

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
FEDERAL RESERVE BANK OF BOSTON
Current Economic Developments - June 10, 2004

Data released since your last Directors' meeting show the economy continues to expand in the first part of 2004.

In the labor market, non-farm business payrolls accelerated for the third consecutive month in May, and the latest four-week moving average of initial claims hovered around 340, its lowest level in over three years. The ISM employment index rose to its highest level in over thirty years as well.

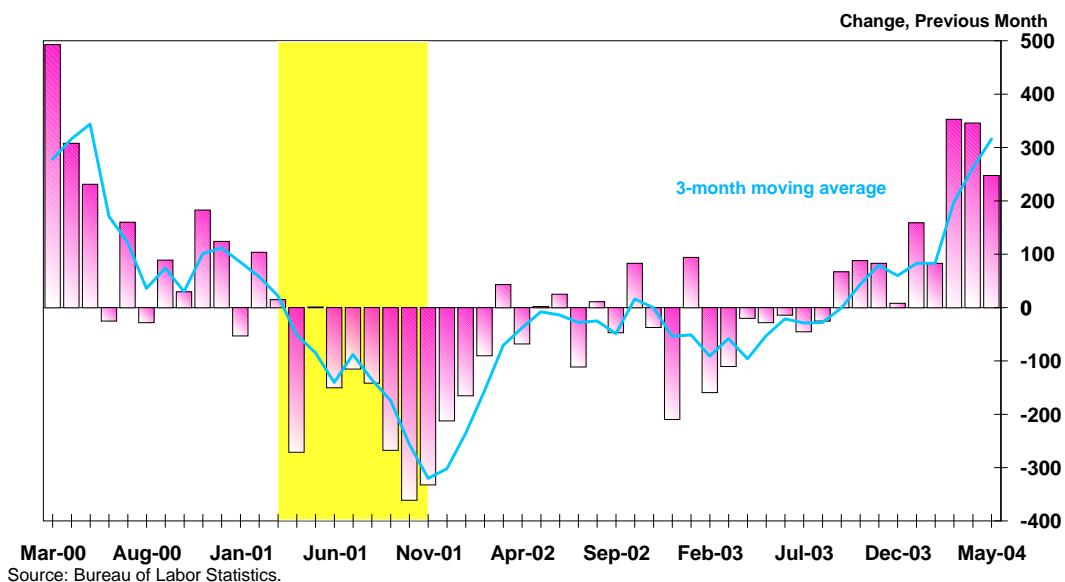
Consumer attitudes were mixed as consumer sentiment fell but consumer confidence saw little change in May. Auto sales and Redbook retail sales posted gains in May, and real disposable income and real consumption both increased in April. News in the residential market remains positive as existing home sales increased, but new home sales fell in April. Building permits rose to their highest level in six months and housing starts were higher in April than their first quarter averages.

Inflation risks remain minimal as core consumer prices decelerated in April, despite the average oil price hitting record highs.

In the business sector, leading indicators and durable goods continued to rise, and industrial production saw its largest increase since November. The ISM index remained above 50 in May, marking twelve straight months of growth.

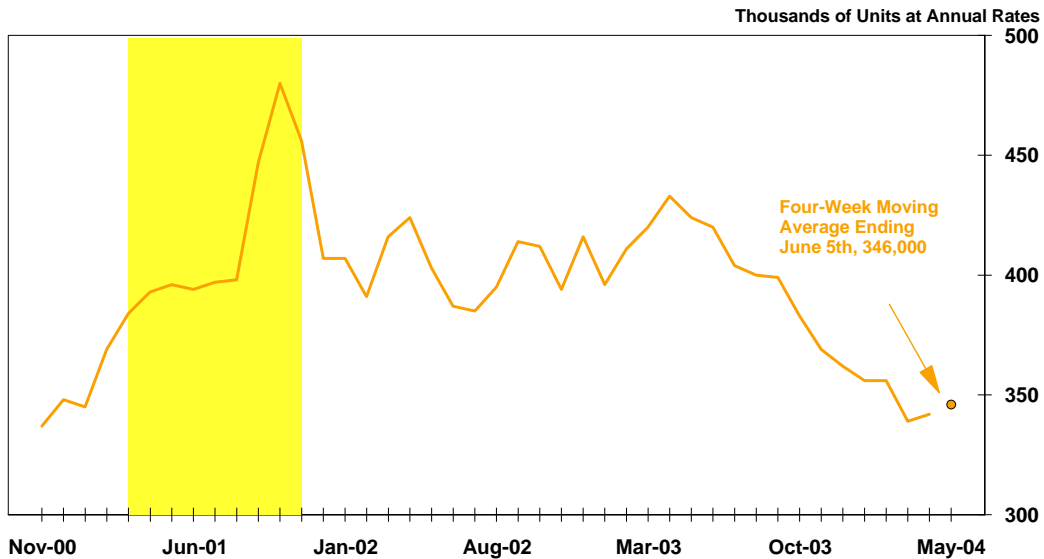
In May, non-farm business payrolls grew 248,000, marking the third consecutive month of rapid growth. The three-month moving average reached its highest level in four years.

Nonfarm Payroll Employment



The four-week moving average for initial claims remained near 340, a three year low.

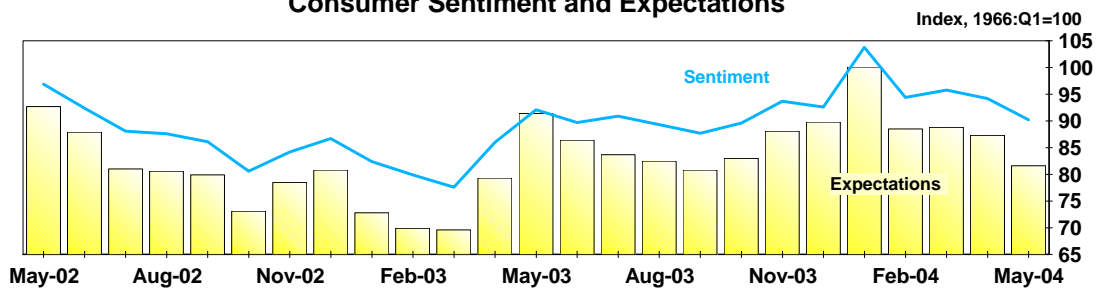
Initial Claims



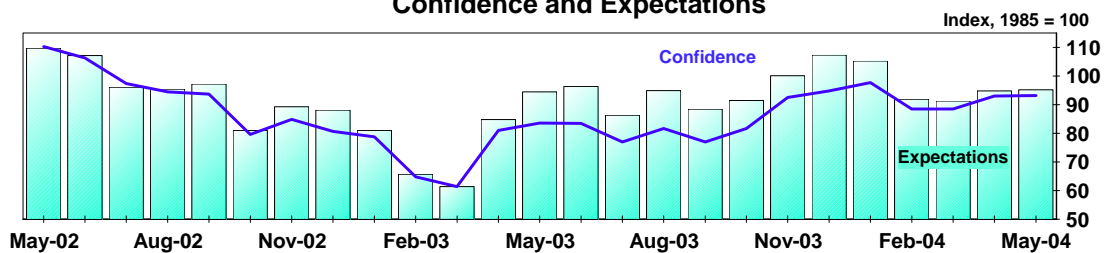
Source: Department of Labor, Employment and Training Administration.

Consumer attitudes were mixed in April, as confidence saw little change but sentiment fell to its lowest level in six months. Consumer expectations fell to 81.6, the lowest level since October 2003.

Consumer Sentiment and Expectations



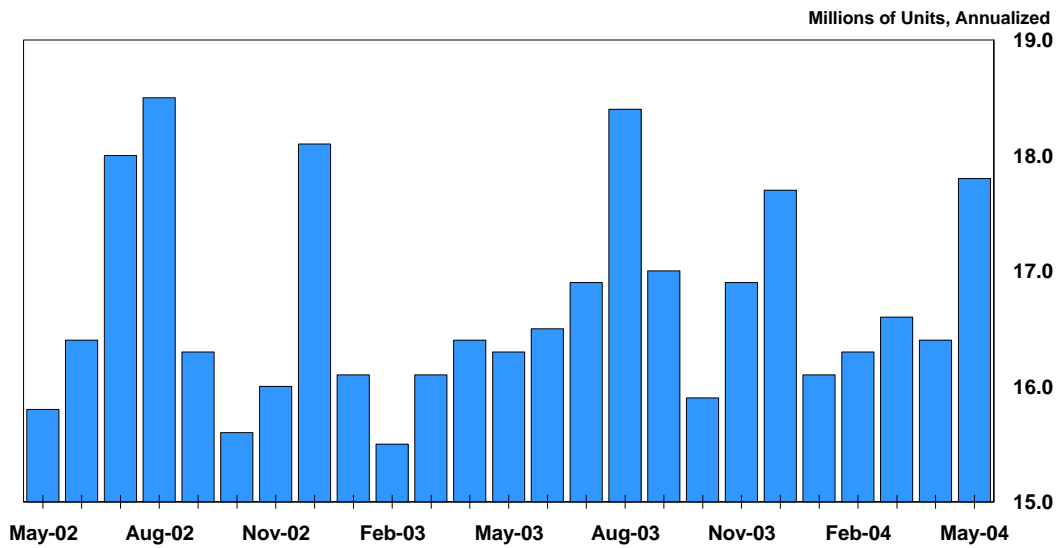
Confidence and Expectations



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

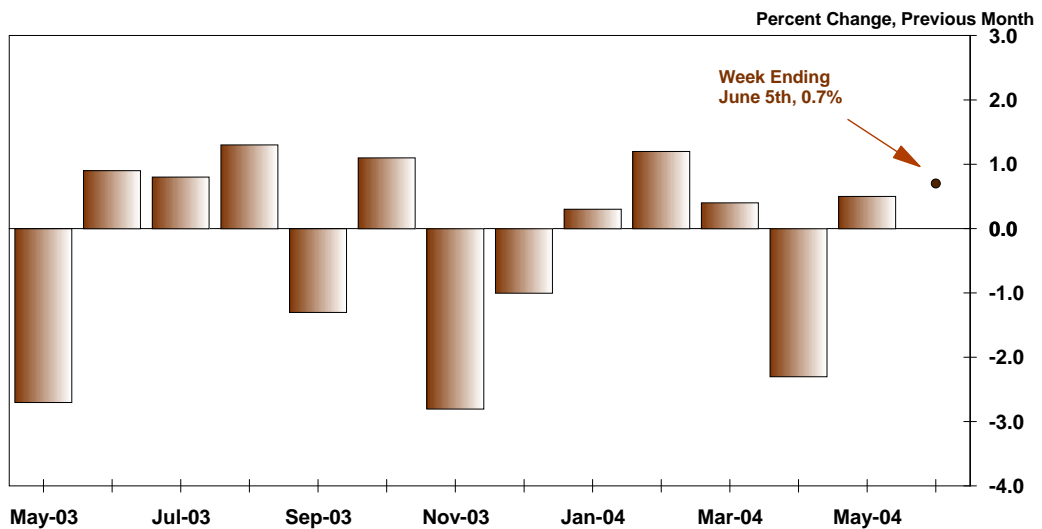
Still, total auto and light truck sales rose in May to their highest level since August 2003,

Total Auto and Light Truck Sales

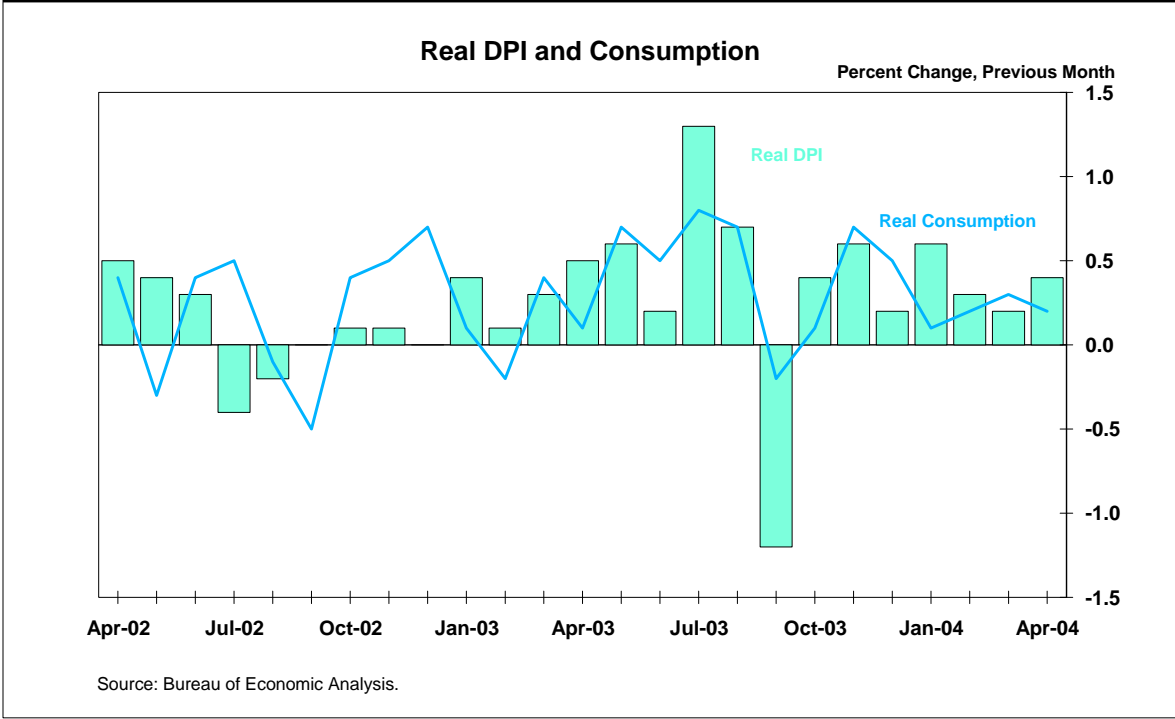


And Redbook sales posted a gain.

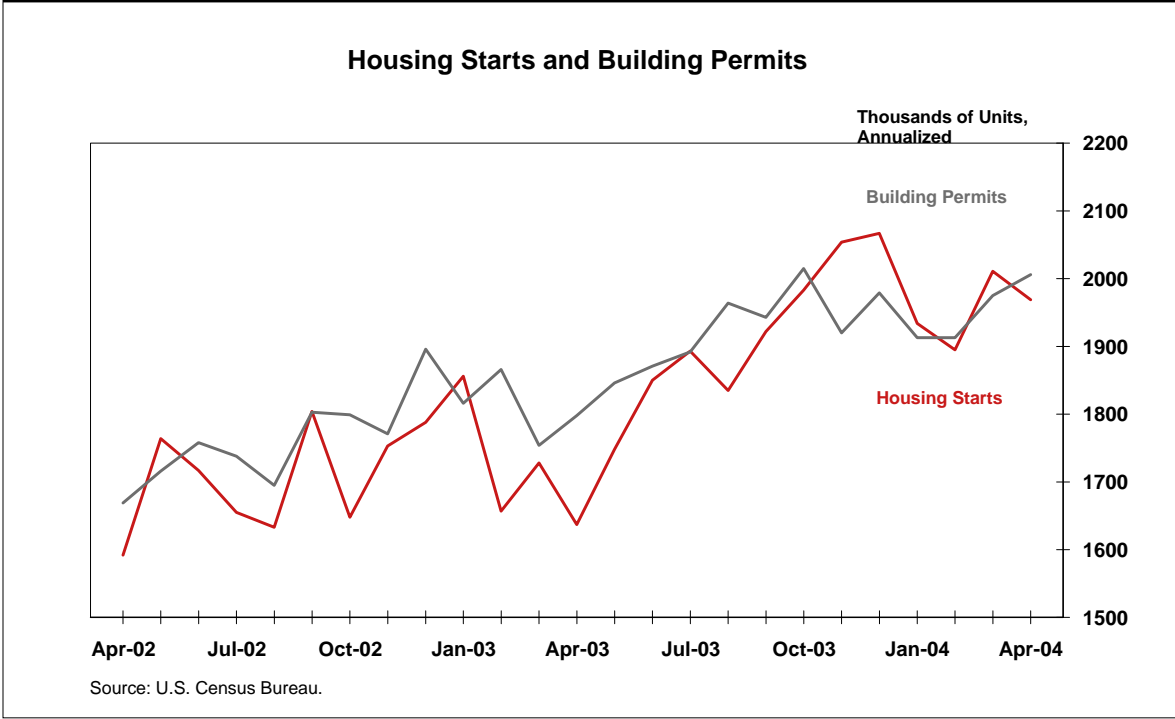
Redbook, Retail Sales



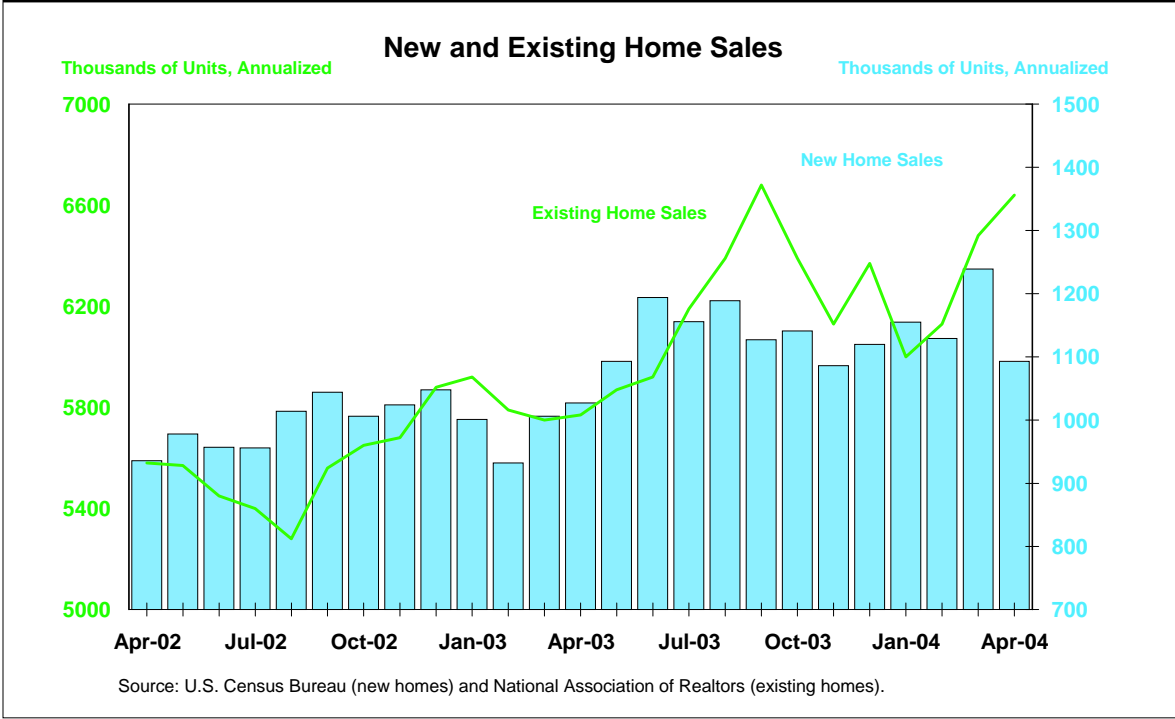
Also, real disposable income and consumption rose in April as consumers continued to spend.



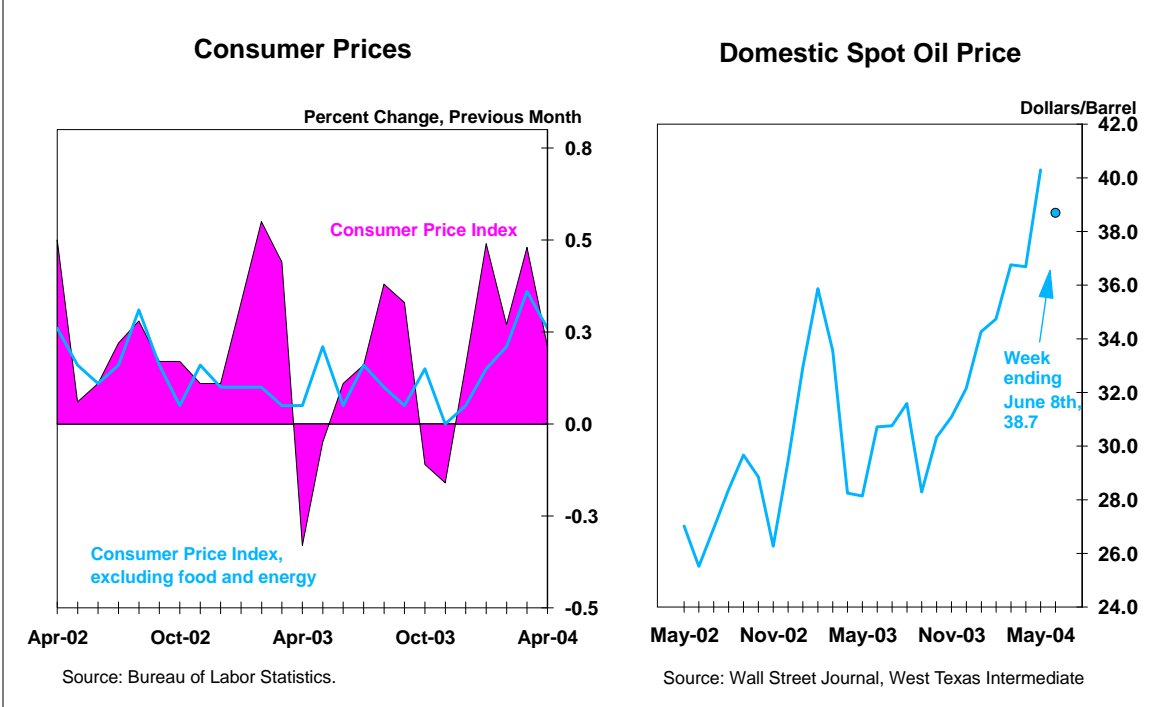
Housing starts fell in April, but still remain at twenty-year highs. Building permits rose to a six month high.



Existing home sales increased to their highest level since September 2003, but new home sales fell 11.8%, the largest decline since January 1994.

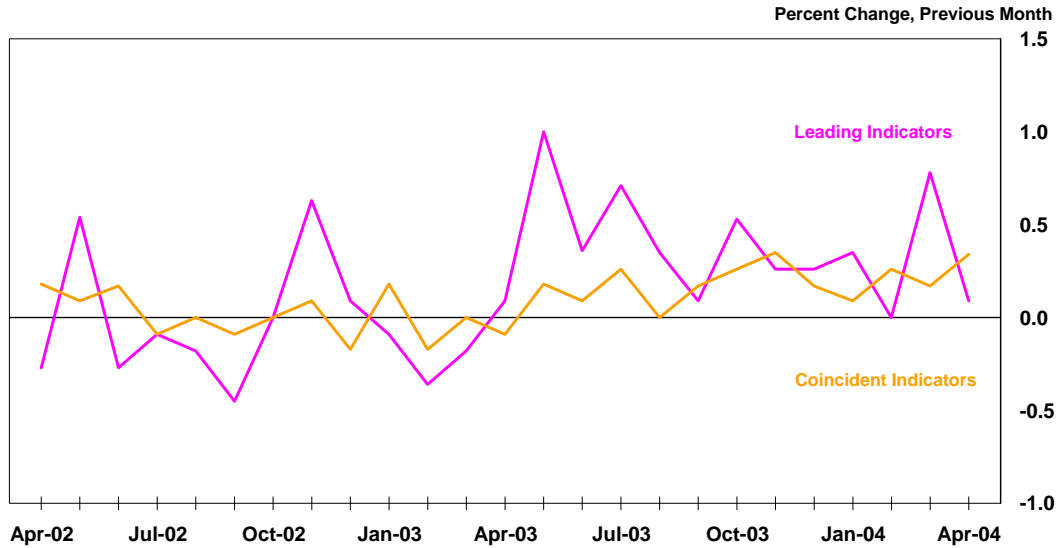


The consumer price index increased at its slowest pace in four months in April. The core index rose less than 0.3%, down from March's 0.4% pace.



In the business sector, the index of leading indicators continued to rise in April, although at a slower pace than in March.

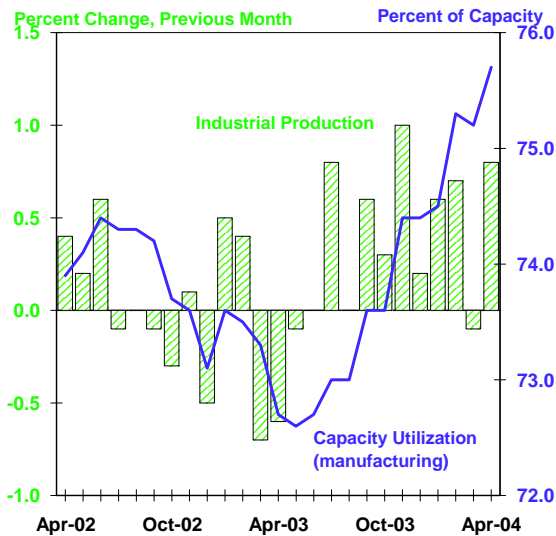
Index of Leading and Coincident Indicators



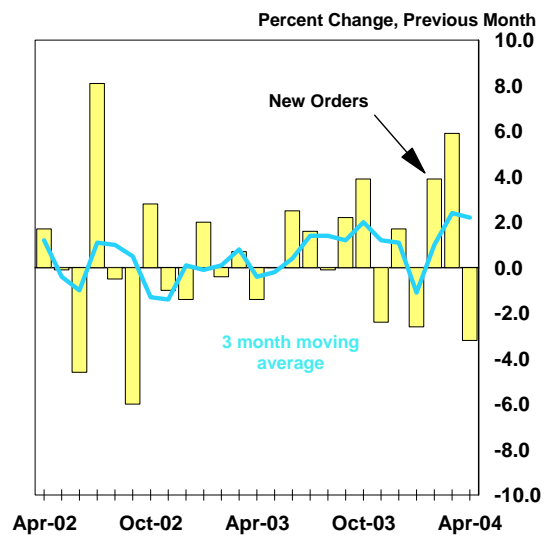
Source: The Conference Board.

Industrial production increased 0.8% in April, the largest gain since November, and capacity utilization rose to its highest level in nearly three years. The three-month moving average of orders for durable goods continues to increase, although at a slower pace in April.

Industrial Production and Capacity Utilization



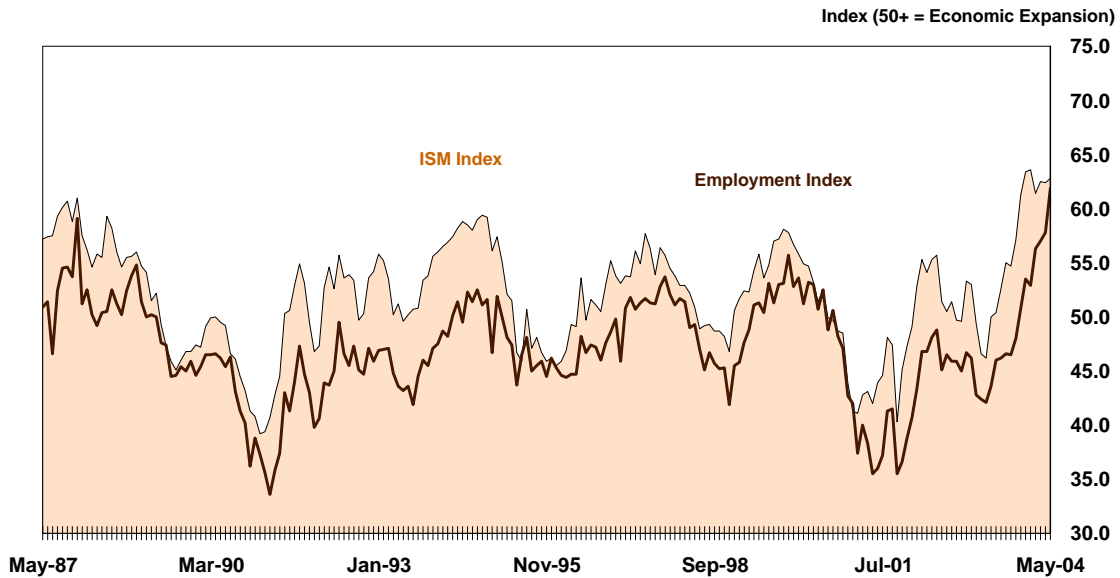
New Orders for Durable Goods



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

The ISM index rose to 62.8 in May, marking twelve straight months of growth. The employment index rose to 61.9, its best pace since April of 1973.

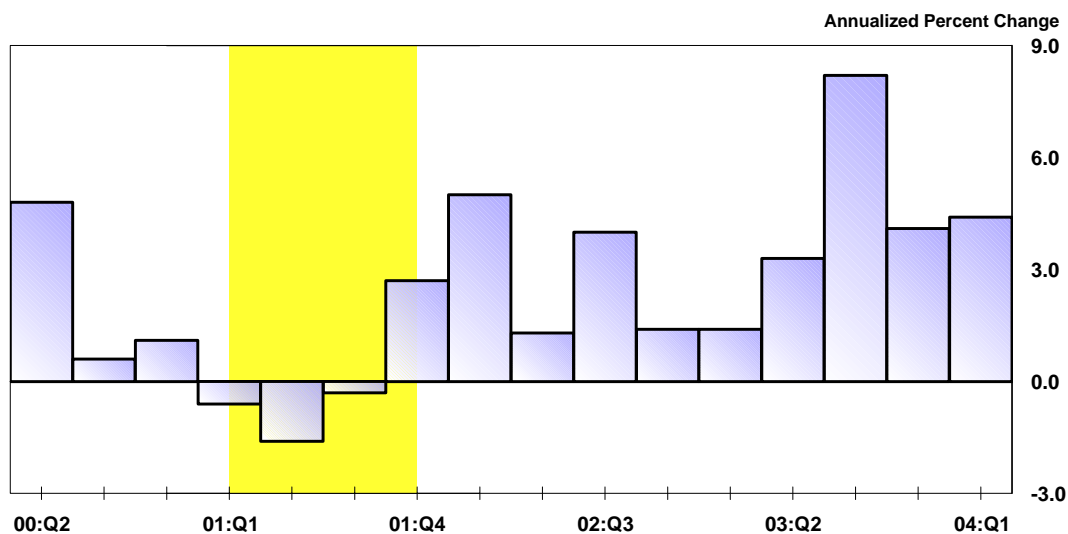
ISM Index



Source: National Association of Purchasing Management.

Real GDP increased 4.4% in the first quarter, over the previously reported 4.2%. The upward revision primarily reflected gains in inventory investment, state and local government spending, and exports.

Real Gross Domestic Product



Source: Bureau of Economic Analysis.

Overall, the economy is expanding into the second quarter of 2004. The business sector continues to gain strength, but continued expansion in the labor market is needed for sustained growth.

