



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

February 7, 2008

CURRENT ECONOMIC DEVELOPMENTS - February 7, 2008

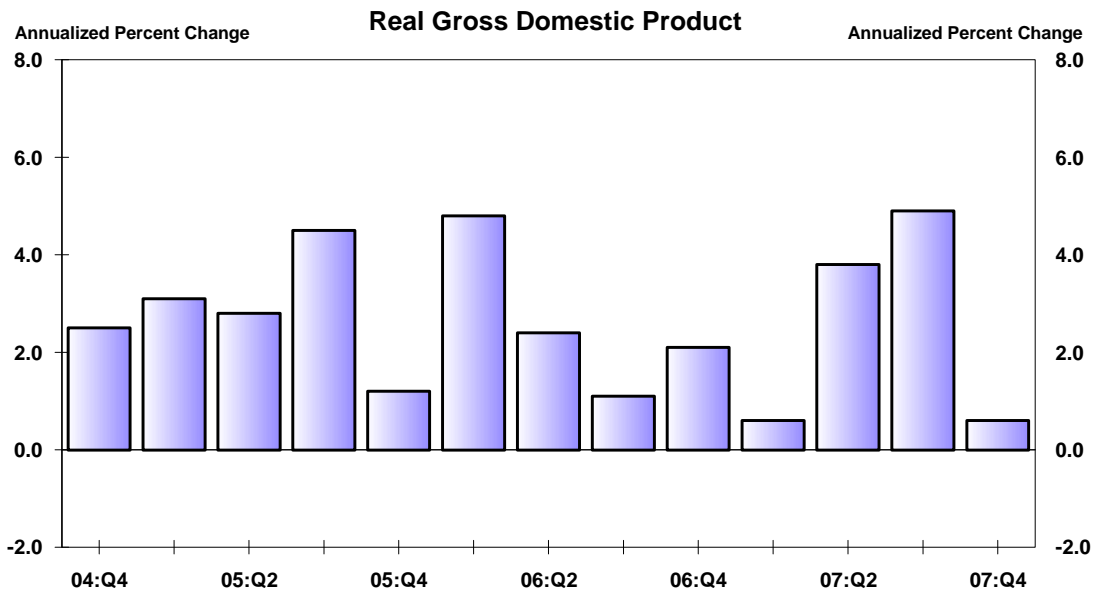
Data since your last Directors' meeting show the economy grew slowly in the fourth quarter, and most incoming data suggest growth will remain restricted through early 2008.

The deceleration in real GDP growth in the fourth quarter primarily reflected a downturn in inventory investment and decelerations in exports, personal consumption expenditures and federal government spending that were partly offset by a deceleration in imports and an acceleration in state and local government spending. Fourth quarter growth was also restricted by the largest quarterly drop in residential investment in 25 years.

In January, nonfarm payrolls fell for the first time in over four years and revisions to fourth quarter payrolls resulted in 10,000 fewer new jobs. Still, the unemployment rate fell one-tenth of a percentage point in January from December. Initial claims came down only slightly in January from a fourth-quarter spike, and remain elevated. Also in January, consumer attitudes underwent minor changes following moderate deterioration in the fourth quarter.

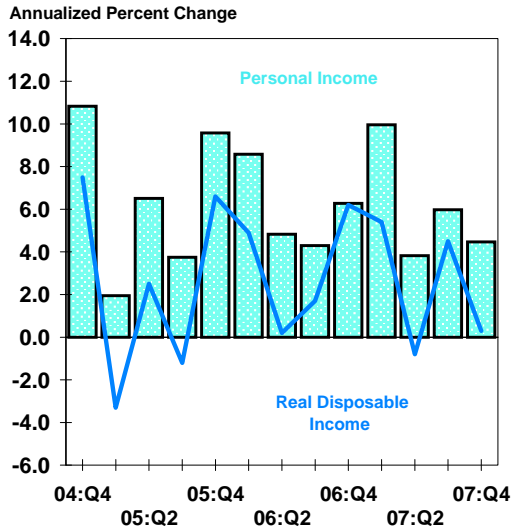
Inflation remains a secondary concern, even as headline prices for both consumers and producers grew at a swift pace in the fourth quarter. Core measures were relatively level, however. Unit labor costs rose after two quarters of reductions, while total compensation, as measured by the ECI, held steady. Oil prices also remain high.

The increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures, nonresidential structures, state and local government spending, exports, and equipment and software that were largely offset by negative contributions from private inventory investment and residential fixed investment.

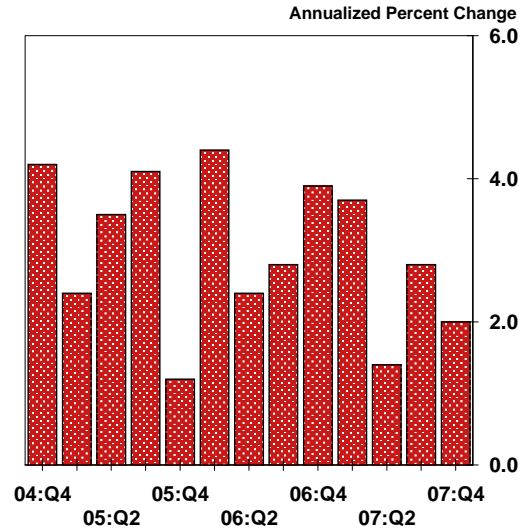


In the fourth quarter, personal income posted a solid gain, but real DPI only rose slightly. Those gains were enough to support a moderate increase in consumption.

Personal Income



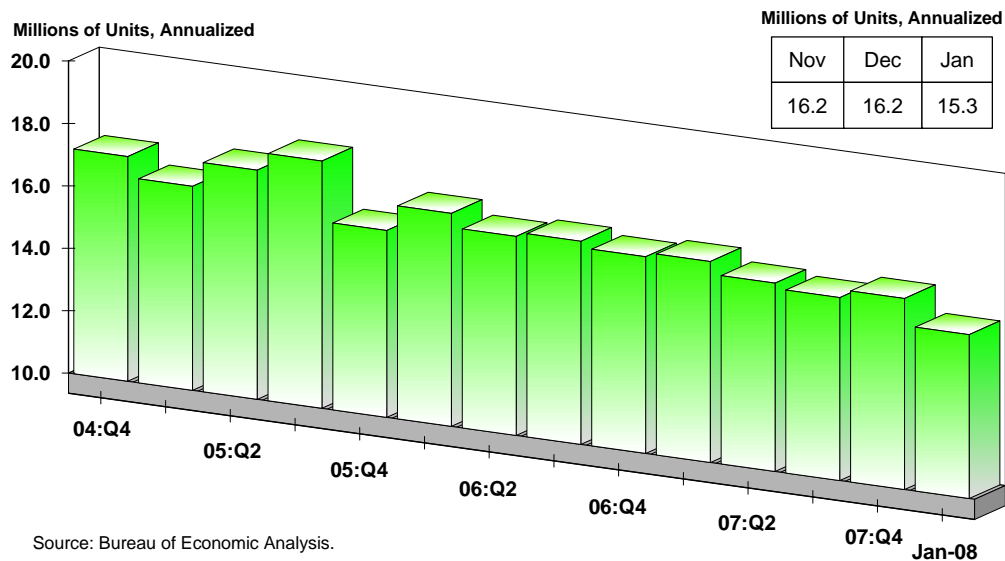
Real Consumption



Source: Bureau of Economic Analysis.

Auto sales slowed in January after improving in the fourth quarter. January's sales pace was down to a level seen only twice in the past three years (July 2007 and October 2005).

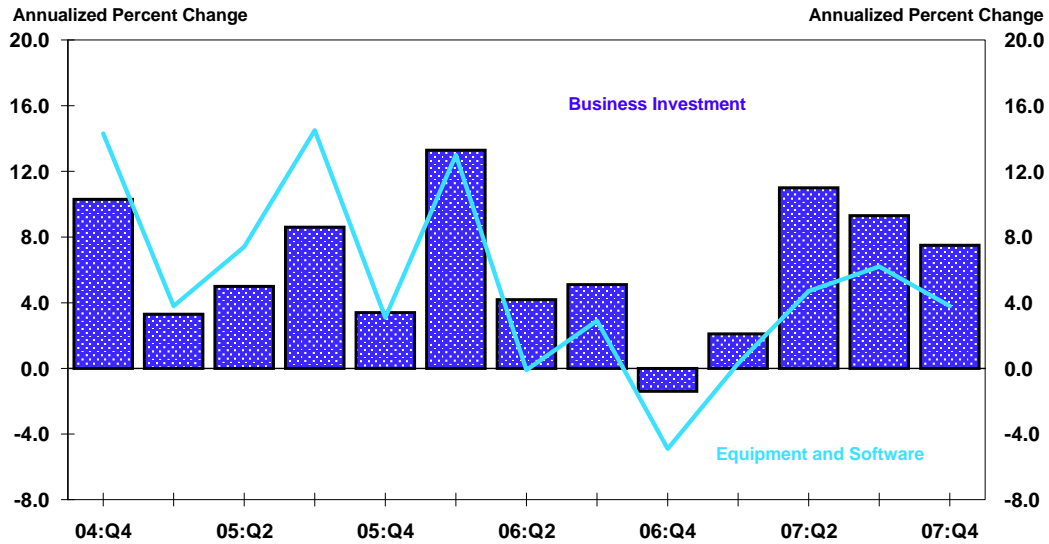
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Business investment slowed in the fourth quarter, aided by a similar deceleration in equipment and software investment.

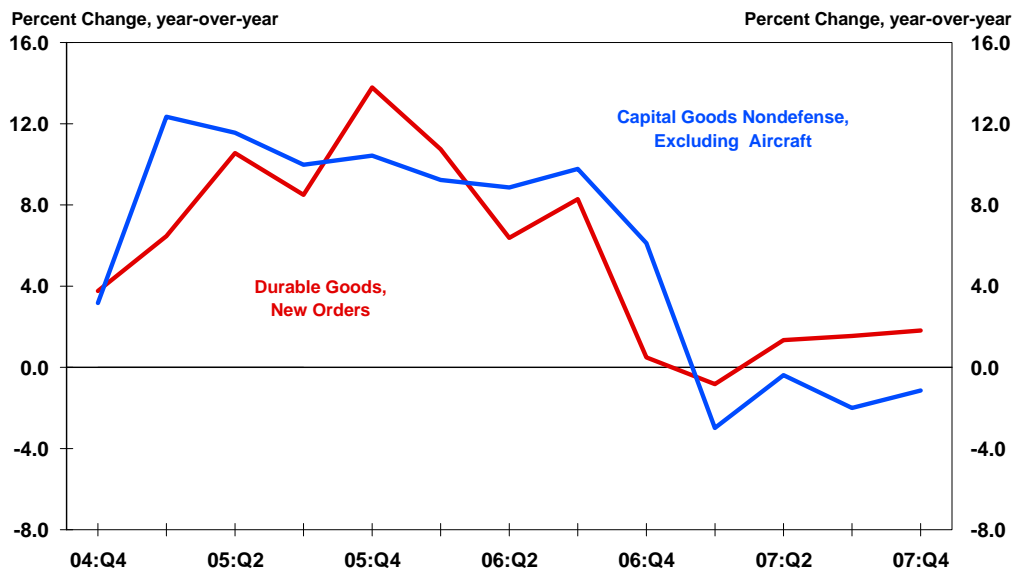
Business Investment



Source: Bureau of Economic Analysis.

In the fourth quarter, new orders for durable goods accelerated slightly. Orders of nondefense capital goods, excluding aircraft, decreased for the fourth consecutive quarter.

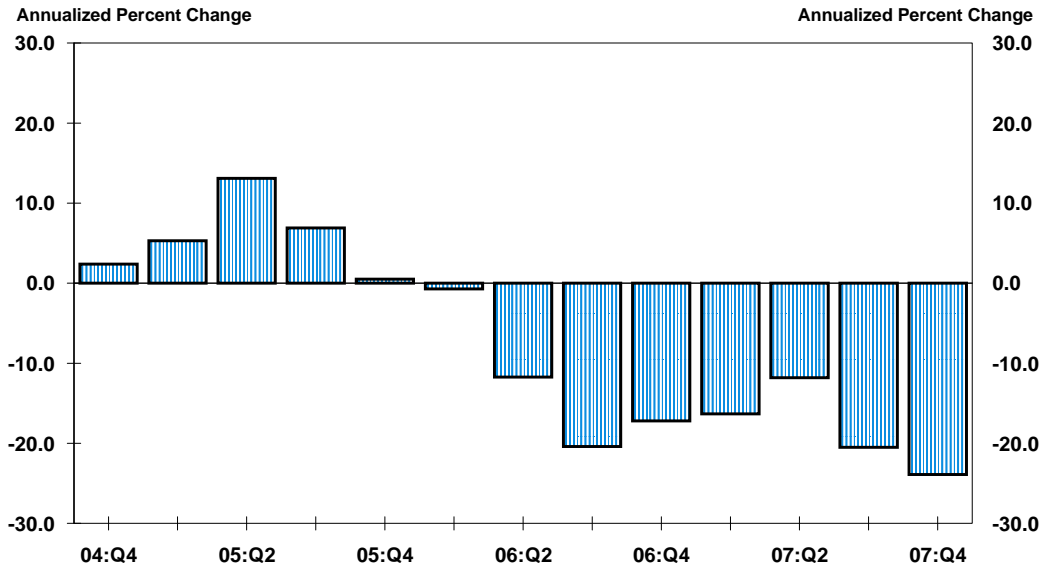
Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment posted another significant decline in the fourth quarter. For both the full 2007 year and the fourth quarter, residential investment posted its weakest performance in 25 years.

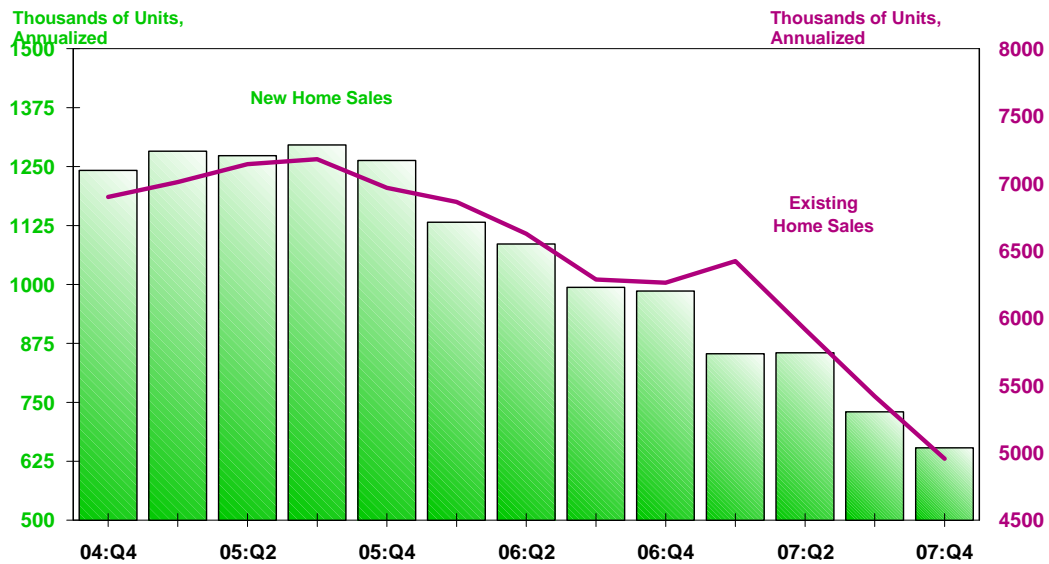
Residential Investment



Source: U.S. Census Bureau.

Sales of both new and existing homes continued to decrease in the fourth quarter, following the pattern seen over the past two years.

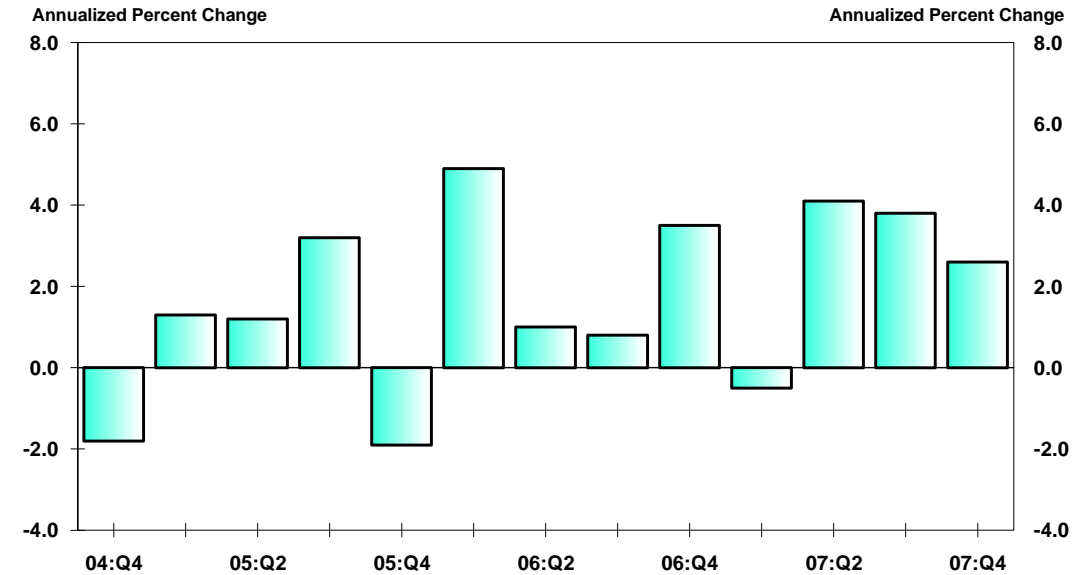
New and Existing Home Sales



Source: U.S. Census Bureau.

Growth in government spending eased in the fourth quarter.

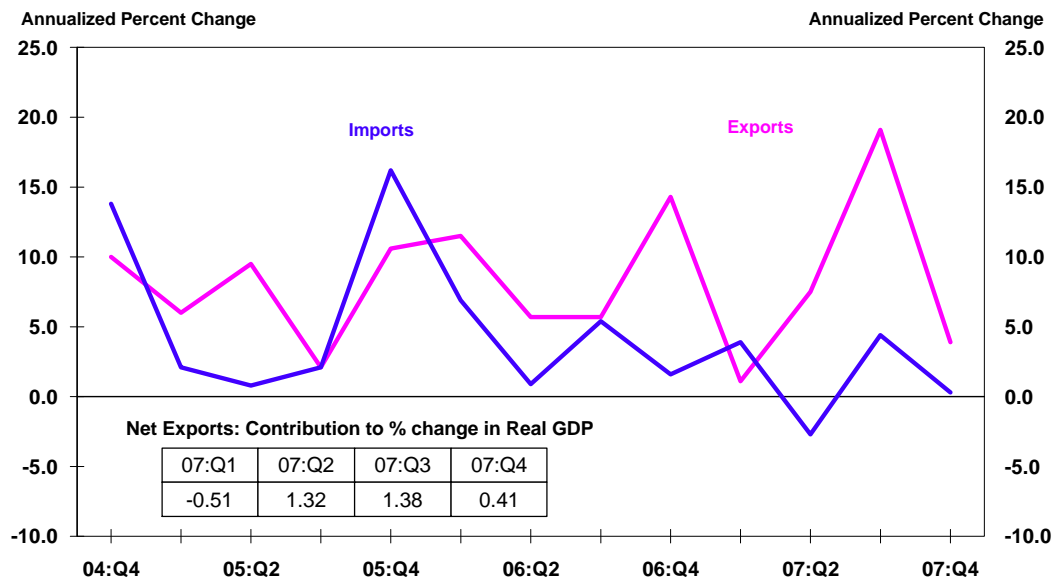
Government Spending



Source: Bureau of Economic Analysis.

Export growth slowed considerably in the fourth quarter, but continued to outpace import growth. The recent strength in exports has been a key component to real GDP growth over the past three quarters.

Exports and Imports

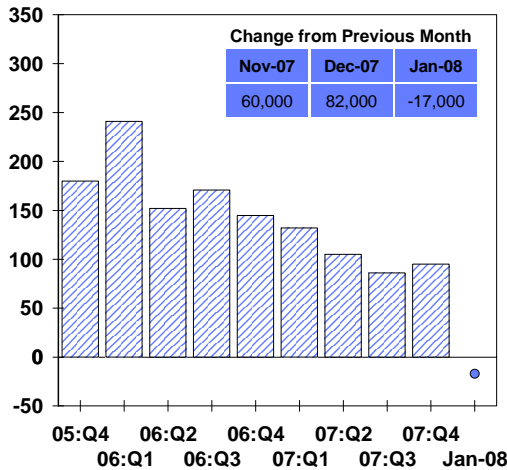


Source: Bureau of Economic Analysis.

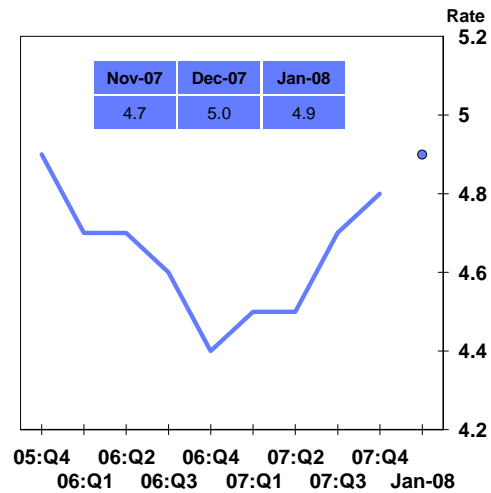
In January, payroll employment posted its first monthly decrease in almost four and a half years. Despite the reduction in payrolls, the unemployment rate fell one-tenth of a percentage point in January from December.

Nonfarm Payroll Employment

Change from Previous Quarter, Monthly Average



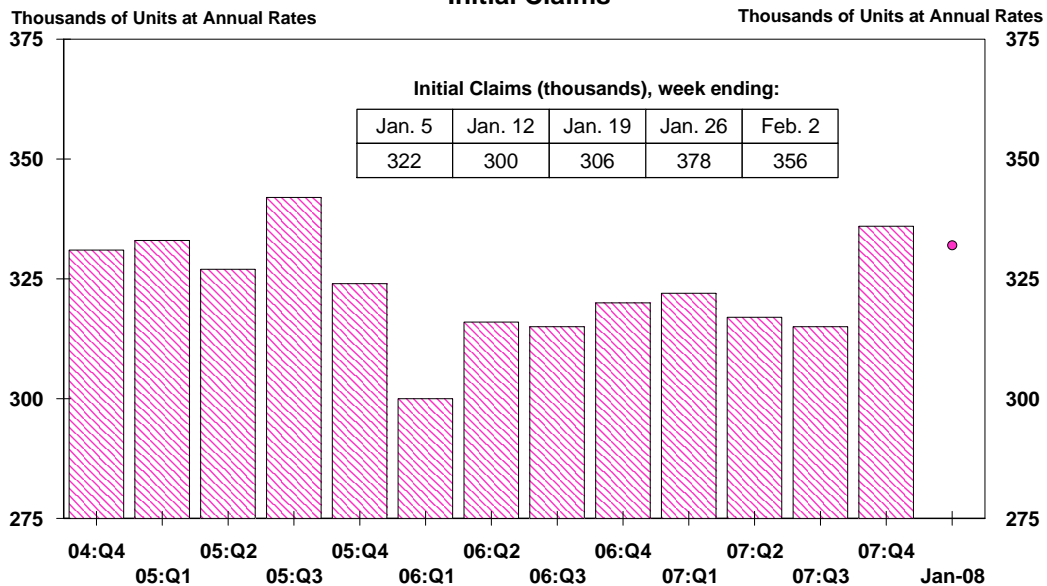
Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance surged in the fourth quarter, following a year and a half of little volatility. Claims levels came back down through most of January before spiking again at the end of the month.

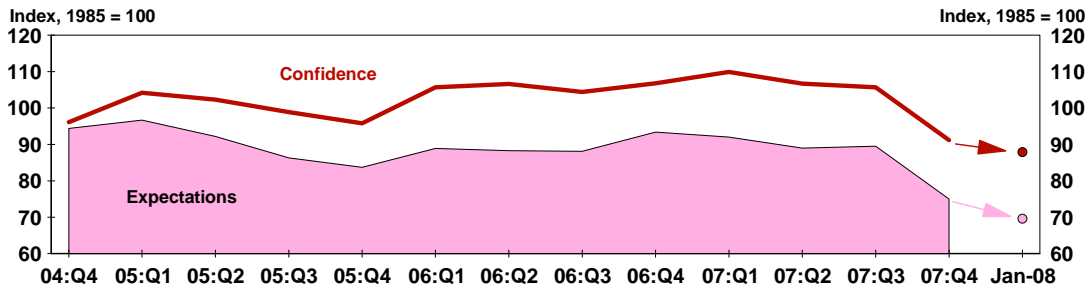
Initial Claims



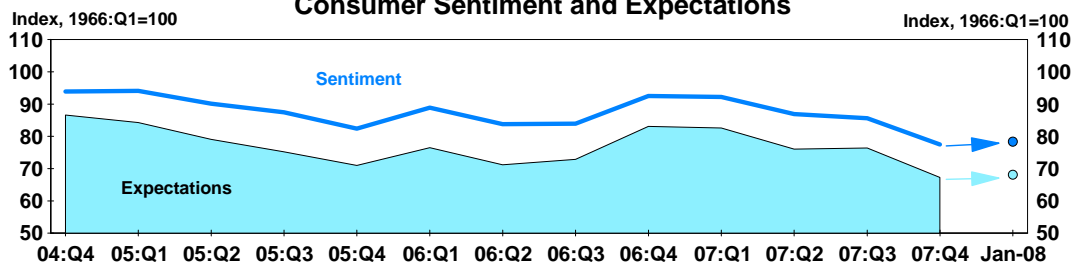
Source: Department of Labor, Employment and Training Administration.

Consumer attitudes were little changed in January after deteriorating in the fourth quarter.

Consumer Confidence and Expectations



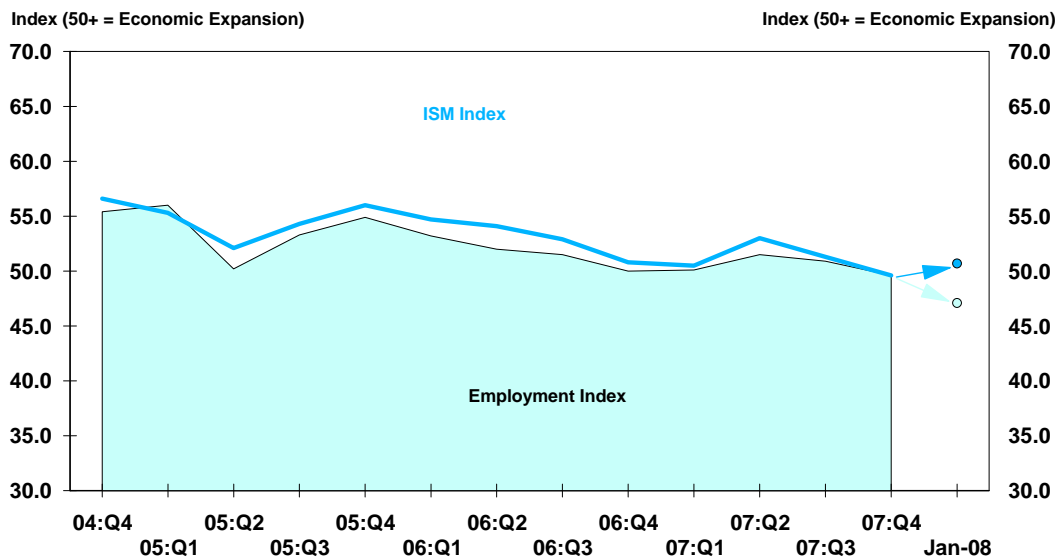
Consumer Sentiment and Expectations



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

In January, the ISM index rose back above 50 after dipping below in the fourth quarter. The employment index continued to fall however, dropping to its lowest point since 2003.

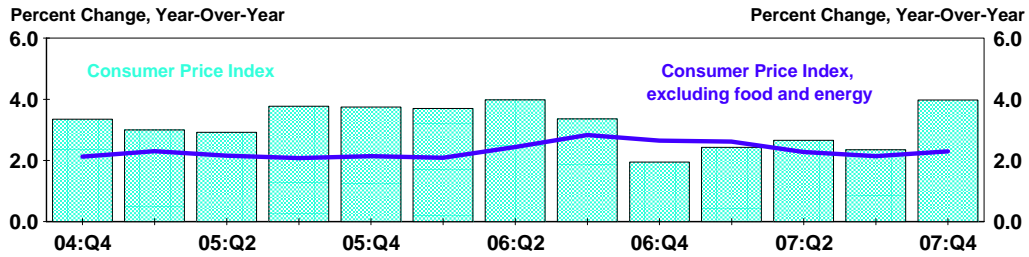
ISM Index



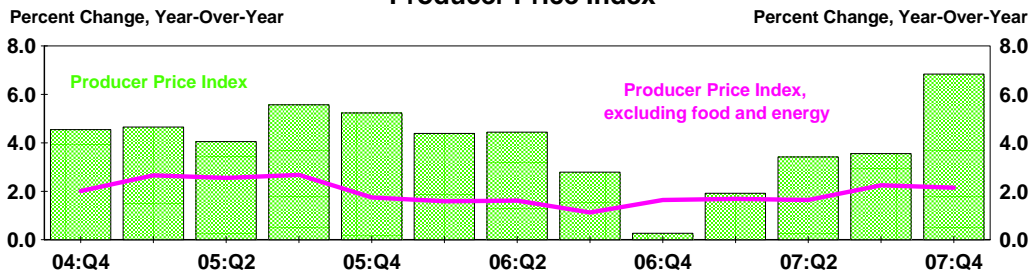
Source: Institute for Supply Management.

Headline inflation rose sharply in the fourth quarter, for both consumers and producers. Core prices were closer to holding steady, with consumer prices accelerating a bit and producer prices easing slightly.

Consumer Price Index



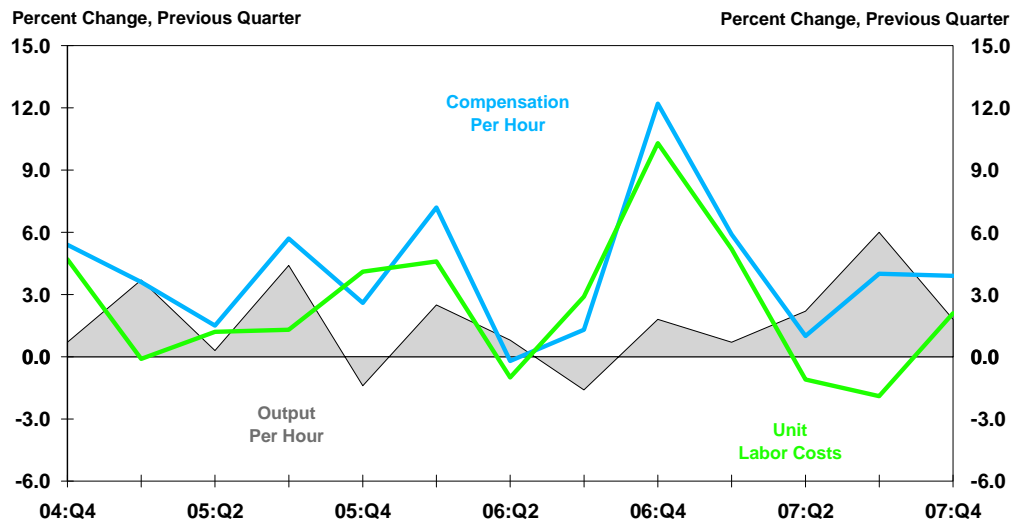
Producer Price Index



Source: Bureau of Labor Statistics.

Productivity growth slowed in the first quarter from the four-year high seen in the third quarter. Hourly compensation was essentially flat, and unit labor costs rose after falling the previous two quarters.

Productivity and Costs



Source: Bureau of Labor Statistics.

In the fourth quarter, total employment costs were flat as a minor uptick in wages and salaries was offset by an equally small reduction in benefit costs.

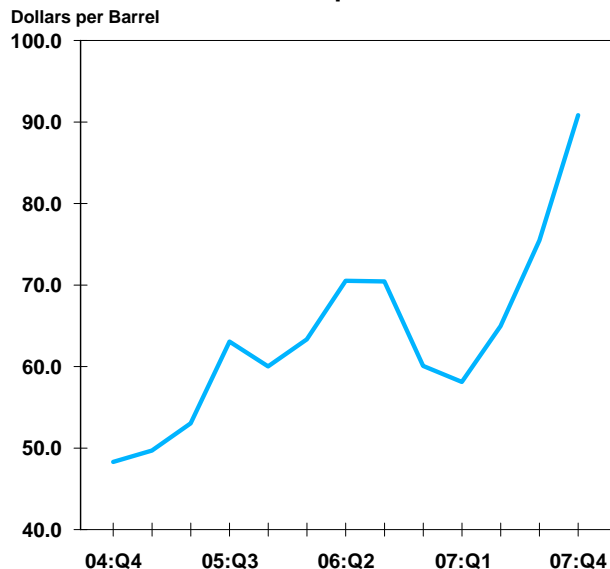
Employment Cost Index



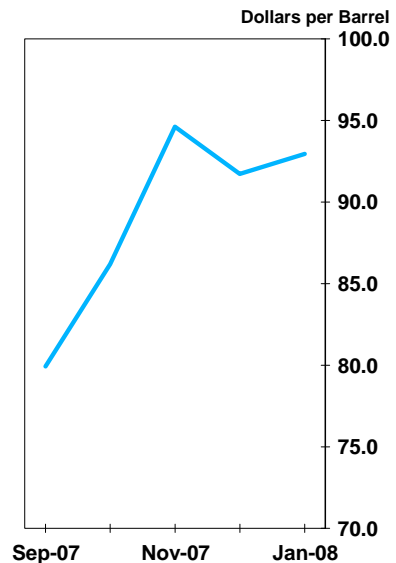
Source: Bureau of Labor Statistics.

The rapid ascent of oil prices continued in the fourth quarter. Prices rose further in January, partly offsetting some of the decrease seen in December.

Domestic Spot Oil Price

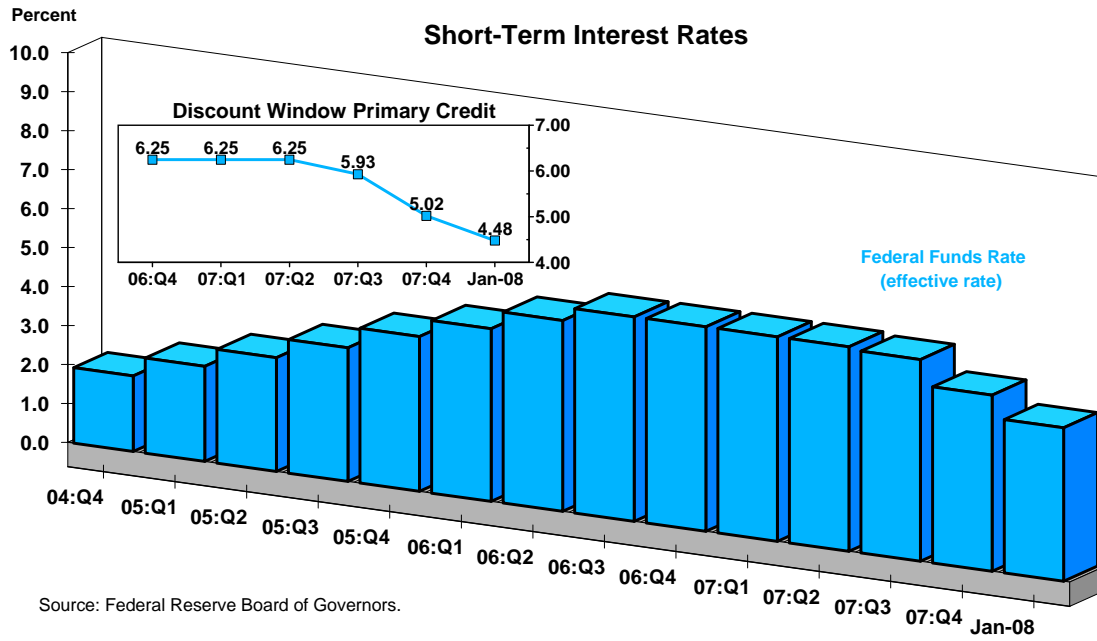


Past Five Months



Source: Wall Street Journal (oil prices).

Overall, data since your last Directors' meeting show the economy grew slowly in the fourth quarter, and most incoming data suggest growth will remain restricted through early 2008.



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

February 14, 2008

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

In January, retail sales unexpectedly rebounded from a weak December, due in part to stronger sales of autos and gasoline. Excluding autos, sales still offset the decline seen the previous month. While the headline sales numbers for January were positive, weaker sales in specific areas might suggest consumers are being more careful in their spending.

In December, wholesale inventories rose 1.1% and business inventories rose 0.6%. Wholesale trade fell 0.7% in December while business sales fell 0.5%.

Through the first week of February, Redbook sales were down 1.2% compared to January, but up 0.6% compared to the same period last year. Oil prices increased slightly over the past week, averaging \$90.7 per barrel as opposed to the previous week's average of \$90.3.

Retail sales rebounded in January, posting a 0.3% gain both overall and excluding autos. But declining sales at department stores (-1.1%), on furniture (-0.5%), and on building material (-1.7%) might suggest consumers are being more careful with their spending decisions.

Retail Sales

