



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

January 7, 2010

CURRENT ECONOMIC DEVELOPMENTS - January 7, 2010

Data released since your last Directors' meeting suggest economic conditions continued to improve. Business conditions have picked up with recent increases in inventories expected to boost GDP growth in the fourth quarter. Additional positive news has come from consumer optimism, auto sales, and new home sales. Still, employment conditions are improving slowly, and further business investment will be needed to significantly repair the job market.

In December, initial claims fell further to continue their descent. Despite the recent significant improvements, claims are still well above a level consistent with a healthy labor market. Consumer attitudes improved in December as optimism for future conditions grew. Auto sales rose again in December, resulting in their strongest sales pace of the year, if one excludes the CARS months of July and August. Real disposable personal income posted another minor increase in November, helping consumption post its second consecutive gain.

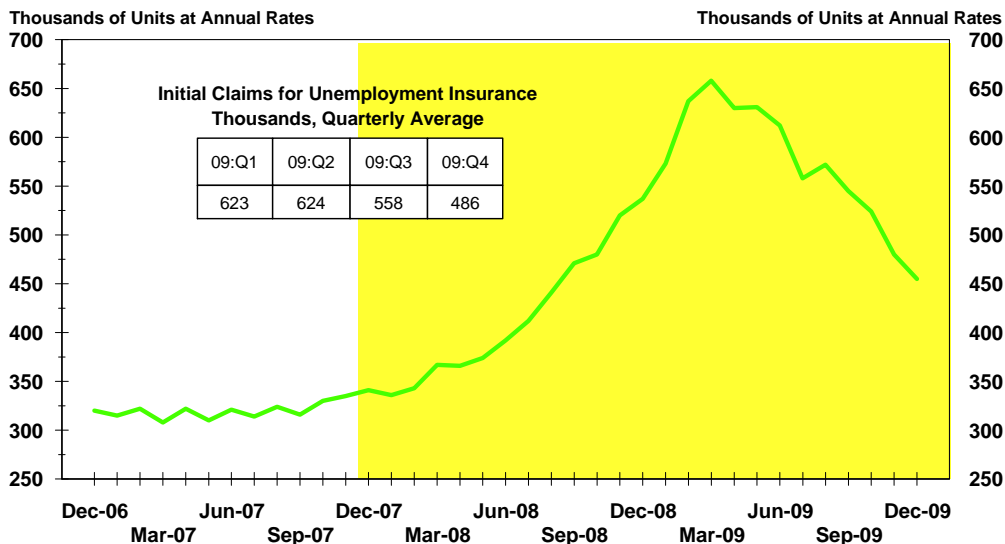
Housing market data was mixed in November. New home sales surged to a nearly three year high, but sales of existing homes fell. Housing starts and building permits rose during the month, but are little changed from where they stood in the middle of the year.

In the business sector, recent data has been relatively upbeat. The ISM index rose in December offsetting a November dip. In November, industrial production and capacity utilization both increased while durable goods and orders of nondefense capital goods, excluding aircraft, showed further improvement.

Inflation remains only a small concern, even as prices for both consumers and producers rose in November following a prolonged period of contraction. Oil prices were down overall in December from November, but have risen steadily over the past three weeks.

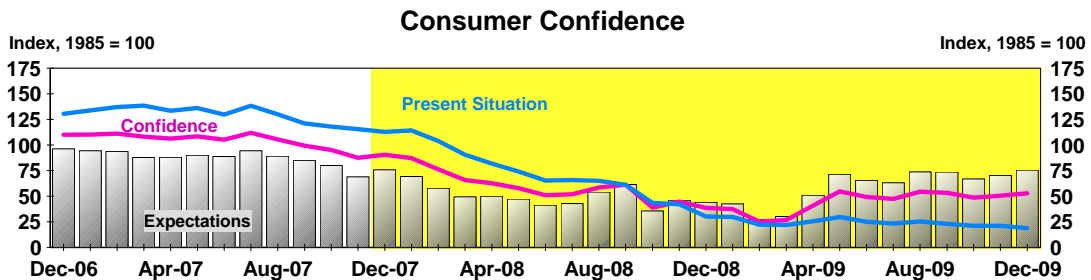
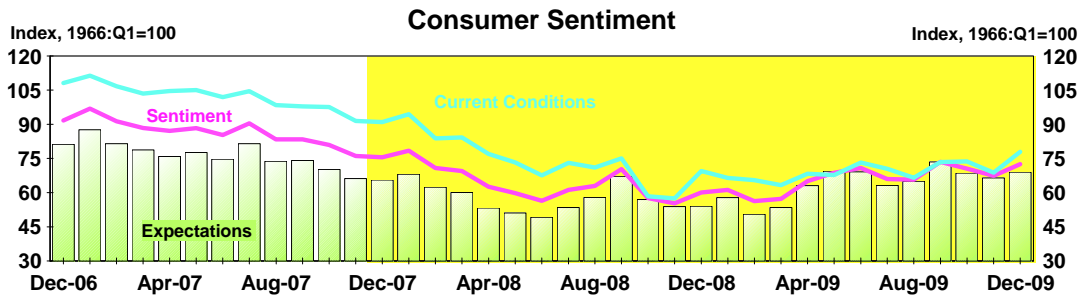
Initial claims for unemployment insurance continued to fall in December, dropping to their lowest levels since mid-2008. The December weekly average was nearly one-third below the peak seen in March.

Initial Claims



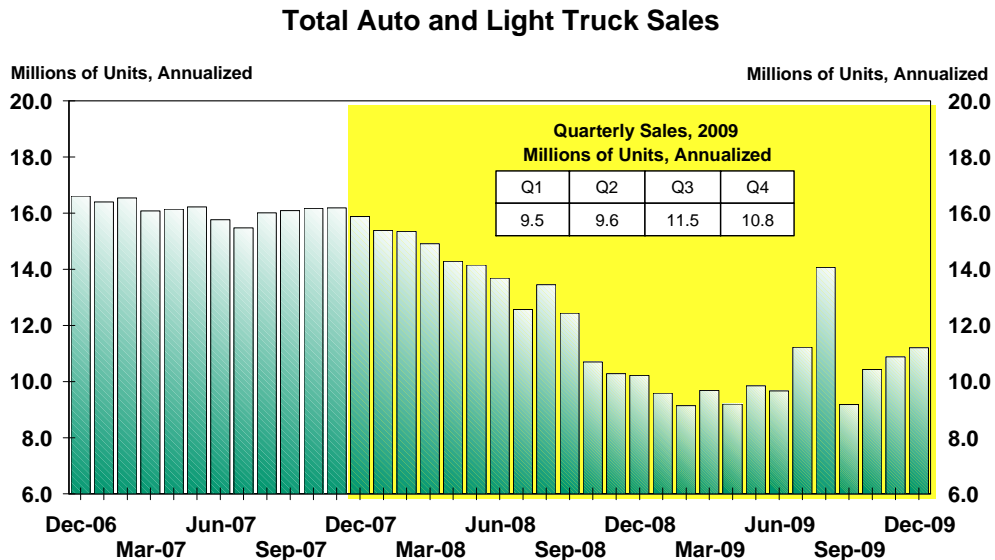
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes generally improved in December, and represent a dramatic improvement over their year-ago levels. Consumers' continue to be primarily concerned with their current finances and income prospects, but they are becoming a bit more optimistic about future employment and business conditions.



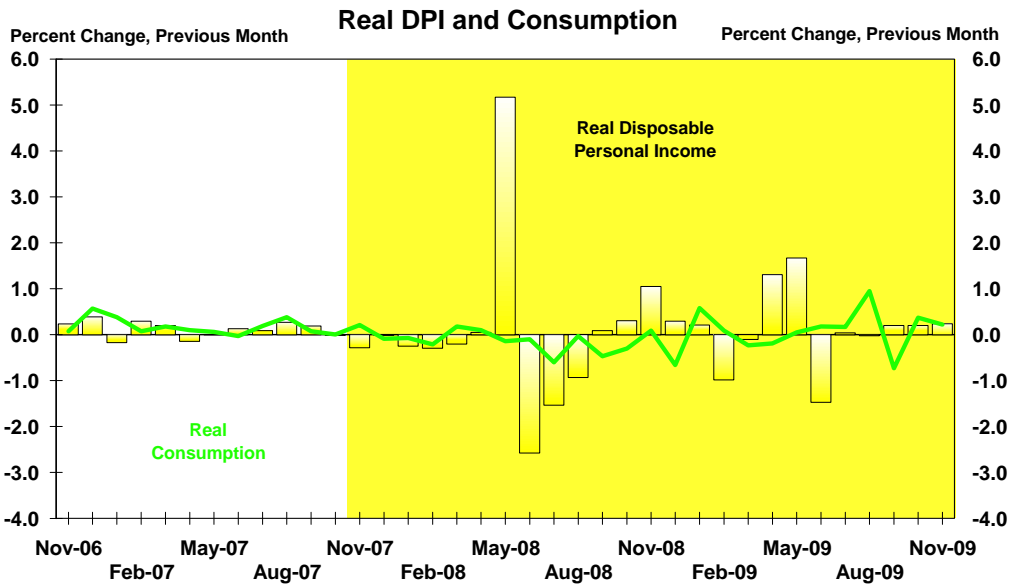
Source: University of Michigan (top panel) and The Conference Board (bottom panel) / Haver Analytics.

Lightweight vehicle sales posted their third consecutive monthly gain in December, providing some welcome optimism for the industry heading into the new year. The total sales pace in 2009 was 10.3 million units, a record low for the 33 years the data has been compiled.

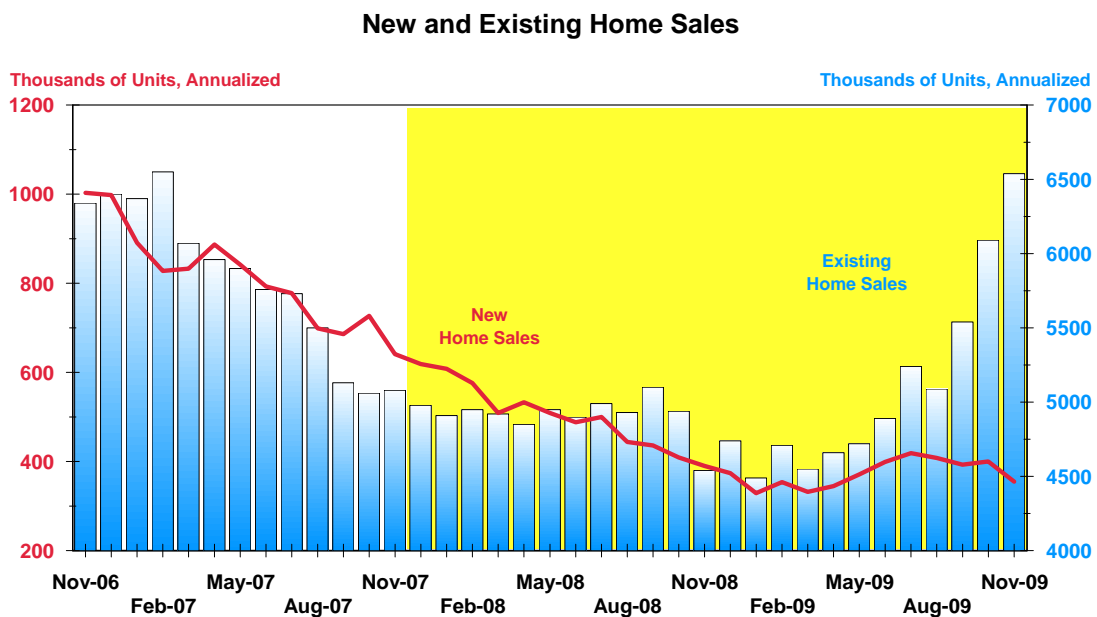


Source: Bureau of Economic Analysis / Haver Analytics.

