FEDERAL RESERVE
BANK OF BOSTON™

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

August 5, 2010

CURRENT ECONOMIC DEVELOPMENTS - August 5, 2010

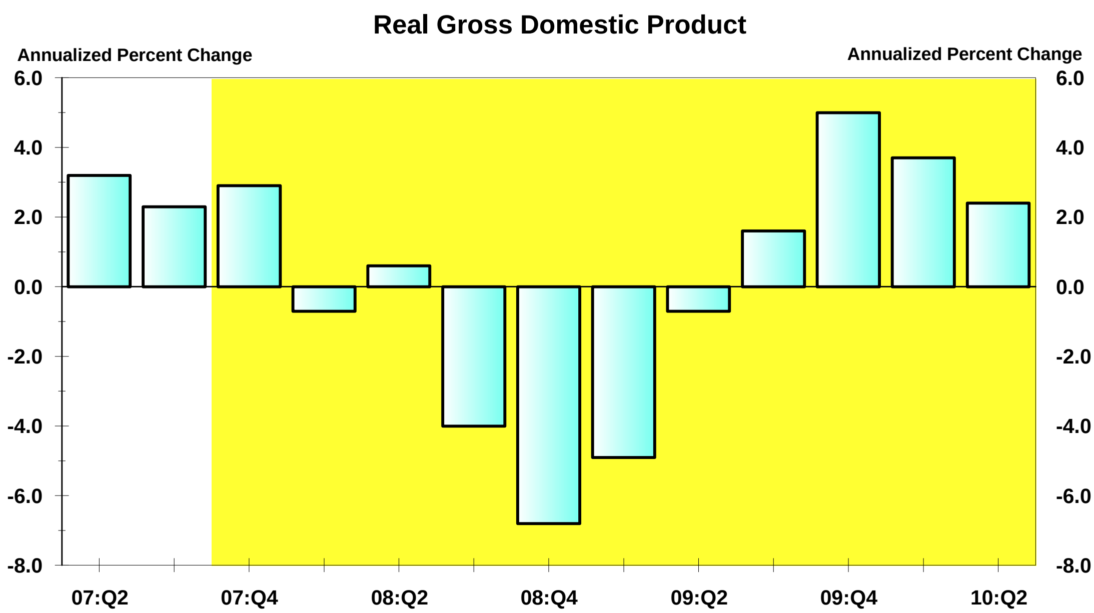
Data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter, and that the recession was deeper than previously estimated. Business investment continued to support the economy in the second quarter, as did consumption to a lesser extent. The strength of the recovery moving forward will rely heavily on additional and more robust increases in employment.

The increase in real GDP in the second quarter primarily reflected positive contributions from fixed investment, exports, consumption, inventory investment and federal government spending. First quarter growth was revised upward due primarily to much stronger business investment, while consumption was revised slightly lower.

Initial claims for unemployment insurance eased a bit in July, but remain little changed from where they stood at the beginning of the year. Consumer attitudes worsened in July amid continued job and income concerns and newer worries about the slowing recovery. Data from the manufacturing sector continue to support growth in investment. The ISM index eased in July, but held well above 50, and the forward-looking orders of capital goods nondefense excluding aircraft measure posted a strong gain in the second quarter, boding well for future investment.

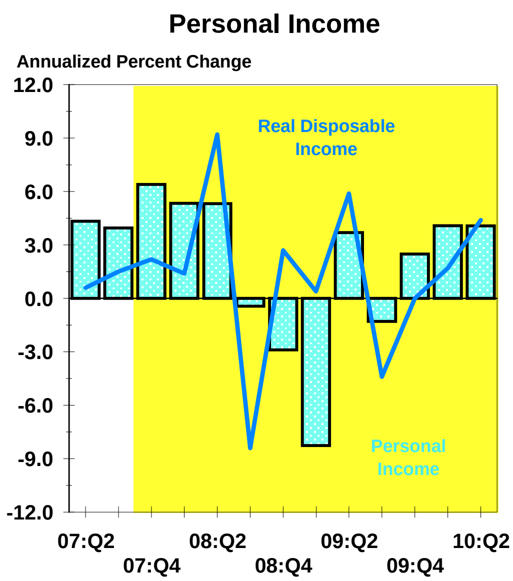
Total consumer prices slowed in the second quarter, and core inflation fell to a near-record low. Compensation costs, as measured by the ECI, however, accelerated for the second consecutive quarter. Oil prices rose a bit in July and moved above $80 in early August for the first time in three months.

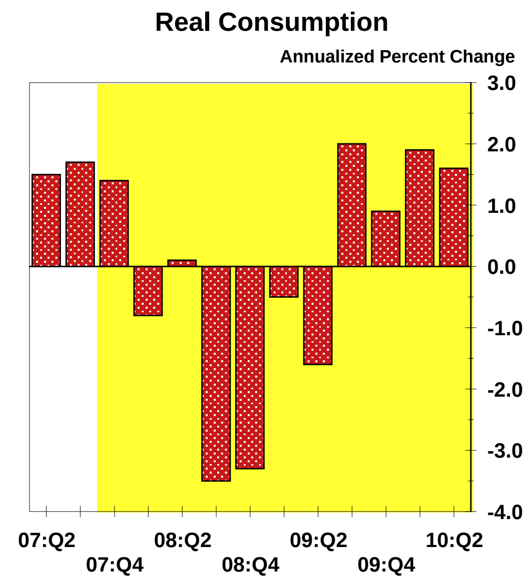
The smaller increase in real GDP in the second quarter primarily reflected an acceleration in imports and a deceleration in private inventory investment. Those effects were partly offset by an upturn in residential investment, an acceleration in nonresidential investment, and increased government spending.



Source: Bureau of Economic Analysis / Haver Analytics.

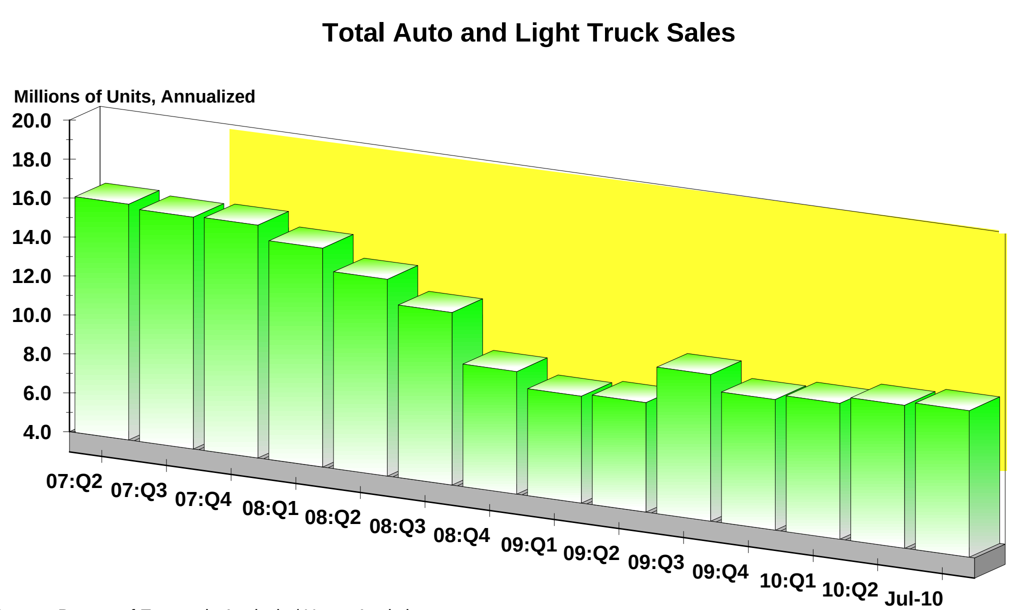
Incomes rose further in the second quarter, aiding another increase in consumption. Over the past year consumption has contributed to the recovery, however additonal spending on domestic goods is necessary to support stronger growth.





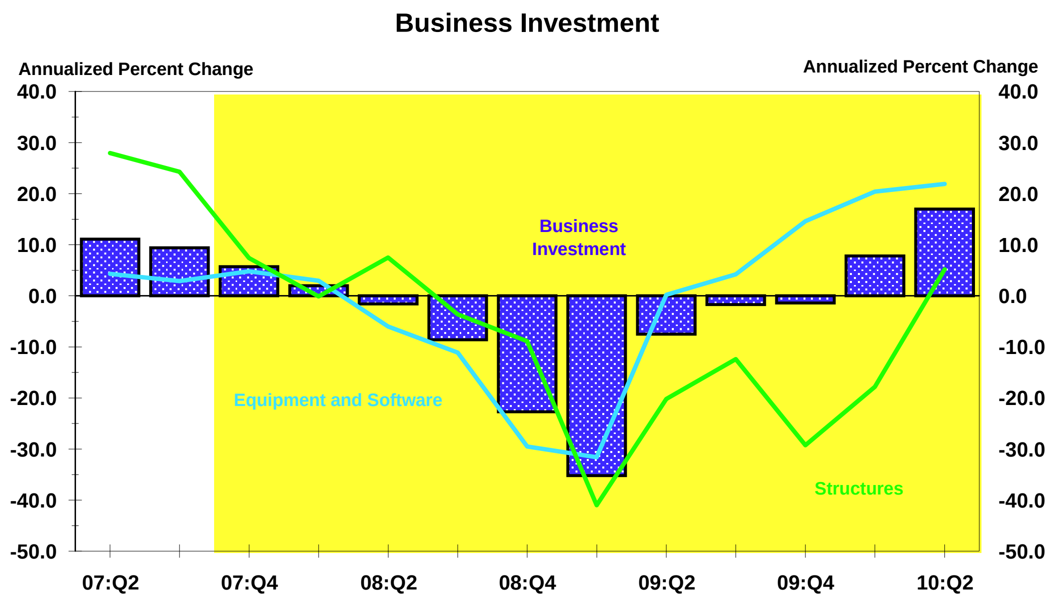
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales rose slightly in July from their second quarter average. July was also the ninth consecutive month with a year-over-year improvement in sales, a streak that was in jeopardy as July 2009 marked the start of the 'Cash-for-Clunkers' rebate program which boosted sales following the worst of the recession.



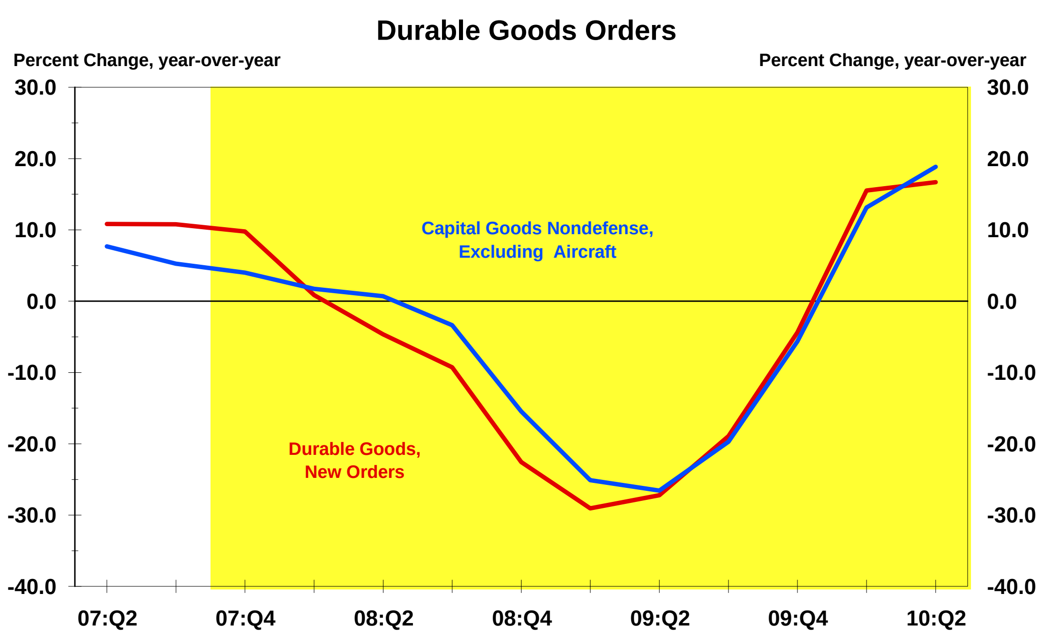
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment posted a solid gain in the second quarter, growing at its fastest pace in over four years. Investment in nonresidential structures turned positive in the second quarter for the first time since 2008:Q2.



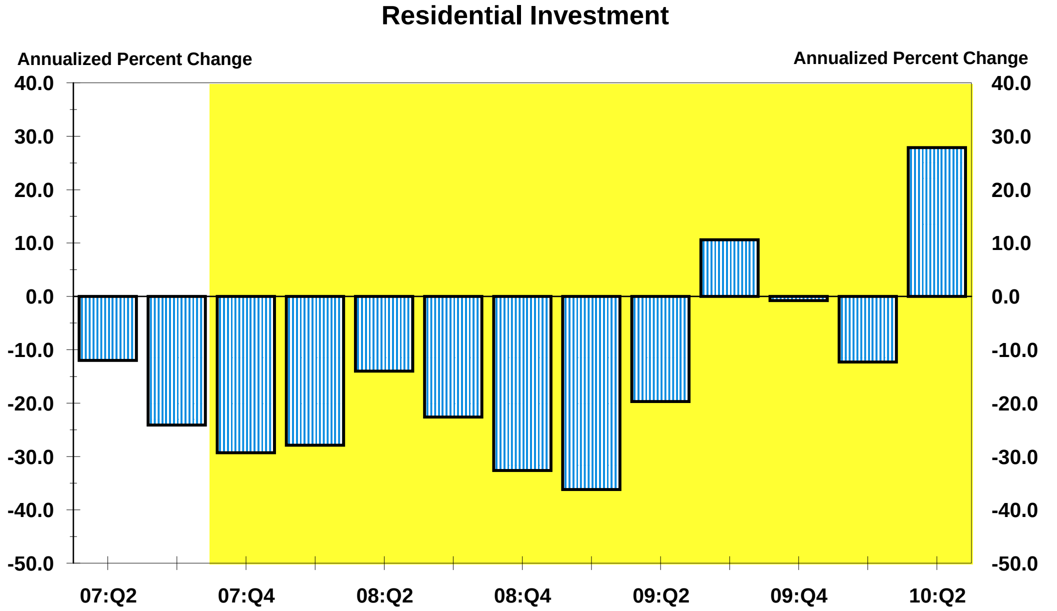
Source: Bureau of Economic Analysis / Haver Analytics.

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



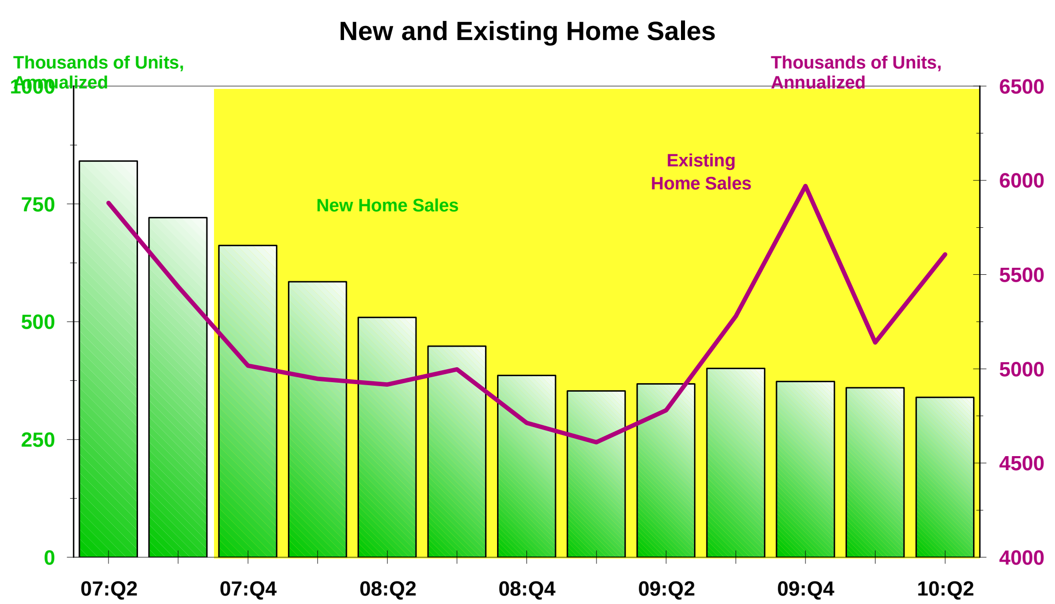
Source: U.S. Census Bureau / Haver Analytics.

Residential investment surged in the second quarter, buoyed by the expanded stimulus tax credit for home buyers. How the real estate market performs in the coming months without the rebate will be a better indicator of how strong the recovery in residential investment is, and if it will continue.



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

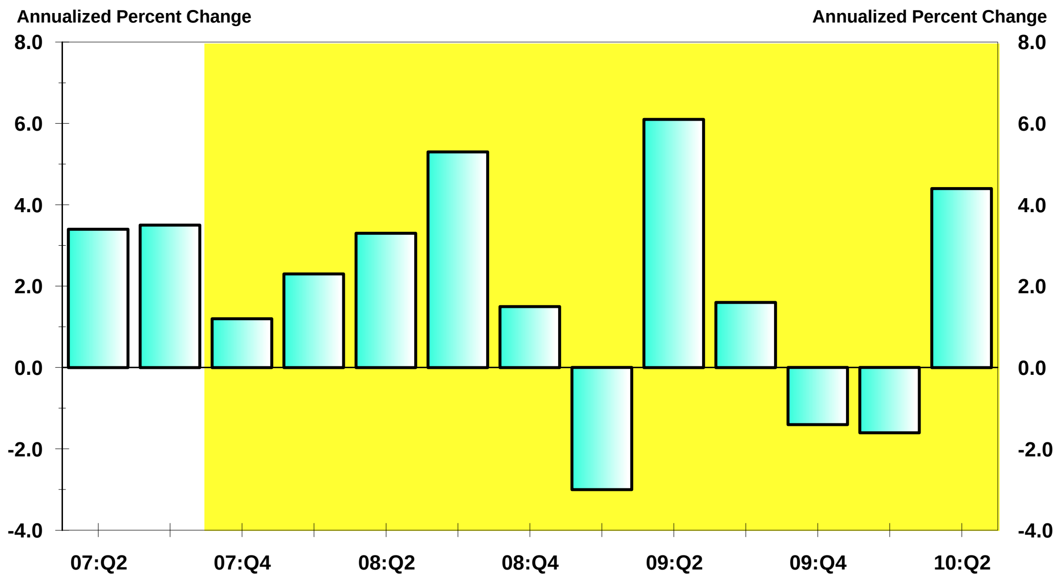
Home sale data was mixed in the second quarter, due in part to how the home-buyer tax credit effected each series. Some rebate-eligible existing sale closings continued to take place in May and June helping support sales. But all new home sales were ineligible after April 30, contributing to a record-low sales pace in May which dragged down the overall average for the quarter.



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

Government spending rebounded in the second quarter, more than offsetting the declines seen the previous two quarters. While most of the increase was due to a surge in nondefense federal spending, state and local spending managed to post its first increase since the spring of 2009.

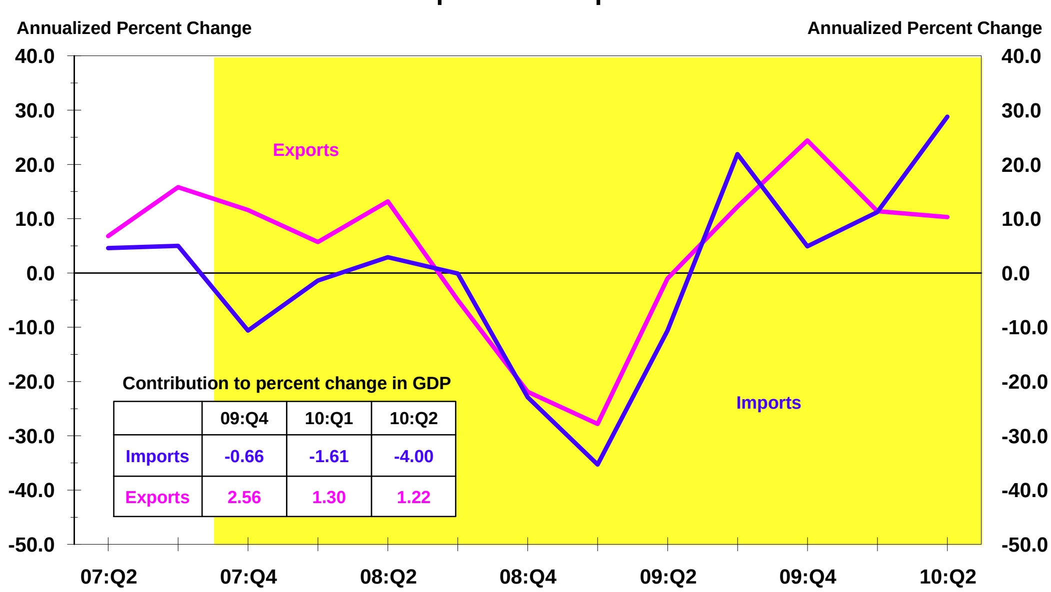
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

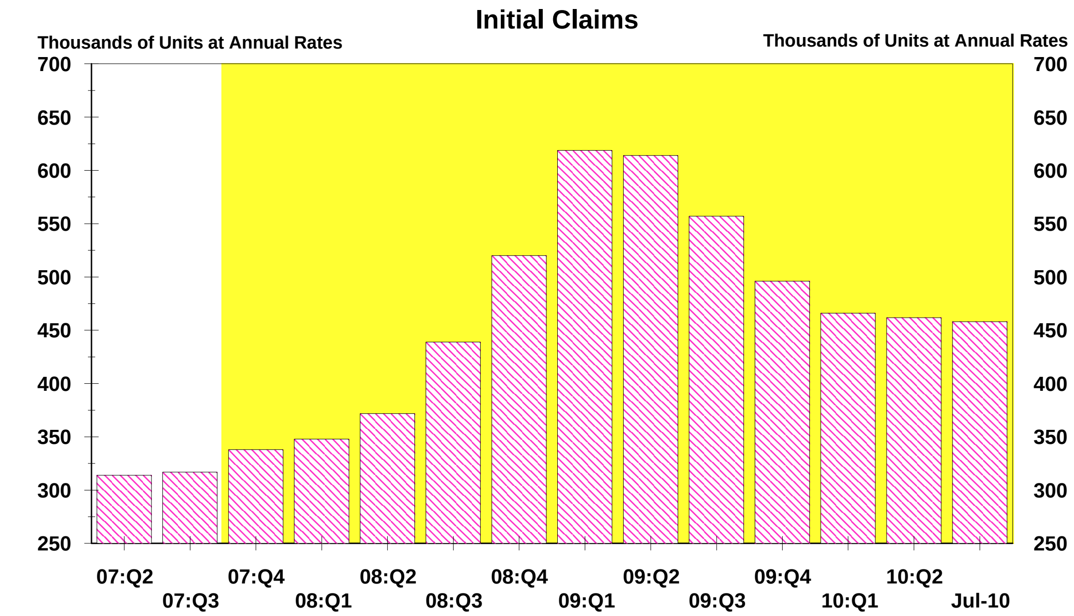
Imports shot up in the second quarter at their fastest rate since 1984:Q1, and subtracted 4.0% from the GDP growth rate. Exports slowed slightly, but were still strong enough to offset about one-third of the import effect.

Exports and Imports



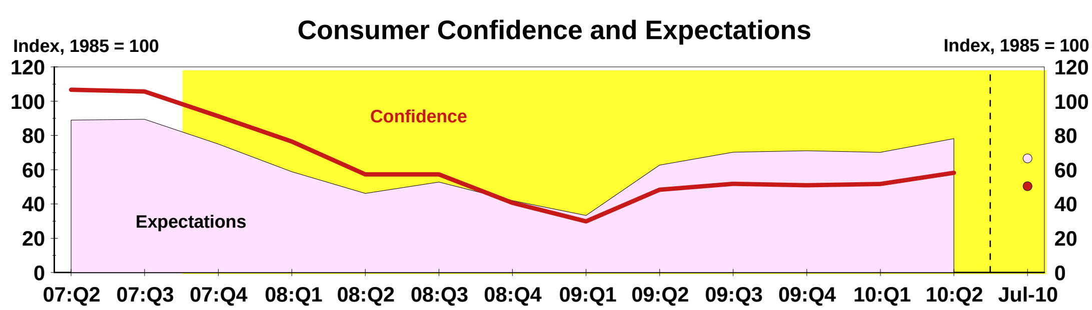
Source: Bureau of Economic Analysis / Haver Analytics.

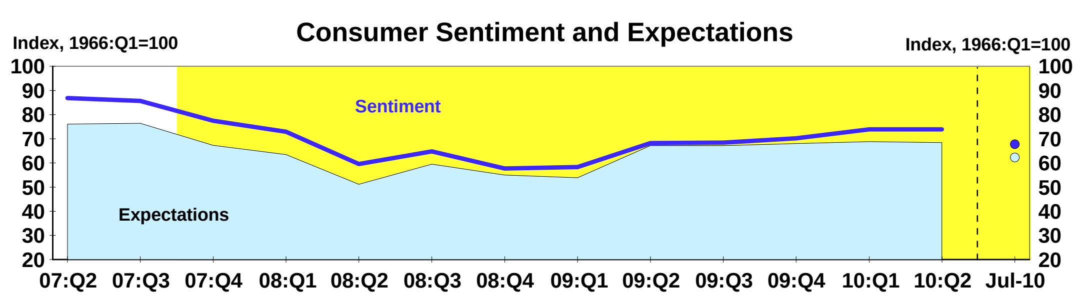
Initial claims for unemployment insurance were little changed in the second quarter, and continued to hold mostly steady in July.



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

Measures of consumer attitudes deteriorated in July, as respondents remained concerned about their income and employment prospects. The longer income expectations remain subdued, the more likely a shift to more cautious spending habits becomes.

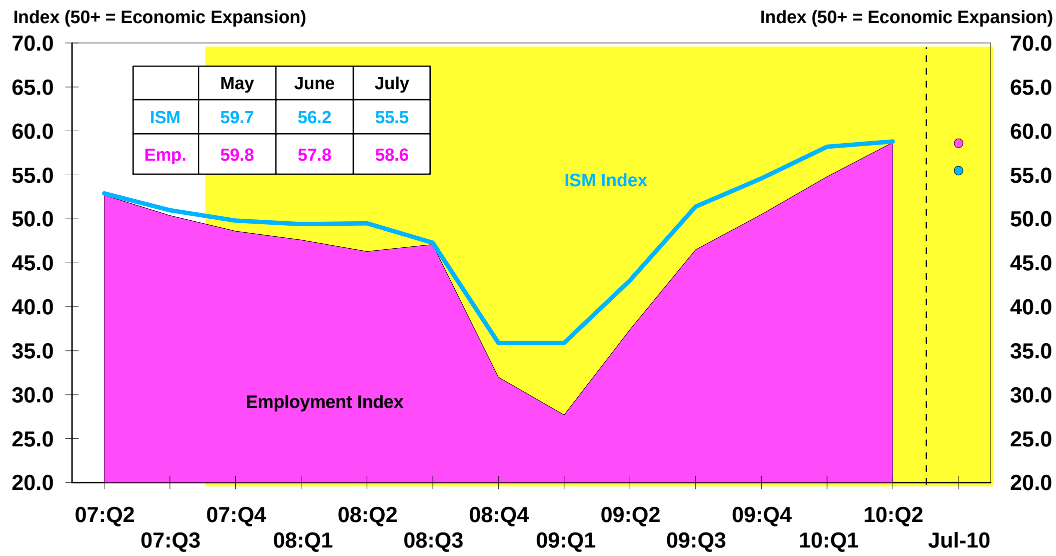




Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Both the ISM manufacturing and employment indices reached six-year highs in the second quarter, and remained well above 50 in July.

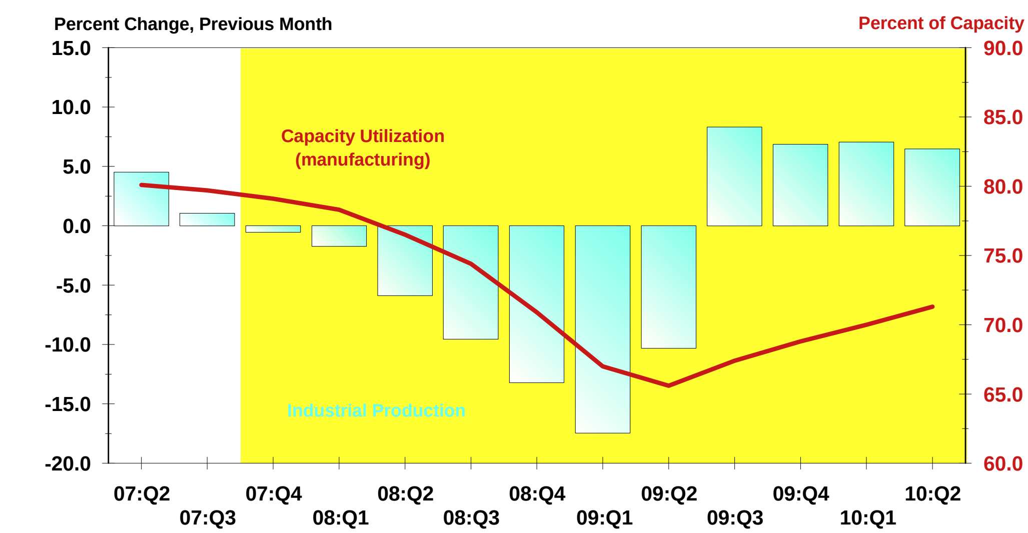
ISM Index



Source: Institute for Supply Management / Haver Analytics.

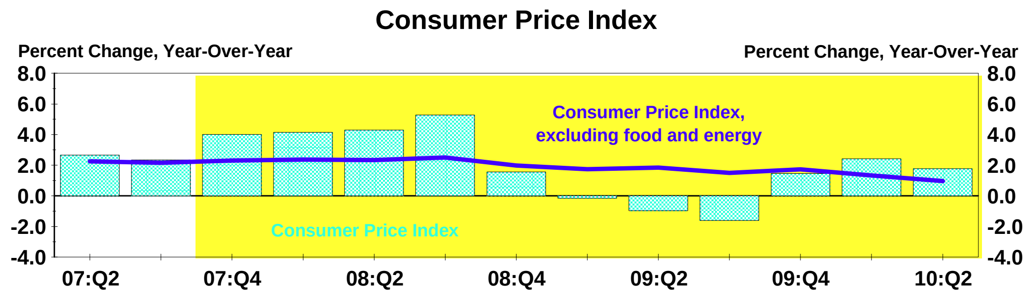
Industrial production and capacity utilization both continued to improve in the second quarter, due primarily to gains in April and May. In June, production was essentially flat and capacity fell slightly.

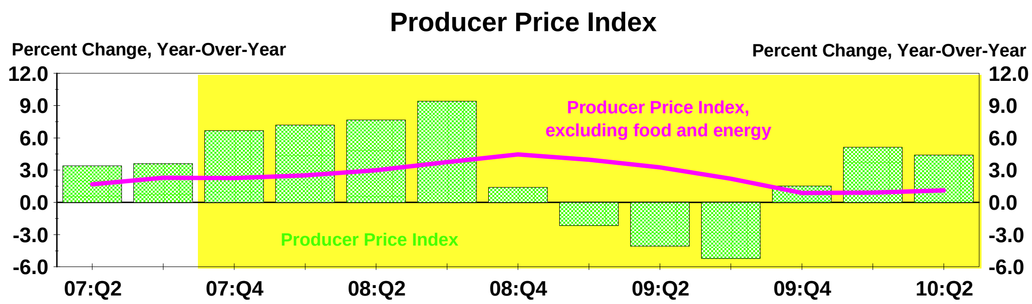
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

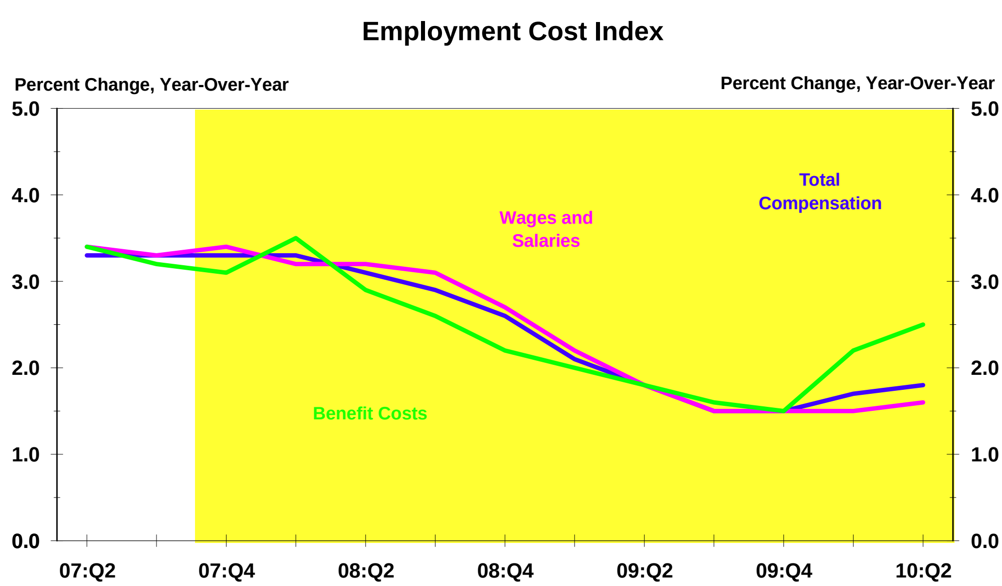
Consumer inflation eased in the second quarter, with the core index advancing at nearly its slowest pace on record, second only to the 0.9% gain seen in 1961:Q1. Producer prices also eased, although the core index picked up slightly.





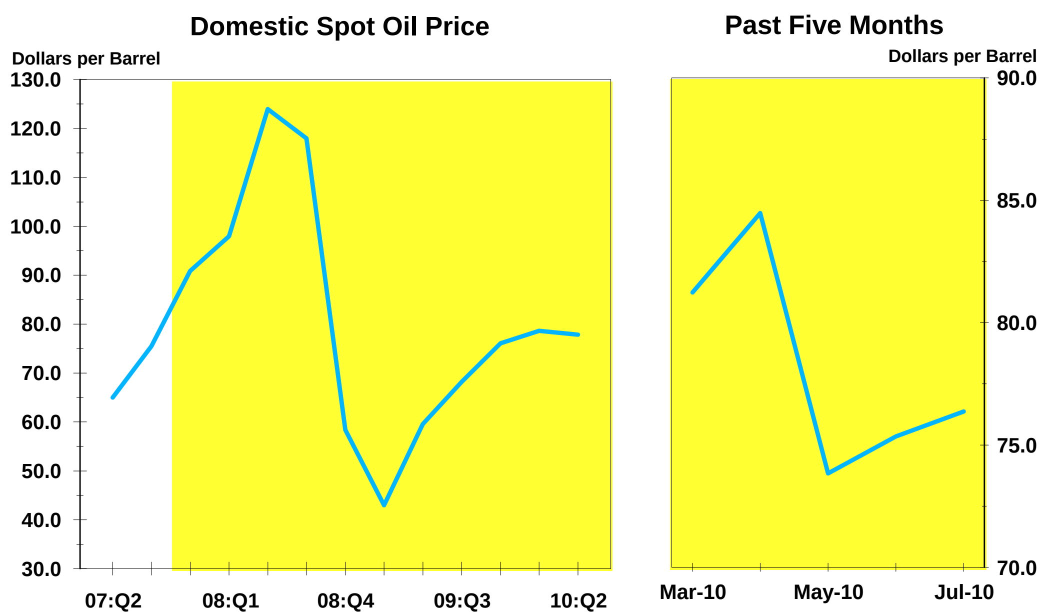
Source: Bureau of Labor Statistics / Haver Analytics.

Growth in wages and salaries has held mostly steady over the past year, but total compensation costs have accelerated over the past two quarters as benefit costs have taken off.



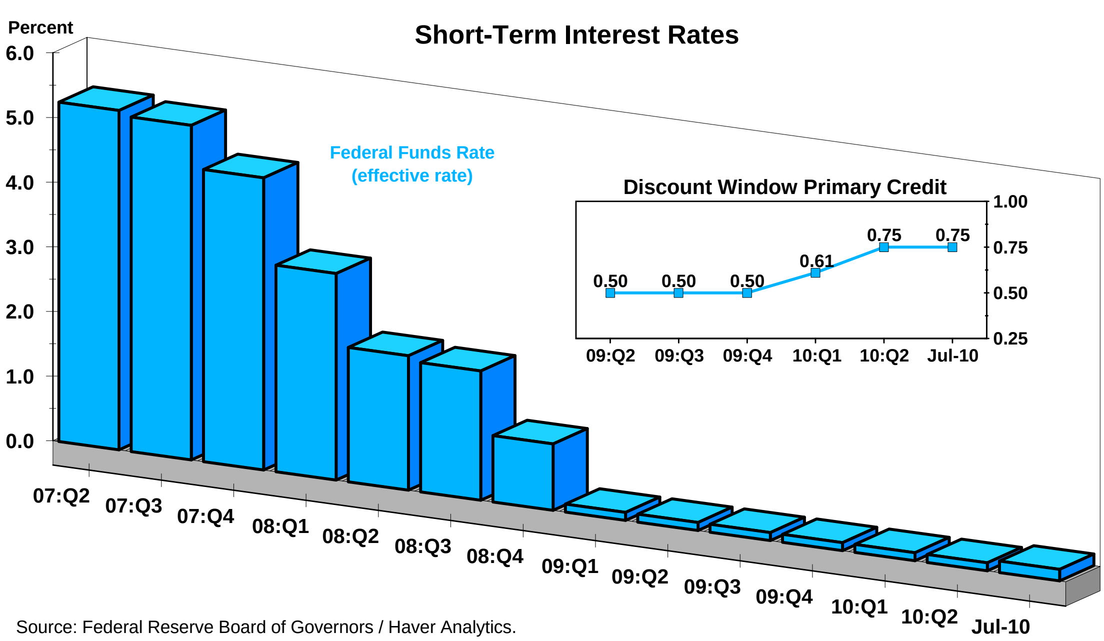
Source: Bureau of Labor Statistics / Haver Analytics.

On average oil prices have held relatively steady through the first half of the year, hovering in the mid to upper 70s. They remained in that range through July as well.



Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy grew at a slower pace in the second quarter, and that the recession was deeper than previously estimated. Business investment continued to support the economy in the second quarter, as did consumption to a lesser extent. The strength of the recovery moving forward will rely heavily on additional and more robust increases in employment.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

August 12, 2010

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

The employment situation report for July was less than promising, but did show signs that the labor market is continuing its slow healing process. Headline numbers were once again dragged down by the reduction of temporary Census 2010 workers, but private payrolls expanded and have increased every month this year. Also in July, the average workweek and average hourly earnings both increased slightly.

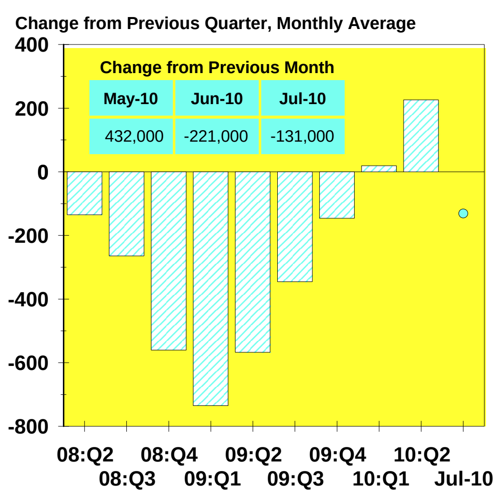
Productivity fell 0.9% in the second quarter, its first decrease since late 2008. Unit labor costs inched up 0.2%, but compensation per hour fell 0.7%.

The U.S. international trade deficit widened sharply in June, as imports grew more than expected and exports fell more than expected. The June trade gap was the largest since October 2008.

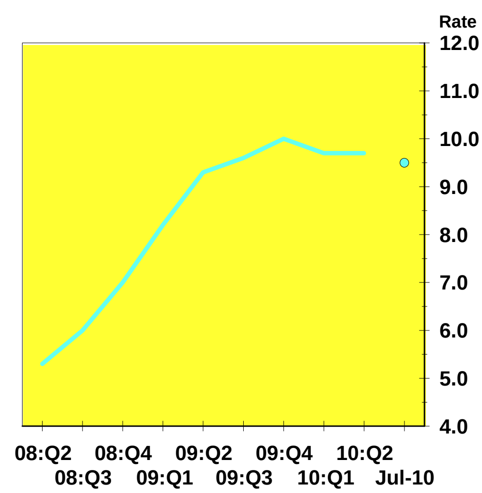
Given the amount of uncertainty surrounding future spending, this report includes a brief look at underlying measures of consumer confidence which show employment conditions and future income concerns continue to weigh on consumers' overall attitudes.

Nonfarm payrolls shed 131,000 jobs in July, and the job loss in June was revised larger by almost 100,000. While the recent declines have been due primarily to the reduction of temporary Census workers, gains in private employment have averaged only 50,000 over the past three months. The unemployment rate was unchanged in July from June, but down two-tenths from the second quarter average.

Nonfarm Payroll Employment

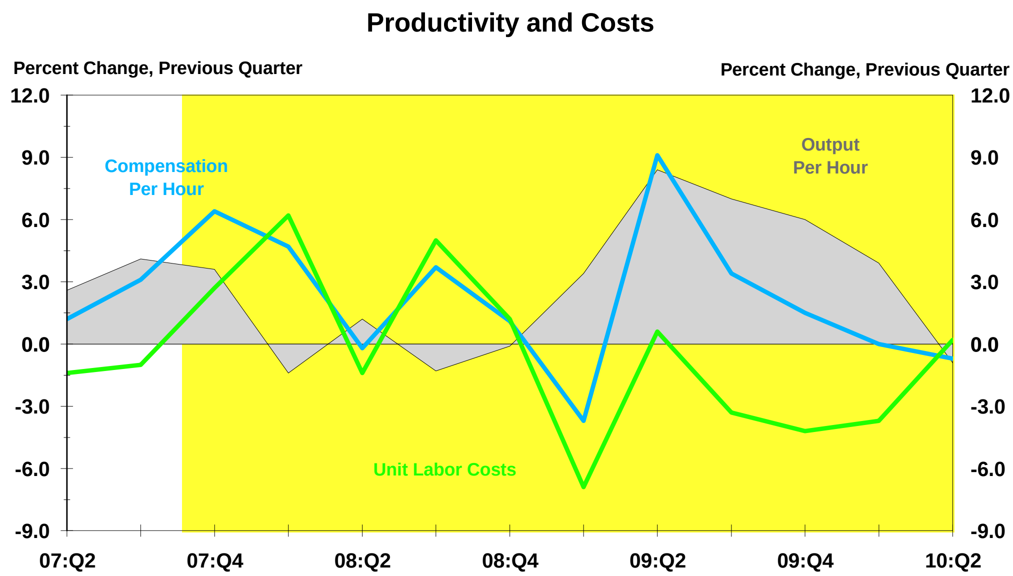


Unemployment Rate



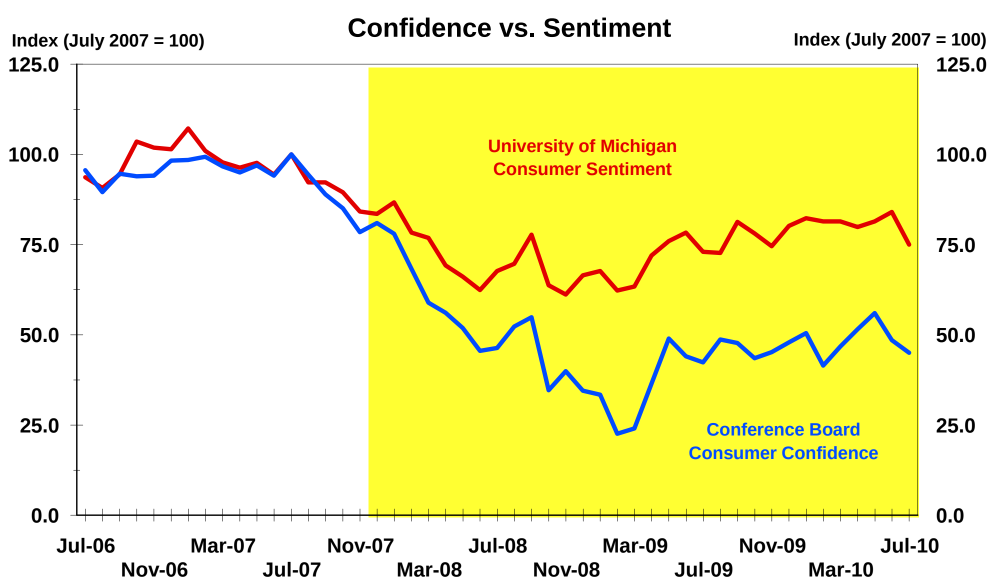
Source: Bureau of Labor Statistics / Haver Analytcis.

Productivity decreased for the first time in over a year during the second quarter, the result of hours worked increasing faster than output. Unit labor costs were mostly unchanged after falling for three consecutive quarters, and hourly compensation fell.



Source: Bureau of Labor Statistics / Haver Analytics.

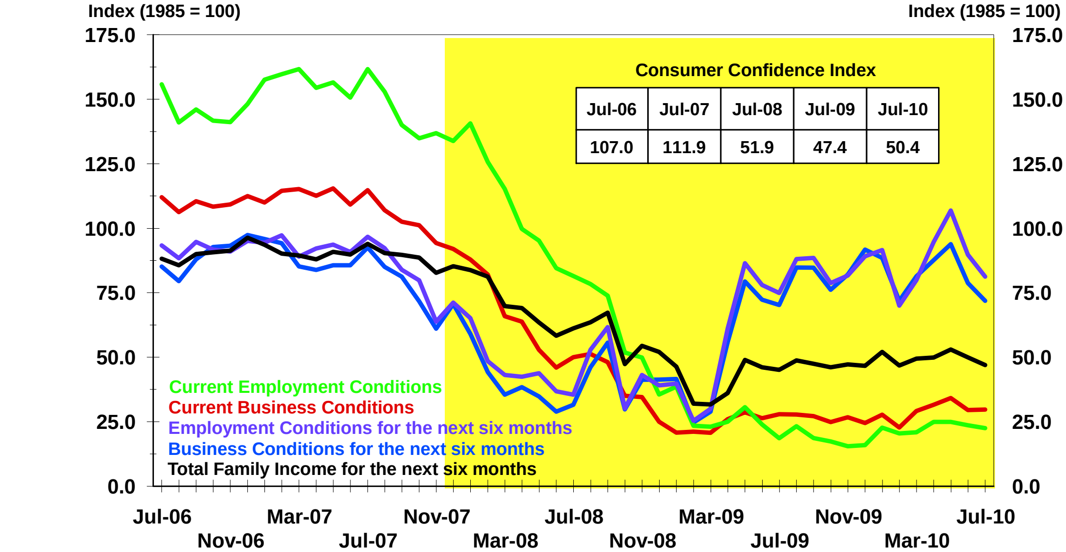
The recession has had a deeper impact on the Conference Board survey, with the index falling more sharply and for a longer period of time. While consumer sentiment marked its low-point during the recession in November 2008, having fallen nearly 40% from its recent pre-recession peak in July 2007, confidence didn't bottom out until three months later in February 2009, by which point it had fallen over 75%.



Source: The Conference Board and The University of Michigan / Haver Analytics.

Views on current employment conditions experienced the largest drop among the contributors to the confidence index, falling nearly 90 percent over the past three years. Despite ongoing concerns about current conditions and future income, opinions about business and employment conditions six months ahead recovered in the spring of last year and continue to hover close to their pre-recession levels.

Consumer Confidence Detail

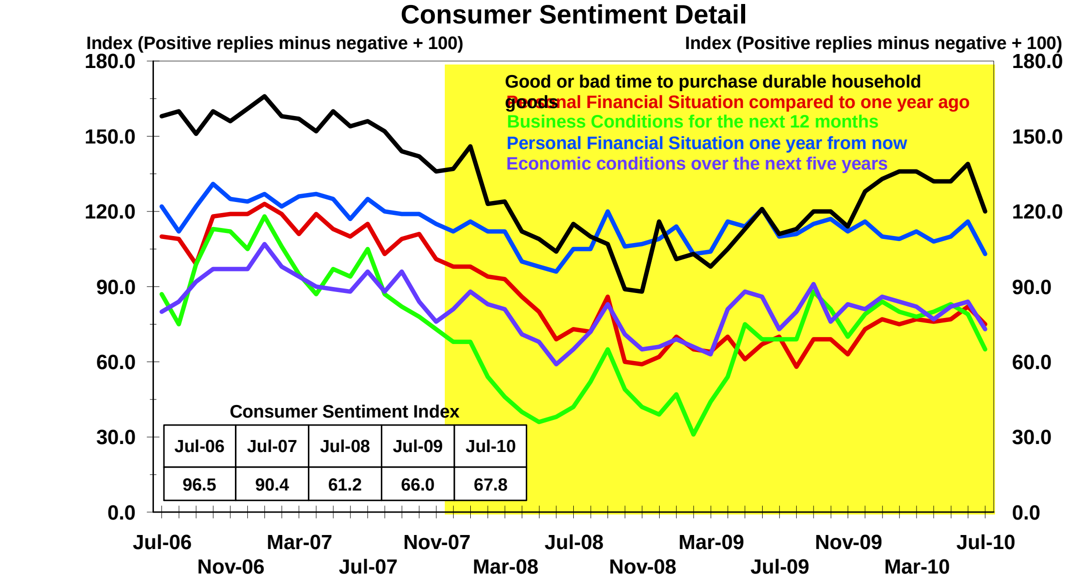


Jul-06	Jul-07	Jul-08	Jul-09	Jul-10
107.0	111.9	51.9	47.4	50.4

Note: The responses to these five questions are combined, by equal weights, to form the total Confidence index.
Source: The Conference Board / Haver Analytics.

In the early stages of the recession, while sentiment was rapidly deteriorating, respondants consistently found their financial situation worsening compared to the previous year and also increasingly shied away from making household purchases. At the same time, the data reveals a personal confidence in one's ability to avoid the recession. When asked to consider conditions one year in the future, respondants displayed little change in assessing their personal finances while simultaneously expecting business conditions to worsen greatly.

Consumer Sentiment Detail



Jul-06	Jul-07	Jul-08	Jul-09	Jul-10
96.5	90.4	61.2	66.0	67.8

Note: The responses to these five questions are combined, by equal weights, to form the total Sentiment index.
Source: The University of Michigan / FAME.