

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

Current Economic Developments - September 8th, 2005

Data released since your last Directors' meeting show the economy is growing at a solid pace, but one that is not as fast as previously expected. While continued employment growth will be important in maintaining this level of growth, the economic effects of Hurricane Katrina may play a significant role.

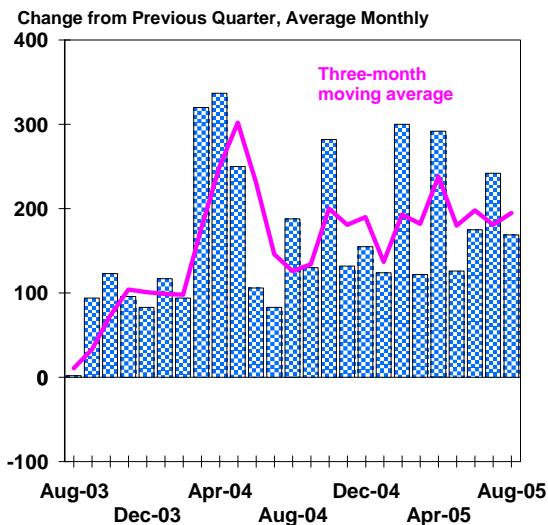
In August, payroll employment increased and the unemployment rate fell while initial claims held steady. Consumer attitudes were mixed in August, with sentiment falling and confidence rising. Real consumption expenditures slowed in July, yet remain strong. Real disposable income was unchanged. Auto sales slowed in August as the effect of special sales began to wear off.

The housing market continued to defy expectations, as new home sales set yet another record and existing home sales remained high. In the manufacturing sector, the ISM index eased in August and growth in industrial production slowed in July. Durable goods orders also slowed in July, as did orders for nondefense capital goods, excluding aircraft.

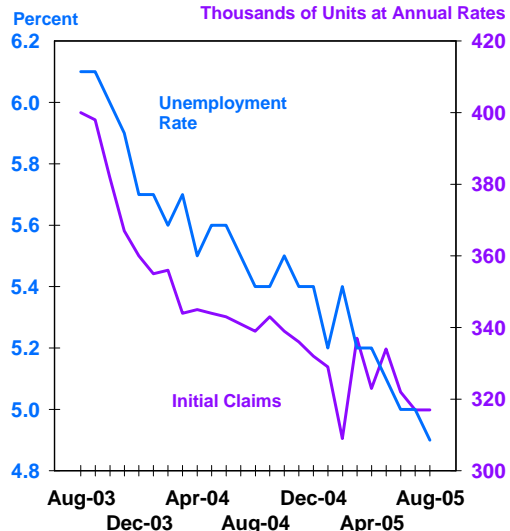
Revisions to second quarter real GDP growth were minor. The slight downward revision was due primarily to higher imports and lower consumption, which offset an increase in inventory investment.

The labor market continues to show signs of strength. Payroll employment increased again in August and the unemployment rate dropped one-tenth of a percentage point to reach a four-year low. Initial claims were unchanged in August.

Nonfarm Payroll Employment



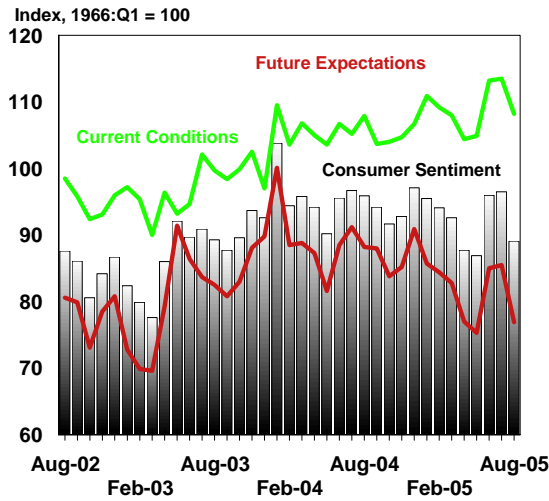
Unemployment Rate and Initial Claims



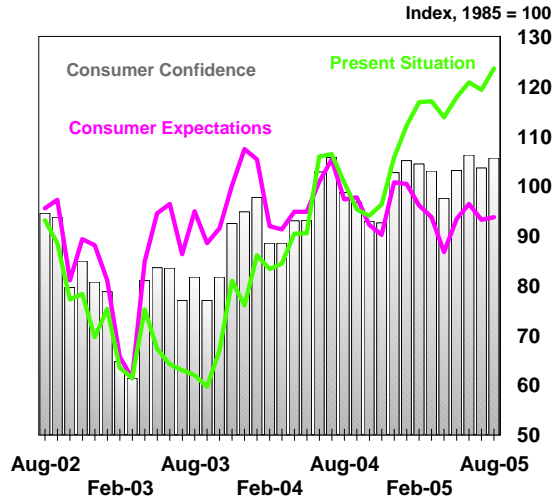
Source: Bureau of Labor Statistics (employment) Department of Labor, Employment and Training Administration (claims).

Measures of consumer attitudes were mixed in August, as the University of Michigan index fell and the Conference Board index rose. Also, the disparity between consumers feelings toward current conditions and future expectations continued to widen.

University of Michigan



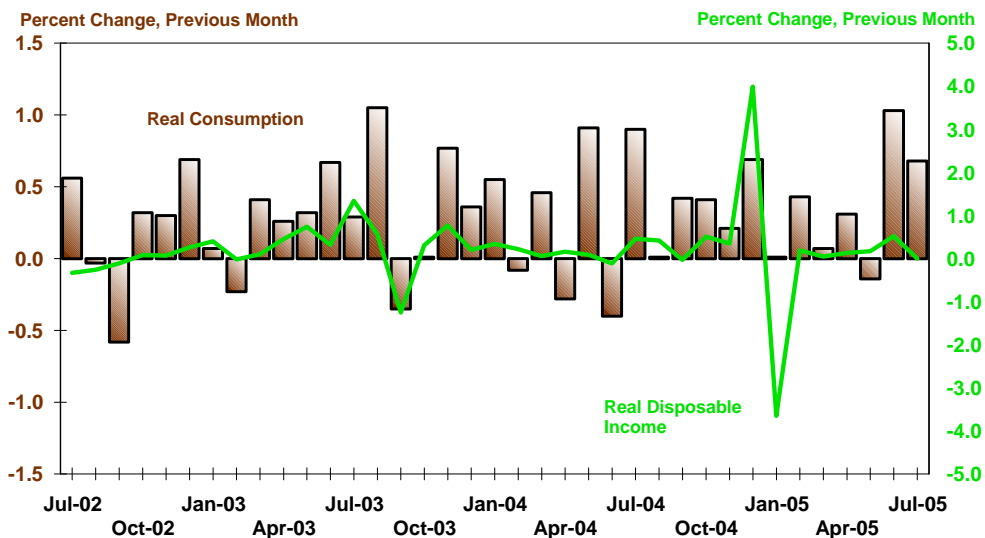
Conference Board



Source: The University of Michigan (left panel) and The Conference Board (right panel).

Growth in real consumption was strong for the second consecutive month in July, though a bit slower. Real disposable income was flat.

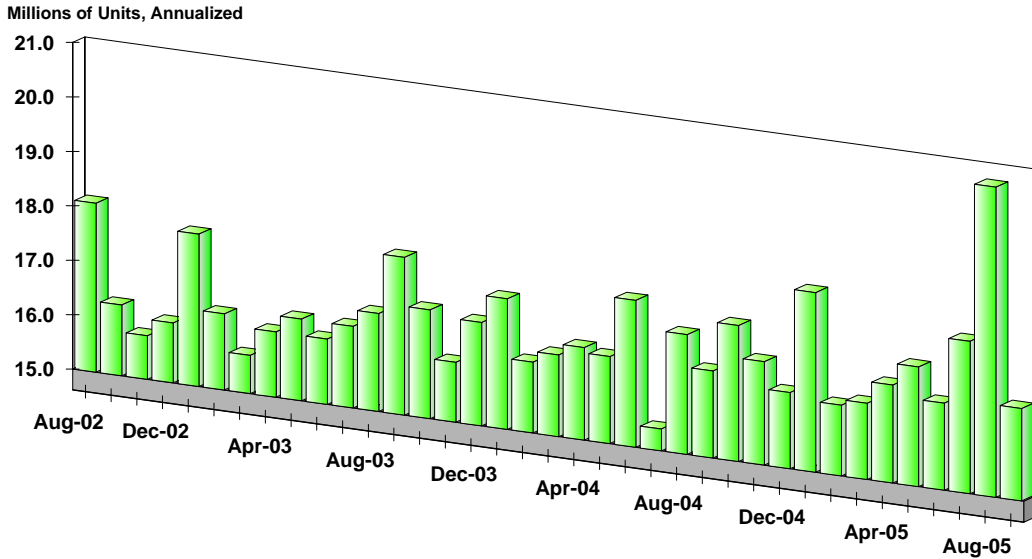
Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

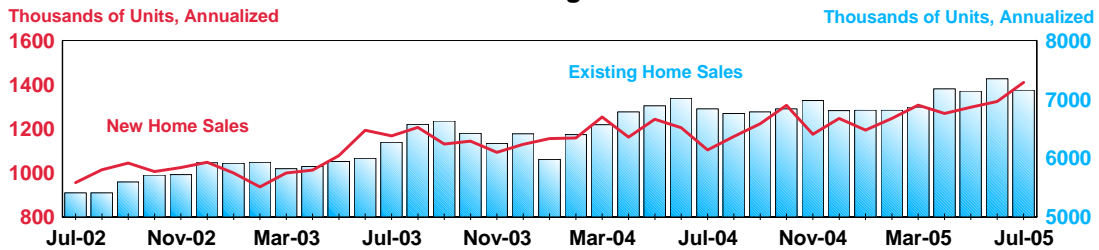
Auto sales receded in August, as special employee-discount-for-everyone sales began to lose their luster after boosting sales the prior two months.

Total Auto and Light Truck Sales

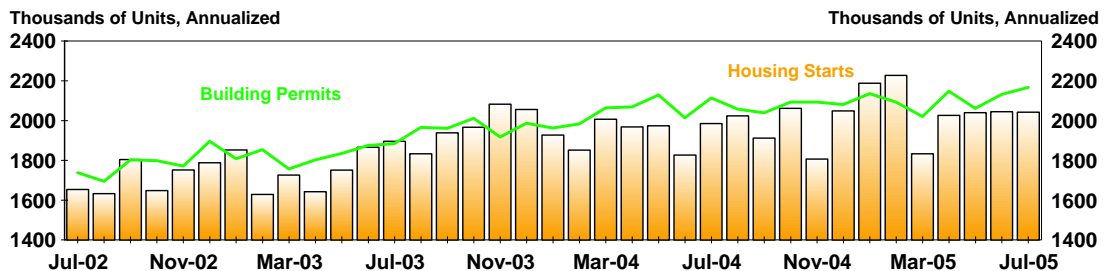


The housing market continued to be strong in July, as new home sales set another record while existing home sales remained high. Also, building permits increased and housing starts were unchanged.

New and Existing Home Sales



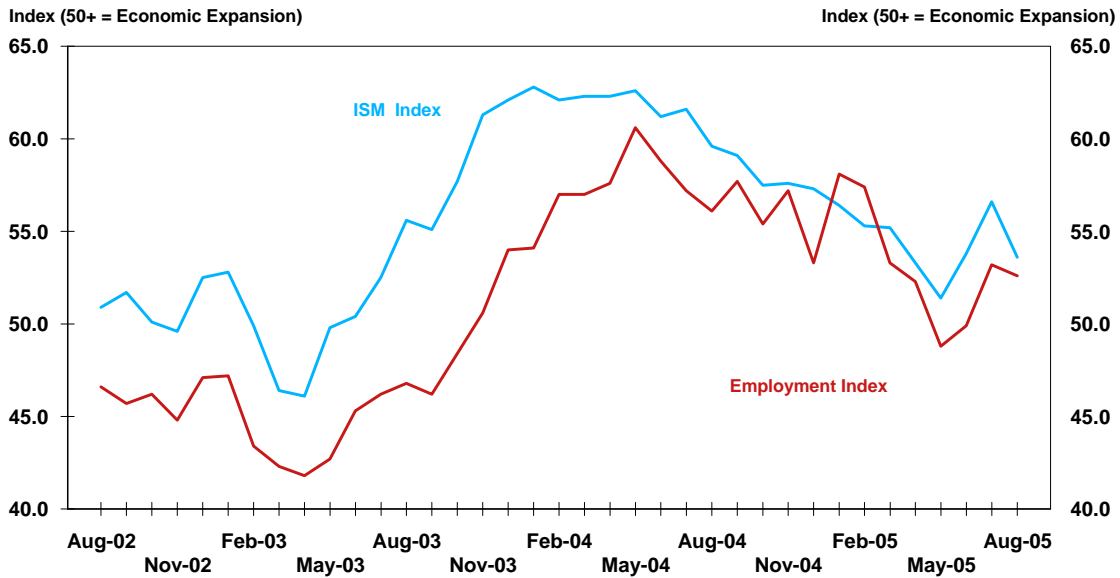
Housing Starts and Building Permits



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

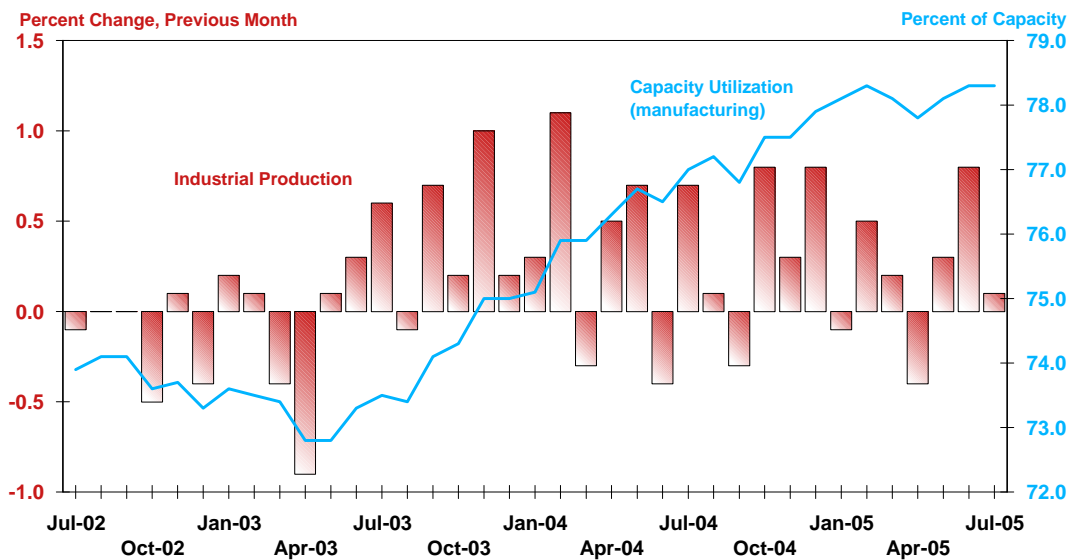
The ISM composite and employment indices eased in August, partially offsetting the prior months' gains.

ISM Index

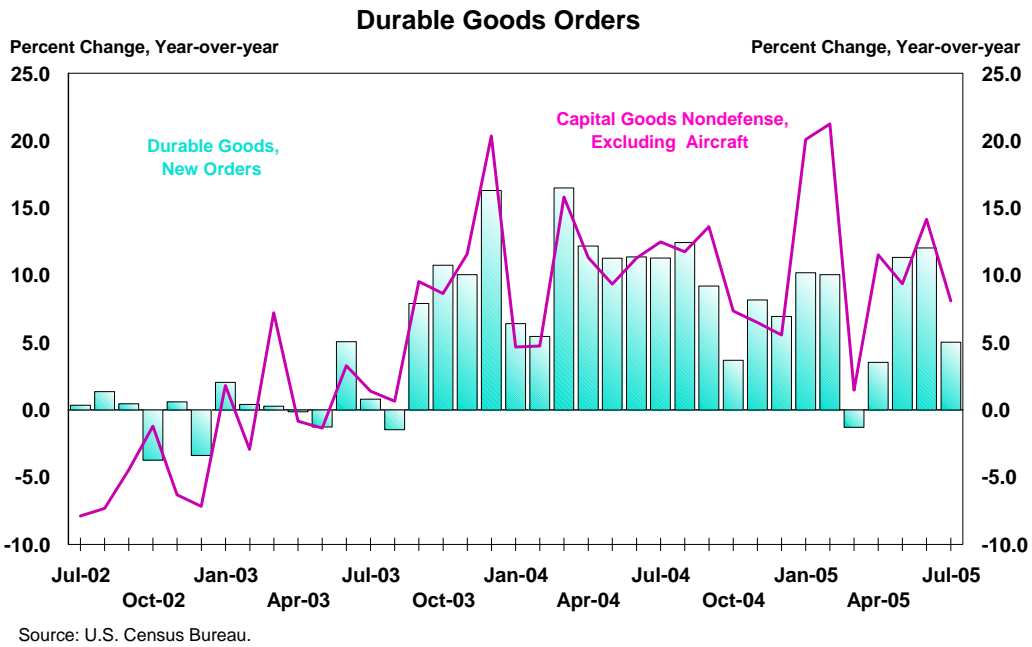


In July, industrial production grew slightly and capacity utilization was flat.

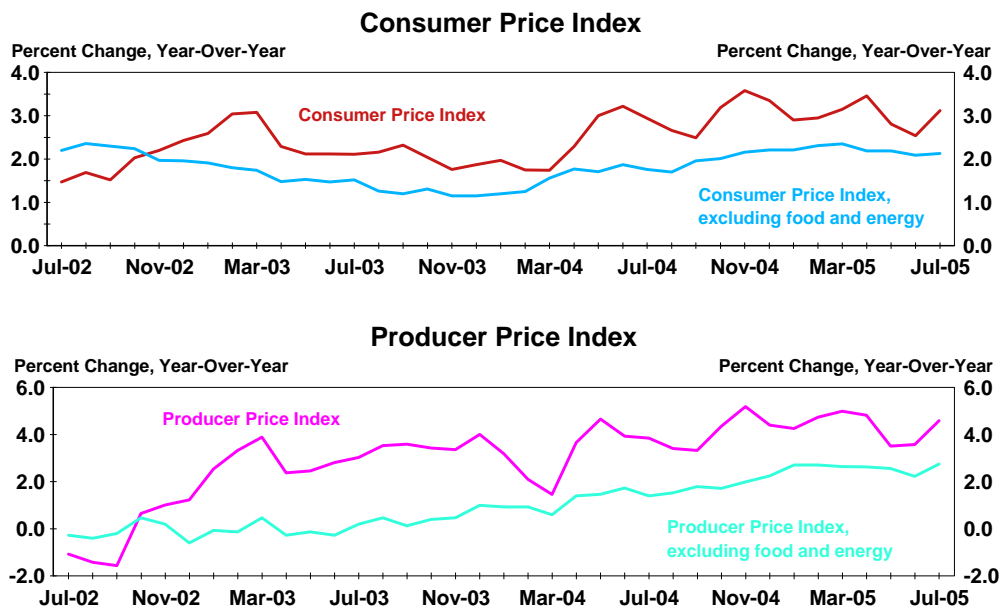
Industrial Production and Capacity Utilization



New orders for durable goods grew in July, but at less than half the pace as seen over the prior two months. Growth also slowed for nondefense capital goods, excluding aircraft.



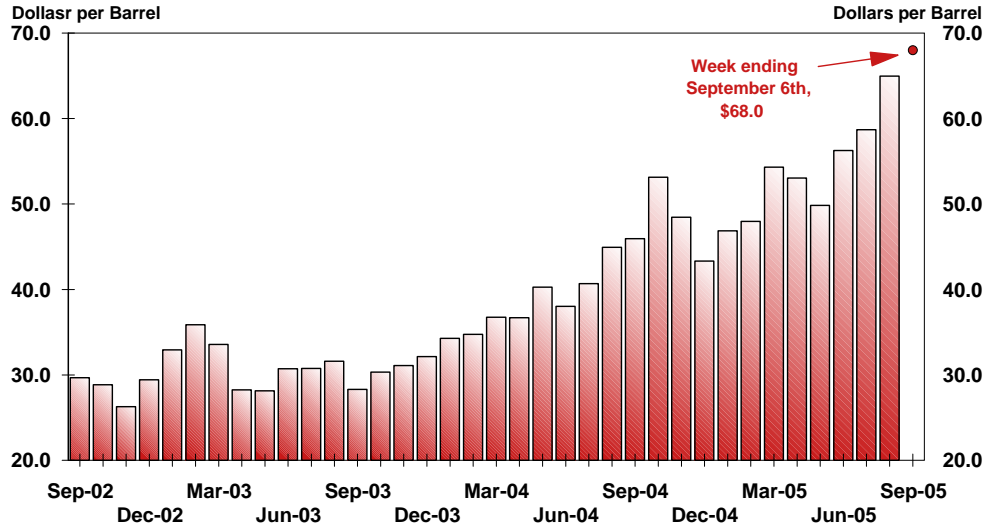
As measured by total CPI, inflation increased in July, but core inflation was flat. At the wholesale level, both overall and core prices increased at a faster pace.



Source: Bureau of Labor Statistics.

Oil prices continued to surge in August, briefly exceeding \$70 per barrel with the landfall of Hurricane Katrina. Oil prices will continue to rise as damages to oil and gas supplies in the Gulf of Mexico, as well as refineries in Louisiana, are assessed.

Domestic Spot Oil Price



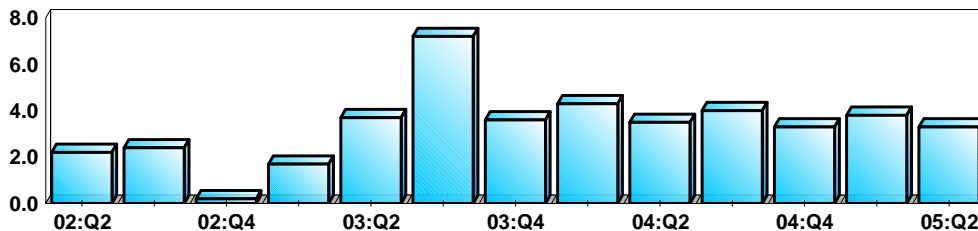
Source: Wall Street Journal.

Revisions to second quarter real GDP growth were small in most areas. The slight downward adjustment primarily reflected lower consumption and higher imports, offsetting an upward revision to inventory investment.

Revisions to Second Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	3.4	3.3
Personal Consumption	3.3	3.0
Business Investment	9.0	8.4
Equipment and Software	11.0	10.4
Government	2.0	2.7
Exports	12.6	13.2
Imports	-2.0	0.5
Final Sales	5.8	5.4

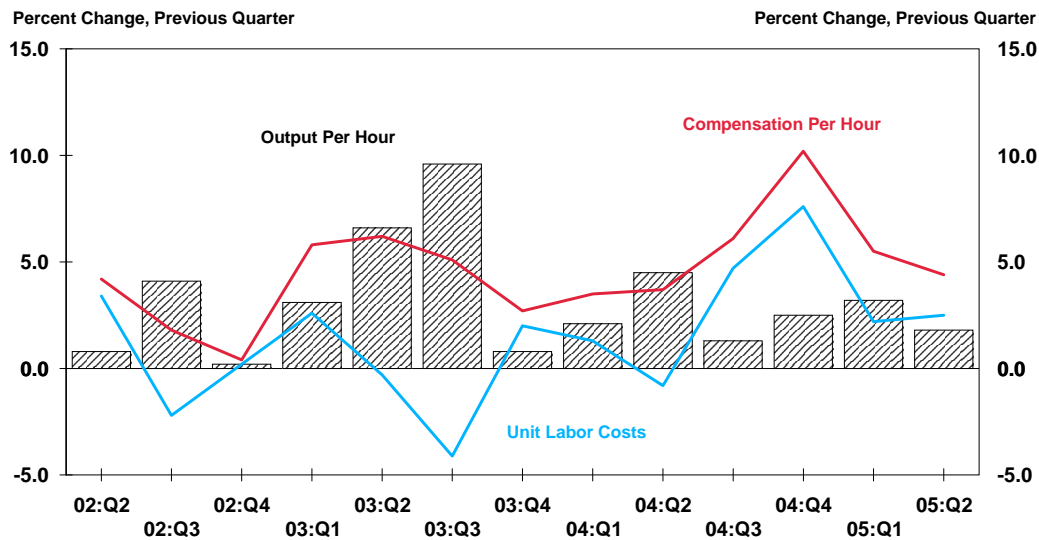
Real GDP



Source: Bureau of Economic Analysis.

Productivity growth decreased in the second quarter, offsetting the previous quarters' increase. Hourly compensation was lower while unit labor costs rose slightly.

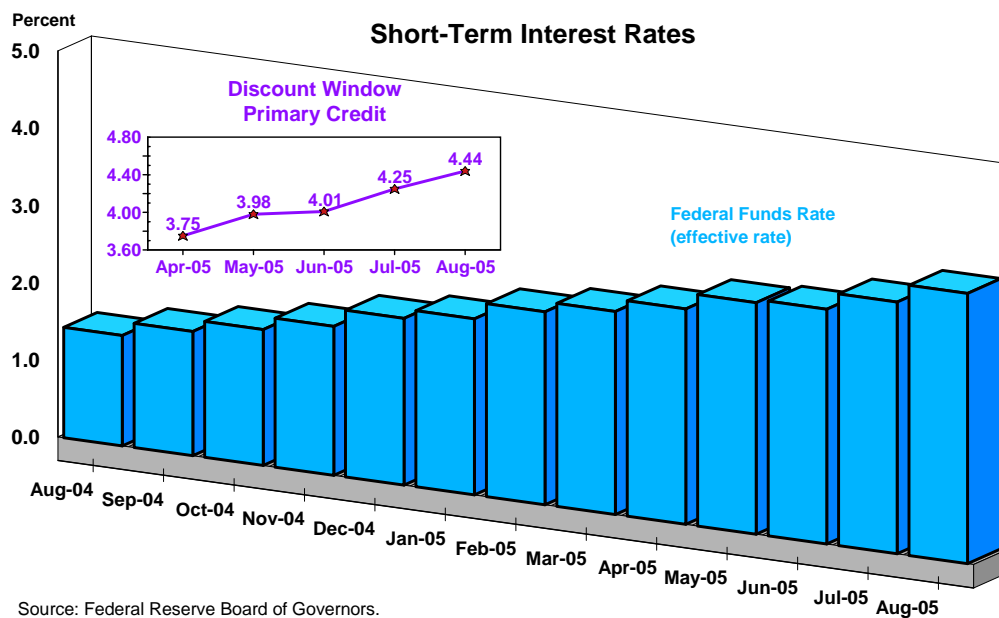
Productivity and Costs



Source: Bureau of Labor Statistics.

Overall, data released since your last Directors' meeting show the economy is growing at a solid pace, but the third quarter rebound is not expected to be as significant as earlier anticipated. Economic conditions in the immediate future may largely be determined by the extent of damages caused by Hurricane Katrina.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.