



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

March 2, 2006

Current Economic Developments - March 2, 2006

Data released since your last Directors' meeting show the economy grew in the fourth quarter at a faster pace than originally estimated, but one that is still the slowest in three years. Data released thus far in 2006 suggest first quarter growth will be stronger.

In February, initial claims held close to the five year low reached the previous month. Overall consumer attitudes edged downward in February, but their feelings toward current conditions remain high. Real consumption expenditures grew in January, but at a slightly slower pace than seen in December.

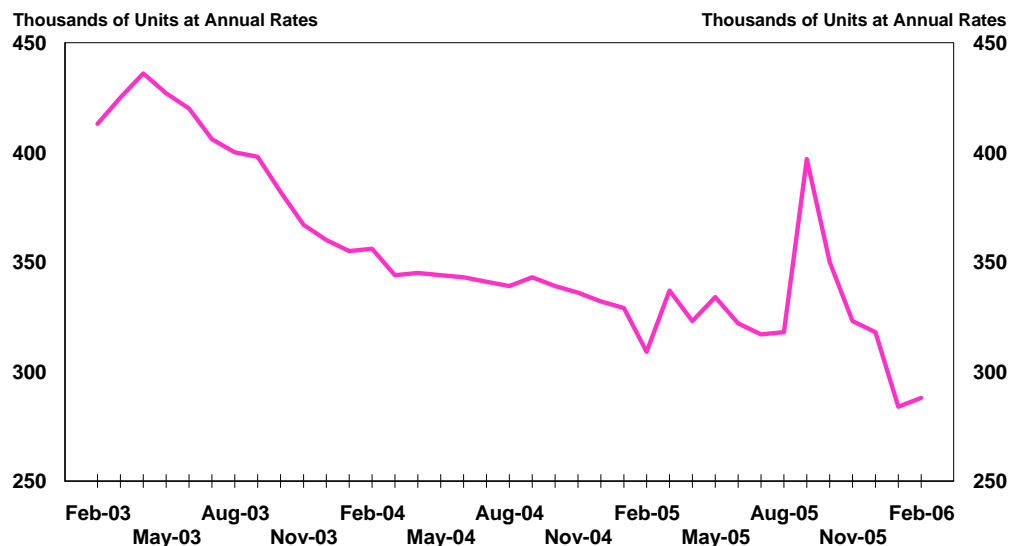
The housing market showed mixed signs in January. New home sales declined for the fourth time in six months, and existing home sales slowed for the fifth straight month. Despite the slower sales, housing starts and permits both increased in January. In the manufacturing sector, the ISM manufacturing and employment indices both increased in February. In January, industrial production fell, new orders for durable goods dropped as transportation orders declined sharply, and orders for nondefense capital goods, excluding aircraft, also slowed.

Despite an acceleration in overall consumer prices, core inflation slowed slightly in January. Core producer prices also slowed a bit in January and oil prices eased in February.

During the fourth quarter, real GDP was stronger than originally thought. The upward revision primarily reflected greater exports, higher government spending, increased spending on equipment and software, and stronger inventory buildup. These positive revisions were partly offset by increased imports.

In February, initial claims for unemployment rose slightly, staying close to the five year low established in January.

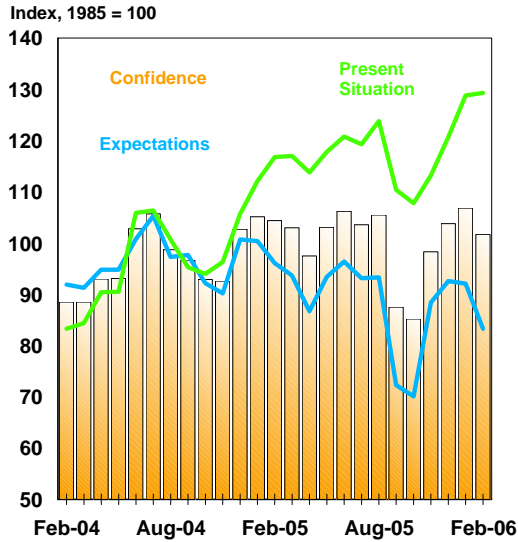
Initial Claims



Source: Department of Labor, Employment and Training Administration.

