

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

Current Economic Developments - August 11th, 2004

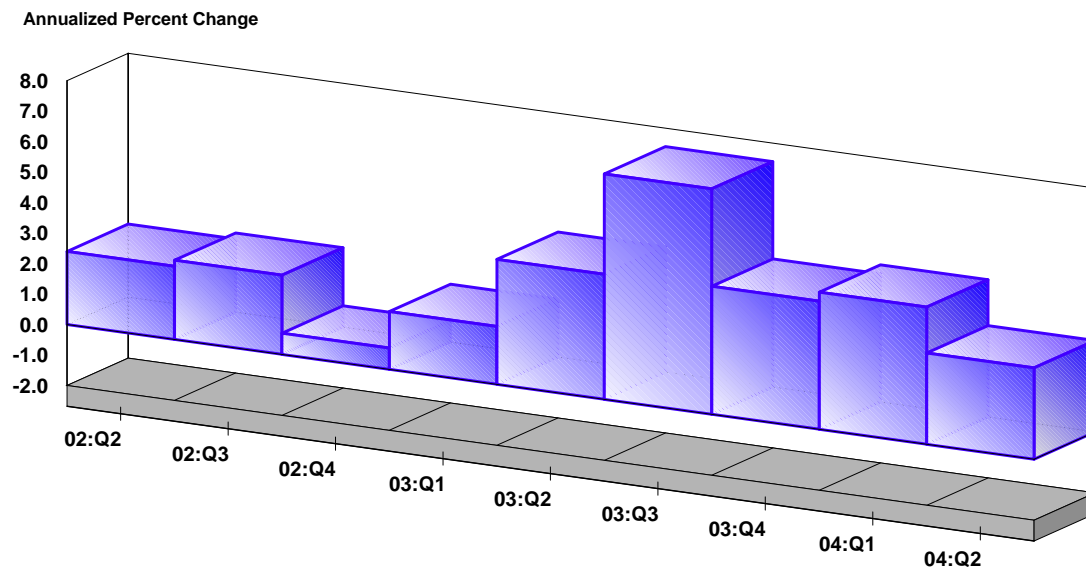
Data released since your last Directors' meeting show the economy grew at a slower pace in the second quarter, compared to the first quarter. The slowdown was led by a sharp deceleration in personal consumption expenditures, as spending on durable goods fell, and consumption of nondurable goods was flat. Countering the pullback in second quarter consumption, auto and light truck sales rose in July.

Also during the second quarter, residential investment continued to grow, business investment rebounded, and government spending held steady. Real net exports fell, although the rate of exports increased, and the rate of imports decreased.

In July, nonfarm payrolls posted their weakest gain since December. Despite poor job growth, the unemployment rate hit its lowest level since October 2001 and initial claims continued to fall. Consumer confidence rose, as attitudes about current conditions and future expectations improved. And the ISM index indicated the manufacturing sector expanded at about the same pace as in the second quarter.

The deceleration in GDP's second quarter growth was led by slower consumer spending and private inventory investment.

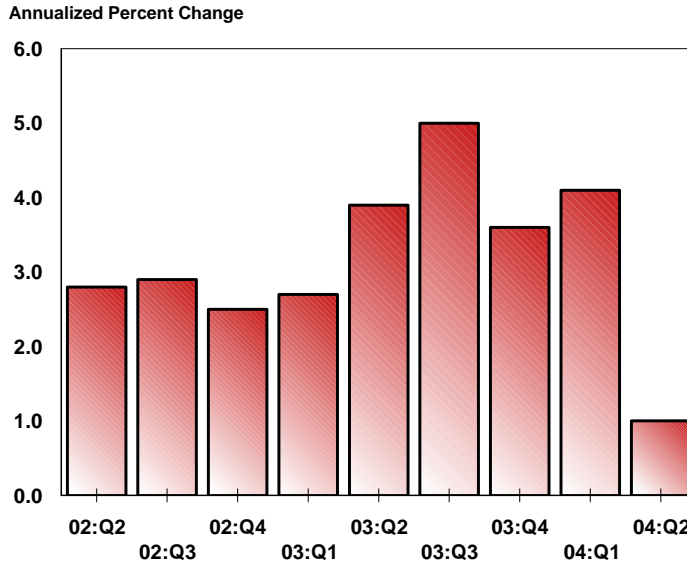
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

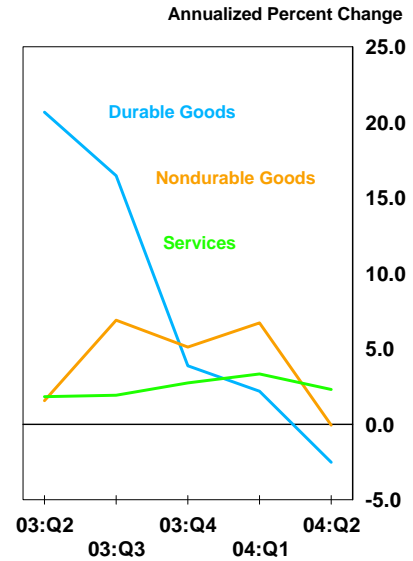
During the second quarter, spending on durable goods fell, while consumption of nondurable goods was basically flat.

Real Consumption



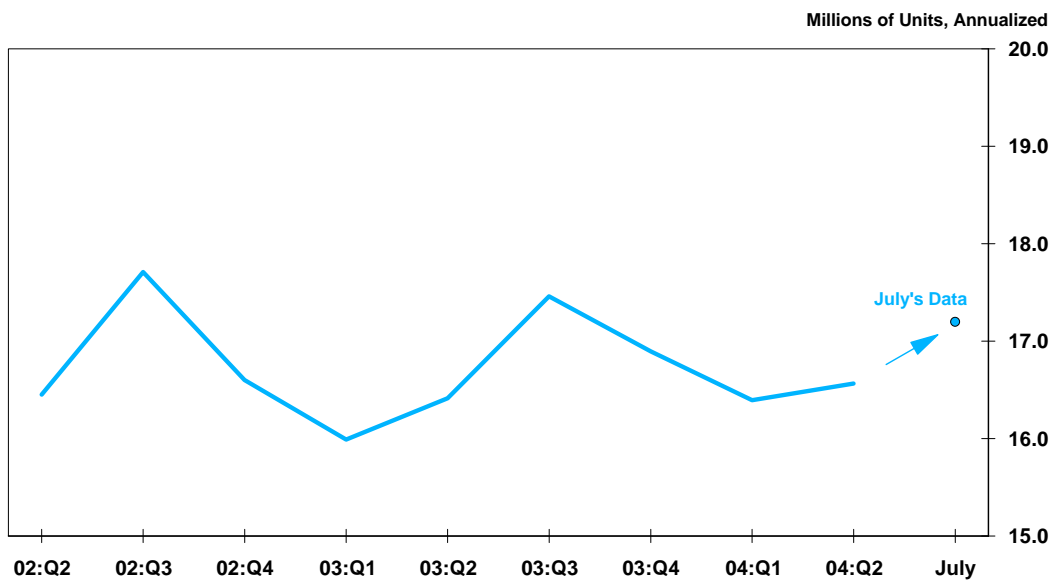
Source: Bureau of Economic Analysis.

PCE: Major Components



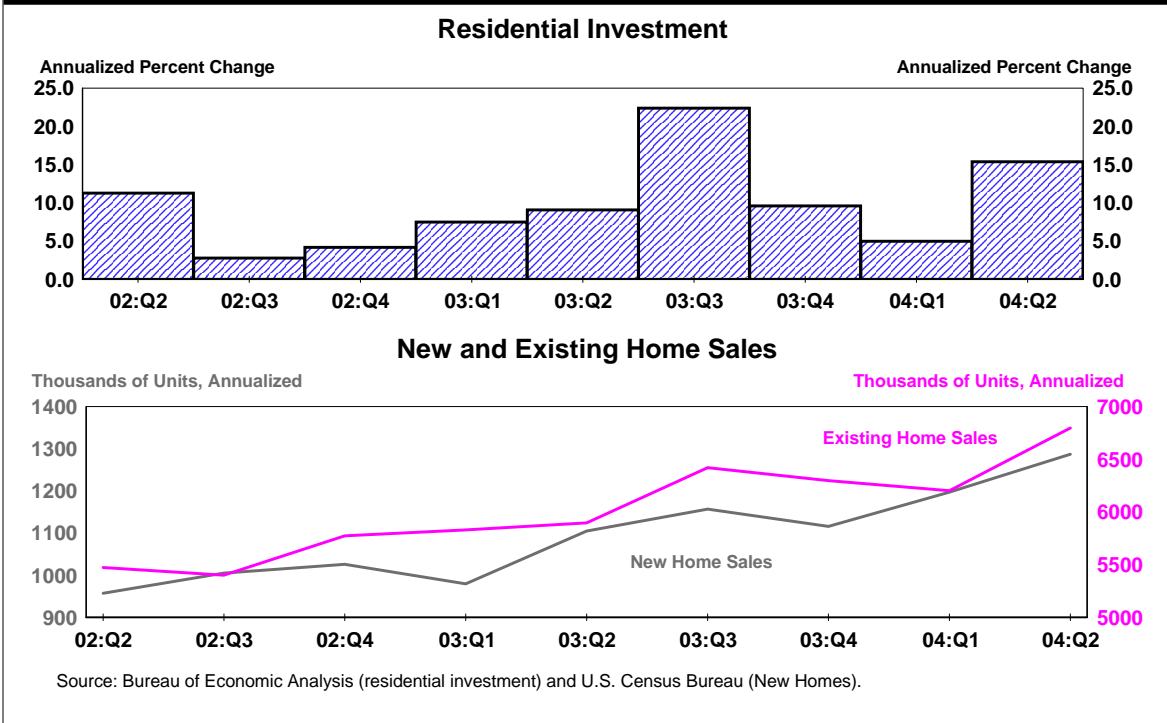
But auto and light truck sales rose in July, starting the third quarter off strong.

