



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

January 5, 2006

## CURRENT ECONOMIC DEVELOPMENTS - January 5th, 2006

Data released since your last Directors' meeting suggest economic growth will be slower in the fourth quarter compared to the third. However, much of the deceleration can be attributed to the timing of auto sales, as third quarter sales were boosted by incentives leading to expectedly lower sales in the fourth quarter. Taken together, growth during the second half of the year is expected to be in line with that seen in the first half.

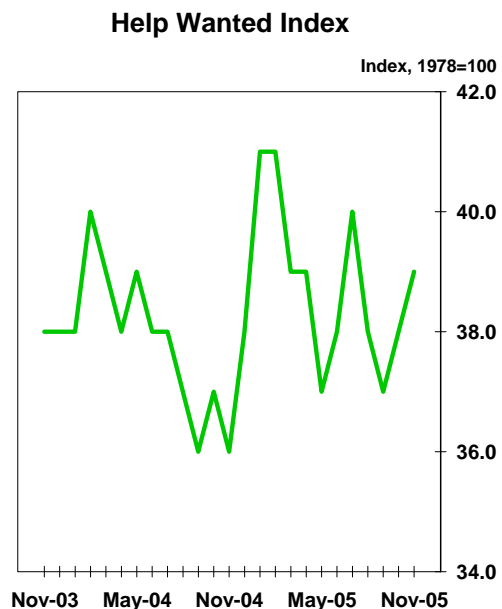
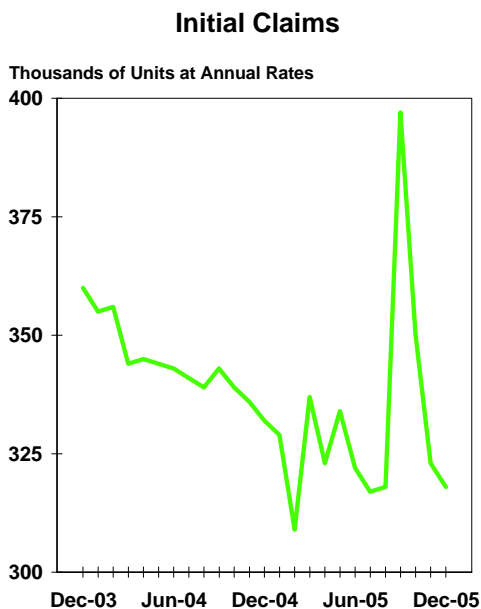
In December, initial claims fell for the third consecutive month, achieving a five-year low during the final week of 2005. Consumer attitudes continued their recovery, as measures of confidence and sentiment increased significantly and are approaching their pre-hurricane levels. Auto sales increased in December, partially offsetting slower sales in the previous two months. Personal income increased in November and spending, spurred on by the start of the holiday shopping season, grew at its fastest pace since July.

The housing market showed signs of cooling in November, with sales of both new and existing homes slowing. Housing starts and building permits both increased, as the strong sales of the prior months encouraged residential investment.

In the business sector, industrial production posted a strong gain in November while capacity utilization was flat. In December, the ISM diffusion index fell and its employment component decreased to offset prior gains, yet both measures remain above 50, signaling economic expansion. While orders for durable goods experienced their fastest growth in over a year in November, orders for capital goods excluding aircraft slowed.

