

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,  
 FEDERAL RESERVE BANK OF BOSTON  
 Current Economic Developments - December 11, 2003

Data released since your last Directors' meeting show the economy is gaining strength as the manufacturing sector continues to improve and the labor market finally shows signs of growth.

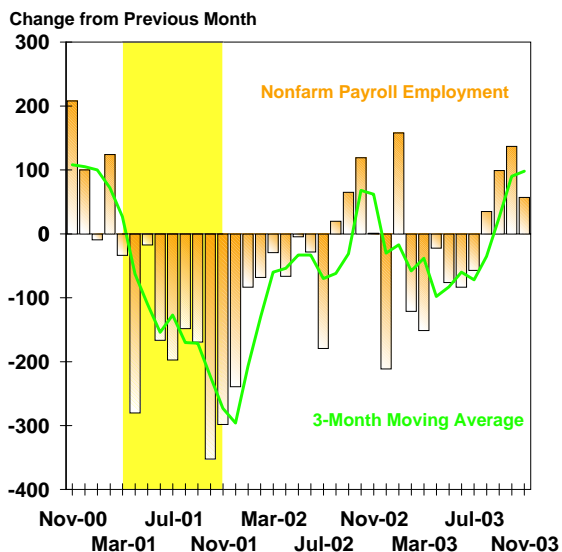
In November, payroll employment posted its fourth consecutive increase and the unemployment rate fell. Initial claims continued to edged downward in November, marking their lowest level since February 2001. The ISM employment index rose above 50 for the first time since July 2000, indicating an expansion in manufacturing employment is on the horizon.

Industrial production and capacity utilization rose in October and continued growth in durable goods orders suggest business investment will continue to expand in the near term. Improvements in the economy boosted consumer confidence in November. Despite October's fall in retail sales, led by a drop in autos, consumption and residential investment remains strong. Auto sales rebounded in November, reversing their October decline.

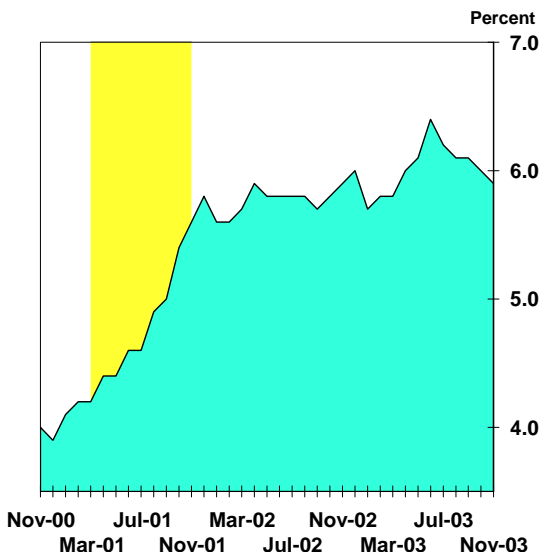
In October, housing starts and building permits rose. Despite a drop in new and existing home sales, levels remained at near record highs.

In November, payroll employment rose by a net 57,000 jobs, following a revised increase of 137,000 in October. Despite the slower pace of hiring in November, the unemployment rate fell to 5.9%, marking its lowest level since March.

**Nonfarm Payroll Employment**



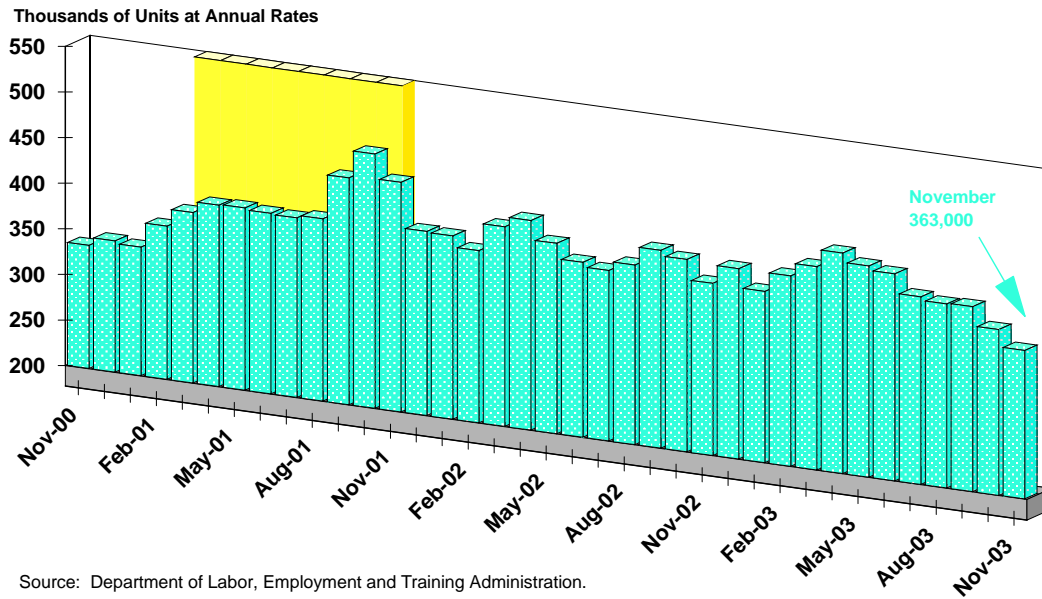
**Unemployment Rate**



Source: Bureau of Labor Statistics.

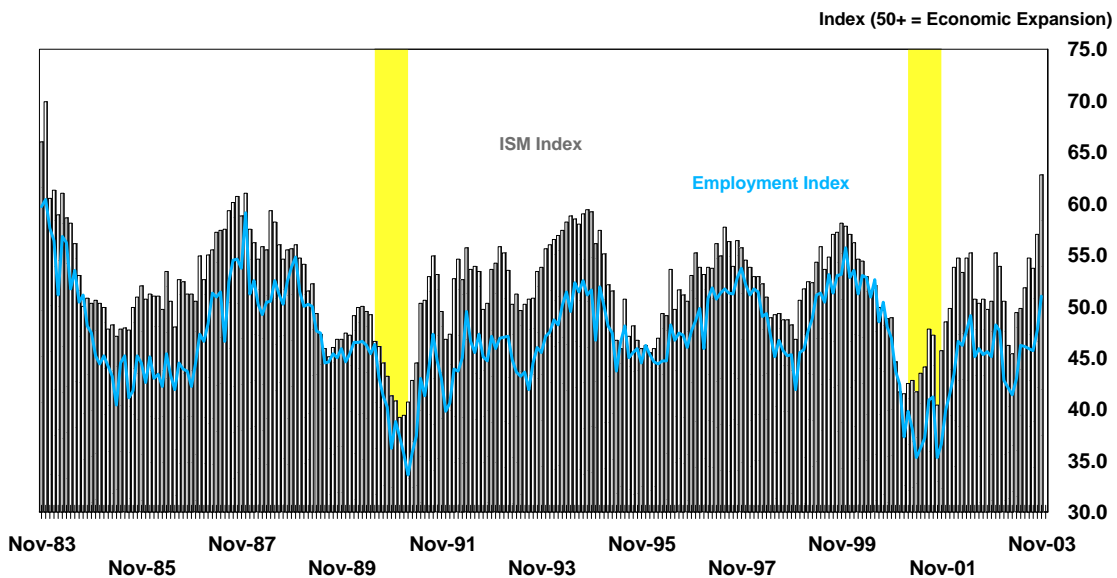
Initial claims continued to edge down in November, marking their lowest level since February 2001. Still, claims need to drop further before their level is consistent with a falling unemployment rate.

### Initial Claims



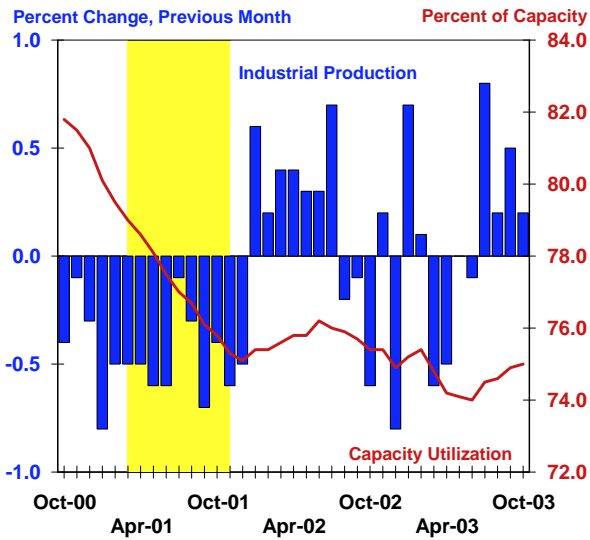
The ISM index posted its fifth consecutive month above 50 in November marking its strongest level in nearly 20 years. The employment index in November rose above 50 for the first time since July 2000.

### ISM Index

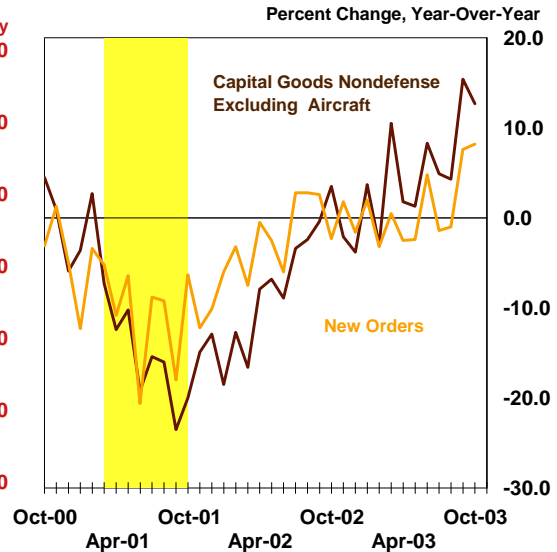


Industrial production and capacity utilization rose in October. Continued growth in durable goods orders suggest business investment will continue to pick up.

### Industrial Production and Capacity Utilization



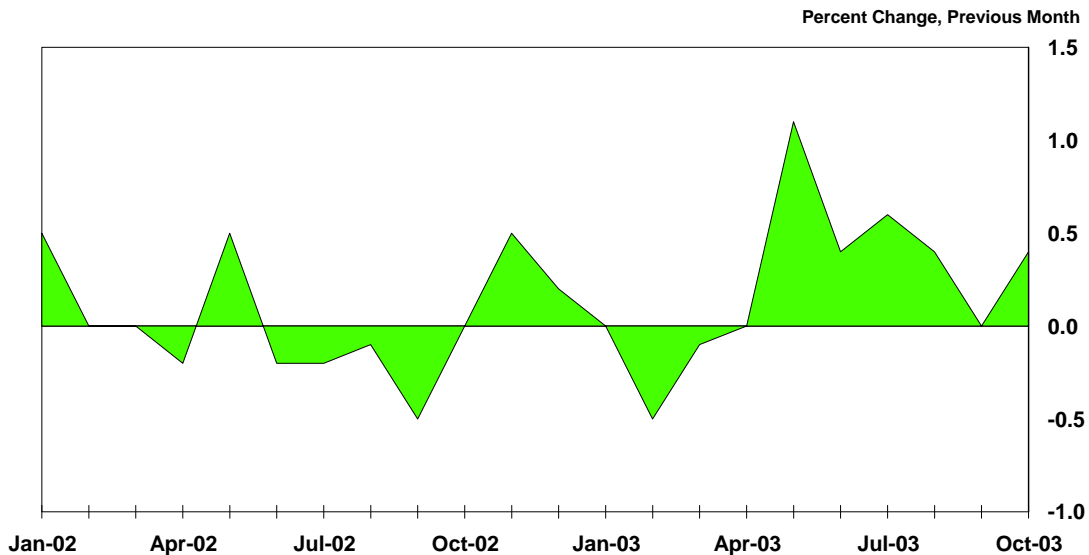
### New Orders for Durable Goods



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

The index of leading indicators rose in October, led by falling initial claims and rising building permits. Continued growth in the leading index suggests sound economic growth should continue in the near term.

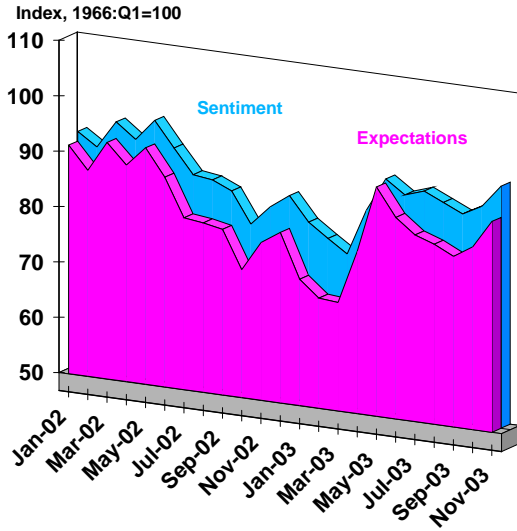
### Index of Leading Indicators



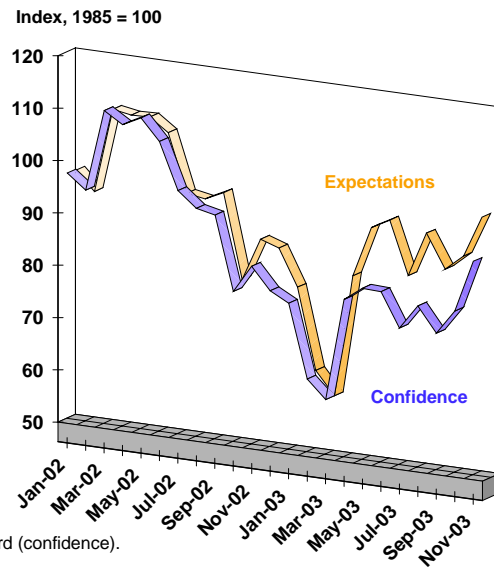
Source: The Conference Board.

Consumer attitudes continued to improve in November, as confidence hit its highest level in over a year and sentiment hit its highest level in a year and a half.

### Sentiment and Expectations



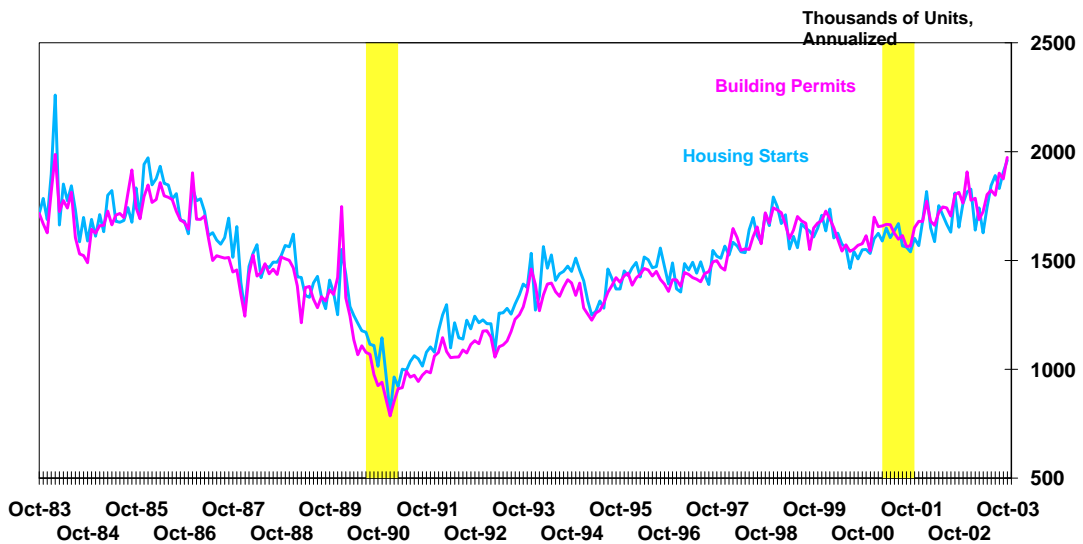
### Confidence and Expectations



Source: University of Michigan (sentiment) and The Conference Board (confidence).

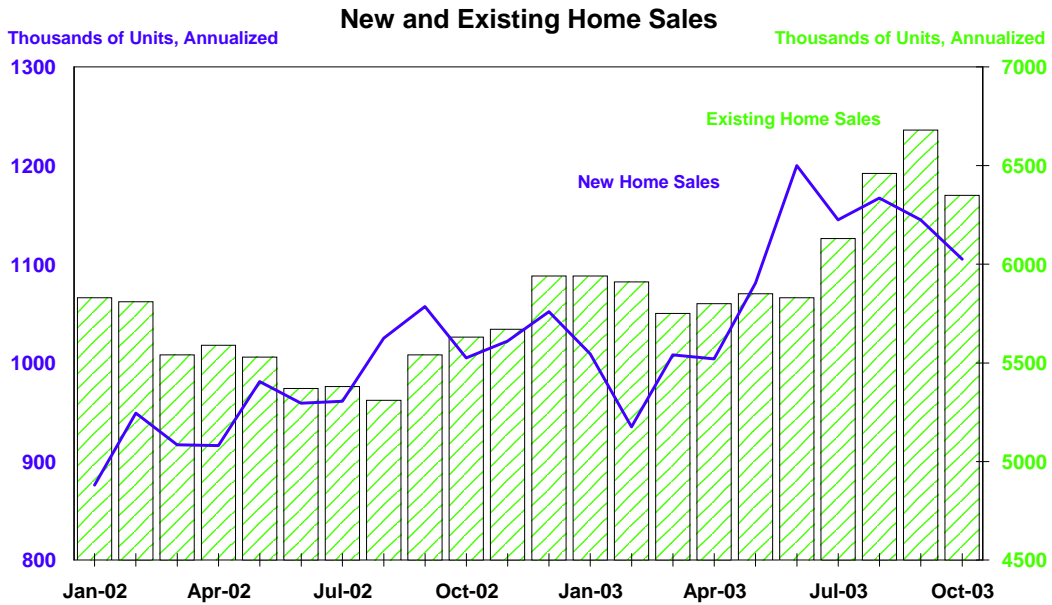
Housing starts and building permits remained strong in October.

### Housing Starts and Building Permits

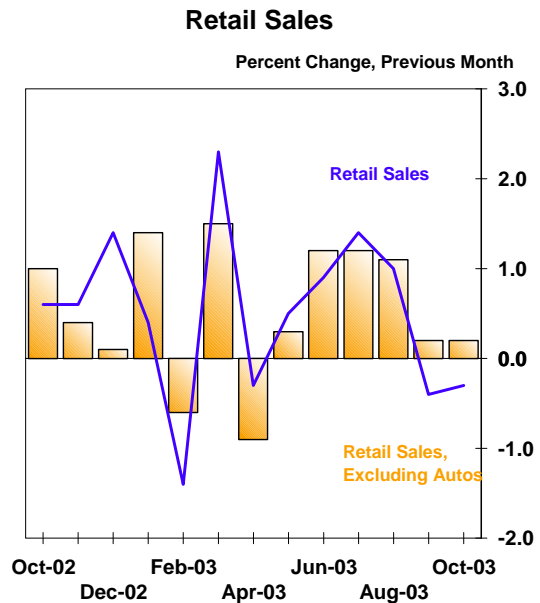
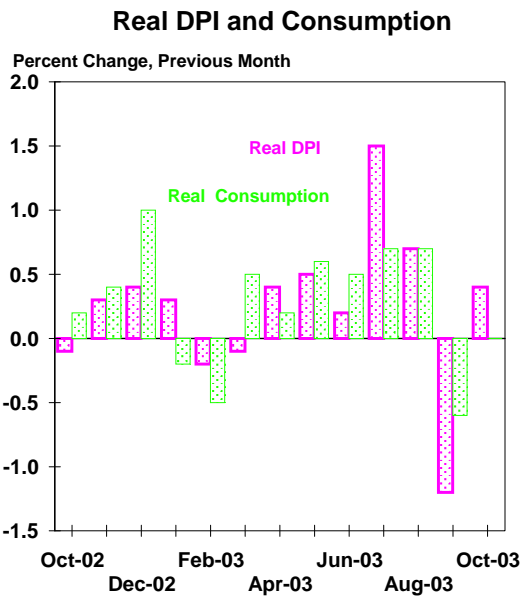


Source: U.S. Census Bureau.

New and Existing home sales fell in October, but remained at near record highs seen earlier in the year.



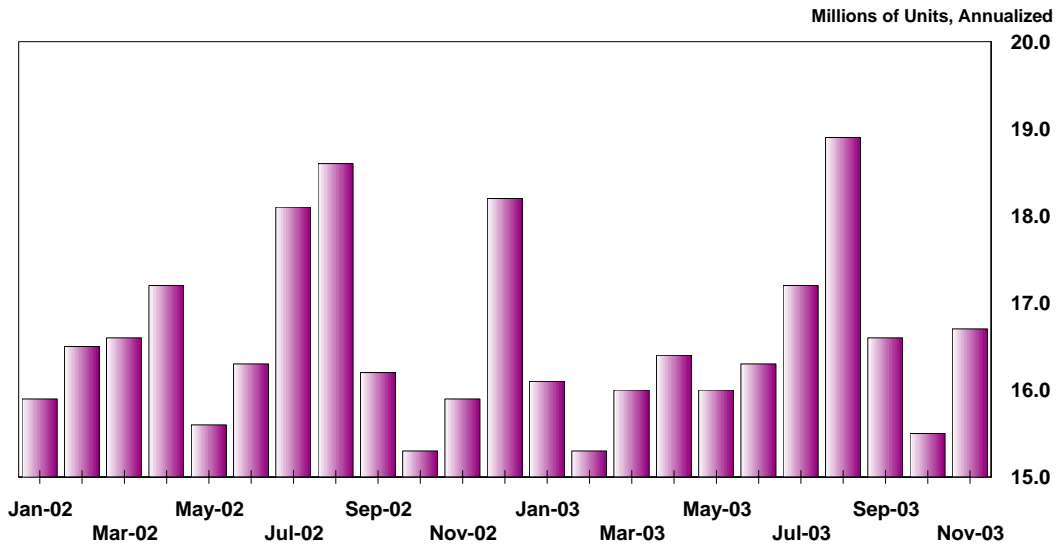
In October, despite a rise in real disposable income, real consumption was flat. A drop in auto sales kept retail sales down.



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

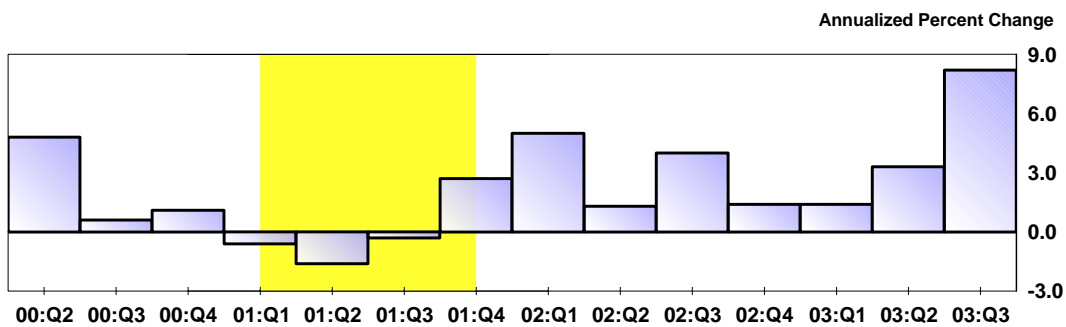
But total auto and light truck sales rose in November, reversing the decline seen in October. However, auto sales in the fourth quarter will most likely be lower than their third quarter average.

### Total Auto and Light Truck Sales



Real GDP was revised upward by 1.0% in the third quarter, primarily reflecting stronger exports and investment in inventories, equipment and software, and housing, that were partly offset by an upward revision to imports.

### Real Gross Domestic Product

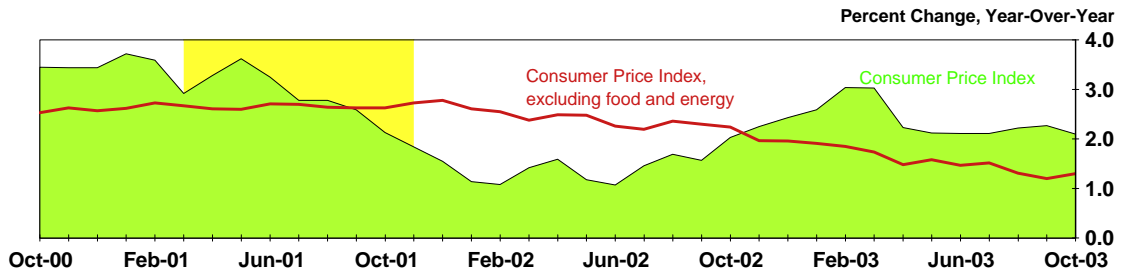


Description	Advanced	Preliminary
Real GDP	7.2	8.2
Consumption	6.6	6.4
Business Investment	11.1	14.0
Residential Investment	20.4	22.7
Government	1.3	1.3
Exports	9.3	11.0
Imports	0.1	1.5
Final Sales	7.8	8.0

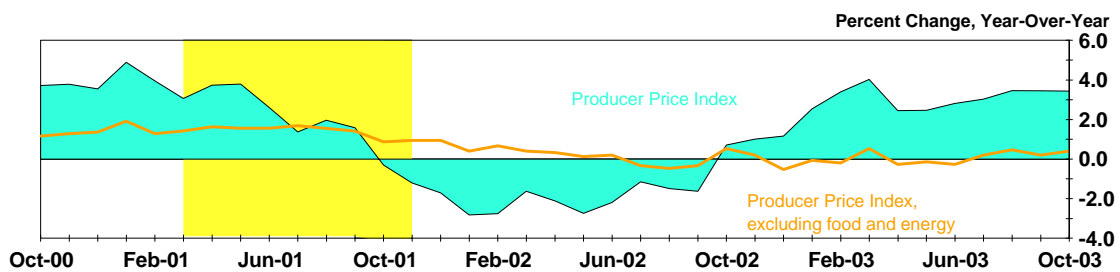
Source: Bureau of Economic Analysis.

Inflation remains moderate, especially in core prices.

### Consumer Prices



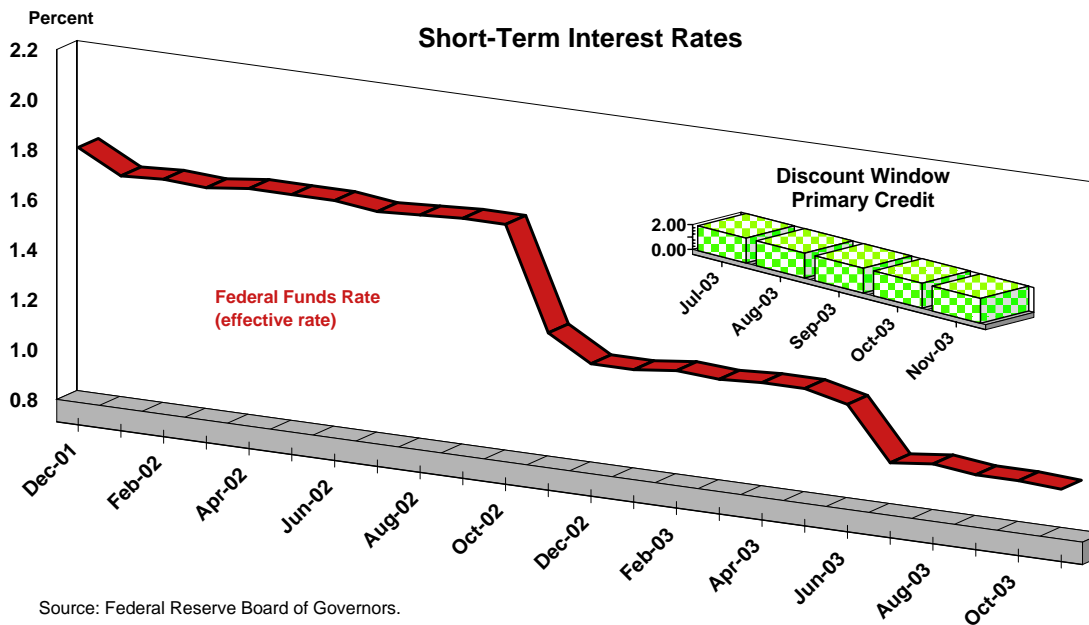
### Producer Prices



Source: Bureau of Labor Statistics.

Overall, the economy is expanding, as the manufacturing sector continues to improve and the labor market is finally showing signs of improvement. Still, employment has yet to expand at a rate consistent with a normal recovery.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors.