

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

Current Economic Developments - March 13, 2003

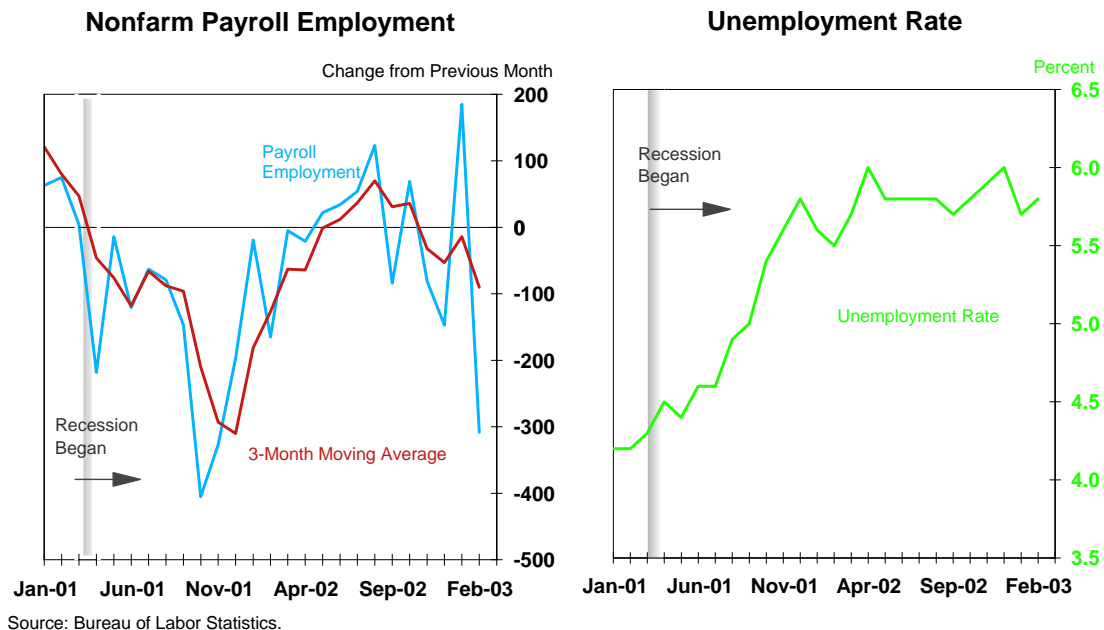
Data released since your last Directors' meeting show the economy tentatively continuing its slow expansion. Nonfarm payroll employment fell by 308,000 in February, marking the largest decrease since 2001. With rising initial claims and the unemployment rate hovering near 5.8%, the labor market remains weak.

Consumer confidence continued to fall in February, as economic risks and geo-political concerns continued to rise. Consumer spending fell in January, led by a slowdown in auto sales. Auto sales remained weak in February as well. In fact, so far during the first quarter, average monthly sales are lower than they have been in more than four years.

On balance, the housing market weakened somewhat in January. Existing home sales hit a new record high, while new home sales plummeted.

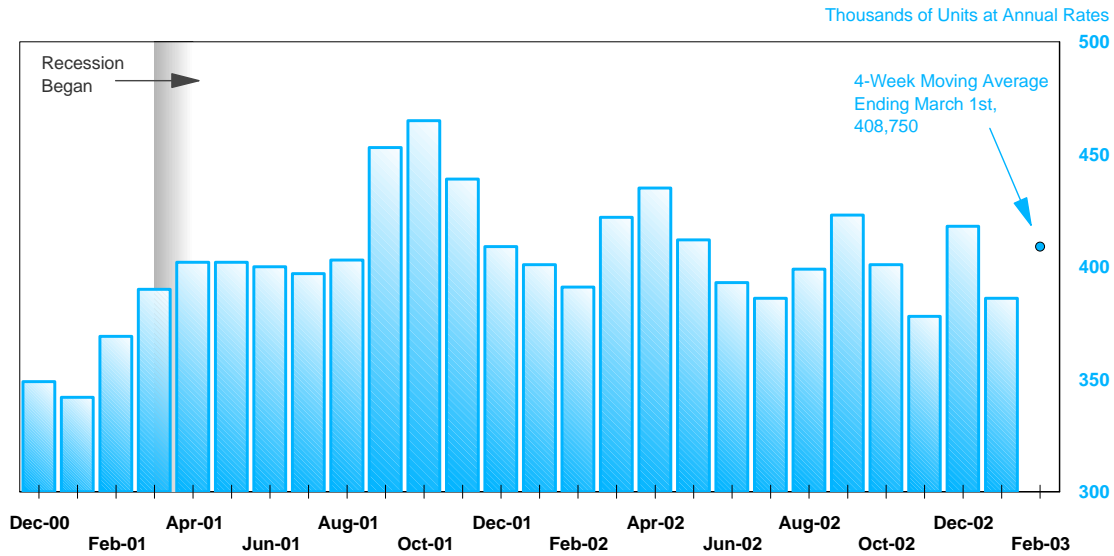
Despite recent drops in the ISM index, the manufacturing sector showed some signs of improvement in January, as industrial production and new orders for capital goods rose.

Nonfarm payroll employment dropped by 308,000, leaving the three-month average below zero. The unemployment rate rose slightly to 5.8%.



Initial claims rose in February as the latest 4-week moving average edged above 400,000, hitting it's highest level in nine weeks.

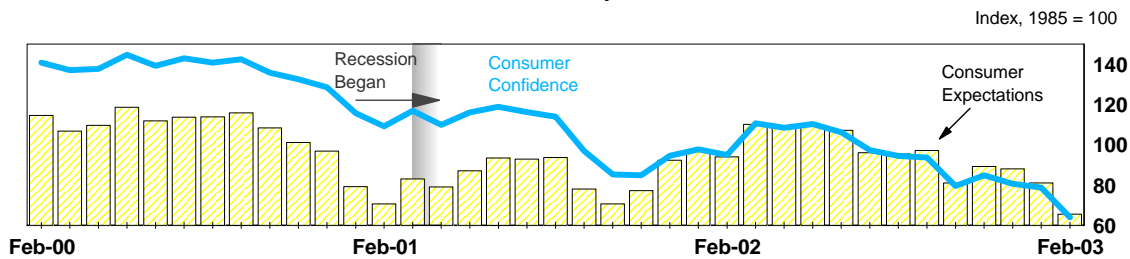
### Initial Claims



Source: Department of Labor.

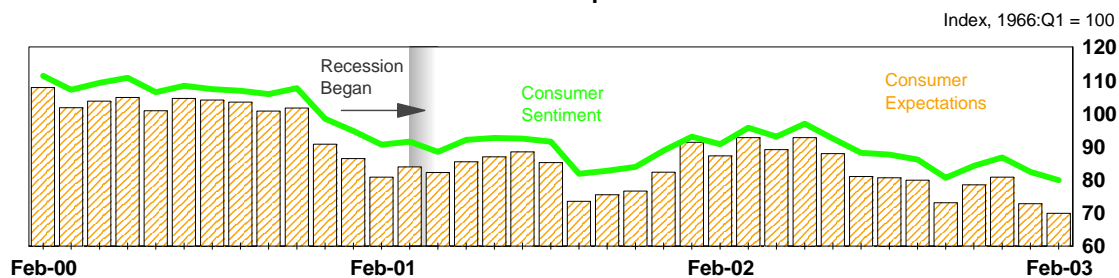
Consumer confidence and expectations slipped in February, as concerns about the economy and geo-political risks increased.

### Confidence and Expectations



Source: The Conference Board.

