

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

Current Economic Developments - December 8, 2004

Data released since your last Directors' meeting show the economy is improving, but the labor market needs to see continued growth in order to sustain the recovery.

In November, nonfarm payrolls added only about half the number of jobs anticipated by the market. Despite November's disappointing job growth, the unemployment rate fell one-tenth of a percentage point. Initial claims continued to fall in November.

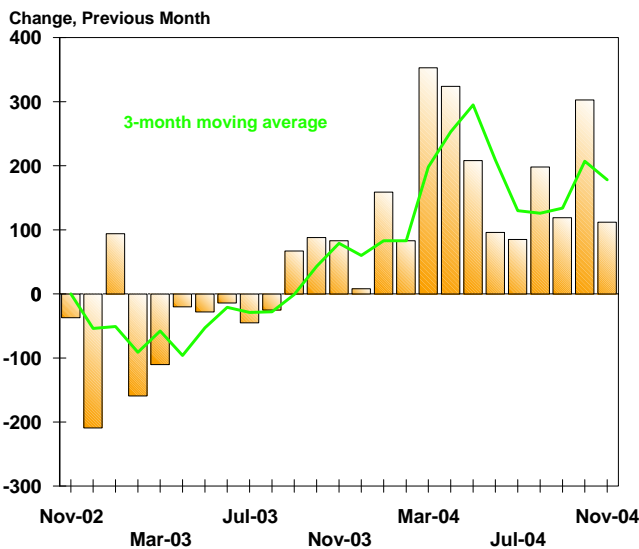
Consumer attitudes were somewhat mixed in November. The University of Michigan's consumer sentiment index rose in November, but has been basically flat over the past several months. The Conference Board's consumer confidence index continued to fall.

Consumer and Producer prices rose in October, but core inflation remained moderate. Oil prices continued to fall in November and in the first week of December.

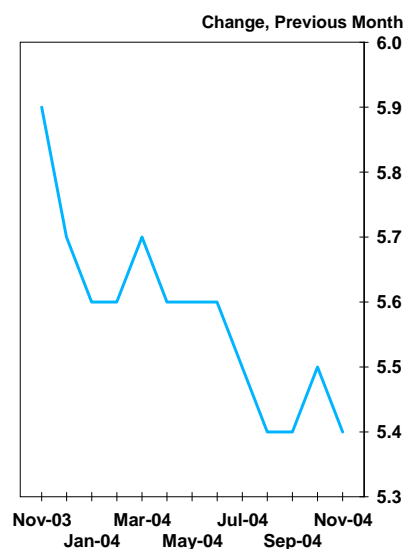
In the third quarter real GDP was revised upward, led by an increase in personal consumption expenditures and a slowdown in imports.

In November, nonfarm payrolls rose at only about half the pace anticipated by the market. Still, the unemployment rate posted one-tenth of a percentage point drop, reversing the rise seen in October.

