FEDERAL RESERVE
BANK OF BOSTON™

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

September 2, 2010

CURRENT ECONOMIC DEVELOPMENTS - September 2, 2010

Data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter than originally thought, and third quarter growth is unlikely to be much stronger. As has been the case for the past few months, poor labor market conditions, restrained consumer confidence, and waning stimulus effects are contributing to uncertainty about the strength of the recovery, if not its sustainability.

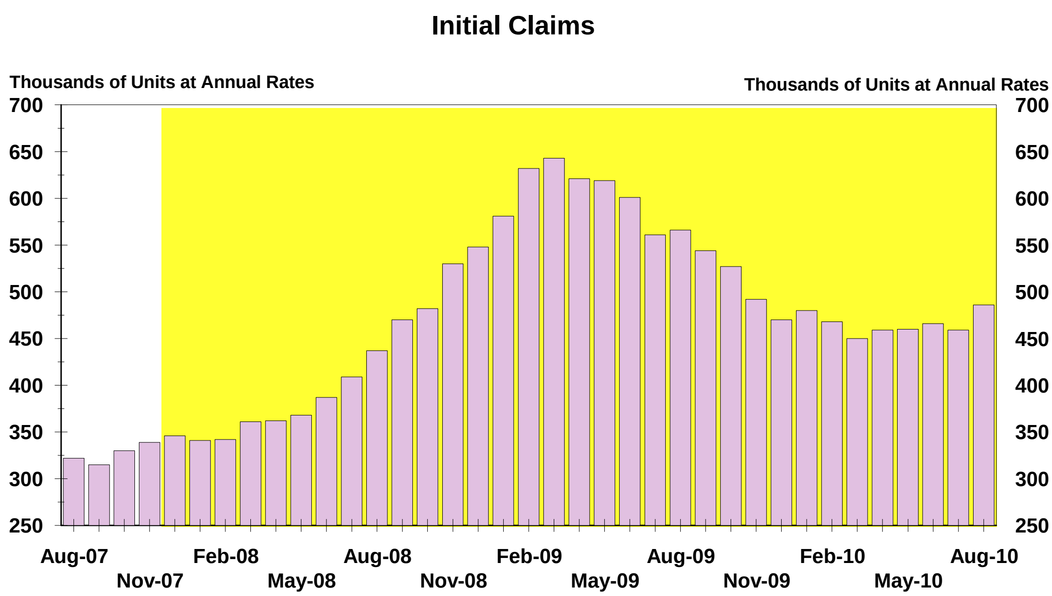
In August, initial claims increased after showing little change through the first half of the year. Consumer attitudes improved a bit, but are unlikely to make any significant gains without substantial improvements in employment conditions and signs of improvement in the economy moving forward. Vehicle sales were down a bit from the previous month, but remain on pace to sell about one million more units this year than seen in 2009. Consumption posted its third consecutive increase in July, despite a small decrease in incomes.

The housing market has showed further signs of weakness in the wake of the stimulus rebate. Sales of both new and existing homes have fallen steadily since the rebate expired, resulting in record-low sales paces for both in July.

In the manufacturing sector, industrial production and capacity utilization both rose in July. Durable goods orders continued to show strong year-over-year gains in July, but orders for nondefense capital goods excluding aircraft fell sharply from their June level. In August, the ISM index rose to offset a small July decline.

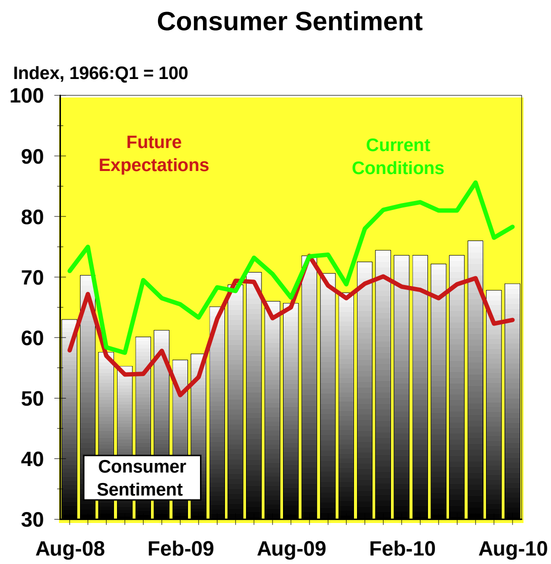
Price concerns continue to lean more toward the downside, with core inflation indices holding steady at low levels. Energy prices have also shown little change.

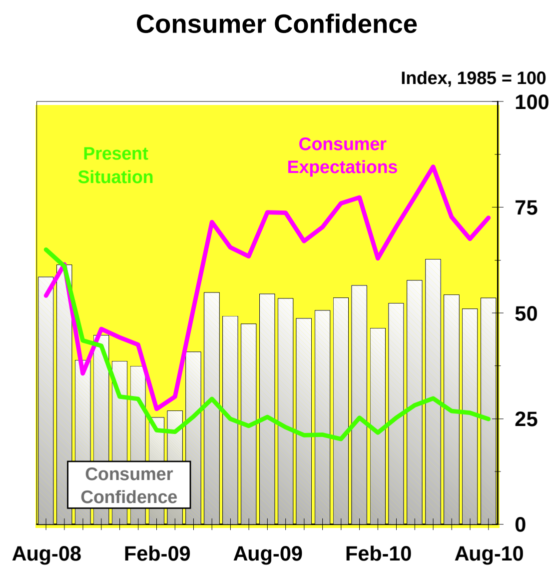
After holding mostly steady the previous four months, initial claims for unemployment insurance rose in August to their highest level of the year.



