FEDERAL RESERVE
BANK OF BOSTON™

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

December 2, 2010

CURRENT ECONOMIC DEVELOPMENTS - December 2, 2010

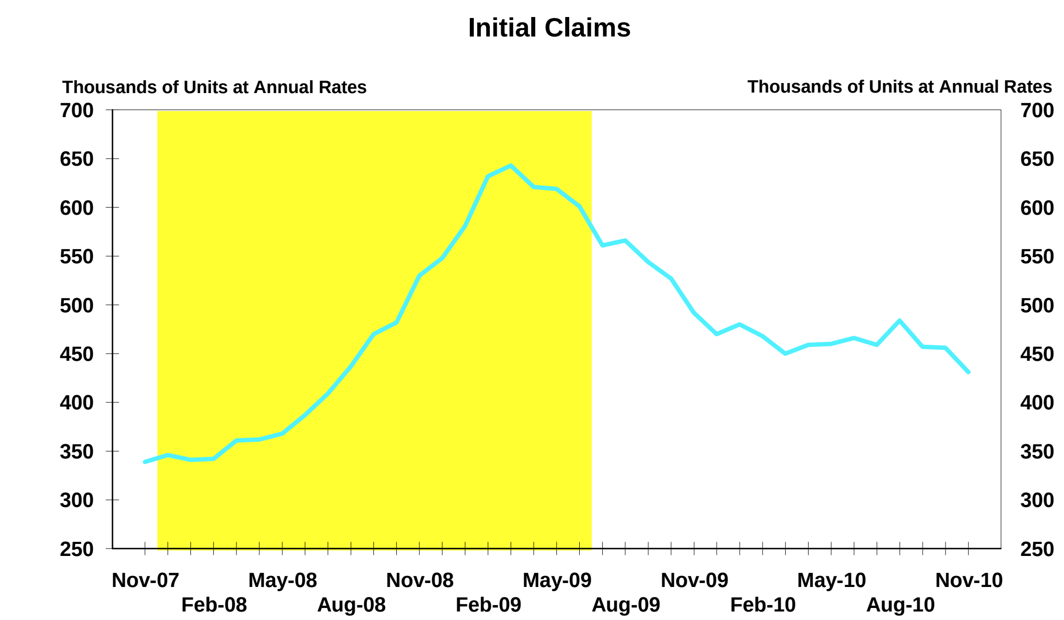
Data released since your last Directors' meeting show the economy grew in the third quarter at a higher rate than first estimated and also suggest fourth quarter growth is likely to be in line with the growth seen over the previous six months. General areas of strength and weakness remain mostly the same as over the past few months. More positive data has come from initial claims for unemployment insurance and consumer attitudes, while house prices have started to fall again and business investment has slowed a bit. Overall, the recovery is continuing at the expected, slow pace.

In November, initial claims fell to their lowest level in over two years and consumer attitudes improved. Vehicle sales held steady in November, as the industry continues to show significant gains over last year. In October, real consumption rose again while incomes rebounded from the small drop seen in September.

The real estate market continued to struggle in October, as sales of both new and existing homes slowed. New construction also remains historically low, having shown little change since early 2009. In the manufacturing sector, the ISM index eased in November but held above 50. Industrial production was flat in October and capacity utilization posted a small gain. Orders for both durable goods and nondefense capital goods, excluding aircraft, fell in October but were well above their year-ago levels.

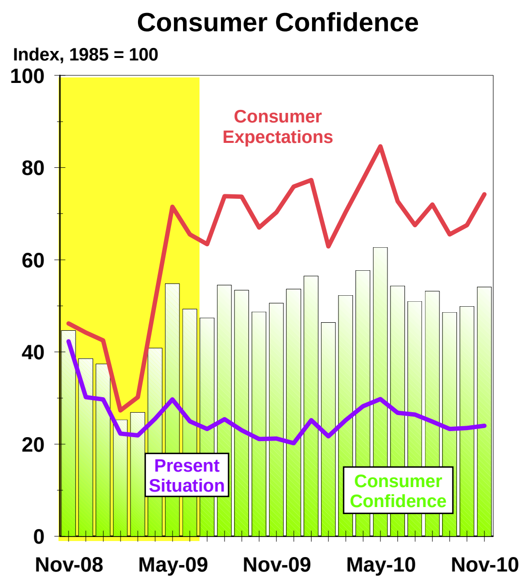
Low inflation levels remained a concern in October, as the total CPI was flat and the core index slowed to a record low. Oil prices rose slightly in November, and unit labor costs were unchanged in the third quarter, following an upwardly revised second quarter estimate.

