



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

March 1, 2007

Current Economic Developments - March 1, 2007

Data released since your last Directors' meeting show the economy grew in the fourth quarter at a slower pace than originally estimated, but one that was still a bit stronger than seen in the third quarter.

In February, initial claims increased as harsh winter weather affected large parts of the country. Consumer attitudes were mixed in February, as confidence rose but sentiment weakened. Real consumption expenditures eased in January, even as incomes picked up.

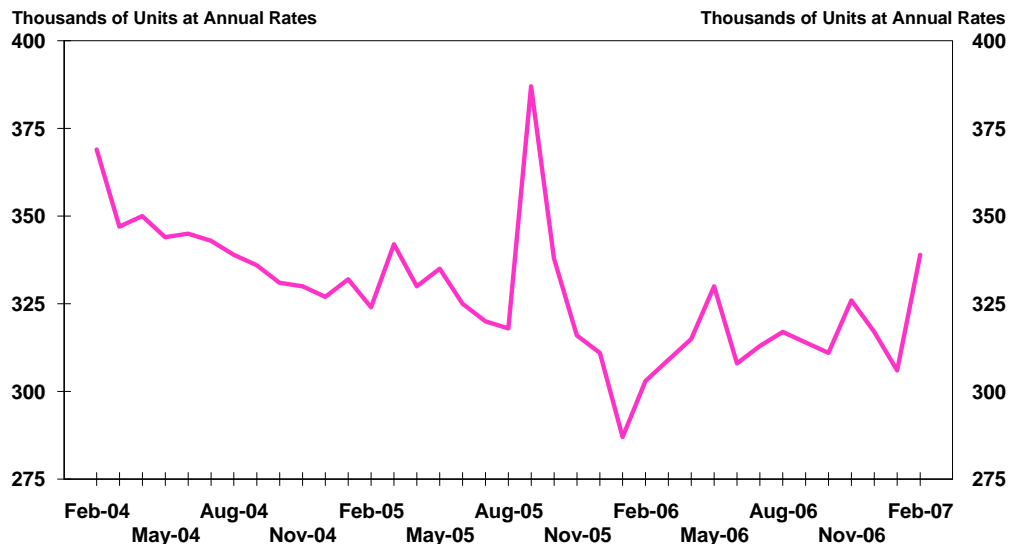
The housing market showed mixed signs in January. New home sales fell sharply, but existing home sales increased for the second straight month and reached their highest point since June. Housing starts and building permits both decreased in January. In the manufacturing sector, the ISM manufacturing and employment indices both rose in February to return to the positive side of 50. In January, industrial production fell, new orders for durable goods eased slightly and orders for nondefense capital goods, excluding aircraft, fell.

Headline consumer inflation decelerated in January, but core prices picked up after easing for three consecutive months. Both core and total producer prices slowed in January while oil prices rose in February.

During the fourth quarter, real GDP was weaker than originally thought. The downward revision primarily reflected downward revisions to private inventory investment and to personal consumption expenditures for goods, as well as an upward revision to imports of goods.

Initial claims for unemployment insurance rose significantly in February, due in part to winter storms that affected the Midwest and Northeast.

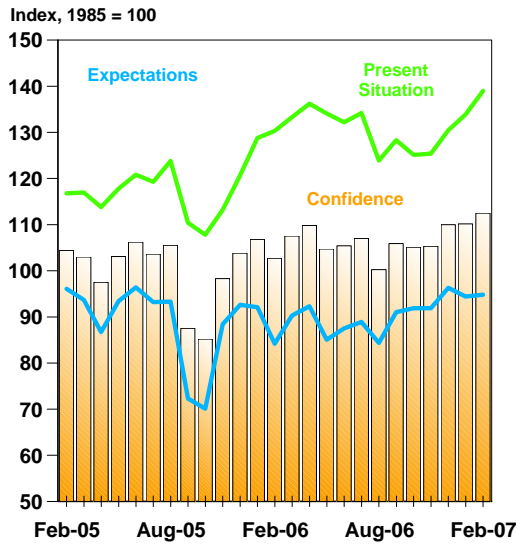
Initial Claims



Source: Department of Labor, Employment and Training Administration.

