FEDERAL RESERVE
BANK OF BOSTON™

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

November 4, 2010

CURRENT ECONOMIC DEVELOPMENTS - November 4, 2010

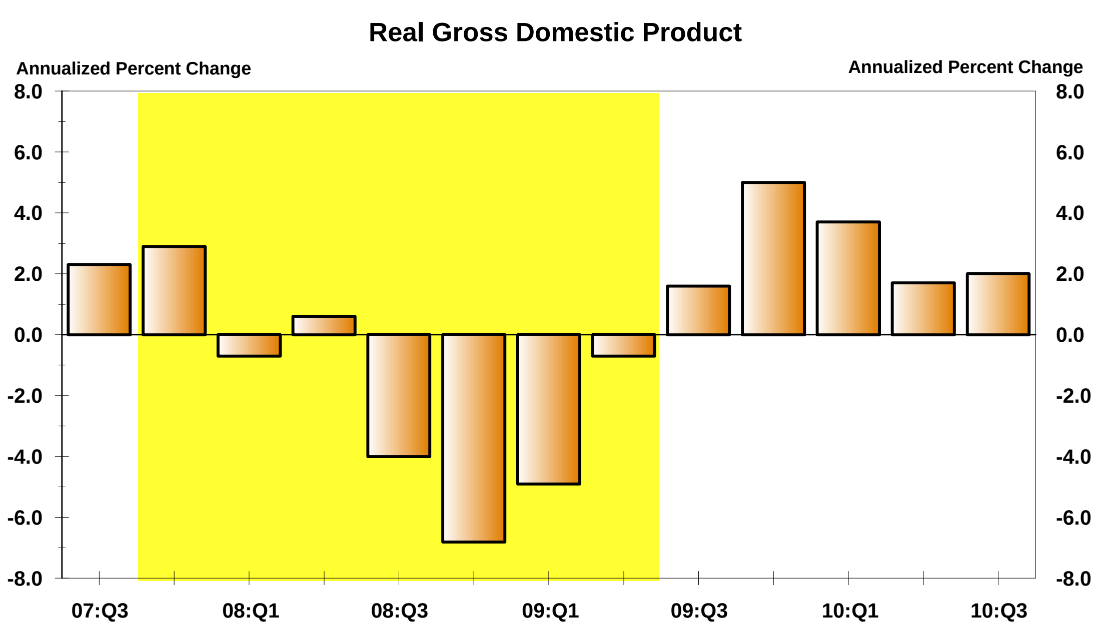
Data since your last Directors' meeting show the economy continued to recover at a slow pace in the third quarter, as expected. While consumers have proven resilient and businesses continue to invest, growth is unlikely to improve much through the end of the year. The prolonged weakness of the labor and housing markets are also potential downside risks that could undermine the recovery.

The growth in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, nonresidential fixed investment, federal government spending, and exports. Those effects were partly offset by a negative contribution from residential investment and an increase in imports.

In October, consumer attitudes remained subdued amid ongoing concerns about job conditions, personal finances and the overall health of the economy. Initial claims for unemployment insurance were also little changed in October, and remain elevated well above comfortable levels. The ISM index rose to a five-month high in October, signifying further recovery in the manufacturing sector.

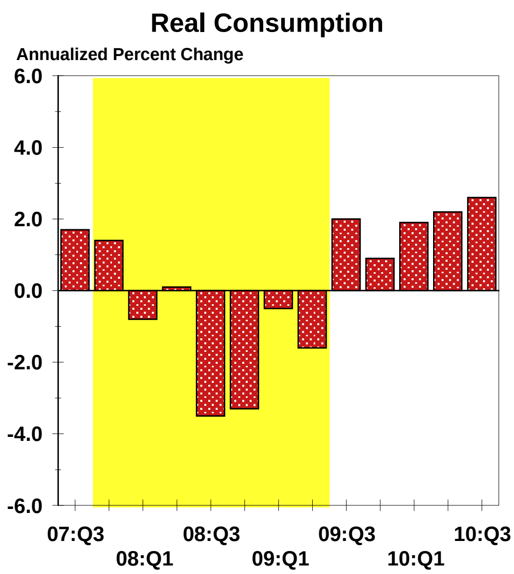
Total consumer inflation continued to slow in the third quarter, and core prices advanced at a near record-low pace. Unit labor costs were flat in the third quarter while total compensation costs, as measured by the ECI, picked up a bit. Oil prices rose in October to their highest levels since the spring, after holding mostly steady through the third quarter.

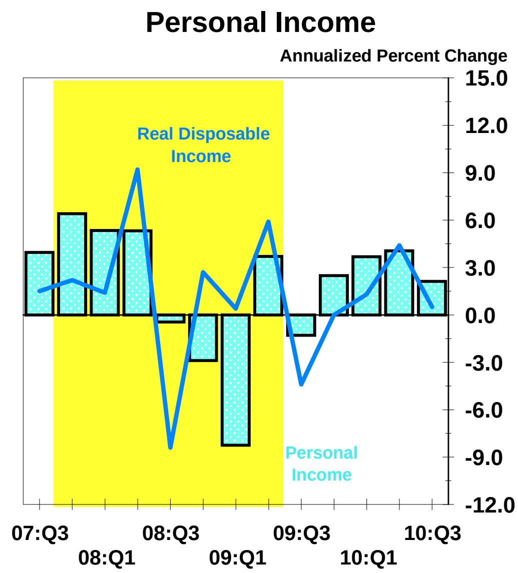
Real GDP growth picked up a bit in the third quarter from the second quarter, due primarily to a sharp deceleration in imports and accelerations in inventory investment and consumption. Partially offsetting those improvements were a downturn in residential investment and slowdowns in business investment and exports.



Source: Bureau of Economic Analysis / Haver Analytics.

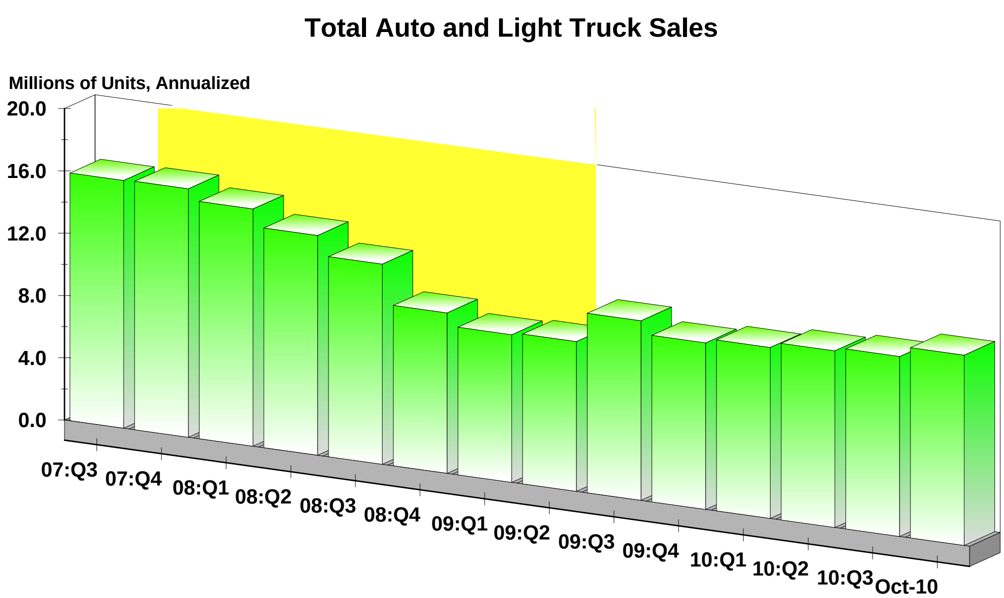
Real consumption grew at its fastest pace in nearly four years in the third quarter, and was the primary contributor to the increase in third quarter GDP. The strong consumption occured despite only a marginal increase in real incomes and a significant slowdown in nominal incomes.





Source: Bureau of Economic Analysis / Haver Analytics.

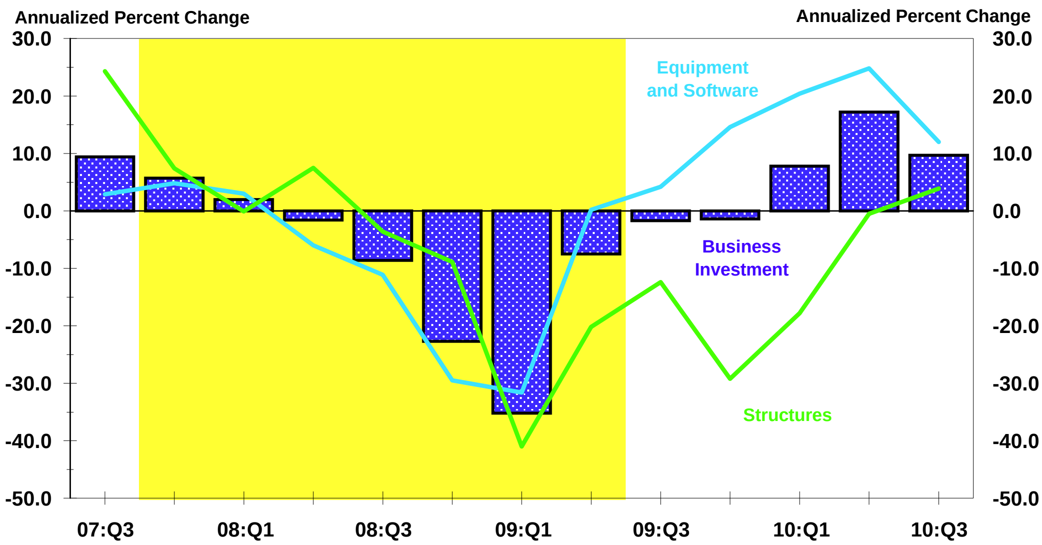
Total lightweight vehicle sales rose in October to their highest sales pace of the year. Excluding August of 2009, when sales surged due to stimulus rebates, the October sales rate was the highest since September 2008.



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment posted another solid increase in the third quarter, again due primarily to strong investment in equipment and software. Investment in structures also rose in the third quarter, following two years of reductions.

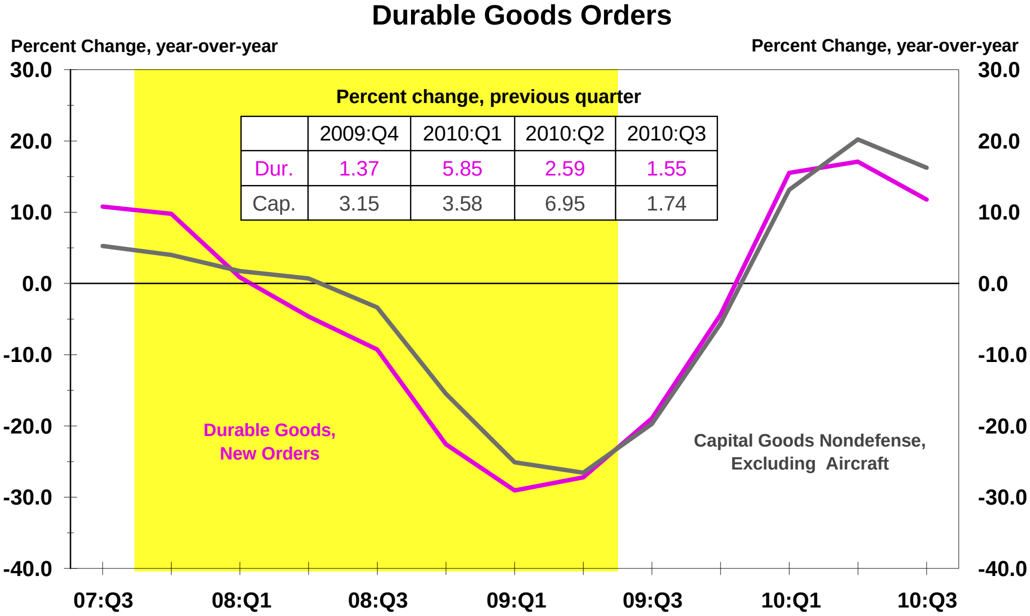
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

New orders for durable goods continued to improve in the third quarter, but at a slower pace than seen in the second quarter. Orders of nondefense capital goods, excluding aircraft, followed a similar pattern.

Durable Goods Orders

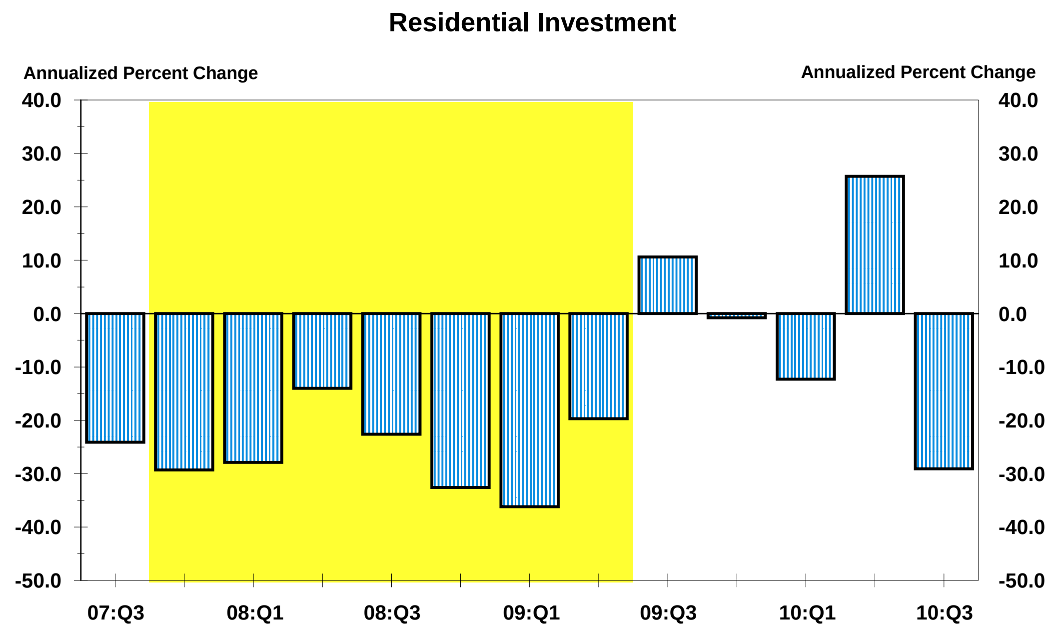


Percent change, previous quarter

	2009:Q4	2010:Q1	2010:Q2	2010:Q3
Dur.	1.37	5.85	2.59	1.55
Cap.	3.15	3.58	6.95	1.74

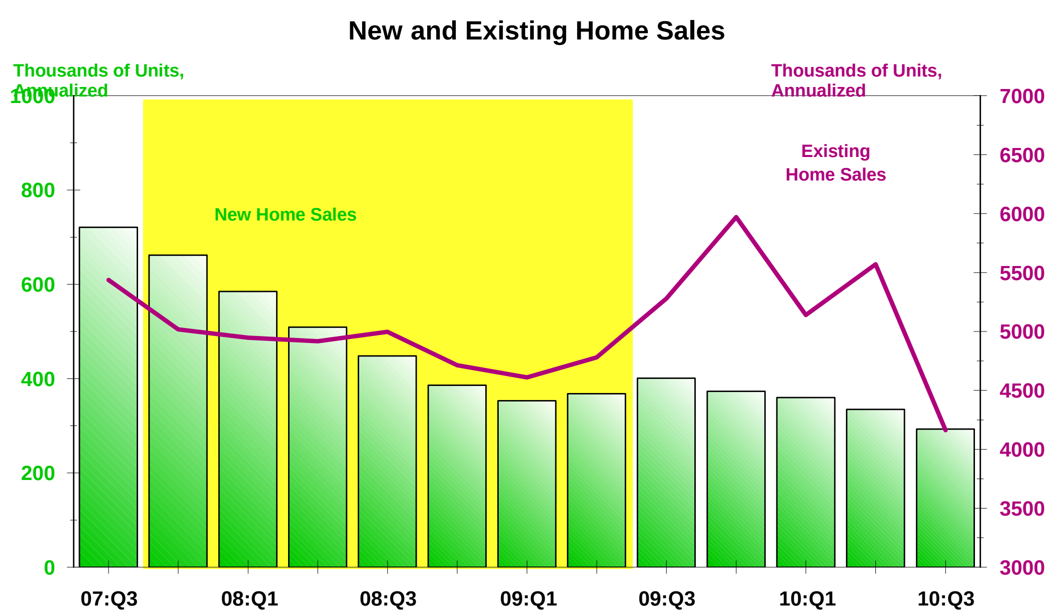
Source: U.S. Census Bureau / Haver Analytics.

Residential investment fell sharply in the third quarter, more than offsetting the substantial stimulus-driven increase seen in the second quarter. The drop also brought the level of residential investment to its lowest point in 27 years.



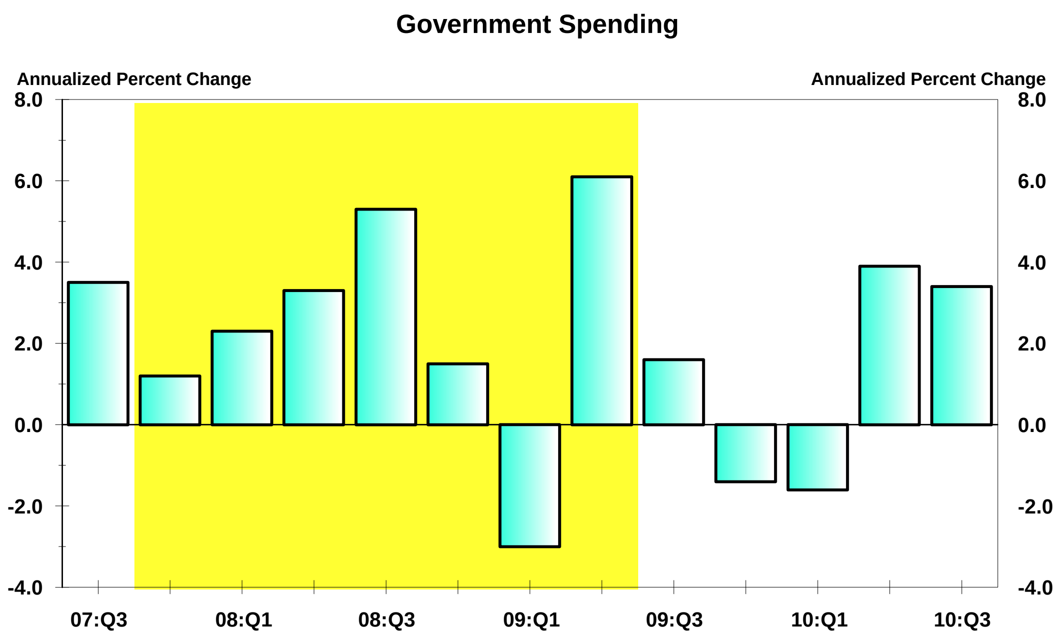
Source: U.S. Census Bureau / Haver Analytics.

The housing market continued to struggle in the third quarter, as both new and existing home sales fell to new record lows. Despite historically low mortgage rates, potential buyers are not as motivated as they were when the stimulus rebates were in effect from mid-2009 through mid-2010.



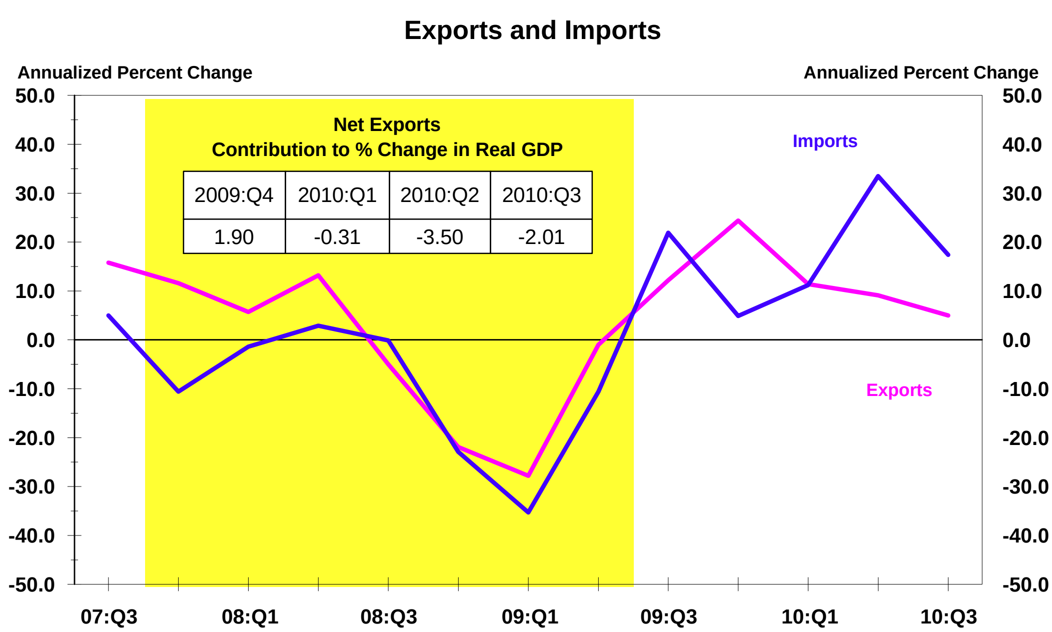
Source: U.S. Census Bureau / Haver Analytics.

Government spending posted another solid gain in the third quarter.



Source: Bureau of Economic Analysis / Haver Analytics.

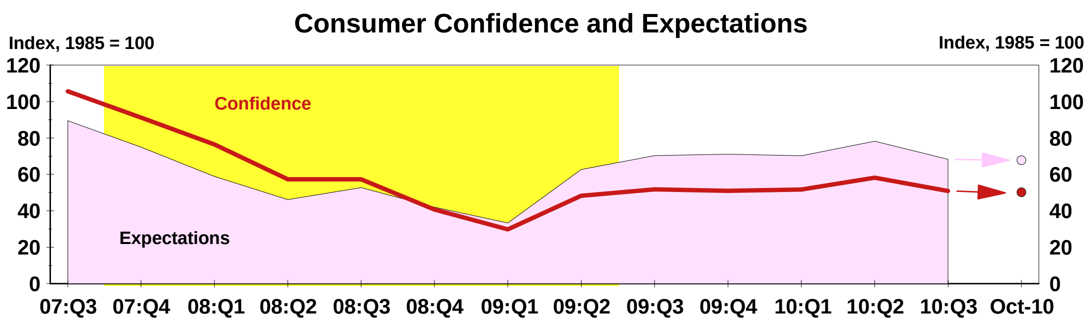
Import growth slowed dramatically in the third quarter, but not enough to prevent net exports from again subtracting significantly from GDP. Moving forward, a weaker dollar may help close the net export gap.

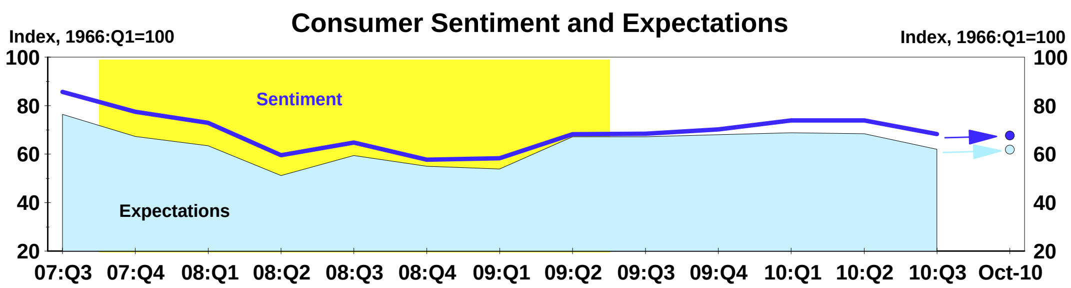


2009:Q4	2010:Q1	2010:Q2	2010:Q3
1.90	-0.31	-3.50	-2.01

Source: Bureau of Economic Analysis / Haver Analytics.

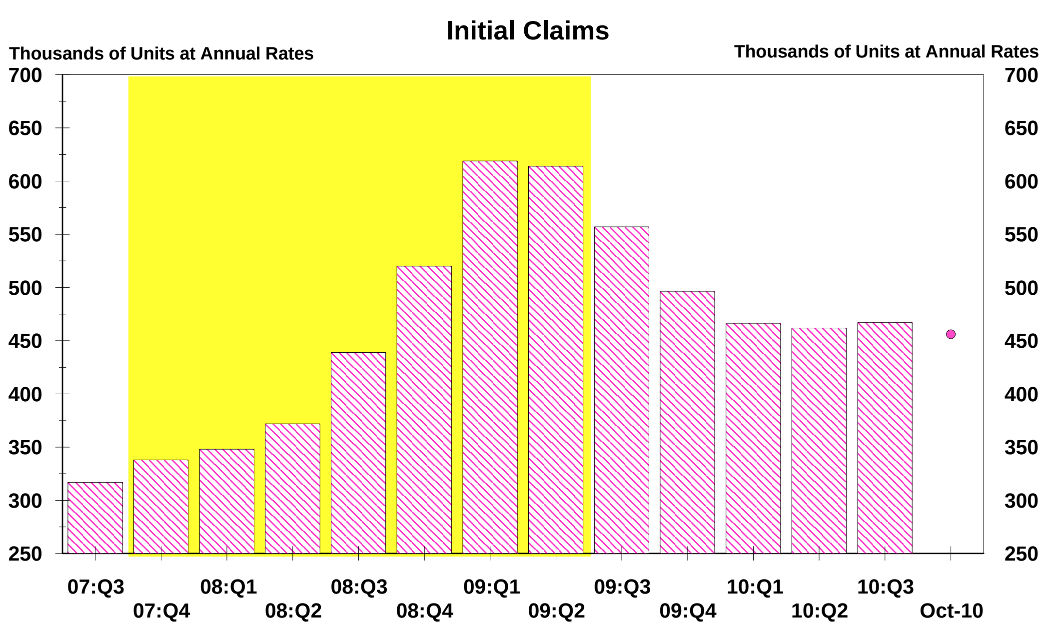
After falling in the third quarter, measures of consumer attitudes were mostly steady in October. Consumers continue to be concerned about labor market conditions and the short-term outlook for the economy. The total indices are unlikely to increase much without a substantial improvement in one, if not both, of these areas.





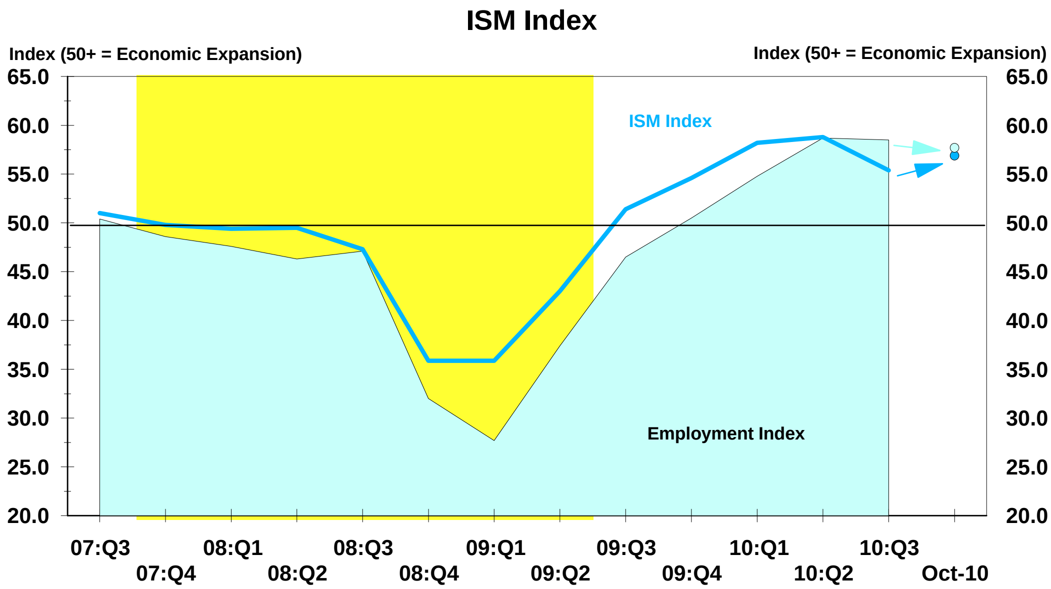
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Initial claims for unemployment insurance rose slightly in the third quarter and eased back in October. Overall, claims have been little changed this year and remain well above a level considered to be more indicative of a healthy labor market.



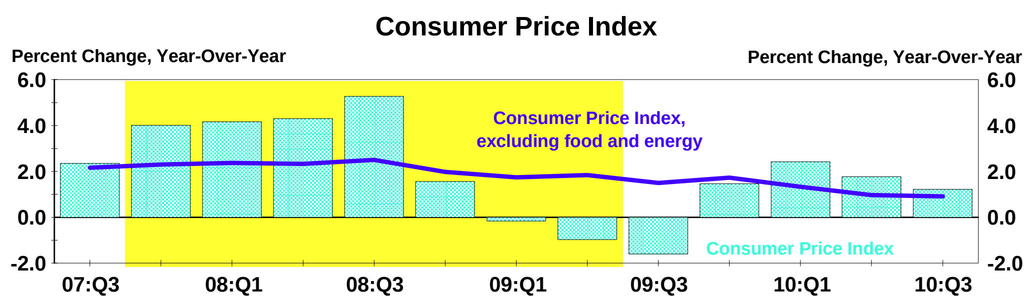
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

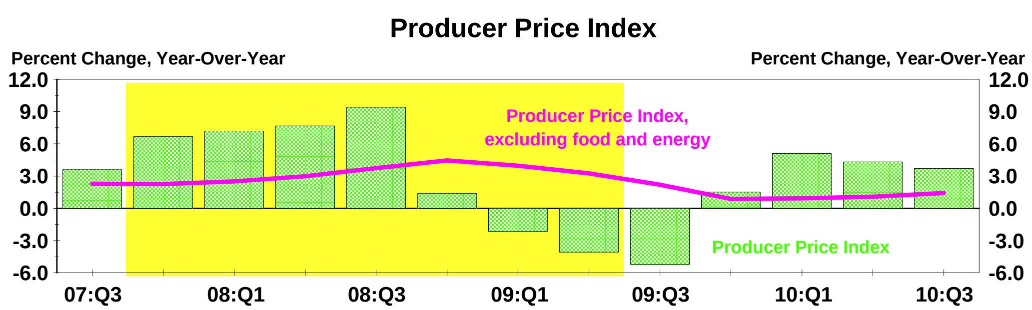
The manufacturing sector continued to expand in October, as the ISM index rose to its highest level since May. The employment index eased a bit in October from its third quarter average, but also remained well above 50, suggesting further increases in manufacturing payrolls.



Source: Institute for Supply Management / Haver Analytics.

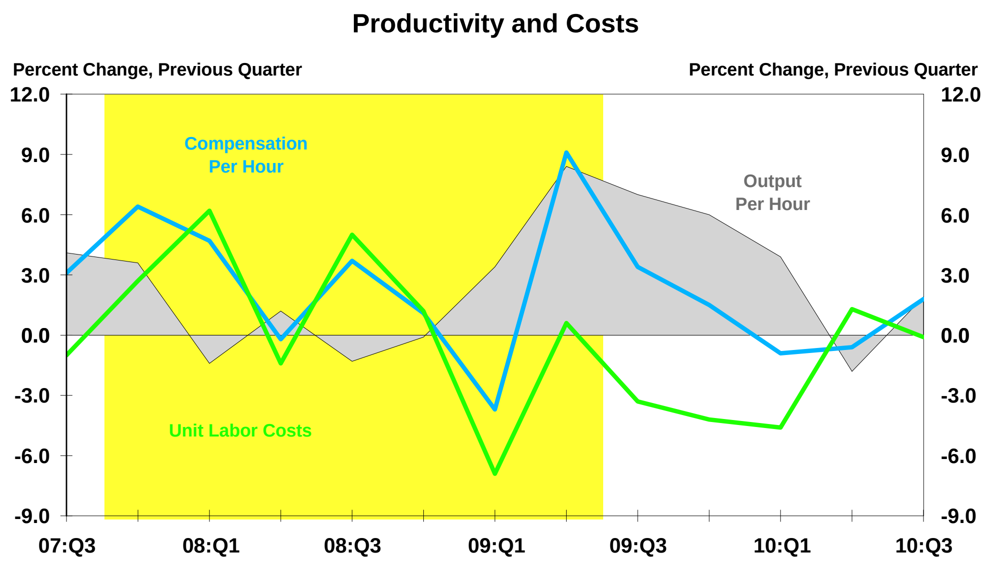
During the third quarter, total consumer prices slowed further and core prices moved slightly closer to their record low set in 1961. Total producer prices also slowed in the third quarter, but the core index accelerated a bit.





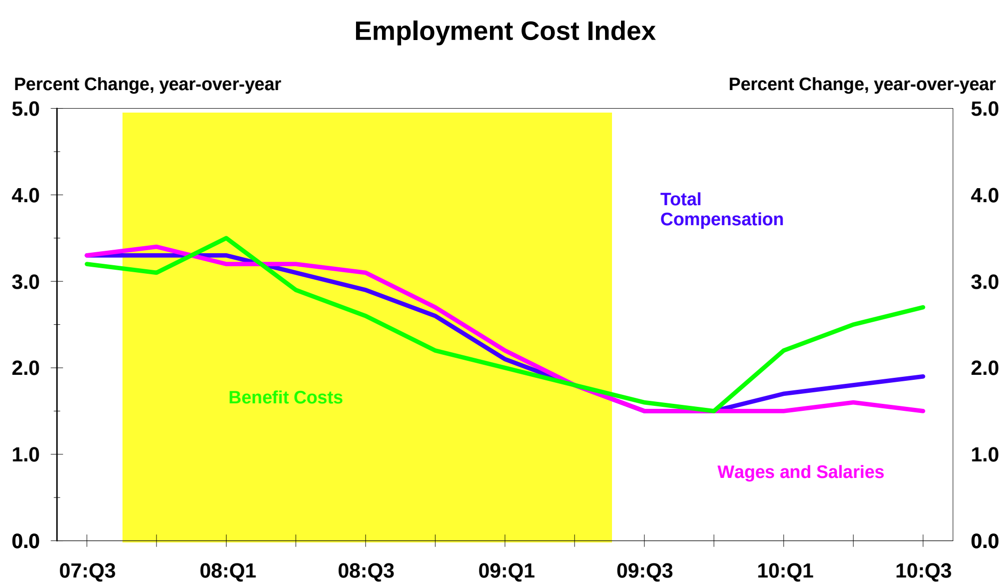
Source: Bureau of Labor Statistics / Haver Analytics.

Productivity grew during the third quarter, offsetting the decline seen in the second quarter. Total compensation increased for the first time this year, while unit labor costs were essentially unchanged.



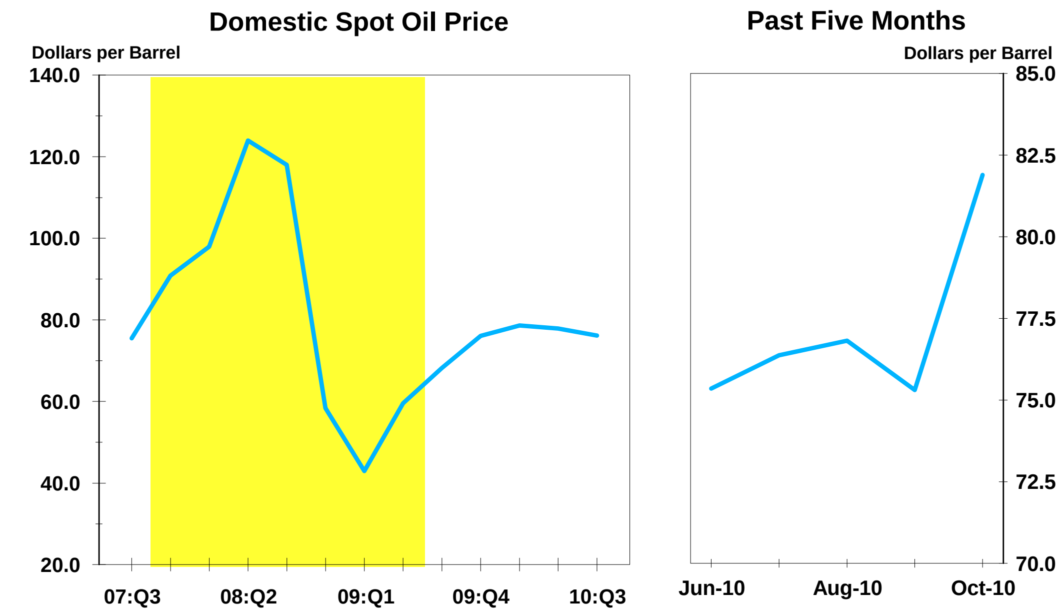
Source: Bureau of Labor Statistics / Haver Analytics.

Employment costs picked up a bit in the third quarter on a year-over-year basis, as an acceleration in benefit costs more than offset a slowdown in wages and salaries. On a quarterly basis the ECI grew 0.4% in the third quarter, matching the record low seen in the final three quarters of 2009.



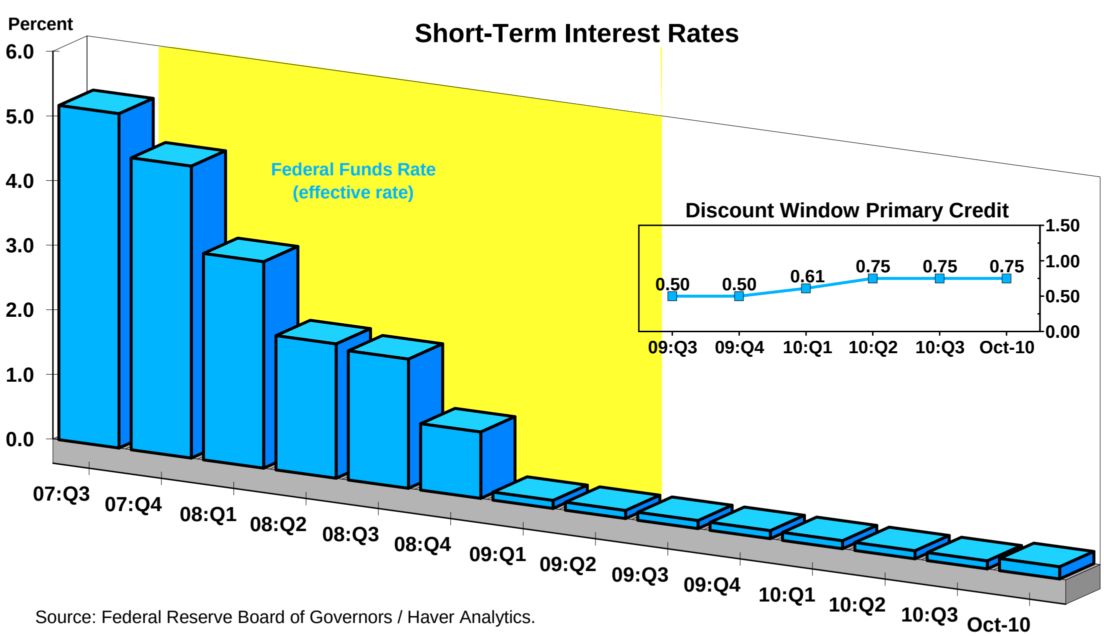
Source: Bureau of Labor Statistics / Haver Analytics.

On average oil prices held mostly steady through the first three quarters of 2010, before rising in October to their highest sustained levels since the spring.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy continued to recover at a slow pace in the third quarter. While consumers have proven resilient and businesses continue to invest, growth is unlikely to improve much through the end of the year. The prolonged weakness of the labor and housing markets are also potential downside risks that could undermine the recovery.



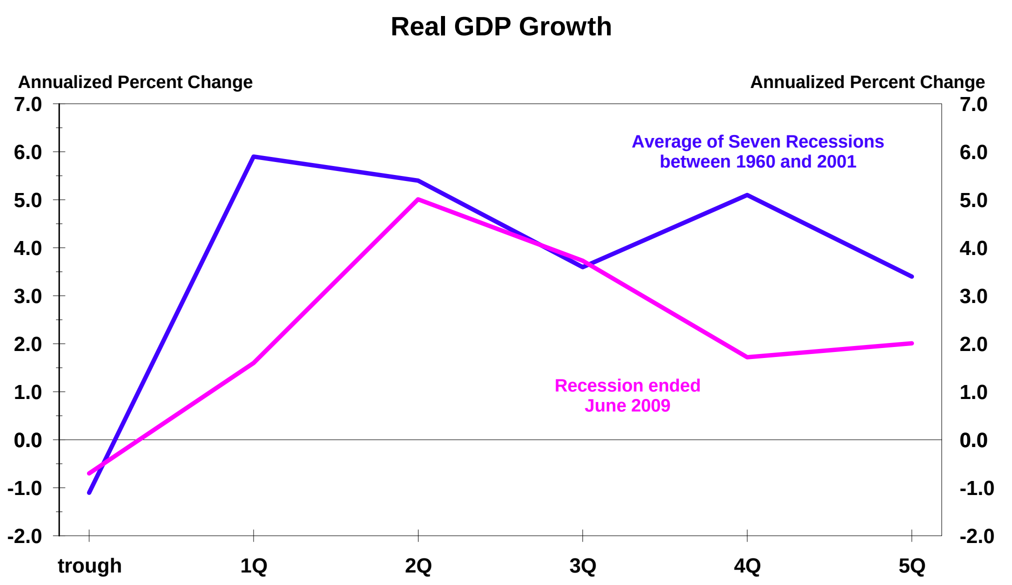
Source: Federal Reserve Board of Governors / Haver Analytics.

On September 10th, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) announced that a trough in economic activity occurred in June 2009. The trough marked the end of the recession that began in December 2007 and spanned 18 months, making it the longest recession since World War II.

Given the end date of June 2009, the economy had been expanding for 15 months at the end of September. The following charts compare the current recovery to the average recovery following the seven recessions that took place between 1960 and 2001.

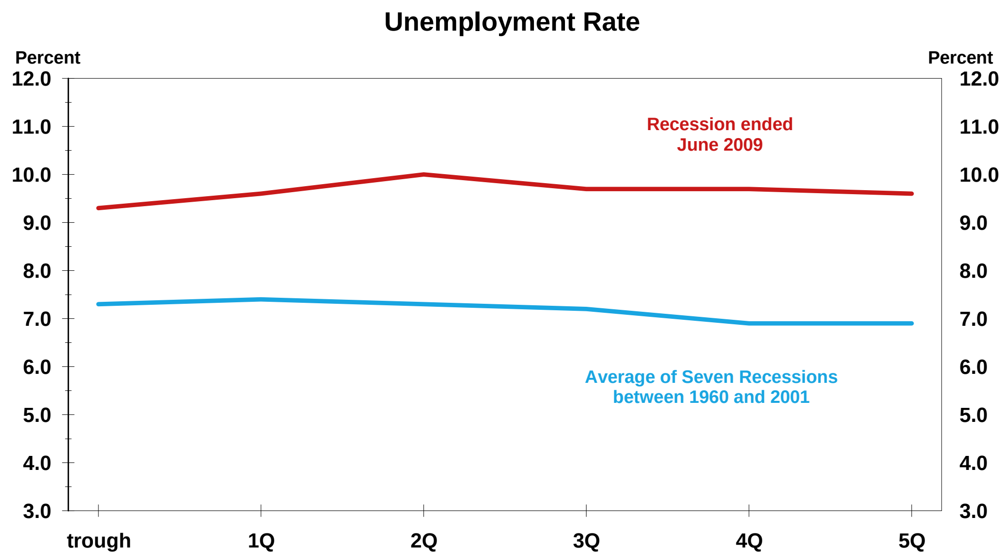
The charts focus on the paths of economic growth, unemployment, and prices during the first five quarters of the recoveries.

The current recovery has been weaker compared to the average of the past seven recoveries. Real GDP growth was slower when first emerging from the trough, and has not managed to sustain strong growth deeper into the recovery.



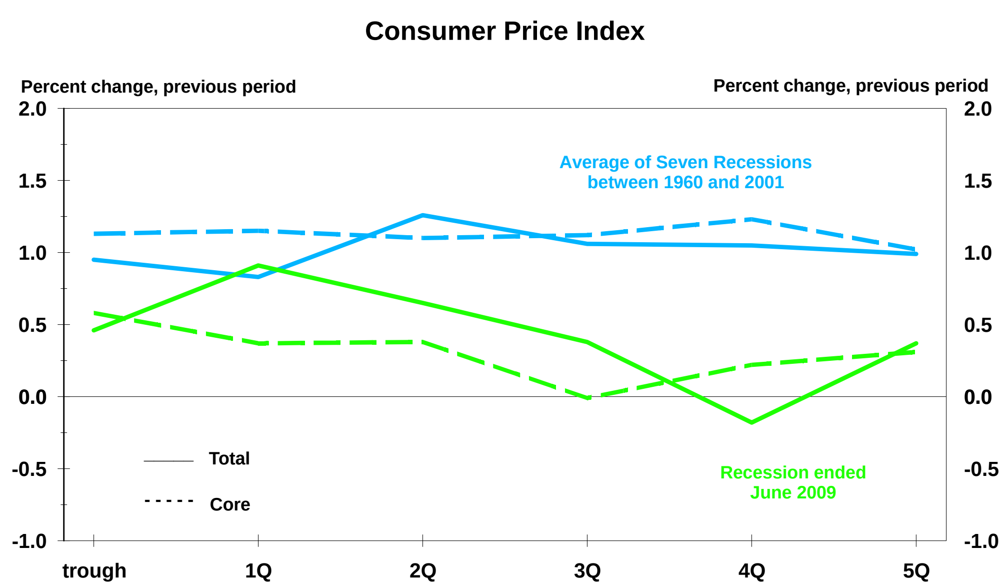
Source: Bureau of Economic Analysis / Haver Analytics.

Unemployment was two percentage points higher at the trough in 2009 than it was on average at the end of the prior recessions. The rate also continued to rise during the early parts of this recovery and is three-tenths of a percentage point higher five quarters into this recovery, compared to a drop of four-tenths on average after the same amount of time for the previous recoveries.



Source: Bureau of Labor Statistics / Haver Analytics.

Core inflation averaged about 1.0% in the five quarters following previous troughs, but has averaged only 0.3% following the 'Great Recession'.



Source: Bureau of Labor Statistics / Haver Analytics.

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

November 10, 2010

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

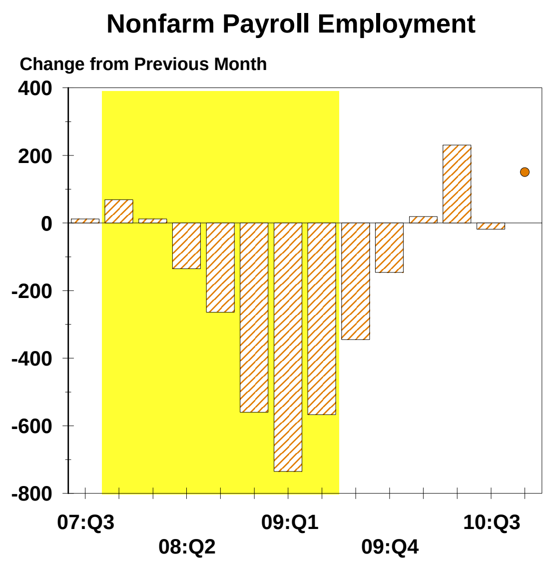
Last Friday's employment report showed robust improvement in the labor market. Nonfarm payrolls added 151,000 jobs - well above expectations - and payroll estimates for the previous two months were revised substantially upward. On average, private payrolls have increased by more than 110,000 per month this year, and by more than 135,000 over the past three months.

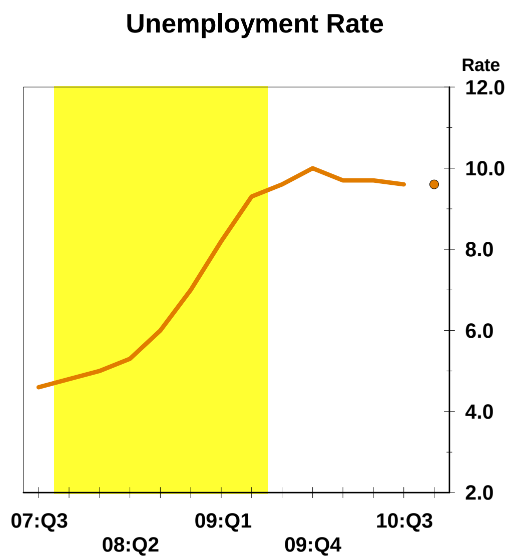
Despite the recent gains in payroll employment, the unemployment rate held steady at 9.6% in October for the third consecutive month. The October rate reflected sizable declines in both civilian employment and the civilian labor force.

Wholesale inventories rose 1.5% in September, continuing a trend that has seen inventories rise in each month this year. Sales at the wholesale level increased 0.4% in September, their third consecutive monthly gain.

Oil prices rose during the past week, and have averaged $85.2 per barrel so far in November after averaging $81.9 per barrel in October.

Nonfarm payrolls added 151,000 jobs in October, the largest monthly increase since May. Payroll reductions over the previous two months were also revised smaller by 110,000 jobs. Still, the unemployment rate was unchanged at 9.6%. However, the U-6 unemployment rate, which includes marginally attached workers and those forced to work part-time, fell one-tenth of a percentage point to 17.0%.





Source: Bureau of Labor Statistics / Haver Analytics.