FEDERAL RESERVE BANK OF BOSTON™

The

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

September 3, 2009

CURRENT ECONOMIC DEVELOPMENTS - September 3, 2009

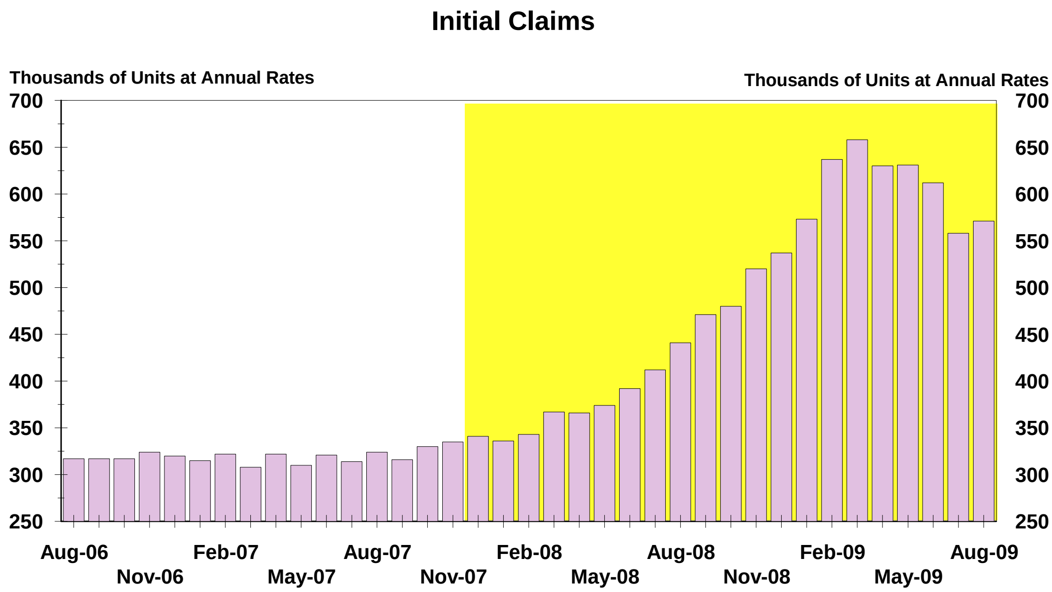
Data released since your last Directors' meeting show positive signs throughout various sectors of the economy, but recovery from the recession is still expected to be a long process. Firms continue to trim payrolls, consumers are likely to remain cautious, and overall conditions right now are better described as a leveling off as opposed to an improvement.

In August initial claims increased, suggesting the labor market is still softening. Consumer attitudes were mixed in August, but those surveyed shared an increasing optimism toward future conditions. Auto sales soared overall in August due to the 'CARS' incentive program, but sales cooled considerably late in the month after the funds for the program ran out. Consumption posted its third consecutive increase in July, despite no change in incomes.

The housing market showed further signs of stabilzation in July. New and existing home sales both rose again, but housing starts and permits fell slightly. Also in July in the manufacturing sector, industrial production rose for the first time in nine months and durable goods orders posted their biggest monthly gain in two years. In August, the ISM index continued to improve in August and signaled economic expansion for the first time in 19 months.

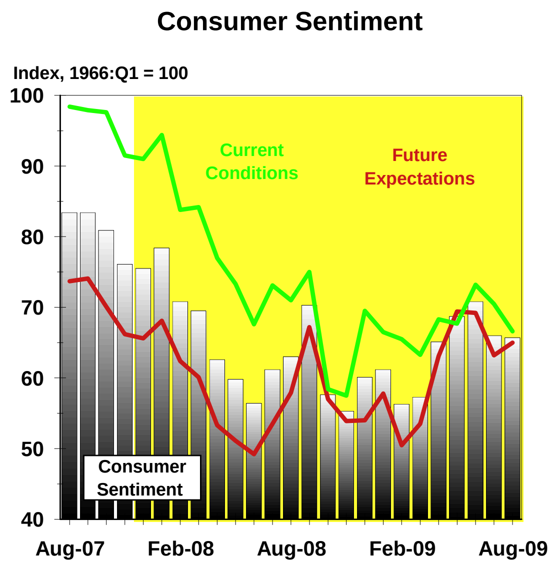
Inflation is still not a concern, as recent price data suggest deflation may be more likely in the coming months.

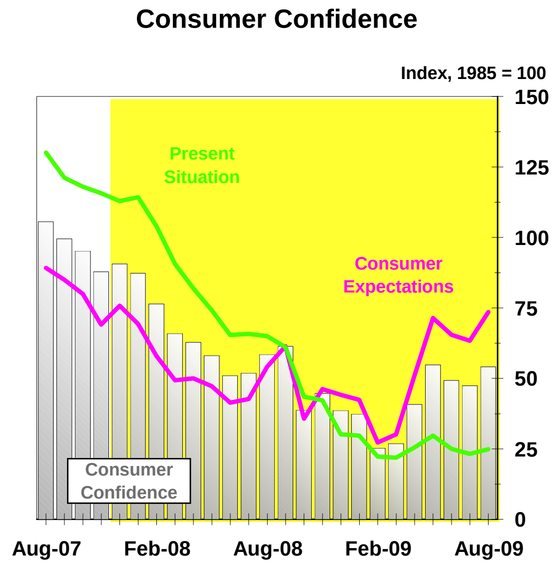
Initial claims for unemployment insurance rose in August, following two consecutive monthly declines.



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

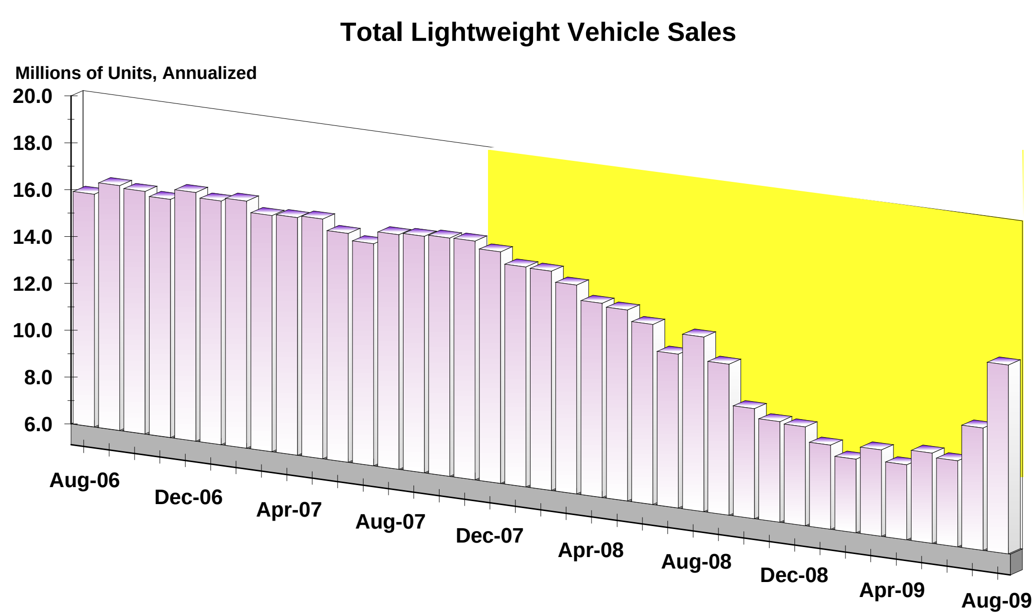
Primary measures of consumer attitudes were contradictory in August. Consumer sentiment eased slightly, while confidence improved. A similar discrepancy was seen in thoughts of present conditions, but the surveys agreed that consumers are more optimistic about conditions improving.





