FEDERAL RESERVE BANK OF BOSTON™

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

February 4, 2010

CURRENT ECONOMIC DEVELOPMENTS - February 4, 2010

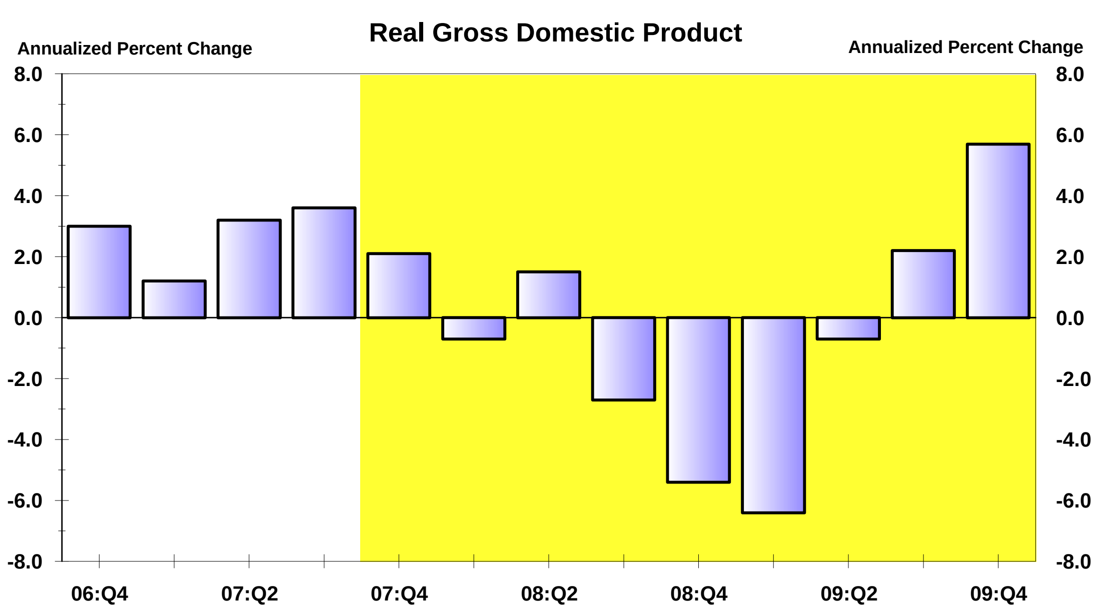
Data since your last Directors' meeting show the economy grew in the fourth quarter at its fastest pace in over six years, and is likely to continue to grow at a solid pace through the first half of this year. Over half of the growth in the fourth quarter was due to inventory investment, however, and further improvements in employment conditions will be necessary before proclaiming an overall health in the economy.

The increase in real GDP in the fourth quarter primarily reflected positive contributions from private inventory investment, exports, and personal consumption expenditures. Imports, which are a subtraction in the calculation of GDP, increased.

In January, initial claims were up from December, but down a bit from their fourth quarter average. Consumer attitudes picked up in January due to the improvement of the overall economy, but consumers remain concerned about their personal financial conditions.

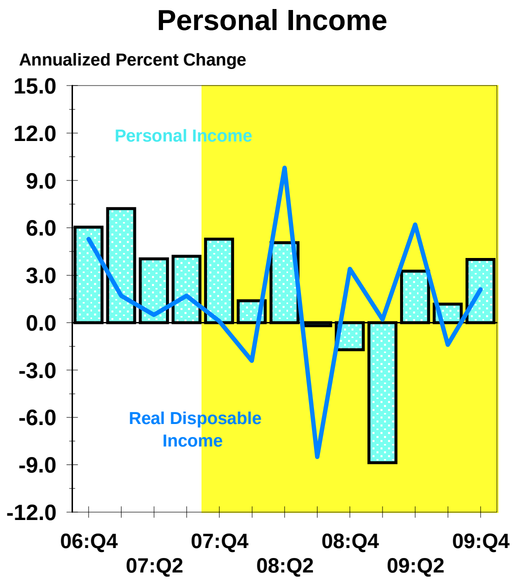
Inflation worries remain in the background, as price increases in the fourth quarter were relatively small. Unit labor costs fell again in the fourth quarter, and total compensation, as measured by the ECI, held steady at a record-low pace. Oil prices were higher on average in January than in December, despite falling $10 over the course of the month.

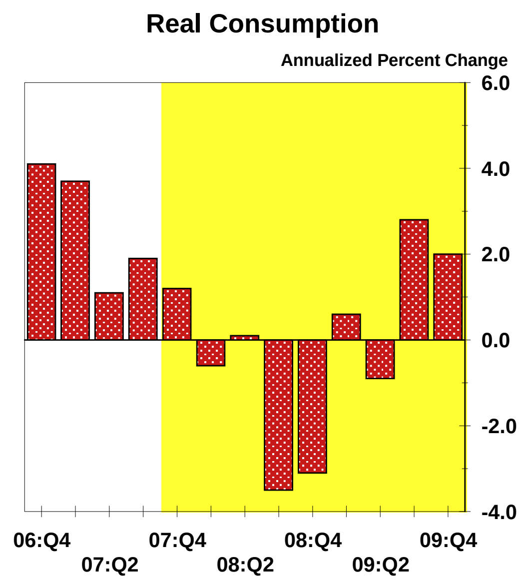
The acceleration in real GDP growth in the fourth quarter primarily reflected an acceleration in private inventory investment, a deceleration in imports, and an upturn in nonresidential fixed investment. These effects were partly offset by decelerations in federal government spending and in personal consumption expenditures.



Source: Bureau of Economic Analysis / Haver Analytics.

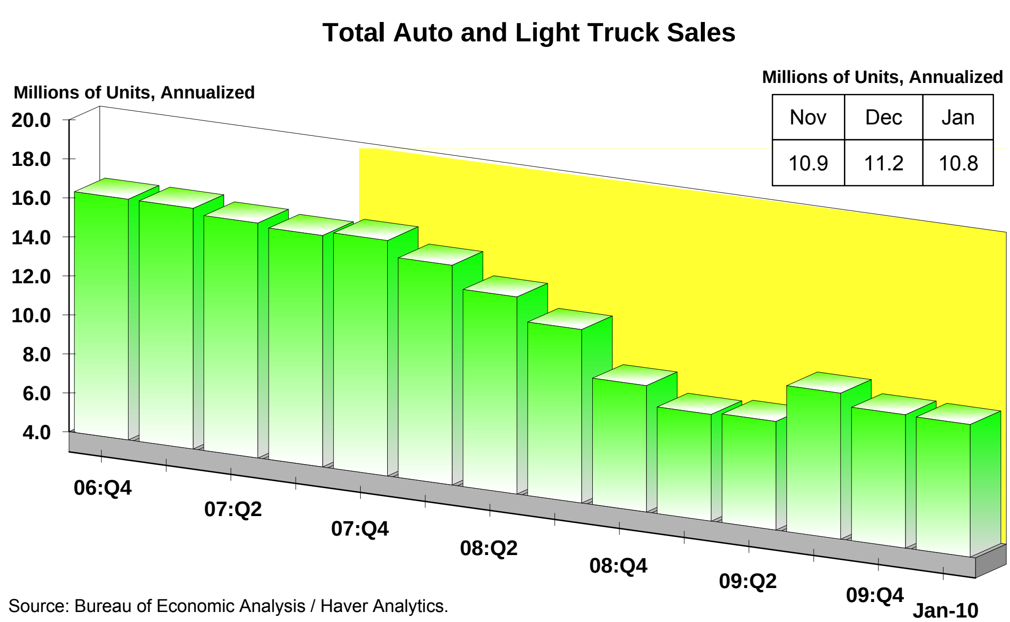
Income growth picked up in the fourth quarter, leading to another moderate increase in consumption.





Source: Bureau of Economic Analysis / Haver Analytics.

Auto sales were down a bit in January from December, but almost identical to their fourth quarter average.

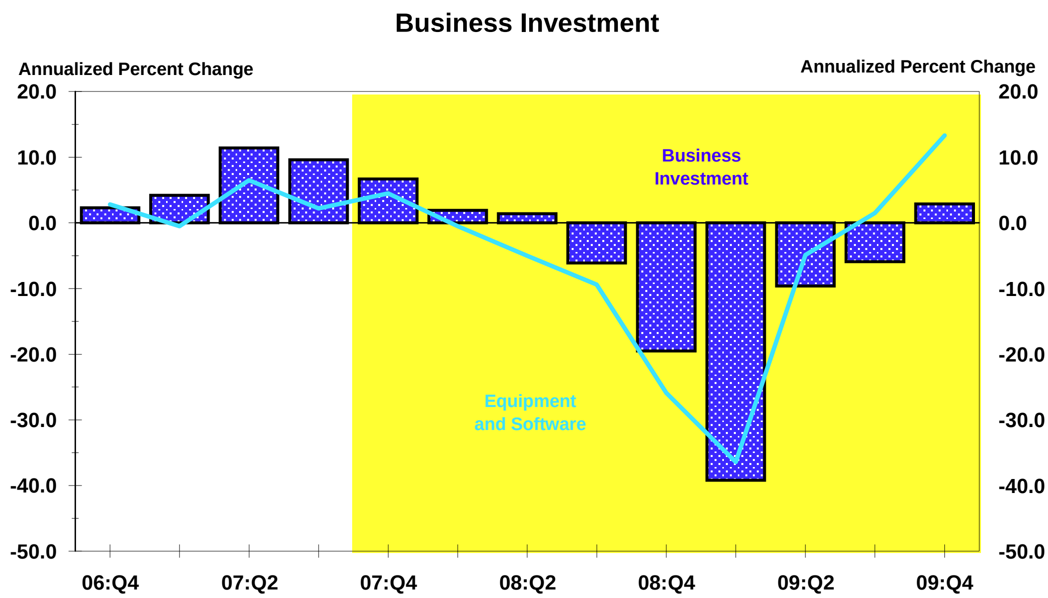


Millions of Units, Annualized

Nov	Dec	Jan
10.9	11.2	10.8

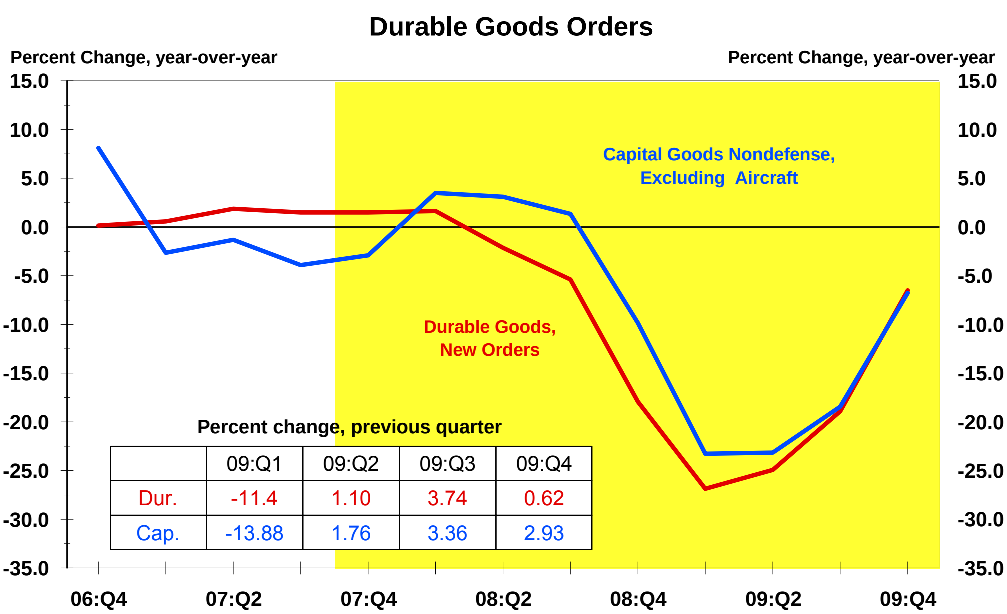
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment rose in the fourth quarter for the first time in a year and a half, aided by a strong gain in equipment and software investment.



Source: Bureau of Economic Analysis / Haver Analytics.

In the fourth quarter, durable goods orders continued to show year-over-year declines, but the data has been more upbeat in terms of quarterly changes. This is especially true for orders of nondefense capital goods excluding aircraft, with the last two quarters marking their highest estimates since 2006:Q1.

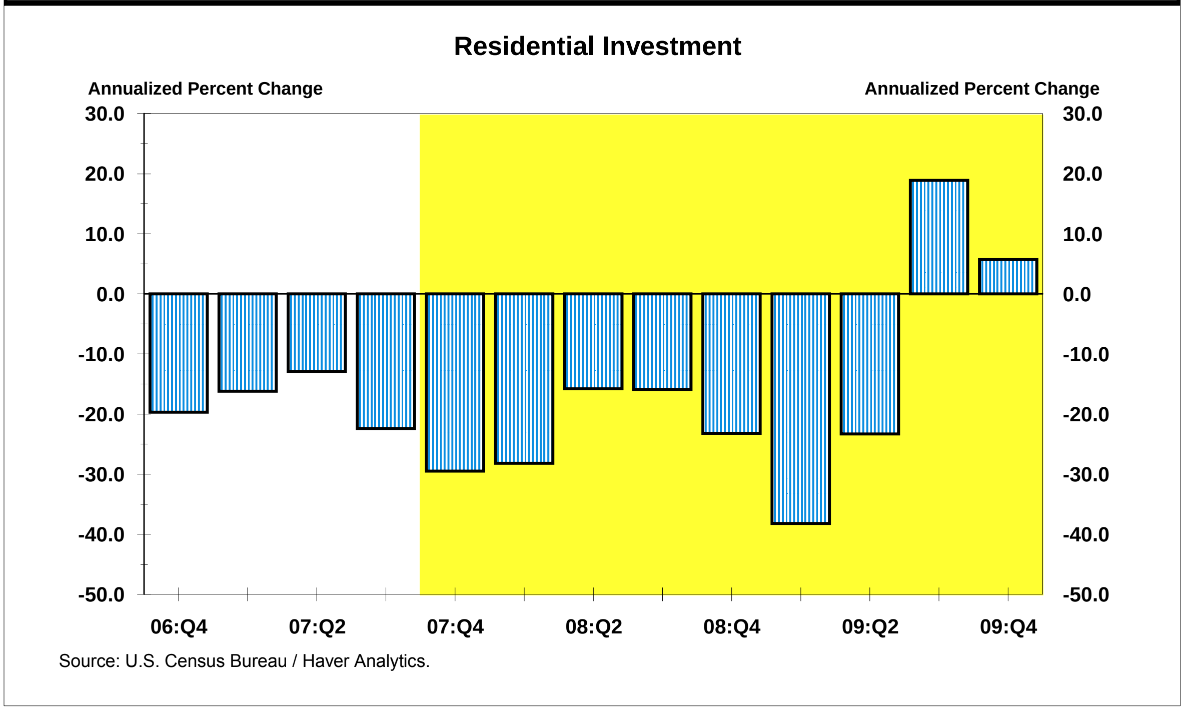


Percent change, previous quarter

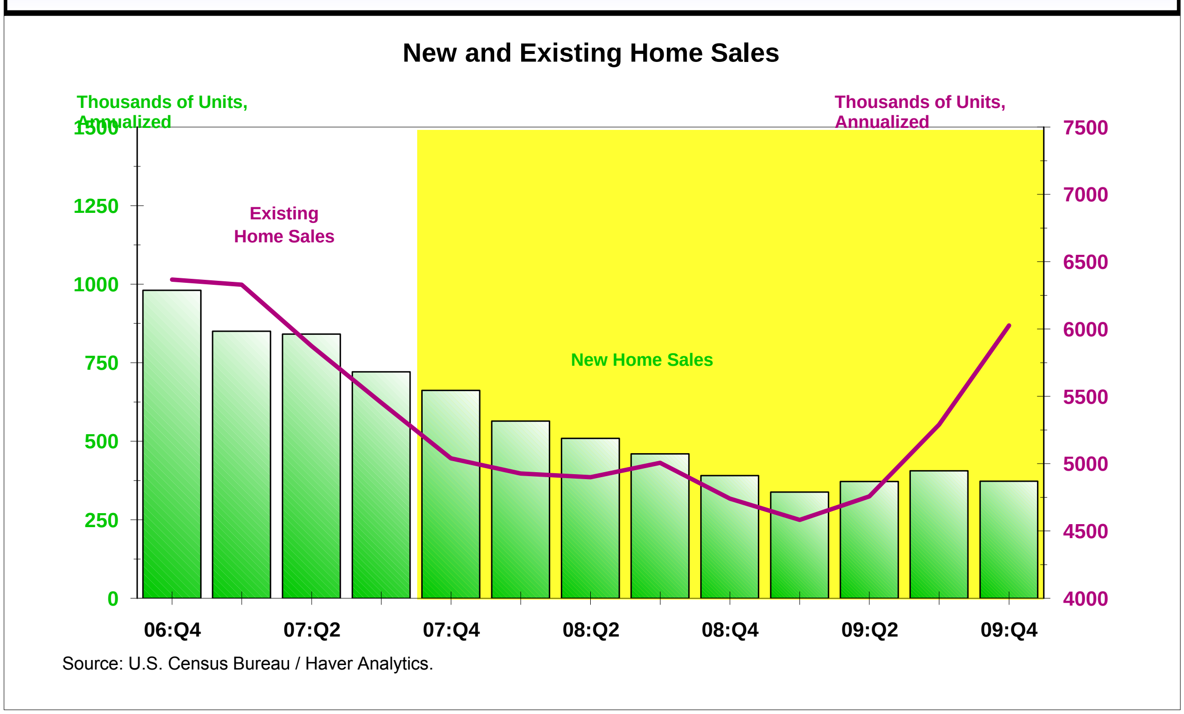
	09:Q1	09:Q2	09:Q3	09:Q4
Dur.	-11.4	1.10	3.74	0.62
Cap.	-13.88	1.76	3.36	2.93

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

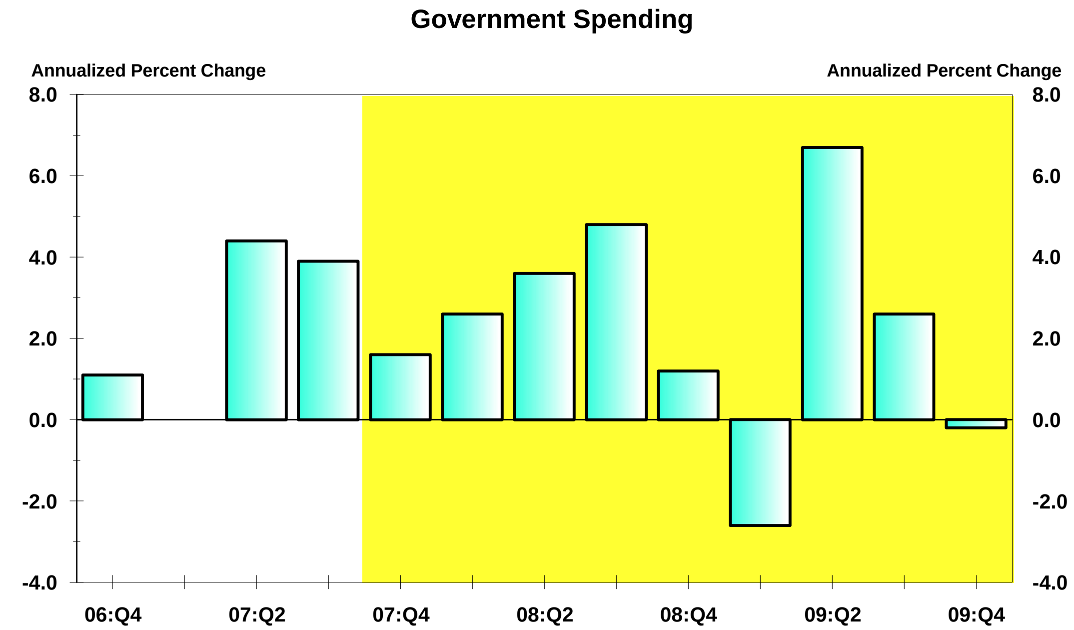
Residential investment rose again in the fourth quarter, as more buyers rushed to close purchases before the anticipated expiration of the first-time home buyer stimulus rebate. The program has since been extended to April 30, 2010, and expanded to include some repeat buyers and buyers with higher incomes.



Home sales data was mixed in the fourth quarter, as existing home sales rose to pre-recession levels, while sales of new homes slowed.

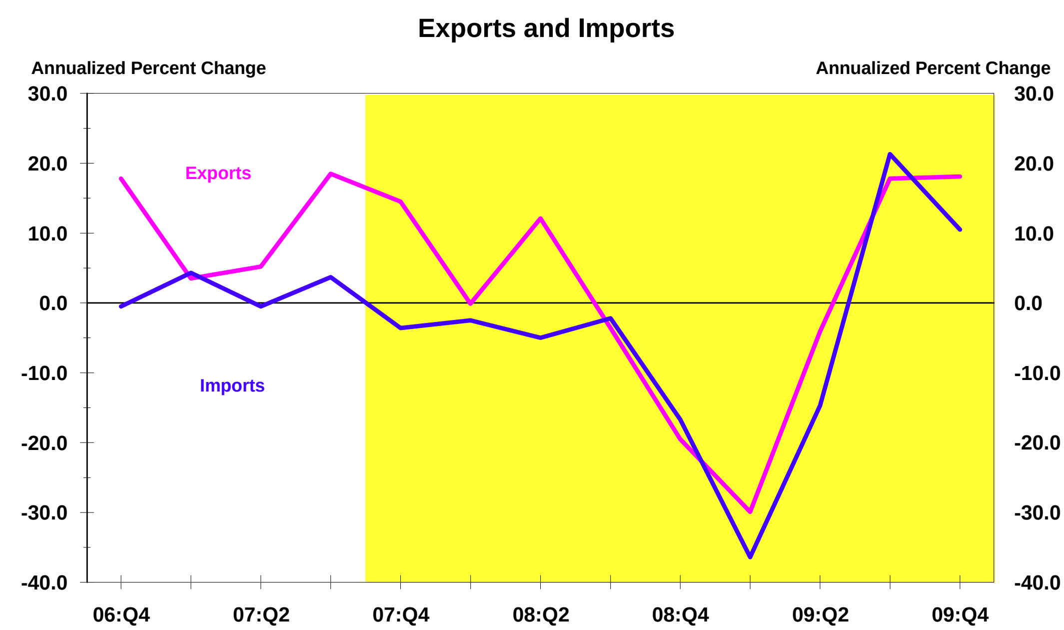


Government spending fell slightly in the fourth quarter, due primarily to lower military spending and reduced spending by state and local governments.



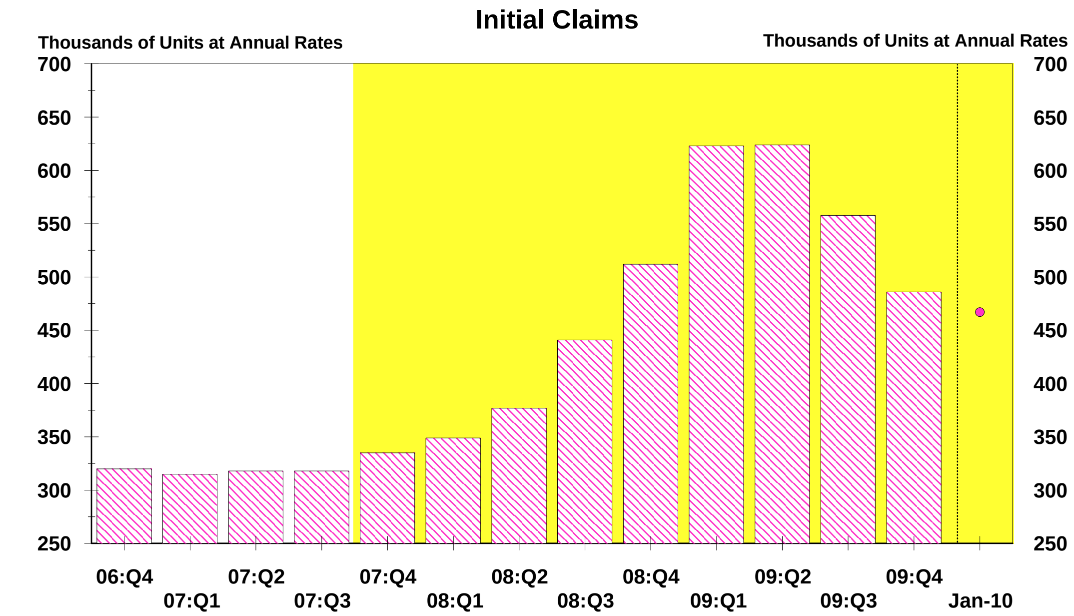
Source: Bureau of Economic Analysis / Haver Analytics.

Exports posted another solid gain in the fourth quarter, while import growth slowed.



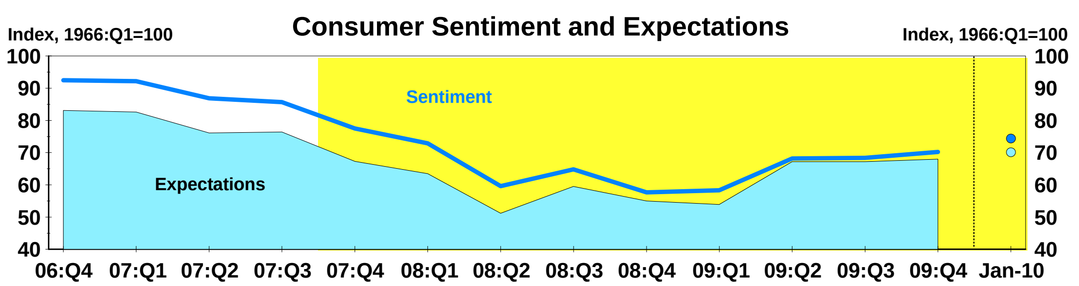
Source: Bureau of Economic Analysis / Haver Analytics.

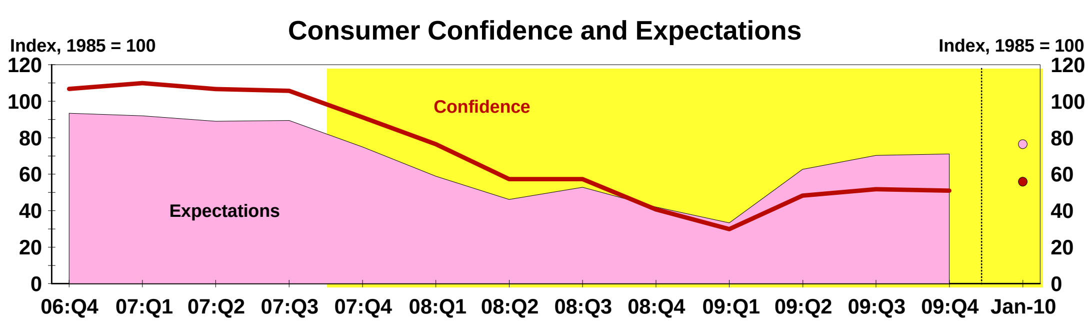
Initial claims for unemployment insurance in January were up from December, but down slightly from their fourth quarter average. Despite falling consistently throughout the second half of 2009, the current level of claims remain above a level more consistent with healthy labor market conditions.



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

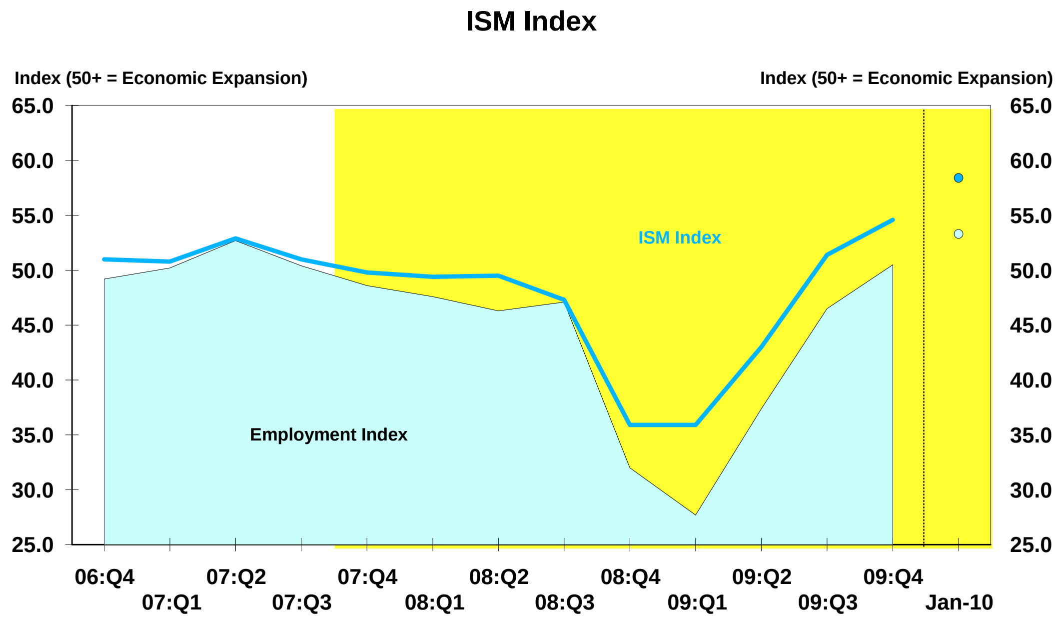
Consumer attitudes improved in January primarily due to a more positive outlook on the national economy as a whole. Consumer sentiment reached a two-year high, and consumer confidence reached a 16-month high. Still, consumers are worried about their personal finances, and despite some improvement, the pessimists still outnumber the optimists.





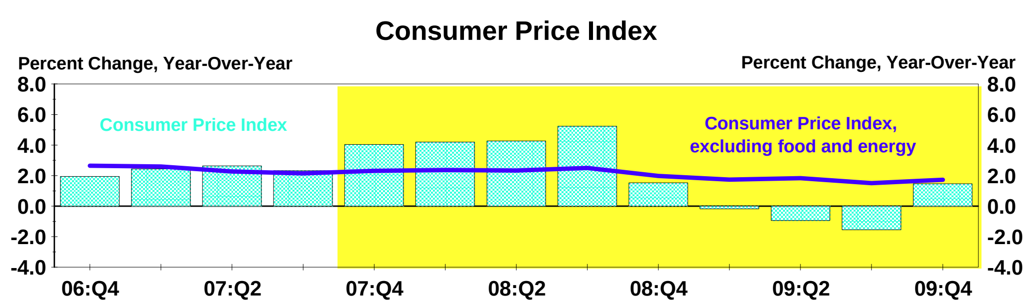
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

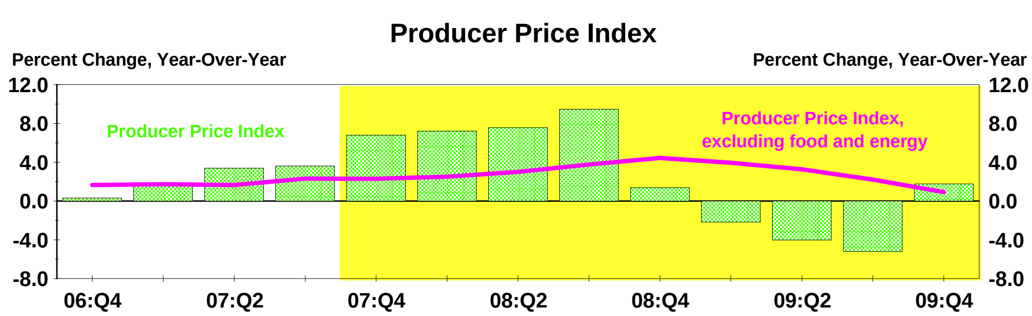
The resurgence in the ISM index continued in January, reaching its highest point since 2004. The employment index also continued to recover, with the January estimate representing a nearly four year high.



Source: Institute for Supply Management / Haver Analytics.

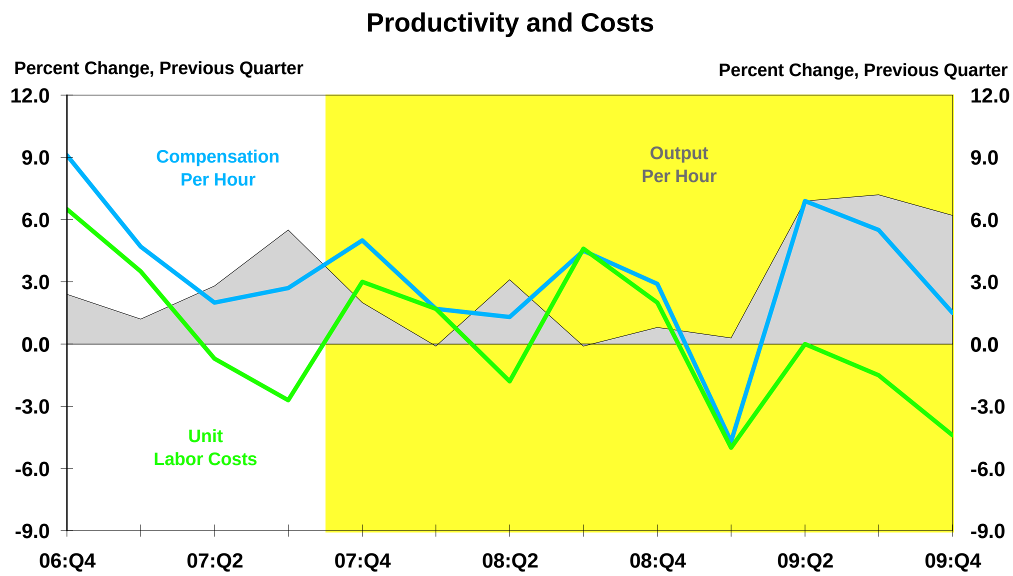
Prices began to rise again in the fourth quarter, after falling thoughout the first three quarters of the year. Inflation, however, is not a pressing concern as the growth rates seen in the fourth quarter were relatively low by historical standards.





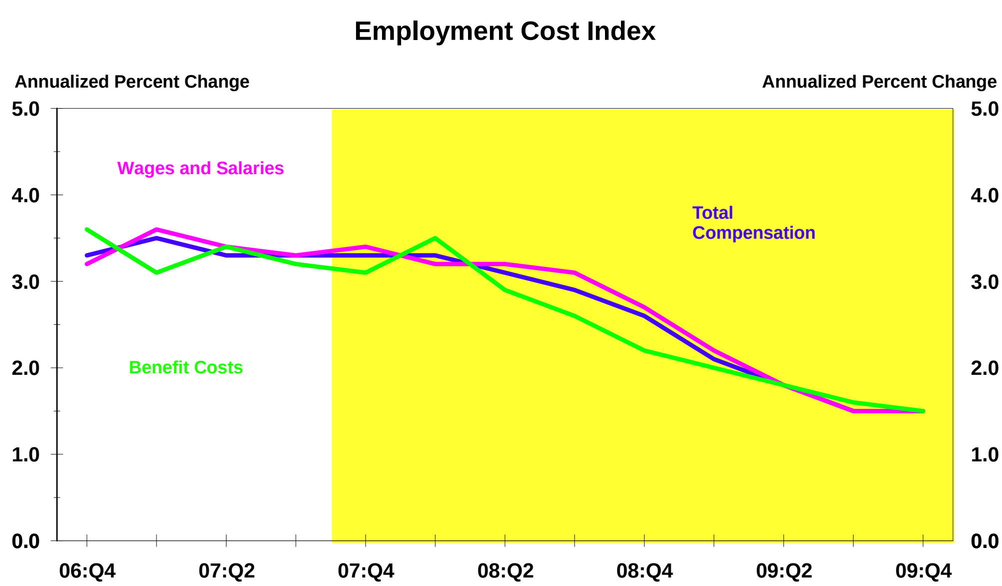
Source: Bureau of Labor Statistics / Haver Analytics.

Productivity eased a bit in the fourth quarter as hours worked increased for the first time since mid-2007. Unit labor costs fell further during the quarter, and compensation growth slowed.



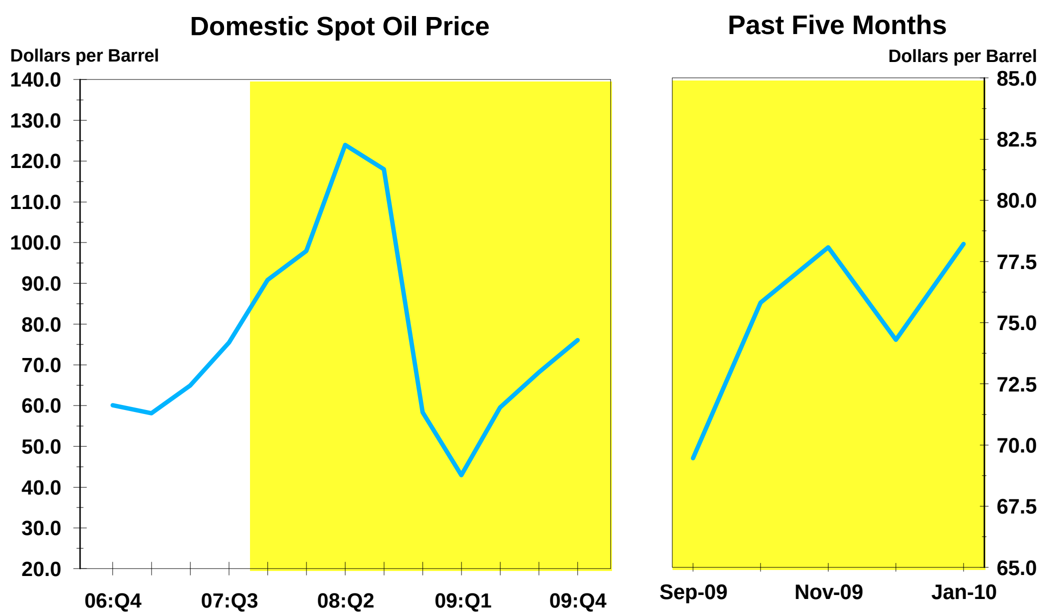
Source: Bureau of Labor Statistics / Haver Analytics.

In the fourth quarter, total employment costs grew at the same pace as seen in the third quarter. Wage and salary growth also held steady, while benefit costs decelerated slightly. The estimates for all three measures represent record lows.



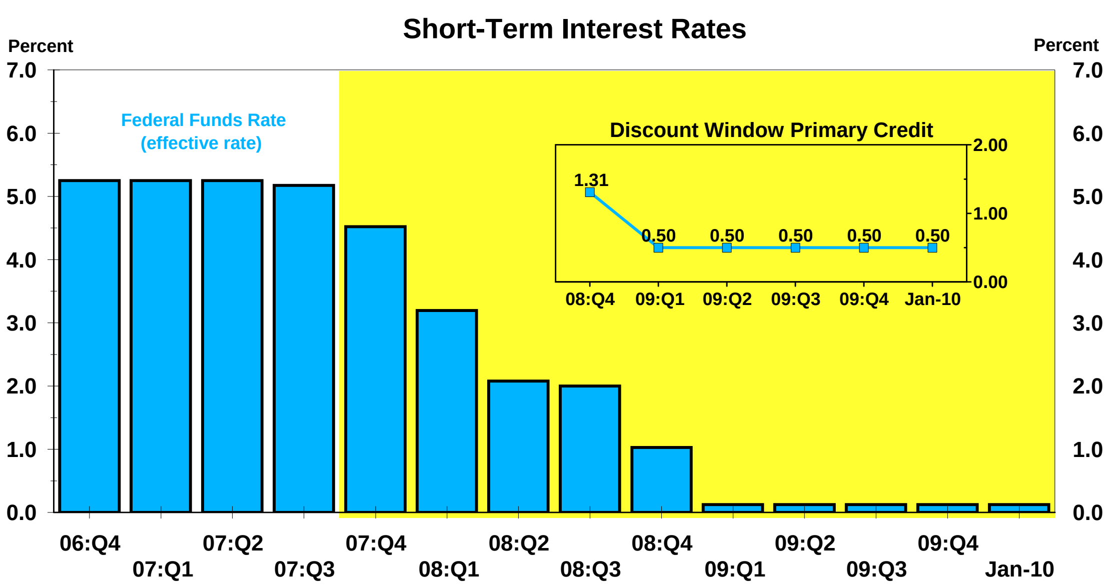
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices were higher in January than they were in December. But after peaking above $83 per barrerl early in the month, prices fell steadily to end January below $73 per barrel.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy grew in the fourth quarter at its fastest pace in over six years, and is likely to continue to grow at a solid pace through the first half of this year. Over half of the growth in the fourth quarter was due to inventory investment, however, and further improvements in employment conditions will be necessary before proclaiming an overall health in the economy.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

February 11, 2010

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

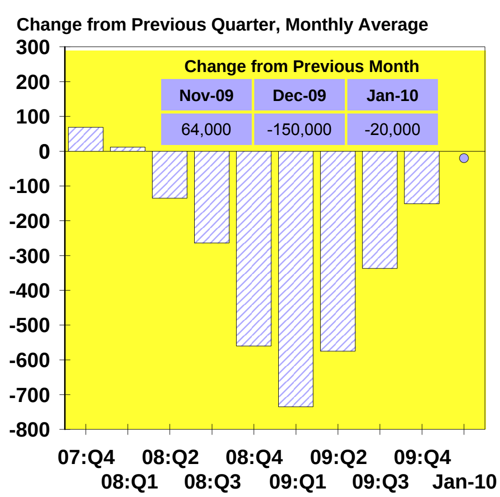
The labor market remained generally week in January, but there was some positive data mixed in. Payrolls shed 20,000 jobs during the month, but the unemployment rate fell to 9.7%. An alternative measure of unemployment, that includes discouraged workers and those forced to work part-time, fell to 16.5% in January, from 17.3% in December. On the negative side, annual revisions to payroll data revealed that over 8.4 million jobs have been lost since the onset of the recession, up sharply from the prior estimate of 7.2 million.

In December, wholesale inventories fell 0.8% while wholesale trade rose 0.8%. Also in December, the U.S. trade balance widened to a one-year high of $40.2 billion, as imports rose 4.8% and exports increased 3.3%.

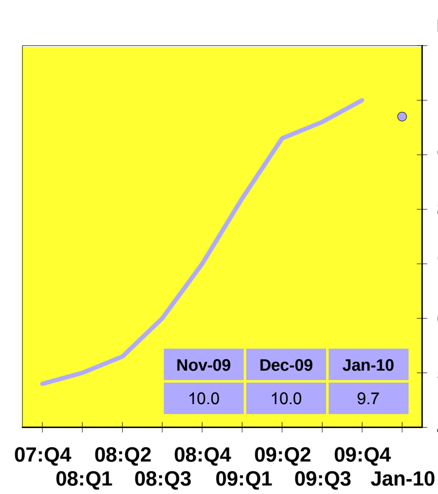
Through the first week of February, Redbook sales were up 1.7% compared to January, and up 2.0% compared to the same period last year. Oil prices decreased slightly over the past week, averaging $73.4 per barrel as opposed to the previous week's average of $74.4.

In January, payroll employment posted a small decrease and revisions to the prior two months' estimates resulted in a net loss of 5,000 additional jobs. Still, the unemployment rate fell three-tenths of a percentage point to 9.7%, a five-month low.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.