



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

December 6, 2007

CURRENT ECONOMIC DEVELOPMENTS - December 6, 2007

Data released since your last Directors' meeting show the economy grew in the third quarter at a faster rate than first estimated, but also suggest growth will slow considerably in the fourth quarter. Waning consumer confidence, the sustained risk of the housing crisis crossing over into consumption, and weaker manufacturing data all carry the potential to restrict growth going forward.

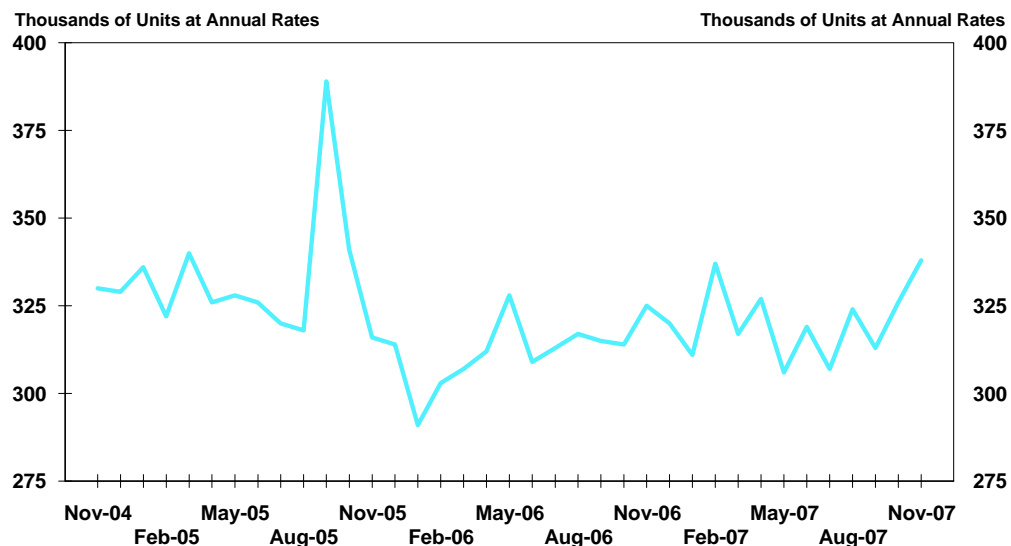
In November, initial claims for unemployment insurance increased while consumer attitudes deteriorated further. Auto sales rose slightly in November, but have been relatively stable over the past few months. In October, real consumption was flat and real disposable income decreased incrementally.

The housing market woes continued in October. New home sales rose slightly, but downward revisions to the prior months' estimates offset that news, and existing home sales decreased a bit. In the manufacturing sector, the ISM index continued to fall in November and industrial production decreased in October. Orders for durable goods slipped further in October, and orders for nondefense capital goods, excluding aircraft, experienced their biggest fall since February.

Headline consumer inflation continued to rise in October, but core prices held steady. Oil prices rose sharply in November, a sign that a potentially expensive winter lies ahead.

Initial claims for unemployment insurance rose further in November, their first consecutive monthly increases in over a year.

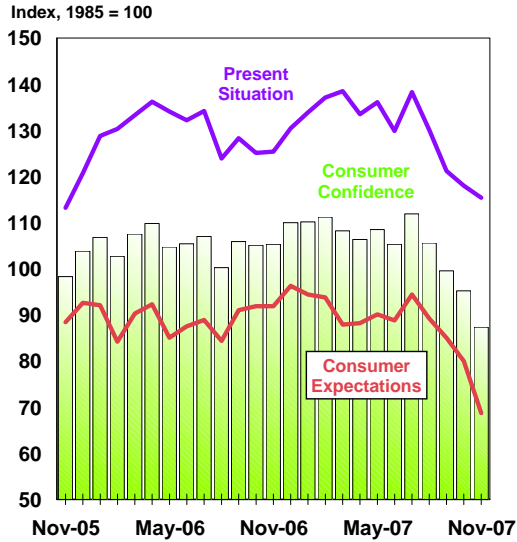
Initial Claims



Source: Department of Labor, Employment and Training Administration.

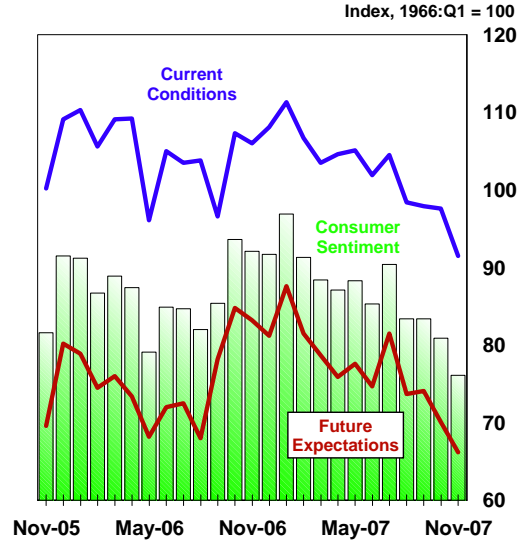
Consumer attitudes continued to deteriorate in November. Of primary concern are rising energy costs and falling home prices, while secondary concerns include employment prospects and recession fears.

Consumer Confidence



Source: The Conference Board.

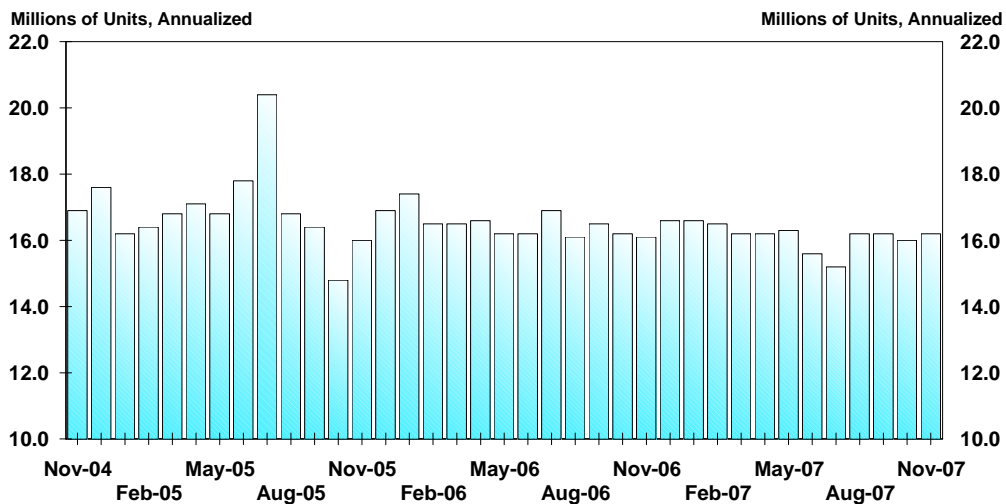
Consumer Sentiment



Source: The University of Michigan.

Total auto and light truck sales increased a bit in November, offsetting the small dip seen in October, and remaining in line with their 12-month average.

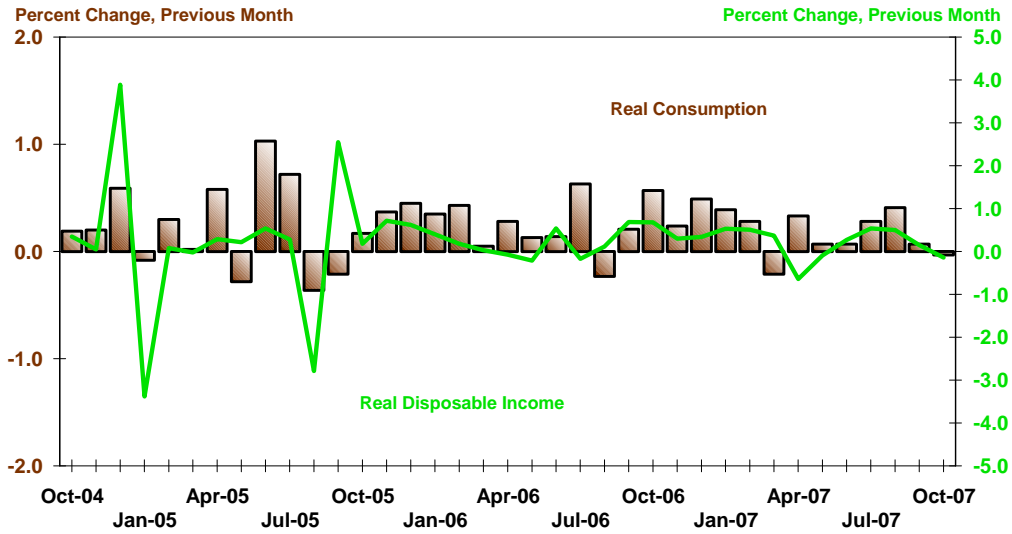
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Real personal consumption was essentially unchanged in October, as incomes posted a small decrease.

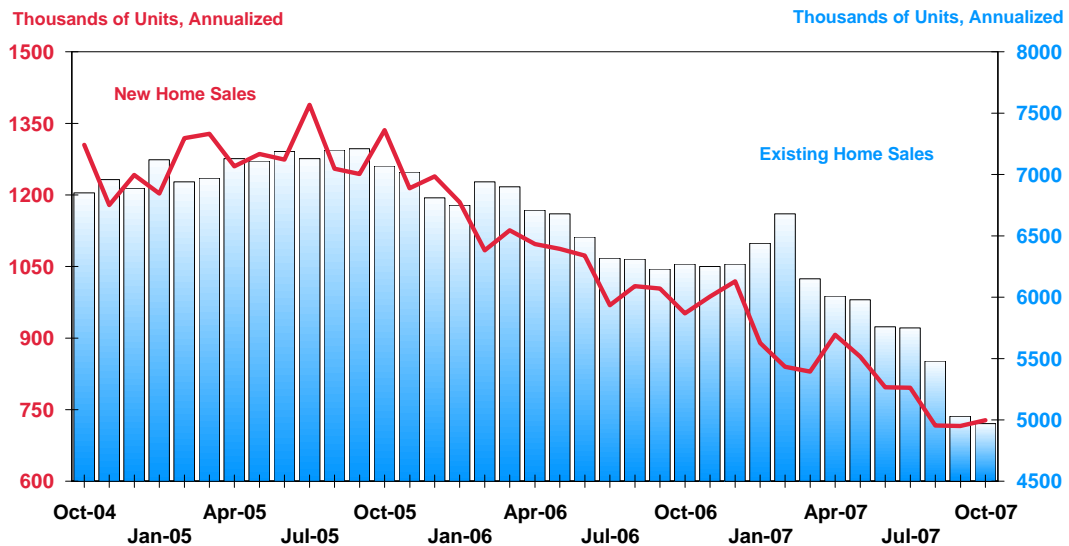
Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

The housing market remained weak in October. New home sales posted a small gain, but sales in the previous two months were revised sharply lower. Sales of existing homes declined for the eighth month in a row.

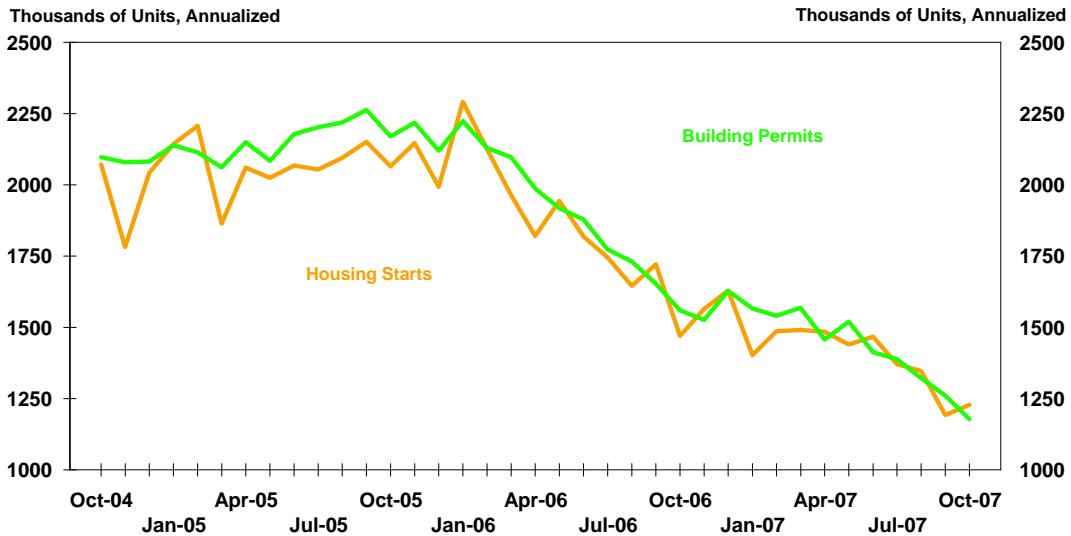
New and Existing Home Sales



Source: U.S. Census Bureau.

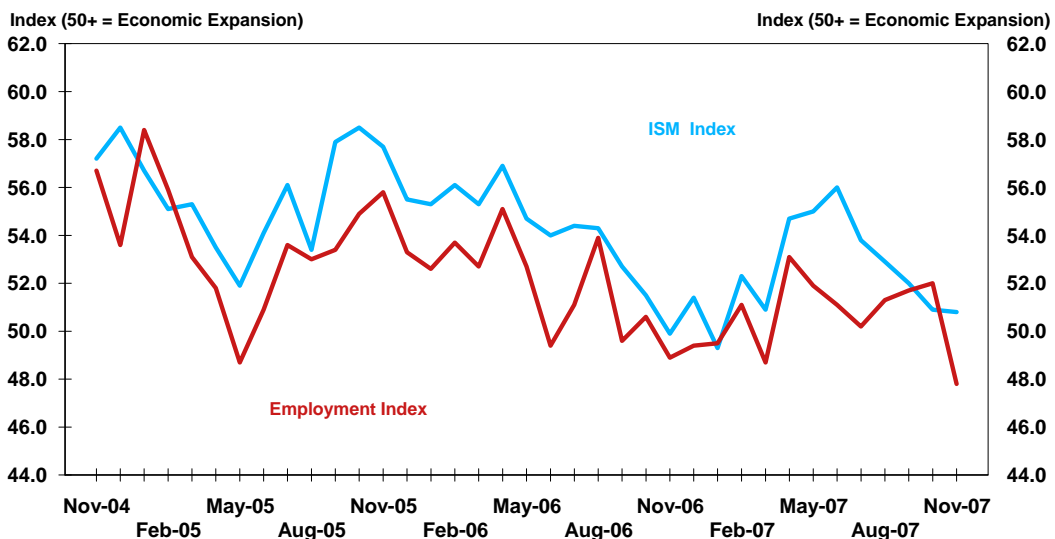
Housing starts increased in October, but the continued slide in number of building permits issued suggests starts are likely to resume their downward trend in the coming months.

Housing Starts and Building Permits



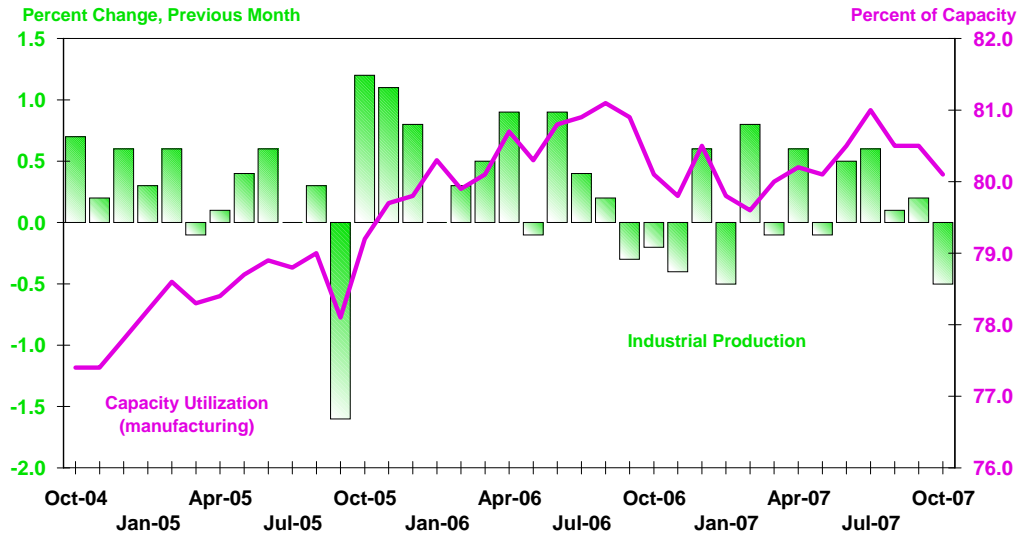
In November, the ISM diffusion index fell for the fifth consecutive month, dropping to its lowest point since January. The employment index fell sharply in November, more than offsetting the gains of the previous two months.

ISM Index



Industrial production fell in October, and capacity utilization dropped to its lowest level since May.

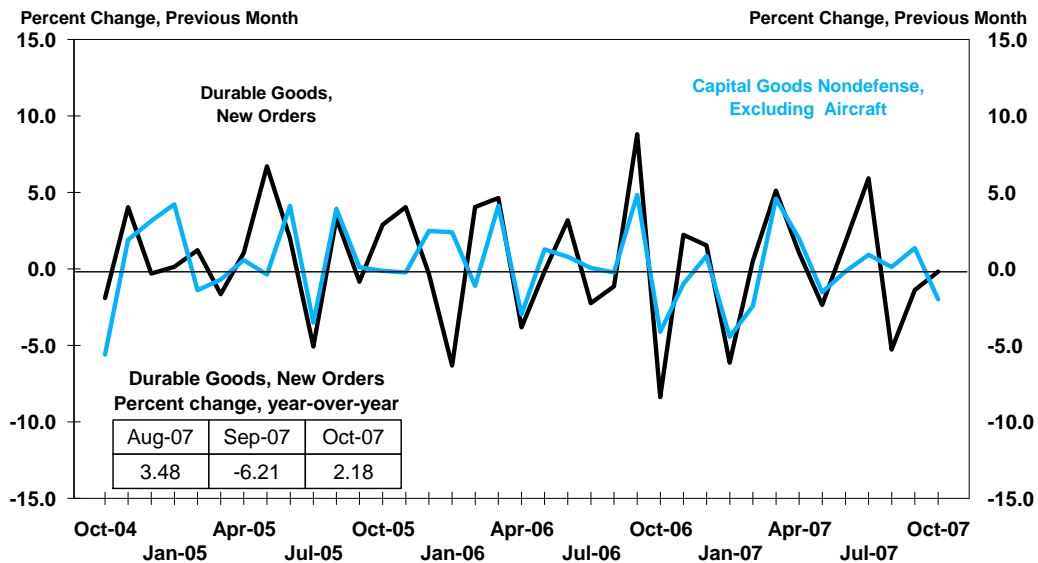
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for durable goods posted their third consecutive monthly decrease in October, despite showing a rebound in year-over-year terms. Orders for nondurable capital goods, excluding aircraft, also fell in October.

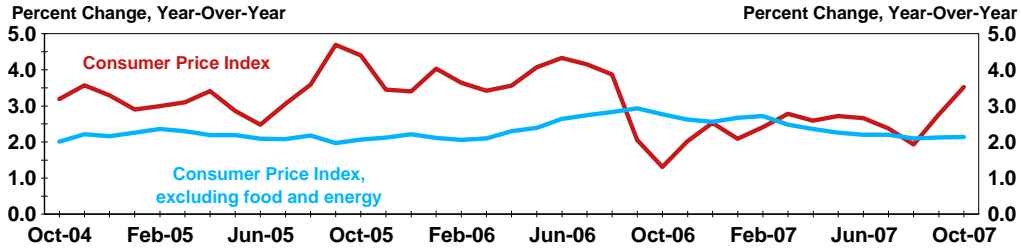
Durable Goods Orders



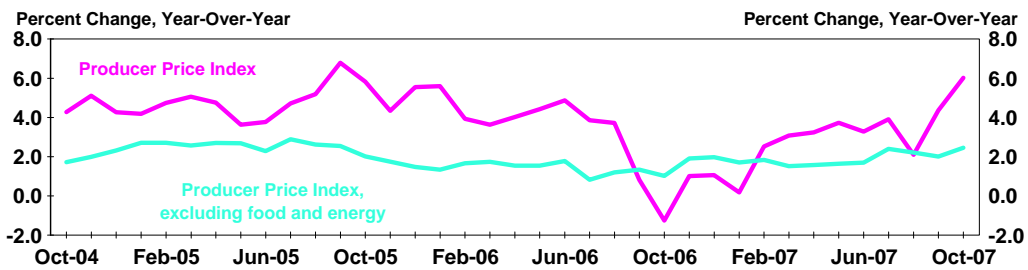
Source: U.S. Census Bureau.

Headline consumer inflation accelerated again in October, as prices grew at their fastest pace in over a year. Core prices were unchanged, however. Total producer prices also rose sharply, while core prices accelerated mildly.

Consumer Price Index



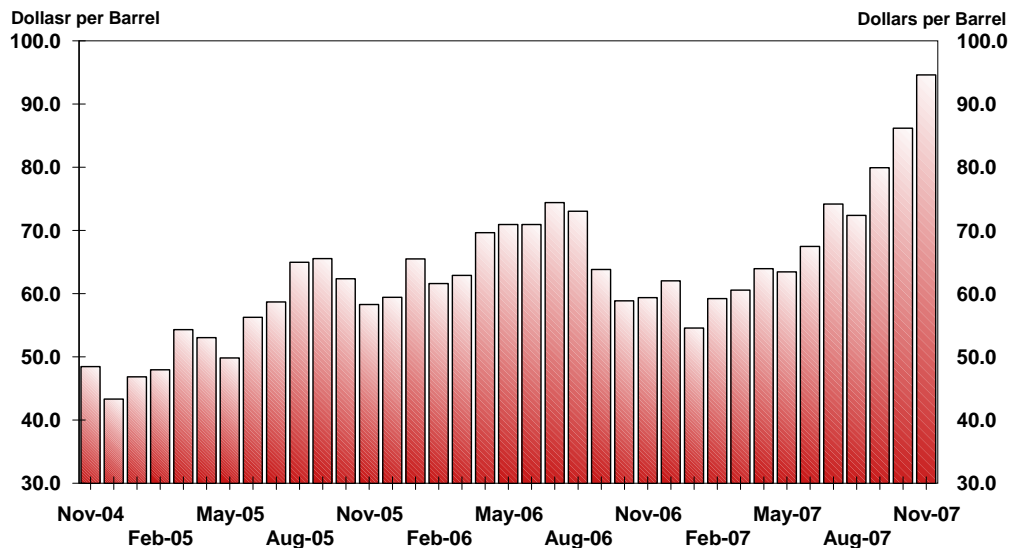
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices rose sharply again in November, peaking with a record high of nearly \$99 per barrel on November 20th.

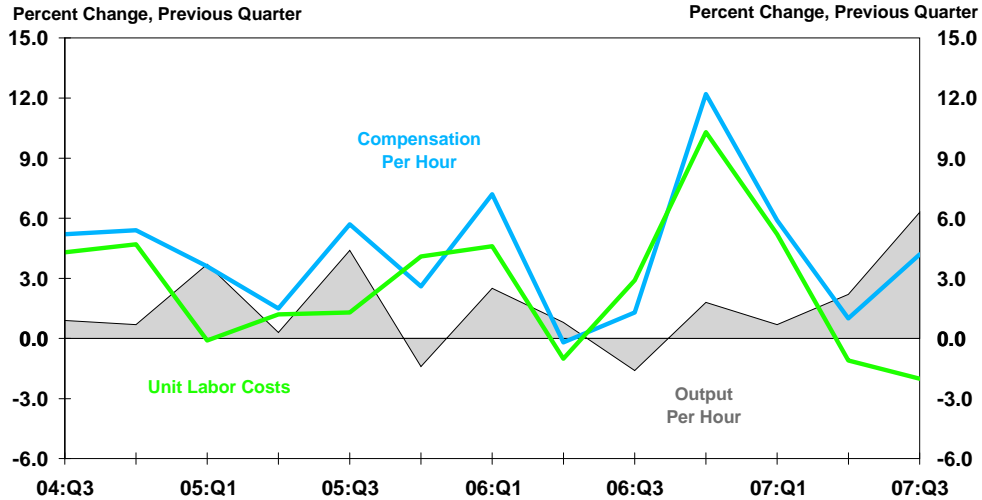
Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity was revised higher in the third quarter, growing at its fastest pace in four years. Unit labor costs fell in the third quarter, even as hourly compensation rose.

Productivity and Costs



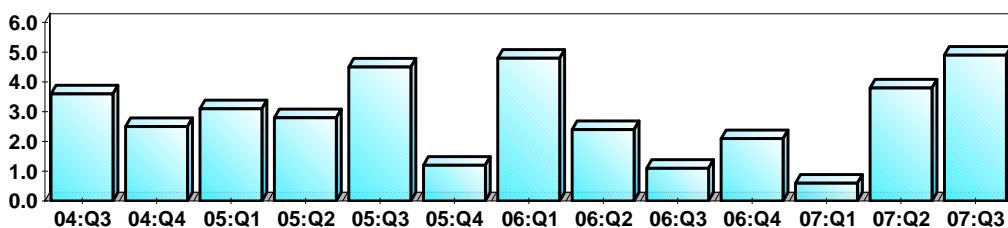
Source: Bureau of Labor Statistics.

Real GDP in the third quarter was stronger than originally thought. The upward revision primarily reflected upward revisions to private inventory investment and to exports and a downward revision to imports that were partially offset by a downward revision to personal consumption expenditures.

Revisions to Third Quarter Real GDP

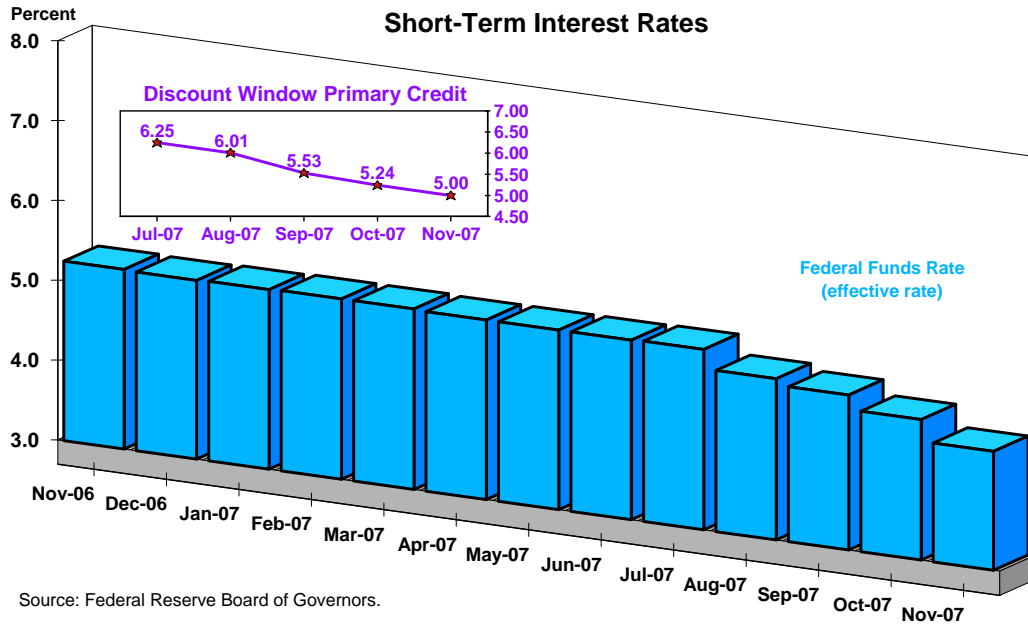
Description	Advance	Preliminary
Real GDP	3.9	4.9
Personal Consumption	3.0	2.7
Business Investment	7.9	9.4
Equipment and Software	5.9	7.2
Residential Investment	-20.1	-19.7
Government	3.7	3.9
Exports	16.2	18.9
Imports	5.2	4.3
Final Sales	3.5	3.9

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy grew in the third quarter at a faster rate than first estimated, but also suggest growth will slow considerably in the fourth quarter. Waning consumer confidence, the sustained risk of the housing crisis crossing over into consumption, and weaker manufacturing data all carry the potential to restrict growth going forward.



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

December 13, 2007

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

Payroll employment posted a modest gain in November, and revisions to the prior two months' growth estimates resulted in a net reduction of 48,000 new jobs. The unemployment rate held steady in November at 4.7%.

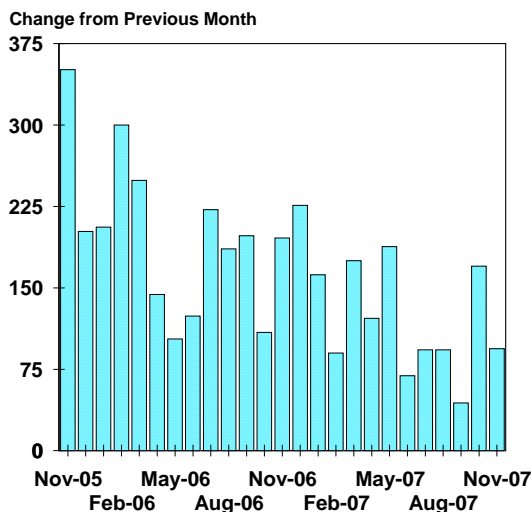
In early December, consumer attitudes continued to deteriorate. Sentiment fell to its lowest point since a post-Hurricane Katrina estimate in October 2005. Excluding that reading, sentiment is at its lowest level in 15 years. Details of the report showed expectations also fell at the start of December, but current conditions rose slightly.

The U.S. trade deficit widened during October, mostly due to rising prices for imported oil. In October, exports increased 0.9% and imports grew 1.0%.

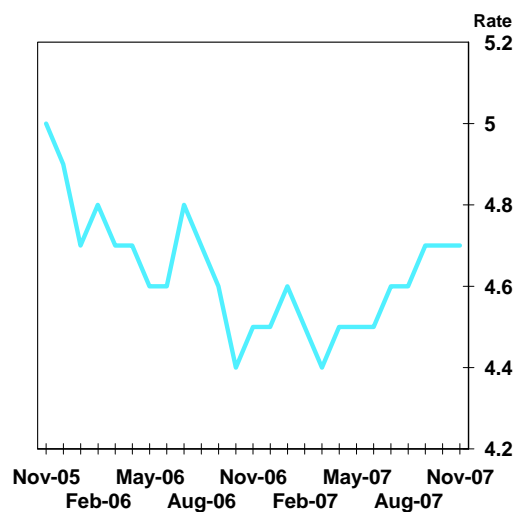
Redbook sales fell 0.5% through the first week of December, compared to November. Sales in the week ending December 8th were 1.6% higher than during the same period last year. Oil prices fell slightly during the past week, averaging \$88.8 per barrel compared to last week's average of \$89.6.

In November, nonfarm payrolls added 94,000 jobs and the unemployment rate held steady at 4.7%. October payrolls were revised upward by 4,000 to show an increase of 170,000 jobs, but September payrolls were revised sharply downward, showing an increase of only 44,000 jobs as opposed to the originally estimated 96,000 job increase.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.