FEDERAL RESERVE
BANK OF BOSTON™

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

July 7, 2011

Current Economic Developments - July 7, 2011

Data released since your last Directors' meeting show the economy grew at a slightly faster pace in the first quarter than previously thought, but also suggest that growth is unlikely to improve much in the second quarter. The domestic economic picture has not changed much recently, as housing and labor markets remain areas of concern while manufacturing continues to provide support. Despite the relatively stagnant course of the economy at the moment, growth is expected to pick up in the second half of the year.

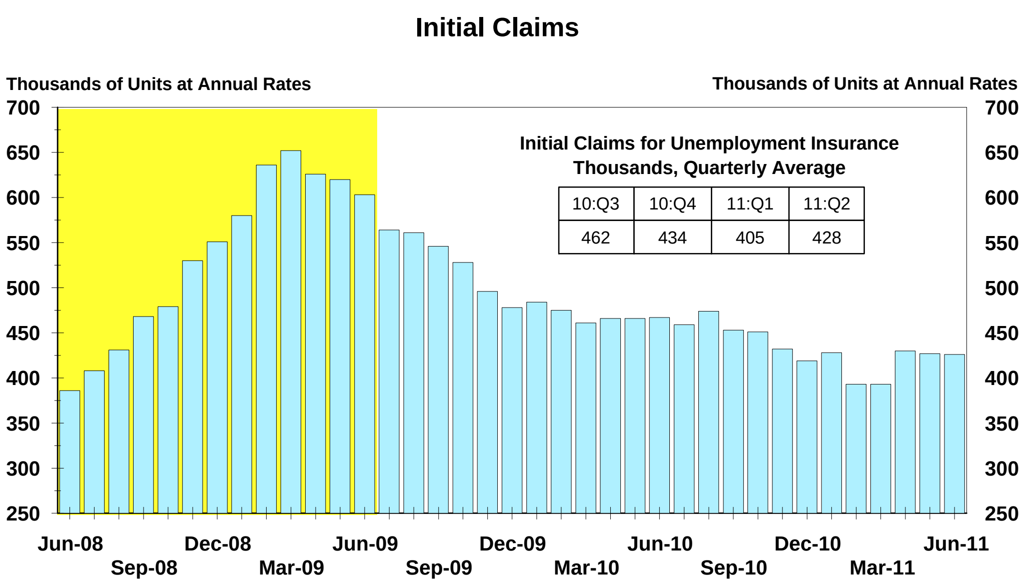
Initial claims for unemployment insurance were little changed in June, and remain stuck well above their pre-recession levels. Consumer attitudes worsened in June, and continue to hover close to the levels seen over the past two years. Also in June, vehicle sales slowed further due to a variety of reasons, including ongoing supply issues for Japanese manufacturers. Consumption posted its biggest decline in nearly two years in May, as stagnant incomes continue to force consumers to think carefully about all their spending decisions.

The housing market continues to represent a downside risk to the outlook, and both new and exisiting home sales declined in May. On the positive side, however, housing starts and building permits both increased in May and housing prices improved in April.

The manufacturing sector remains a key contributor to the recovery, as most recent data has come in on the positive side. The ISM index unexpectedly rose in June, and industrial production, capacity utilization and durable goods orders all rose in May.

Primary inflation measures rose further in May, but most of the upward pressure on prices is still expected to be temporary. If the acceleration in prices were to continue, inflation could become more of a concern. Oil prices eased in June, but were up on average in the second quarter compared to the first quarter.

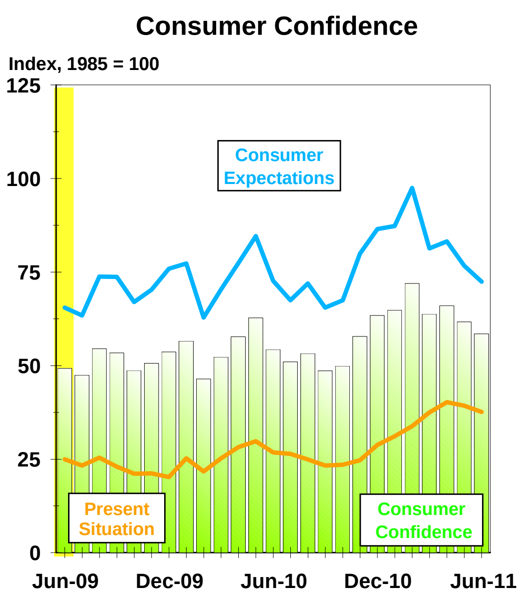
Initial claims for unemployment insurance were essentially unchanged in June, but were up overall in the second quarter, erasing most of the improvement seen in the first quarter.



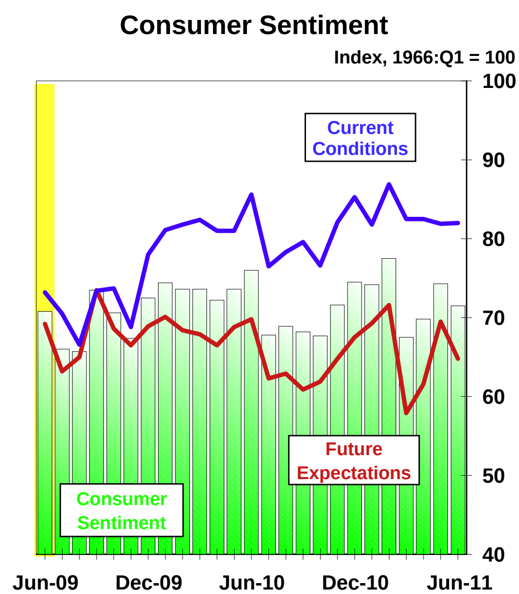
10:Q3	10:Q4	11:Q1	11:Q2
462	434	405	428

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

Measures of consumer attitudes fell in June, due mostly to renewed concerns about the general economic outlook. While inflation worries eased during the month, income worries increased. Personal financial concerns, combined with the more pessimistic economic outlook, are likely to restrain spending in the near term.

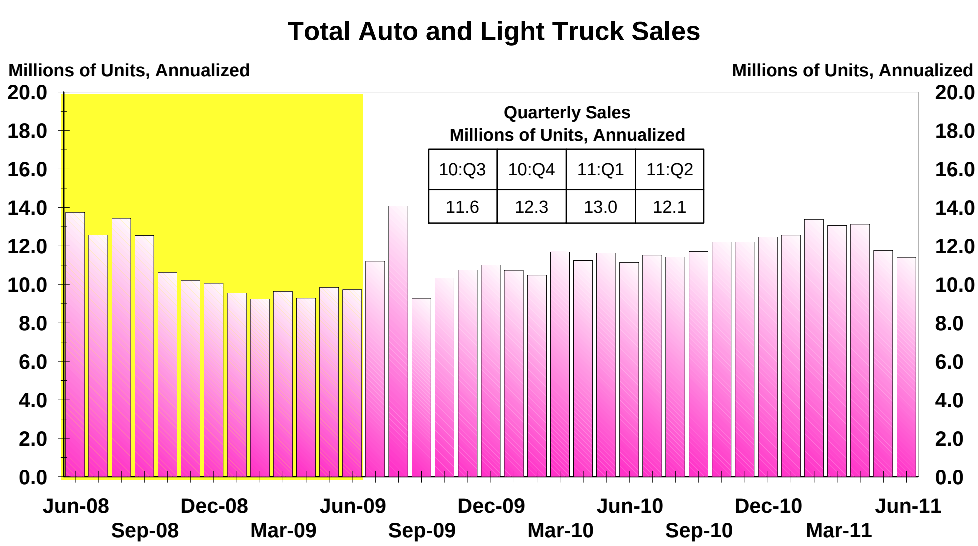


Source: The Conference Board / Haver Analytics.



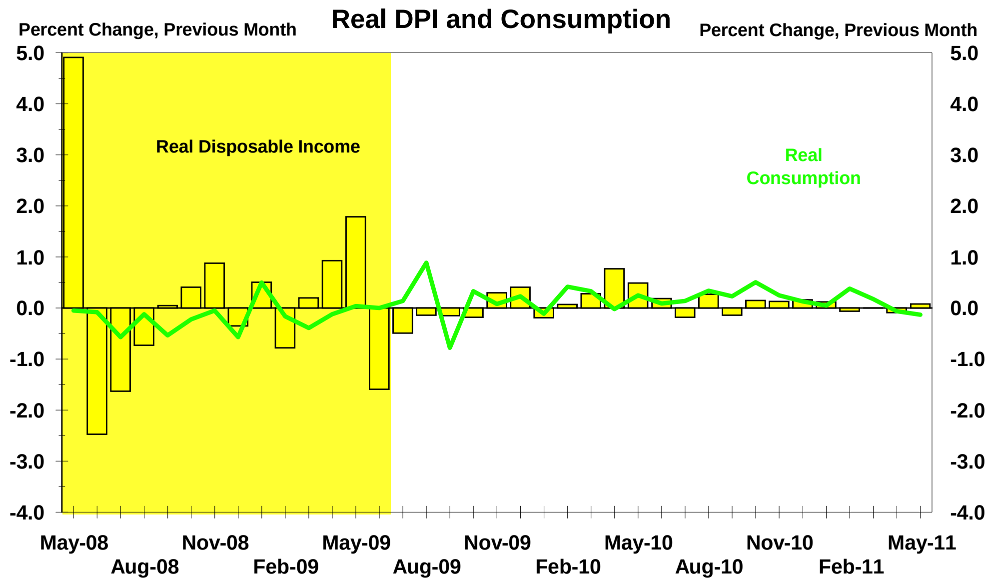
Source: The University of Michigan / Haver Analytics.

Total lightweight vehicle sales slowed a bit further in June, falling to their lowest level since the previous June. Multiple of factors contributed to the declining sales including lesser incentives, less confident consumers, and continued supply shortages for some Japanese automakers. Despite the weakness in recent data, sales are expected to pick-up in the coming months, due mostly to the end of the supply disruptions.



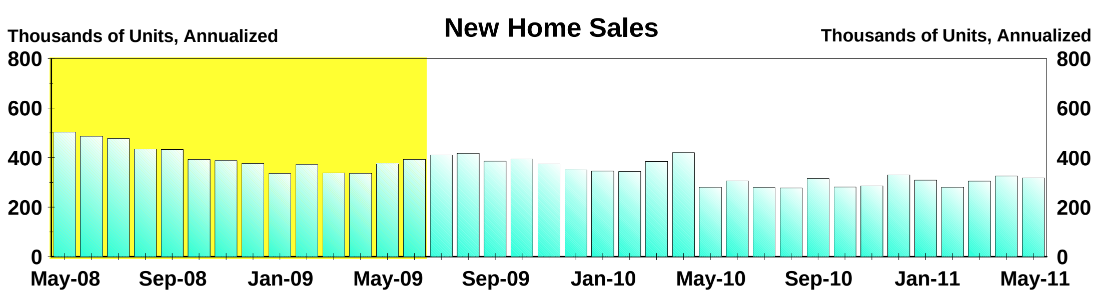
Source: Bureau of Economic Analysis / Haver Analytics.

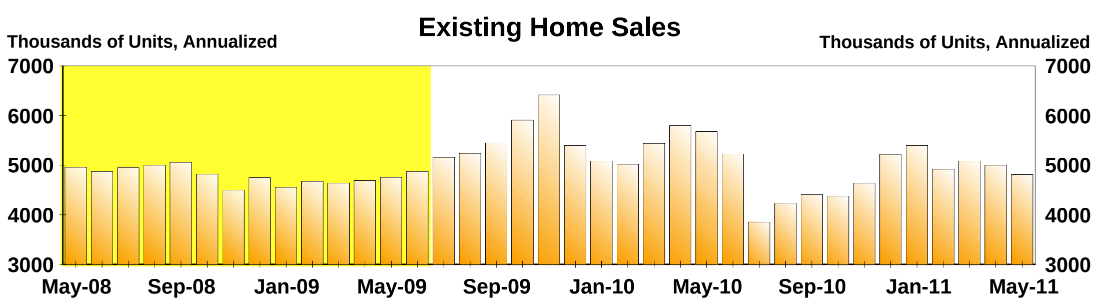
Real incomes held mostly steady again in May, and the continued lack of growth has hampered spending. Consumption posted its biggest decline in May since September 2009, and the previously estimated increase in April was revised to show a small decline. Given the weakness in consumption in April and May, overall second quarter growth in spending is likely to be below its first quarter rate.



Source: Bureau of Economic Analysis / Haver Analytics.

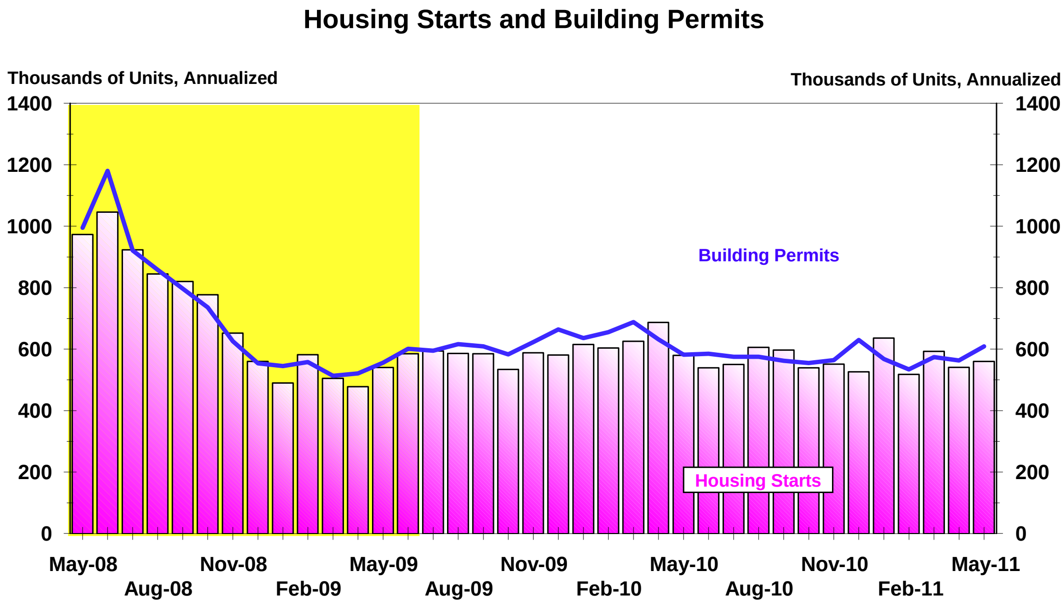
The housing market continued to struggle in May, much as it has over the past three years when not propped up by stimulus initiatives. New home sales were only slightly above their 12-month average, while sales of existing homes declined for the second straight month and are down over 10% since January.





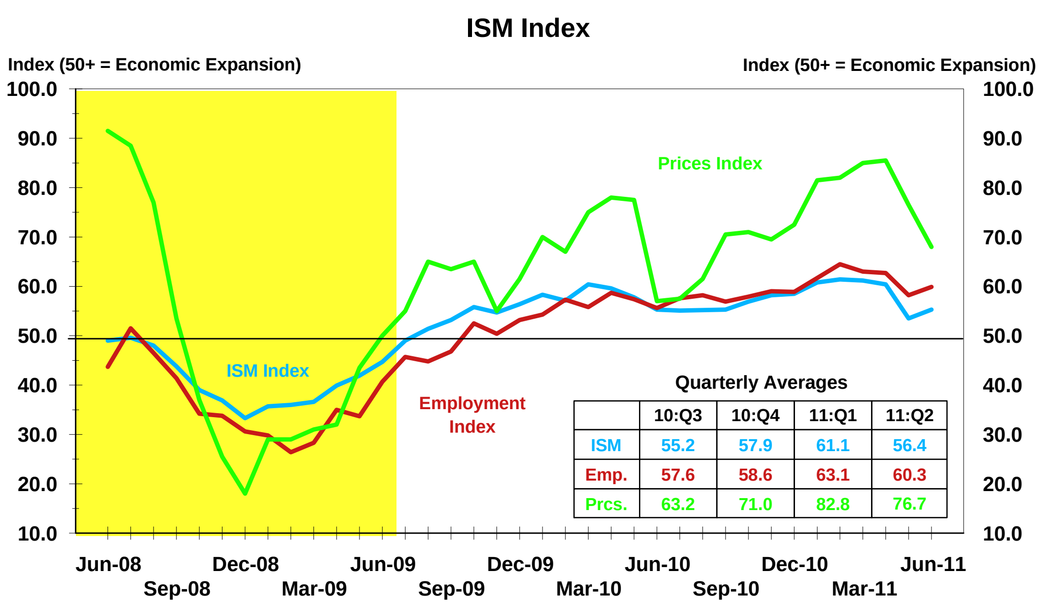
Source: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

New residential construction picked up a bit in May, but overall the data remains mostly in line with the low levels established in the winter of 2008/2009 during the worst of the housing crash.



