



FEDERAL RESERVE
BANK OF BOSTON™

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

August 2, 2007

CURRENT ECONOMIC DEVELOPMENTS - August 2, 2007

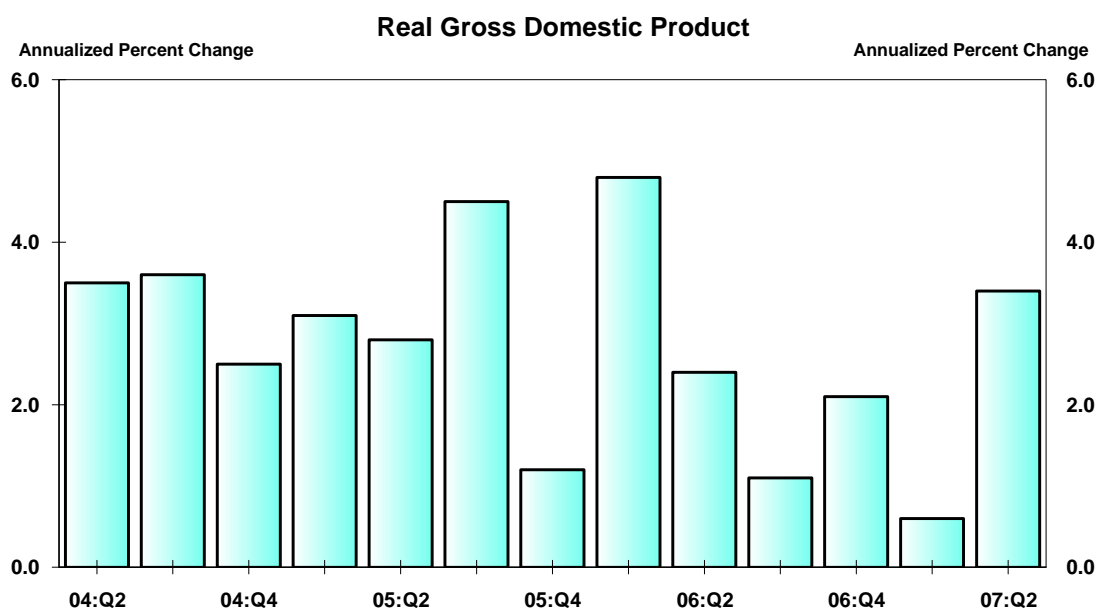
Data since your last Directors' meeting show the economy has been growing near potential so far this year, despite continued woes in the housing market, the recent selloff in stocks, and increasing oil prices.

Real growth in the second quarter posted its largest gain in over a year. Increases in federal government spending and private inventory investment, and accelerations in exports and in nonresidential structures helped boost second quarter growth. A downturn in imports and a smaller decrease in residential investment also contributed positively to second quarter growth. There was a notable deceleration in consumption. Although consumer attitudes worsened in the second quarter compared to the first quarter, consumers regained their optimism in July.

The labor market remains healthy. Although estimates for July's payroll employment and unemployment rate will not be released until tomorrow, other labor market indicators remain positive. Initial claims for unemployment insurance continued to fall in July, and consumers are more confident about the state of the labor market.

During the second quarter, headline inflation for both consumers and producers continued to accelerate; however, growth in core consumer prices slowed, and core producer prices were essentially steady.

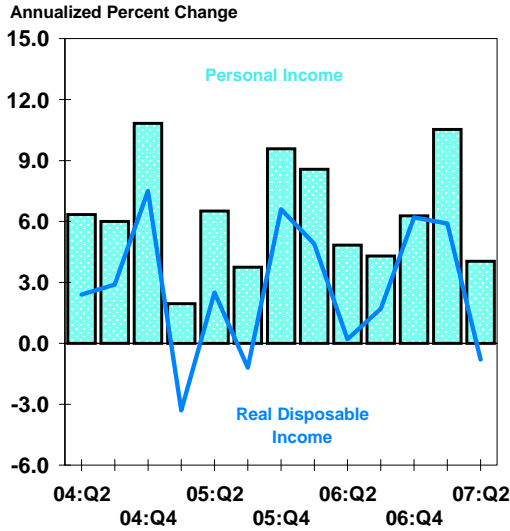
The acceleration in real GDP growth in the second quarter primarily reflected a downturn in imports, increases in federal government spending and in private inventory investment, and accelerations in exports and in nonresidential structures.



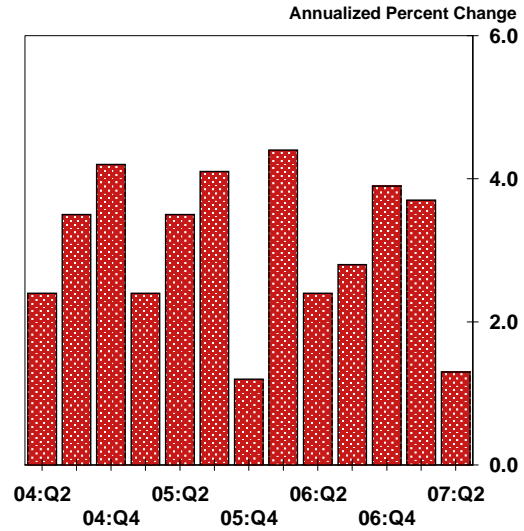
Source: Bureau of Economic Analysis.

