

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

Current Economic Developments - August 14, 2003

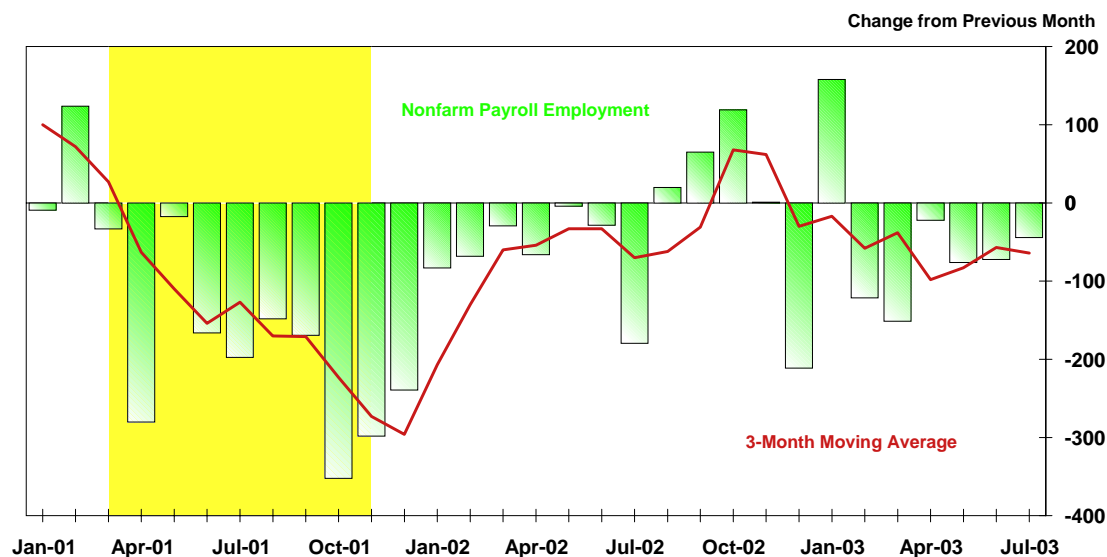
Data released since your last Directors' meeting show the economy is improving, despite the weak labor market and consumer attitudes about future expectations.

In July, payroll employment continued to fall, posting its sixth consecutive drop this year. The unemployment rate edged down two-tenths of a percentage point, but the drop was due to a fall in the labor force. Still, the most recent four-week moving average of initial claims moved below 400. Surveys on consumer confidence were mixed in July, yet auto and light trucks posted their fastest sales rate since last December. As a result, retail sales showed a strong increase in July.

During the second quarter, real GDP growth was boosted by consumption, investment and government expenditures. Consumption rose as consumer's continued to buy autos and invest in new homes. Nonresidential investment increased, as businesses spent at their highest rate in three years. And increases in government expenditures were led by defense spending.

In July, nonfarm payroll employment posted its sixth consecutive drop. Job losses in July were at a slower pace than seen in the previous two months.

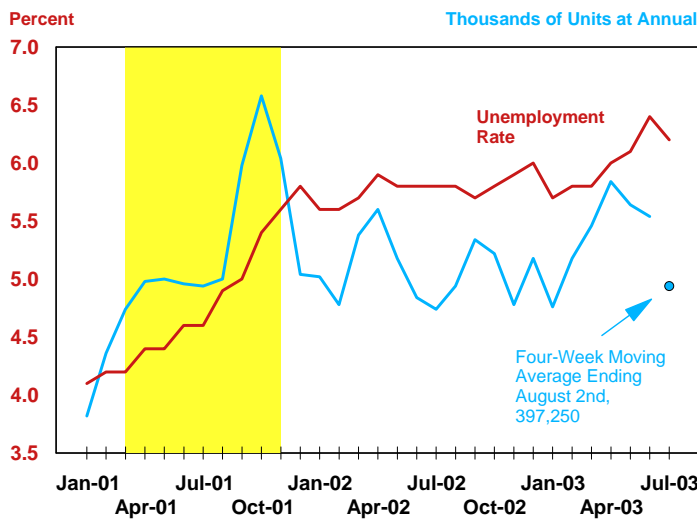
Nonfarm Payroll Employment



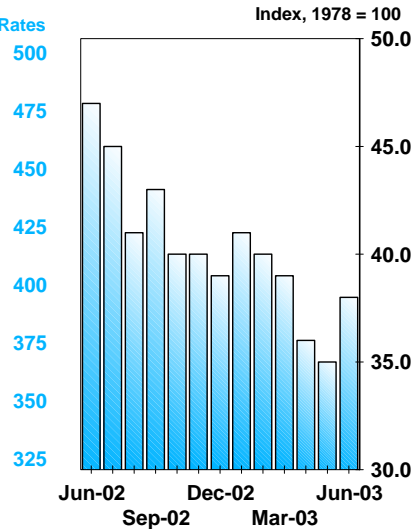
Source: Bureau of Labor Statistics.

The unemployment rate edged down two-tenths of a percentage point in July, as the labor force fell. Still, the most recent four-week moving average of initial claims moved below 400. The help wanted index rose in June, hitting its highest level since February.

Unemployment and Initial Claims



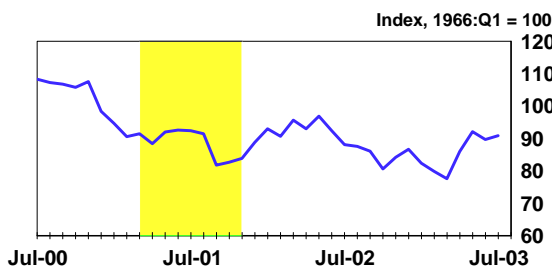
Help Wanted Index



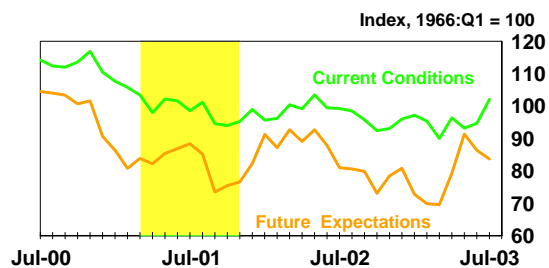
Source: Bureau of Labor Statistics (unemployment), Department of Labor, Employment and Training Administration (claims), and The Conference Board (help wanted).

Consumer attitudes towards future expectations are falling, but consumption has remained strong and tax refunds expected later this year may help fuel more spending.

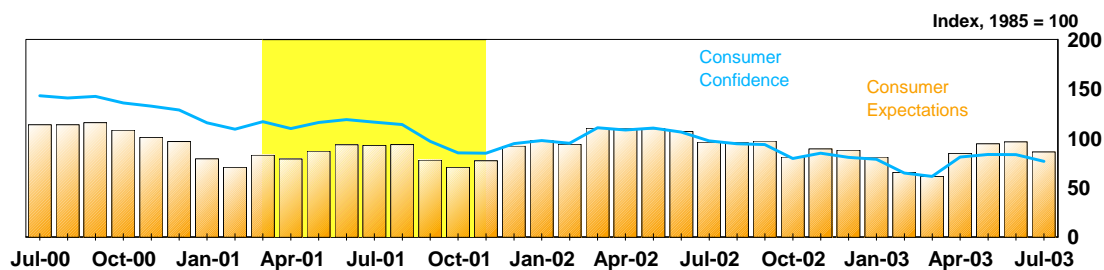
Consumer Sentiment



Current and Future Expectations



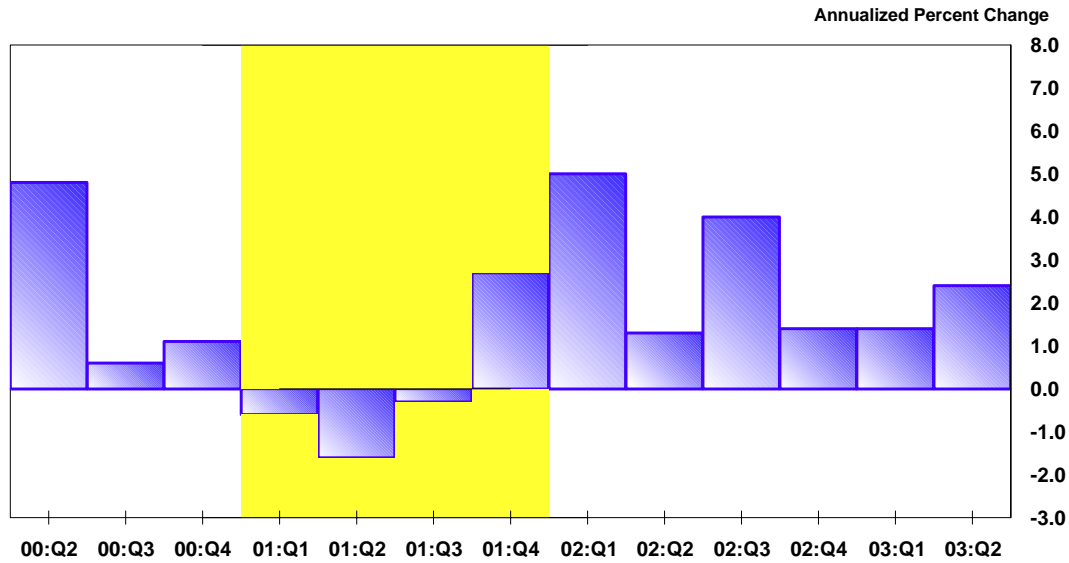
Confidence and Expectations



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

Contributions from consumption, investment and government defense spending boosted real GDP in the second quarter.

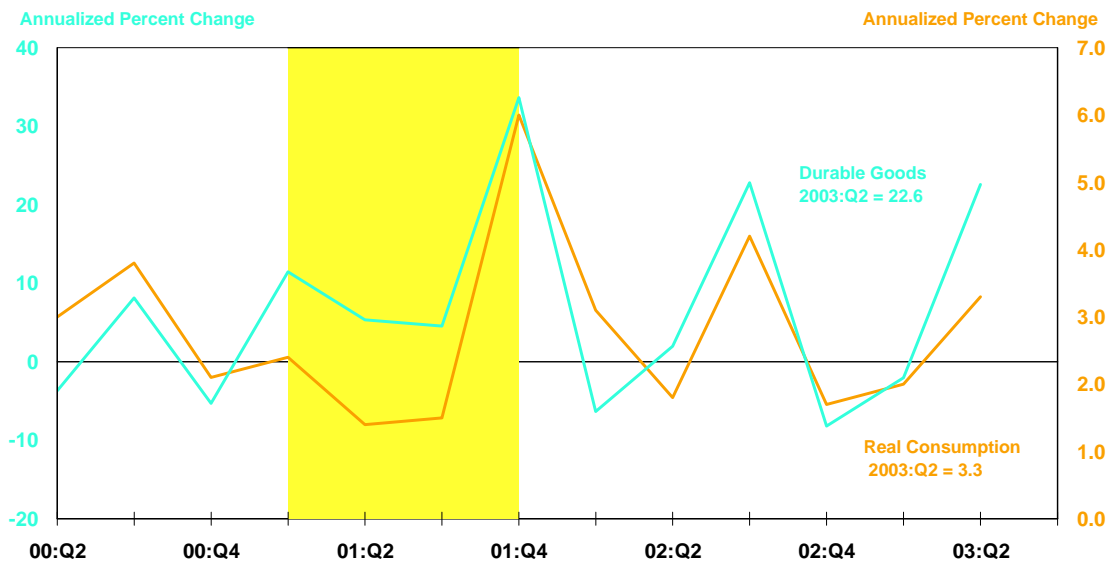
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

Real consumption rose as consumers continued to buy durable goods, especially automobiles.

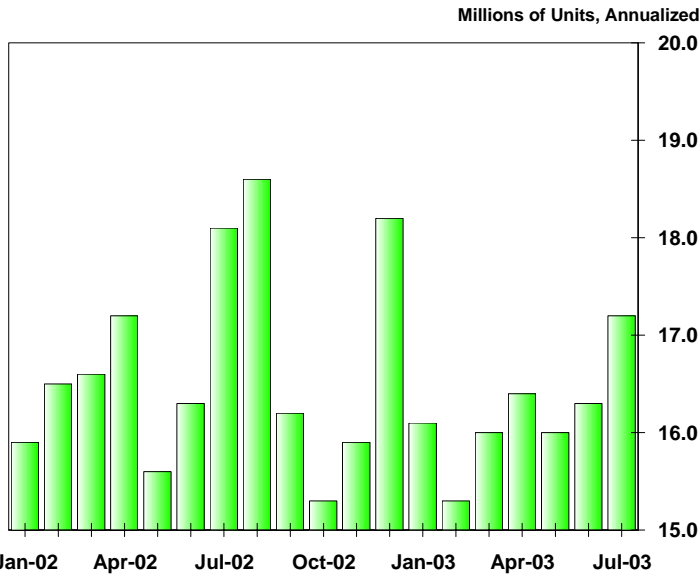
Real Consumption



Source: Bureau of Economic Analysis.

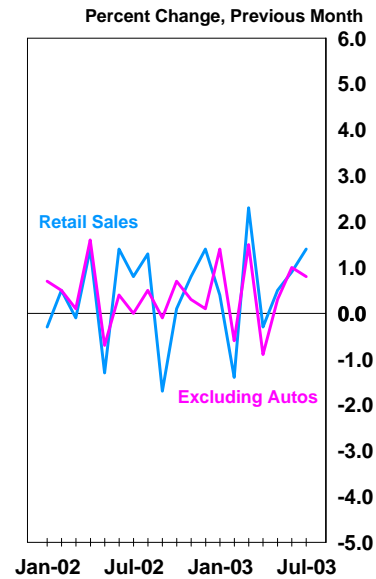
Auto and light truck sales continued to rise in July, posting their highest level since December. As a result, retail sales showed a strong increase in July.

Auto and Light Truck Sales



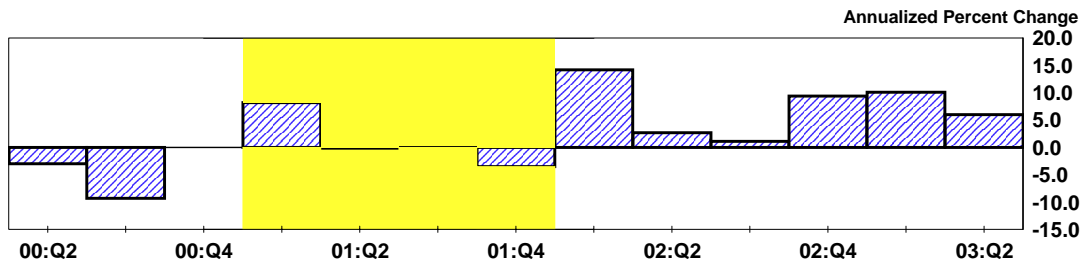
Source: Bureau of Economic Analysis (autos) and U.S. Census Bureau (retail sales).

Retail Sales

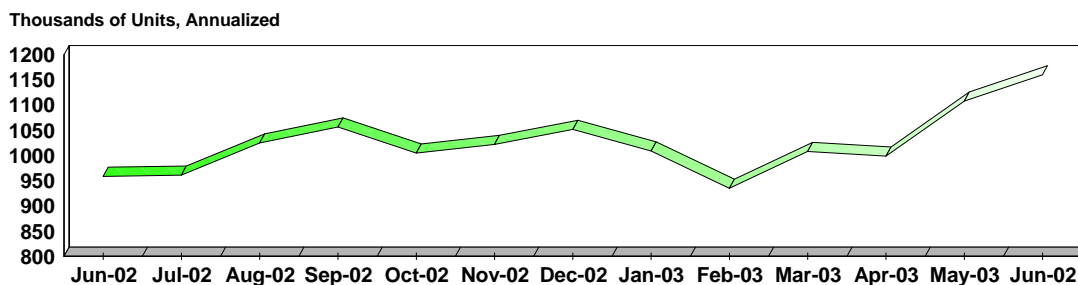


Residential investment remained strong during the second quarter, fueled by new highs in home sales during May and June.

