

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

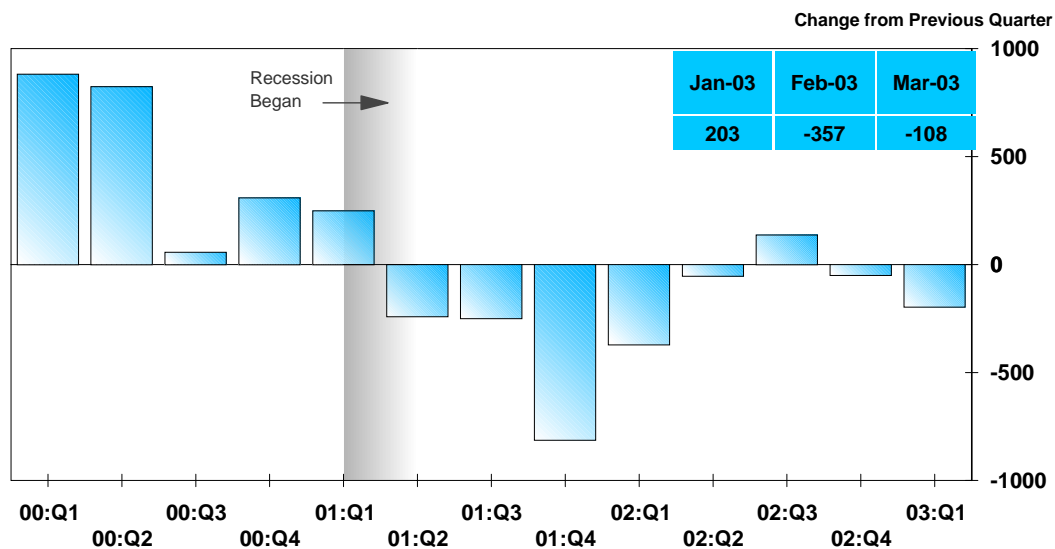
Current Economic Developments - April 10, 2003

Data released since your last Directors' meeting show the economy appears to have hit another soft spot in February and March. During the first quarter, the labor market remained weak, as payroll employment continued to fall. The unemployment rate dropped slightly from the fourth quarter, as discouraged workers stopped looking for jobs and left the labor force. Adding to the weakness in the labor market, initial claims rose further in March.

Consumer sentiment and expectations fell in March, continuing on their downward slope started in the middle of last year. Following consumers' uncertainty about the economy, real consumption slipped in February, as retail sales posted its first decline in the past five months. Vehicle sales rose somewhat in March, but their first quarter average was lower than the average seen during the fourth quarter. Although low interest rates have kept residential investment strong, new and existing homes sales fell in February. The manufacturing sector weakened somewhat over the past two months, as industrial production slowed in February and new orders of capital goods dropped off. Also, the ISM index fell in March, marking its lowest level in nearly a year and a half.

Payroll employment continued to fall in March, while February's decline was revised further negative. During the first quarter, payroll employment registered a greater drop than seen during the fourth quarter.

