



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

August 7, 2008

## CURRENT ECONOMIC DEVELOPMENTS - August 7, 2008

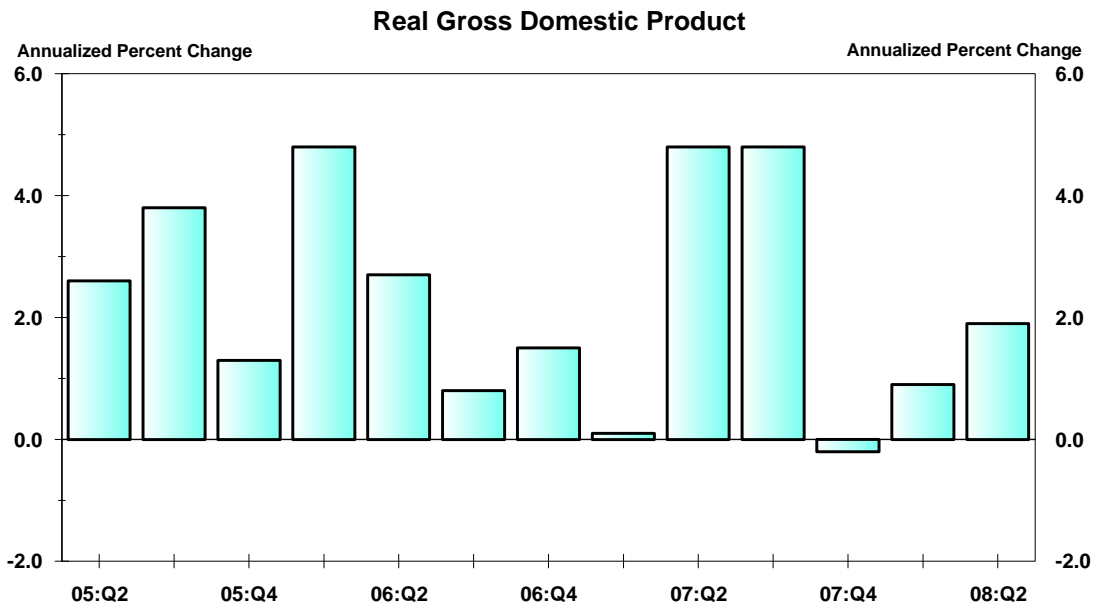
Data released since your last Directors' meeting show the economy grew at a faster rate in the second quarter than seen in the first, due in large part to stimulus-aided spending and the continued strength in net exports. However, tight credit conditions and higher energy prices are likely to continue restraining growth going forward.

The increase in real GDP in the second quarter primarily reflected positive contributions from exports, personal consumption expenditures, nonresidential structures, and government spending and a decrease in imports. These effects were partly offset by negative contributions from private inventory investment, residential fixed investment and equipment and software.

The labor market softened further in July. Nonfarm payrolls fell by the same amount as in June, and the unemployment rate rose to its highest level in four years. Initial claims for unemployment insurance also rose throughout July, suggesting payrolls may experience further losses in the coming months.

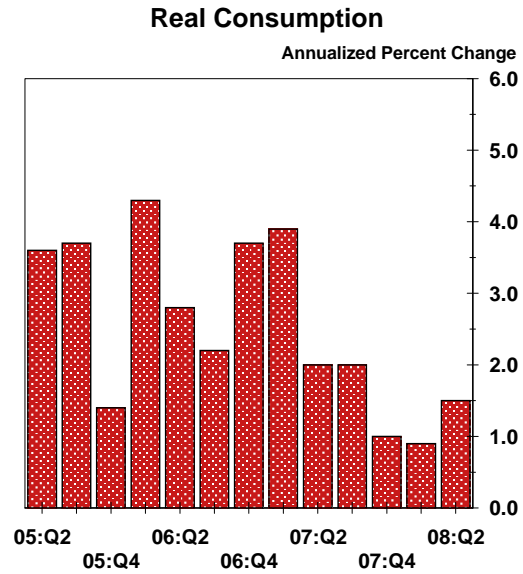
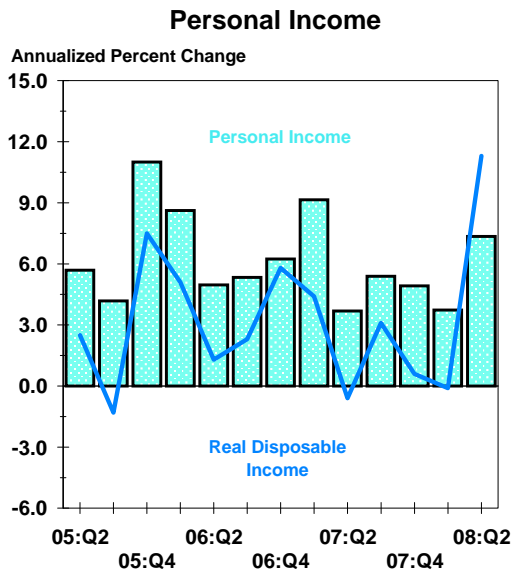
During the second quarter, consumer inflation held mostly steady and inflation for producers accelerated. Elevated energy prices are the primary concern, but oil prices have been retreating recently. On August 5, the price per barrel closed below \$120 for the first time in three months.

The acceleration in real GDP growth in the second quarter primarily reflected a larger decrease in imports, an acceleration in exports, a smaller decrease in residential fixed investment, and an acceleration in PCE that were partly offset by a larger decrease in inventory investment.



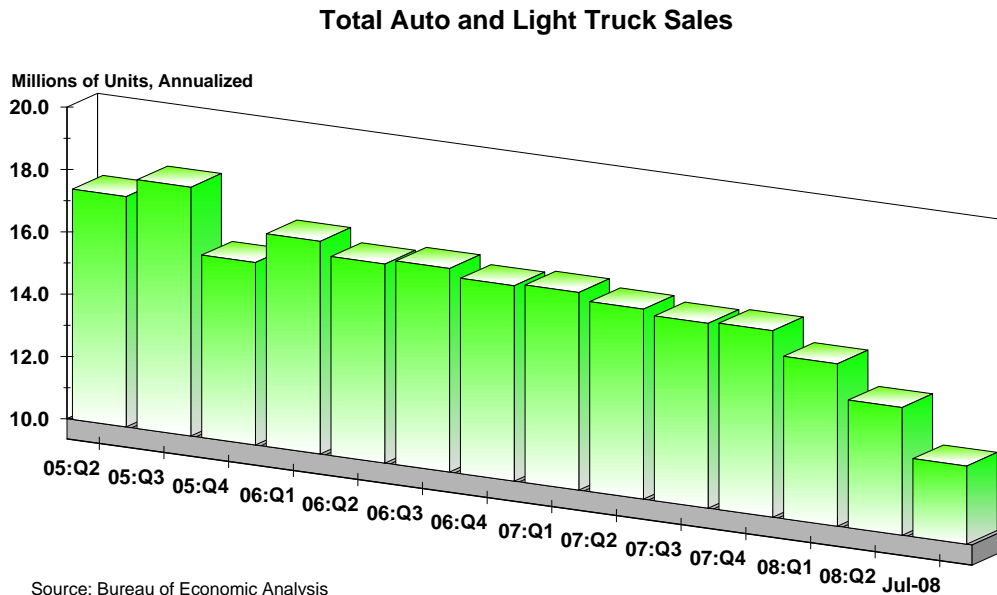
Source: Bureau of Economic Analysis.

In the second quarter, personal income grew at twice the rate as seen in the first, and real DPI shot up dramatically, due primarily to the stimulus checks distributed throughout the quarter. These increases helped consumption post its strongest gain in three quarters.



Source: Bureau of Economic Analysis.

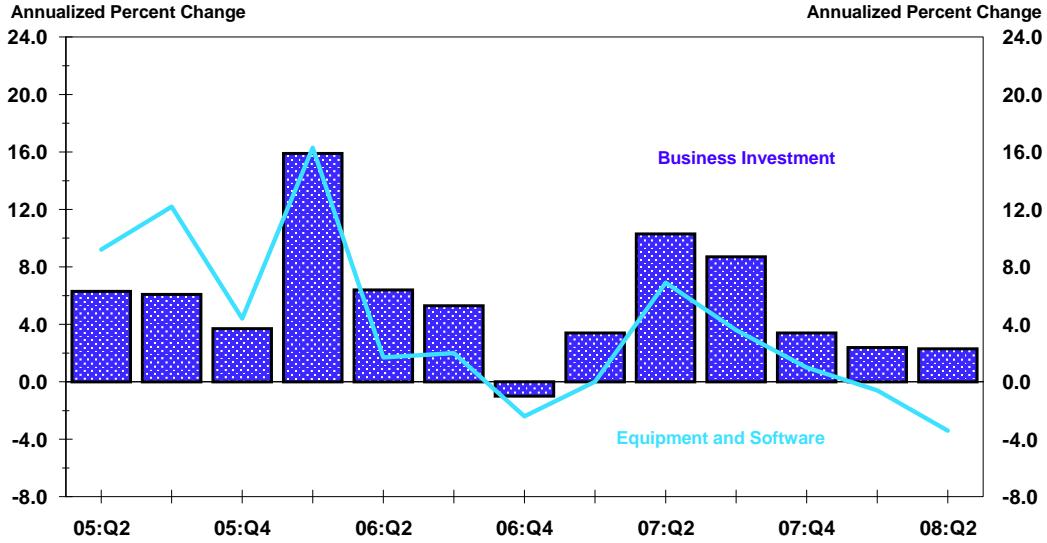
High gas prices and poor credit conditions continue to greatly restrict auto sales, bringing sales in July to a 16-year low.



Source: Bureau of Economic Analysis

During the second quarter, growth in business investment held relatively steady despite a moderate decrease in equipment and software investment.

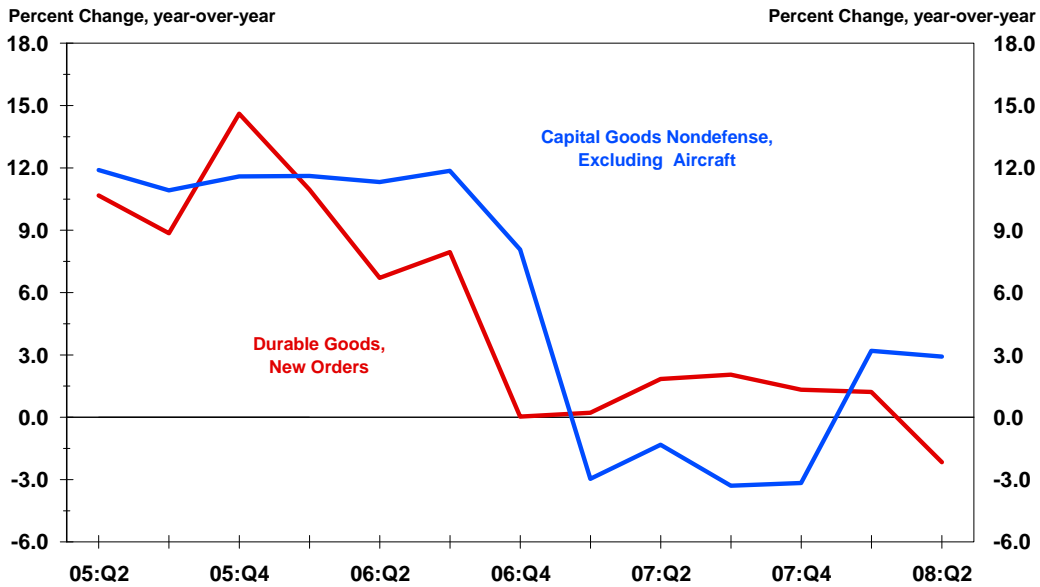
### Business Investment



Source: Bureau of Economic Analysis.

New orders for durable goods decreased in the second quarter, their first quarterly year-over-year drop in nearly six years. Orders for nondefense capital goods, excluding aircraft, decelerated a bit in the second quarter.

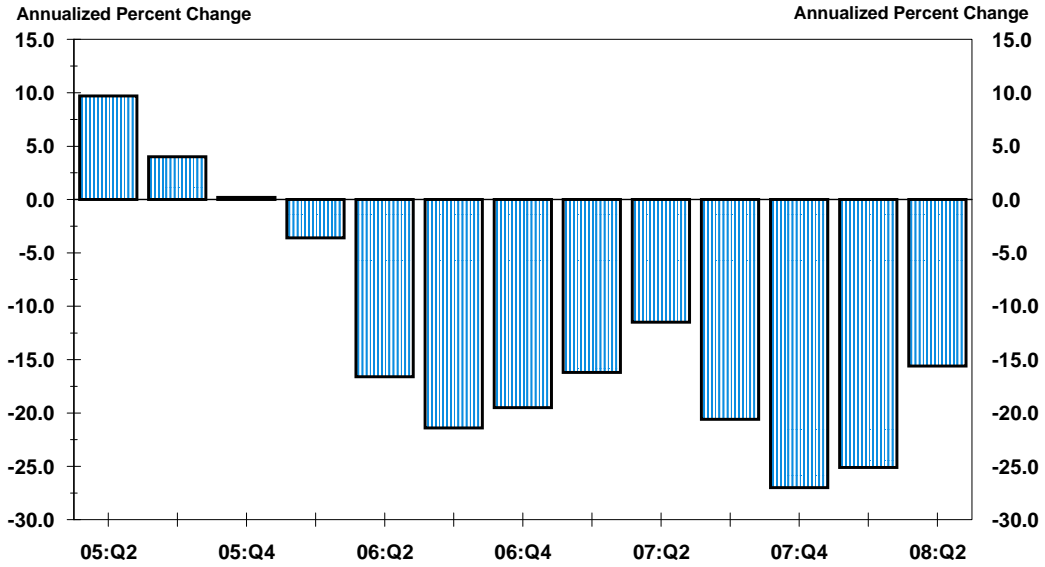
### Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment continued to fall in the second quarter, but at a slower rate than seen during the previous three quarters.

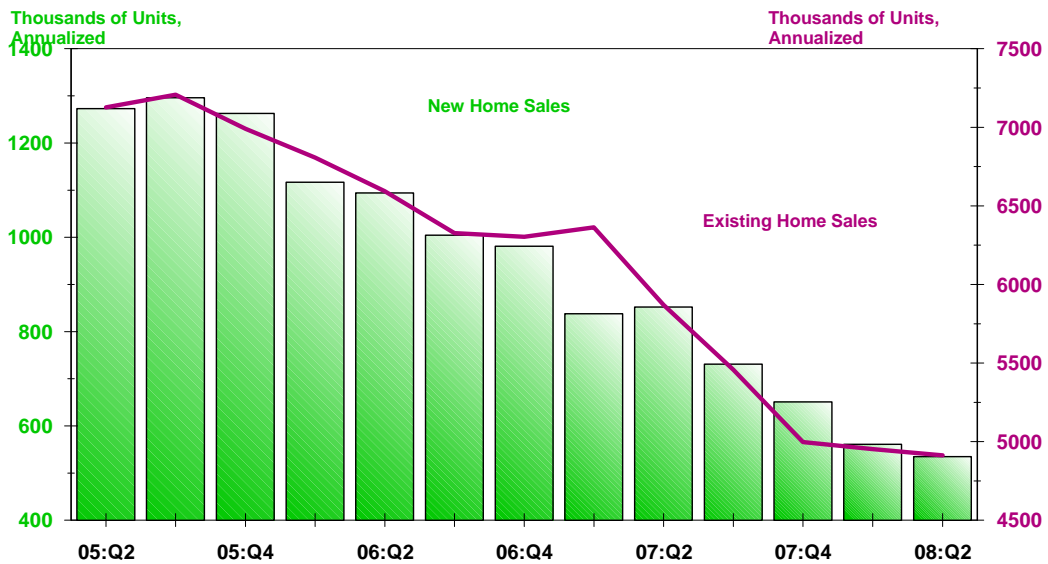
### Residential Investment



Source: U.S. Census Bureau.

New and existing home sales continued to slow in the second quarter, but the drops were much less dramatic than many experienced over the past three years.

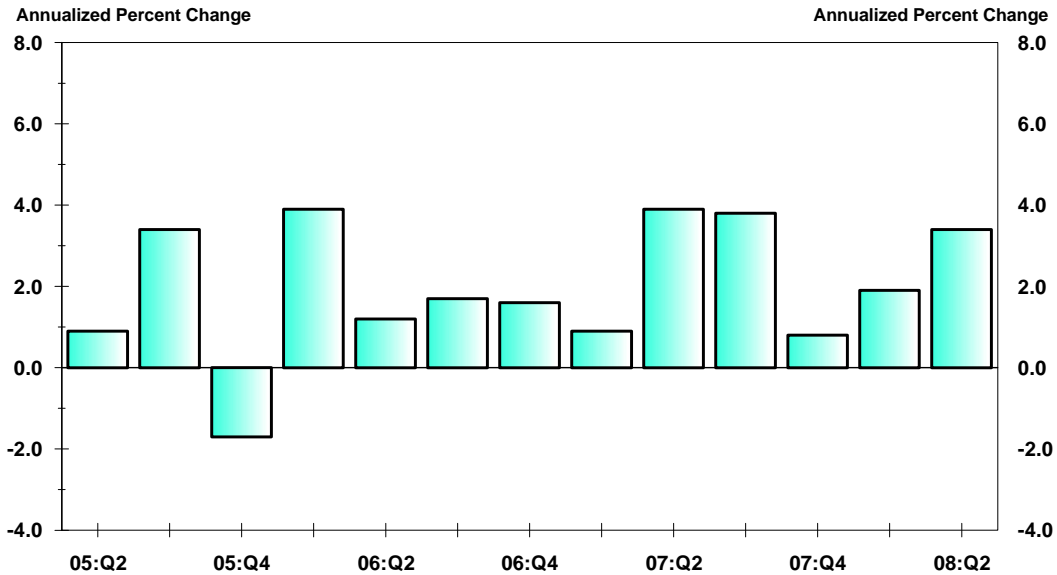
### New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending increased again in the second quarter, at nearly double the pace seen in the first quarter.

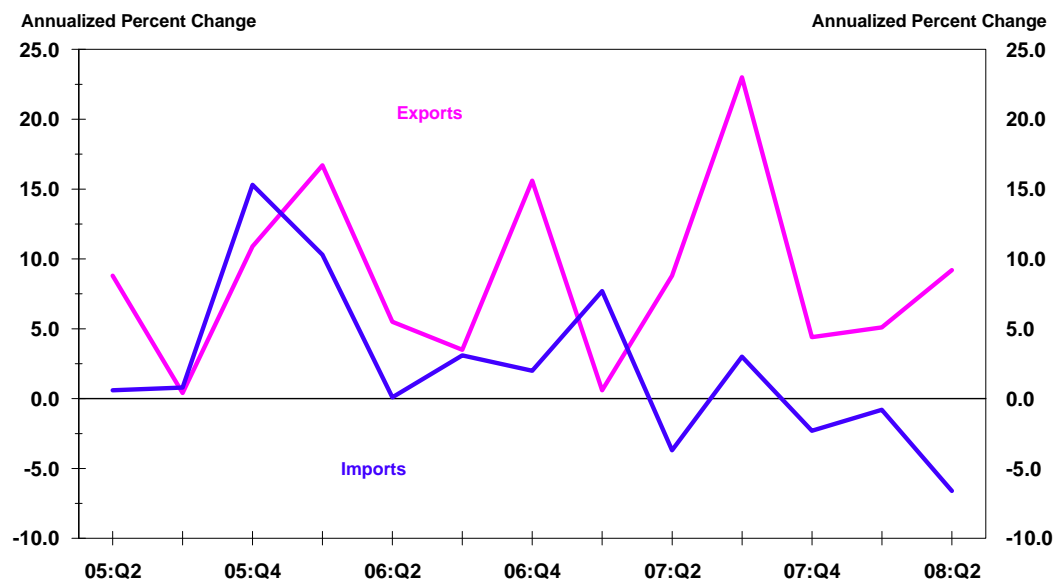
### Government Spending



Source: Bureau of Economic Analysis.

Net exports continues to be one of the few sources of significant support to GDP. This was especially true in the second quarter as exports increased and imports decreased.

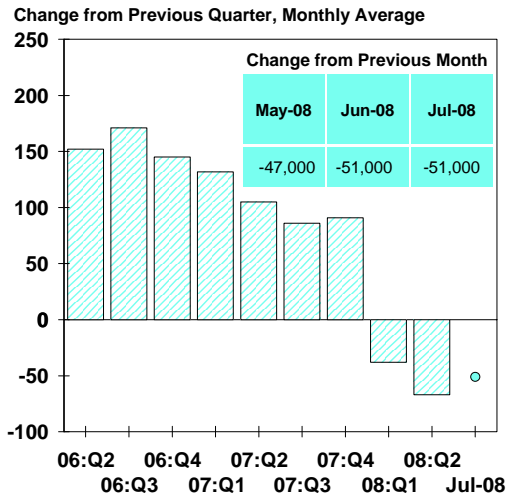
### Exports and Imports



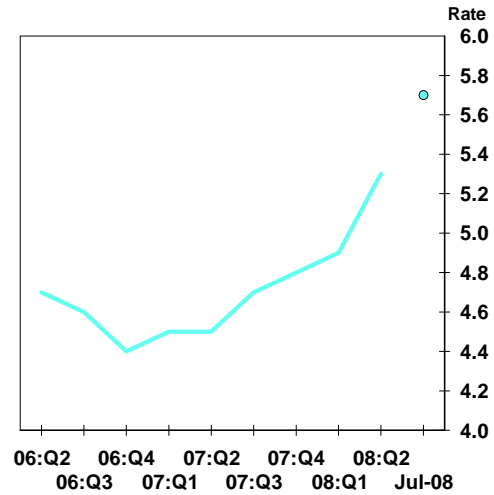
Source: Bureau of Economic Analysis.

Nonfarm payrolls continued to pare jobs in July, falling for the seventh consecutive month. So far this year a total of 463,000 jobs have been eliminated. The unemployment rate climbed to its highest point in over four years in July.

### Nonfarm Payroll Employment



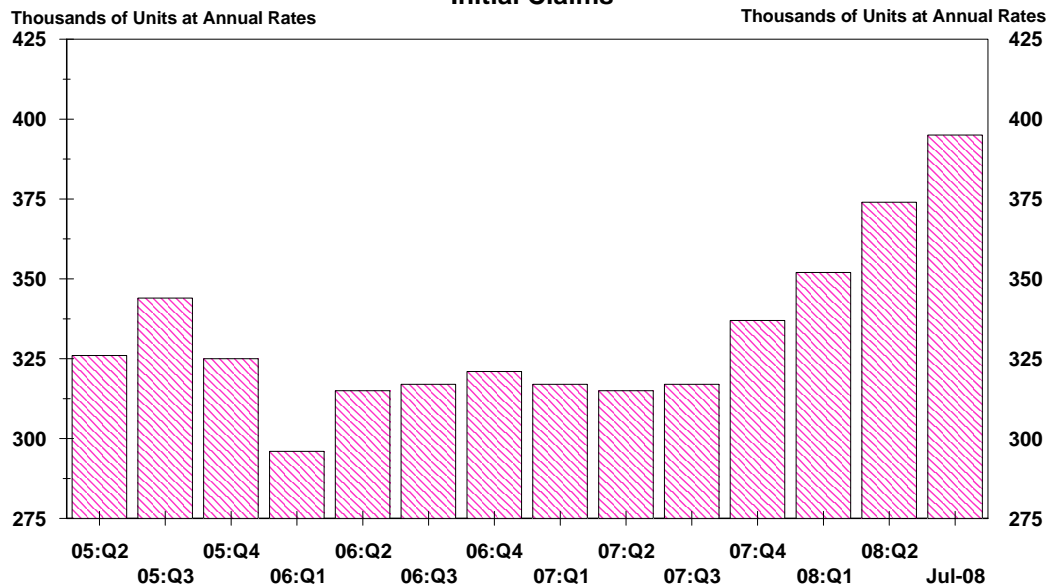
### Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance rose further in the second quarter, and rose higher still in July.

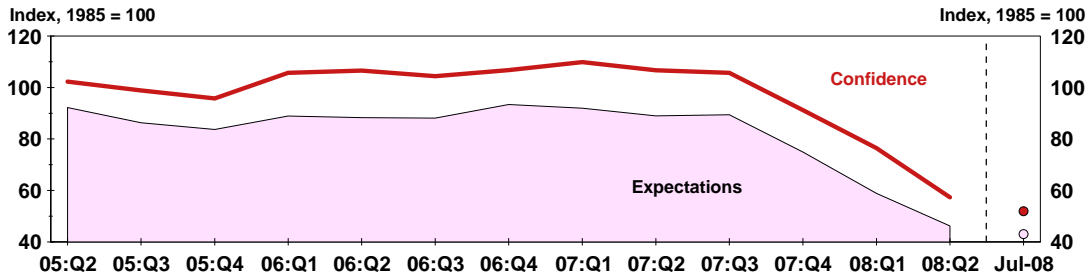
### Initial Claims



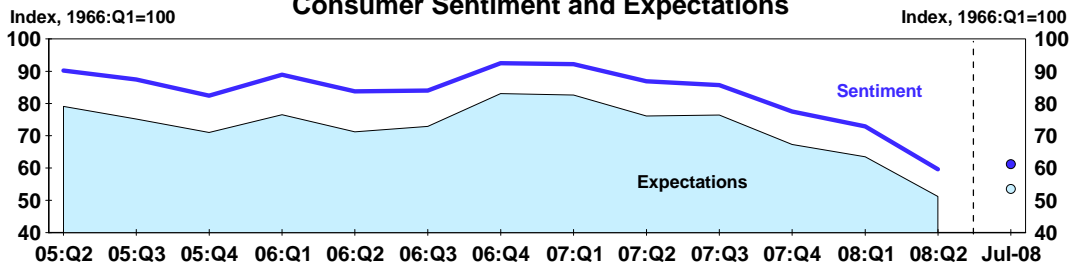
Source: Department of Labor, Employment and Training Administration.

The freefall of consumer attitudes continued through the second quarter. The Conference Board measures fell a bit more in July, but the Michigan survey showed some slight improvement.

### Consumer Confidence and Expectations



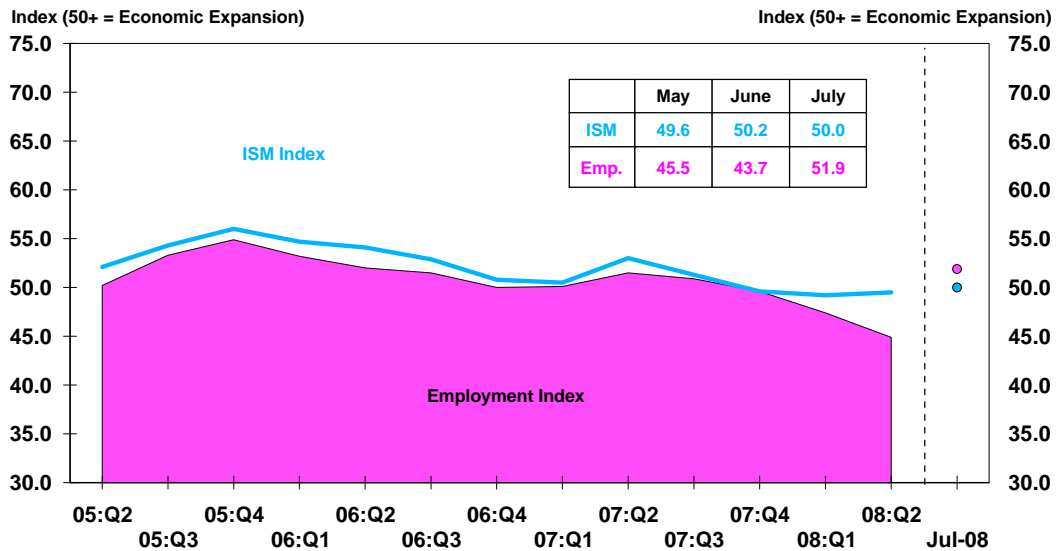
### Consumer Sentiment and Expectations



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

The ISM index has held relatively steady over the past three quarters, and continued that pattern in July. The employment index improved significantly in July after falling consistently during the past year.

### ISM Index

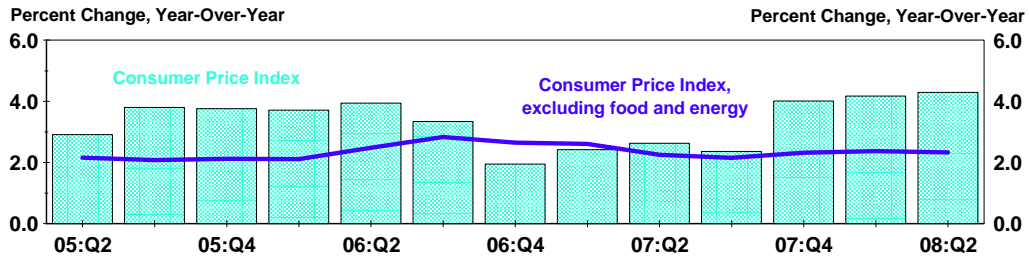


Source: Institute for Supply Management.

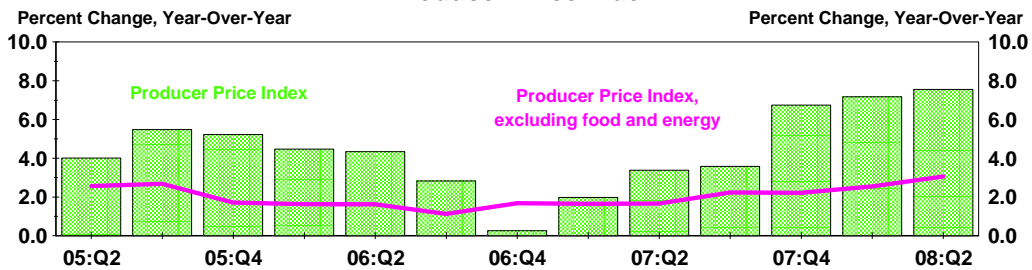


Consumer prices held mostly steady in the second quarter, while producer prices increased.

### Consumer Price Index



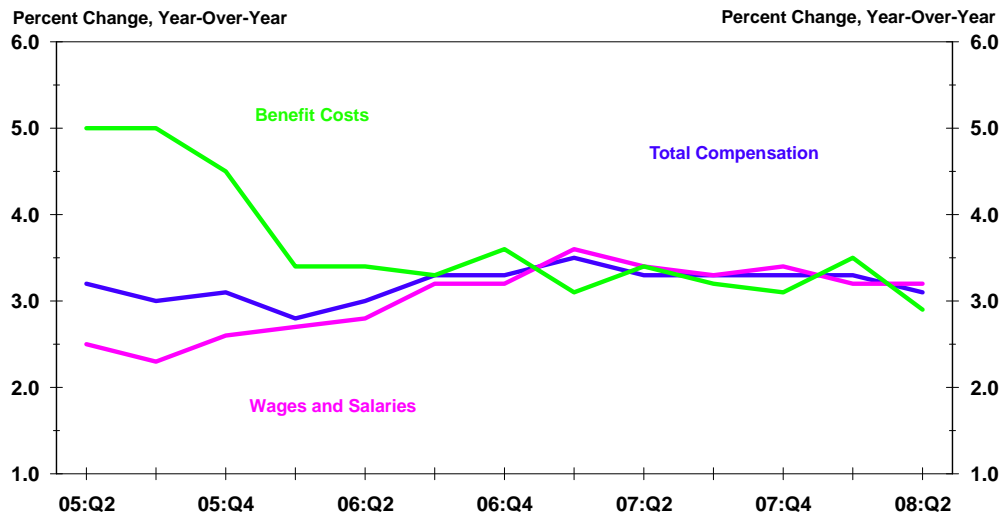
### Producer Price Index



Source: Bureau of Labor Statistics.

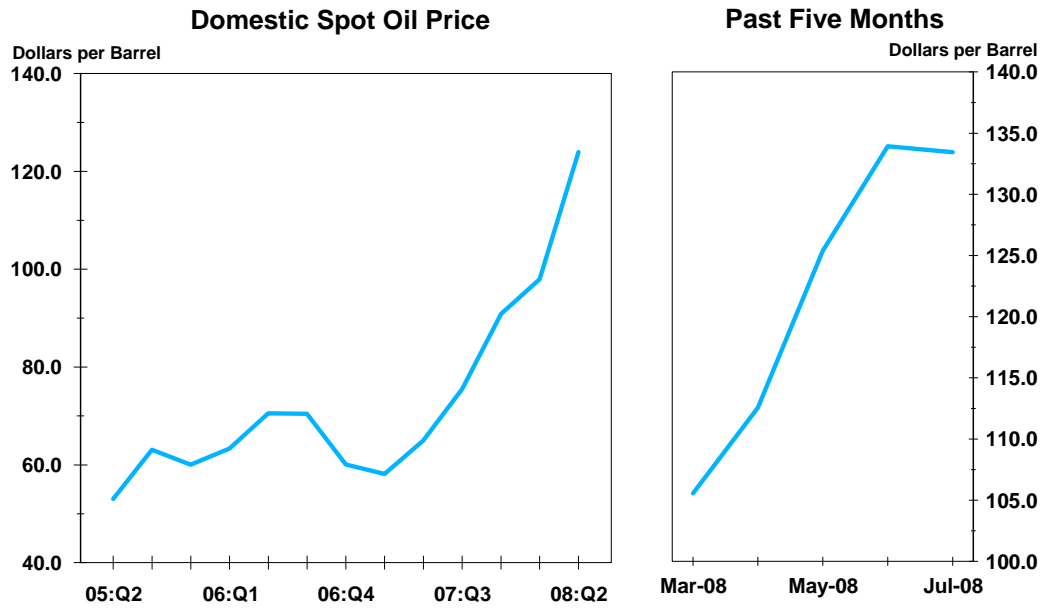
In the second quarter, total employment costs slowed due to a moderate deceleration in benefit costs. Wage and salary growth was unchanged.

### Employment Cost Index



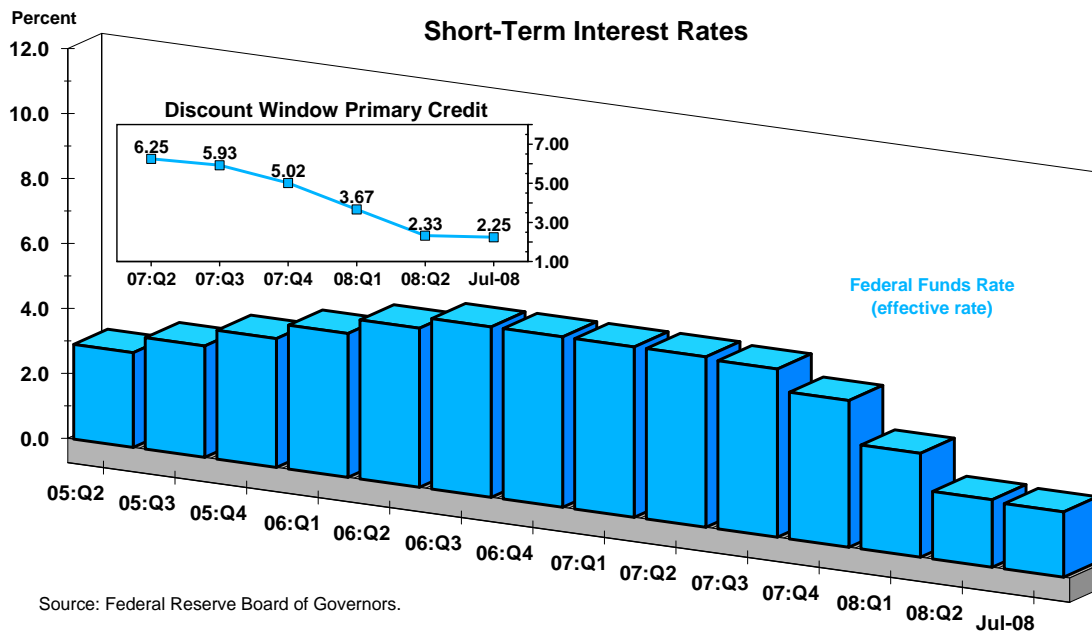
Source: Bureau of Labor Statistics.

Oil prices kept skyrocketing in the second quarter, repeatedly setting new records. Prices started to fall in late July, bringing the average price for the month down to slightly below the level seen in June.



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy grew at a faster rate in the second quarter than seen in the first, due in large part to stimulus-aided spending and the continued strength in net exports. However, tight credit conditions and higher energy prices are likely to continue restraining growth going forward.



Source: Federal Reserve Board of Governors.

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

August 13, 2008

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

Productivity growth decelerated to 2.2% in the second quarter, after increasing 2.6% in the first quarter. Unit labor costs rose 1.3%, and compensation per hour advanced 3.6%.

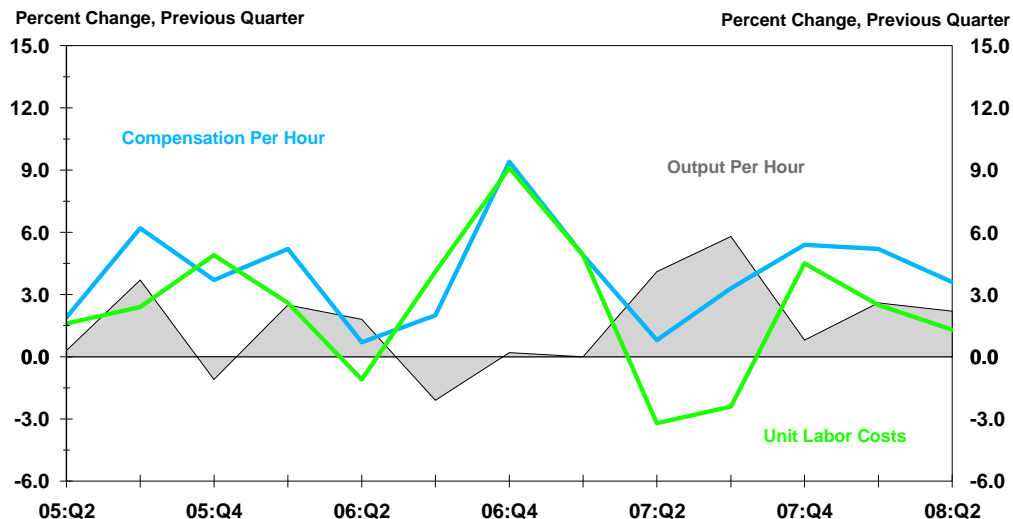
Retail sales dipped 0.1% in July, led by a drop in auto sales. Excluding autos, sales rose 0.4%. These results were similar to those seen in June, when total sales rose 0.3% and sales excluding autos increased 0.9%.

In recent data released for June, wholesale inventories rose 1.1% and sales increased 2.8%. Business inventories rose 0.7% and sales advanced 1.7%. Also in June, the U.S. foreign trade deficit narrowed to its lowest level in eight months, thanks mostly to record exports.

Redbook sales decreased 1.9% through the first week of August, compared to July. Sales were 1.5% higher than during the same period last year. Oil prices eased during the past week, averaging \$119.7 per barrel compared to last week's average of \$122.6.

Productivity growth slowed a bit in the second quarter, while unit labor costs and compensation also decelerated.

### Productivity and Costs



Source: Bureau of Labor Statistics.