**Change in Nonfarm Payroll Employment**



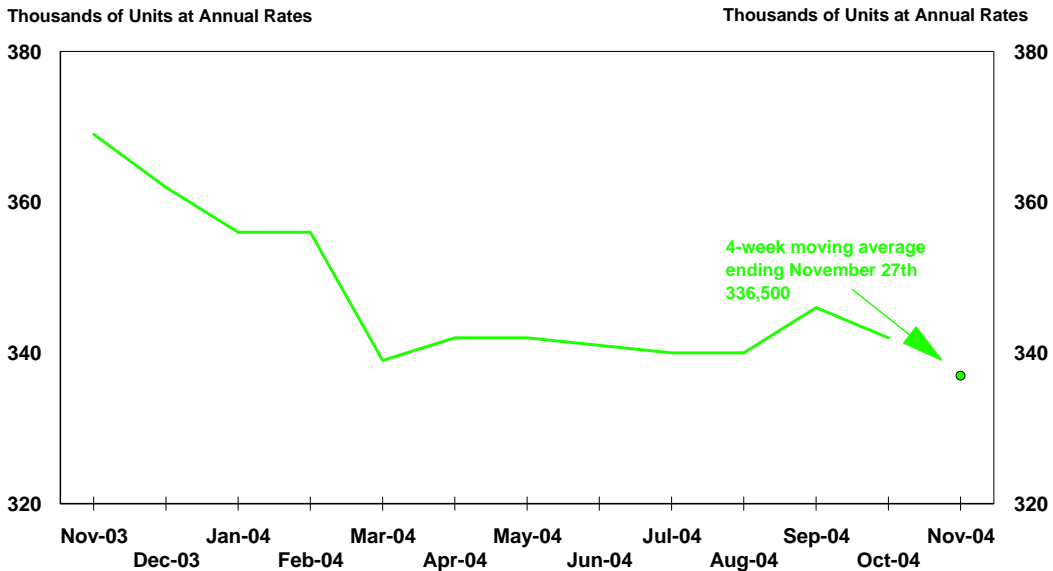
**The Unemployment Rate**



Source: Bureau of Labor Statistics.

Initial claims continued to fall in November.

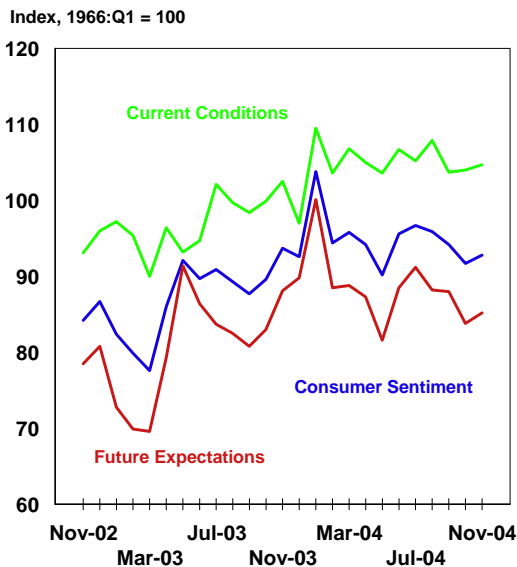
### Initial Claims



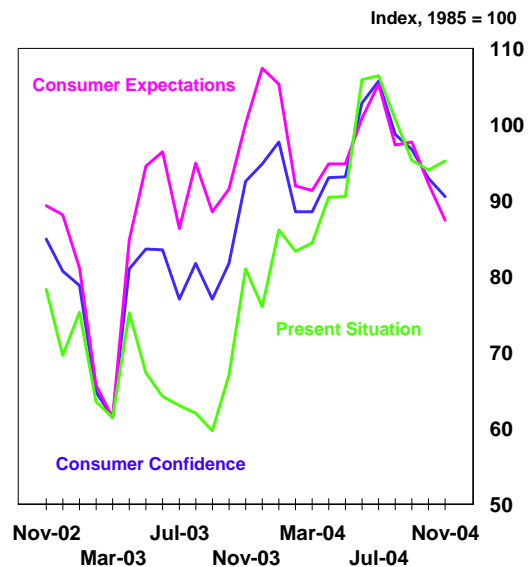
Source: Department of Labor, Employment and Training Administration.

Consumer attitudes were somewhat mixed in November. Consumer sentiment has been basically flat over the past several months, while confidence continued to fall.

