FEDERAL RESERVE BANK OF BOSTON™

The

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

May 5, 2011

CURRENT ECONOMIC DEVELOPMENTS - May 5, 2011

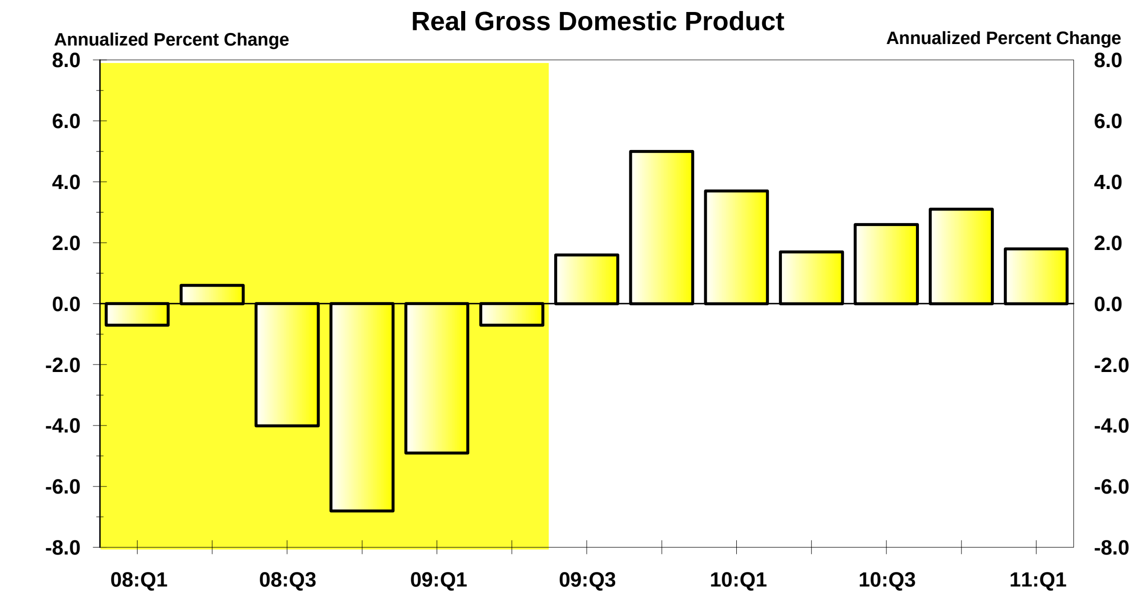
Data since your last Directors' meeting show the economy continued to grow in the first quarter, but at a slower pace than in the fourth quarter. Contributing to the slowdown were effects that are expected to be temporary - namely high oil prices and a sizeable drop in military spending - and growth is expected to pick up over the rest of the year. Recent data continue to show strength in consumption and manufacturing while the housing market and fiscal issues remain as downside risks.

The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, and nonresidential fixed investment that were partly offset by negative contributions from government spending and an increase in imports.

In April, consumer attitudes improved from their March levels as concerns about income and rising oil prices eased a bit. Initial claims for unemployment insurance increased in April, due in part to administrative factors that are likely temporary. The ISM manufacturing and employment indices both fell slightly in April, but continued to signal robust expansion in the manufacturing sector.

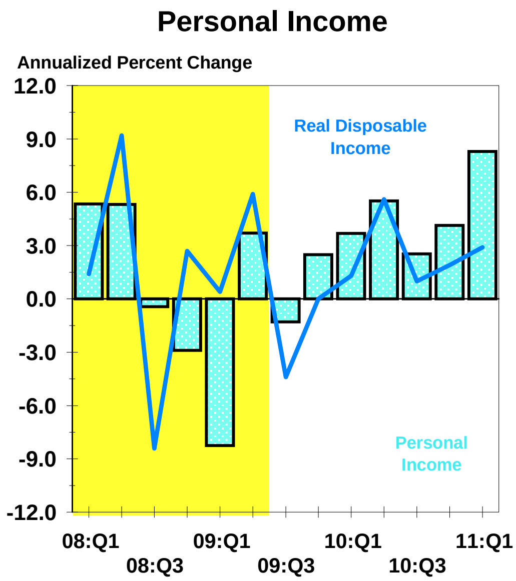
Inflation concerns have received increasing coverage recently, due to higher energy and food prices. While those effects are clearly visible in recent acclerations in total inflation measures, the core indices remain at a more moderate levels, despite picking up a bit in the first quarter. Unit labor costs rose a bit in the first quarter to offset their fourth quarter decline, and total compensation costs, as measured by the ECI, held steady at the rate seen in the fourth quarter.

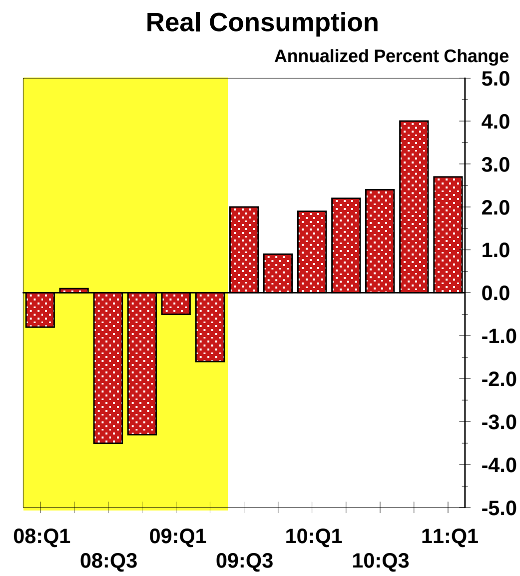
Real GDP grew in the first quarter, but at a slower rate than seen in the fourth quarter. The slowdown in GDP's growth rate was primarily due to a sharp upturn in imports, a deceleration in personal consumption expenditures, a larger decrease in government spending, and decelerations in nonresidential fixed investment and exports. Those effects were partly offset by a sharp upturn in inventory investment.



