

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

Current Economic Developments - October 12th, 2005

Data released since your last Directors' meeting show the normal short-term effects of a natural disaster. Third quarter economic growth is not expected to be as strong as anticipated before the hurricanes, but a significant rebuilding effort makes for a more positive outlook for the fourth quarter and early 2006.

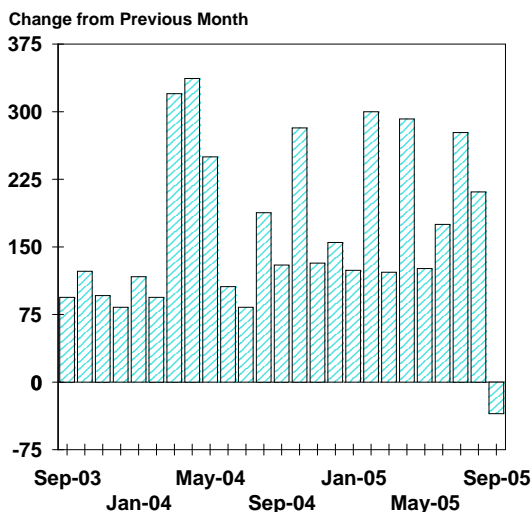
In September, payroll employment decreased and initial claims shot up dramatically, both due mostly to hurricane related job losses. Consumer attitudes have also been effected by the storms, as sentiment and confidence both reached two year lows. The removal of incentives caused auto sales to fall as expected. Personal income declined in August while spending, representative of the decline in auto sales, experienced a significant fall after two months of strong growth.

In the business sector, industrial production and capacity utilization both posted small gains in August and the September ISM diffusion index rose to its highest point this year. Orders for durable goods increased in August, following a weak July.

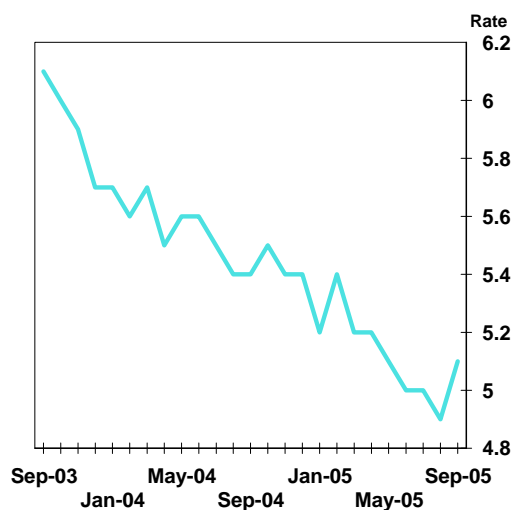
While core consumer and producer prices showed little change in August, escalating energy prices may be cause for concern. There is a risk that higher gasoline and heating prices will undermine consumers' willingness to spend, especially as we enter cooler months. The continued recovery of Gulf Coast oil and natural gas supplies is key.

Payroll employment fell in September, but the decrease was far more mild than expected. Still, the unemployment rate increased by two tenths of a percentage point.

Nonfarm Payroll Employment



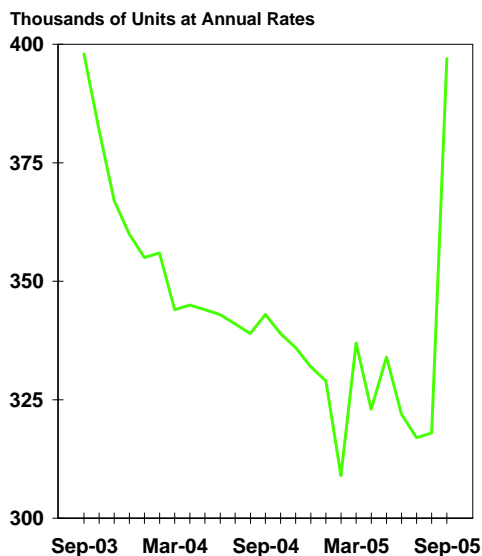
Unemployment Rate



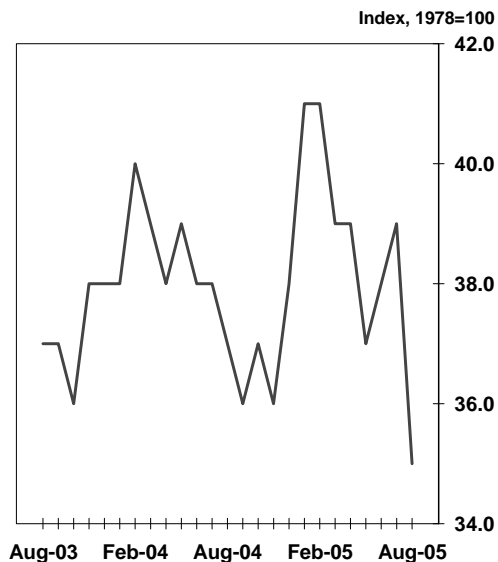
Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance surged in September, due mostly to the recent hurricanes, but have shown signs of receding over the past two weeks. The help wanted index fell four points in August, reaching its lowest point on record.

Initial Claims



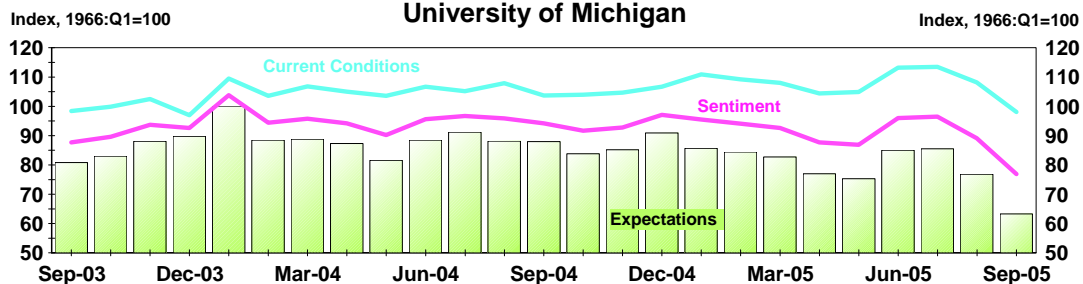
Help Wanted Index



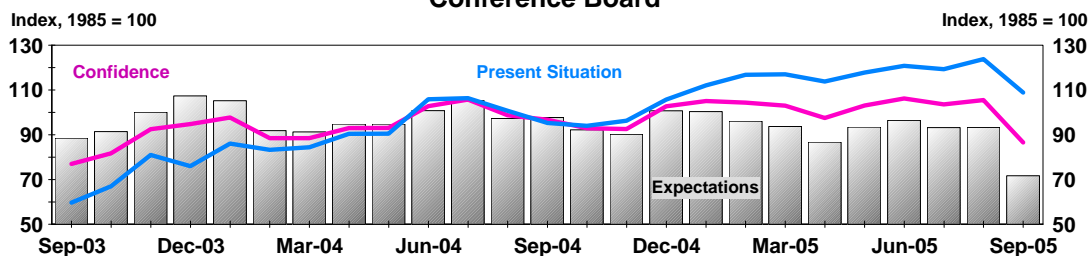
Source: Department of Labor, Employment and Training Administration (claims) and The Conference Board (help wanted).

Consumer attitudes have been significantly affected by the hurricanes, with sentiment, confidence, and expectations all deteriorating in September.

University of Michigan



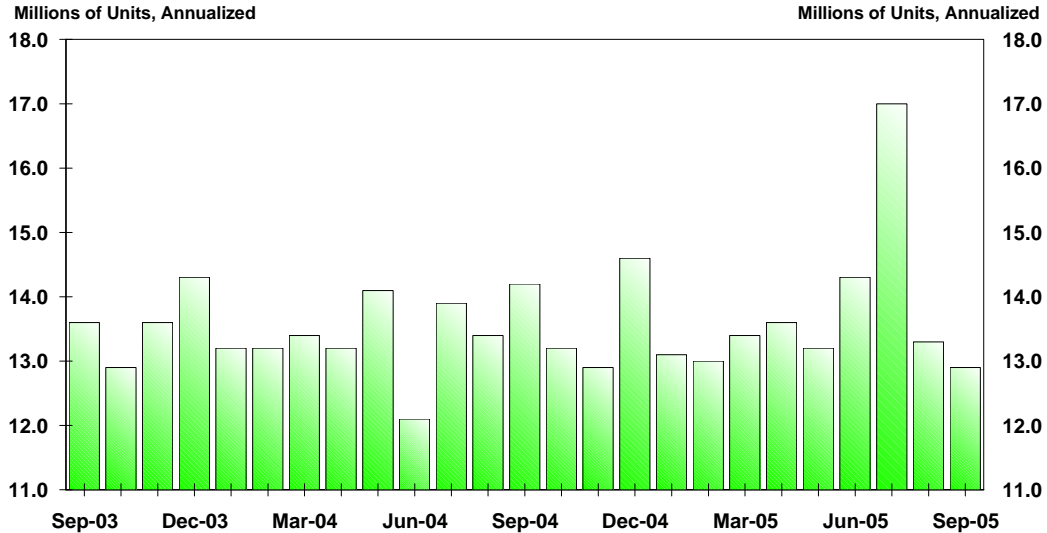
Conference Board



Source: University of Michigan Consumer Sentiment (top panel) and The Conference Board Consumer Confidence (bottom panel).

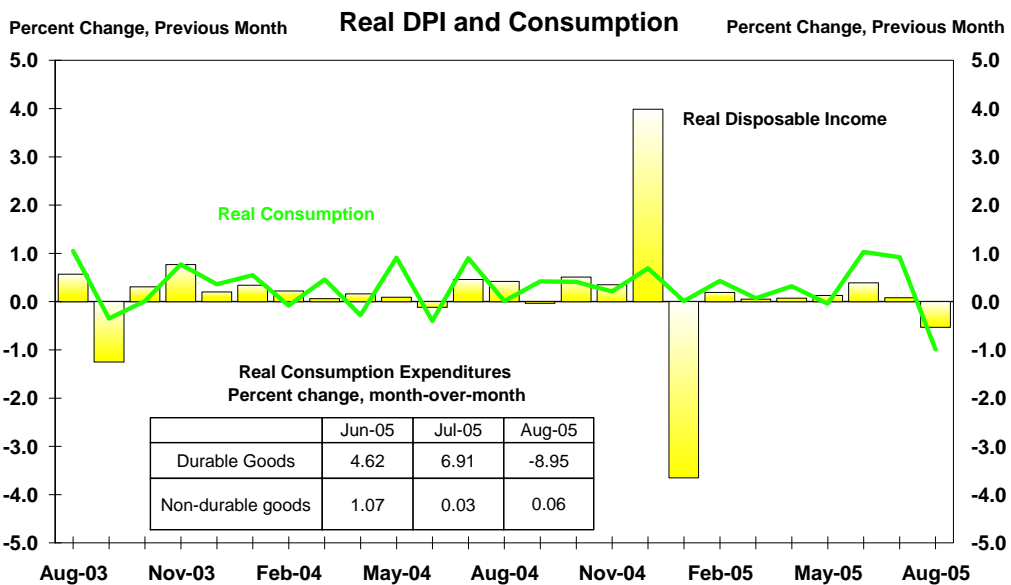
In September, domestic auto and light truck sales fell to their lowest level of the year, from their highest levels reached during the summer.

Domestic Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

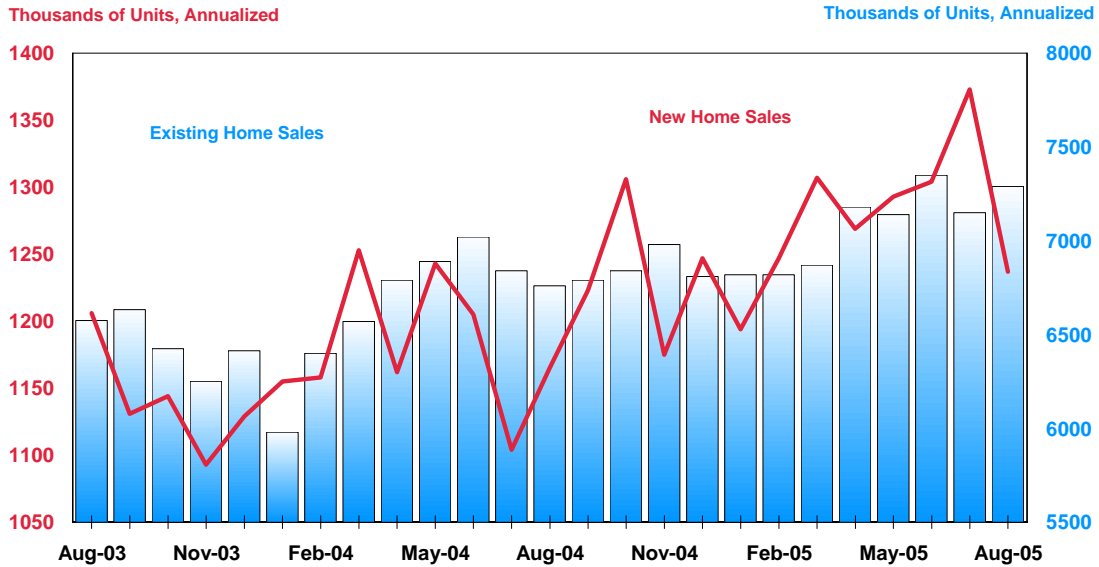
In August, real disposable income decreased for the first time since January. The one percent drop in real consumption in August was the largest decline in nearly four years, and due mostly to the fall in auto sales. Consumption of non-durable goods increased marginally.



Source: Bureau of Economic Analysis.

In August, sales of existing homes increased to recoup most of the previous month's losses. New home sales receded from their recent record highs, but remain historically strong.

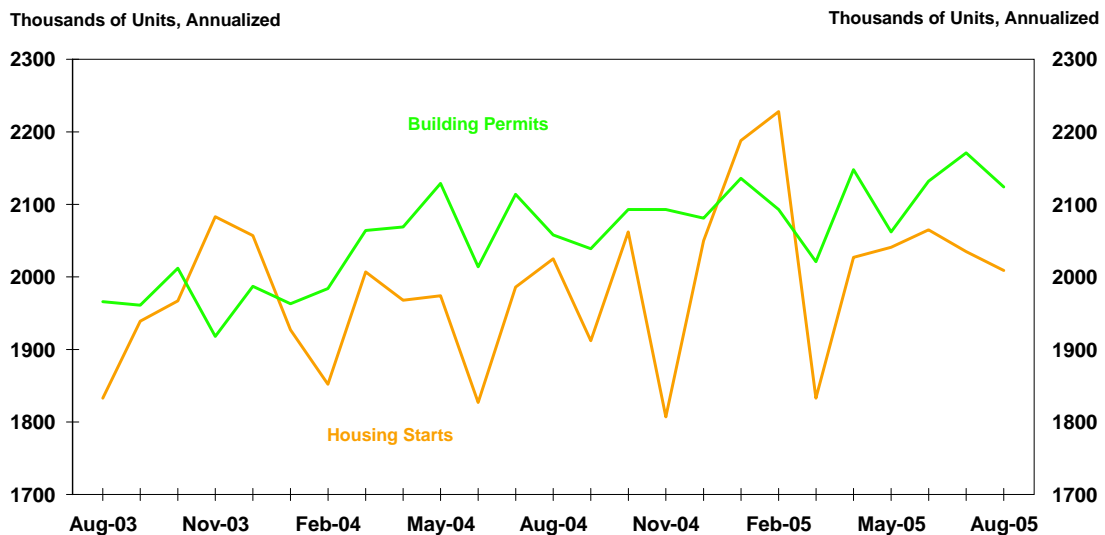
New and Existing Home Sales



Source: U.S. Census Bureau.

Building activity slowed in August, but both permits and housing starts are in line with their 12-month averages.

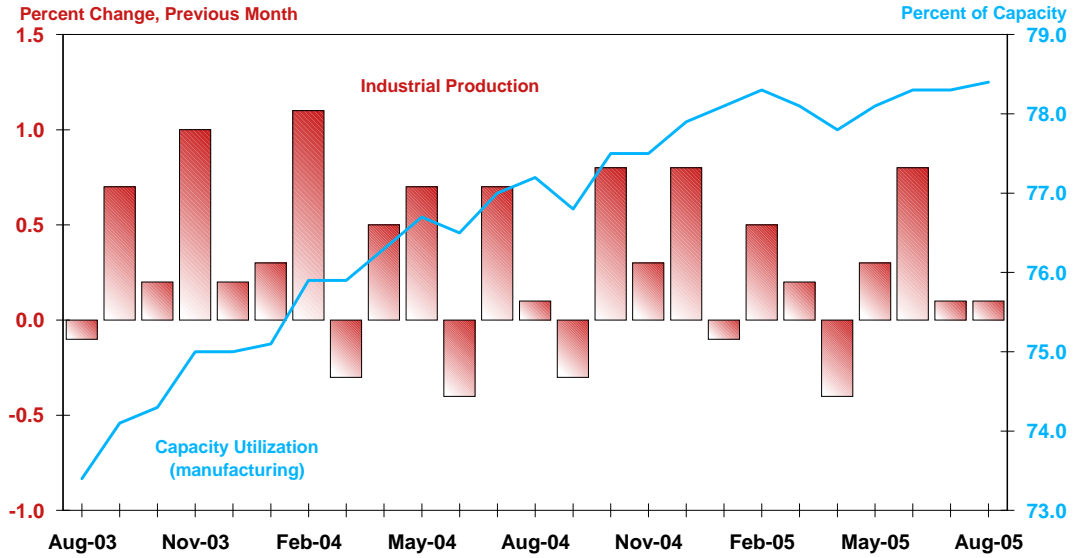
Housing Starts and Building Permits



Source: U.S. Census Bureau.

Industrial production increased for the fourth consecutive month in August, while capacity utilization posted a small gain.

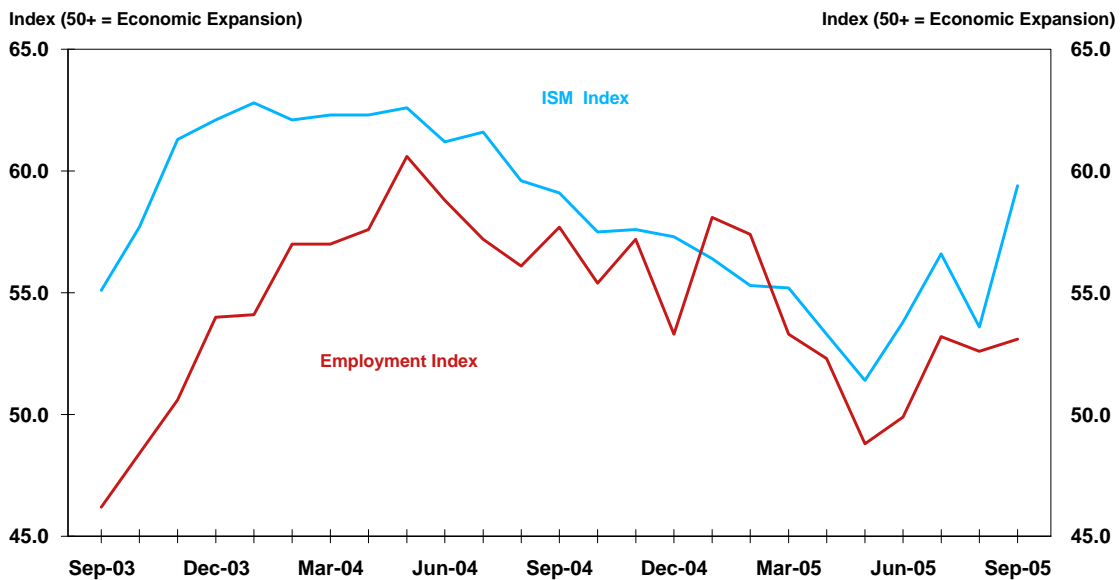
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

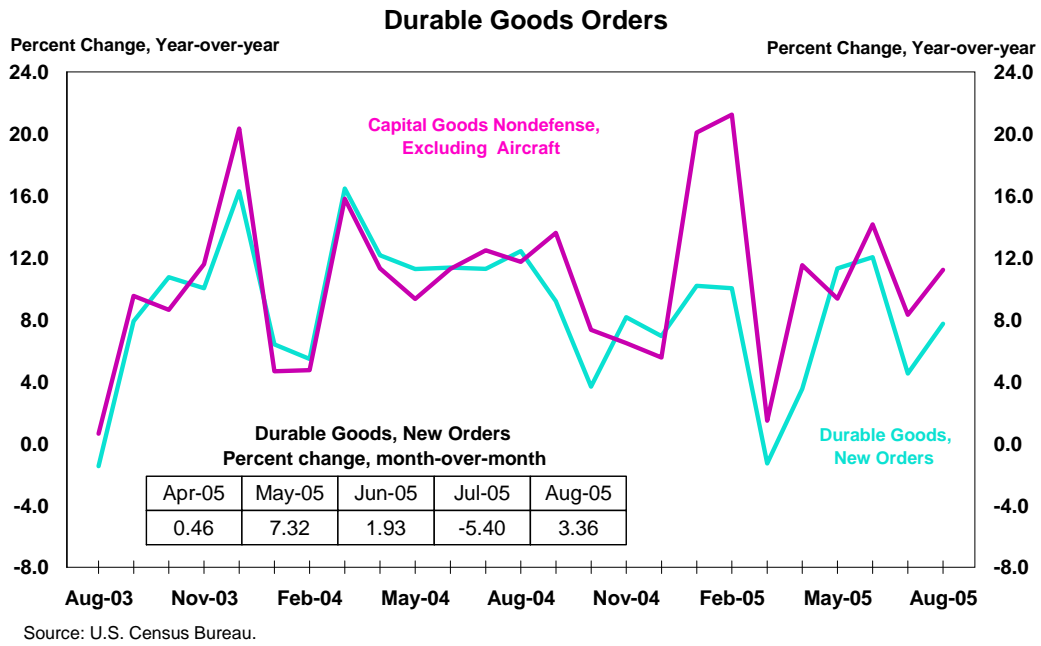
In the business sector, the ISM diffusion index rose in September, reaching its highest point in over a year. The manufacturing employment component of the index increased, offsetting it's August dip.

ISM Index

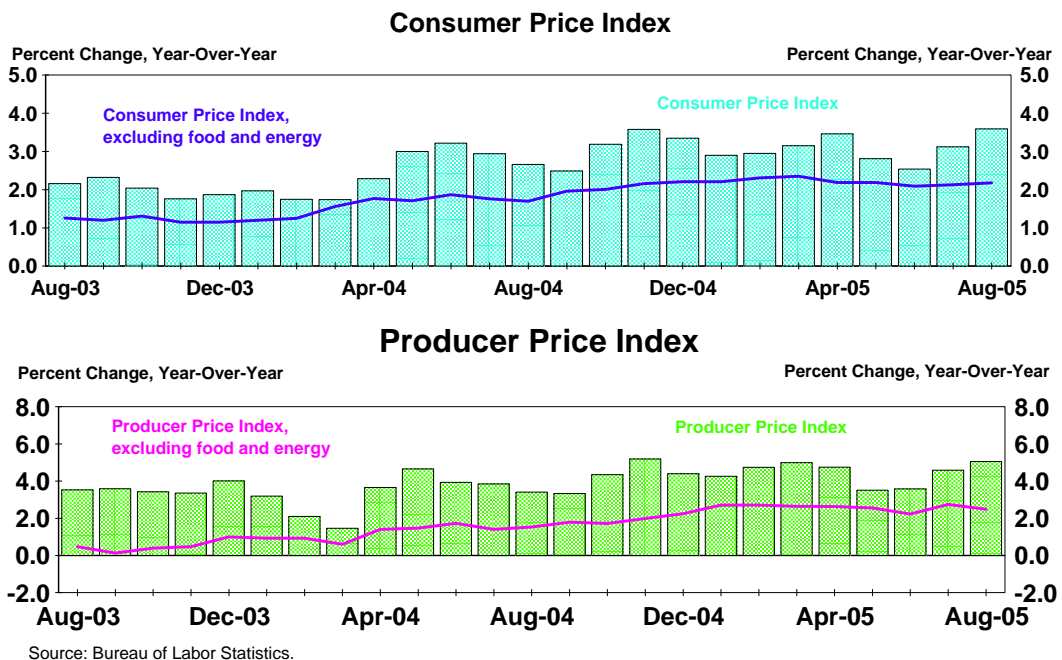


Source: Institute for Supply Management.

In August, new orders for durable goods rebounded from a July slowdown, as did capital goods excluding aircraft.

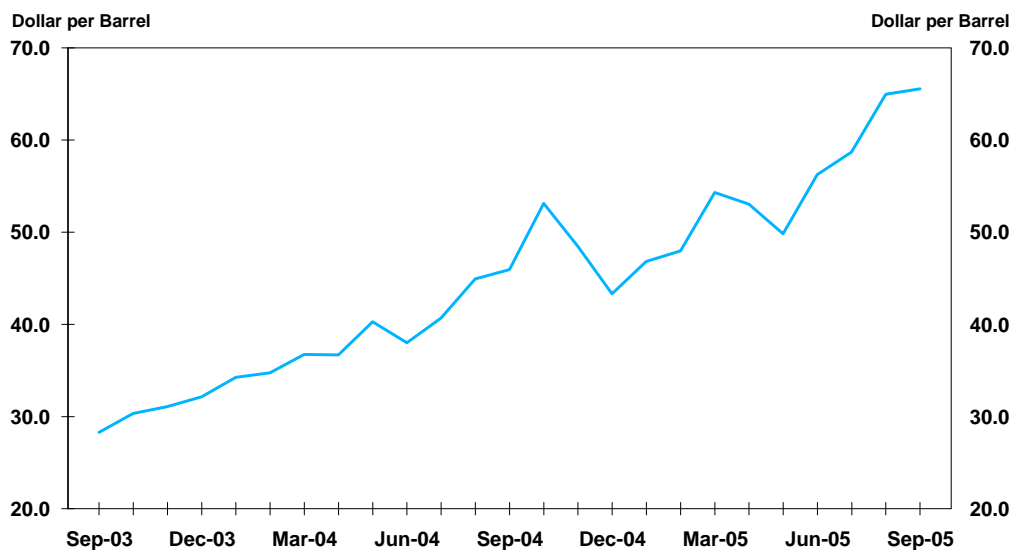


Higher energy prices continue to affect total CPI, but core consumer inflation held mostly steady for the fourth consecutive month in August. Core producer prices slowed.



Oil prices rose again in September, but only marginally as hurricane Rita spared most of the previously affected refineries.

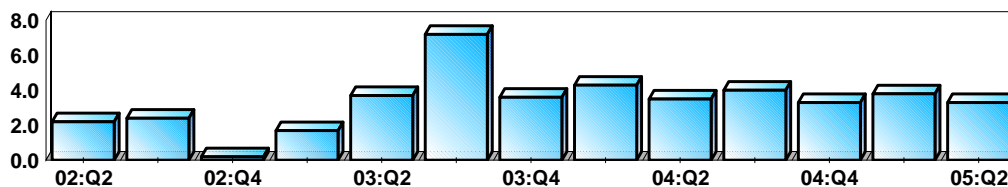
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP was unrevised in the final second quarter estimate, although some components experienced minor revisions.

Real GDP

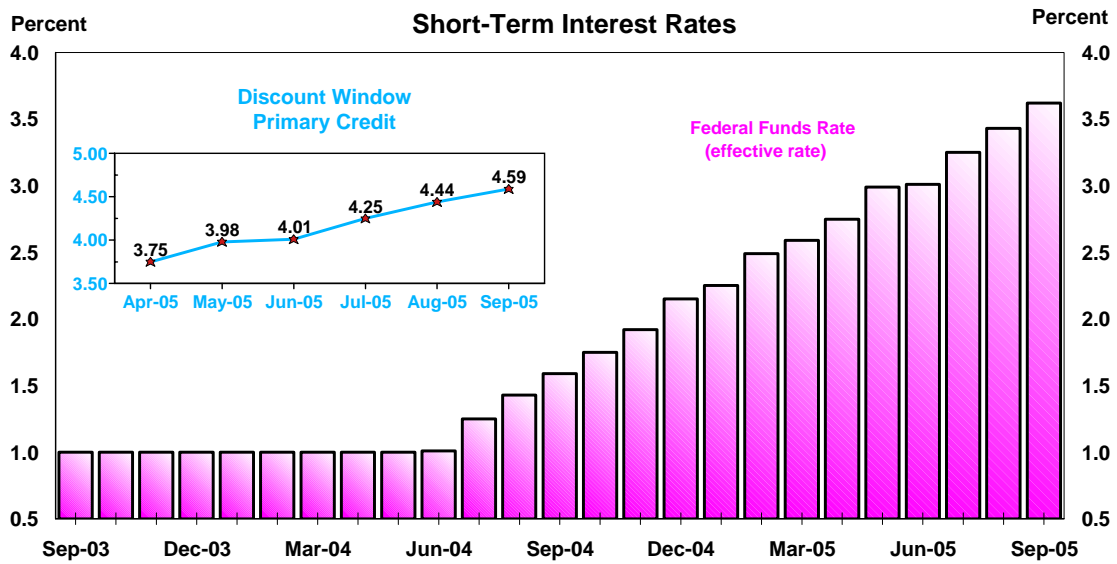


Revisions to Second Quarter Real GDP

Description	Preliminary	Revised
Real GDP	3.3	3.3
Consumption	3.0	3.4
Business Investment	8.4	8.8
Equipment & Software	10.4	10.9
Residential Investment	9.8	10.8
Government	2.7	2.5
Exports	13.2	10.7
Imports	0.5	-0.3
Final Sales	5.4	5.6

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting is consistent with an economy dealing with the aftereffects of a natural disaster. But as rebuilding efforts take hold and job growth improves, consumer confidence and spending should approach their pre-hurricane levels.



Source: Federal Reserve Board of Governors.