

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,  
FEDERAL RESERVE BANK OF BOSTON  
Current Economic Developments - February 11, 2004

Data since your previous Directors' meeting show an expanding economy. During the fourth quarter, real GDP posted a decent gain, led by growth in consumption, exports, equipment and software, inventory investment, and residential investment. Imports rose, subtracting from GDP.

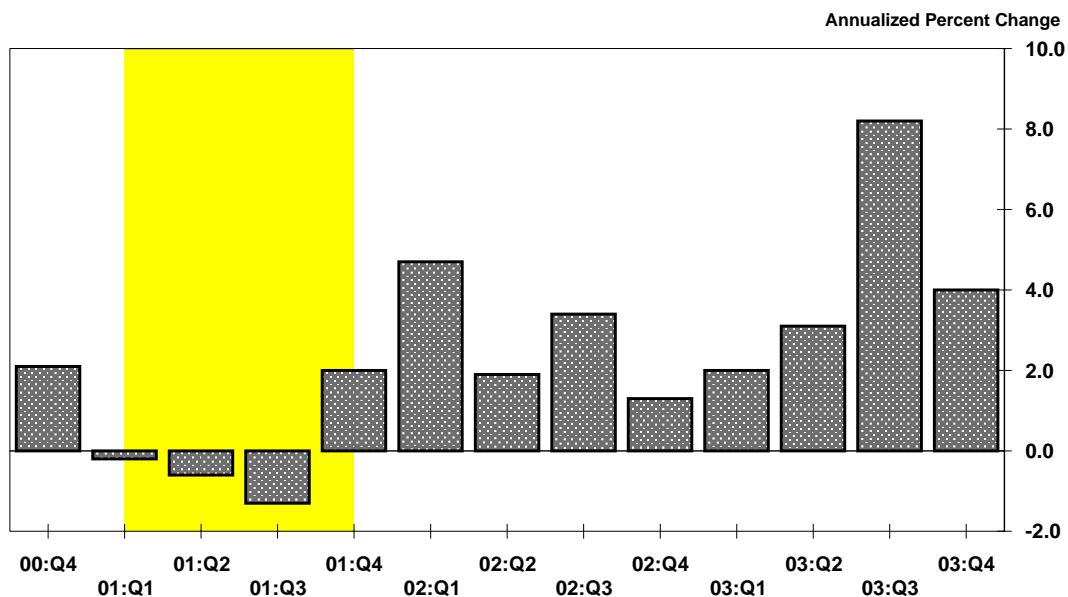
Core inflation for consumers and wholesalers remains low, and total compensation costs, measured by the ECI, edged slightly downward, as inflation for wages and salaries remained flat and the growth in benefit costs slowed.

What little data we have for 2004 suggest continued improvement in economic activity. In January, payroll employment rose and the unemployment rate edged downward. Initial claims remained in line with their recent downward trend.

Also in January, the ISM and employment indexes both posted additional increases. Consumer confidence and expectations rose. However, despite improvements in consumer attitudes, auto and light truck sales slowed.

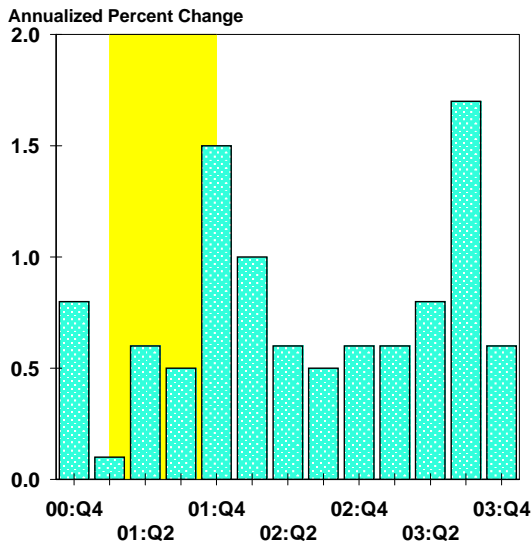
During the fourth quarter, real GDP growth slowed to about half of the third quarter pace. Still, the GDP figures portray an expanding economy, as consumers continue to spend, businesses continue to invest, and exports continue to rise.

Real Gross Domestic Product

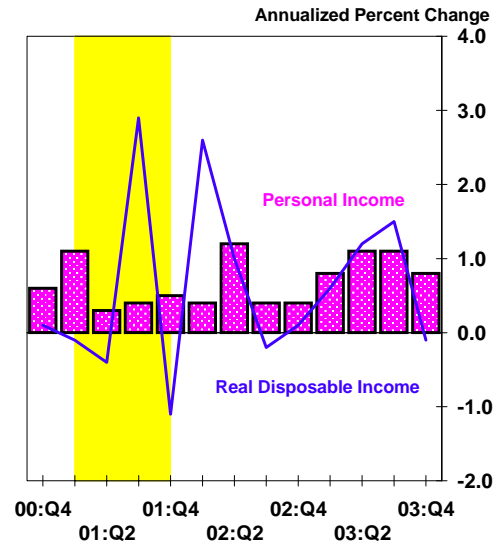


Real consumption growth in the fourth quarter slowed from its third quarter pace. But consumers continued to spend, despite a fall in real disposable income.

### Real Consumption



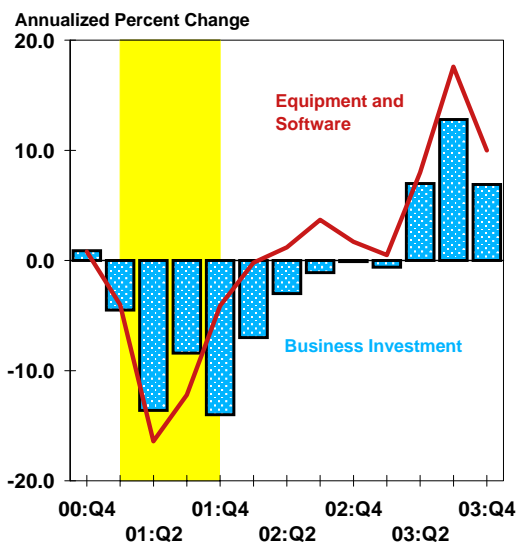
### Personal Income



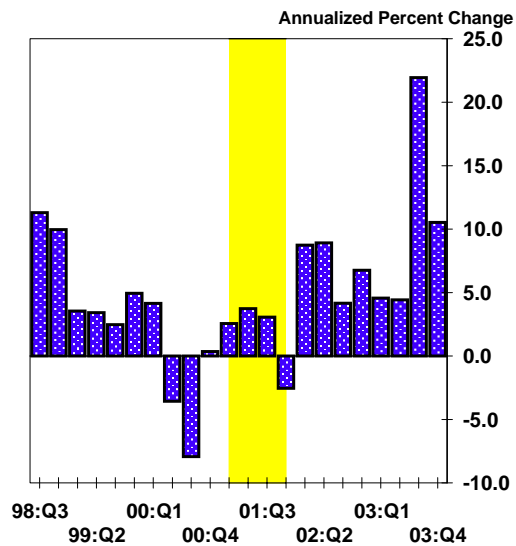
Source: Bureau of Economic Analysis.

During the fourth quarter, businesses continued to invest in equipment and software, although at a slower pace than seen in the third quarter. Residential investment posted its second largest gain since the third quarter of 1998.

