

- Welcome to Bank - Pleasure to have you here
- S/m size banks unique feature of U.S. financial system
- Very strong underpinning to our diverse & productive economy
- I've been a banker since childhood - grew up in a small town in Ohio - the community bank - Chardon Savings Bank - was the center of the town. I worked there for a couple of summers

Current Economic Developments

Cathy E. Minehan
 President and Chief Executive Officer
 Federal Reserve Bank of Boston

Presented to the
 Regional and Community Bankers Conference
 June 5, 2003

- So I owe a lot to all the my exposure to at least one small bank - and it's a continuing pleasure to meet and work w/ all of you as well

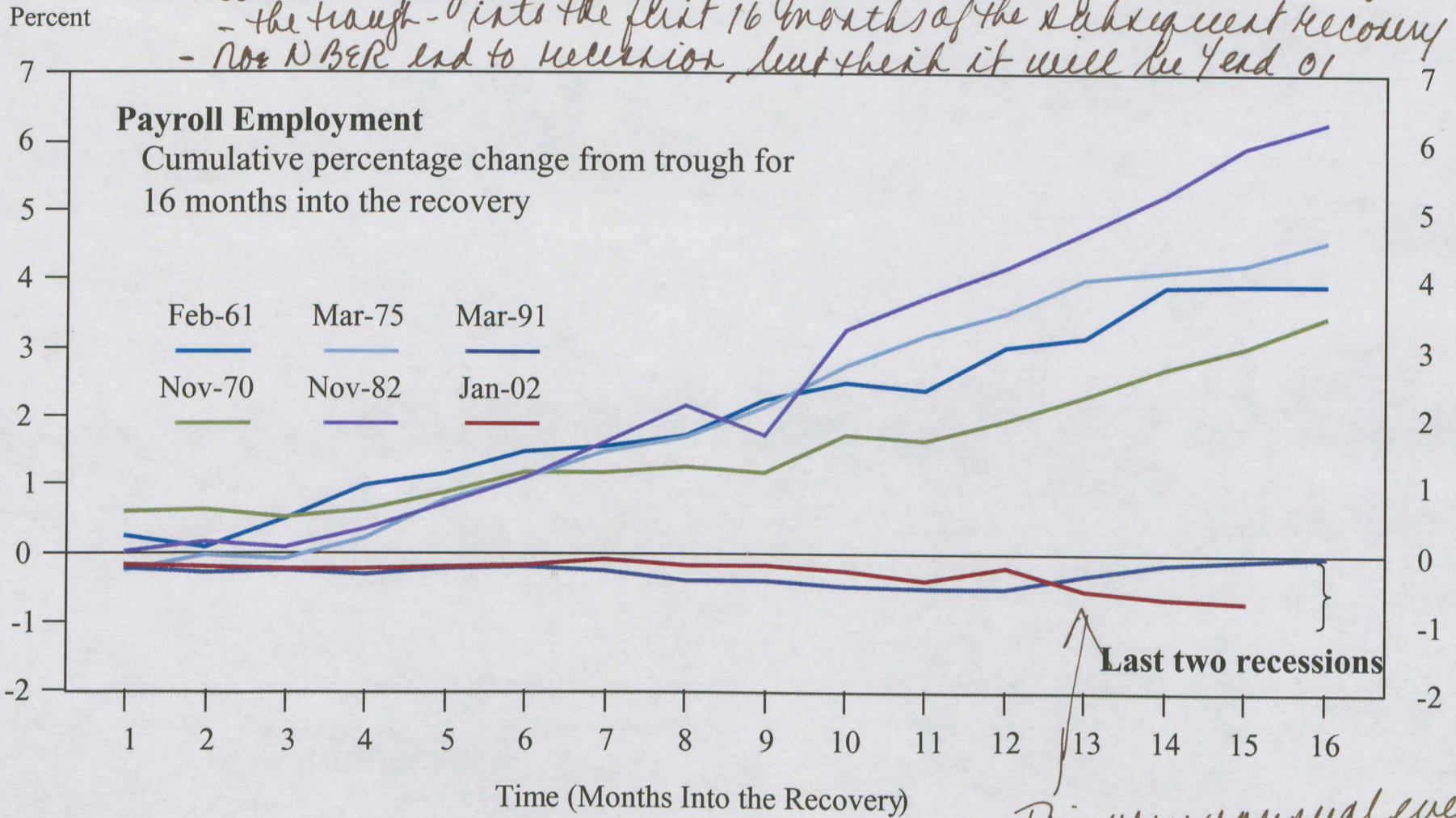
- You saw everyone in the bank some point during the week & could tell how things were going just by how much they were all packing etc.
 - weddings
 - and the bank
 - fueled my appetite to understand how the bank would work how did the people upstairs know when I was going to be out of balance?

The National Economy: Future Prospects versus Current Realities

- Will the recovery pick up steam or will the long slow workout continue?
- Right now the answer to that question is unclear.
 - Data on the real economy suggest the answer may be no.
 - But possible indicators of future activity are more upbeat.
- For now, a renewed pace of growth is only in the outlook, not in the data.

So far, this expansion has not been sufficiently robust to create jobs

*- Here we see payroll employment growth charted from the end of recessions
- the trough - into the first 16 months of the subsequent recovery
- Now NBER end to recession, but think it will be Year 01*



Source: Bureau of Labor Statistics (Employment).
Bureau of Economic Analysis (Recessions).

This very unusual ever compared to last recession - unusual recession, unusual recovery -

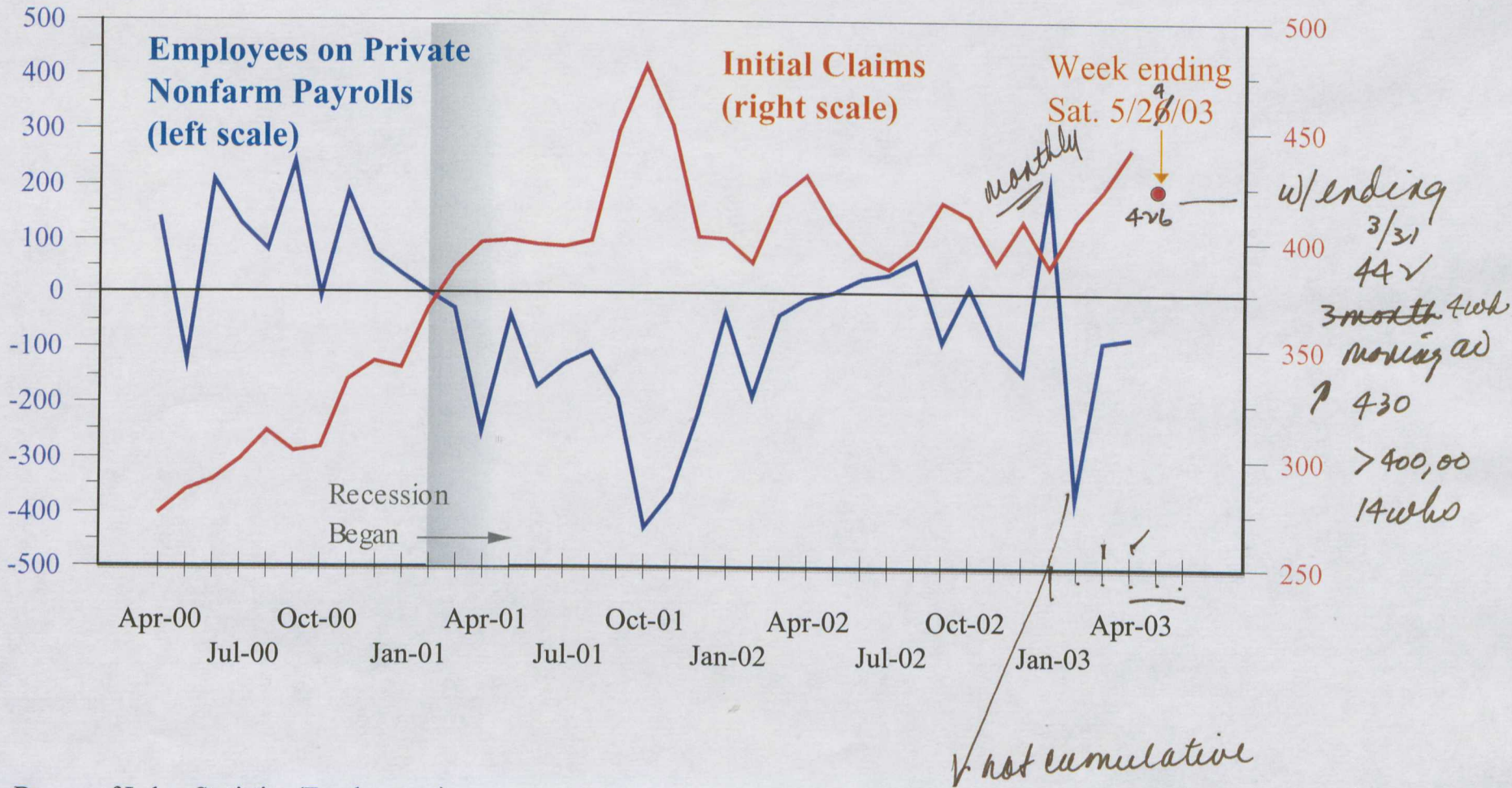
And recent trends in the labor market are not encouraging

Private Nonfarm Payroll Employment

Change from Previous Months, Thousands (SA)

Initial Claims

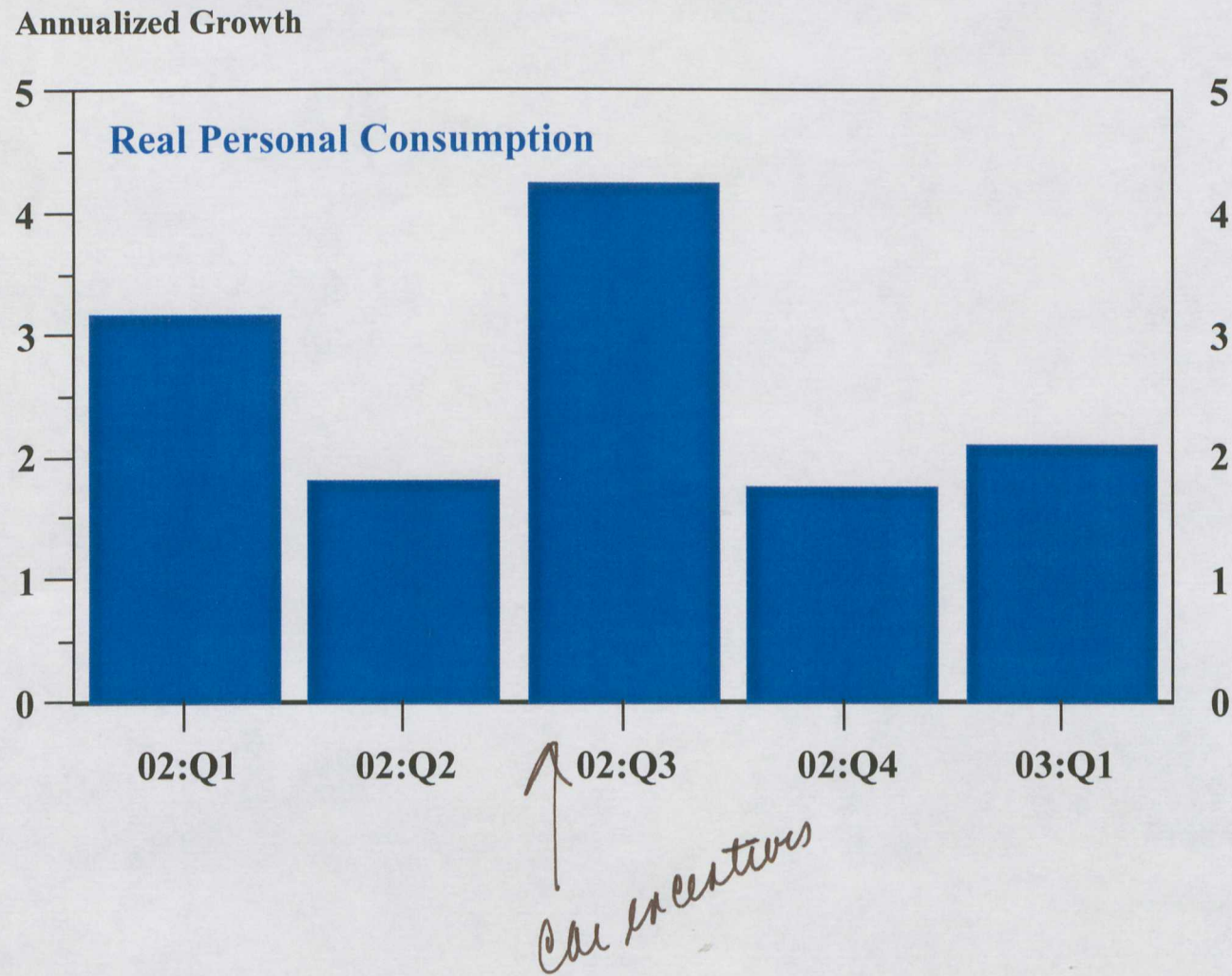
Thousands (SAAR)



Sources: Bureau of Labor Statistics (Employment).
Department of Labor (Initial Claims).

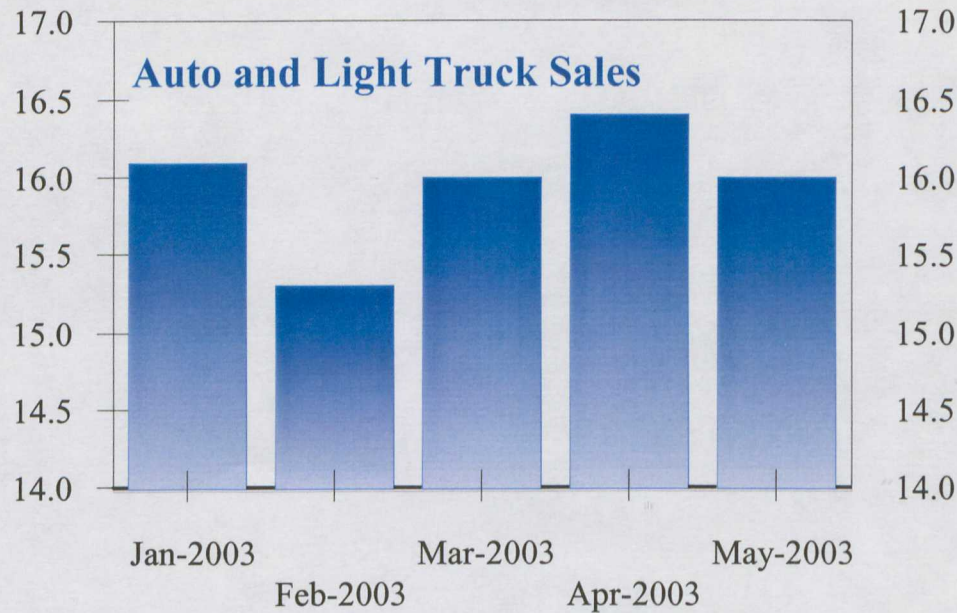
Reflecting labor mkt trends

Consumption growth has been bouncy since the presumed beginning of the recovery

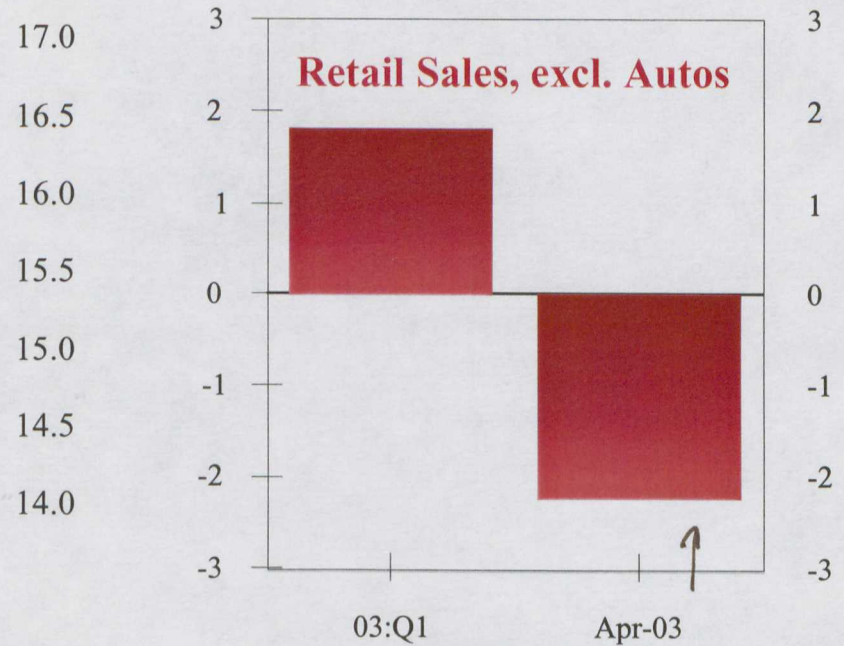


And there are few indications of sustained strength

Millions of Units, Annualized



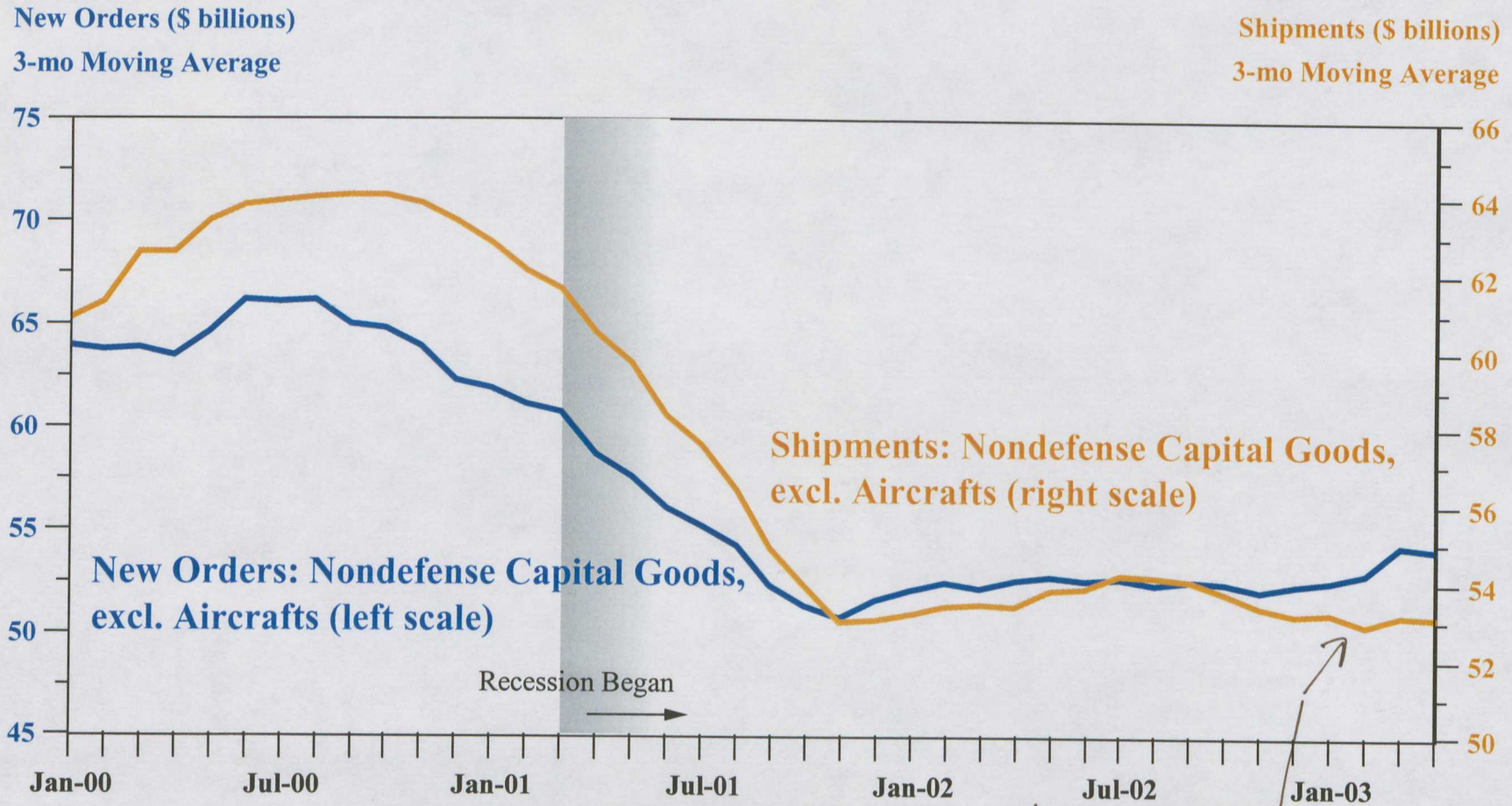
\$, Billions



*Probably looking at Q2
no stronger than Q1 - maybe
slightly weaker - flat consumption
not much uptick in ^{bus} investment*

Sources: Board of Governors (Auto Sales).
Census Bureau (Retail Sales).

We have yet to see more than marginal improvement in investment in the current data



On more positive note - ISM indices → improved to show some strength

N mfg - 1.55
 Mfg - 4.50

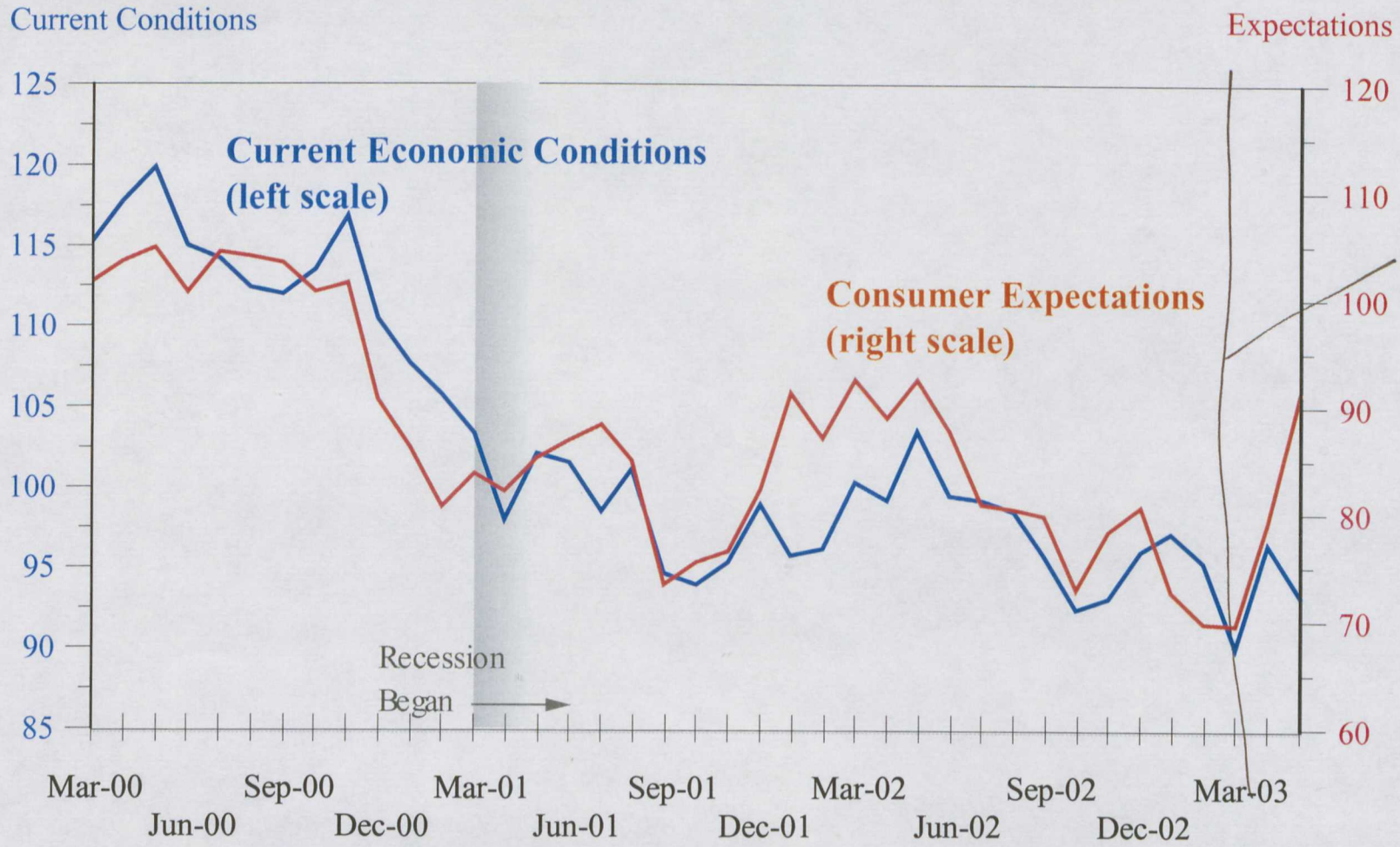
good thing autos stripping shipments but not by much

Source: U.S. Census Bureau.

So real spending data not strong but there are some signs future may be better

Yet consumers seem to be getting more optimistic

*Sentiment
Confidence
rose as well*



Although they are increasingly optimistic about the future, not the present

Equity markets are moving upward



Note: Updated until closing on June 3, 2003.
Source: Bloomberg.

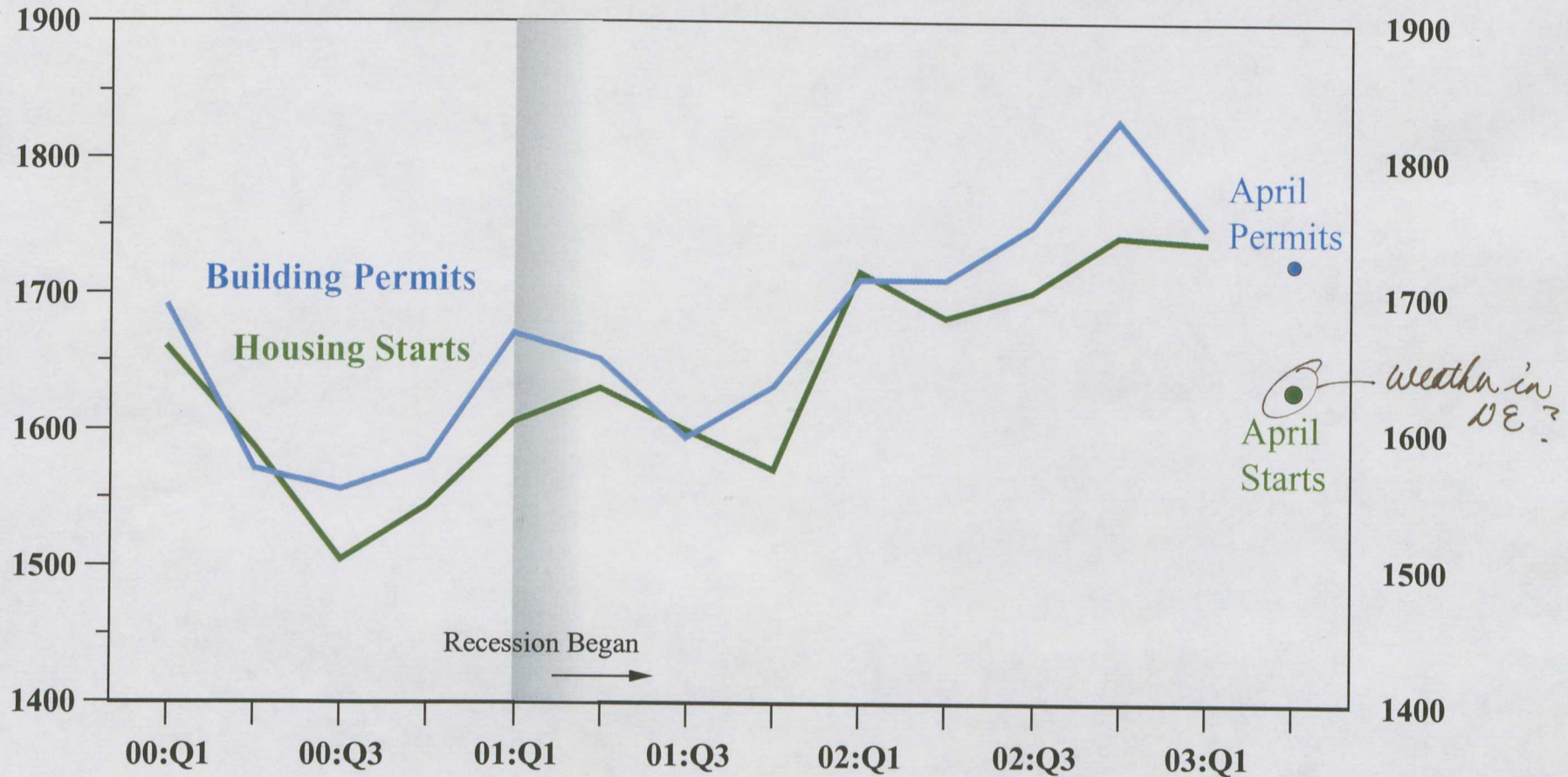
*30 yr fixed mte
rate 5.13%
lowest in last
decade or so*

*and Treasury markets solid as well
prices up → yields down
→ 10 year yield of 55 B.P since
beginning of year*

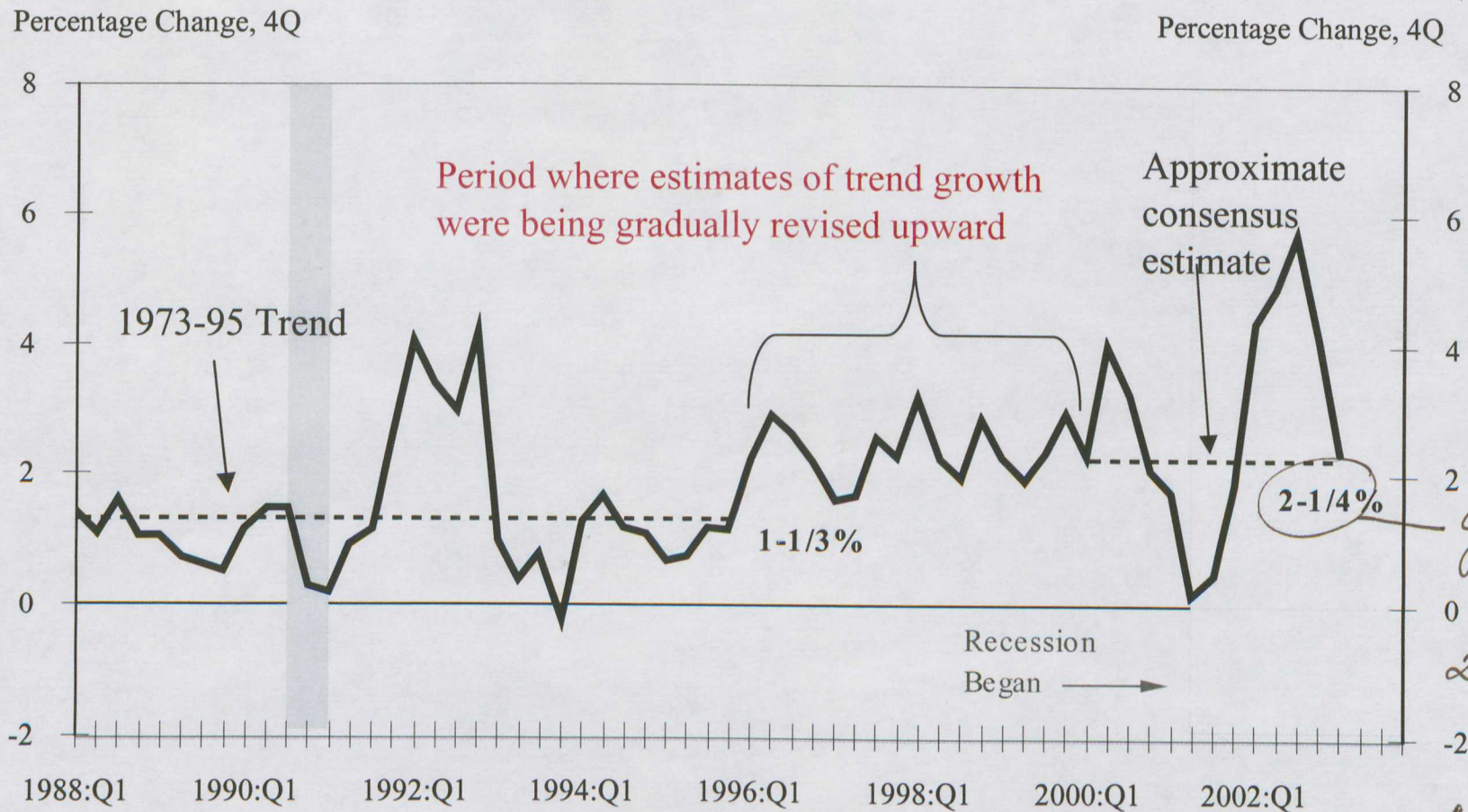
Result →

And residential investment has remained relatively strong

Thousands of Units, Annualized



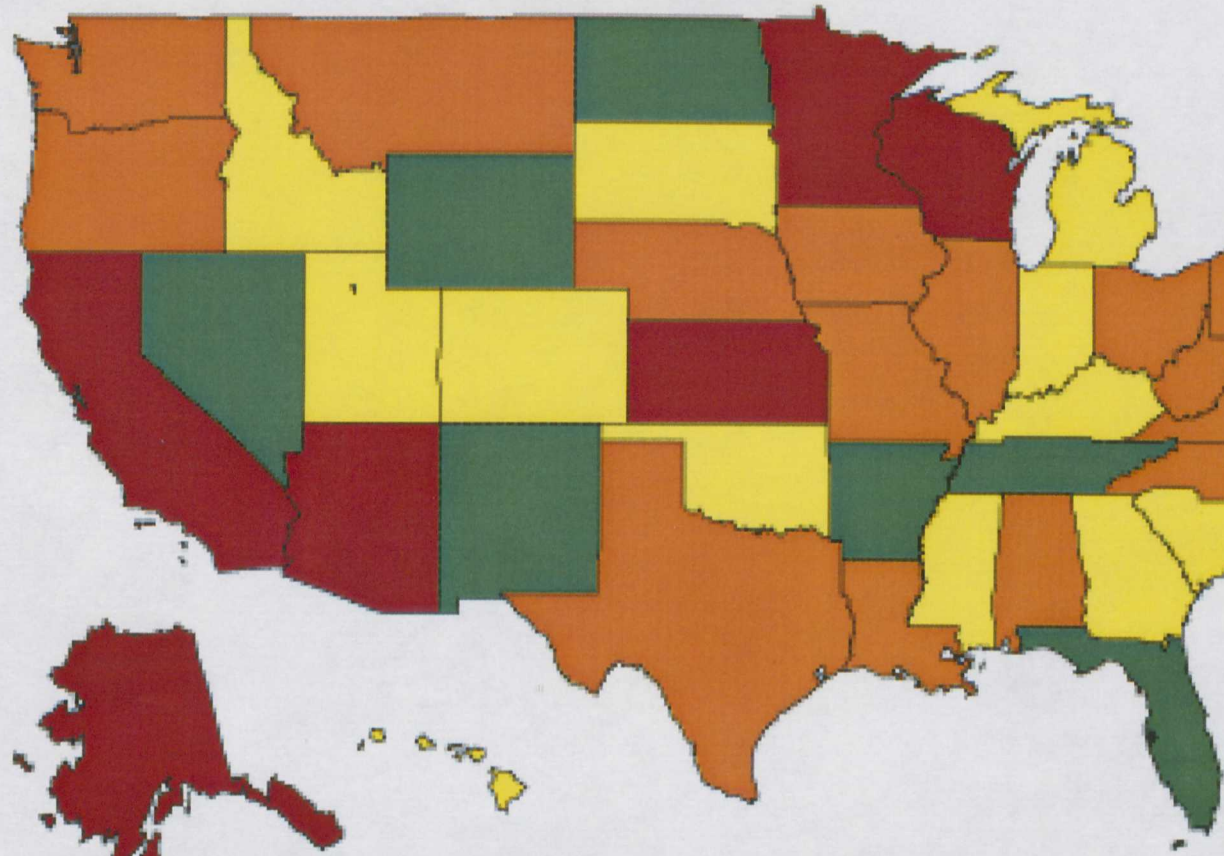
Rising productivity provides considerable support for the long-run



*great news for long-run
2 issues -
-2 - impact on long run
- 40% annual down*

Fiscal policy is stimulative, as federal tax cuts ^{are} seem certain...

Projected FY2004 Structural Deficits as a Percentage of 2000 GSP







Passage of President signed Tax Relief & Recession Act of 2003 - 350 Bases 10 yrs - front-loaded 210 B FY03/04

20B to states helps in 03 but hole in 04 pretty deep - 100 million or so

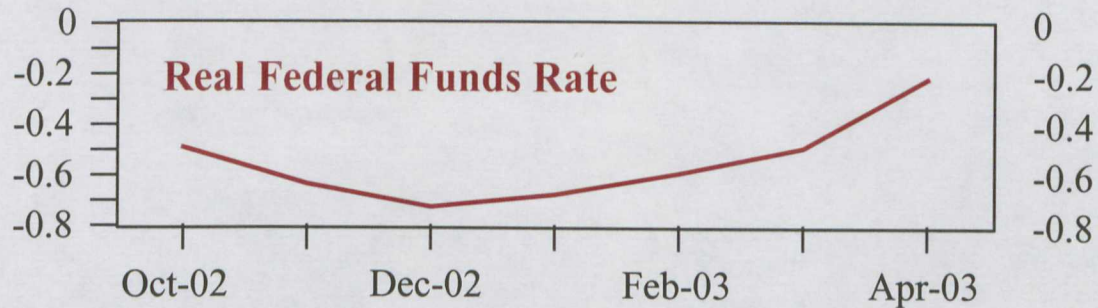
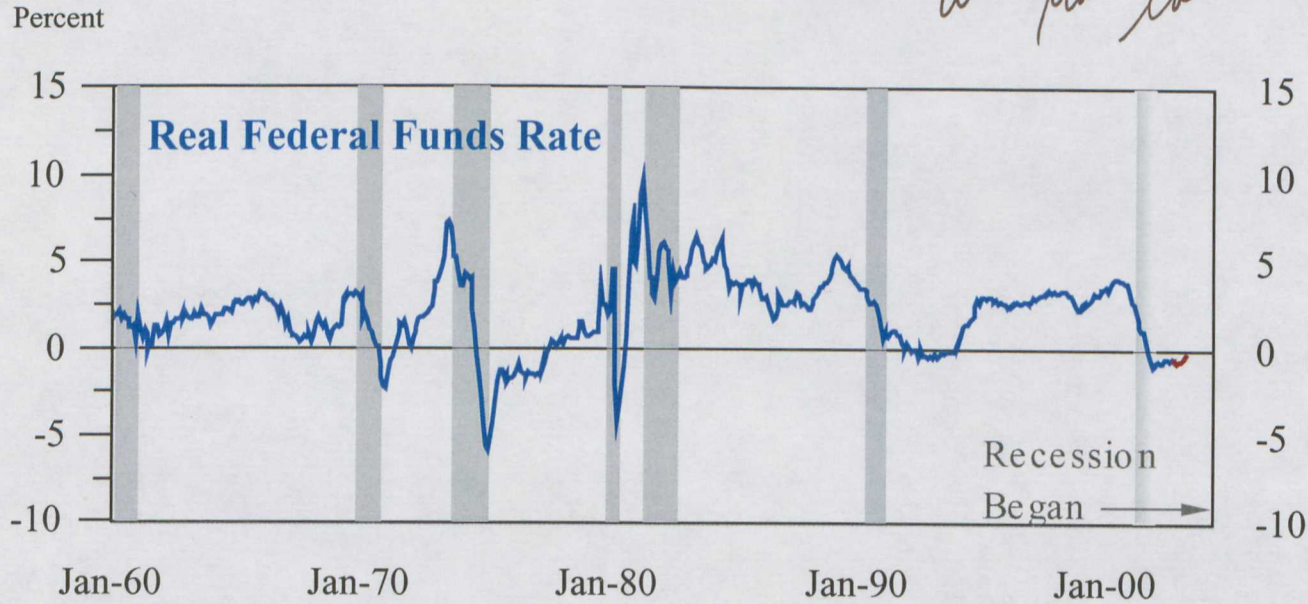
...but weakness in state and local budgets will likely offset at least part of the federal stimulus

Sources: National Conference of State Legislatures (individual state budget documents).
Bureau of Economic Analysis.

	Greater than 1.0 percent
	0.5 to 0.9 Percent
	Less than 0.5 Percent
	No Structural Deficit

And monetary policy remains stimulative

But not as stimulative as it was when rates moved last November

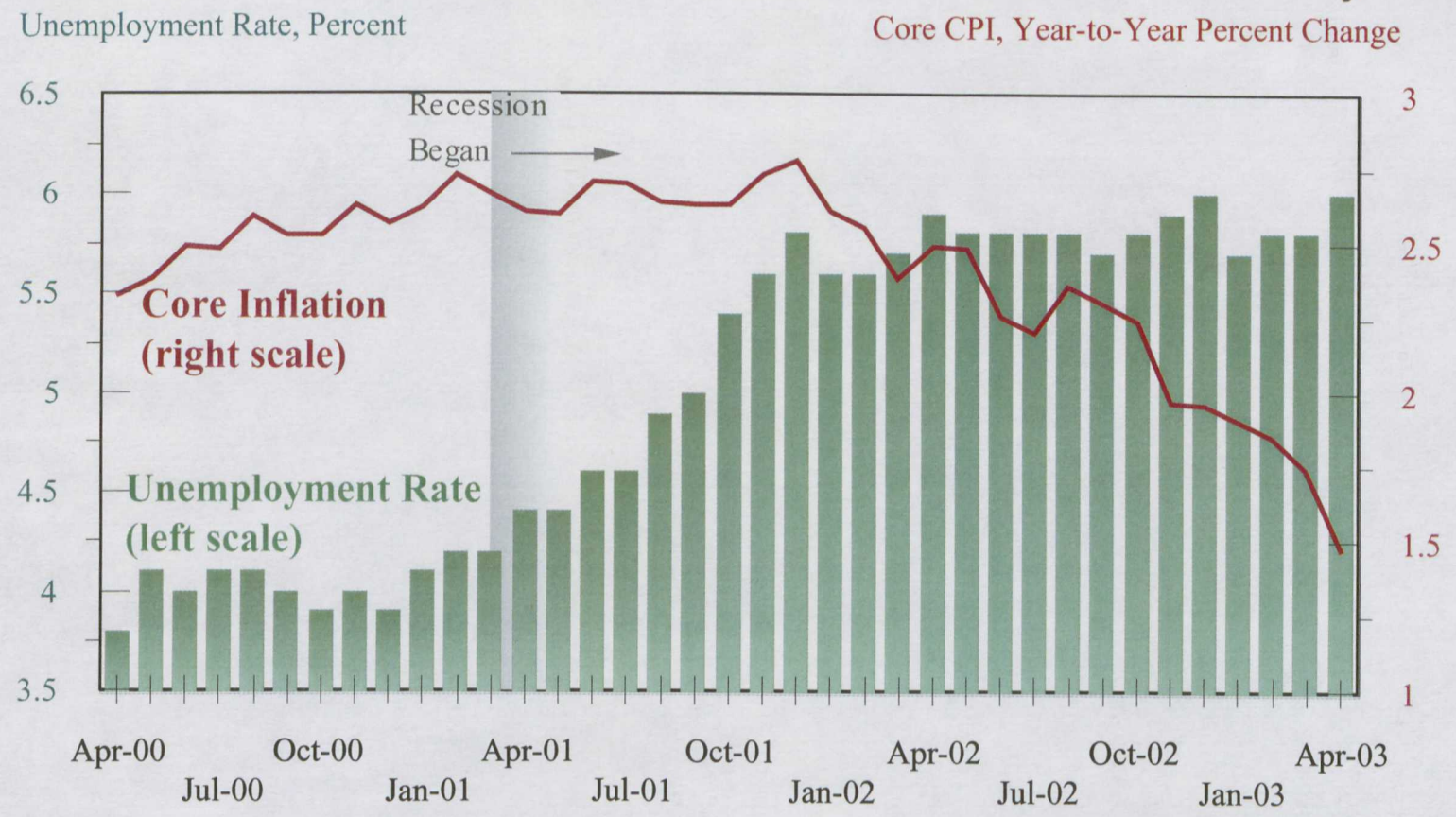


Recently, declining inflation has raised the real rate

Sources: Board of Governors (Federal Funds Rate).
Bureau of Labor Statistics (Inflation).

And w/ all of the excess capacity brought about by 3 years of ~~unemployment~~ a growing gap between actual and potential growth, no surprise that inflation is falling

While inflation will continue to decline

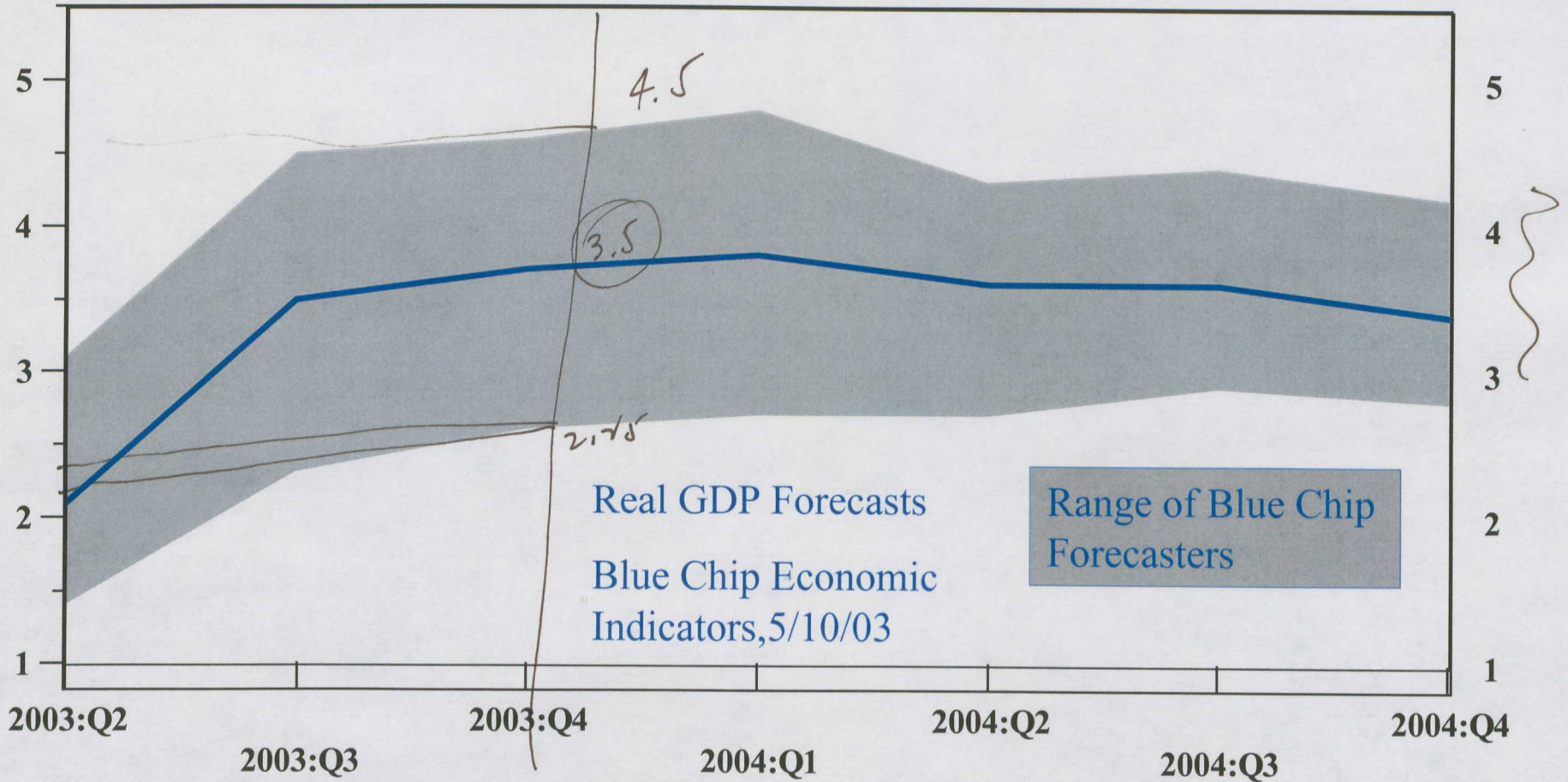


Source: Bureau of Labor Statistics.

Looking Forward

Most forecasters anticipate a solid recovery as the year progresses...

Annualized Growth



...but we haven't seen it yet

esp in real data

Note: Gray shading indicates range between top ten average and bottom ten average forecasts.

Source: Blue Chip Economic Indicators, 5/10/03.

Summary:

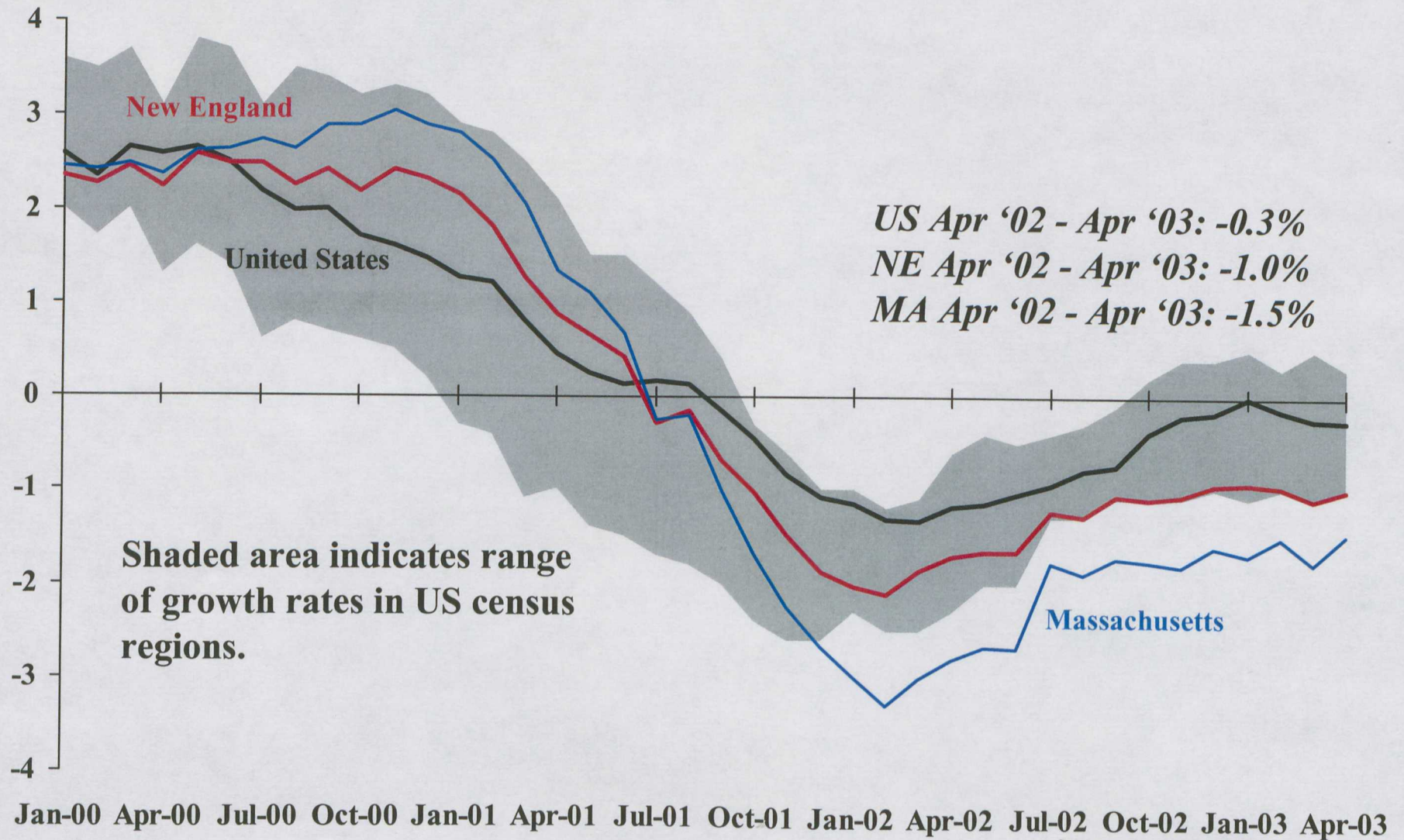
- So far financial markets and sentiment are more optimistic than are data for the real economy.
- Excess capacity and slowing inflation remain.
- In the long run the economy is sound, as trend productivity growth remains robust.
- Fiscal and monetary stimulus are in place -- but are they sufficient to spur consumption and investment?
- If so, when?

How is New England faring?

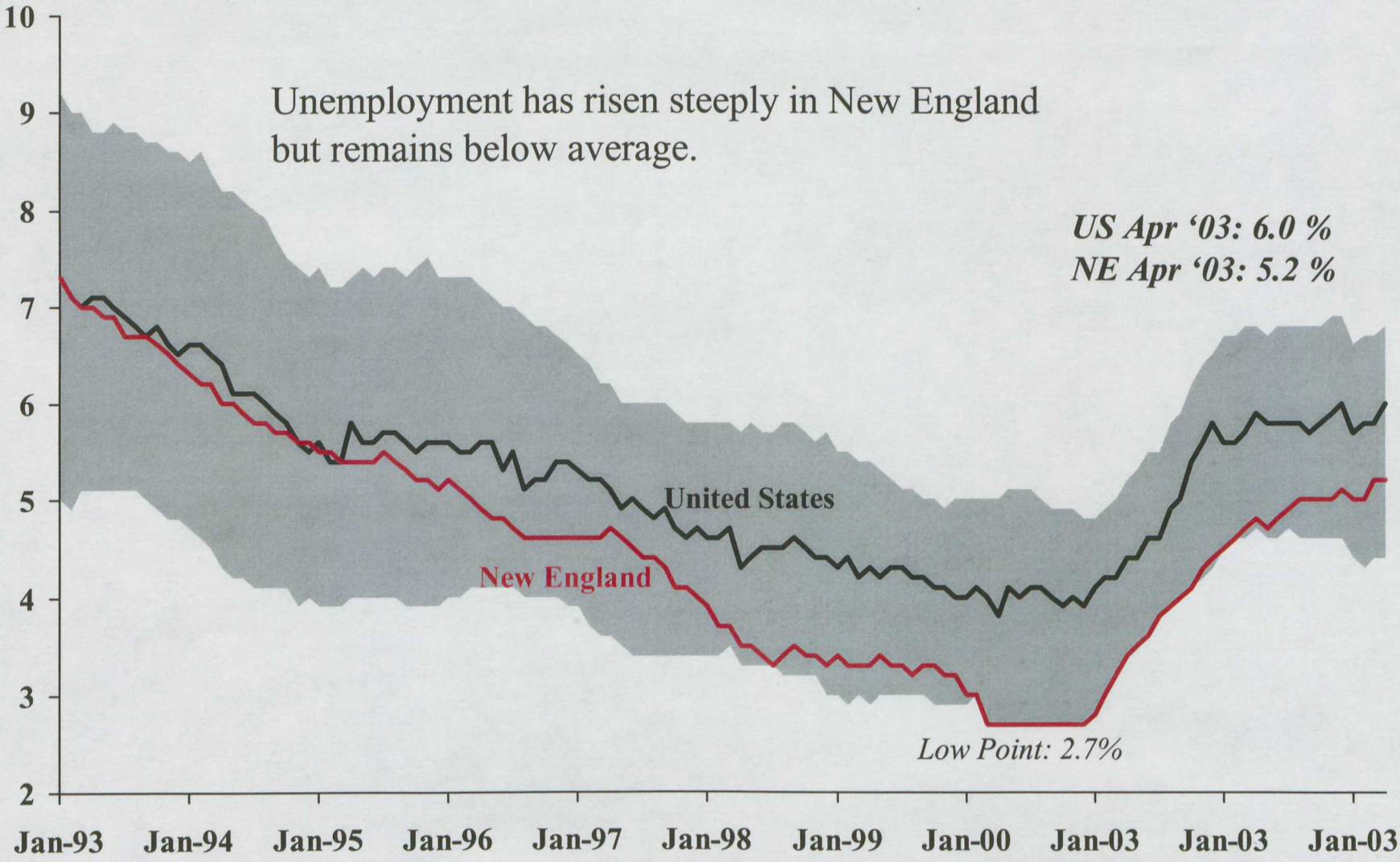
- Suffering somewhat more than the nation since the recession began.
- Within the region, some states are doing better than others.
- No turnaround yet, but confidence seems to be improving.

Employment Growth

Percent change from year earlier



Unemployment Rates



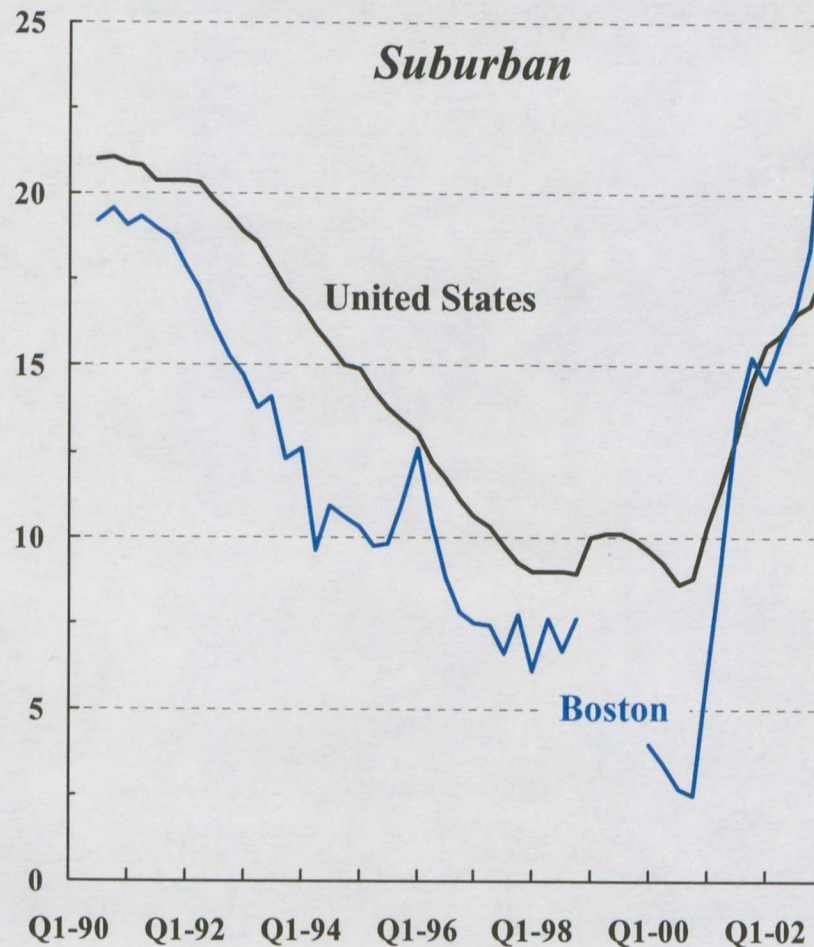
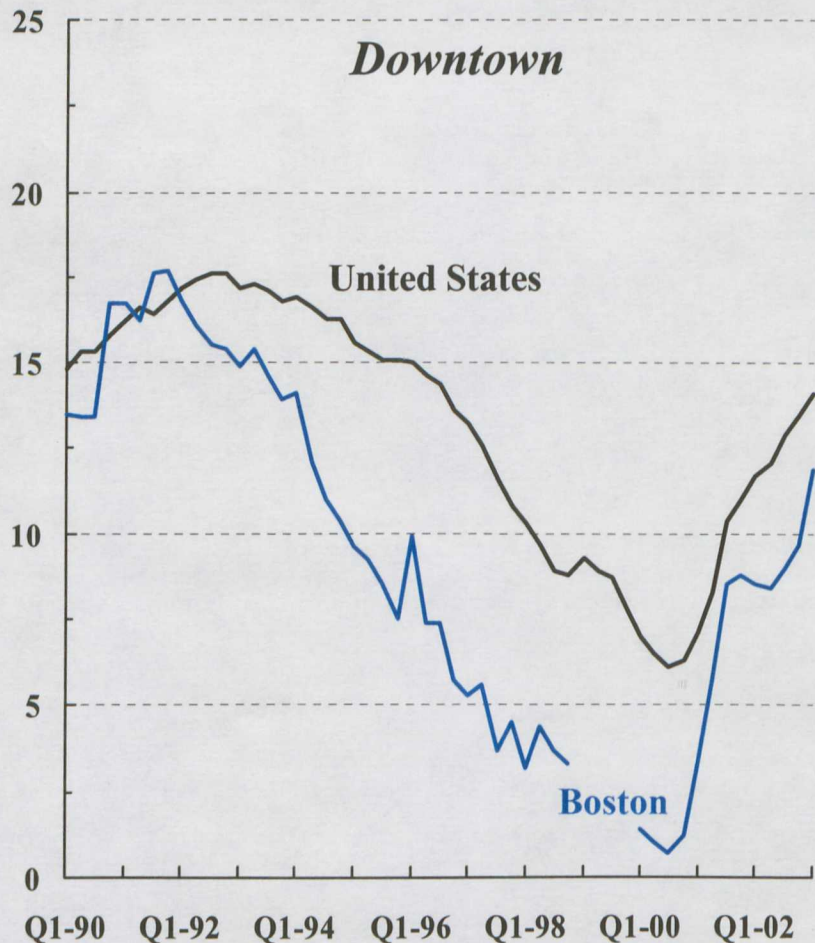
Source: Bureau of Labor Statistics.

Why steeper losses in New England?

- National weakness in key regional industries:
 - money management (stock market weakness)
 - software and other technology services
 - communications
 - computers and other capital goods
- Steep regional job losses in manufacturing and professional and business services.
- Steadier sectors, such as private education and health services, not strong enough to offset.

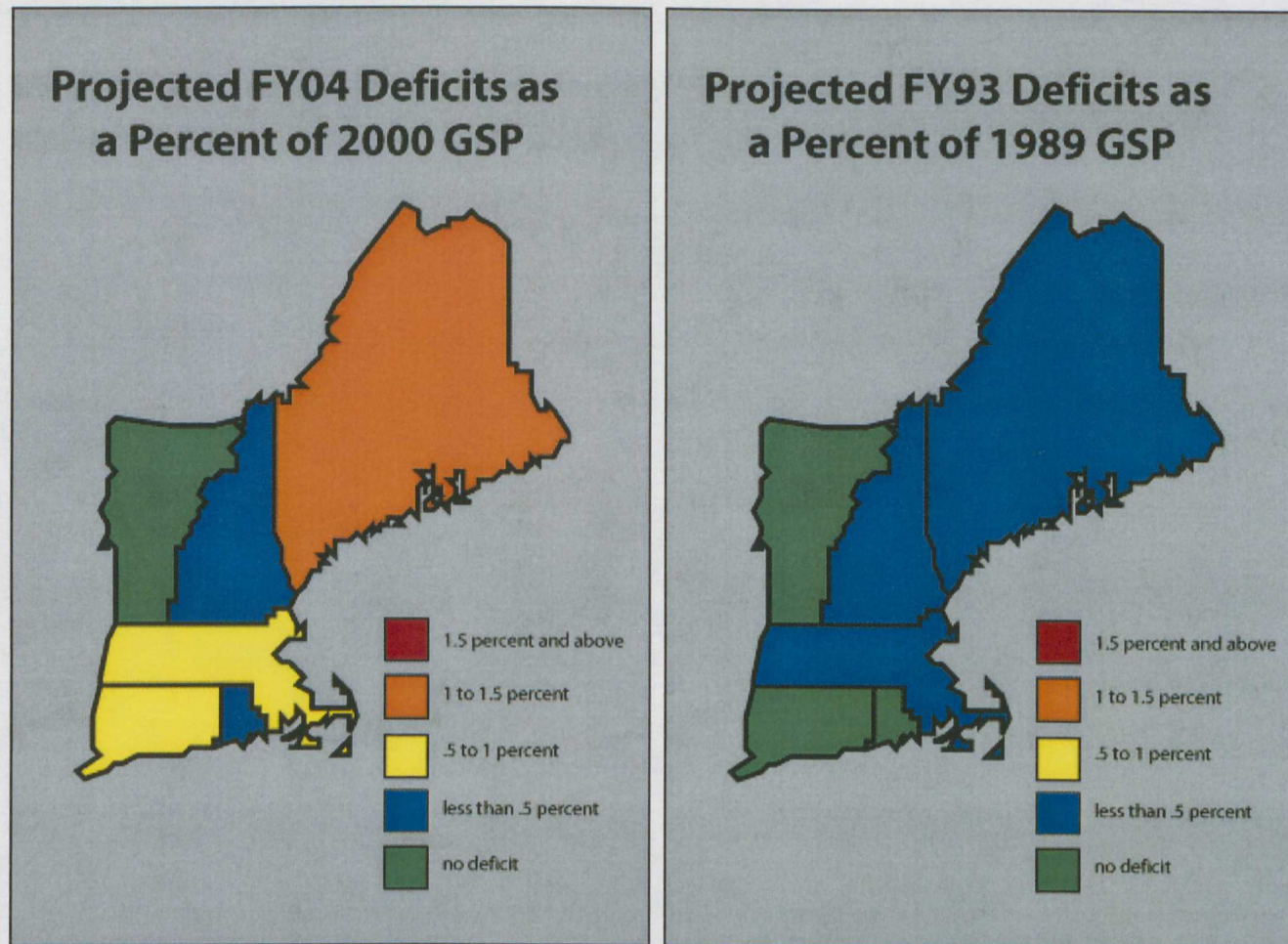
Office Vacancy Rates

The weak jobs picture has moved vacancy rates up sharply in greater Boston.



Office rents have also fallen as vacancies have risen.

New England state governments face sizable 2004 deficits....



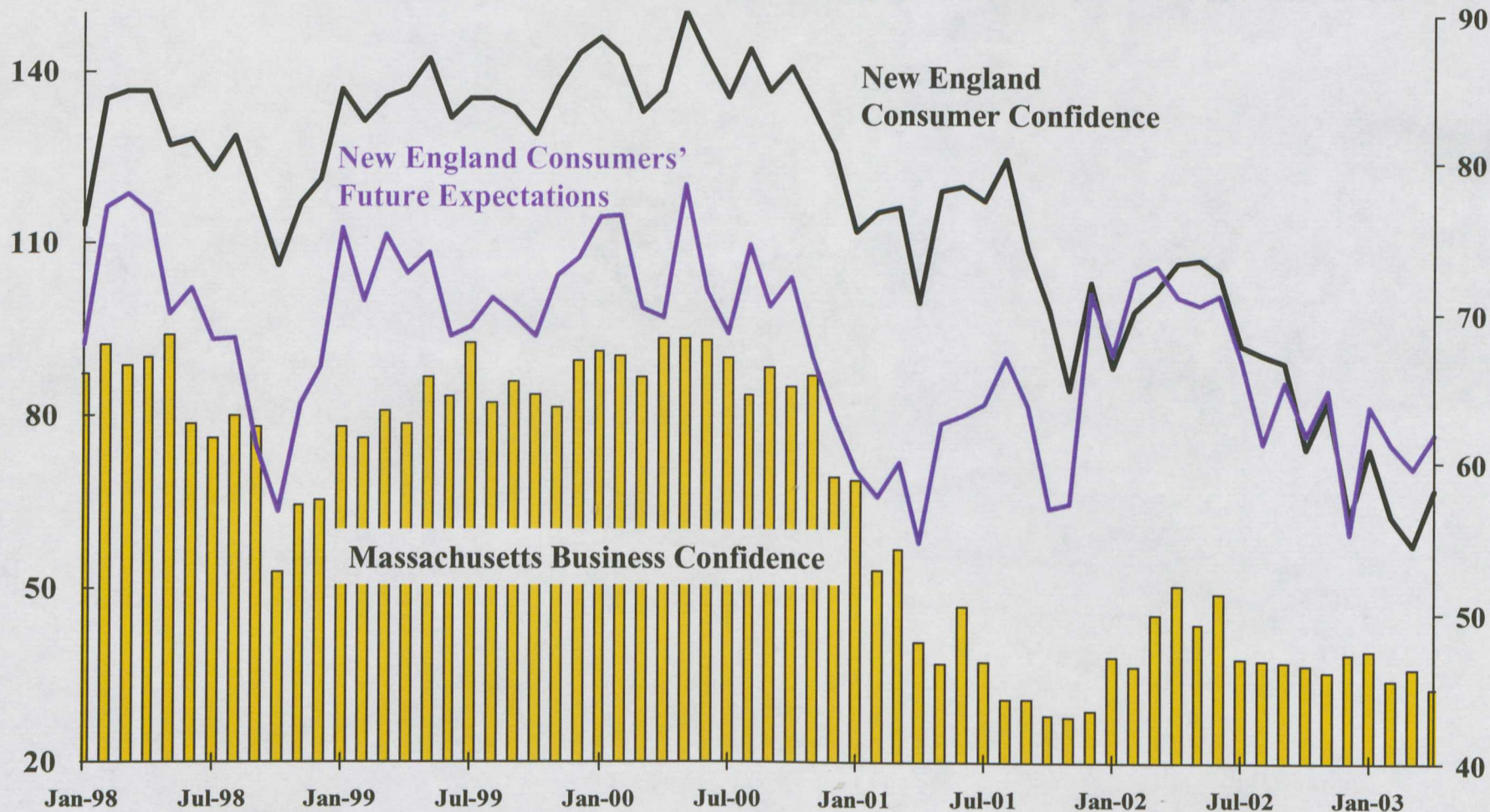
...considerably worse this time than in the early 1990s

Confidence Indicators


State fiscal worries, along with job concerns and geopolitical uncertainties, weakened confidence, but the consumer view is now brightening.

Consumer Confidence

Business Confidence



Source: Conference Board, Associated Industries of Massachusetts.



Key factor in regional outlook is the national economy, but New England will lag

- Region will recover later than nation, with recovery contingent on national pickup in business spending.
- 