FEDERAL RESERVE
BANK OF BOSTON™

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

November 6, 2008

CURRENT ECONOMIC DEVELOPMENTS - November 6, 2008

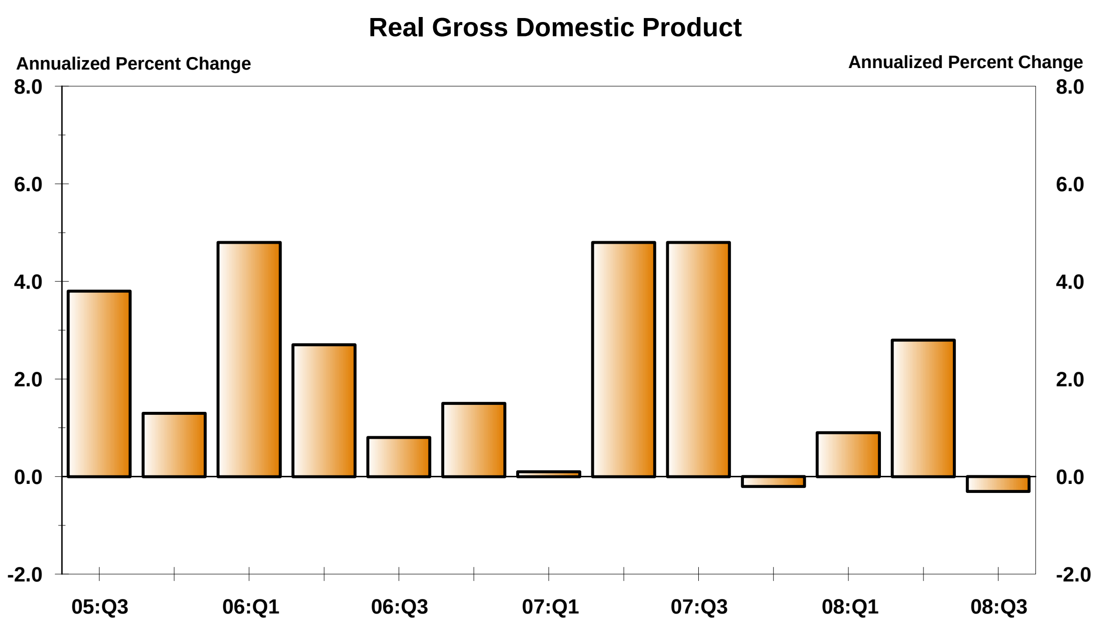
Data since your last Directors' meeting show the economy contracted slightly in the third quarter, the second such contraction in the past year. The economy will likely continue to struggle going forward, hampered by falling consumption, rising unemployment and historically low consumer attitudes.

The decrease in real GDP in the third quarter primarily reflected negative contributions from personal consumption expenditures, residential fixed investment, and equipment and software that were largely offset by positive contributions from federal government spending, exports, private inventory investment and nonresidential structures.

In October, consumer attitudes plunged amid the most recent financial market turmoil and weaker job market conditions. A further increase in initial claims for unemployment insurance in October was additional evidence of the softening labor marker. The ISM index fell to a 26-year low in October, and was joined by a drop in the employment component of the index which resulted in a 17-year low.

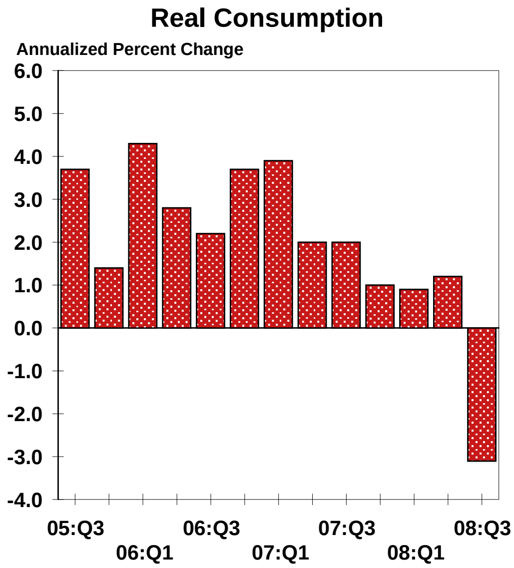
While inflation data peaked early in the third quarter, it then began slowing and is no longer a primary concern, as the downturn in the economy is expected to further restrict price growth. Unit labor costs accelerated in the third quarter and total compensation costs, as measured by the ECI, slowed. Oil prices fell at unprecedented rates in the third quarter and kept falling throughout October.

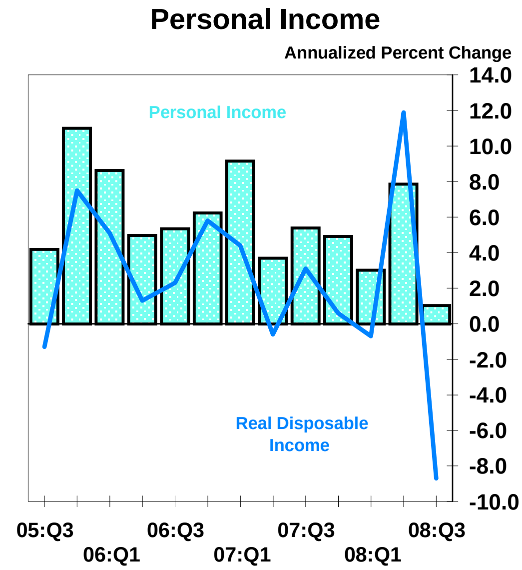
The decrease in real GDP growth in the third quarter was the largest since the third quarter of 2001 and was due to decreases in most of the major contributors. Most significant were a downturn to PCE for nondurable goods, a smaller decrease in imports, a larger decrease in PCE for durable goods and a deceleration in exports.



Source: Bureau of Economic Analysis.

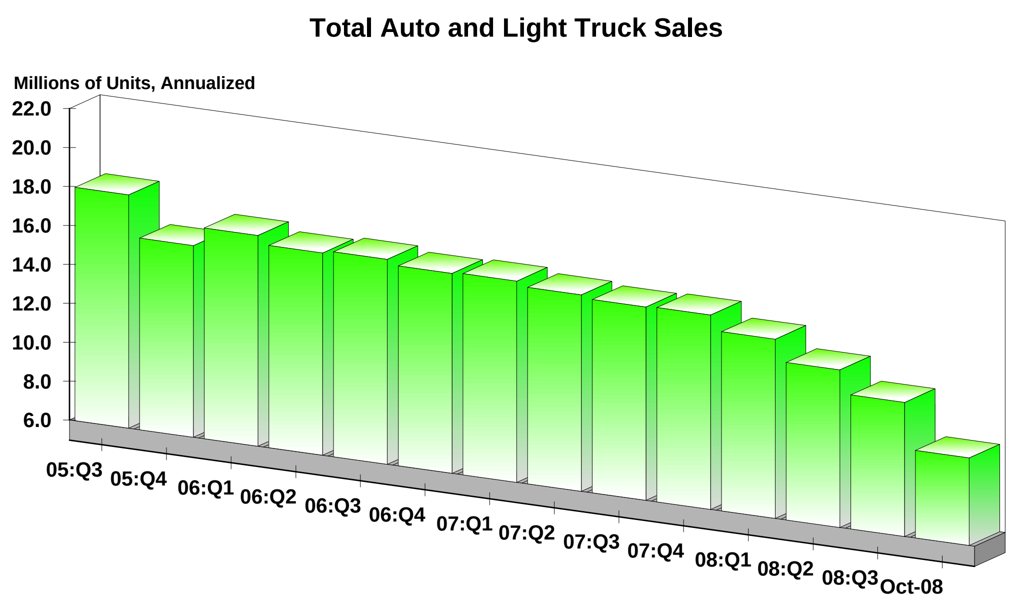
Real consumption fell sharply in the third quarter, its first decline in 17 years. While personal income posted a small gain in the third quarter, real disposable income decreased considerably. Part of the dramatic change in disposable income was due to the stimulus rebates, which boosted incomes in the second quarter but were no longer being dispersed in the third.





Source: Bureau of Economic Analysis.

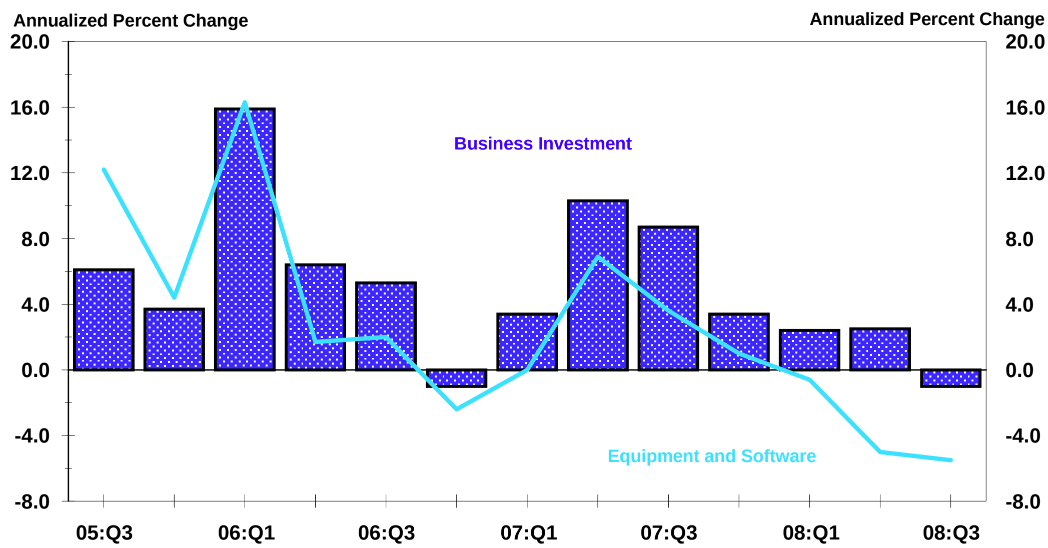
Total auto and light truck sales continued to slide in October, falling to a 25-year low. Partly to blame for the lackluster sales were shaky consumer confidence and the inability for some would-be buyers to obtain credit.



Source: Bureau of Economic Analysis

Growth in business investment dipped in the third quarter, and equipment and software investment fell for the third consecutive quarter.

