

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

January 4, 2007

CURRENT ECONOMIC DEVELOPMENTS - January 4th, 2007

Data released since your last Directors' meeting suggest economic growth will be slightly higher in the fourth quarter than seen in the third. Consumption has been stronger than expected and the trade deficit has narrowed, helping to offset weaker manufacturing data. While there are signs the worst of the housing slump may be behind us, further indications of a stabilizing market will be key going forward, as will be keeping inflation in check.

In December, initial claims fell offsetting some of the increase seen in November, and consumer attitudes were mixed, as confidence rose but sentiment eased slightly. Auto sales rose in December, but quarterly sales were the weakest of the year in the fourth quarter. Personal income increased in November, although at a slower pace than seen over the previous two months, while consumption grew at its fastest rate of the year.

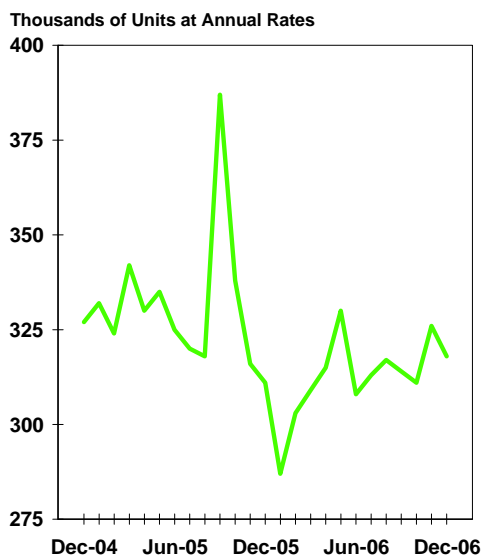
The housing market showed some positive signs in November, as both new and existing home sales increased. Housing starts also rose, although permits for future construction continued to fall.

In the business sector, industrial production increased for the first time in two months in November while capacity utilization was flat. Orders for both durable goods and capital goods excluding aircraft slowed in November. In December, the ISM diffusion index rose back above 50 and the employment component also increased a bit.

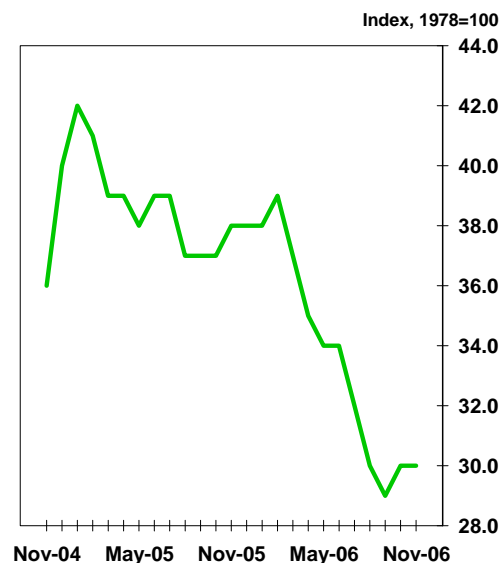
Inflation data was mixed in November, as core consumer price growth eased, but core producer prices grew at their fastest pace in over a year. Growth in overall prices rose in both measures. Oil prices rose further in December, but remain significantly lower than prices seen earlier in the year.

Initial claims for unemployment insurance decreased in December, and the help wanted index was unchanged in November.

Initial Claims

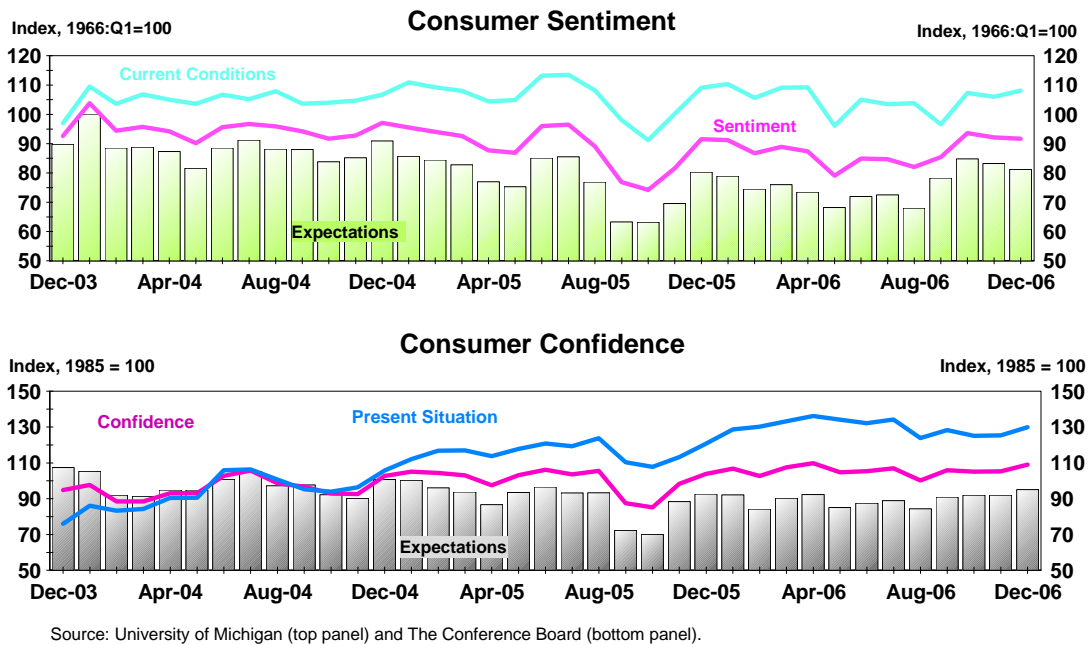


Help Wanted Index

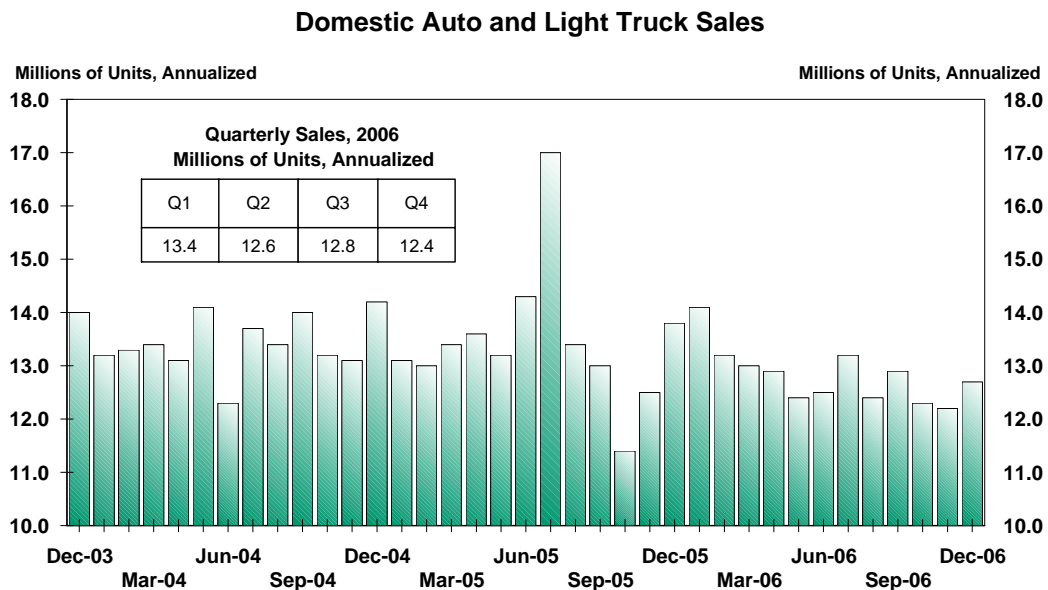


Source: Department of Labor, Employment and Training Administration (claims) and The Conference Board (help wanted).

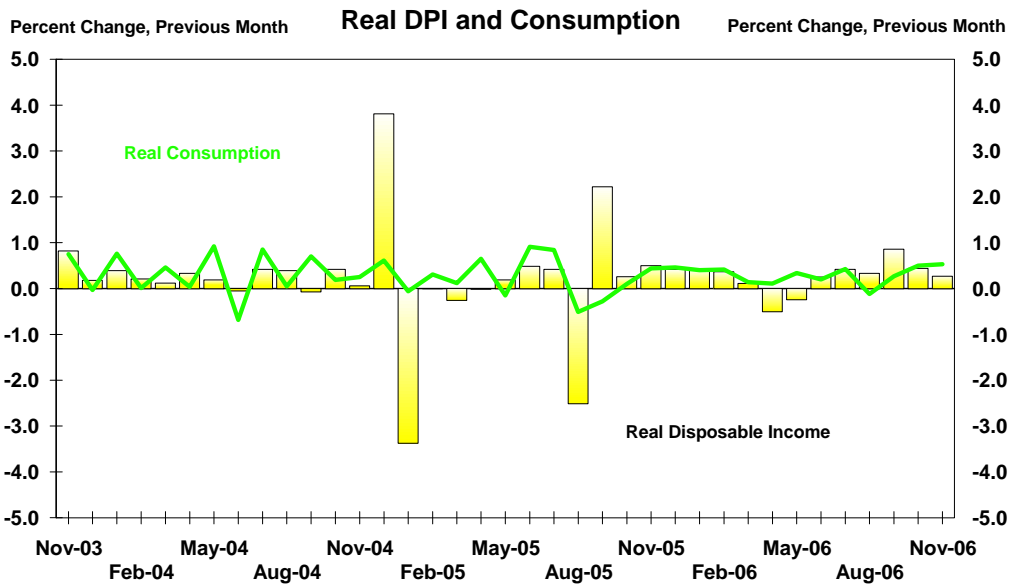
Consumer attitudes were mixed in December, as sentiment decreased slightly and confidence rose. The two surveys' measures of expectations also showed this disparity, but feelings toward the current situation improved in both cases.



Domestic auto and light truck sales rose in December, but average sales for the fourth quarter were still at their lowest level of the year.

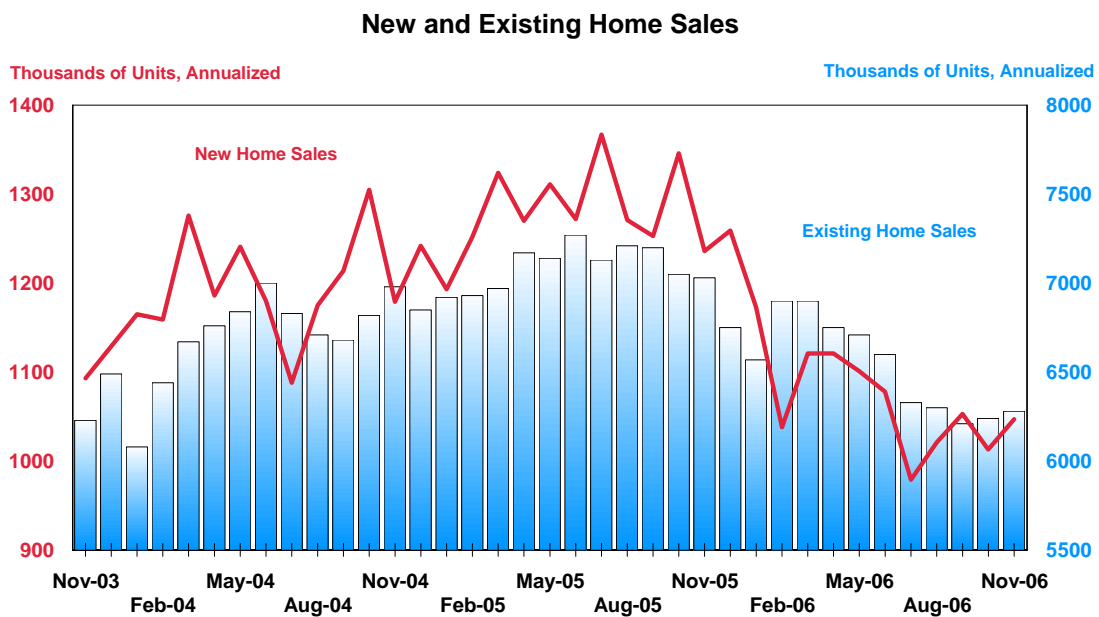


In November, real disposable income increased for the sixth consecutive month and real consumption rose at its fastest pace of the year.



Source: Bureau of Economic Analysis.

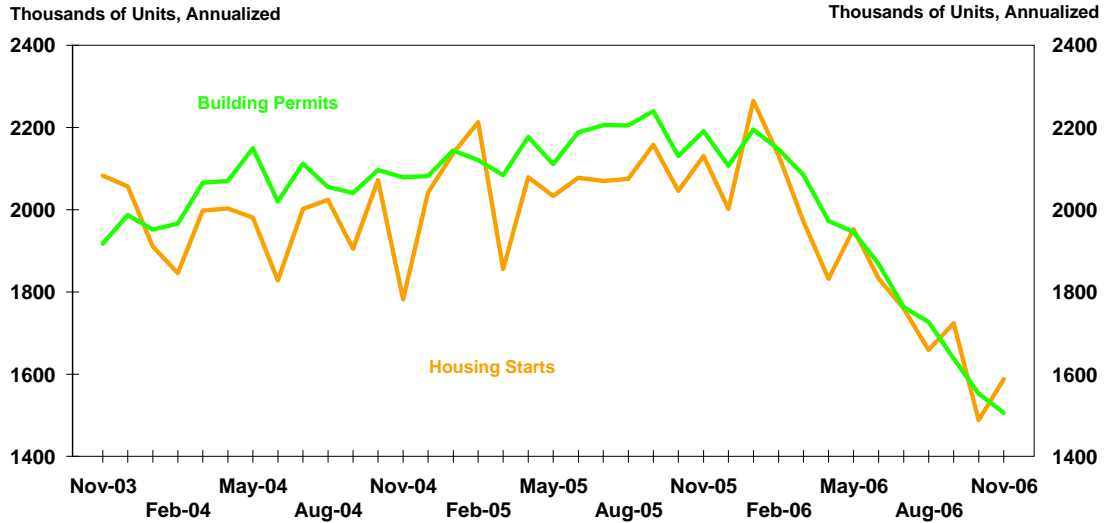
There were signs in November that the slump in the housing market is starting to ease, as existing home sales increased for the second consecutive month and sales of new homes rose for the third time since July.



Source: U.S. Census Bureau.

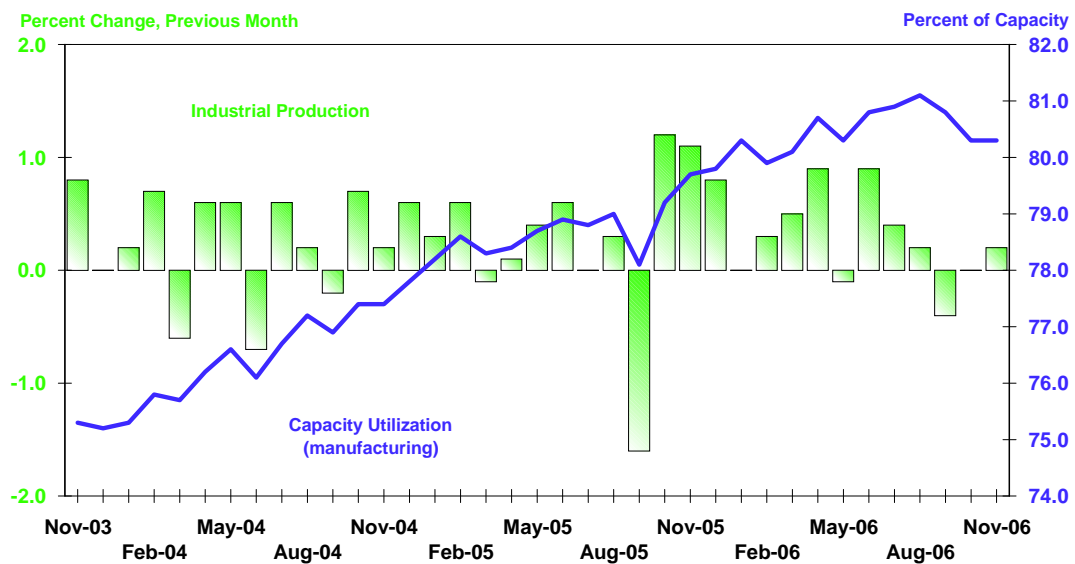
Housing starts also increased in November, but remain low compared to recent history. Building permits continued to slide.

Housing Starts and Building Permits

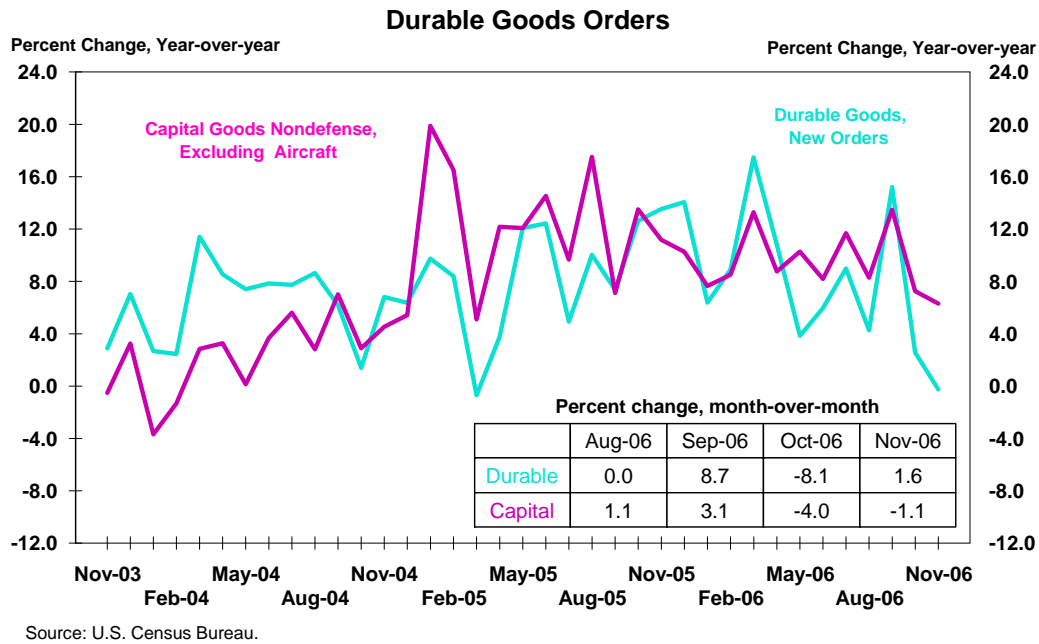


Industrial production grew in November, following an unchanged October and a fall in September. Capacity utilization was unchanged in November.

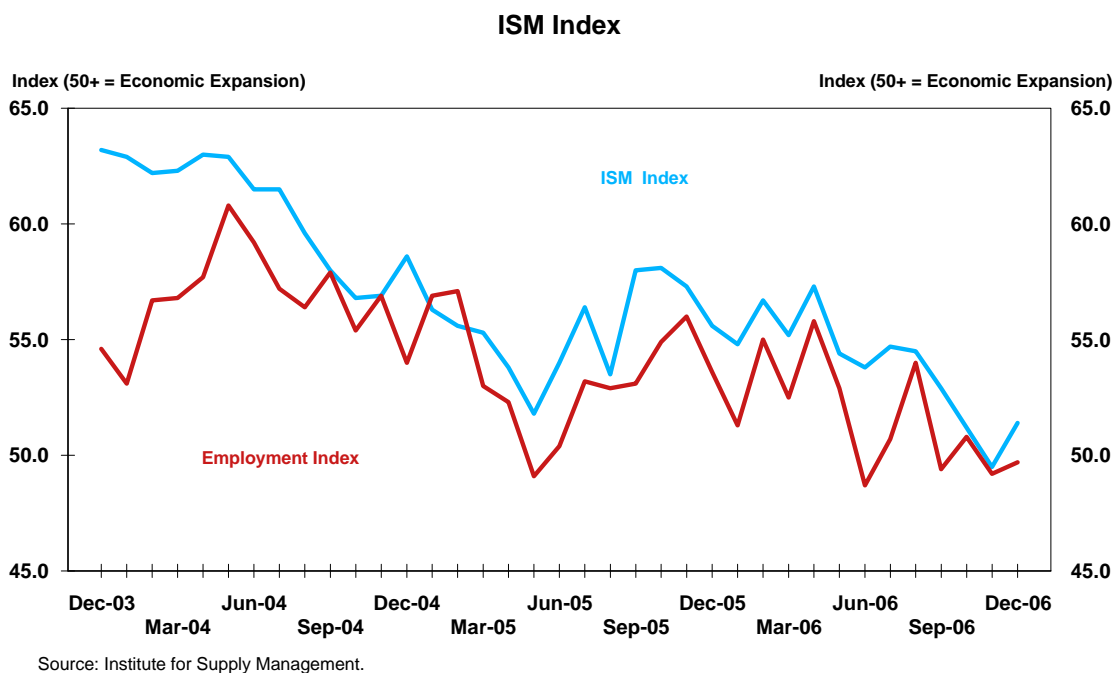
Industrial Production and Capacity Utilization



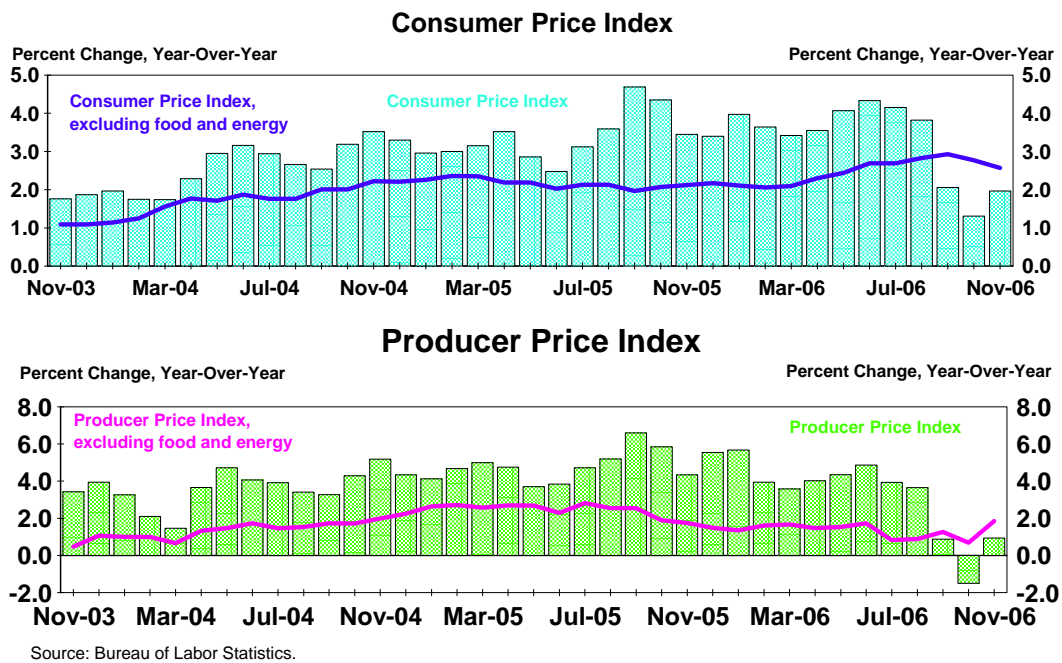
New orders for durable goods slowed to no growth in November on a year-over-year basis, despite showing improvement from the previous month. Orders for nondefense capital goods, excluding aircraft, also slowed in November.



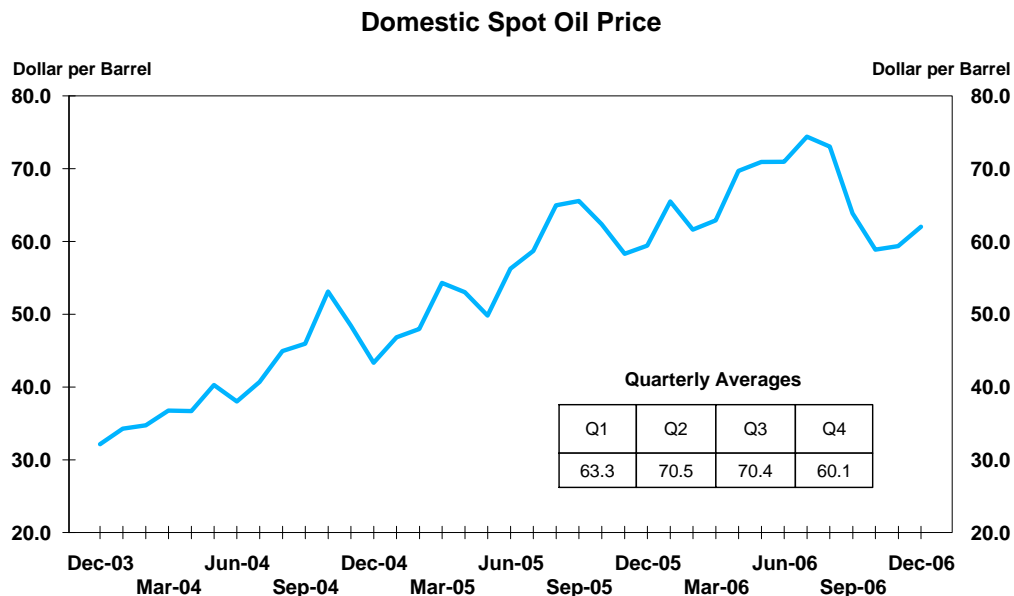
In the business sector, the ISM index rebounded in December, moving back above 50. The employment component of the index also improved, but remains slightly below 50.



Growth in overall consumer prices picked up in November, but core prices eased for the second month in a row. Total producer prices also rose in November, and core prices grew at their fastest pace in over a year.



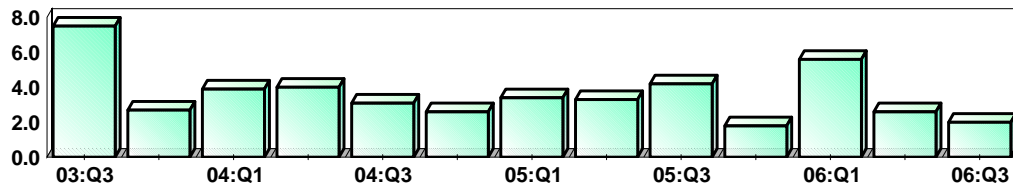
Oil prices rose a bit more in December, but remain close to their lowest levels of the year.



Source: West Texas Intermediate, Wall Street Journal.

Real GDP growth was revised down slightly in the final third quarter estimate, with the revision due primarily to a downward revision to personal consumption expenditures for services

Real GDP

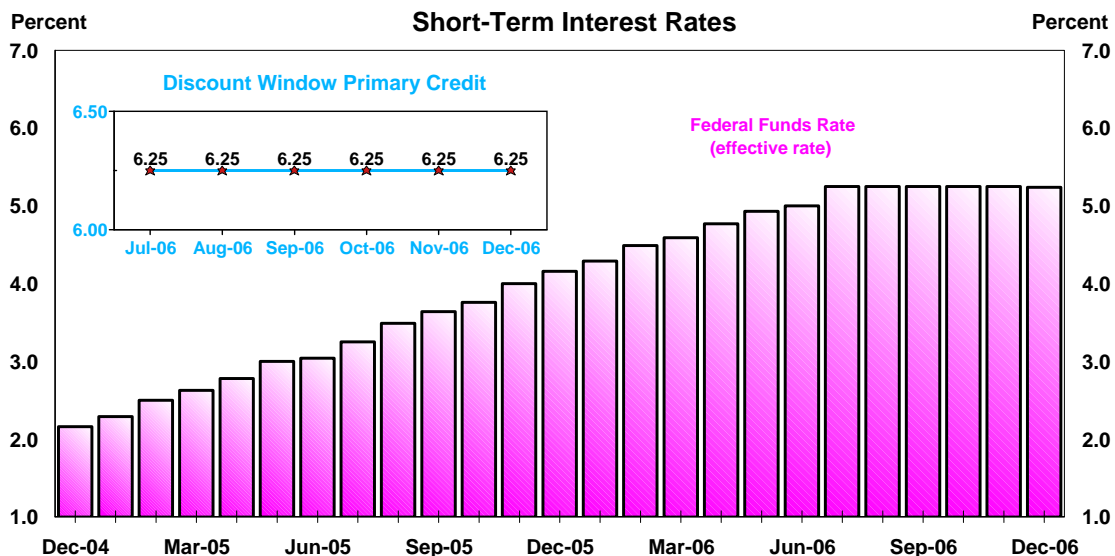


Revisions to Third Quarter Real GDP

Description	Preliminary	Revised
Real GDP	2.2	2.0
Consumption	2.9	2.8
Business Investment	10.0	10.0
Equipment & Software	7.2	7.7
Residential Investment	-18.0	-18.7
Government	2.2	1.7
Exports	6.3	6.8
Imports	5.3	5.6
Final Sales	2.1	1.9

Source: Bureau of Economic Analysis.

Overall, data released since your last Directors' meeting suggest economic growth will be slightly higher in the fourth quarter than seen in the third. Consumption has been stronger than expected and the trade deficit has narrowed, helping to offset weaker manufacturing data. While there are signs the worst of the housing slump may be behind us, further indications of a stabilizing market will be key going forward, as will be keeping inflation in check.



Source: Federal Reserve Board of Governors.

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

January 11, 2007

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

In December, nonfarm payrolls added 167,000 jobs and the unemployment rate held steady at 4.5%. November payrolls were revised to show an increase of 154,000 jobs, 22,000 more than the original estimate of a 132,000 job increase. October payrolls were also revised higher, showing an addition of 86,000 jobs instead of the previously reported 79,000 job increase.

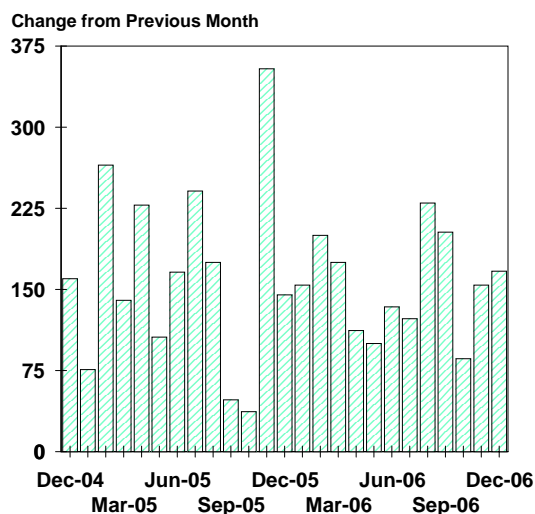
The U.S. international trade balance narrowed for the third straight month in November, to \$58.23 billion. Imports grew 0.3% and exports grew 0.9% during the month.

Wholesale inventories rose 1.3% in November, following a 0.4% increase in October. Wholesale trade increased 1.0% in November, after falling a revised 0.4% in October. Trade was originally seen falling 0.5% in October.

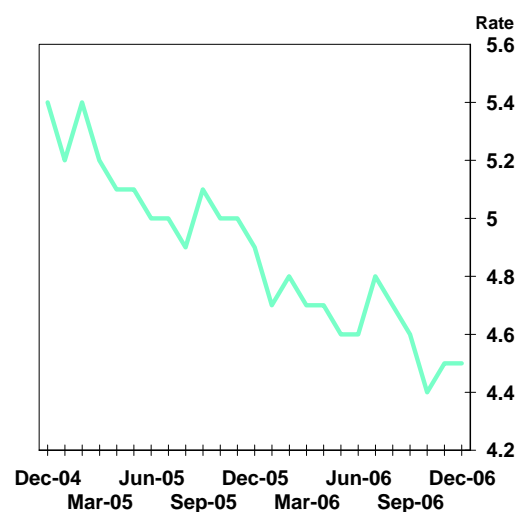
Redbook sales increased 1.7% in the first week of January, compared to December. Sales were 2.9% higher than during the same period last year. Oil prices decreased during the past week, averaging 56.4 dollars per barrel compared to last week's average of 60.7.

Payroll employment posted a strong gain in December, and revisions to the prior two months' estimates resulted in a net gain of 29,000 additional jobs. The unemployment rate was unchanged at 4.5%.

Nonfarm Payroll Employment



Unemployment Rate



Source: Bureau of Labor Statistics.