FEDERAL RESERVE BANK OF BOSTON™

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

December 3, 2009

CURRENT ECONOMIC DEVELOPMENTS - December 3, 2009

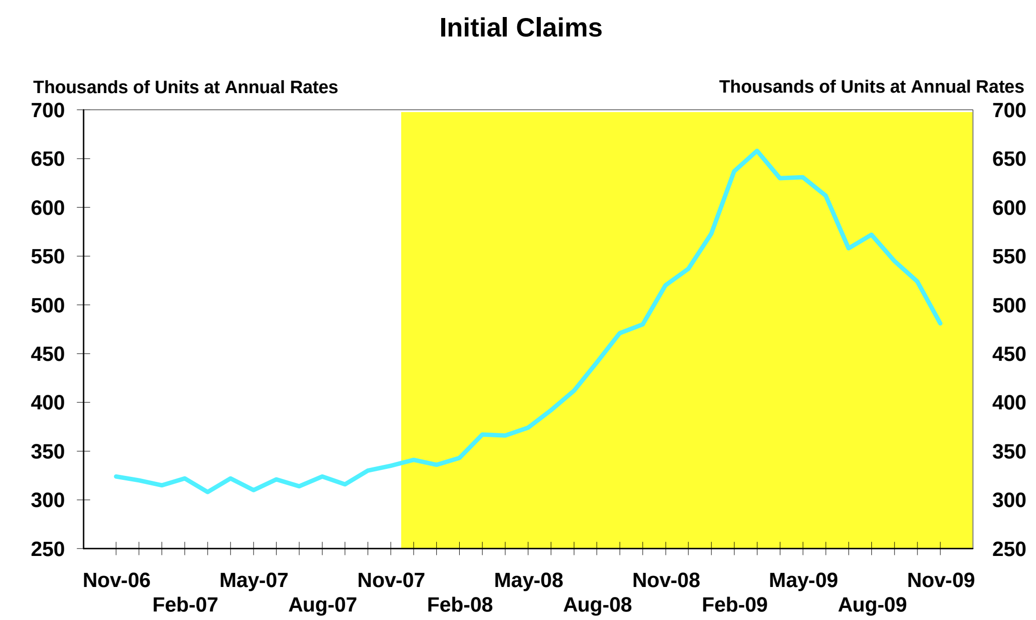
Data released since your last Directors' meeting show the economy grew in the third quarter at a slower rate than first estimated. Recent data also suggests growth is likely to remain at or below the third quarter pace in the coming months. Until firms start to hire again, and consumers become more comfortable with their current finances and future income potential, the recovery will be slow and precarious.

In November, initial claims for unemployment insurance fell further while consumer attitudes were mixed. Auto sales increased slightly in November, building on the rebound seen the previous month. In October, real consumption rose while incomes continued to hold mostly steady.

The real estate market continued to improve in October, as sales of both new and existing homes increased. The better sales have yet to translate to new construction, as housing starts and building permits have been little changed. In the manufacturing sector, the ISM index eased in November but held above 50. Industrial production posted only a small gain in October and capacity utilization was flat. Orders for durable goods fell again in October, as did orders for nondefense capital goods, excluding aircraft.

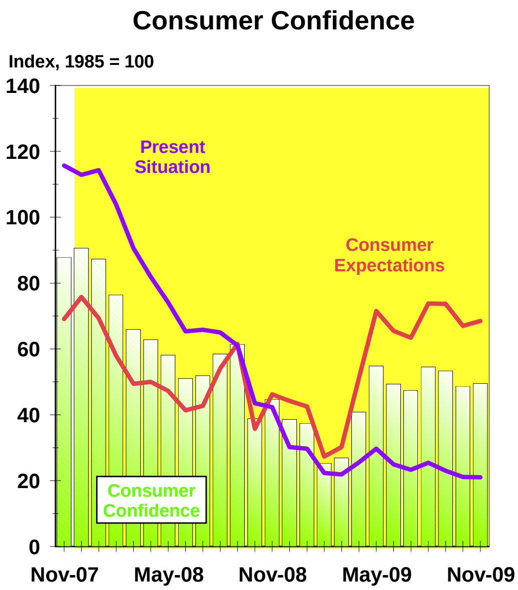
Inflation remains a very small concern, as total prices for both consumers and producers slowed further in October. Oil prices rose slightly in November, and unit labor costs fell in the third quarter, although revised figures showed not by as much as first reported.

Initial claims for unemployment insurance continued to fall in November, averaging less than 500,000 per week for the first time in over a year. However, claims are still well above a level consistent with a healthy economy.

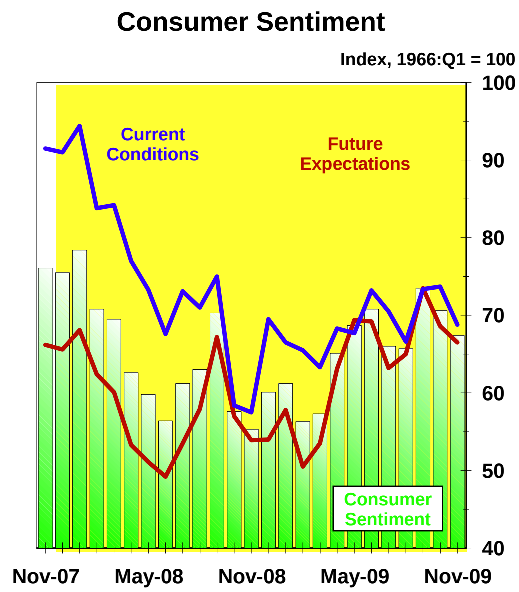


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Changes in consumer attitudes were mixed in November, as confidence improved slightly and sentiment fell. Both surveys found consumers worried about their current finances and income expectations, which may lead to increased savings and more tentative spending plans.

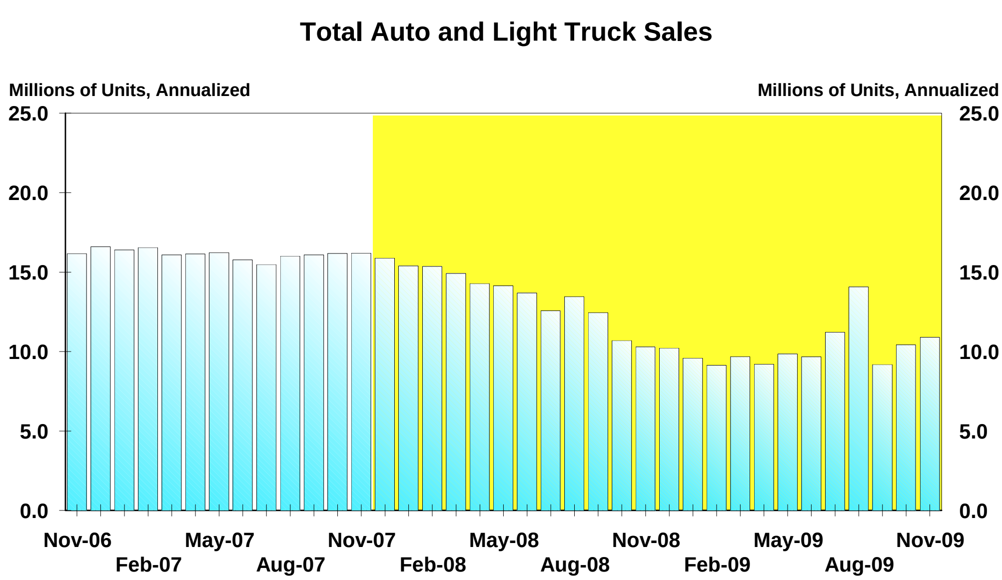


Source: The Conference Board / Haver Analytics.



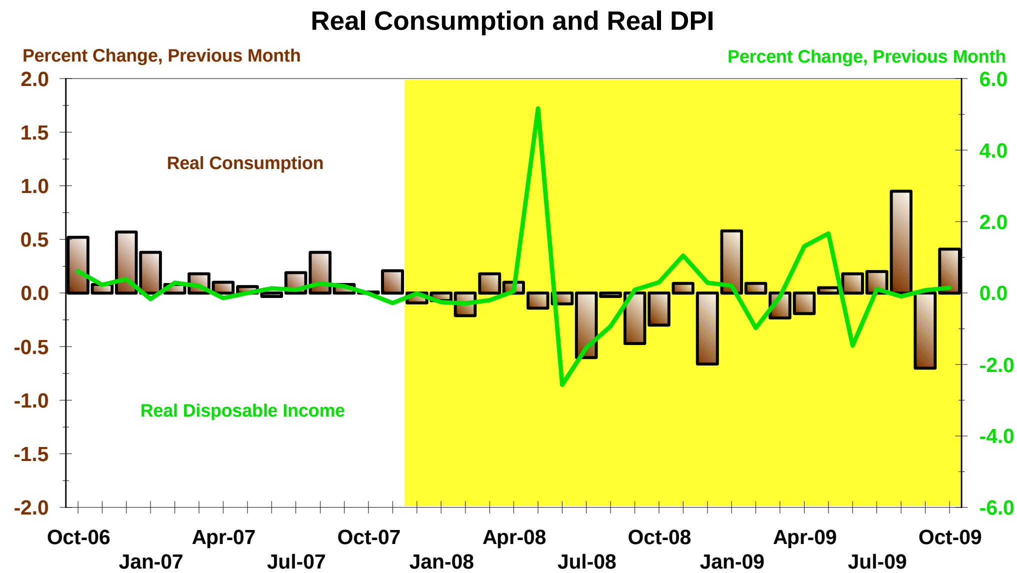
Source: The University of Michigan / Haver Analytics.

Total auto and light truck sales rose a bit in November, evidence of a slow recovery taking shape for the auto industry. Historically speaking the sales pace is still quite slow, but excluding the two 'CARS' influenced months of July and August, November sales were the strongest in over a year.



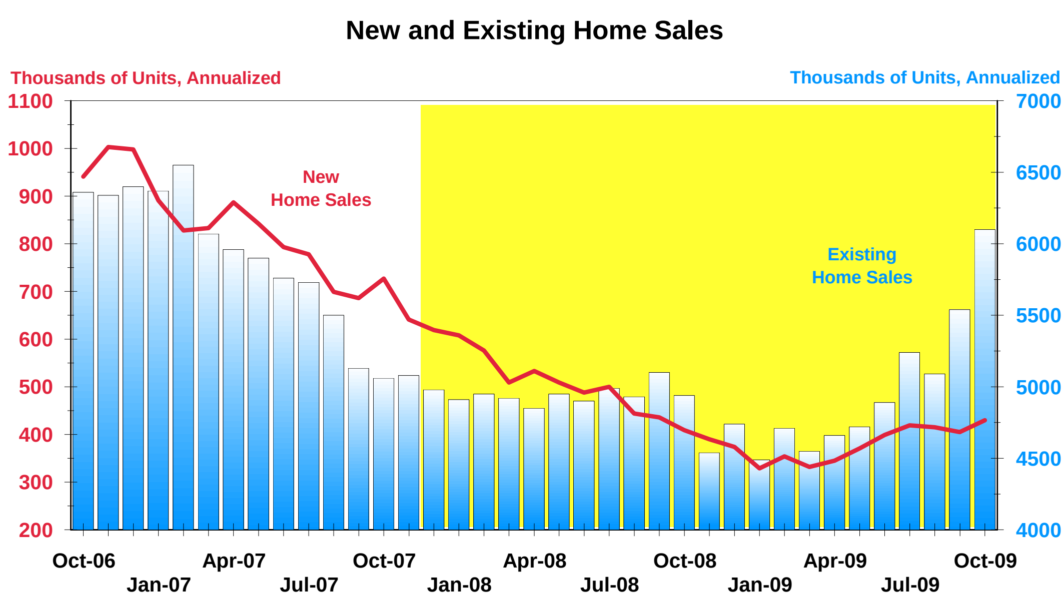
Source: Bureau of Economic Analysis / Haver Analytics.

Consumption rebounded in October to post its fourth increase in five months, even as incomes have seen little change recently.



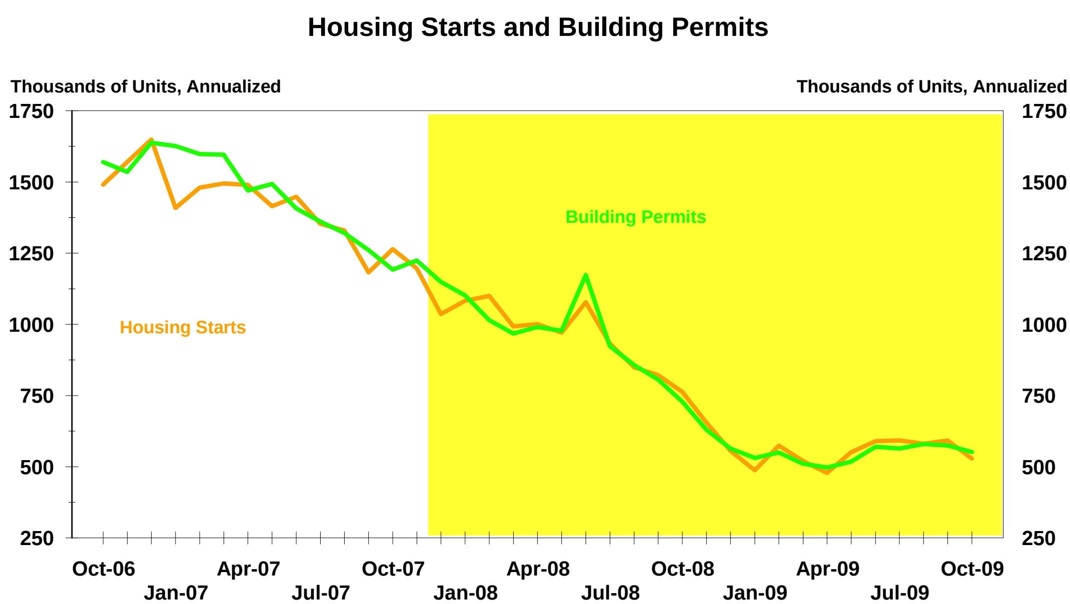
Source: Bureau of Economic Analysis / Haver Analytics.

The housing market showed further improvement in October. Existing home sales surged to their highest level since February 2007, and sales of new homes rose to a one-year high.



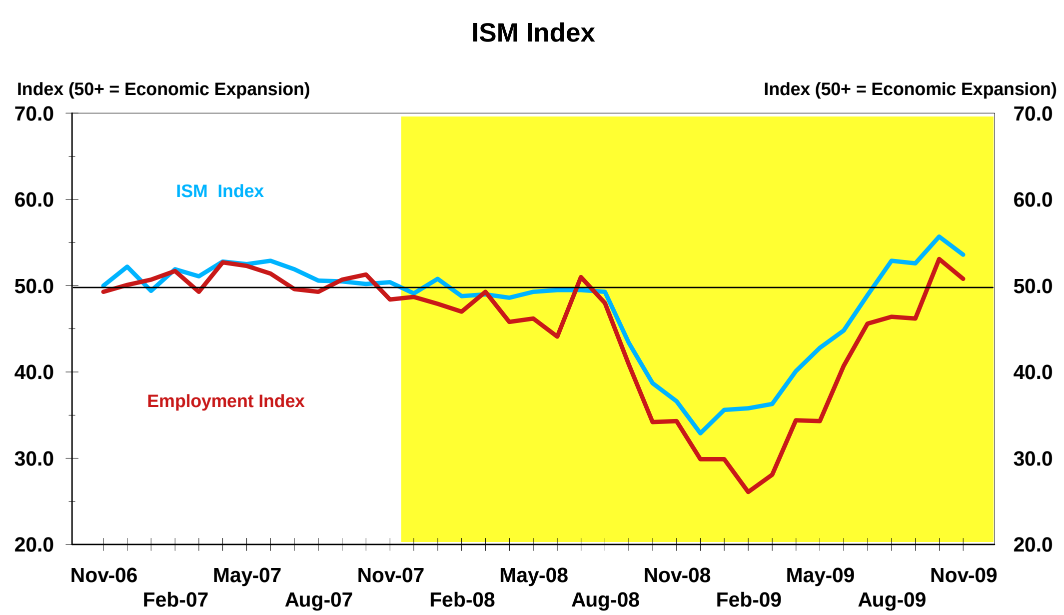
Source: U.S. Census Bureau / Haver Analytics.

New residential construction data was disappointing in October, as both measures came in below expectations. The series' have been relatively steady recently even as sales have increased, with excess supply offsetting the need for new construction.



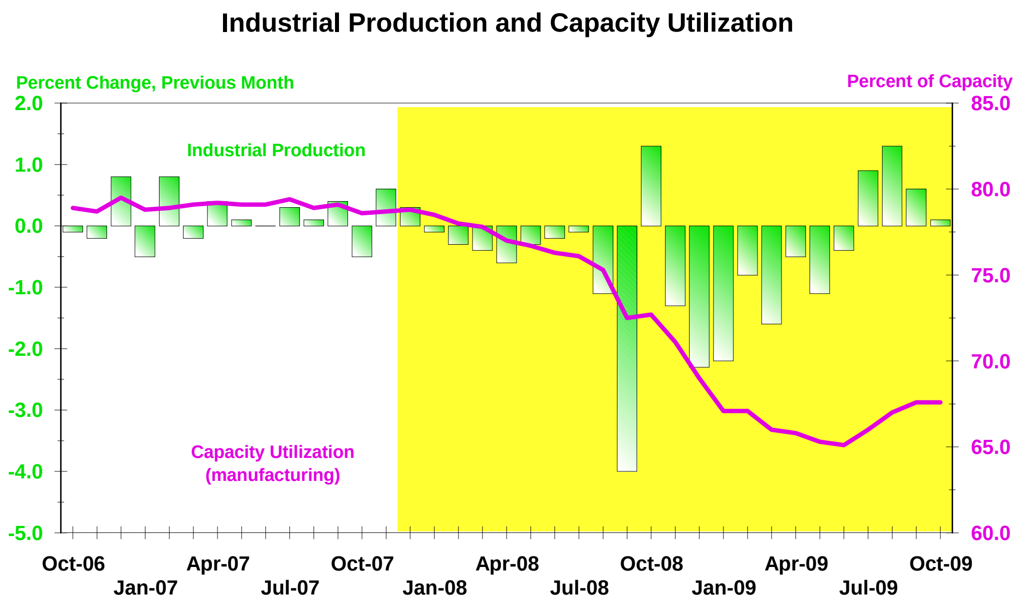
Source: U.S. Census Bureau / Haver Analytics.

Both the ISM diffusion and employment indices retreated in November, but held above 50 to signal further economic expansion.



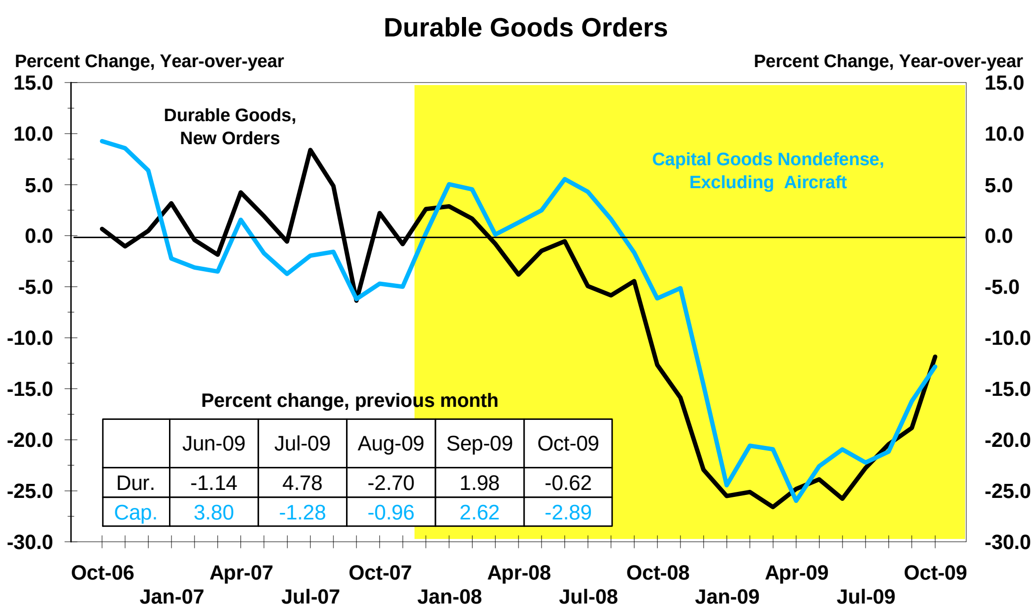
Source: Institute for Supply Management / Haver Analytics.

Industrial production posted its fourth consecutive monthly gain in October, albeit a very small one. Capacity utilization held steady at the nine-month high established in September.



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders continued in fall October, but the severity of the declines continued to lessen. The monthly data has been quite volatile, with gains and losses alternating for both series.

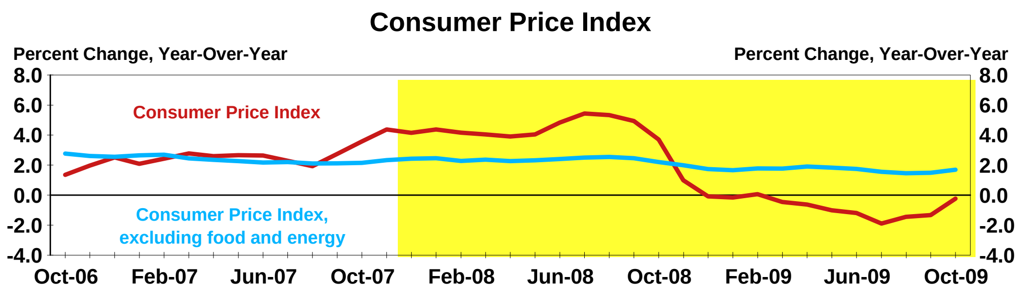


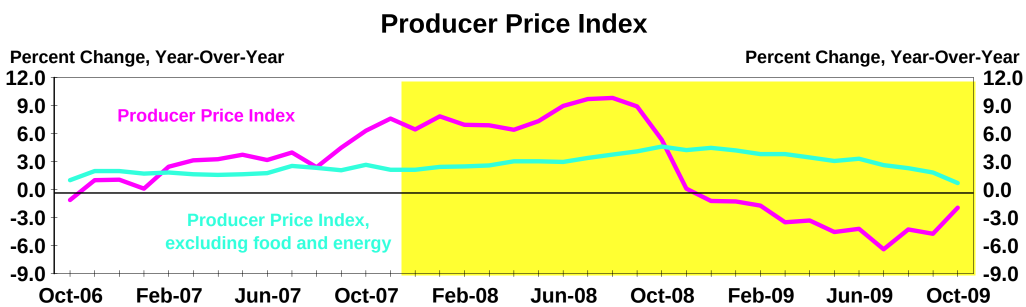
Percent change, previous month

	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Dur.	-1.14	4.78	-2.70	1.98	-0.62
Cap.	3.80	-1.28	-0.96	2.62	-2.89

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

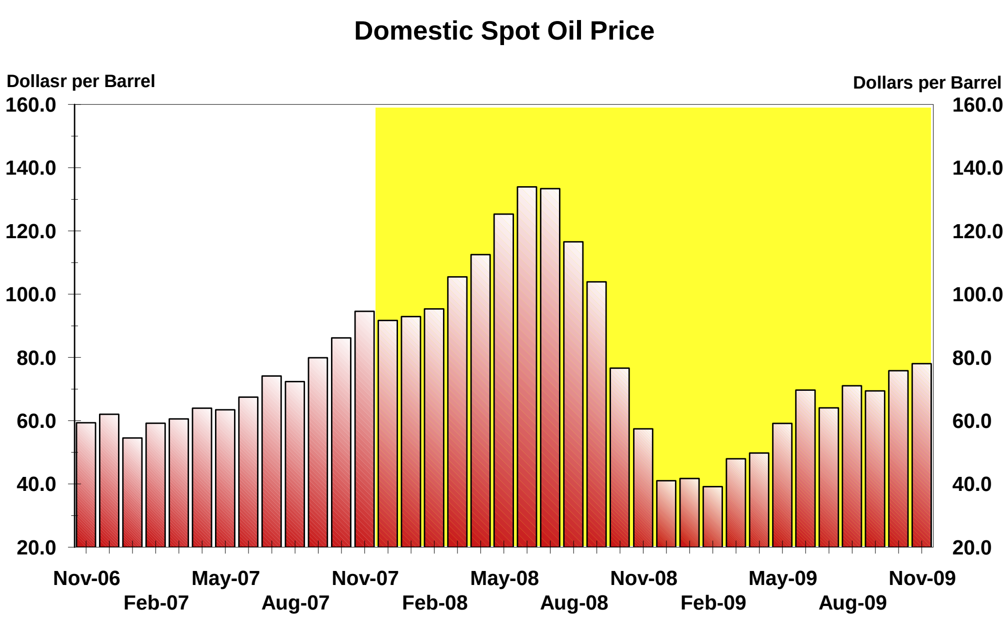
Consumer prices continued to fall in October, but at a much slower rate than seen in recent months. Core prices accelerated during the month to grow at their fastest pace since June. The decreases in producer prices also slowed in October, but core prices advanced at their slowest rate in six years.





Source: Bureau of Labor Statistics / Haver Analytics.

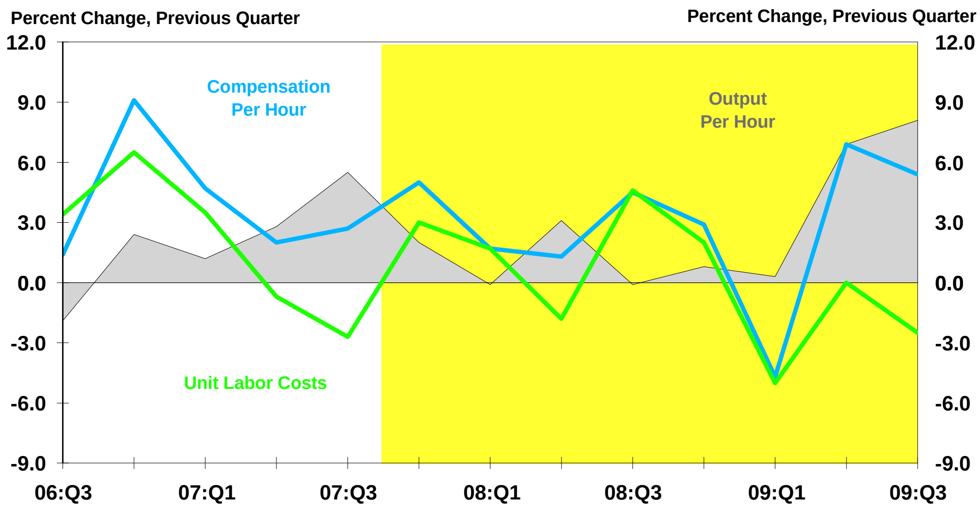
Oil prices increased slightly in November, reaching their highest point since September 2008.



Source: Wall Street Journal / Haver Analytics.

Productivity was revised lower in the third quarter, but still registered a six-year high. Significant upward revisions were made to compensation, resulting in similar upward revisions to unit labor costs. This was especially true for the second quarter, where the previous estimate of a 6.1% drop in labor costs was revised to show no change.

Productivity and Costs



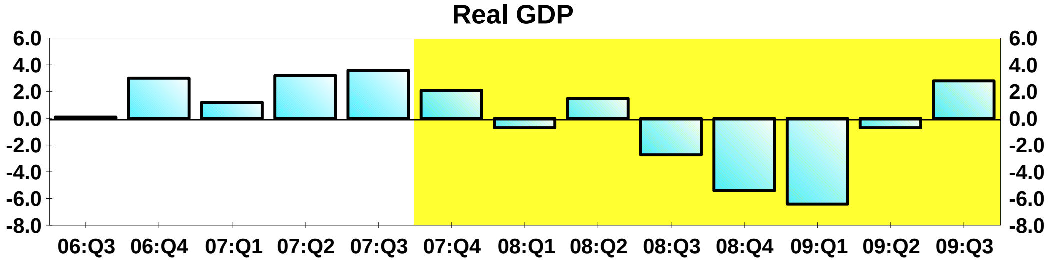
Source: Bureau of Labor Statistics / Haver Analytics.

Real GDP growth in the third quarter was lower than originally thought. The downward adjustment primarily reflected a downward revision to personal consumption expenditures and upward revisions to imports and nonresidential fixed investment. These effects were partly offset by an upward revision to exports.

Revisions to Third Quarter Real GDP

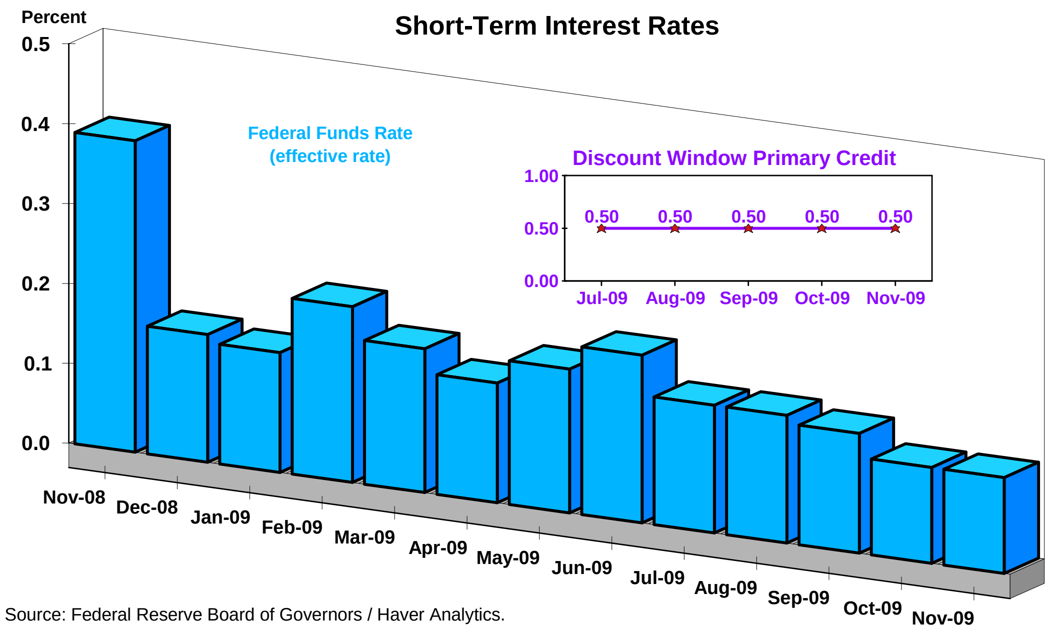
Description	Advance	Preliminary
Real GDP	3.5	2.8
Personal Consumption	3.4	2.9
Business Investment	-2.5	-4.1
Equipment and Software	1.1	2.3
Residential Investment	23.4	19.5
Government	2.3	3.1
Exports	14.7	17.0
Imports	16.4	20.8
Final Sales	2.5	1.9

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy grew in the third quarter at a slower rate than first estimated. Recent data also suggests growth is likely to remain at or below the third quarter pace in the coming months. Until firms start to hire again, and consumers become more comfortable with their current finances and future income potential, the recovery will be slow and precarious.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

December 10, 2009

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

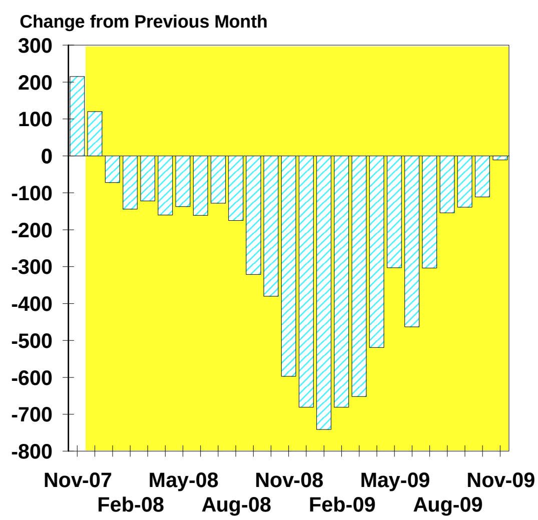
Payroll employment fell by only 11,000 in November, the smallest monthly drop since the onset of the recession. Payroll reductions for the previous two months were also revised smaller by 159,000 jobs, helping the unemployment rate fall by two-tenths of a percentage point in November to 10.0%. The November employment report was stronger than expected, showing an earlier improvement in labor market conditions than previously anticipated.

In October, manufacturers' orders rose 0.6% and shipments rose 0.8% as both series built on the gains seen in September. Wholesale inventories rose 0.3% in October, their first increase in over a year. Wholesale trade rose 1.2% in October, building on the 1.3% increase of the previous month.

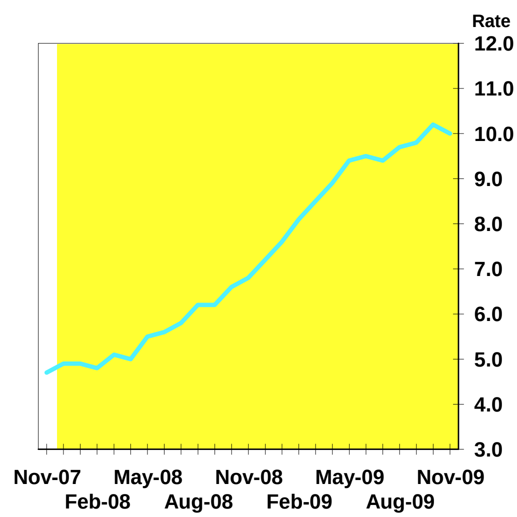
Redbook sales fell 5.2% through the first week of December, compared to November. Sales in the week ending December 5th, however, were 1.2% higher than during the same period last year. Oil prices fell a bit during the past week, averaging $75.0 per barrel compared to the previous week's average of $77.5.

In November, nonfarm payrolls shed 11,000 jobs and the unemployment rate fell to 10.0%. Job losses in October were revised smaller by 79,000 to show a decrease of 111,000 jobs, and the September reduction was revised smaller by 80,000, showing a decrease of 139,000 jobs versus the previously estimated decrease of 219,000 jobs.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.