



FEDERAL RESERVE  
BANK OF BOSTON™

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

March 6, 2008

## Current Economic Developments - March 6, 2008

Data released since your last Directors' meeting show the economy grew in the fourth quarter at the same pace as originally estimated, and also suggest the slowdown will continue through the early parts of this year.

In February, initial claims increased sharply and consumer attitudes continued to worsen amid recession fears and job market concerns. Real consumption expenditures were flat in January, and incomes increased only marginally.

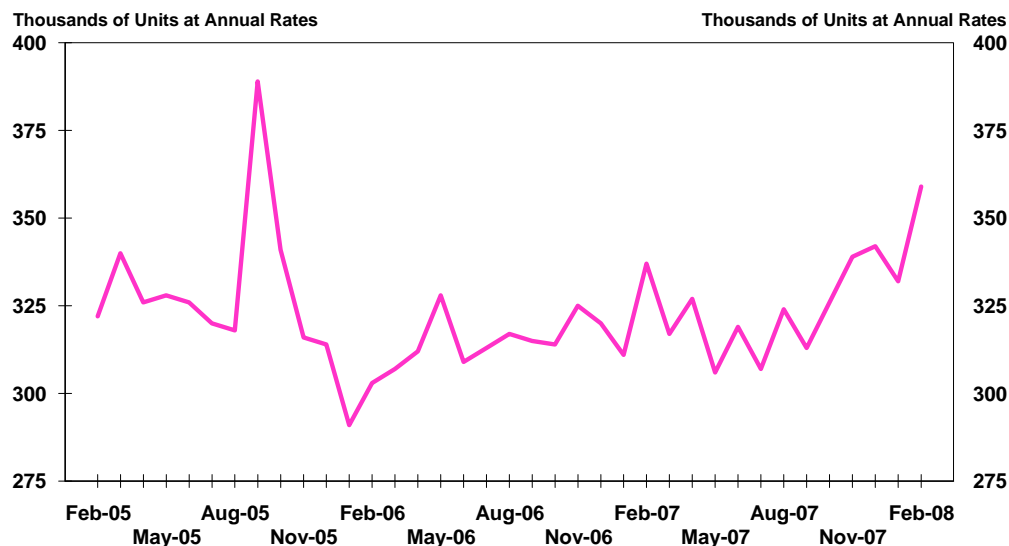
The housing market continued to struggle in January. Home sales decreased further, as did building permits. In the manufacturing sector, the ISM manufacturing index fell back below 50 and the employment index dropped to its lowest point in nearly five years. In January, industrial production posted a small increase and capacity utilization eased. Also in January, however, new orders for both durable goods and nondefense capital goods, excluding aircraft, accelerated.

Headline inflation measures for both consumers and producers accelerated in January, offsetting the slowdowns of the previous month, and remain elevated. Core measures are also rising, but remain close to the levels seen over the previous year. Oil prices rose again in February, establishing a new record high.

The preliminary estimate of fourth quarter real GDP growth was unrevised from the advance estimate, primarily reflecting a downward revision to imports that was largely offset by a downward revision to private inventory investment.

Initial claims for unemployment insurance rose significantly in February, resulting in their highest monthly average since September 2005 in the aftermath of Hurricane Katrina.

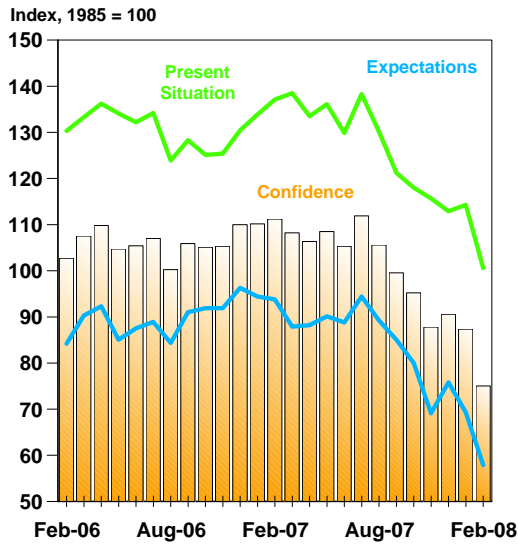
### Initial Claims



Source: Department of Labor, Employment and Training Administration.

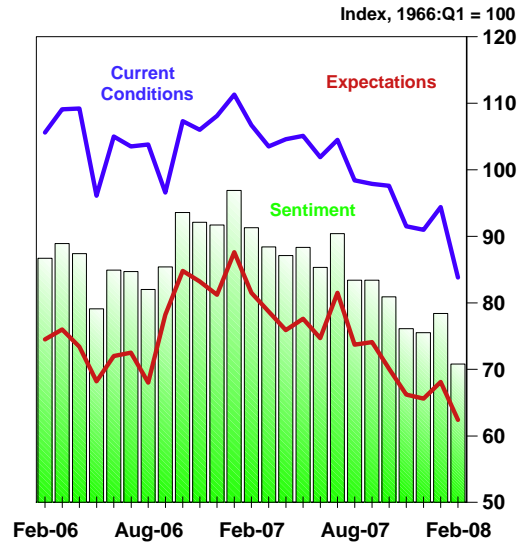
Consumer attitudes deteriorated in February, continuing the trend seen over the past year. Primary concerns include job availability and falling home values, as well as general concerns about the health of the economy as a whole.

### Consumer Confidence



Source: The Conference Board.

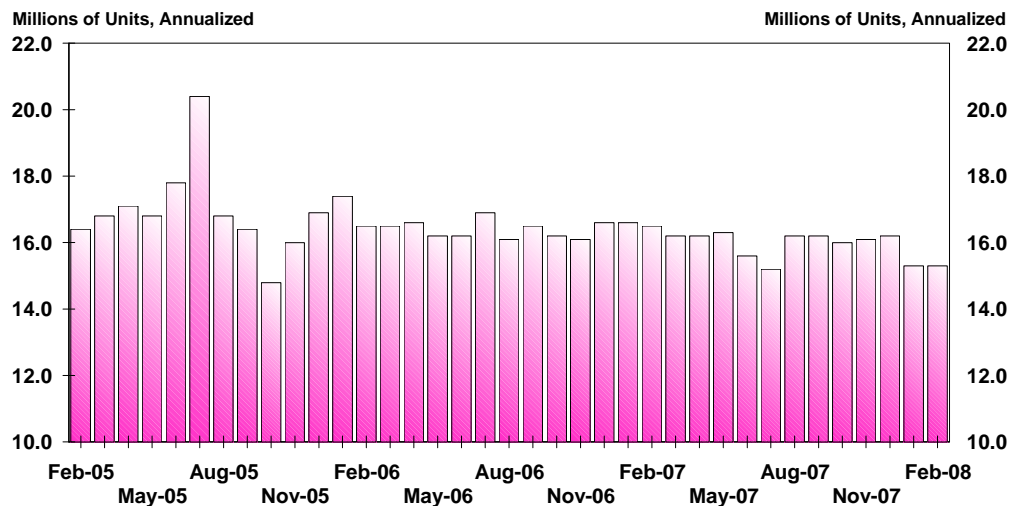
### Consumer Sentiment



Source: The University of Michigan.

Total auto and light truck sales were unchanged in February.

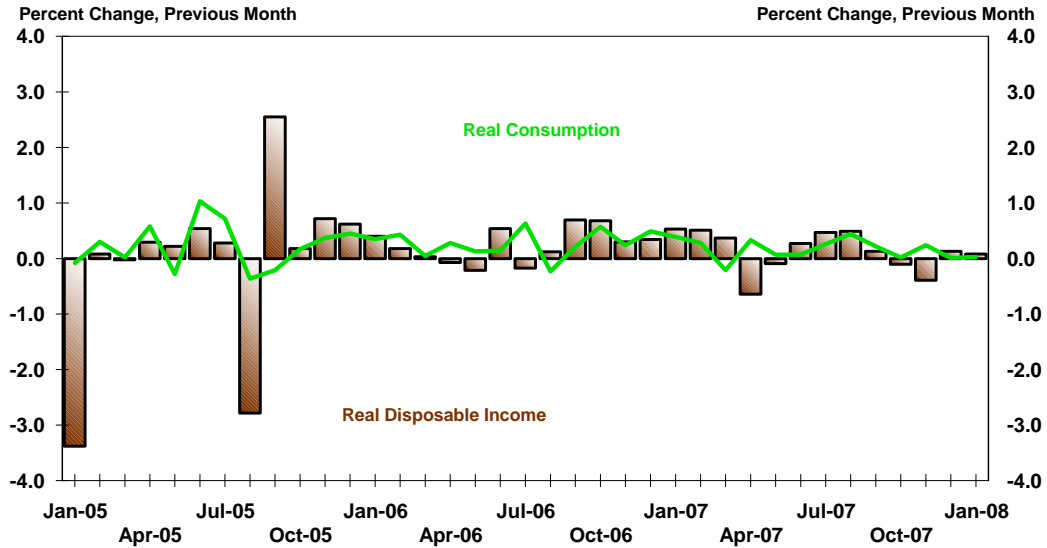
### Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

In January, real disposable income posted a small increase and real consumption was essentially flat for the second straight month.

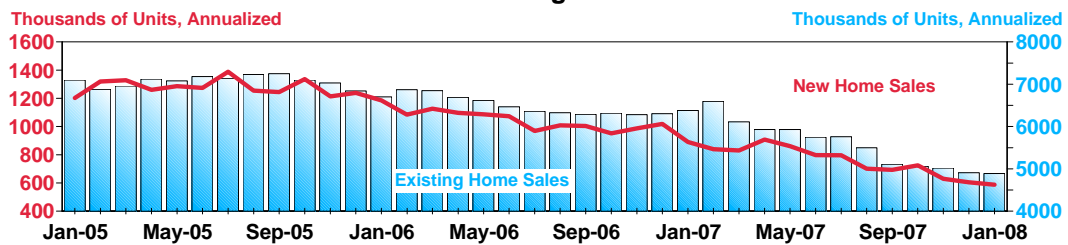
### Real DPI and Consumption



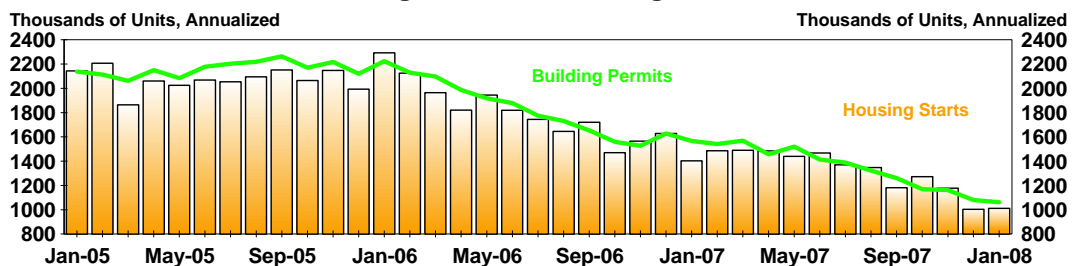
Source: Bureau of Economic Analysis.

The slump in the housing market continued in January. Sales of both new and existing home sales slid further, as did the issuance of building permits. Housing starts managed a very minor increase.

### New and Existing Home Sales



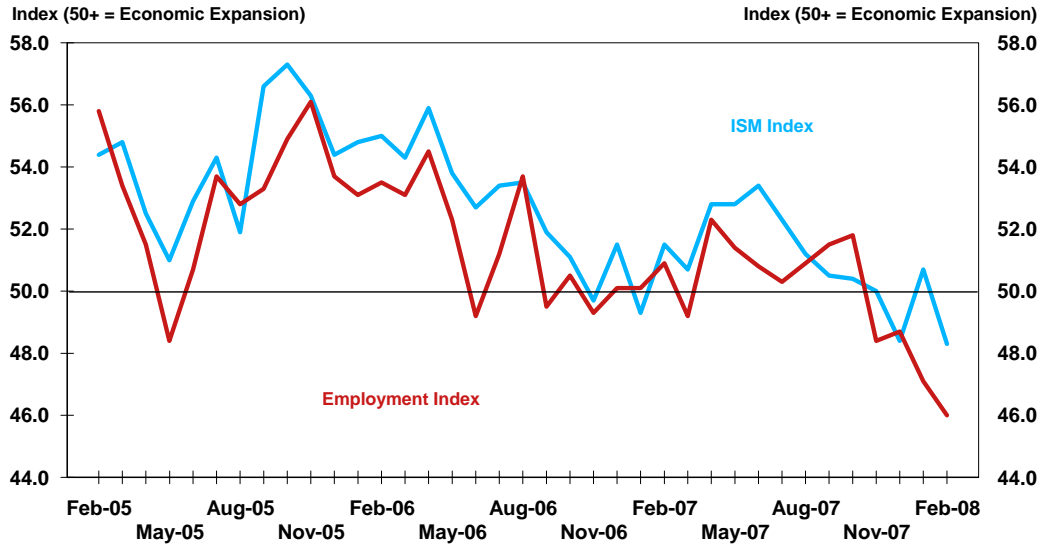
### Housing Starts and Building Permits



Source: U.S. Census Bureau (new home sales, housing starts and building permits) and National Association of Realtors (existing sales).

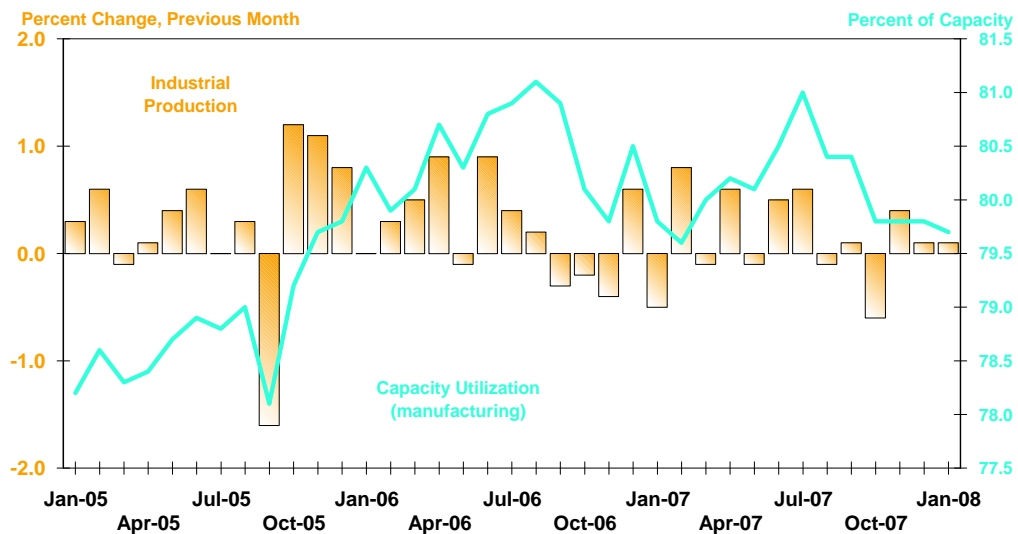
The ISM manufacturing index fell in February, falling back below 50. The employment index dropped for the third time in four months, resulting in its lowest reading in nearly five years.

### ISM Index

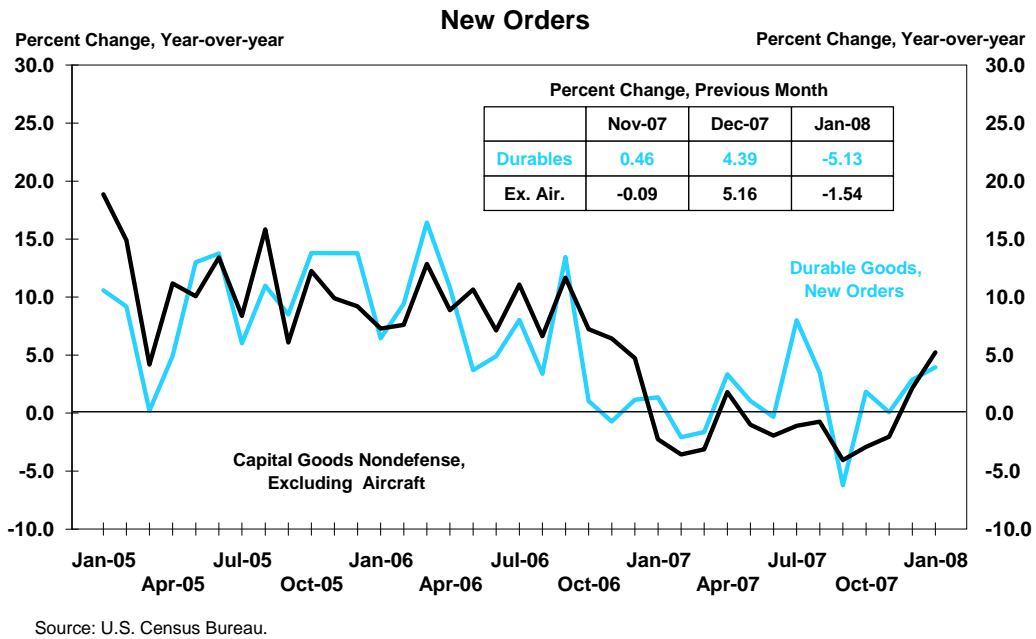


In January, industrial production posted a small increase, while capacity utilization fell to its lowest level since February 2007.

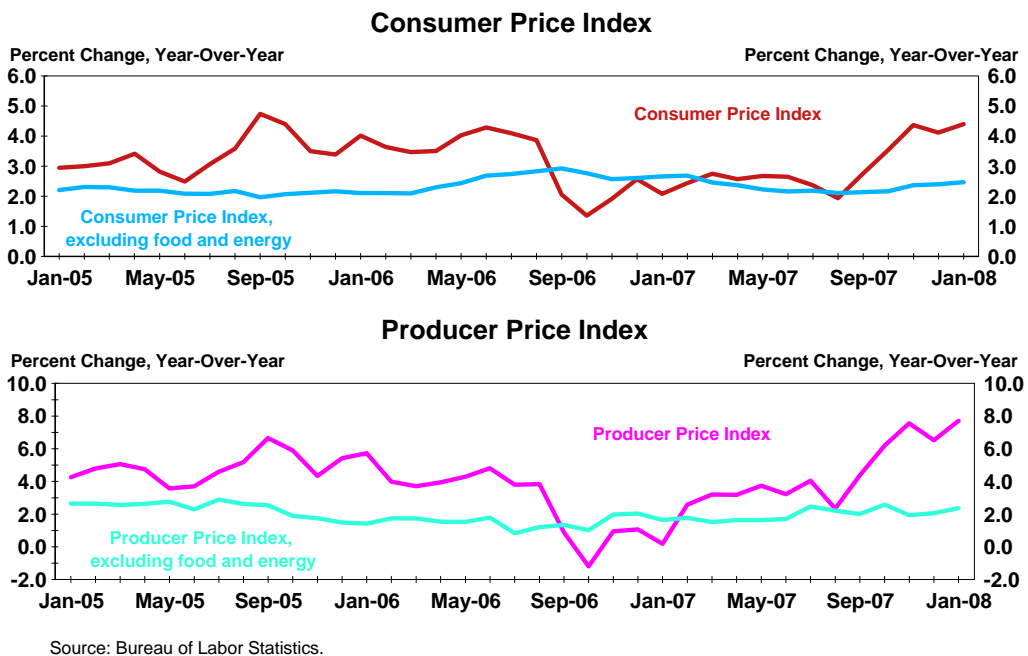
### Industrial Production and Capacity Utilization



New orders for durable goods accelerated in January on a year-over-year basis, and orders for nondefense capital goods excluding aircraft increased in consecutive months for the first time since late 2006. Despite the improvements over last year, January's estimate was down compared to December 2007.

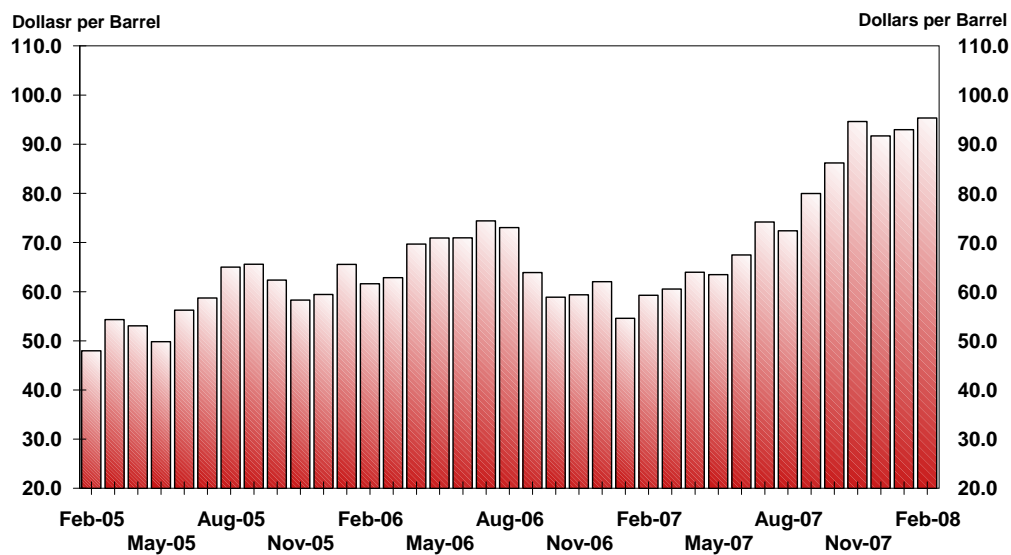


Headline inflation measures remained elevated in January, increasing to offset the easing seen in December. Core inflation also accelerated in January, but remain more in line with the readings seen over the past 12 months.



Oil prices rose again in February, establishing new record highs for both one day (\$102.60/barrel on February 28) and monthly average (\$95.35).

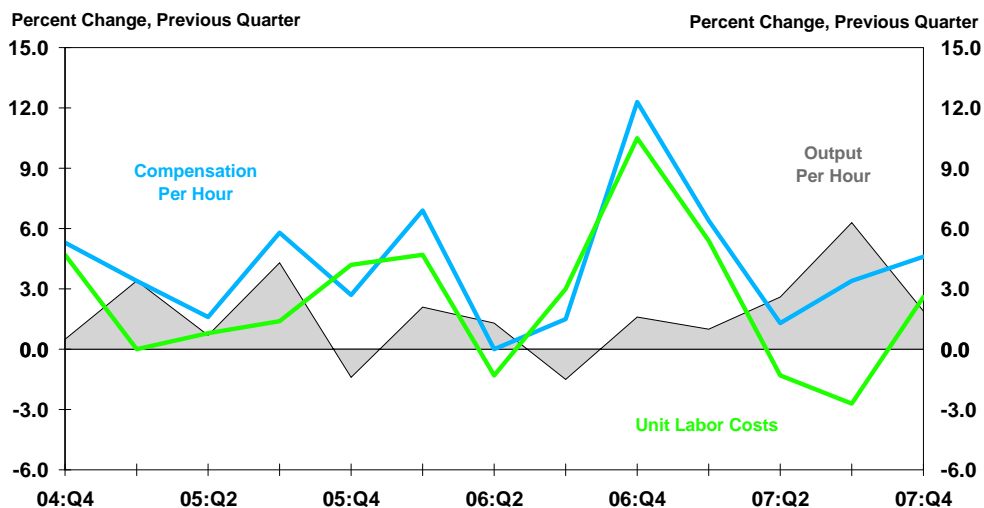
### Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity slowed in the fourth quarter, while compensation accelerated. Unit labor costs increased during the quarter after falling for the previous two quarters.

### Productivity and Costs



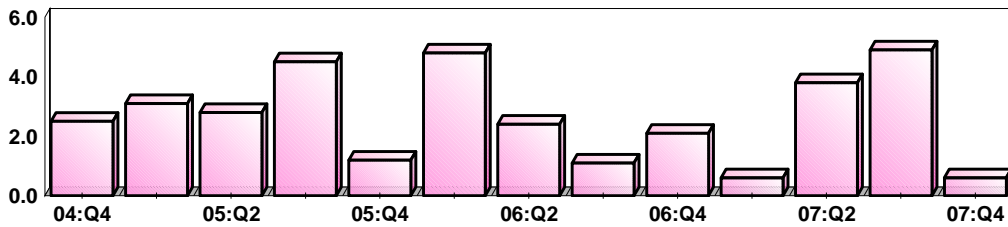
Source: Bureau of Labor Statistics.

Real GDP growth was unrevised in the fourth quarter, although many of its components underwent slight alterations. Most notably, downward revisions to business and residential investment were offset by an upward revision to exports and a downward revision to imports.

### Revisions to Fourth Quarter Real GDP

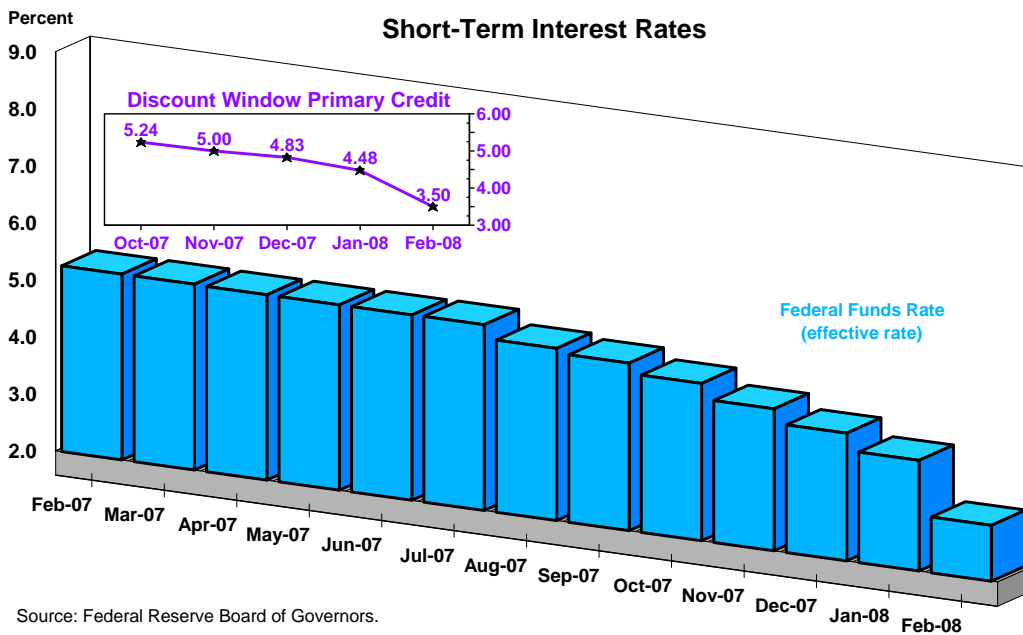
Description	Advanced	Preliminary
Real GDP	0.6	0.6
Personal Consumption	2.0	1.9
Business Investment	7.5	6.9
Equipment and Software	3.8	3.3
Residential Investment	-23.9	-25.2
Government	2.6	2.2
Exports	3.9	4.8
Imports	0.3	-1.9
Final Sales	1.9	2.1

### Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy grew in the fourth quarter at the same pace as originally estimated, and also suggest the slowdown will continue through the early parts of this year.



Source: Federal Reserve Board of Governors.



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

March 13, 2008

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

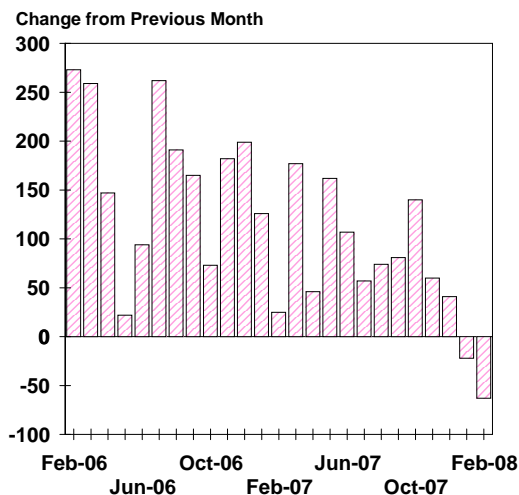
In February, nonfarm payrolls posted their largest monthly decrease in nearly five years, and estimates of the previous two months' payrolls were revised lower. Despite these payroll reductions, the unemployment rate fell by one-tenth of a percentage point for the second month in a row.

The U.S trade deficit widened slightly in January, as both imports and exports reached new record highs. Also in January, wholesale inventories rose 0.8%, building on the 1.1% increase seen in December. Wholesale trade advanced 2.7% in January, more than offsetting the 0.5% fall of the previous month.

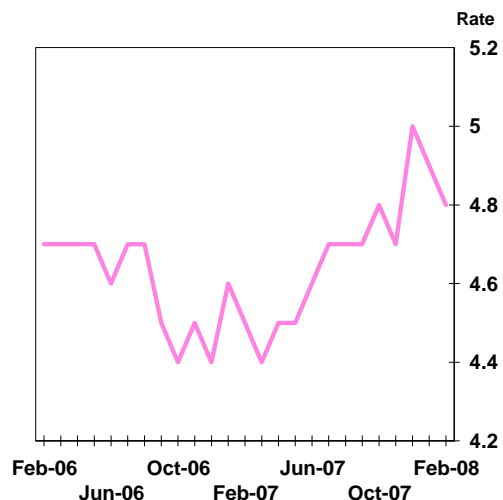
Redbook sales increased 1.6% through the first week of March, compared to February. Sales were 1.0% higher than during the same period last year. Oil prices continued to rise over the past week, averaging \$106.40 per barrel and setting a new record high of \$108.76 on March 11th.

Nonfarm payrolls were reduced by 63,000 jobs in February, the largest monthly drop since March 2003. Payrolls were also downwardly revised for the previous two months, by 5,000 in January and 41,000 in December. Still, the unemployment rate fell by one-tenth of a percentage point in February to 4.8%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.