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

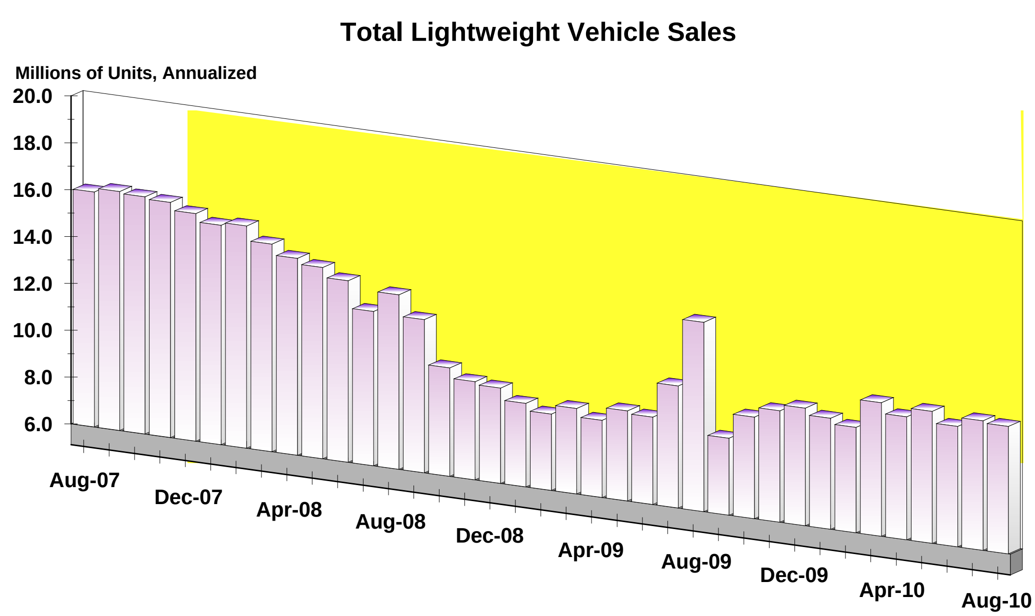
Consumer attitudes generally improved slightly in August, but remain well below the recent peak seen in June. As has been the case for several months, repondents continue to be concerned about job conditions, personal finances, and the overall health of the economy both today and in the months ahead.





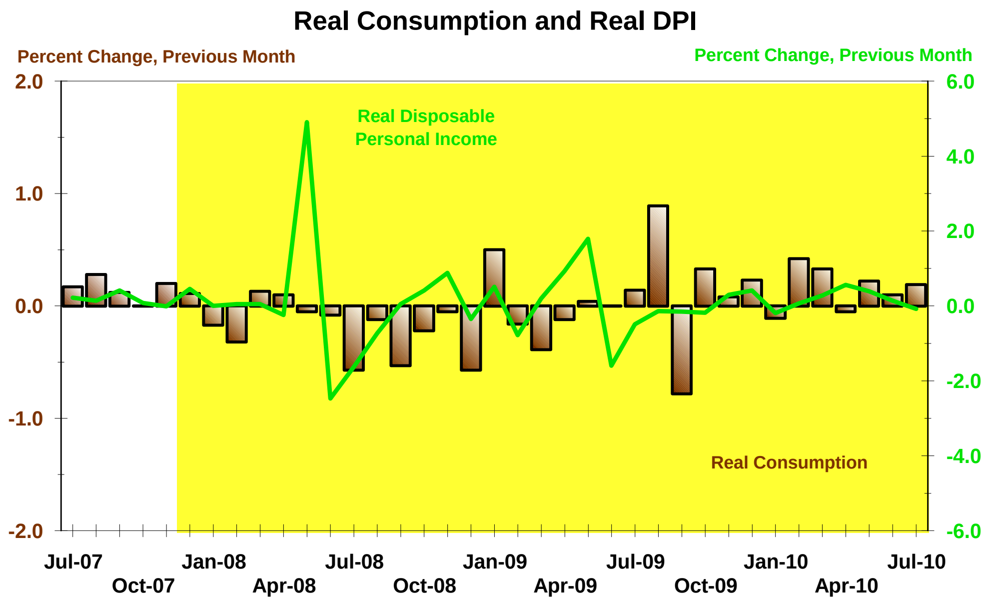
Source: The University of Michigan (left panel) and The Conference Board (right panel) / Haver Analytics.

Vehicle sales fell slightly in August from their July level. As auto sales are often compared to their year ago levels, a significant drop in August sales was widely reported in the media. However, sales last August were greatly inflated by the 'Cash for Clunkers' program, which skews any comparisons to last year.



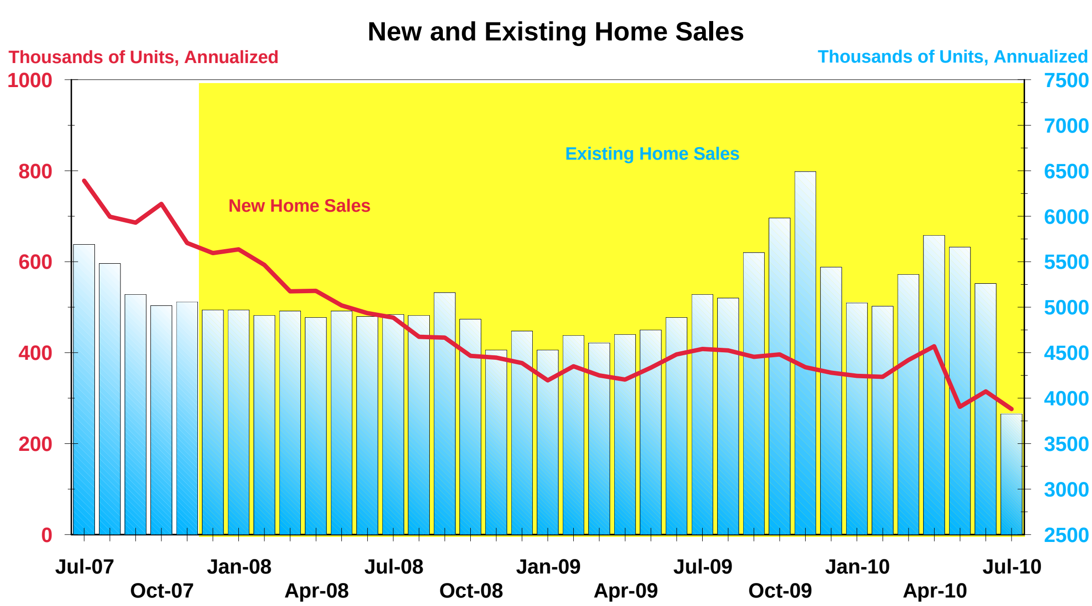
Source: Bureau of Economic Analysis / Haver Analytics.

Consumption posted a small increase in July, even as incomes fell slightly. While consumption hasn't been particularly strong during the recovery it has shown consistent improvement, increasing in eight of the past ten months.



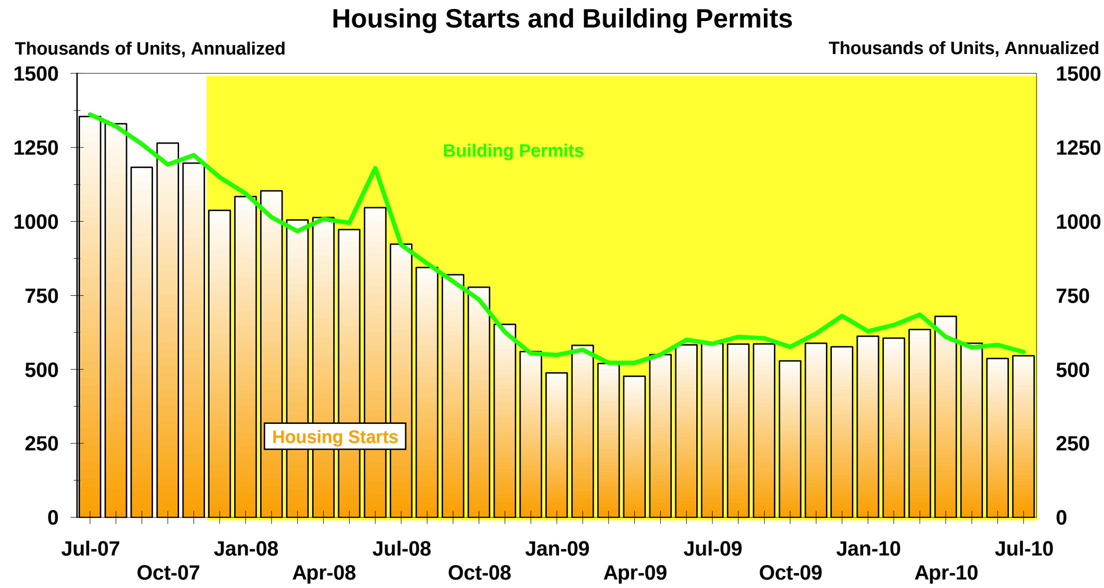
Source: Bureau of Economic Analysis / Haver Analytics.

The expiration of the home-buying tax credit and increased uncertainty about the recovery have taken a dramatic toll on the real estate market. Both new and existing home sales fell to all-time-lows in July, highlighted by a record 27.2% drop in existing sales.



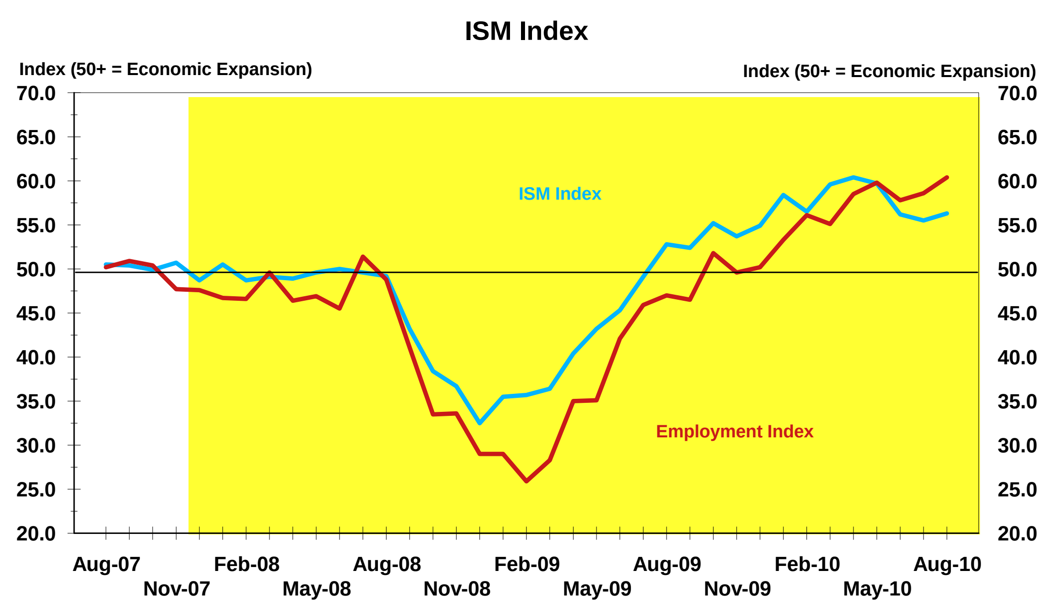
Source: U.S. Census Bureau (new home sales) and National Association of Realtors (existing sales) / Haver Analytics.

Building activity has held mostly steady for the past year and a half, with July data for starts and permits little changed from their levels at the end of 2008. Given the low level of home sales and a large inventory of unsold homes still on the market, new construction data is unlikely to improve much in the coming months.



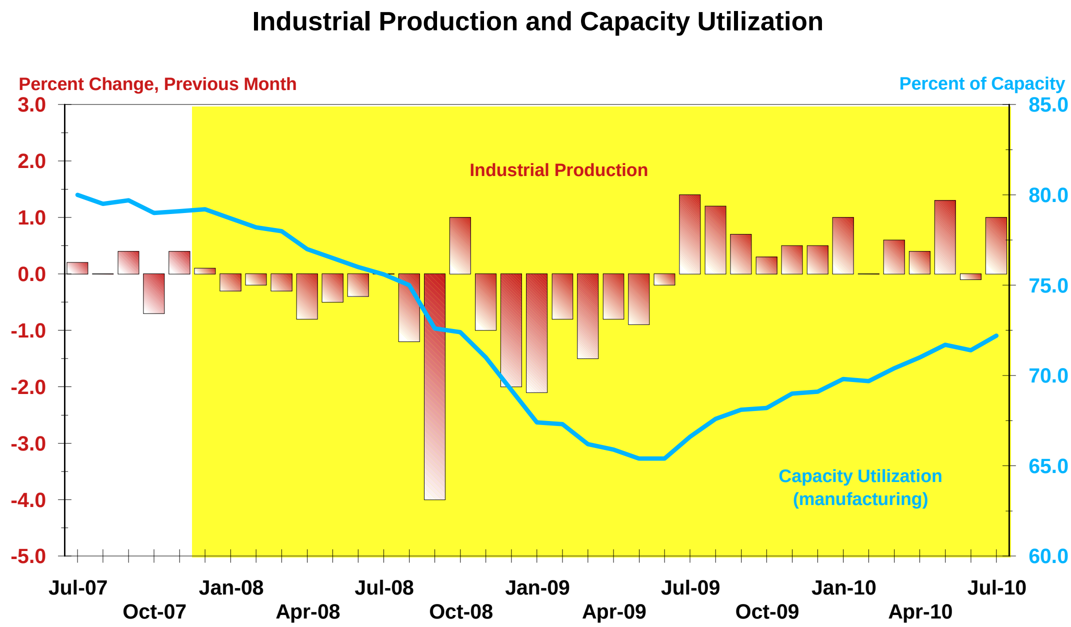
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index rose slightly in August, offsetting the small decrease seen in July. The employment index also improved in August, reaching its highest level in over 25 years.



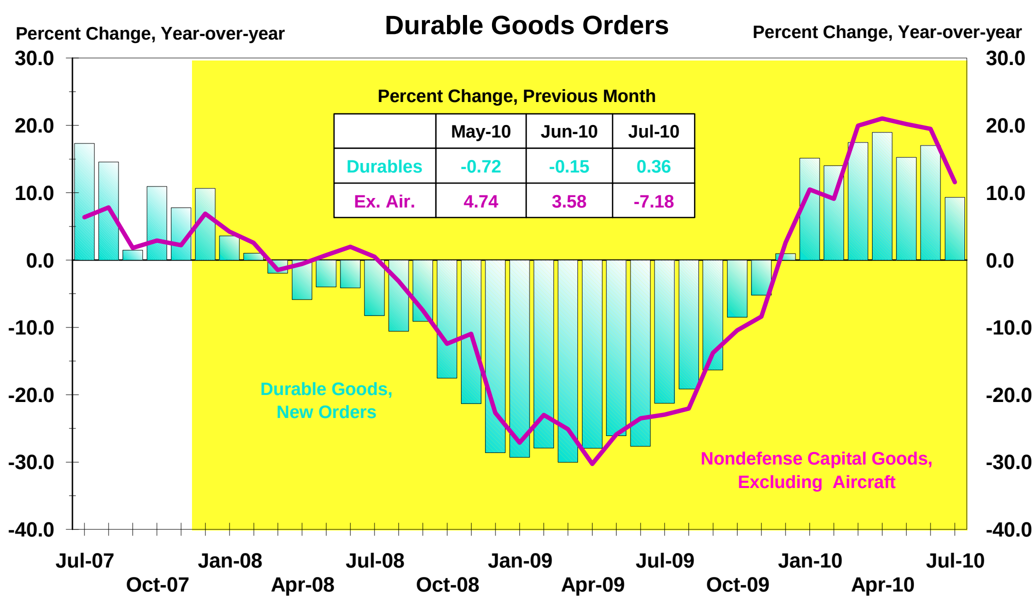
Source: Institute for Supply Management / Haver Analytics.

Both industrial production and capacity utilization increased in July, more than offsetting the small decreases seen in June. Production data has been one of the few consistent sources of positive news during the recovery.



Source: Federal Reserve Board of Governors / Haver Analytics.

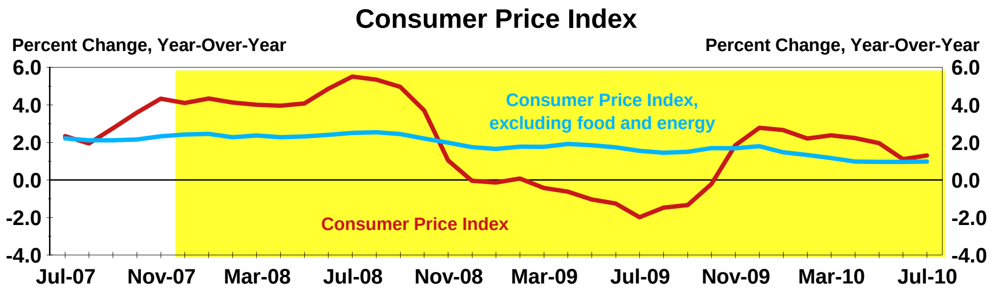
Durable goods orders posted a solid year-over-year gain in July, but it was the smallest such improvement since December. Orders picked up a bit on a monthly basis, but not enough to offset the declines of the prior two months. Orders for nondefense capital goods excluding aircraft fell sharply in July, a potentially troubling sign for future investment data.

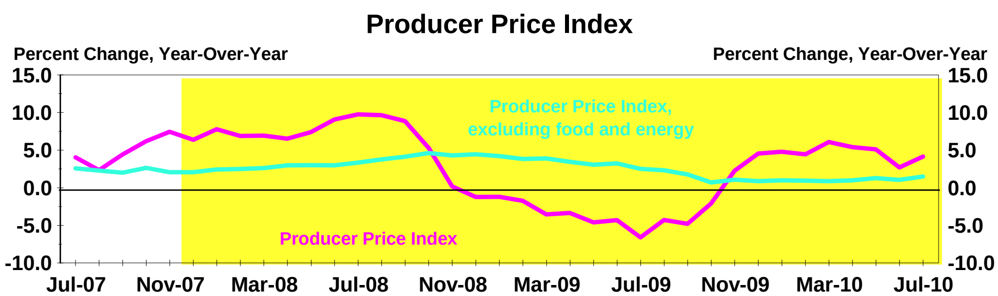


	May-10	Jun-10	Jul-10
Durables	-0.72	-0.15	0.36
Ex. Air.	4.74	3.58	-7.18

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

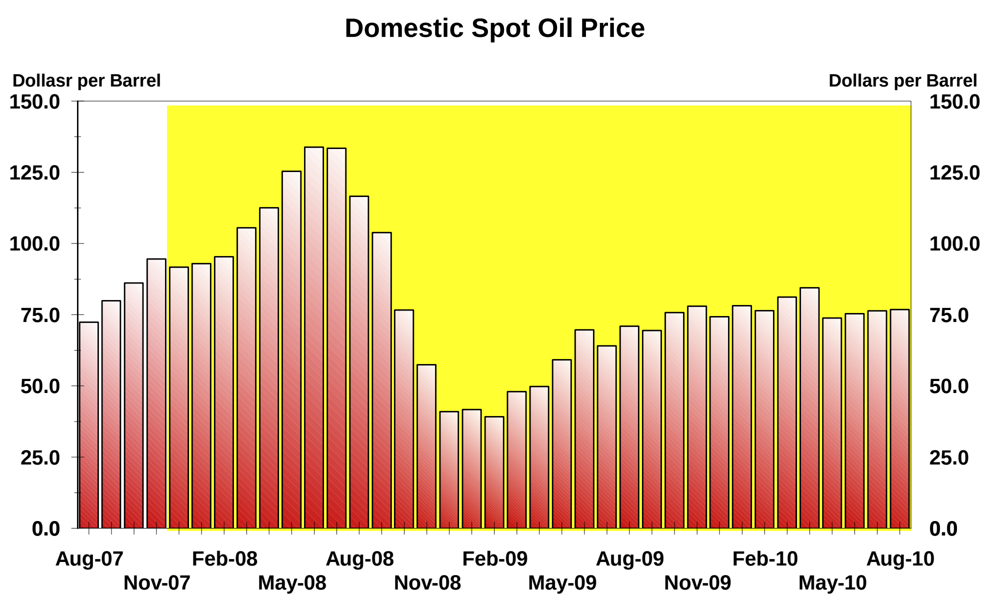
Total consumer inflation picked up slightly in July, but the core index held steady at the 47-year low established in April. With little recent change in inflation rates, the threat of deflation remains.





Source: Bureau of Labor Statistics / Haver Analytics.

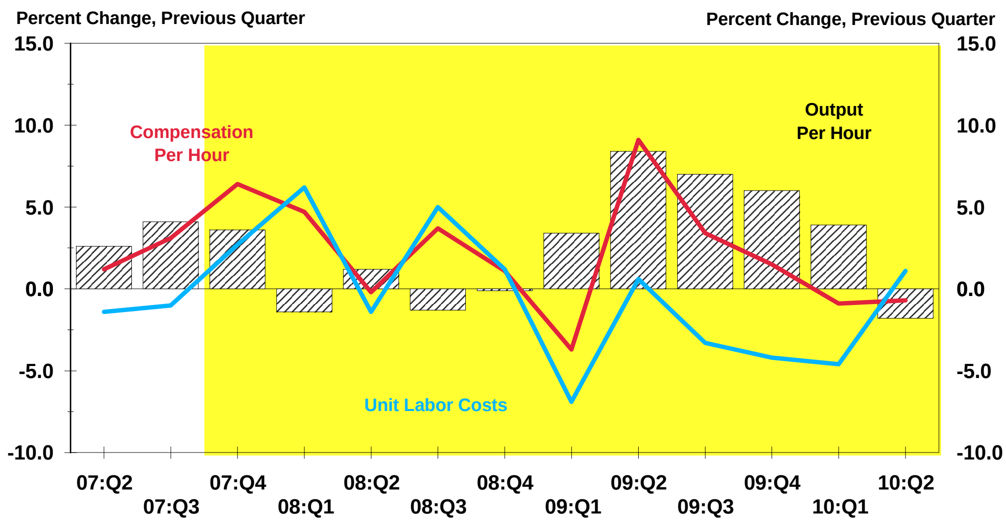
Oil prices inched up a bit further in August, and were virtually identical to their 12-month average.



Source: Wall Street Journal / Haver Analytics.

The decrease in second quarter productivity was revised higher in the second estimate, as output did not increase by as much as originally thought while hours worked remained the same. The lower output also resulted in an upward revision to unit labor costs, which advanced at their highest rate since late 2008.

Productivity and Costs



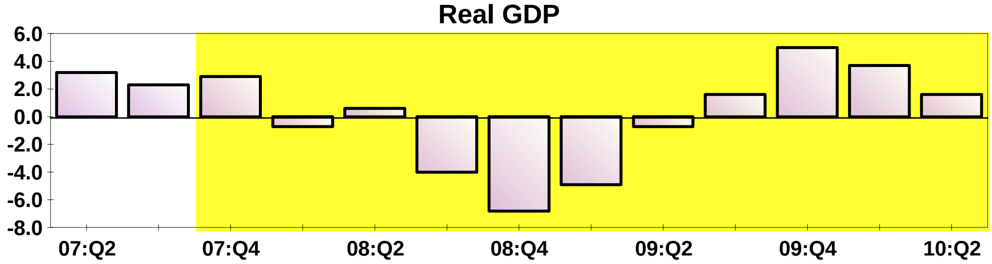
Source: Bureau of Labor Statistics / Haver Analytics.

Second quarter real GDP growth was revised lower in the second estimate, but by a smaller amount than expected. The slower growth rate was due primarily to an upward revision to imports and downward revisions to private inventory investment and exports. Those effects were partly offset by an upward adjustment to PCE.

Revisions to Second Quarter Real GDP

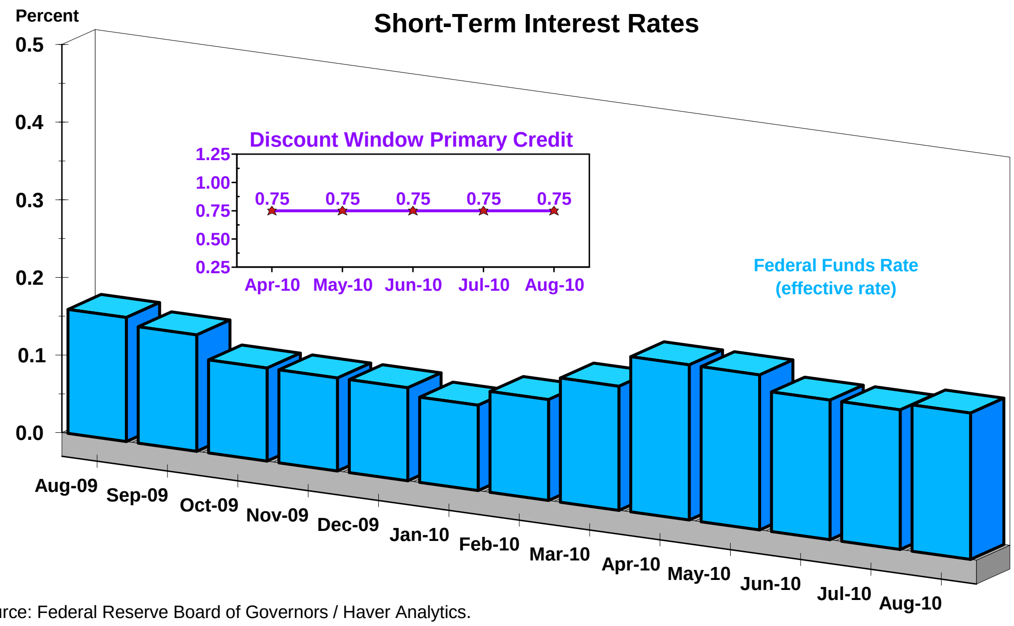
Description	Advanced	2nd Estimate
Real GDP	2.4	1.6
Personal Consumption	1.6	2.0
Business Investment	17.0	17.6
Equipment and Software	21.9	24.9
Government	4.4	4.3
Residential	27.9	27.2
Exports	10.3	9.1
Imports	28.8	32.4
Final Sales	1.3	1.0

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter than originally thought, and third quarter growth is unlikely to be much stronger. As has been the case for the past few months, poor labor market conditions, restrained consumer confidence, and waning stimulus effects are contributing to uncertainty about the strength of the recovery, if not its sustainability.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

September 8, 2010

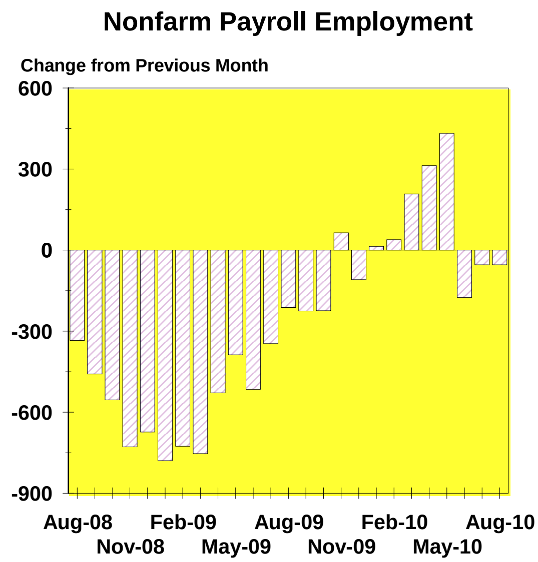
Current Economic Developments - Addendum: Data released in the past week

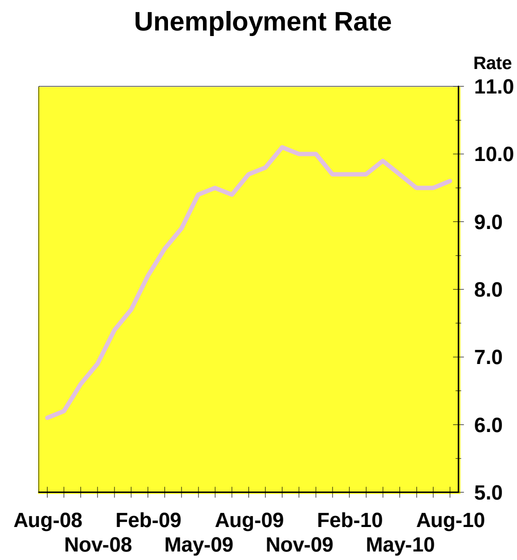
In August, total nonfarm payrolls fell less than expected and private payrolls posted another modest increase. Further evidence that the labor market is slowly improving were revisions to June and July data, where estimated job losses were cut by one-third. Most of the decreases in payroll employment in recent months have been due to the elimination of temporary Census 2010 workers, but only 80,000 such employees remain, likely limiting their negative impact on future payroll reports.

The weakness in the labor market has been a trademark of the recession, and the time it takes to refill those jobs will be a key factor in the strength of the economic recovery. Included in this report is a look at some broader measures of employment conditions that shows the depth of the damage done to the labor market over the past few years.

Due to the Labor Day holiday, very little data besides the employment situation was released over the past few days. The ISM nonmanufacturing index fell in August but remained above 50, suggesting the services sector is still expanding, albeit at a slower pace.

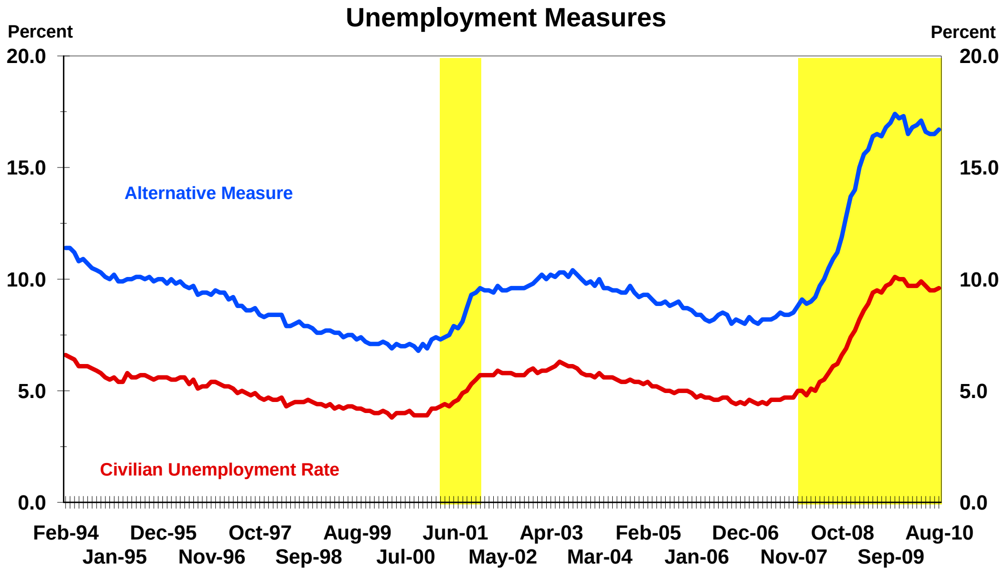
Payroll employment fell by 54,000 in August, due primarily to the completion of 114,000 temporary Census jobs. Private payrolls increased by 67,000 in August and have risen every month this year. The unemployment rate rose one-tenth of a percentage point in August to 9.6%.





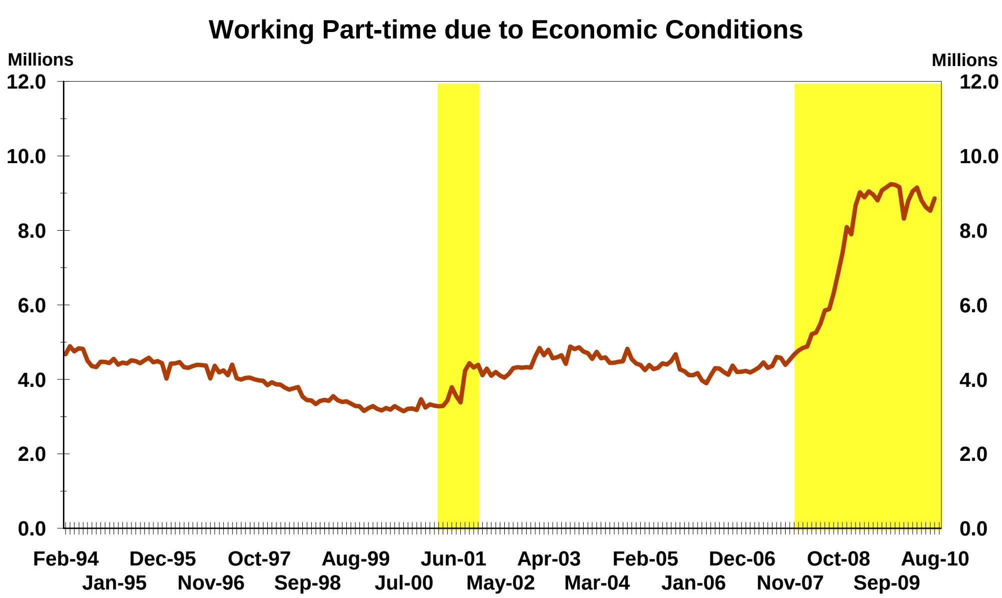
Source: Bureau of Labor Statistics / Haver Analytics.

While the traditional civilian unemployment rate has hovered around 10% over the past year, an alternative measure that captures people forced to work part time and those only marginally attached to the labor force has been closer to 17%. In the ten years prior to this recession, the difference between the series' averaged 3.6%. Over the past year, this difference has been nearly twice that. While both series have declined a bit at times recently, that was more the result of people leaving the labor force than it was the creation of new jobs.



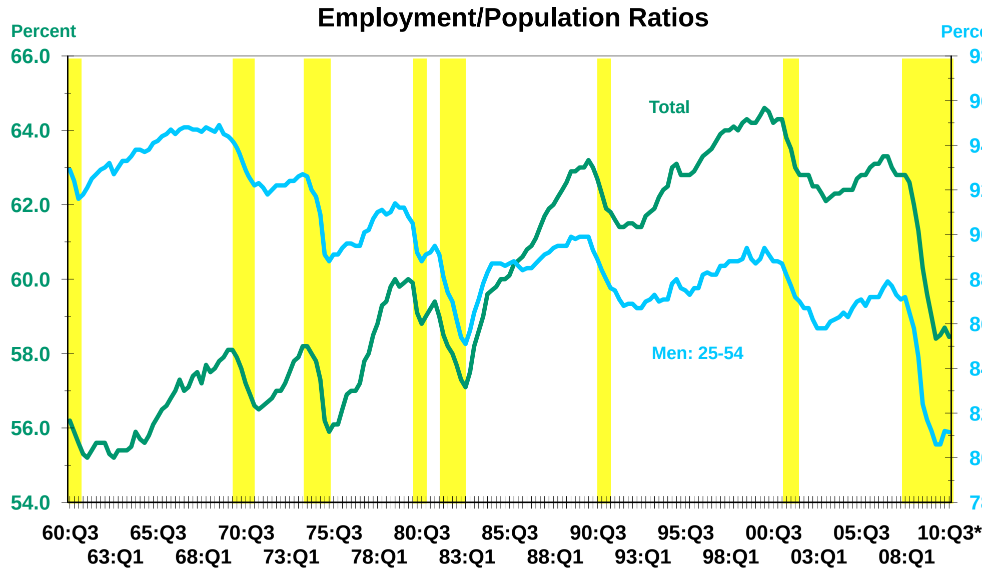
Source: The Bureau of Labor Statistics / Haver Analytics.

The poor labor market has forced many people who want and are available to work full-time to accept part-time postitions. The number of these type of employees more than doubled during the recession.



Source: The Bureau of Labor Statistics / Haver Analytics.

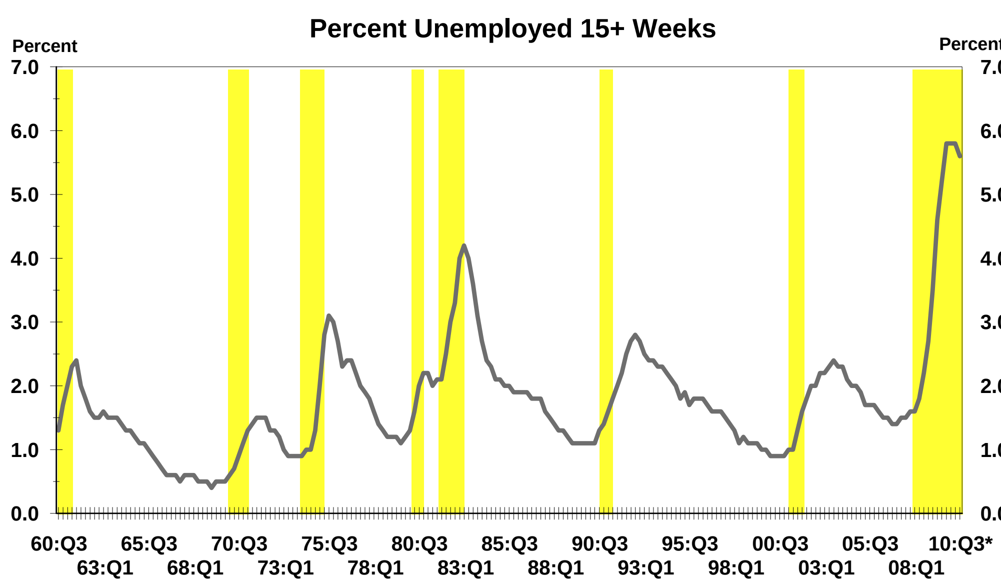
The ratio of total people employed to the population gives a quick snapshot of general employment conditions. Currently the ratio stands at 58.5%, down from 62.8% before the crisis and from a peak of 64.6% in 2000:Q1. For men of prime working age, nearly one in five does not currently hold any kind of job. This ratio was close to 90% ten years ago and regularly approached 95% through the '50s and '60s.



Source: The Bureau of Labor Statistics / Haver Analytics / Dow Jones.

* 2010:Q3 data is July/August average

Another characteristic of the labor market during this recession is the long duration people have remained unemployed after losing their jobs. Over the past year a record 5.8% of the labor force has not only been unemployed, but has been so 15 weeks or more. The previous record was 4.2%, set in 1983. In August, roughly 3 in 5 unemployed persons had been without work for more than three months.



Source: The Bureau of Labor Statistics / Haver Analytics.

* 2010:Q3 data is July/August average