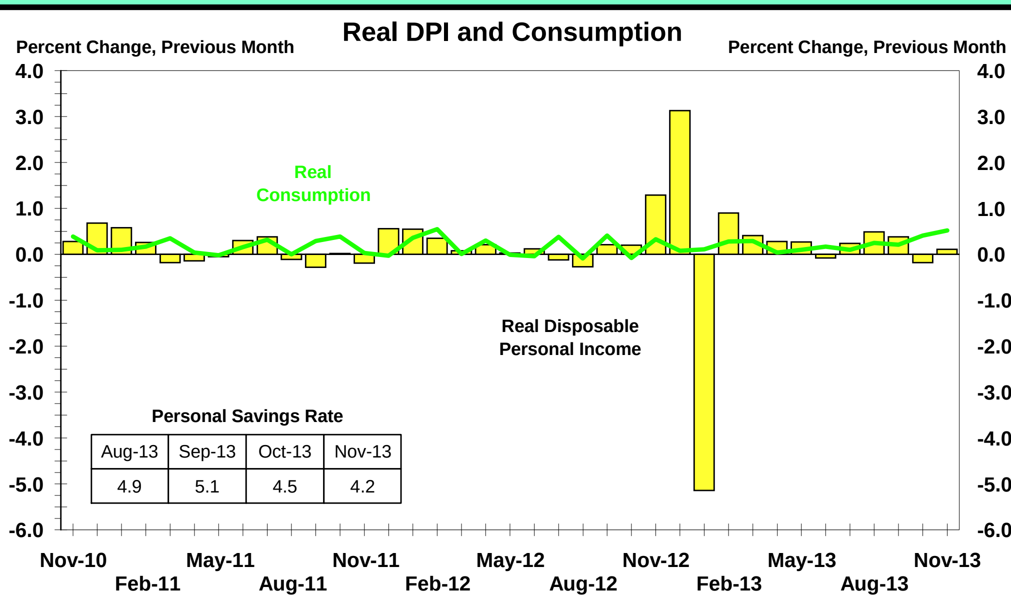
Consumer attitudes improved in December, as both the sentiment and confidence indices increased. Consumers were more optimistic toward both current and future economic and labor market conditions, and respondents to the sentiment survey reported more favorable buying plans for homes, vehicles, and household durables. Pessimism towards income and earnings prospects remains an area of concern.





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

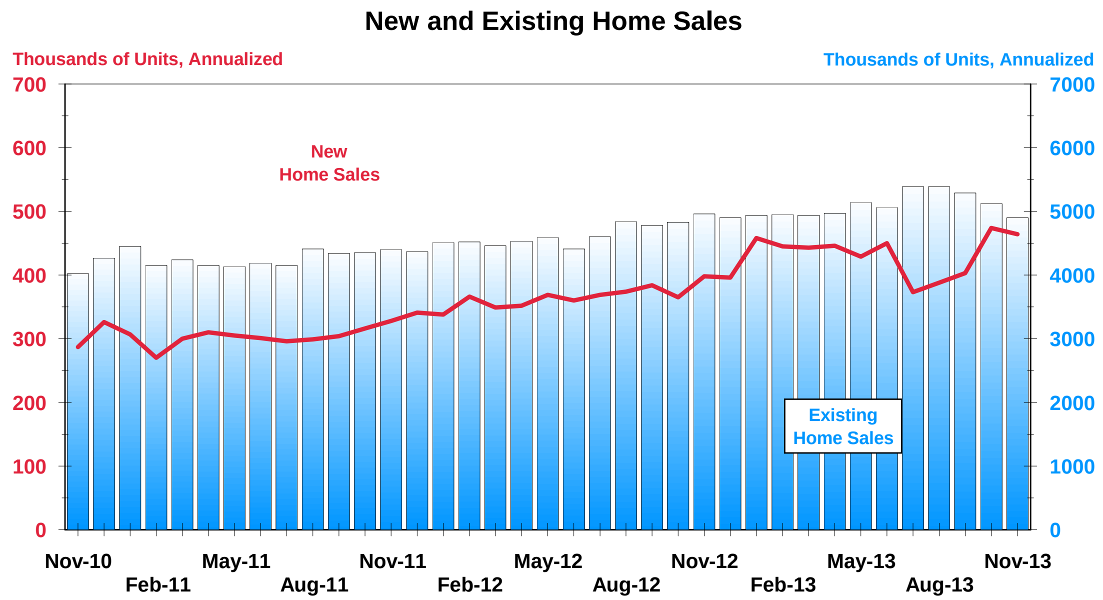
Real incomes ticked up in November, after falling in October. Real consumption also rose in November, posting its largest single-month increase since February 2012. The rise in consumption was partly due to a surge in natural gas utilities. Consumption rose faster than incomes in November, resulting in a three-tenths of a percentage point decrease of the personal savings rate.



Aug-13	Sep-13	Oct-13	Nov-13
4.9	5.1	4.5	4.2

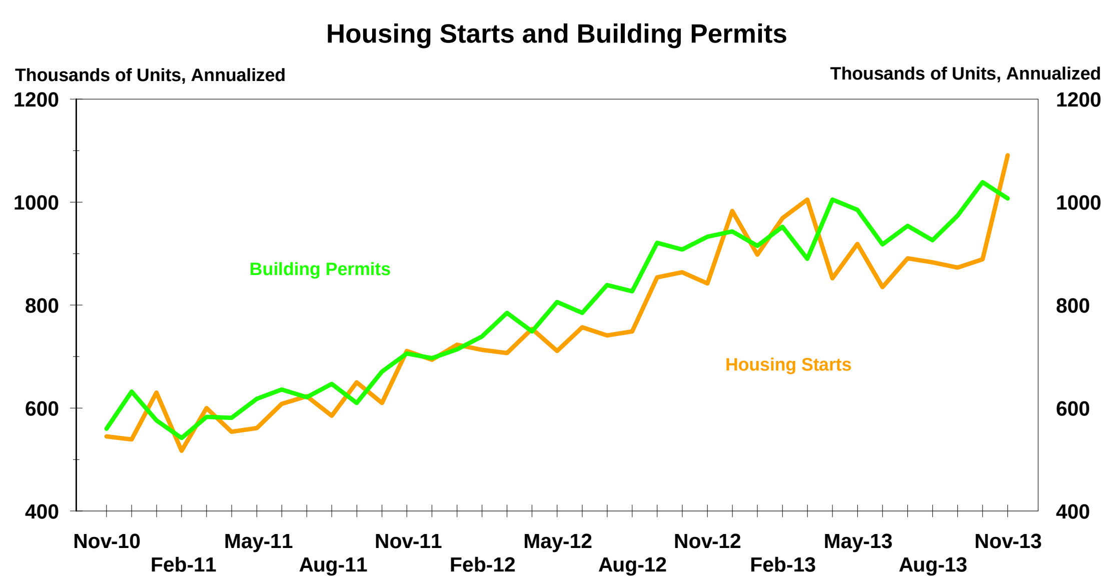
Source: Bureau of Economic Analysis / Haver Analytics.

New home sales decreased in November, from an upwardly revised October rate that was the highest in over five years. Existing home sales fell in November to their slowest pace of the year, and sales have decreased in each of the past three months.



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

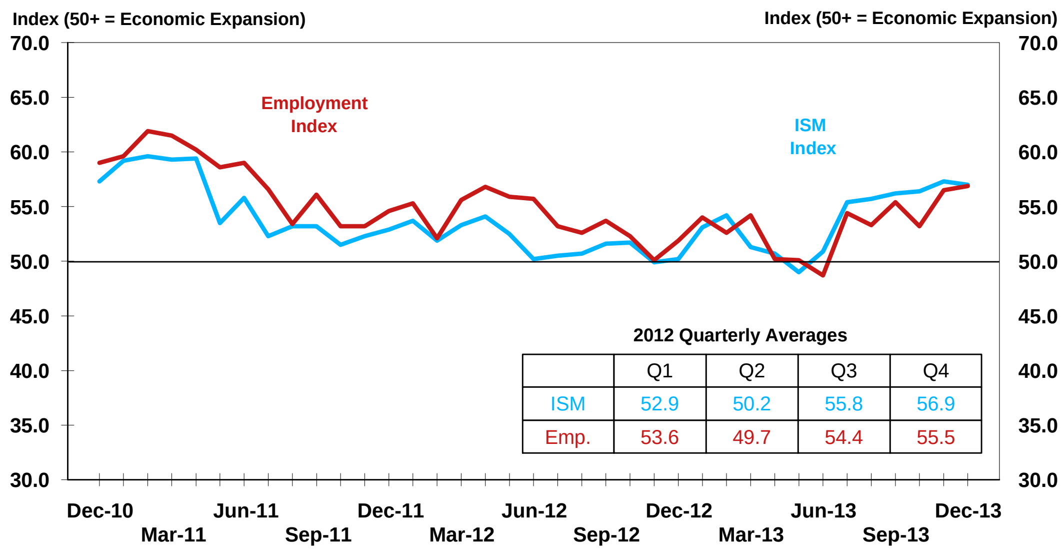
Housing starts surged in November to their highest level since February 2008, as both single and multifamily starts posted gains. Meanwhile, building permits fell in November, reflecting a decrease in multifamily permits that more than offset the rise in single-family permits.



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

The ISM manufacturing index eased slightly in December, but remained above 50, signaling expansion in the manufacturing sector. Meanwhile, the employment component of the index rose in December to its highest level since June 2011.

ISM Index



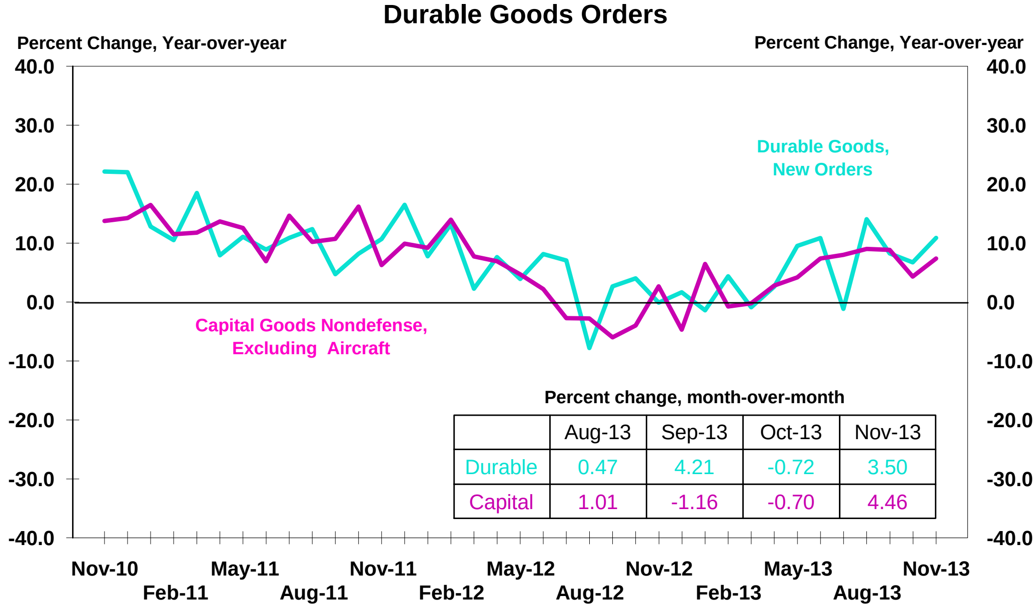
2012 Quarterly Averages

	Q1	Q2	Q3	Q4
ISM	52.9	50.2	55.8	56.9
Emp.	53.6	49.7	54.4	55.5

Source: Institute for Supply Management / Haver Analytics.

New orders for durable goods rose in November, on both a year-over-year and monthly basis. Orders for nondefense capital goods, excluding aircraft, also rose on a year-over-year basis in November and posted their largest monthly gain this year.

Durable Goods Orders

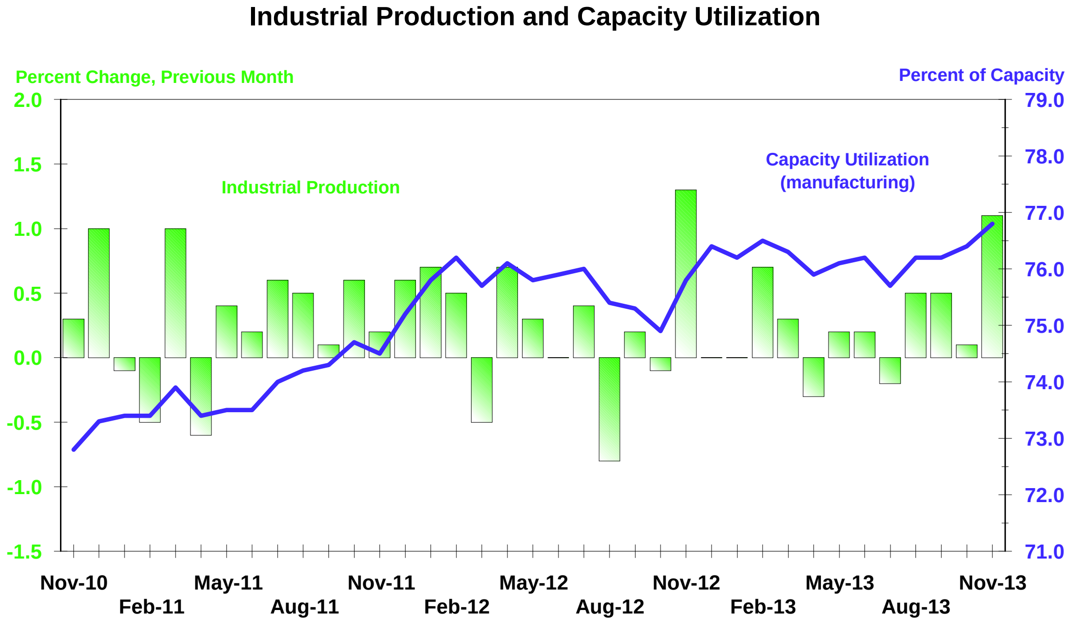


Percent change, month-over-month

	Aug-13	Sep-13	Oct-13	Nov-13
Durable	0.47	4.21	-0.72	3.50
Capital	1.01	-1.16	-0.70	4.46

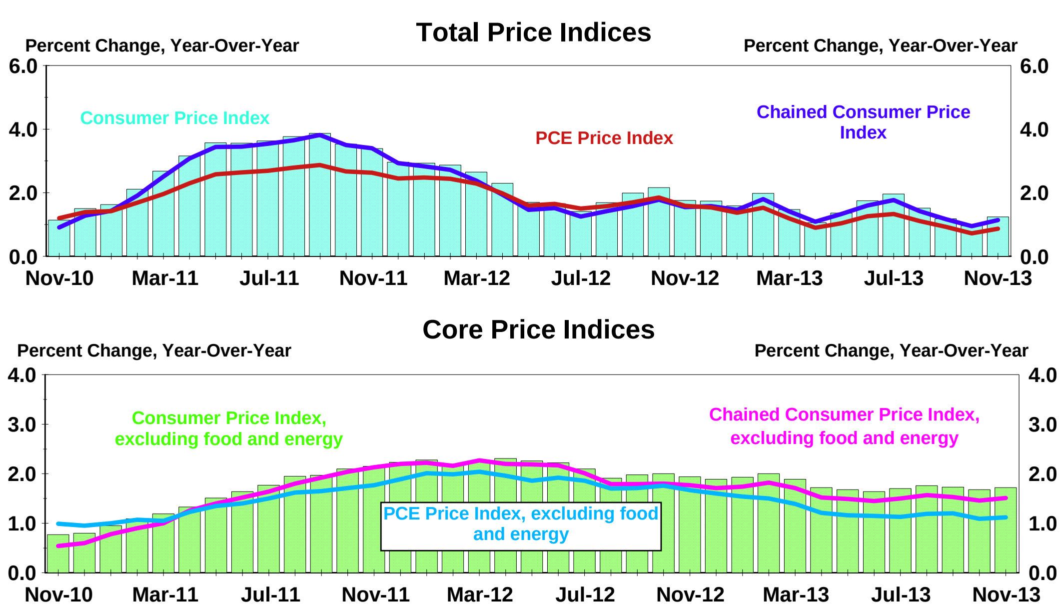
Source: U.S. Census Bureau / Haver Analytics.

Industrial production rose above expectations in November, posting its largest increase in one year. Production rose in manufacturing, mining and utilities. Capacity utilization in manufacturing also rose in November, reaching its highest level since March 2008.



Source: Federal Reserve Board of Governors / Haver Analytics.

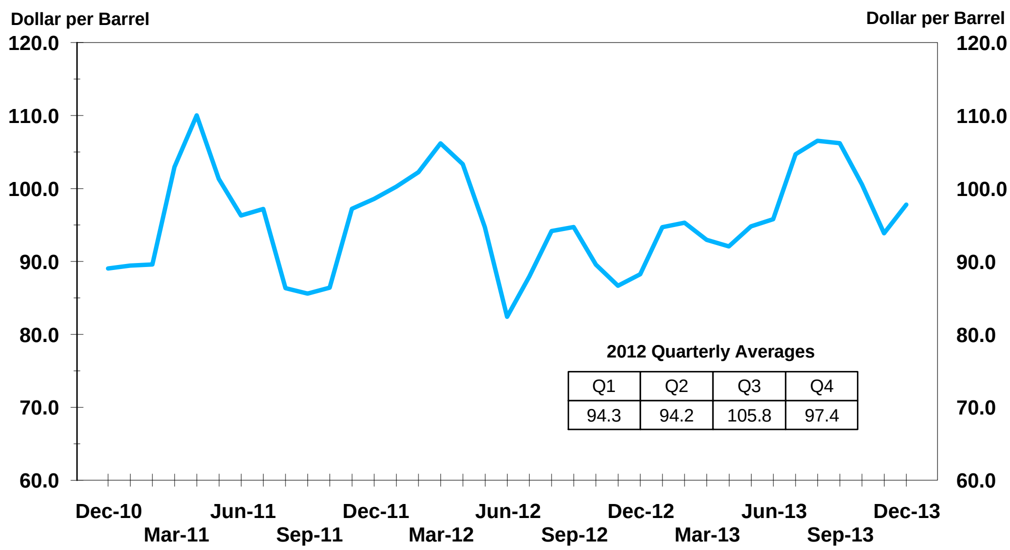
Headline consumer prices accelerated in November, after easing in each of the prior three months. Core prices, which exclude food and energy, edged up slightly, led by increases in airline fares and lodging away from home.



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose in December, but prices were down overall in the fourth quarter compared to the third. As of December 31st, daily closing prices were $98.4 per barrel.

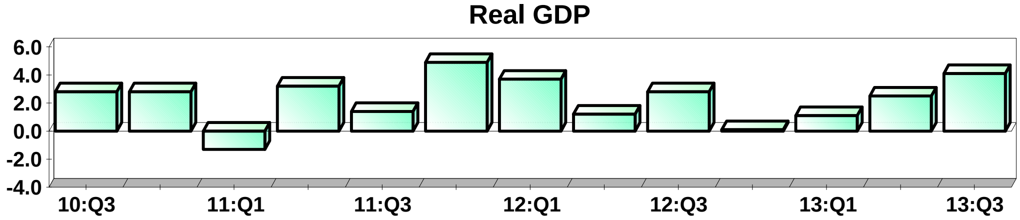
Domestic Spot Oil Price



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

Real GDP growth was revised upward in the final third quarter estimate. The faster rate primarily reflected upward revisions to personal consumption expenditures and to nonresidential fixed investment that were partly offset by a downward revision to residential fixed investment.

