FEDERAL RESERVE
BANK OF BOSTON™

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

June 3, 2010

CURRENT ECONOMIC DEVEOPMENTS - June 3, 2010

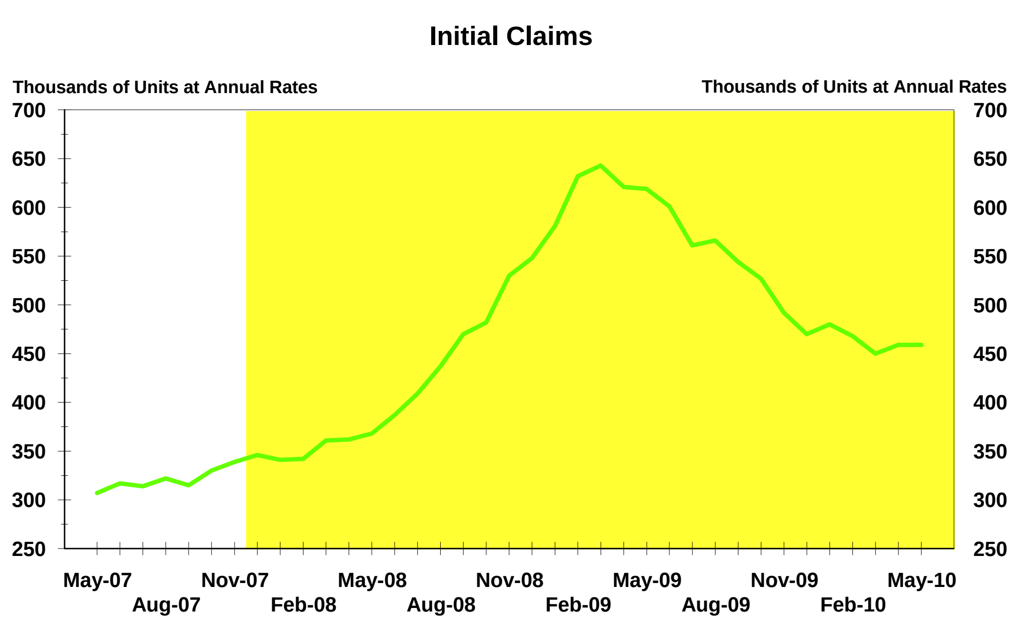
Data released since your last Directors' meeting are consistent with an economy that is slowly recovering. Manufacturing output and investment continued to improve while the stimulus rebate boosted home sales. Downside risks remain though as job opportunities remain scarce, especially when compared to the number of people laid off during the recession. In addition, the housing market must now stand on its own and jitters over the European debt crisis continue to effect domestic and global financial markets.

Initial claims for unemployment insurance were unchanged in May, and remain elevated. Consumers have become a bit more optimistic, but overall attitudes have showed little change since their initial recovery last spring. The increased optimism in future business conditions and job opportunites has helped prop up consumption, despite only small rises in incomes. Consumption expenditures were flat in April, however, following a strong first quarter.

The housing market surged in April, boosted by the expiring home buyer stimulus rebate. Existing home sales posted another solid increase and new home sales registered a two-year high. Housing starts also rose in April, but building permits fell back to a six-month low, suggesting new construction activity may slow in the coming months. In the manufacturing sector, the ISM index remained high in May and the employment index continued to improve. Industrial production and capacity utilization both rose again in April, while new orders for durable goods also continued to recover.

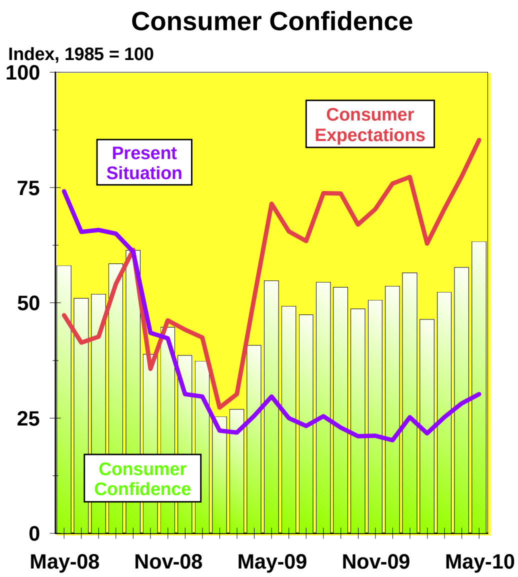
Deflation concerns still outweighed inflation concerns in April, as headline price indices eased and core consumer prices slowed to their slowest annual growth rate in nearly 50 years. Oil prices fell for most of May before rebounding a bit at the end of the month.

After falling steadily through most of 2009, initial claims were flat in May, and overall have been little changed through the first half of 2010.

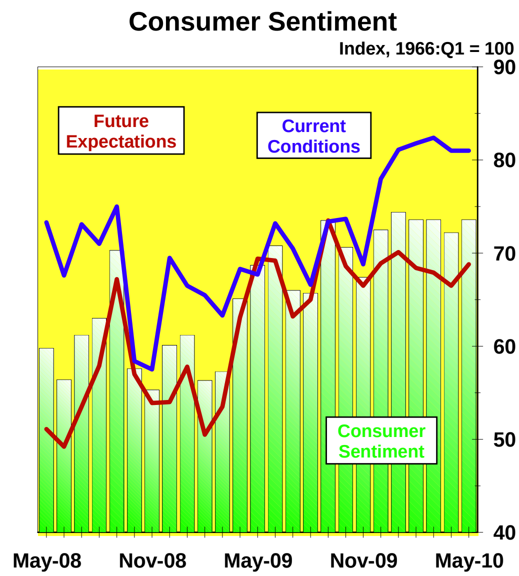


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer confidence rose again in May, posting its third consecutive monthly gain. Consumer sentiment also improved, but stands at the same level seen in February. Job market and general business conditions continue to be the primary concerns, but there have been signs of increased optimism in those areas. Income expectations, however, remain downbeat.

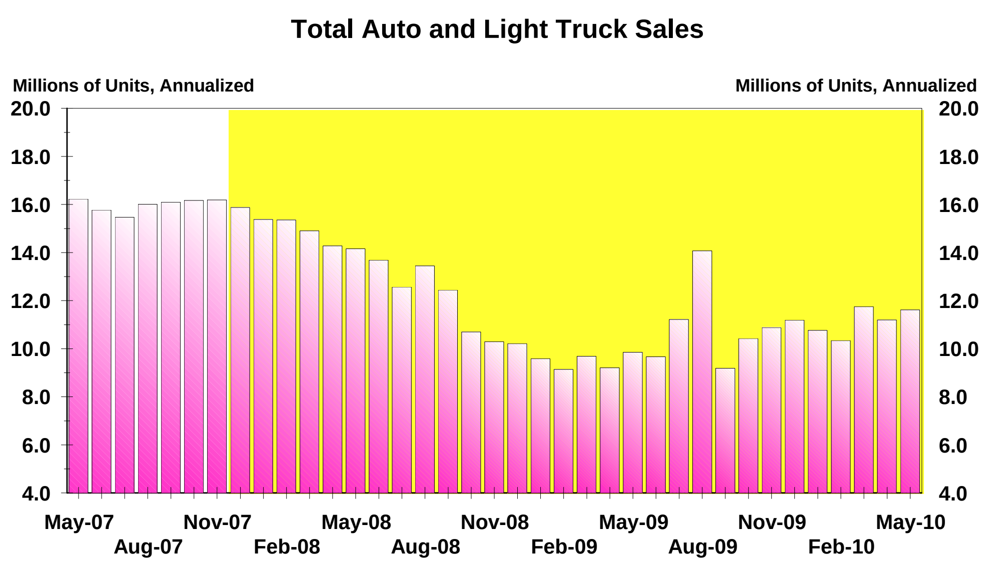


Source: The Conference Board / Haver Analytics.



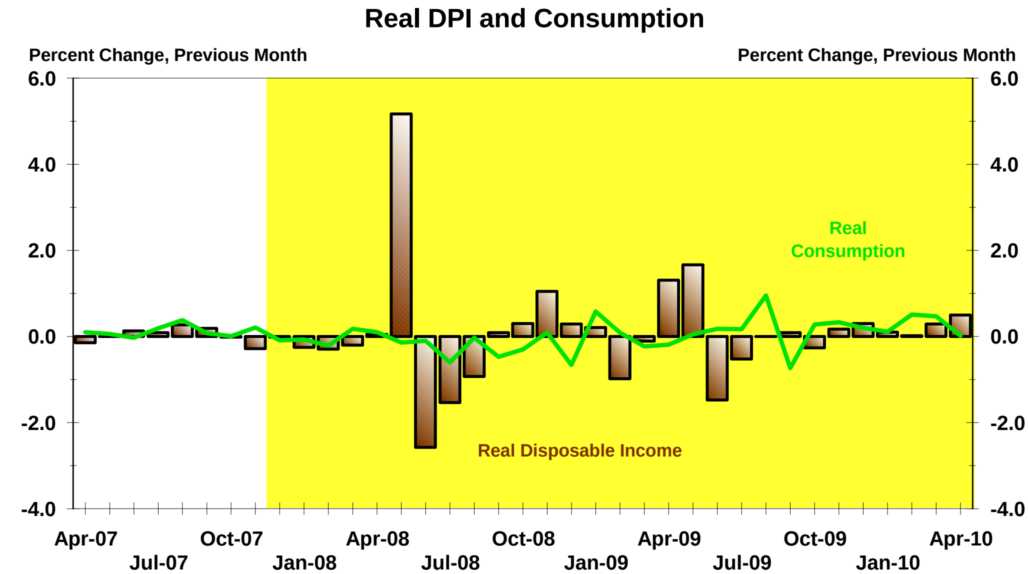
Source: The University of Michigan / Haver Analytics.

Total lightweight vehicle sales picked up a bit in May, offsetting the dip seen in April. Sales continue to be much stronger than during the same periods last year, with an average selling rate of 11.1 million compared to the 2009 rate of 10.3 million. Industry experts expect final 2010 sales to approach 12 million units.



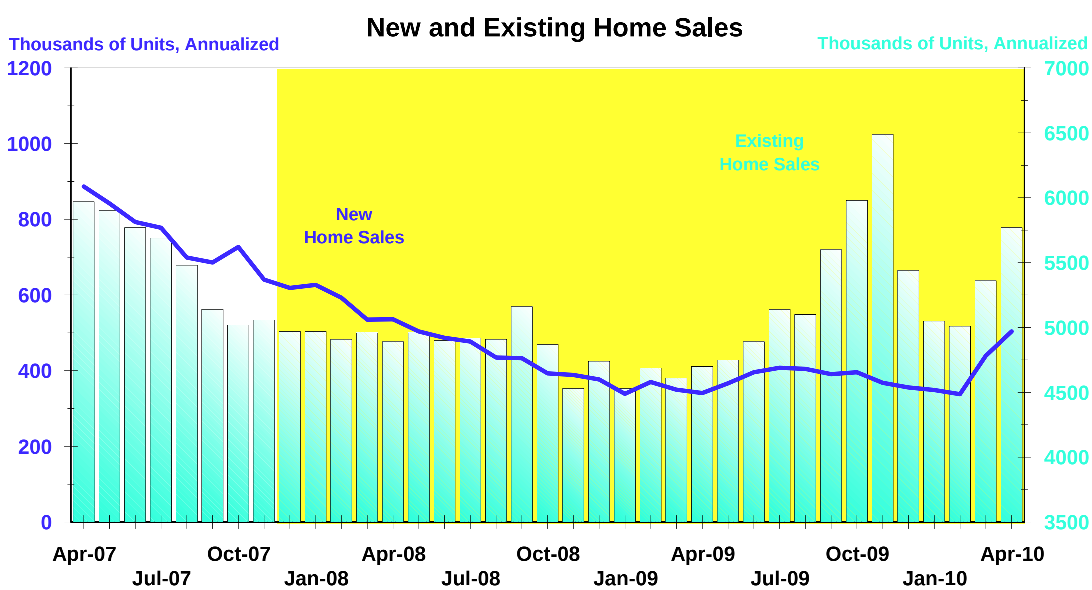
Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable income posted a modest increase in April, but the higher incomes didn't carry-over to higher consumption, which was essentially unchanged.



Source: Bureau of Economic Analysis / Haver Analytics.

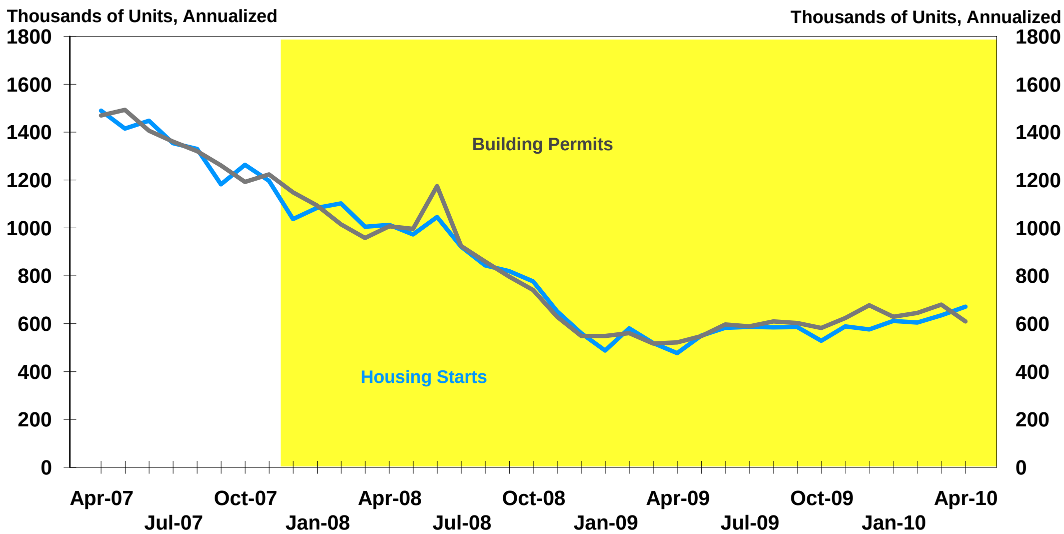
Home sales surged in April as consumers rushed to complete purchases before the expiration of the stimulus tax credit, much like they did in the fall before the plan was originally schedule to end. Unlike in the fall, however, the credit also boosted sales of new homes, which reached a two-year high. Of interest going forward is how the market will respond in the absence of any government incentive for the first time since April 2008.



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

In April, housing starts continued the slight upward trend seen since October, leading to an 18-month high. Building permit data was disappointing, however, nearly erasing the gains seen over the past six months.

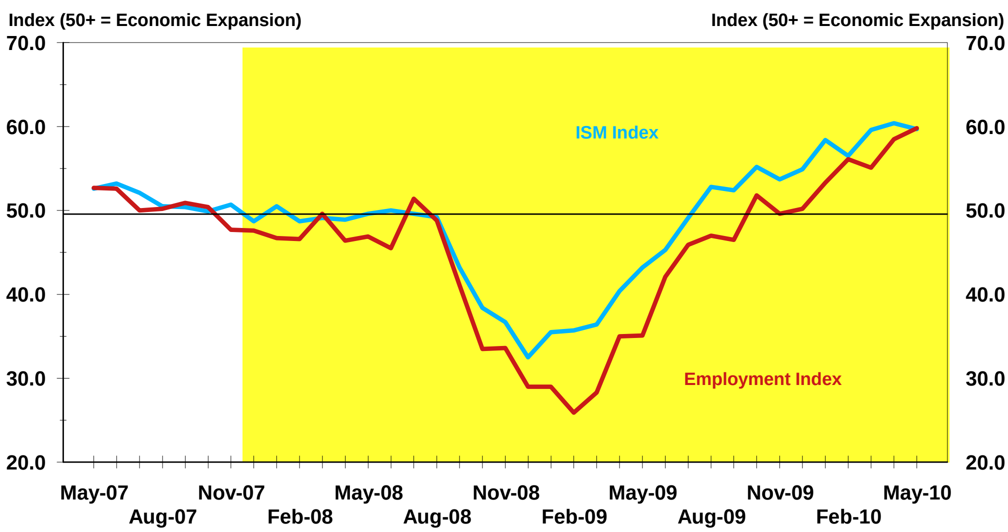
Housing Starts and Building Permits



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

The ISM manufacturing index eased a bit in May, but remains well above 50 signalling continued economic expansion. The employment component of the index rose further in May to reach its highest level in six years.

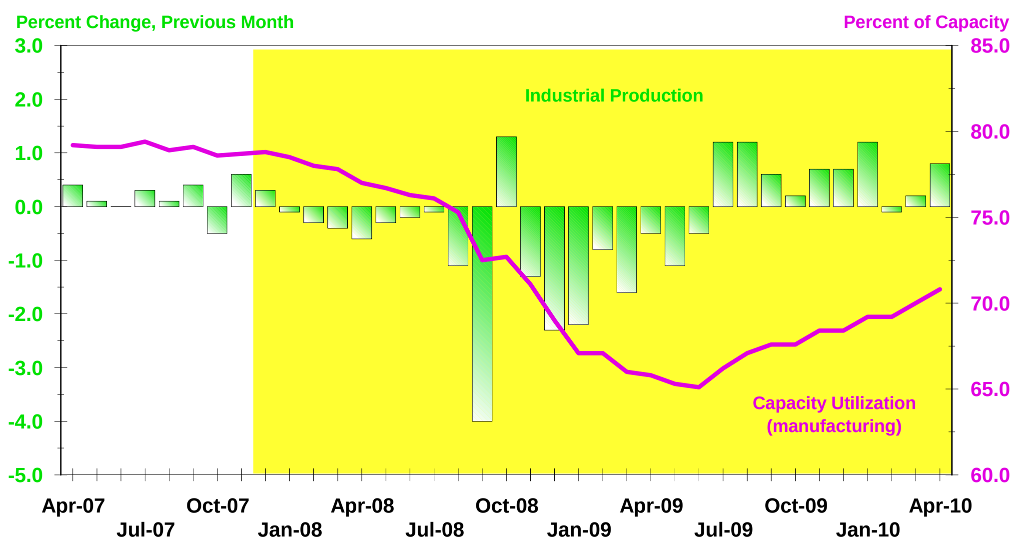
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose again in April, its ninth gain in the past ten months. Capacity utilization also continued to improve.

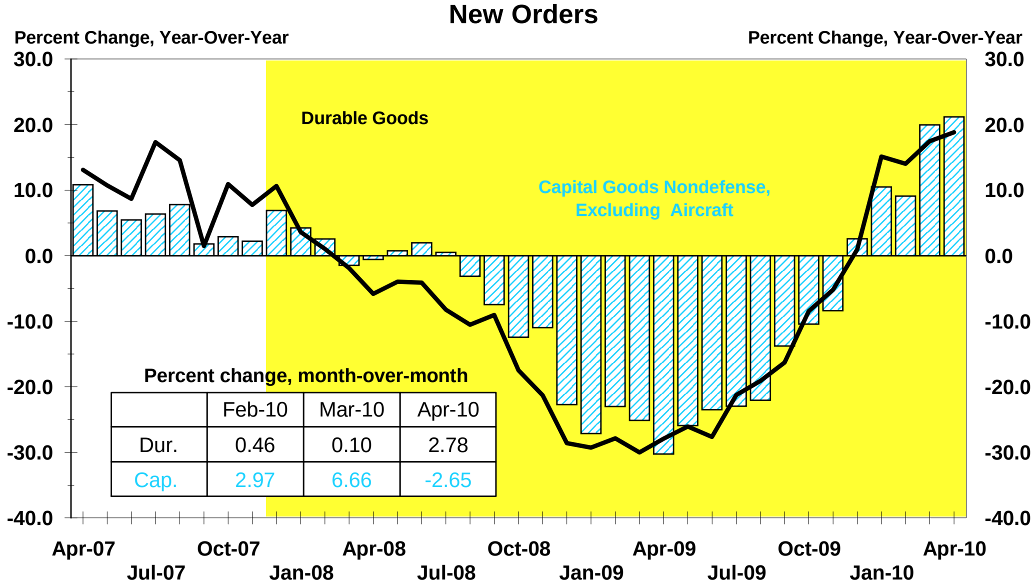
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods posted another significant year-over-year gain in April, and also posted a healthy increase from their March level. Despite a drop from the previous month, orders of nondefense captial goods, excluding aircraft, exhibited the biggest year-over-year improvement in the series' 18 year history.

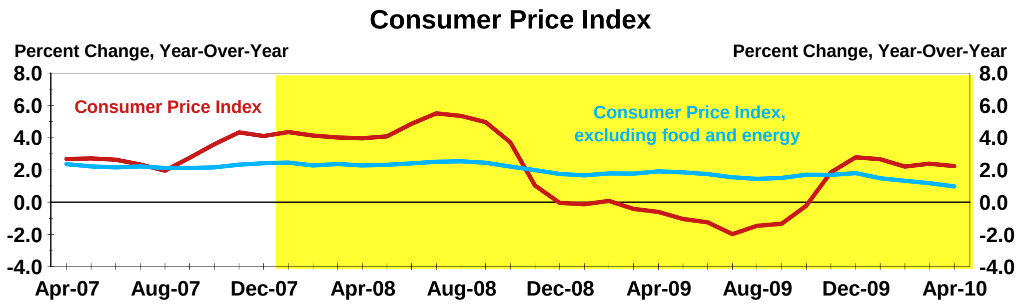
New Orders

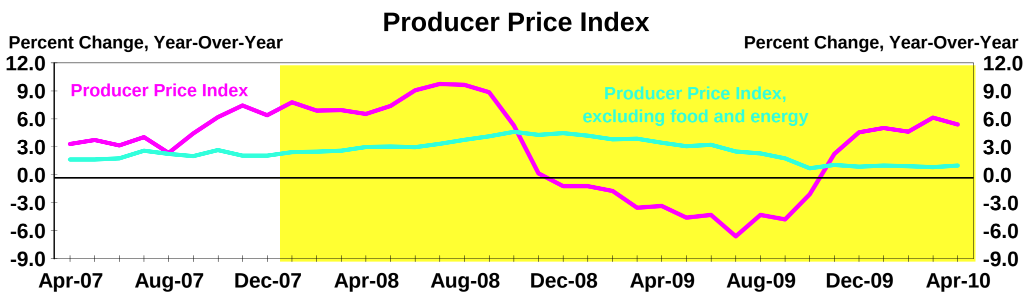


	Feb-10	Mar-10	Apr-10
Dur.	0.46	0.10	2.78
Cap.	2.97	6.66	-2.65

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

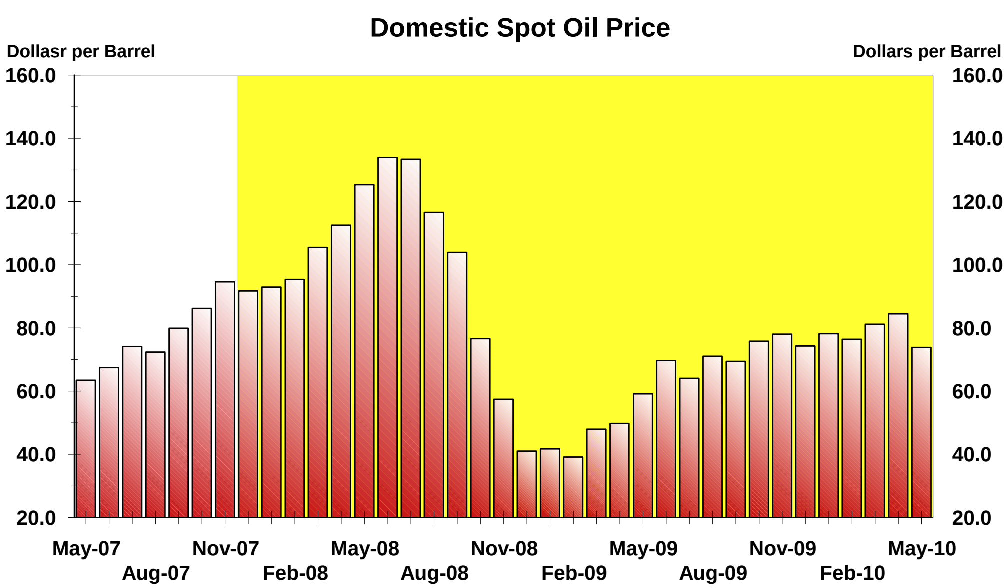
Headline consumer prices slowed in April, offsetting most of the increase seen in March. Core prices also slowed further, resulting in the index's slowest year-over-year growth in 47 years. Total prices also slowed for producers, but core prices rose slightly.





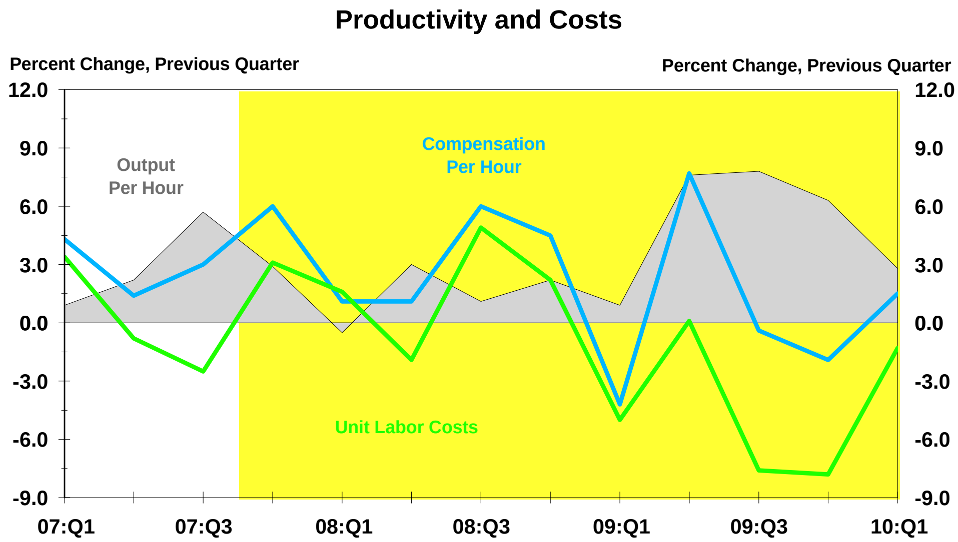
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices underwent a sustained and dramatic fall throughout most of May. After starting the month at over $80 per barrel, prices fell consistently to an eight month low of $66.9 on May 24th. Prices did rebound, however, into the mid-$70s in the last few days of the month



Source: Wall Street Journal / Haver Analytics.

Productivity growth was revised lower in the first quarter, reflecting lower output and greater hours than previously estimated. Most notable in the revisions was a 1.9% decrease in compensation during the fourth quarter, previously reported as a 0.4% gain. The result was a record drop in unit labor costs in the fourth quarter.

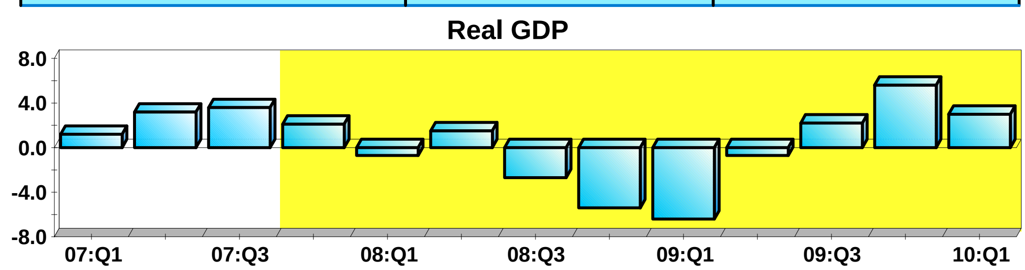


Source: Bureau of Labor Statistics / Haver Analytics.

First quarter GDP growth was revised down slightly in the second estimate. The slower rate primarily reflected a downward adjustment to consumption and an upward adjustment to exports. Those effects were partially offset by an unpward revision to imports. Business investment was also revised lower, but its contribution to GDP was essentially unchanged.

Revisions to First Quarter Real GDP

Description	Advance Estimate	2nd Estimate
Real GDP	3.2	3.0
Personal Consumption	3.6	3.5
Business Investment	4.1	3.1
Equipment and Software	13.4	12.7
Residential Investment	-10.9	-10.7
Government	-1.8	-1.9
Exports	5.8	7.2
Imports	8.9	10.4
Final Sales	1.6	1.4



Source: Bureau of Economic Analysis / Haver Analytics.

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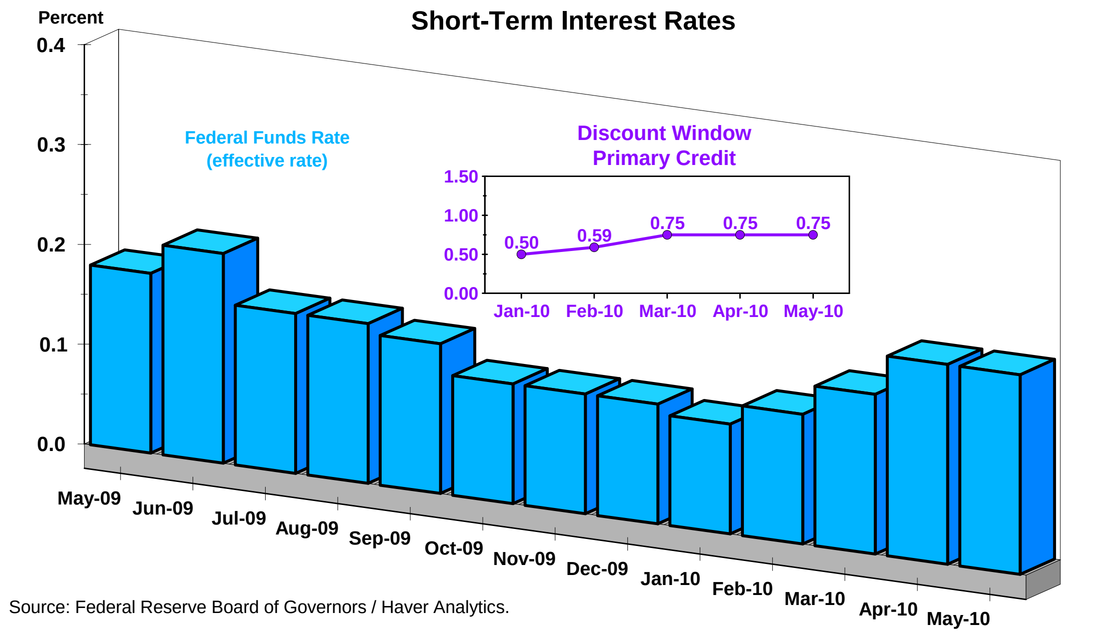


Source: Federal Reserve Board of Governors / Haver Analytics.

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

June 10, 2010

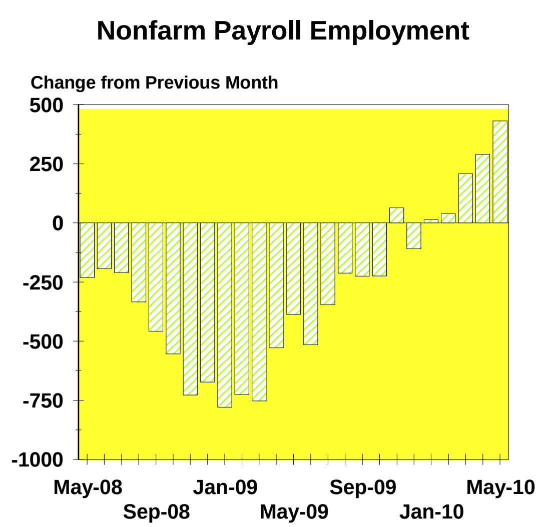
Current Economic Developments - Addendum: Data released in the past week

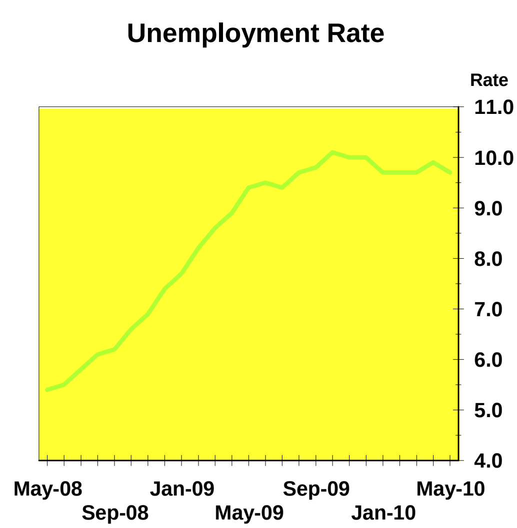
Nonfarm payrolls posted their largest single-month gain in ten years in May, but the increase was due almost entirely to the hiring of temporary Census 2010 workers. Over the past three months, however, private employment has increased by an average of nearly 139,000 per month. The unemployment rate fell two-tenths of a percentage point in May to 9.7%, mainly reflecting a decline in labor force participation.

The debt crisis in Europe continues to present a downside risk to the U.S. economy. The three primary affects the crisis could have are direct losses on the balance sheets of U.S. banks, an atmosphere of uncertainty and risk aversion leading to tighter lending, and a reduction in trade. Should the crisis remain contained in peripheral European nations - Greece, Portugal, Spain, Ireland and Italy - the above risks are much smaller than if it were to spread more broadly.

Redbook sales inched up 0.1% through the first week of June, compared to May, and were up 3.6% from the same period last year. Oil prices eased a bit further in early June, averaging $72.5 per barrel in the week ending June 8th, compared to $73.2 per barrel in the previous week.

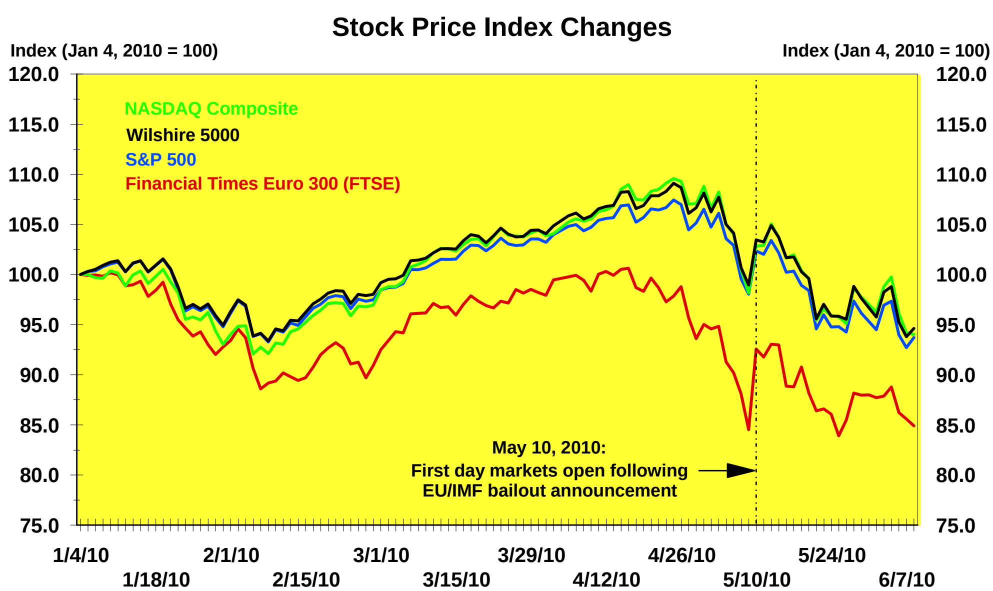
Payroll employment rose by 431,000 jobs in May, but most of the increase was due to the hiring of temporary workers for the Census as only 41,000 jobs were added in the private sector. Both average hours worked and average hourly earnings rose, however, providing an income boost to those who have jobs. Also in May, the unemployment rate fell two-tenths of a percentage point to 9.7 percent.





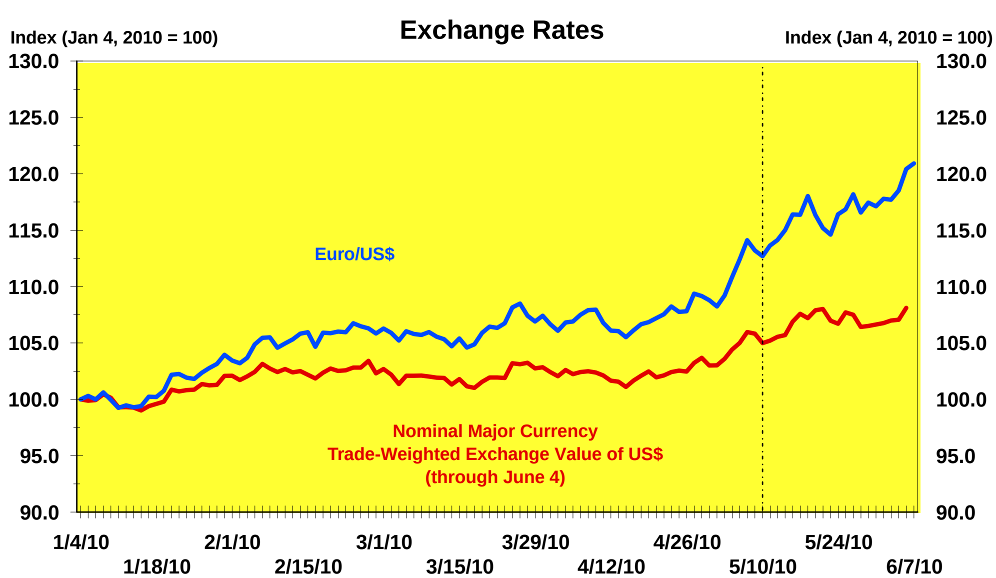
Source: Bureau of Labor Statistics.

Global stock market jitters were initially alleviated by the bailout plan announcement, but index values have since fallen back to (and in many cases below) where they stood beforehand.



Sources: Wall Street Journal (NASDAQ), Dow Jones (Wilshire), New York Times (S&P), Financial Times (FTSE) / Haver Analytics.

The dollar also continues to strengthen against the Euro amid the crisis, leading to a four-year high in the exchange rate on June 7th. The dollar has been more steady since the bailout announcement when weighed against all major currencies, with its weekly average up less than 1.5%. Going back to mid-April however, the index is up over 5.5%.



Sources: Wall Street Journal (Euro), Federal Reserve Board (Trade-weighted dollar) / Haver Analytics.