FEDERAL RESERVE BANK OF BOSTON™

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

March 3, 2011

Current Economic Developments - March 3, 2011

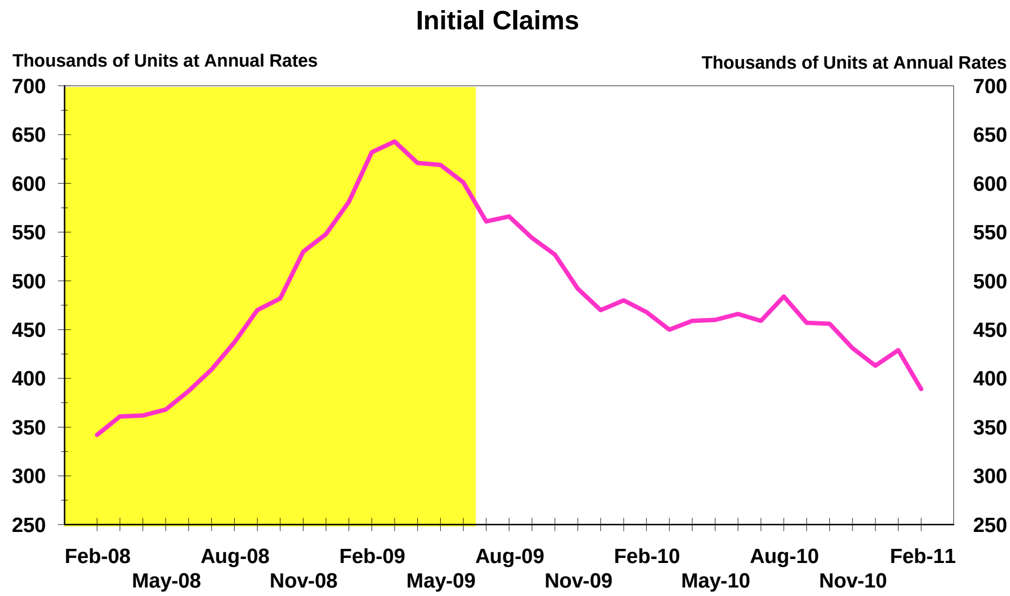
Data released since your last Directors' meeting show the economy grew a bit more slowly in the fourth quarter than originally estimated, but recent data suggest first quarter growth will be stronger. Labor market conditions are slowly improving and manufacturing remains supportive, but downside risks outnumber the upside ones. The housing market, fiscal spending issues and higher oil prices could all undermine the ongoing recovery.

In February, initial claims decreased and consumer attitudes improved to their highest levels in three years. Vehicle sales rose further in February, despite rising gas prices and bad weather in many parts of the country. Real consumption expenditures unexpectedly decreased slightly in January, even as incomes were boosted by a reduction in payroll taxes.

Housing market data was mixed in January and the sector as a whole remains weak. In February manufacturing data was positive, as the ISM index continued to improve and the employment index rose to its highest point since 1973. January's data was more mixed, as industrial production fell slightly while capacity utilzation rose again. New orders for durable goods rose in January, but orders for nondefense capital goods, excluding aircraft, fell sharply.

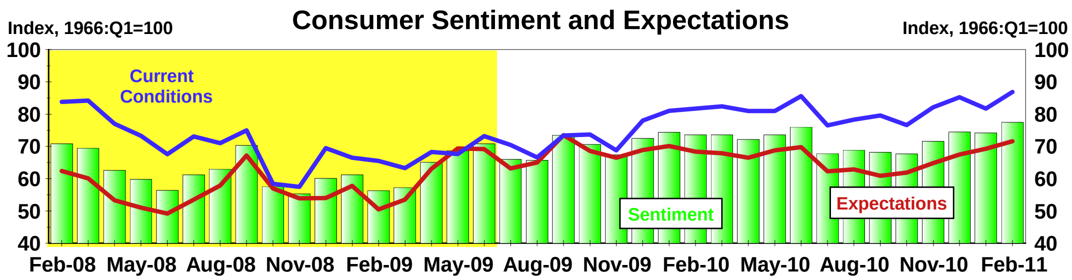
Price growth remained slow in January, although core measures for both consumers and producers accelerated a bit. Oil prices were little changed on average in February but rose sharply late in the month due to political concerns in the Middle East.

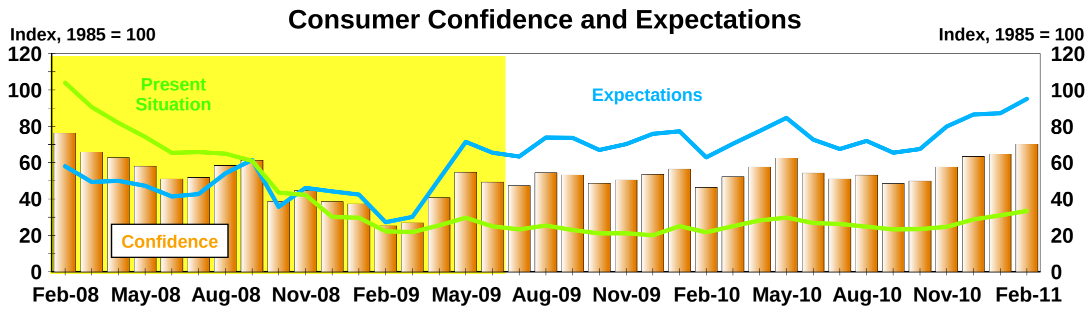
Initial claims for unemployment insurance fell in February, more than offsetting the increase seen in January. Despite falling below 400 for the first time in nearly three years, claims are still well above their pre-recession levels when they hovered in the low 300s.



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

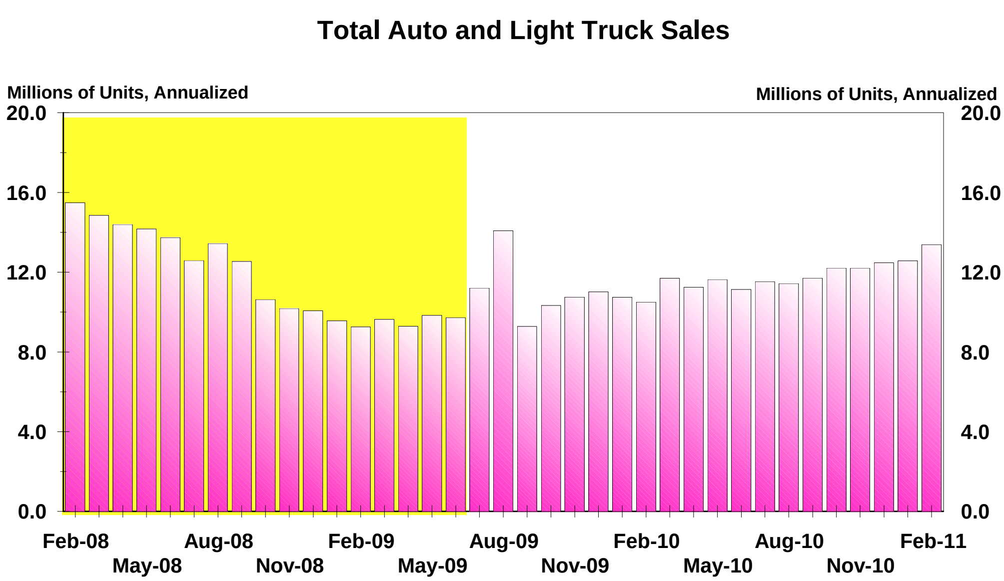
Consumer attitudes improved in February, as both confidence and sentiment reached their highest levels in three years. The improvement in sentiment was due primarily to more favorable feelings about current conditions, while confidence improved due to growing optimism for the short-term outlook.





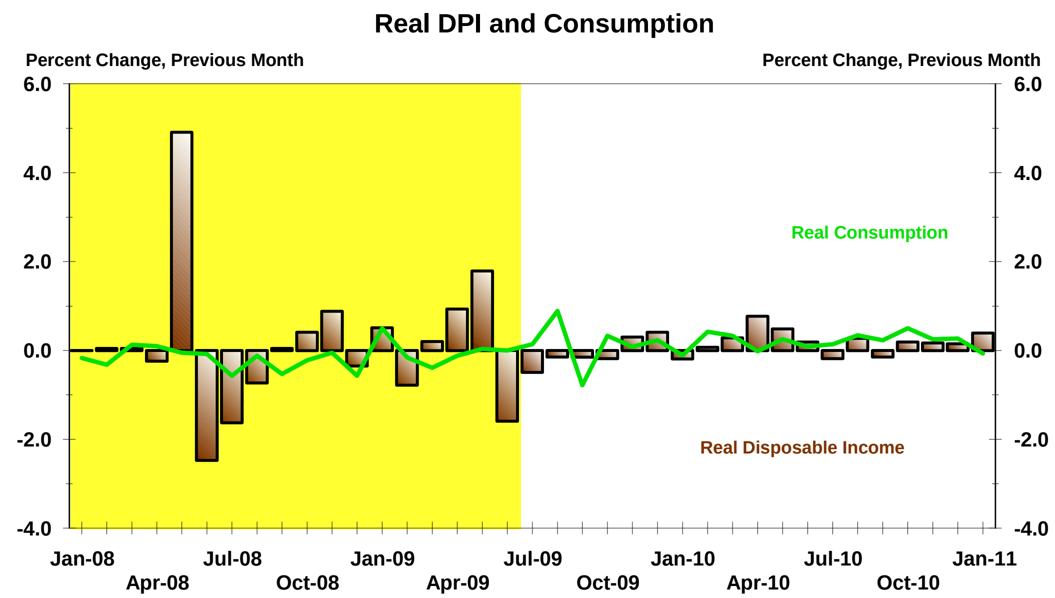
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Total auto and light truck sales rose further in February, despite rising gas prices. In addition to typical incentives, dealers attributed the stronger sales to better made cars and an increase in banks' willingness to extend financing to customers with lower credit scores.



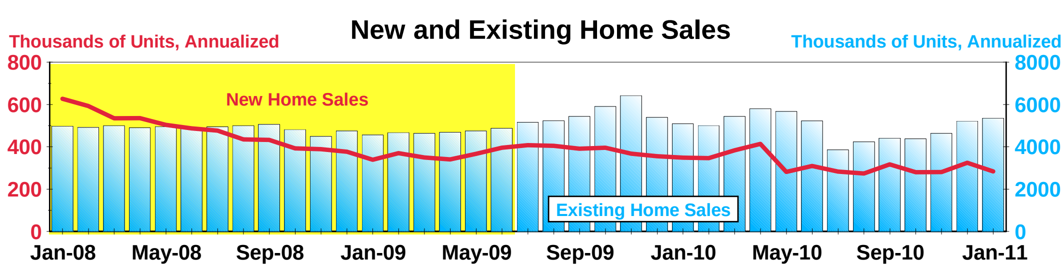
Source: Bureau of Economic Analysis / Haver Analytics.

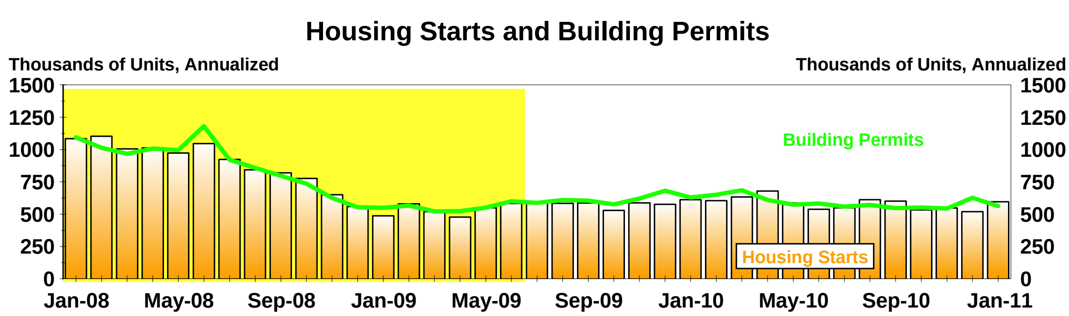
Real disposable income growth accelerated in January, due primarily to the one-year reduction in Social Security contributions which was implelmented at the beginning of the year. However, the higher incomes weren't enough to boost real consumption, which unexpectedly fell for the first time in nine months.



Source: Bureau of Economic Analysis / Haver Analytics.

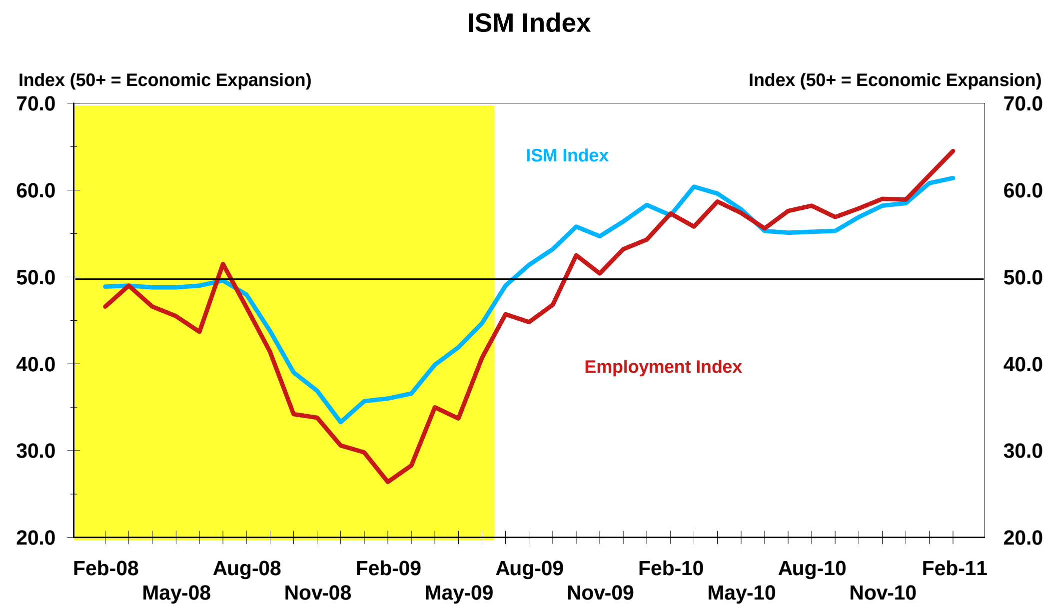
Housing market data was mixed in January, and the sector remains a key downside risk to the economy. Existing home sales improved slightly, but new home sales fell which offset most of the strong gain seen in December. Housing starts increased in January while permits decreased, but neither series is significantly changed from where they've spent most of the past two years.





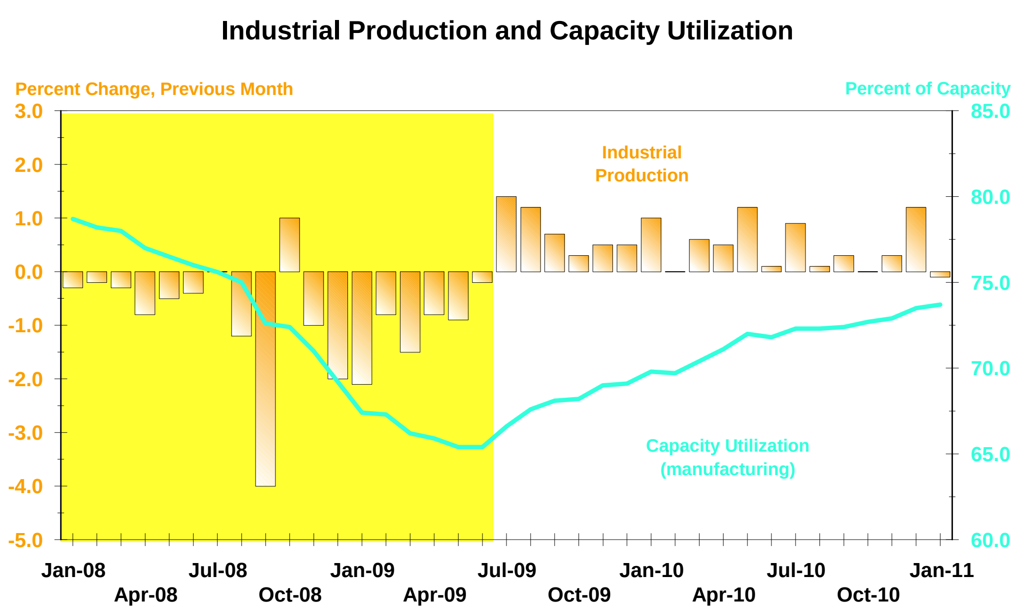
Sources: U.S. Census Bureau (new home sales, housing starts, permits) and National Association of Realtors (existing sales) / Haver Analytics.

The ISM manufacturing index continued to improve in February, rising to its highest level since the spring of 2004. The employment component of the index posted another strong gain in February, surging to its best reading in 38 years.



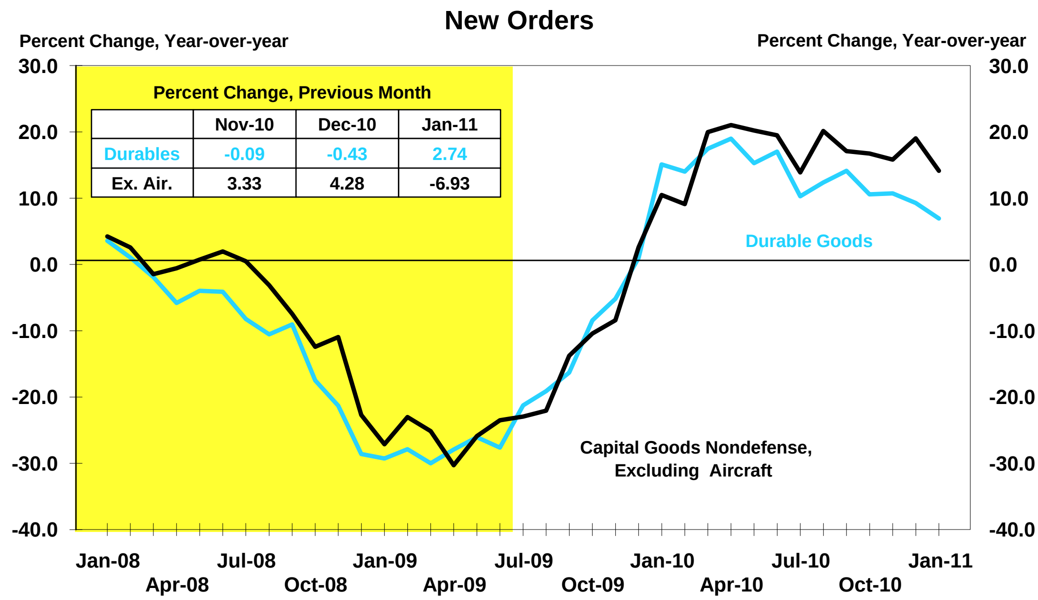
Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in January for the first time since the end of the recession, but capacity utilization continued to improve and has now recouped 60 percent of its losses during the recession.



Source: Federal Reserve Board of Governors / Haver Analytics.

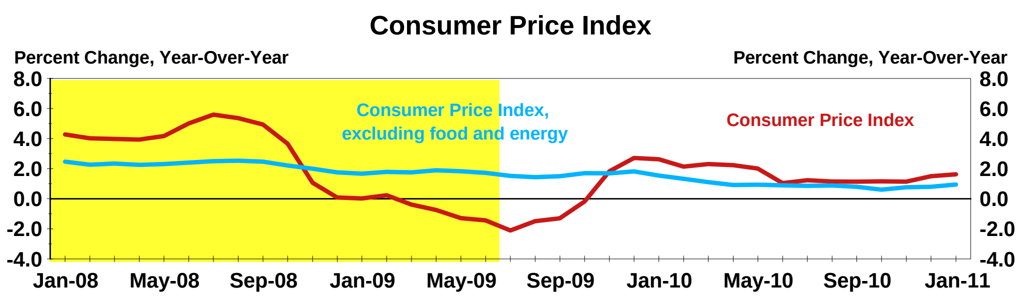
In January, new orders for durable goods posted their first monthly increase since September, but continued to slow on a year-over-year basis. Orders of nondefense capital goods excluding aircraft fell sharply in January but still managed a double-digit increase from the previous year.

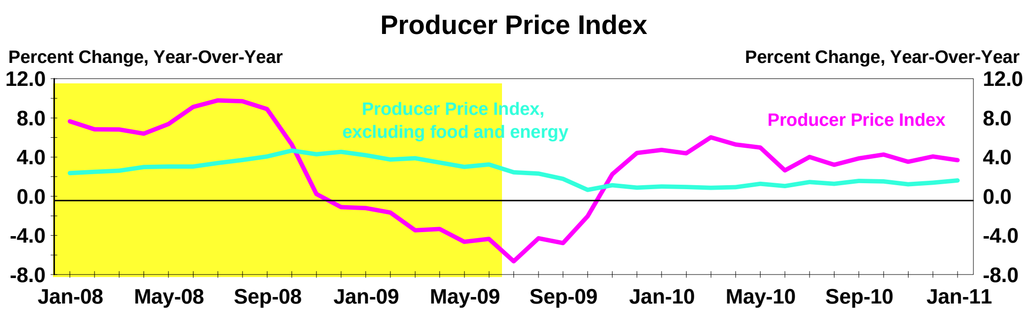


	Nov-10	Dec-10	Jan-11
Durables	-0.09	-0.43	2.74
Ex. Air.	3.33	4.28	-6.93

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

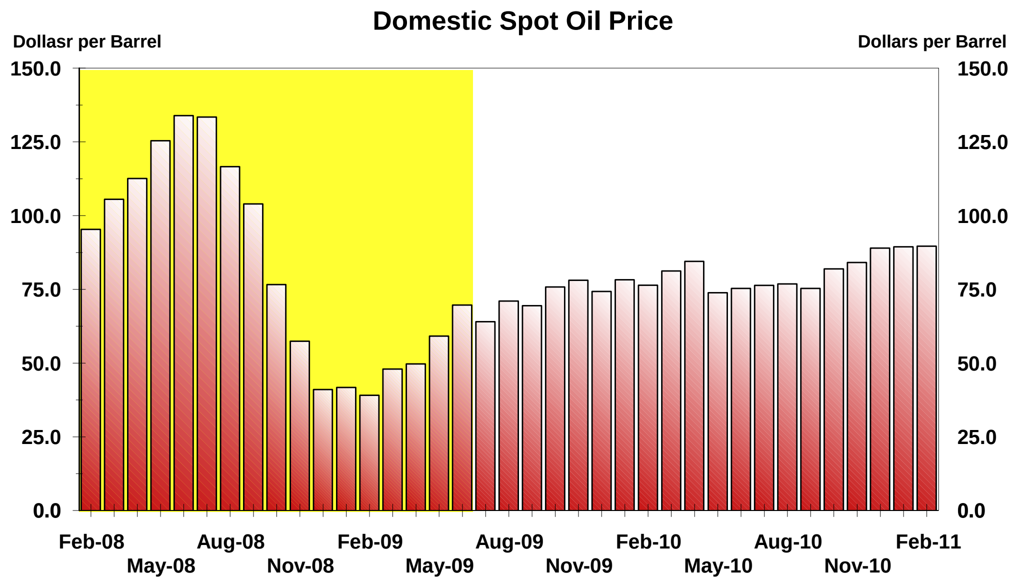
While consumer inflation remained relatively tame in January, the increases in both total and core prices were the biggest since the Spring of 2010. Total producer prices slowed in January, but core prices advanced at their fastest rate in over a year.





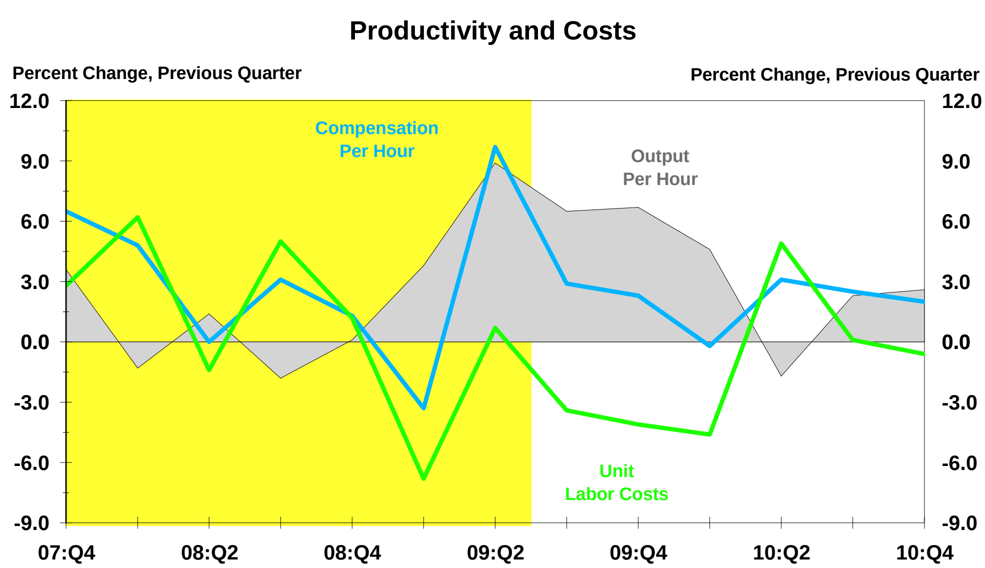
Source: Bureau of Labor Statistics / Haver Analytics.

Average oil prices were little changed in February from the previous two months, but that fact is misleading. Political upheaval in the Middle East, especially in Libya, caused oil prices to rise sharply late in the month, approaching $100 per barrel for the first time since the fall of 2008. Gas prices have also risen to their highest levels in well over two years, a potential risk to consumers should prices remain elevated.



Source: Wall Street Journal / Haver Analytics.

Productivity was unrevised in the fourth quarter, reflecting a strong gain in output despite a small increase in hours worked. Unit labor costs were also unrevised for the fourth quarter, but were revised up to show a small increase in the third quarter as opposed to the small decrease originally reported.



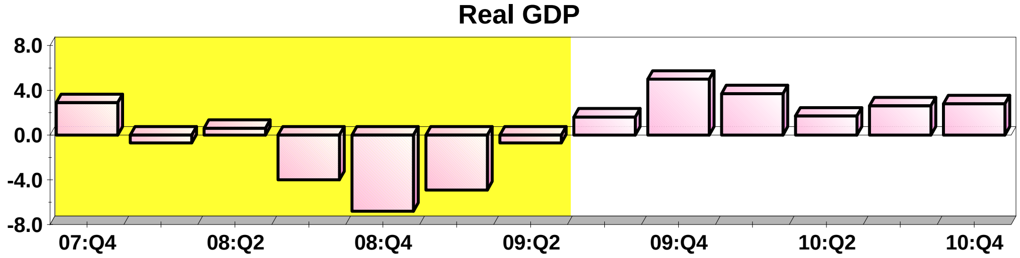
Source: Bureau of Labor Statistics / Haver Analytics.

Real GDP growth was revised downward in the fourth quarter. The lower growth rate primarily reflected an upward revision to imports and downward revisions to state and local government spending and personal consumption that were partly offset by an upward revision to exports.

Revisions to Fourth Quarter Real GDP

Description	Advanced	2nd Estimate
Real GDP	3.2	2.8
Personal Consumption	4.4	4.1
Business Investment	4.4	5.3
Equipment and Software	5.8	5.5
Residential Investment	3.4	2.8
Government	-0.6	-1.5
Exports	8.5	9.6
Imports	-13.6	-12.4
Final Sales	7.1	6.7

