



*The*  
**President's**  
**Report** *to the*  
**Board** *of*  
**Directors**

April 3, 2018

## CURRENT ECONOMIC DEVELOPMENTS - April 3, 2018

Data released since your last Directors' meeting show that economic growth in the fourth quarter was stronger than originally estimated, but suggest growth likely slowed in the first quarter. Labor markets continued to strengthen, and support from manufacturing was mostly positive. However, consumer spending was flat and housing market data were mixed. Overall, data remain consistent with a moderately growing economy.

In the three weeks ending March 24th, initial claims for unemployment insurance fell, on average, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in March. The unemployment rate is expected to decrease one-tenth to 4.0% in March.

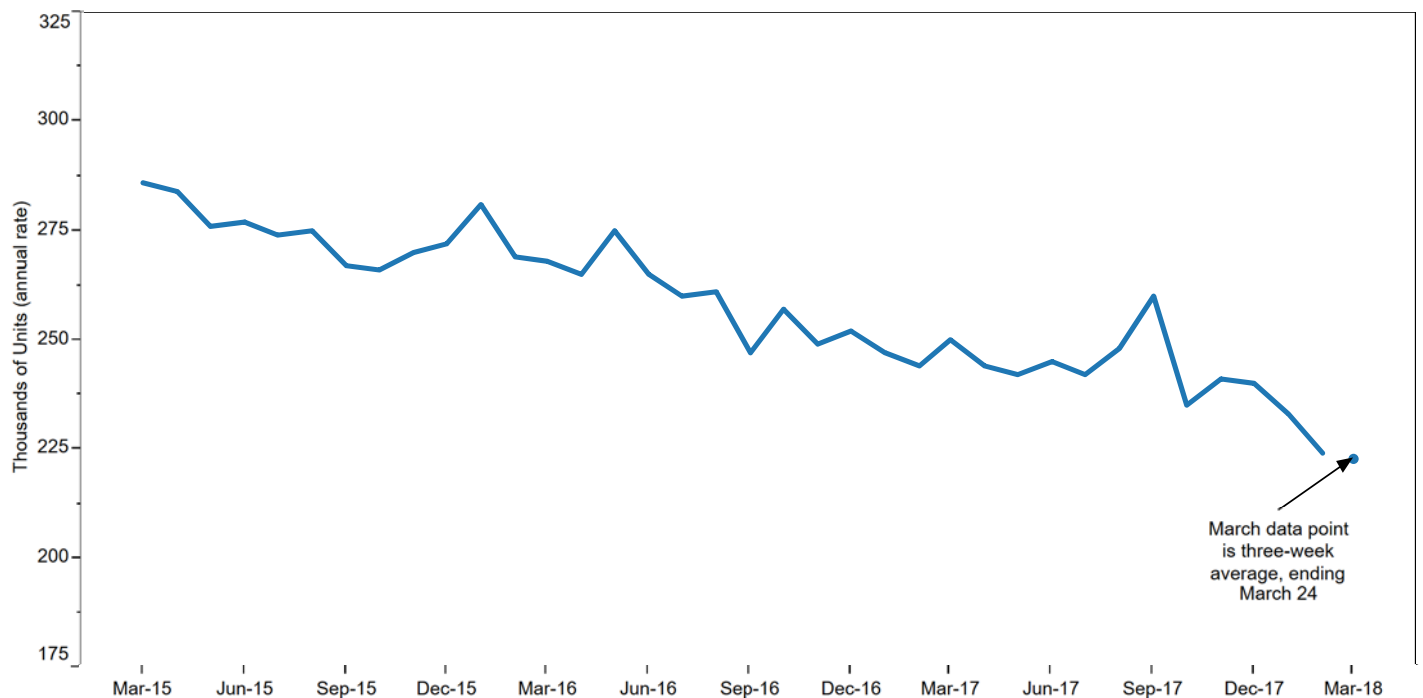
Consumer attitudes were mixed in March, as the sentiment index rose to a 14-year high, driven by improved sentiment among lower-income households, while the confidence index declined but remained favorable. In February, consumption was flat, despite an increase in disposable incomes. Primary measures of real estate activity were mixed in February, as existing home sales increased, while new home sales continued to decline. Housing starts and building permits both declined in February, although single-family starts increased.

In the manufacturing sector, the ISM index declined in March but continued to signal expansion in the manufacturing industry. Industrial production rose in February, while capacity utilization increased to a two-and-a-half year high. Orders for both durable goods and nondefense capital goods, excluding aircraft, increased in February and continued to rise from their year-ago levels.

Growth in total consumer prices accelerated in February, while growth in core prices, which exclude the volatile food and energy sectors, also picked up a bit as measured by the Personal Consumption Expenditure index. The core Consumer Price Index was essentially unchanged in February. Oil prices ticked up on average in March and have risen a bit further in the first couple of days of April.