Auto and Light Truck Sales

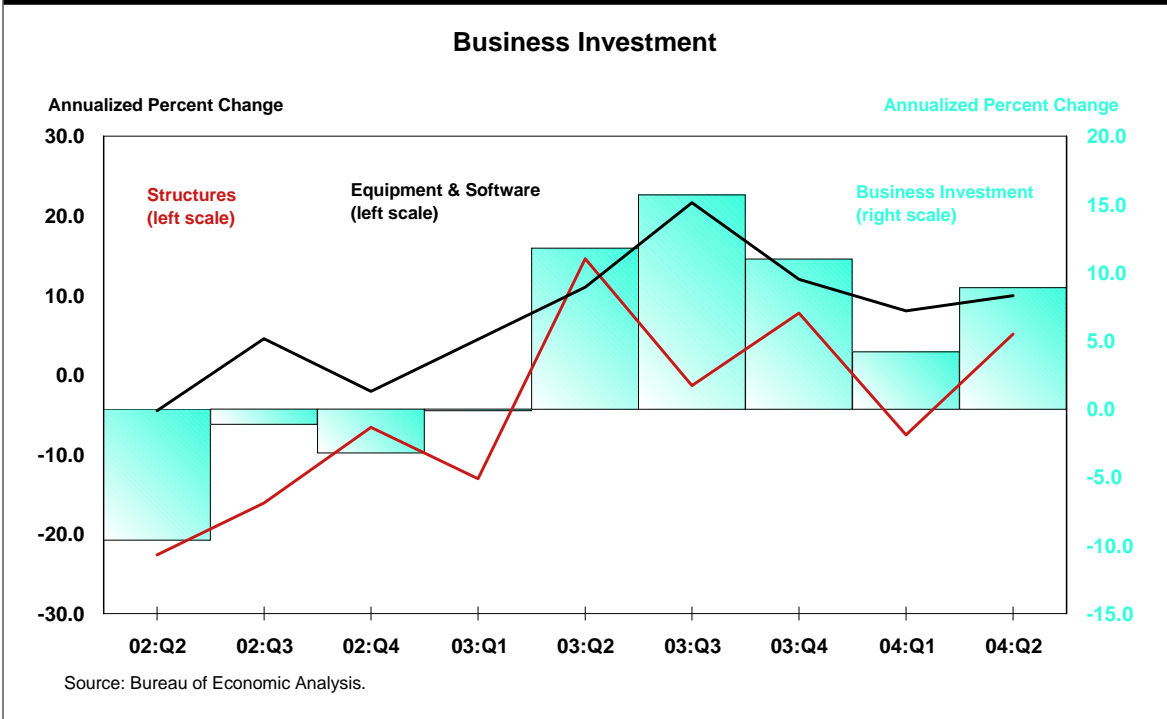


Source: Bureau of Economic Analysis.

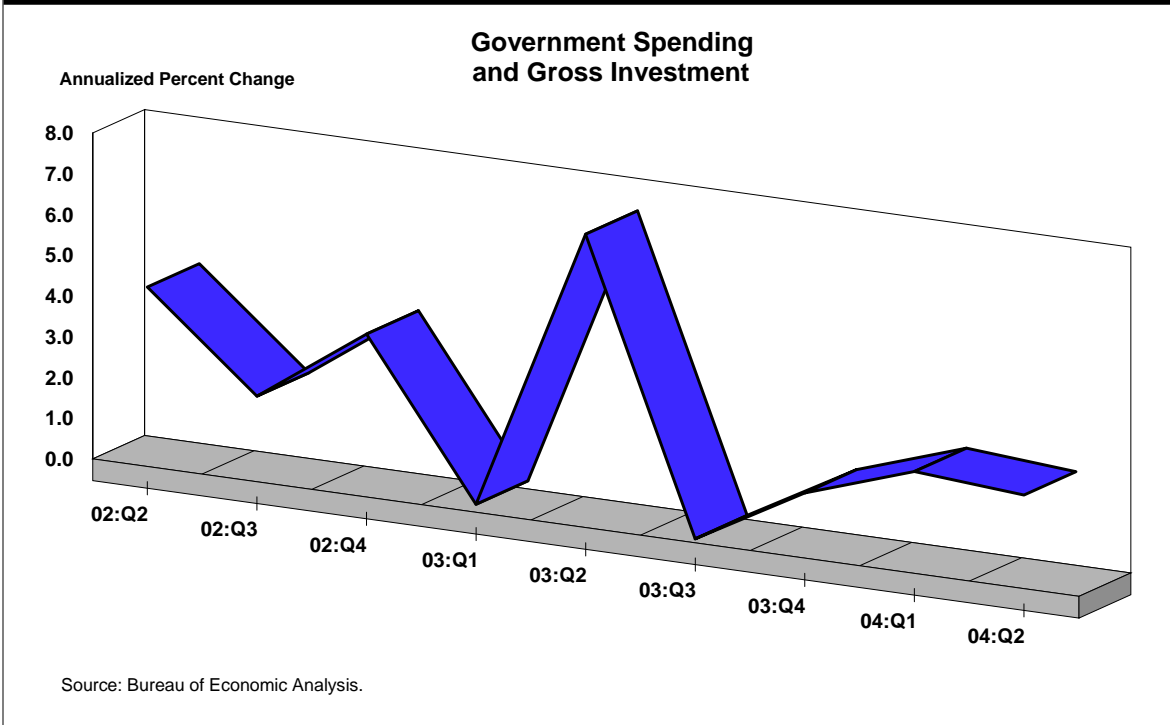
Residential investment rose in the second quarter, as new home sales expanded and existing home sales hit a new record high.



