



The
President's
Report *to the*
Board *of*
Directors

November 30, 2006

CURRENT ECONOMIC DEVELOPMENTS - November 30, 2006

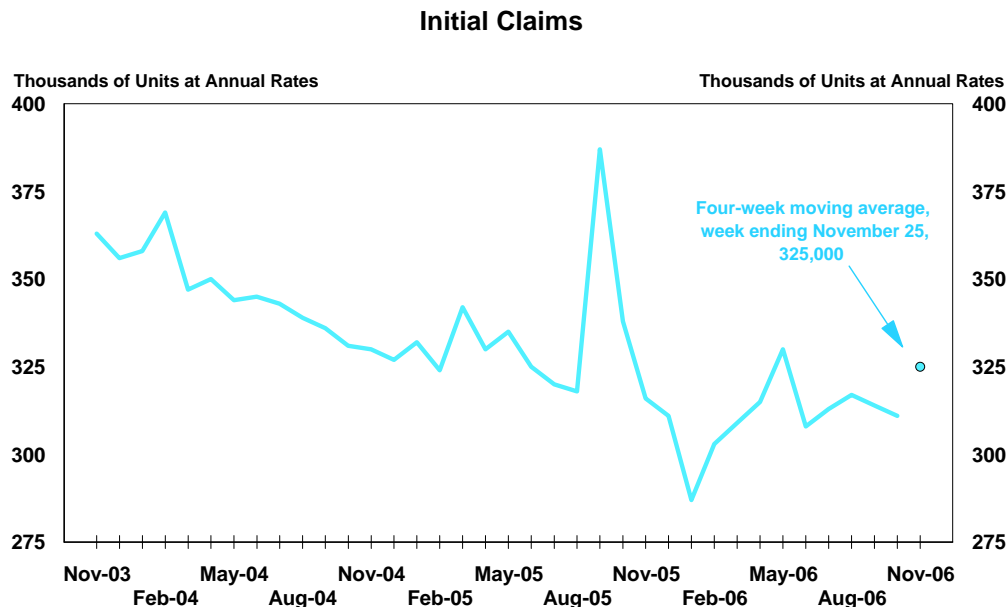
Data released since your last Directors' meeting show the economy slowed in the third quarter, but not as dramatically as originally estimated. The ongoing correction in the housing market is likely to continue to restrain growth, but there is good news to be found in recent employment, inflation, and business investment data.

In November, initial claims for unemployment insurance increased while consumer attitudes eased. In October, both real consumption and real disposable income posted solid gains.

The housing market was mixed in October, as new home sales fell and existing home sales increased a bit. Housing starts and building permits continued their year-long regression. In the manufacturing sector, industrial production rebounded in October, but capacity utilization eased. Orders for both durable goods and nondefense capital goods, excluding aircraft, slowed in October to offset the strong growth seen in September.

October brought more evidence of stabilizing prices, as core CPI slowed for the first time since February. Overall consumer prices slowed further, and total producer prices fell. Oil prices held steady in November, a good sign heading into the cold winter months.

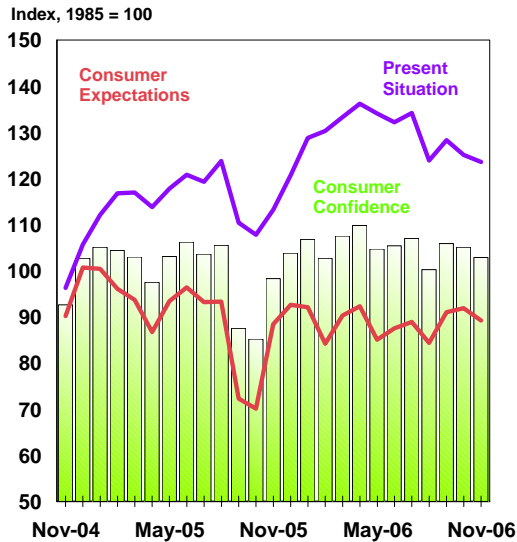
Initial claims for unemployment insurance increased in November, due in part to seasonal variations that are common during the holiday season.



Source: Department of Labor, Employment and Training Administration.

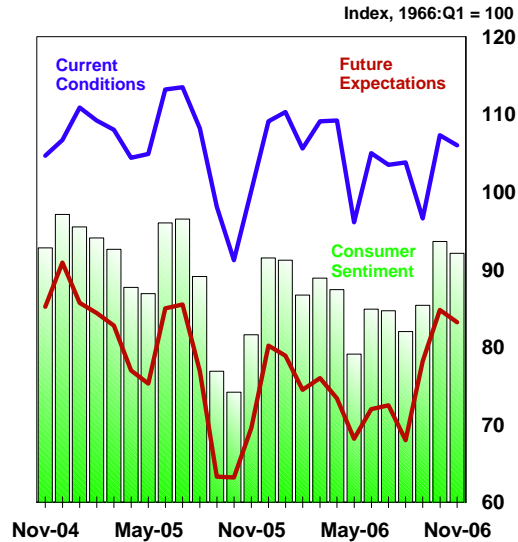
Consumer attitudes eased a bit in November. For sentiment, the decrease represented a reversal from the prior months' improvements, but for confidence it was the second consecutive monthly decline.

Consumer Confidence



Source: The Conference Board.

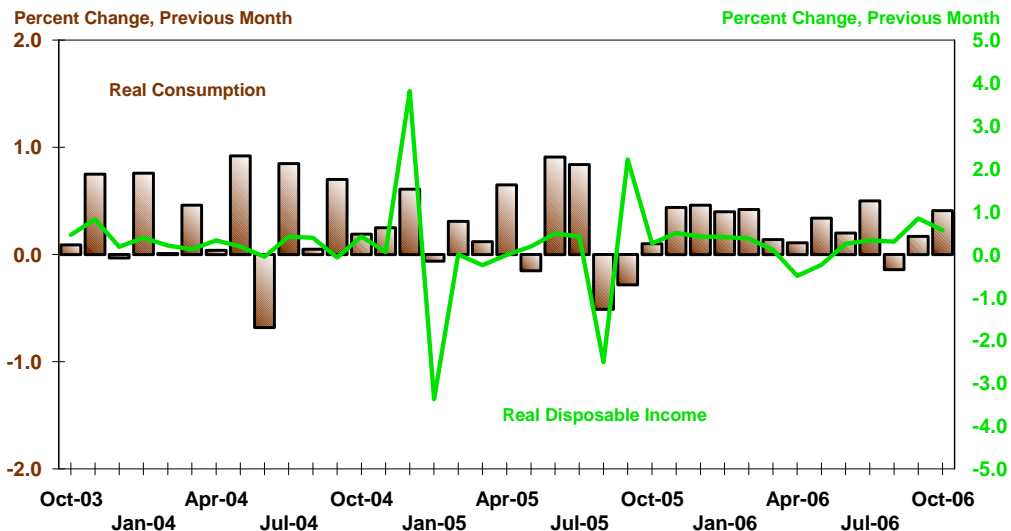
Consumer Sentiment



Source: The University of Michigan.

Real personal consumption posted a solid gain in October, aided by the fifth consecutive monthly increase in disposable incomes.

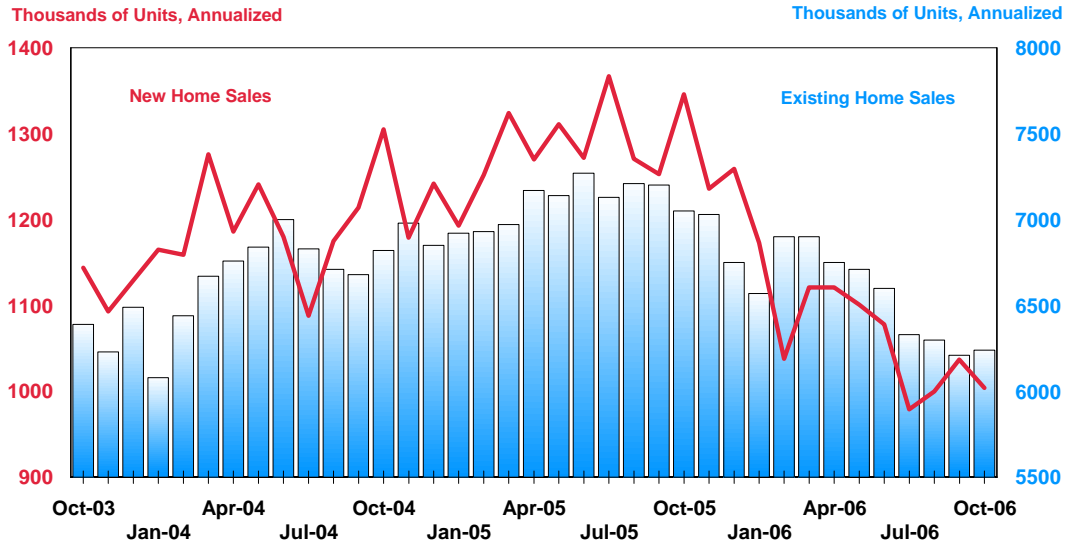
Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

Home sale data was mixed in October. Existing home sales managed their first increase since February, but sales of new homes resumed their decline after rising in August and September.

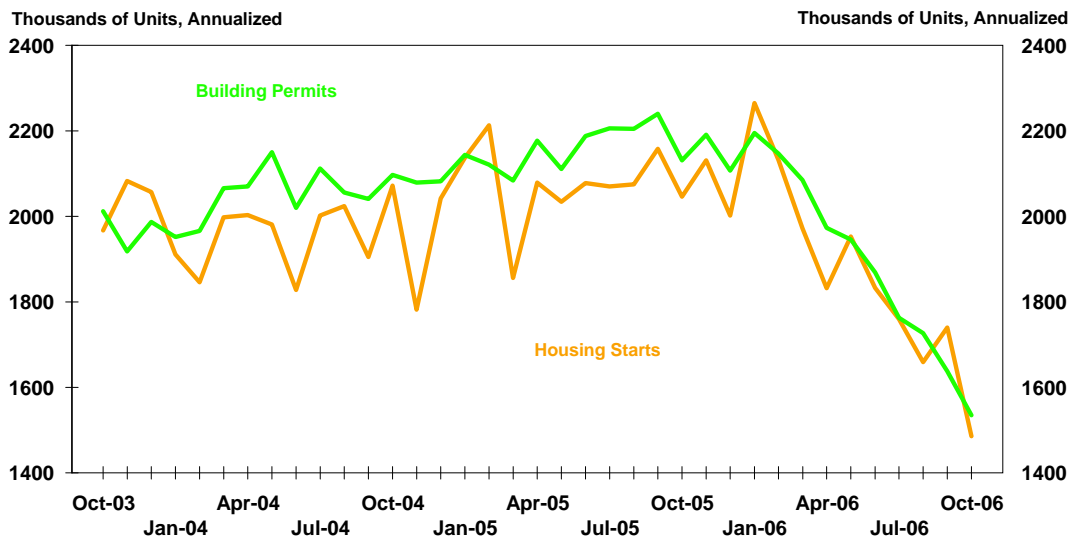
New and Existing Home Sales



Source: U.S. Census Bureau.

In October, housing starts resumed their year-long decline, following a brief rebound in September. Future starts are likely to continue to fall, as building permits fell for a ninth consecutive month in October.

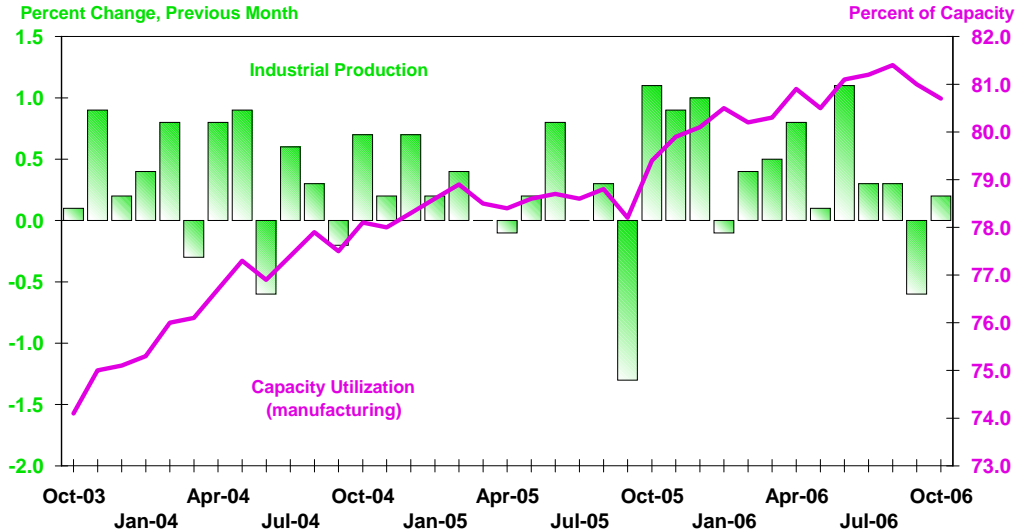
Housing Starts and Building Permits



Source: U.S. Census Bureau.

Industrial production rebounded in October from a September dip, while capacity utilization eased for the second month in a row.

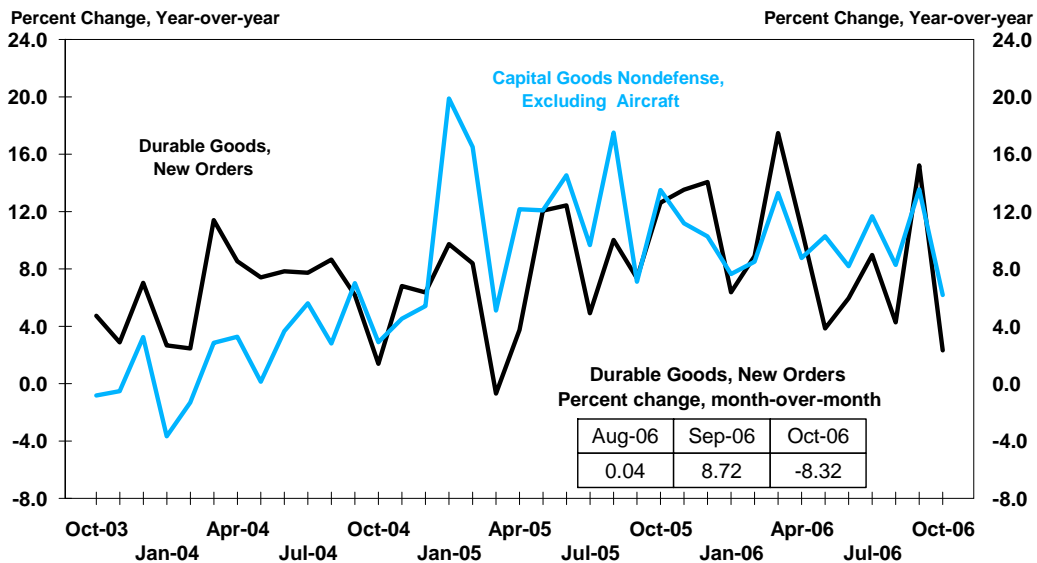
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for durable goods slowed in October, offsetting strong gains seen the previous month. Orders for nondefense capital goods, excluding aircraft, also slowed.

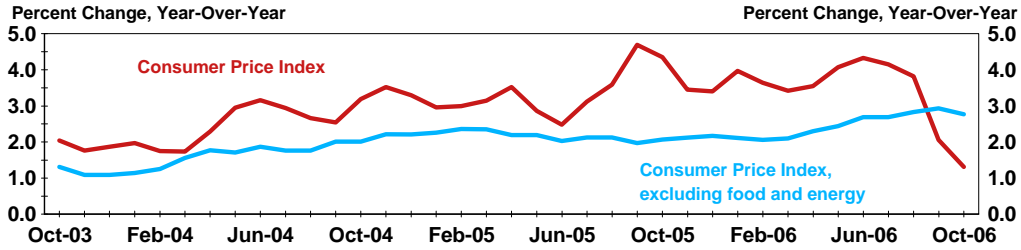
Durable Goods Orders



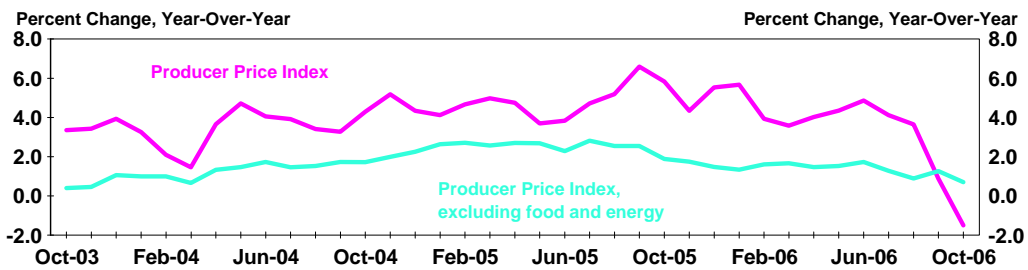
Source: U.S. Census Bureau.

Inflation eased in October, as core CPI slowed for the first time since February and total prices grew at their slowest pace in over three years. At the wholesale level, total prices fell and core PPI slowed.

Consumer Price Index



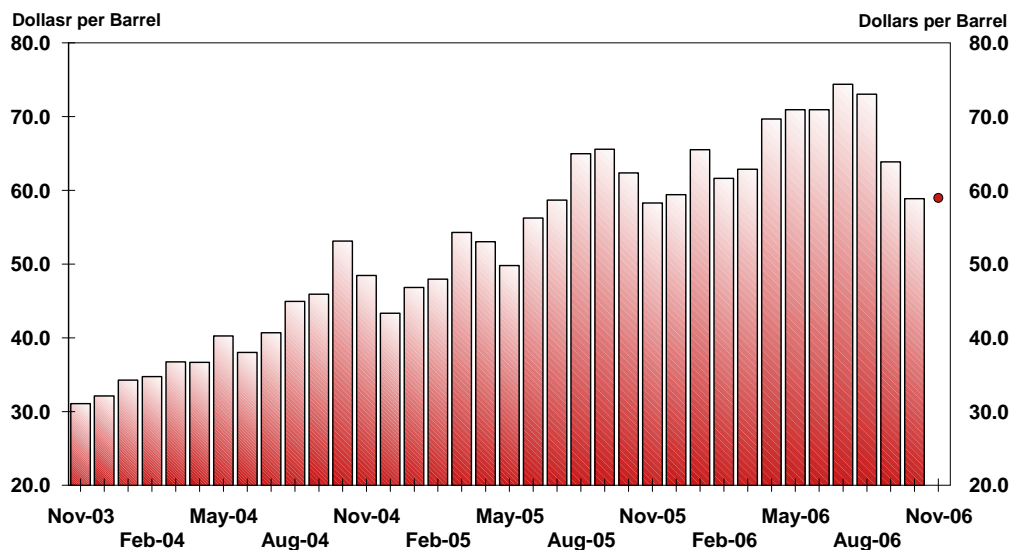
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices held relatively steady in November, after falling to a nearly one-year low in October.

Domestic Spot Oil Price



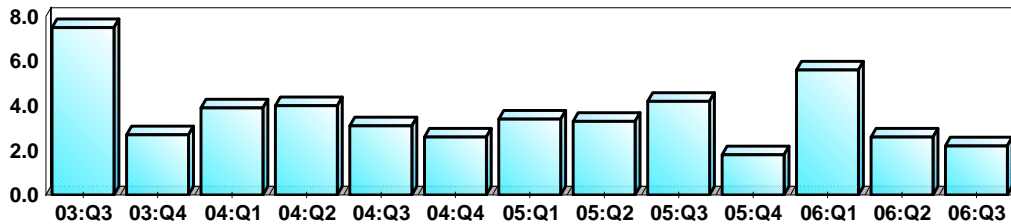
Source: Wall Street Journal.

Real GDP in the third quarter was stronger than originally thought. The upward revision primarily reflected a downward revision to imports and upward revisions to private inventory investment and PCE for services that were partially offset by a downward revision to PCE for durable goods.

Revisions to Third Quarter Real GDP

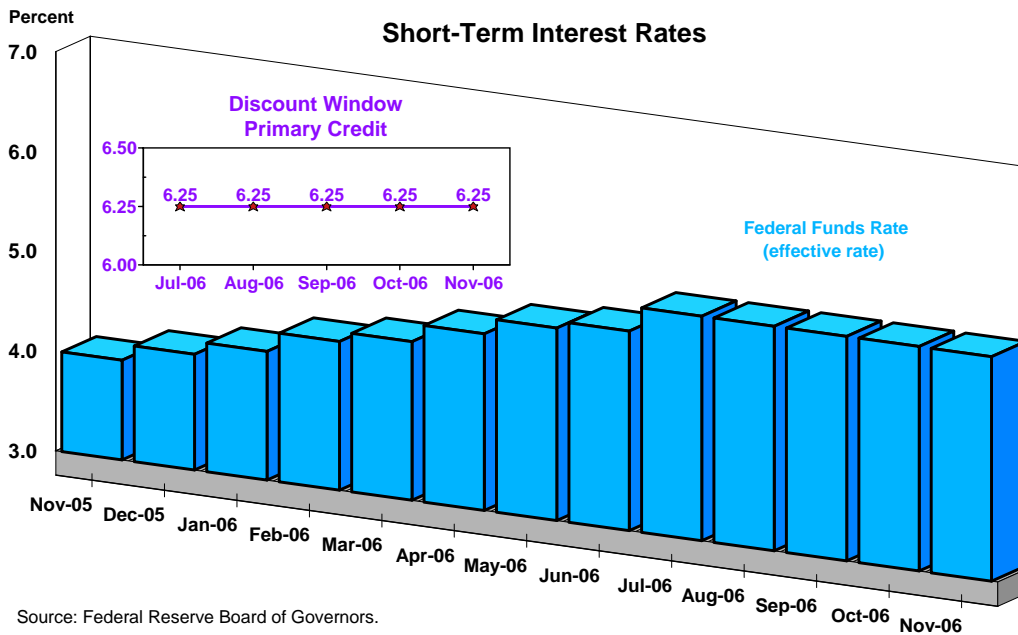
Description	Advance	Preliminary
Real GDP	1.6	2.2
Personal Consumption	3.1	2.9
Business Investment	8.6	10.0
Equipment and Software	6.4	7.2
Residential Investment	-17.4	-18.0
Government	2.0	2.2
Exports	6.5	6.3
Imports	7.8	5.3
Final Sales	1.7	2.1

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy slowed in the third quarter, but not as dramatically as originally estimated. The ongoing correction in the housing market is likely to continue to restrain growth, but there is good news to be found in recent employment, inflation, and business investment data.



Source: Federal Reserve Board of Governors.

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

December 7, 2006

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

Auto sales slowed in November to an annualized rate of 16.0 million units, down from October's estimated rate of 16.1 million. Domestic sales showed a similar decline, to 12.2 million units in November from 12.3 the previous month.

Productivity was revised slightly higher in the third quarter, rising 0.2% instead of the initial estimate of no change. The higher number reflected gains of 2.7% in output and 1.5% in total hours worked.

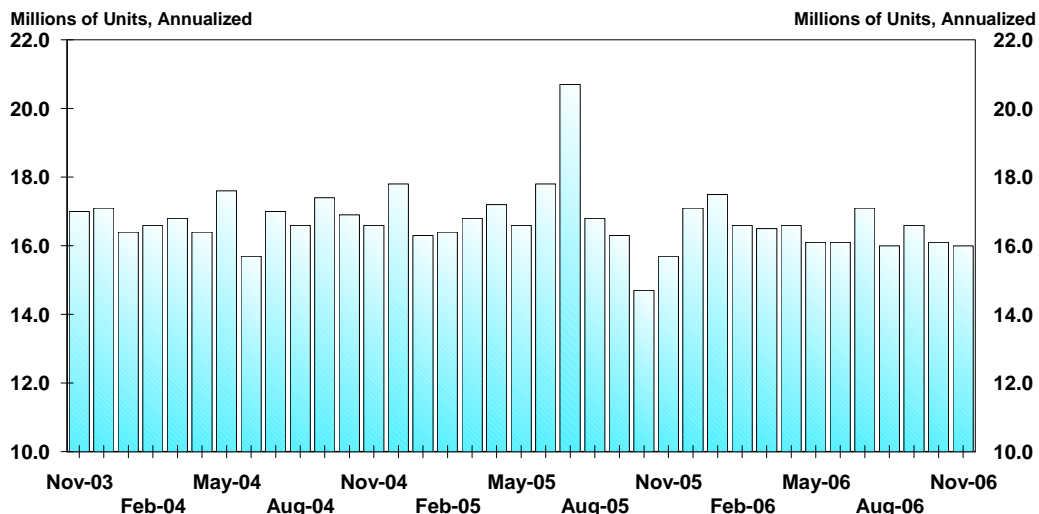
The ISM index dropped below 50 in November for the first time in over three-and-a-half years. The employment index also declined, falling below 50 for the third time this year.

Redbook sales decreased 1.8% in the first week of December, compared to November. Sales were 2.4% higher than during the same period last year. Oil prices rose during the past week, averaging 62.9 dollars per barrel compared to last week's average of 59.9.

Due to the timing of the survey, November's employment data was not published last week, and instead will be released tomorrow. Market expectations are that nonfarm payrolls will increase by about 110,000 and the unemployment rate will rise to 4.5%.

Total auto and light truck sales slowed in November, equaling the 12-month low set in August.

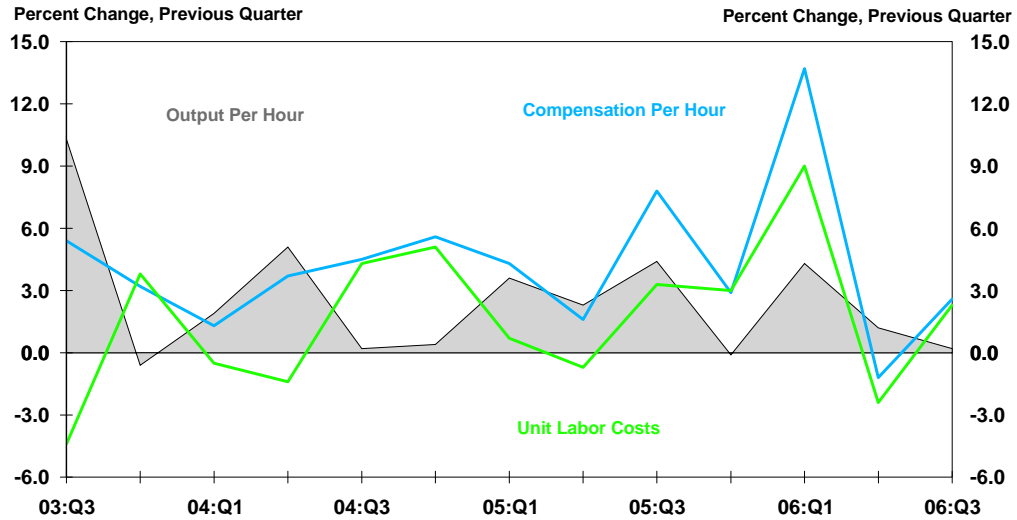
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Productivity was revised to show marginal growth in the third quarter, after originally being seen unchanged. Unit labor costs and total compensation both grew, but at slower rates than first reported. Both wage measure were also revised sharply downward for the second quarter.

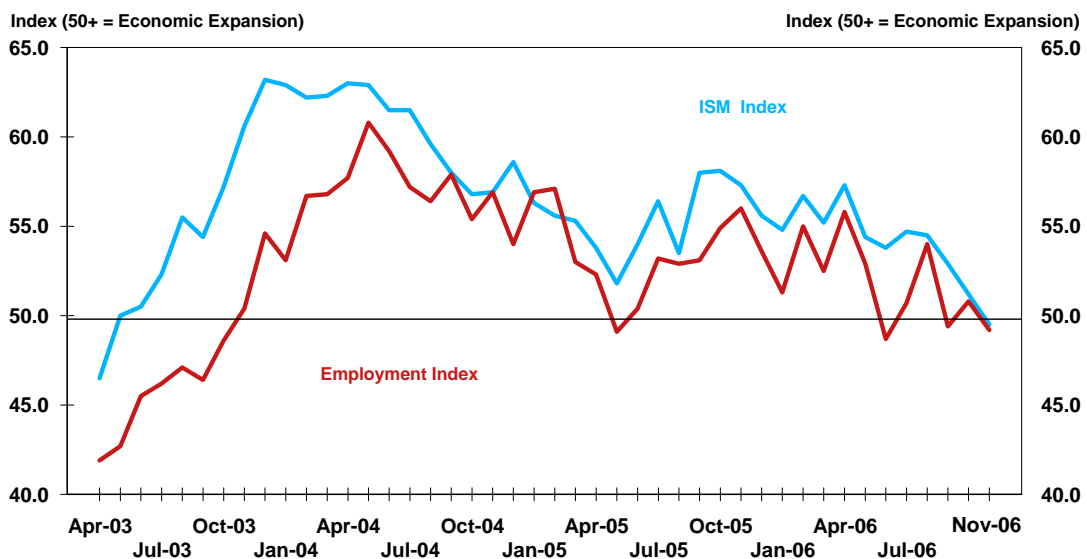
Productivity and Costs



Source: Bureau of Labor Statistics.

In November, the ISM diffusion index fell for the fourth consecutive month, dropping below 50 for the first time since April 2003. The employment index also declined in November, offsetting the prior months' gain.

ISM Index



Source: Institute for Supply Management.