



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

June 4, 2009

CURRENT ECONOMIC DEVELOPMENTS - June 4, 2009

Data released since your last Directors' meeting are consistent with the view that the economy will contract in the second quarter at a much slower rate than was seen in the previous two quarters. There are signs of demand stabilization, especially for consumption and housing starts. However, the economy is still losing jobs at a fast pace and slack in the labor market is now putting downward pressure on wages.

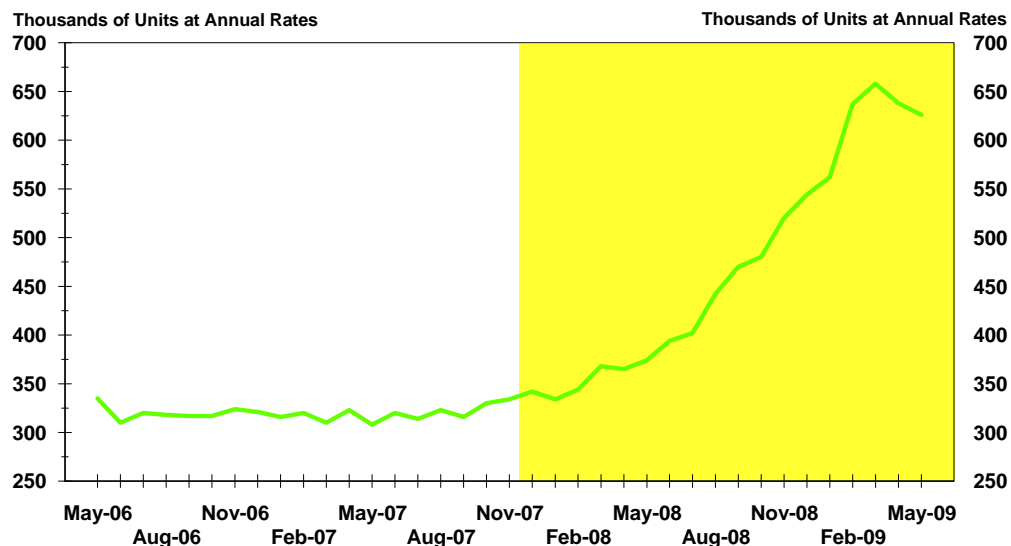
Initial claims for unemployment have eased somewhat, but remain at high levels. The same is true for continuing claims, which suggests little hiring from the current pool of unemployed. Consumers have become more optimistic, with the improvement in sentiment most notable in expected future conditions. Households are now starting to receive stimulus money, and the rate at which households will be spending their rebates will be a crucial near-term development. In April, consumer expenditures remained flat and the noticeable increase in disposable income was largely saved. The savings rate in April stood at 5.7, a level last seen in 1995.

In the manufacturing sector, the ISM index continued to climb in May but still has a way to go before signaling any economic expansion. Industrial production and capacity utilization both fell further in April, while new orders for durable goods posted a small increase.

Headline consumer inflation was flat in April. Core prices increased noticeably, but a large portion of the increase was due to an increase in the tobacco excise tax. Oil prices are now on an upward trend, having increased \$10 per barrel in May and \$20 overall in the past three months.

Initial claims continued to ease in May. Still, the current level remains elevated.

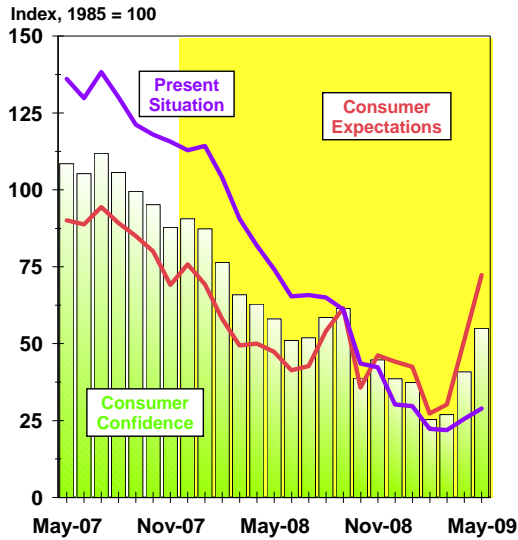
Initial Claims



Source: Department of Labor, Employment and Training Administration.

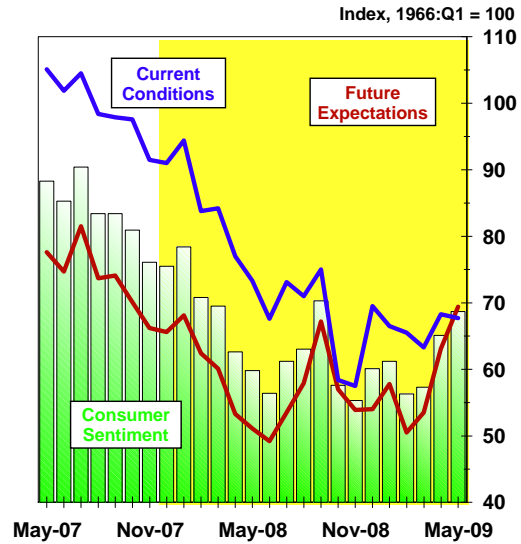
Consumer attitudes continued their recent recovery in May, as confidence and sentiment both reached their highest levels since September. Consumers are also more optimistic about conditions improving further over the next six months, while their feelings about present conditions have been more muted.

Consumer Confidence



Source: The Conference Board.

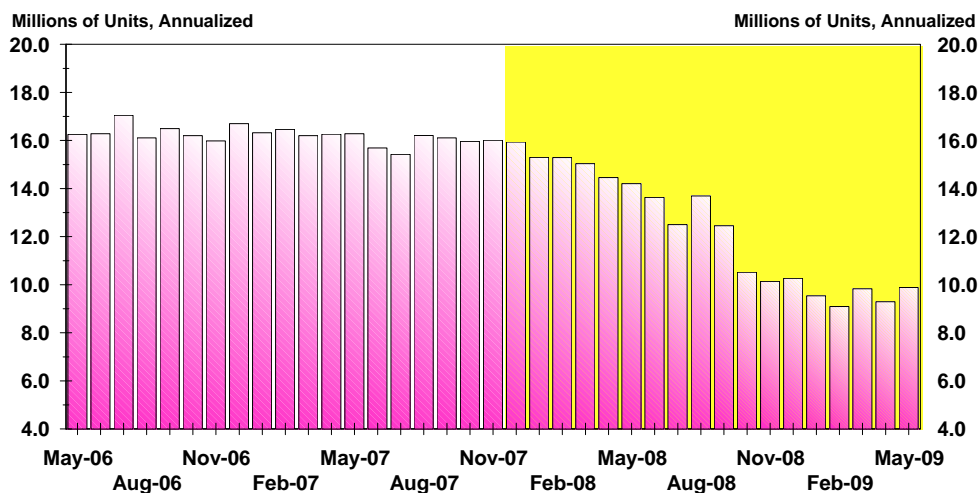
Consumer Sentiment



Source: The University of Michigan.

Total auto and light truck sales picked up a bit in May, but are still in line with the recent historically low levels.

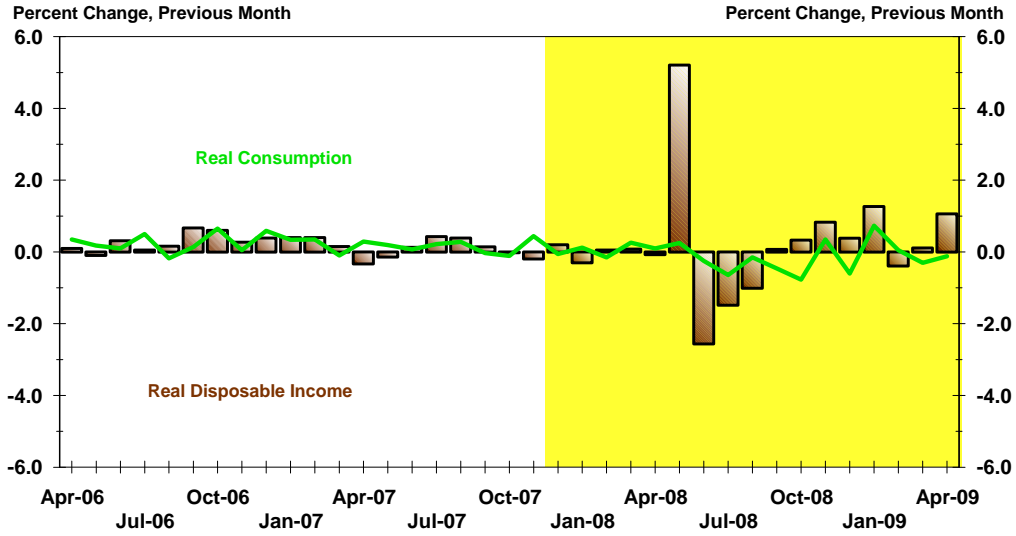
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Real disposable income posted a modest increase in April, but the higher incomes didn't carry-over to higher consumption, which was essentially unchanged.

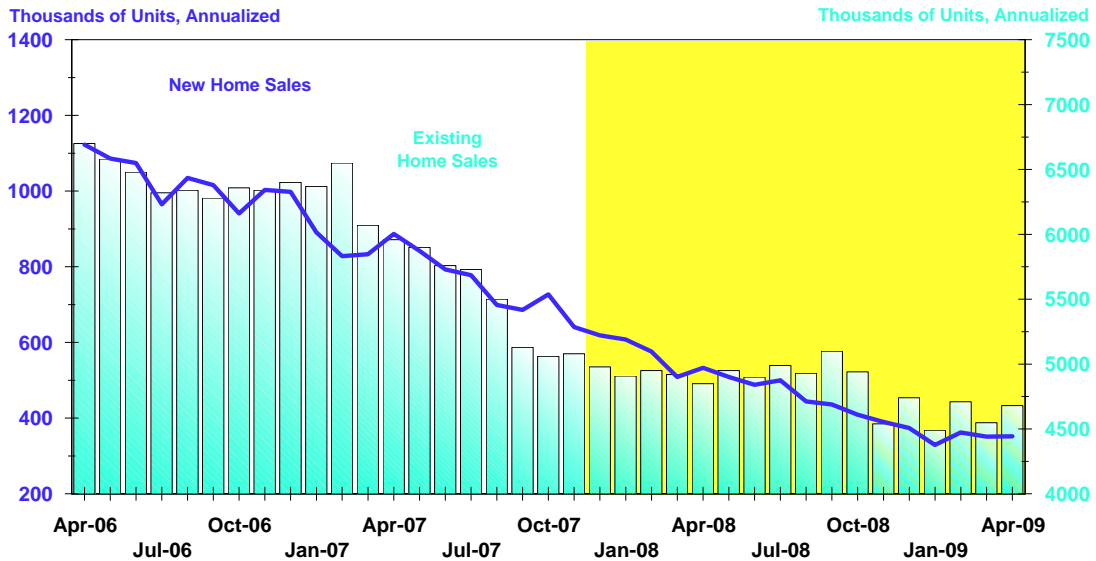
Real DPI and Consumption



Source: Bureau of Economic Analysis.

Existing home sales rose a bit in April, continuing their recent trend of alternating gains and losses, and sales of new homes were essentially flat. Both measures are hovering near their six-month averages, possibly signaling a leveling off of the housing market.

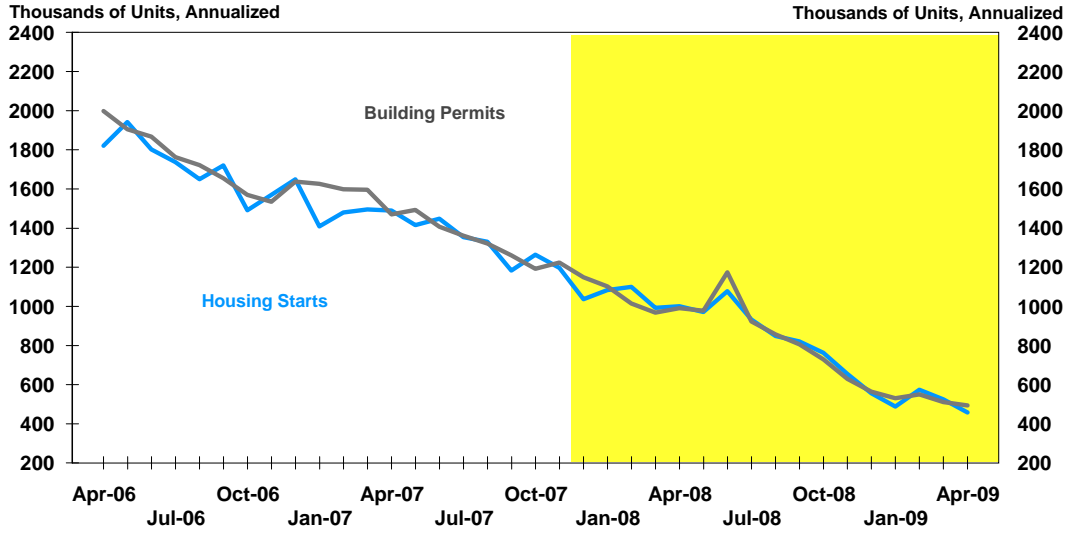
New and Existing Home Sales



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

In April, housing starts and building permits both fell to once again establish new record lows.

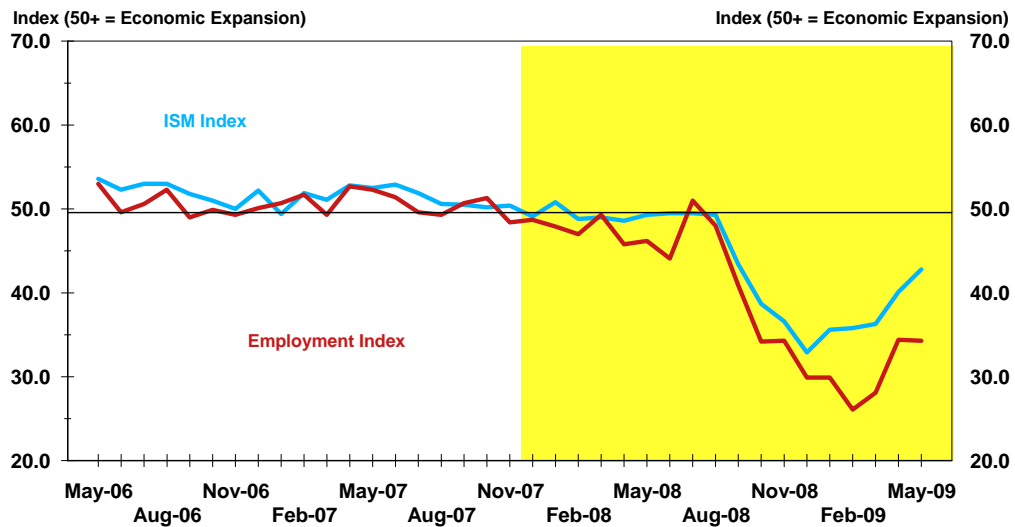
Housing Starts and Building Permits



Source: U.S. Census Bureau.

The ISM manufacturing index showed further improvement in May, rising for the fifth consecutive month, but remains below 50. The employment component of the index was essentially unchanged in May following the strong increase seen in April.

