



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

March 4, 2010

Current Economic Developments - March 4, 2010

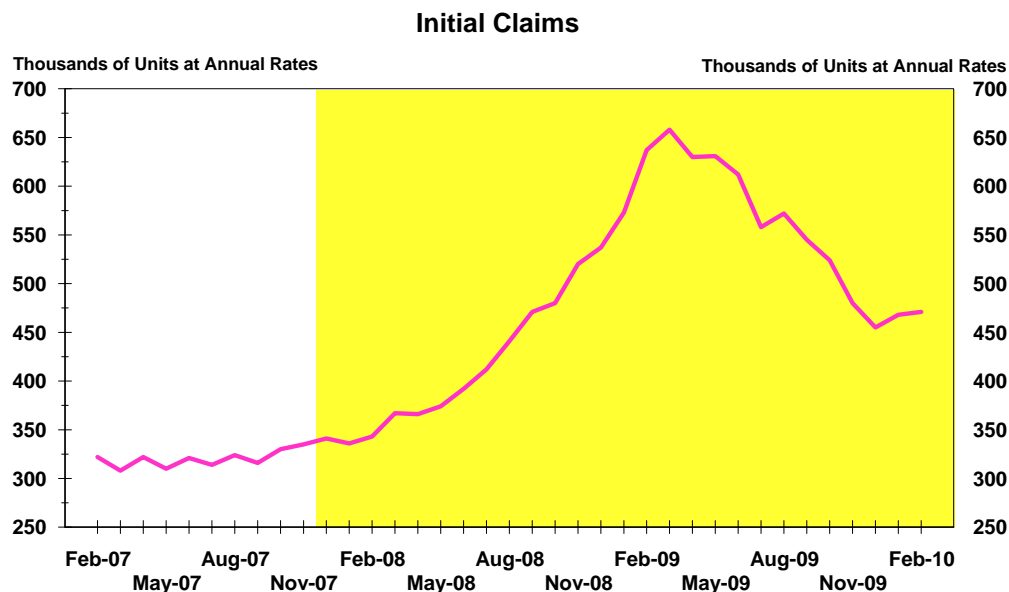
Data released since your last Directors' meeting show the economy was a bit stronger in the fourth quarter than originally estimated, and recent data from the first quarter has been mixed. The business sector displayed further signs of improvement, but the recovery has yet to fully carry over to consumers. Although consumption is up, expectations are down, incomes are lower, and employment conditions remain weak.

In February, initial claims increased slightly and consumer attitudes worsened. Auto sales slowed further in February, due in part to bad weather across much of the country. Real consumption expenditures increased in January, even as incomes fell for the first time in six months.

The housing market deteriorated further in January, with the gains seen in the fall now completely offset. In the manufacturing sector, the ISM manufacturing dipped in February but remains well above 50, and the employment index rose to its highest point since 2005. In January, both industrial production and capacity utilization rose. Also in January, new orders for both durable goods and nondefense capital goods, excluding aircraft, posted their first year-over-year improvements in well over a year.

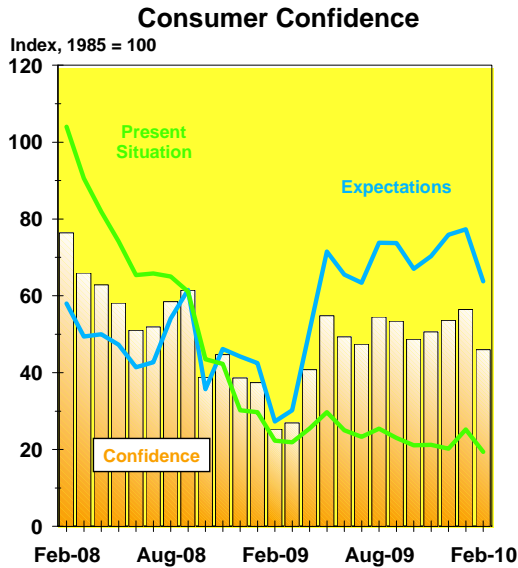
Core inflation measures for both consumers and producers were benign in January, and total consumer prices slowed a bit. Oil prices were little changed in February and have held mostly steady over the past several months. Unit labor costs were revised downward for both the third and fourth quarters, resulting in a record 1.7% drop during 2009.

Initial claims for unemployment insurance rose slightly in February, building on the increase in January. While some of the increase may be attributable to weather issues in the Northeast and administrative backlog, claims data has clearly leveled off following the prolonged downward trend seen during the second half of 2009.

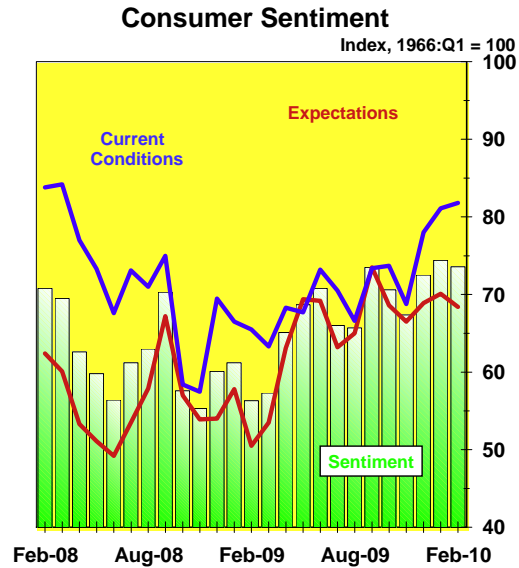


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes generally worsened in February, as confidence fell to a 10-month low and sentiment eased. Expectations also deteriorated following recent increases. Opinions on present conditions were contradictory, however, as the Michigan index rose to a two-year high and the Conference Board measure fell to an all-time low.

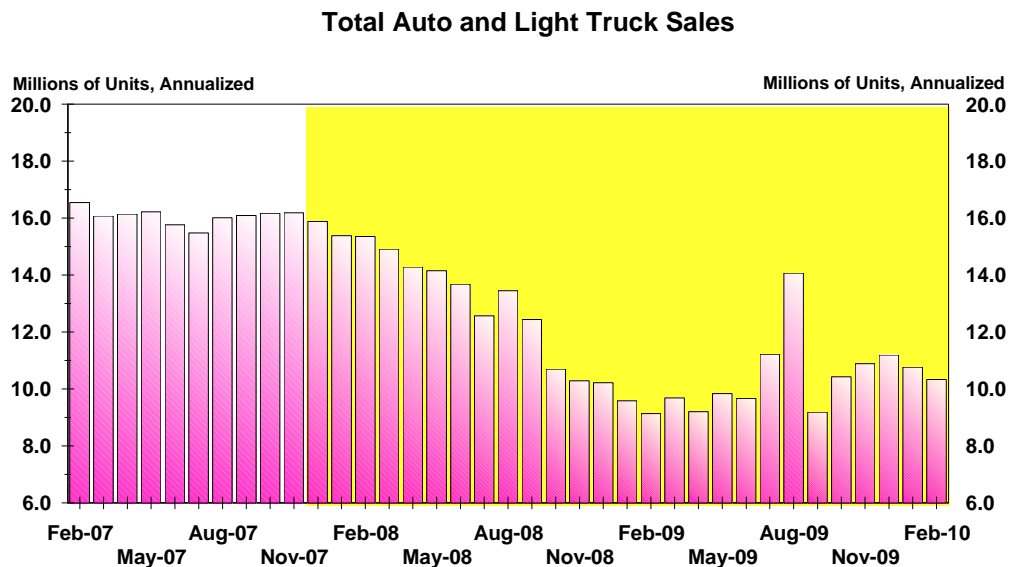


Source: The Conference Board / Haver Analytics.



Source: The University of Michigan / Haver Analytics.

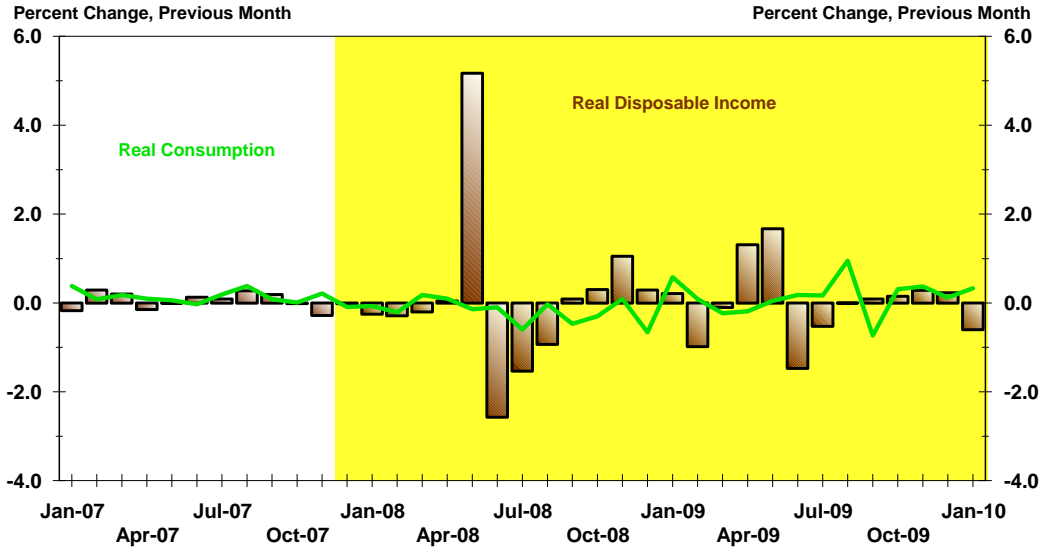
Total auto and light truck sales slowed further in February, falling to their lowest annual rate since September. Bad weather was partially to blame for the slower sales rate, as storms across much of the country kept shoppers away from showrooms.



Source: Bureau of Economic Analysis / Haver Analytics.

In January, real disposable income fell for the first time since July, but real consumption was still able to post its fourth consecutive monthly gain.

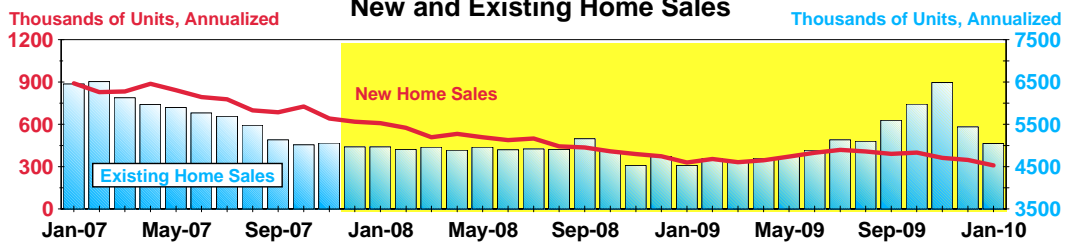
Real DPI and Consumption



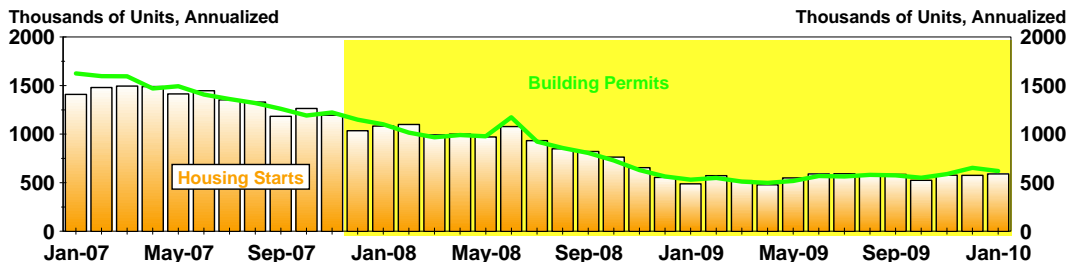
Source: Bureau of Economic Analysis / Haver Analytics.

The recent downturn in the housing market continued in January. New home sales fell for the third straight month, resulting in a record-low sales pace, and sales of existing homes fell to a seven-month low. New construction data was also muted in January. Housing starts are at the same level as six months ago, and building permits fell five percent.

New and Existing Home Sales



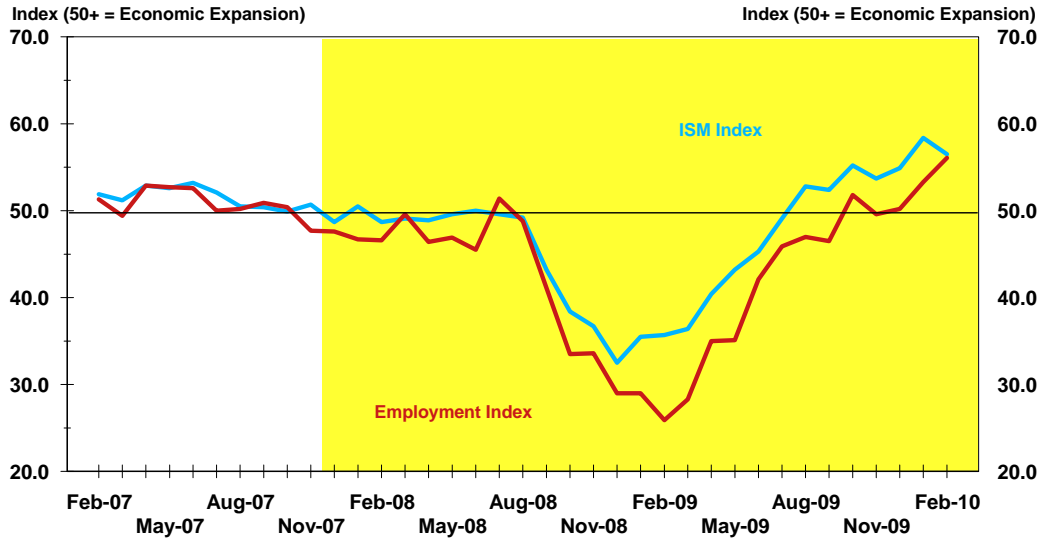
Housing Starts and Building Permits



Sources: U.S. Census Bureau (new home sales, housing starts, permits) and National Association of Realtors (existing sales) / Haver Analytics.

The ISM manufacturing index declined in February, erasing most of the gain seen in January, but the employment index rose to its highest level in over five years.

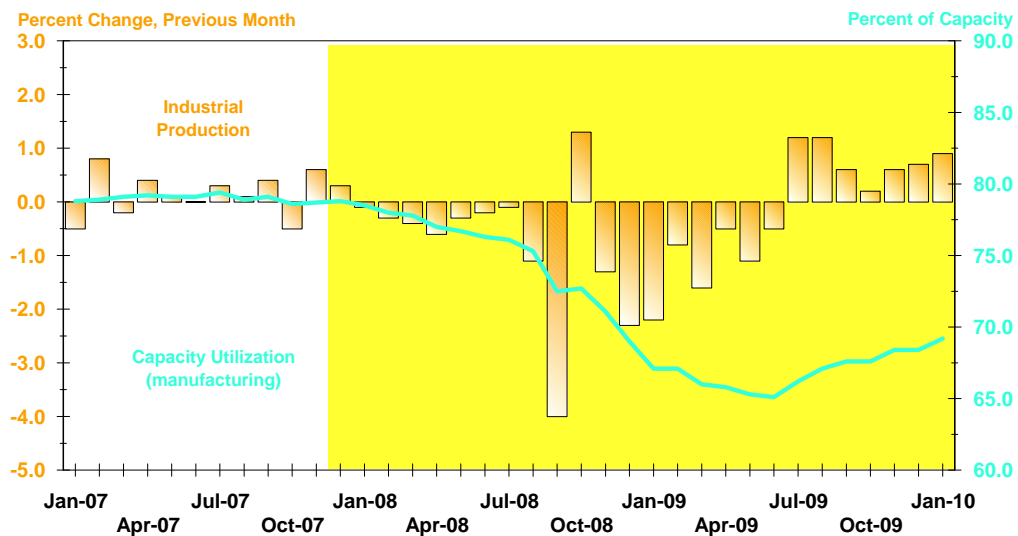
ISM Index



Source: Institute of Supply Management / Haver Analytics.

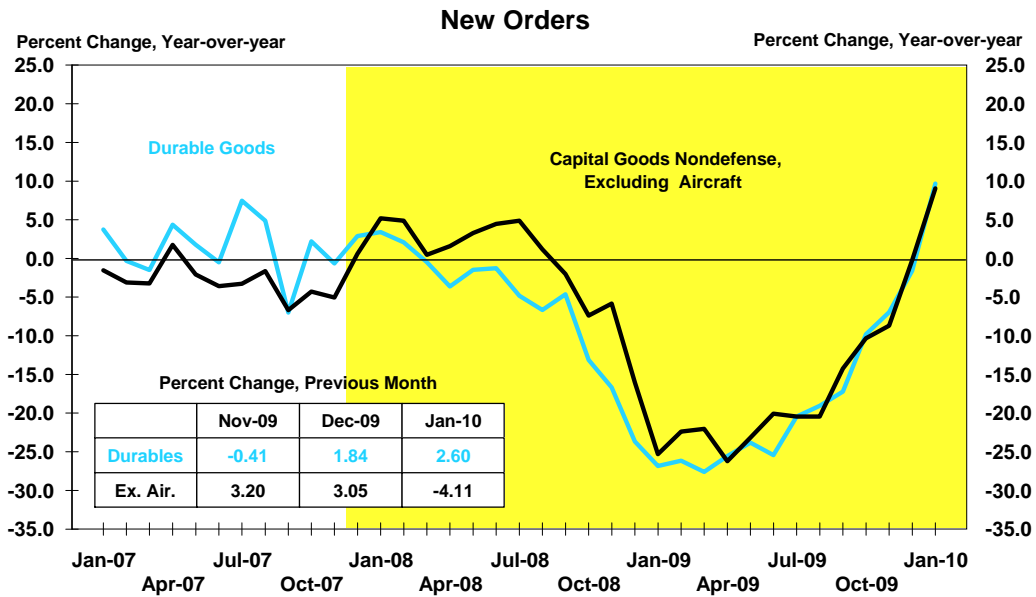
Industrial production continued to improve in January, as did capacity utilization. Despite the recent improvements, however, production is still 10% below its December 2007 high, established just as the recession started.

Industrial Production and Capacity Utilization



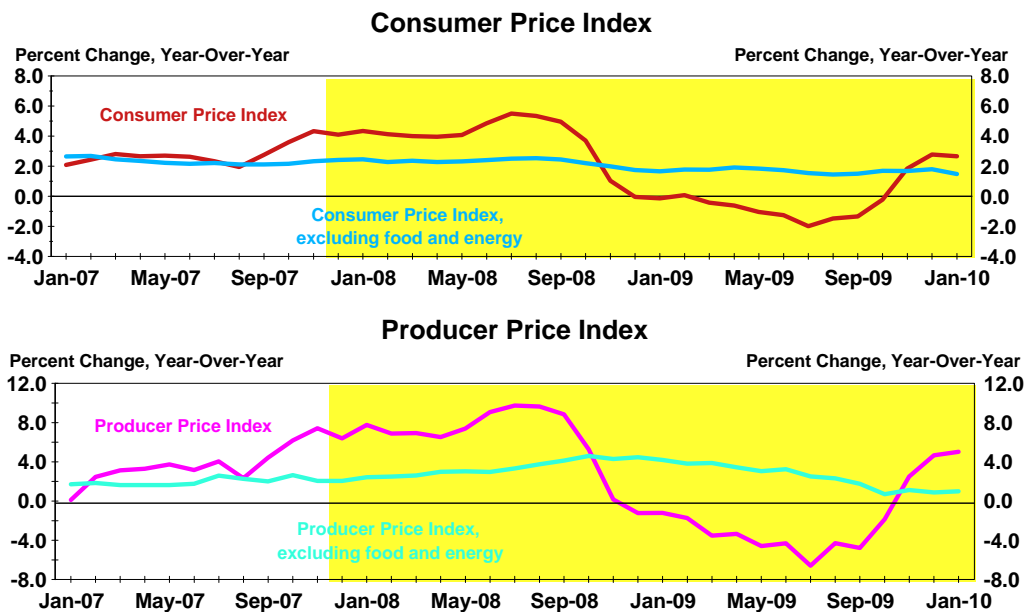
Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods improved further in January, and posted their first year-over-year gain in nearly two years. Orders of nondefense capital goods excluding aircraft displayed their strongest year-over-year performance in three years, despite easing in January compared to December.



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

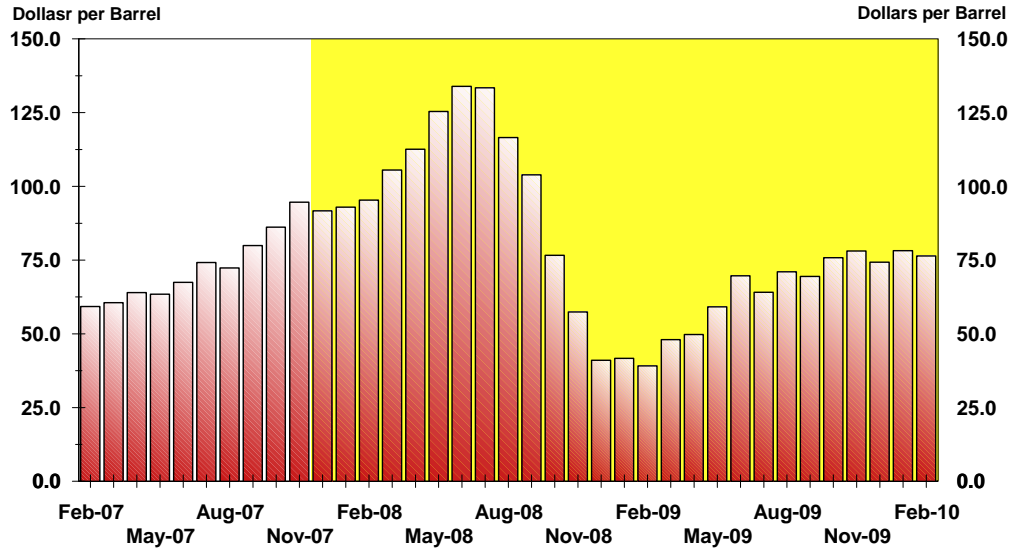
Consumer inflation remained relatively tame in January, as both total and core prices decelerated slightly. Total producer prices advanced at their fastest rate in 15 months, but core prices held steady.



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices were little changed in February, and their average through the first two months of the year is only slightly above their fourth quarter average.

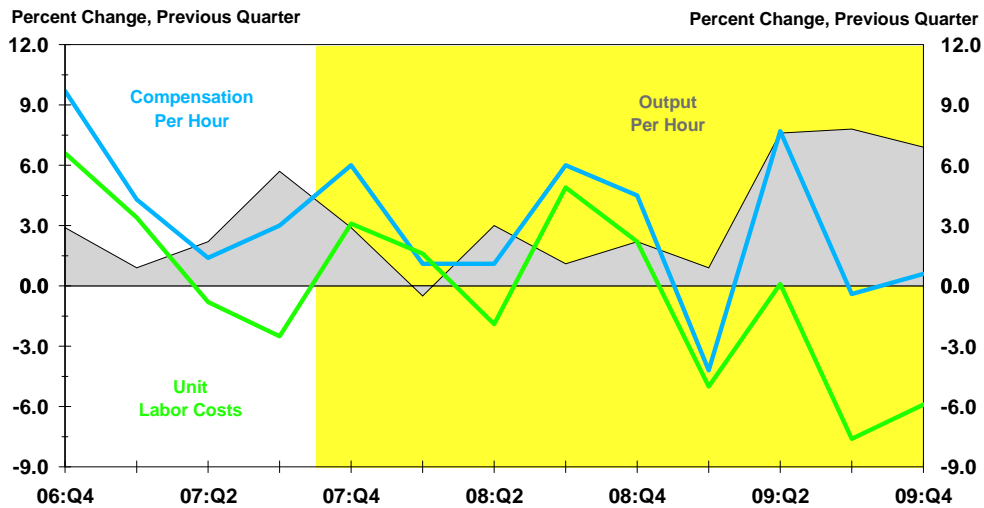
Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Productivity was revised up in the fourth quarter, as output posted a solid gain despite a minimal increase in hours worked. Unit labor costs and compensation were revised lower for both the third and fourth quarters.

Productivity and Costs



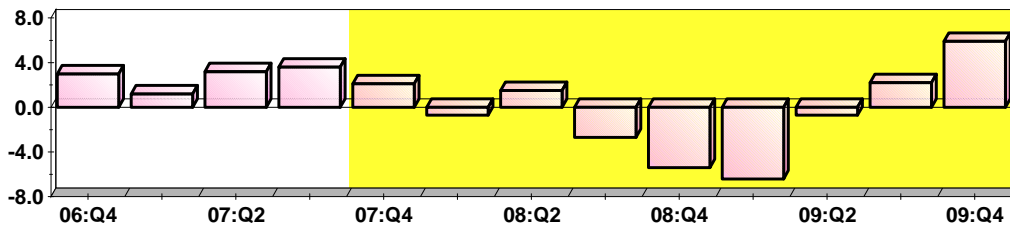
Source: Bureau of Labor Statistics / Haver Analytics.

Real GDP growth was revised upward in the fourth quarter. The higher growth rate primarily reflected upward revisions to private inventory investment, exports, and nonresidential fixed investment that were partly offset by downward adjustments to PCE and state and local government spending and an upward revision to imports.

Revisions to Fourth Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	5.7	5.9
Personal Consumption	2.0	1.7
Business Investment	2.9	6.5
Equipment and Software	13.3	18.2
Residential Investment	5.7	5.0
Government	-0.2	-1.2
Exports	18.1	22.4
Imports	10.5	15.3
Final Sales	2.2	1.9

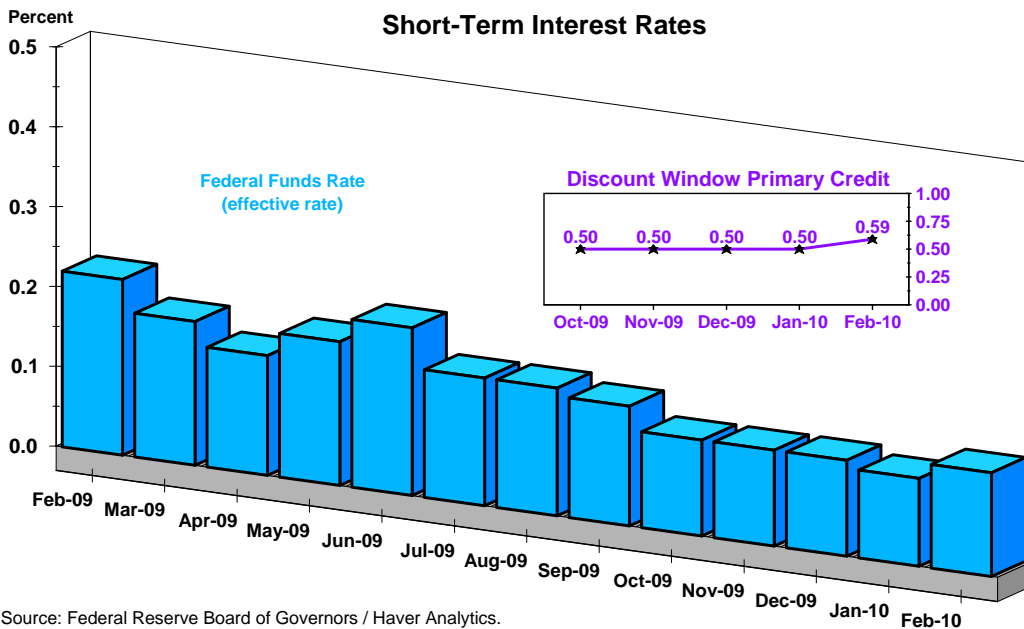
Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy was a bit stronger in the fourth quarter than originally estimated, and recent data from the first quarter has been mixed. The business sector displayed further signs of improvement, but the recovery has yet to fully carry over to consumers. Although consumption is up, expectations are down, incomes are lower, and employment conditions remain weak.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.

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

March 11, 2010

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

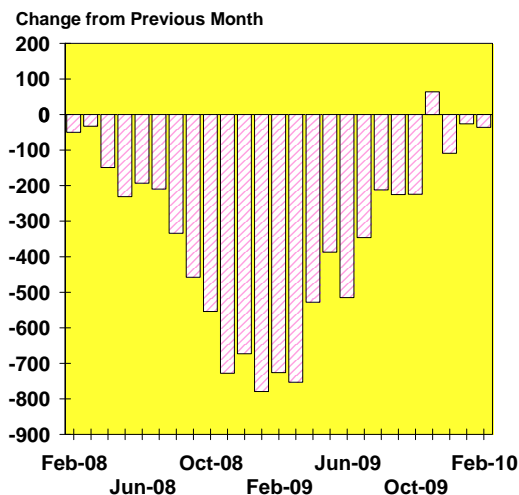
In February nonfarm payrolls continued to fall, but by a smaller amount than expected. The unemployment rate was unchanged during the month. Poor winter weather in the Northeast may have hampered some improvement in payroll data, but employment conditions overall are still better described as leveling off, with strong and consistent job creation still likely months away.

Wholesale inventories declined 0.2% in January, following a revised decrease of 1.0% in December. Inventories were first reported as falling 0.8% in December. Wholesale trade rose 1.3% in January, its tenth consecutive monthly gain.

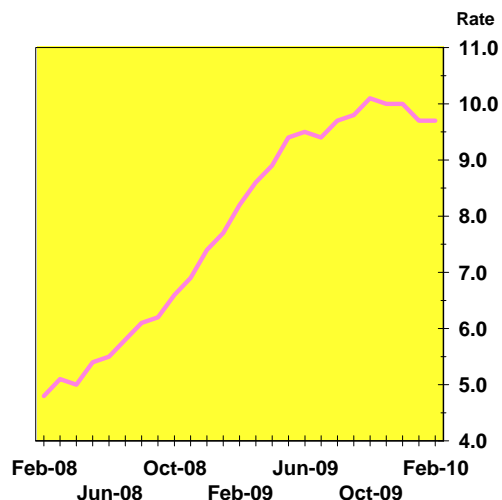
Redbook sales increased 0.7% through the first week of March, compared to February. Sales were 3.1% higher than during the same period last year. Oil prices rose over the past week, averaging \$81.2 per barrel, up from the previous week's average of \$79.1.

Nonfarm payrolls fell by 36,000 jobs in February, the third consecutive monthly decline and 25th drop in the last 26 months. Total payroll employment in February was at its lowest point since August 1999. The unemployment rate held steady in February at 9.7%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.