



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

January 6, 2011

CURRENT ECONOMIC DEVELOPMENTS - January 7, 2010

Data released since your last Directors' meeting suggest the economic recovery has gained further traction. Consumers have continued to spend and, despite some leveling off, the manufacturing sector remains a key source of support. The housing market is still a concern, however, and despite recent reductions in initial claims the labor market is underutilized. Friday's employment report will reveal if the lower claims are indicative of improving employment conditions.

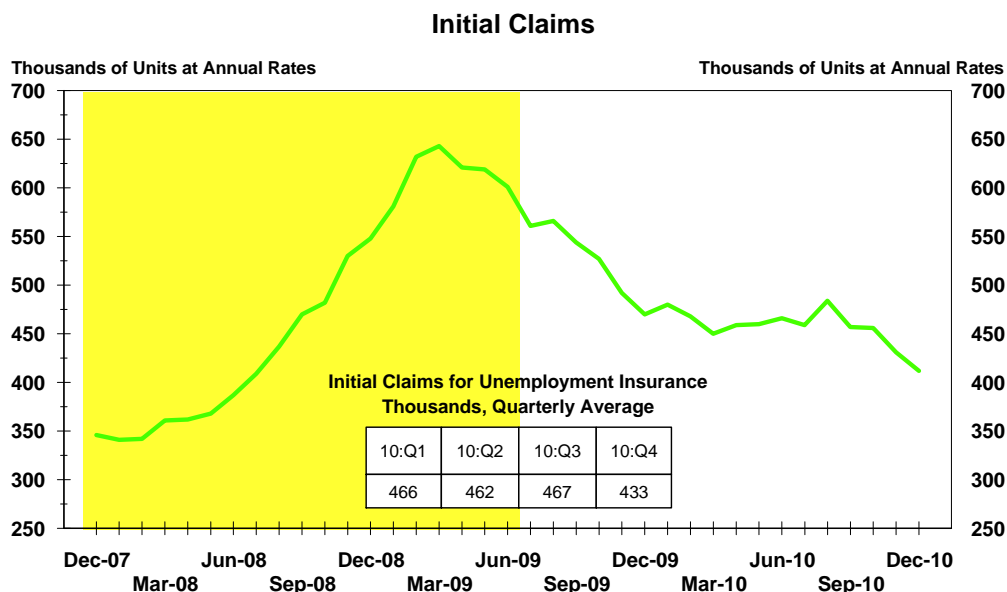
In December initial claims continued their descent, falling to their lowest levels in over two years. Consumer attitudes were mixed during the month, but improved overall in the fourth quarter compared to the third. Auto sales had their best month of the year in December, despite a lack of incentives and slightly higher fuel prices. In November, both real disposable personal income and consumption posted moderate increases.

The housing market remained weak in November and continues to pose a downside risk to the recovery. Sales rose a bit during the month but are still very low historically and new construction data remains little changed from where they stood at the end of the recession. House prices have also fallen recently, with little improvement expected in 2011.

In the business sector, recent data has been generally positive. The ISM indices signaled further expansion in December, and both industrial production and capacity utilization rose in November. Durable goods orders eased slightly in November, but posted another solid year-over-year gain.

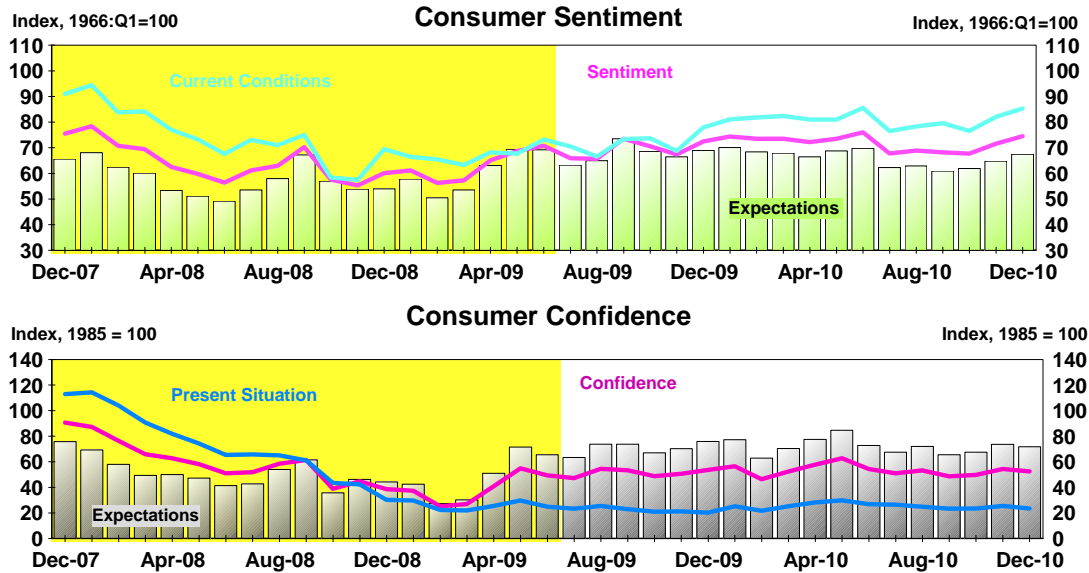
Consumer price growth remained very slow in November, in line with where it has been over the past six months. Oil prices rose further in December, reaching a two-year high.

Initial claims for unemployment insurance continued to fall in December, dropping to their lowest levels since mid-2008. Claims ended December down nearly 20% from the recent peak in August, and down over 35% from their high during the recession seen in March 2009.



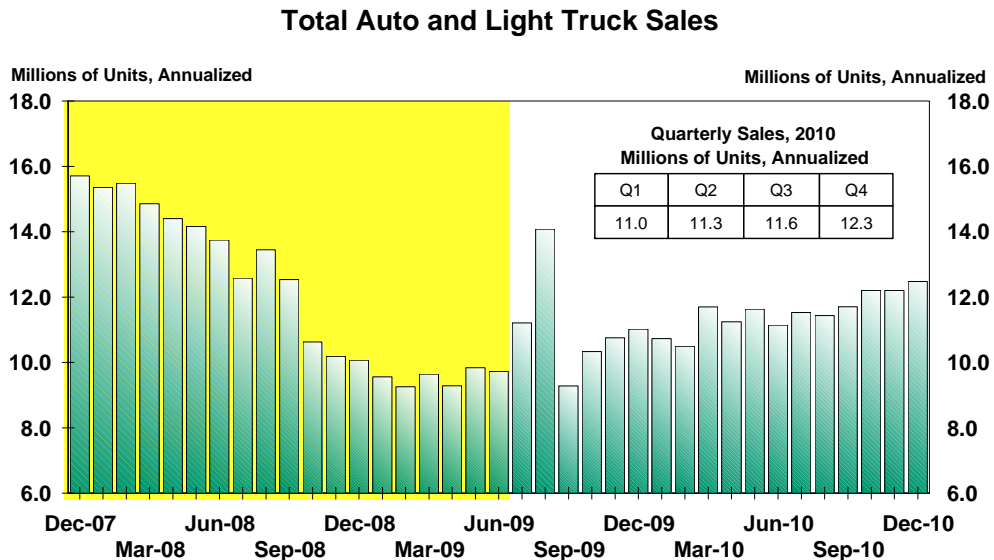
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in December, as sentiment rose and confidence eased. Both measures improved overall in the fourth quarter from the third, however. The Michigan survey found consumers to be more optimistic about labor market conditions and the economy as a whole, while the Conference Board respondents remained more cautious in their outlook for these areas.



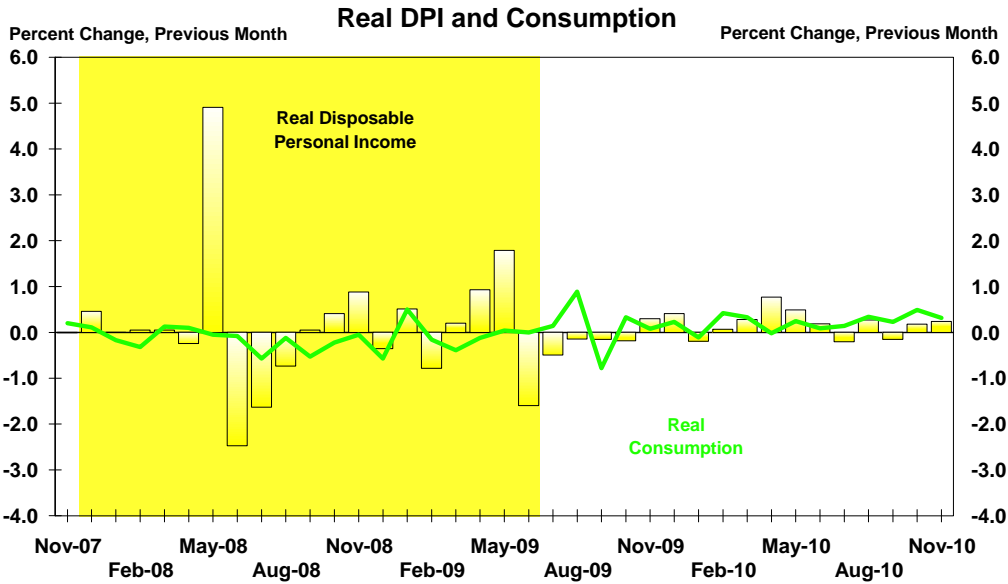
Source: University of Michigan (top panel) and The Conference Board (bottom panel) / Haver Analytics.

Lightweight vehicle sales continued to rise in December, posting their strongest sales rate of the year. Fourth quarter sales were the strongest in over two years, and total sales for 2010 were 11.5 million units, up from the record low of 10.3 million in 2009.



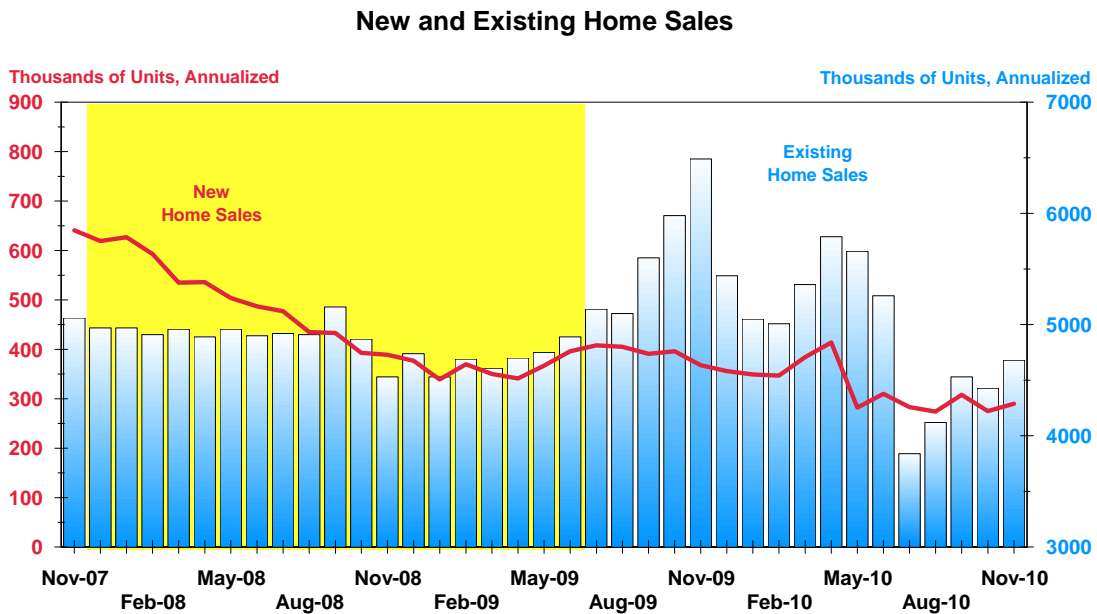
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption rose again in November and continued to outpace income growth. Since June, consumption has increased 1.5% while incomes have advanced only 0.3%.



Source: Bureau of Economic Analysis / Haver Analytics.

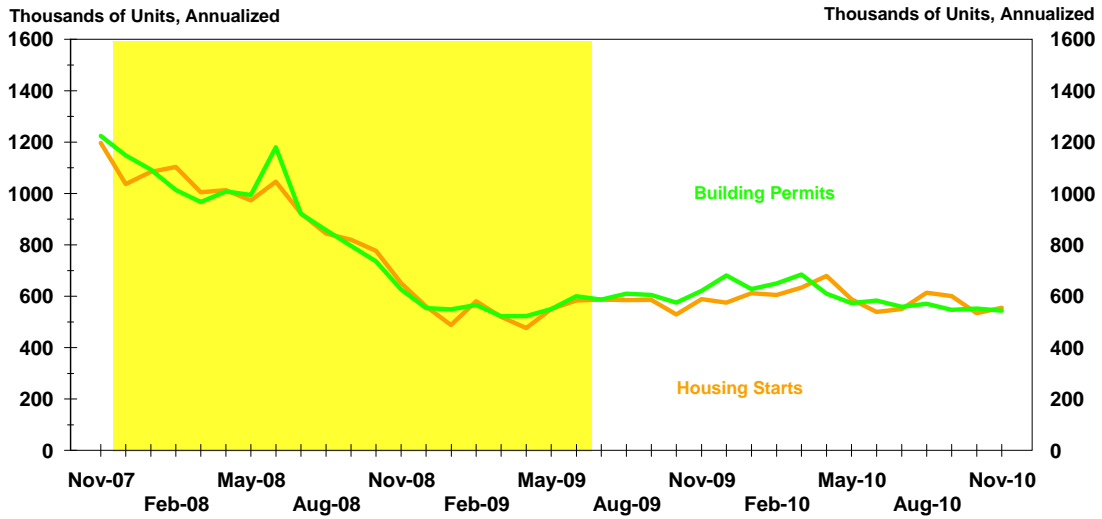
Home sales increased in November, but remain very low historically. Sales of new homes rose to match their six-month average, and existing home sales have returned to the pace seen before the stimulus rebates.



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

New construction activity remained weak in November. Housing starts managed a small increase, but it only partly offset the drop seen in October. Building permits fell in November to their lowest level since April 2009.

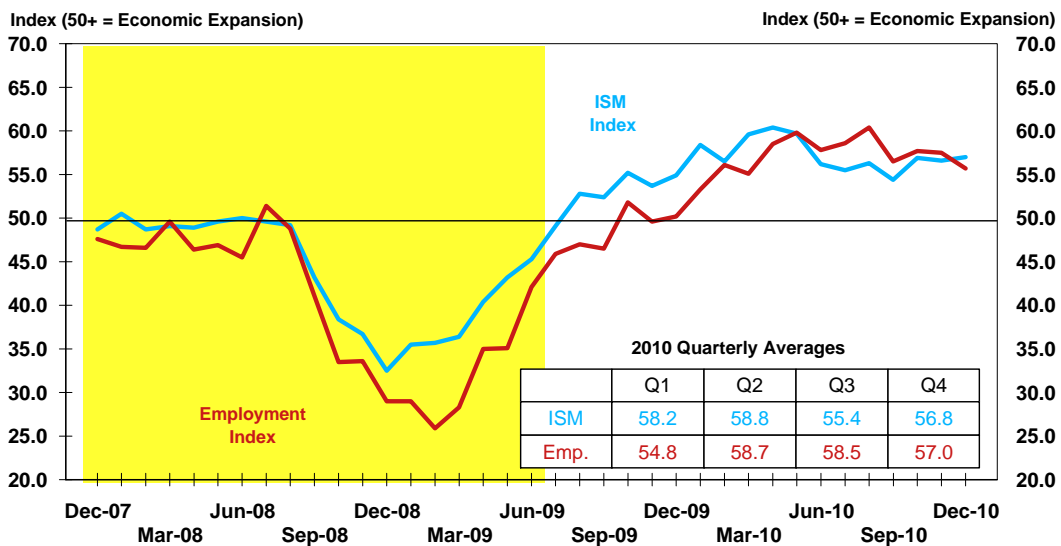
Housing Starts and Building Permits



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

The ISM index held mostly steady in December, while the employment index eased. Both measures were strong throughout the year, estimated above 50 and signaling expansion during each of the twelve months of 2010.

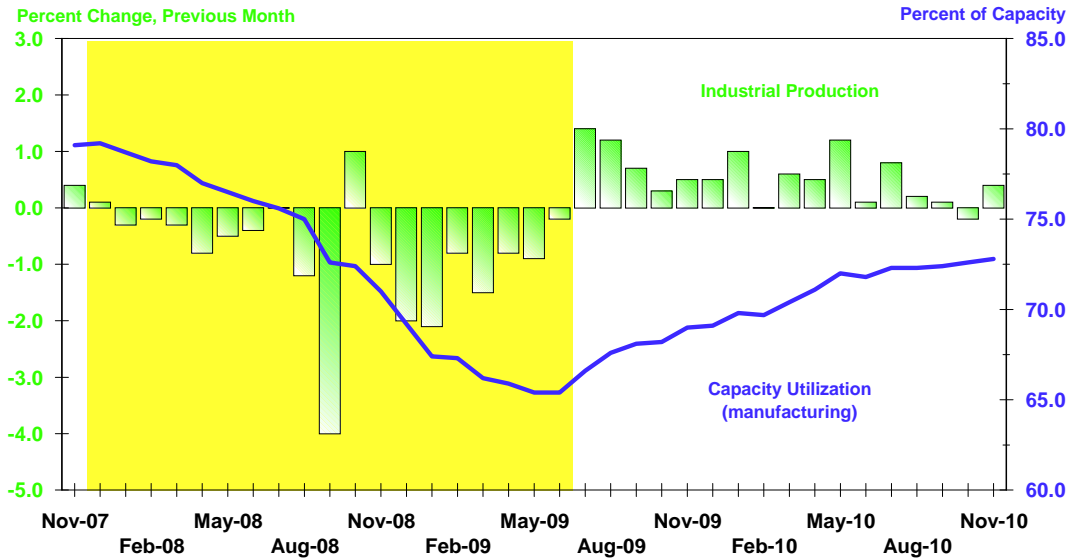
ISM Index



Source: Institute for Supply Management / Haver Analytics.

Industrial production rebounded in November, more than offsetting the decline seen in October. Capacity utilization continued to improve in November, reaching its highest level since August 2008.

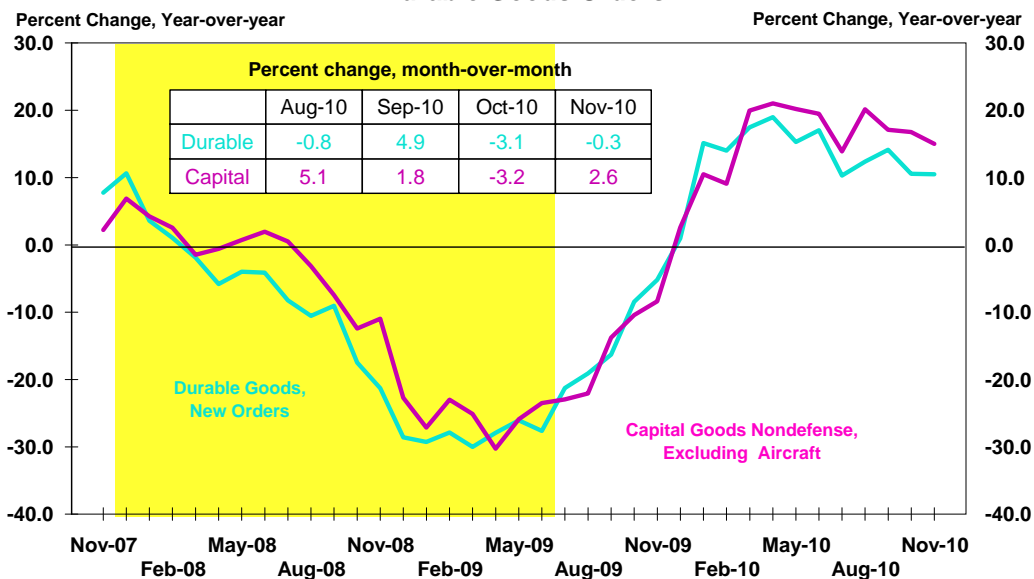
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

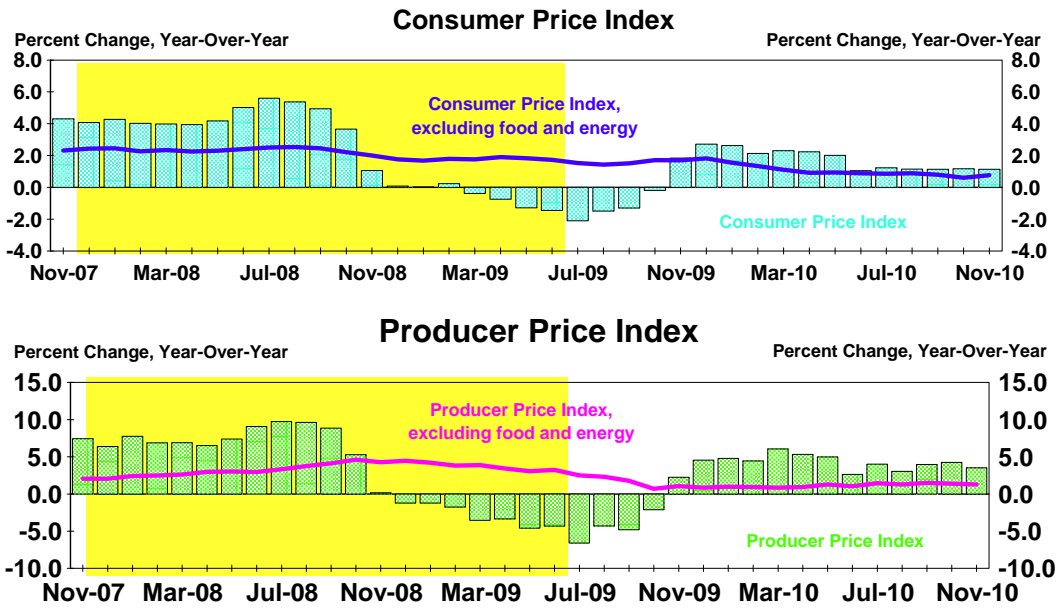
Despite falling a bit from the previous month, durable goods orders continued to rise in November on a year-over-year basis. Orders for nondefense capital goods, excluding aircraft, rose in November suggesting future improvements in business investment.

Durable Goods Orders



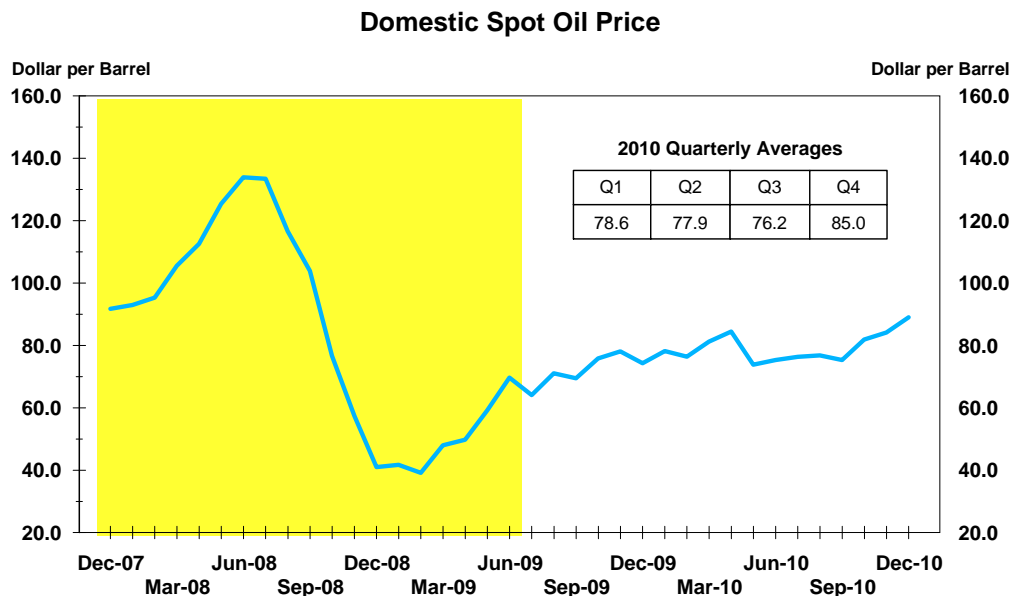
Source: U.S. Census Bureau / Haver Analytics.

Consumer price growth remained very slow in November. The total index was little changed from the previous few months, and the core index picked up slightly from the record low seen in October. Total producer prices slowed in November, while the core index has shown little change over the past year.



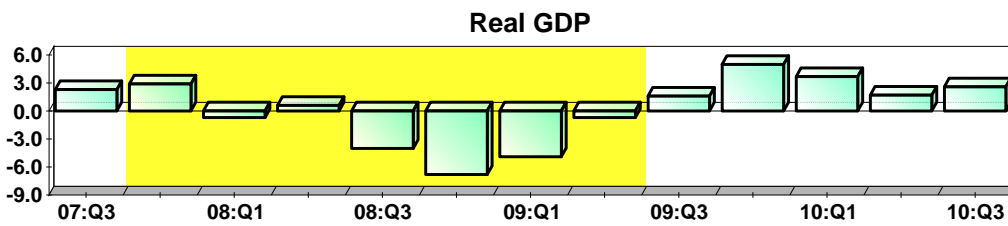
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices continued to rise in December, closing the year with both their highest quarterly and monthly averages since the fall of 2008.



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

Real GDP growth was revised slightly upward in the final third quarter estimate. The higher rate primarily reflects an upward adjustment to private inventory investment that was mostly offset by a downward revision to personal consumption expenditures.

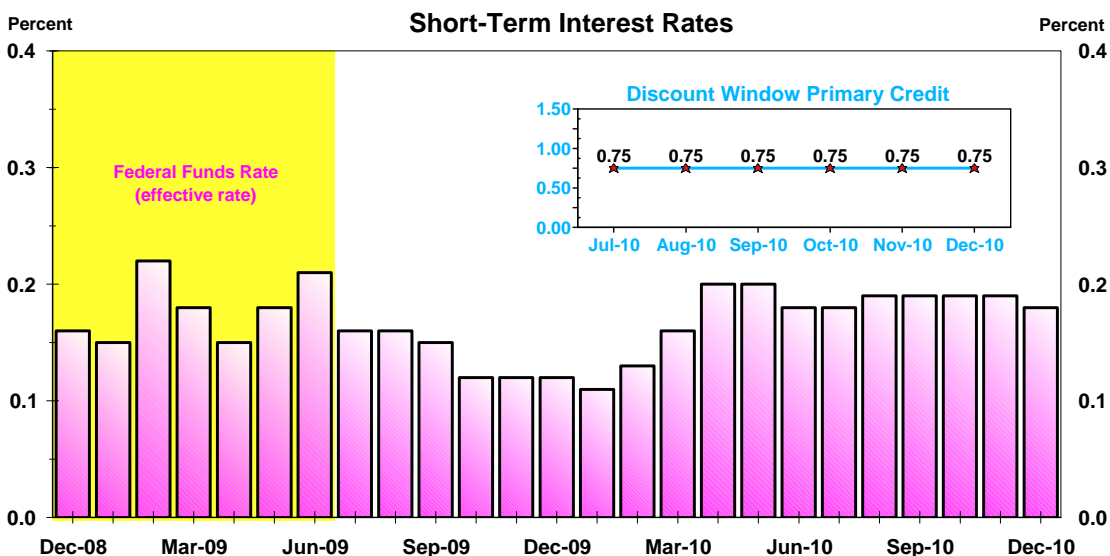


Revisions to Third Quarter Real GDP

Description	2nd Estimate	3rd Estimate
Real GDP	2.5	2.6
Consumption	2.8	2.4
Business Investment	10.3	10.0
Equipment & Software	16.8	15.4
Residential Investment	-27.5	-27.3
Government	4.0	3.9
Exports	6.3	6.8
Imports	16.8	16.8
Final Sales	1.2	0.9

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting suggest the economic recovery has gained further traction. Consumers have continued to spend and, despite some leveling off, the manufacturing sector remains a key source of support. The housing market is still a concern, however, and despite recent reductions in initial claims the labor market is underutilized. Friday's employment report will reveal if the lower claims are indicative of improving employment conditions.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

January 13, 2011

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

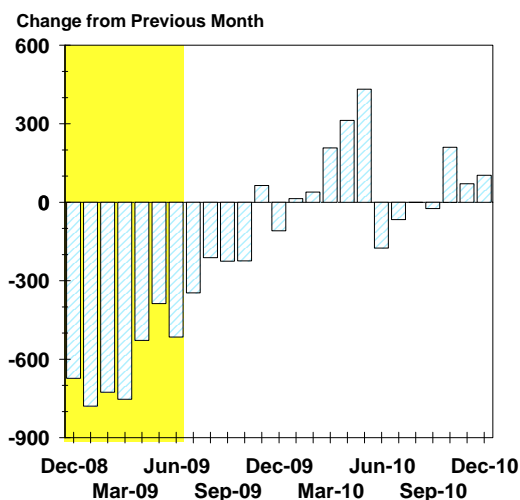
In December payroll employment increased by a less-than-expected 103,000 jobs, but revisions to data from the previous two months showed the creation of an additional 70,000 jobs in November and October. The recent improvements in employment lowered the unemployment rate to 9.4% in December, its lowest level since May 2009.

Wholesale inventories dipped 0.2% during November, their first decrease of 2010. Wholesale trade rose 1.9% in November to reach its highest level since September 2008. Oil prices fell slightly over the past week, averaging \$89.0 per barrel compared to last week's average of \$90.5.

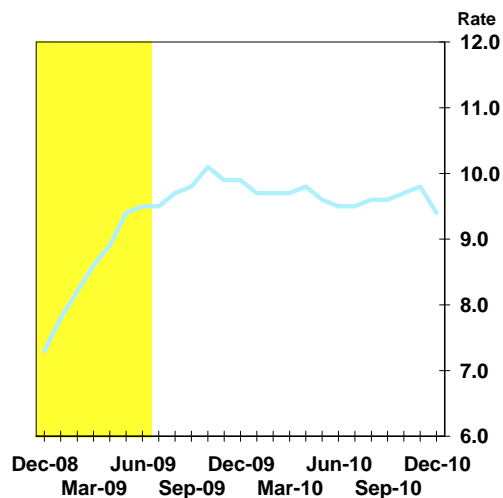
There are many data releases due out Thursday and Friday, and the data is expected to come in on the positive side. Improvements are expected in retail sales, industrial production and consumer sentiment, while expectations for foreign trade are mixed. Total price indices are expected to rise due to higher energy prices, but any increases in the core measures are likely to remain quite small.

Payroll employment increased by nearly 400,000 in the fourth quarter, bringing total job additions for 2010 to 1.1 million. These gains, however, offset only a fraction of the jobs lost over the previous two years (4.7 million in 2009, 3.6 million in 2008).

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.