

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

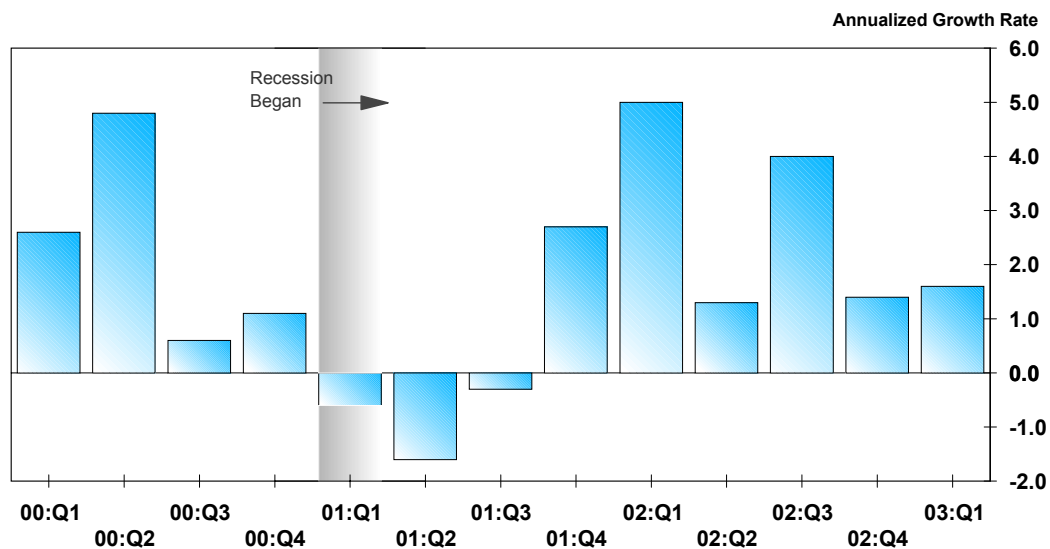
Current Economic Developments - May 8, 2003

Data released since your last Directors' meeting show that the economy has expanded slowly so far this year. During the first quarter, real GDP remained somewhat stagnant. Economic growth must occur at a faster pace in order to create new jobs. GDP's first-quarter increase was led by consumer spending and residential investment. Net exports fell at a slower pace in the first quarter than in the fourth, as imports dropped. Also during the first quarter, business investment fell. And despite an increase in productivity, employment costs rose, led by rising benefit costs.

Little data is available for the second quarter. Payroll employment dropped for the third consecutive month in April, pushing the unemployment rate up. Initial claims rose to their highest level in over one year. Still, consumer confidence increased in April, as optimism about future job prospects rose. But, uncertainty remains about how strong consumption will be during the remainder of 2003. And of course the big questions remain, when will business investment and employment growth pick up.

First-quarter real GDP rose slightly above it's fourth quarter pace, led by consumer spending, residential investment, and a drop in imports.

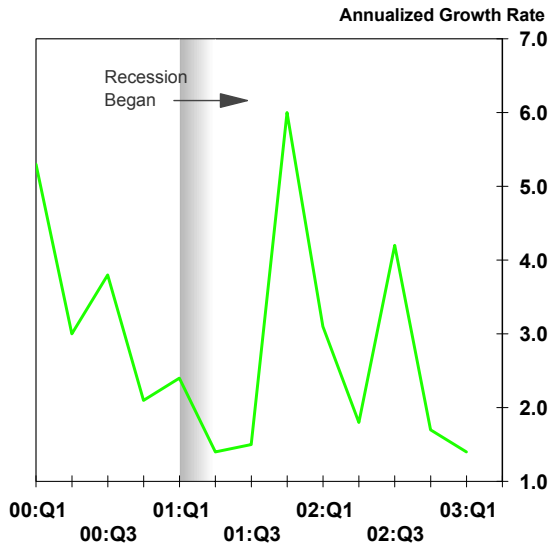
Real Gross Domestic Product



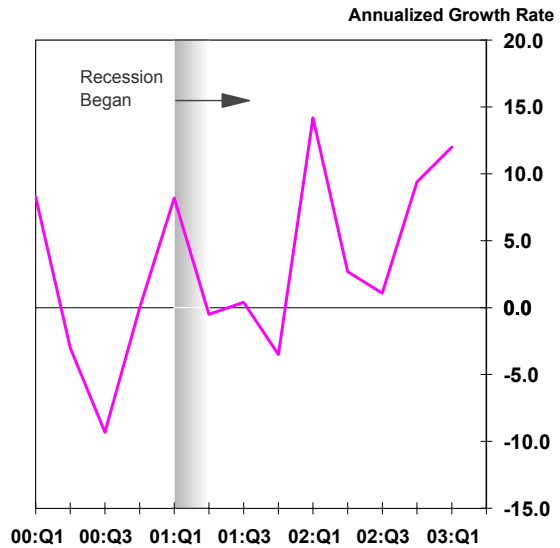
Source: Bureau of Economic Analysis.

Although consumer spending rose during the first quarter, the rate of consumption was moderate and concerns remain about when it will pick up. First-quarter residential investment remained strong.

Real Consumption



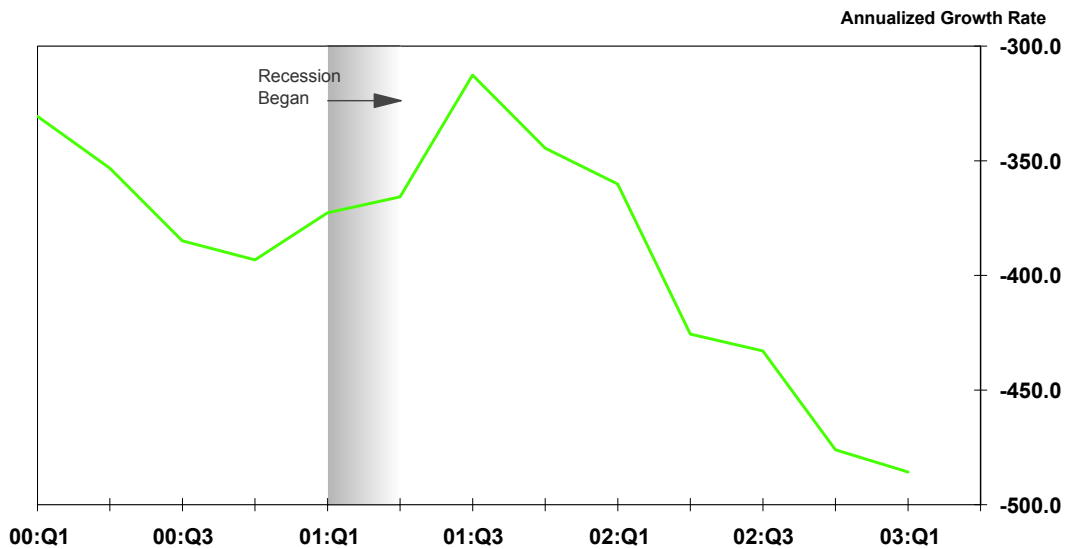
Residential Investment



Source: Bureau of Economic Analysis.

During the first quarter, net exports fell at a slower pace than seen in the fourth quarter, led by a large drop in imports.

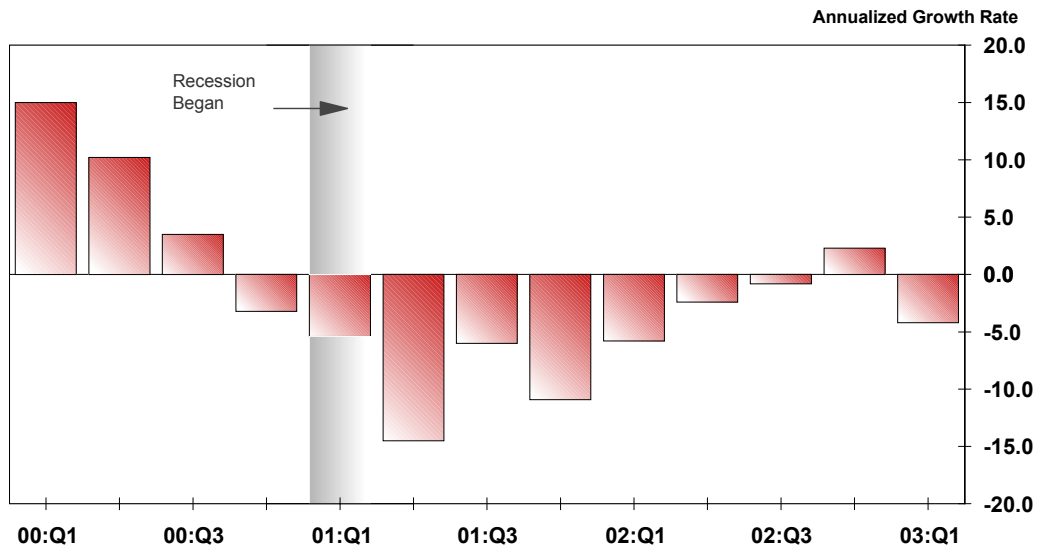
Net Exports



Source: Bureau of Economic Analysis.

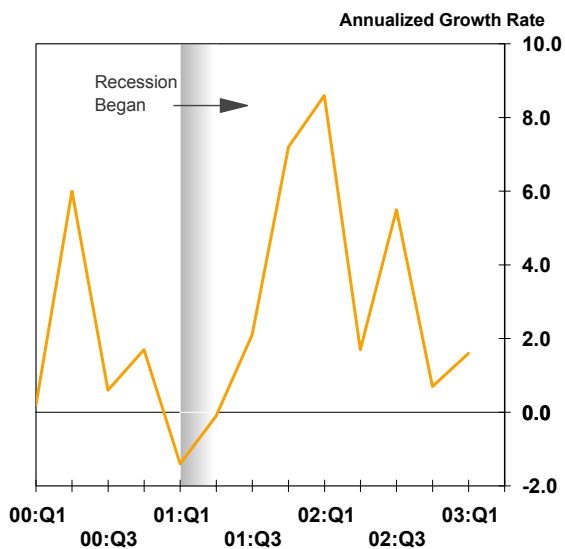
Business investment fell in the first quarter, marking its 9th drop in the past 10 quarters.

Business Investment

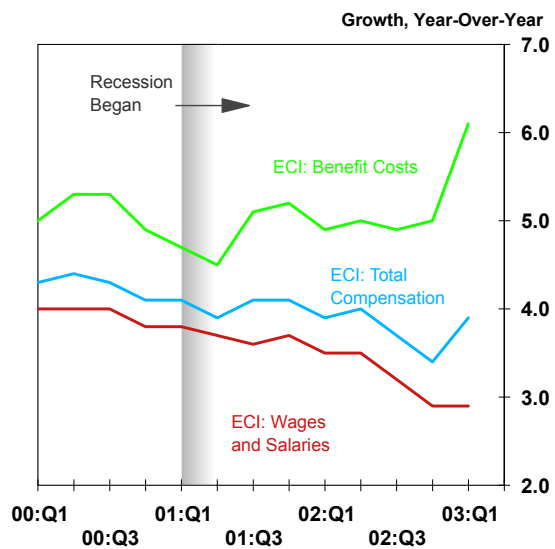


Despite an increase in productivity, employment costs rose during the first quarter, led by rising benefit costs.

Productivity

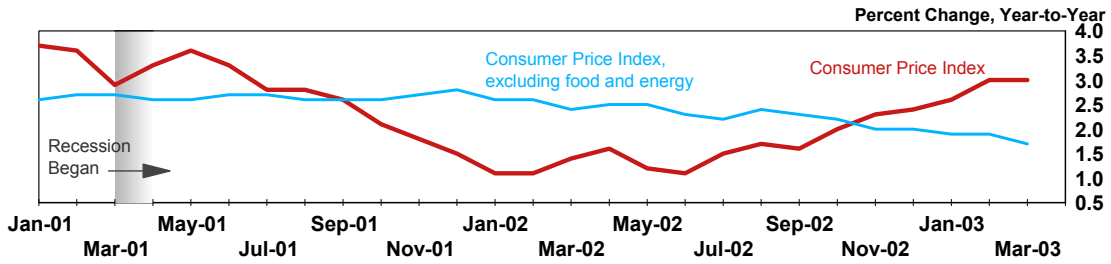


Employment Cost Index

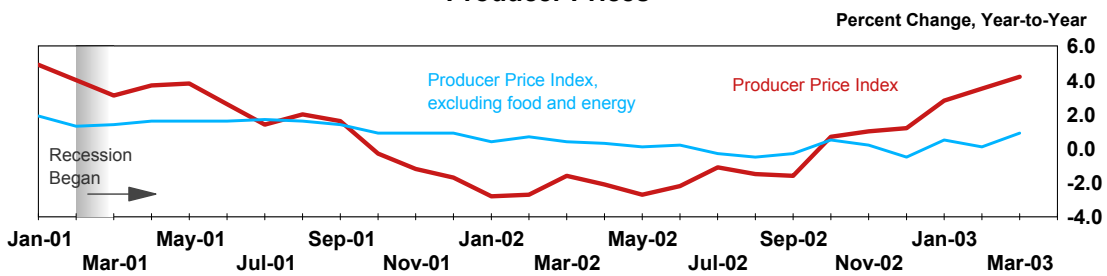


Consumer and producer prices continued to rise during the first quarter, led by rising oil prices. Core inflation remains low.

Consumer Prices



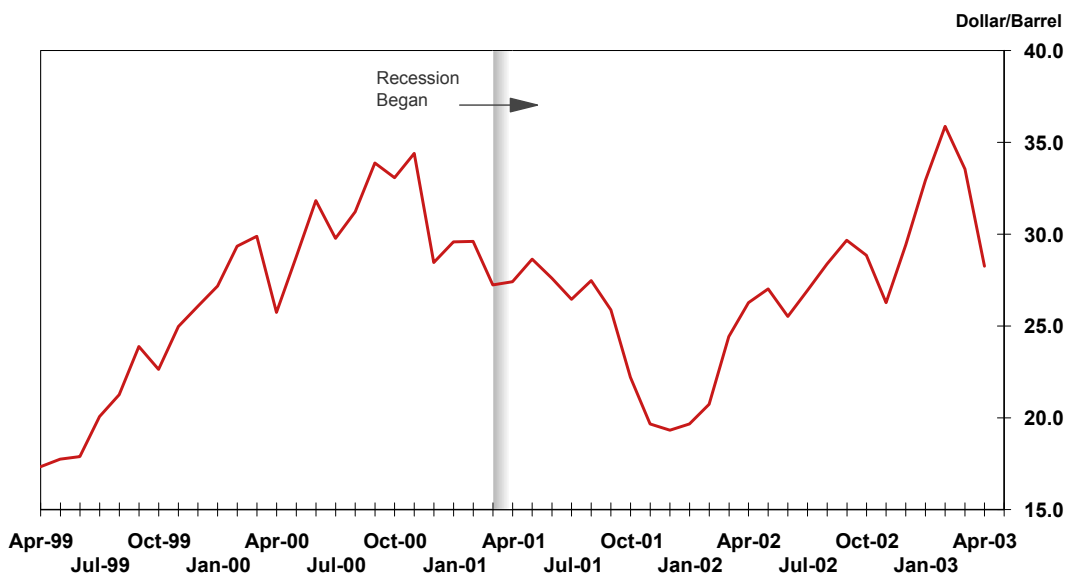
Producer Prices



Source: Bureau of Labor Statistics.

Oil prices fell in April to \$28.00 a barrel, marking the first time this year oil prices have been below \$30.00. Oil prices hit a recent low of \$25.24 on April 29th.

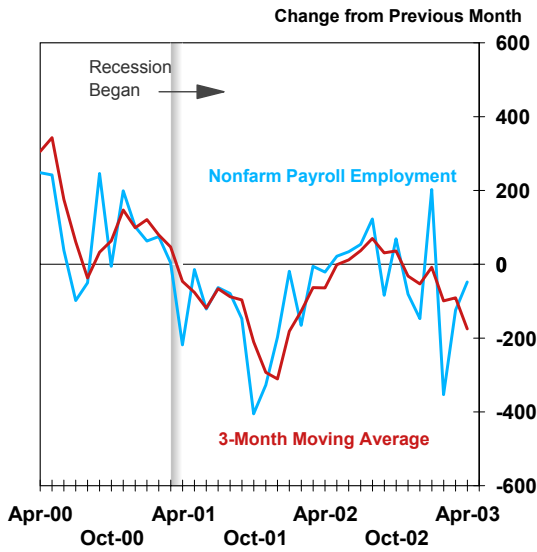
Oil Prices



Source: Wall Street Journal.

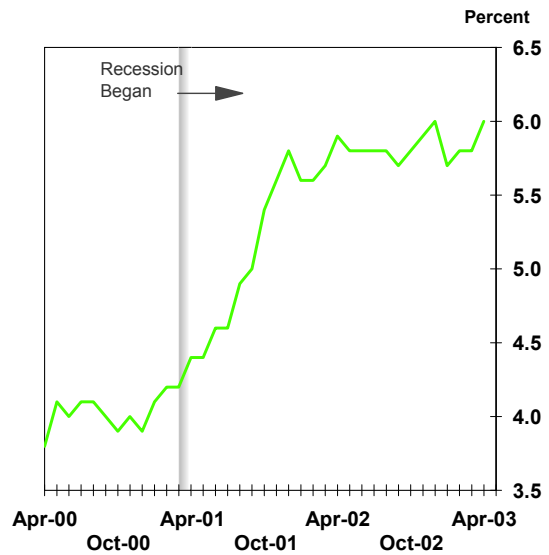
Nonfarm payroll employment fell for the third consecutive month in April, raising the unemployment rate to its highest level this year.

Nonfarm Payroll Employment



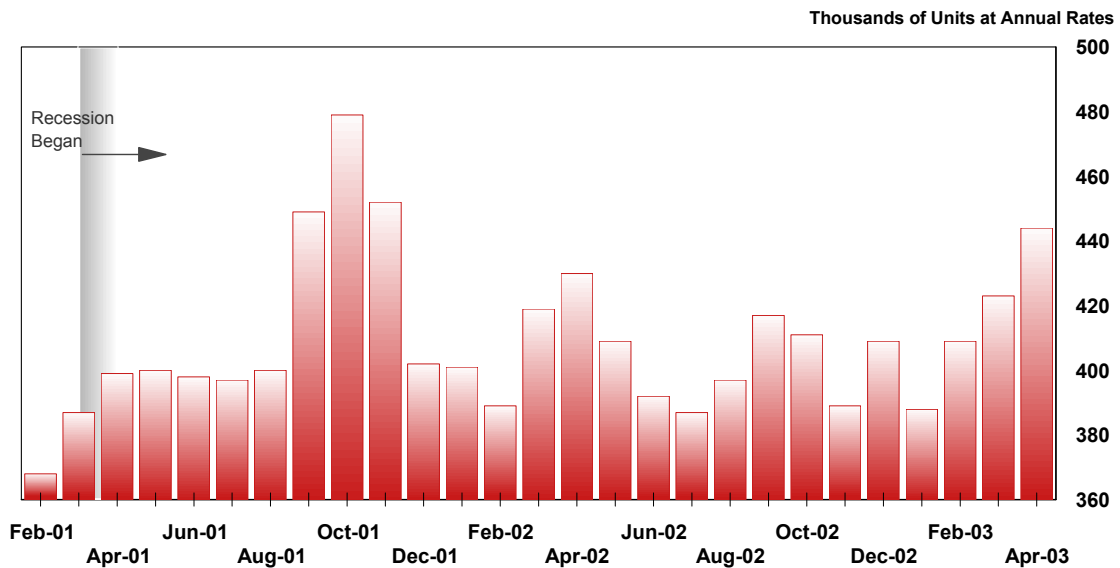
Source: Bureau of Labor Statistics.

Unemployment Rate



Initial claims rose in April to their highest level since November 2001.

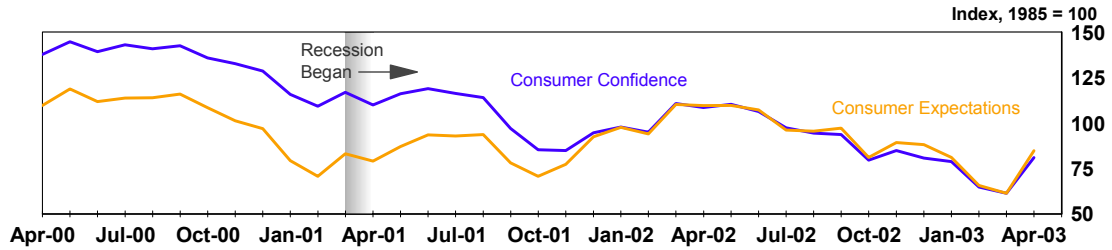
Initial Claims for Unemployment Insurance



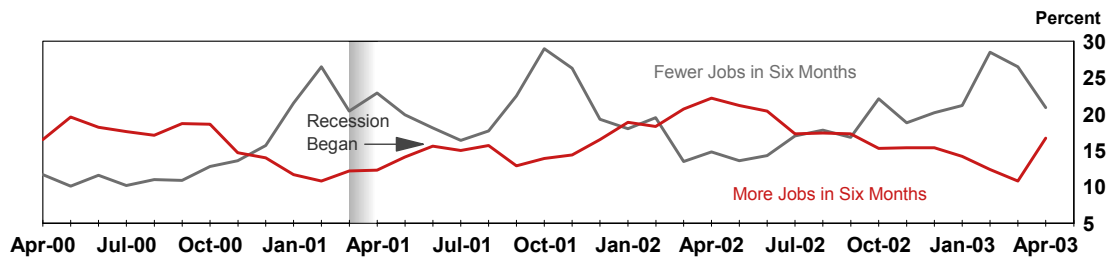
Source: Department of Labor.

Consumer confidence and expectations improved in April, as future job prospects increased.

Confidence and Expectations



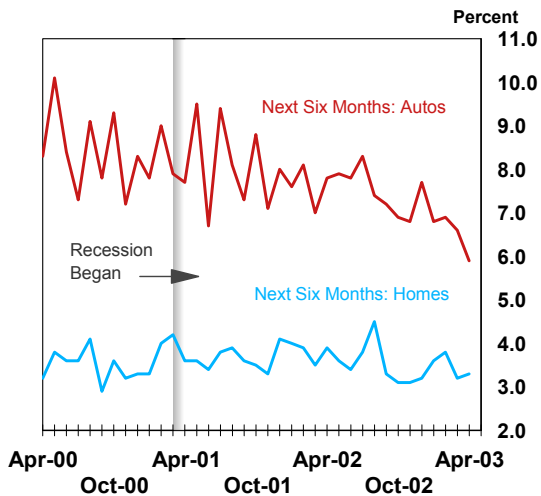
Employment Expectations



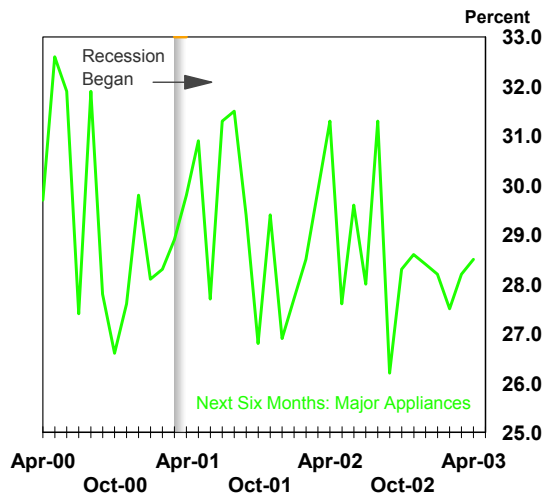
Source: The Conference Board.

But consumer plans to purchase homes and autos within the next six months remain in question, while plans to buy major appliances have risen.

Plans to Buy Homes and Autos



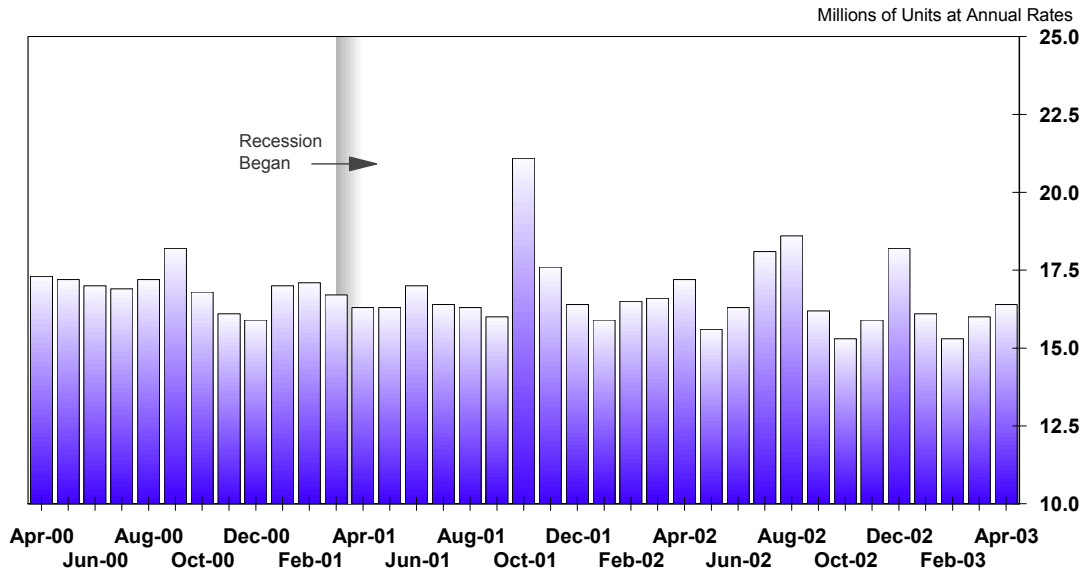
Plans to Buy Major Appliances



Source: The Conference Board.

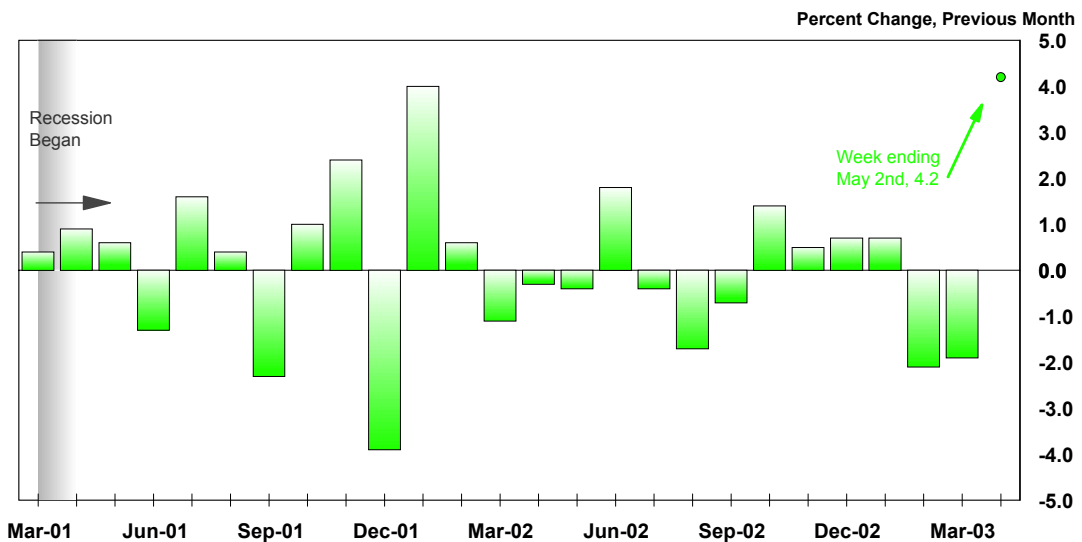
Still, auto sales in April continued to edge upward.

Auto and Light Truck Sales



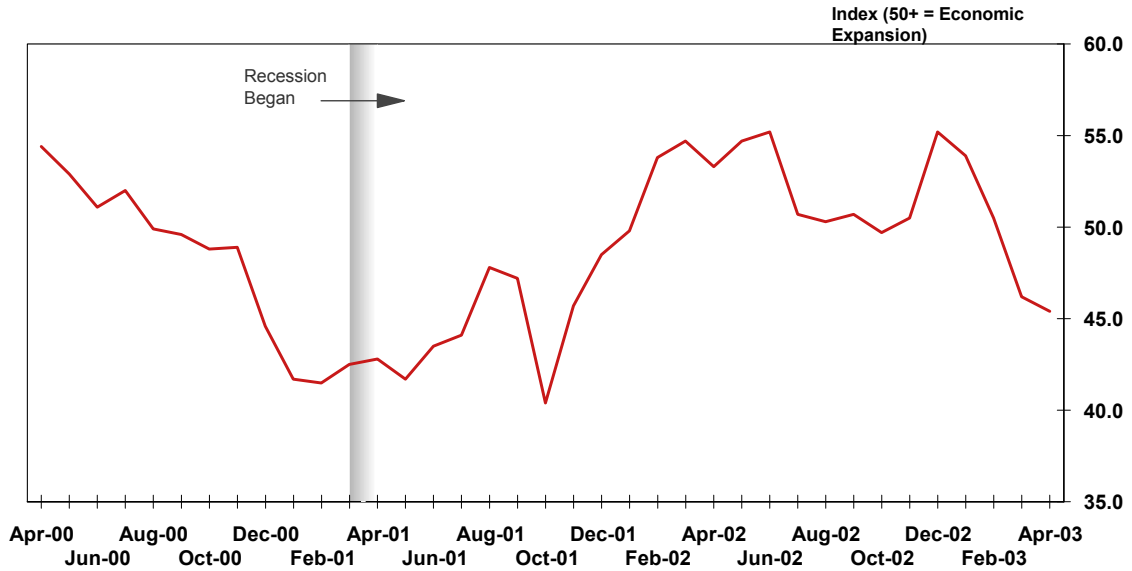
Retail sales, measured by weekly redbook estimates, showed improvement in April, but redbook numbers are volatile and should be interpreted with caution.

Redbook, Retail Sales



The manufacturing sector remains weak, as the ISM index fell in April, posting its fourth consecutive monthly decline.

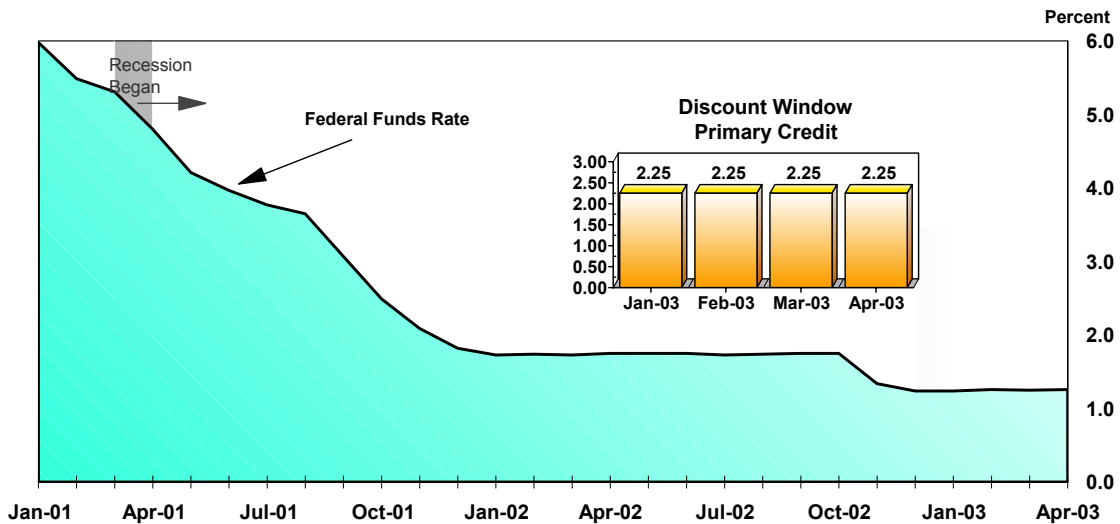
ISM Indexes



Source: Institute for Supply Management.

Overall, the economy is expanding slowly. But, weak business investment is hindering employment growth, leaving concerns about future consumer spending.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors.