FEDERAL RESERVE BANK OF BOSTON™

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

May 1, 2008

CURRENT ECONOMIC DEVELOPMENTS - May 1, 2008

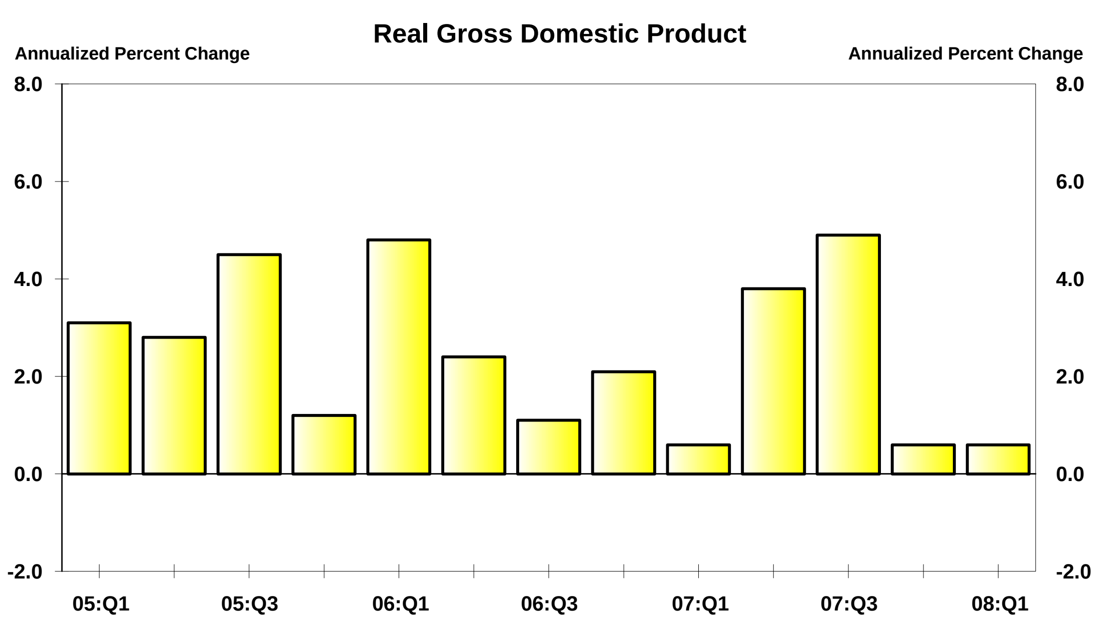
Data since your last Directors' meeting show the economy grew in the first quarter at the same pace as the fourth quarter. Reduced spending by both consumers and businesses, a softer labor market and the persistent slump in the housing market may continue to restrict growth going forward, but recent monetary policy actions and the rollout of the fiscal stimulus rebate checks should spur growth over time.

The increase in real GDP in the first quarter was due primarily to positive contributions from personal consumption expenditures for services, private inventory investment, exports of goods and services, and federal government spending that were party offset by negative contributions from residential fixed investment and PCE for durable goods. Imports, which are a subtraction in the calculation of GDP, increased.

In April, consumer attitudes continued to worsen, extending the slide seen over the past several quarters. Initial claims for unemployment insurance also rose further in April. The ISM manufacturing index was unchanged in April from March, but below its first quarter average. The employment component of the index fell in April.

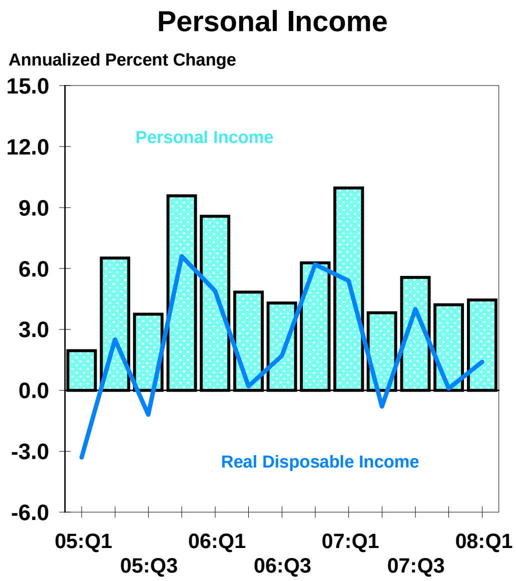
Inflation continued to be of some concern in the first quarter, as total and core inflation increased a bit for both consumers and producers. Total compensation costs, as measured by the ECI, grew at the same pace in the first quarter as seen over the past three quarters. Oil prices continued their steady rise through the first quarter and into April, and threaten to climb higher as demand rises entering the summer months.

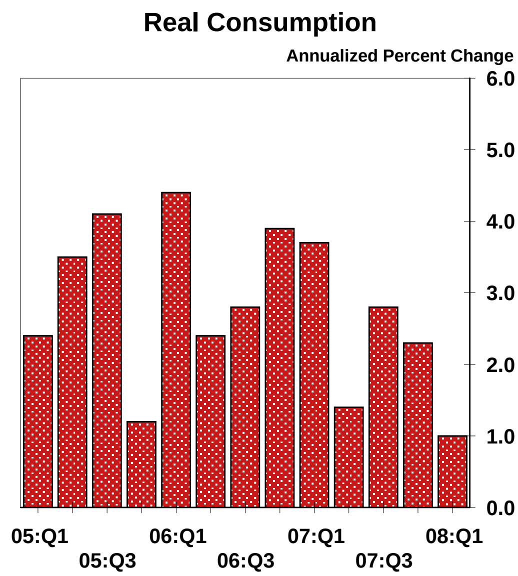
Real GDP growth in the first quarter matched the growth seen in the fourth quarter, reflecting an upturn in inventory investment that was offset by an upturn in imports, and downturns in nonresidential structures, in PCE for durable goods, and in PCE for nondurable goods.



Source: Bureau of Economic Analysis.

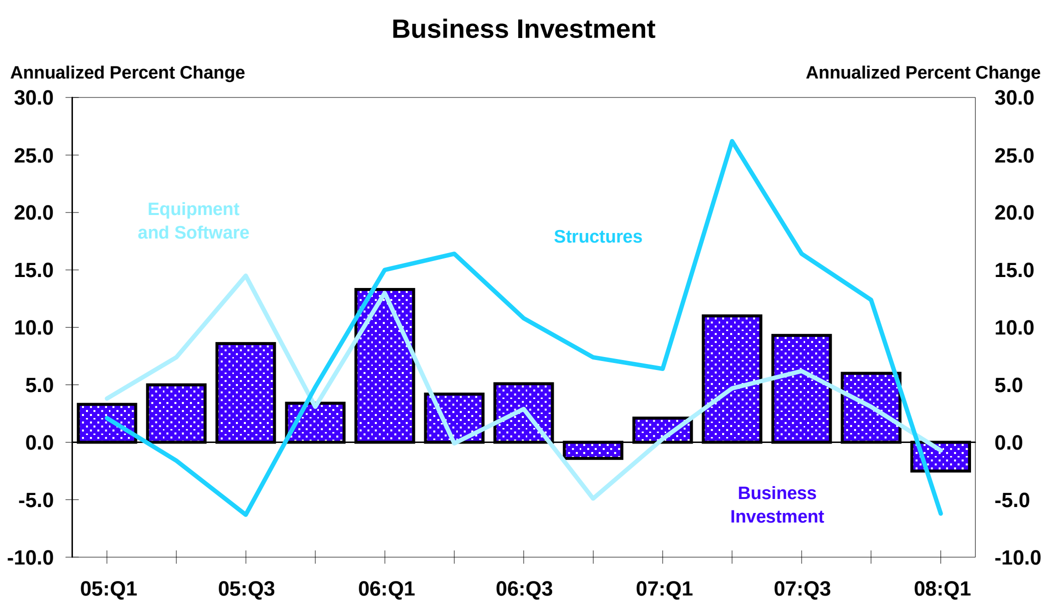
Both personal and real disposable income grew in the first quarter, but consumption posted its weakest growth since 2001 as consumers have been more cautious and have focused on saving.





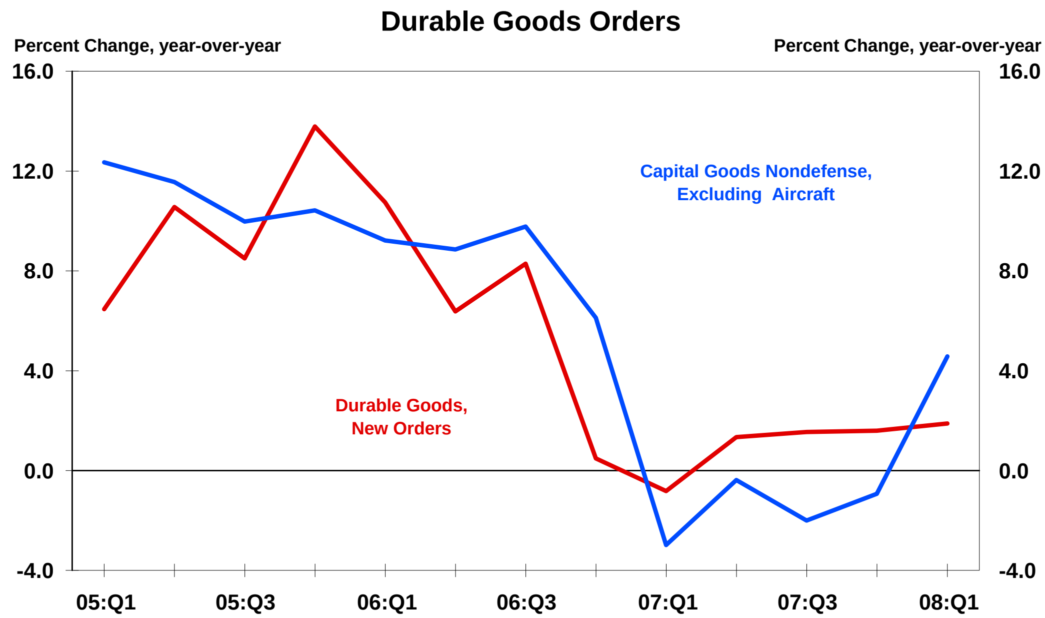
Source: Bureau of Economic Analysis.

Business investment fell in the first quarter, due primarily to a drop in nonresidential structures. Equipment and software also posted a minor decline.



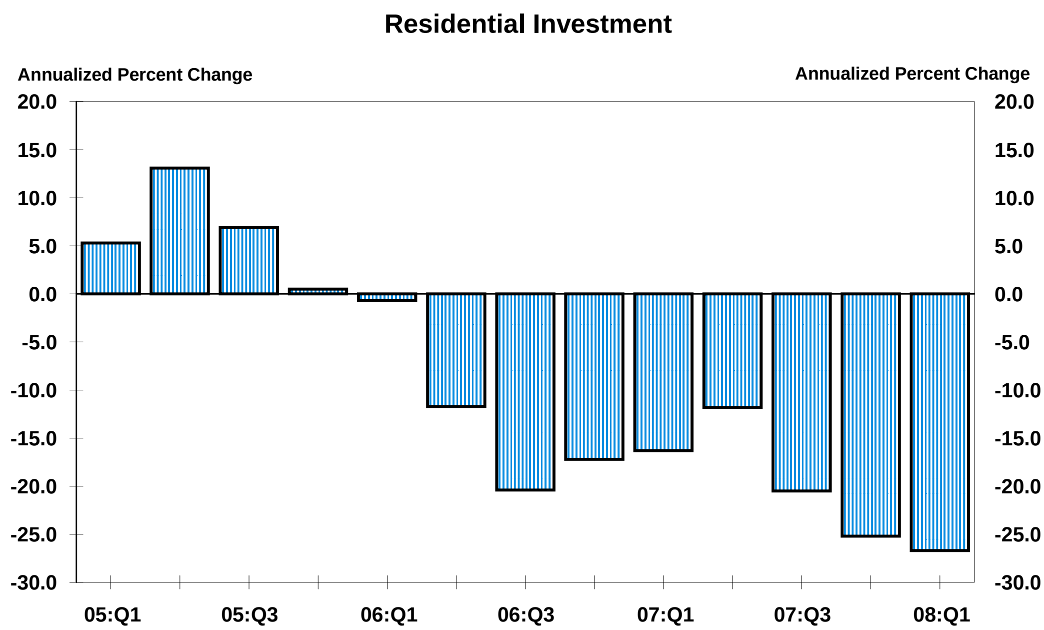
Source: Bureau of Economic Analysis.

In the first quarter, on a year-over-year basis, new orders for durable goods grew at a pace close to that seen over the past three quarters and orders of nondefense capital goods, excluding aircraft, showed their strongest growth since the fourth quarter of 2006.



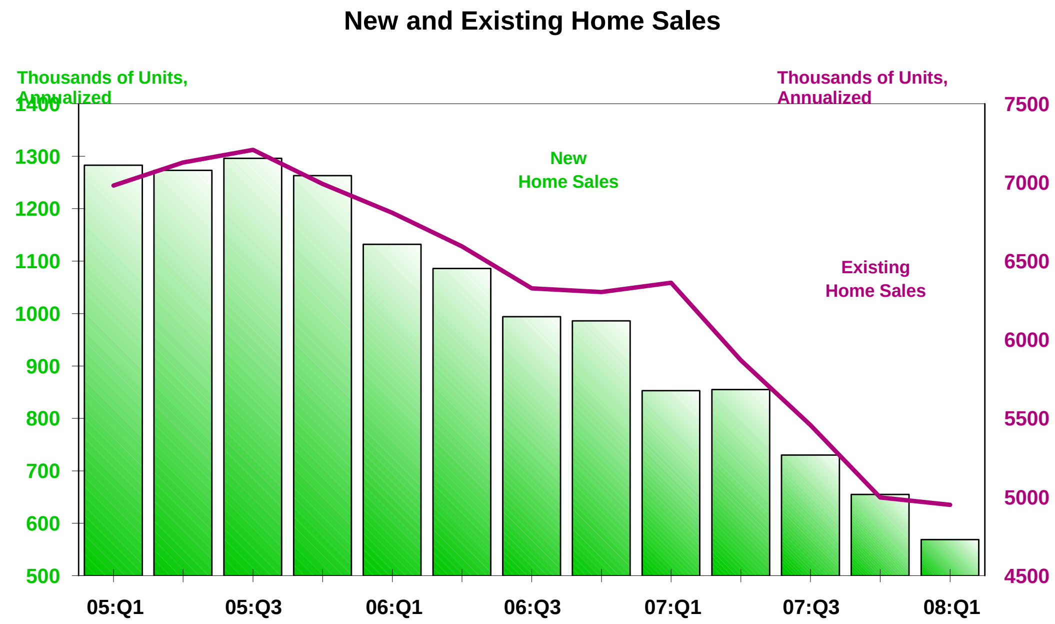
Source: U.S. Census Bureau.

Residential investment continued to fall in the first quarter, posting it's largest drop since 1981:Q4.



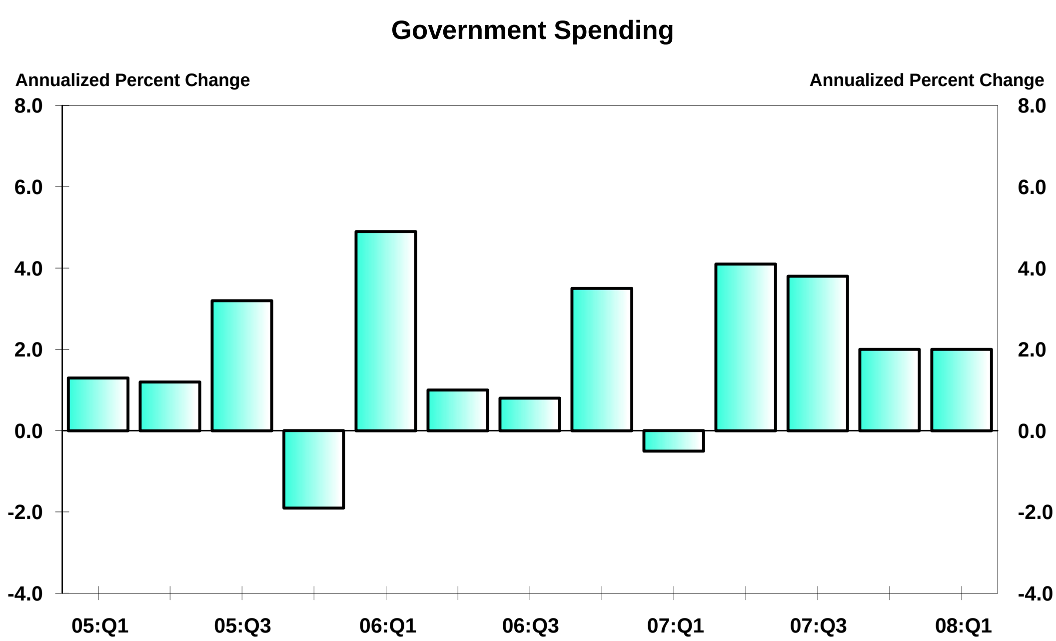
Source: U.S. Census Bureau.

The housing slump persisted in the first quarter. New home sales slowed significantly, falling to their lowest quarterly pace in nearly sixteen years, and sales of existing homes eased a bit further.



Source: U.S. Census Bureau.

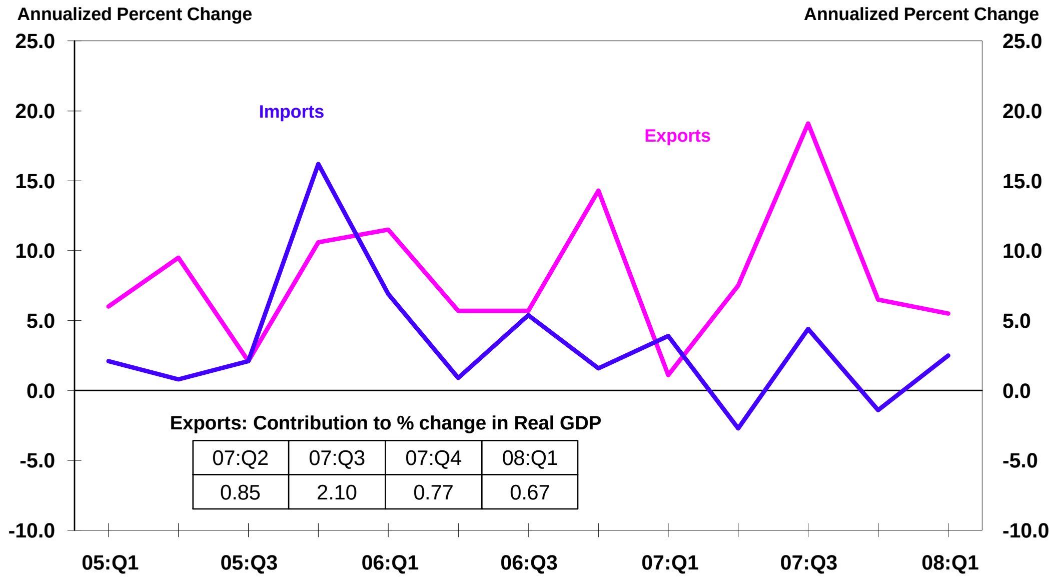
Growth in government spending was unchanged in the first quarter.



Source: Bureau of Economic Analysis.

Export growth slowed in the first quarter, but continue to provide important support to the economy. Imports rose, continuing the volatile pattern seen recently.

Exports and Imports



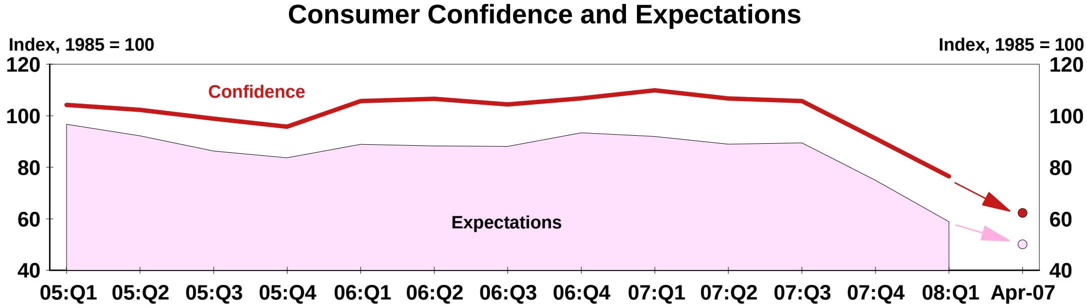
Exports: Contribution to % change in Real GDP

07:Q2	07:Q3	07:Q4	08:Q1
0.85	2.10	0.77	0.67

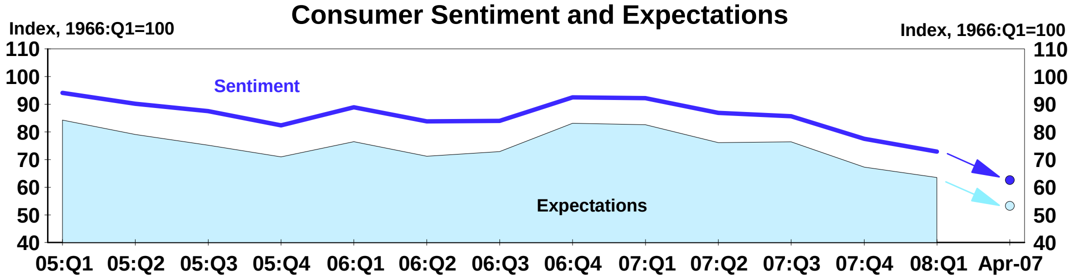
Source: Bureau of Economic Analysis.

Consumer attitudes deteriorated further in the first quarter, and continued to fall in April. Consumer sentiment stands at a quarter-century low amid uncertainty about future living standards and confidence fell to a five year low due to pessimistic views on the economy, job conditions and income prospects.

Consumer Confidence and Expectations

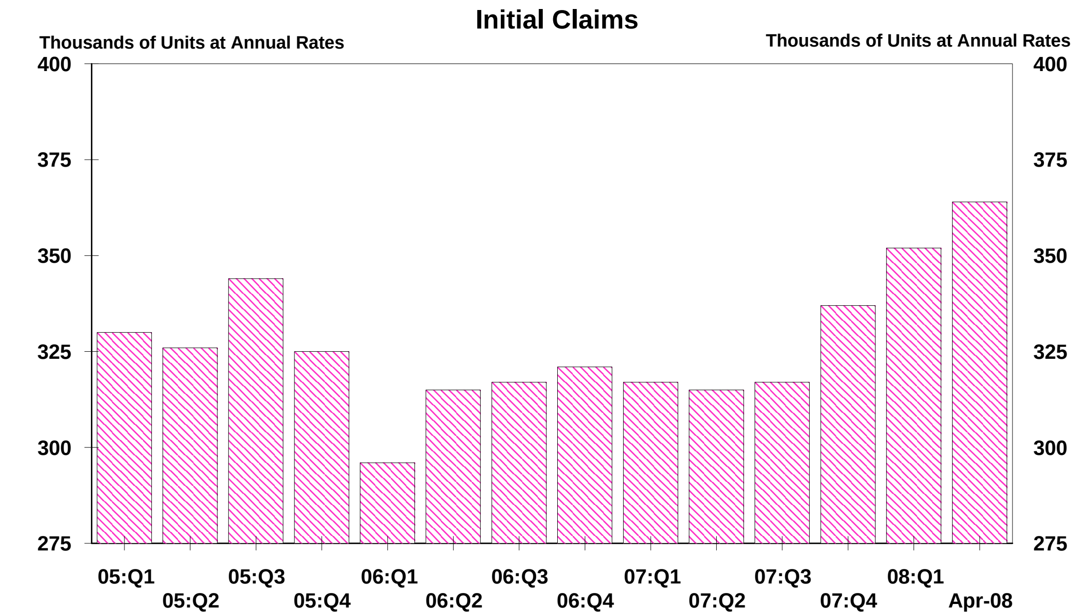


Consumer Sentiment and Expectations



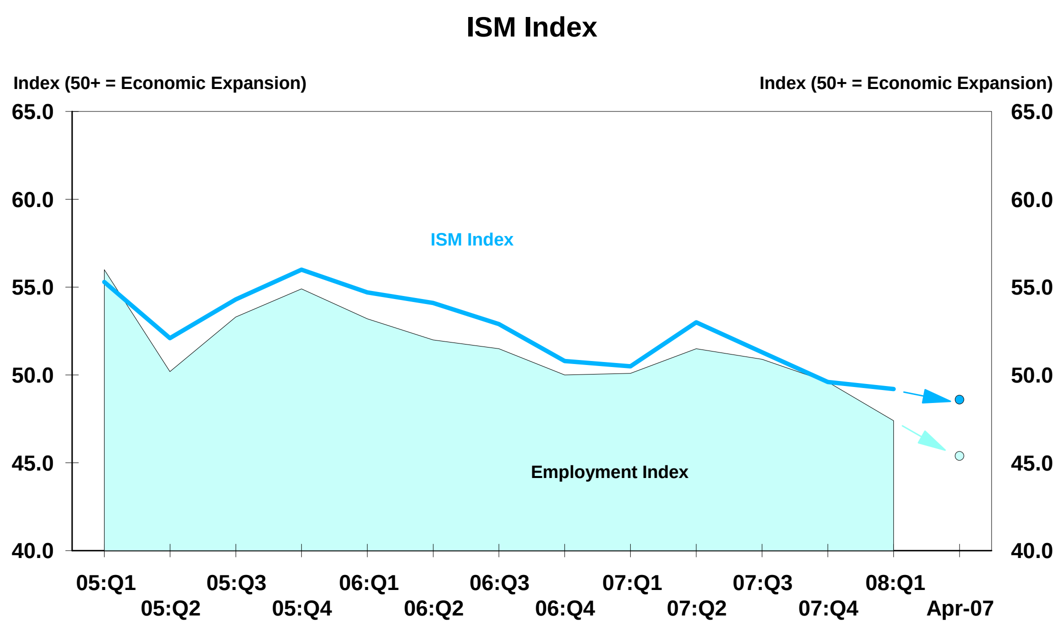
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance have grown steadily over the past two quarters, and continued along that path in April.



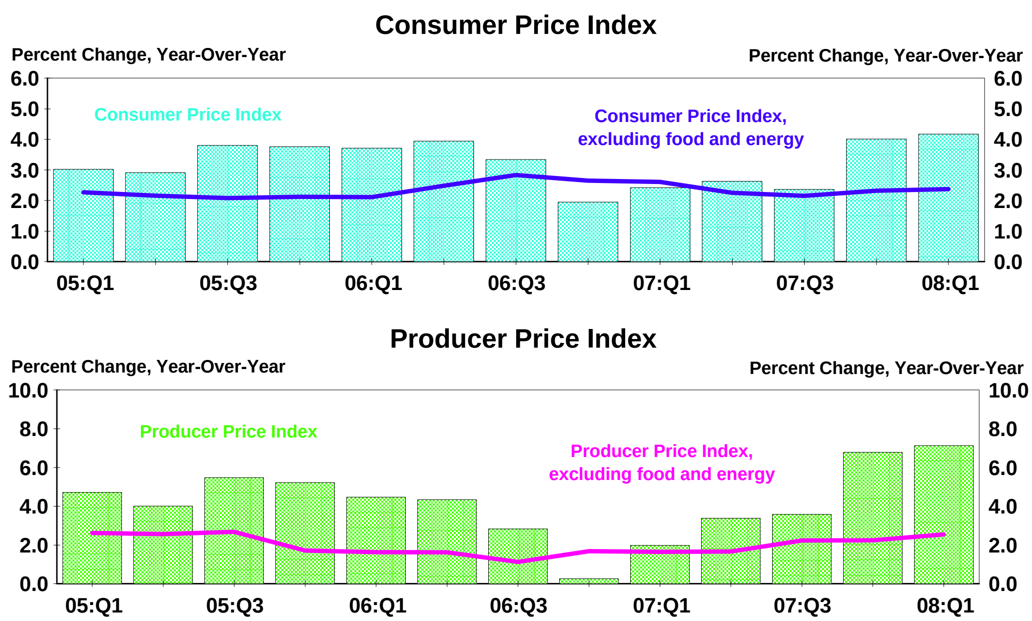
Source: Department of Labor, Employment and Training Administration.

In April, both the ISM and employment indices fell below their first quarter averages.



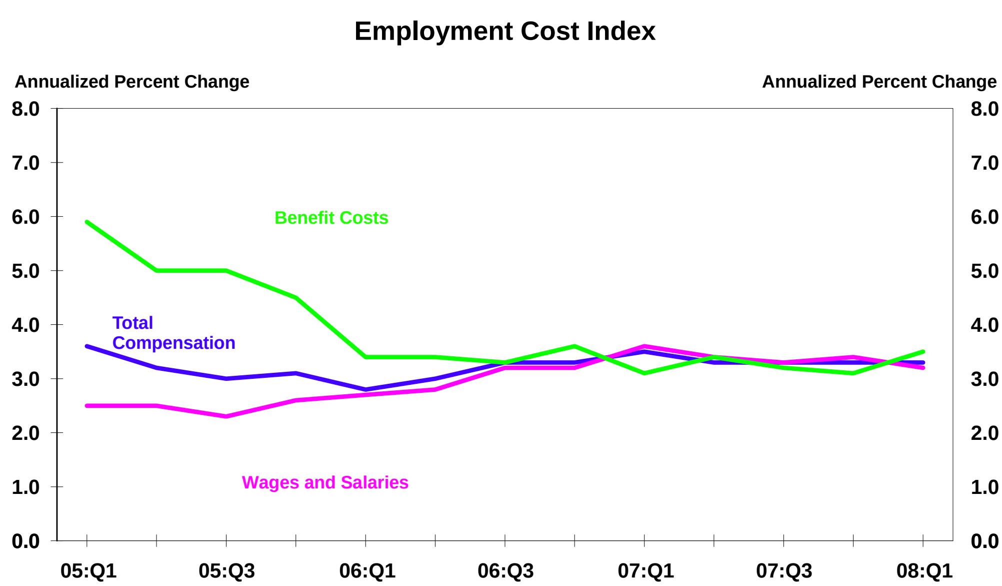
Source: Institute for Supply Management.

Headline inflation crept slightly higher in the first quarter, for both consumers and producers. And while food and commodity prices are of greater concern, core measures of inflation also saw small increases.



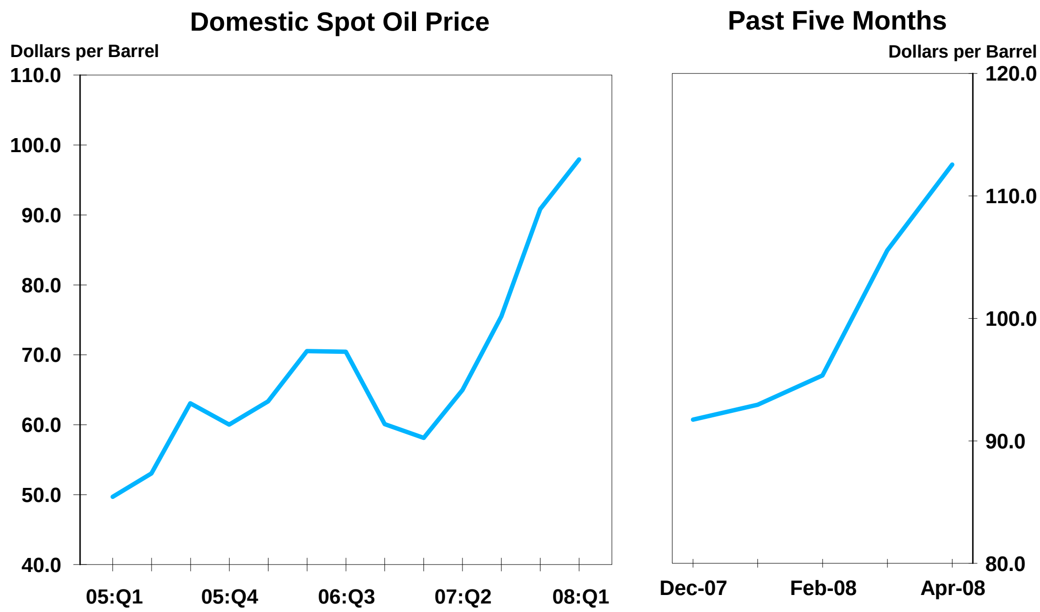
Source: Bureau of Labor Statistics.

In the first quarter, total employment costs grew at the same rate as seen during the previous three quarters, as a slight deceleration in wages and salaries offset a similar acceleration in benefit costs.



Source: Bureau of Labor Statistics.

Oil prices rose further through the first quarter, and continued to rise in April. The latest record high was set on April 25th at $121.57 per barrel.



Source: Wall Street Journal (oil prices).

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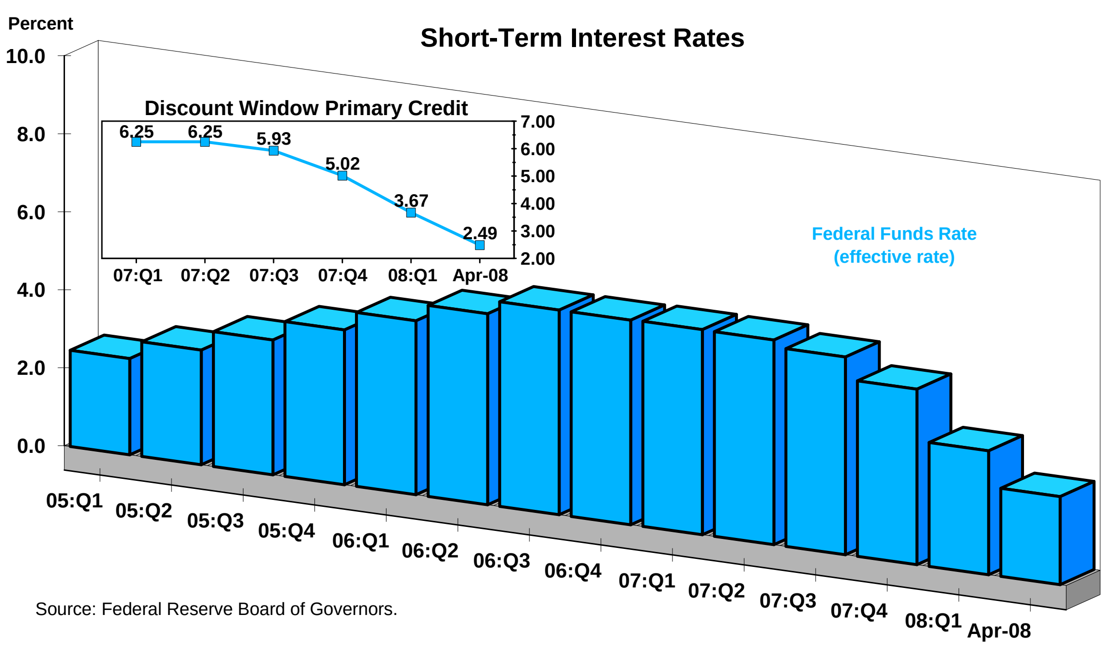
Overall, data since your last Directors' meeting show the economy grew in the first quarter at the same pace as the fourth quarter. Reduced spending by both consumers and businesses, a softer labor market and the persistent slump in the housing market may continue to restrict growth going forward, but recent monetary policy actions and the rollout of the fiscal stimulus rebate checks should spur growth over time.



Source: Federal Reserve Board of Governors.

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

May 8, 2008

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

Nonfarm payrolls decreased in April for the fourth consecutive month, but by a smaller amount than averaged in the first quarter. The unemployment rate also improved in April compared to March, but was a bit higher than its first quarter average.

Total lightweight vehicle sales slowed in April, as consumers continued to be more cautious in their spending habits. Total sales in April were the lowest since 1998, and domestic sales were the lowest in 15 years.

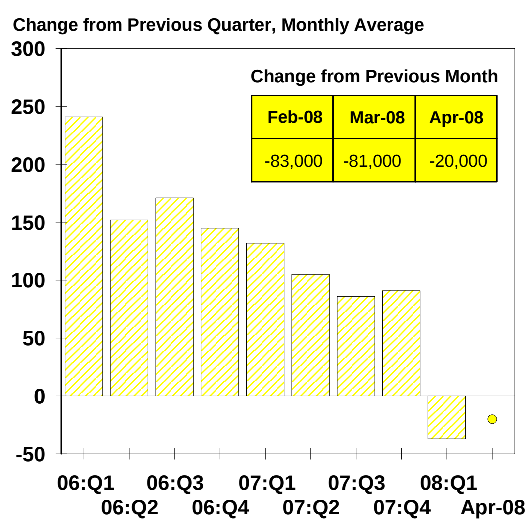
Productivity accelerated in the first quarter, due primarily to a decrease in hours worked. Total hours fell 1.8% during the quarter, the biggest drop since 2003.

Manufacturers' orders rose 1.4% in March, and shipments rose 1.1%. Shipments of nondefense capital goods, excluding aircraft, also rose 1.1%.

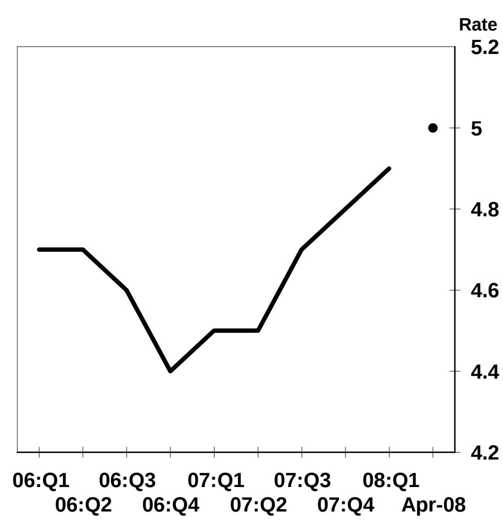
Redbook sales finished April down 1.6%, compared to March. Sales were 1.4% higher than during the same period last year. Oil prices decreased during the past week, averaging $116.8 per barrel, compared to last week's average of $118.7.

In April nonfarm payrolls were reduced by 20,000 jobs, and the unemployment rate, although higher than it's first quarter average, fell one-tenth of a percentage point to 5.0%. Also, revisions to nonfarm payrolls for the previous two months resulted in 8,000 fewer jobs than previously estimated.

Nonfarm Payroll Employment

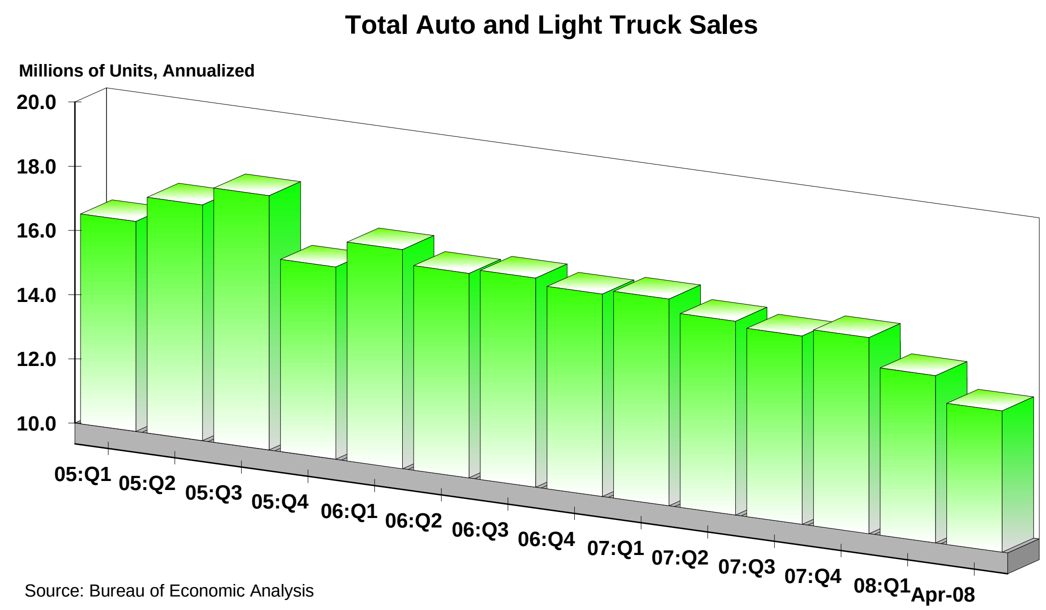


Unemployment Rate



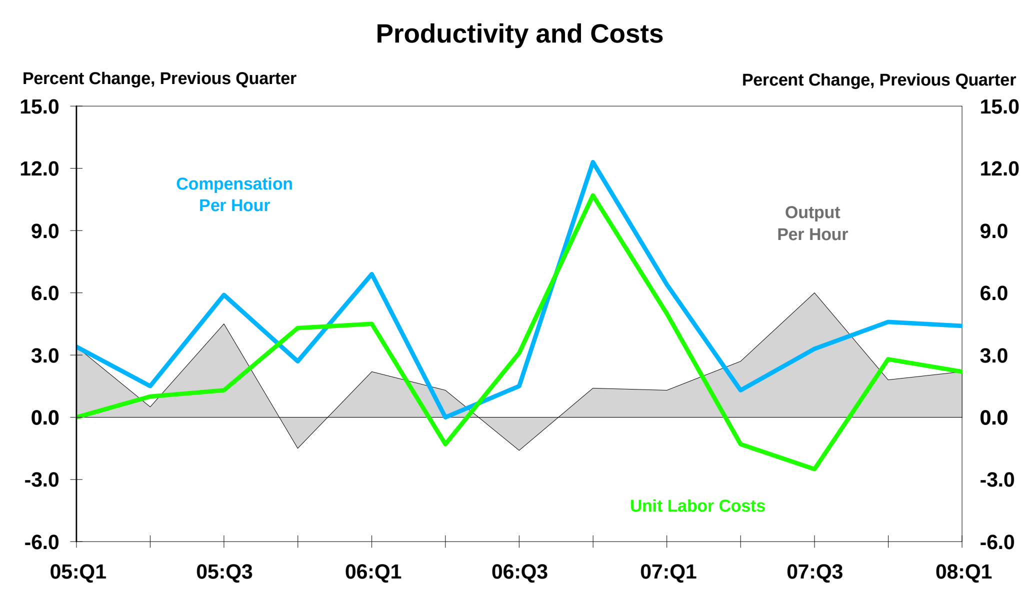
Source: Bureau of Labor Statistics.

After decreasing in the first quarter, auto sales continued to slide in April.



Source: Bureau of Economic Analysis

Productivity growth picked up a bit in the first quarter, as both hourly compensation and unit labor costs slowed.



Source: Bureau of Labor Statistics.