FEDERAL RESERVE BANK OF BOSTON™

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

October 1, 2009

CURRENT ECONOMIC DEVELOPMENTS - October 1, 2009

Data released since your last Directors' meeting has been somewhat mixed, but still foreshadow a stronger second half of the year. Consumers are more optimistic than they have been in months, the manufacturing sector is showing signs of further improvement, and the third quarter is likely to produce positive growth in GDP for the first time in over a year. Still, as expected, labor markets will likely be last to turn around, slowing the recovery of the economy as a whole.

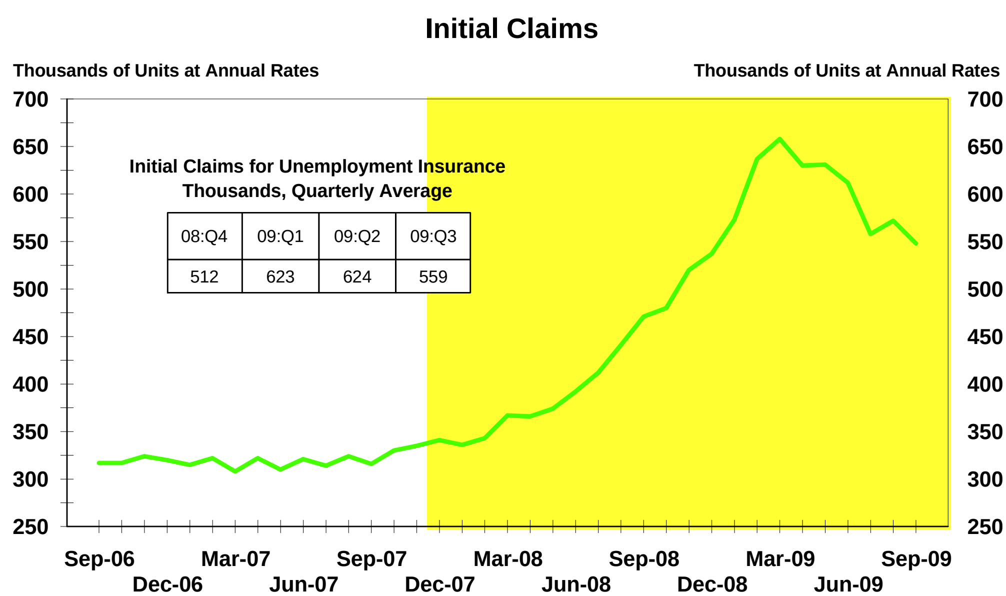
In September, initial claims decreased as the labor market tried to find some stability. Consumer attitudes were mixed in September, as sentiment posted a strong gain while confidence eased a bit. Personal incomes posted another small loss, but consumption surged as consumers took advantage of the 'CARS' stimulus rebates.

Housing market data was less favorable in August compared to recent months. Existing home sales fell, and new home sales, housing starts, and building permits were all essentially flat.

In the business sector, the ISM index eased slightly in August but remained above 50. Industrial production and capacity utilization both increased in August, building on the gains seen in July. Data for durable goods orders continued to show significant year-over-year declines in August, even as some recent monthly data has been more positive.

Any inflation concerns remain off the radar, as total prices fell again and core prices continued to slow. Oil prices also eased a bit in September.

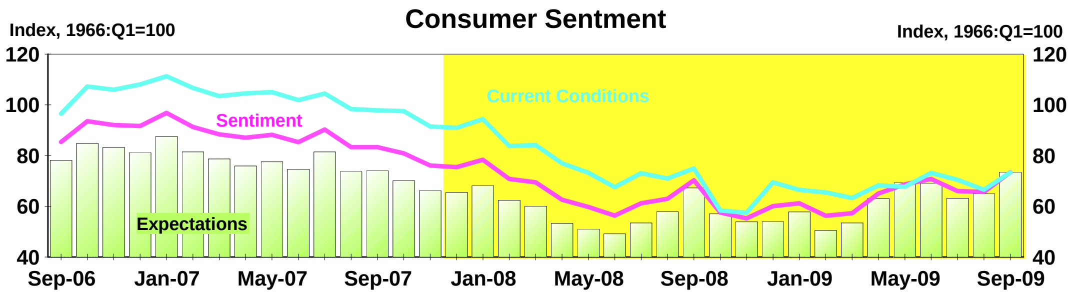
Initial claims for unemployment insurance fell in September, more than offsetting the gain seen in August. Overall, weekly claims are down over 100,000 from their March peak.

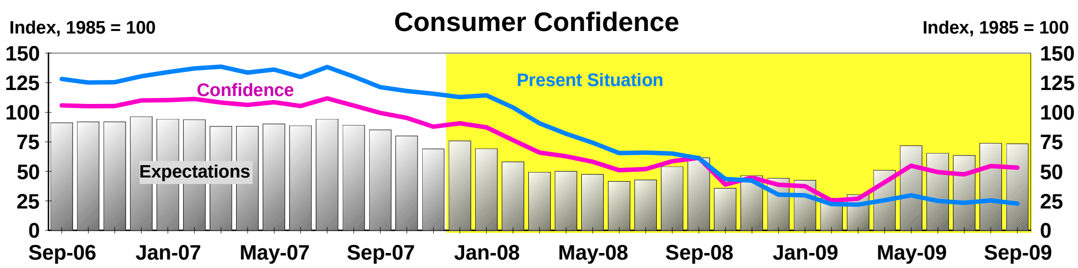


08:Q4	09:Q1	09:Q2	09:Q3
512	623	624	559

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

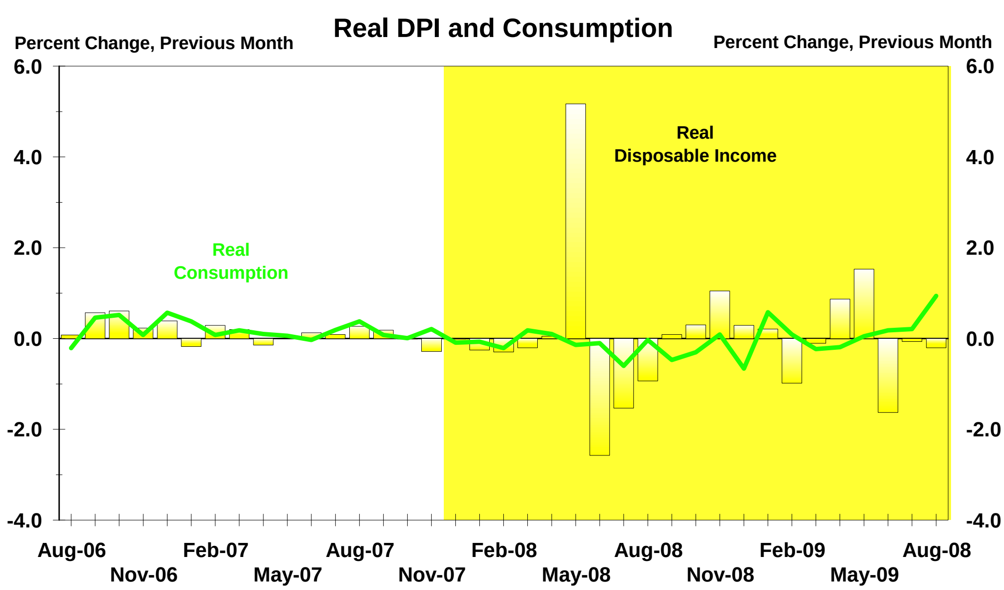
The primary measures of consumer attitides were mixed in September. Consumer sentiment soared to its highest level since the onset of the recession, but confidence eased slightly. Similar disparities were seen in expectations and present conditions. Consumers in both surveys shared primary concerns regarding their incomes and personal finances.





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

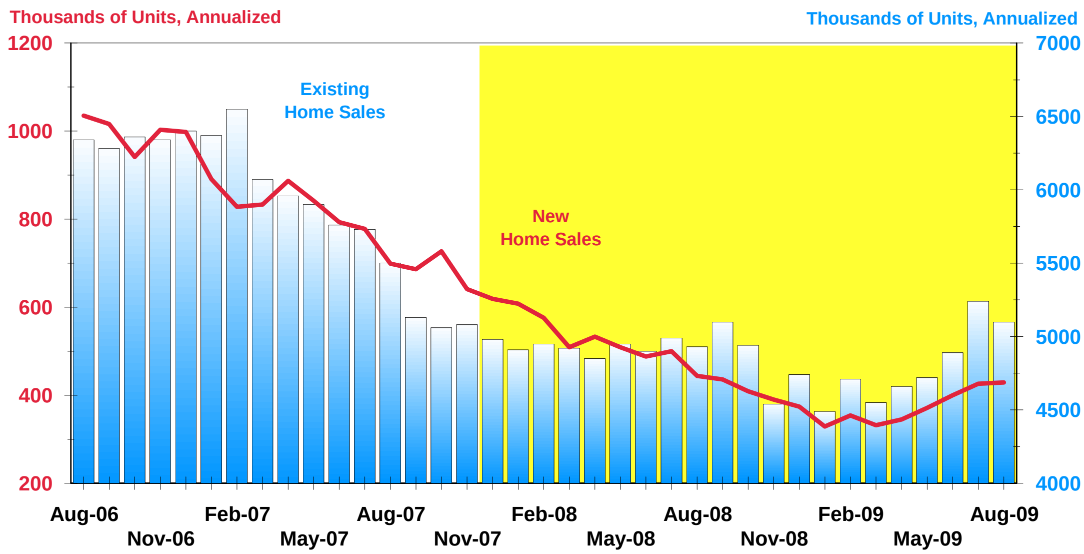
Real incomes fell for the third month in a row in August, but consumption still rose at its fastest pace in eight years as the 'Cash-for-Clunkers' program fueled the spending spree. With the program ending at the end of August, however, auto sales are likely to slow which may impact consumption growth going forward.



Source: Bureau of Economic Analysis / Haver Analytics.

The recovery in the housing market cooled a bit in August, as new home sales were essentially flat and sales of existing homes decreased. The annual sales pace for both measures was still higher in August than it was for most of the past year.

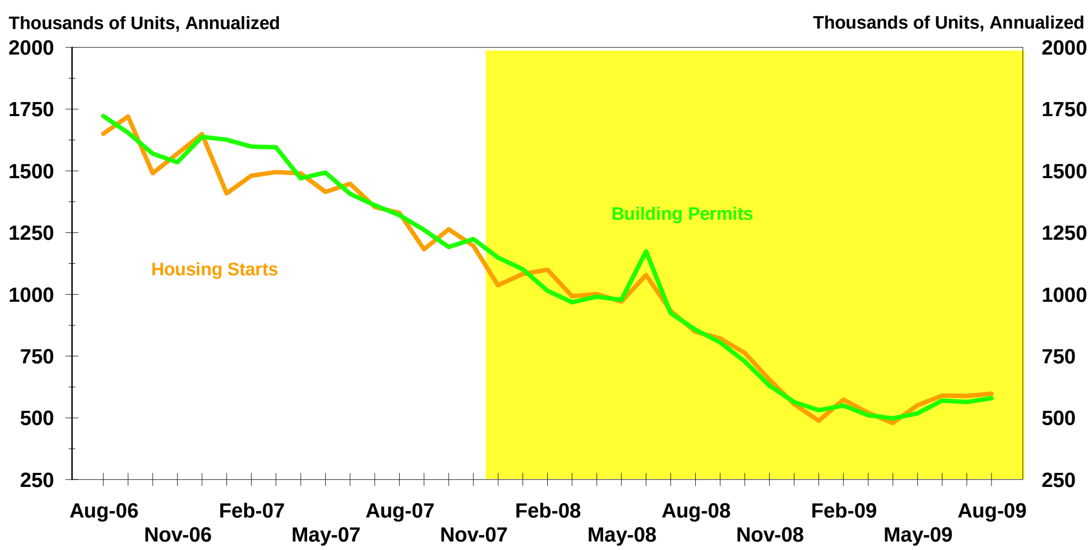
New and Existing Home Sales



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

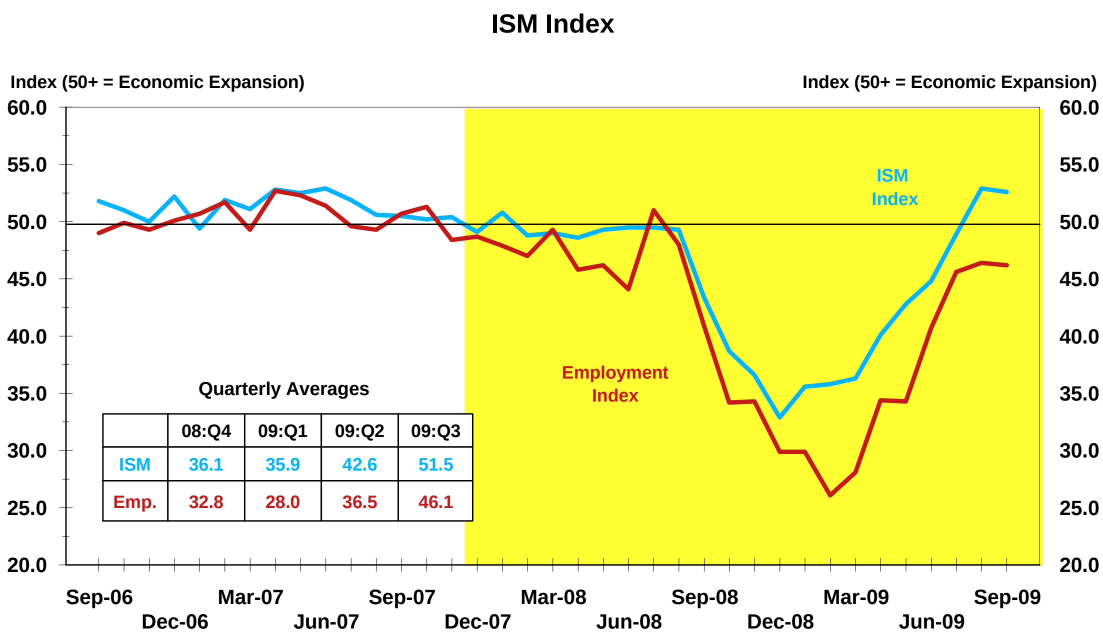
Housing starts and building permits both posted small increases in August, offsetting the even smaller decreases of the previous month.

Housing Starts and Building Permits



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

The ISM diffusion index eased in September, but remained above 50 for the second month in a row. The index's third quarter average was also above 50, signifying its strongest quarter in two years.

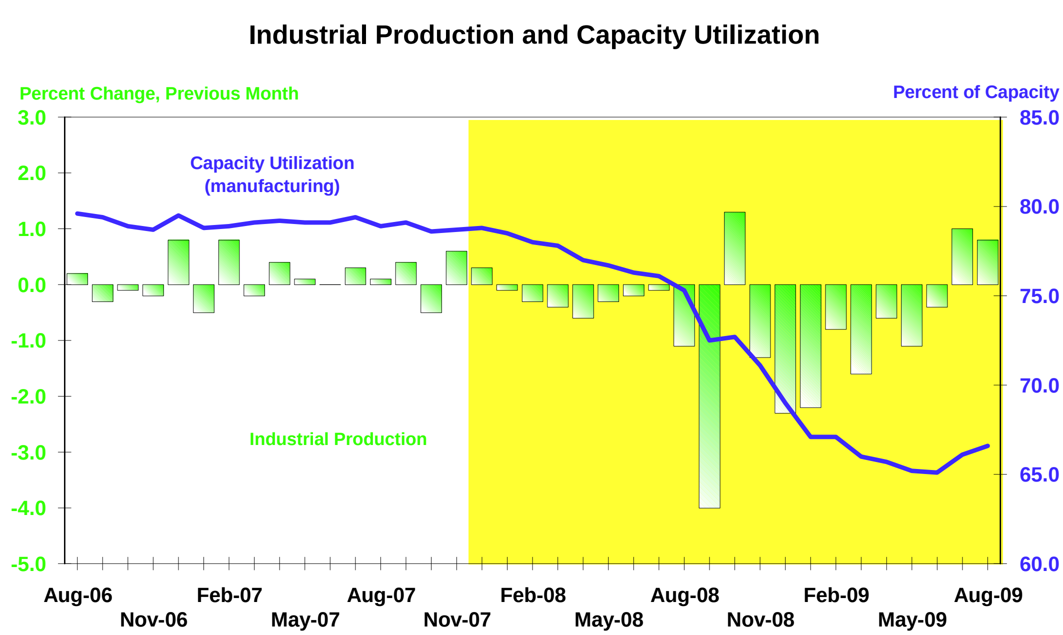


Quarterly Averages

	08:Q4	09:Q1	09:Q2	09:Q3
ISM	36.1	35.9	42.6	51.5
Emp.	32.8	28.0	36.5	46.1

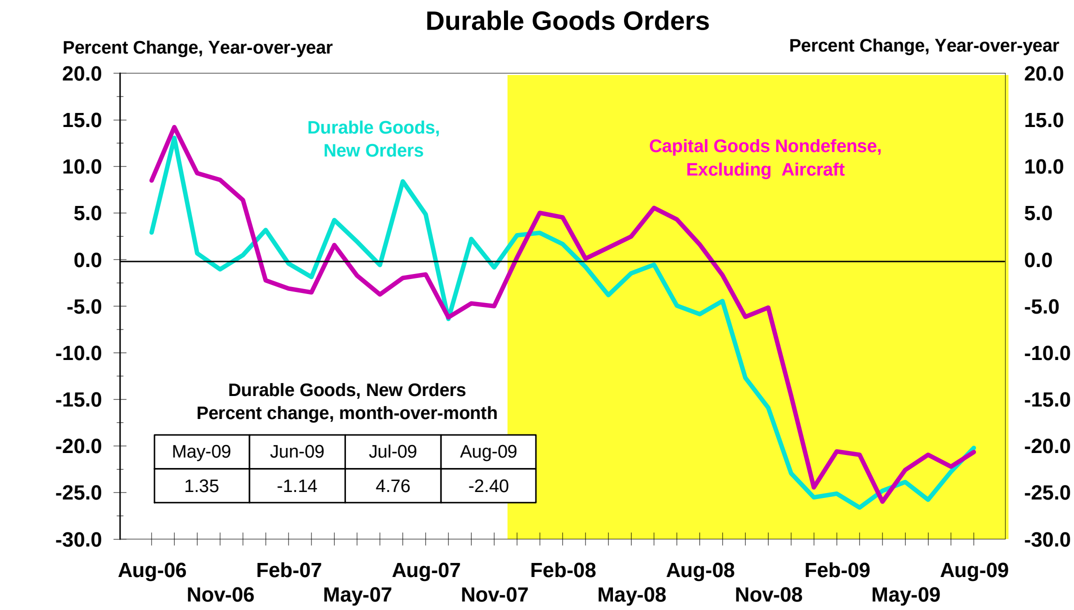
Source: Institute for Supply Management / Haver Analytics.

Further improvement was seen in the manufacturing sector in August, as both industrial production and capacity utilization increased for the second month in a row following several months of steady declines.



Source: Federal Reserve Board of Governors / Haver Analytics.

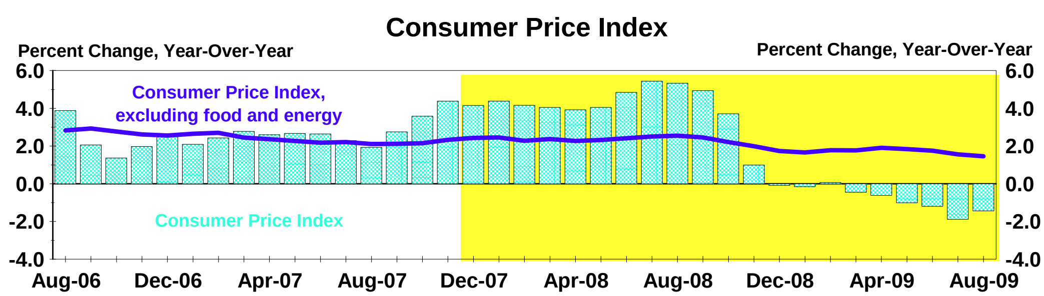
Durable goods orders posted another year-over-year decline in August, but the drop was less severe than those seen over the previous eight months. Orders of nondefense capital goods, excluding aircraft, also continued to fall.

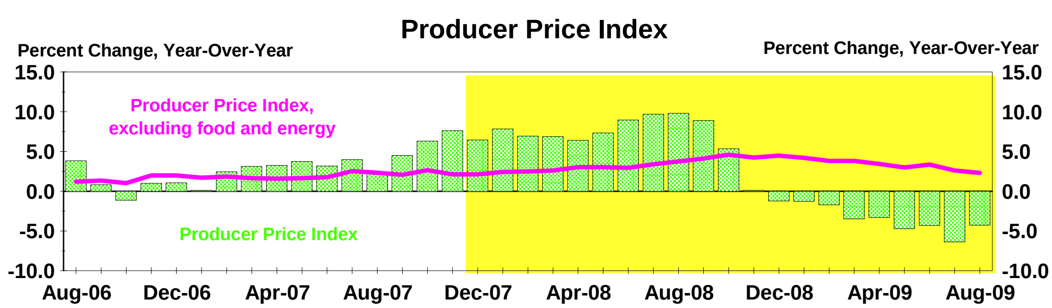


May-09	Jun-09	Jul-09	Aug-09
1.35	-1.14	4.76	-2.40

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

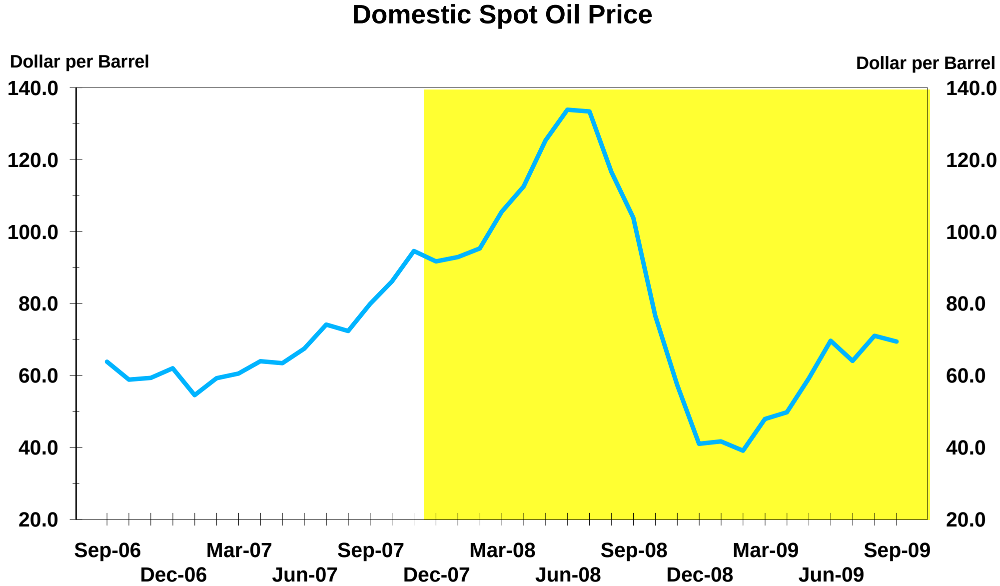
Recent data continued to show little evidence of inflationary pressure. Headline prices fell further, and core prices slowed a bit more.





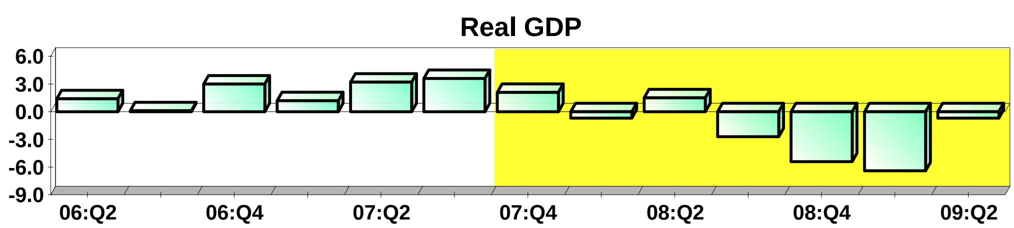
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices eased slightly in September.



Source: Wall Street Journal / Haver Analytics.

The decline in real GDP was revised smaller in the final second quarter estimate, due primarily to an upward revision to nonresidential fixed investment.

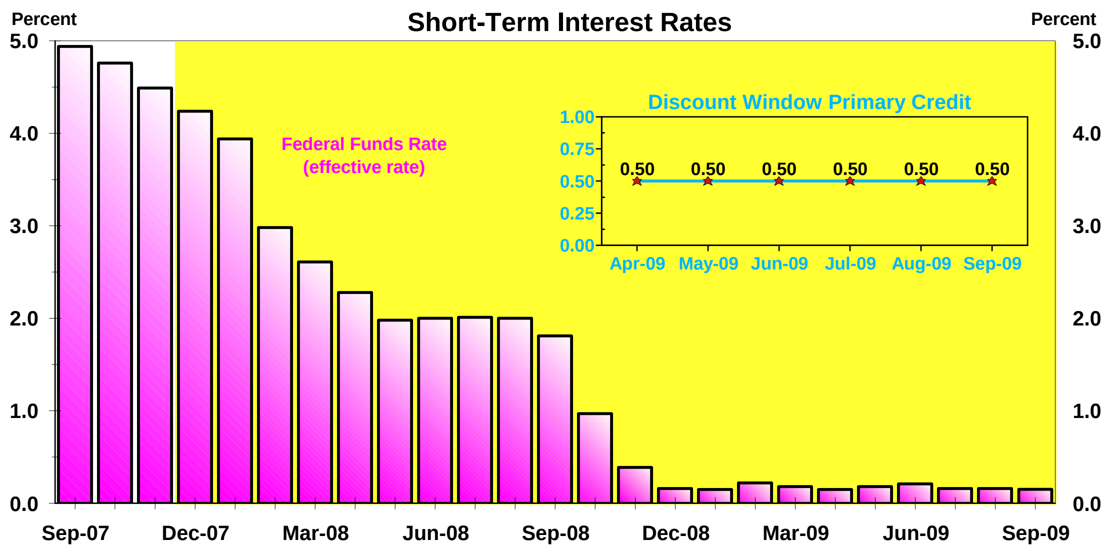


Revisions to Second Quarter Real GDP

Description	Preliminary	Final
Real GDP	-1.0	-0.7
Consumption	-1.0	-0.9
Business Investment	-10.9	-9.6
Equipment & Software	-8.4	-4.9
Residential Investment	-22.8	-23.3
Government	6.4	6.7
Exports	-5.0	-4.1
Imports	-15.1	-14.7
Final Sales	0.4	0.7

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting has been somewhat mixed, but still foreshadow a stronger second half of the year. Consumers are more optimistic than they have been in months, the manufacturing sector is showing further signs of improvement, and the third quarter is likely to produce positive growth in GDP for the first time in over a year. Still, as expected, labor markets will likely be last to turn around, slowing the recovery of the economy as a whole.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

October 8, 2009

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

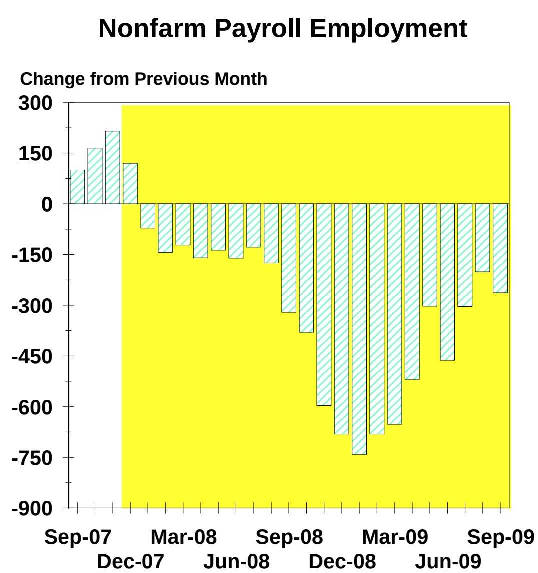
The job market continued to deteriorate it September. Nonfarm payrolls shed another 263,000 jobs, bringing the total number of job losses since the start of the recession above 7 million. The unemployment rate rose to 9.8% in September, a 26-year high. Details of the employment report were generally dismal, especially in terms of duration of unemployment, discouraged workers, and those forced to work part-time.

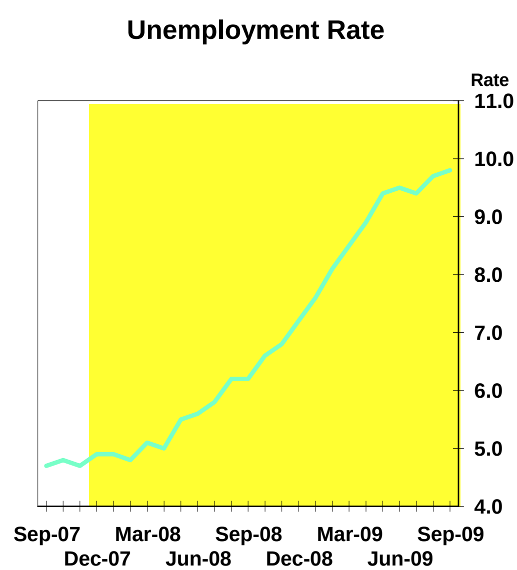
Auto sales tumbled back to their pre-'CARS' level in September, but the rebate program was enough to boost sales overall in the third quarter to their highest level since the third quarter of 2008.

The ISM nonmanufacturing index improved to 50.9 in September, signaling an expanding economy for the first time in over a year. In August, manufacturers' orders and shipments both fell, offsetting some of the gains seen in July.

Redbook sales increased 0.4% in the first week of October, compared to September. Sales in the week ending October 3rd were 1.9% lower than during the same period last year. Oil prices rose during the past week, averaging $70.5 per barrel compared to last week's average of $66.9.

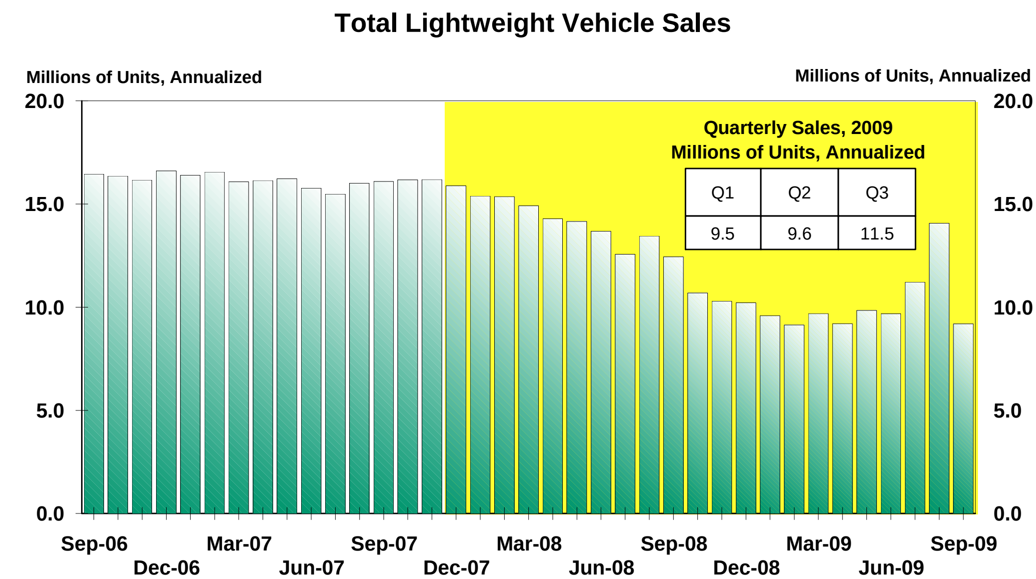
In September, a record 35.6% of the unemployed had been jobless for more than six months, while an alternative guage of unemployment that includes discouraged workers and those forced to work part time rose to a record 17.0%. Additionally, the average total work week fell to an all-time low of 33 hours.





Source: Bureau of Labor Statistics / Haver Analytics.

Lightweight vehicle sales returned to near-record-low levels in September following the expiration of the 'CARS' stimulus program. The success of the rebates cleared out much of the inventory and pulled many purchases forward, leaving a more difficult sales environment in its wake.



Source: Bureau of Economic Analysis / Haver Analytics.