



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

July 11, 2017

## CURRENT ECONOMIC DEVELOPMENTS - July 11, 2017

Data released since your last Directors' meeting suggest growth in the second quarter likely accelerated from the upwardly revised rate seen in the first quarter. Labor markets showed signs of continued strengthening, and consumer spending increased. However, consumer attitudes and support from manufacturing were mixed. Overall, economic growth is projected to pick up over the course of the year.

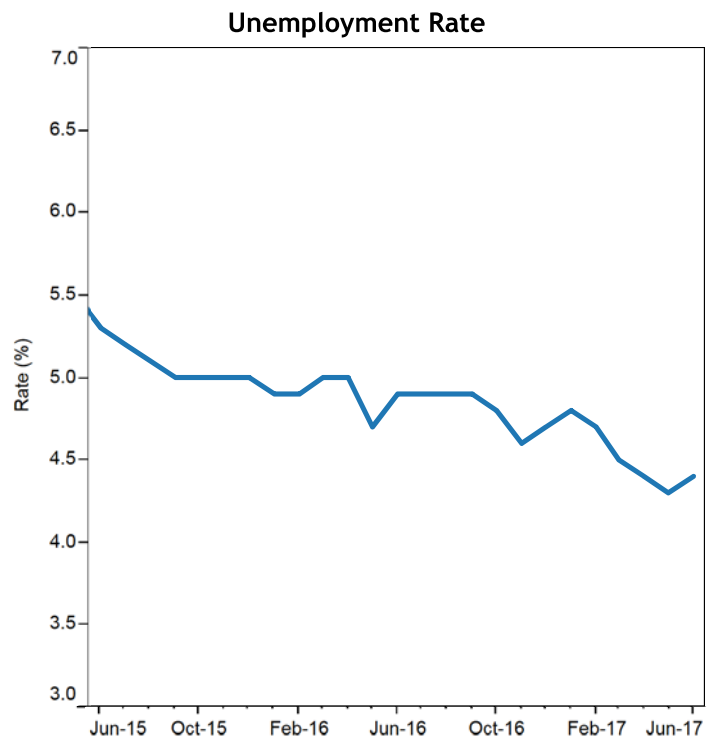
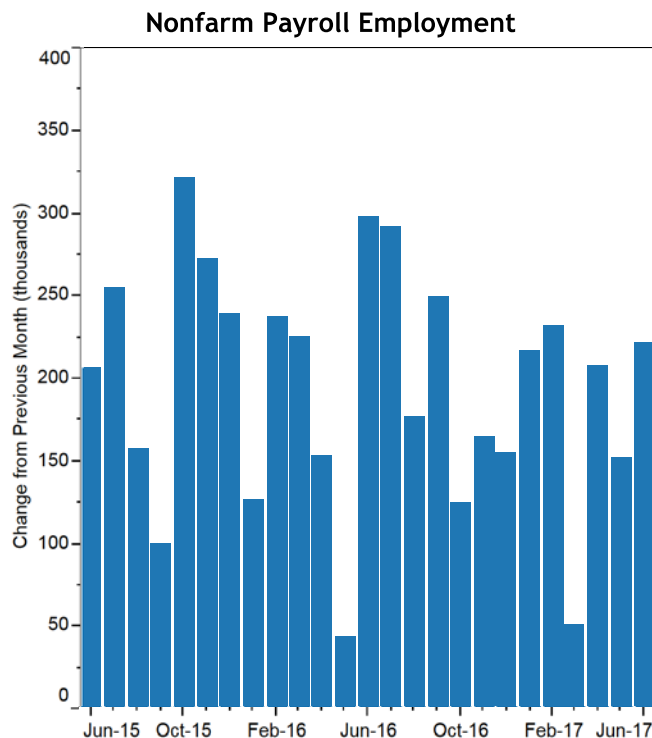
In June, nonfarm payrolls posted a larger-than-expected increase, while total job gains for the previous two months were revised up. The unemployment rate rose one-tenth to 4.4% in June, due to an increase in the labor force that outpaced an increase in civilian employment. Initial claims for unemployment insurance increased in June, after falling to a 44-year low in May, but remain consistent with further improvements in the labor market.

Consumer attitudes were mixed in June, as the sentiment index declined due to a fall in the expectations component, while the confidence index rose due to an increase in the present situation component. The pace of vehicle sales declined in June, reaching its lowest rate in two and a half years. Consumption increased in May, albeit at a slower pace than seen in April, as incomes continued to rise in May. Primary measures of real estate activity were mixed in May, as both new and existing home sales rose, while housing starts and building permits both fell.

In the manufacturing sector, the ISM index rose in June and continued to signal expansion in the industry. Industrial production was flat in May, and capacity utilization declined. Orders for durable goods decreased in May on a monthly basis, but were up from their year-ago level. Meanwhile, nondefense capital goods, excluding aircraft, increased in May on both a monthly and a year-over-year basis.

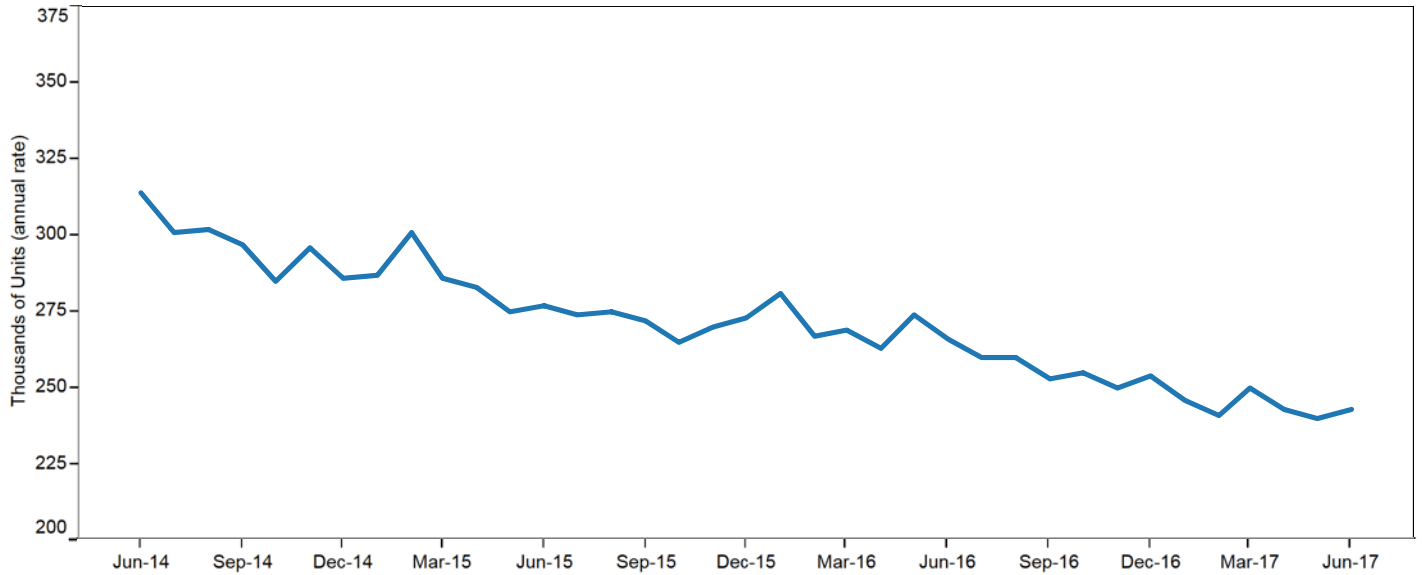
Growth in both total consumer prices and core prices, which exclude the volatile food and energy sectors, continued to decelerate in May. Oil prices fell, on average, in June, and were little changed in the first several days of July.

Nonfarm payrolls added 222,000 jobs in June, more than anticipated, while job gains for the previous two months were revised up by a total of 47,000 jobs. The unemployment rate rose one-tenth to 4.4% in June, as the rise in civilian employment was outpaced by an increase in the size of the labor force.



Initial claims for unemployment insurance increased in June, after falling in May to their lowest monthly average since June 1973. Despite the uptick in June, claims remain at a level consistent with further labor market improvement.

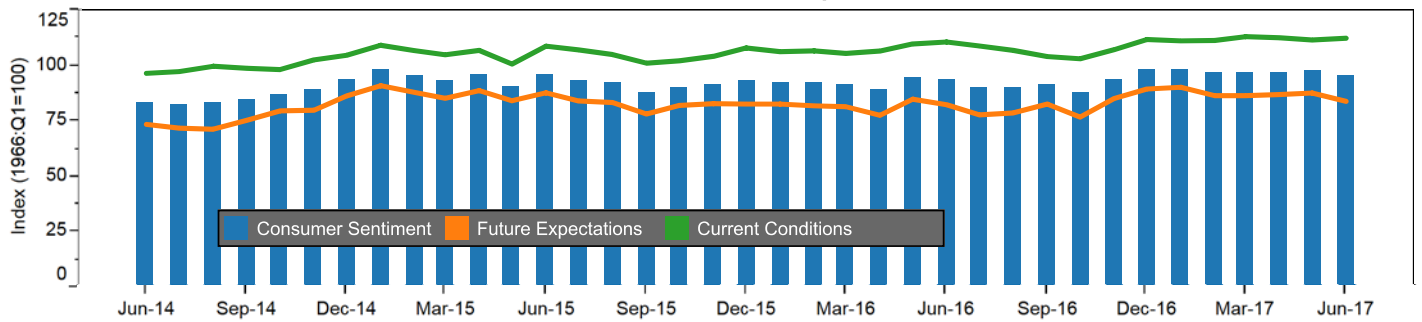
### Initial Claims



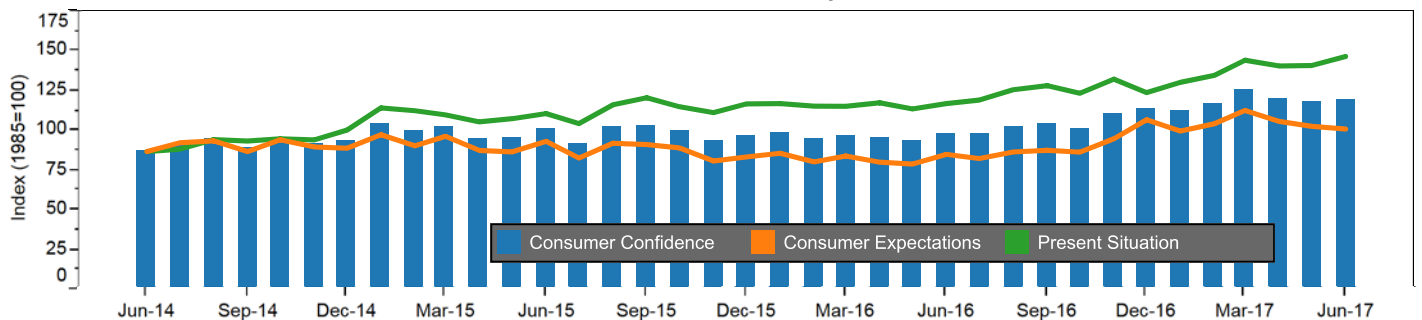
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in June, as the sentiment index declined from its May level due to fall in the future expectations component, while the current conditions component ticked up. Meanwhile, the confidence index rose in June, after falling in each of the prior two months, due to an increase in the present situation component, while the expectations component continued to decline. Respondents to the sentiment survey expressed more favorable views of personal finances, while respondents to both surveys were less optimistic towards the short-term economic outlook.

### Consumer Sentiment and Expectations



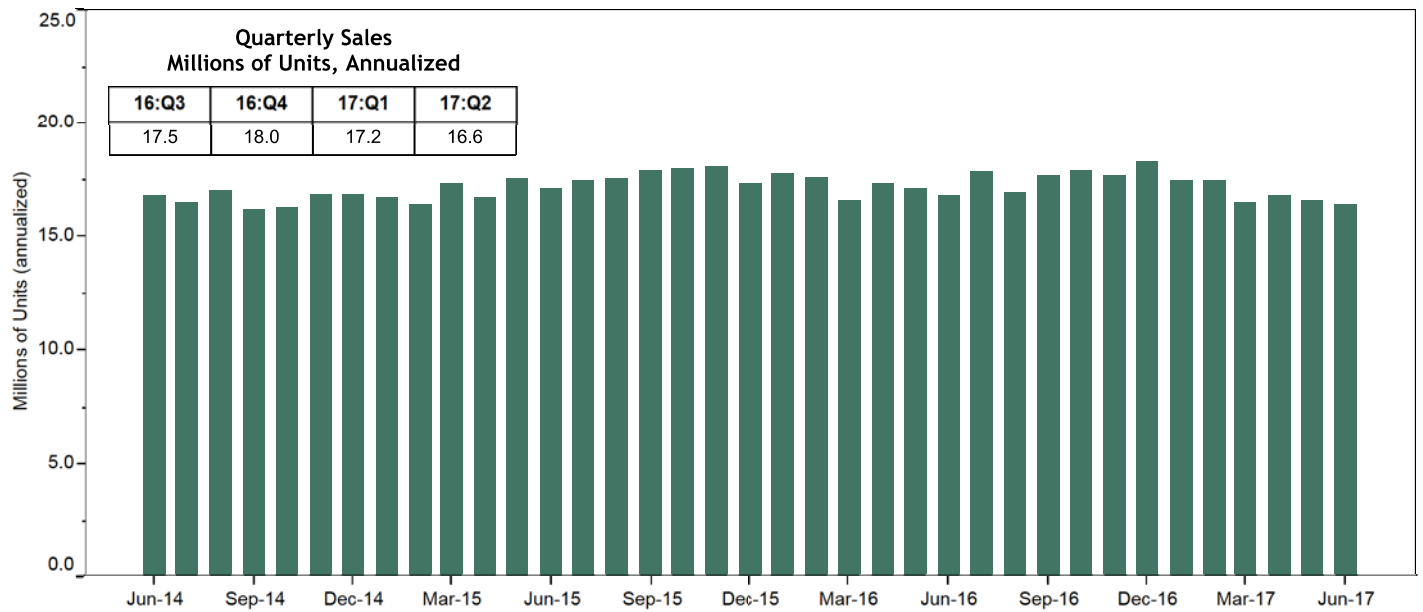
### Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales continued to fall in June, as a slowdown in the rate of auto sales more-than-offset an uptick in the pace of light duty truck sales. Total sales in June reached the lowest rate since October 2014.

