



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

February 1, 2007

CURRENT ECONOMIC DEVELOPMENTS - February 1, 2007

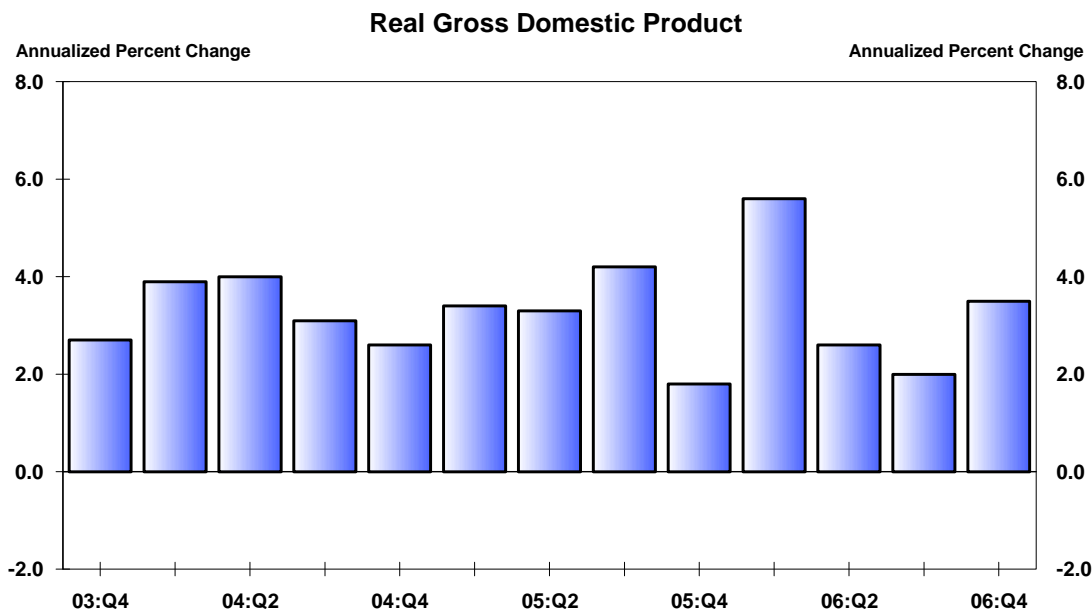
Data since your last Directors' meeting show the economy grew in the fourth quarter at its fastest pace since the first quarter, as consumer spending and foreign trade offset the slump in the housing market.

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

In January, consumer attitudes continued to improve and initial claims for unemployment insurance dropped to a one year low. Both the ISM manufacturing and employment indices decreased further in January after falling throughout 2006.

Inflation continues to be a mild concern, as both total and core consumer prices eased in the fourth quarter. Total producer prices were essentially unchanged, while core prices picked up marginally. Total compensation costs, as measured by the ECI, were flat despite an increase in benefit costs. Oil prices, which fell sharply in the fourth quarter, continued to fall in January.

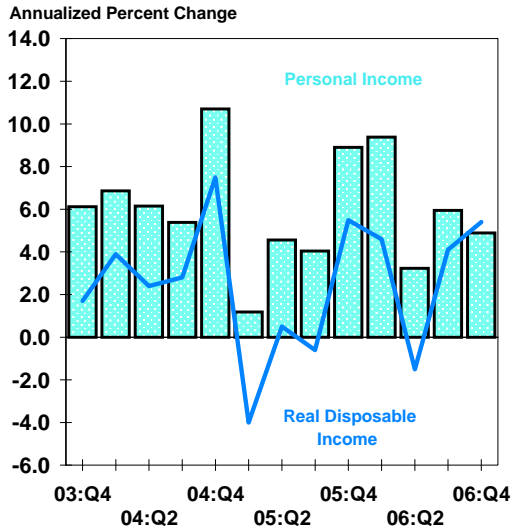
Real GDP growth accelerated in the fourth quarter, primarily reflecting a downturn in imports and accelerations in PCE for nondurable goods, exports, and government spending that were partially offset by downturns in private inventory investment and equipment and software and a deceleration in nonresidential structures.



Source: Bureau of Economic Analysis.

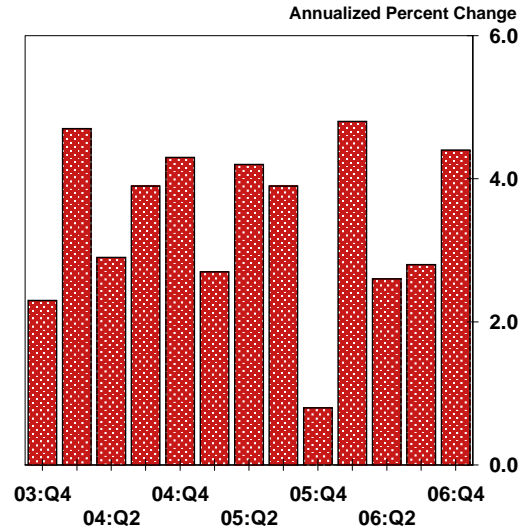
In the fourth quarter, both personal income and real DPI posted solid gains. Those gains, in addition to lower energy prices, gave a boost to consumption.