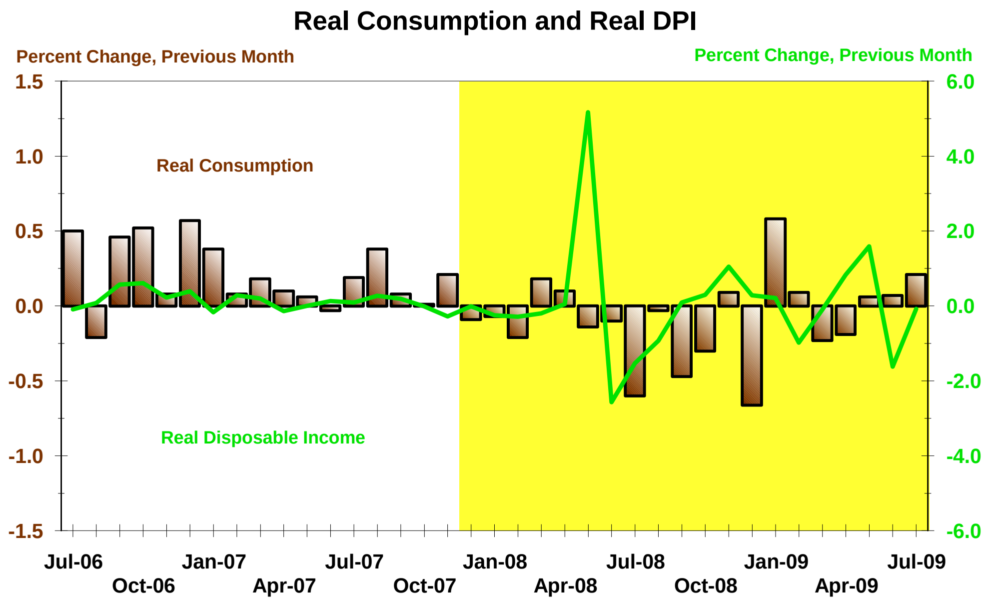
Source: The University of Michigan (left panel) and The Conference Board (right panel) / Haver Analytics.

Vehicle sales surged in August due to the wildly popular 'Cash-for-Clunkers' program. With funds for the program now exhausted, however, auto sales are expected to fall in the coming months. Reduced inventories and future sales being pulled forward by the incentives could also reduce sales in the coming months.



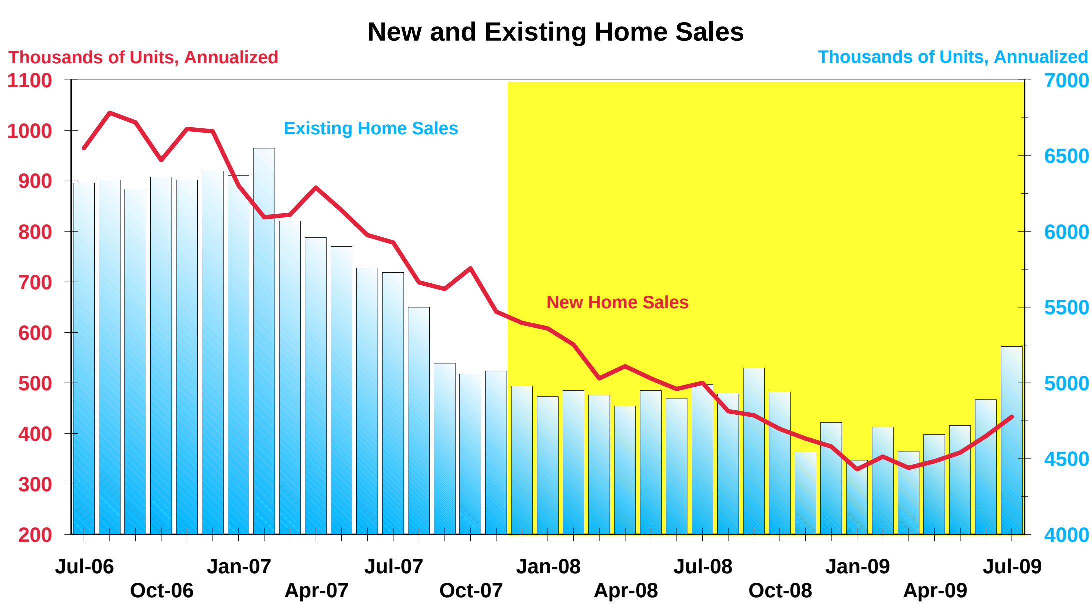
Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes were unchanged in July, but consumption still managed to post its biggest increase in six months.



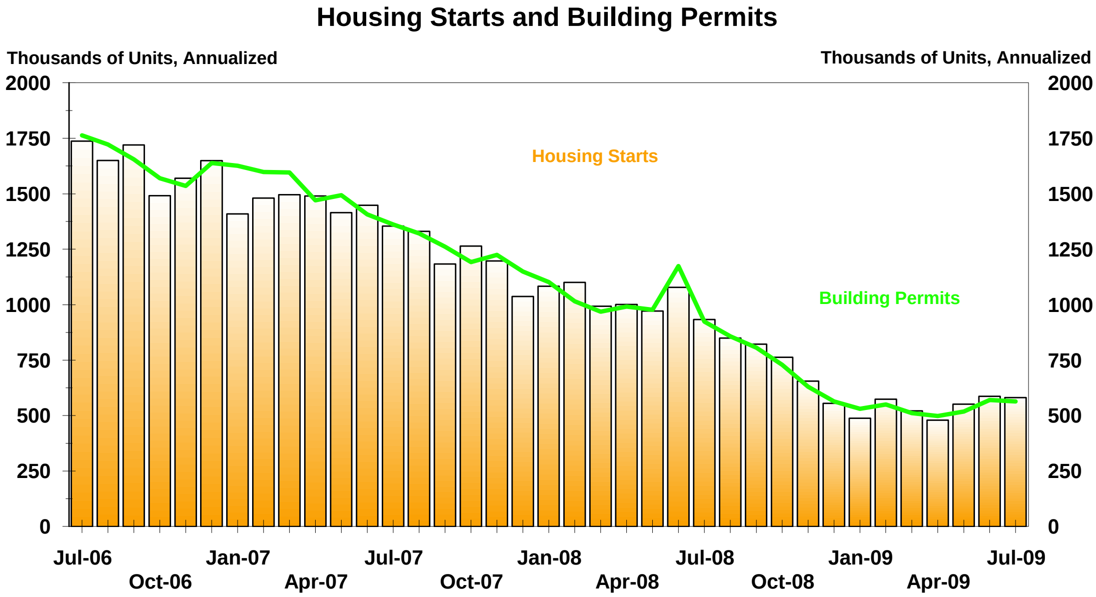
Source: Bureau of Economic Analysis / Haver Analytics.

The housing market continued to build on its recent resurgence in July. Existing home sales jumped to their higest level in two years and new homes sold at their fastest pace in nearly one year.



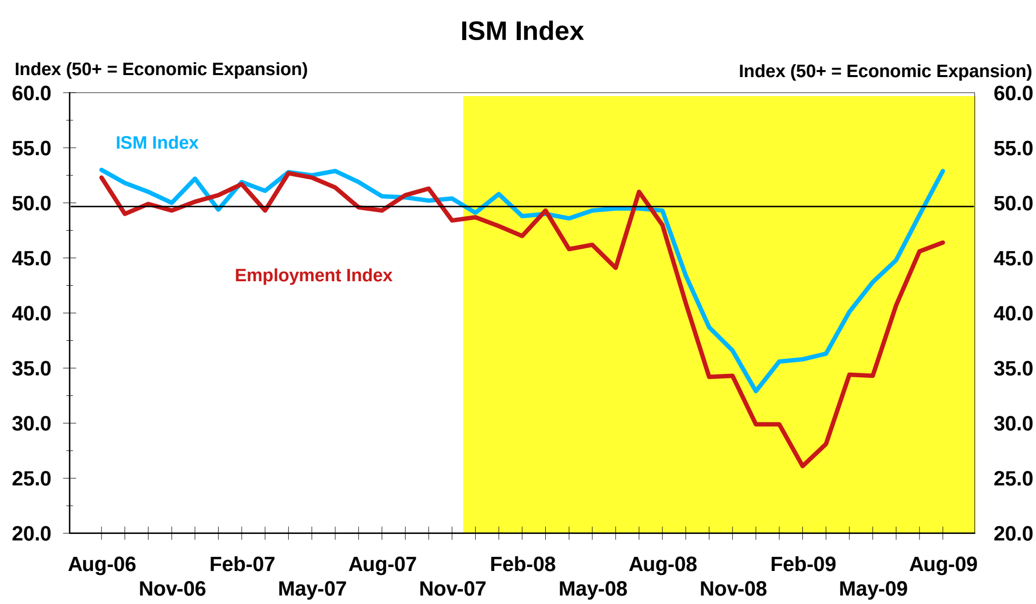
Source: U.S. Census Bureau (new home sales) and National Association of Realtors (existing sales) / Haver Analytics.

Housing starts and building permits eased slightly in July, following two months of growth. Starts and permits for single-family units rose, however, adding to the increases seen in recent months.



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

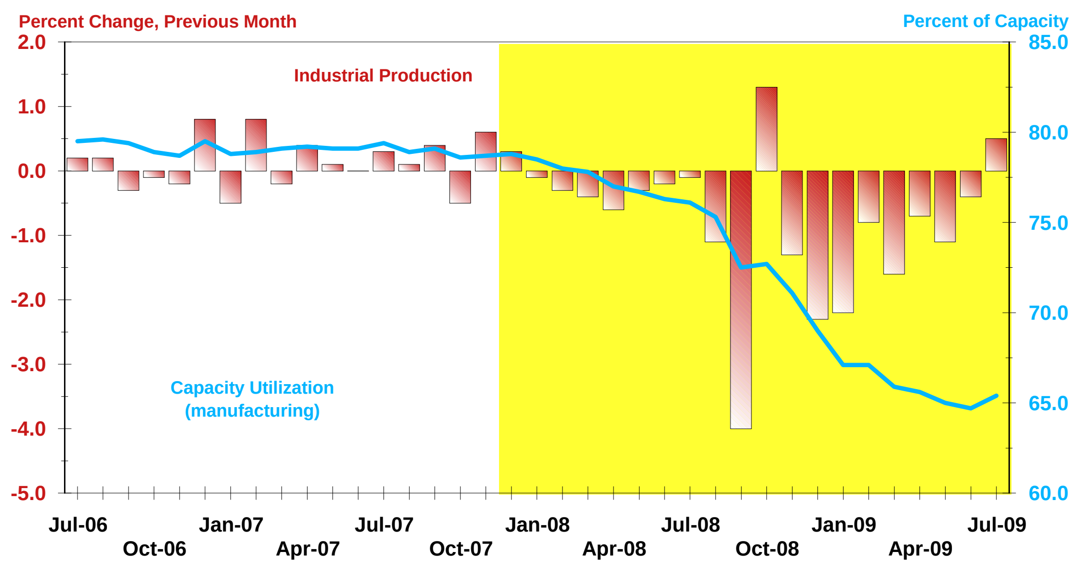
The ISM manufacturing index rose above 50 in August, signaling an expansion for the first time since January 2008. The employment index also improved, reaching a one-year high, but remained below 50.



Source: Institute for Supply Management / Haver Analytics.

Industrial production increased in July for the first time in nine months, and capacity utilization increased a bit from its record low established in June.

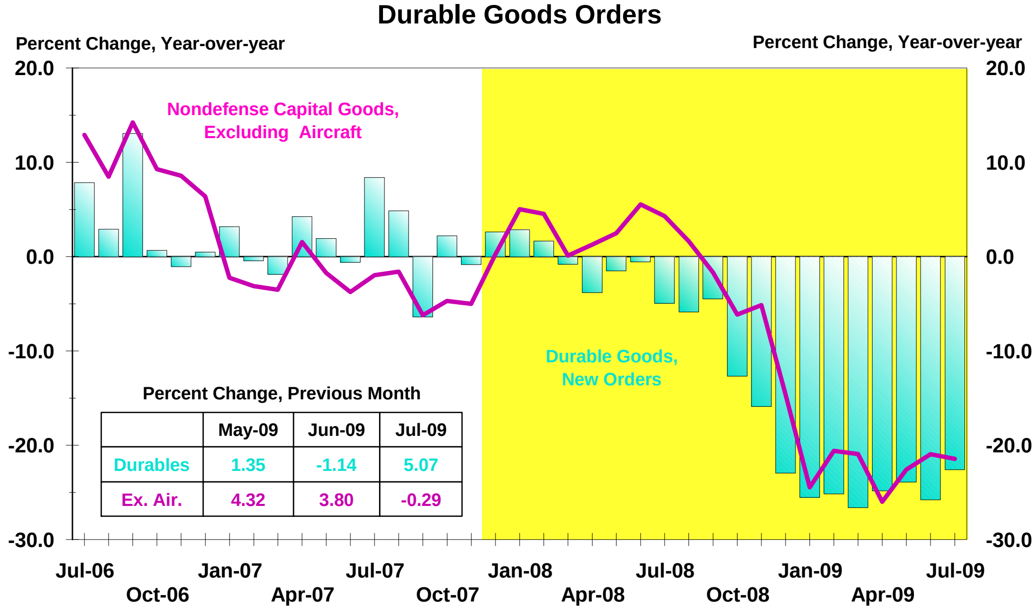
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods data continue to show significant declines year-over-year, but recent monthly data has been more positive. The July increase in durable goods orders was the biggest in two years.

Durable Goods Orders

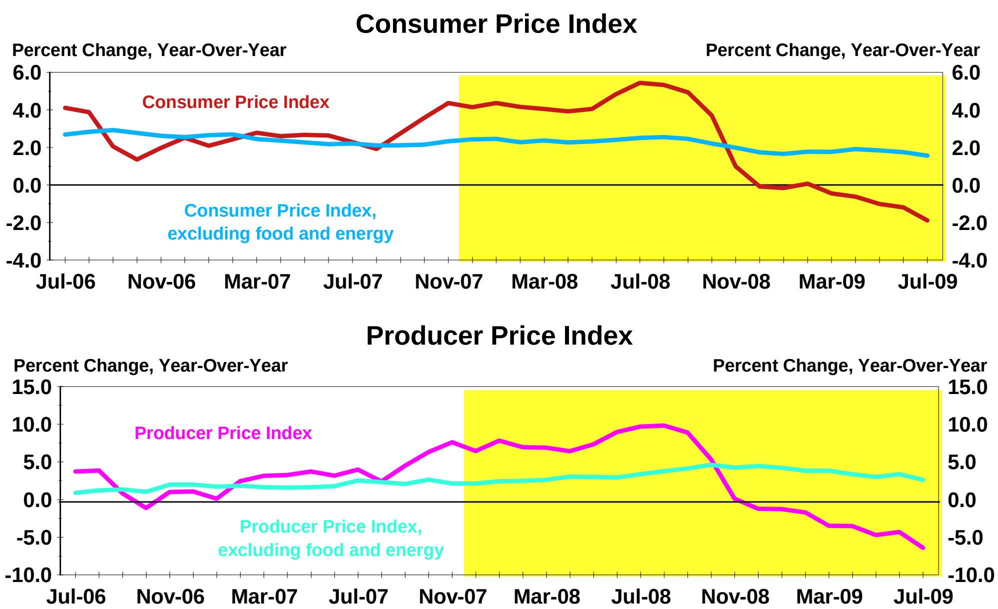


Percent Change, Previous Month

	May-09	Jun-09	Jul-09
Durables	1.35	-1.14	5.07
Ex. Air.	4.32	3.80	-0.29

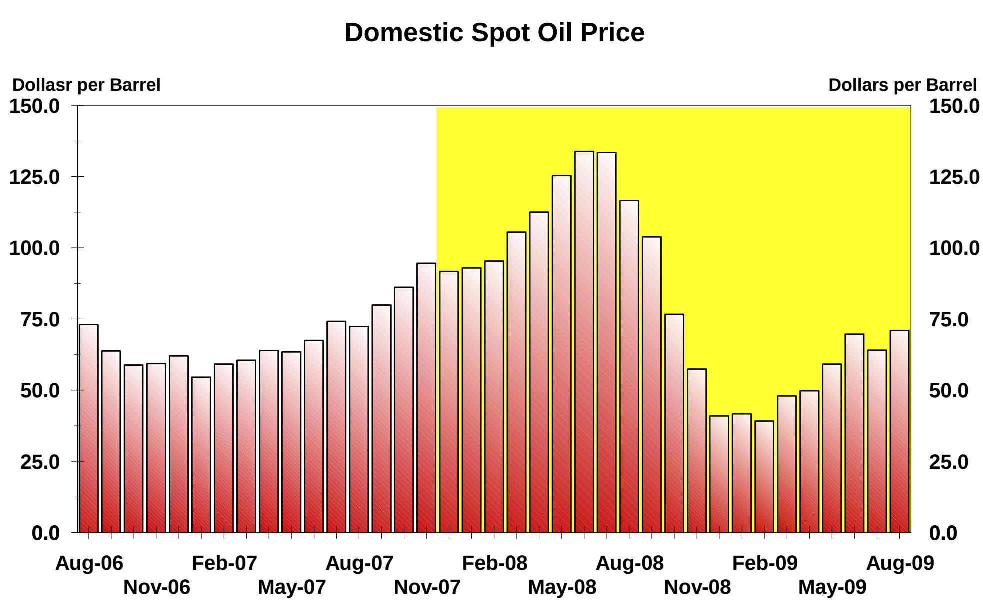
Source: U.S. Census Bureau / Haver Analytics.

Price data continues to show no cause for inflation concerns, as total prices fell further in July and core prices eased. Deflation is a possibility in the coming months.



Source: Bureau of Labor Statistics / Haver Analytics.

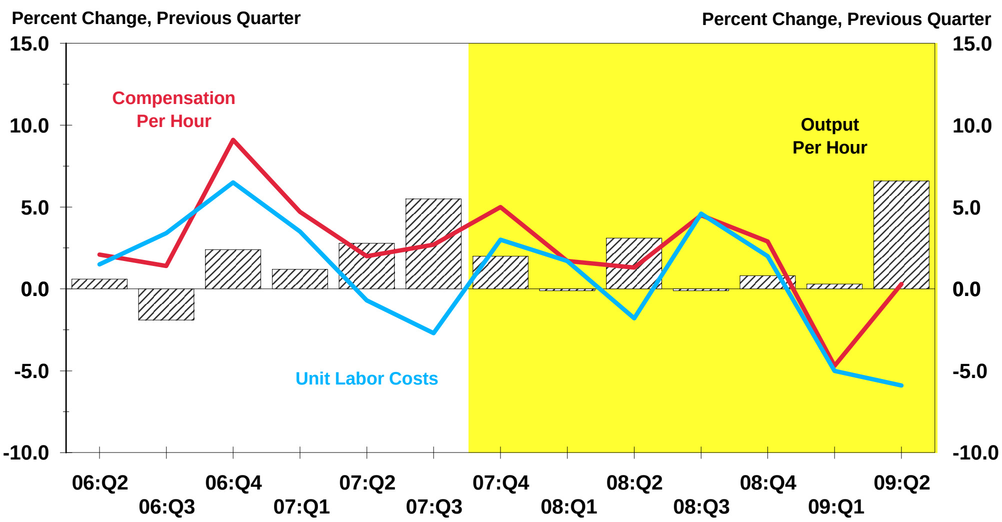
Oil prices rebounded in August, offsetting the decline seen in July.



Source: Wall Street Journal / Haver Analytics.

Productivity growth was revised slightly higher in the second quarter, as the drop in hours worked was even more pronounced than the reduction in output than originally thought. Hourly compensation and unit labor costs were essentially unchanged from their previous estimates.

Productivity and Costs



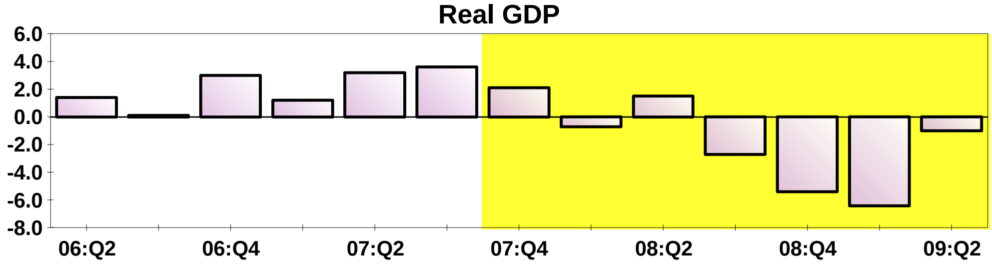
Source: Bureau of Labor Statistics / Haver Analytics.

The decrease in real GDP was unrevised in the second quarter. Upward revisions to residential investment, exports, government spending and PCE were offset by downward adjustments to nonresidential investment and inventory investment.

Revisions to Second Quarter Real GDP

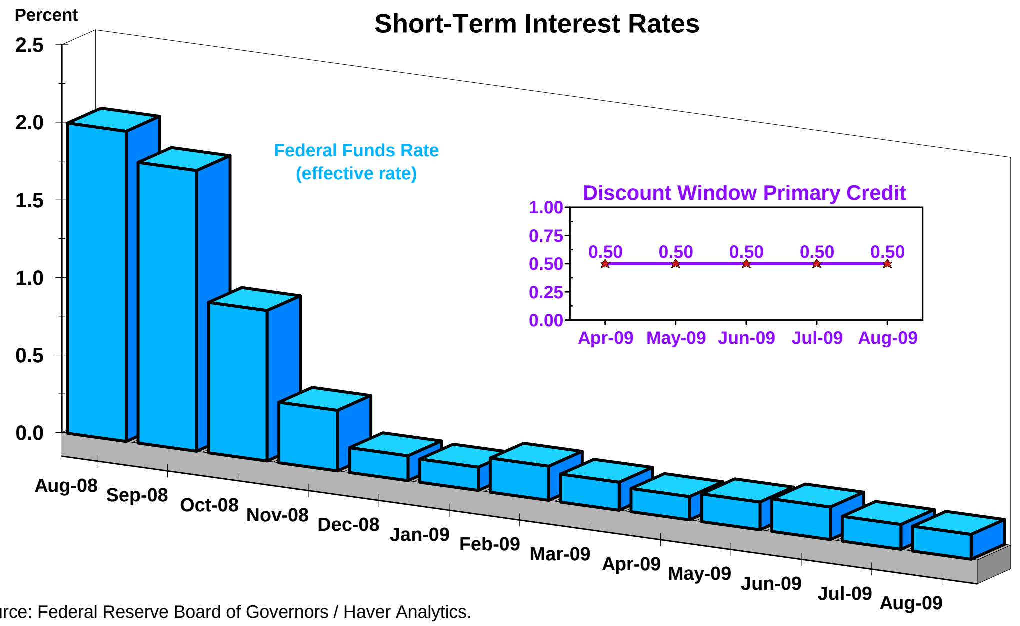
Description	Advanced	Preliminary
Real GDP	-1.0	-1.0
Personal Consumption	-1.2	-1.0
Business Investment	-8.9	-10.9
Equipment and Software	-9.0	-8.4
Government	5.6	6.4
Residential	-29.3	-22.8
Exports	-7.0	-5.0
Imports	-15.1	-15.1
Final Sales	-0.2	0.4

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show positive signs throughout various sectors of the economy, but recovery from the recession is still expected to be a long process. Firms continue to trim payrolls, consumers are likely to remain cautious, and overall conditions right now are better described as a leveling off as opposed to an improvement.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

September 10, 2009

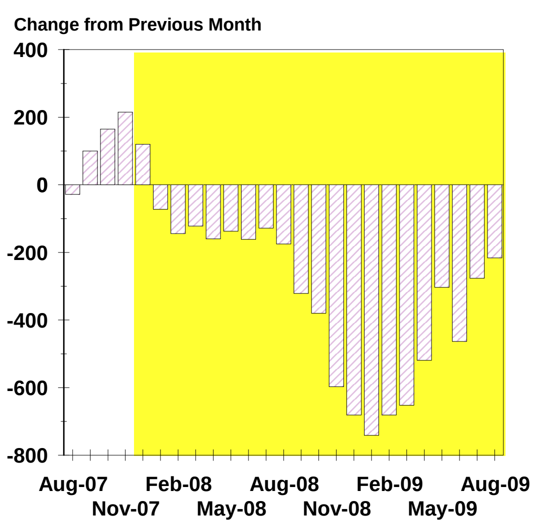
Current Economic Developments - Addendum: Data released in the past week

In August, nonfarm payrolls posted their 20th consecutive monthly decrease. The drop was the smallest since August of 2008, however, and continues a trend that has seen payroll reductions lessening in severity over the past seven months. Over four million jobs have been lost this year, and since the start of the recession the total has grown to nearly seven million. The continued losses brought the unemployment rate up to 9.7% in August, a 26 year high.

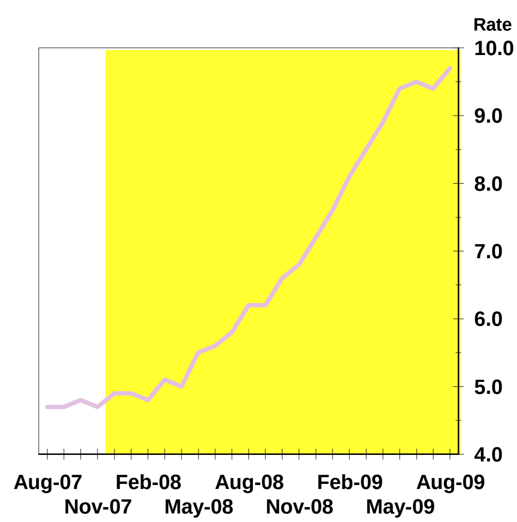
Due to the Labor Day holiday, very little data besides the employment situation was released over the past few days. Oil prices fell over the past week, averaging $68.8 per barrel, compared to last week's average of $70.9. Redbook sales for the first week of September are due out late Wednesday afternoon, with inital claims and the U.S. foreign trade balace to follow Thursday morning.

Payroll employment decreased by 216,000 in August, and revisions to the prior two months' estimates resulted in 49,000 more jobs being cut than originally estimated. The unemployment rate jumped in August to 9.7%, its highest since June 1983.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.