



The

President's

Report *to the*

Board *of*

Directors

December 1, 2005

CURRENT ECONOMIC DEVELOPMENTS - December 1, 2005

Data released since your last Directors' meeting show the economy is growing at its fastest pace since the first quarter of 2004. The recovery from Hurricanes Rita and Katrina is evident in the data, and should continue into early 2006.

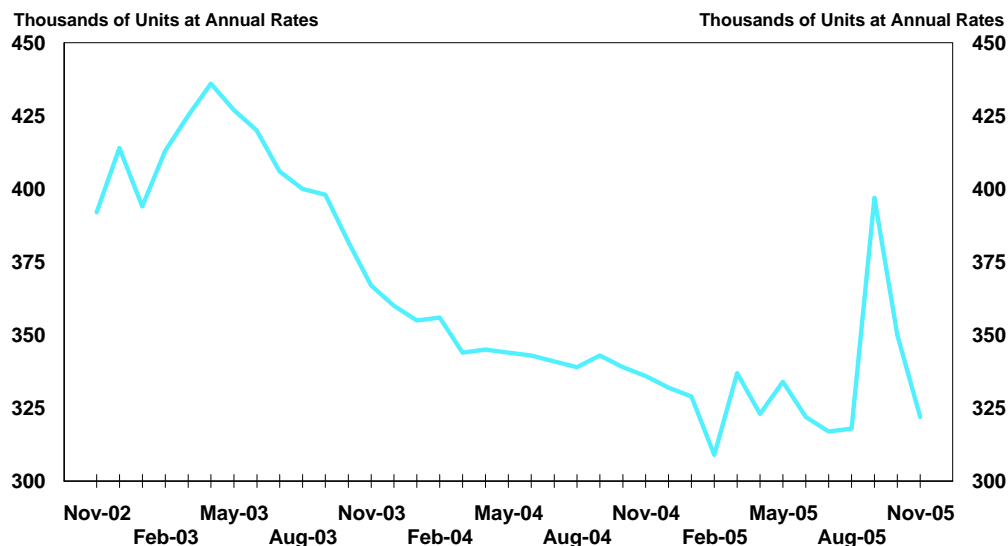
In November, initial claims for unemployment insurance decreased to return to their pre-hurricane levels. Consumer attitudes improved dramatically, as all measures of confidence and sentiment rebounded from the prior months' doldrums. In October, real consumption grew for the first time since the hurricanes and real disposable income experienced little change.

The housing market was mixed in October, as new home sales increased to a record high, yet housing starts and building permits decreased to their lowest levels since March. In the manufacturing sector, the ISM index decreased slightly in November while industrial production grew at its fastest pace in over a year in October. New orders for durable goods rose due to strong aircraft demand and orders for nondefense capital goods, excluding aircraft, also increased.

During the third quarter, real GDP was greater than originally thought. The upward revision primarily reflected stronger residential investment and higher consumer spending.

Initial claims for unemployment insurance decreased in November, returning to a level more consistent with where they were during the first half of the year before the storms struck.

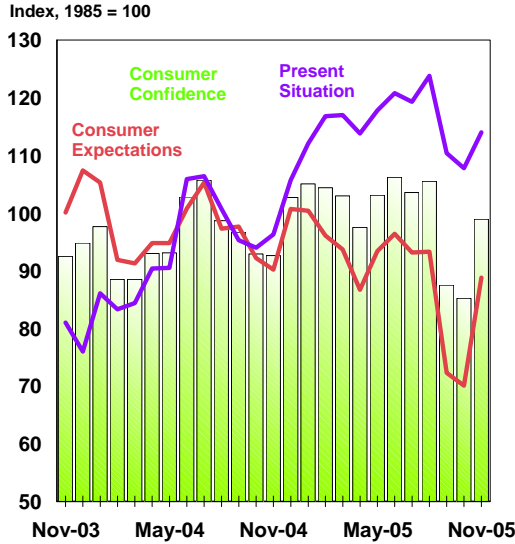
Initial Claims



Source: Department of Labor, Employment and Training Administration.

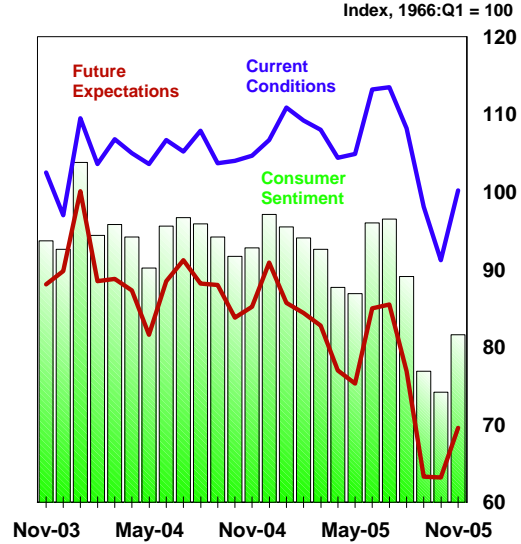
In November, consumer attitudes started to recover from their hurricane induced reductions. While the effects of the storms are still evident, the rebound is a good sign as the holiday spending season begins.

Consumer Confidence



Source: The Conference Board.

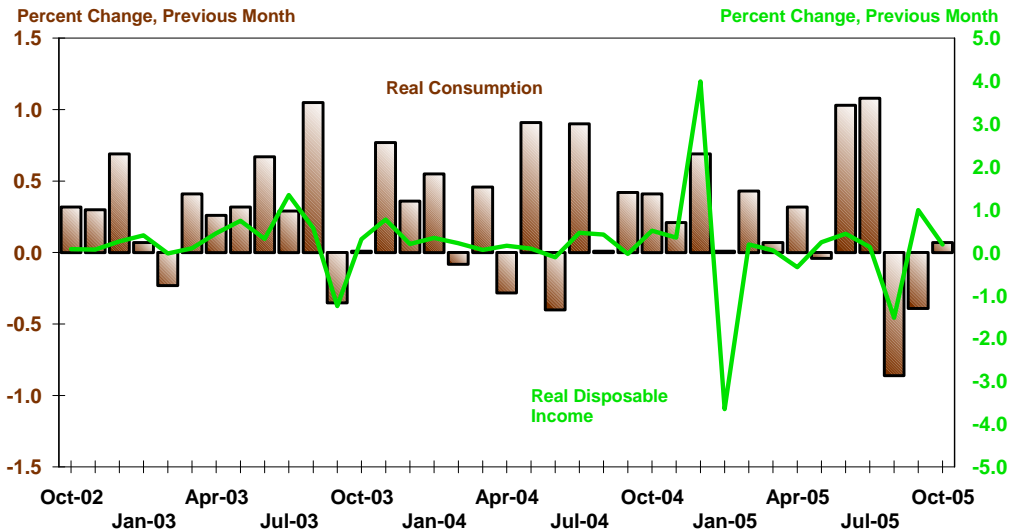
Consumer Sentiment



Source: The University of Michigan.

Real consumption grew for the first time in three months in October, while growth in real disposable income slowed.

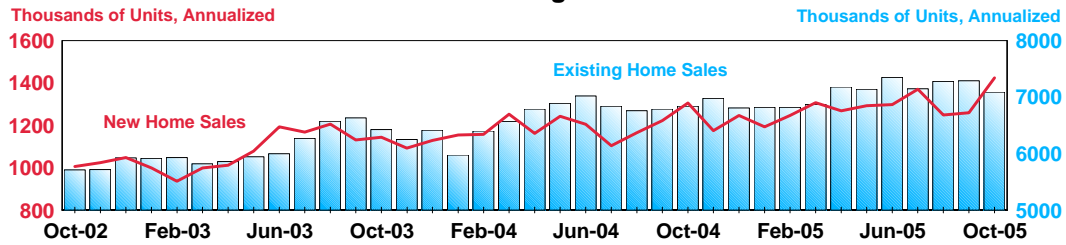
Real Consumption and Real DPI



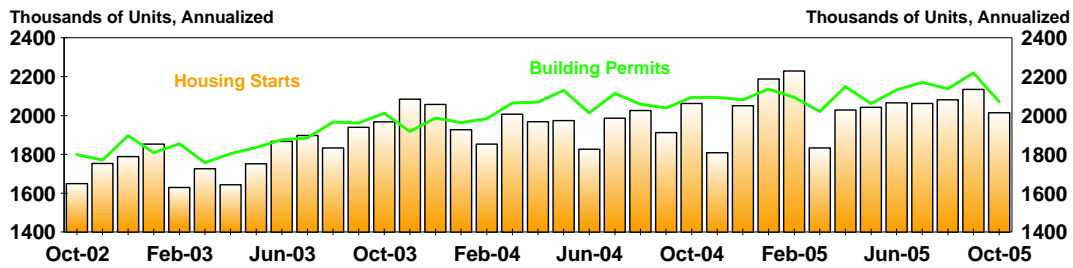
Source: Bureau of Economic Analysis.

The housing market was mixed in October. Sales of new homes reached a new record pace, and existing home sales remained strong. However, housing starts and building permits were down slightly in October following a strong September.

New and Existing Home Sales



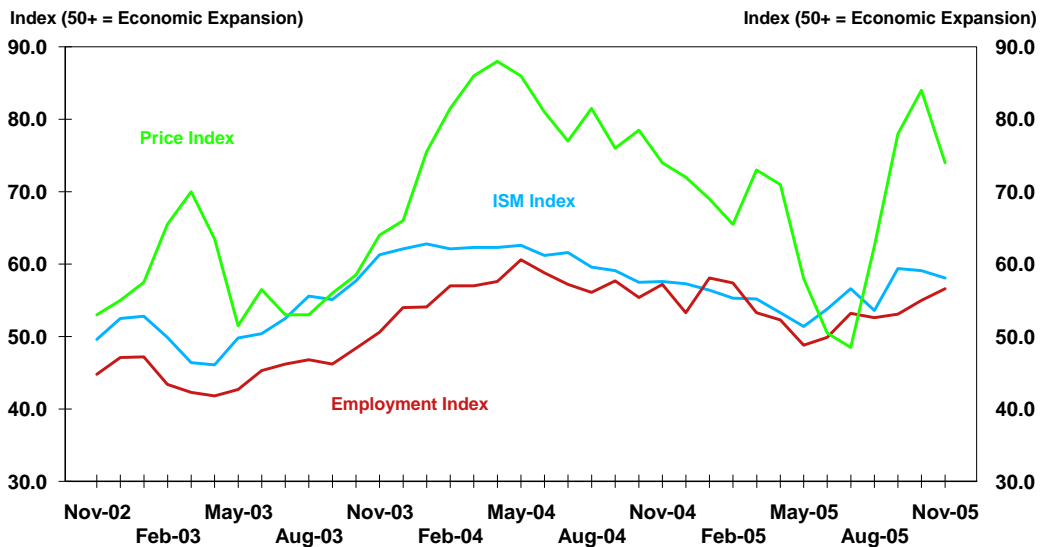
Housing Starts and Building Permits



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

The ISM manufacturing composite index fell slightly in November, but the employment index rose to its highest point since February. The price index fell after three consecutive monthly increases.

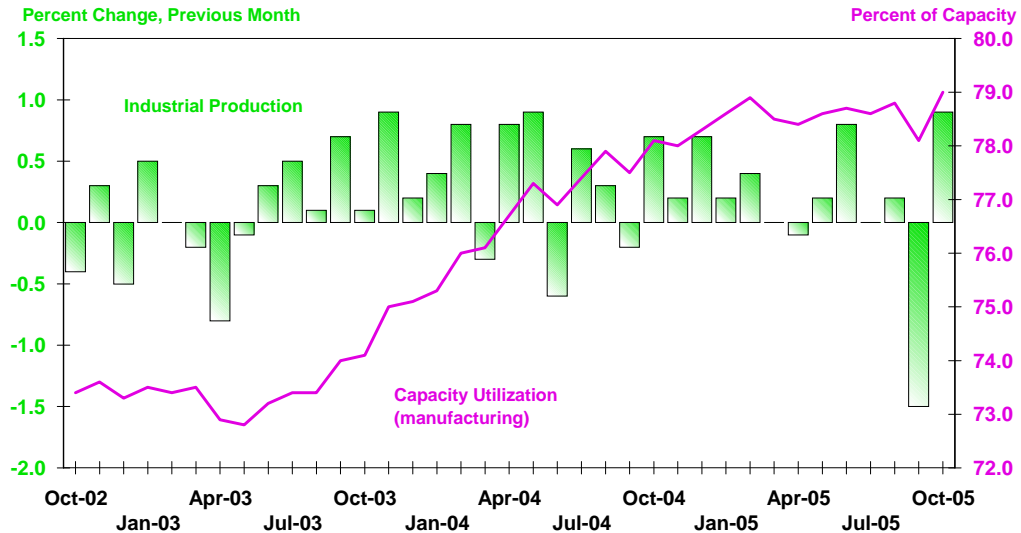
ISM Index



Source: Institute for Supply Management.

Industrial production rebounded in October from a weak September, while capacity utilization recouped the prior month's losses.

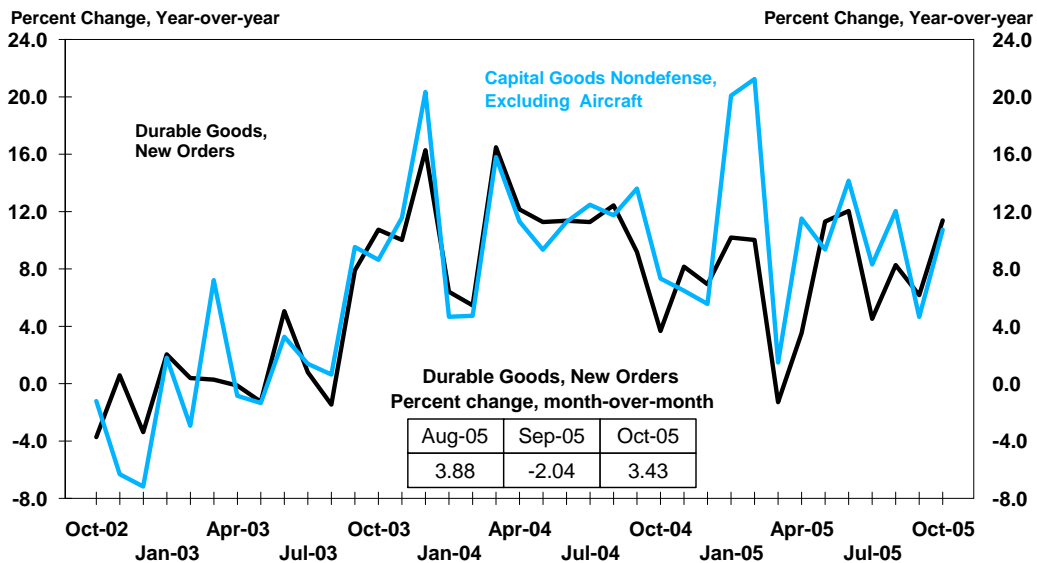
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for durable goods increased in October, as strong demand for aircraft offset a decline in motor vehicle orders. Orders for nondefense capital goods, excluding aircraft, also rose.

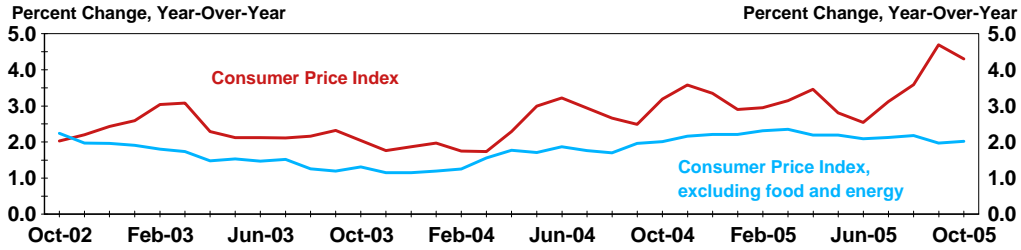
Durable Goods Orders



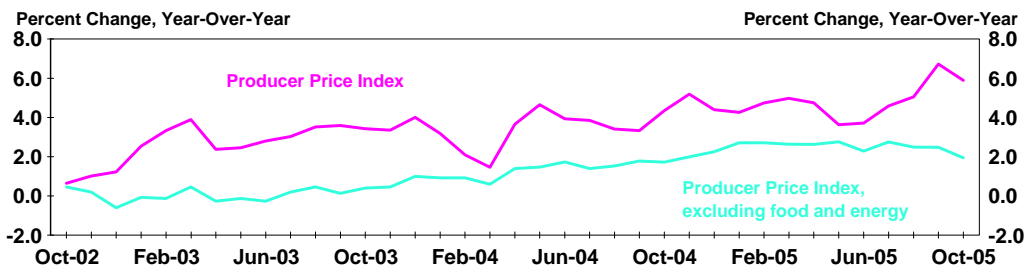
Source: U.S. Census Bureau.

Inflation eased in October, as total CPI slowed for the first time since June and core price growth was flat. Similar changes were seen at the wholesale level, with total PPI decelerating and core producer prices easing slightly.

Consumer Price Index



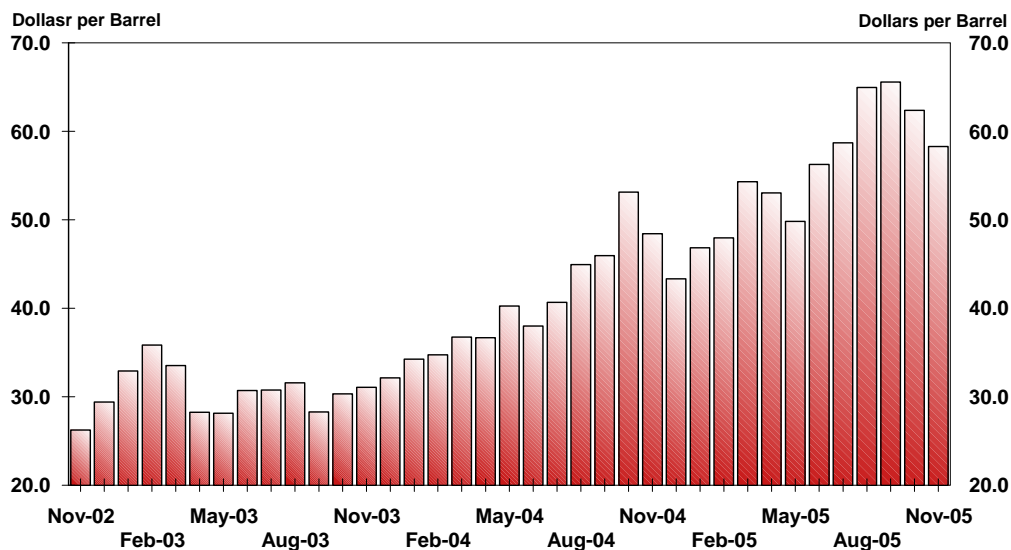
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices fell for a second consecutive month in November, bringing the spot price per barrel below \$60 for the first time since the hurricanes.

Domestic Spot Oil Price



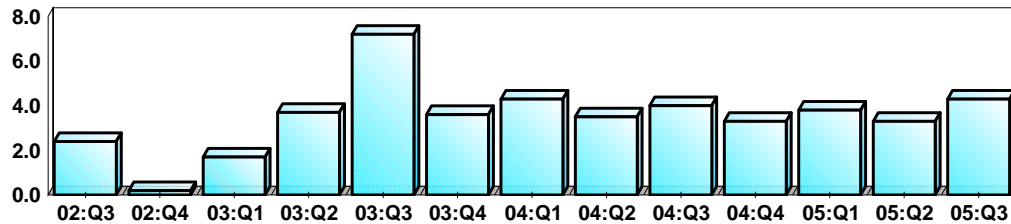
Source: Wall Street Journal.

Real GDP in the third quarter was stronger than originally thought. The upward revision primarily reflected stronger residential investment, personal consumption, and equipment and software investment. These gains were partly offset by an upward revision to imports.

Revisions to Third Quarter Real GDP

Description	Advance	Preliminary
Real GDP	3.8	4.3
Personal Consumption	3.9	4.2
Business Investment	6.2	8.8
Equipment and Software	8.9	10.8
Residential Investment	4.8	8.4
Government	3.2	3.2
Exports	0.8	0.8
Imports	0.0	2.1
Final Sales	4.4	4.7

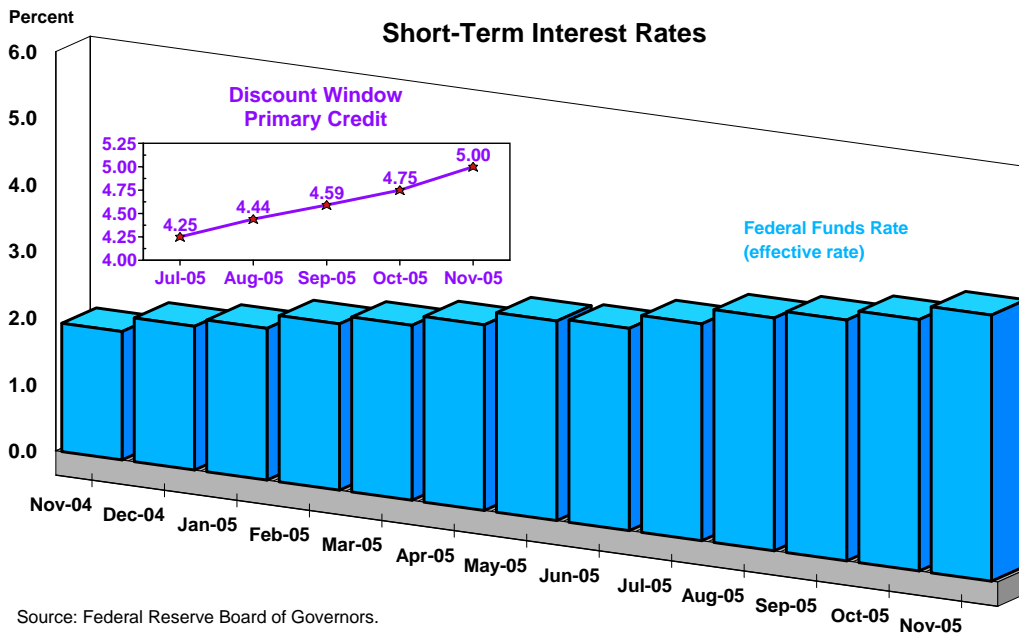
Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy is growing at its fastest pace of the year. The continued recovery of consumer attitudes, reductions in energy prices, and an improving job outlook will be key in sustaining this rate of growth into next year.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.

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

December 8, 2005

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

In November, nonfarm payrolls added 215,000 jobs and the unemployment rate held at 5.0. October payrolls were revised to show an increase of 44,000 jobs, 12,000 fewer than the original estimate of a 56,000 job increase. But September payrolls were revised to a 17,000 job increase, up from the previous estimate of an 8,000 job decrease.

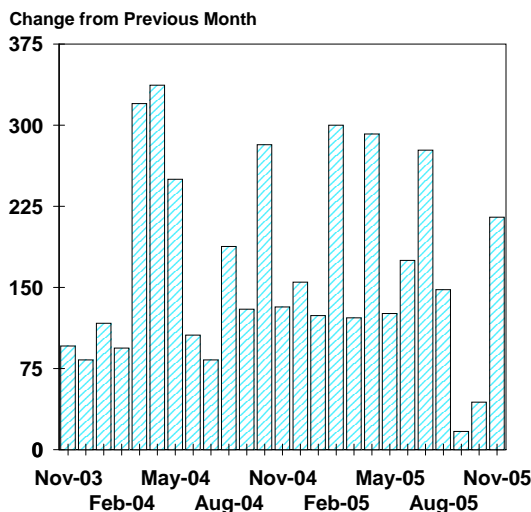
Auto sales increased in November for the first time since July. While sales are still relatively low, lower gas prices coupled with new manufacturers incentives should lead to stronger sales going forward.

Productivity grew at its fastest pace since mid-2003 in the third quarter, while unit labor costs decreased. Costs were also revised to show a 1.2% decrease in the second quarter, originally estimated as a 1.8% increase.

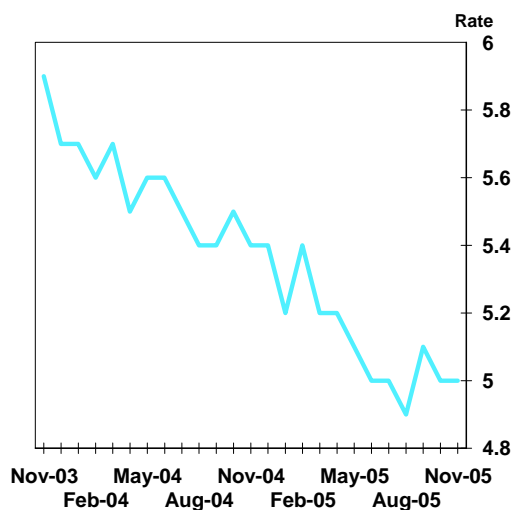
Redbook sales decreased 0.3% in the first week of December, compared to November. Sales were 3.3% higher than during the same period last year. Oil prices increased during the past week, averaging 59.0 dollars per barrel compared to last week's average of 57.4.

Payroll employment posted a strong gain in November, and revisions to the prior two months' estimates resulted in a net gain of 13,000 additional jobs. The unemployment rate was unchanged in November at 5.0%.

Nonfarm Payroll Employment



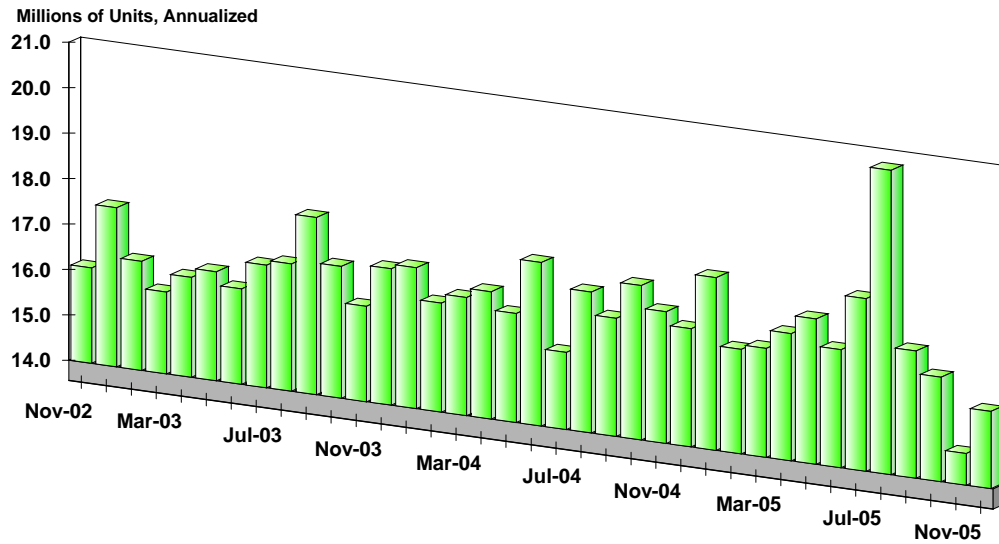
Unemployment Rate



Source: Bureau of Labor Statistics.

Auto sales increased in November, but only to their second-lowest total of the year. Still, the vehicle sales market is improving behind new manufacturers incentives, larger inventories, and lower gas prices.

Total Auto and Light Truck Sales



In the third quarter productivity grew at its fastest pace in two years, but total hours worked were restrained by the hurricanes and may have inflated the productivity estimate. Unit labor costs decreased for the second straight quarter.

Productivity and Costs