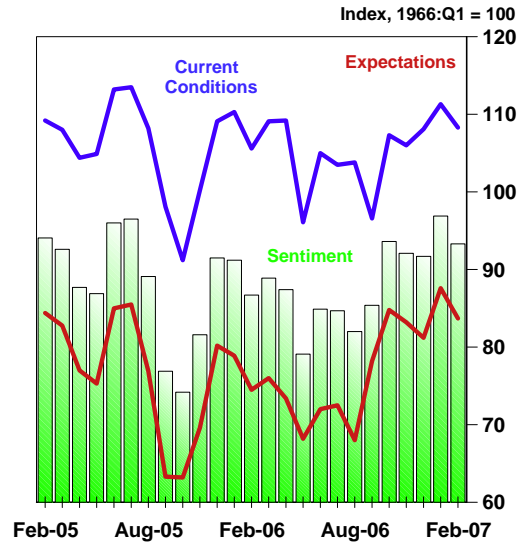
Consumer attitudes were mixed in February. Confidence rose to a five year high, while sentiment fell to offset its January increase. The two surveys' measures of present conditions and expectations displayed a similar disparity.

Consumer Confidence



Source: The Conference Board.

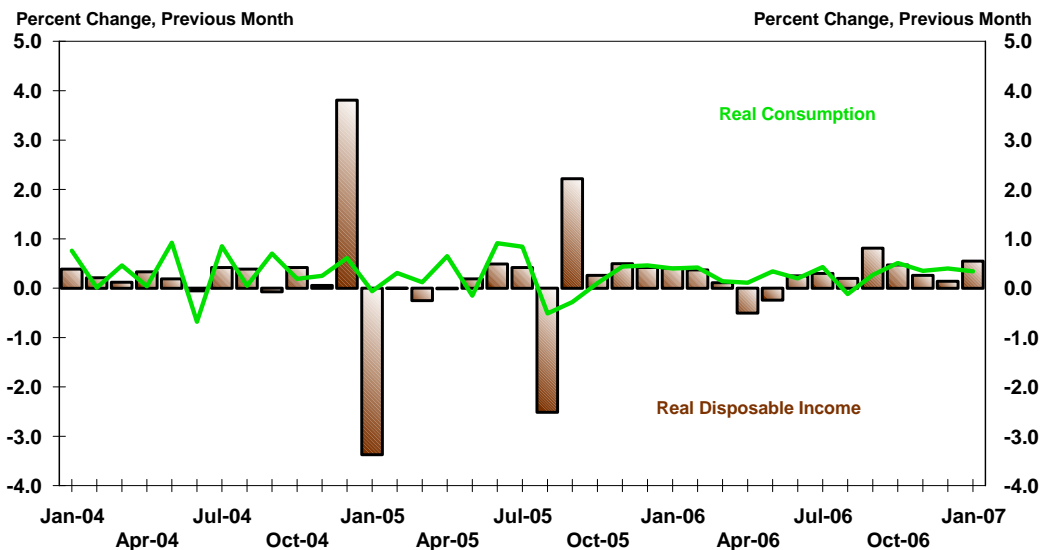
Consumer Sentiment



Source: The University of Michigan.