Source: Bureau of Economic Analysis / Haver Analytics.

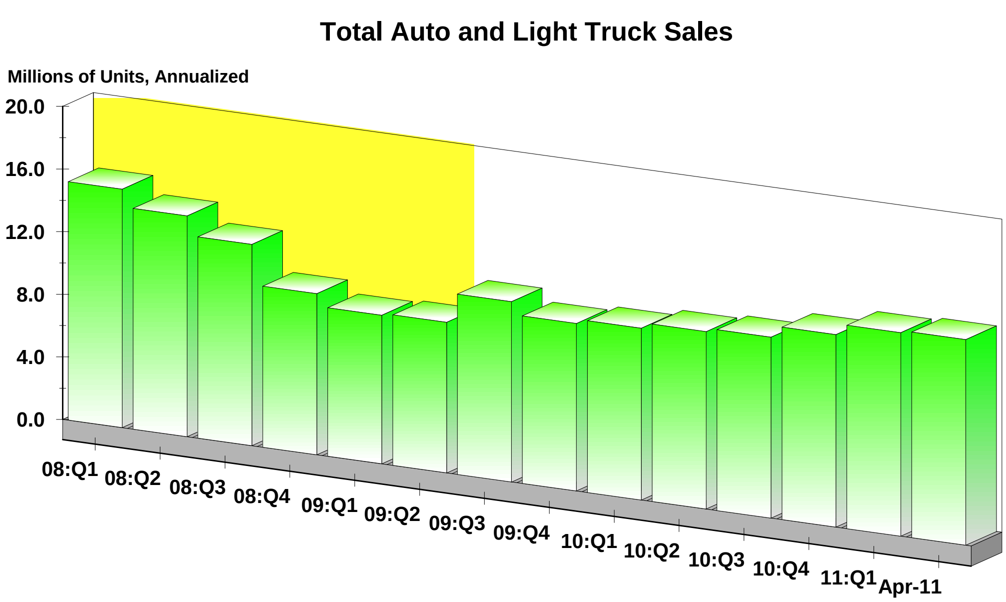
Personal income posted its biggest quarterly gain in five years in the first quarter, and real incomes also accelerated. Consumption slowed during the quarter, despite the higher incomes, but continued to be a primary contributor to GDP growth.





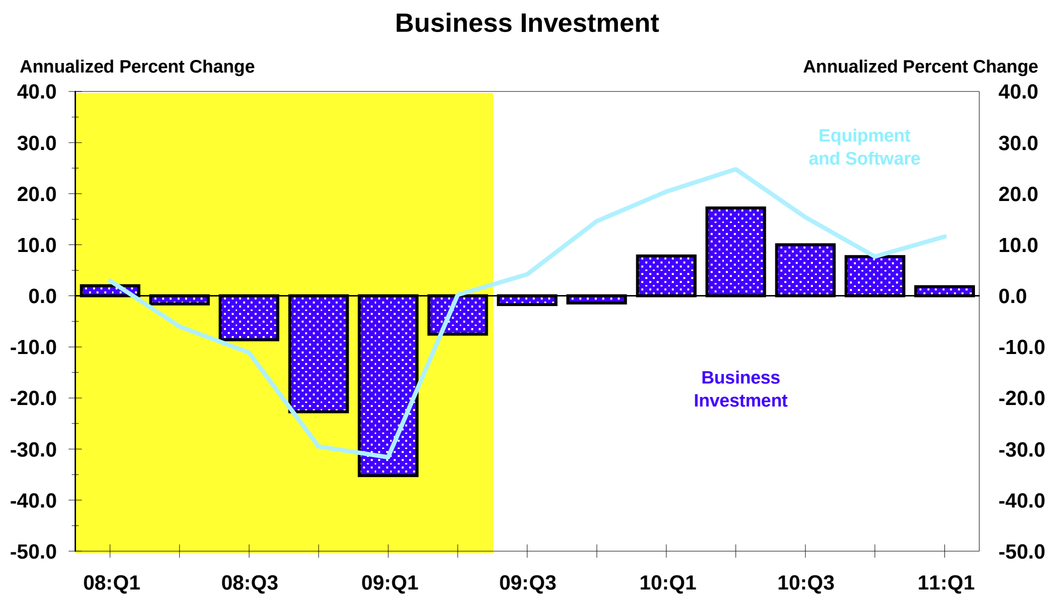
Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales held steady in April, almost matching both their March level and first quarter average. Sales in April were largely supported by increased demand for smaller, more fuel-efficient vehicles as consumers looked to combat rising gas prices.



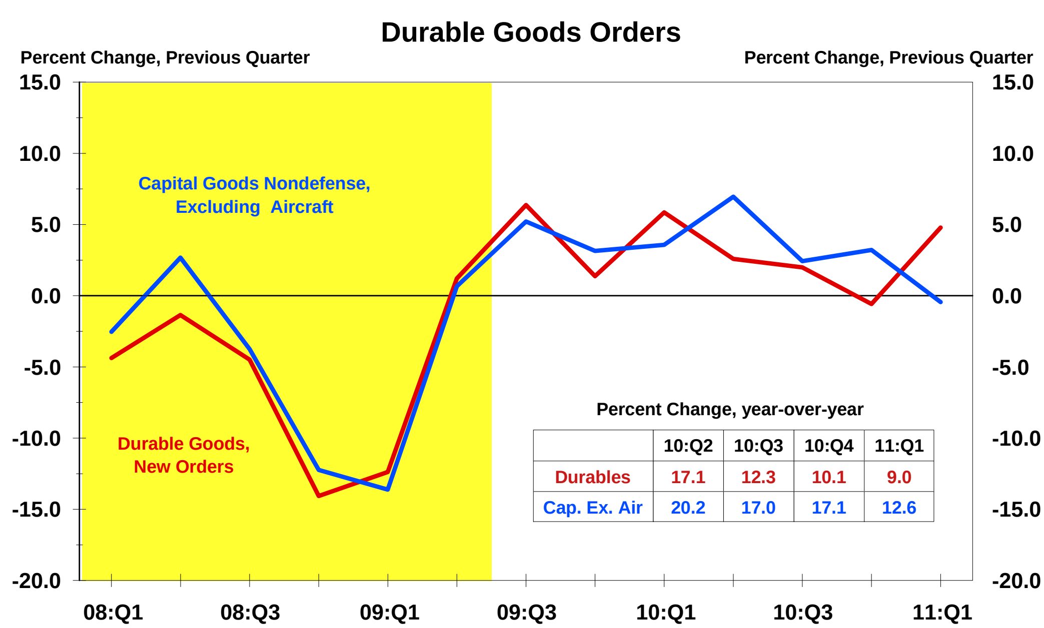
Source: Bureau of Economic Analysis / Haver Analytics.

Business investment continued to slow in the first quarter, despite an acceleration in equipment and software investment.



Source: Bureau of Economic Analysis / Haver Analytics.

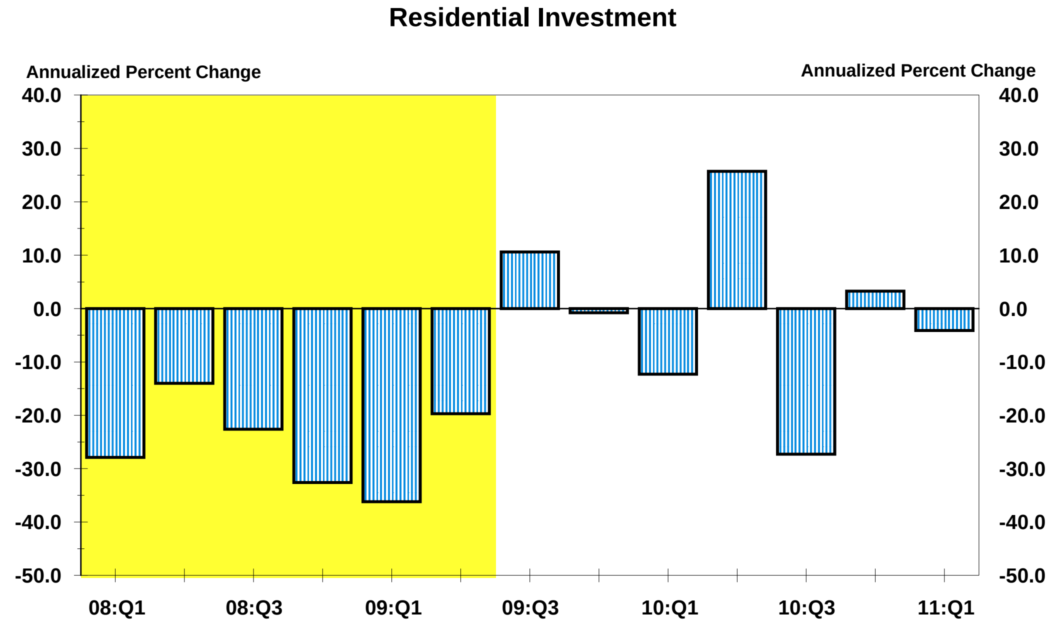
Durable goods orders rebounded in the first quarter, following a small decrease in the fourth quarter, while orders of nondefense capital goods, excluding aircraft, fell for the first time in nearly two years. On a year-over-year basis, however, both series continued to post solid gains



	10:Q2	10:Q3	10:Q4	11:Q1
Durables	17.1	12.3	10.1	9.0
Cap. Ex. Air	20.2	17.0	17.1	12.6

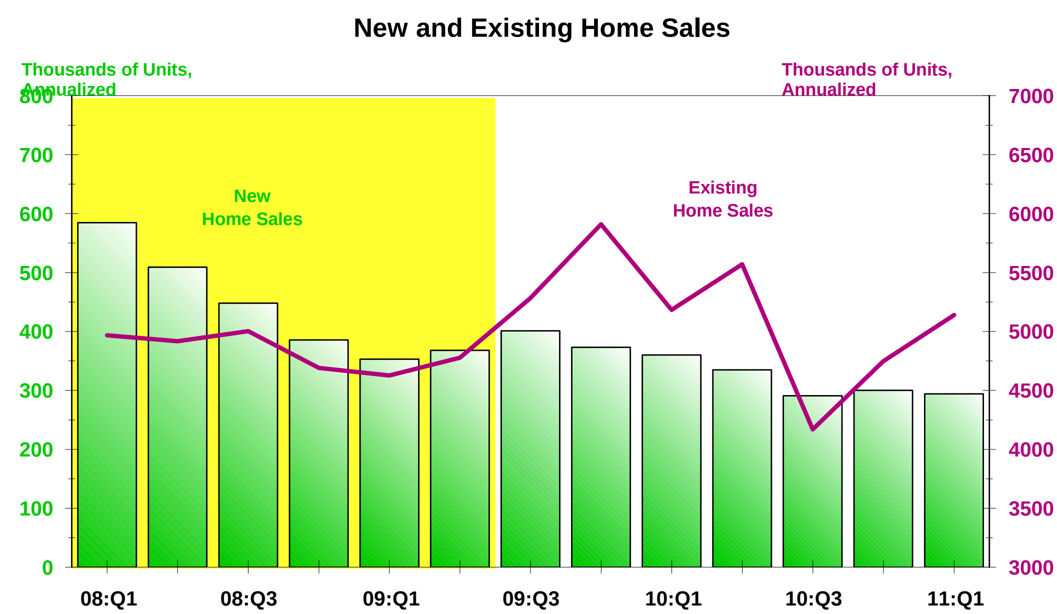
Source: U.S. Census Bureau / Haver Analytics.

Residential investment fell in the first quarter more than offsetting the gain seen in the fourth quarter, and continuing a pattern seen since the end of the recession. Overall, residential investment in the first quarter was the lowest since the spring of 1983.



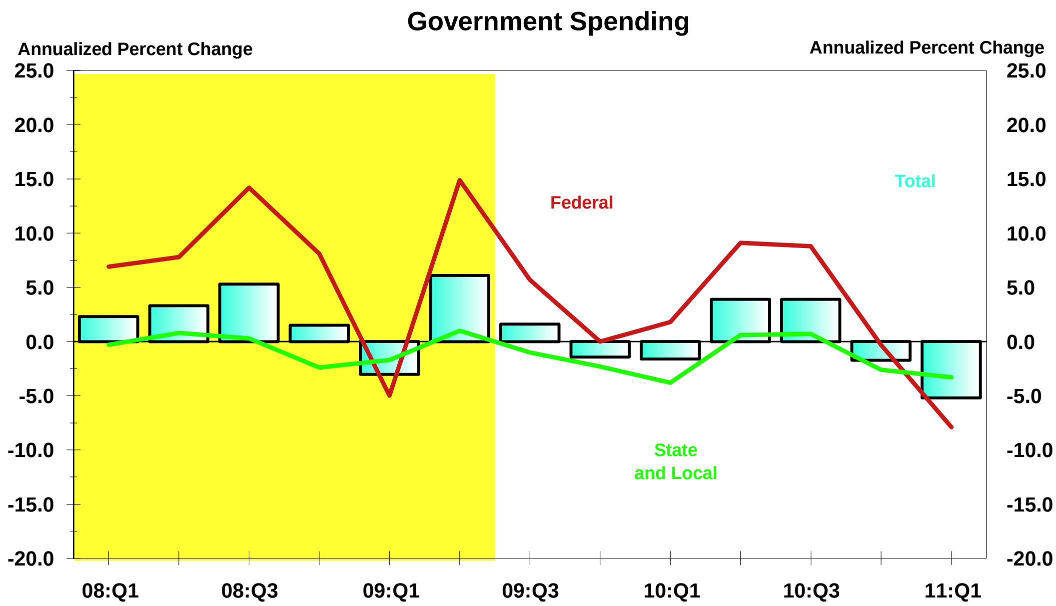
Source: U.S. Census Bureau / Haver Analytics.

New home sales were little changed in the first quarter, holding only slightly above the record low set in the third quarter of 2010. Conversely, existing home sales posted another solid gain in the first quarter, and over the past two quarters have erased more than half of the losses seen in the first three quarters of last year.



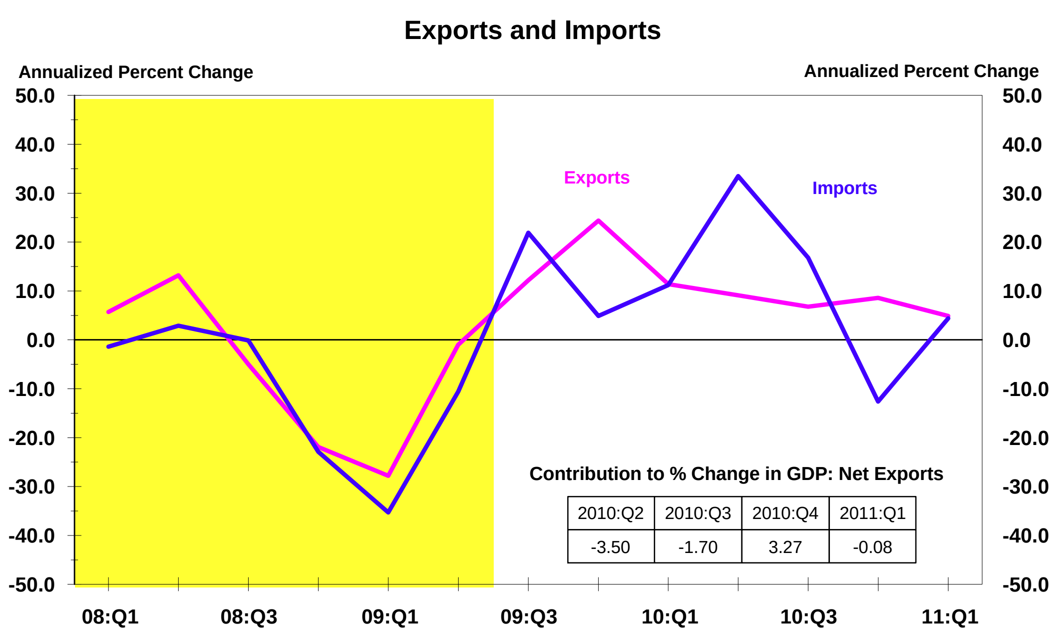
Source: U.S. Census Bureau / Haver Analytics.

Government spending decreased at its fastest pace in over 27 years in the first quarter, as budget crises affected all levels of government. Spending cuts at the federal, state, and local levels are all likely to continue in the coming months as these entities attempt to bring fiscal deficits under control.



Source: Bureau of Economic Analysis / Haver Analytics.

Imports rebounded in the first quarter due mostly to the higher cost of fuel imports, while export growth slowed a bit. Overall net exports were a slight drag on GDP in the first quarter, after providing a solid boost in the fourth quarter.

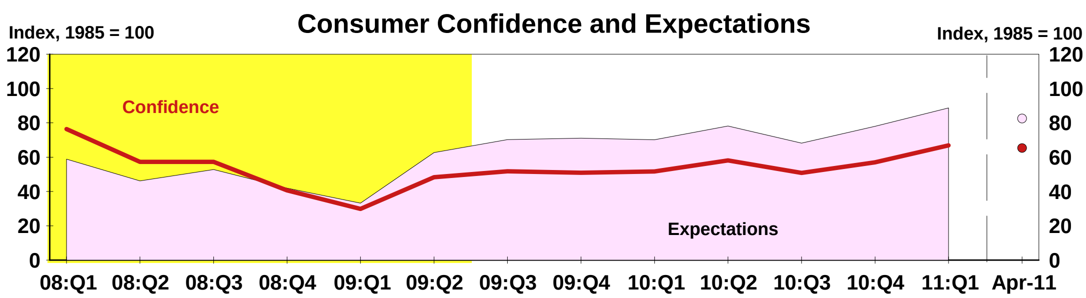


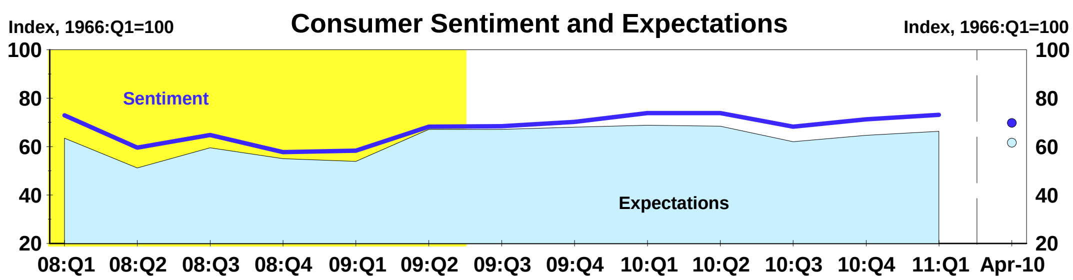
Contribution to % Change in GDP: Net Exports

2010:Q2	2010:Q3	2010:Q4	2011:Q1
-3.50	-1.70	3.27	-0.08

Source: Bureau of Economic Analysis / Haver Analytics.

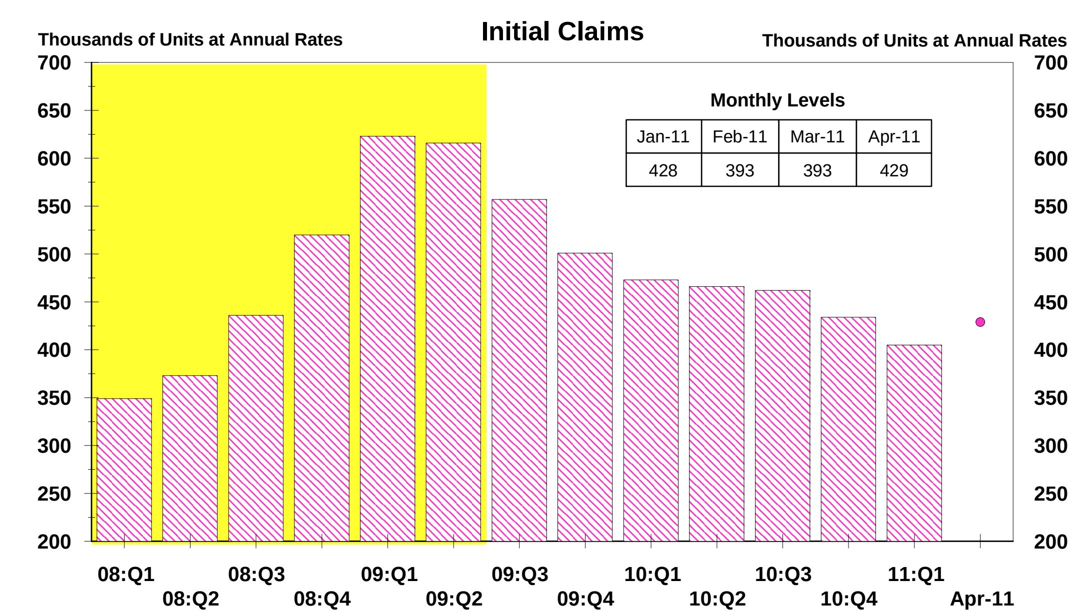
Consumer attitudes improved in April compared to March, but were down a bit from their first quarter averages. Consumers are still mostly concerned with their personal financial situations, especially related to rising oil prices and stagnant incomes, but those worries have eased some since March.





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

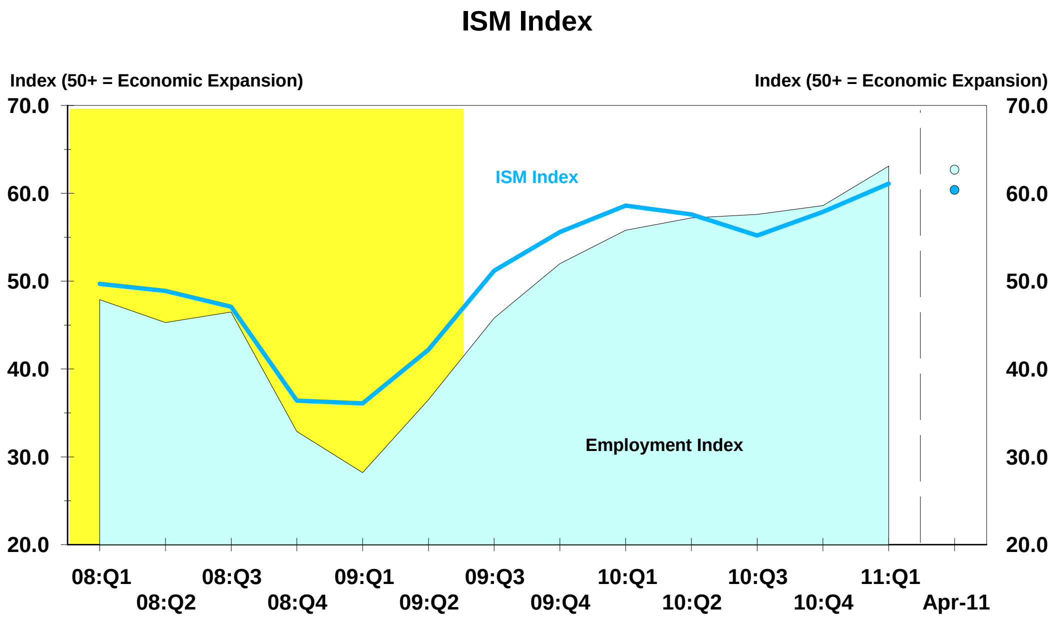
Initial claims for unemployment insurance unexpectedly rose in April, reaching their highest level since November. Some of the increase was due to a spike during the last week of the month, caused by temporary layoffs in the auto sector, a quirk in New York state that allows some educational employees to receive benefits during the week of spring break, and a new emergency benefits program in Oregon.



Jan-11	Feb-11	Mar-11	Apr-11
428	393	393	429

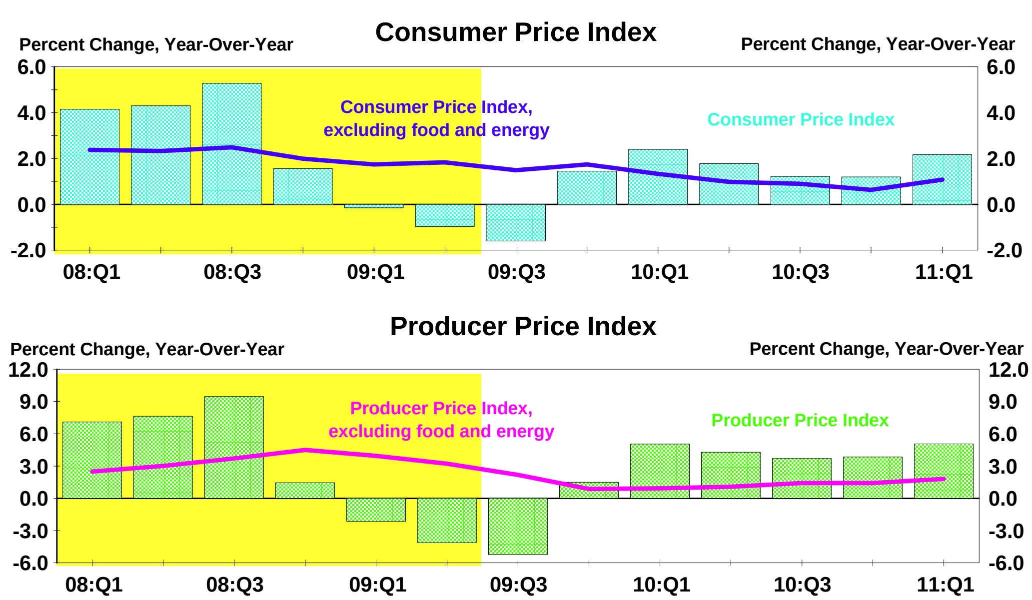
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The ISM eased a bit in April but remains high, holding above 60 for the fourth consecutive month. The employment index also declined slightly in April, from the 38-year high seen in the first quarter.



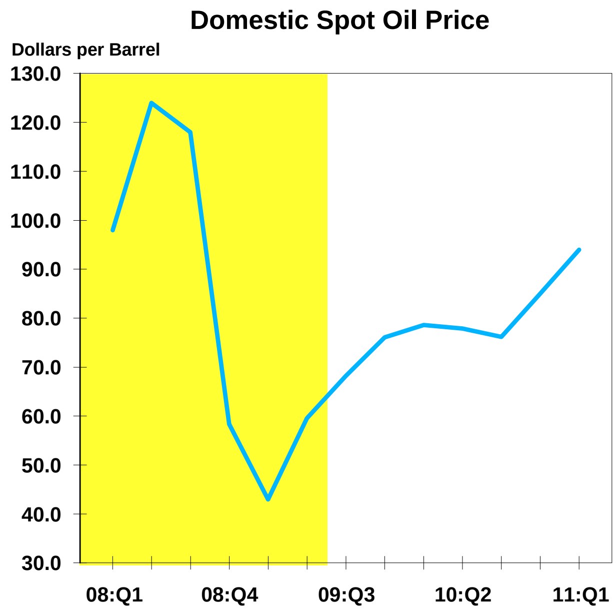
Source: Institute for Supply Management / Haver Analytics.

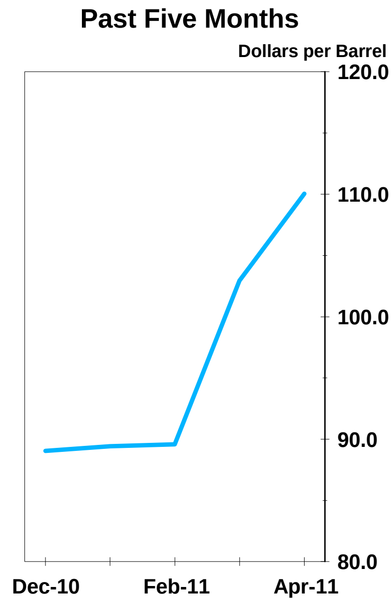
Headline price indices accelerated significantly in the first quarter, due primarily to higher food and energy prices. So far there is little evidence of those price effects being passed on to a broader range of products. While core measures also picked up in the first quarter they remain at moderate levels. Recent monthly increases in the core indices have also been quite small.



Source: Bureau of Labor Statistics / Haver Analytics.

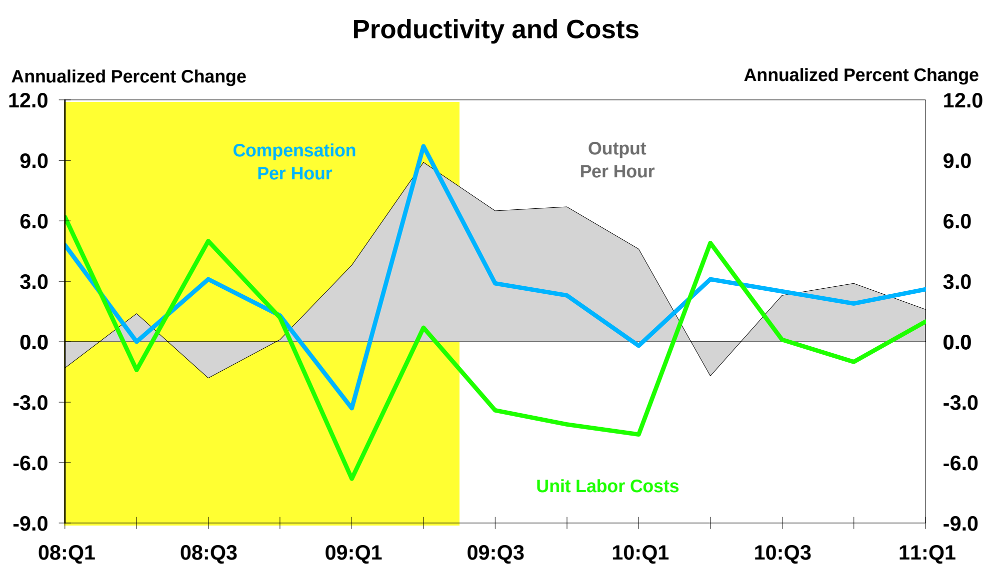
Oil prices continued to rise sharply during the first quarter, and rose further in April, posting their highest monthly average since August 2008. The higher prices are expected to be temporary, but until they begin to ease, or at least stabalize, they will continue to pose a risk to both inflation and consumption.





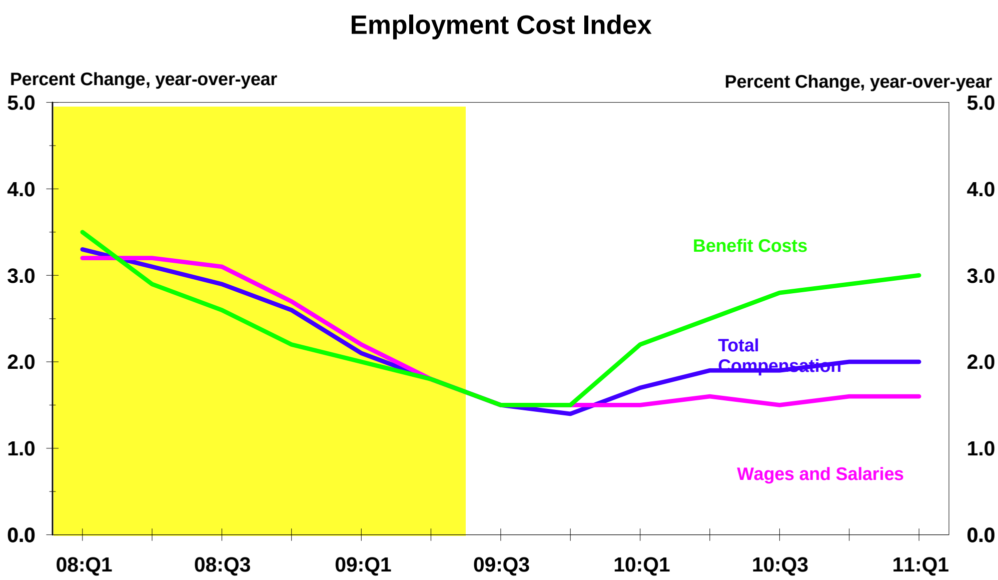
Source: Wall Street Journal / Haver Analytics.

Productivity growth slowed in the first quarter, as output slowed and hours worked held steady. Hourly compensation accelerated and unit labor costs rebounded to offset the decline seen in the fourth quarter.



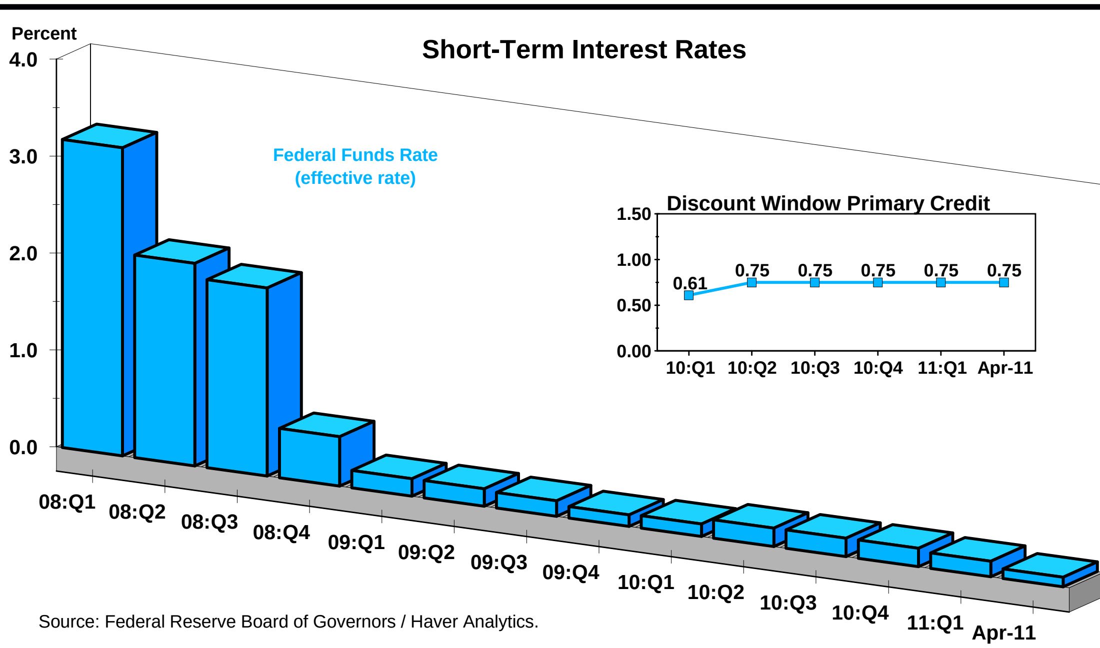
Source: Bureau of Labor Statistics / Haver Analytics.

In the first quarter, total compensation grew at the same pace as in the fourth quarter. Benefit costs continued to accelerate in the first quarter and have been the driving force behind the upward trend in total compensation seen over the past five quarters. Wage and salary growth has held mostly steady over that time span.



Source: Bureau of Labor Statistics / 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. Contributing to the slowdown were effects that are expected to be temporary - namely high oil prices and a sizeable drop in military spending - and growth is expected to pick up over the rest of the year. Recent data continue to show strength in consumption and manufacturing while the housing market and fiscal issues remain as downside risks.



Source: Federal Reserve Board of Governors / Haver Analytics.

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

May 12, 2011

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

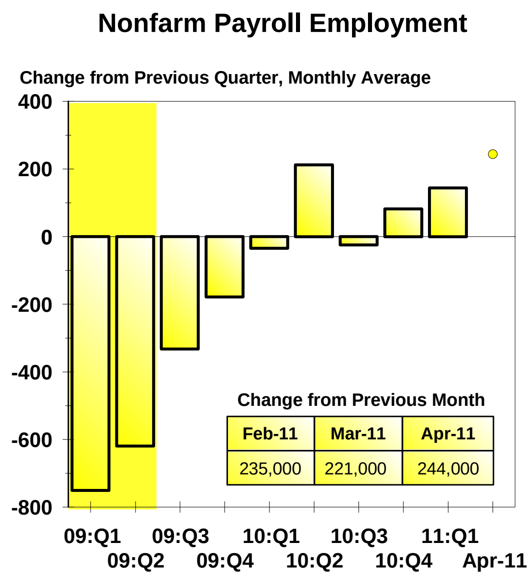
Nonfarm payrolls surged in April, posting their largest single-month gain since last May and increasing by over 200,000 for the third straight month. Despite recent increases in employment, the unemployment rate rose to 9.0% in April. The increase was due to a dramatic decrease in civilian employment, as measured by the household survey.

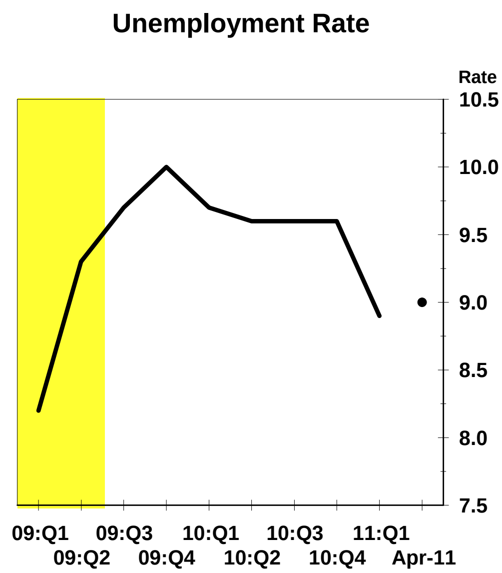
The U.S. trade deficit widened by 6.0% to $48.2 billion in March, as exports rose 4.6% and imports increased 4.9%. The deficit in March was the biggest since June 2010. In April, import prices rose 2.2% following an increase of 2.6% in March, with the increase in both months due primarily to the rising cost of fuel imports. The last time import prices increased more than 2.0% in consecutive months was the summer of 2008. Also in April, export prices rose 1.1%.

Wholesale inventories rose 1.1% in March and sales increased 2.9%. The inventories-to-sales ratio fell to 1.13 in March, its lowest level ever. The ratio peaked at a record 1.43 in January 2009.

Oil prices fell sharply late last week before rebounding a bit over the past few days. Daily closing prices averaged $102.5 per barrel between May 4th and May 10th, after averaging $112.8 over the previous five business-day period.

In April nonfarm payrolls added 244,000 jobs, and revisions to the previous two months' estimates resulted in 46,000 additional jobs being created. Despite those gains, the unemployment rate rose two-tenths of a percentage point in April to 9.0%.





Source: Bureau of Labor Statistics / Haver Analytics.