FEDERAL RESERVE
BANK OF BOSTON™

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

August 6, 2009

CURRENT ECONOMIC DEVELOPMENTS - August 6, 2009

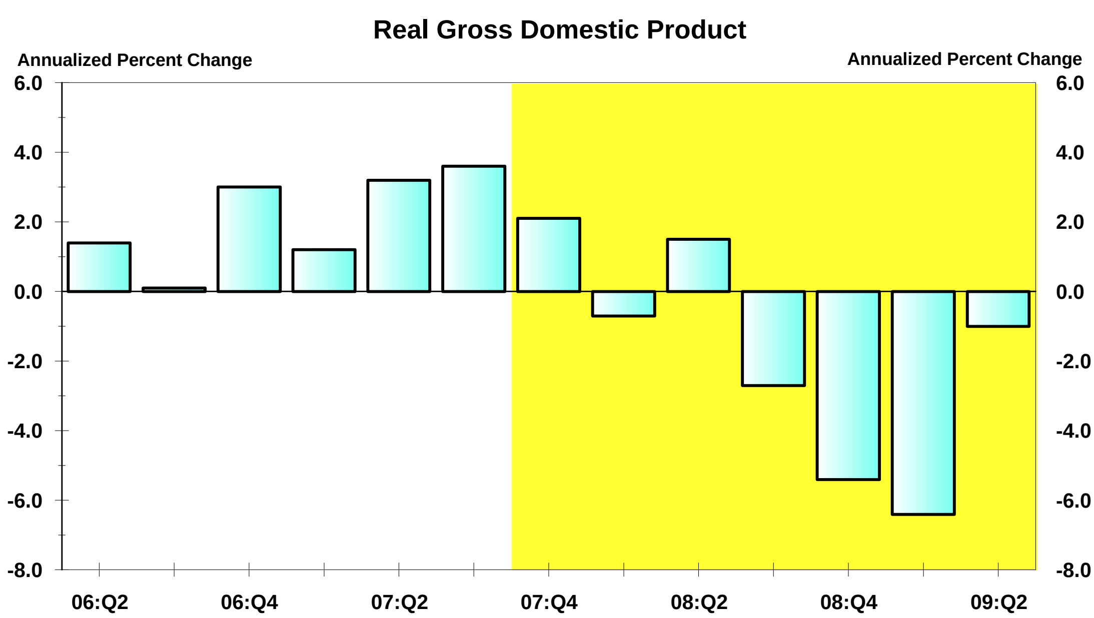
Data released since your last Directors' meeting show the economic contraction is lessening in severity. GDP growth was negative in the second quarter, but the drop was smaller than those seen in the previous three quarters. Signs of a potential recovery in the housing market are mounting, but a weak employment situation that will be slow to recover is keeping consumers pessimistic.

The decrease in real GDP in the second quarter primarily reflected negative contributions from nonresidential fixed investment, personal consumption, residential investment, private inventory investment, and exports. Those effects were partly offset by federal and state and local government spending and a decrease in imports.

Initial claims for unemployment insurance eased further in July, and are now well below the peak seen earlier this year. Consumer attitudes worsened a bit in July amid job market and income concerns, but were in line with their second quarter averages. In the manufacturing sector, the ISM index continued to improve but remains slightly below 50, indicating the sector is still contracting. Industrial production also fell again, and capacity utilization dropped to another record low.

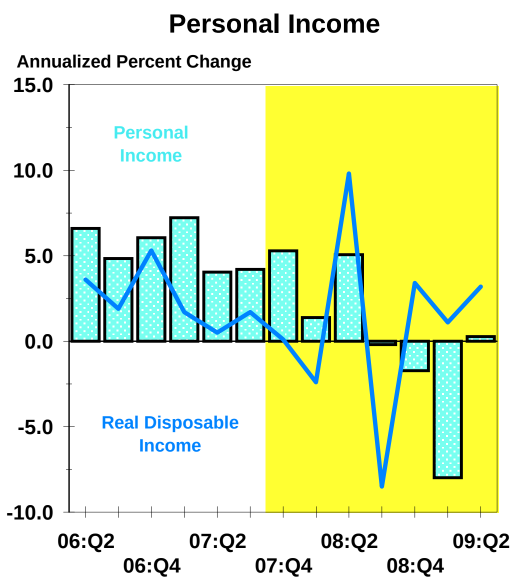
Any inflation concerns remained minimal during the second quarter. Prices for both consumers and producers eased further and compensation costs, as measured by the ECI, grew at their slowest pace on record. Oil prices also retreated in July after rising consistently the previous four months.

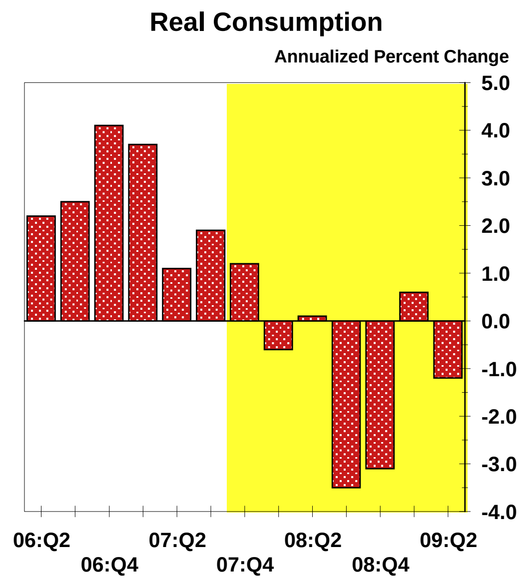
The much smaller decrease in real GDP in the second quarter reflected much smaller decreases in nonresidential fixed investment, exports, and private inventory investment and upturns in government spending. These effects were partly offset by a much smaller decrease in imports and a downturn in personal comsumption.



Source: Bureau of Economic Analysis / Haver Analytics.

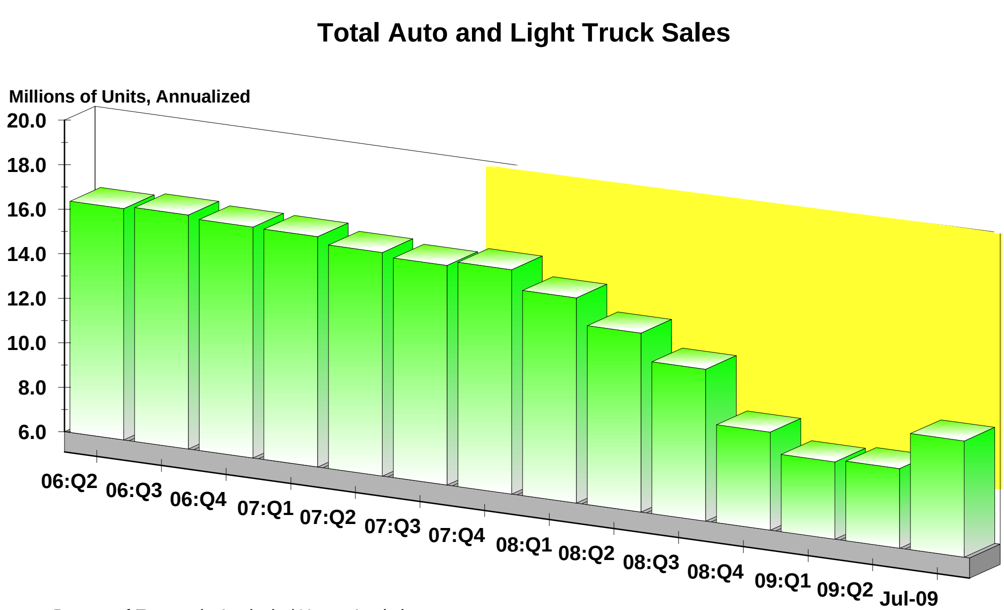
Personal income was essentially unchanged in the second quarter, but real disposable incomes improved. That disparity failed to motivate consumption, which fell again in the second quarter, more than offsetting the increase seen in the first quarter.





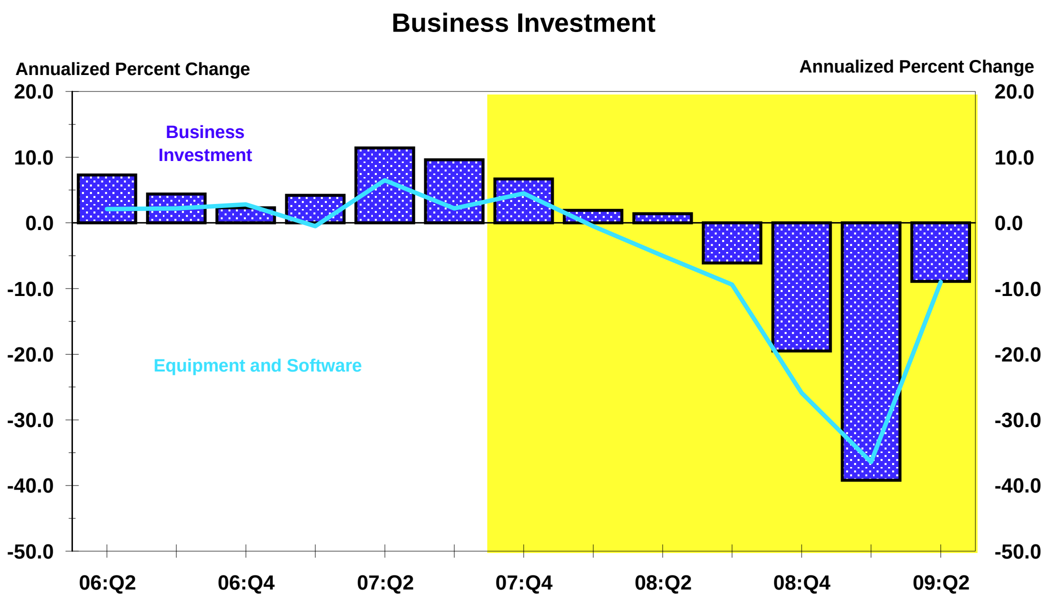
Source: Bureau of Economic Analysis / Haver Analytics.

The 'Cash for Clunkers' stimulus program boosted auto sales to an eleven-month high in July. With the initial $1 billion alloted for the rebates likely exhausted, the future success of the program hinges on a Senate vote to add another $2 billion before beginning its recess on Friday.



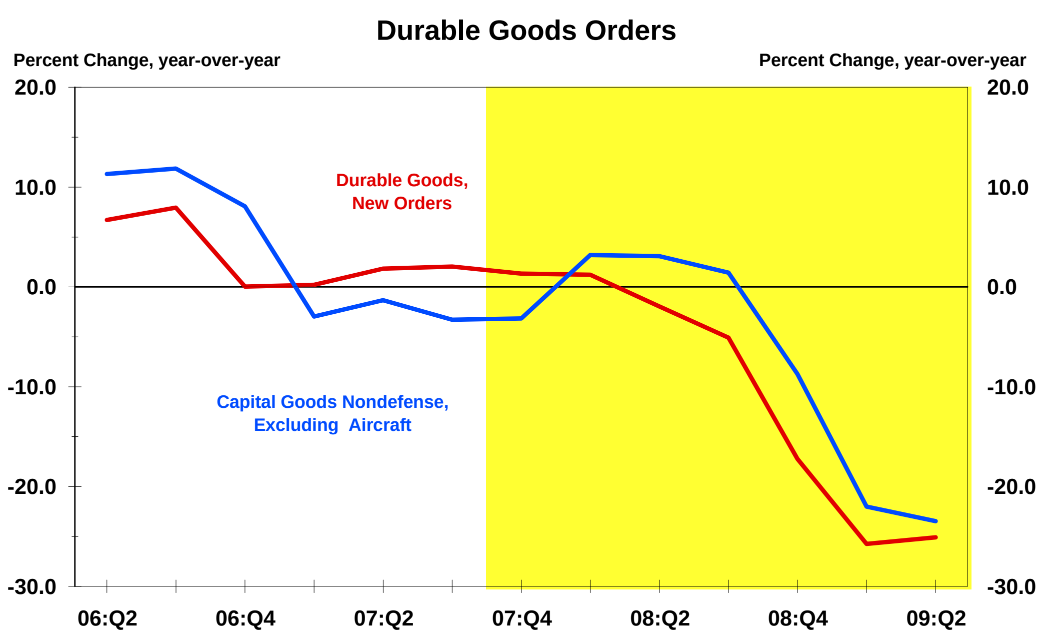
Source: Bureau of Economic Analysis / Haver Analytics.

The reduction in business investment slowed dramatically in the second quarter.



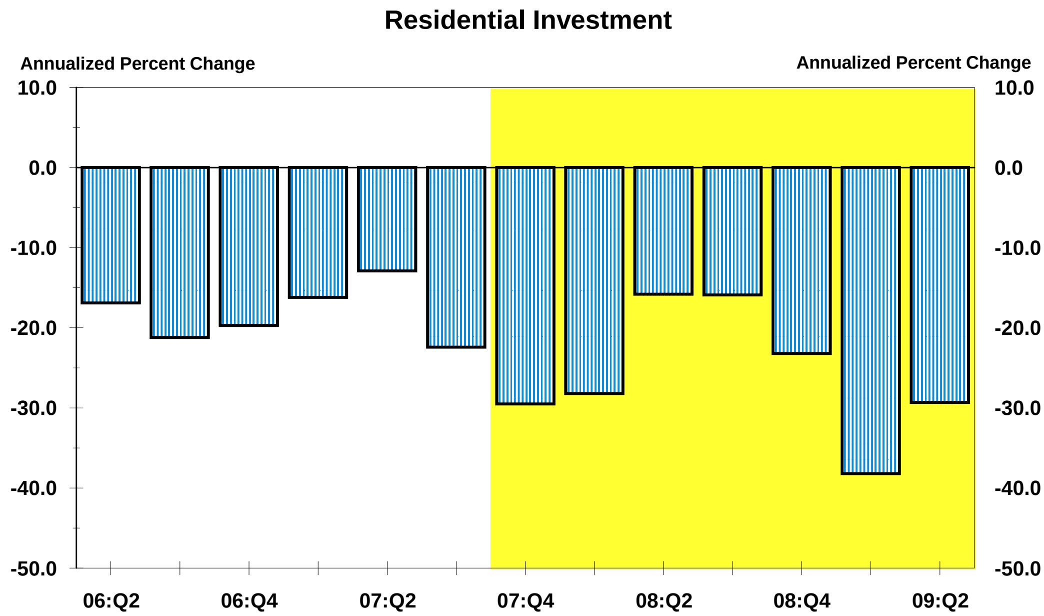
Source: Bureau of Economic Analysis / Haver Analytics.

Durable goods orders posted another significant drop in the second quarter, as did orders for nondefense capital goods, excluding aircraft.



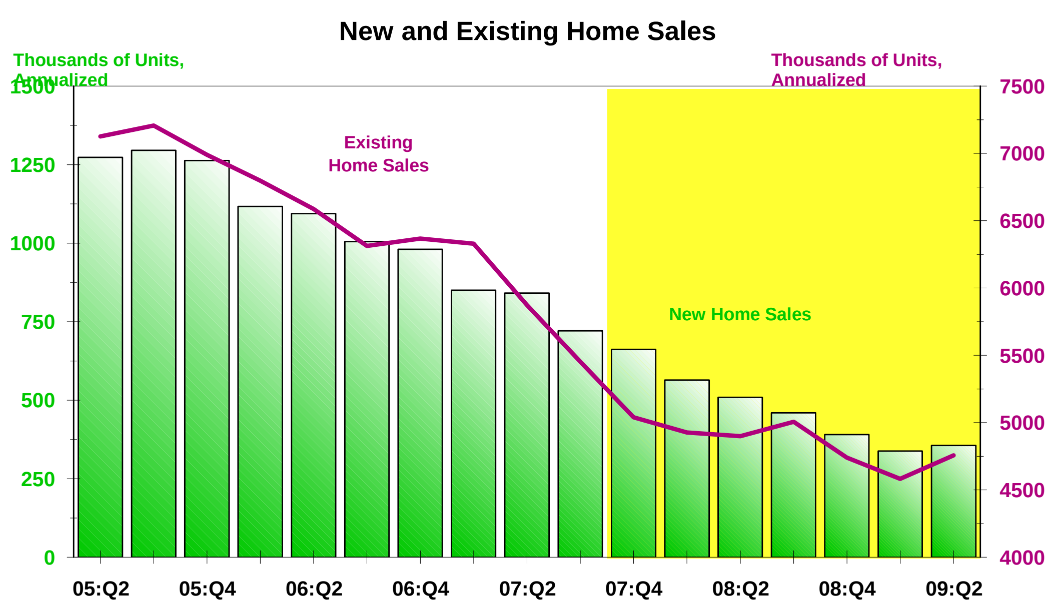
Source: U.S. Census Bureau / Haver Analytics.

Residential investment continued to fall in the second quarter, but at a slower rate than seen in the first quarter.



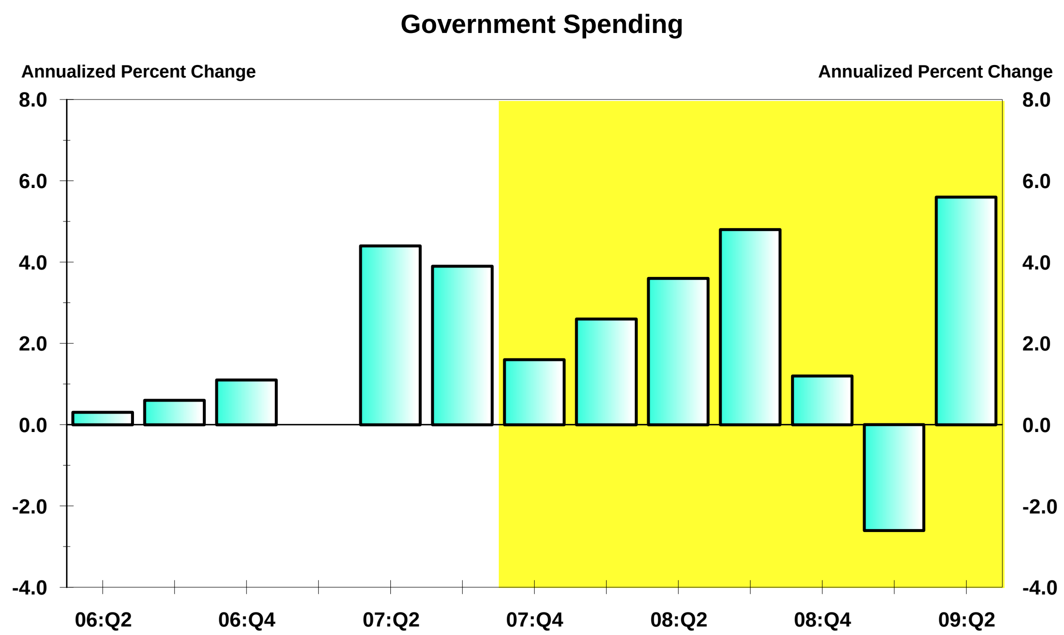
Source: U.S. Census Bureau / Haver Analytics.

Despite the significant decrease in second quarter residential investment, sales data improved, suggesting the worst of the housing slump may be over. New and existing home sales both rose during the quarter, with the increase in new sales being the first since 2005:Q3. From their peaks in that quarter to their most recent troughs in 2009:Q1, new home sales fell almost 75% and existing sales fell over 35%.



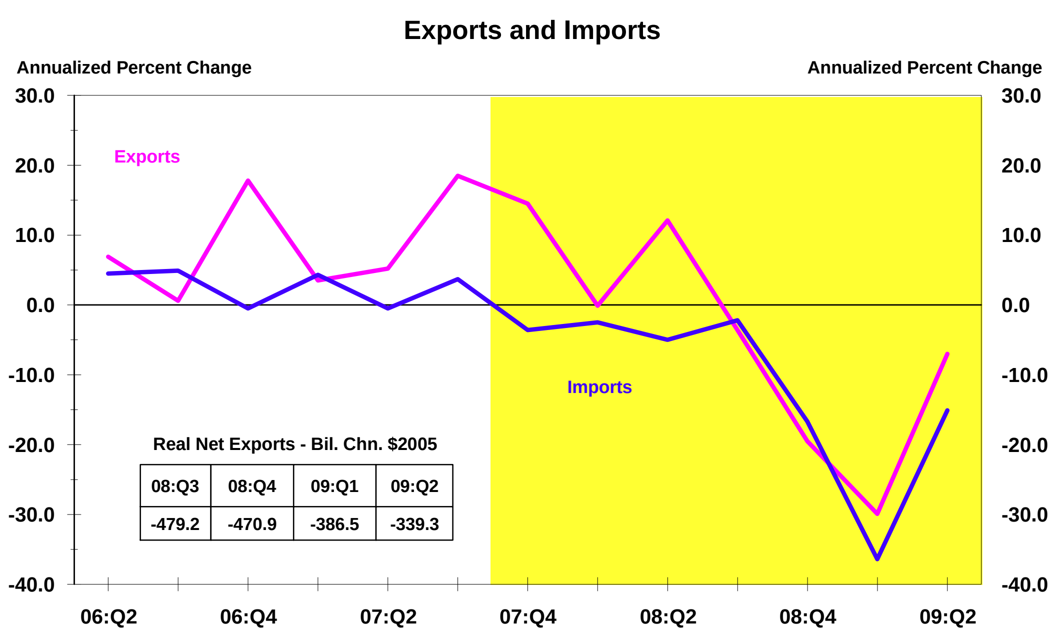
Source: U.S. Census Bureau / Haver Analytics.

Government spending rebounded in the second quarter, posting its largest increase in six years.



Source: Bureau of Economic Analysis / Haver Analytics.

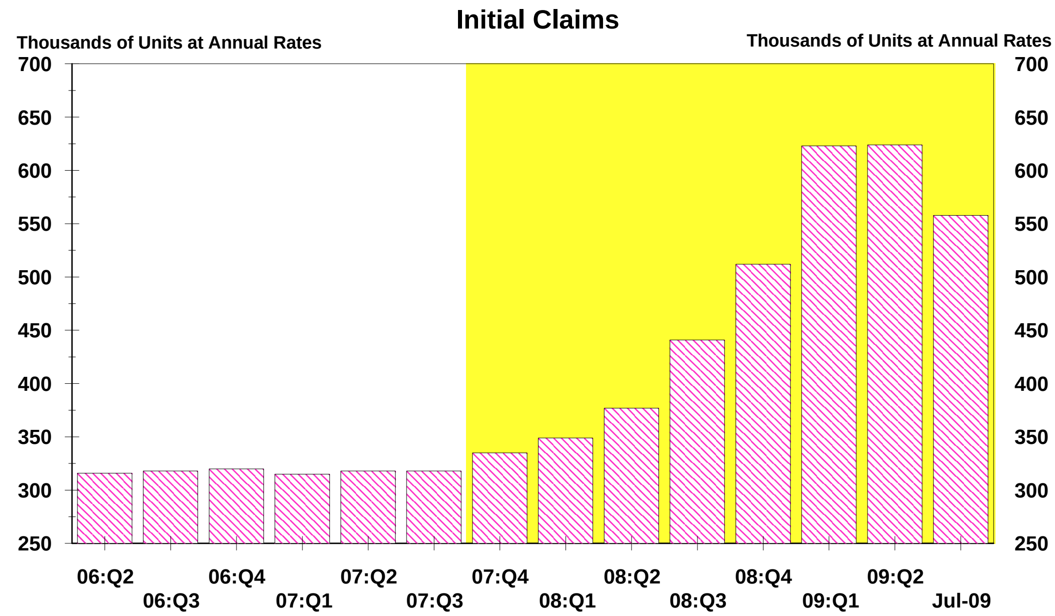
Net exports rose to their highest point in ten years during the second quarter, as imports decreased at a faster pace than exports.



08:Q3	08:Q4	09:Q1	09:Q2
-479.2	-470.9	-386.5	-339.3

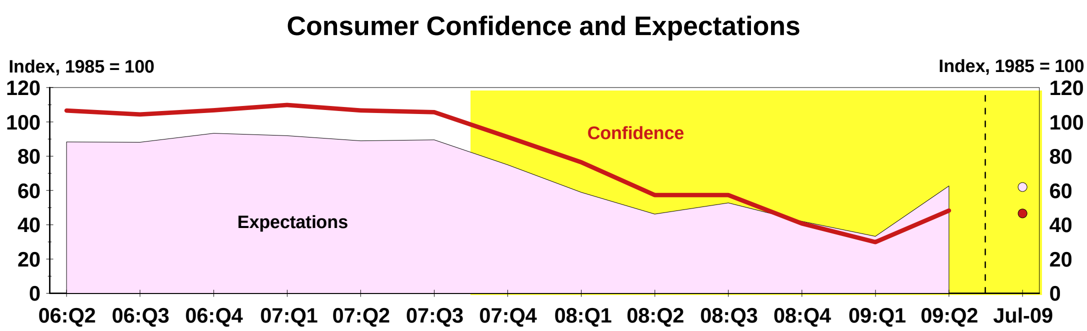
Source: Bureau of Economic Analysis / Haver Analytics.

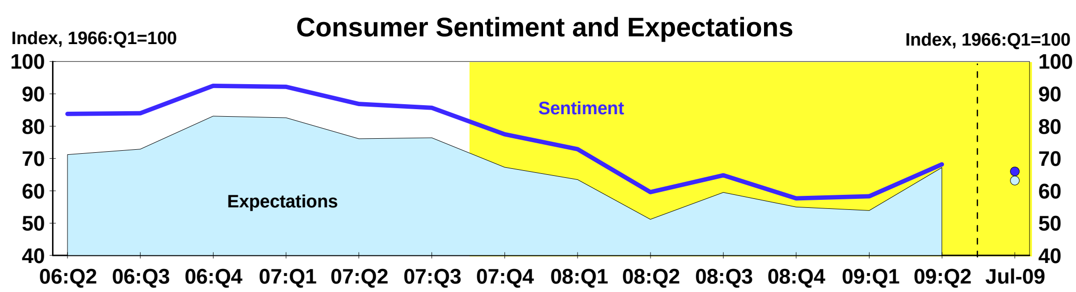
Initial claims for unemployment insurance eased considerably in July, averaging 100,000 fewer per week during the month than seen during their March peak.



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

Consumer attitudes were mostly unchanged in July from their second quarter averages, but were down slightly from June. Respondents are primarily concerned with current job market conditions and their income expectations in the near future.

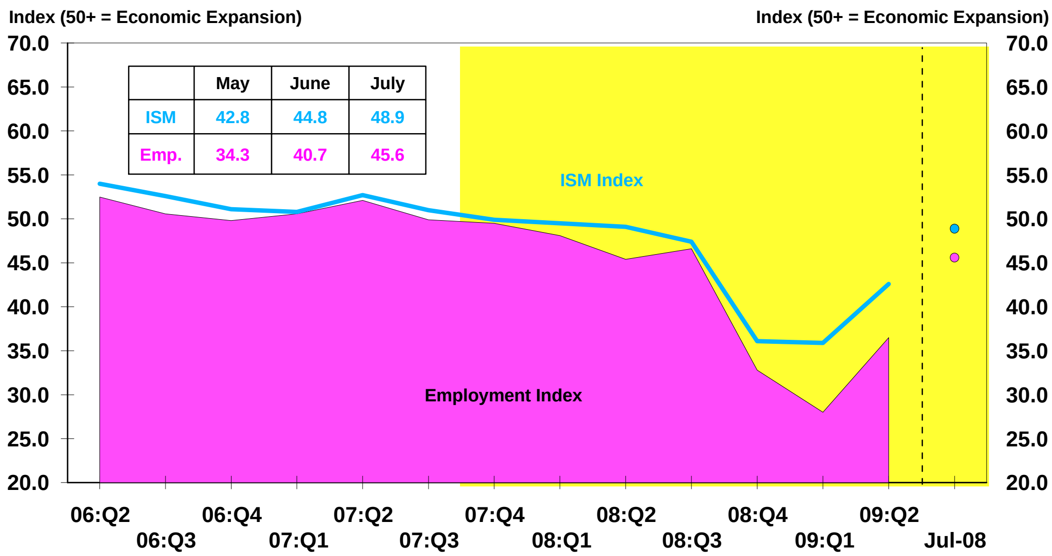




Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

The ISM manufacturing and employment indices improved significantly in the second quarter, and continued to rise in July. The July estimates for both series represent 12-month highs.

ISM Index

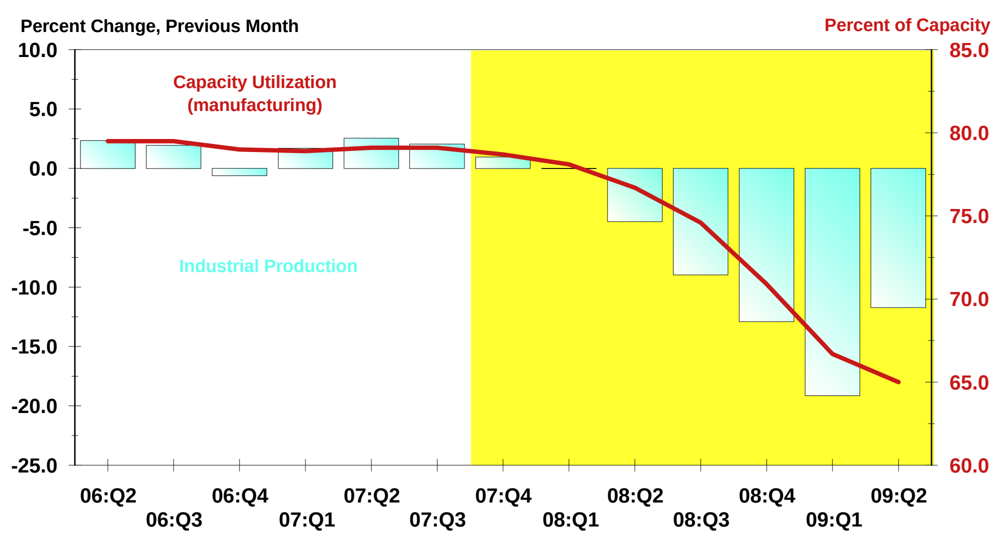


	May	June	July
ISM	42.8	44.8	48.9
Emp.	34.3	40.7	45.6

Source: Institute for Supply Management / Haver Analytics.

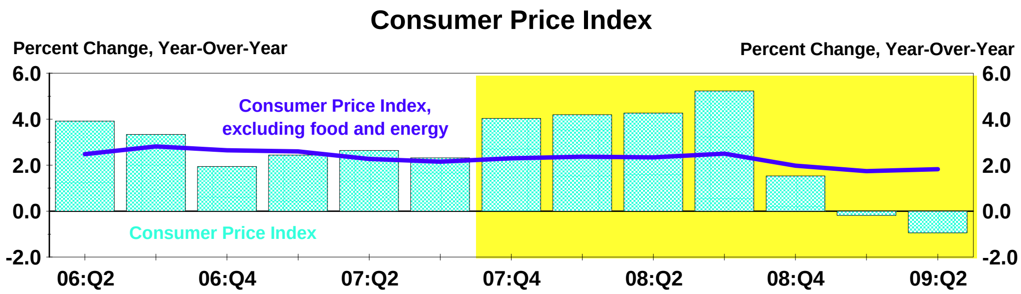
Industrial production posted another sharp decline in the second quarter, and capacity utilization fell to its worst quarter on record.

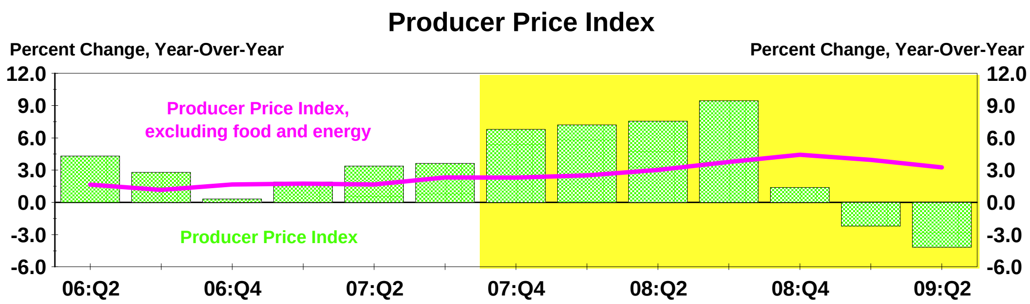
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

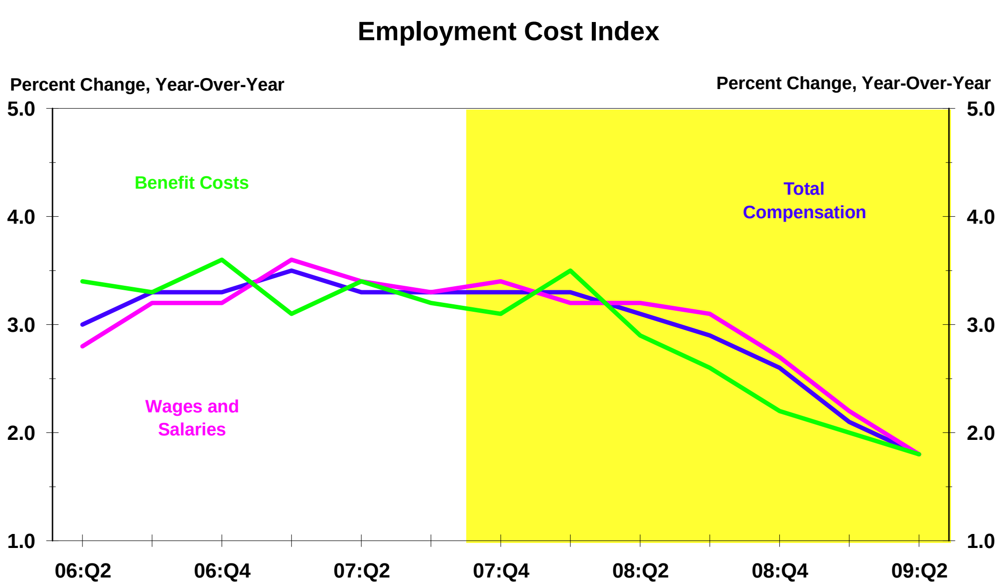
Total consumer prices fell again in the second quarter, while core prices picked up a bit. Total producer prices also decreased, and core prices slowed.





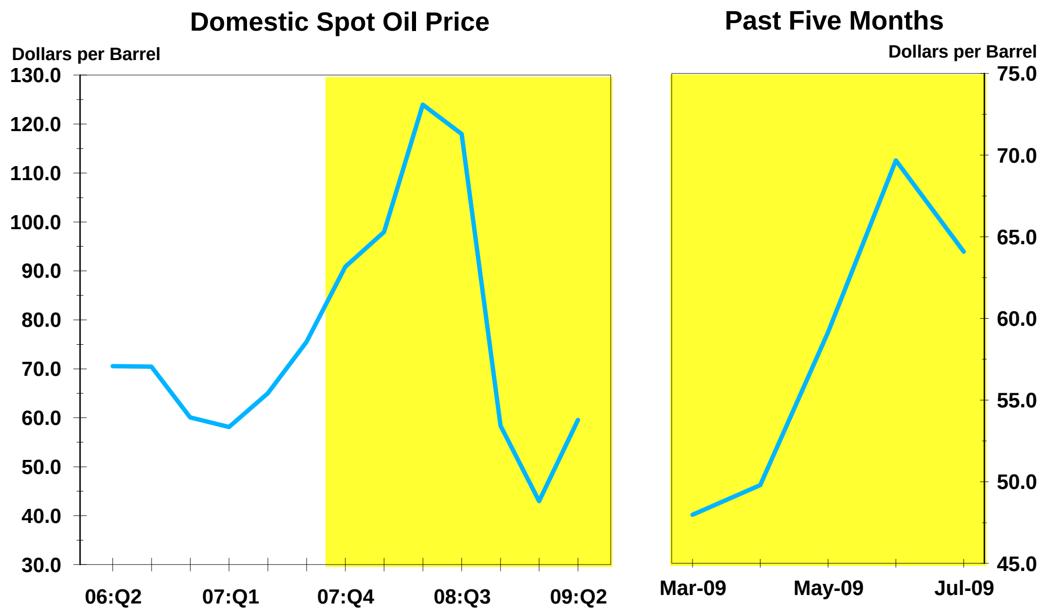
Source: Bureau of Labor Statistics / Haver Analytics.

In the second quarter, total employment costs grew at their slowest pace on record as benefit costs and wages and salaries continued to decelerate.



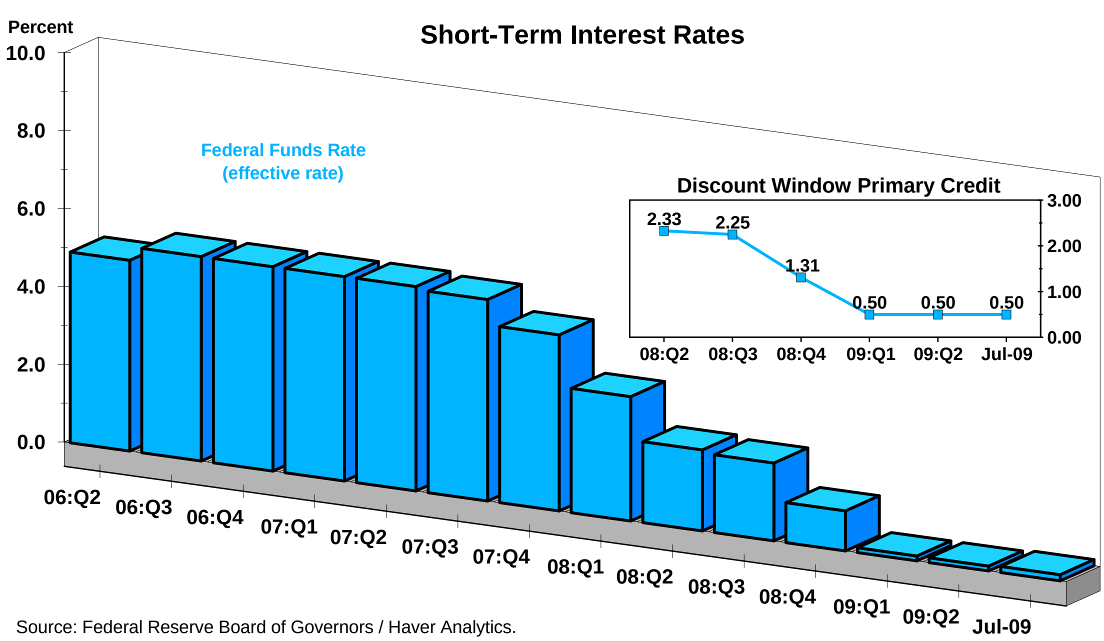
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices receded in July after rising throughout the second quarter.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economic contraction is lessening in severity. GDP growth was negative in the second quarter, but the drop was smaller than those seen in the previous three quarters. Signs of a potential recovery in the housing market are mounting, but a weak employment situation that will be slow to recover is keeping consumers pessimistic.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

August 13, 2009

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

The employment situation remained dour in July, as nonfarm payrolls were reduced by another quarter-million jobs. Job losses for the previous two months were revised downward, however, helping the unemployment rate post a small yet surprising decrease to 9.4%.

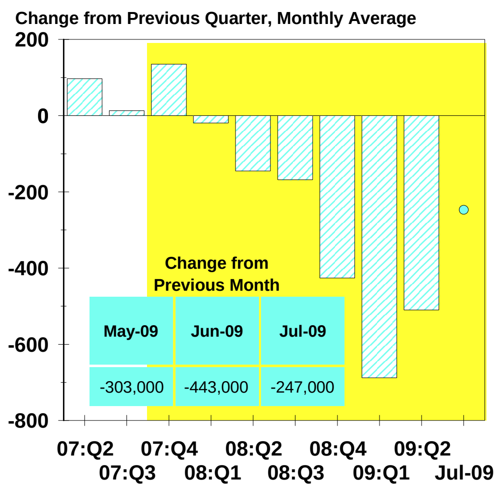
Productivity grew 6.4% in the second quarter, after increasing 0.3% in the first quarter. Unit labor costs fell 5.8%, but compensation per hour advanced 0.2%.

In recent data released for June, wholesale inventories fell 1.7% and sales increased 0.4%. Also in June, the U.S. foreign trade deficit widened slightly, as the first increase in imports in 11-months outpaced a smaller increase in exports.

Redbook sales decreased 0.5% through the first week of August, compared to July. Sales were 4.2% lower than during the same period last year. Oil prices rose during the past week, averaging $70.98 per barrel compared to last week's average of $68.55.

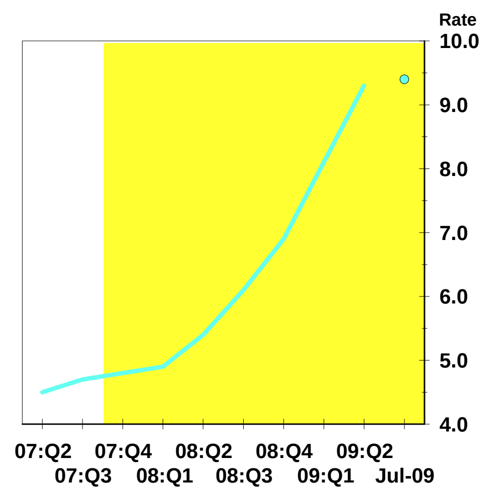
Nonfarm payrolls shed another 247,000 jobs in July, but that was the smallest drop in nearly a year. The unemployment rate decreased by one-tenth of a percentage point in July, but was up slightly from its second quarter average.

Nonfarm Payroll Employment



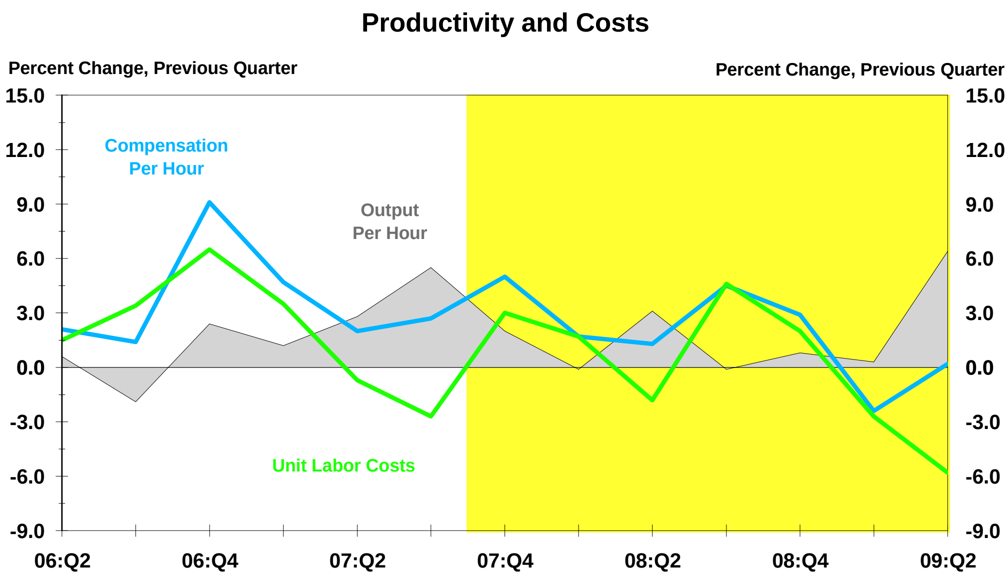
May-09	Jun-09	Jul-09
-303,000	-443,000	-247,000

Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytcis.

Productivity grew at its fastest pace in nearly six years during the second quarter, the result of hours worked declining faster than output. Unit labor costs posted their biggest drop in eight years thanks to the productivity improvement, and hourly compensation increased slightly.



Source: Bureau of Labor Statistics / Haver Analytics.