



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

September 6, 2007

## CURRENT ECONOMIC DEVELOPMENTS - September 6, 2007

Data released since your last Directors' meeting show the economy grew faster in the second quarter than originally estimated. The slow housing market and related credit issues are still a concern, but recent data shows positive news in consumer spending and business investment.

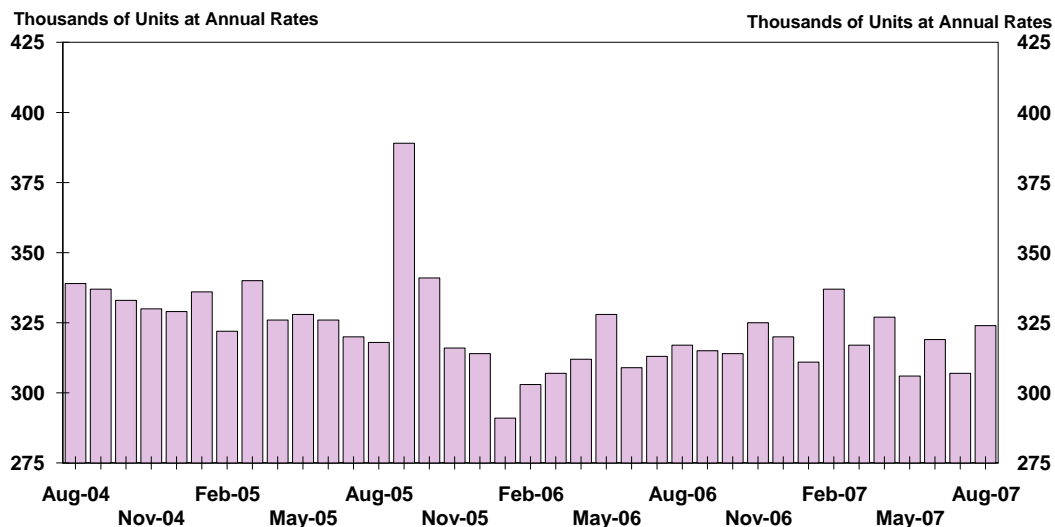
In August initial claims increased, the byproduct of consistent weekly gains. Consumer attitudes fell in August due primarily to financial market turmoil, offsetting the gains seen in July. Despite the reduced confidence, auto sales rebounded in August to register their strongest sales in six months. Real consumption expenditures grew moderately in July, aided by higher incomes.

While the housing market remains weak, there was some positive news in July. New home sales increased, and sales of existing homes were essentially flat. Housing starts and permits, however, both decreased. In the manufacturing sector, the ISM index eased a bit and growth in industrial production slowed in July, but capacity utilization reached a nine month high. Business investment rebounded in July, as durable goods orders posted their largest gain in nearly a year.

Inflation remained in check in July, as total consumer prices eased and core CPI was flat. Oil prices fell, offsetting some of the increase seen over the previous two months. Growth in hourly compensation and unit labor costs also slowed.

Initial claims for unemployment insurance increased in August, but were only slightly higher than their one-year average.

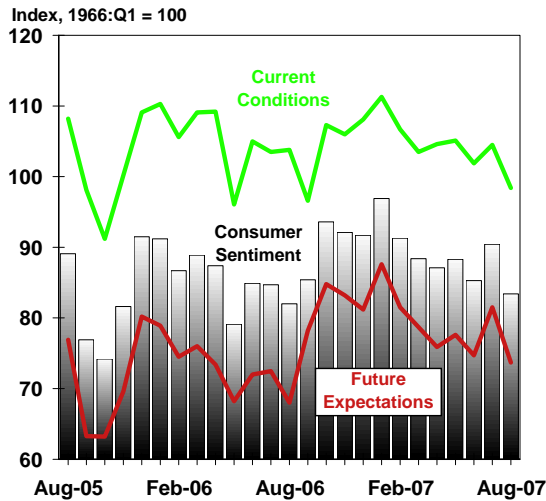
### Initial Claims



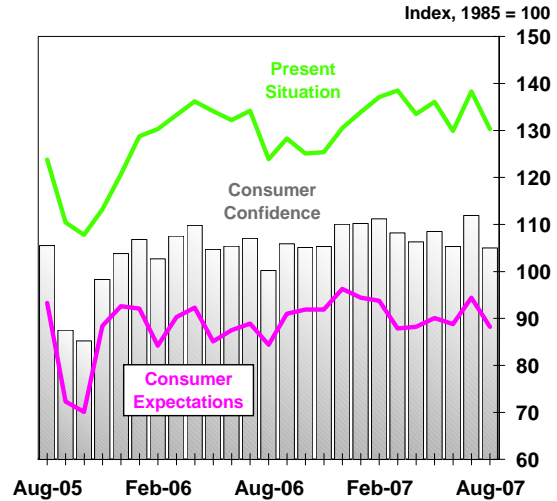
Source: Department of Labor, Employment and Training Administration.

Consumer attitudes deteriorated in August, as sentiment and confidence both fell to their lowest points of the year. Measures of expectations and current conditions also fell.

### Consumer Sentiment



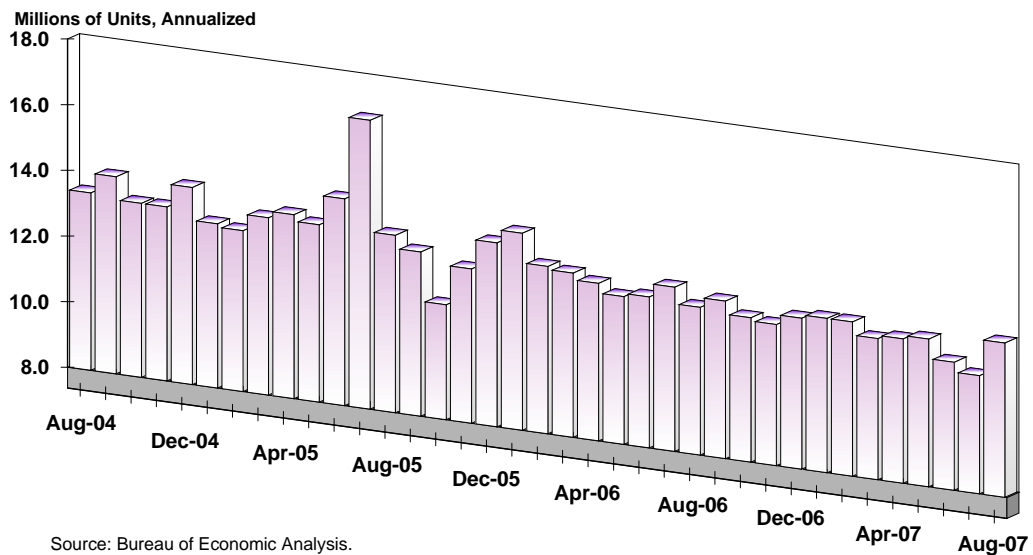
### Consumer Confidence



Source: The University of Michigan (left panel) and The Conference Board (right panel).

Domestic auto and light truck sales rebounded in August, achieving their highest sales since February.

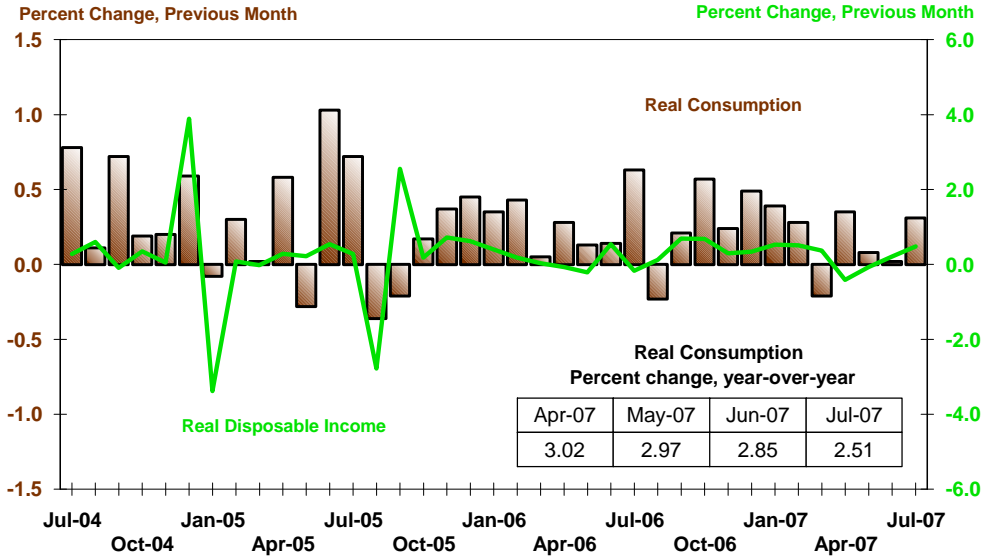
### Domestic Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Real consumption posted a moderate gain in July, following no change in June, but its year-over-year growth was the lowest in a year. Real disposable income grew in July at its fastest pace since February.

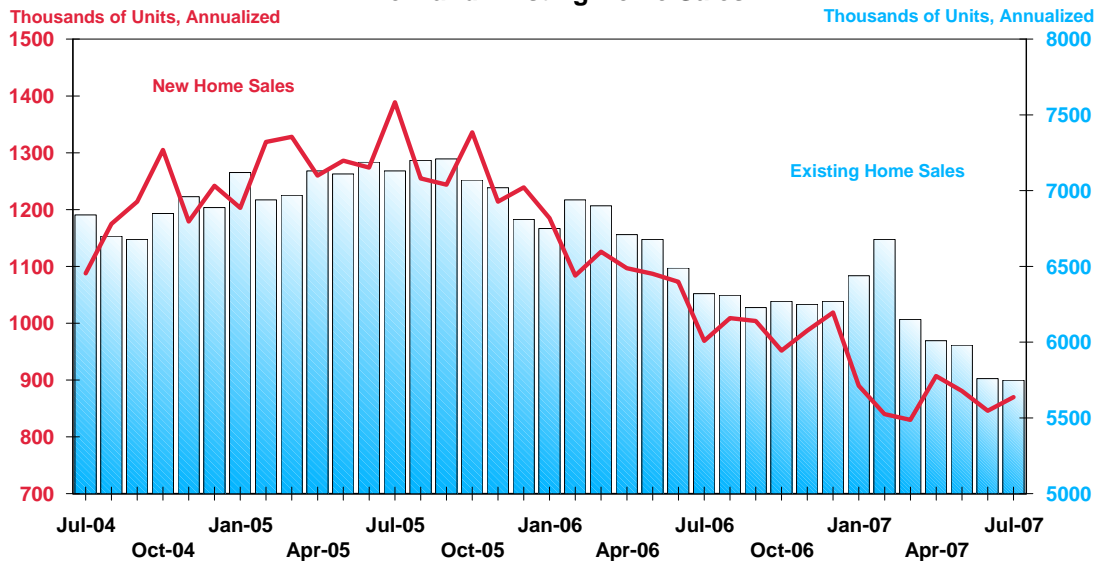
### Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

While the housing market remains weak, July sales data did not show any further deterioration. New home sales improved a bit, and sales of existing homes were essentially unchanged.

