



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

June 1, 2006

## CURRENT ECONOMIC DEVELOPMENTS - June 1, 2006

Data released since your last Directors' meeting show the economy is growing at a moderate pace, despite deteriorating consumer attitudes and rising inflation concerns. Current data suggest a slowdown in second quarter growth, which was expected following the robust first quarter.

In May, initial claims increased, due in part to a government strike in Puerto Rico. Consumer attitudes weakened, with sentiment, confidence, and expectations all falling. Real consumption expenditures increased for the sixth consecutive month in April, despite a slight decrease in real disposable income.

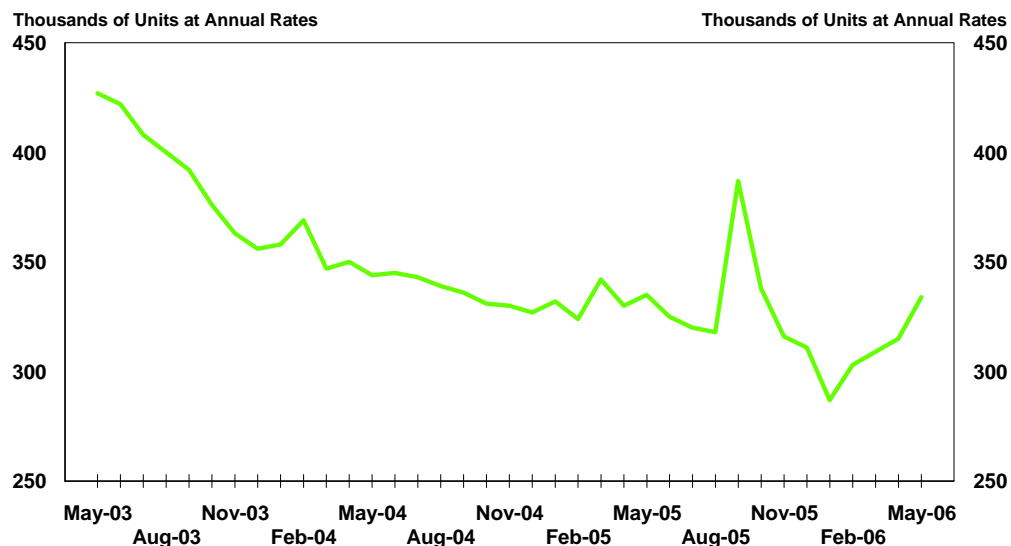
The housing market showed mixed signs in April. Sales of new homes unexpectedly increased, but existing home sales, housing starts and building permits all decreased. In the manufacturing sector, the ISM index decreased a bit in May while industrial production posted a strong gain in April. But, new orders for both durable goods and for nondefense capital goods, excluding aircraft, slowed.

Inflation picked up in April, as core consumer prices grew at their fastest pace in over a year. Total consumer and producer prices also accelerated. Oil prices rose in May, adding to the record high set in April. Productivity was revised up slightly in the first quarter, and unit labor costs were revised lower for each of the past two quarters.

During the first quarter, real growth was stronger than originally thought. The upward revision primarily reflected upward revisions to private inventory investment and to exports that were partly offset by downward revisions to personal consumption expenditures and equipment and software.

Initial claims for unemployment insurance rose for the third consecutive month in May. A government strike in Puerto Rico, however, was partly responsible for the increase.

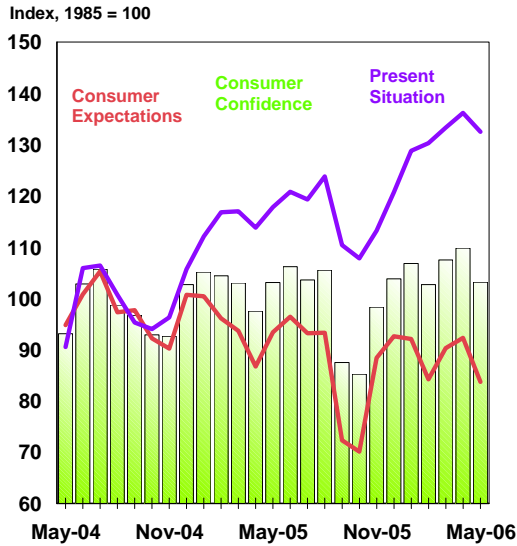
### Initial Claims



Source: Department of Labor, Employment and Training Administration.

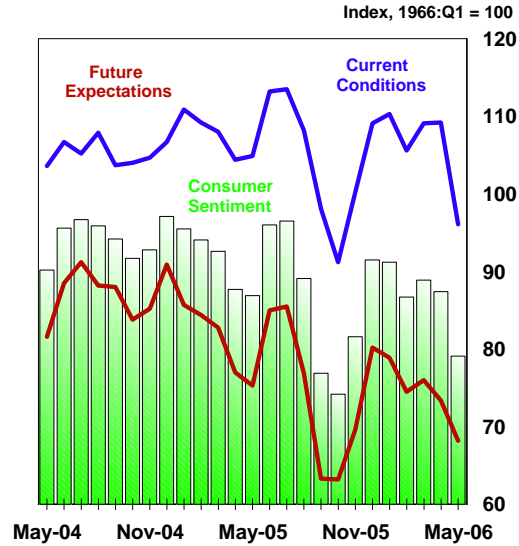
Consumer attitudes deteriorated in May, as a drop in confidence offset the prior two month's gains and sentiment fell to its lowest point since October. Consumers' impressions of current conditions and their future expectations also worsened.

### Consumer Confidence



Source: The Conference Board.

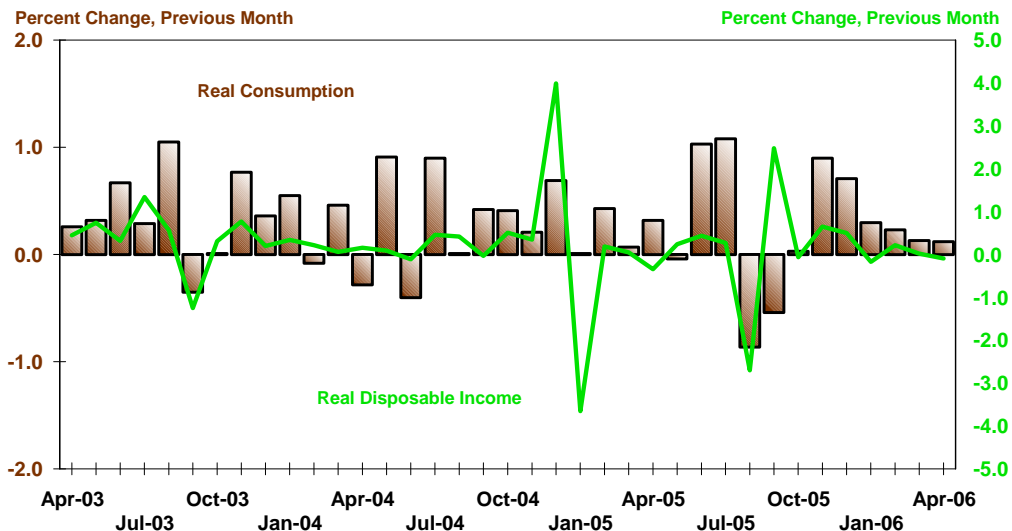
### Consumer Sentiment



Source: The University of Michigan.

Real consumption increased slightly in April, despite a small reduction in real disposable income.

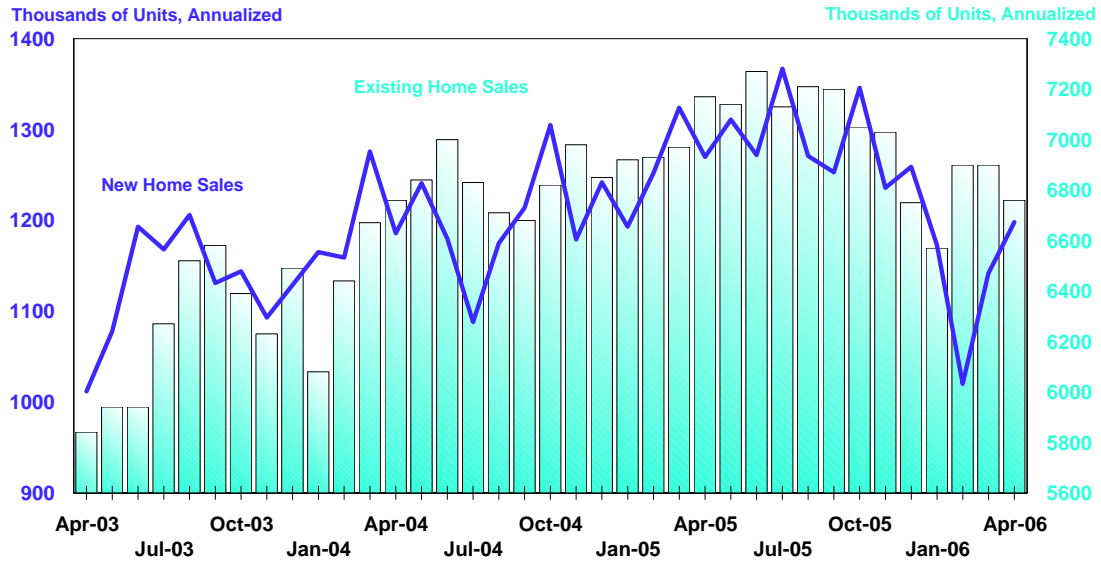
### Real Consumption and Real DPI



Source: Bureau of Economic Analysis.

New home sales unexpectedly rose for a second straight month in April, enhancing the rebound from the slower sales seen at the beginning of the year. Sales of existing homes eased a bit in April.

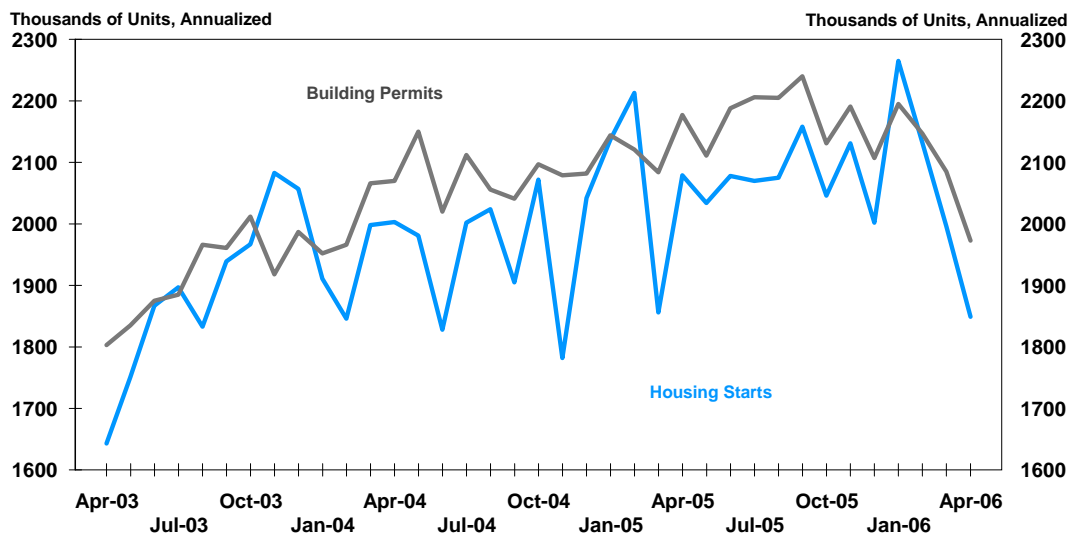
### New and Existing Home Sales



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

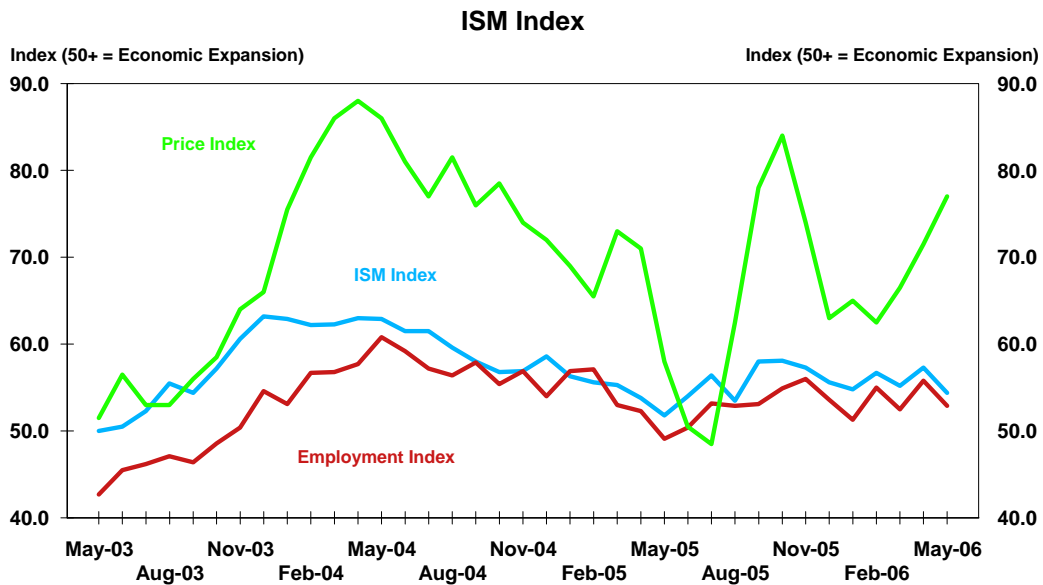
In April, both housing starts and building permits continued to fall, reaching their lowest levels since November of 2004 and February of 2004, respectively.

### Housing Starts and Building Permits



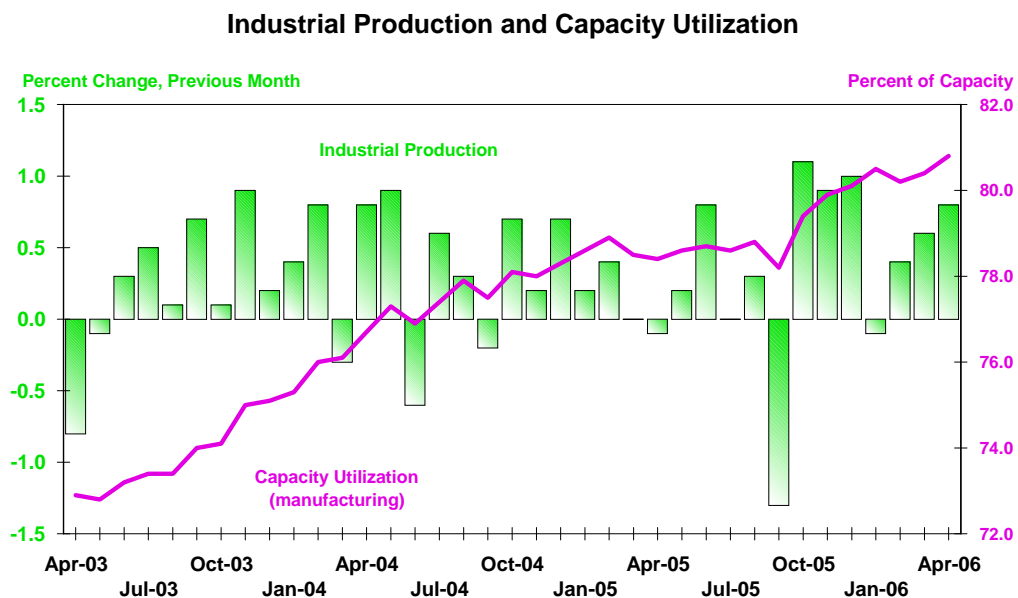
Source: U.S. Census Bureau.

The ISM manufacturing and employment indices fell in May, offsetting the gains seen in April. The price index rose for the third straight month.



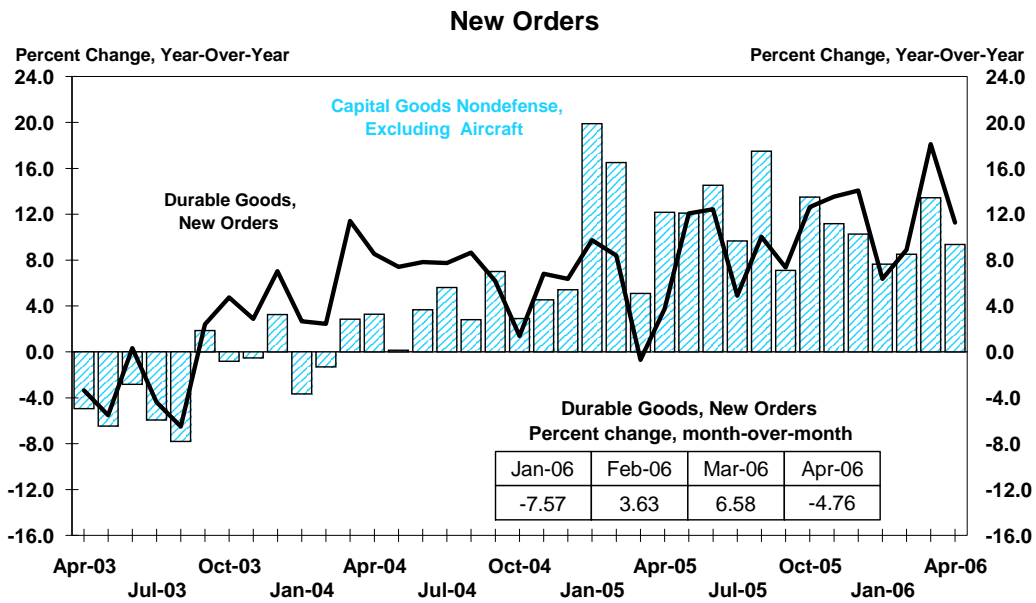
Source: Institute for Supply Management.

Industrial production continued to increase in April, while capacity utilization reached its highest point in nearly six years.



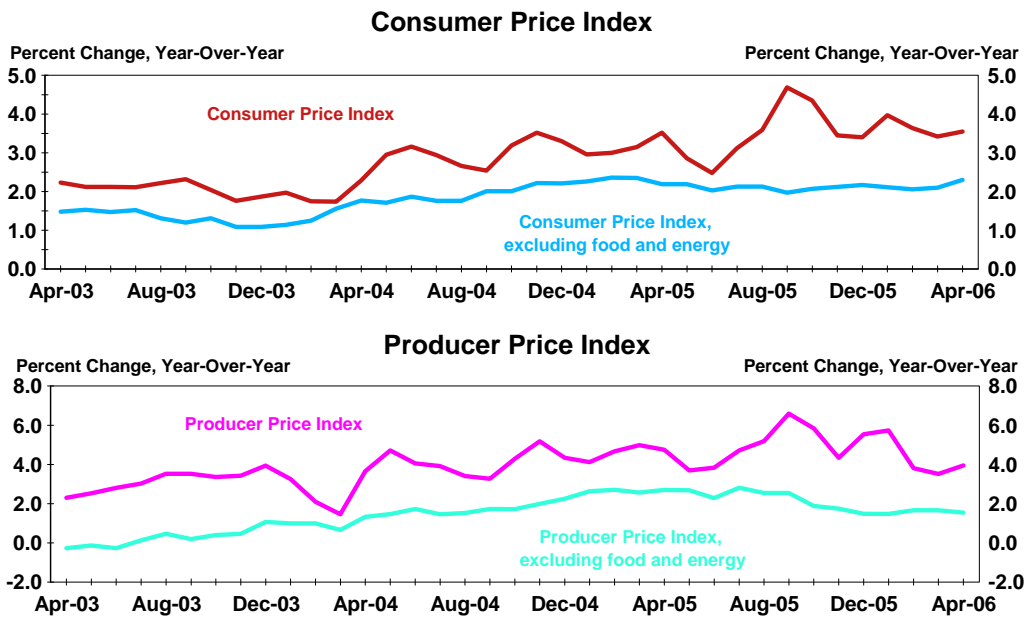
Source: Federal Reserve Board of Governors.

Growth of new orders for durable goods slowed in April, following a strong March. Orders for nondefense capital goods, excluding aircraft, also slowed.



Source: U.S. Census Bureau.

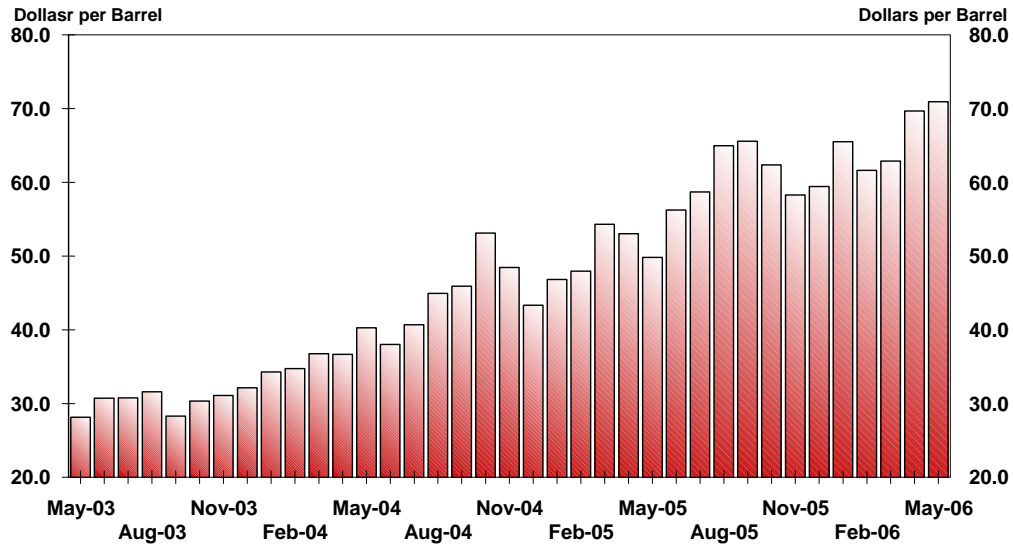
Inflation picked up in April, as growth in both overall and core consumer prices accelerated. However, at the wholesale level, total prices increased, while core prices eased slightly.



Source: Bureau of Labor Statistics.

Oil prices continued to rise in May, averaging greater than \$70 per barrel for the first time.

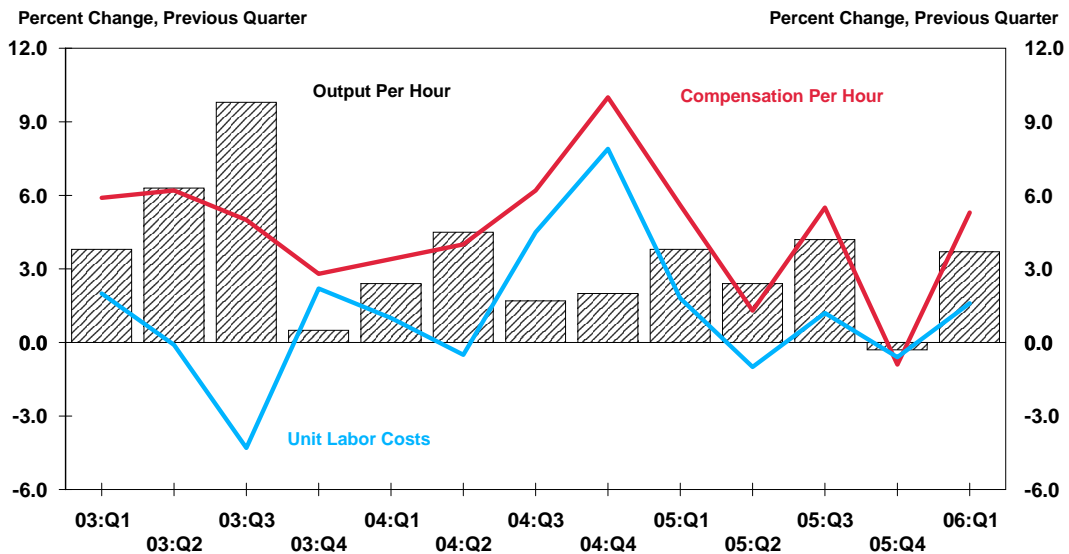
### Domestic Spot Oil Price



Source: Wall Street Journal.

Productivity increased in the first quarter, helping to offset a strong quarterly gain in hourly compensation. Unit labor costs, however, were revised downward for both the first quarter of 2006 and the fourth quarter of 2005.

### Productivity and Costs



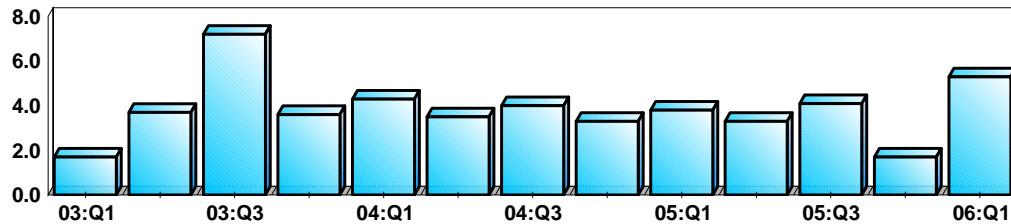
Source: Bureau of Labor Statistics.

Real GDP in the first quarter was stronger than originally thought. The upward revision primarily reflected upward revisions to private inventory investment and to exports that were partly offset by downward revisions to personal consumption expenditures and equipment and software.

### Revisions to First Quarter Real GDP

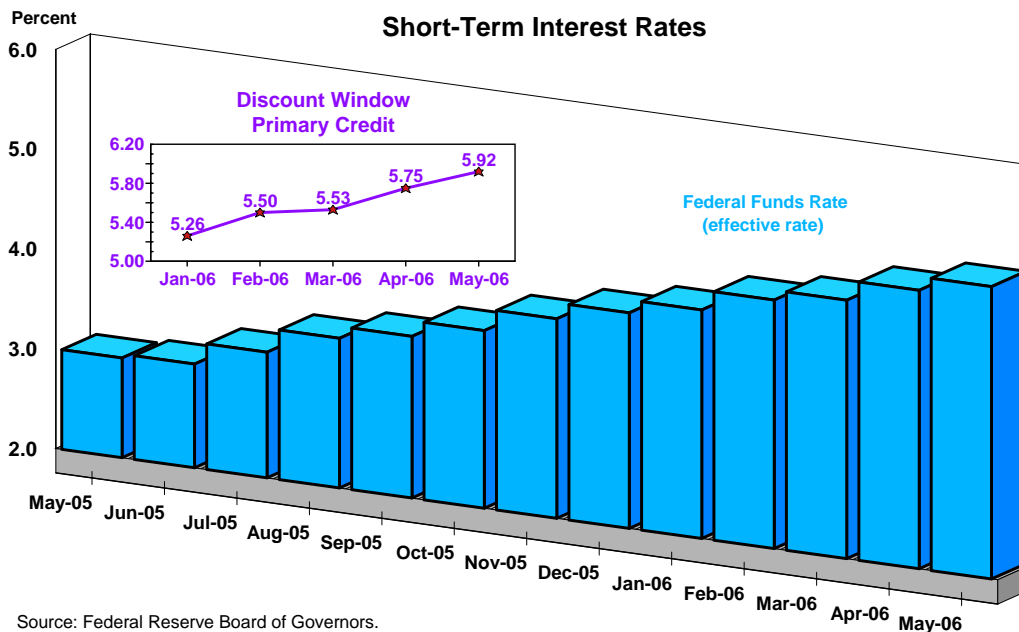
Description	Advanced	Preliminary
Real GDP	4.8	5.3
Personal Consumption	5.5	5.2
Business Investment	14.3	13.1
Equipment and Software	16.4	13.8
Residential Investment	2.6	3.1
Government	3.9	4.3
Exports	12.1	14.7
Imports	13.0	12.8
Final Sales	5.4	5.5

### Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy is growing at a moderate pace, despite deteriorating consumer attitudes and rising inflation concerns. Current data suggest a slowdown in second quarter growth, which was expected following the robust first quarter.



Source: Federal Reserve Board of Governors.



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

June 8, 2006

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

In May, nonfarm payrolls added 75,000 jobs and the unemployment rate decreased to 4.6%. April payrolls were revised to show an increase of 126,000 jobs, 12,000 fewer than the original estimate of a 138,000 job increase, and March payrolls were revised to show an increase of 175,000 jobs, 25,000 less than the previously reported increase of 200,000.

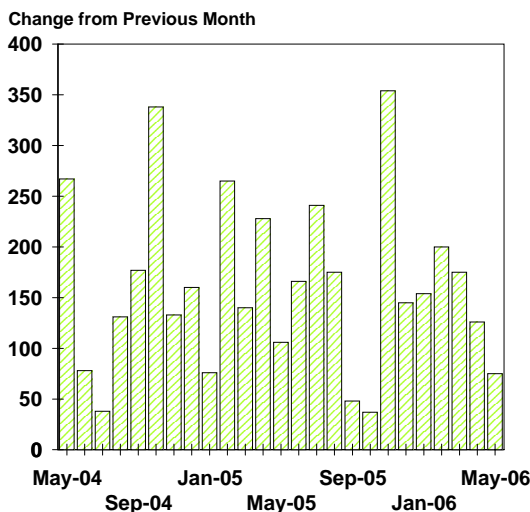
Domestic auto and light truck sales decreased in May, to an annualized rate of 12.3 million units. May's sales were the lowest since October's rate of 11.4 million. Total vehicle sales for May were 16.0 million, down from April's estimate of 16.7 million.

Manufacturers' orders fell 1.8% in April, after rising 4.0% in March. Total shipments were unchanged in April, while shipments of nondefense capital goods, excluding aircraft, rose 1.0%.

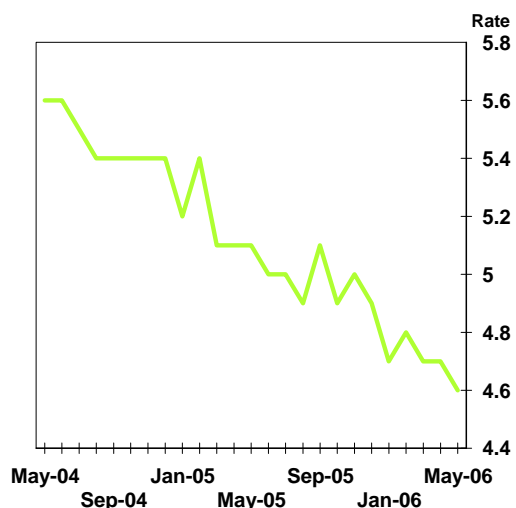
Redbook sales increased 1.9% in the first week of June, compared to May. Sales were 3.3% higher than during the same period last year. Oil prices increased slightly during the past week, averaging 71.8 dollars per barrel compared to last week's average of 71.1.

Payroll employment posted a modest gain in May, and revisions to the prior two months' estimates resulted in a net reduction of 37,000 jobs. Still, the unemployment rate fell one-tenth of a percentage point in May to 4.6%.

**Nonfarm Payroll Employment**



**Unemployment Rate**

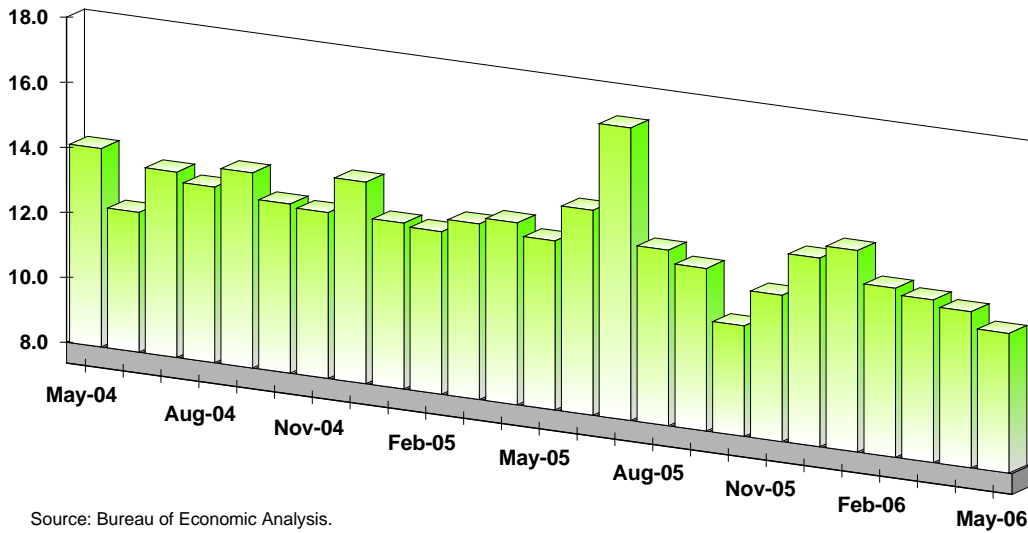


Source: Bureau of Labor Statistics.

In May, domestic auto and light truck sales fell to their lowest level since October.

### Domestic Auto and Light Truck Sales

Millions of Units, Annualized



Source: Bureau of Economic Analysis.