



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

February 5, 2009

CURRENT ECONOMIC DEVELOPMENTS - February 5, 2009

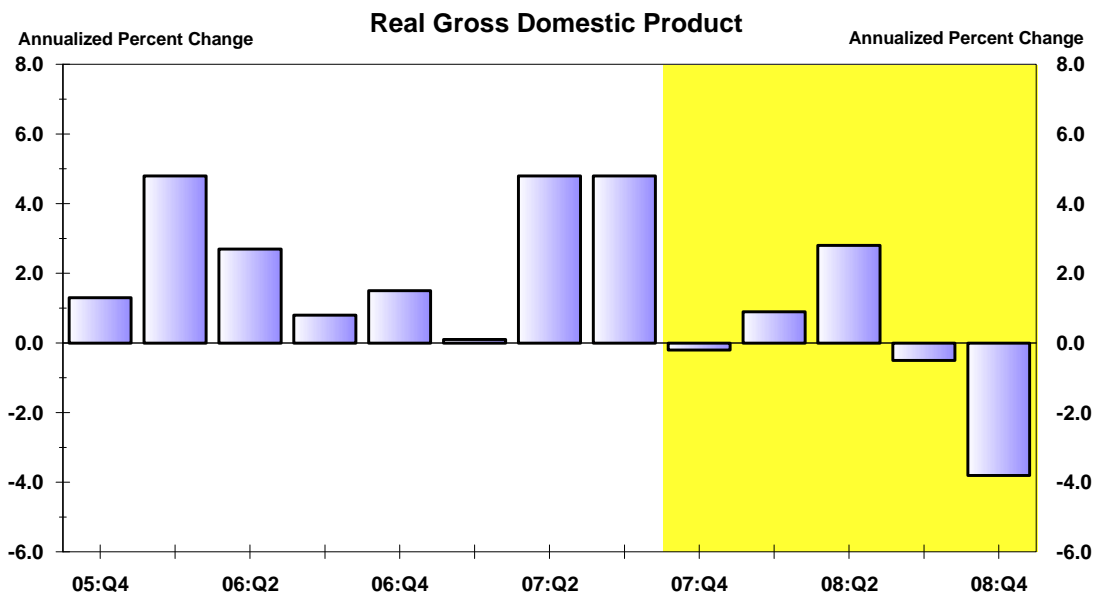
Data since your last Directors' meeting show the economy posted its biggest contraction in over 25 years in the fourth quarter, and the weakness in the economy is likely to persist through the first half of this year.

The decrease in real GDP in the fourth quarter primarily reflected negative contributions from exports, personal consumption expenditures, equipment and software, and residential investment that were partly offset by positive contributions from inventory investment, government spending, and a decrease in imports.

In January, initial claims continued to rise amid further weakening of the labor market. Consumer attitudes were mixed in January, and most measures remain at or near record low levels.

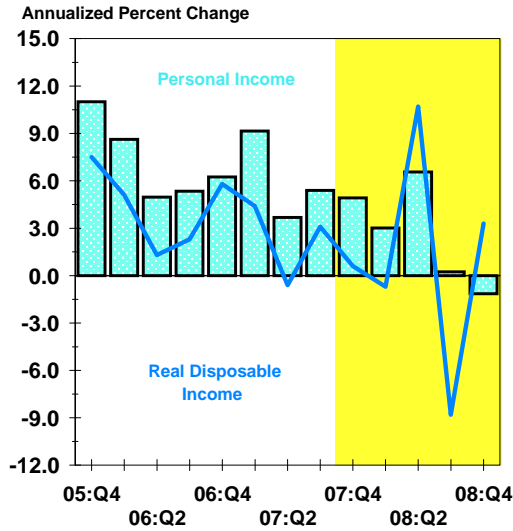
Inflation worries are for now a thing of the past, as headline prices for both consumers and producers grew at their slowest paces in years in the fourth quarter. The concern now is that prices may hold at levels less than ideal for economic growth. Unit labor costs slowed a bit during the fourth quarter, while total compensation, as measured by the ECI, grew at its slowest pace ever. Oil prices stabilized in January, following a steep decline seen over the past five months.

Most of the major components contributed to the much larger decrease in real GDP in the fourth quarter than in the third. The largest contributors were a downturn in exports and a much larger decrease in equipment and software. The most notable offset was a much larger decrease in imports. The decrease in real GDP would have been larger if not for an accumulation of inventories.



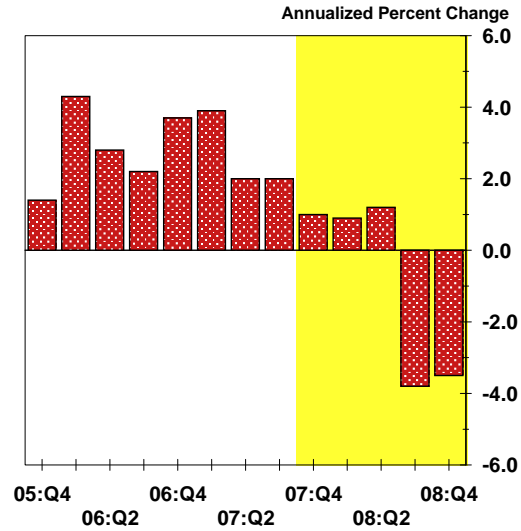
Despite an increase in real incomes in the fourth quarter, consumers continued to curtail their spending.

Personal Income



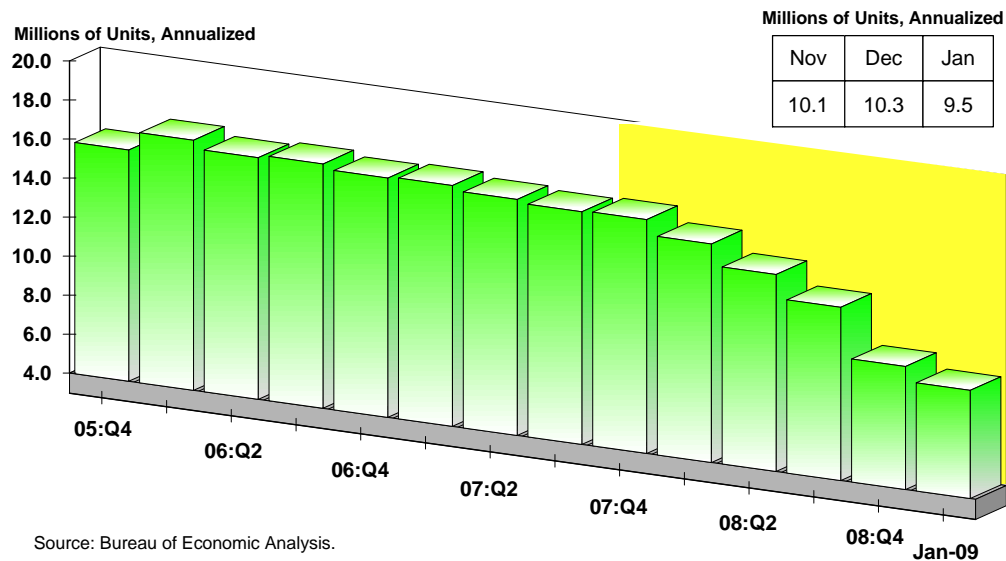
Source: Bureau of Economic Analysis.

Real Consumption



Auto sales fell throughout 2008 and continued to slow in January. Last month's sales pace was the slowest since July 1982.

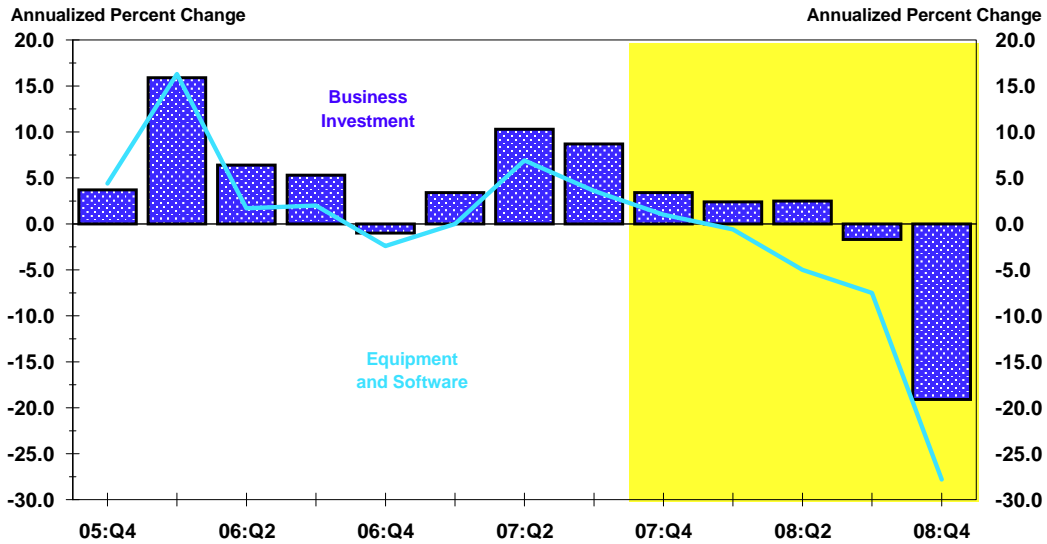
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Business investment fell sharply in the fourth quarter, aided by the largest drop in equipment and software investment since 1958.

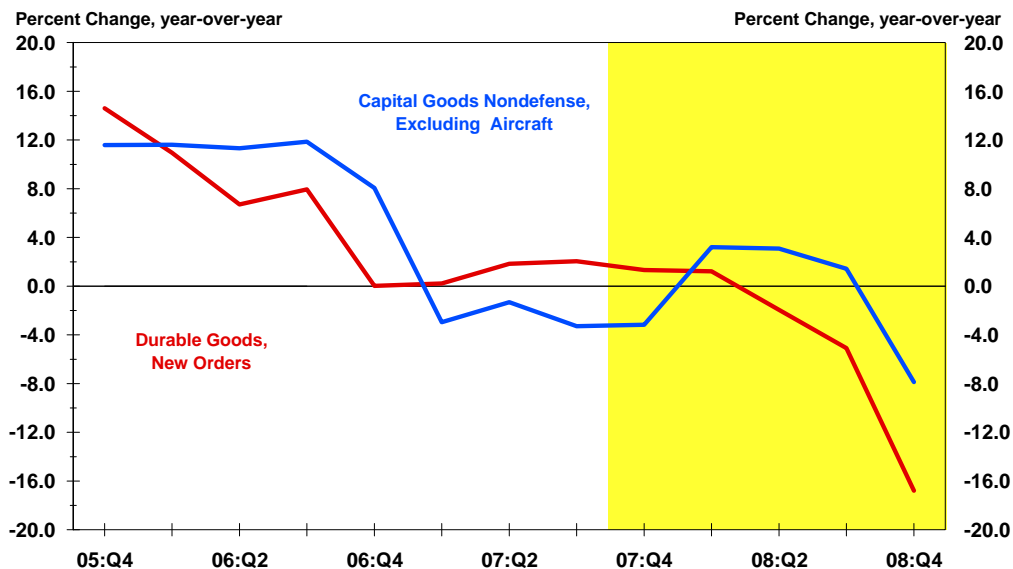
Business Investment



Source: Bureau of Economic Analysis.

In the fourth quarter, new orders for durable goods fell at their fastest pace on record. Orders for nondefense capital goods, excluding aircraft, also fell, following three consecutive quarters of growth.

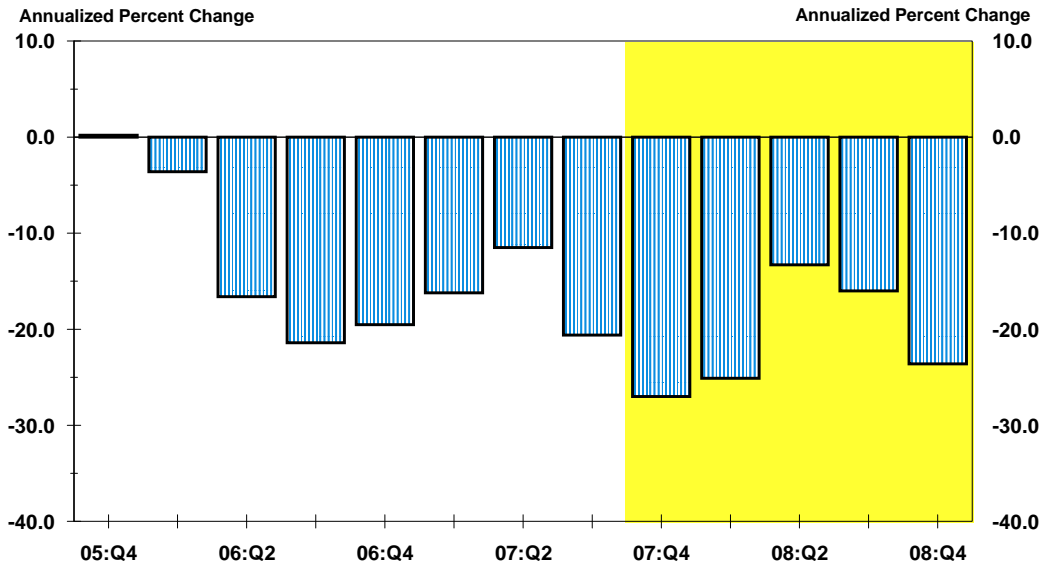
Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment posted another significant decline in the fourth quarter. Since its peak in the fourth quarter of 2005, investment has fallen in every quarter for three full years.

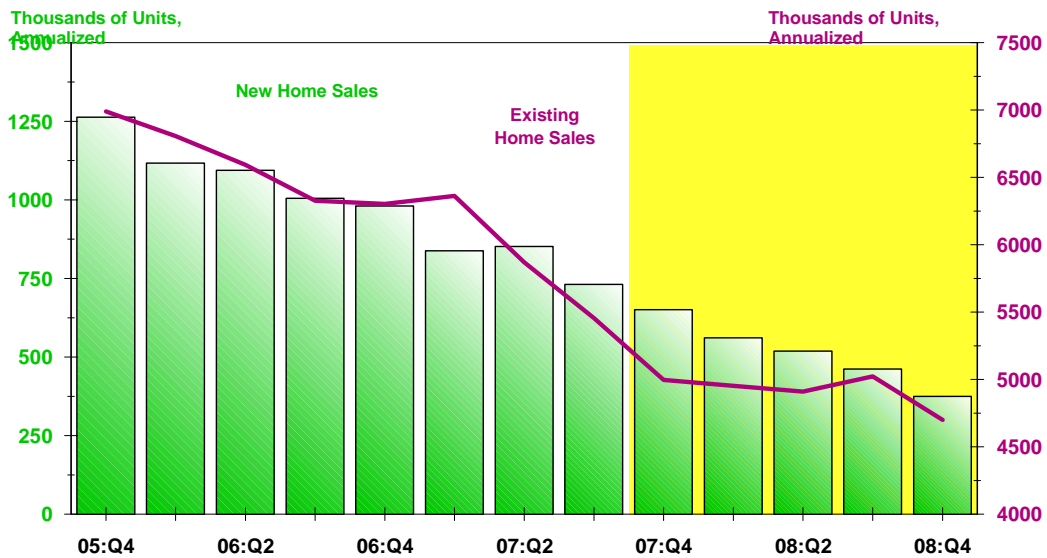
Residential Investment



Source: U.S. Census Bureau.

The pace of new home sales in the fourth quarter was the slowest since 1982:Q2, aided by an all-time-low rate in December. Since their peaks in 2005:Q3, the sales pace of new homes has fallen over 70% and of existing homes over 35%.

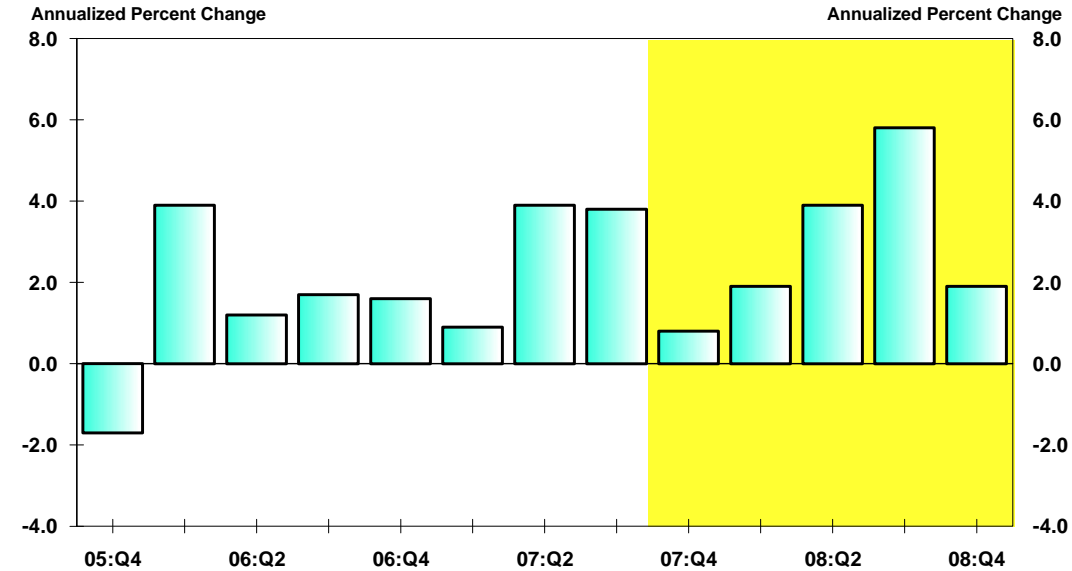
New and Existing Home Sales



Source: U.S. Census Bureau.

Growth in government spending eased in the fourth quarter.

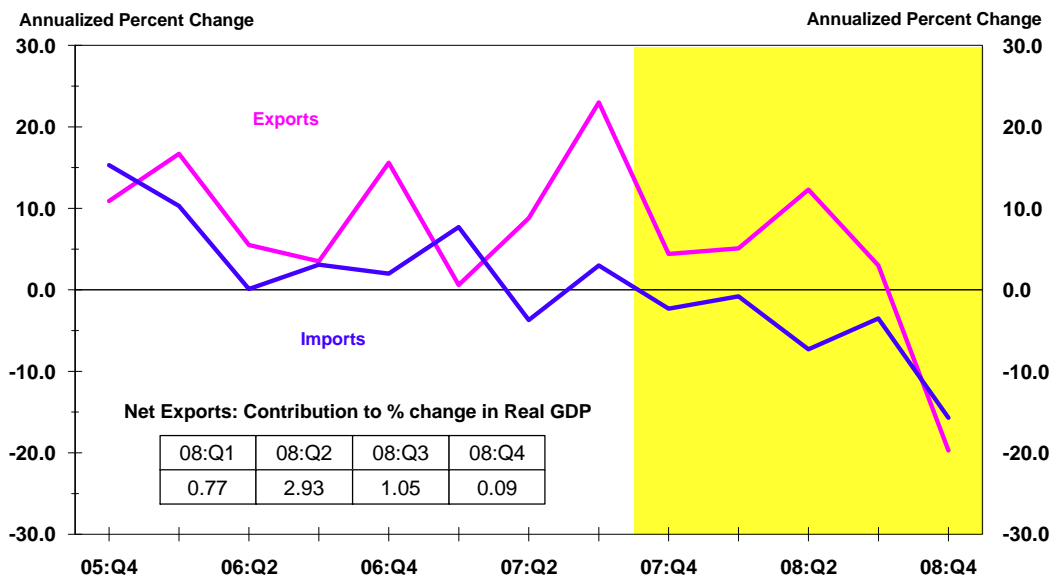
Government Spending



Source: Bureau of Economic Analysis.

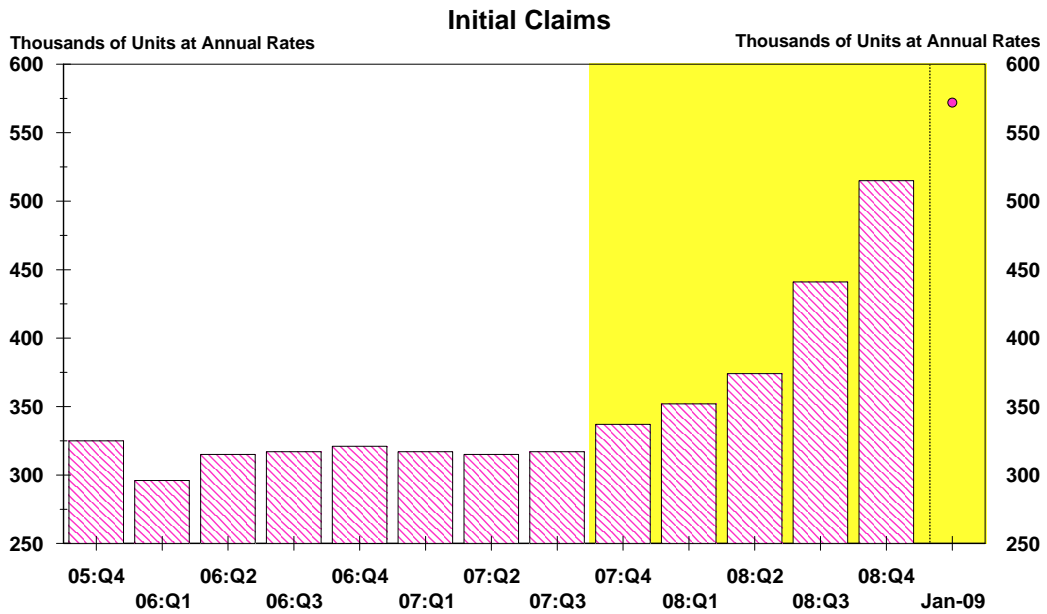
Exports and imports both posted stiff declines in the fourth quarter. With the global economy slowing down, the support to real GDP from net exports has evaporated.

Exports and Imports



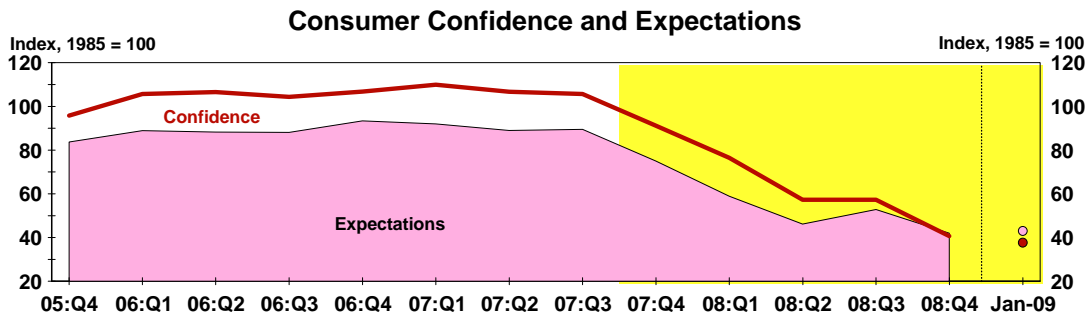
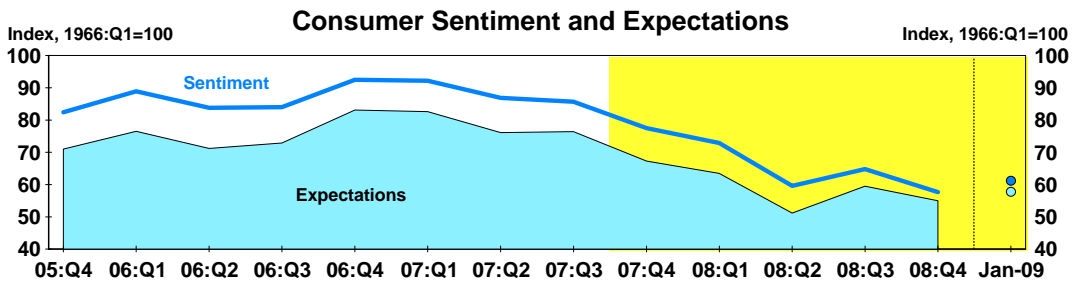
Source: Bureau of Economic Analysis.

Initial claims for unemployment insurance continued to escalate through the fourth quarter and into January as employment conditions deteriorated further. January's estimate was the highest since November 1982.



Source: Department of Labor, Employment and Training Administration.

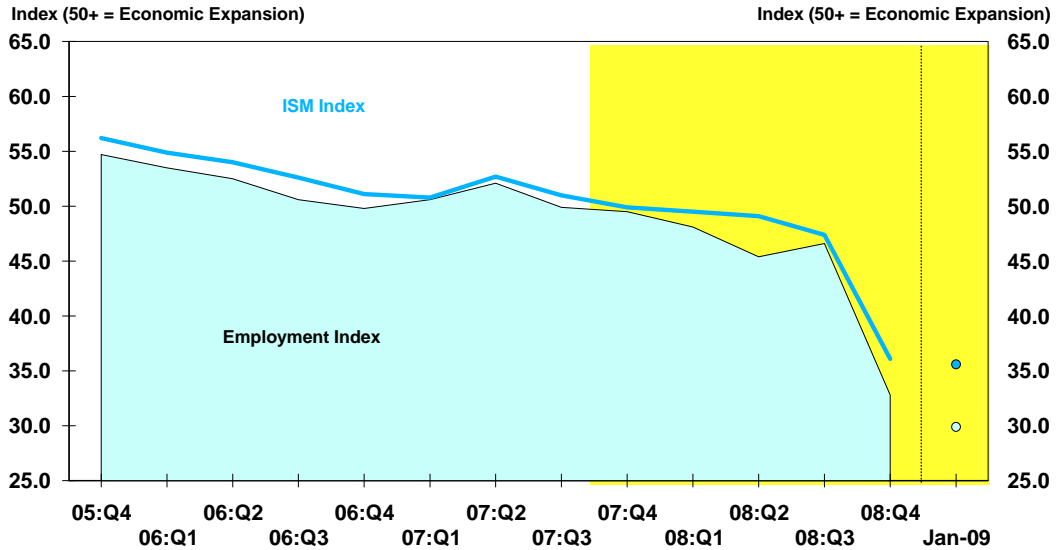
Consumer attitudes were mixed in January after deteriorating in the fourth quarter. Sentiment improved in January to a four-month high, but confidence fell to establish a new record low.



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

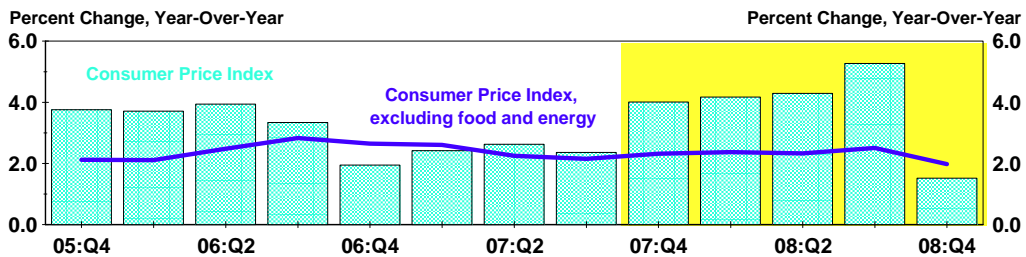
The ISM index fell sharply in the fourth quarter, and held close to that level in January. The employment index, while down from its fourth quarter average, was unchanged in January from its December estimate.

ISM Index

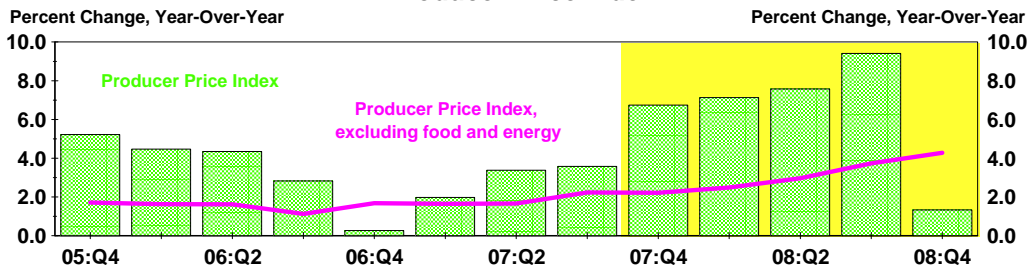


Headline inflation slowed considerably in the fourth quarter, for both consumers and producers. Core consumer prices slowed to their lowest rate in over four years, but producer prices accelerated for the fourth consecutive quarter. Going forward, inflation is likely to remain subdued and may hold at less than ideal levels for some time.

Consumer Price Index



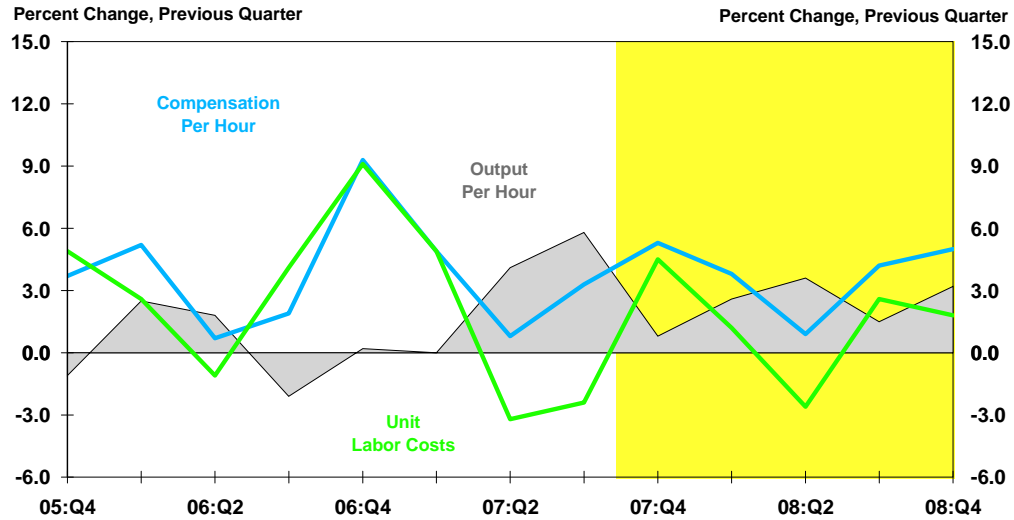
Producer Price Index



Source: Bureau of Labor Statistics.

Productivity accelerated in the fourth quarter as a decline in output was more than offset by a greater drop in hours worked. Unit labor costs slowed during the period, but compensation picked up a bit.

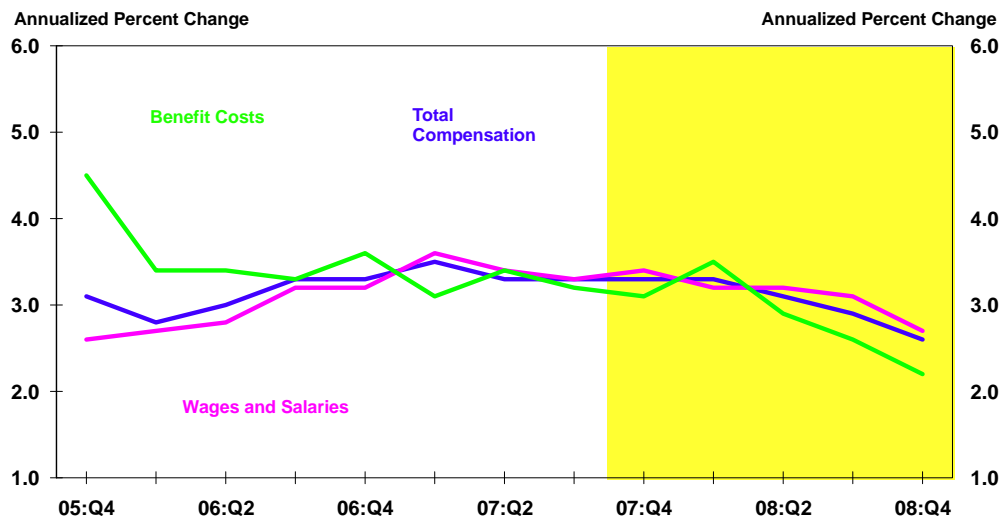
Productivity and Costs



Source: Bureau of Labor Statistics.

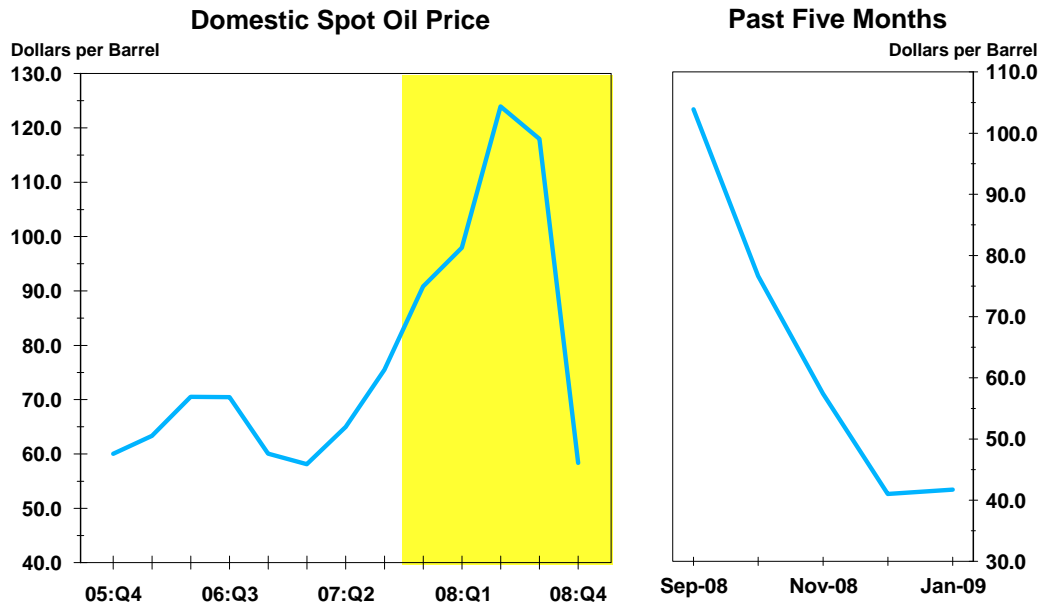
In the fourth quarter, total employment costs grew at their slowest pace on record, as wages and salaries and benefit costs decelerated.

Employment Cost Index



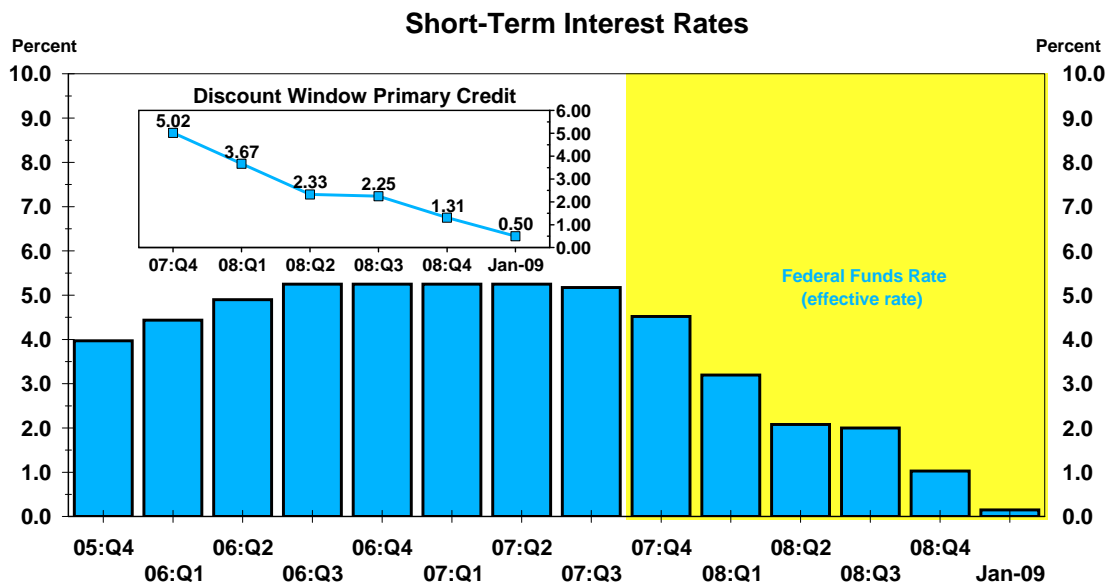
Source: Bureau of Labor Statistics.

After a dropoff in oil prices seen over the past several months, prices stabilized in January.



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy posted its biggest contraction in over 25 years in the fourth quarter, and the weakness in the economy is likely to persist through the first half of this year.



Source: Federal Reserve Board of Governors.

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

February 12, 2009

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

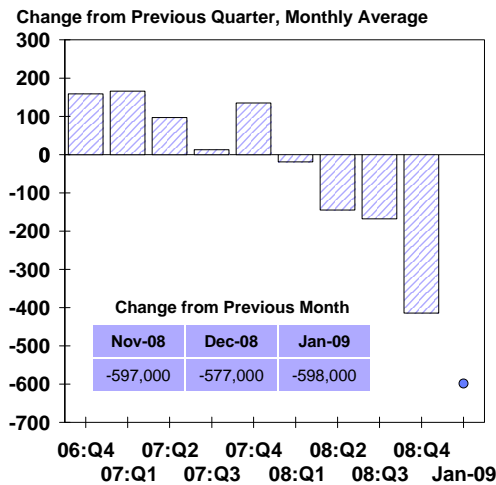
The labor market deteriorated further in January, as nonfarm payrolls posted their most significant loss in 34 years and unemployment reached a 16-year high. Job losses for the previous two months were also revised higher.

In December, wholesale inventories fell 1.4% and wholesale trade fell 3.6%. Also in December, the U.S. trade balance narrowed to a six-year low of \$39.9 billion, as weakening global demand for U.S.-produced goods more than offset a decrease in our demand for imports.

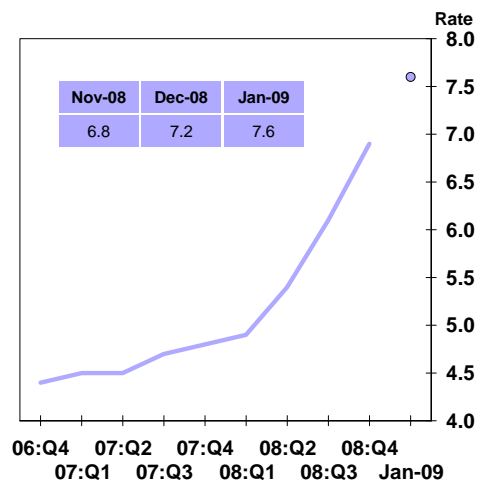
Through the first week of February, Redbook sales were up 0.7% compared to January, but down 1.7% compared to the same period last year. Oil prices decreased slightly over the past week, averaging \$39.8 per barrel as opposed to the previous week's average of \$41.2.

In January, payroll employment posted its biggest monthly decrease since December 1974. Since the start of the recession payrolls have been reduced by more than 3.5 million jobs, half of those losses coming in the past three months.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.