



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

June 2, 2011

CURRENT ECONOMIC DEVELOPMENTS - June 2, 2011

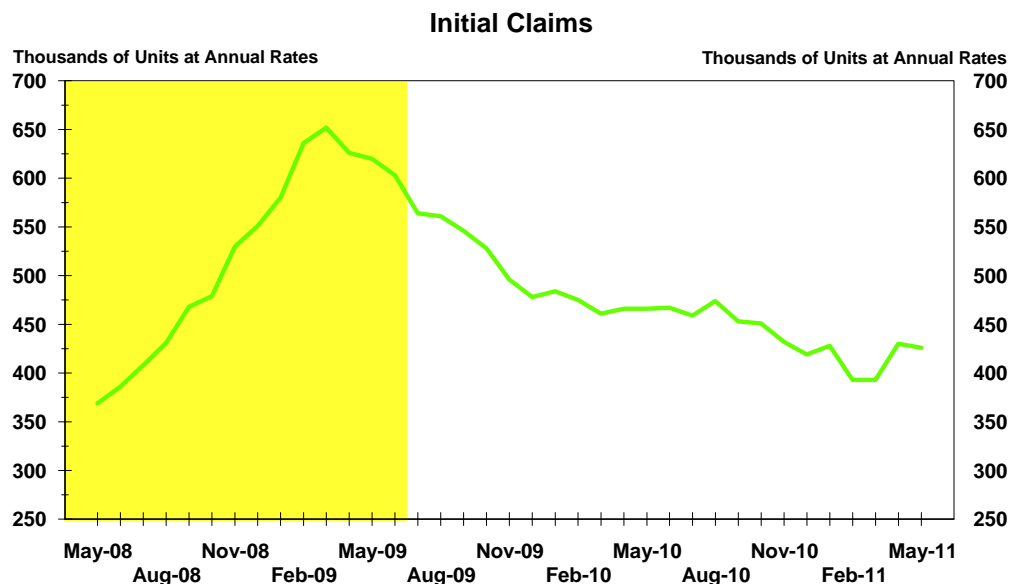
Data released since your last Directors' meeting has come in mostly below expectations but show that the economy continues to recover, albeit at a slow pace. The housing market remains weak, contributions from manufacturing have slowed, and downside risks remain in foreign debt issues, domestic budget constraints, and the effects of the recent spate of natural disasters. Despite the recent downturn in data, economic growth is expected to pick up a bit in the coming months.

Initial claims for unemployment insurance eased a bit in May, but remain uncomfortably high. Consumer attitudes were mixed in May as measures of future expectations moved in opposite directions, but feelings towards current conditions were little changed. Auto sales fell in May to their lowest level in eight months, due primarily to higher prices. Incomes were flat in April and have shown little growth over the past year, and along with higher energy prices have restrained consumption, which managed only another very small gain in April.

The housing market remained subdued in April. New home sales increased but remain near historical lows, while sales of existing homes eased a bit. Housing starts and building permits also declined in April and are little changed from where they stood two years ago. In the manufacturing sector, the ISM index fell sharply in May but did continue to signal expansion in the economy. In April, industrial production was flat while new orders for durable goods fell.

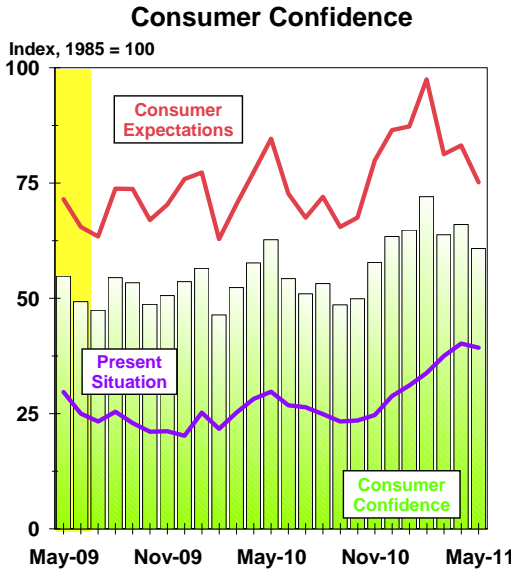
Price indices continued to accelerate in April, due to higher energy and commodity prices. While core price measures have also been rising, those increases are expected to be transitory. Oil prices fell sharply in the first few days of May and then held mostly steady through the rest of the month.

Initial claims for unemployment insurance fell slightly in May, following the sharp increase seen in April. After dropping to a three-year low of 375,000 at the end of February, claims have been above 400,000 for eight consecutive weeks, a level well above what would be considered indicative of a healthy labor market.

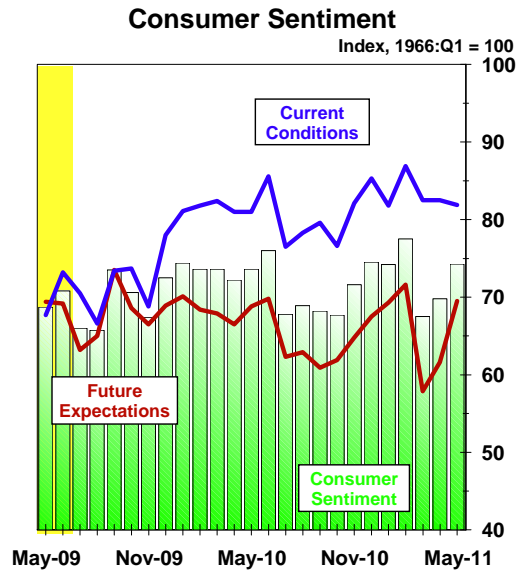


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes were mixed in May, as sentiment improved but confidence fell, due primarily to disparate views on near-term future conditions. The Conference Board survey found respondents to be much more apprehensive about future business and labor market conditions, while the Michigan survey was boosted by increasing reports of job gains and easing inflation concerns.

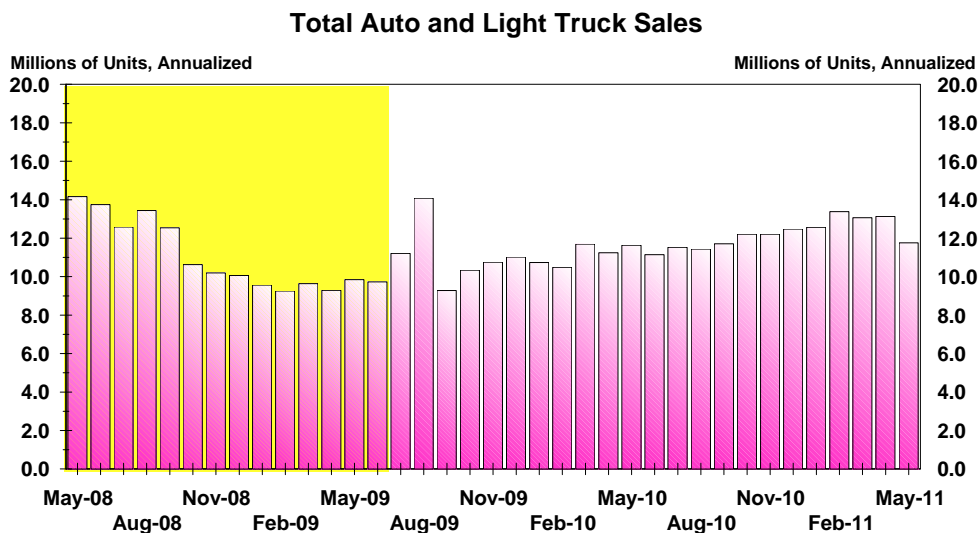


Source: The Conference Board / Haver Analytics.



Source: The University of Michigan / Haver Analytics.

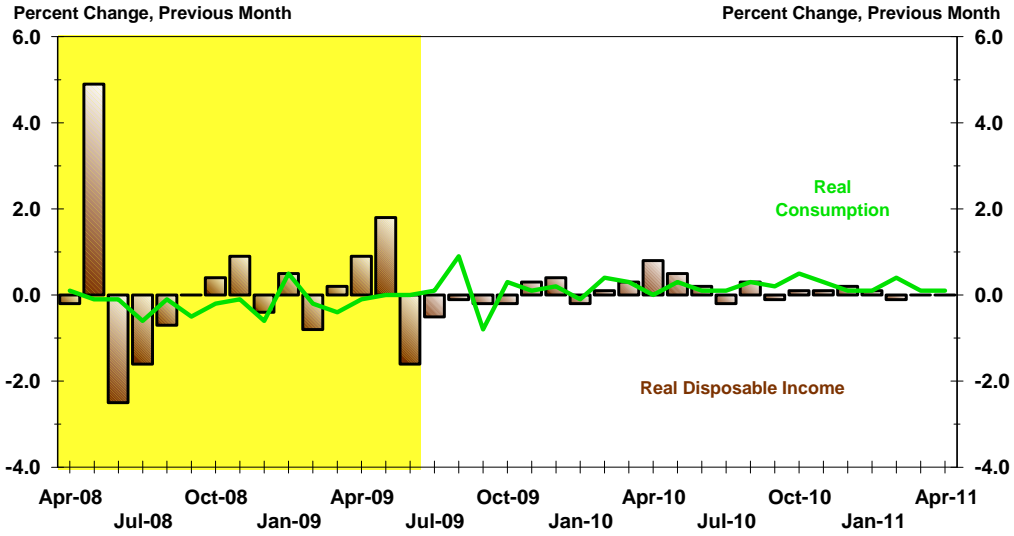
Total lightweight vehicle sales fell in May to their lowest level in eight months, due to a variety of factors including higher prices, tsunami-related supply shortages from Japan, and general concerns among consumers about the state of the economy. Even as oil prices fell during the month, consumers continued to gravitate towards smaller, more fuel-efficient vehicles.



Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable incomes were unchanged again in April, and have grown by only 0.3% over the past six months. The stagnant incomes are restricting consumption, which edged up only 0.1% in April. Equally small increases were also seen in three of the previous four months.

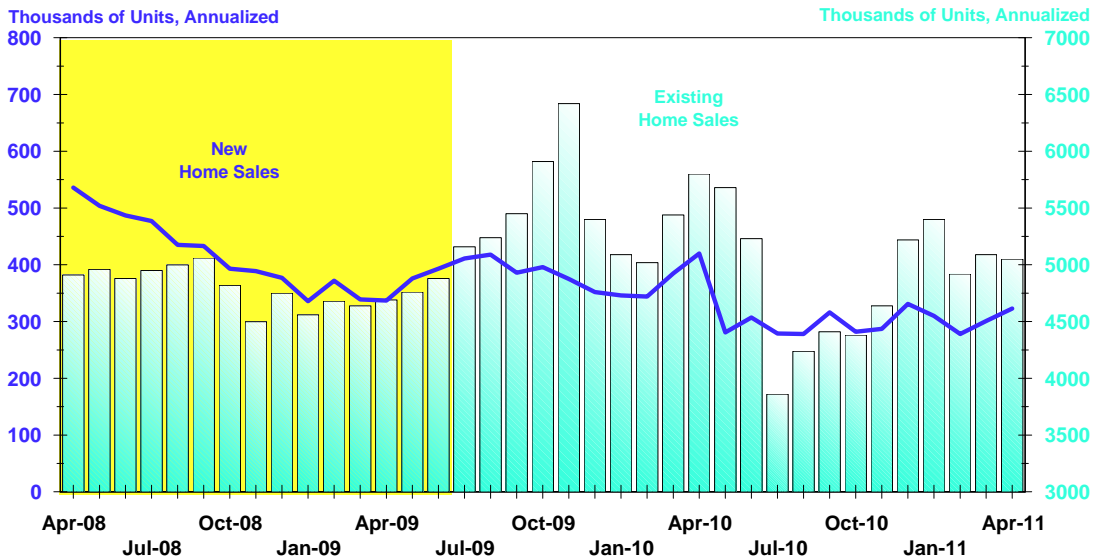
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Housing data was mixed in April and remain historically weak, despite improving a bit from the record lows established in the last few months. New home sales unexpectedly rose in April and are up 16.2% over the past two months, while sales of existing homes eased slightly in April and matched their six-month average.

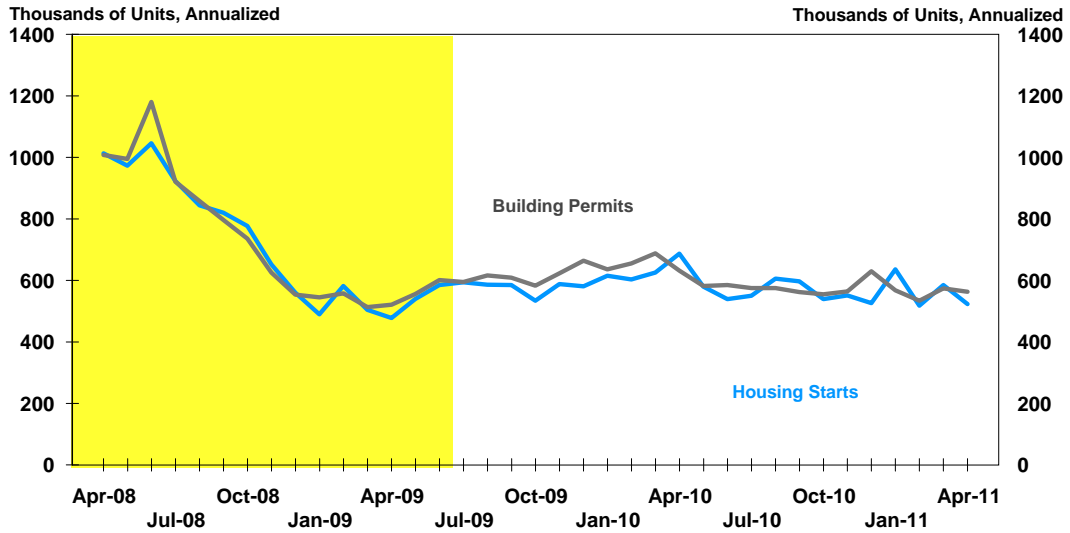
New and Existing Home Sales



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

Housing starts fell in April, erasing most of the gain seen in March. Building permits also fell slightly during the month and are little changed from where they stood two years ago.

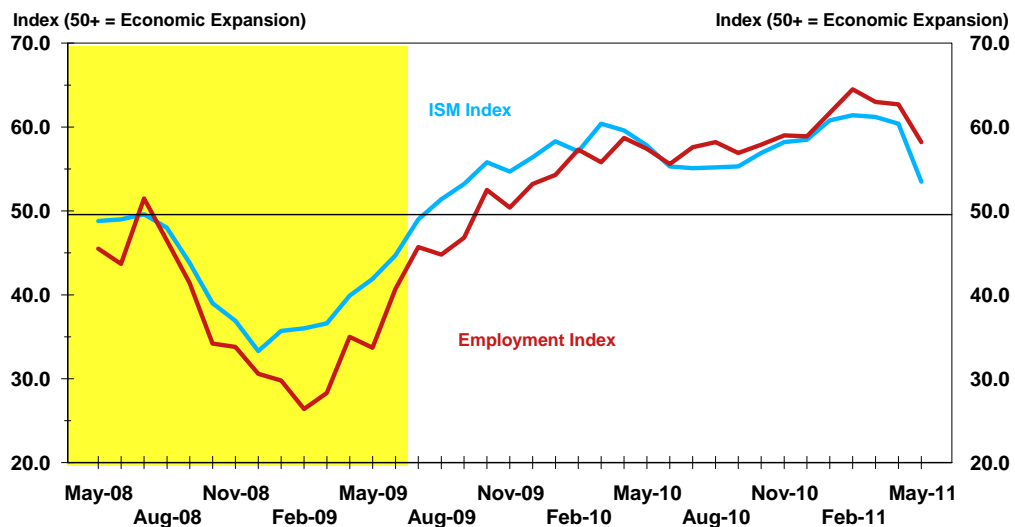
Housing Starts and Building Permits



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

The ISM manufacturing index fell sharply in May, dropping to its lowest level since September 2009. The index was still above 50, though, signalling continued economic expansion. The employment component of the index also fell in May but remains quite high compared to its recent history.

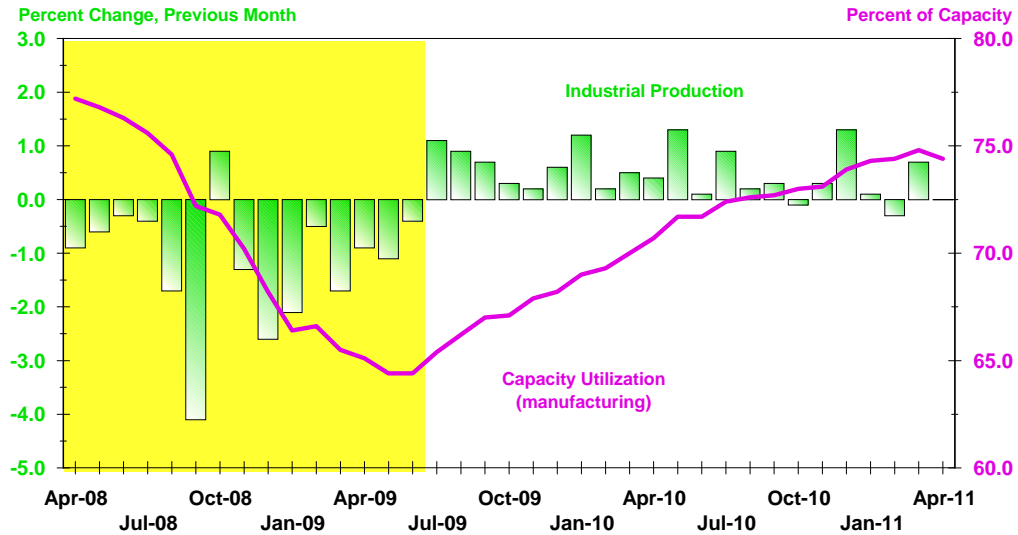
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production was flat in April, following a solid gain seen in the previous month. Capacity utilization eased a bit in April, the first decline in the series in nearly two years.

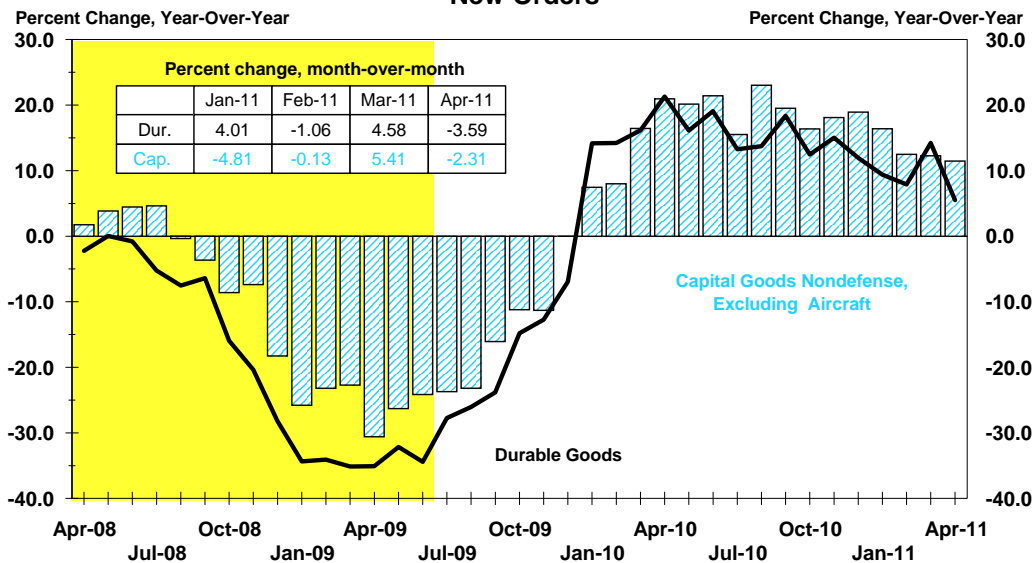
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods fell in April and posted the smallest year-over-year gain since late 2009. Orders of nondefense capital goods, excluding aircraft, also declined in April, the third decrease in four months. Year-over-year increases in that series have also been steadily declining over the past eight months.

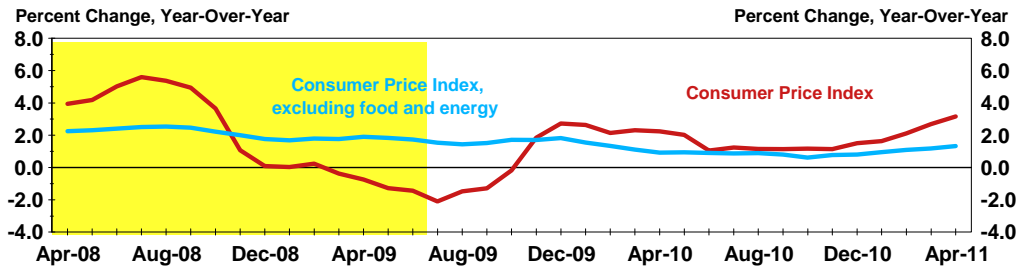
New Orders



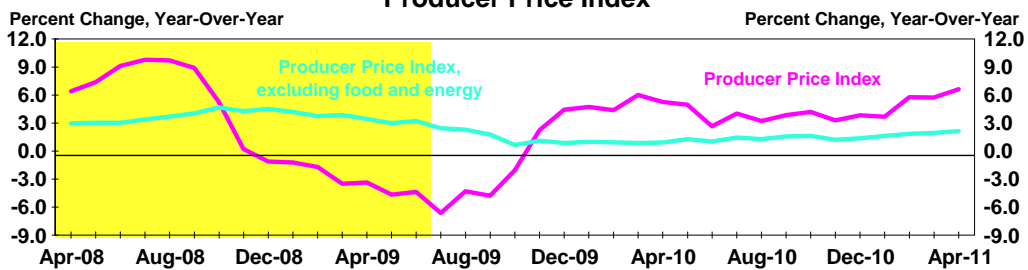
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices continued to accelerate in April, growing at their fastest pace since October 2008. The core index also picked up to reach a 14-month high. Producer price measures told a similar story, with the total index growing at its fastest rate since September 2008 and the core index reaching a 21-month high.

Consumer Price Index



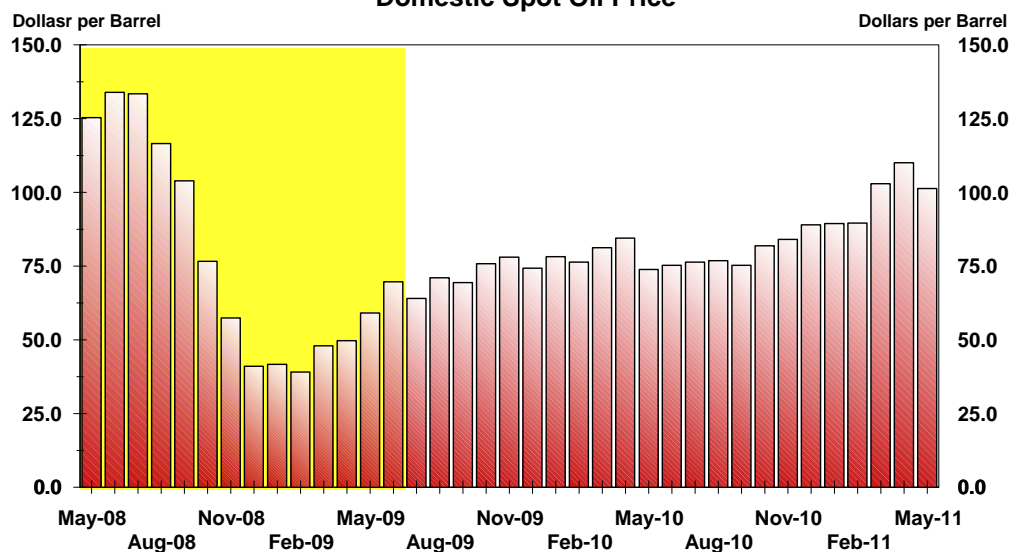
Producer Price Index



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices fell sharply in the first few days of May, and then spent the rest of the month hovering around \$100 per barrel. The lower prices helped reduce the cost of gas by about \$0.25 per gallon, welcome news to consumers with the summer driving season now underway.

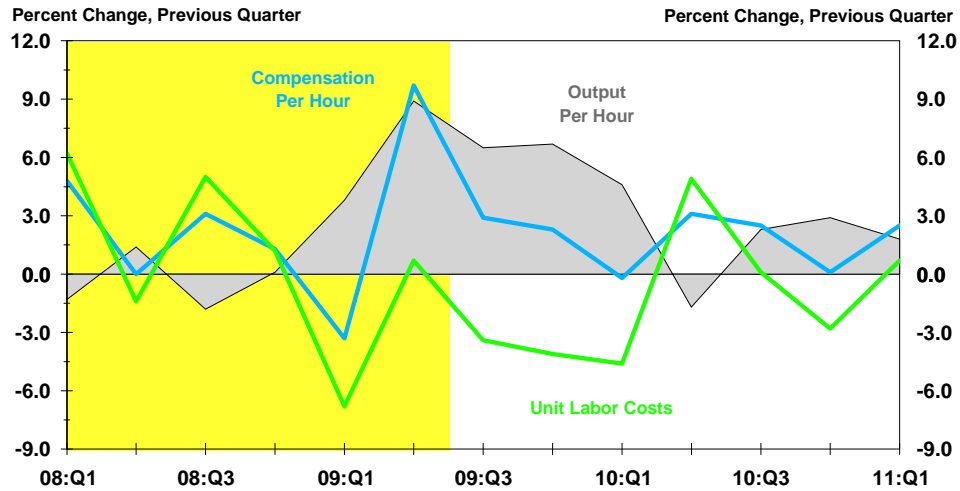
Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Productivity growth was revised slightly higher in the first quarter, reflecting stronger output than previously estimated but no change in hours worked. Most notable in the revisions was a 0.1% increase in compensation during the fourth quarter, previously reported as a 1.9% gain. Unit labor costs were also revised downward in the fourth quarter, to a drop of 2.8% from the previous estimate of a 1.0% decline.

Productivity and Costs



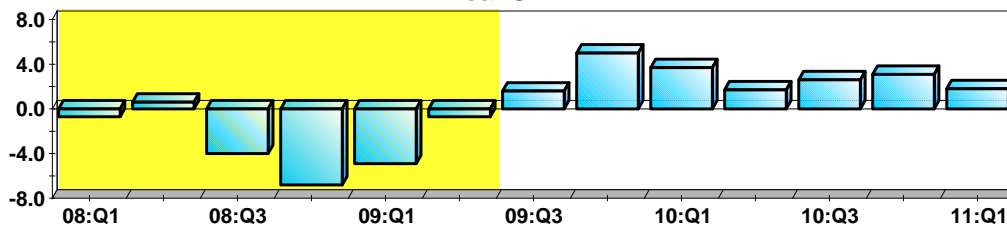
Source: Bureau of Labor Statistics / Haver Analytics.

First quarter GDP growth was unrevised in the second estimate, as upward adjustments to nonresidential fixed investment, inventory investment and exports were offset by a downward revision to consumption and an upward revision to imports. GDP growth was expected to undergo a small upward revision, but fell short due mostly to the larger-than-expected downward adjustment to PCE.

Revisions to First Quarter Real GDP

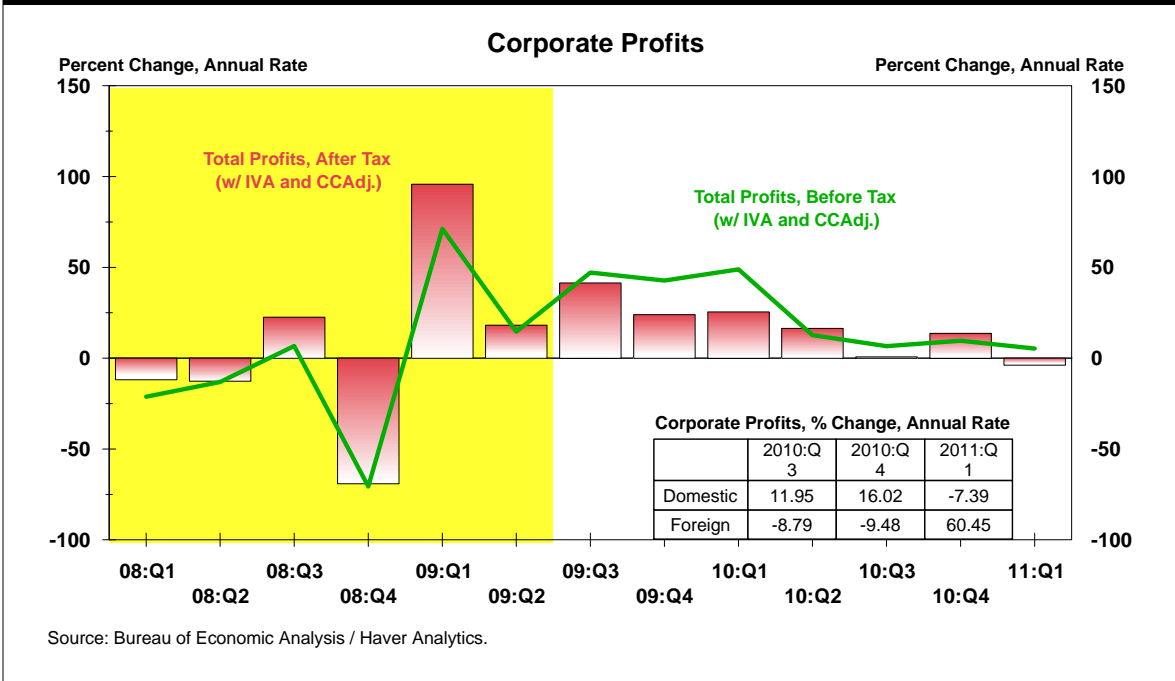
Description	Advance Estimate	2nd Estimate
Real GDP	1.8	1.8
Personal Consumption (PCE)	2.7	2.2
Business Investment	1.8	3.4
Residential Investment	-4.1	-3.3
Government	-5.2	-5.1
Exports	4.9	9.2
Imports	4.4	7.5
Final Sales	0.8	0.6
Change in Nonfarm Inv. (\$2005 Bil.)	30.7	39.8

Real GDP

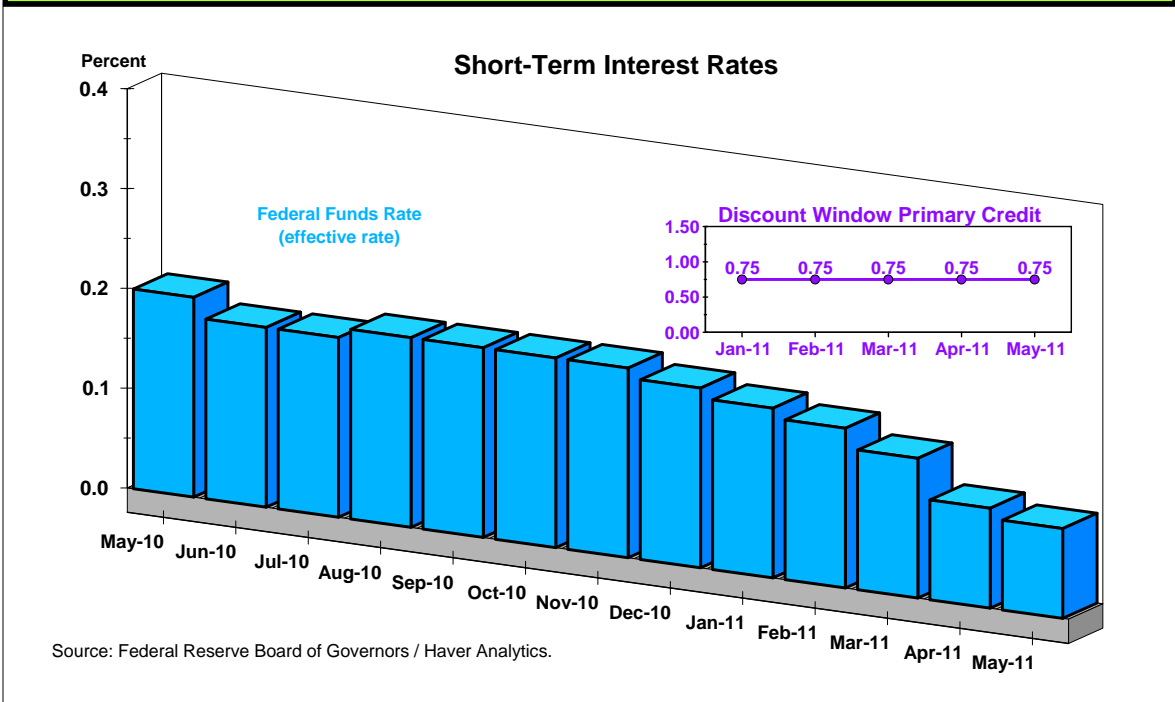


Source: Bureau of Economic Analysis / Haver Analytics.

Corporate profits posted their weakest quarter of the recovery in the first quarter, with after tax profits falling for the first time in over two years. All of the decrease came from domestic firms, as profits rose for overseas operations. The decreases were due primarily to slower productivity growth (from increased hiring) and the higher cost of imported materials.



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

June 9, 2011

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

Nonfarm payrolls posted their smallest single-month gain in eight months in May, far below expectations and more evidence of a soft patch in the economy. The weakness in the jobs report was widespread, with losses seen in manufacturing, motor vehicles and parts, retail sales, nonresidential construction and government. Health services and food and drinking places were the strongest gainers.

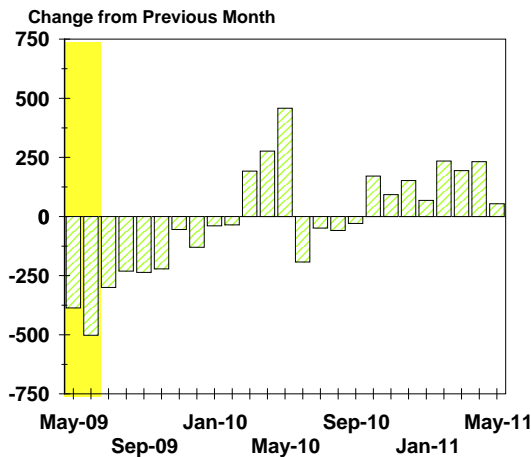
There were some positive aspects to the data as well. The hours worked index ticked up a bit and average hourly earnings posted a second consecutive 0.3% gain. Also, the labor force grew as some previously discouraged workers returned to the labor market with the belief that jobs were more readily available.

The ISM nonmanufacturing index unexpectedly rose in May, signifying further expansion of the services sector. The employment sub-index also rose in May, implying that the service-related job gains seen in April continued into the following month.

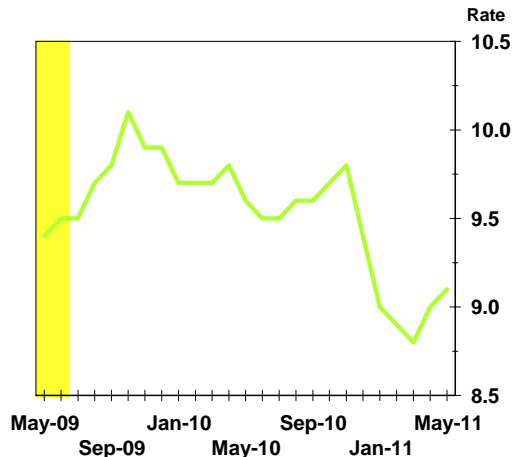
Redbook sales rose 1.3% through the first week of June, compared to May, and were up 4.2% from the same period last year. Oil prices eased a bit further in early June, averaging \$99.8 per barrel in the week ending June 7th, compared to \$101.2 per barrel in the previous week.

Payroll employment rose by only 54,000 jobs in May, and payroll additions were revised downward by 39,000 for the previous two months. Also in May, the unemployment rate rose one-tenth of a percentage point to 9.1 percent, as a small gain in civilian employment was outpaced by a larger increase in the labor force.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.