

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

Data released since your last Directors' meeting indicates the economy continues to expand in the new year, while the labor market still struggles to show sustainable growth.

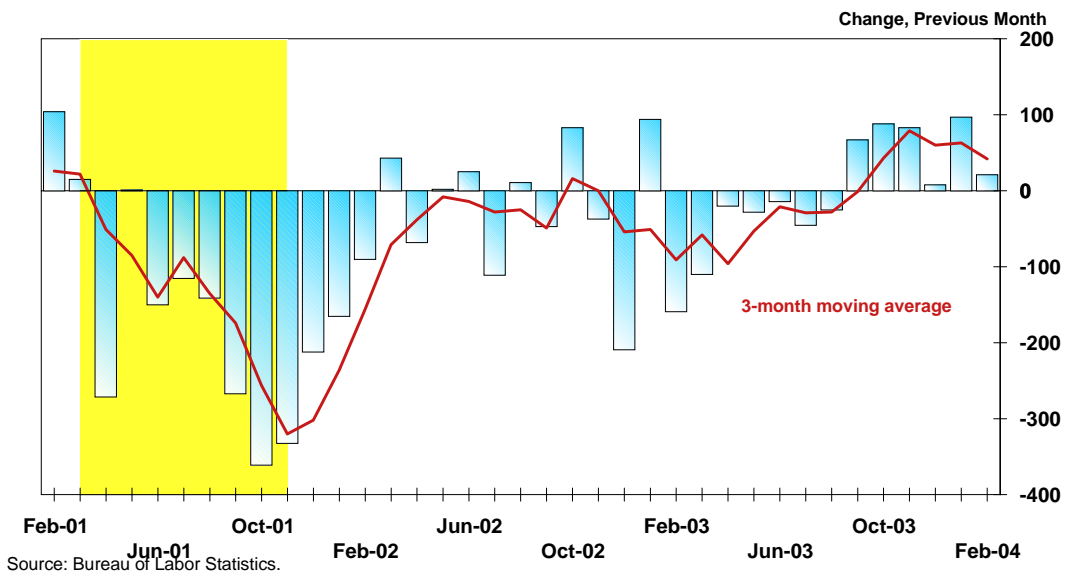
February's non-farm payroll employment increased only slightly, and the unemployment rate remained unchanged at 5.6%. The latest four-week moving average of initial claims fell to its lowest level in four weeks, but remains near 350. Although the ISM employment index posted its highest level in nearly twenty years, the help wanted index increased by only one point in January.

Current data on consumer attitudes is mixed. In February, consumer confidence fell for the first time in several months and auto sales increased only slightly. In January, consumption decreased but real disposable income increased. Retail sales posted its largest gain in three months in February, led by motor vehicle demand. Excluding autos, however, retail sales remained flat. The housing market slowed in January, as housing starts and building permits declined. New and existing home sales also fell to their lowest level in months.

In the business sector, February's ISM index continues to remain above 50. Industrial production increased and durable goods fell in January. Also in January, leading indicators saw its fastest growth in several months, indicating growth.

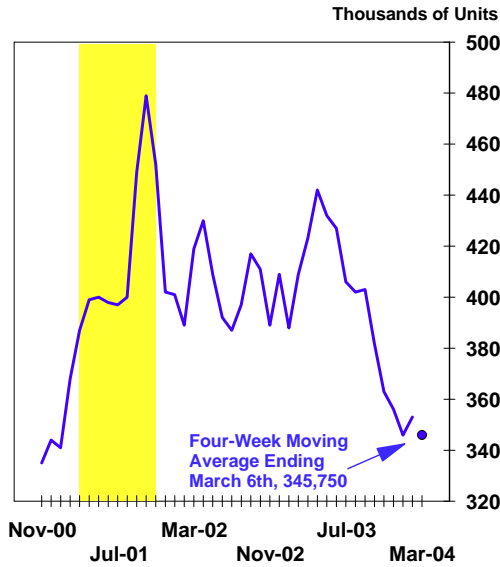
In February, the employment situation increased only moderately with a gain of 21,000 jobs. The three-month moving average actually fell by 21,000.

Nonfarm Payroll Employment

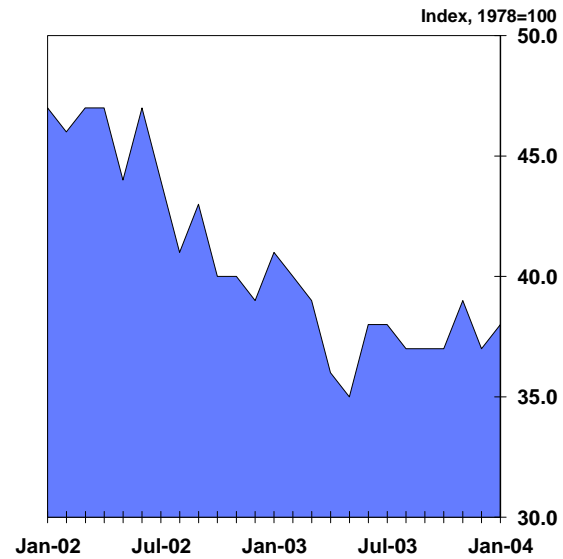


Initial claims hovered around 350,000, and the four-week moving average ending March 6th was the lowest in four weeks. The help wanted index increased one point in January.

Initial Claims



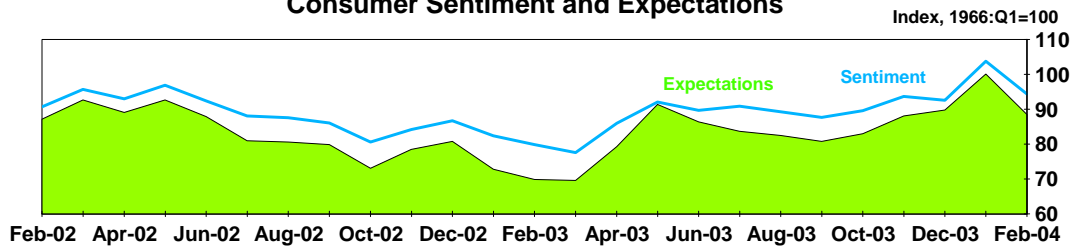
Help Wanted Index



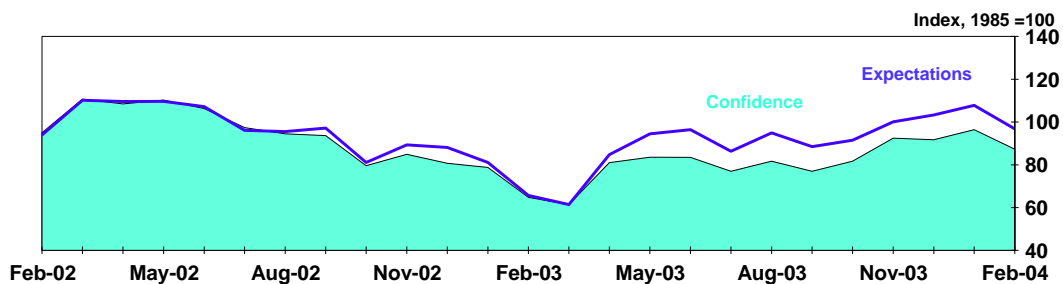
Source: Department of Labor, Training and Administrative Division (claims), The Conference Board (help wanted).

Consumers were more pessimistic in February, perhaps due to continued weakness in the labor market.

Consumer Sentiment and Expectations



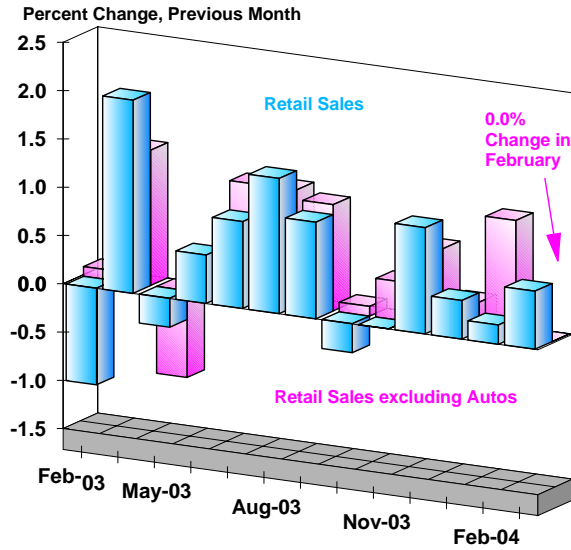
Consumer Confidence and Expectations



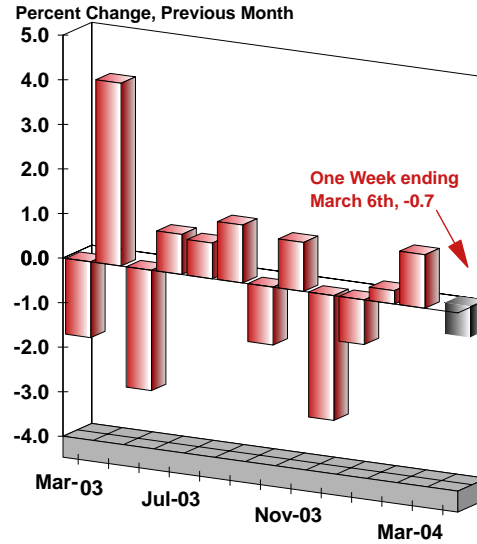
Source: University of Michigan (Sentiment) and The Conference Board (Confidence).

In February, retail sales posted their biggest gain in three months, led by a strong demand for motor vehicles. Redbook sales, however, dropped in the latest week ending March 6th.

Retail Sales



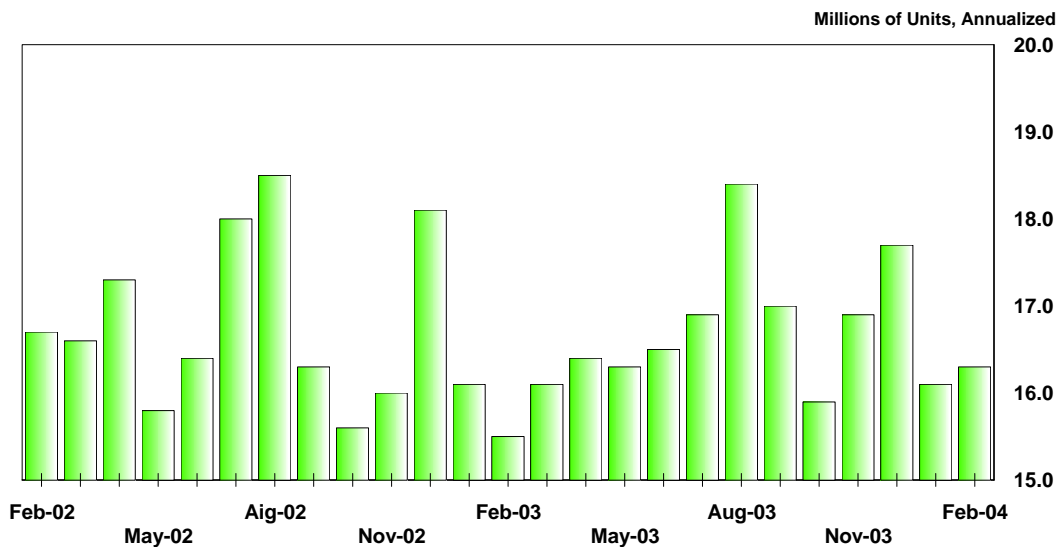
Redbook, Retail Sales



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

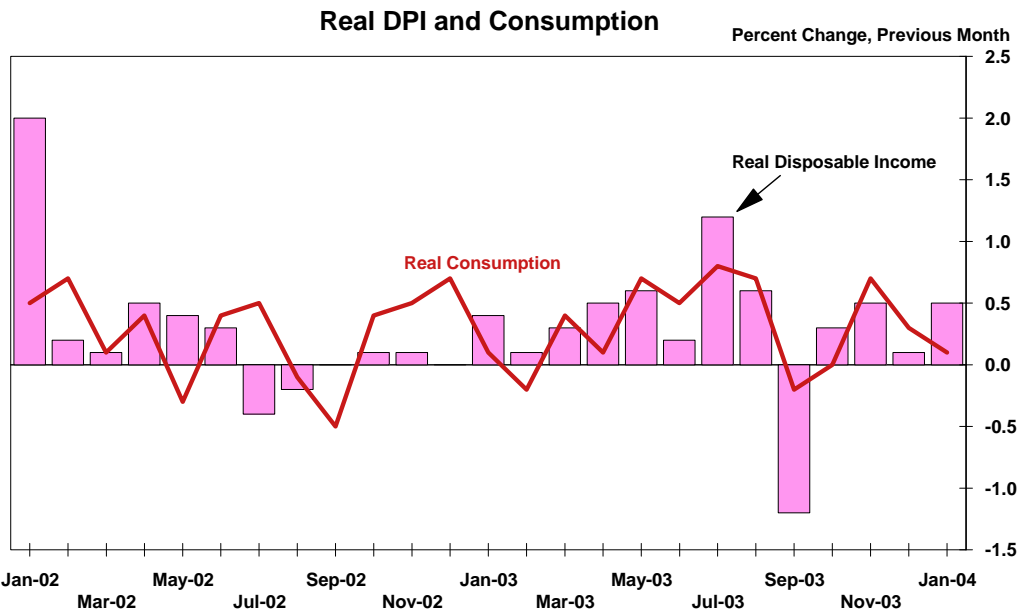
Total auto and light truck sales increased slightly to 16.3 million in February. Compared to fourth quarter 2003 data, the first quarter 2004 should post a decline.

Total Auto and Light Truck Sales



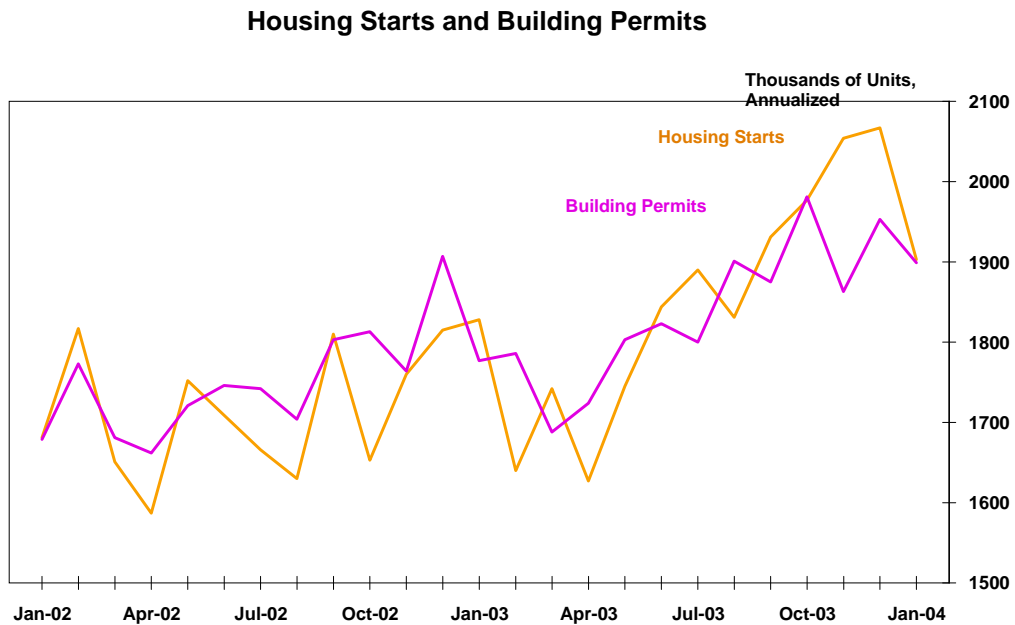
Source: Bureau of Economic Analysis.

Real disposable income rose in January, while consumption fell.



Source: Bureau of Economic Analysis.

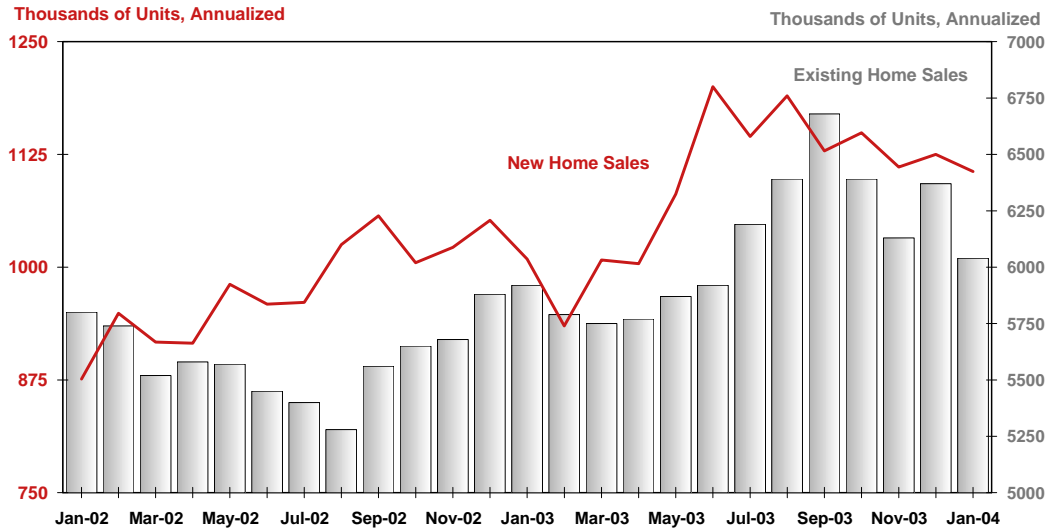
In January, housing starts fell for the first time in five months and building permits declined 2.8%.



Source: U.S. Census Bureau.

New home sales declined to its lowest level in eight months in January. Likewise, existing home sales fell to their lowest level in seven months.

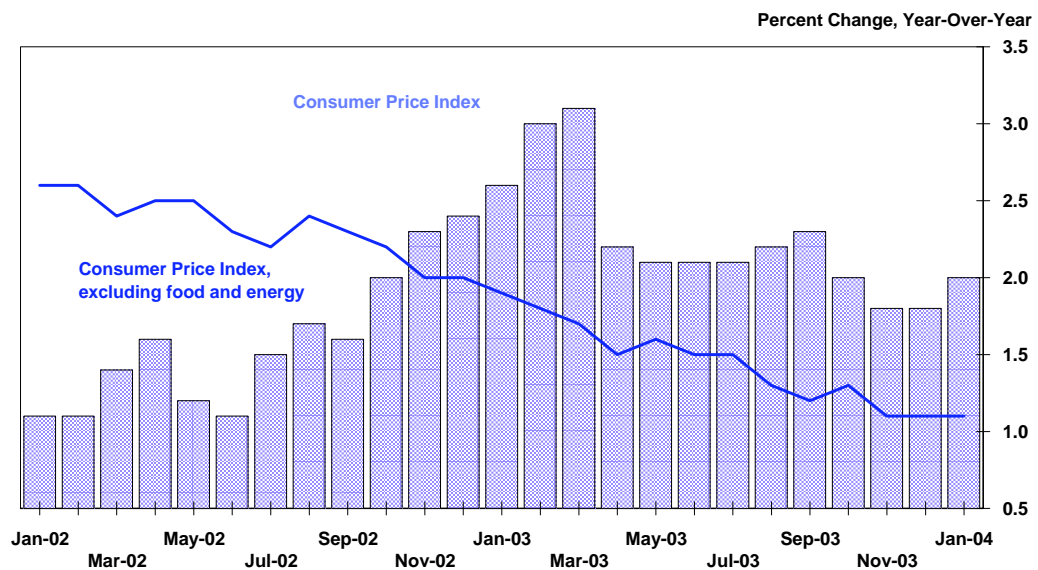
New and Existing Home Sales



Source: U.S. Census Bureau.

Consumer prices grew at their fast pace in nearly a year as energy and housing prices surged, however core inflation remained low in January.

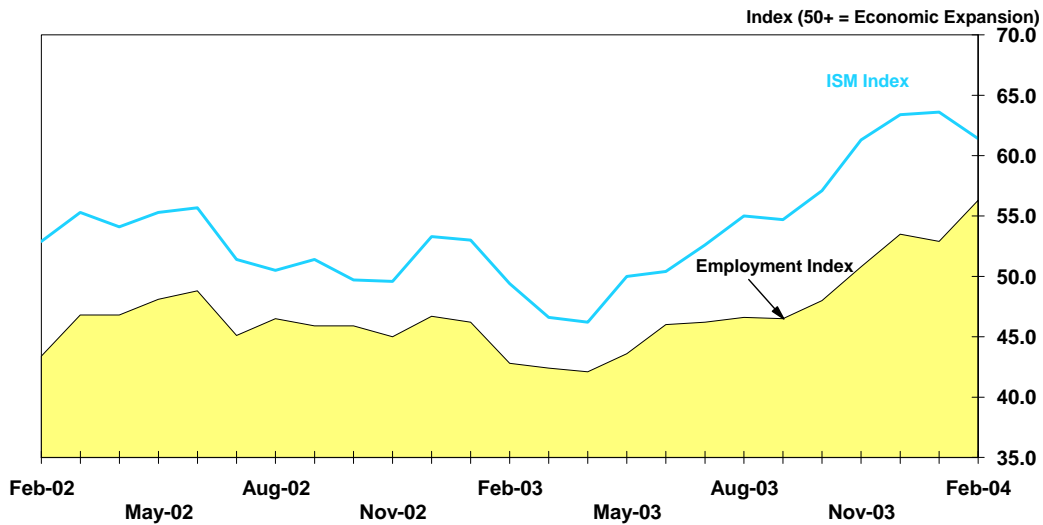
Consumer Price Index



Source: Bureau of Labor Statistics.

In February, the ISM Index continued to show strength, and the employment index posted 56.3, its highest level since the end of 1987. The index has remained above 50 since June 2003.

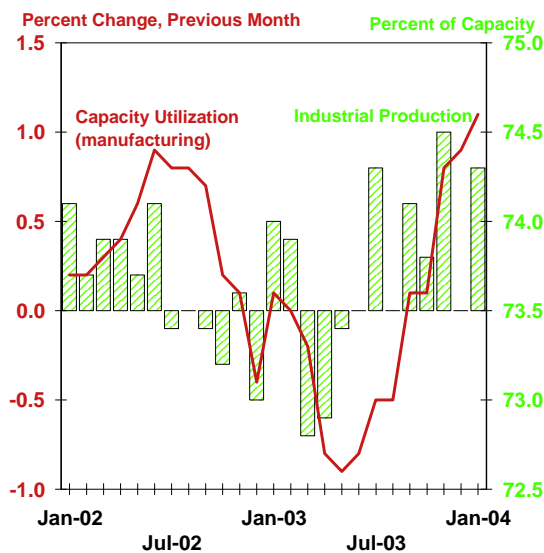
ISM Index



Source: National Association of Purchasing Management.

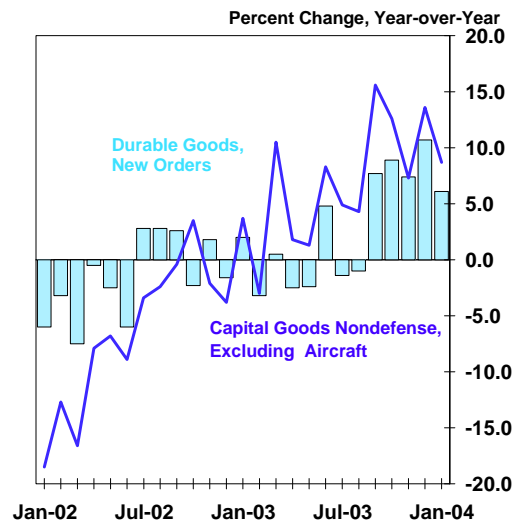
Industrial production rose in January, and new orders for durable goods continued to show signs of growth.

Industrial Production and Capacity Utilization



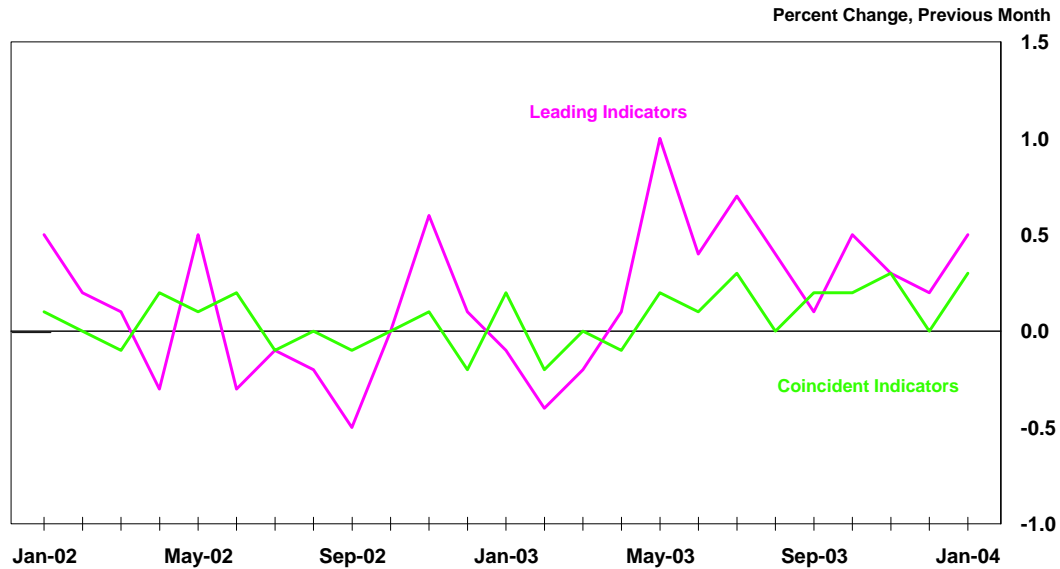
Source: U.S. Census Bureau.

New Orders



The index of leading indicators increased 0.5% in January, its largest gain since October.

Index of Leading and Coincident Indicators



Overall, the economy is expanding as the business and manufacturing sectors recover. Consumer attitudes and the labor market, however, still need improvement for sustainable growth.