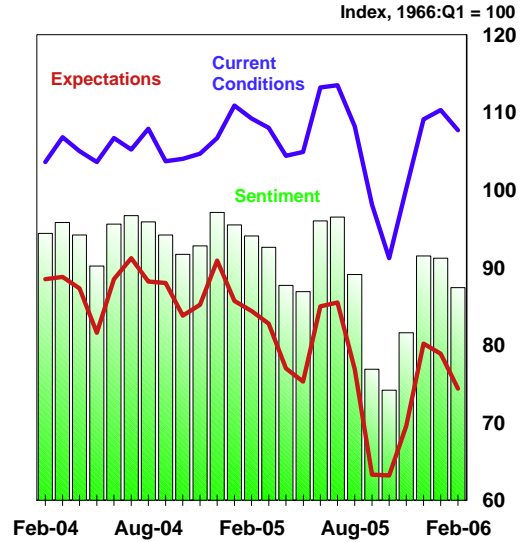
Consumer confidence dipped in February, as did future expectations. However, consumers' attitudes toward current conditions remained positive.

Consumer Confidence



Source: The Conference Board.

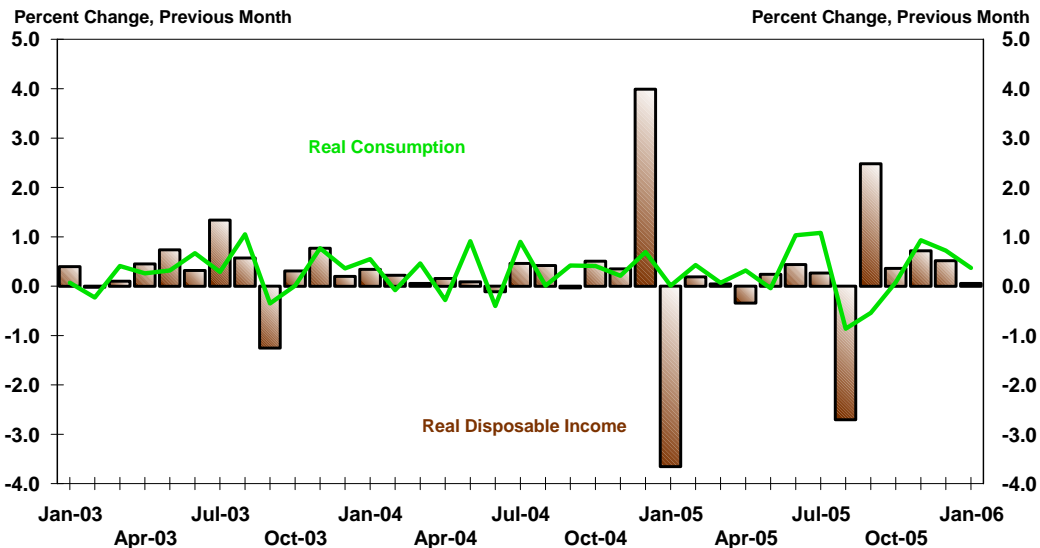
Consumer Sentiment



Source: The University of Michigan.

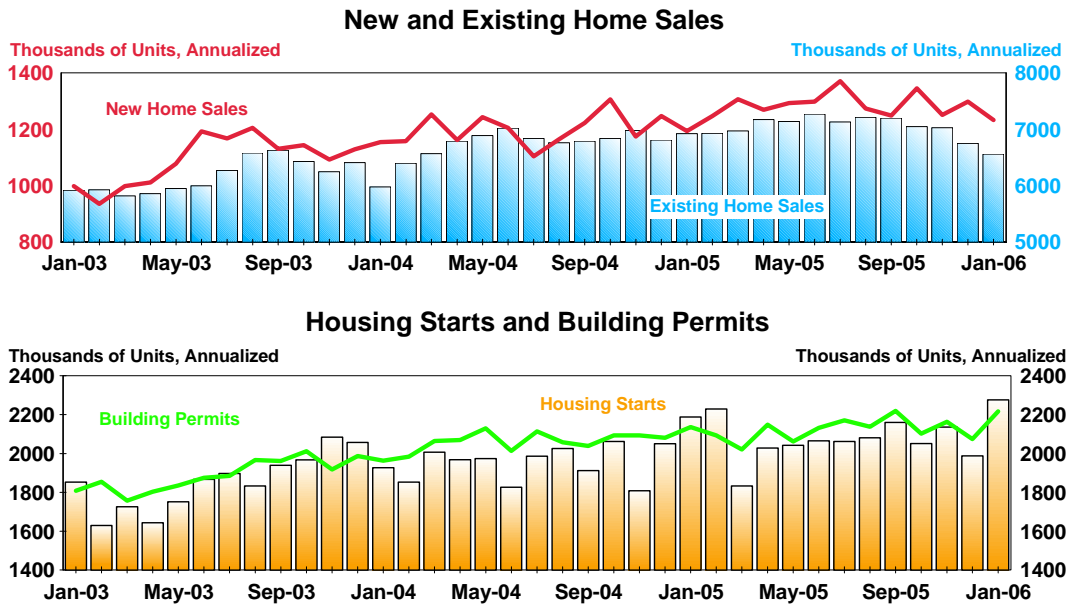
In January, both real income and consumption slowed for the second consecutive month.

Real DPI and Consumption



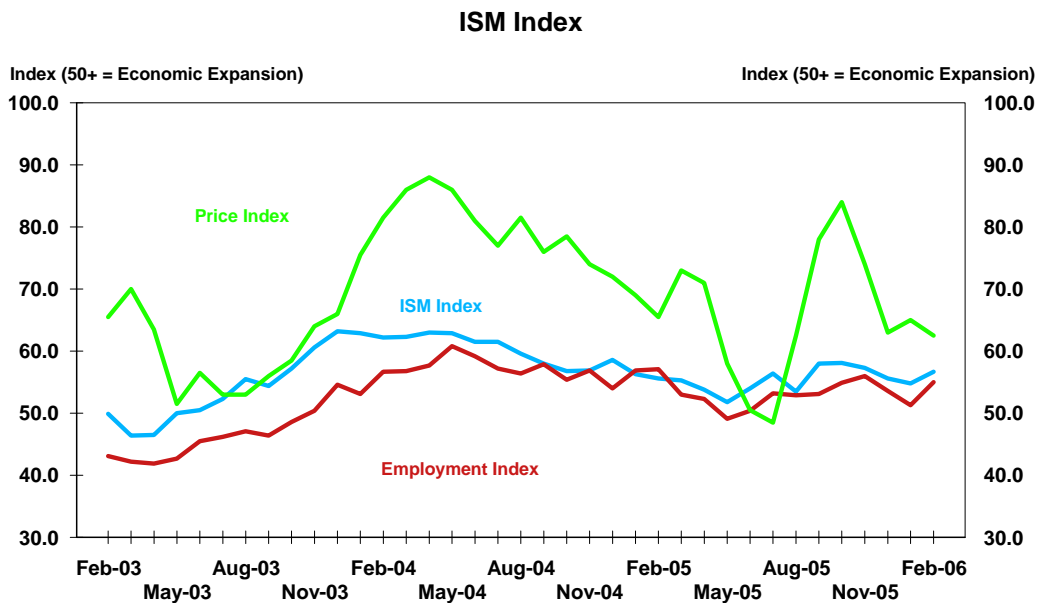
Source: Bureau of Economic Analysis.

The housing market was mixed in January. Sales of new homes declined, offsetting the prior month's gains, and existing home sales decreased again. But housing starts and building permits increased in January, after falling in December.



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

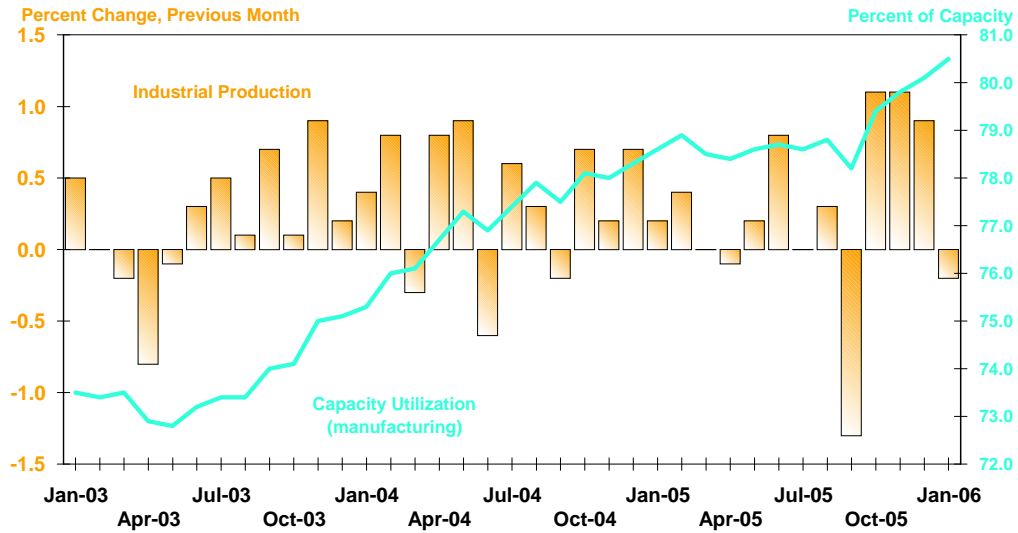
The ISM manufacturing and employment indices both increased in February, partially offsetting previous losses. The price index declined a bit.



Source: Institute of Supply Management.

In January, industrial production fell for the first time in four months, but capacity utilization continued to rise.

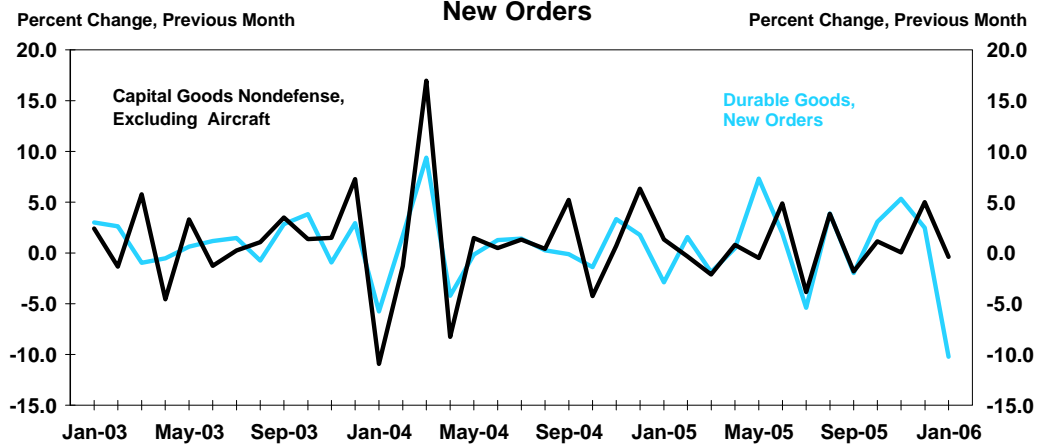
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

In January, new orders for durable goods experienced their largest drop in over five years, due primarily to large decreases in aircraft orders. Also in January, new orders for nondefense capital goods excluding aircraft decreased.

New Orders

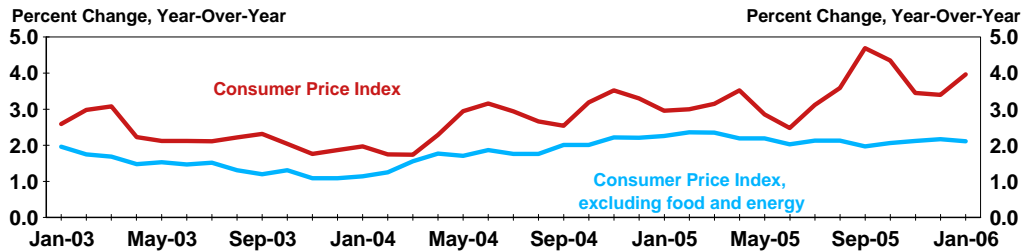


New Orders, Durable Goods	Dec-05	Jan-06
Transportation Equipment	3.6	-31.2
Nondefense Aircraft	-2.8	-68.2
Defense Aircraft	31.8	-22.0

