




Current Economic Developments

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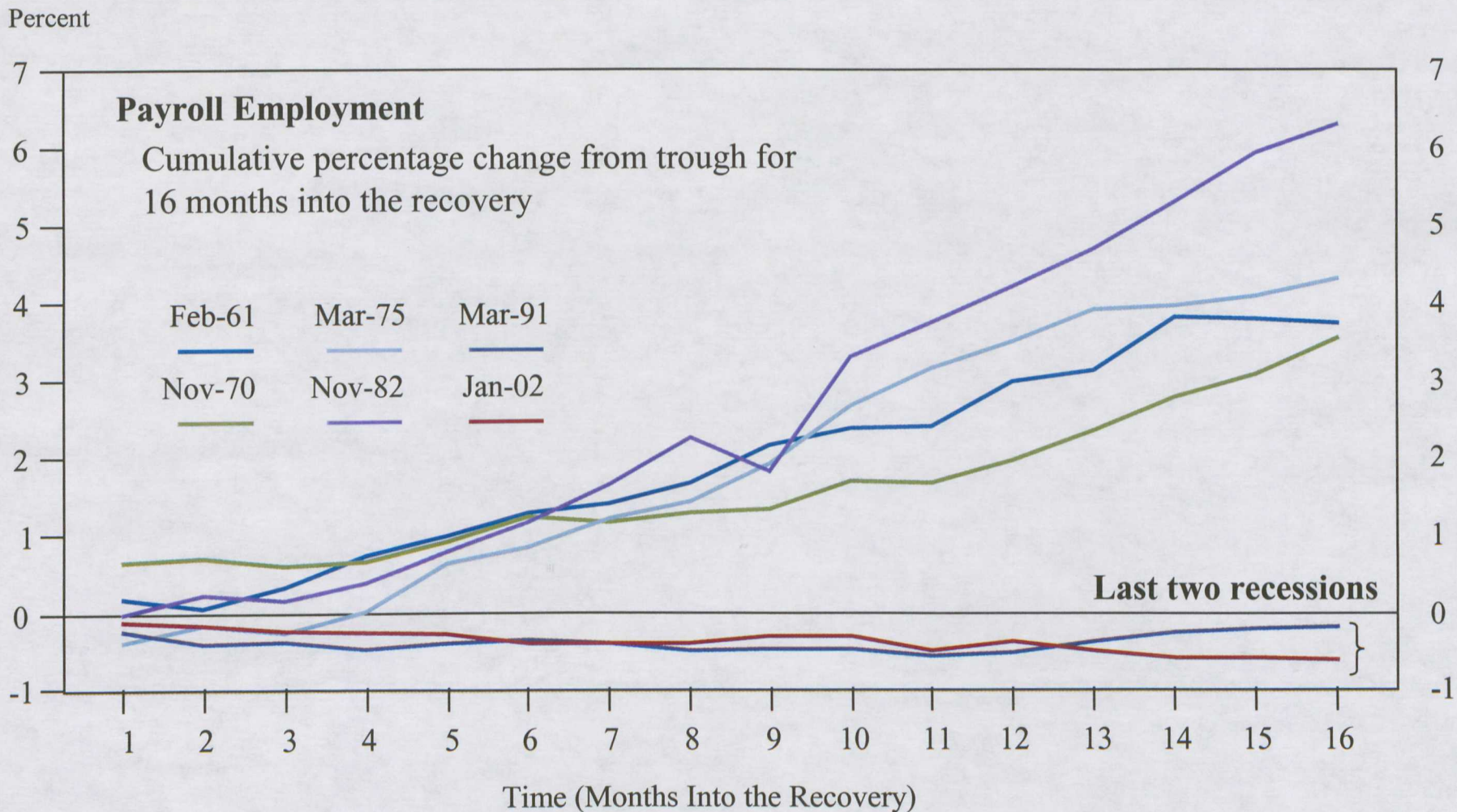
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The National Economy: Future Prospects versus Current Realities

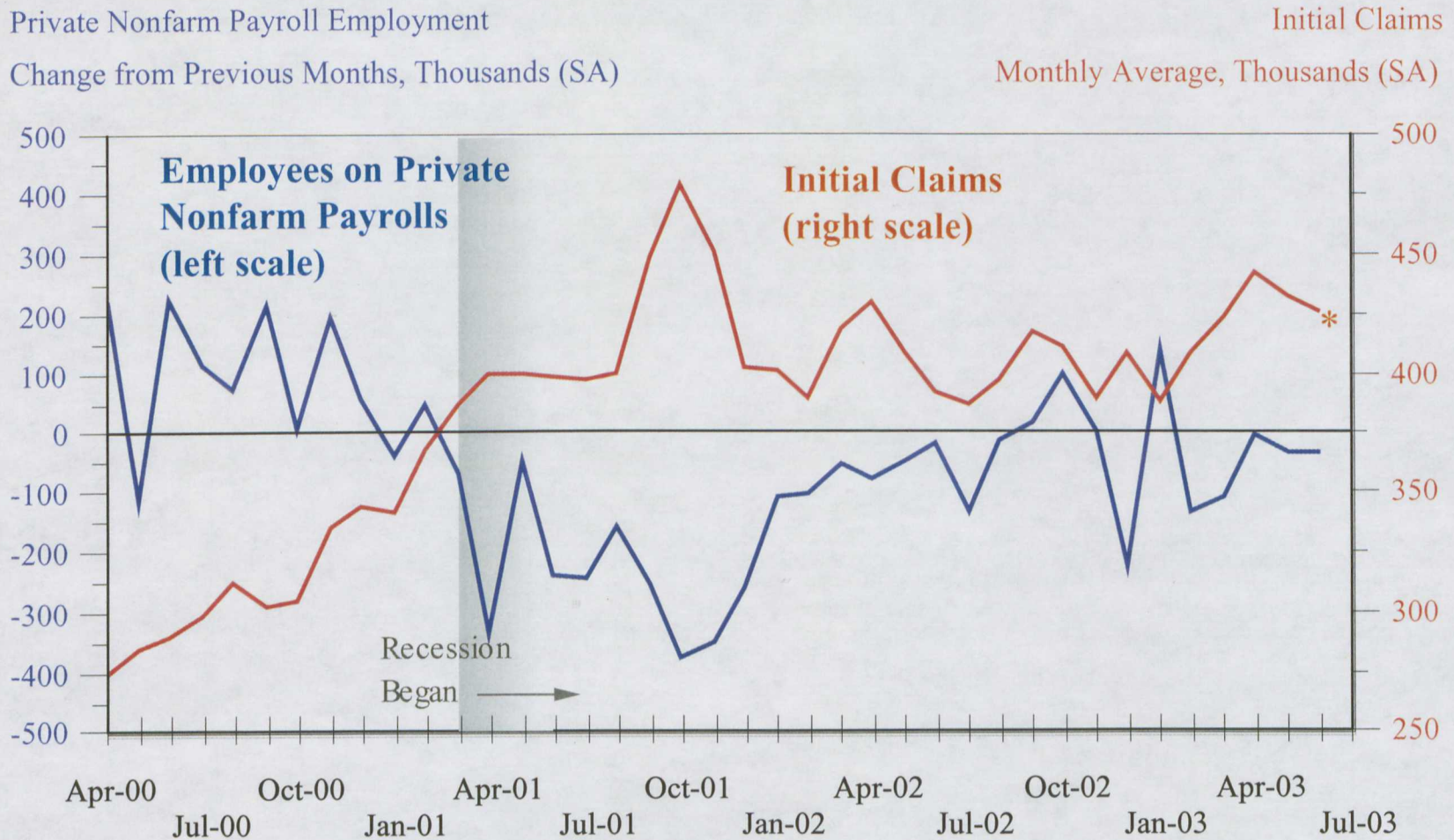
- Will the recovery pick up steam or will the long slow workout continue?
- Right now the answer to that question is unclear.
 - Most data on the real economy suggest we have not picked up steam yet.
 - But some indicators of future activity--especially financial market indicators--are more upbeat.
 - And policy is stimulative.
- For now, a renewed pace of growth is mainly in the outlook, not in the data.

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



Sources: Bureau of Labor Statistics (Employment).
Bureau of Economic Analysis (Expansions).

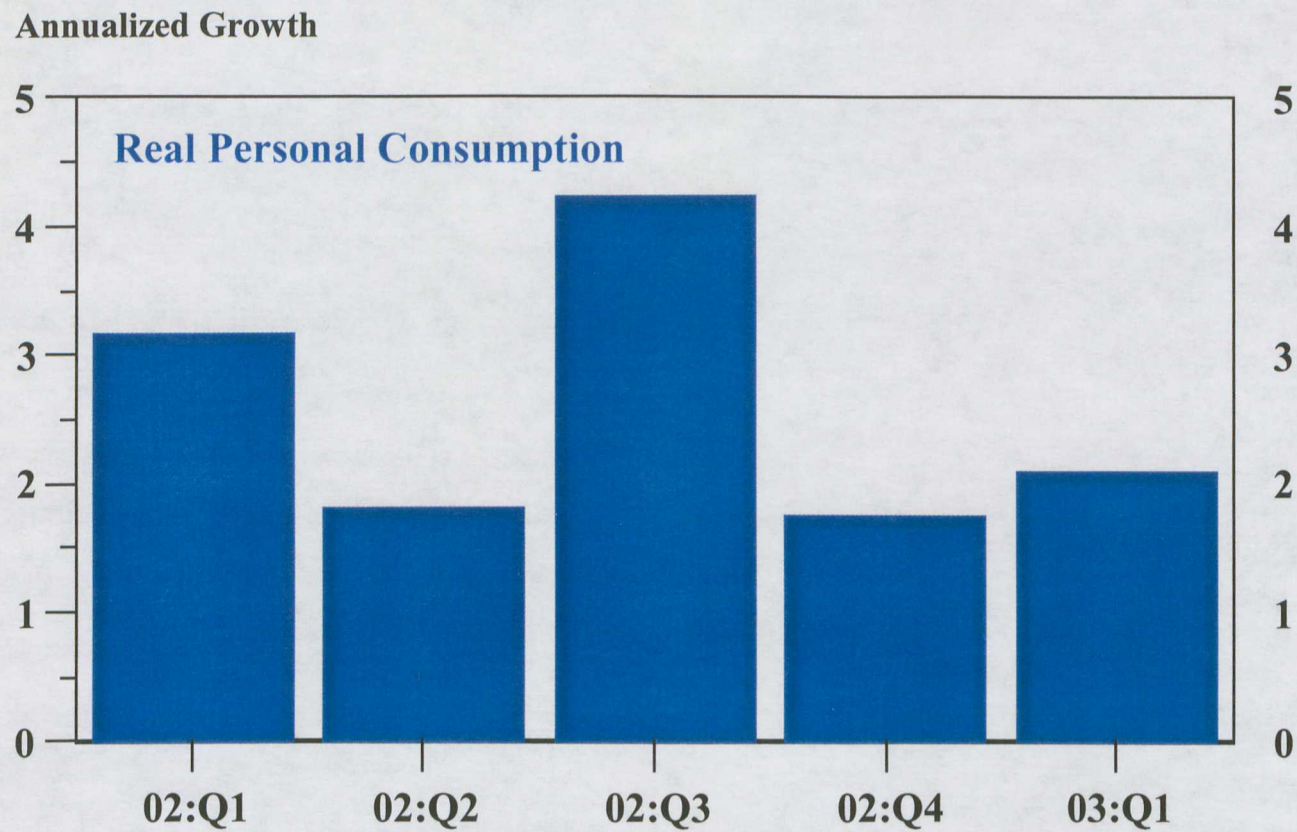
And recent trends in the labor market are not encouraging



* July data represent 4-wk moving average of initial claims through the week ending July 12th.

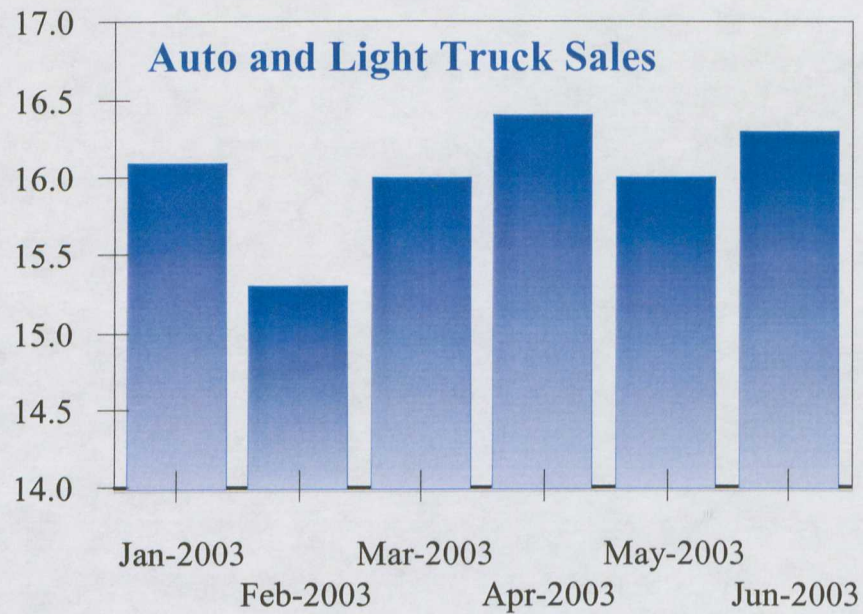
Sources: Bureau of Labor Statistics (Employment).
Department of Labor (Initial Claims).

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

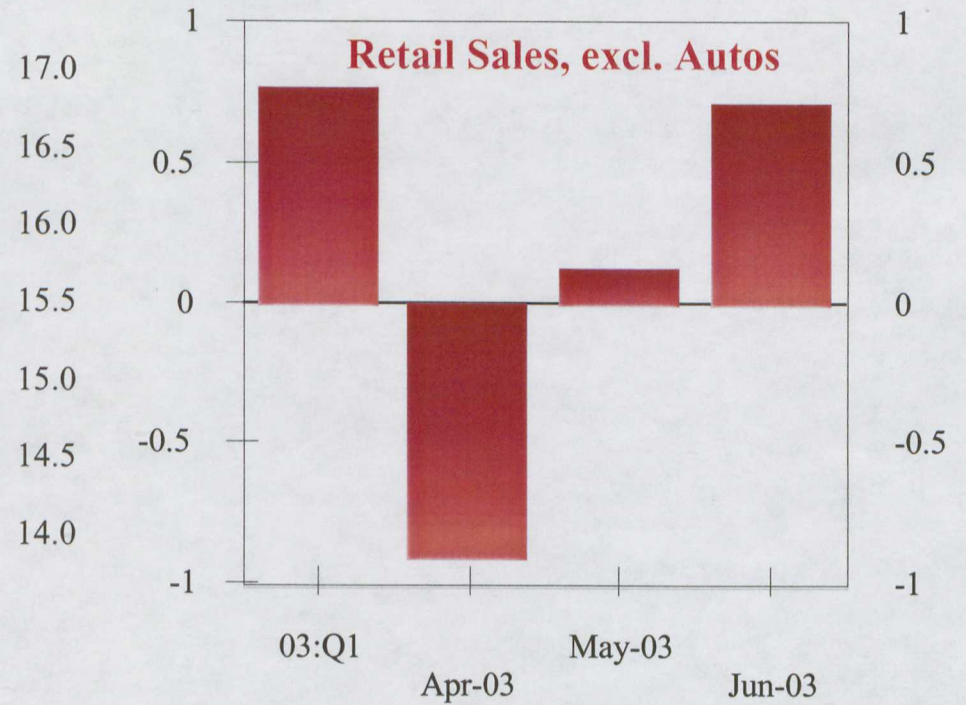


But there are some indications of sustained strength

Millions of Units, Annualized

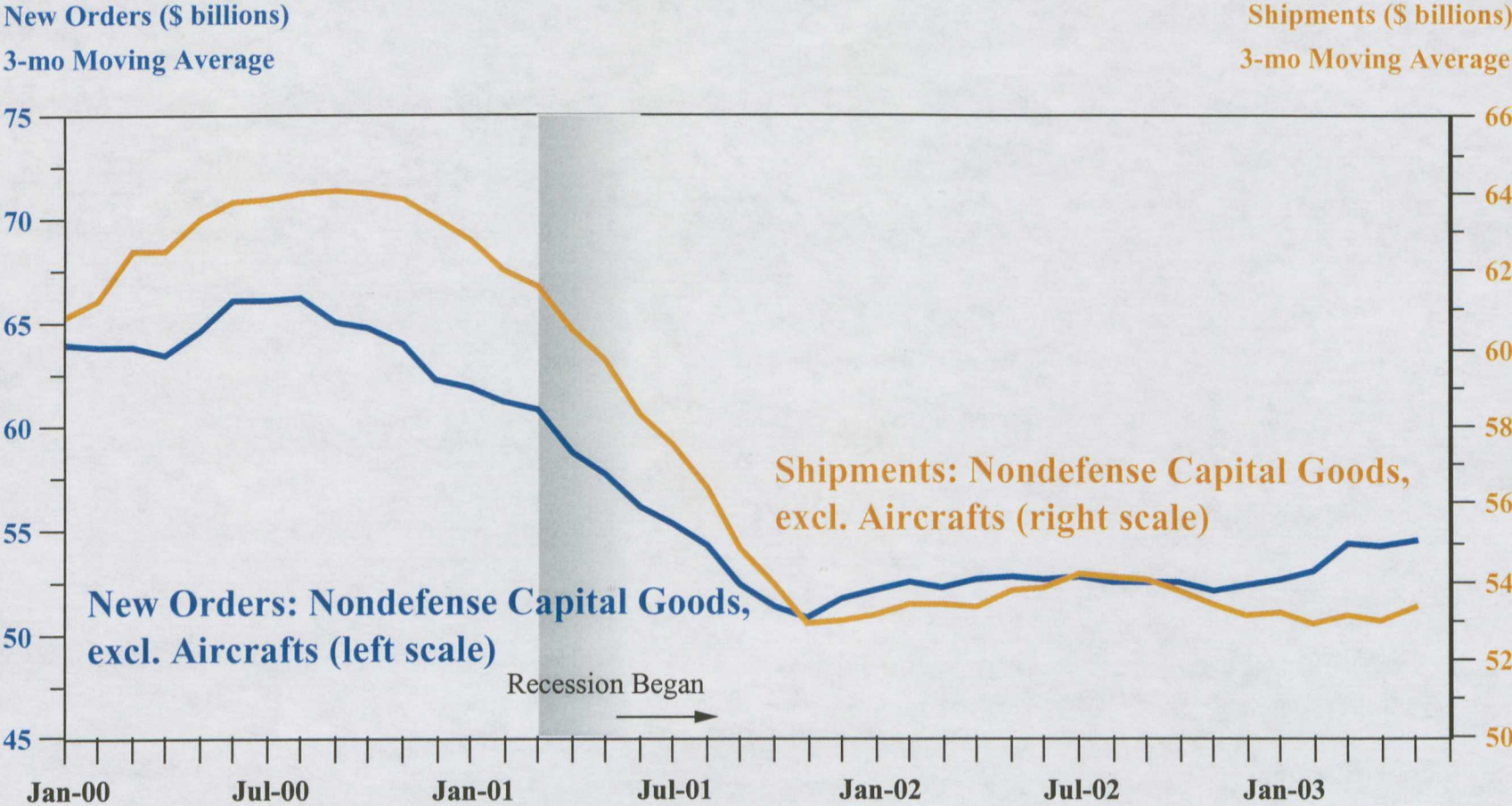


Monthly % Change



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

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

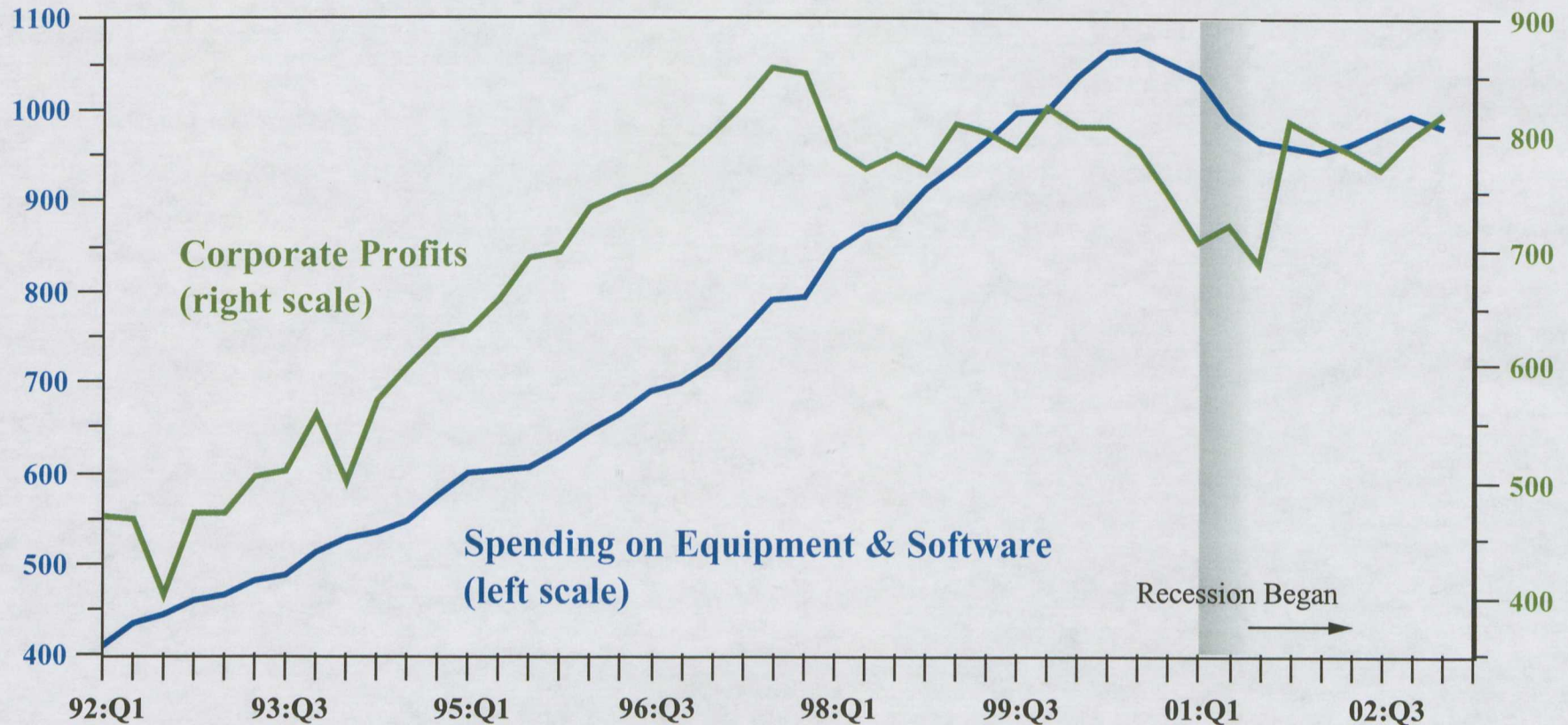


Source: U.S. Census Bureau.

Perhaps because spending levels are relatively high and profits have only begun to improve

Real Investment in Equip. & Software
Chained 1996\$ billions (SAAR)

Corporate Profits
\$ billions (SAAR)



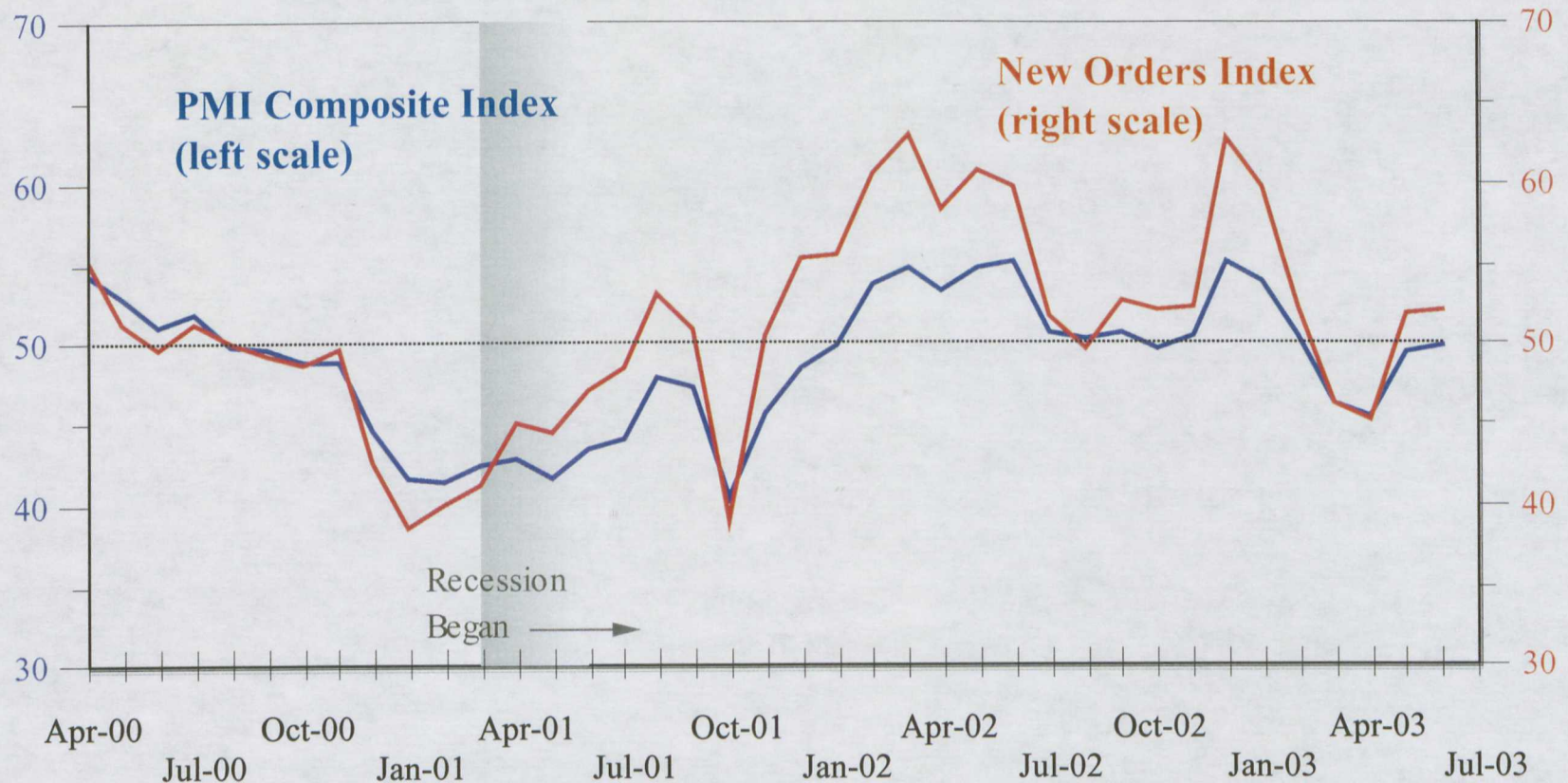
And manufacturing, while looking up, is not out of the woods yet

ISM Manufacturing: PMI Composite Index

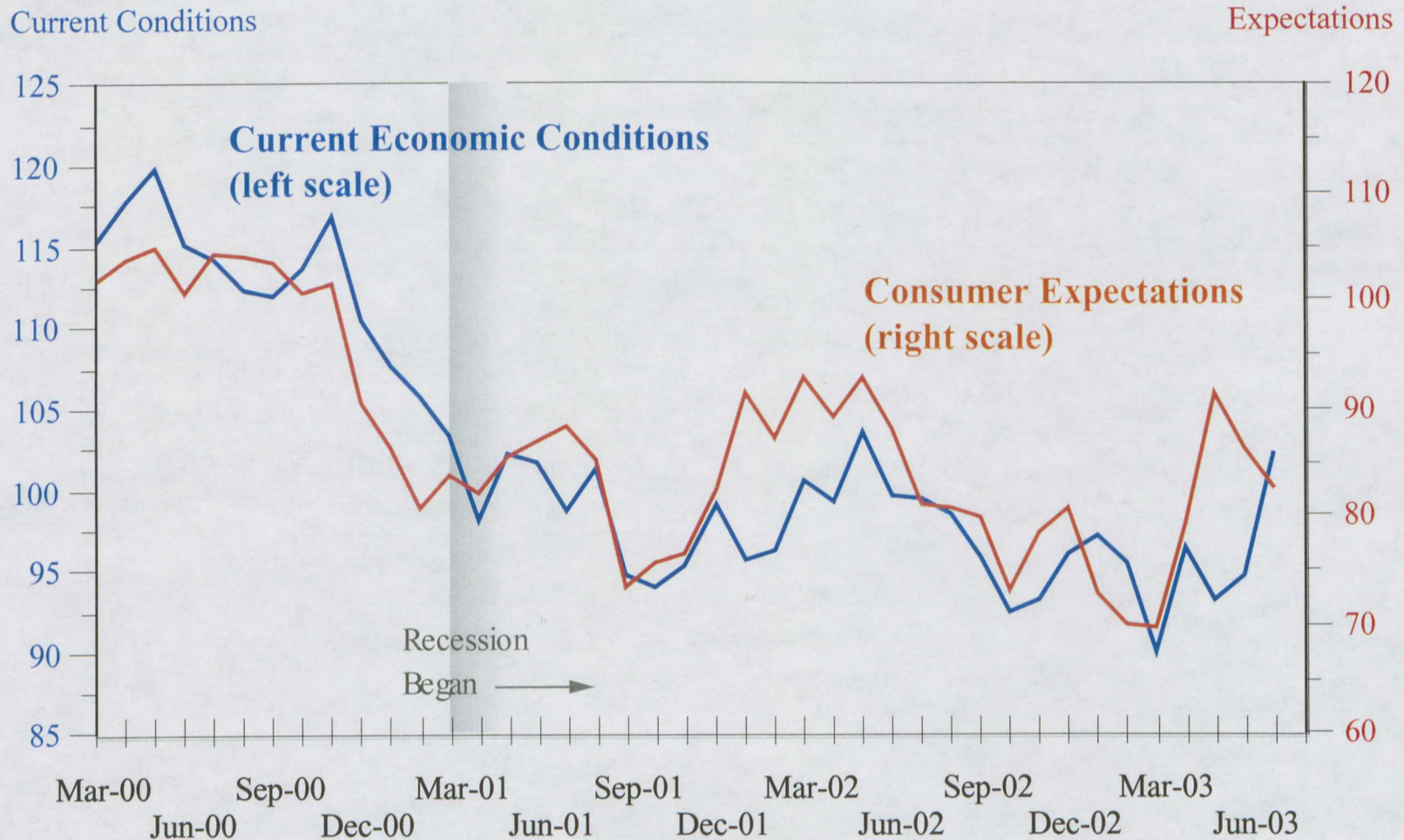
50+ = Economic Expansion, SA

ISM Manufacturing: New Orders Index

50+ = Economic Expansion, SA



Yet consumers seem to be getting more optimistic



Probably because both equity and housing markets have added to household net worth

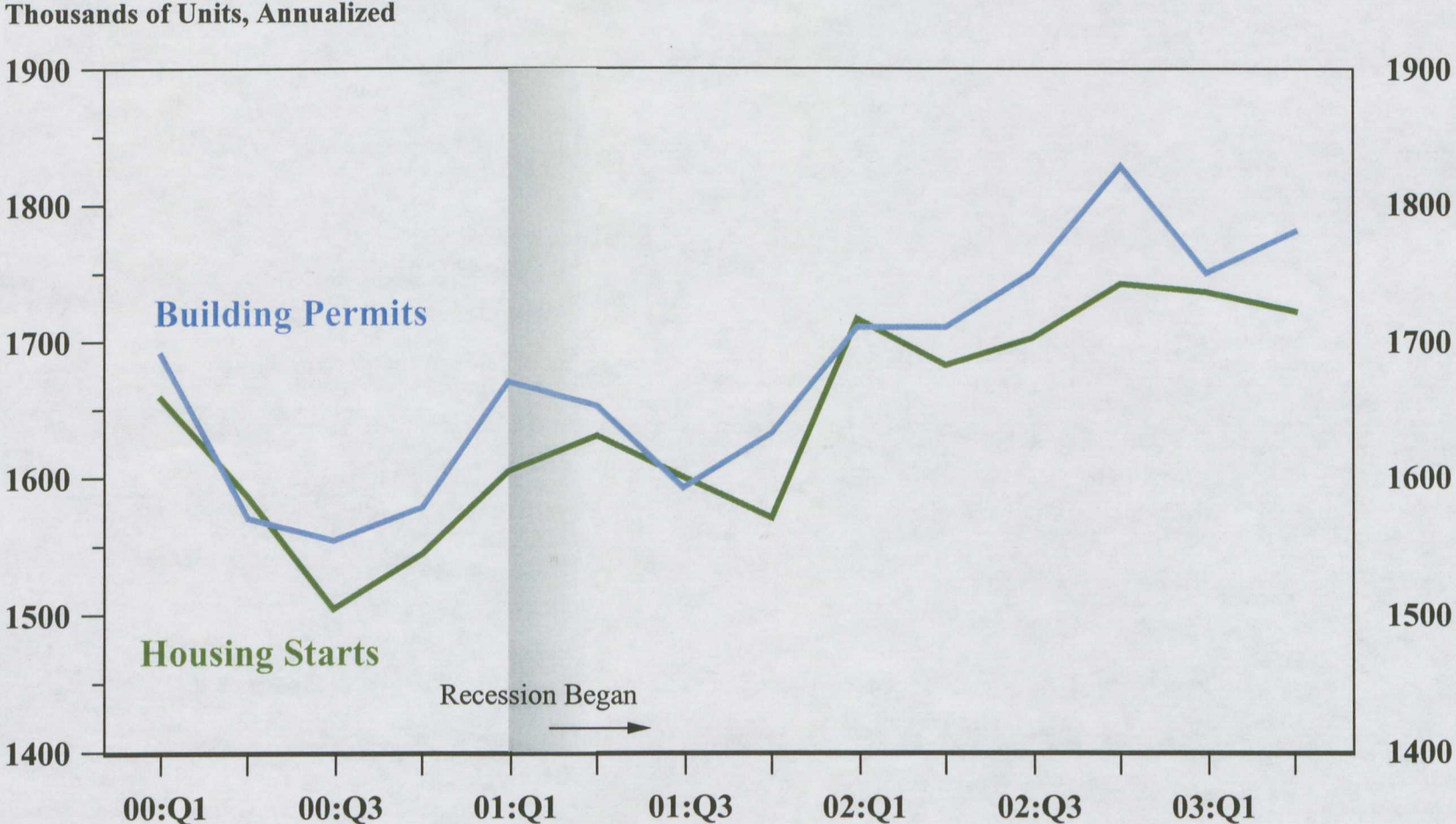
S&P 500

Median Sales Price, Existing Homes
\$ thousands



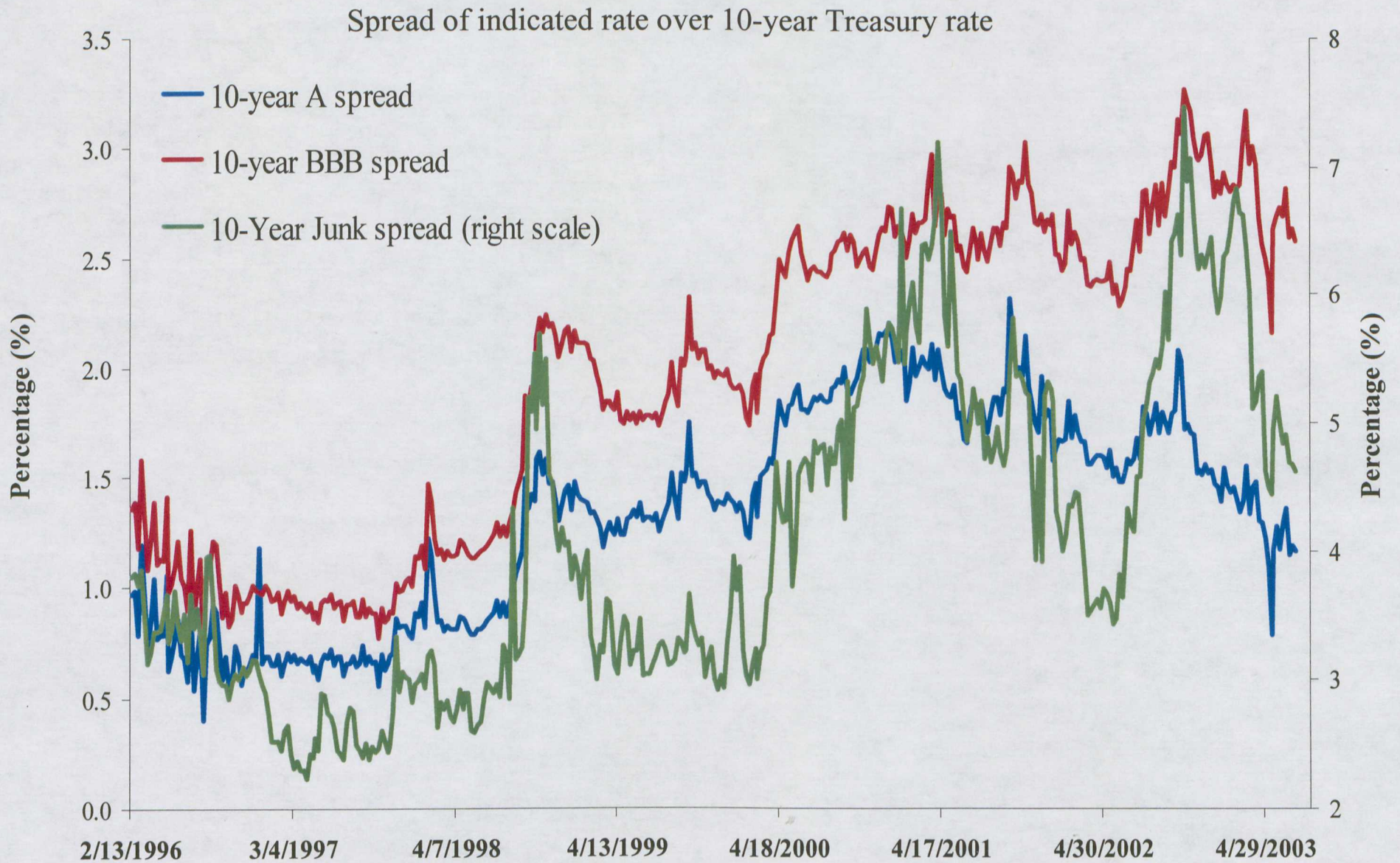
Sources: Bloomberg (S&P 500).
National Association of Realtors (Home Price).

Residential investment has remained relatively strong



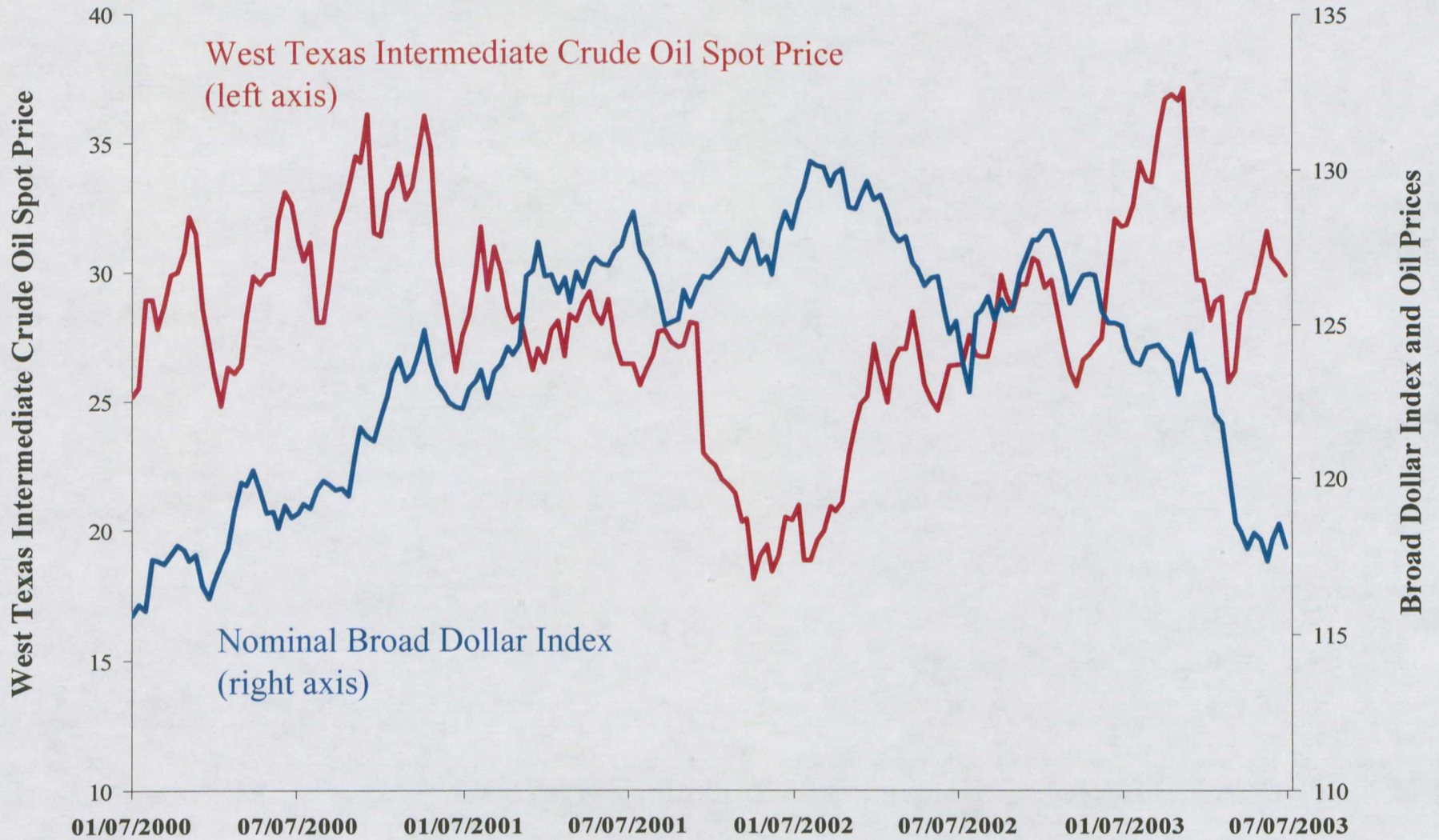
Source: U.S. Census Bureau.

And yield spreads have improved



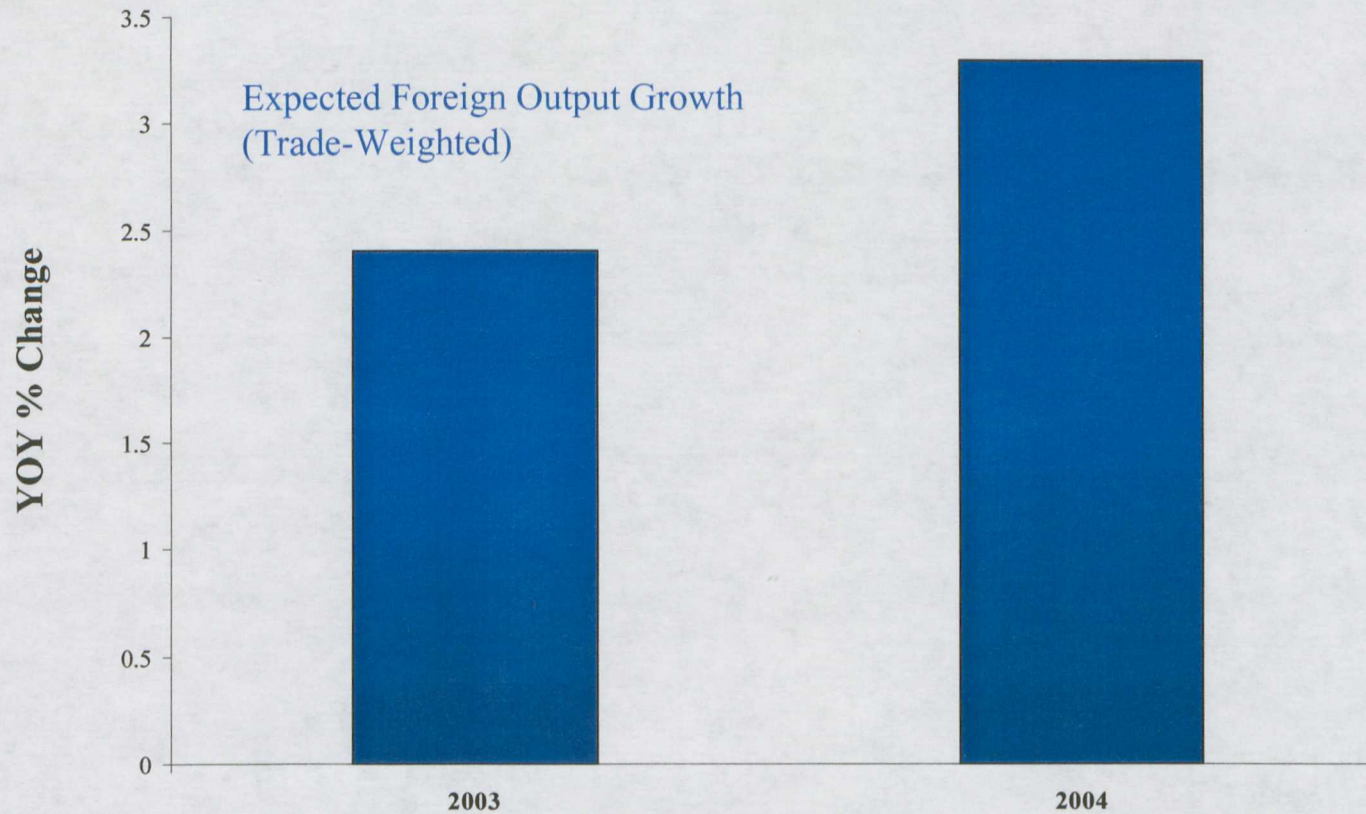
Sources: Federal Reserve Board (10-year Treasury Bond Yield at Constant Maturity).
Standard & Poor's (10-year Industrial Corporate Bond Yields).

Energy prices remain elevated

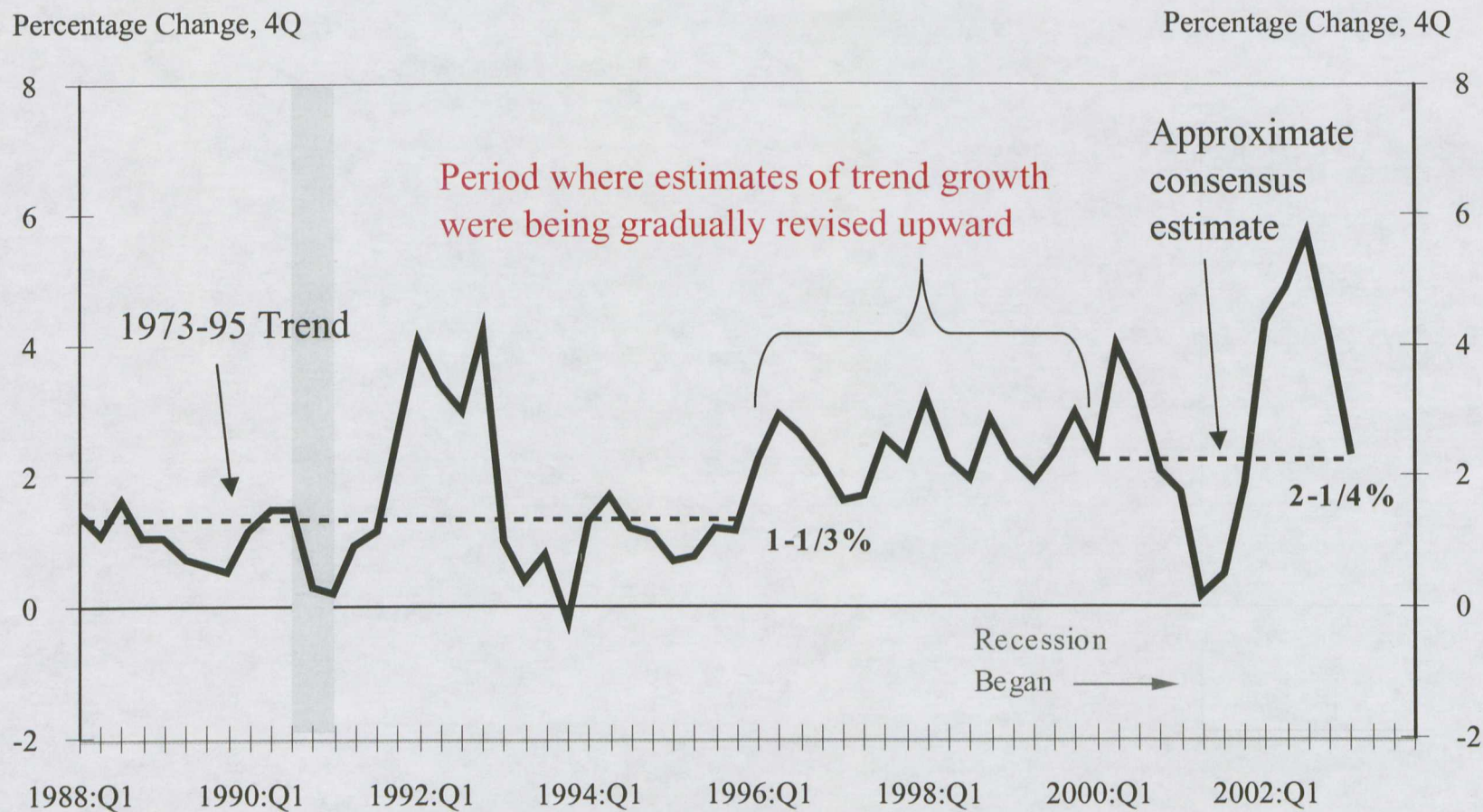


But the weakening dollar should help improve exports...

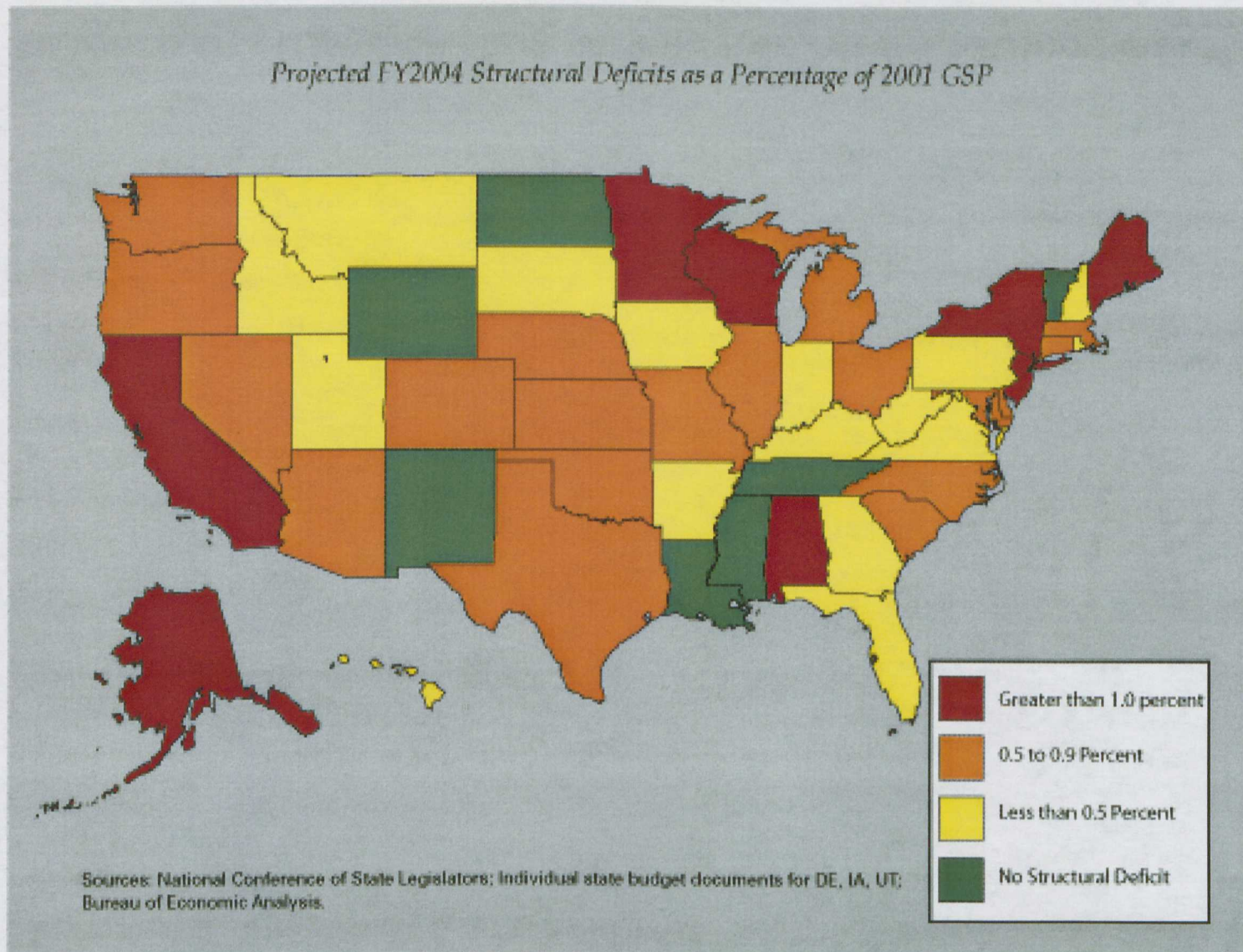
...Growth among our trading partners will likely remain only moderate



Rising productivity provides considerable support for the long-run

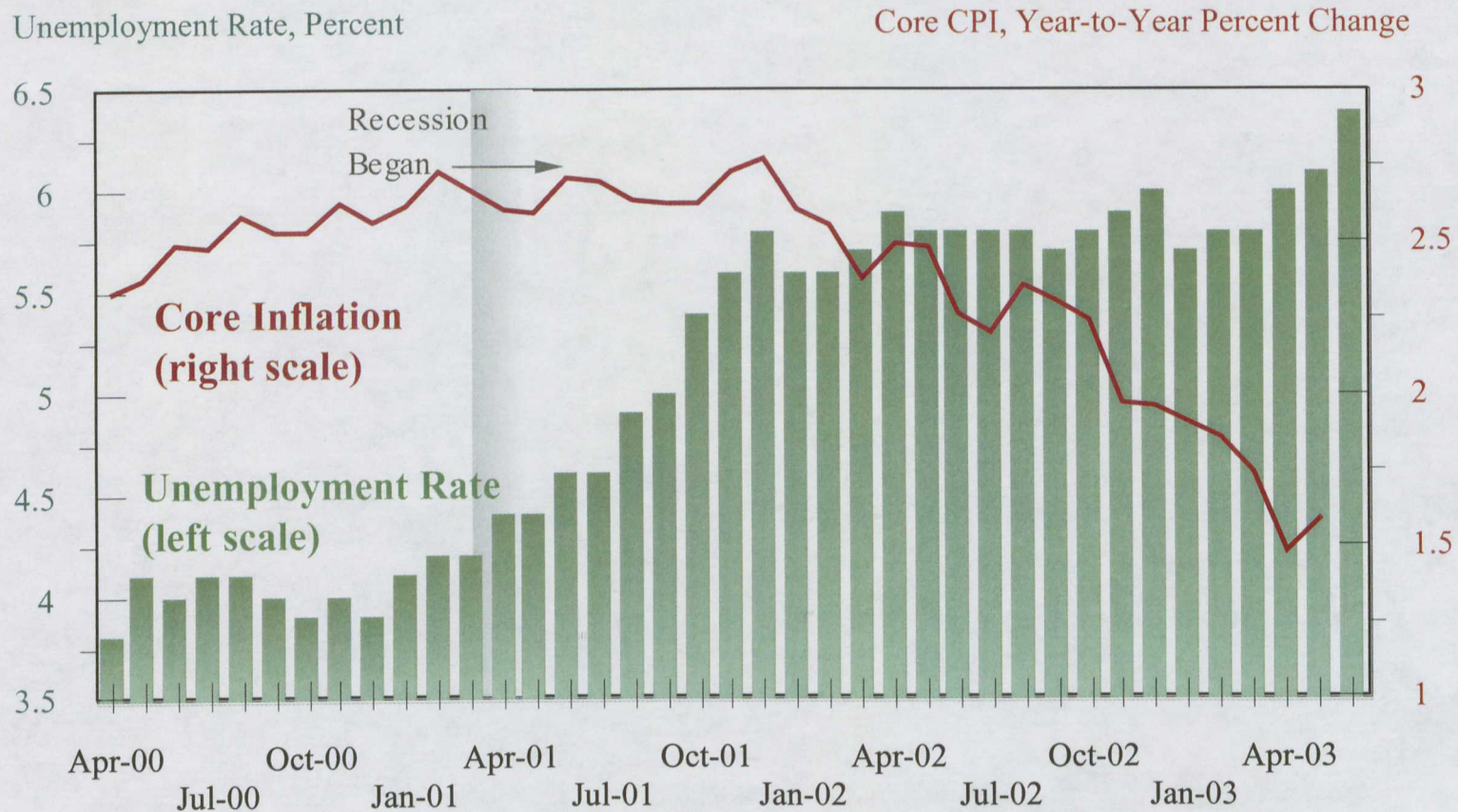


Federal tax cuts are providing stimulus to the economy...



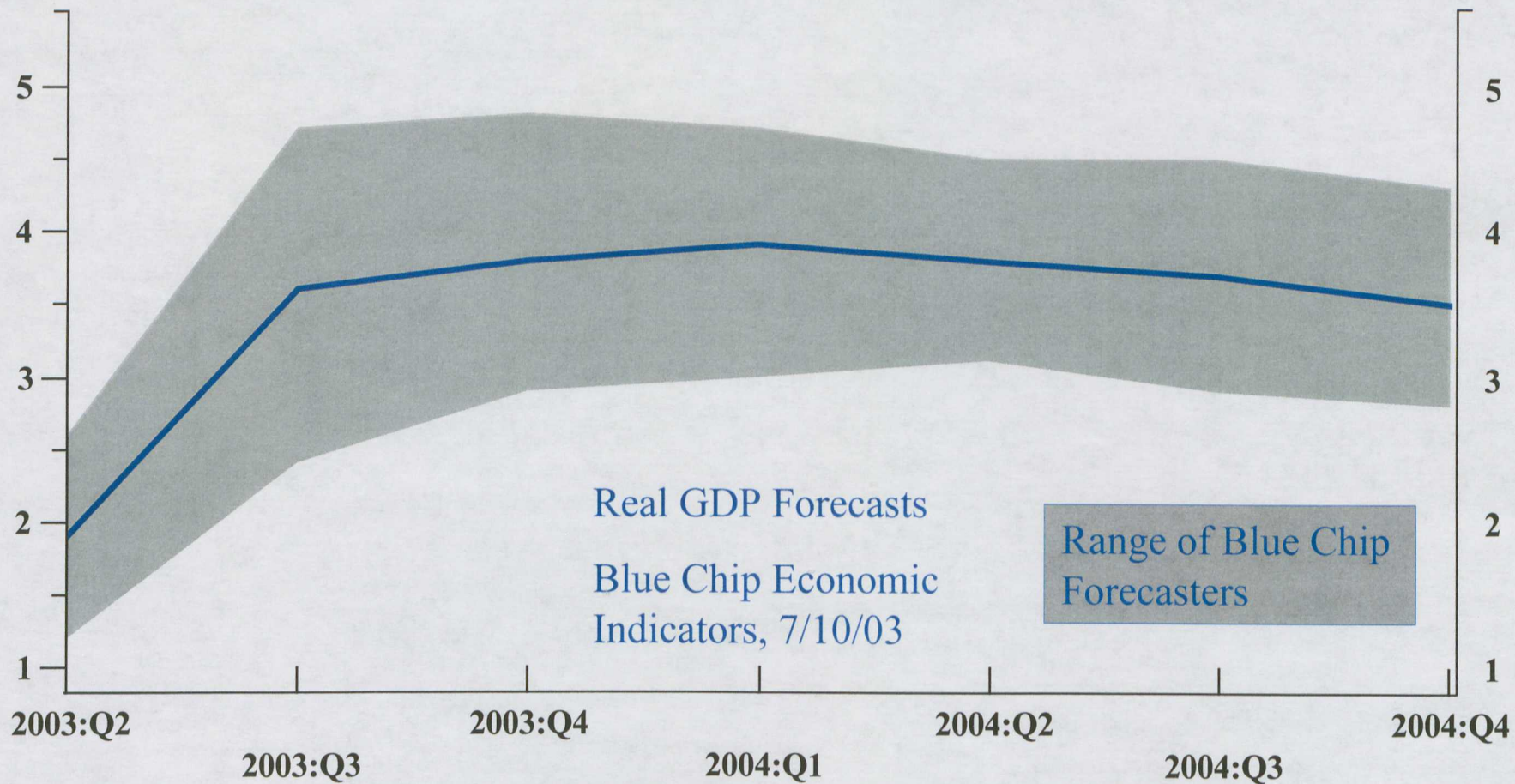
...but weakness in state and local budgets will likely offset at least part of the federal stimulus

With lingering unused capacity, inflation will likely continue its gradual decline



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

Annualized Growth



...but we haven't seen it yet

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

Source: Blue Chip Economic Indicators, 7/10/03.

Risks:

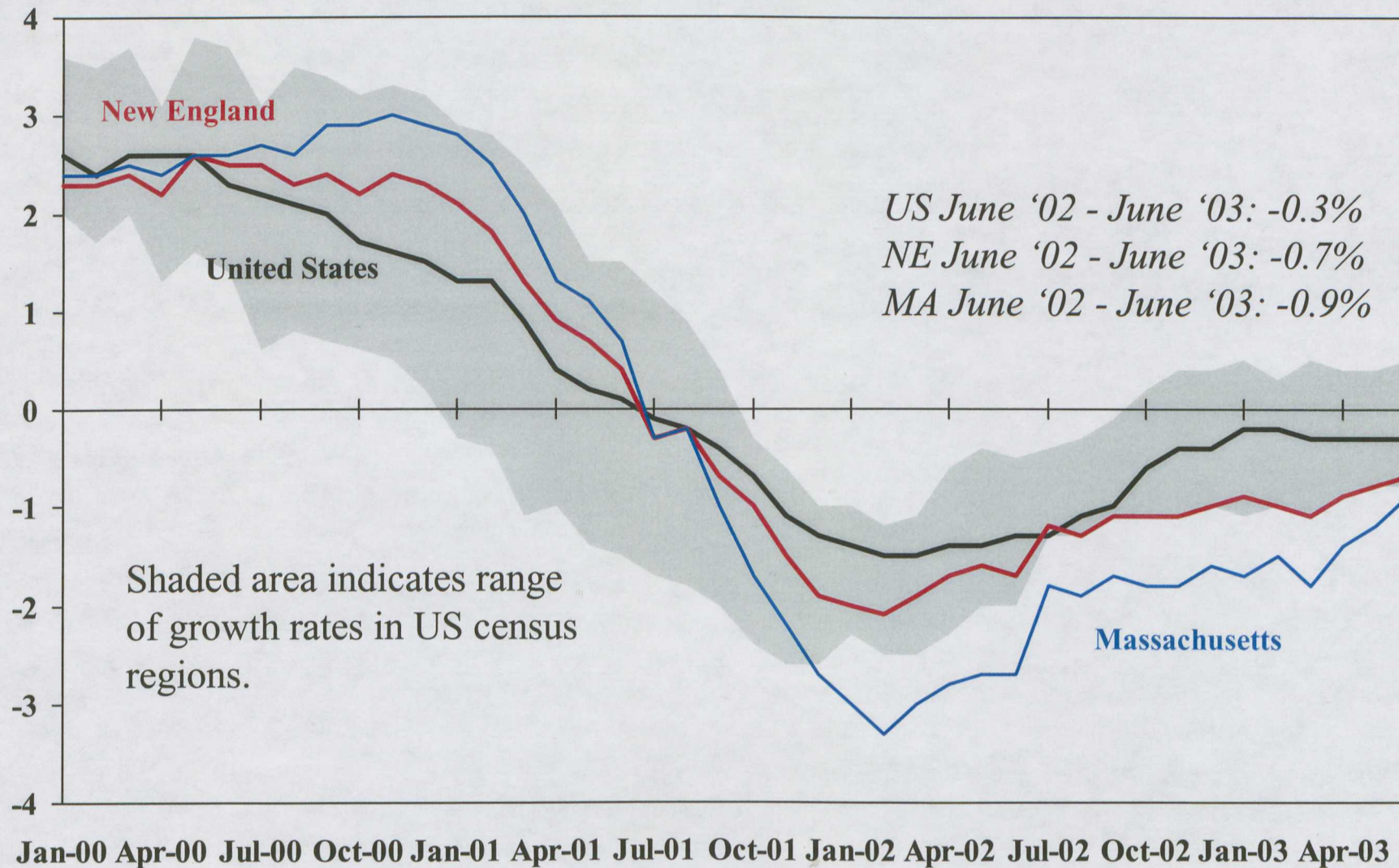
- Pluses
 - Sentiment, financial market improvements
 - Federal spending and tax cut stimulus
 - Ongoing monetary stimulus
 - Oil prices settled down (although still high)
 - Lower exchange rate (helps exports)
- Minuses
 - Labor markets remain weak
 - State and local weakness partially offsets federal strength
 - Excess capacity remains, inflation slipping down
 - Not much support from EU, Asia

How is New England faring?

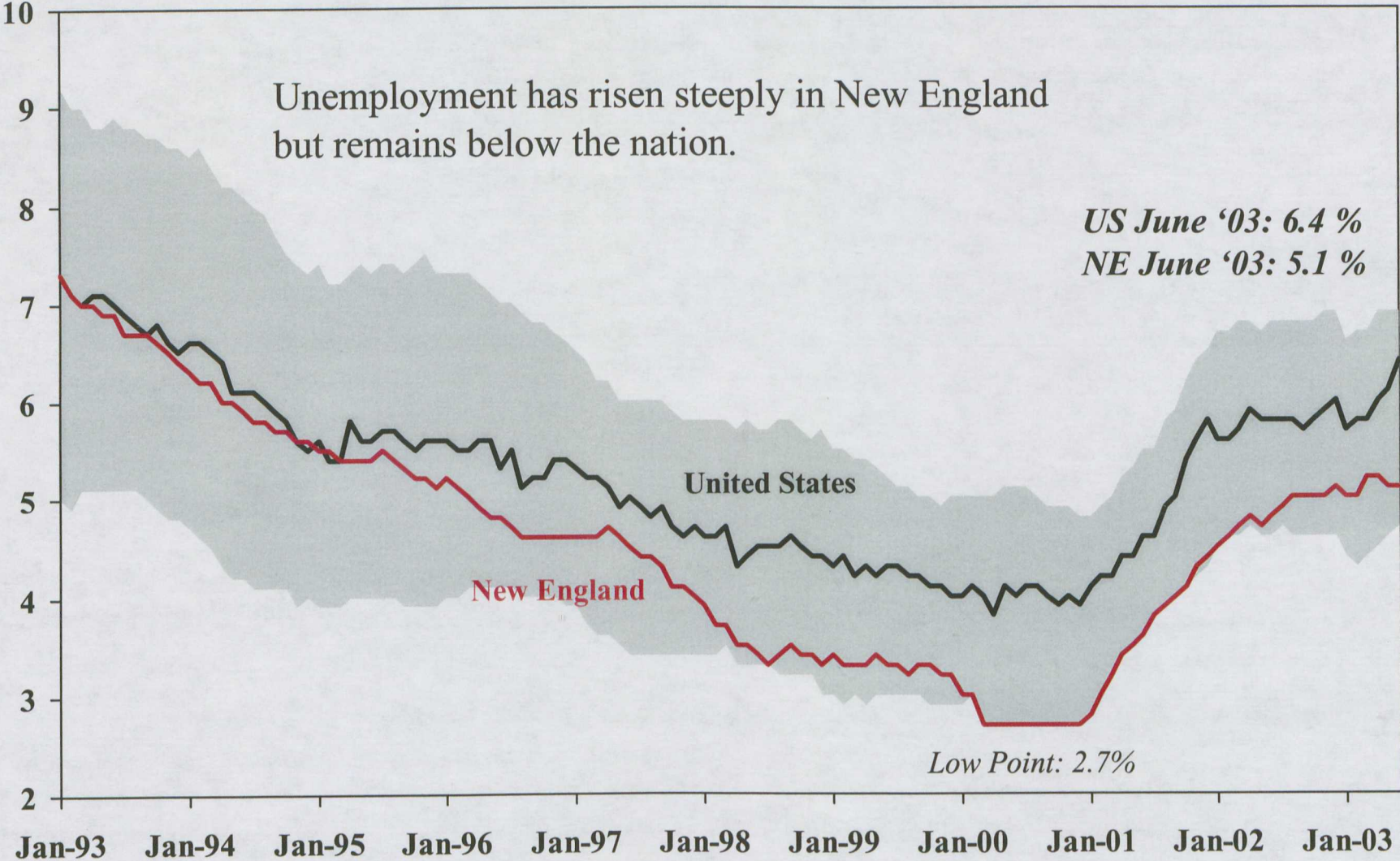
- Suffering somewhat more than the nation since the recession began.
- Within the region, some states are doing better than others.
- No turnaround yet, but confidence seems to be improving.

Employment Growth

Percent change from year earlier



Unemployment Rates



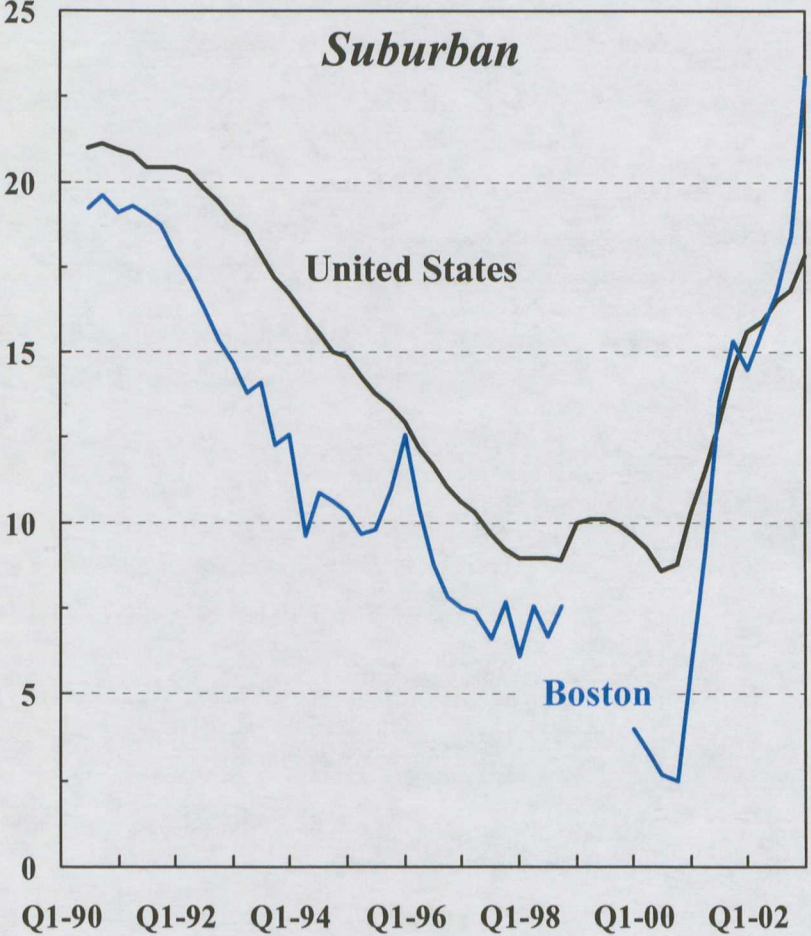
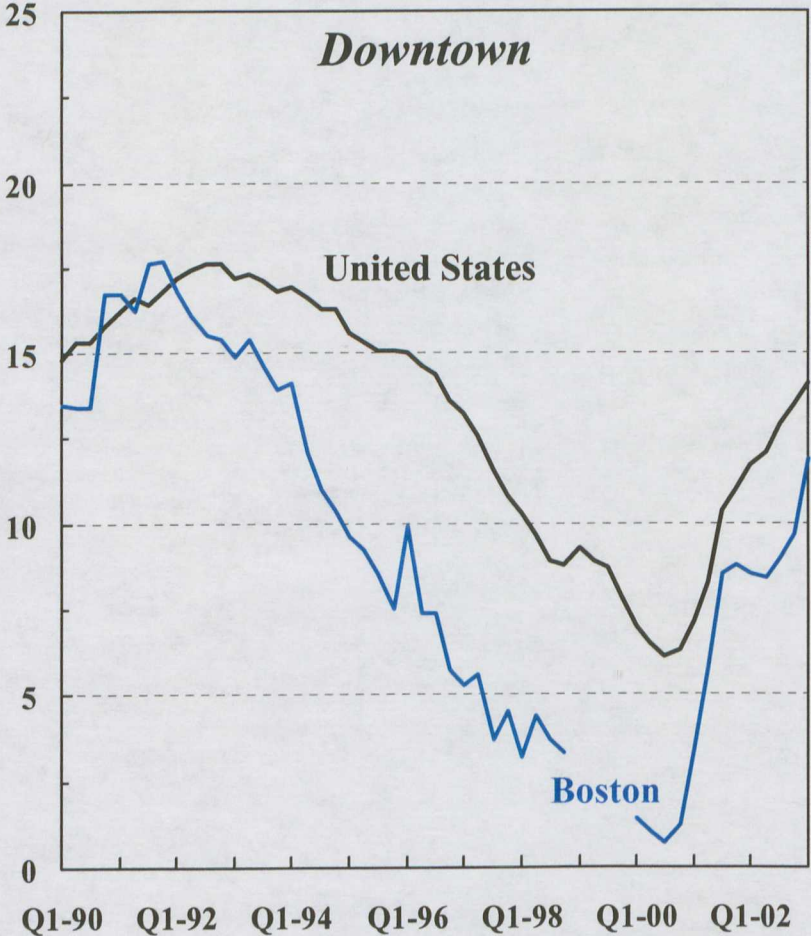
Source: Bureau of Labor Statistics.

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

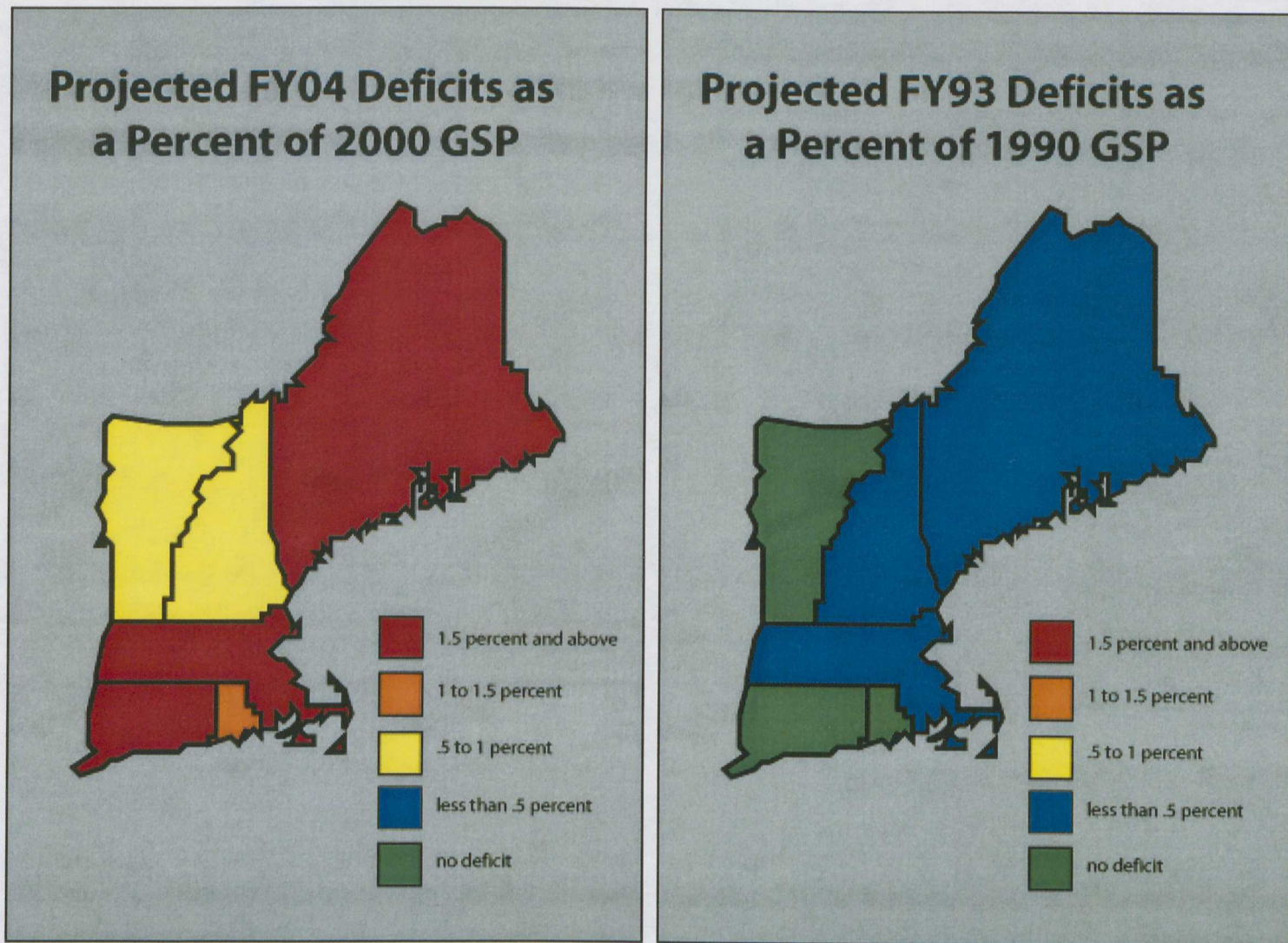
The weak jobs picture has moved vacancy rates up sharply in greater Boston.



Office rents have also fallen as vacancies have risen.

Source: CB Richard Ellis.

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



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

And confidence is improving

Consumer Confidence

Business Confidence

