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economy, noting "signs of underlying strength" despite lingering fiscal uncertainty as the calendar flipped to 2013.

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The head of the Boston Fed, Eric Rosengren, painted a generally encouraging picture for the U.S. economy, noting "signs of underlying strength" despite lingering fiscal uncertainty as the calendar flipped to 2013.

In a speech today in Providence, Rosengren said there has been improvement recently in the housing sector and in purchases of durable goods such as cars by consumers, thanks in part to the Fed.

"The most interest-sensitive sectors have been responding to the monetary stimulus from the Fed, and this stimulus has provided a major source of strength for the economy last year. And it is likely to be a source of support in 2013," he said, according to his prepared remarks.

Rosengren said it's "imperative" to continue so-called monetary accommodation because the nation still has an "unacceptably" high unemployment rate, while inflation is actually "undershooting" the Fed's 2 percent target.

"Despite the rapid growth of the central bank's balance sheet in 2008, as well as the balance sheet's continued growth more recently, there has been no upward trend in inflation," said Rosengren, who regained a vote this year on the Fed's policy-setting committee.

Rosengren, the president of the Federal Reserve Bank of Boston since 2007, said despite some sources of strength, the economy "has not snapped back more quickly" because of the recent fiscal cliff debate.

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“Similarly, there is the issue of potential federal tax base broadening in order to reduce the federal budget deficit. This will have implications for business and family budgets,” he said. “While the need for long-run sustainable fiscal policy is both clear and uncontroversial, I believe it is important to achieve sustainability in a way that does not risk the tentative economic improvements we have experienced to date.”

Despite the fiscal headwinds and weakness in Europe and Japan, Rosengren expects stronger growth in the second half of the year — closer to 3 percent, compared to the average 2.2 percent annual rate since the recovery started in June 2009.

Rosengren spoke this morning to the Greater Providence Chamber of Commerce. Rhode Island was among the hardest hit during the Great Recession and remains one of only two states with a jobless rate higher than 10 percent, as of November.

“Persistently high unemployment rates have enormous personal and societal costs,” he told Chamber members. “So in my view it is critical that public policy continues to actively support the economy’s return to full employment.”

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