



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

January 3, 2008

CURRENT ECONOMIC DEVELOPMENTS - January 3rd, 2008

Data released since your last Directors' meeting suggest economic growth will be lower in the fourth quarter than seen in the third. Consumption has been stronger than expected and exports continue to be robust, but the ongoing woes of the housing market along with weaker manufacturing and employment data have likely combined to restrict growth to below potential levels at the end of 2007, and may continue to do so in early 2008.

In December, initial claims rose further, building on the steep increase seen in November. Consumer attitudes were mixed, as confidence rose slightly but sentiment eased. Real disposable personal income decreased in November, but consumption posted a strong gain following a slow October.

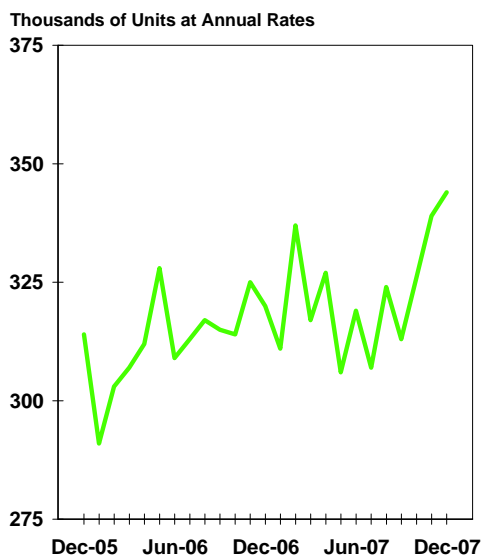
The struggles of the housing market continued in December. New home sales, housing starts and building permits all declined, although the market for existing homes may be showing signs of some stabilization.

In the business sector, industrial production and capacity utilization both increased in November after falling the previous month. Durable goods orders eased in November while capital goods excluding aircraft fell again. In December, the ISM diffusion index dropped sharply, falling to its lowest level in nearly five years.

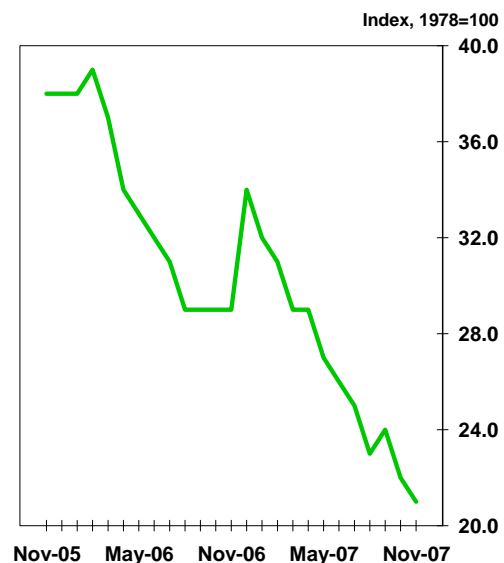
Inflation data was troubling in November, as total prices for both consumers and producers prices grew at their fastest paces in over a year. Oil prices eased some in December, but remain quite high.

Initial claims for unemployment insurance rose further in December, and the help wanted index dropped in November, setting a new record low.

Initial Claims

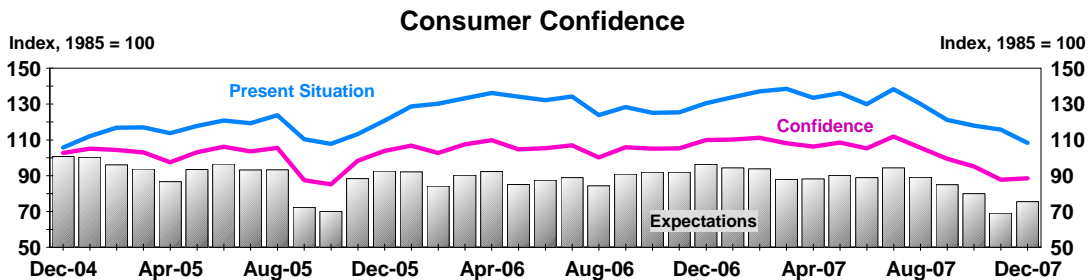
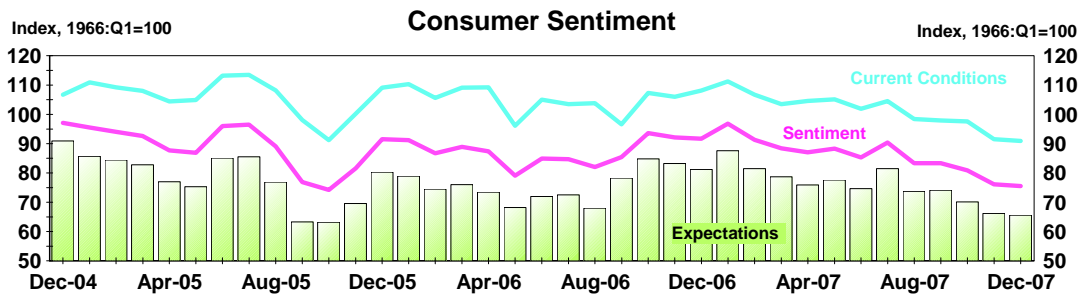


Help Wanted Index



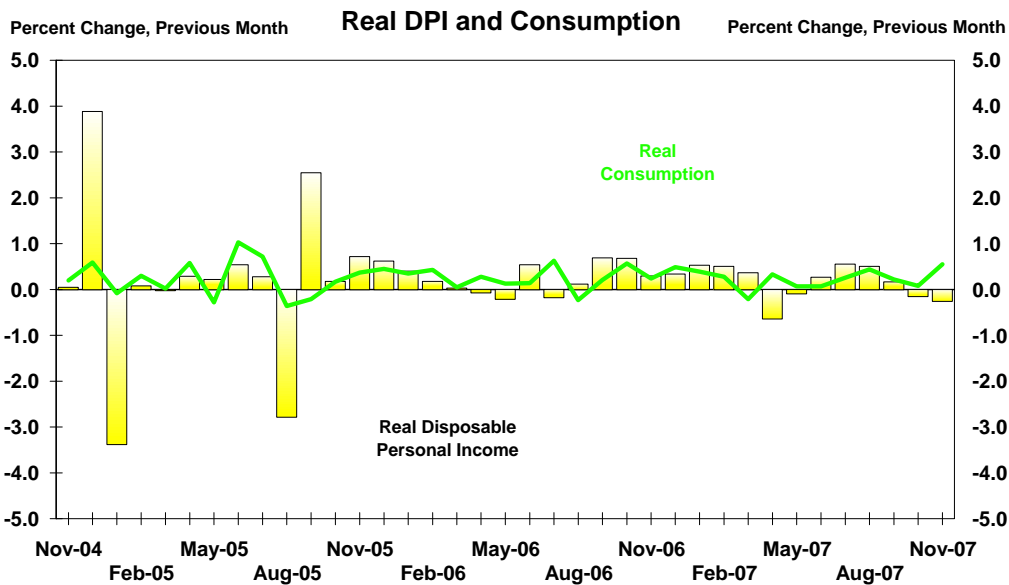
Source: Department of Labor, Employment and Training Administration (claims) and The Conference Board (help wanted).

Consumer attitudes were mixed in December, as sentiment decreased slightly and confidence rose a bit. The two surveys' measures of expectations also showed this disparity, but feelings toward the current situation deteriorated in both cases.



Source: University of Michigan (top panel) and The Conference Board (bottom panel).

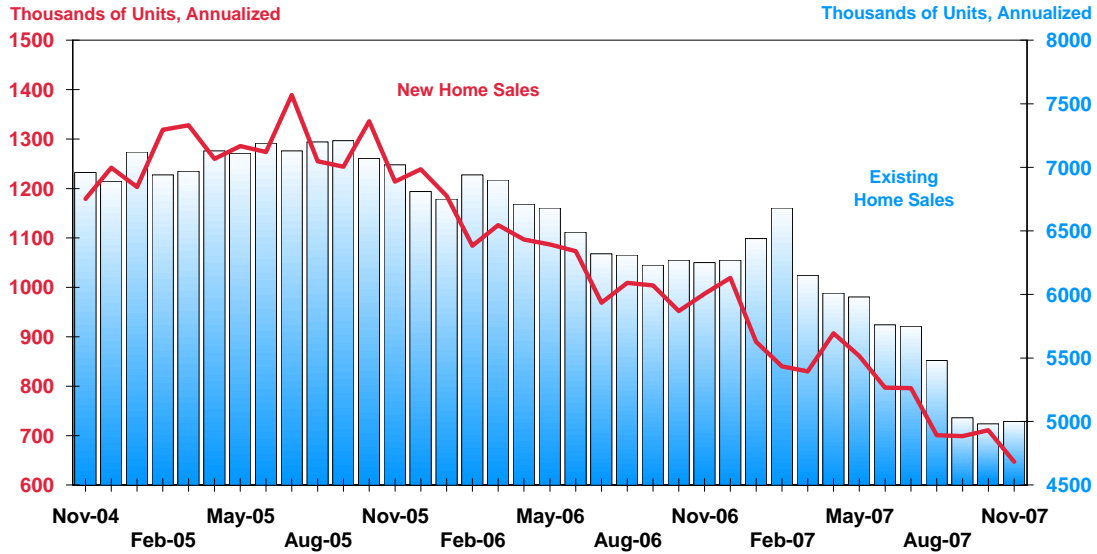
In November real consumption posted a solid gain, despite recent decreases in real disposable incomes.



Source: Bureau of Economic Analysis.

Home sales data was mixed in November. Sales of existing homes increased marginally, and have held steady the past two months. But new home sales fell sharply after showing some recent stability.

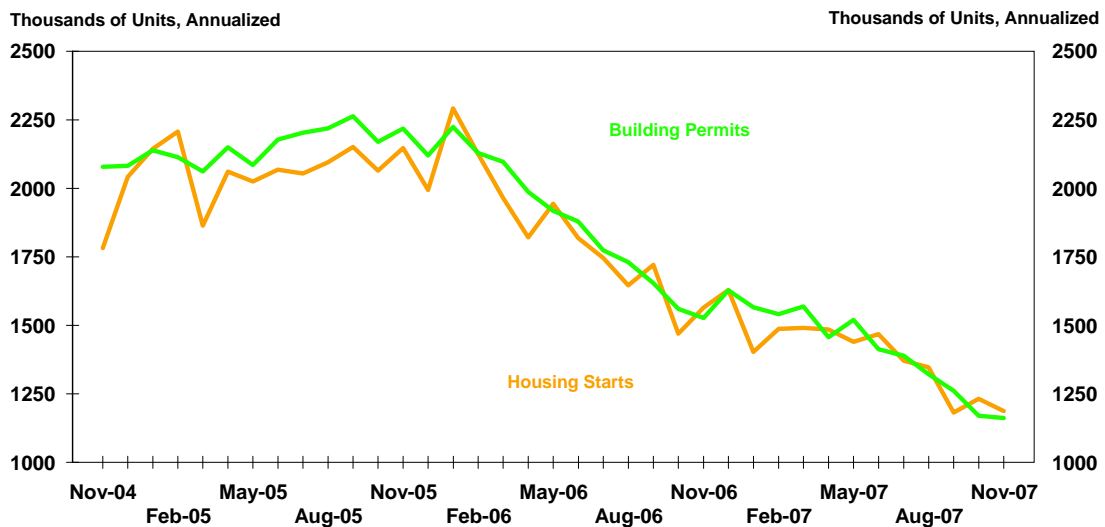
New and Existing Home Sales



Source: U.S. Census Bureau.

Housing starts decreased in November, offsetting the minor increase seen in October. Building permits continued to slide.

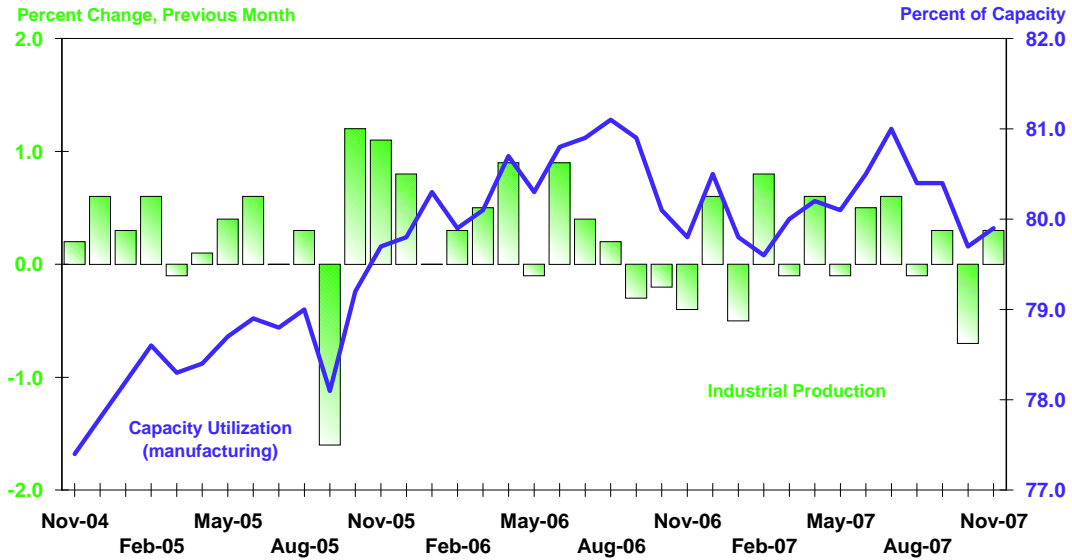
Housing Starts and Building Permits



Source: U.S. Census Bureau.

Industrial production rebounded in November, following the drop seen in October. Capacity utilization rose for the first time since July.

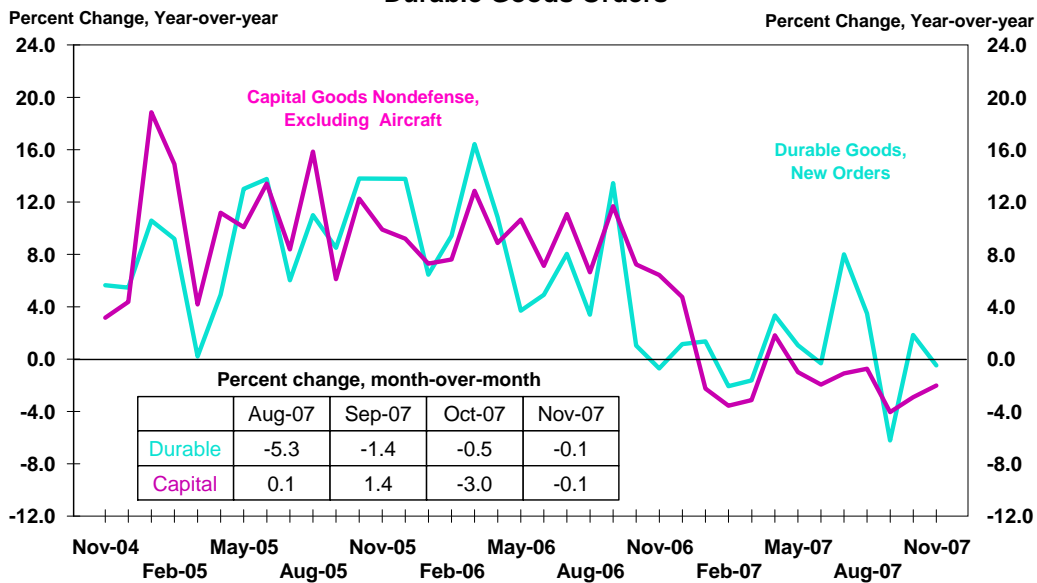
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

Durable goods orders fell in November on a year-over-year basis, aided by four consecutive monthly declines. Orders for nondefense capital goods, excluding aircraft, continued to fall in November, albeit at a slower pace.

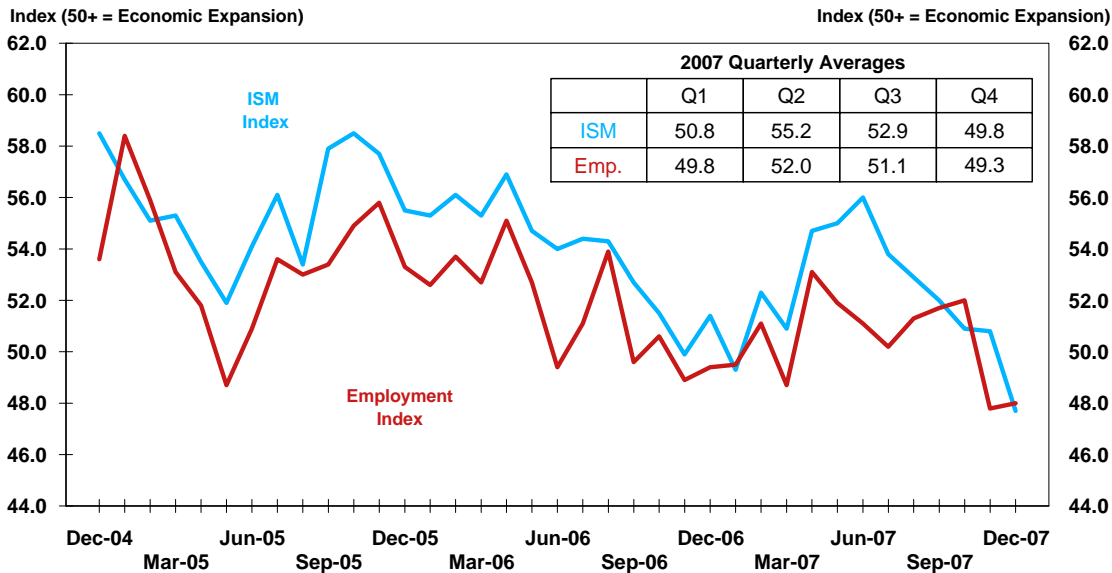
Durable Goods Orders



Source: U.S. Census Bureau.

In the business sector, the ISM index continued to fall in December and has now lost more than eight points over the past six months. The employment index rose incrementally in December, following the sharp fall seen the previous month.

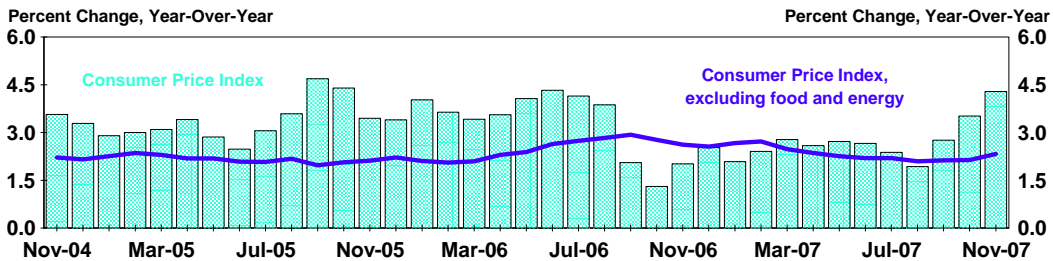
ISM Index



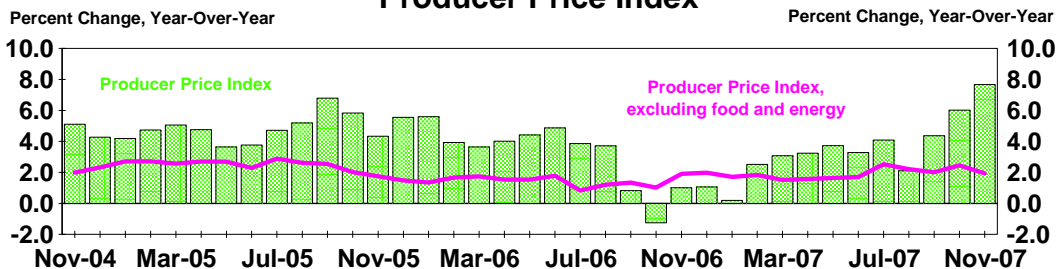
Source: Institute for Supply Management.

Total consumer prices continued to accelerate in November, growing at their fastest pace since June 2006. Core prices also picked up a bit. Total producer prices have been following a similar path as consumer prices, but core prices eased in November.

Consumer Price Index



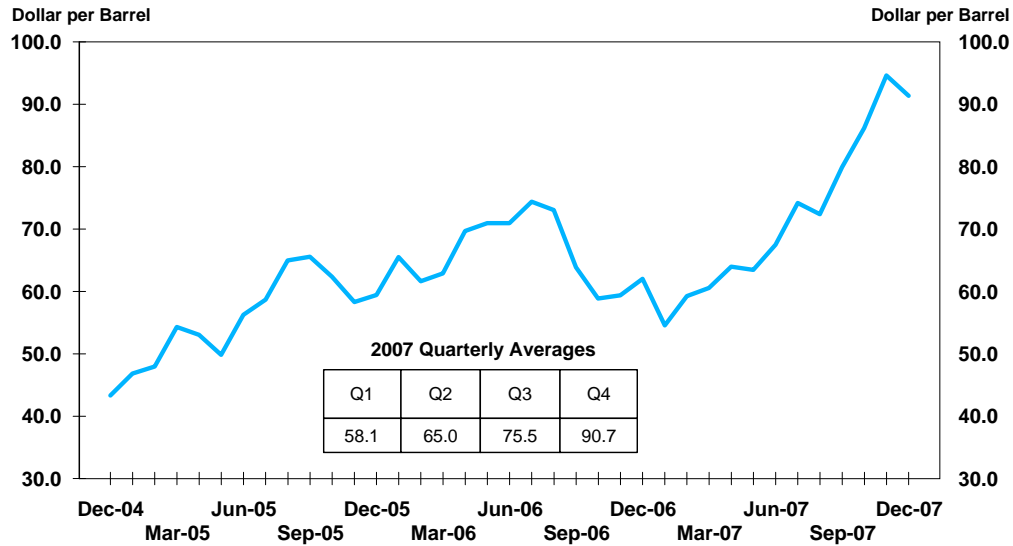
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices eased in December, but remain at near-record highs.

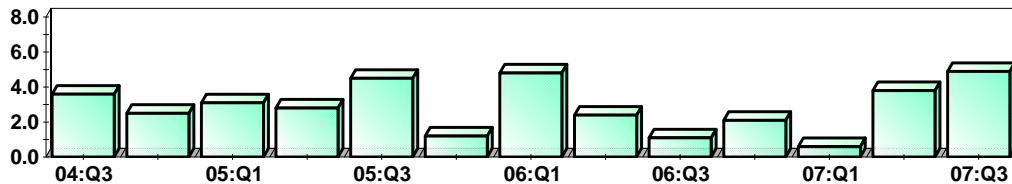
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was unrevised in the final third quarter estimate, although many components were subjected to minor revisions. The downward revision to residential investment resulted in the largest quarterly drop since the first quarter of 1991.

Real GDP

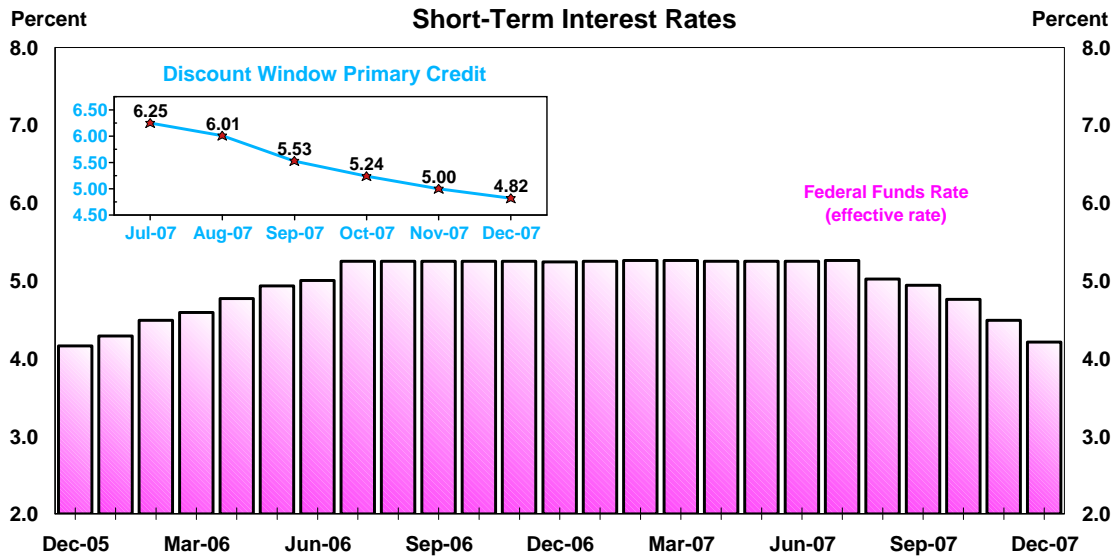


Revisions to Third Quarter Real GDP

Description	Preliminary	Revised
Real GDP	4.9	4.9
Consumption	2.7	2.8
Business Investment	9.4	9.3
Equipment & Software	7.2	6.2
Residential Investment	-19.7	-20.5
Government	3.9	3.8
Exports	18.9	19.1
Imports	4.3	4.4
Final Sales	3.9	4.0

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting suggest economic growth will be lower in the fourth quarter than seen in the third. Consumption has been stronger than expected and exports continue to be robust, but the ongoing woes of the housing market along with weaker manufacturing and employment data have likely combined to restrict growth to below potential levels at the end of 2007, and may continue to do so in early 2008.



Source: Federal Reserve Board of Governors.

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

January 9, 2008

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

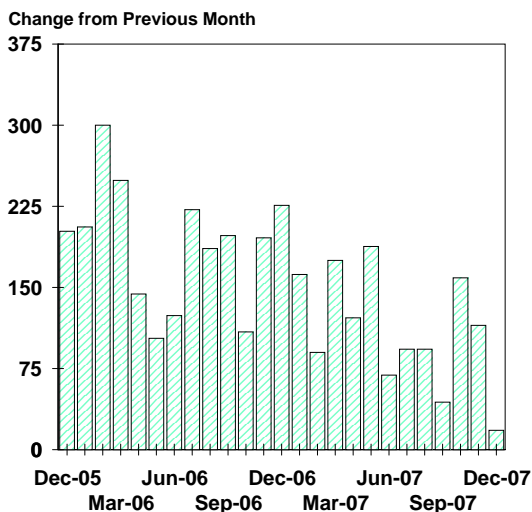
In December, nonfarm payrolls added only 18,000 jobs and the unemployment rate rose to 5.0%. December's payroll increase was the smallest since August 2003, when payrolls fell by 42,000. The unemployment rate is the highest its been since November 2005. For the fourth quarter, employment growth showed a small improvement over the third quarter and the unemployment rate rose a tenth of a percentage point to 4.8%.

Auto sales increased slightly in December, helping fourth quarter sales finish a bit higher than estimated in the second and third quarters. Total vehicle sales were also up in the fourth quarter, but December sales matched those seen in November.

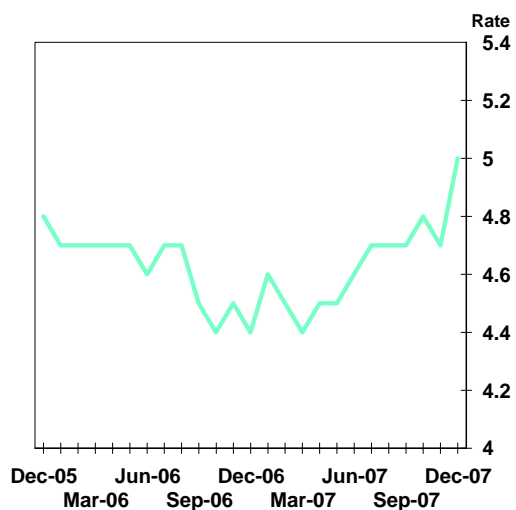
Redbook sales finished December 0.7% lower than they were in November. In the week ending January 5th, sales were up 1.0% from the same period last year. Oil prices increased during the past week, averaging 97.6 dollars per barrel compared to last week's average of 96.5.

Payroll employment posted a small gain in December, and revisions to the prior two months' estimates resulted in a net gain of 10,000 additional jobs. The unemployment rate increased to 5.0%.

Nonfarm Payroll Employment



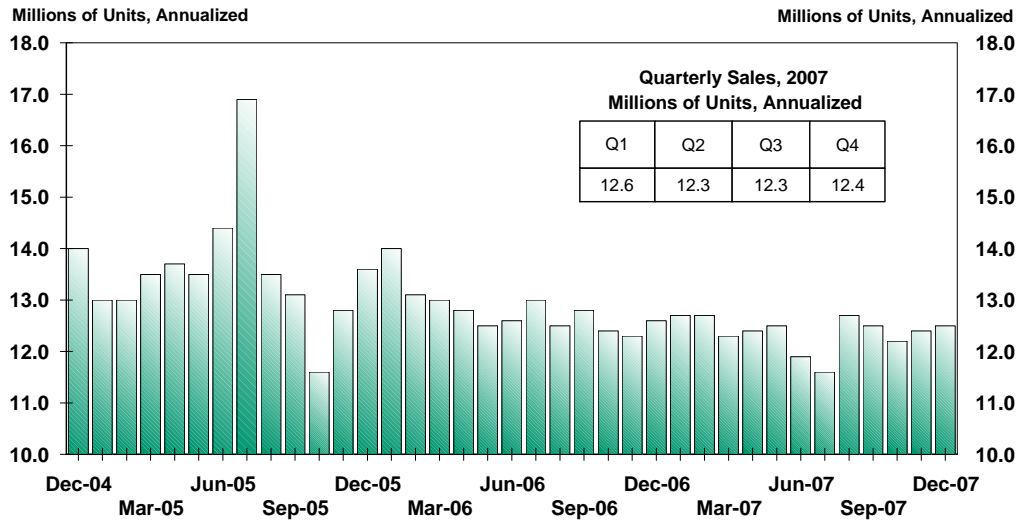
Unemployment Rate



Source: Bureau of Labor Statistics.

Domestic auto and light truck sales rose slightly in December, and average sales for the fourth quarter were also up slightly.

Domestic Auto and Light Truck Sales



Source: Bureau of Economic Analysis.