FEDERAL RESERVE BANK OF BOSTON™

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

July 1, 2010

Current Economic Developments - July 1, 2010

Data released since your last Directors' meeting show the pace of the economic recovery was slower in the first quarter than previously thought. Data also suggest that growth improved a bit in the second quarter. Manufacturing remained an area of strength, while labor, housing, and financial markets continued to show weakness. As has been often repeated, further and greater increases in employment will be key in sustaining a robust recovery.

Initial claims for unemployment insurance increased slightly in June, and remain stuck well above their pre-recession levels. Consumer attitudes continued to be pessimistic in June, amid universal concerns over the economy, employment conditions and personal finances. Consumption posted a small gain in May but is unlikely to show any strong improvement before consumers can feel a direct impact from the slowly improving economy.

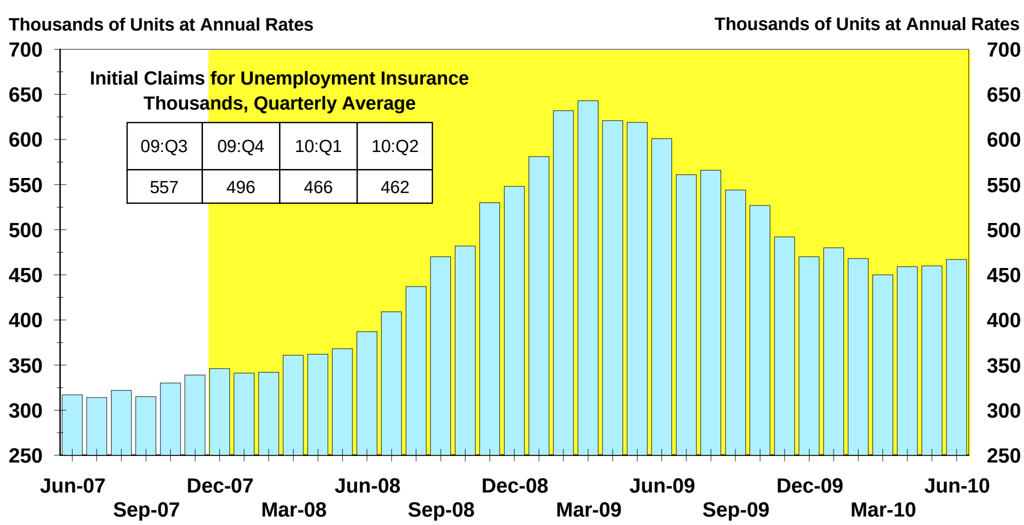
Housing and construction data deteriorated in May following the expiration of the home buyers stimulus program. New home sales fell to a record low, the pace of existing home sales slowed, and housing starts and building permits fell to their lowest rates of the year. On the positive side, house prices ticked up a bit in April and mortgage rates are hovering near record lows.

In the manufacturing sector, the ISM index decreased in June but remains above 50. In May, both industrial production and capacity utilization increased again. Orders for durable goods fell slightly in May from April, but remain up significantly from last year.

Consumer prices eased further in May, keeping inflation concerns to a minimum. Oil prices rose slightly in June, but were down on average in the second quarter compared to the first quarter.

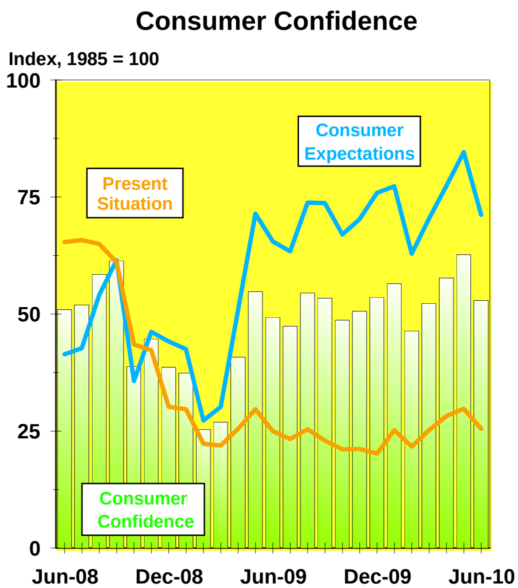
Initial claims for unemployment insurance increased a bit more in June, but overall have held mostly steady through the first half of 2010.

Initial Claims

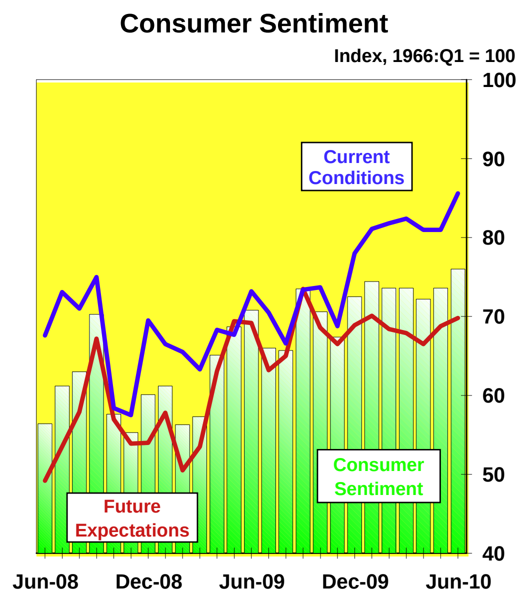


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes were mixed in June, as confidence fell sharply and sentiment improved. In general, consumers are concerned about the future health of the economy and that impact on employment conditions and their personal finances. Until job growth picks up, confidence is unlikely to improve significantly.

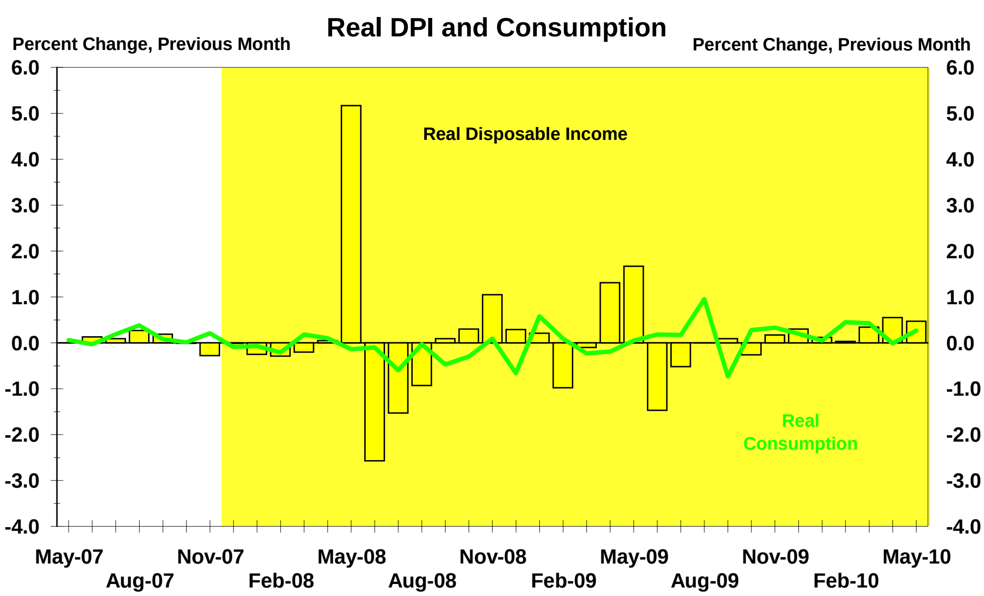


Source: The Conference Board / Haver Analytics.



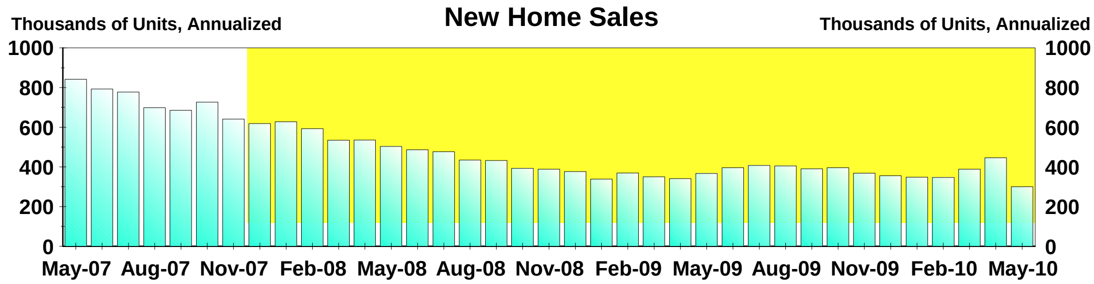
Source: The University of Michigan / Haver Analytics.

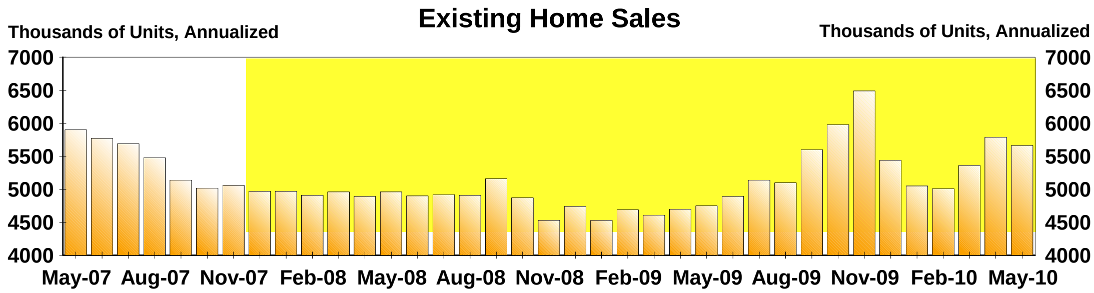
Real incomes posted another small gain in May, helping consumption rebound from its flat reading in April. As consumers remain skeptical about potential job opportunites and higher salaries their spending will likely remain constrained. As such, the personal savings rate reached an eight-month high in May.



Source: Bureau of Economic Analysis / Haver Analytics.

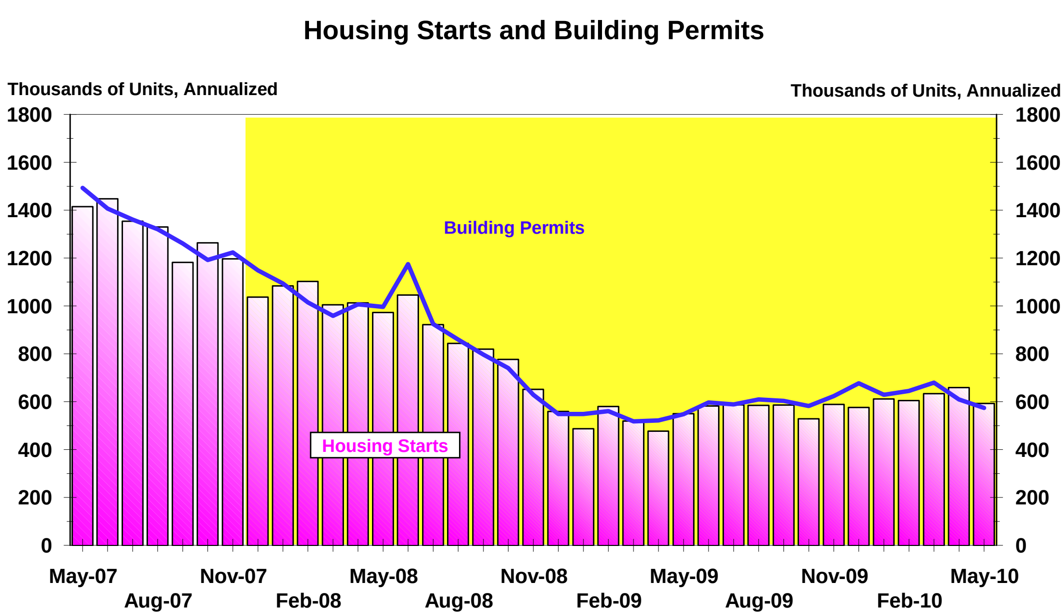
The stimulus home-buyers tax credit expired at the end of April, leaving disappointing sales data in its wake in May. New home sales plunged nearly 33% in May to a record-low pace, while existing home sales fell "only" 2.2%. In order to qualify for the credit, a sales contract needed to be signed by the end of April. As existing home sales are not counted until closing, that data could still see some support from the credit through June. Any new home transactions after the deadline were ineligible.





