



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

January 9, 2018

CURRENT ECONOMIC DEVELOPMENTS - January 9, 2018

Data released since your last Directors' meeting suggest that growth likely slowed a bit in the fourth quarter compared to the slightly downwardly revised rate seen in the third quarter. Labor markets showed signs of continued strengthening, consumer spending increased, and support from manufacturing was mostly positive. However, consumer attitudes declined. Overall, recent data remain consistent with moderately above-trend growth in the near term.

In December, nonfarm payrolls posted a smaller-than-expected increase, and total job gains for the previous two months were revised down. The unemployment rate was unchanged in December, due to an increase in civilian employment that offset a slight rise in the labor force. Initial claims for unemployment insurance held steady in December and remain consistent with further improvements in the labor market.

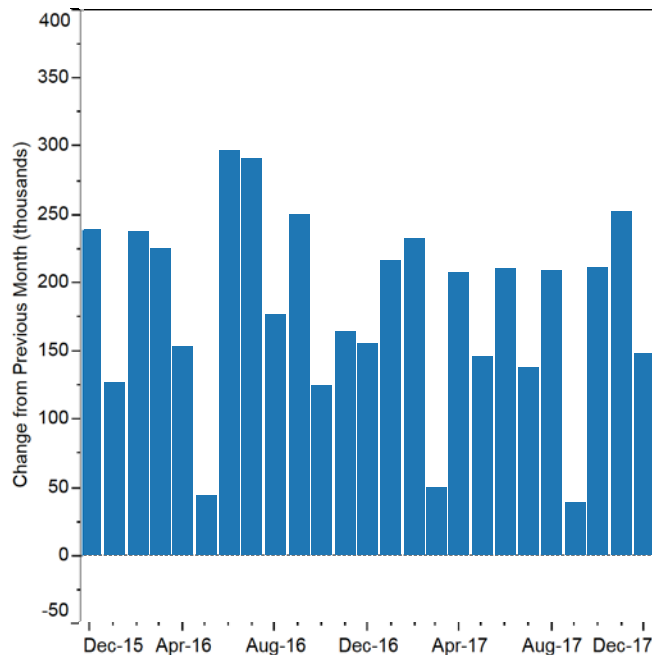
Consumer attitudes declined in December, due to decreases in the expectations components of both the sentiment and the confidence indexes. Meanwhile, the current conditions components of the indexes increased, as consumers expressed more favorable views of their current financial situations. The pace of vehicle sales rose in December, as sales of light duty trucks increased. Consumption increased in November, after holding steady in October, and real incomes also rose. Primary measures of real estate activity were mostly positive in November. Both new and existing home sales rose during the month, reaching their highest rates in over ten years. Housing starts also increased in November, while building permits declined, despite a rise in single-family permits.

In the manufacturing sector, the ISM index rose in December and continued to signal expansion in the industry. Industrial production continued to increase in November, and capacity utilization rose to its highest level in over nine years. Orders for durable goods increased in November on both a monthly and a year-over-year basis, while nondefense capital goods, excluding aircraft, decreased compared to October but were up from their year-ago level.

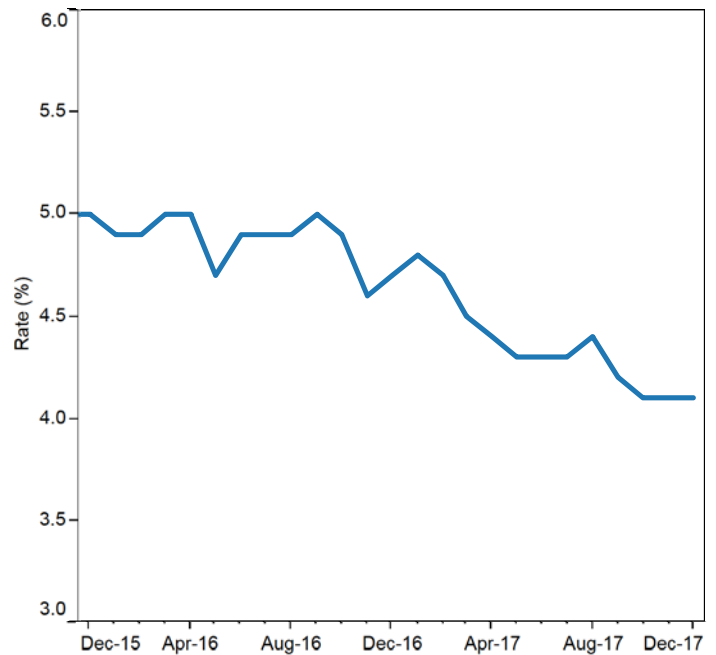
Growth in total consumer prices accelerated in November, while growth in core prices, which exclude the volatile food and energy sectors, decelerated as measured by the Consumer Price Index and picked up a bit as measured by the Personal Consumption Expenditure index. Oil prices continued to rise, on average, in December and have increased further in the first week of January.

Nonfarm payrolls added 148,000 jobs in December, while job gains for the previous two months were revised down by a net 9,000 jobs. The unemployment rate held steady at 4.1% in December, as civilian employment ticked up a bit more than the size of the labor force.

