

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
FEDERAL RESERVE BANK OF BOSTON
Current Economic Developments - May 12, 2004

Data since your last Directors' meeting show the economy expanded in the first quarter of 2004.

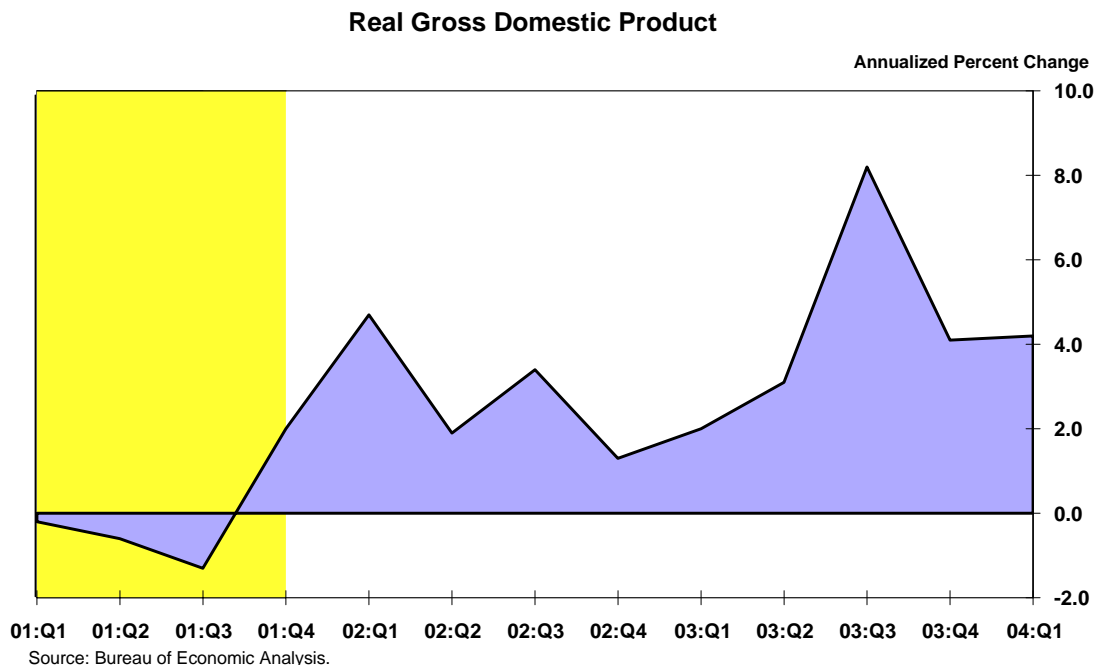
During the first quarter, real GDP posted a gain led by growth in consumption, equipment and software, government spending, exports, and inventory investment. Imports, which are subtracted from GDP, also increased.

Non-farm payroll employment increased significantly in April, and the unemployment rate fell one-tenth of a percentage point. Initial claims remained at their three-year low of 350 throughout the month of April. Consumer attitudes saw little change as personal income and consumption increased, but auto sales fell in April. Housing starts declined in the first quarter, while building permits changed only slightly from the fourth quarter.

Despite the continuous rise in energy prices, inflation risks remain minimal as core consumer and producer prices showed little change in the first quarter. The ECI saw its biggest increase in a year due to rising pension benefit costs.

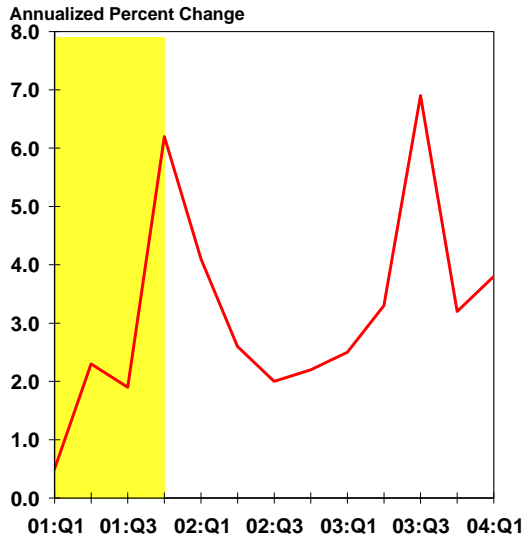
In the business sector, durable goods and leading indicators continued to increase, and the ISM index has remained above 50 for the last twelve months. However, the U.S. deficit in international trade reached a record level in the first quarter as the average oil price hit its highest peak in over 20 years.

