FEDERAL RESERVE
BANK OF BOSTON™

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

February 2, 2006

CURRENT ECONOMIC DEVELOPMENTS - February 2, 2006

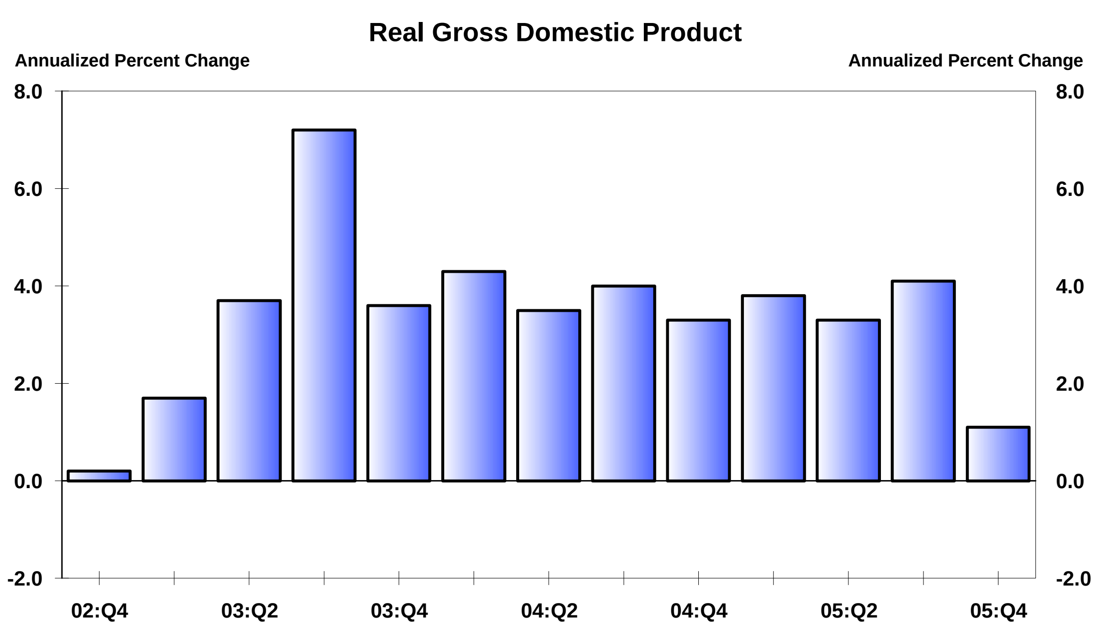
Data since your last Directors' meeting show the economy grew in the fourth quarter at its slowest pace in three years, following strong growth in the third quarter.

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

In January, consumer attitudes rose to recover the losses incurred over the previous year, and initial claims for unemployment insurance dropped to their lowest level in over five years. Both the ISM manufacturing and employment indices increased in the fourth quarter before easing slightly in January.

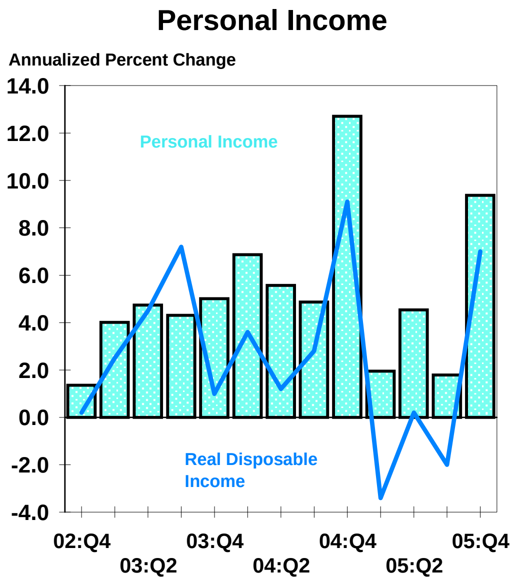
Inflation concerns continue to be mild, as core consumer prices held steady in the fourth quarter and core producer prices slowed slightly. Unit labor costs increased in the fourth quarter, and total compensation costs, as measured by the ECI, were flat. Oil prices approached $70 per barrel again in January, due in part to political issues overseas, after receding a bit in the fourth quarter.

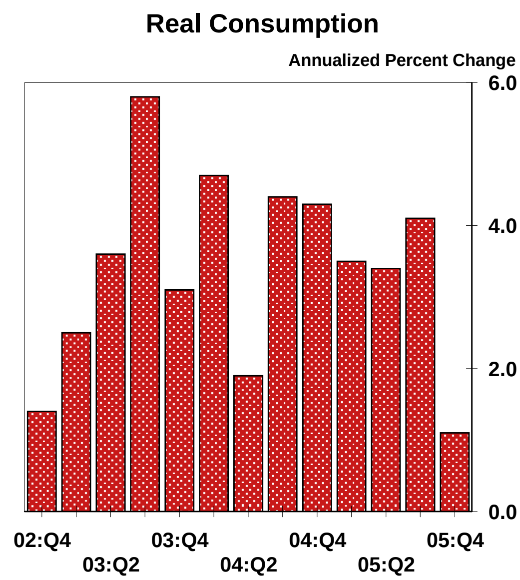
Real GDP growth decelerated in the fourth quarter, primarily reflecting a slowdown in PCE, an acceleration in imports, a downturn in government spending and a deceleration in residential investment. These effects were partially offset by an acceleration in inventory investment.



Source: Bureau of Economic Analysis.

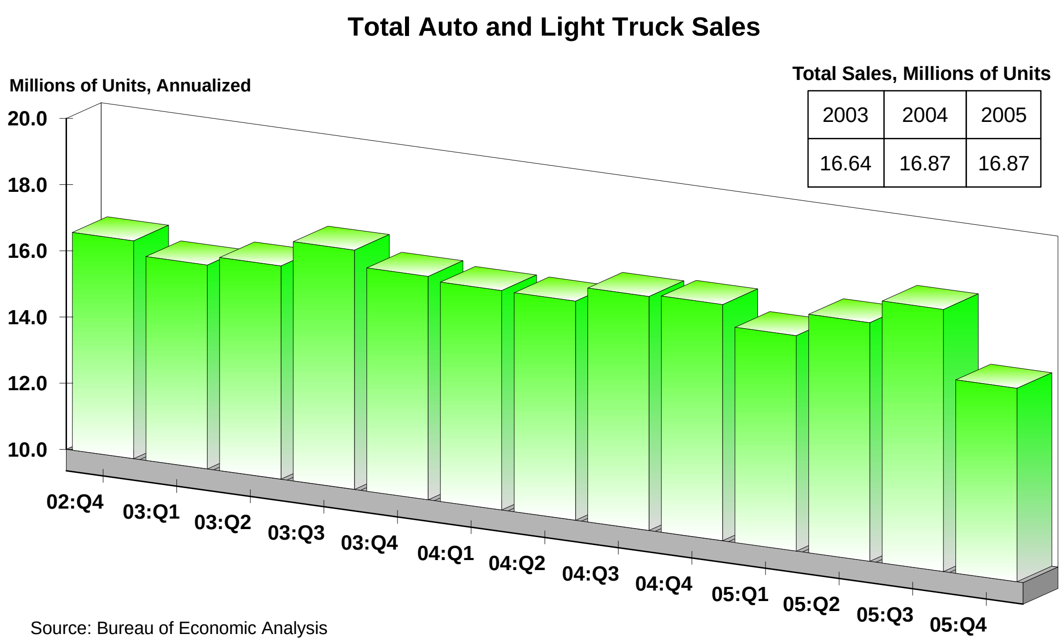
In the fourth quarter, despite increases in both personal income and real DPI, real consumption grew at its slowest pace in three years. The slowdown in consumption was due mainly to a plunge in auto sales.





Source: Bureau of Economic Analysis.

In the fourth quarter, auto sales dropped to their lowest level since 1998, as special manufacturer incentives offered in the middle of the year may have prompted many consumers to purchase a vehicle earlier than they would have without the sales; therefore shifting sales from the fourth quarter. Overall, light vehicle sales in 2005 were identical to those seen in 2004.

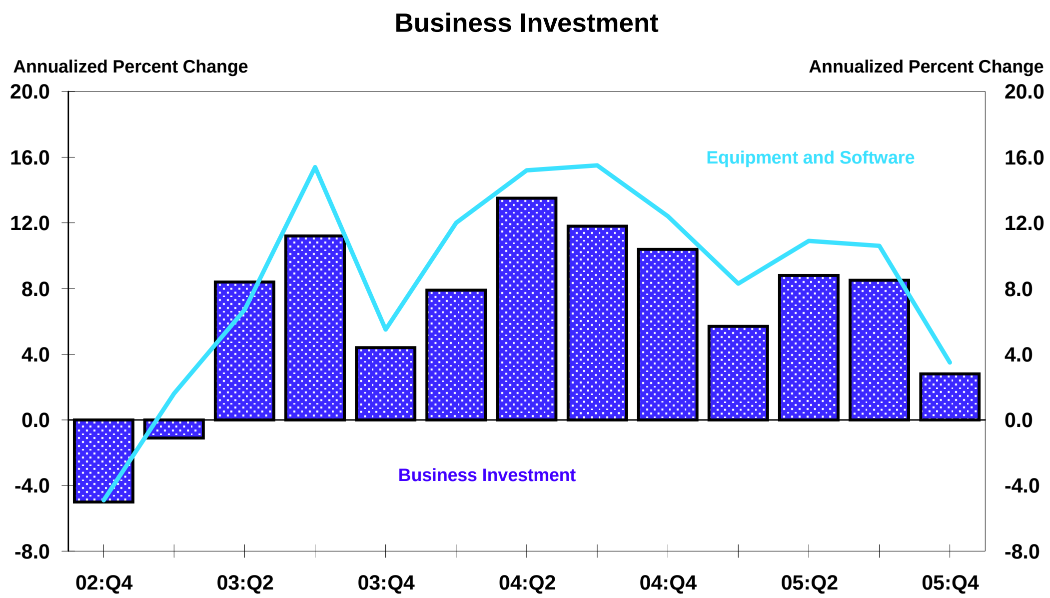


Total Sales, Millions of Units

2003	2004	2005
16.64	16.87	16.87

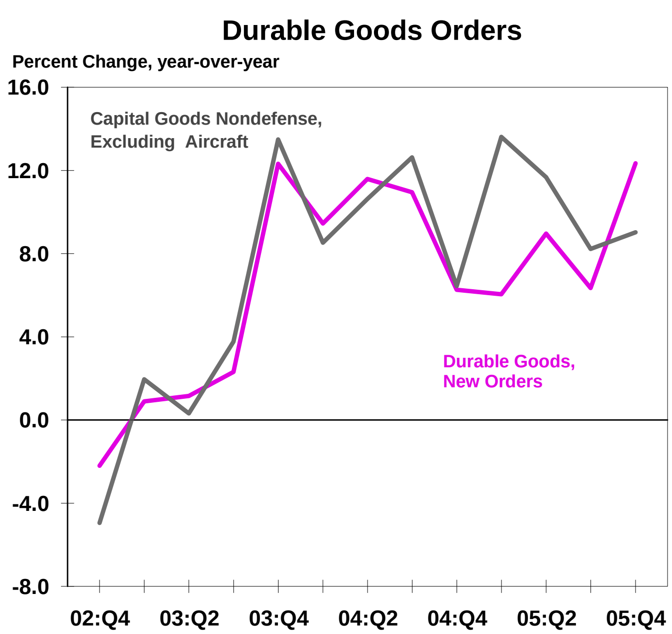
Source: Bureau of Economic Analysis

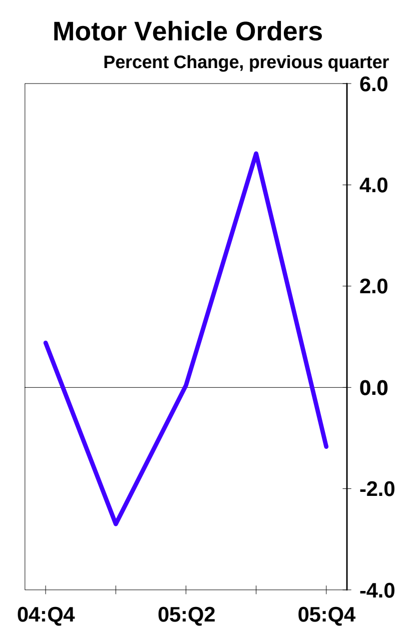
Growth in business investment decreased in the fourth quarter, due in large part to a deceleration in equipment and software investment.



Source: Bureau of Economic Analysis.

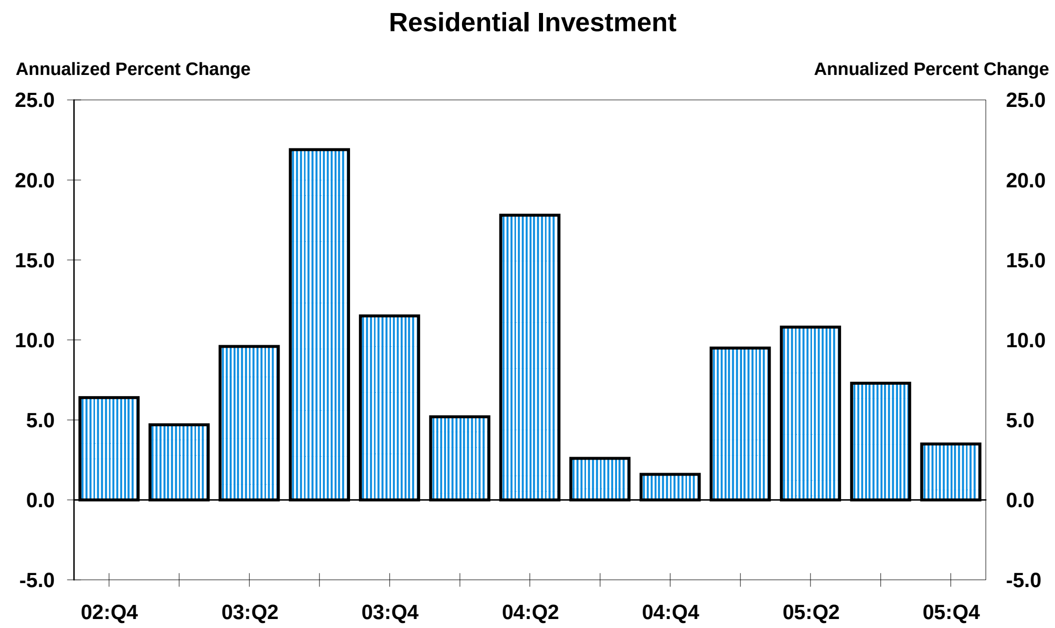
In the fourth quarter, new orders for durable goods grew at their fastest pace in over ten years, despite a reduction in vehicle orders. Orders of nondefense capital goods, excluding aircraft, picked up a bit in the fourth quarter.





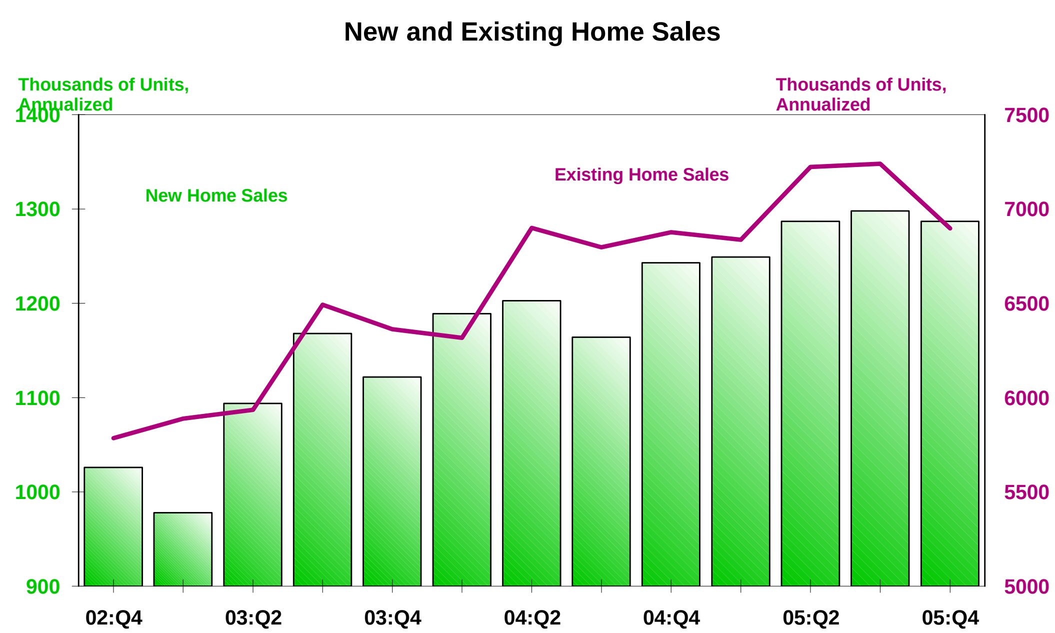
Source: U.S. Census Bureau.

Residential investment cooled further in the fourth quarter, resulting in its slowest growth of the year.



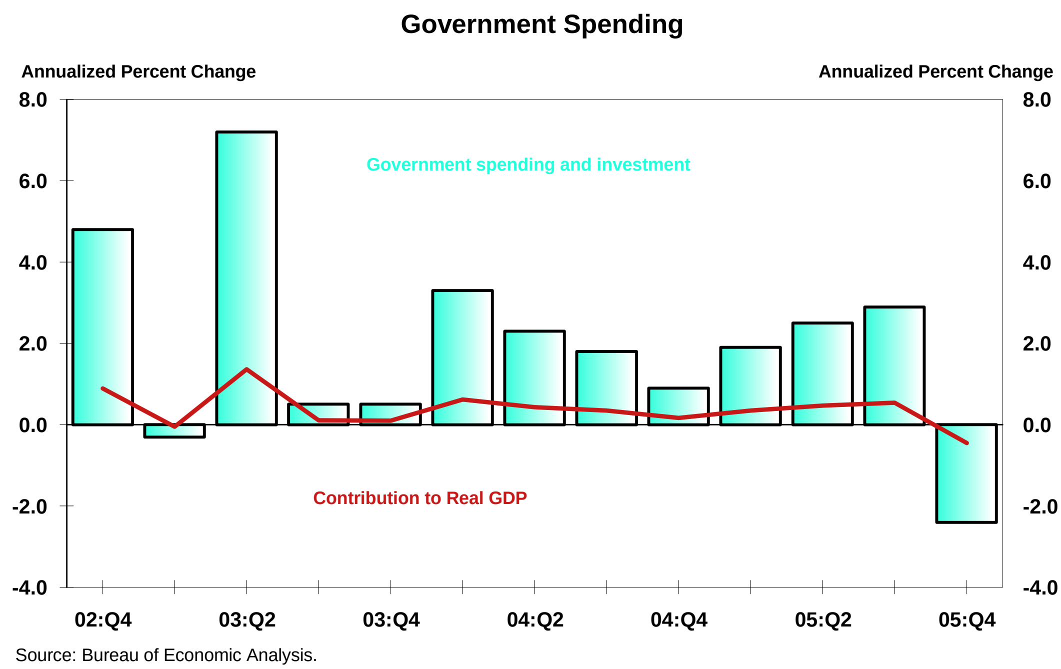
Source: U.S. Census Bureau.

In the fourth quarter, sales of existing homes dropped from the previous quarter's record high, while the pace of new home sales held relatively steady.

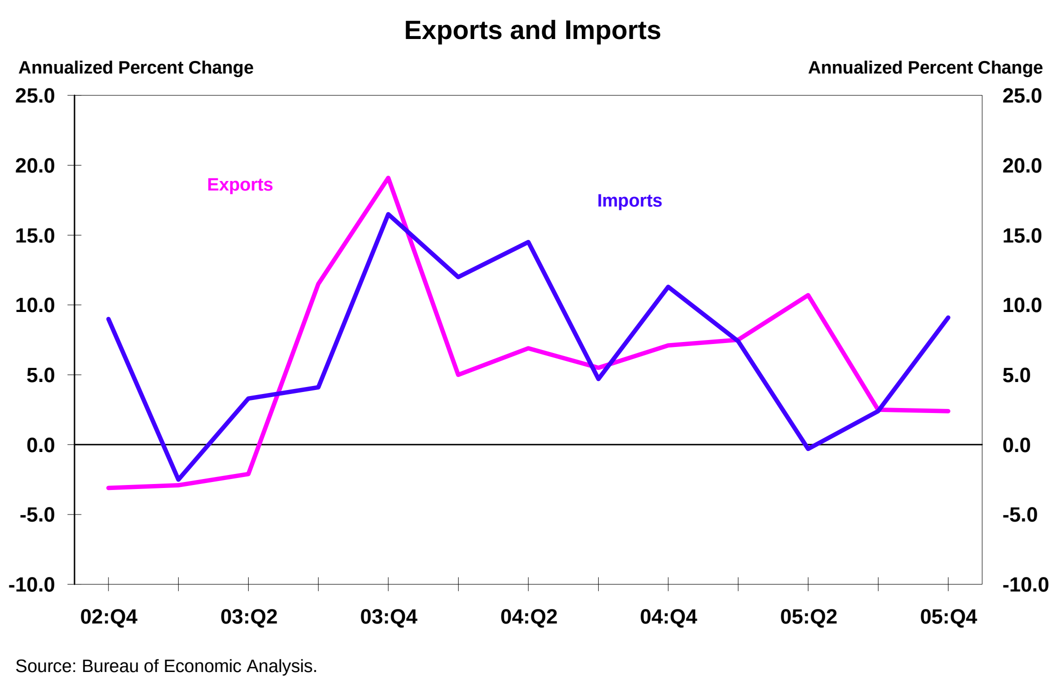


Source: U.S. Census Bureau.

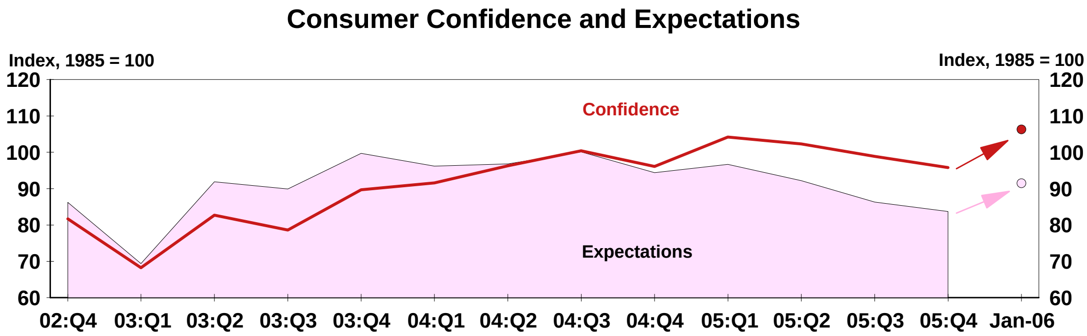
Government spending decreased in the fourth quarter, following three quarters of increasing growth. Government spending was a drag on real GDP for the first time in nearly three years.

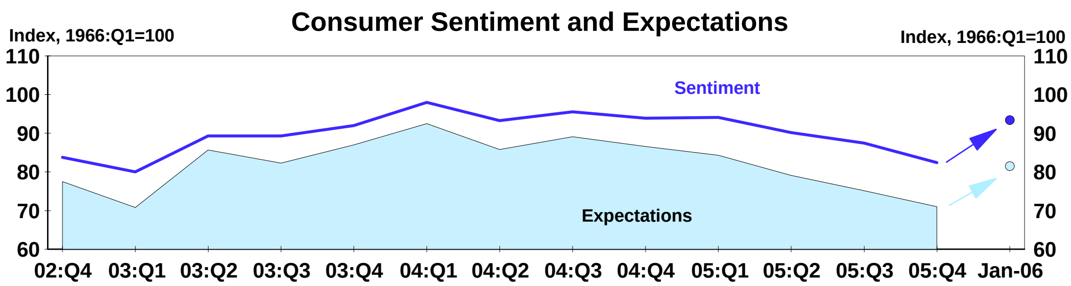


Import growth accelerated in the fourth quarter, and exports were essentially unchanged.



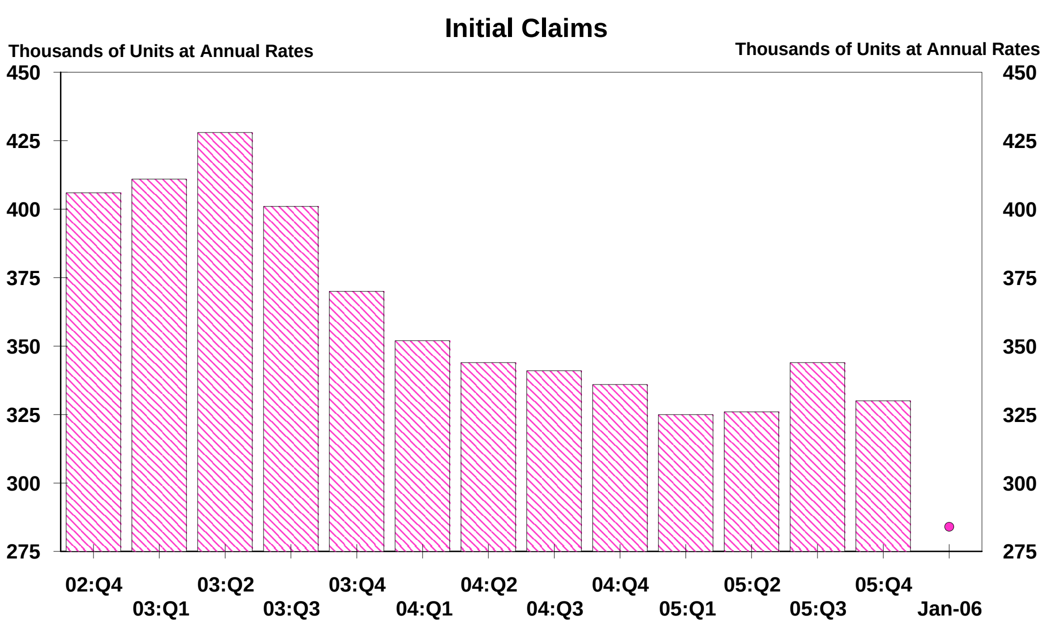
After falling further in the fourth quarter, consumer attitudes surged in January due in large part to more positive job market opinions.





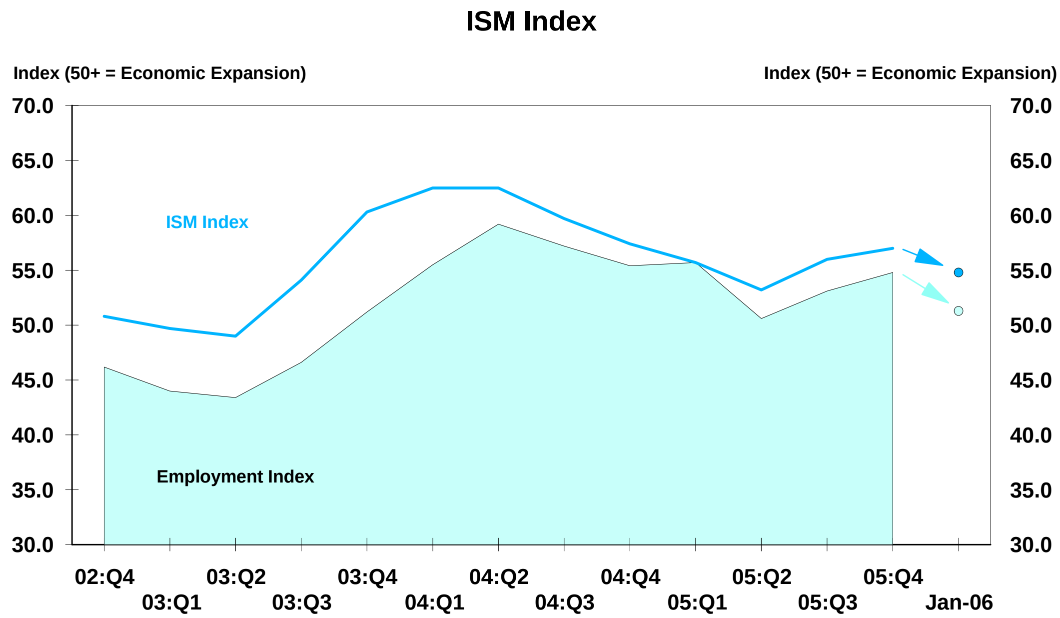
Source: The Conference Board (confidence) and University of Michigan (sentiment).

Initial claims for unemployment insurance fell sharply in January, reaching their lowest level in nearly six years.



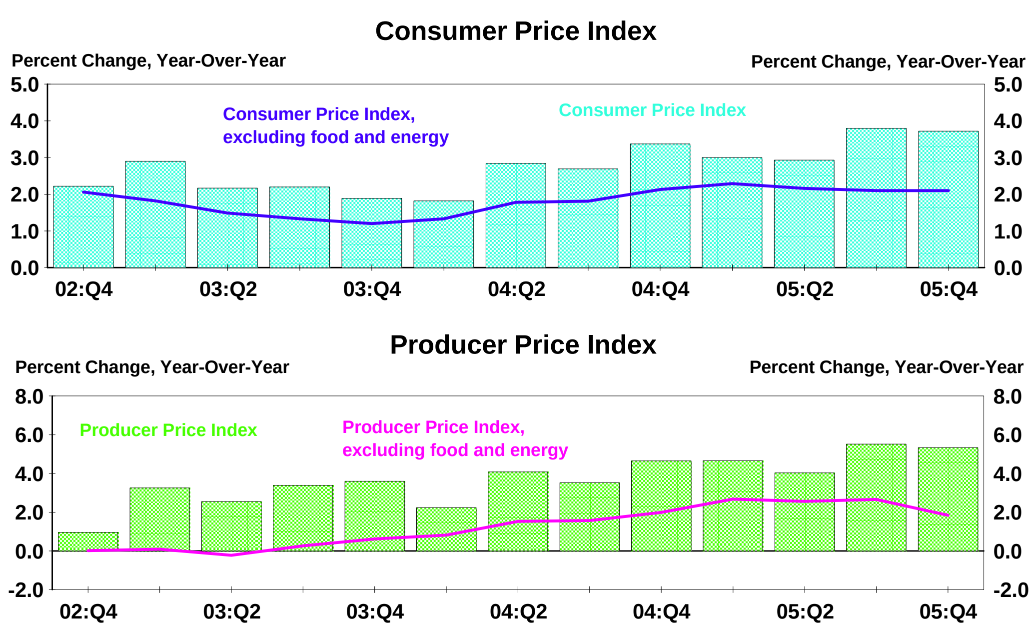
Source: Department of Labor, Employment and Training Administration.

In January, both the ISM and employment indices decreased following fourth quarter gains. Both measures remain above 50.



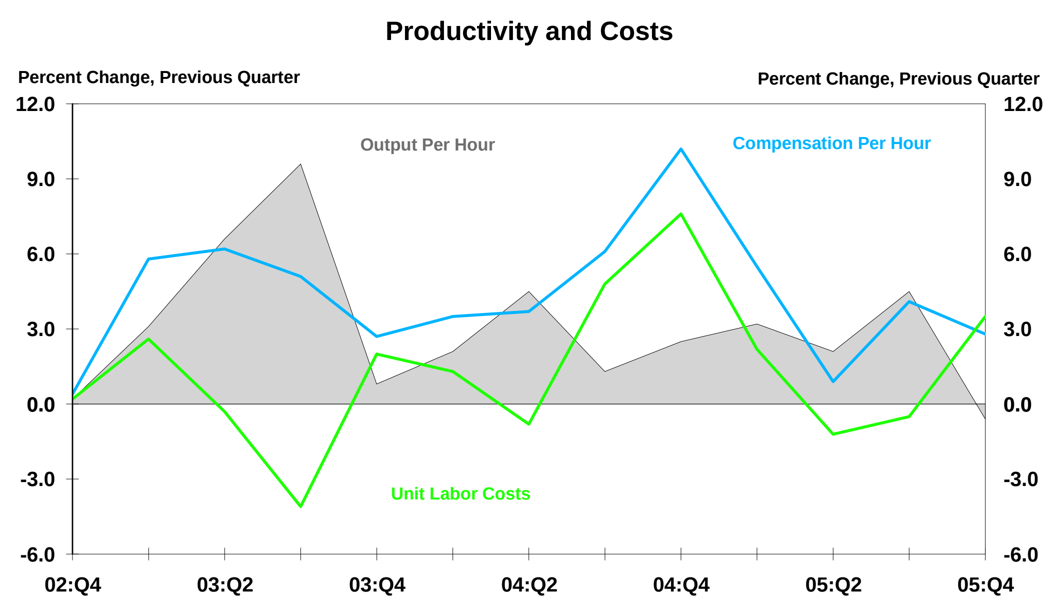
Source: Institute for Supply Management.

Inflation exhibited little change in the fourth quarter. Total consumer prices slowed slightly, while core inflation was flat. Producer prices, both total and core, slowed a bit.



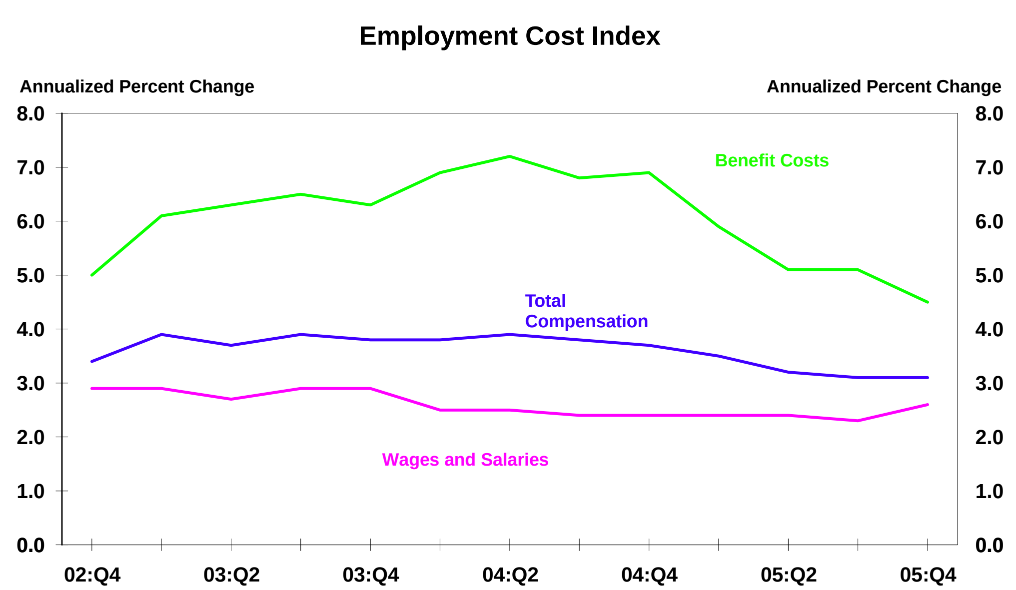
Source: Bureau of Labor Statistics.

Productivity decreased in the fourth quarter for the first time since 2001. Unit labor costs rose during the quarter, and total compensation slowed.



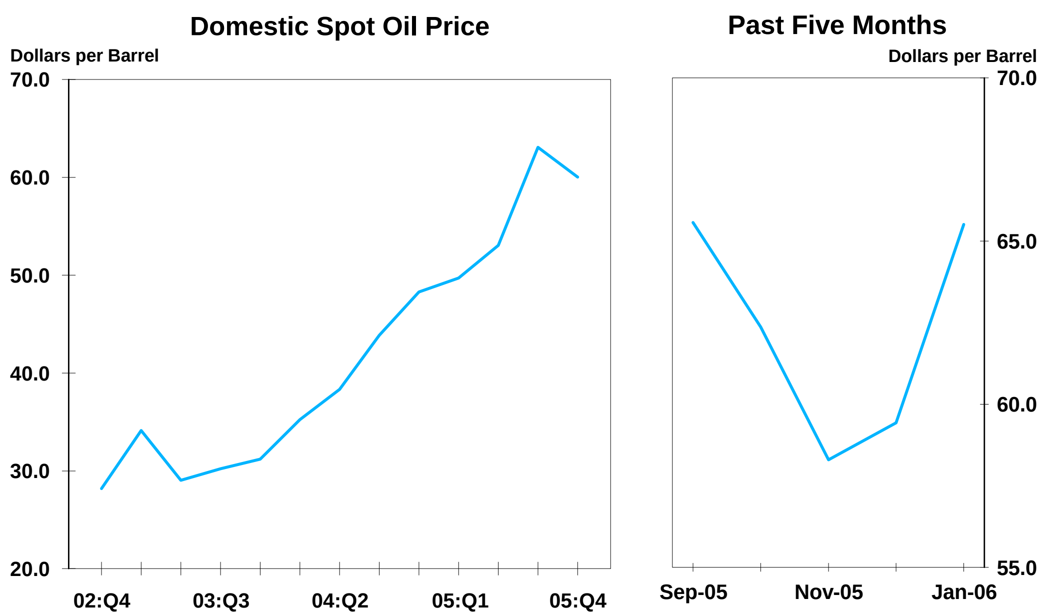
Source: Bureau of Labor Statistics.

In the fourth quarter, total employment costs were flat as wages and salaries increased and benefit costs decreased.



Source: Bureau of Labor Statistics.

Oil prices eased a bit in the fourth quarter, but rose sharply in January due in part to political issues overseas.



Source: Wall Street Journal (oil prices).

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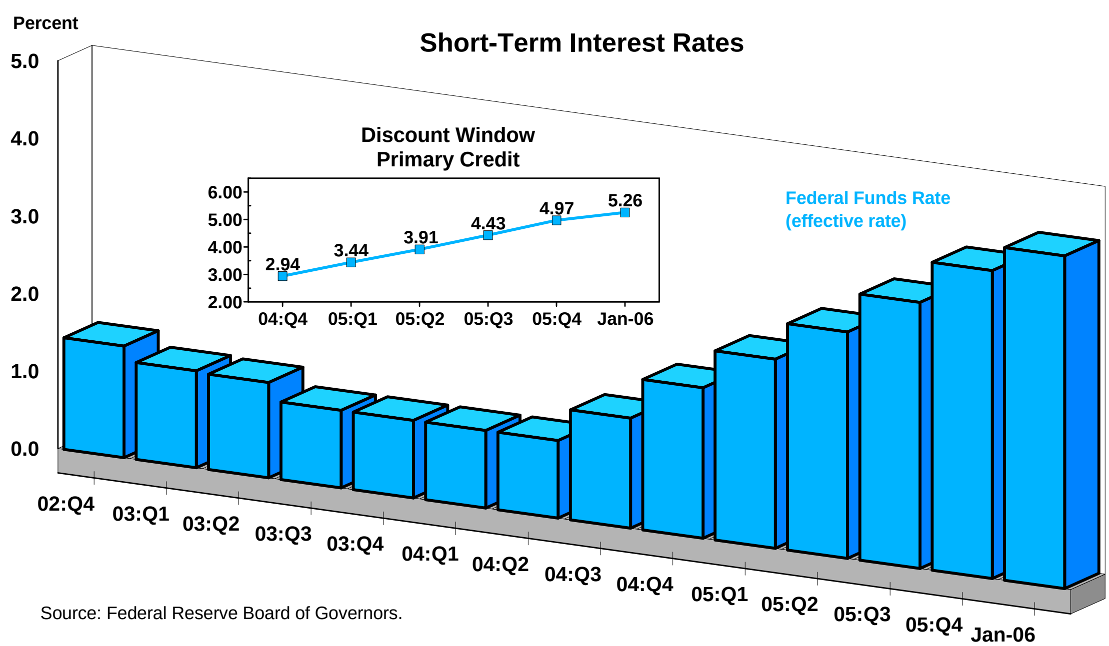
Overall, the economy grew in the fourth quarter at its slowest pace in three years. But the economy remains resilient in the face of recent shocks, and hurricance reconstrucion should help support growth in early 2006. Positive employment data has helped boost consumer attitudes, but high energy prices could restict spending and a cooling housing market will likely temper economic growth during the year.



Source: Federal Reserve Board of Governors.

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

February 9, 2006

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

In January, nonfarm payrolls added 193,000 jobs and the unemployment rate decreased to 4.7%. December payrolls were revised to show an increase of 140,000 jobs, 32,000 more than the original estimate of a 108,000 job increase, and November payrolls were revised to show an increase of 354,000 jobs, 49,000 more than the previously reported increase of 305,000.

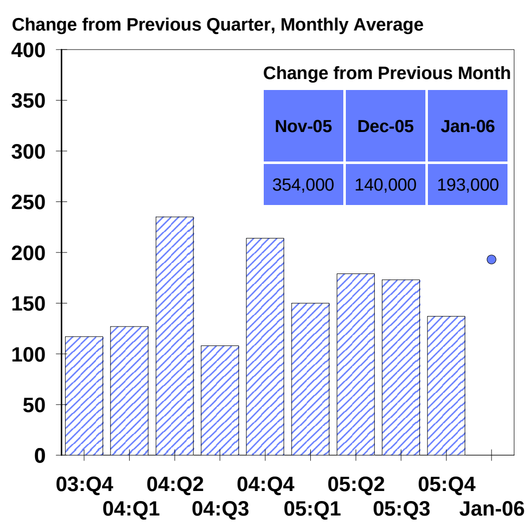
Auto sales increased in January, to an annualized rate of 17.6 million units. It was the second consecutive monthly increase, and was the result of a new round of manufacturer incentives designed to boost sales following the slower fourth quarter sales.

Consumer sentiment, after imporving in early January, fell back to its December level by the end of the month. Sentiment closed the month at 91.2, nearly identical to the 91.5 recorded in December. Expectations decreased slightly to 78.9 in January, from 80.2 in December.

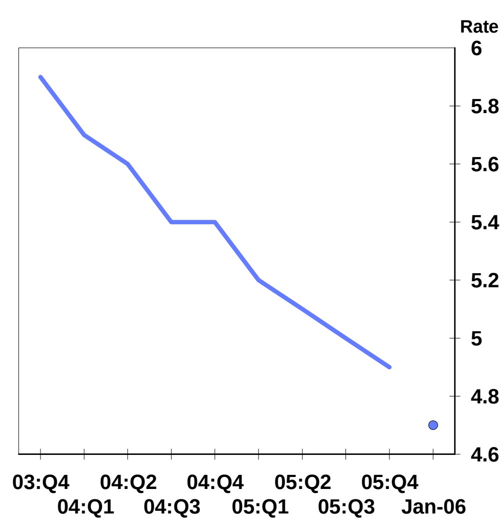
Redbook sales increased 0.4% in the first week of February, compared to January. Sales were 3.3% higherer than during the same period last year. Oil prices decreased during the past week, averaging 65.0 dollars per barrel compared to last week's average of 67.1.

Payroll employment posted a strong gain in January, and revisions to the prior two months' estimates resulted in a net gain of 81,000 additional jobs. The unemployment rate fell two-tenths of a percentage point in January to 4.7%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.