



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

October 2, 2008

CURRENT ECONOMIC DEVELOPMENTS - October 2nd, 2008

Data released since your last Directors' meeting show the economy's second quarter growth wasn't quite as strong as previously reported, and other data suggest growth will be much slower in the second half of the year. Financial markets have been volatile in reaction to multiple bank failures and mergers and bailout speculation, the labor and housing markets are struggling, and consumers and businesses are being conservative as they face the uncertainty of the coming months.

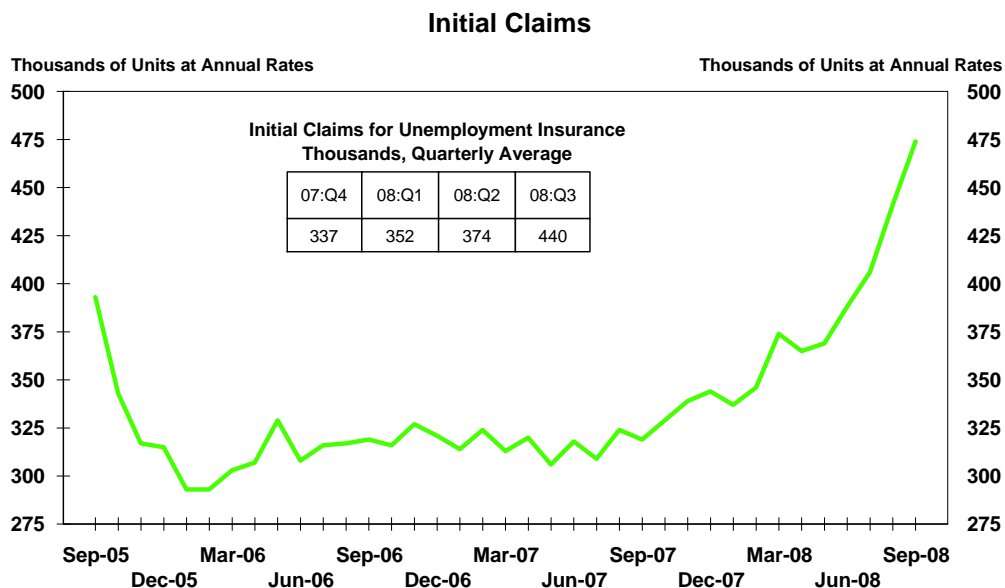
In September, initial claims increased as the labor market softened further. Consumer attitudes improved overall in September, but the surveys were conducted before the most recent financial market turmoil. Personal income decreased again in August, and consumer spending was flat following two consecutive declines. Third quarter consumption is likely to be negative for the first time in over 17 years.

There were no signs of improvement in the housing market in August. Both new and existing home sales fell, as did housing starts and building permits. The construction data was the weakest seen since the early 1990s.

In the business sector, industrial production and capacity utilization both fell in August. In September, the ISM diffusion index fell to a seven year low. Orders of durable goods fell again in August, but orders for capital goods excluding aircraft increased for the ninth month in a row.

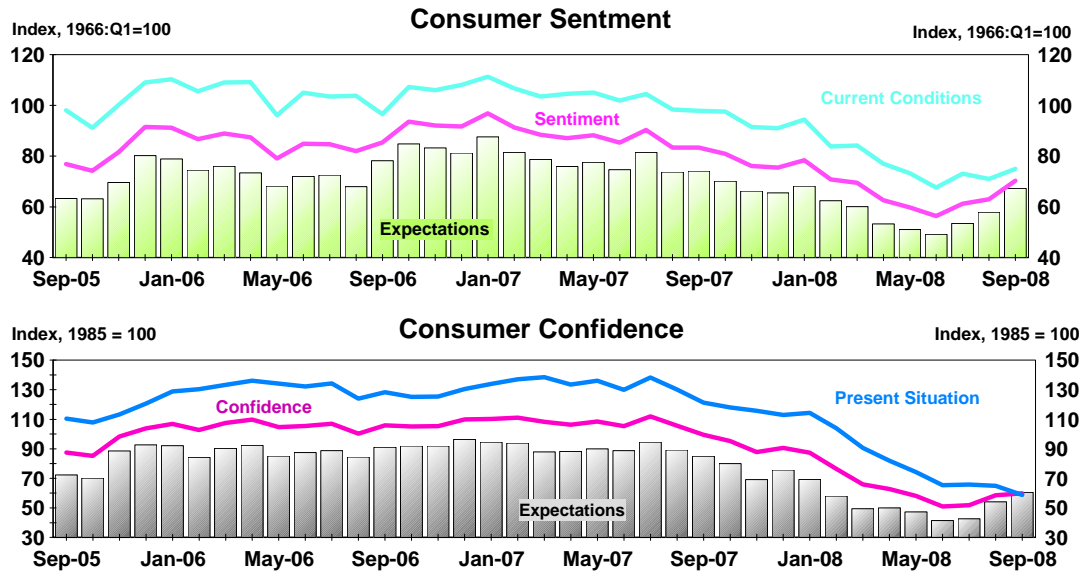
Inflation news was positive in August, as total prices slowed for both consumers and producers. Oil prices also continued to fall in September.

Initial claims for unemployment insurance rose even higher in September, primarily the result of a softer labor market and also some hurricane related job losses. The latest week's figure of 497,000 initial claims was a seven year high.

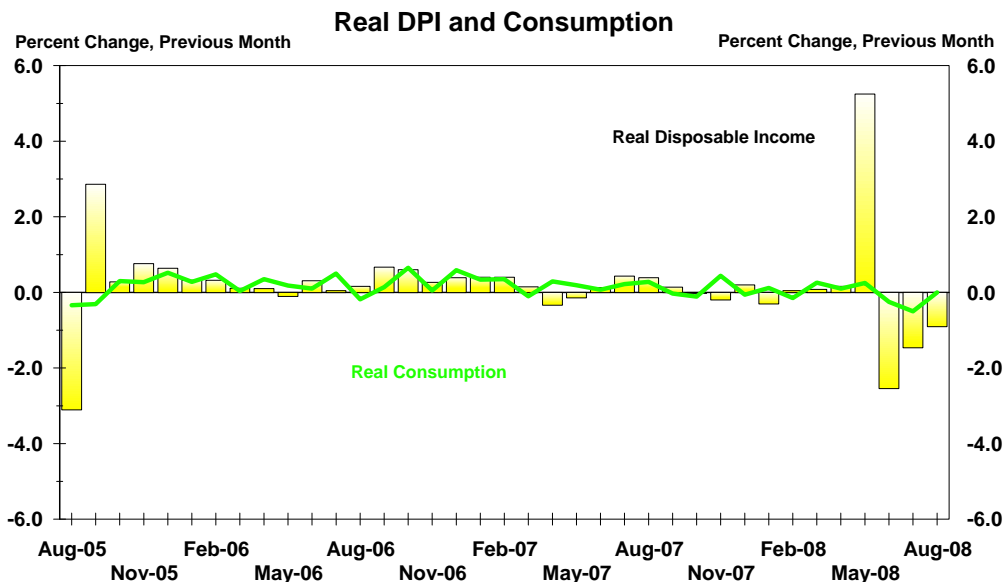


Source: Department of Labor, Employment and Training Administration.

Consumer attitudes improved for the most part in September, highlighted by further increases in sentiment and confidence. The lone deterioration was the Conference Board's measure of the present situation. It is worth noting that these surveys were conducted prior to the recent financial turmoil, so the increased optimism may be short lived.

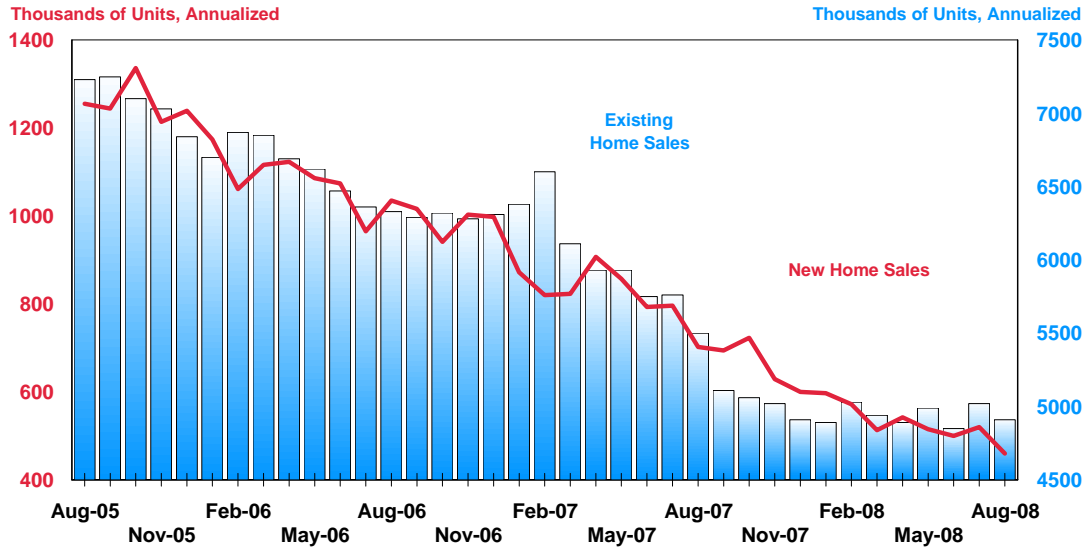


Real incomes fell for the third month in a row in August, following the rebate-induced surge seen in May. Real consumption was flat in August.



In August, new home sales experienced their biggest drop since November which resulted in the slowest sales pace in 17 years. Existing home sales also slowed in August, but remained close to their 6- and 12-month averages.

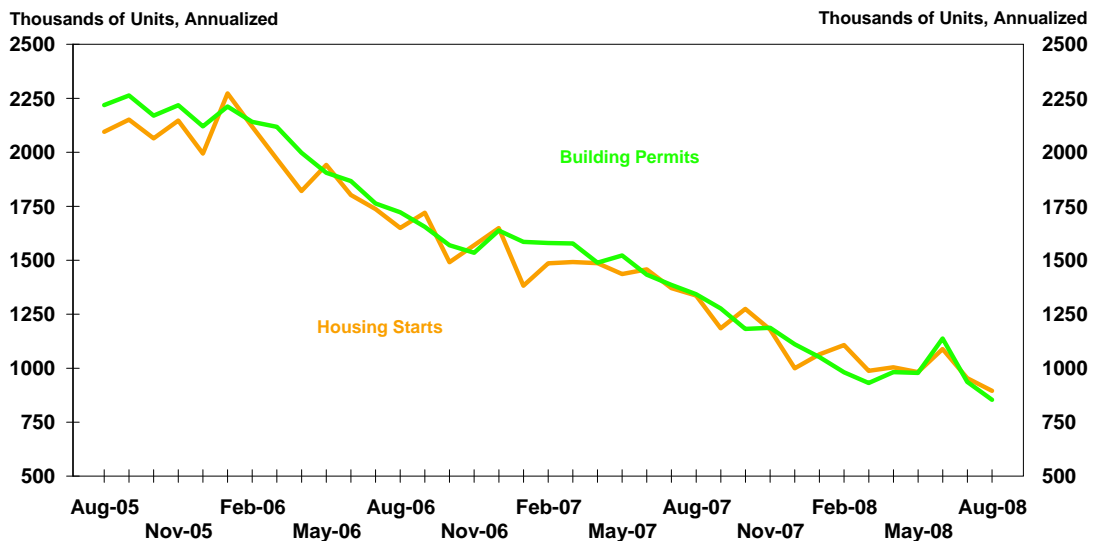
New and Existing Home Sales



Source: U.S. Census Bureau.

Housing starts and building permits both fell for a second consecutive month in August, with both measures reaching their lowest level since early 1991.

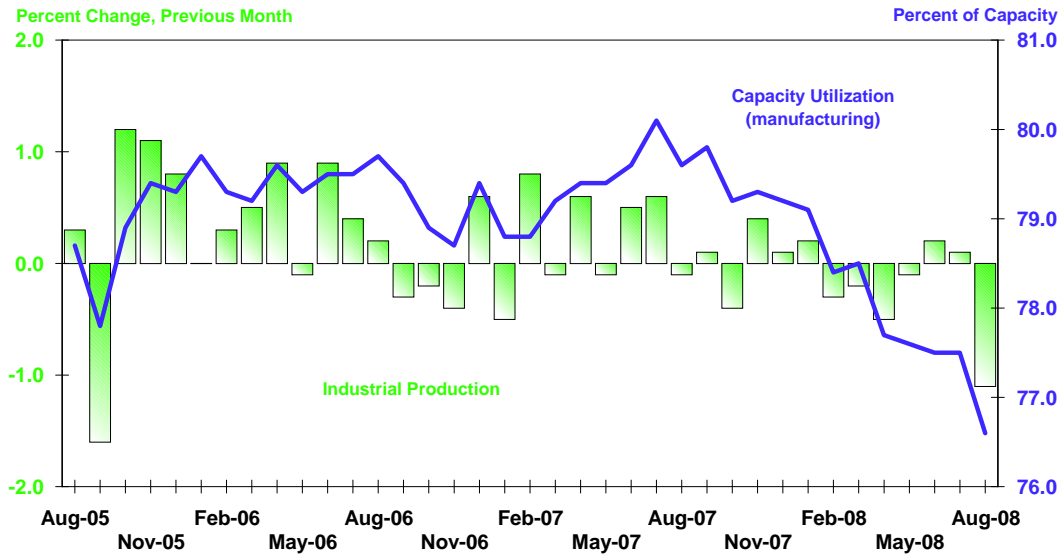
Housing Starts and Building Permits



Source: U.S. Census Bureau.

Industrial production fell sharply in August, following two small increases. Capacity utilization fell further in August, and has now dropped 3.5 percentage points from the recent high seen last August.

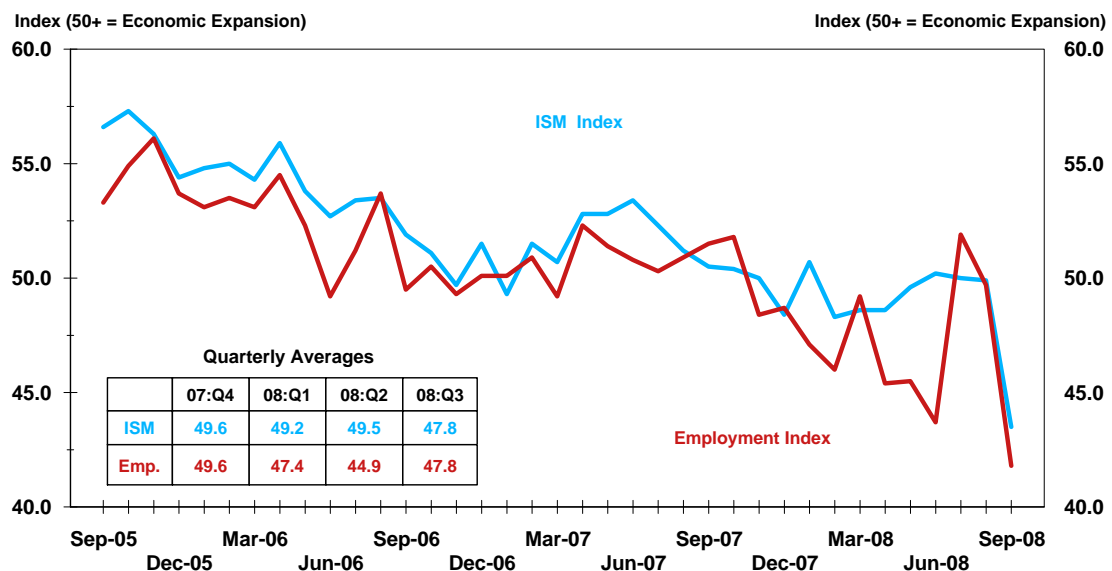
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

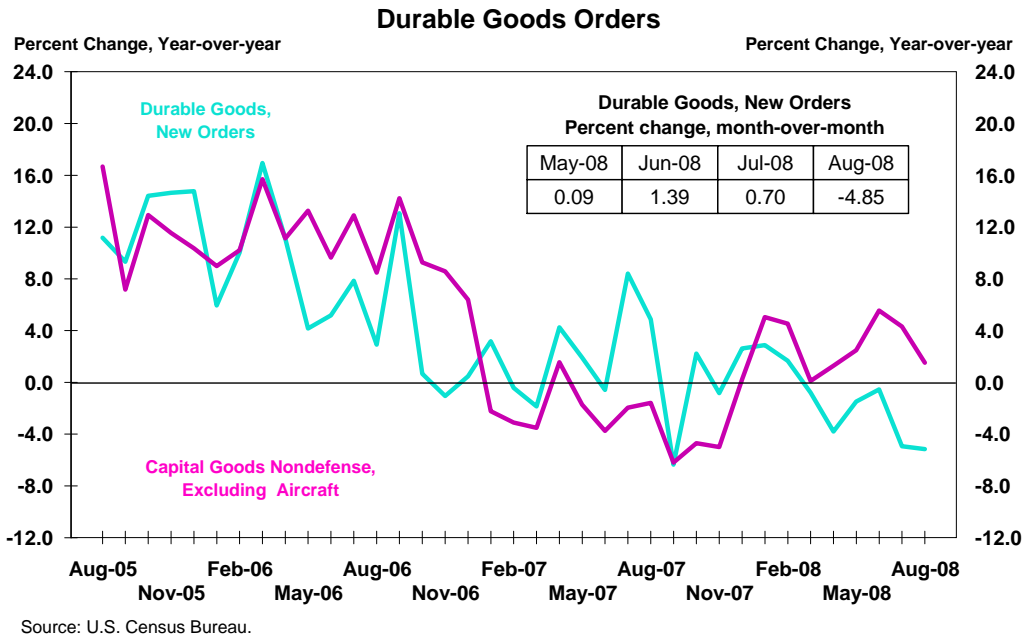
The ISM diffusion index fell sharply in September, bringing its third quarter average to its lowest point in seven years. The employment component also dropped significantly in September, but managed to improve overall during the quarter.

ISM Index

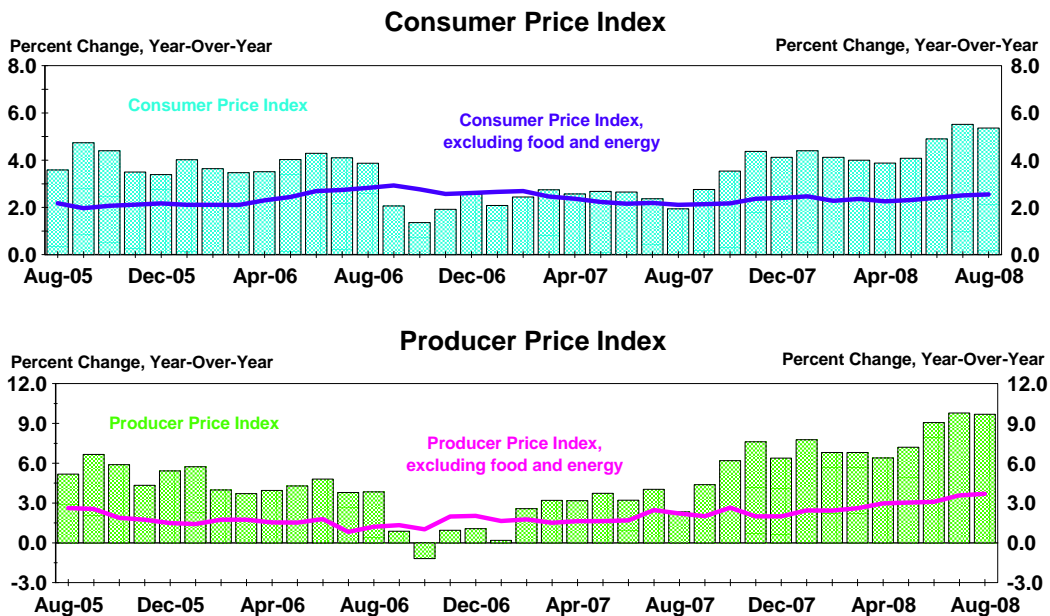


Source: Institute for Supply Management.

New orders for durable goods fell for the sixth straight month in August, on a year-over-year basis. Conversely, orders of nondefense capital goods, excluding aircraft, rose again, albeit at a slower pace.

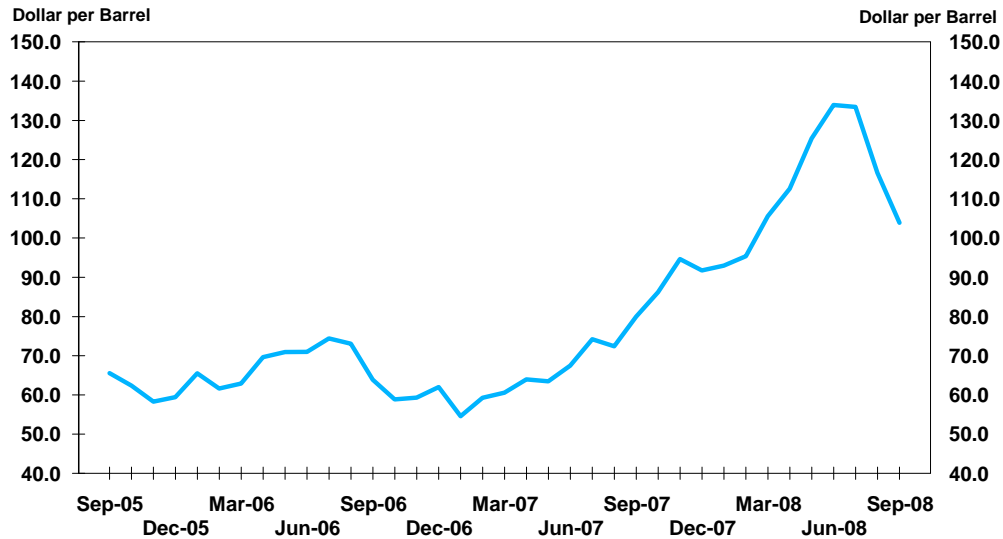


Headline consumer inflation slowed in August, after three consecutive monthly accelerations. The decrease was due in part to falling energy prices, which was reflected in the unchanged core index. Total producer prices also slowed a bit.



Oil prices fell further in September, following the significant drop seen in August.

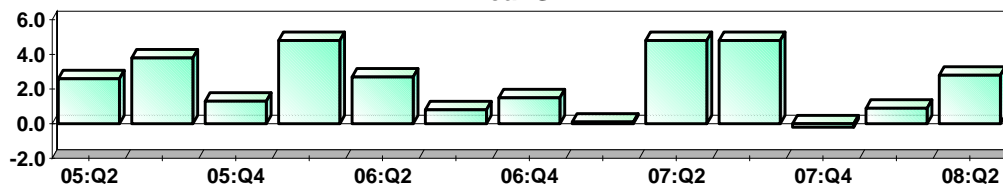
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was revised down in the final second quarter estimate, due primarily to downward revisions to personal consumption expenditures, exports, and equipment and software. These changes were partly offset by an upward revision to nonresidential structures.

Real GDP

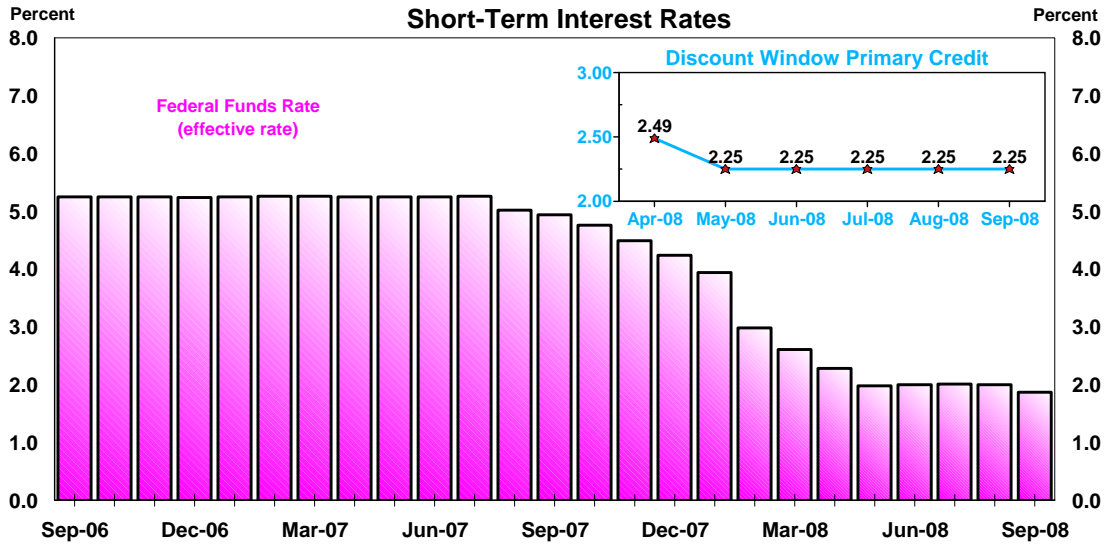


Revisions to Second Quarter Real GDP

Description	Preliminary	Final
Real GDP	3.3	2.8
Consumption	1.7	1.2
Business Investment	2.2	2.5
Equipment & Software	-3.2	-5.0
Residential Investment	-15.7	-13.3
Government	3.9	3.9
Exports	13.2	12.3
Imports	-7.6	-7.3
Final Sales	4.8	4.4

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy's second quarter growth wasn't quite as strong as previously reported, and other data suggest growth will be much slower in the second half of the year. Financial markets have been volatile in reaction to multiple bank failures and mergers and bailout speculation, the labor and housing markets are struggling, and consumers and businesses are being conservative as they face the uncertainty of the coming months.



Source: Federal Reserve Board of Governors.

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

October 7, 2008

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

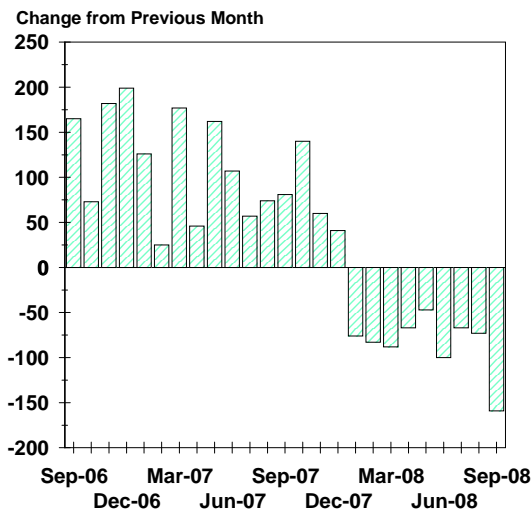
In September, nonfarm payrolls lost 159,000 jobs. It was the seventh consecutive monthly decline and the largest since March 2003. Payrolls dropped 251,000 total jobs during the third quarter and have lost 760,000 so far this year. Despite the large drop in payrolls in September, the unemployment rate was unchanged in the month at 6.1%.

Auto sales slowed in September, constricted by the slower economy and tighter credit conditions. Sales had been slowing steadily throughout the year, and despite the spike seen in August, sales for the third quarter were the lowest in 17 years.

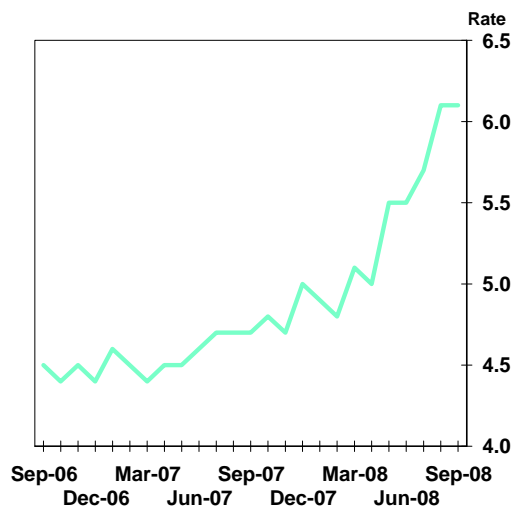
Redbook sales decreased 1.4% overall in September, compared to August. Sales in the week ending October 4th were 0.8% higher than during the same period last year. Oil prices fell during the past week, averaging \$95.0 per barrel compared to last week's average of \$105.2.

Payroll employment fell again in September, but losses in the prior two months were revised to show 4,000 fewer jobs being cut than originally estimated. The unemployment rate held steady in September.

Nonfarm Payroll Employment



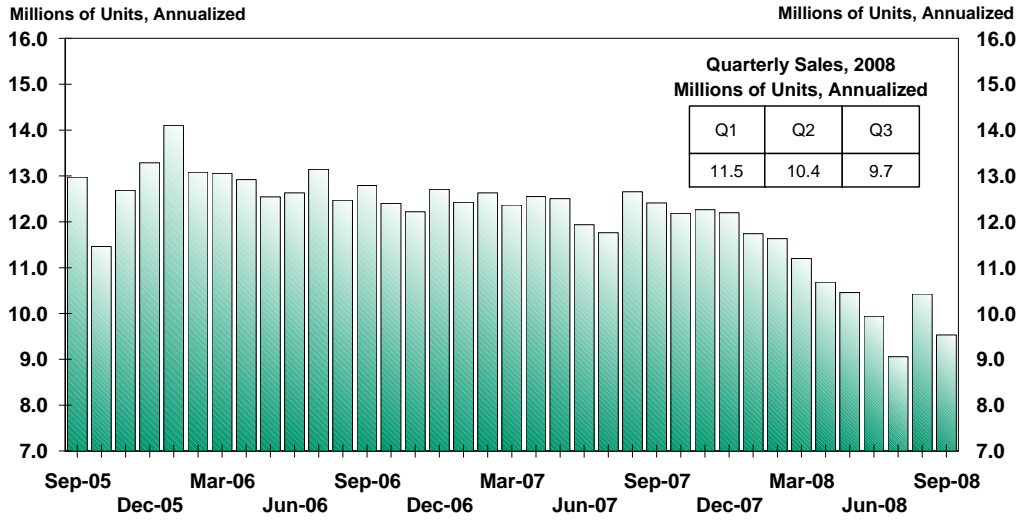
Unemployment Rate



Source: Bureau of Labor Statistics.

Domestic auto and light truck sales slowed in September, offsetting most of the increase seen in August. For the third quarter, sales were the lowest since 1991.

Domestic Auto and Light Truck Sales



Source: Bureau of Economic Analysis.