FEDERAL RESERVE
BANK OF BOSTON™

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

September 1, 2011

CURRENT ECONOMIC DEVELOPMENTS - September 1, 2011

Data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter than originally thought. Still, growth is expected tp pick up in the second half of the year compared to the first half. Recent data has been mixed, with support from manufacturing partially offset by weakness in the housing market. Consumption started the third quarter on a strong note, but for that to continue further improvements in the labor market will be necessary, especially given the dramatic fall in consumer attitudes in August.

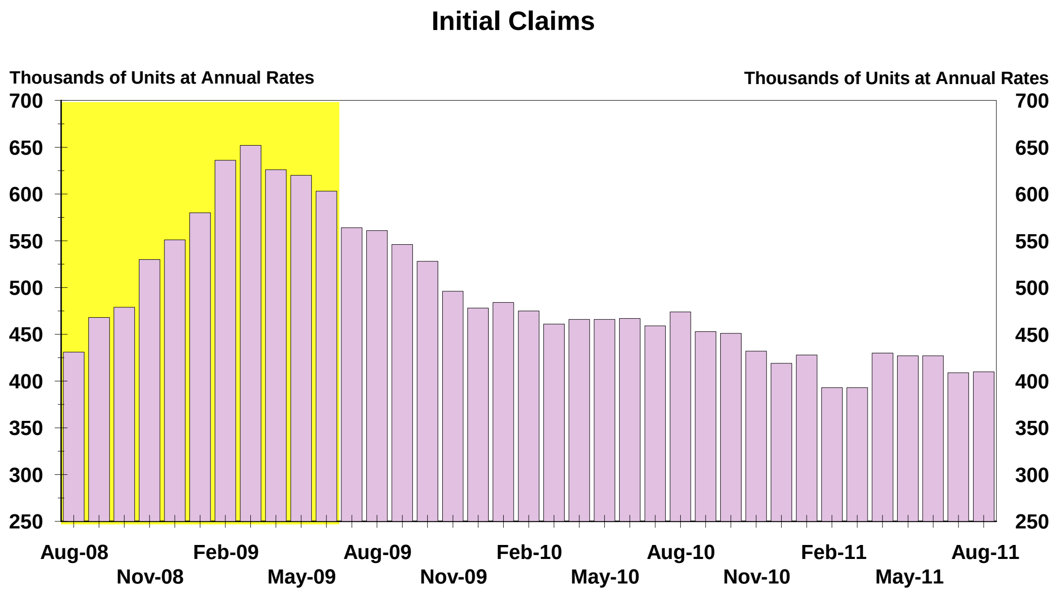
In August, initial claims increased slightly but were little changed from their six-month average. Consumer attitudes deteriorated significantly, as increased worries about the short-term outlook joined ongoing job and income concerns. In July, consumption posted its biggest gain since 2009, despite a small decrease in disposable incomes.

The housing market remained weak in July. New home sales were essentially flat, and existing home sales, housing starts and building permits all fell. On the positive side, construction spending grew much faster in the first quarter than previously estimated and current house prices and mortgage rates remain favorable for perspective buyers.

In the manufacturing sector, the ISM index eased slightly in August but continued to signal expansion. Industrial production and capacity utilization both rose in July, reaching their highest levels since the end of the recession. Also in July, orders for both durable goods and nondefense capital goods excluding aircraft continued to post strong year-over-year gains.

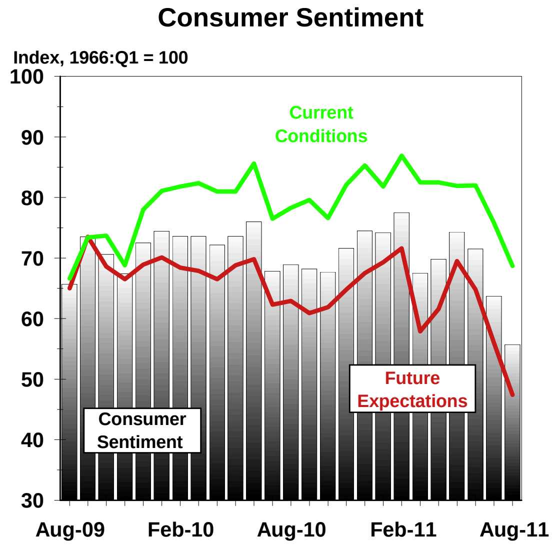
Price indices remained within an acceptable range in July, although core measures crept a bit higher. Oil prices fell sharply in early August, leading to their lowest monthly average this year.

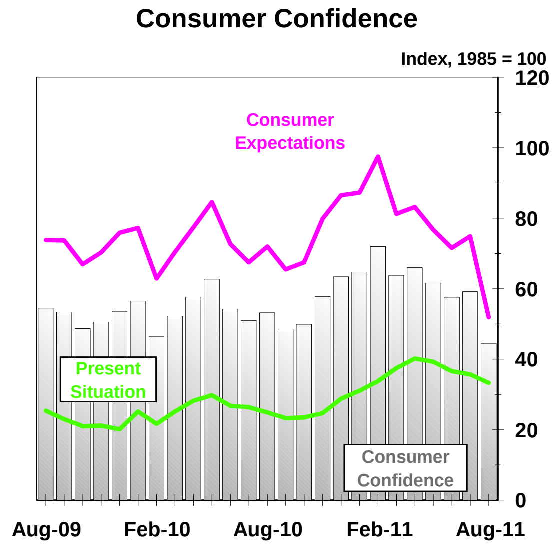
Initial claims for unemployment insurance were essentially unchanged in August, and remain in line with their average seen over the previous six months.



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

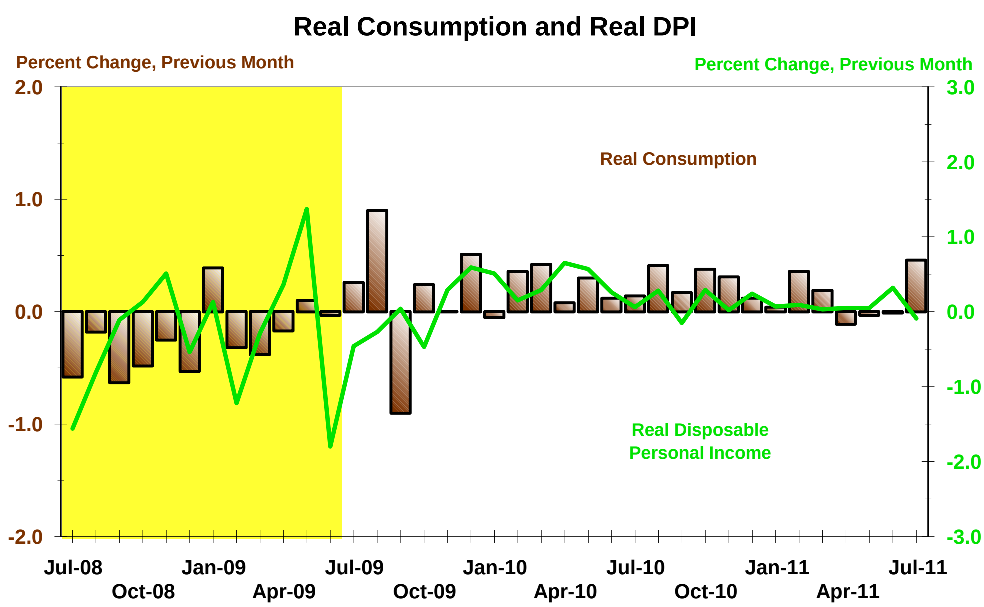
Consumer attitudes worsened severely in August due to sharp drops in expectations, caused by falling stock prices, debt ceiling discussions, the S&P credit rating downgrade and an increasing fear of recession. Assessments of current conditions also continued to deteriorate among weaker job market conditions and personal financial concerns.





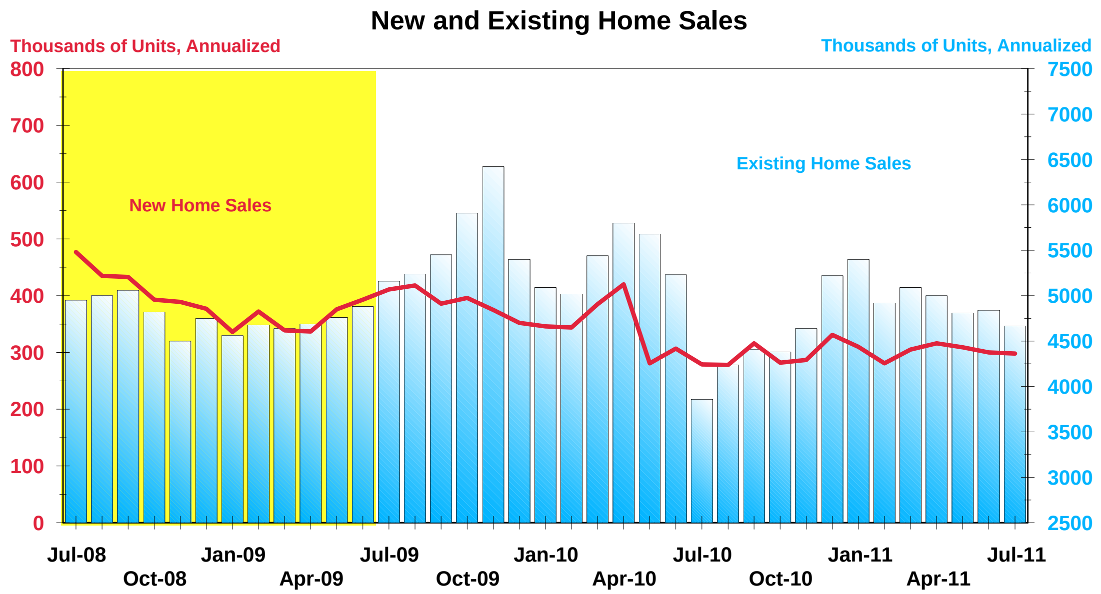
Source: The University of Michigan (left panel) and The Conference Board (right panel) / Haver Analytics.

Consumption rebounded in July from three consecutive monthly declines, and posted its biggest increase since December 2009. The increase came despite a small decline in disposable income.



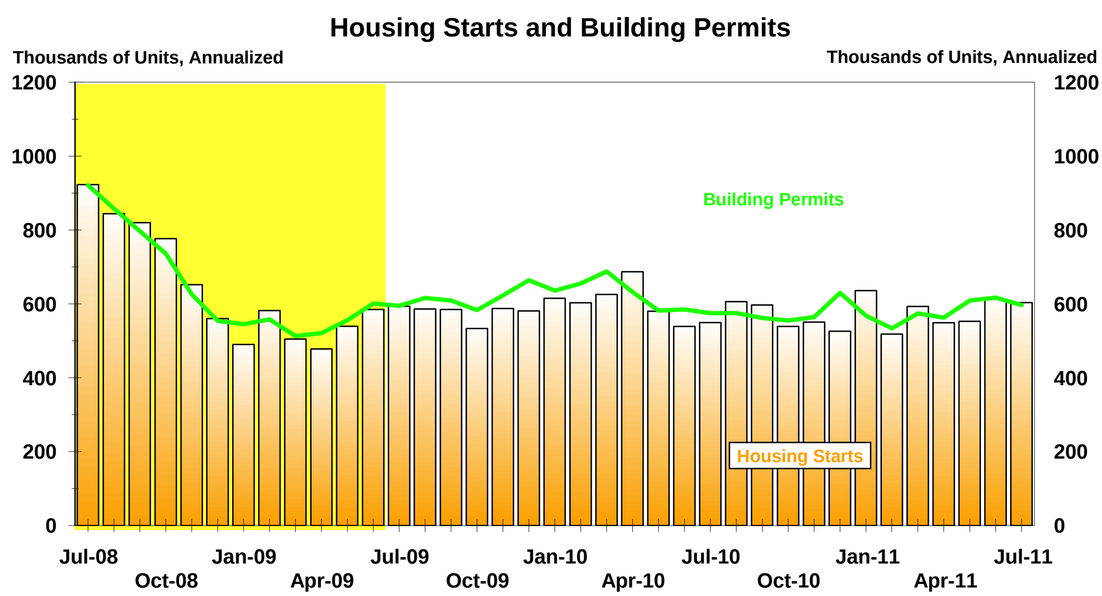
Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data continued to be weak in July. New home sales were essentially flat, and are little changed from the levels seen over the past 15 months. Existing home sales fell for the fourth time in six months, reaching their lowest sales pace since November.



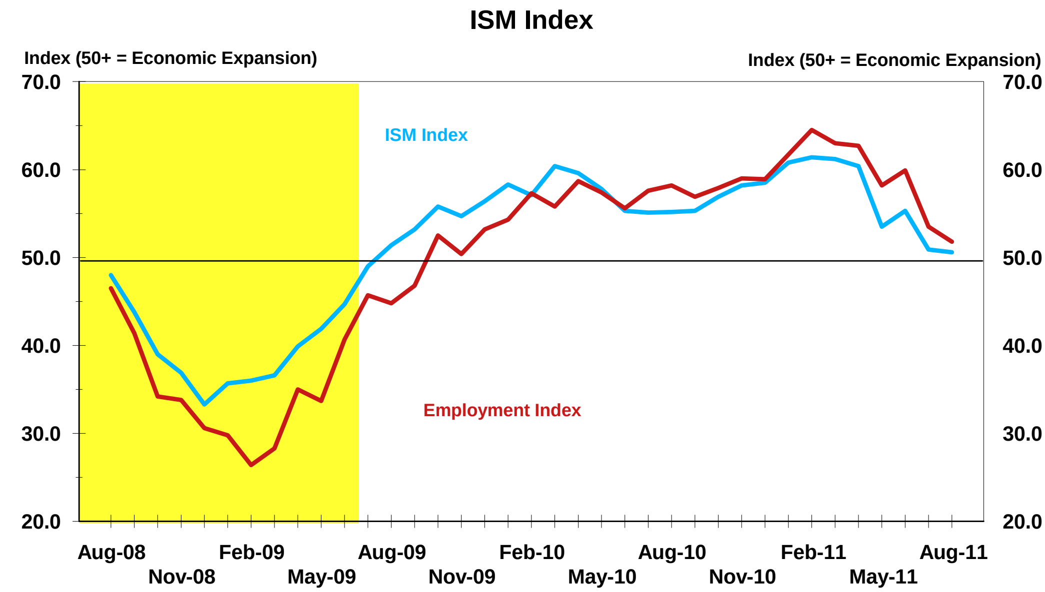
Source: U.S. Census Bureau (new home sales) and National Association of Realtors (existing sales) / Haver Analytics.

The July data for new construction was also disappointing. After posting a strong gain in June housing starts declined in July, and building permits came in well below expectations. On a positive note, the rising popularity of apartments led to another solid increase in starts of multi-unit structures.



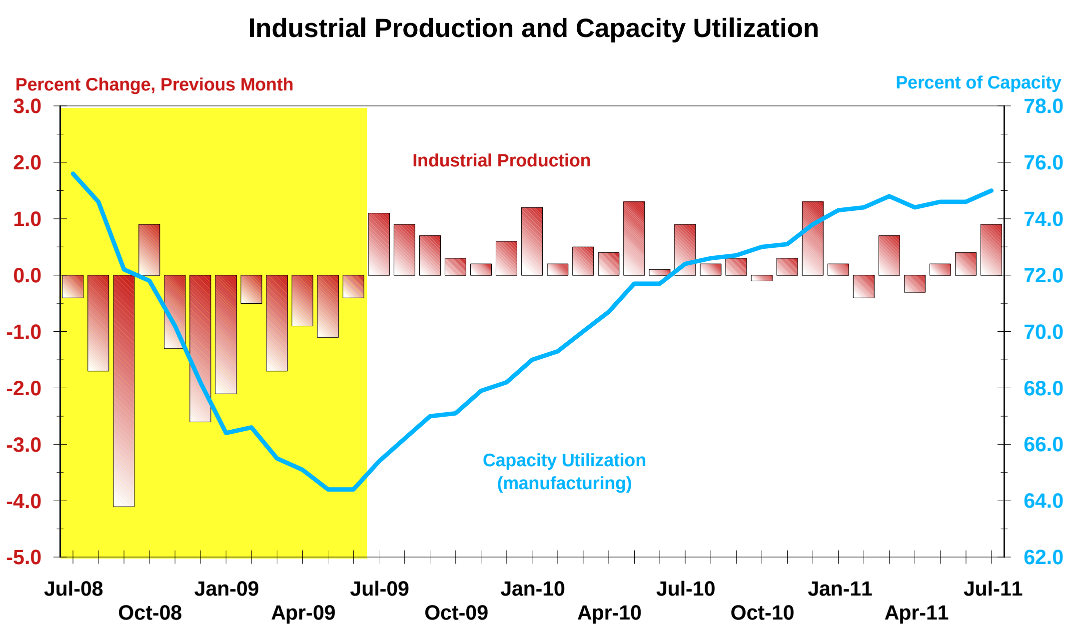
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index eased slightly in August, reaching its lowest level in over two years. The index held above 59, however, a signal that the manufacturing sector is still slowly expanding.



Source: Institute for Supply Management / Haver Analytics.

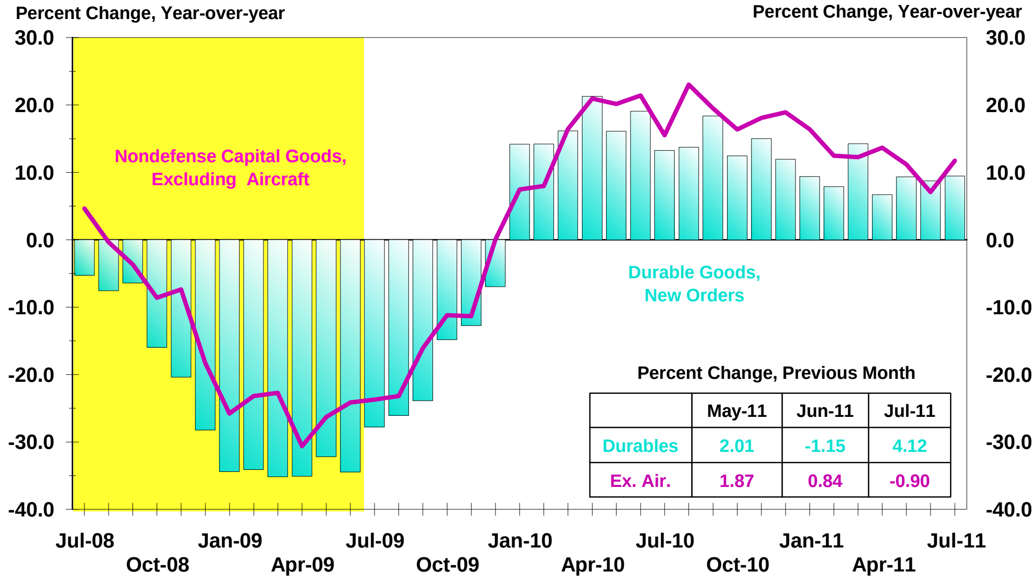
Industrial production posted its biggest monthly increase of 2011 in July, building on the gains of the prior two months. Capacity utilization also rose in July, reaching its highest level in three years.



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders posted another solid year-over-year gain in July, led by strong gains in machinery and primary metals. Orders also picked up on a monthly basis. Orders for nondefense capital goods excluding aircraft accelerated in July on a year-over-year basis, despite a small drop from their June level.

Durable Goods Orders

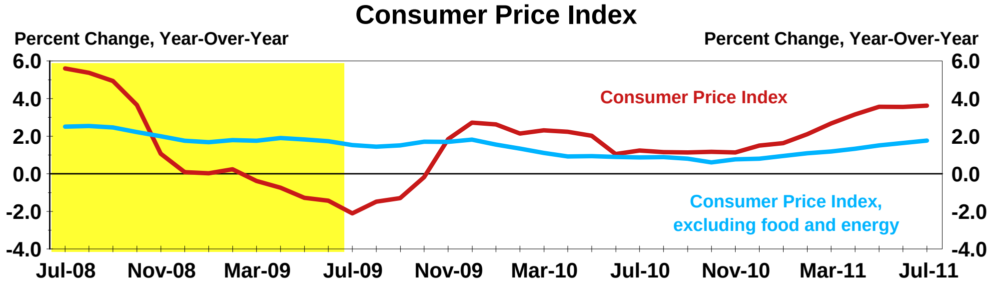


	May-11	Jun-11	Jul-11
Durables	2.01	-1.15	4.12
Ex. Air.	1.87	0.84	-0.90

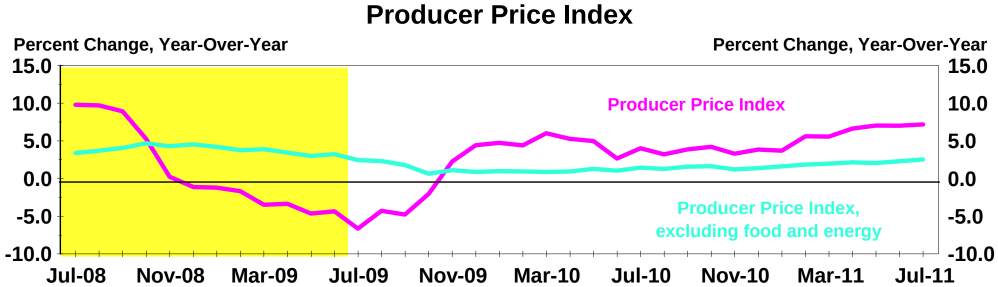
Source: U.S. Census Bureau / Haver Analytics.

Total consumer inflation held steady again in July, but the core index continued to slowly climb. July's increases were led by higher transporation costs, mostly in the form of rising motor fuel costs. Total producer prices were also flat in July, while the core index rose slightly.

Consumer Price Index

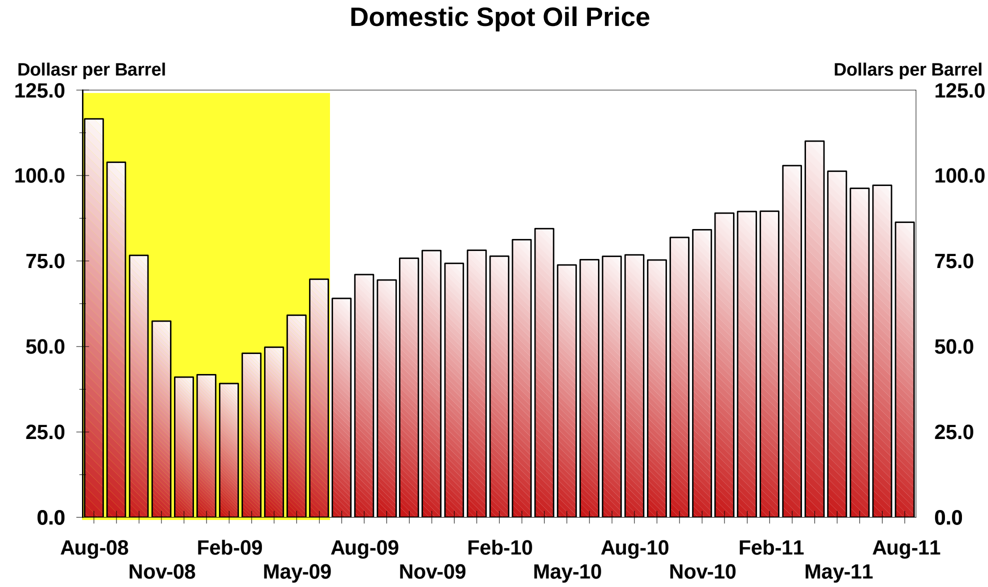


Producer Price Index



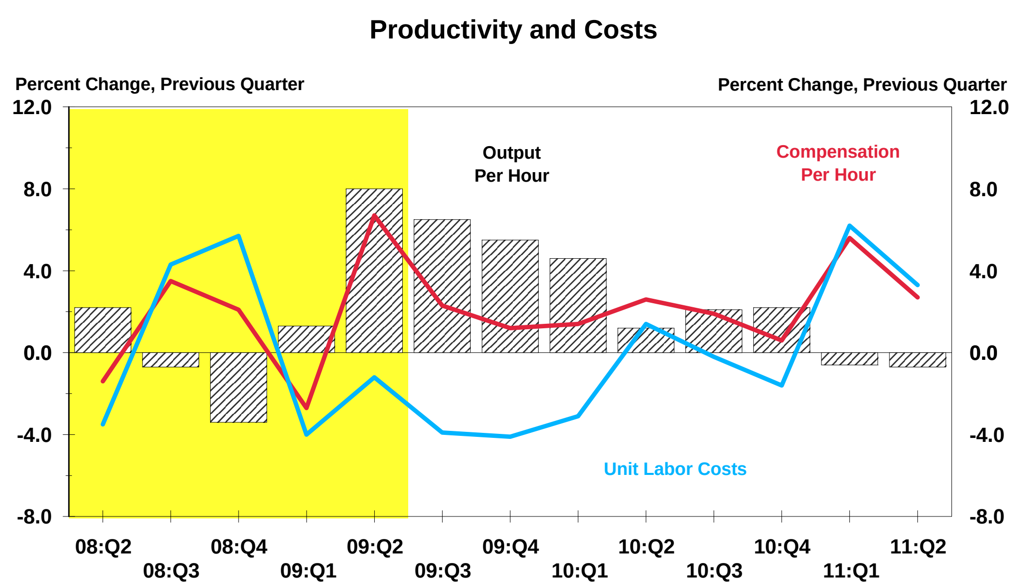
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices fell sharply in early August before reversing and slowly climbing into the high-80s later in the month. The overall average price in August was the lowest of any month so far this year.



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 revised report also showed compensation costs advanced faster in the first half of the year than previously estimated.

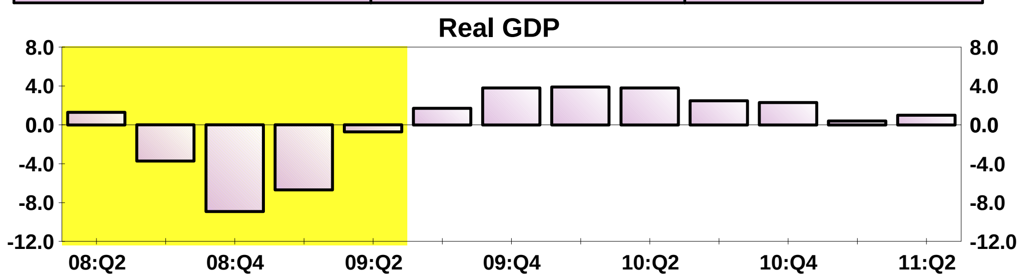


Source: Bureau of Labor Statistics / Haver Analytics.

Second quarter real GDP growth was revised lower in the second estimate, but still represented an improvement from first quarter growth. The second quarter rate was revised down primarily due to downward revisions to private inventory investment and exports. Those effects were partly offset by upward revisions to nonresidential fixed investment and personal consumption.

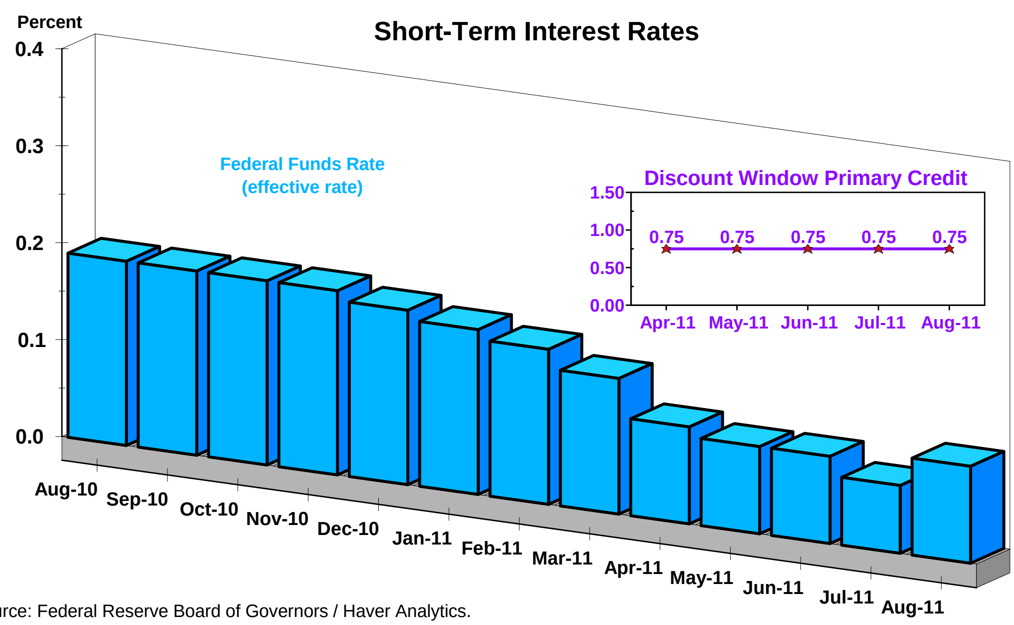
Revisions to Second Quarter Real GDP

Description	Advanced	2nd Estimate
Real GDP	1.3	1.0
Personal Consumption	0.1	0.4
Business Investment	6.3	9.9
Equipment and Software	5.7	7.9
Government	-1.1	-0.9
Residential	3.8	3.4
Exports	6.0	3.1
Imports	1.3	1.9
Final Sales	1.1	1.2



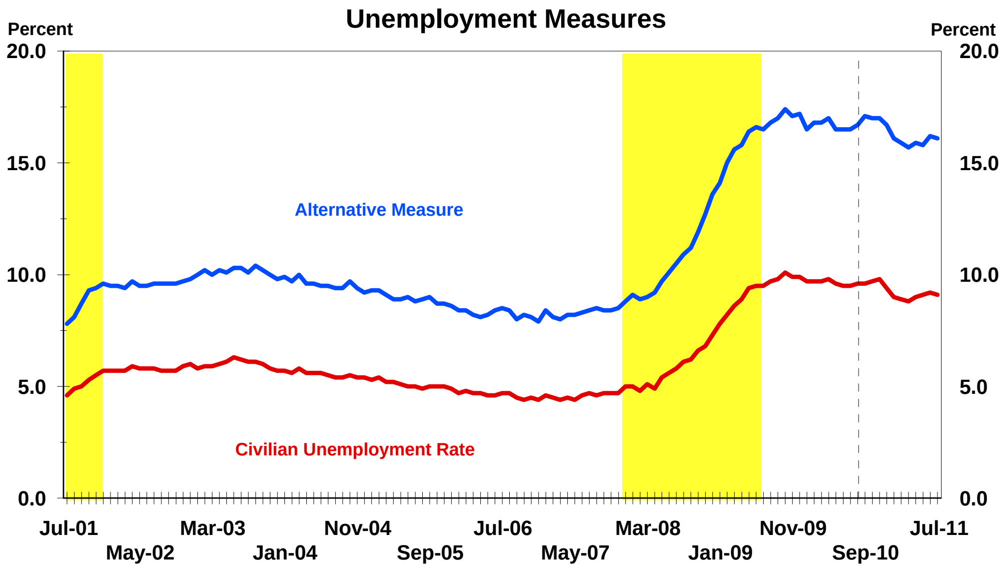
Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter than originally thought. Still, growth is expected to pick up in the second half of the year compared to the first half. Recent data has been mixed, with support from manufacturing partially offset by weakness in the housing market. Consumption started the third quarter on a strong note, but for that to continue further improvements in the labor market will be necessary, especially given the dramatic fall in consumer attitudes in August.



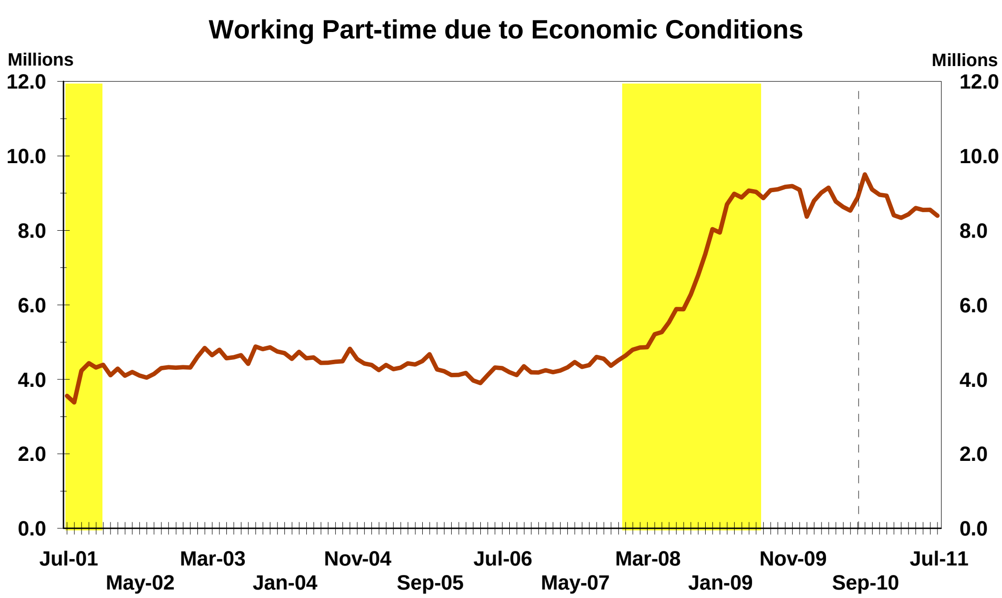
Source: Federal Reserve Board of Governors / Haver Analytics.

Last September we took a closer look at some lesser known gauges of employment conditions, and are revisiting them here to see how things have changed since. The traditional unemployment rate has fallen half of a percentage point, while an alternative measure that incorporates those working part time and those only marginally attached to the labor force has fallen six-tenths of a percentage point. The gap between the series remains high, averaging 7.1% over the past year. The gap was half that in the ten years prior to the recession.



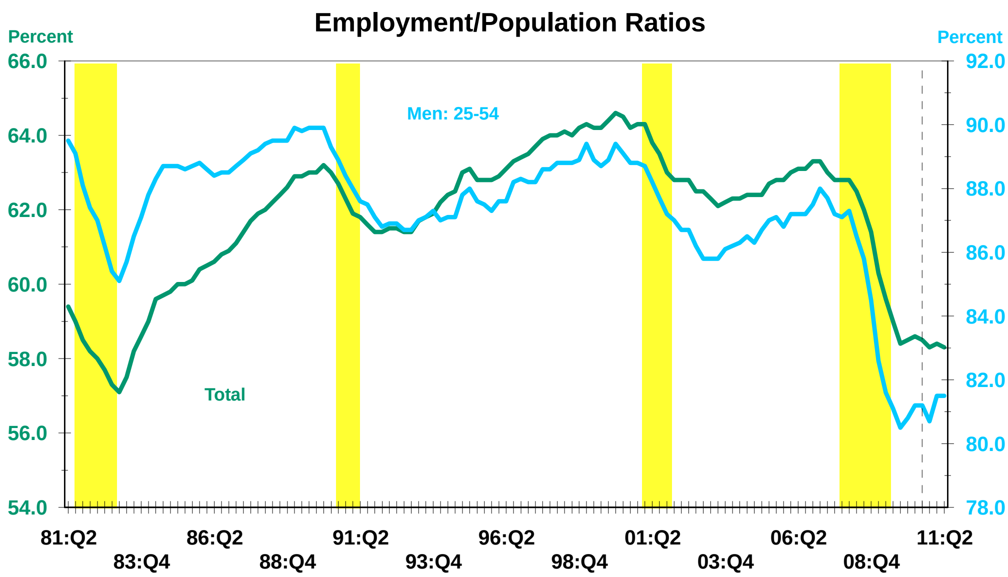
Source: The Bureau of Labor Statistics / Haver Analytics.

The poor labor market has forced many people who want and are available to work full-time to accept part-time postitions. That number peaked at a record 9.5 million in September 2010, but was down to 8.4 million in July. The previous record high before the Great Recession was 6.9 million in October 1982.



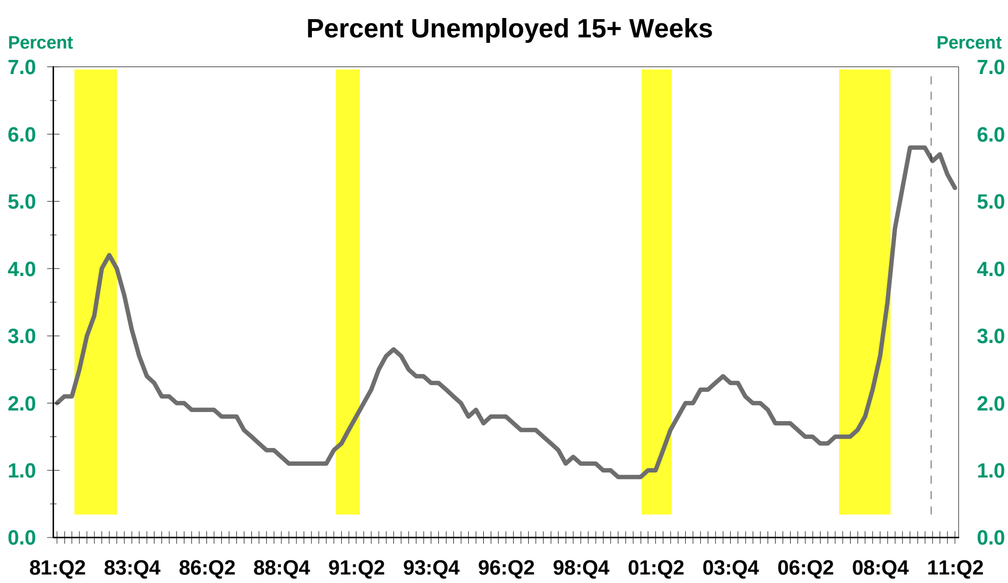
Source: The Bureau of Labor Statistics / Haver Analytics.

The ratio of total people employed to the population gives a quick snapshot of general employment conditions. Currently the ratio stands at 58.3%, its lowest point since 1983. While the total ratio continues to decline, for men of prime working age conditions have improved. 81.5% of men 25-54 are currently employed, up a full percentage point from the trough in the fourth quarter of 2009, though still far below historical norms.



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

While recent labor market woes have been characterized by the lengthy terms of unemployment, the percentage of people out of work for over 15 weeks has been falling. The data could be misleading, however, as being unemployed for so long often leads to potential workers becoming discouraged and leaving the labor force. This appears to be evident recently, as the labor force has shrunk by 635,000 people over the past year.



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

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

September 8, 2011

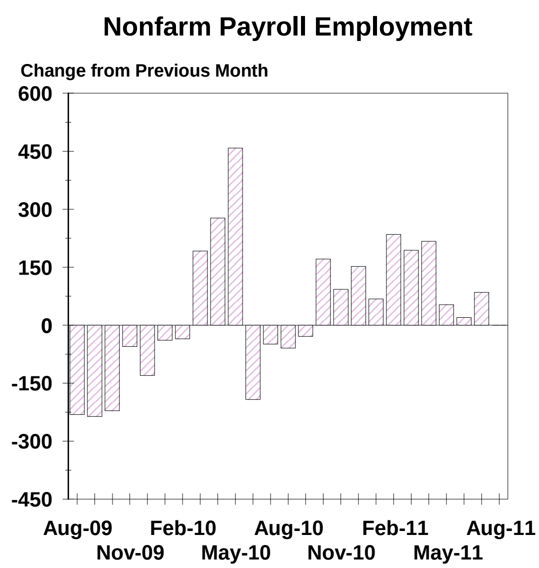
Current Economic Developments - Addendum: Data released in the past week

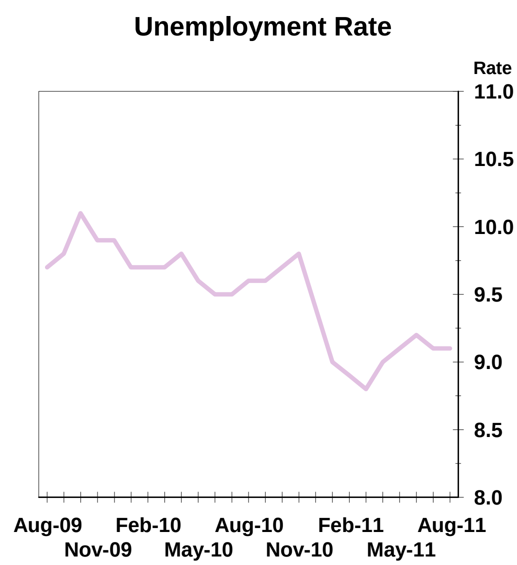
Total nonfarm payrolls were unexpectedly flat in August, following ten consecutive monthly gains. The increases in June and July were also revised downward. Data for hours worked and earnings decreased in August, likely leading to lower income and consumption data overall in the third quarter. The unemployment rate was unchanged in August, which was a bit misleading. Civilian employment actually posted a large gain in August, but it was matched by a large increase in the labor force.

Lightweight vehicle sales eased a bit in August from July, but were up modestly from the previous year. The slight decrease in the sales rate in August was expected, and could have been more pronounced given the recent decrease in consumer sentiment and weather issues.

Due to the Labor Day holiday, not much other data was released over the past few days. The ISM nonmanufacturing index unexpectedly rose in August, offsetting the decrease seen in July. The employment component of the index fell however, and the prices index rose. Oil prices were up slightly in the first few days of September, averaging $86.9 per barrel compared to the August average of $86.3.

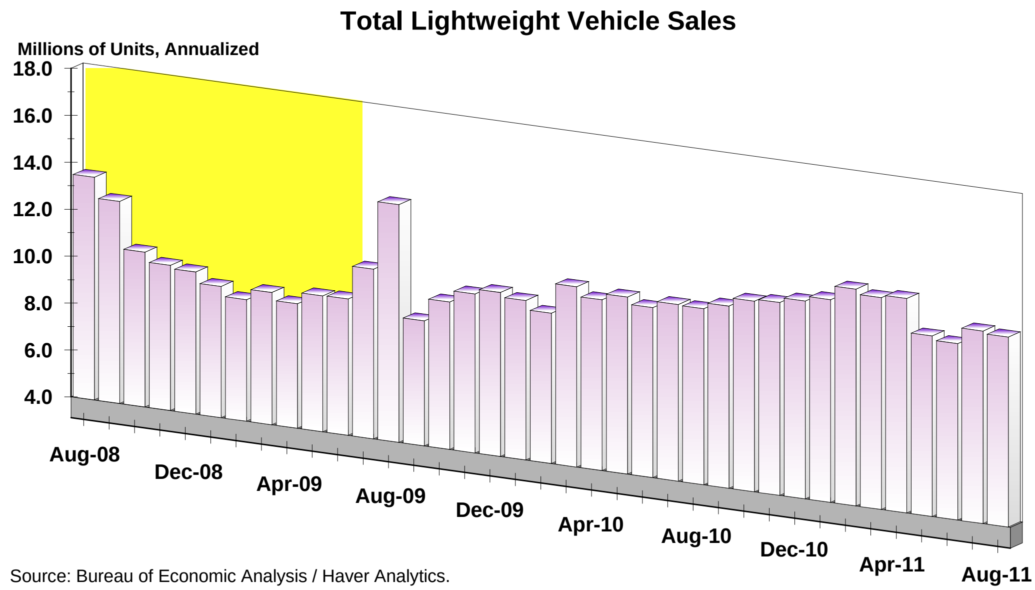
Payroll employment was unchanged in August, and gains seen the previous two months were revised lower. Private payrolls increased by only 17,000 in August, their smallest increase in 18 months. The unemployment rate held steady in August at 9.1%.





Source: Bureau of Labor Statistics / Haver Analytics.

Vehicle sales fell only slightly in August from their July level despite a host of factors that could have impacted sales. Consumer confidence plunged in August, and Hurricane Irene kept most east coast showrooms empty on the final weekend of the month. The tsunami-related inventory issues continued for Japanese automakers and other manufacturers reported shortages of small, fuel-efficient vehicles.



Source: Bureau of Economic Analysis / Haver Analytics.