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

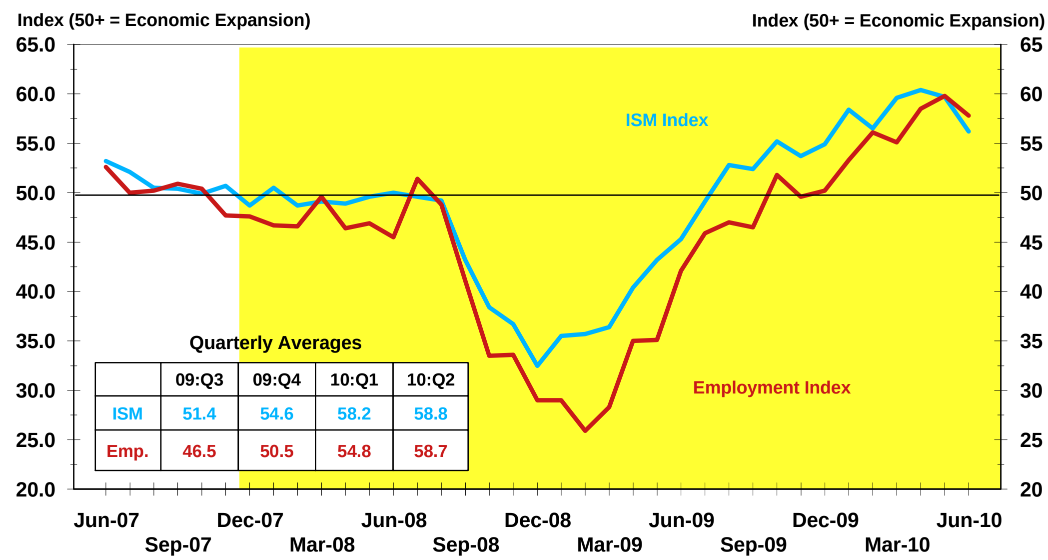
New residential construction slowed in May in the wake of the expiration of the stimulus home-buying tax credit. Both housing starts and building permits registered their lowest estimated rates of 2010.



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

The ISM index decreased for the second consecutive month in June, but manufacturing activity continues to expand. The employment index also eased in June, but improved significantly in the second quarter compared to the first.

ISM Index

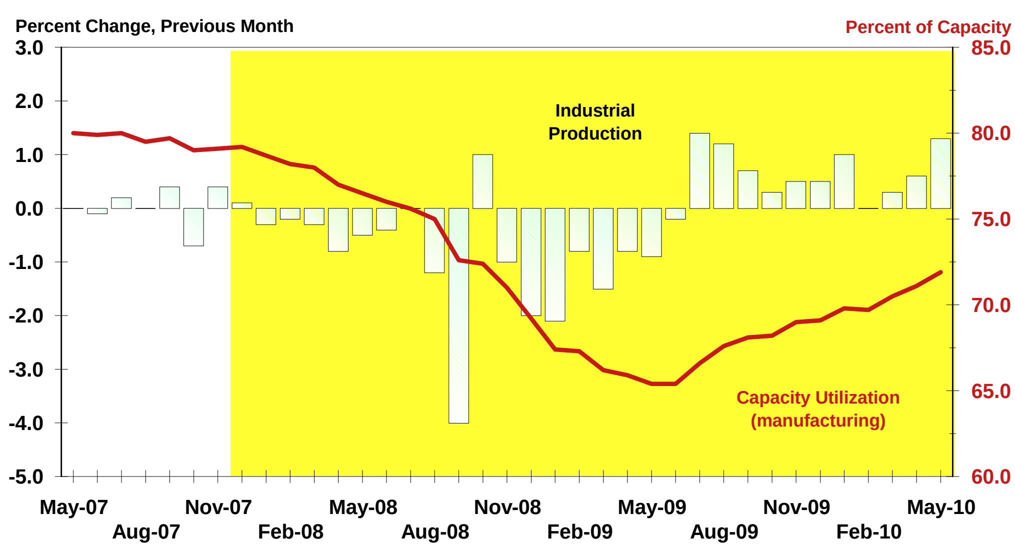


	09:Q3	09:Q4	10:Q1	10:Q2
ISM	51.4	54.6	58.2	58.8
Emp.	46.5	50.5	54.8	58.7

Source: Institute of Supply Management / Haver Analytics.