### Business Investment



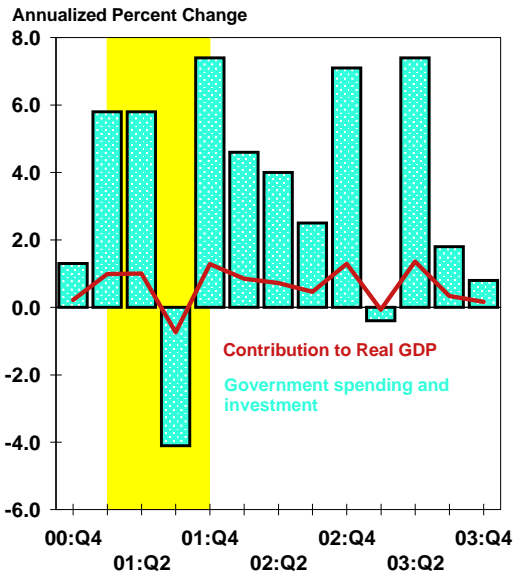
### Residential Investment



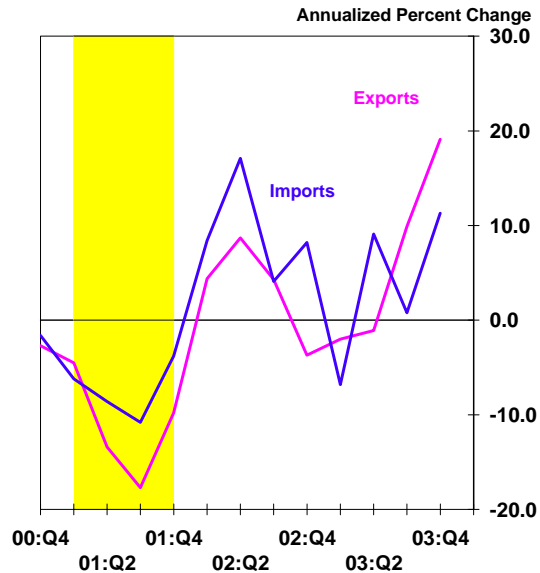
Source: Bureau of Economic Analysis.

Government spending slowed in the fourth quarter, contributing less than two-tenths of a percentage point to real GDP. Growth in exports nearly doubled in the fourth quarter, compared to the third quarter, while imports rose, subtracting from real growth.

### Government Spending



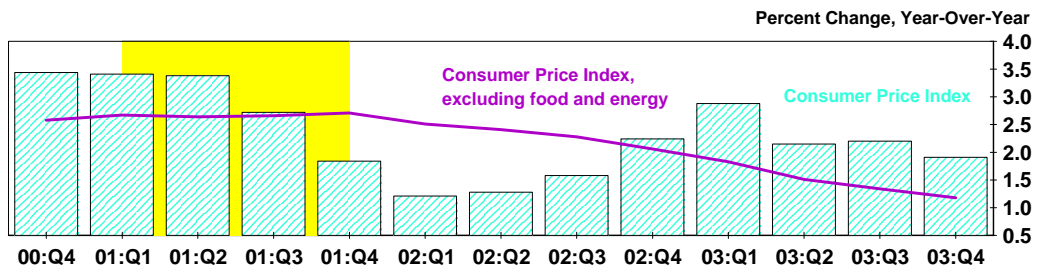
### Exports and Imports



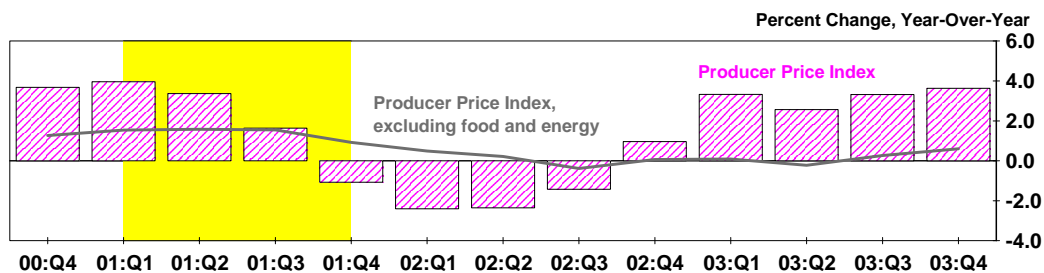
Source: Bureau of Economic Analysis.

During the fourth quarter, consumer prices slowed somewhat, compared to the third quarter, while producer prices rose slightly. Core inflation at both the retail and wholesale levels remains extremely low.

### Consumer Price Index



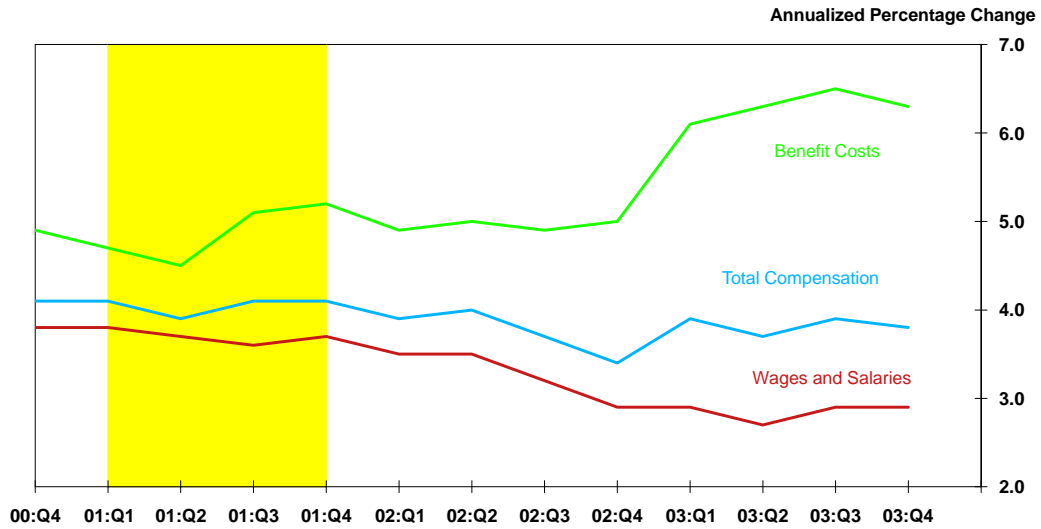
### Producer Price Index



Source: Bureau of Labor Statistics.

Employee costs decelerated during the fourth quarter, as wages and salaries remained flat and benefit costs decreased.

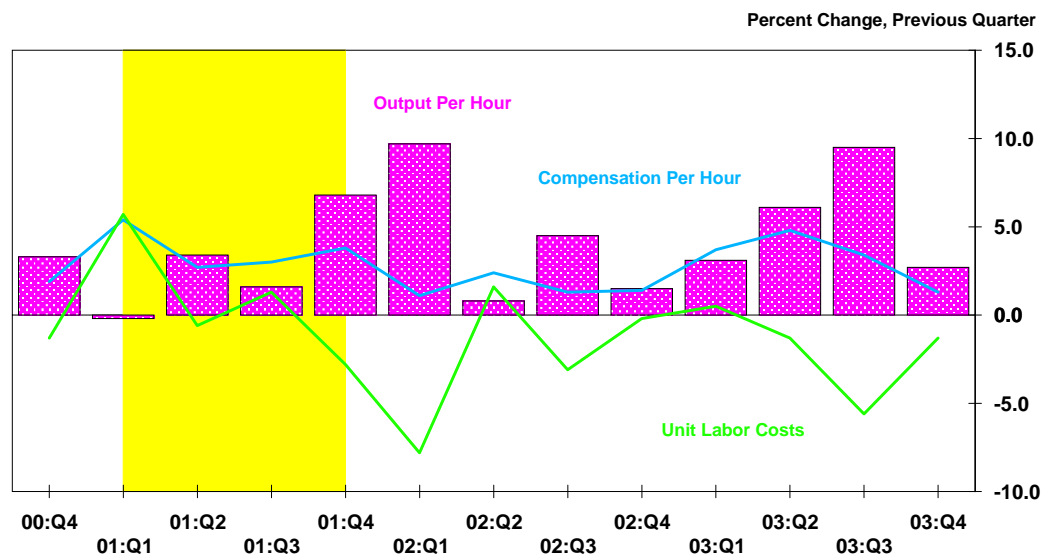
Employment Cost Index



Source: Bureau of Labor Statistics.

Productivity slowed in the fourth quarter, compared to the third, still unit labor costs remain low.

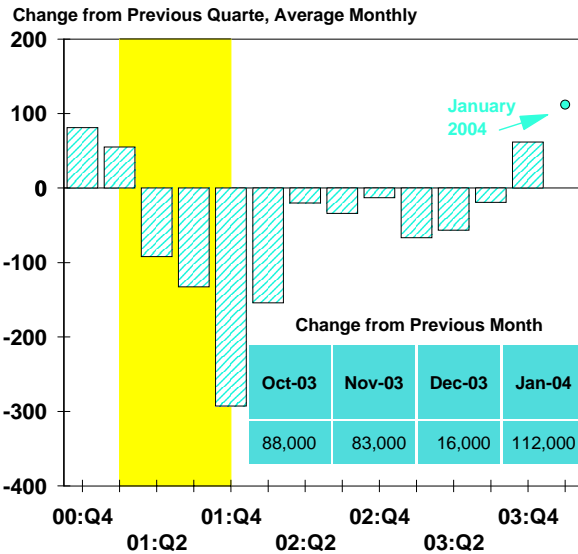
Productivity and Costs



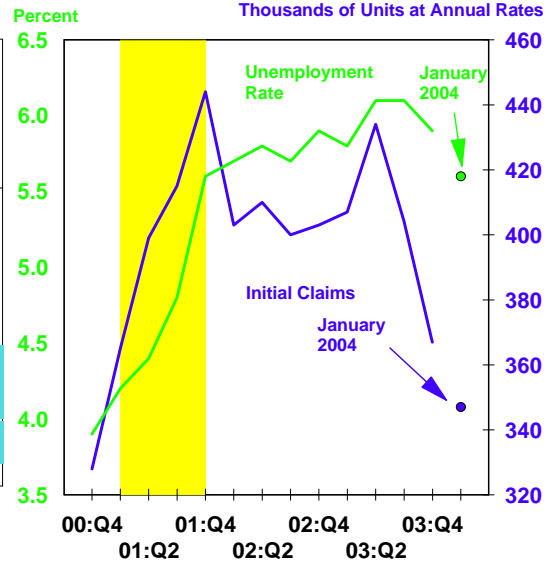
Source: Bureau of Labor Statistics.

Although the labor market is still lagging behind the rest of the economy, payroll employment continued to expand modestly in January, while the unemployment rate and initial claims continued to fall.

### Nonfarm Payroll Employment



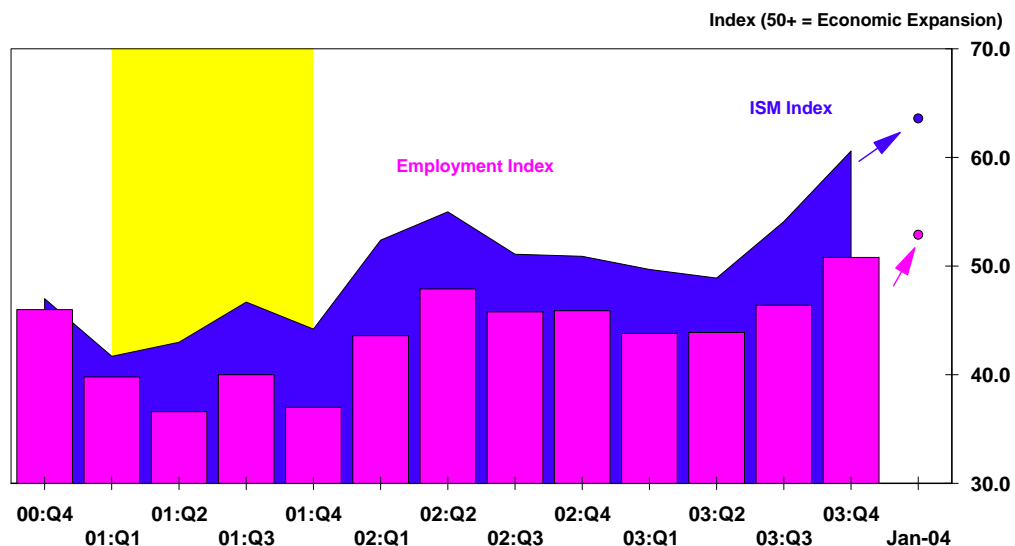
### Unemployment Rate and Initial Claims



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

The ISM index continued to rise in January, followed by the employment index.

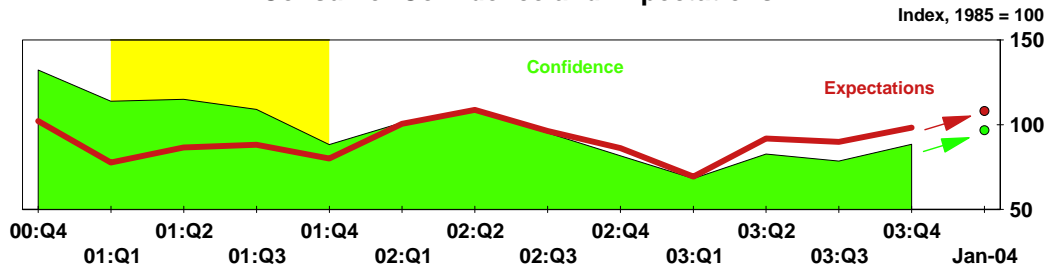
### ISM Index



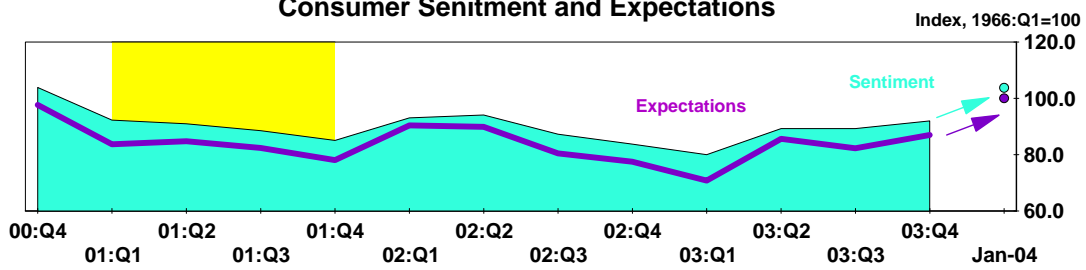
Source: National Association of Purchasing Management.

Consumer attitudes continued to improve in January, as confidence and expectations rose.

### Consumer Confidence and Expectations



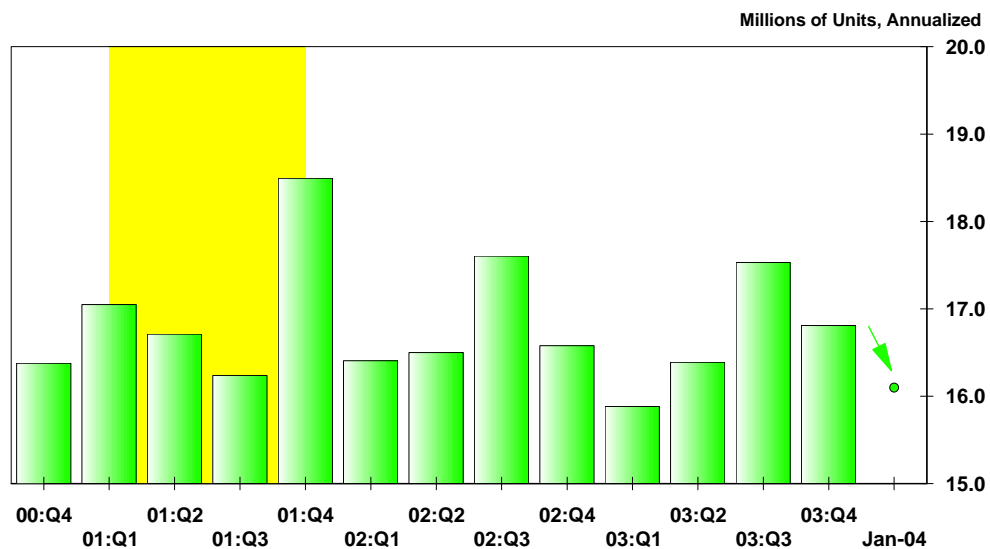
### Consumer Sentiment and Expectations



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

Despite improvements in consumer attitudes, auto and light truck sales slowed somewhat in January, compared to the fourth quarter.

### Total Auto and Light Truck Sales



Source: Federal Reserve, Board of Governors.

Overall, the economy is growing. Business investment is improving. Still, businesses need to hire more workers before the economic recovery is considered fully engaged.

