FEDERAL RESERVE
BANK OF BOSTON™

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

February 3, 2011

CURRENT ECONOMIC DEVELOPMENTS - February 3, 2011

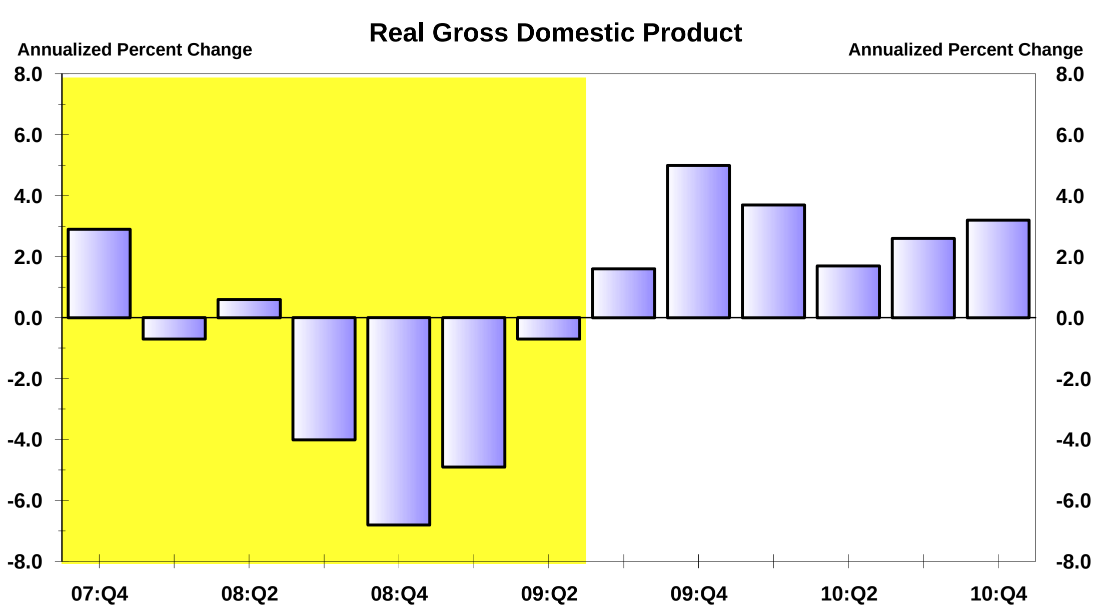
Data since your last Directors' meeting show the economy accelerated in the fourth quarter, and is likely to continue to grow at a solid pace through the first half of this year. While the recovery appears to have become more self-sustaining, downside risks remain in the forms of housing and employment. Further improvements in these areas will be necessary before declaring a healthy economy.

The increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures, net exports and nonresidential fixed investment that were partly offset by a negative contribution from private inventory investment.

In January, initial claims were up from December, but down a bit from their fourth quarter average. Consumer attitudes picked up in January due to better feelings about current business and employment conditions, while also being more optimistic about future improvements.

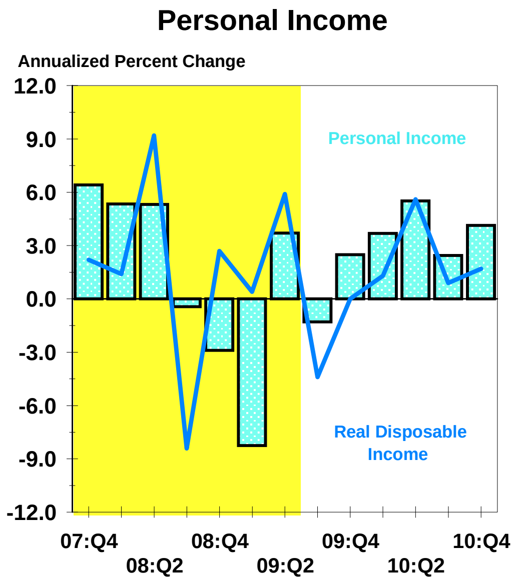
Inflation worries remain minimal as price increases in the fourth quarter were relatively small, especially for the core measures. Unit labor costs decreased in the fourth quarter while total compensation, as measured by the ECI, picked up slightly. Oil prices rose a bit in January and closed the month at over $92 per barrel.

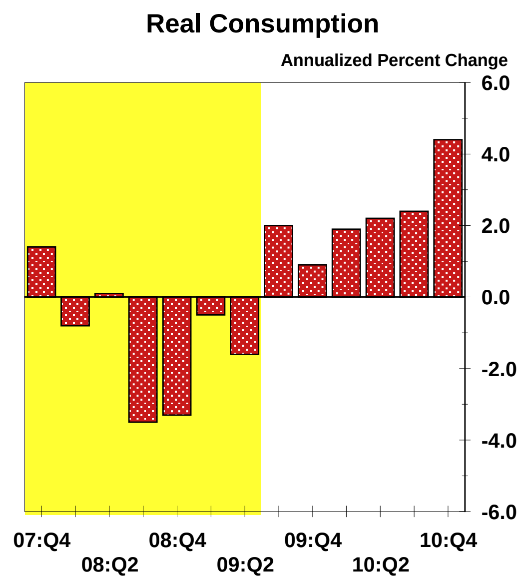
The acceleration in real GDP growth in the fourth quarter primarily reflected a sharp downturn in imports, an acceleration in PCE, and an upturn in residential investment. Those effects were partly offset by downturns in private inventory investment and government spending and a deceleration in nonresidential investment.



Source: Bureau of Economic Analysis / Haver Analytics.

Consumption surged in the fourth quarter, posting its biggest increase in nearly five years. Consumption has been a key contributor to the recovery, aided by incomes that rose steadily throughout 2010.

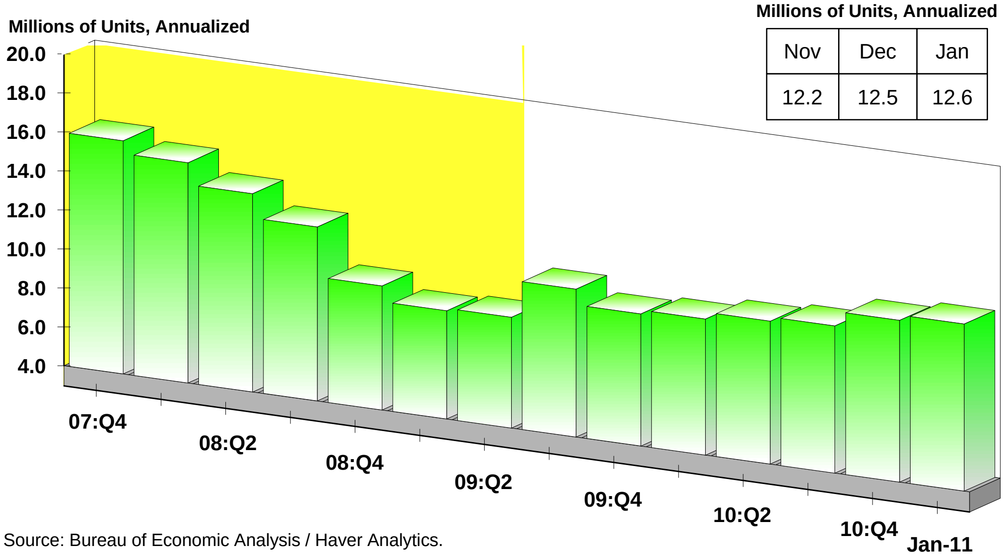




Source: Bureau of Economic Analysis / Haver Analytics.

Auto sales rose further in January after rising steadily through 2010. The annual sales pace in January was higher than any single-month pace seen last year.

Total Auto and Light Truck Sales



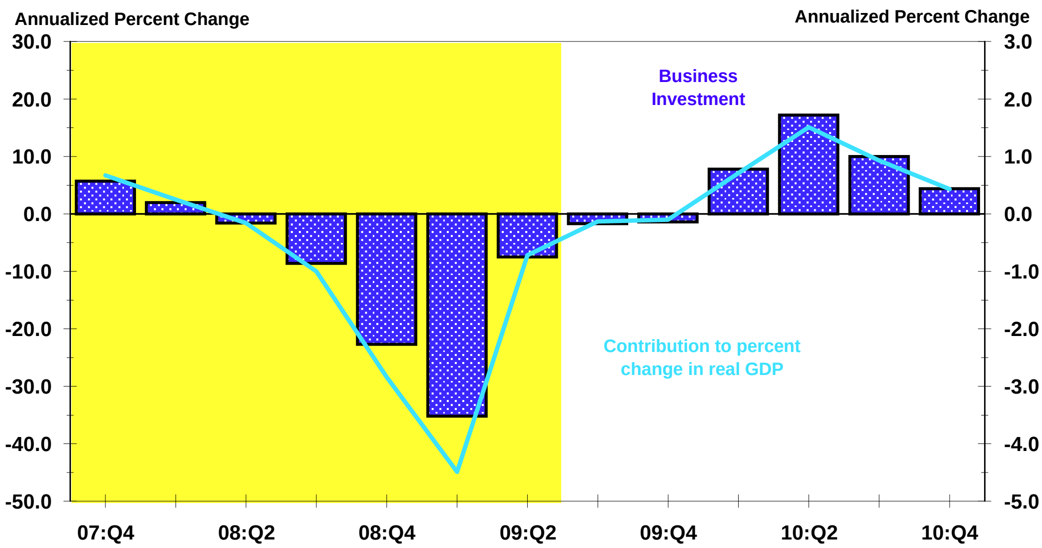
Millions of Units, Annualized

Nov	Dec	Jan
12.2	12.5	12.6

Source: Bureau of Economic Analysis / Haver Analytics.

Growth in business investment slowed further in the fourth quarter, due primarily to a deceleration in equipment and software investment. While still being a positive contributor to GDP, business investment is not providing as much support as it was earlier in the recovery.