Nonfarm Payroll Employment

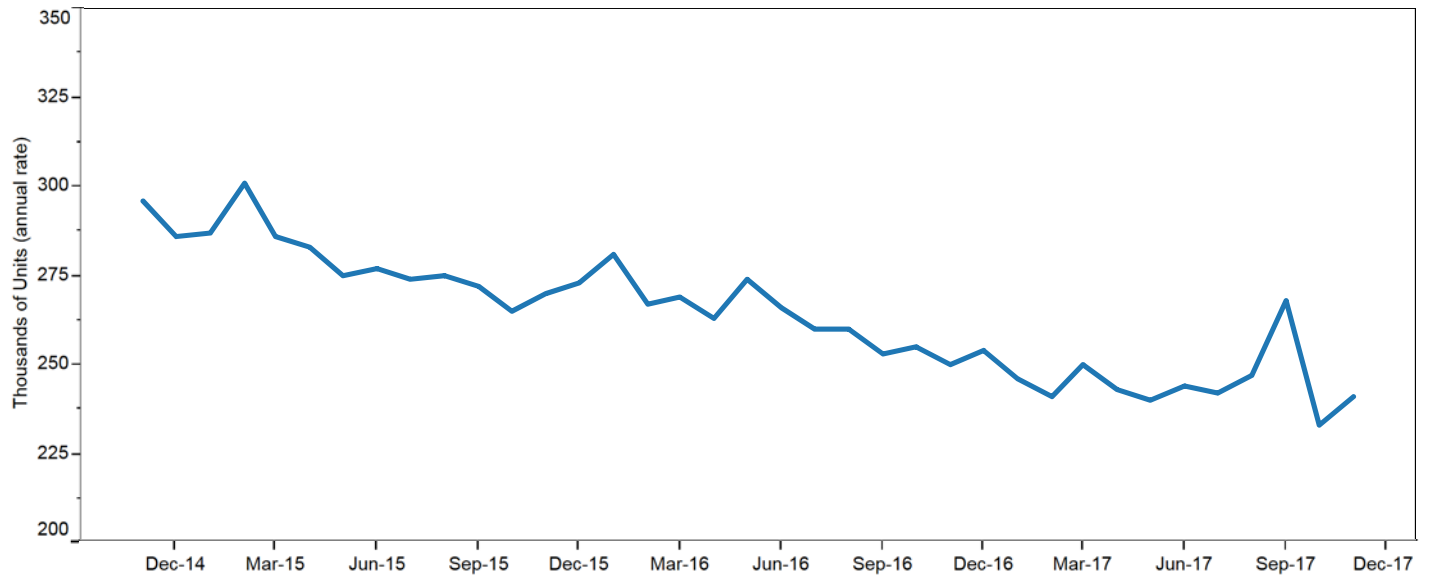


Unemployment Rate



Initial claims for unemployment insurance were unchanged in December, after rising in November, and remain at a level consistent with further labor market improvement.

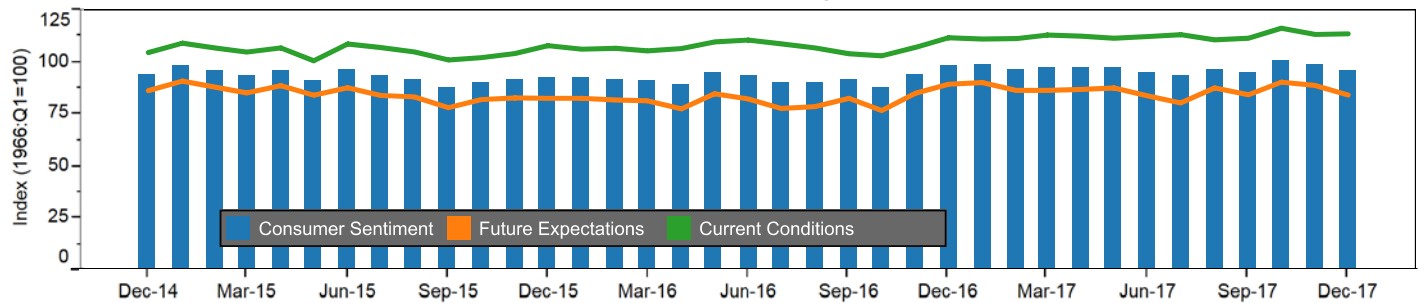
Initial Claims



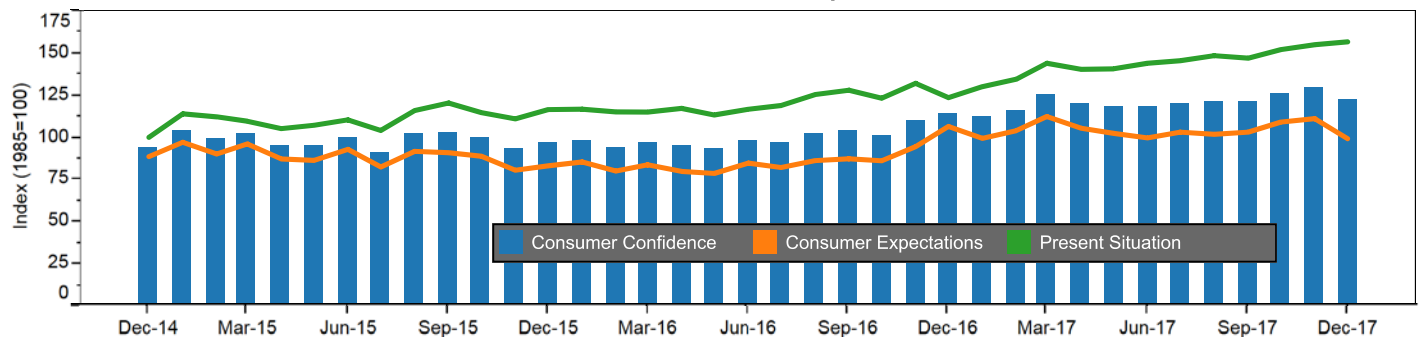
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes declined in December, as the sentiment index fell for the second consecutive month and the confidence index registered its first decrease since June. The declines in both indexes were due to decreases in expectations, as the current conditions components of the indexes increased in December. Respondents to the sentiment survey expressed more favorable assessments of current finances, while respondents to the confidence survey were less optimistic towards the outlook for business conditions and the job market.

