



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

November 1, 2007

CURRENT ECONOMIC DEVELOPMENTS - November 1, 2007

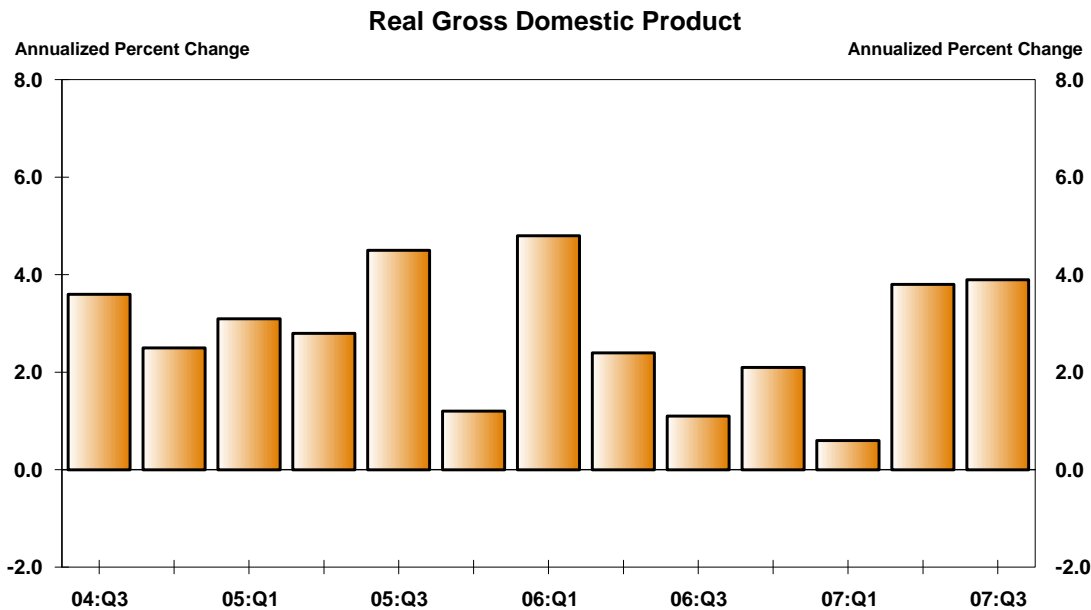
Data since your last Directors' meeting show the economy grew in the third quarter at its fastest pace since early 2006, slightly outpacing the growth seen in the second quarter.

The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, exports, federal government spending, equipment and software, nonresidential structures, private inventory investment and state and local government spending that were partly offset by a negative contribution from residential fixed investment and an increase in imports.

In October, consumer attitudes deteriorated from their third quarter averages, and initial claims for unemployment insurance increased. The ISM index declined in October, following the easing seen in the third quarter. The employment component of the index, which was also down in the third quarter, showed some improvement in October.

Inflation data was rather benign in the third quarter. Consumer prices slowed slightly while producer prices accelerated marginally. Total compensation costs, as measured by the ECI, grew at the same pace in the third quarter as they did in the second. Oil prices, however, rose sharply in October, setting record highs towards the end of the month.

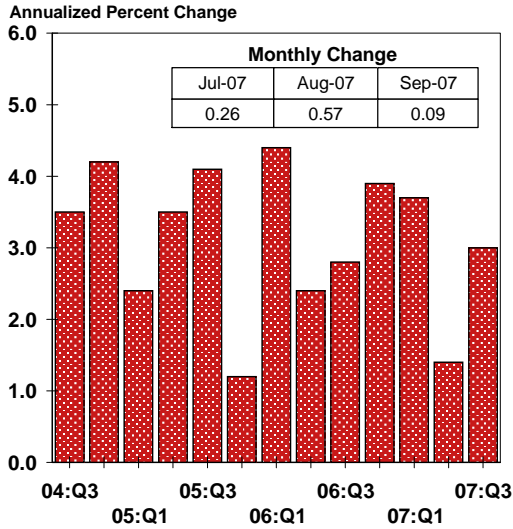
The slight acceleration in real GDP growth in the third quarter primarily reflected accelerations in personal consumption expenditures and exports that were partially offset by an upturn in imports, a larger decrease in residential fixed investment, and a deceleration in nonresidential investment.



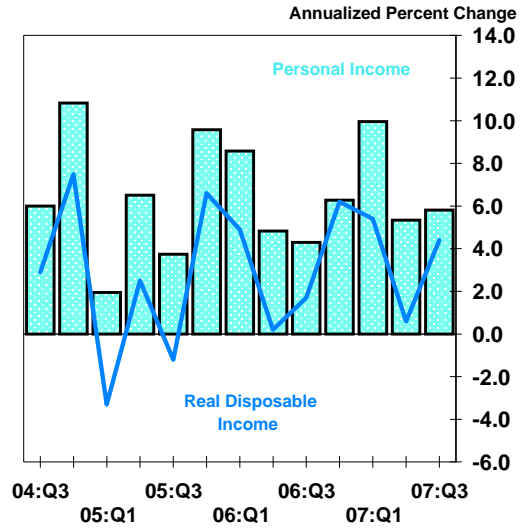
Source: Bureau of Economic Analysis.