Personal Income



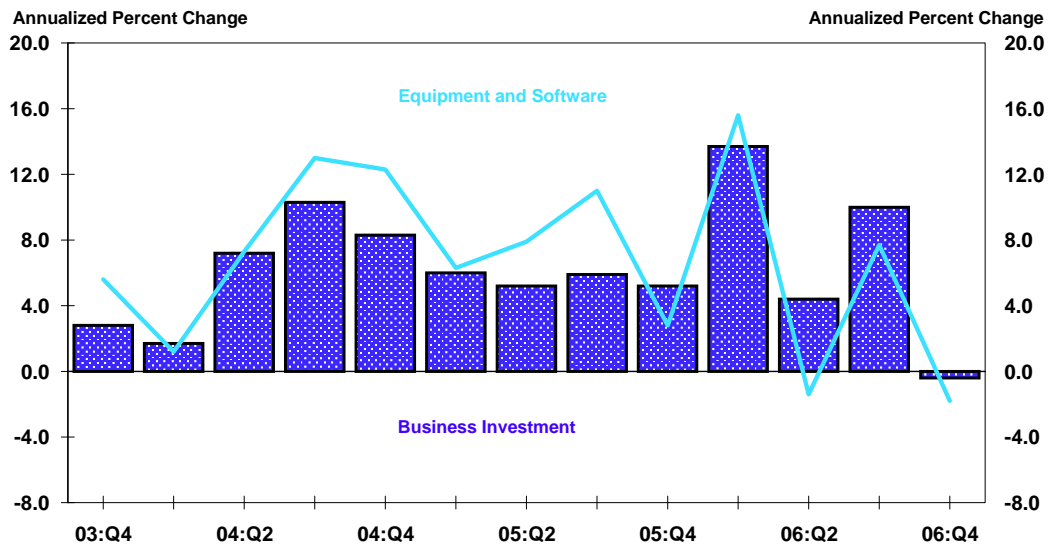
Source: Bureau of Economic Analysis.

Real Consumption



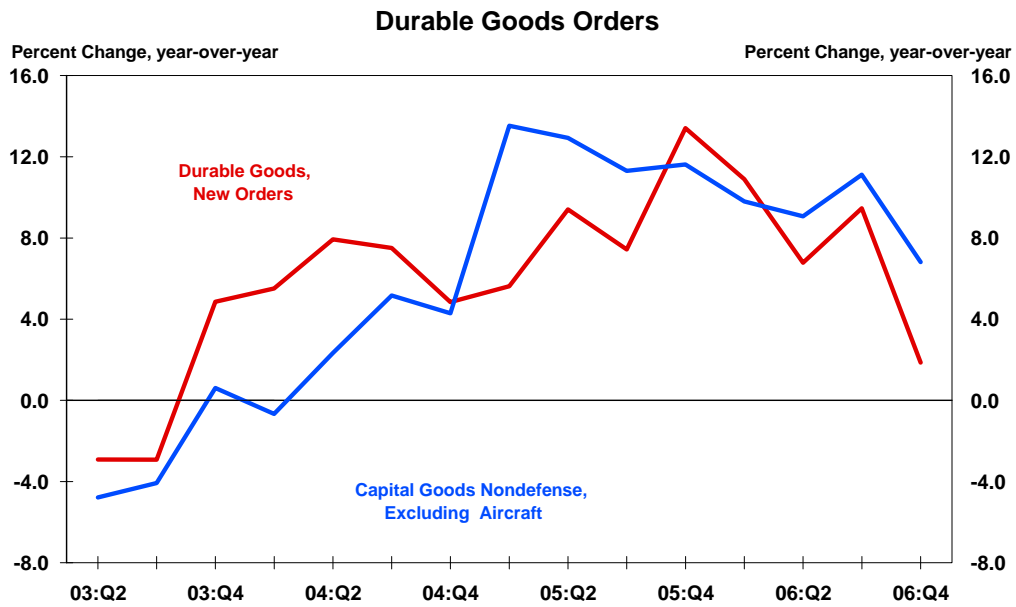
Business investment decreased in the fourth quarter, due in large part to a decrease in equipment and software investment.

Business Investment



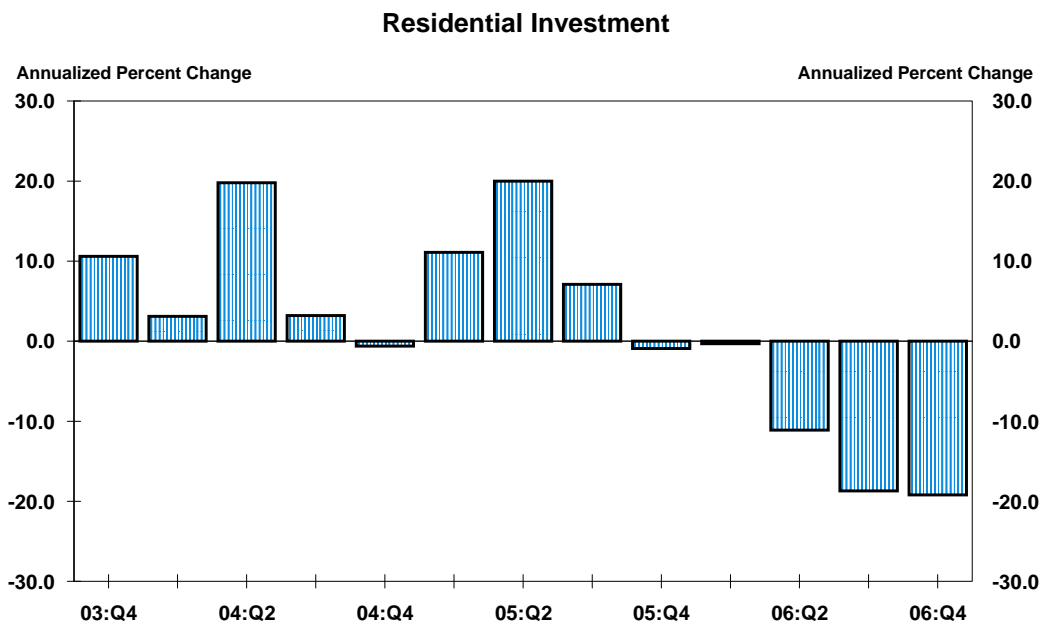
Source: Bureau of Economic Analysis.

In the first quarter, new orders for durable goods slowed to their lowest quarterly pace in over three years. Growth of nondefense capital goods, excluding aircraft, also slowed.



Source: U.S. Census Bureau.

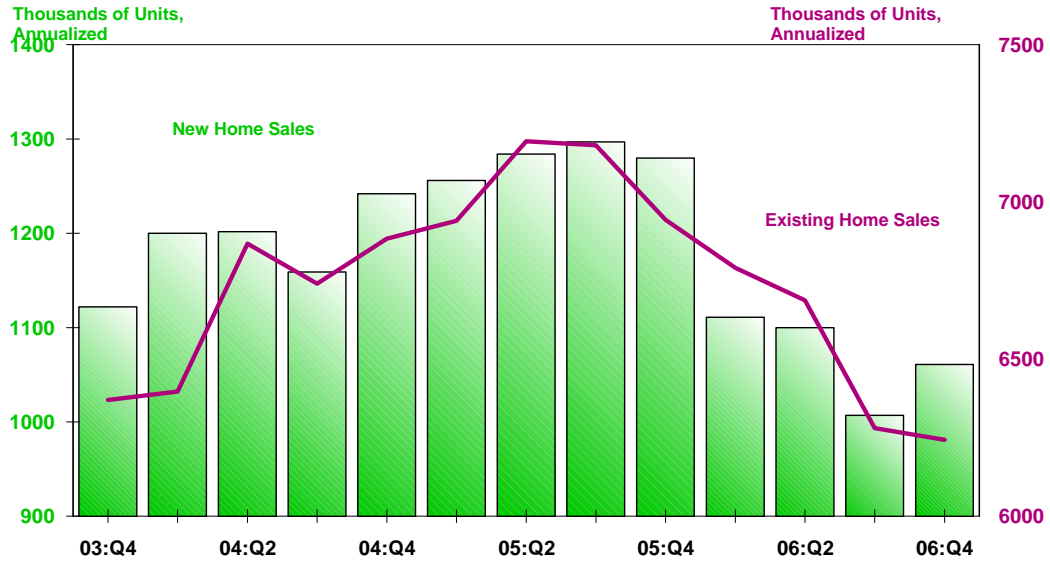
Residential investment continued to slide in the fourth quarter.



Source: U.S. Census Bureau.

New home sales rebounded in the fourth quarter, rising for the first time since their peak in the third quarter of 2005. Sales of existing homes continued to fall, but at a slower rate than seen recently.

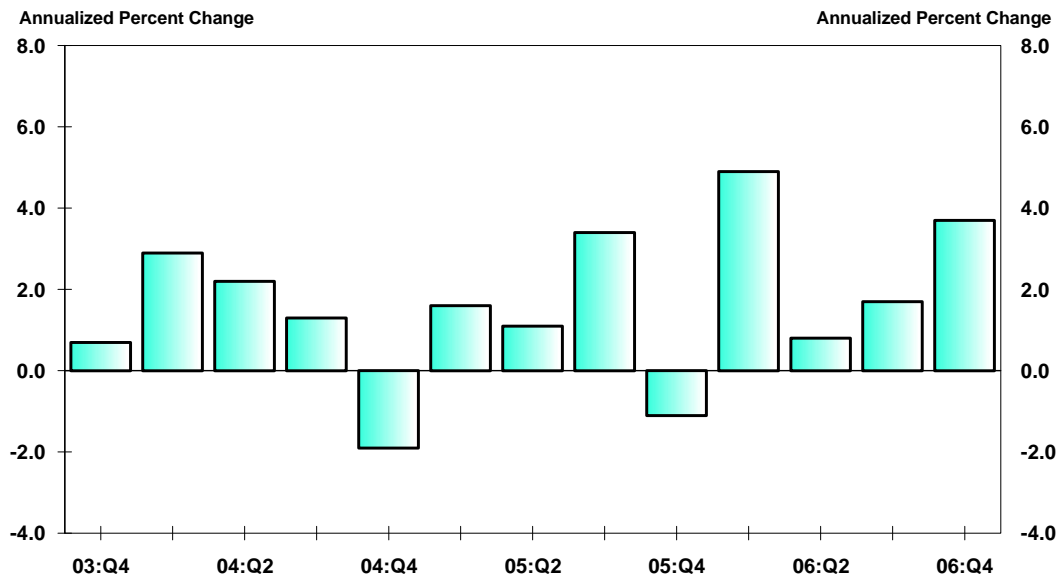
New and Existing Home Sales



Source: U.S. Census Bureau.

Growth in government spending more than doubled in the fourth quarter.

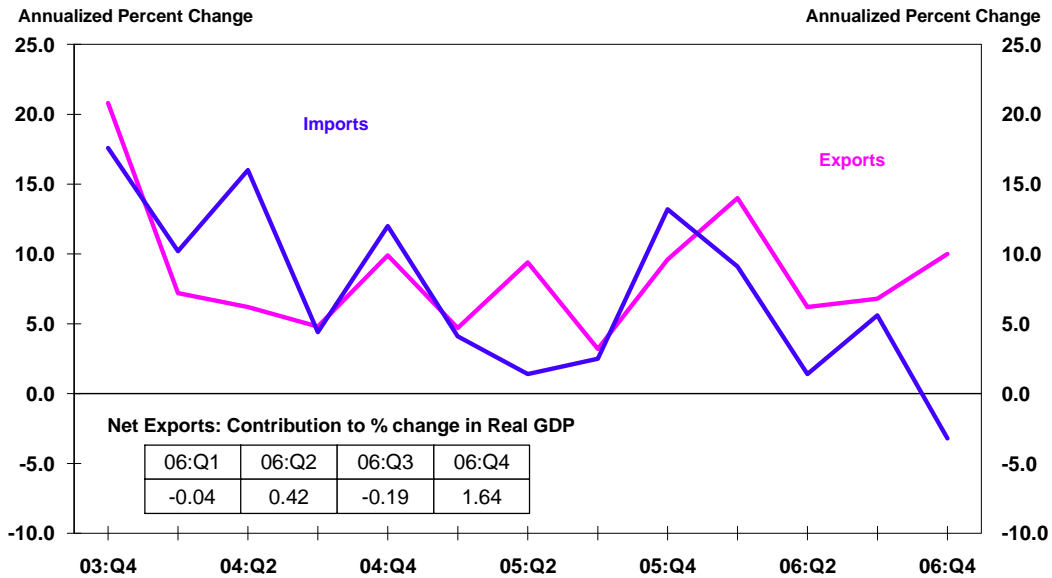
Government Spending



Source: Bureau of Economic Analysis.

Export growth accelerated in the fourth quarter and imports fell, allowing trade to make its largest contribution to the percent change in GDP in over 10 years.

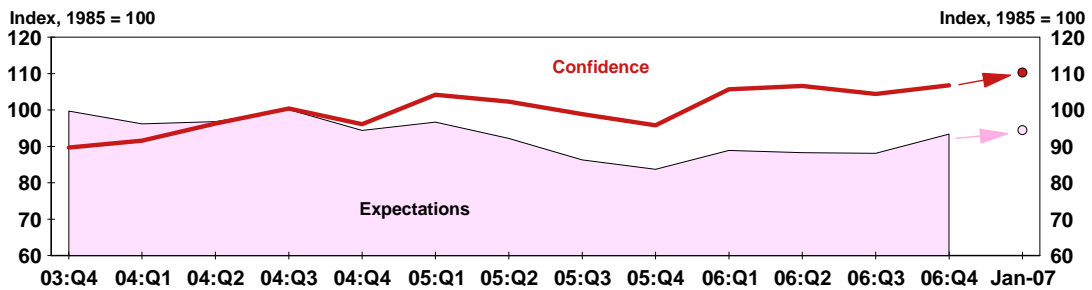
Exports and Imports



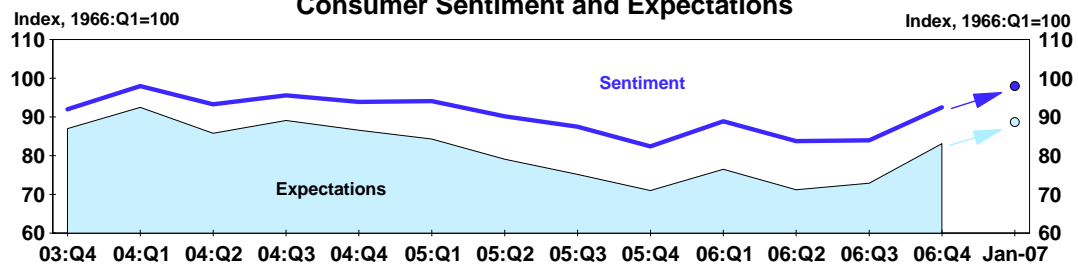
Source: Bureau of Economic Analysis.

After rising in the fourth quarter, consumer attitudes improved further in January due in part to more positive job market opinions.

Consumer Confidence and Expectations

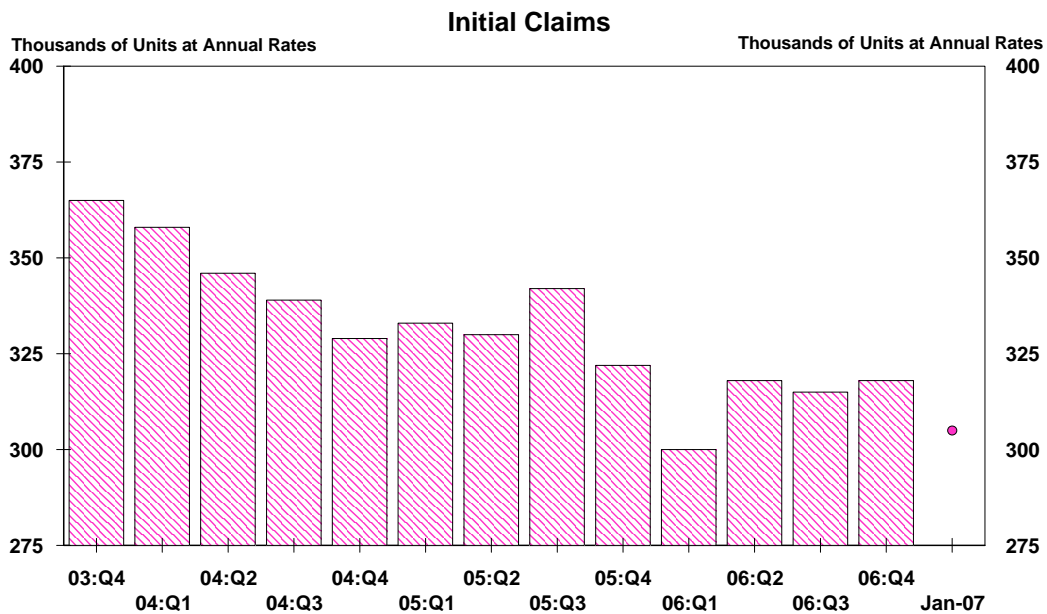


Consumer Sentiment and Expectations



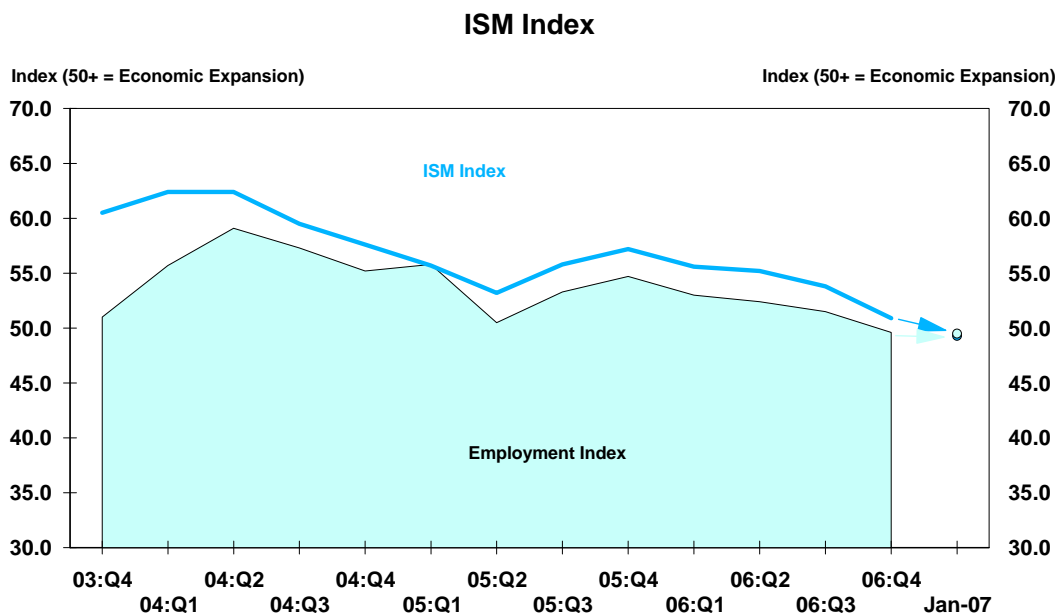
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance fell in January, reaching their lowest level in a year.



Source: Department of Labor, Employment and Training Administration.

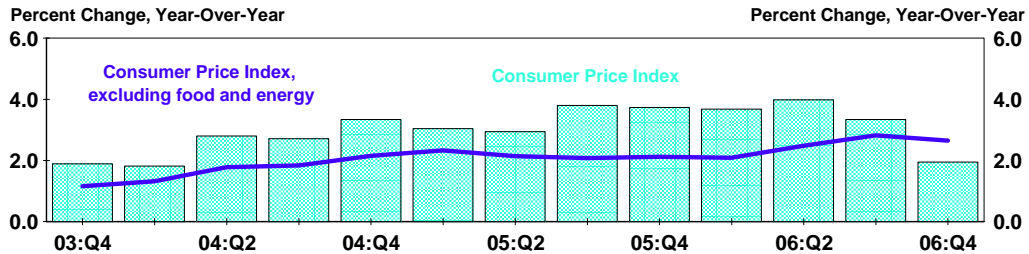
In January, both the ISM and employment indices edged down, continuing their patterns seen throughout 2006. Both measures are just below 50, signaling very little change in the manufacturing sector.



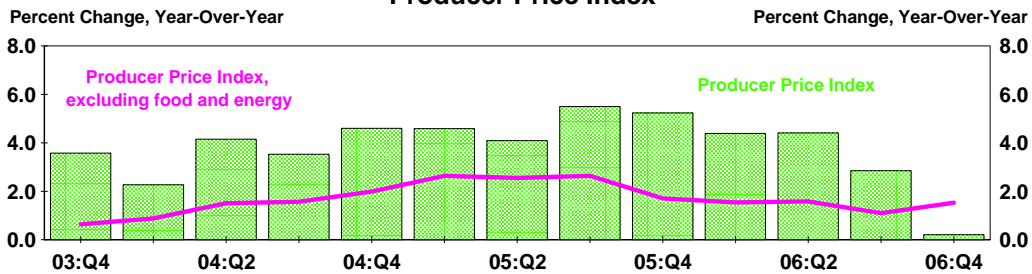
Source: Institute for Supply Management.

Headline inflation slowed further in the fourth quarter, falling to half the pace seen two quarters ago. However, core prices eased only marginally. Total producer prices were essentially unchanged in the fourth quarter, while core prices accelerated to return to the pace seen throughout the first half of the year.

Consumer Price Index



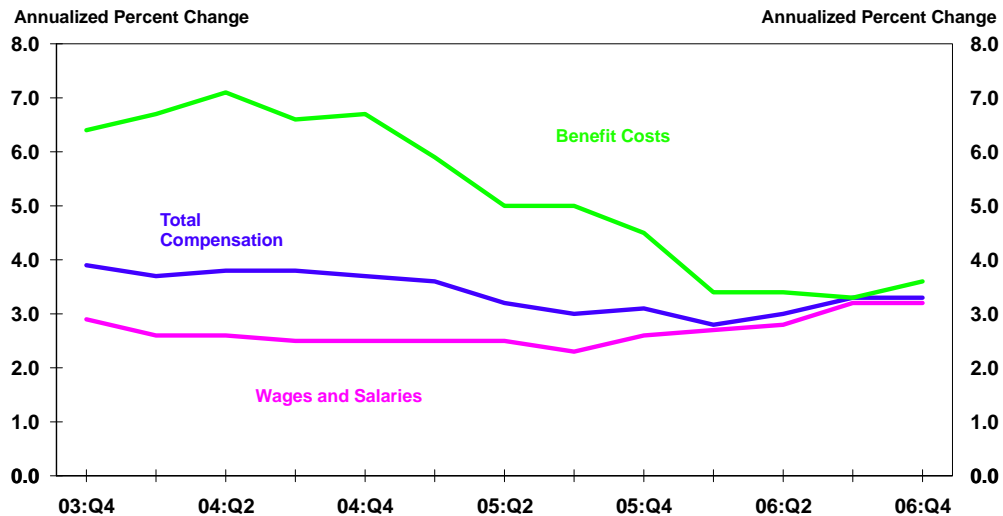
Producer Price Index



Source: Bureau of Labor Statistics.

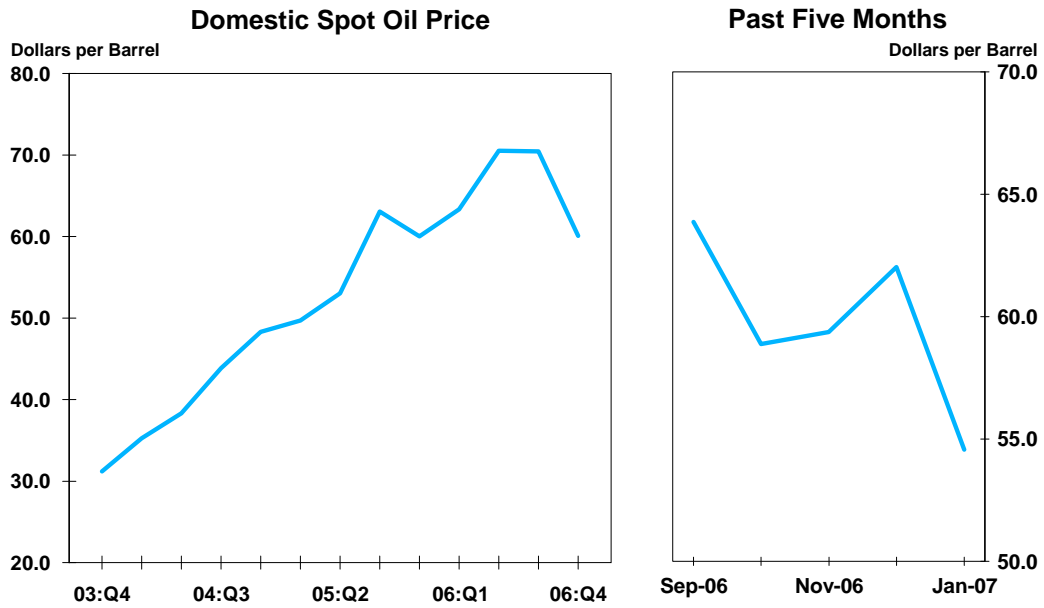
In the fourth quarter, total employment costs were flat as wages and salaries held steady and benefit costs accelerated a bit.

Employment Cost Index



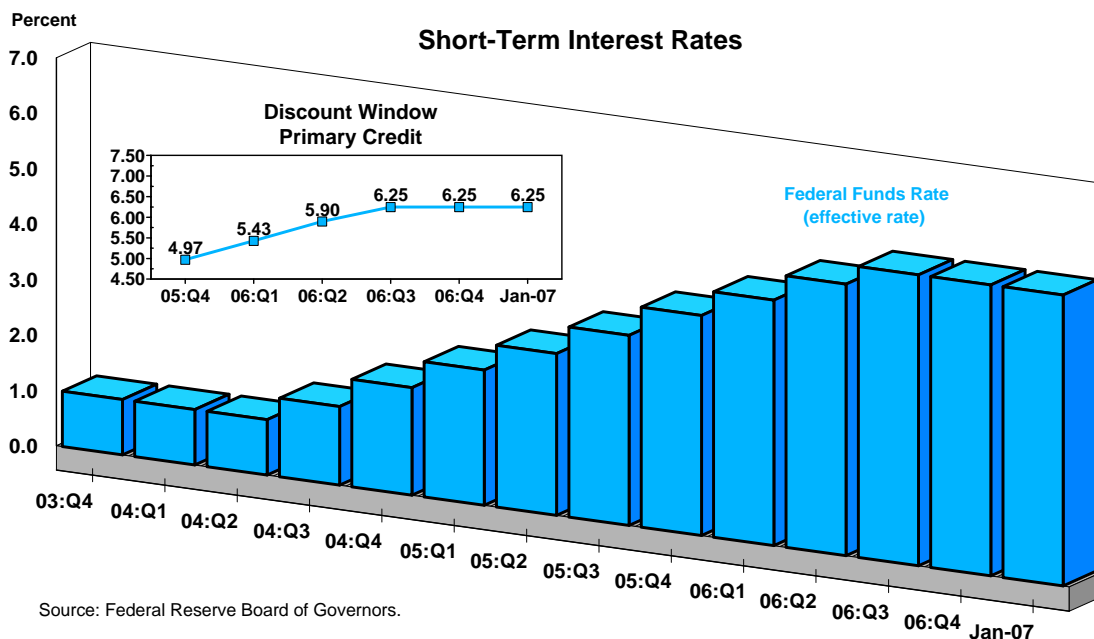
Source: Bureau of Labor Statistics.

Oil prices eased significantly in the fourth quarter, and fell further in January, reaching their lowest levels since May 2005.



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy grew in the fourth quarter at its fastest pace since the first quarter, as consumer spending and foreign trade offset the slump in the housing market.



Source: Federal Reserve Board of Governors.

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

February 8, 2007

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

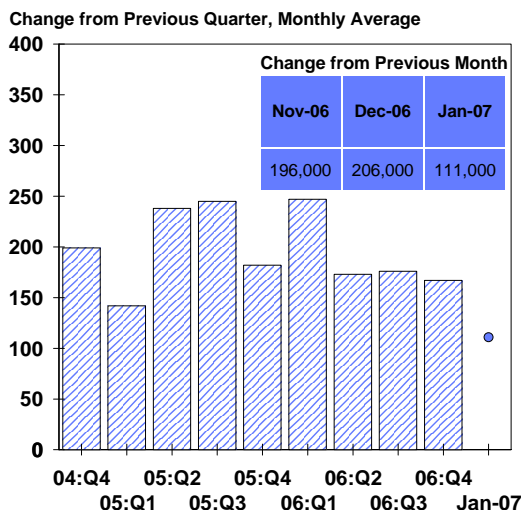
In January, nonfarm payrolls added 111,000 jobs yet the unemployment rate increased to 4.6%. December payrolls were revised to show an increase of 206,000 jobs, 39,000 more than the original estimate of a 167,000 job increase, and November payrolls were revised to show an increase of 196,000 jobs, 42,000 more than the previously reported increase of 154,000.

Total auto and light truck sales were unchanged in January, holding at an annualized rate of 16.7 million units. Domestic auto and truck sales also held steady, at 12.7 million units. In both cases, the January sales were an improvement on fourth quarter averages. Productivity increased in the fourth quarter, and unit labor costs slowed.

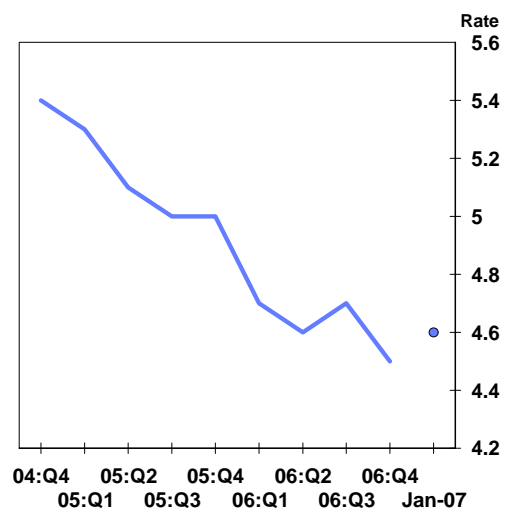
Consumer sentiment improved in January, but not by as much as originally estimated. Sentiment closed the month at 96.9, down from the mid-month estimate of 98.0, but still a significant improvement on the 91.7 recorded in December. Redbook sales increased 1.7% in January, compared to December. Sales were 3.3% higher than during the same period last year. Oil prices increased during the past week, averaging 58.4 dollars per barrel compared to last week's average of 55.0.

Payroll employment posted a solid gain in January, and revisions to the prior two months' estimates resulted in a net gain of 81,000 additional jobs. The unemployment rate rose one-tenth of a percentage point in January to 4.6%.

Nonfarm Payroll Employment



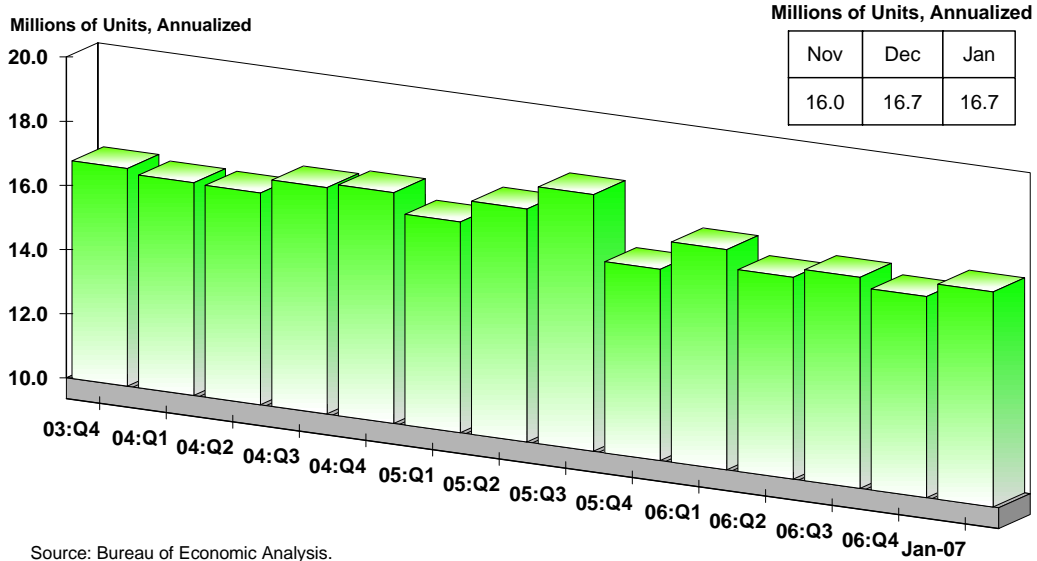
Unemployment Rate



Source: Bureau of Labor Statistics.

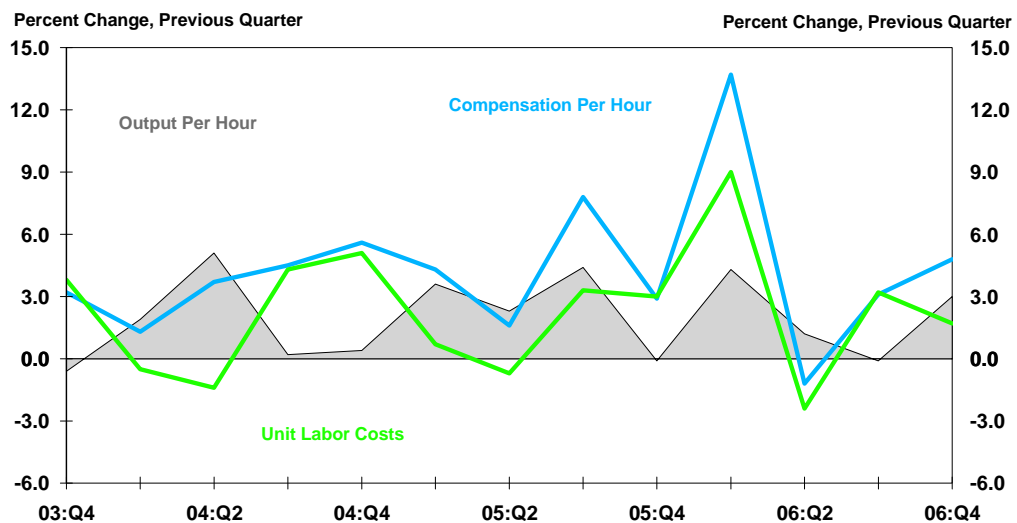
While total auto and light truck sales were unchanged in January from December, they did improve on their fourth quarter average.

Total Auto and Light Truck Sales



Productivity increased in the fourth quarter, rebounding from a slight decrease in the third quarter. Total compensation picked up, even as unit labor costs slowed.

Productivity and Costs



Source: Bureau of Labor Statistics.