

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - July 14, 2005

Data released since your last Directors' meeting show the economy is growing at a steady pace.

In June, payroll employment increased, and the unemployment rate reached its lowest point in almost four years. Initial claims for unemployment insurance fell slightly, but remain in line with their 2005 average. Consumer attitudes improved, with confidence and sentiment both hitting their highest levels so far this year. Growth in personal income slowed in May, while consumer spending was basically flat. But auto sales picked-up in June, leading to a second quarter average that was among their highest in recent years.

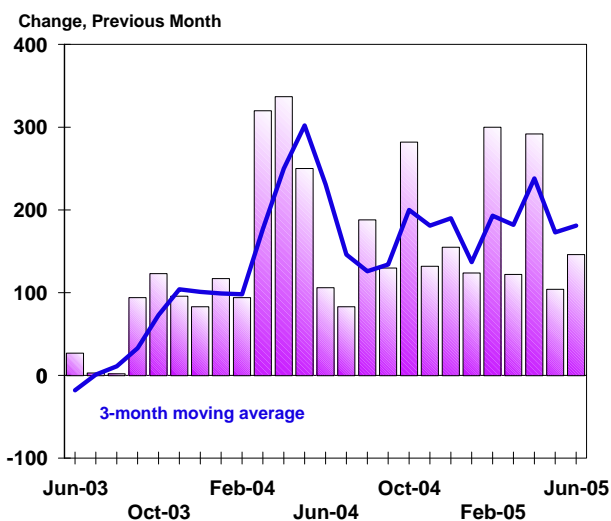
In the housing market, new home sales rose in May, while existing home sales edged downward. Despite a decrease in building permits and flat housing starts, the housing market remains strong.

In manufacturing, the ISM index increased in June after falling steadily for several months. In May, industrial production and capacity utilization rose, as did new orders for durable goods.

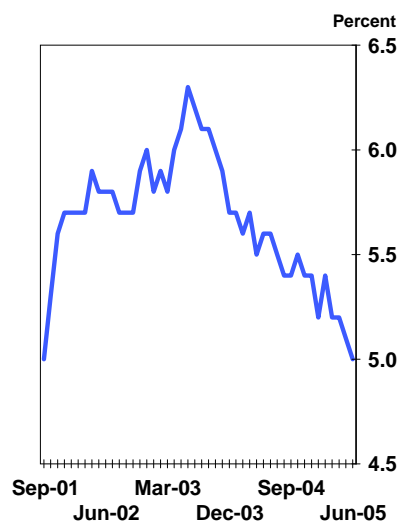
On the inflation front, total consumer and producer prices slowed as energy prices eased. But oil prices started rising again in June and into July. In fact, oil prices hit an all time high of \$61.28 per barrel on July 6th.

Nonfarm payrolls increased at a modest pace in June, and growth was higher in the prior two months than originally estimated. The unemployment rate dropped one-tenth of a percentage point, reaching its lowest point in nearly four years.

Change in Nonfarm Payroll Employment



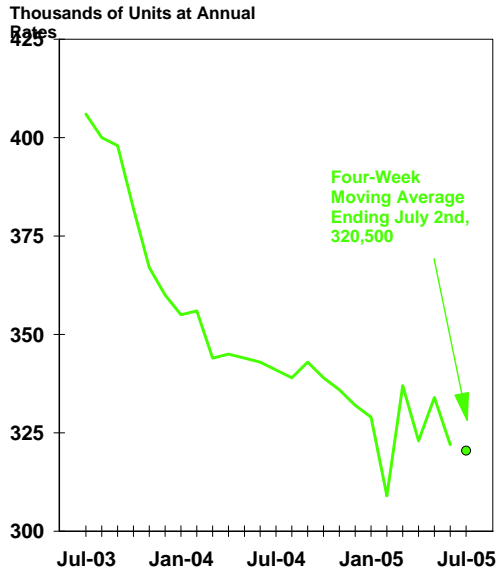
The Unemployment Rate



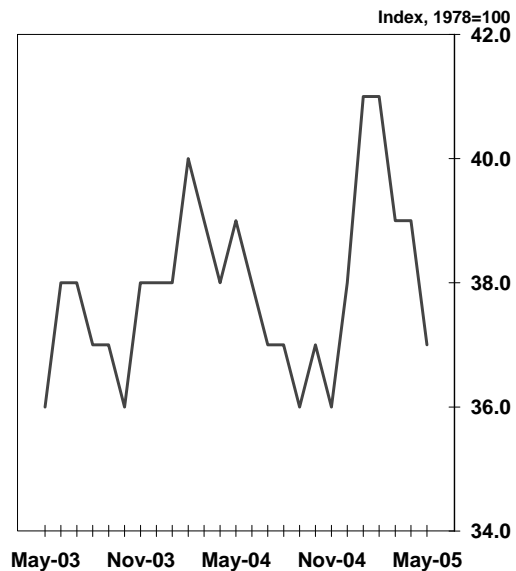
Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance fell slightly in June, but remain near their 2005 average. The help wanted index fell two points in May, and has now dropped four points since January.

Initial Claims



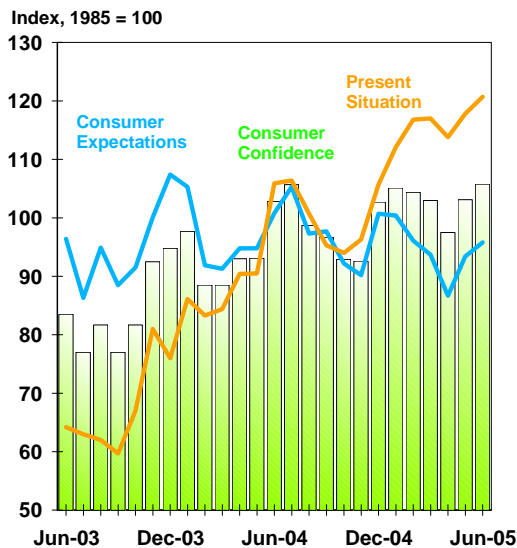
Help Wanted Index



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

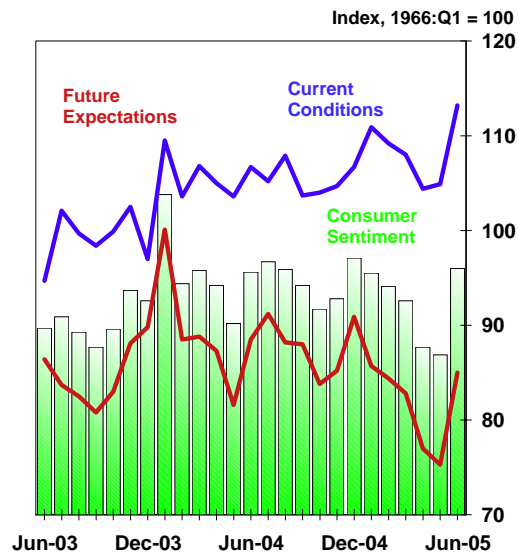
Consumer confidence rose for the second straight month in June, reaching a three year high. Consumer sentiment, current conditions and future expectations all increased in June, offsetting losses seen earlier this year.

Consumer Confidence



Source: The Conference Board.

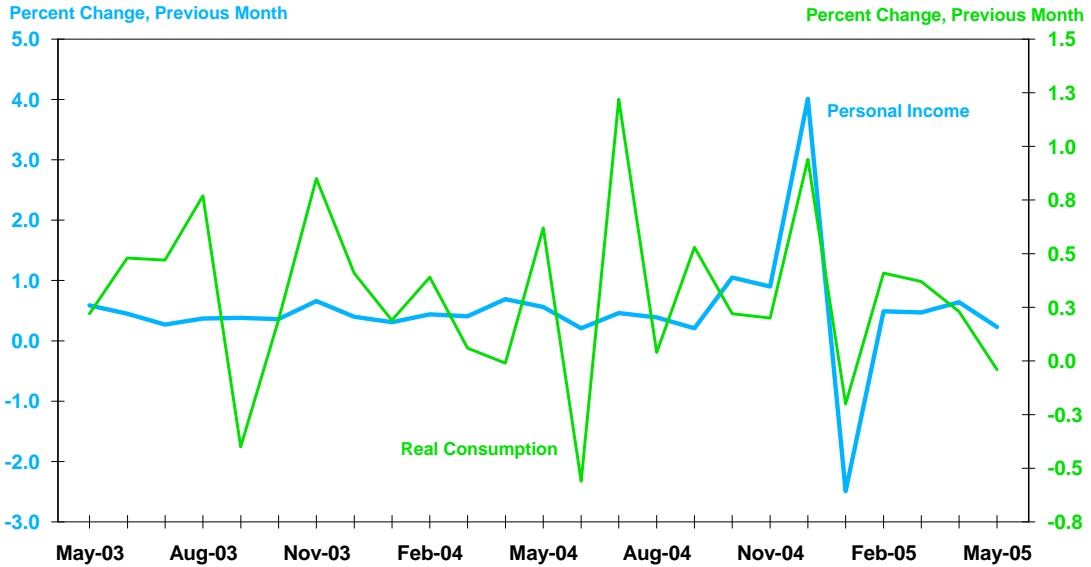
Consumer Sentiment



Source: The University of Michigan.

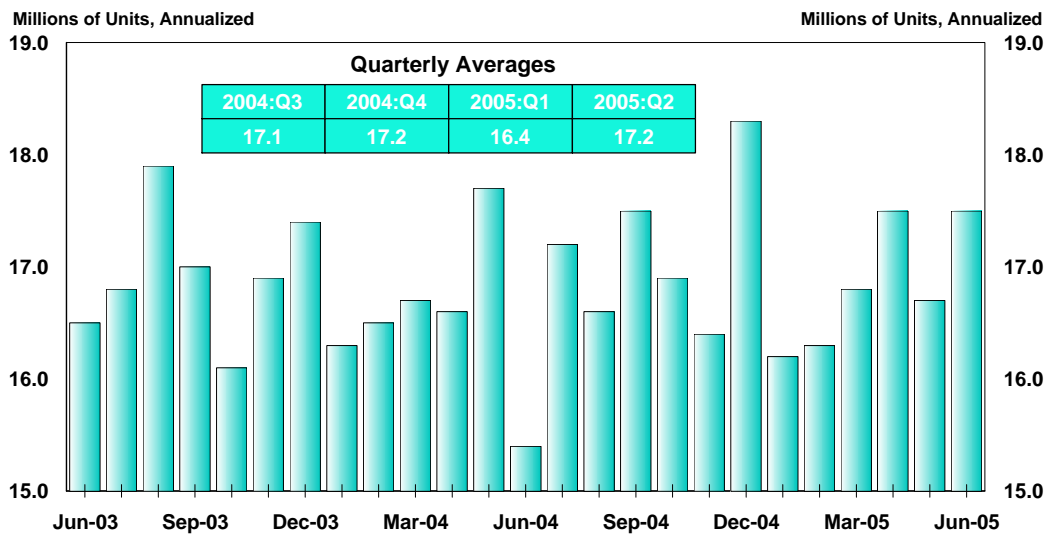
Growth in personal income slowed in May, while real consumption was basically flat.

Personal Income and Consumption



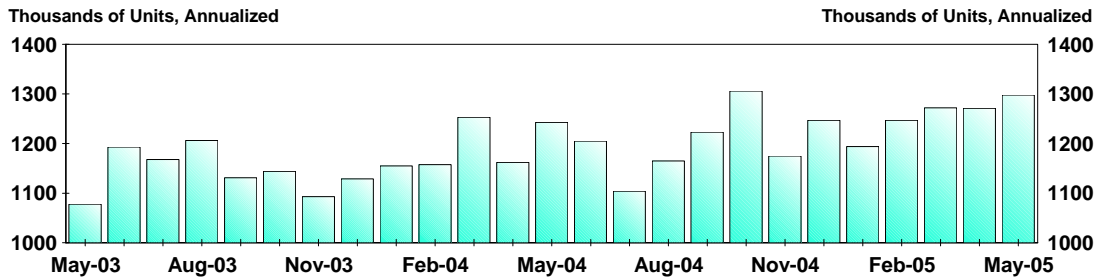
Total auto and light truck sales rose in June, after slowing in May. The second quarter average of vehicle sales is among the highest of the past year.

Total Auto and Light Truck Sales

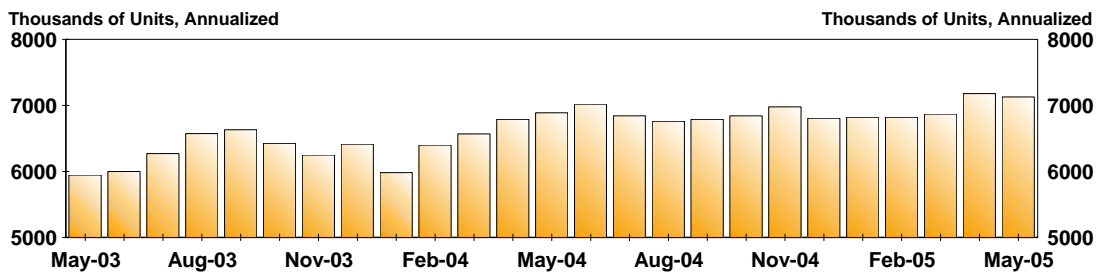


New home sales edged up in February, while existing home sales fell slightly from its prior month's record high.

New Home Sales



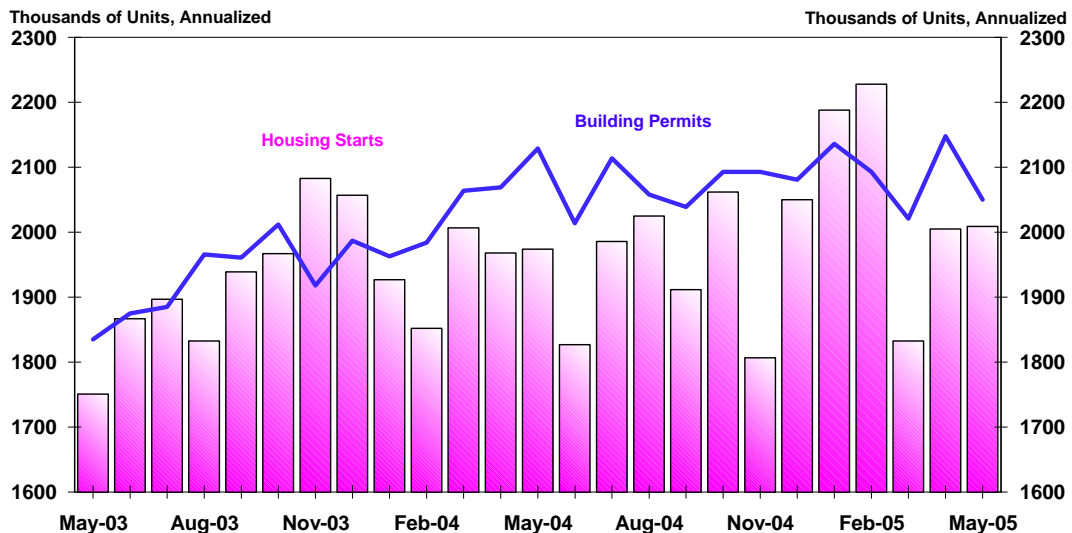
Existing Home Sales



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

Housing starts were essentially flat in May, while building permits fell.