Real GDP rose in the first quarter, led by consumer and government spending, business investment, exports, and inventory investment.

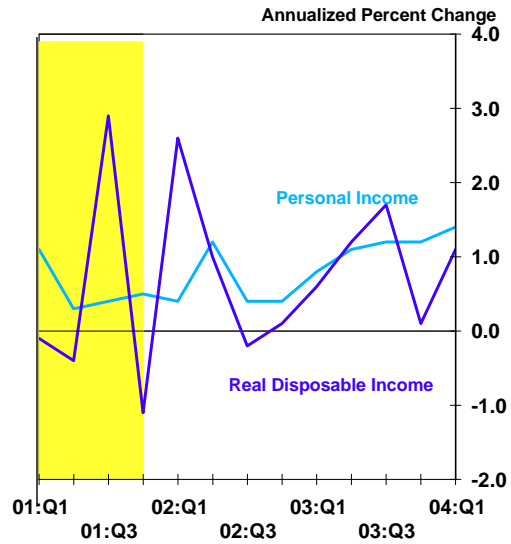


Real consumption and real disposable income increased in the first quarter as consumers continued to spend.

Real Consumption



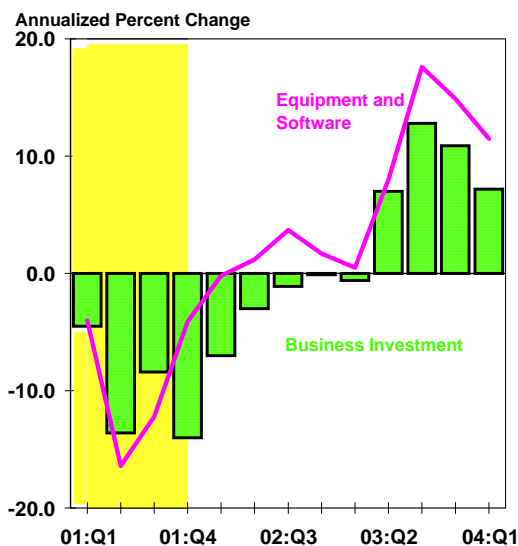
Personal Income



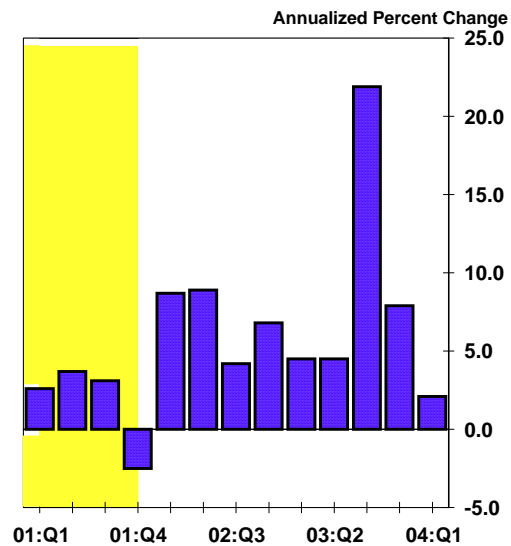
Source: Bureau of Economic Analysis.

Businesses continued to invest in equipment and software, although at a slower pace than the fourth quarter. Residential investment also slowed from its third and fourth quarter pace.

Business Investment



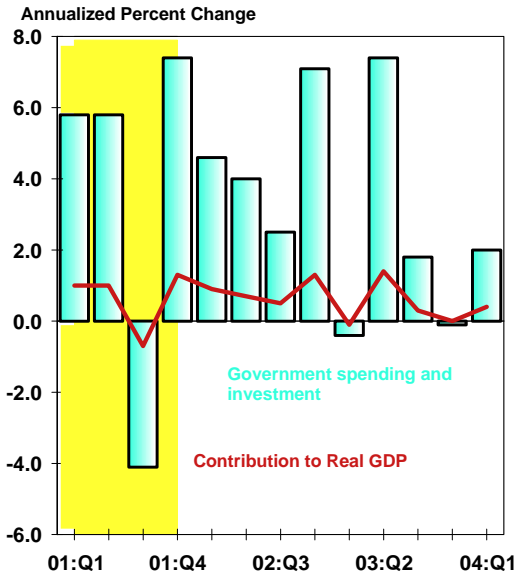
Residential Investment



Source: Bureau of Economic Analysis.

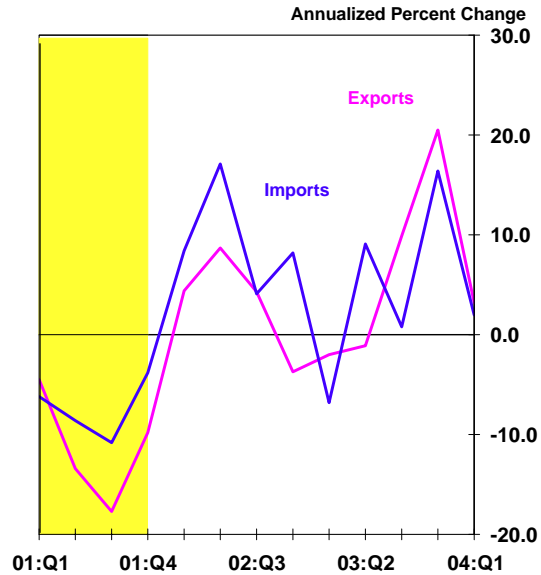
Government spending increased in the first quarter, due in part to a 15.1% increase in national defense spending. Although slower than the fourth quarter, exports and imports rose in the first quarter.

Government Spending



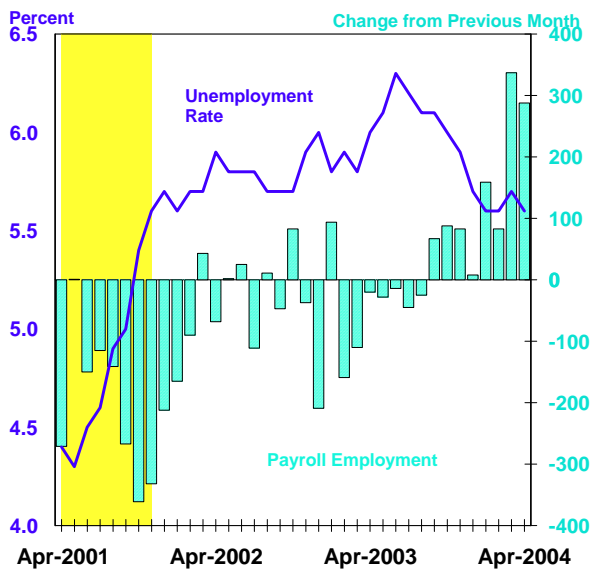
Source: Bureau of Economic Analysis.

Exports and Imports

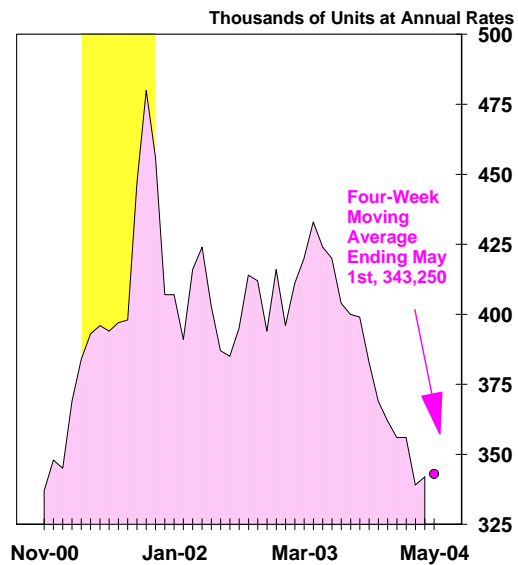


In the labor market, nonfarm payroll employment increased sharply for the second consecutive month in April, and the unemployment rate dropped to 5.6%. Initial claims continued to hover around 350,000.

Nonfarm Payroll Employment



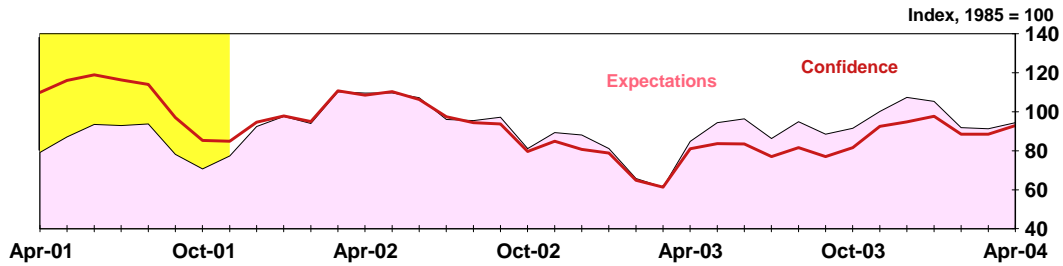
Initial Claims



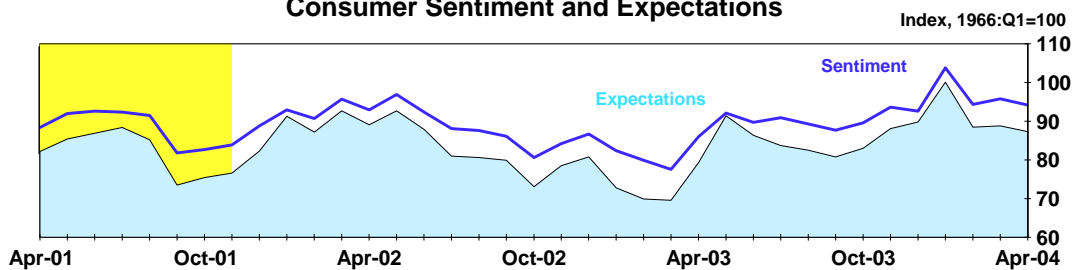
Source: Bureau of Labor Statistics (employment) and the Department of Labor, Employment and Training Administration (claims).

Consumer attitudes were mixed in April as concerns about the health of the job market lingered.

Consumer Confidence and Expectations



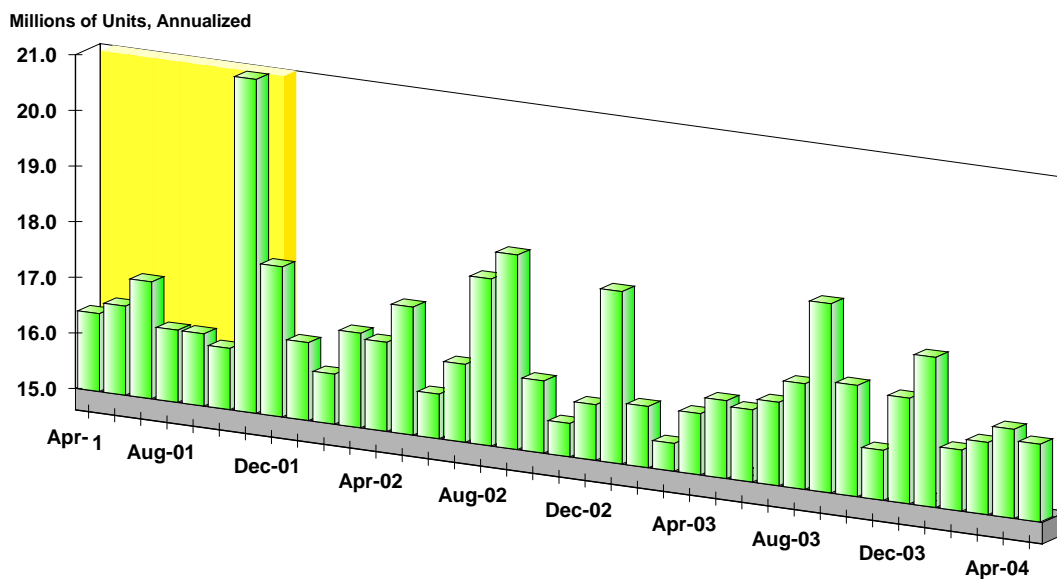
Consumer Sentiment and Expectations



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

As consumer attitudes remained mixed, autos sales slowed somewhat in April compared to March.

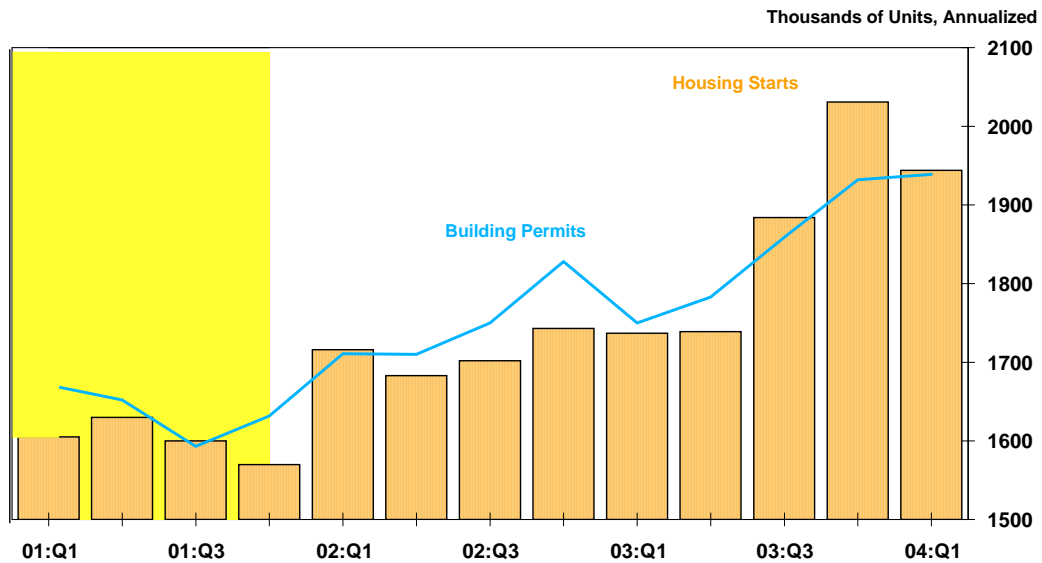
Total Auto and Light Truck Sales



Source: Federal Reserve, Board of Governors.

Housing starts fell in the first quarter compared to the fourth, however March's 6.4% increase was its largest gain since May 2003. Building permits saw little change in the first quarter.

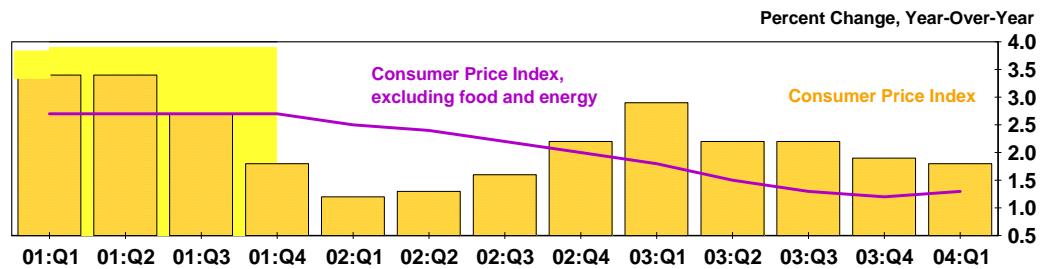
Housing Starts and Building Permits



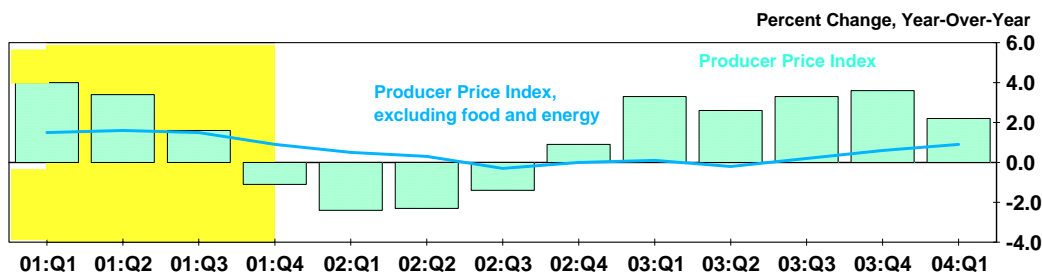
Source: U.S. Census Bureau.

At a quarterly frequency, consumer prices saw little change, although the core index increased sharply in March, its largest gain since November 2001. Producer prices fell in the first quarter.

Consumer Price Index



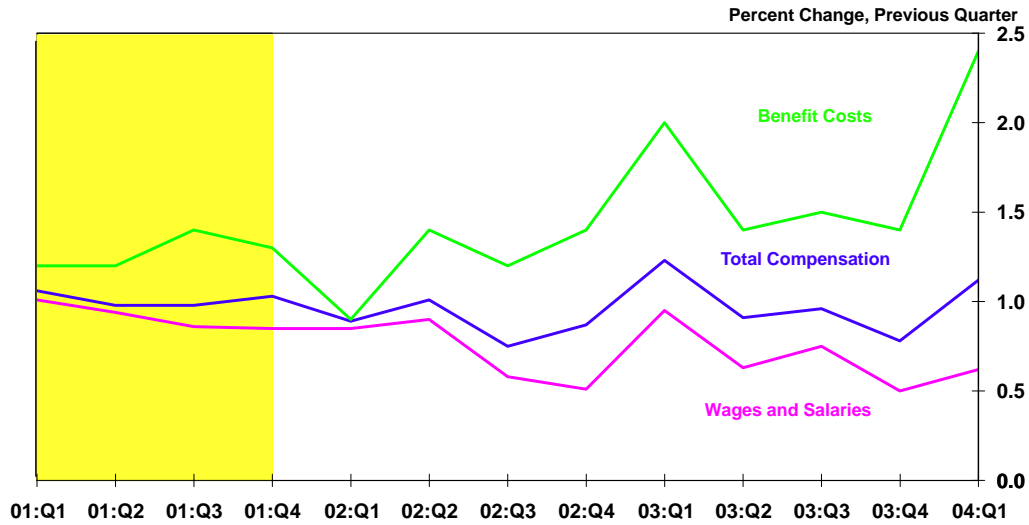
Producer Price Index



Source: Bureau of Labor Statistics.

The employment cost index increased 1.1%, the largest gain in a year. The increase was led by a 2.4% rise in contributions to defined benefit plans, its largest increase in 22 years.

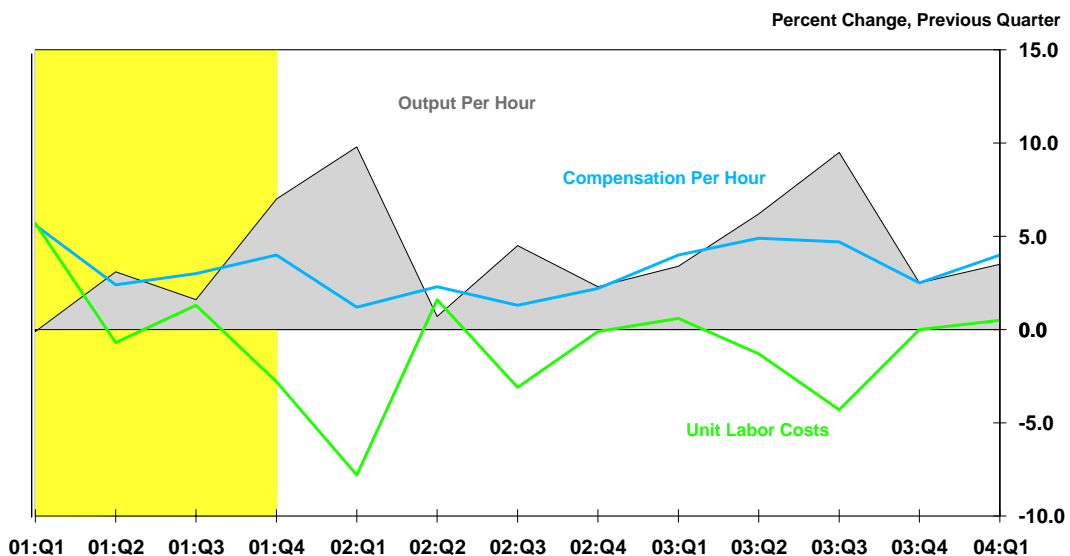
Employment Cost Index



Source: Bureau of Labor Statistics.

Productivity accelerated in the first quarter, and labor costs continued to fall on a yearly basis.

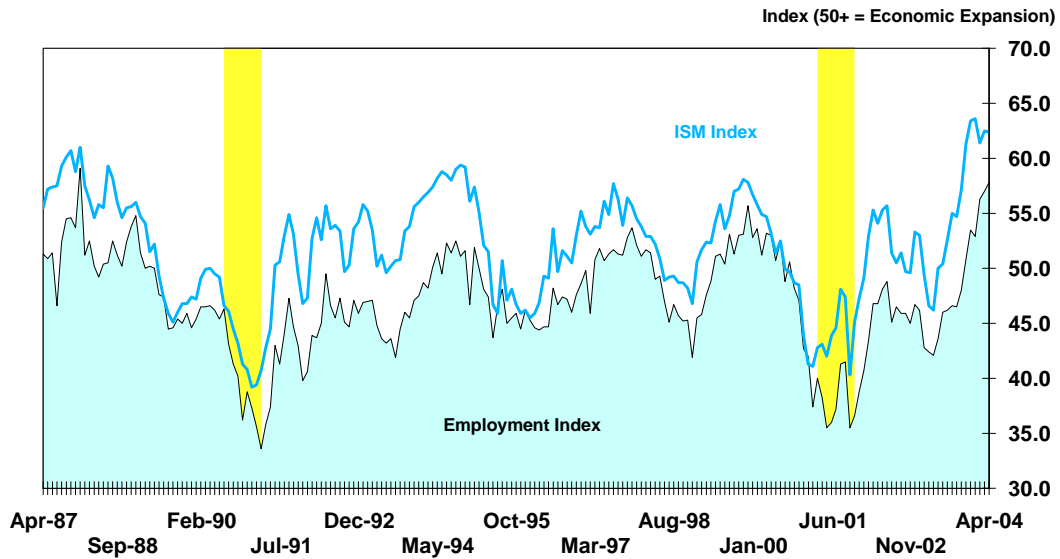
Productivity and Costs



Source: Bureau of Labor Statistics.

In April, the ISM index remained above 50 and has been for the last twelve months. Both the ISM and employment indices rose to their highest levels in over 15 years.

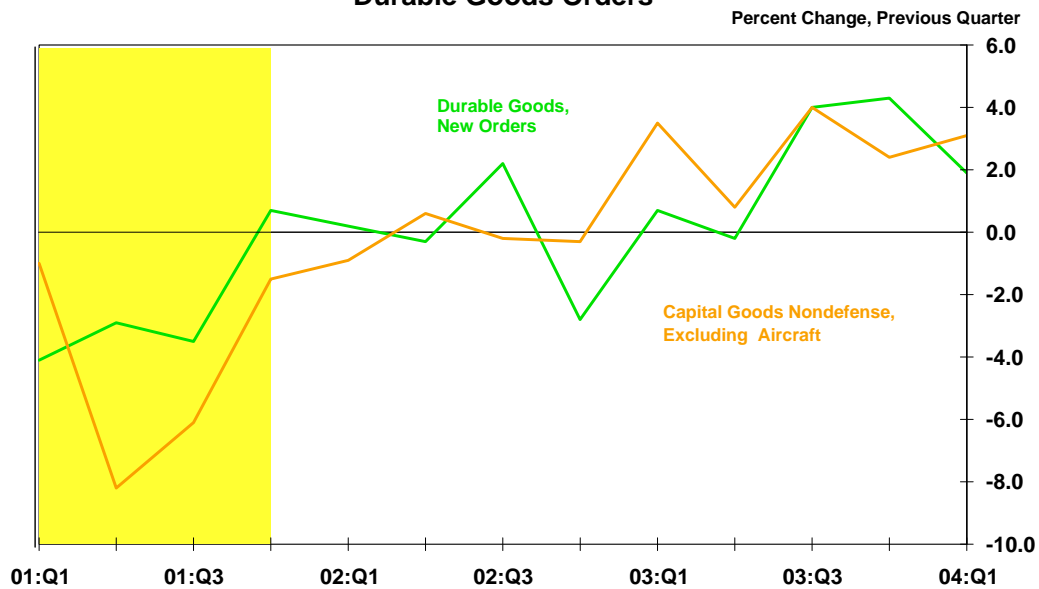
ISM Index



Source: National Association of Purchasing Management.

Orders for durable goods remained strong in the first quarter. Orders for these goods have increased three of the last four months.

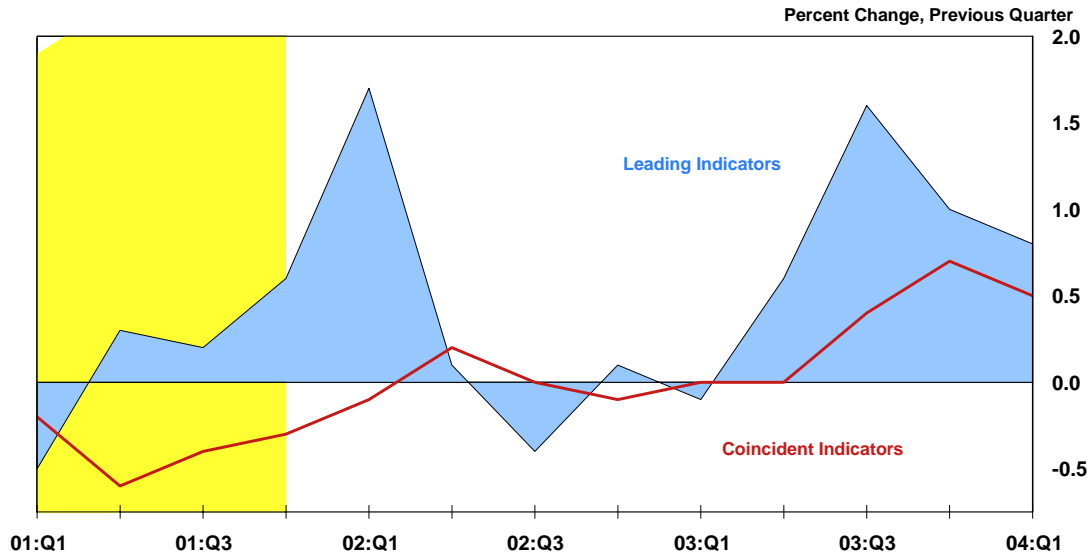
Durable Goods Orders



Source: U.S. Census Bureau.

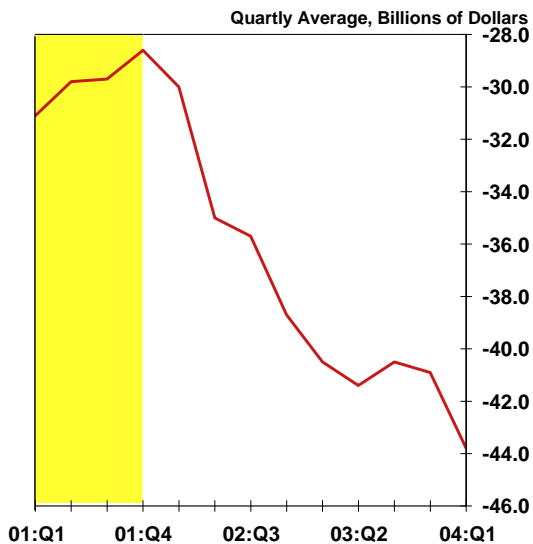
The index of leading indicators rose in the first quarter, but at a slower pace than the fourth.

Index of Leading and Coincident Indicators

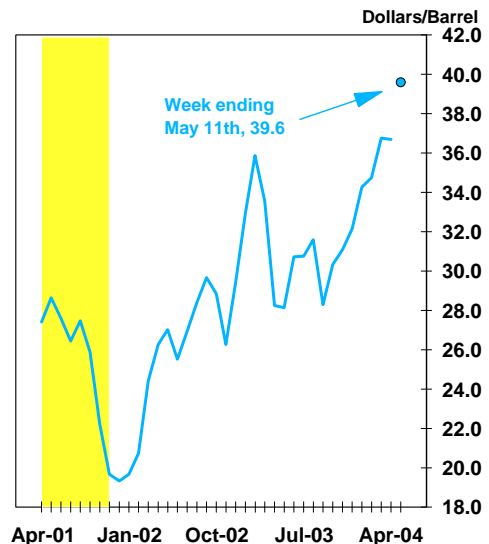


In the first quarter, the trade deficit reached a record level as the average oil price hit its highest level in over 20 years. The trade deficit may cause downward revisions to the first quarter GDP estimate.

Trade Balance



Domestic Spot Oil Price



Overall, the economy continues to expand. While the business sector gains strength, the labor market and consumer attitudes need to show sustained improvement for extended growth.

