

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - June 9, 2005

Data released since your last Directors' meeting show the economy is growing at roughly the same pace as seen over the previous three quarters.

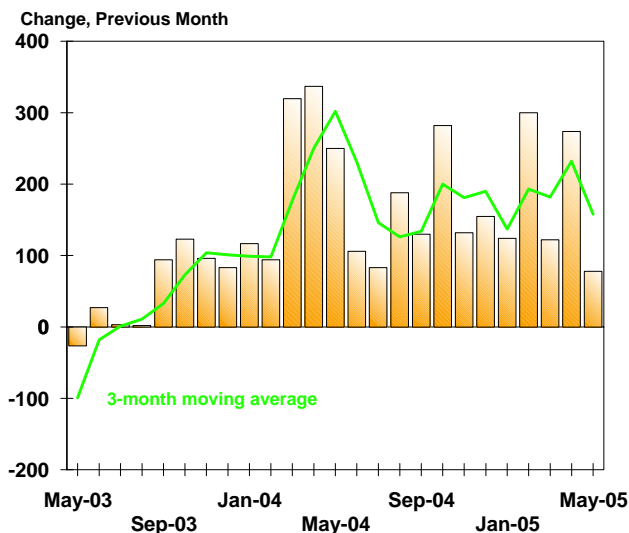
In May, payroll employment grew at its slowest pace in nearly two years, and the unemployment rate decreased slightly. Initial claims for unemployment insurance increased, but remain near recent levels. Consumer attitudes were mixed, with sentiment rising and confidence falling. Real consumption expenditures grew at half the rate in May as in the prior two months and real disposable income was virtually unchanged. Yet retail sales, both with and without autos, grew at their fastest paces so far this year in April. Auto sales decreased in May.

The housing market remained strong in April. Sales of both new and existing homes increased, while housing starts and building permits rebounded from a slow March. In the manufacturing sector, the ISM index slipped further in May while industrial production fell in April. But, new orders for durable goods rose, and increases in orders for nondefense capital goods, excluding aircraft, indicate future business investment may be stronger.

During the first quarter, real GDP grew faster than originally thought. The upward revision primarily reflected a downward revision to imports, which was partly offset by lower inventory investment.

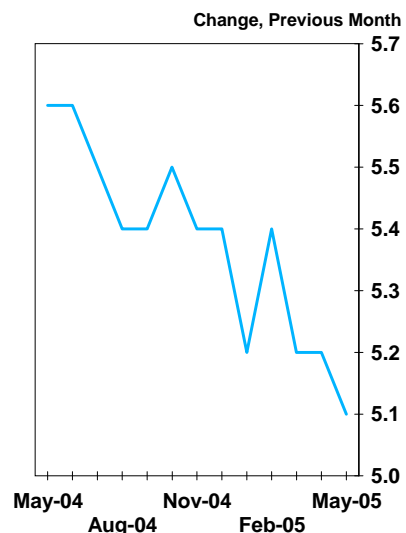
In May, nonfarm payrolls increased at their slowest pace since August 2003. Still, the unemployment rate posted a one-tenth of a percentage point drop.

