



FEDERAL RESERVE
BANK OF BOSTON™

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

May 4, 2006

CURRENT ECONOMIC DEVELOPMENTS - May 4, 2006

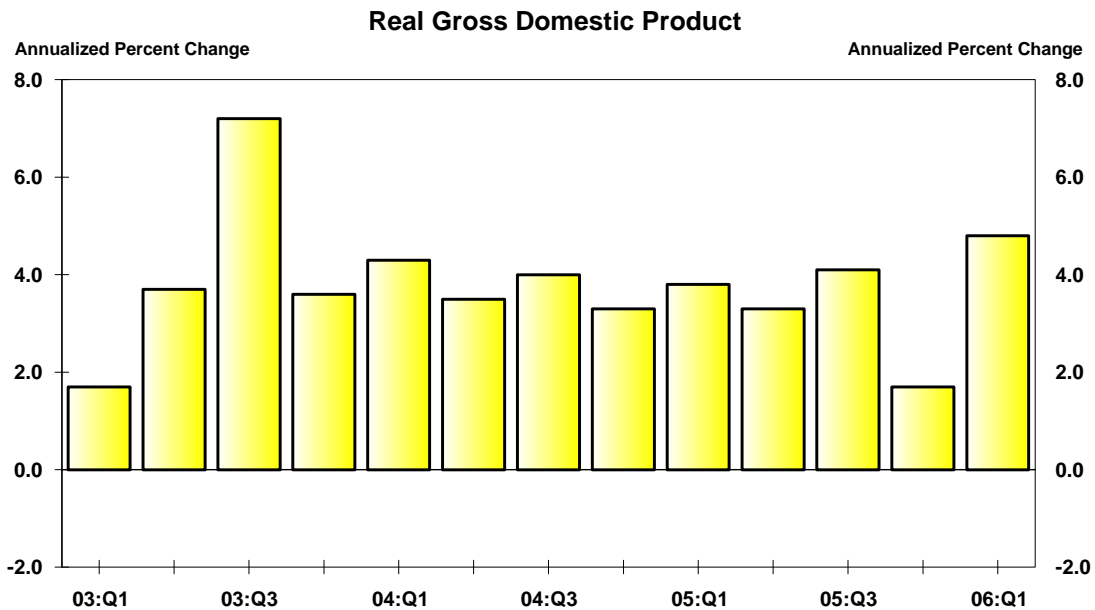
Data since your last Directors' meeting show the economy grew in the first quarter at its fastest pace in two and a half years, following the soft patch experienced in the fourth quarter.

The increase in real GDP in the first quarter was due primarily to positive contributions from personal consumption expenditures, equipment and software, exports, and federal government spending. The contributions of these components were partly offset by a negative contribution from private inventory investment and an increase in imports.

In April, consumer attitudes were mixed after strengthening in the first quarter, and initial claims for unemployment insurance increased a bit but remain quite low. Both the ISM manufacturing and employment indices increased in April to offset first quarter reductions.

Inflation concerns continue to be mild, as core consumer prices held steady in the first quarter and core producer prices slowed slightly. Unit labor costs decreased in the first quarter, and total compensation costs, as measured by the ECI, fell. Further escalations in energy prices, with oil nearing the \$75 per barrel threshold, may be cause for concern with the summer vacation months approaching.

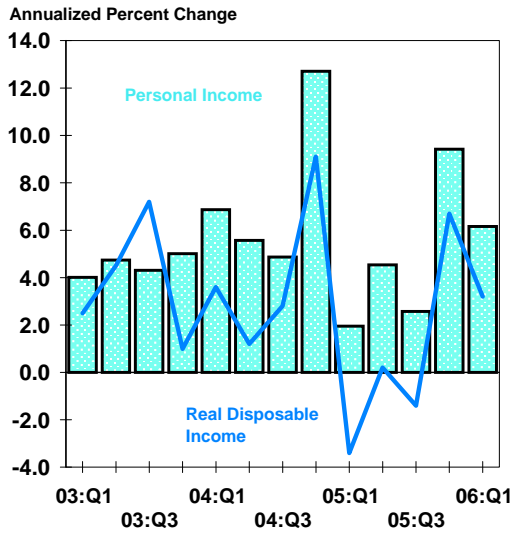
The acceleration of real GDP in the first quarter primarily reflected an acceleration in PCE for durable goods, an upturn in federal government spending, and accelerations in equipment and software. These effects were partially offset by a negative contribution from private inventory investment.



Source: Bureau of Economic Analysis.

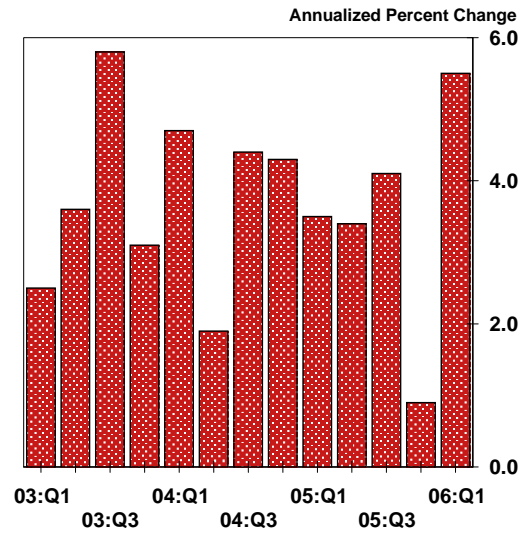
In the first quarter, despite some slowing in both personal income and real DPI, real consumption grew at its fastest pace in over two years. The acceleration in consumption was due mainly to a rebound in durable goods expenditures, which had slowed considerably in the fourth quarter in conjunction with weak auto sales.

Personal Income



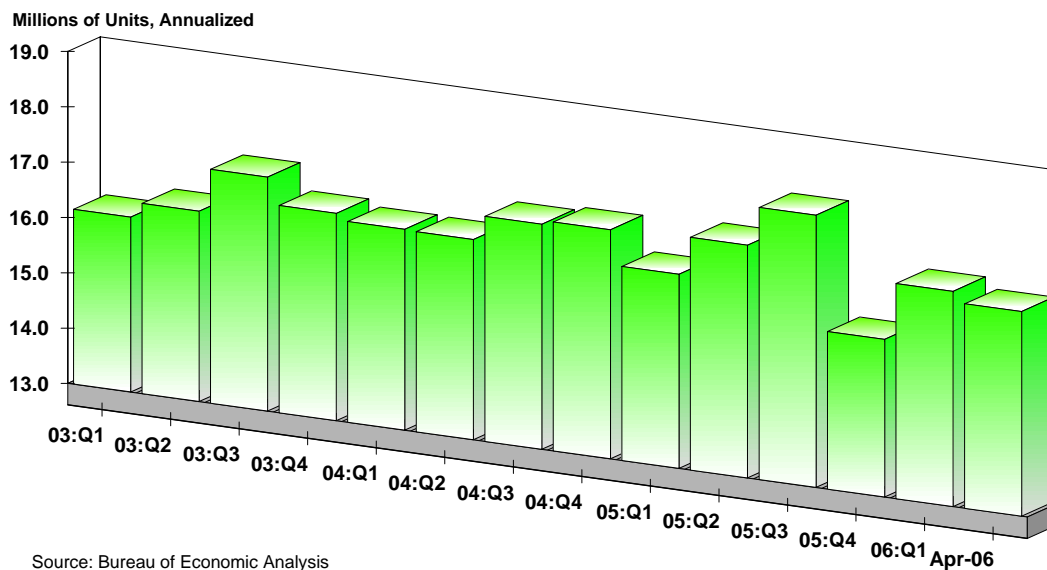
Source: Bureau of Economic Analysis.

Real Consumption



Auto sales followed their strong first quarter recovery with slightly lower, yet still solid, sales in April.

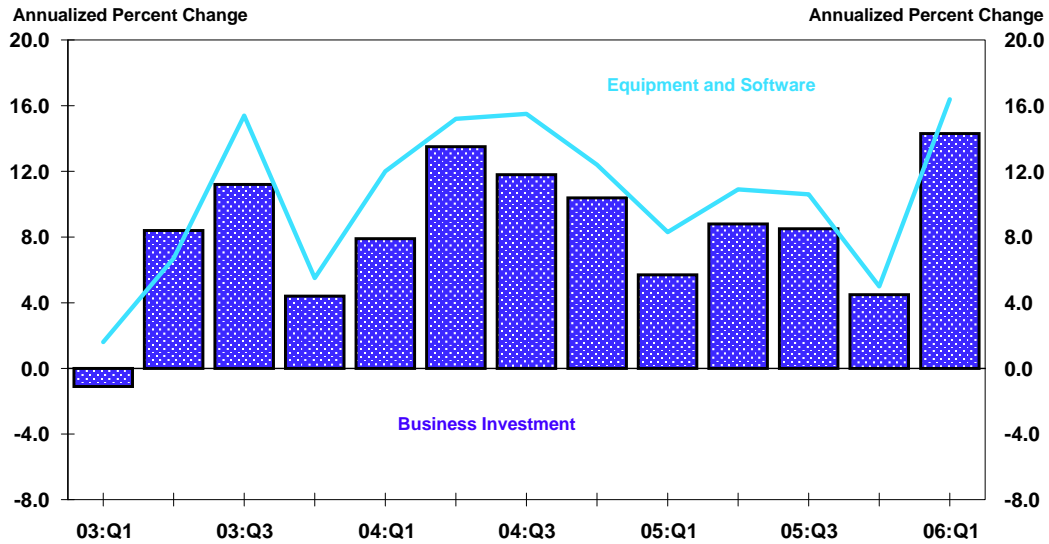
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis

Business investment increased in the fourth quarter, growing at its fastest pace in nearly six years. The increase was due in large part to an acceleration in equipment and software investment.

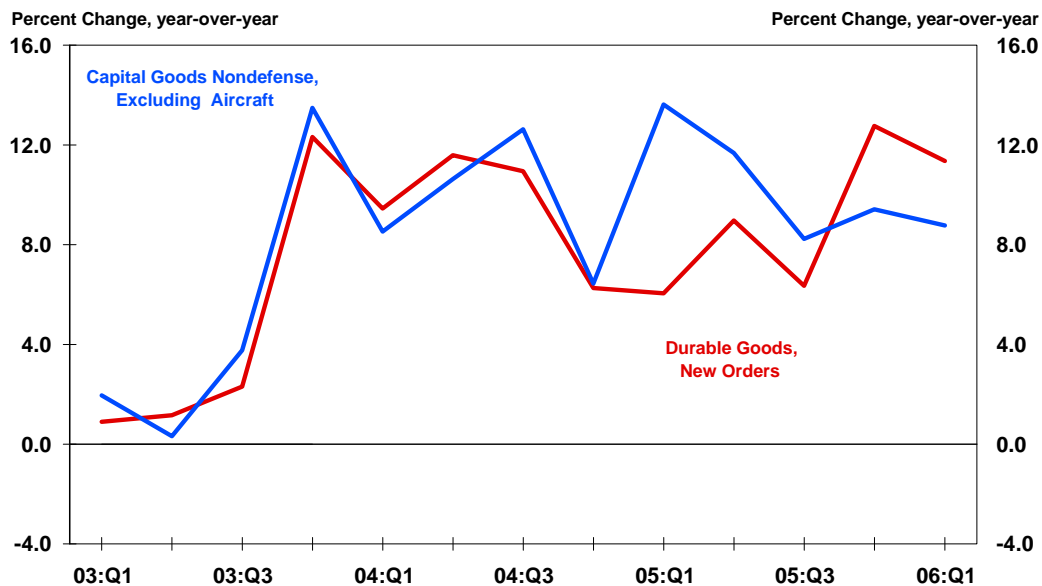
Business Investment



Source: Bureau of Economic Analysis.

In the first quarter, new orders for durable goods slowed, and easing of orders of nondefense capital goods, excluding aircraft, offset the previous quarter's acceleration.

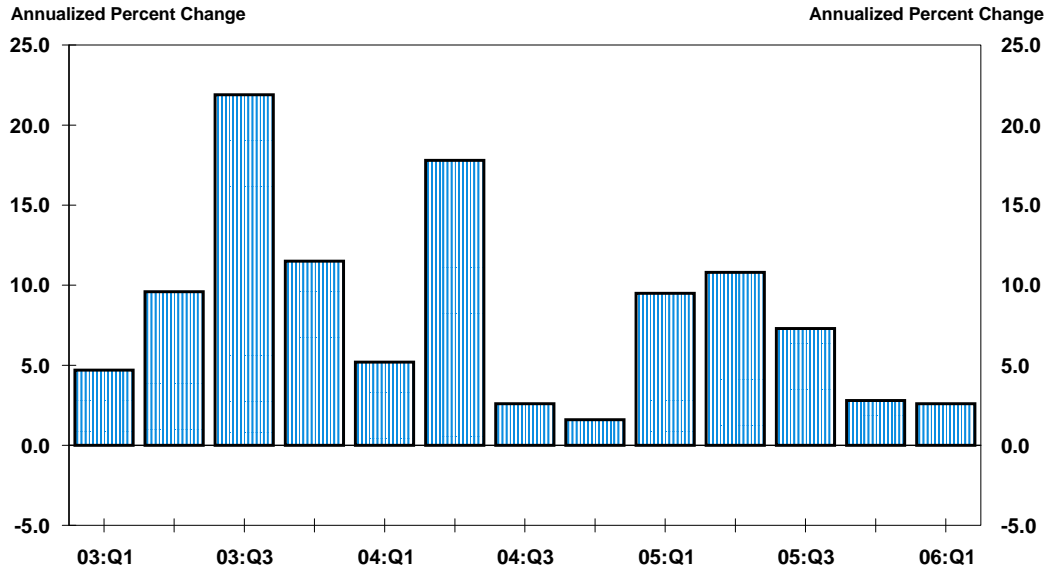
Durable Goods Orders



Source: U.S. Census Bureau.

Residential investment held steady in the first quarter, albeit at a relatively low level.

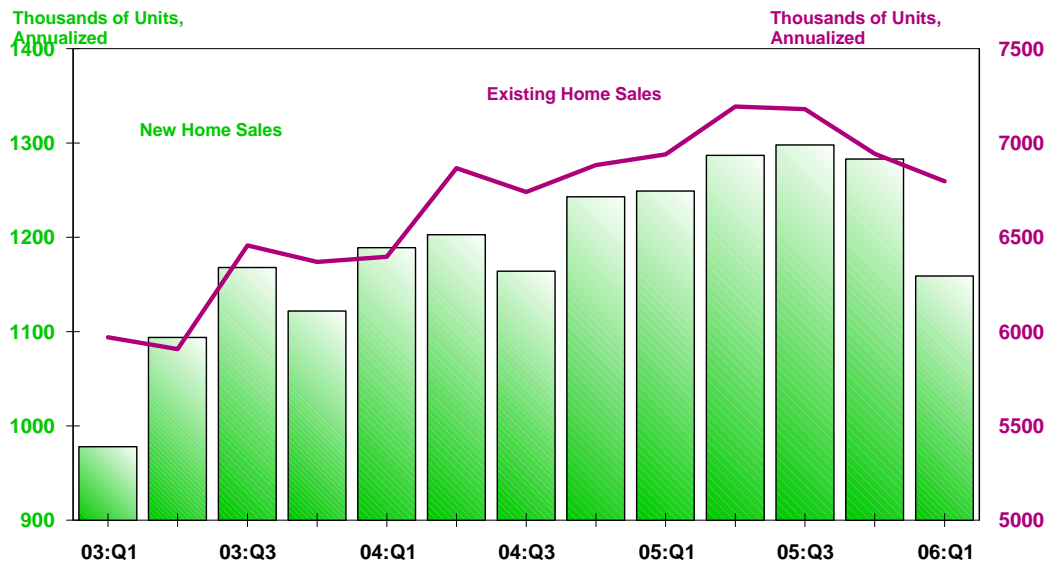
Residential Investment



Source: U.S. Census Bureau.

The housing market cooled further in the first quarter. New homes sold at their slowest pace in over two years, and existing home sales decrease for the third consecutive quarter.

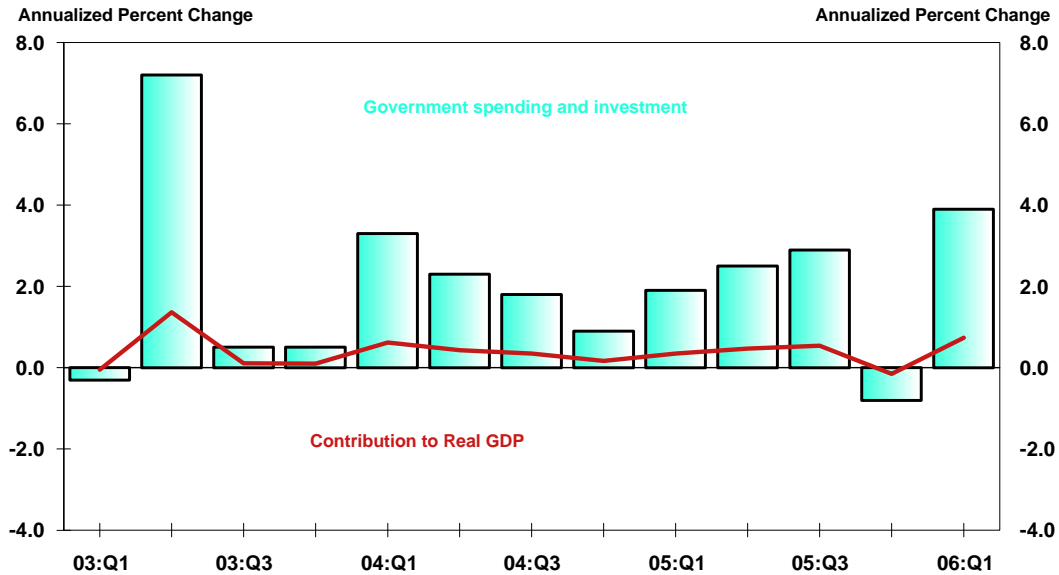
New and Existing Home Sales



Source: U.S. Census Bureau.

Government spending rebounded in the first quarter, growing at its fastest pace since the second quarter of 2003.

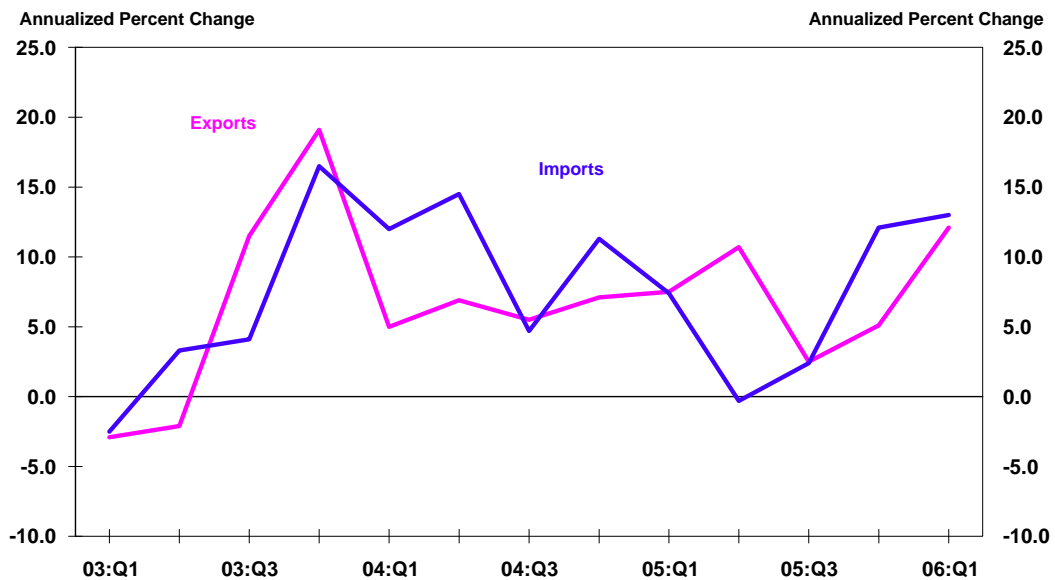
Government Spending



Source: Bureau of Economic Analysis.

Import and export growth rates both accelerated in the first quarter.

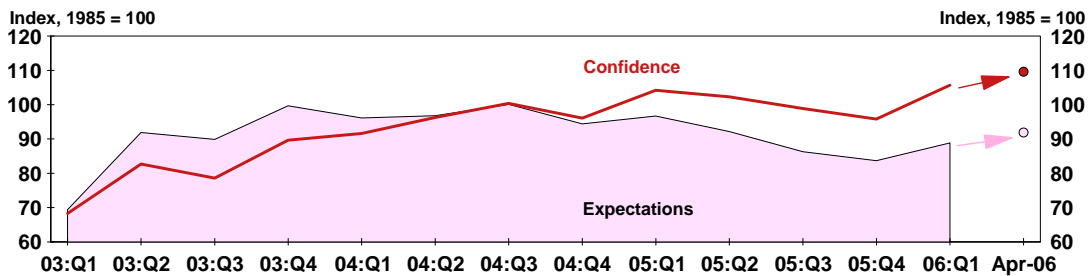
Exports and Imports



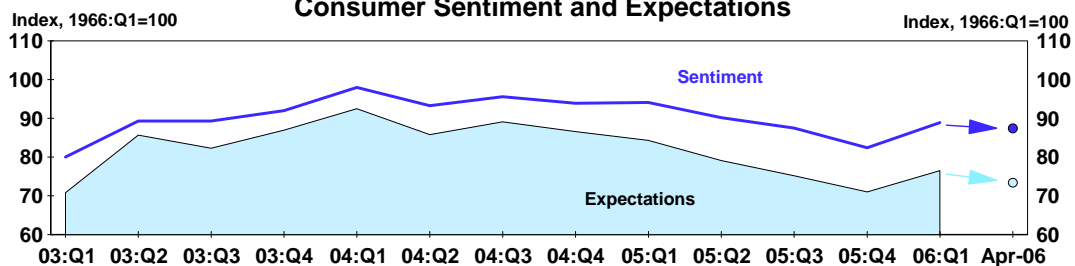
Source: Bureau of Economic Analysis.

Consumer attitudes followed a first quarter rebound with mixed results in April. Consumer confidence increased to reach its highest point in nearly four years, but sentiment eased a bit.

Consumer Confidence and Expectations



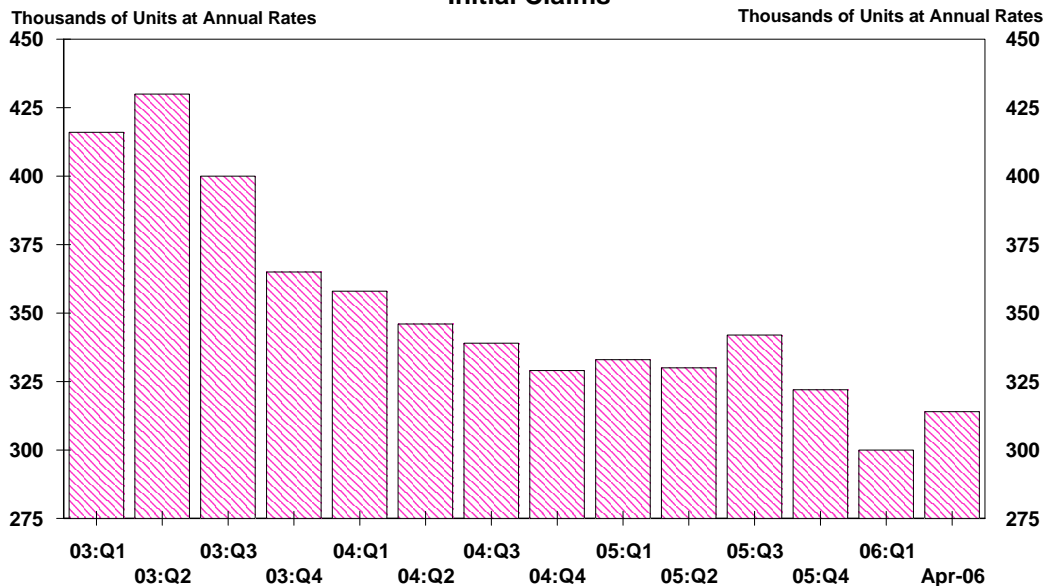
Consumer Sentiment and Expectations



Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance rose in March, but remain historically low.

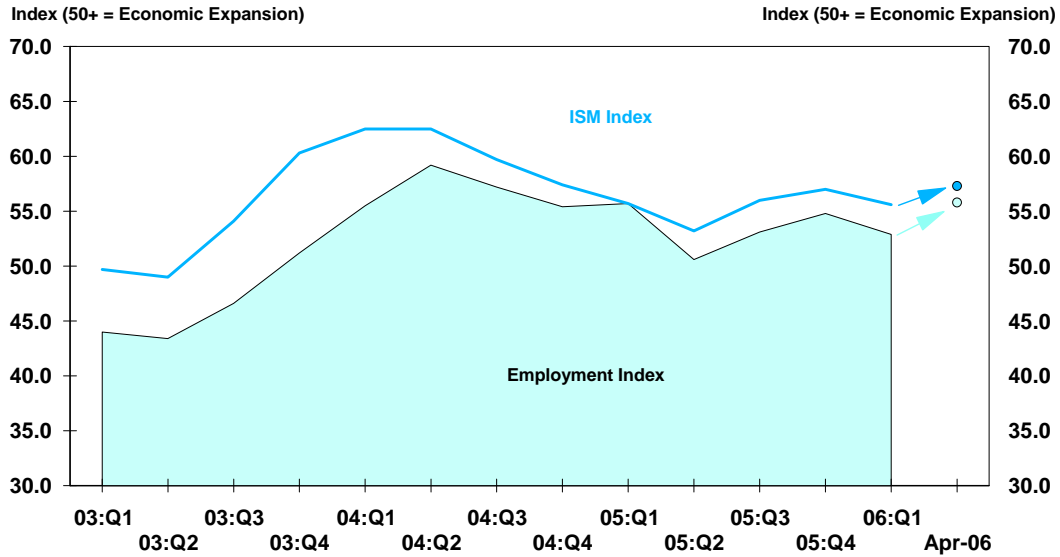
Initial Claims



Source: Department of Labor, Employment and Training Administration.

In April, both the ISM and employment indices increased, more than offsetting some first quarter easing.

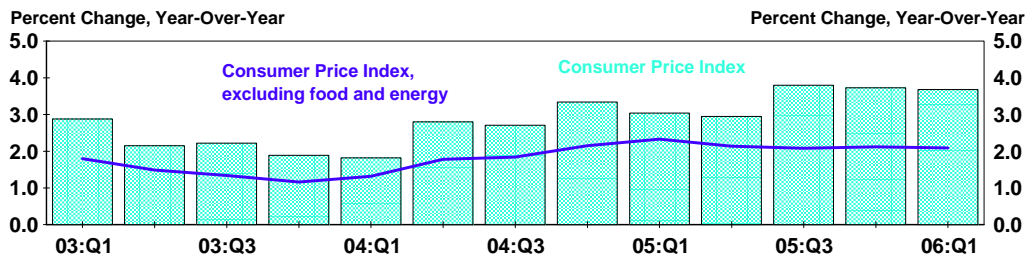
ISM Index



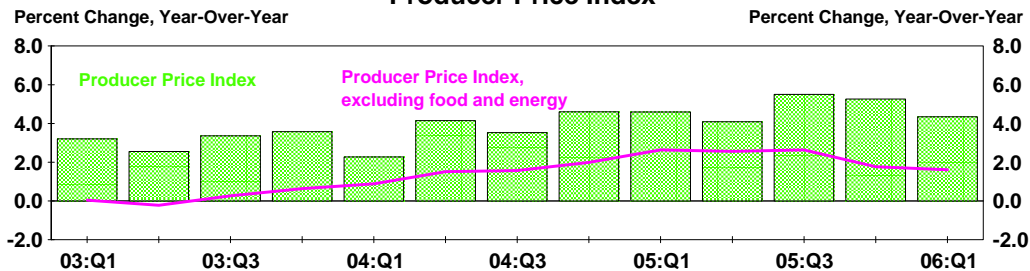
Source: Institute for Supply Management.

Consumer prices were flat in the first quarter, while producer prices eased.

Consumer Price Index



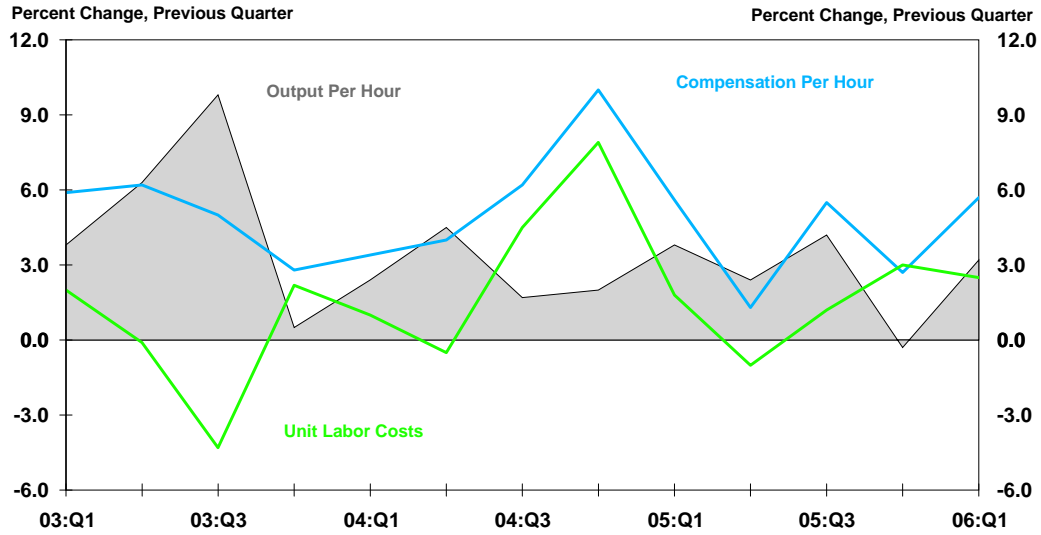
Producer Price Index



Source: Bureau of Labor Statistics.

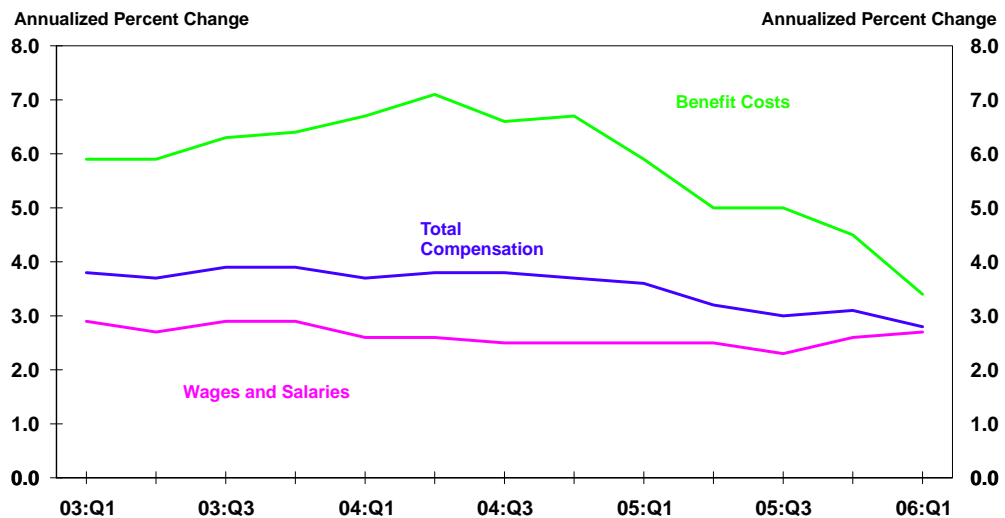
Productivity increased in the first quarter, helping to offset a strong quarterly gain in hourly compensation. Unit labor costs, however, eased during the quarter.

Productivity and Costs

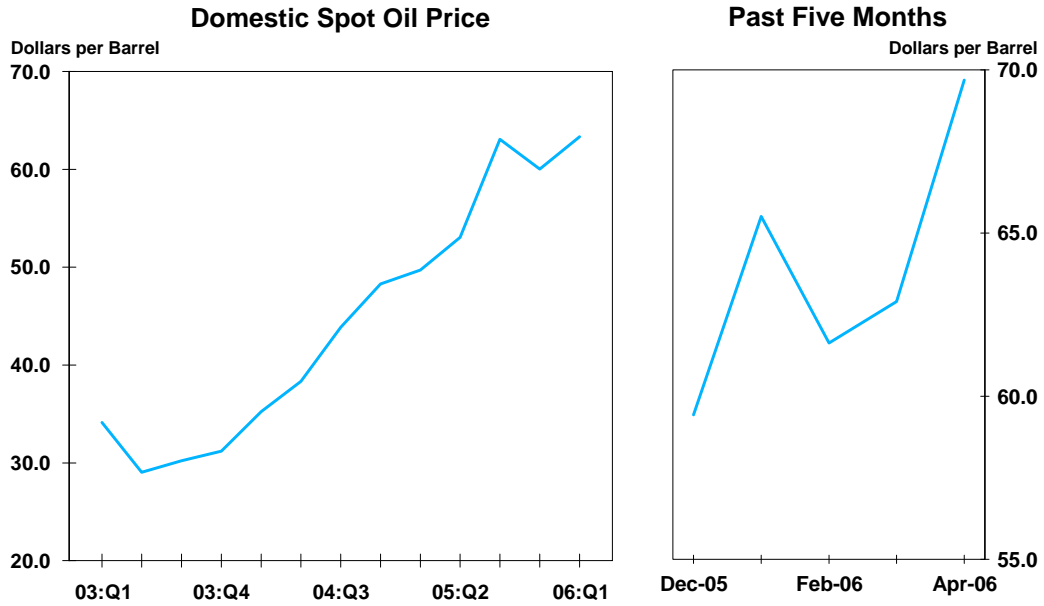


In the first quarter, total employment costs decreased as a slight wage and salary increase was more than offset by a benefit cost decrease.

Employment Cost Index

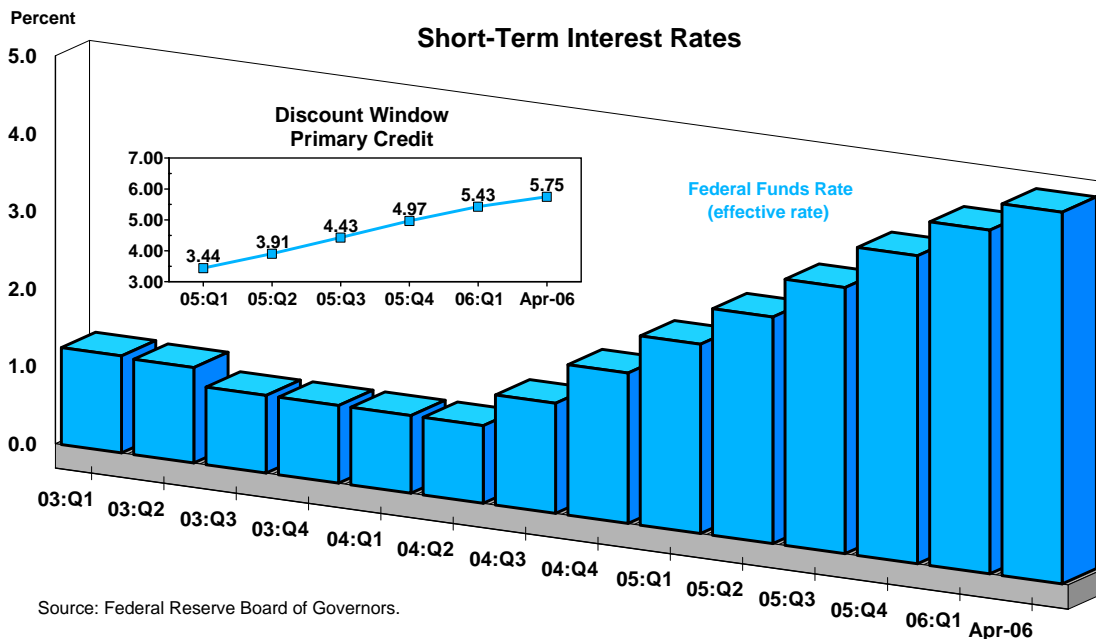


Oil prices increased in the first quarter, and continued to rise in April and May, achieving a new record high of 74.6 on May 2nd.



Source: Wall Street Journal (oil prices).

Overall, recent data shows the economy grew in the first quarter at its fastest pace in two and a half years. While the latest growth evidence is strong, some of that can be attributed to the rebound from unusually tepid growth in the fourth quarter and hurricane recovery efforts. The cooling housing market and rising energy prices could bring growth closer to its trend rate over the remainder of the year.



Source: Federal Reserve Board of Governors.

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

May 11, 2006

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

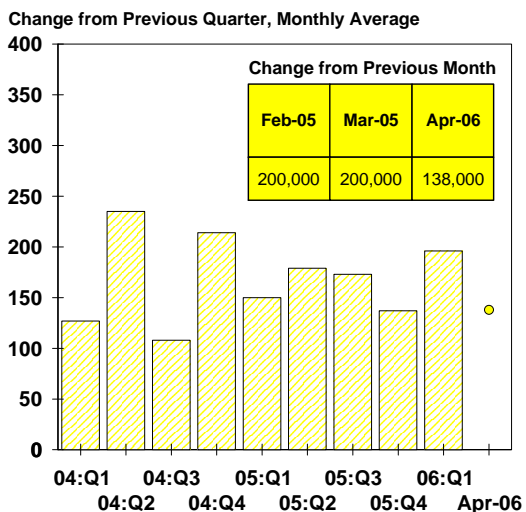
In April, nonfarm payrolls added 138,000 jobs and the unemployment rate was unchanged at 4.7%. March payrolls were revised to show an increase of 200,000 jobs, 25,000 fewer than the original estimate of a 225,000 job increase, and February payrolls were revised to also show an increase of 200,000 jobs, 11,000 less than the previous estimate.

Wholesale inventories grew 0.2% in March, following a revised increase of 0.9% in February. February inventories were originally seen rising 0.8%. Wholesale sales increased 0.7 in March, after rising 0.3% the previous month. Sales were initially reported as unchanged in February.

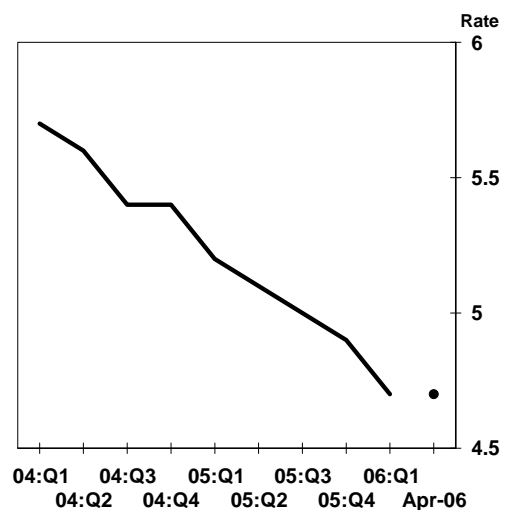
Redbook sales decreased 2.9% in the first week of May, compared to April. Sales were 3.2% higher than during the same period last year. Oil prices decreased during the past week, averaging 70.6 dollars per barrel, compared to last week's average of 72.4.

Payroll employment posted a solid gain in April, but revisions to the prior two months' estimates resulted in a net loss of 36,000 jobs. The unemployment rate held steady in April at 4.7%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.