FEDERAL RESERVE
BANK OF BOSTON™

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

November 3, 2011

CURRENT ECONOMIC DEVELOPMENTS - November 3, 2011

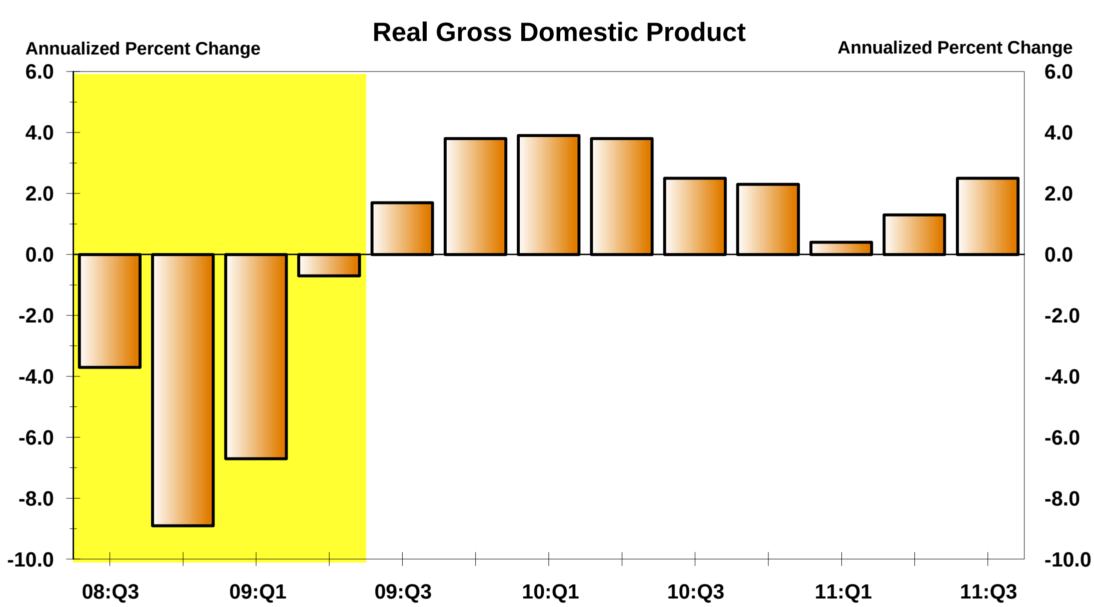
Data since your last Directors' meeting show the economy grew at its fastest pace of the year in the third quarter. Despite the pick up, third quarter growth was not robust enough to significantly reduce unemployment and the same areas of weakness and downside risks remain as threats to higher growth in the near term. Confidence is low, the housing market is still depressed, and the European debt situation remains in flux. Resilient consumers and businesses continue to support the economy, but they will need to be joined by other sectors for the recovery to strengthen.

The growth in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports and federal government spending. Those effects were partly offset by negative contributions from private inventory investment, state and local government spending and an increase in imports.

In October, consumer attitudes remained subdued amid ongoing concerns about job conditions, personal finances and the overall health of the economy. Initial claims for unemployment insurance decreased in October, but remain well above their pre-recession levels. The ISM index declined slightly in October, but continued to signal a small expansion in the manufacturing sector.

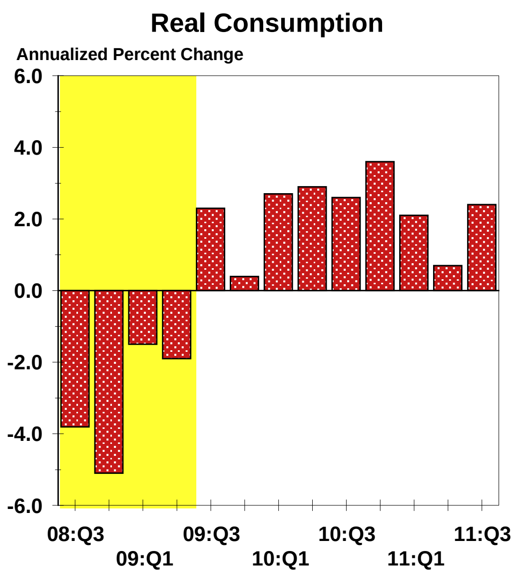
Total consumer inflation accelerated further in the third quarter, as did the core index. Unit labor costs fell in the third quarter and total compensation costs, as measured by the ECI, slowed. Oil prices rose steadily through October, but their average for the month was in line with those of the previous two months.

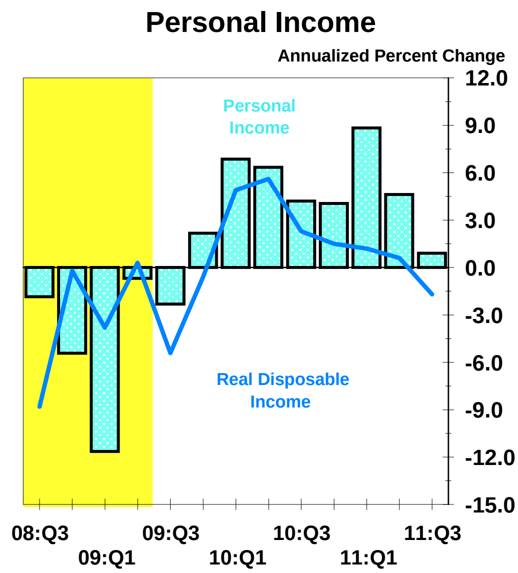
Real GDP growth acccelerated in the third quarter to its fastest growth pace in one year. The higher rate was due primarily to accelerations in personal consumption expenditures and nonresidential fixed investment and a smaller decrease in state and local government spending, the effects of which were partly offset by a larger decrease in private inventory investment.



