



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

December 31, 2008

## CURRENT ECONOMIC DEVELOPMENTS - December 31st, 2008

Data released since your last Directors' meeting suggest economic conditions have deteriorated further. Employment conditions remain weak, the slump in the housing market has deepened, and the holiday shopping season appears to have been one of the worst in recent memory. The economy likely shrank in the fourth quarter at its fastest rate since the early 1980s, and growth may remain negative through the middle of 2009.

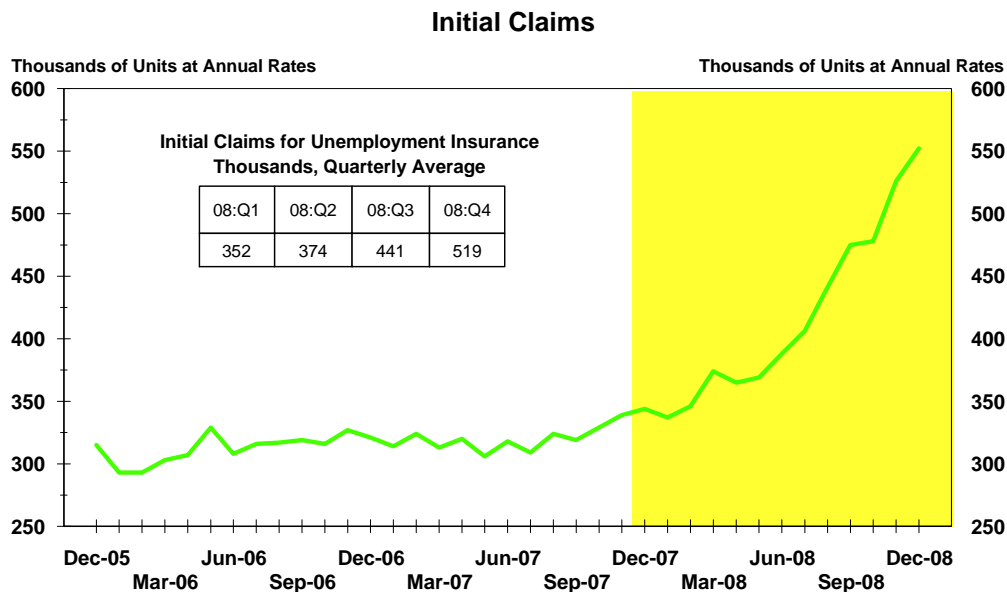
In December, initial claims rose further, building on the steep increase seen in November. Consumer attitudes were mixed, as sentiment rose slightly but confidence fell to an all-time low. Real disposable personal income increased in November, helping consumption post its first gain in six months.

The struggles of the housing market continued in December. Existing home sales, housing starts and building permits all fell to record lows, and new home sales fell to their lowest point since January 1991.

In the business sector, industrial production and capacity utilization both decreased in November after improving the previous month. Durable goods orders fell further in November while capital goods excluding aircraft posted a surprising gain.

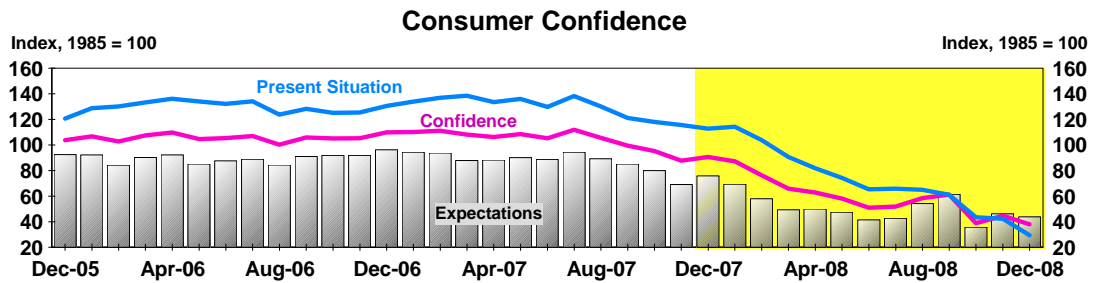
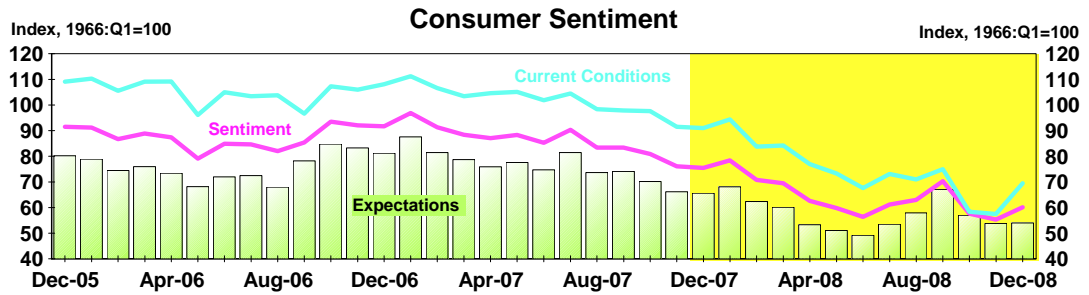
Recent price data shows deflation is now the primary price risk, replacing the inflation concerns of just a few months ago. Most of the lower inflation data can be attributed to decreasing energy prices, including oil prices that continued to fall in December.

Initial claims for unemployment insurance rose further in December, reaching the highest levels seen in the past 25 years.



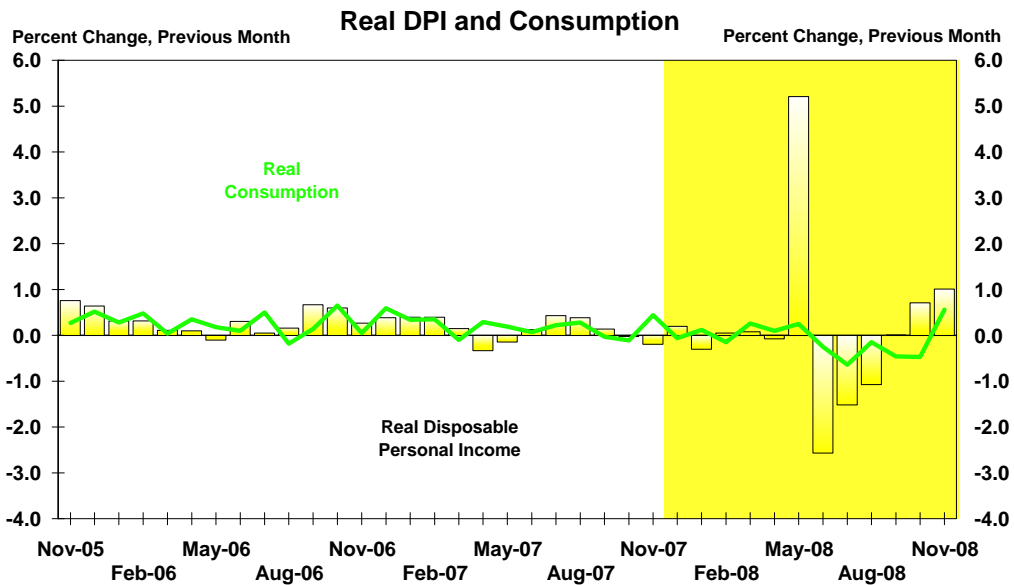
Source: Department of Labor, Employment and Training Administration.

Consumer attitudes were mixed in December, as sentiment improved slightly and confidence dipped. Consumers' views on current economic conditions displayed a similar disparity, although more pronounced.



Source: University of Michigan (top panel) and The Conference Board (bottom panel).

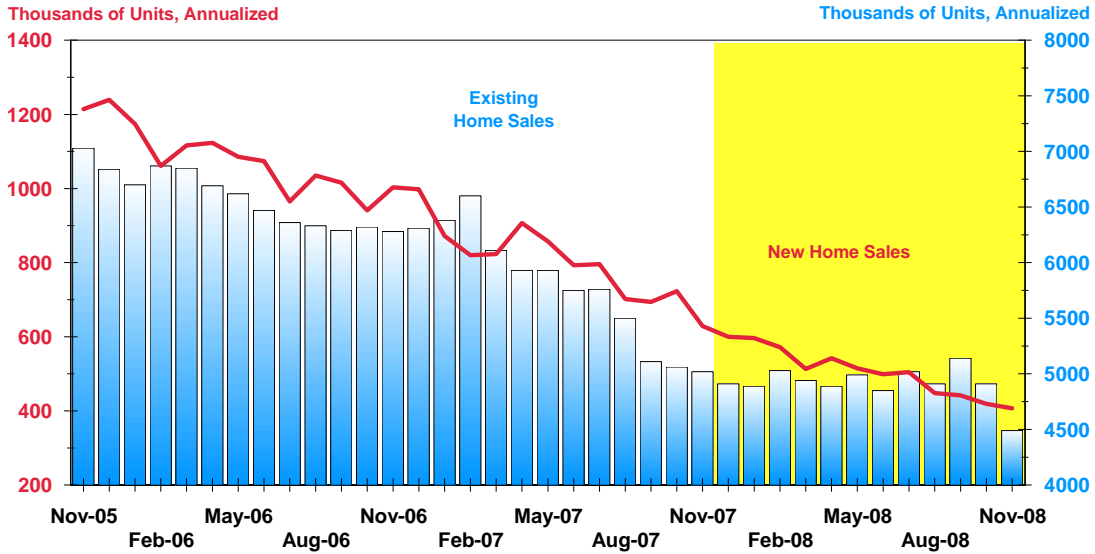
In November real consumption rose for the first time since May, aided by holiday shopping and a further increase in incomes.



Source: Bureau of Economic Analysis.

Residential investment continued to struggle in November. Existing home sales fell to their lowest pace on record, and new home sales dropped to a nearly 18-year low.

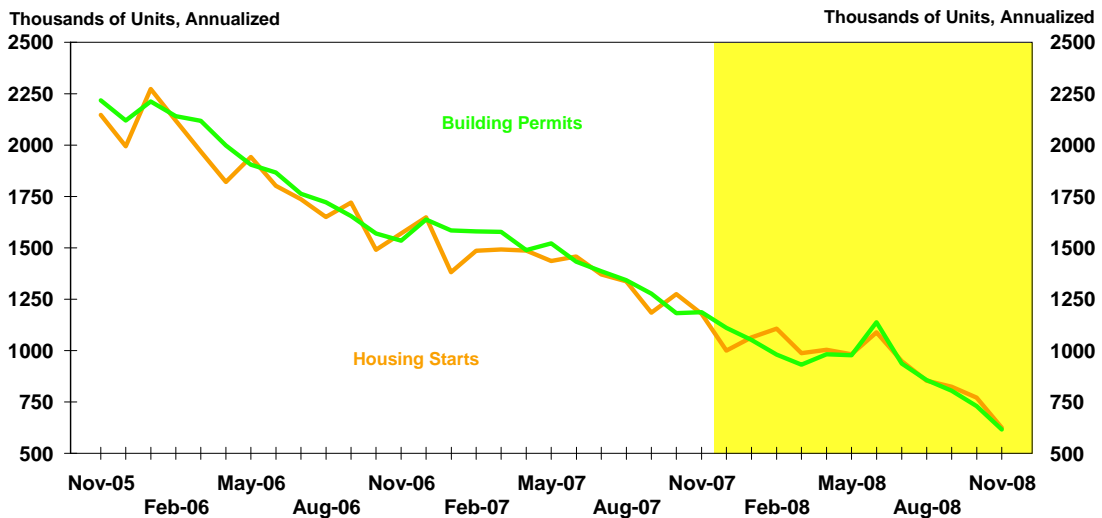
### New and Existing Home Sales



Source: U.S. Census Bureau.

Housing starts and building permits both continued to fall in November, registering new record lows for both series.

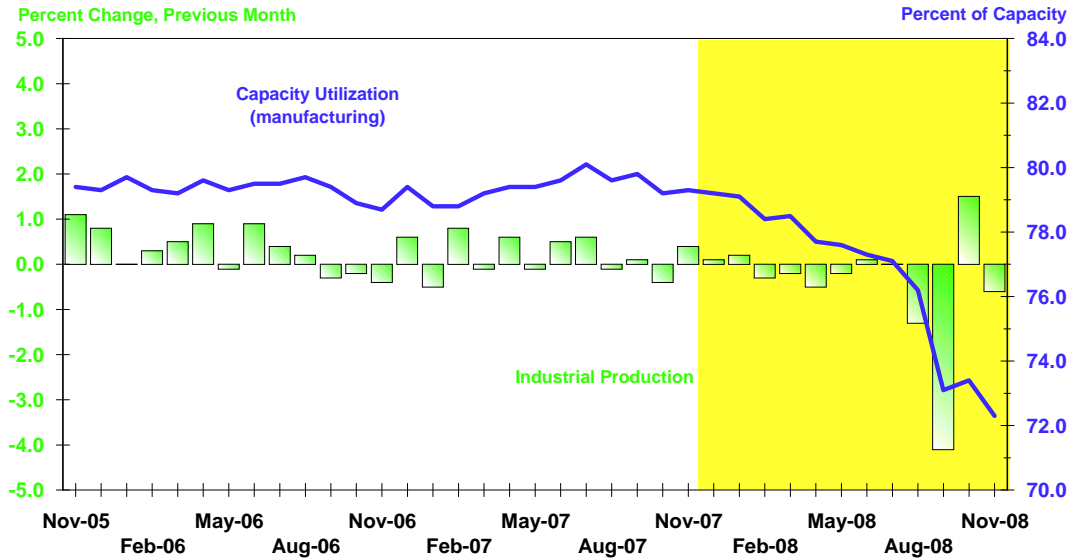
### Housing Starts and Building Permits



Source: U.S. Census Bureau.

After briefly rising in October, industrial production and capacity utilization fell again in November. Capacity utilization is at its lowest level since April 2002.

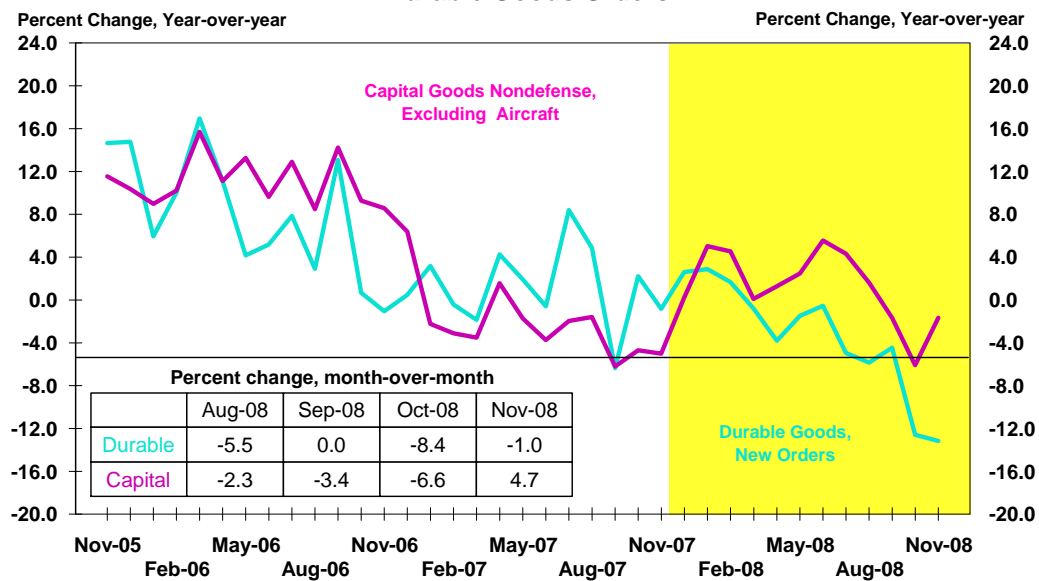
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

In November, durable goods orders posted their biggest year-over-year decline since the previous recession in 2001. Orders for nondefense capital goods, excluding aircraft, rebounded a bit in November.

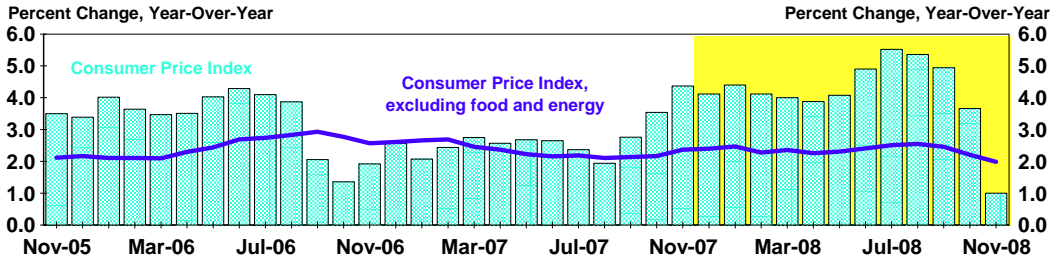
### Durable Goods Orders



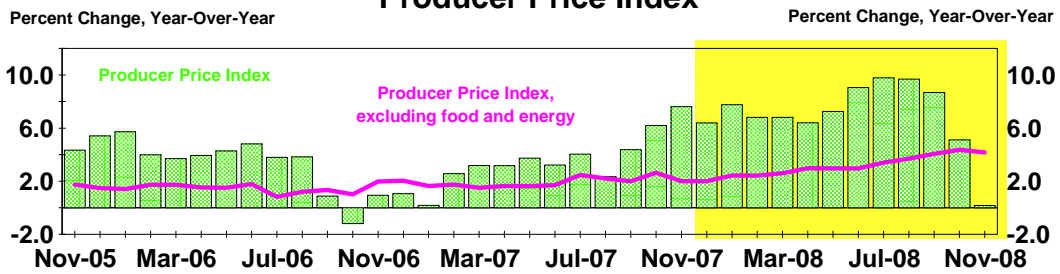
Source: U.S. Census Bureau.

Overall prices decelerated dramatically in November, led by falling energy prices. The recent slowdown in price growth has spawned new concerns about potential deflation in the coming months.

### Consumer Price Index



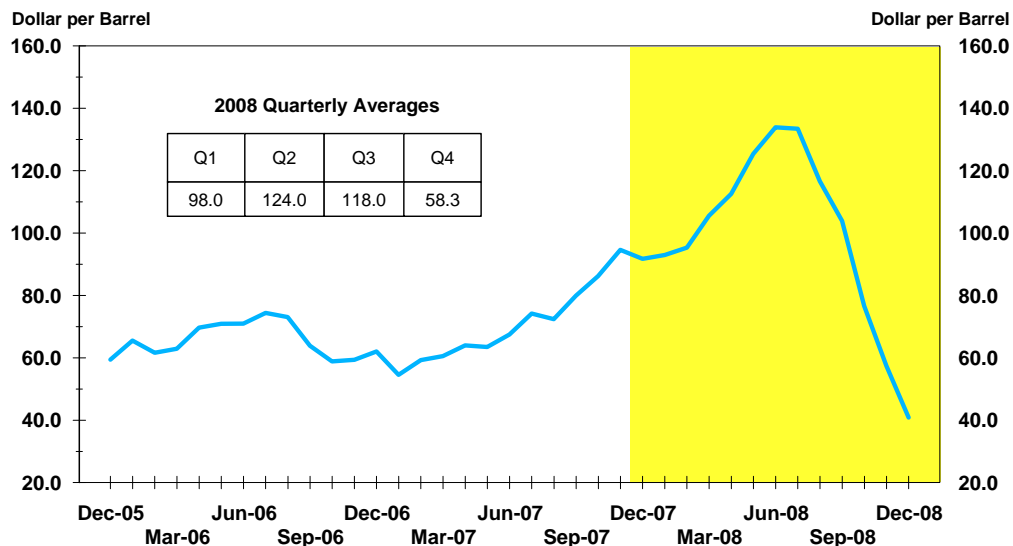
### Producer Price Index



Source: Bureau of Labor Statistics.

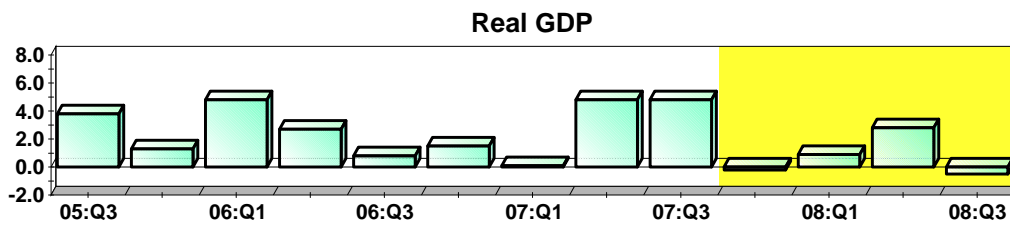
Oil prices continued to fall in December. The \$30.81 price recorded on December 22nd was the lowest in over six years (\$30.71 on December 5, 2003).

### Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was unrevised in the final third quarter estimate, although many components were subjected to minor revisions, the most significant of which was a downward adjustment to equipment and software investment.

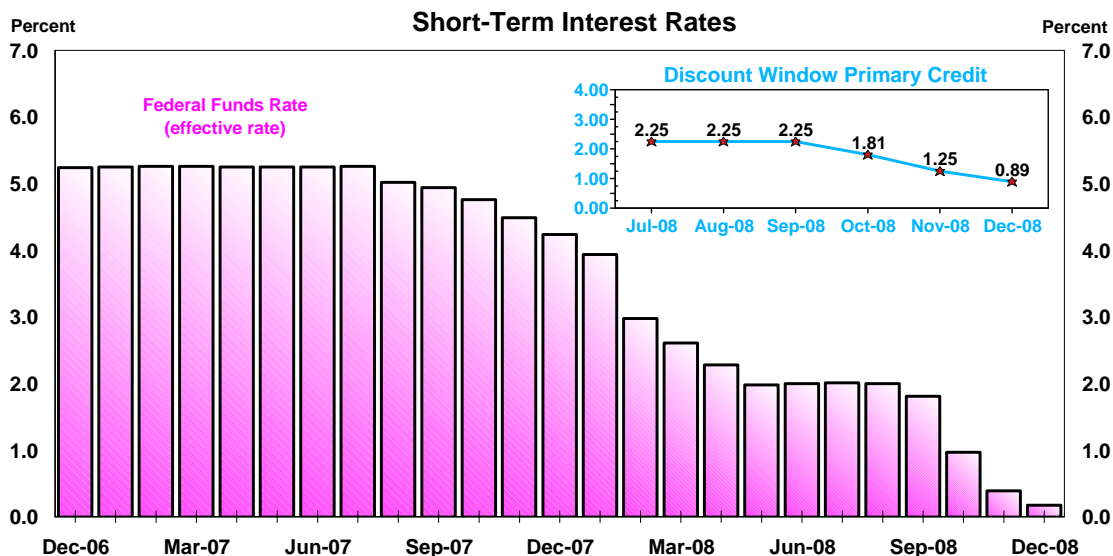


Revisions to Third Quarter Real GDP

Description	Preliminary	Revised
Real GDP	-0.5	-0.5
Consumption	-3.7	-3.8
Business Investment	-1.5	-1.7
Equipment & Software	-5.7	-7.5
Residential Investment	-17.6	-16.0
Government	5.4	5.8
Exports	3.4	3.0
Imports	-3.2	-3.5
Final Sales	-1.4	-1.3

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting suggests economic conditions have deteriorated further. Employment conditions remain weak, the slump in the housing market has deepened, and the holiday shopping season appears to have been one of the worst in recent memory. The economy likely shrank in the fourth quarter at its fastest rate since the early 1980s, and growth may remain negative through the middle of 2009.



Source: Federal Reserve Board of Governors.

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

January 8, 2009

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

In December, vehicle sales surprisingly rose a bit from their November level, but were still down over 30% from last year. The sales pace for the fourth quarter was the slowest since the early 1980s and the sales total for the year was the worst since 1992.

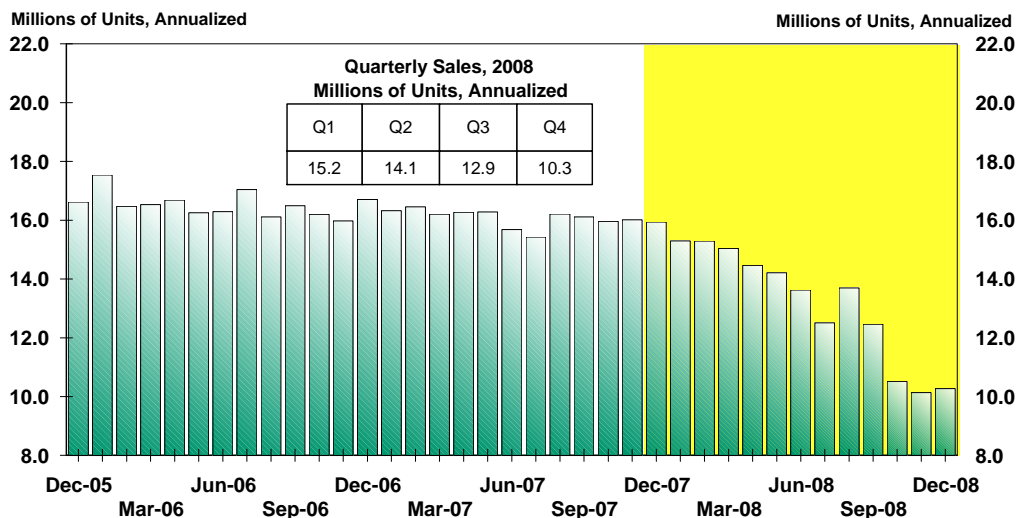
Recent manufacturing data remained weak, as the ISM index continued to fall in December along with its employment component. Manufacturers' orders and shipments both fell in November for the fourth month in a row.

Redbook sales finished December 0.6% lower than they were in November. In the week ending January 3rd, sales were down 1.3% from the same period last year. Oil prices increased during the past week, averaging \$46.8 per barrel compared to last week's average of \$35.2.

Payroll employment data for December will be released by the BLS Friday morning. Various forecasts predict an additional loss of 450,000 - 500,000 jobs occurred during the month, with the unemployment rate rising to 7.0%.

Lightweight vehicle sales posted a small, yet surprising gain in December, but sales overall for the fourth quarter were the lowest since the third quarter of 1982.

**Total Auto and Light Truck Sales**

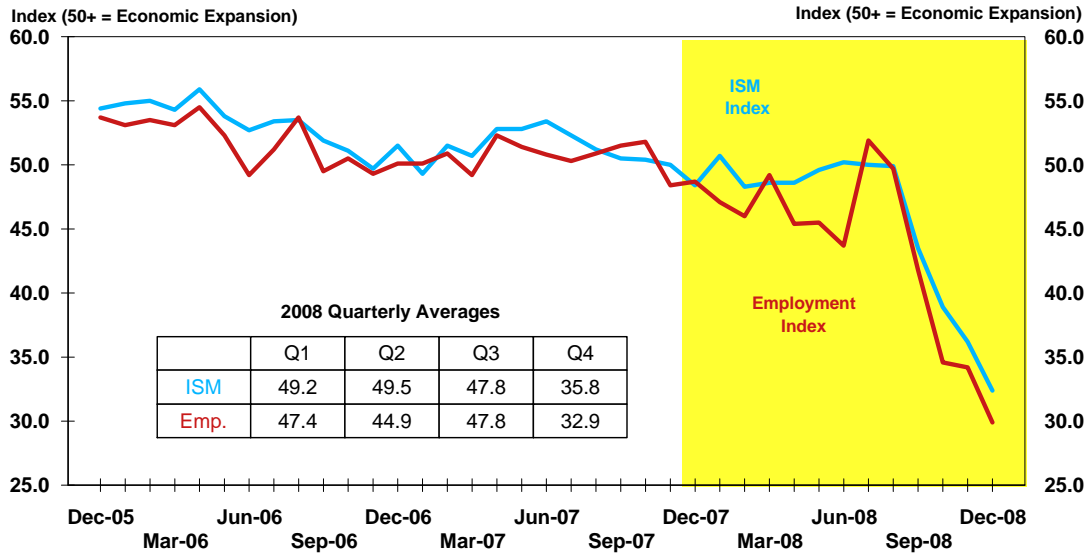


Source: Bureau of Economic Analysis.



The steep declines in the ISM index continued in December, bringing both the total and employment indices to their lowest levels in over 25 years.

### ISM Index



Source: Institute for Supply Management.