Growth in personal income slowed in the second quarter, while real disposable income fell. The slowdown in income growth was felt in consumer spending, as real consumption in the second quarter posted its smallest gain in a year and a half.

Personal Income



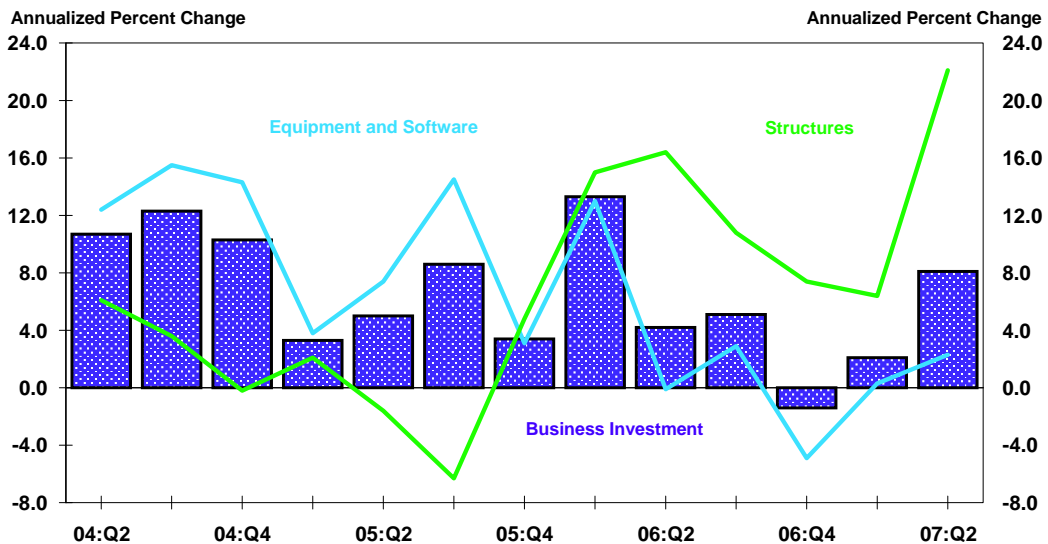
Real Consumption



Source: Bureau of Economic Analysis.

During the second quarter, business investment posted a solid gain, as investment in structures jumped and investment in equipment and software continued to rebound.

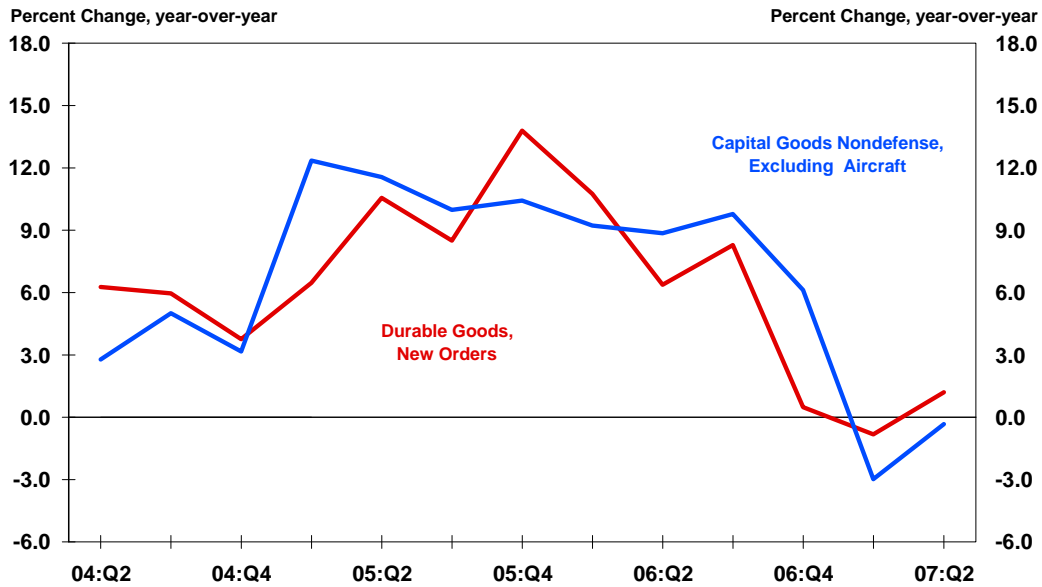
Business Investment



Source: Bureau of Economic Analysis.

New orders for durable goods increased in the second quarter, after falling in the first. Orders for nondefense capital goods, excluding aircraft, continued to fall, but at a much slower pace.

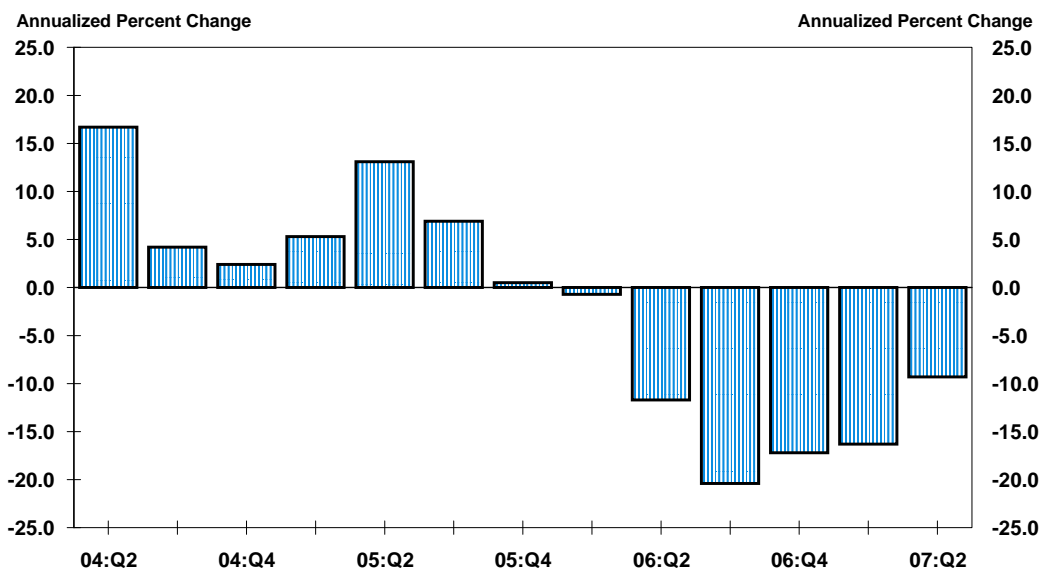
Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment continued to drag down real growth in the second quarter, but at a much slower rate. The negative contribution from residential investment in the second quarter was about one half of a percentage point, compared to one percentage point in the first quarter.

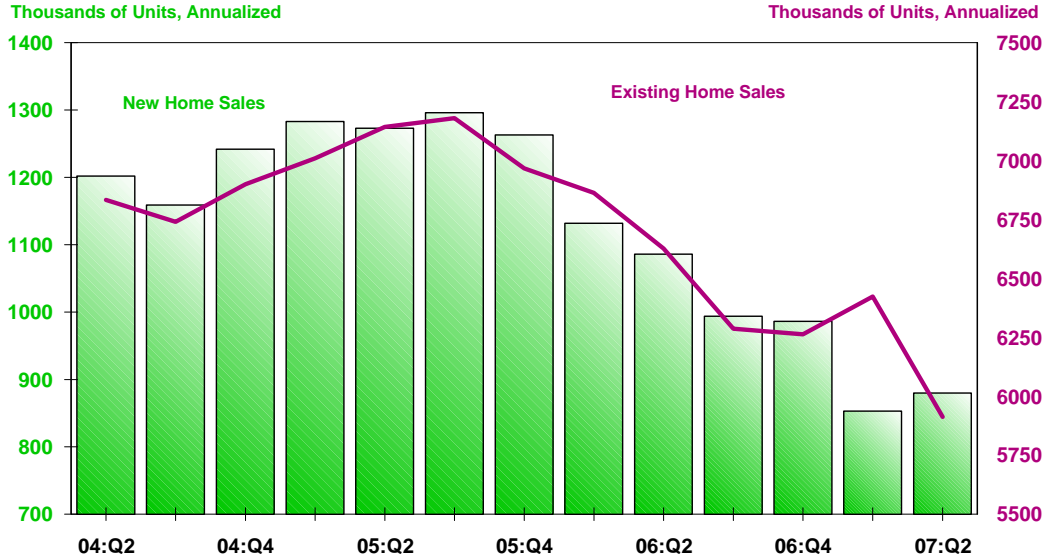
Residential Investment



Source: U.S. Census Bureau.

During the second quarter, new home sales experienced their first quarterly increase since the third quarter of 2005. Sales of existing homes fell sharply in the second quarter, however, more than offsetting the increase seen the previous quarter.

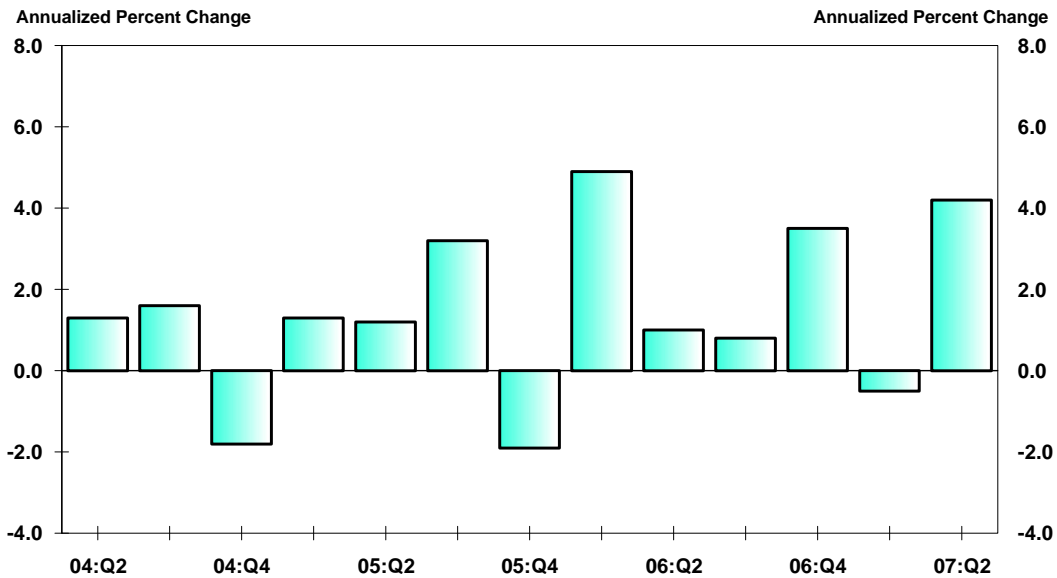
New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending increased in the second quarter, driven primarily by a rebound in federal spending on national defense.

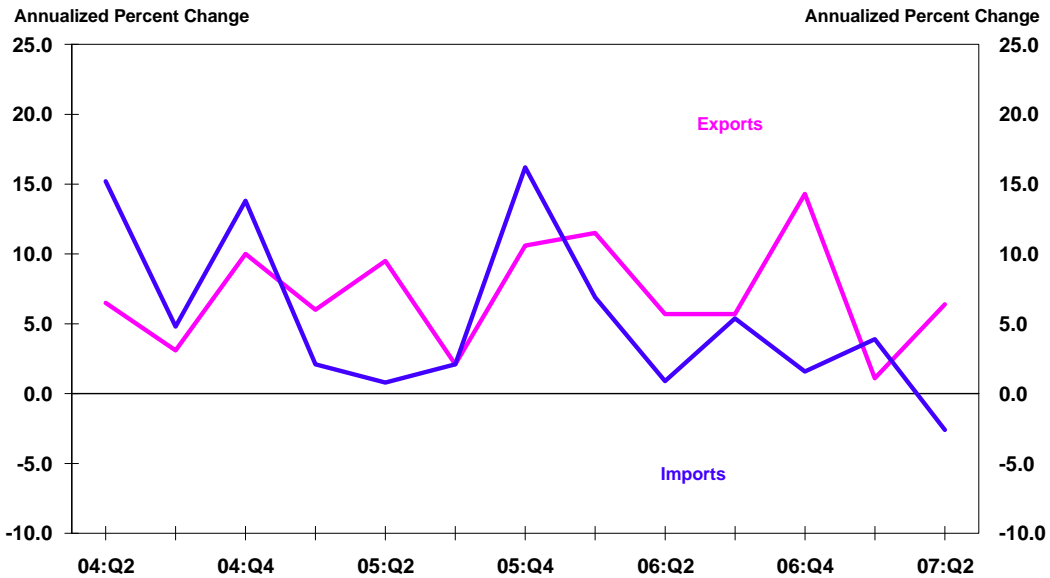
Government Spending



Source: Bureau of Economic Analysis.

Growth in exports rose in the second quarter, in line with their average seen over the past year. Imports fell in the second quarter for the first time in over four years.

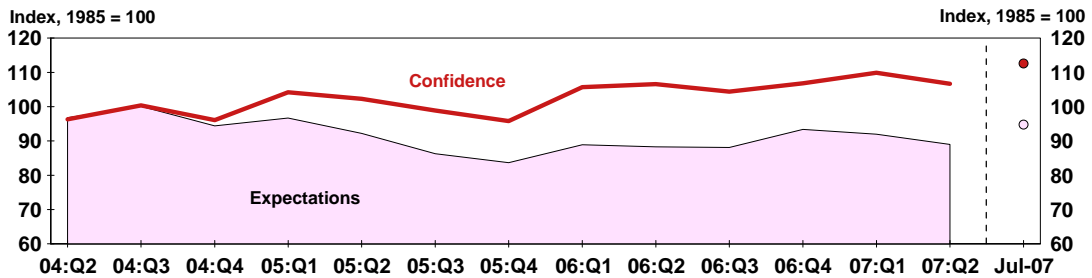
Exports and Imports



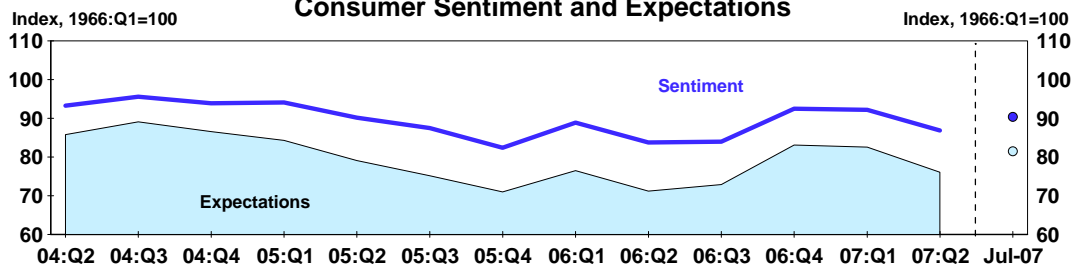
Source: Bureau of Economic Analysis.

Consumer attitudes worsened in the second quarter compared to the first quarter; however, consumers regained their optimism in July regarding the current state of the economy, as well as future expectations.

Consumer Confidence and Expectations

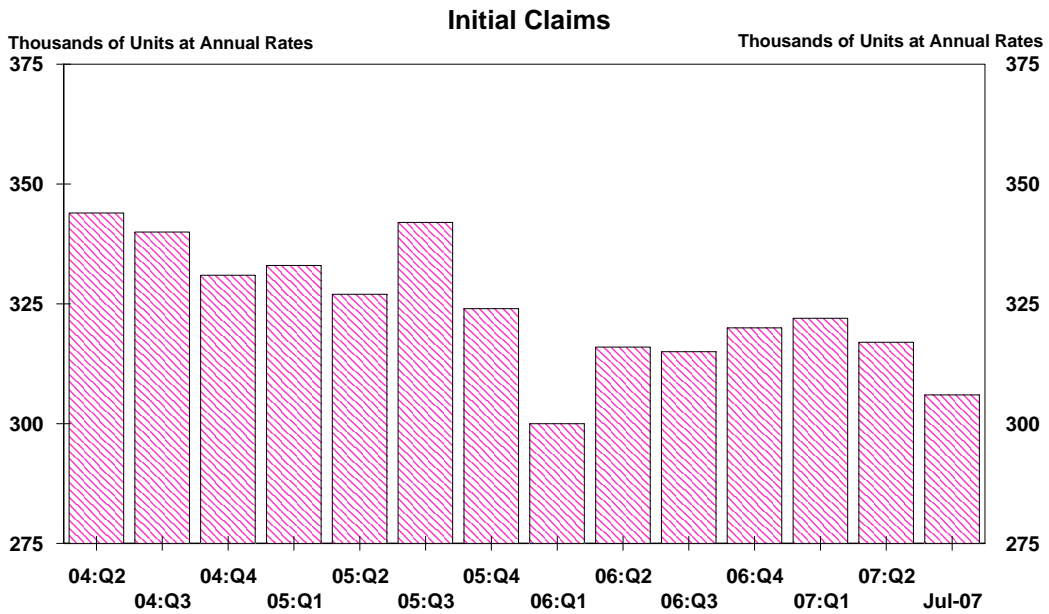


Consumer Sentiment and Expectations



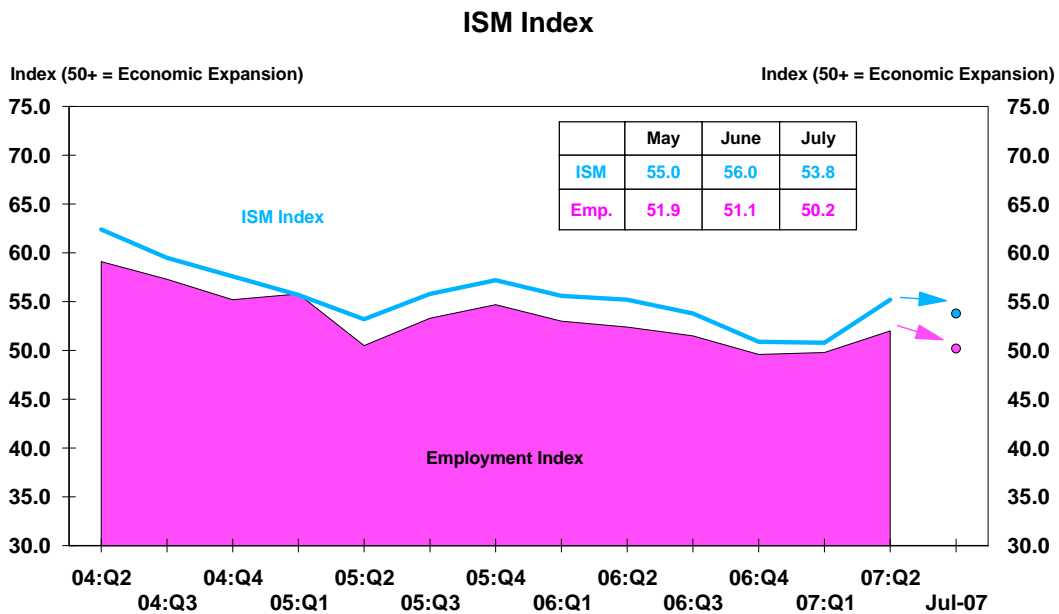
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance decreased in the second quarter and continued to fall in July.



Source: Department of Labor, Employment and Training Administration.

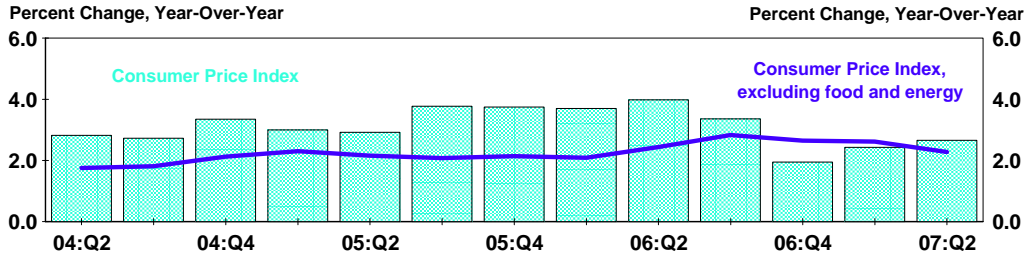
The ISM index improved in the second quarter, compared to the first quarter, but fell again in July. The employment index followed a similar pattern.



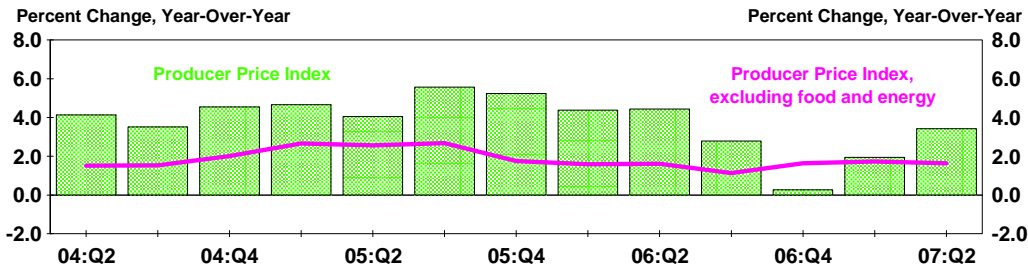
Source: Institute for Supply Management.

Headline inflation for both consumers and producers continued to accelerate in the second quarter, due to rising oil prices. Core consumer price growth slowed, however, and core producer prices were essentially steady.

Consumer Price Index



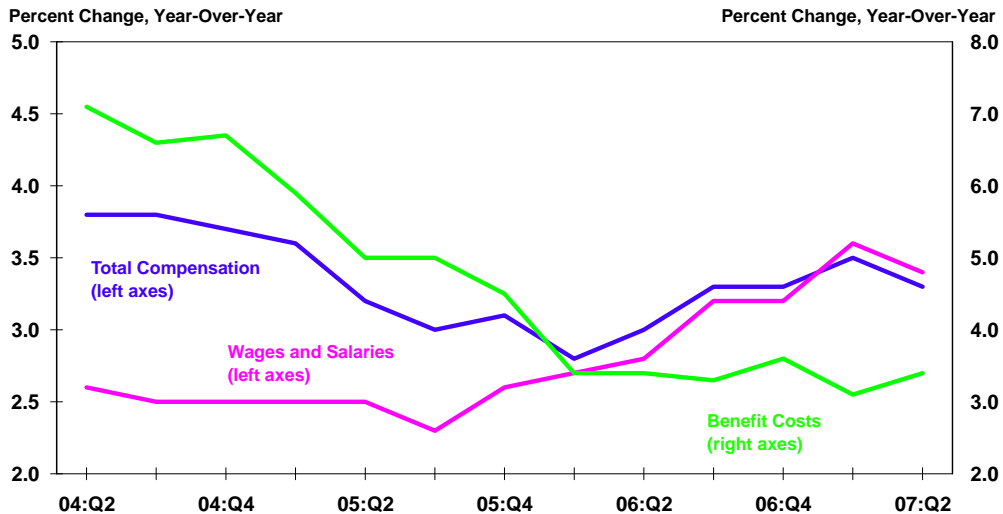
Producer Price Index



Source: Bureau of Labor Statistics.

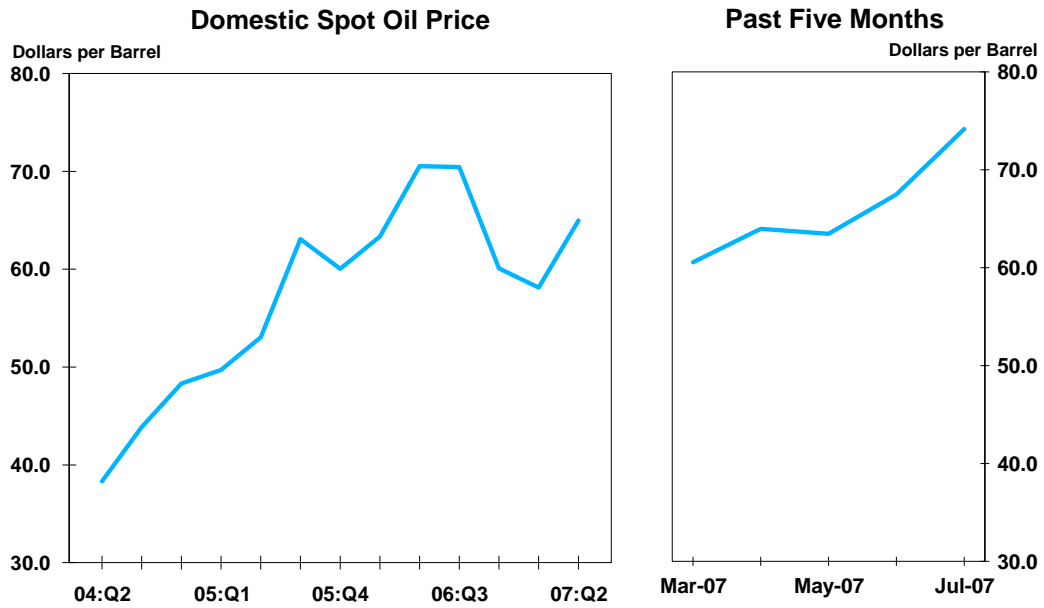
In the second quarter, total employment costs decreased a bit, despite an acceleration in benefit costs.

Employment Cost Index



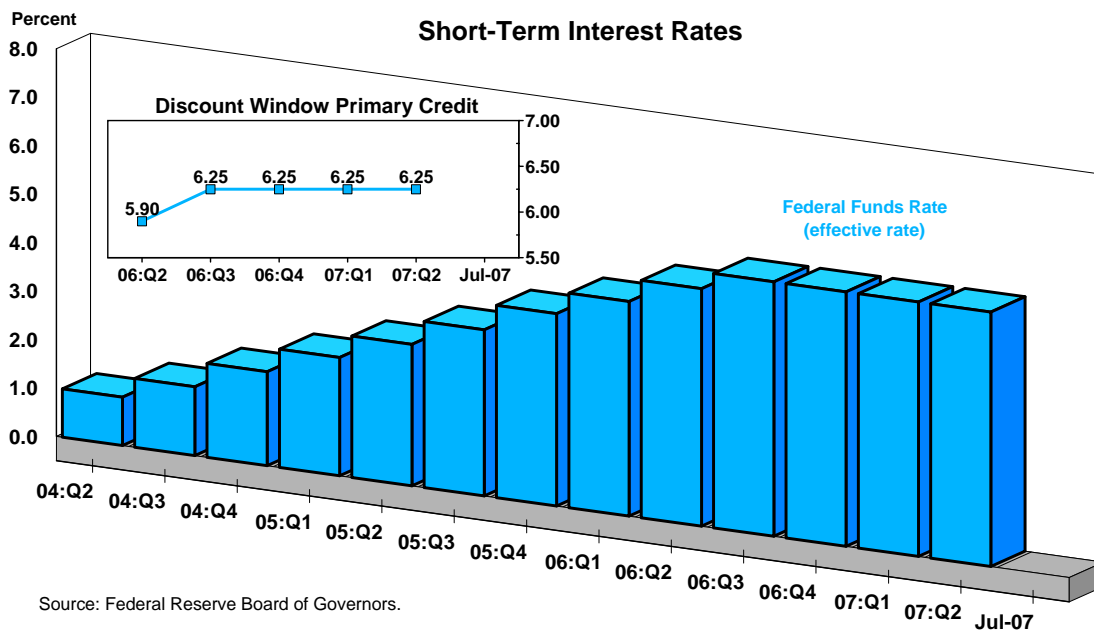
Source: Bureau of Labor Statistics.

After falling for three quarters, oil prices rose sharply in the second quarter, and continued to rise in July.



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy has been growing near potential so far this year, despite continued woes in the housing market, the recent selloff in stocks, and increasing oil prices.



Source: Federal Reserve Board of Governors.

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

August 9, 2007

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

In July, payroll employment posted a moderate gain, and revisions to the prior two months' estimates resulted in a net gain of 8,000 fewer jobs. The unemployment rate rose one-tenth of a percentage point in July to 4.6%.

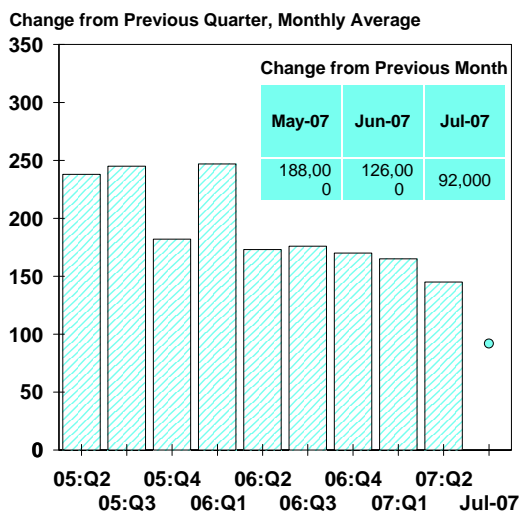
Both total and domestic light vehicle sales continued to slow in July, falling to their lowest levels in almost two years. Partially to blame are higher gas prices, which despite falling in June and July are still high due to the consecutive increases that preceded these recent reductions.

Productivity growth accelerated to 1.8% in the second quarter, after increasing 0.7% in the first quarter. Unit labor costs rose 2.1%, and compensation per hour advanced 3.9%.

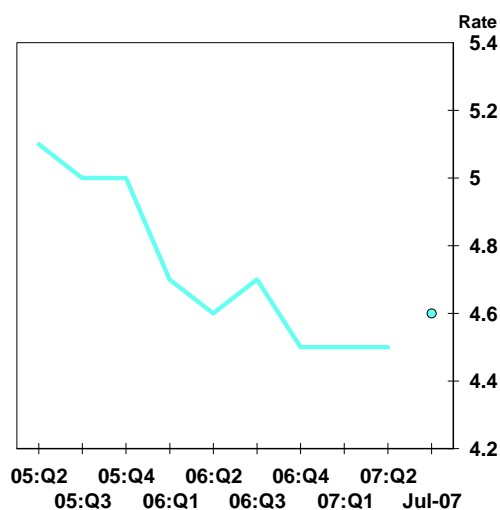
Redbook sales increased 0.6% through the final week of July, compared to June. Sales were 3.2% higher than during the same period last year. Oil prices eased during the past week, averaging 74.7 dollars per barrel compared to last week's average of 76.6.

Nonfarm payrolls added 92,000 jobs in July, and the unemployment rate increased to 4.6%. June payrolls were revised to show an increase of 126,000 jobs, 6,000 less than the original estimate of a 132,000 job increase, and May payrolls were revised to show an increase of 188,000 jobs, 2,000 fewer than the previously reported increase of 190,000.

Nonfarm Payroll Employment



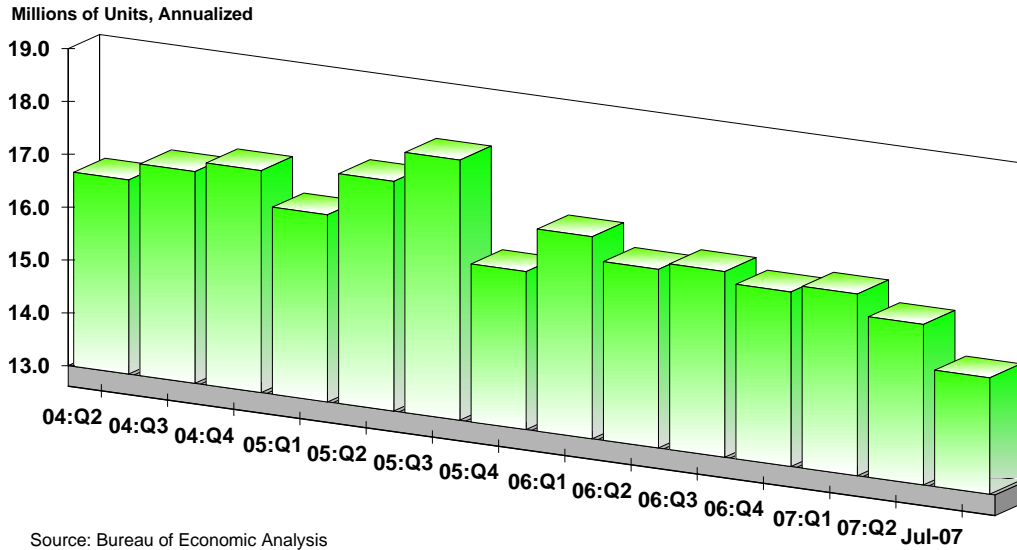
Unemployment Rate



Source: Bureau of Labor Statistics.

After falling in the second quarter, auto sales continued to fall in July, achieving their lowest monthly sales since October 2005.

Total Auto and Light Truck Sales



Productivity growth picked up in the second quarter, while unit labor costs eased. Compensation, however, accelerated slightly during the quarter.

Productivity and Costs