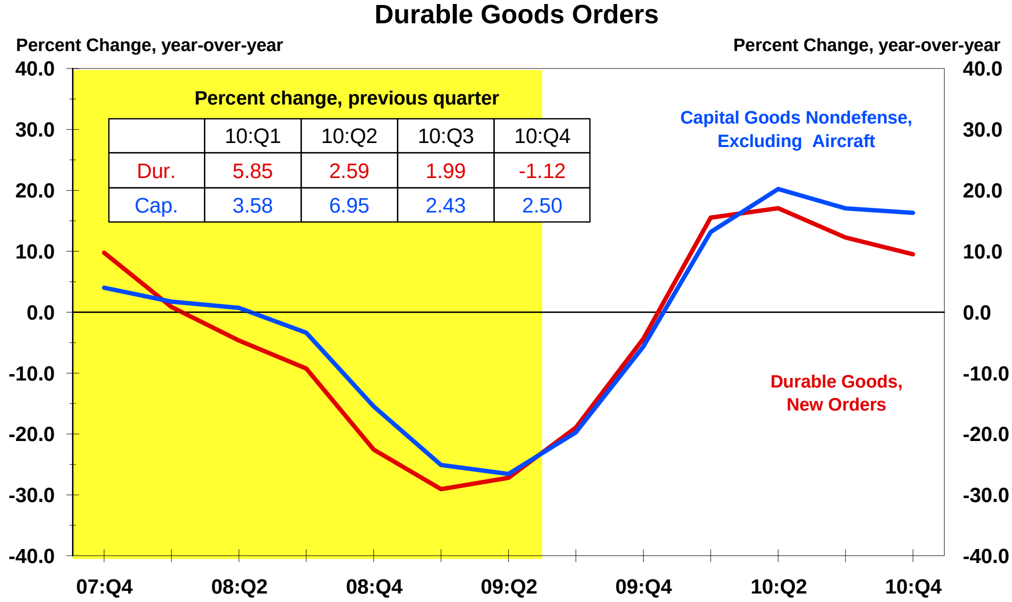
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

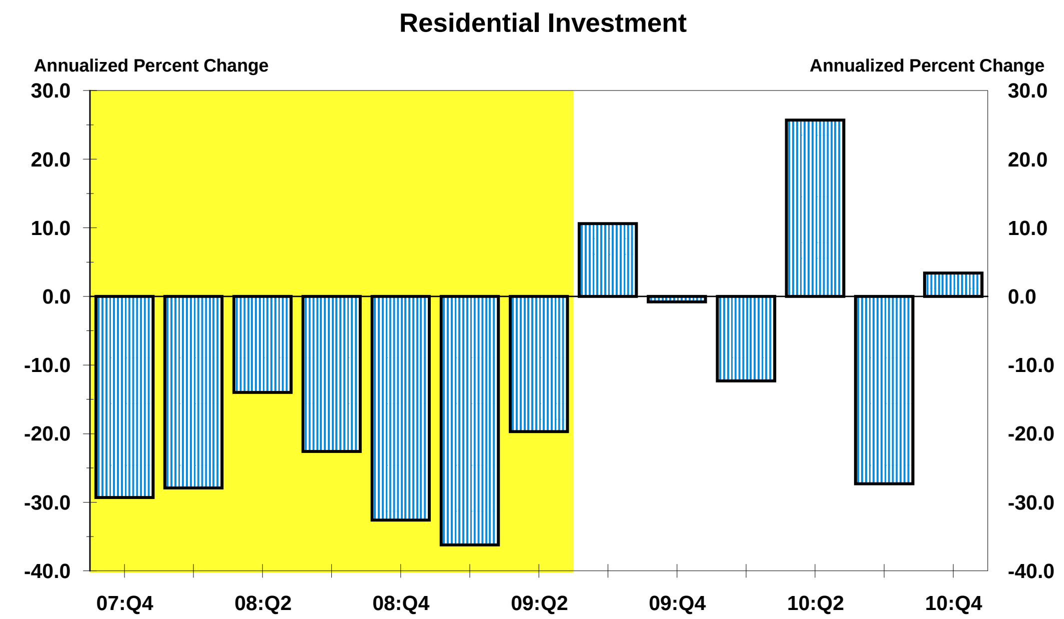
In the fourth quarter durable goods orders continued to show year-over-year improvements, despite falling a bit from the third quarter. Data for the forward-looking capital goods measure has been stronger than the total measure, suggesting manufacturing investment will continue to be positive in the coming months.

Durable Goods Orders



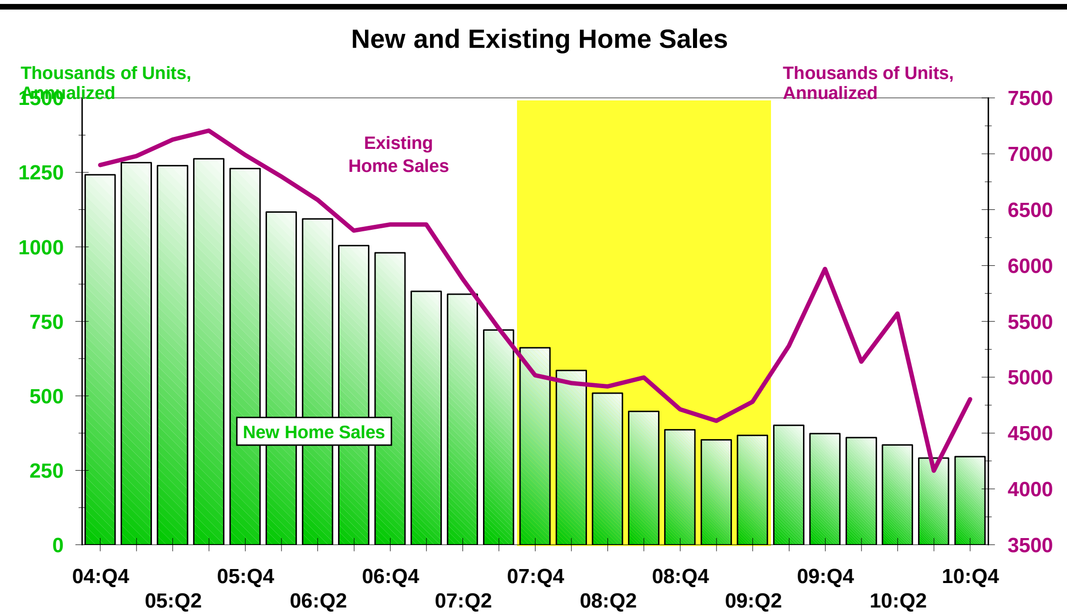
Source: U.S. Census Bureau / Haver Analytics.