Consumer Sentiment and Expectations



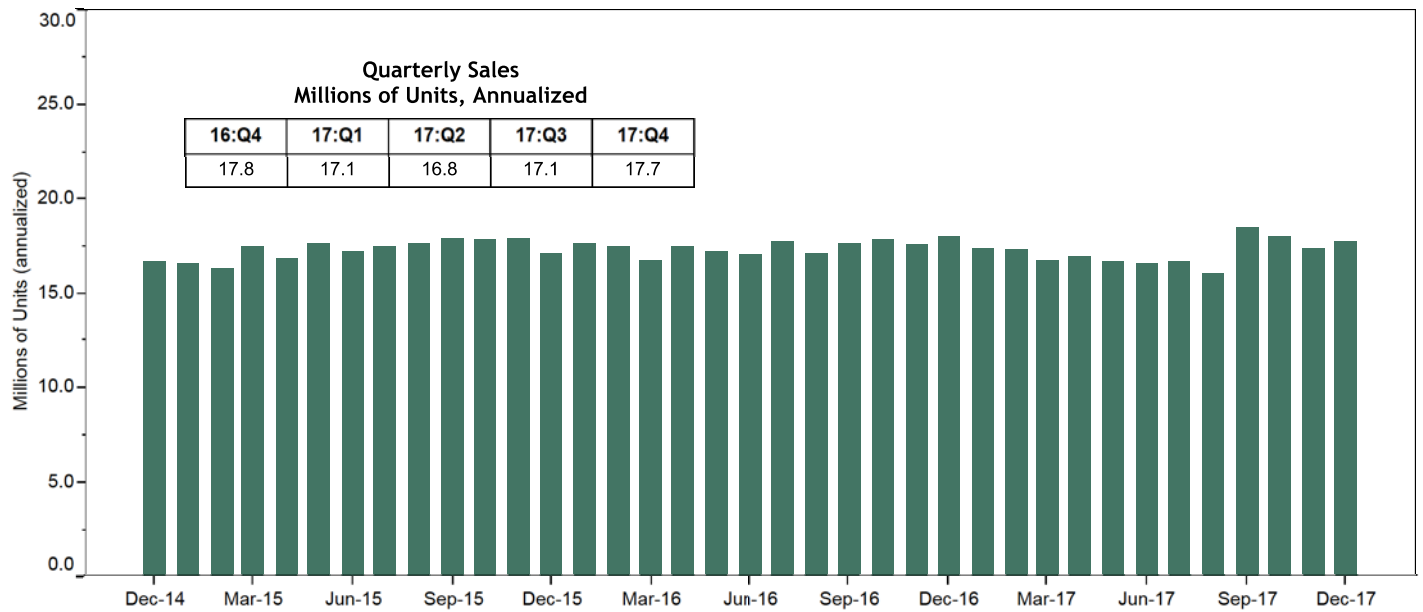
Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales unexpectedly rose in December, after easing in November. The rise in December was due to an increase in light duty truck sales, as the rate of auto sales eased. The average pace of sales in the fourth quarter was the highest quarterly average in one year.

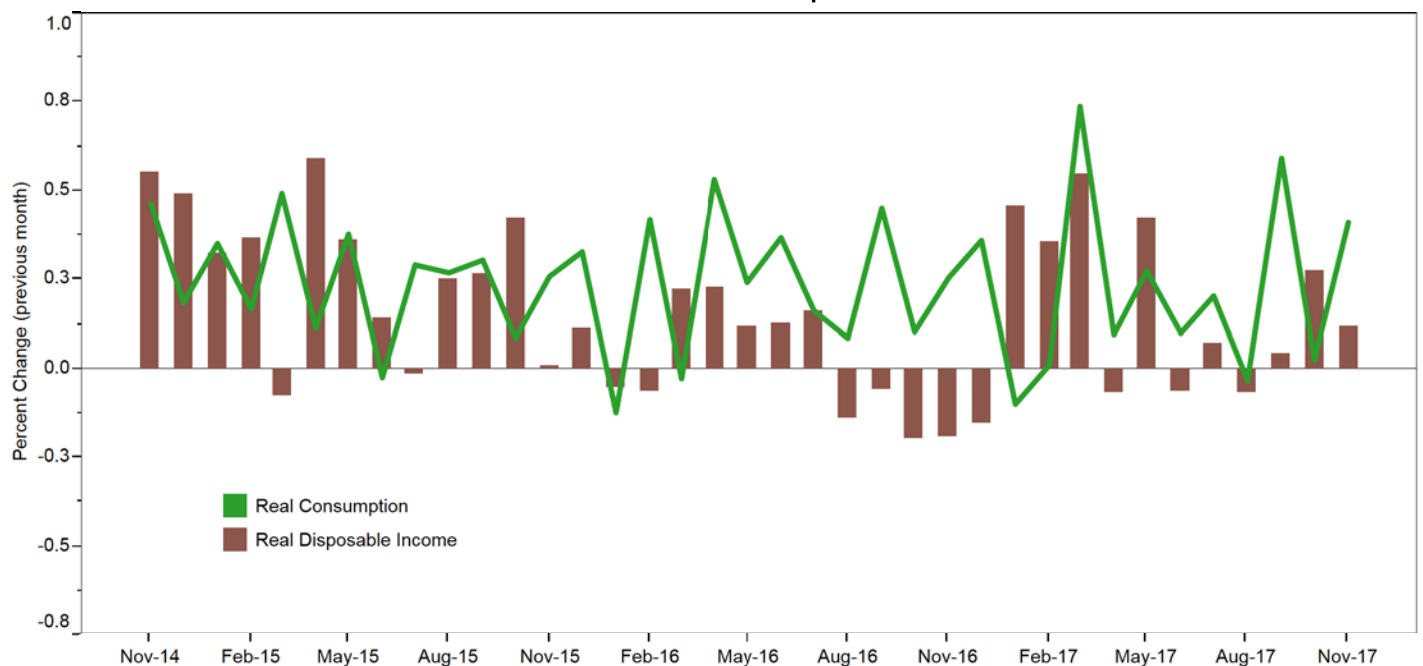
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes increased in November, albeit at a slower rate than seen in the prior month. Consumption also rose in November, after no change in October, which was revised down from the previously reported gain.

