FEDERAL RESERVE
BANK OF BOSTON™

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

May 6, 2010

CURRENT ECONOMIC DEVELOPMENTS - May 6, 2010

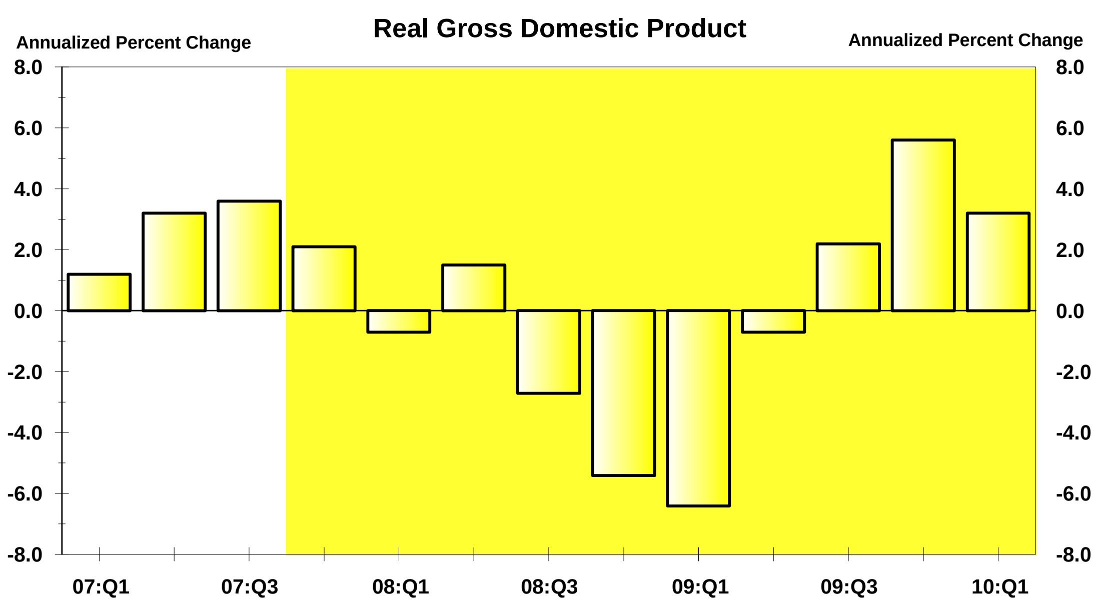
Data since your last Directors' meeting show the economy continued to grow in the first quarter, but at a slower pace than in the fourth quarter. Businesses continued to invest without adding to payrolls, and consumers continued to spend despite not being hired or seeing their incomes rise. Those conditions are not likely sustainable, and will need to be addressed by an improvement in employment conditions for the positive momentum in the recovery to carry through the rest of the year.

The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, and nonresidential investment. Those effects were partly offset by decreases in state and local government spending and residential investment and an increase in imports.

In April consumer attitudes were mixed, persistent in their recent volatile pattern that has left them little improved from where they stood late last summer. Initial claims for unemployment insurance increased a bit in April but were down slightly from their first quarter average. The ISM manufacturing and employment indices both continued to improve in April, reaching their highest levels in six and five years, respectively.

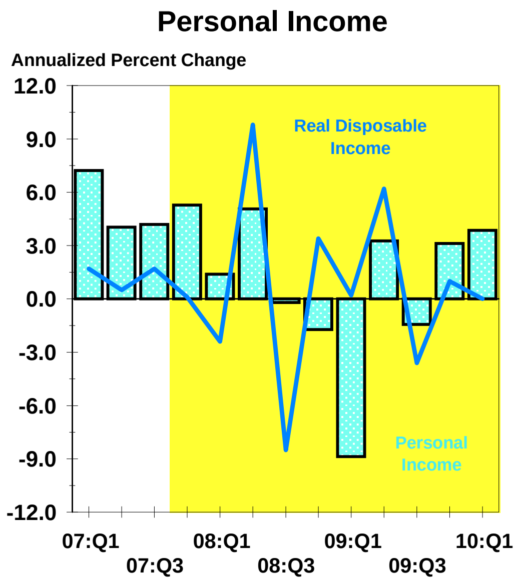
Inflation concerns remained secondary in the first quarter. Core inflation indices for both consumers and producers saw only minor monthly changes during the quarter, as did headline prices for consumers. Unit labor costs fell further in the first quarter while total compensation costs, as measured by the ECI, accelerated a bit from the record-low pace of the previous two quarters. Oil prices did rise further in April, reaching their highest sustained levels in over a year.

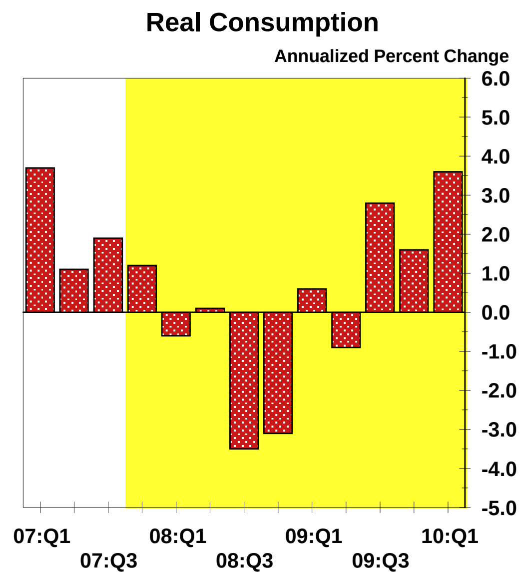
Real GDP grew in the first quarter, but at a slower rate than seen in the fourth quarter. The slowdown in GDP's growth rate was primarily due to decelerations in private inventory investment and exports, a downturn in residential investment and a larger decrease in state and local government spending that were partly offset by an acceleration in personal consumption expenditures and a slowdown in imports.



Source: Bureau of Economic Analysis / Haver Analytics.

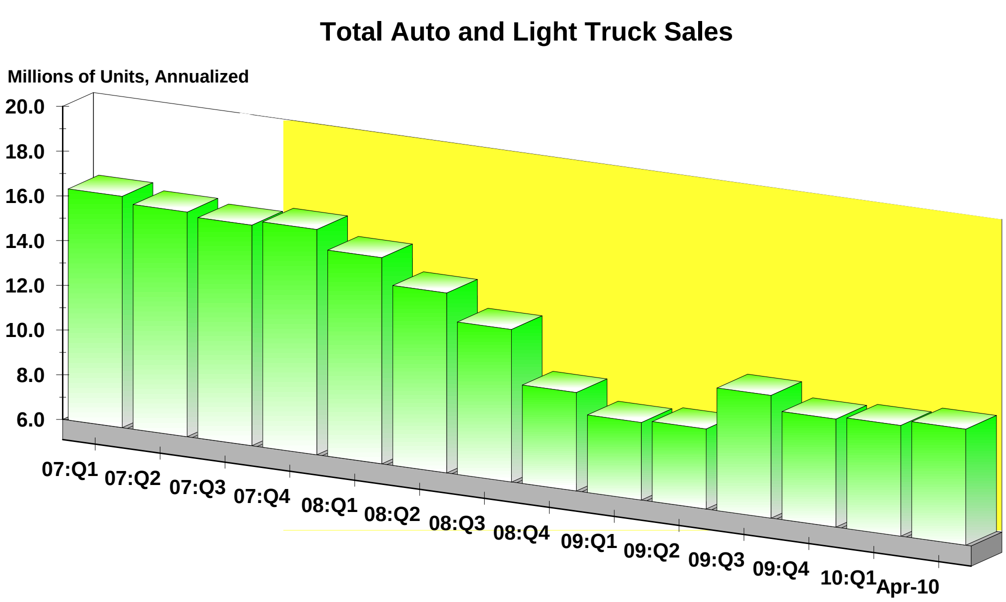
Consumption posted its biggest gain in three years in the first quarter, despite no change in real income. The recent increases in consumption have played a key role in the recovery of GDP, contributing more than 2.5% to growth in the first quarter.





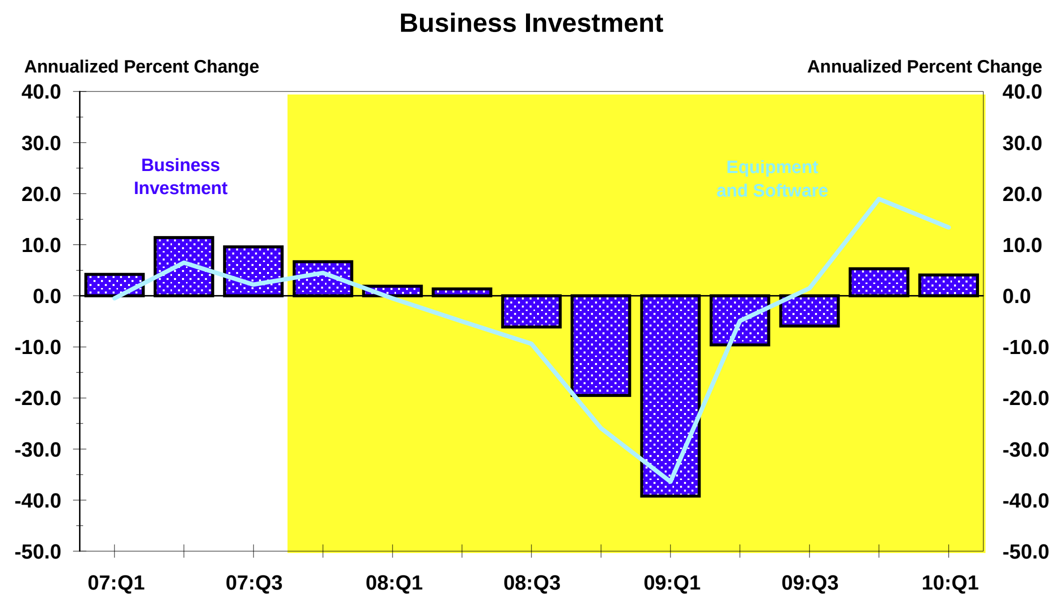
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales were up slightly in April from their first quarter average, but down a bit from the March sales pace. Sales in both March and April were up over 20% from their year-ago levels.



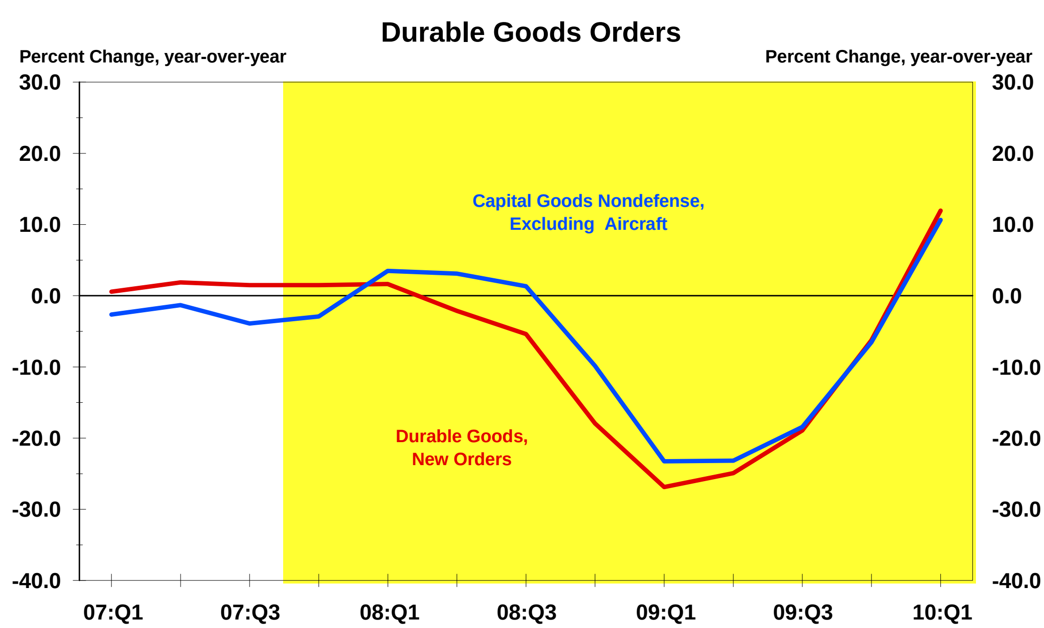
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment increased again in the first quarter, led by another solid, yet albeit smaller, increase in equipment and software investment.



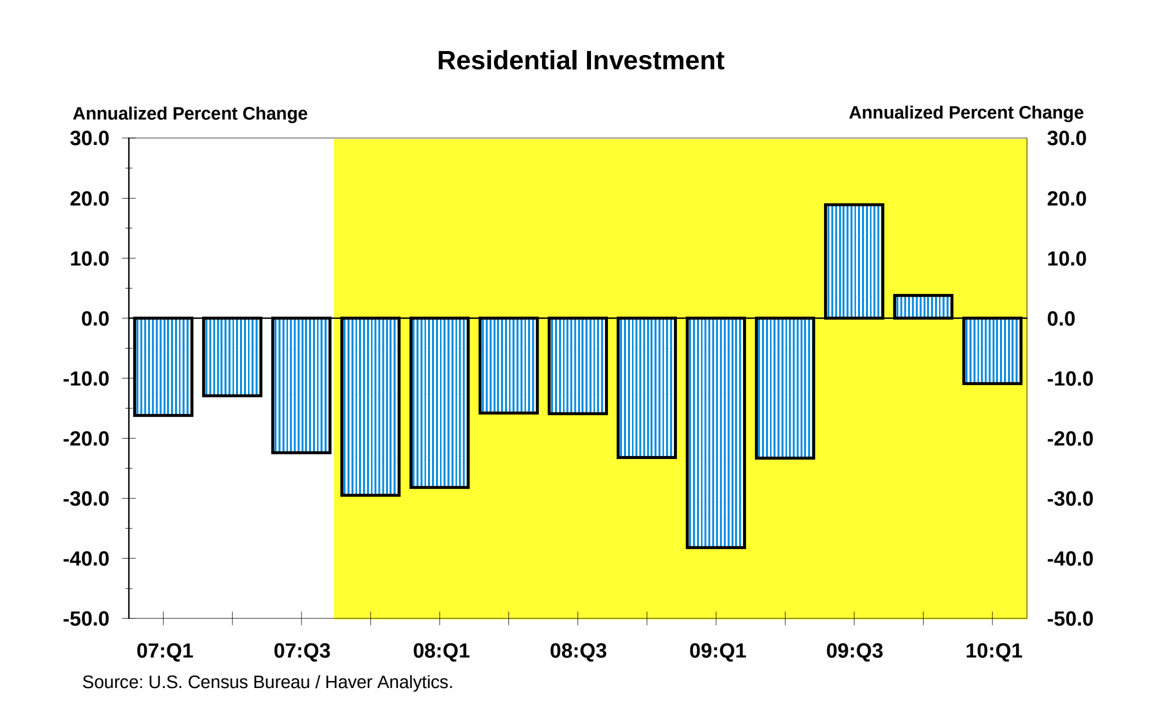
Source: Bureau of Economic Analysis / Haver Analytics.

On a year-over-year basis, new orders for durable goods posted their first increase in two years in the first quarter, and their biggest one since the fourth quarter of 2005. Orders for nondefense capital goods, excluding aircraft, also rose for the first time in over a year.

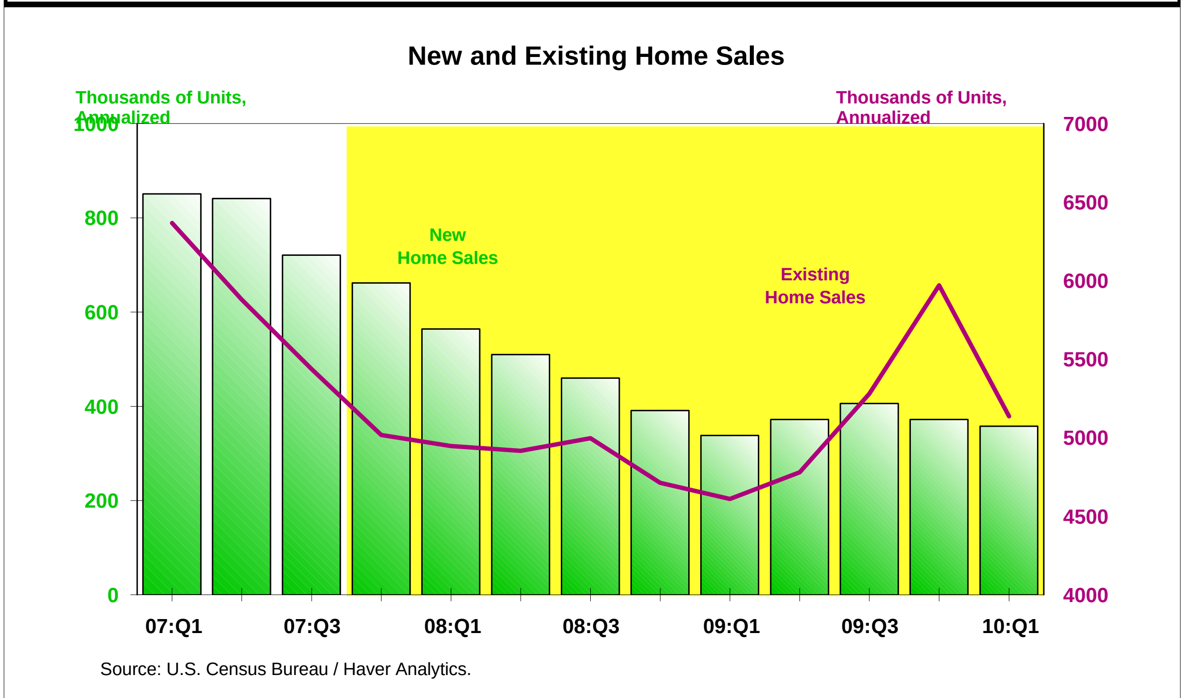


Source: U.S. Census Bureau / Haver Analytics.

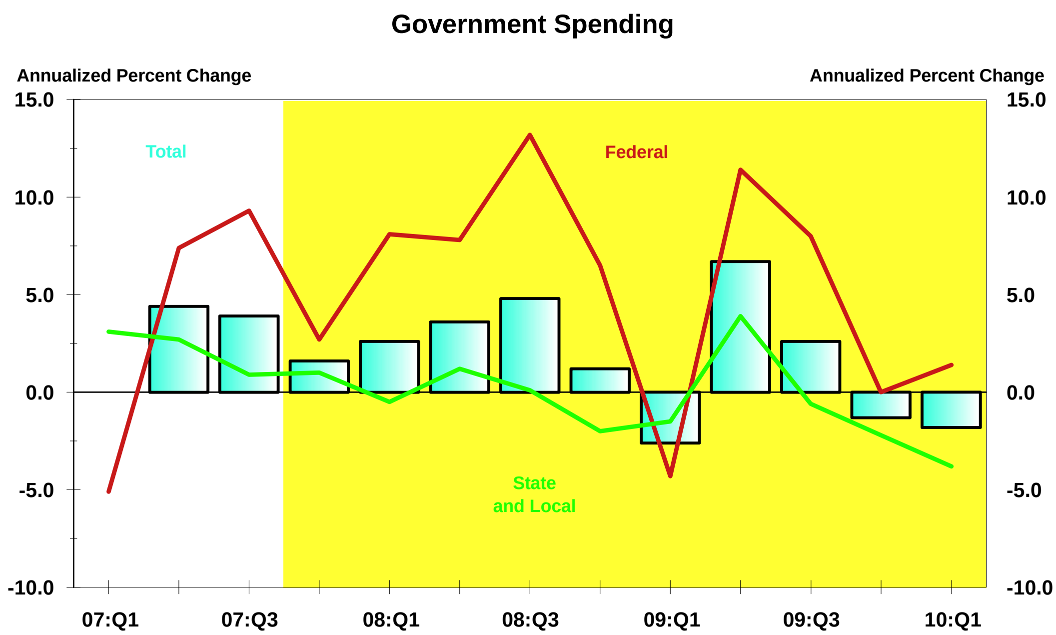
Residential investment fell in the first quarter, following two quarters of growth which was likely due to the stimulus home-buying rebate program.



With the extended rebate plan set to expire in April, home sales posted strong gains in March. Those sales weren't enough to offset the weak sales in January and February, resulting in sales being down overall for the quarter.

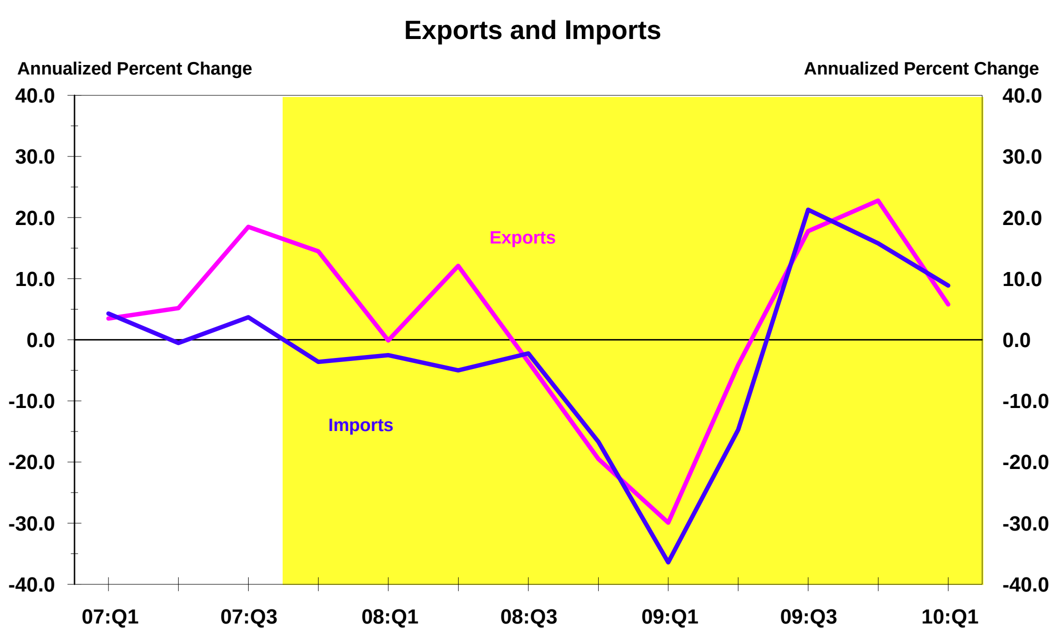


Government spending decreased again in the first quarter, due entirely to cut-backs in state and local government spending. Federal spending increased slightly in the first quarter, after holding steady in the fourth quarter.



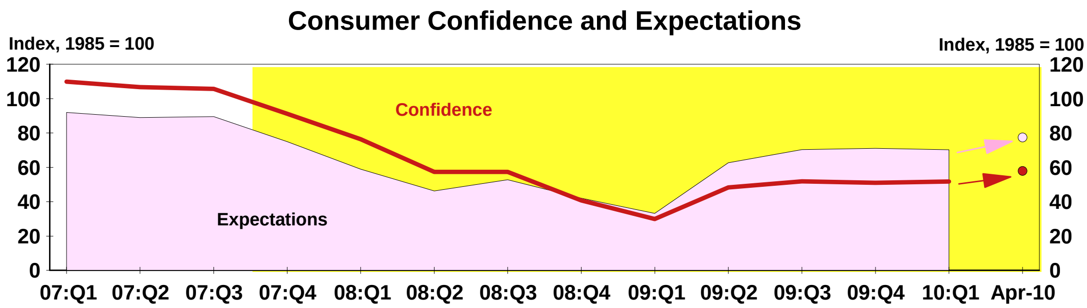
Source: Bureau of Economic Analysis / Haver Analytics.

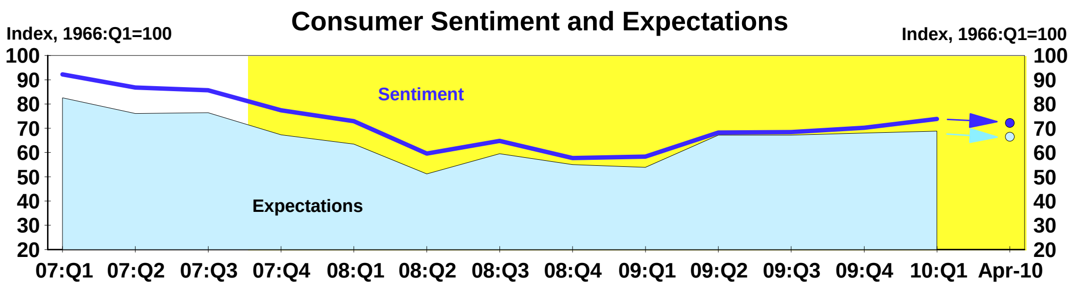
Exports and imports both continued to rise in the first quarter, further evidence of increasing global and domestic demand.



Source: Bureau of Economic Analysis / Haver Analytics.

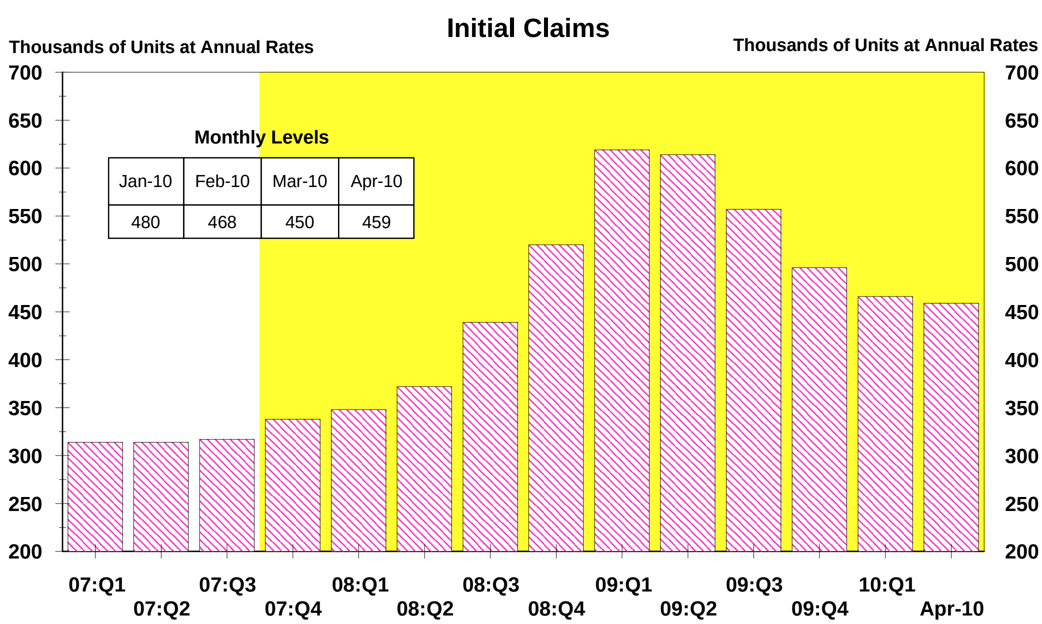
Consumer attitudes were mixed in April. Consumer confidence rose sharply for the second consecutive month, yet sentiment eased slightly following no change in March. Overall consumers felt better about the economy as a whole in April, but were mixed about the recovery retaining its momentum in the coming months.





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

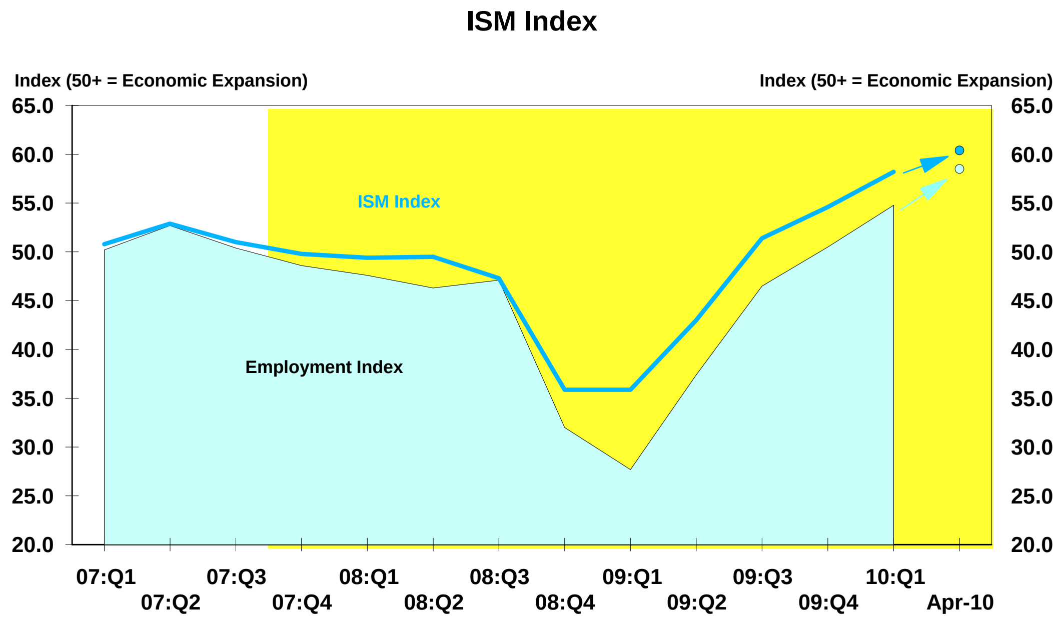
Initial claims for unemployment insurance declined through the first quarter, but picked up a bit in April, and remain above levels more consistent with healthy labor conditions.



Jan-10	Feb-10	Mar-10	Apr-10
480	468	450	459

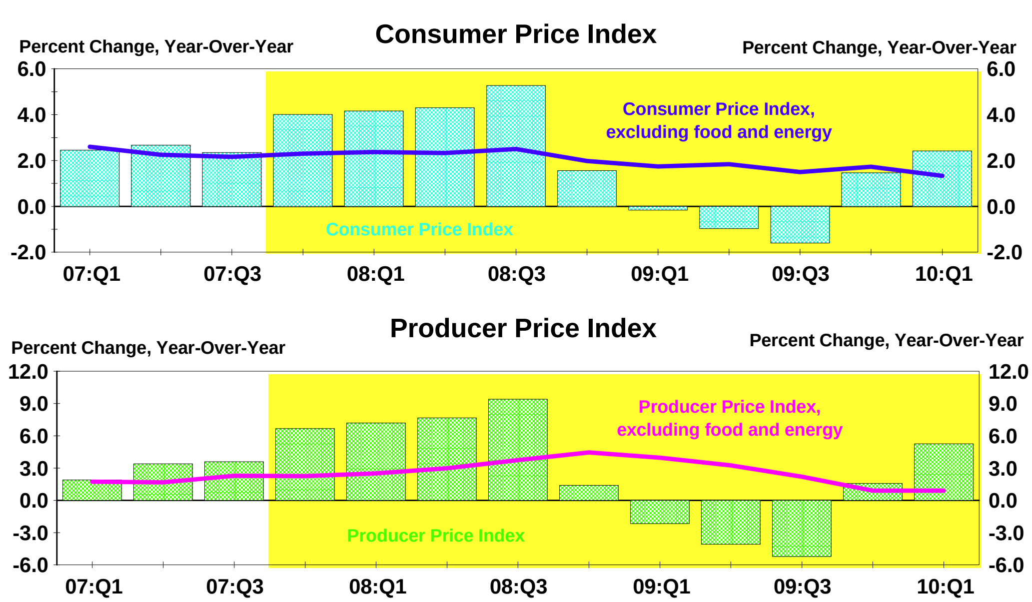
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The ISM index improved further in the first quarter, and kept rising in April. The April estimate showed a greater than 85% improvement over the record low recorded in December 2008. The employment index hit a five-year high in April.



Source: Institute for Supply Management / Haver Analytics.

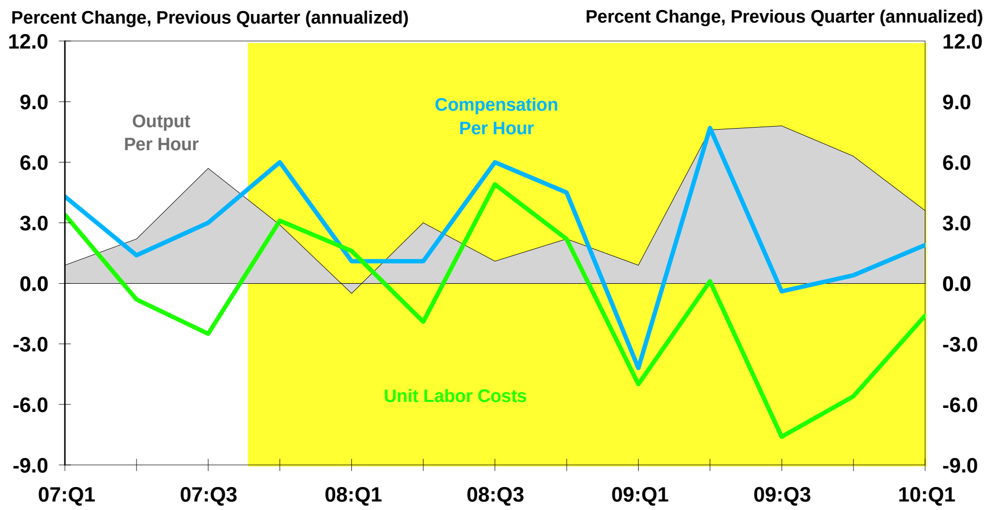
Total consumer prices rose moderately in the first quarter compared to the previous year, but that was due more to how low prices were last year than to recent price increases. Monthly changes to CPI during the first quarter were quite small. That data, along with only slight changes to the core indices in the first quarter, has kept inflation concerns muted for now.



Source: Bureau of Labor Statistics / Haver Analytics.

Productivity growth slowed in the first quarter but still posted a solid gain. Growth in hourly compensation accelerated but unit labor costs continued to fall.

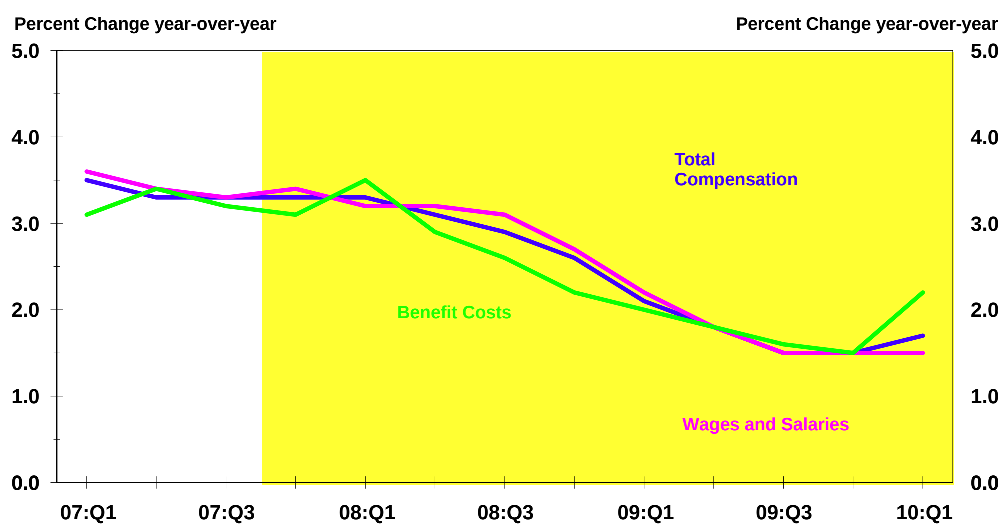
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

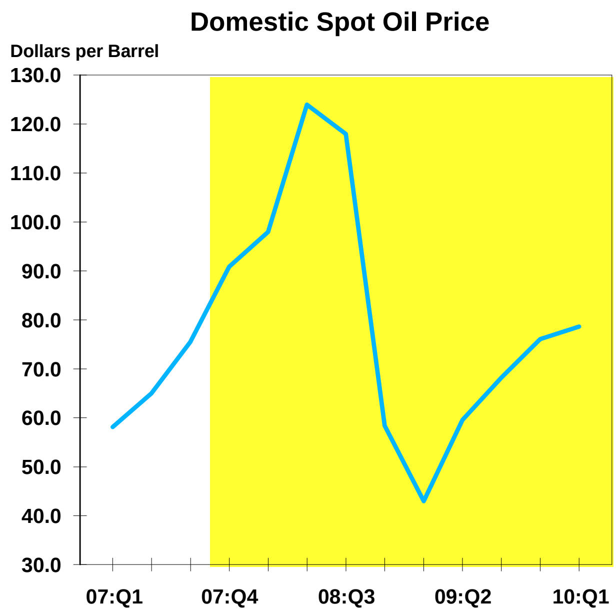
In the first quarter, total compensation accelerated for the first time since 2007:Q1 on a year-over-year basis. The faster growth rate was due primarily to a pick up in benefit costs, as wages and salaries grew at the same pace as they had in the previous two quarters.

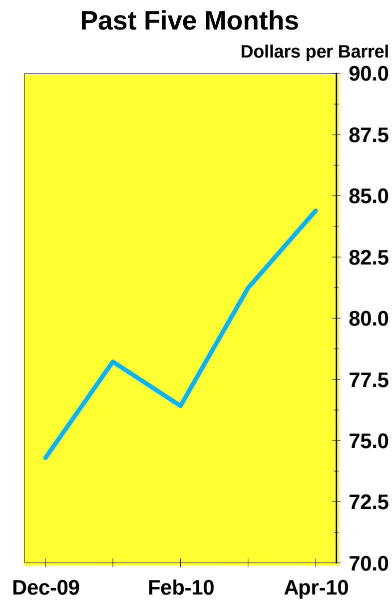
Employment Cost Index



Source: Bureau of Labor Statistics / Haver Analytics.

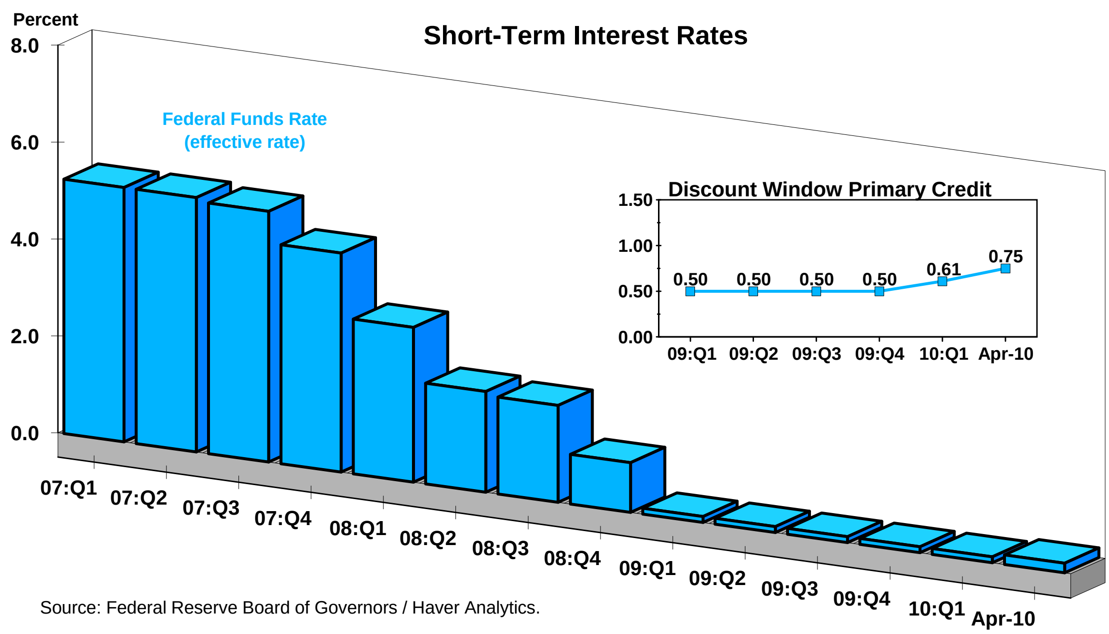
Oil prices rose a bit during the first quarter, and continued to rise in April, posting their highest monthly average since September 2008. However, prices have fallen over $6 per barrel during the first few days of May.





Source: Wall Street Journal / Haver Analytics.

Overall, data since your last Directors' meeting show the economy continued to grow in the first quarter, but at a slower pace than in the fourth quarter. Businesses continued to invest without adding to payrolls, and consumers continued to spend despite not being hired or seeing their incomes rise. Those conditions are not likely sustainable, and will need to be addressed by an improvement in employment conditions for the positive momentum in the recovery to carry through the rest of the year.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

May 13, 2010

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

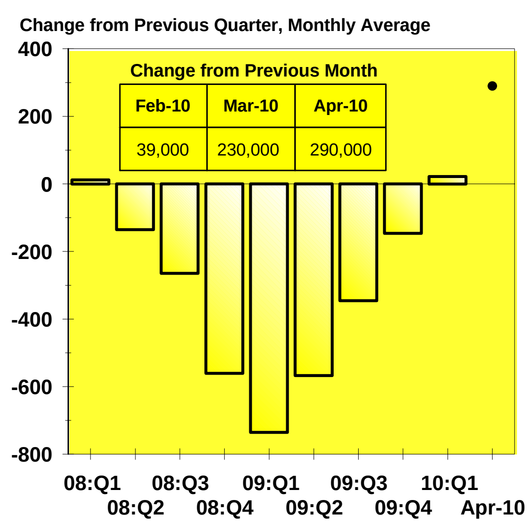
Nonfarm payrolls surged in April, posting their largest single-month gain since March 2006. Part of the increase was due to temporary workers hired as part of the 2010 Census, however, even with those hires removed employment still had its biggest gain in over two years. Despite recent increases in employment, the unemployment rate rose to 9.9%, the highest estimate this year. Much of that increase, however, can be explained by people returning to the labor force and actively seeking employment.

The U.S. trade deficit widened to $40.4 billion in March, as exports rose 3.2% and imports increased 3.1%. The deficit in March was the biggest since December 2008. Also in March, wholesale inventories rose 0.4% and sales increased 2.4%.

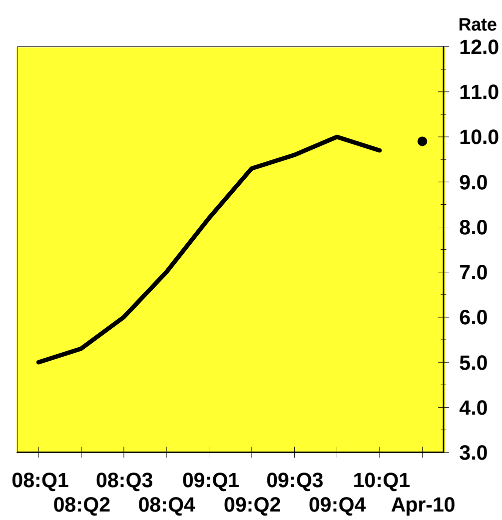
Last week concern spread over the debt crisis in Greece. The joint bailouts approved by the IMF and the EU early this week have so far calmed many of those fears, but it is much too early to draw any conclusions about the long-term effectiveness of the plans. The short-term package provides an immediate €110 billion to Greece to shore up its economy and provide market confidence. The long-term plan will make nearly €1 trillion available for loans to other troubled European nations, such as Portugal and Spain, should conditions deteriorate.

In April nonfarm payrolls added 290,000 jobs, and revisions to the previous two months' estimates resulted in 121,000 additional jobs being created. Despite those gains, the unemployment rate rose two-tenths of a percentage point in April to 9.9%.

Nonfarm Payroll Employment

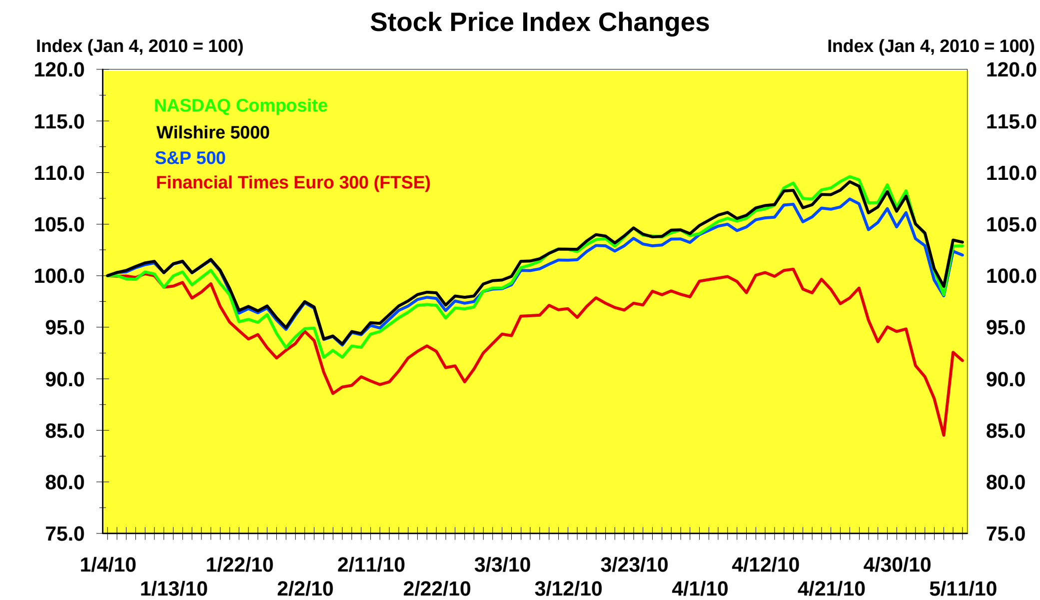


Unemployment Rate



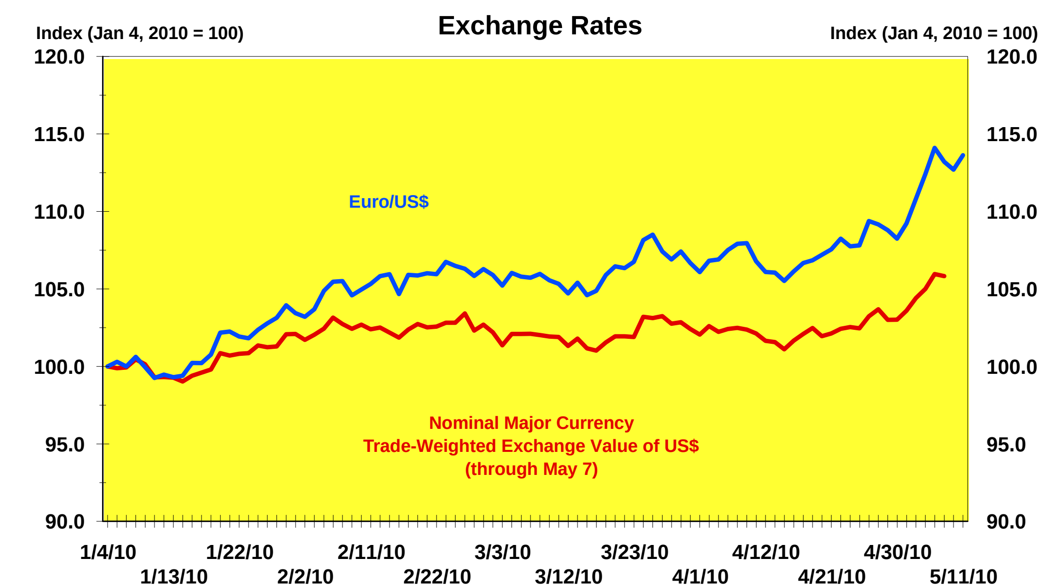
Source: Bureau of Labor Statistics.

Global stock markets fell sharply through the last week of April and first week of May, but have recouped some of those losses this week in response to the bailout of Greece.



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

If it is contained, the affect of the Greek crisis on the U.S. will likely be relatively small. Should the crisis spread to other European nations, the affects could be greater. One potential risk to the U.S. recovery is a widening trade balance, which would negatively impact GDP, due to the stronger dollar relative to the Euro. The stronger dollar may also apply further downward pressure to U.S. prices.



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