Real consumption grew in the third quarter at double the rate seen in the second, aided by strong gains in both personal and real disposable income. On a monthly basis, the growth in consumption slowed from August to September, suggesting the potential for less momentum in this area heading into the fourth quarter.

Real Consumption



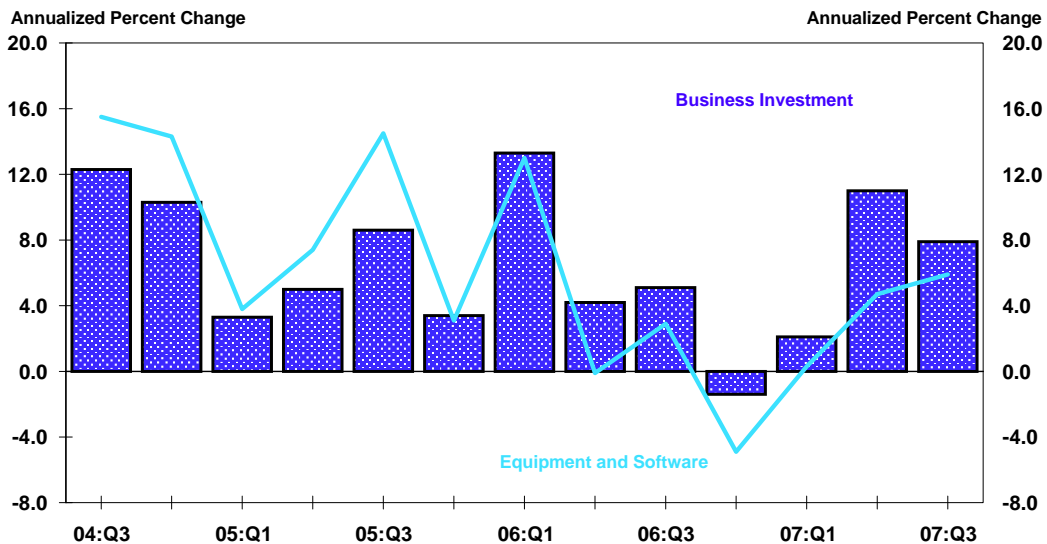
Personal Income



Source: Bureau of Economic Analysis.

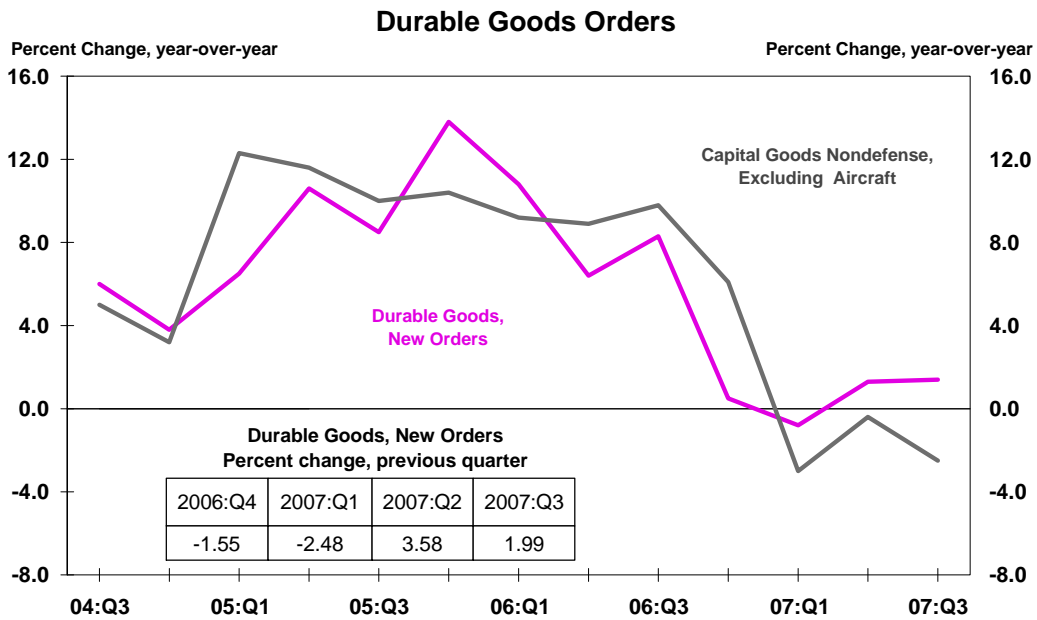
Growth in business investment slowed in the third quarter, but remains strong. Equipment and software investment accelerated somewhat.

Business Investment



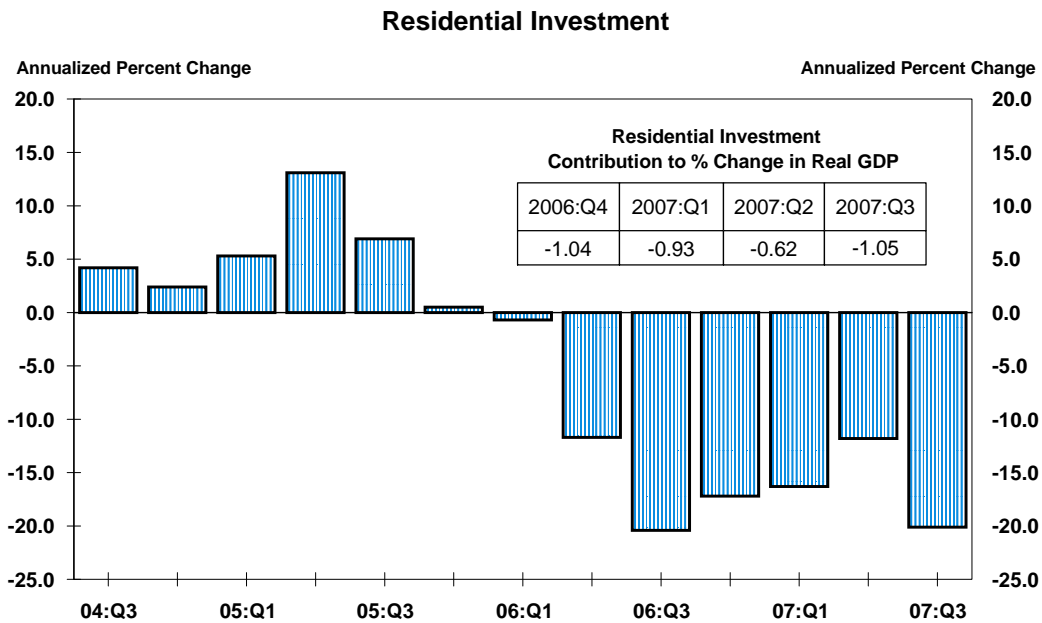
Source: Bureau of Economic Analysis.

New orders for durable goods grew in the third quarter at essentially the same pace as seen in the second quarter. Orders of nondefense capital goods, excluding aircraft, fell.



Source: U.S. Census Bureau.

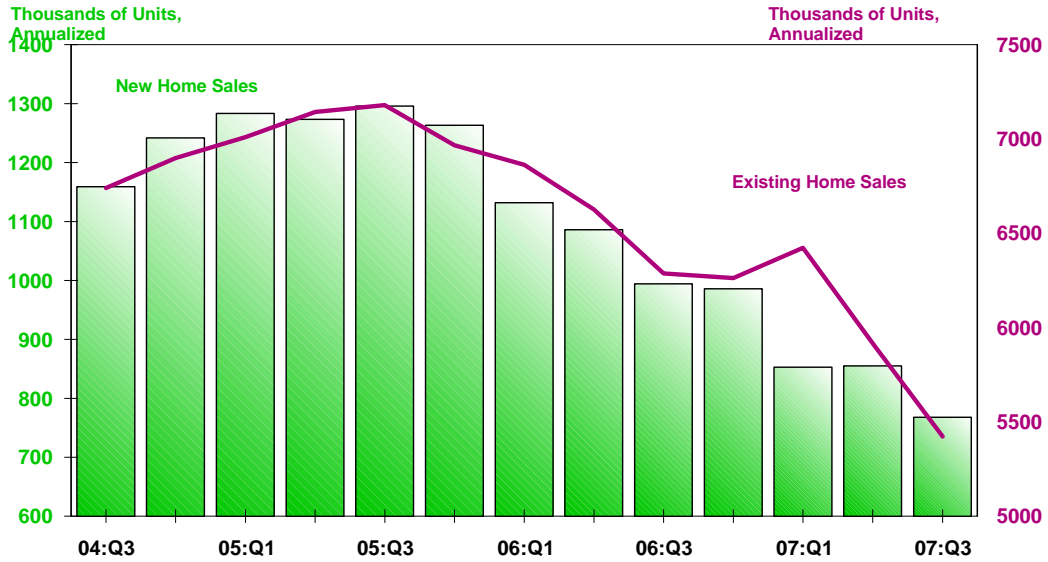
The run of significant decreases in residential investment continued in the third quarter, falling at a faster pace than seen over the previous three quarters. The third quarter drop reduced overall GDP growth by 1.05 percentage points.



Source: U.S. Census Bureau.

The housing market continued to slump in the third quarter, as new home sales fell to their lowest level in ten years and sales of existing homes reached their lowest level in over five years.

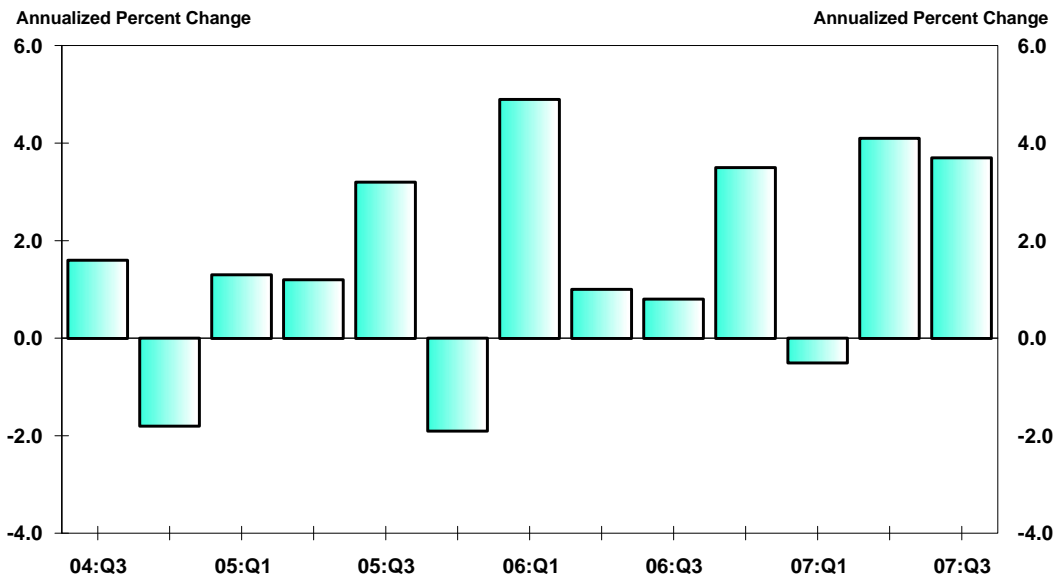
New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending posted another solid gain in the third quarter.

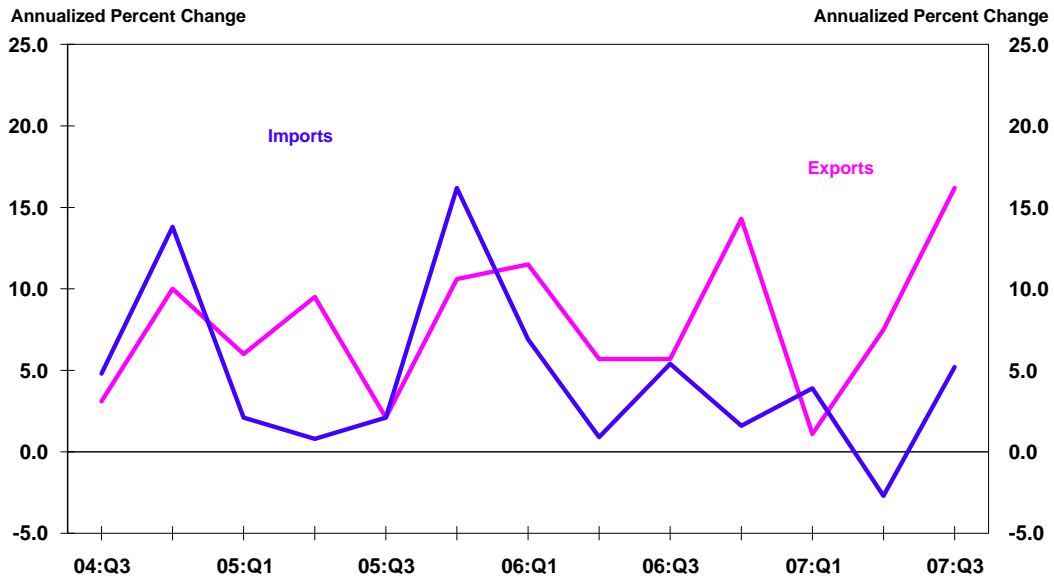
Government Spending



Source: Bureau of Economic Analysis.

Export growth accelerated in the third quarter and continue to be a source of strength for the economy. Imports grew in the third quarter after falling in the second.

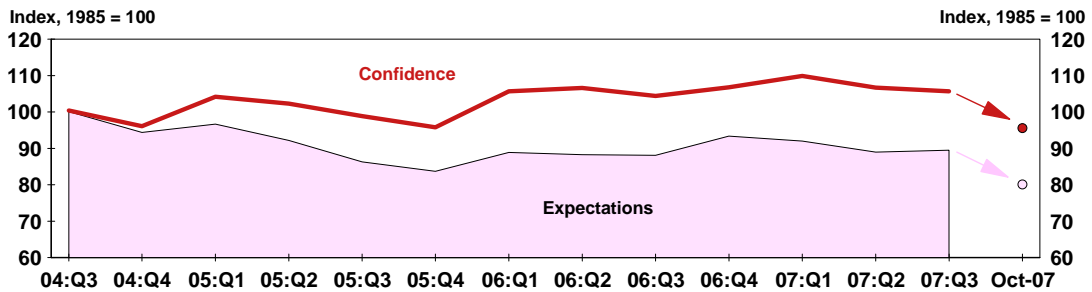
Exports and Imports



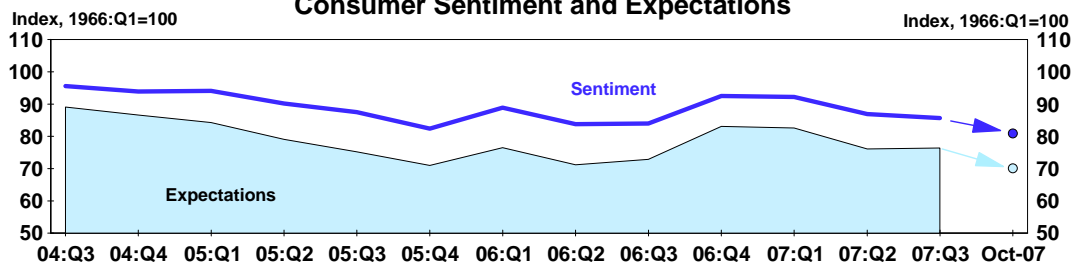
Source: Bureau of Economic Analysis.

Consumer attitudes underwent some mixed, and relatively minor, changes in the third quarter, as confidence and sentiment eased a bit and expectations improved slightly. October, however, saw attitudes deteriorating across both measures.

Consumer Confidence and Expectations

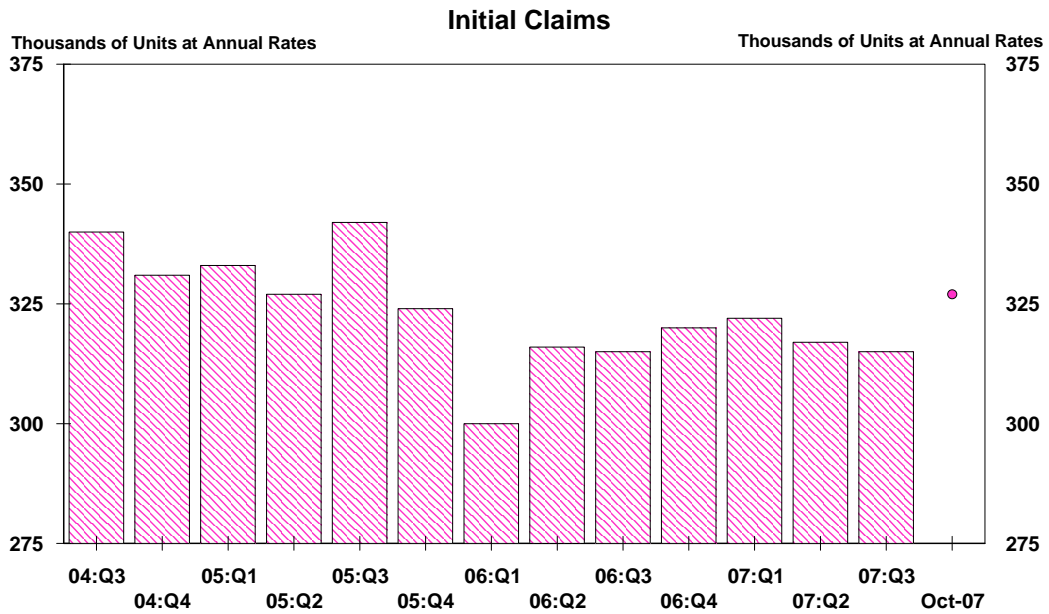


Consumer Sentiment and Expectations



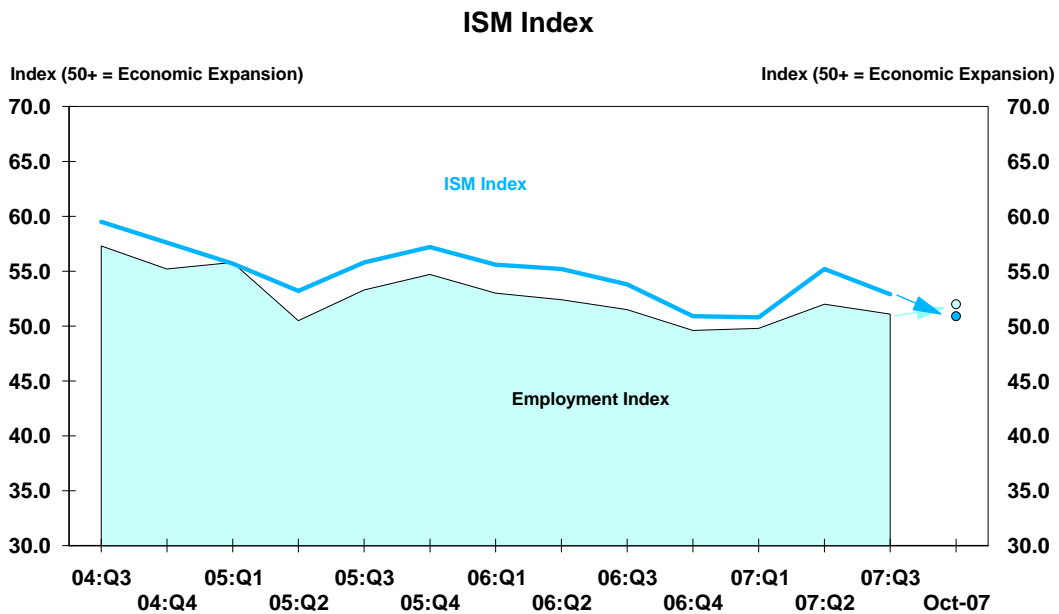
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance eased slightly in the third quarter, but rose moderately in October.



Source: Department of Labor, Employment and Training Administration.

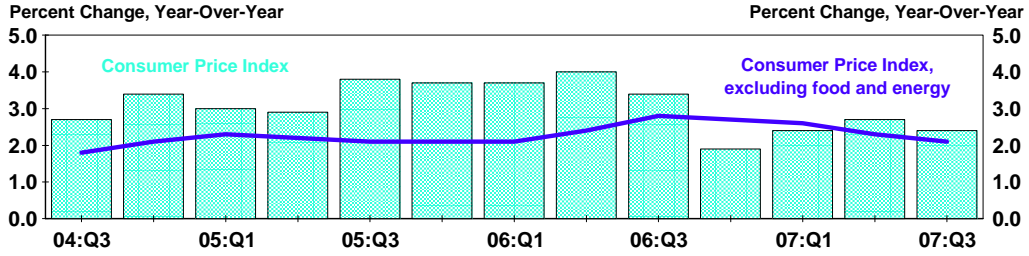
Both the ISM manufacturing and employment indices decreased in the third quarter, offsetting some of the increases seen in the second quarter. The ISM index slipped further in October, but the employment index improved slightly on its September estimate.



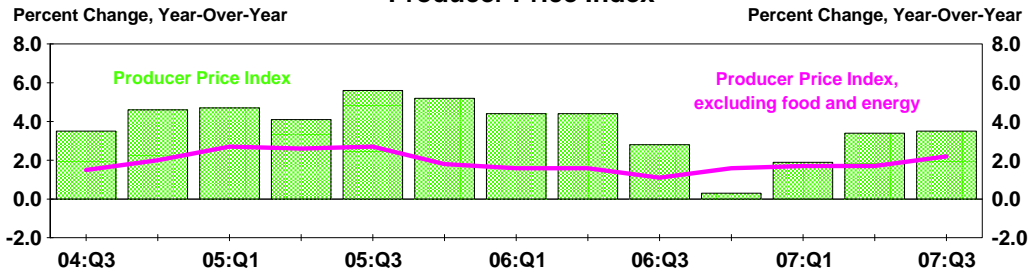
Source: Institute for Supply Management.

Consumer prices eased slightly in the third quarter, and core prices slowed for the fourth consecutive quarter. Producer prices were essentially unchanged, while core prices accelerated a bit.

Consumer Price Index



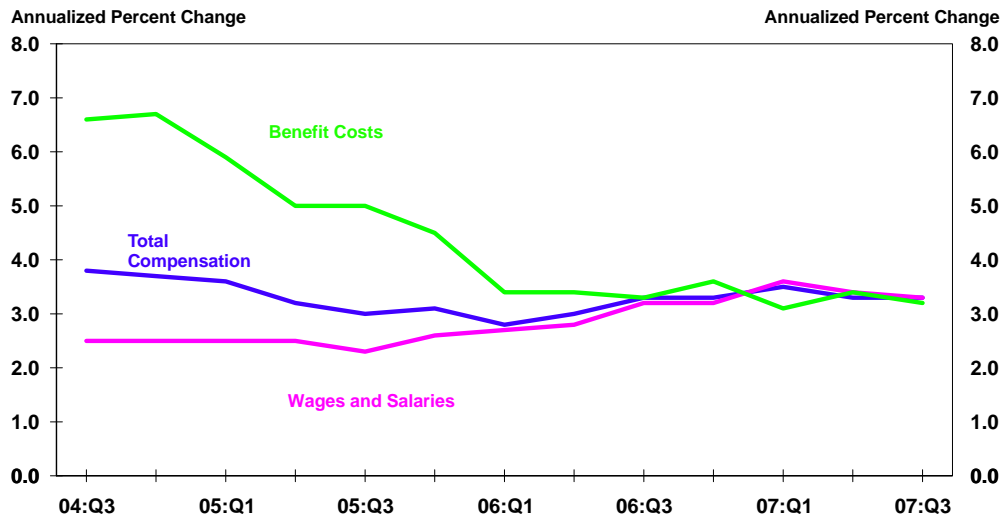
Producer Price Index



Source: Bureau of Labor Statistics.

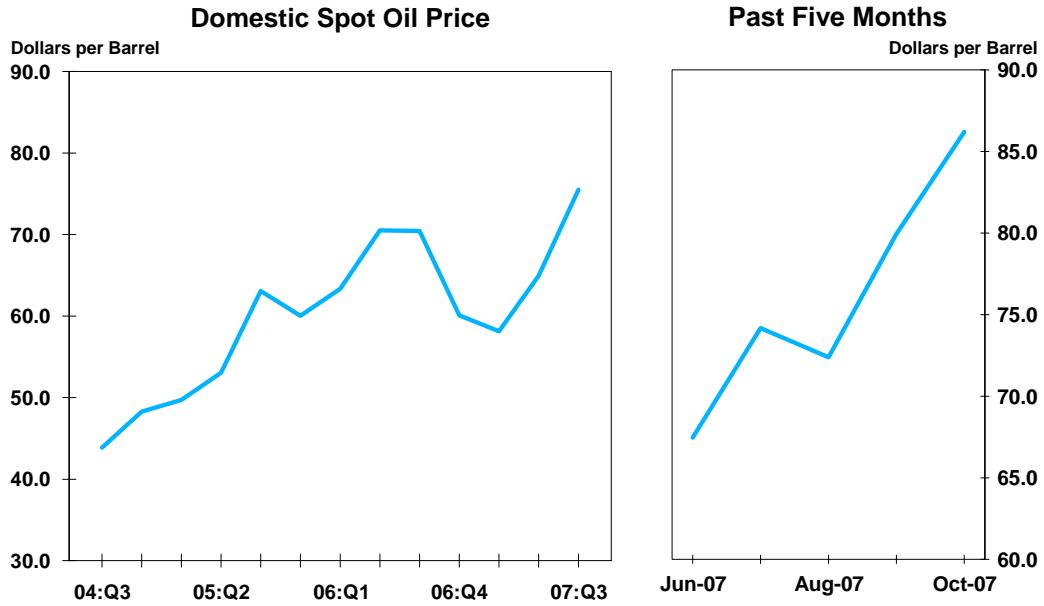
In the third quarter, employment costs grew at a steady pace despite slight decelerations in wages and salaries and benefit costs. Overall, the ECI has been quite stable over the past year.

Employment Cost Index



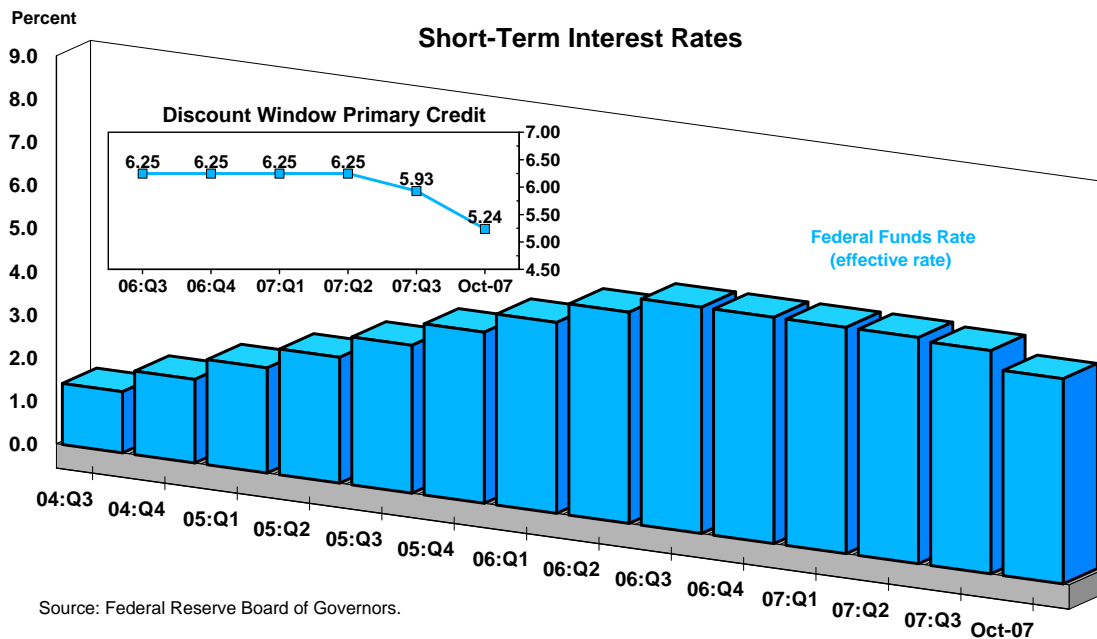
Source: Bureau of Labor Statistics.

Oil prices rose sharply in the third quarter, and continued to rise in October.



Source: Wall Street Journal (oil prices).

Overall, the economy grew in the third quarter at its fastest pace since early 2006, slightly outpacing the growth seen in the second quarter. Strong consumption and exports continue to help offset the drag of the housing market, but the potential spillover effects of that slump continue to be a source of concern.



Source: Federal Reserve Board of Governors.

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

November 8, 2007

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

In October, payroll employment posted its biggest gain in five months, but net job increases in the previous two months were revised downward. Despite October's large gain in payrolls, the unemployment rate rose from its third quarter average.

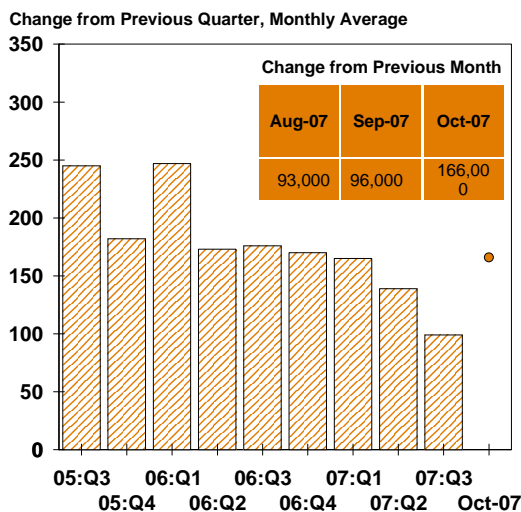
Total auto and light vehicle sales decreased slightly in October, from September's estimate. The October estimate was an improvement over the third quarter average, however. Domestic auto sales held steady for the second month in a row.

Productivity posted a strong gain in the third quarter, reflecting a solid increase in output and a small drop in hours worked. Unit labor costs fell slightly, suggesting a decrease in inflationary pressures.

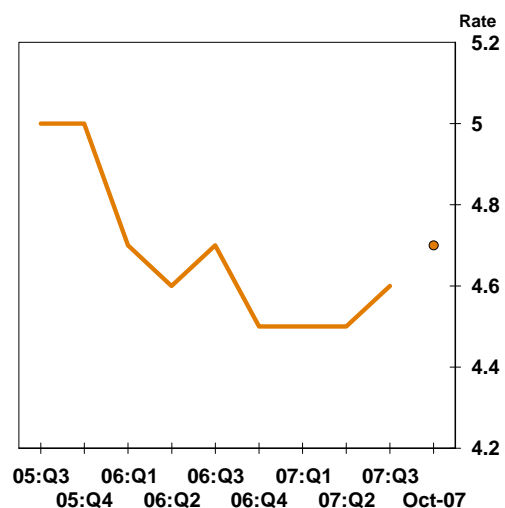
In other data released over the past week, oil prices continued to rise, wholesale inventories and manufacturers' orders both rose, shipments were flat and Redbook sales fell.

In October, payrolls added 166,000 jobs and the unemployment rate was unchanged at 4.7%. In September and August, payrolls were revised to show a net reduction of 10,000 new jobs.

Nonfarm Payroll Employment



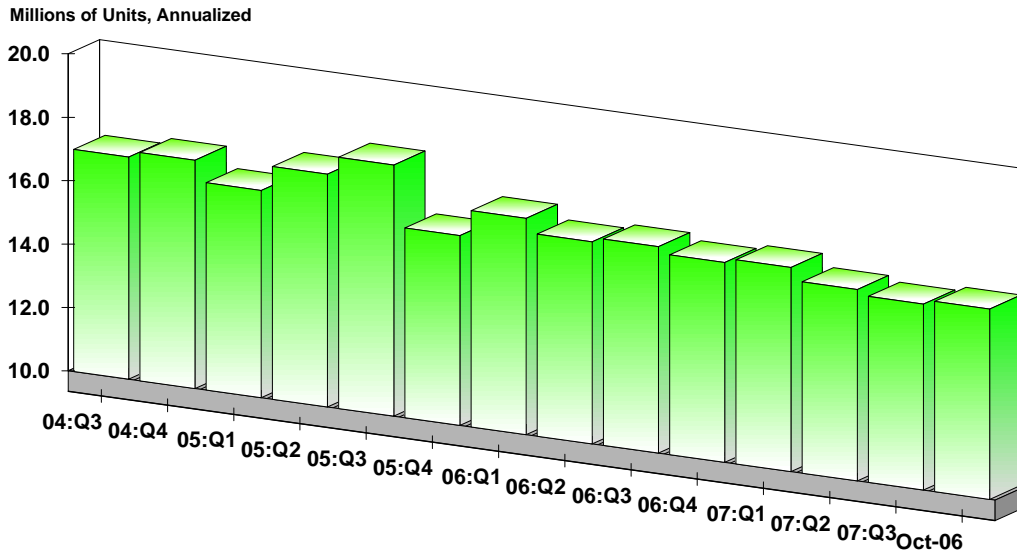
Unemployment Rate



Source: Bureau of Labor Statistics.

Total auto and light truck sales were up a bit in October, after decreasing slightly during the third quarter.

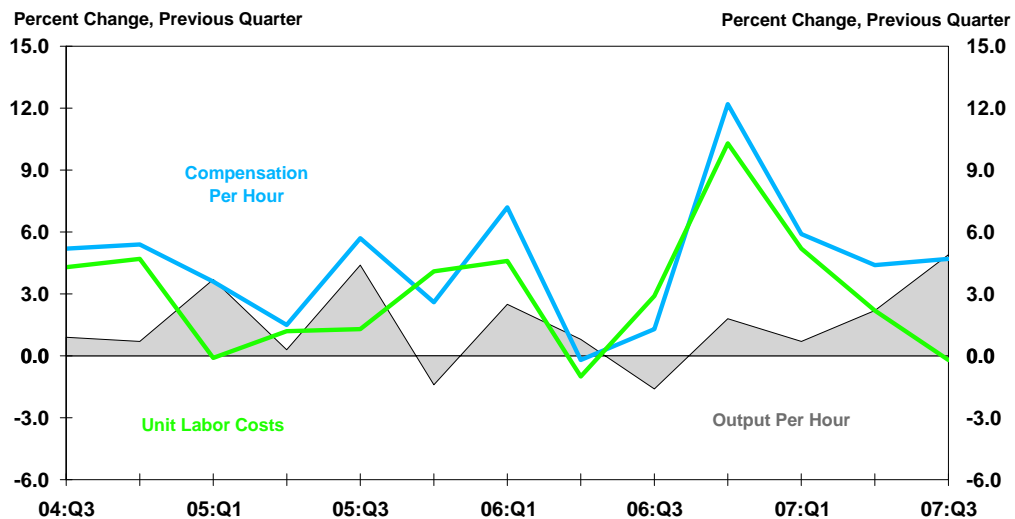
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis

During the third quarter, productivity grew at its fastest pace in four years. Total compensation accelerated slightly and unit labor costs fell for the first time in over a year.

Productivity and Costs



Source: Bureau of Labor Statistics.