

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

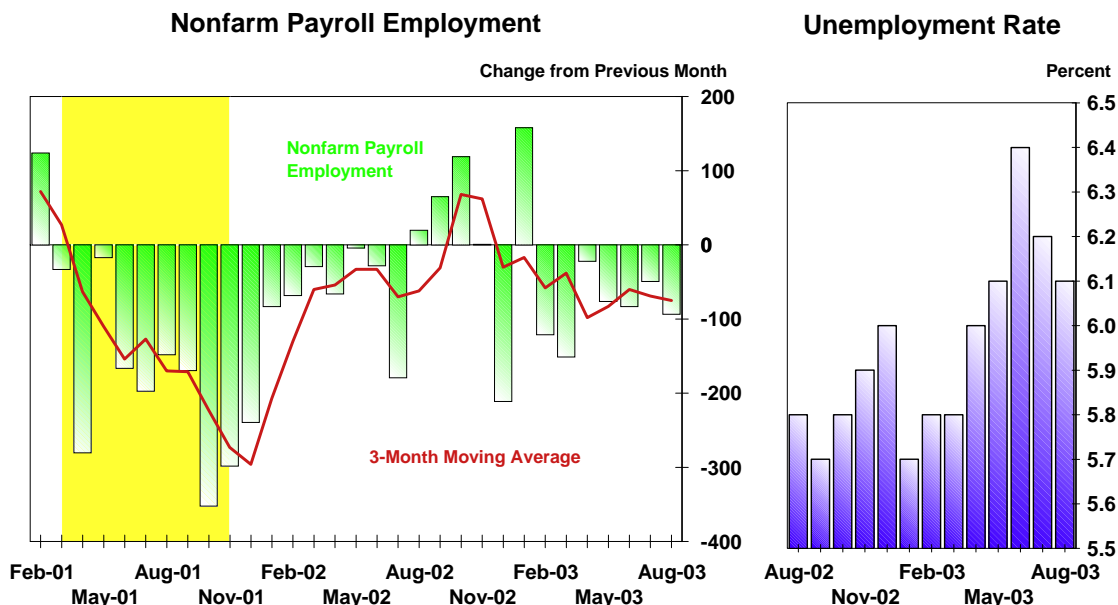
Current Economic Developments - September 11, 2003

Data released since your last Directors' meeting show the economy is picking up steam. However, the labor market remains weak. Nonfarm payroll employment fell in August for the seventh consecutive month. The unemployment rate fell one-tenth of a percentage point, as more discouraged workers left the labor force. Although Initial claims edged slightly downward in August, their level remained above 400,000.

Consumer confidence was mixed in August, but overall confidence levels have been little changed over the past few months. Yet, uncertainty about the economy has not slowed consumer spending. In July, home sales remained high and auto sales rose. In August, auto and light truck sales hit their highest level since October 2001, marking their second highest level on record.

The manufacturing sector showed some improvement in July and August. In July, industrial production posted a large gain and capacity utilization edged upward. The ISM index in August marked its highest level this year. But, new orders for capital goods, excluding aircraft, were flat in July, suggesting future strength may still be in question.

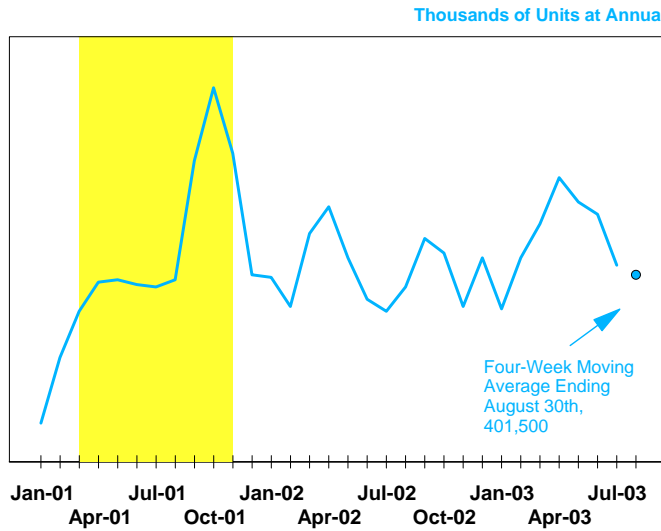
Nonfarm payroll employment fell in August for the seventh consecutive month. And the unemployment rate fell one-tenth of a percentage point, as more discouraged workers dropped out of the labor force.



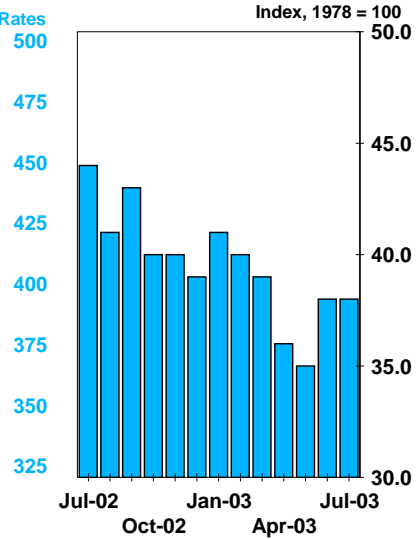
Source: Bureau of Labor Statistics.

The four-week moving average of initial claims ending August 30th, indicate claims edged slightly downward in August. Still, claims remained above 400,000. The help wanted index was flat in July, after rising in June.

Initial Claims



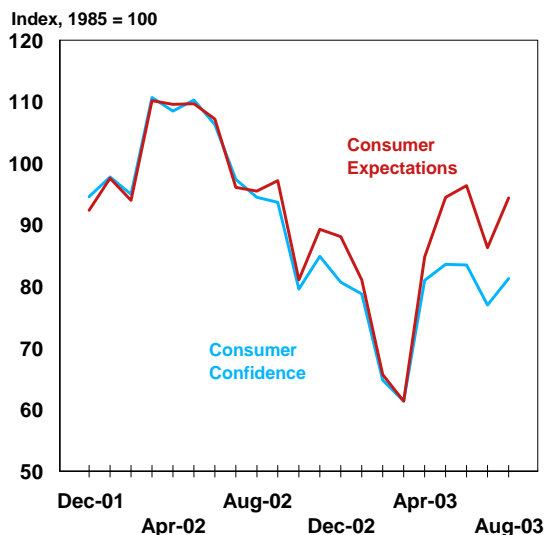
Help Wanted Index



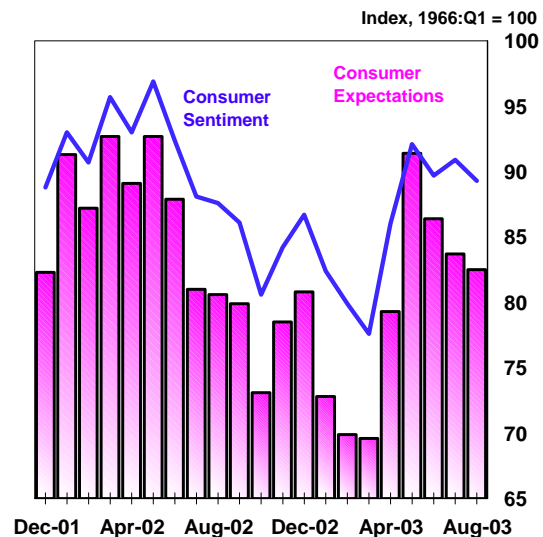
Source: Department of Labor, Employment and Training Administration (claims), and The Conference Board (help wanted).

Surveys of consumer attitudes were mixed in August. Overall, confidence has been little changed over the past few months.

Consumer Confidence and Expectations



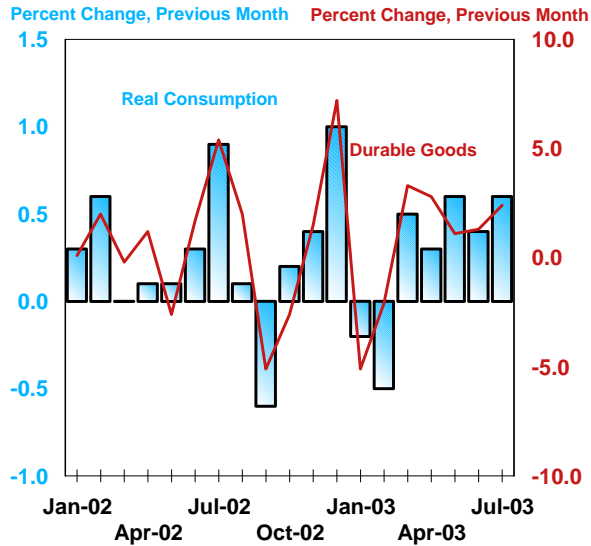
Consumer Sentiment and Expectations



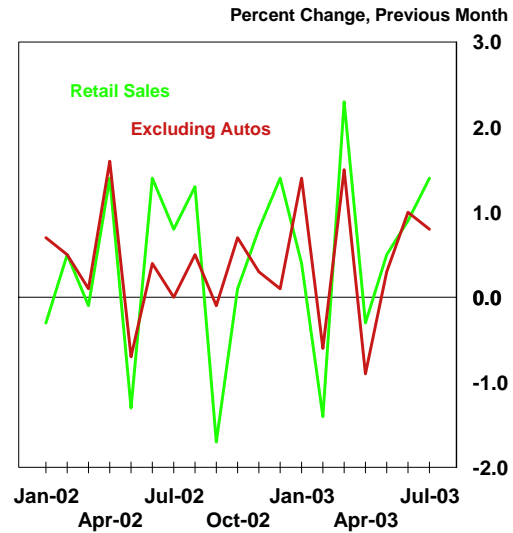
Source: The Conference Board (Confidence) and The University of Michigan (Sentiment).

Real consumption rose in July, as consumer's continued to spend, especially on durable goods. Retail sales, excluding autos, edged slightly downward in July, still growth in this area remains healthy.

Real Consumption



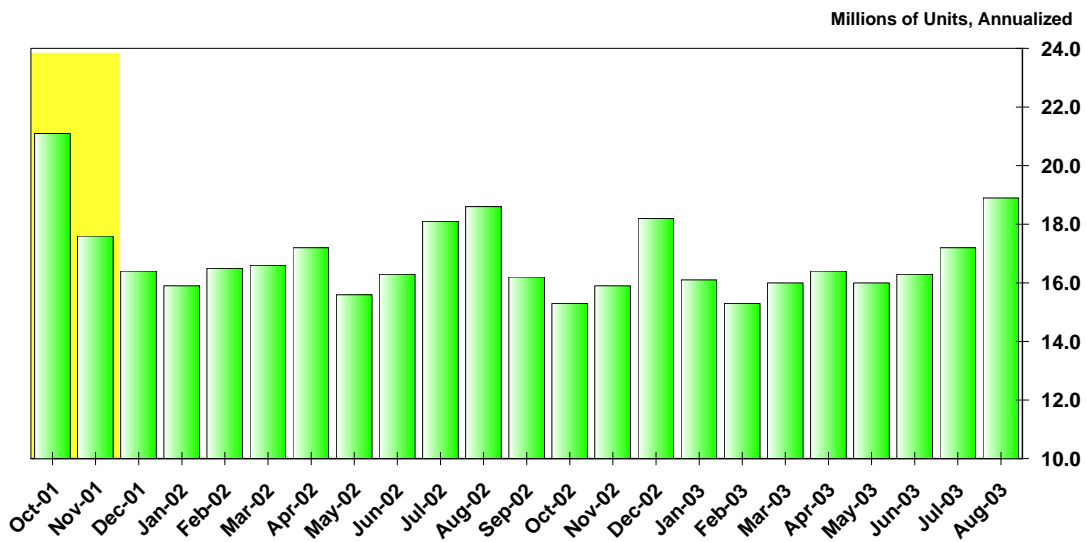
Retail Sales



Source: Bureau of Economic Analysis (Consumption) and U.S. Census Bureau (Retail Sales).

Consumer's continued to purchase autos in August, as vehicle sales marked their second highest level on record. Sales hit a record high in October 2001.

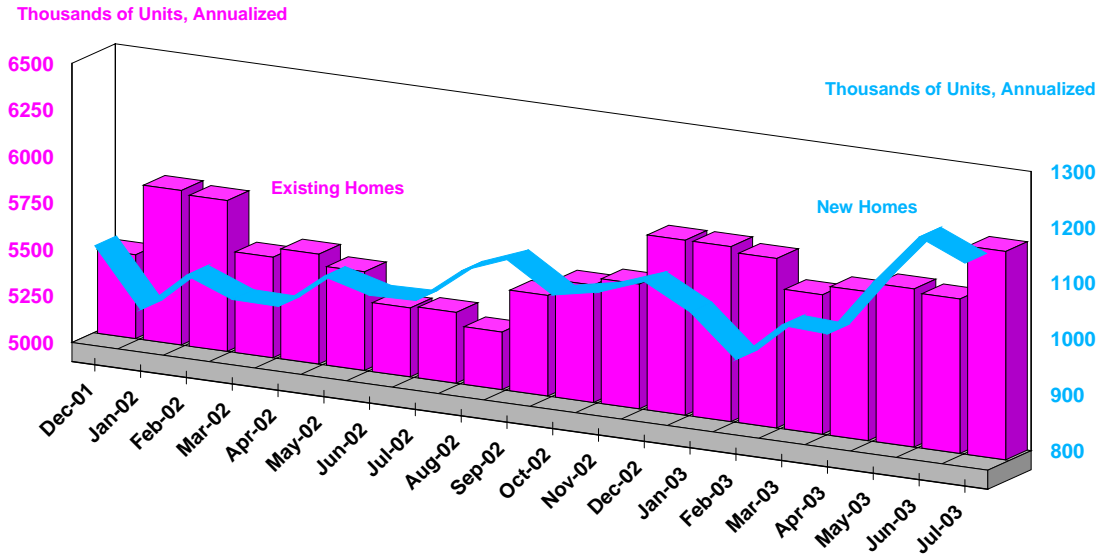
Auto and Light Truck Sales



Source: Bureau of Economic Analysis.

Existing home sales rose in July, hitting a new record-high. New home sales slipped in July, after hitting a record-high in June.

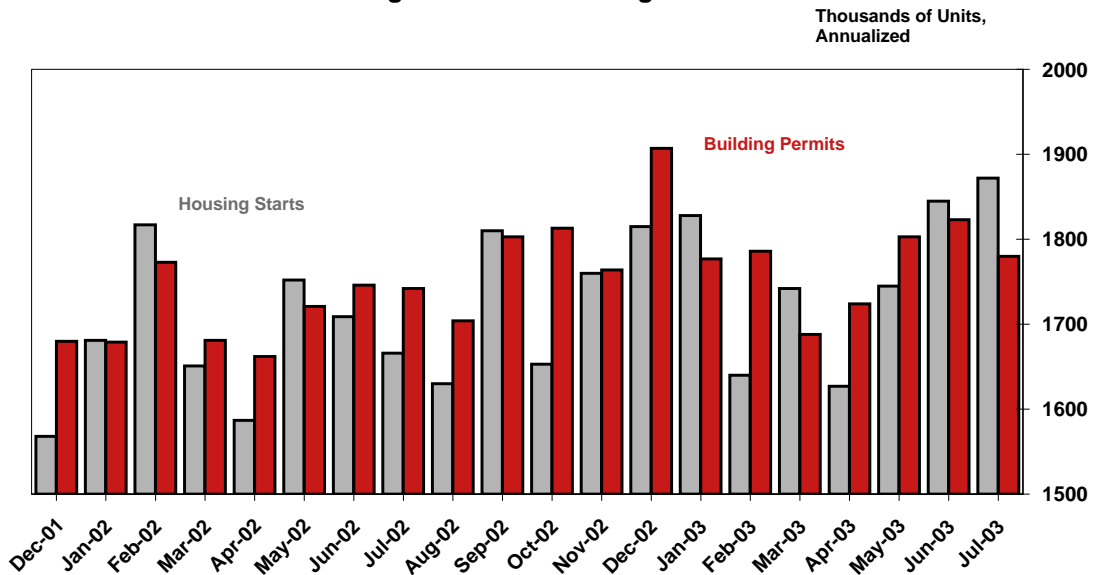
New and Existing Home Sales



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

Housing starts and building permits remained strong in July.

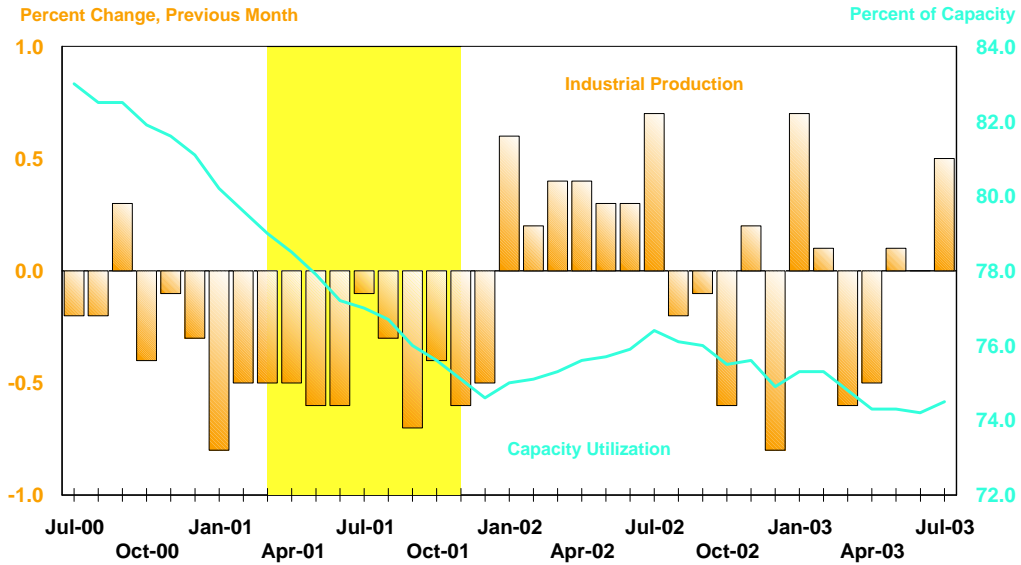
Housing Starts and Building Permits



Source: U.S. Census Bureau.

The manufacturing sector showed signs of life in July, as industrial production posted its largest gain since January and capacity utilization edged upward.

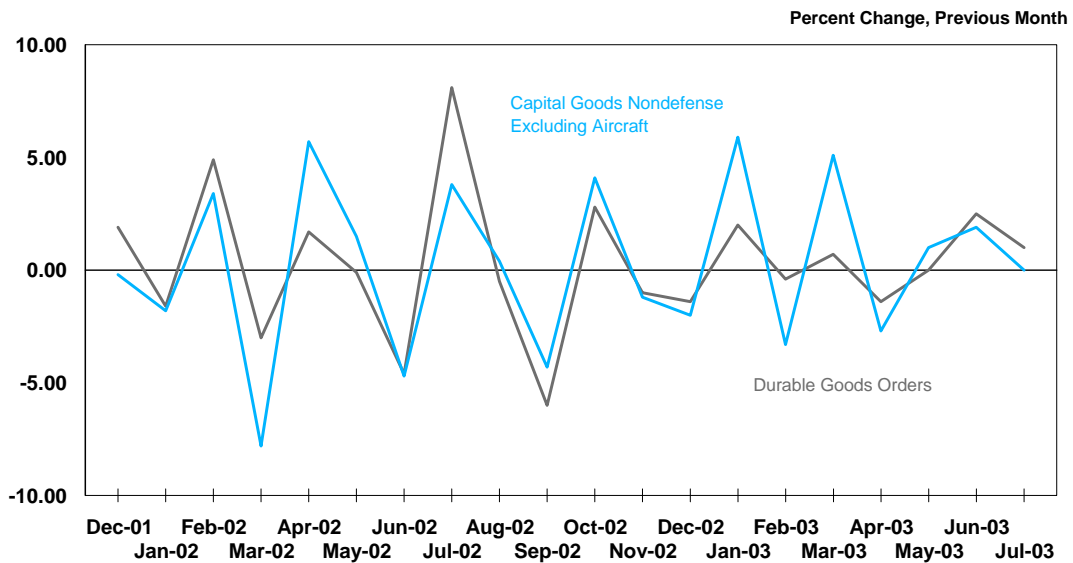
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

New orders for capital goods, excluding aircraft, were flat in July, following two months of positive growth. July's flat estimate suggests the strength of future orders may still be in question.

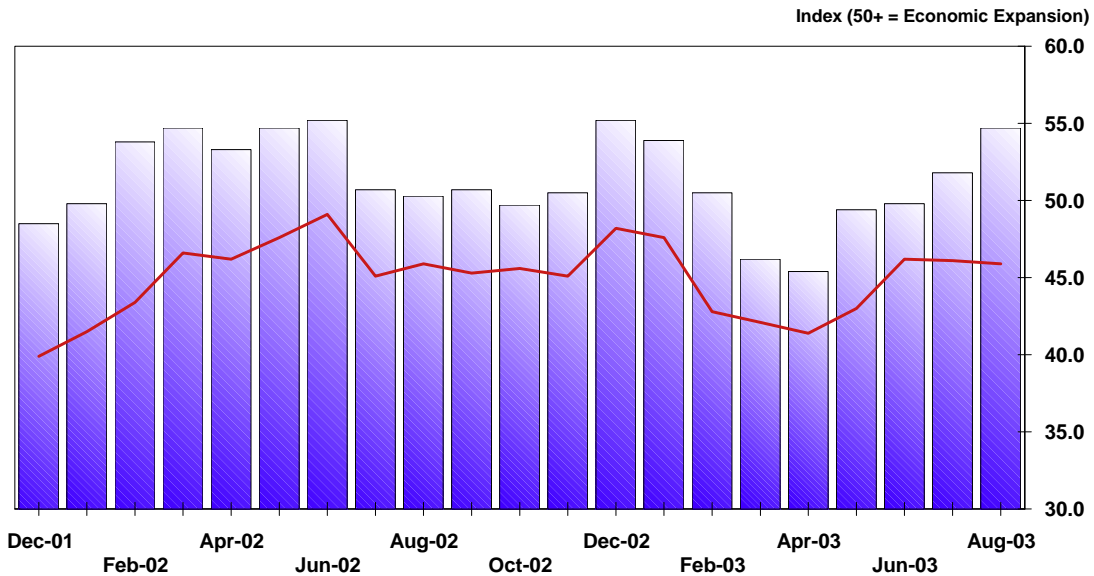
Durable and Capital Goods Orders



Source: U.S. Census Bureau.

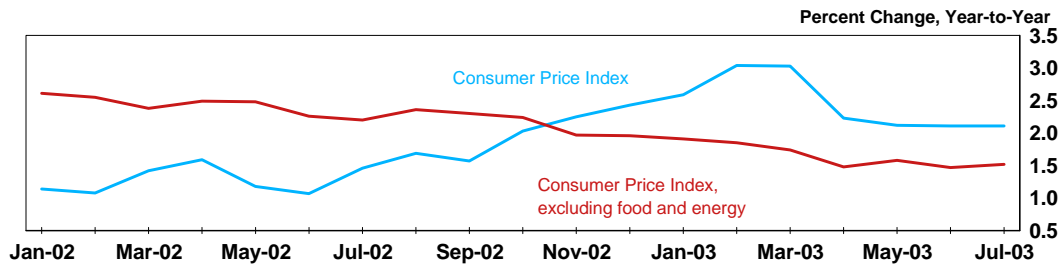
The ISM index continued to rise in August, marking its highest level this year. The employment index has yet to improve.

ISM Index

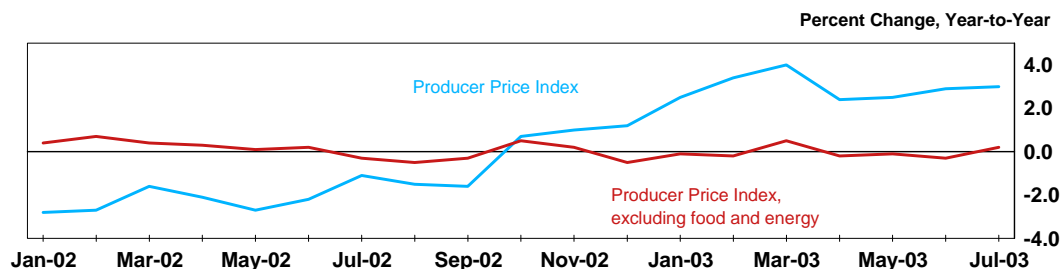


Consumer and producer prices remain low, especially core prices.

Consumer Prices



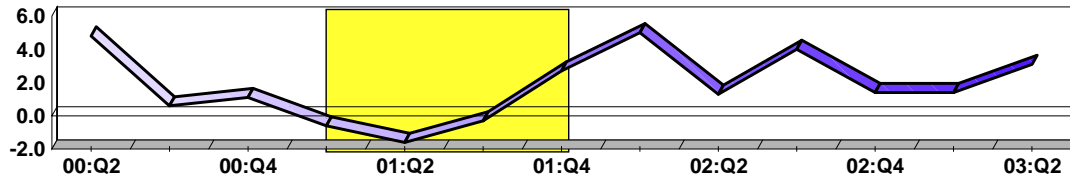
Producer Prices



Source: Bureau of Labor Statistics.

Second quarter real GDP was revised upward, reflecting increases in consumption, federal defense spending, and business investment.

Real GDP



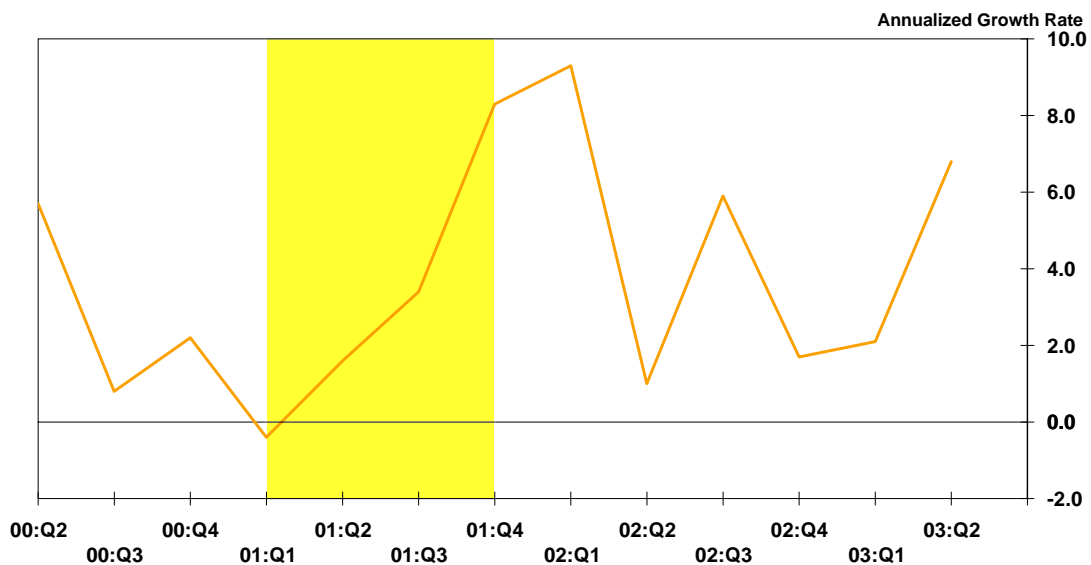
Revisions to Second Quarter Real GDP

| Description | Advanced | Preliminary |
|------------------------|----------|-------------|
| Real GDP | 2.4 | 3.1 |
| Consumption | 3.3 | 3.8 |
| Business Investment | 6.9 | 8.0 |
| Residential Investment | 6.0 | 4.5 |
| Government | 7.5 | 8.2 |
| Exports | -3.1 | -1.2 |
| Imports | 9.2 | 7.9 |
| Final Sales | 3.2 | 4.0 |

Source: Bureau of Economic Analysis.

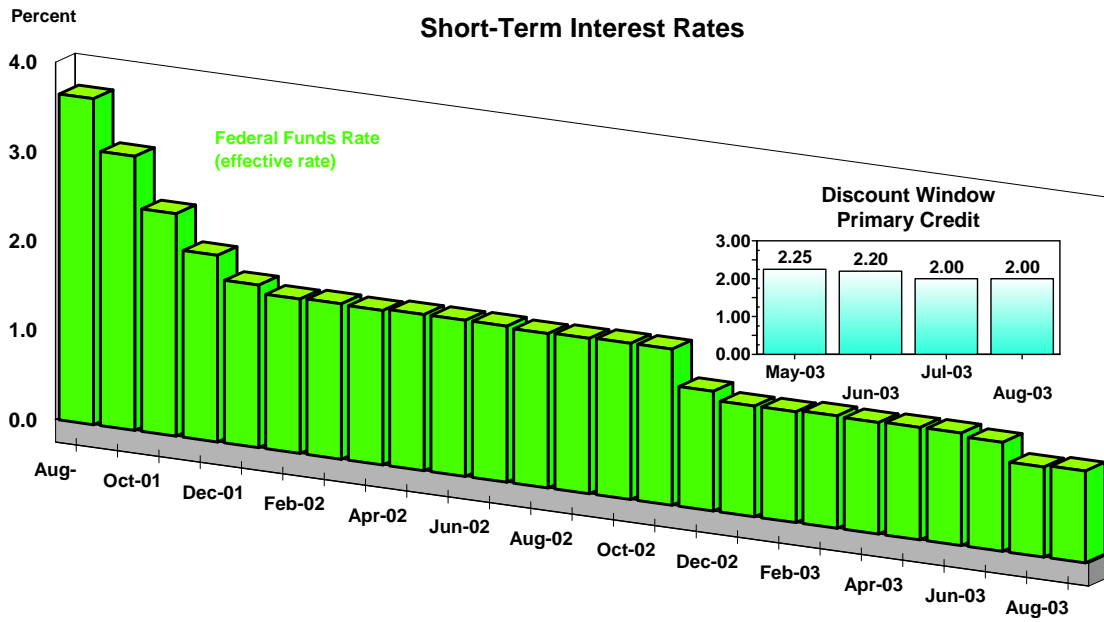
Upward revisions to productivity in the second quarter show workers were more productive than previously thought.

Productivity



Source: Bureau of Labor Statistics.

All in all, consumption and residential investment remains strong. And business investment appears to be picking up. But, the labor market remains weak and there has been little sign of improvement.



Source: Federal Reserve Board of Governors.