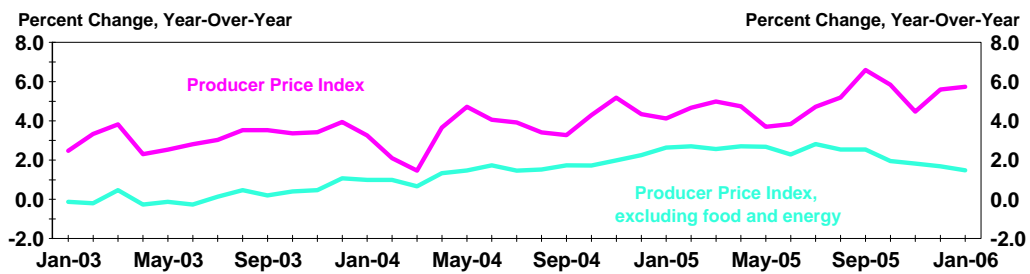
Source: U.S. Census Bureau.

Inflation, as measured by total CPI, increased in January while core inflation was essentially flat. At the wholesale level, overall prices accelerated mildly while core prices slowed slightly.

Consumer Price Index



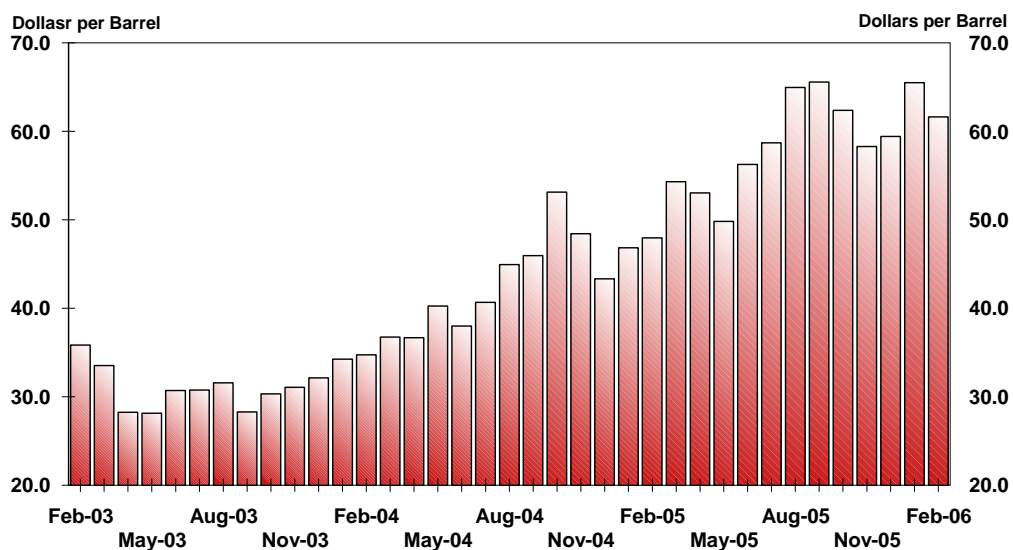
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices eased a bit in February, following a sharp rise in January.

Domestic Spot Oil Price



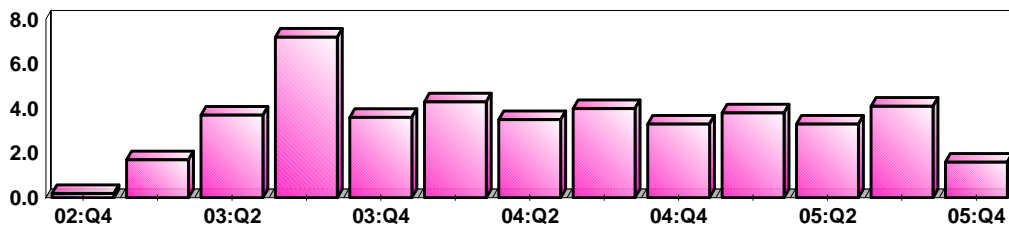
Source: Wall Street Journal.

Real GDP in the fourth quarter was stronger than originally thought. The upward revision primarily reflected greater exports, higher government spending, increased spending on equipment and software, and stronger inventory buildup. These positive revisions were partly offset by increased imports.

Revisions to Fourth Quarter Real GDP

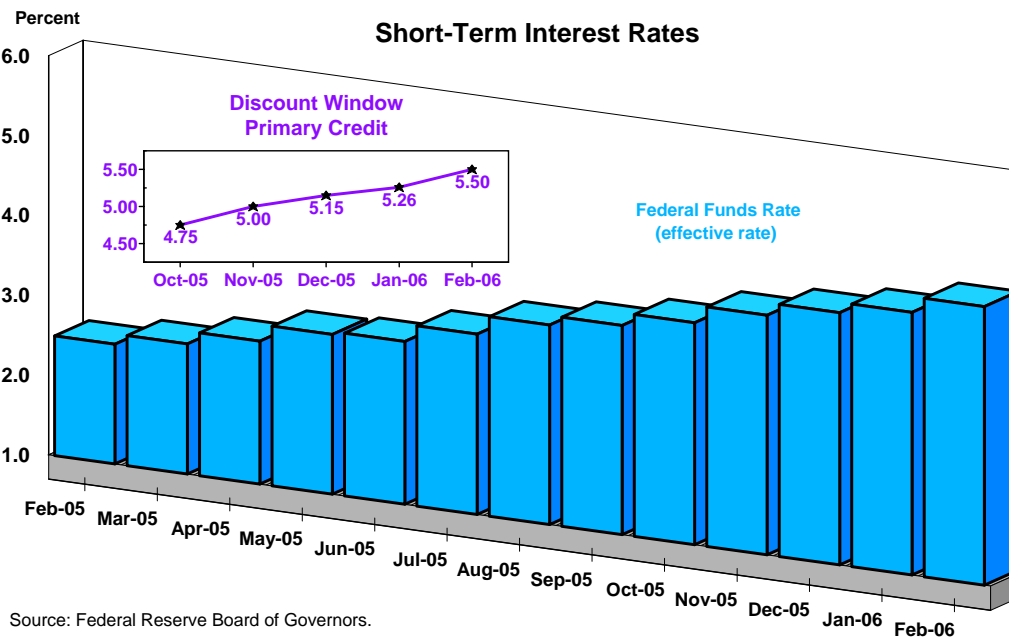
Description	Advanced	Preliminary
Real GDP	1.1	1.6
Personal Consumption	1.1	1.2
Business Investment	2.8	5.4
Equipment and Software	3.5	6.2
Residential Investment	3.5	2.6
Government	-2.4	-0.7
Exports	2.4	5.7
Imports	9.1	12.8
Final Sales	-0.3	0.0

Real GDP



Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy grew in the fourth quarter at a faster pace than originally estimated, but one that is still the slowest in three years. Data released thus far in 2006 suggest first quarter growth will be stronger.



Source: Federal Reserve Board of Governors.

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

March 9, 2006

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

Auto sales slowed in February to an annualized rate of 16.6 million units, down from January's estimated rate of 17.6 million. February's decrease was the first monthly decline since October.

Productivity was revised slightly higher in the fourth quarter, dropping 0.5% instead of the initial estimate of 0.6%. The higher number reflected gains of 1.5% in output and 2.0% in total hours worked.

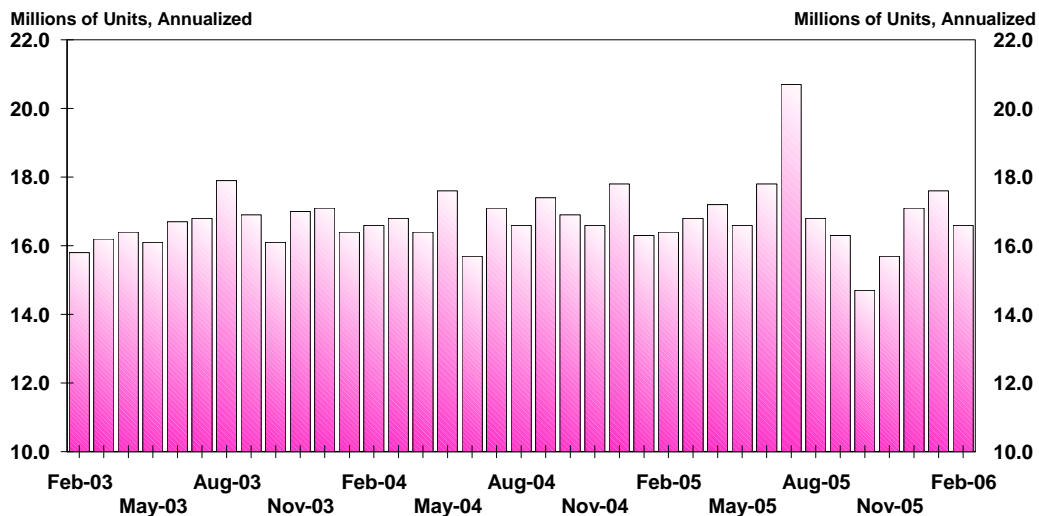
Consumer sentiment closed February largely unchanged from its mid-month estimates. Sentiment ended the month at 86.7, down slightly from the 87.4 seen in the middle of February. Expectations were essentially flat, finishing the month at 74.5 after registering a 74.4 earlier.

Redbook sales decreased 2.5% in the first week of March, compared to February. Sales were 2.4% lower than during the same period last year. Oil prices rose during the past week, averaging 62.6 dollars per barrel compared to last week's average of 60.2.

Due to the timing of the survey, February's employment data was not published last week, and instead will be released tomorrow. Nonfarm payrolls are expected to increase by 210,000, with the unemployment rate holding at 4.7%.

Total auto and light truck sales slowed in February, following three consecutive monthly increases.

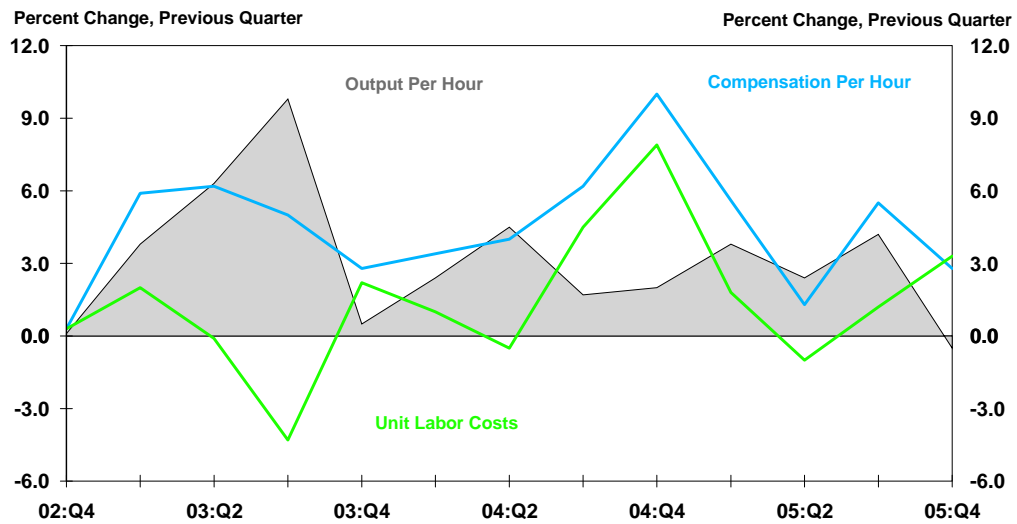
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Productivity decreased in the fourth quarter, but by slightly less than originally estimated. Unit labor costs rose during the quarter, and total compensation slowed.

Productivity and Costs



Source: Bureau of Labor Statistics.