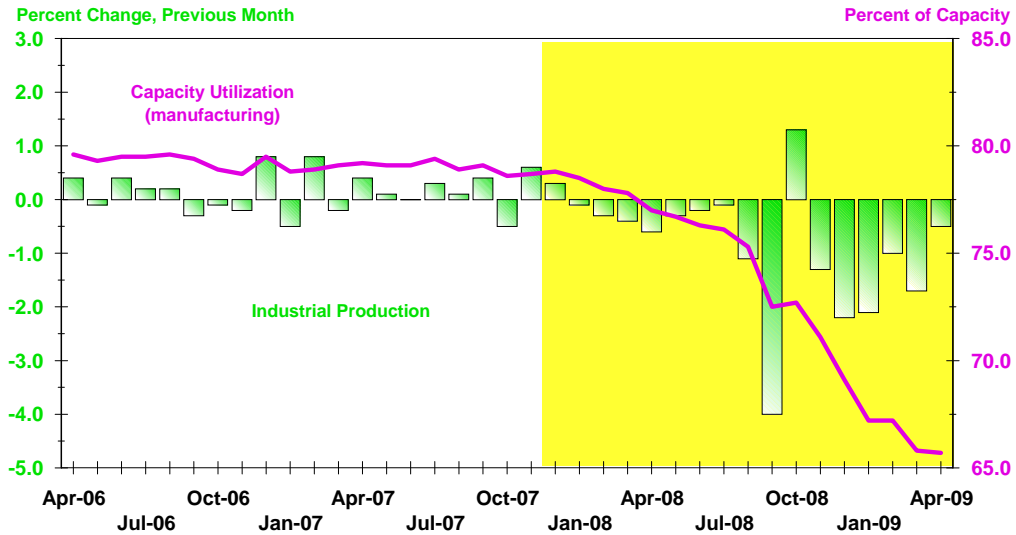
ISM Index



Source: Institute of Supply Management.

Industrial production fell for the sixth consecutive month in April, and capacity utilization fell slightly to another record low.

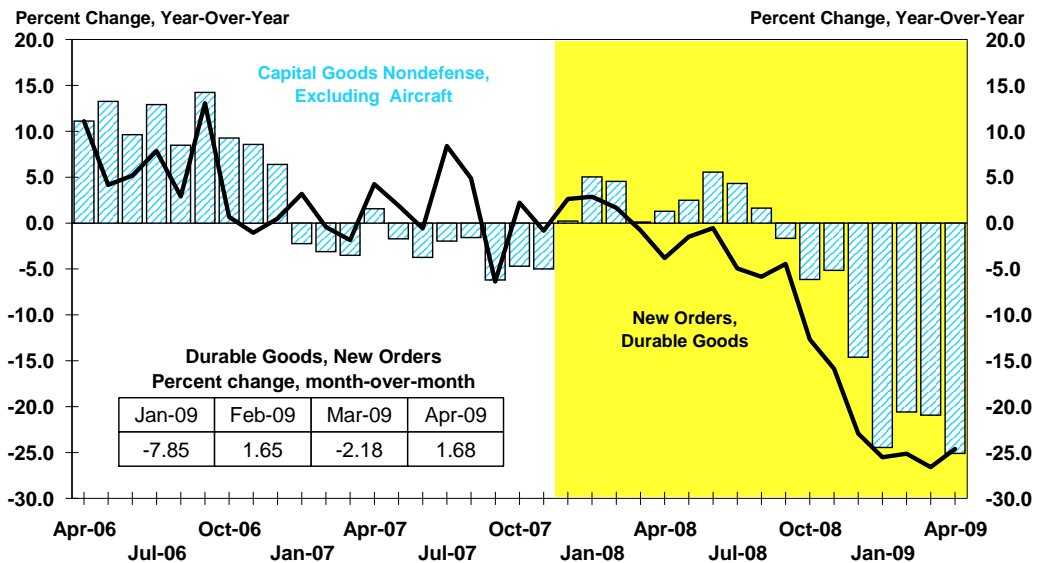
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

Durable goods posted another significant year-over-year fall in April, but did show some improvement from their March level. Orders of nondefense capital goods, excluding aircraft, posted their biggest drop in seven years in April, and second largest on record.