Residential investment has been quite volatile since the end of the recession. The introduction and expiration of the various tax credits makes it difficult to gauge any underlying trends in the housing market, but investment did increase a bit in the fourth quarter without any stimulus support.



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

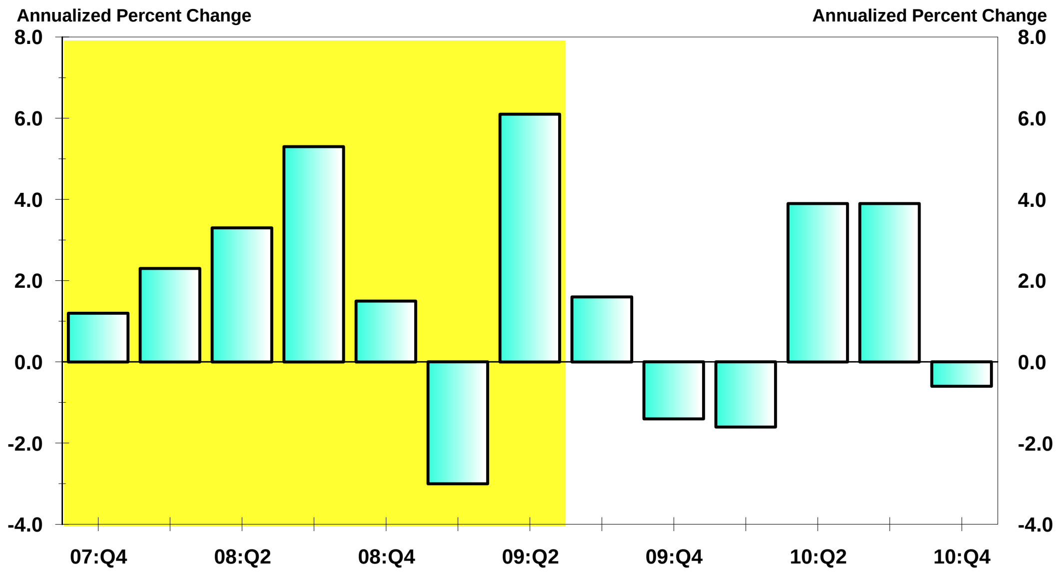
Home sales rose overall in the fourth quarter (new home sales only slightly), due primarily to double-digit increases in December. Despite the recent improvements, sales remain far below their pre-recession levels. The real estate market also continues to be affected by falling house prices, an issue exacerbated by elevated inventories of existing homes and foreclosed properties yet to hit the market.



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

Government spending fell slightly in the fourth quarter, following two quarters of solid increases.

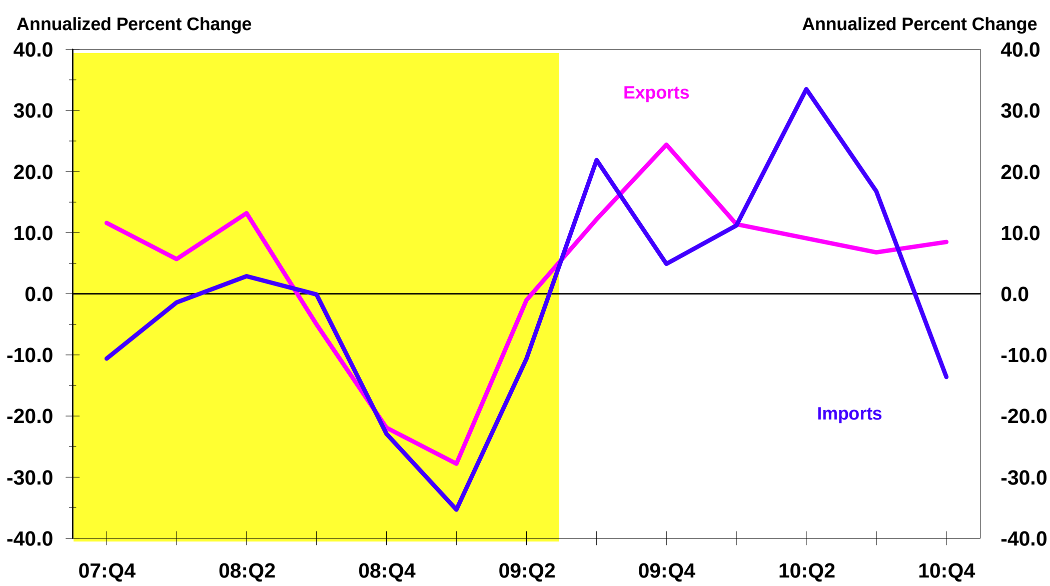
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

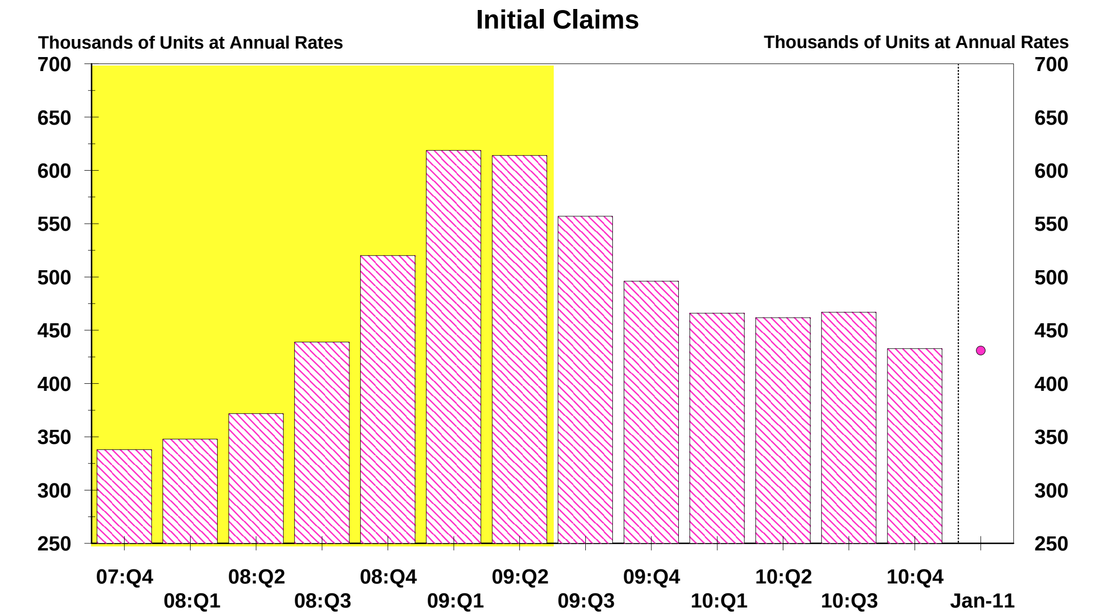
Imports fell in the fourth quarter for the first time in a year-and-a-half, while exports accelerated a bit. These changes reversed the recent trend of net exports being a drag on the economy, contributing 3.4% to GDP in the fourth quarter.

Exports and Imports



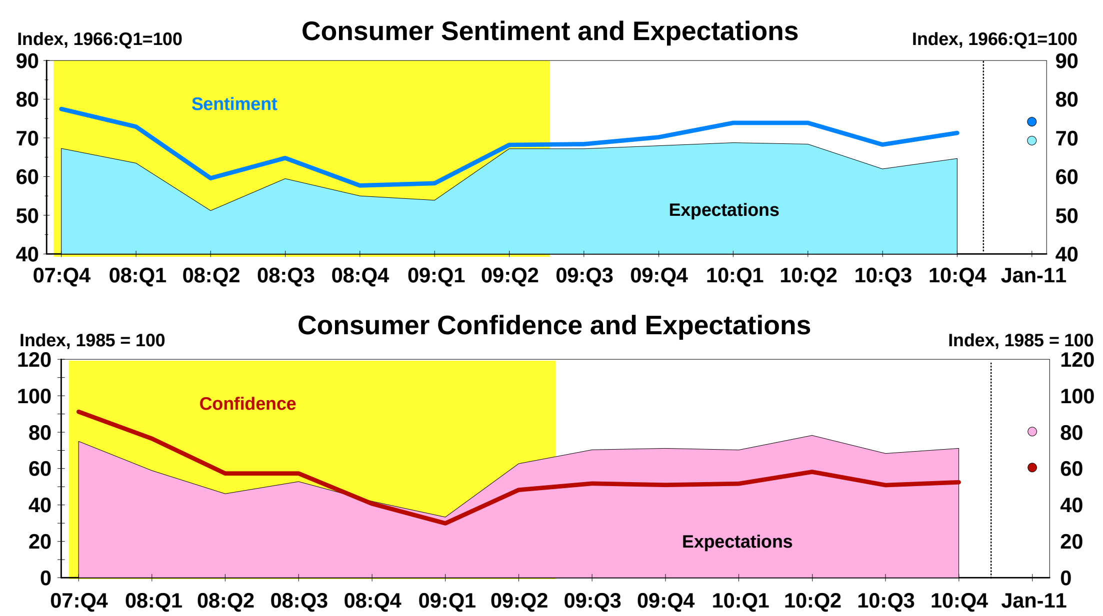
Source: Bureau of Economic Analysis / Haver Analytics.

Initial claims for unemployment insurance in January were up from December, due in part to winter weather-related administrative backlogs. Despite the increase, the January level was in line with the fourth quarter average.



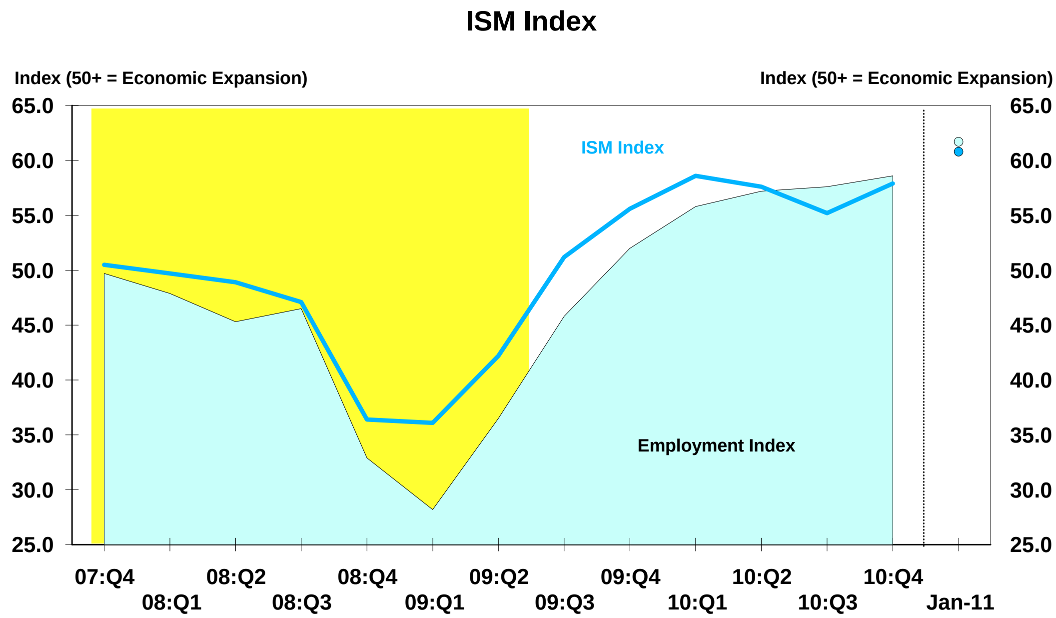
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in January from their fourth quarter averages. In general, consumers felt better about current business and labor market conditions and were more optimistic about those conditions improving further in the coming months.



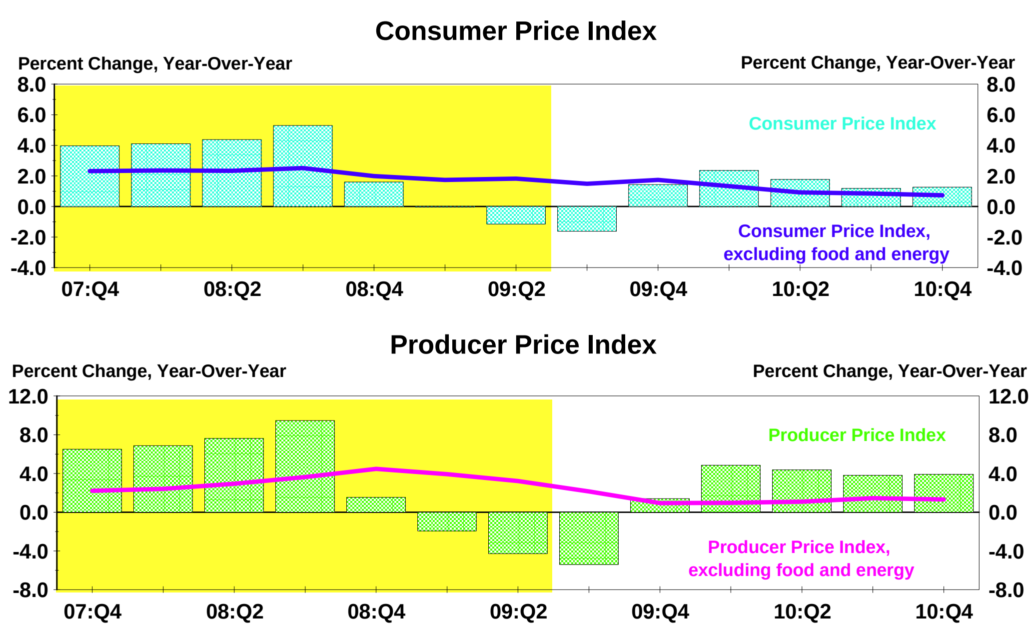
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

The ISM indices improved further in January, building on the increases seen in the fourth quarter. The diffusion index reached its highest point in almost seven years, while the employment index surged to its best reading since 1973.



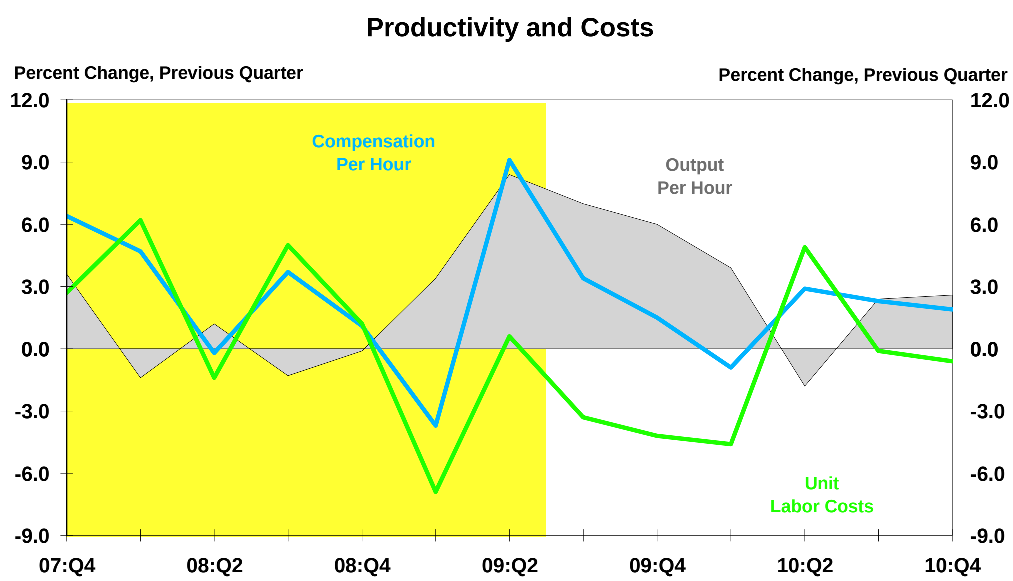
Source: Institute for Supply Management / Haver Analytics.

Inflation remained subdued in the fourth quarter, as the primary measures showed little change from the third quarter. The four-quarter change in core CPI was the lowest in the history of the series.



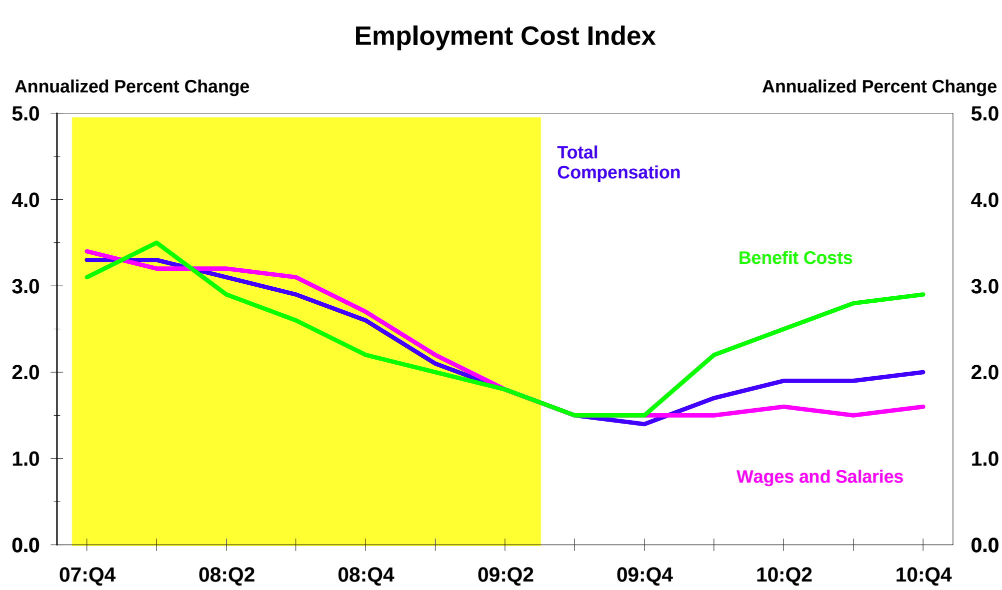
Source: Bureau of Labor Statistics / Haver Analytics.

Productivity picked up a bit in the fourth quarter, as output increased more than hours worked. Unit labor costs fell further during the quarter, and compensation growth slowed.



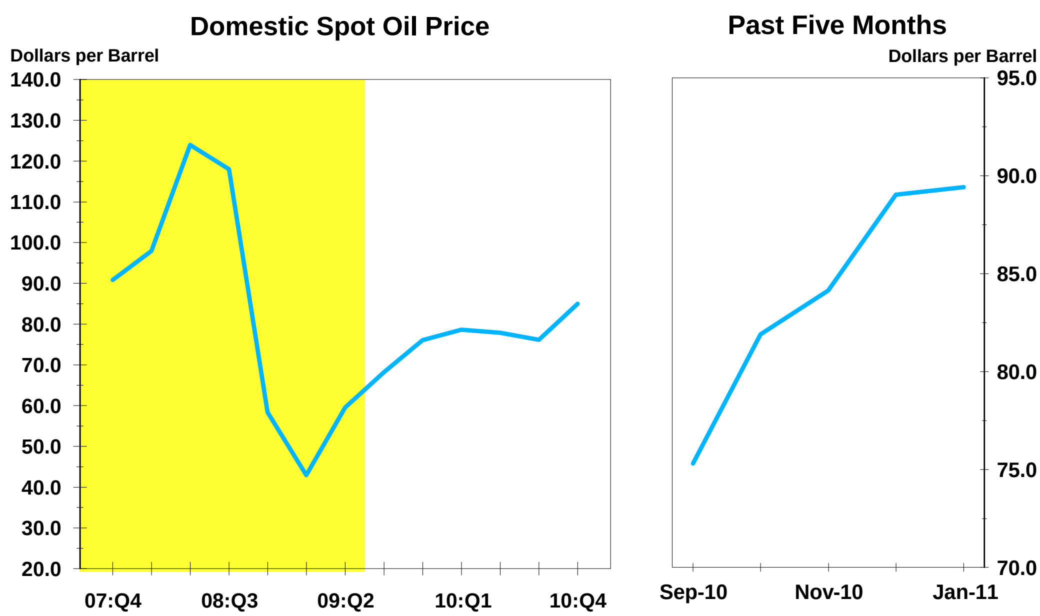
Source: Bureau of Labor Statistics / Haver Analytics.

In the fourth quarter, total employment costs grew at a slightly faster pace than seen in the third quarter. Wage and salary growth picked up to offset the third quarter slow-down, while benefit costs continued to accelerate.