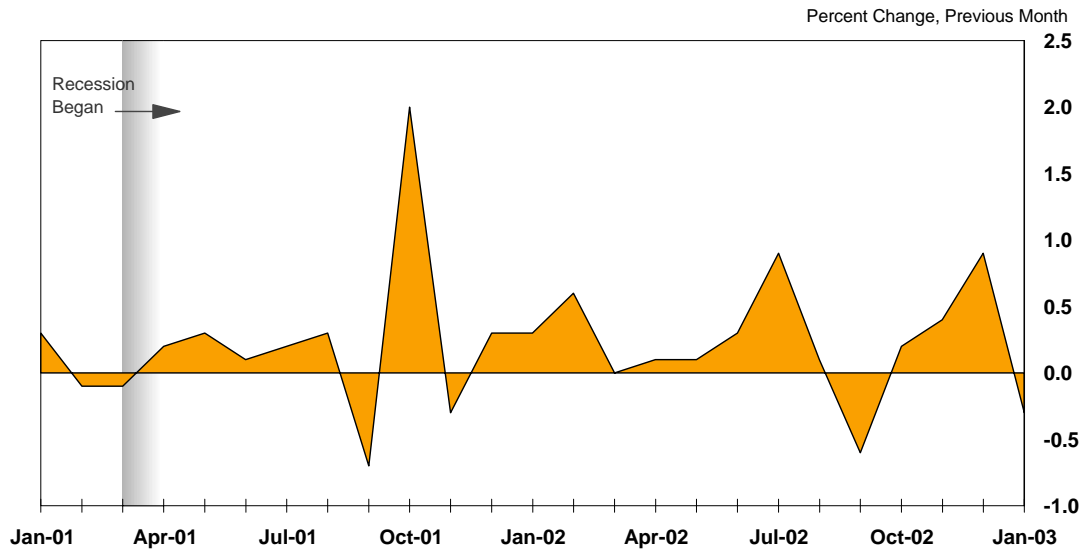
### Sentiment and Expectations



Source: The University of Michigan.

Real consumption fell in January, as auto sales slowed.

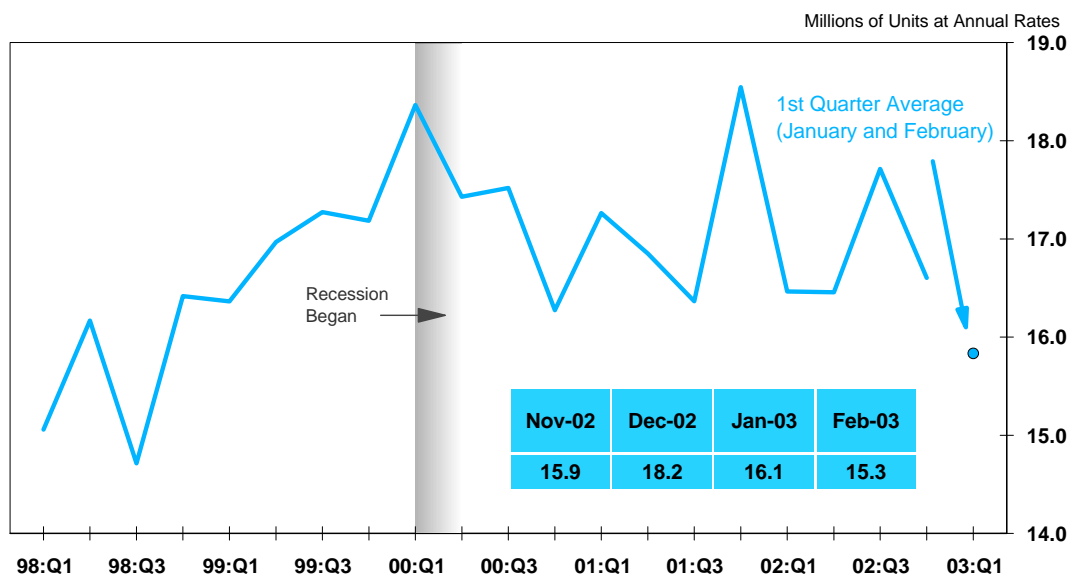
### Real Consumption



Source: Bureau of Economic Analysis.

The slowdown in auto sales continued in February. So far during the first quarter, average monthly sales are the lowest they have been since the third quarter of 1998.

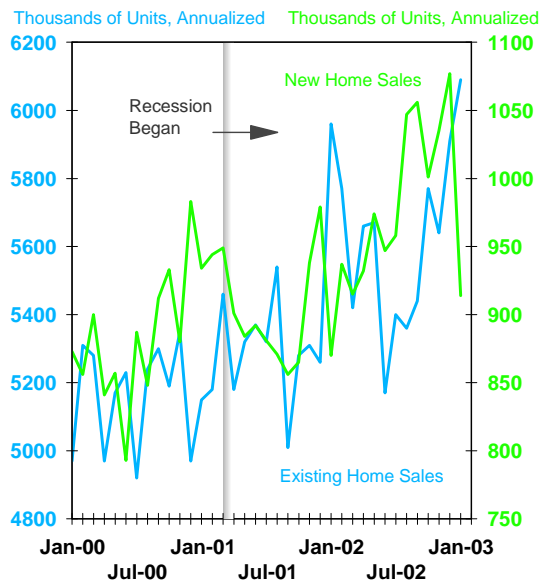
### Auto and Light Truck Sales



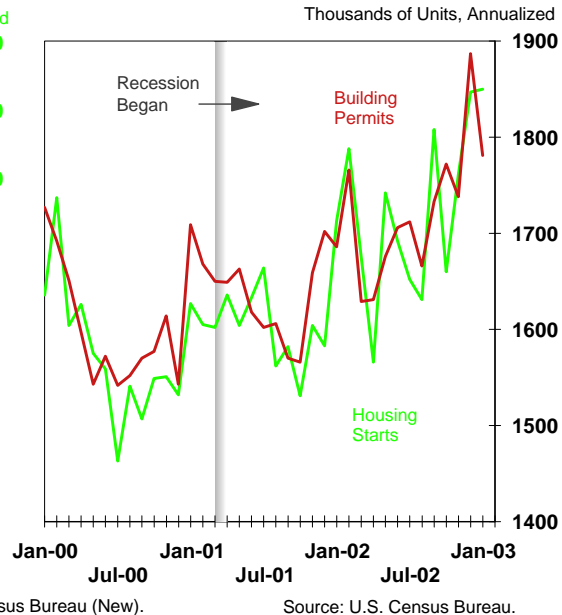
Source: Bureau of Economic Analysis.

On average, the housing market weakened somewhat in January. Existing home sales hit a new record high, while new homes sales fell to their lowest level since January 2002. Housing starts were basically flat and building permits fell.

### New and Existing Home Sales

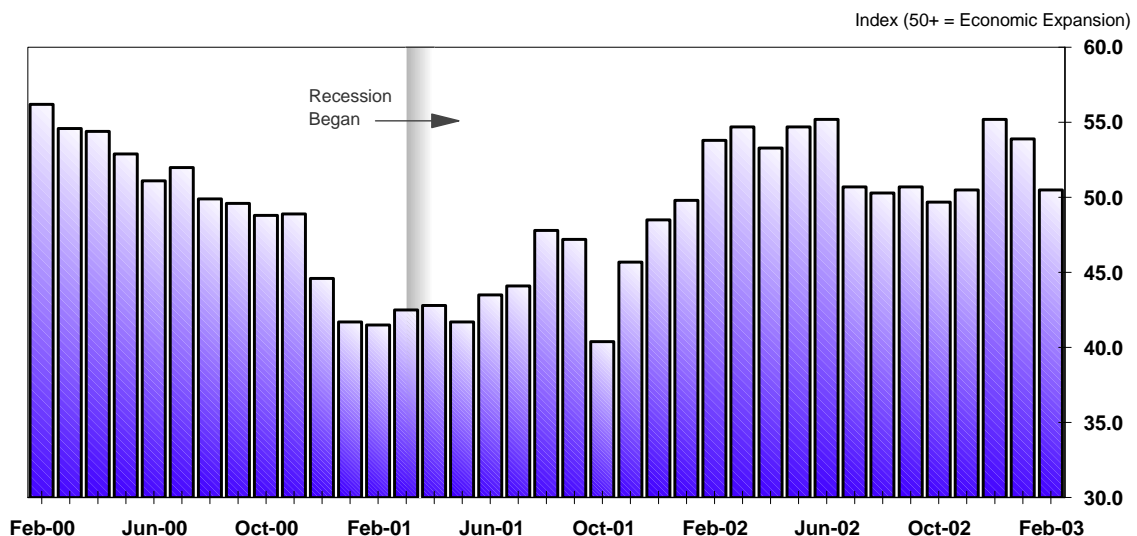


### Housing Starts and Permits



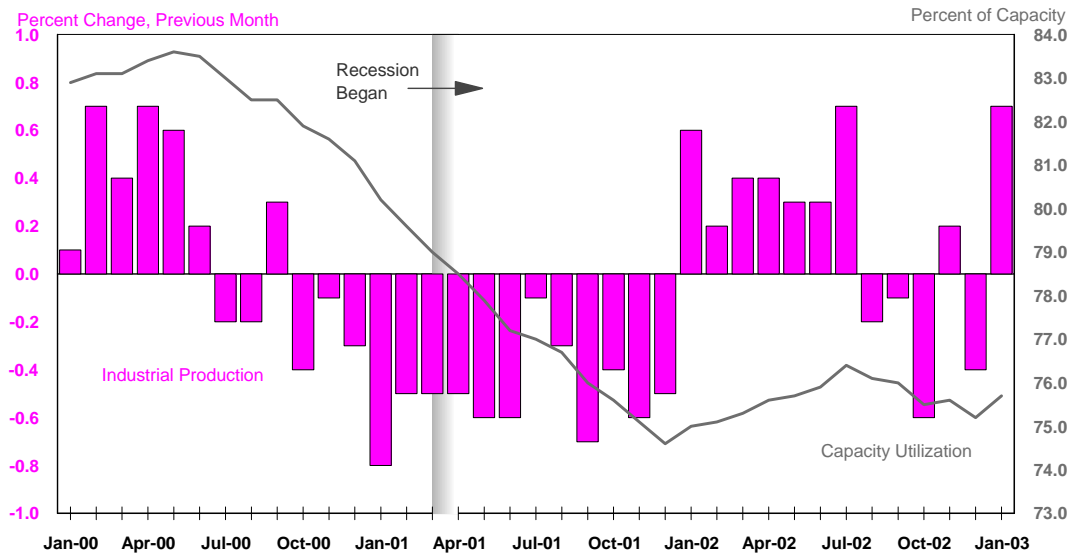
In February, the ISM index dropped for a second consecutive month, hovering just over 50.

### ISM Indexes



Yet, industrial production and capacity utilization showed some improvement in January.

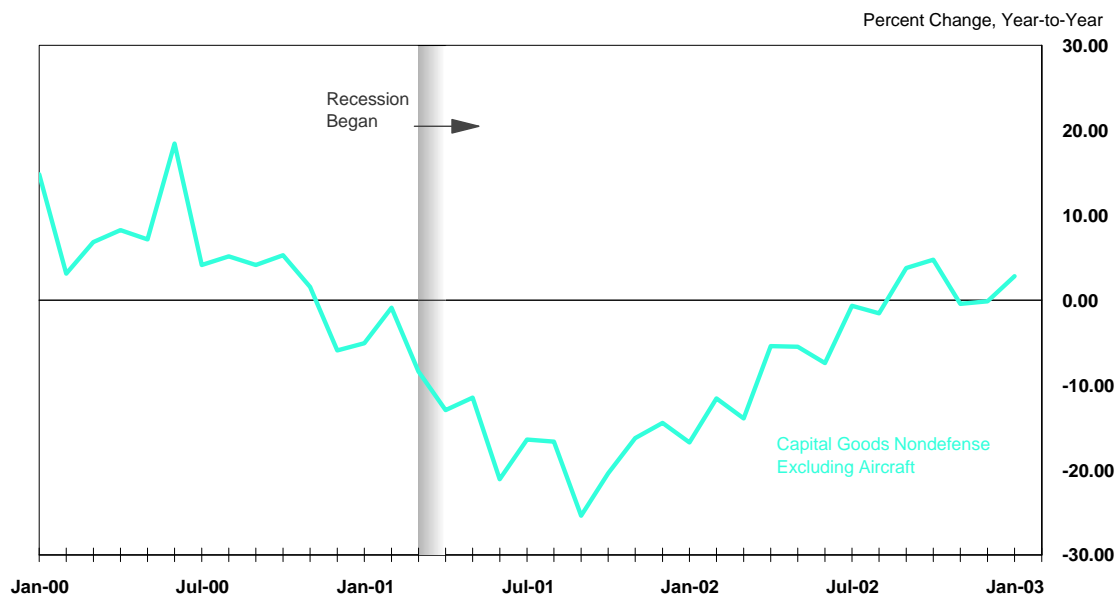
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors.

And new orders for capital goods, excluding aircraft, also showed improvement.

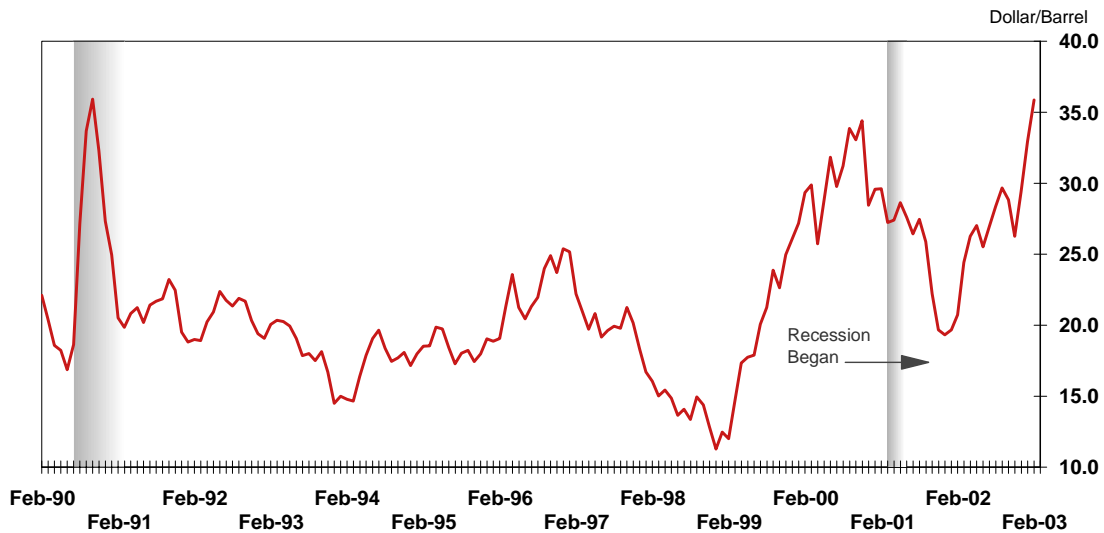
### New Orders for Capital Goods



Source: U.S. Census Bureau.

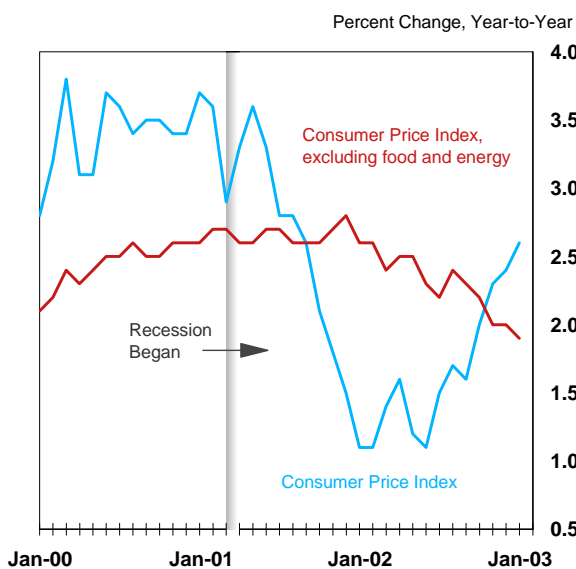
In February, oil prices rose to over \$35.00 dollars a barrel for the first time since October 1990.

### Oil Prices

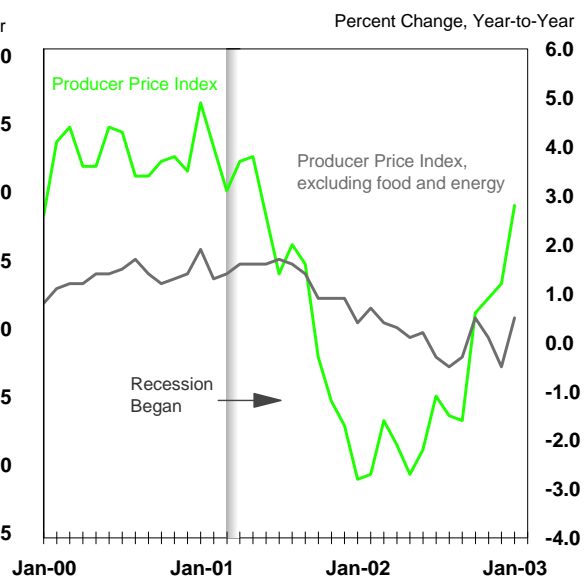


Although rising oil prices have spurred increases in consumer and producer prices, core inflation remains low.

### Consumer Prices

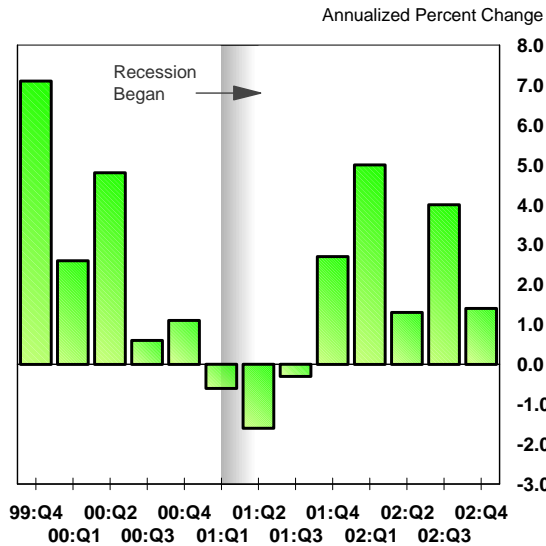


### Producer Prices



Although the fourth quarter is behind us, revisions to real GDP indicate growth during the fourth quarter was stronger than originally thought. However, all of the revision was in inventory accumulation.

### Real Gross Domestic Product



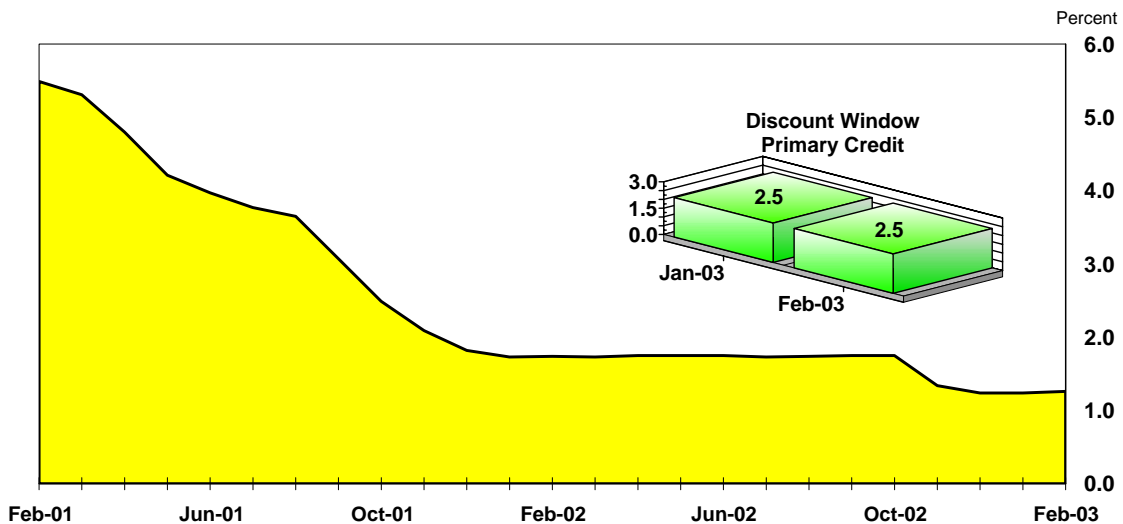
Source: Bureau of Economic Analysis.

### Revisions to Fourth Quarter Real GDP

Description	Advanced	Preliminary
Real GDP	0.7	1.4
Consumption	1.0	1.5
Business Investment	1.5	2.5
Residential Investment	6.8	9.4
Government	4.6	4.9
Exports	-1.7	-4.4
Imports	3.7	7.2
Final Sales	1.3	1.2

All in all, data indicate economic conditions are slightly more fragile compared to last month, while concerns about future consumer spending have increased.

### Federal Funds Rate



Source: Federal Reserve Board of Governors.