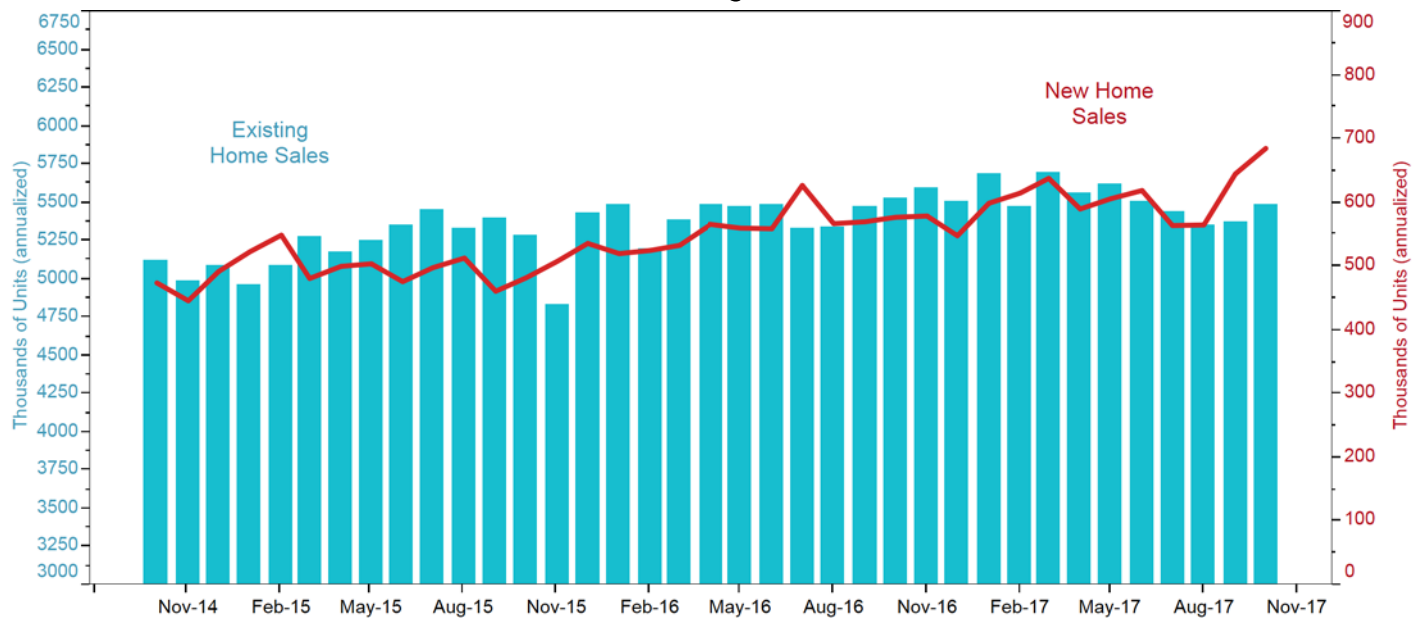
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data improved in November. New home sales rose, after a revised decline in October that was previously reported as an increase. New home sales in November reached their highest rate in over ten years. Meanwhile, existing home sales rose for the third consecutive month, reaching their fastest pace in almost eleven years.