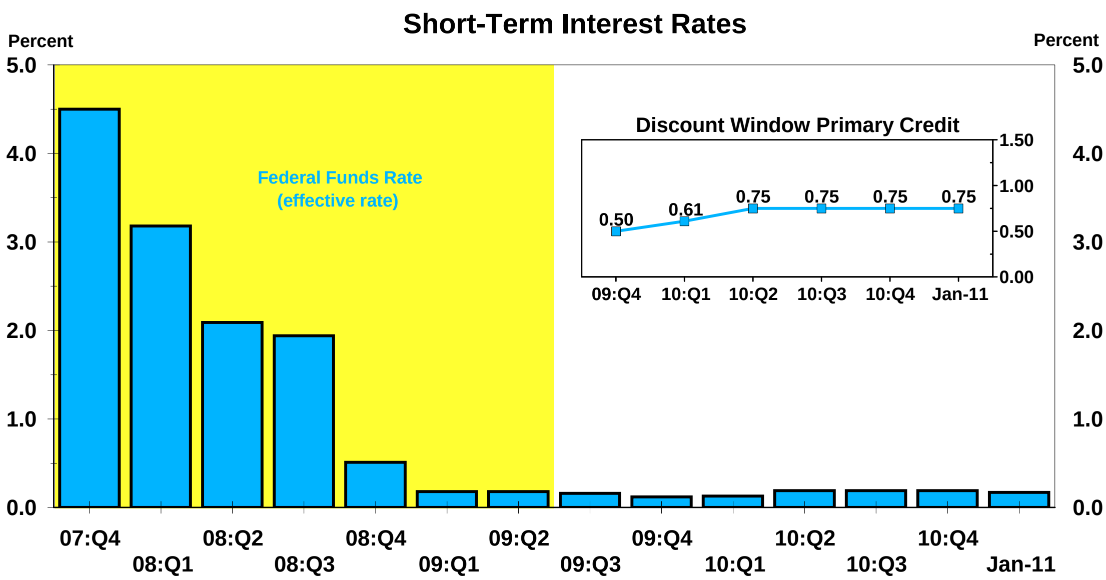
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices were slightly higher in January than they were in December. Prices spent a good part of the month above $90 per barrel, leading to the highest monthly average since September 2008.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy accelerated in the fourth quarter, and is likely to continue to grow at a solid pace through the first half of this year. While the recovery appears to have become more self-sustaining, downside risks remain in the forms of housing and employment. Further improvements in these areas will be necessary before declaring a healthy economy.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

February 10, 2011

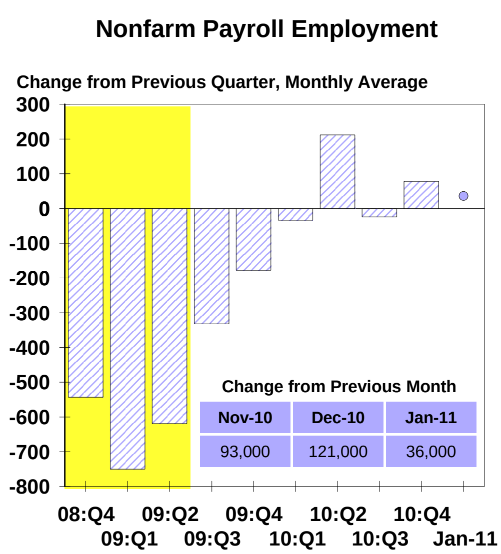
Current Economic Developments - Addendum: Data released in the past week

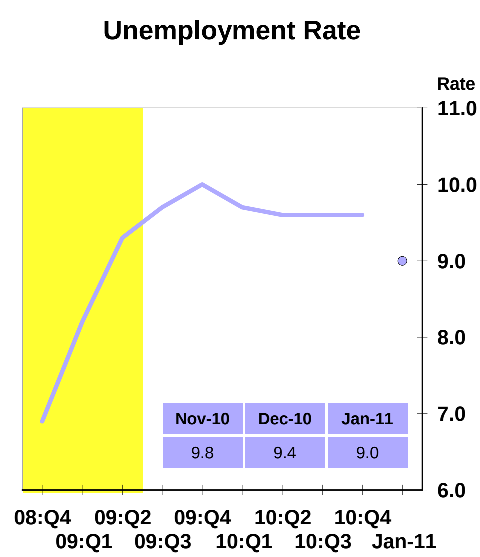
Nonfarm payrolls added only 36,000 jobs in January, far below expectations. But the unemployment rate fell four-tenths of a percentage point to 9.0%, its lowest level since April 2009. The report also showed a drop of 500,000 in the labor force, but when adjusting for new population controls instituted in January, the labor force was unchanged. In other words, job creation in January was likely more robust than the headline data would indicate.

While Friday's employment report painted a generally positive picture of labor market conditions, it was also a confusing one. Some of the data appears contradictory, due primarily to differences in how the payroll and household survey results are calculated. The most important difference, especially for January, is how the surveys handle people being unable to work due to bad weather. Such workers are counted as employed by the household survey but not included in payroll data.

Through the first week of February, Redbook sales were up 1.7% compared to January, and up 2.7% compared to the same period last year. Oil prices decreased a bit over the past week, averaging $88.5 per barrel as opposed to the previous week's average of $89.8.

Payroll employment posted a small increase in January, and revisions to the prior two months' estimates resulted in a gain of 40,000 additional jobs. The unemployment rate fell four-tenths of a percentage point to 9.0%, and the combined eight-tenths percentage point drop since November is the largest two-month decline since 1958.





Source: Bureau of Labor Statistics / Haver Analytics.