Change in Nonfarm Payroll Employment



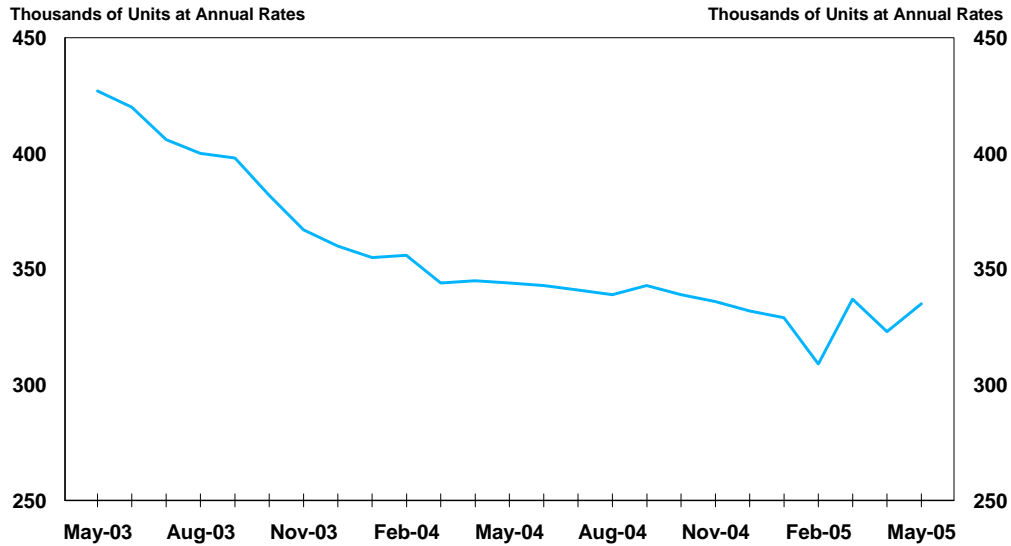
Source: Bureau of Labor Statistics.

The Unemployment Rate



Initial claims for unemployment insurance increased in May, but remain in line with their recent low levels.

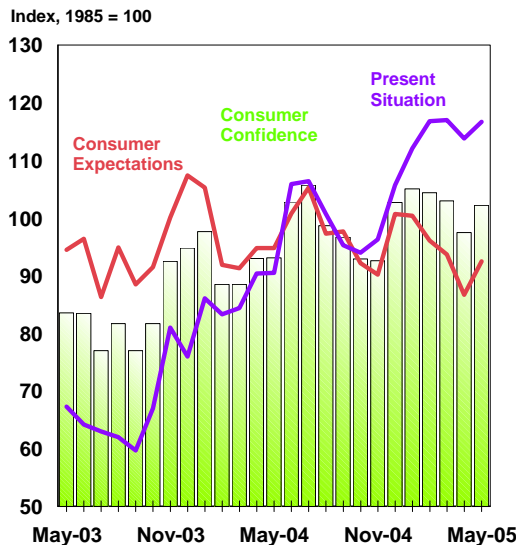
Initial Claims



Source: Department of Labor, Employment and Training Administration.

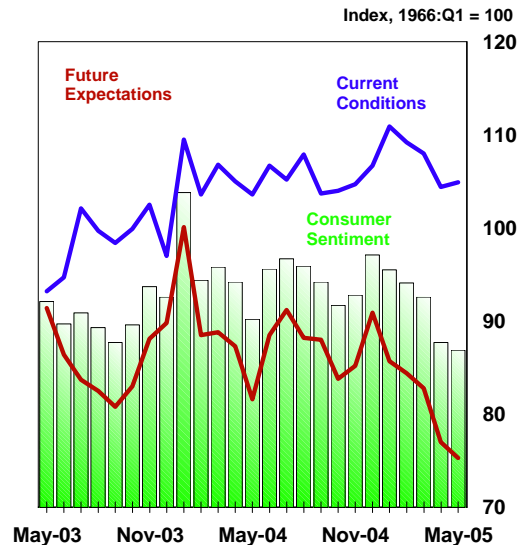
Consumer confidence rebounded in May, as each index rose and recouped the losses seen in April. Consumer sentiment and expectations, though, continued to deteriorate, while current conditions rose slightly.

Consumer Confidence



Source: The Conference Board.

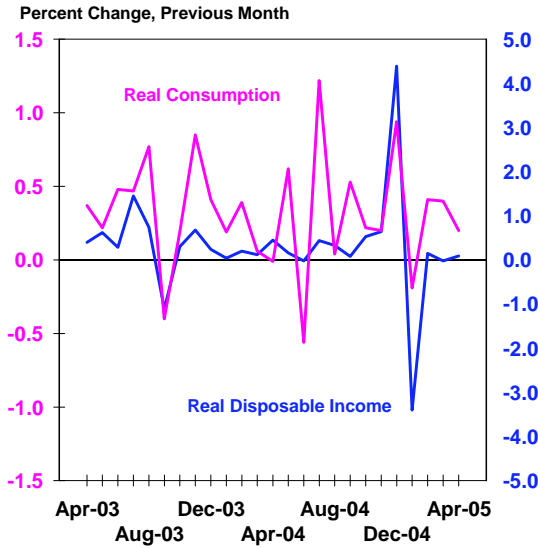
Consumer Sentiment



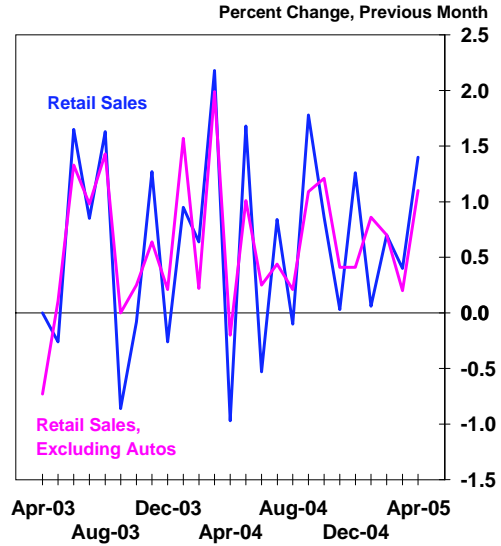
Source: The University of Michigan.

Growth in real consumption slowed in April, as real disposable income exhibited little change. Still, retail sales and sales excluding autos both grew at their fastest paces of 2005.

Real DPI and Consumption



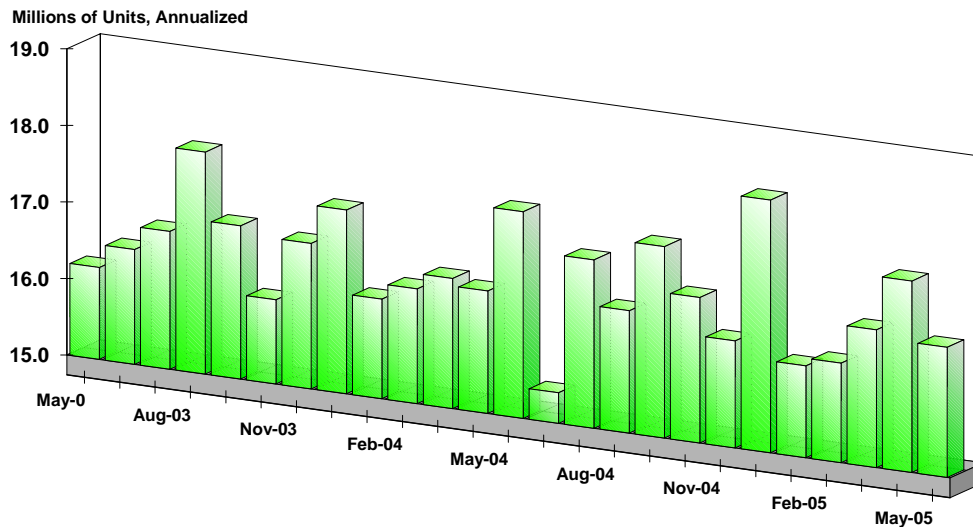
Retail Sales



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

Total auto and light truck sales decreased in May, following three consecutive months of growth.

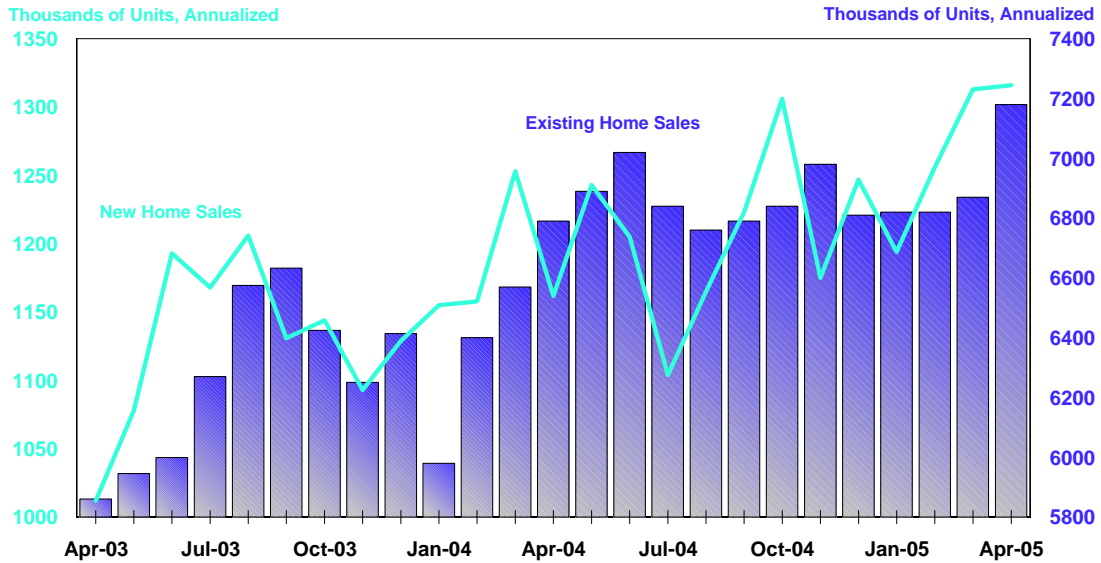
Total Auto and Light Truck Sales



Source: Federal Reserve, Board of Governors.

The housing market continued to surge ahead in April, as record sales were established for both new and existing homes.

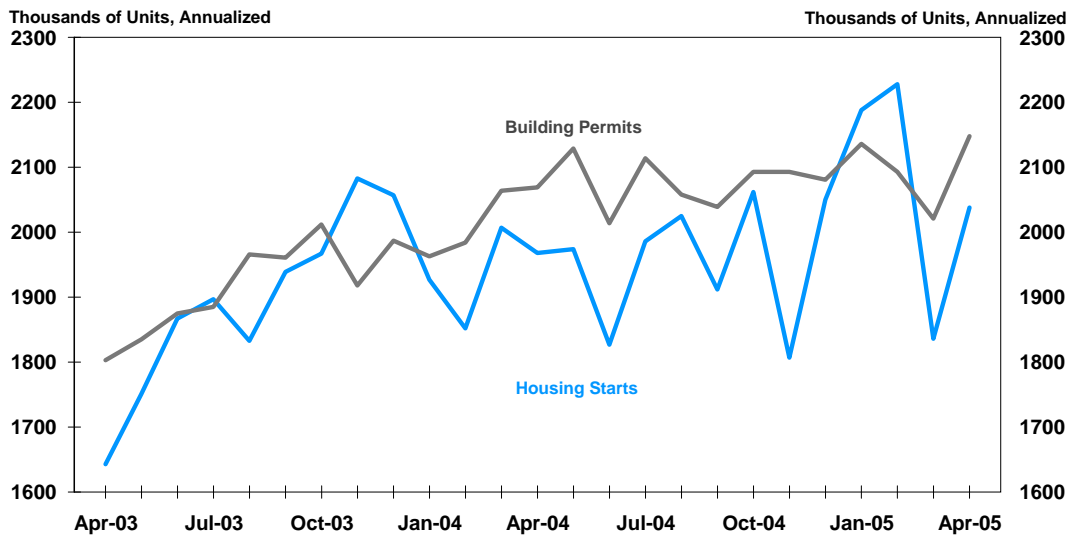
New and Existing Home Sales



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

In April, housing starts rebounded after a substantial drop in March, and building permits recovered the previous two months' losses.

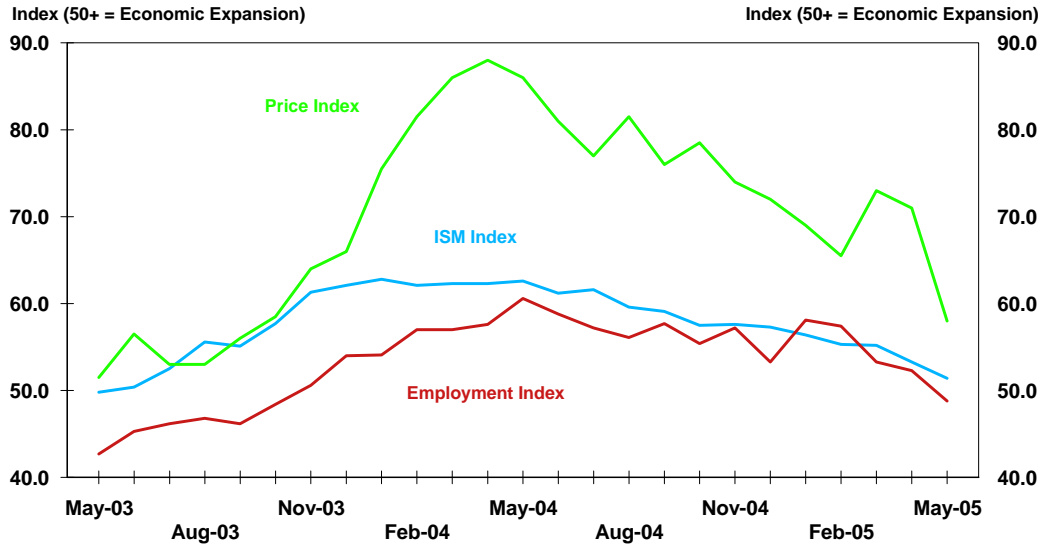
Housing Starts and Building Permits



Source: U.S. Census Bureau.

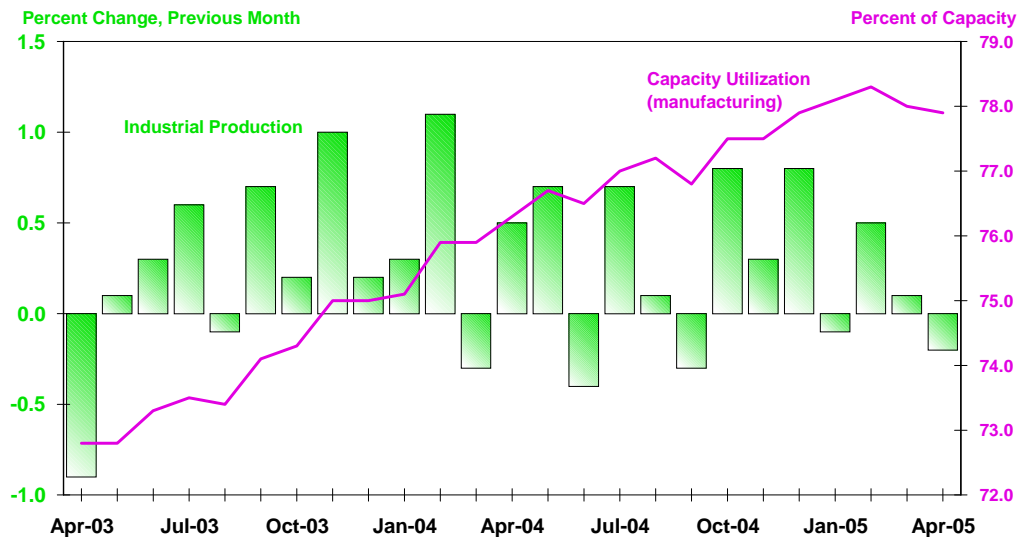
In May, the ISM manufacturing composite index fell to its lowest point in nearly two years, and the employment index dropped below 50. The price index fell considerably.

ISM Index

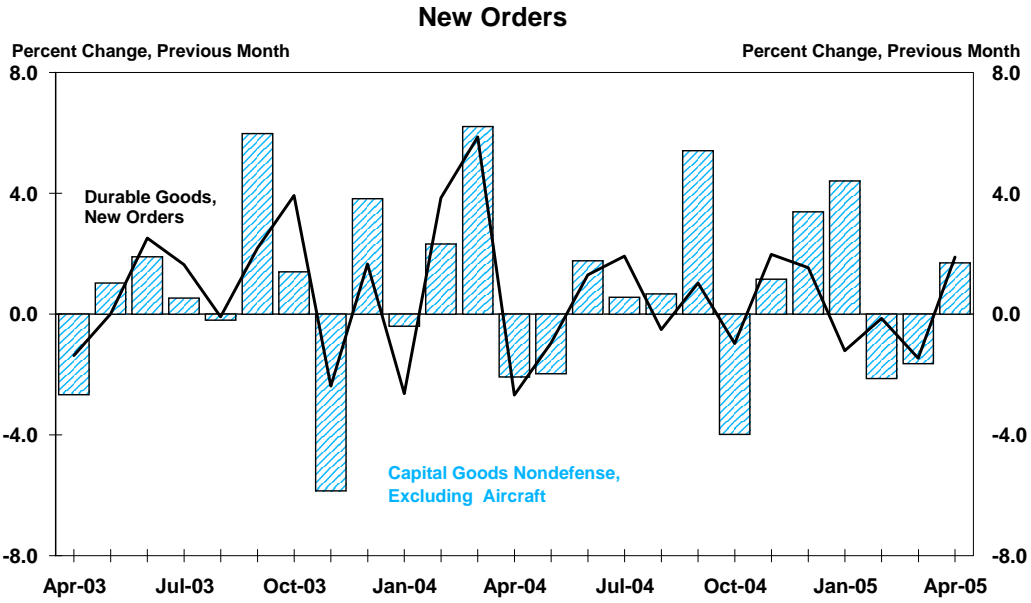


Industrial production decreased in April, while capacity utilization slipped slightly.

Industrial Production and Capacity Utilization

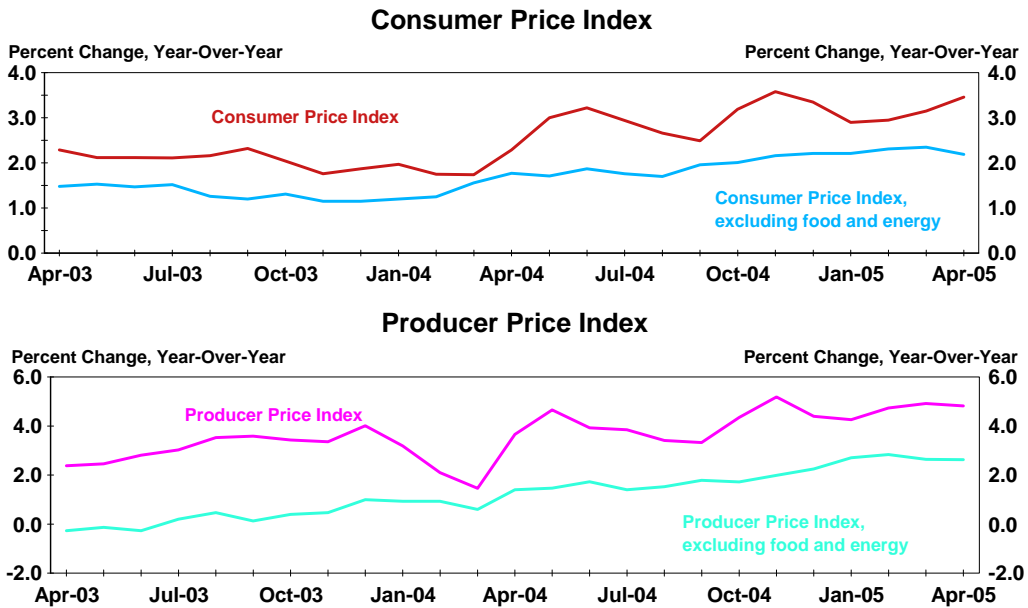


New orders for durable goods increased in April, following three months of declines. Orders for nondefense capital goods, excluding aircraft, also rose.



Source: U.S. Census Bureau.

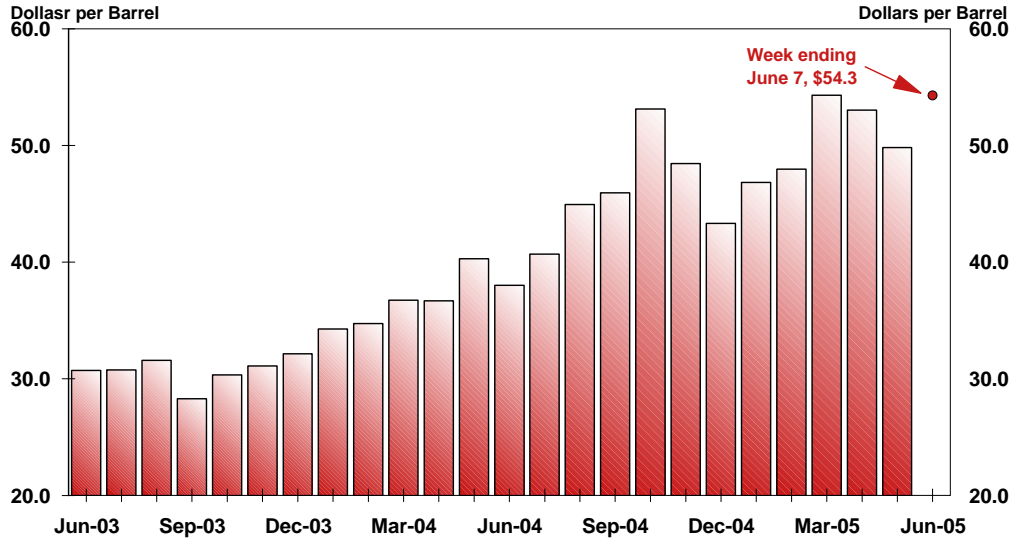
As measured by total CPI, inflation accelerated in April, but core inflation decreased. At the wholesale level, prices held mostly steady, with only a slight decrease experienced by total PPI.



Source: Bureau of Labor Statistics.

After briefly falling below \$50 per barrel in May, oil prices have risen sharply in early June.

Domestic Spot Oil Price



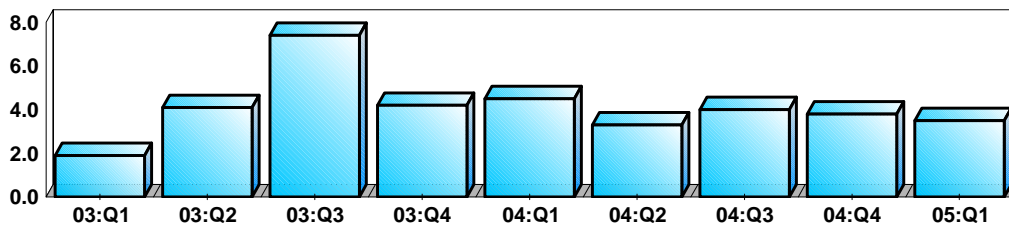
Source: Wall Street Journal.

Real GDP in the first quarter was stronger than originally thought. The upward revision primarily reflected lower imports and higher residential investment, which were partly offset by decreased business investment.

Revisions to First Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	3.1	3.5
Personal Consumption	3.5	3.6
Business Investment	4.7	3.5
Equipment and Software	6.9	5.6
Residential Investment	5.7	8.8
Government	0.6	-0.2
Exports	7.0	7.2
Imports	14.7	9.1
Final Sales	1.9	2.7

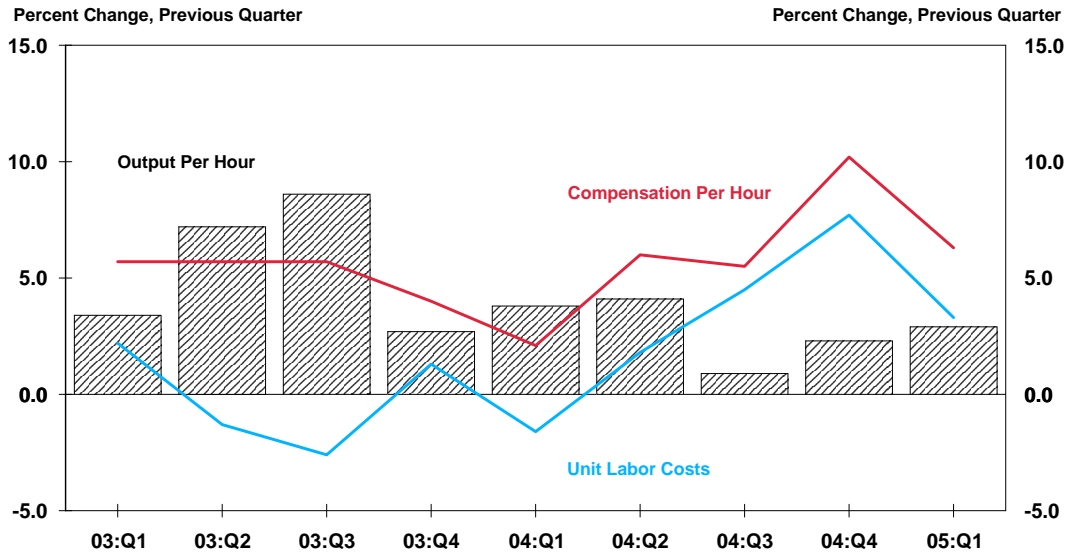
Real GDP



Source: Bureau of Economic Analysis.

Productivity increased in the first quarter, while growth in unit labor costs and compensation slowed following significantly increased fourth quarter revisions.

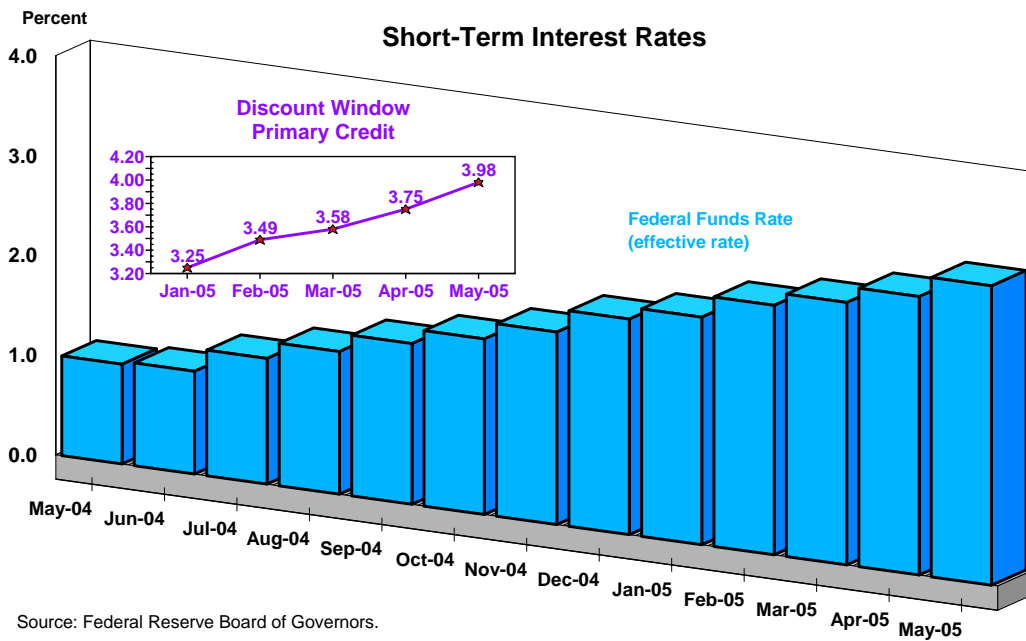
Productivity and Costs



Source: Bureau of Labor Statistics.

Overall, data released since your last Directors' meeting show the economy is growing at roughly the same pace as seen over the previous three quarters. Continued employment growth will be crucial in maintaining this rate of growth.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.