FEDERAL RESERVE
BANK OF BOSTON™

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

March 1, 2012

Current Economic Developments - March 1, 2012

Data released since your last Directors' meeting show the economy was stronger in the fourth quarter than originally estimated, but recent data suggest growth will slow in the first quarter. General economic conditions have shifted a bit recently, as labor markets and consumer attitudes have improved while manufacturing has eased. The latest Greek bailout plan has relieved some of the European tension, but escalating oil prices provide a new concern. Still, the economy remains on track to grow at a moderate pace in the first half of the year.

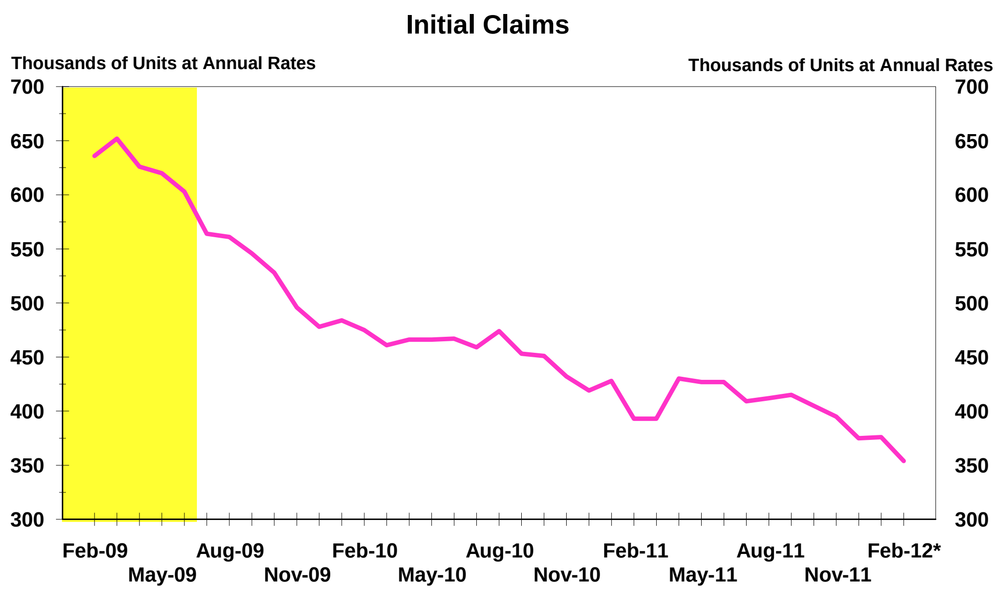
In February, initial claims continued to fall and consumer attitudes improved to their best levels in one year. Real consumption expenditures were unchanged again in January, as incomes fell for the second time in three months.

Housing market data was mostly positive in January, and while the sector as a whole remains weak, there have been signs of improvement. Existing home sales have increased in three of the past four months, and sales of new homes were also trending upward before easing slightly in January. New residential construction data was also up in January, and over the past three months have been at their highest levels since the end of the recession.

Recent manufacturing data has been less favorable than that seen over the past several months. The ISM index fell in February and industrial production was flat in January. New orders for durable goods fell sharply in January, as did orders for nondefense capital goods excluding aircraft, suggesting business investment may continue to weaken.

Inflation remained subdued in January, and although core measures have continued to trend mostly upward, they are expected to ease in the coming months. Inflation may be pushed up temporarily due to higher oil prices, which rose persistently throughout February due to political concerns in the Middle East.

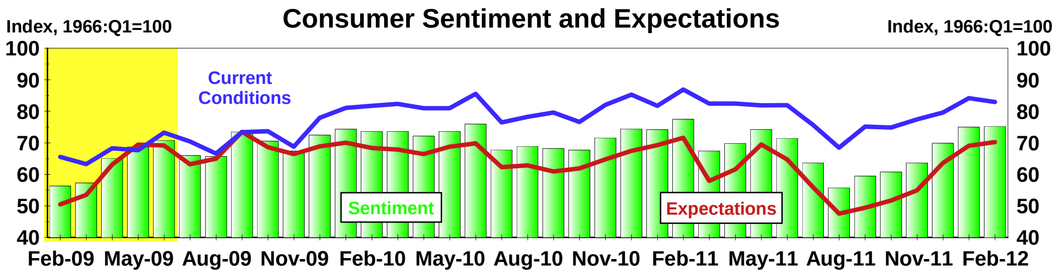
Initial claims for unemployment insurance resumed their downward trend in February, falling to their lowest level in four years. Claims are now only slightly above the level seen at the onset of the recession.

