FEDERAL RESERVE BANK OF BOSTON™

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

June 5, 2008

CURRENT ECONOMIC DEVEOPMENTS - June 5, 2008

Data released since your last Directors' meeting show that while first quarter growth was stronger than originally thought, the economy is still restrained. Escalating oil prices and weaker employment conditions are wearing on consumers, and investment data has been mixed. Combined with the prolonged housing slump, these factors are likely to continue to restrict growth through the second quarter and into the second half of the year.

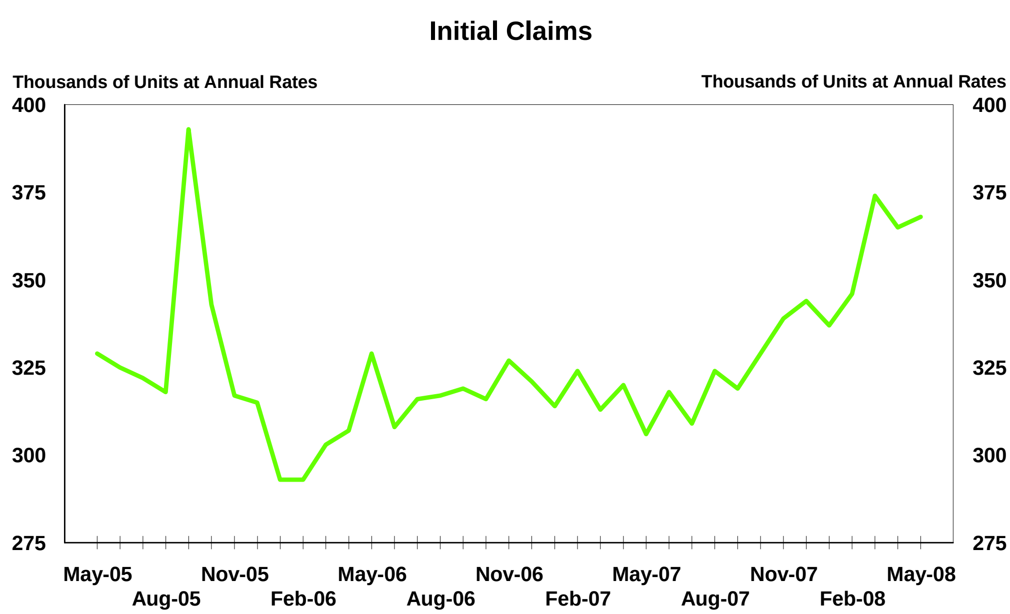
In May, initial claims increased and consumer attitudes continued to deteriorate. Lightweight vehicle sales slowed a bit more in May, due in part to rising fuel costs. In April, both real disposable income and real consumption were flat.

The sustained weakness in the housing market was still evident in April, but there was some positive movement. New home sales posted a small increase, as did both housing starts and building permits. In the manufacturing sector, the ISM index continued to show contraction in May and industrial production and capacity utilization both decreased in April. New orders for durable goods fell in April, but orders for nondefense capital goods, excluding aircraft, rose for the third time in four months.

Headline inflation eased a bit in April, and core prices also slowed for consumers. Oil prices continued to surge in May, reaching new record levels above $130 per barrel.

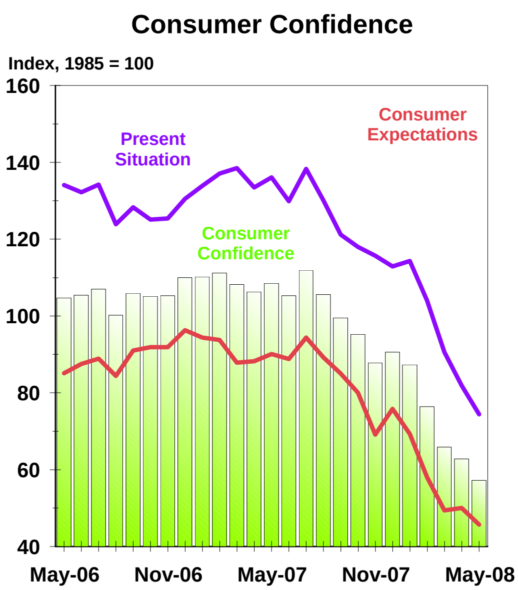
During the first quarter, real growth was stronger than originally thought. The upward revision primarily reflected a downward revision to imports and upward revisions to nonresidential structures and PCE for nondurable goods that were partly offset by downward revisions to private inventory investments, exports, and PCE for services.

Initial claims for unemployment insurance rose again in May, offsetting part of the decline seen in April.

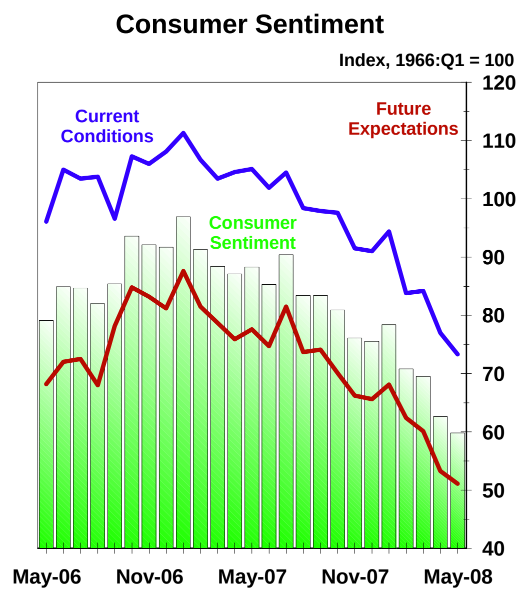


Source: Department of Labor, Employment and Training Administration.

Consumer attitudes continued to deteriorate in May, as confidence fell to a 16-year low and sentiment dropped to its lowest point in 28 years. Consumers are concerned about rising fuel and food prices, as well as weakening job and business conditions.

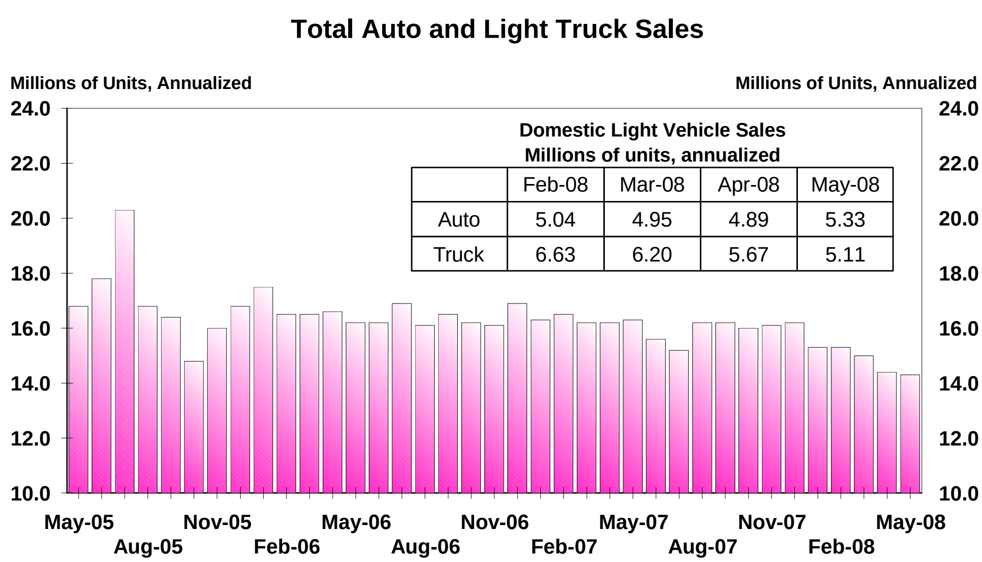


Source: The Conference Board.



Source: The University of Michigan.

Total auto and light truck sales slipped lower in May, led by a dramatic decline in truck sales as consumers avoided poor fuel economy vehicles. Domestic auto sales picked up in May, and outsold domestic trucks for the first time in almost 10 years.

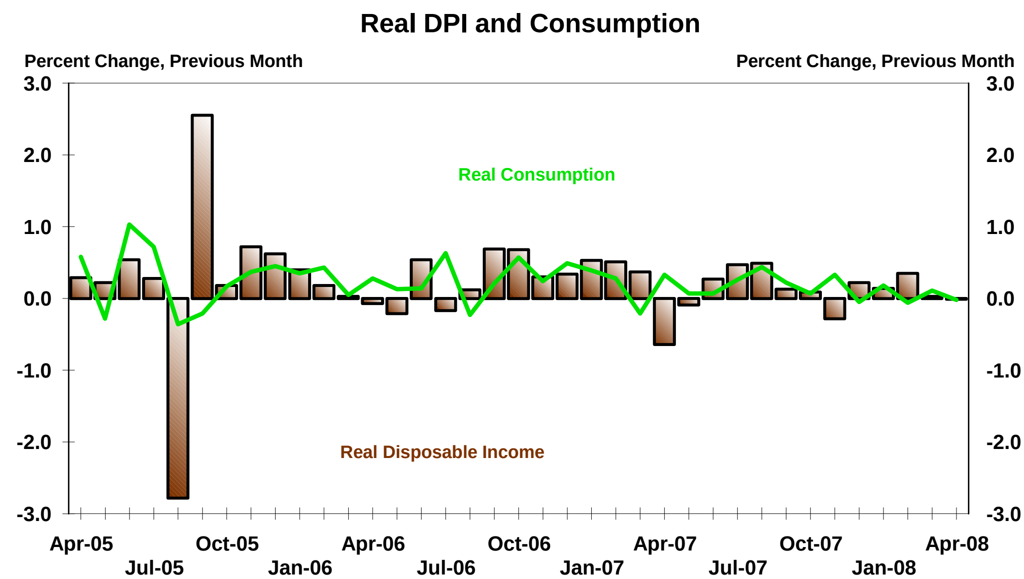


Domestic Light Vehicle Sales
Millions of units, annualized

	Feb-08	Mar-08	Apr-08	May-08
Auto	5.04	4.95	4.89	5.33
Truck	6.63	6.20	5.67	5.11

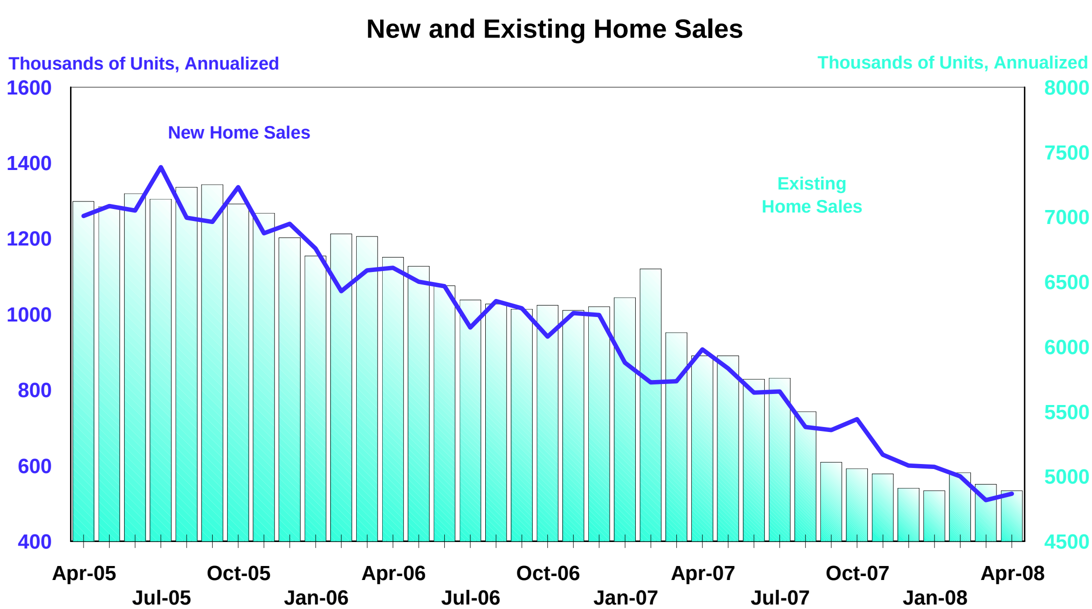
Source: Bureau of Economic Analysis.

In April, real disposable income was flat for the second straight month. Real consumption was also unchanged in April, after posting only a minor gain in March.



Source: Bureau of Economic Analysis.

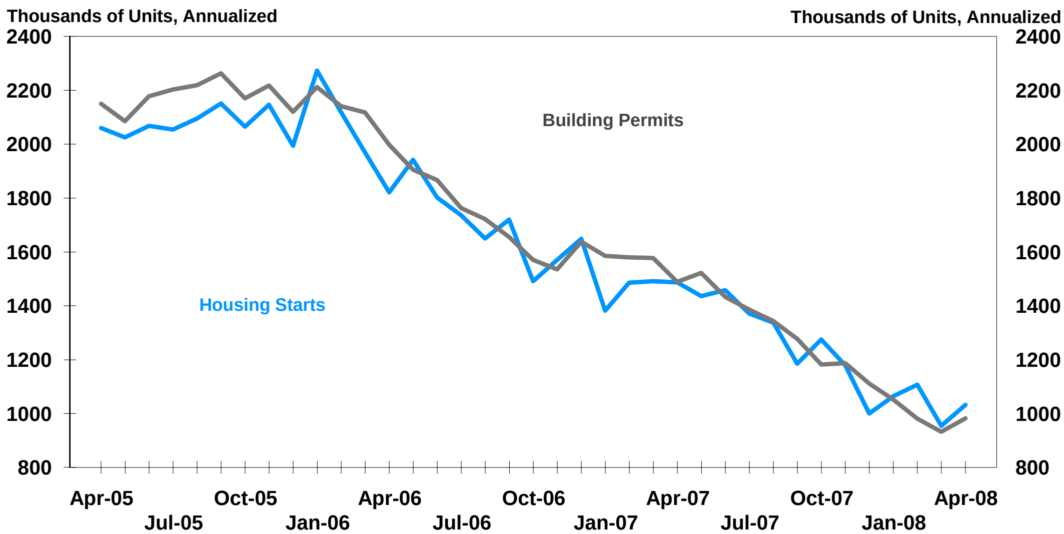
The weakness in the real estate market continued in April. Existing home sales fell for the second consecutive month, erasing the gain seen in February. Sales of new homes increased in April, but that was due primarily to a significant downward revision to sales in March.



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

In April, housing starts rose and building permits enjoyed their largest one-month gain since December 2006.

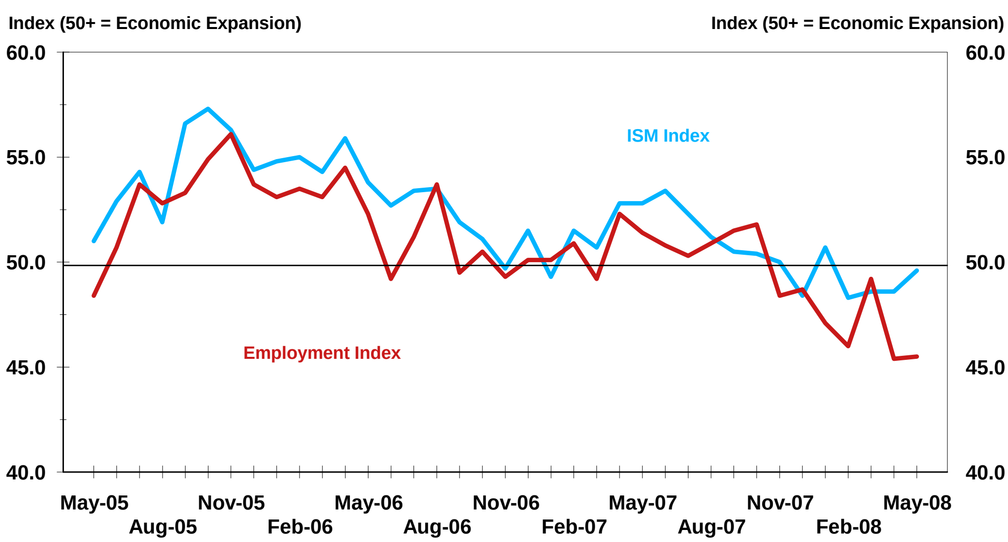
Housing Starts and Building Permits



Source: U.S. Census Bureau.

The ISM manufacturing index was below 50 for the fourth consecutive month in May, but did show improvement. The employment component of the index was essentially unchanged in May following the steep drop seen in April.

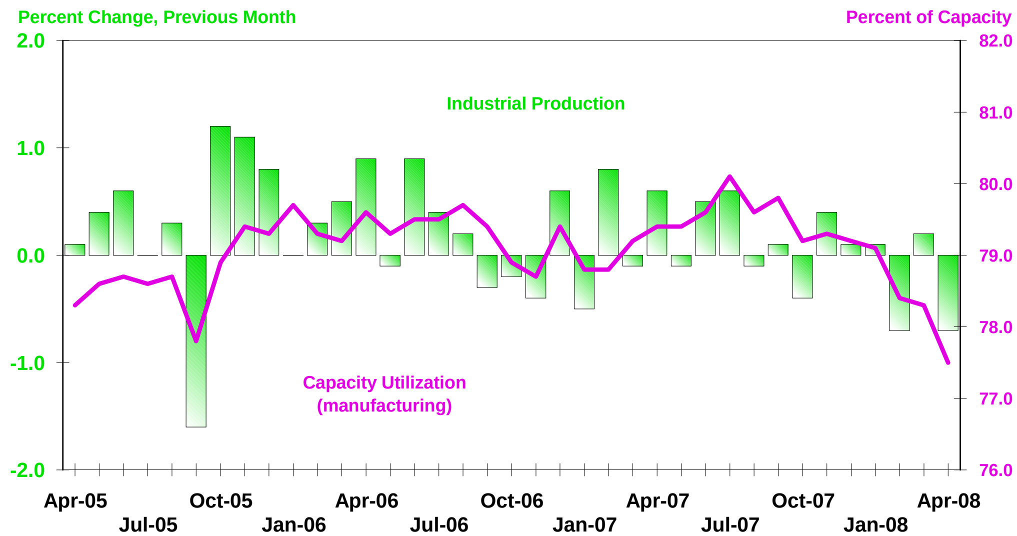
ISM Index



Source: Institute of Supply Management.

Industrial production experienced its second sharp drop in three months in April, and capacity utilization fell to its lowest point since November 2004.

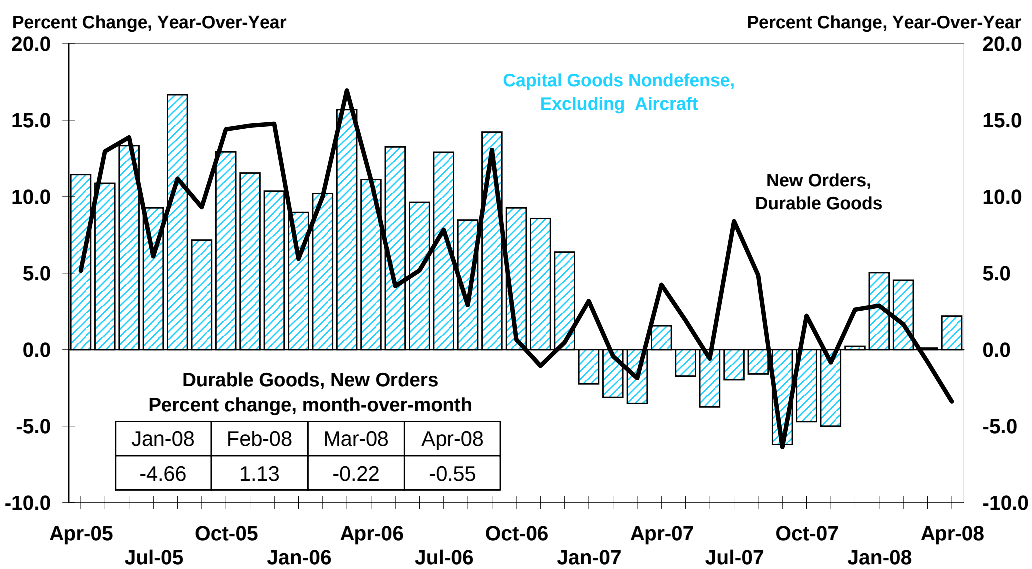
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

Durable goods orders fell for the second straight month in April, while orders of nondefense capital goods excluding aircraft rose.

New Orders

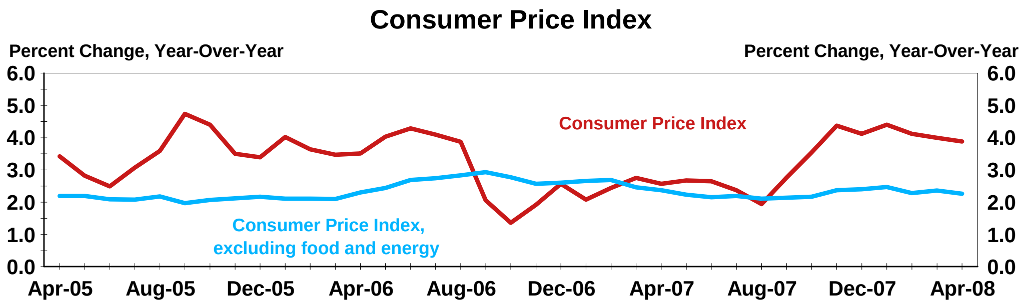


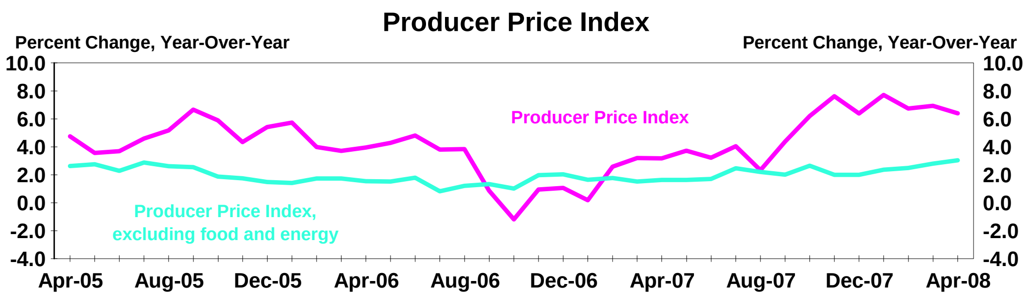
Durable Goods, New Orders
Percent change, month-over-month

Jan-08	Feb-08	Mar-08	Apr-08
-4.66	1.13	-0.22	-0.55

Source: U.S. Census Bureau.

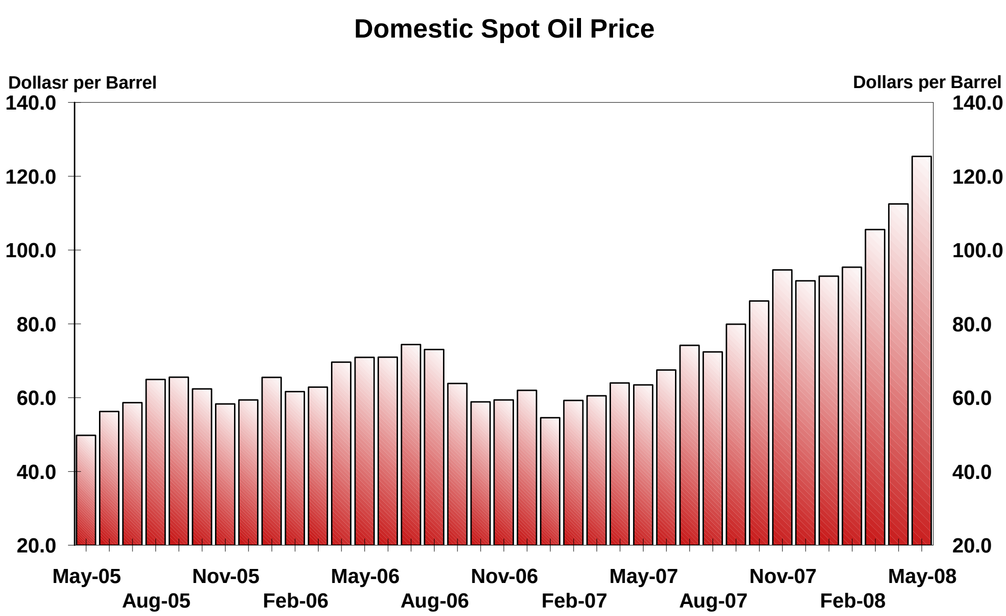
Consumer prices slowed a bit in April, although headline inflation remains elevated at nearly 4.0%. Total prices for producers also eased, but core inflation sped up for the fourth consecutive month.





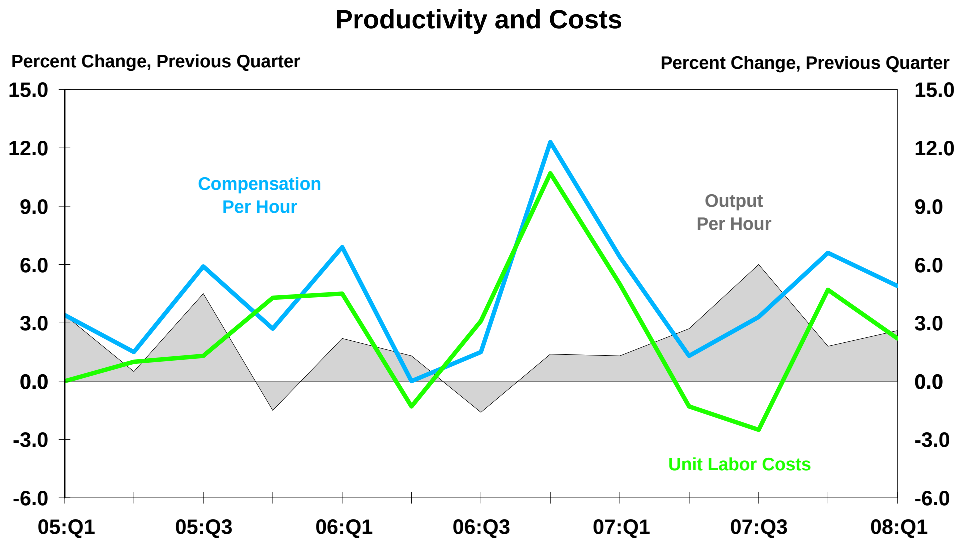
Source: Bureau of Labor Statistics.

Oil prices continued their rapid ascent in May. The average price for a barrel of oil has risen $30 since February, and nearly doubled over the past year. A new single-day record of $132.78 was set on May 21st.



Source: Wall Street Journal.

Productivity increased in the first quarter, while compensation and unit labor costs slowed.

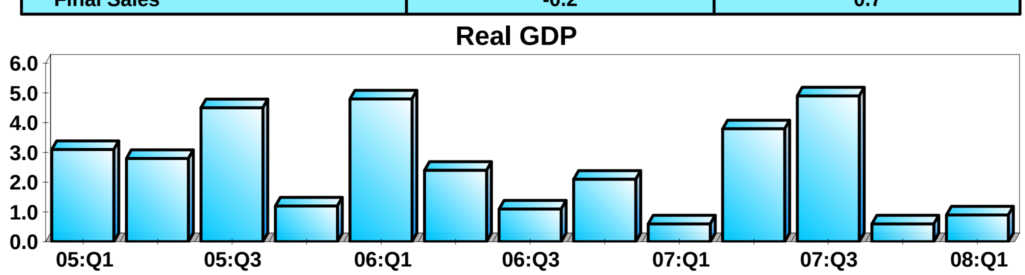


Source: Bureau of Labor Statistics.

Real GDP growth in the first quarter was stronger than originally thought. The upward revision primarily reflected a downward adjustment to imports and upward revisions to nonresidential structures and PCE for nondurable goods. These positive changes were partly offset by downward revisions to private inventory investment, exports, and PCE for services.

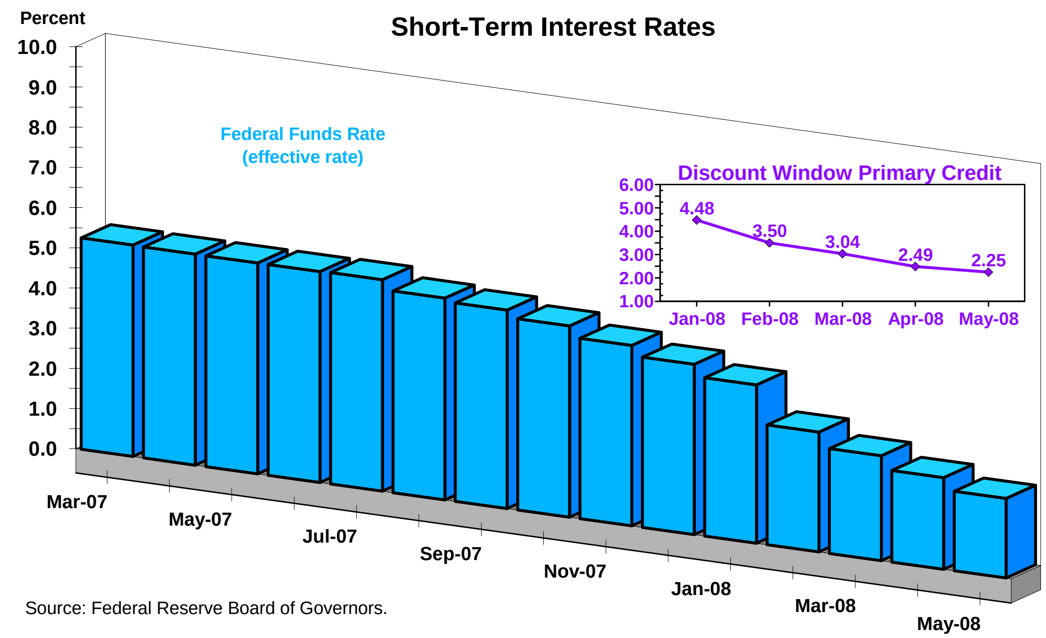
Revisions to First Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	0.6	0.9
Personal Consumption	1.0	1.0
Nondurable Goods	-1.3	-0.3
Services	3.4	3.0
Business Investment	-2.5	-0.2
Equipment and Software	-0.7	-0.9
Residential Investment	-26.7	-25.5
Exports	5.5	2.8
Imports	2.5	-2.6
Final Sales	-0.2	0.7



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show that while first quarter growth was stronger than originally thought, the economy is still restrained. Escalating oil prices and weaker employment conditions are wearing on consumers, and investment data has been mixed. Combined with the prolonged housing slump, these factors are likely to continue to restrict growth through the second quarter and into the second half of the year.



Source: Federal Reserve Board of Governors.

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

June 11, 2007

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

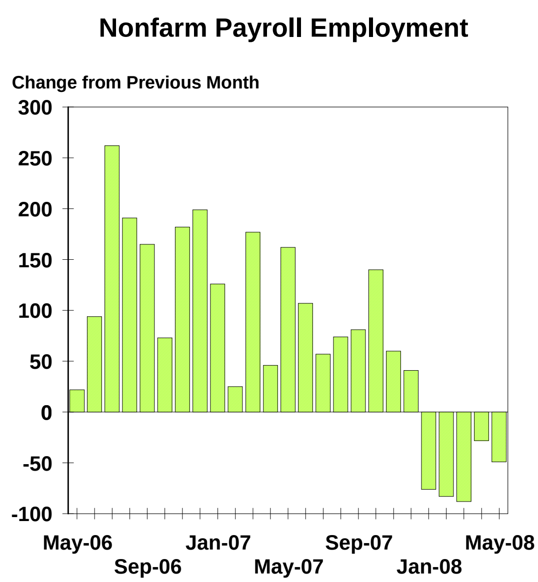
In May, nonfarm payrolls posted their fifth straight monthly decline and the unemployment rate rose to its highest level in over three-and-a-half years. Nonfarm payrolls were reduced by 49,000 jobs in May, bringing the total number of jobs lost this year to 324,000. The unemployment rate rose to 5.5%, last matched in October 2004.

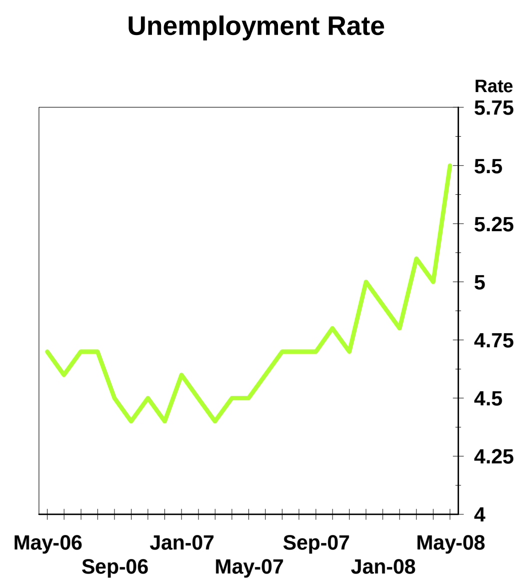
The U.S. international trade deficit widened in April, due primarily to higher oil prices. Both imports and exports grew in April, building on their previously set record highs.

Wholesale inventories and sales both rose in April, the rise in inventories led by an increase in petroleum stocks. Both measures had also risen in March.

Redbook sales fell 1.0% through the first week of June, compared to May. Year-over-year, sales rose 2.1%. Oil prices continued to rise in early June, averaging $130.86 per barrel in the week ending June 10, compared to $127.42 per barrel the week before. A new record high was set on June 6 at $138.55.

Payroll employment fell by 49,000 jobs in May, and estimates for the previous two months were revised downward by a total of 15,000 jobs. The unemployment rate increased by half of a percentage point to 5.5%, the largest single-month increase in 22 years.





Source: Bureau of Labor Statistics.