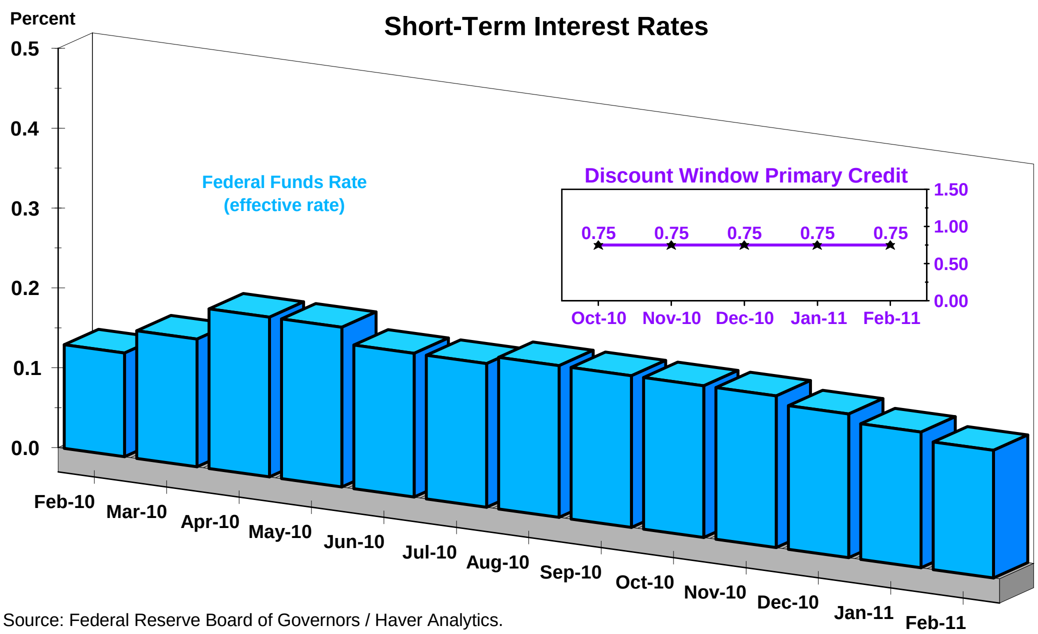
Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy grew a bit more slowly in the fourth quarter than originally estimated, but recent data suggest first quarter growth will be stronger. Labor market conditions are slowly improving and manufacturing remains supportive, but downside risks outnumber the upside ones. The housing market, fiscal spending issues and higher oil prices could all undermine the ongoing recovery.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.

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

March 10, 2011

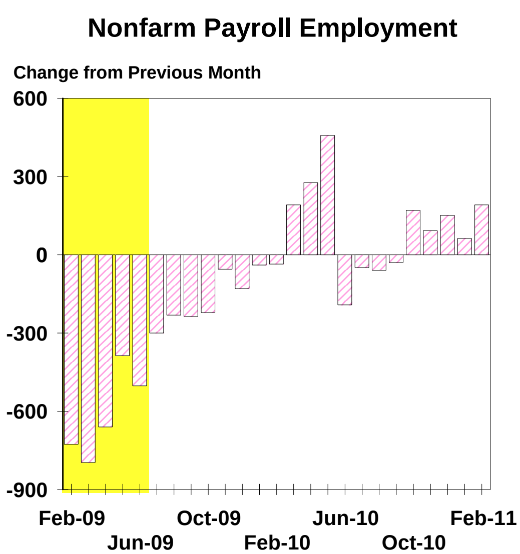
Current Economic Developments - Addendum: Data released in the past week

In February, nonfarm payrolls posted a strong gain and the unemployment rate fell to its lowest point in nearly two years. The continued decline in the unemployment rate was a surprise, as recent improvements in labor markets conditions were expected to draw previously discouraged workers back into the labor force. That is still a possibility in the coming months, which could result in a temporary uptick in the unemployment rate. The employment report also showed no increase in average hours worked or hourly earnings, which could lead to slower consumption growth than expected for the first quarter.

In January, manufacturers' orders rose 3.1% and shipments rose 1.8%, but shipments of nondefense capital goods excluding aircraft fell 1.9%. Wholesale inventories rose 1.1% in January while sales increased 3.4%.

Redbook sales decreased 0.5% through the first week of March, compared to February. Sales were 2.0% higher than during the same period last year. Oil prices continued to rise over the past week, averaging $103.7 per barrel and reaching the $100 per barrel level for the first time since September 2008.

Nonfarm payrolls rose by 192,000 jobs in February, their fifth consecutive monthly increase. Despite the recent improvement, the level of payroll employment is little changed from the end of the recession. Payrolls were 130.49 million in June 2009, and were 130.52 million last month. At the onset of the recession in December 2007, payrolls were nearly 138 million.



Source: Bureau of Labor Statistics / Haver Analytics.