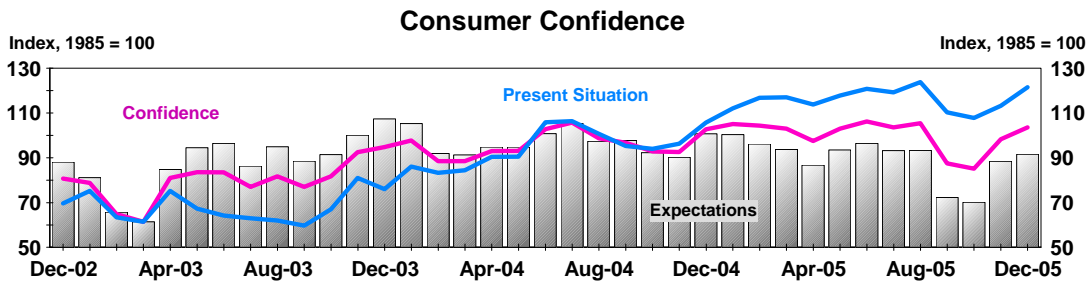
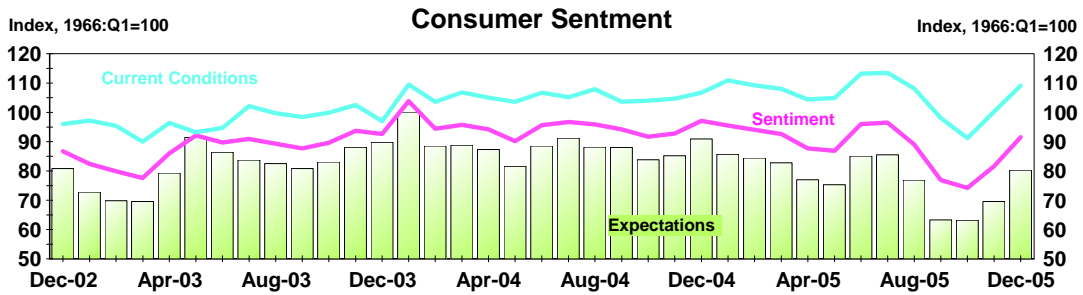
Total consumer and producer prices slowed considerably in November, while core prices continue to hold relatively steady. Oil prices rose in December after falling for two months, but are expected to resume their downward path in 2006.

Initial claims for unemployment insurance decreased again in December, and the help wanted index increased one percentage point in November, equaling its 12-month average.



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

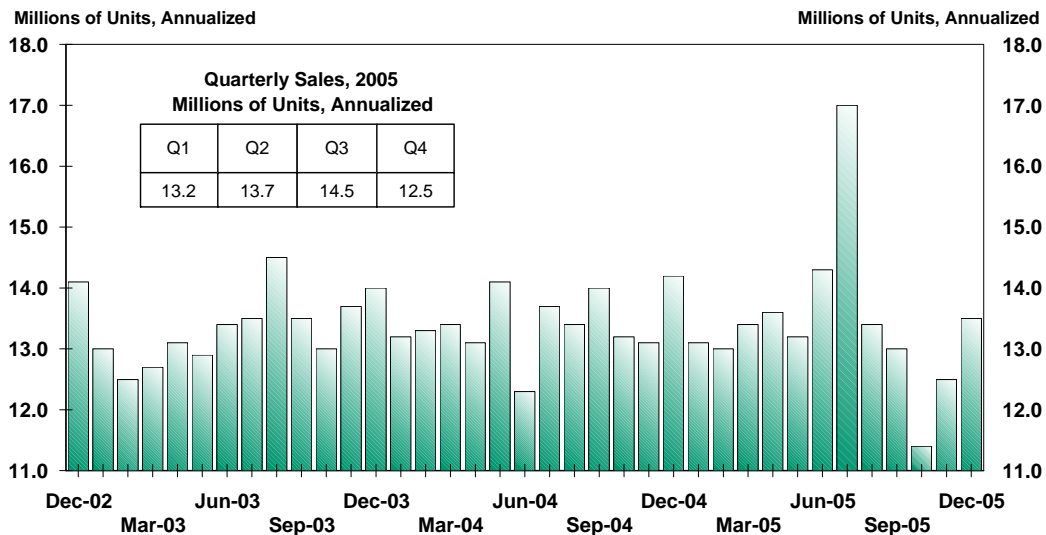
In December, consumer attitudes increased for the second consecutive month as they continue to recover from their slumps following the hurricanes.



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

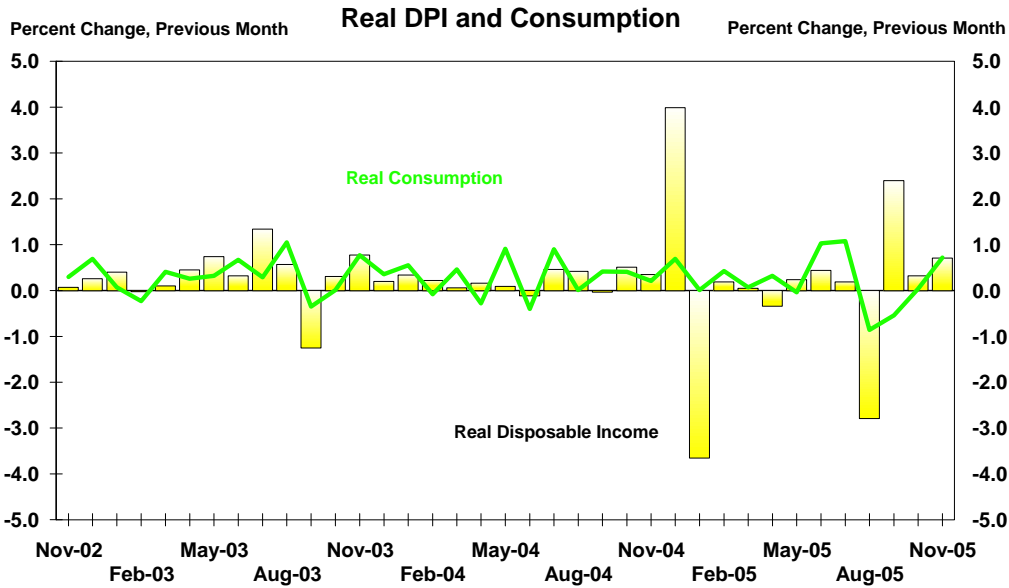
In December, domestic auto and light truck sales rose to their highest level since July as manufacturers offered generous year-end incentives to offset the weaker sales seen earlier in the quarter.

### Domestic Auto and Light Truck Sales



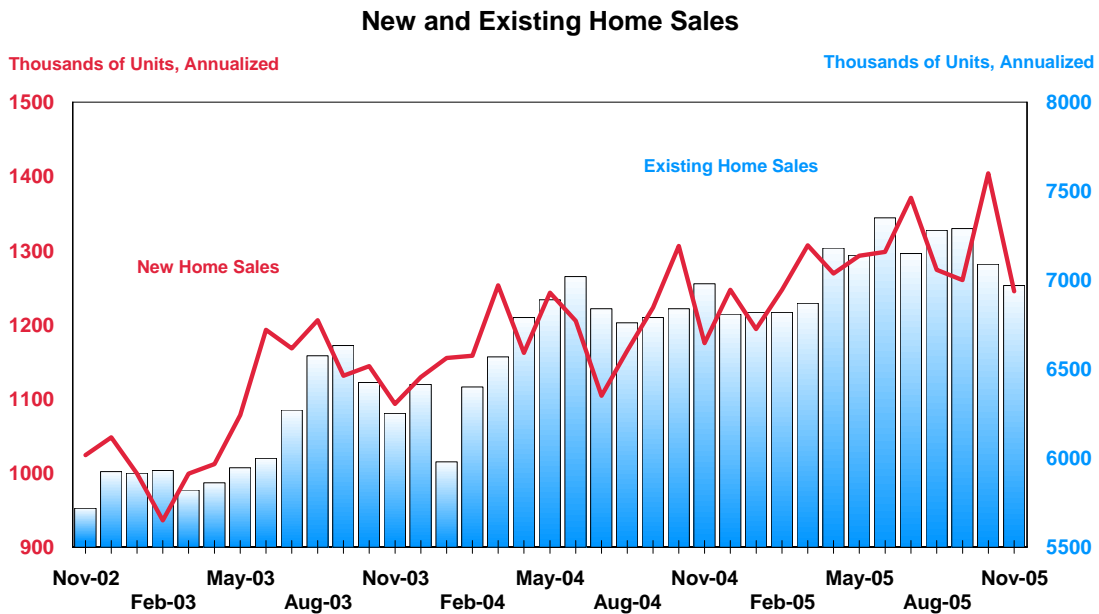
Source: Bureau of Economic Analysis.

In November, real disposable income increased for the third consecutive month and real consumption rose for the first time since the hurricanes.



Source: Bureau of Economic Analysis.

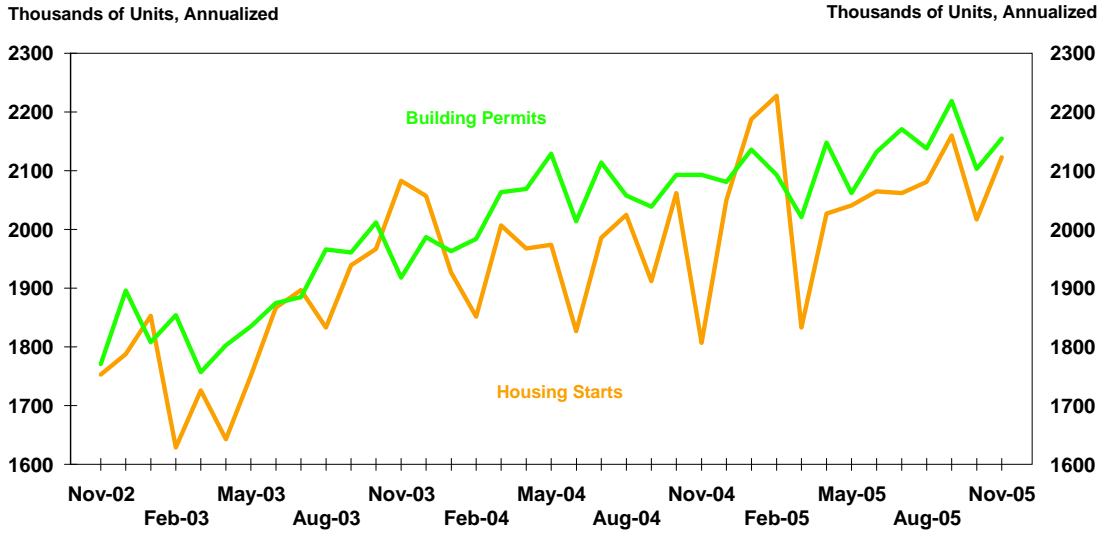
Sales of both new and existing homes cooled a bit in November from their recent record highs, but still remain historically strong.



Source: U.S. Census Bureau.

Building activity rebounded in November from an October slowdown, with housing starts experiencing their largest increase since April and permits recouping half of the prior month's losses.

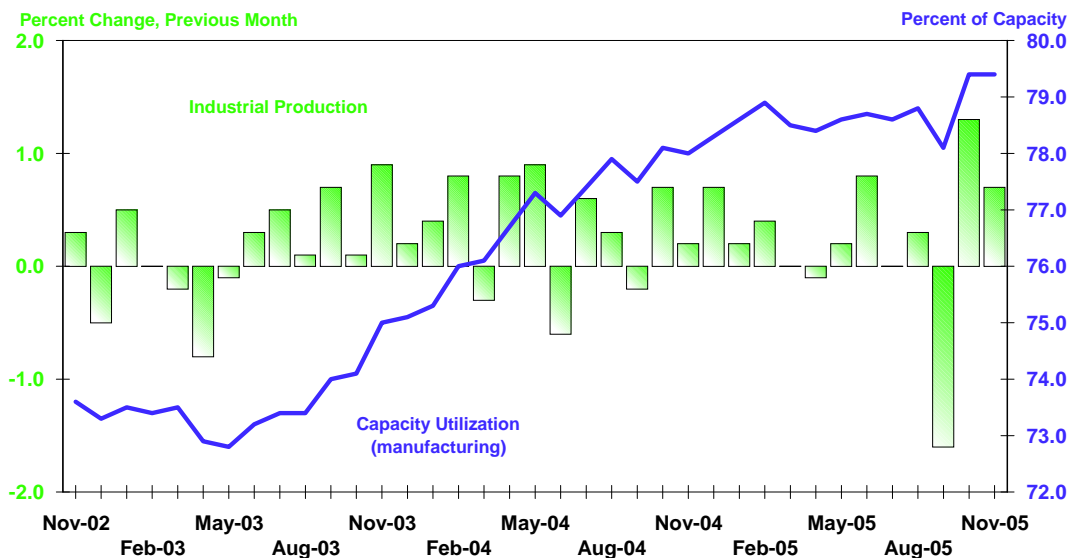
### Housing Starts and Building Permits



Source: U.S. Census Bureau.

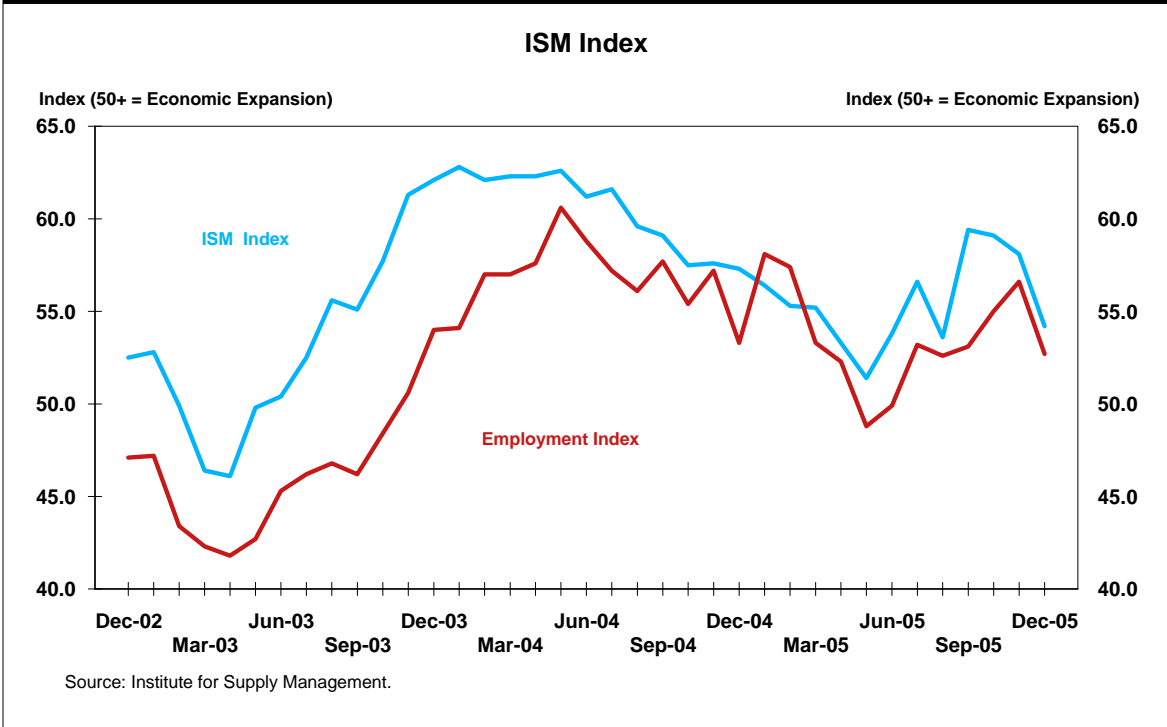
Growth in industrial production slowed in November, following the October surge caused largely by hurricane recovery efforts. Capacity utilization was unchanged in November.

### Industrial Production and Capacity Utilization

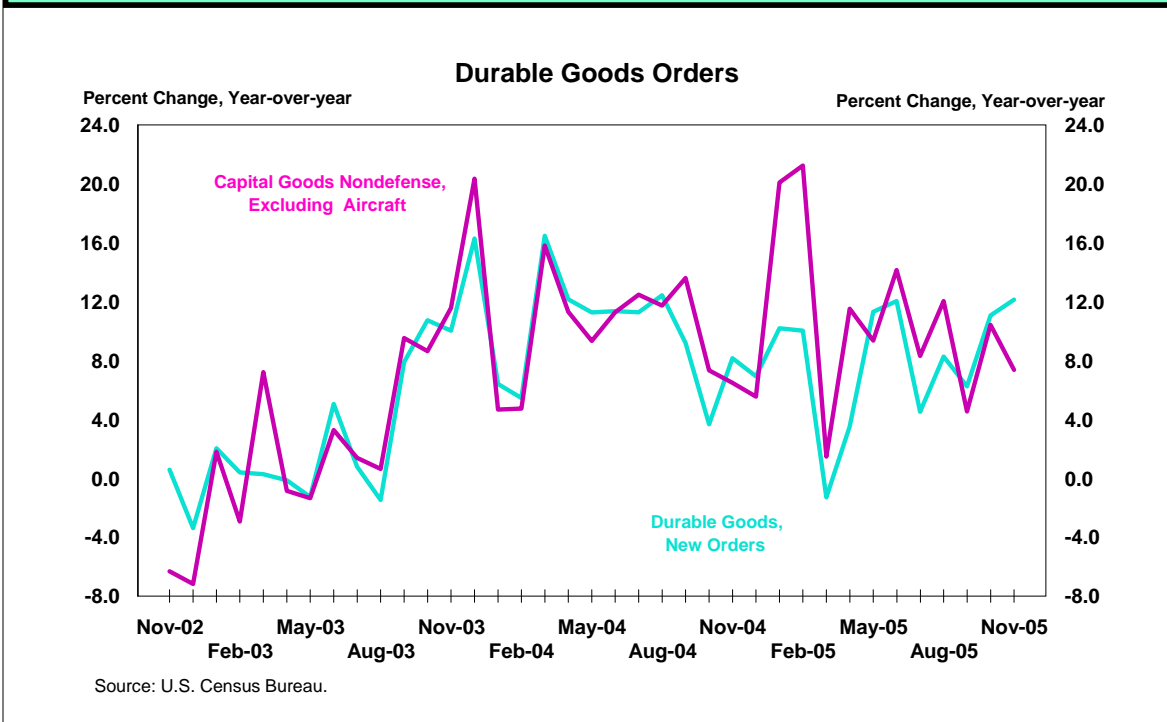


Source: Federal Reserve Board of Governors.

In the business sector, the ISM diffusion index fell for the third straight month in December, but remains above 50. The employment component of the index also decreased, offsetting the prior two months' gains.

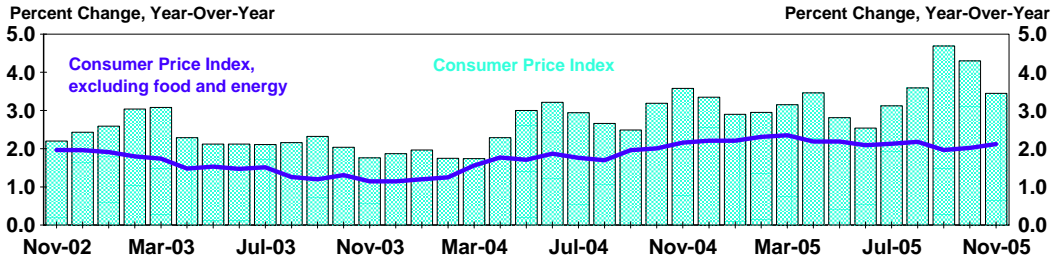


In November, new orders for durable goods grew at their fastest pace since mid-2004, while capital goods excluding aircraft slowed.

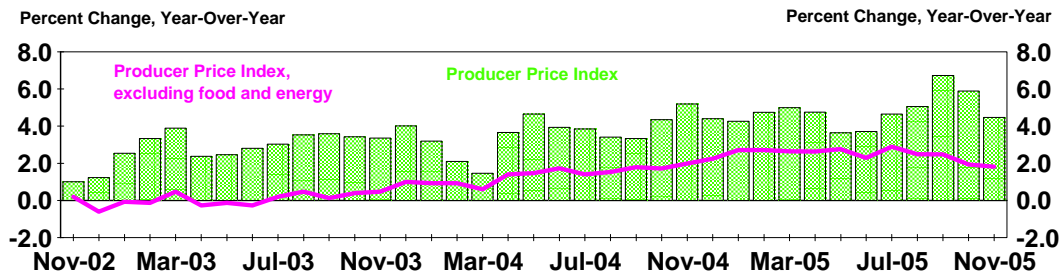


Growth in overall consumer prices slowed in November, due mostly to falling energy prices. Core consumer prices rose slightly, but have held mostly steady over the past six months. Core producer prices were unchanged.

### Consumer Price Index



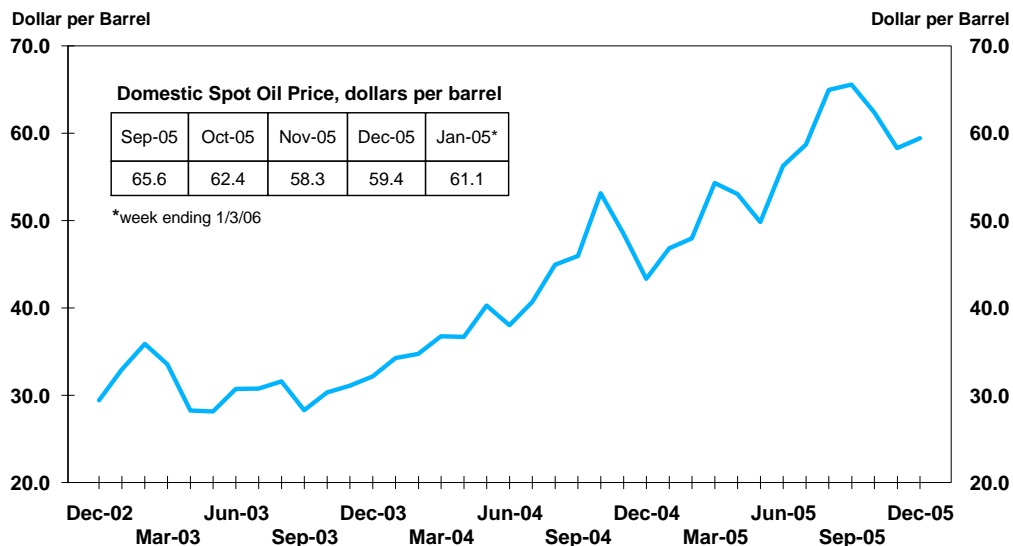
### Producer Price Index



Source: Bureau of Labor Statistics.

After falling in the two months following the hurricanes, oil prices rose in December, and closed above \$63 to start the new year.

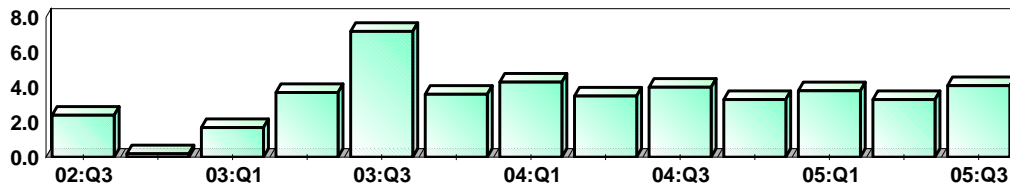
### Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP was revised down slightly in the final third quarter estimate, yet the growth rate is still the highest since the first quarter of 2004. The revision primarily reflected a downward revision to PCE on durable goods, and other small downward revisions that were partly offset by an upward revision to exports.

### Real GDP



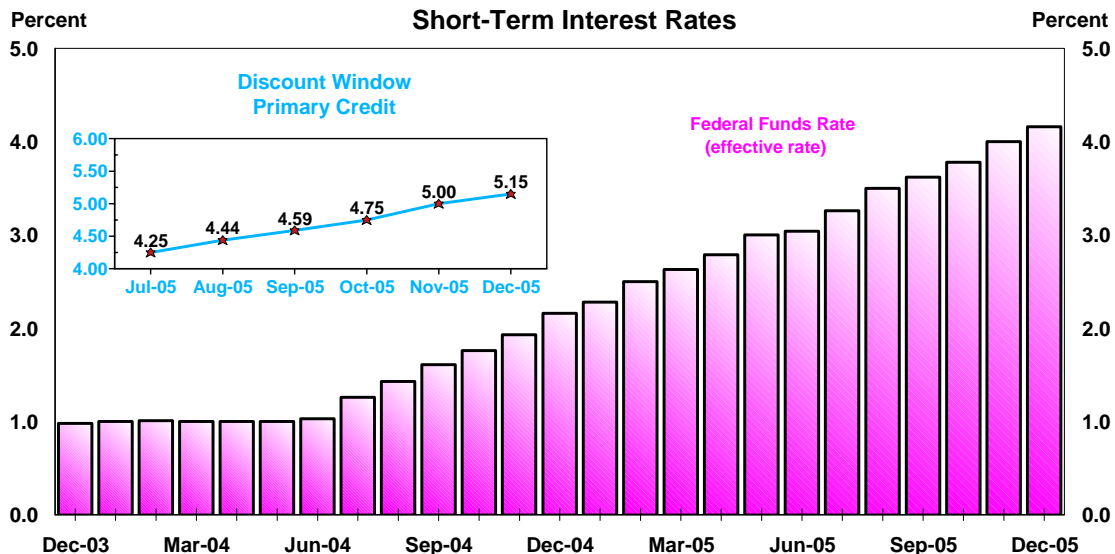
### Revisions to Third Quarter Real GDP

Description	Preliminary	Revised
Real GDP	4.3	4.1
Consumption	4.2	4.1
Business Investment	8.8	8.5
Equipment & Software	10.8	10.6
Residential Investment	8.4	7.3
Government	3.2	2.9
Exports	0.8	2.5
Imports	2.1	2.4
Final Sales	4.7	4.6

Source: Bureau of Economic Analysis.

Overall, Data released since your last Directors' meeting suggest economic growth will be slower in the fourth quarter compared to the third. However, much of the deceleration can be attributed to the timing of auto sales, as third quarter sales were boosted by incentives leading to expectedly lower sales in the fourth quarter. Taken together, growth during the second half of the year is expected to be in line with that seen in the first half.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors.



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

January 12, 2006

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

In December, nonfarm payrolls added 108,000 jobs and the unemployment rate decreased to 4.9%. November payrolls were revised to show an increase of 305,000 jobs, 90,000 more than the original estimate of a 215,000 job increase. But October payrolls were revised down slightly, showing an addition of 25,000 jobs instead of the previously reported 44,000 job increase.

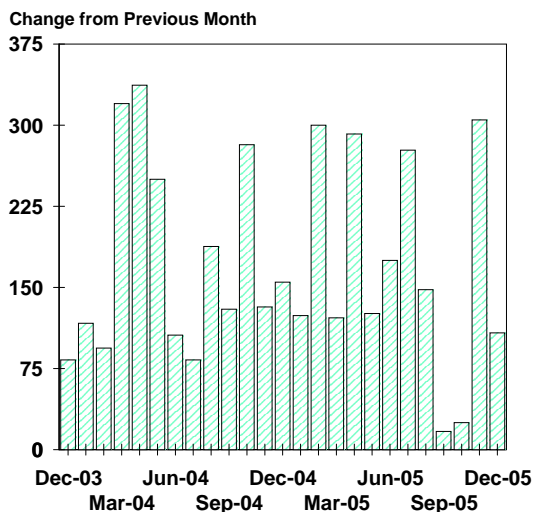
Wholesale inventories rose 0.4% in November, following a 0.2% increase in October. Wholesale trade decreased 0.7% in November, after rising a revised 0.9% in October. Trade was originally estimated as rising 1.2% in October.

Redbook sales decreased 0.5% in the first week of January, compared to December. Sales were 3.2% higher than during the same period last year.

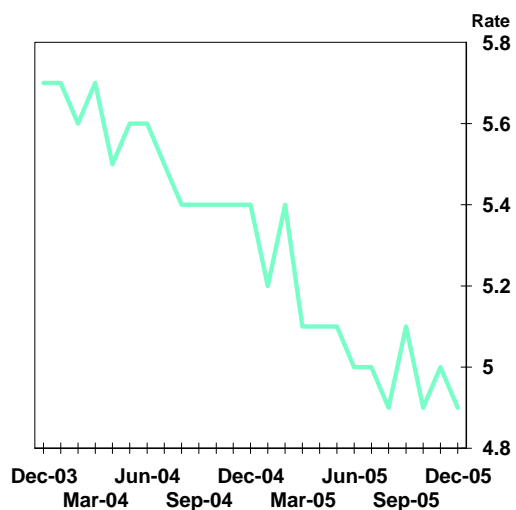
Oil prices increased during the past week, averaging 63.5 dollars per barrel compared to last week's average of 61.1.

Payroll employment posted a solid gain in December, and revisions to the prior two months' estimates resulted in a net gain of 71,000 additional jobs. The unemployment rate fell a tenth of a percentage point in December to 4.9%.

### Nonfarm Payroll Employment



### Unemployment Rate



Source: Bureau of Labor Statistics.