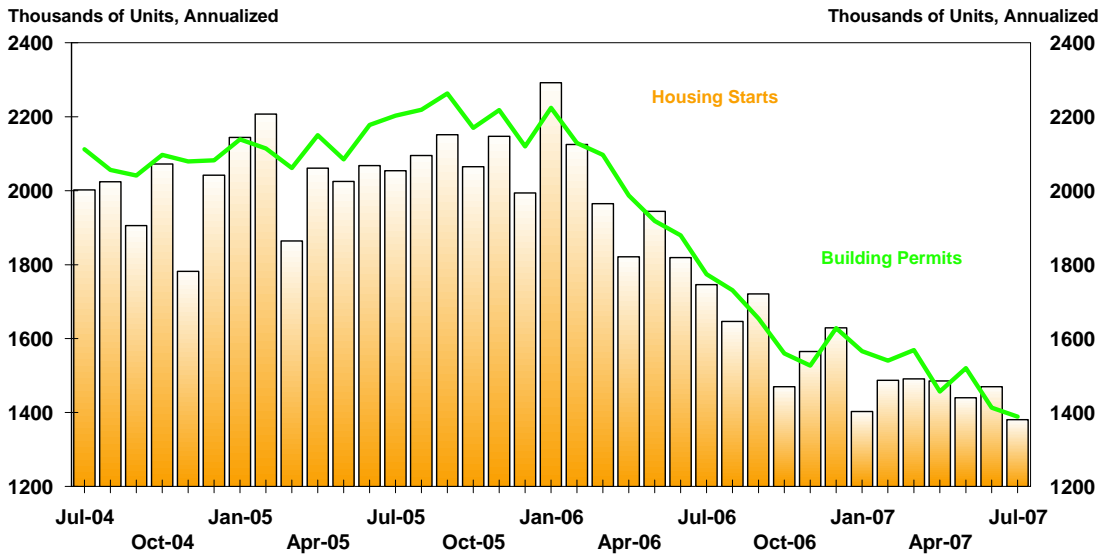
### New and Existing Home Sales



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

Housing starts fell in July, more than offsetting the increase seen in June. Building permits also fell again, dropping to their lowest level since January 1997.

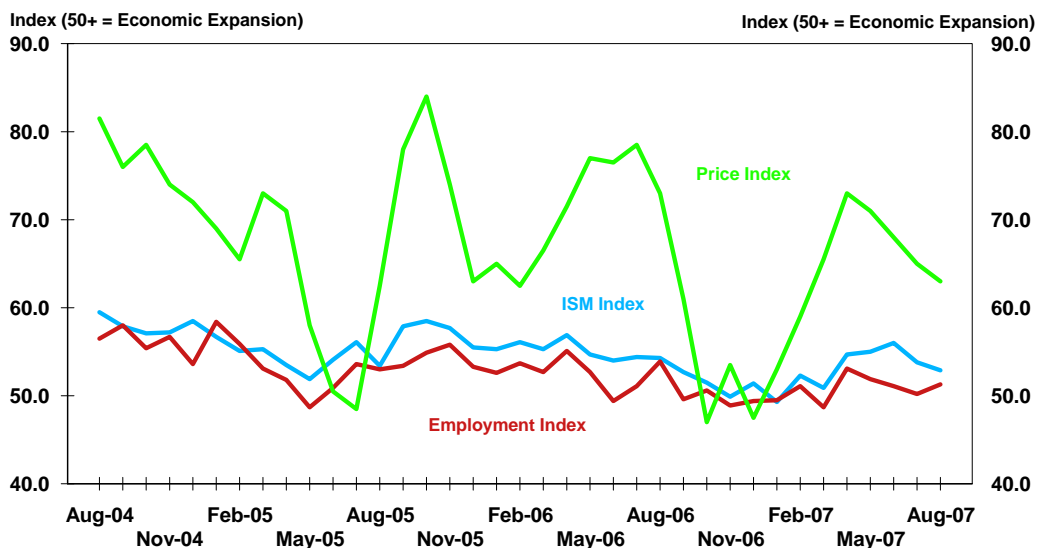
### Housing Starts and Building Permits



Source: U.S. Census Bureau.

The ISM manufacturing index eased a bit further in August, but remains above 50. Also in August, the employment index increased for the first time since April while the price index fell for the fourth straight month.

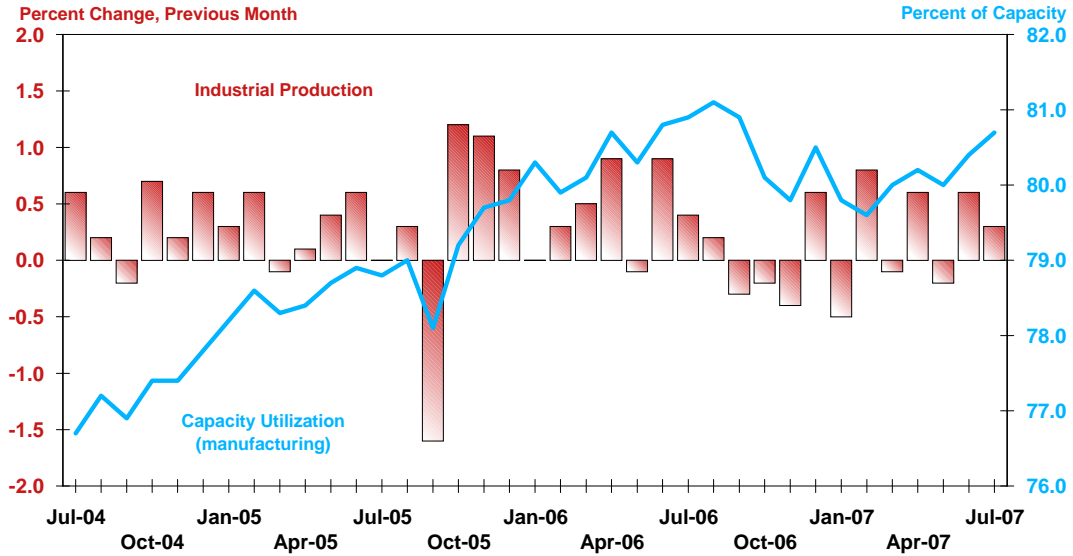
### ISM Index



Source: Institute for Supply Management.

In July, industrial production eased and capacity utilization increased, reaching a nine month high.

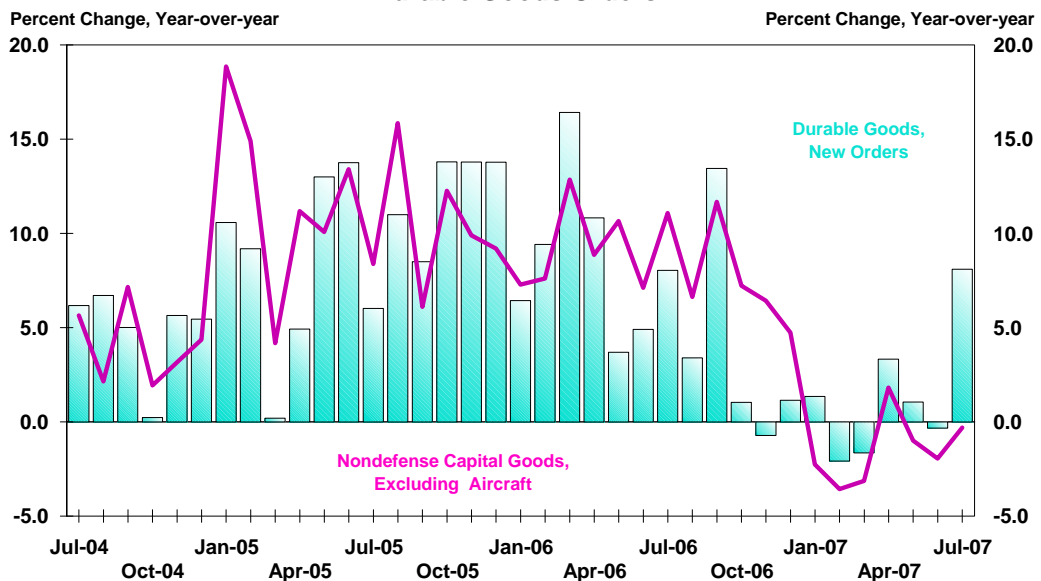
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for durable goods surged in July, rebounding from a minor decrease in June. Orders of nondefense capital goods, excluding aircraft, fell slightly in July.

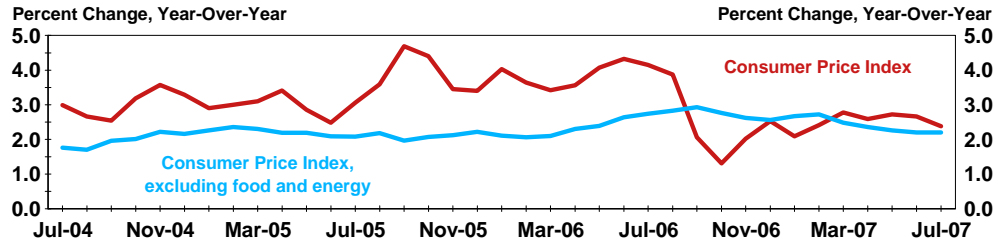
### Durable Goods Orders



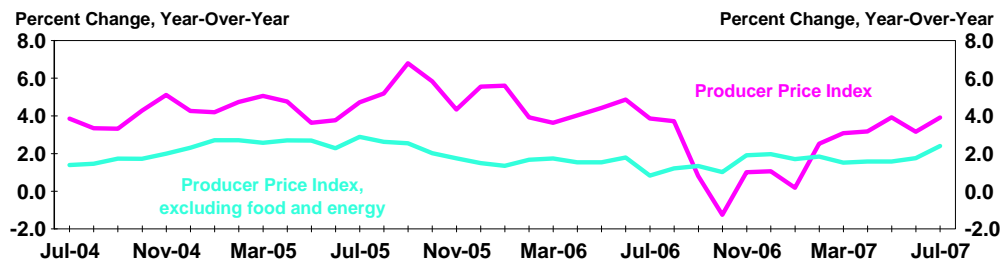
Source: U.S. Census Bureau.

Consumer prices were relatively stable in July, as total prices eased slightly and core prices were flat. Both measures of producer prices, however, accelerated.

### Consumer Price Index



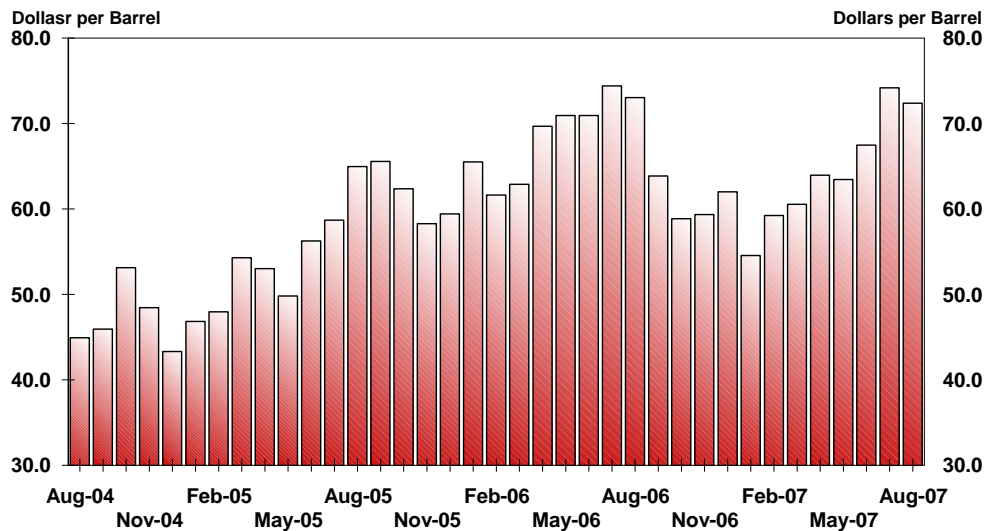
### Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices eased a bit in August, following the significant increases seen the previous two months.

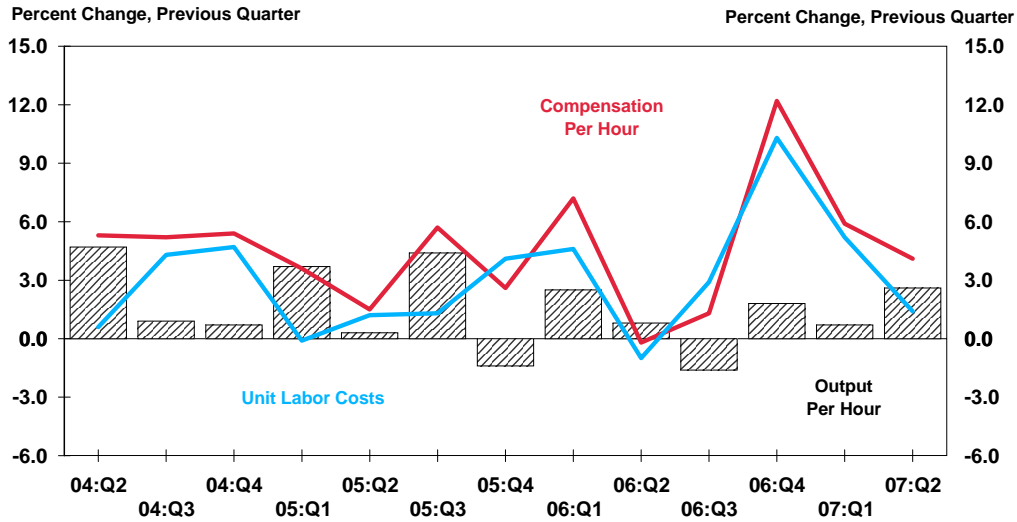
### Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity increased in the second quarter, at nearly four times the rate seen in the first quarter. Growth in both hourly compensation and unit labor costs continued to slow in the second quarter.

### Productivity and Costs



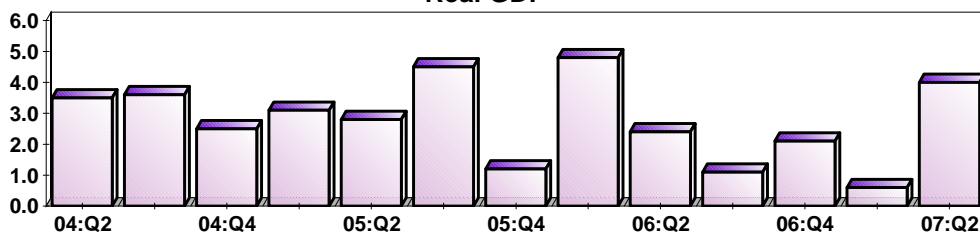
Source: Bureau of Labor Statistics.

Real GDP growth was revised up in the second quarter. The upward revision primarily reflected upward revisions to nonresidential structures, to equipment and software investment, to exports, and a downward revision to imports that were partly offset by a downward revision to residential fixed investment.

### Revisions to Second Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	3.4	4.0
Personal Consumption	1.3	1.4
Business Investment	8.1	11.1
Equipment and Software	2.3	4.3
Government	4.2	4.1
Residential	-9.3	-11.6
Exports	6.4	7.6
Imports	-2.6	-3.2
Final Sales	3.2	3.7

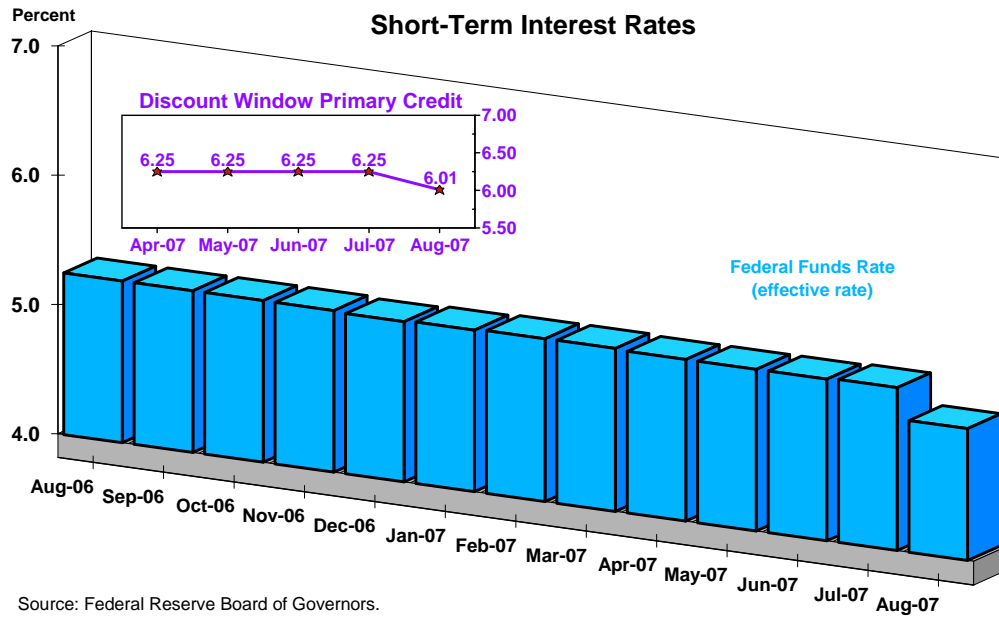
### Real GDP



Source: Bureau of Economic Analysis.



Overall, data released since your last Directors' meeting show the economy grew faster in the second quarter than originally estimated. The slow housing market and related credit issues are still a concern, but recent data shows positive news in consumer spending and business investment.



Source: Federal Reserve Board of Governors.

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

September 13, 2007

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

In August, nonfarm payrolls declined by 4,000 jobs and the unemployment rate was unchanged at 4.7%. July payrolls were revised to show an increase of 68,000 jobs, 24,000 fewer than the original estimate of a 92,000 job increase, and June payrolls were revised to show an increase of 69,000 jobs, 57,000 less than the previously reported increase of 126,000. The August decrease was the first payroll reduction since August 2003.

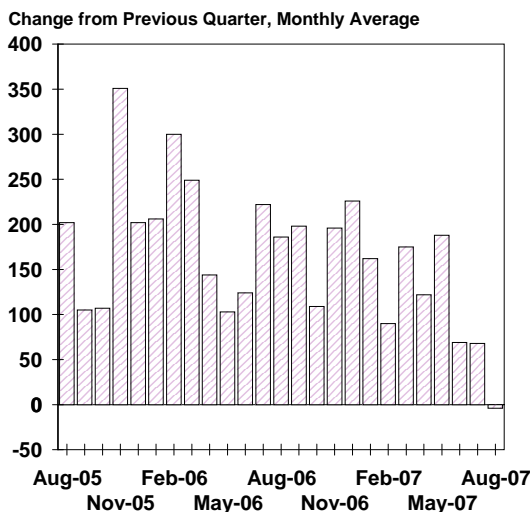
The U.S. foreign trade deficit narrowed by 0.3% in July to \$59.25 billion. Exports increased 2.7%, led by high-value capital goods, offsetting a 1.8% increase in imports largely caused by higher oil prices.

Wholesale inventories increased 0.2% in July, after rising a revised 0.3% the previous month. June inventories were first reported as rising 0.5%. Wholesale trade rose 0.1% in July, following an increase of 0.4% in June.

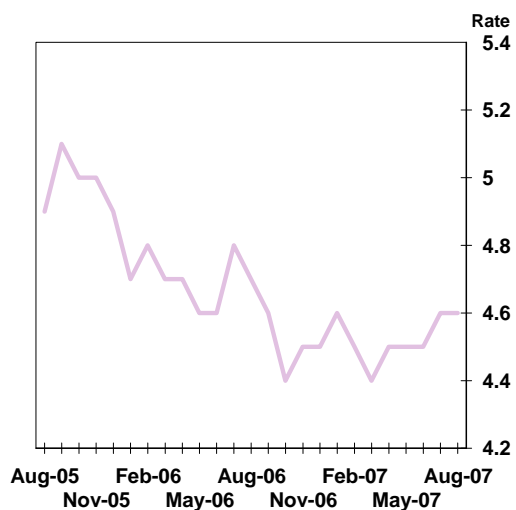
Redbook sales increased 1.1% through the first week of September, compared to August. Sales were 2.8% higher than during the same period last year. Oil prices rose over the past week, averaging 76.9 dollars per barrel, compared to last week's average of 74.0.

Payroll employment decreased by 4,000 in August, and revisions to the prior two months' estimates resulted in 81,000 fewer new jobs than originally reported. Still, the unemployment rate held steady in August at 4.6%.

**Nonfarm Payroll Employment**



**Unemployment Rate**



Source: Bureau of Labor Statistics.