



The
President's
Report to the
Board of
Directors

November 3, 2005

CURRENT ECONOMIC DEVELOPMENTS - November 3, 2005

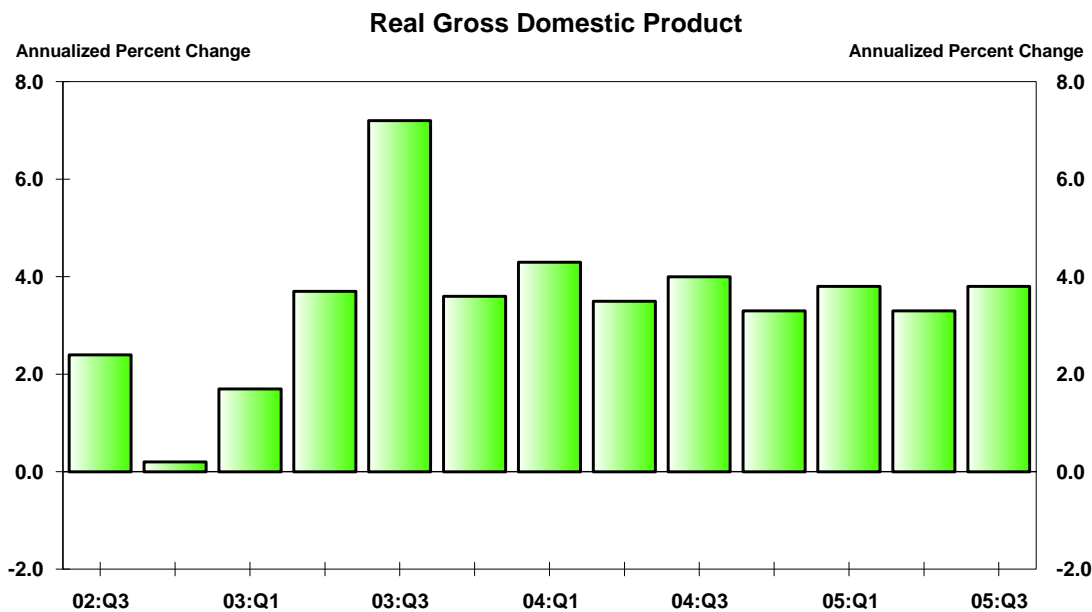
Data since your last Directors' meeting show the economy grew in the third quarter at a faster pace than seen in the second quarter.

The increase in real GDP in the third quarter was due primarily to personal consumption expenditures, equipment and software, government spending, and residential fixed investment. The contributions of these components were partly offset by a negative contribution from private inventory investment.

In October, consumer attitudes continued to deteriorate, and auto and light truck sales expectedly fell with the expiration of special dealer incentives. Initial claims for unemployment insurance receded in late October after spiking in the third quarter in the aftermath of the hurricanes. Both the ISM manufacturing and employment indices followed third quarter rebounds with further increases in October.

High energy prices continue to stir inflation concerns, yet recent data show no evidence of that effect passing through to all consumer goods as core consumer prices continued to ease in the third quarter. Unit labor costs fell in the third quarter, and total compensation costs, as measured by the ECI, decreased slightly.

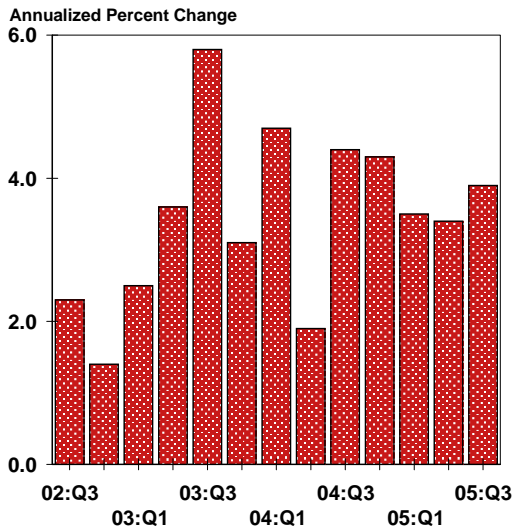
Real GDP growth accelerated in the third quarter. The gain primarily reflected a smaller decrease in private inventory investment and accelerations in personal consumption expenditures and government spending that were partly offset by decelerations in exports and residential fixed investment.



Source: Bureau of Economic Analysis.

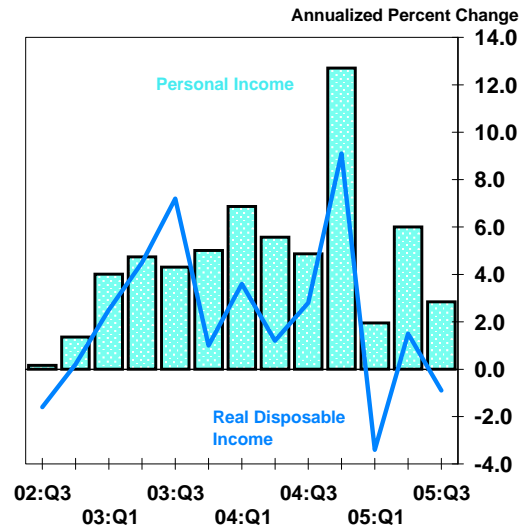
During the third quarter, real consumption grew at its fastest pace of the year despite a slowdown in personal income and a drop in Real DPI.

Real Consumption



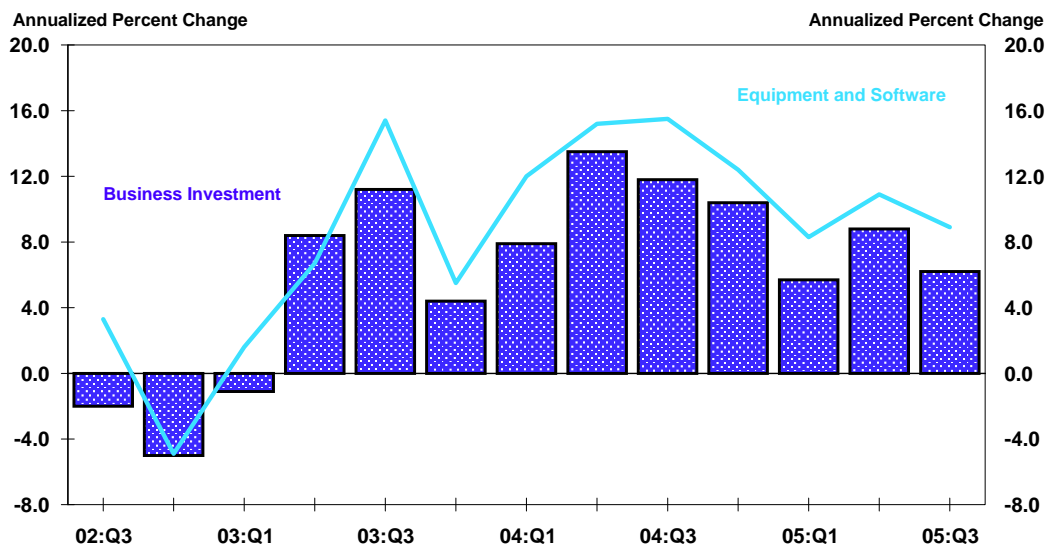
Source: Bureau of Economic Analysis.

Personal Income



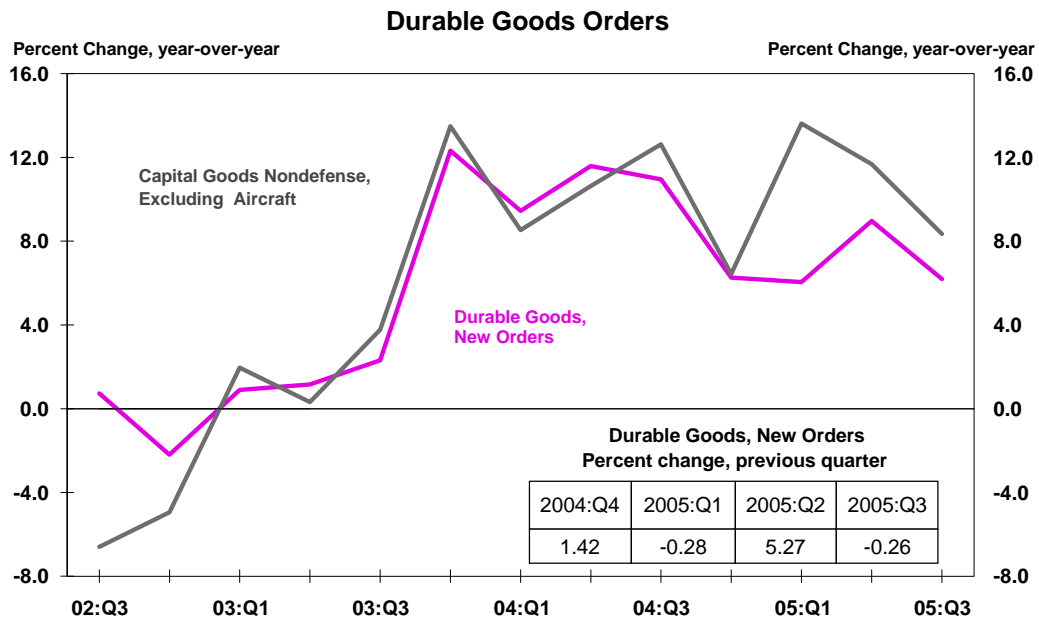
Growth in business investment decreased in the third quarter, due primarily to a deceleration in equipment and software investment.

Business Investment



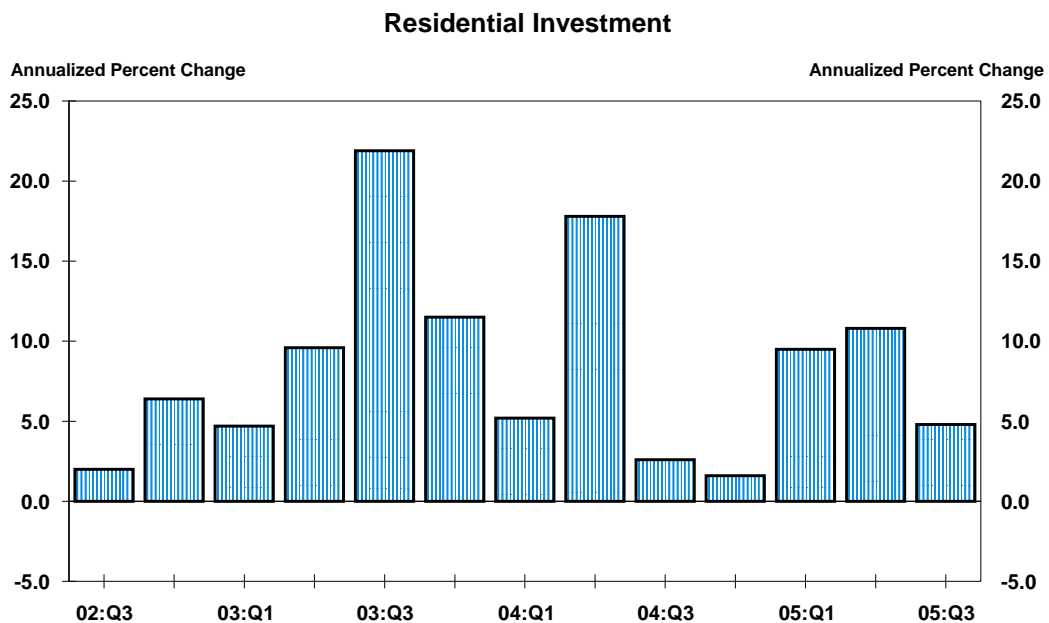
Source: Bureau of Economic Analysis.

New orders for durable goods fell in the third quarter, offsetting their second quarter gains. Orders of nondefense capital goods, excluding aircraft, also slowed.



Source: U.S. Census Bureau.

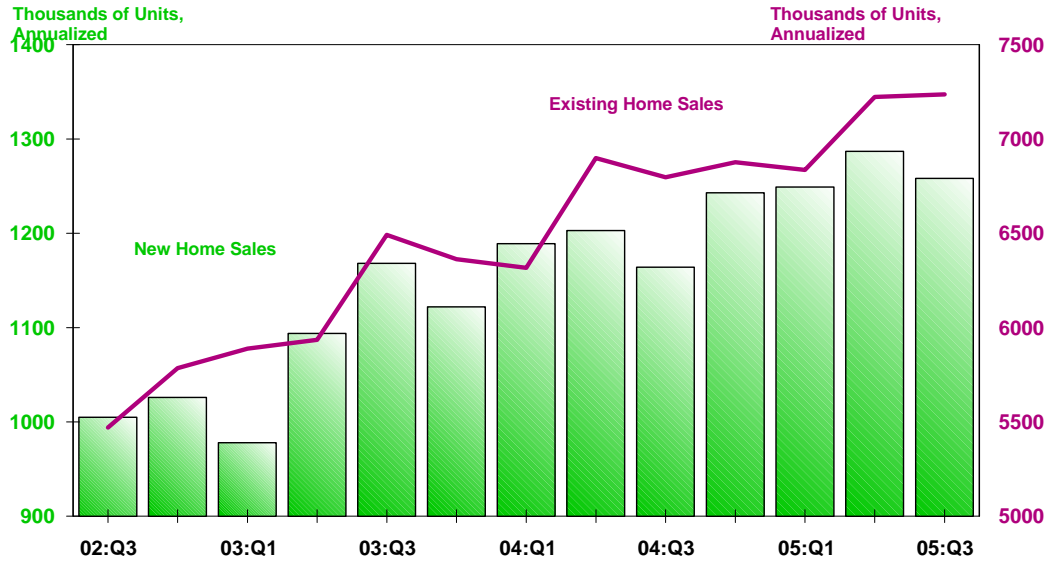
Residential investment cooled in the third quarter, resulting in its slowest growth of the year.



Source: U.S. Census Bureau.

In the third quarter, new home sales receded a bit from their previous record high, while the pace of existing home sales held relatively steady.

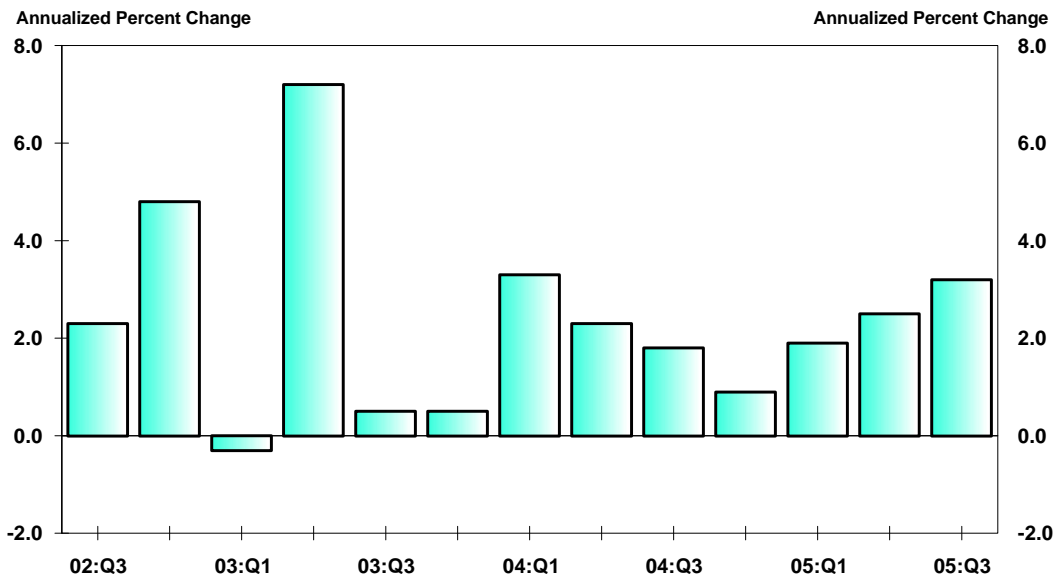
New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending continued to accelerate in the third quarter.

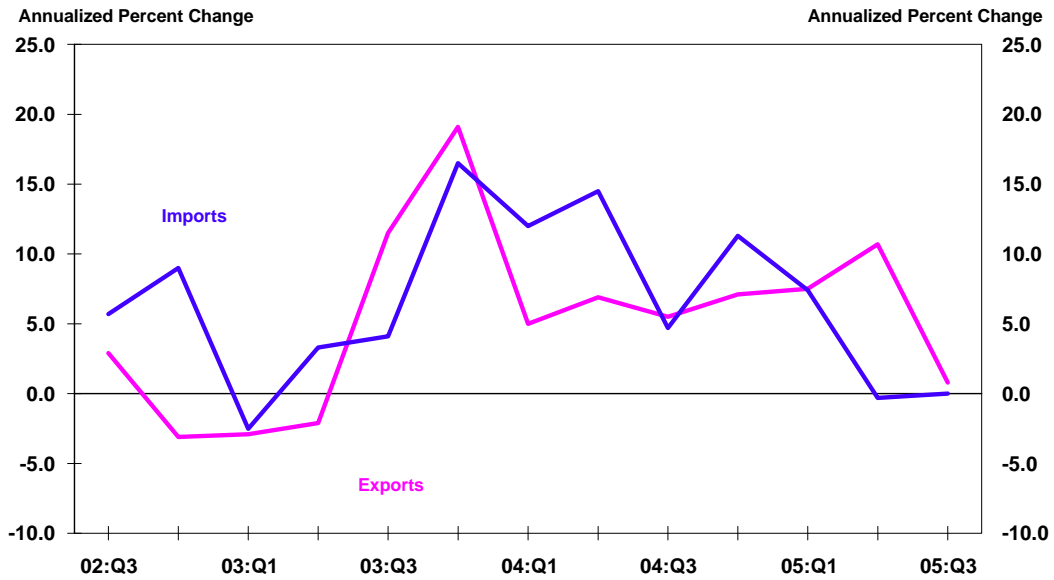
Government Spending



Source: Bureau of Economic Analysis.

Export growth slowed dramatically in the third quarter, and imports remained relatively flat.

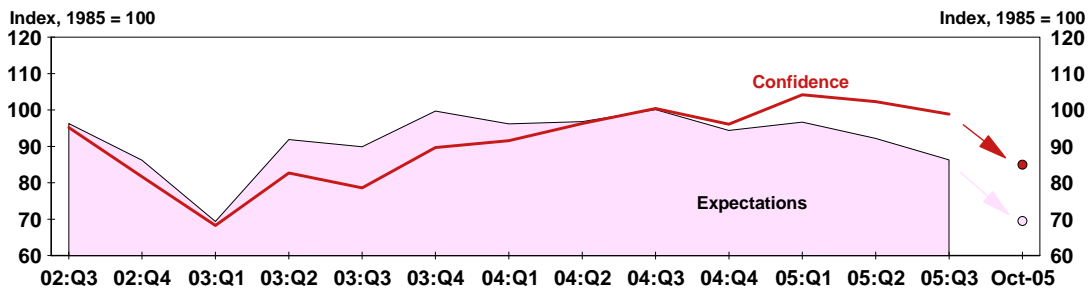
Exports and Imports



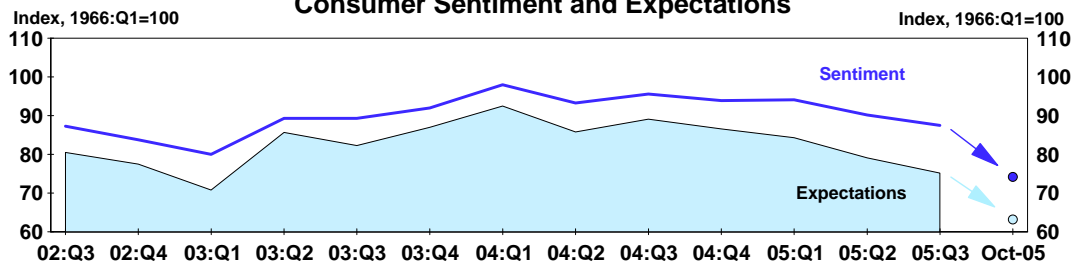
Source: Bureau of Economic Analysis.

Consumer attitudes deteriorated in the third quarter, and fell still further in October. Measures are at their lowest point in over two years and reflect consumers' concerns about the recent hurricanes and high gas prices.

Consumer Confidence and Expectations



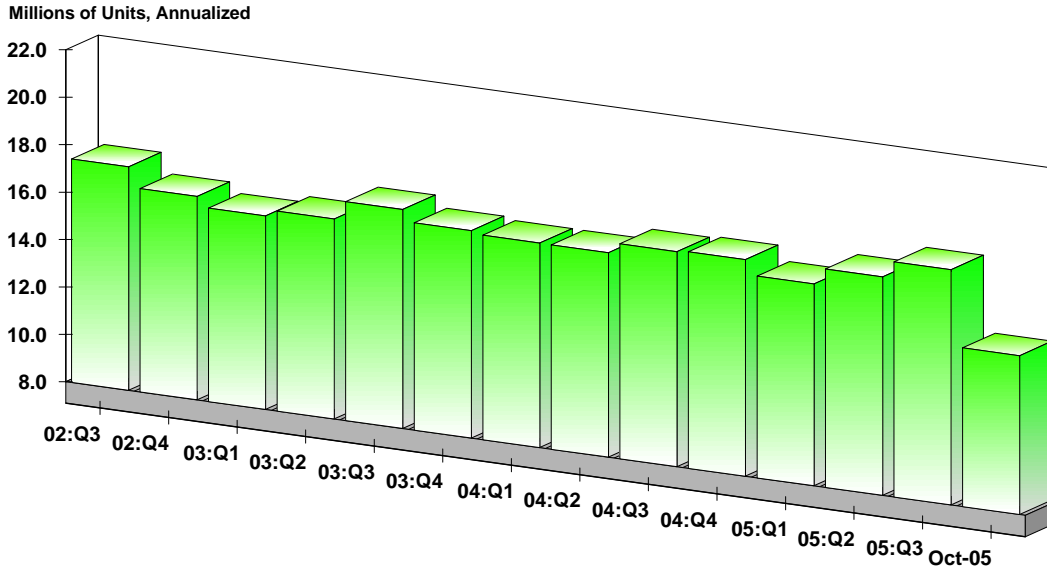
Consumer Sentiment and Expectations



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

Generous discount programs offered by manufacturers led to strong auto and light truck sales during the second and third quarters. The removal of those incentives, however, along with high gas prices and lower consumer confidence, contributed to weaker sales in October.

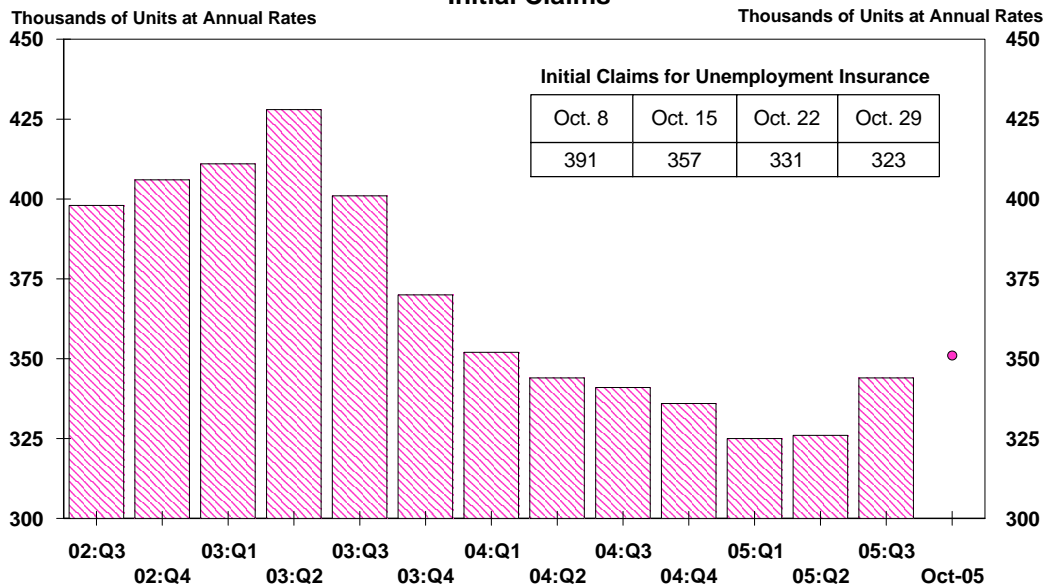
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis

Initial claims for unemployment insurance jumped late in the third quarter and into October due to job losses stemming from Hurricane Katrina, but have since fallen back to their pre-hurricane levels.

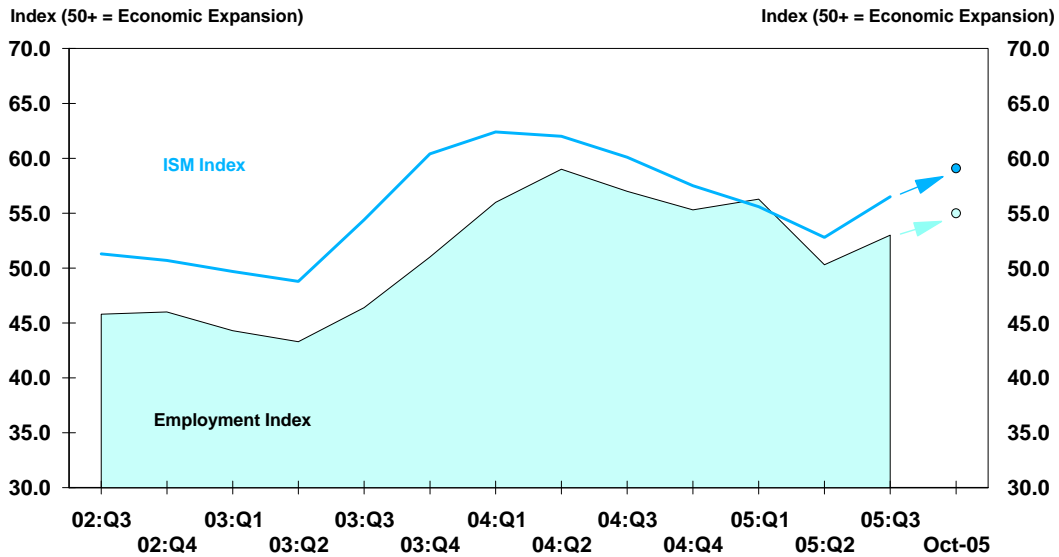
Initial Claims



Source: Department of Labor, Employment and Training Administration.

In the third quarter, the ISM index increased following five successive quarters of declines, and the employment index rebounded from its second quarter dip. Both measures continued to rise in October.

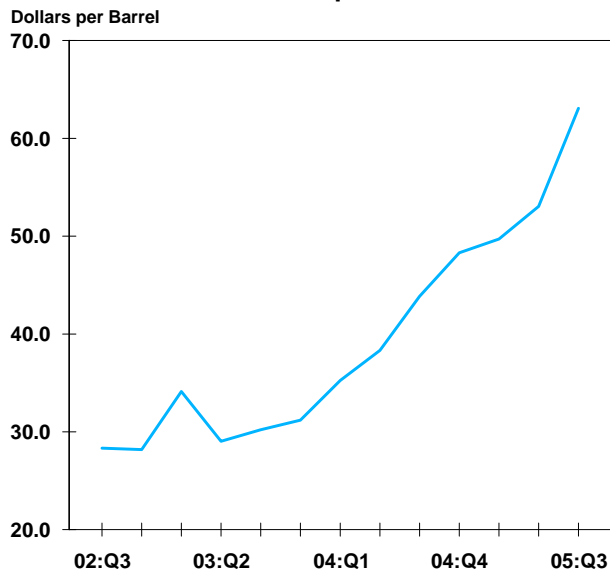
ISM Index



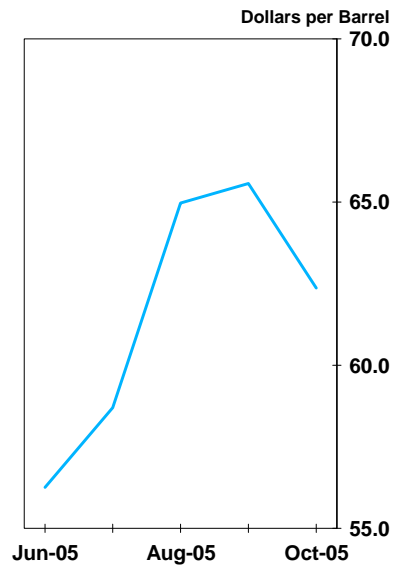
Source: National Association of Purchasing Management.

Oil prices rose sharply in the third quarter, setting another record high. Recent data show prices easing a bit.

Domestic Spot Oil Price



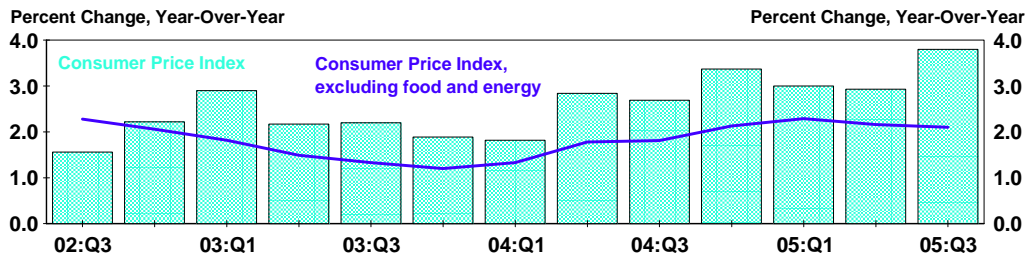
Past Five Months



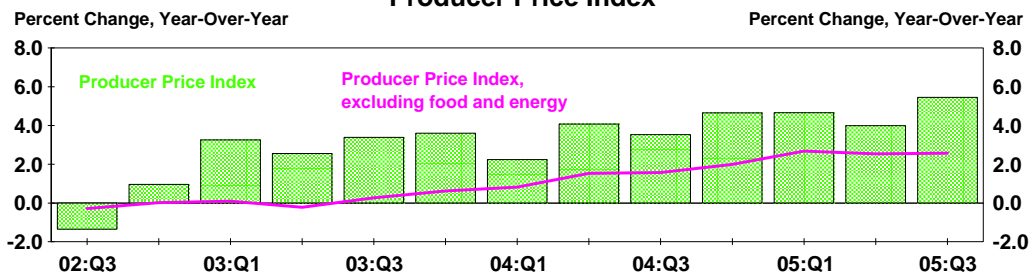
Source: Wall Street Journal (oil prices).

Higher energy prices continue to increase headline inflation, but there is little evidence of that effect passing through to all consumer goods. Core consumer price inflation slowed slightly in the third quarter, while core producer inflation has held steady throughout 2005.

Consumer Price Index



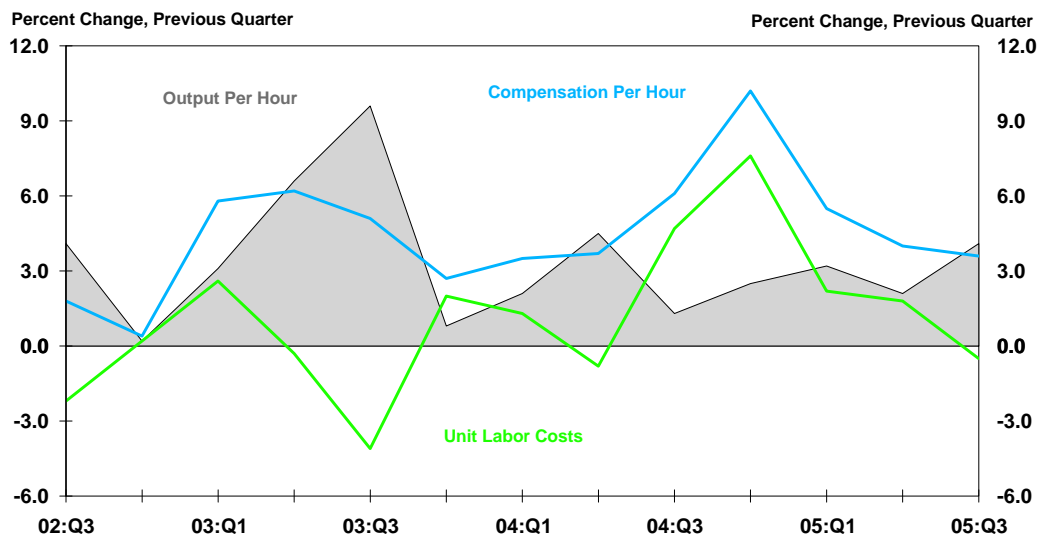
Producer Price Index



Source: Bureau of Labor Statistics.

Productivity growth increased at its fastest pace in over a year in the third quarter. These gains occurred even as compensation growth slowed and unit labor costs fell.

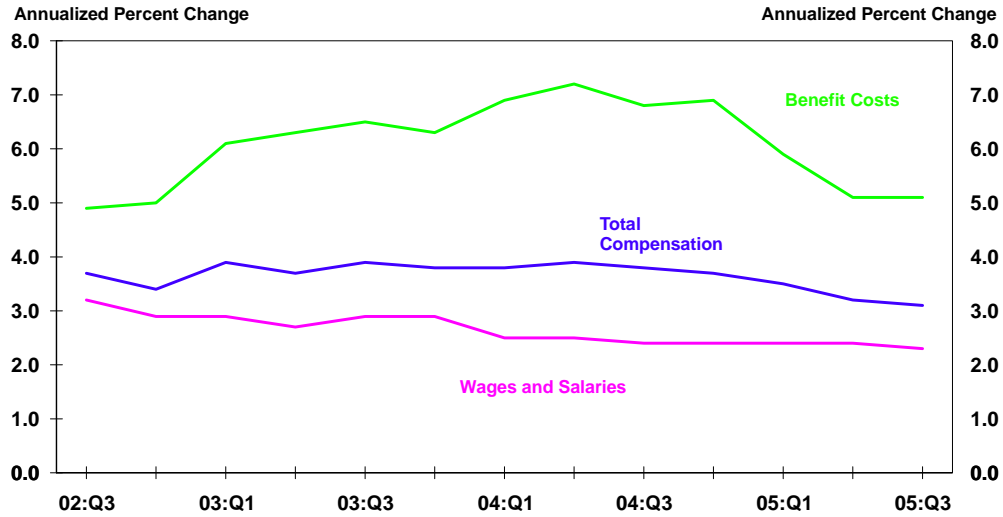
Productivity and Costs



Source: Bureau of Labor Statistics.

In the third quarter, employment costs experienced their fifth consecutive quarterly decrease as wages decreased and benefits costs were unchanged.

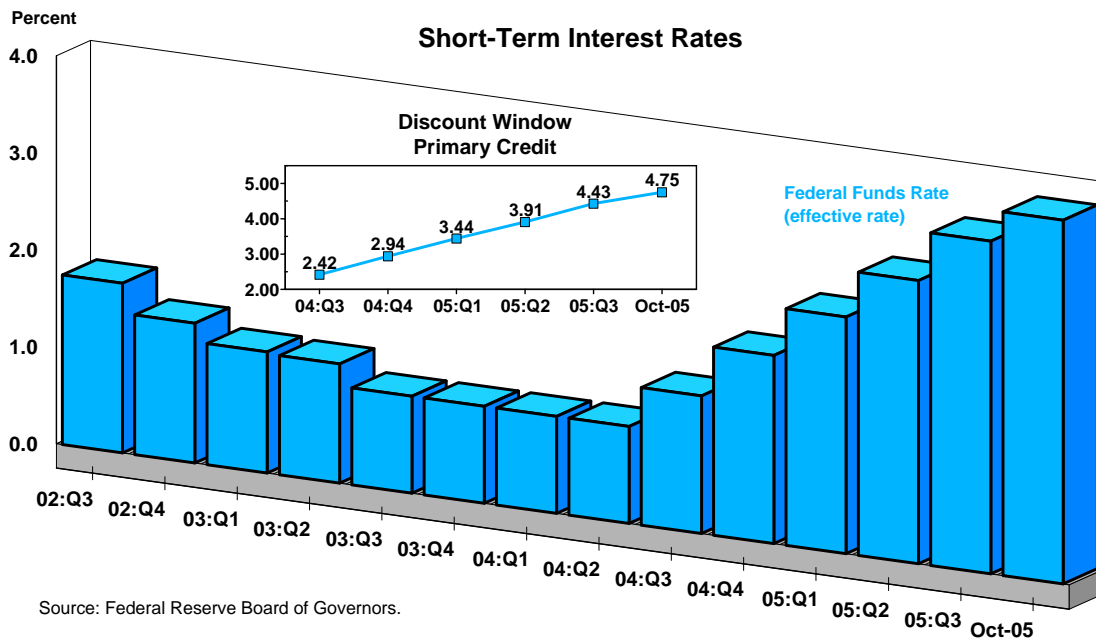
Employment Cost Index



Source: Bureau of Labor Statistics.

Overall, the economy grew in the third quarter at a faster pace than in the second quarter. Consumption is strong and the housing market remains vibrant, despite weakening consumer attitudes. Energy prices are still high, keeping inflation concerns at the forefront, but to this point core prices have been unaffected.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.

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

November 10, 2005

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

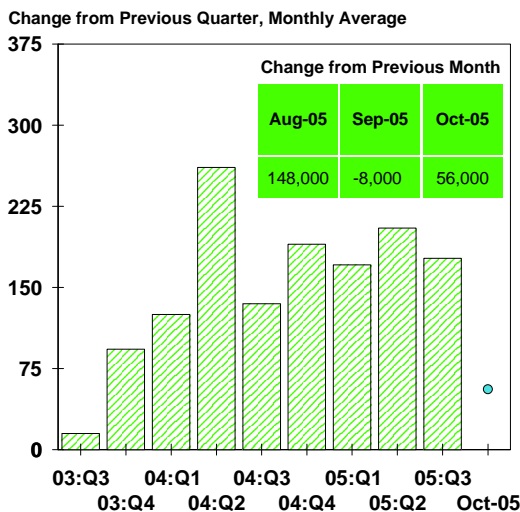
In October, nonfarm payrolls added 56,000 jobs and the unemployment rate fell one-tenth of a percentage point to 5.0. September payrolls, originally estimated as losing 35,000 jobs, were revised to show a decrease of only 8,000 jobs.

Redbook sales increased 0.5% in the first week of November, compared to October. Sales were 4.2% higher than during the same period last year.

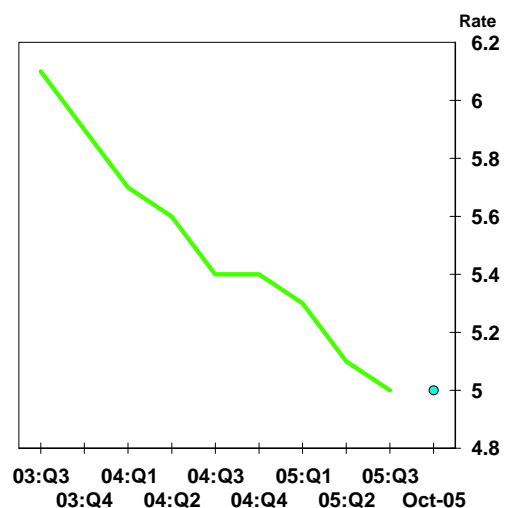
Oil prices held relatively steady over the past week, averaging 60.3 dollars per barrel compared to last week's average of 60.5.

Payroll employment rose less than expected in October, but job losses in September were revised downward as the effects of the hurricanes were smaller than previously estimated. The unemployment rate was the same in October as in the third quarter.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.