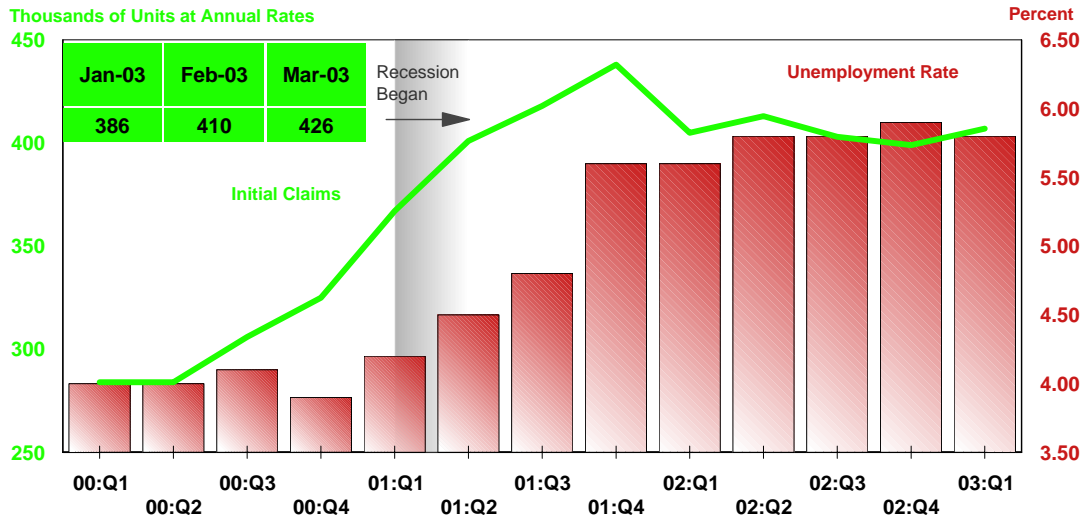
**Nonfarm Payroll Employment**



Source: Bureau of Labor Statistics.

Although the unemployment rate remained unchanged in March, over the past three months the average rate of unemployment was somewhat lower than during the fourth quarter. Still, initial claims edged upward in the first quarter, compared to the fourth, contributing to the weak labor market.

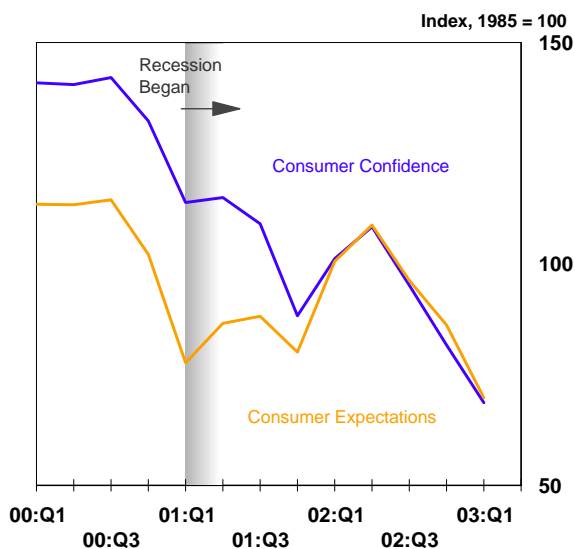
### The Unemployment Rate and Initial Claims



Source: Department of Labor.

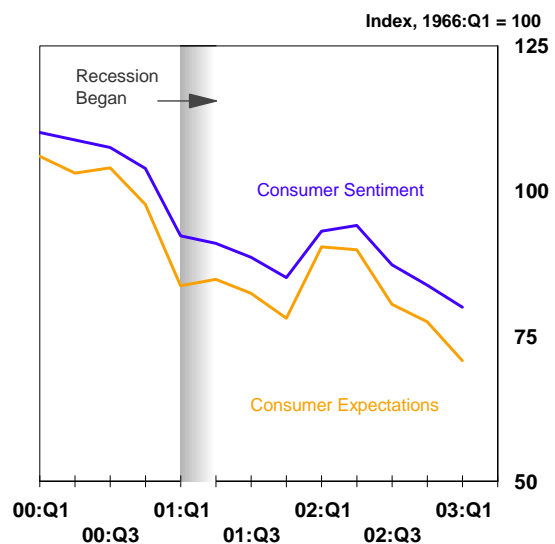
Consumer sentiment and expectations continued to fall in March, ending the first quarter average on a downward slope that started during the second half of last year.

### Confidence and Expectations



Source: The Conference Board.

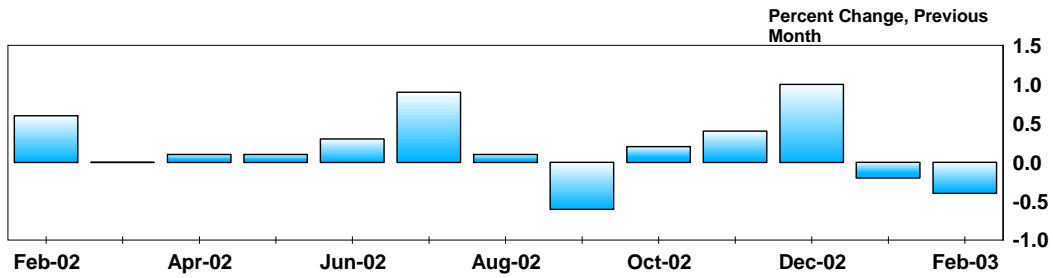
### Sentiment and Expectations



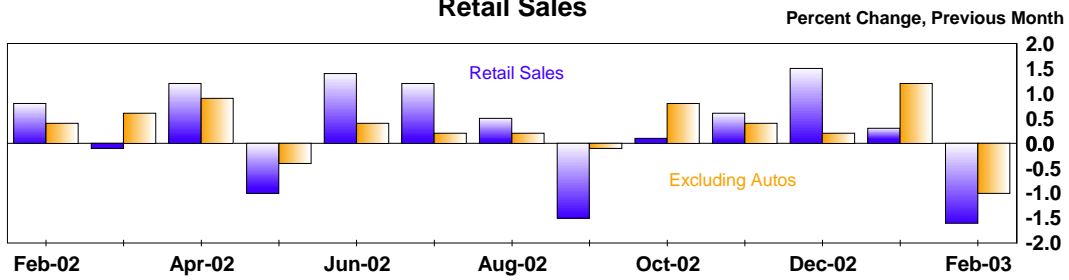
Source: University of Michigan.

Following the drop in consumer confidence, real consumption fell in February, as retail sales posted its first decline since last September.

### Real Consumption



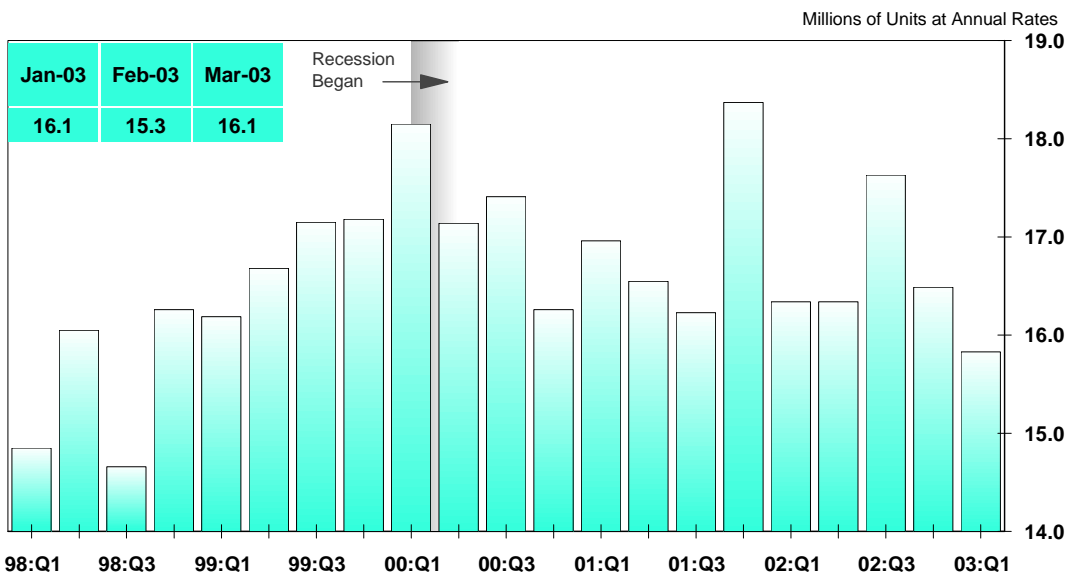
### Retail Sales



Source: Bureau of Economic Analysis (Real Consumption) and U.S. Census Bureau (Retail Sales).

Total vehicle sales rose in March, but continued to slide during the first quarter, compared to the fourth quarter.

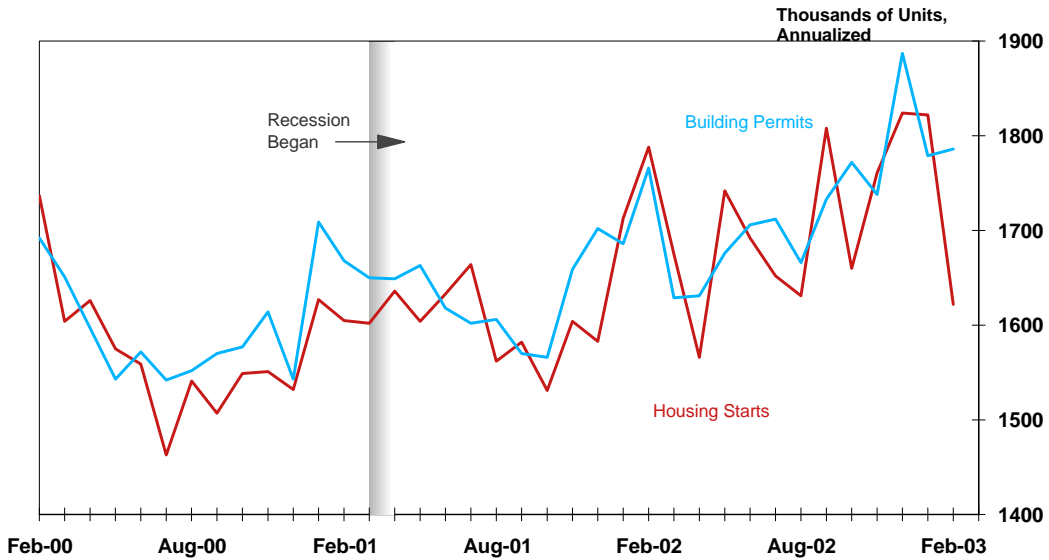
### Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

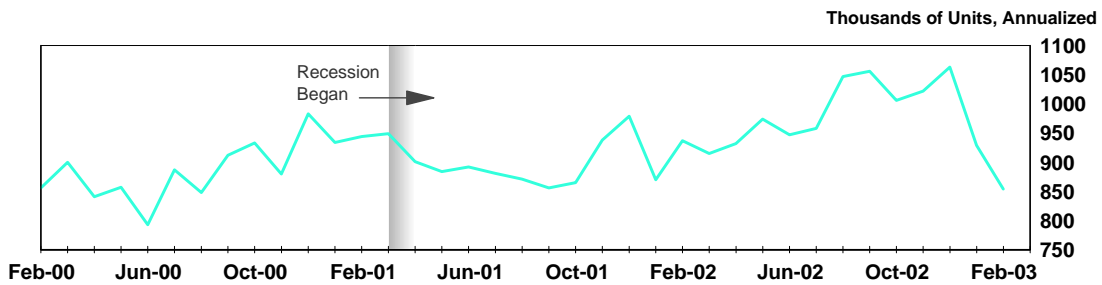
Low mortgage rates have kept residential investment strong.

### Housing Starts and Building Permits

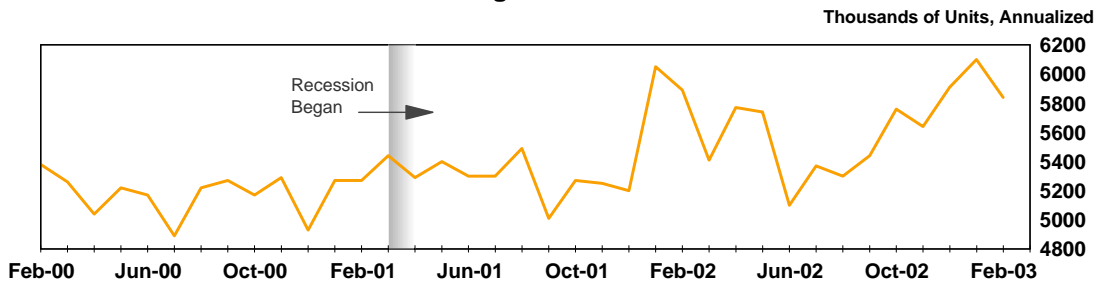


Although new and existing home sales both fell in February.

### New Home Sales



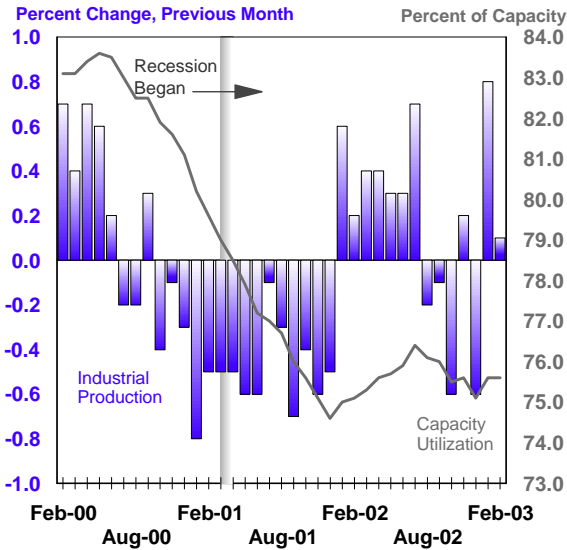
### Existing Home Sales



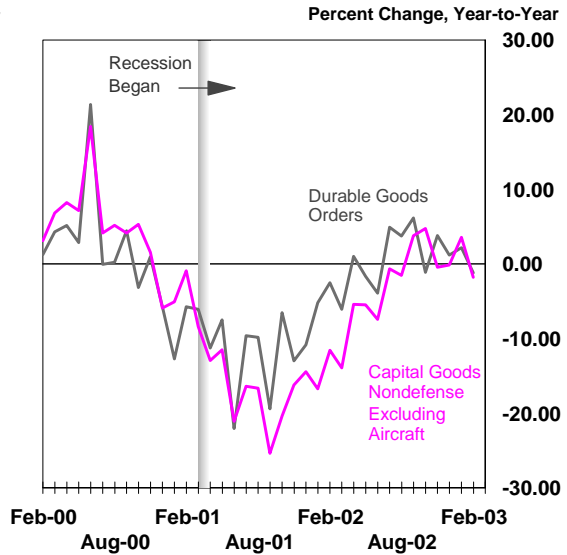
Source: National Association of Realtors (Existing Home Sales) and U.S. Census Bureau (New Home Sales).

Industrial production posted a modest gain in February, while capacity utilization was flat. Durable goods orders fell in February, indicating prospects of future investment remain uncertain.

### Industrial Production and Capacity Utilization



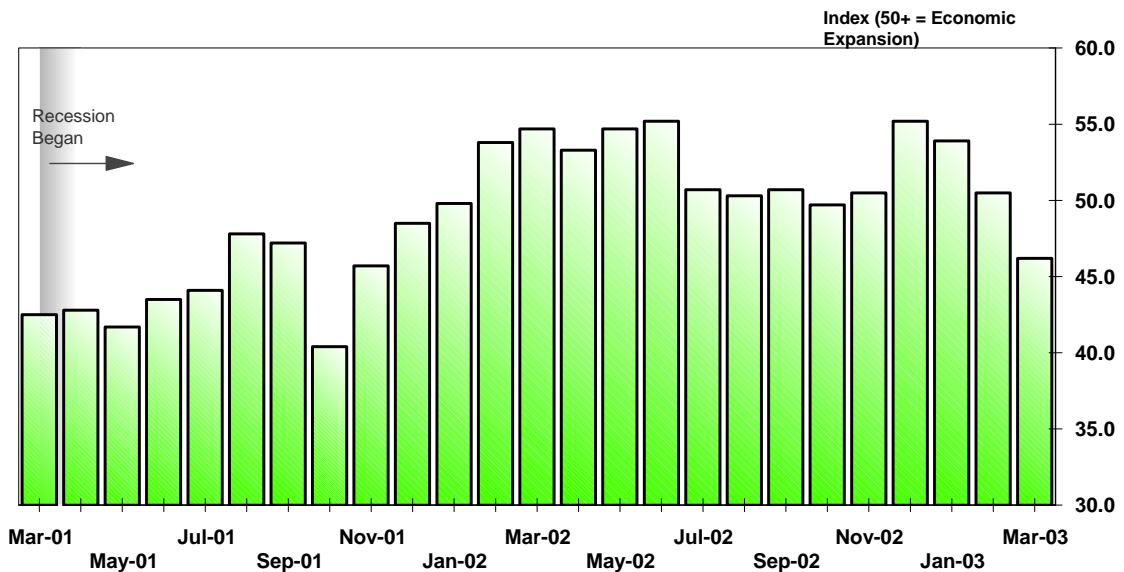
### Durable Goods Orders



Source: Federal Reserve Board of Governors (Industrial Production) and U.S. Census Bureau (Durable Goods).

Adding to the weak manufacturing sector, the ISM index fell below 50 in March, marking its lowest level since November 2001.

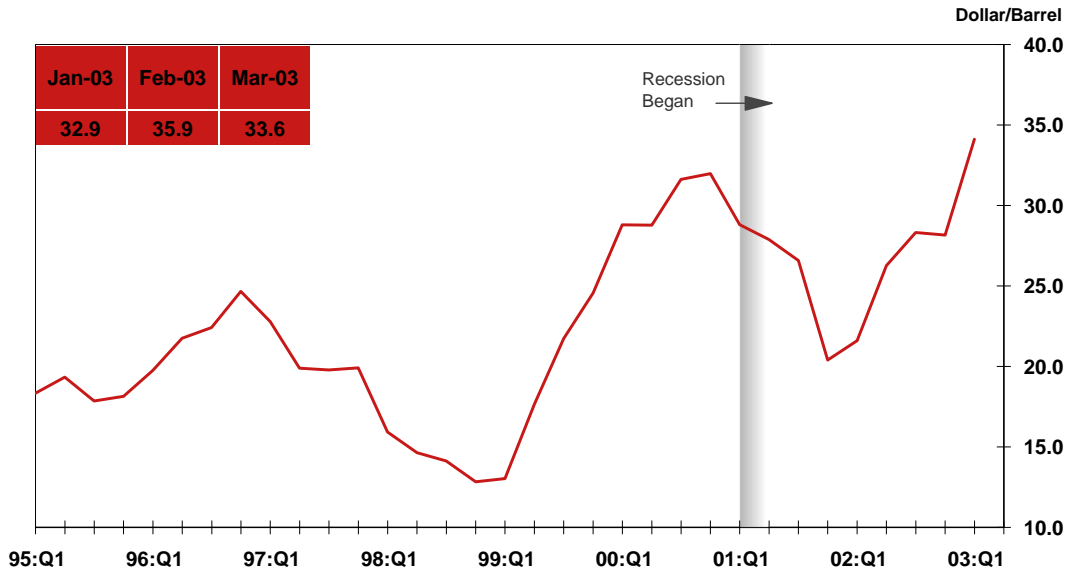
### ISM Indexes



Source: Institute for Supply Management.

Oil prices declined somewhat in March, but remained near \$35.00 a barrel during the first quarter.

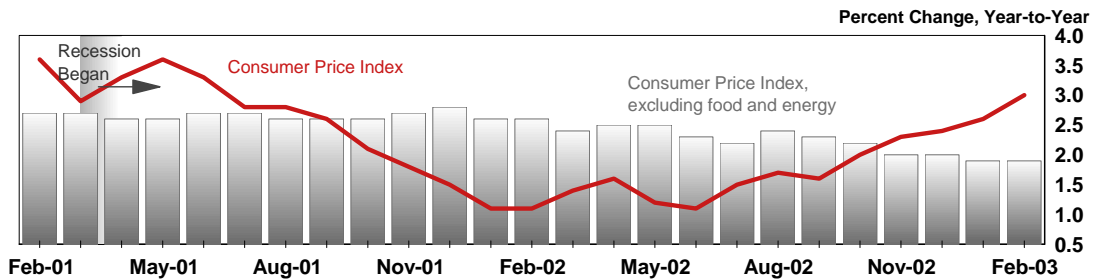
### Oil Prices



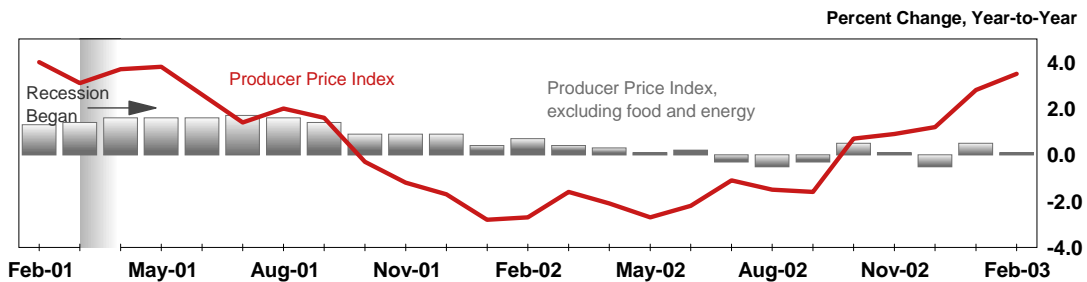
Source: Wall Street Journal.

High oil prices have pushed producer and consumer prices up, but measures excluding food and energy show inflation remains low.

### Consumer Prices



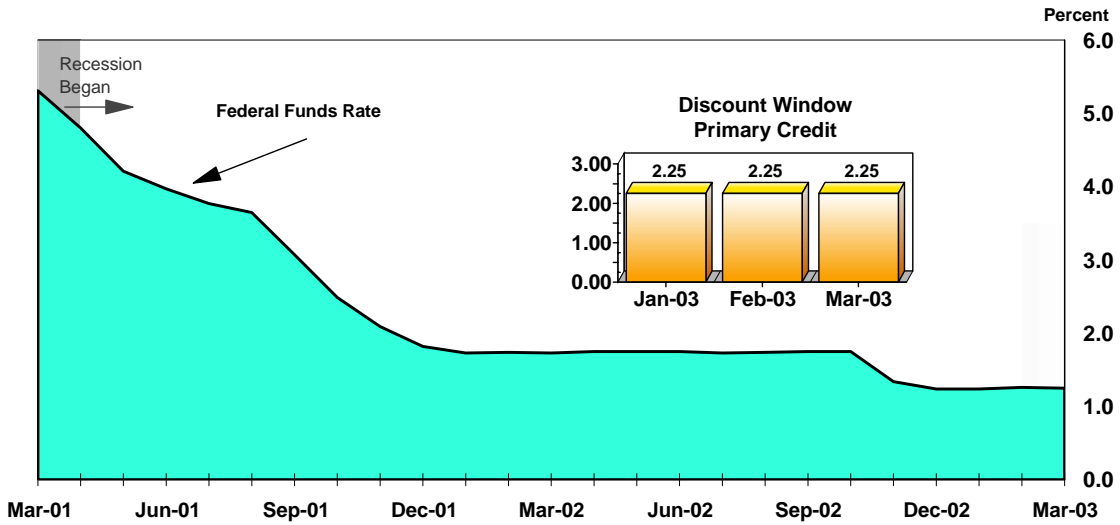
### Producer Prices



Source: Bureau of Labor Statistics.

All in all, uncertainty about consumer spending and business investment remain high.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors.