

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

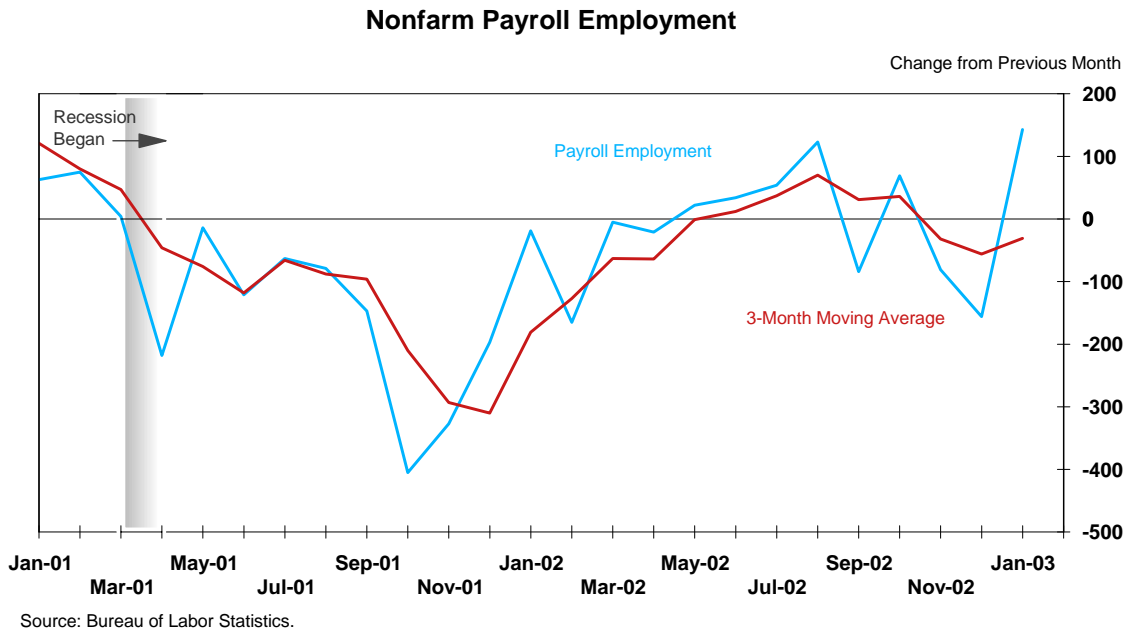
Current Economic Developments - February 13, 2003

Data released since your last Directors' meeting show the economy continues to expand, although at a slow pace. Concern about future strength remains high and data for the first quarter remains sparse. Nonfarm payroll employment rose by 143,000 in January, marking the biggest job gain since November 2000. Still December's payroll employment was revised further downward and the 3-month moving average, which is a better indicator of labor market strength, remains below zero. The unemployment rate fell to 5.7%.

In January, auto and light truck sales slowed, as consumer confidence fell. And on the supply side, the ISM index edged slightly downward.

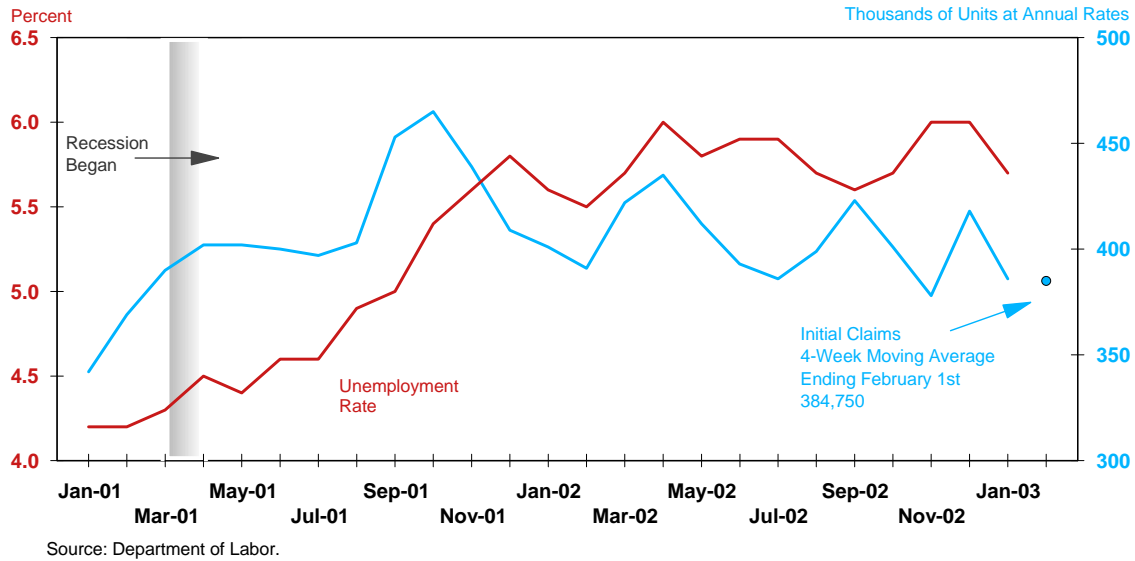
During the fourth quarter, real GDP growth slowed, led by a pullback in consumer spending on durable goods. The deceleration in consumer spending was partly offset by an increase in fixed investment and an acceleration in government spending.

Nonfarm payroll employment rose in January for the first time in three months, by 143,000 yet the 3-month moving average remains below zero.



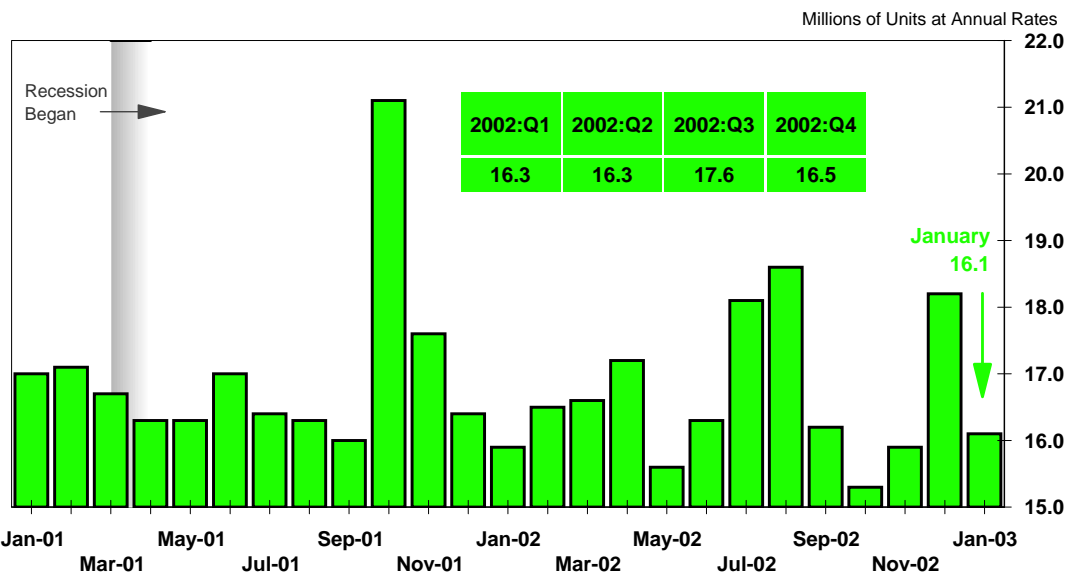
Initial claims edged downward in January to its lowest level since July 2002, yet claims have been relatively flat over the past six months. The unemployment rate fell in January to 5.7 percent.

Unemployment Rate and Initial Claims



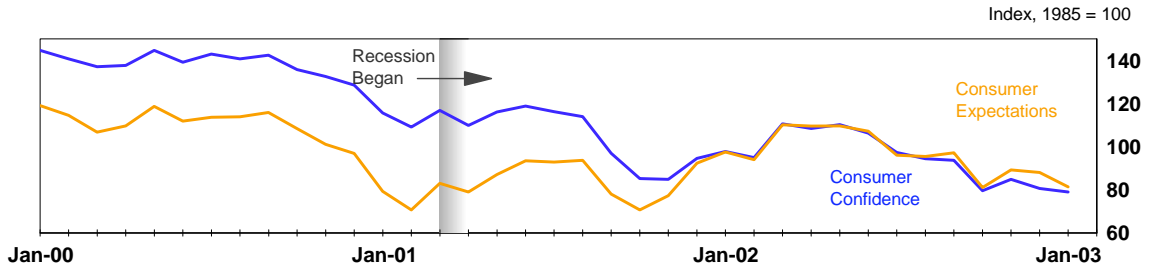
Total auto and light truck sales slowed in January, compared to December. January's estimate was also slightly lower than the average seen during the fourth quarter.

Auto and Light Truck Sales



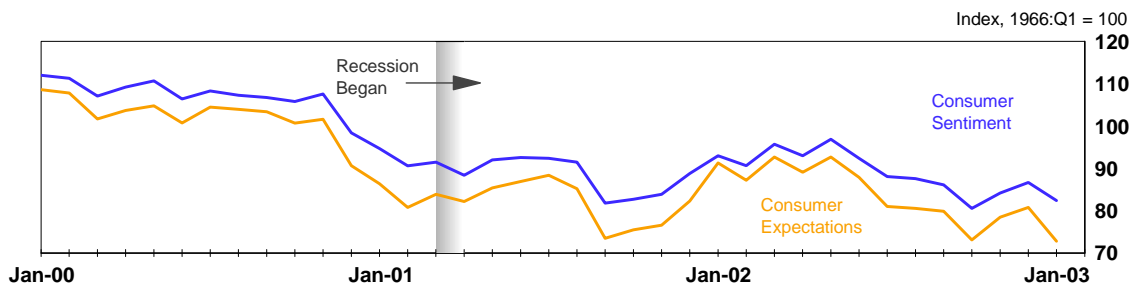
Consumer confidence and expectations fell in January, as concern about weak economic growth increased and geo-political risks rose.

Confidence and Expectations



Source: The Conference Board.

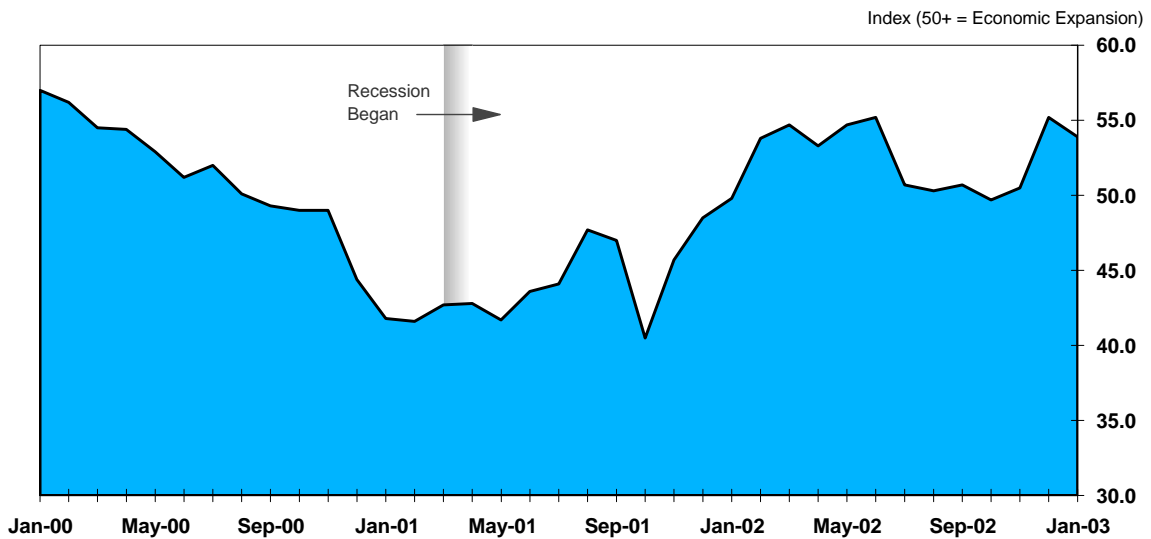
Sentiment and Expectations



Source: The University of Michigan.

The ISM index slowed in January, compared to December. Still estimates over the past two months show some improvement, compared to the previous five months.

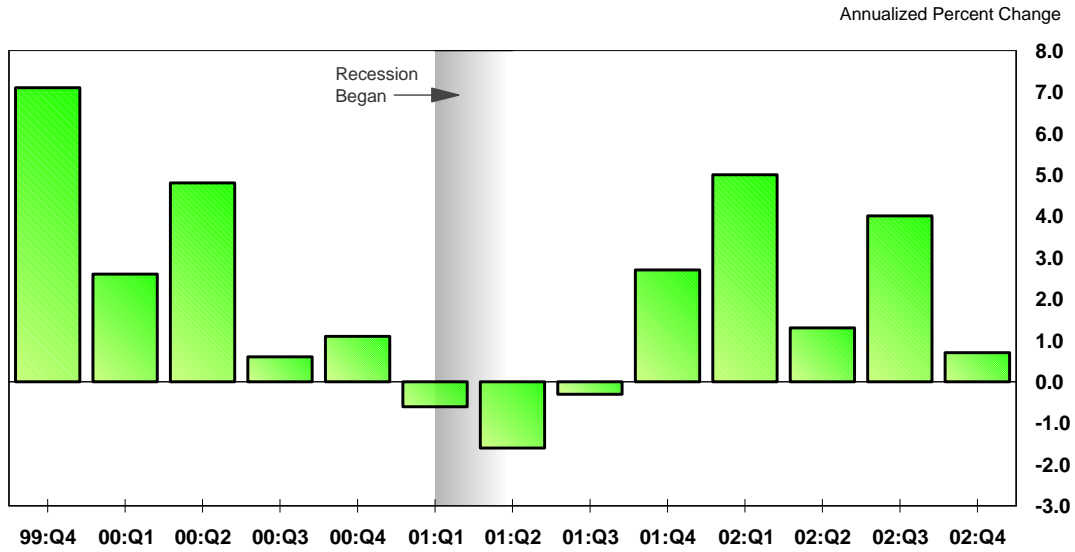
ISM Indexes



Source: Institute for Supply Management.

Economic growth slowed during the fourth quarter. The deceleration was led by a sharp pullback in consumption.

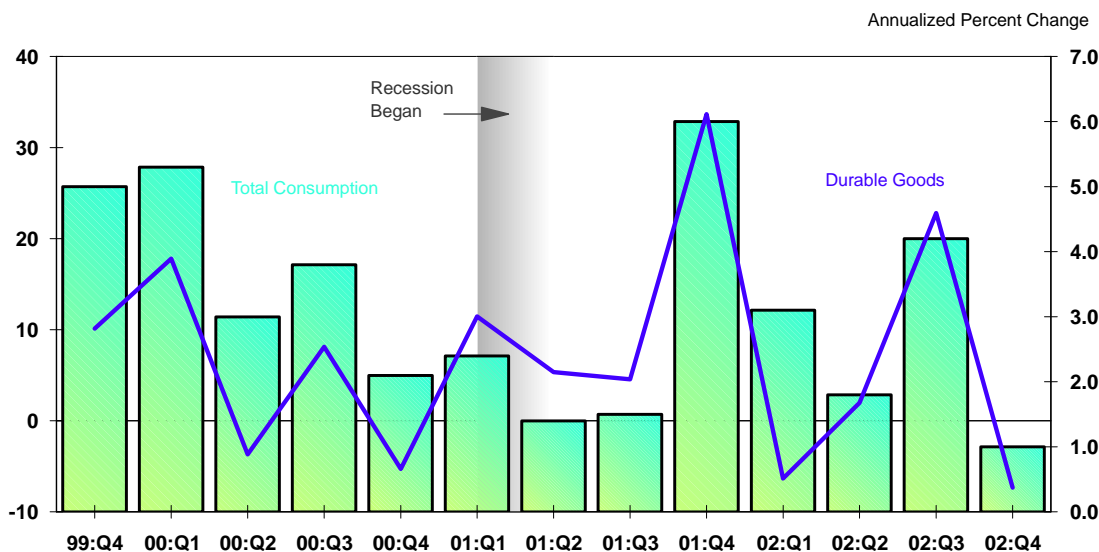
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

During the fourth quarter, the slowdown in consumer spending was led by a drop in durable goods consumption.

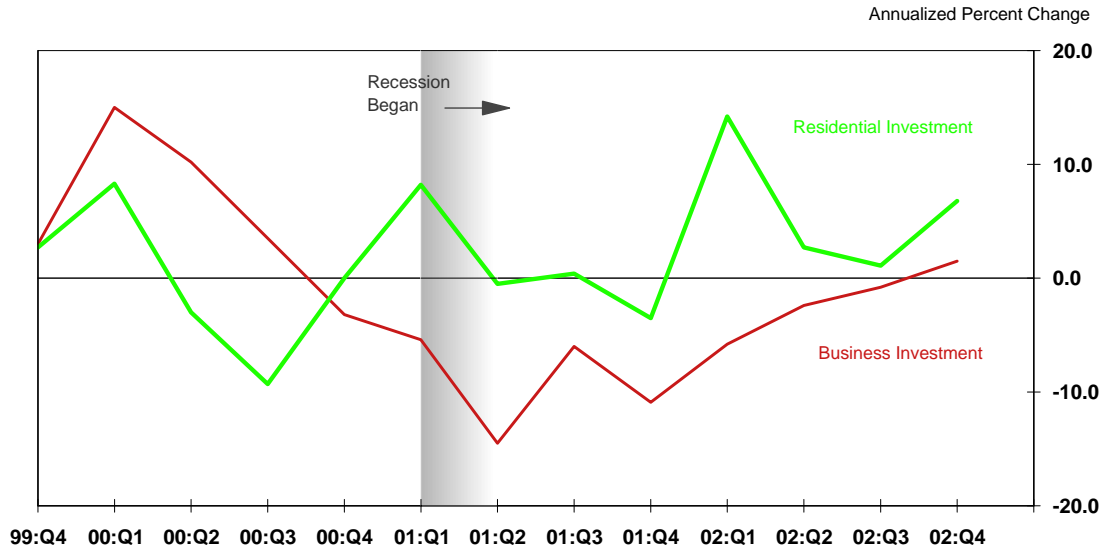
Real Consumption



Source: Bureau of Economic Analysis.

The weaker consumer spending was offset somewhat by increases in residential and business investment. Business investment posted its first gain in over two years.

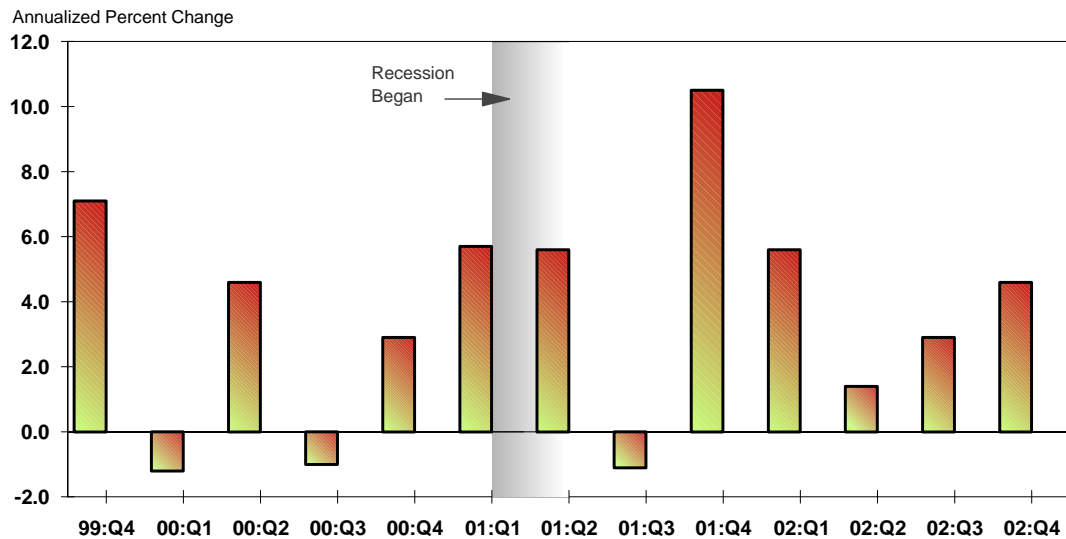
Residential and Business Investment



Source: Bureau of Economic Analysis.

Slower consumer spending was also offset somewhat by an increase in government spending.

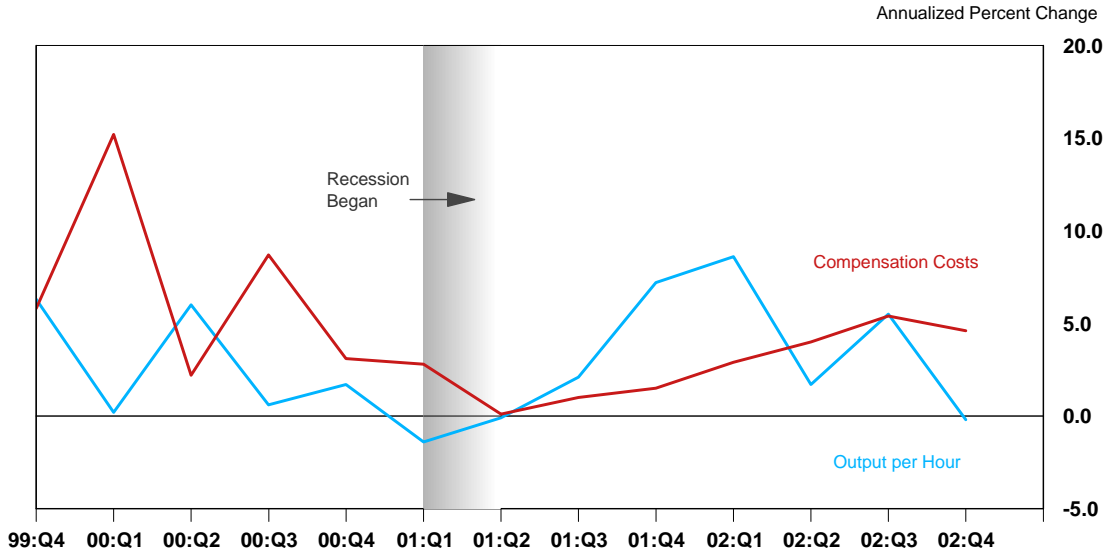
Government Spending



Source: Bureau of Economic Analysis.

And productivity fell during the fourth quarter for the first time since the second quarter of 2001. Despite the drop in productivity, compensation costs eased somewhat.

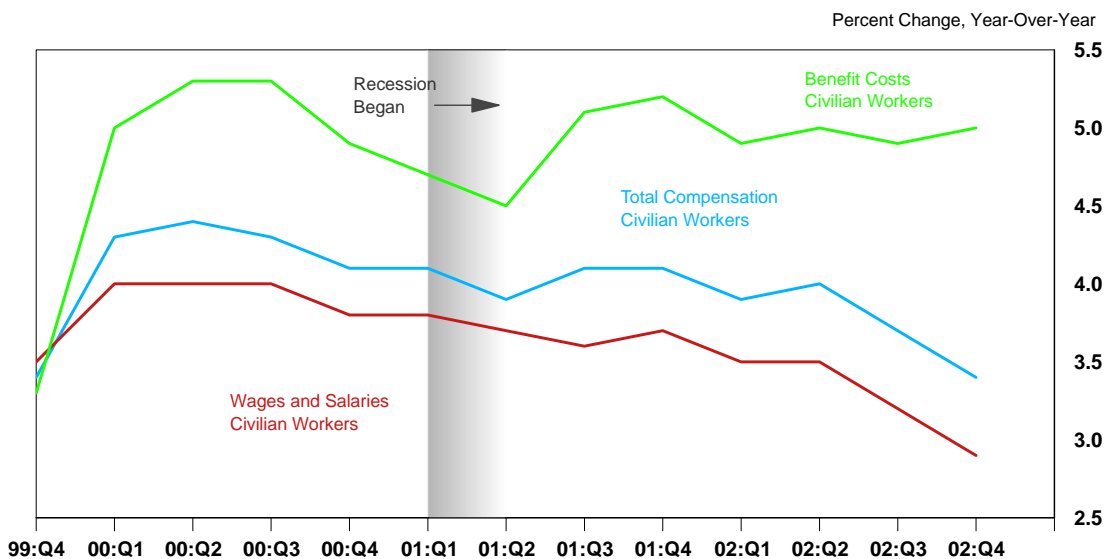
Productivity and Costs



Source: Bureau of Labor Statistics.

During the fourth quarter, the ECI's total compensation eased somewhat, following the recent pattern of wages and salaries, despite an increase in benefit costs.

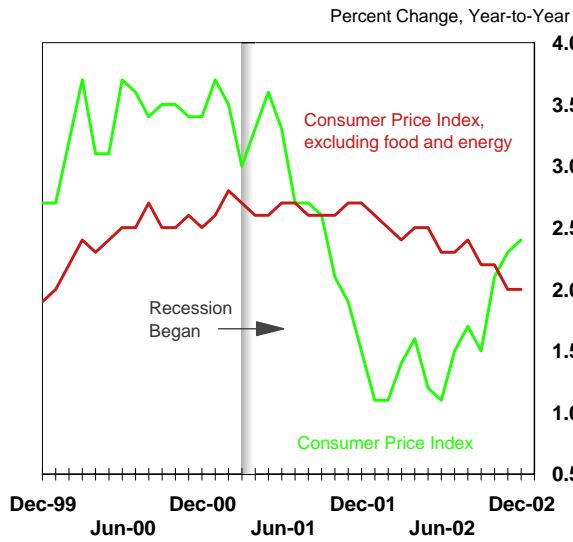
Employment Cost Index



Source: Bureau of Labor Statistics.

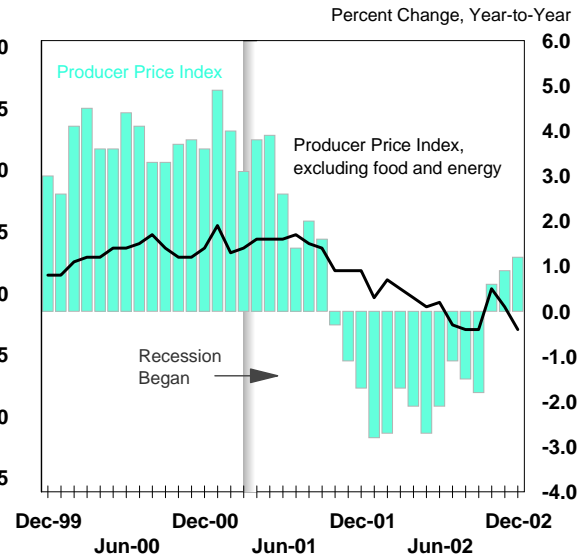
Over the past year, inflation at both the consumer and producer levels have remained low.

Consumer Prices



Source: Bureau of Labor Statistics.

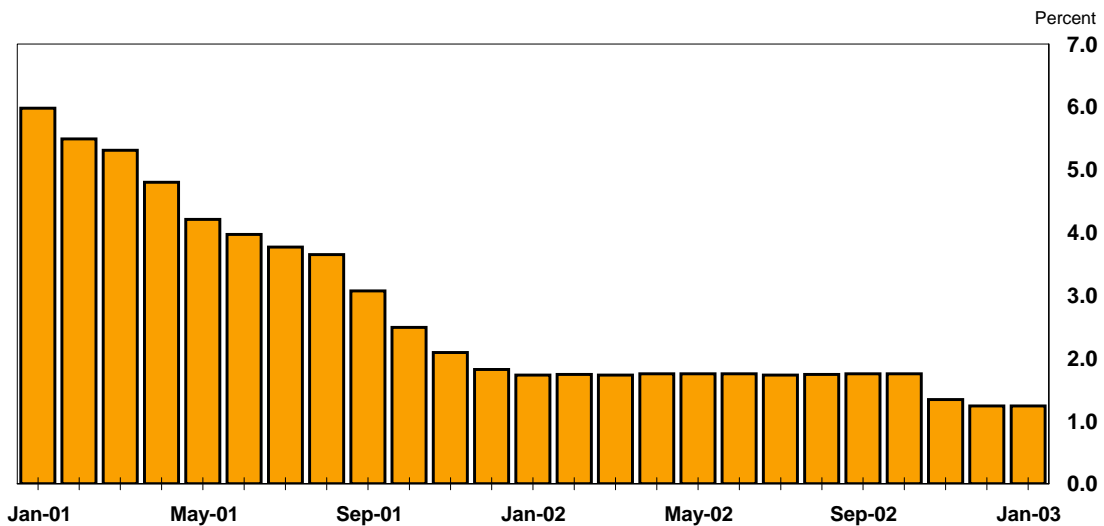
Producer Prices



Source: Bureau of Labor Statistics.

Overall, the economy is expanding, but increasing geopolitical risks and falling consumer confidence have raised downside risks.

Federal Funds Rate



Source: Federal Reserve Board of Governors.