



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

July 2, 2009

Current Economic Developments - July 2, 2009

Data released since your last Directors' meeting further suggest the pace of the economic contraction is slowing, but areas of weakness remain and we are unlikely to see any significant growth in the coming months. Consumption has been mostly flat and will continue to be restrained amid further job losses, and the housing and manufacturing sectors are still historically weak despite some recent bits of positive news.

Nonfarm payrolls posted another significant drop in June, and unemployment rose further. Job losses in June were far greater than expected, and reversed a four-month trend of moderation in job losses. Initial claims for unemployment insurance eased slightly in June, but remain elevated. Primary measures of consumer attitudes were somewhat mixed in June, but displayed a consensus in lower expectations of future economic activity. Consumer spending was muted in May, despite an income boost from one-time Stimulus payments to Social Security recipients.

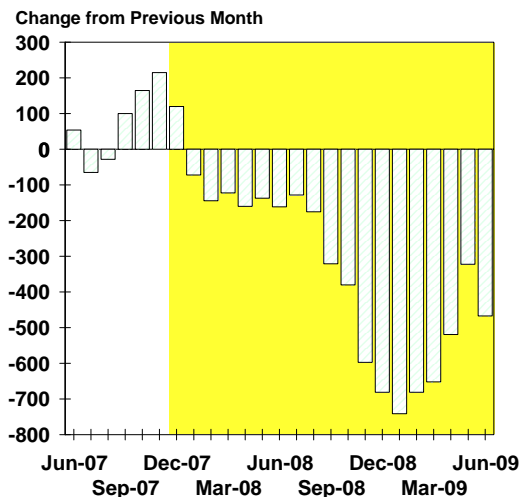
The weakness in the housing market continued in May, but there have been signs that conditions may be stabilizing. New home sales have been relatively steady, while existing home sales and housing starts were both above their six-month averages in May.

In the manufacturing sector, the ISM index increased for the sixth consecutive month in June, but remains on the negative side of 50. In May, industrial production decreased again and capacity utilization fell further to another record low. Orders for both durable goods and nondefense capital goods excluding aircraft posted monthly increases in May, but are down significantly from last year.

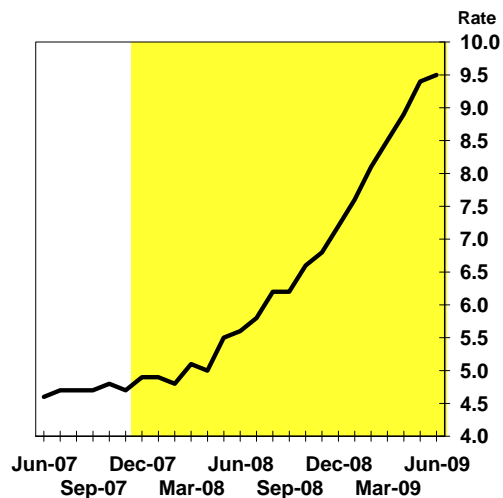
Monthly changes to consumer and producer prices continue to be small, but deflation concerns may become more prominent going forward.

Nonfarm payrolls posted another significant drop in June, going against the recent trend that saw losses diminishing. Total jobs lost since the start of the recession now total nearly six million. Unemployment also continued to climb, rising another tenth of a percentage point to 9.5%.

