



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

March 5, 2009

Current Economic Developments - March 5, 2009

Data released since your last Directors' meeting show the economy struggled more in the fourth quarter than originally estimated, as a sharp downward revision to real GDP resulted in its most significant decline in over 26 years. The weakness in the economy is widespread and likely to persist through the coming months.

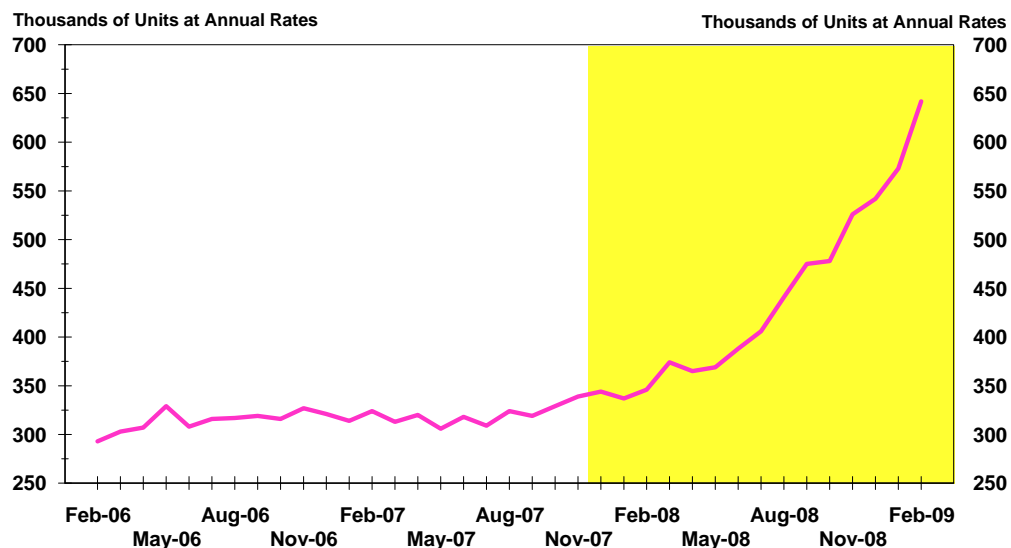
In February, initial claims increased sharply again and consumer attitudes remained bleak. Auto sales continued to fall in February, registering their second-lowest sales pace ever. Real consumption expenditures increased in January, aided by a further increase in incomes.

The housing market continued to struggle in January, with residential sales and construction activity all achieving new record lows. In the manufacturing sector, the ISM manufacturing index improved slightly in February but remains well below 50 and the employment index dropped to its lowest point on record. In January, both industrial production and capacity utilization fell further. Also in January, new orders for both durable goods and nondefense capital goods, excluding aircraft, continued to slide.

Headline inflation measures for both consumers and producers were negative in January, and core measures slowed a bit. Oil prices held near \$40 per barrel in February for the third month in a row. Unit labor costs were revised upward in the fourth quarter, in conjunction with a decrease in productivity, a sign that employers may continue to cut jobs to offset the escalating costs.

Initial claims for unemployment insurance continued their upward surge in February, resulting in their highest monthly average since October 1982.

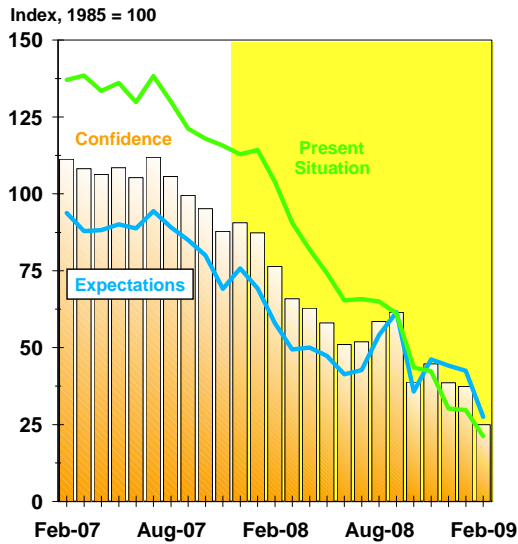
Initial Claims



Source: Department of Labor, Employment and Training Administration.

