FEDERAL RESERVE
BANK OF BOSTON™

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

August 31, 2006

CURRENT ECONOMIC DEVELOPMENTS - August 31, 2006

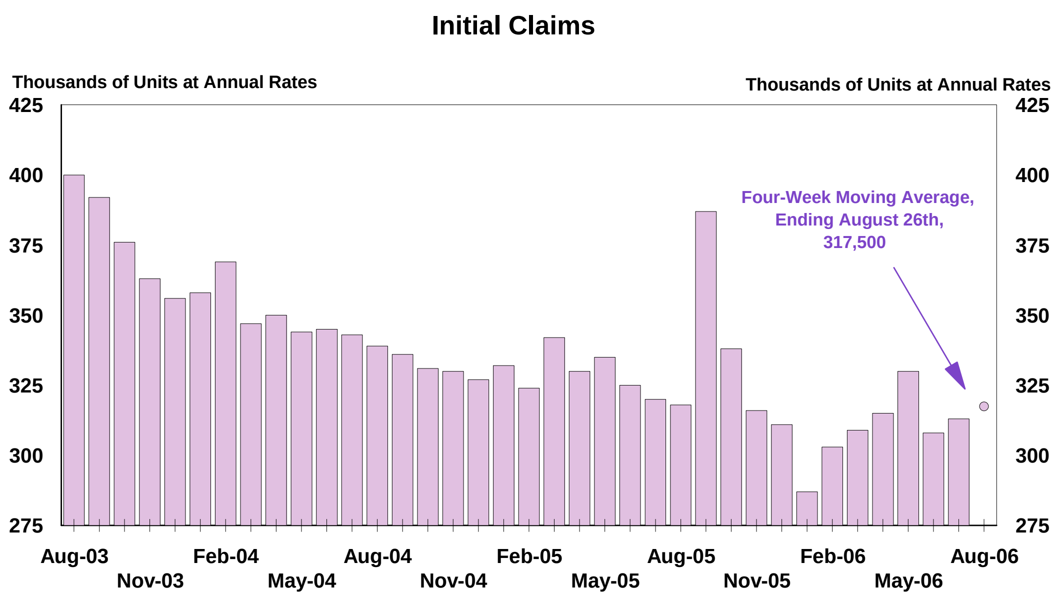
Data released since your last Directors' meeting show the economy has slowed down, although not as prominently as originally estimated. The cooling housing market and the stretched consumer dollar raise concerns that the economy is in a soft patch. Recent data on prices suggest inflation has stabilized.

In August, initial claims increased marginally and consumer attitudes fell to their lowest levels of the year. Real consumption expenditures grew at their fastest monthly pace in a year in July, and real disposable incomes continued to grow.

The housing market continued to wane in July, as new and existing home sales fell. The lower sales have helped reduce housing starts and building permits to their lowest levels in over a year. In the manufacturing sector, industrial production slowed in July while capacity utilization eased slightly from the six-year high established in June. Business investment seems to have rebounded as durable goods orders accelerated in July, as did orders for nondefense capital goods, excluding aircraft.

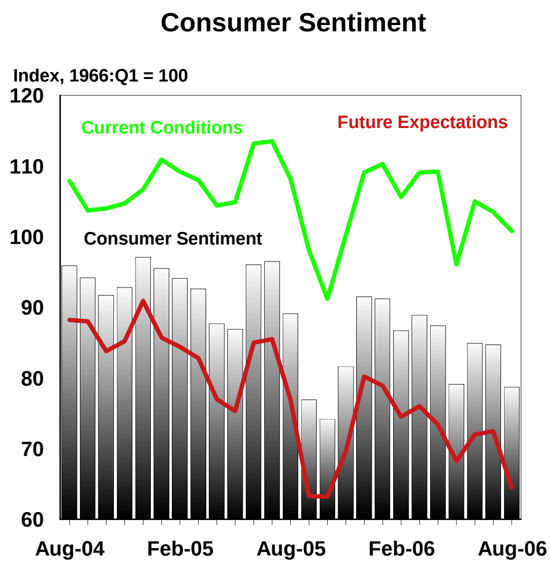
Inflation concerns remained elevated in July. A decline in oil prices mitigated total CPI and PPI slowed, but core CPI held steady at 2.7%.

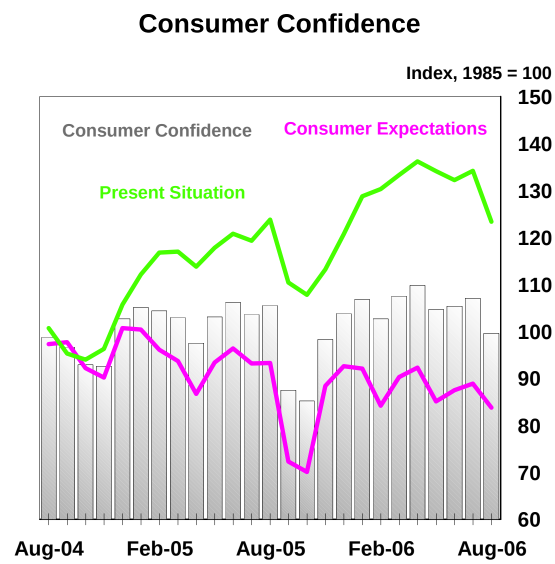
Initial claims edged up slightly through late August.



Source: Department of Labor, Employment and Training Administration.

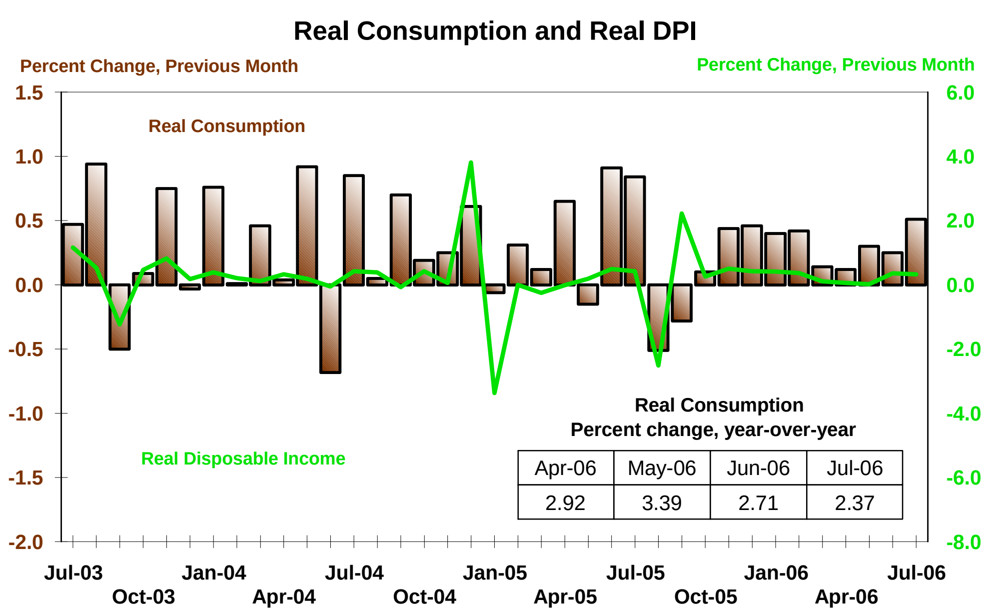
Consumer attitudes deteriorated in August, as sentiment and confidence both fell to their lowest points of the year. Measures of expectations and current conditions also fell.





Source: The University of Michigan (left panel) and The Conference Board (right panel).

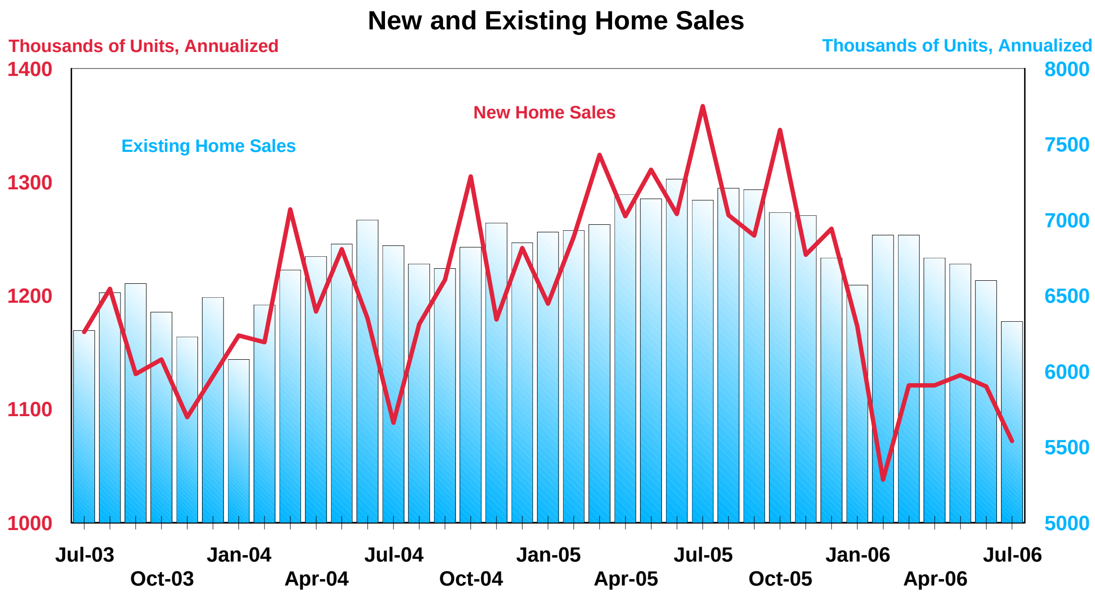
In July, real consumption posted its strongest monthly gain since the previous July, but its year-over-year growth was the lowest in over three years. Real disposable income grew in July at the same pace seen the prior month.



Apr-06	May-06	Jun-06	Jul-06
2.92	3.39	2.71	2.37

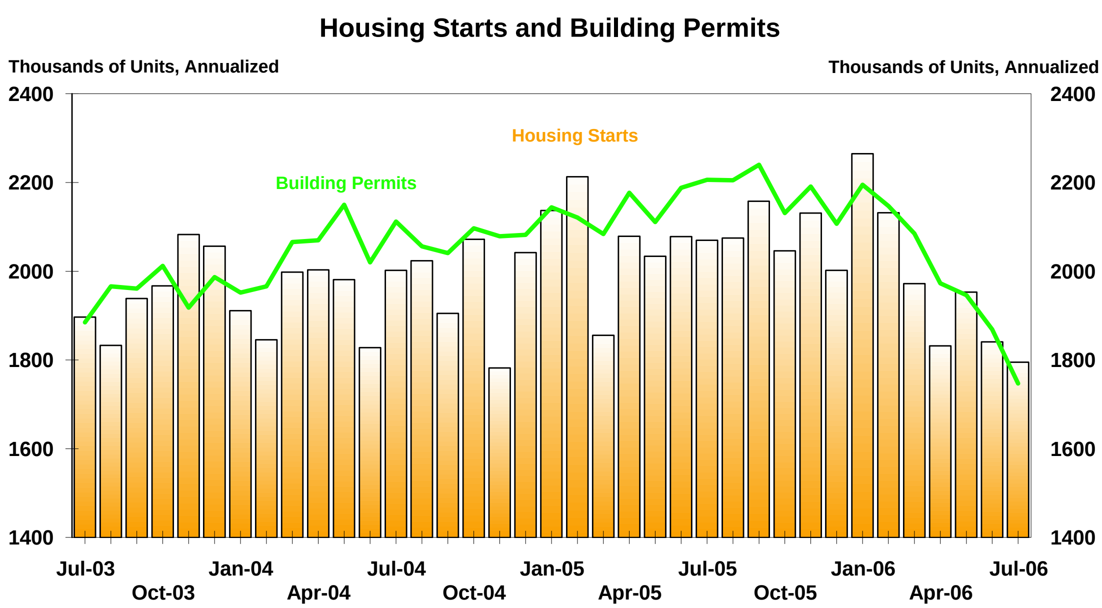
Source: Bureau of Economic Analysis.

The downturn in the housing market continued in July, as existing home sales fell for the fourth month in a row. Sales of new homes, following a brief improvement earlier in the year, decreased for a second consecutive month.



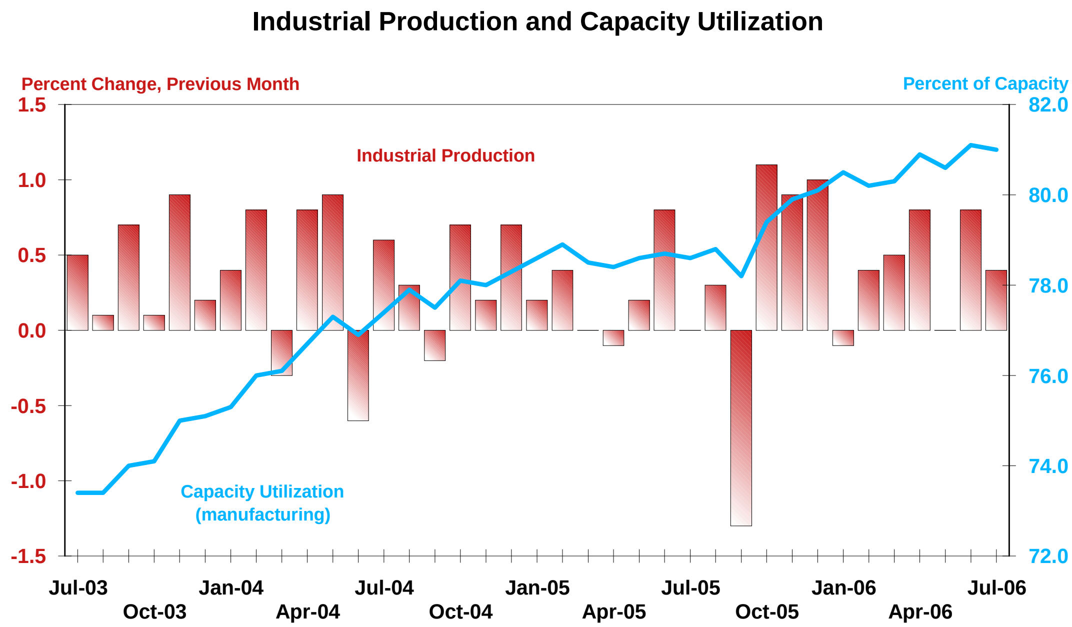
Source: U.S. Census Bureau (new home sales) and National Association of Realtors (existing sales).

As a result, housing starts dipped further in July, and building permits continued to fall, reaching their lowest point in over three years.



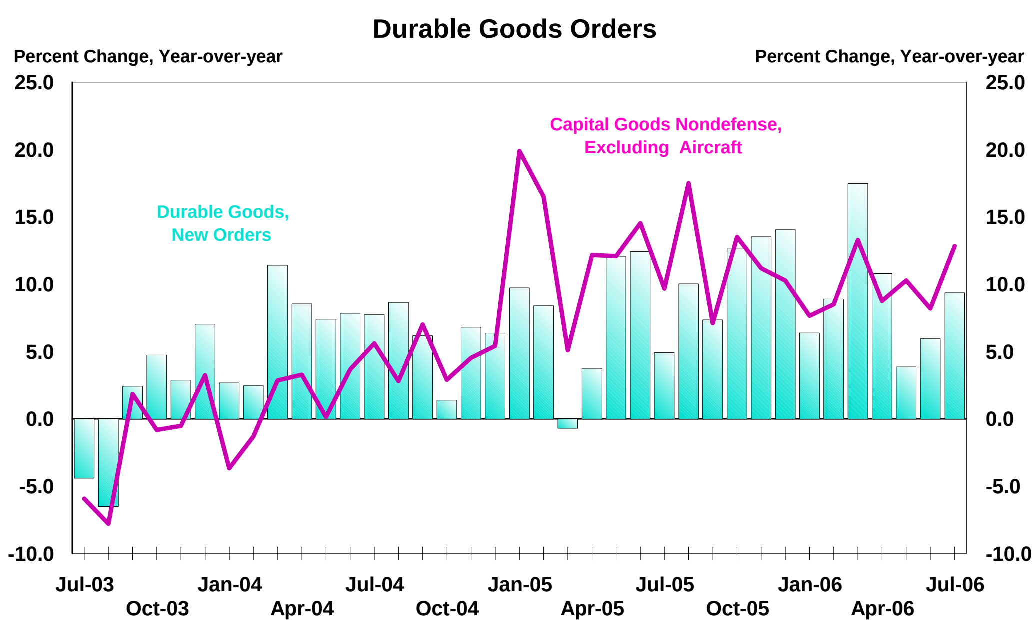
Source: U.S. Census Bureau.

In July, industrial production eased and capacity utilization decreased a bit.



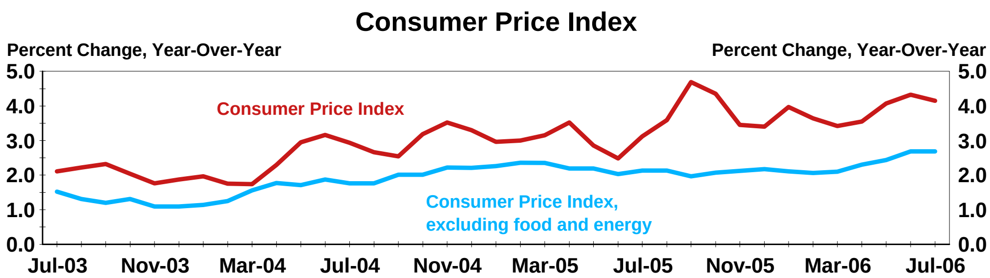
Source: Federal Reserve Board of Governors.

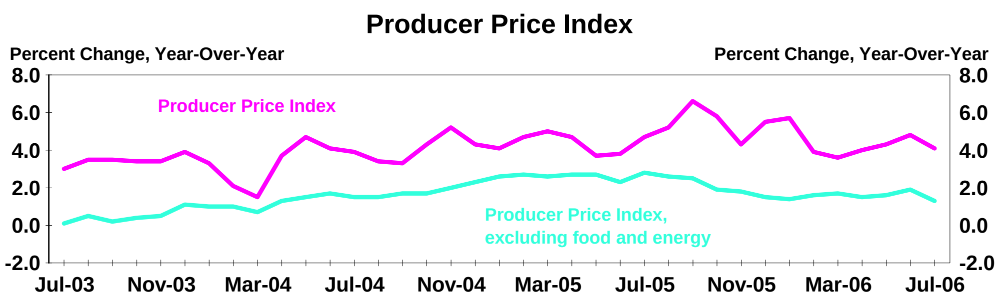
New orders for both durable goods and nondefense capital goods, excluding aircraft, accelerated in July.



Source: U.S. Census Bureau.

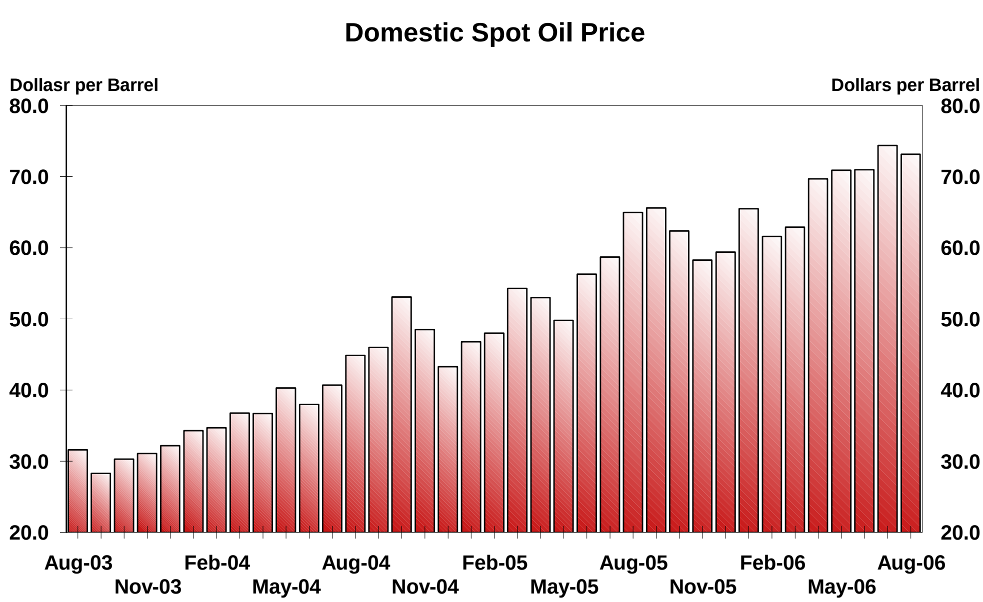
July brought some positive news on the inflation front, as growth in overall consumer prices slowed, but core inflation held steady. Producer prices, both core and overall, also decelerated.





Source: Bureau of Labor Statistics.

Oil prices eased a bit in August, after peaking at $78 per barrel early in the month.



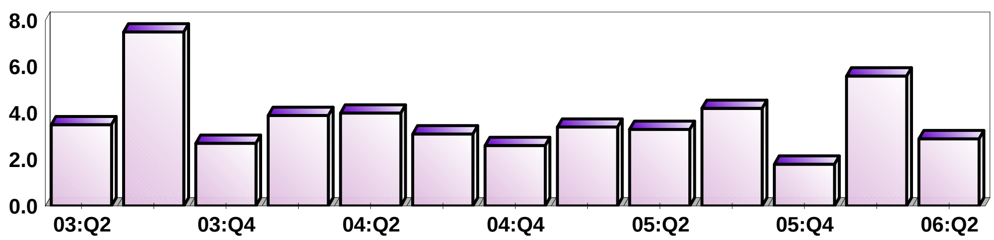
Source: Wall Street Journal.

Real GDP growth was revised up in the second quarter. The upward revision primarily reflected upward revisions to exports, to nonresidential structures, to private inventory investment, and to state and local government spending that were partly offset by a downward revision to residential fixed investment.

Revisions to Second Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	2.5	2.9
Personal Consumption	2.5	2.6
Business Investment	2.7	4.7
Equipment and Software	-1.0	-1.6
Government	0.6	0.9
Exports	3.3	5.1
Imports	0.2	0.6
Final Sales	2.1	2.3

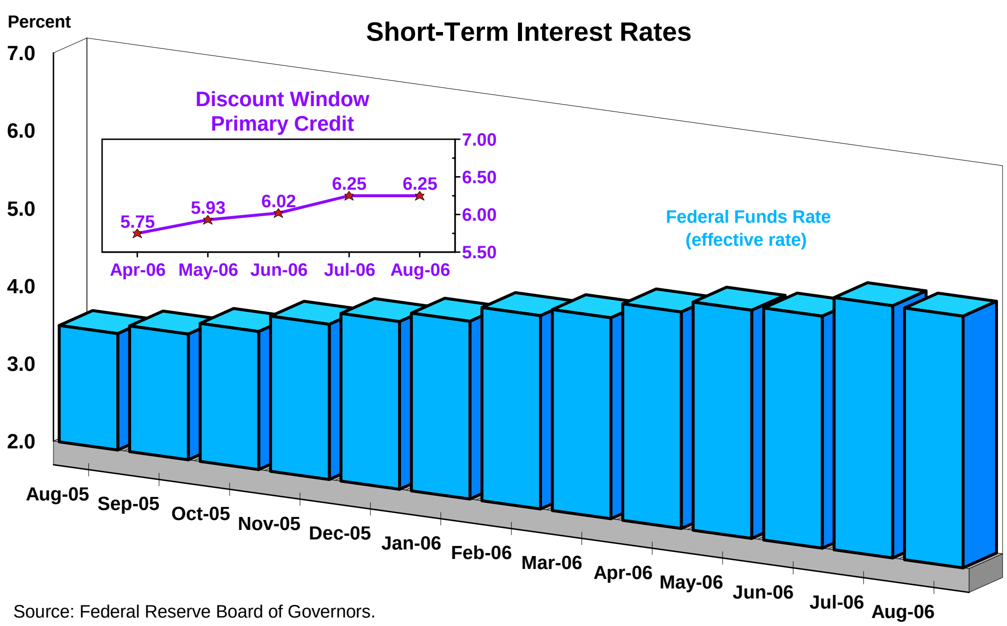
Real GDP



Source: Bureau of Economic Analysis.

Overall, Data released since your last Directors' meeting show the economy has slowed down, although not as prominently as originally estimated. The cooling housing market and the stretched consumer dollar raise concerns that the economy is in a soft patch. Recent data on prices suggest inflation has stabilized.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.

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

September 7, 2006

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

In August, nonfarm payrolls added 128,000 jobs and the unemployment rate decreased to 4.7%. July payrolls were revised to show an increase of 121,000 jobs, 8,000 more than the original estimate of a 113,000 job increase, and June payrolls were revised to show an increase of 134,000 jobs, 10,000 more than the previously reported increase of 124,000.

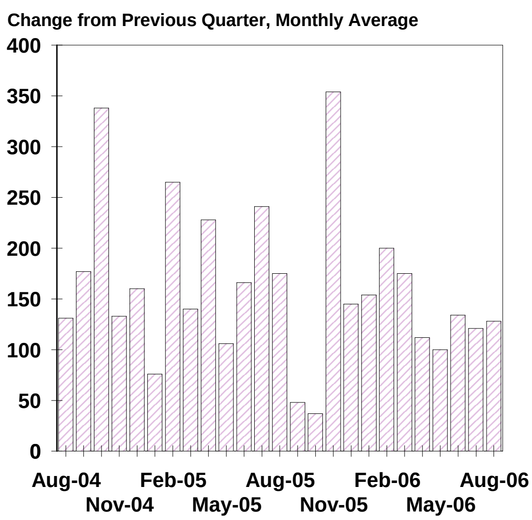
Consumer sentiment improved in late August, rising to 82.0 from the mid-month estimate of 78.7. Expectations also improved on their mid-month number, however both estimates were still below their July levels. Auto sales fell in August, as the special incentives offered the previous month expired.

Productivity growth in the second quarter was revised up to 1.6%, from the initial estimate of 1.1%. Unit labor costs rose 4.9%, after soaring a revised 9.0% in the first quarter. The ISM index decreased slightly in August, while the employment component rose to its highest level since April.

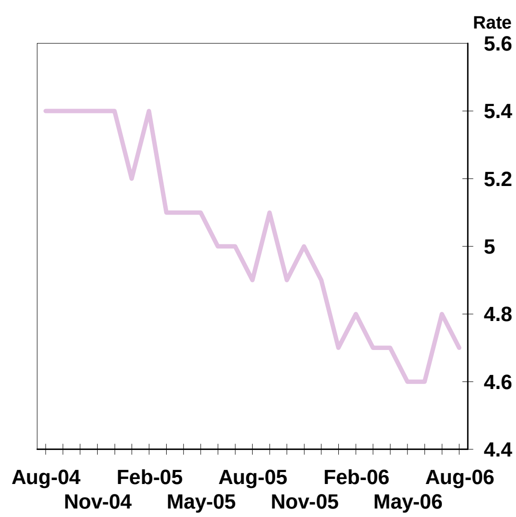
Redbook sales were flat through the first week of September, compared to August. Sales were 3.9% higher than during the same period last year. Oil prices eased during the past week, averaging 69.5 dollars per barrel, compared to last week's average of 71.2.

Payroll employment posted a solid gain in August, and revisions to the prior two months' estimates resulted in a net gain of 18,000 additional jobs. The unemployment rate fell one-tenth of a percentage point in August to 4.7%.

Nonfarm Payroll Employment

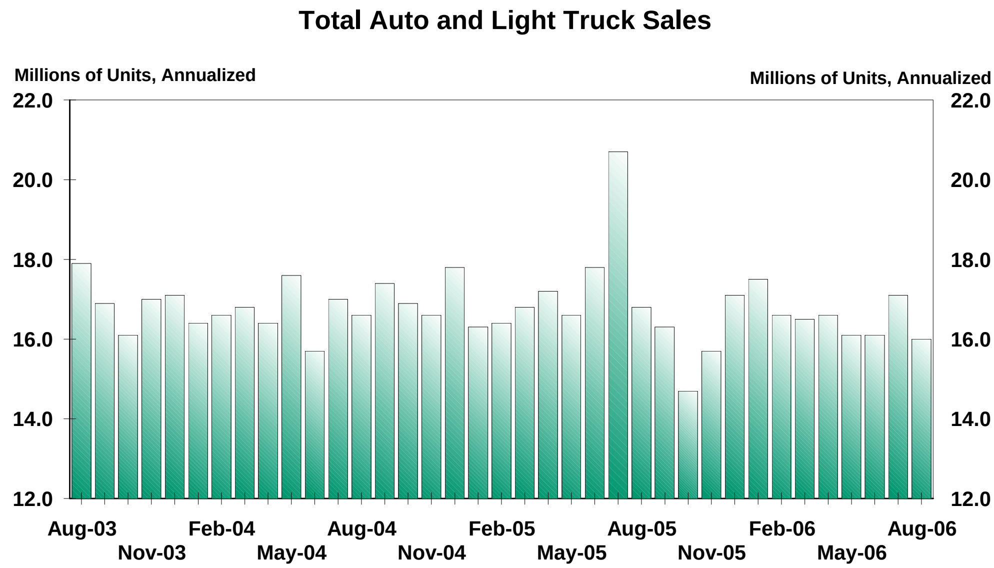


Unemployment Rate



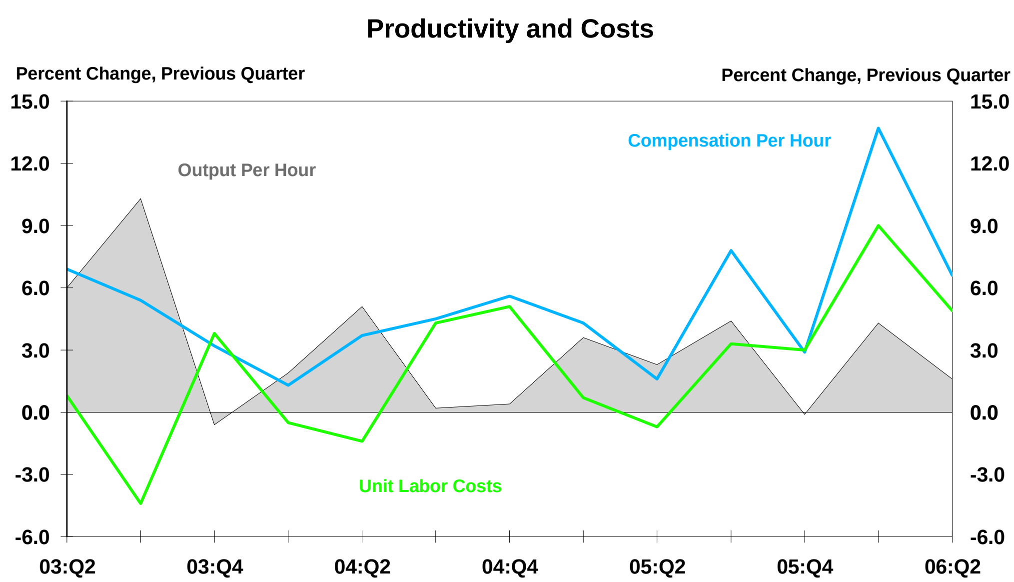
Source: Bureau of Labor Statistics.

Auto sales decreased in August, following the strong, incentive-induced sales seen in July.



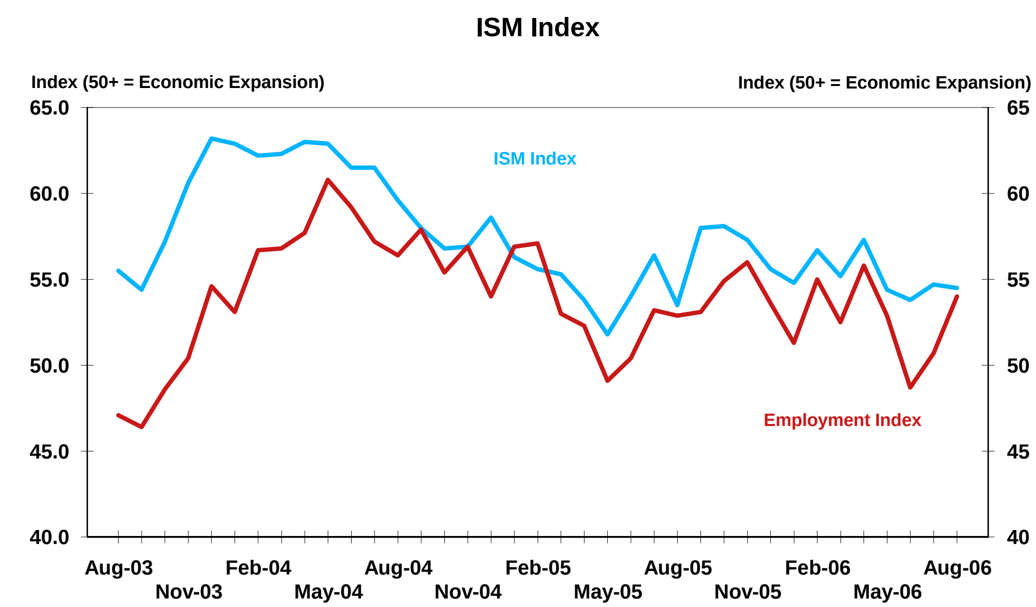
Source: Bureau of Economic Analysis.

Productivity growth slowed in the second quarter. Unit labor costs and compensation were revised up to show a significant increase in the first quarter, and continued to grow quickly in the second quarter.



Source: Bureau of Labor Statistics.

The ISM manufacturing index eased marginally in August, while the employment measure rose sharply, almost completely offsetting the losses seen earlier this year.



Source: Institute of Supply Management.