

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - November 13, 2003

Data released since your last Directors' meeting shows the economy expanded rapidly in the third quarter, with moderate improvements in the labor market.

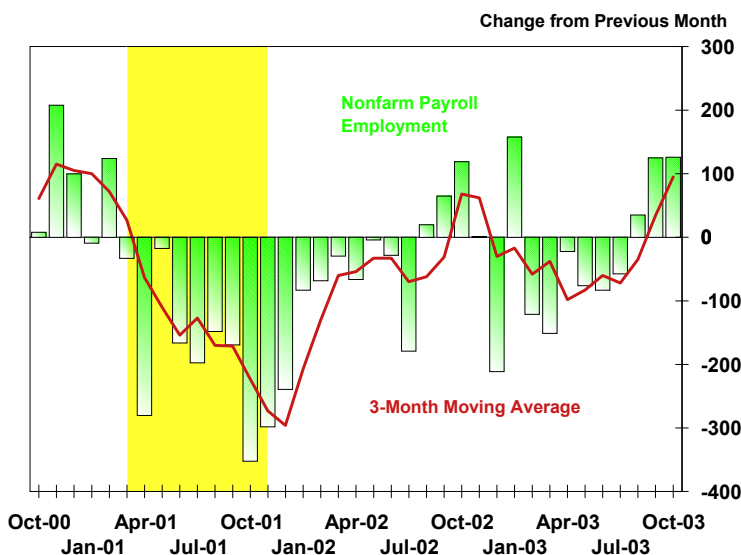
In October, nonfarm payroll grew at its fastest pace in nine months, contributing to the first drop in the unemployment rate since July. In addition, initial claims fell below 400 and the latest four-week moving average marked its lowest level in nearly three years.

During the third quarter, real GDP growth was boosted by consumption, business and residential investment, and net exports. Consumption rose as consumers continued to spend on both durable and non-durable goods. Also, consumers continued to invest in new housing. Businesses increased their spending on equipment and software. Net exports improved as exports increased and imports decreased.

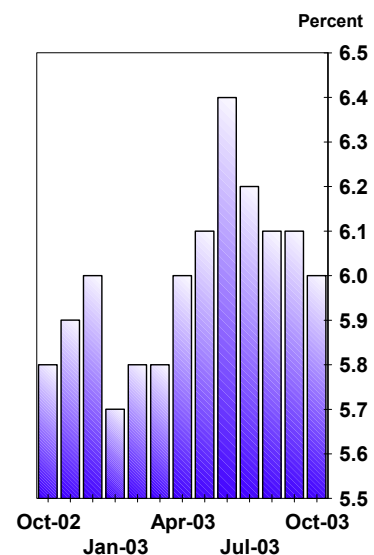
In the business sector, the ISM index remained above 50 for the fourth consecutive month. However, consumer attitudes saw little change, auto sales slowed considerably, and concerns remain as the labor market shows only moderate improvement.

In October, nonfarm payroll employment increased 126,000, the largest growth since January. September's estimate was also revised upward to 125,000. The unemployment rate saw its first drop since July as it edged down to 6.0%.

Nonfarm Payroll Employment



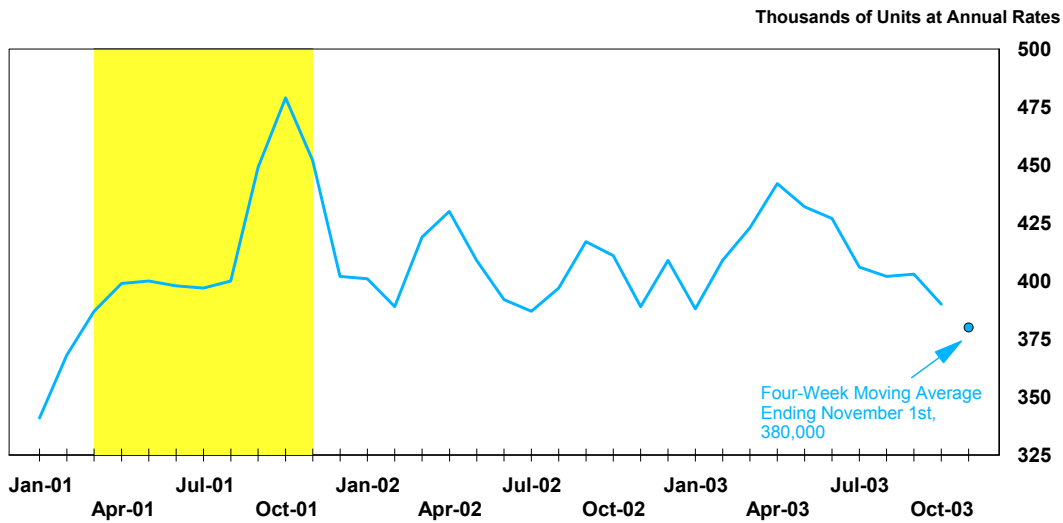
Unemployment Rate



Source: Bureau of Labor Statistics.

Initial claims ended below 400 in October, and fell to their lowest level in almost three years in the most recent four-week moving average.

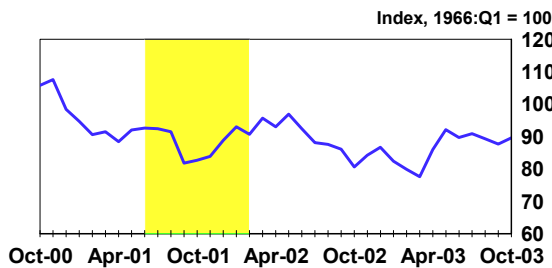
Initial Claims



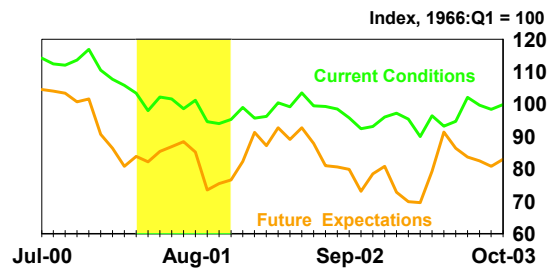
Source: Department of Labor, Employment and Training Administration

Consumer attitudes increased only slightly in October, despite improvements in the job market.

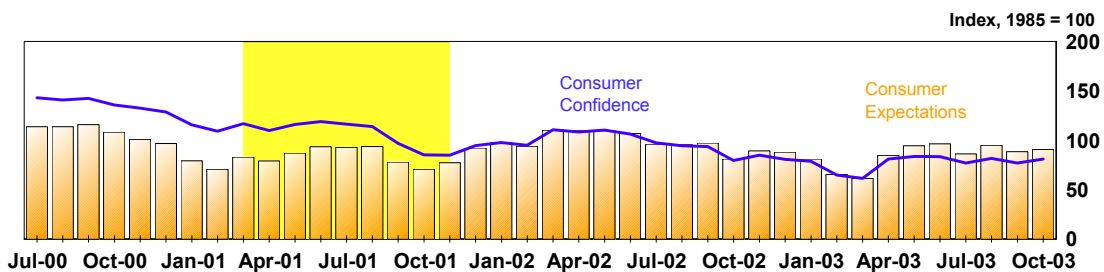
Consumer Sentiment



Current and Future Expectations



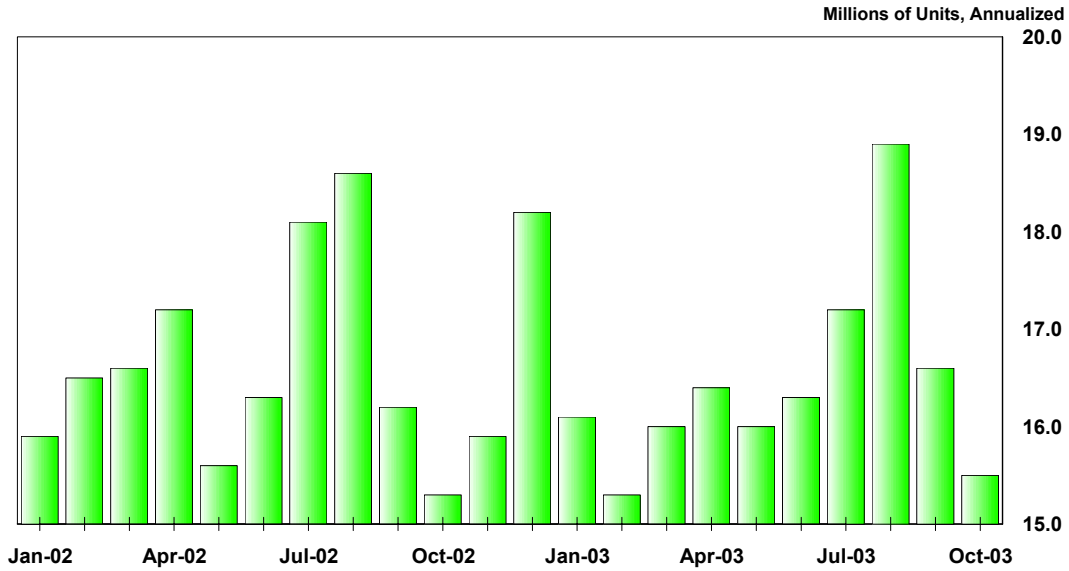
Confidence and Expectations



Source: The University of Michigan (top panel) and The Conference Board (bottom panel).

In October, auto and light truck sales fell to their lowest level in eight months.

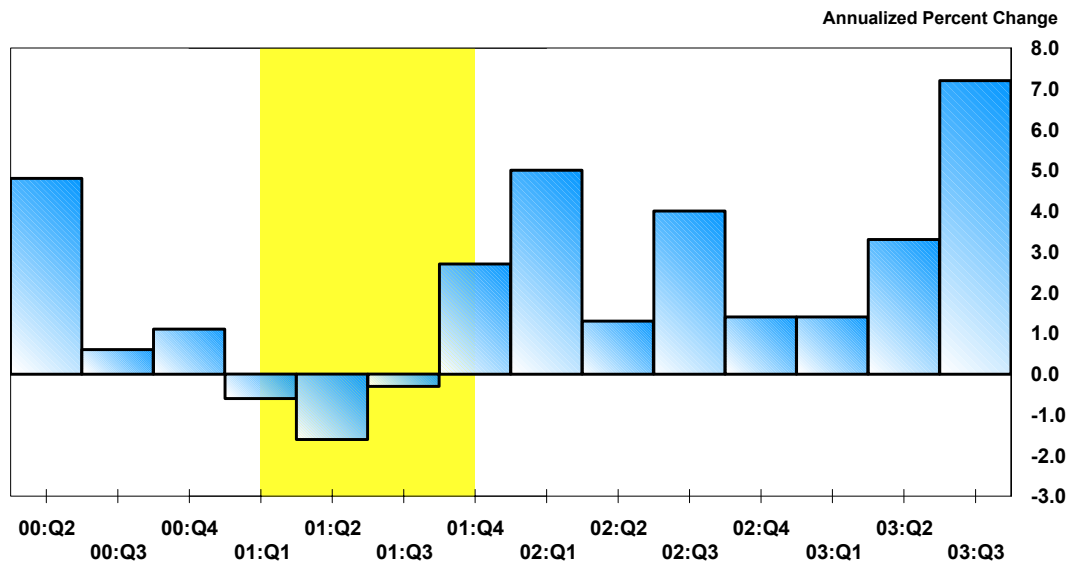
Auto and Light Truck Sales



Source: Bureau of Economic Analysis .

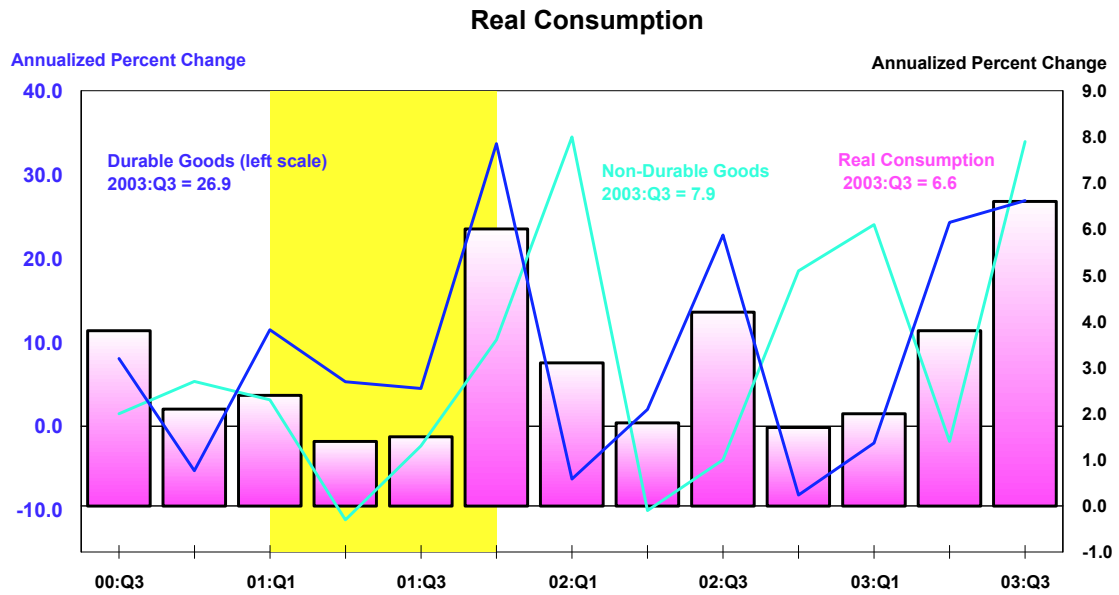
Real GDP surged in the third quarter led by consumption, investment, and exports.

Real Gross Domestic Product

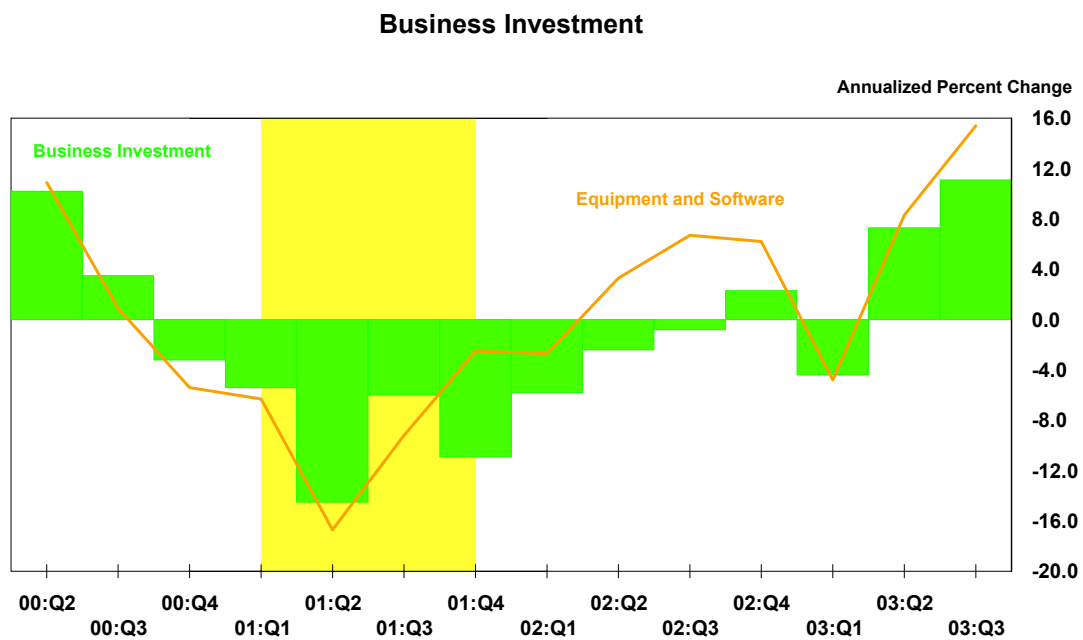


Source: Bureau of Economic Analysis.

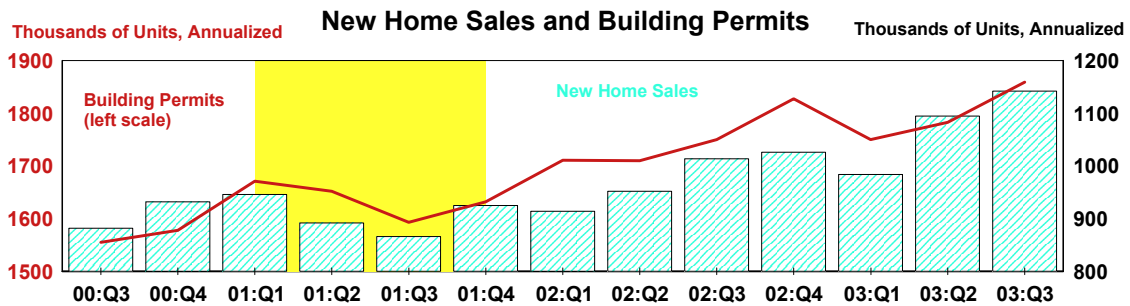
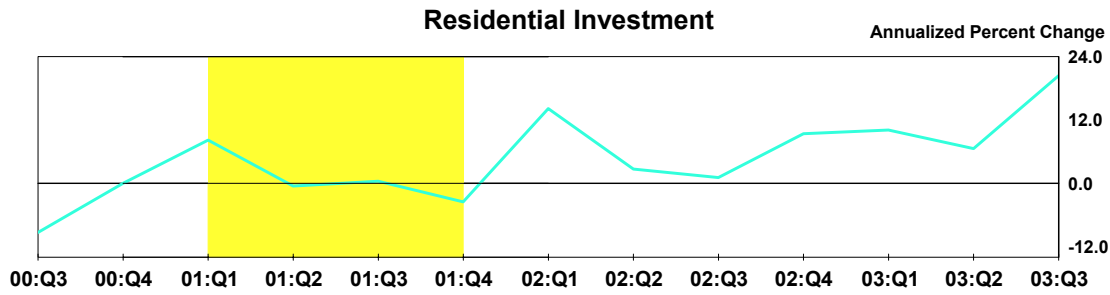
Real consumption rose as consumers continued to spend, especially on durable and non-durable goods.



Nonresidential investment picked up during the third quarter, as businesses increased their spending on equipment and software.

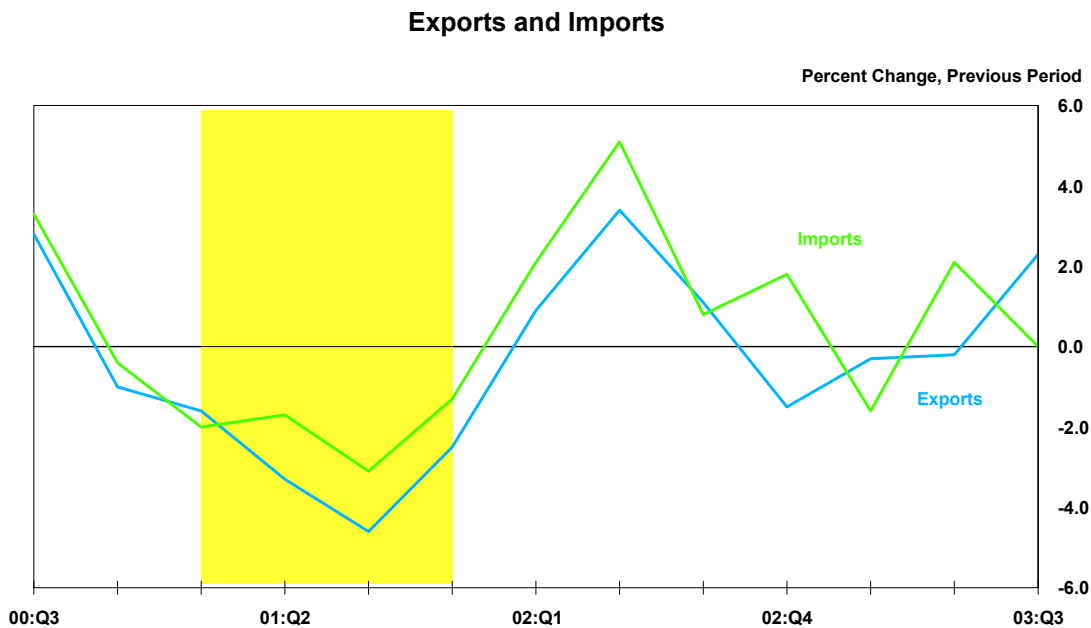


Residential investment remained strong during the third quarter as new home sales and building permits continue to rise.



Source: Bureau of Economic Analysis (Residential Investment) and U.S. Census Bureau (New Homes and Permits).

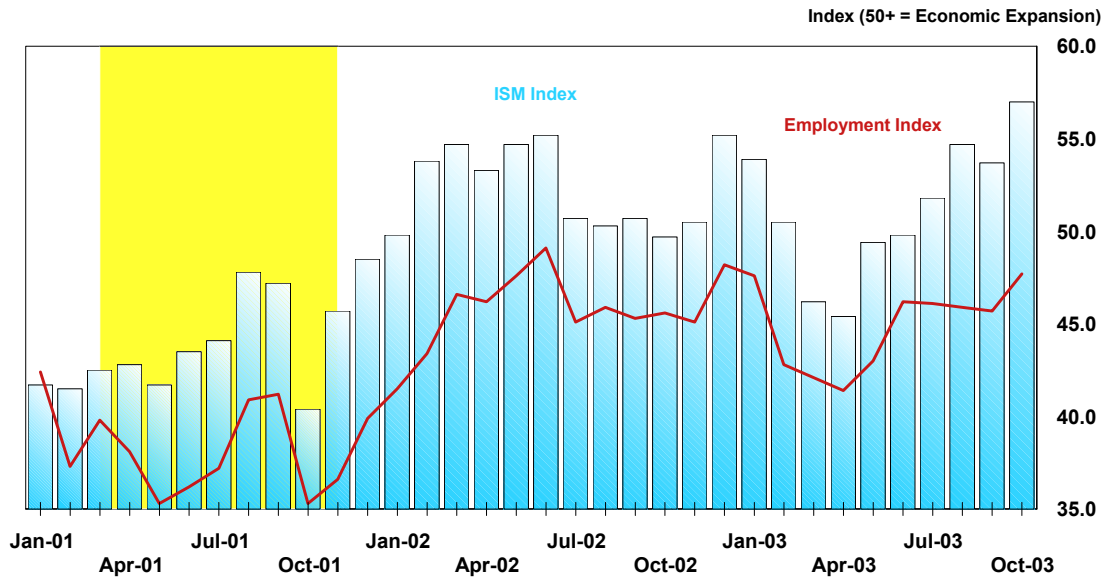
During the third quarter, an increase in exports and a decrease in imports resulted in positive improvements for net exports.



Source: Bureau of Economic Analysis.

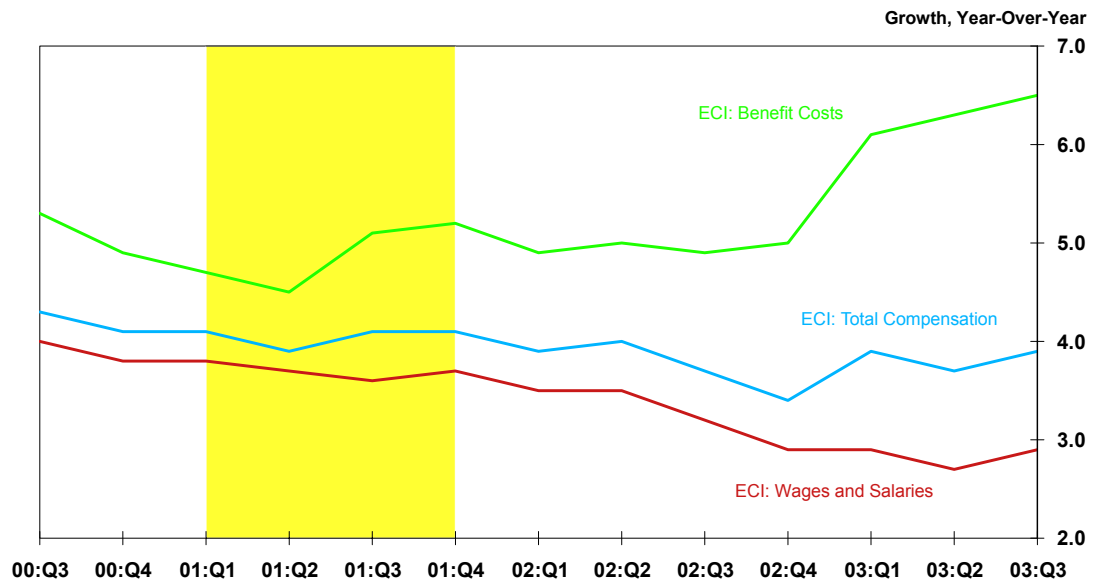
The ISM index remained above 50 in the third quarter, suggesting the manufacturing sector is gaining strength. The employment index also increased in October.

ISM Index



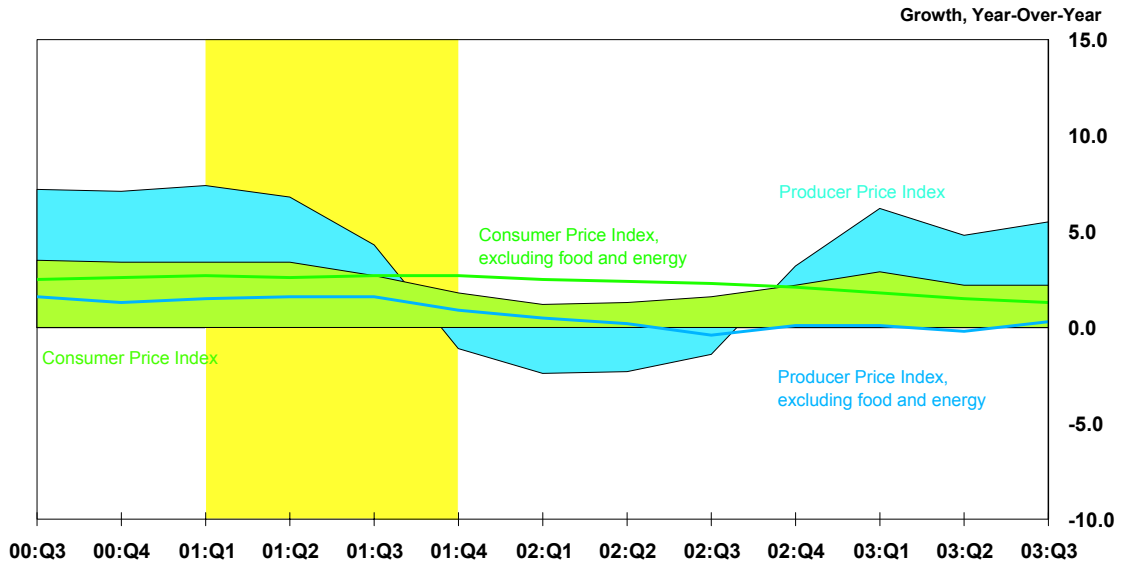
Increases in total employee compensation remain moderate, although benefit costs are increasing.

Employment Cost Index



Core inflation measures saw little change in the third quarter, suggesting low inflation risk.

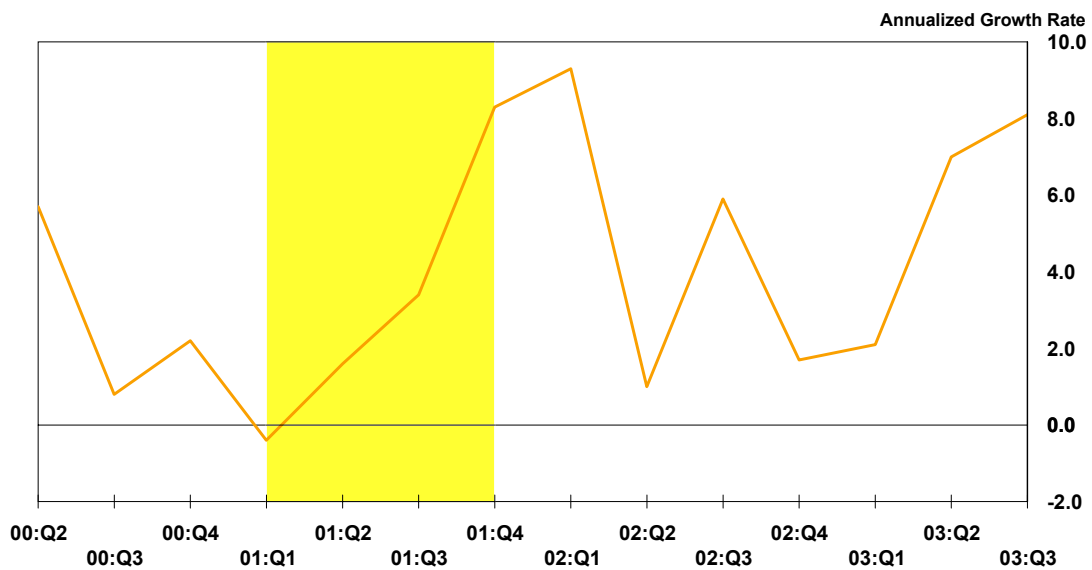
Consumer and Producer Prices



Source: Bureau of Labor Statistics.

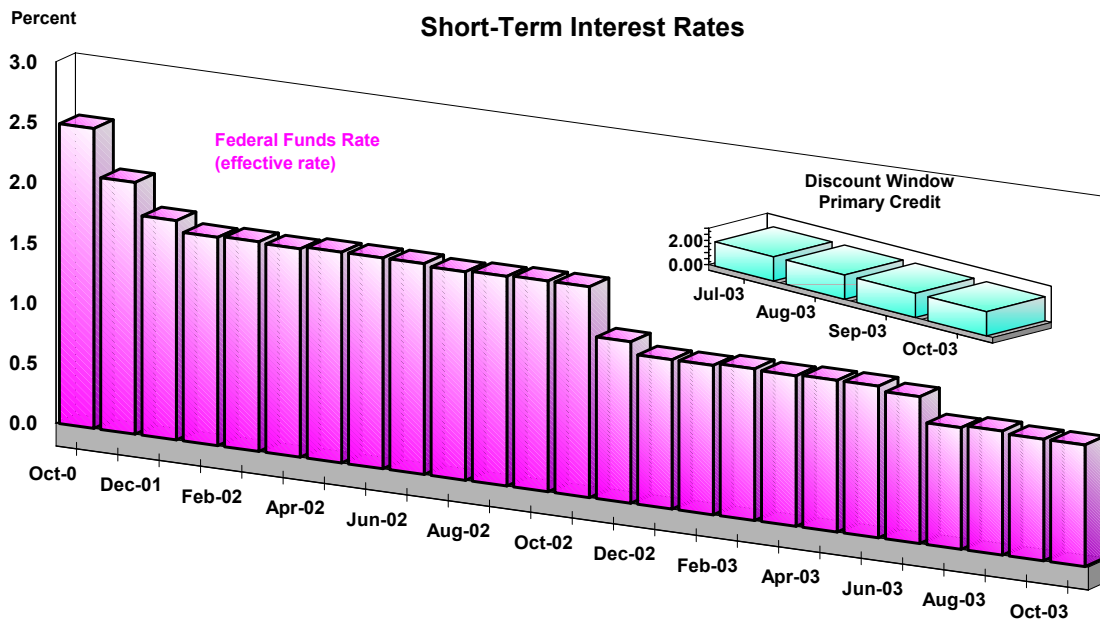
Productivity remained strong in the third quarter, growing at its fastest rate in eighteen months.

Productivity



Source: Bureau of Labor Statistics.

Overall, the labor market showed improvement for both September and October. The third quarter GDP growth was strong as business and manufacturing continues to accelerate. However, consumer attitudes, on average, remain flat.



Source: Federal Reserve Board of Governors.