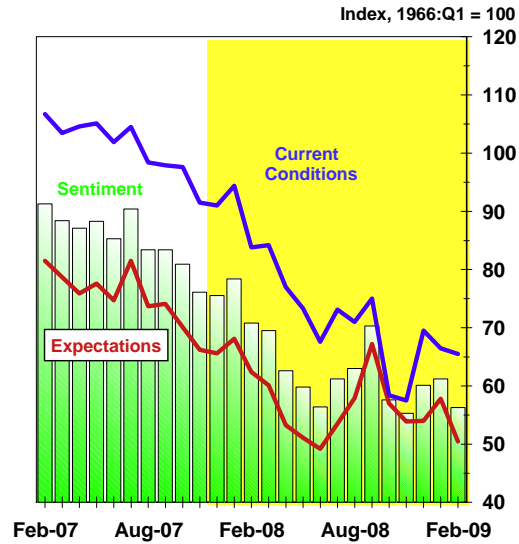
Consumers remained pessimistic in February, with most measures of their attitudes at or near record low levels. The primary concern of most consumers was increasing unemployment, and few respondents expected conditions to improve anytime soon.

Consumer Confidence



Source: The Conference Board.

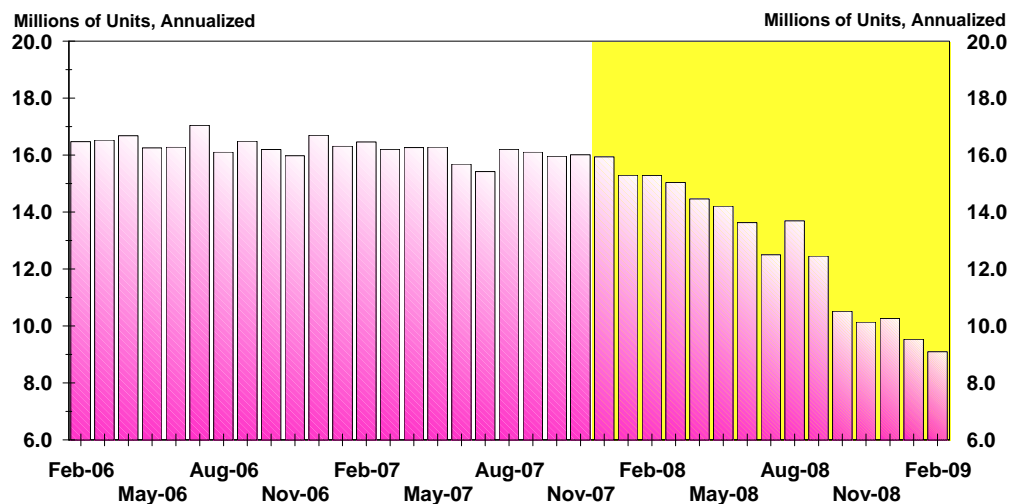
Consumer Sentiment



Source: The University of Michigan.

Total auto and light truck sales slowed further in February, falling to their lowest annual rate since December 1981.

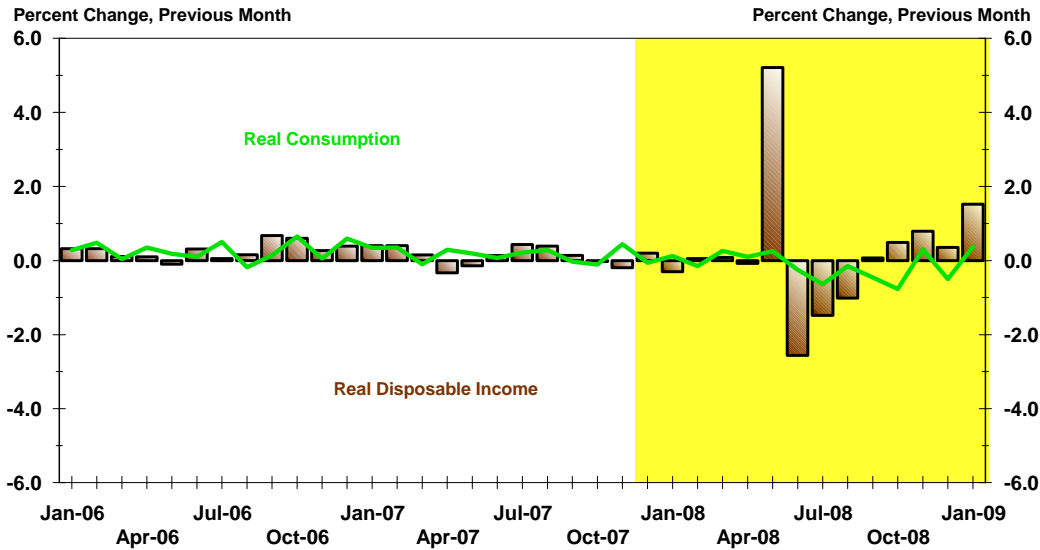
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

In January, real disposable income rose for the fifth consecutive month, helping real consumption post its largest gain since before the recession, and only its second increase in the past eight months.

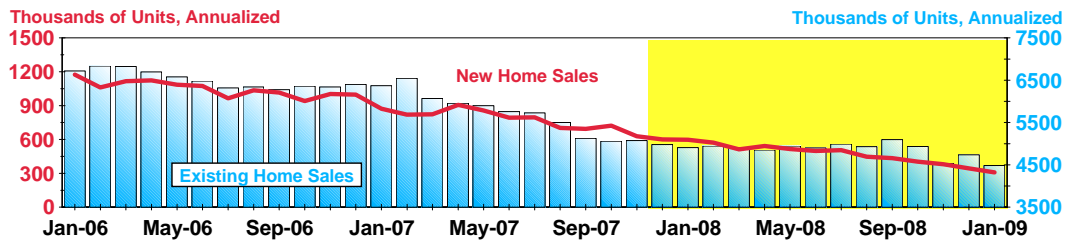
Real DPI and Consumption



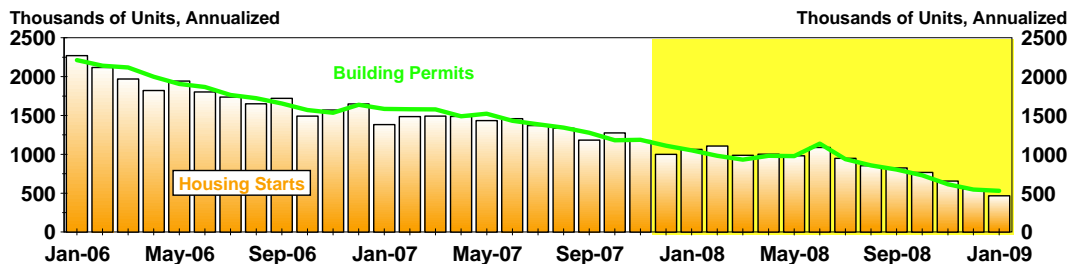
Source: Bureau of Economic Analysis.

The housing market continued to deteriorate in January. New home sales, housing starts, and building permits all fell to the lowest point in each series' 45+ year history. The total existing home sales series is only 10 years old, but it also set a record low.

New and Existing Home Sales



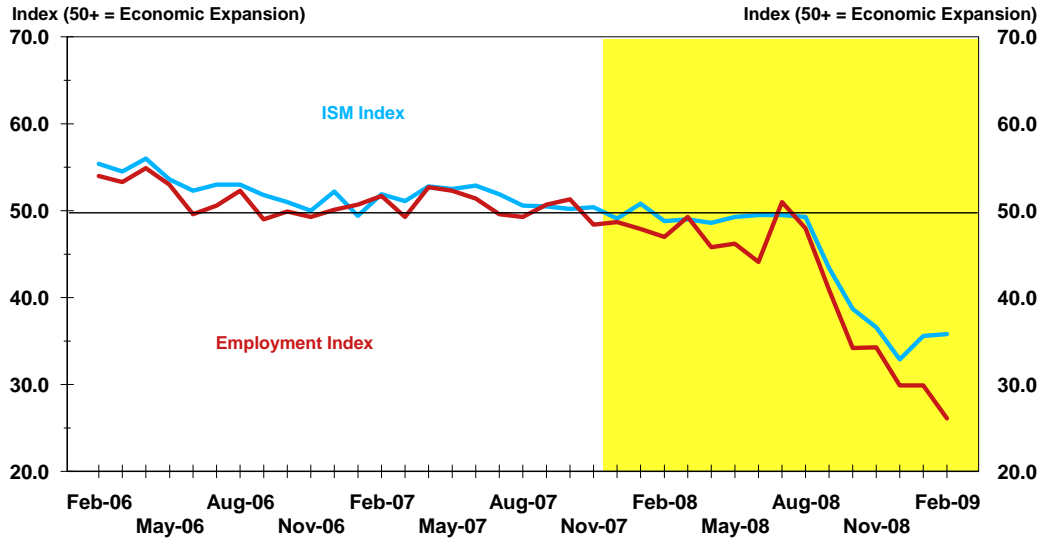
Housing Starts and Building Permits



Source: U.S. Census Bureau (new home sales, housing starts and building permits) and National Association of Realtors (existing sales).

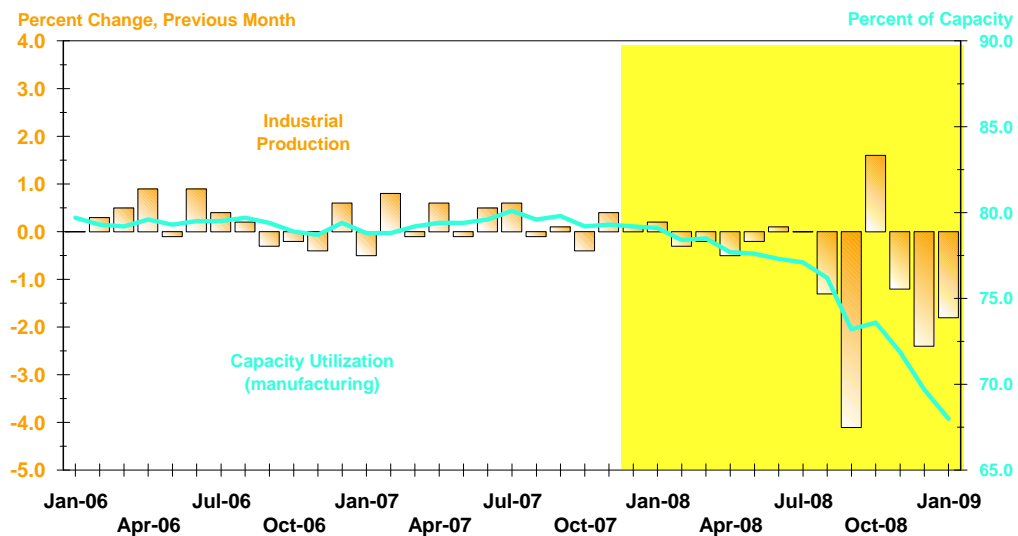
The ISM manufacturing index was essentially flat in February, and the employment index dropped to a record low.

ISM Index

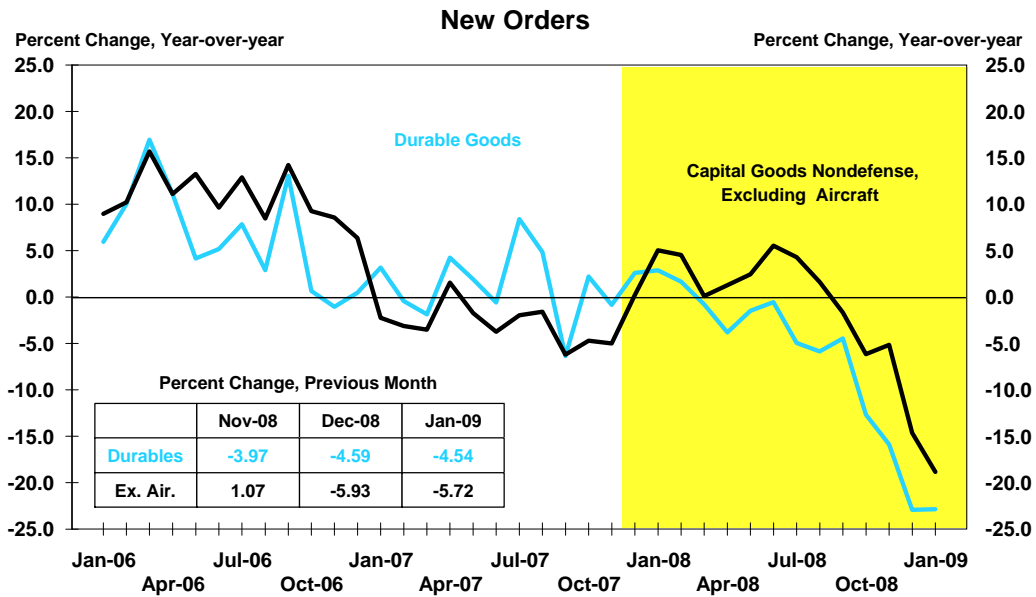


In January, industrial production fell for the fifth time in six months, and capacity utilization fell to a record low.

Industrial Production and Capacity Utilization

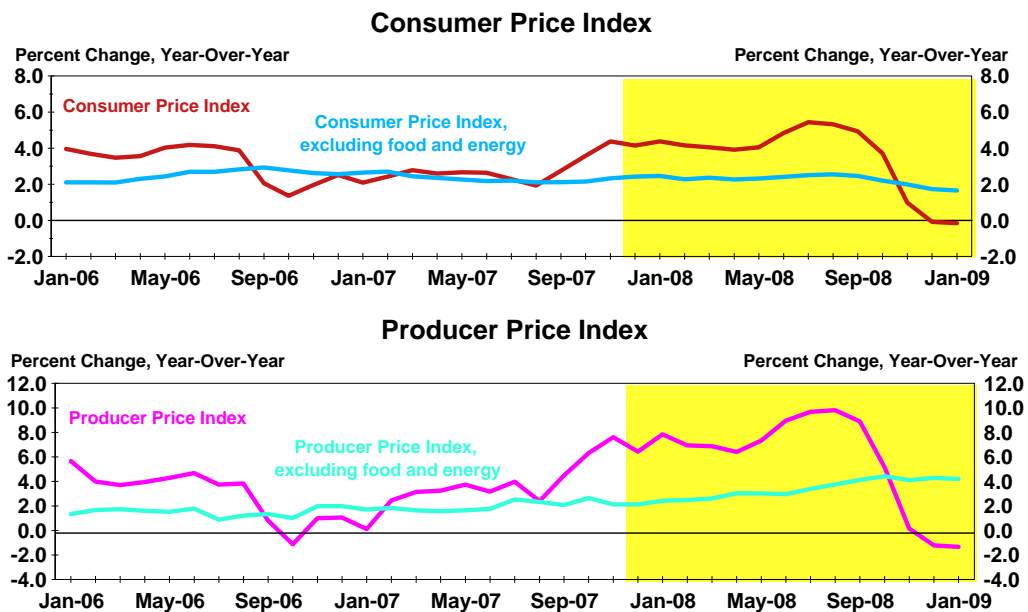


New orders for durable goods continued to shrink in January, and have now fallen almost 25% in the past six months. Orders of nondefense capital goods excluding aircraft have followed a similar path, falling a bit more than 20% over the same time.



Source: U.S. Census Bureau.

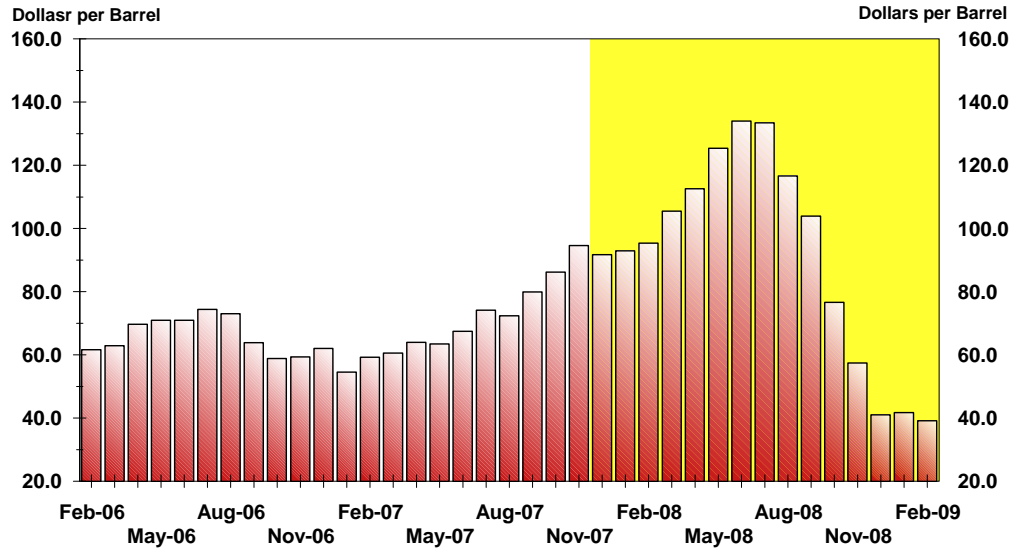
Headline inflation measures remained negative in January, and core prices eased slightly. Core consumer prices advanced at their slowest pace in nearly five years.



Source: Bureau of Labor Statistics.

Oil prices were little changed in February.

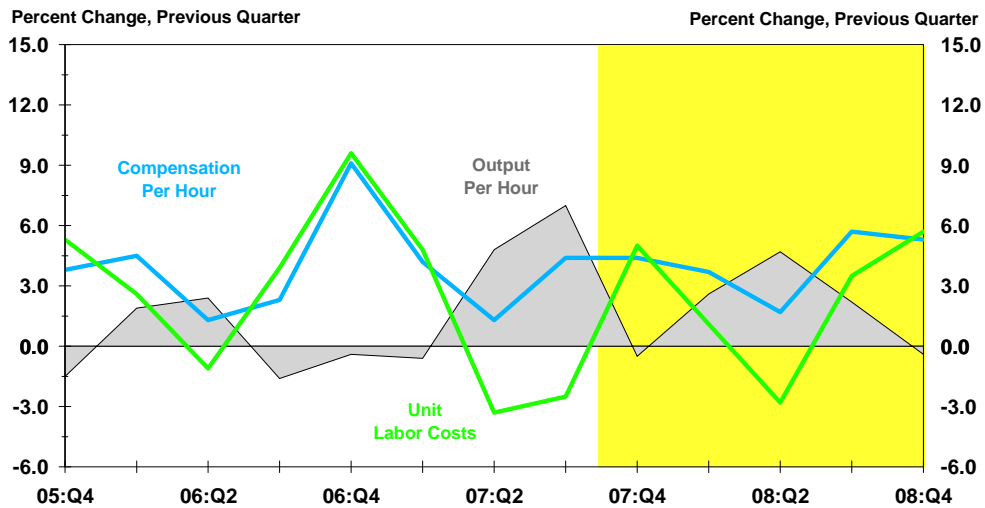
Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity was revised sharply downward in the fourth quarter, showing a small decline as opposed to the earlier reported 3.2% gain. Unit labor costs were also revised upward, posting their largest gain in two years.

Productivity and Costs

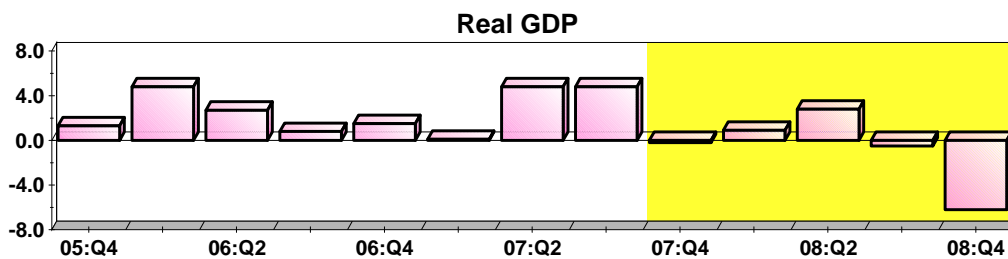


Source: Bureau of Labor Statistics.

Real GDP growth was revised downward in the fourth quarter, due to widespread downward adjustments among its contributors. The most significant downward revisions were made to private inventory investment, exports, and personal consumption expenditures for nondurable goods.

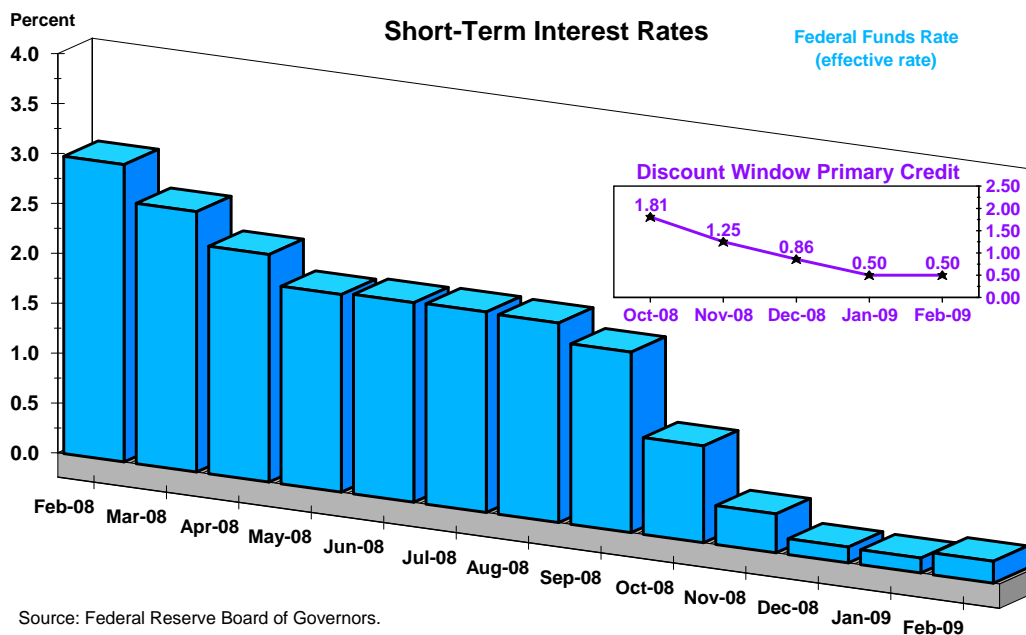
Revisions to Fourth Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	-3.8	-6.2
Personal Consumption	-3.5	-4.3
Business Investment	-19.1	-21.1
Equipment and Software	-27.8	-28.8
Residential Investment	-23.6	-22.2
Government	1.9	1.6
Exports	-19.7	-23.6
Imports	-15.7	-16.0
Final Sales	-5.1	-6.4
Change in Private Inventories (Bil. 2000\$)	6.2	-19.9



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy struggled more in the fourth quarter than originally estimated, as a sharp downward revision to real GDP resulted in its most significant decline in over 26 years. The weakness in the economy is widespread and likely to persist through the coming months.



Source: Federal Reserve Board of Governors.

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

March 12, 2009

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

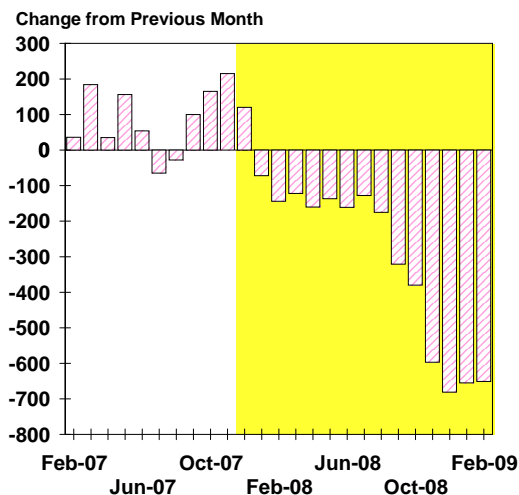
In February, nonfarm payrolls continued to fall sharply. Job losses over the past three months were nearly two million, bringing the total number of jobs lost since the start of the recession to well over four million. These accumulated losses brought the unemployment rate to a 25-year high in February.

Wholesale inventories declined 0.7% in January, following a revised decrease of 1.5% in December. Inventories were first reported as falling 1.4% in December. Wholesale trade fell 2.9% in January, its seventh consecutive monthly drop.

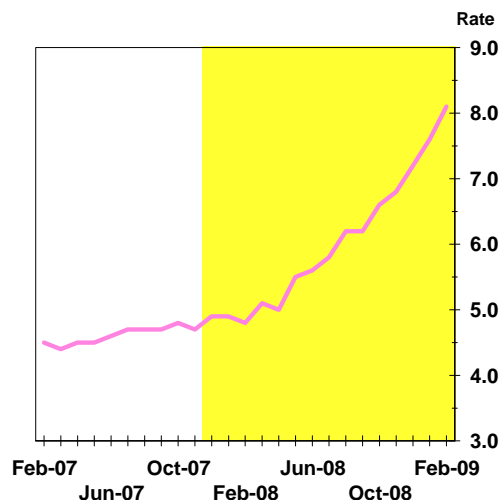
Redbook sales decreased 0.2% through the first week of March, compared to February. Sales were 1.4% lower than during the same period last year. Oil prices rose over the past week, averaging \$45.5 per barrel, up from the previous week's average of \$42.9.

Nonfarm payrolls fell by 651,000 jobs in February, the third consecutive monthly decline of 650,000 or more. Payrolls were also downwardly revised by 161,000 for the previous two months, with the new December estimate being the largest single-month drop since October 1949. Also in February, the unemployment rose to 8.1%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.