FEDERAL RESERVE BANK OF BOSTON™

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

September 4, 2008

CURRENT ECONOMIC DEVELOPMENTS - September 4, 2008

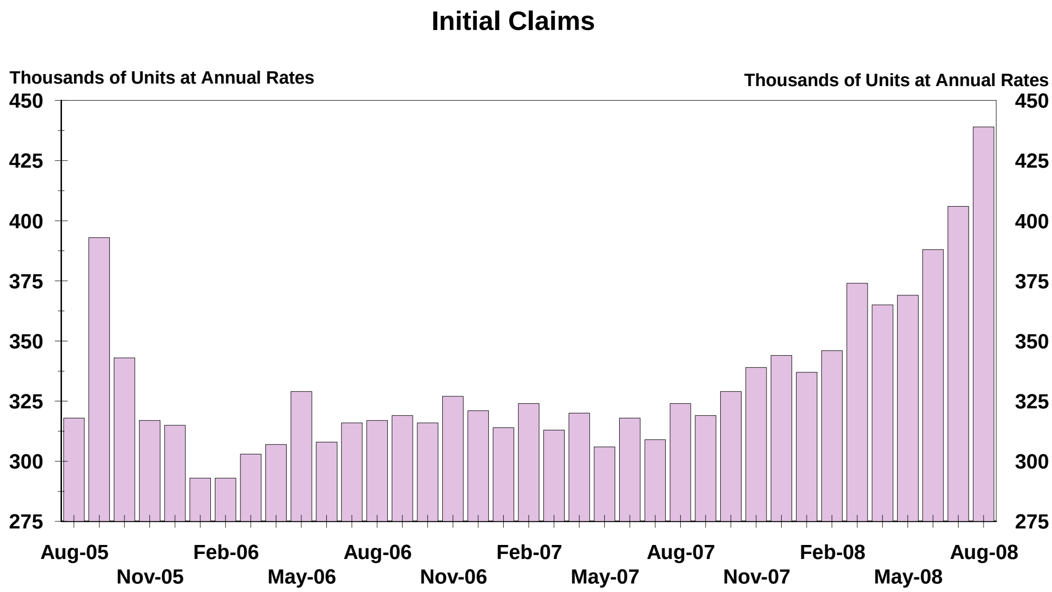
Data released since your last Directors' meeting show the economy grew faster in the second quarter than originally estimated. The increase was due primaily to stronger net exports, which has been offsetting some of the weakness seen in the housing market and consumer spending. But inflation has continued to rise, and as the trade effects abate, policy makers will need to choose which area to focus on.

In August initial claims increased again, suggesting further softening in the labor market. Consumer attitudes improved overall in August, but those surveyed were more pessimistic toward current conditions. Along with the more positive consumer outlook came higher auto sales, which rebounded in August to register their strongest sales in four months. Real incomes and consumption fell in July, due in part to the end of Stimulus rebate distribution.

The weakness in the housing market persisted in July, although new and existing home sales did post small increases. Housing starts and permits, however, both decreased. In the manufacturing sector, the ISM index dipped slightly in August while both industrial production and capacity utilization increased in July. Durable goods orders, however, continued to fall.

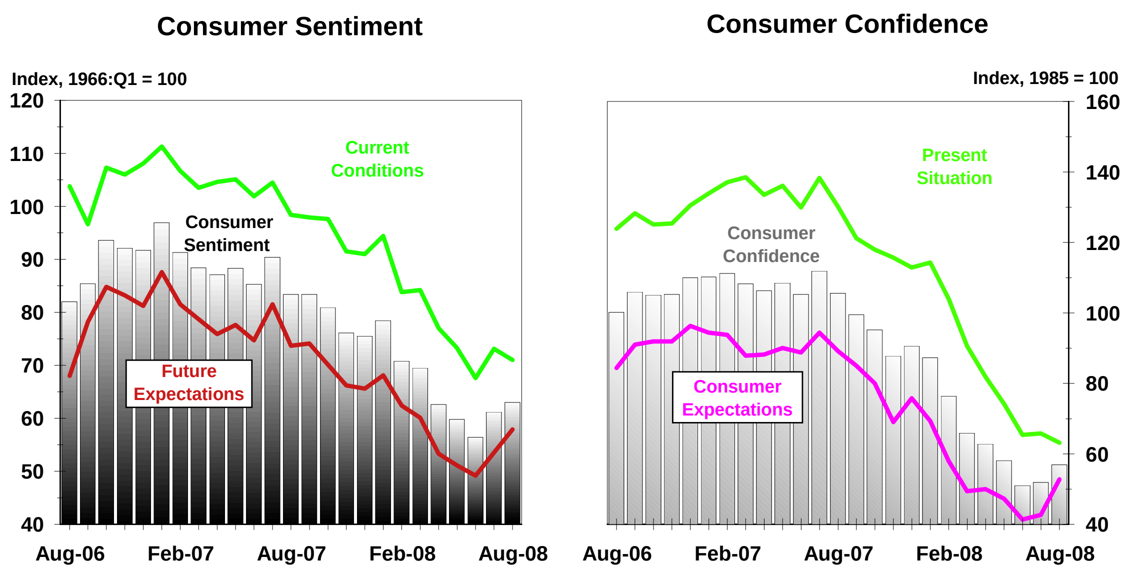
Inflation became more of a concern in July, as both consumer and procuder prices continued to accelerate. Oil prices fell considerably from their recent highs, but in a historical context remain quite elevated.