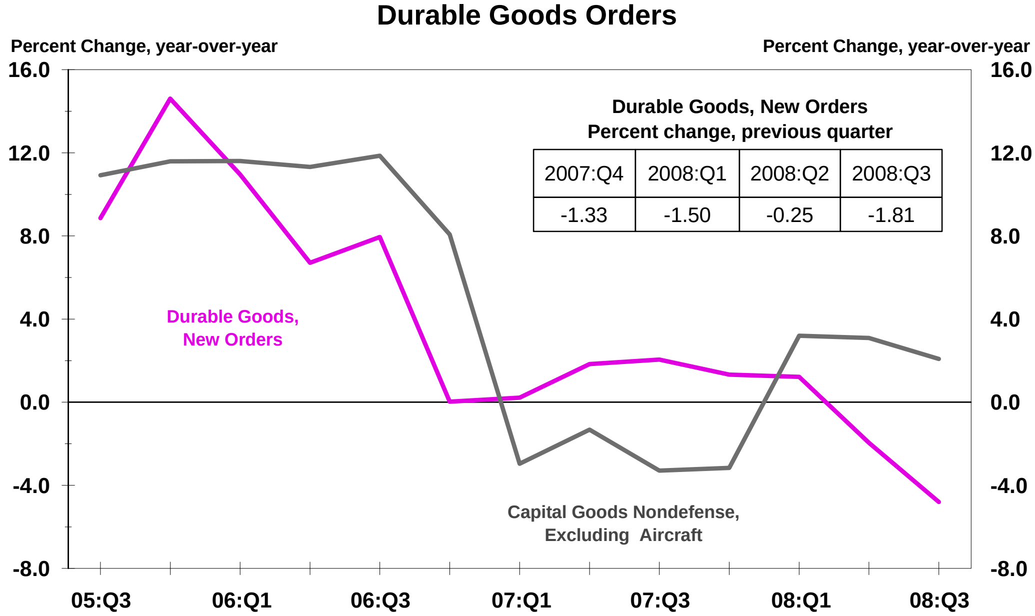
Business Investment



Source: Bureau of Economic Analysis.

New orders for durable goods fell in the third quarter at their fastest rate in six years, on both a year-over-year and quarterly basis. Orders of nondefense capital goods, excluding aircraft, increased.

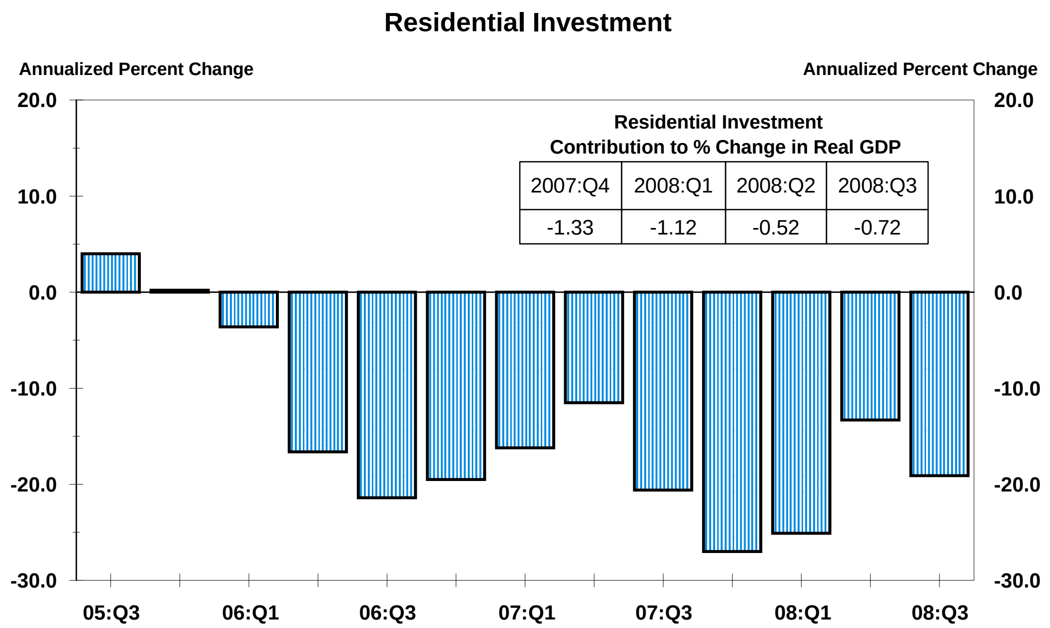
Durable Goods Orders



2007:Q4	2008:Q1	2008:Q2	2008:Q3
-1.33	-1.50	-0.25	-1.81

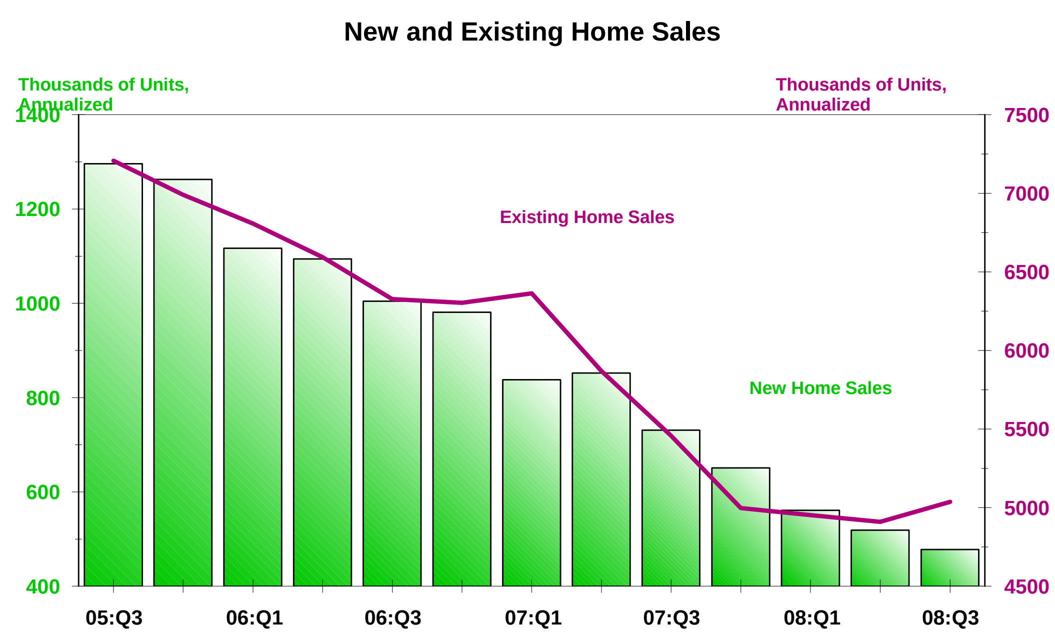
Source: U.S. Census Bureau.

Residential investment continues to be a serious drag on the economy.



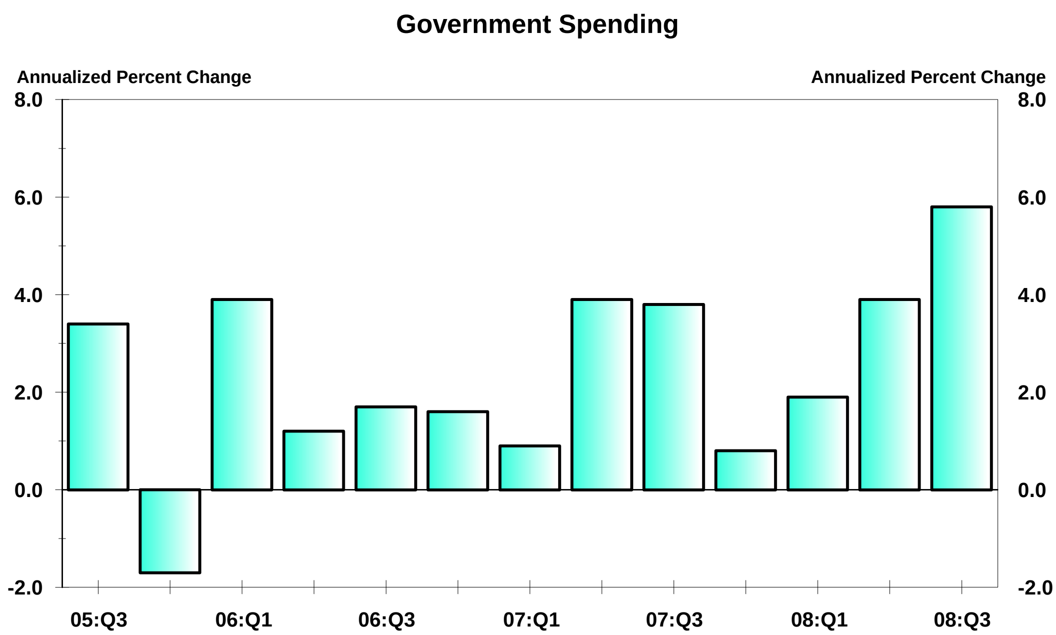
Source: U.S. Census Bureau.

The housing market continued to slump in the third quarter, as new home sales fell for the fifth consecutive quarter. Sales of existing homes did increase a bit, however.



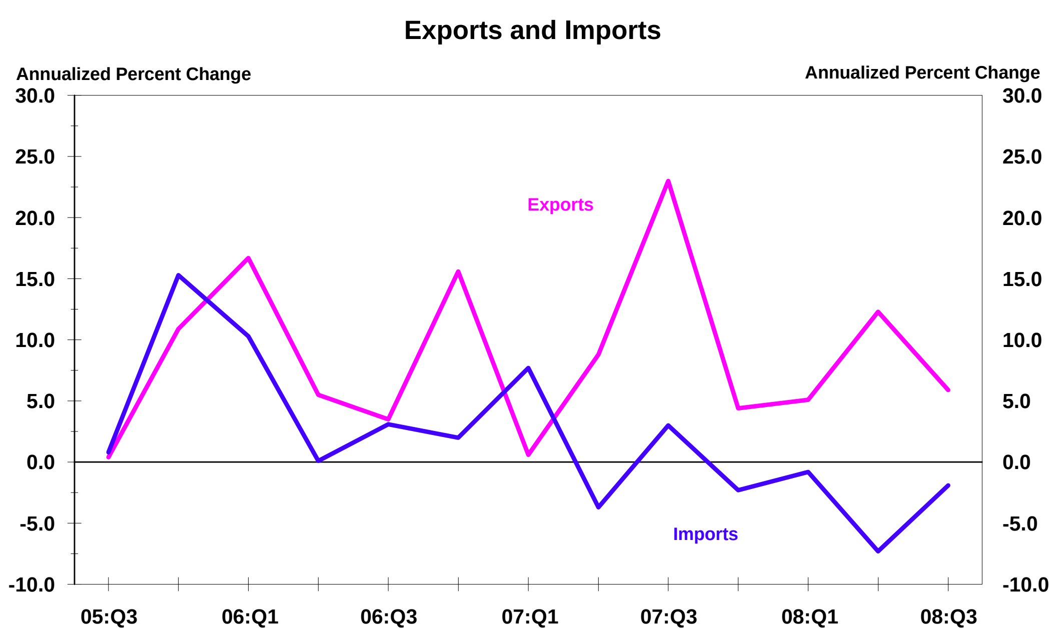
Source: U.S. Census Bureau.

Government spending posted another solid gain in the third quarter.



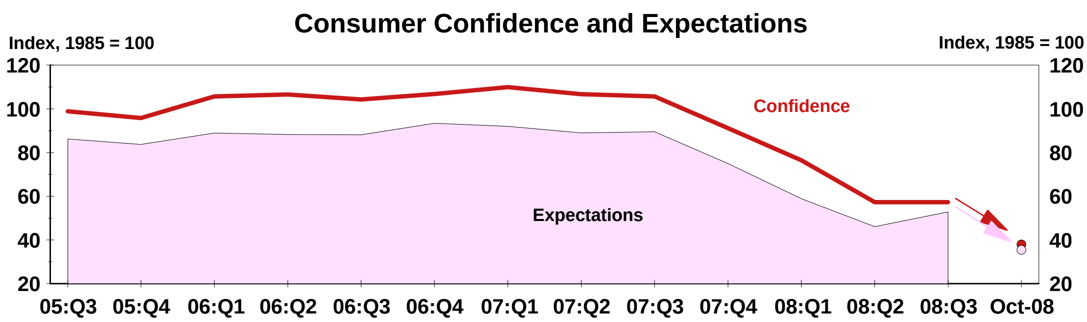
Source: Bureau of Economic Analysis.

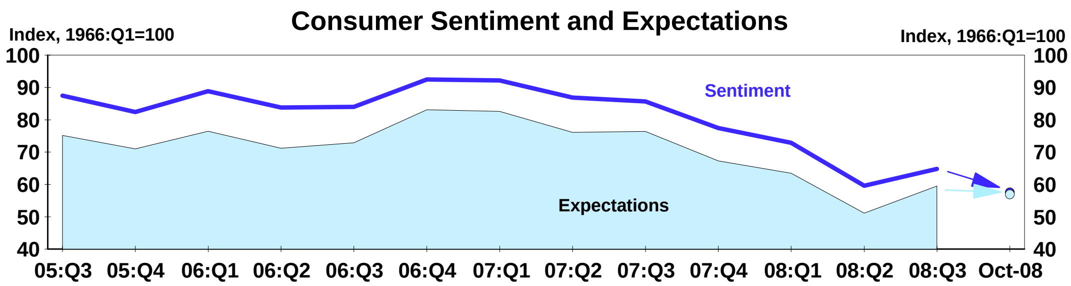
Export growth slowed in the third quarter but continued to be a source of strength for the economy. This effect is likely to abate in the coming months with the weakening global outlook.



Source: Bureau of Economic Analysis.

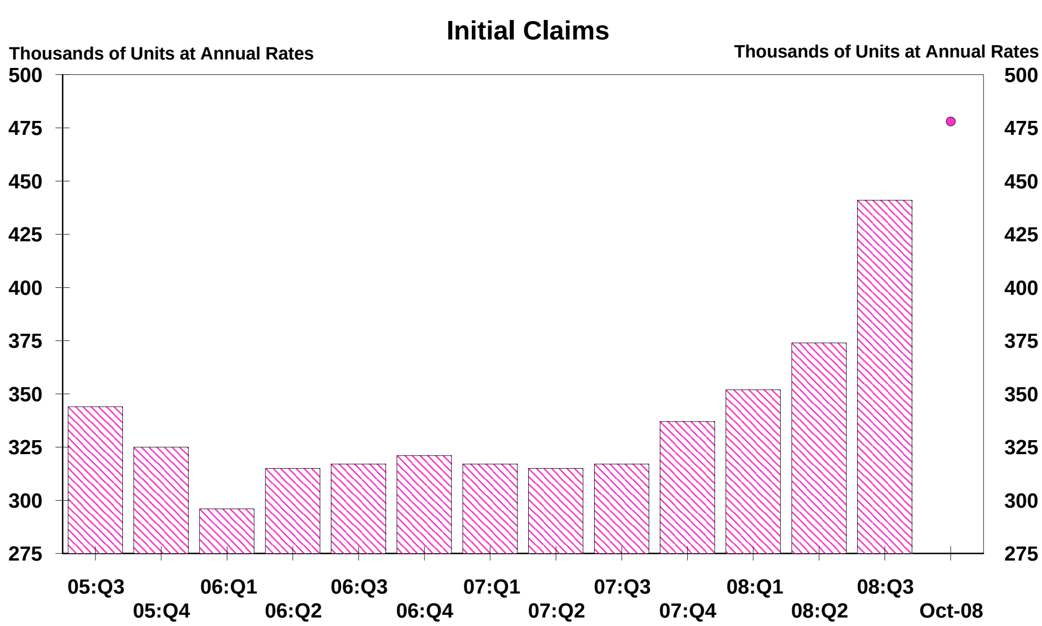
Recent financial market turmoil sent consumer attitudes downward in October, after some brief signs of optimism during the third quarter. Consumer confidence is at an all-time low, and sentiment experienced its biggest one-month drop on record in October.





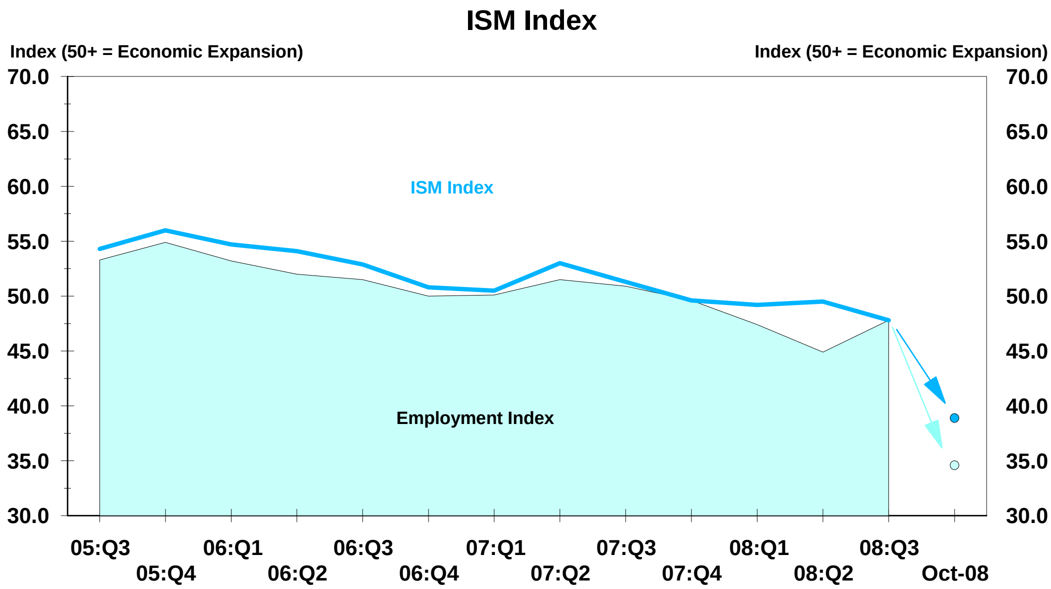
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance rose sharply in the third quarter in conjunction with the softening labor market, and continued to rise in October.



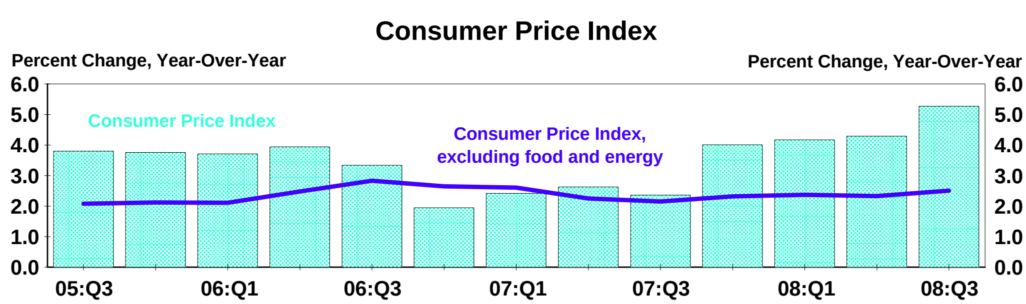
Source: Department of Labor, Employment and Training Administration.

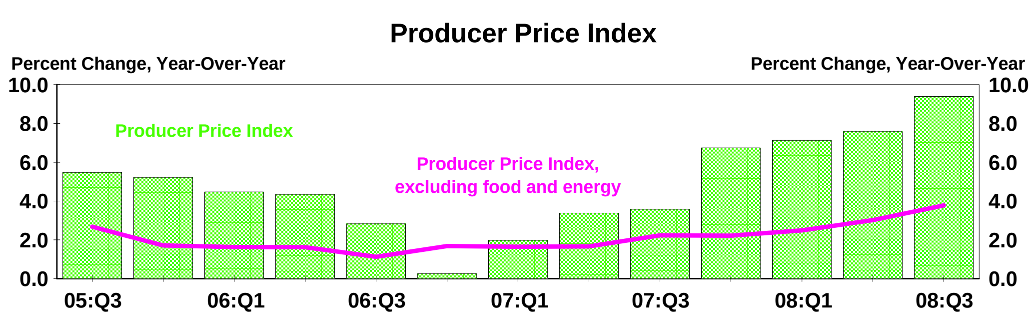
The ISM manufacturing index dropped well below 50 in October, indicating a significantly faster rate of decline in manufacturing than seen in the third quarter. The employment index also fell steeply in October from its third quarter level, as employment decreased across most industries.



Source: Institute for Supply Management.

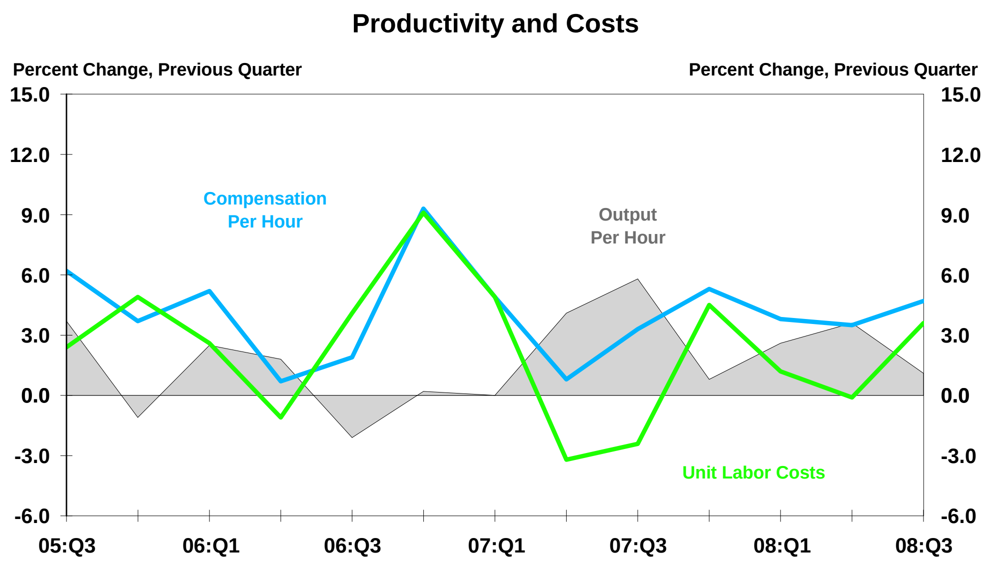
The primary measures of inflation all accelerated during the third quarter, but rising prices are of little concern as inflation is expected to moderate significantly in response to the slowdown in the economy.





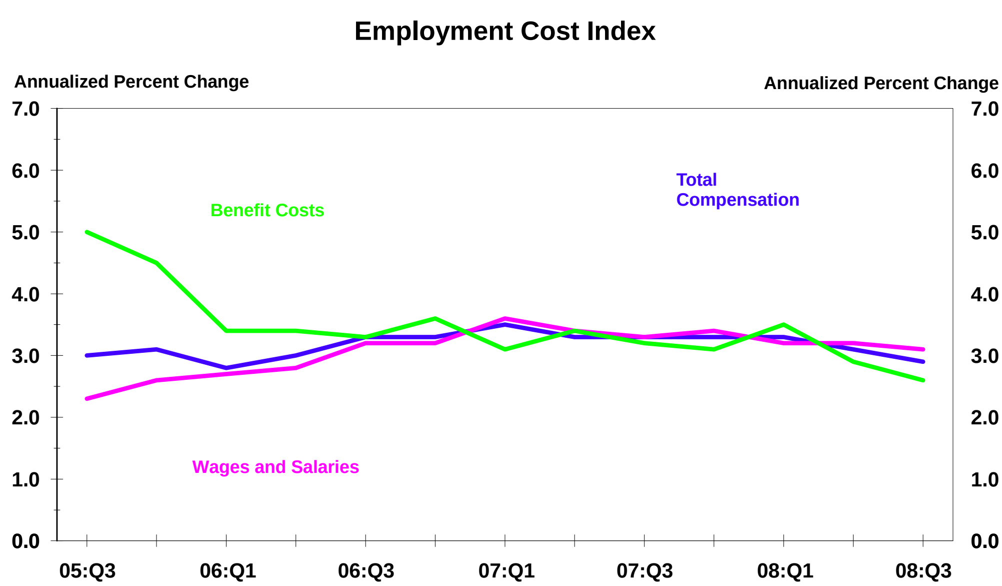
Source: Bureau of Labor Statistics.

During the third quarter, productivity slowed but still produced an increase as a drop in hours worked more than offset a smaller decrease in output. Total compensation and unit labor costs both accelerated in the third quarter.



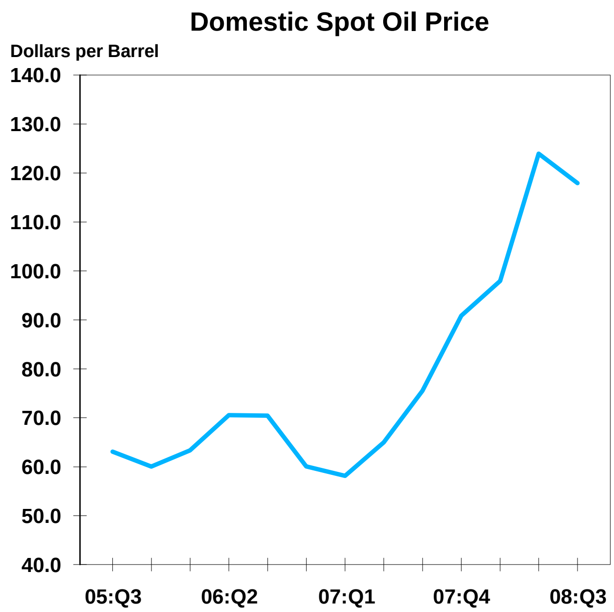
Source: Bureau of Labor Statistics.

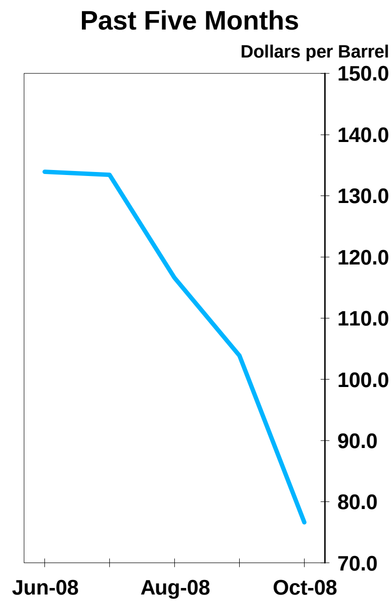
In the third quarter, employment costs grew a bit more slowly aided by slight decelerations in wages and salaries and benefit costs.



Source: Bureau of Labor Statistics.

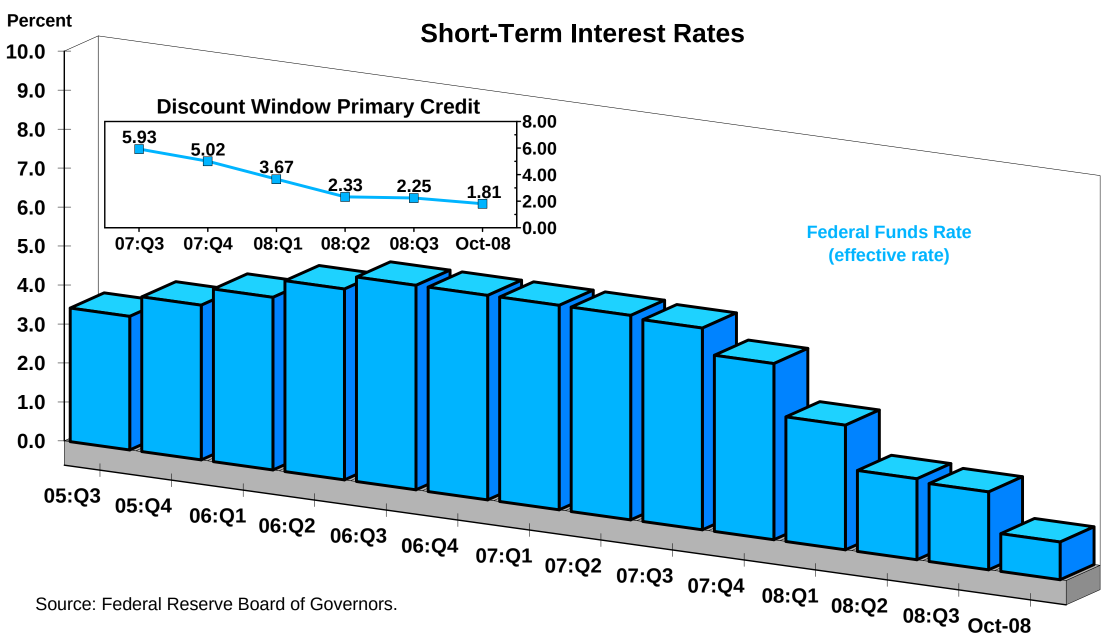
Oil prices declined in the third quarter, in response to lower global demand. Prices continued to slide in October, even as daily production caps were announced by suppliers.





Source: Wall Street Journal.

Overall, data since your last Directors' meeting show the economy contracted slightly in the third quarter, the second such contraction in the past year. The economy will likely continue to struggle going forward, hampered by falling consumption, rising unemployment and historically low consumer attitudes.



Source: Federal Reserve Board of Governors.

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

November 13, 2008

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

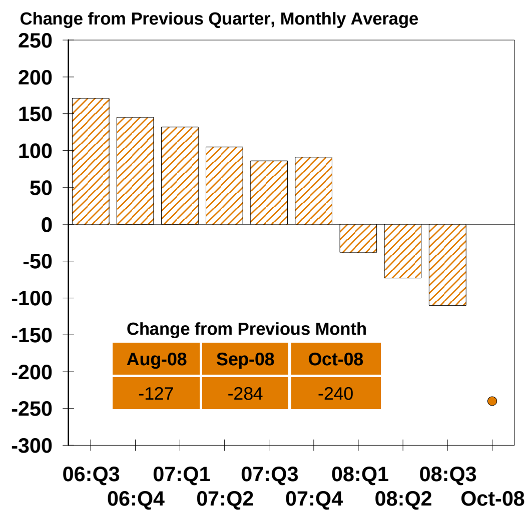
In October, payroll employment continued to fall, posting its tenth consecutive monthly decline. September's loss was revised higher, resulting in the largest single-month drop since November 2001. The accumulated job losses brought the unemployment rate up to 6.5% in October, a 14-year high.

Wholesale inventories dipped 0.1% in September, following a revised increase of 0.6% in August. August inventories were first reported as rising 0.8%. Wholesale trade fell 1.5% in September, after dropping a revised 1.6% the previous month, previously seen as a 1.0% decrease.

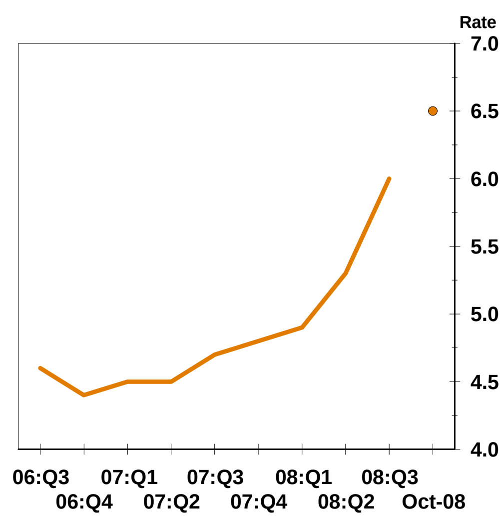
In other data released over the past week, oil prices continued to fall, dropping to $61.8 per barrel from the previous week's average of $77.4. Redbook sales fell 1.2% in the first week of November, compared to October, and sales were down 1.0% compared to the same week last year.

In October, payrolls lost 240,000 jobs and the unemployment rate rose four-tenths of a percentage point to 6.5%. In September and August, payroll reductions were revised upward to show the loss of an additional 179,000 jobs.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.