Initial claims for unemployment insurance have fallen a bit further, on average, in the three weeks ending March 24th, after declining in February. The latest claims estimates were at 45-year lows and remain at a level consistent with further labor market improvement.

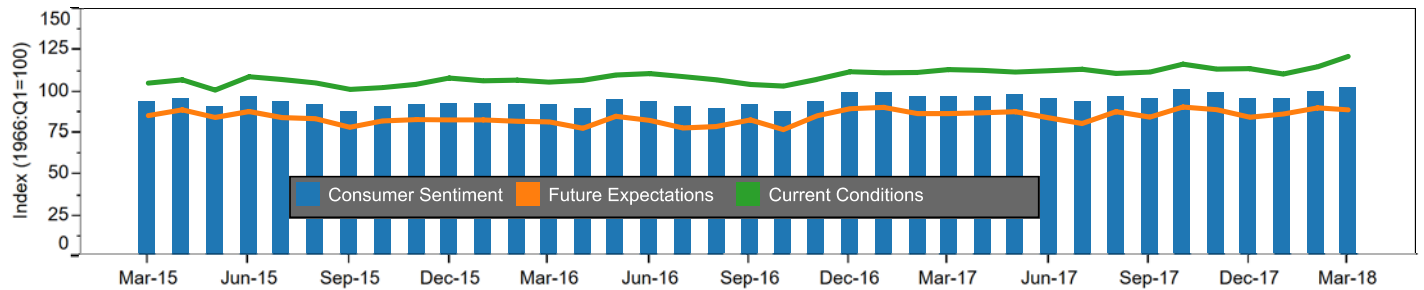
### Initial Claims



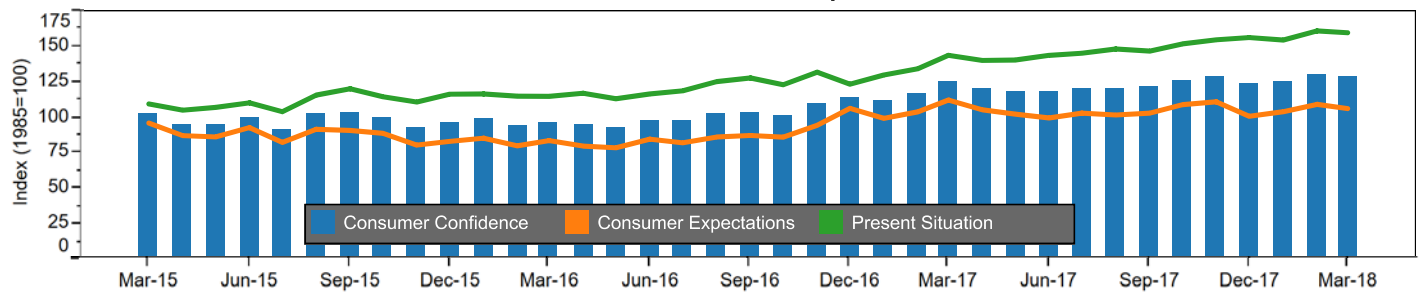
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in March. The sentiment index increased to its highest level in 14 years, due to a rise in the current conditions component, as the future expectations component eased a bit in March. Meanwhile, the confidence index declined in March, but remained near recent historical highs, as both the expectations and present situation components fell. The increase in sentiment was due to improved attitudes among lower-income households, while respondents to the confidence survey provided a less favorable assessment of business conditions.

