

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

Current Economic Developments - September 9th, 2004

Data released since your last Directors' meeting have been somewhat mixed. Still, employment growth remains low and needs to pick-up before worries about the economy subside.

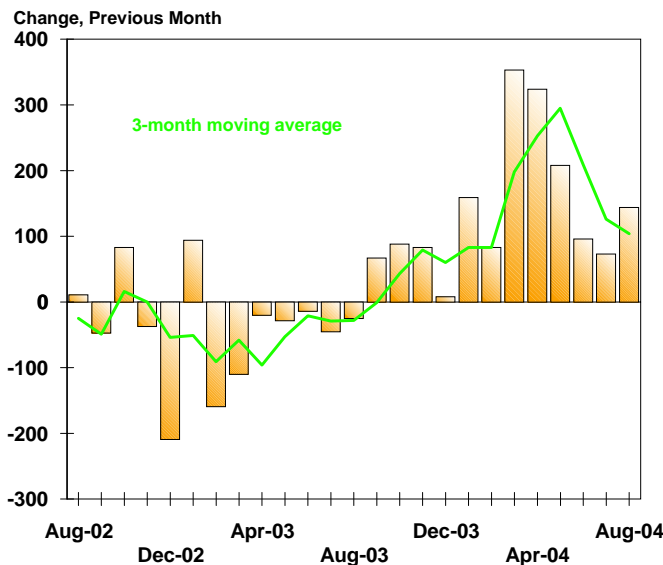
In August, payroll employment rose and the unemployment rate fell to its lowest level in nearly three years. However, initial claims edged slightly upward, consumer confidence deteriorated, and auto and light truck sales fell.

In July, although personal income posted only a modest gain, consumer spending rose, led by a rebound in durable goods. New and existing home sales slipped, yet sales remain high, despite rising interest rates. Housing starts and building permits rose.

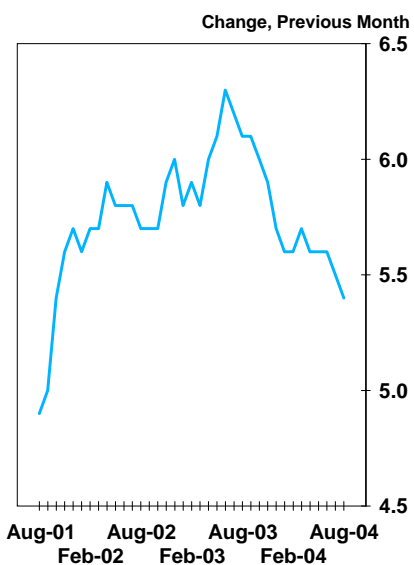
In the manufacturing sector, industrial production and capacity utilization rose in July, but August's ISM index and July's new orders for capital goods, excluding aircraft, suggest some slowing.

Nonfarm payroll employment rose in August and the unemployment rate dropped to its lowest level in nearly three year.

Change in Nonfarm Payroll Employment



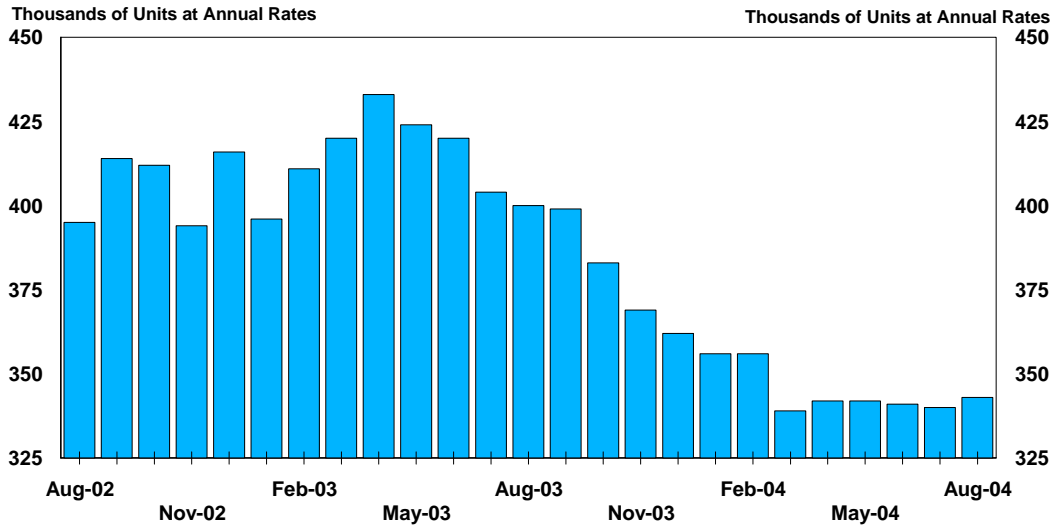
The Unemployment Rate



Source: Bureau of Labor Statistics.

However, initial claims edged slightly upward.

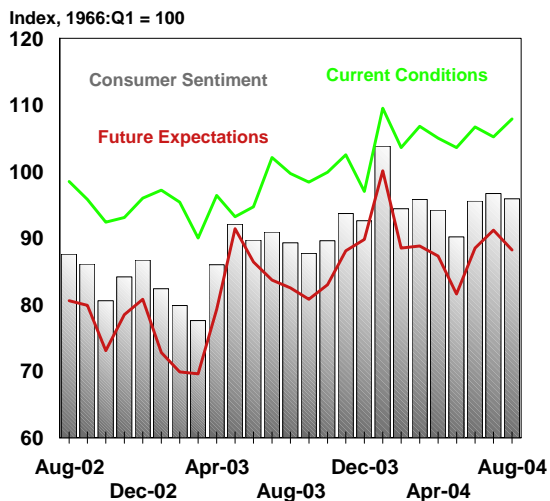
Initial Claims



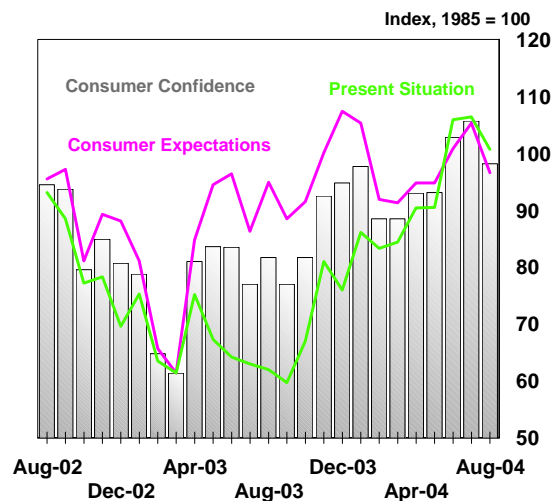
Source: Department of Labor, Employment and Training Administration.

Consumer optimism waned in August, as perceptions about the economy worsened, especially future expectations about the labor market.

Consumer Sentiment



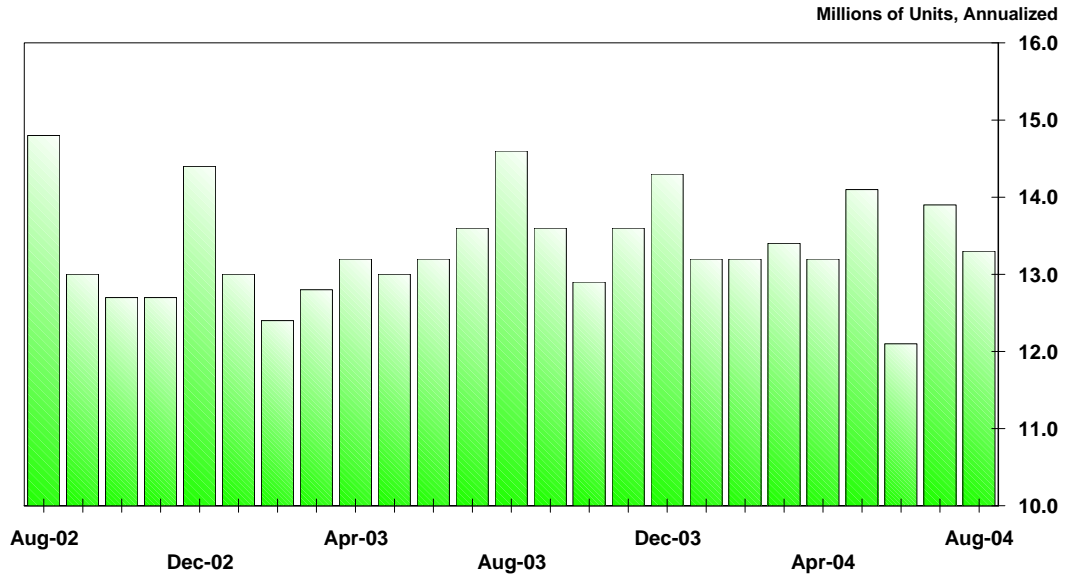
Consumer Confidence



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

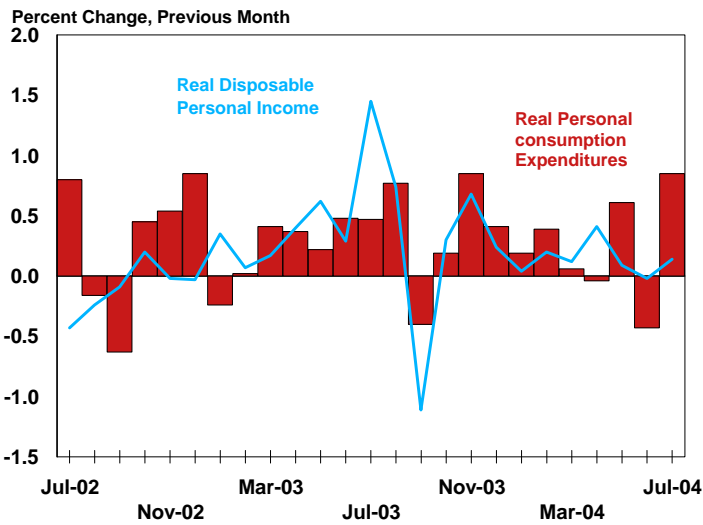
Domestic auto and light truck sales were lower in August, compared to July.

Domestic Auto and Light Truck Sales

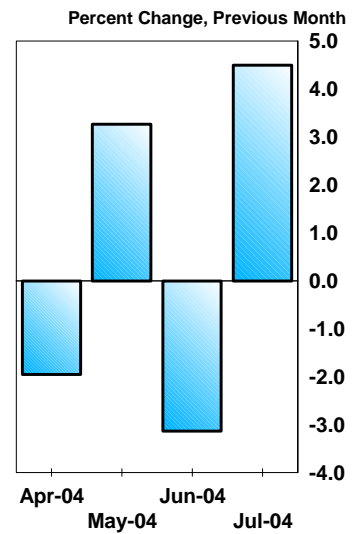


Although real disposable income posted only a modest gain in July, consumer spending was up, especially on durable goods.

Real DPI and Consumption



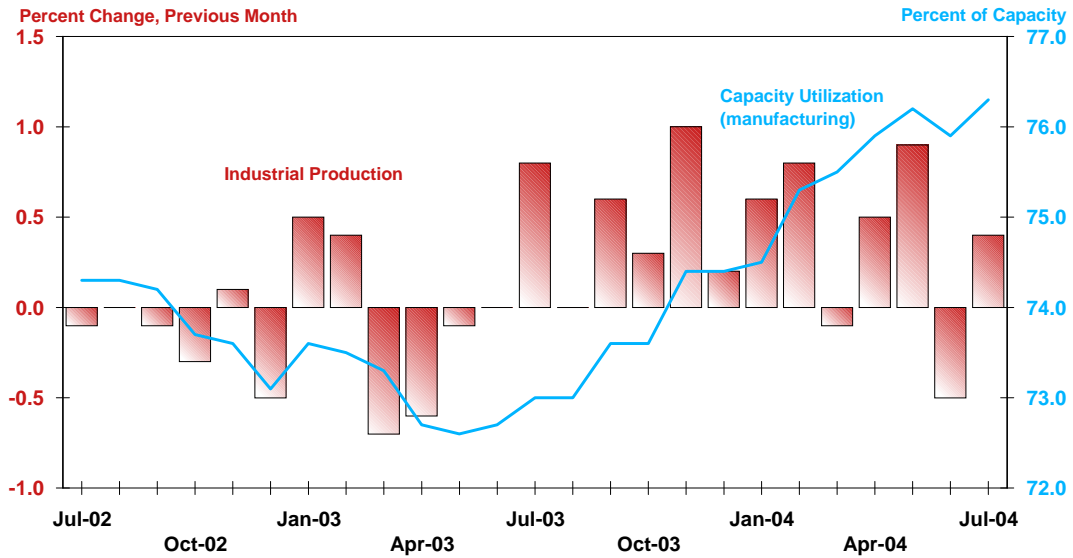
Real PCE: Durables



Source: Bureau of Economic Analysis.

In July, industrial production and capacity utilization rose.

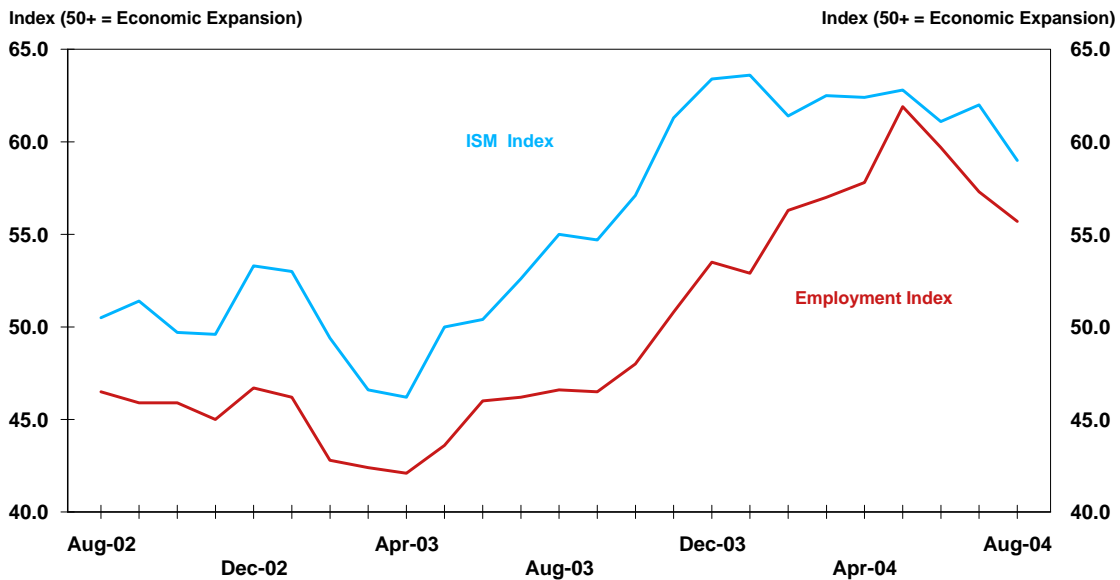
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

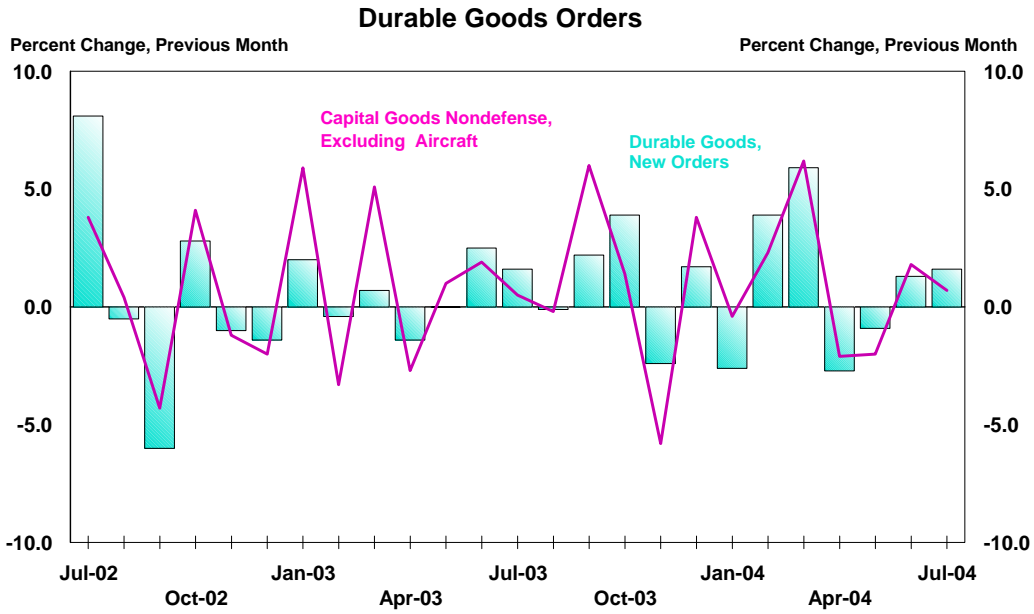
The ISM employment index eased in August, causing a dip in the composite index. Still, the ISM index remains above 50.

ISM Index



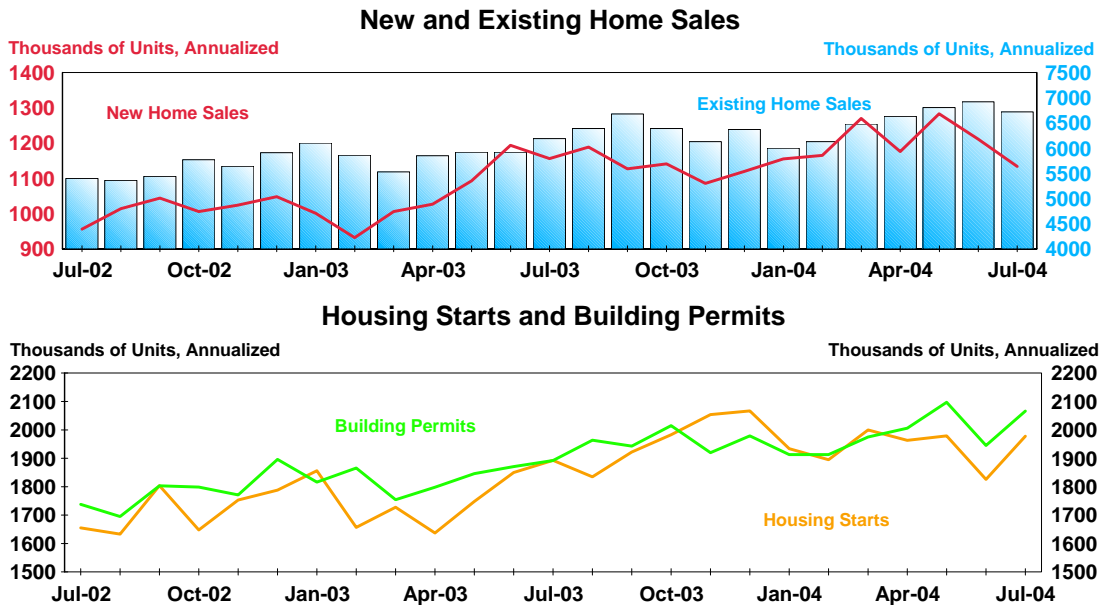
Source: Institute for Supply Management.

New orders for durable goods posted a modest increase in July, but capital goods excluding aircraft eased, suggesting possible slowing.



Source: U.S. Census Bureau.

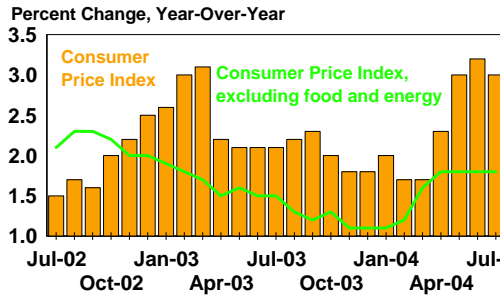
New and existing home sales slipped in July, but sales remain strong and housing starts and building permits rebounded.



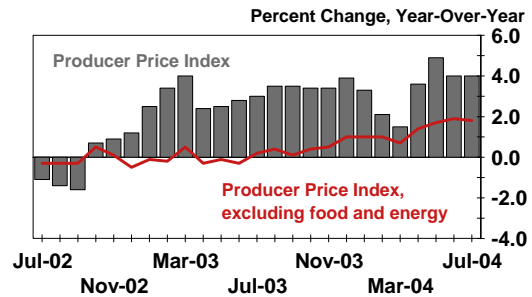
Source: U.S. Census Bureau.

In July, we saw a slight improvement in inflation, despite a continued increase in oil prices. Core inflation remains moderate at both the wholesale and retail levels.

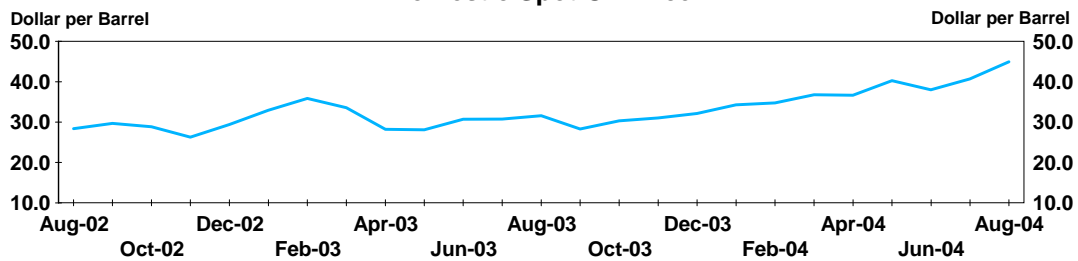
Consumer Price Index



Producer Price Index



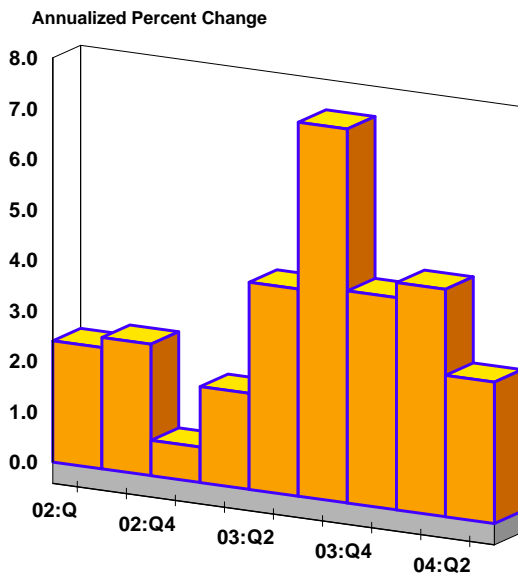
Domestic Spot Oil Price



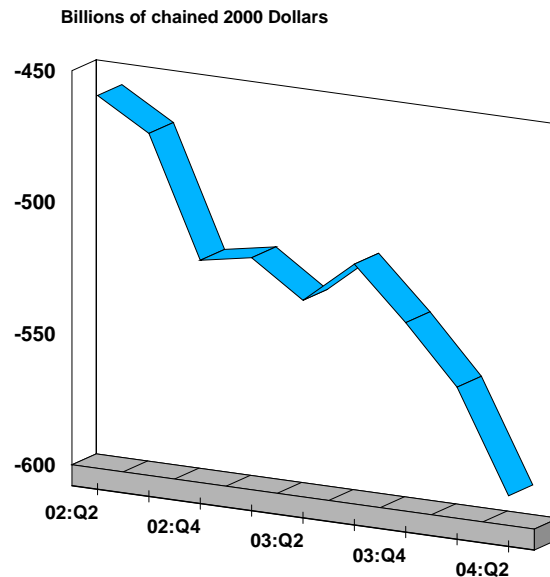
Source: Bureau of Labor Statistics (CPI and PPI) and West Texas Intermediate, Wall Street Journal (oil).

Real GDP was revised downward in the second quarter, as real net exports continued to fall.

Real Gross Domestic Product

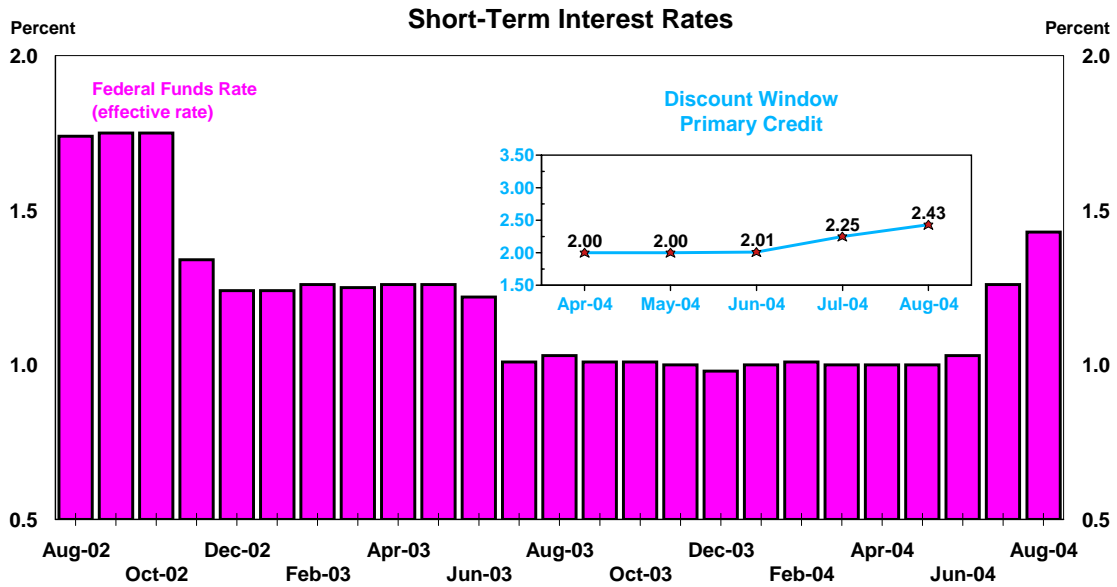


Real Net Exports



Source: Bureau of Economic Analysis.

Overall, perceptions about the economy have weakened, but consumer confidence does not always predict future spending.



Source: Federal Reserve Board of Governors.