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

The total ISM index and its employment component both increased in June, recouping some of the losses seen in May. The prices index fell sharply again in June as oil and commodity prices continued to ease, providing some evidence that part of the recent upward pressure on prices was temporary as expected.

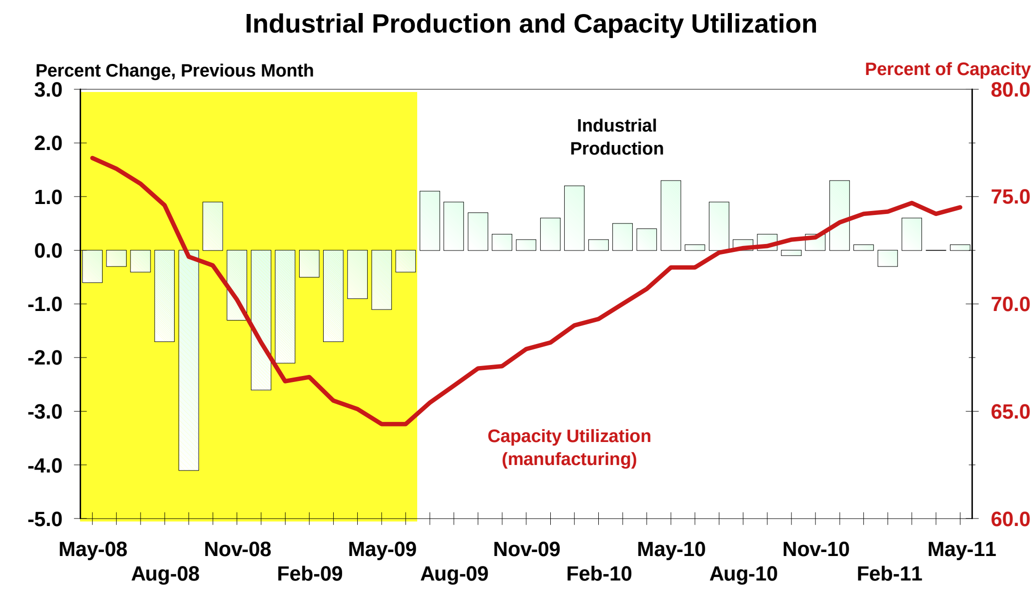


Quarterly Averages

	10:Q3	10:Q4	11:Q1	11:Q2
ISM	55.2	57.9	61.1	56.4
Emp.	57.6	58.6	63.1	60.3
Prcs.	63.2	71.0	82.8	76.7

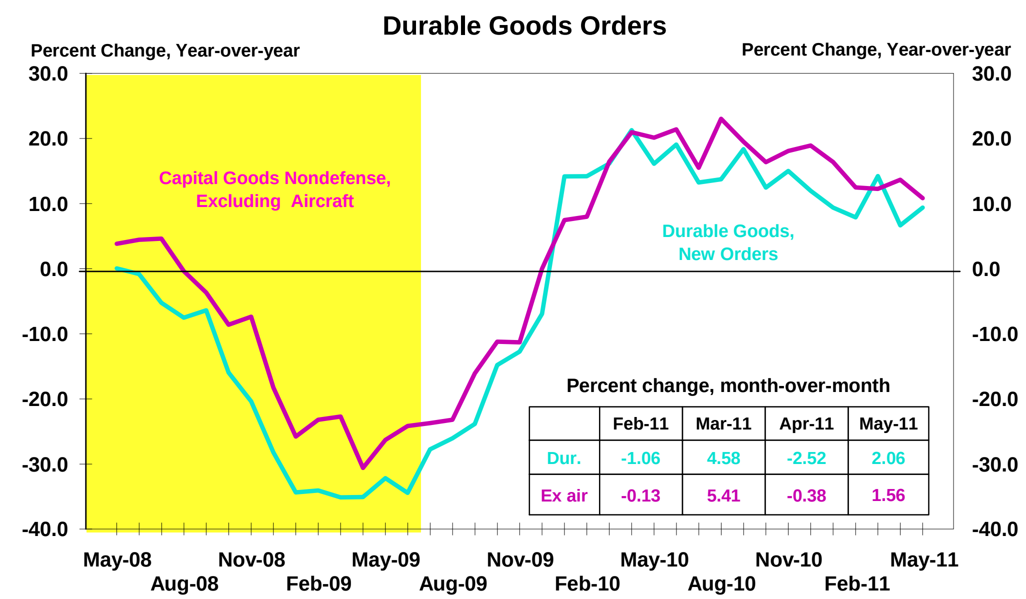
Source: Institute of Supply Management / Haver Analytics.

In May, idustrial production posted a small increase after being unchanged in April, and capacity utilization rose to erase most of the decline seen the previous month. After improving consistently from mid-2009 through the end of last year, production and capacity data has held mostly steady so far in 2011.



Source: Federal Reserve Board of Governors / Haver Analytics.

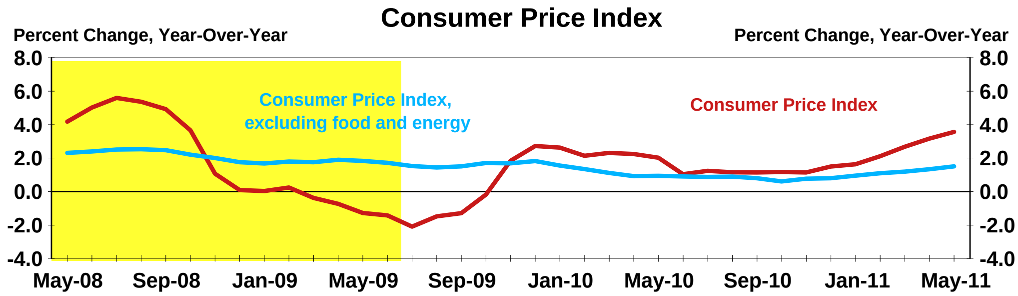
Durable goods orders rose in May compared to April, and their year-over-year growth rate accelerated. Orders for nondefense capital goods excluding aircraft also rose in May, but their annual pace slowed a bit.

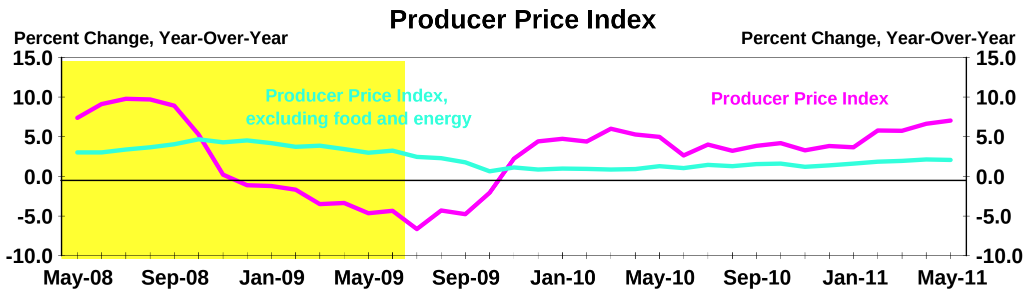


	Feb-11	Mar-11	Apr-11	May-11
Dur.	-1.06	4.58	-2.52	2.06
Ex air	-0.13	5.41	-0.38	1.56

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

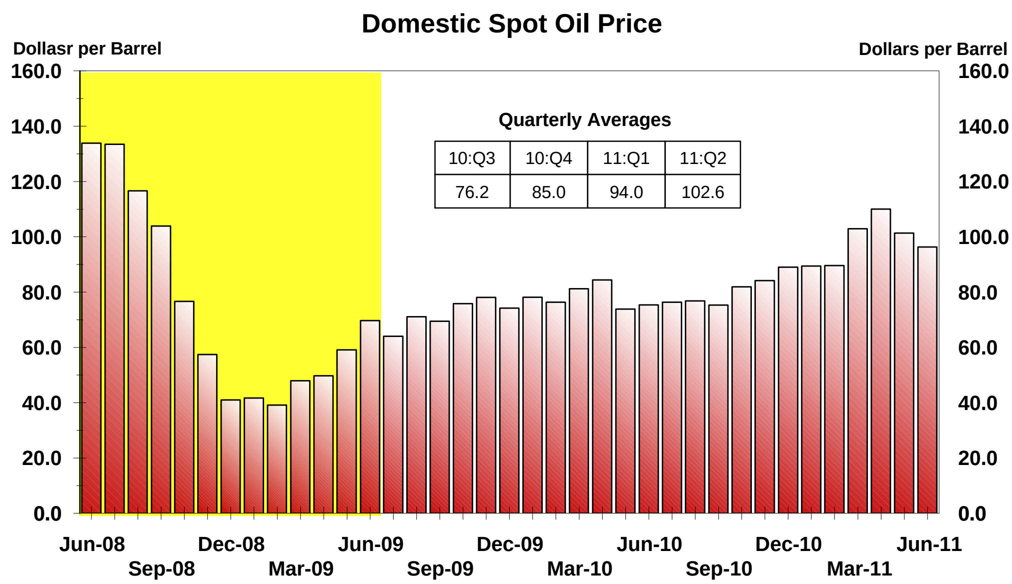
Total price indices continued to accelerate in May, as headline prices for both consumers and producers advanced at their fastest rates since the fall of 2008. Core consumer prices also rose further in May to a 16-month high, but core producer prices eased slightly during the month.





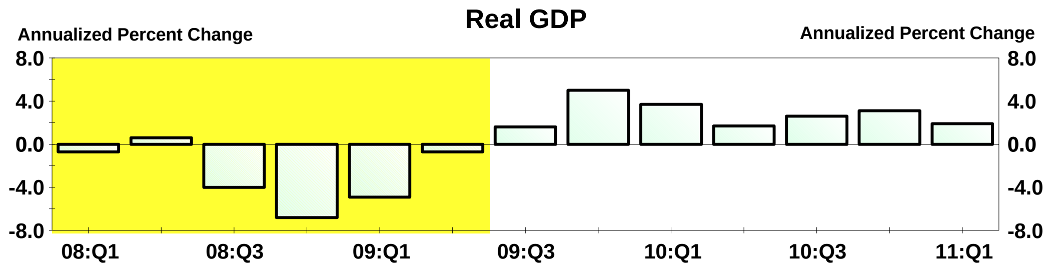
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices eased a bit more in June, but average prices overall in the second quarter were the highest in almost three years. Oil prices are expected to decline further in the coming months due to lower global demand and the administration's decision to release 30 million barrels of oil from the U.S. Strategic Petroleum Reserve.



Source: Wall Street Journal / Haver Analytics.

Real GDP growth in the first quarter was revised slightly higher in the final estimate. The higher growth rate primarily reflected a downward revision to imports and an upward revision to private inventory investment that were largely offset by downward revisions to exports, nonresidential fixed investment, and state and local government spending.

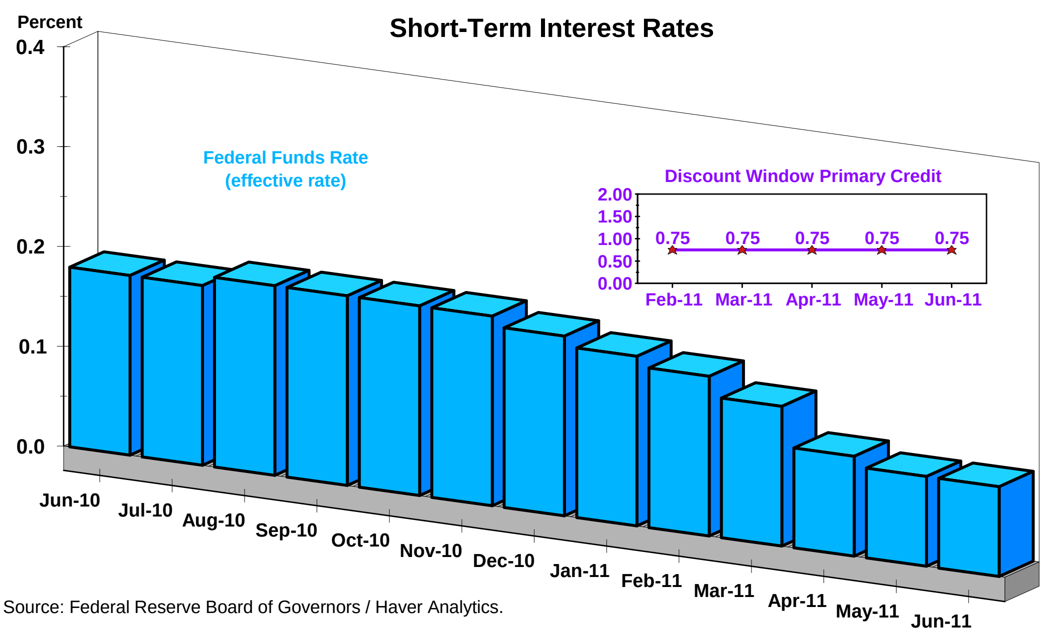


First Quarter Revisions

Description	2nd Estimate	3rd Estimate
Real GDP	1.8	1.9
Personal Consumption	2.2	2.2
Business Investment	3.4	2.0
Equipment and Software	11.6	8.8
Residential Investment	-3.3	-2.0
Government	-5.1	-5.8
Exports	9.2	7.6
Imports	7.5	5.1
Change in Private Inventories	$36.0 (bil. 2005$)	$39.5 (bil. 2005$)

Source: Bureau of Economic Analysis / Haver Analytics.

Overall, data released since your last Directors' meeting show the economy grew at a slightly faster pace in the first quarter than previously thought, but also suggest that growth is unlikely to improve much in the second quarter. The domestic economic picture has not changed much recently, as housing and labor markets remain areas of concern while manufacturing continues to provide support. Despite the relatively stagnant course of the economy at the moment, growth is expected to pick up in the second half of the year.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

July 14, 2011

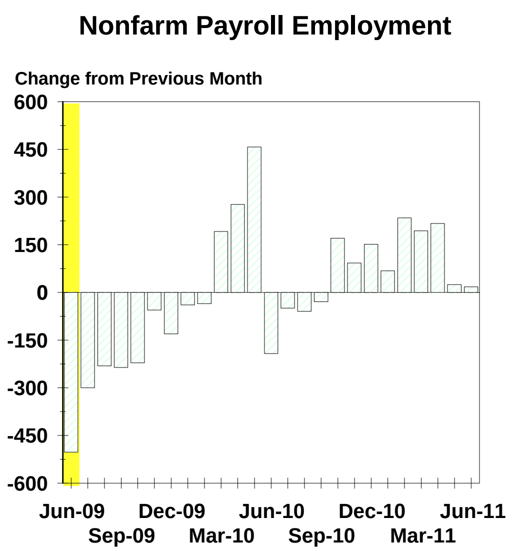
Current Economic Developments - Addendum: Data released in the past week

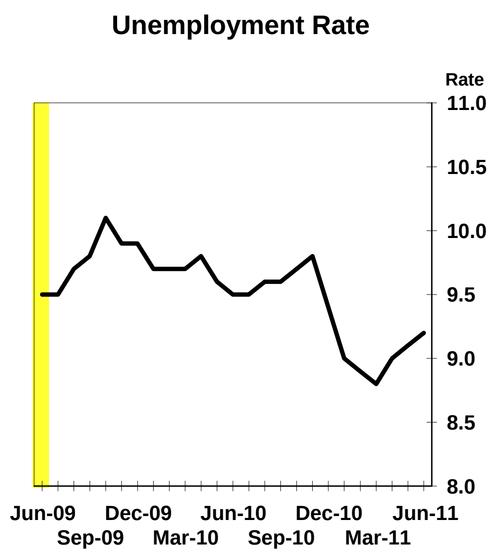
In June, nonfarm payrolls posted another small increase and the unemployment rate rose to its highest point this year. Recent increases in private employment have been a bit more positive than the headline figures suggest, but were largely offset by continued reducitons in government payrolls. The details of the employment report offered further troubling news, as average hours worked declined and earnings were mostly flat. The increase in the unemployment rate was due to a huge decrease in household employment outpacing a smaller, yet still sizable, drop in the labor force.

The U.S. foreign trade deficit widened sharply in May, due primarily to a surge in imports of pertroleum products and the higher cost of those goods at the time. Although energy prices have fallen since then, the impact on net exports from the higher prices in May will likely cause second quarter GDP growth to be slower than previously expected. Import prices fell 0.5% in June, while export prices inched up 0.1%.

In the first week of July, redbook sales were up 0.6% compared to June, and up 5.4% from the same week last year. Oil prices rose over the past week, averaging $96.8 per barrel compared to the previous week's average of $95.5.

Nonfarm payrolls rose by only 18,000 in June, far fewer than expected, and job gains over the prior two months were also revised lower by 44,000. The unemployment rate increased one-tenth of a percentage point in June to 9.2%, its highest level since December.





Source: Bureau of Labor Statistics / Haver Analytics.