

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
FEDERAL RESERVE BANK OF BOSTON

Current Economic Developments - November 3, 2004

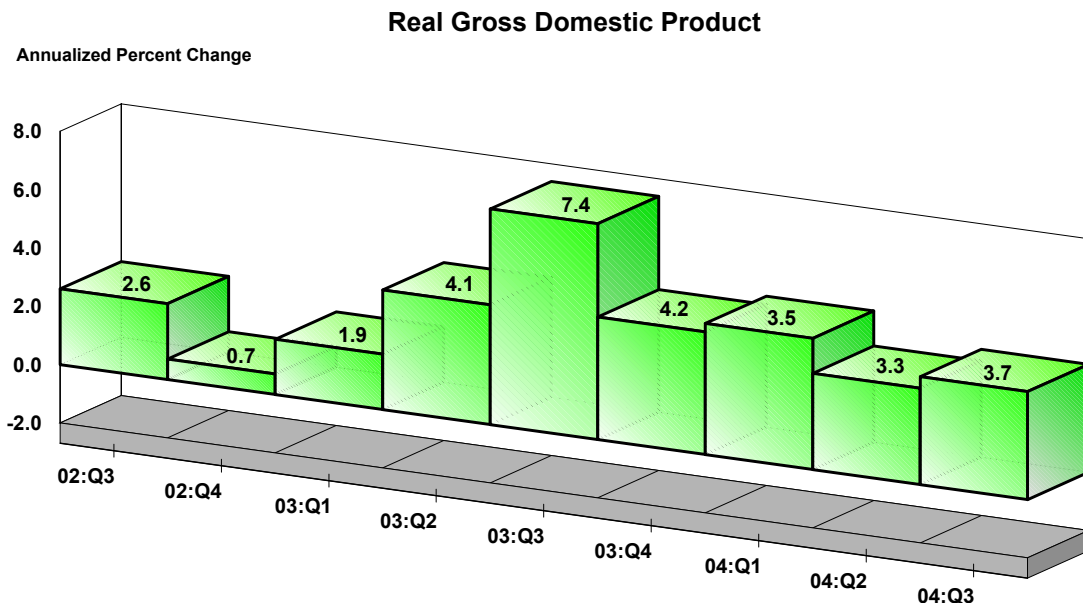
Data released since your last Directors' meeting show the economy picked up in the third quarter, following its second quarter slump. Still, concerns about the sluggish labor market and rising oil prices remain.

In the third quarter, real GDP growth picked up, although at a slower pace than expected. The increase in third quarter growth was led by a rebound in consumer spending, especially on durable goods. Residential investment slowed in the third quarter, but home sales remain high. Business investment eased slightly, but spending on equipment and software continued to rise. Although the ISM index was a bit lower in October, it remains well above 50.

Consumer attitudes fell in mid-October, after showing some improvement in the third quarter. September's drop in confidence was partly attributed to concerns about the weak labor market. The number of new jobs added in the third quarter was less than half of that seen in the second quarter. The latest 4-week moving average of initial claims was consistent with averages seen over the past two quarters. Rising oil prices may also remain a concern to consumers, although total producer and consumer prices eased somewhat in the third quarter.

October's labor report will be available November 5th.

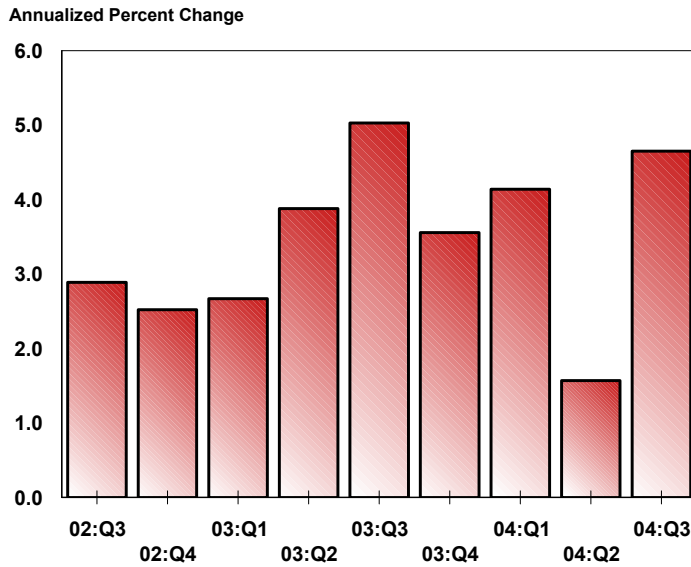
Real GDP growth picked up in the third quarter, although at a slower pace than anticipated.



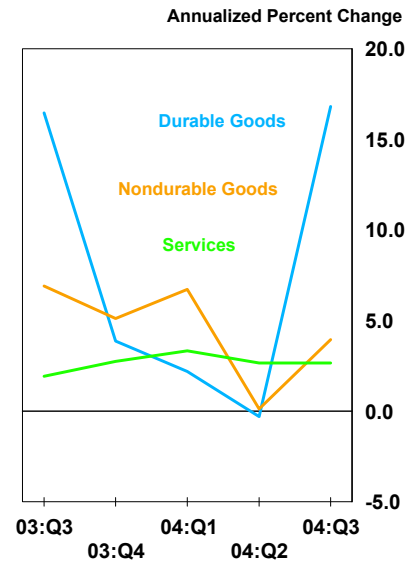
Source: Bureau of Economic Analysis.

The increase in third quarter real GDP growth was led by a rebound in personal consumption expenditures. Spending on durable goods was especially strong.

Real Consumption



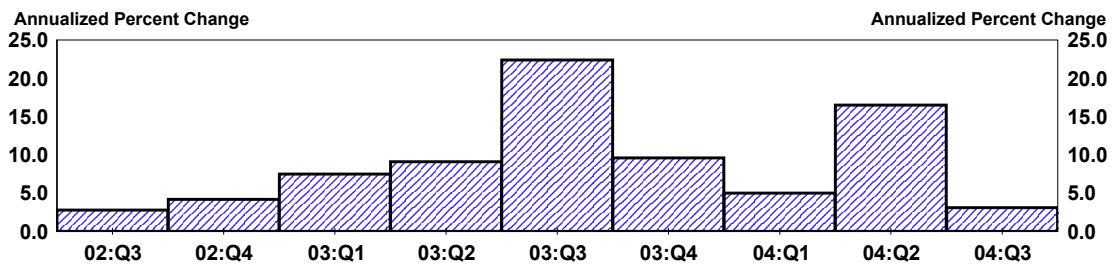
PCE: Major Components



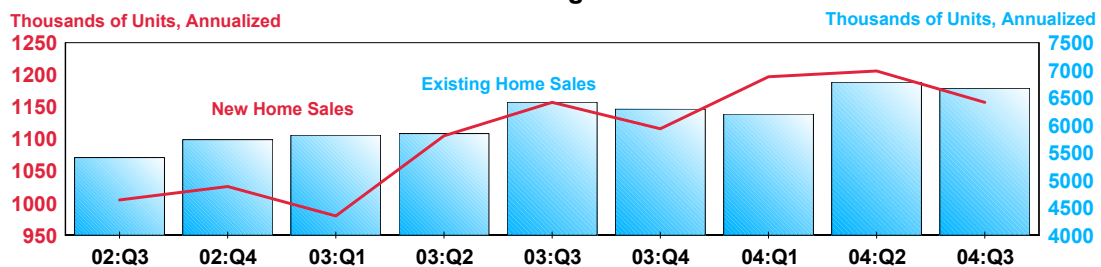
Source: Bureau of Economic Analysis.

Although residential investment was slower in the third quarter, new and existing home sales remained at high levels.

Residential Investment



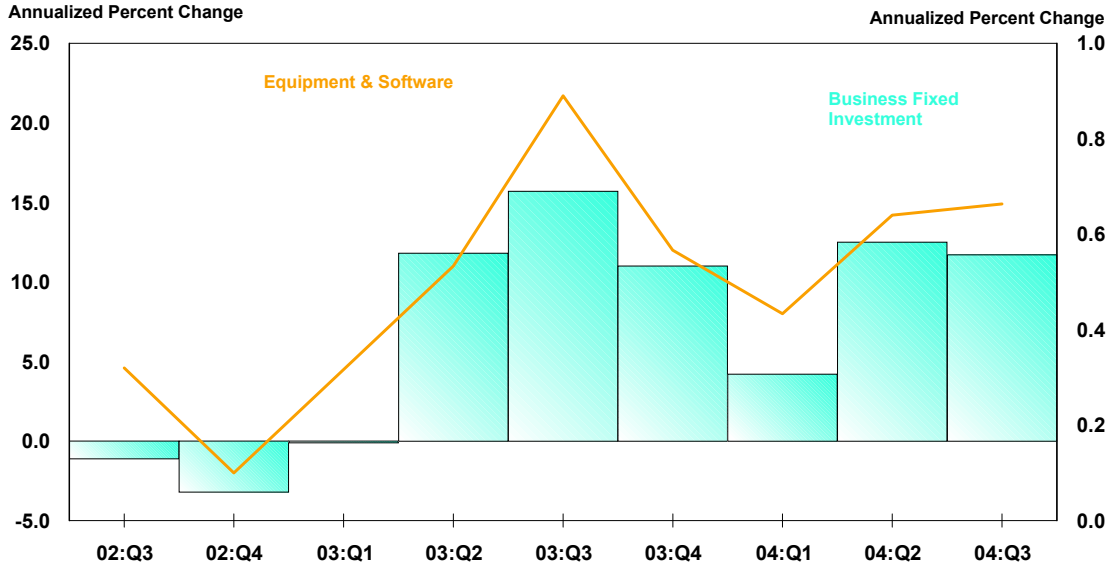
New and Existing Home Sales



Source: Bureau of Economic Analysis (residential investment), U.S. Census Bureau (new homes sales), and National Association of Realtors (existing home sales).

Nonresidential fixed investment eased slightly in the third quarter, but investment in equipment and software continued to rise.

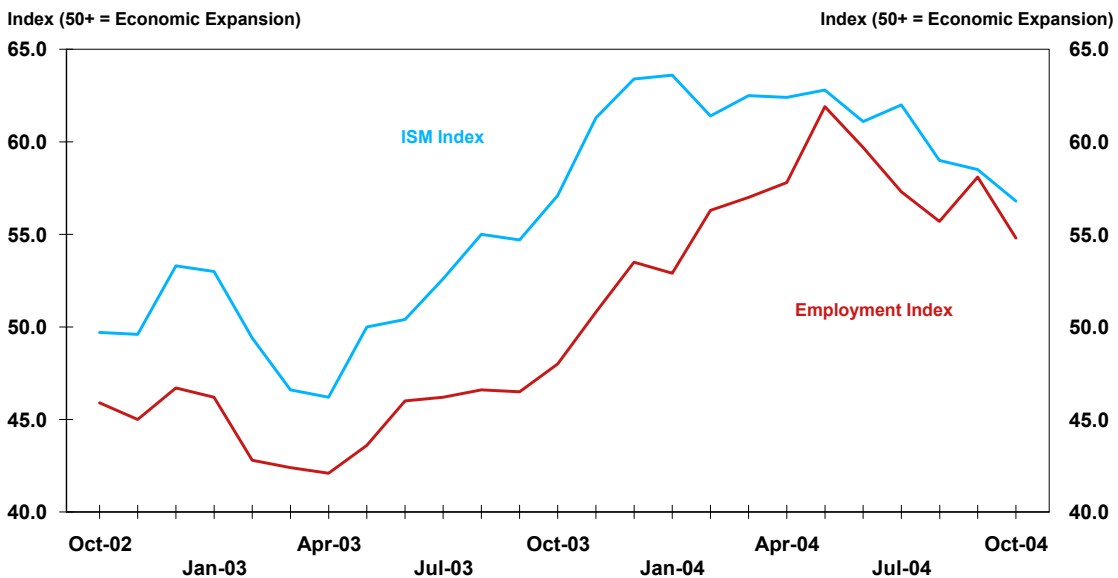
Business Fixed Investment



Source: Bureau of Economic Analysis.

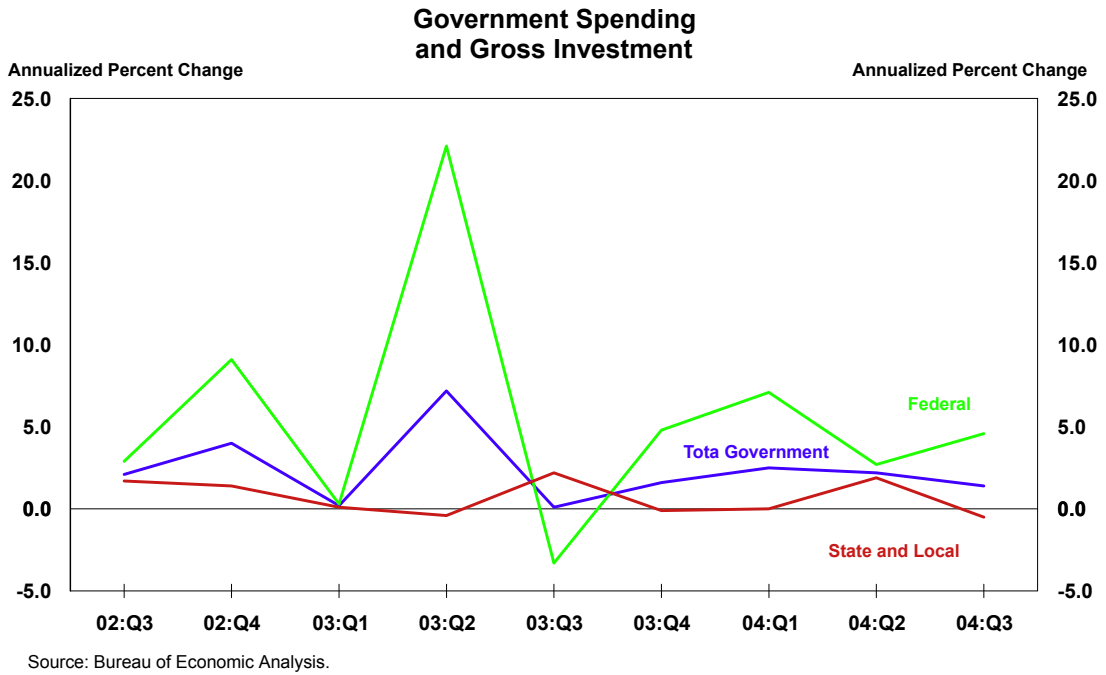
October's ISM index slowed somewhat in October, but remained well above the 50.0 mark, indicating a continued expansion in manufacturing.

ISM Index

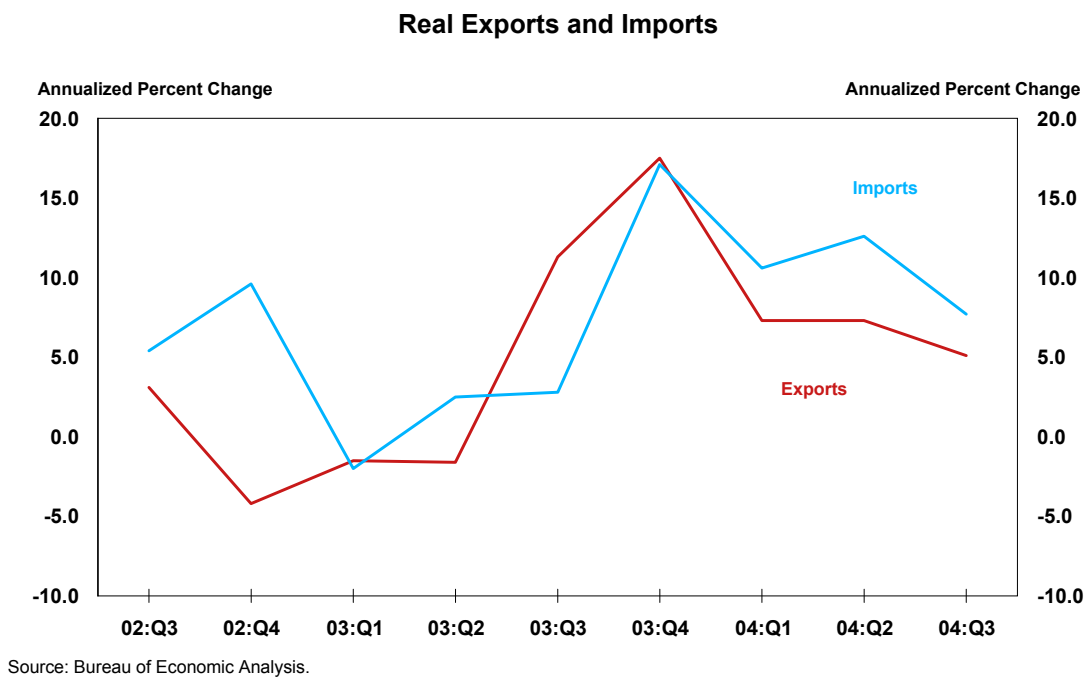


Source: Institute for Supply Management.

Government consumption expenditures and gross investment eased in the third quarter, as federal spending rose and state and local spending fell.

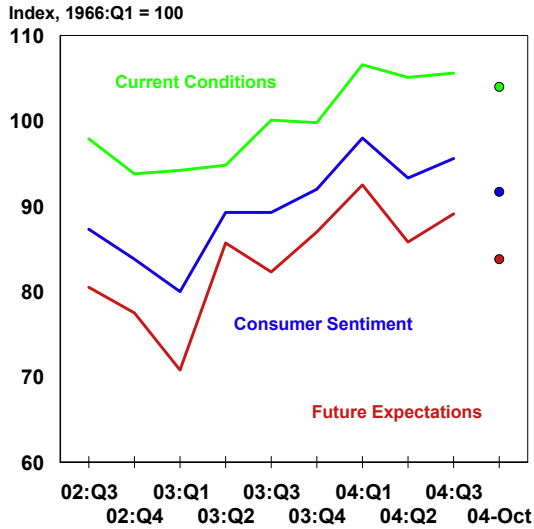


Growth rates in both imports and exports were slower in the third quarter.

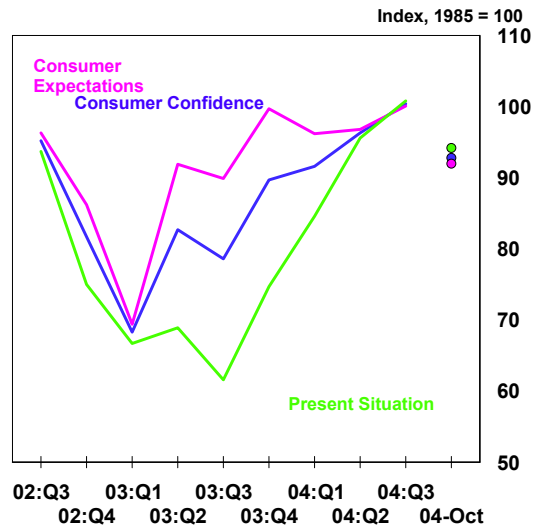


Consumer attitudes fell in October, after showing some improvement in the third quarter.

Consumer Sentiment



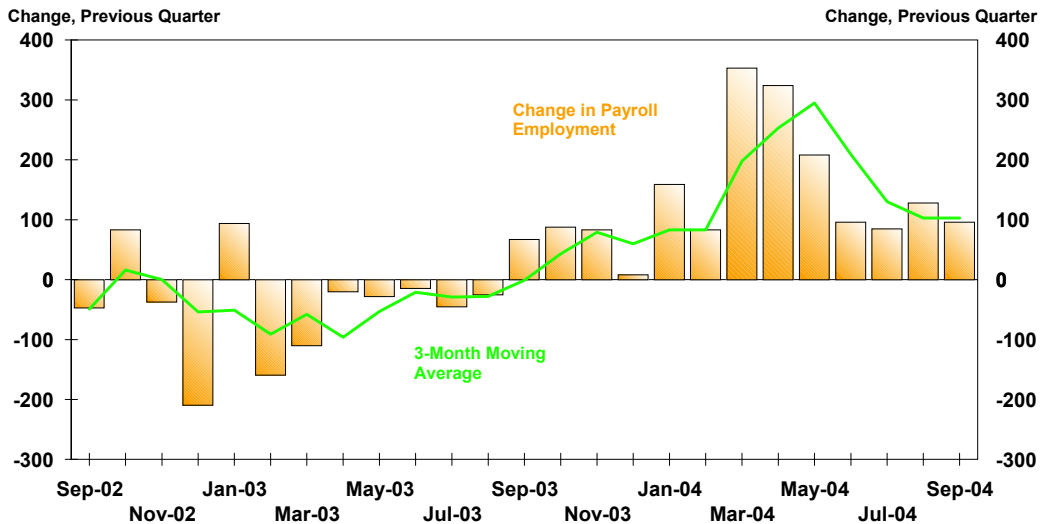
Consumer Confidence



Source: The University of Michigan (left panel) and The Conference Board (right panel).

One reason consumers are less optimistic is because of the sluggish labor market.

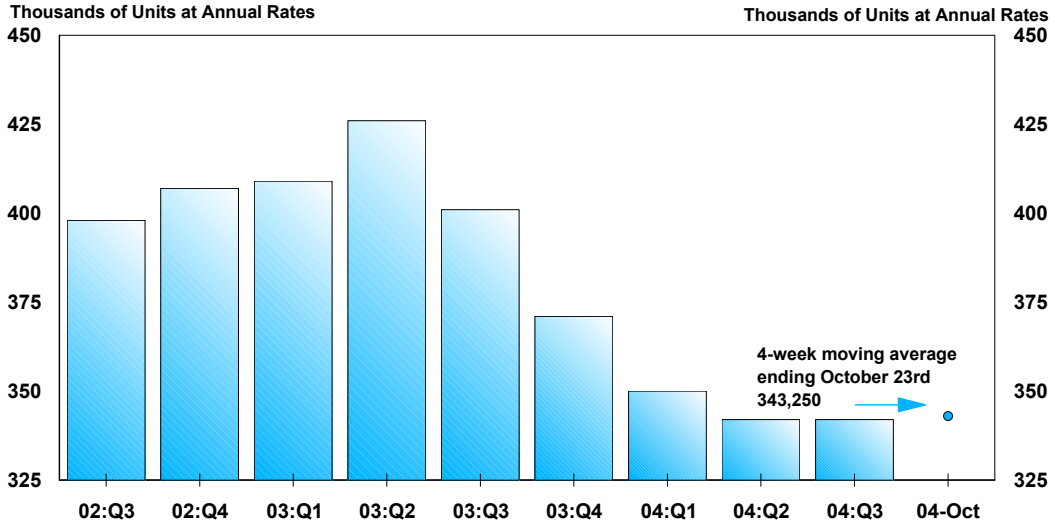
Nonfarm Payroll Employment



Source: Bureau of Labor Statistics.

The latest 4-week moving average of initial claims came in just below 350,000, continuing along the path seen over the past 2 quarters.

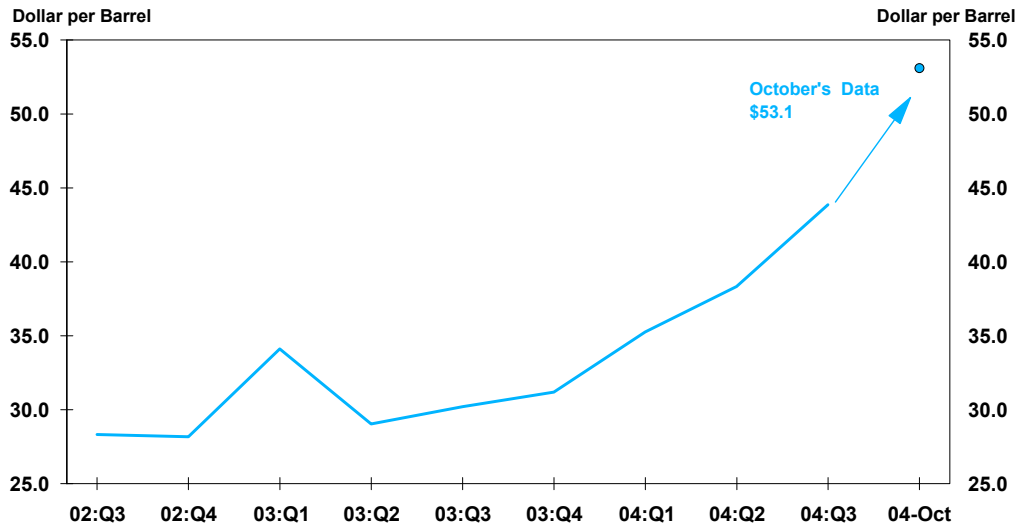
Initial Claims



Source: Department of Labor, Employment and Training Administration.

Oil prices also remain a concern, as the price per barrel rose again in October.

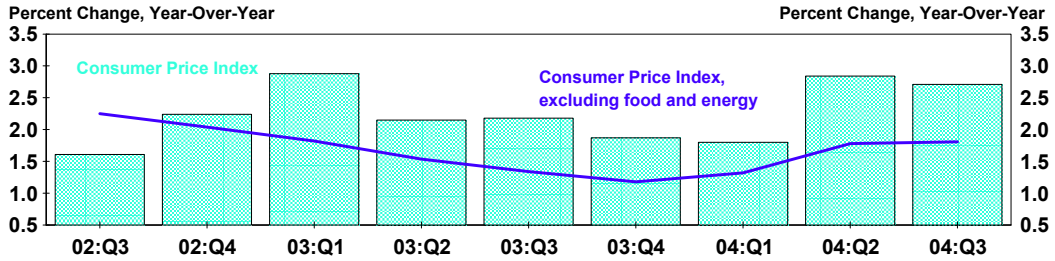
Domestic Spot Oil Price



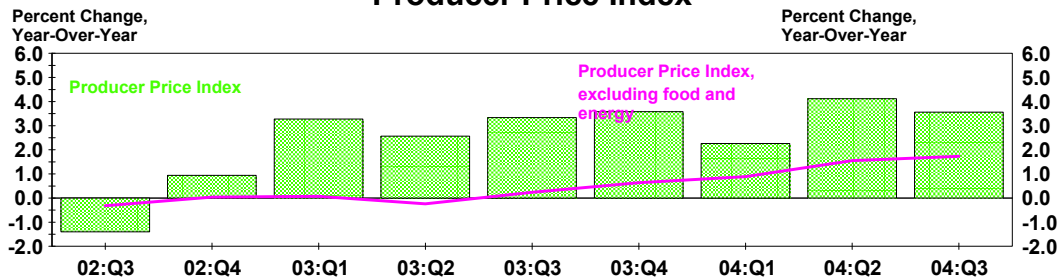
Source: Bureau of Labor Statistics (employment) and West Texas Intermediate, Wall Street Journal (oil prices).

But, total producer and consumer prices were a bit lower in the third quarter, and core prices were little changed.

Consumer Price Index



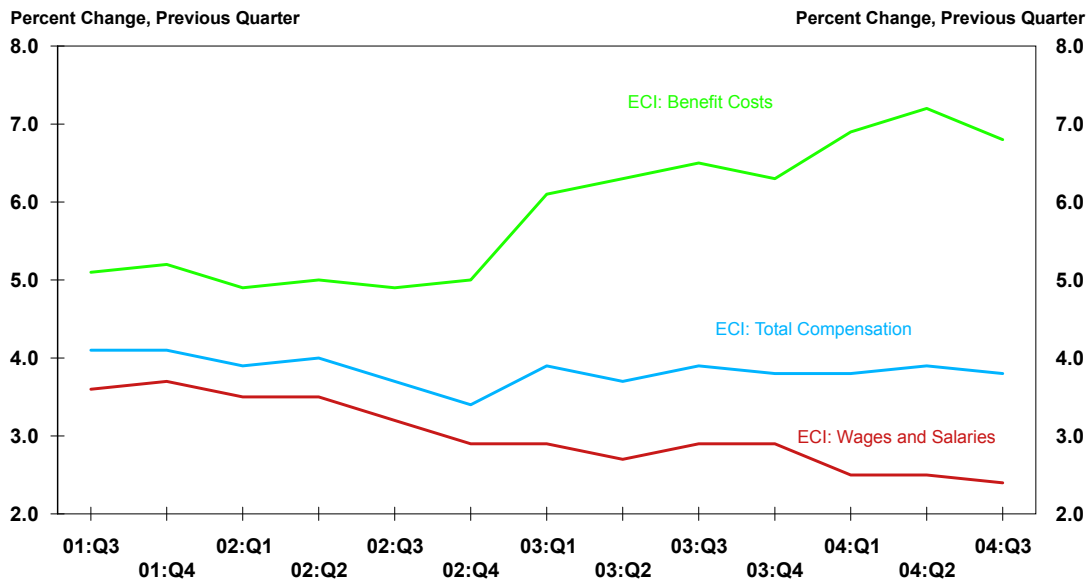
Producer Price Index



Source: Bureau of Labor Statistics.

Employee costs, as measured by the employment cost index, was lower in the third quarter compared to the second quarter.

Employment Cost Index



Source: Bureau of Labor Statistics.

Overall, Real GDP growth picked up in the third quarter, following its second quarter slump. But slow employment growth and rising oil prices remain big concerns for both consumers and firms.



Source: Federal Reserve Board of Governors.