



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

October 5, 2006

CURRENT ECONOMIC DEVELOPMENTS - October 5th, 2006

Data released since your last Directors' meeting show the economy's second quarter slowdown was more pronounced than previously reported, and suggest the soft patch will continue into the third quarter. Signs that inflation is stabilizing and some positive news in the housing market may aid in achieving the goal of a 'soft landing' for the economy.

In September, initial claims decreased marginally, equaling their 12-month average. Consumer attitudes mostly improved, following an August dip. Auto sales increased in September, almost fully offsetting the prior month's drop. Personal income increased slightly in August, but spending decreased for the first time in almost one year.

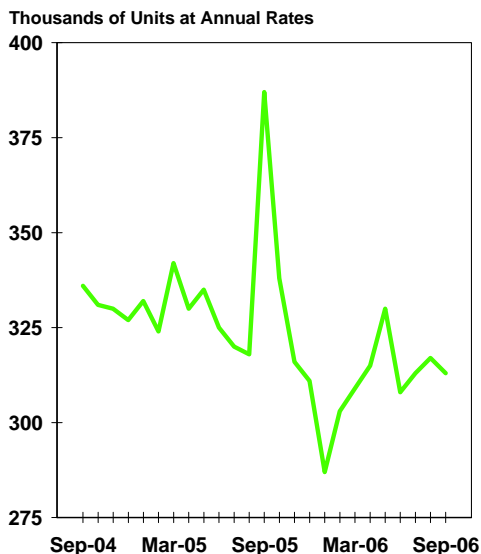
The housing market displayed mixed signs in August, as new home sales increased and existing home sales held mostly steady. Housing starts and building permits both continued to fall, much as they have throughout the year.

In the business sector, industrial production posted a small loss in August, as did capacity utilization. In September, the ISM diffusion index eased and its employment component fell below 50. Orders for both durable goods and nondefense capital goods, excluding aircraft, slowed in August, offsetting the gains seen the previous month.

Total consumer prices slowed further in August, but core prices rose after holding steady in July. Oil prices fell more than nine dollars per barrel in September, dropping to their lowest level since March.

Initial claims for unemployment insurance decreased slightly in September, and the help wanted index fell one point in August to 31, its lowest point in over 45 years.

Initial Claims

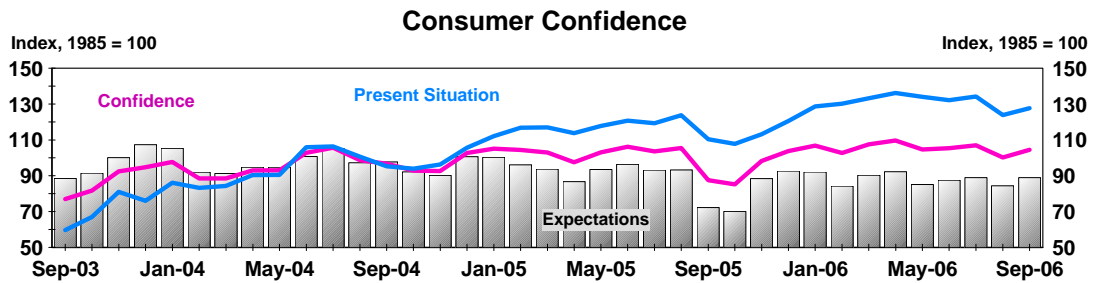
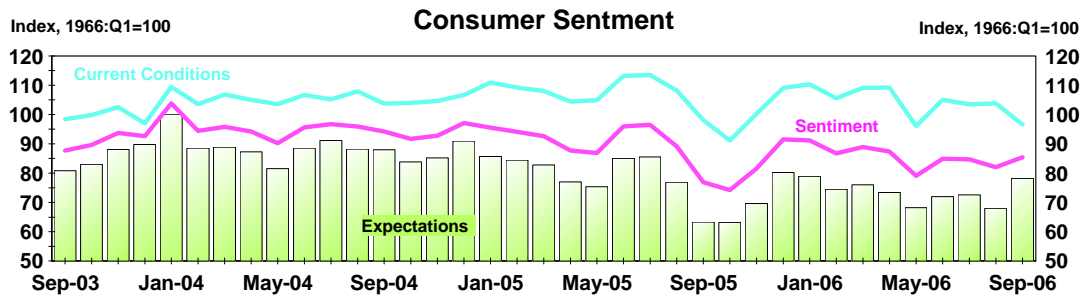


Help Wanted Index



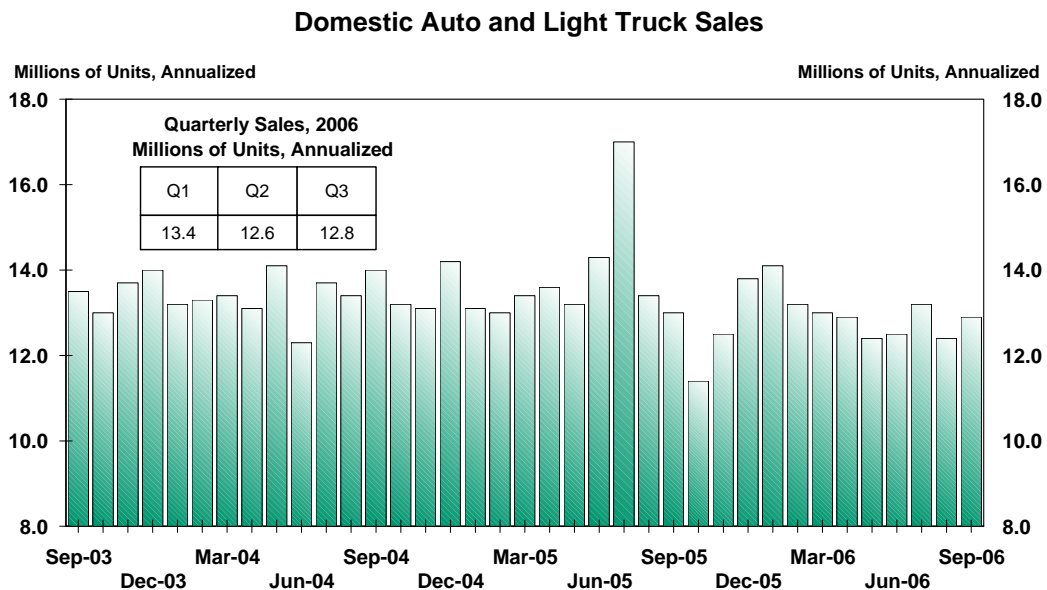
Source: Department of Labor, Employment and Training Administration (claims) and The Conference Board (help wanted).

Consumer attitudes mostly improved in September, due primarily to lower gas prices. While the Michigan survey showed a dropoff in feelings toward current conditions, those same consumers judged the year-ahead prospects much more favorably than they did in August.



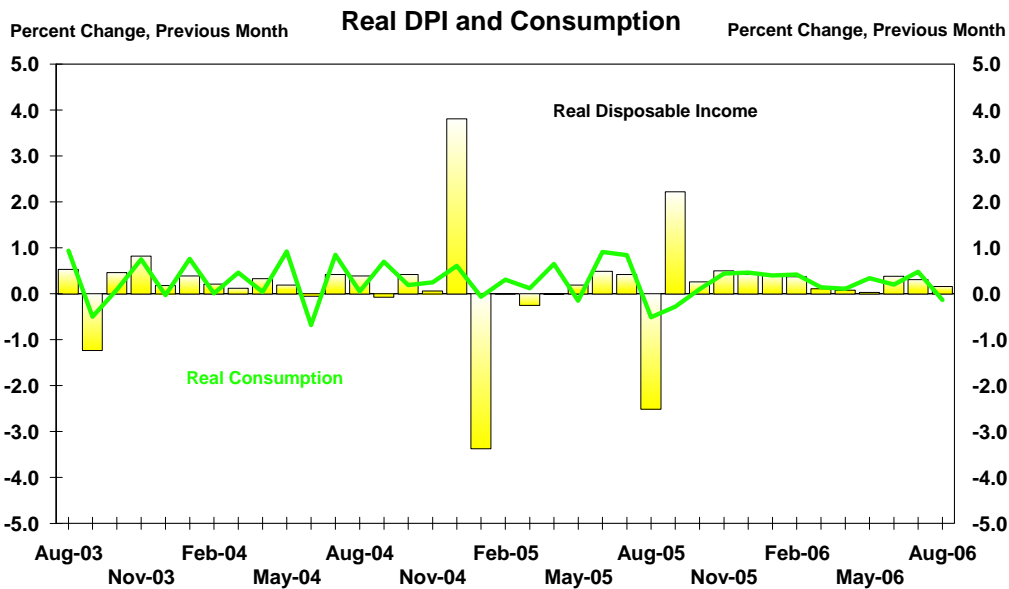
Source: University of Michigan (sentiment) and The Conference Board (confidence).

Domestic auto and light truck sales rose in September, enabling third-quarter sales to be stronger than those seen in the second quarter.



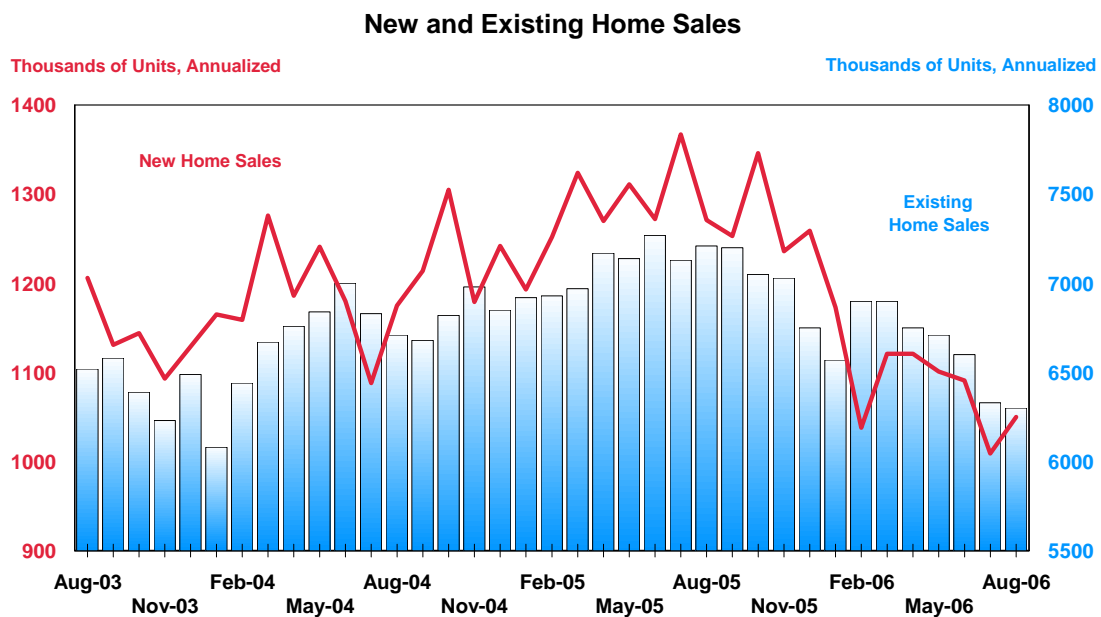
Source: Bureau of Economic Analysis.

In August, real disposable income posted a small gain, but real consumption fell for the first time since last September.



Source: Bureau of Economic Analysis.

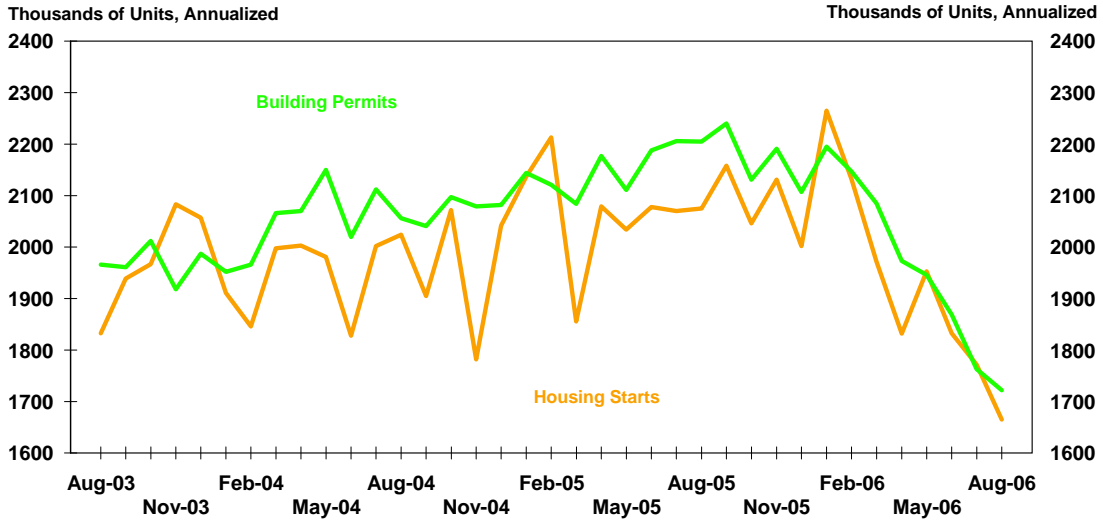
New home sales unexpectedly increased in August, aided by easing home prices and a downwardly revised July sales number. Sales of existing homes decreased marginally.



Source: U.S. Census Bureau.

Building activity continued to slow in August. Fewer building permits were issued for the seventh consecutive month, and housing starts declined for the sixth time during that same period.

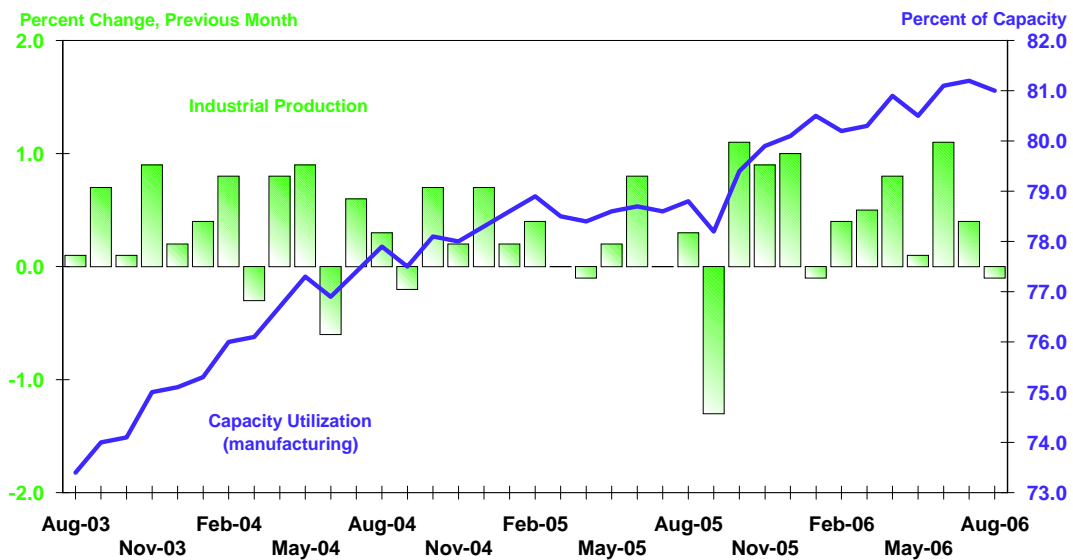
Housing Starts and Building Permits



Source: U.S. Census Bureau.

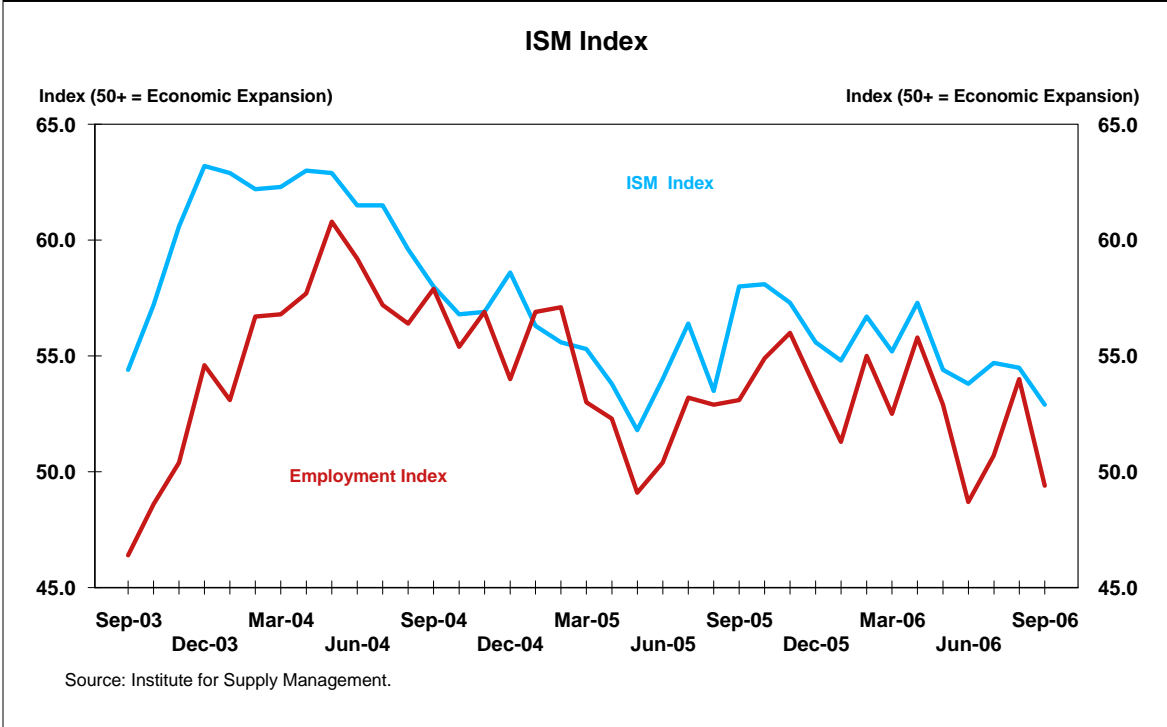
Industrial production fell in August for the first time since January, while capacity utilization decreased slightly from the six-year high established in July.

Industrial Production and Capacity Utilization

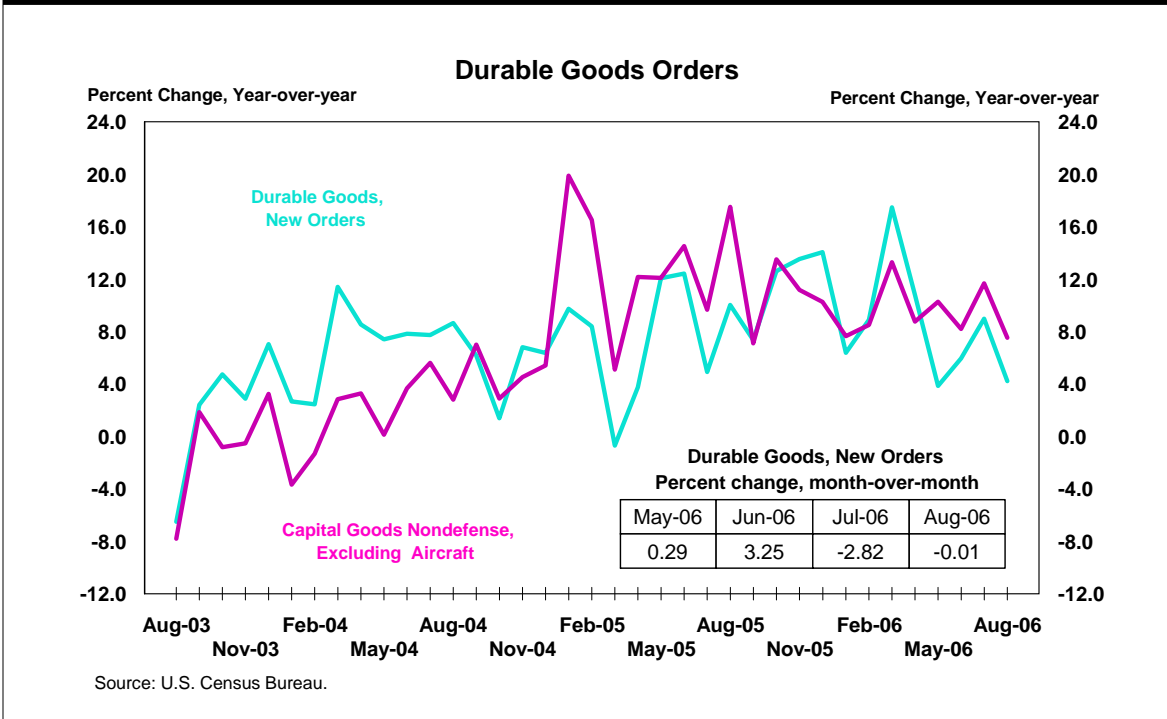


Source: Federal Reserve Board of Governors.

The ISM diffusion index eased for the second straight month in September, but remains above 50. However, the employment component of the index declined sharply to fall below 50 for the second time in the past four months.

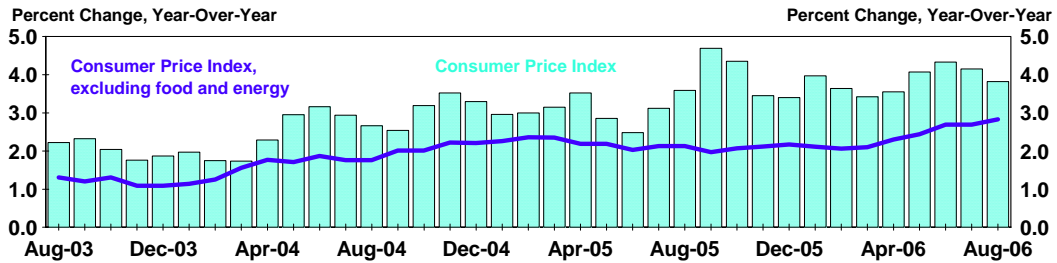


In August, new orders for durable goods slowed to offset the previous months' gains. Orders for nondefense capital goods, excluding aircraft, exhibited a similar decline.

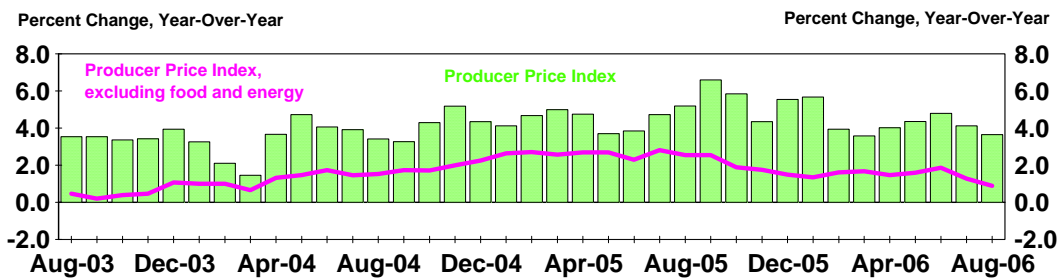


Growth in overall consumer prices slowed for the second straight month in August, but core prices rose slightly after holding steady in July. Both core and overall producer prices slowed.

Consumer Price Index



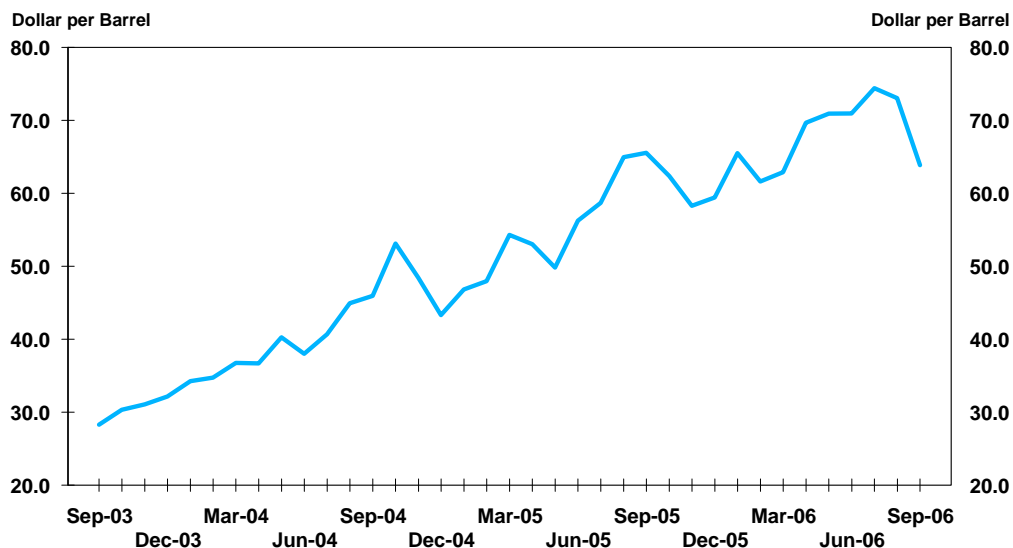
Producer Price Index



Source: Bureau of Labor Statistics.

Oil prices fell significantly in September, dropping to their lowest level since March.

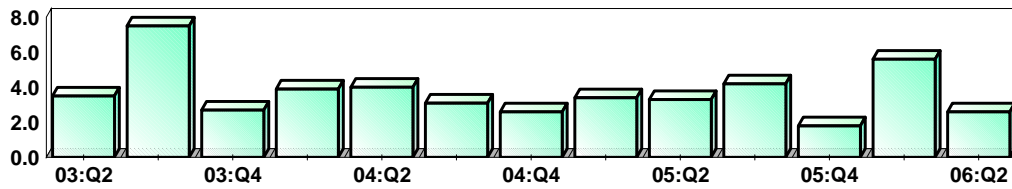
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was revised down in the final second quarter estimate, due primarily to a downward revision to private inventory investment, an upward revision to imports, and a downward revision to private residential investment that were partly offset by an upward revision to PCE for services.

Real GDP

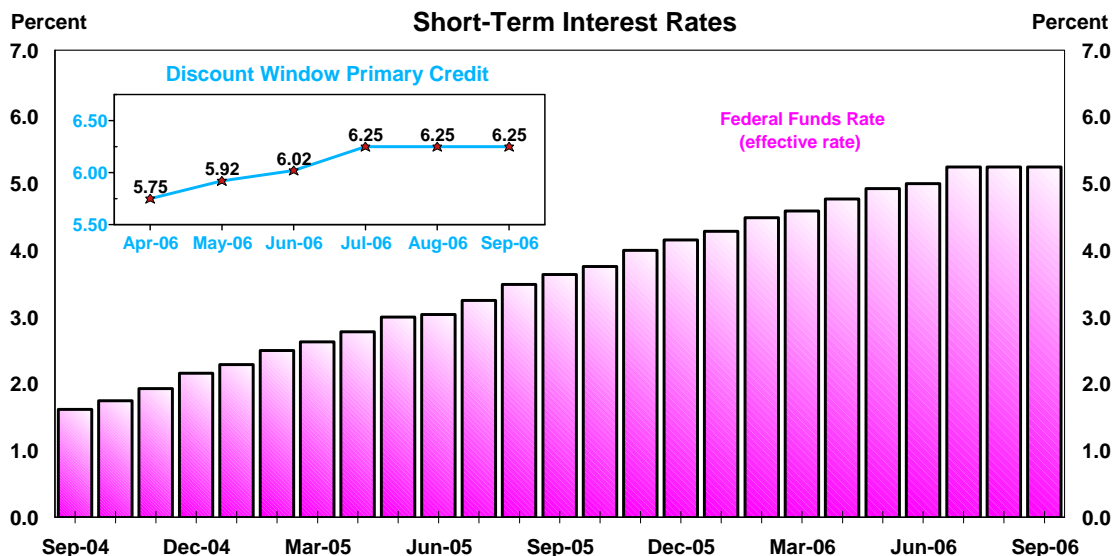


Revisions to Second Quarter Real GDP

Description	Preliminary	Final
Real GDP	2.9	2.6
Consumption	2.6	2.6
Business Investment	4.7	4.4
Equipment & Software	-1.6	-1.4
Residential Investment	-9.8	-11.1
Government	0.9	0.8
Exports	5.1	6.2
Imports	0.6	1.4
Final Sales	2.3	2.1

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting show the economy's second quarter slowdown was more pronounced than previously reported, and suggest the soft patch will continue into the third quarter. Signs that inflation is stabilizing and some positive news in the housing market may aid in achieving the goal of a 'soft landing' for the economy.



Source: Federal Reserve Board of Governors.

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

October 12, 2006

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

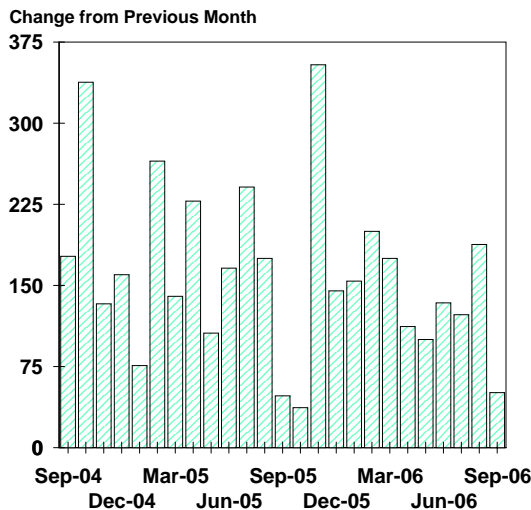
In September, nonfarm payrolls added 51,000 jobs and the unemployment rate dropped to 4.6%. August payrolls were revised upward to show an increase of 188,000 jobs, 60,000 more than the original estimate of a 128,000 job increase. July payrolls were revised up by 2,000 to an increase of 123,000 jobs. Overall in the third quarter, payrolls increased by an average of 121,000 jobs per month, up from the second quarter estimate of 115,000.

Wholesale inventories rose 1.1% in August, following a 0.9% increase in July. Wholesale trade also rose 1.1% in August, after rising 0.5% in July.

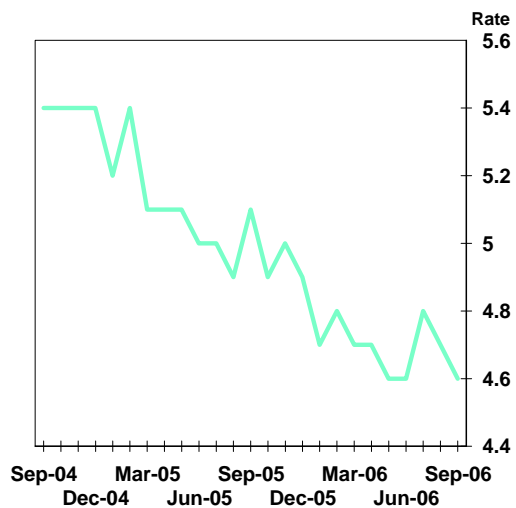
Redbook sales increased 1.3% in the first week of October, compared to September. Sales were 3.4% higher than during the same period last year. Oil prices fell during the past week, averaging \$59.5 per barrel compared to last week's average of \$61.7.

Payroll employment posted a modest gain in September, and revisions to the prior two months' growth estimates resulted in a net addition of 62,000 new jobs. The unemployment rate fell one-tenth of a percentage point in September to 4.6%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.