



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

December 4, 2008

CURRENT ECONOMIC DEVELOPMENTS - December 4, 2008

Data released since your last Directors' meeting show the economy shrank in the third quarter at a higher rate than first estimated. Recent data also suggest the now-official recession could stretch well into next year. Rising unemployment, worried consumers, and manufacturing cutbacks are all likely to hamper the economy for the foreseeable future.

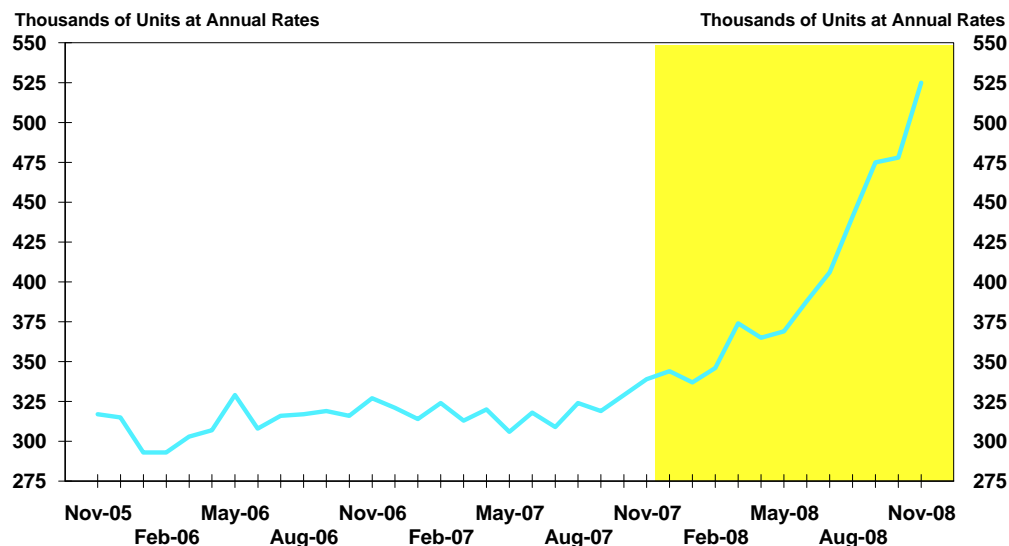
In November, initial claims for unemployment insurance increased while consumer attitudes remained pessimistic. Auto sales fell slightly in November, continuing their historically low sales pace. In October, real consumption fell further despite an increase in real disposable income.

The weakness in housing market data persisted in October. Sales of both new and existing homes slowed, as did housing starts and the issuance of building permits. In the manufacturing sector, the ISM index continued to fall in November, joined by its employment component. Industrial production rebounded in October to offset some of the recent declines. Orders for durable goods fell again in October, as did orders for nondefense capital goods.

Inflation is certainly no longer a concern, as total prices for both consumers and producers slowed further in October. Oil prices also continued to fall, and unit labor costs were revised downward for both the second and third quarters.

Initial claims for unemployment insurance rose further in November, averaging over 500,000 per week for the first time since 1991.

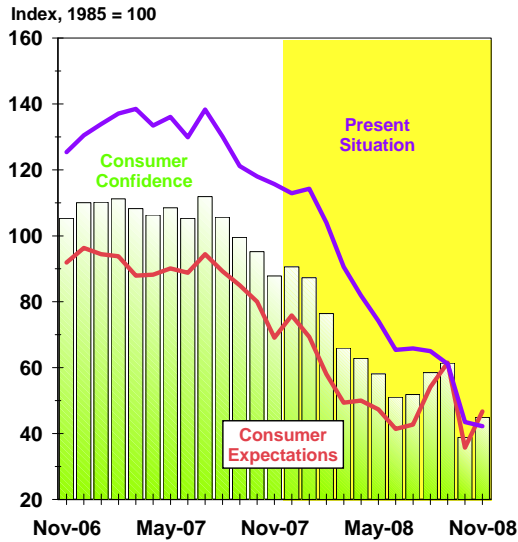
Initial Claims



Source: Department of Labor, Employment and Training Administration.