Real GDP

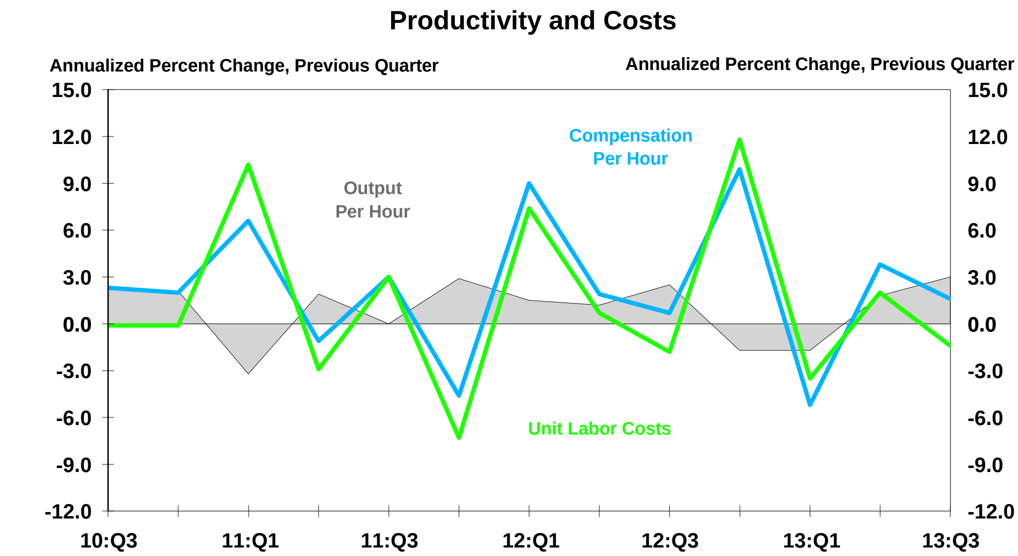


Revisions to Third Quarter Real GDP

Description	2nd Estimate	3rd Estimate
Real GDP	3.6	4.1
Consumption	1.4	2.0
Business Investment	3.5	4.8
Equipment & Software	0.0	0.2
Residential Investment	13.0	10.3
Government	0.4	0.4
Exports	3.7	3.9
Imports	2.7	2.4
Final Sales	1.9	2.5

Source: Bureau of Economic Analysis / Haver Analytics.

Productivity was revised higher in the third quarter, reflecting an upward adjustment to output and a steady reading on hours worked. Compensation per hour was revised up slightly, but slowed from the rate seen in the previous quarter. Unit labor costs were revised down to a decrease of 1.4%, from the previously reported decrease of 0.6%.



Source: Bureau of Labor Statistics / Haver Analytics.

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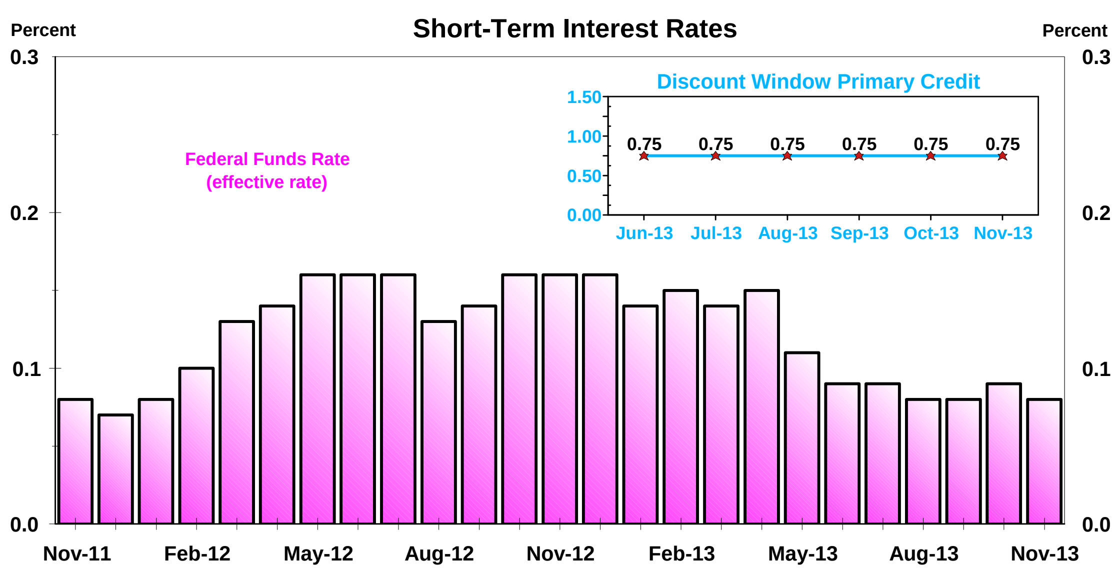


Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni

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

January 9, 2014

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

In December, lightweight vehicle sales fell from a November pace that was the highest in well over six years. Vehicle sales eased slightly overall in the fourth quarter, yet total sales in 2013 were the highest since 2007.

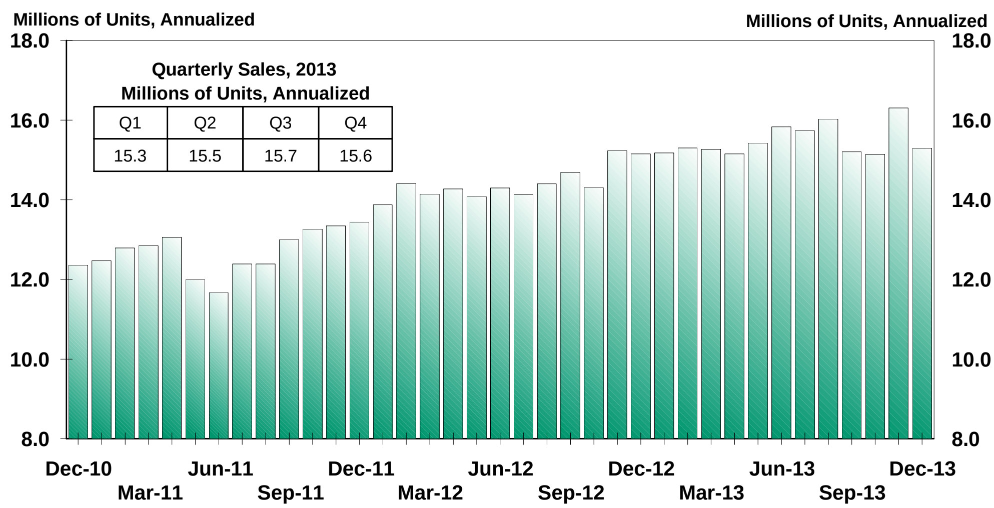
In other data released over the past few days, the ISM nonmanufacturing index eased during December, yet continued to signal expansion in the services sector, and the U.S. foreign trade deficit narrowed in November to $34.3 billion, the smallest since October 2009.

Oil prices fell over the past week, averaging $93.4 per barrel, compared to the previous week's average of $98.2. Redbook sales decreased 0.6% in the first week of January, compared to December, but were up 4.1% over the same period last year.

Employment data from the Bureau of Labor Statistics is due out Friday morning. Market expectations are for payrolls to post a monthly gain of 190,000, less than the November gain of 203,000, and the unemployment rate is expected to hold steady at 7.0%.

Lightweight vehicle sales fell in December from a November sales rate that was the highest since February 2007. Dealers partly attributed the December decline to snowy weather experienced in some areas of the country. Sales also fell slightly overall in the fourth quarter.

Total Auto and Light Truck Sales



Quarterly Sales, 2013
Millions of Units, Annualized

Q1	Q2	Q3	Q4
15.3	15.5	15.7	15.6

Source: Bureau of Economic Analysis / Haver Analytics.