



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

January 14, 2020

**CURRENT ECONOMIC DEVELOPMENTS - January 14, 2020**

Data released since your last Director's meeting confirm that the economy grew at 2.1% in the third quarter of 2019, unrevised from the previous estimate. Employment growth has been holding mostly steady, despite a few small downward revisions to data in recent months. Measures of consumer attitudes were mixed but remained elevated. Housing market data were generally positive and are poised to show further improvement in 2020. Manufacturing data remained soft. Overall, the outlook is little changed, with domestic growth continuing at or slightly above potential as we begin 2020.

Initial claims for unemployment insurance rose in December from November, on average, but have returned to near historic lows in the most recent data. Nonfarm payrolls increased by 145,000 jobs in December, though November and October data were revised downward by 14,000 jobs. The unemployment rate remained at 3.5%.

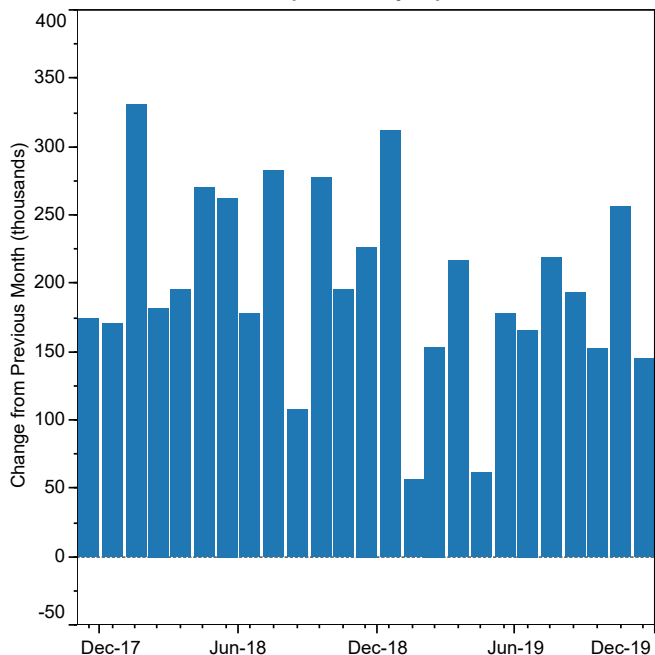
Consumer attitude measures have been mixed. The sentiment index rose to a seven-month high in December, while the consumer confidence index edged down a bit. Both consumption and incomes rose in November. Primary measures of real estate activity were a bit mixed in November, but new home sales, housing starts, and housing permits all increased suggesting positive momentum heading into the new year. Existing home sales, however, dipped for the second time in three months.

In the manufacturing sector, the ISM index continued to signal contraction by falling further below 50 to 47.2 in December, the lowest reading since June 2009. Industrial production jumped 1.1% in November, while capacity utilization in manufacturing also rose. Orders for durable goods fell in November, mainly due to military-related orders. Orders for nondefense capital goods, excluding aircraft, rose in November from October as well as on a year-over-year basis.

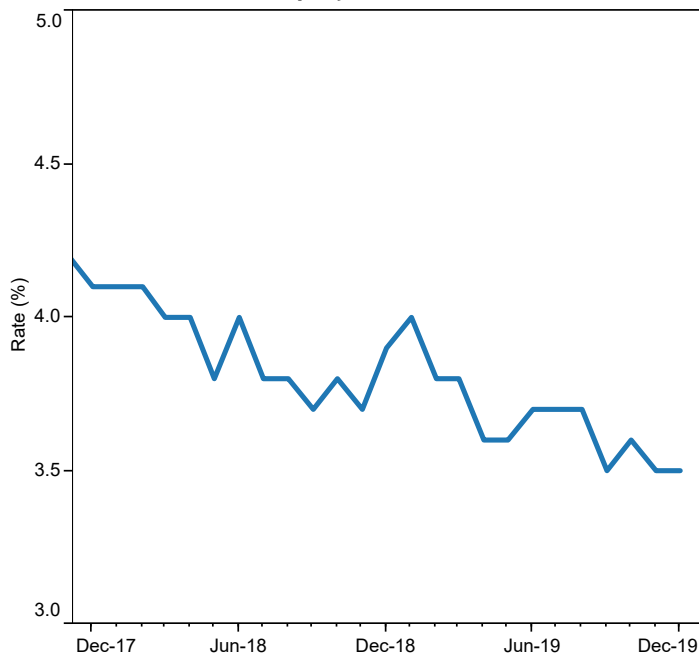
Measures of inflation remained muted. Total inflation, as measured by the CPI, ticked up two-tenths of a percentage point in December, though the core CPI was unchanged. These estimates are roughly consistent with previously released PCE inflation data for November. PCE inflation rates for December will be released later this month. Oil prices increased on average in December and despite some volatility due to events in the Middle East, have remained elevated in early January.

Nonfarm payrolls added 145,000 jobs in December, while job gains for the previous two months were revised downward by a total of 14,000 jobs. While job growth was a bit softer than anticipated in December, monthly gains still averaged 184,000 in the fourth quarter, in line with average growth of 176,000 for all of 2019. The unemployment rate held steady at a 50-year low of 3.5% in December.

**Nonfarm Payroll Employment**



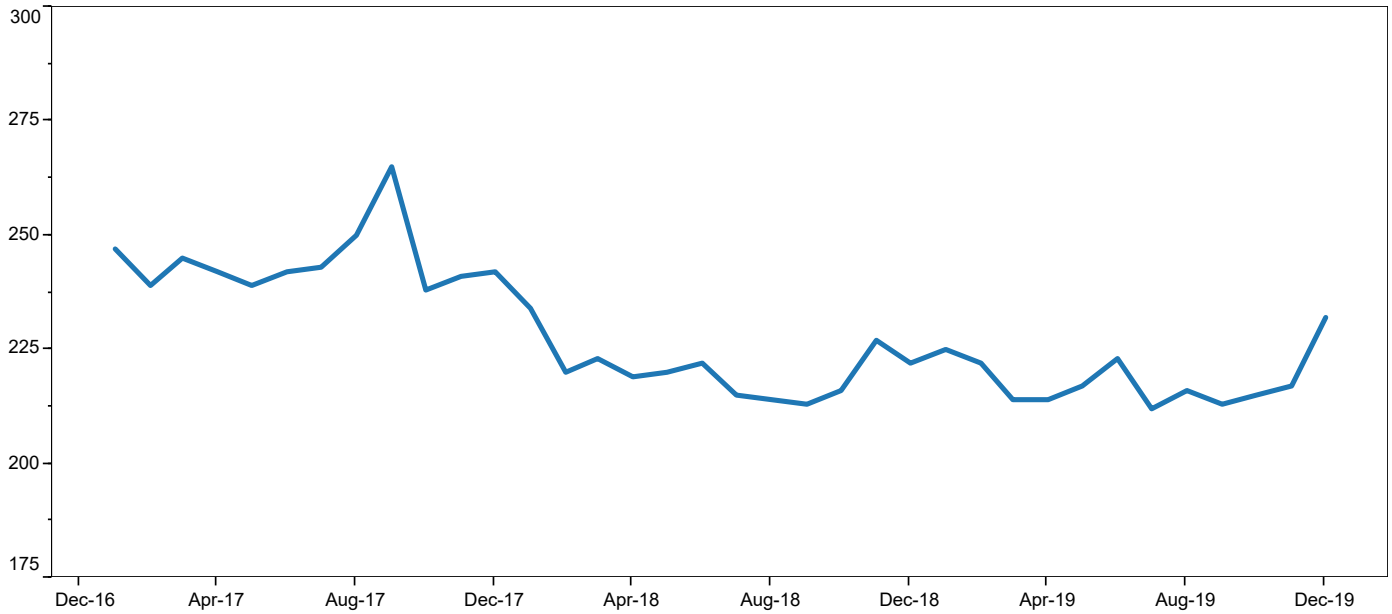
**Unemployment Rate**



Source: Bureau of Labor Statistics / Haver Analytics.

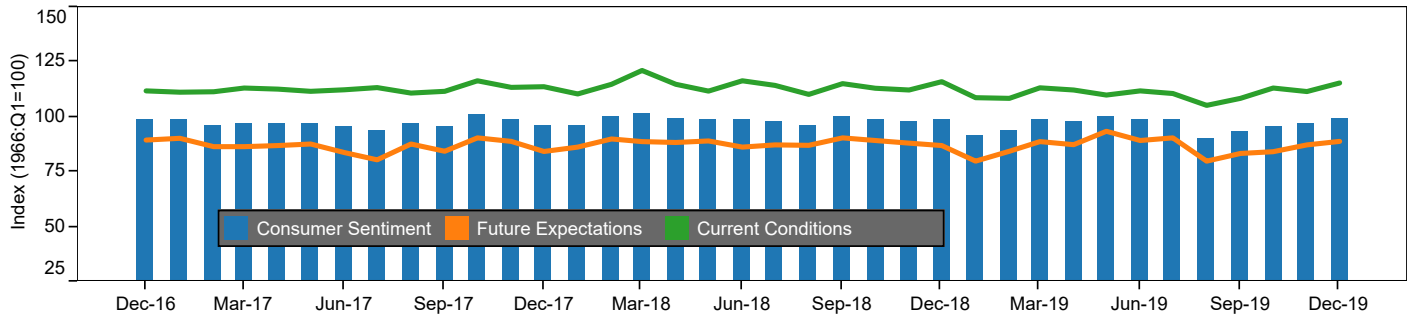
Initial claims for unemployment insurance spiked in early December - resulting in an elevated monthly figure - but have since fallen back closer to the historically low levels that prevailed throughout most of last year.

### Initial Claims

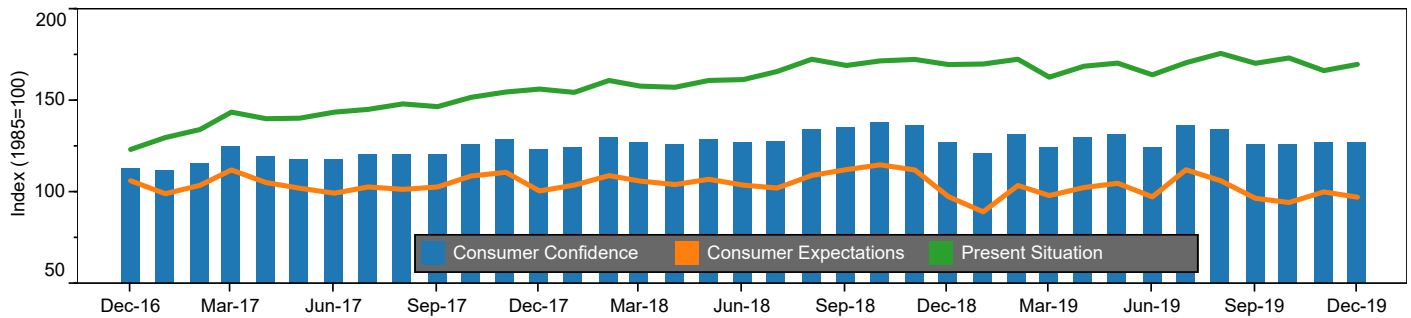


The consumer sentiment index improved to a seven-month high of 99.3 in December from 96.8 in November, yet the consumer confidence index eased to 126.5 from 126.8. Both surveys showed improved feelings about current conditions but differed on future expectations, with respondents to the Michigan survey displaying more optimism.

### Consumer Sentiment and Expectations



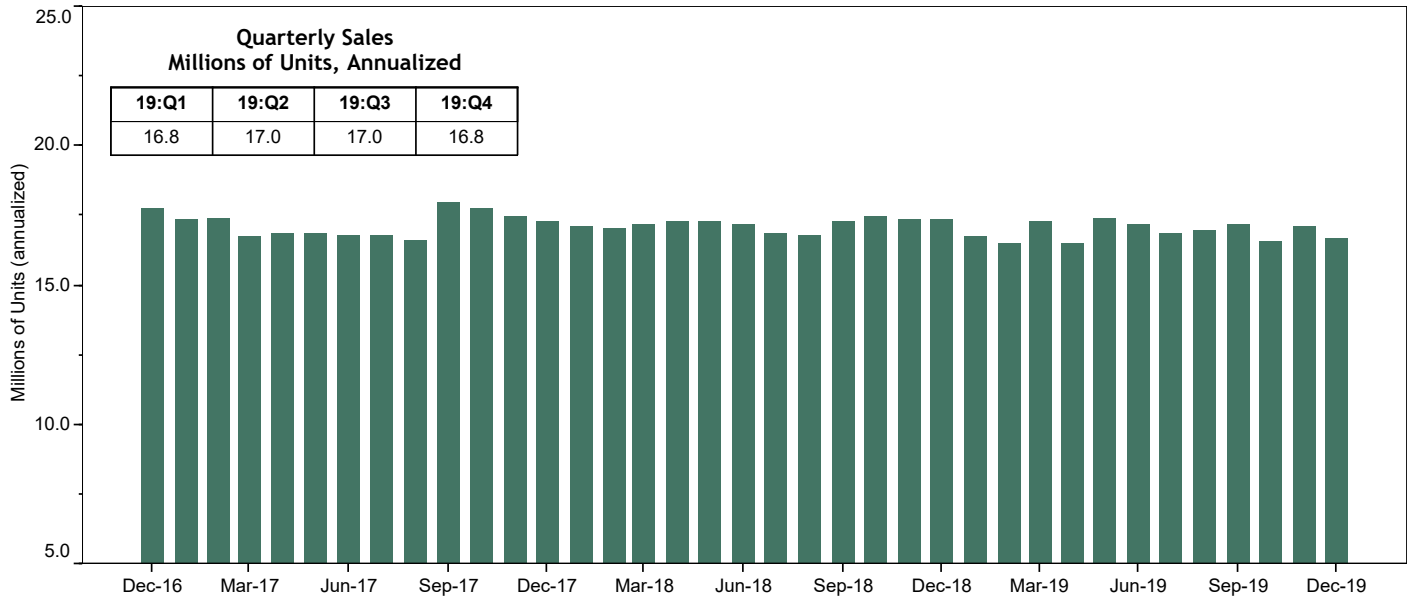
### Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales dipped to an annualized 16.7 million units in December, a level still indicative of a healthy consumer sector.

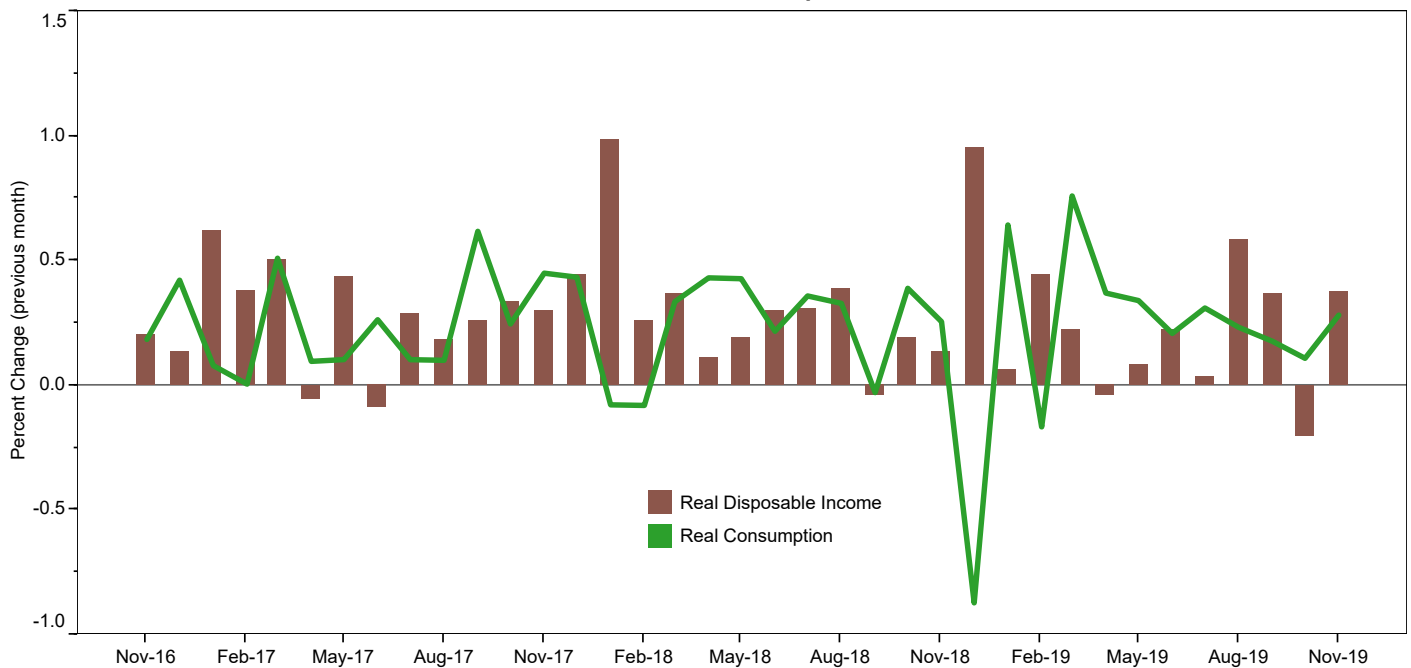
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

In November, real incomes rebounded from an October decline helping support a ninth consecutive monthly increase in consumption.

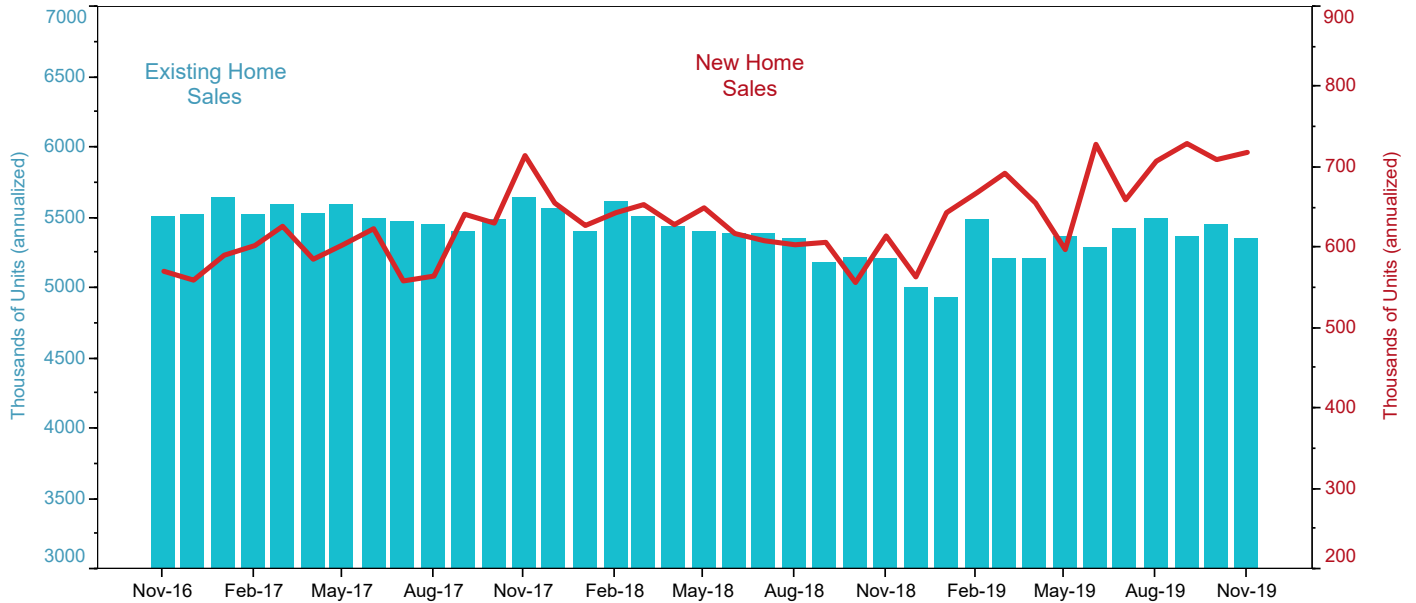
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales edged up in November but sales in the previous two months were revised downward. Existing home sales dipped a bit in November but continued to grow on a year-over-year basis.

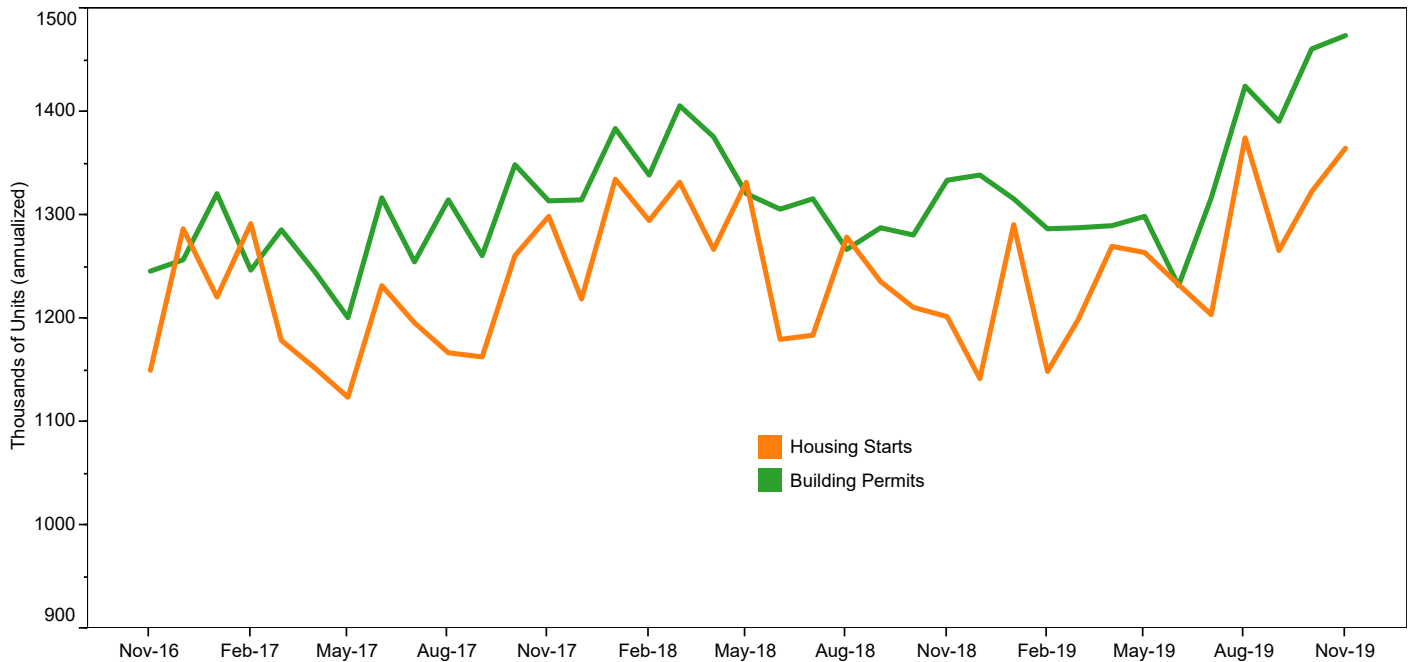
### New and Existing Home Sales



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

Housing starts rose in November with single-family construction hitting a 10-month high. Building permits edged a bit higher in November to their highest level in over 12 years, also seeing increases in both single- and multi-family activity.

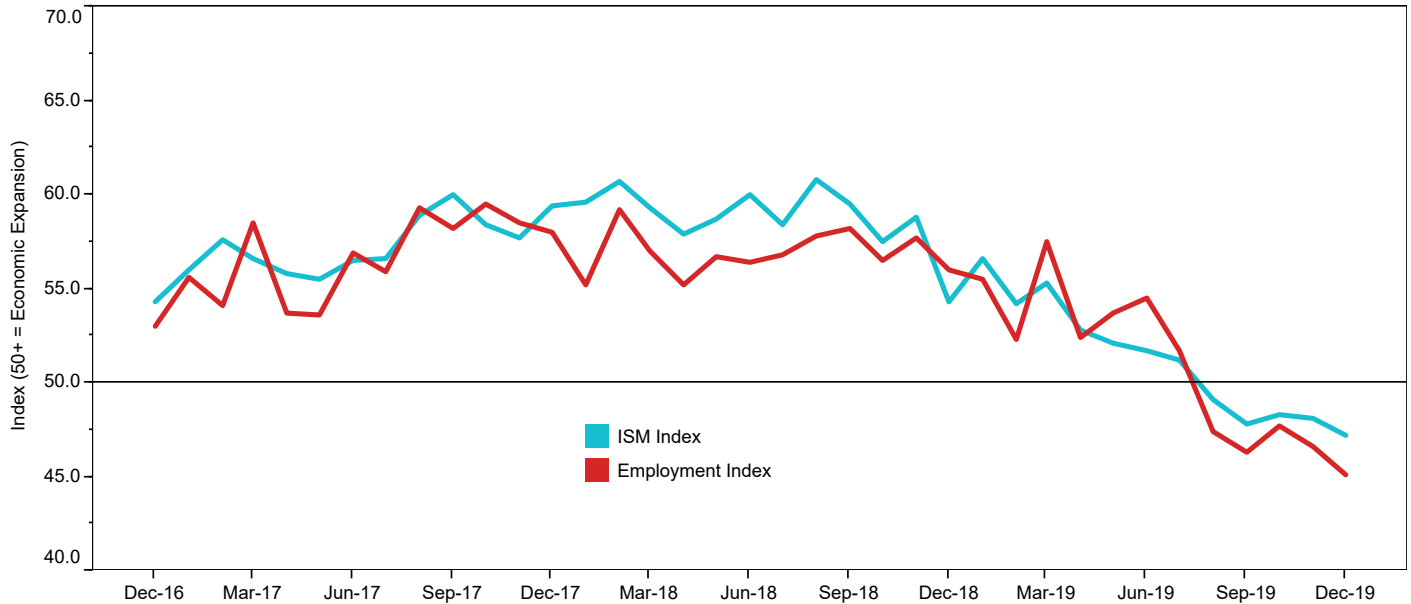
### Housing Starts and Building Permits



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

The ISM index fell to 47.2 in December, the lowest reading since June 2009. Remaining below 50, the index continued to signal contraction in manufacturing activity. The employment component of the index fell to 45.1 in December, from November's reading of 46.6.

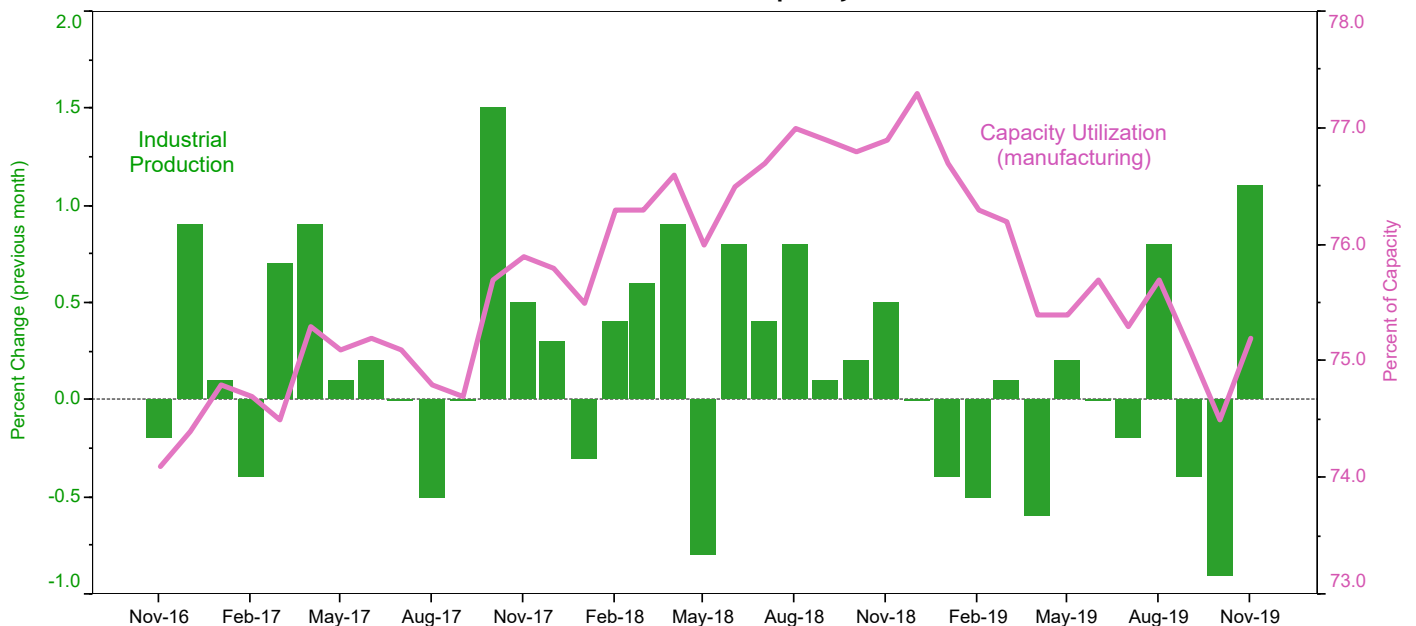
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production surged 1.1% in November, the largest gain in more than two years. Manufacturing production increased in November, led by a large gain in auto-related production resulting from the end of the UAW strike against GM. The output of utilities rose 2.9% while mining production fell 0.2%. Capacity utilization in manufacturing rose in November, although it remains below pre-recession levels.

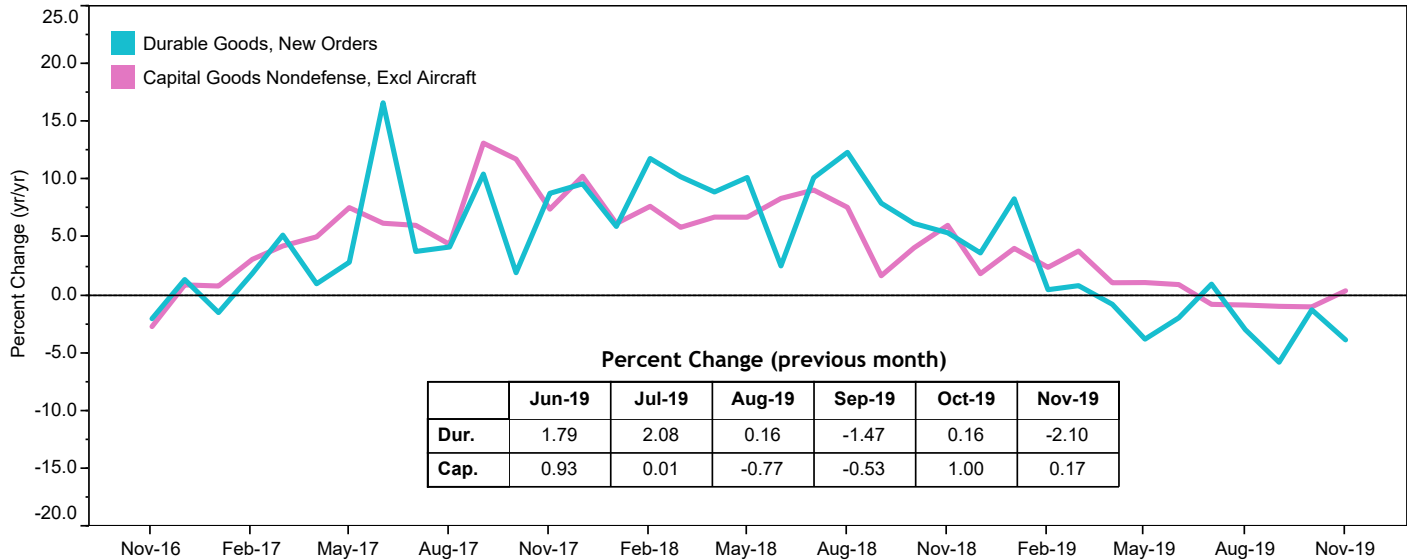
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in November versus the previous month as well as on a year-over-year basis, though the declines were largely due to decreases in military-related spending. Orders for nondefense capital goods, excluding aircraft, posted small gains in November on a monthly and a year-over-year basis.

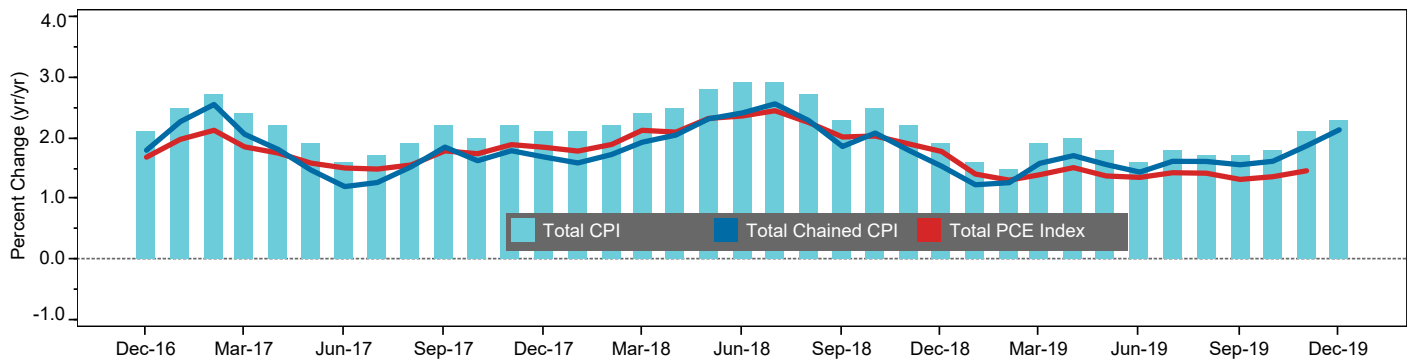
### Durable Goods Orders



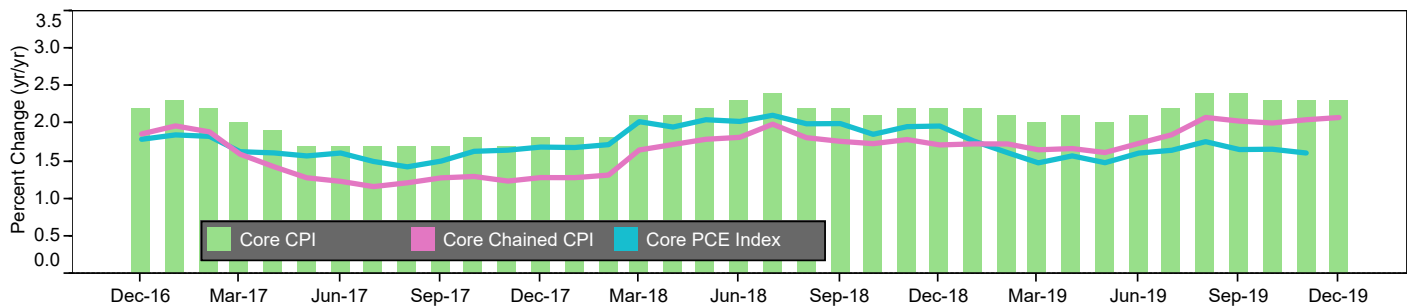
Source: U.S. Census Bureau / Haver Analytics.

Total inflation as measured by the Consumer Price Index (CPI) accelerated by two-tenths of a percentage point to 2.3% in December, the fastest growth in over one year. Core inflation, which excludes the volatile food and energy components, held steady at 2.3% in December. On a monthly basis, both total core inflation slowed from November but still posted small gains. PCE inflation rates for December will be released later this month.

### Total Price Indices



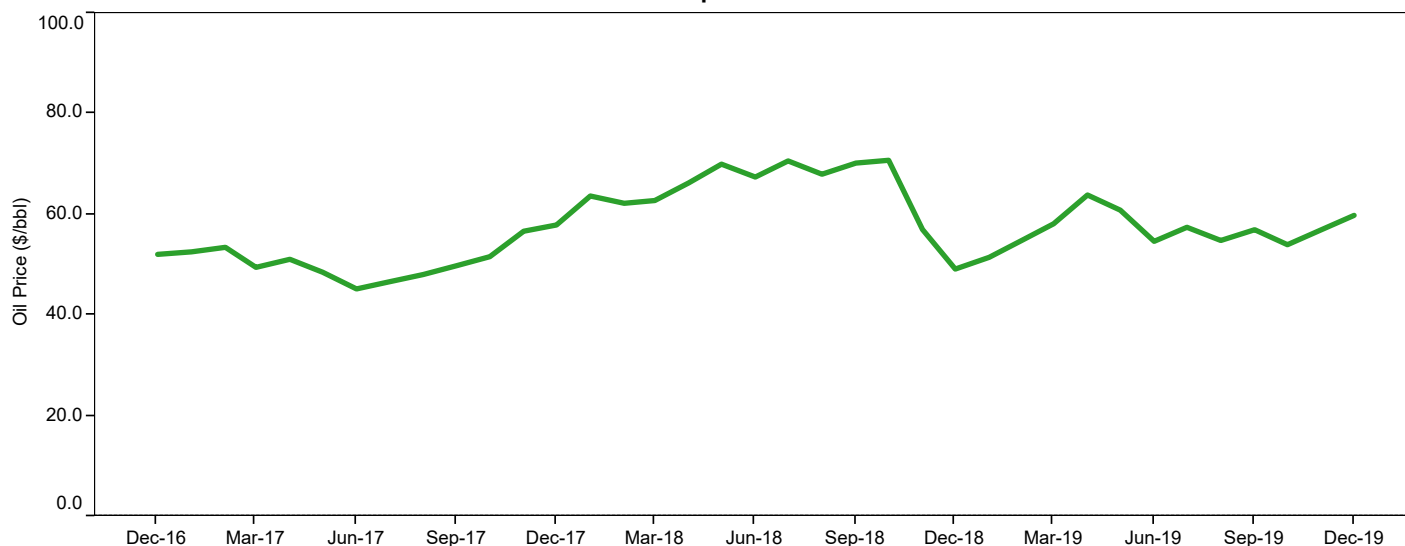
### Core Price Indices



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

Oil prices rose, on average, in December to a seven-month high and have stayed elevated through the first two weeks of January.

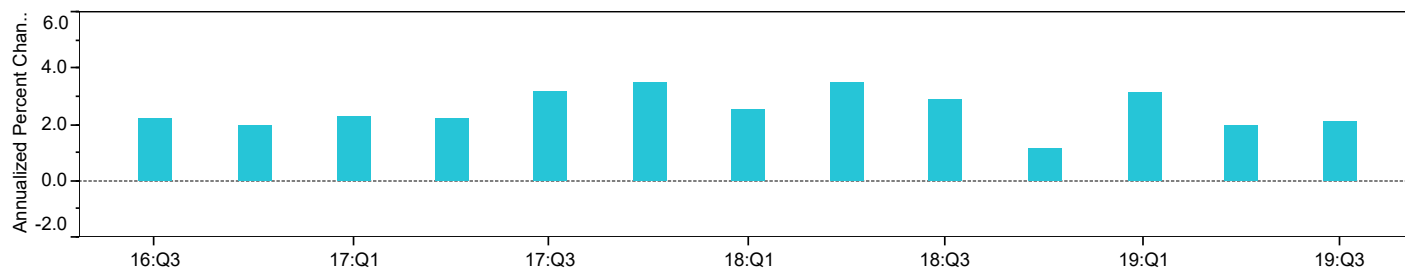
### Domestic Spot Oil Price



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

The increase in real GDP in the third quarter was unrevised at 2.1%. This increase reflected positive contributions from PCE, federal government spending, residential investment, exports, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment and private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.

### Real GDP



### Revisions to Third Quarter Real GDP

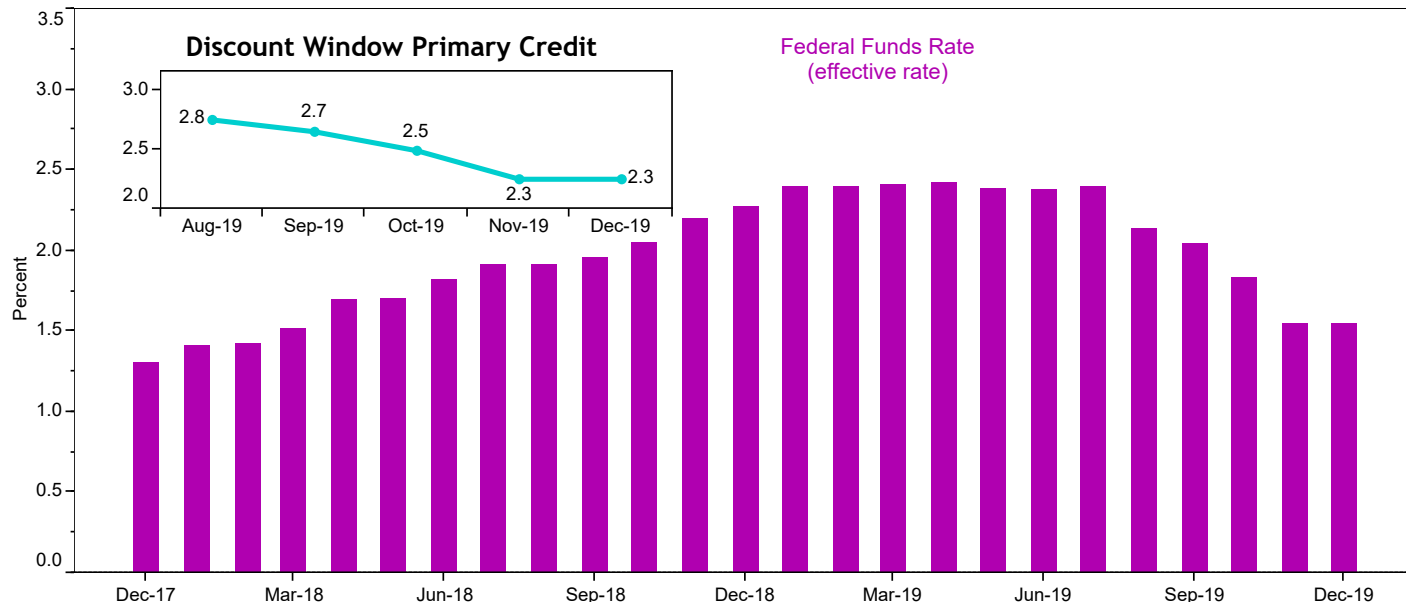
Description	Second Estimate	Third Estimate
Real GDP	2.1	2.1
Personal Consumption	2.9	3.2
Business Investment	-2.7	-2.3
Equipment and Software	-3.8	-3.8
Residential Investment	5.1	4.6
Government	1.6	1.7
Exports	0.9	1.0
Imports	1.5	1.8
Final Sales	2.0	2.1

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 Mike Corbett and David J. Brown.