### Consumer Sentiment and Expectations



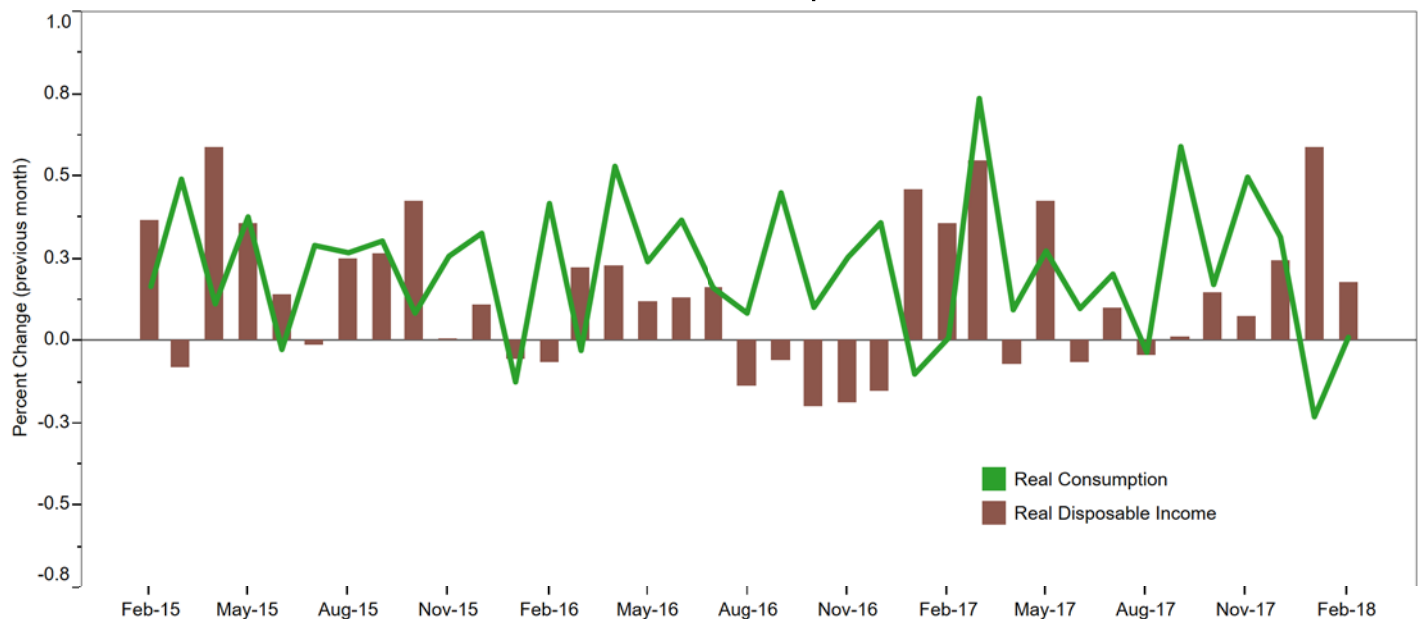
### Consumer Confidence and Expectations



Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Real incomes rose in February, their fifth consecutive monthly increase, albeit at a slower rate than seen in January. Despite the higher incomes, consumption was flat in February, after declining in January.

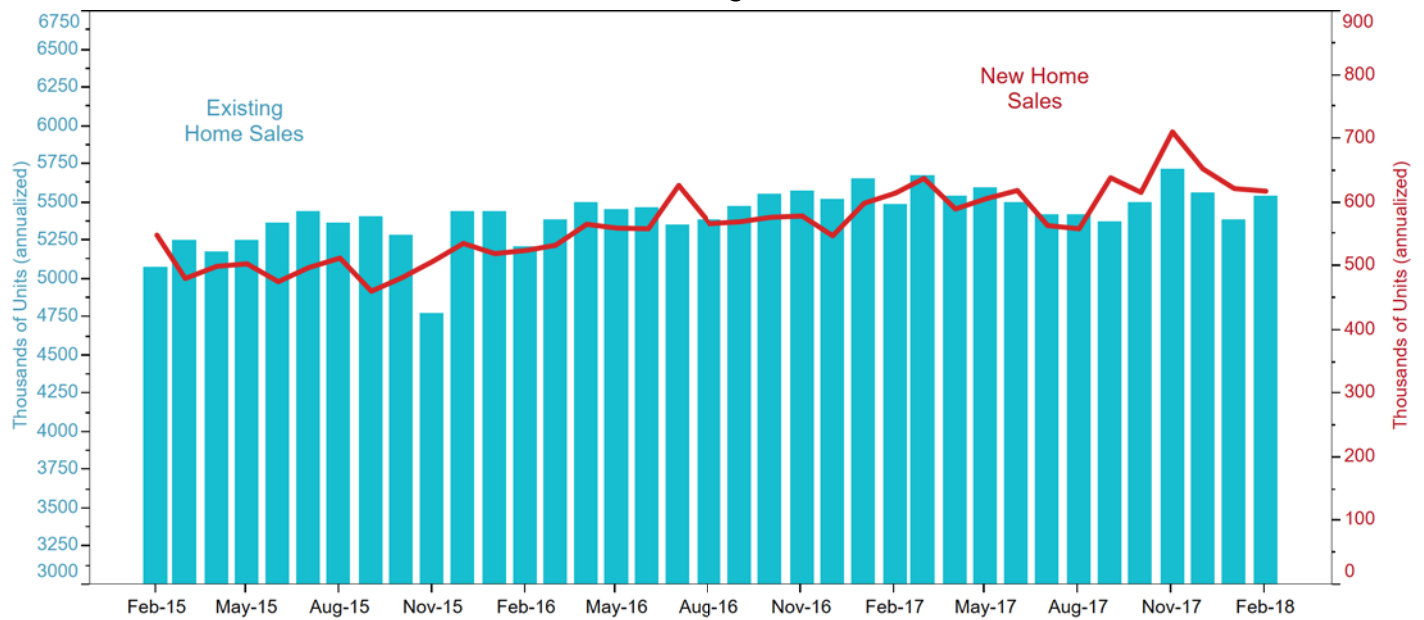
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in February. New home sales eased for the third consecutive month, while existing home sales increased, nearly offsetting the decrease seen in January.

