FEDERAL RESERVE BANK OF BOSTON™

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

May 7, 2009

CURRENT ECONOMIC DEVELOPMENTS - May 7, 2009

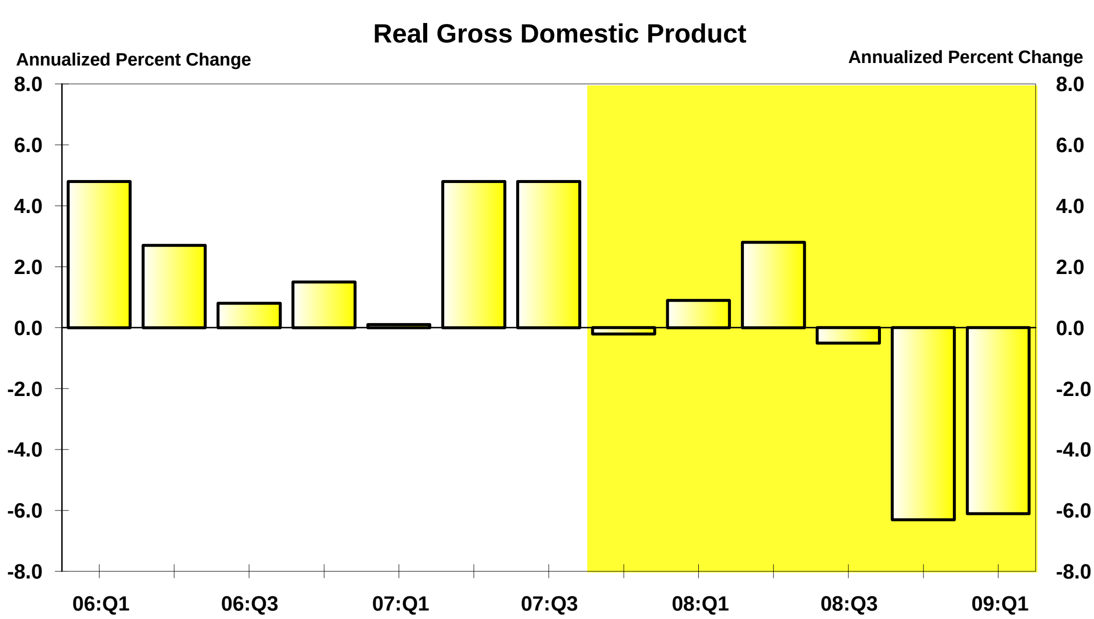
Data since your last Directors' meeting show the economy contracted in the first quarter at nearly the same pace as in the fourth quarter. The weakness in the economy was widespread in the first quarter, but found some support from resilient consumers. While the worst of the recession may be over, it could still be some time before a strong economy returns.

The decrease in real GDP in the first quarter was due primarily to negative contributions from exports, private inventory investment, equipment and software, nonresidential structures, and residential investment that were party offset by a positive contribution from personal consumption expenditures. Imports decreased sharply, also providing a boost to GDP.

In April, consumer attitudes showed further signs of improvement, but are still relatively low. Initial claims for unemployment insurance decreased a bit in April from the previous two months, yet remain historically high. The ISM manufacturing and employment indices made solid gains in April, but are still well below 50, signaling continued contraction in manufacturing.

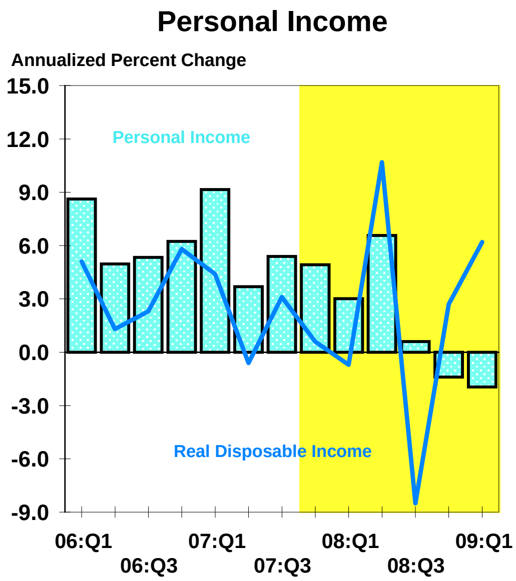
Inflation concerns remained off the radar in the first quarter, as headline measures fell for both consumers and producers. Unit labor costs decelerated and total compensation costs, as measured by the ECI, grew at their slowest pace ever in the first quarter. Oil prices rose a bit further in April, but still stand at less than half the level seen at the same time last year.

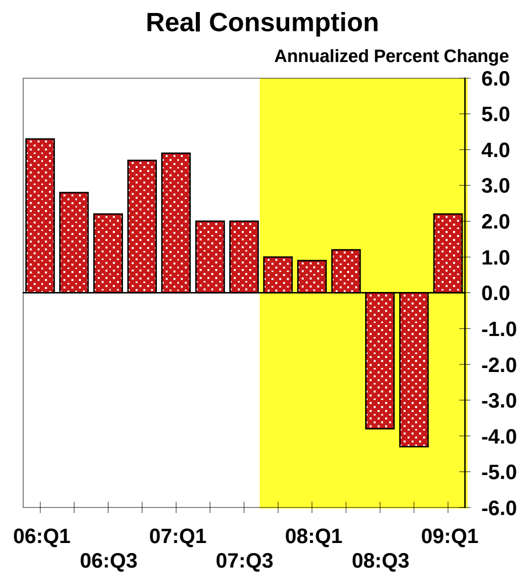
Real GDP shrank in the first quarter at a rate only slightly less than seen in the fourth quarter. This small improvement was due mostly to stronger consumption and fewer imports, the effects of which were almost completely offset by a larger decrease in inventory investment and a downturn in government spending.



Source: Bureau of Economic Analysis.

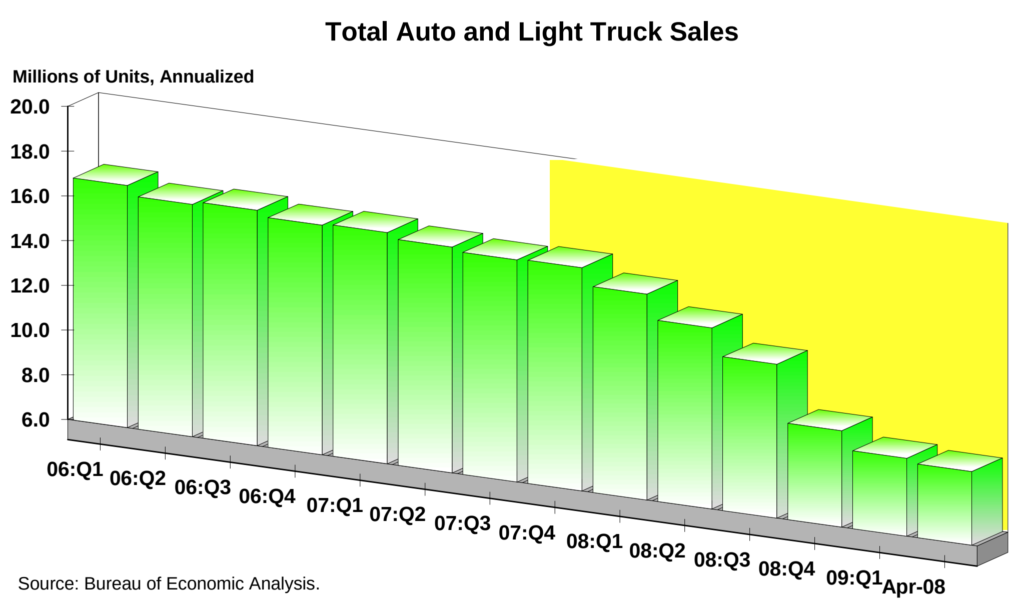
Real incomes increased in the first quarter, helping consumption post its first gain since the second quarter of last year.





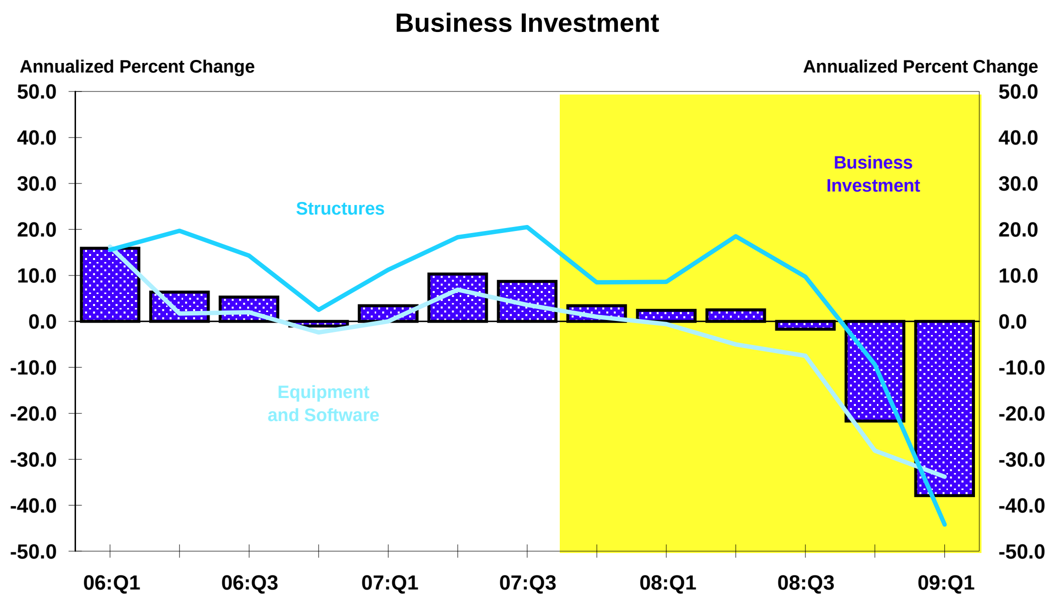
Source: Bureau of Economic Analysis.

Lightweight vehicle sales fell a bit further in the first quarter, and essentially matched that average in April.



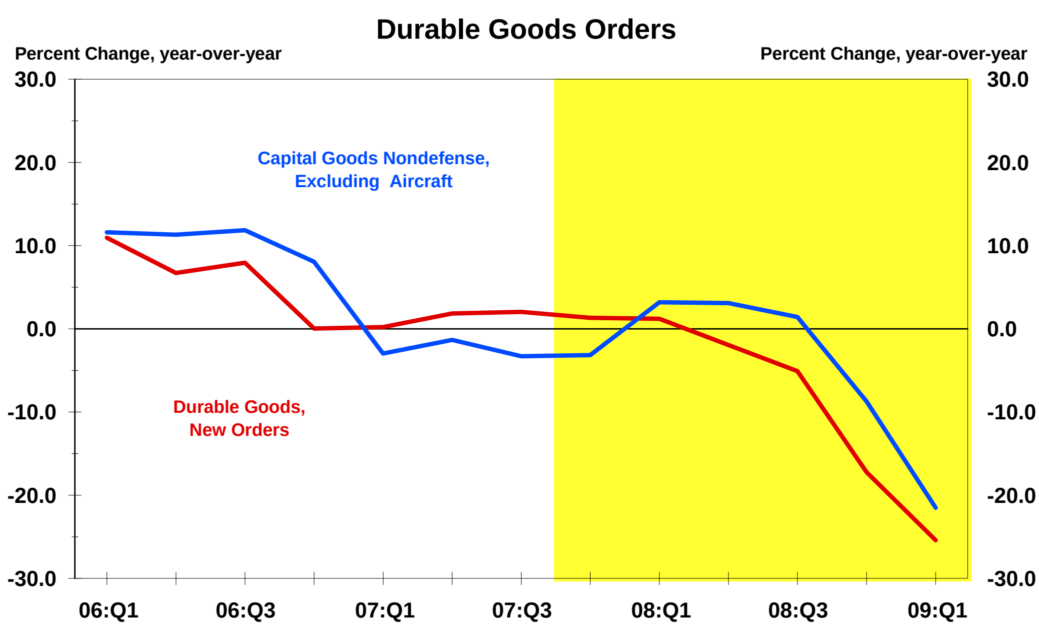
Source: Bureau of Economic Analysis.

Business investment continued to retreat in the first quarter, led by a record drop in nonresidential structures and the biggest drop in equipment and software since 1958:Q1.



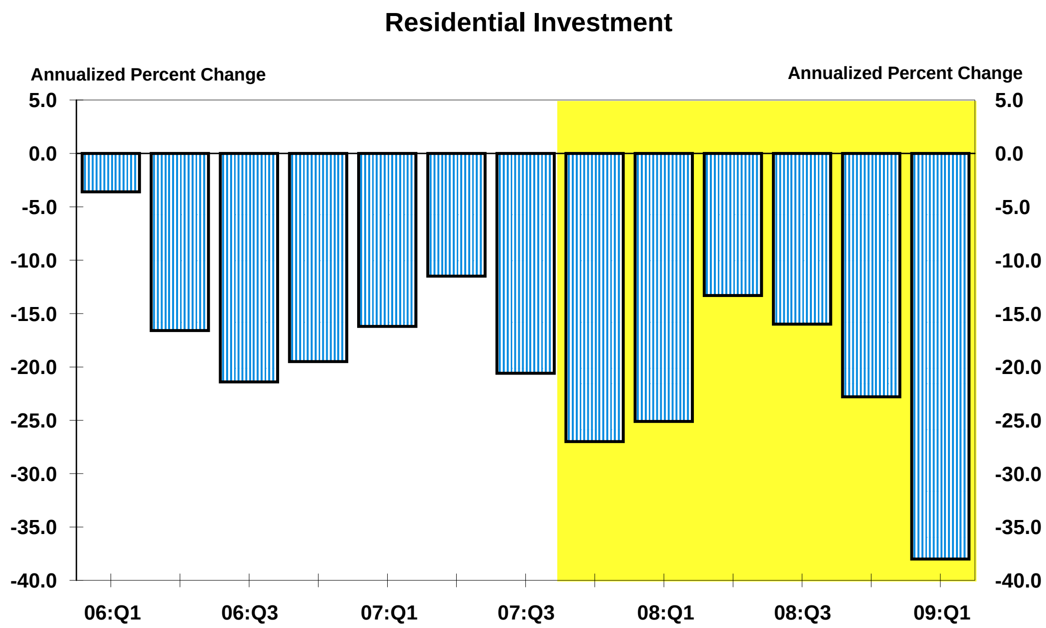
Source: Bureau of Economic Analysis.

New orders for durable goods and for nondefense capital goods, excluding aircraft, both experienced their biggest drops on record in the first quarter.



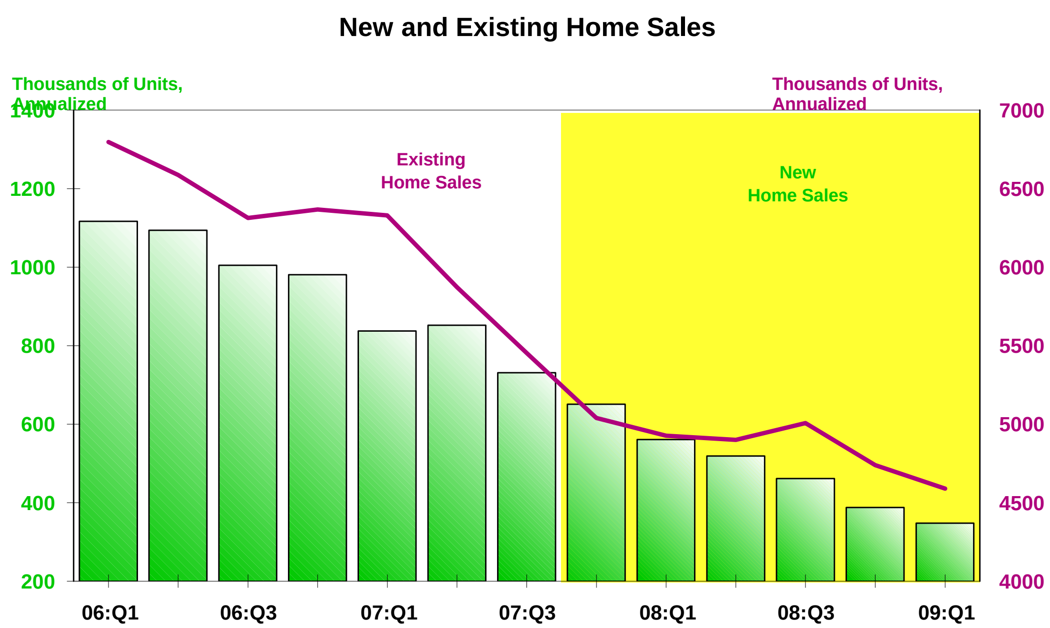
Source: U.S. Census Bureau.

Residential investment continued to fall in the first quarter, posting it's largest drop since 1980:Q2.



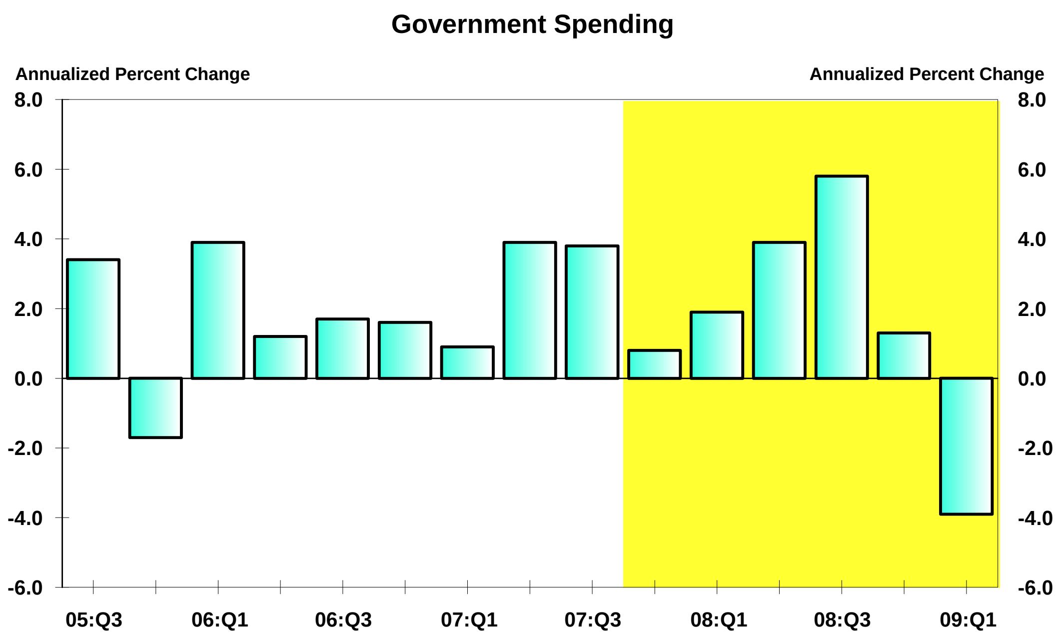
Source: U.S. Census Bureau.

Home sales brought a burst of optimism when they increased in February, but the brief improvement was not enough to prevent the quarterly data from continuing along their downward paths.



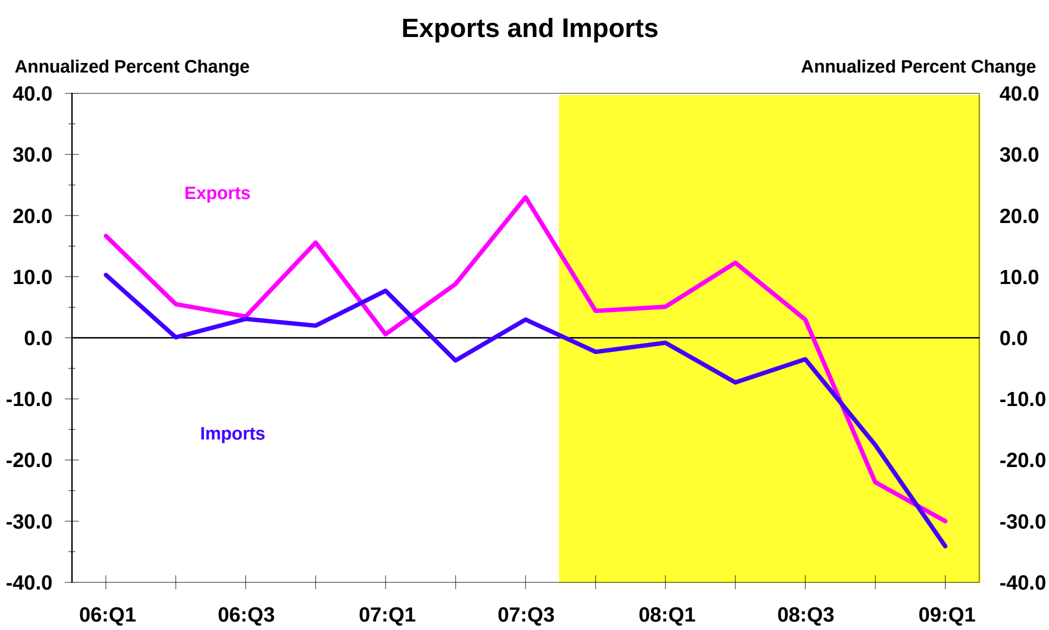
Source: U.S. Census Bureau.

Government spending decreased in the first quarter for the first time in over three years.



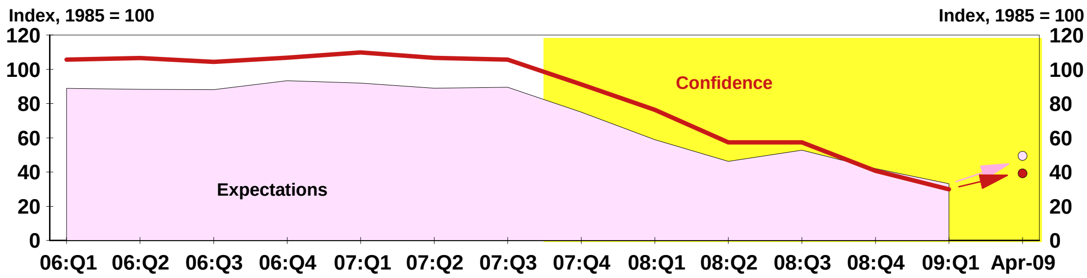
Source: Bureau of Economic Analysis.

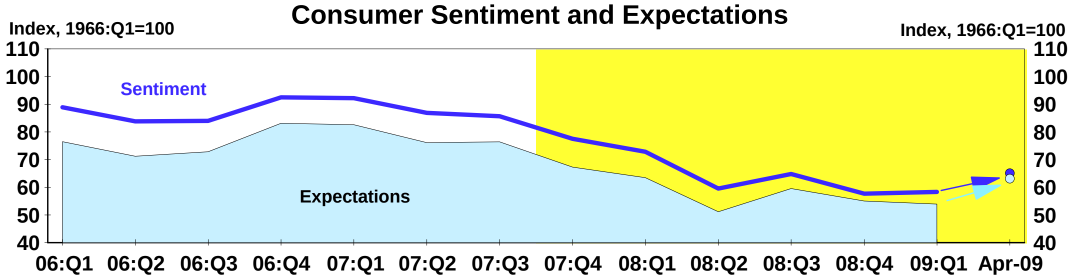
Exports and imports fell significantly in the first quarter, as the recession continued to reduce both global and domestic demand.



Source: Bureau of Economic Analysis.

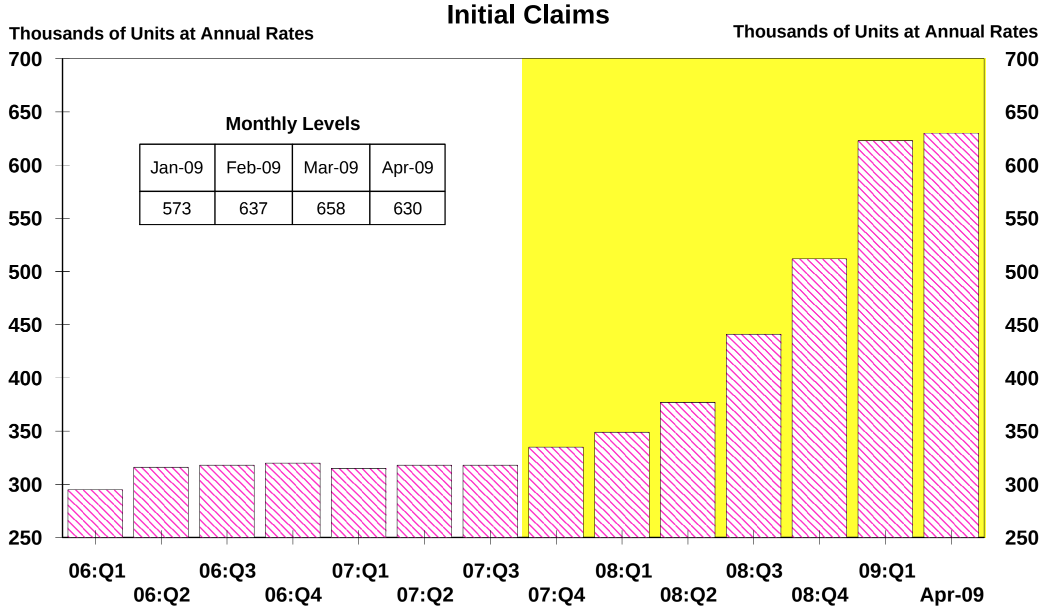
Consumer attitudes started to improve in the first quarter, and continued to rebound in April. Though still close to historically low levels, sentiment and confidence both stand at their highest points since late last year.





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

Initial claims for unemployment insurance surged to near-record highs late in the first quarter, before subsiding a bit in April.

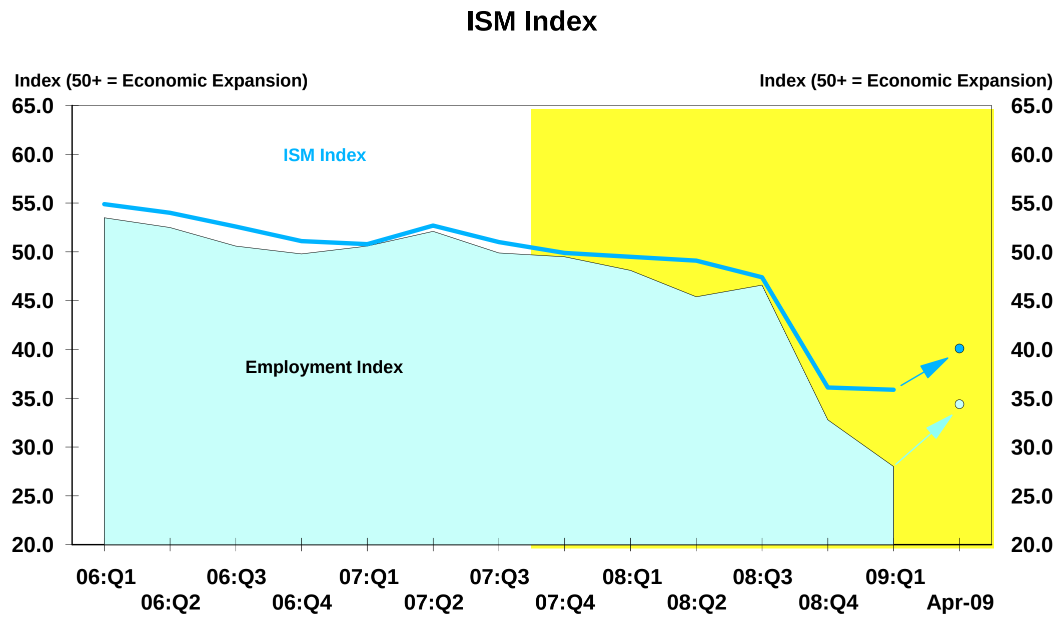


Monthly Levels

Jan-09	Feb-09	Mar-09	Apr-09
573	637	658	630

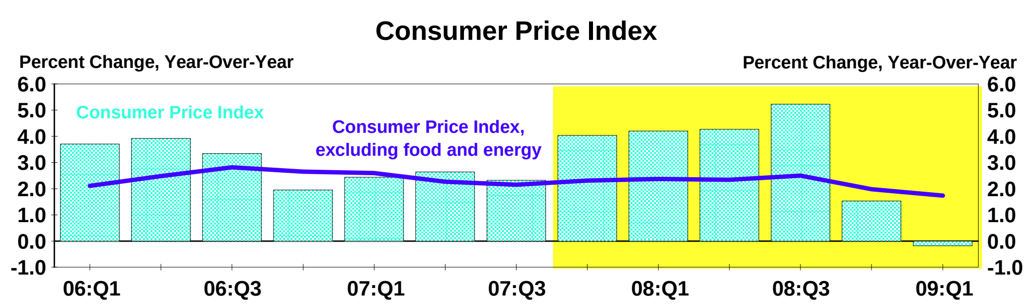
Source: Department of Labor, Employment and Training Administration.

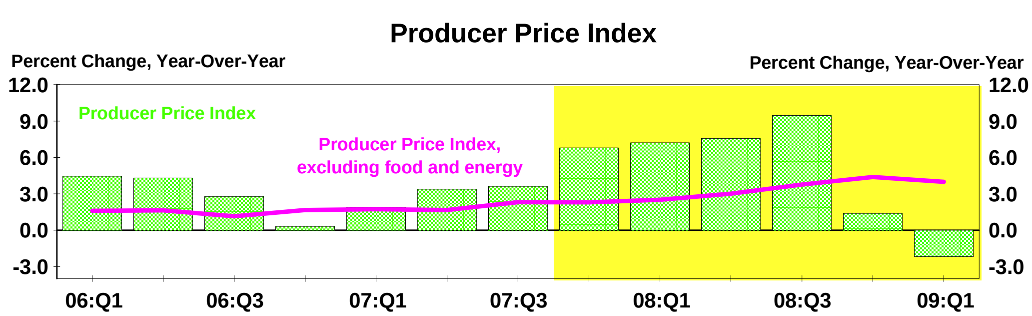
The ISM index improved slowly through the first quarter, and gained even more ground in April. Still, the index remains well below 50, as does the employment index.



Source: Institute for Supply Management.

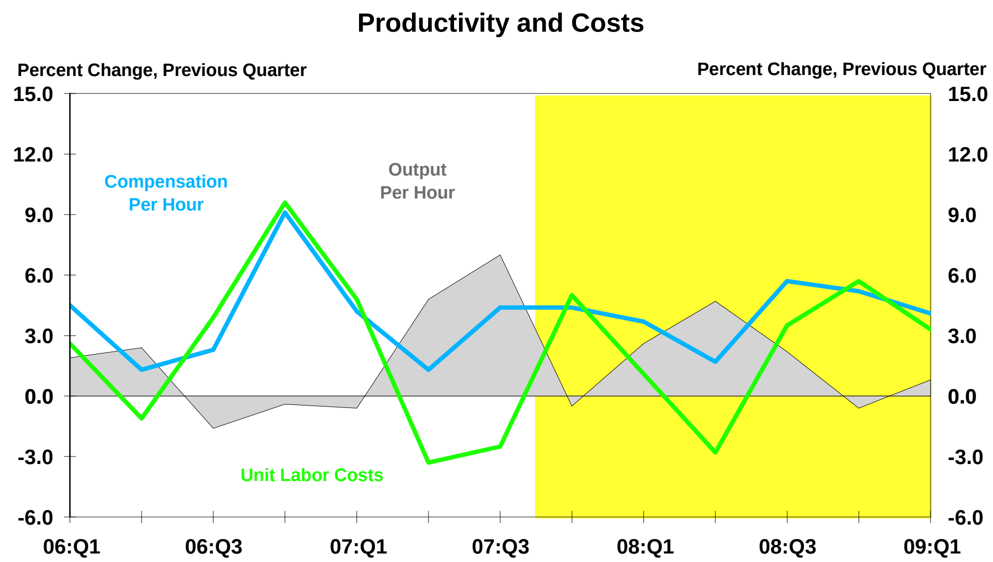
Total prices fell in the first quarter for both consumers and producers. Core inflation slowed during the quarter, while the consumer index grew at its slowest pace in five years.





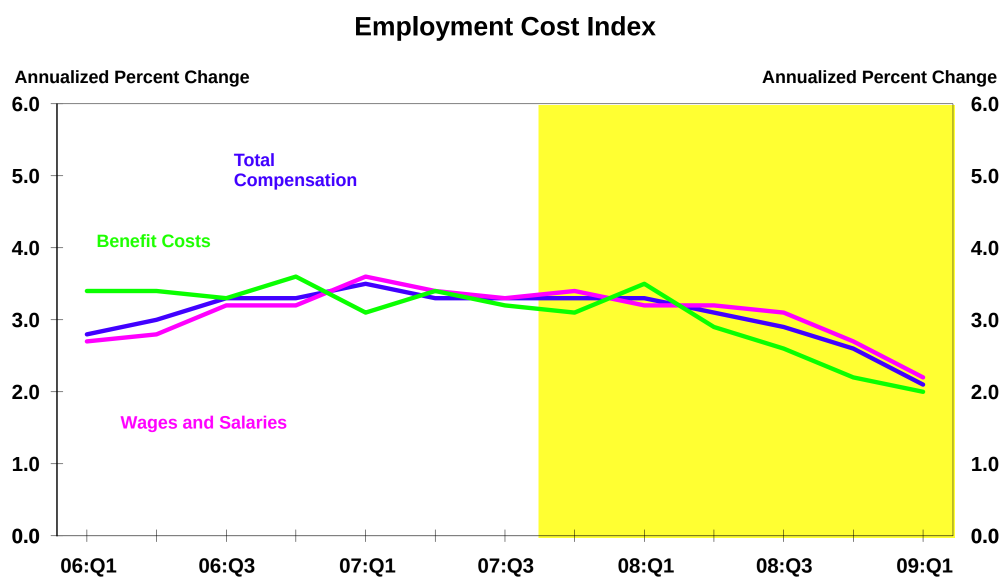
Source: Bureau of Labor Statistics.

Productivity posted a small gain in the first quarter, offsetting the drop seen in the fourth quarter. Growth in hourly compensation and unit labor costs slowed.



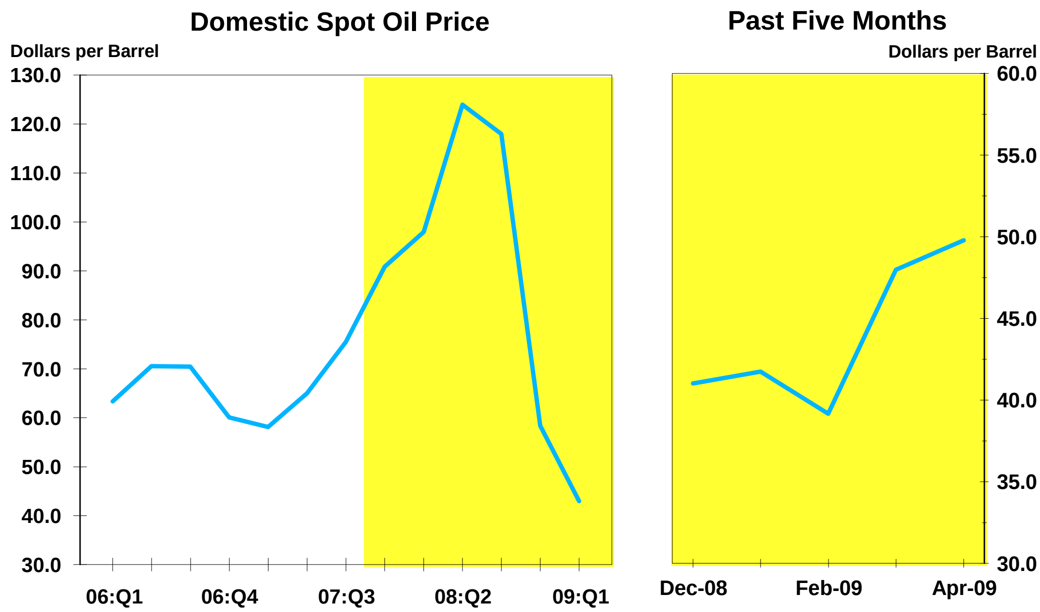
Source: Bureau of Labor Statistics.

Total compensation grew at the slowest pace on record in the first quarter, as wages, salaries, and benefit costs continue to decelerate.



Source: Bureau of Labor Statistics.

Oil prices fell overall during the first quarter, but rose sharply in March and continued to rise in April.



Source: Wall Street Journal (oil prices).

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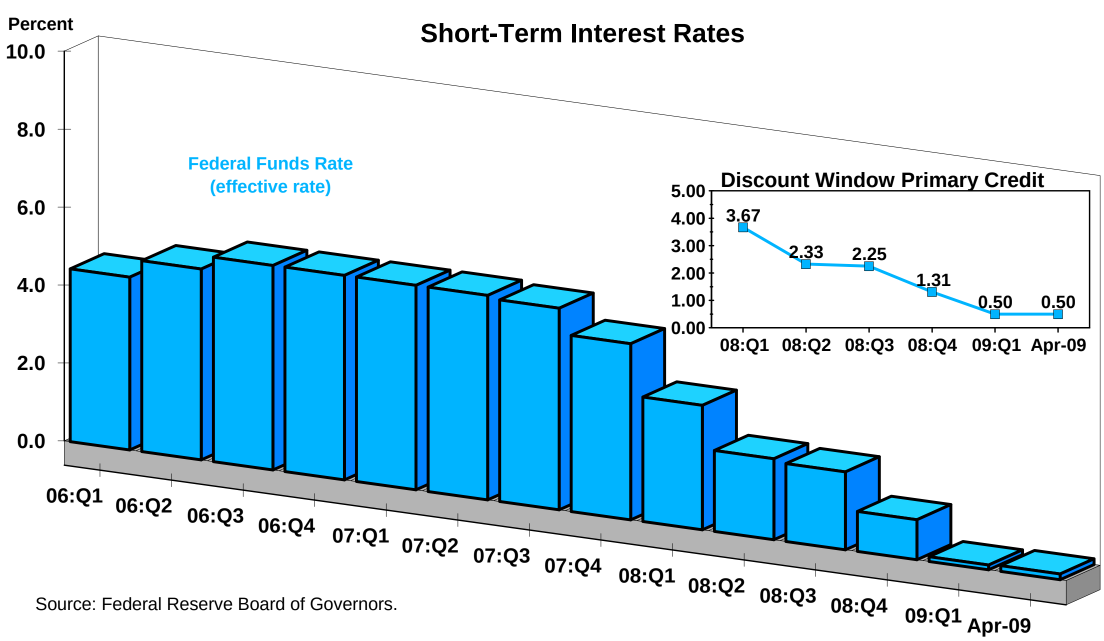
Overall, data since your last Directors' meeting show the economy contracted in the first quarter at nearly the same pace as in the fourth quarter. The weakness in the economy was widespread in the first quarter, but found some support from resilient consumers. While the worst of the recession may be over, it could still be some time before a strong economy returns.



Source: Federal Reserve Board of Governors.

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

May 14, 2009

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

Nonfarm payrolls fell again in April, but by a smaller amount than seen over the previous five months. Since the onset of the recession, payrolls have been reduced by nearly 6 million. As a result, the unemployment rate has risen to 8.9%, its highest level since September 1983.

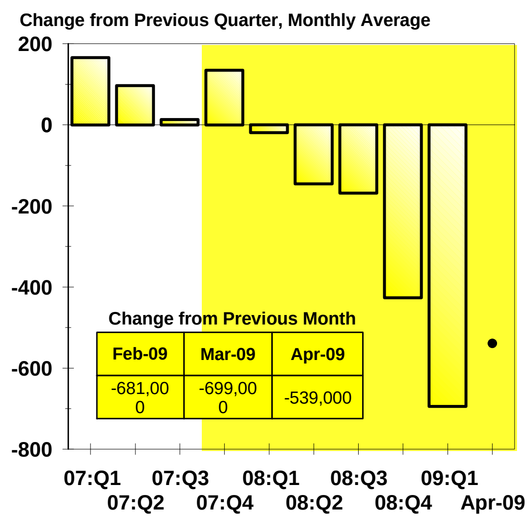
Retail sales fell 0.4% in April, led by falling sales of gasoline and electronics. Excluding autos, sales were down 0.5%. The U.S. trade deficit widened a bit in March, as a 2.4% drop in exports more than offset a 1.0% decline in imports.

Also in March, wholesale inventories fell 1.6% and sales decreased 2.4%. Business inventories dropped 1.0% while sales were off 1.6%.

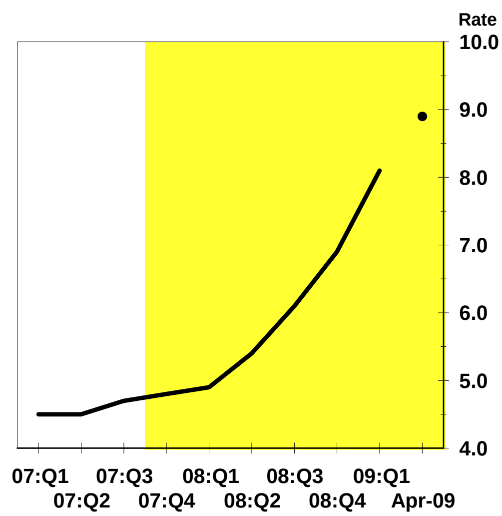
Redbook sales rose 0.1% in the first two weeks of May, compared to April. Sales were 0.3% higher last week than during the same period last year. Oil prices increased during the past week, averaging $57.8 per barrel, compared to last week's average of $52.7.

In April nonfarm payrolls shed 539,000 jobs, and revisions to the previous two months' estimates resulted in 66,000 additional jobs being lost. Also in April, the unemployment rate rose four-tenths of a percentage point to 8.9%, it's highest point in over 25 years.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.