



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

October 7, 2010

CURRENT ECONOMIC DEVELOPMENTS - October 7, 2010

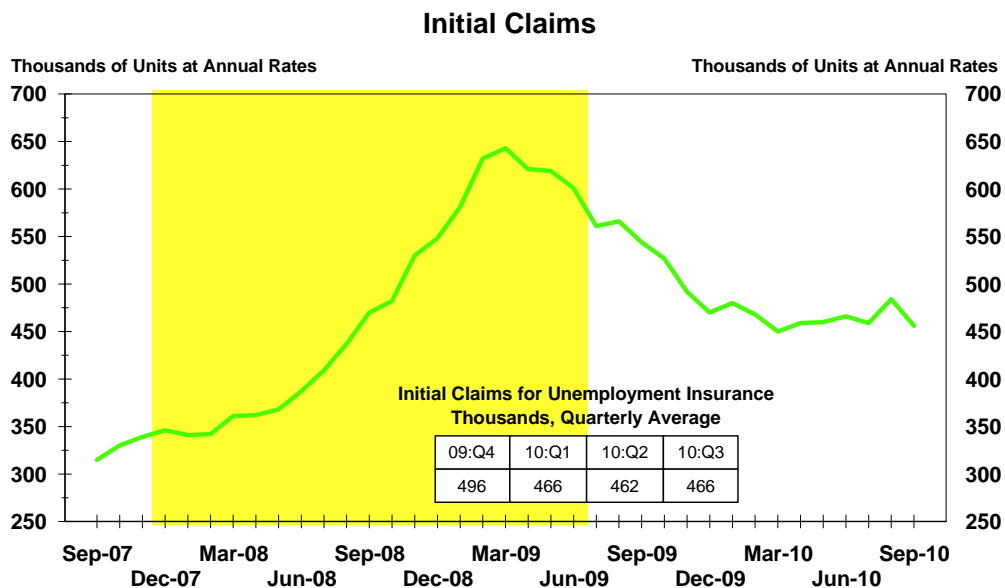
Data released since your last Directors' meeting show the economy continues to recover slowly. While it was announced the recession officially ended in June 2009, the recovery since then has been underwhelming. Improvements in employment conditions remain lackluster, hampering consumption and consumer confidence. Without an increase in demand, businesses have been less willing to increase output or their payrolls. A significant improvement in labor market conditions will be necessary for the recovery to accelerate.

In September, initial claims decreased to offset the increase seen in August but were still up a bit in the third quarter overall. Consumer attitudes continued to be mostly negative in September, and the majority of respondents remain pessimistic about economic conditions in the future. Auto sales were up slightly in September, contributing to the strongest quarter of sales in two years. In August, personal incomes posted a small gain and consumption matched the small increase seen in July.

The housing market remained weak in August, as new home sales were flat and existing home sales recovered only a small portion of the sizable drop seen in July. Housing starts and building permits did increase a bit in August, but remain close to the depressed levels seen over the past 18 months.

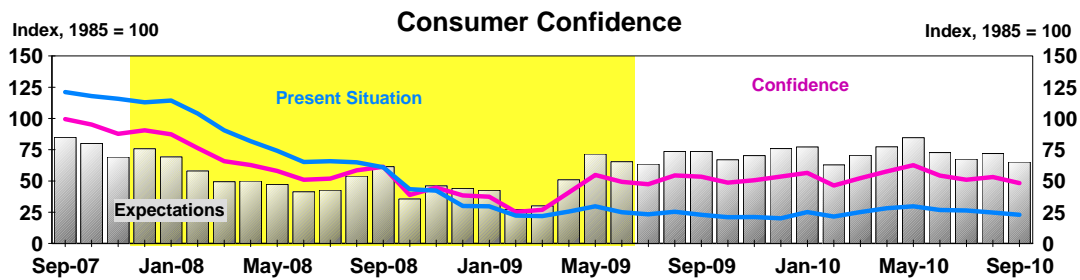
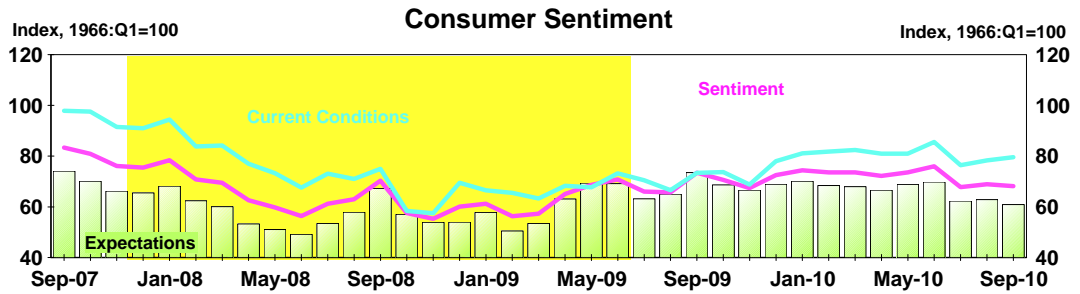
In the business sector, the ISM index eased a bit in August but remained above 50. Industrial production and capacity utilization both increased in August, continuing the trend seen over the past year. Data for durable goods orders continued to show significant year-over-year improvements in August, even as some recent monthly data has been less favorable.

Initial claims for unemployment insurance fell in September, but the spike seen in August brought the third quarter average back up to match the first quarter average.



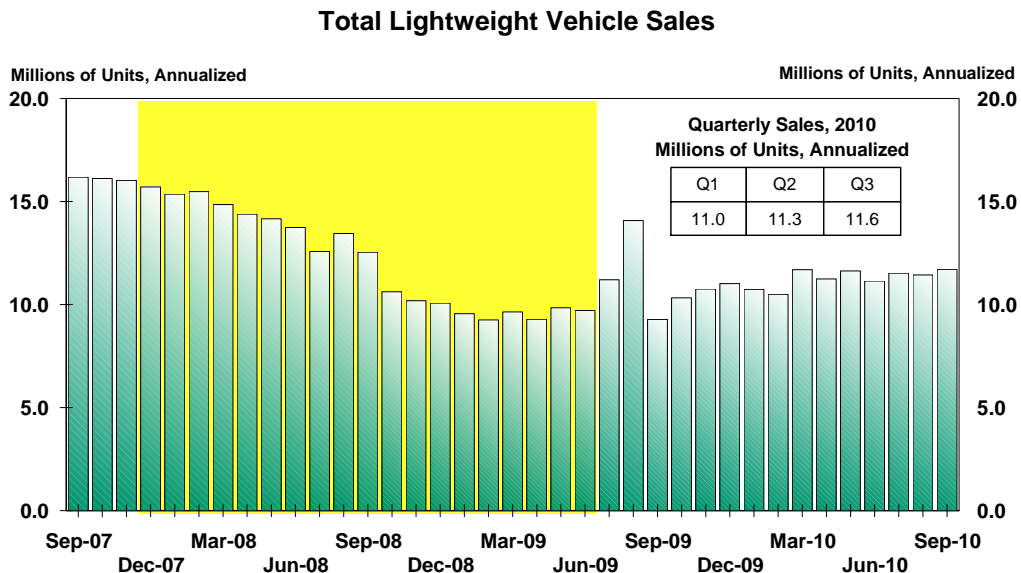
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes mostly eased in September. As has been the case for months, consumers continue to be worried about their personal finances and labor market and business conditions. Compounding these issues, few respondents expect conditions to improve any time soon and are managing their finances accordingly.



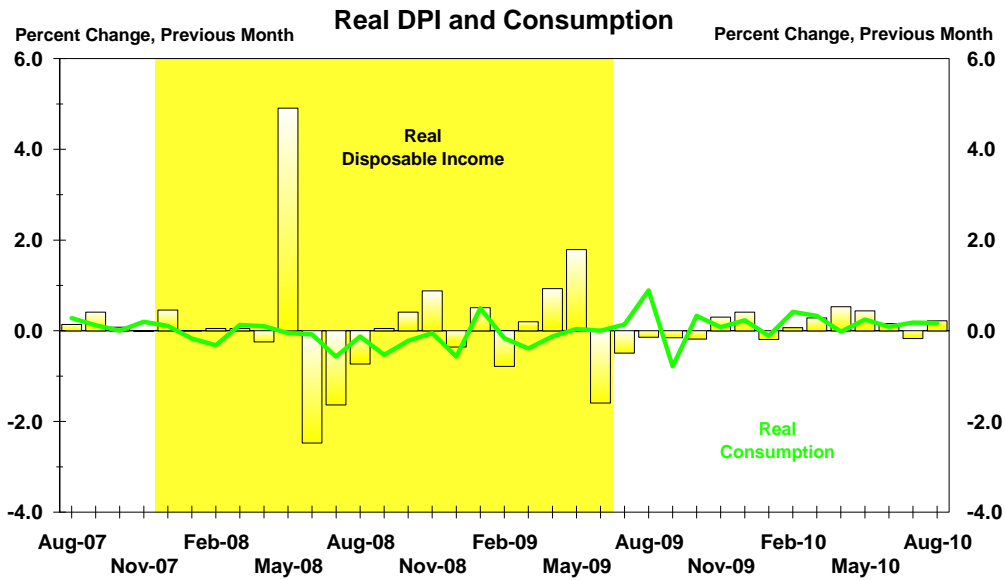
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Lightweight vehicle sales picked up a bit in September, but overall have held mostly steady since March. Still, the third quarter sales pace was the strongest since the third quarter of 2008. Manufacturers' remain hopeful that pent-up demand from the recession will soon lead to stronger sales.

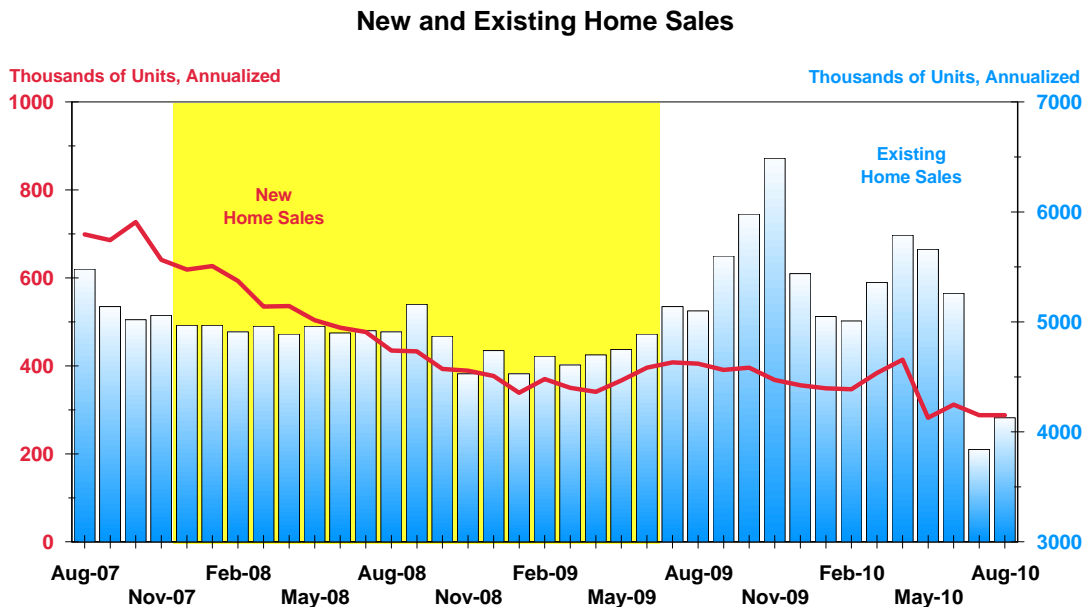


Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes increased slightly in August, following a small decrease in July. The change had little effect on consumption in August, which was unchanged from the previous month and equal to its six-month average.

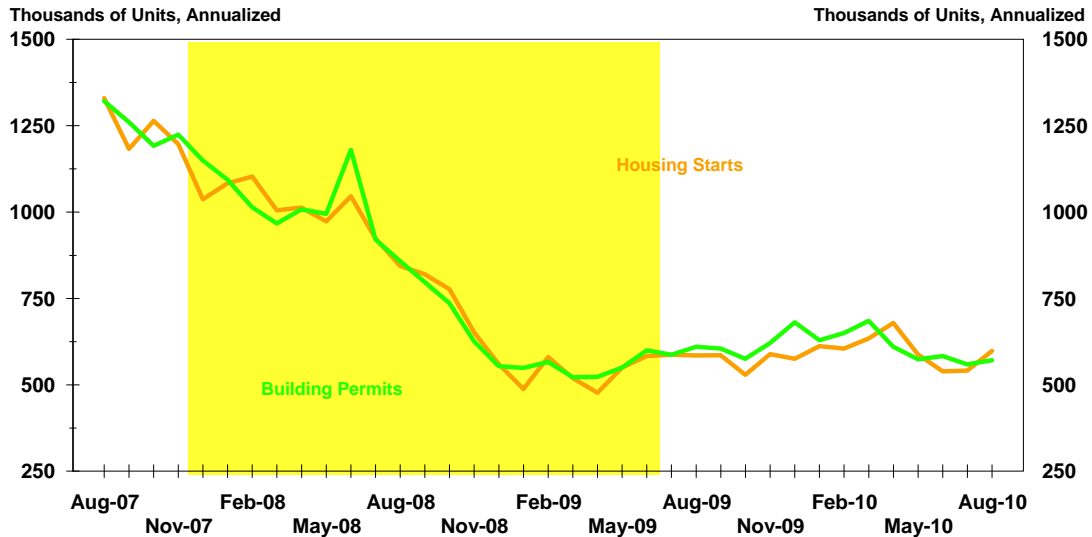


Home sales continued to struggle in August in the wake of the home-buyer tax credit. New home sales were unchanged, and sales of existing homes recovered only a fraction of the steep drop seen in July.



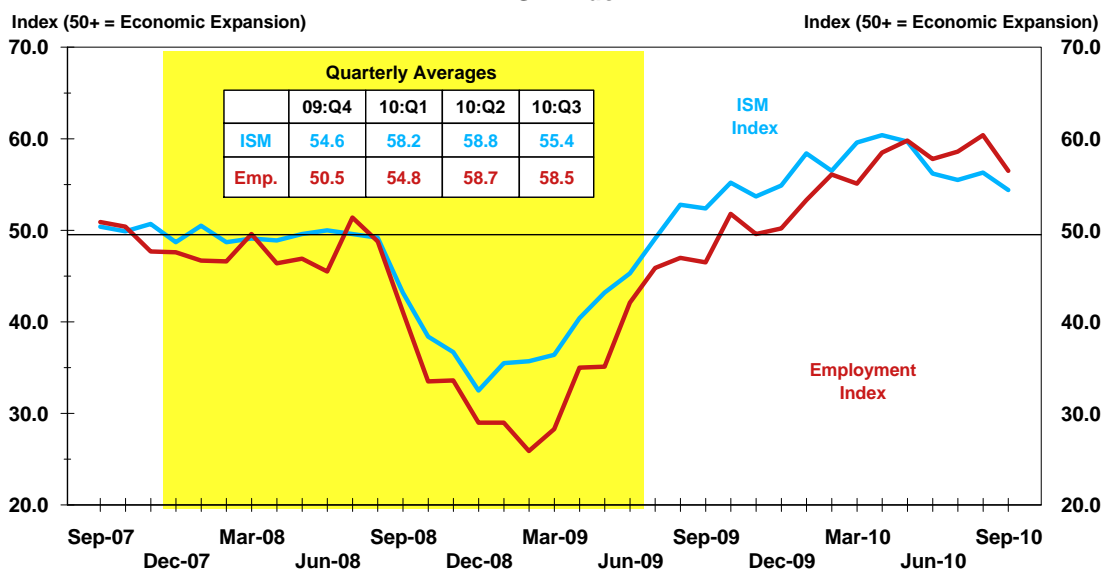
Housing starts rose to a four-month high in August, and building permits posted a small increase. Despite the gains, both measures remain in line with the depressed levels seen over the past year and a half.

Housing Starts and Building Permits



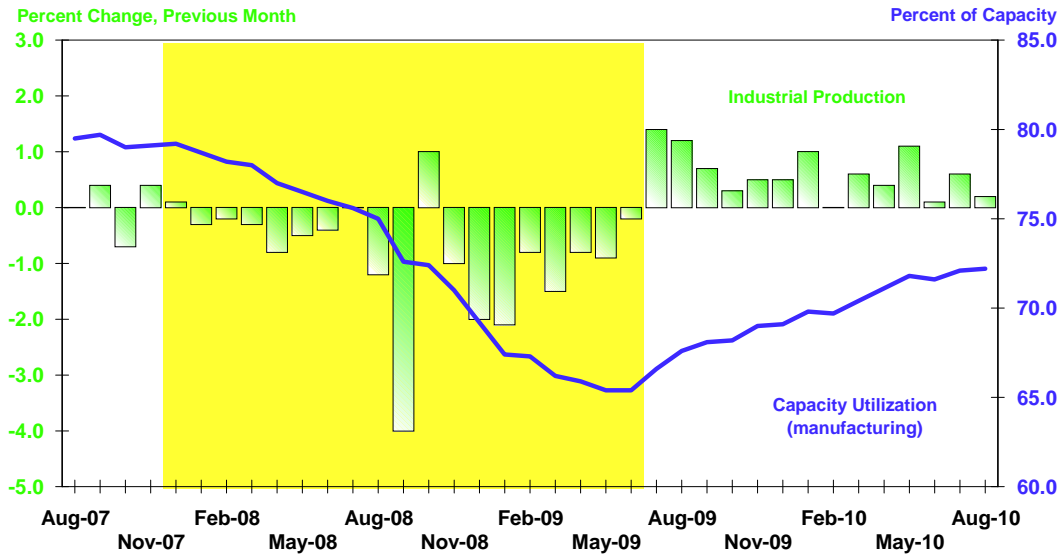
The ISM diffusion index fell in September to its lowest level of the year, but remained above 50. The employment component of the index also retreated in September, from the 27-year high seen in August, but still signals further increases in manufacturing employment.

ISM Index



Further improvement was seen in the manufacturing sector in August, as both industrial production and capacity utilization increased again. Utilization has risen more than 10% from its low point at the end of the recession.

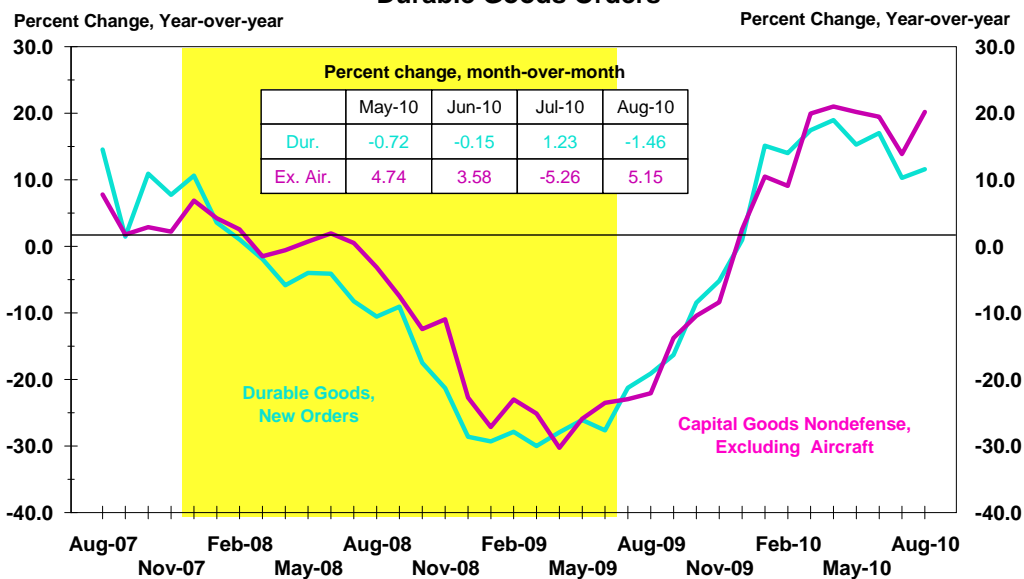
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders posted another double-digit year-over-year improvement in August, despite declining slightly from July. Orders of nondefense capital goods, excluding aircraft, rose in August to offset the fall seen the previous month.

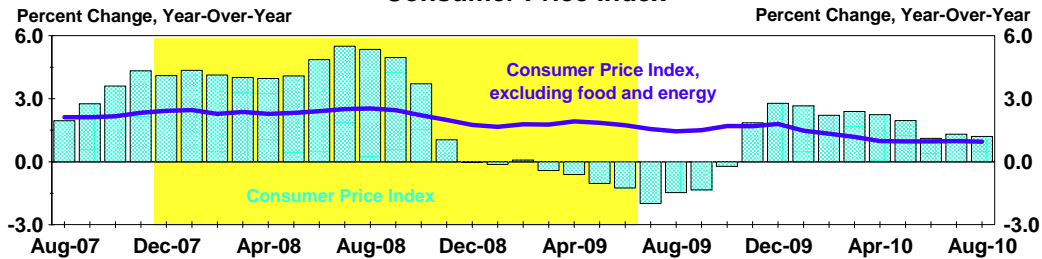
Durable Goods Orders



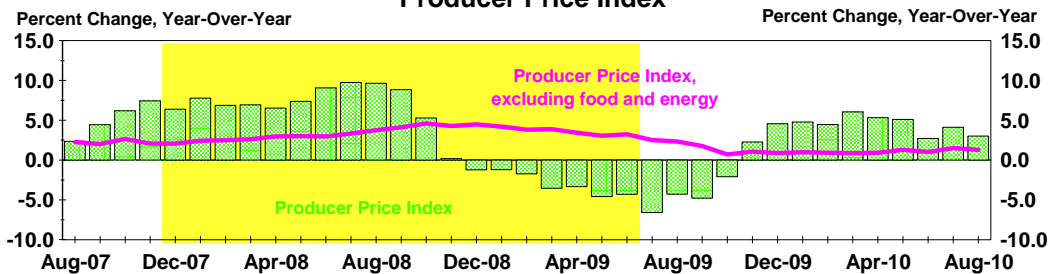
Source: U.S. Census Bureau / Haver Analytics.

Recent data continued to show little evidence of inflationary pressure, as both total and core prices eased in August.

Consumer Price Index



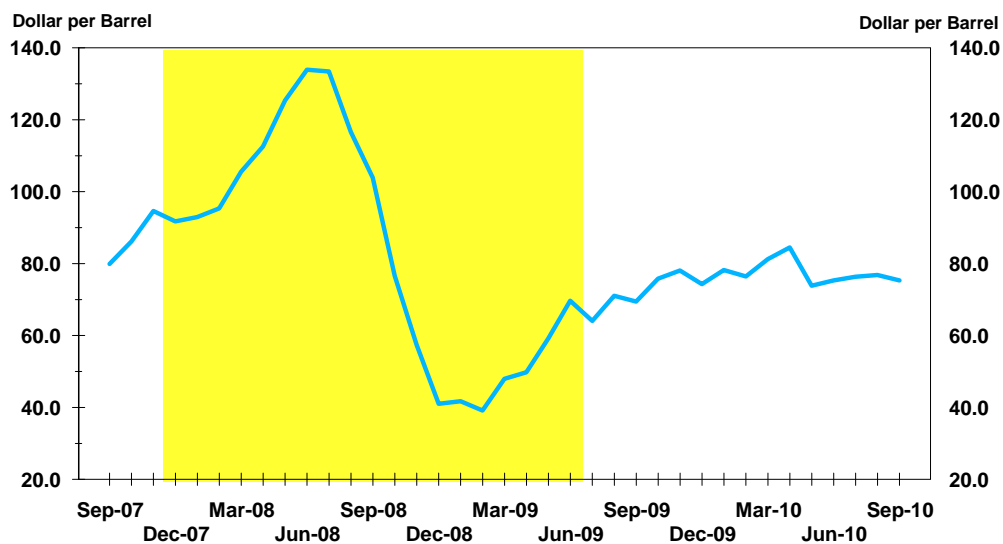
Producer Price Index



Source: Bureau of Labor Statistics / Haver Analytics.

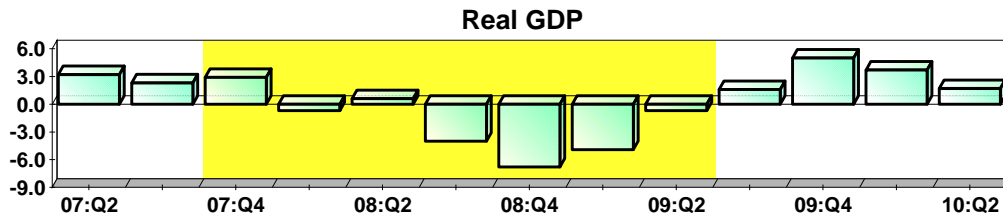
Oil prices eased slightly in September, and are little changed from their year-ago levels.

Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised slightly higher in the final second quarter estimate, due primarily to upward revisions to private inventory investment and personal consumption. The effects of those two revisions were mostly offset by an upward adjustment to imports.

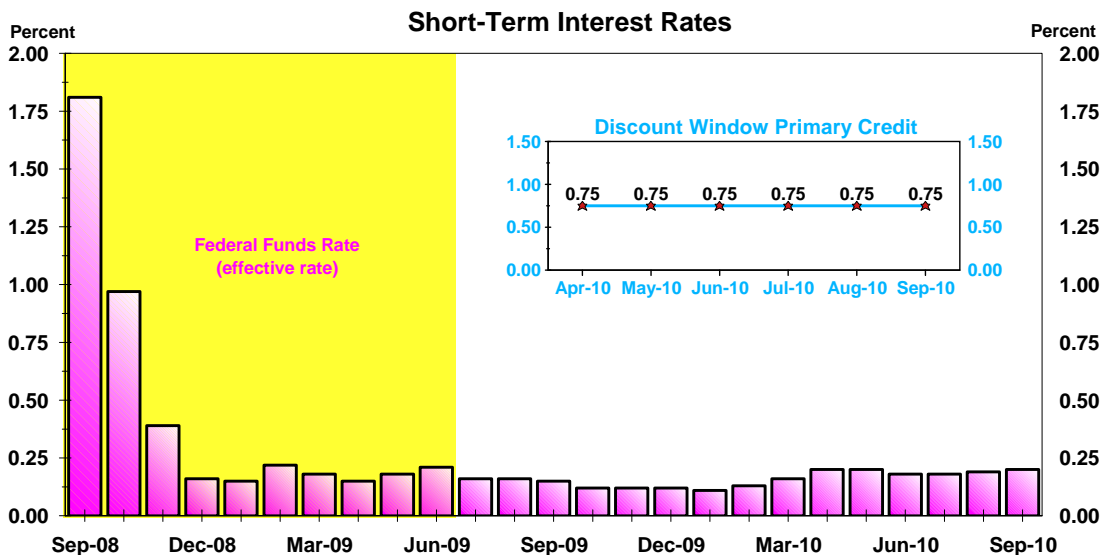


Revisions to Second Quarter Real GDP

Description	Second Estimate	Final Estimate
Real GDP	1.6	1.7
Consumption	2.0	2.2
Business Investment	17.6	17.2
Equipment & Software	24.9	24.8
Residential Investment	27.2	25.7
Government	4.3	3.9
Exports	9.1	9.1
Imports	32.4	33.5
Final Sales	1.0	0.9

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy continues to recover slowly. While it was announced the recession officially ended in June 2009, the recovery since then has been underwhelming. Improvements in employment conditions remain lackluster, hampering consumption and consumer confidence. Without an increase in demand, businesses have been less willing to increase output or their payrolls. A significant improvement in labor market conditions will be necessary for the recovery to accelerate.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

October 14, 2010

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

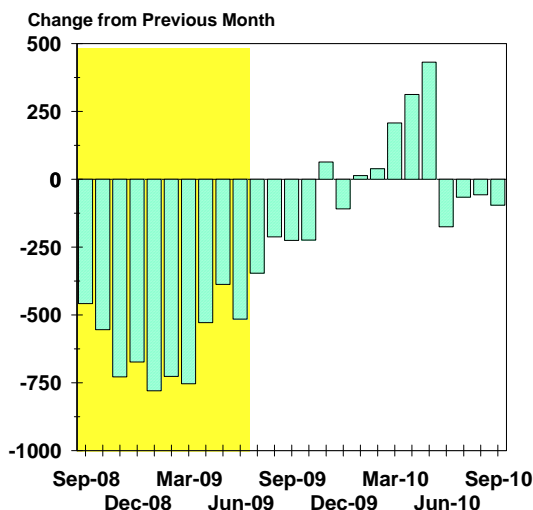
Nonfarm payrolls continued to shrink in September, as a significant decline in government jobs more than offset a further increase in private employment. Government payrolls shed another 159,000 jobs, led by the final major reduction in temporary Census employees. Only 6,000 such employees remain, so the Census impact on payroll data will be minimal going forward. Private payrolls added 64,000 jobs in September, continuing the upward trend seen over the past several months. The unemployment rate held steady in September at 9.6% .

Wholesale inventories increased 0.8% in August, with increases being widespread across sectors. The largest gains were made in farm equipment, furniture, electrical goods and hardware. Wholesale trade rose 0.5% in August, led by sales of farm products and furniture.

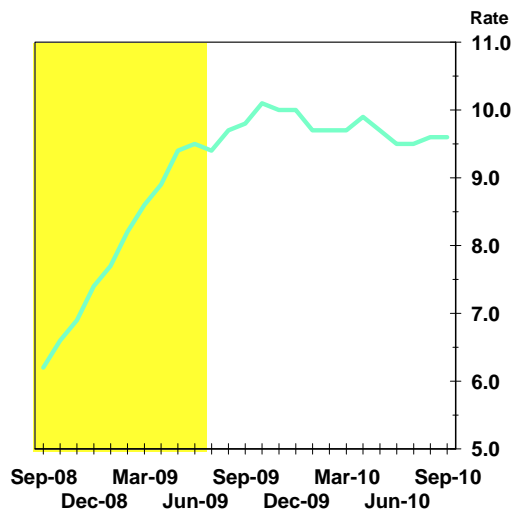
Redbook sales increased 0.2% through the first two retail weeks of October, compared to September. Sales in the week ending October 9th were 2.5% higher than during the same period last year. Oil prices rose during the past week, averaging \$82.3 per barrel compared to the previous week's average of \$80.7.

Overall in the third quarter nonfarm payrolls shed 108,000 jobs, due almost entirely to the significant reduction in temporary Census workers. The unemployment rate fell one-tenth of a percentage point during the quarter as declines in the labor force more than offset the total reduction in civilian employment.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.