



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

October 6, 2011

CURRENT ECONOMIC DEVELOPMENTS - October 6, 2011

Data released since your last Directors' meeting show the economic recovery continues at a slow pace. Most of the recent ongoing concerns remain - consumer attitudes are depressed, the job and housing markets are weak - while financial conditions and the European debt crisis are posing greater downside risks. Still, positives can be found in manufacturing data, auto sales, stabilizing house prices and lower oil prices.

In September, initial claims posted another small increase but were down in the third quarter overall. Consumer attitudes continued to be mostly negative in September, and the majority of respondents remain pessimistic about economic conditions improving much in the coming months. Despite those concerns, auto sales were up in September to their best sales pace since April. In August, personal incomes shrunk again and consumption was flat.

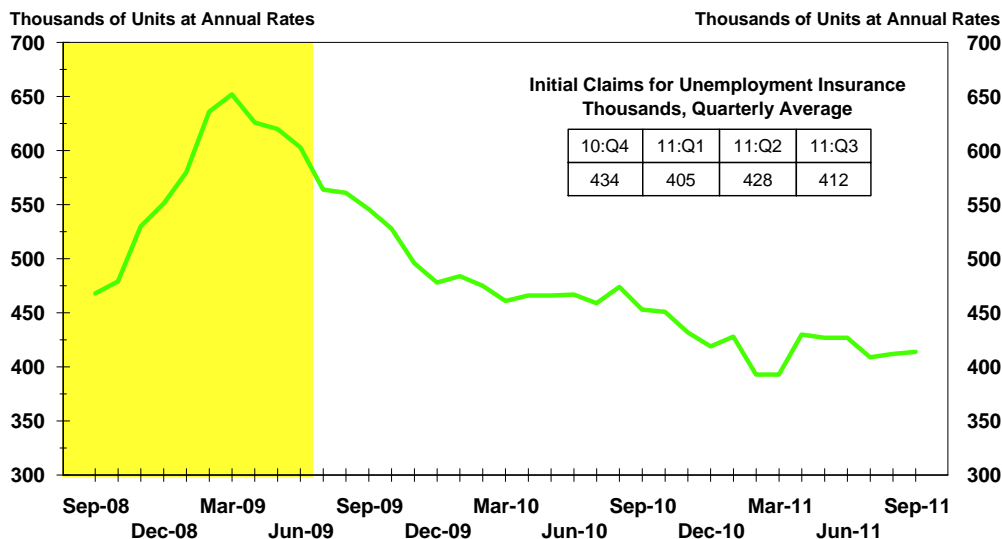
The housing market remained generally weak in August, despite increases in some of the data. Existing home sales increased, due in part to some delayed transactions finally closing, while new home sales slowed a bit more. New construction data was also mixed in August, as starts fell and permits rose. Neither series is much changed from their level two years ago.

In the business sector, the ISM index rose slightly in September to remain above 50. Industrial production and capacity utilization both increased in August, continuing the upward trend seen since the end of the recession. Data for durable goods orders continued to show solid year-over-year improvements in August, even as some recent monthly data has been more volatile.

Consumer price measures accerated further in August, but producer prices eased. Oil prices fell a bit in September and continued to fall in early October.

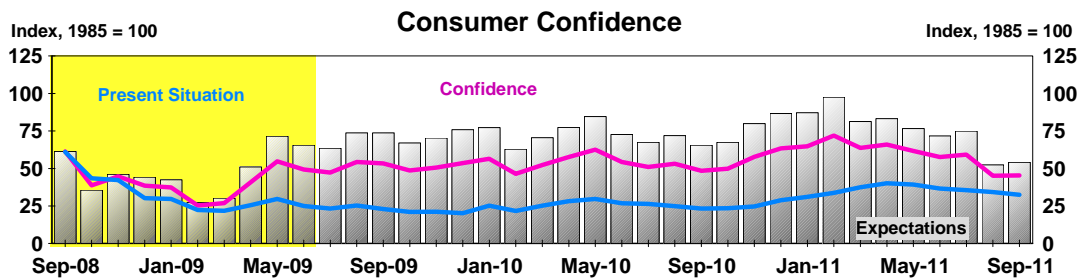
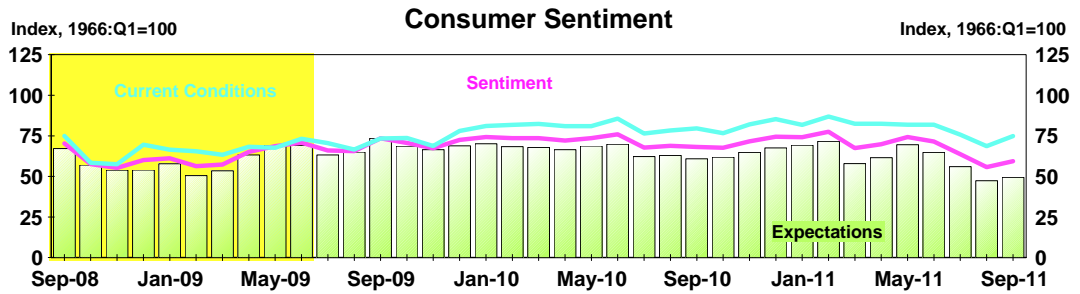
Initial claims for unemployment insurance increased slightly in September, but were down in the third quarter overall. Claims have hovered around 400,000 for most of this year, persistent evidence of the weak job market.

Initial Claims



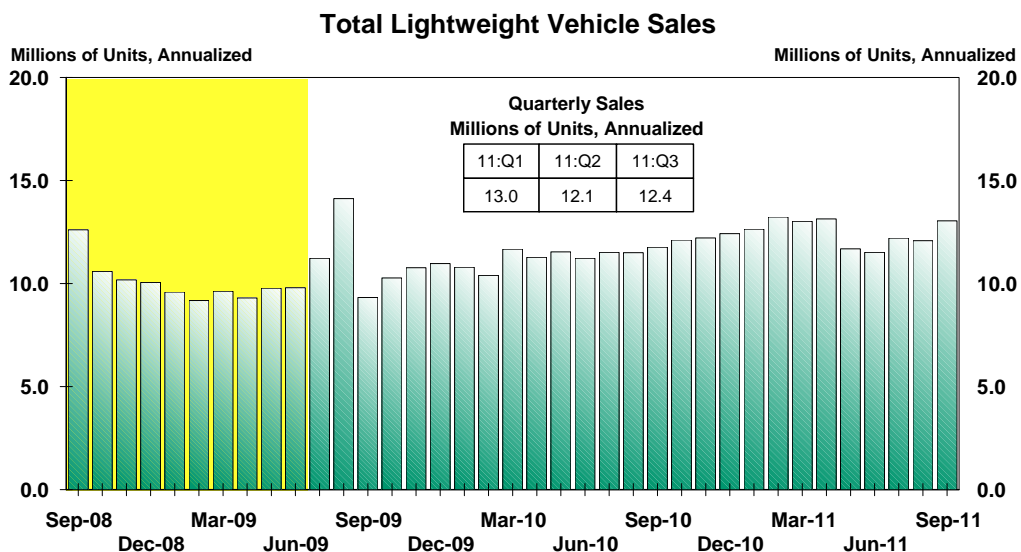
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes remained weak in September, although sentiment improved a bit thanks to a healthier opinion of current conditions. Overall, those who responded had little optimism regarding their personal finances, job market conditions or the economy as a whole.



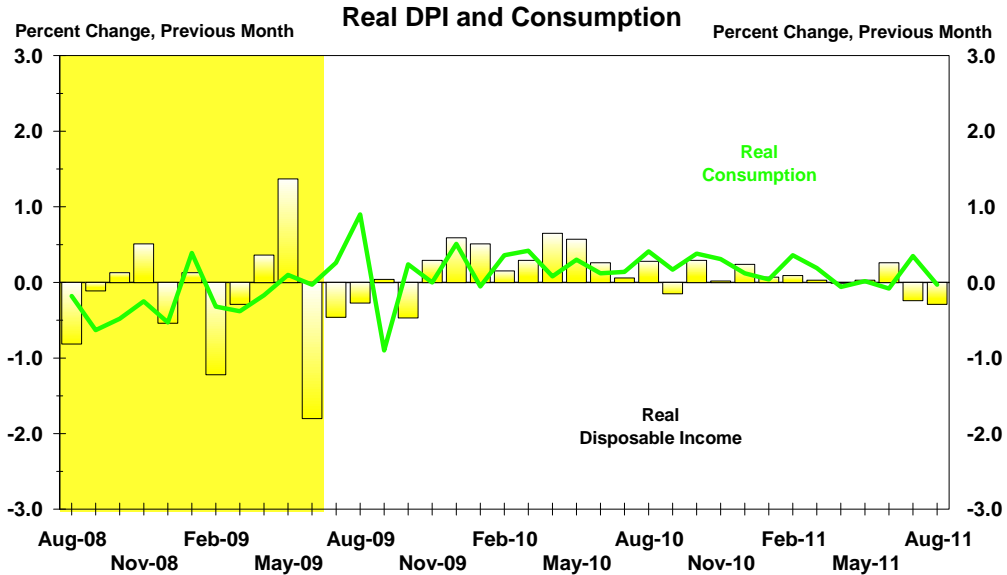
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Lightweight vehicle sales posted a strong gain in September, despite the downcast economy and cautious consumers. The increase was aided by the arrival of new models and the easing of inventory shortages. Domestic vehicle sales were especially strong, selling at their best pace since the 'Cash for Clunkers' rebates of August 2009. Light duty trucks also saw an increase in sales as gas prices moved lower.



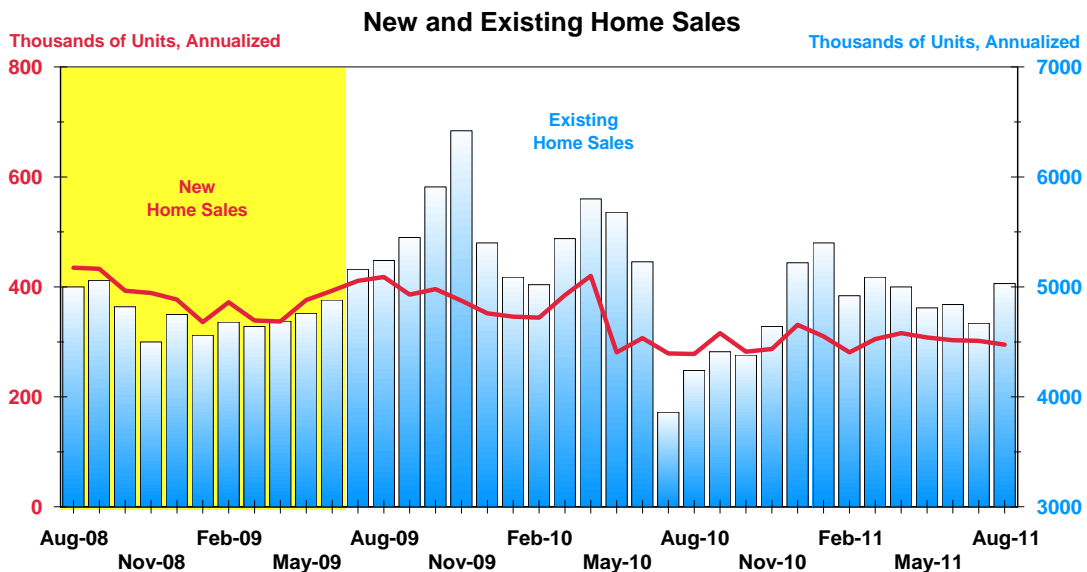
Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes fell further in August, posting their biggest monthly decline in nearly two years. Incomes have been mostly stagnant this year, contributing to the cautious spending behavior of consumers. Consumption was essentially flat in August and has increased measurably only once in the past five months.



Source: Bureau of Economic Analysis / Haver Analytics.

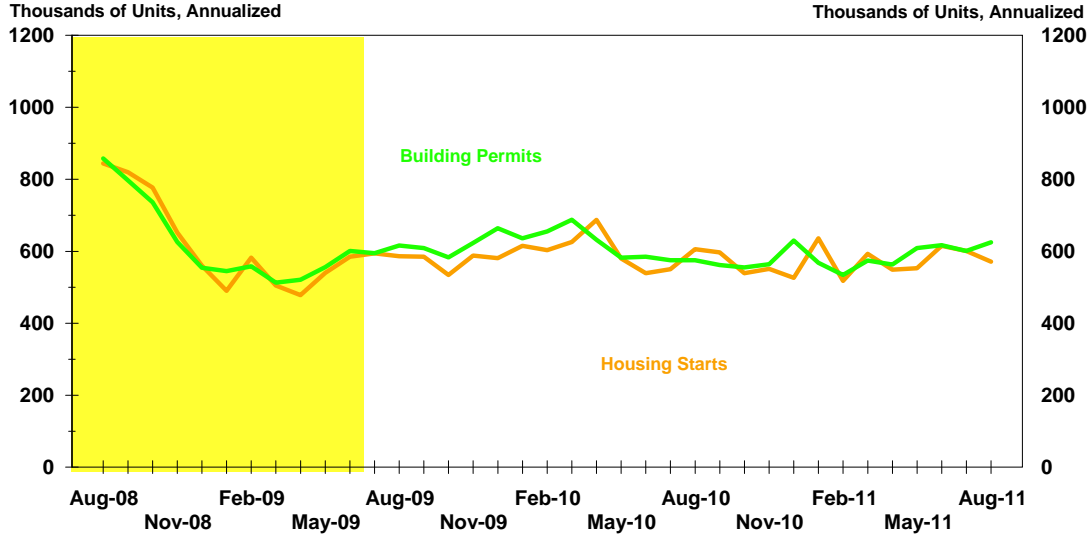
Home sales remained depressed in August, although favorable affordability conditions and rising rents provided some underlying purchase motivation. New home sales eased slightly and have shown little change over the past year. Existing home sales posted a moderate gain in August, but that was likely due in part to closings that were delayed from previous months.



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

Housing starts fell a bit further in August to match their 12-month average, while building permits rose to their highest level of the year. With the abundance of lower priced older homes on the market, demand for new homes has been low, and until it picks up there will be little motivation for developers to undertake new construction.

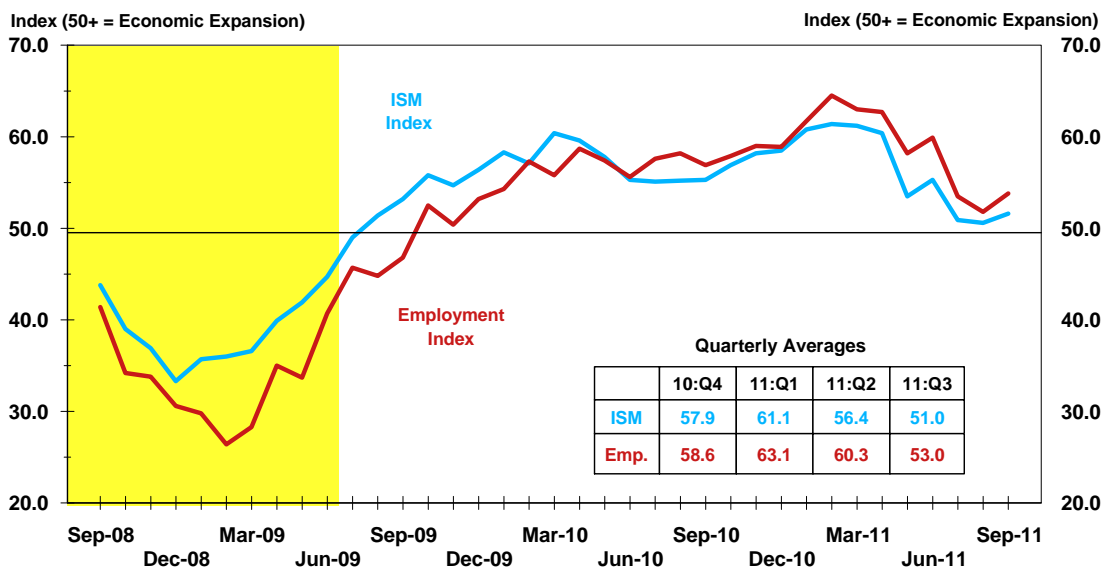
Housing Starts and Building Permits



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

The ISM manufacturing index rose a bit in September, but the third quarter was still its weakest since the recession. The employment component of the index also improved in September, erasing the drop seen the previous month.

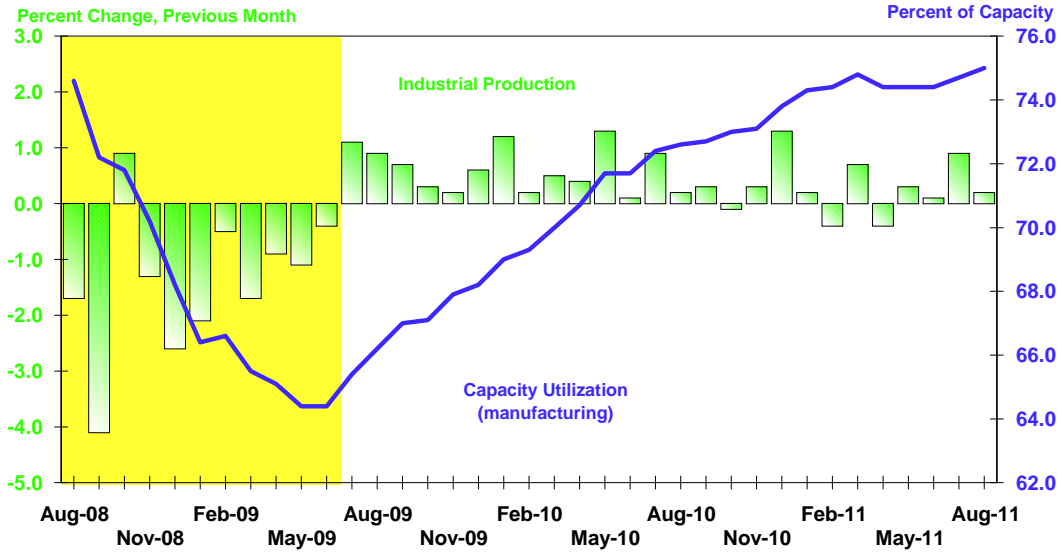
ISM Index



Source: Institute for Supply Management / Haver Analytics.

Further improvement was seen in the manufacturing sector in August, as both industrial production and capacity utilization increased again. Utilization is at its highest point since July 2008 and has risen more than 16% from its low point at the end of the recession.

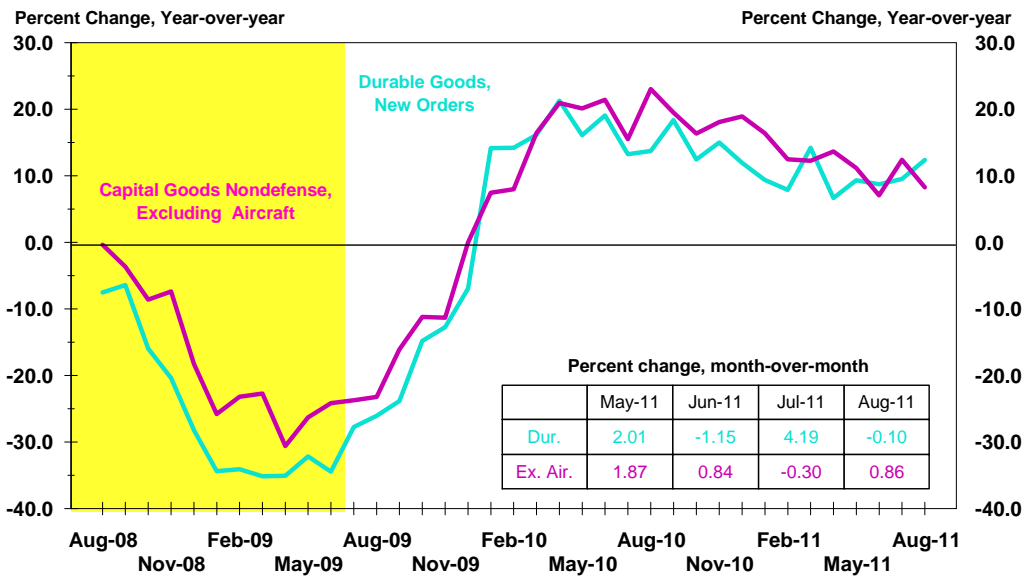
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

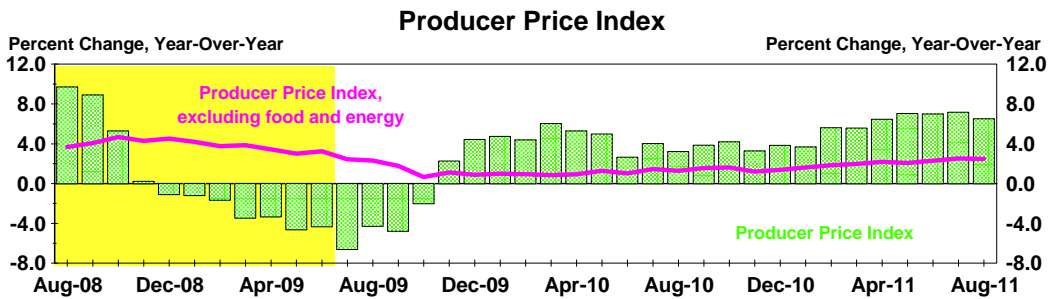
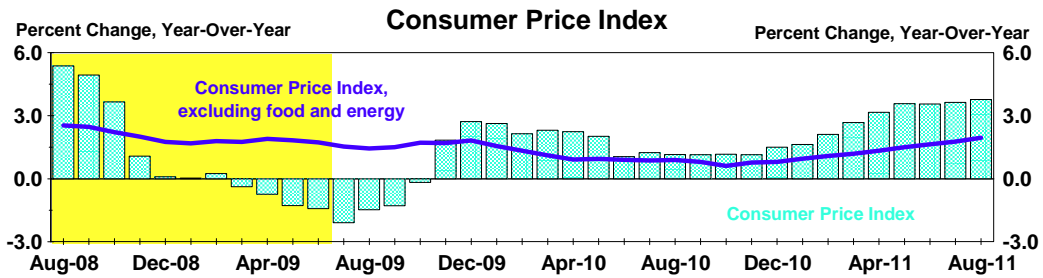
Durable goods orders posted another solid year-over-year improvement in August, despite declining slightly on a month-to-month basis. Orders of nondefense capital goods, excluding aircraft, rose in August to more than offset the fall seen the previous month.

Durable Goods Orders



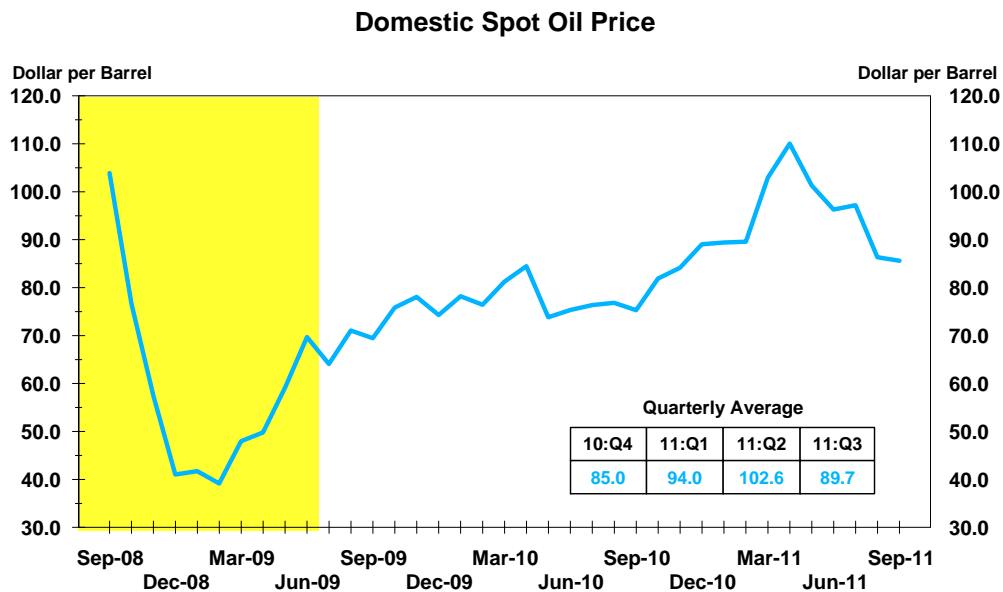
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices continued their slow acceleration in August, growing at their fastest rate in nearly three years. The core index has also risen steadily, from a rate of 0.6% in October 2010 to 2.0% in August. The story was different at the wholesale level, where both total and core prices eased in August.



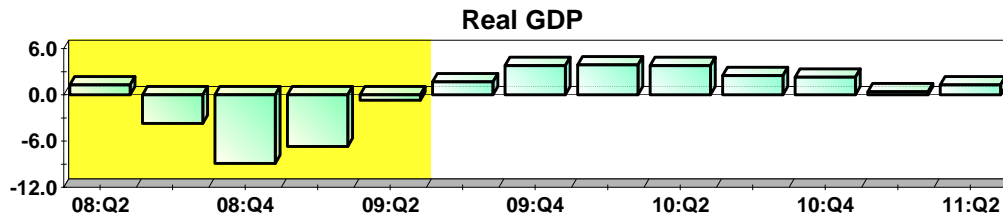
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices eased a bit further in September, falling to their lowest monthly average since November. Prices have fallen even further in the first few days of October, dropping into the mid-\$70s.



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 personal consumption expenditures and exports and a downward revision to imports.

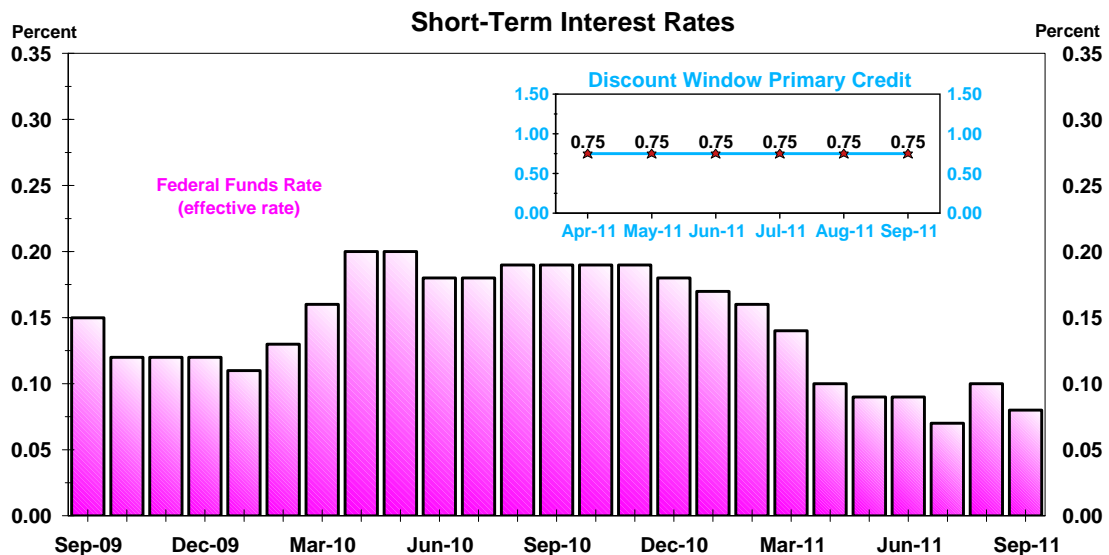


Revisions to Second Quarter Real GDP

| Description | Second Estimate | Final Estimate |
|------------------------|-----------------|----------------|
| Real GDP | 1.0 | 1.3 |
| Consumption | 0.4 | 0.7 |
| Business Investment | 9.9 | 10.3 |
| Equipment & Software | 7.9 | 6.2 |
| Residential Investment | 3.4 | 4.2 |
| Government | -0.9 | -0.9 |
| Exports | 3.1 | 3.6 |
| Imports | 1.9 | 1.4 |
| Final Sales | 1.2 | 1.6 |

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economic recovery continues at a slow pace. Most of the recent ongoing concerns remain - consumer attitudes are depressed, the job and housing markets are weak - while financial conditions and the European debt crisis are posing greater downside risks. Still, positives can be found in manufacturing data, auto sales, stabilizing house prices and lower oil prices.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

October 13, 2011

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

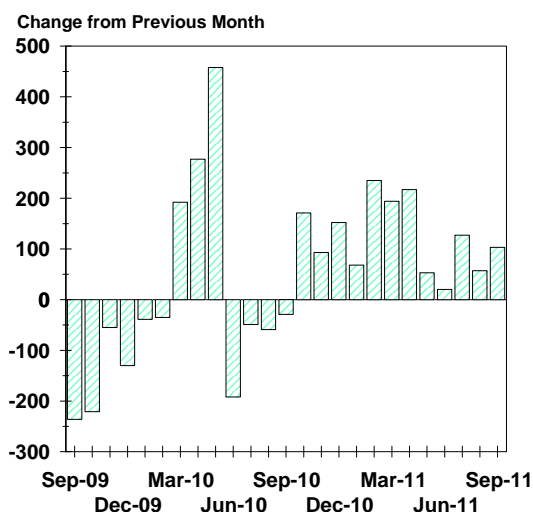
Nonfarm payrolls continued to add jobs in September, but only at a moderate pace. The gain of 103,000 jobs was above expectations, but a significant amount of the increase was due to the end of both the Verizon strike and Minnesota state furloughs. When removing those effects, payroll growth slowed a bit in September from August. The unemployment rate held steady in September at 9.1%, as both the labor force and total civilian employment posted sizable gains. Also in September, hours worked and average hourly earnings both increased, which may provide support for increased future consumption.

Wholesale inventories increased 0.4% in August, due primarily to a strong gain in motor vehicles and parts. Wholesale trade rose 1.0% in August with gains in many areas, led by lumber and other construction materials. Overall, sales have risen in three consecutive months.

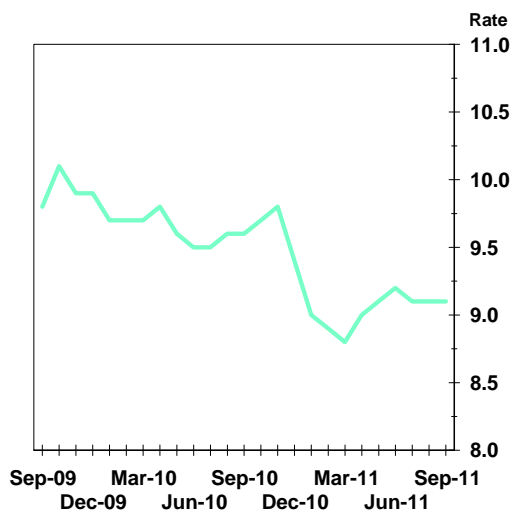
Redbook sales were down 0.6% in the first week of October, compared to September, but up 4.8% from the same period last year. Oil prices rose during the past week, averaging \$83.3 per barrel compared to the previous week's average of \$81.2.

The September employment report was stronger than expected, and payroll gains in the previous two months were revised higher. Still, the 287,000 jobs added overall in the third quarter was the smallest gain of any quarter this year. The unemployment rate averaged 9.1% in the third quarter, unchanged from the second quarter.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.