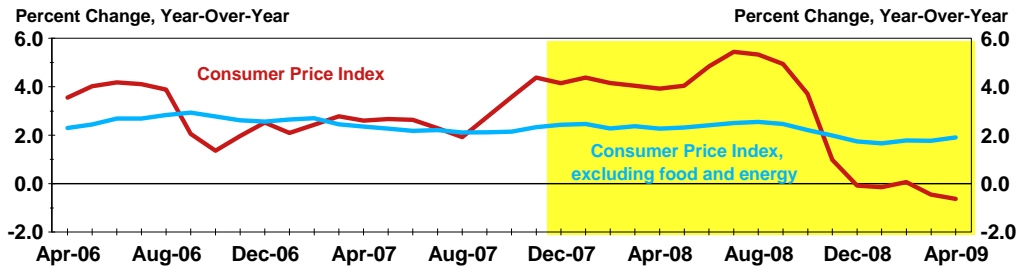
New Orders



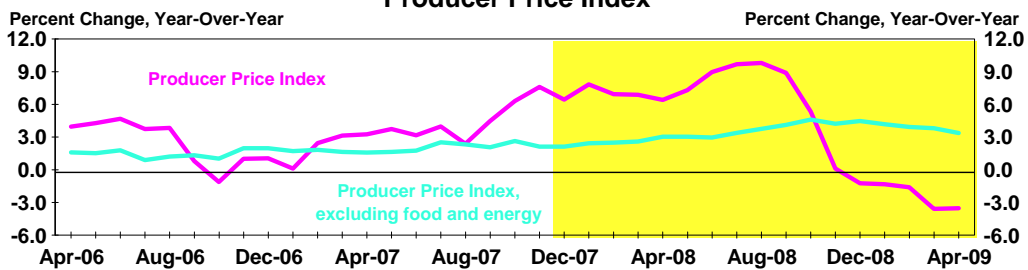
Source: U.S. Census Bureau.

Headline prices fell again in April, keeping deflation concerns alive. Core prices are less troubling, as the consumer index accelerated slightly and the producer index has been slowly decelerating toward pre-recession levels.

Consumer Price Index



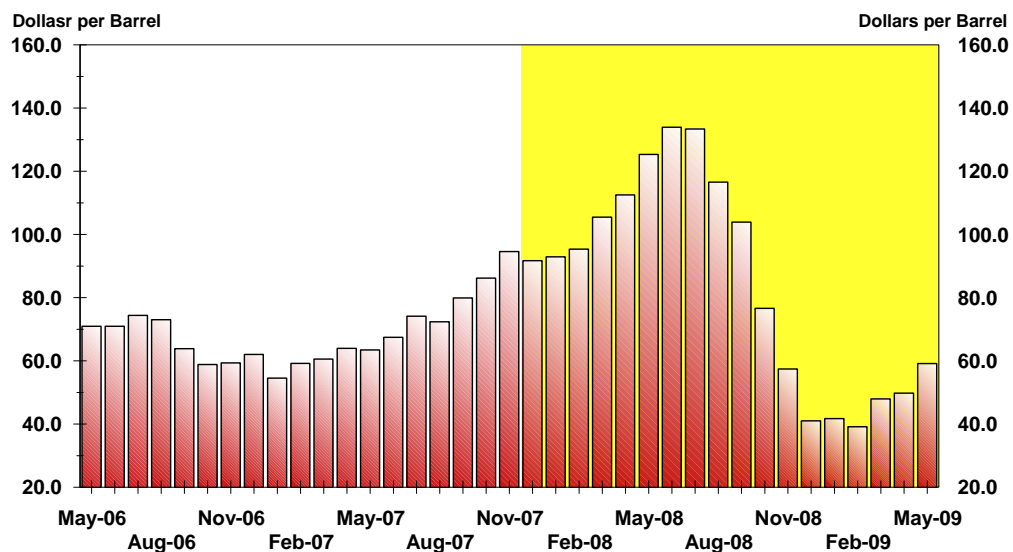
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices continued to rise in May, reaching their highest levels since October.

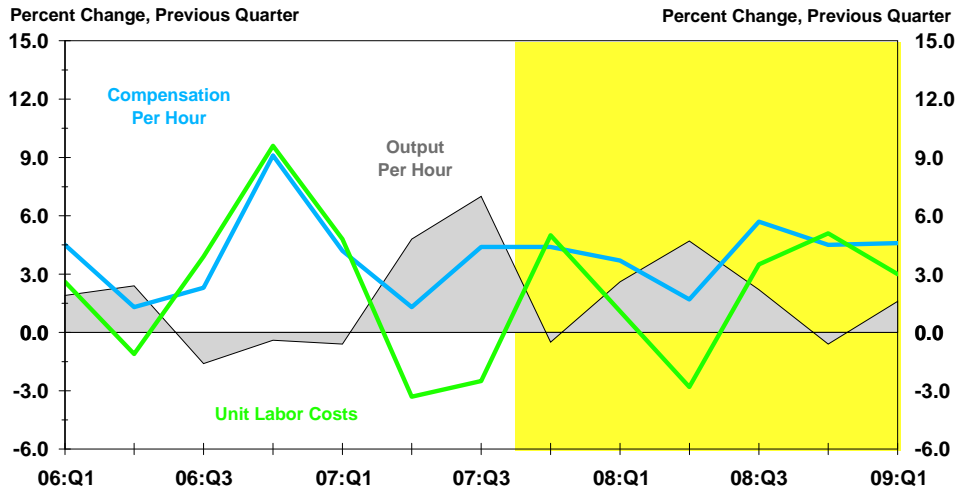
Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity posted a revised gain in the first quarter that was about twice the rate that was originally estimated. Compensation per hour edged slightly upward, while unit labor costs fell.

Productivity and Costs



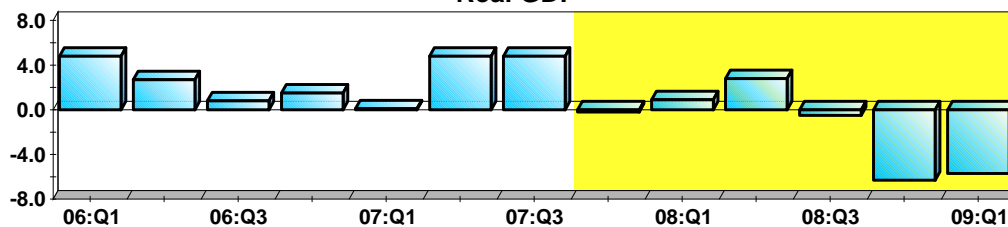
Source: Bureau of Labor Statistics.

The drop in real GDP in the first quarter was smaller than originally thought. The upward revision primarily reflected upward adjustments to private nonfarm business investment and exports that were partly offset by a downward adjustment to personal consumption expenditures for nondurable goods.

Revisions to First Quarter Real GDP

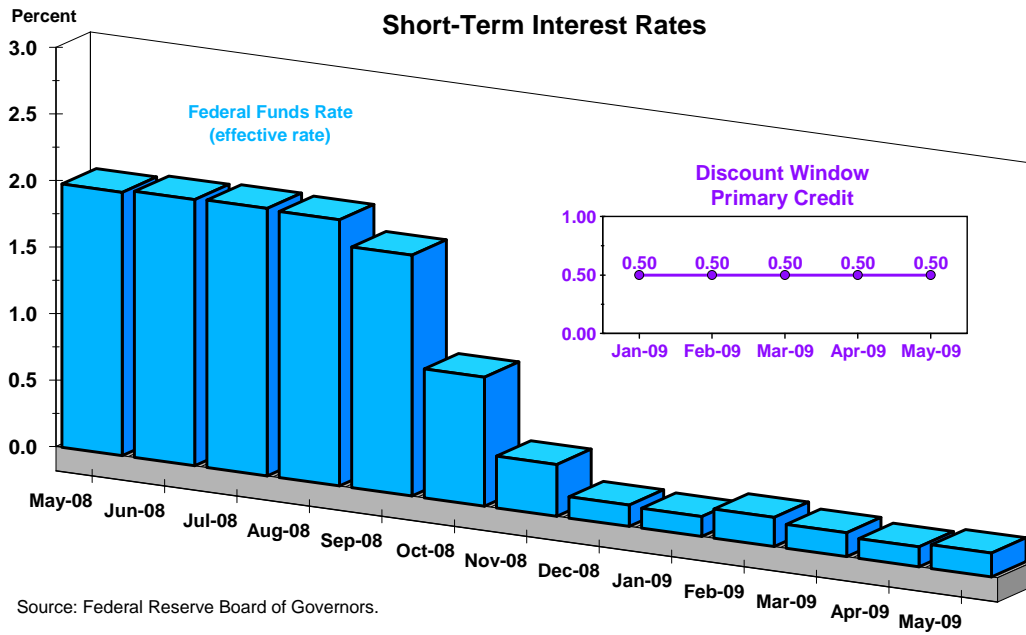
Description	Advanced	Preliminary
Real GDP	-6.1	-5.7
Personal Consumption	2.2	1.5
Nondurable Goods	1.3	-0.6
Business Investment	-37.9	-36.9
Structures	-44.2	-42.3
Equipment and Software	-33.8	-33.5
Residential Investment	-38.0	-38.7
Government	-3.9	-3.5
Exports	-30.0	-28.7

Real GDP



Source: Bureau of Economic Analysis.

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

June 11, 2009

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

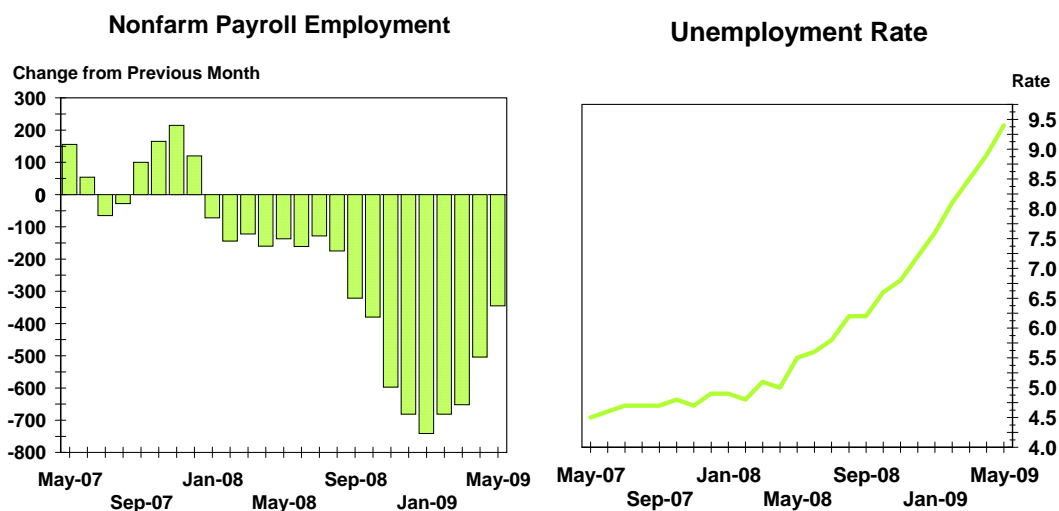
Recent news in the labor markets have been somewhat mixed. On the bright side, nonfarm payrolls fell in May by less than what was anticipated, as the rate of job losses eased to its slowest pace since last September. At the same time, payrolls were revised in the previous two months to show fewer job losses than originally thought. Still, the unemployment rate rose 1/2 percentage points to 9.4 percent, reaching its highest level since August 1983.

The U.S. international trade deficit widened in April, as exports fell at a faster pace than imports. April's data suggest there will be continued declines in both exports and imports in the second quarter.

Redbook sales fell 4.3 percent through the first week of June, compared to May. June's drop in sales was in line with its decline seen over the past year.

Oil prices continued to rise in early June, averaging \$70.01 per barrel in the week ending June 9, compared to \$68.55 per barrel in the previous week.

Payroll employment fell by 345,000 jobs in May and estimates for the previous two months were revised slightly upward, showing 82,000 less job losses than originally thought. Although May's estimate was lower than anticipated and marked the smallest number of job losses since last September, the unemployment rate rose 1/2 percentage point to 9.4 percent, its highest level since the Summer of 1983.



Source: Bureau of Labor Statistics.