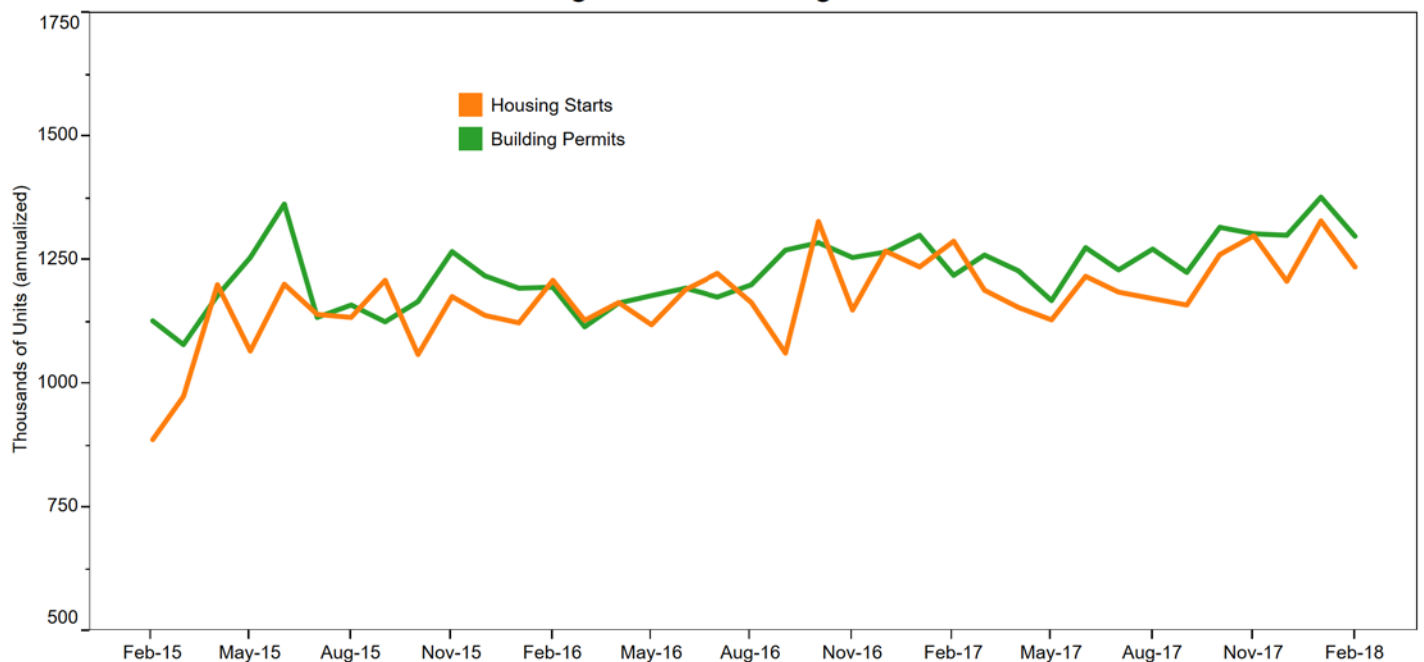
### New and Existing Home Sales



Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.

Housing starts fell in February, after rising in January, as a decrease in multi-family starts more than offset an increase in single-family starts. Building permits also declined in February, more than offsetting their increase in January, as both single-family and multi-family permits decreased.

