



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

October 4, 2007

CURRENT ECONOMIC DEVELOPMENTS - October 4th, 2007

Data released since your last Directors' meeting show the economy's second quarter rebound wasn't quite as strong as previously reported, and other data suggest a return to below potential growth in the third quarter. Financial markets have shown some improvement recently, but effects of the recent turmoil are still evident in the data. The continued slump in the housing market also remains a concern.

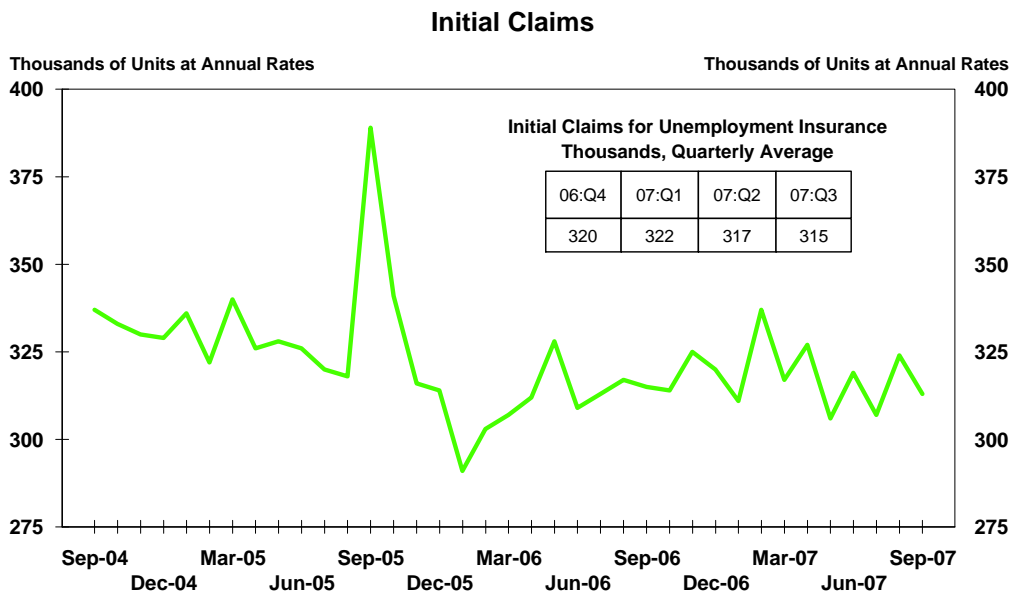
In September, initial claims decreased and overall consumer attitudes worsened, with some measures falling and others holding steady. Auto sales decreased slightly in September, but overall third quarter sales matched those seen in the second quarter. Personal income increased again in August, and spending posted its largest gain in over two years.

The deterioration of the housing market continued in August, as sales of both new and existing homes fell. Housing starts and building permits also continued to fall, much as they have throughout the past year and a half.

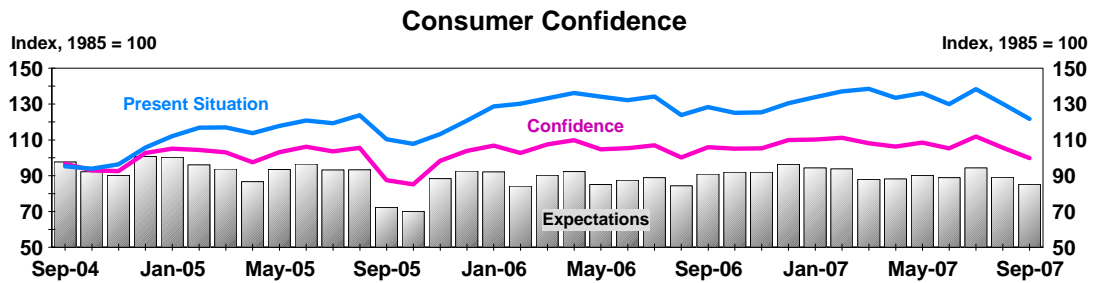
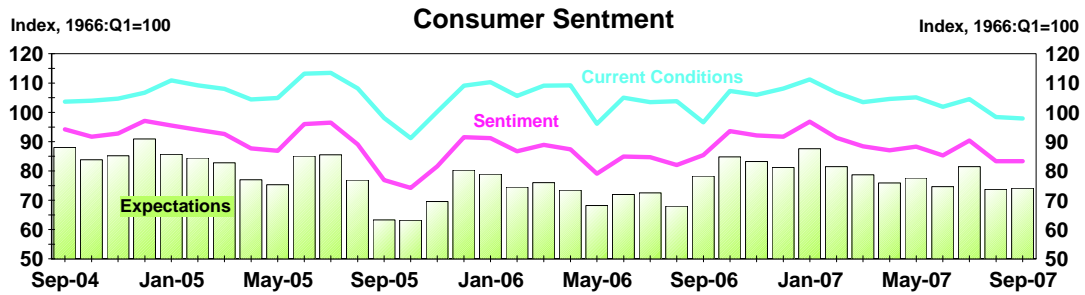
In the business sector, industrial production posted a small increase in August, and capacity utilization eased. In September, the ISM diffusion index showed that manufacturing expanded at a slower pace than seen in the previous month, but was still above 50. Growth in orders for durable goods slowed in August, and orders for capital goods excluding aircraft decreased for the fourth month in a row.

Inflation news was positive in August, as core and total price growth eased for both consumers and producers. Oil prices, however, rose sharply in September after easing a bit in August.

Initial claims for unemployment insurance decreased in September. Claims have been fairly volatile over the past several months, averaging about 320 over the past year.

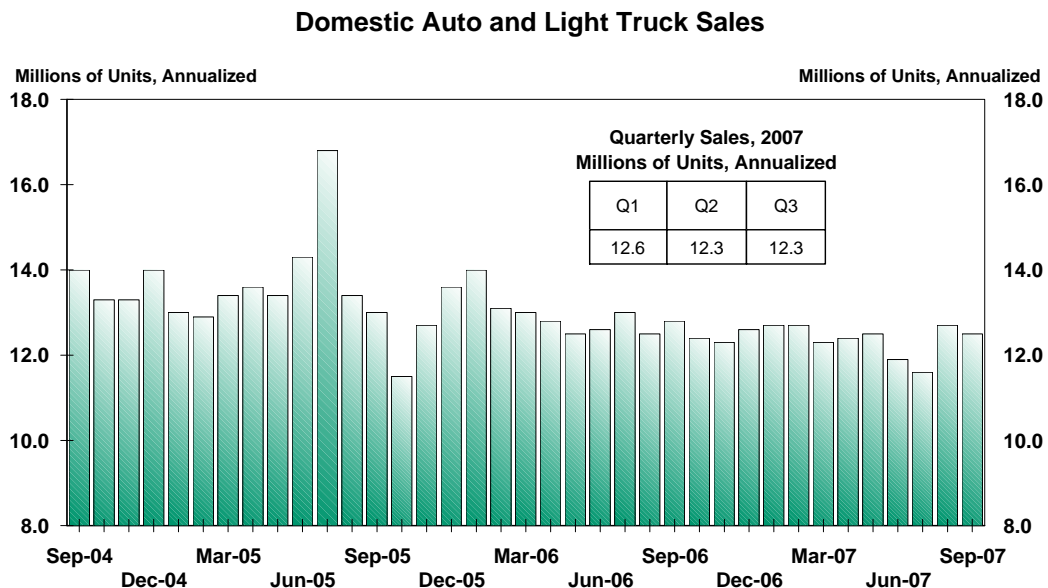


Overall consumer attitudes worsened somewhat in September. The Michiga measures were essentially unchanged, and the measures from the Conference Board all declined for the second month in a row. Confidence fell to its lowest point in two years amid concerns over business conditions and the job market.



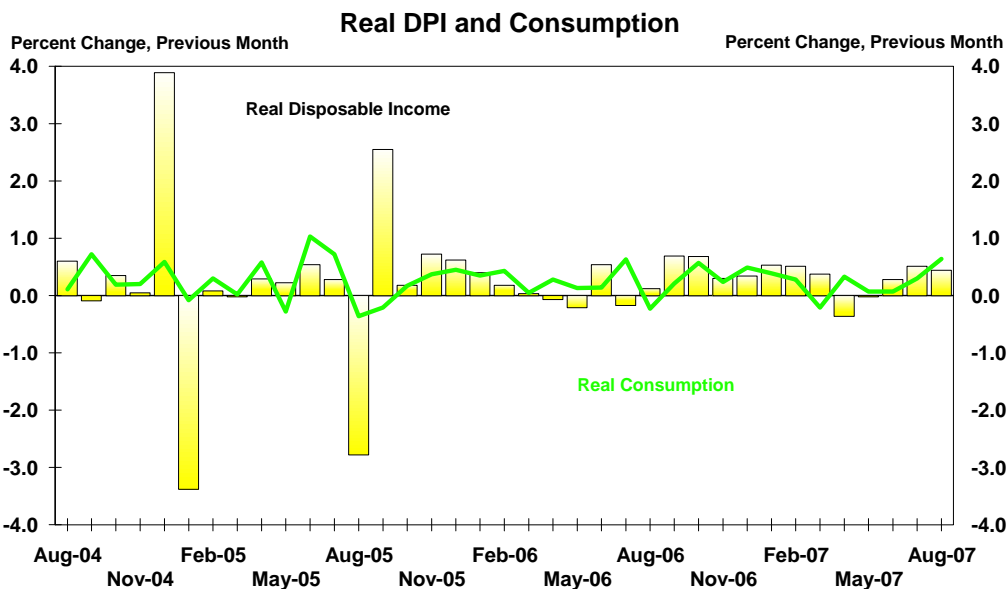
Source: University of Michigan (sentiment) and The Conference Board (confidence).

Domestic auto and light truck sales slowed a bit in September, but third-quarter sales matched those seen in the second quarter.



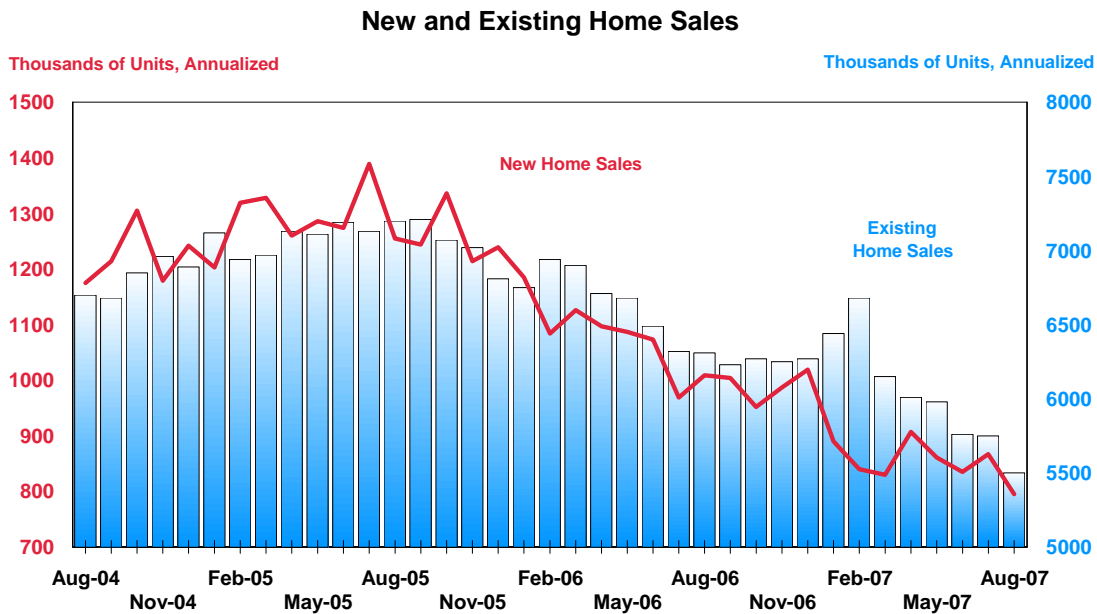
Source: Bureau of Economic Analysis.

Both real disposable income and real consumption posted modest gains in August.



Source: Bureau of Economic Analysis.

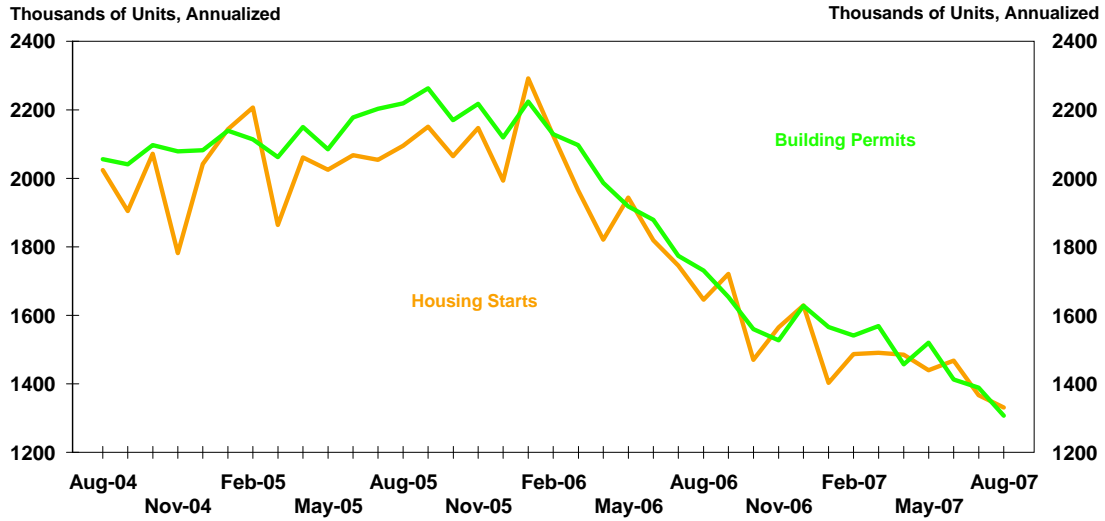
New home sales resumed their downward path in August after briefly rising in July, and sales of existing homes declined for the sixth consecutive month.



Source: U.S. Census Bureau.

The downward trend for both housing starts and building permits continued in August, as both measures fell to their lowest level since June 1995.

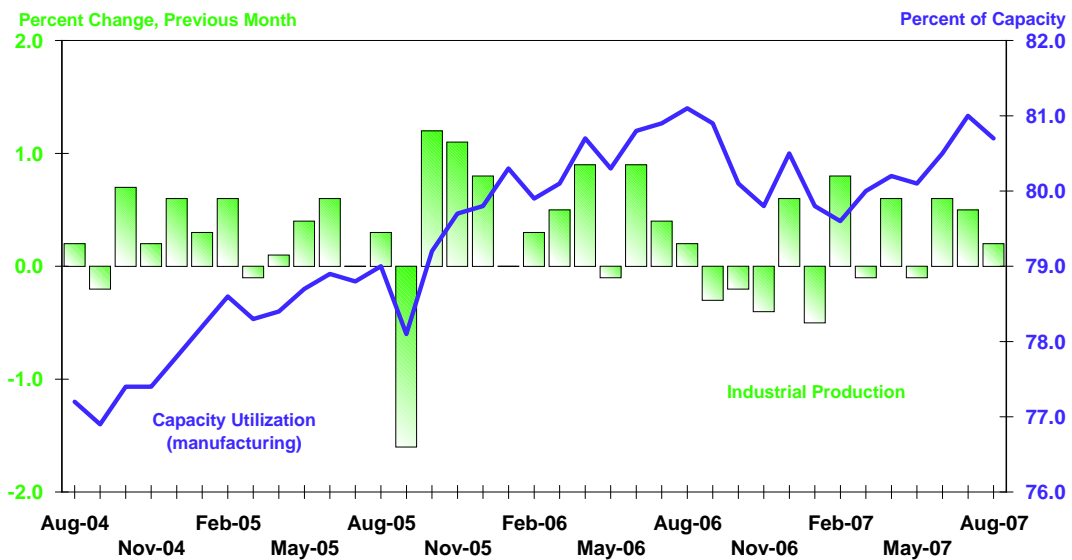
Housing Starts and Building Permits



Source: U.S. Census Bureau.

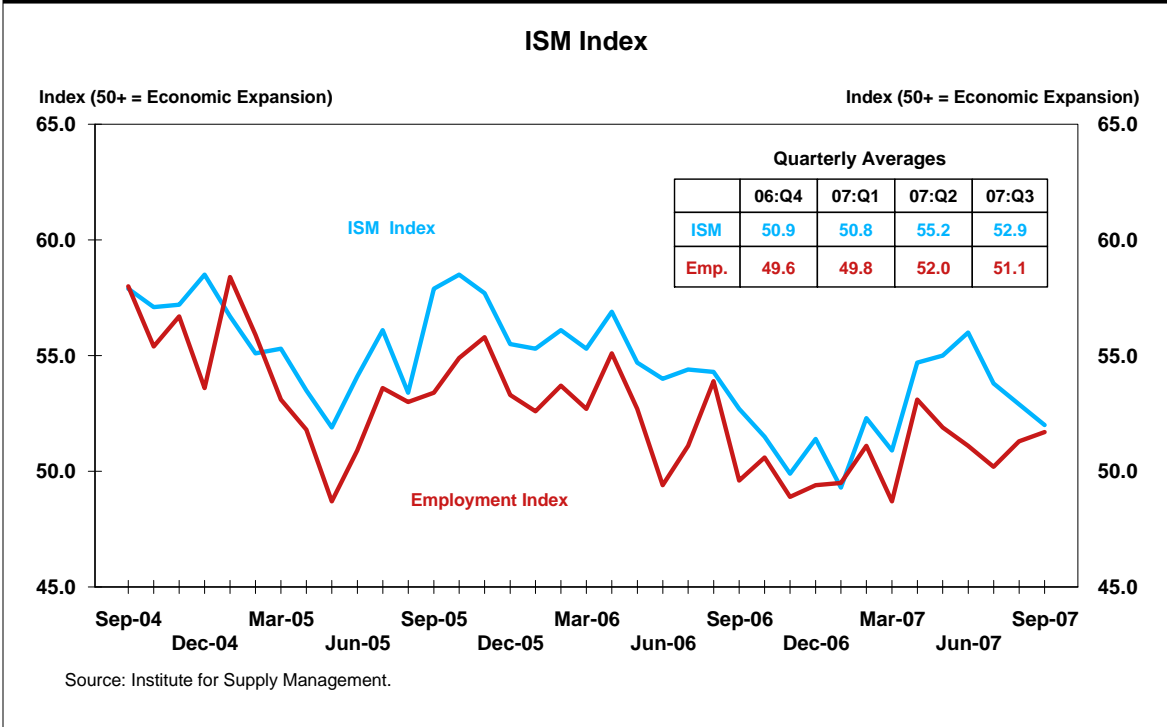
Industrial production grew in August, but at a slower pace than seen over the previous two months. Capacity utilization fell a bit from the eleven-month high seen in July.

Industrial Production and Capacity Utilization

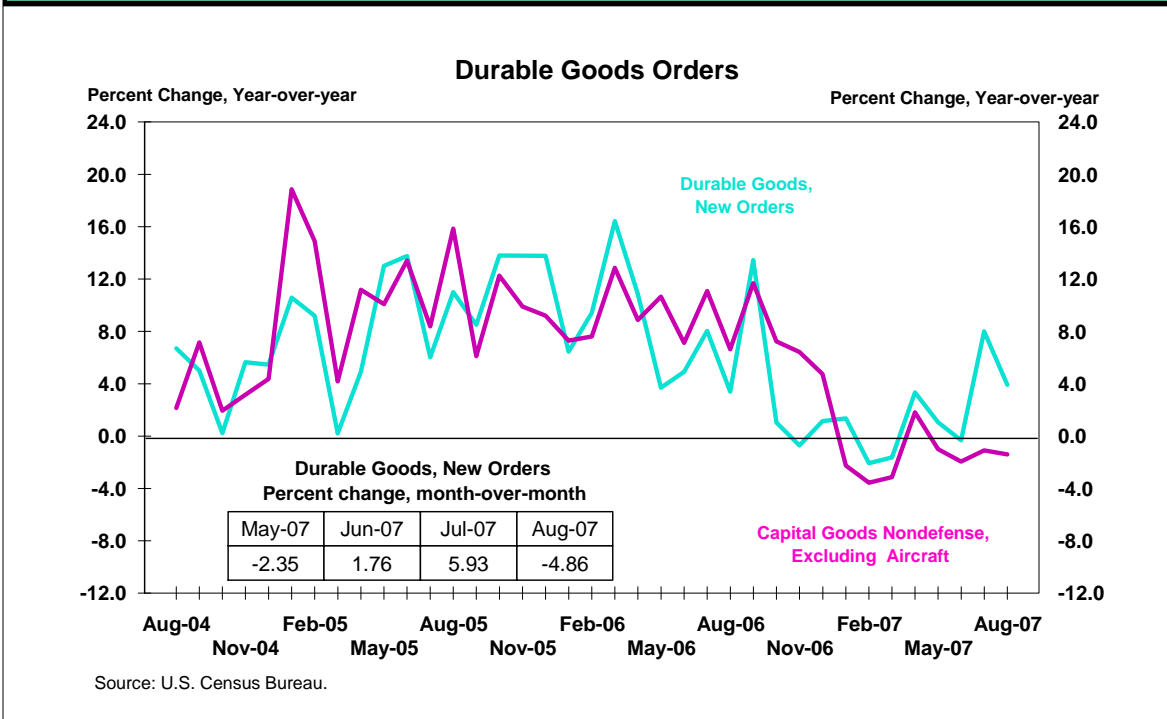


Source: Federal Reserve Board of Governors.

The ISM diffusion index eased a bit further in September, but remains above 50, and the employment component of the index improved. Both measures, however, were down overall in the third quarter from the second quarter.

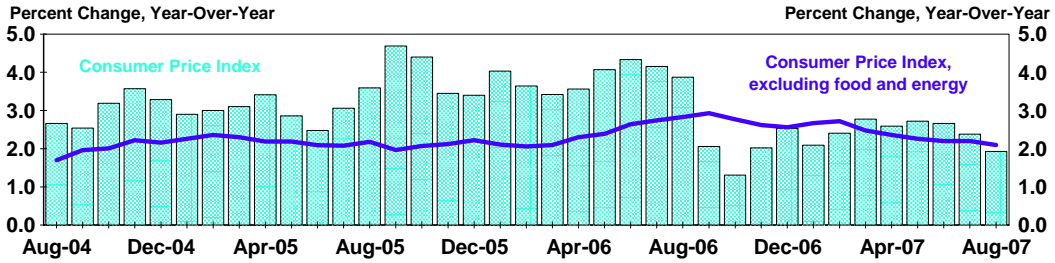


In August, new orders for durable goods grew at half the rate seen the previous month. Orders for nondefense capital goods, excluding aircraft, decreased for the fourth straight month.

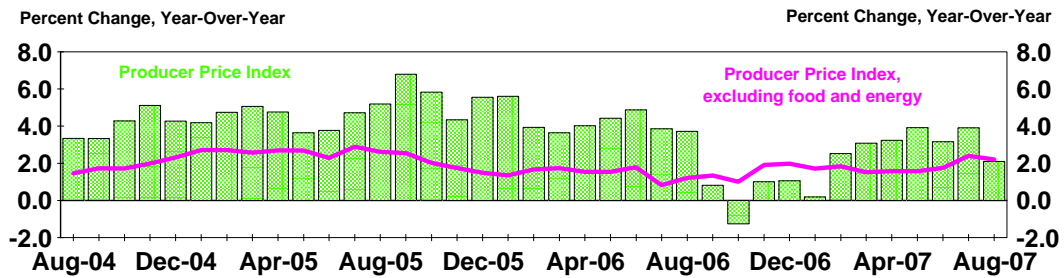


Growth in overall consumer prices slowed for the third straight month in August, while core prices also eased. Both core and overall producer prices also slowed.

Consumer Price Index



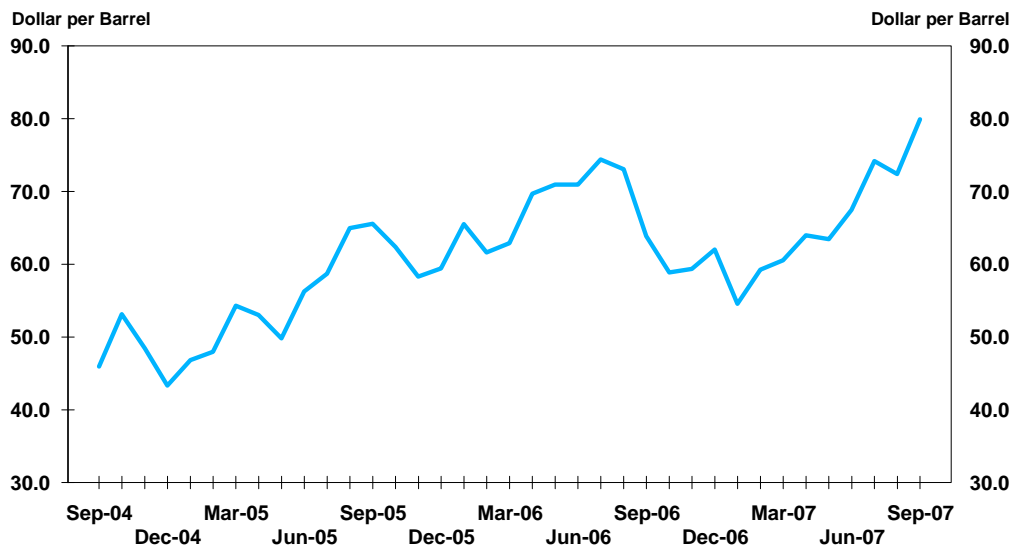
Producer Price Index



Source: Bureau of Labor Statistics.

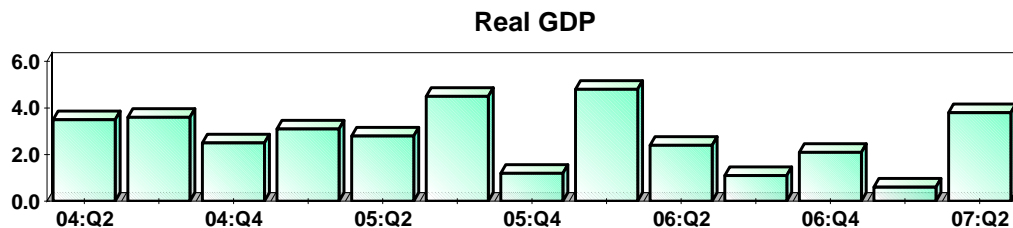
Oil prices jumped in September, averaging nearly \$80 per barrel for the month.

Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was revised down in the final second quarter estimate, due primarily to an upward revision to imports and a downward revision to nonresidential structures that were partly offset by an upward revision equipment and software.

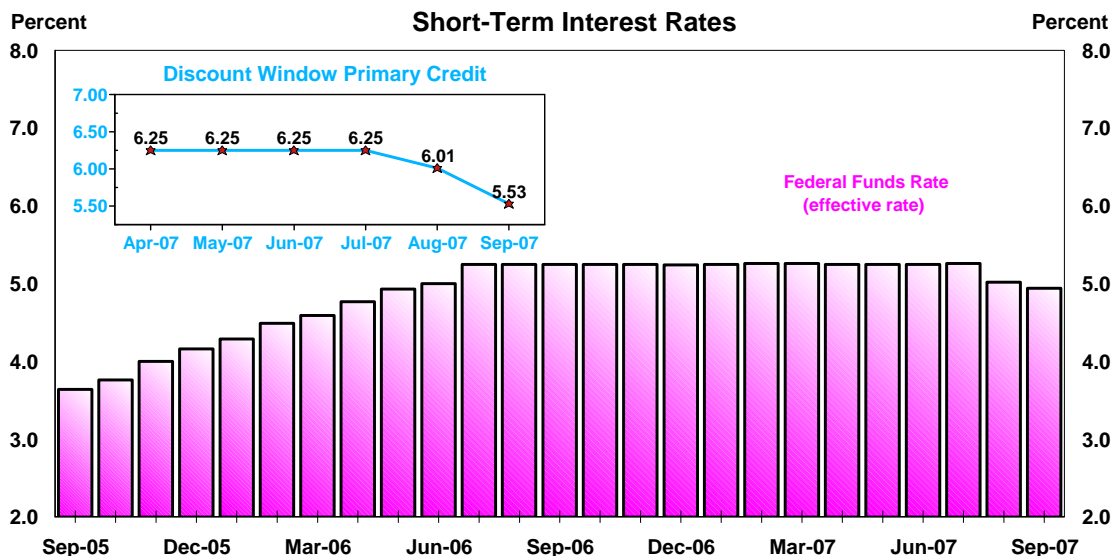


Revisions to Second Quarter Real GDP

Description	Preliminary	Final
Real GDP	4.0	3.8
Consumption	1.4	1.4
Business Investment	11.1	11.0
Equipment & Software	4.3	4.7
Residential Investment	-11.6	-11.8
Government	4.1	4.1
Exports	7.6	7.5
Imports	-3.2	-2.7
Final Sales	3.7	3.6

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy's second quarter rebound wasn't quite as strong as previously reported, and other data suggest a return to below potential growth in the third quarter. Financial markets have shown some improvement recently, but effects of the recent turmoil are still evident in the data. The continued slump in the housing market also remains a concern.



Source: Federal Reserve Board of Governors.

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

October 11, 2007

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

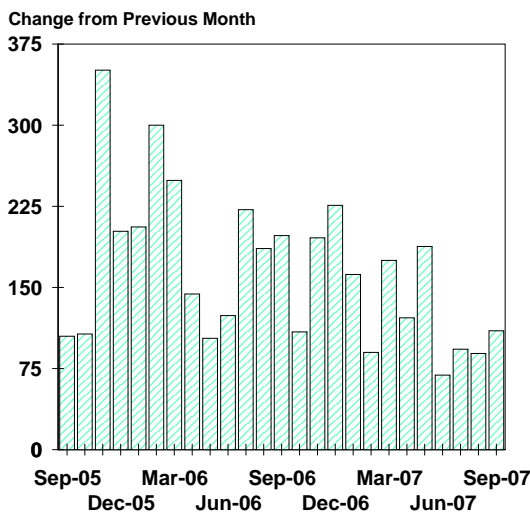
In September, nonfarm payrolls added 110,000 jobs and the unemployment rate increased to 4.7%. August payrolls were revised upward to show an increase of 89,000 jobs, as opposed to the 4,000 job decrease originally estimated. July payrolls were revised up by 25,000 to an increase of 93,000 jobs. Overall in the third quarter, payrolls increased by an average of 97,000 jobs per month, down from the second quarter estimate of 126,000.

Wholesale inventories rose 0.1% in August, following a 0.2% increase in July. Wholesale trade increased 0.4% in August, after rising a revised 0.2% in July, previously reported as a 0.1% increase.

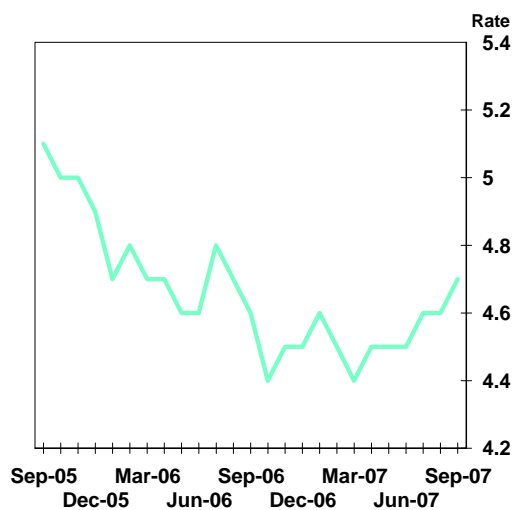
Redbook sales increased 0.3% overall in September, compared to August. Sales in the week ending October 6th were 1.8% higher than during the same period last year. Oil prices fell slightly during the past week, averaging \$80.4 per barrel compared to last week's average of \$81.0.

Payroll employment posted a moderate gain in September, and revisions to the prior two months' growth estimates resulted in a net addition of 118,000 new jobs. The unemployment rate rose one-tenth of a percentage point in September to 4.7%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.