



FEDERAL RESERVE
BANK OF BOSTON™

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

May 31, 2007

CURRENT ECONOMIC DEVELOPMENTS - May 31, 2007

Data released since your last Directors' meeting show the economy is growing at its slowest pace in over four years. Weaker business investment and the continued real estate slump have hampered growth through the early part of the year, but there are signs inflation is being contained and consumers continue to spend.

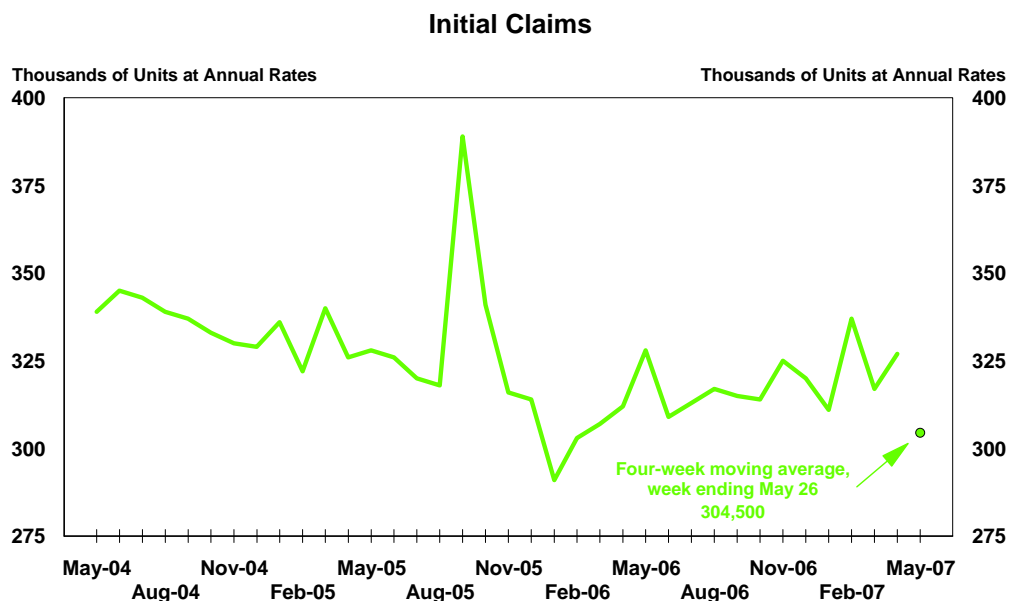
In May, initial claims decreased to their lowest level in over a year, and consumer attitudes improved following recent deterioration.

The housing market showed mixed signs in April. Sales of new homes posted a strong increase, but existing home sales fell for the second straight month. In the manufacturing sector, industrial production and capacity utilization both improved. New orders for both durable goods and for nondefense capital goods, excluding aircraft, also rose after falling the previous two months.

Inflation eased a bit in April, as both core consumer and producer prices slowed for the second month in a row. Total consumer prices also slowed, while total producer prices were unchanged. Oil prices were essentially flat in May.

During the first quarter, real growth was weaker than originally thought. The downward revision primarily reflected a downward revision to private inventory investment and an upward revision to imports that were partly offset by an upward revision to personal consumption expenditures.

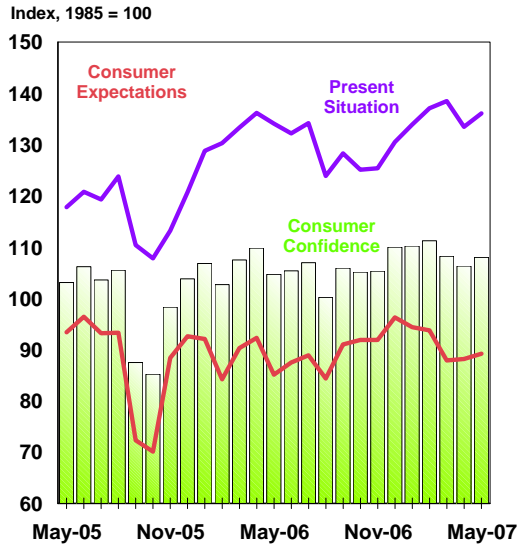
Initial claims for unemployment insurance fell sharply through late May, reaching their lowest point since February of last year.



