



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

July 6, 2006

Current Economic Developments - July 6, 2006

Data released since your last Directors' meeting suggest the economy is slowing, as expected, following the robust growth in the first quarter. The combined effects of higher energy prices and the cooling housing market can be seen in the data, and will likely be present through the rest of the year.

Initial claims for unemployment insurance decreased in June, and consumer attitudes increased. In May, consumer spending scarcely increased, restrained by real disposable incomes that haven't grown over the past few months. Total auto sales increased a bit in June, but were lower overall in the second quarter compared to the first.

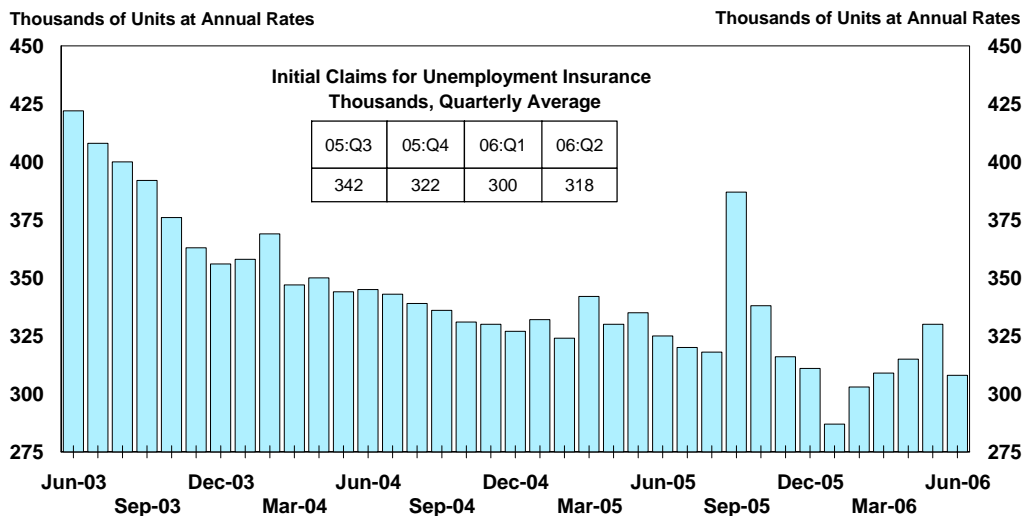
The housing market displayed mixed signs in May. New home sales increased for a third consecutive month, but sales of existing homes slowed. Housing starts rose to offset losses seen in April, but building permits fell to their lowest point in over two years.

In the manufacturing sector, the ISM manufacturing index fell in June, as did its employment component. In May, industrial production and capacity utilization both eased slightly, and new orders for durable goods decelerated. However, orders for nondefense capital goods, excluding aircraft, a better measure of future investment, increased.

Inflation concerns persist, as core consumer prices grew in May at their fastest pace in four years. Total consumer and producer prices also accelerated. Oil prices held steady in June, but rose sharply overall during the second quarter.

After rising for four consecutive months, initial claims for unemployment insurance decreased in June.

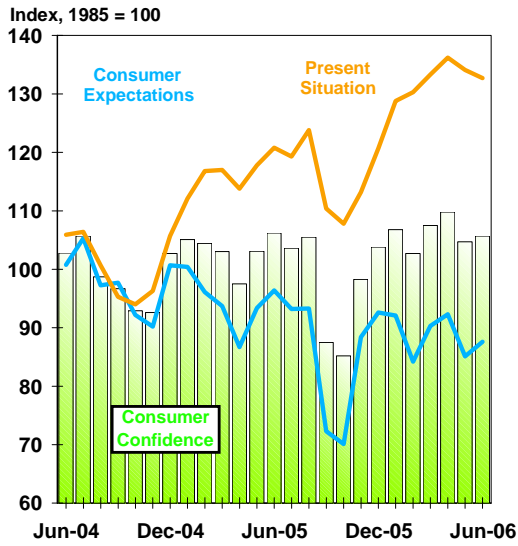
Initial Claims



Source: Department of Labor, Employment and Training Administration.

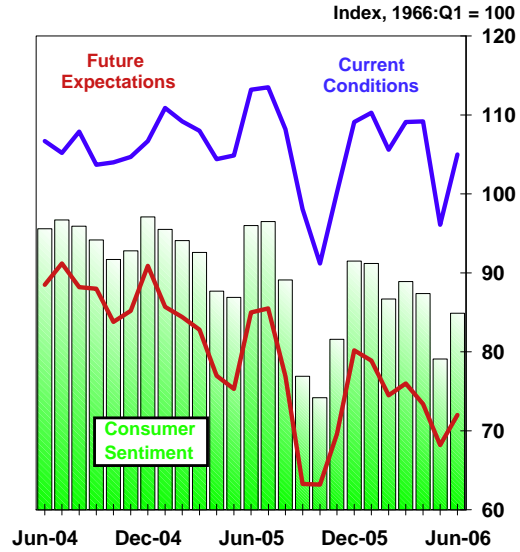
Consumer attitudes mostly improved in June, rebounding a bit from decreases in May. The Conference Board's present situation index was the exception, easing slightly in June.

Consumer Confidence



Source: The Conference Board.

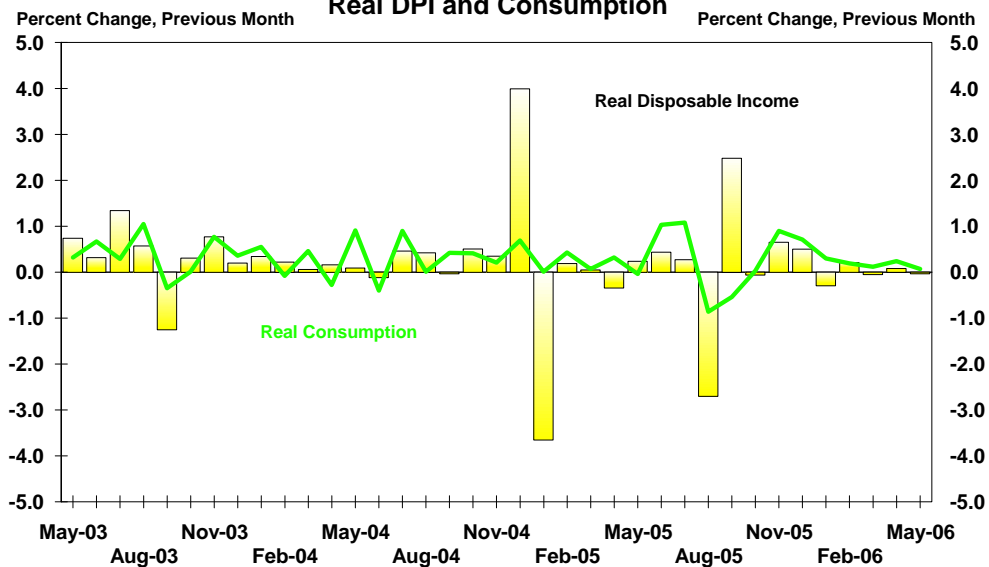
Consumer Sentiment



Source: The University of Michigan.

Real disposable income was virtually unchanged in May, and consumption posted a minimal increase. Consumption has been restrained over the past few months due to a lack of any meaningful income increases.

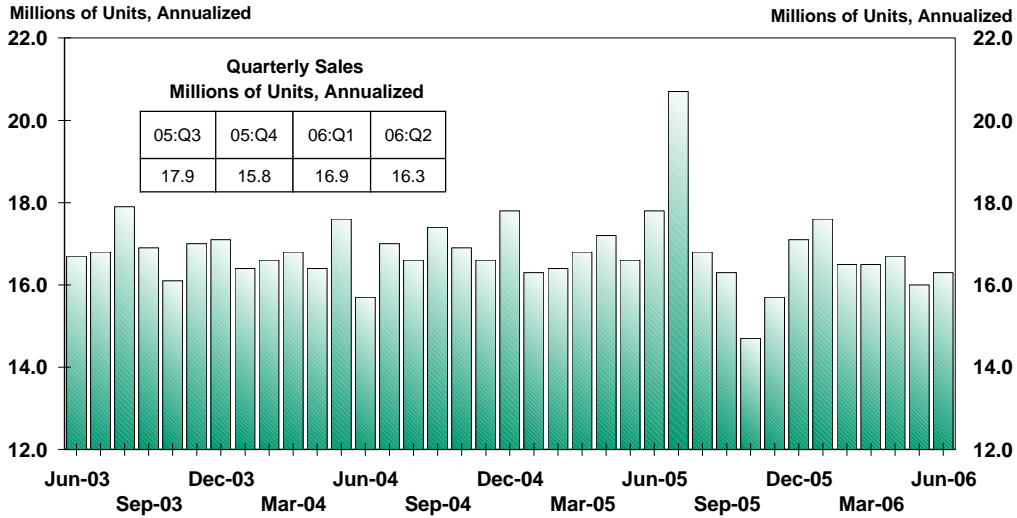
Real DPI and Consumption



Source: Bureau of Economic Analysis.

Auto sales increased in June, but their second quarter average fell from the first quarter.

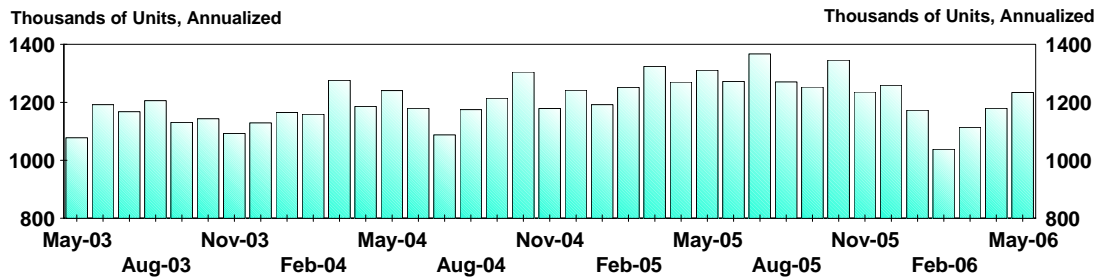
Total Auto and Light Truck Sales



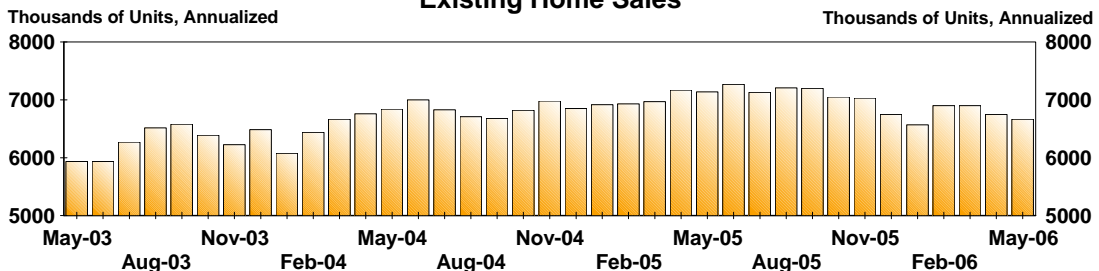
Source: Bureau of Economic Analysis.

In May, new home sales increased for the third consecutive month reaching their highest level this year. But sales of existing homes continued to ease.

New Home Sales



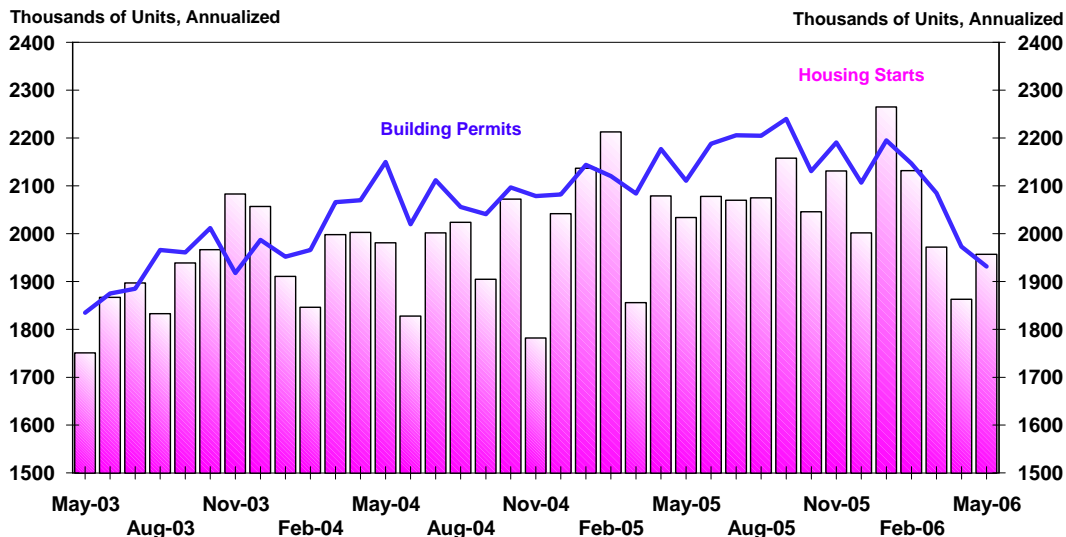
Existing Home Sales



Source: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales).

Housing starts increased in May, despite recent reductions in building permits. After falling for a fourth straight month, permits reached a 30-month low in May.

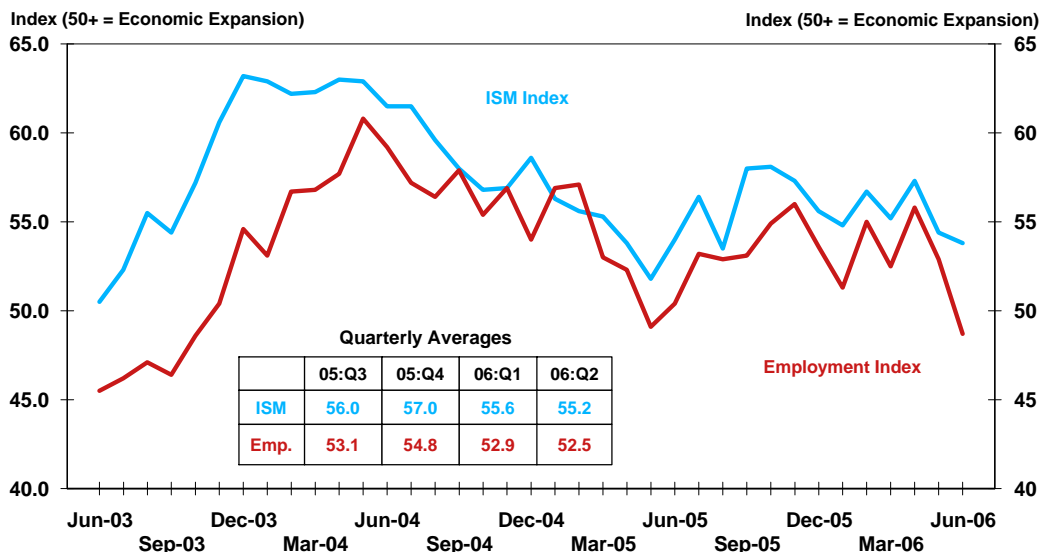
Housing Starts and Building Permits



Source: U.S. Census Bureau.

The ISM manufacturing index decreased in June, while the employment measure fell below 50 for the first time since May 2005.

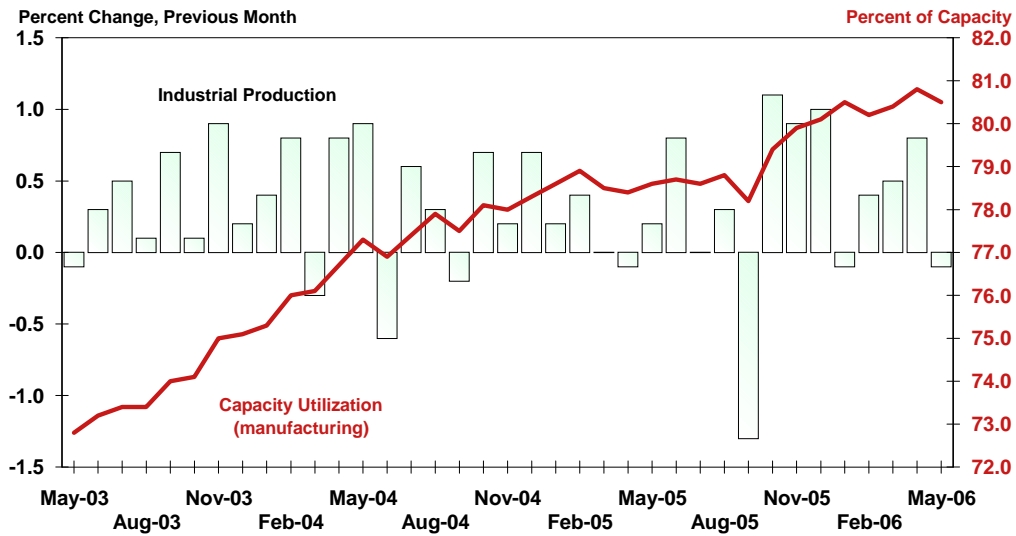
ISM Index



Source: Institute of Supply Management.

Industrial production dipped a bit in May, after three months of growth. Capacity utilization eased slightly in May, but remains high.

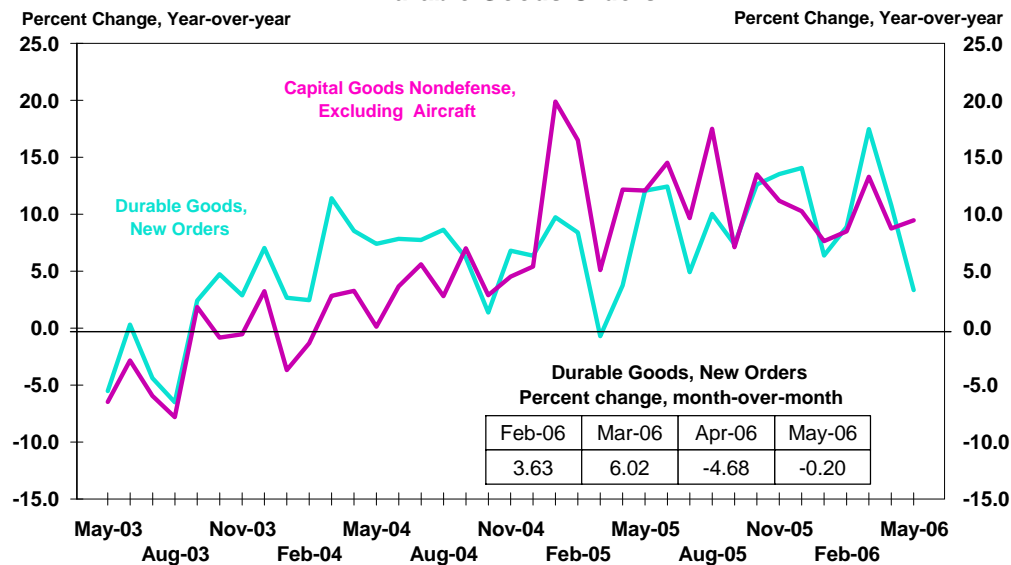
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

In May, new orders for durable goods grew at their slowest pace in over a year, on a year-over-year basis. Orders for nondefense capital goods, excluding aircraft, however, accelerated.

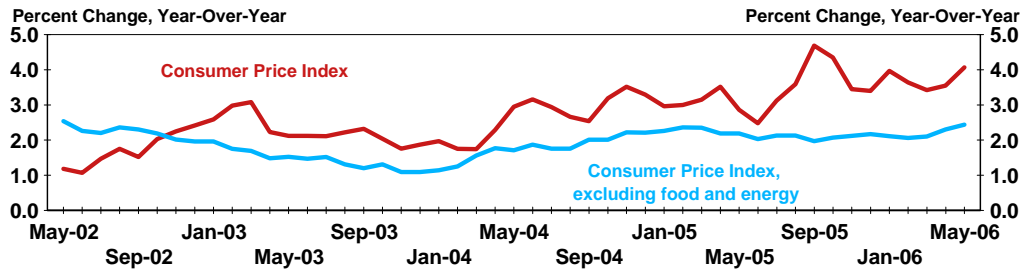
Durable Goods Orders



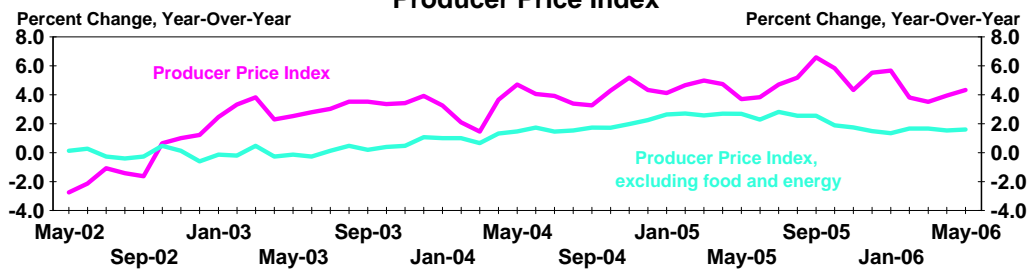
Source: U.S. Census Bureau.

Consumer prices accelerated in May, while core prices grew at their fastest pace in four years. Total producer prices also accelerated in May.

Consumer Price Index



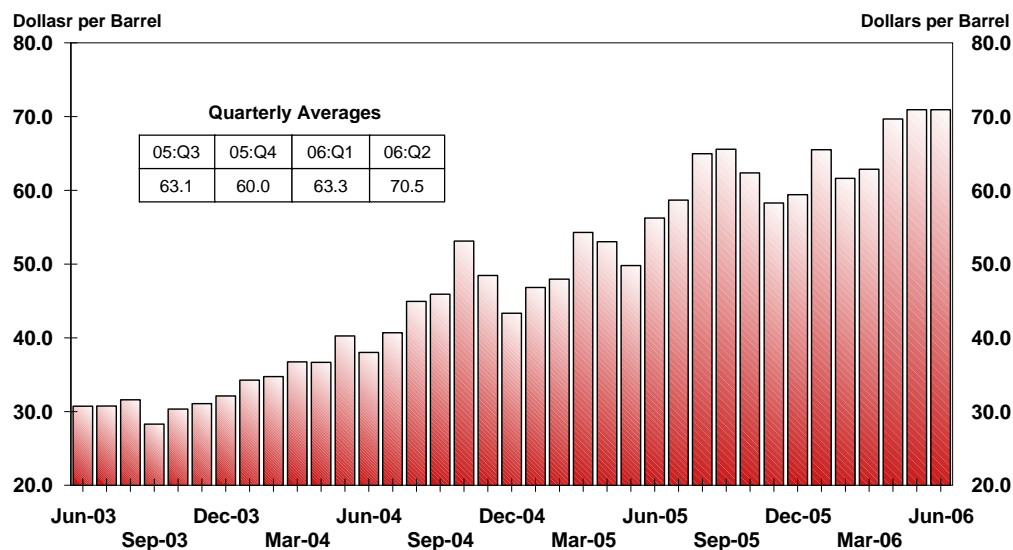
Producer Price Index



Source: Bureau of Labor Statistics.

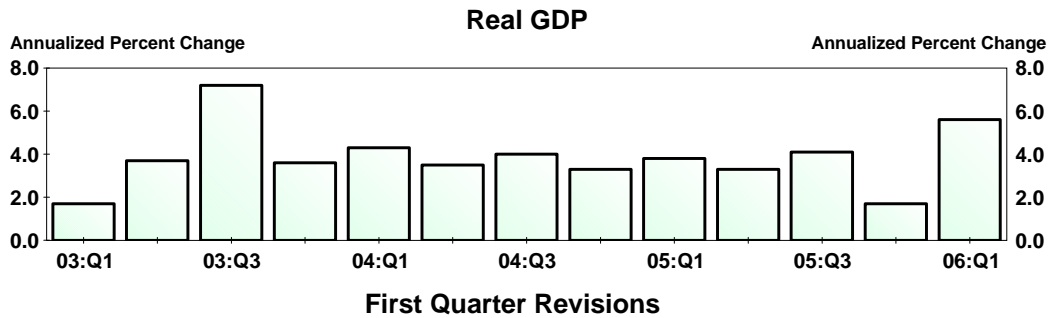
Oil prices held steady in June, but rose sharply overall during the second quarter.

Domestic Spot Oil Price



Source: Wall Street Journal.

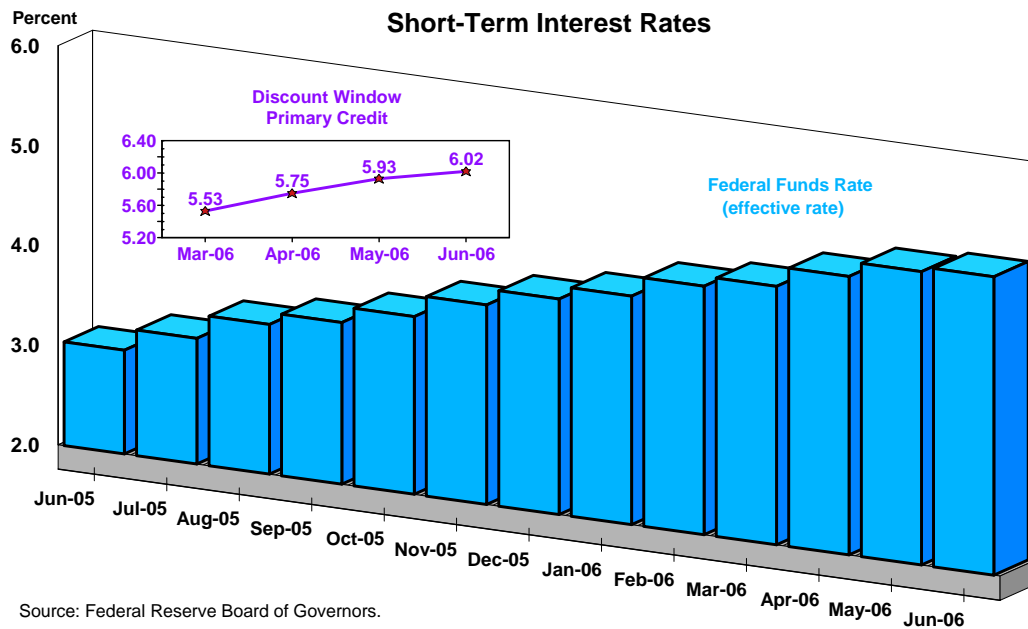
In the first quarter, real GDP was revised slightly upward. The upward revision to the percent change in real GDP primarily reflected a downward revision to imports.



Description	Preliminary	Revised
Real GDP	5.3	5.6
Personal Consumption	5.2	5.1
Business Investment	13.1	14.2
Equipment and Software	13.8	14.8
Residential Investment	3.1	3.3
Government	4.3	4.8
Exports	14.7	14.7
Imports	12.8	10.7
Final Sales	5.5	5.9
Change in Private Inventories	32.3	29.5

Source: Bureau of Economic Analysis.

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

July 13, 2006

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

In June, nonfarm payrolls added 121,000 jobs and the unemployment rate held steady at 4.6%. May payrolls were revised upward to show an increase of 92,000 jobs, 17,000 more than the original estimate of a 75,000 job increase. April payrolls were revised downward, showing the addition of 112,000 jobs instead of the previously reported 126,000 job increase.

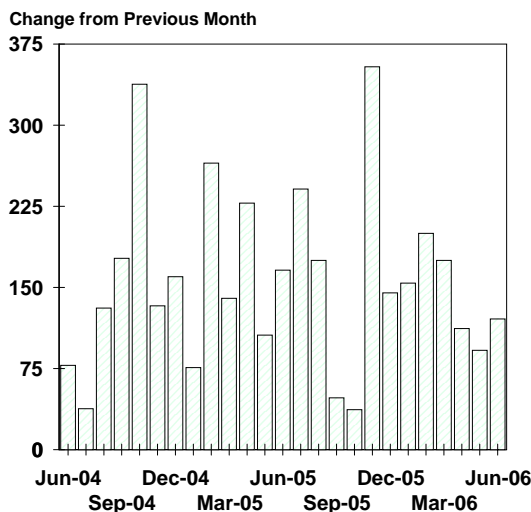
The U.S. trade deficit widened slightly in May to \$63.8 billion, from a revised estimate of \$63.3 billion in April. U.S. imports increased 1.8% in May, but exports increased 2.4%.

Wholesale inventories rose 0.8% in May, following a 1.3% increase in April. Wholesale trade rose 1.6% in May, after rising a revised 1.3% in April. Trade was originally estimated as rising 1.3% in April.

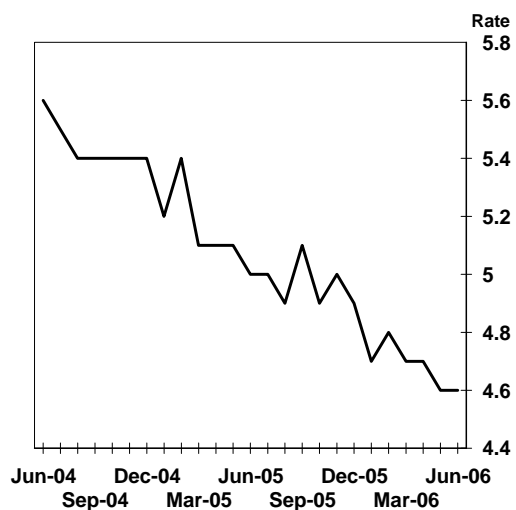
Redbook sales decreased 1.7% in the first week of July, compared to June. Sales were 3.5% higher than during the same period last year. Oil prices rose during the past week, averaging \$74.4 per barrel compared to last week's average of \$73.2.

Payroll employment posted a solid gain in June, and revisions to the prior two months' growth estimates resulted in a net addition of 3,000 new jobs. The unemployment rate was unchanged in June at 4.6%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.