

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,  
 FEDERAL RESERVE BANK OF BOSTON  
 Current Economic Developments - April 21, 2005

Data released since your last Directors' meeting show the economy is growing at a steady pace. Growth in payroll employment slowed in March. Still, the average number of new jobs in the first quarter was in line with its average for the last six months of 2004. Initial claims for unemployment insurance rose in March and have remained basically flat since. Yet, the unemployment rate fell two-tenths of a percentage point last month.

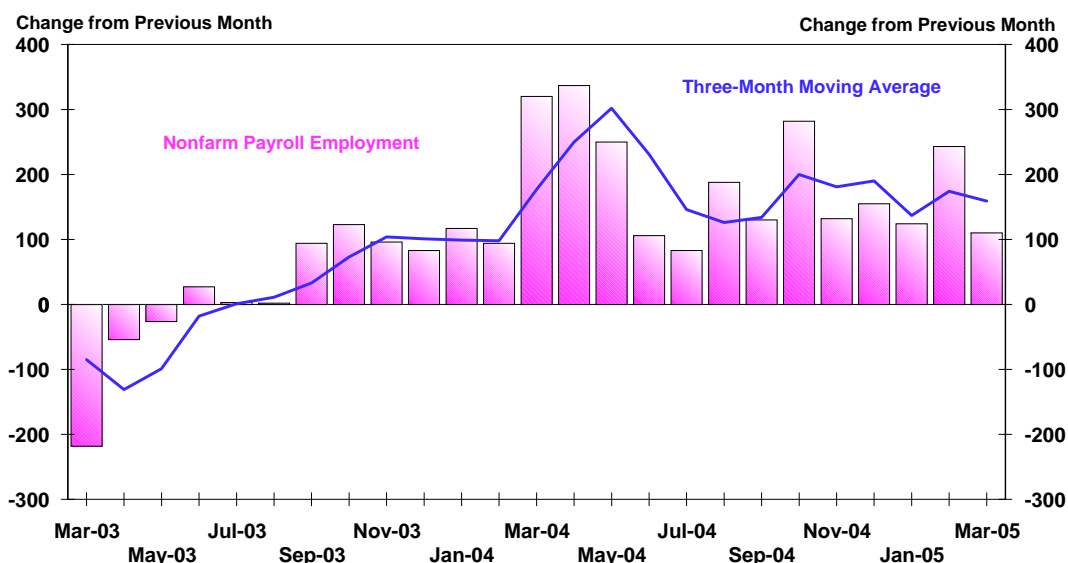
Consumer confidence fell in March and sentiment continued to fall in April, as attitudes about current conditions and future expectations deteriorated. Consumer spending in February and retail sales in March were modest. Auto sales picked-up in March, but their first quarter average was down, compared to the fourth quarter.

The housing market remains strong, despite some cooling off in March. Low interest rates helped boost new home sales in February, while existing home sales were essentially flat. Housing starts dropped in March, after hitting a two-decade high in February. Building permits continued to fall in March, but remain at a high level.

In the manufacturing sector, the ISM index was flat in March. Industrial production rose, while capacity utilization eased. And new orders for capital goods excluding aircraft suggest business investment remained strong in the first quarter.

Growth in payroll employment slowed in March. Still, the average number of new jobs in the first quarter was in line with its average for the last six months of 2004.

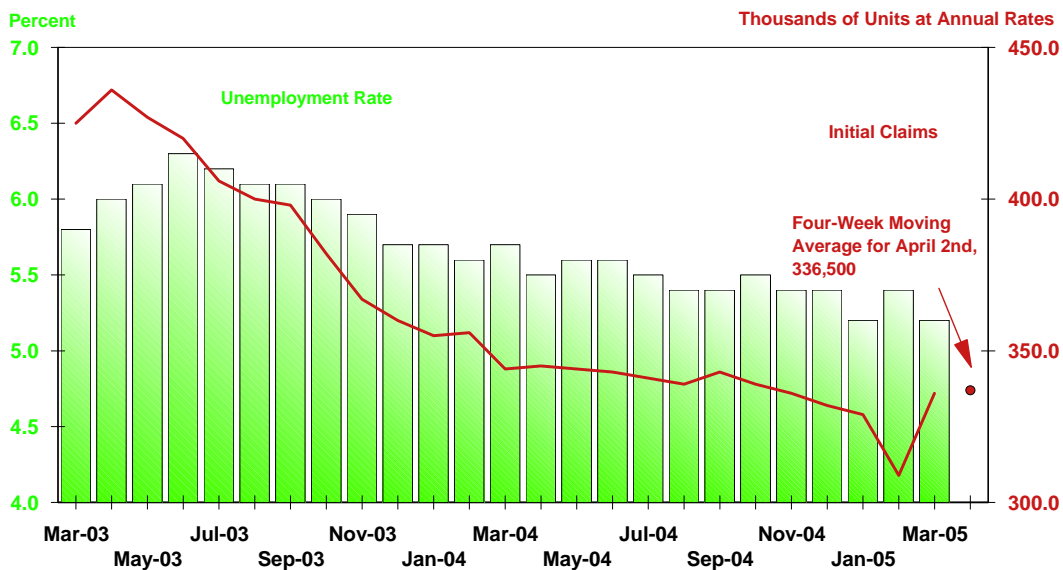
**Nonfarm Payroll Employment**



Source: Bureau of Labor Statistics.

In March, although initial claims for unemployment insurance increased, the unemployment rate fell two-tenths of a percentage point.

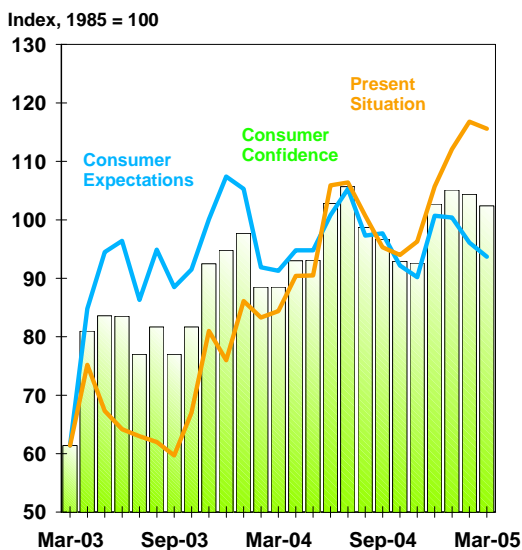
### Unemployment Rate and Initial Claims



Source: Bureau of Labor Statistics.

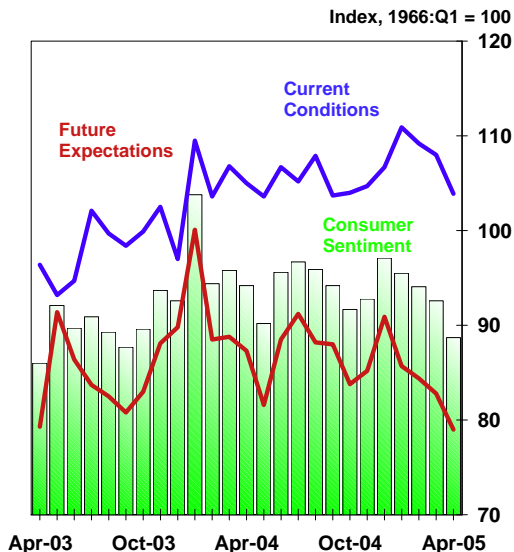
Consumer confidence fell in March, as did its components. Consumer sentiment continued to fall in April, as current conditions and future expectations deteriorated.

### Consumer Confidence



Source: The Conference Board.

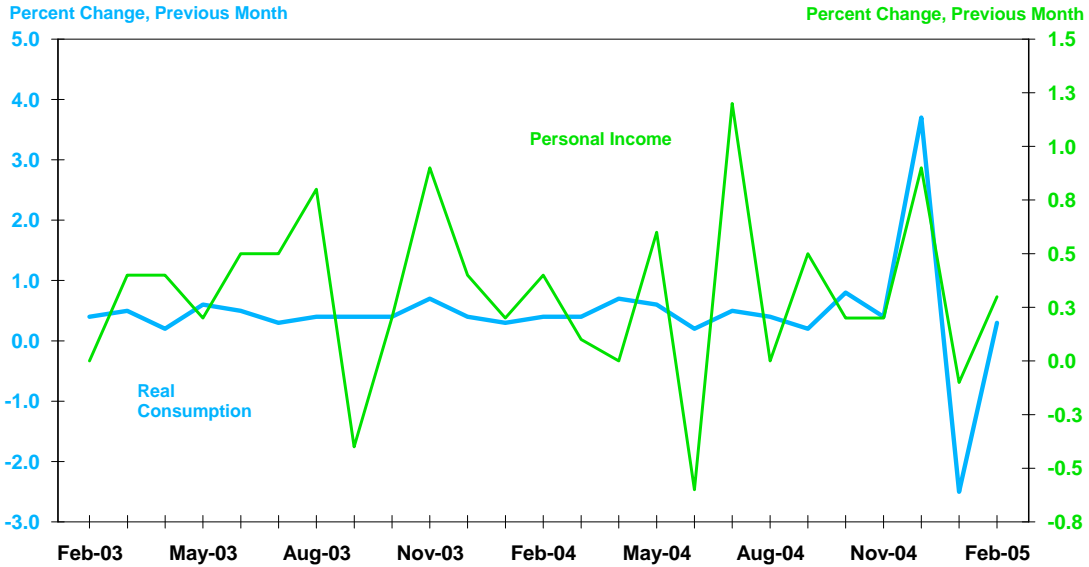
### Consumer Sentiment



Source: The University of Michigan.

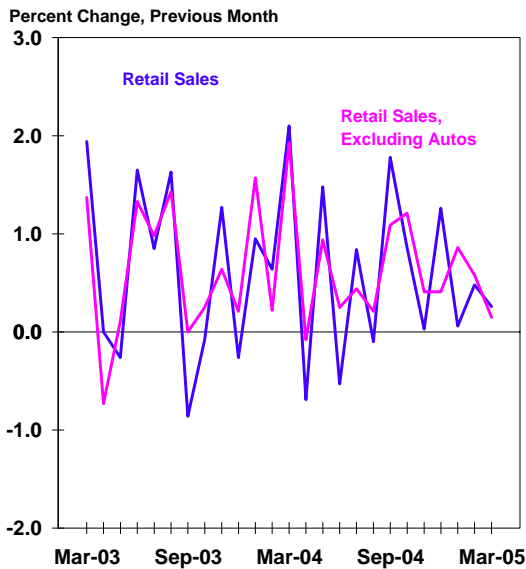
In February, personal income and real consumption posted modest gains.

### Personal Income and Consumption

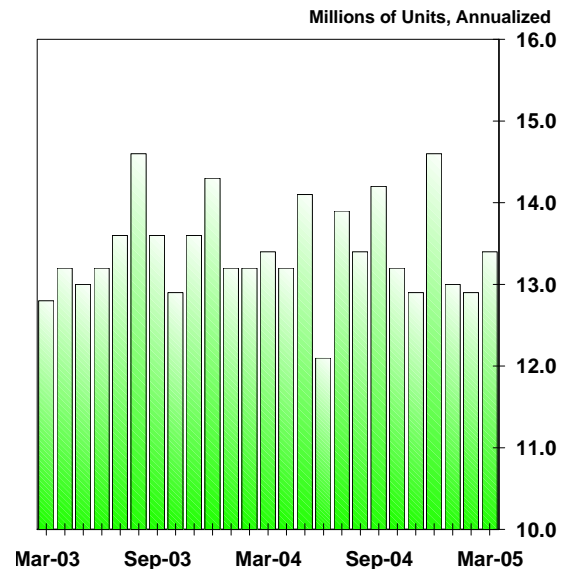


Retail sales were modest in March, despite an increase in auto sales. Domestic auto and light truck sales posted their second highest gain in six months.

### Retail Sales



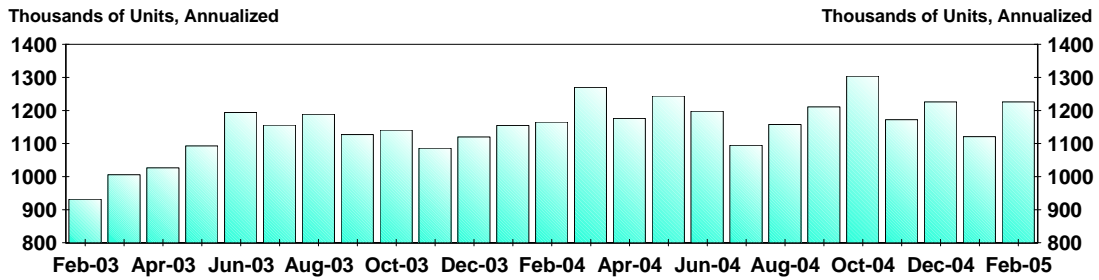
### Domestic Auto and Light Truck Sales



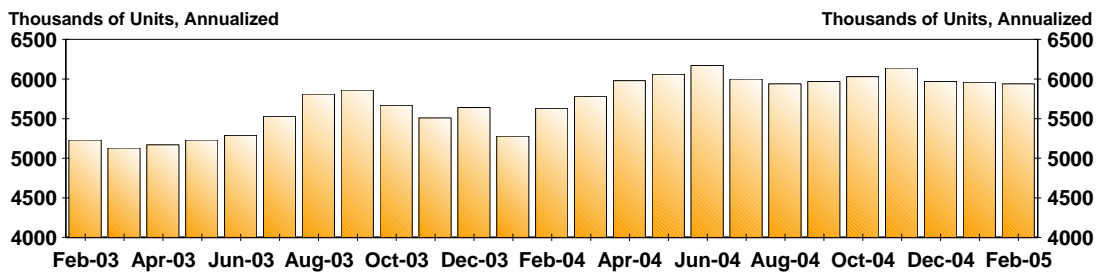
Source: U.S. Census Bureau (retail sales) and Federal Reserve, Board of Governors (autos).

New home sales rose in February, while existing home sales were essentially flat.

### New Home Sales



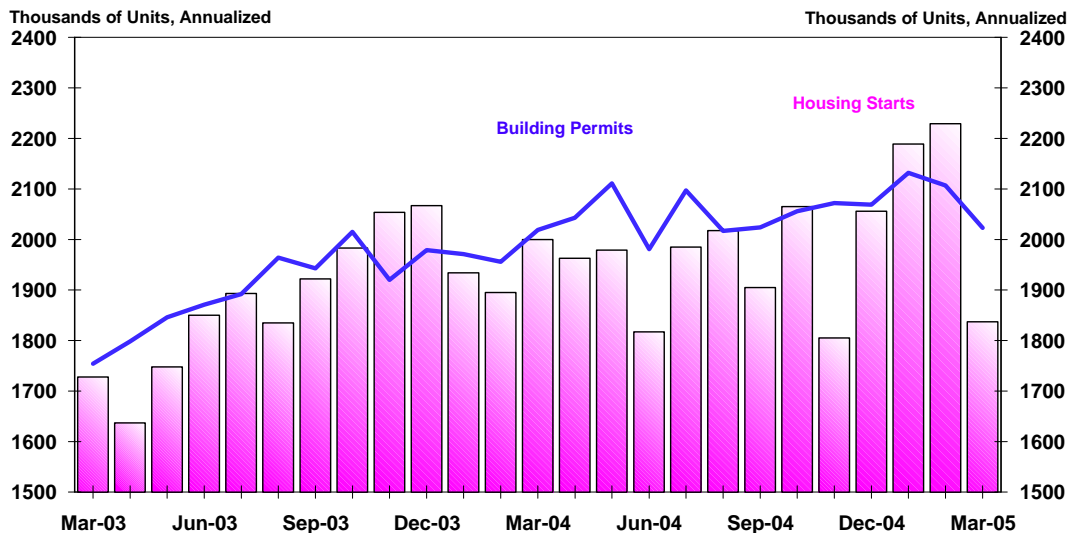
### Existing Home Sales



Source: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales).

Housing starts dropped in March, after hitting a two-decade high in February. Building permits continued to fall in March, but remain at a high level.

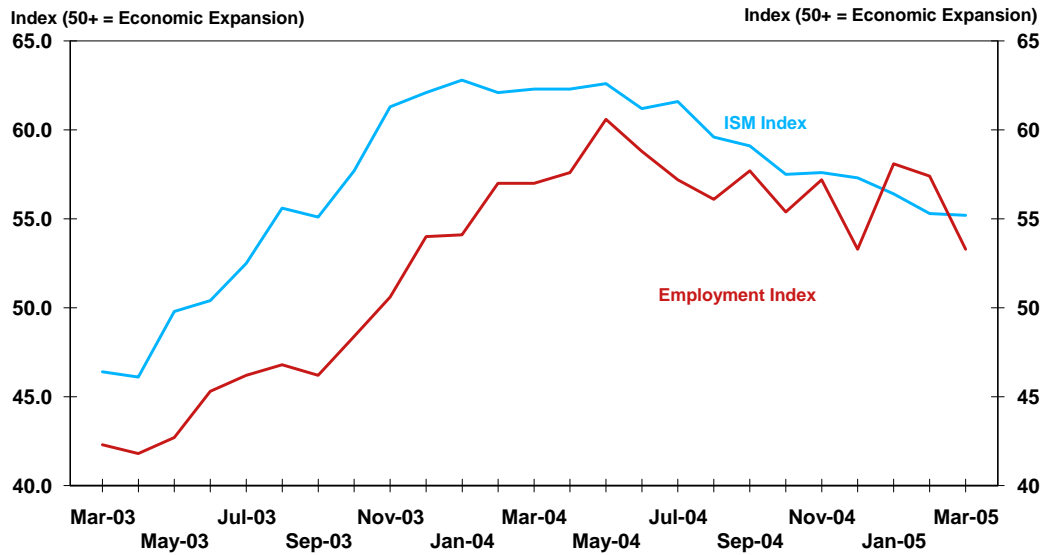
### Housing Starts and Building Permits



Source: U.S. Census Bureau.

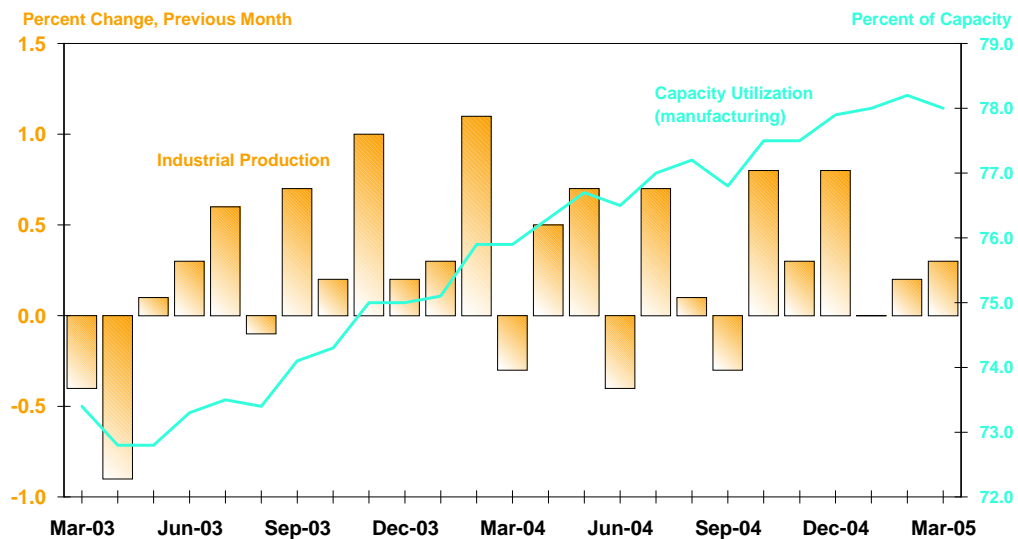
In March, the ISM index was basically flat, and the employment index posted its second consecutive monthly decline.

### ISM Index



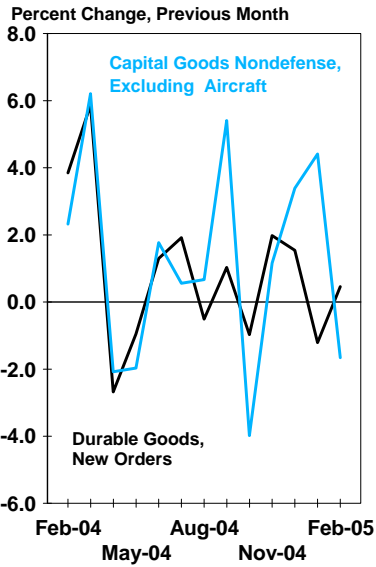
Industrial production rose in March, while capacity utilization eased.

### Industrial Production and Capacity Utilization

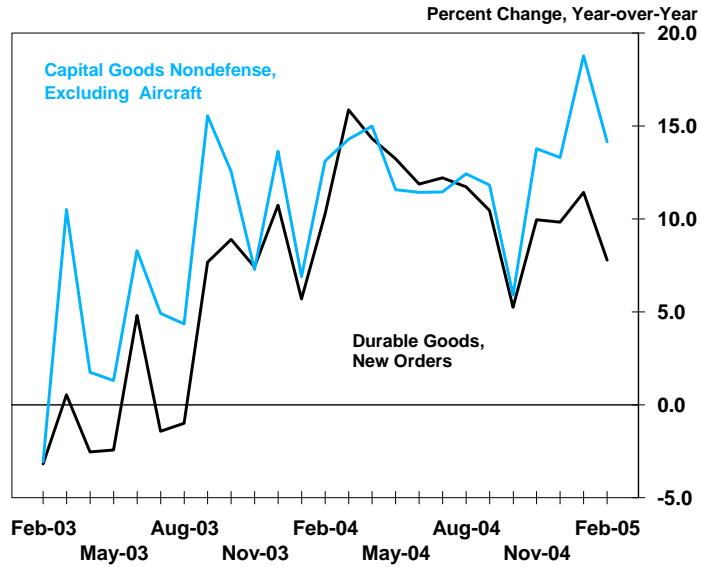


New orders for durable goods rose in February, while capital goods excluding aircraft fell. On a year-over-year basis, and despite some easing in February, capital goods excluding aircraft have continued their upward trend.

### New Orders



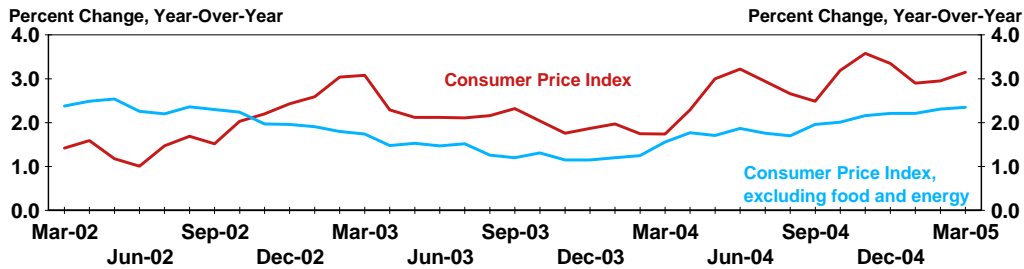
### New Orders



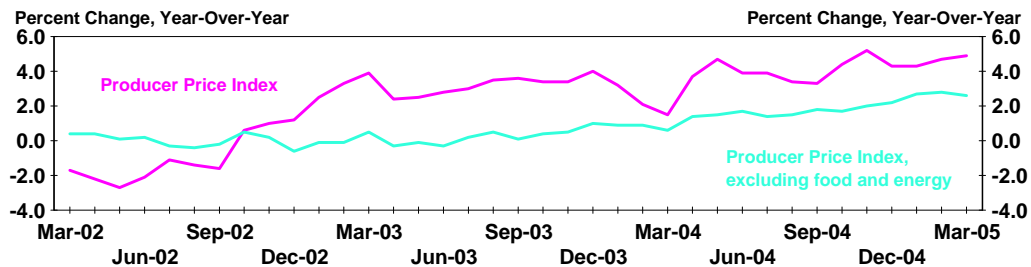
Source: U.S. Census Bureau.

Inflation rose for both consumers and wholesalers in March, as oil prices continued to increase. Core measures of inflation remained moderate.

### Consumer Price Index



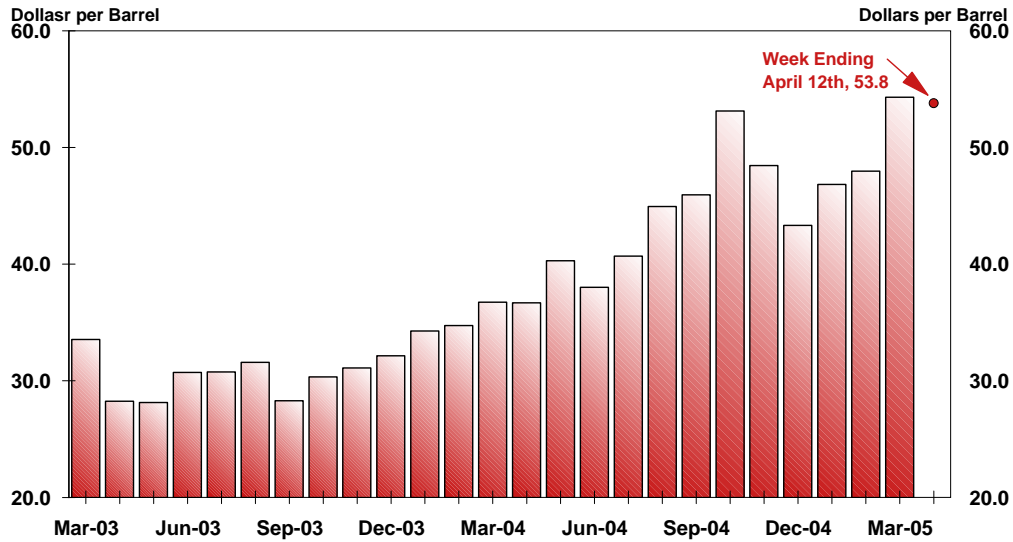
### Producer Price Index



Source: Bureau of Labor Statistics.

Recent oil prices have eased slightly, following three consecutive months of increases. Still, the price per barrel of oil remains above 50.

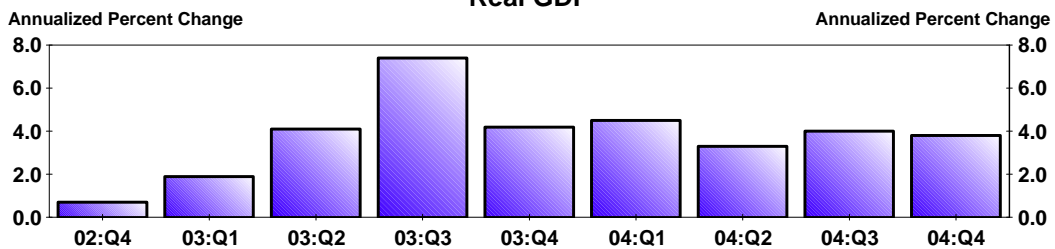
### Domestic Spot Oil Price



Source: Wall Street Journal.

Real GDP was unrevised in the fourth quarter. Year-end growth was led by personal consumption expenditures, equipment and software, and private inventory investment.

### Real GDP



### Real GDP and Its Components, Fourth Quarter Revisions

Description	Preliminary	Revised
Real GDP	3.8	3.8
Personal Consumption	4.2	4.2
Business Investment	14.0	14.5
Equipment and Software	18.0	18.4
Residential Investment	2.1	3.4
Government	1.2	0.9
Exports	2.4	3.2
Imports	11.4	11.4
Final Sales	3.2	3.4
Change in Private Inventories	51.0	47.2

Source: Bureau of Economic Analysis.

Overall, the economy is growing at a steady pace. During the first quarter, payroll employment expanded in line with its average for the last six months of 2004. Still, continued job growth remains key to the economy's prospects.

