

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

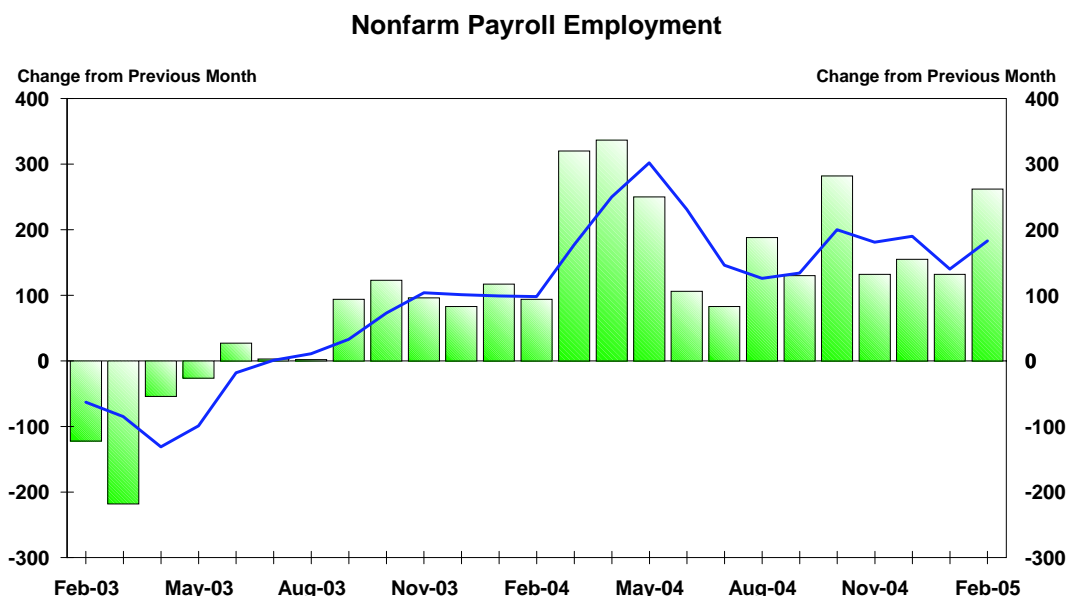
Data released since your last Directors' meeting show the economy is growing at about the same pace seen over the past two quarters. Continued employment growth remains a crucial element of the outlook.

In February, nonfarm payroll employment posted its largest gain in four months, while the unemployment rate moved up two tenths of a percentage point. Initial claims fell further to establish a four year low. Overall consumer attitudes edged downward, while the Conference Board's present situation index continued its upward trend. Real consumption expenditures dipped in January, following a drop in durable goods expenditures. Although total retail sales fell, sales excluding autos increased. In February, auto sales edged slightly upward.

In the housing market, new and existing home sales were somewhat lower in January than in December. Still, sales levels remain high. Housing starts rose in January, hitting their highest level in over a decade. Permits also rose, suggesting more housing construction is on the horizon. In the manufacturing sector, the ISM index edged slightly downward in February, while industrial production was flat in January. But, new orders for capital goods excluding aircraft and defense indicate future business investment should remain strong.

During the fourth quarter, real GDP was stronger than originally thought. The upward revision primarily reflected greater exports, higher inventory investment, and increased spending on equipment and software.

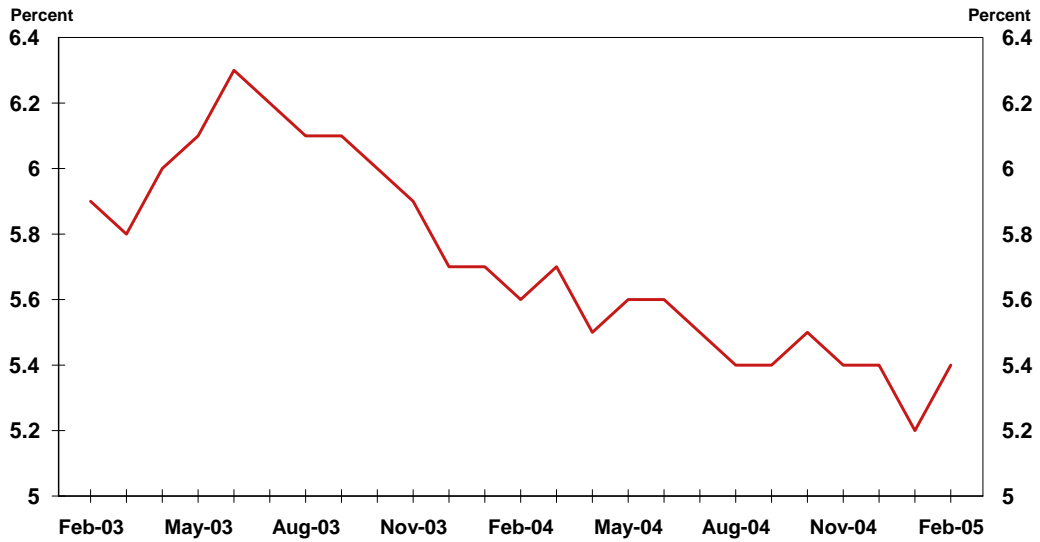
In February, nonfarm payroll employment rose, posting its largest gain in four months.



Source: Bureau of Labor Statistics.

While the unemployment rate moved up two tenths of a percentage point.

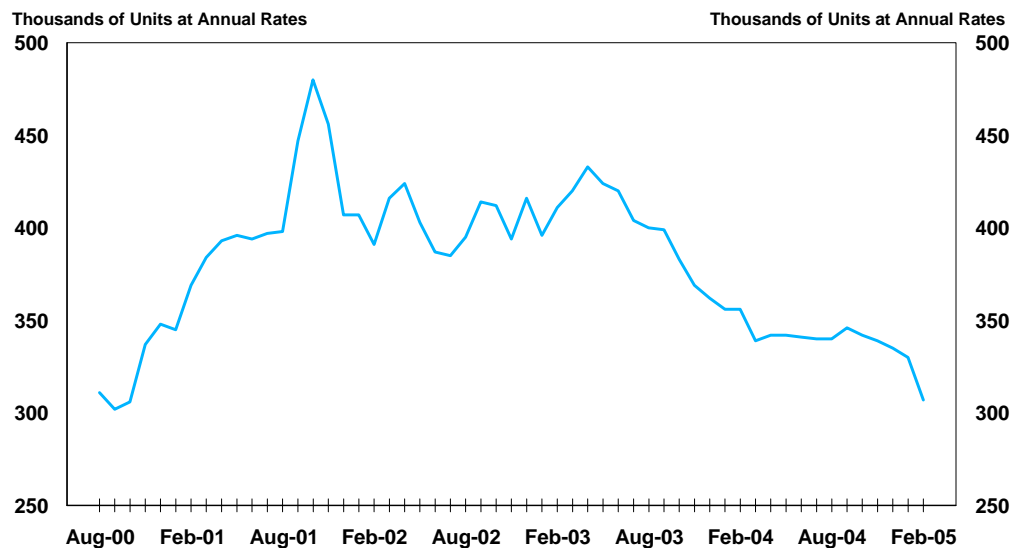
Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims for unemployment insurance continued to fall in February, reaching their lowest level since October 2000.

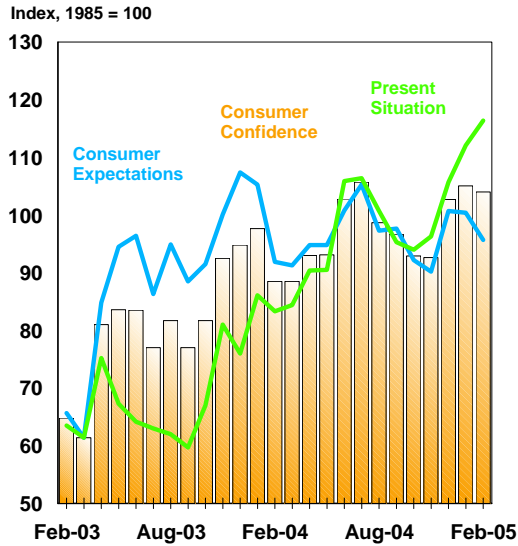
Initial Claims



Source: Department of Labor, Employment and Training Administration.

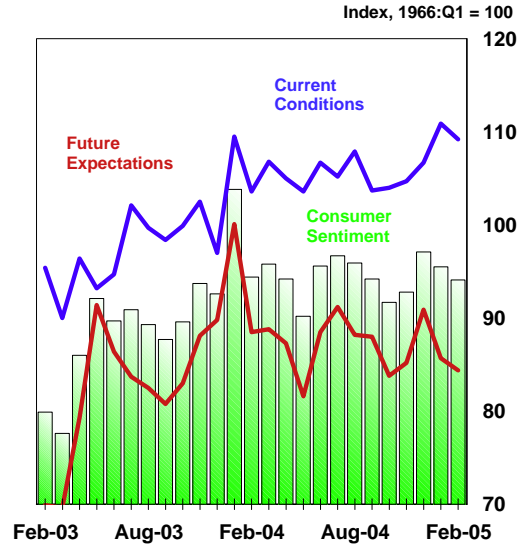
Consumer confidence edged slightly downward in February, as future expectations fell. Consumers' assessment of current conditions remains very positive.

Consumer Confidence



Source: The Conference Board.

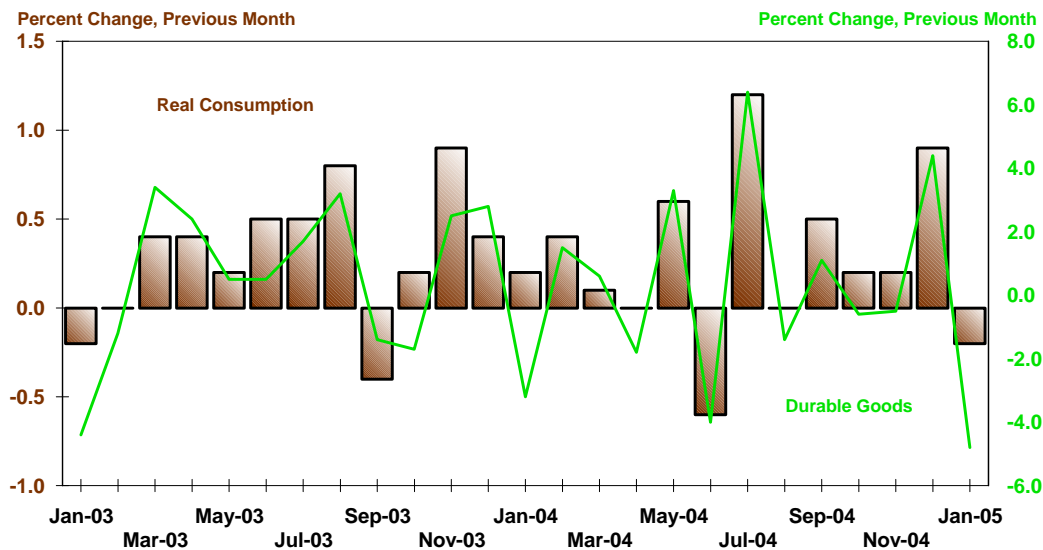
Consumer Sentiment



Source: The University of Michigan.

Real consumption fell in January, following a decline in durable goods expenditures.

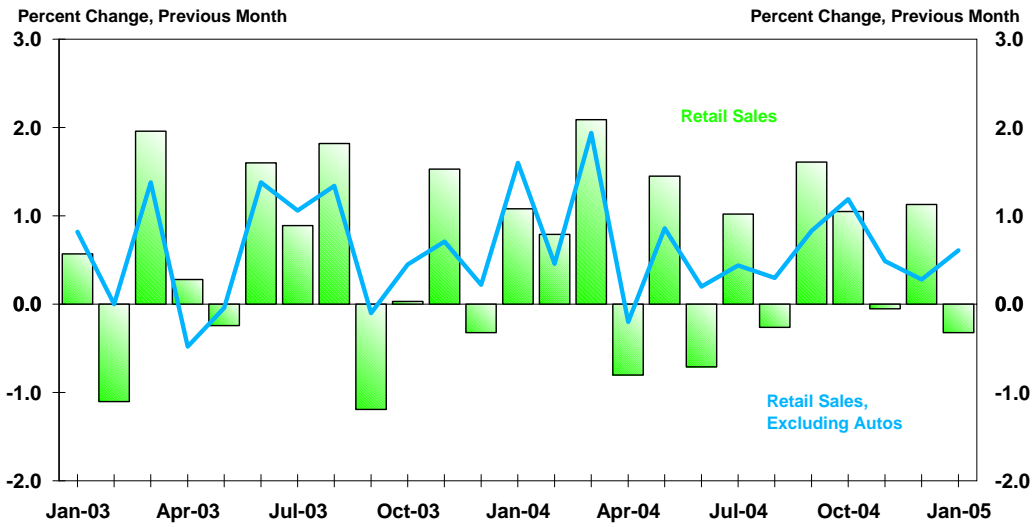
Real Consumption



Source: Bureau of Economic Analysis.

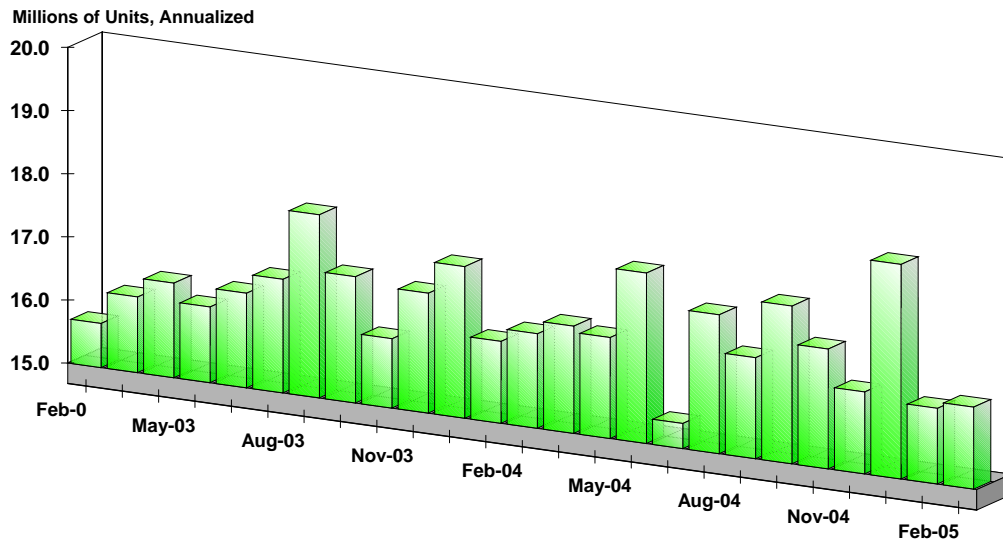
Retail sales fell in January, but sales excluding autos increased.

Retail Sales



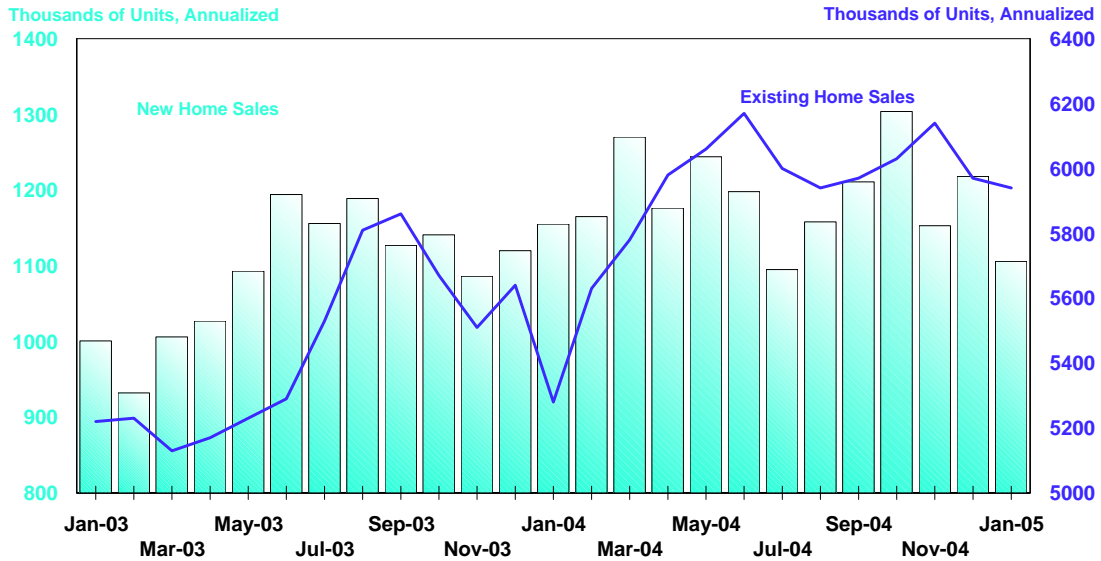
Total auto and light truck sales posted a modest increase in February.

Total Auto and Light Truck Sales



New and existing home sales slipped in January, but remain at high levels.

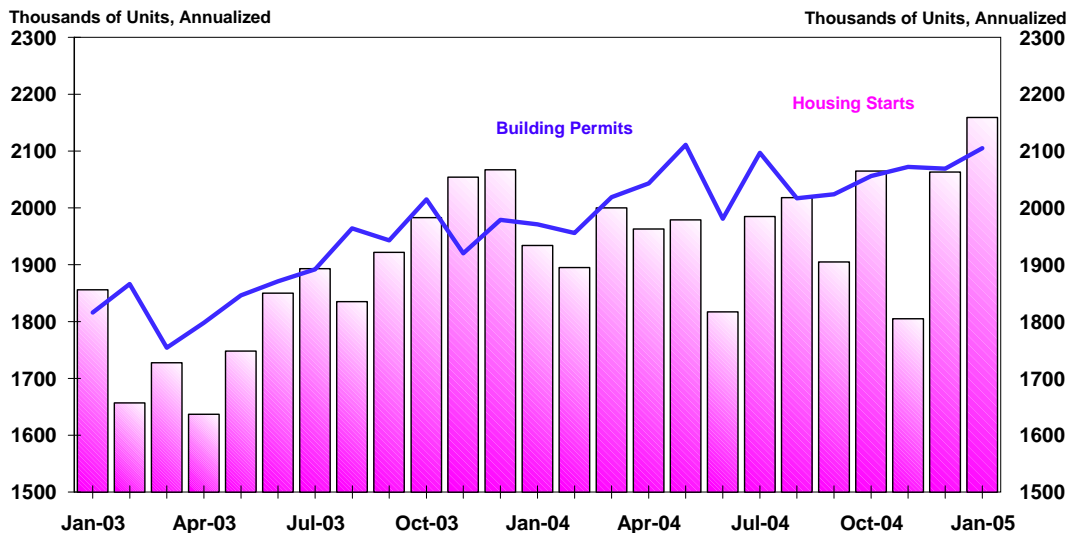
New and Existing Home Sales



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

Residential construction remained strong in January, as housing starts rose to their highest level in over a decade. An increase in permits suggests continued strength in housing construction in the coming months.

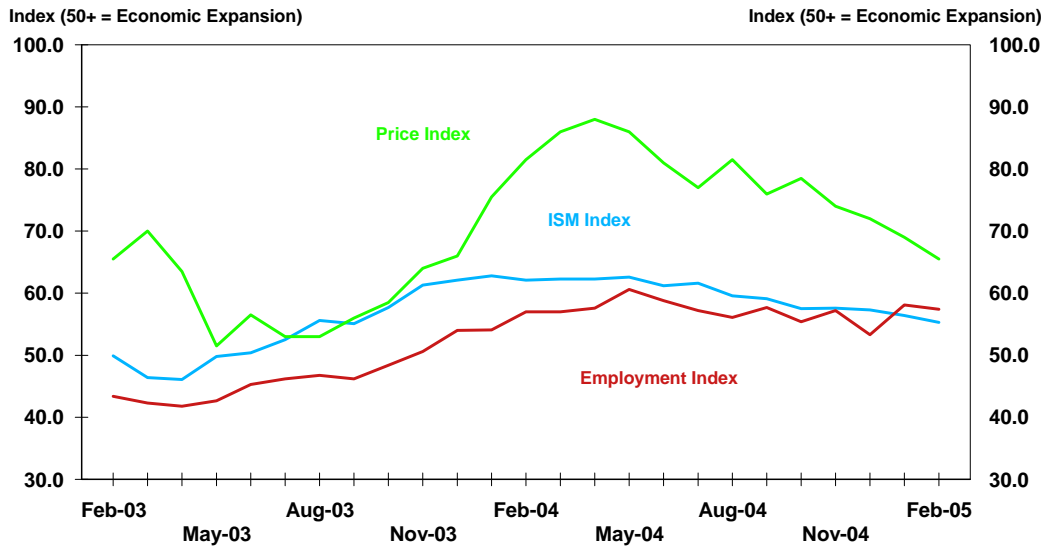
Housing Starts and Building Permits



Source: U.S. Census Bureau.

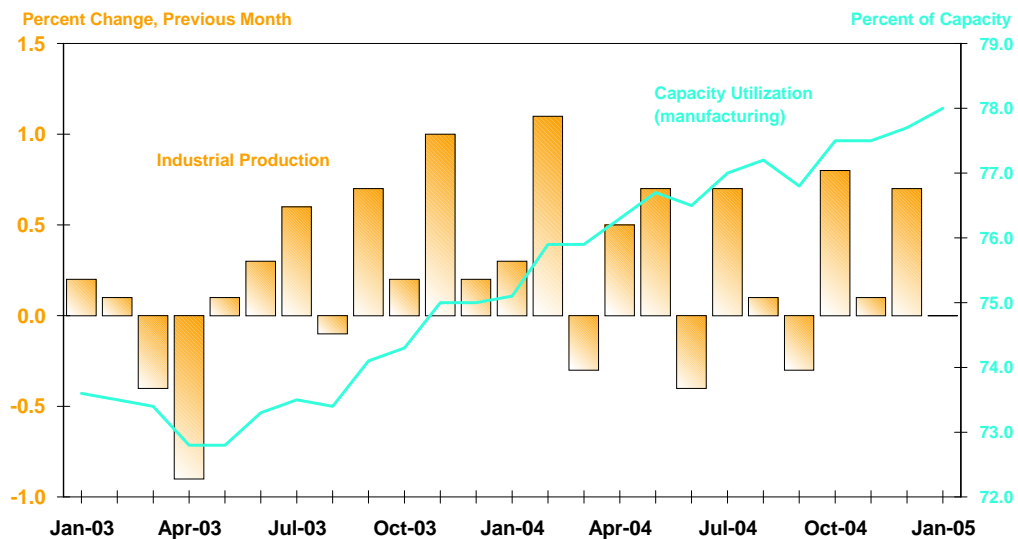
The ISM manufacturing composite index and employment index fell somewhat in February, but remain above 50. The price index continued on its downward path.

ISM Index

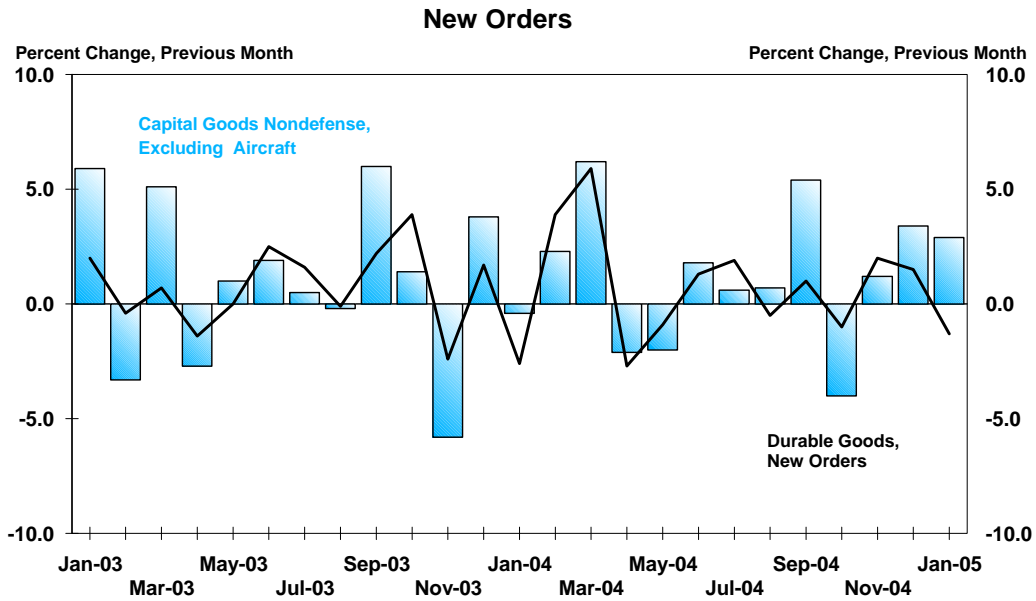


Industrial production was flat in January, while capacity utilization continued to increase.

Industrial Production and Capacity Utilization

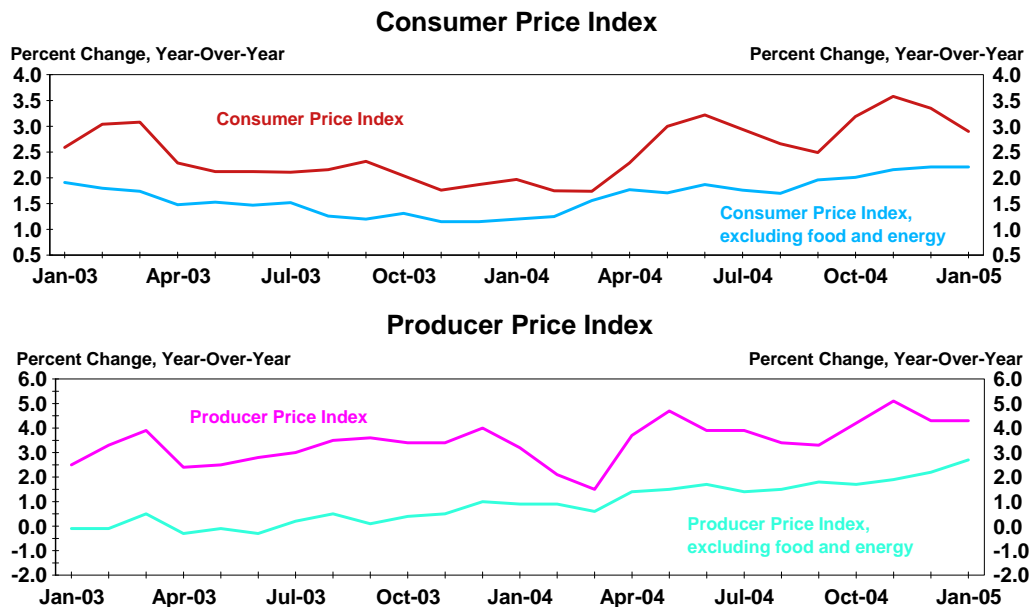


New orders for durable goods fell in January and new orders for nondefense capital goods excluding aircraft eased somewhat. Still, capital goods orders and shipments data suggest future business investment will remain strong.



Source: U.S. Census Bureau.

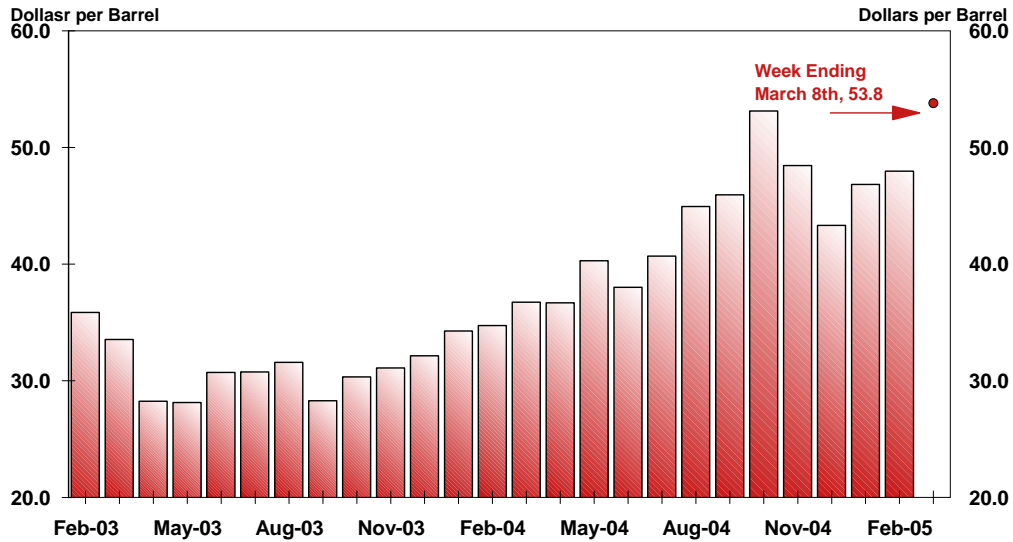
Inflation, measured by total CPI, continued to fall in January, while core inflation was flat. Inflation at the wholesale level, measured by the PPI for finished goods, saw no change in January, while core inflation accelerated noticeably.



Source: Bureau of Labor Statistics.

Oil prices rose for a second consecutive month in February, following two months of declines. During the first week in March, oil prices have continued to rise.

Domestic Spot Oil Price



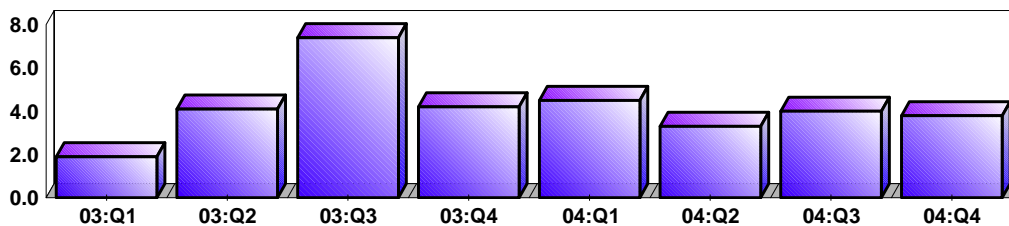
Source: Wall Street Journal.

Real GDP in the fourth quarter was stronger than originally thought. The upward revision primarily reflected greater exports, higher inventory investment, and increased spending on equipment and software.

Revisions to Fourth Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	3.1	3.8
Personal Consumption	4.6	4.2
Business Investment	10.3	14.0
Equipment and Software	14.9	18.0
Residential Investment	0.3	2.1
Government	0.9	1.2
Exports	-3.9	2.4
Imports	9.1	11.4
Final Sales	2.7	3.2
Change in Private Inventories	11.3	16.5

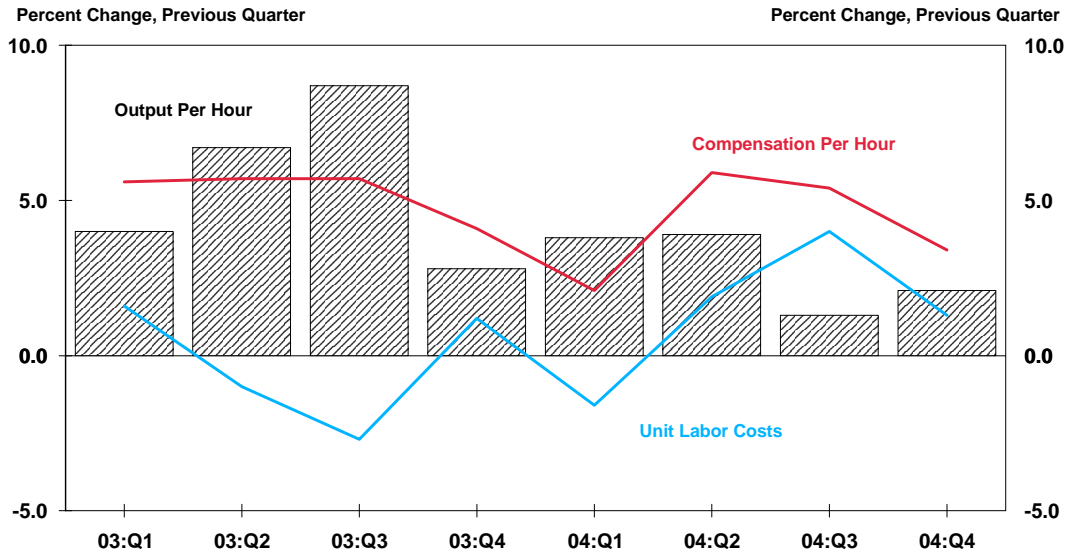
Real GDP



Source: Bureau of Economic Analysis.

Productivity increased in the fourth quarter, partially offsetting the previous quarters' reduction. Growth in unit labor costs slowed as did hourly compensation.

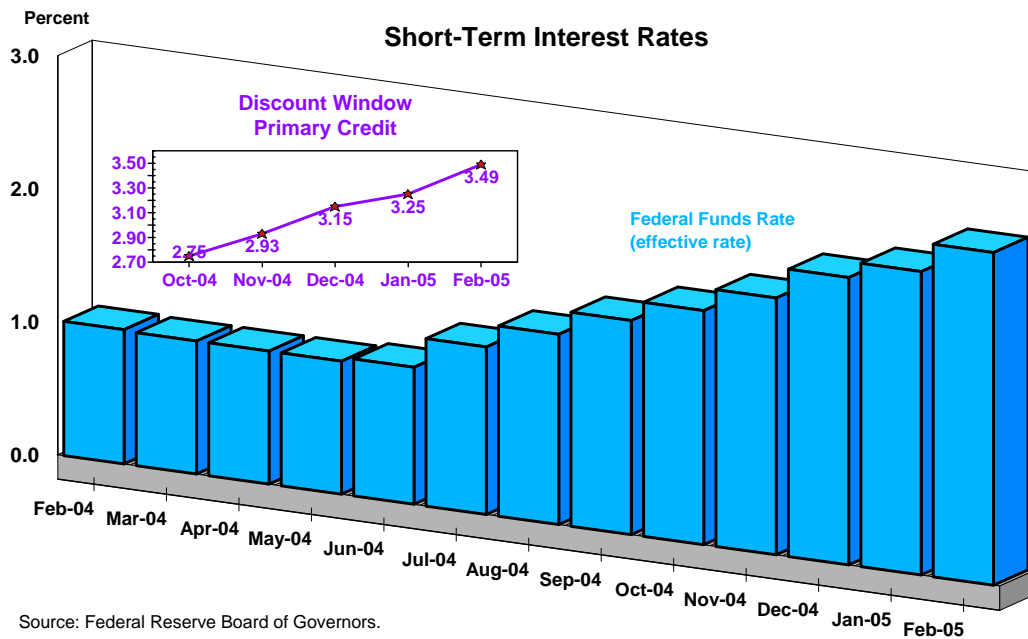
Productivity and Costs



Source: Bureau of Labor Statistics.

Overall, data released since your last Directors' meeting show the economy is growing at about the same pace seen over the past two quarters. Continued employment growth remains a crucial element of the outlook.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.