Source: Bureau of Economic Analysis / Haver Analytics.

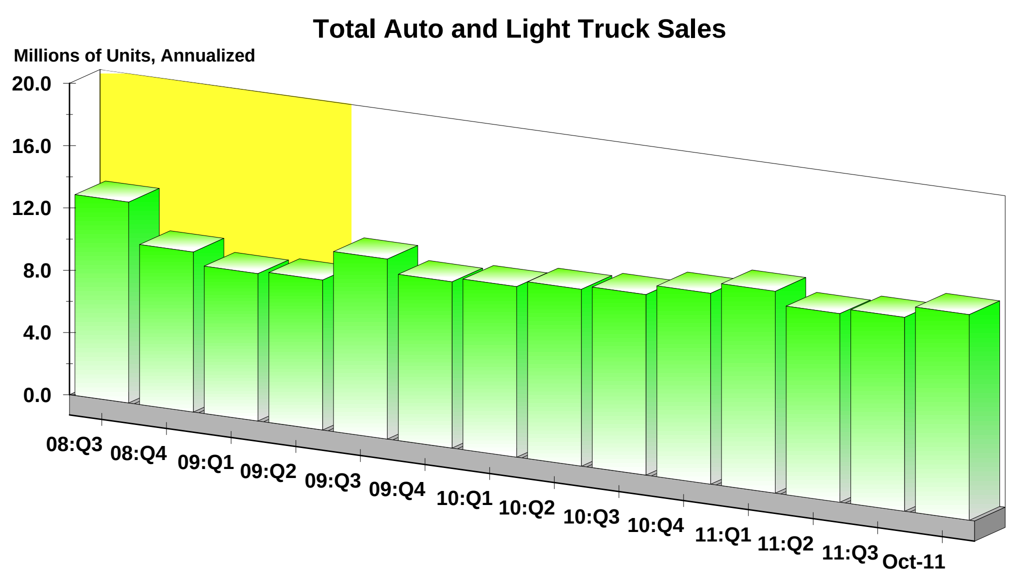
Real consumption grew at its fastest pace of the year in the third quarter, and was the primary contributor to the increase in third quarter GDP. The strong consumption occured despite a decrease in real incomes and only a small increase in nominal incomes.





Source: Bureau of Economic Analysis / Haver Analytics.

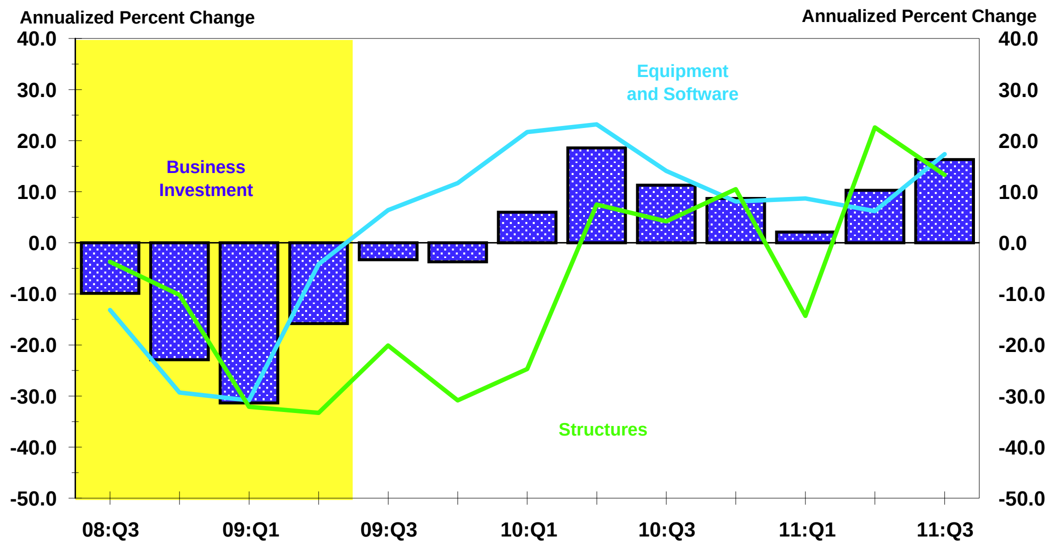
Total lightweight vehicle sales rose again in October, easily eclipsing their third quarter average and nearly equaling the most recent high established in February. Sales for domestic manufacturers were especially strong - the best in over three years. Sales have likely been helped by the increasing need for consumers to replace older cars. The average age of vehicles nationwide has risen to 10.7 years, from 9.8 in 2007.



Source: Bureau of Economic Analysis / Haver Analytics / Edmunds.com / N.Y Times.

Business investment accelerated in the third quarter, due to double-digit gains in both equipment and software and nonresidential structures.