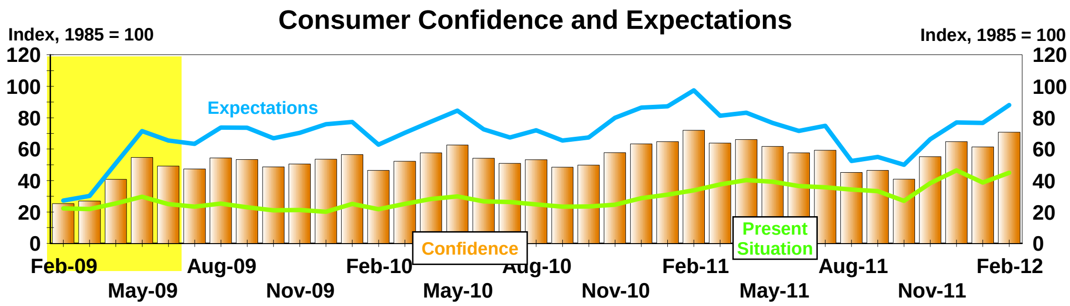


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

* - 4-wk. ave. ending Feb. 25

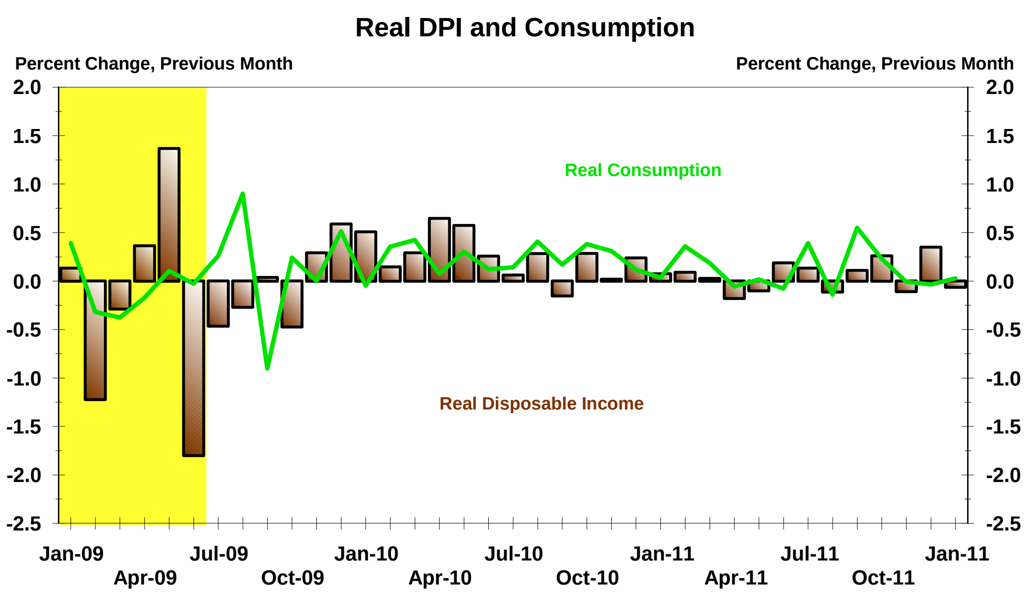
Consumer attitudes improved in February, as both confidence and sentiment reached their highest levels in twelve months. Consumers continue to be more optimistic about business and labor market conditions, and are more confident in the economy's ability to overcome minor setbacks. Respondents to the Conference Board survey also reported some improvement in their personal financial situations.





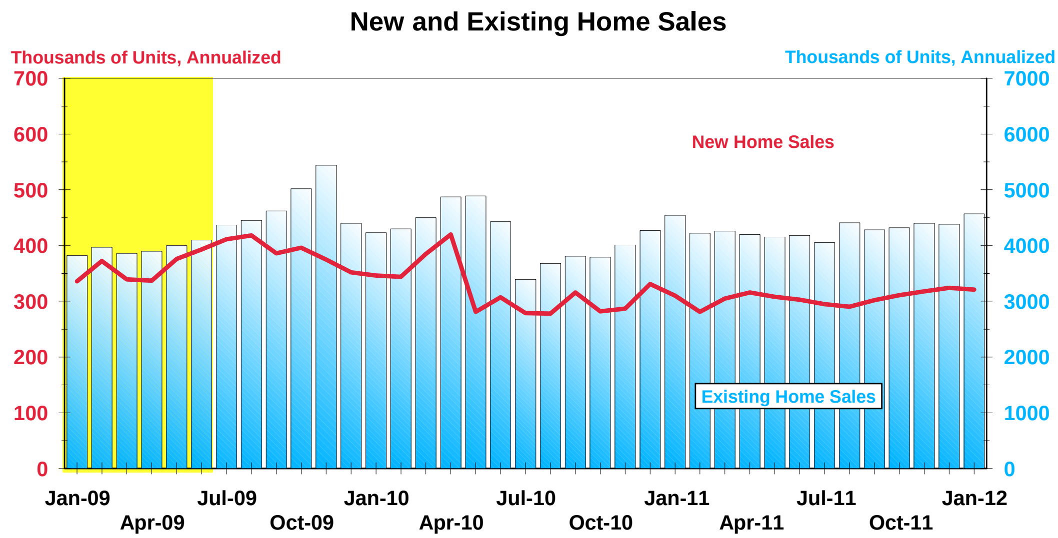
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Real disposable incomes fell slightly in January, and over the past year have seen a monthly average increase of only one-half of a percentage point. The slow growth in incomes has restrained consumption, which has been largely unchanged over the past three months.



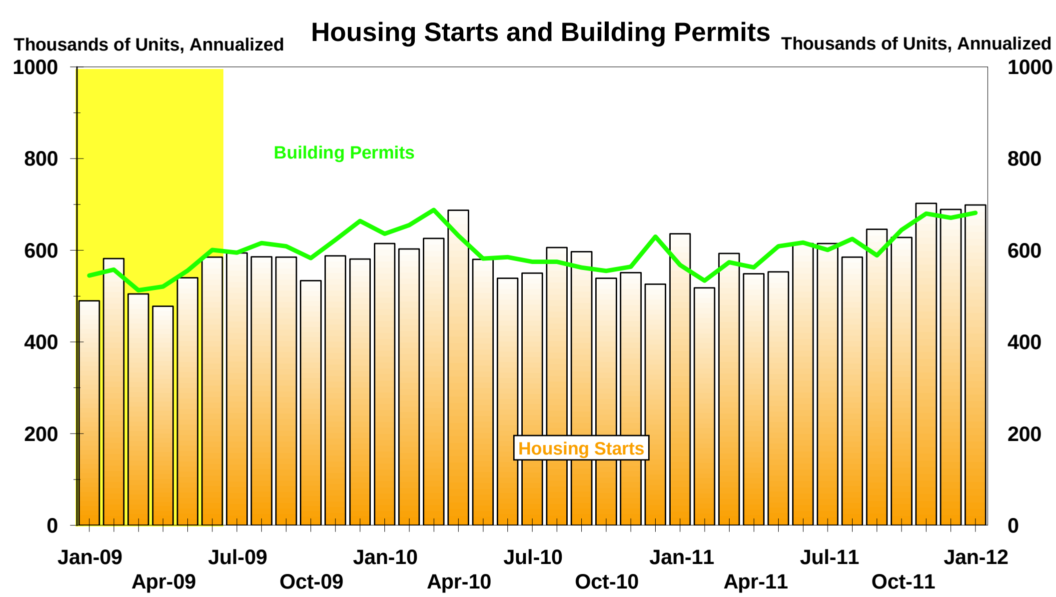
Source: Bureau of Economic Analysis / Haver Analytics.

Housing market data was mostly positive in January. Existing home sales improved significantly over December's downwardly revised estimate, marking the third increase in the last four months. New home sales decreased slightly in January, but from a December number that was revised higher, leaving the current sales pace above expectations.