Income growth held steady in November. The small gains helped consumption increase for the second month in a row.

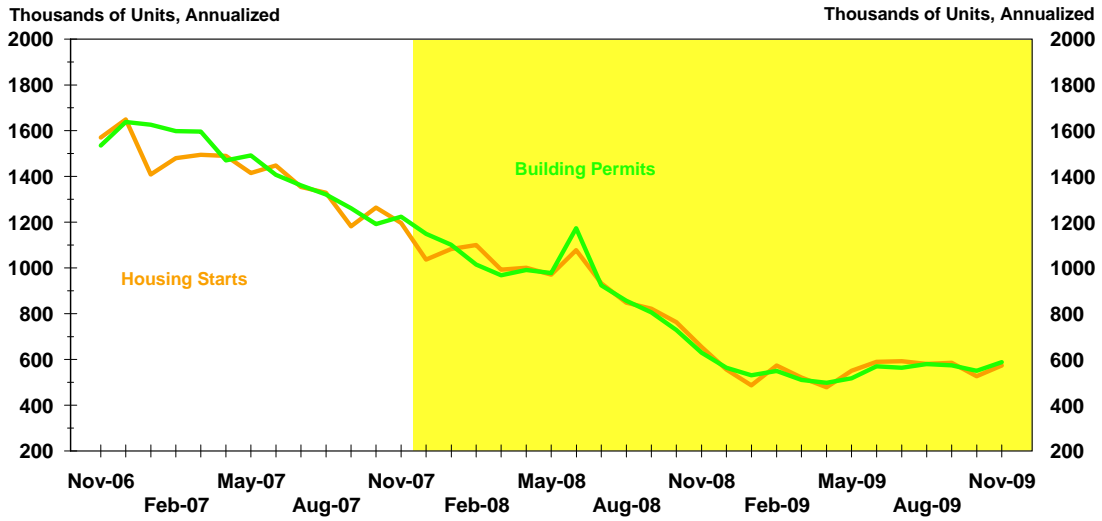


Home sale data has been divergent over the past few months, and the trend continued in November. Existing homes sales experienced another strong gain, leading to the highest sales pace in nearly three years, but new home sales slowed to a seven-month low.



Housing starts and building permits both rebounded in November, offsetting recent losses.

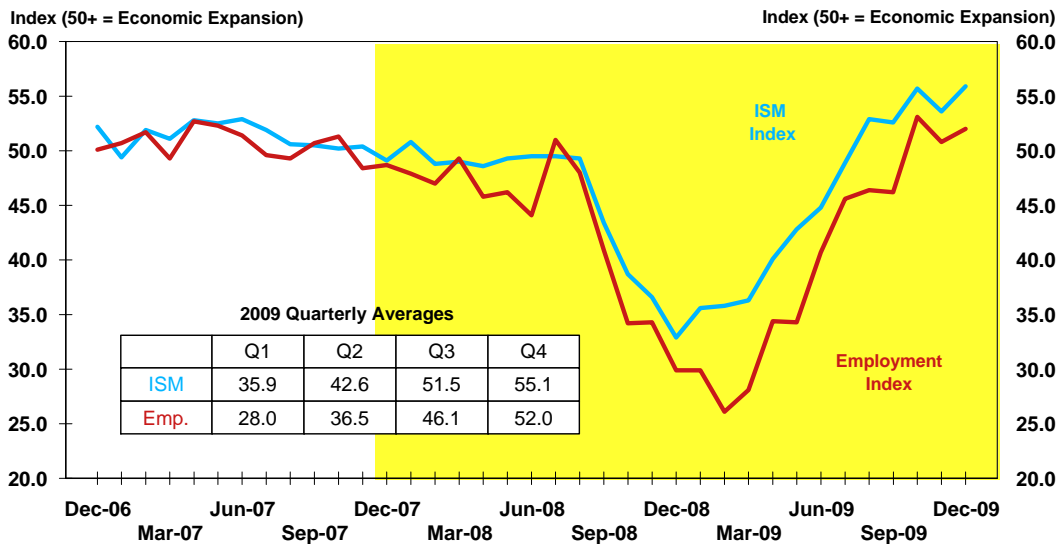
Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

The ISM index rebounded in December, offsetting the drop seen in November. The increase also led to the index's highest quarterly average in four years.

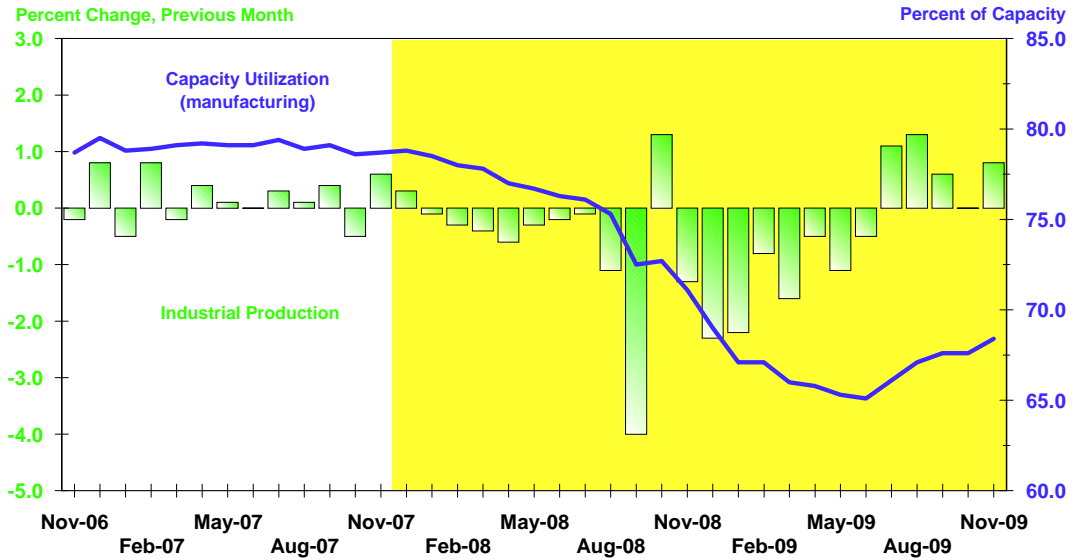
ISM Index



Source: Institute for Supply Management / Haver Analytics.

After a month of no change in October, industrial production and capacity utilization rose again in November. Capacity utilization is at its highest level since December 2008.

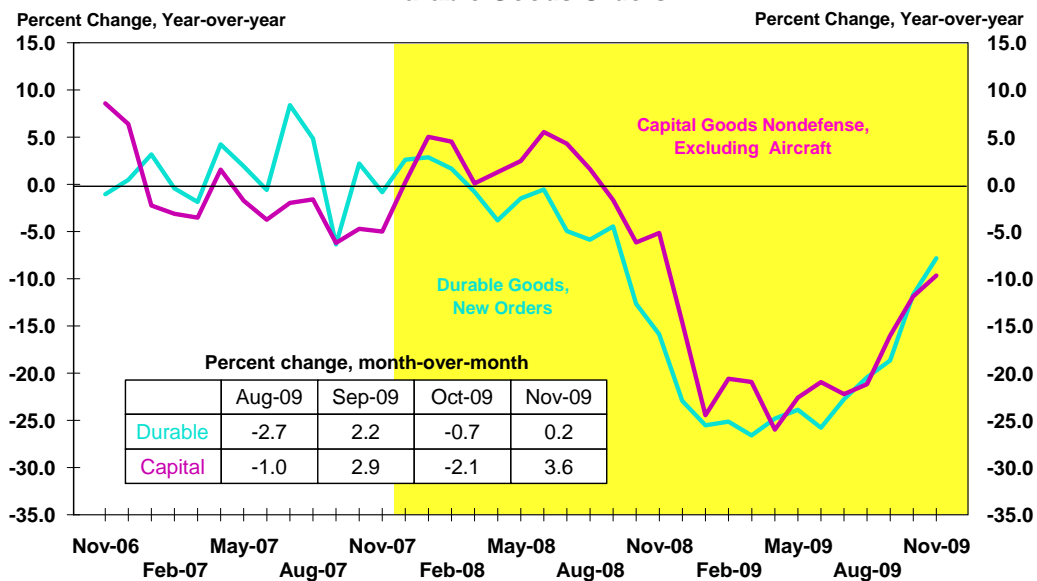
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

The year-over-year decreases in durable goods orders continued to abate in November, despite only a small rise from the previous month. Orders for nondurable capital goods, excluding aircraft, also improved further in November.

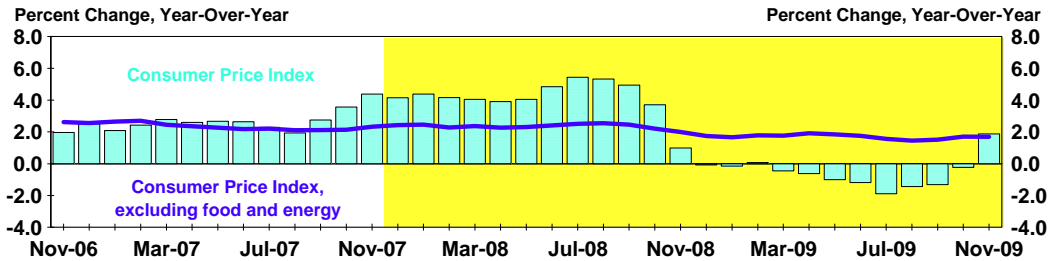
Durable Goods Orders



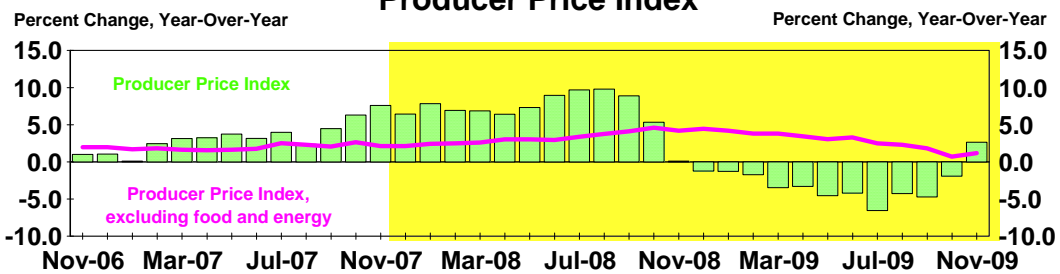
Source: U.S. Census Bureau / Haver Analytics.

In November total consumer prices saw their first increase since February, and their largest gain since last October, while core prices held steady. Producer prices posted their first increase since the previous November.

Consumer Price Index



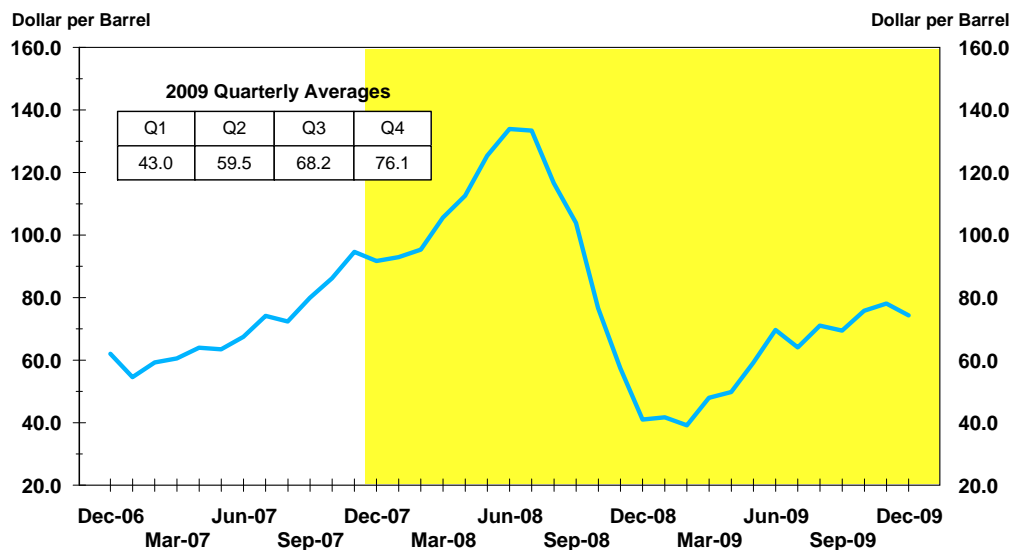
Producer Price Index



Source: Bureau of Labor Statistics / Haver Analytics.

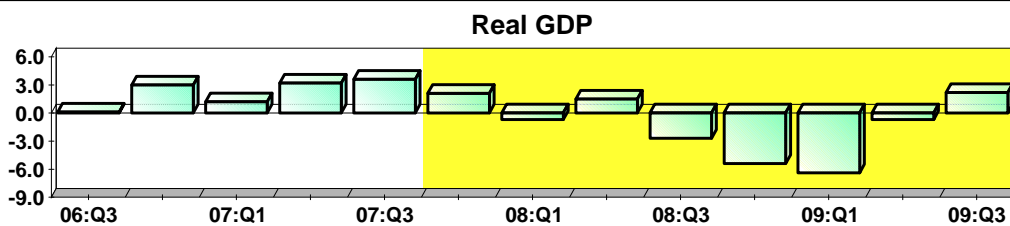
Oil prices eased a bit in December, but still recorded their highest quarterly average since the third quarter of 2008.

Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal / Haver Analytics.

Real GDP growth was revised downward in the final third quarter estimate, primarily reflecting downward adjustments to nonresidential fixed investment, private inventory investment, and personal consumption expenditures.

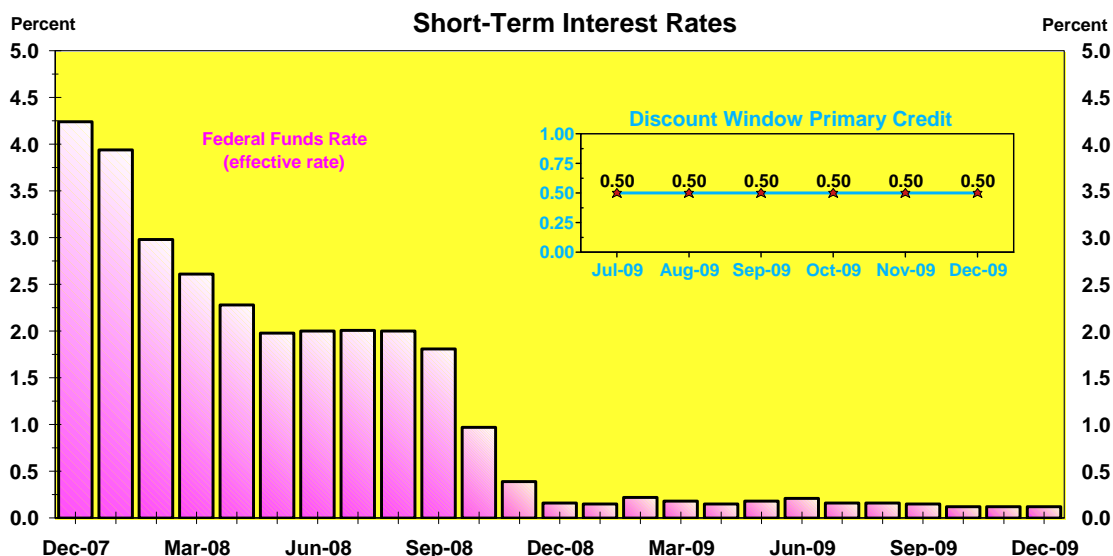


Revisions to Third Quarter Real GDP

Description	Preliminary	Revised
Real GDP	2.8	2.2
Consumption	2.9	2.8
Business Investment	-4.1	-5.9
Equipment & Software	2.3	1.5
Residential Investment	19.5	18.9
Government	3.1	2.6
Exports	17.0	17.8
Imports	20.8	21.3
Final Sales	1.9	1.5

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting suggest economic conditions continued to improve. Business conditions have picked up with recent increases in inventories are expected to boost GDP growth in the fourth quarter. Additional positive news has come from consumer optimism, auto sales, and new home sales. Still, employment conditions are improving slowly, but further business investment will be needed to significantly repair the job market.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

January 14, 2010

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

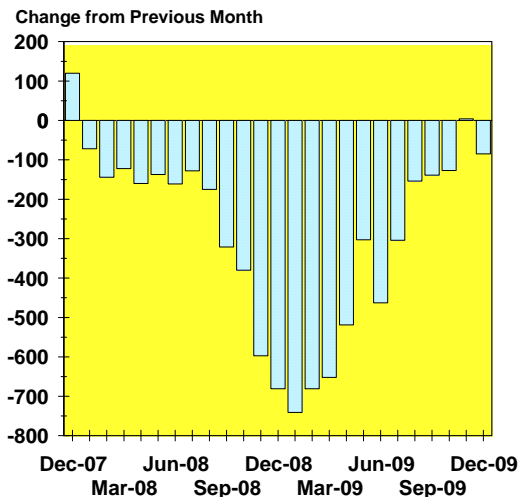
In December, payroll employment surprisingly fell by 85,000 jobs when a small increase was expected. Revised data did show an increase in employment for November, the only increase in the past two years. Despite the sizable drop in December, the unemployment rate was unchanged at 10.0%.

In November, the U.S. international trade deficit widened to over \$36 billion, its largest gap since January 2009. Wholesale inventories rose 1.5% during November, and wholesale trade rose to its highest level in over a year.

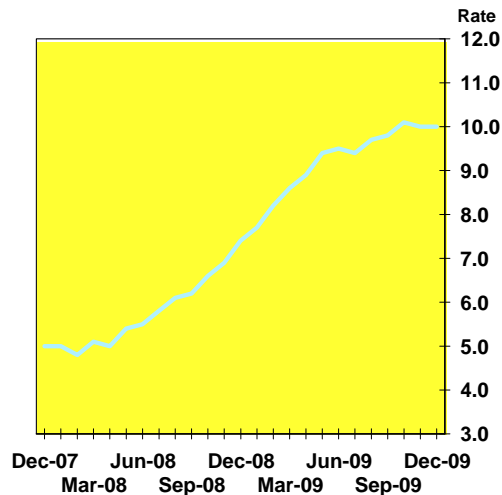
Redbook sales fell 1.1% through the first two weeks of January, compared to December. For the week ending January 9th, however, sales were up 1.4% from the same period last year. Oil prices increased during the past week, averaging \$82.4 per barrel compared to last week's average of \$80.1.

Payroll employment decreased by over 200,000 in the fourth quarter, bringing total losses for 2009 to over 4 million. Since the start of the recession, more than 7 million jobs have been lost. But the magnitude of the monthly declines has been shrinking, and revisions to November data resulted in a small gain.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.