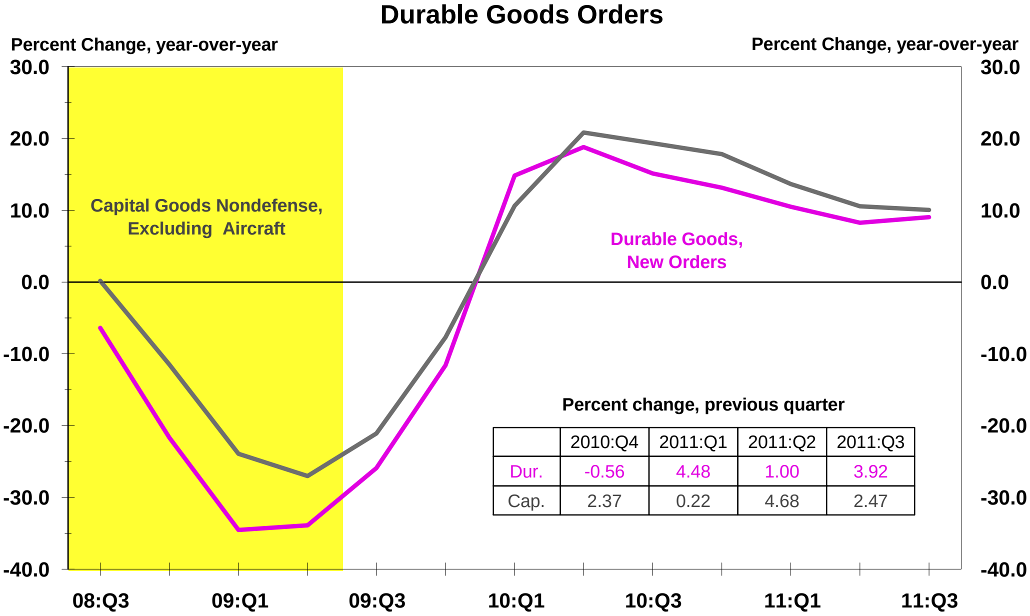
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

New orders for durable goods continued to improve in the third quarter, and at a higher pace than seen in the second quarter. Orders of nondefense capital goods, excluding aircraft, slowed a bit in the third quarter but remained solid.

Durable Goods Orders

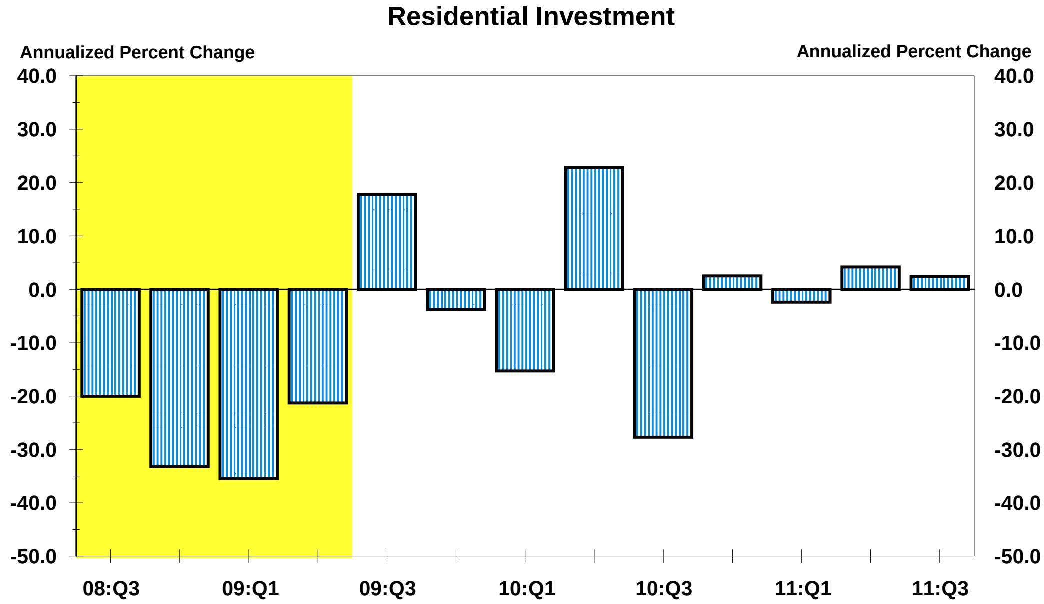


Percent change, previous quarter

	2010:Q4	2011:Q1	2011:Q2	2011:Q3
Dur.	-0.56	4.48	1.00	3.92
Cap.	2.37	0.22	4.68	2.47

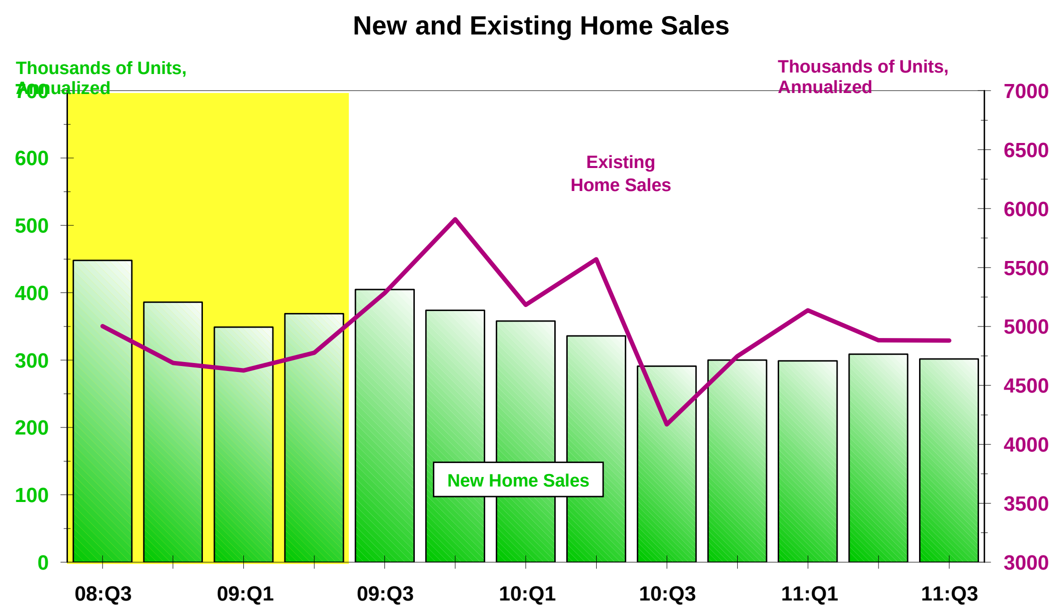
Source: U.S. Census Bureau / Haver Analytics.

Residential investment posted another small increase in the third quarter, marking the first consecutive quarterly gains since the second half of 2005. Despite the recent gains, the current level of residential investment is still below the initial trough following the recession.



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

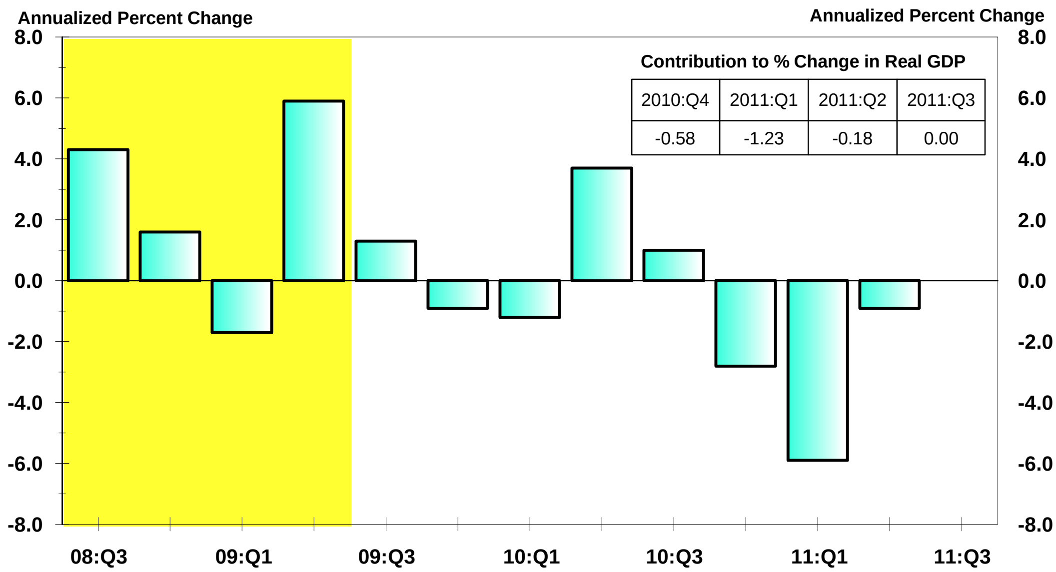
The housing market remained depressed in the third quarter. New home sales eased a bit and were little changed from the levels seen over the previous four quarters. Existing home sales were flat in the third quarter, and despite some volatility over the past two years, were similar to the sales paces seen during the recession.



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

Government spending was unchanged in the third quarter, following three straight quarterly declines. The improvement is likely temporary, however, as spending is expected to fall further in the coming years as fiscal policy continues to tighten.

Government Spending

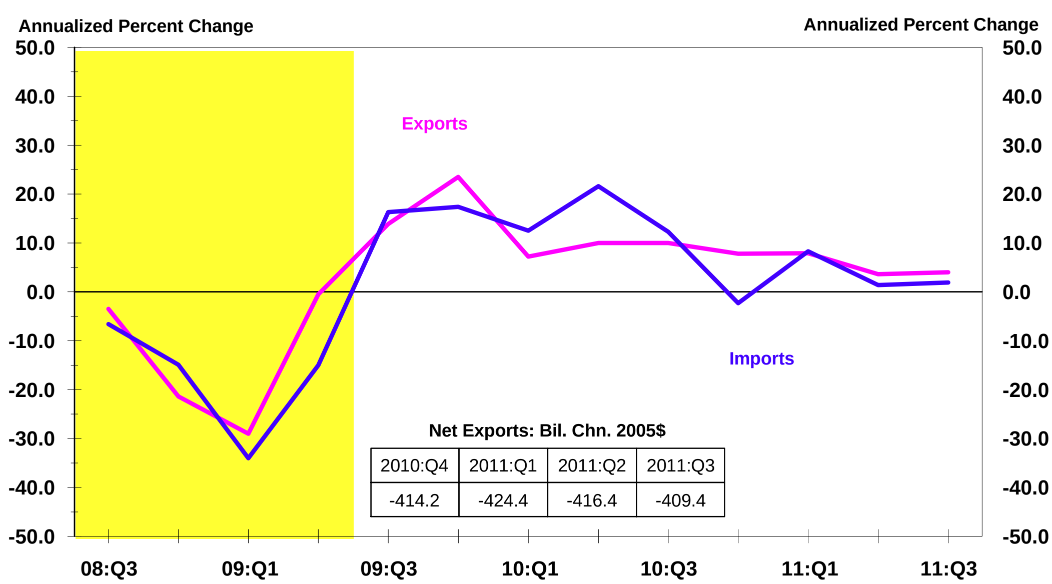


2010:Q4	2011:Q1	2011:Q2	2011:Q3
-0.58	-1.23	-0.18	0.00

Source: Bureau of Economic Analysis / Haver Analytics.

Growth in both imports and exports was little changed in the third quarter. The two series have moved in tandem throughout 2011, resulting in a mostly steady level of net exports.

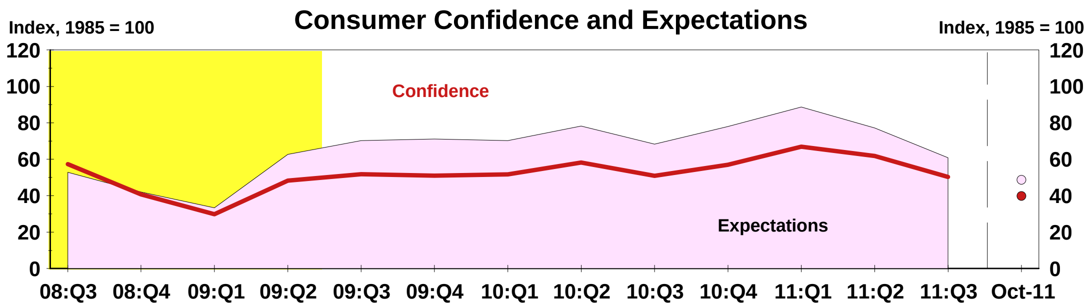
Exports and Imports

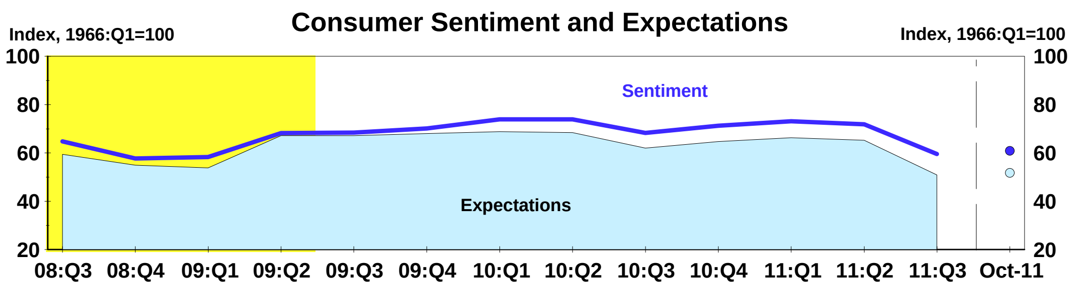


2010:Q4	2011:Q1	2011:Q2	2011:Q3
-414.2	-424.4	-416.4	-409.4

Source: Bureau of Economic Analysis / Haver Analytics.

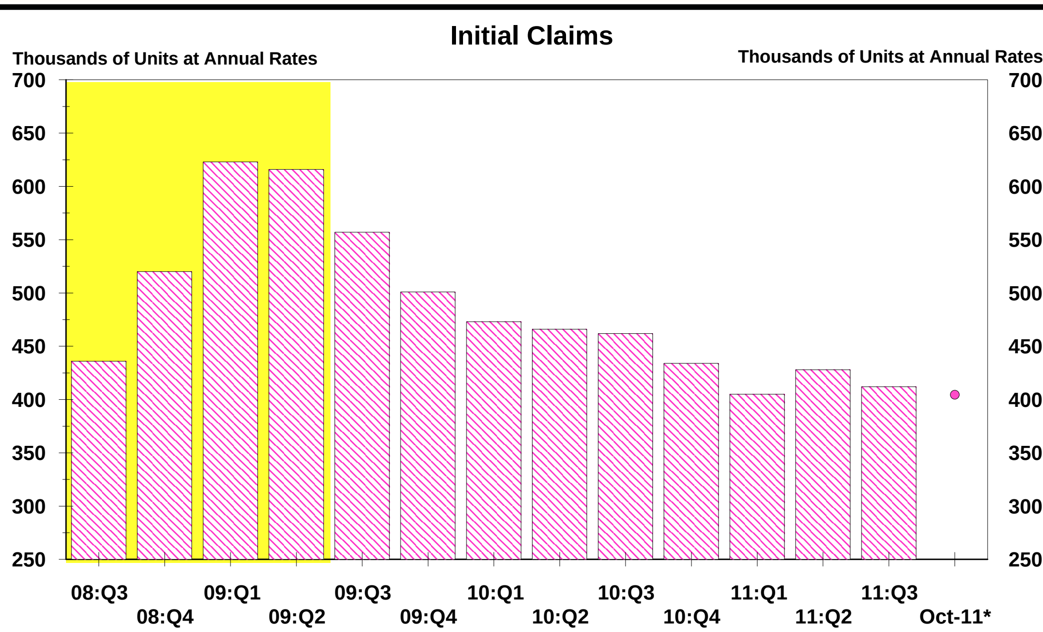
Measures of consumer attitudes were mixed in October, and despite some improvement in sentiment, estimates are at or near their lowest levels since the recession. The pessimism is widespread, with respondants concerned about job prospects, personal finances, business conditions and the ability of elected officials to address any ofthose issues.





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

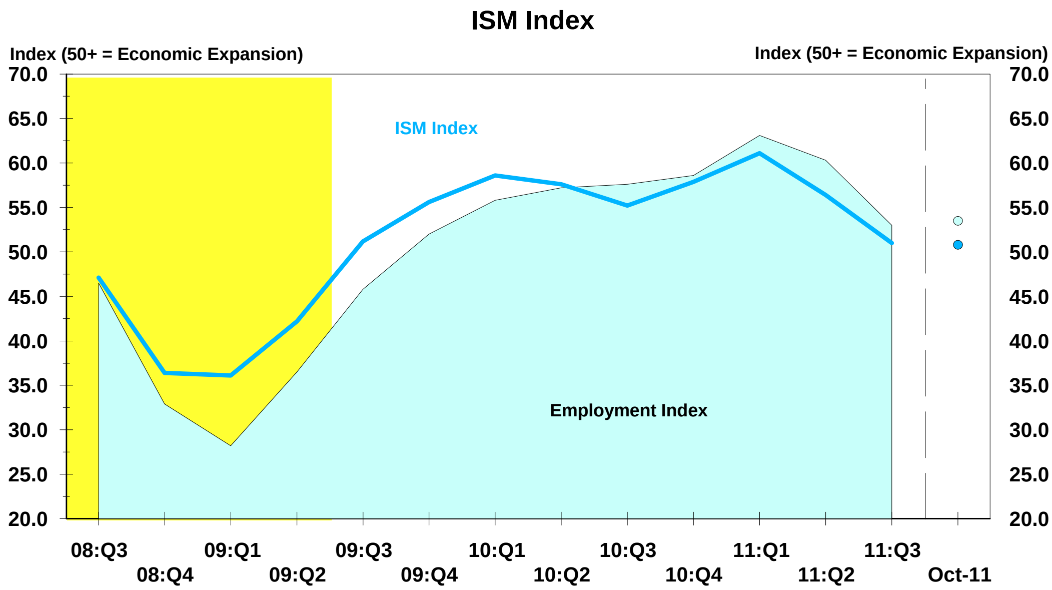
Initial claims for unemployment insurance came down some in the third quarter and eased a bit more in October. But overall, claims have been little changed this year and seem to be stuck around the 400,000 level. Weekly claims averaged roughly 315,000 in the two years preceding the recession.



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

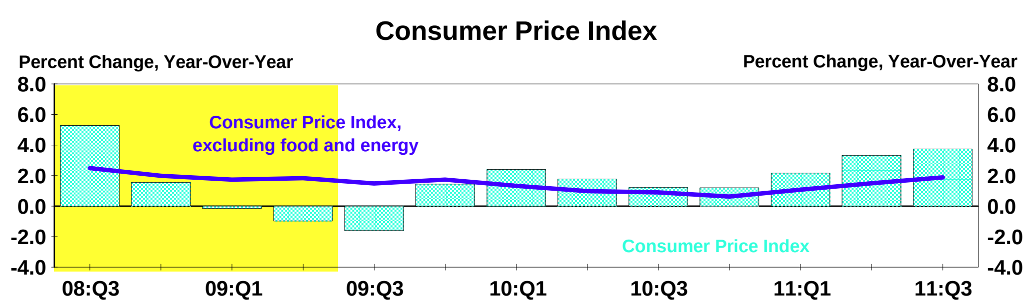
*Four-week moving average, ending October 29.

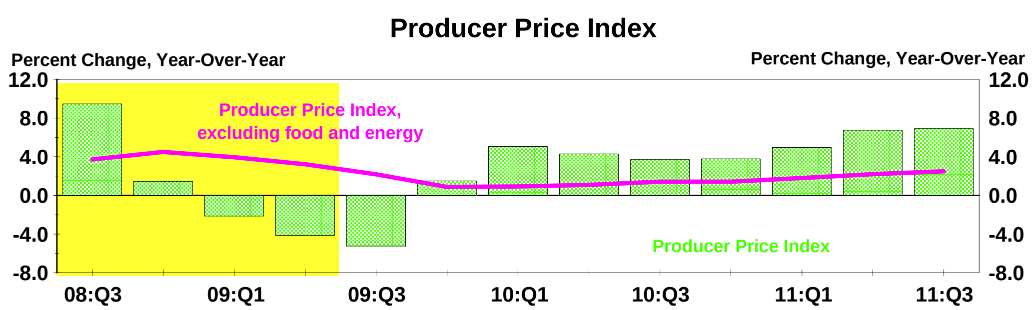
The ISM manufacturing index eased a bit in October, but matched its third quarter average. While the index still signals slight expansion of the sector, growth has slowed considerably from earlier in the year. The employment index also declined in October, but improved somewhat from the third quarter.



Source: Institute for Supply Management / Haver Analytics.

During the third quarter, price measures continued to creep upward. Consumer prices have risen steadily thoughout the year, and third quarter growth was the fastest since the second half of 2008. Producer price indices also rose further in the third quarter, advancing at their fastest paces since the end of the recession.

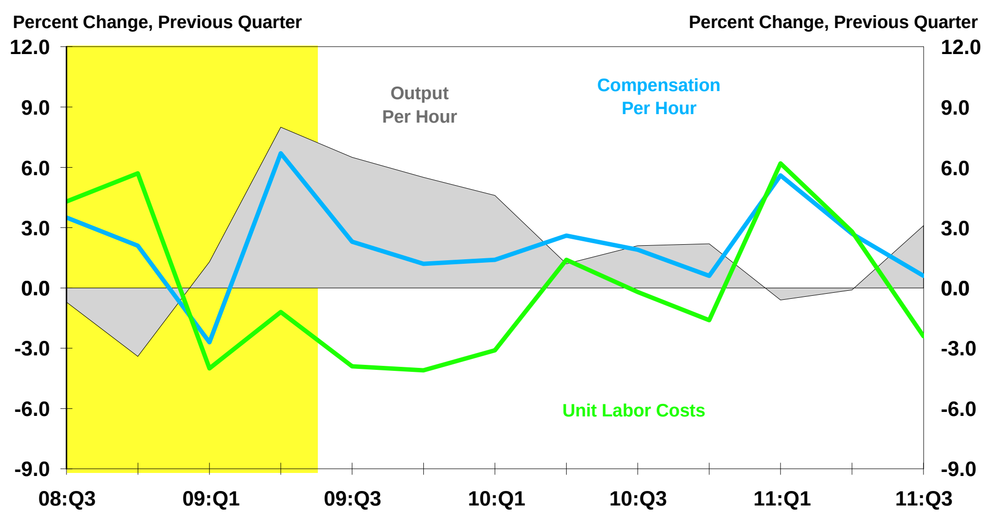




Source: Bureau of Labor Statistics / Haver Analytics.

Productivity grew during the third quarter at its fastest pace since the first quarter of 2010, easily offsetting the small declines seen in the first and second quarters of this year. Total compensation slowed in the third quarter, while unit labor costs fell.

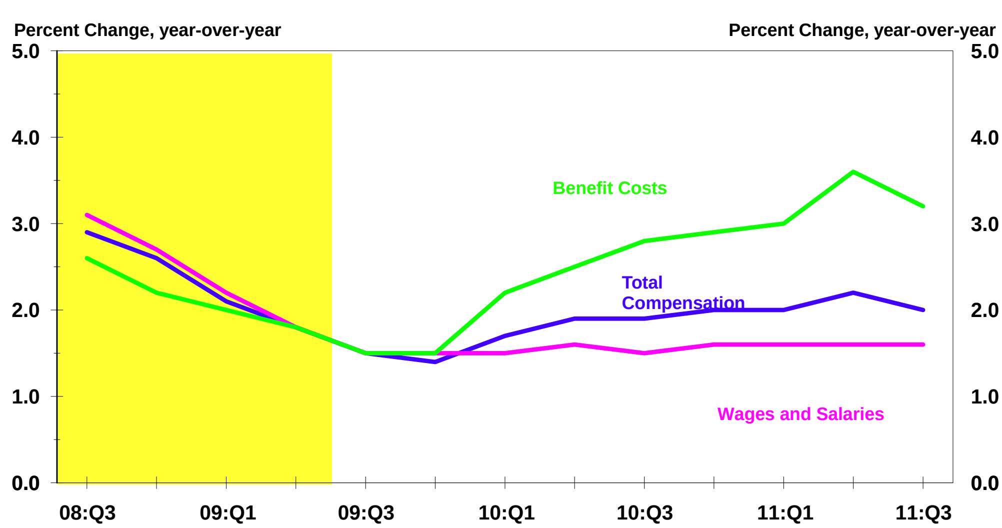
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

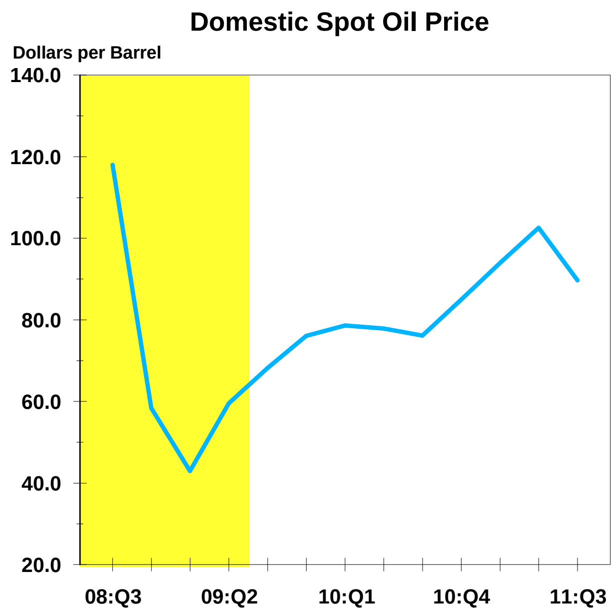
Employment costs eased in the third quarter on a year-over-year basis, as benefit costs decelerated and wage and salary growth continued to hold steady. On a quarterly basis the ECI grew 0.3% in the third quarter, matching the record lows seen in the first and third quarters of 2009.

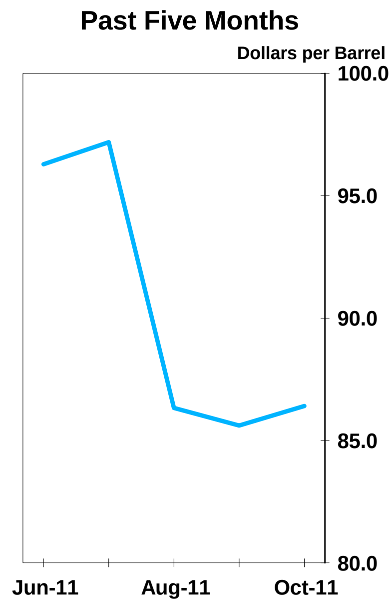
Employment Cost Index



Source: Bureau of Labor Statistics / Haver Analytics.

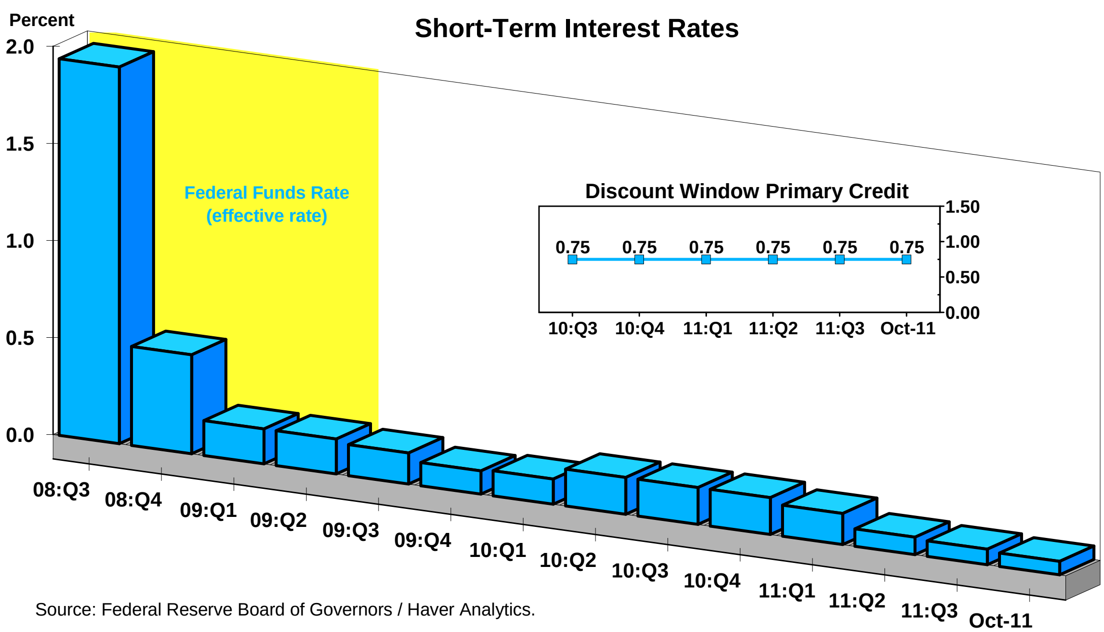
On average, oil prices in October were similar to the levels seen in August and September. But the daily closing prices actually rose consistently during the month, from near $75 per barrel in early October to the low $90s by the end of the month.





Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy grew at its fastest pace of the year in the third quarter. Despite the pick up, growth was not robust enough to significantly reduce unemployment and the same areas of weakness and downside risks remain as threats to higher growth in the near term. Confidence is low, the housing market is still depressed, and the European debt situation remains in flux. Resilient consumers and businesses continue to support the economy, but they will need to be joined by other sectors for the recovery to strengthen.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

November 10, 2011

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

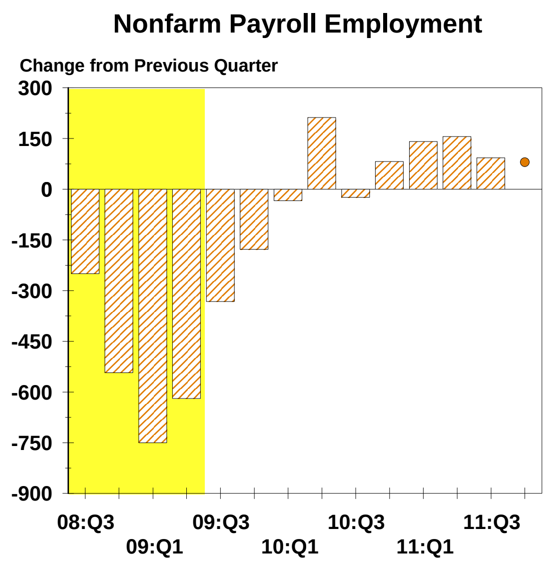
Last Friday's employment report showed continued, modest improvement in the labor market. Nonfarm payrolls added 80,000 jobs in October and payroll estimates for the previous two months were revised substantially upward. While government payrolls continue to shrink, private payrolls have increased by more than 150,000 per month this year on average. The unemployment rate fell one-tenth of a percentage point to 9.0% in October as a sizable increase in civilian employment outpaced a smaller increase in the labor force.

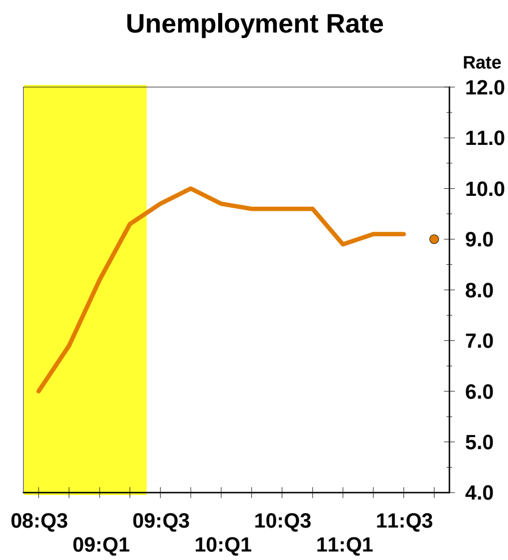
Average hourly earnings posted a small increase in October, while average hours worked held steady. The higher earnings, combined with the larger payrolls, could translate to higher incomes in the fourth quarter.

Wholesale inventories declined 0.1% in September, their first decrease in two years. Sales at the wholesale level increased 0.5% in September, their fourth consecutive monthly gain.

Redbook sales rose 1.4% in the first week of November, compared to October, and were up 3.1% versus the same period last year. Oil prices rose during the past week, and have averaged $94.2 per barrel so far in November after averaging $86.4 per barrel in October.

Nonfarm payrolls added 80,000 jobs in October, and job gains for the previous two months were revised upward by a total of 102,000 jobs. The increases helped the unemployment rate fall one-tenth of a percentage point to 9.0%. Total civilian employment posted another large gain in October, and has increased by an average 335,000 over the past three months, reaching its highest level since April 2009.





Source: Bureau of Labor Statistics / Haver Analytics.