

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

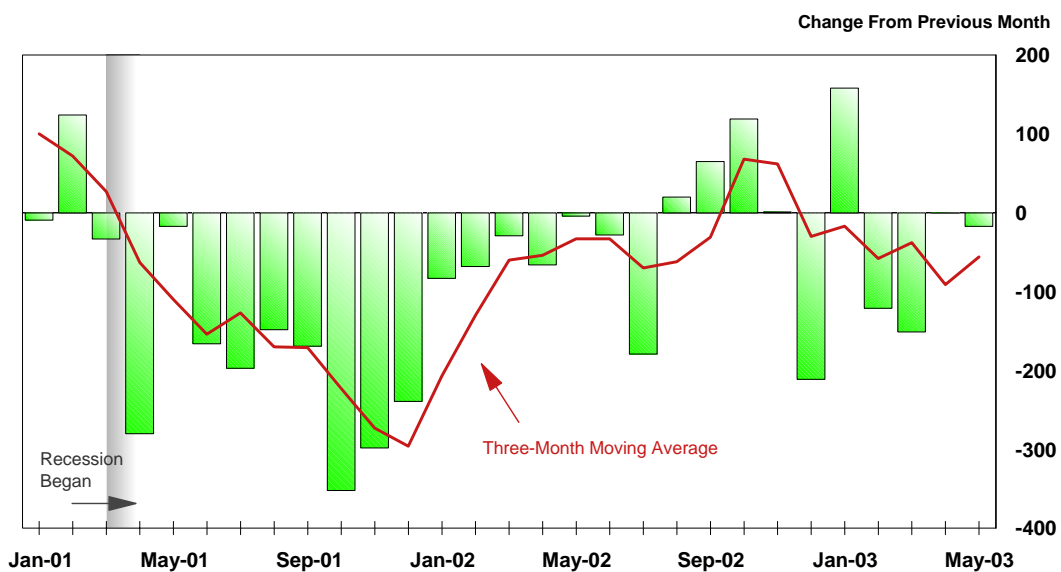
Current Economic Developments - June 12, 2003

Data released since your last Directors' meeting show that the economy continues to expand slowly. The labor market remained weak in May as nonfarm payrolls fell and the unemployment rate rose. The four-week moving average of initial claims posted estimates above 400,000 for the past fourteen weeks and the help wanted index continued on a downward spiral in April, indicating employers remain reluctant to hire new workers. Despite the weak labor market, consumer confidence continued to improve in May and the housing market remained strong. But, the manufacturing sector remains weak and business investment needs to pick up before the economy will show real improvement. Inflation decelerated in April, in part because oil prices fell.

Real growth during the first quarter was somewhat stronger than originally estimated, reflecting stronger consumer spending and an upward revision to exports. These effects were partly offset by weaker business investment in equipment and software and an upward revision to imports.

Nonfarm payroll employment fell in May, following a revised estimate of no change in April. Annual revisions to employment data show job losses since January were about one fourth of the number previously estimated.

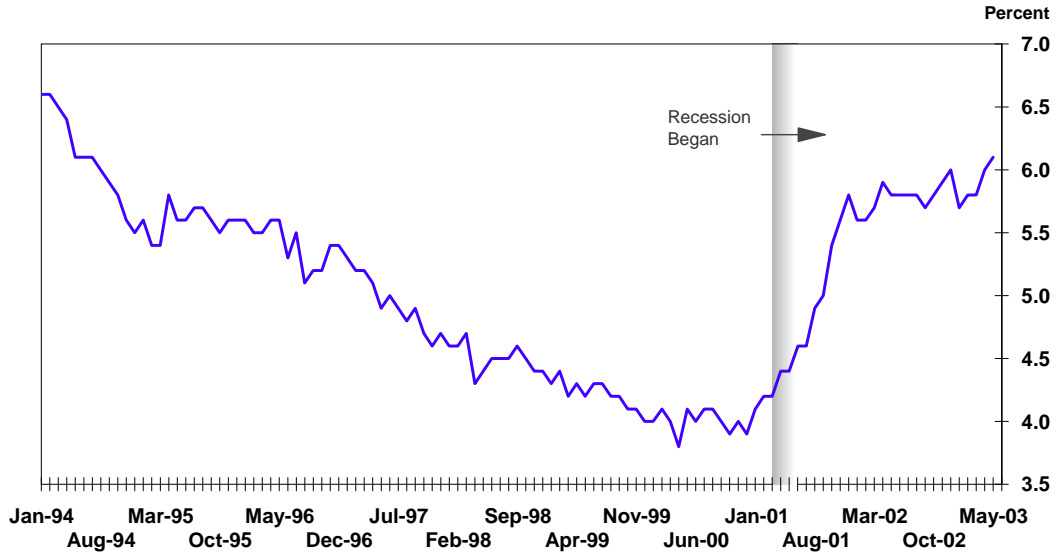
**Nonfarm Payroll Employment**



Source: Bureau of Labor Statistics.

Still, the unemployment rate rose in May to 6.1 percent, hitting its highest level since July 1994.

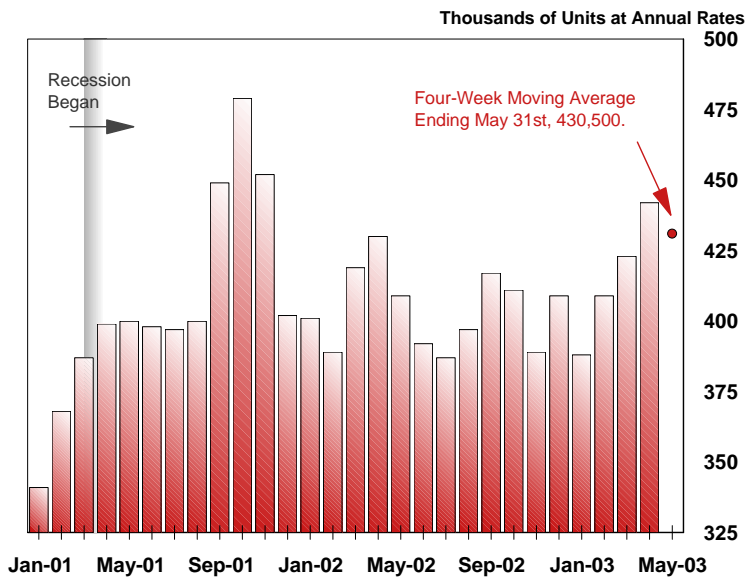
### Unemployment Rate



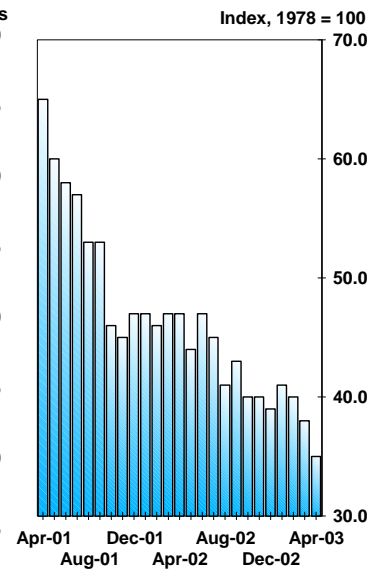
Source: Bureau of Labor Statistics.

Initial claims improved somewhat in May, but have been above 400,000 since February. The help wanted index continued to decline in April, indicating employers remain reluctant to hire new workers.

### Initial Claims for Unemployment Insurance



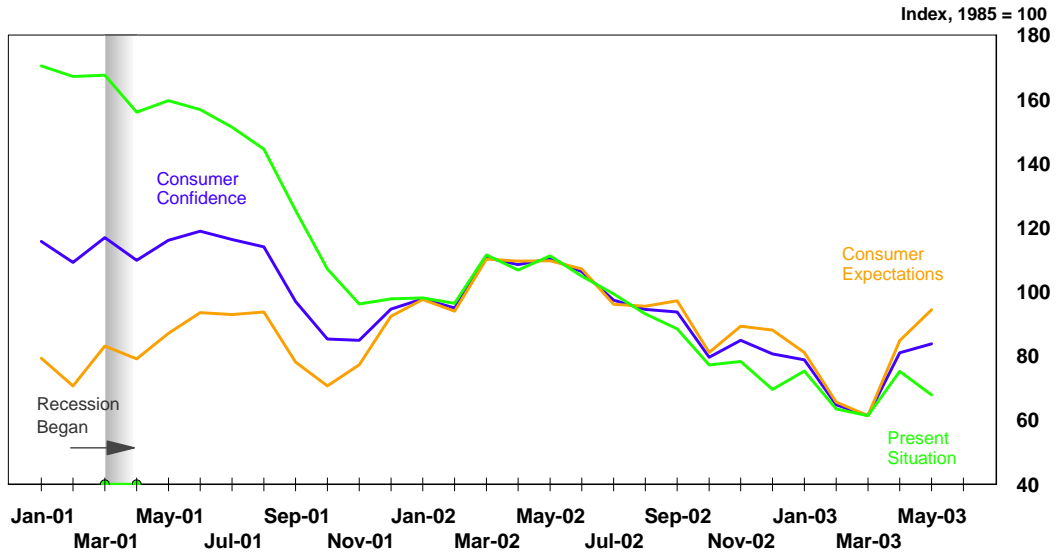
### Help Wanted Index



Source: Department of Labor (initial claims) and The conference Board (help wanted).

Despite the bleak labor market, consumer confidence rose for a second consecutive month in May, hitting its highest level in the past six months. May's rise in consumer confidence was due to rising expectations. Current conditions fell in May.

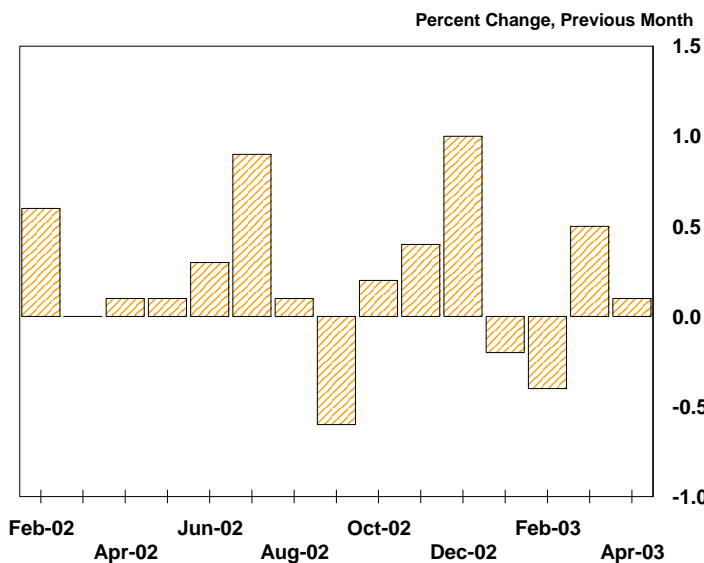
### Confidence and Expectations



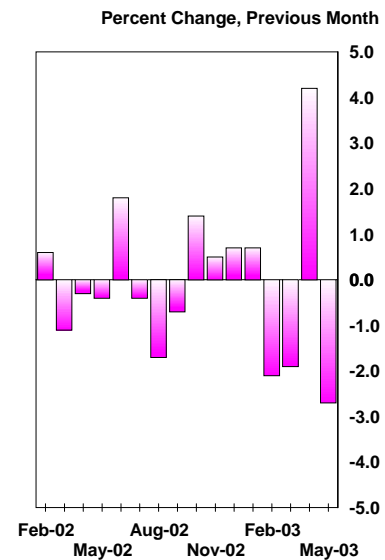
Source: The Conference Board.

Real consumption was nearly flat in April. And retail sales in May, as measured by the Redbook, suggest future spending may be weak.

### Real Consumption

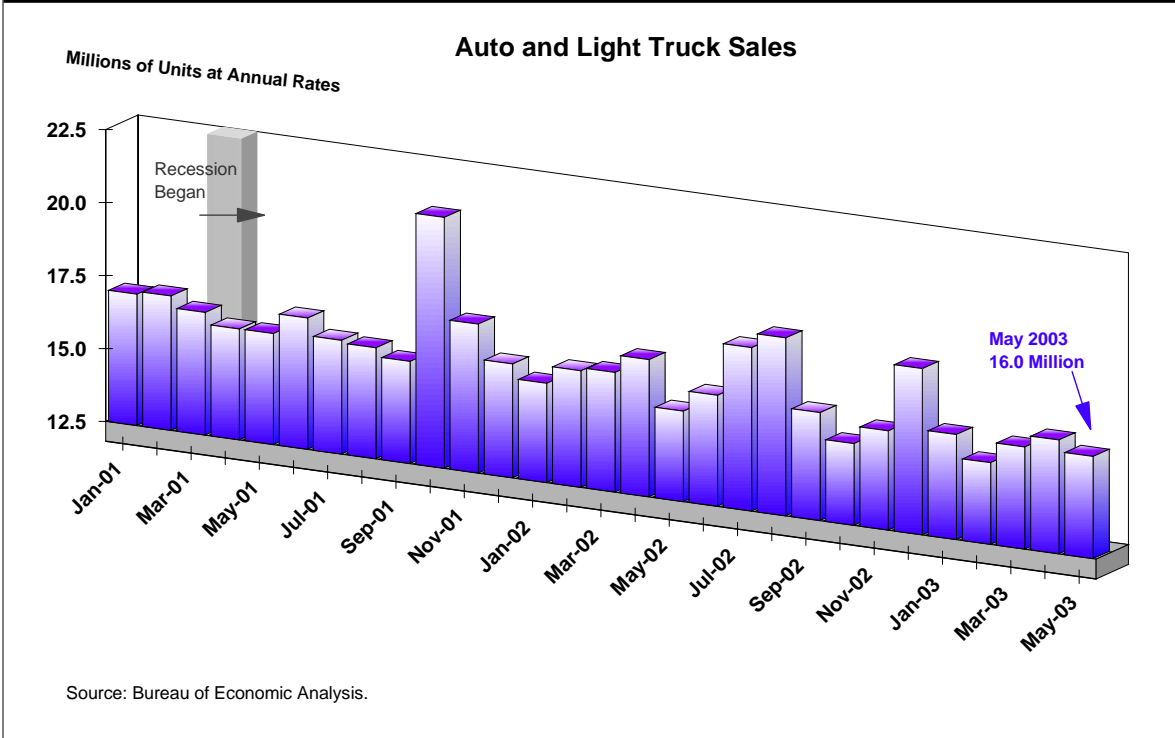


### Redbook, Retail Sales

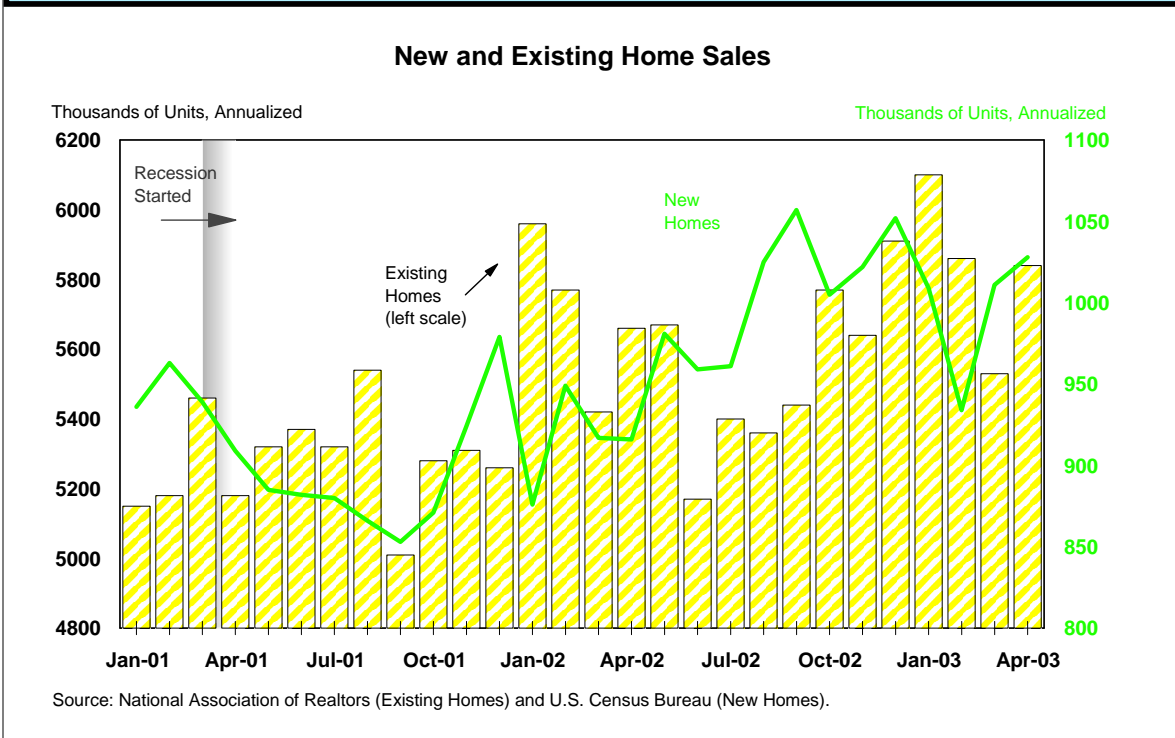


Source: Bureau of Economic Analysis (real consumption) and Instinet Research (redbook sales).

Vehicle sales eased somewhat in May, compared to April. But, sales so far during the second quarter are higher than the average seen during the first quarter.

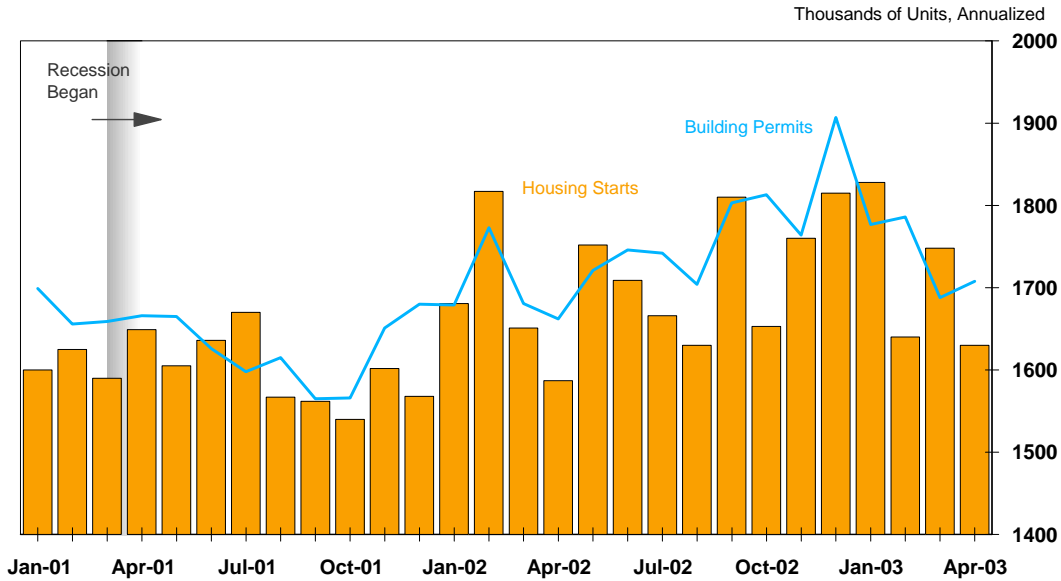


Consumers continued to buy homes in April, as new and existing home sales rose. In fact, April's new home sales hit their third-highest level on record.



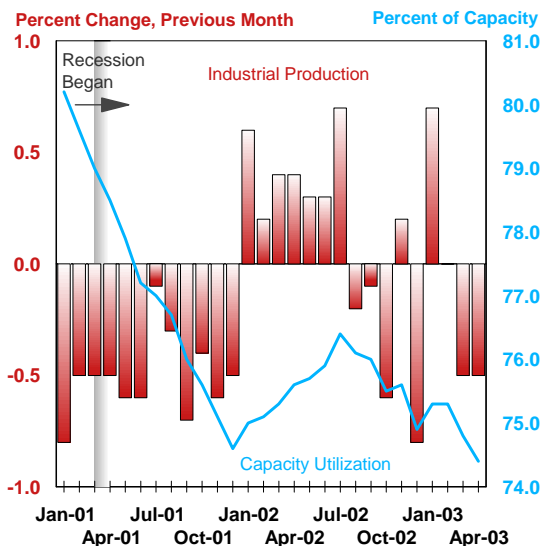
Other housing data were somewhat mixed in April. Building permits rose, while housing starts eased.

### Housing Starts and Building Permits

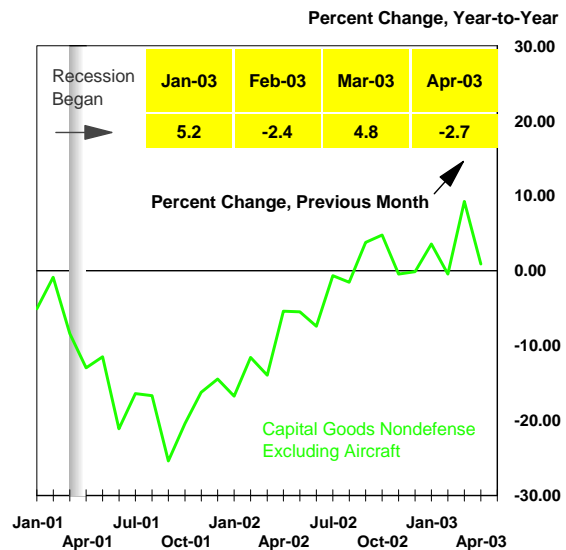


The manufacturing sector remains weak. Industrial production and capacity utilization continued to fall in April. And business investment has yet to pick up, as suggested by April's poor performance in capital goods orders.

### Industrial Production and Capacity Utilization

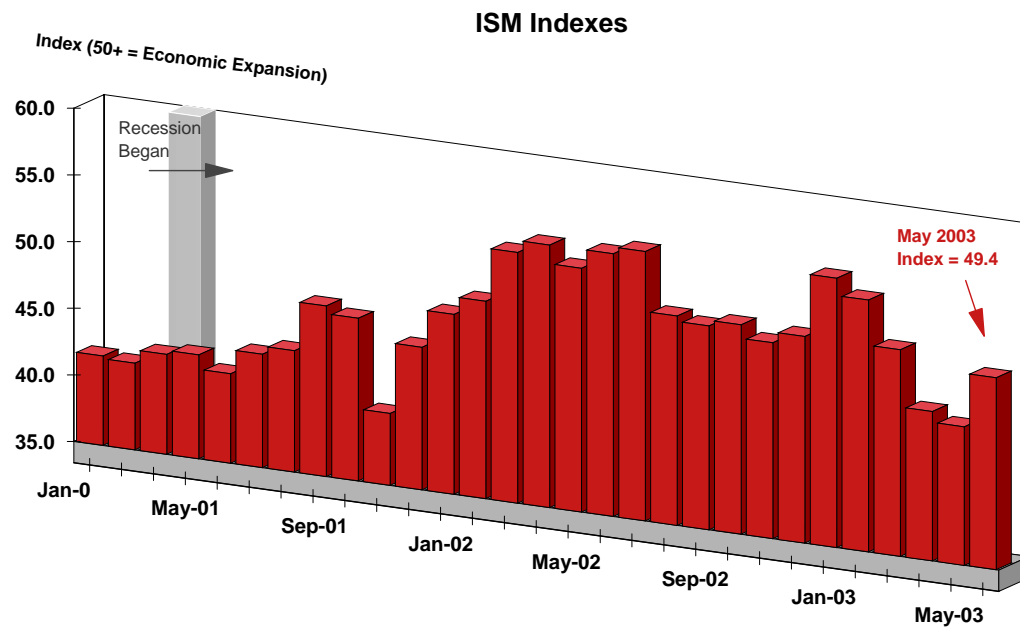


### Capital Goods Orders

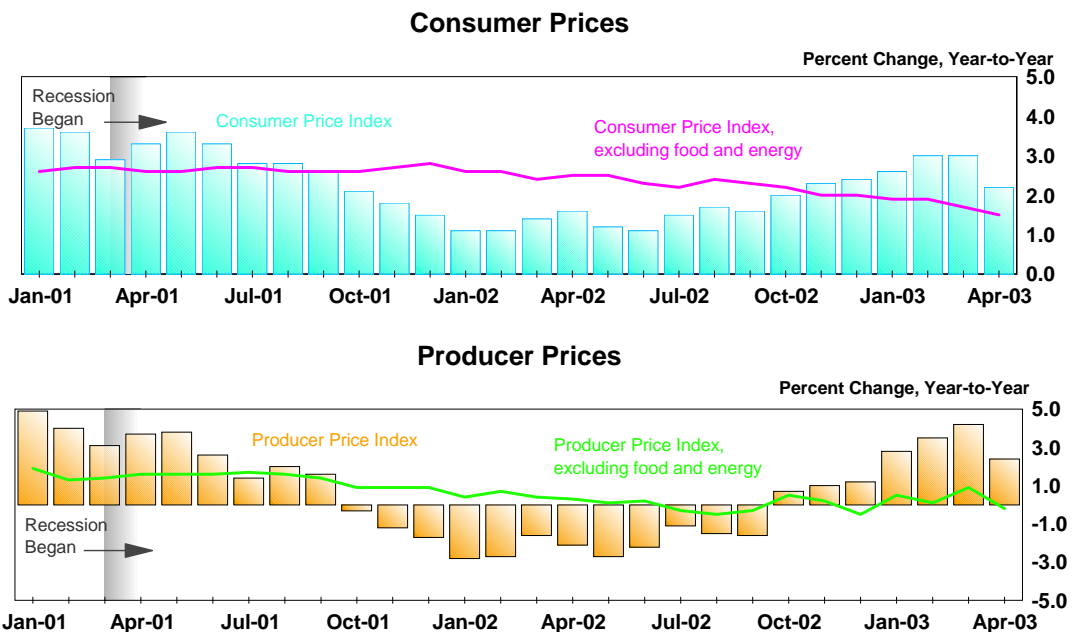


Source: Federal Reserve Board of Governors (industrial production) and U.S. Census Bureau (capital goods).

The ISM index rose in May, following four months of declines. Still, the index remains below 50.

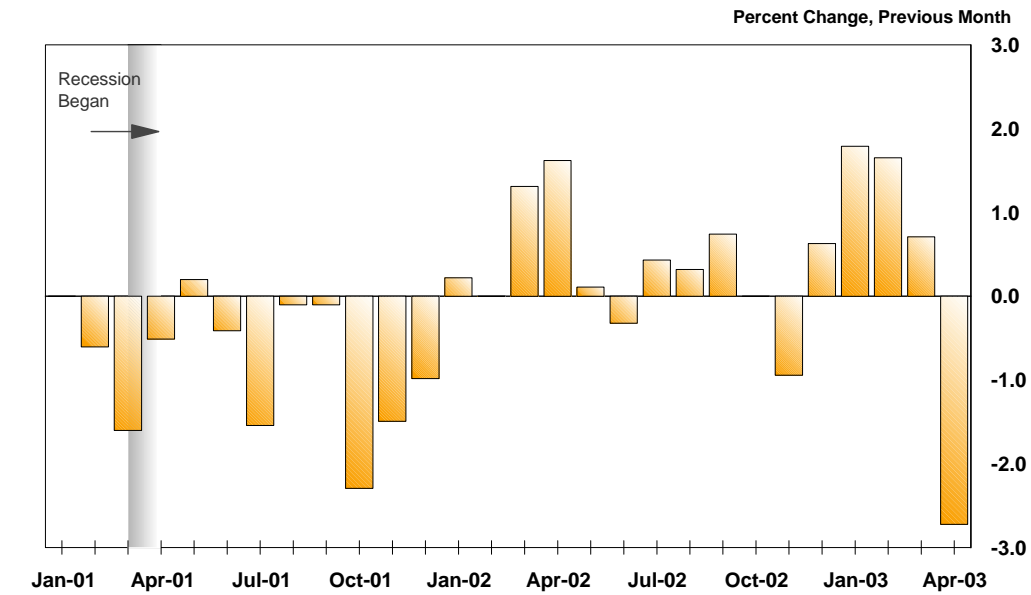


On the inflation front, consumer and producer price increases decelerated in April, as oil prices fell.



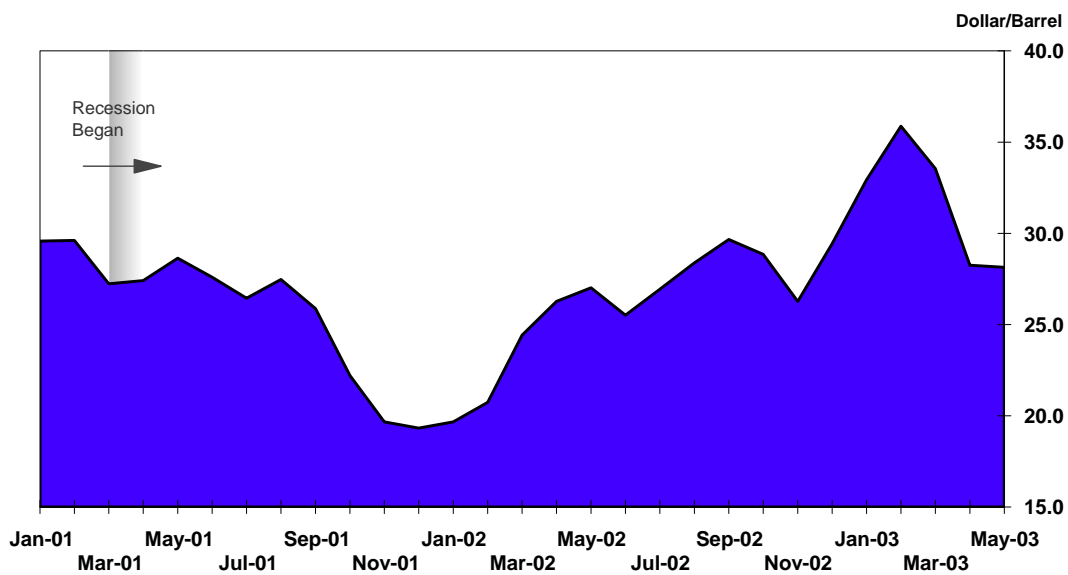
Import prices also fell in April, led by lower oil costs.

### Import Prices



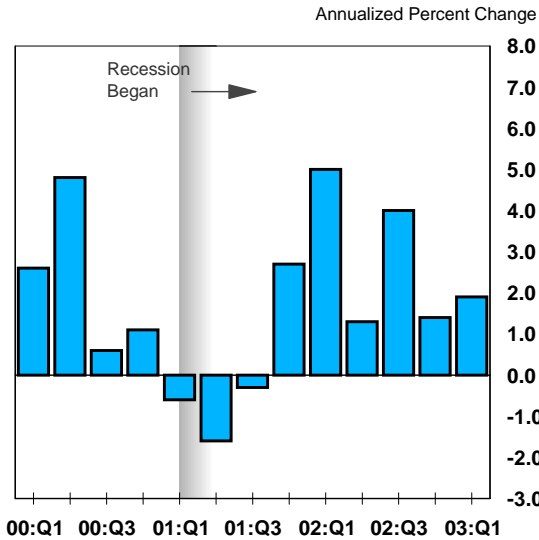
Oil prices were basically flat in May, compared to April.

### Oil Prices



Real growth in the first quarter was slightly stronger than originally estimated, as consumer spending and exports were revised upward. On the other hand, business investment was slightly weaker than originally estimated and there was an upward revision to imports.

### Real Gross Domestic Product



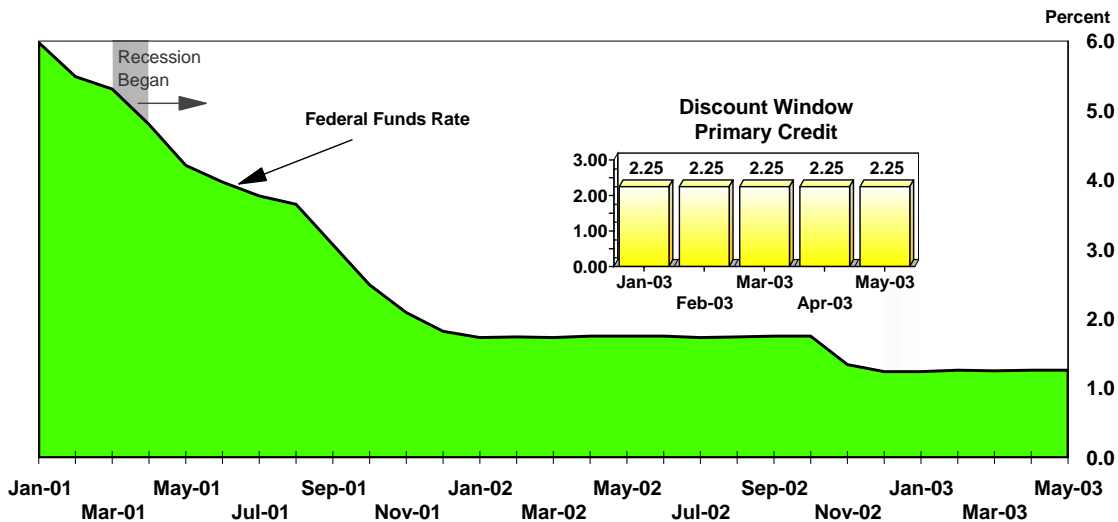
### Revisions to First Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	1.6	1.9
Consumption	1.4	2.0
Business Investment	-4.2	-4.8
Residential Investment	12.0	11.0
Government	0.9	0.3
Exports	-3.2	-1.4
Imports	-7.9	-7.1
Final Sales	2.1	2.4

Source: Bureau of Economic Analysis.

All in all, the economy is expanding slowly. But with businesses reluctant to invest and hire new employees, future consumer spending remains in question.

### Short-Term Interest Rates



Source: Federal Reserve Board of Governors.