

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

Current Economic Developments - January 9, 2003

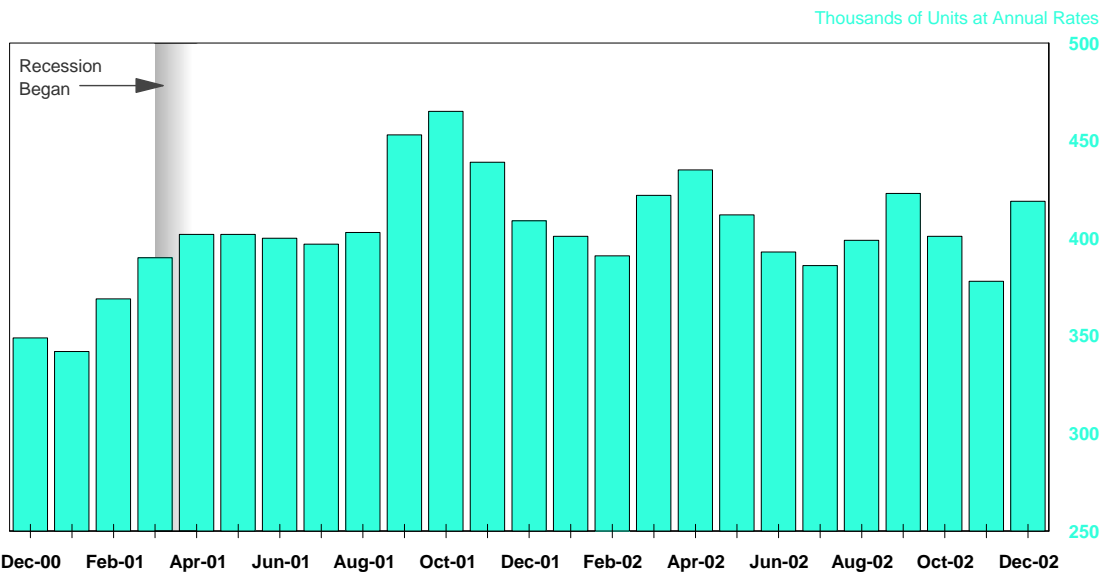
Data released since your last Directors' meeting show the economy continued to grow in the fourth quarter, although at a slower pace than in the third quarter. Since December's employment situation will not be released until January 10th, there is little to discuss about the labor market, with two exceptions. Initial claims rose in December, following modest improvement in November, while the ISM employment index increased in December, indicating some improvement in manufacturing employment.

December's overall ISM index jumped above 50 for the first time since August, and industrial production rose in November for the first time since July. Still, the manufacturing sector remains weak, as business investment has yet to pick up.

In November, real consumption rose somewhat, while residential investment was mixed. In December, auto sales were strong, despite mixed consumer attitudes.

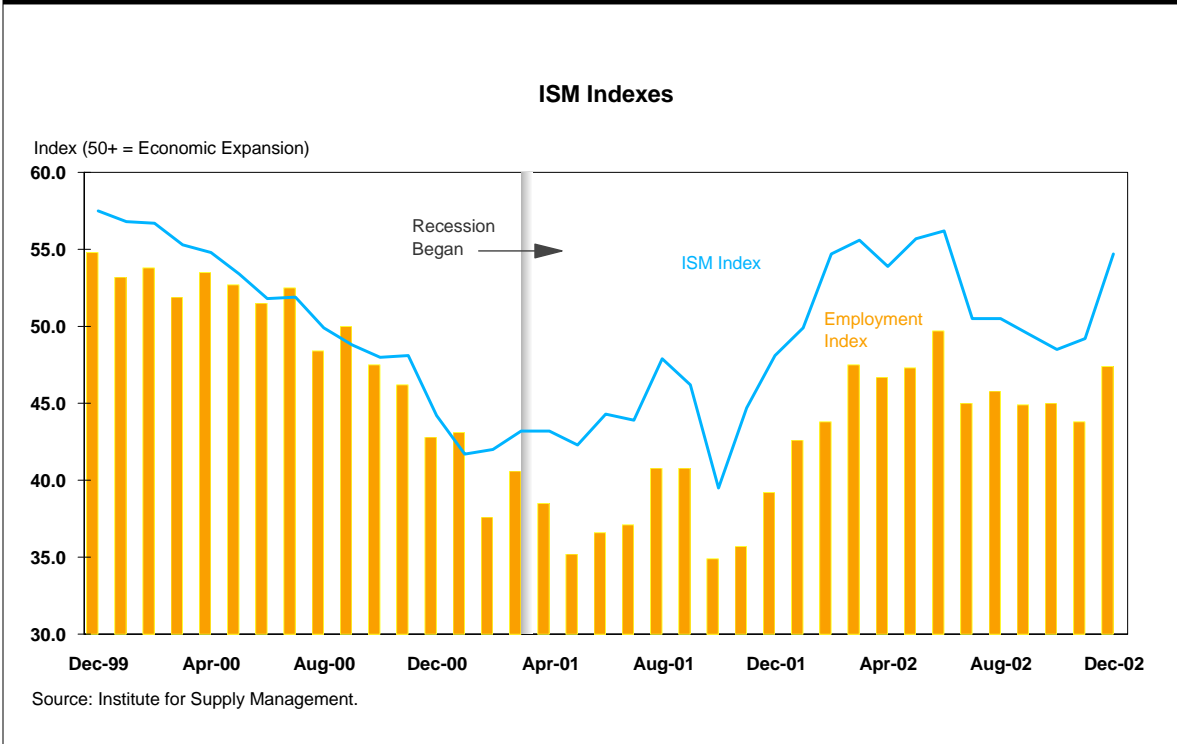
Initial claims rose above 400,000 in December, reversing most of the declines seen in the previous two months.

Initial Claims

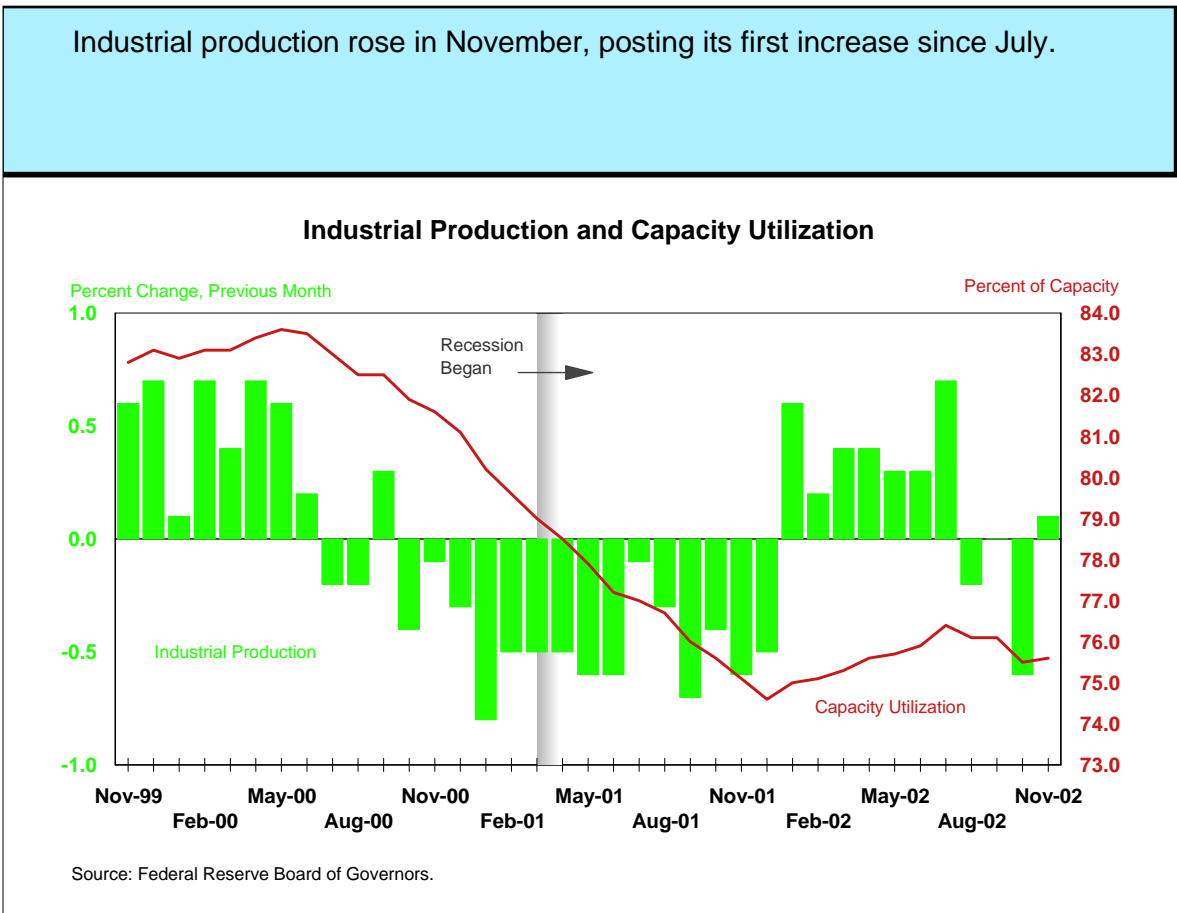


Source: Department of Labor.

The ISM index rose above 50 in December for the first time since August. The ISM employment index also rose in December, indicating fewer job losses in manufacturing.

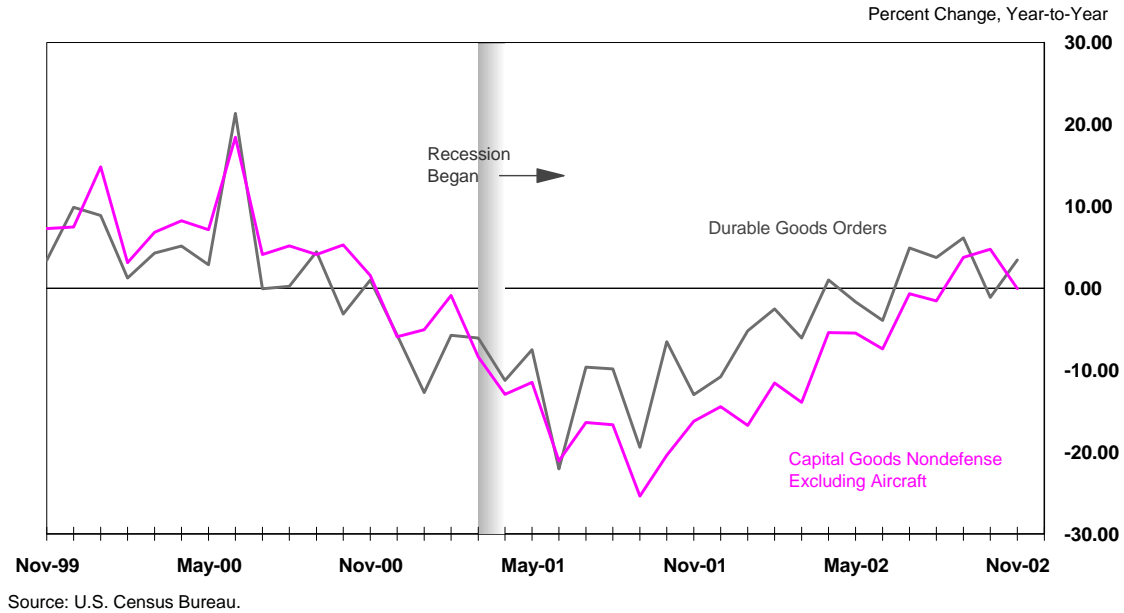


Industrial production rose in November, posting its first increase since July.



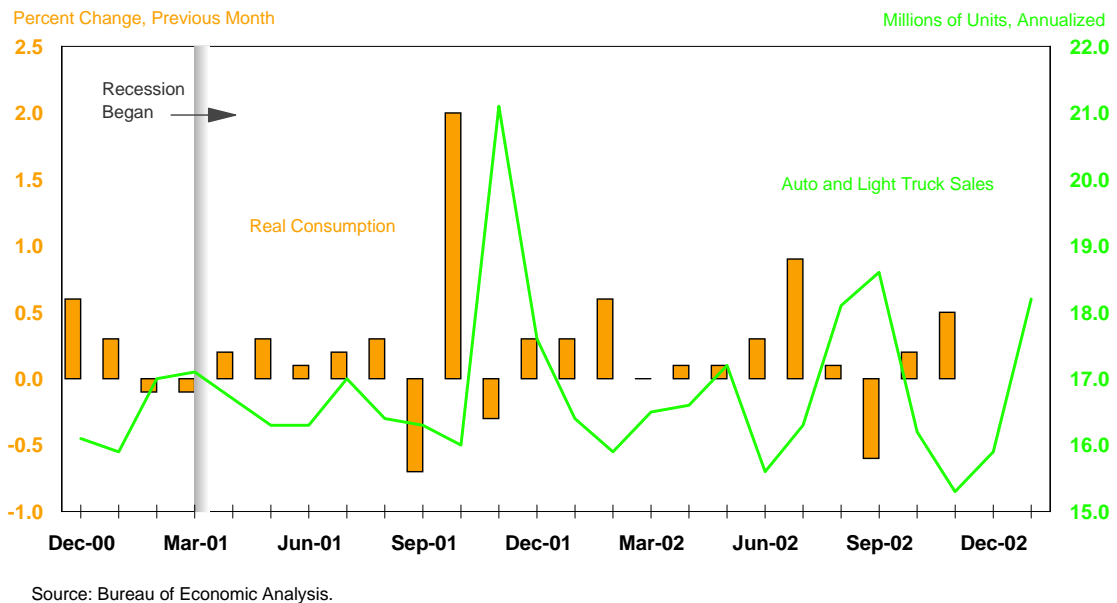
Business investment remains weak, as durable goods orders have yet to pick up.

Durable Goods Orders



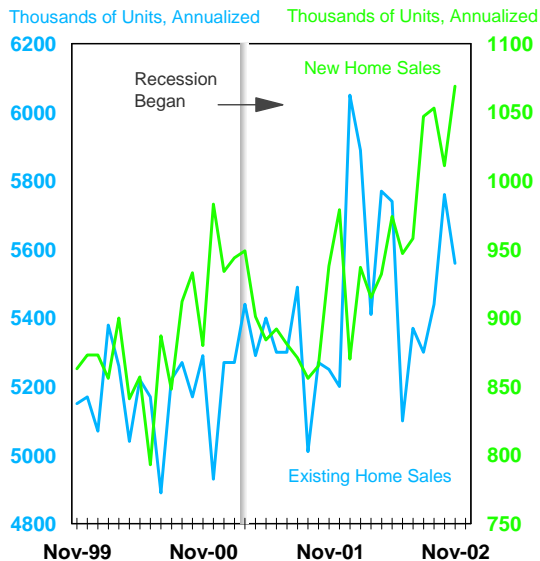
Real consumption rose in November, as auto sales improved somewhat. December's auto and light truck sales were strong, despite mixed consumer attitudes.

Real Consumption and Autos Sales

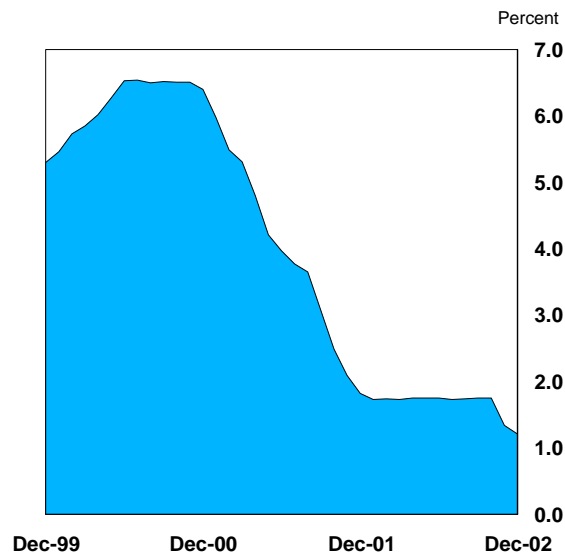


And new home sales rose, while existing home sales fell. Still, the housing market remains healthy and interest rates remain low.

New and Existing Home Sales

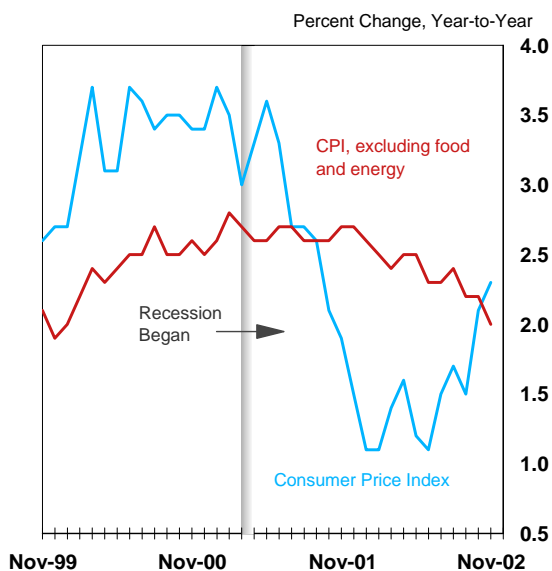


Federal Funds Rate



Overall, the economy is expanding and inflation remains low. Although employment and investment need to pick up, downside risks have shifted towards geopolitical issues rather than economic.

Consumer Prices



Producer Prices

