



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

July 5, 2007

Current Economic Developments - July 5, 2007

Data released since your last Directors' meeting suggest the economy is improving, following the slow first quarter. So far during the second quarter, employment growth has been solid, and business investment has been stronger than seen in the first quarter. These effects, along with continued strength in exports, should help offset the drag of the housing market and a slowdown in consumption as consumers adjust to higher gasoline prices.

Initial claims for unemployment insurance increased in June, and consumer attitudes worsened. In May, consumer spending scarcely increased, restrained by two consecutive decreases in real disposable income. Total auto sales fell further in June, reaching their slowest sales pace in close to two years.

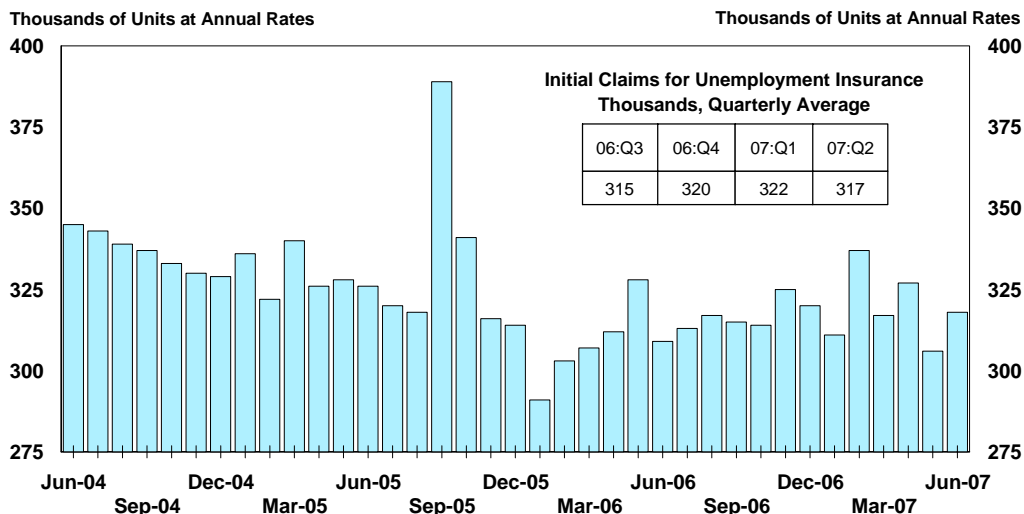
The struggles in the housing market continued in May. Sales of both new and existing homes fell, as did housing starts. Building permits, however, increased.

In the manufacturing sector, the ISM index increased for a third consecutive month in June, reaching a one-year high. The employment component of the index eased, but remained above 50. In May, industrial production was unchanged and capacity utilization decreased a bit, and new orders for durable goods decelerated. Orders for nondefense capital goods, excluding aircraft, fell.

There were further signs in May that inflation remains contained, as core consumer prices continued to slow and core producer price growth was steady. However, headline numbers did rise a bit. Oil prices rose sharply to reach their highest level in a year.

Initial claims for unemployment insurance rose in June, essentially matching their 12-month average.

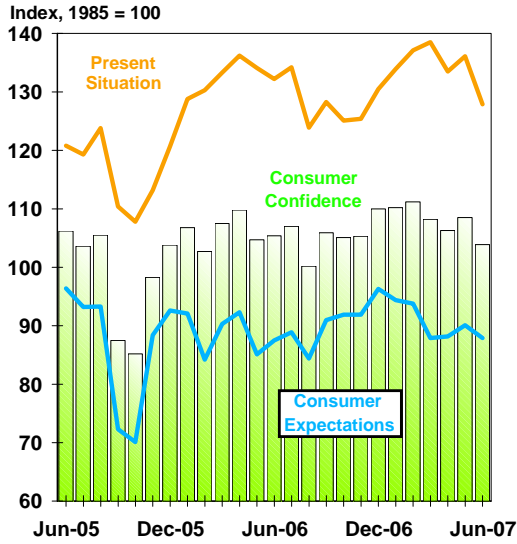
Initial Claims



Source: Department of Labor, Employment and Training Administration.

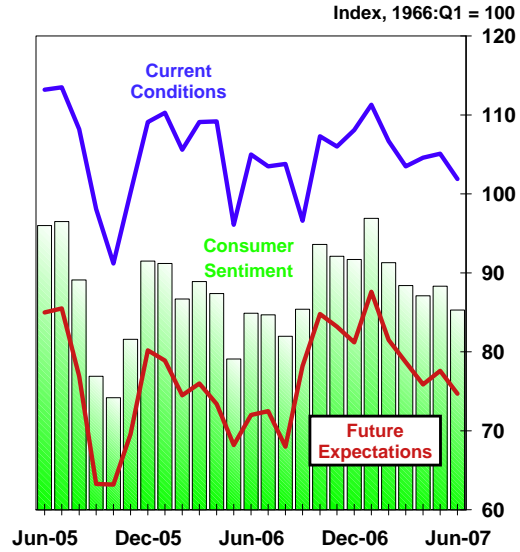
Consumer attitudes worsened in June, following increases across the board in May. A perceived softening in present-day business and employment conditions, as well as high gas prices, contributed to the lower estimates.

Consumer Confidence



Source: The Conference Board.

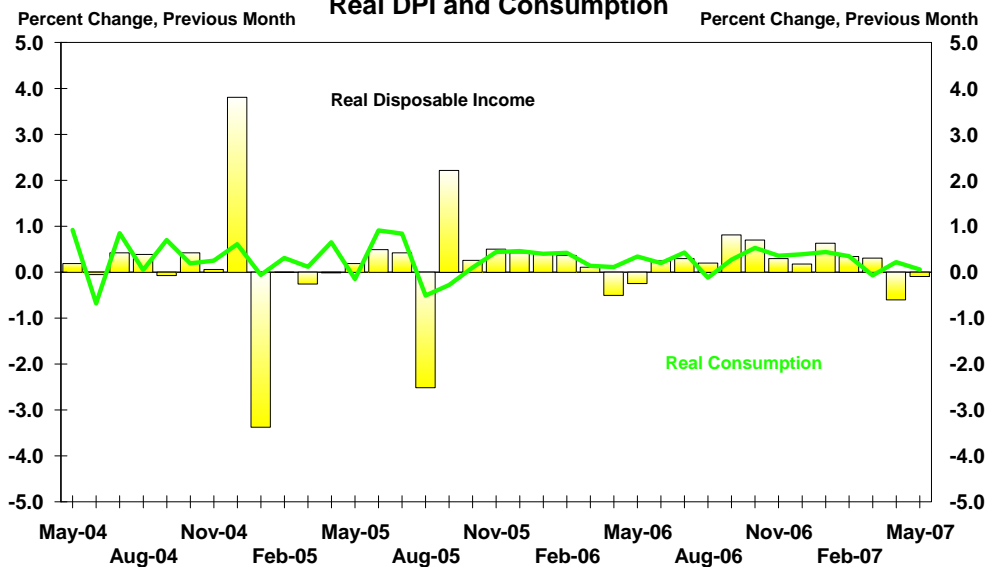
Consumer Sentiment



Source: The University of Michigan.

Real disposable income decreased for the second month in a row in May, albeit marginally. Consumption was essentially unchanged.

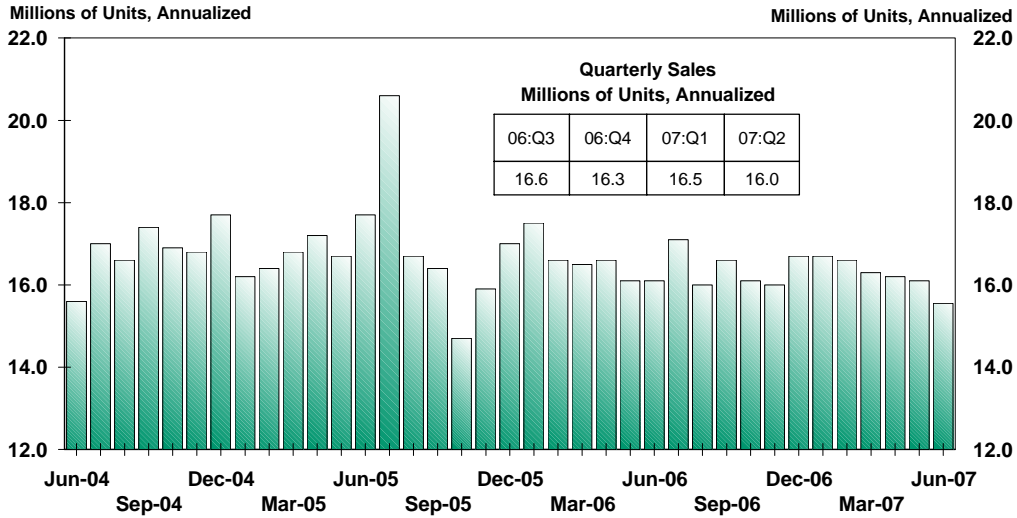
Real DPI and Consumption



Source: Bureau of Economic Analysis.