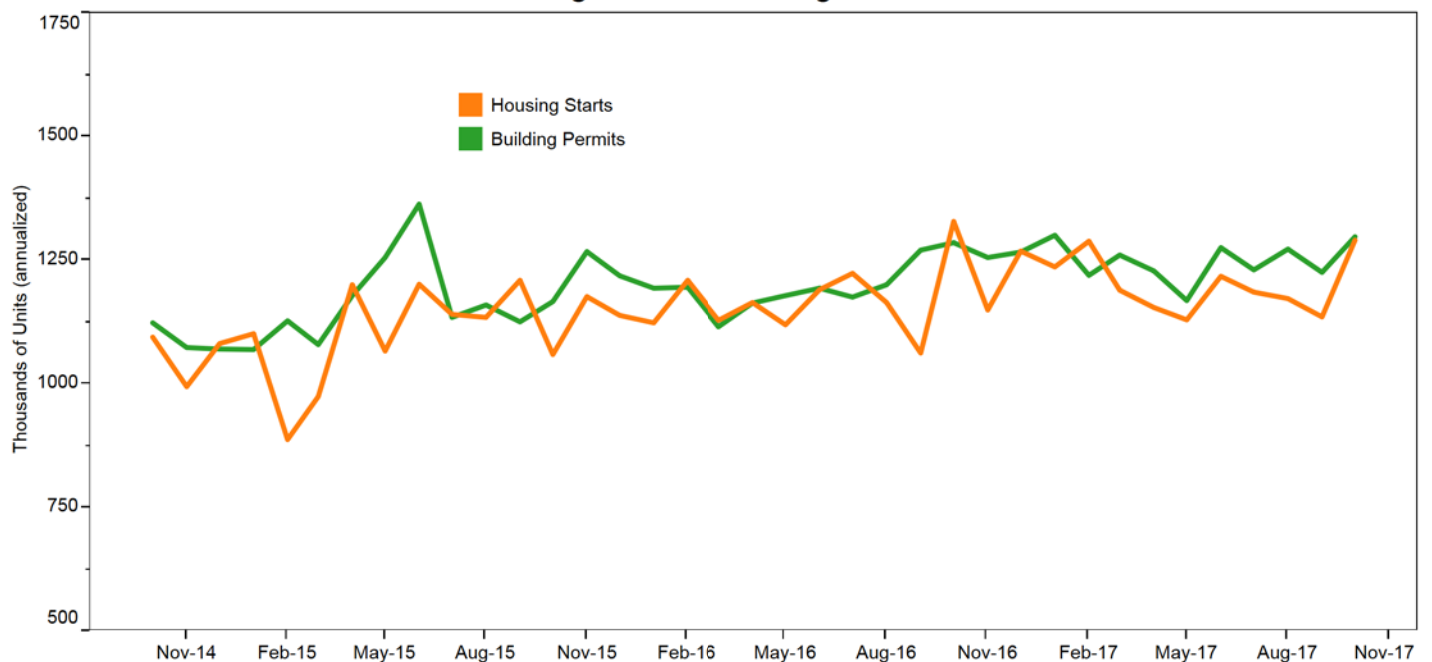
New and Existing Home Sales



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

Housing starts continued to rise in November, reaching their highest rate in just over one year. The increase was due to a rise in single-family starts, as multi-family starts decreased in November. Meanwhile, building permits declined in November, after rising in the prior month, as multi-family permits fell while single-family permits increased.

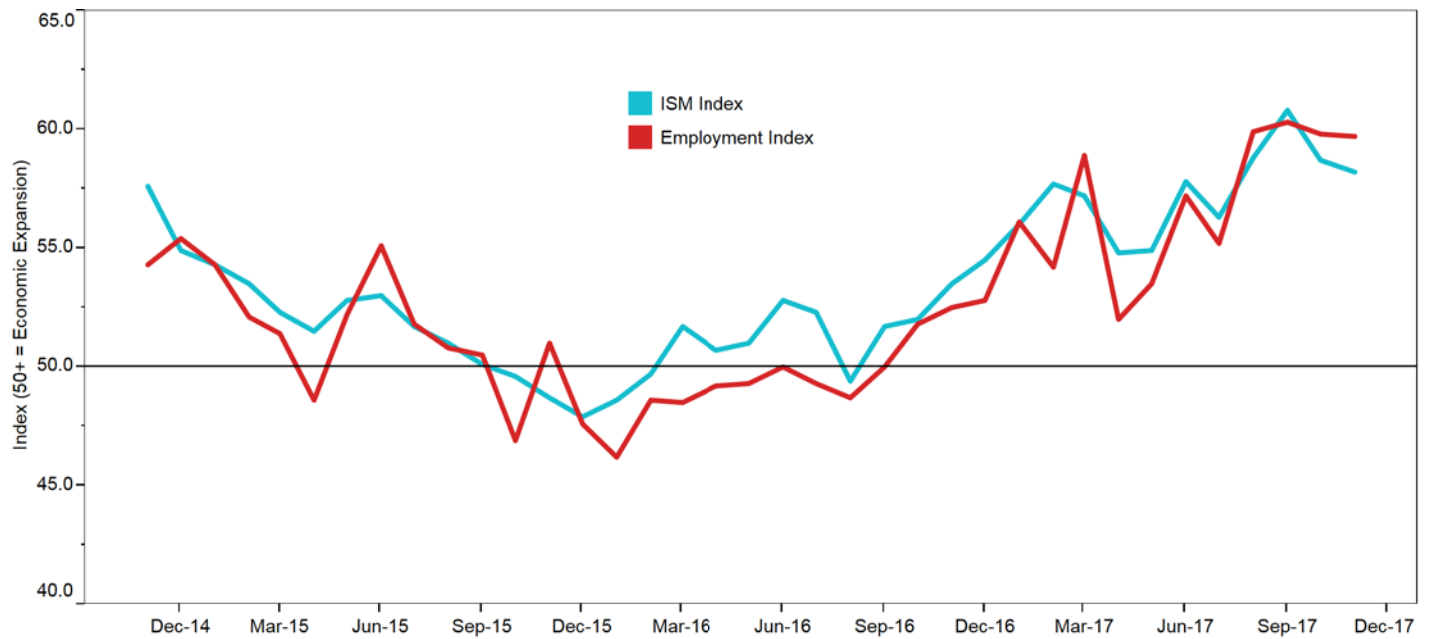
Housing Starts and Building Permits



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

The ISM manufacturing index rose in December, after falling in each of the prior two months, and signalled further expansion in the manufacturing industry. Meanwhile, the employment component of the index declined in December for the third consecutive month.

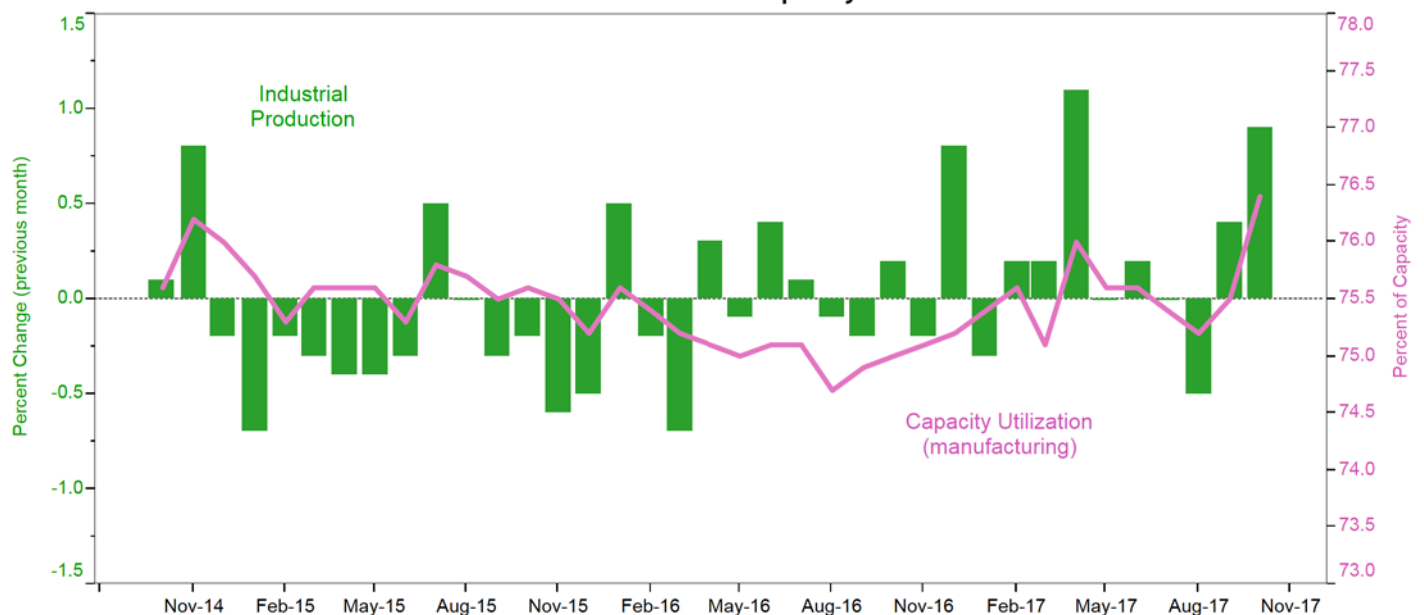
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in November, following an upwardly revised increase in October. Manufacturing and mining production both posted increases in November, while utilities output declined. Capacity utilization continued to increase in November, reaching its highest level in nine-and-a-half years.

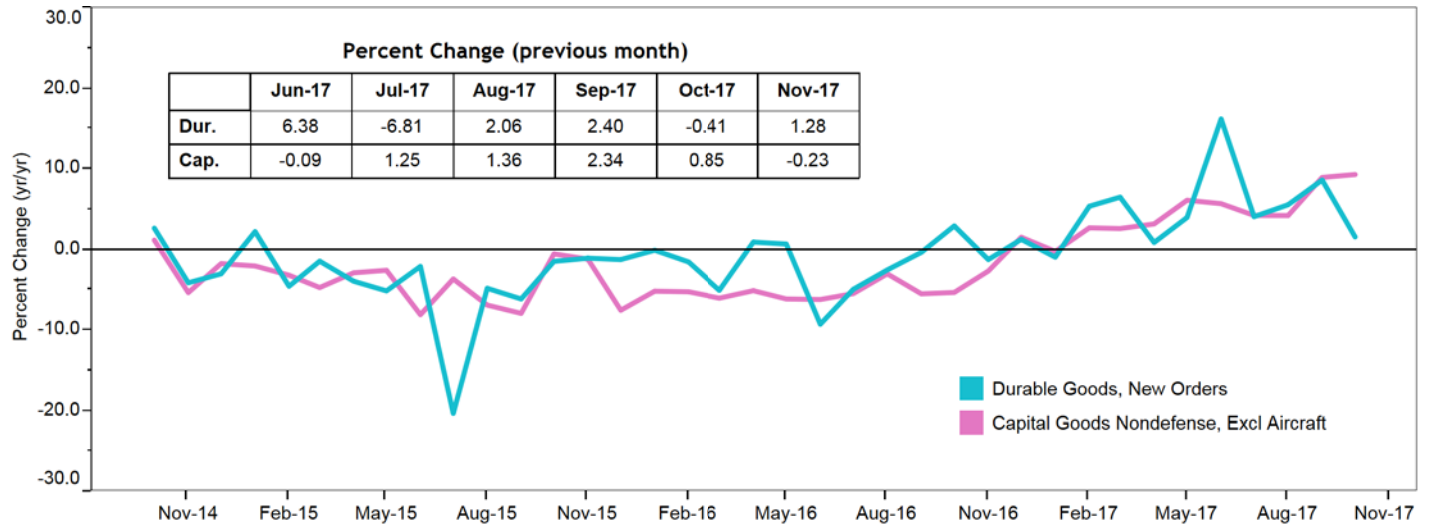
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods increased in November, after falling in the prior month, and continued to rise on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, fell in November, registering their first monthly decline since June. However, core orders continued to rise a year-over-year basis.

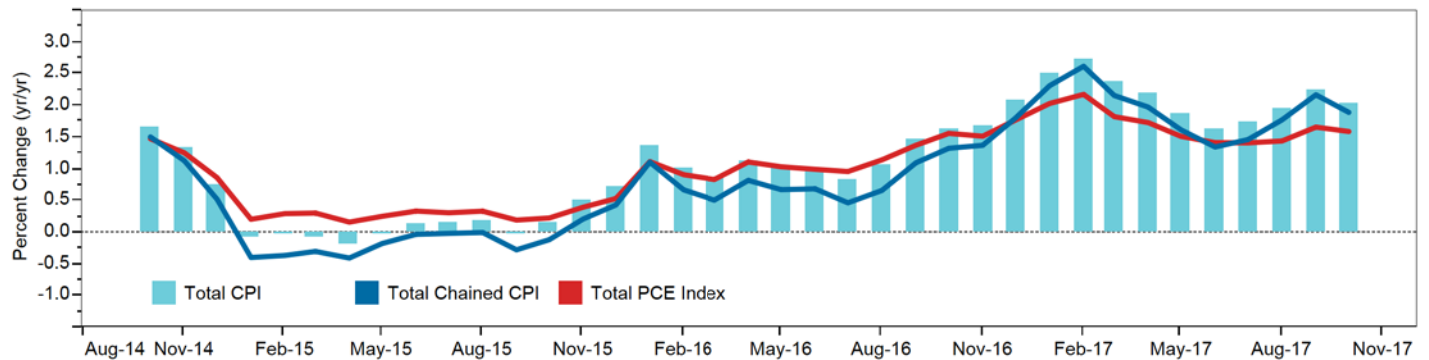
Durable Goods Orders



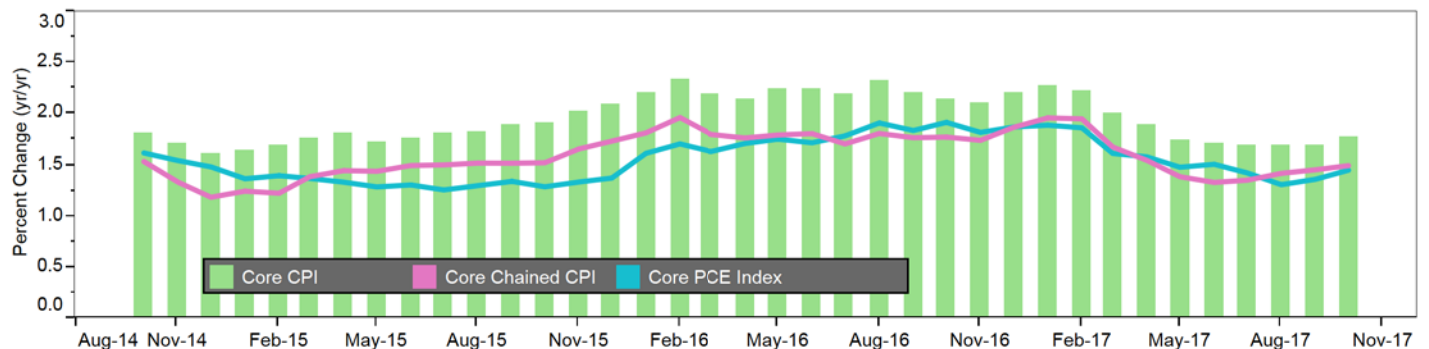
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices accelerated in November, after slowing in October. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, slowed as measured by the Consumer Price Index but accelerated a bit as measured by the Personal Consumption Expenditure index.

Total Price Indices



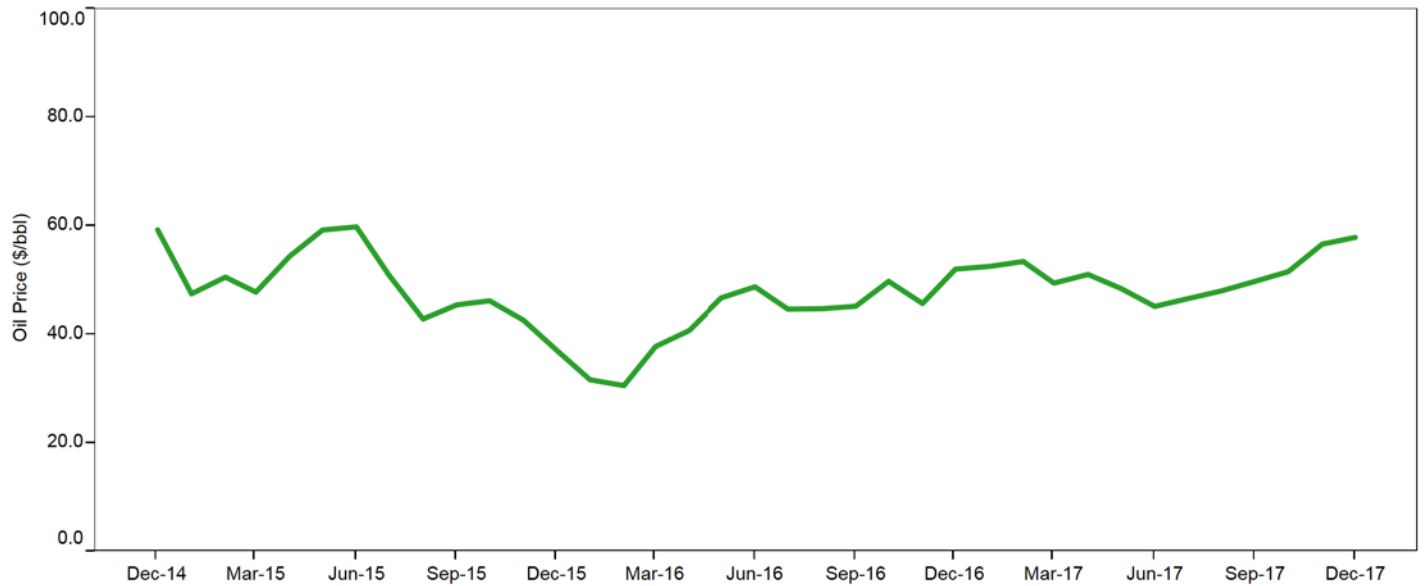
Core Price Indices



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

Oil prices continued to rise in December, registering their sixth consecutive monthly increase. Prices have risen further in the first week of January, registering \$61.7 per barrel on January 8th.