Nonfarm Payroll Employment



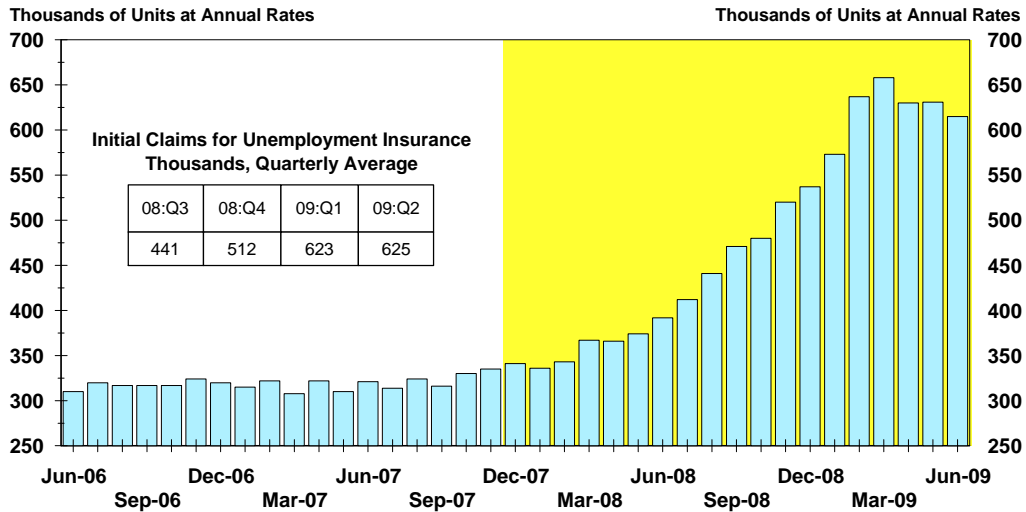
Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance eased a bit in June, but were mostly unchanged in the second quarter from the first.

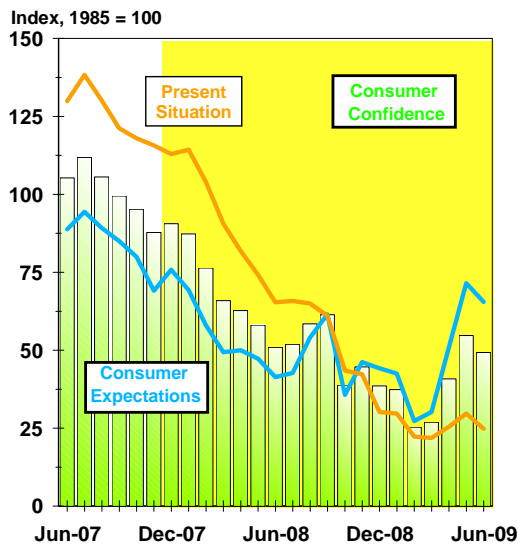
Initial Claims



Source: Department of Labor, Employment and Training Administration.

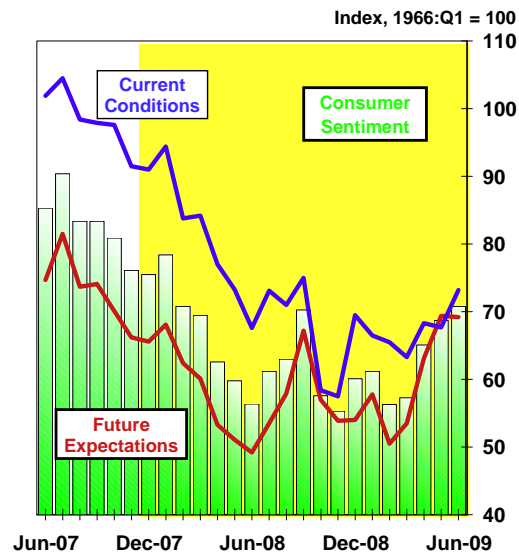
Consumer attitudes were mixed in June, as confidence fell and sentiment rose. Feelings toward present conditions displayed a similar disparity, but both surveys showed consumers are more skeptical about the future.

Consumer Confidence



Source: The Conference Board.

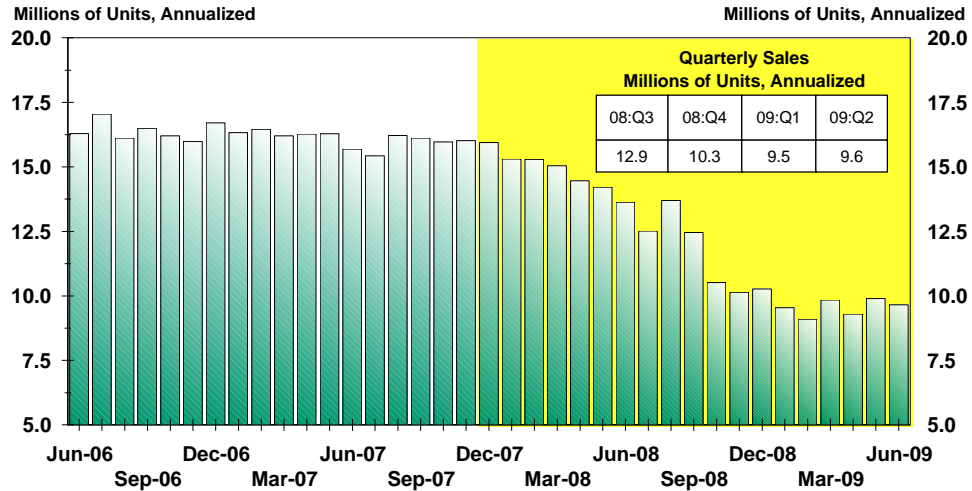
Consumer Sentiment



Source: The University of Michigan.

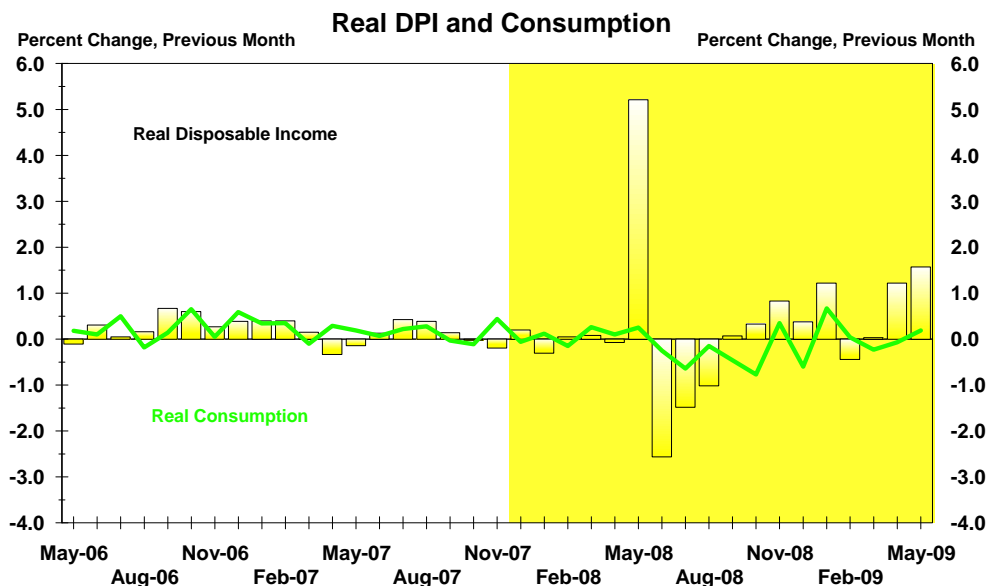
Total auto and light truck sales were down a bit in June, but improved overall in the second quarter.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

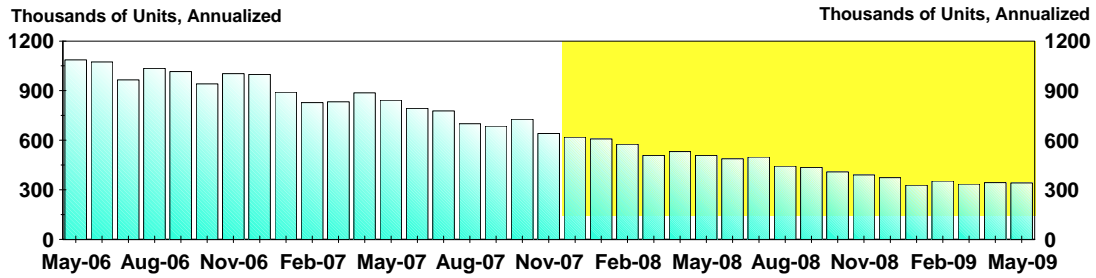
Real incomes posted another solid gain in May, due primarily to one-time Stimulus checks sent to Social Security beneficiaries. Removing the Stimulus effect, incomes rose only slightly in May. The higher incomes did little to spur consumption, which increased marginally in May after two months of minor declines.



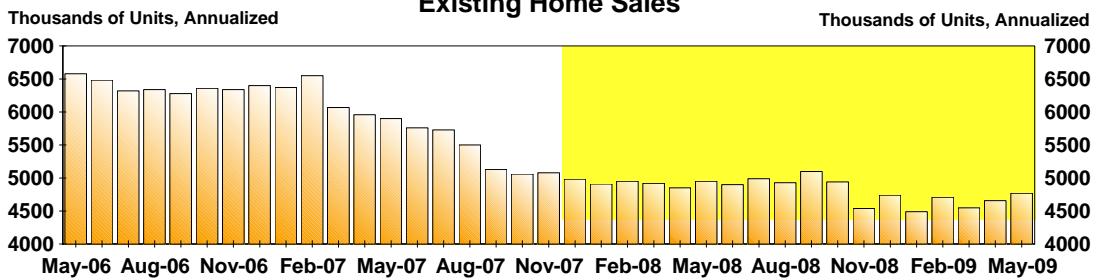
Source: Bureau of Economic Analysis.

May data showed further signs of stabilization in the housing market. New home sales held mostly steady for the fourth straight month, and sales of existing homes increased a bit to nearly match their 12-month average.

New Home Sales



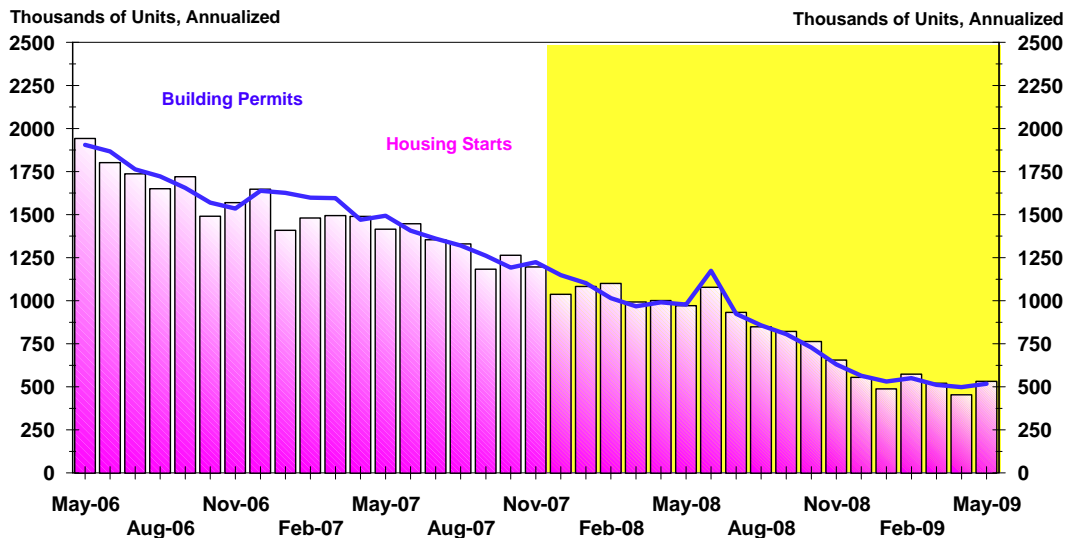
Existing Home Sales



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

New residential construction improved a bit in May, after falling to record lows in April.

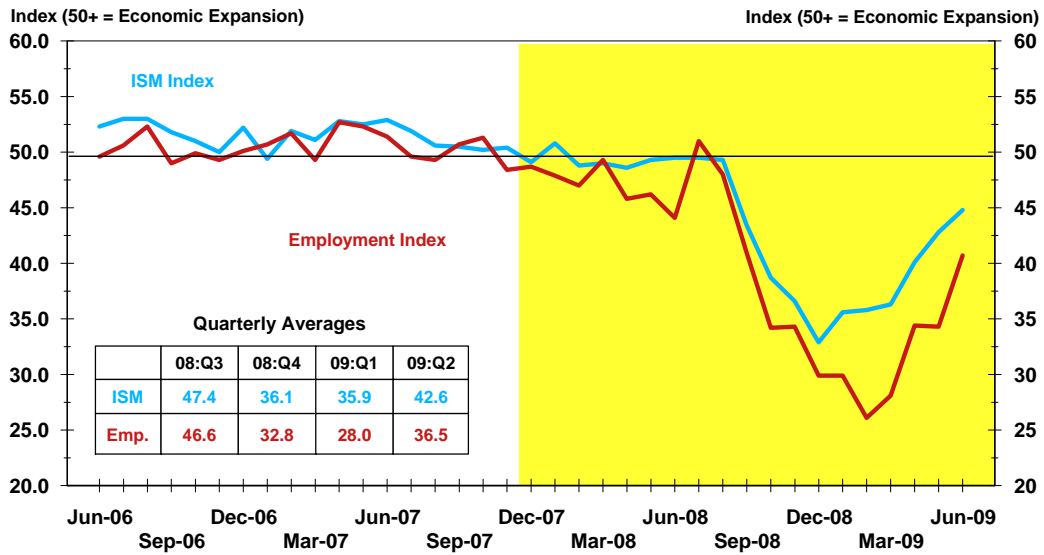
Housing Starts and Building Permits



Source: U.S. Census Bureau.

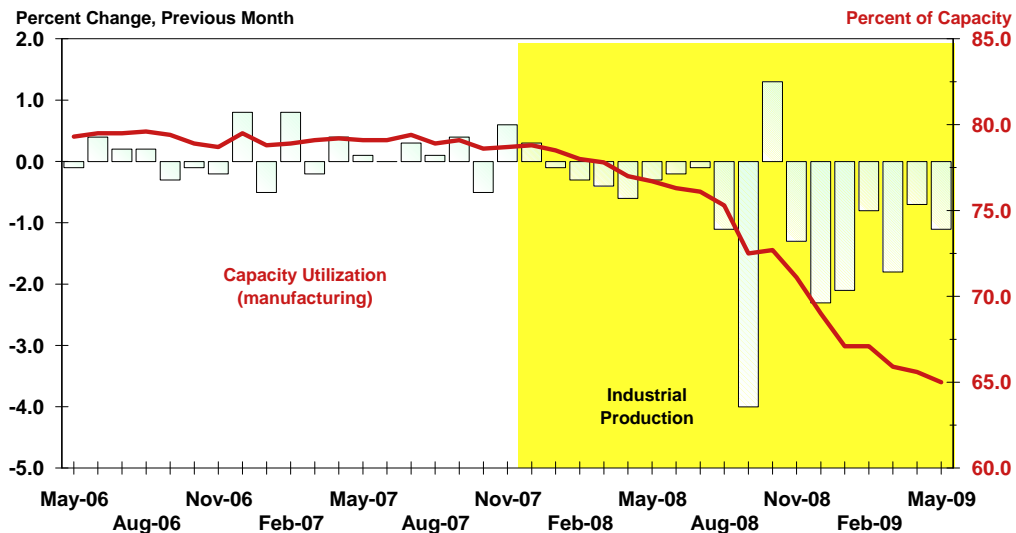
The ISM index increased for the sixth straight month in June, but manufacturing activity continues to contract. The employment index also showed further improvement in June, following a pause in May.

ISM Index

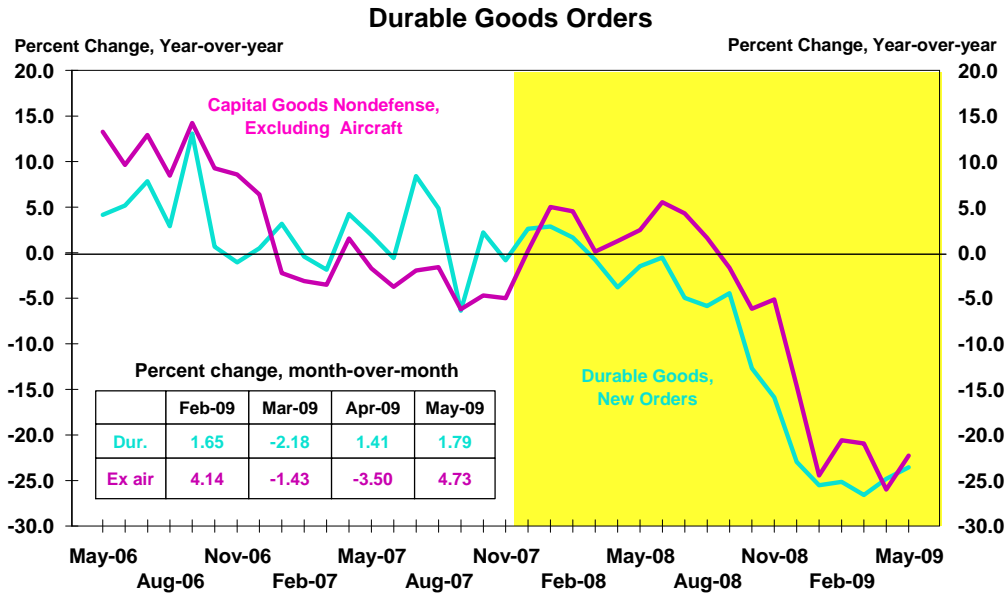


Industrial production and capacity utilization both fell again in May.

Industrial Production and Capacity Utilization

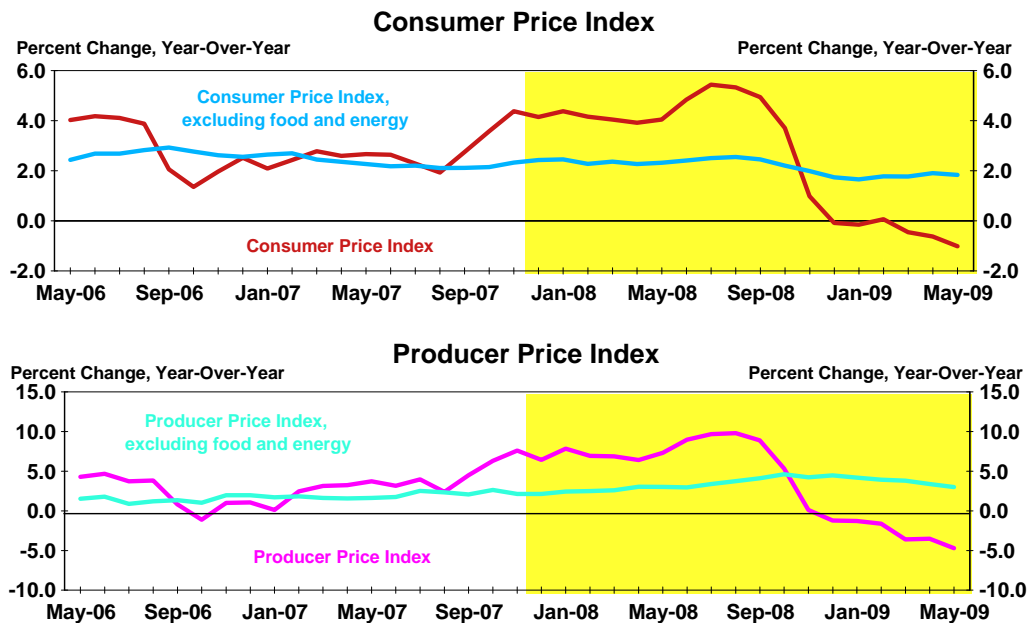


New orders for durable goods continue to display significant declines from last year, but have made some small improvements over the past two months. Orders for nondefense capital goods, excluding aircraft, posted a solid monthly gain in May.



Source: U.S. Census Bureau.

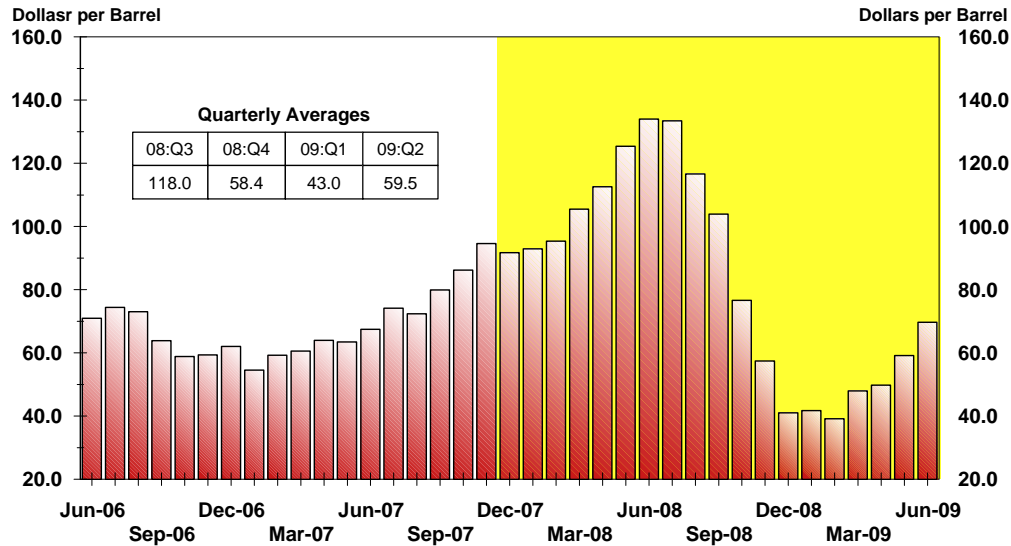
Headline inflation continued to be negative in May, for both consumers and producers. Core prices also eased slightly for both parties.



Source: Bureau of Labor Statistics.

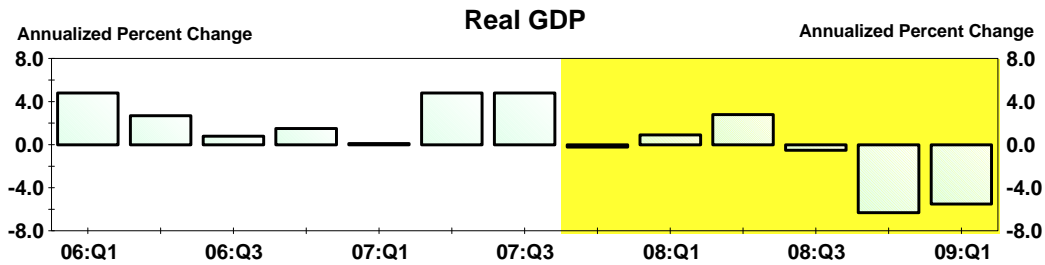
Oil prices rose for the fourth consecutive month in June, reaching their highest levels since October.

Domestic Spot Oil Price



Source: Wall Street Journal.

The contraction in first quarter real GDP was revised slightly smaller, reflecting a downward revision to imports and an upward revision to private nonfarm inventory investment that were partly offset by downward revisions to exports and personal consumption expenditures for services.

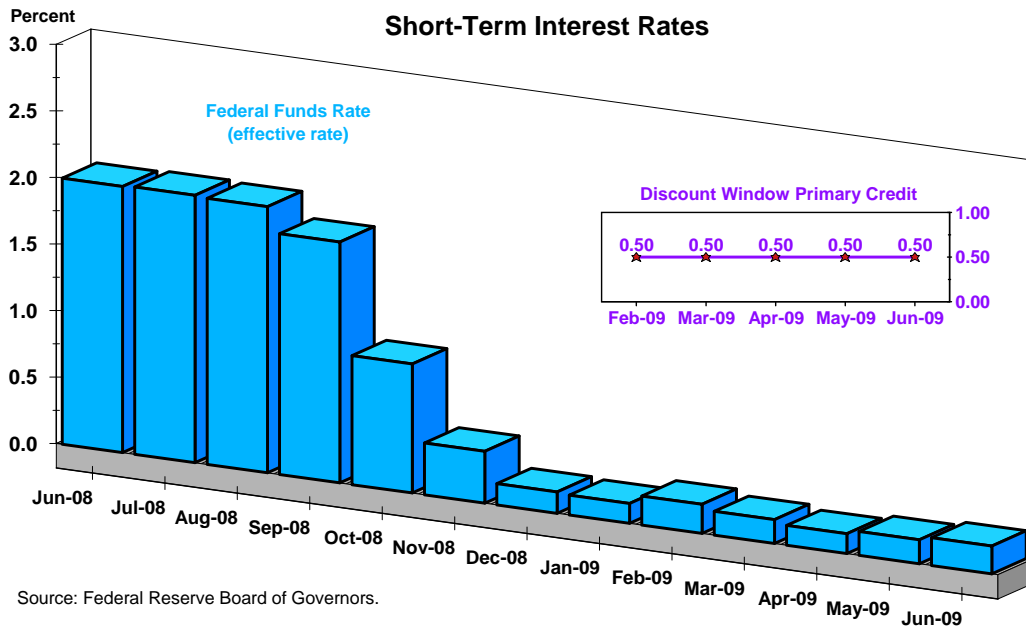


First Quarter Revisions

Description	Preliminary	Final
Real GDP	-5.7	-5.5
Personal Consumption	1.5	1.4
Business Investment	-36.9	-37.3
Equipment and Software	-33.5	-33.7
Residential Investment	-38.7	-38.8
Government	-3.5	-3.1
Exports	-28.7	-30.6
Imports	-34.1	-36.4
Final Sales	-3.4	-3.3

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting further suggest the pace of the economic contraction is slowing, but areas of weakness remain and we are unlikely to see any significant growth in the coming months. Consumption has been mostly flat and will continue to be restrained amid further job losses, and the housing and manufacturing sectors are still historically weak despite recent bits of positive news.



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

July 9, 2009

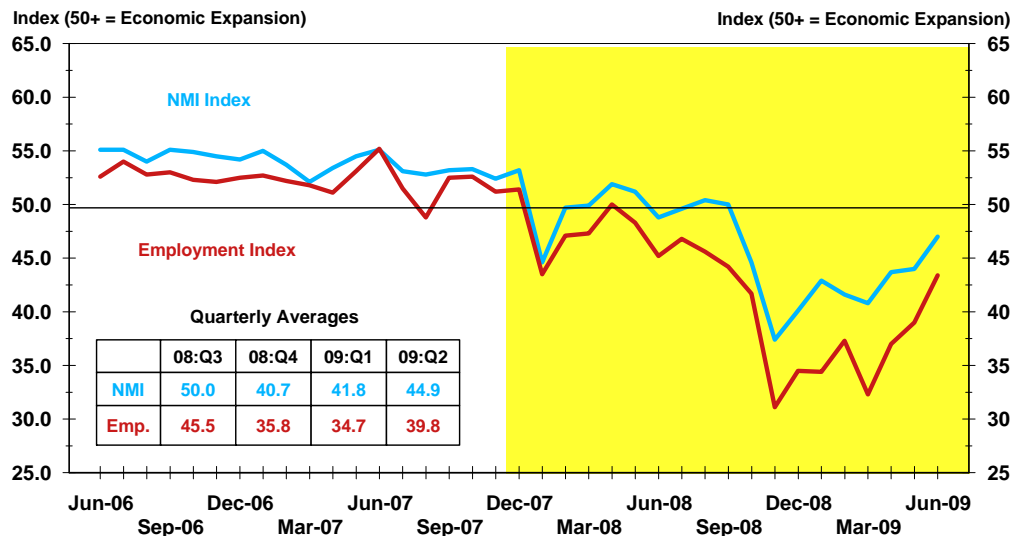
Current Economic Developments - Addendum: Data released in the past week

Due to the July 4th holiday, little data was released over the past week. The ISM non-manufacturing index was the most prominent release, and showed improvement in June. The index rose for the third consecutive month, reaching its highest point since September. The employment component of the index displayed a similar improvement in June. Both indices remain below 50, however, a signal the economy is still contracting.

Redbook sales decreased 4.3% in the first week of July, compared to June. Sales for the week ending July 4th were 4.2% lower than during the same period last year. Oil prices fell during the past week, averaging \$65.8 per barrel compared to last week's average of \$69.9.

The NMI index continued to show contraction in the nonmanufacturing sector in June, but one that is lessening in severity. Six industries reported growth in June, led by real estate, entertainment/recreation, and accomodations/food services. Eleven industries reported contraction in June, led by mining and agriculture/forestry.

ISM Nonmanufacturing Index



Source: Institute of Supply Management.