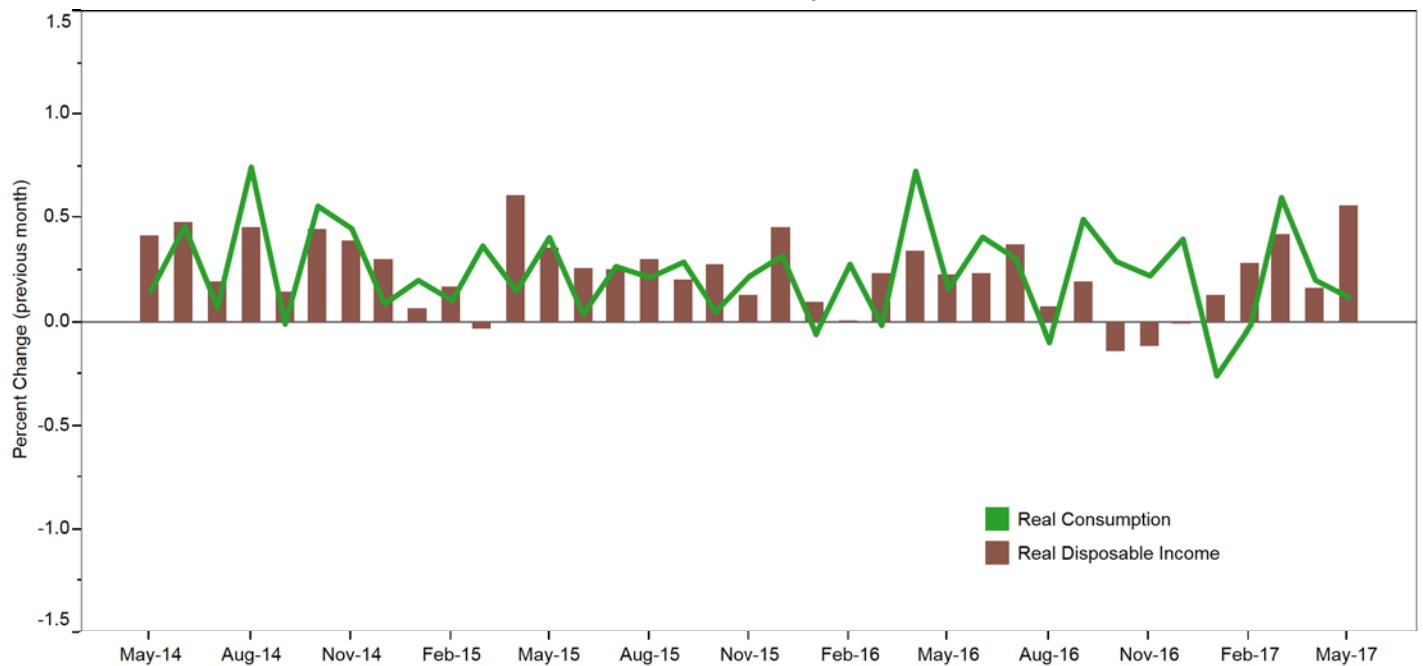
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes in May recorded their largest monthly increase in two years, and have increased in each month so far this year. Consumption edged up in May, albeit at a slower rate than seen in April.

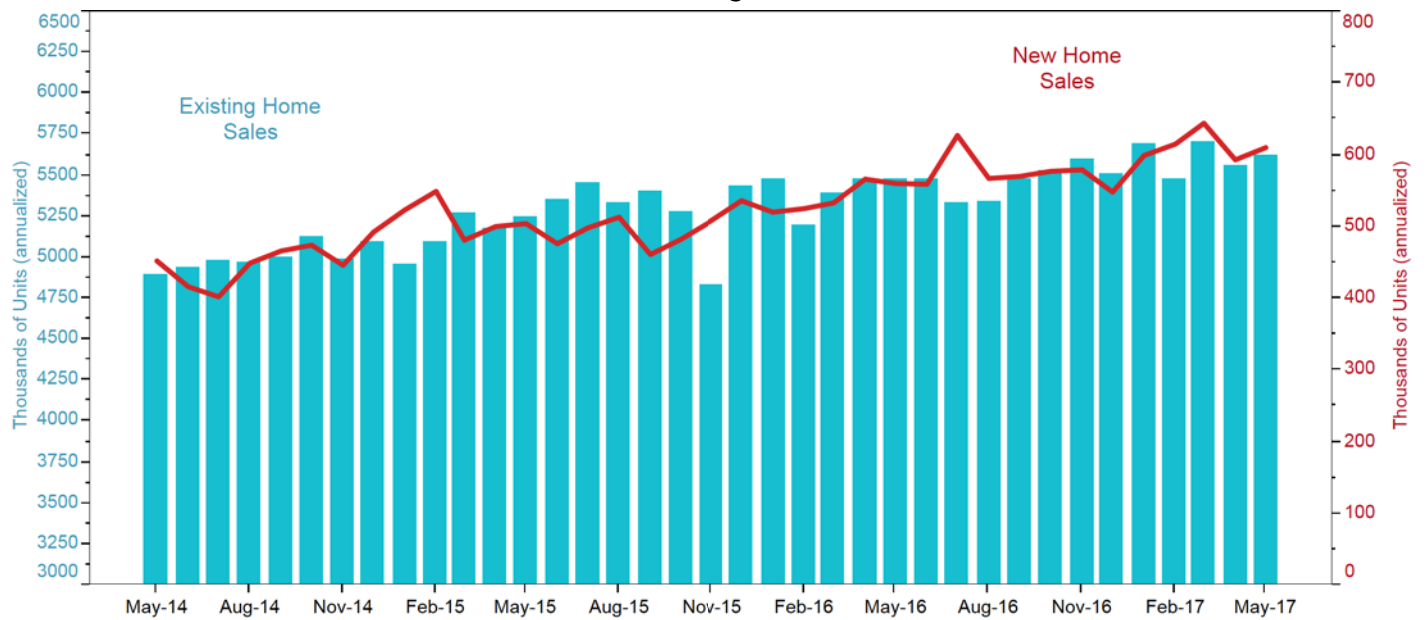
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data improved in May. Both new and existing home sales increased, partially offsetting the declines seen in April.

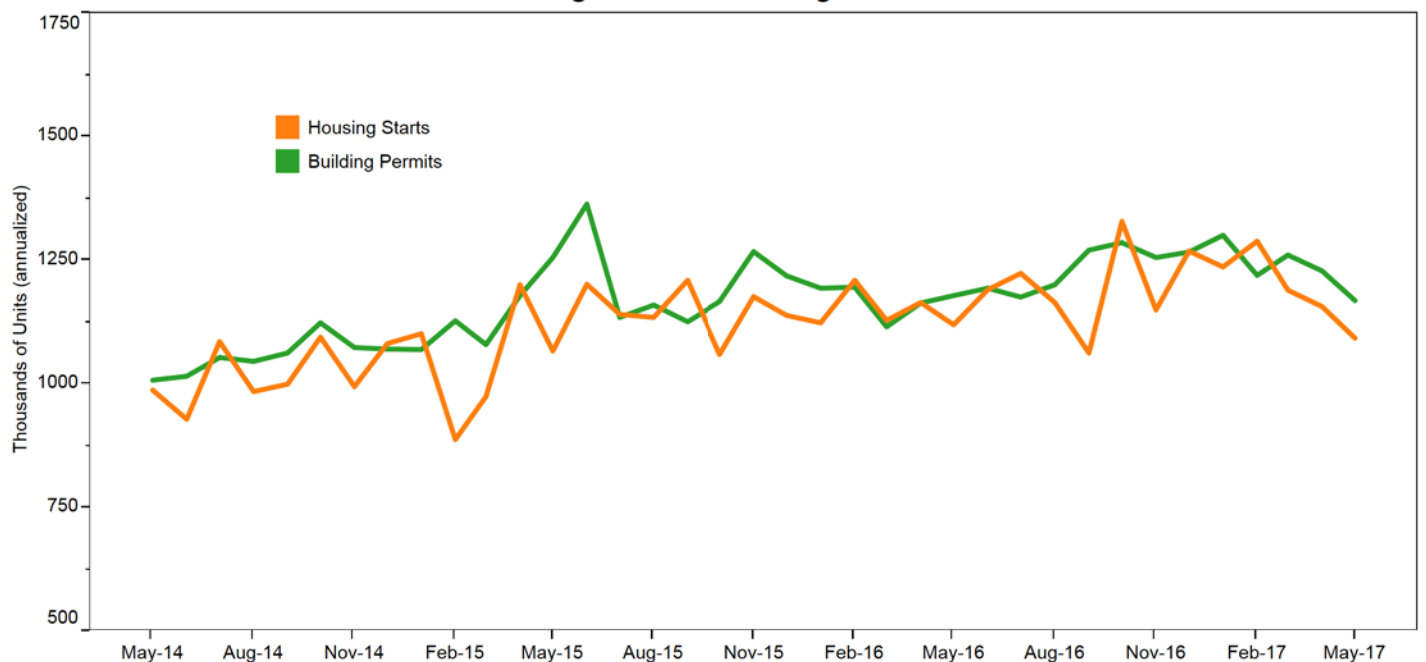
### New and Existing Home Sales



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

Housing starts fell in May, their third consecutive monthly decline, as both single-family and multi-family starts decreased. Meanwhile, building permits also declined in May, after falling in April, due to decreases in both single-family and multi-family permits.

### Housing Starts and Building Permits



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

The ISM manufacturing index rose in June, after ticking up in May, and continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in June, after rising in May.

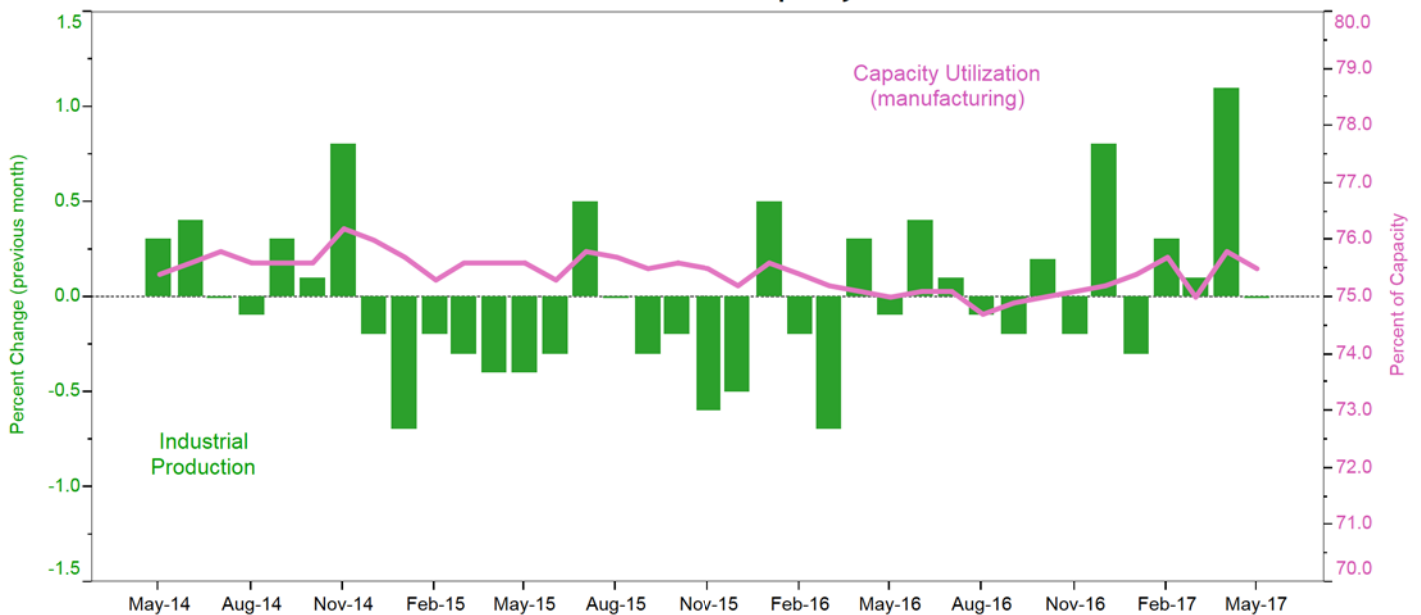
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production was unchanged in May, following an increase in April that was revised up slightly. Both mining and utilities production posted increases in May, while manufacturing output decreased. Capacity utilization eased in May, partially offsetting the increase seen in April.

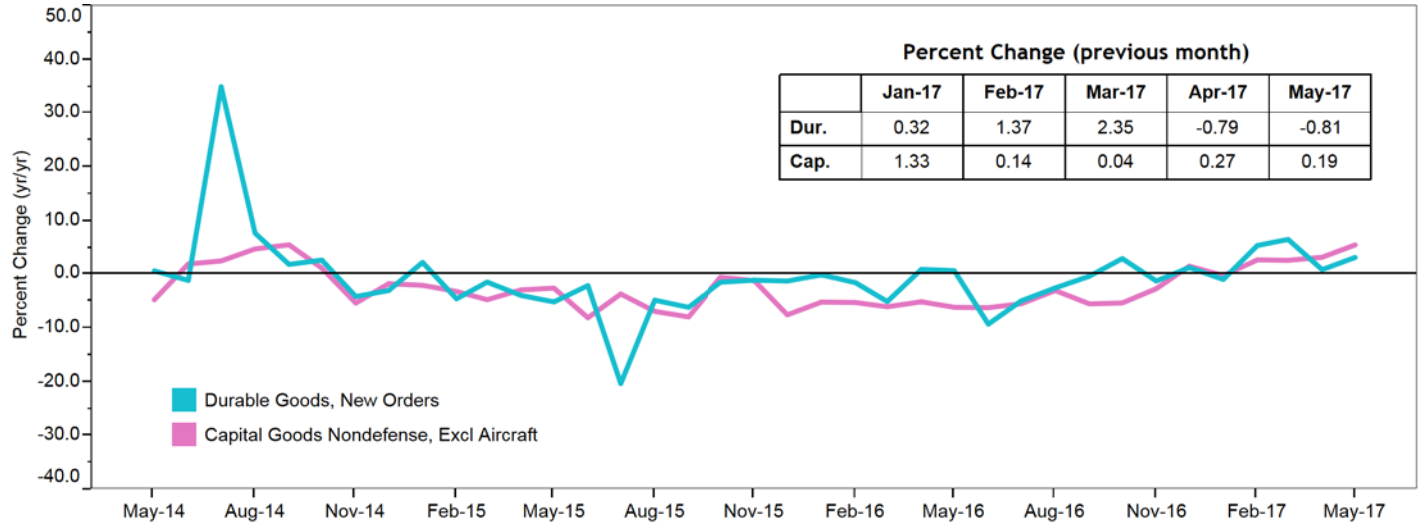
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in May, after dropping in April, but were up from their year-ago level. Orders for nondefense capital goods, excluding aircraft, edged up in May, after increasing in April, and continued to rise on a year-over-year basis.

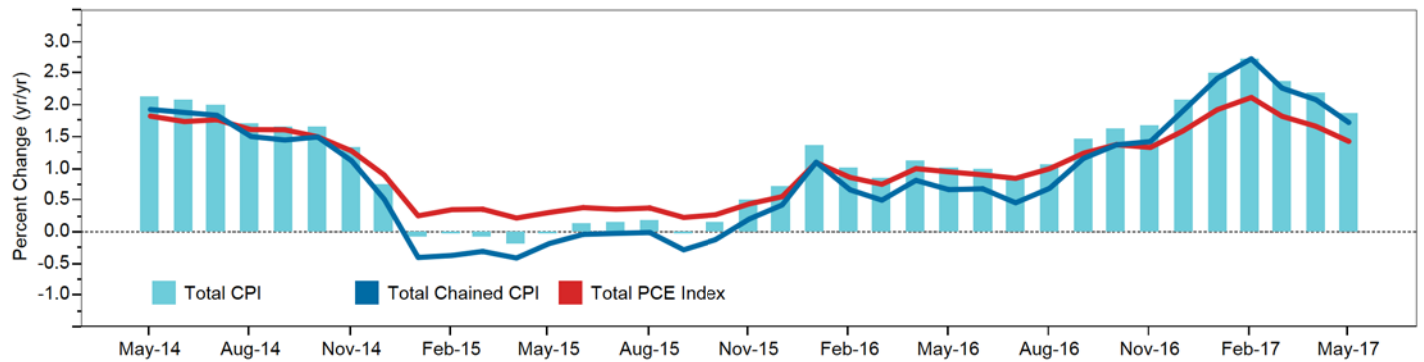
### Durable Goods Orders



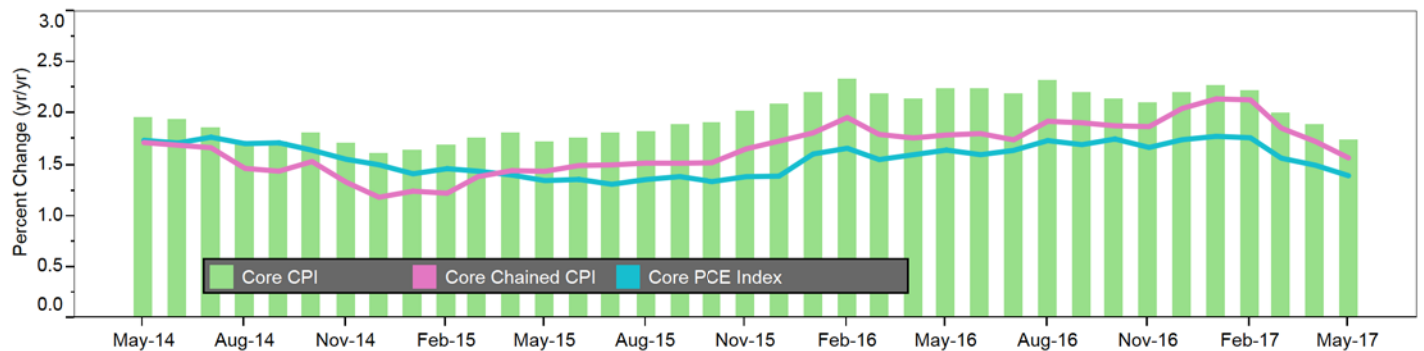
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to decelerate in May, as both the Consumer Price Index and the Personal Consumption Expenditure Price Index reached their lowest rates since November. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, also continued to ease in May.

### Total Price Indices



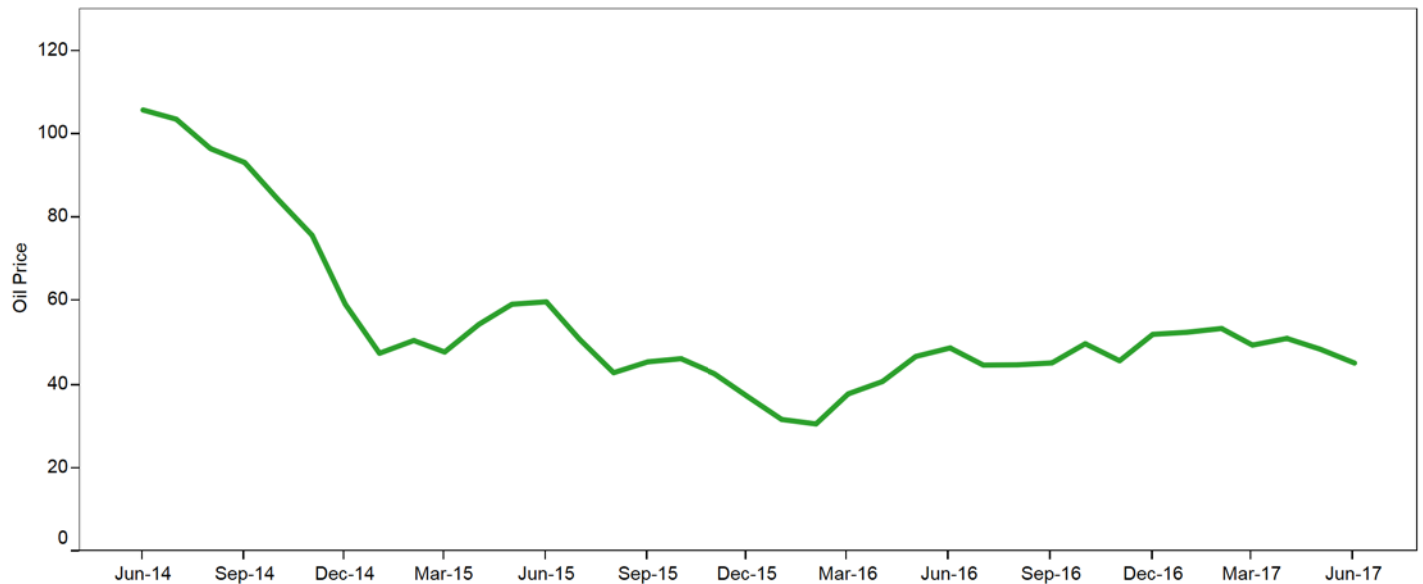
### Core Price Indices



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

Oil prices continued to decline in June, reaching their lowest monthly average since August 2016. Prices have hovered near their June average in the first several days of July, registering \$44.4 per barrel on July 10.

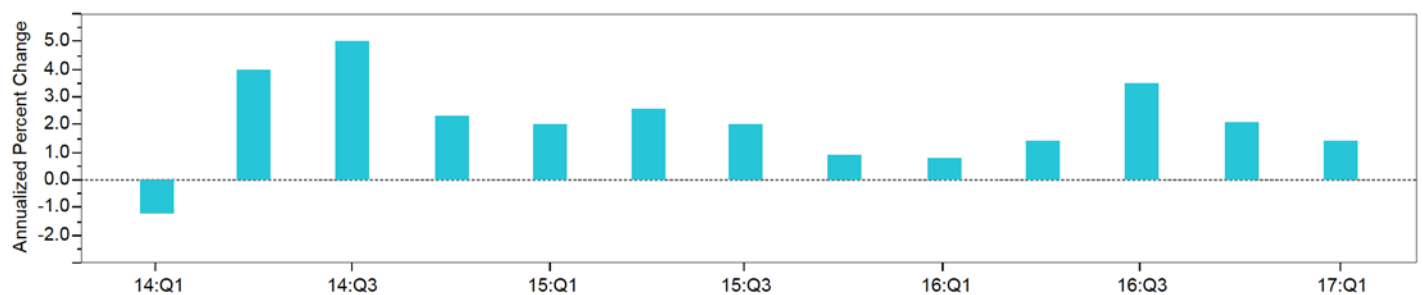
### Domestic Spot Oil Price



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

First quarter real GDP growth was revised up in the third estimate to 1.4% from 1.2%. The higher rate primarily reflected upward revisions to personal consumption expenditures and to exports, which were partly offset by a downward revision to nonresidential fixed investment.

### Real GDP



### Revisions to First Quarter Real GDP

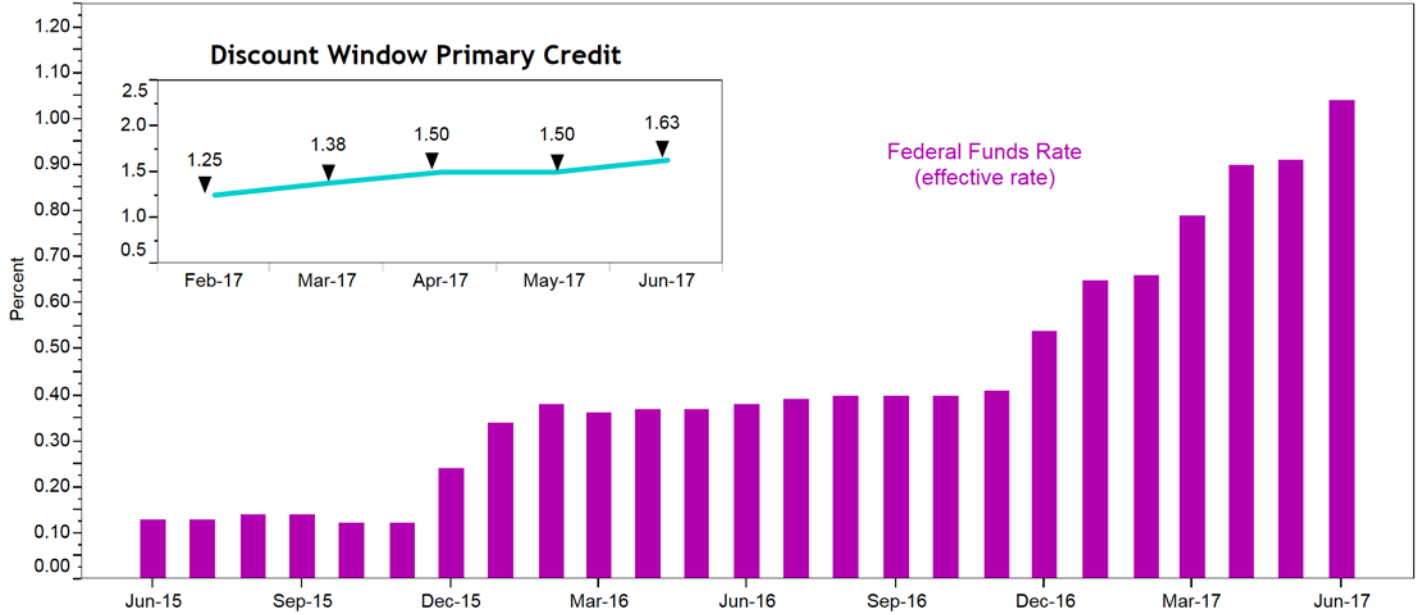
Description	Second Estimate	Third Estimate
Real GDP	1.2	1.4
Personal Consumption	0.6	1.1
Business Investment	11.4	10.4
Equipment and Software	7.2	7.8
Residential Investment	13.8	13.0
Government	-1.1	-0.9
Exports	5.8	7.0
Imports	3.8	4.0
Final Sales	2.2	2.6

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.