

PRESIDENT'S REPORT TO THE BOARD OF DIRECTORS,
 FEDERAL RESERVE BANK OF BOSTON
 Current Economic Developments - October 9, 2003

Data released since your last Directors' meeting tell a similar story to last month. The economy seems to be picking up, but the labor market remains weak.

September's employment report showed some improvement in the labor market, as payrolls posted their first rise in eight months and job losses in August were revised upward. Still the unemployment rate was unchanged and the latest four-week moving average of initial claims continued to hover above 400,000.

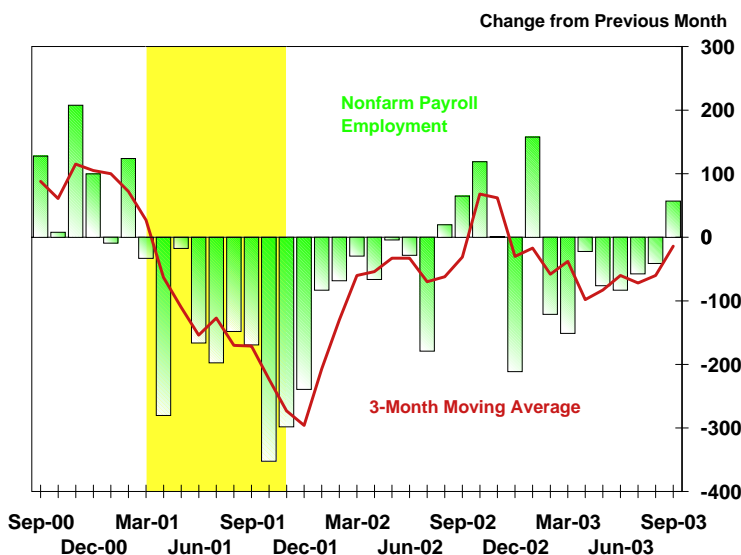
The weak labor market pushed consumer attitudes down in September. Yet, consumption remained strong as consumers continue to spend, especially on durable goods. Auto sales slowed in September, compared to August, but sales rates remain strong.

Despite August's drop in housing starts, the housing market remains in good shape, as the level of housing starts remain high. Building permits grew in August, as did new and existing home sales.

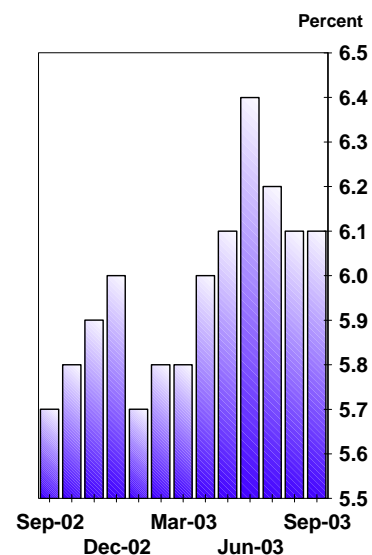
The manufacturing sector has shown some signs of improvement, but conditions have yet to pick up, especially in the labor market.

Nonfarm payroll employment rose in September for the first time in eight months, while September's unemployment rate was unchanged.

Nonfarm Payroll Employment



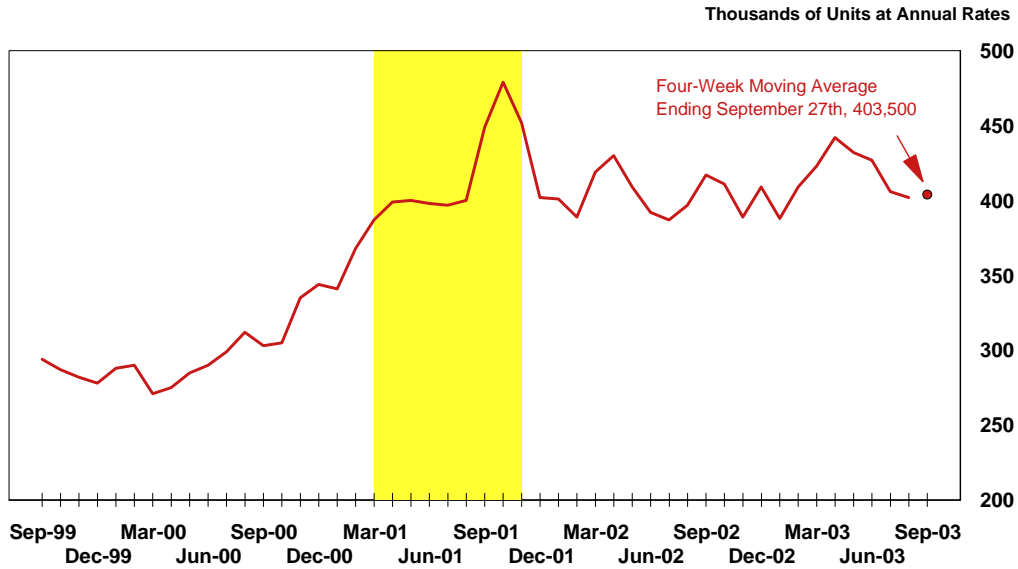
Unemployment Rate



Source: Bureau of Labor Statistics.

The latest four-week moving average of initial claims continued to hover above 400,000.

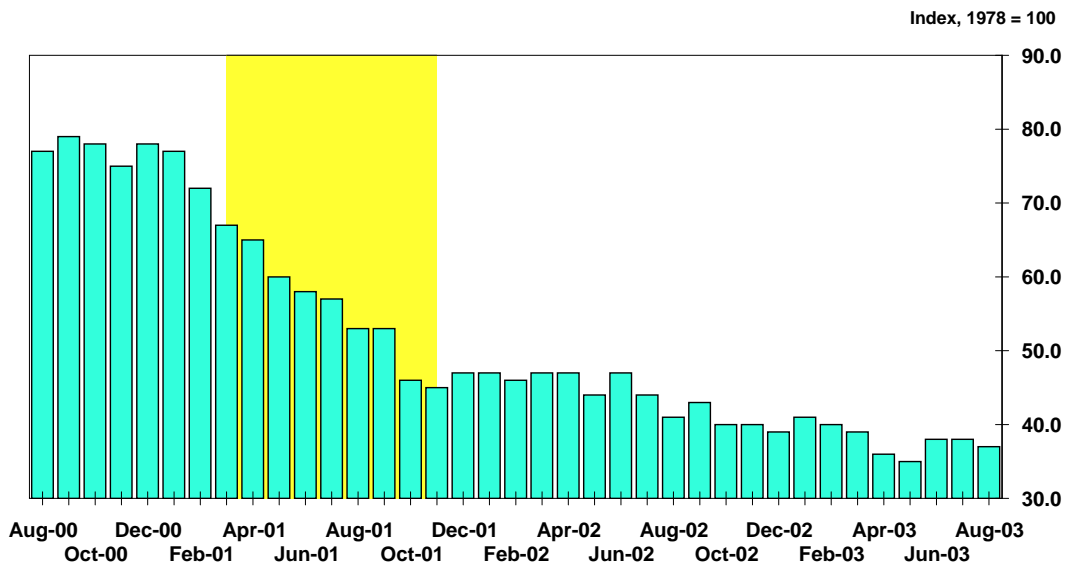
Initial Claims for Unemployment Insurance



Source: Department of Labor, Employment and Training Administration.

And the help wanted index edged downward in August.

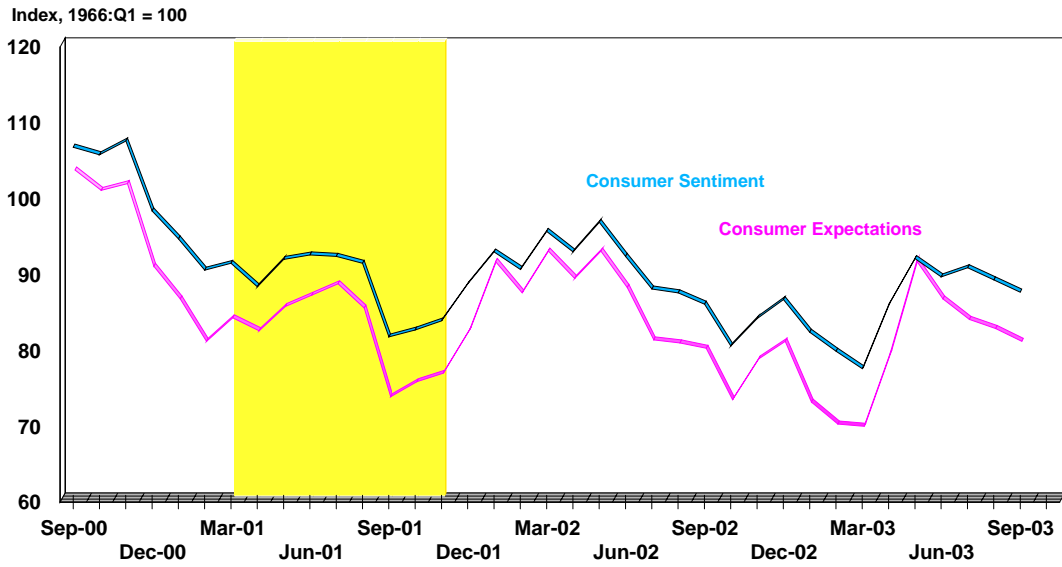
Help Wanted Index



Source: The Conference Board.

Consumer sentiment, from the Michigan survey, fell in September, along with a drop in expectations.

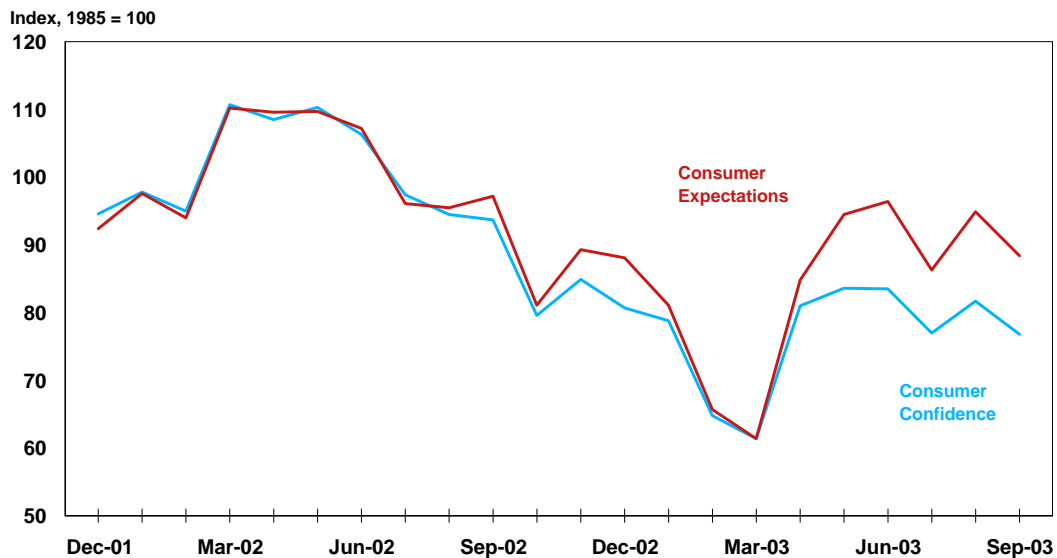
Consumer Sentiment



Source: University of Michigan.

And the Conference Board's survey of consumer attitudes showed decreases in confidence and expectations in September, reversing the rises seen in August.

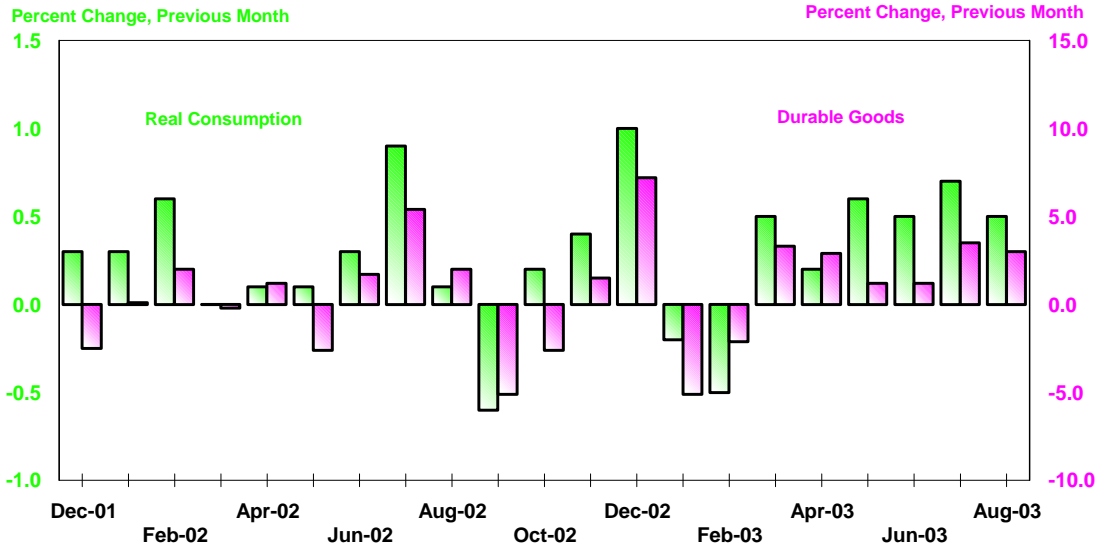
Consumer Confidence and Expectations



Source: The Conference Board.

Real consumption rose at a slower pace in August than in July, yet continues to grow as consumers keep purchasing durable goods.

Real Consumption

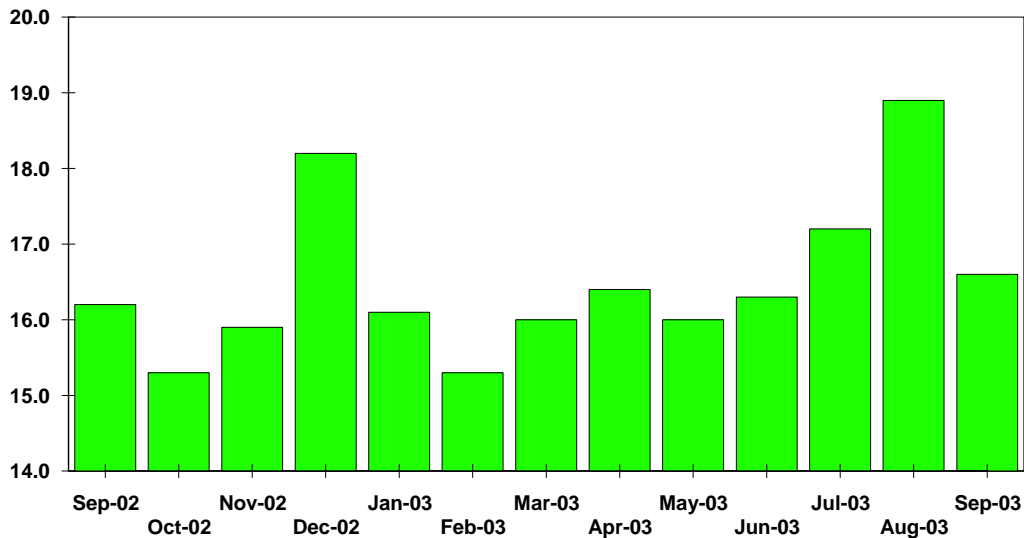


Source: Bureau of Economic Analysis.

Autos and light truck sales in September slowed from August's quick pace, but remain strong.

Auto and Light Truck Sales

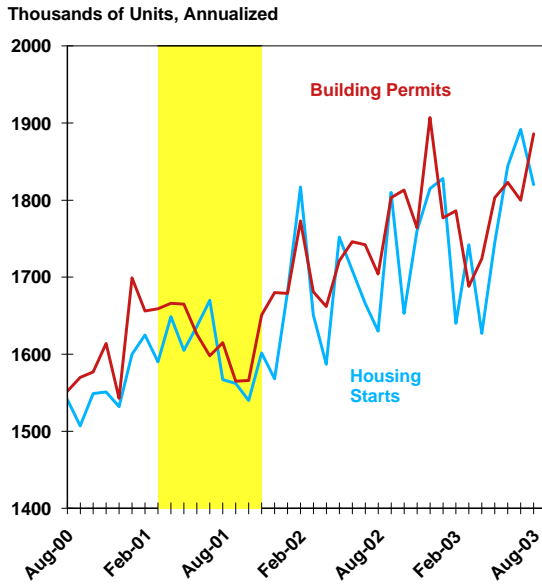
Millions of Units, Annualized



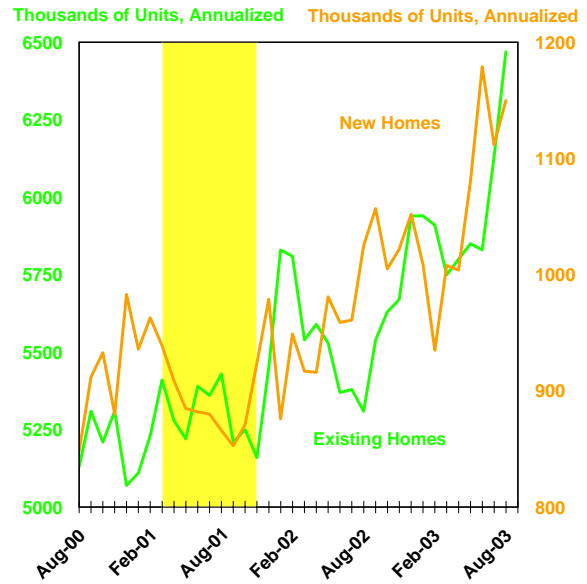
Source: Federal Reserve Board of Governors.

Housing starts fell in August, compared to July, but remain at high levels. Building permits rose in August, as did new and existing homes sales. In fact, existing home sales posted a record high.

Housing Starts and Building Permits



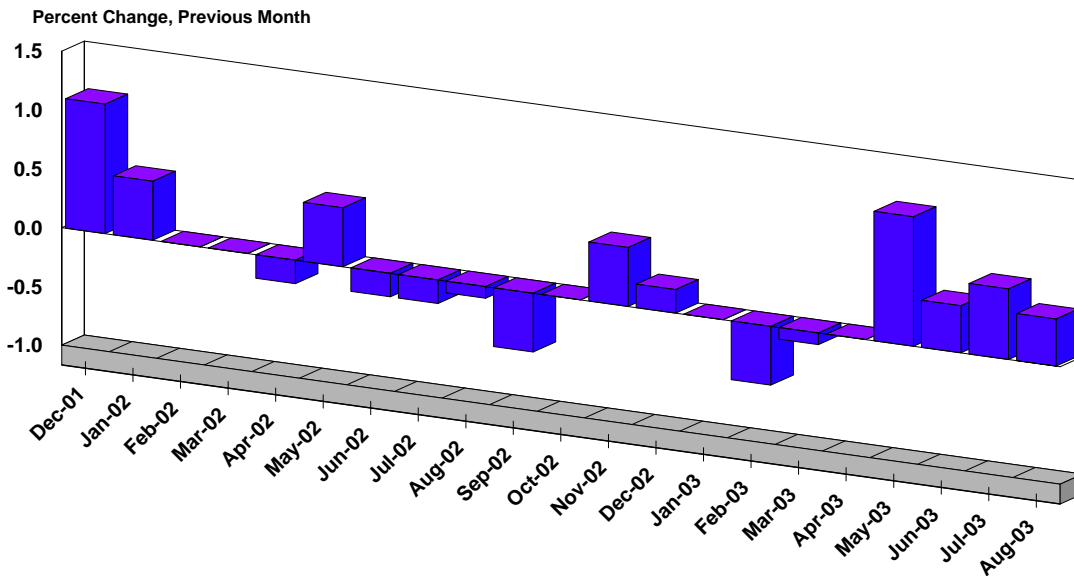
New and Existing Home Sales



Source: U.S. Census Bureau (Starts, Permits, and New Homes) and National Association of Realtors (Existing Homes).

The index of leading indicators rose for a fourth consecutive month in August.

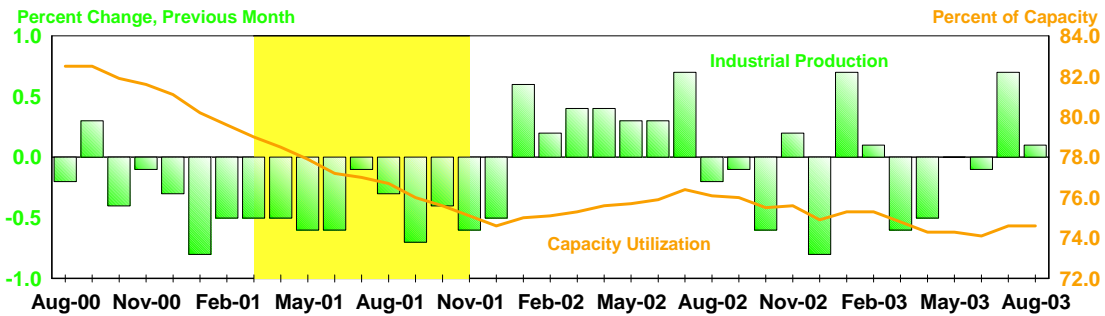
Index of Leading Indicators



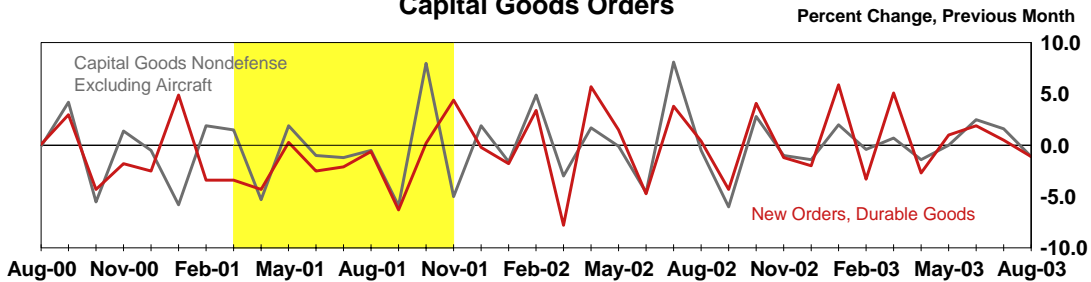
Source: The Conference Board.

Industrial production posted a modest gain in August, while capacity utilization was flat. Both new orders for durable goods and capital goods, excluding aircrafts, fell in August.

Industrial Production and Capacity Utilization



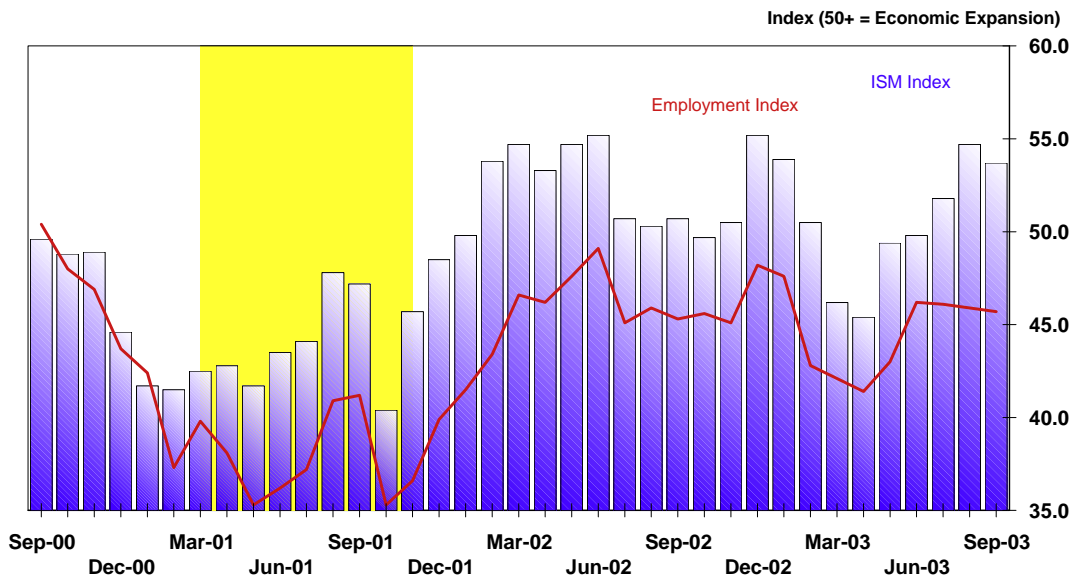
Capital Goods Orders



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

The ISM index edged slightly downward in September, compared to August, but September's estimate marked the third consecutive month above 50. The employment index continues to show job losses in manufacturing.

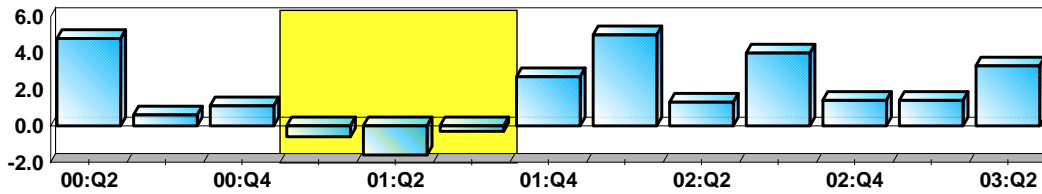
ISM Index



Source: Institute for Supply Management.

Real GDP was revised upward in the second quarter, led by greater inventory investment, residential construction, and imports.

Real GDP



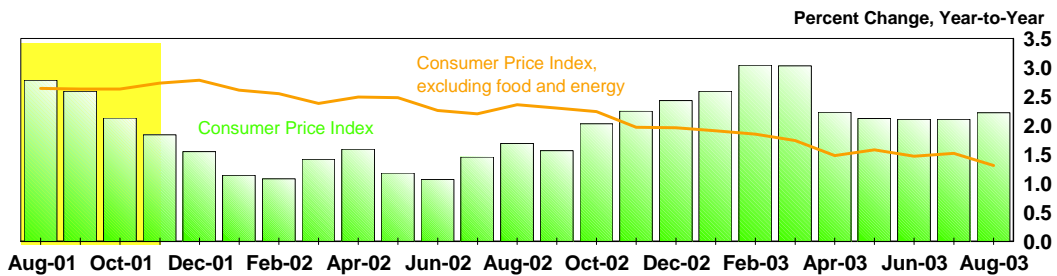
Revisions to Second Quarter Real GDP

Description	Preliminary	Revised
Real GDP	3.1	3.3
Consumption	3.8	3.8
Business Investment	8.0	7.3
Residential Investment	4.5	6.6
Government	8.2	8.5
Exports	-1.2	-1.0
Imports	7.9	8.8
Final Sales	4.0	4.0

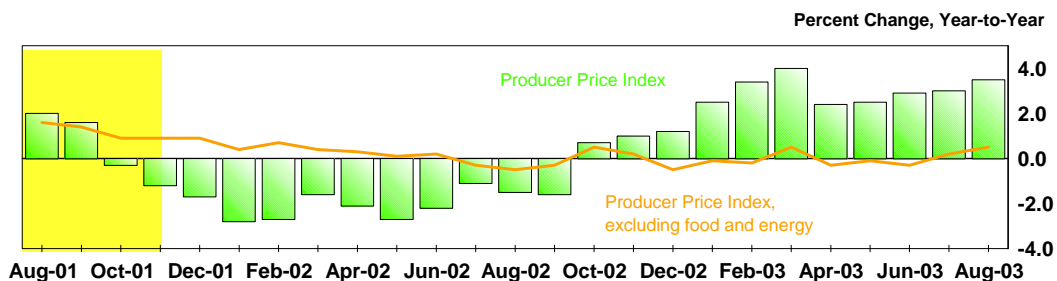
Source: Bureau of Economic Analysis.

Increases in both core consumer and core producer prices remain modest.

Consumer Prices



Producer Prices



Source: Bureau of Labor Statistics.

Overall, the economy is picking up steam; however, the labor market remains weak and the manufacturing sector still shows room for improvement.