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

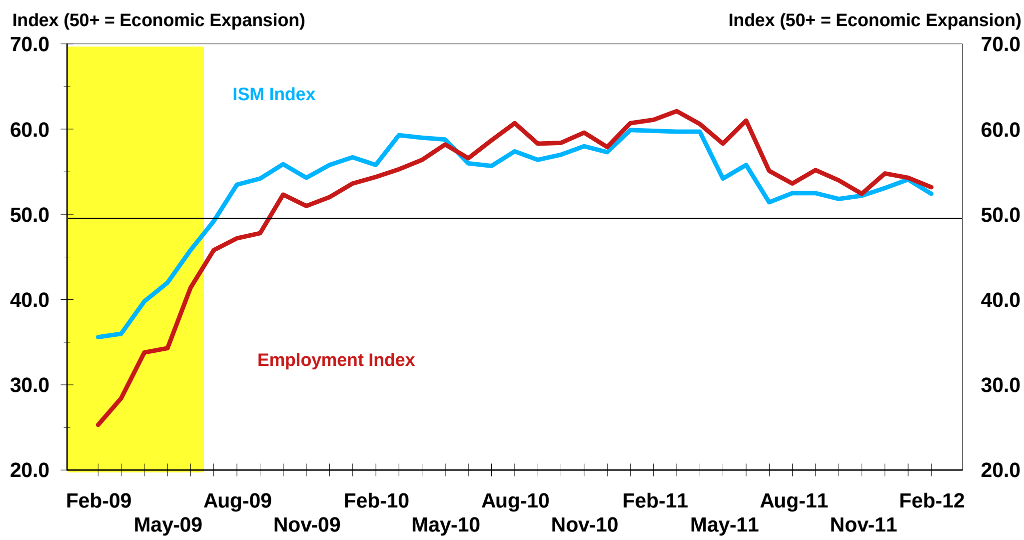
Housing starts increased in January, from a level in December that was revised significantly higher. Starts have averaged nearly 700,000 over the past three months, the highest three-month average since late 2008. Building permits also increasd January. The recent strength in new construction data is likely due in part to unseasonable mild weather being enjoyed in many parts of the country.



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

The ISM manufacturing index fell in February, offsetting much of the improvement seen over the previous three months. The index signals that the manufacturing sector is still expanding, only at a slower rate. The employment component of the index declined further in February, falling to a three-month low.

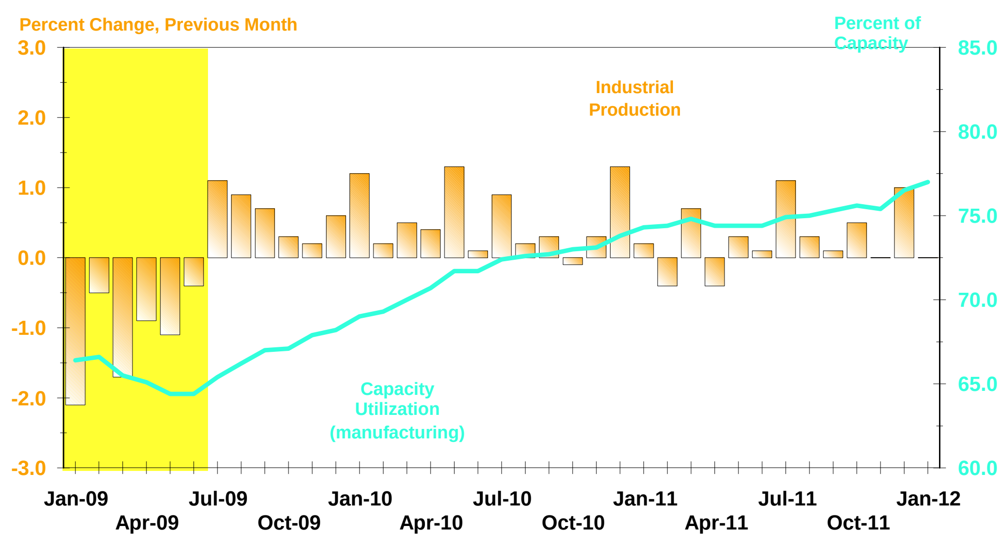
ISM Index



Source: Institute of Supply Management / Haver Analytics.

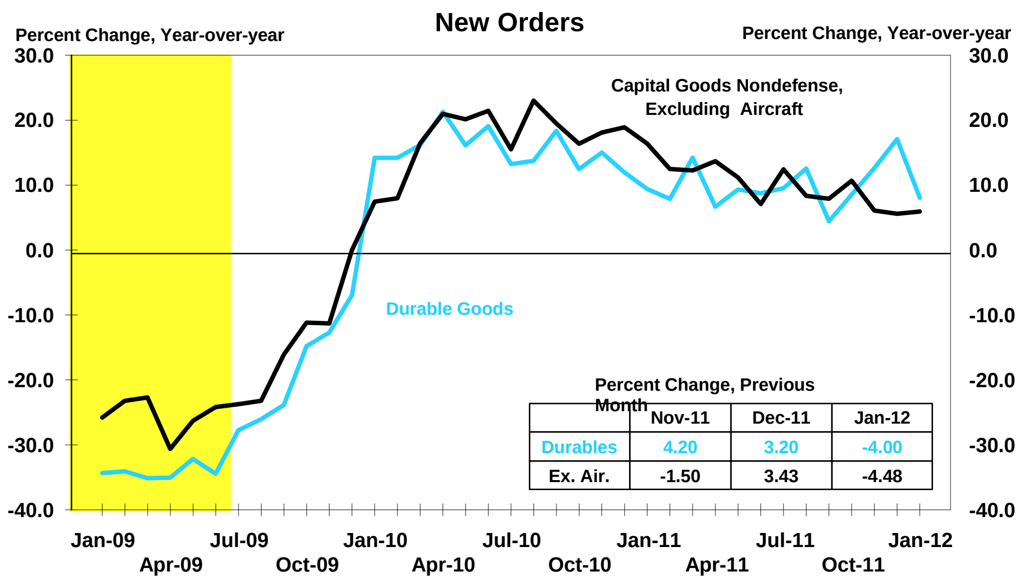
Industrial production was unchanged in January, following a strong increase in December. The recent warm weather was a detriment to production, as lower demand for home heating fuels reduced utilities output. Capacity utilization rose again in January, reaching its highest level since April 2008.

Industrial Production and Capacity Utilization



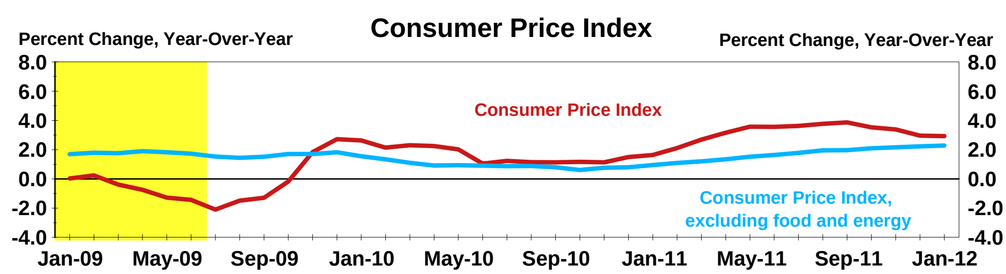
Source: Federal Reserve Board of Governors / Haver Analytics.

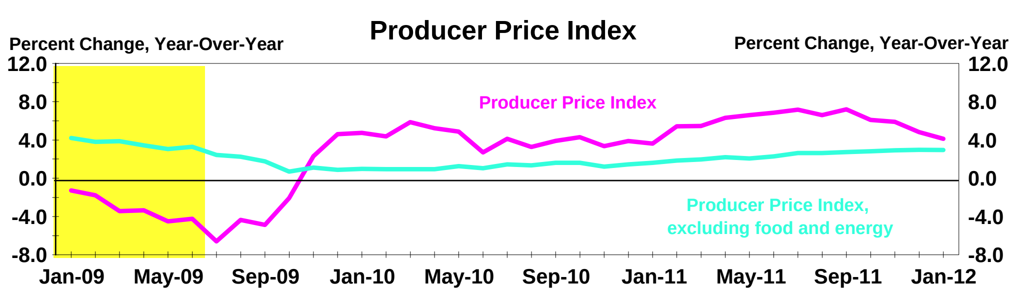
In January, new orders for durable goods posted their first monthly decrease since September but continued to increase on a year-over-year basis, albeit at a lower rate than the previous three months. Orders of nondefense capital goods excluding aircraft also fell sharply in January but still increased from the previous year. The January drop in core orders was worse than anticipated, and may signal weaker manufacturing output in the first quarter than previously expected.



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

Total consumer prices increased in January from the previous month, after holding steady in December. Core CPI also increased in January, due in part to an increase in apparel prices, and the 12-month change reached 2.3%, its highest level since September 2008. Total producer prices increased slightly in January, despite falling food and energy prices, while the core index rose more significantly. On an annual basis, total producer prices eased further while the core index held steady.

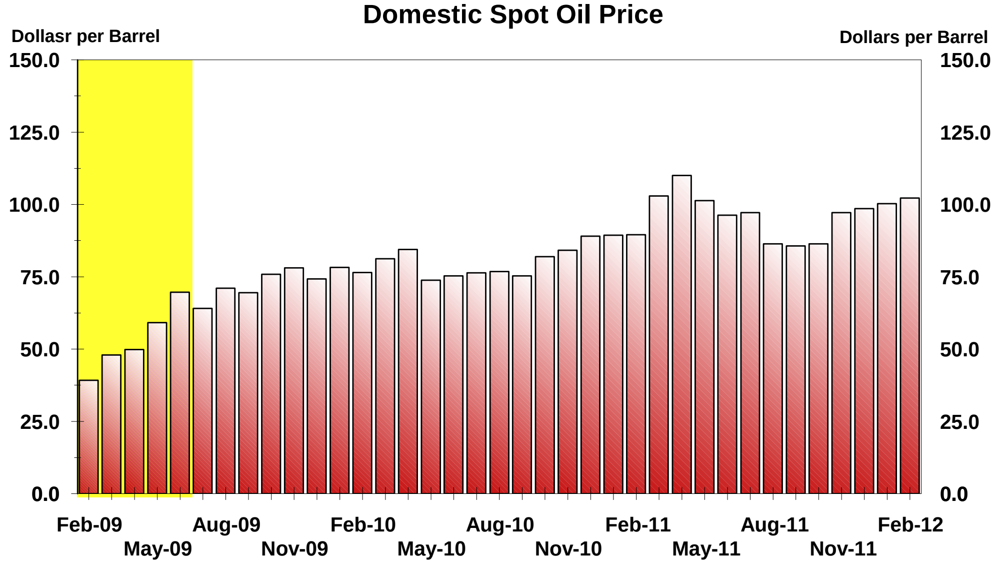




Source: Bureau of Labor Statistics / Haver Analytics.

On average oil prices posted another small gain in February, however daily closing prices rose sharply throughout the month due to increased concern over nuclear issues in Iran. Prices peaked at nearly $110 per barrel on February 24th, their highest level since early May. The higher prices have already impacted retail gas prices, which reached their highest level in over five months.

Domestic Spot Oil Price



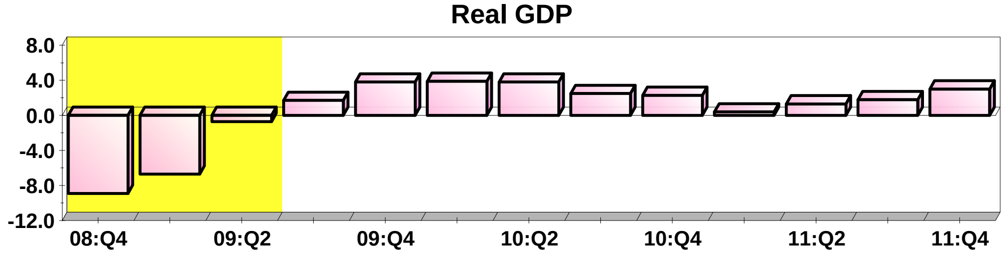
Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the fourth quarter. The higher growth rate primarily reflected upward revisions to nonresidential fixed investment and personal consumption expenditures and a downward revision to imports.

Revisions to Fourth Quarter Real GDP

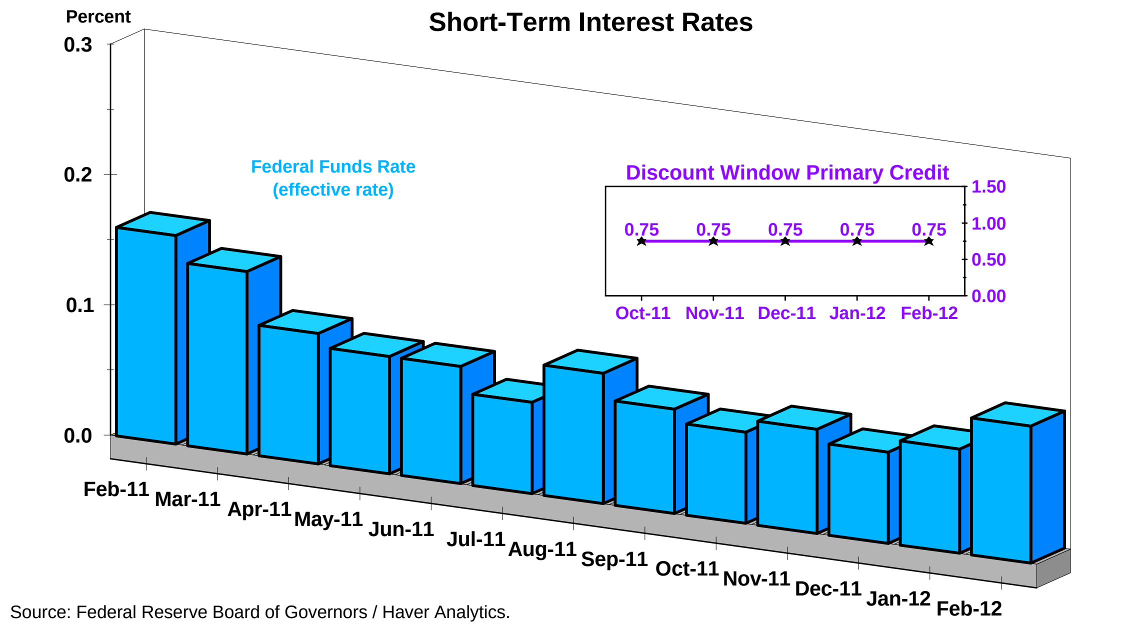
Description	Advance	2nd Estimate
Real GDP	2.8	3.0
Personal Consumption	2.0	2.1
Business Investment	1.7	2.8
Equipment and Software	5.2	4.8
Residential Investment	10.9	11.5
Government	-4.6	-4.4
Exports	4.7	4.3
Imports	4.4	3.8
Final Sales	0.8	1.1

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy was stronger in the fourth quarter than originally estimated, but recent data suggest growth will slow in the first quarter. General economic conditions have shifted a bit recently, as labor markets and consumer attitudes have improved while manufacturing has eased. The latest Greek bailout plan has relieved some of the European tension, but escalating oil prices provide a new concern. Still, the economy remains on track to grow at a moderate pace in the first half of the year.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

March 7, 2012

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

Lightweight vehicle sales rose again in February, selling at their fastest annual pace since February 2008. The increase was led by passenger car sales, not surprising given the rising gas prices.

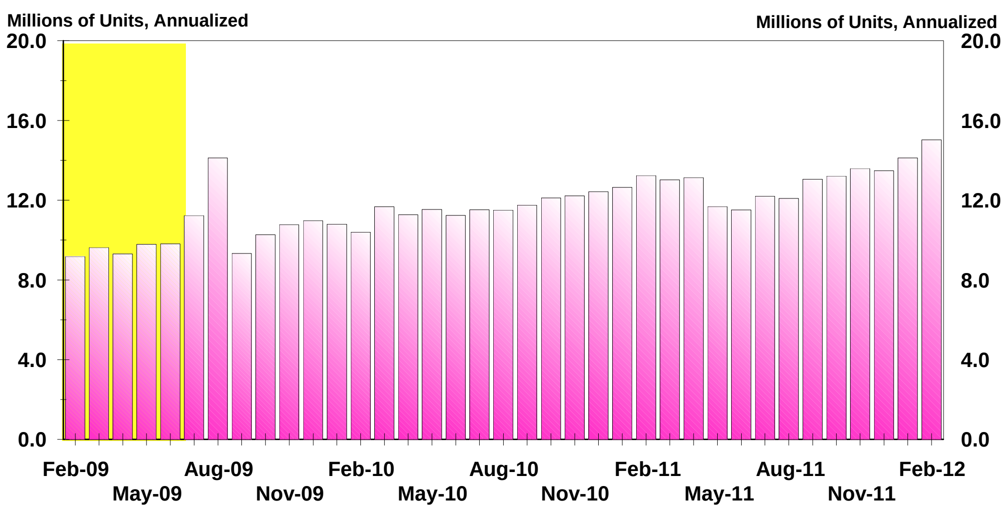
Productivity growth was revised up slightly in the fouth quarter, as output was higher than originally thought and hours worked increased by less than previously estimated. More importantly, annual revisions resulted in much faster growth in labor costs over the second half of last year.

In February, the ISM nonmanufacturing index improved to 57.3, its highest level in one year. The employment index eased to 55.7 in February, but remained well above 50 signaling manufacturing employment is still increasing, only at a slower pace. In January, manufacturers' orders fell 1.0% while shipments rose 0.9%, but shipments of nondefense capital goods excluding aircraft fell 3.0%.

Employment data from the Bureau of Labor Statistics is due out Friday morning. Market expectations are for payrolls to post their third consecutive monthly gain of more than 200,000, and the unemployment rate is expected to hold steady at 8.3%.

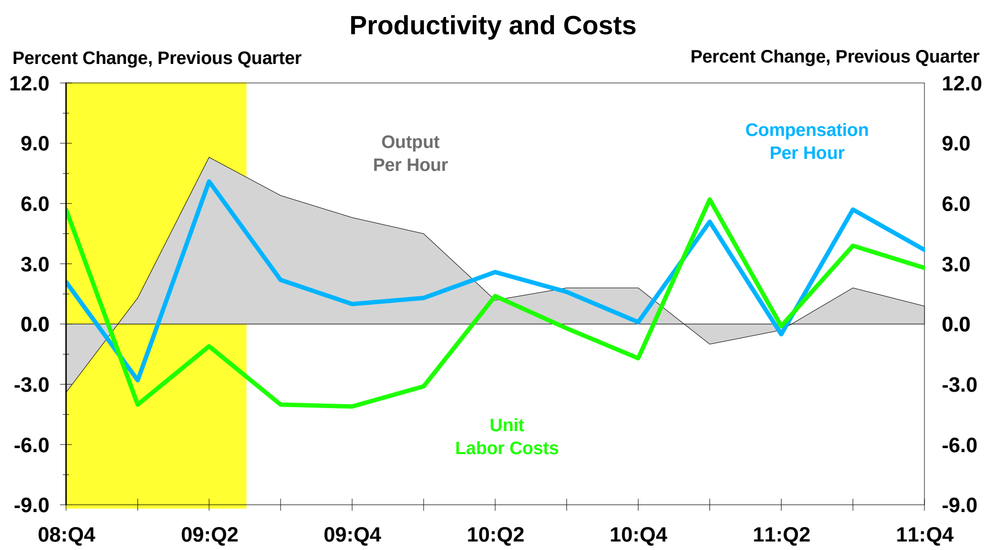
Total auto and light truck sales increased above expectations in February, despite rising gas prices, to the highest level in four years. Dealers attributed the stronger sales to more fuel-efficient vehicles and more favorable economic conditions for the consumer.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Productivity was revised up slightly in the fourth quarter, reflecting moderate gains in both output and hours worked. Annual revisions revealed sharp increases for both compensation and unit labor costs over the second half of 2011. In the third quarter, compensation increased 5.7% and labor costs rose 3.9%, up from the previously estimated declines of 0.3% and 2.1%, respectively. In the fourth quarter, previously reported gains of 1.9% and 1.2% were revised up to 3.7% and 2.8%.



Source: Bureau of Labor Statistics / Haver Analytics.