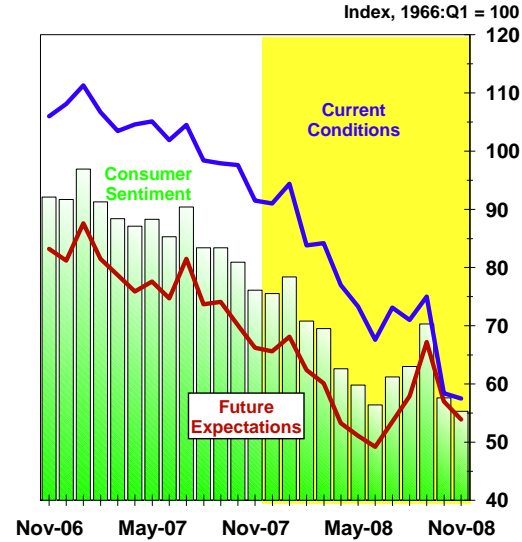
While specific measures were mixed in November, consumer attitudes remained quite negative. Despite the modest increases seen in the Conference Board's expectations and confidence indices, economic conditions are not likely to improve in the near future.

Consumer Confidence



Source: The Conference Board.

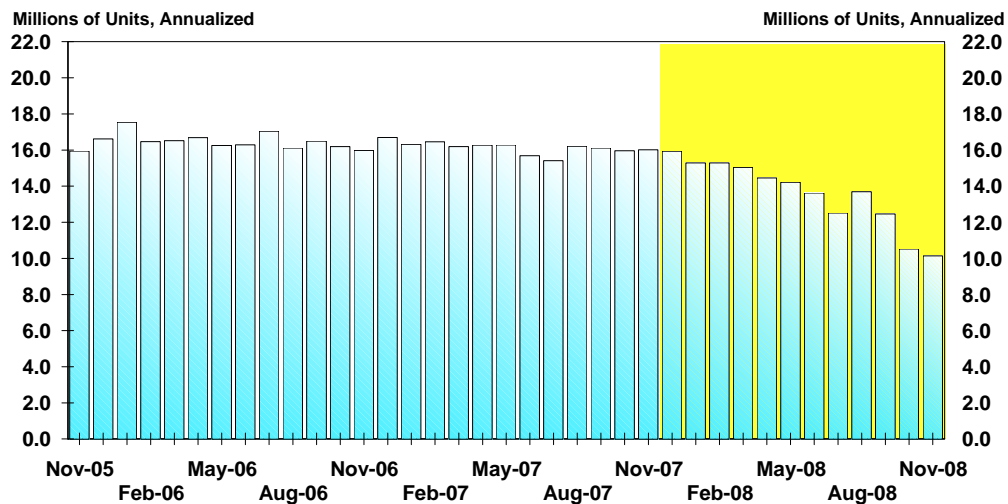
Consumer Sentiment



Source: The University of Michigan.

Total auto and light truck sales slipped a bit further in November, falling to their slowest sales pace since October 1982.

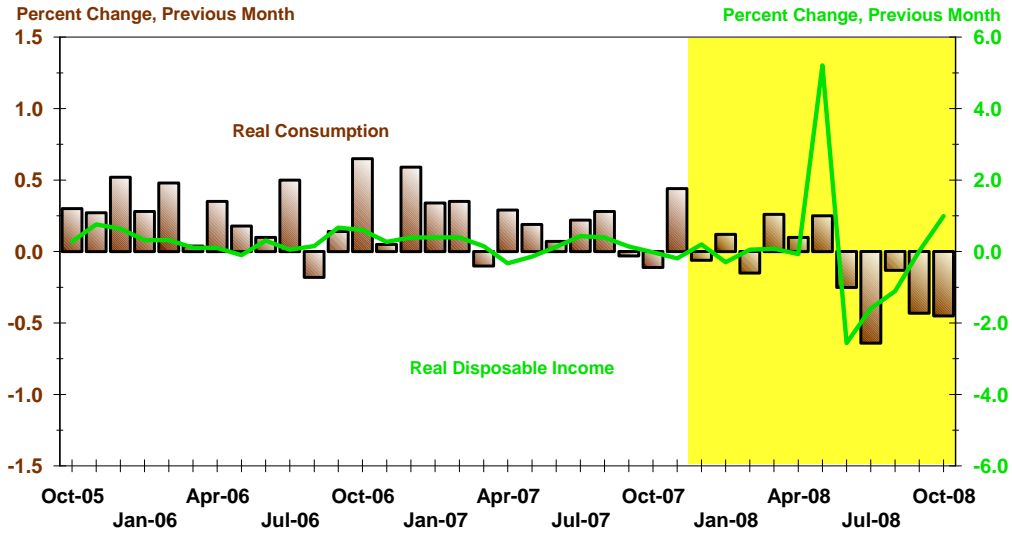
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Despite an increase in real disposable income in October, personal consumption declined for the fifth month in a row.

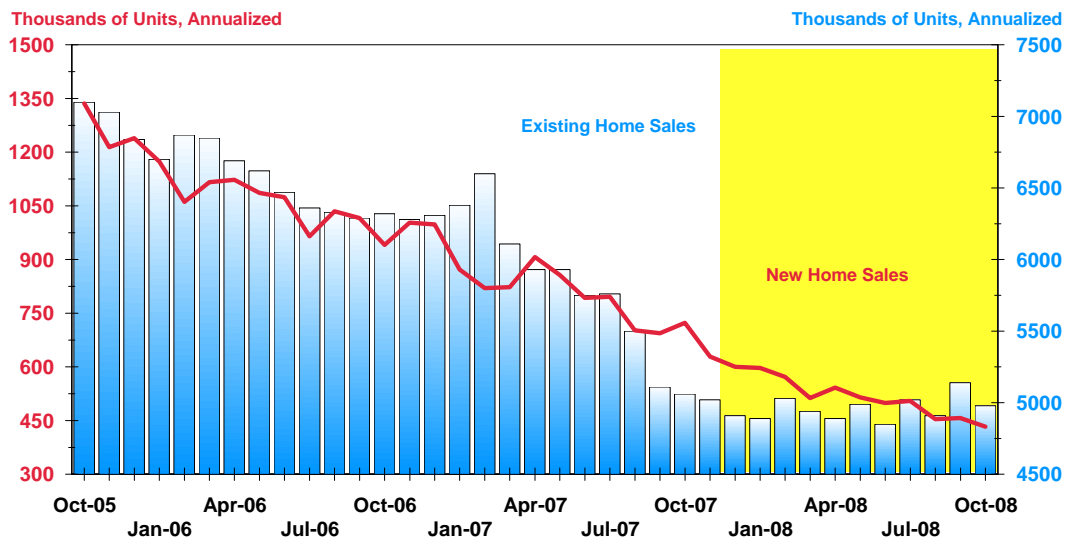
Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

Sales of both new and existing homes fell again in October. The sales pace for new homes is the lowest in nearly 18 years. Existing home sales have held rather steady for the past year, and October's pace was above both the six- and twelve-month average.

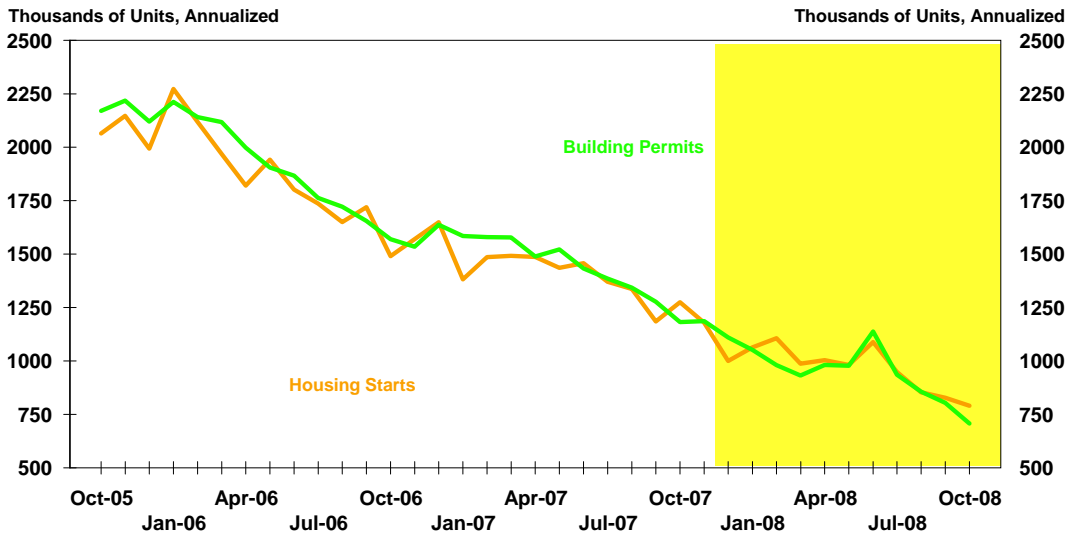
New and Existing Home Sales



Source: U.S. Census Bureau.

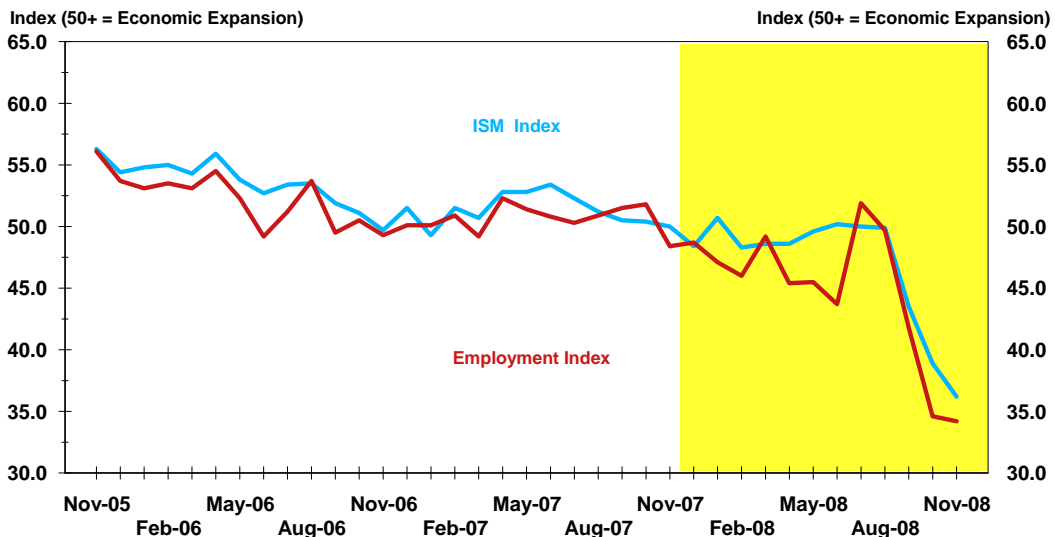
In October, both housing starts and building permits fell for a fourth consecutive month. Both series stand more than 60% below their latest peaks seen roughly three years ago.

Housing Starts and Building Permits



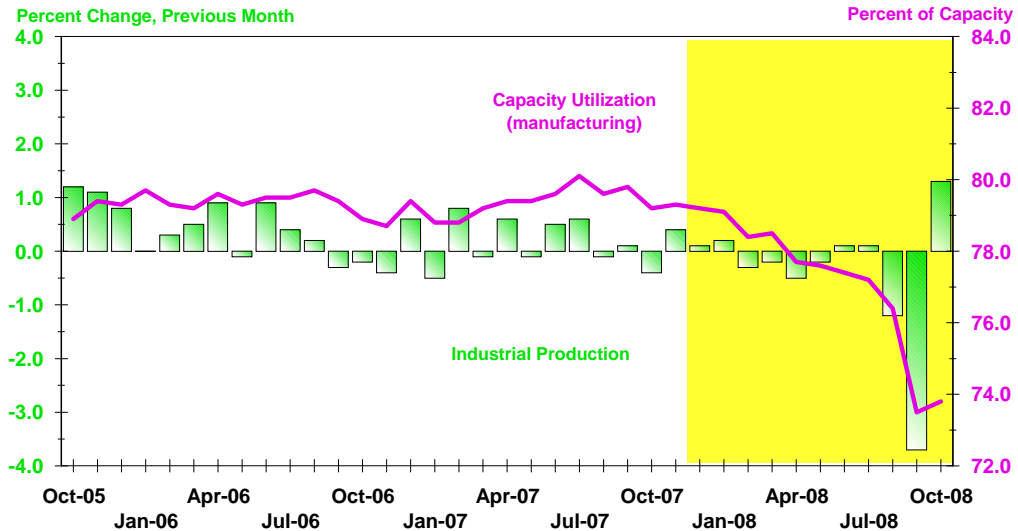
In November, the ISM diffusion index fell again, reaching its lowest point since May 1982. The employment index also slipped a bit further.

ISM Index



Industrial production rebounded in October, from the sharp decrease seen over the previous two months. Capacity utilization also picked up a bit after falling throughout most of the year.

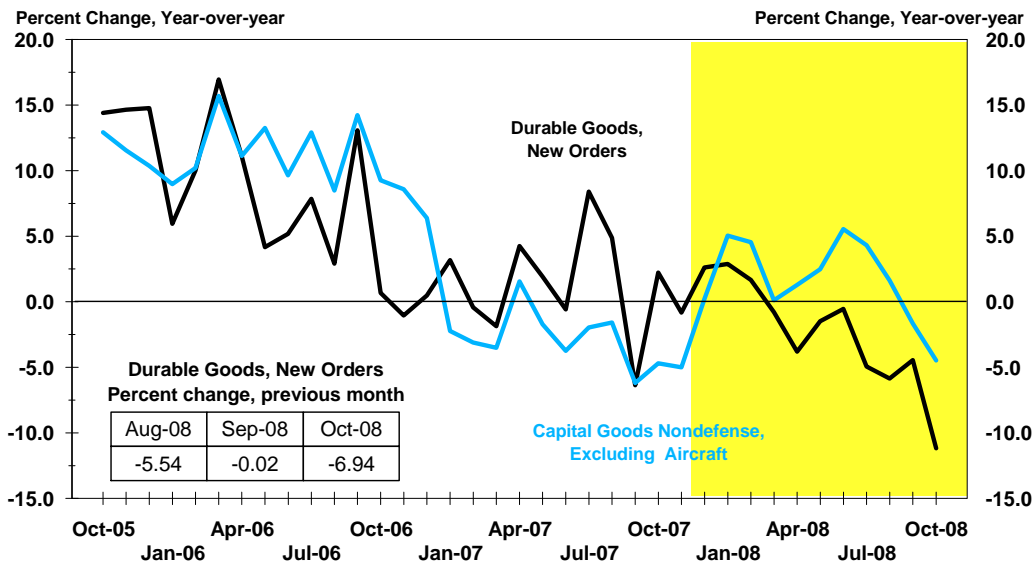
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

In October, new orders for durable goods posted their largest year-over-year drop in seven years. Orders for nondefense capital goods, excluding aircraft, also fell.

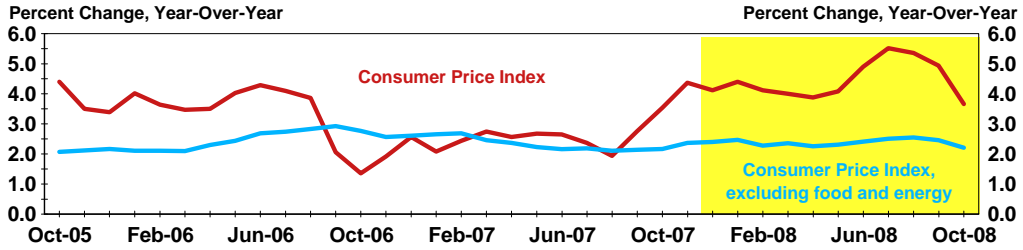
Durable Goods Orders



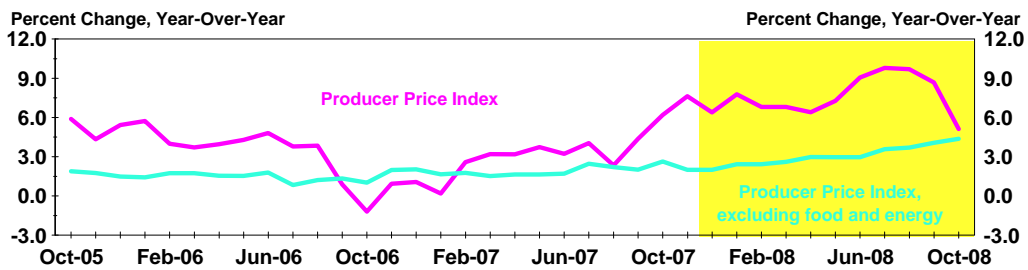
Source: U.S. Census Bureau.

Headline inflation eased further in October, due primarily to falling energy and commodity prices. Core consumer prices also slowed, but core producer prices accelerated.

Consumer Price Index



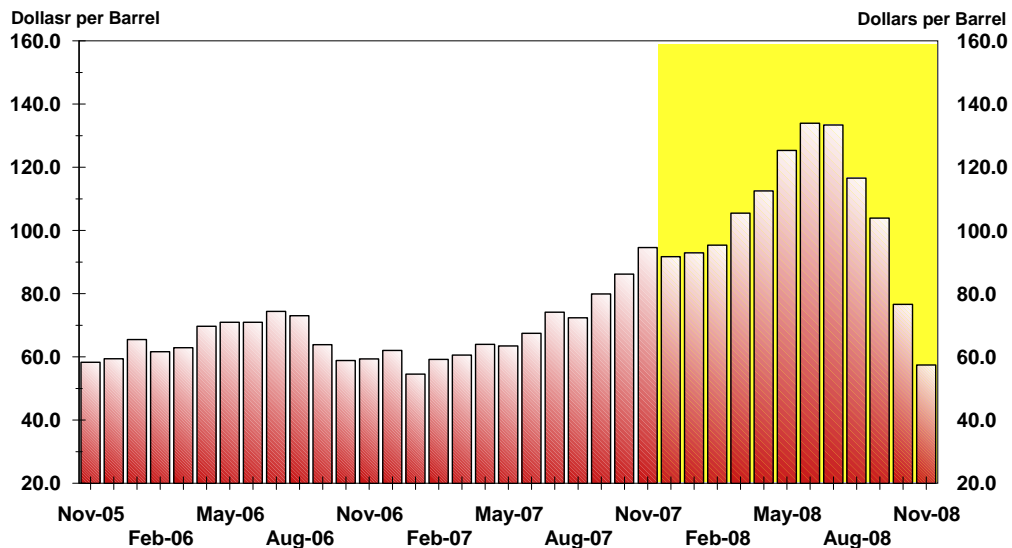
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices continued their unprecedented fall in November. Since peaking at \$145.3 per barrel in early July, prices have fallen nearly \$100 to a reading of \$46.8 on December 3, their lowest point in nearly four years.

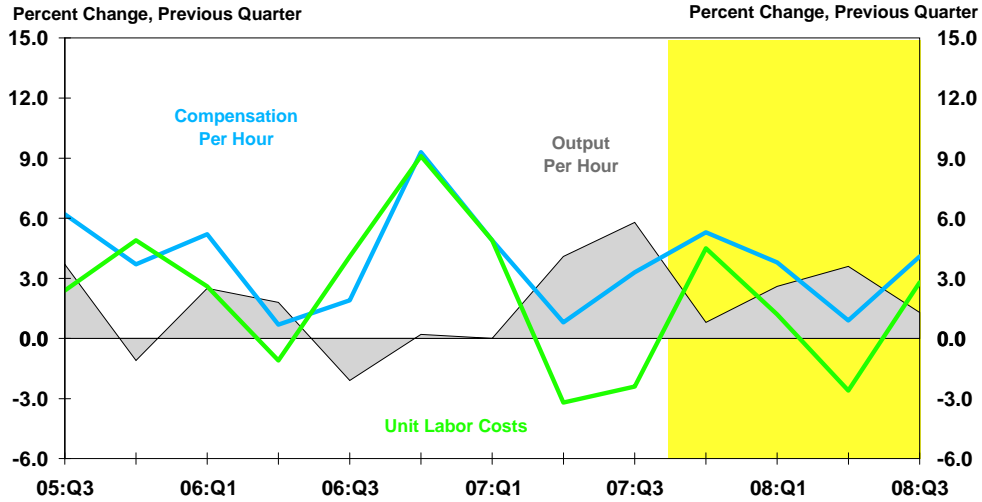
Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity was revised slightly higher in the third quarter, but was still down from the second quarter estimate. Compensation and unit labor costs were revised downward for both the third and second quarters.

Productivity and Costs



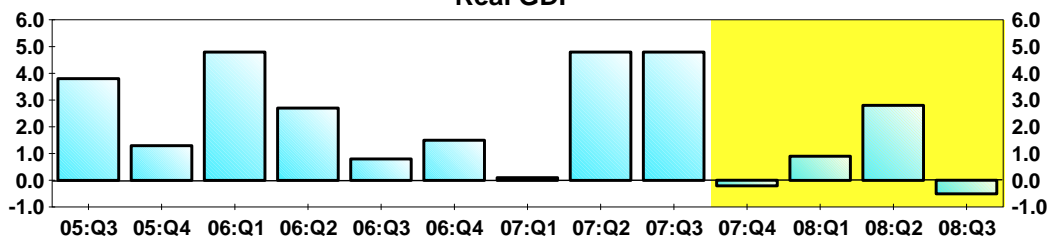
Source: Bureau of Labor Statistics.

Real GDP in the third quarter was weaker than originally thought. The downward adjustment primarily reflected downward revisions to personal consumption expenditures and exports that were partly offset by an upward revision to private nonfarm inventory investment and a downward revision to imports.

Revisions to Third Quarter Real GDP

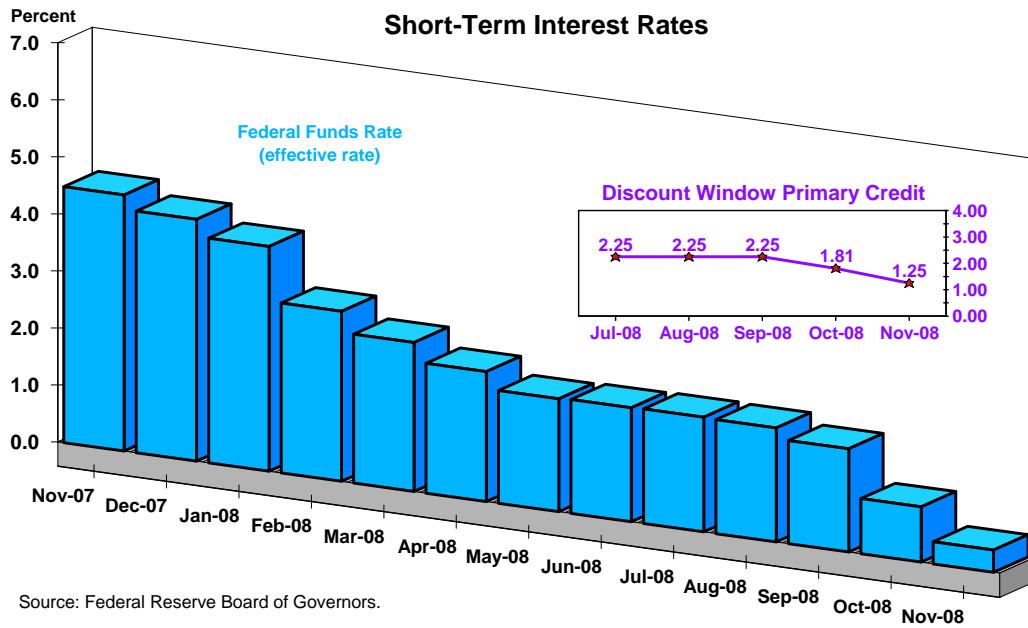
Description	Advance	Preliminary
Real GDP	-0.3	-0.5
Personal Consumption	-3.1	-3.7
Business Investment	-1.0	-1.5
Equipment and Software	-5.5	-5.7
Residential Investment	-19.1	-17.6
Government	5.8	5.4
Exports	5.9	3.4
Imports	-1.9	-3.2
Final Sales	-0.8	-1.4

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy shrank in the third quarter at a higher rate than first estimated. Recent data suggest the now-official recession could stretch well into next year. Rising unemployment, worried consumers, and manufacturing cutbacks are all likely to hamper the economy for the foreseeable future.



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

December 11, 2008

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

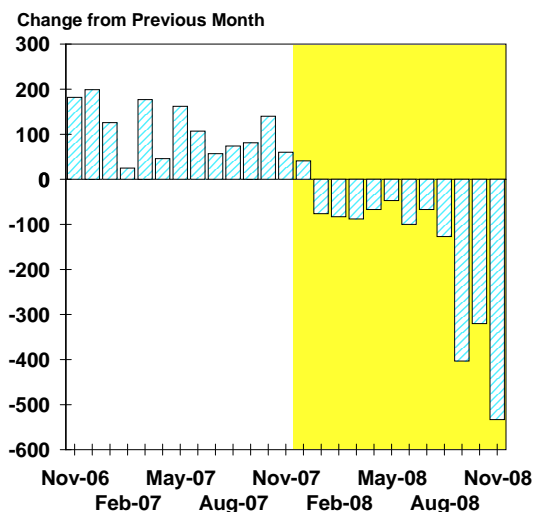
Payroll employment plummeted by 533,000 in November, the largest single-month fall since December 1974. Payrolls for the previous two months were also revised downward by 199,000 jobs, the result being nearly 1.3 million jobs lost over the past three months, and over 1.9 million lost this year. The mounting losses also brought the unemployment rate up to 6.7% in November, a 15-year high.

Wholesale inventories fell 1.1% in October, their steepest decline in seven years. Wholesale trade fell 4.1% in October, the second-largest drop in the history of the series, which dates back to 1967. The record was a 4.2% fall in February 1972.

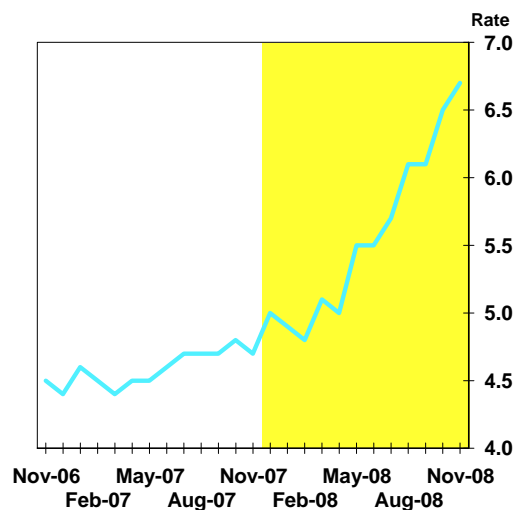
Redbook sales fell 0.4% through the first week of December, compared to November. Sales in the week ending December 6th were 0.8% lower than during the same period last year. Oil prices fell slightly during the past week, averaging \$43.4 per barrel compared to last week's average of \$50.9.

In November, nonfarm payrolls shed 533,000 jobs and the unemployment rate rose to 6.7%. October payrolls were revised downward by 80,000 to show a decrease of 320,000 jobs, and September payrolls were revised downward by 119,000, showing a decrease of 403,000 jobs as opposed to the previously estimated 284,000 job decrease.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.