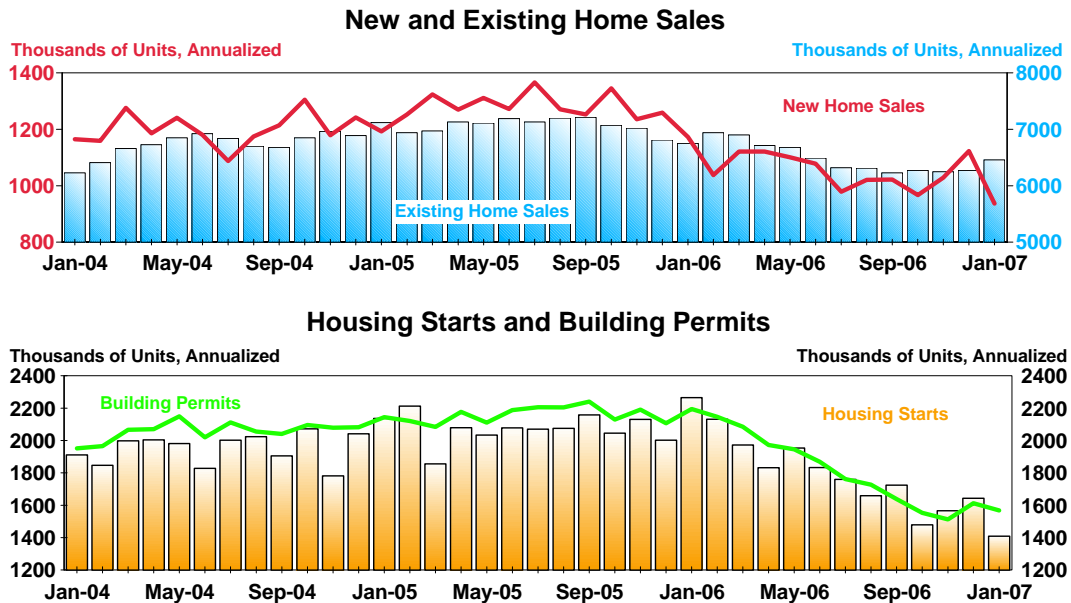
In January, real consumption eased slightly despite an acceleration in real disposable income.

Real DPI and Consumption



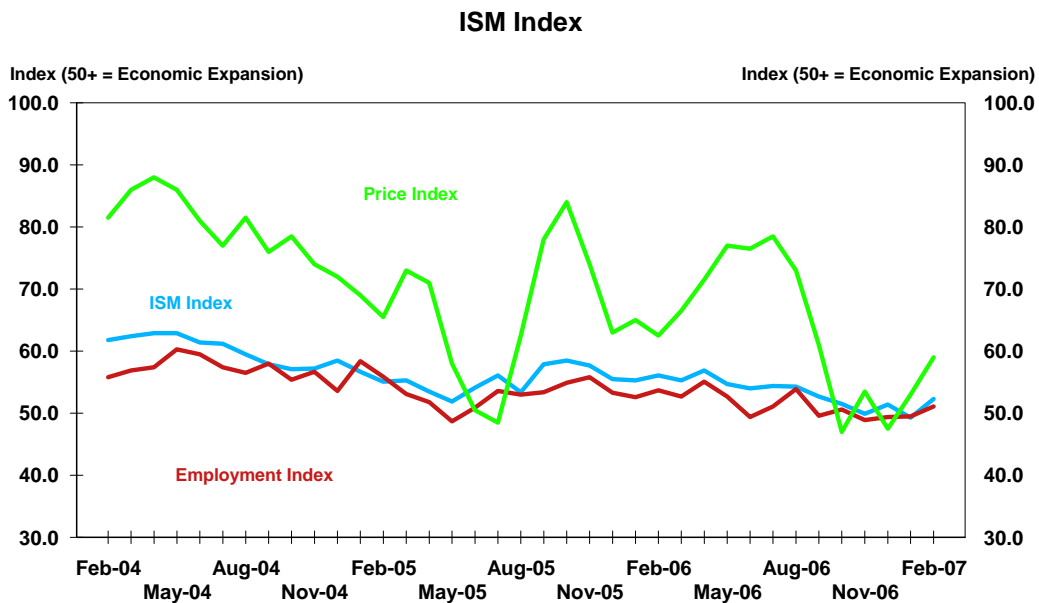
Source: Bureau of Economic Analysis.

The housing market was mixed in January. Sales of new homes fell to a four year low, while existing home sales increased. Housing starts and building permits also decreased in January, after rising in December.



Source: U.S. Census Bureau (new home sales, housing starts and building permits) and National Association of Realtors (existing sales).

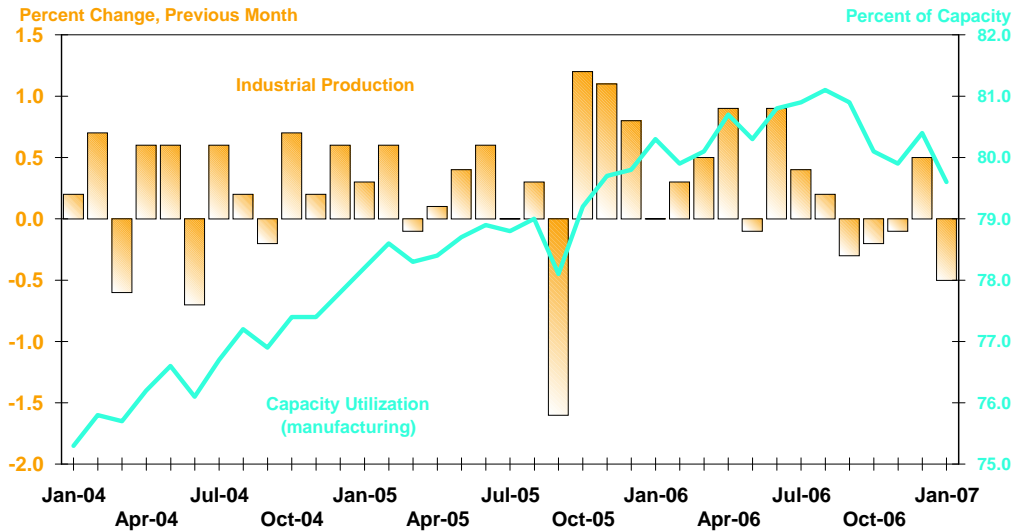
The ISM manufacturing and employment indices both increased in February, once again moving above 50. The price index also increased.



Source: Institute of Supply Management.

In January, industrial production decreased to offset the improvement seen in December, and capacity utilization fell to its lowest level since October 2005.

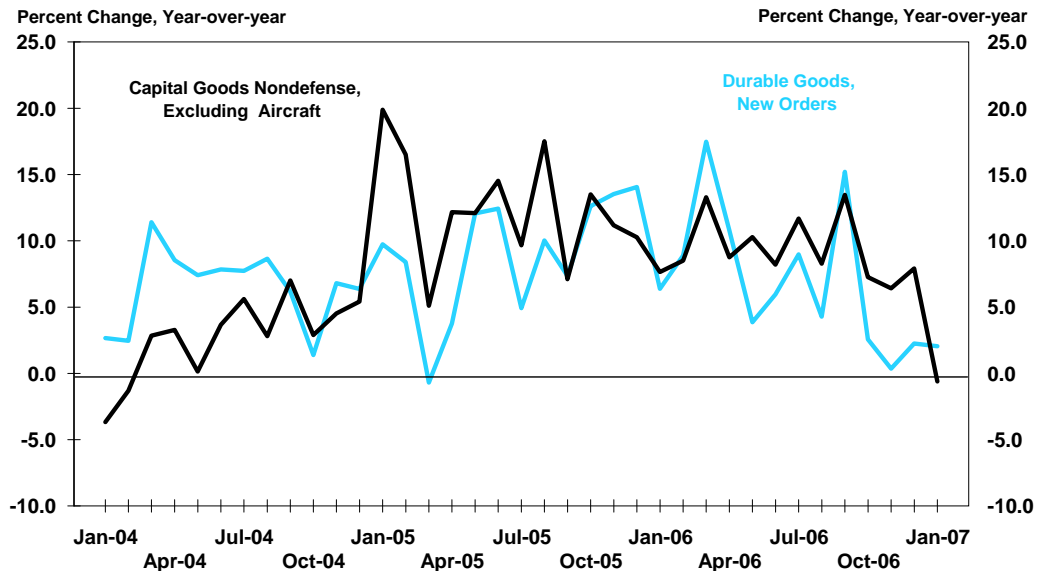
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

In January, growth in new orders for durable goods was essentially unchanged and new orders for nondefense capital goods excluding aircraft fell for the first time in nearly three years.

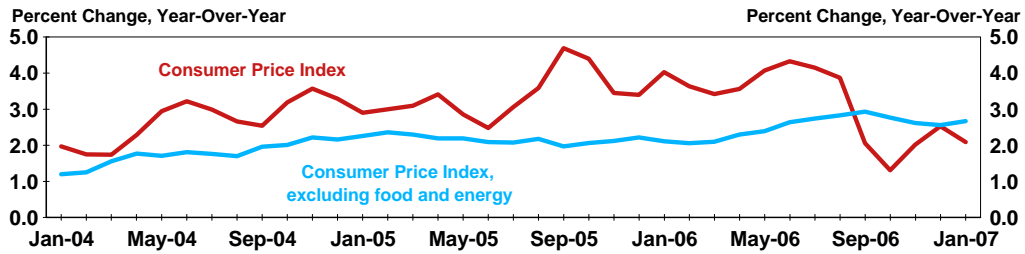
New Orders



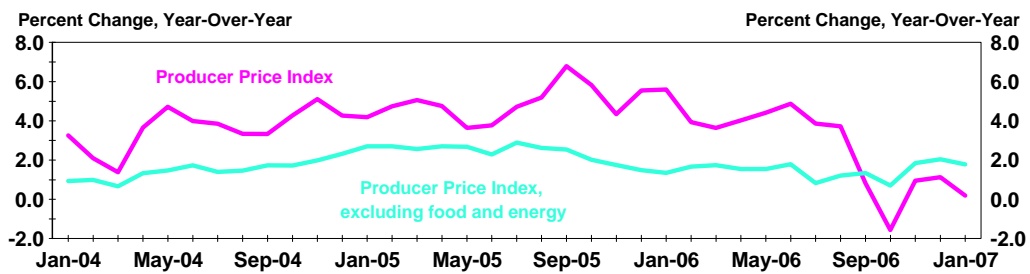
Source: U.S. Census Bureau.

Inflation, as measured by total CPI, eased in January while core inflation increased marginally. At the wholesale level, growth in both overall and core prices slowed.

Consumer Price Index



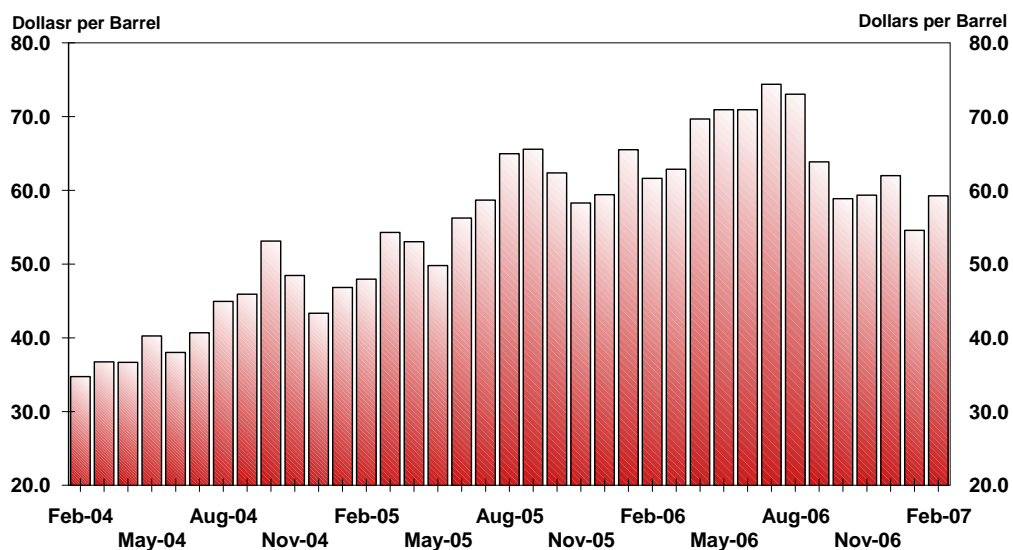
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices rose in February, following a sharp decrease in January.

Domestic Spot Oil Price



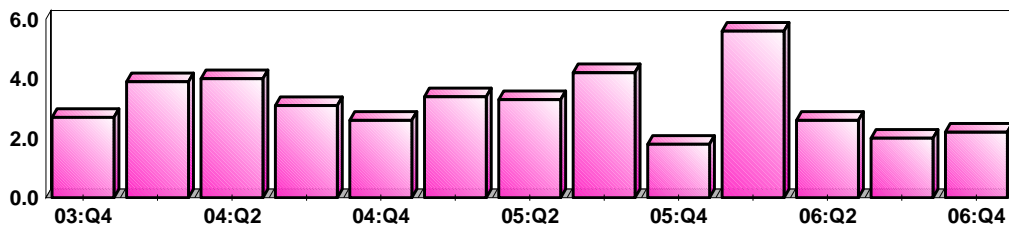
Source: Wall Street Journal.

Real GDP in the fourth quarter was weaker than originally thought. The downward revision primarily reflected downward revisions to private inventory investment and to personal consumption expenditures for goods, as well as an upward revision to imports of goods.

Revisions to Fourth Quarter Real GDP

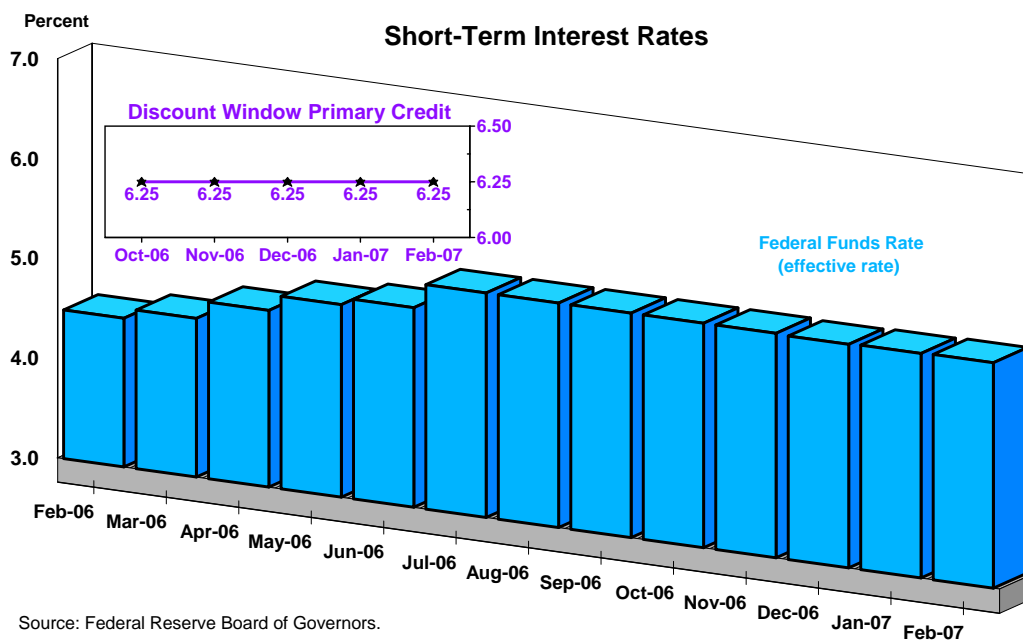
Description	Advanced	Preliminary
Real GDP	3.5	2.2
Personal Consumption	4.4	4.2
Business Investment	-0.4	-2.4
Equipment and Software	-1.8	-3.2
Residential Investment	-19.2	-19.1
Government	3.7	3.3
Exports	10.0	10.5
Imports	-3.2	-2.2
Final Sales	4.2	3.6

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy grew in the fourth quarter at a slower pace than originally estimated, but one that was still stronger than seen in the third quarter.



Source: Federal Reserve Board of Governors.

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

March 8, 2007

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

Total auto and light truck sales slowed in February to an annualized rate of 16.5 million units, down from January's estimated rate of 16.7 million. Domestic sales were unchanged at a rate of 12.7 million units.

Productivity was revised higher in the fourth quarter, rising 1.6% instead of the initial estimate of 3.0%. The lower number reflected gains of 2.5% in output and 0.9% in total hours worked.

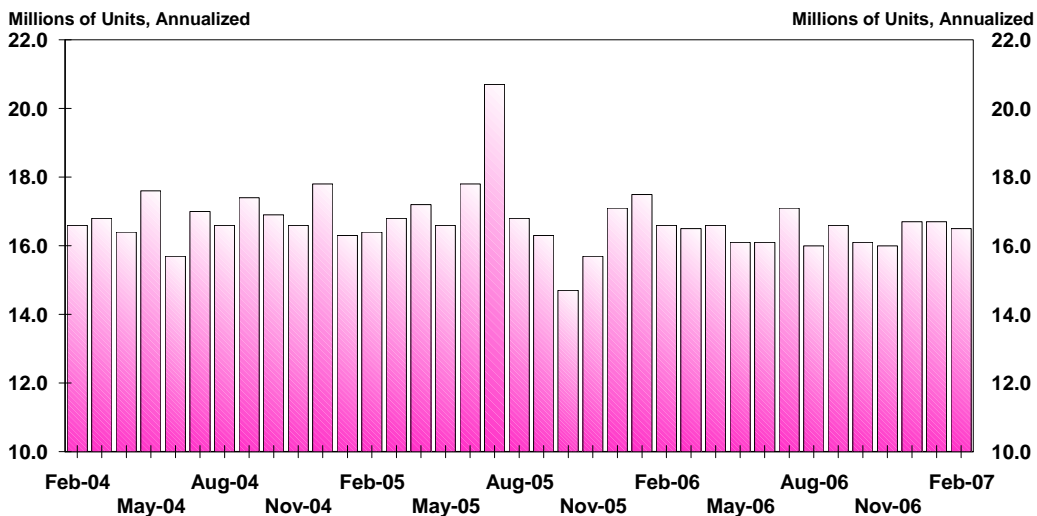
Consumer sentiment closed February down from its mid-month estimates. Sentiment ended the month at 91.3, down from the 93.3 seen in the middle of February. Expectations fell by a similar amount, finishing the month at 81.5 after registering an 83.7 earlier.

Redbook sales decreased 1.1% in February, compared to January. Sales were 2.9% higher than during the same period last year. Oil prices rose during the past week, averaging 61.2 dollars per barrel compared to last week's average of 60.5.

Due to the timing of the survey, February's employment data was not published last week, and instead will be released tomorrow. Nonfarm payrolls are expected to increase by 100,000, with the unemployment rate holding at 4.6%.

Total auto and light truck sales slowed in February, but were still slightly higher than their 12-month average.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Productivity rose in the fourth quarter, but by less than originally estimated. Both unit labor costs and total compensation accelerated significantly during the quarter.

