

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

Data released since your last Directors' meeting show the economy continued to expand in the second quarter of 2004.

In the labor market, June non-farm payrolls posted a gain, although the gain was smaller than in the previous four months. The latest four-week moving average of initial claims remains below 350, signaling further improvement in the job market.

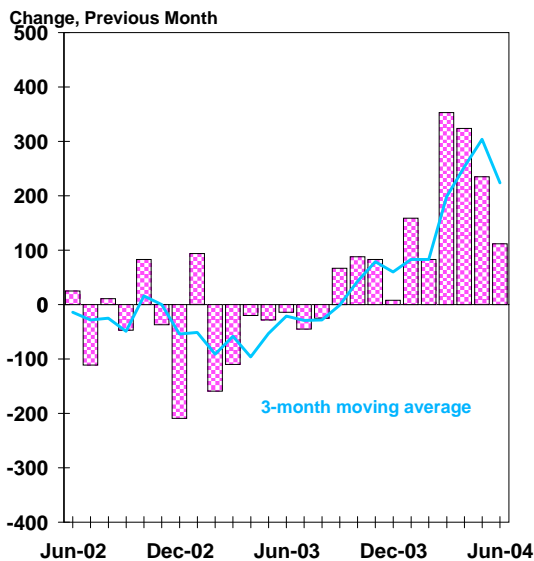
Consumer attitudes improved in June as confidence increased to its highest level in two years. Real consumption increased in May along with retail sales, however June's auto sales fell. In the housing market, new and existing home sales reached record highs in May. Housing starts edged down in May, but remain at historically high levels.

Inflation has increased in recent months mainly as a result of high energy prices. Absent further increases in energy prices, the increase in inflation should prove temporary.

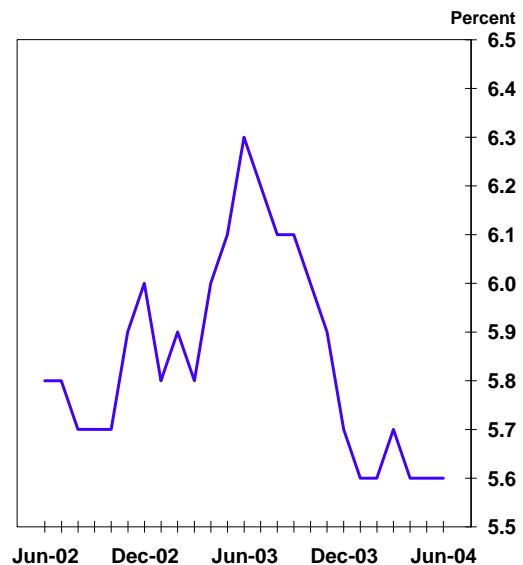
In the business sector, May's leading indicators continued to signal an expansion. Industrial production saw its largest one month increase in over five years in May. However, the U.S. trade deficit hit another record gap in April as imports increased sharply.

In June, additions to non-farm payrolls slowed to 112,000, their slowest pace in four months. The unemployment rate held steady at 5.6% for the third consecutive month.

Nonfarm Payroll Employment



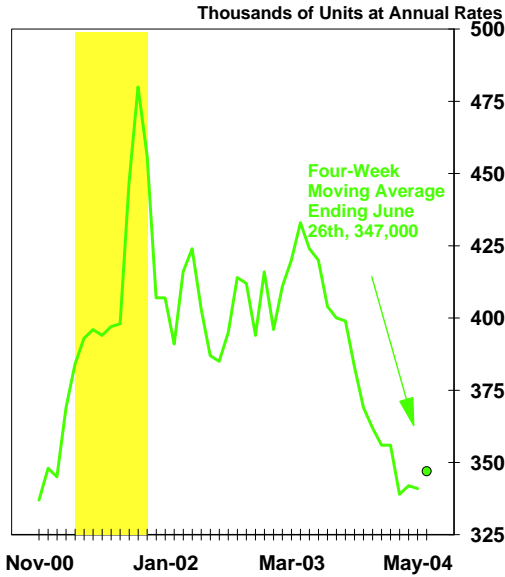
Unemployment Rate



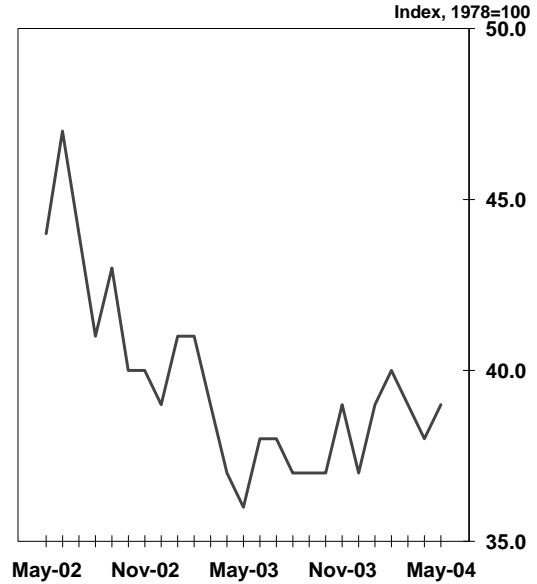
Source: Bureau of Labor Statistics.

The latest four-week moving average of initial claims hovered below 350. The help wanted index increased one point in May after declining in the previous three months.

Initial Claims



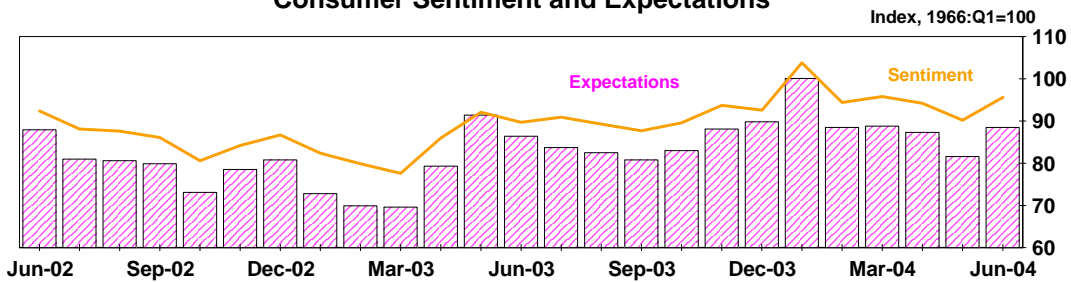
Help Wanted Index



Source: Department of Labor, Employment and Training Administration (claims) and The Conference Board (help wanted).

Consumer attitudes improved in June as consumer confidence rose 8.8 points to 101.9, the highest level since June 2002.

Consumer Sentiment and Expectations

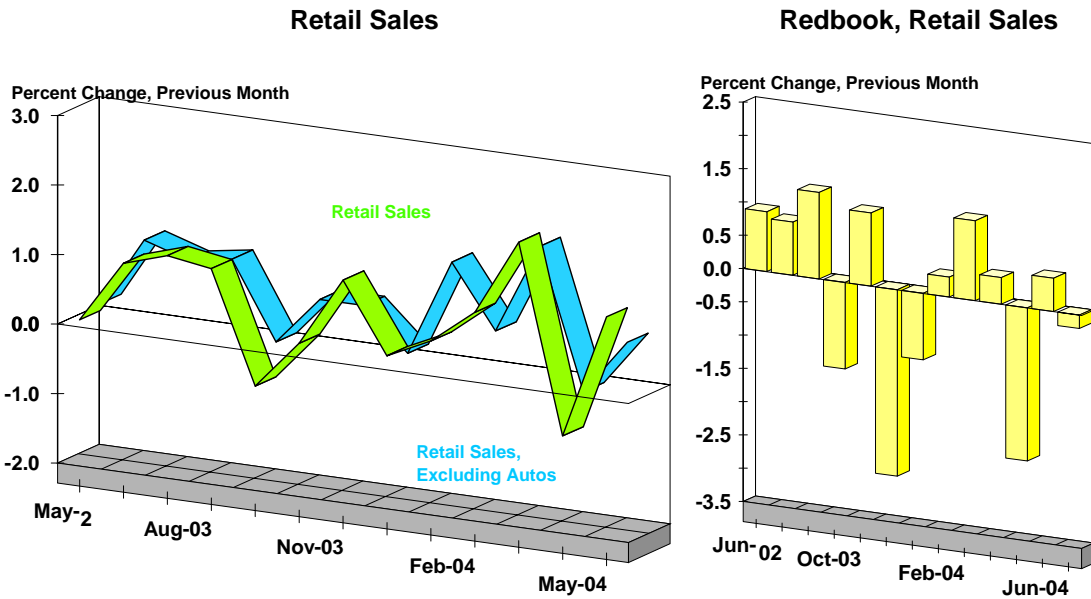


Confidence and Expectations



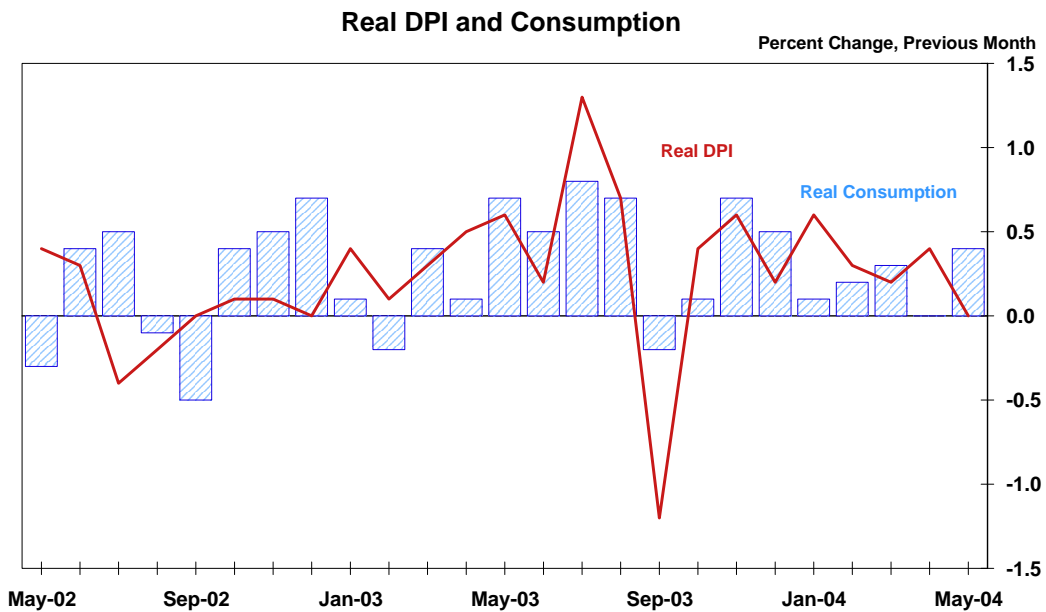
Source: University of Michigan (sentiment) and The Conference Board (confidence).

Retail sales posted a gain in May as auto sales and gasoline prices rose. Redbook sales, however, fell 0.2% in June.



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

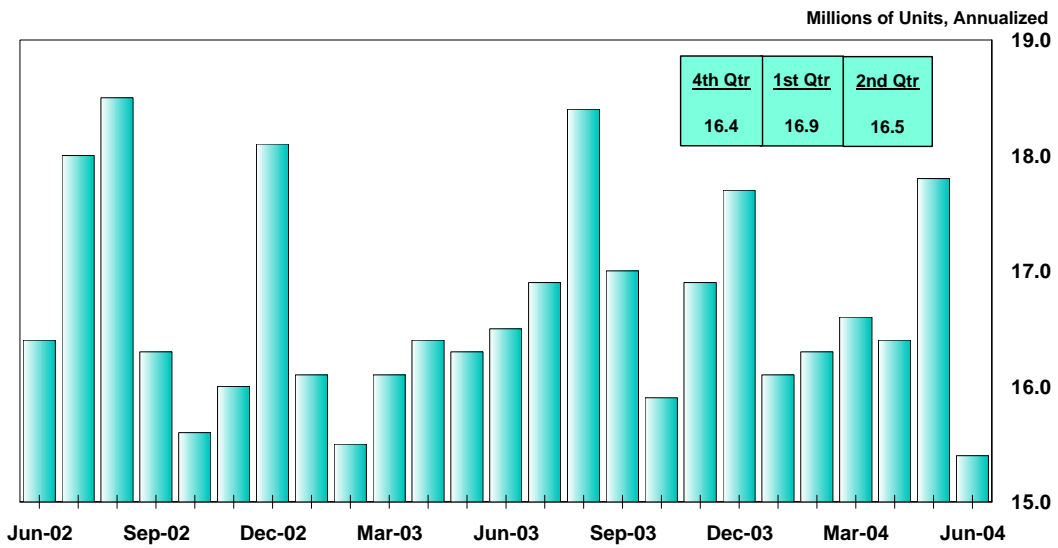
Real disposable income remained unchanged in May, but real consumption rose as consumers continued to spend.



Source: Bureau of Economic Analysis.

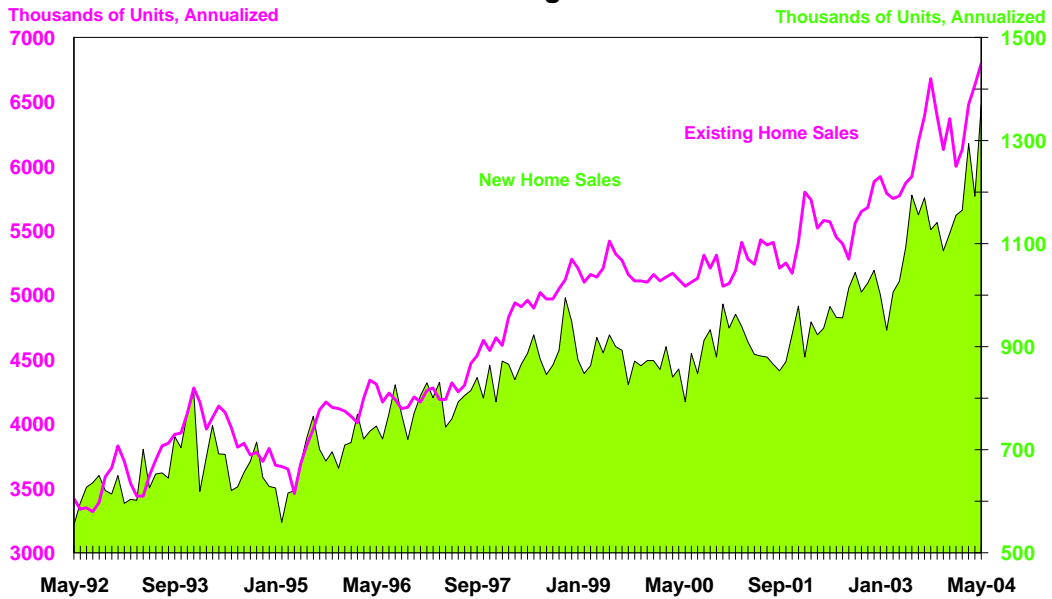
Total auto and truck sales fell in June, although the second quarter average remains in line with the first quarter average.

Total Auto and Light Truck Sales



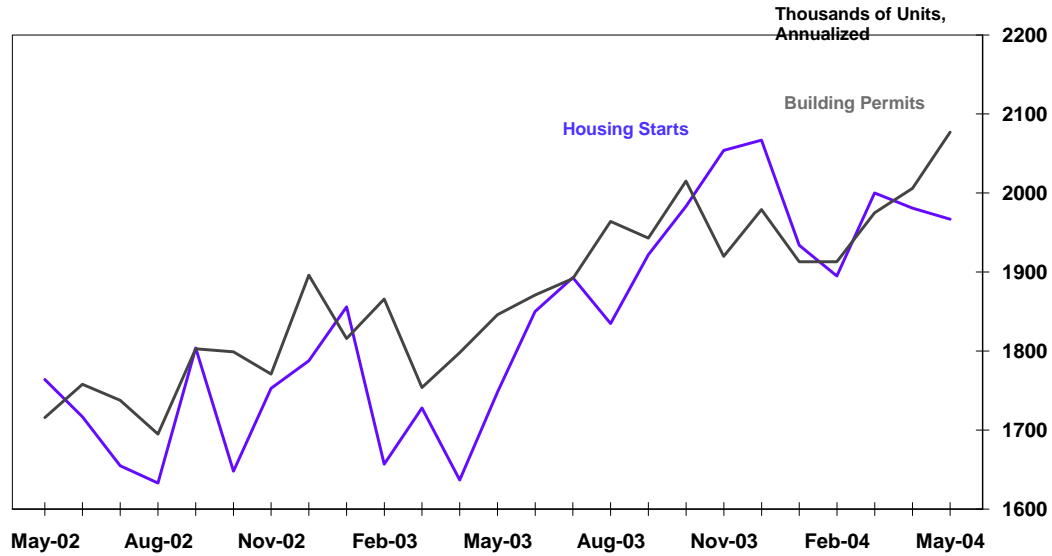
New and existing home sales increased to record levels in May, with new home sales rising 14.8% and existing home sales rising 2.6%, compared to the previous month.

New and Existing Home Sales



Although housing starts edged down, building permits rose and both remain near twenty-year highs.

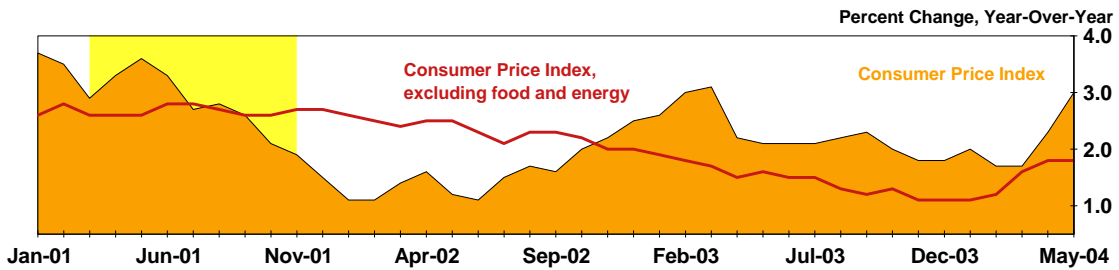
Housing Starts and Building Permits



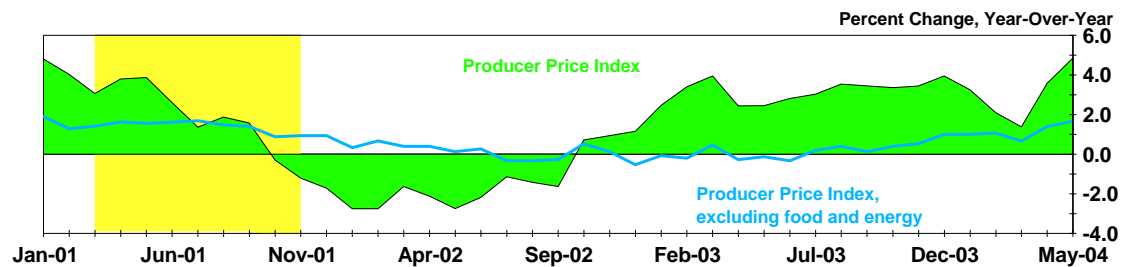
Source: U.S. Census Bureau.

Consumer and producer prices increased in May at their fastest paces in over a year. May's increase was due mostly to rising food and energy costs.

Consumer Prices



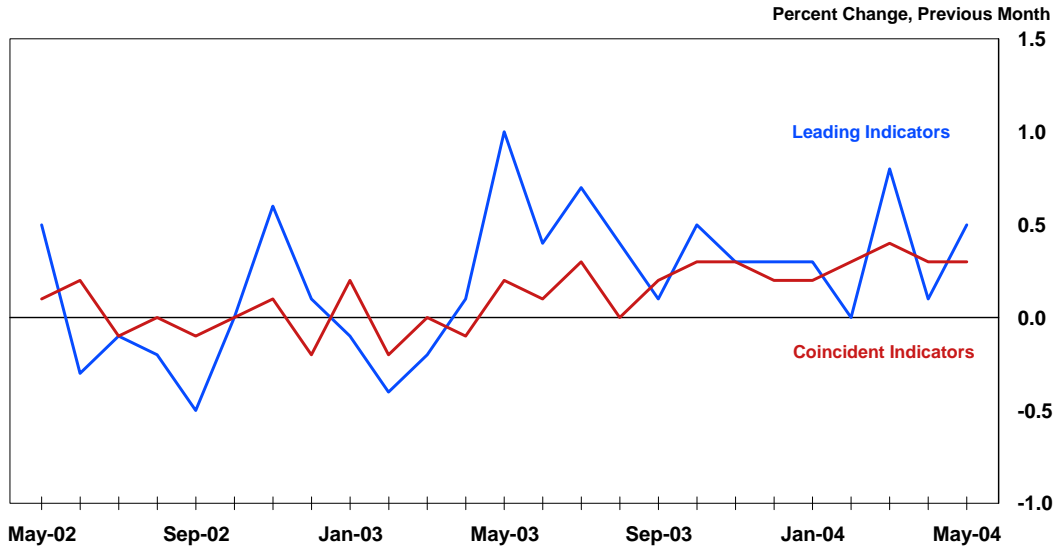
Producer Prices



Source: Bureau of Labor Statistics.

In the business sector, the index of leading indicators remained strong, increasing 0.5% in May.

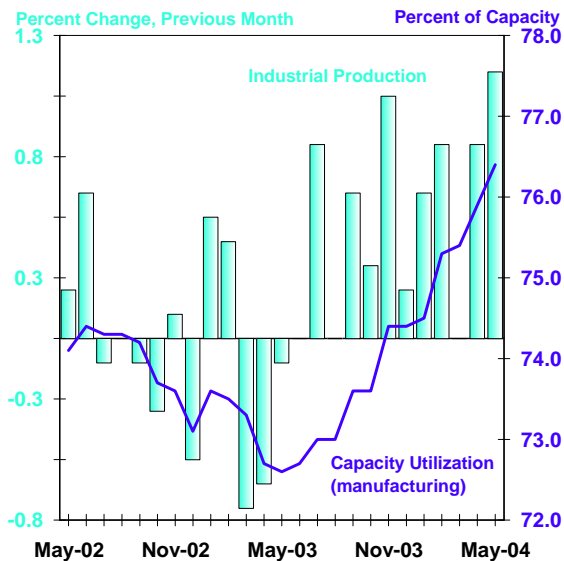
Index of Leading and Coincident Indicators



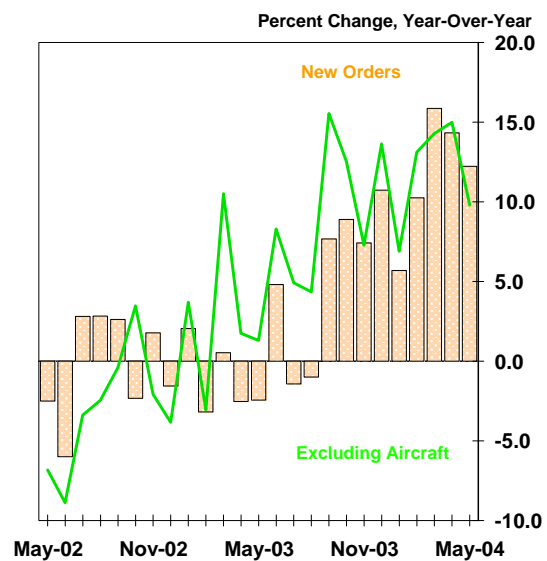
Source: The Conference Board.

In May, industrial production rose 1.1%, its biggest one-month increase since August 1998, and capacity utilization rose to its highest level in over three years. Durable goods orders also rose in May, on a year-over-year basis, although at a slower pace than in the previous two months.

Industrial Production and Capacity Utilization



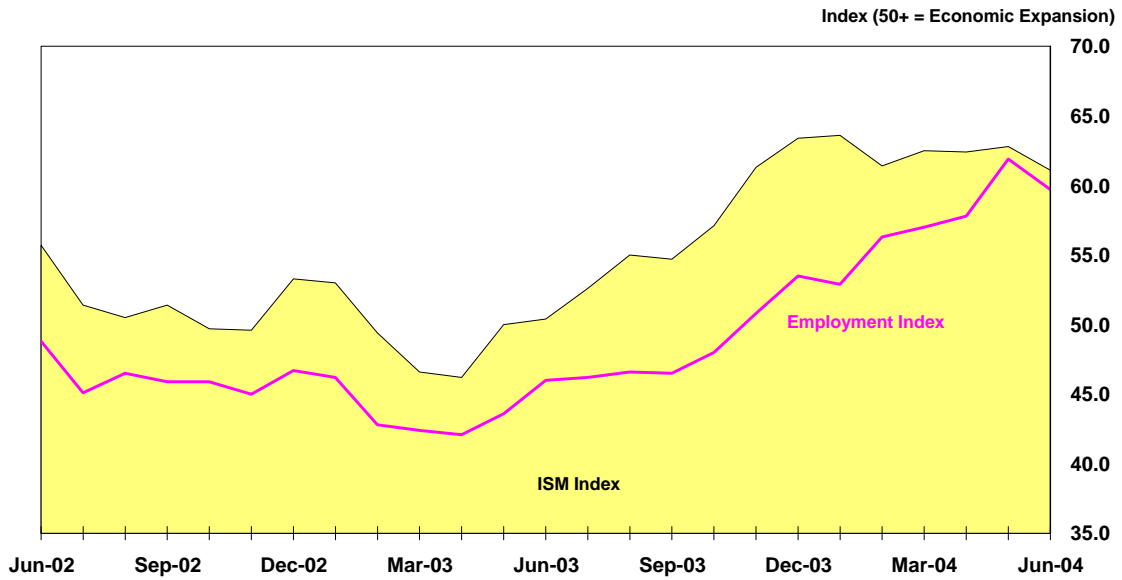
New Orders for Durable Goods



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

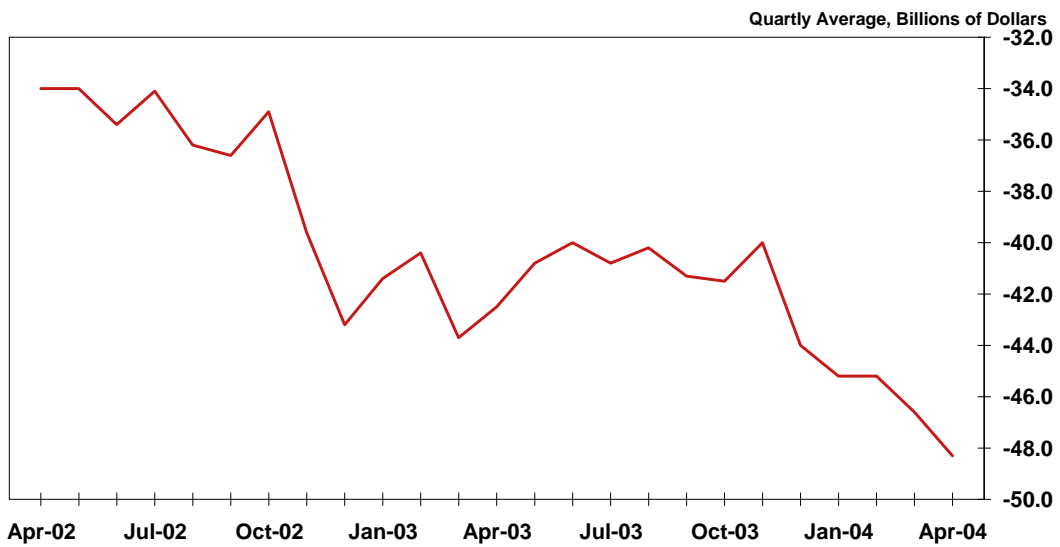
The ISM Index fell slightly in June, but has remained above 50 for thirteen consecutive months.

ISM Index



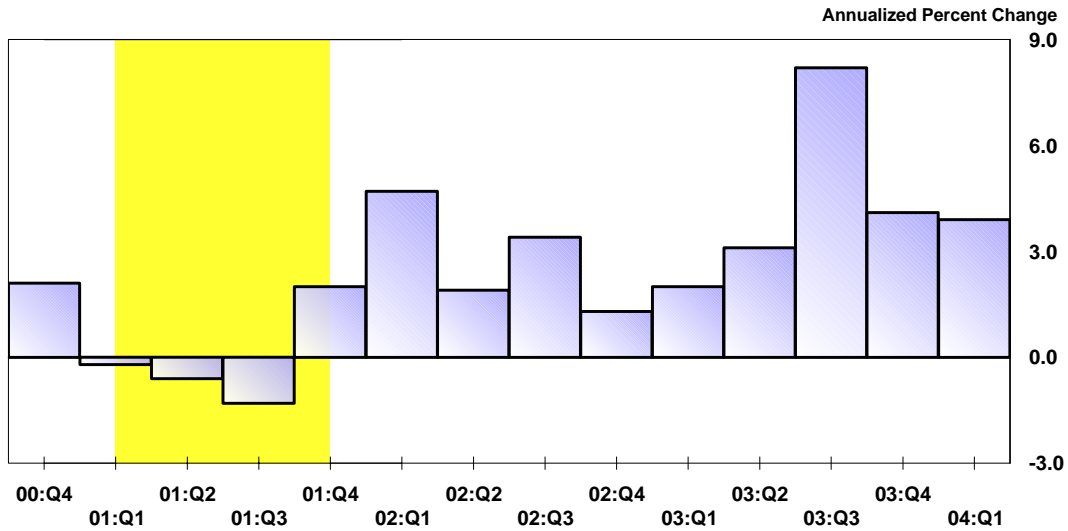
In April, the trade deficit reached a record deficit as a result of a surge in imports.

Trade Balance



Real GDP was revised downward 0.5% to 3.9% in the final estimate for the first quarter, reflecting an upward revision to imports and a downward revision to consumer spending that was partly offset by an upward revision to exports.

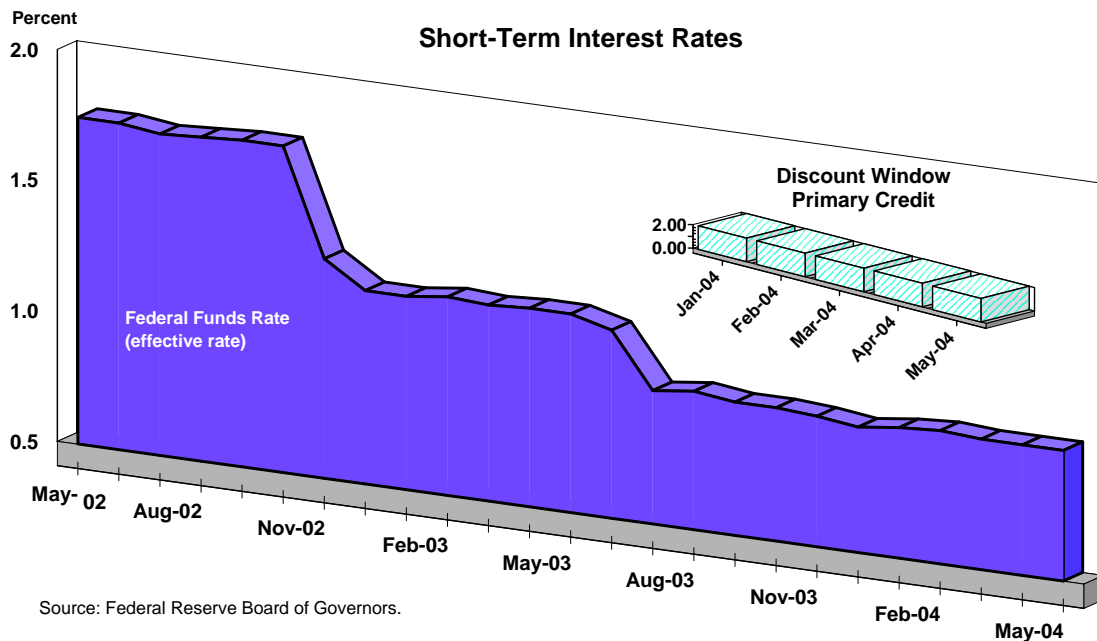
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

Overall, the economy continued to grow throughout the second quarter, as the labor market and consumer attitudes gained strength and the business sector remained strong. Further improvement in the labor market is needed for sustained growth in the coming quarters.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.