### Consumer Sentiment



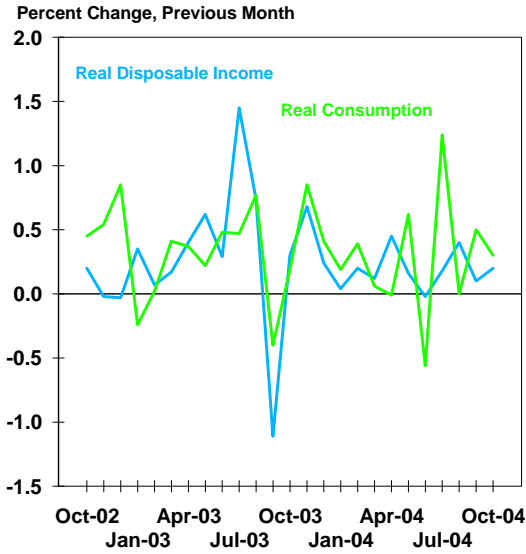
### Consumer Confidence



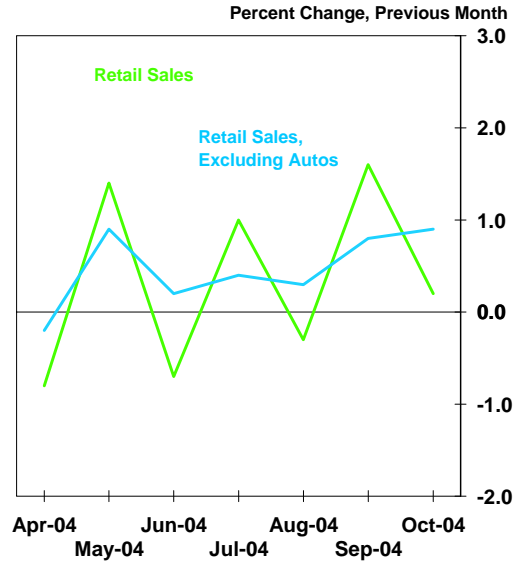
Source: The University of Michigan (left panel) and The Conference Board (right panel).

Real disposable income rose in October, while real consumption eased somewhat. October's slowdown in spending was led by a reduction in vehicle sales.

**Real DPI and Consumption**



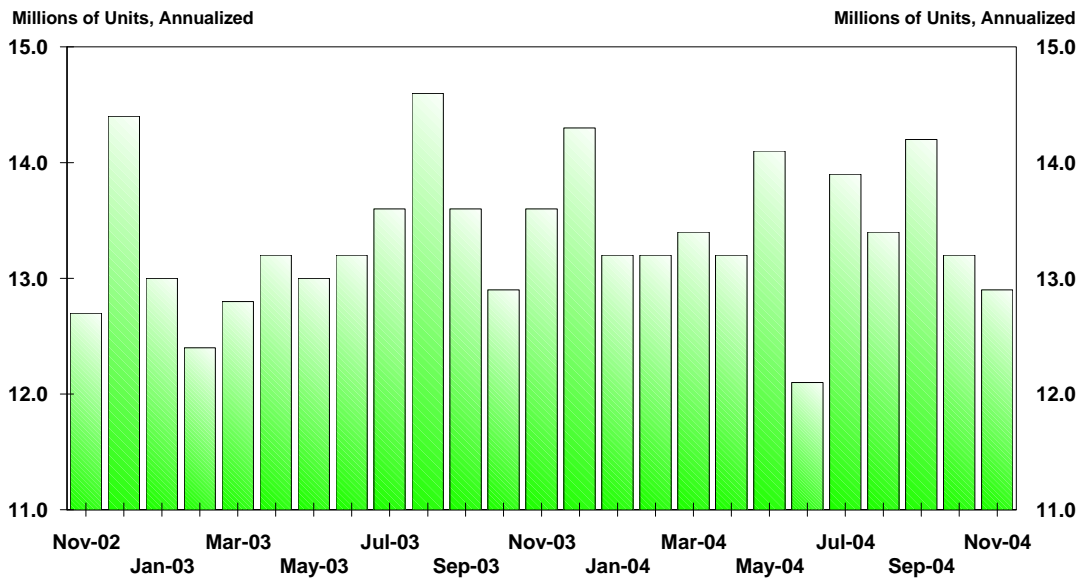
**Retail Sales**



Sources: Bureau of Economic Analysis (income and consumption) and U.S. Census Bureau (retail sales).

Domestic auto and light truck sales continued to fall in November.

**Domestic Auto and Light Truck Sales**



Source: Bureau of Economic Analysis.

The housing market remains strong, despite recent increases in interest rates. New and existing home sales were little changed in October.

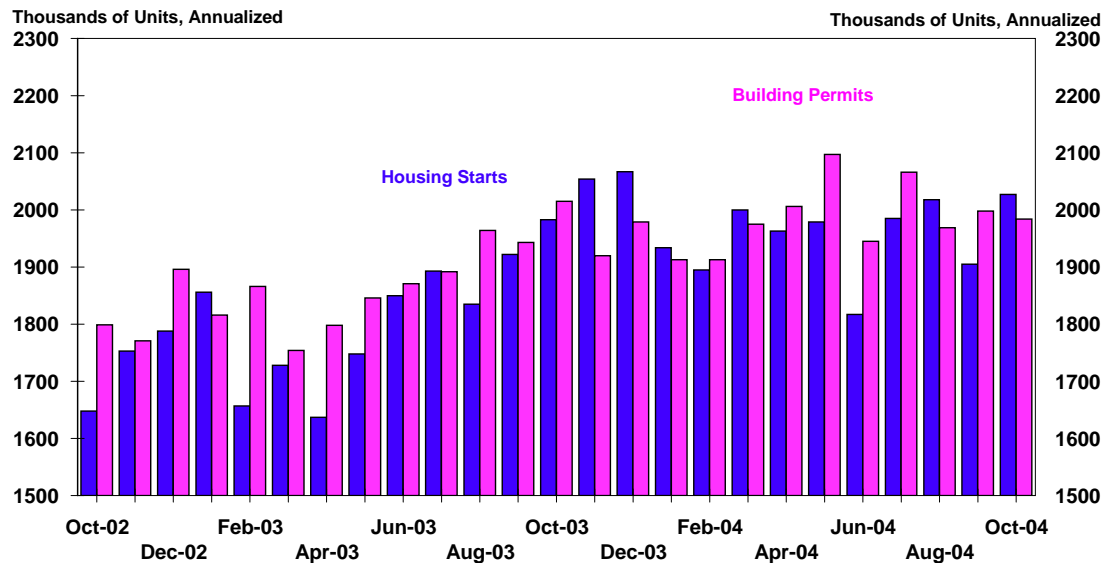
### New and Existing Home Sales



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

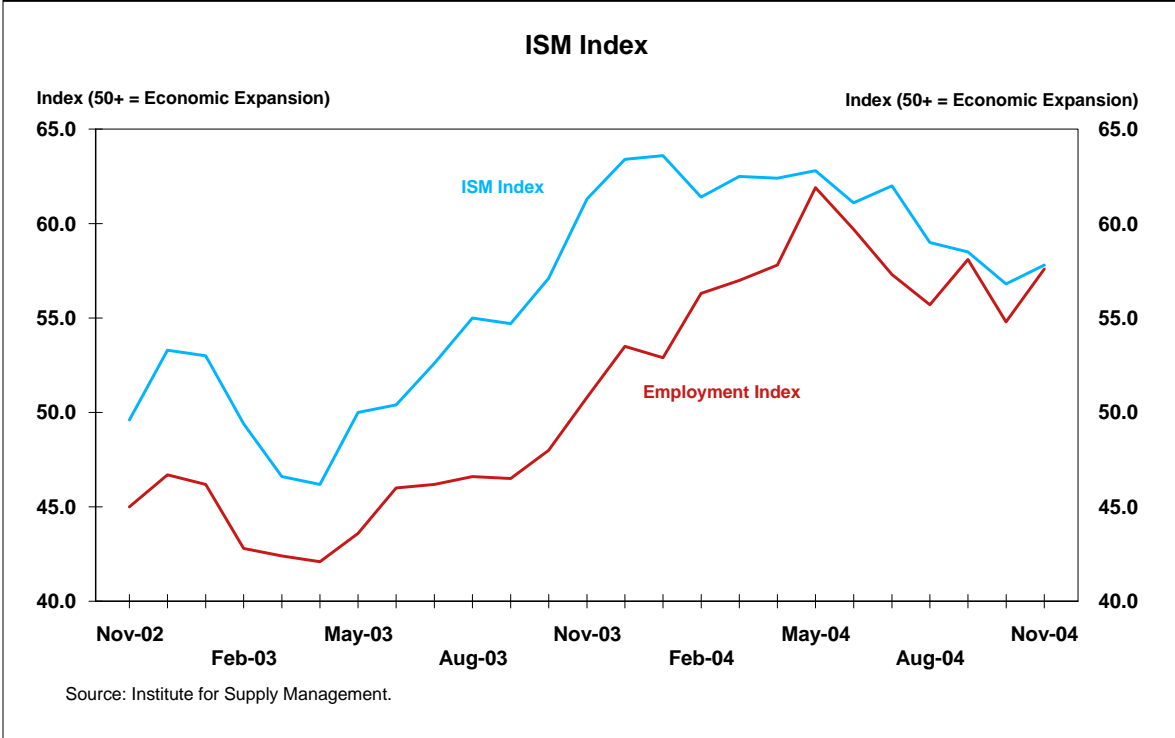
Housing starts rose in October, while building permits eased slightly.

### Housing Starts and Building Permits

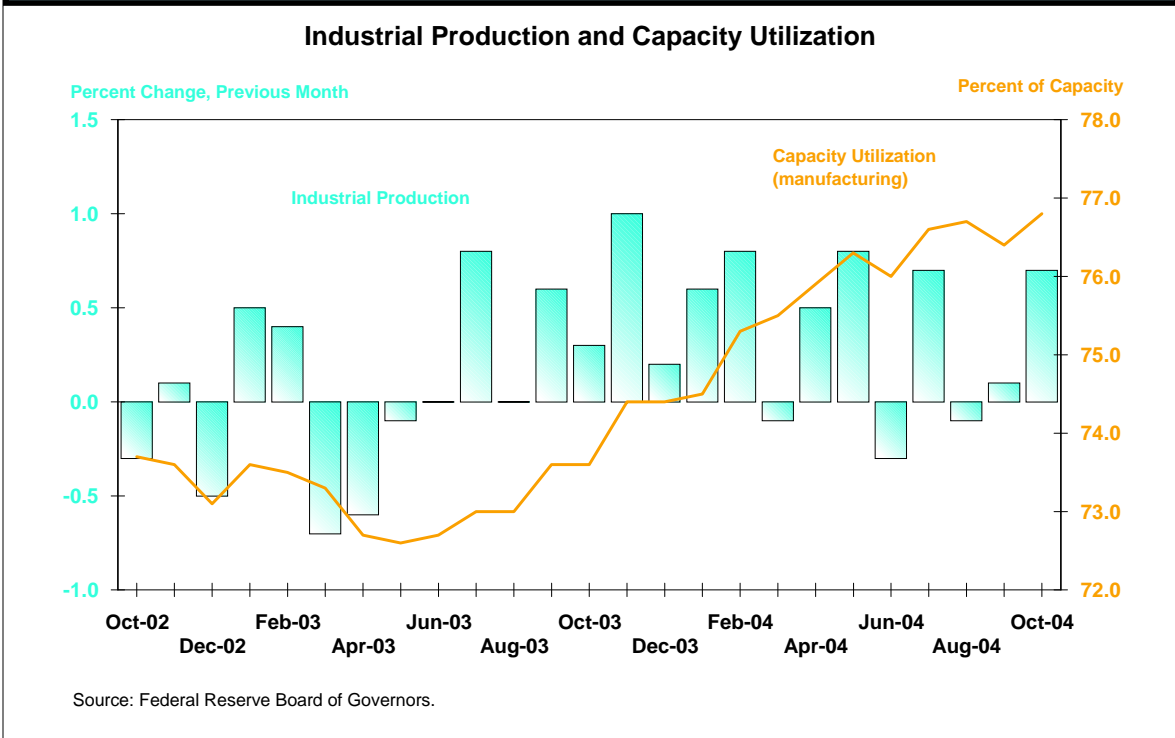


Source: U.S. Census Bureau.

According to the ISM index, the manufacturing sector continued to expand in November for its 18th straight month.

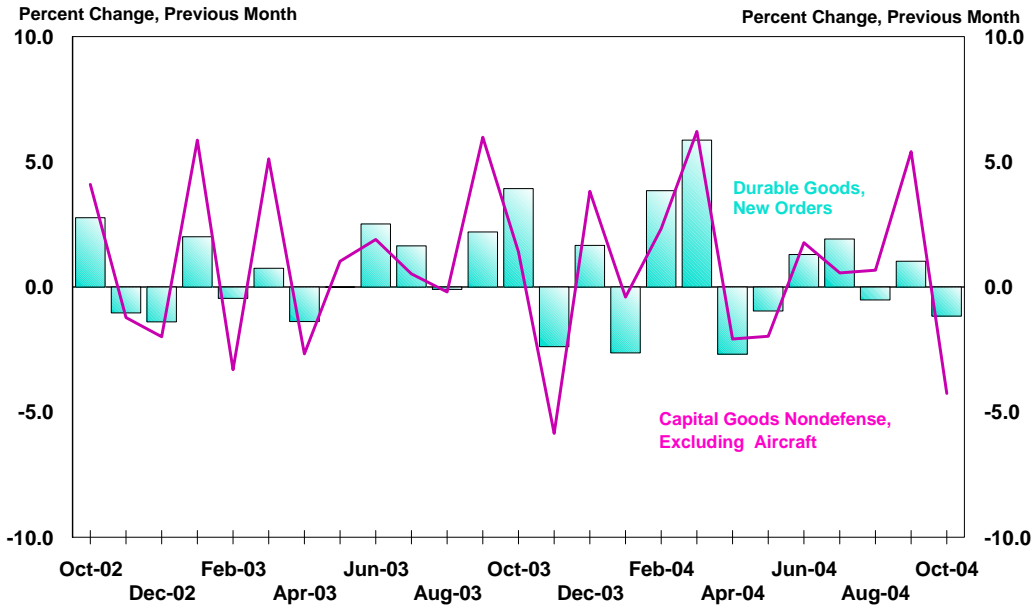


Industrial production and capacity utilization also posted gains in October.



New orders for capital goods, nondefense excluding aircraft, fell in October, but from very high levels.

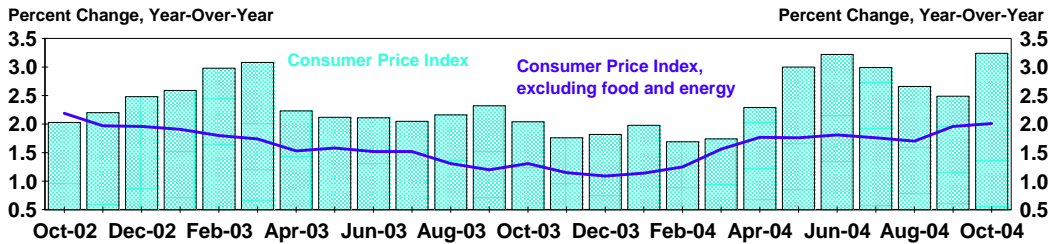
### Durable Goods Orders



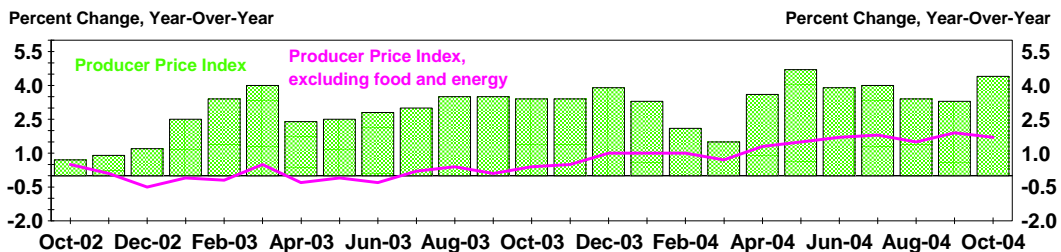
Source: U.S. Census Bureau.

Consumer and Producer prices rose in October, led by an increase in oil prices. But core rates of inflation remain moderate.

### Consumer Price Index



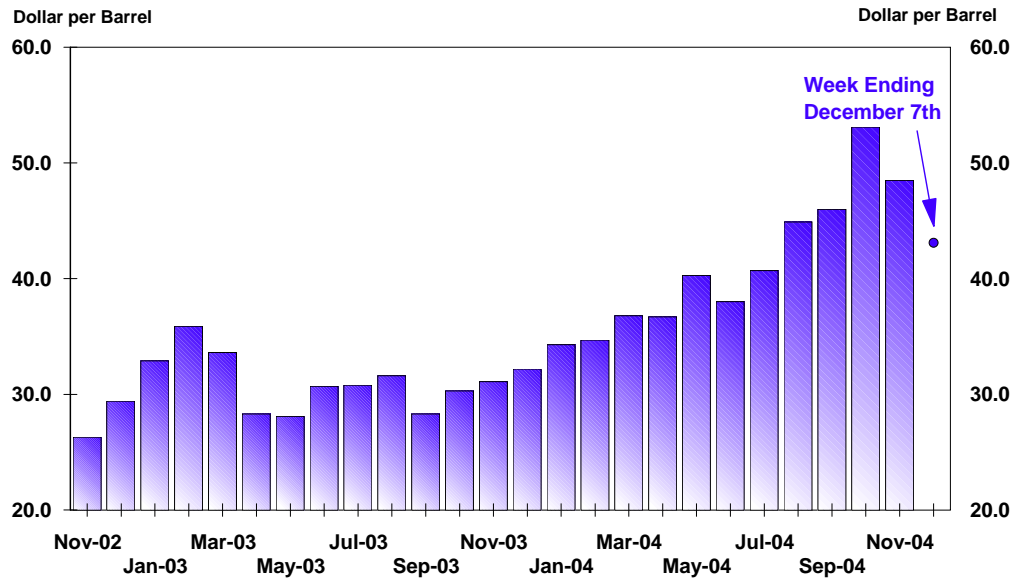
### Producer Price Index



Source: Bureau of Labor Statistics.

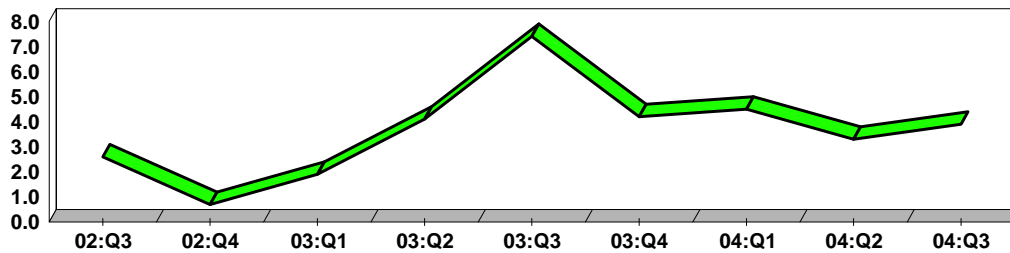
Oil prices continued to fall in November and in the first week of December.

### Domestic Spot Oil Price



Third quarter real GDP was revised upward, led by an increase in personal consumption expenditures and a slowdown in imports.

### Real GDP



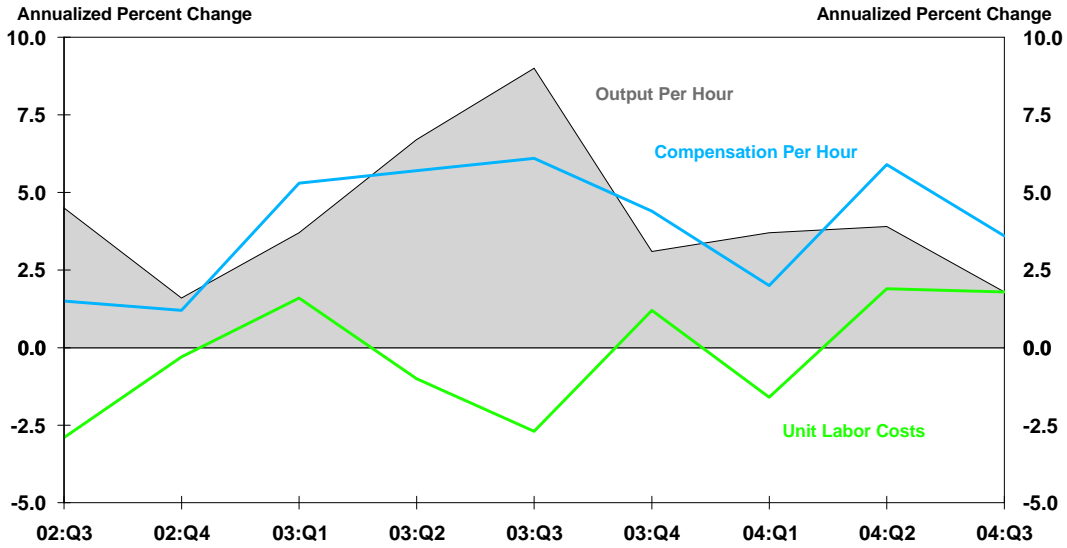
### Revisions to Third Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	3.7	3.9
Personal Consumption	4.6	5.1
Business Investment	11.7	12.9
Residential Investment	3.1	1.7
Government	1.4	1.2
Exports	5.1	6.3
Imports	7.7	6.0
Final Sales	4.2	4.9

Source: Bureau of Economic Analysis.

Productivity was slower in the third quarter, compared to the second. Compensation and unit labor costs also eased.

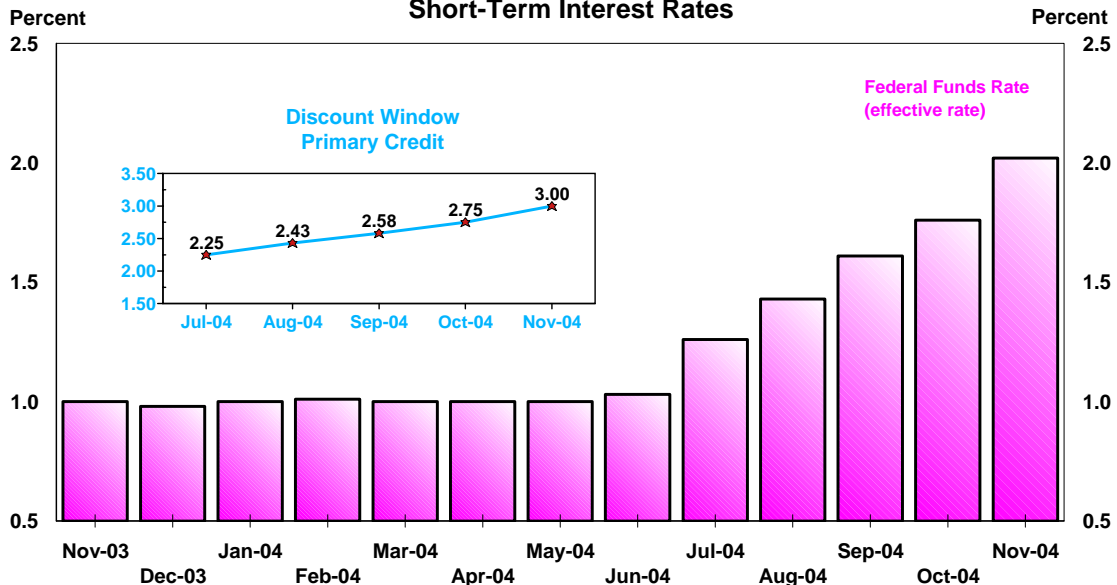
### Productivity and Costs



Source: Bureau of Labor Statistics.

Overall, the economy is improving, but the labor market needs to see continued growth in order to sustain the recovery.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors.