

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - January 12, 2005

Data released since your last Directors' meeting show the economy is growing, although recent data suggest real GDP growth in the fourth quarter may be a bit slower than that seen in the third quarter.

During the fourth quarter, the labor market improved somewhat, as nonfarm payrolls picked up and initial claims continued to edge downward. Still, the unemployment rate was flat.

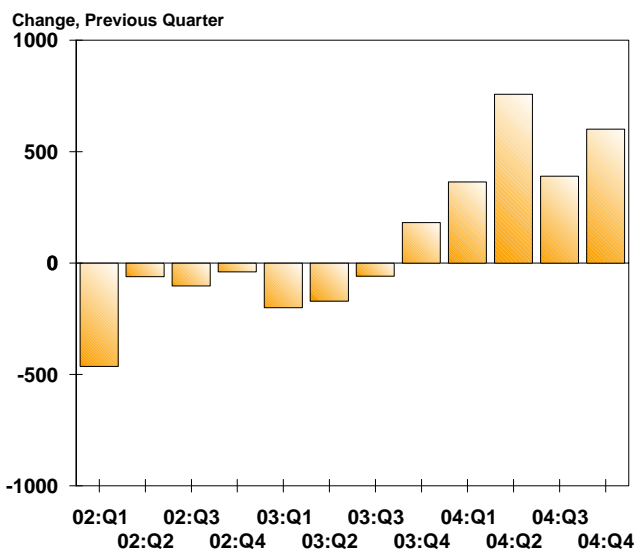
So far, fourth quarter estimates show real consumption is a bit slower than that seen in the third quarter. And despite a jump in December's auto sales, fourth quarter auto numbers were down slightly. Consumer attitudes have been basically flat since mid-year.

In November, the housing market saw a drop in housing starts, building permits, and new home sales, while existing home sales hit a new record high. The housing market remains strong, despite rising interest rates, but does not appear to be a source of growth.

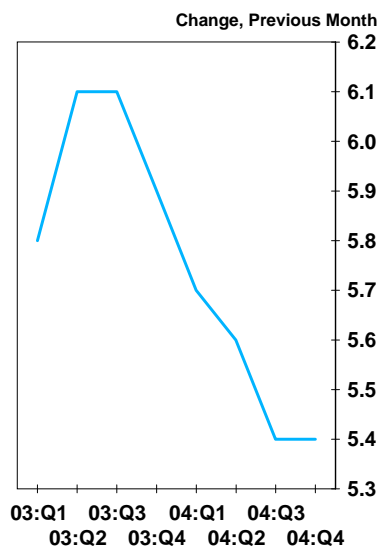
New orders for capital goods, excluding aircraft, posted a modest gain in November, but suggests slower business investment in the fourth quarter.

During the fourth quarter, nonfarm payrolls rose at a faster pace than seen in the third quarter. Still, the unemployment rate was flat.

Change in Nonfarm Payroll Employment



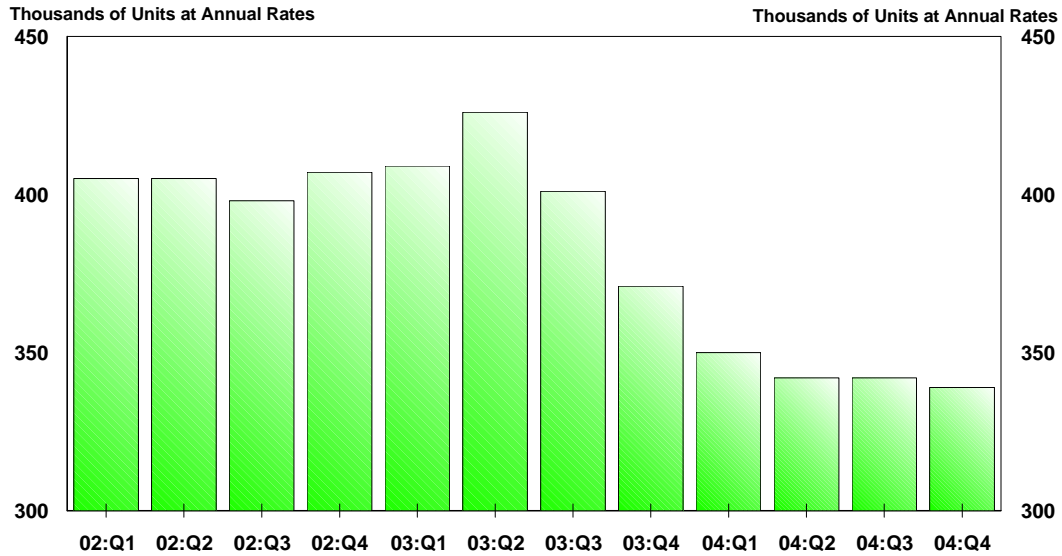
The Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims continued to edge down in the fourth quarter.

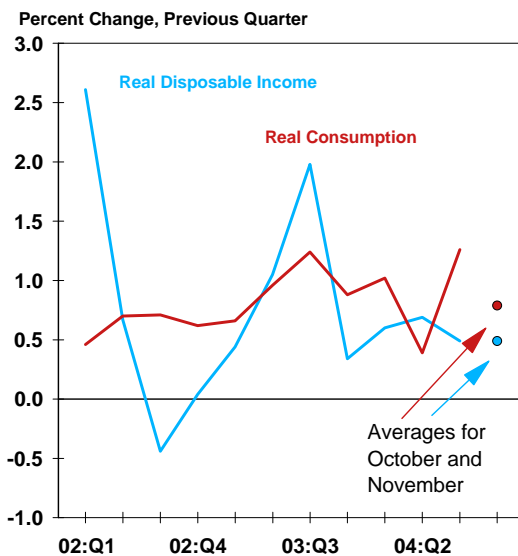
Initial Claims



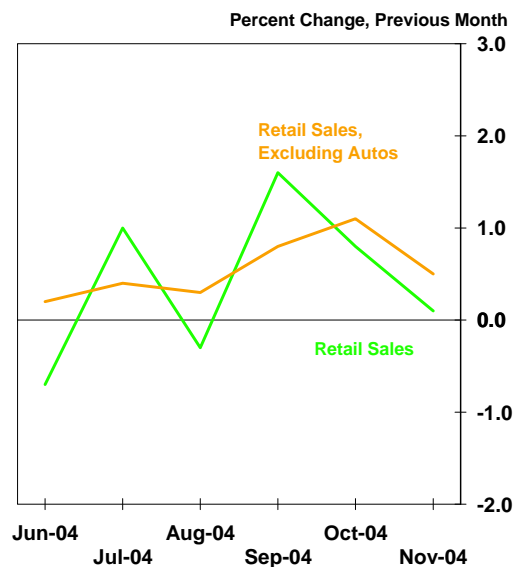
Source: Department of Labor, Employment and Training Administration.

So far, fourth quarter estimates show real disposable income is in line with the third quarter, while real consumption is a bit lower. Retail sales showed a modest gain in November.

Real DPI and Consumption



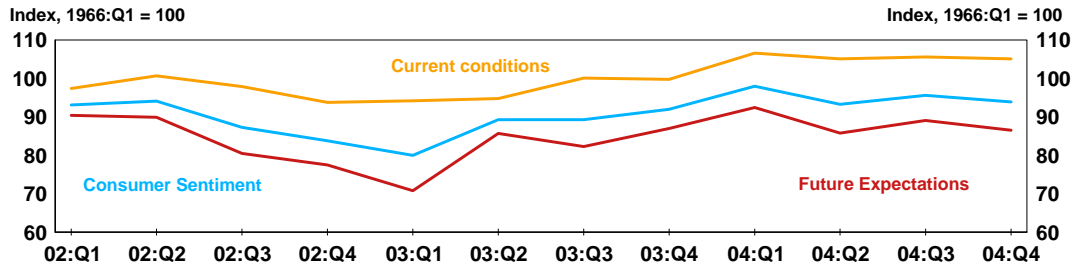
Retail Sales



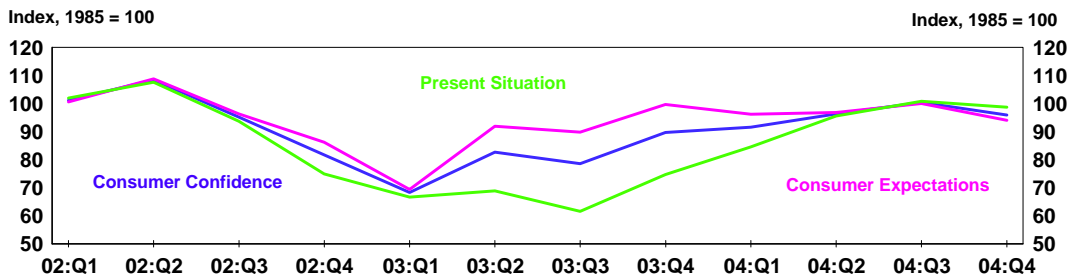
Sources: Bureau of Economic Analysis (income and consumption) and U.S. Census Bureau (retail sales).

Consumer attitudes fell slightly in the fourth quarter, but have been basically flat since mid-year.

Consumer Sentiment



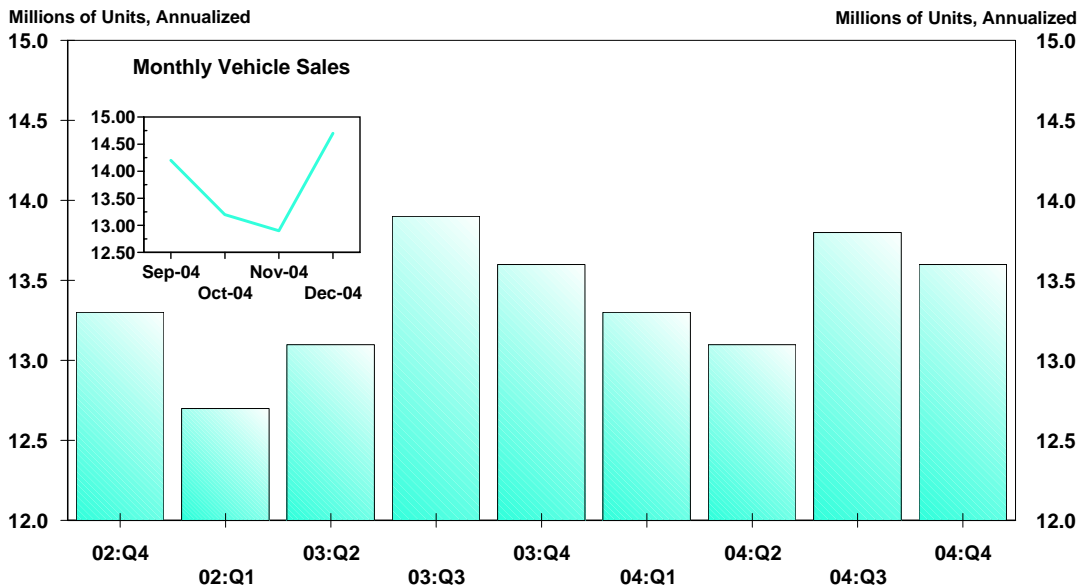
Consumer Confidence



Source: The University of Michigan (top panel) and The Conference Board (bottom panel).

Domestic auto and light truck sales slowed somewhat in the fourth quarter, despite a jump in December's sales.

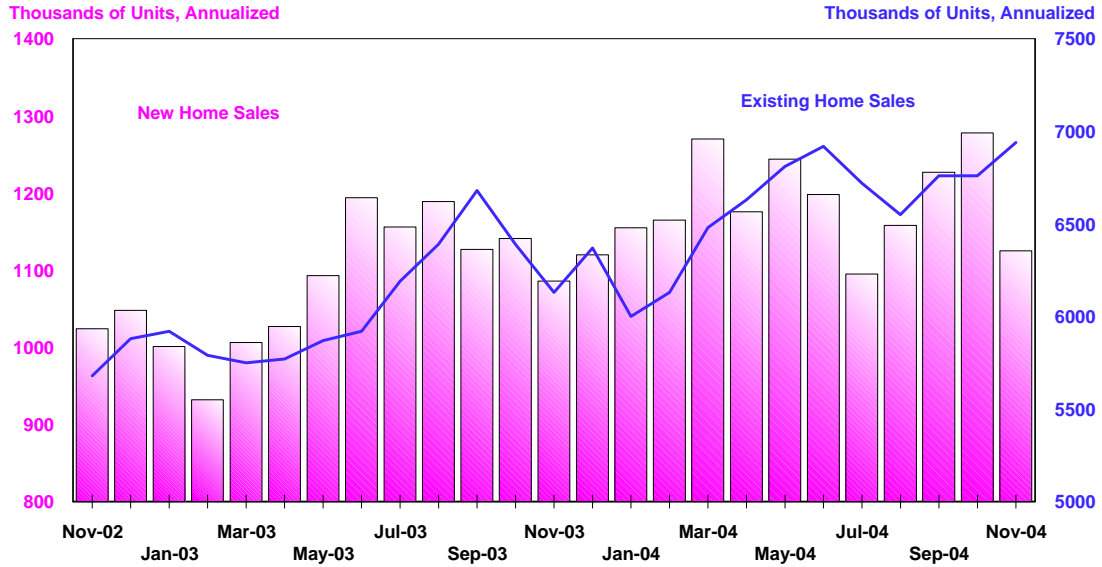
Domestic Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

In November, the housing market was somewhat mixed. New home sales posted their largest one month drop in over 10 years, while existing home sales hit a new record high.

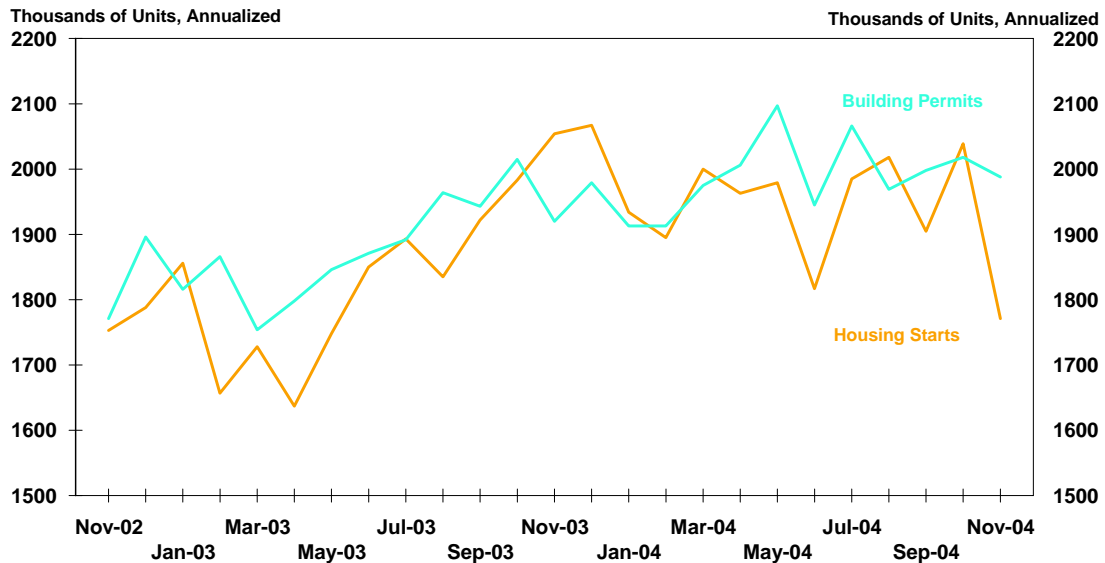
New and Existing Home Sales



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

Housing starts and building permits fell in November, but remain at high levels.

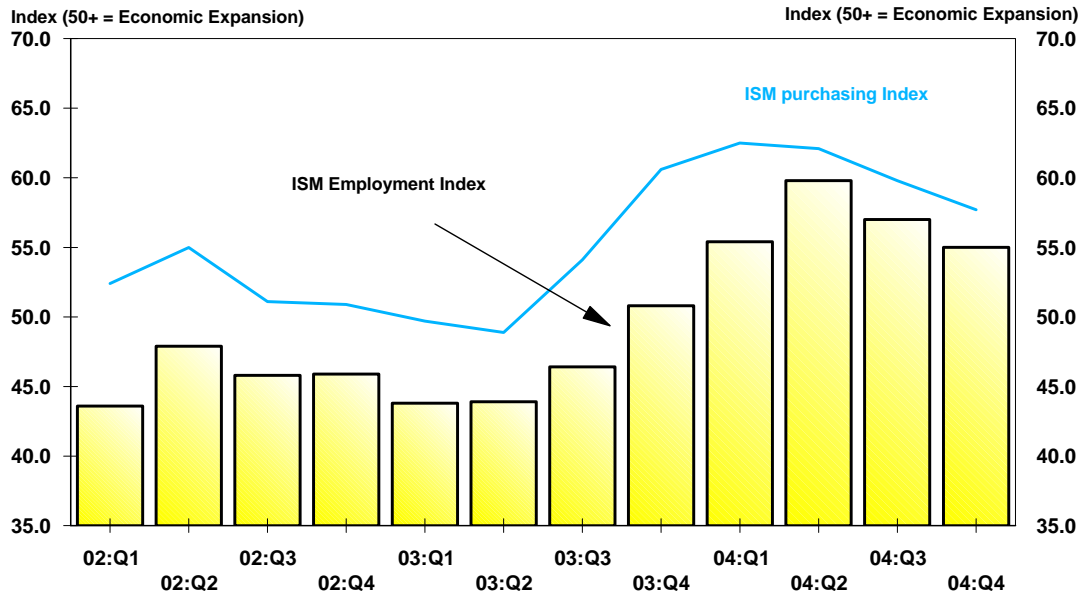
Housing Starts and Building Permits



Source: U.S. Census Bureau.

The ISM purchasing manager's index show the manufacturing sector continued to ease in the fourth quarter. Manufacturing employment also slowed somewhat.

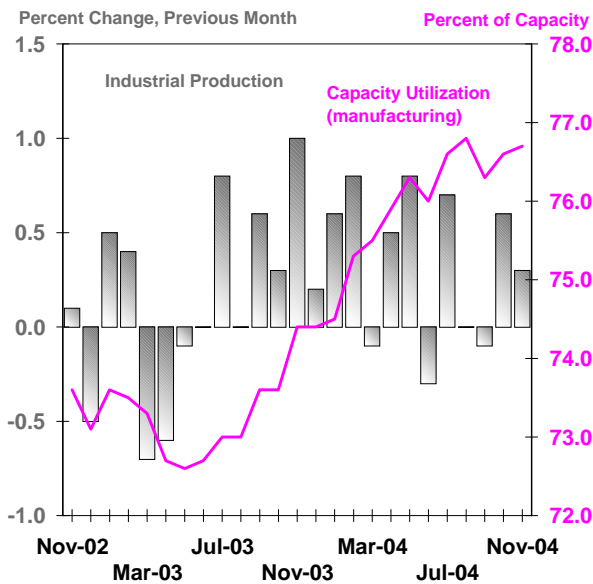
ISM Index



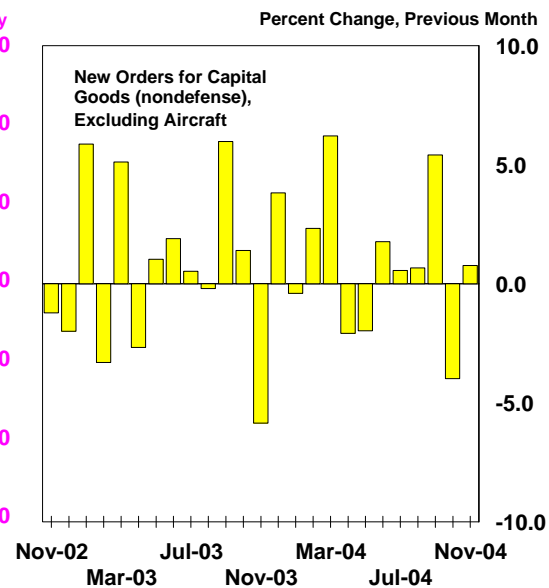
Source: Institute for Supply Management.

In November industrial production slowed, while capacity utilization edged upward. New orders for capital goods (nondefense), excluding aircraft, posted a modest gain, but suggest slower business investment in the fourth quarter.

Industrial Production and Capacity Utilization



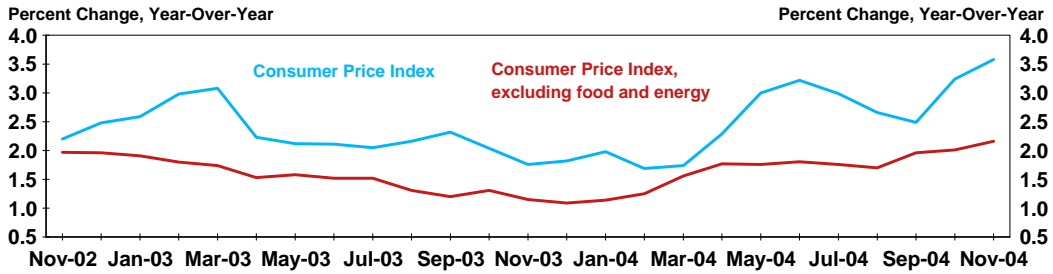
New Orders for Capital Goods



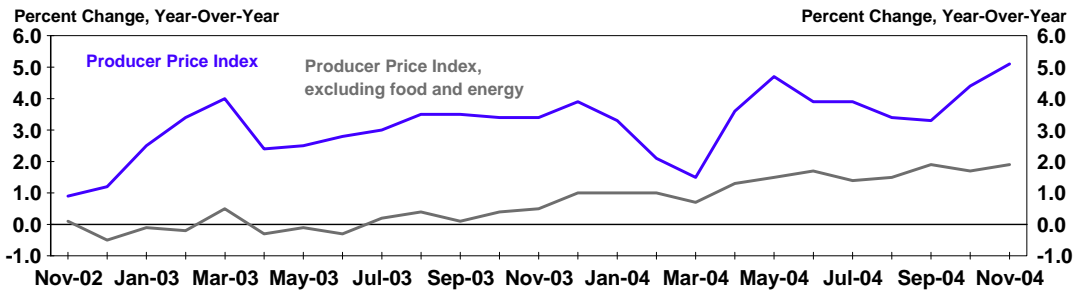
Source: Federal Reserve Board of Governors (industrial production) and U.S. Census Bureau (new orders).

Consumer and Producer prices rose in November, but total prices are expected to slow given the recent turnaround in oil prices. Core rates of inflation are edging upward, but remain fairly moderate at this point.

Consumer Price Index



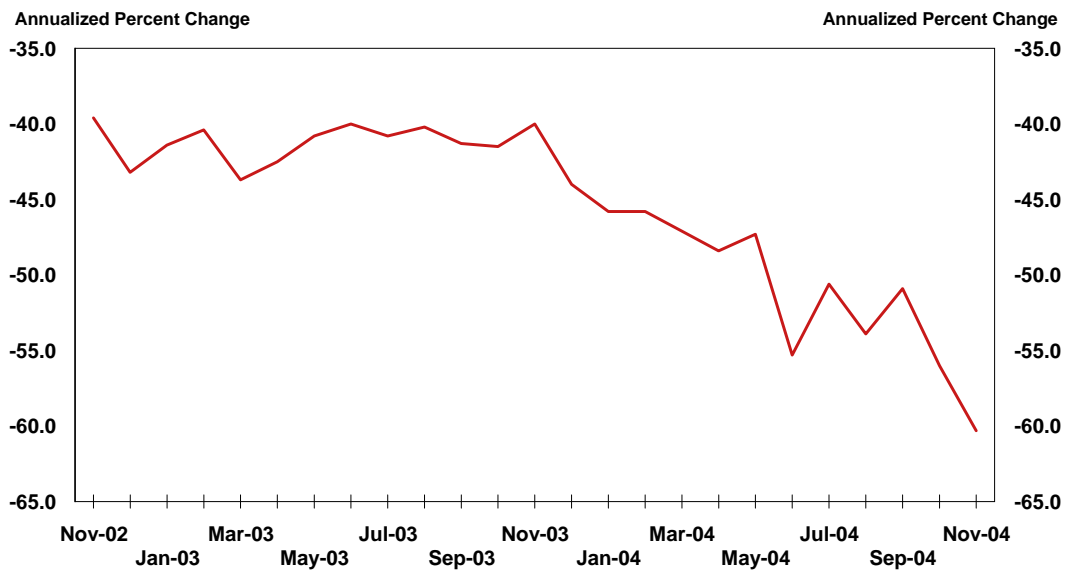
Producer Price Index



Source: Bureau of Labor Statistics.

The U.S. trade deficit widened further in November, setting another record.

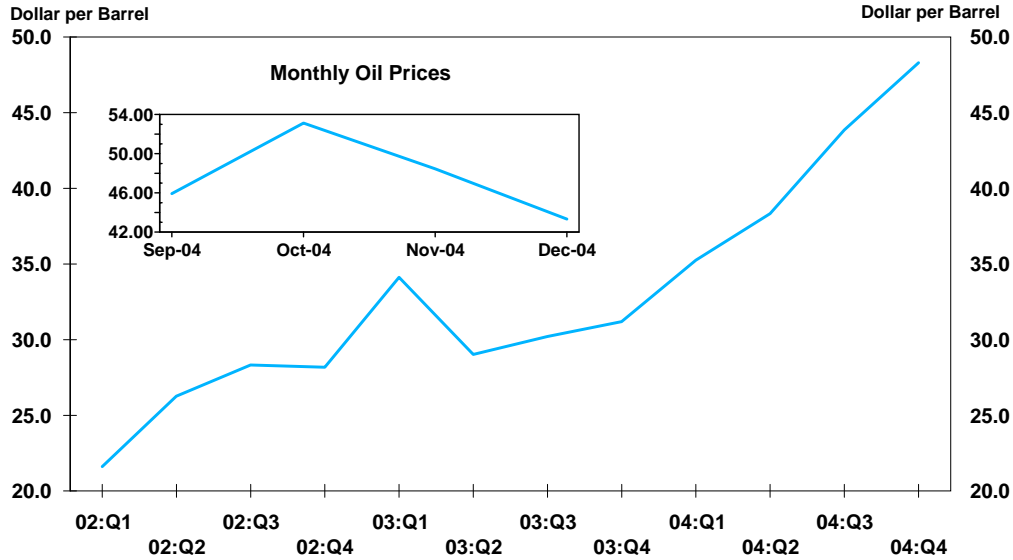
The U.S. Trade Deficit



Source: Bureau of Economic Analysis.

Oil prices increased on average over the fourth quarter, but fell for a second consecutive month in December.

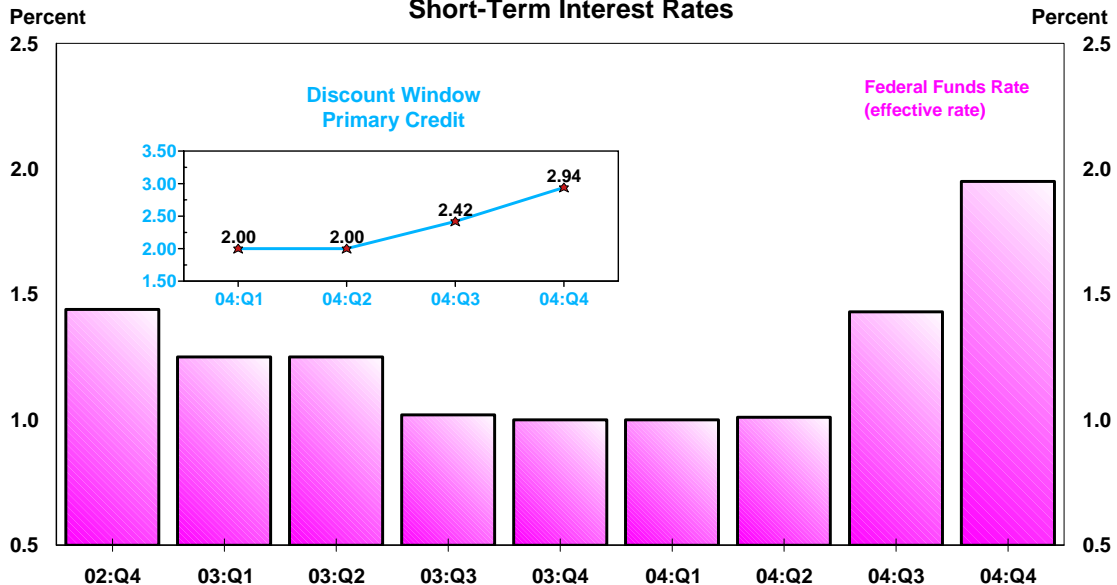
Domestic Spot Oil Price



Source: Wall Street Journal (oil prices).

All in all, the economy is expanding, although possibly a bit slower than the third quarter's pace. The labor market remains a key factor in sustaining the economy and core inflation remains moderate.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.