Residential Investment



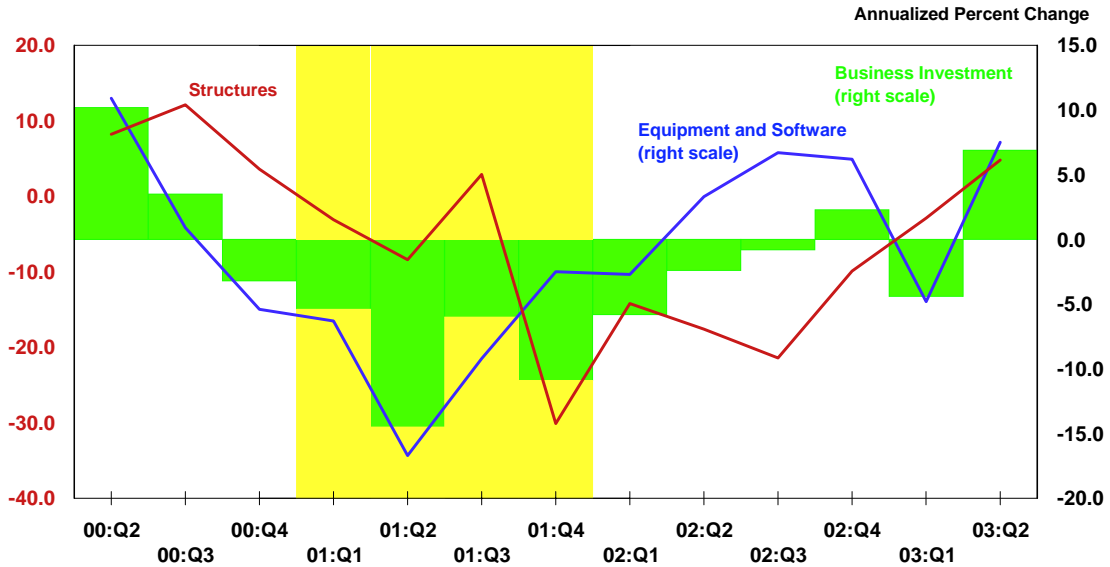
New Home Sales



Source: Bureau of Economic Analysis (residential investment) and U.S. Census Bureau (New Homes).

Nonresidential investment picked up during the second quarter, as businesses increased their spending on structures and equipment and software.

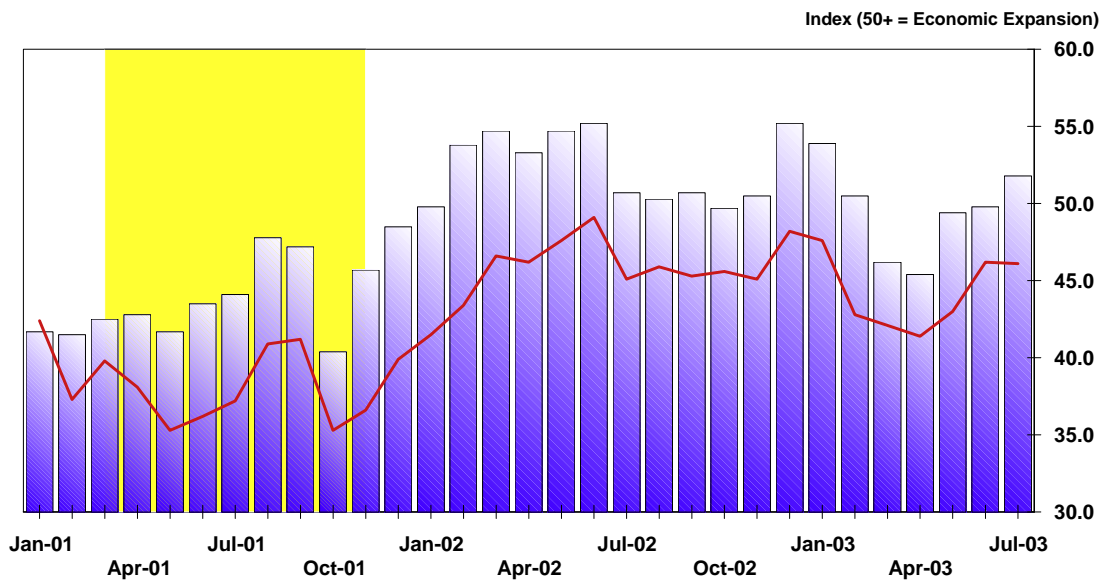
Business Investment



Source: Bureau of Economic Analysis.

The ISM index rose above 50 in July, suggesting the manufacturing sector is gaining strength. But, the employment index shows hiring has not yet picked up.

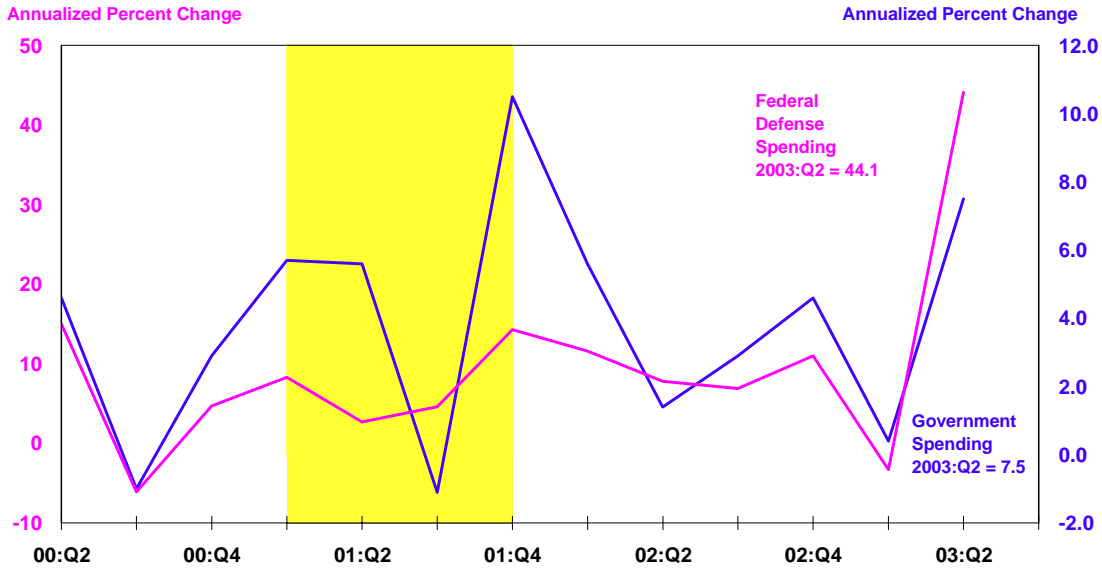
ISM Index



Source: U.S. Census Bureau (orders) and Institute for Supply Management (ism index).

Government expenditures rose during the second quarter, spurred by federal spending on defense.

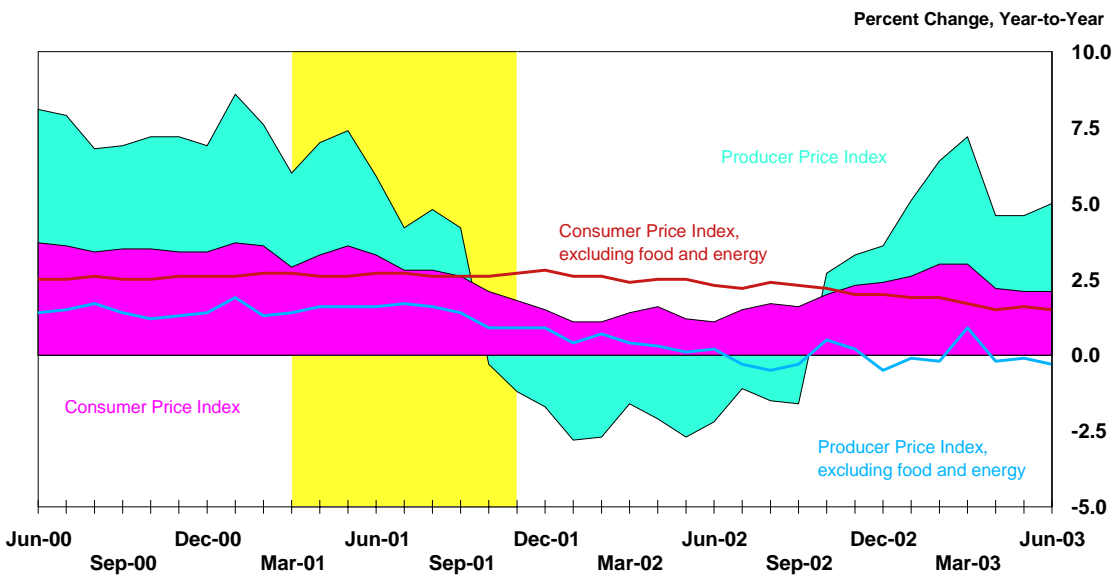
Government Spending



Source: Bureau of Economic Analysis.

Core inflation measures have edged downward since the last recession.

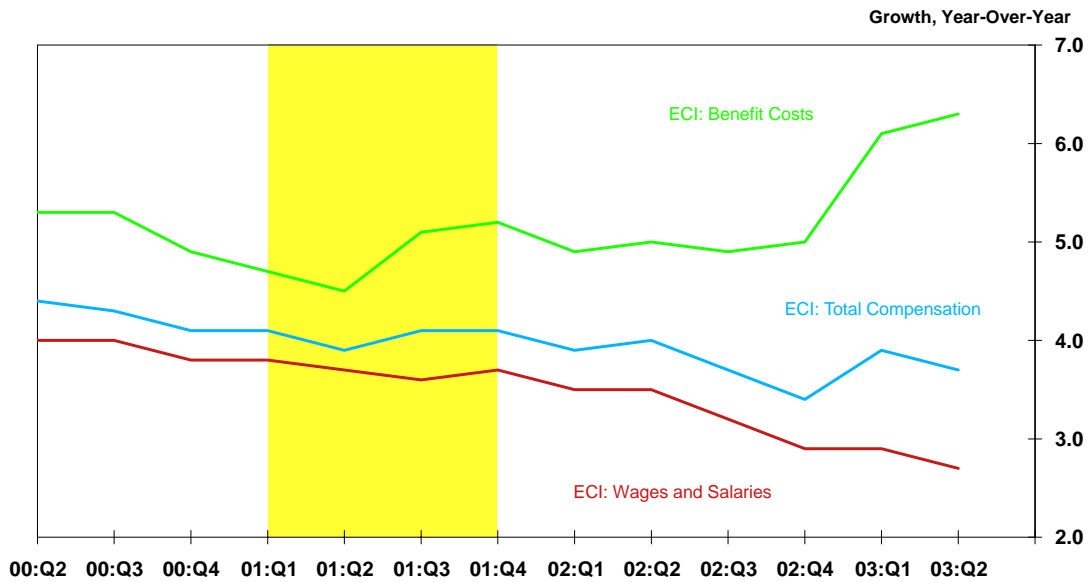
Consumer and Producer Prices



Source: Bureau of Labor Statistics.

Increases in total employee compensation remain moderate, although benefit costs are increasing.

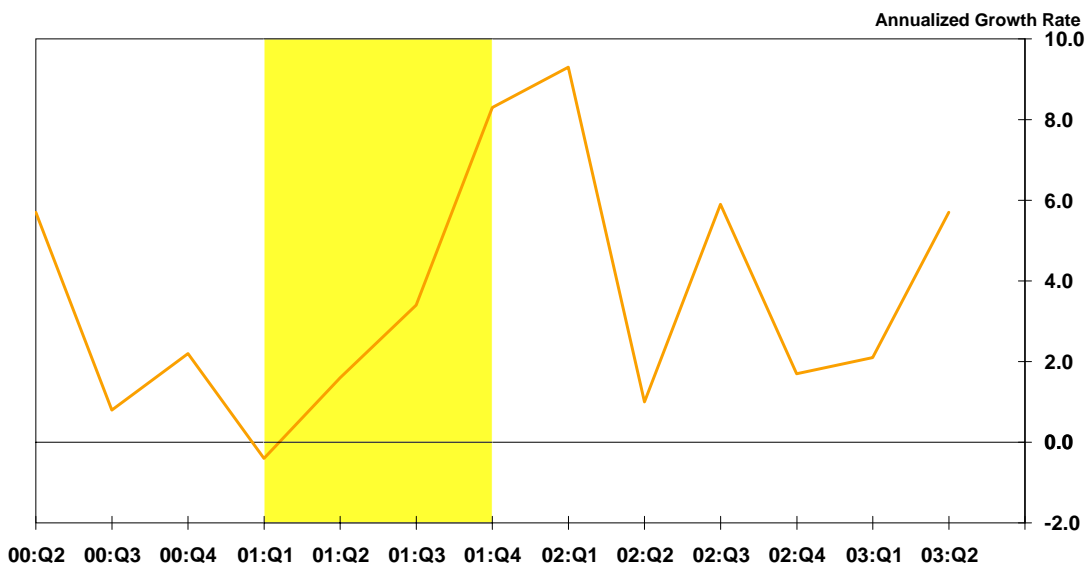
Employment Cost Index



Source: Bureau of Labor Statistics.

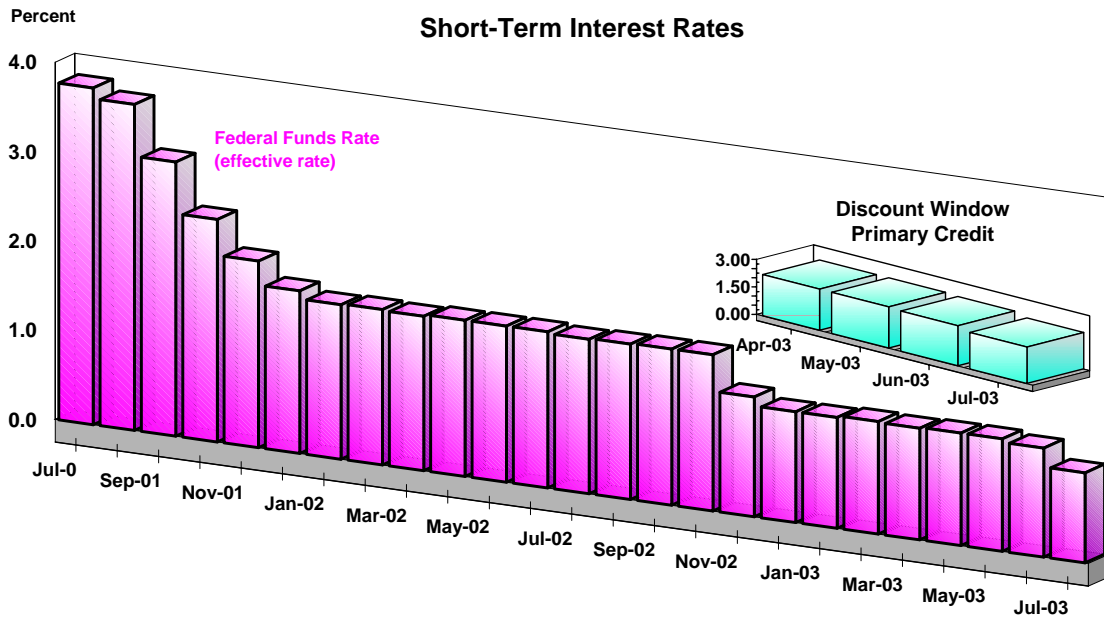
Productivity remained strong in the second quarter, rising at its fastest rate in nine months.

Productivity



Source: Bureau of Labor Statistics.

Overall, data indicate the economy is improving. The labor market remains weak, but business investment has started to pick up and consumers are continuing to spend, despite worries about future economic conditions.



Source: Federal Reserve Board of Governors.