

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

Current Economic Developments - July 10, 2003

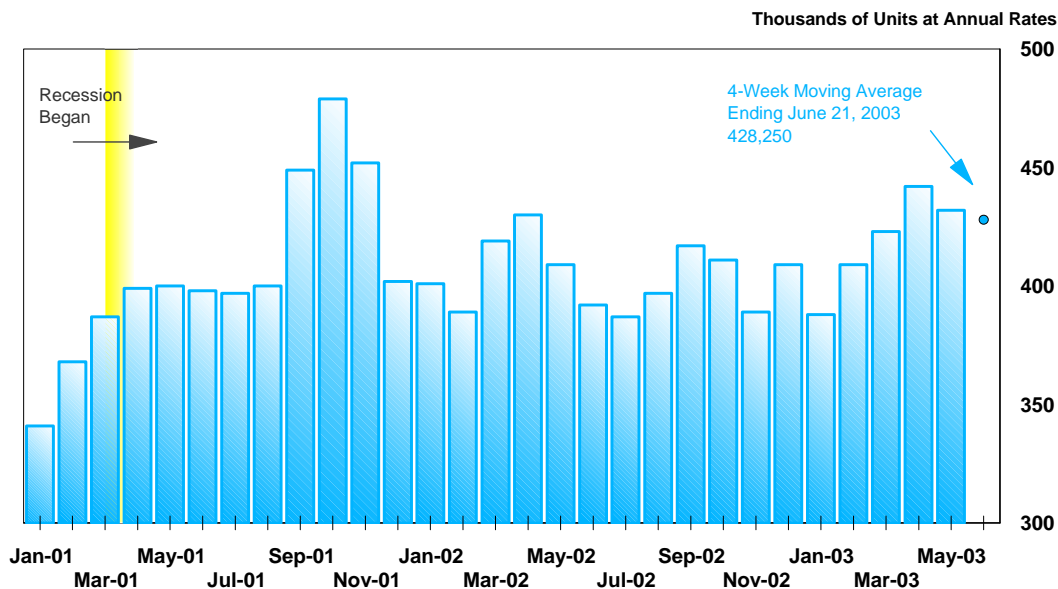
Data released since your last Directors' meeting show the economy may be emerging from its soft spot. Although the labor market remains weak and business investment low, recent data indicate some improvement overall. The four-week moving average of initial claims (ending June 21st) declined slightly in June, compared to May. Recent claims data suggest little or no change in payroll employment and in the unemployment rate for the month of June.

In May, the housing market remained strong as housing starts, building permits, and new and existing home sales all rose. Real disposable income and consumption showed a moderate increase in May. In addition, preliminary retail sales surveys for June suggest further increases. During the second quarter, auto sales were stronger, compared to the first quarter.

Recent surveys for the manufacturing sector show continued weakness, although the pace of contraction has slowed significantly.

The four-week moving average ending June 21st indicate initial claims are continuing to edge slightly downward.

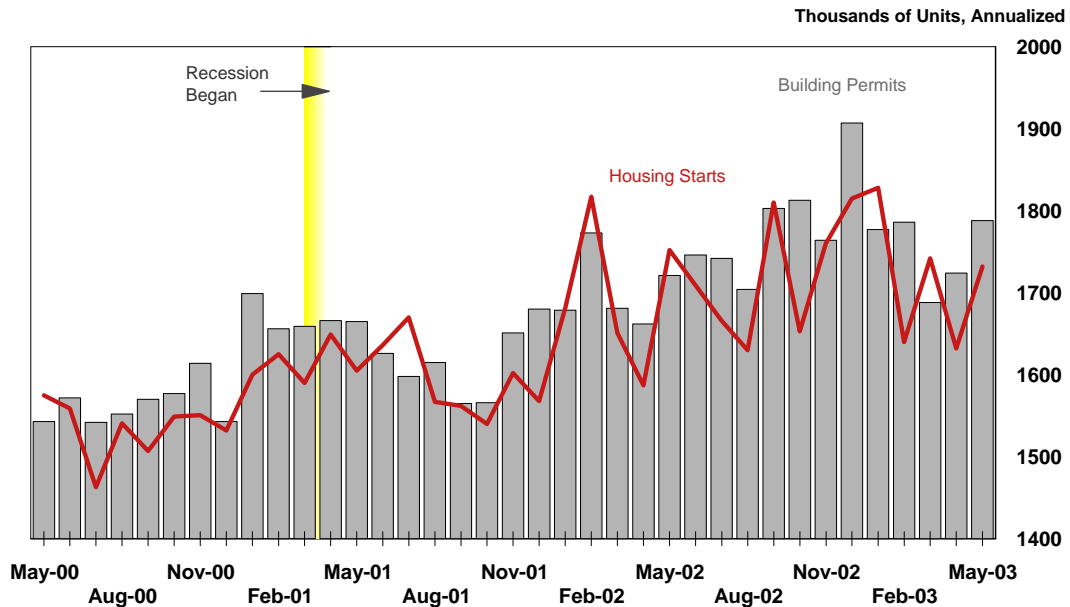
Initial Claims



Source: Department of Labor.

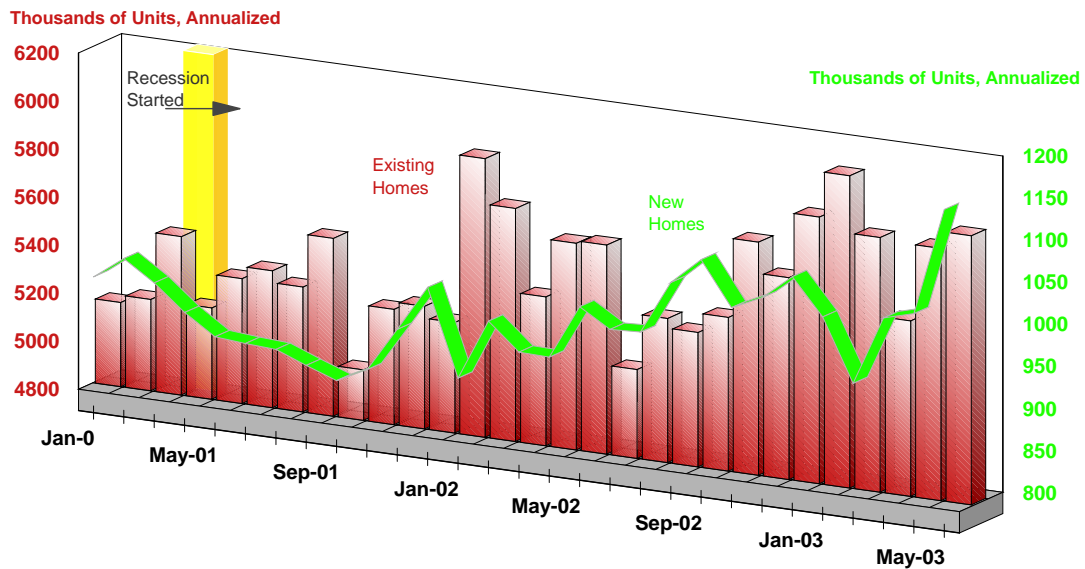
Housing starts and building permits both rose in May.

Housing Starts and Permits



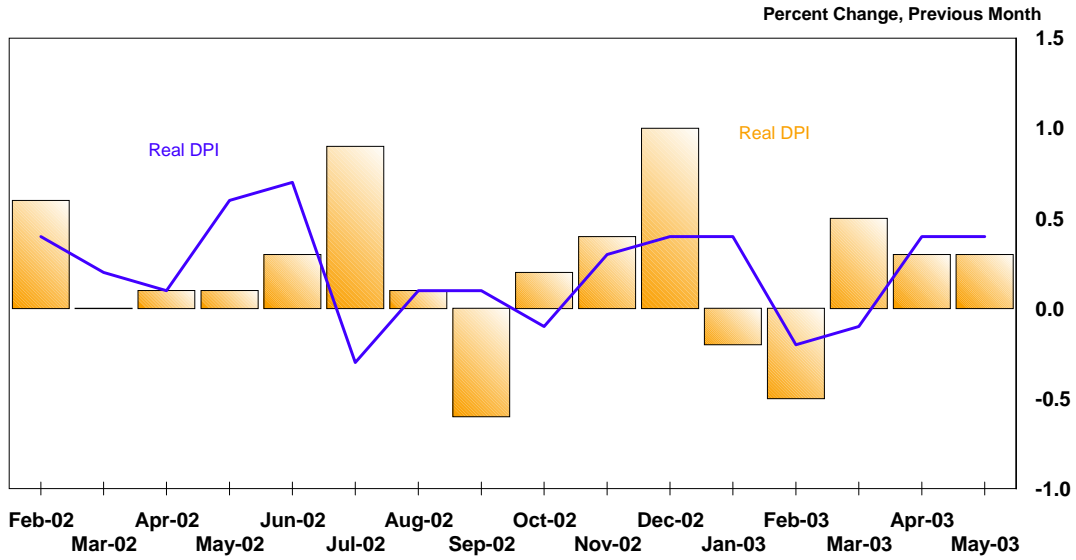
New and existing home sales rose in May. In fact, new home sales hit their highest level on record.

New and Existing Home Sales



Real consumption rose moderately in May, following the pattern of real disposable income.

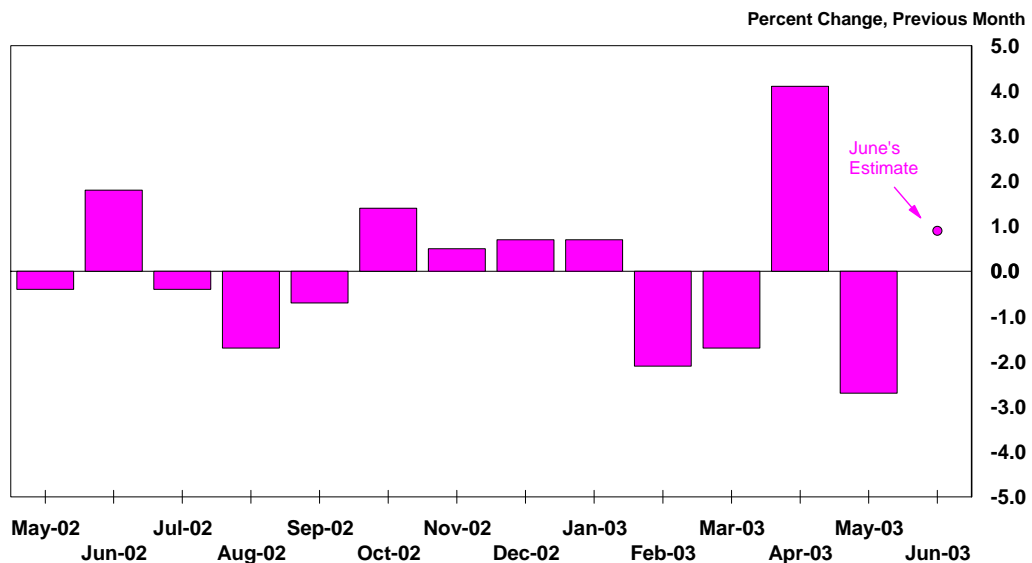
Real Disposable Income and Consumption



Source: Bureau of Economic Analysis.

In addition, redbook sales showed some improvement in June.

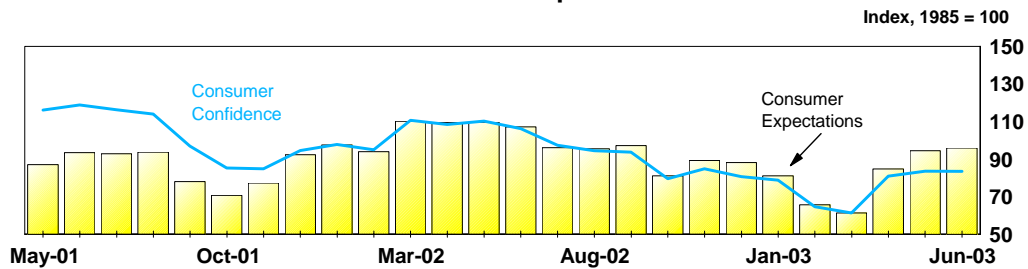
Redbook Sales



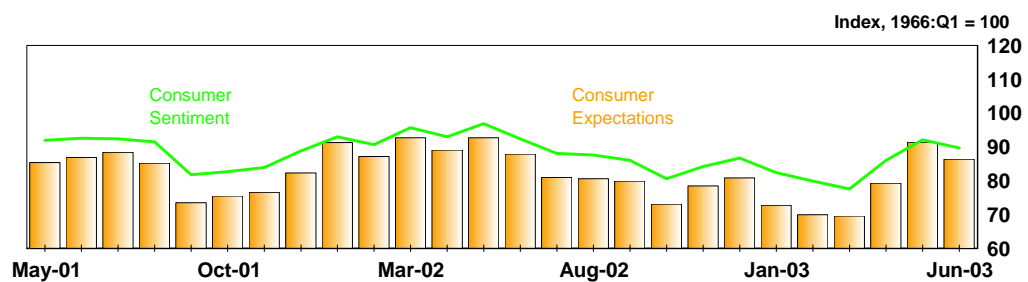
Source: Instinet Research.

Indexes released by the Conference Board showed consumer confidence and expectations were basically flat in June, while indexes from the University of Michigan showed a moderate drop in both sentiment and expectations.

Confidence and Expectations



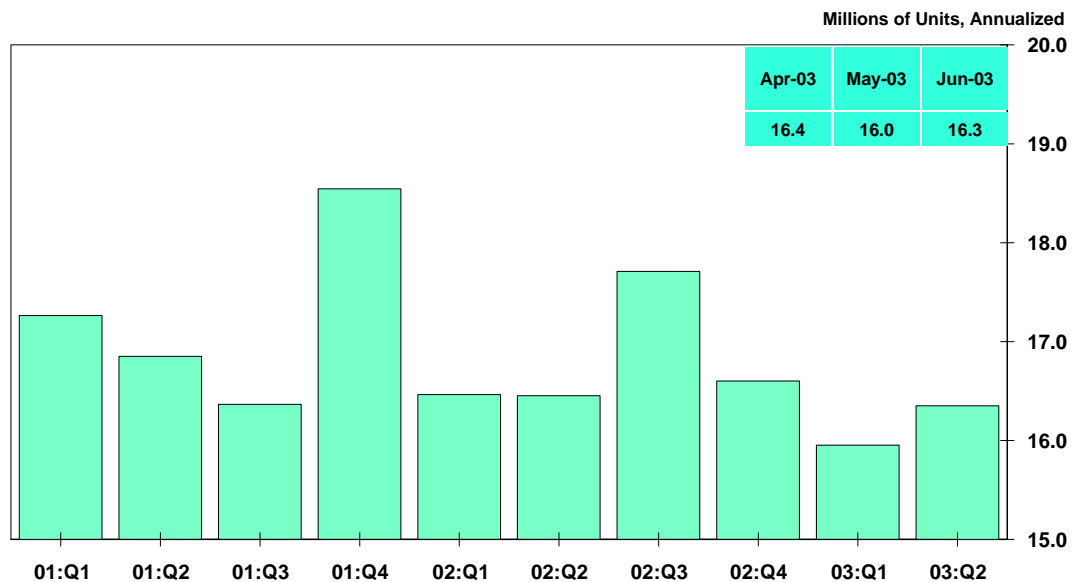
Sentiment and Expectations



Source: The Conference Board (Confidence) and The University of Michigan (Sentiment).

Autos and light truck sales rose in June, ending the second quarter higher, compared to the first.

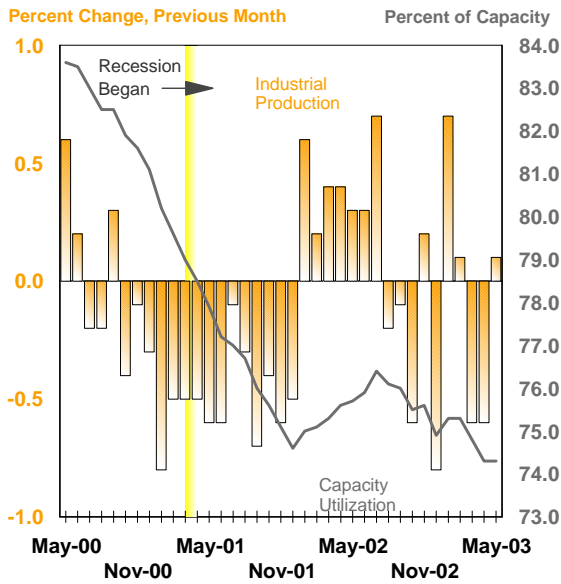
Auto and Light Truck Sales



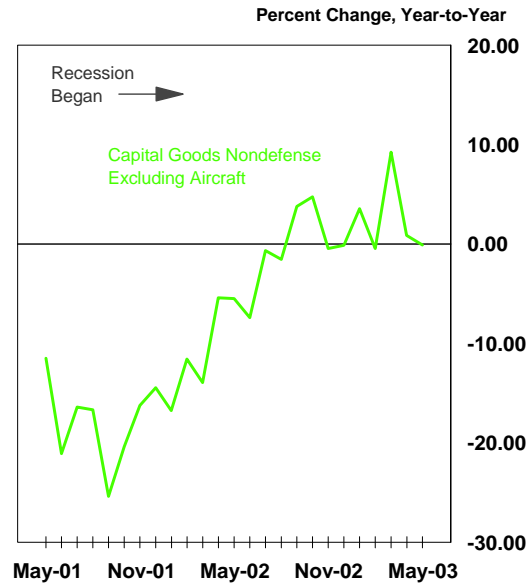
Source: Bureau of Economic Analysis.

Industrial production rose slightly in May, although the three month moving average still shows a decline in production. Capital goods orders were basically flat in May, compared to the previous year.

Industrial Production and Capacity Utilization



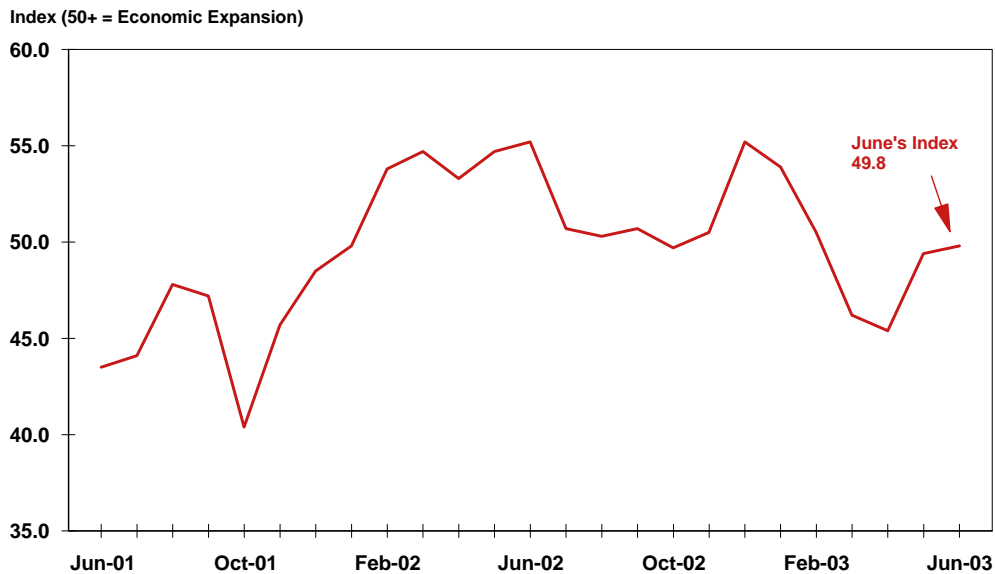
Capital Goods Orders



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

The ISM index continued to rise in June. June's index was barely under 50, indicating the manufacturing sector, while still contracting, may be poised for a turn around.

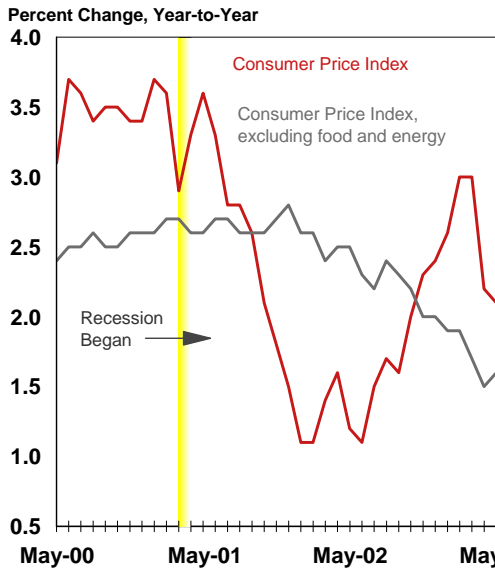
ISM Indexes



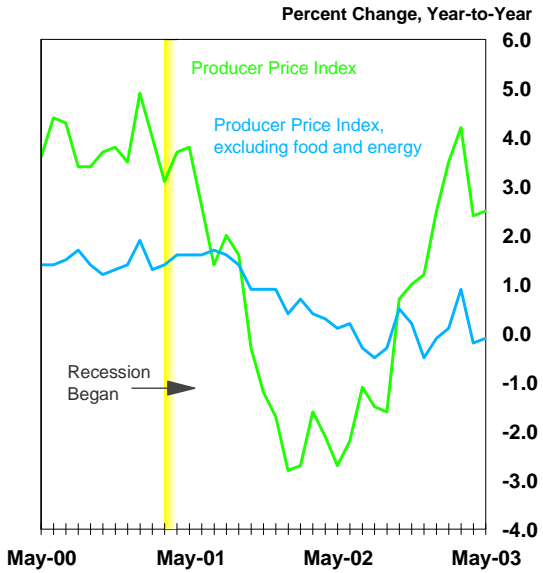
Source: Institute for Supply Management.

There are no significant upward pressures to prices. Since the beginning of the recession, most inflation measures have shown a decline.

Consumer Prices



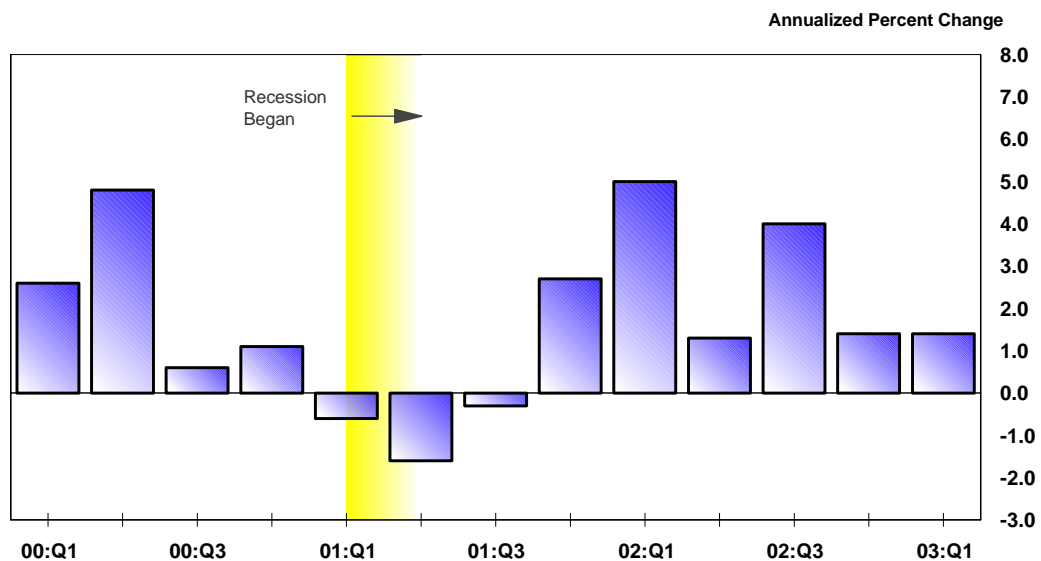
Producer Prices



Source: Bureau of Labor Statistics.

The most recent estimate for real GDP growth in the first quarter of 2003 was 1.4 percent, the same increase seen during the fourth quarter of last year.

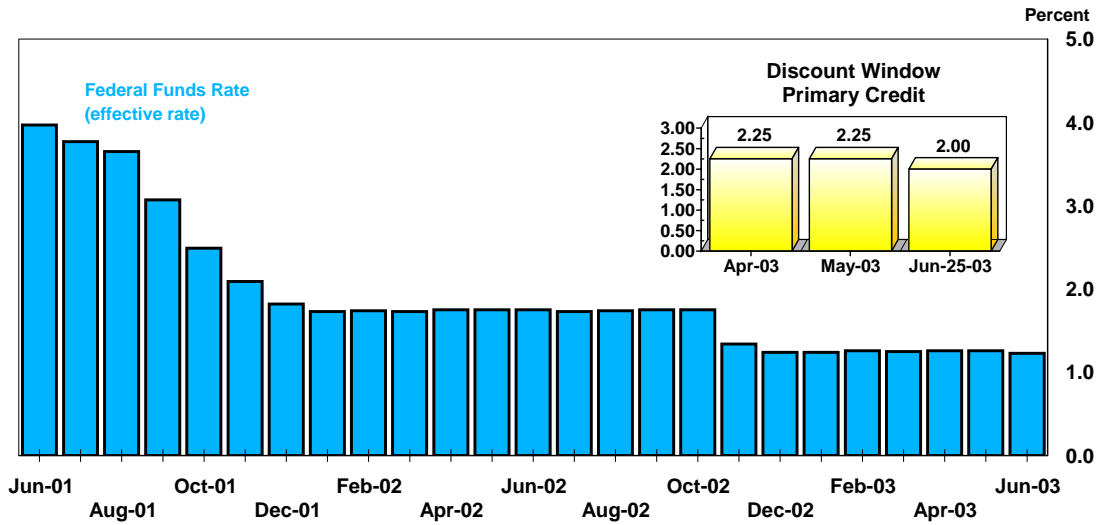
Real Gross Domestic Product



Source: Bureau of Economic Analysis.

On June 25th, the Fed reduced short-term interest rates by 25 basis points. The federal funds target was set at 1.0 percent and the discount window primary credit rate was set at 2.0 percent.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.