



FEDERAL RESERVE
BANK OF BOSTON™

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

July 2, 2008

Current Economic Developments - July 2, 2008

Data released since your last Directors' meeting suggest the economy is growing, albeit at a restrained pace. Soaring energy prices and a weaker labor market have eroded consumer attitudes and expectations. Despite these issues, the stimulus rebates have helped support consumer spending so far. Growth is likely to remain weak going forward, as the effects of the housing slump, tight credit conditions, and higher prices will continue to be a drag on the economy.

Initial claims for unemployment insurance increased in June, and consumer attitudes continued to deteriorate. In May, consumer spending increased as incomes were significantly boosted by the financial stimulus rebates.

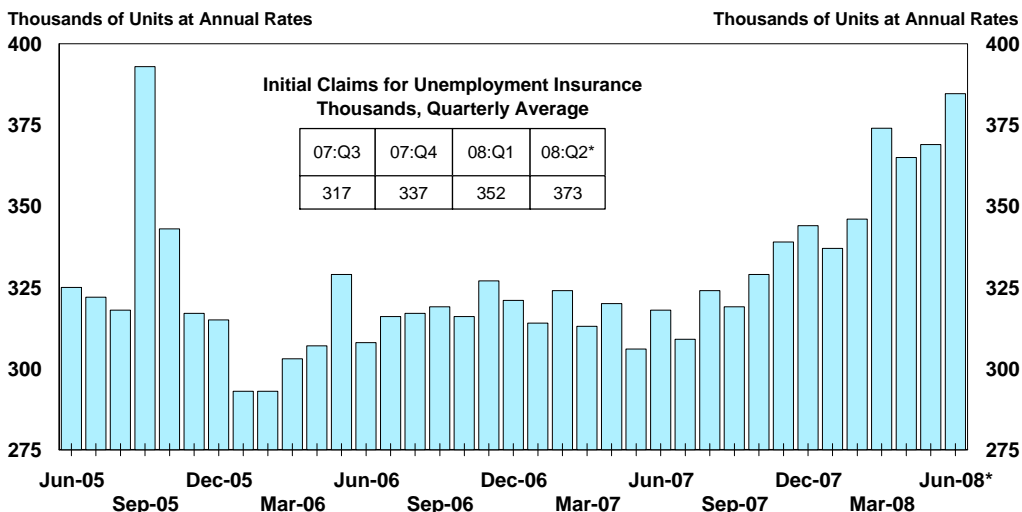
The struggles in the housing market continued in May, but there have been signs that perhaps the worst of the slump has passed. New home sales have been relatively steady and existing home sales were above their six-month average in May.

In the manufacturing sector, the ISM index increased for the second month in a row in June, returning to the positive side of 50. The employment component of the index fell to a five year low, further evidence of a softer labor market. In May, industrial production decreased again and capacity utilization fell further. Durable goods orders also fell in May, but by less than seen in April. Orders of nondefense capital goods, excluding aircraft, increased.

There were further signs in May that inflation may become more of a concern. Energy prices continue to increase, keeping headline inflation measures elevated. Core consumer prices have been holding relatively steady, but core producer prices have been creeping upward.

Initial claims for unemployment insurance rose sharply through the first three weeks of June, bringing them to their highest sustained levels since the aftermath of Hurricane Katrina. The second quarter average so far is the highest since 2003.

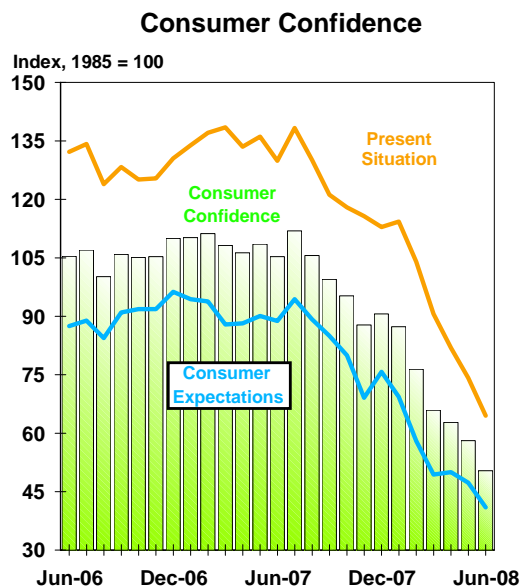
Initial Claims



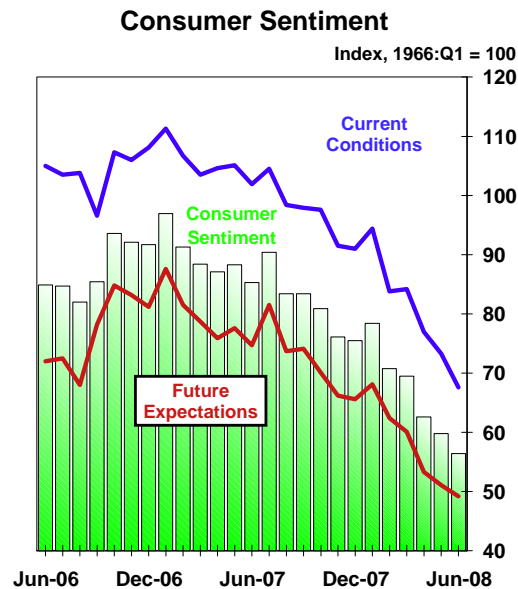
Source: Department of Labor, Employment and Training Administration.

* - June estimate based on 3-week average ending 6/21.

Consumer attitudes continued their descent towards record lows in June. Soaring prices, declining home values and mounting job losses brought Sentiment to its third-lowest reading ever (April and May, 1980), while the Conference Board's measure of Expectations fell to its lowest point on record.

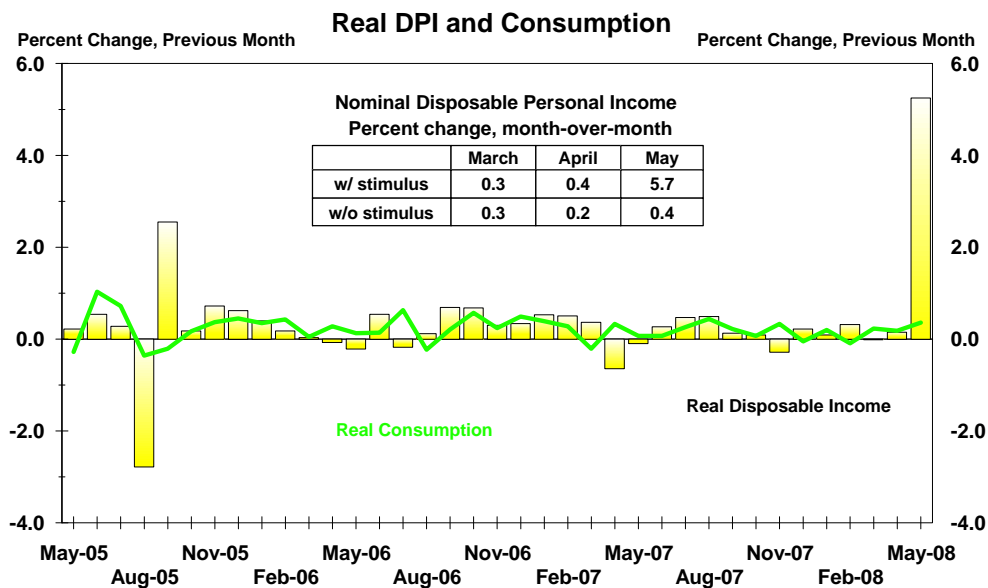


Source: The Conference Board.



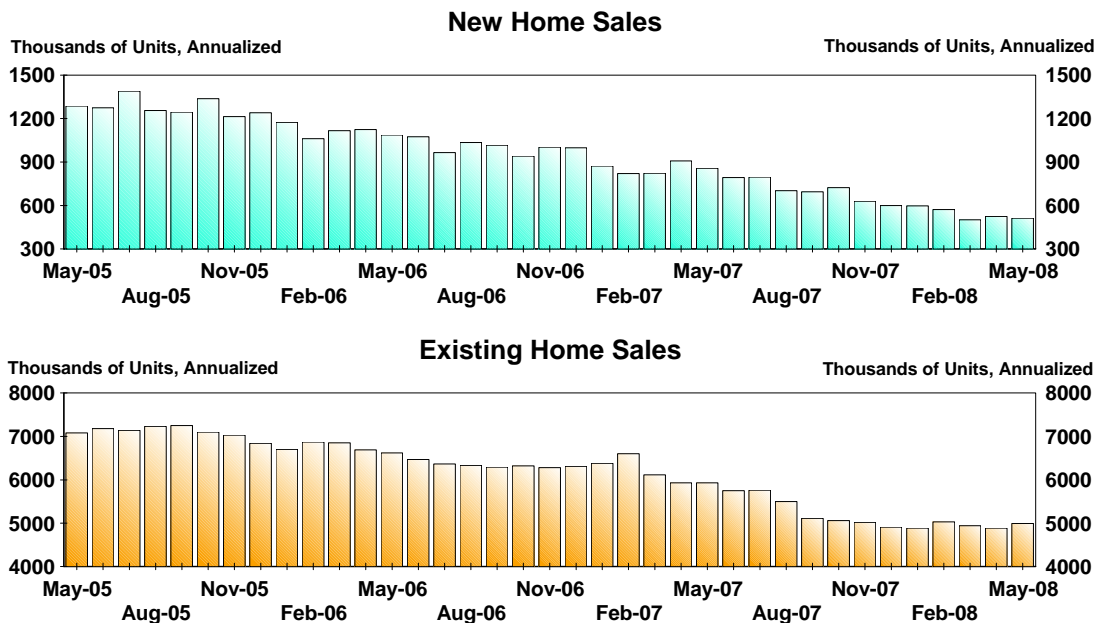
Source: The University of Michigan.

Real incomes increased dramatically in May, due to the stimulus rebate checks that started being sent in late April. Without the effect of the rebates, incomes still rose, but at a much lower rate. The rebates also helped real consumption grow in May at its fastest pace since August.



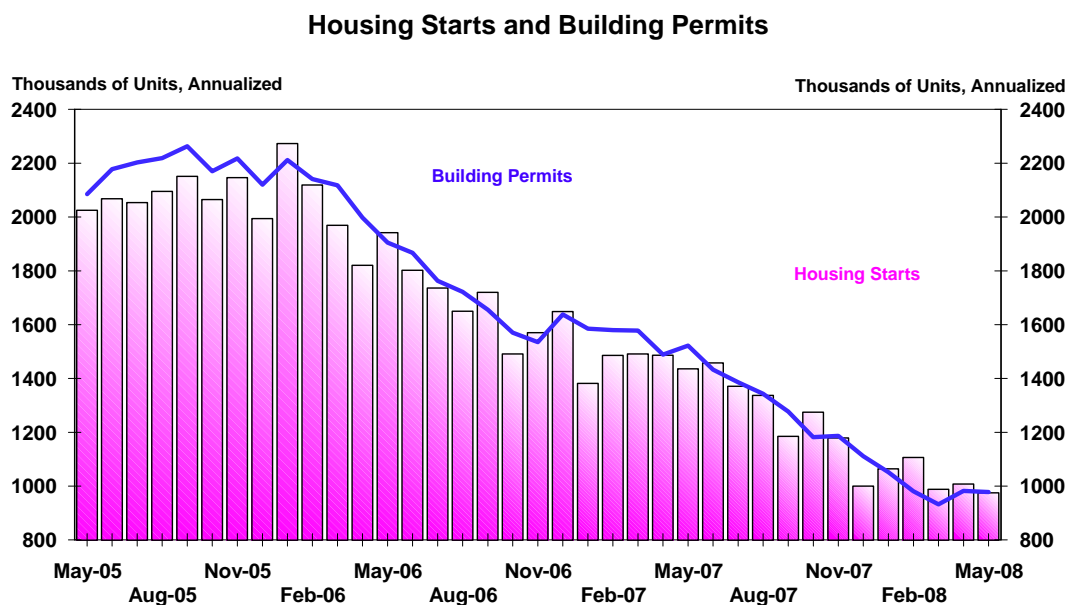
Source: Bureau of Economic Analysis.

The housing market continues to struggle, but may be showing signs that the most severe drops are behind us. New home sales decreased slightly in May, but have been little changed over the past three months. Existing home sales rose in May, and are above their six-month average.



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

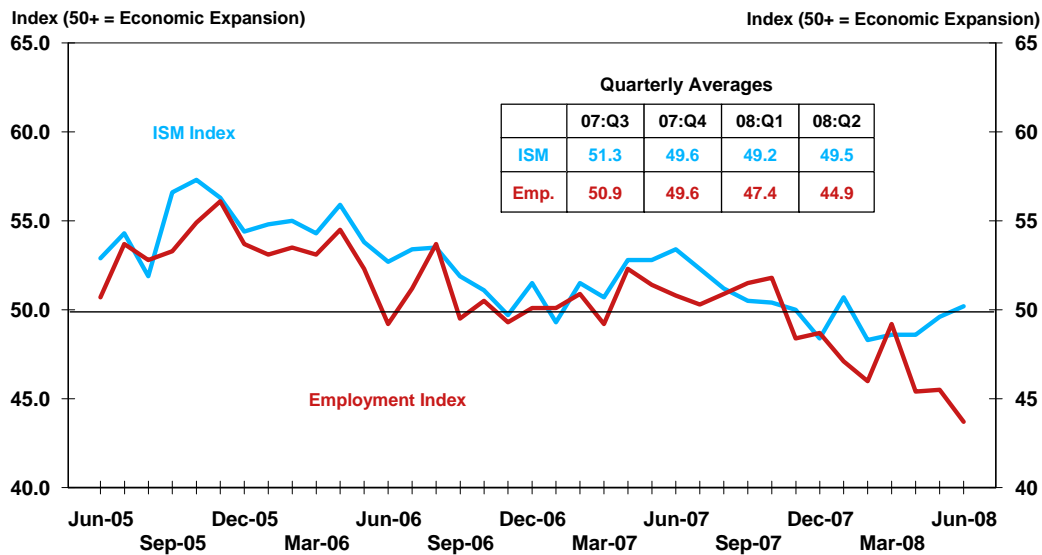
Housing starts declined a bit in May, offsetting the small increase seen in April. Building permits were essentially flat following a moderate gain the previous month.



Source: U.S. Census Bureau.

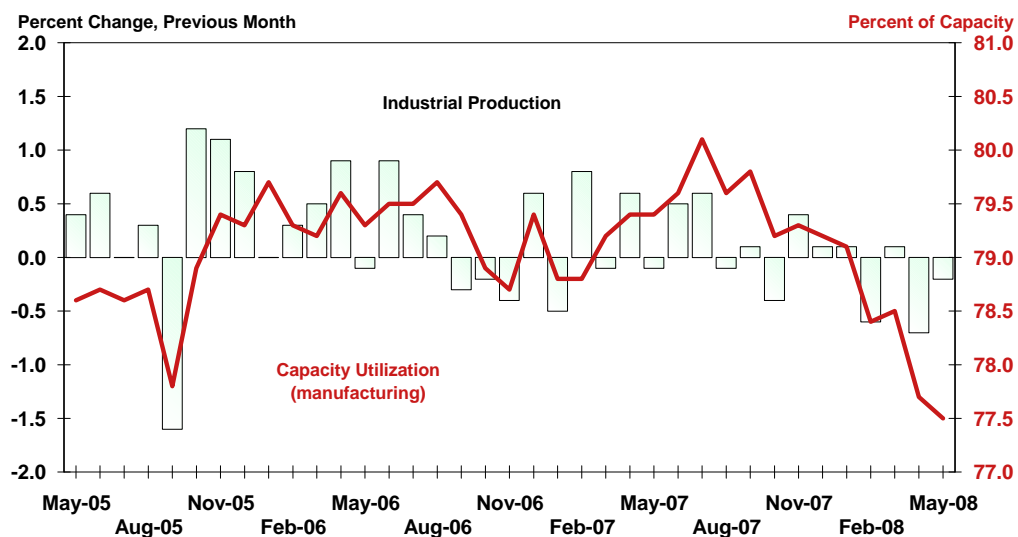
The ISM manufacturing index increased in June, returning above 50 for the first time since January. The employment index fell further in June, following a pause in May.

ISM Index

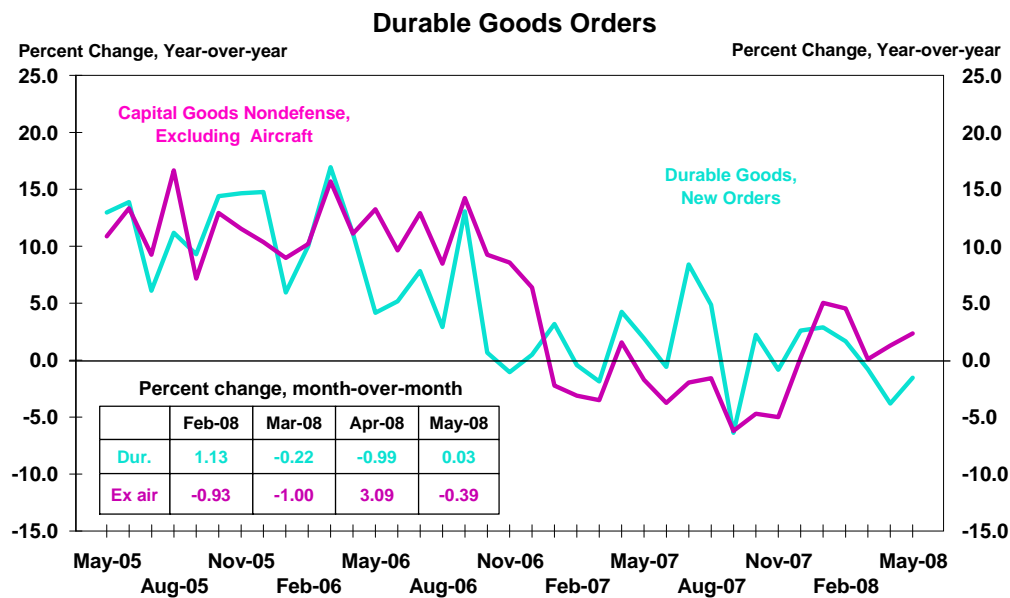


Industrial production decreased for the third time in four months in May, and capacity utilization fell to its lowest point in three-and-a-half years.

Industrial Production and Capacity Utilization

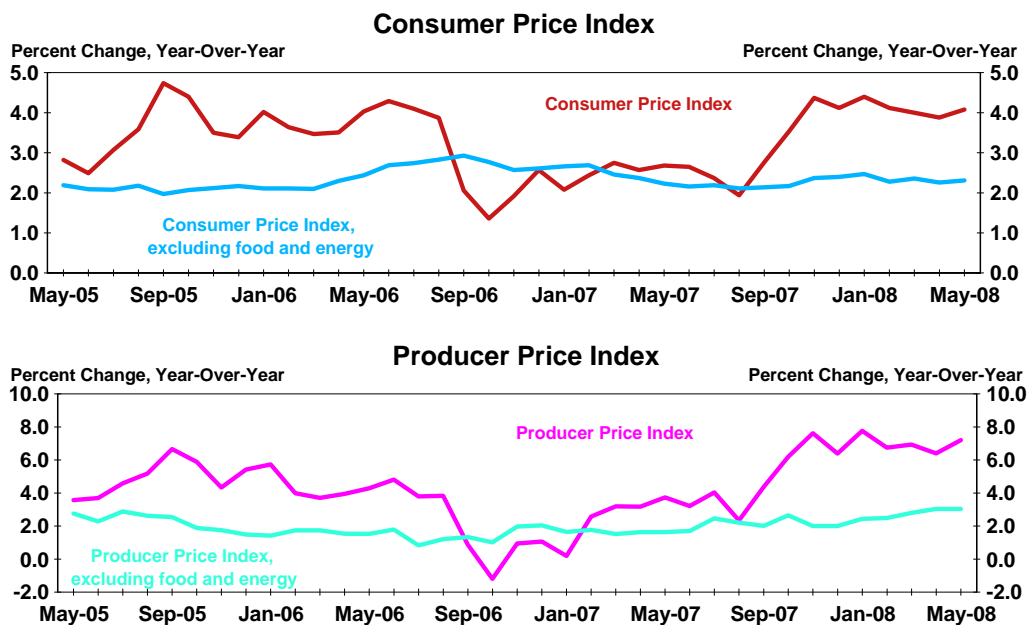


New orders for durable goods declined again in May (on a year-over-year basis), while orders for nondefense capital goods, excluding aircraft, accelerated.



Source: U.S. Census Bureau.

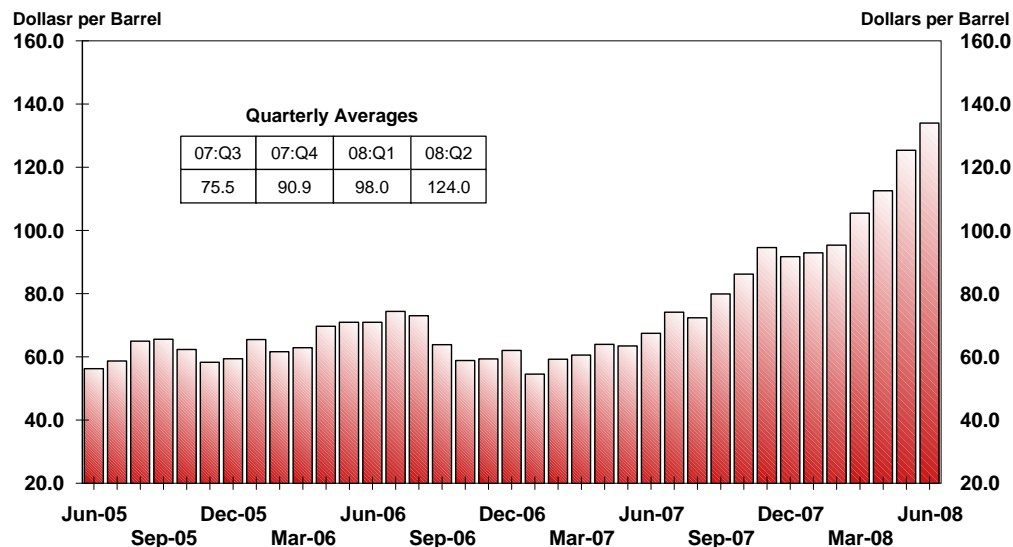
Consumer prices accelerated in May, after slowing the previous three months. Total producer prices also picked up in May. Core inflation for both measures was essentially unchanged in May.



Source: Bureau of Labor Statistics.

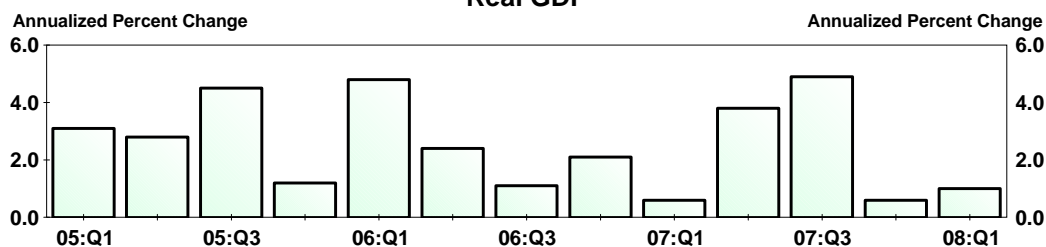
Oil prices rose for the sixth consecutive month in June, with each of the last four breaking the record high set the previous month. The price per barrel closed over \$140 for the first time ever on June 27.

Domestic Spot Oil Price



In the first quarter real GDP was revised slightly upward, reflecting upward revisions to exports, PCE, and equipment and software that were mostly offset by an upward revision to imports and a downward revision to private nonfarm inventory investment.

Real GDP

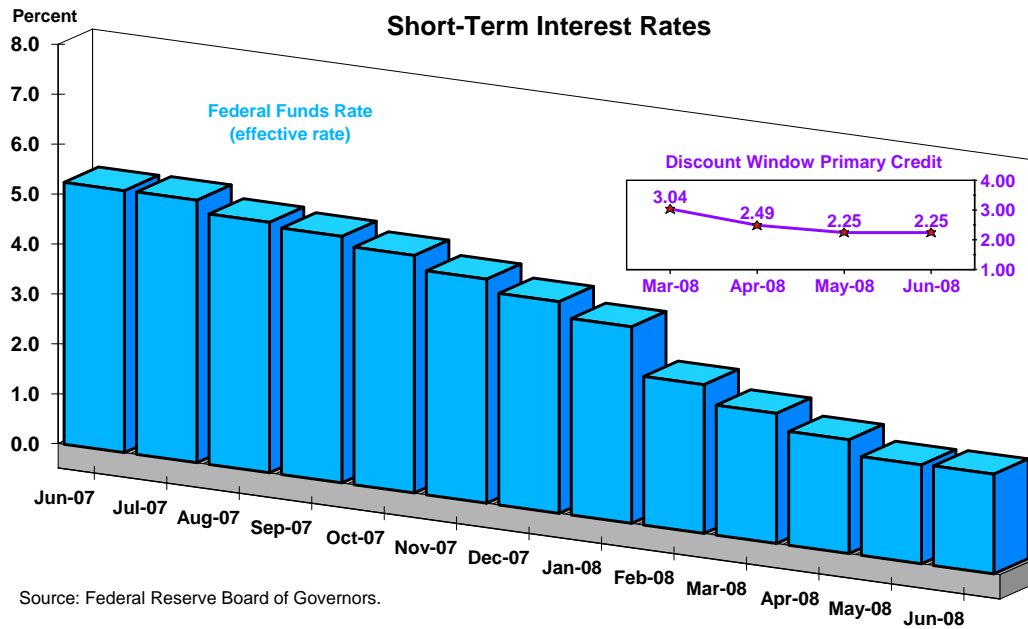


First Quarter Revisions

Description	Preliminary	Revised
Real GDP	0.9	1.0
Personal Consumption	1.0	1.1
Business Investment	-0.2	0.6
Equipment and Software	-0.9	0.2
Residential Investment	-25.5	-24.6
Government	2.0	2.1
Exports	2.8	5.4
Imports	-2.6	-0.7
Final Sales	0.7	0.9

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting suggest the economy is growing, albeit at a restrained pace. Soaring energy prices and a weaker labor market have eroded consumer attitudes and expectations. Despite these issues, the stimulus rebates have helped support consumer spending so far. Growth is likely to remain weak going forward, as the effects of the housing slump, tight credit conditions, and higher prices will continue to be a drag on the economy.



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

July 9, 2008

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

In June, nonfarm payrolls fell for the sixth consecutive month. Through the first half of the year, payrolls have been reduced by nearly 450,000 jobs. The unemployment rate was unchanged at 5.5% in June, but has risen one-half of a percentage point since December.

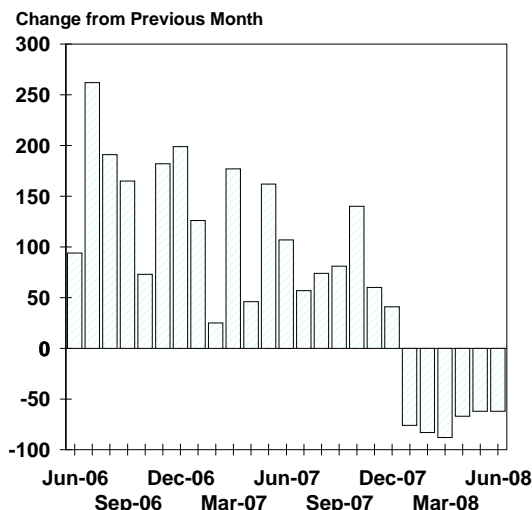
Lightweight vehicle sales continued to slow in June, falling to a 15 year low. The slowdown is due in part to high gas prices, which have kept consumers from purchasing trucks and SUVs. While some of those potential sales have transferred to more fuel-efficient autos, supply of those vehicles has not always been able to meet demand.

Wholesale inventories rose 0.8% in May, following a 1.4% increase in April. Wholesale trade rose 1.6% in May, matching the revised estimate for April. Trade was originally estimated as rising 1.4% in April.

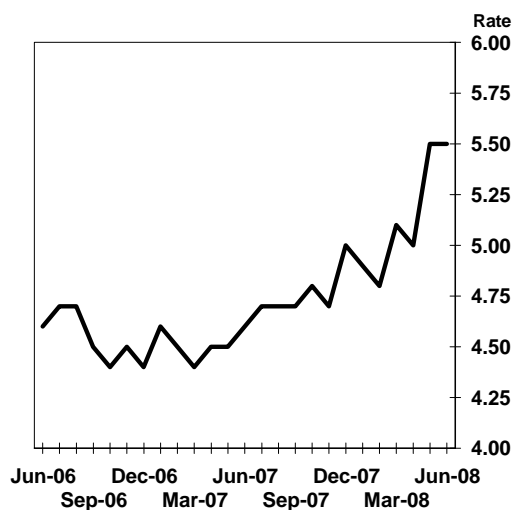
Redbook sales decreased 0.5% through the fifth and final week of June, compared to May. Sales for the week ending July 5th were 2.9% higher than during the same period last year. Oil prices rose during the past week, averaging \$141.9 per barrel compared to last week's average of \$139.0.

Nonfarm payrolls were reduced further in June, declining by 62,000 jobs. Also, revisions to the prior two months' estimates revealed payrolls were cutback by an additional 52,000 jobs to a total loss of 129,000 jobs. Despite these losses, the unemployment rate was unchanged in June at 5.5%.

Nonfarm Payroll Employment



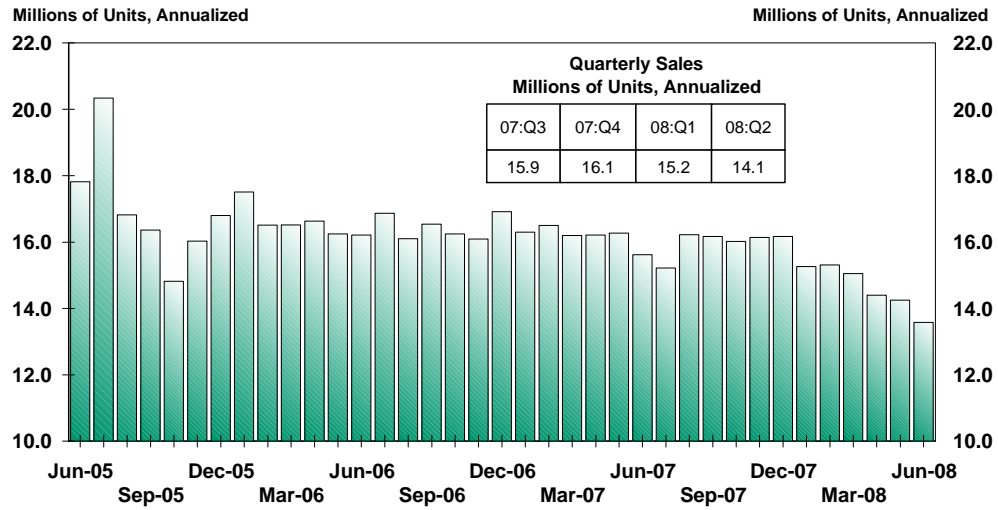
Unemployment Rate



Source: Bureau of Labor Statistics.

Total auto and light truck sales slowed for the fifth consecutive month in June, falling to their lowest pace since August 1993.

Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.