FEDERAL RESERVE
BANK OF BOSTON™

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

November 5, 2009

CURRENT ECONOMIC DEVELOPMENTS - November 5, 2009

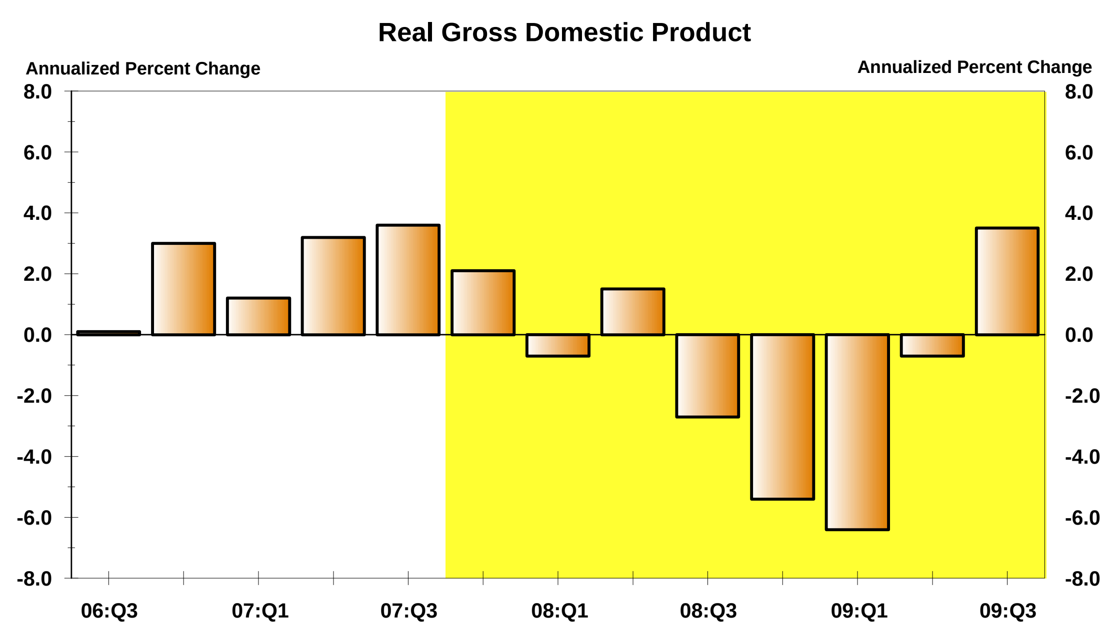
Data since your last Directors' meeting show the economy grew 3.5% in the third quarter as expected, marking its fastest pace in two years. While the strong growth rate most certainly signifies a turnaround in the economy, the recovery is likely to be slow as the labor market takes longer to bounce back and consumers remain cautious.

The growth in real GDP in the third quarter primarily reflected upturns in personal consumption expenditures, private inventory investment, exports, residential investment, and a smaller decrease in nonresidential investment. These effects were partly offset by an upturn in imports, a downturn in state and local government spending, and a slowdown in federal government spending.

In October, consumer attitudes retreated amid further concerns about employment conditions and personal finances. Initial claims for unemployment insurance fell again in October, but remain elevated well above a level considered normal. The ISM index rose to a three-and a-half year high in October, signifying further recovery in the manufacturing sector.

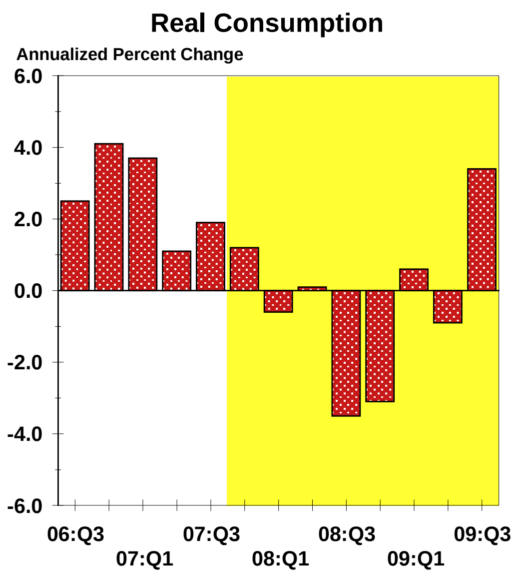
Prices continued to fall in the third quarter, at or near record paces. Unit labor costs also fell further in the third quarter and total compensation costs, as measured by the ECI, slowed to their lowest growth rate on record. Oil prices rose further in October, with the average daily price per barrel nearly double that seen at the trough in February.

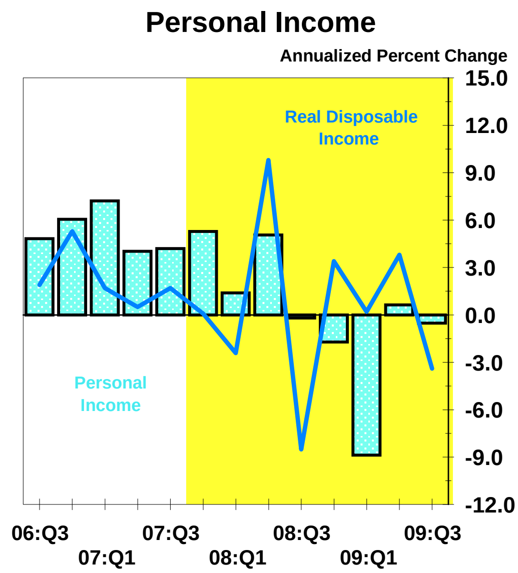
The increase in real GDP in the third quarter was the largest since the third quarter of 2007 and was due to increases in most of the major components. The primary contributors were personal consumption, exports, private inventory investment, federal government spending, and residential investment.



Source: Bureau of Economic Analysis / Haver Analytics.

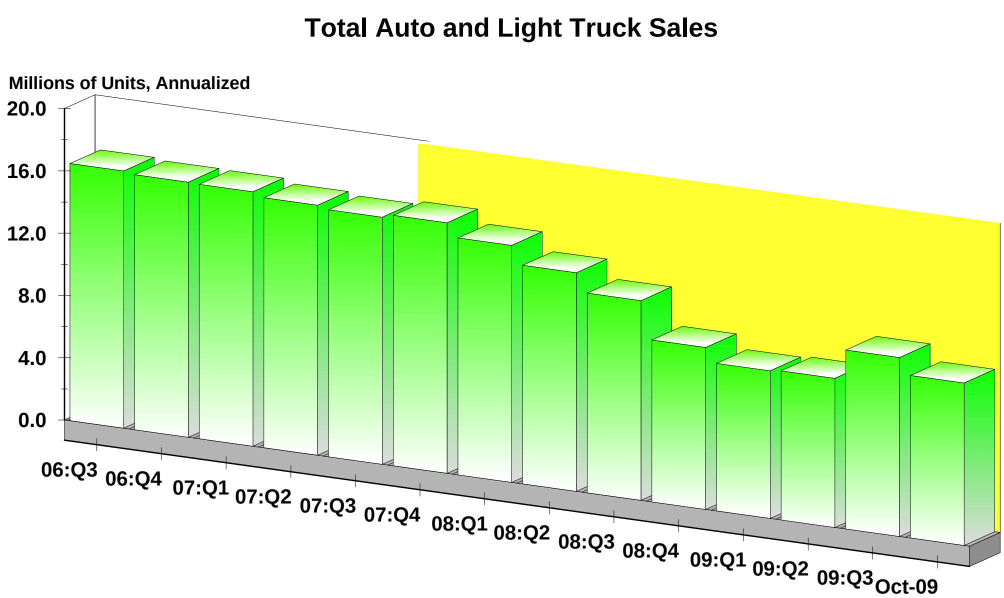
Real consumption surged in the third quarter, propelled mostly by the 'Cash-for-Clunkers' stimulus program. Consumption growth is likely to slow again in the current quarter due to the expiration of the 'CARS' rebates, falling incomes, and consumers' desires to build their savings.





Source: Bureau of Economic Analysis / Haver Analytics.

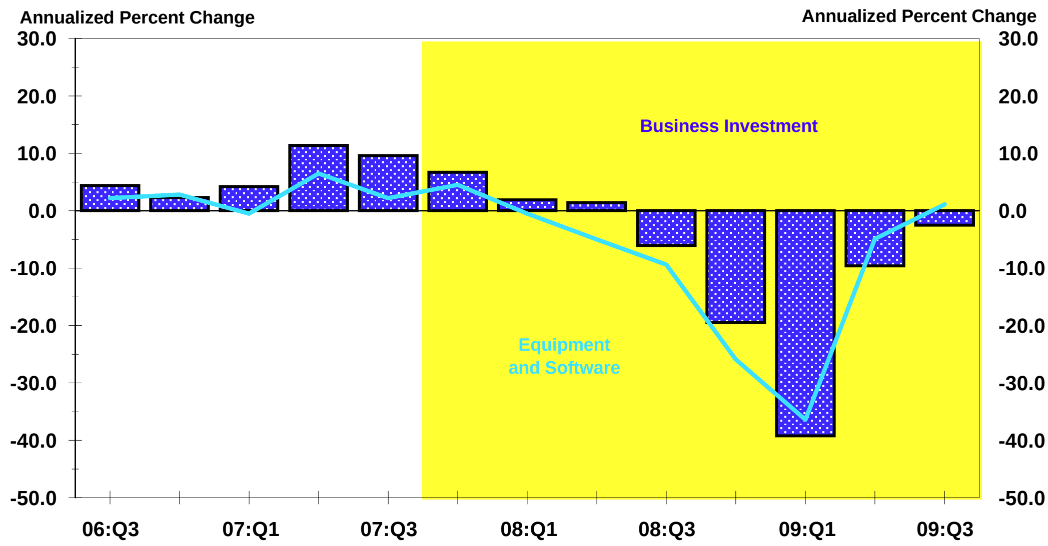
Total auto and light truck sales were down in October from their 'CARS'-inflated third quarter average. Excluding sales in July and August, when the rebate program was in effect, October produced the highest sales rate for any month this year.



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment continued to shrink in the third quarter, but by a much smaller amount than seen the past several quarters. Equipment and software investment posted a small increase, its first in nearly two years.

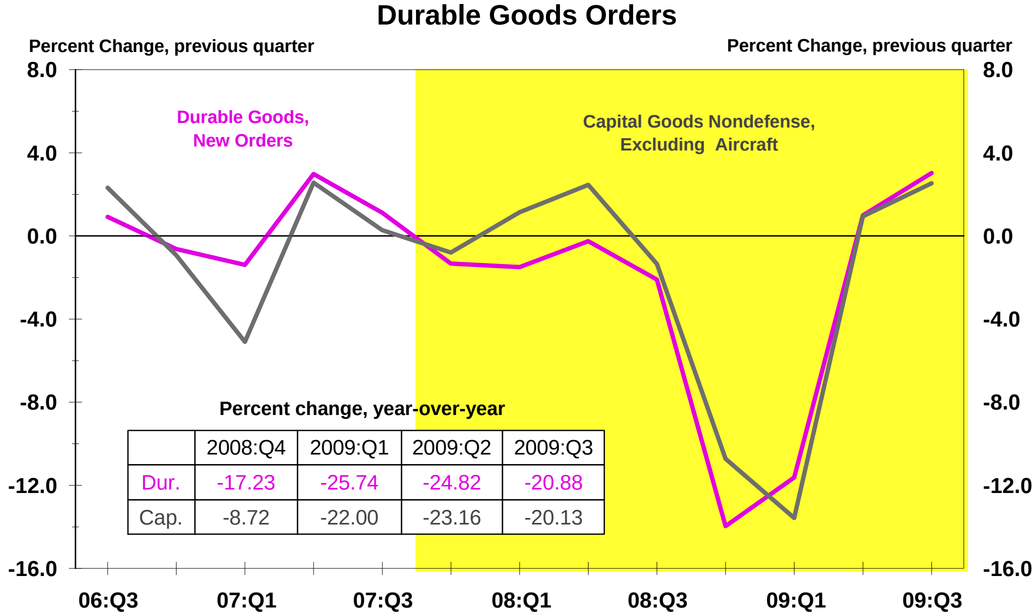
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the third quarter new orders for durable goods continued to improve, but were still down significantly from their year ago levels. Orders of nondefense capital goods, excluding aircraft, followed the same pattern.

Durable Goods Orders

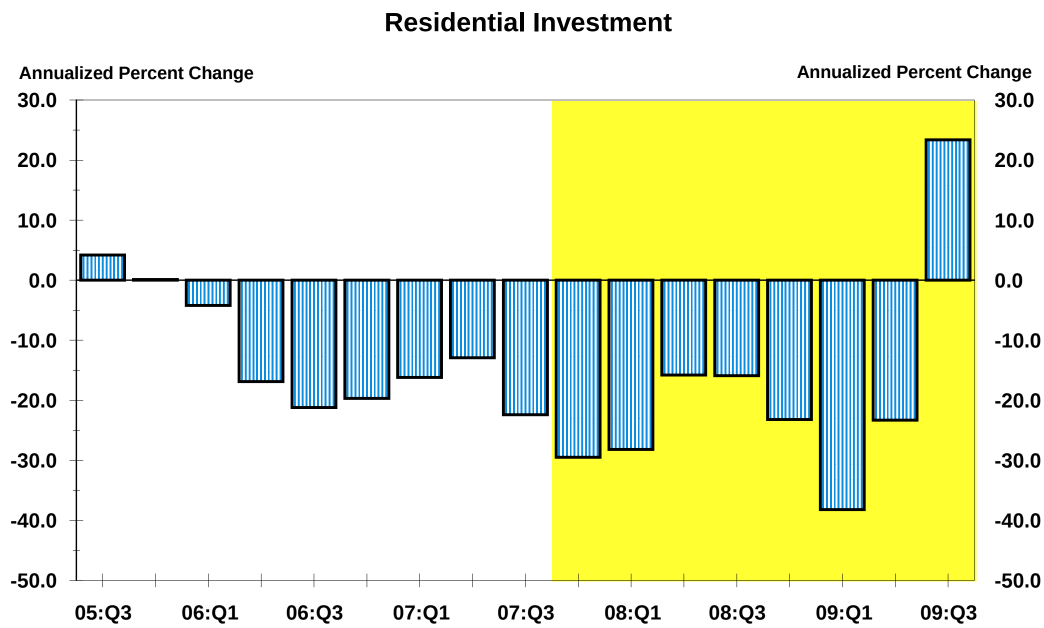


Percent change, year-over-year

	2008:Q4	2009:Q1	2009:Q2	2009:Q3
Dur.	-17.23	-25.74	-24.82	-20.88
Cap.	-8.72	-22.00	-23.16	-20.13

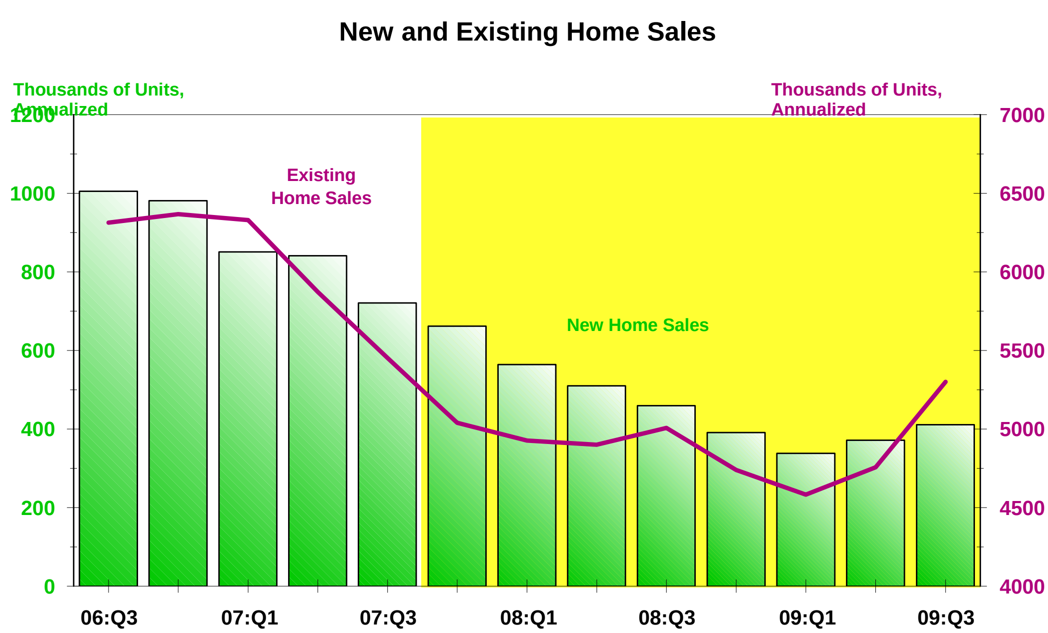
Source: U.S. Census Bureau / Haver Analytics.

Residential investment increased in the third quarter, ending a string of fourteen consecutive drops. From its peak in 2005:Q4 to its low in 2009:Q2, residential investment fell 44.0%.



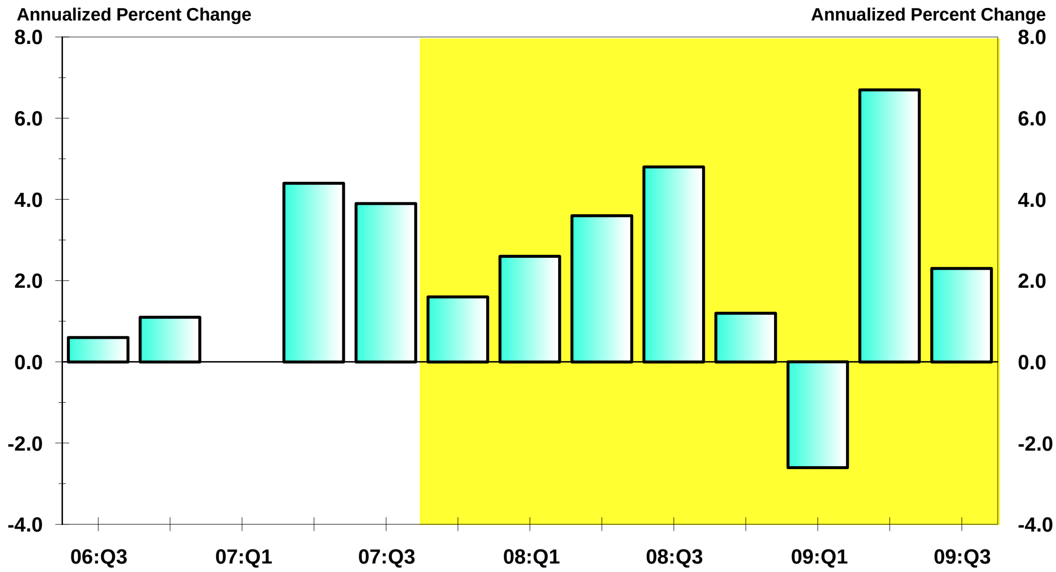
Source: U.S. Census Bureau / Haver Analytics.

The housing market continued its rebound in the third quarter, aided by stimulus rebates, lower prices and low mortgage rates. Existing home sales had their strongest quarter since Q3:2007 and new homes sold at their best pace in a year.



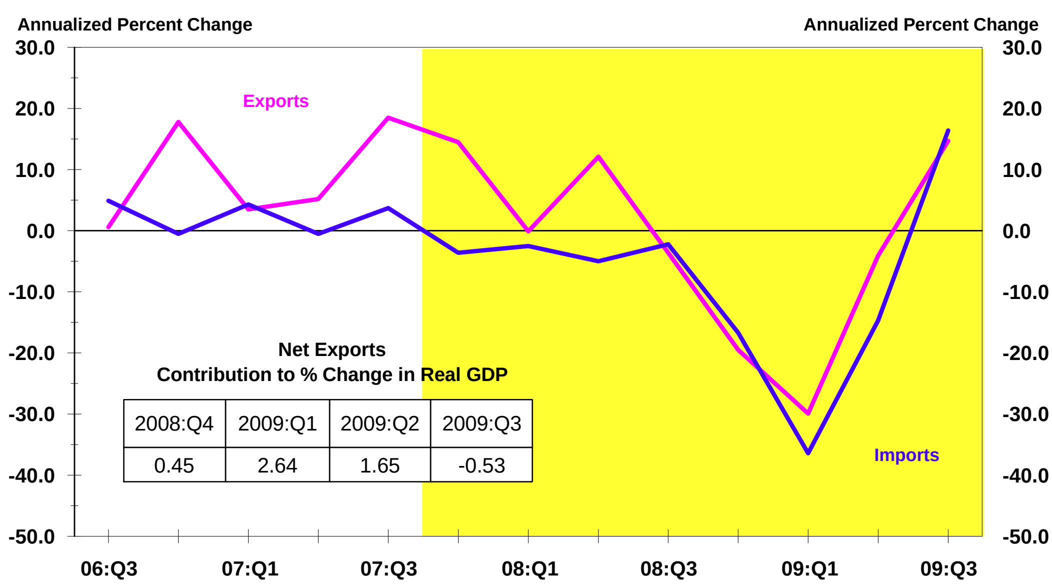
Source: U.S. Census Bureau / Haver Analytics.

Government spending posted another solid gain in the third quarter.



Source: Bureau of Economic Analysis / Haver Analytics.

The recovering global economy provided a boost to both imports and exports in the third quarter. Their combined effects, however, were a slight drag on GDP, marking the first negative contribution in net exports in the past year.

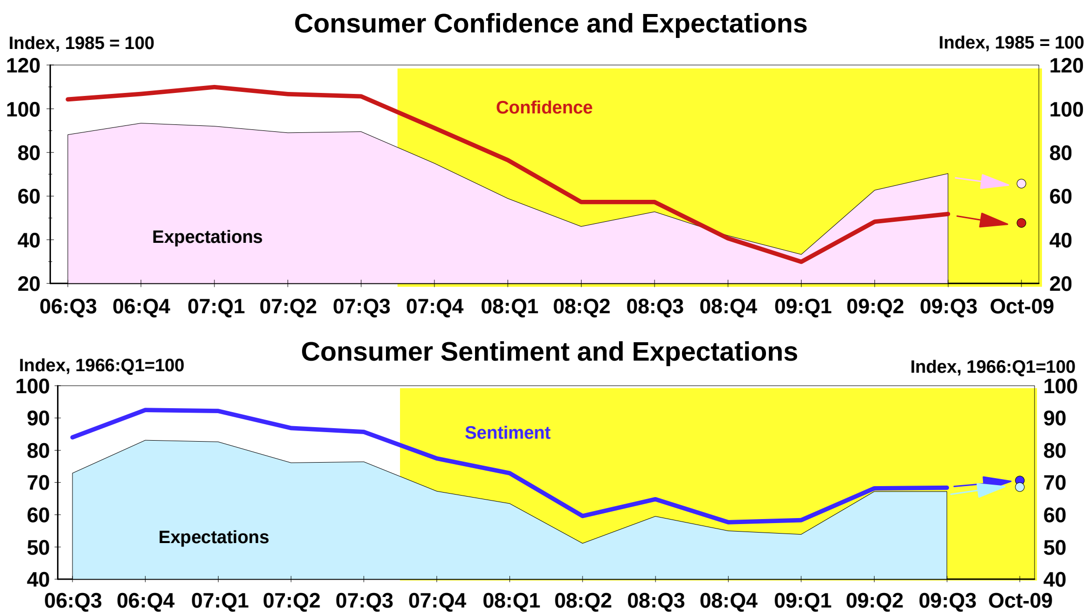


Net Exports
Contribution to % Change in Real GDP

2008:Q4	2009:Q1	2009:Q2	2009:Q3
0.45	2.64	1.65	-0.53

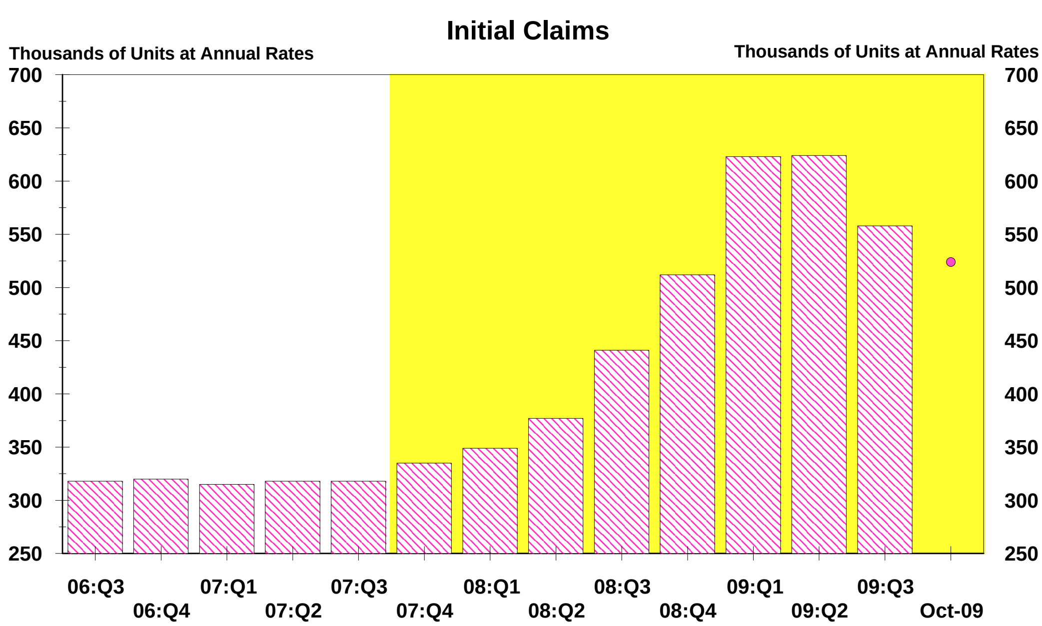
Source: Bureau of Economic Analysis / Haver Analytics.

Consumer attitudes retreated in October from their September levels, as job market and income concerns outweighed any optimism about improvements in the rest of the economy. As consumers continue to worry about their personal finances, their spending will likely remain restricted.



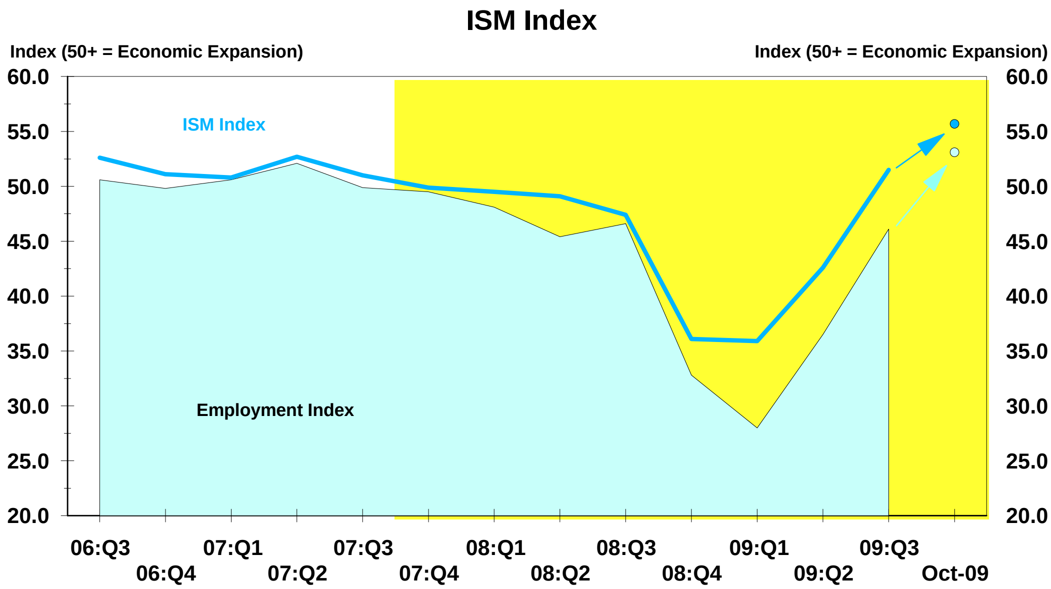
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Initial claims for unemployment insurance eased considerably in the third quarter, and continued to fall in October. Still, current levels remain high, suggesting further job layoffs.



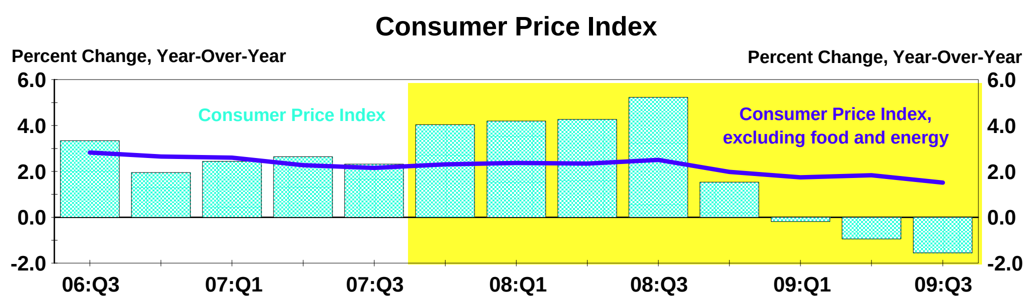
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

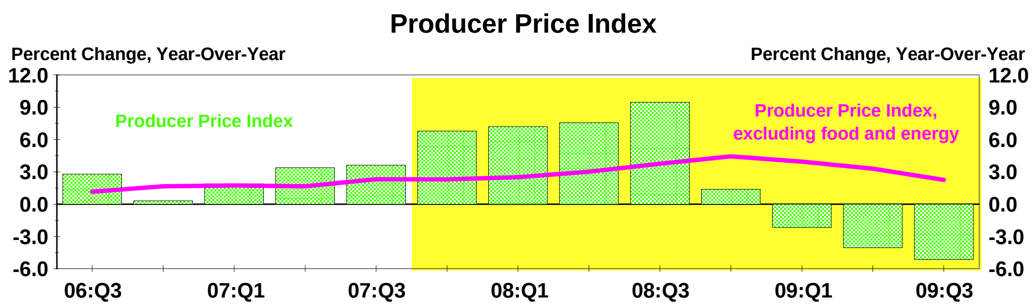
The manufacturing sector continued to improve in October, as the ISM index rose to its highest level since April 2006. The employment index also showed further signs of recovery, breaking above 50 for the first time in 15 months.



Source: Institute for Supply Management / Haver Analytics.

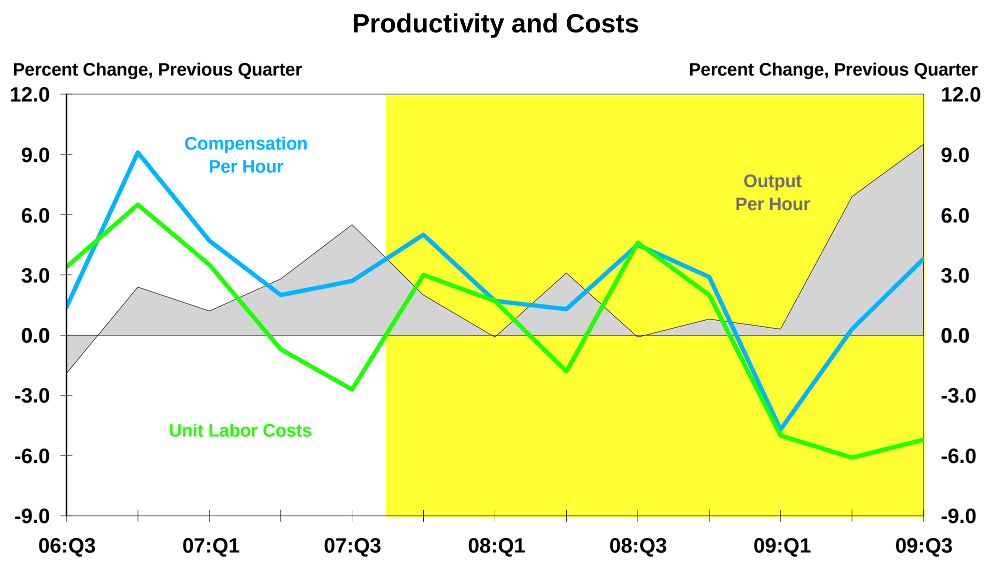
During the third quarter, total consumer prices fell at their fastest pace in 60 years, while core prices grew at their slowest pace since 2004:Q1. Producer prices experienced similar changes, with the drop in the total index being the biggest on record.





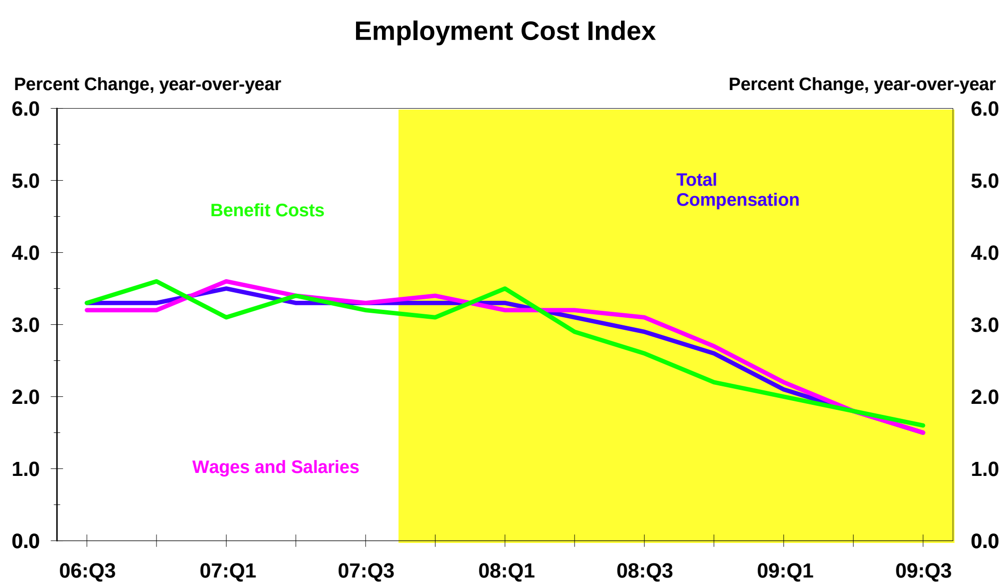
Source: Bureau of Labor Statistics / Haver Analytics.

During the third quarter, productivity grew at its fastest pace in three years as output increased despite further reductions in hours worked. Total compensation accelerated, but unit labor costs continued to fall.



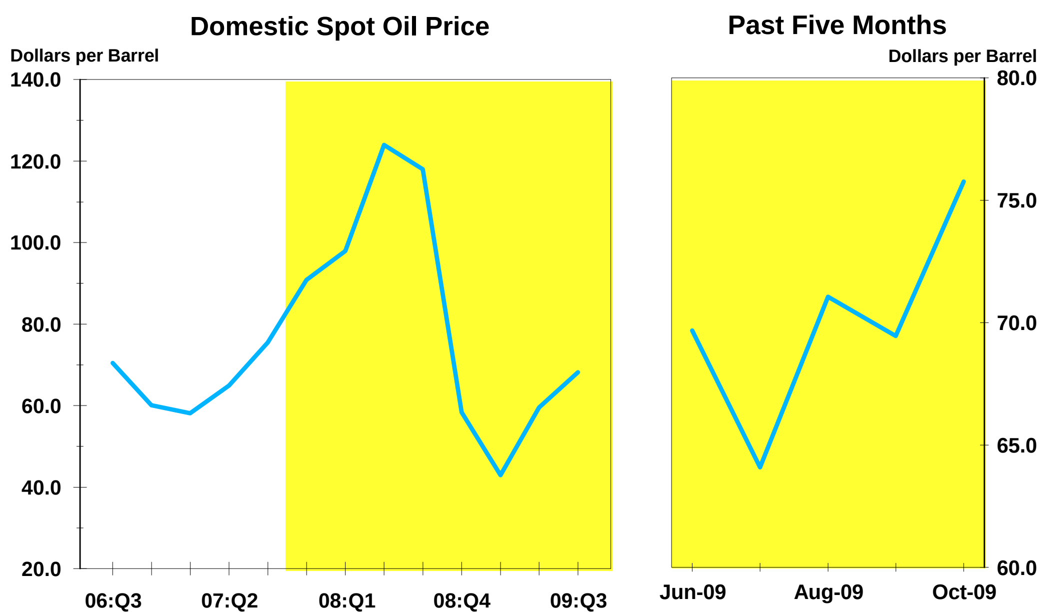
Source: Bureau of Labor Statistics / Haver Analytics.

In the third quarter, employment costs grew at the slowest annual pace on record, dating back to 1982. Wages and salaries and benefit costs also set records for slow growth. On a quarterly basis, the ECI grew 0.4% in the third quarter, only slightly above the record low of 0.3% set earlier this year.



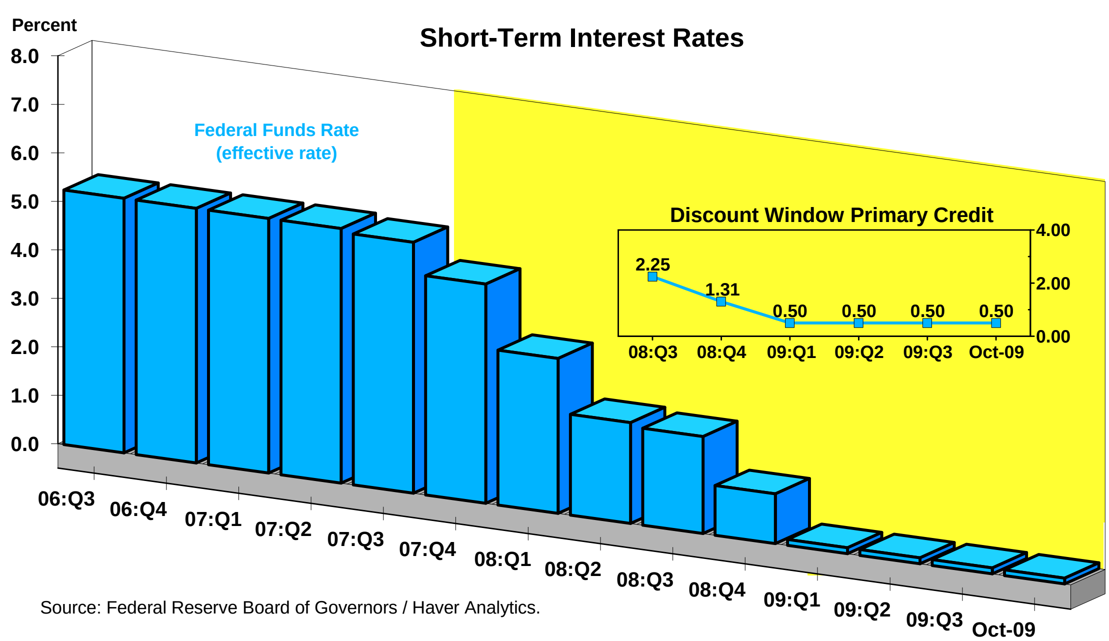
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices increased overall in the third quarter, and continued to rise in October.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy grew 3.5% in the third quarter as expected, marking its fastest pace in two years. While the strong growth rate most certainly signifies a turnaround in the economy, the recovery is likely to be slow as the labor market takes longer to bounce back and consumers remain cautious.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

November 12, 2009

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

In October, payroll employment posted its 22nd consecutive monthly decline and the unemployment rate jumped into double-digits. The magnitude of the job losses, however, continued to lessen. The October decrease was smaller than the monthly average seen in the third quarter, and well below the average loss over the previous twelve months.

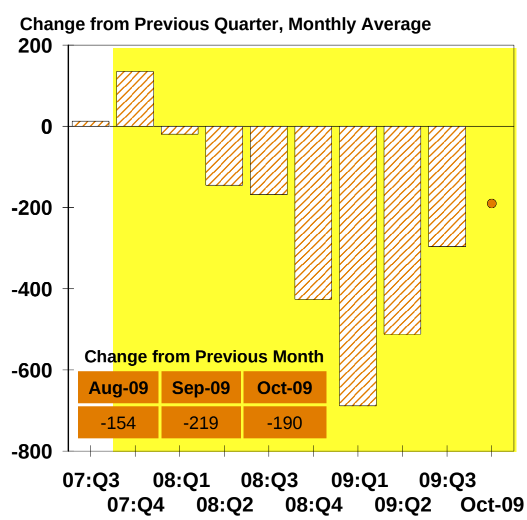
Wholesale trade rose 0.7% in September, after rising 1.1% in August. Wholesale inventories fell 0.9% in September, following a 1.3% drop the previous month.

In other data released over the past week, oil prices rose slightly to $79.3 per barrel from the previous week's average of $78.4.

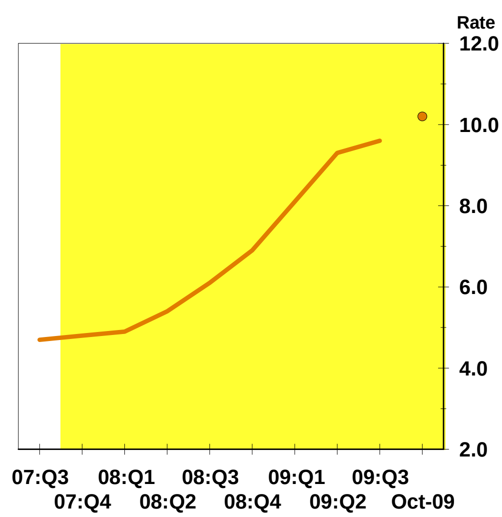
The Veteran's Day holiday led to this being a quiet week in terms of data releases, highlighted by U.S. International Trade for September and an early look at November Consumer Sentiment, both due out Friday.

In October, payrolls lost 190,000 jobs and the unemployment rate rose four-tenths of a percentage point to 10.2%. In September and August, payroll reductions were smaller than previously estimated, with the revised data showing 91,000 fewer job losses.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.