Total auto and light truck sales slowed for the fifth consecutive month in June, falling to their lowest pace since October 2005.

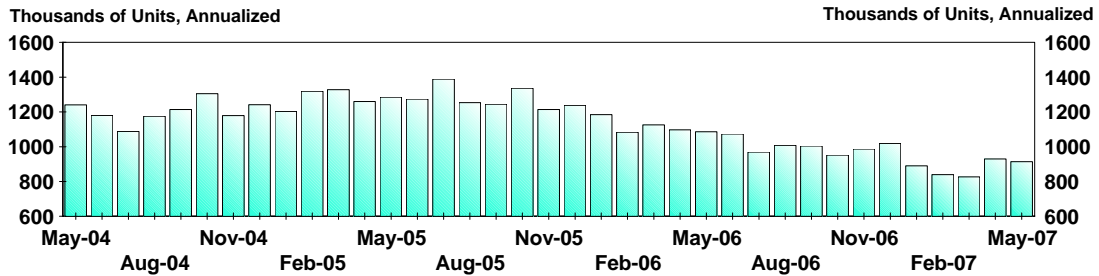
Total Auto and Light Truck Sales



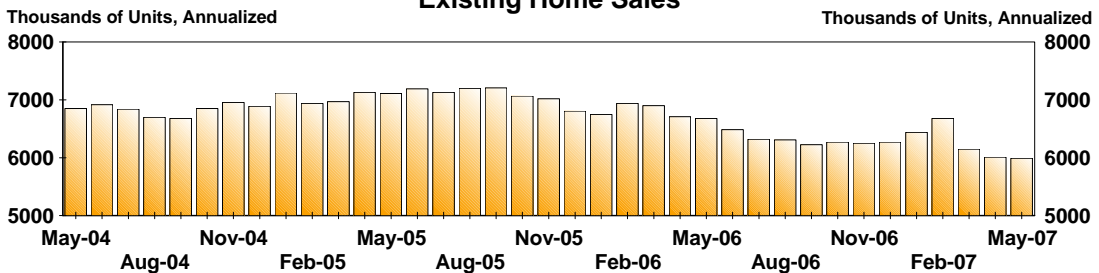
Source: Bureau of Economic Analysis.

In May, sales of both new and existing homes decreased marginally. May's estimate for existing home sales was the lowest in four years.

New Home Sales



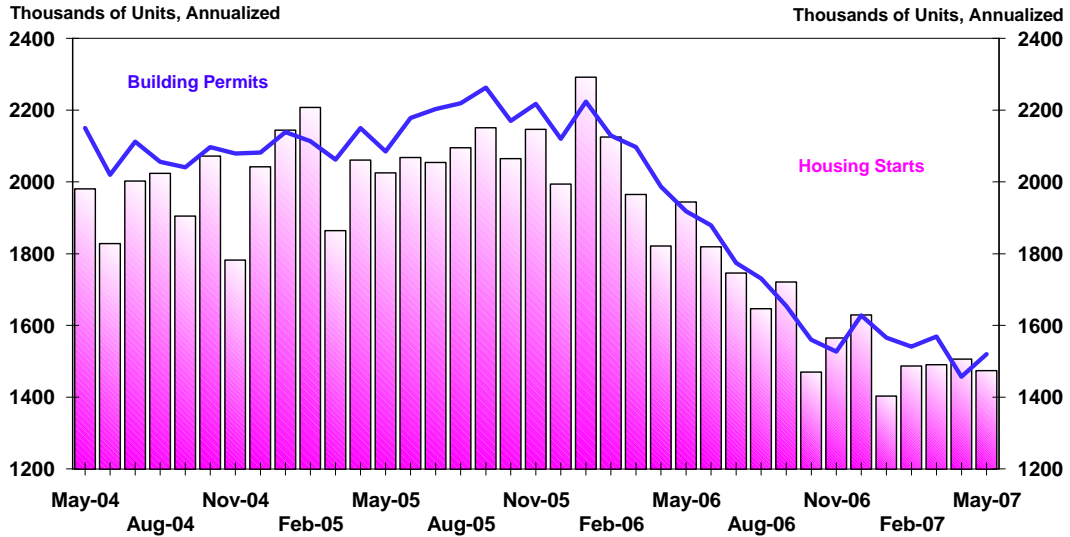
Existing Home Sales



Source: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales).

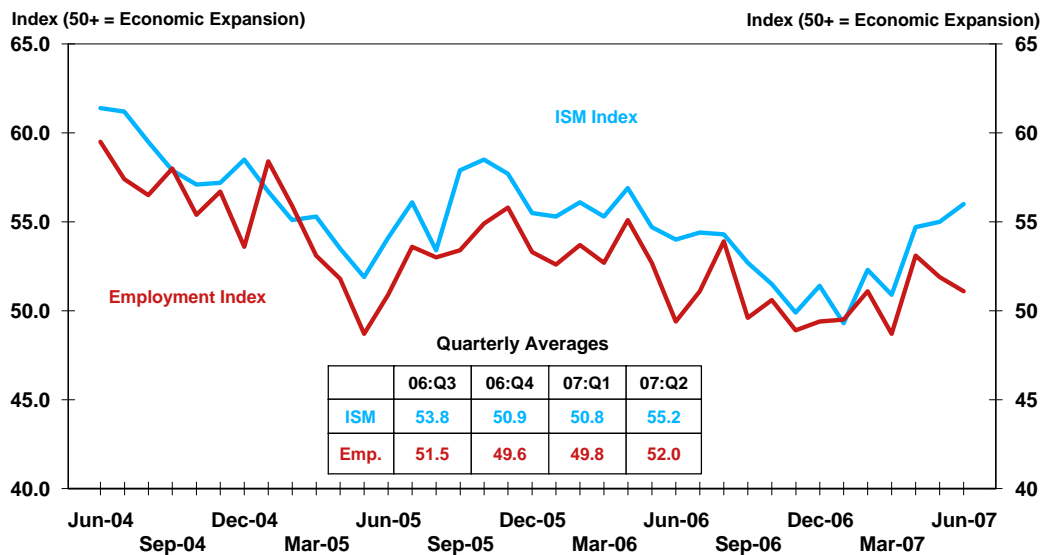
Housing starts fell in May, after rising in each of the previous three months. Building permits posted their largest gain of the year, a sign future starts may be stonger.

Housing Starts and Building Permits



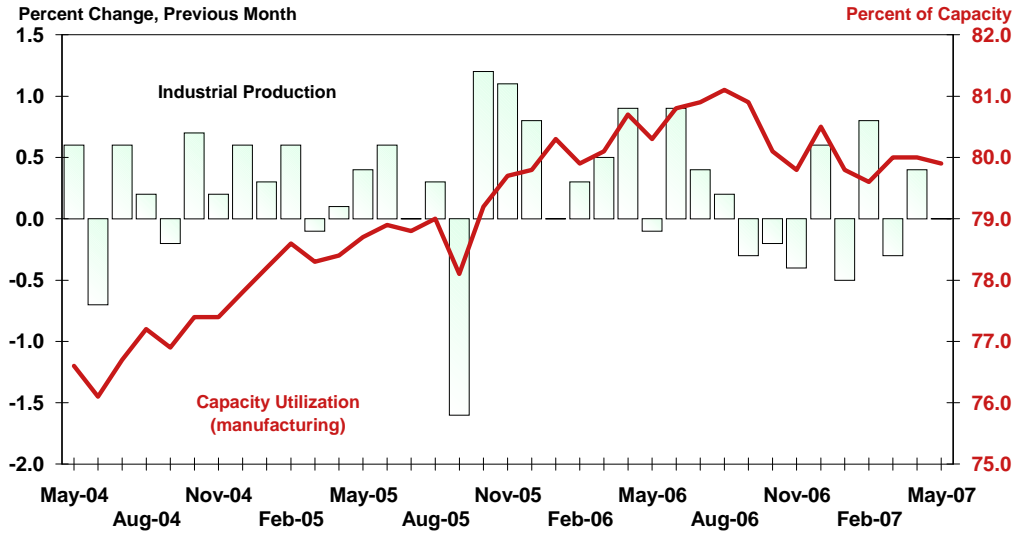
The ISM manufacturing index increased further in June, reaching it's highest point in over a year. The employment index eased, but remained above 50.

ISM Index



Industrial production was unchanged in May, and capacity utilization eased slightly.

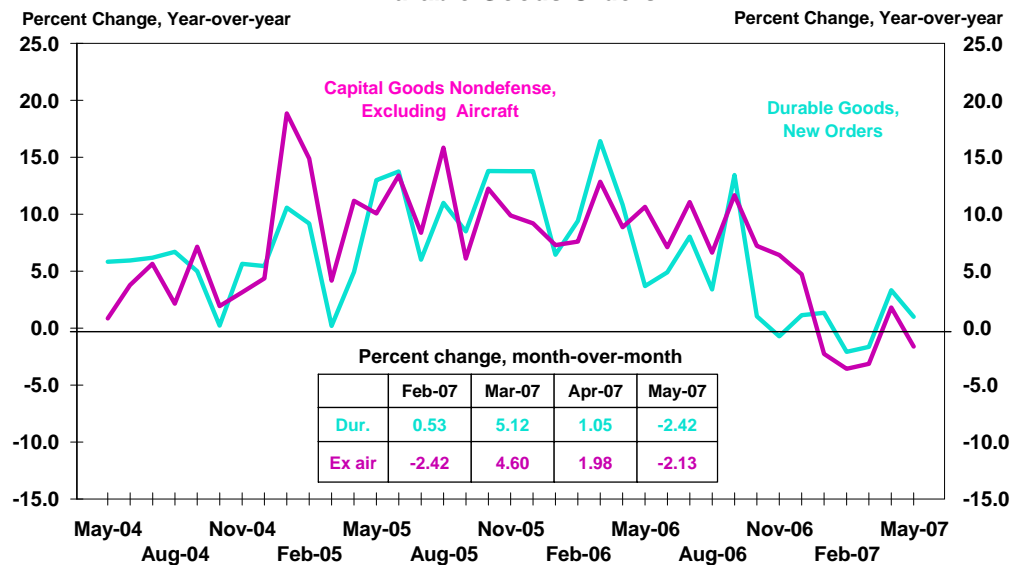
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for durable goods slowed in May (on a year-over-year basis), while orders for nondefense capital goods, excluding aircraft, fell.

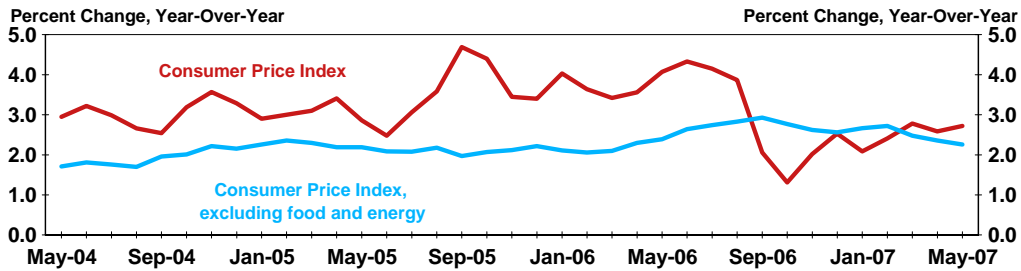
Durable Goods Orders



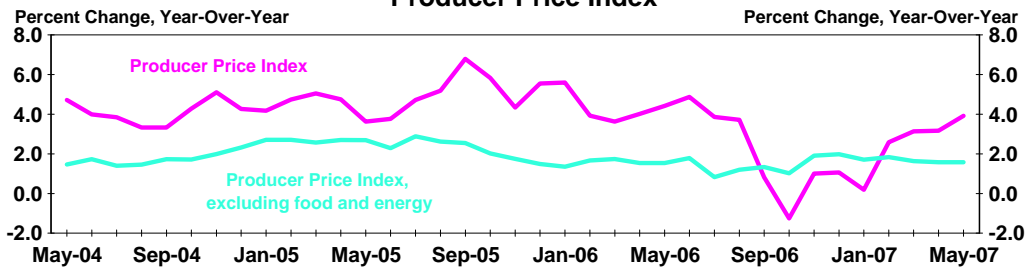
Source: U.S. Census Bureau.

Consumer prices accelerated a bit in May, while core prices slowed further. Total producer prices also picked up in May, as core prices were flat.

Consumer Price Index



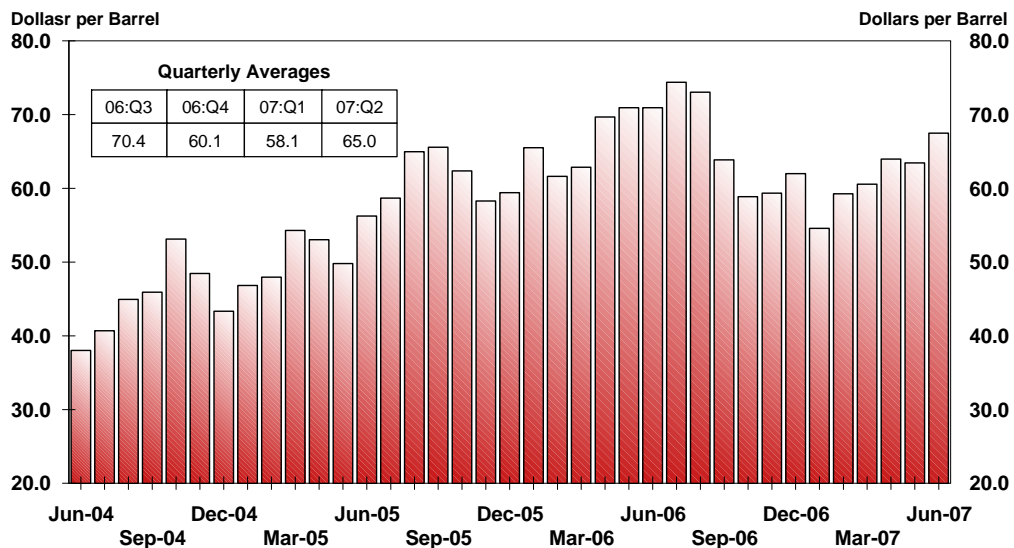
Producer Price Index



Source: Bureau of Labor Statistics.

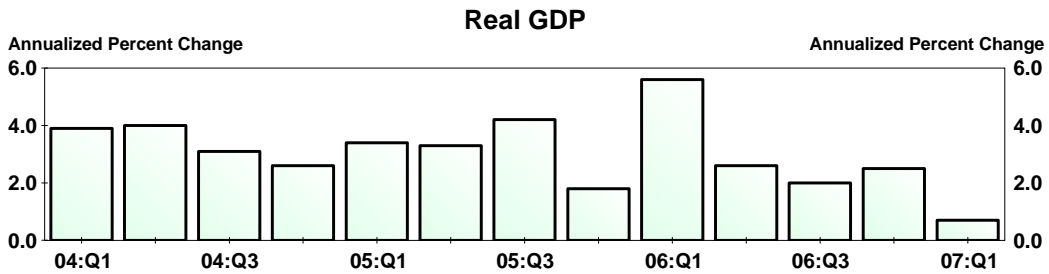
Oil prices rose sharply in June, reaching their highest level since the previous July.

Domestic Spot Oil Price



Source: Wall Street Journal.

In the first quarter, real GDP was revised slightly upward. The upward revision to the percent change in real GDP primarily reflected an upward revision to exports of goods and services.

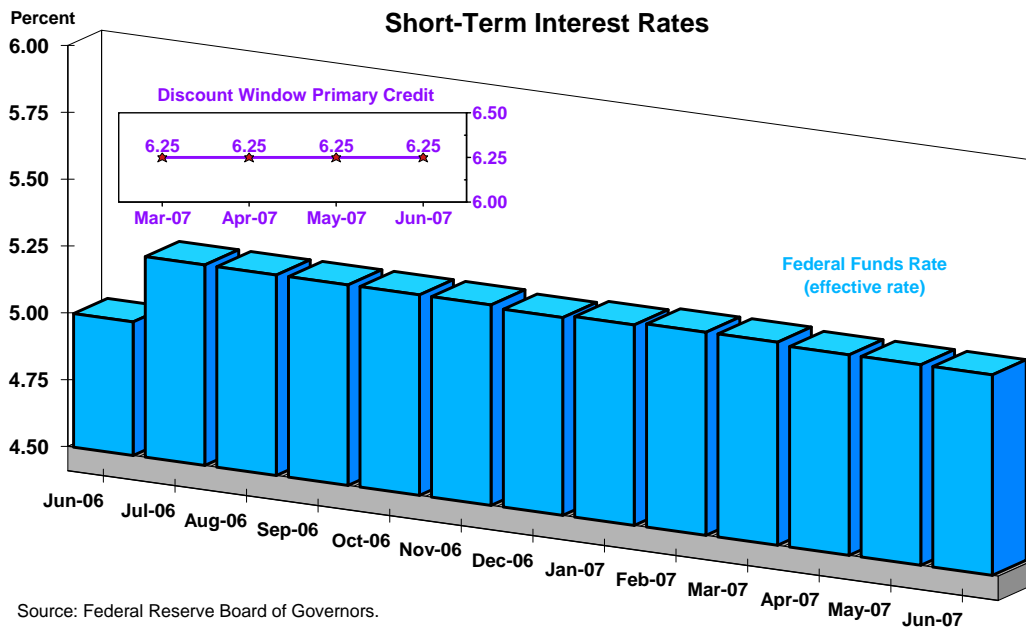


First Quarter Revisions

Description	Preliminary	Revised
Real GDP	0.6	0.7
Personal Consumption	4.4	4.2
Business Investment	2.9	2.6
Equipment and Software	2.0	1.7
Residential Investment	-15.4	-15.8
Government	1.0	1.0
Exports	-0.6	0.7
Imports	5.7	5.5
Final Sales	1.6	1.7

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting suggest the economy is improving, following the slow first quarter. So far during the second quarter, employment growth has been solid, and business investment has been stronger than seen in the first quarter. These effects, along with continued strength in exports, should help offset the drag of the housing market and a slowdown in consumption as consumers adjust to higher gasoline prices.



Source: Federal Reserve Board of Governors.

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

July 12, 2007

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

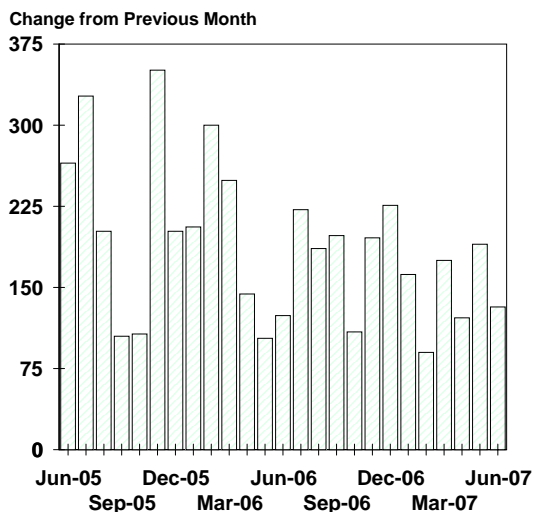
In June, nonfarm payrolls added 132,000 jobs and the unemployment rate held steady at 4.5%. May payrolls were revised upward to show an increase of 190,000 jobs, 33,000 more than the original estimate of a 157,000 job increase. April payrolls were also revised upward, showing the addition of 122,000 jobs instead of the previously reported 80,000 job increase.

Wholesale inventories rose 0.5% in May, following a 0.3% increase in April. Wholesale trade rose 1.3% in May, after rising a revised 1.5% in April. Trade was originally estimated as rising 1.3% in April.

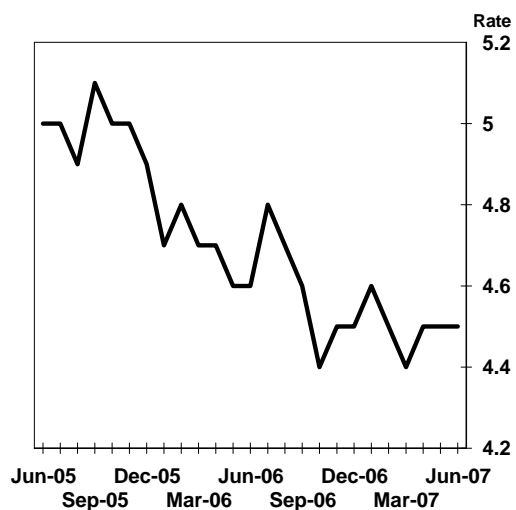
Redbook sales decreased 1.3% through the fifth and final week of June, compared to May. Sales for the week ending July 7th were 0.8% higher than during the same period last year. Oil prices rose during the past week, averaging \$72.4 per barrel compared to last week's average of \$70.4.

Payroll employment posted a solid gain of 132,000 jobs in June, and revisions to the prior two months' growth estimates resulted in a net gain of 75,000 additional jobs. The unemployment rate was unchanged in June at 4.5%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.