Source: Department of Labor, Employment and Training Administration.

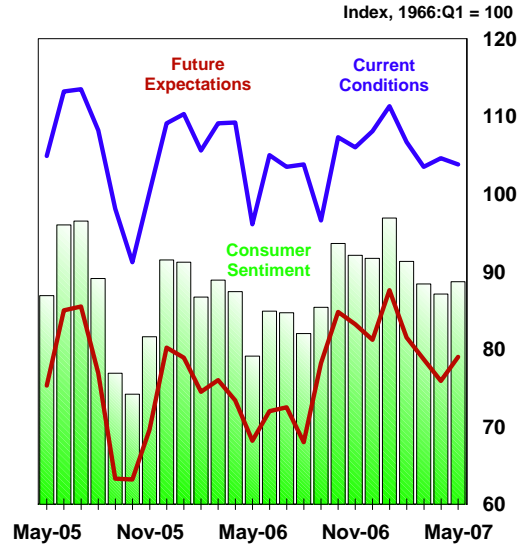
Consumer confidence and sentiment both improved in May, offsetting the decreases seen in April. Expectations of future economic conditions also improved, while assessments of the current situation were contradictory.

Consumer Confidence



Source: The Conference Board.

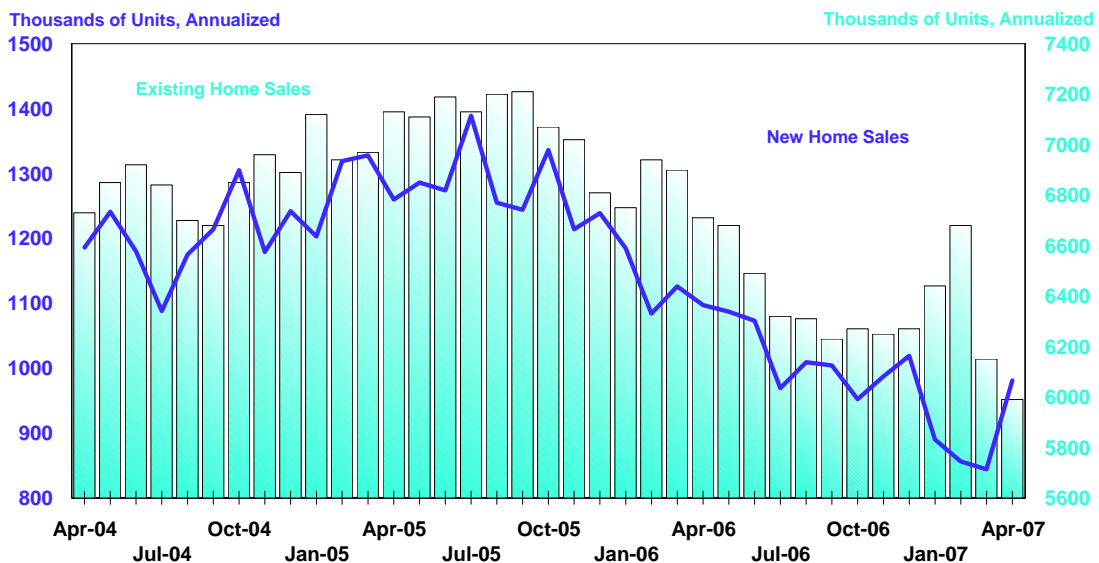
Consumer Sentiment



Source: The University of Michigan.

New home sales surged in April, nearly offsetting the losses seen during the previous three months. Sales of existing homes have followed an opposite pattern, falling for a second straight month in April after rising earlier in the year.

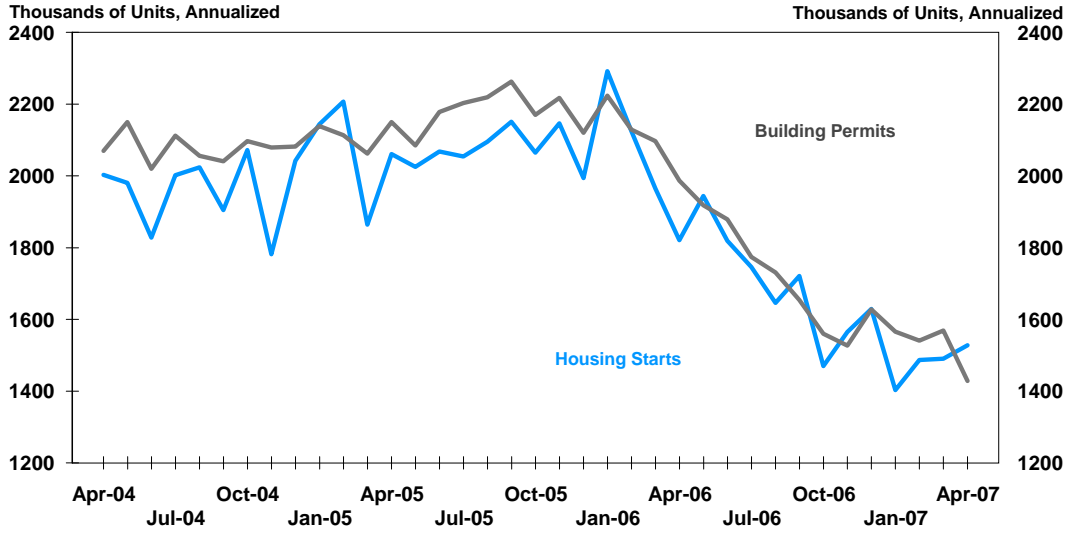
New and Existing Home Sales



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

In April, housing starts increased for the second consecutive month, but building permits fell to their lowest level in nearly ten years.

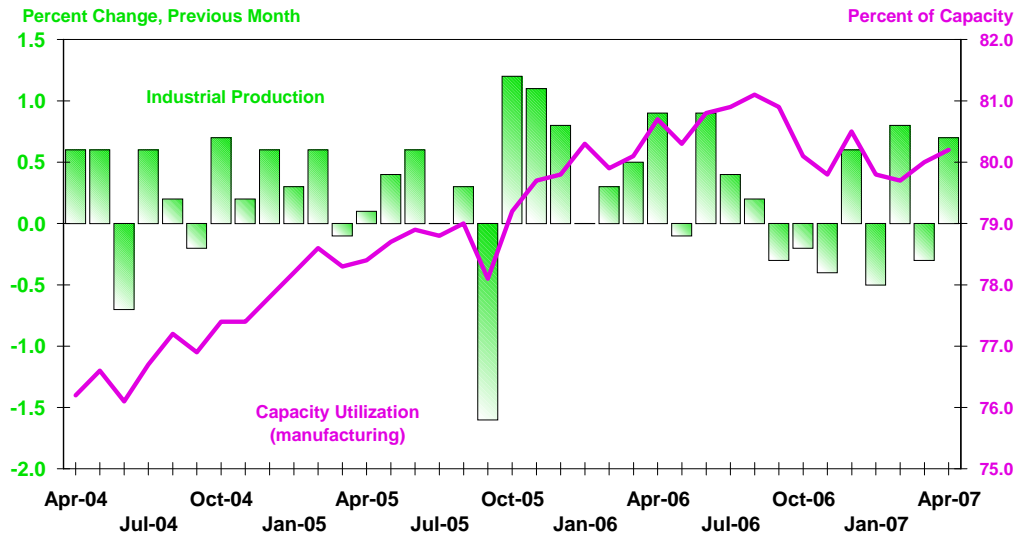
Housing Starts and Building Permits



Source: U.S. Census Bureau.

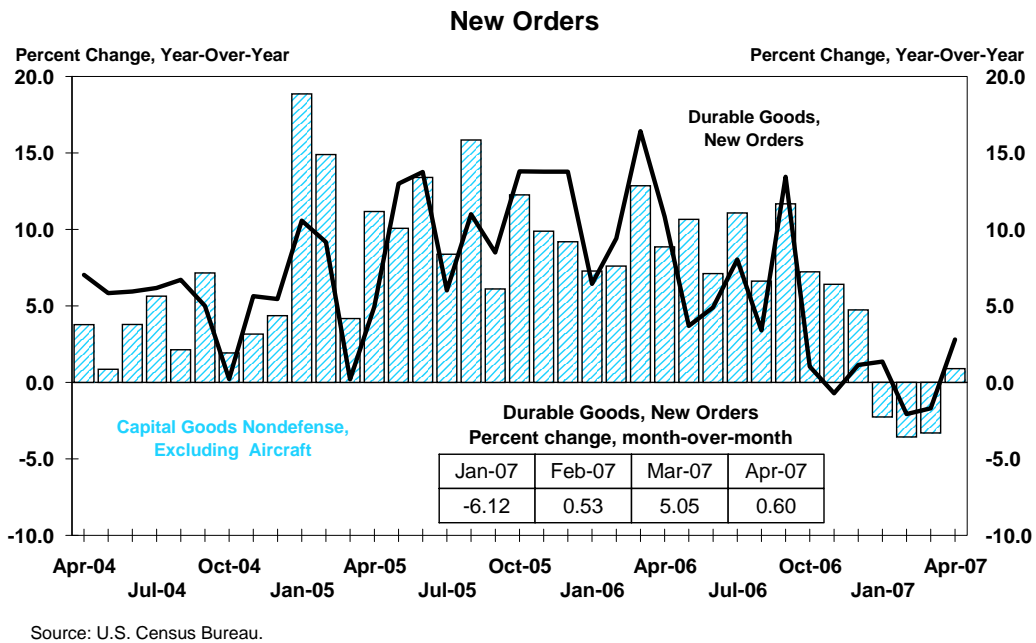
Industrial production continued its pattern of alternating gains and losses in April, posting a solid gain. Capacity utilization also rose.

Industrial Production and Capacity Utilization

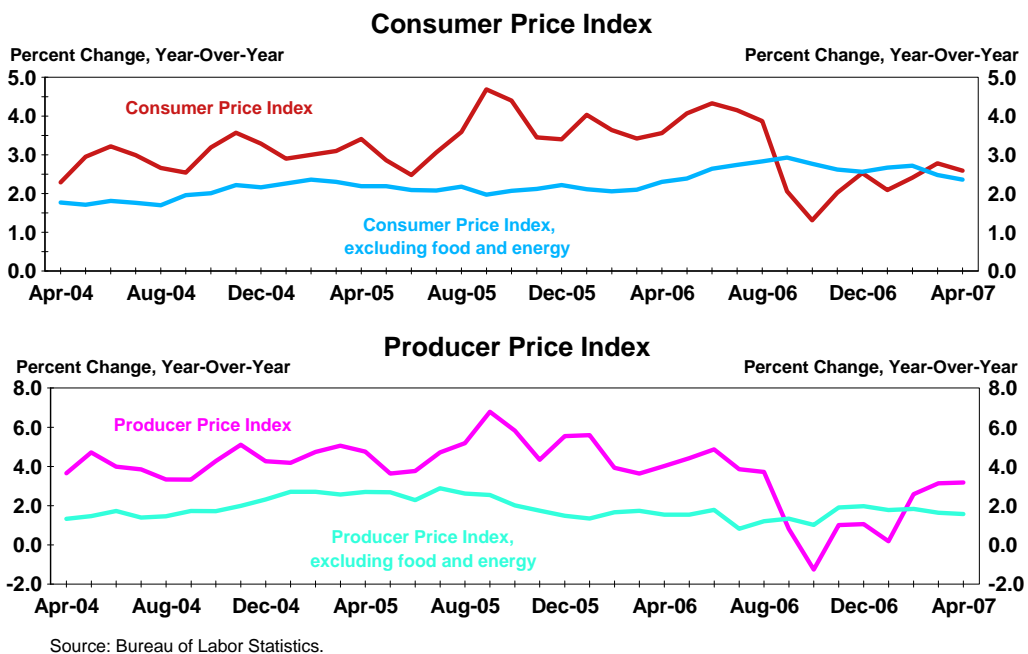


Source: Federal Reserve Board of Governors.

Orders of both durable goods and nondefense capital goods, excluding aircraft, increased in April, after falling the previous few months.

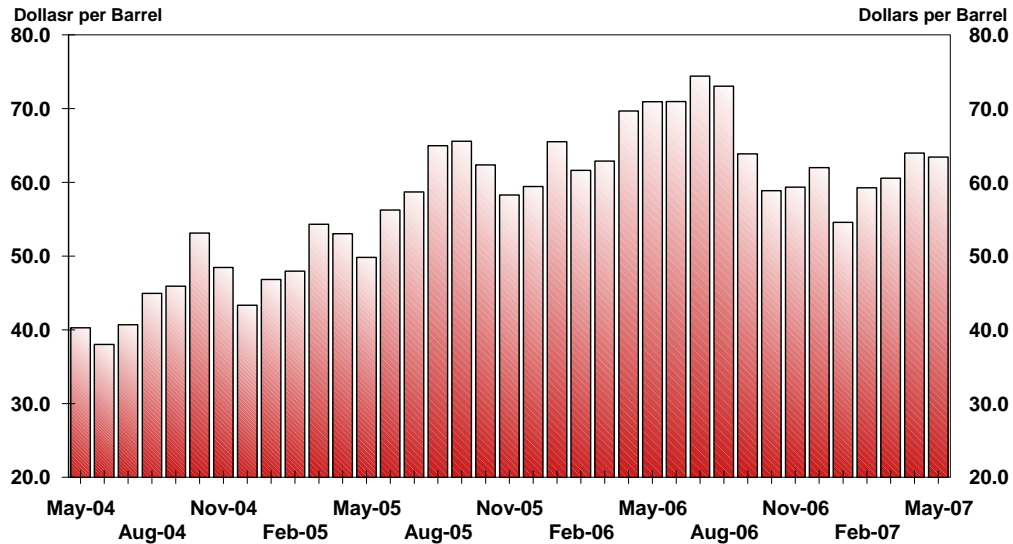


Inflation slowed a bit more in April, with core consumer prices down more than half a percentage point from the 10-year high reached seven months ago. Total inflation for consumers also slowed, while producer price growth held steady.



Oil prices were little changed in May.

Domestic Spot Oil Price



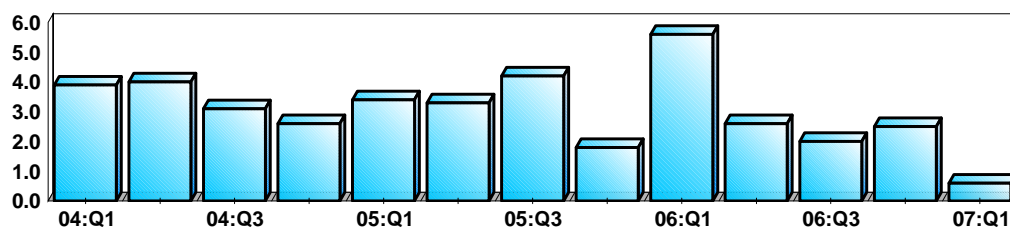
Source: Wall Street Journal.

Real GDP in the first quarter was weaker than originally thought. The downward revision primarily reflected a downward revision to private inventory investment and an upward revision to imports that were partly offset by an upward revision to personal consumption expenditures.

Revisions to First Quarter Real GDP

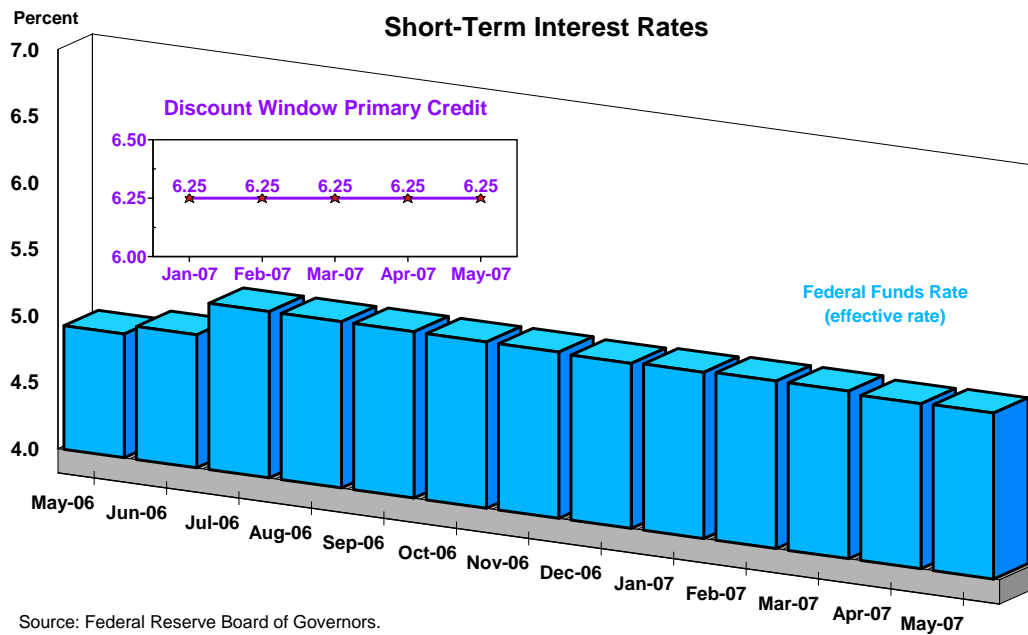
Description	Advanced	Preliminary
Real GDP	1.3	0.6
Personal Consumption	3.8	4.4
Business Investment	2.0	2.9
Equipment and Software	1.9	2.0
Residential Investment	-17.0	-15.4
Government	0.9	1.0
Exports	-1.2	-0.6
Imports	2.3	5.7
Final Sales	1.6	1.6

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy is growing at its slowest pace in over four years. Weaker business investment and the continued real estate slump have hampered growth through the early part of the year, but there are signs inflation is being contained and consumers continue to spend.



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

June 7, 2007

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

In May, nonfarm payrolls added 157,000 jobs and the unemployment rate held steady at 4.6%. April payrolls were revised to show an increase of 80,000 jobs, 8,000 fewer than the original estimate of an 88,000 job increase, and March payrolls were revised to show an increase of 175,000 jobs, 2,000 less than previously estimated.

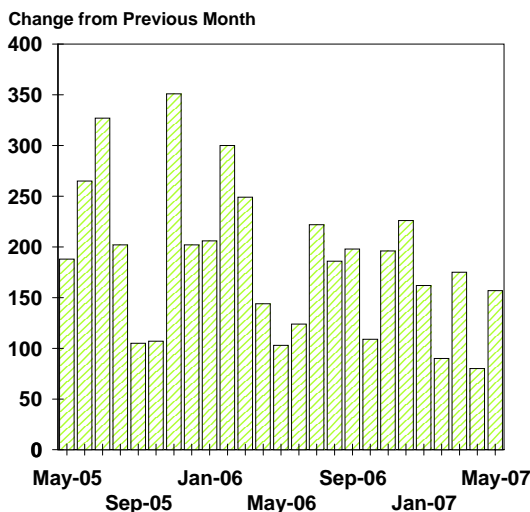
Domestic auto and light truck sales decreased in May, to an annualized rate of 12.3 million units and total vehicle sales for May were 16.1 million, down slightly from April's estimate of 16.2 million. Also in May, the ISM index rose for the second straight month and the employment index eased, but remained above 50.

In April, real consumption rose after being flat in March. The increase came despite the first decrease in real disposable income in almost a year. Manufacturers' orders rose 0.3% in April, after rising 4.1% in March. Total shipments increased 1.0% in April, while shipments of nondefense capital goods, excluding aircraft, rose 1.0%.

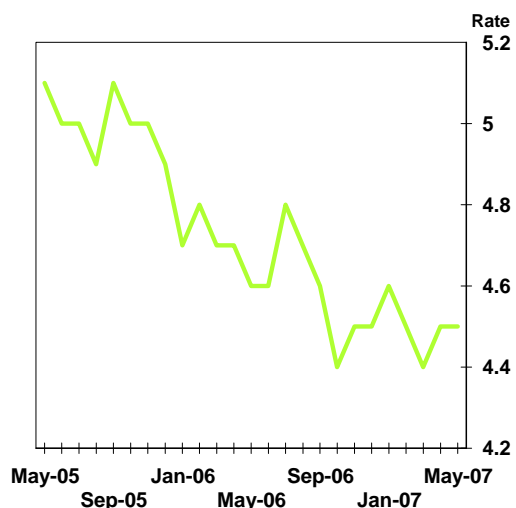
Productivity was revised downward in the first quarter to an increase of 1.0%, originally reported as a 1.7% rise. Consumer sentiment was revised down to 88.3 in May, from the mid-month estimate of 88.7. Still, it was an improvement on the final April estimate of 87.1.

Payroll employment posted a strong gain in May, while revisions to the prior two months' estimates resulted in a net reduction of 10,000 jobs. The unemployment rate was unchanged in May at 4.5%.

Nonfarm Payroll Employment



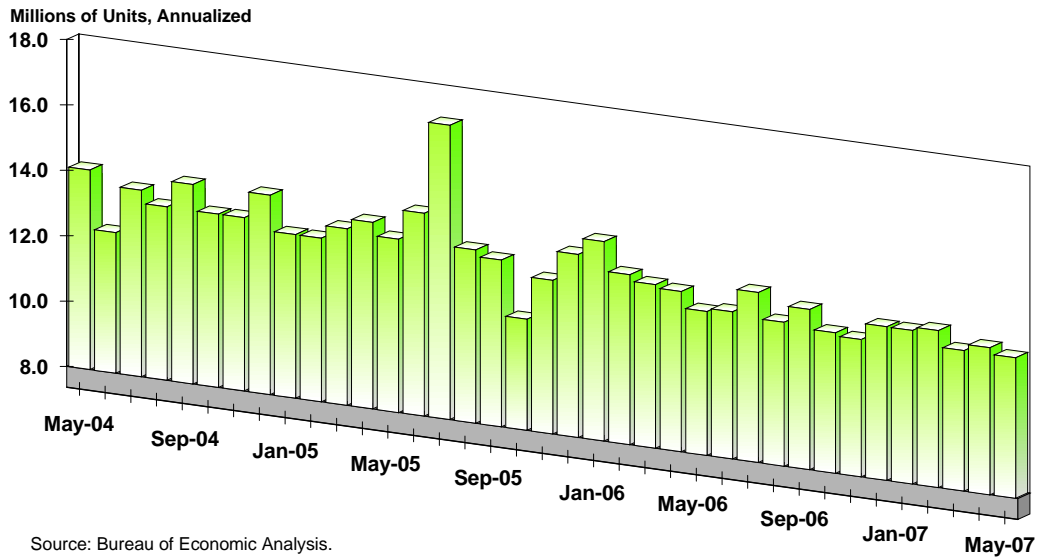
Unemployment Rate



Source: Bureau of Labor Statistics.

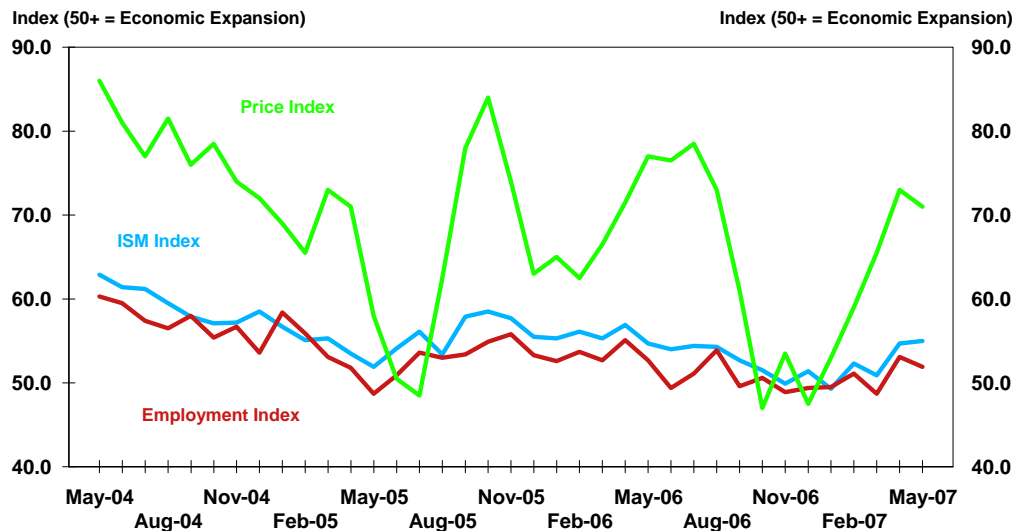
Domestic auto and light truck sales declined slightly in May, but held close to their one-year average.

Domestic Auto and Light Truck Sales

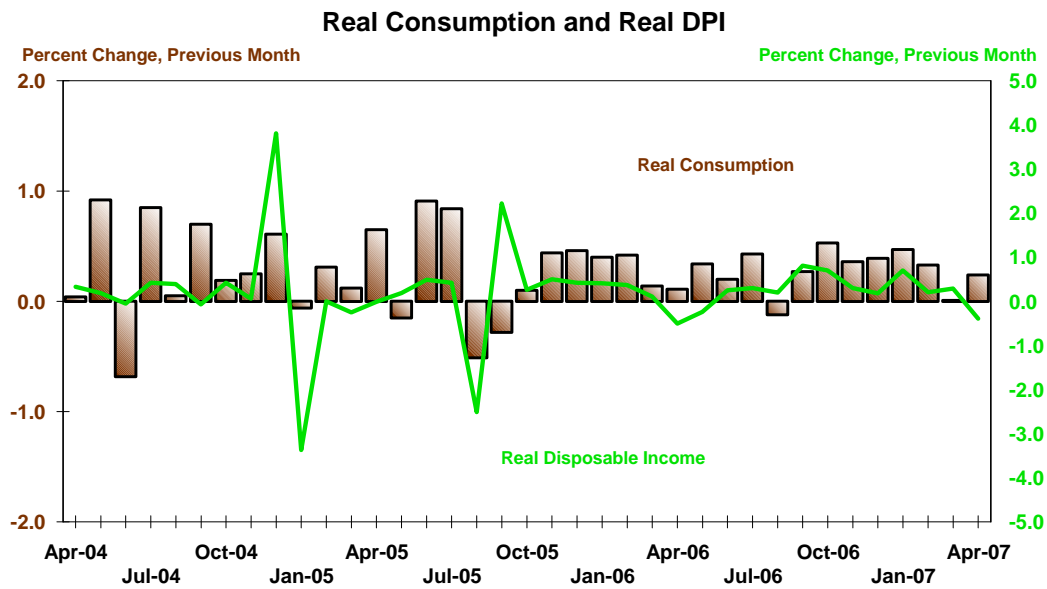


The ISM manufacturing index rose a bit in May, while the employment component fell. The price index decreased after rising for four straight months.

ISM Index

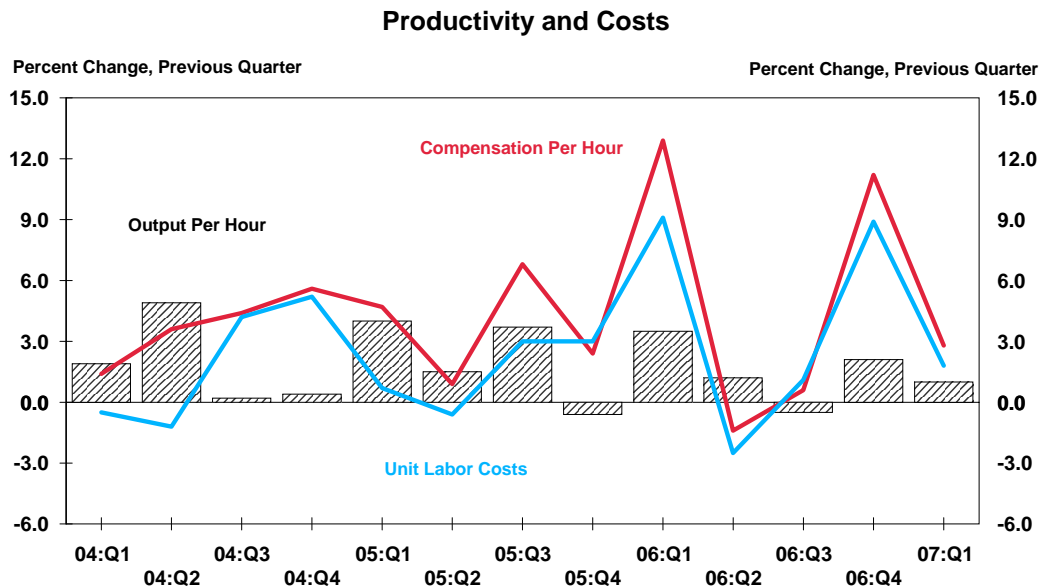


In April, real consumption rebounded from a flat March, despite the first decrease in real disposable income in nearly a year.



Source: Bureau of Economic Analysis.

Productivity increased in the first quarter, at about half the rate as seen in the fourth quarter. Growth in both hourly compensation and unit labor costs slowed dramatically in the first quarter.



Source: Bureau of Labor Statistics.