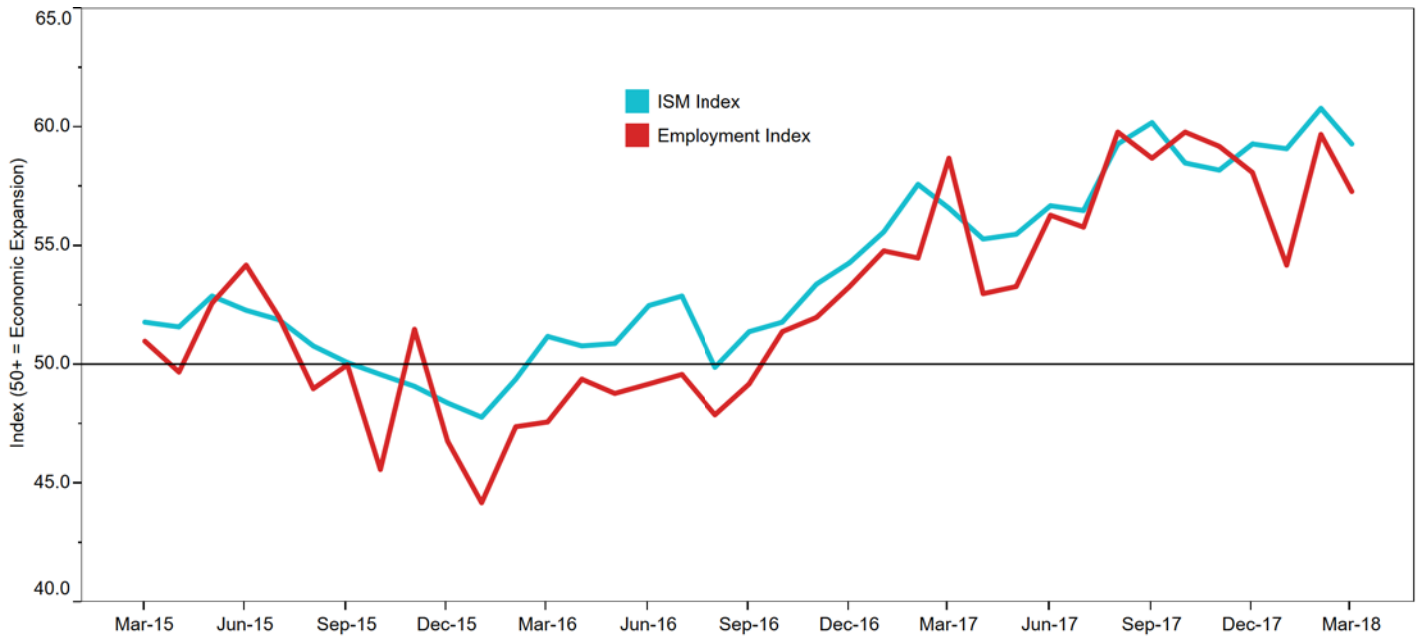
### Housing Starts and Building Permits



Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index fell in March, after rising in February, but continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also declined in March, after increasing in the prior month.

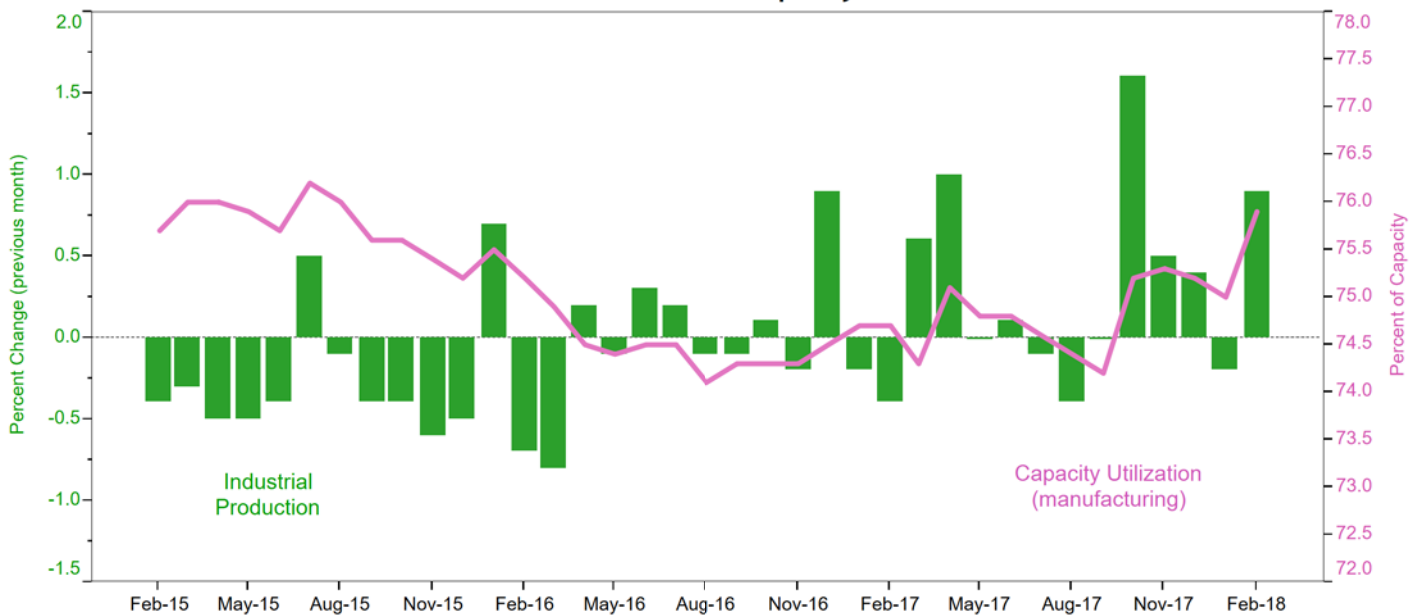
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in February, following a decrease in January. Manufacturing and mining production both posted increases in February, while utilities output declined, likely due to unseasonably warm weather during the month. Capacity utilization also rose in February, reaching its highest level in two-and-a-half years.

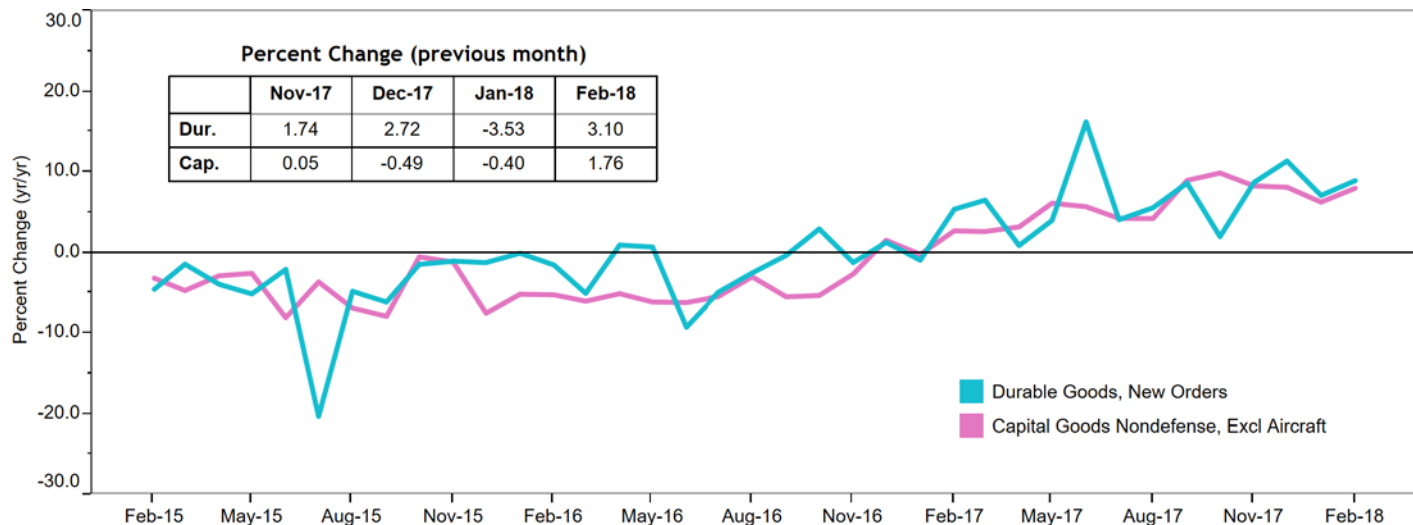
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods increased in February, after falling in the prior month, and continued to rise on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, also rose in February and continued to increase on a year-over-year basis.

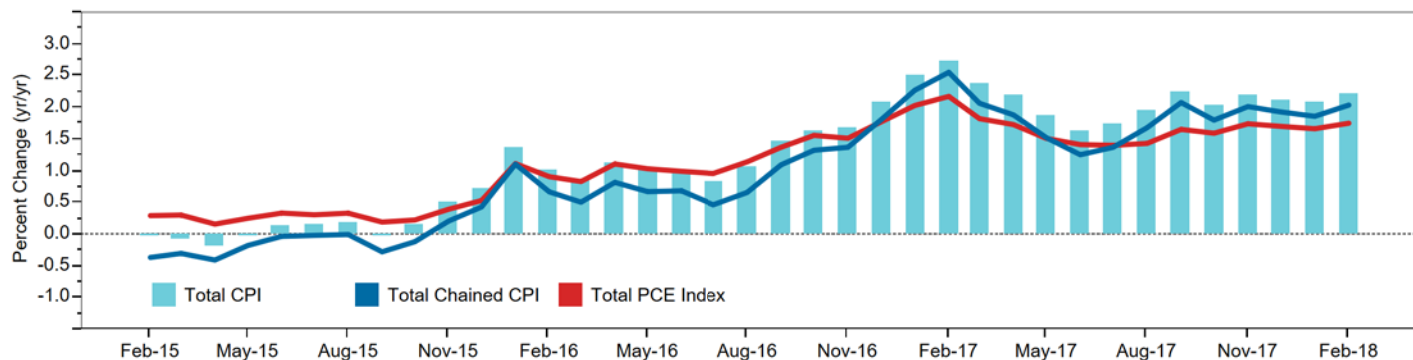
### Durable Goods Orders



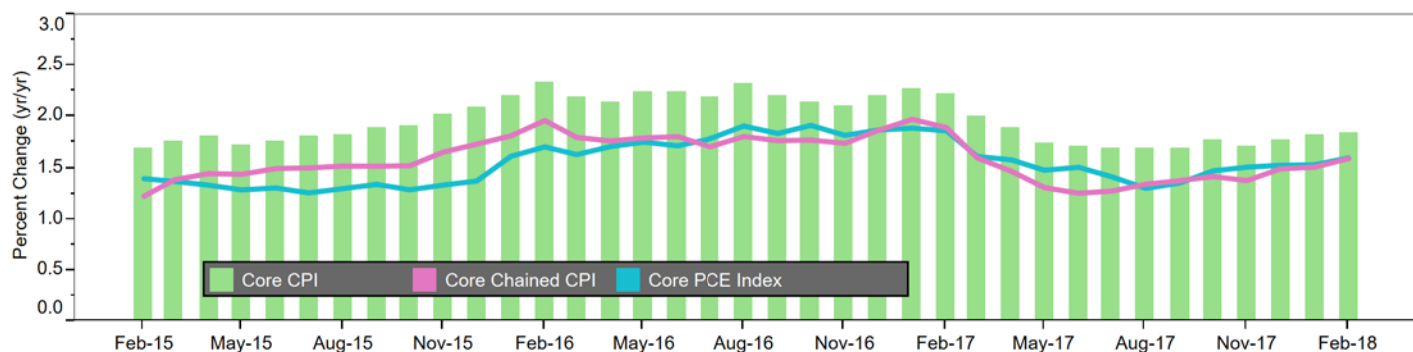
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices accelerated in February, after holding relatively steady in January. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, was essentially unchanged in February, as measured by the Consumer Price Index, but accelerated a bit as measured by the Personal Consumption Expenditure index.

### Total Price Indices



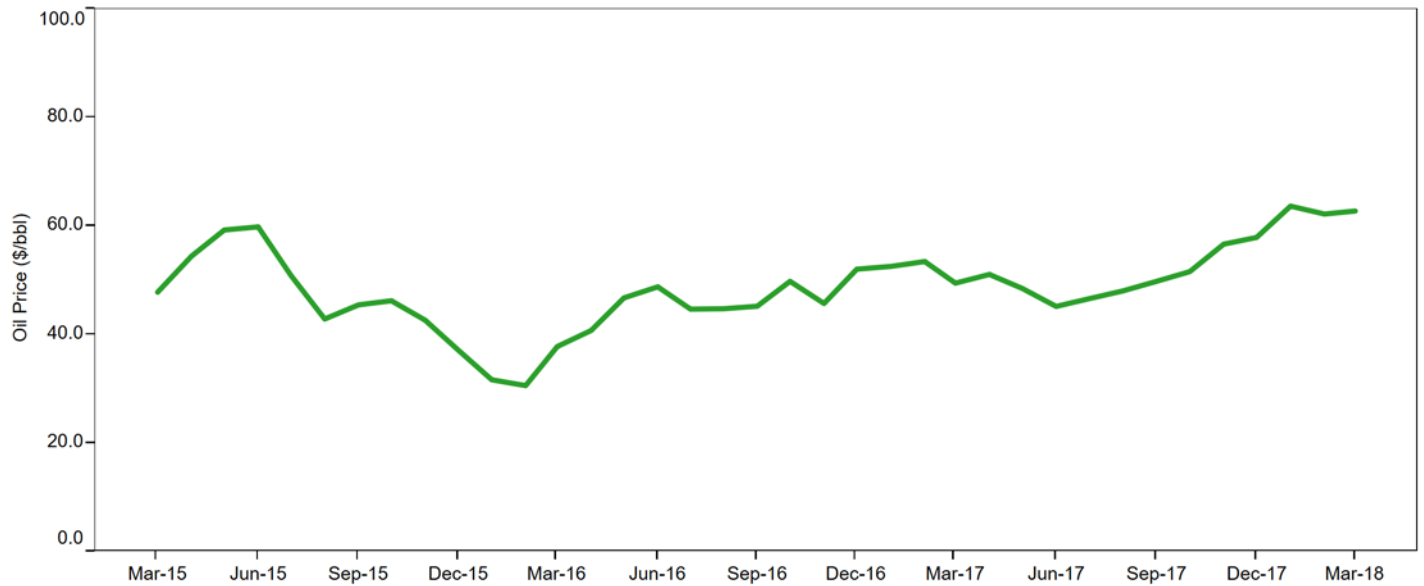
### Core Price Indices



Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices ticked up on average in March, after easing in February. Prices have risen a bit further in the first couple of days of April, registering \$63.0 per barrel on April 2nd.

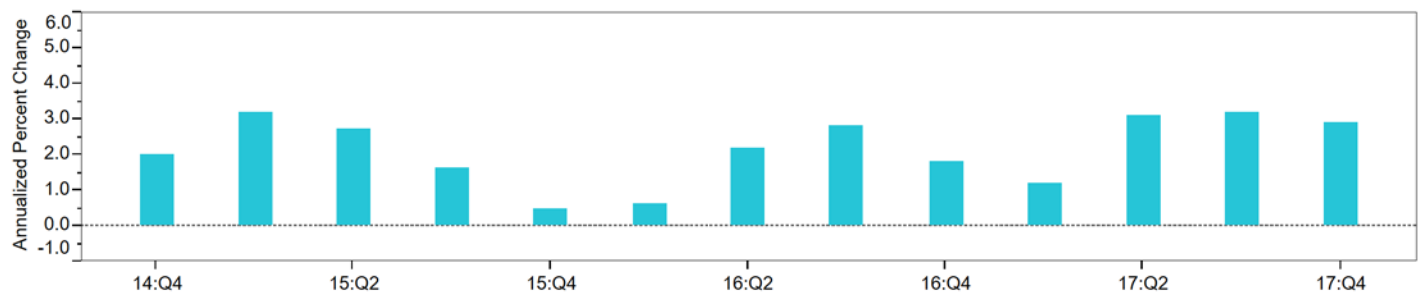
### Domestic Spot Oil Price



Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

Fourth quarter real GDP growth was revised up in the third estimate to 2.9% from 2.5%. The higher rate primarily reflected upward revisions to personal consumption expenditures and private inventory investment.

### Real GDP



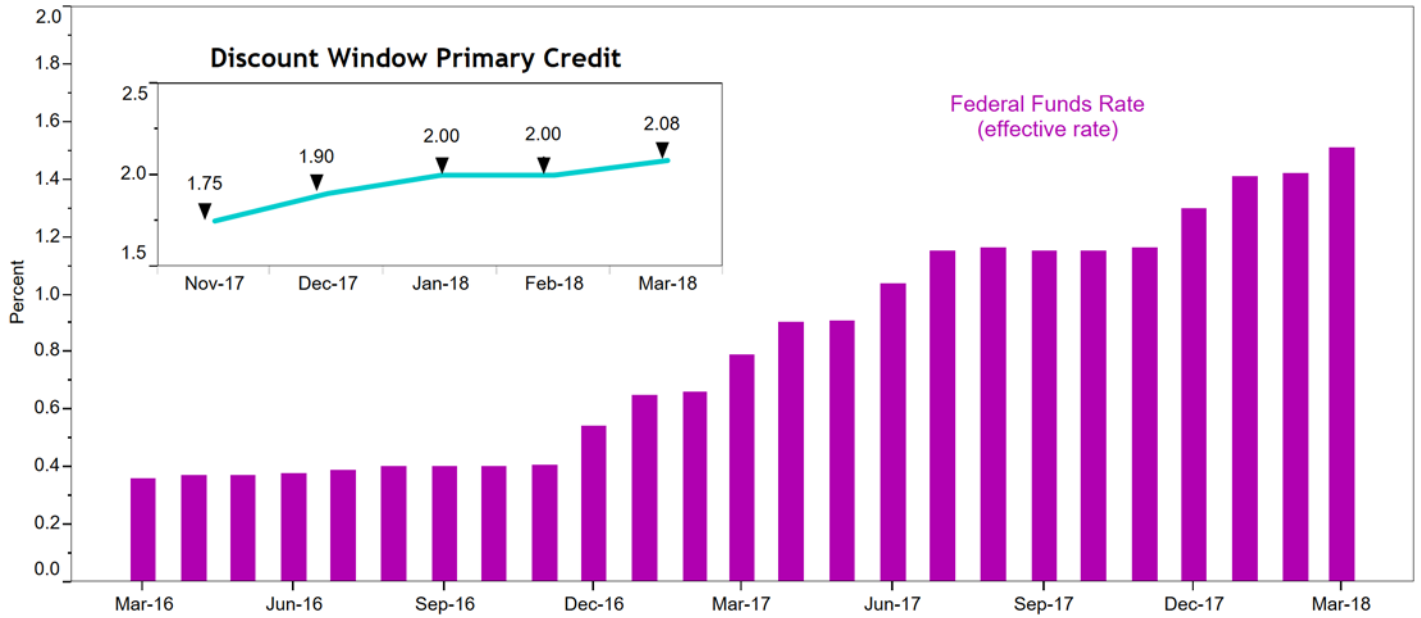
### Revisions to Fourth Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.5	2.9
Personal Consumption	3.8	4.0
Business Investment	6.6	6.8
Equipment and Software	11.8	11.6
Residential Investment	13.0	12.8
Government	2.9	3.0
Exports	7.1	7.0
Imports	14.0	14.1
Final Sales	3.3	3.4

Source: Bureau of Economic Analysis / Haver Analytics.

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### Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.  
 Report compiled by Christy Marieni.