

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - January 8, 2004

Data released since your last Directors' meeting show the economic recovery is gaining strength as the labor market and manufacturing sector continue to improve, while consumers expect even further improvement.

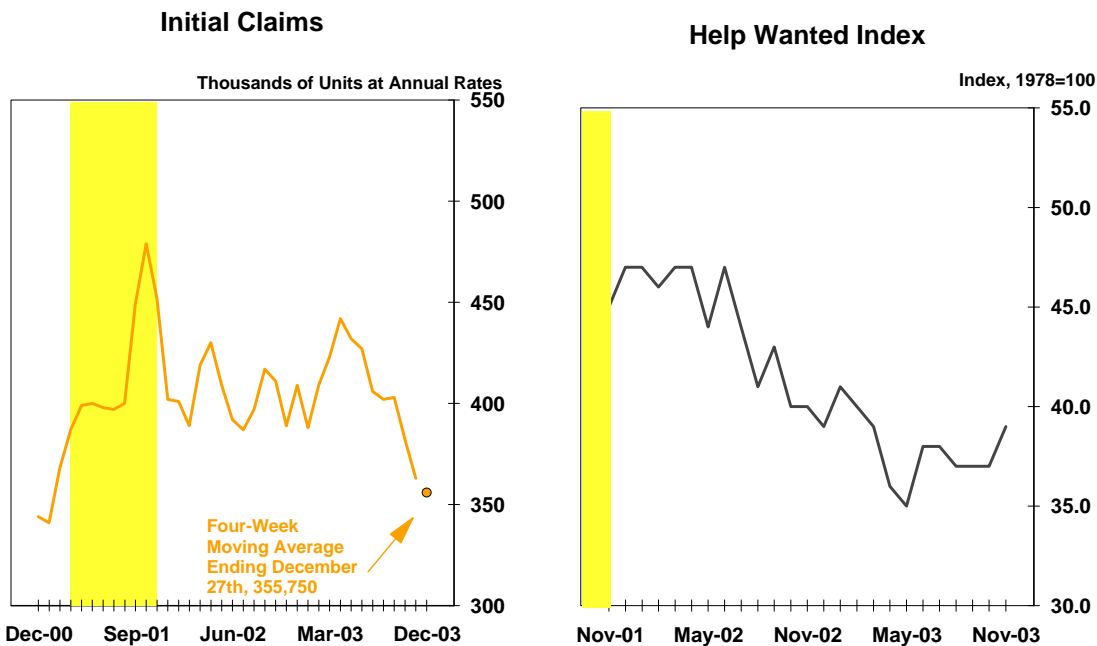
The latest four-week moving average of initial claims continued to decline and remained below 400, hitting their lowest level in nearly three years. Also, the help wanted index increased in November for the first time in five months.

Consumer attitudes were mixed in December, as total confidence and sentiment fell, but expectations rose. Real disposable income and consumption increased in November. And auto and light truck sales posted another large gain in December.

The housing market remained strong in November, as housing starts reached a near twenty-year high. Although new and existing home sales continued to fall in November, their levels remain high.

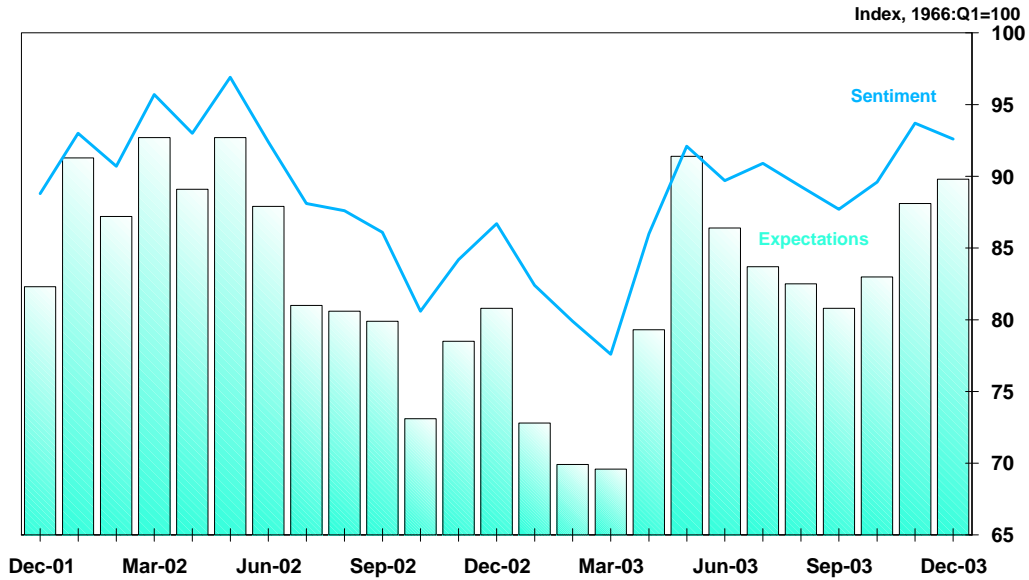
In the business sector, December's ISM index showed its best growth in 20 years. Industrial production posted a large gain in November, while durable goods fell. The index of leading indicators continued to increase in November, indicating sustained economic growth.

Initial claims continue to edge down in December, marking their lowest level since February 2001. In November, the help wanted index rose to it's highest level since March 2003.



Consumer sentiment edged down in December, although the overall level remains consistent with moderate consumption growth. Expectations increased for the fourth consecutive month.

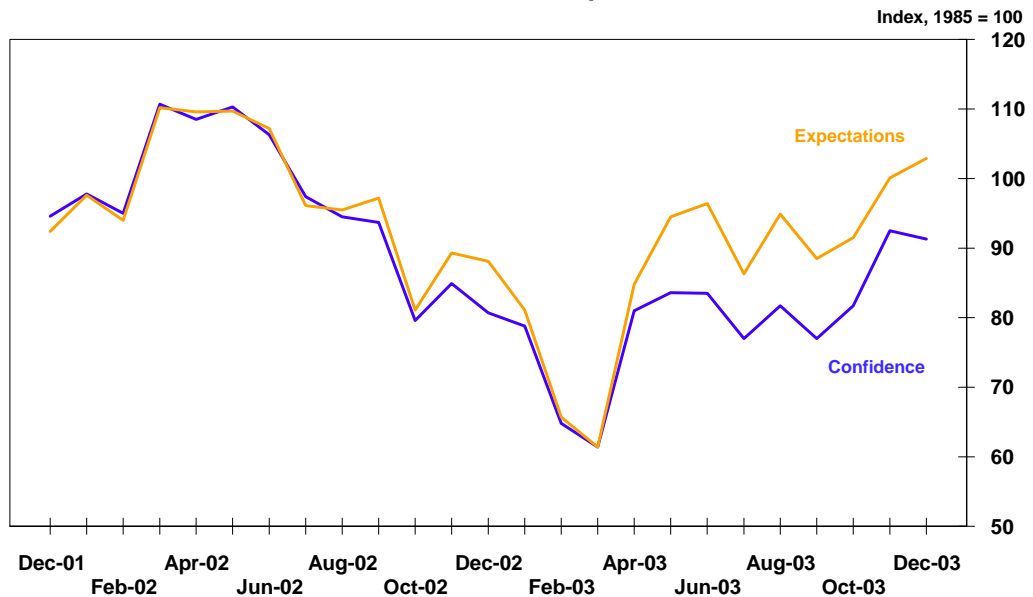
Consumer Sentiment and Expectations



Source: University of Michigan.

In December, consumer confidence edged down slightly, while expectations rose to its highest level in over a year.

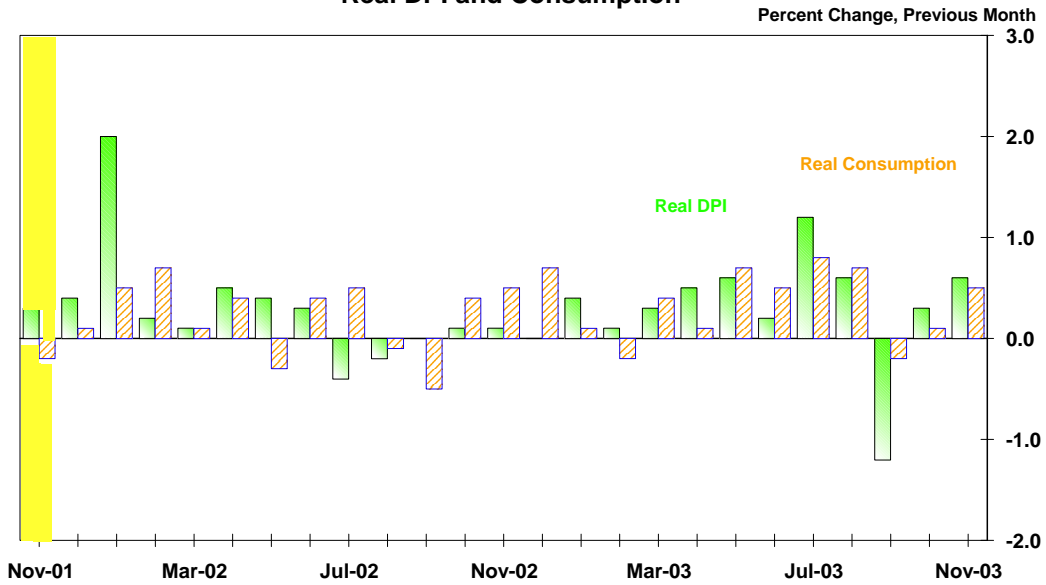
Confidence and Expectations



Source: The Conference Board.

Real disposable income and consumption rose in November as consumers continued to spend.

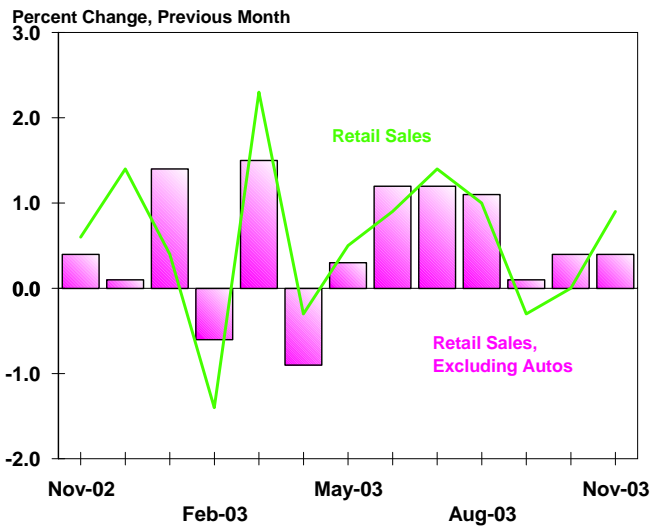
Real DPI and Consumption



Source: Bureau of Economic Analysis.

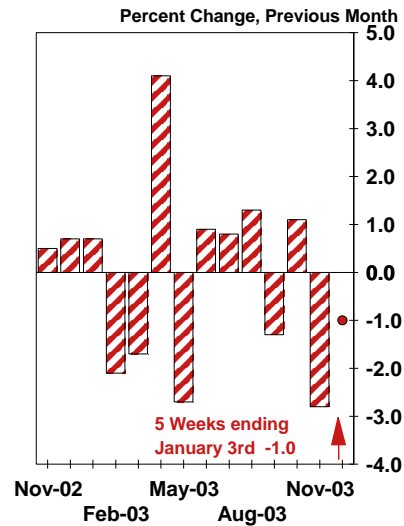
Retail sales rose in November while December's Redbook estimate, although negative, shows some improvement.

Retail Sales



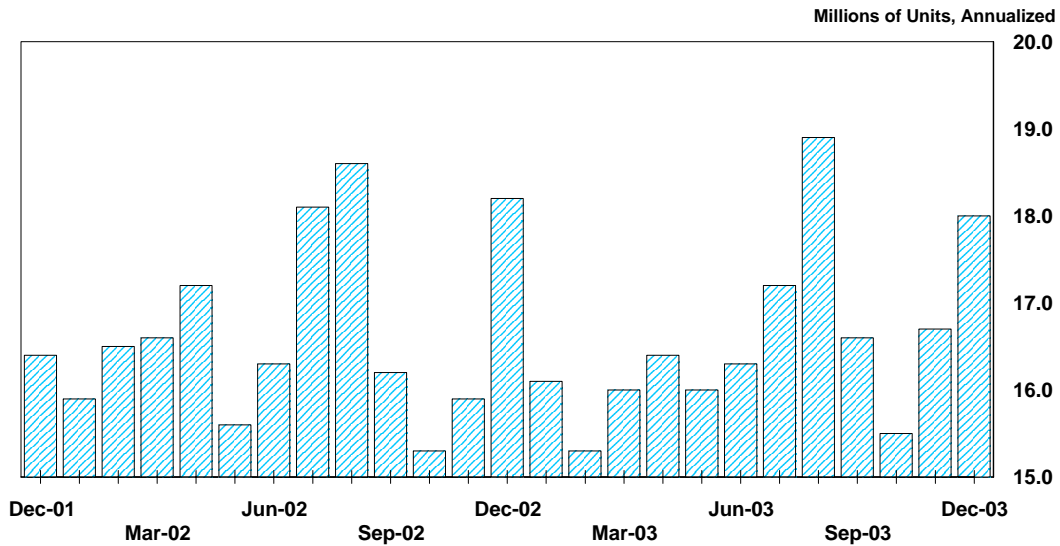
Source: U.S. Census Bureau (retail sales) and Instinet Research (redbook).

Redbook, Retail Sales



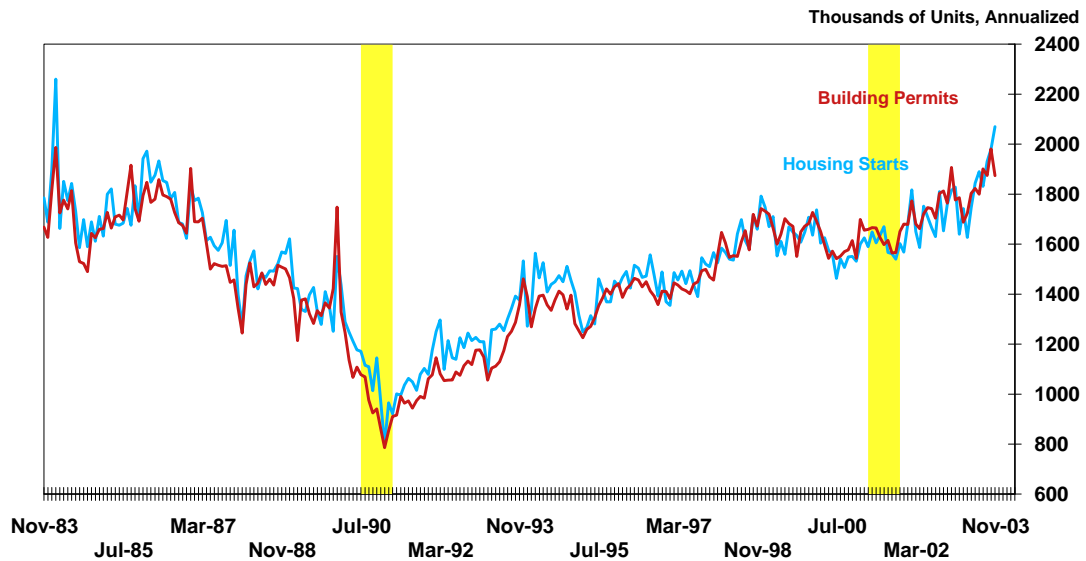
Also, total auto and light truck sales rose for the third straight month in December.

Total Auto and Light Truck Sales

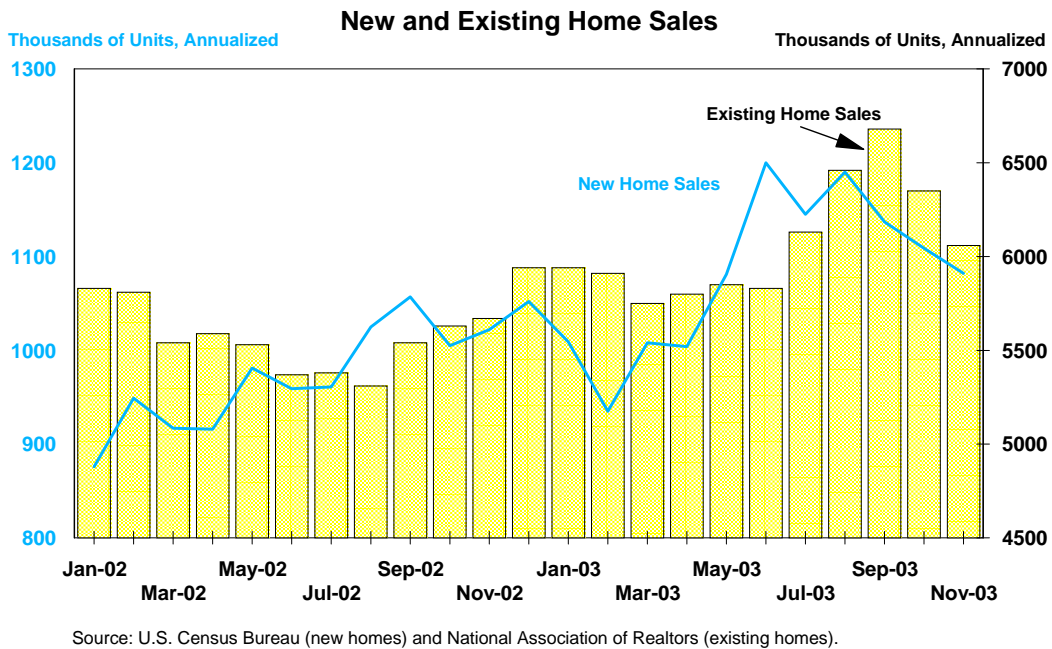


Housing starts rose to their highest level in nearly twenty years, and although building permits edged down in November, their level remains high.

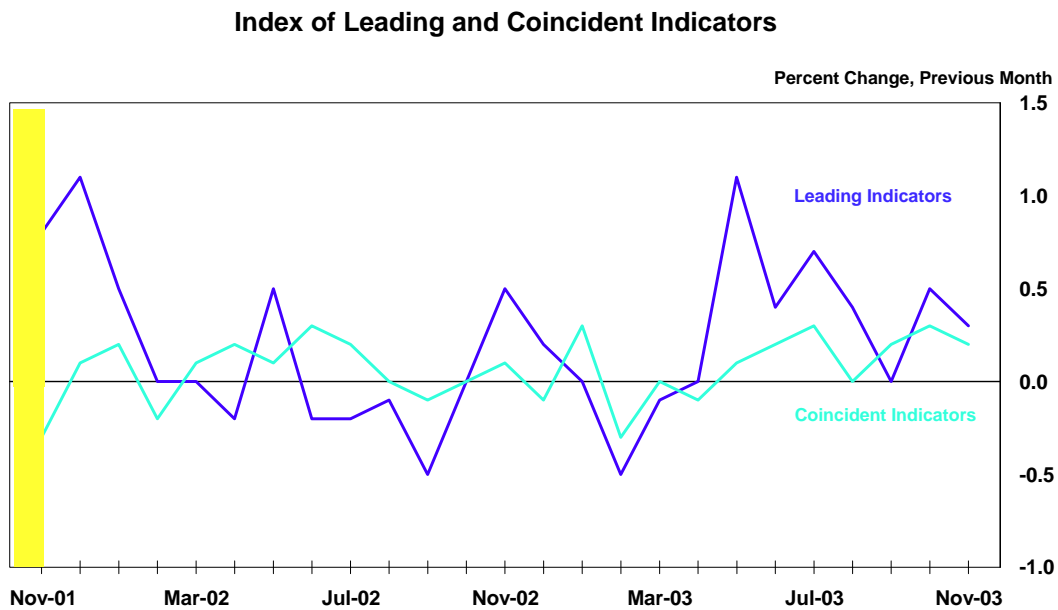
Housing Starts and Building Permits



However, new home sales fell for the third consecutive month in November and existing home sales fell for the second straight month.

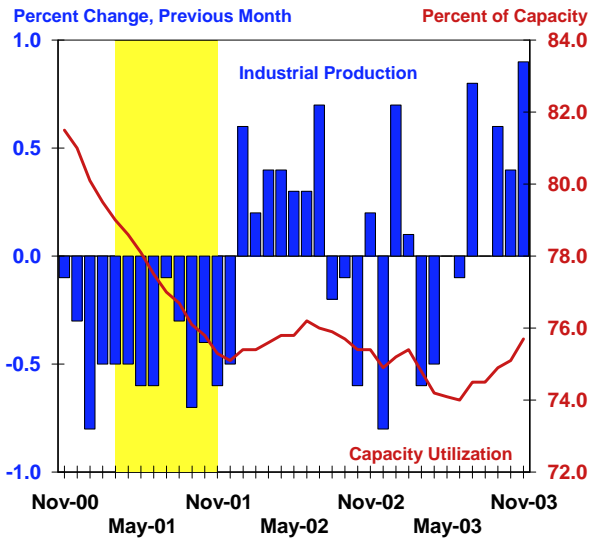


The leading indicators continued to rise in November, but at a slower pace than in October. November's increase was led by initial claims and consumer expectations.

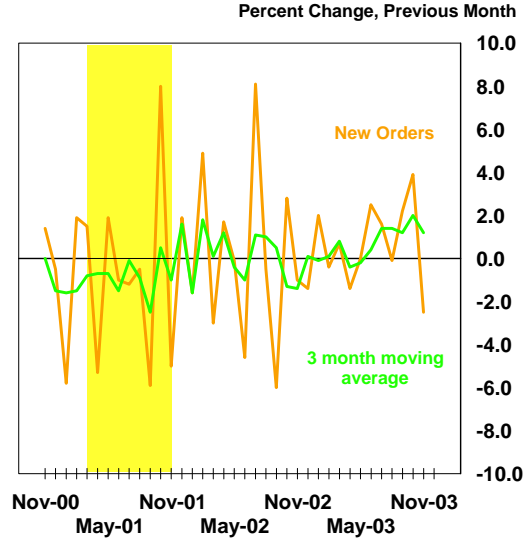


Industrial production rose in November, posting its largest gain in four years. New orders for durable goods declined in November after several months of steady growth.

Industrial Production and Capacity Utilization



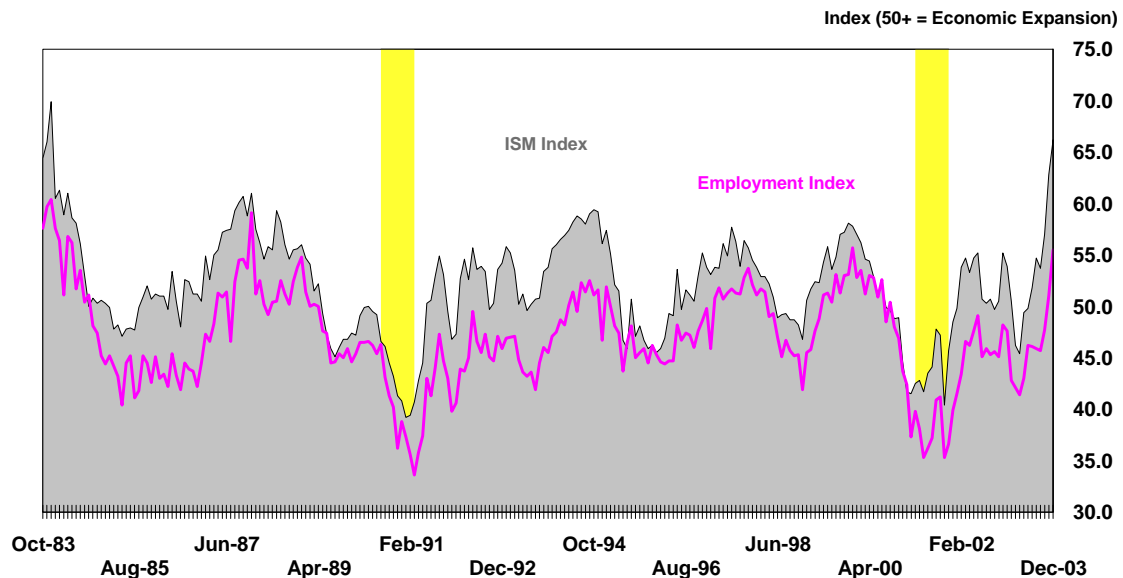
New Orders for Durable Goods



Source: Federal Reserve Board of Governors (industrial production) and U.S. Census Bureau (new orders).

In December, the ISM index remained above 50 for the sixth consecutive month, marking its best growth in 20 years. The employment index stayed above 50 for the second consecutive month.

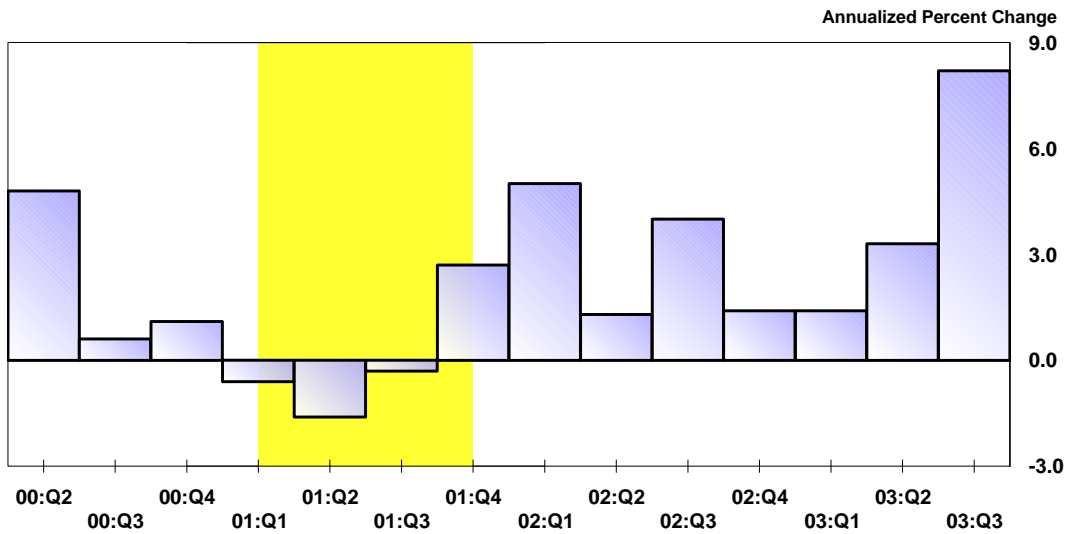
ISM Index



Source: National Association of Purchasing Management.

Real GDP remained at 8.2% for the final estimate in the third quarter, reflecting an upward revision to personal consumption expenditures that was offset by downward adjustments to private investment.

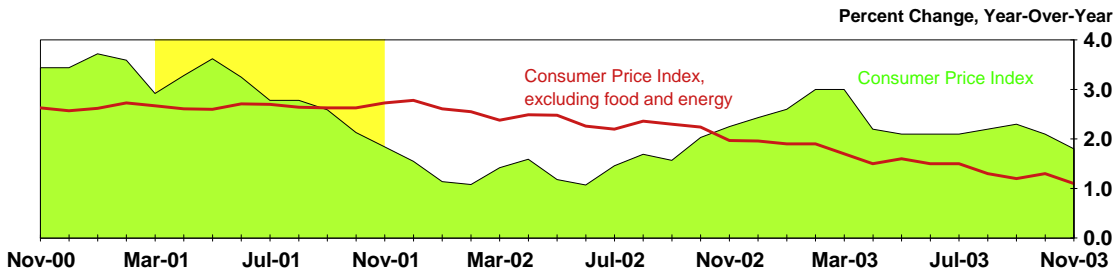
Real Gross Domestic Product



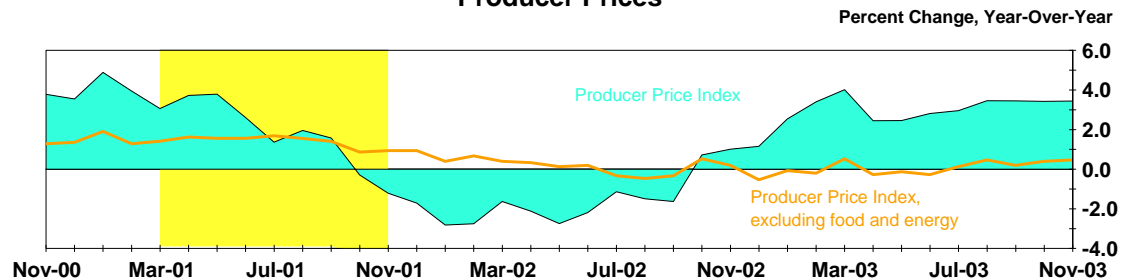
Source: Bureau of Economic Analysis.

Inflation remains moderate, especially in core prices.

Consumer Prices



Producer Prices



Source: Bureau of Labor Statistics.

Overall, the economy continues to grow, as the labor market, consumer expectations, and the manufacturing sector continue to improve. However, concerns about labor market growth and future consumer spending remain.