Initial claims for unemployment insurance rose again in August, reaching their highest level since late 2001.



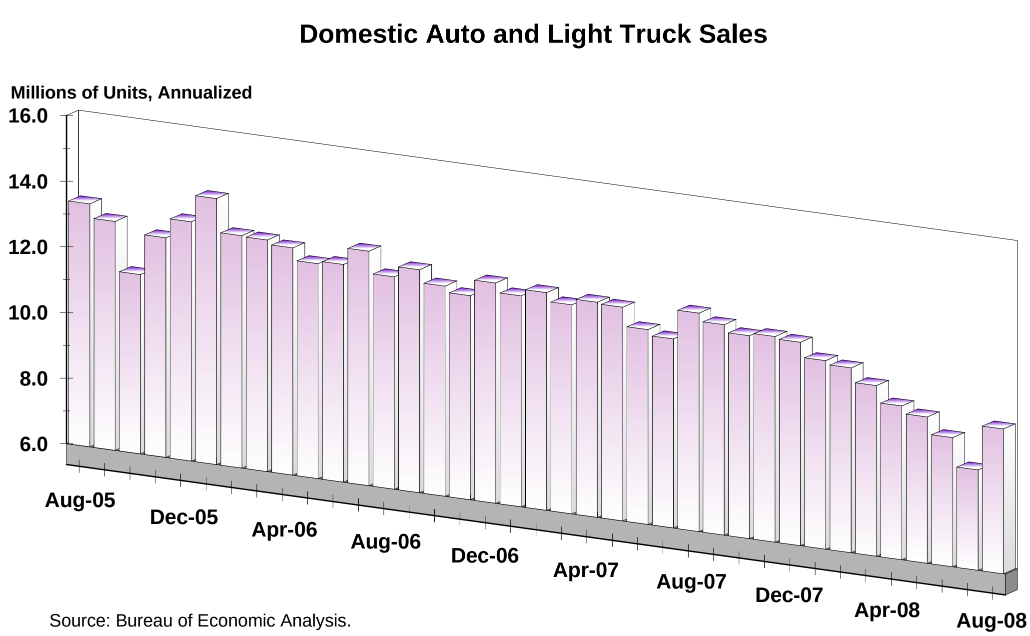
Source: Department of Labor, Employment and Training Administration.

While consumers' feelings about current conditions worsened in August, their outlook for the future continued to improve. Both measures of consumers' overall attitudes increased in August, although the difference was more pronounced in the Conference Board survey.



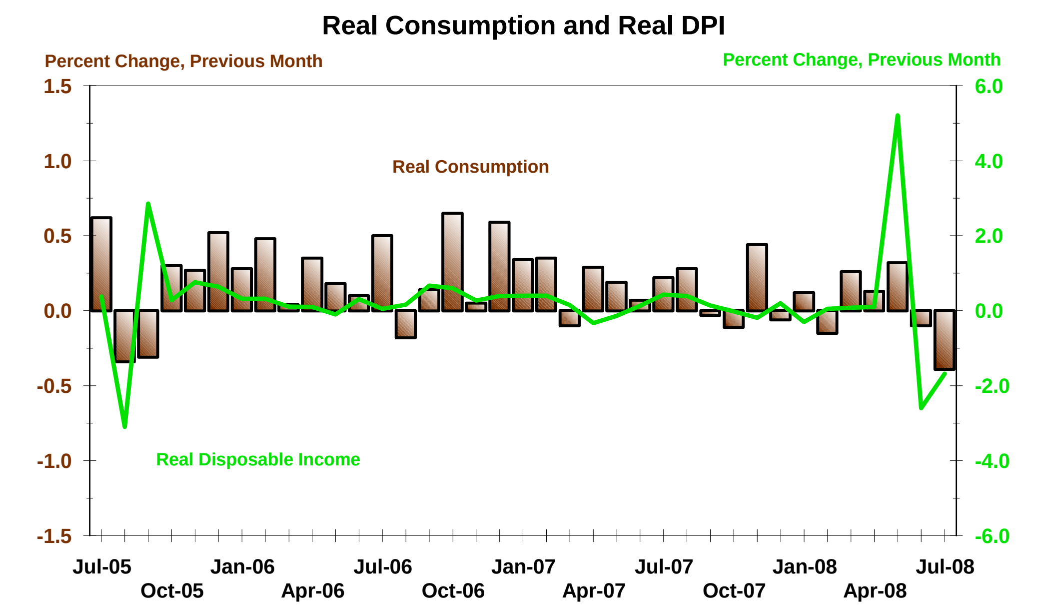
Source: The University of Michigan (left panel) and The Conference Board (right panel).

Domestic auto and light truck sales rebounded in August, ending a streak of seven consecutive monthly declines.



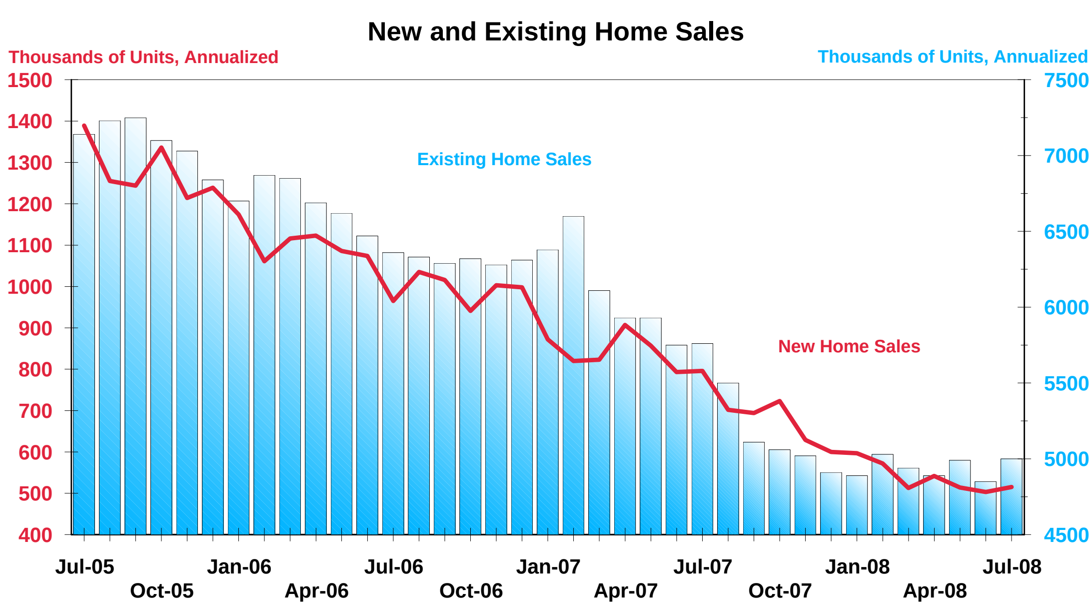
Source: Bureau of Economic Analysis.

Real incomes fell again in July, due in part to the lower level of Stimulus payments. The reduction in incomes passed through into consumption which posted its largest decrease in four years.



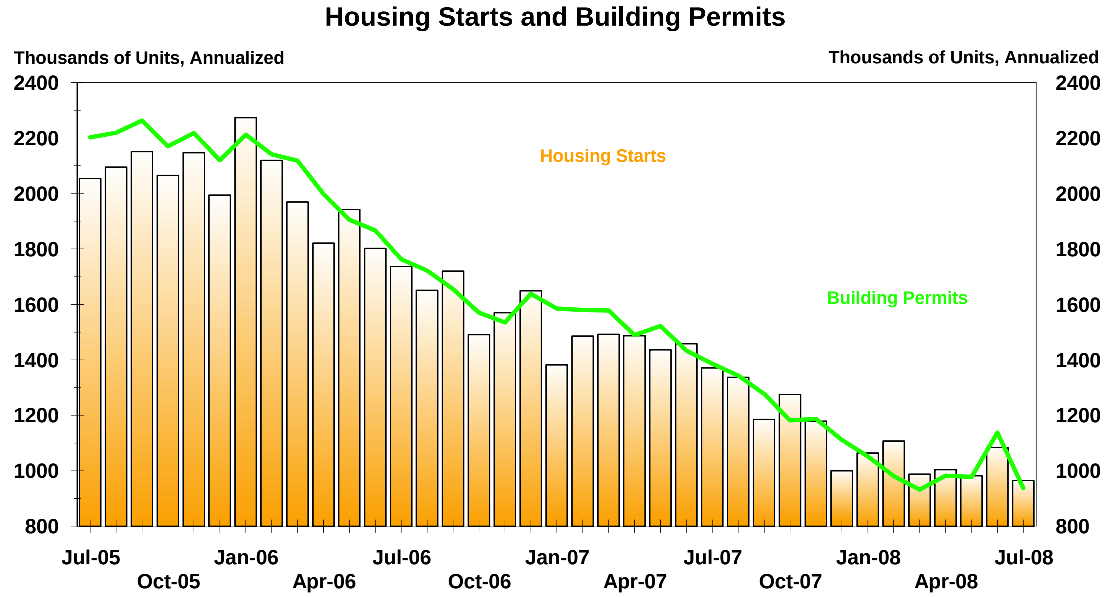
Source: Bureau of Economic Analysis.

While the housing market remains weak, July sales data did not show any further deterioration. New home sales improved a bit, and sales of existing homes rose above their six-month average and almost matched their 12-month average.



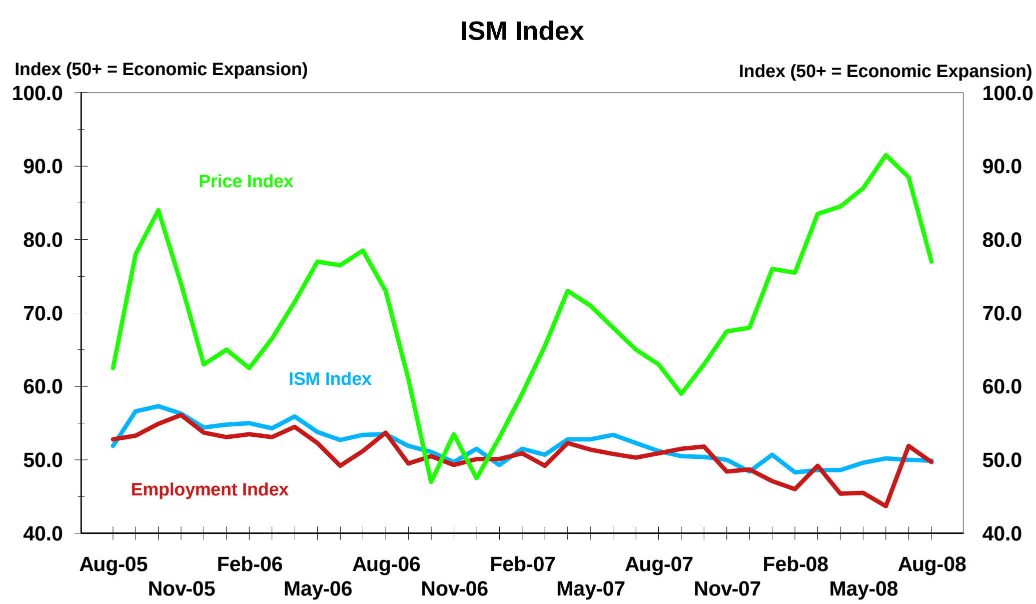
Source: U.S. Census Bureau (new home sales) and National Association of Realtors (existing sales).

Housing starts and building permits both fell in July, reversing the gains seen in June.



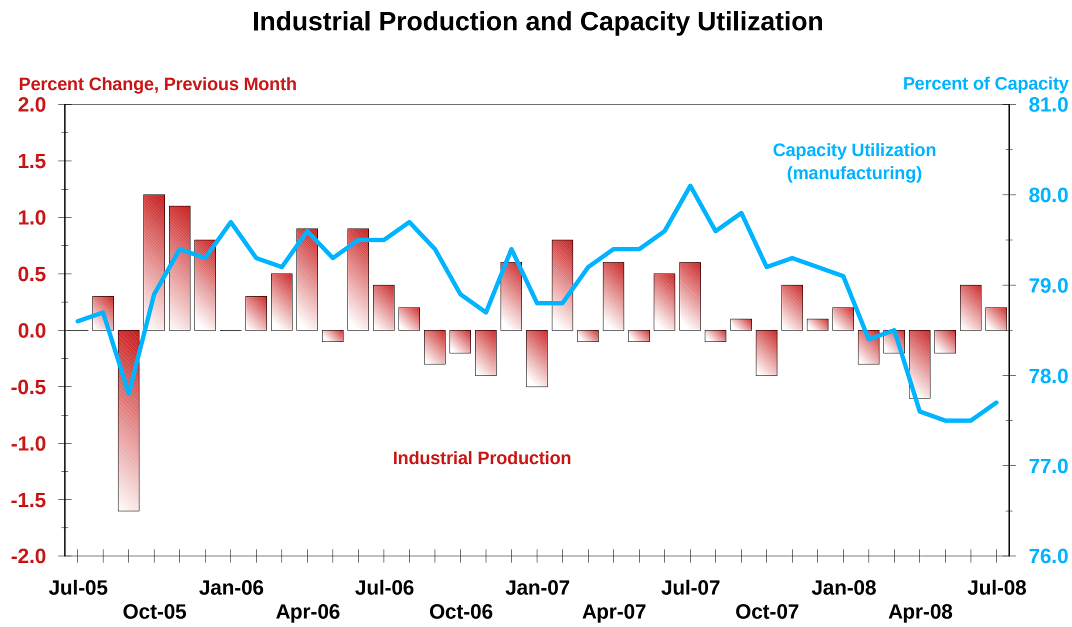
Source: U.S. Census Bureau.

The ISM manufacturing and employment indices both fell slightly in August, dropping just below 50. The price index continued to fall from its recent peak.



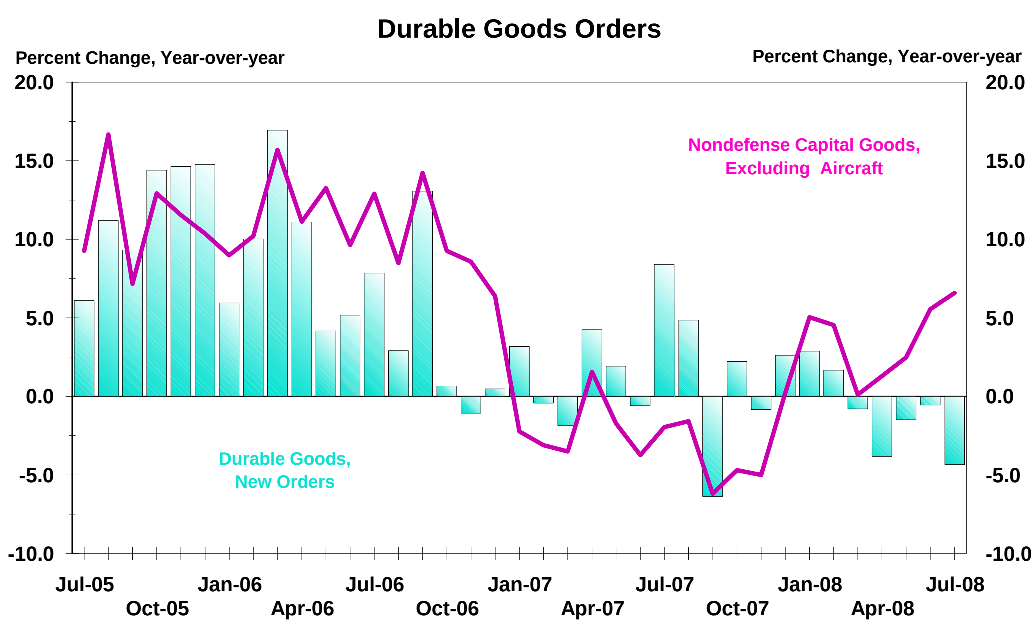
Source: Institute for Supply Management.

In July, industrial production increased for the second month in a row after falling the previous four months. Capacity utilization increased for the first time since March.



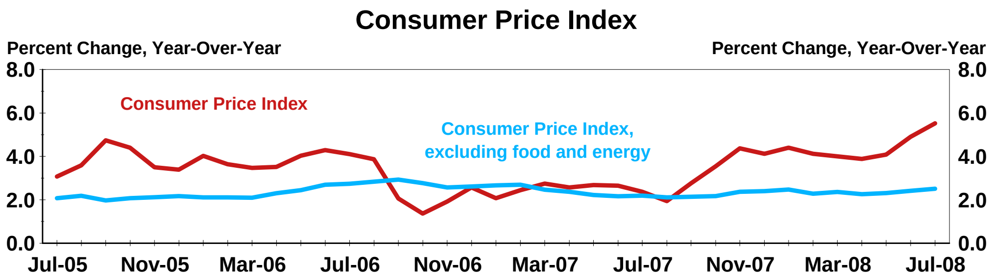
Source: Federal Reserve Board of Governors.

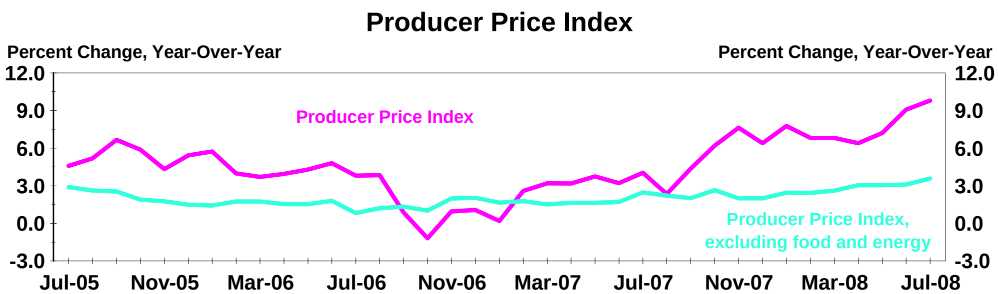
New orders for durable goods fell for the fifth straight month in July, but orders of nondefense capital goods, excluding aircraft, showed their strongest growth since late 2006.



Source: U.S. Census Bureau.

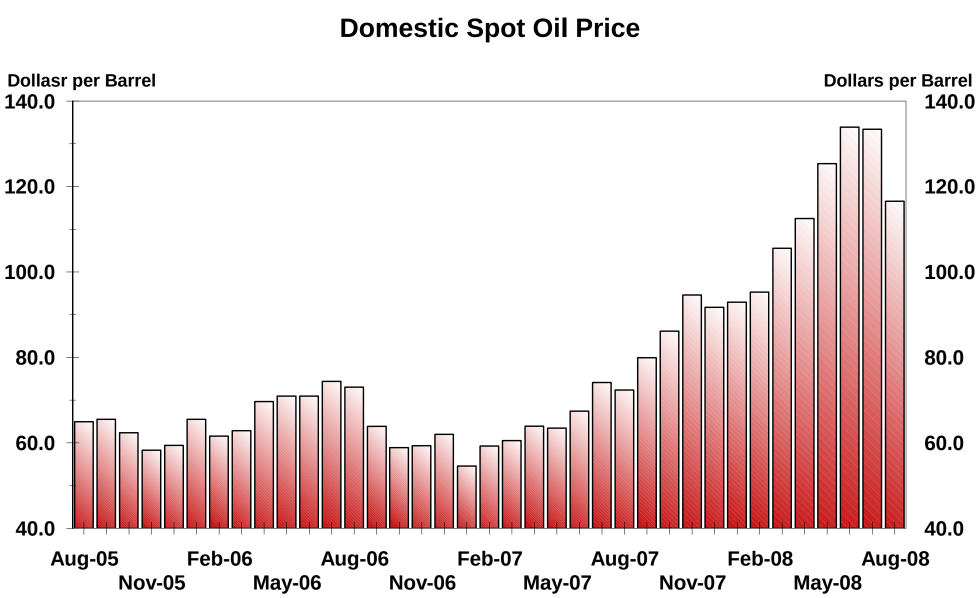
Inflation remained a concern in July, as headline measures continued to accelerate on a year-over-year basis. Total CPI grew at its fastest pace in over 17 years and total PPI at its fastest in 27 years. Core measures also continued to creep up slowly.





Source: Bureau of Labor Statistics.

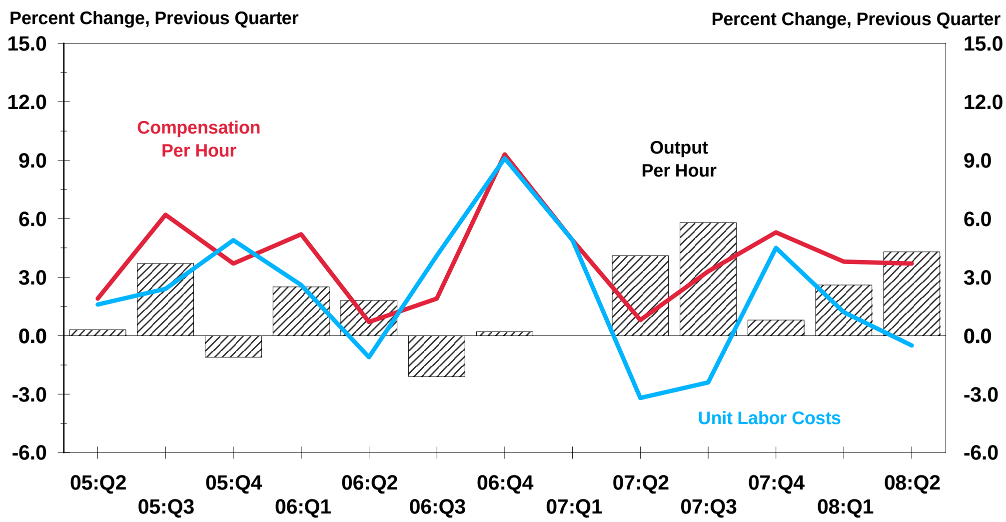
On the other hand, oil prices eased considerably in August.



Source: Wall Street Journal.

Productivity growth was revised higher in the second quarter, nearly doubling the original estimate (4.3% vs. 2.2%). Hourly compensation was virtually flat and unit labor costs fell.

Productivity and Costs



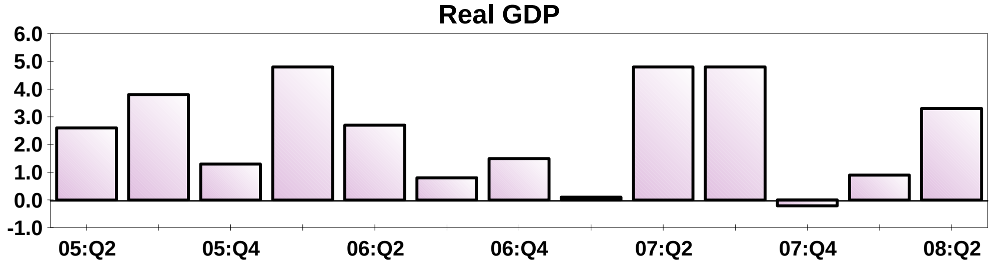
Source: Bureau of Labor Statistics.

Real GDP growth was revised up in the second quarter. The upward revision primarily reflected upward revisions to exports and private inventory investment and a downward revision to imports.

Revisions to Second Quarter Real GDP

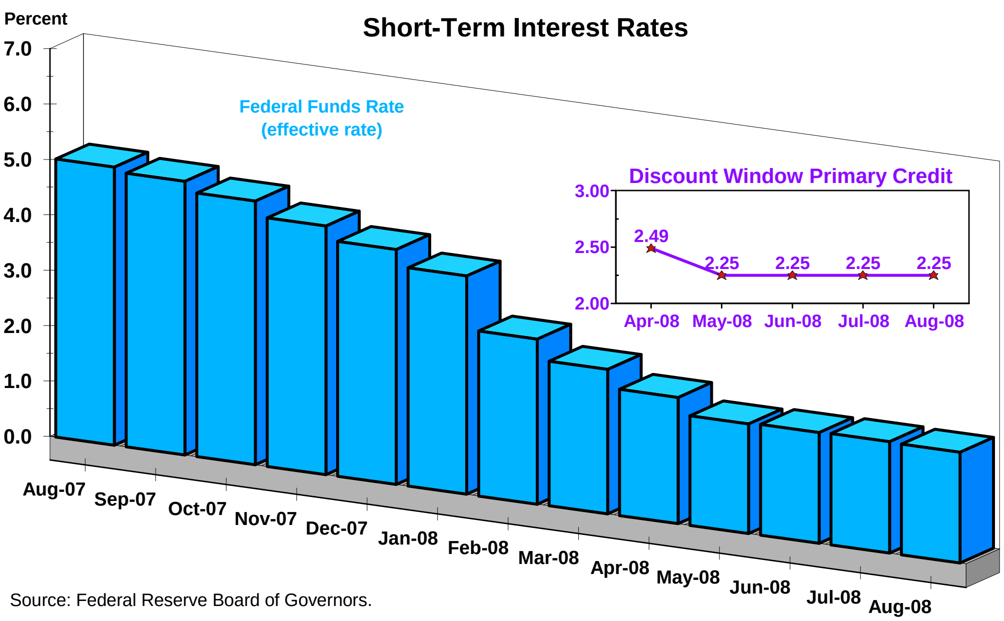
Description	Advanced	Preliminary
Real GDP	1.9	3.3
Personal Consumption	1.5	1.7
Business Investment	2.3	2.2
Equipment and Software	-3.4	-3.2
Government	3.4	3.9
Residential	-15.6	-15.7
Exports	9.2	13.2
Imports	-6.6	-7.6
Final Sales	3.9	4.8

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy grew faster in the second quarter than originally estimated. The increase was due primaily to stronger net exports, which has been offsetting some of the weakness seen in the housing market and consumer spending. But inflation has continued to rise, and as the trade effects abate, policy makers will need to choose which area to focus on.



Source: Federal Reserve Board of Governors.

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

September 11, 2008

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

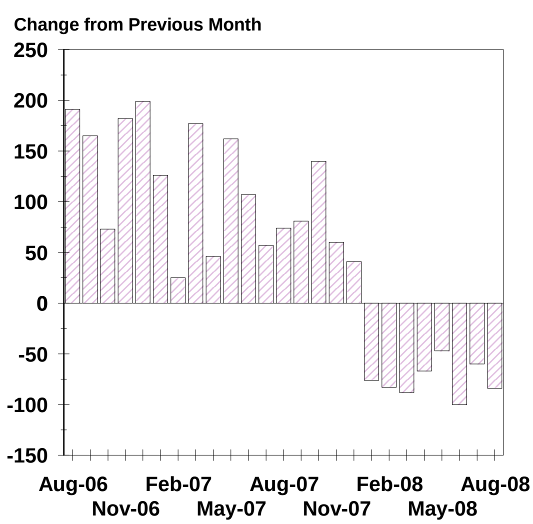
In August, nonfarm payrolls fell for the eighth consecutive month and the unemployment rate rose to its highest point in nearly five years. So far this year payrolls have shed over 600,000 jobs, for an average of 75,000 per month.

Wholesale inventories increased 1.4% in July, after rising a revised 0.9% the previous month. June inventories were first reported as rising 1.1%. Wholesale trade fell 0.3% in July, following an increase of 3.0% in June.

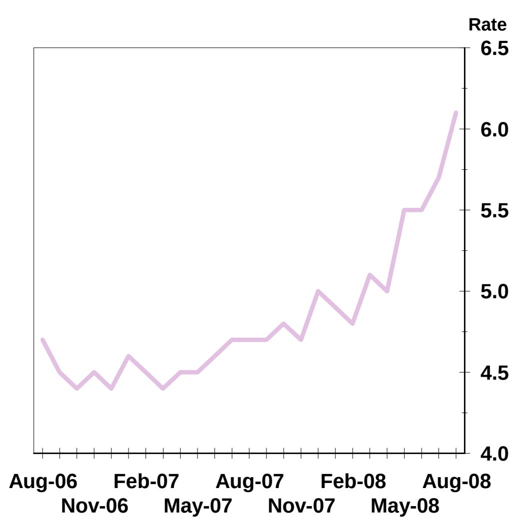
Redbook sales decreased 0.8% through the first week of September, compared to August. Sales were 1.8% higher than during the same period last year. Oil prices fell over the past week, averaging $106.6 per barrel, compared to last week's average of $114.8.

Payroll employment decreased by 84,000 in August, and revisions to the prior two months' estimates resulted in 58,000 more jobs being cut than originally estimated. The unemployment rate jumped in August to 6.1%, its highest since September 2003.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.