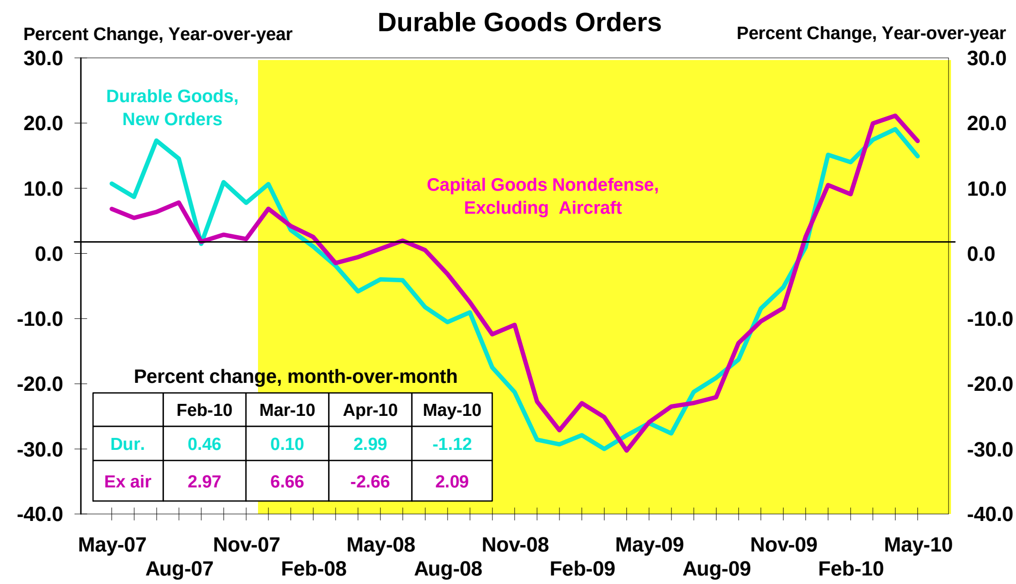
Industrial production increased again in May, and capacity utilization rose to its highest level since October 2008. Despite the recent increases, industrial production is still 8% below its peak established in September 2007.

Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

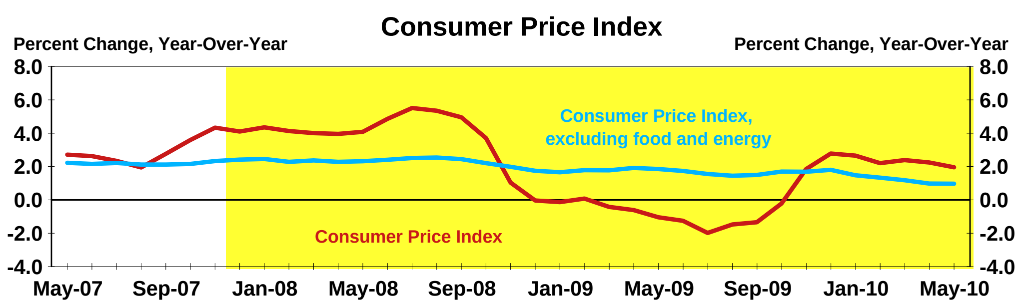
Durable goods orders fell in May compared to April, slowing their year-over-year growth. Most of the May dip was due to lower orders for commercial aircraft, and excluding transportation orders rose almost 1.0%. Orders for capital goods excluding aircraft rose in May to nearly offset the decline seen in April, but also slowed a bit in their annual pace.

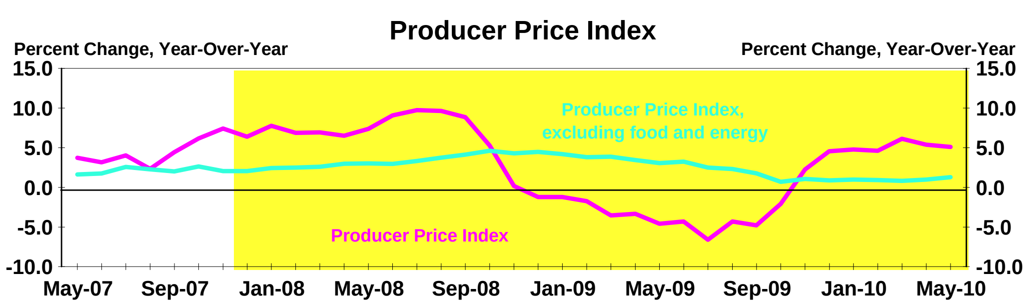


	Feb-10	Mar-10	Apr-10	May-10
Dur.	0.46	0.10	2.99	-1.12
Ex air	2.97	6.66	-2.66	2.09

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

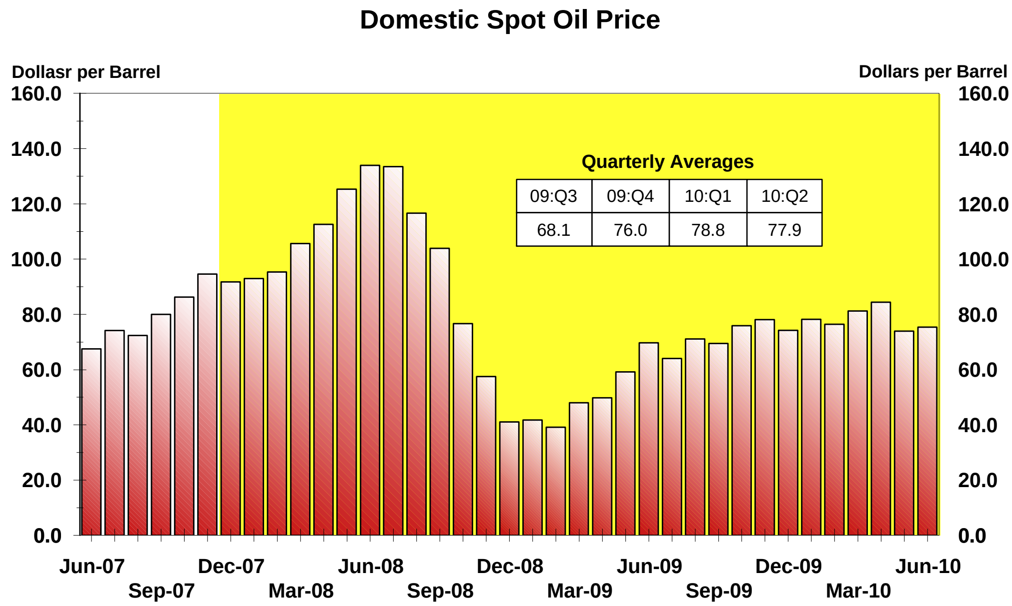
Total price indices slowed a bit further in May, as lower energy and transportation prices more than offset rising food costs. With those items excluded core consumer prices were steady, although core producer prices advanced at their fastest pace since September.





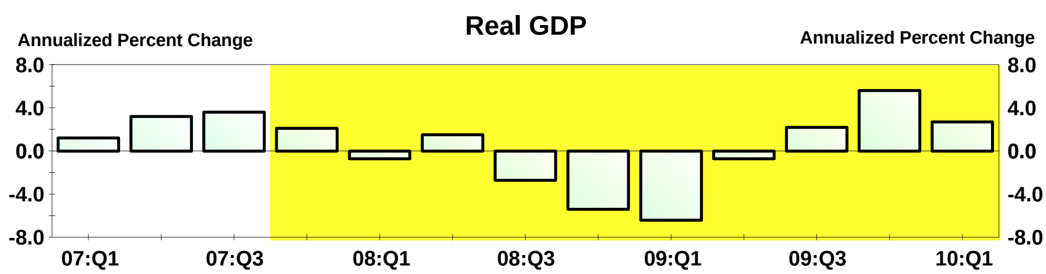
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices inched up slightly in June, but ended the second quarter down a bit from the first.



Source: Wall Street Journal / Haver Analytics.

The expansion in first quarter real GDP was revised smaller in the final estimate. The lower growth rate primarily reflected an upward revision to imports and a downward revision to personal consumption expenditures for services that were partially offset by upward revisions to exports and to private inventory investment.

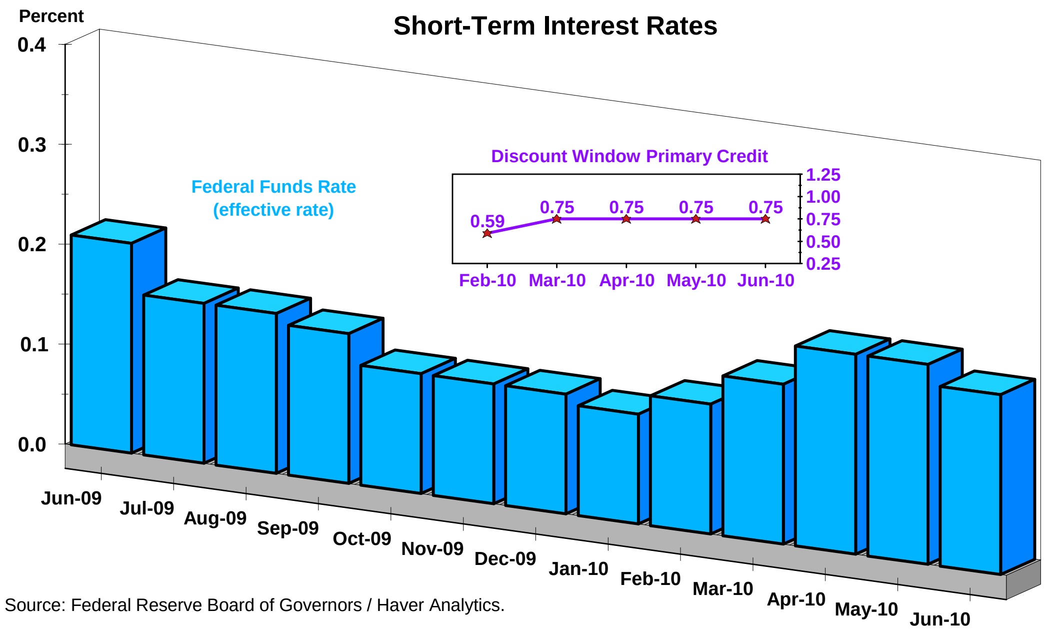


First Quarter Revisions

Description	2nd Estimate	3rd Estimate
Real GDP	3.0	2.7
Personal Consumption	3.5	3.0
Business Investment	3.1	2.2
Equipment and Software	12.7	11.4
Residential Investment	-10.7	-10.3
Government	-1.9	-1.9
Exports	7.2	11.3
Imports	10.4	14.8
Final Sales	1.4	0.8
Change in Private Inventories	$53.6 (bil. 2005$)	$60.9 (bil. 2005$)

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the pace of the economic recovery was slower in the first quarter than previously thought. Data also suggest that growth improved a bit in the second quarter. Manufacturing remained an area of strength, while labor, housing, and financial markets continued to show weakness. As has been often repeated, further and greater increases in employment will be key in sustaining a robust recovery.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

July 8, 2010

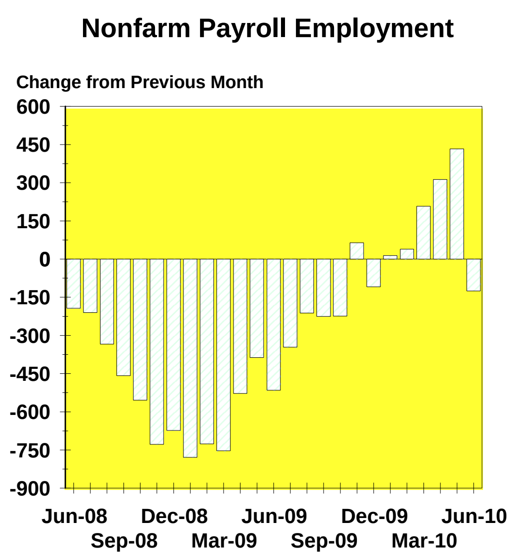
Current Economic Developments - Addendum: Data released in the past week

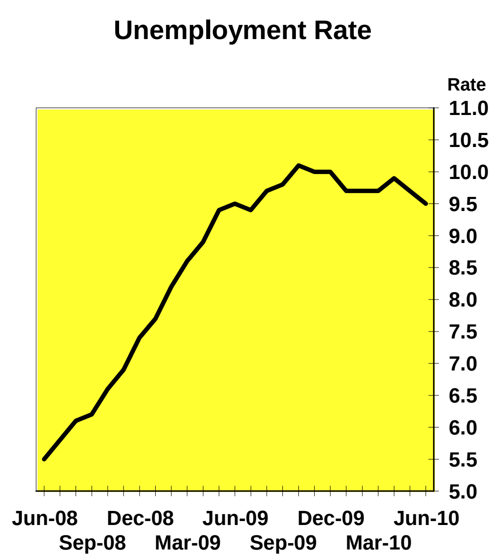
In June, nonfarm payrolls fell for the first time this year. The loss was due entirely to a reduction in temporary workers hired by the Census, and excluding government payrolls employment increased by 83,000 in June. Over 300,000 temporary employees are still working on the Census, so future decreases similar to the ones in June are expected in the coming months. The unemployment rate decreased in June, thanks to a large drop in the labor force that more than offset a smaller fall in civilian employment.

The pace of lightweight vehicle sales slowed in June, but improved slightly overall in the second quarter compared to the first. Also in June, the ISM nonmanufacturing index eased a bit, but continued to signal an expanding services sector. In May, both manufacturers' orders and shipments fell, more than offsetting gains seen in April.

Oil prices fell during the past week, averaging $73.2 per barrel compared to last week's average of $76.9.

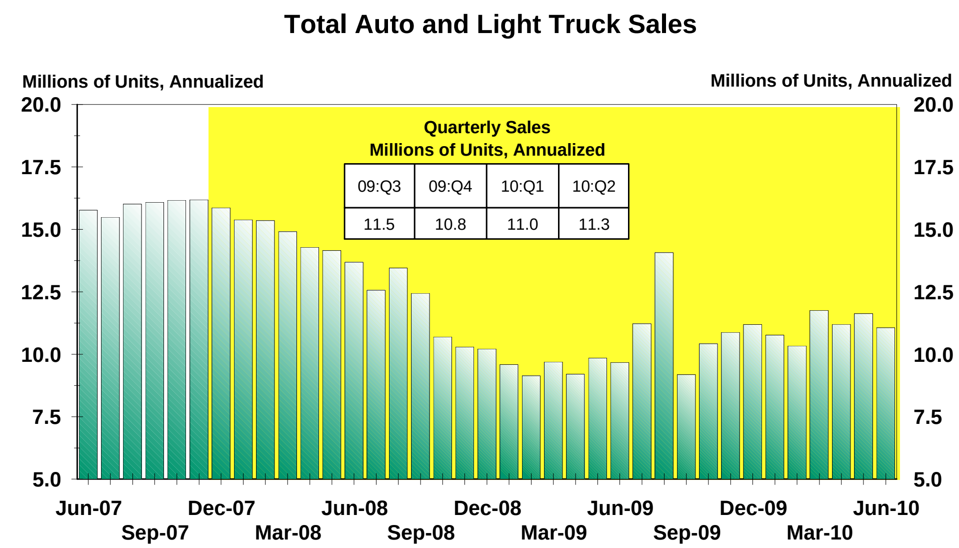
Nonfarm payrolls fell by 125,000 in June, due to a drop of 225,000 in temporary Census workers. Excluding those losses, private payrolls rose for a sixth consecutive month. The unemployment rate fell two-tenths of a percentage point in June to 9.5%, its lowest level since July 2009.





Source: Bureau of Labor Statistics / Haver Analytics.

Total auto and light truck sales slowed in June, but improved overall in the second quarter.



Source: Bureau of Economic Analysis / Haver Analytics.