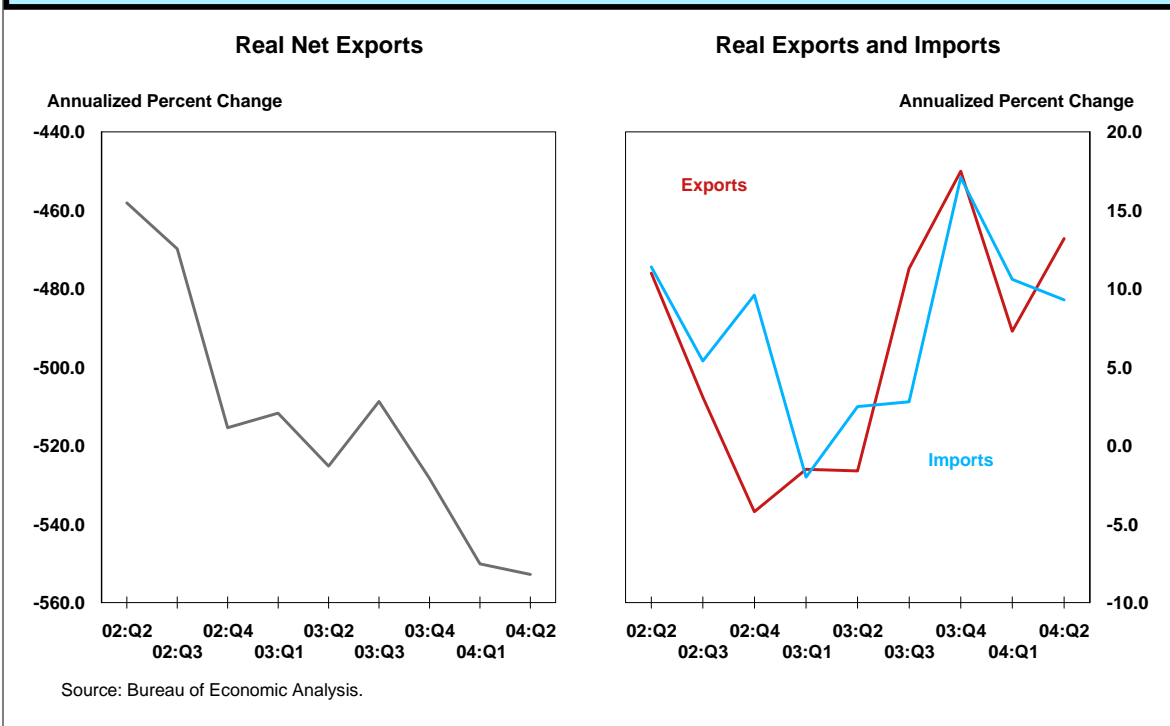
Nonresidential investment picked up in the second quarter, as businesses continued to purchase equipment & software and investment in structures rebounded.



Government consumption expenditures and gross investment rose in the second quarter at nearly the same rate as in the first quarter.

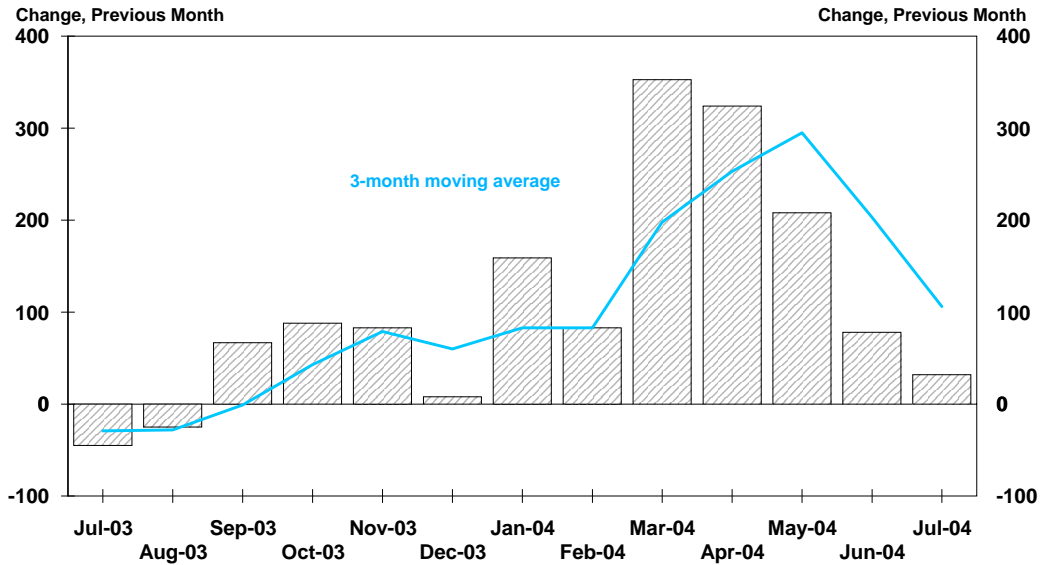


Real net exports fell in the second quarter, despite an increase in the rate of exports and a decrease in the rate of imports.



In July, nonfarm payrolls posted their weakest gain this year.

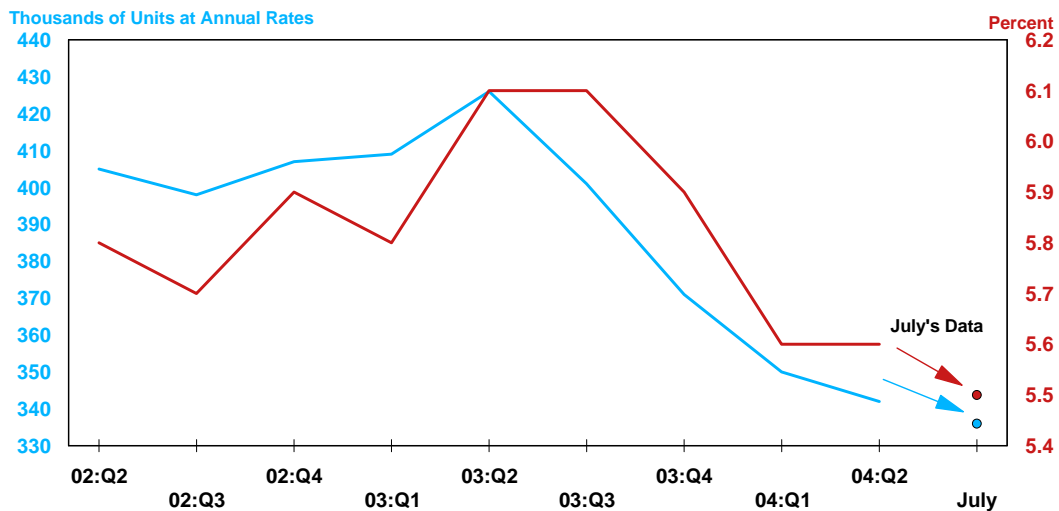
Change in Nonfarm Payroll Employment



Source: Bureau of Labor Statistics.

Despite poor job growth in July, the unemployment rate hit its lowest level since October 2001 and initial claims continued to fall.

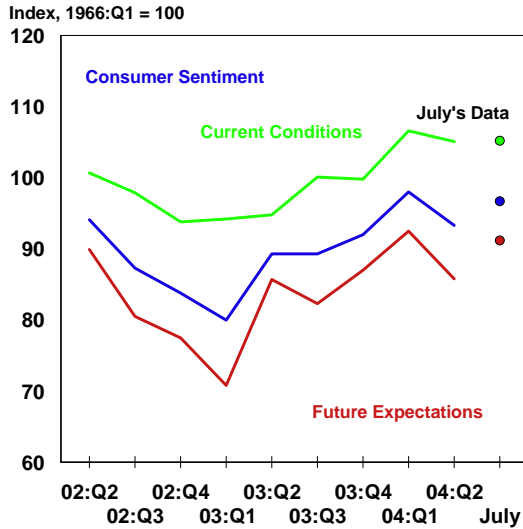
Initial Claims



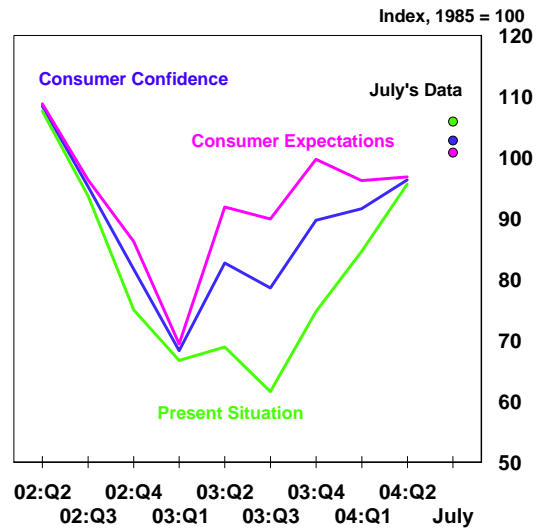
Source: Department of Labor, Employment and Training Administration (claims) and Bureau of Labor Statistics (UR).

Consumer attitudes were somewhat mixed in the second quarter. Michigan's survey showed a decrease in sentiment, while confidence from The Conference Board showed improvement. In July, all attitude measures picked up.

Consumer Sentiment



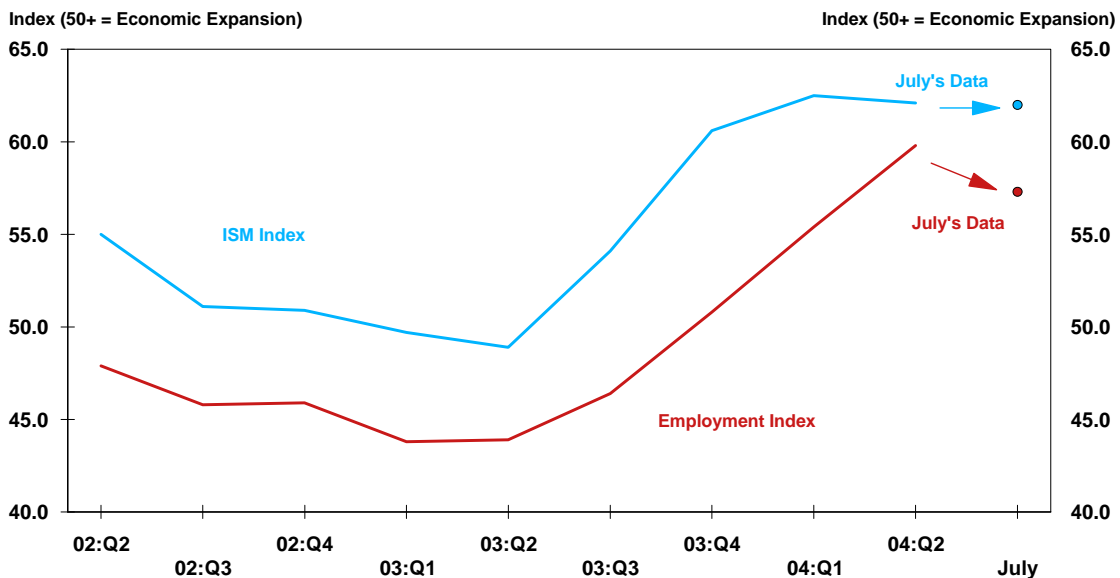
Consumer Confidence



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

July's ISM index was basically flat, following very little movement in the second quarter. The employment index eased somewhat in July, after several months of steady increases.

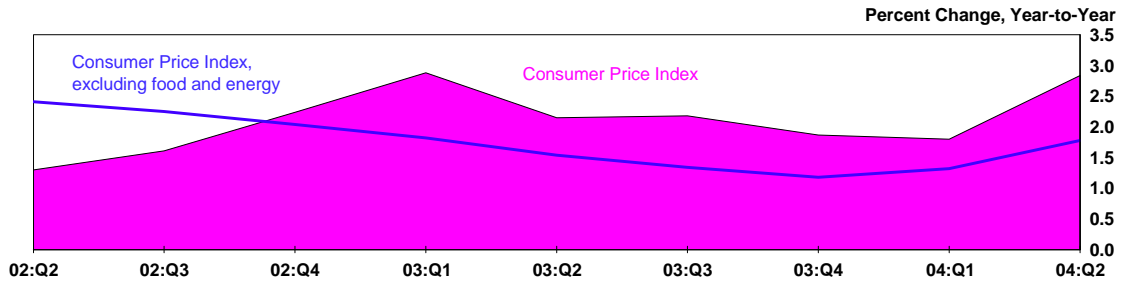
ISM Index



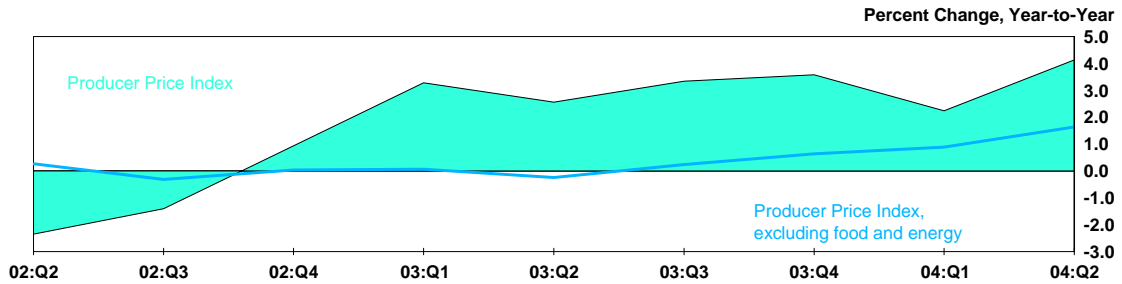
Source: Institute for Supply Management.

Inflation during the second quarter rose, reflecting higher oil prices. Increases in core consumer and producer prices remained relatively low.

Consumer Price Index



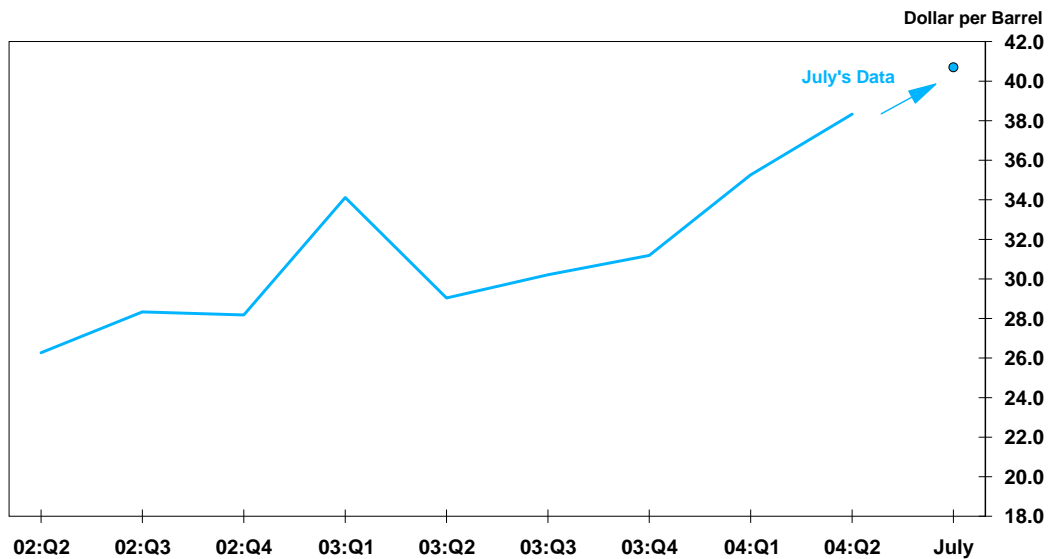
Producer price Index



Source: Bureau of Labor Statistics.

Oil prices continue to rise in July.

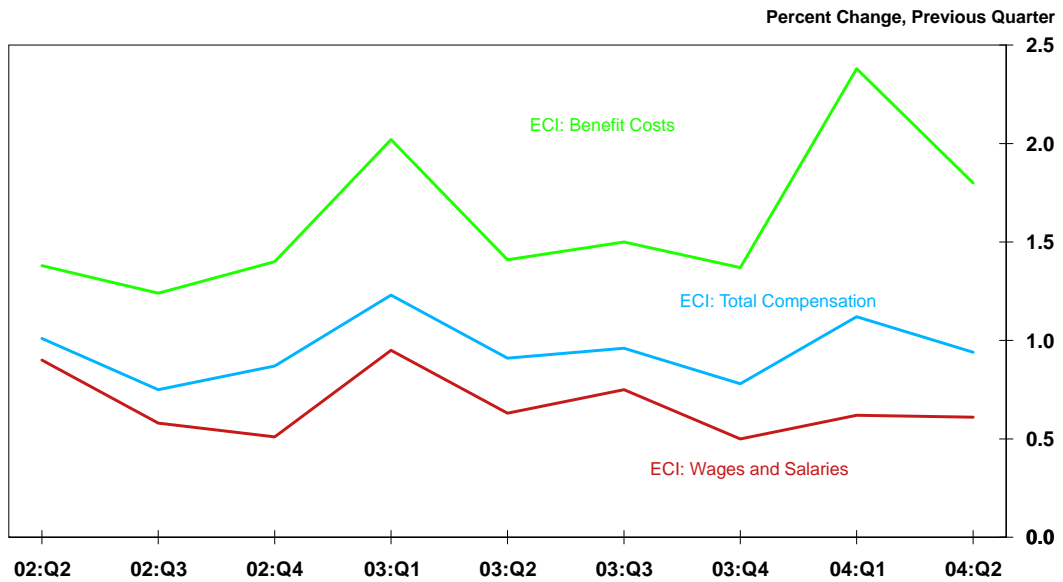
Domestic Spot Oil Price



Source: West Texas Intermediate, Wall Street Journal.

Employee costs, as measured by the employment cost index, was lower in the second quarter compared to the first quarter.

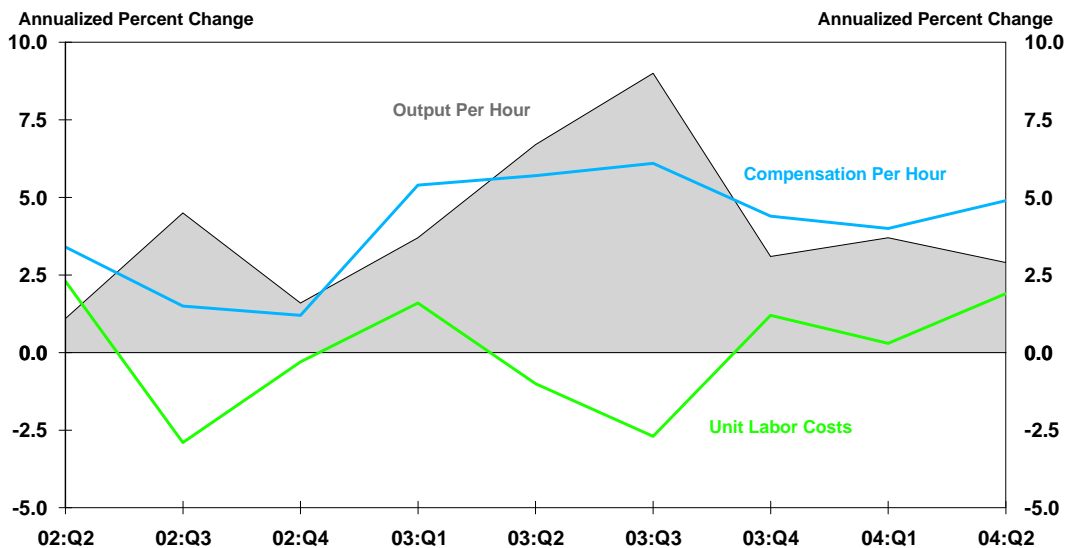
Employment Cost Index



Source: Bureau of Labor Statistics.

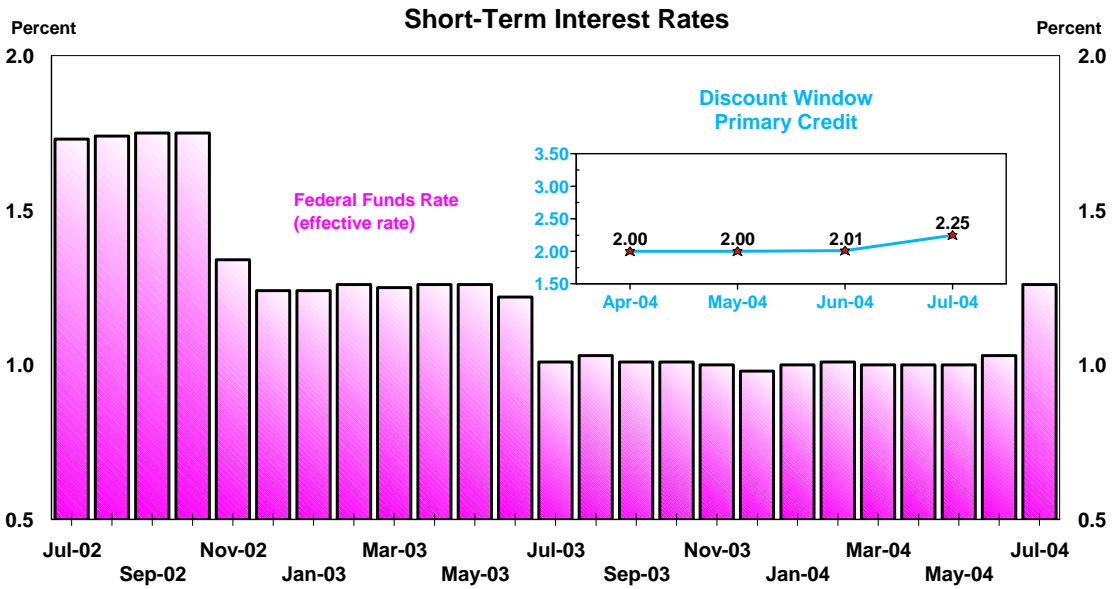
Productivity eased somewhat in the second quarter compared to the first quarter, while compensation and unit labor costs rose.

Productivity and Costs



Source: Bureau of Labor Statistics.

Overall, real GDP growth was slower in the second quarter compared to the first and July's job growth was poor. Yet, we saw improvement in July for initial claims, the unemployment rate, consumer attitudes, and vehicle sales.



Source: Federal Reserve Board of Governors.