In November, initial claims for unemployment insurance fell to their lowest monthly average since July 2008. Despite the drop, claims are still above a level more consistent with a healthy economy.

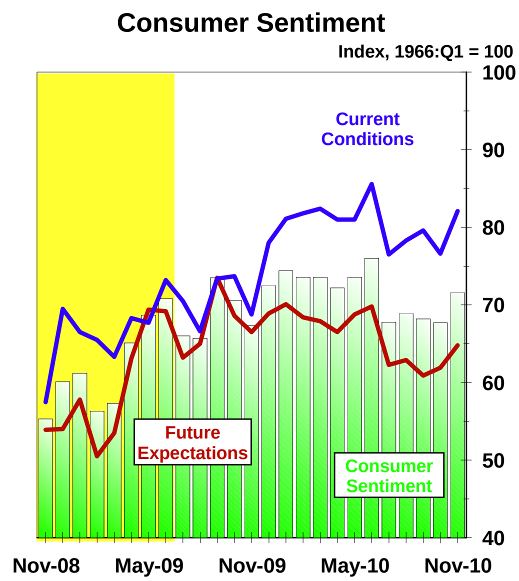


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in November, as both confidence and sentiment reached their highest levels since the second quarter. While consumers feel the recovery has gained some traction, the majority expect further improvements to be too small to impact their personal financial situations.

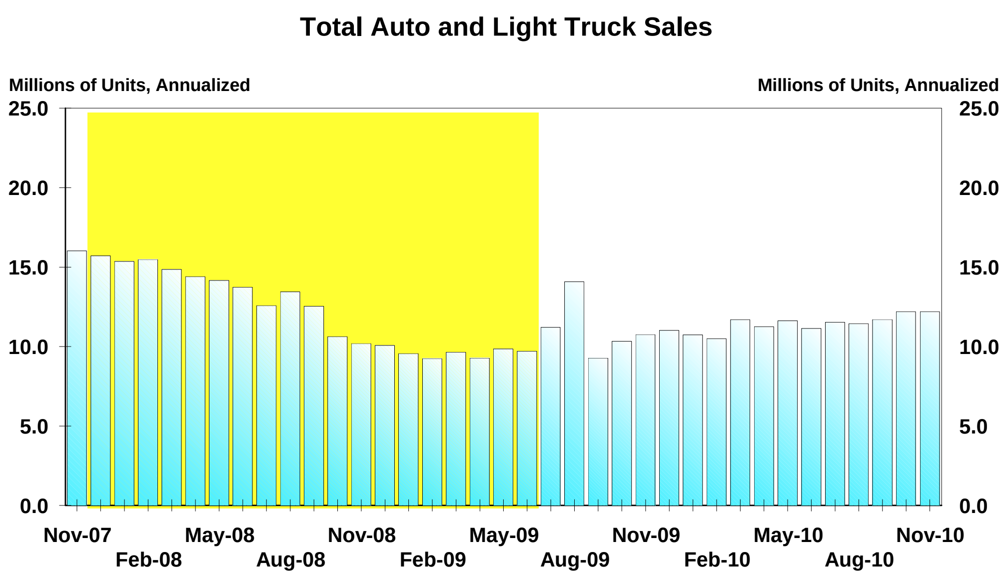


Source: The Conference Board / Haver Analytics.



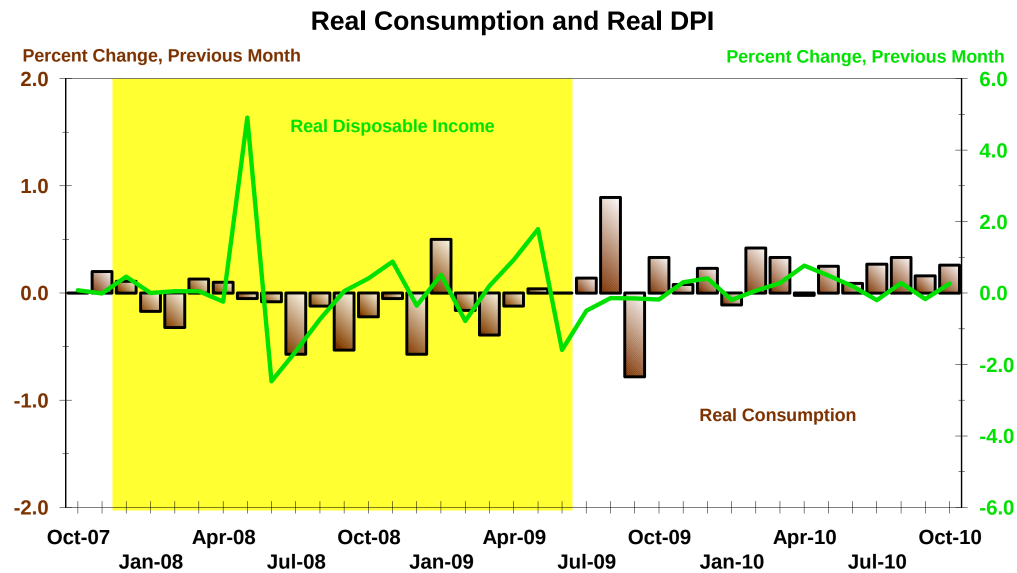
Source: The University of Michigan / Haver Analytics.

Total auto and light truck sales held steady in November. Manufacturers are on track to sell roughly 11.5 million vehicles in 2010, a marked improvement from the 2009 total of 10.3 million. The auto industry is still far from recovered, however, as sales averaged over 15 million per year during the 20 years preceding the recession.



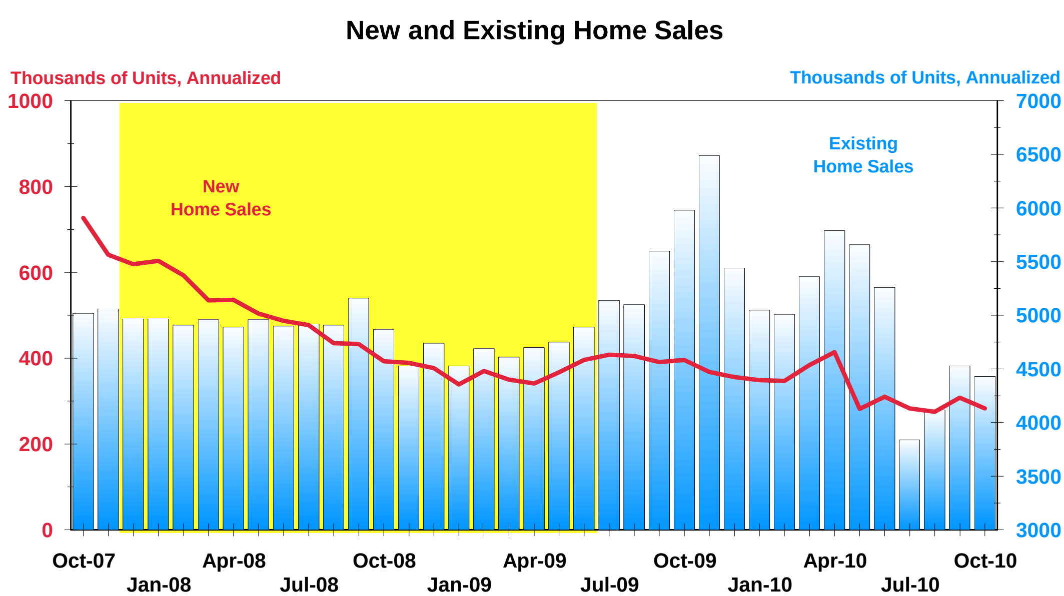
Source: Bureau of Economic Analysis / Haver Analytics.

Consumption posted another moderate increase in October, aided by a rebound in personal incomes.



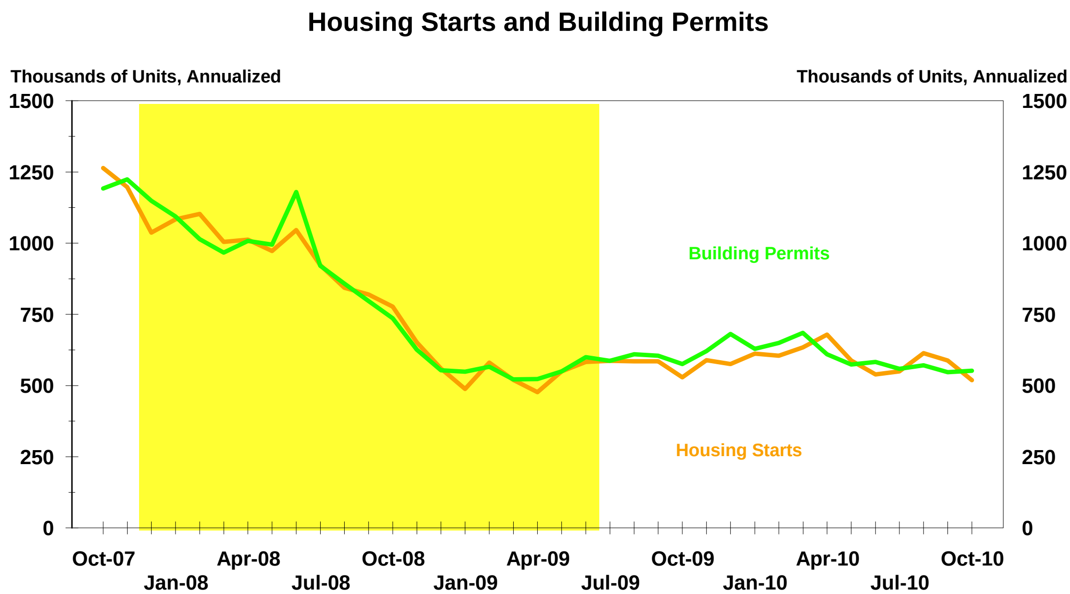
Source: Bureau of Economic Analysis / Haver Analytics.

The housing market remained subdued in October. New home sales gave back most of the gain seen in September and were virtually unchanged from the sales pace seen back in the spring. Existing home sales also eased, and while safely above the record-low pace of July, remain historically low.



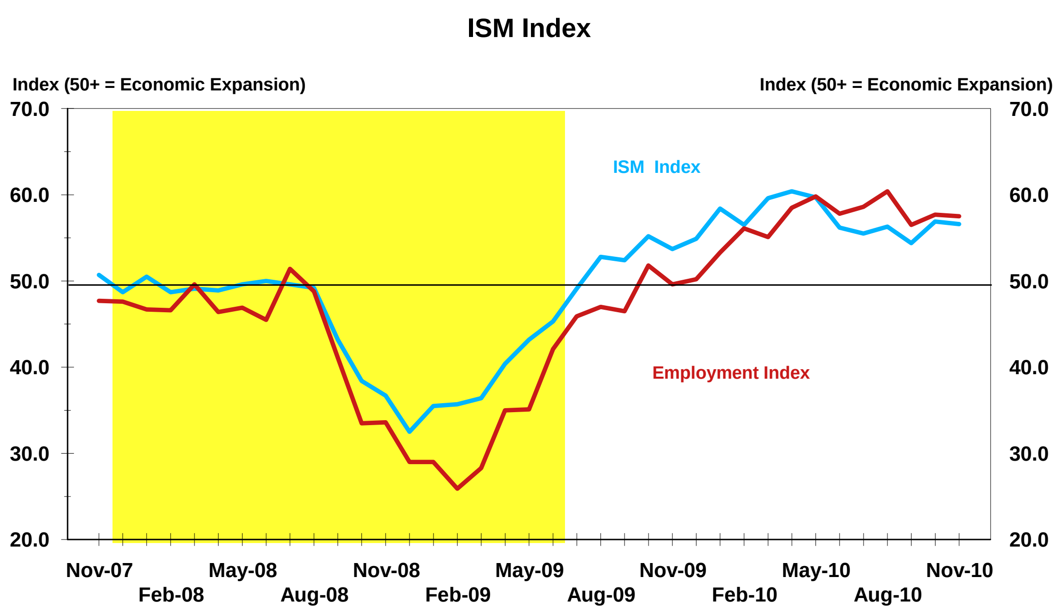
Source: U.S. Census Bureau / Haver Analytics.

New residential construction data was disappointing in October, as both measures came in below expectations. What little momentum there was earlier in the year has been lost, with starts down nearly 25% since April and permits down almost 20% since March.



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

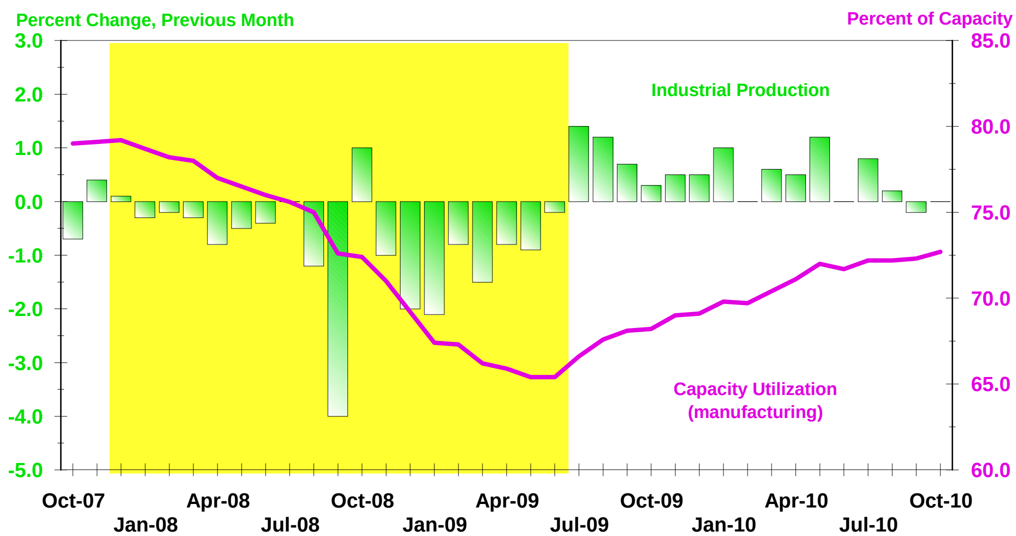
Both the ISM manufacturing and employment indices were little changed in November, holding well above 50 and signaling further expansion in the manufacturing sector.



Source: Institute for Supply Management / Haver Analytics.

Industrial production was flat in October, following a small decline in September. Capacity utilization rose further in October, reaching a 26-month high.

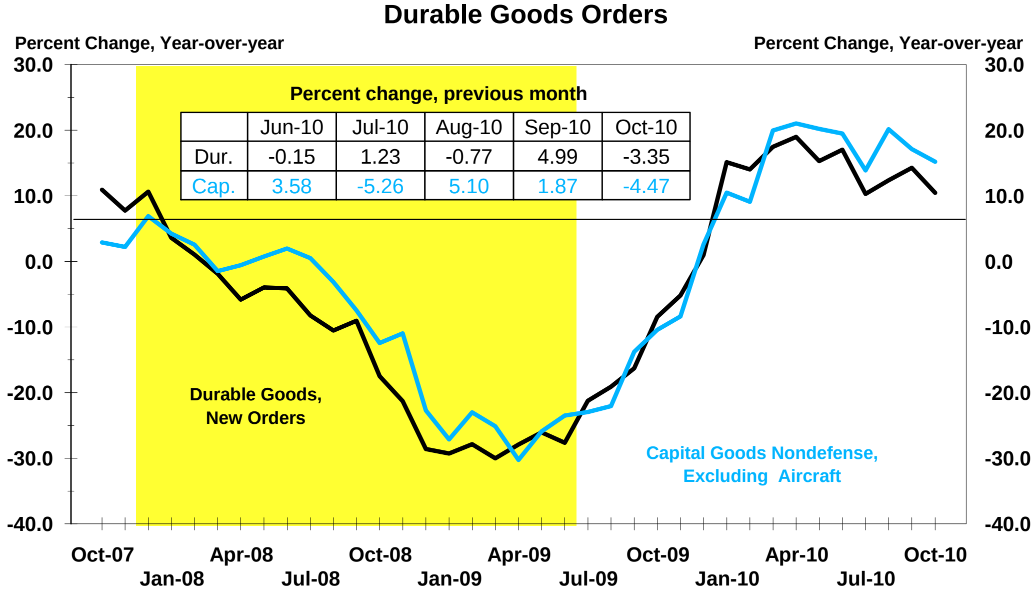
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for both durable goods and nondefense capital goods excluding aircraft fell in October, offsetting much of the growth seen over the previous two months. But despite the declines, both series managed to post double-digit year-over-year increases.

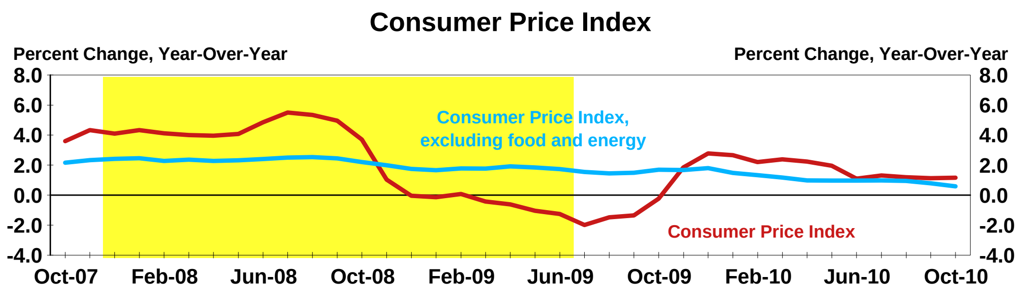
Durable Goods Orders

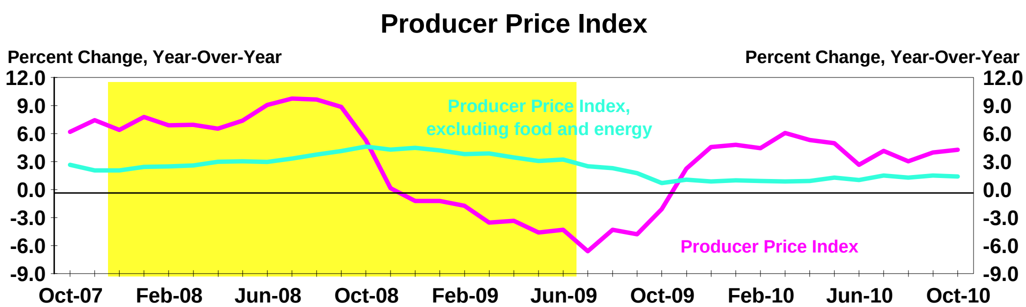


	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Dur.	-0.15	1.23	-0.77	4.99	-3.35
Cap.	3.58	-5.26	5.10	1.87	-4.47

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

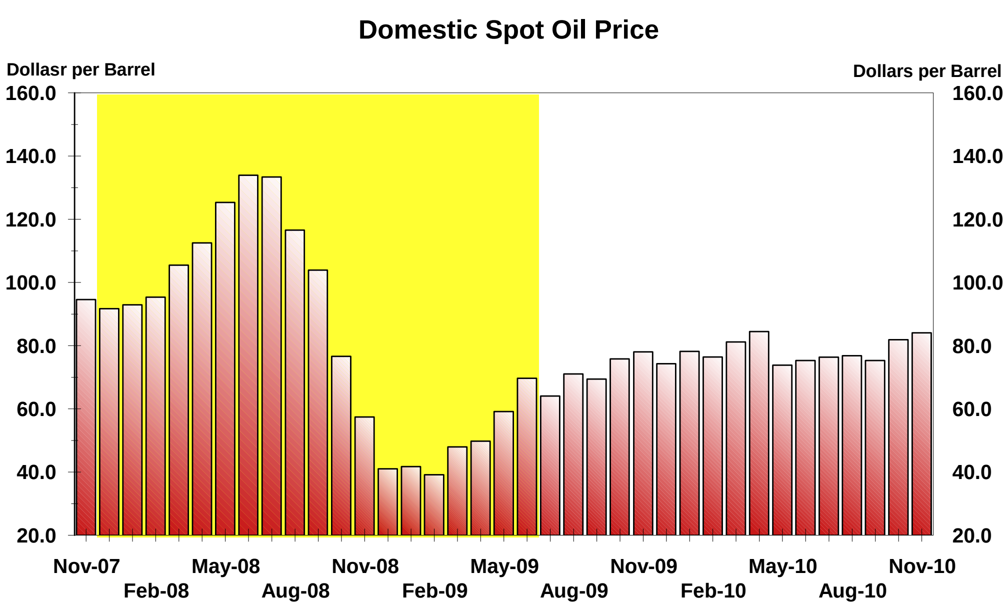
In October, total consumer prices held mostly steady for a fourth consecutive month, but core prices slowed to their lowest year-over-year growth rate ever. Total producer prices accelerated in October while the core index was mostly flat.





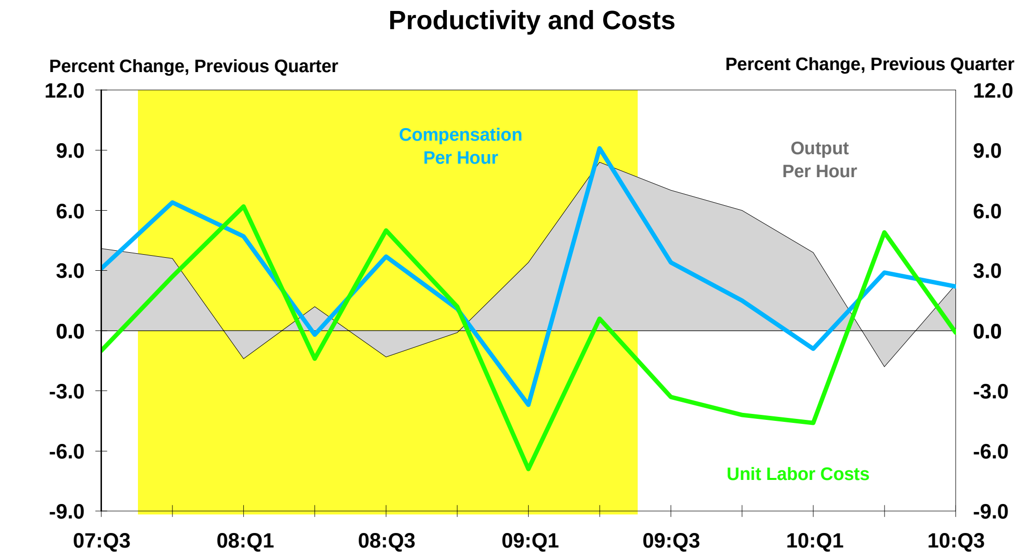
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices increased slightly in November, to their highest monthly average since April. Prices peaked close to $88 per barrel in the middle of the month before falling back to the low- to mid-$80s by the end of the month.



Source: Wall Street Journal / Haver Analytics.

Productivity was revised a bit higher in the third quarter, more than offsetting the decrease seen in the second quarter. Significant upward revisions were made to costs in the second quarter, with compensation per hour having risen 2.9% (up from a 0.6% decline) and unit labor costs having risen 4.9% (up from 1.3%).

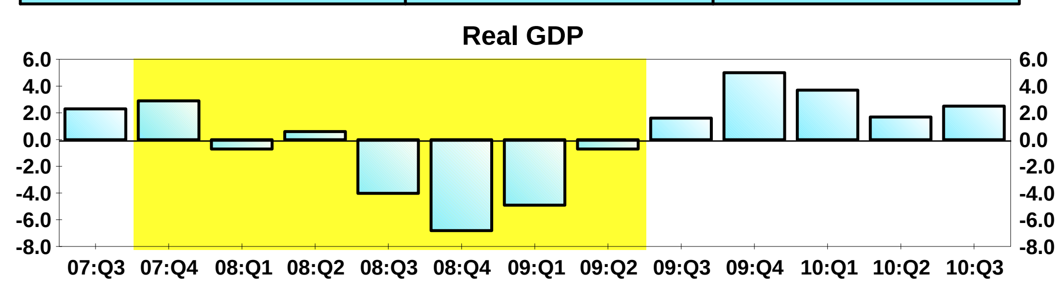


Source: Bureau of Labor Statistics / Haver Analytics.

Real GDP growth in the third quarter was stronger than originally thought. The upward adjustment primarily reflected an upward revision to personal consumption expenditures, exports and state and local government spending. These effects were partly offset by a downward revision to private inventory investment.

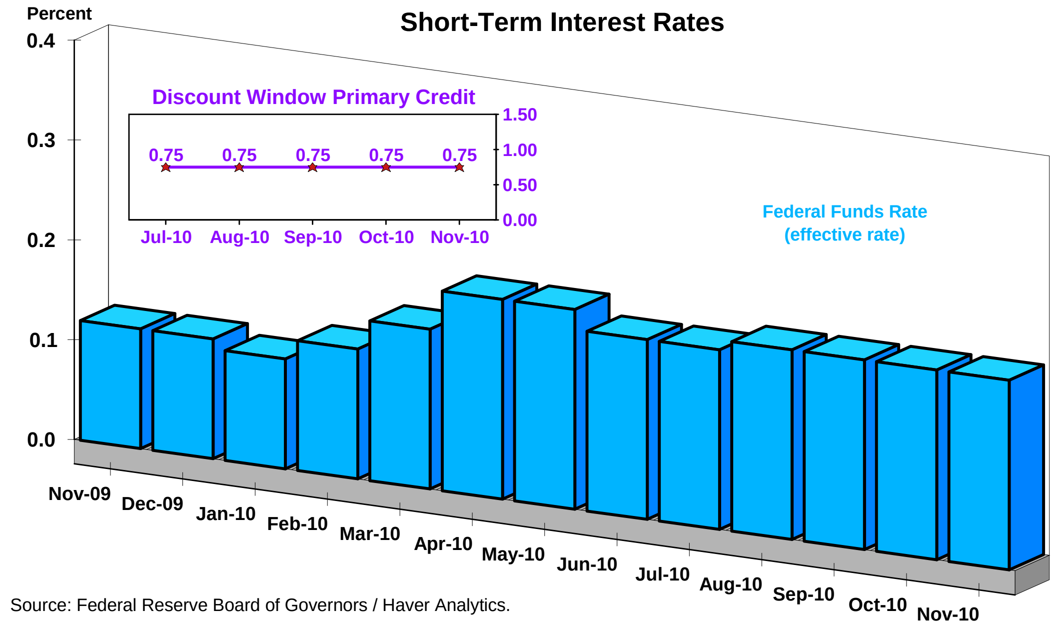
Revisions to Third Quarter Real GDP

Description	Advance	Preliminary
Real GDP	2.0	2.5
Personal Consumption	2.6	2.8
Business Investment	9.7	10.3
Equipment and Software	12.0	16.8
Residential Investment	-29.1	-27.5
Government	3.4	4.0
Exports	5.0	6.3
Imports	17.4	16.8
Final Sales	0.6	1.2



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 higher rate than first estimated and also suggest fourth quarter growth is likely to be in line with the growth seen over the previous six months. General areas of strength and weakness remain mostly the same as over the past few months. More positive data has come from initial claims for unemployment insurance and consumer attitudes, while house prices have started to fall again and business investment has slowed a bit. Overall, the recovery is continuing at the expected, slow pace.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

December 9, 2010

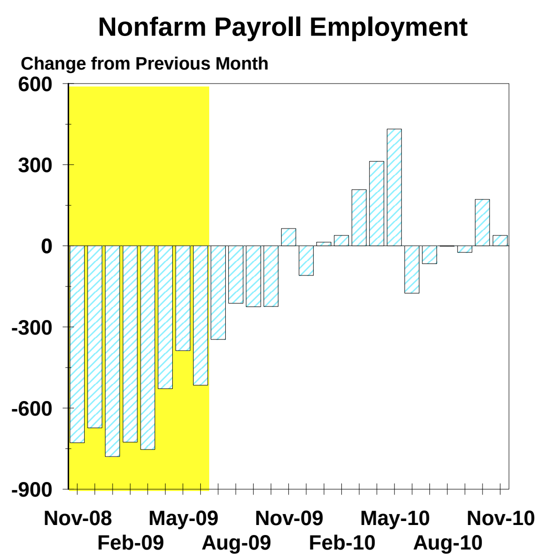
Current Economic Developments - Addendum: Data released in the past week

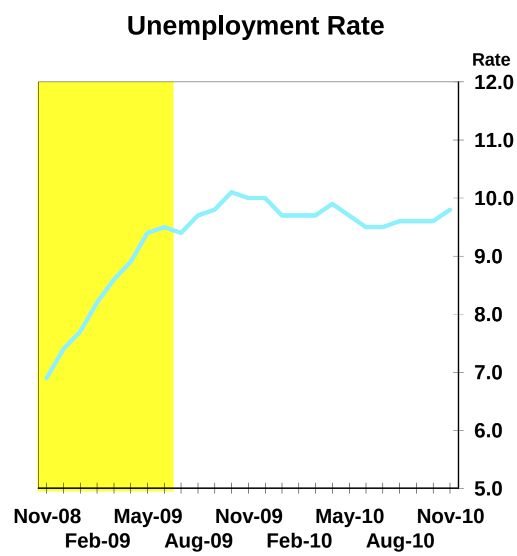
Payroll employment rose by only 39,000 in November, far below expectations. The unemployment rate also rose two-tenths of a percentage point to 9.8%, its highest level since April. The higher unemployment rate primarily reflected a 173,000 decrease in civilian employment, which outpaced a 103,000 increase in the labor force.

In October, manufacturers' orders fell 0.9% while total shipments rose 0.3%. However, shipments of nondefense capital goods excluding aircraft fell 1.3%, their first decrease since January. In November, the ISM nonmanufacturing index improved to 55.0 and the employment index rose to 52.7, a three year high.

Redbook sales rose 0.6% through the first week of December, compared to November. Sales in the week ending December 4th were 3.8% higher than during the same period last year. Oil prices rose during the past week, averaging $88.4 per barrel compared to the previous week's average of $83.7, and threatened to rise above $90.0 per barrel for the first time since October 2008.

In November, nonfarm payrolls added 39,000 jobs but the unemployment rate rose to 9.8%. Over the previous two month, payrolls were revised higher by 38,000 jobs, due almost entirely to revisions to government payrolls. Earlier estimates saw these payrolls down by 156,000 jobs in October and September, while updated data show a drop of 124,000. Private payrolls were revised up by 6,000 over the same period.





Source: Bureau of Labor Statistics.