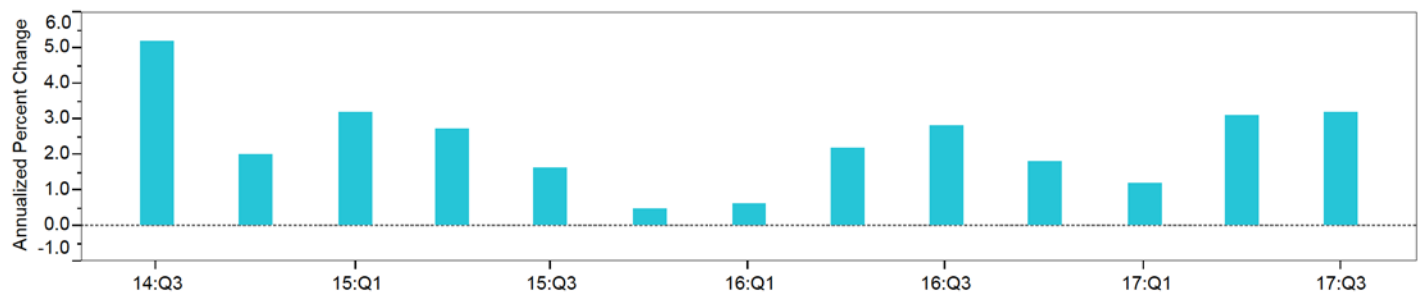
Domestic Spot Oil Price



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

Third quarter real GDP growth was revised down a tick in the third estimate to 3.2% from 3.3%. The lower rate primarily reflected a downward revision to personal consumption expenditures that was partly offset by an upward revision to state and local government spending.

Real GDP



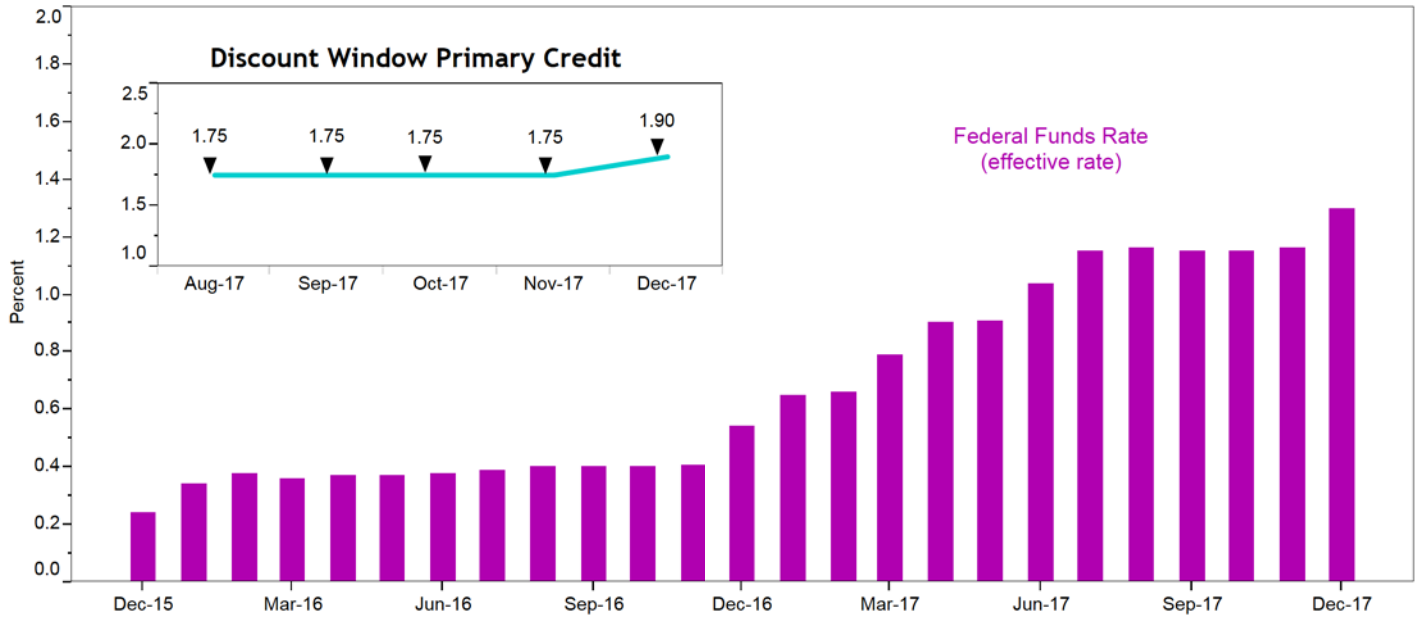
Revisions to Third Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	3.3	3.2
Personal Consumption	2.3	2.2
Business Investment	4.7	4.7
Equipment and Software	10.4	10.8
Residential Investment	-5.1	-4.7
Government	0.4	0.7
Exports	2.2	2.1
Imports	-1.1	-0.7
Final Sales	2.5	2.4

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.