



FEDERAL RESERVE  
BANK OF BOSTON™

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

May 3, 2007

## CURRENT ECONOMIC DEVELOPMENTS - May 3, 2007

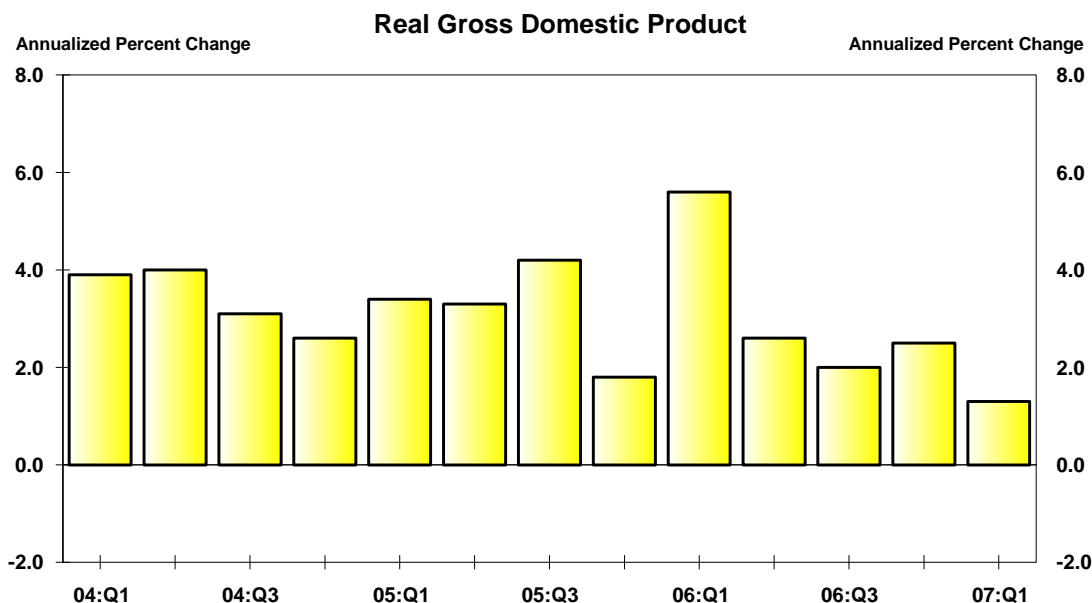
Data since your last Directors' meeting show the economy grew in the first quarter at its slowest pace in four years. The housing market continues to be a drag on the economy and inflation remains stubborn, but consistent employment growth has been able to sustain incomes and consumer spending.

The increase in real GDP in the first quarter was due primarily to positive contributions from personal consumption expenditures and state and local government spending. Those effects were partly offset by negative contributions from residential fixed investment, private inventory investment, and federal government spending and an increase in imports.

In April, consumer attitudes weakened after exhibiting little change in the first quarter, and initial claims for unemployment insurance increased a bit but remain relatively low. Both the ISM manufacturing and employment indices increased in April following a flat first quarter.

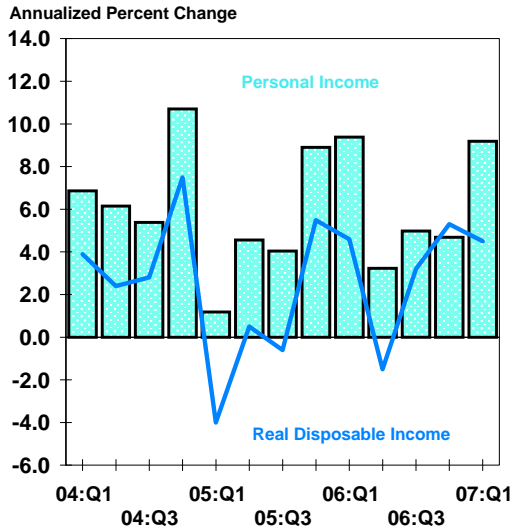
Inflation continued to be of some concern in the first quarter. Little change was seen in core prices, but headline inflation accelerated. Unit labor costs slowed in the first quarter, while total compensation costs, as measured by the ECI, accelerated slightly. Oil prices rose steadily through the first quarter and into April, and threaten to climb higher as demand rises entering the summer months.

The deceleration of real GDP in the first quarter primarily reflected a downturn in exports, an upturn in imports, a deceleration in PCE for nondurable goods, and a downturn in federal government spending which were partially offset by smaller decreases in inventory and residential investment, an upturn in equipment and software, and an acceleration in PCE for durable goods.

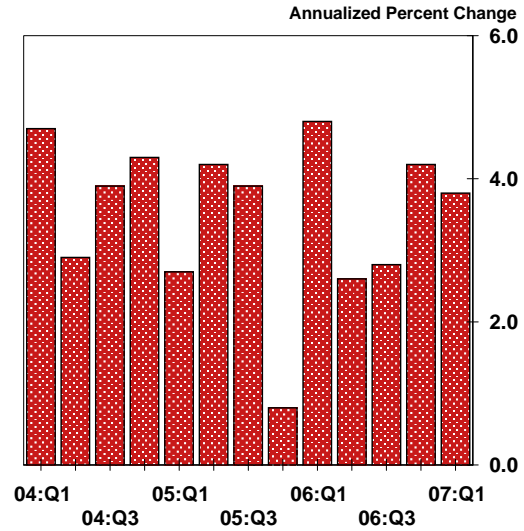


In the first quarter, personal income grew at nearly twice the rate as seen in the fourth quarter. Real disposable income eased a bit, but consumption still posted another solid gain.

### Personal Income



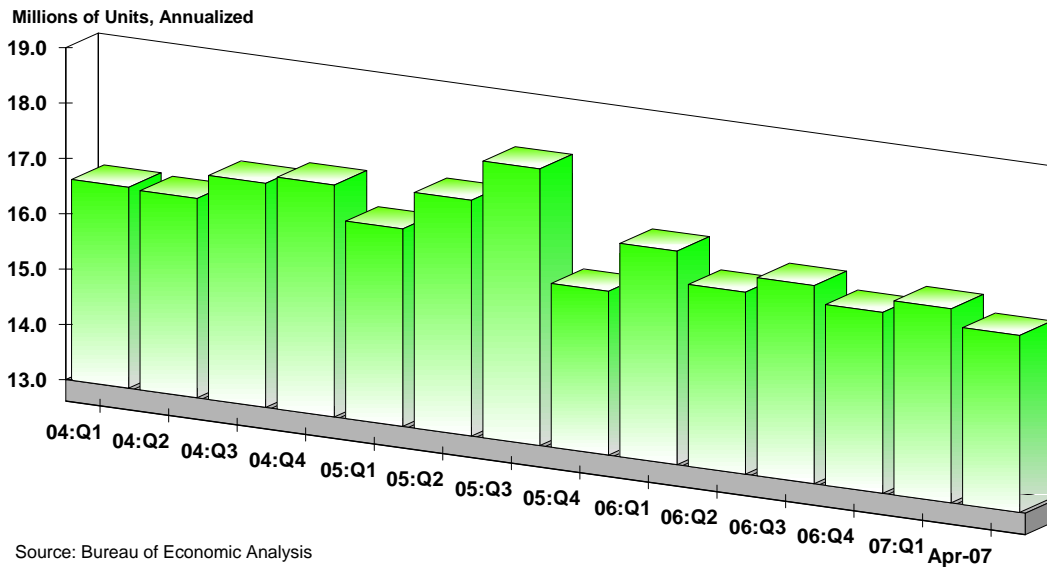
### Real Consumption



Source: Bureau of Economic Analysis.

Auto sales eased in April, following a first quarter rise.

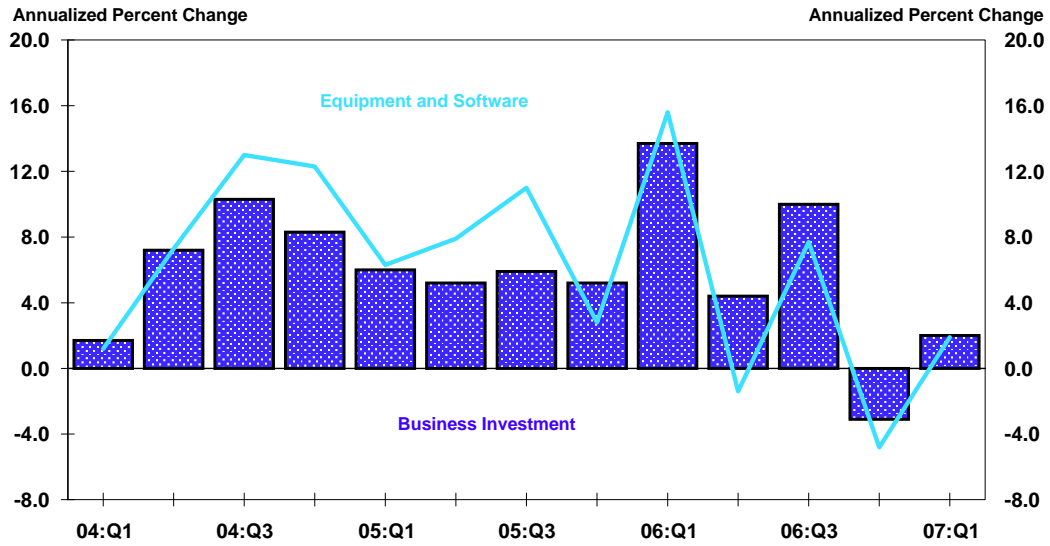
### Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis

Business investment rebounded in the first quarter, aided by a similar rebound in equipment and software investment.

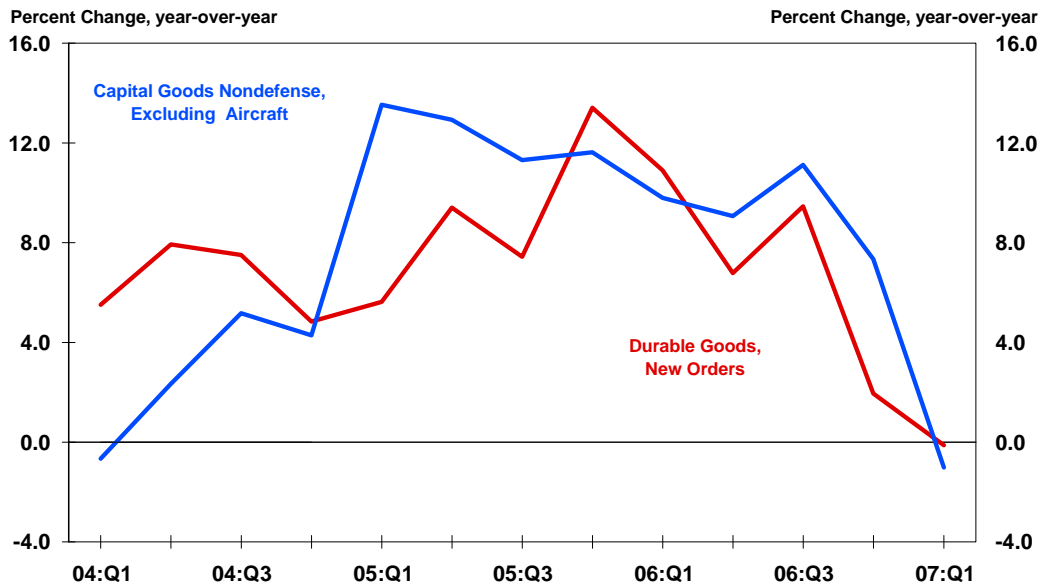
### Business Investment



Source: Bureau of Economic Analysis.

In the first quarter, new orders for durable goods were essentially unchanged from a year ago and orders of nondefense capital goods, excluding aircraft, fell.

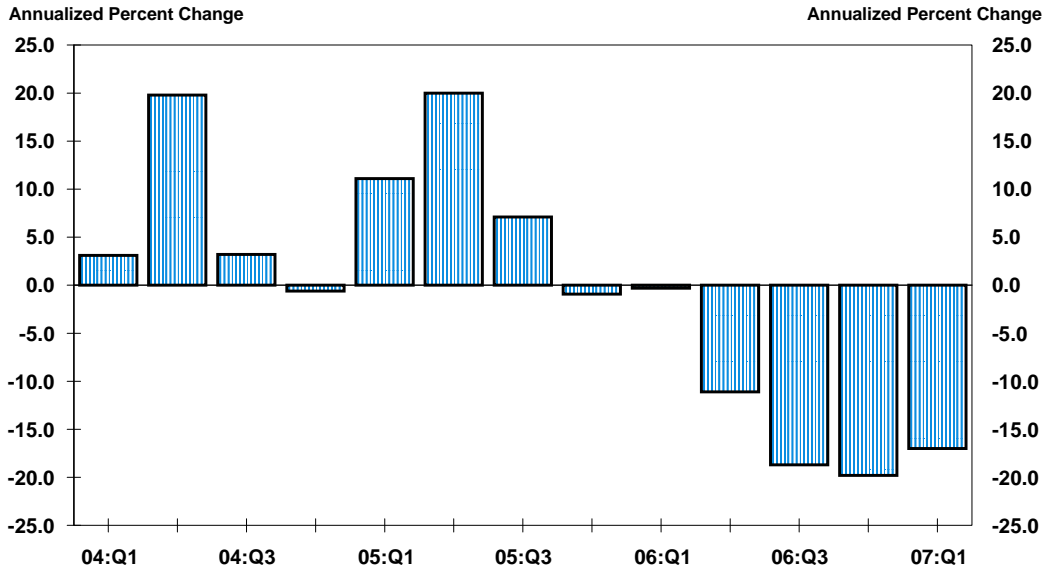
### Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment continued to fall in the first quarter, albeit at a slightly less dramatic pace.

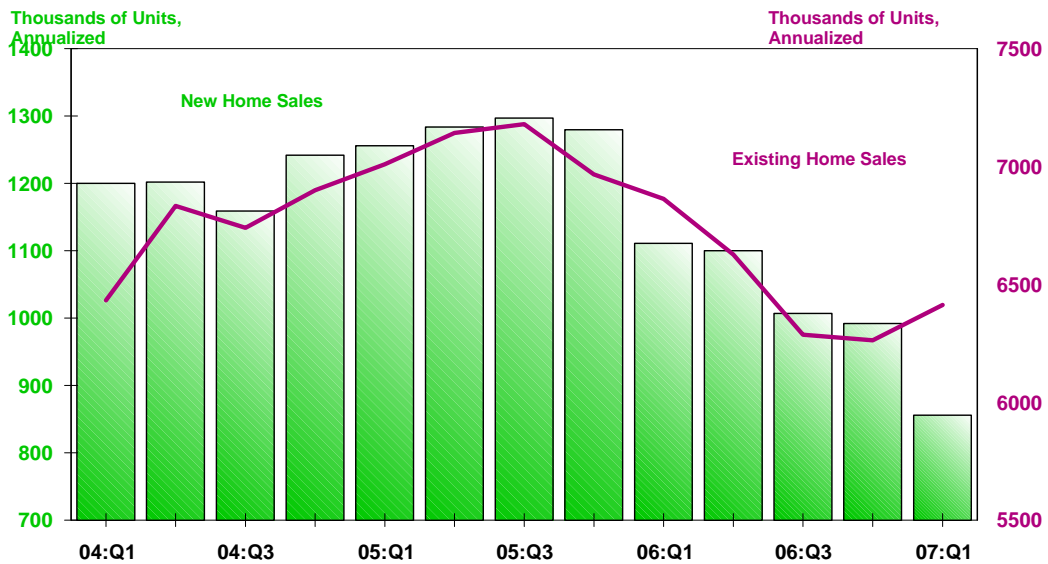
### Residential Investment



Source: U.S. Census Bureau.

The housing market was mixed in the first quarter. Sales of existing homes sold at a faster pace than seen the previous quarter, but new home sales slowed significantly, to their lowest quarterly pace in nearly seven years.

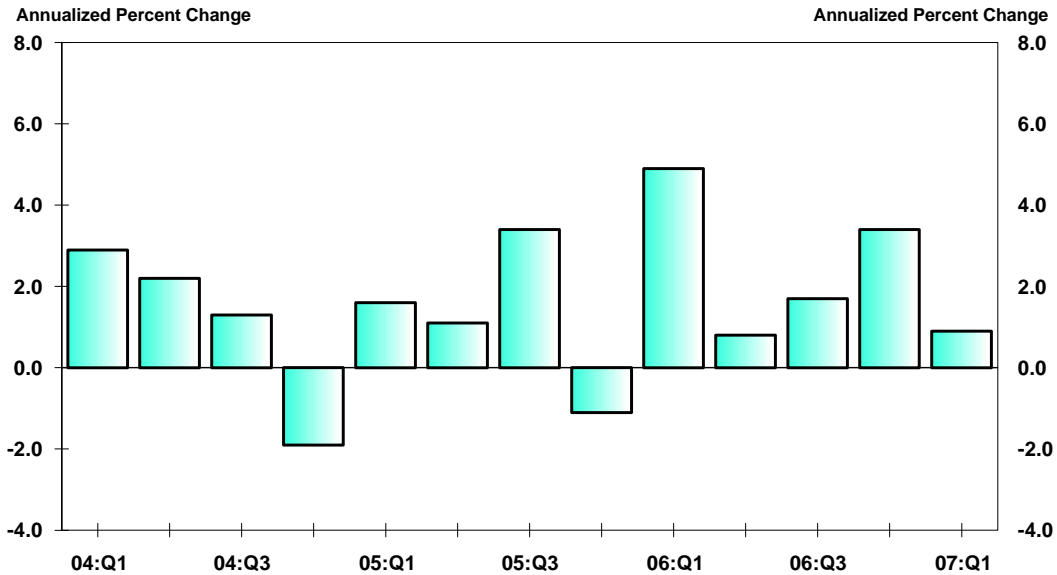
### New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending decelerated in the first quarter.

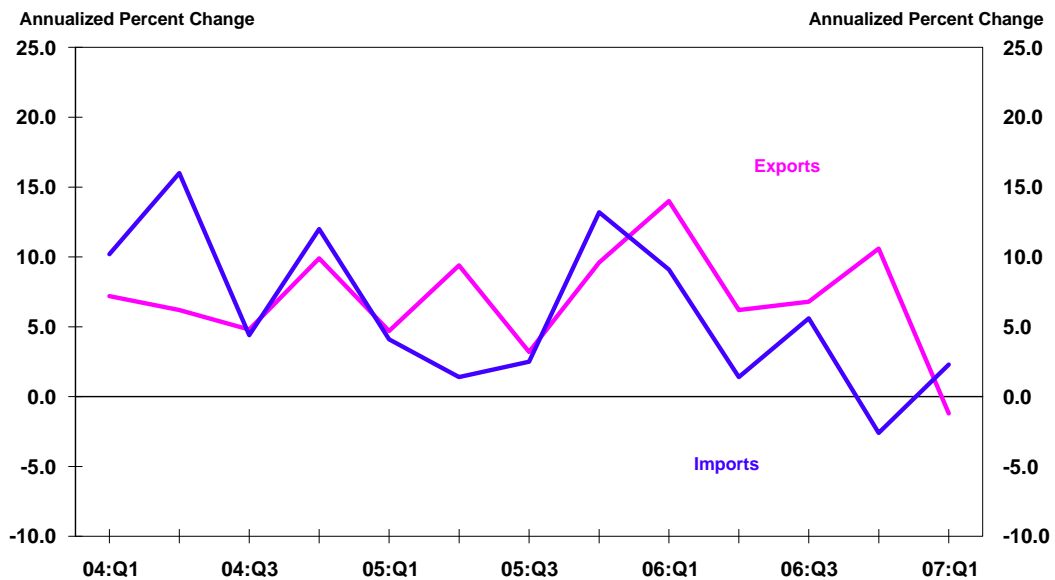
### Government Spending



Source: Bureau of Economic Analysis.

Exports fell in the first quarter for the first time in nearly four years. Imports were on the rise again in the first quarter, after falling in the fourth quarter.

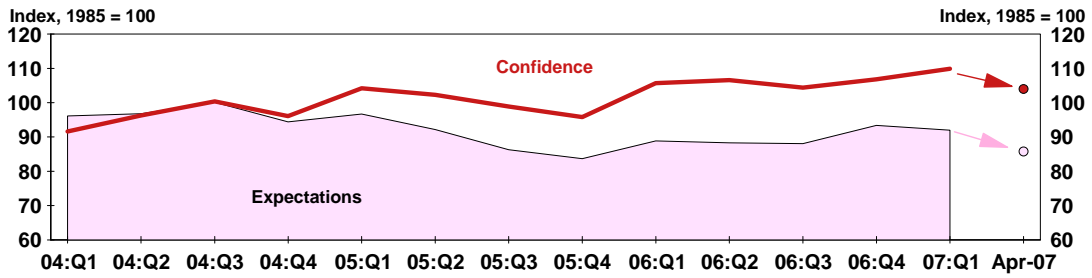
### Exports and Imports



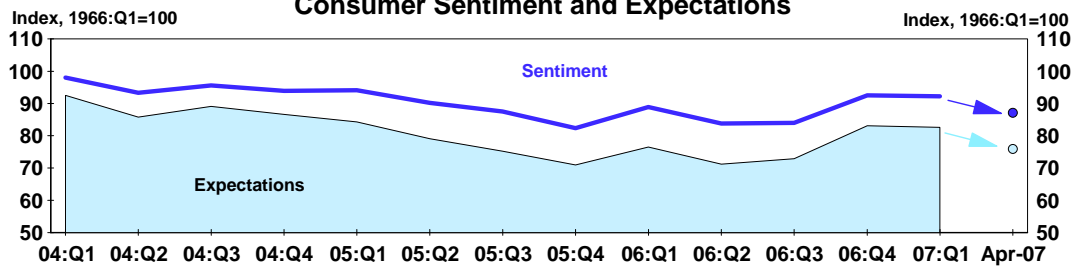
Source: Bureau of Economic Analysis.

Consumer attitudes exhibited only minor changes in the first quarter, but worsened slightly in April.

### Consumer Confidence and Expectations



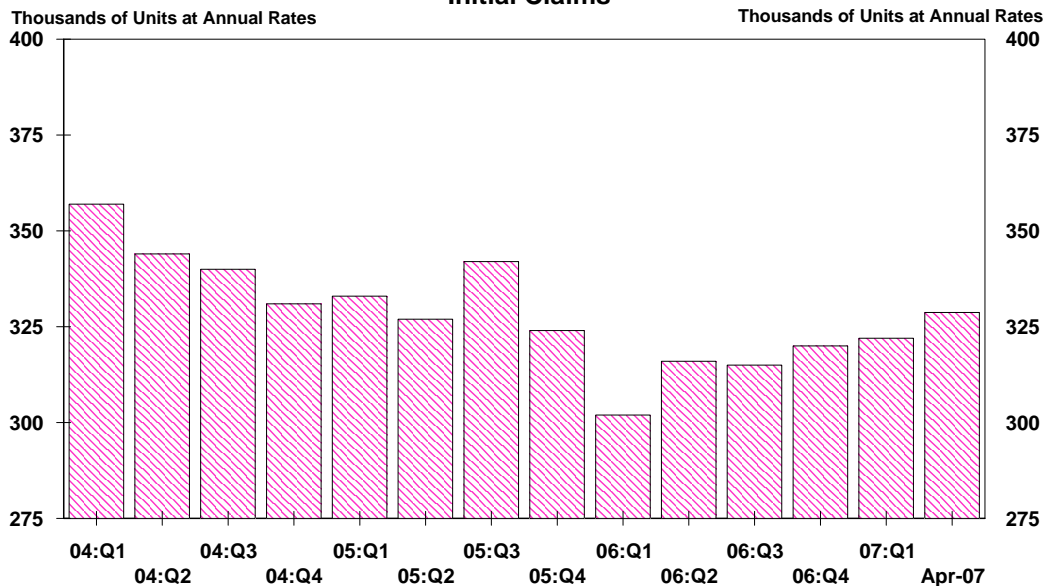
### Consumer Sentiment and Expectations



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

Initial claims for unemployment insurance inched up in the first quarter, and continued to rise in April.

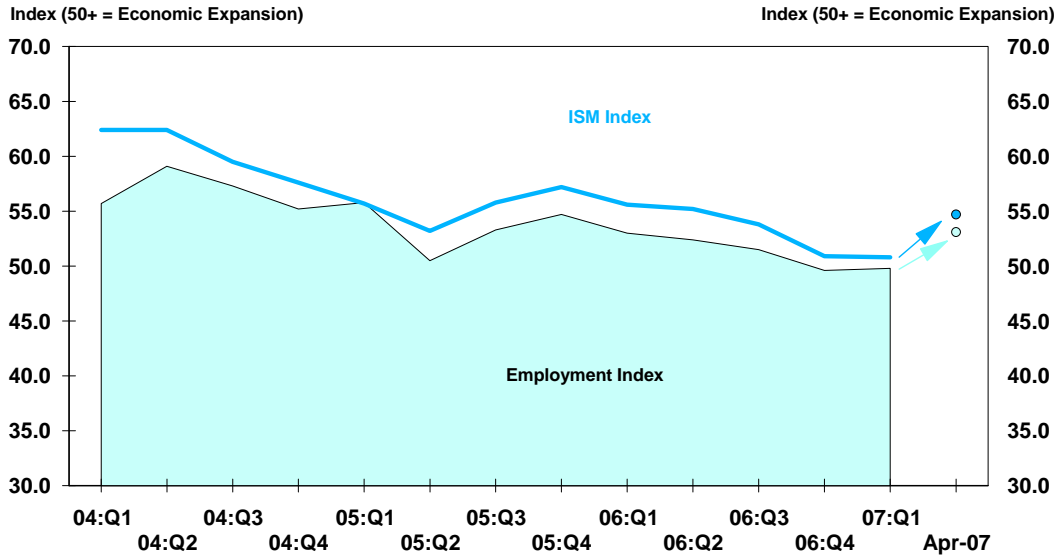
### Initial Claims



Source: Department of Labor, Employment and Training Administration.

In April, both the ISM and employment indices improved, following a relatively flat first quarter.

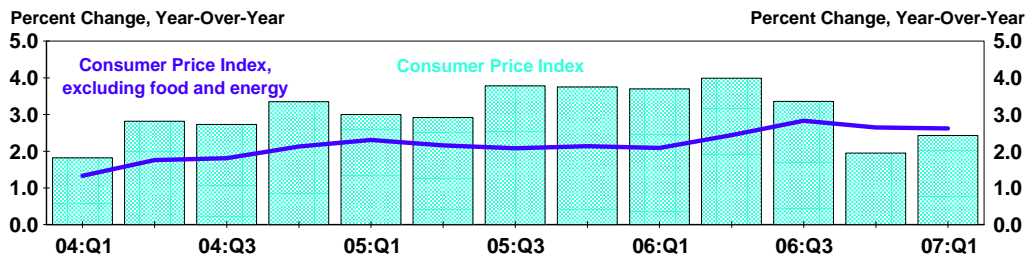
### ISM Index



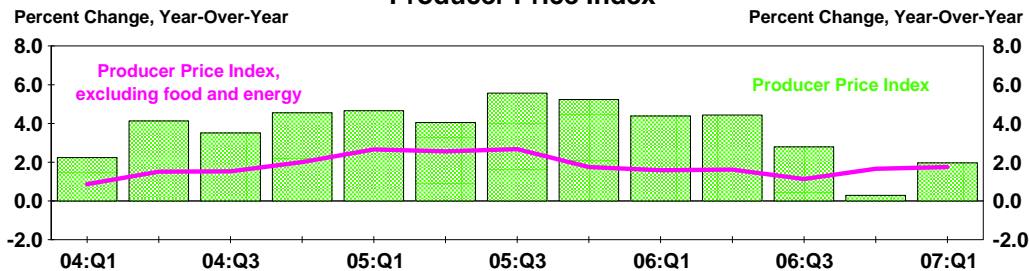
Source: Institute for Supply Management.

Core inflation showed little change in the third quarter, but headline inflation accelerated for both consumers and producers.

### Consumer Price Index



### Producer Price Index

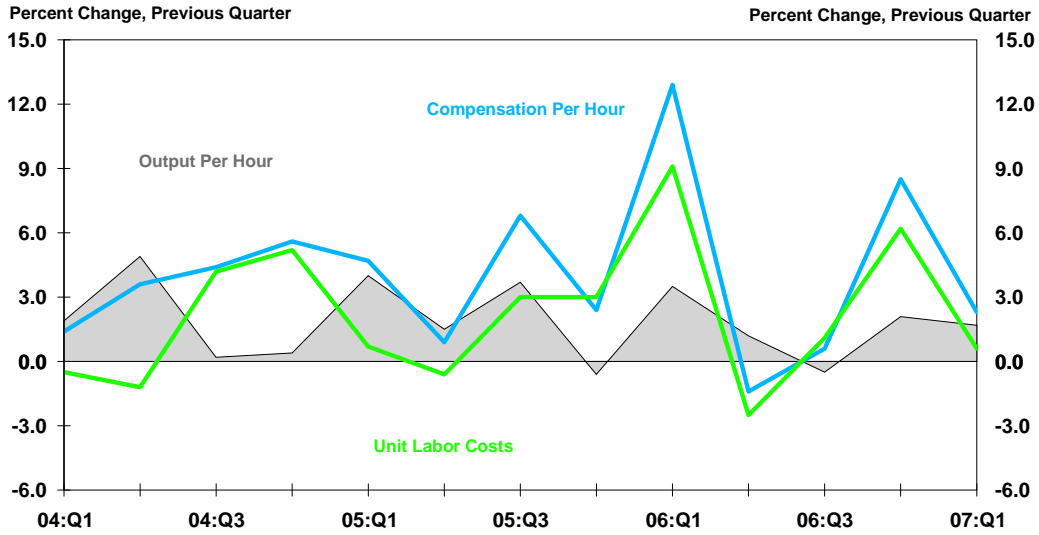


Source: Bureau of Labor Statistics.



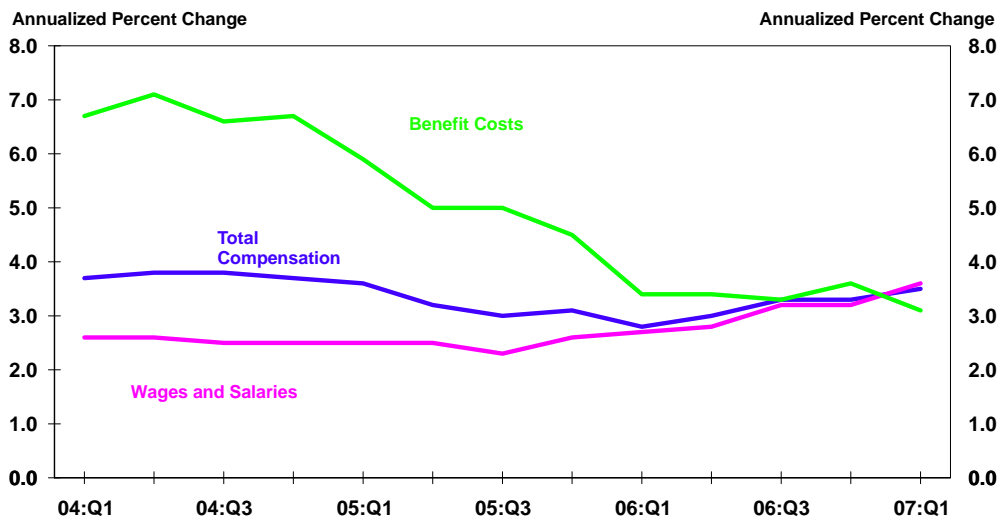
Productivity growth eased slightly in the first quarter, but hourly compensation and unit labor costs both slowed dramatically.

### Productivity and Costs

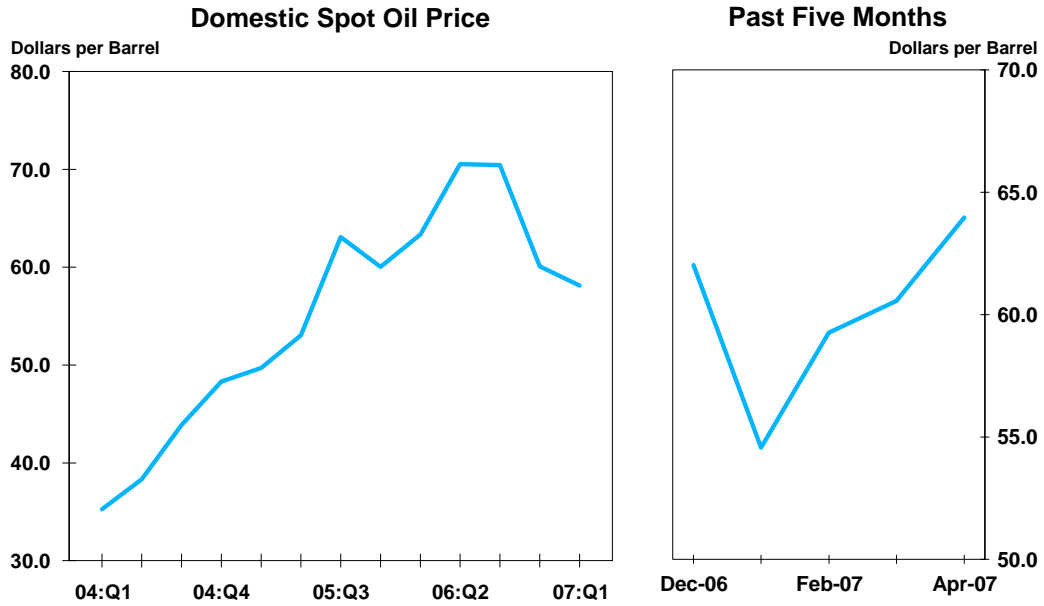


In the first quarter, total employment costs increased a bit as an acceleration in wages and salaries more than offset a benefit cost deceleration.

### Employment Cost Index

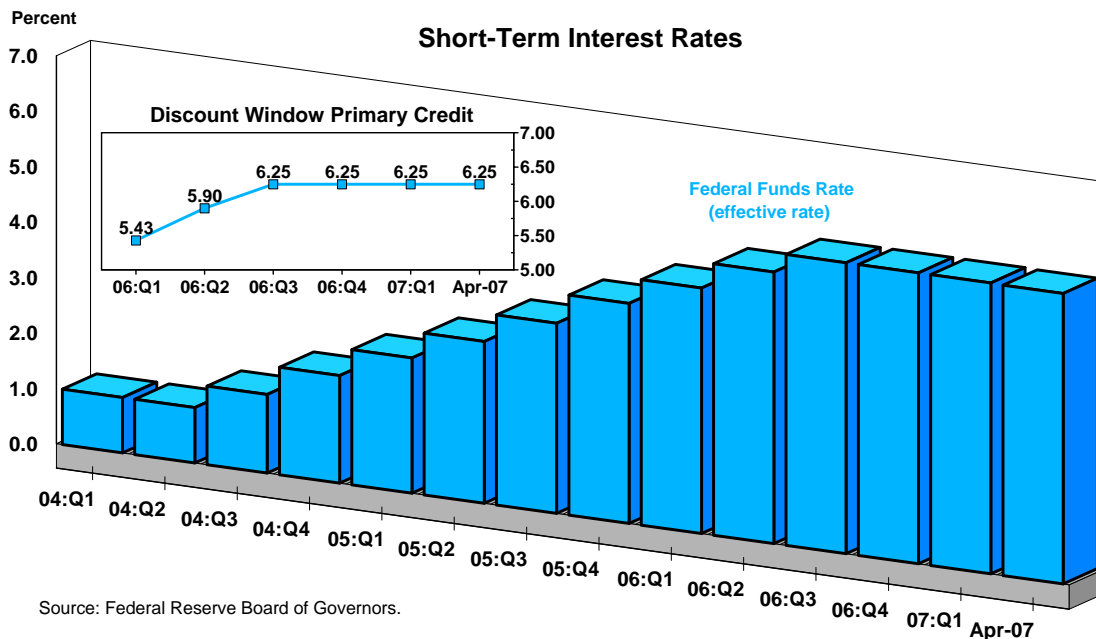


Oil prices eased overall in the first quarter due to a January fall, but rose throughout the rest of the quarter and continued to rise in April.



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy grew in the first quarter at its slowest pace in four years. The housing market continues to be a drag on the economy and inflation remains stubborn, but consistent employment growth has been able to sustain incomes and consumer spending.



Source: Federal Reserve Board of Governors.

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

May 10, 2007

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

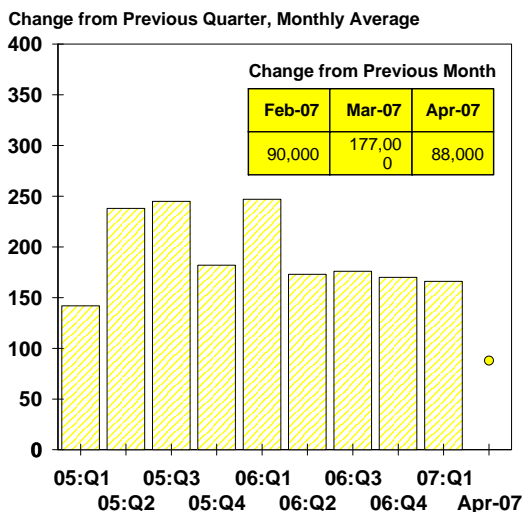
In April, nonfarm payrolls added 88,000 jobs and the unemployment rate rose a tenth of a percentage point to 4.5%. April's increase in payrolls was the smallest since November 2004. March payrolls were revised to show an increase of 177,000 jobs, 3,000 fewer than the original estimate, and February payrolls were also revised downward, to 90,000 from 113,000.

Wholesale inventories grew 0.3% in March, following a revised increase of 0.4% in February. February inventories were originally seen rising 0.5%. Wholesale sales increased 1.8 in March, after rising 1.0% the previous month. Sales were initially reported as rising 1.2% in February.

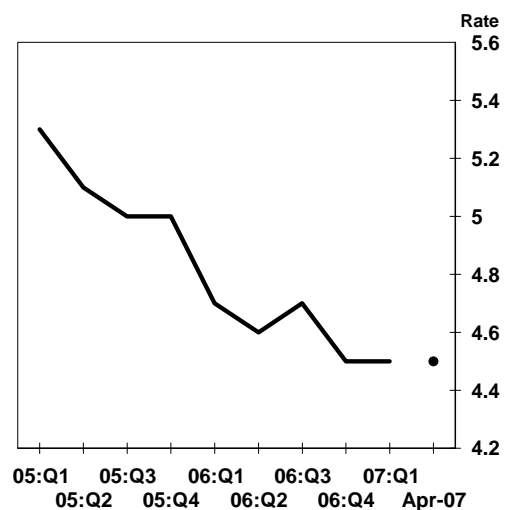
Redbook sales finished April down 4.1%, compared to March. Sales were 0.1% higher than during the same period last year. Oil prices decreased during the past week, averaging 62.5 dollars per barrel, compared to last week's average of 65.4.

Payroll employment posted a modest gain in April, but revisions to the prior two months' estimates resulted in a net loss of 26,000 jobs. The unemployment rate held at it's first quarter average of 4.5% in April.

**Nonfarm Payroll Employment**



**Unemployment Rate**



Source: Bureau of Labor Statistics.