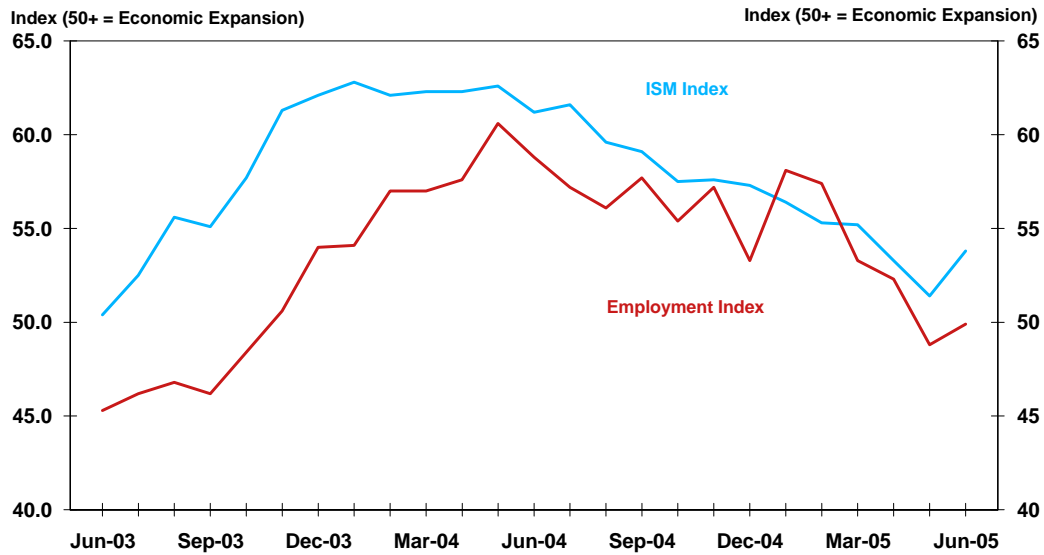
Housing Starts and Building Permits



Source: U.S. Census Bureau.

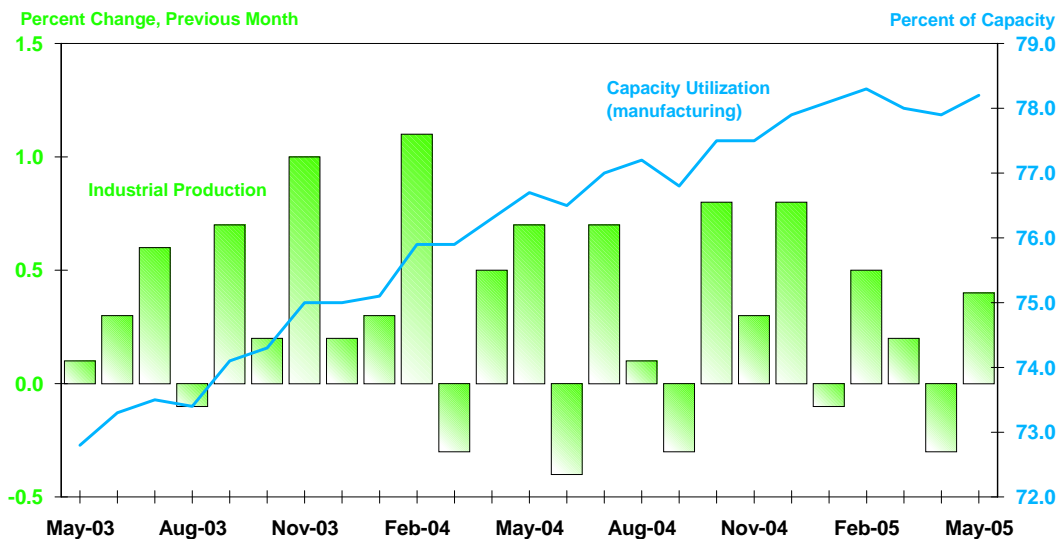
The ISM index increased in June following several months of declines. The employment index also rose, but remains slightly below 50.

ISM Index

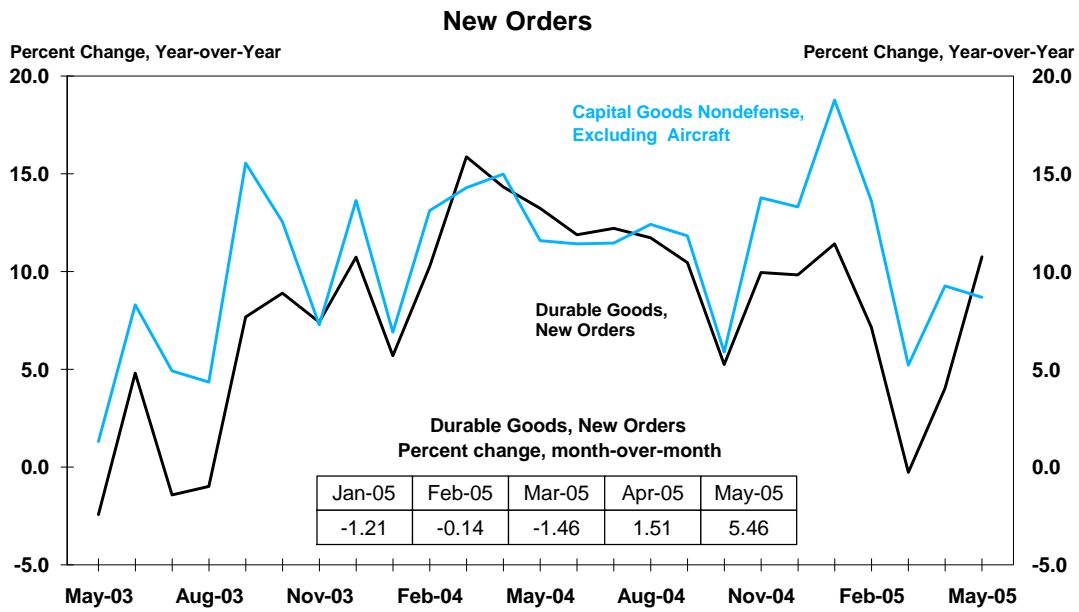


Industrial production and capacity utilization both increased in May, offsetting declines experienced in the previous month.

Industrial Production and Capacity Utilization

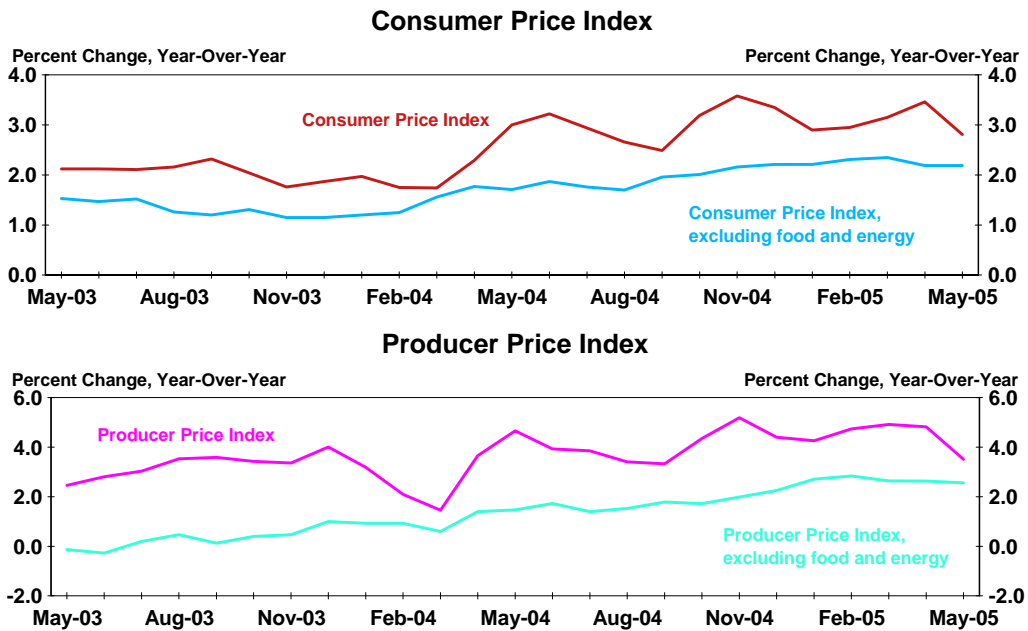


New orders for durable goods rose in May, while capital goods excluding aircraft fell slightly.



Source: U.S. Census Bureau.

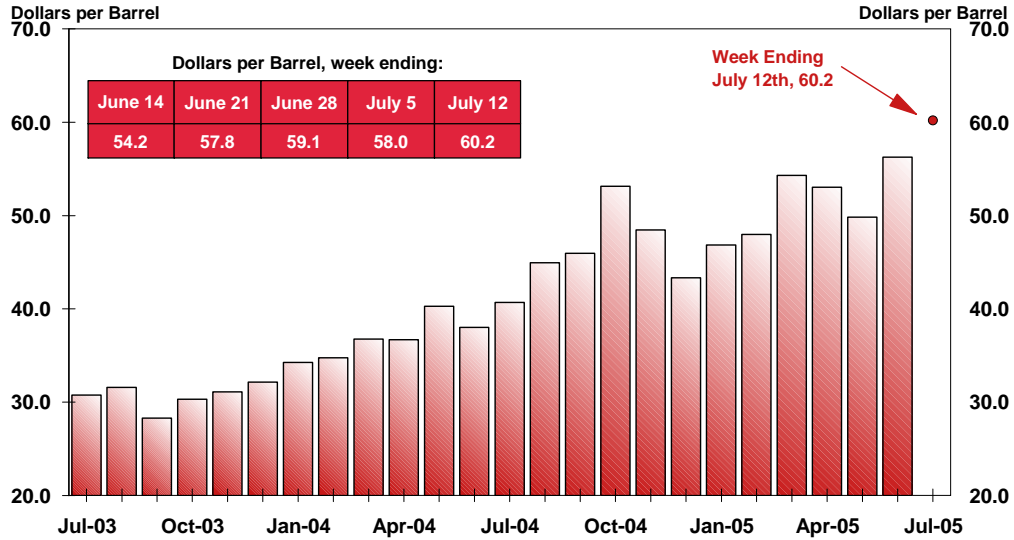
Inflation fell for both consumers and wholesalers in May, as oil prices decreased. Core measures of inflation were flat.



Source: Bureau of Labor Statistics.

After falling for two consecutive months, oil prices rose sharply in June. The price per barrel closed above \$60 for the first time ever on June 27th.

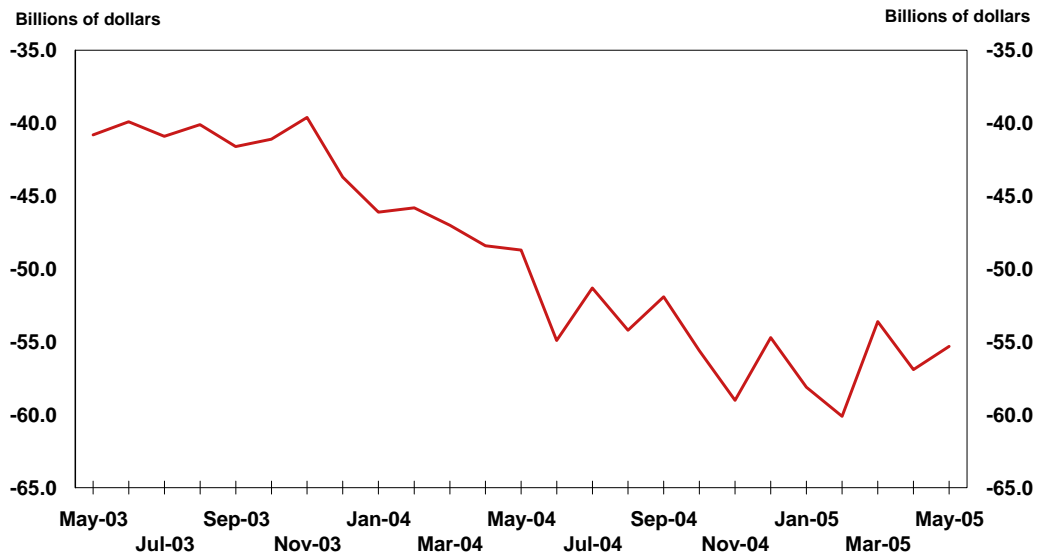
Domestic Spot Oil Price



Source: Wall Street Journal.

The U.S. trade deficit narrowed in May, as the dollar value of imports decreased due to lower oil prices. Exports increased marginally, but still established a new high.

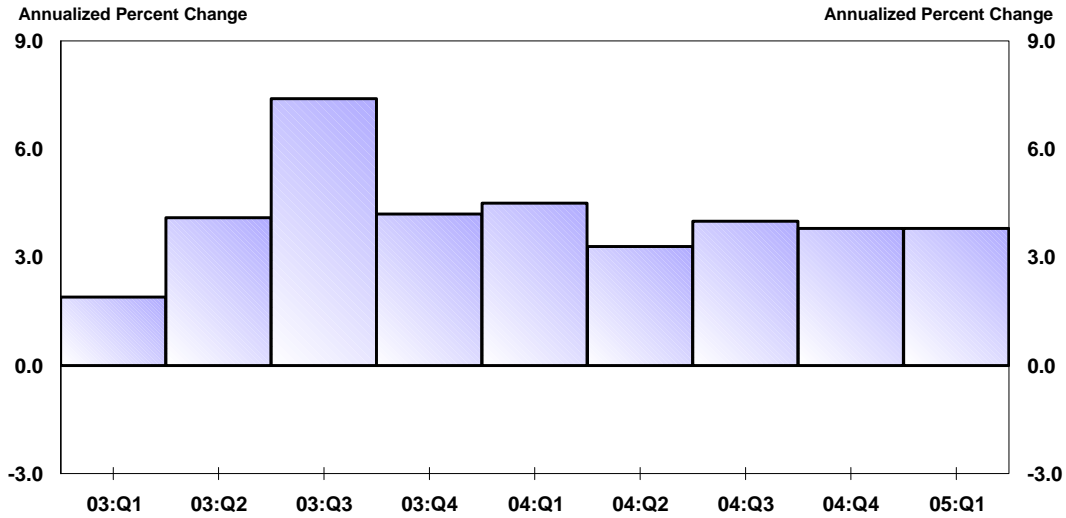
The U.S. Trade Deficit



Source: Bureau of Economic Analysis.

Real GDP was revised upward 0.3% to 3.8% in the final estimate for the first quarter, reflecting an upward revision to exports and to fixed residential investment. Real GDP growth was also 3.8% in the fourth quarter.

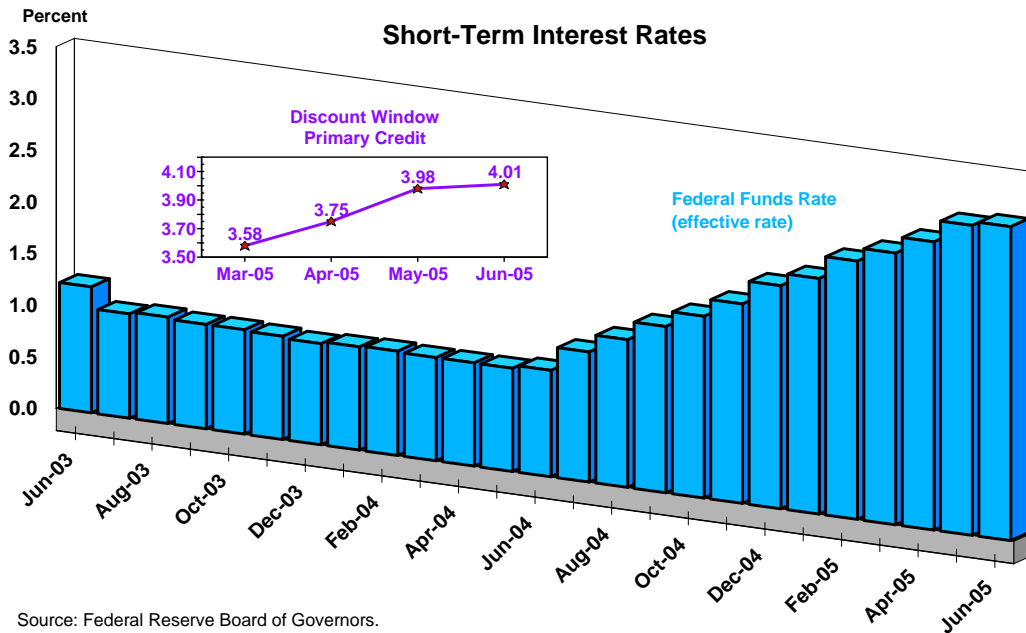
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

Overall, the economy is growing at a steady pace. Consumer attitudes are on the rise, despite escalating energy prices. To maintain the current rate of economic growth, continued payroll increases will be vital.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.