



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

June 12, 2018

CURRENT ECONOMIC DEVELOPMENTS - June 12, 2018

Data released since your last Directors' meeting show that economic growth in the first quarter was a bit lower than originally estimated, but also suggest that economic growth will strengthen in the second quarter. Labor markets continued to tighten, consumer spending increased, and support from manufacturing was mostly positive. However, housing market data declined. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

In May, nonfarm payrolls posted a larger-than-expected increase, and total job gains for the previous two months were revised up. The unemployment rate fell one-tenth to 3.8 percent in May, due to an increase in civilian employment, as the size of the labor force held relatively steady. Initial claims for unemployment insurance edged up in May but remain consistent with further improvements in the labor market.

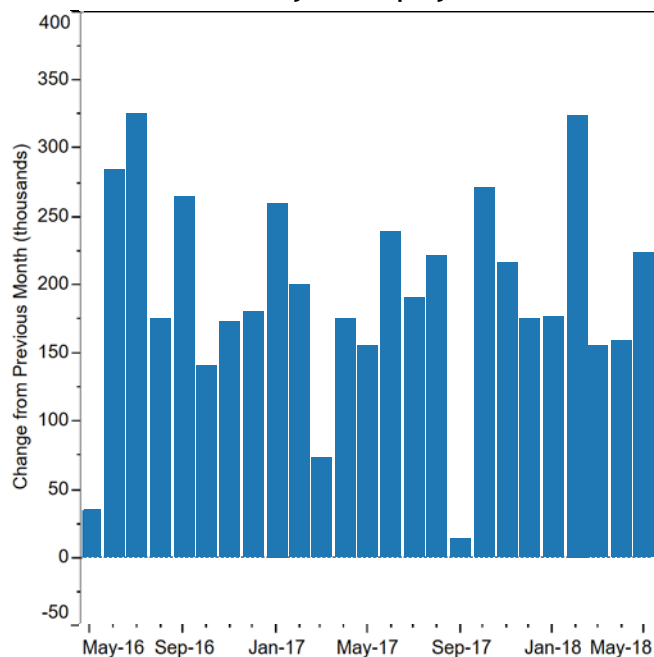
Consumer attitudes were mixed in May, as the sentiment index continued to decline but remained favorable, while the confidence index increased. The pace of vehicle sales continued to fall in May, as sales of both autos and light duty trucks decreased. Consumption increased in April, albeit at a slightly slower rate than seen in March, while real incomes also rose in April. Primary measures of real estate activity declined in April. Both new and existing home sales fell during the month, after rising in each of the prior two months. Housing starts and building permits both decreased in April, as declines in multi-family starts and permits more than offset increases in single-family activity.

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

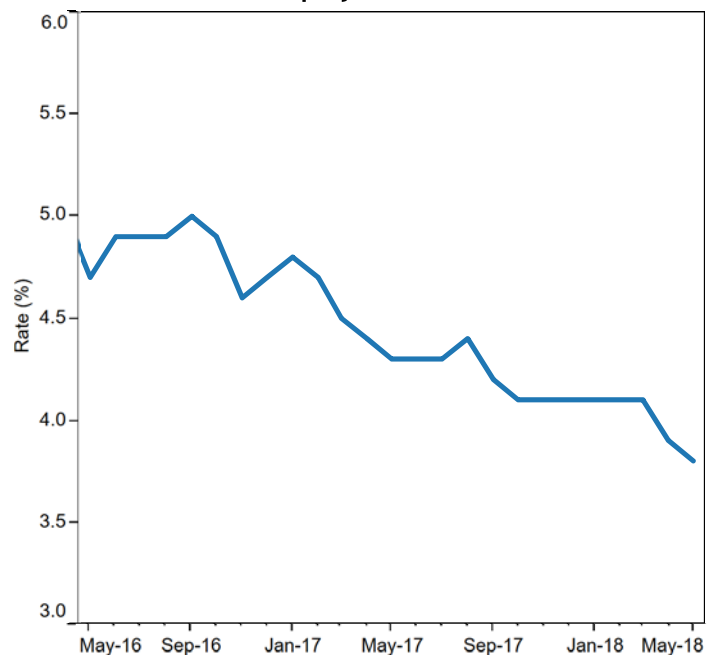
Growth in total consumer prices accelerated in May, while growth in core prices, which exclude the volatile food and energy sectors, also increased, as measured by the Consumer Price Index (CPI). Personal Consumption Expenditure (PCE) index data for May will be released later this month, and both the headline and core PCE indexes were essentially unchanged in April. Oil prices continued to rise, on average, in May but have eased a bit in the first several days of June.

Nonfarm payrolls added 223,000 jobs in May, while job gains for the previous two months were revised up by a net 15,000 jobs. The unemployment rate fell one-tenth of a percentage point to 3.8% in May, as civilian employment rose while the size of the labor force was essentially unchanged.

Nonfarm Payroll Employment

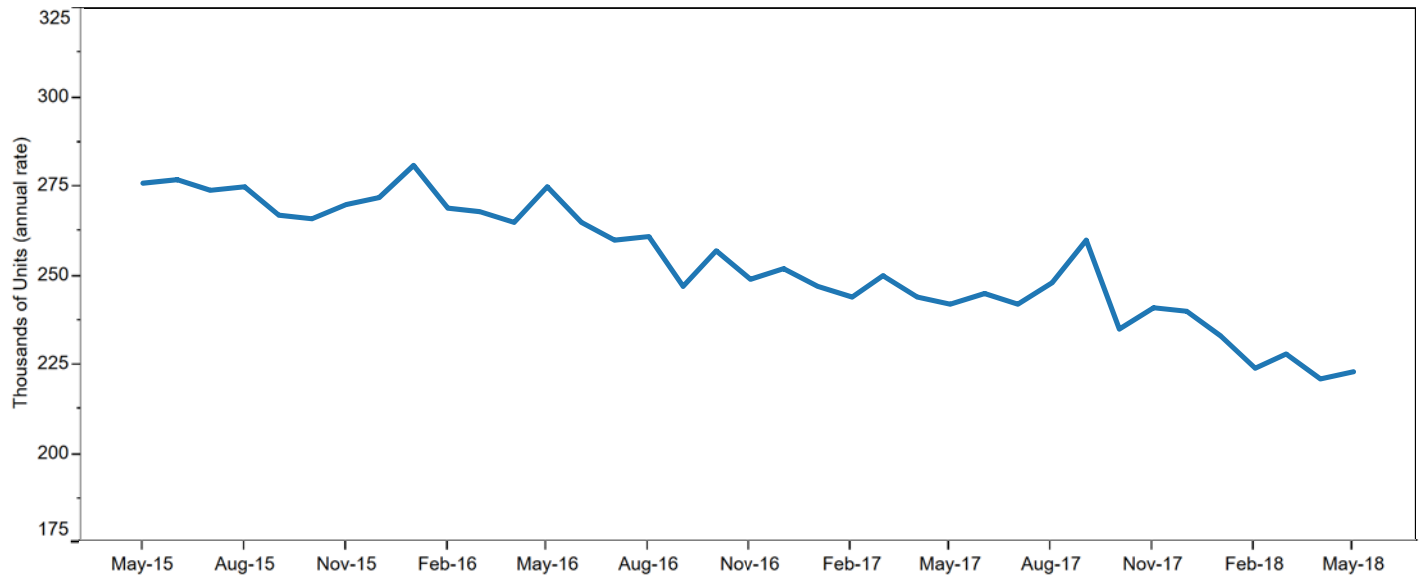


Unemployment Rate



Initial claims for unemployment insurance edged up in May, from the historic low seen in April, and remained at a level consistent with further labor market improvement.

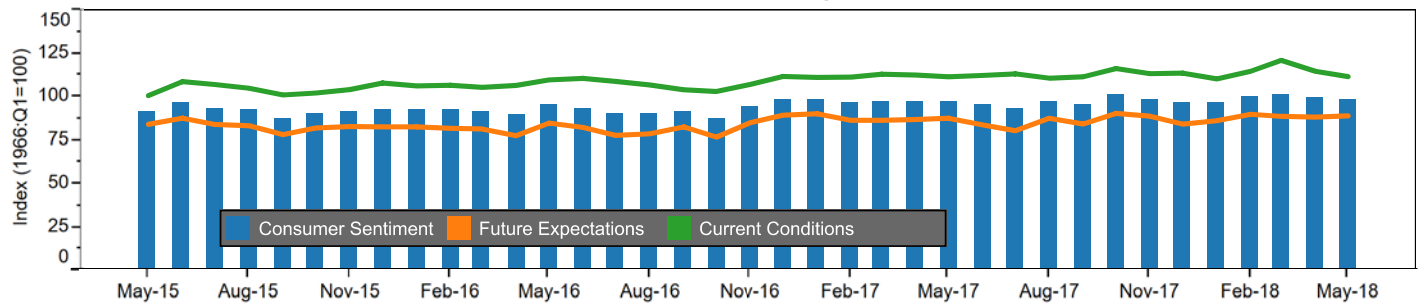
Initial Claims



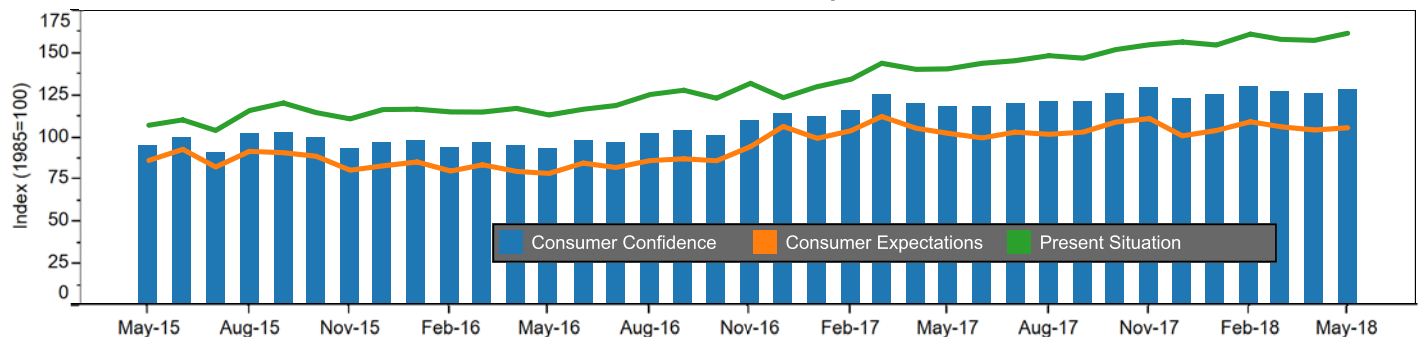
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in May. The sentiment index fell for the second consecutive month, due to a decline in the current conditions component, while the confidence index registered its first increase since February, as both the expectations and present situation components rose. Respondents to both surveys were less optimistic about future income gains, while respondents to the confidence survey expressed more favorable views of current business conditions.

Consumer Sentiment and Expectations



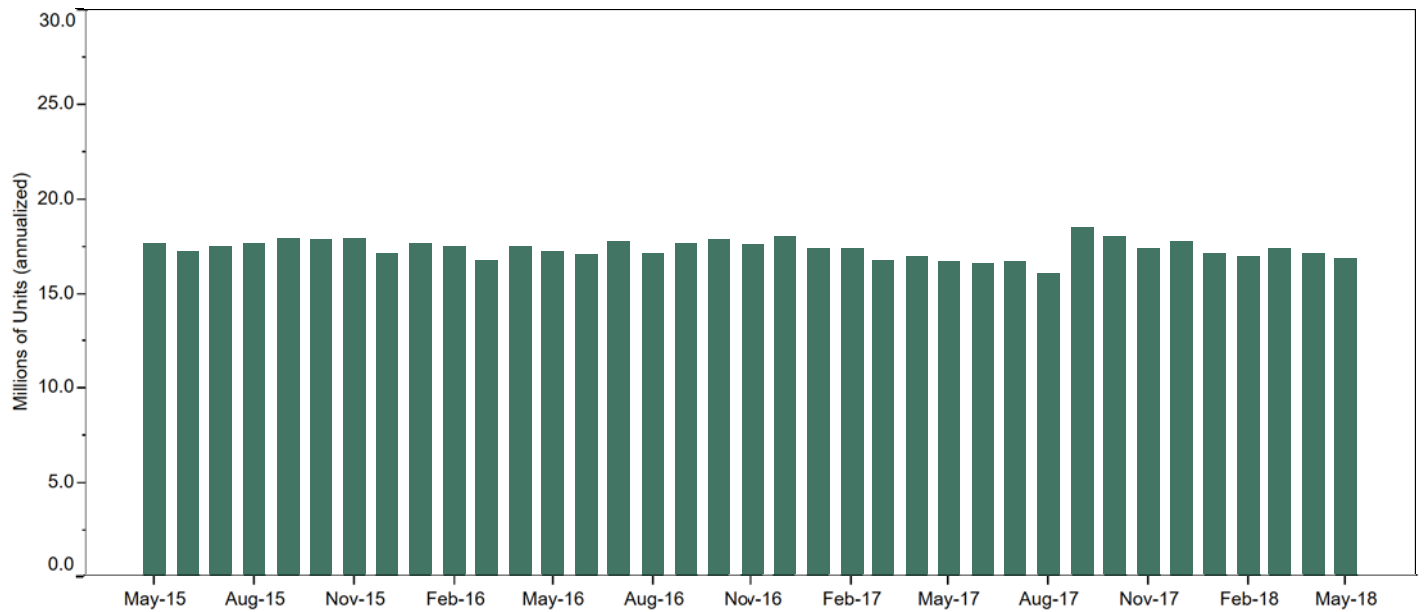
Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales fell below expectations in May, its second consecutive monthly decline. Sales in May were the slowest since August 2017. The slower rate in May was due to declines in the paces of both auto and light duty truck sales.

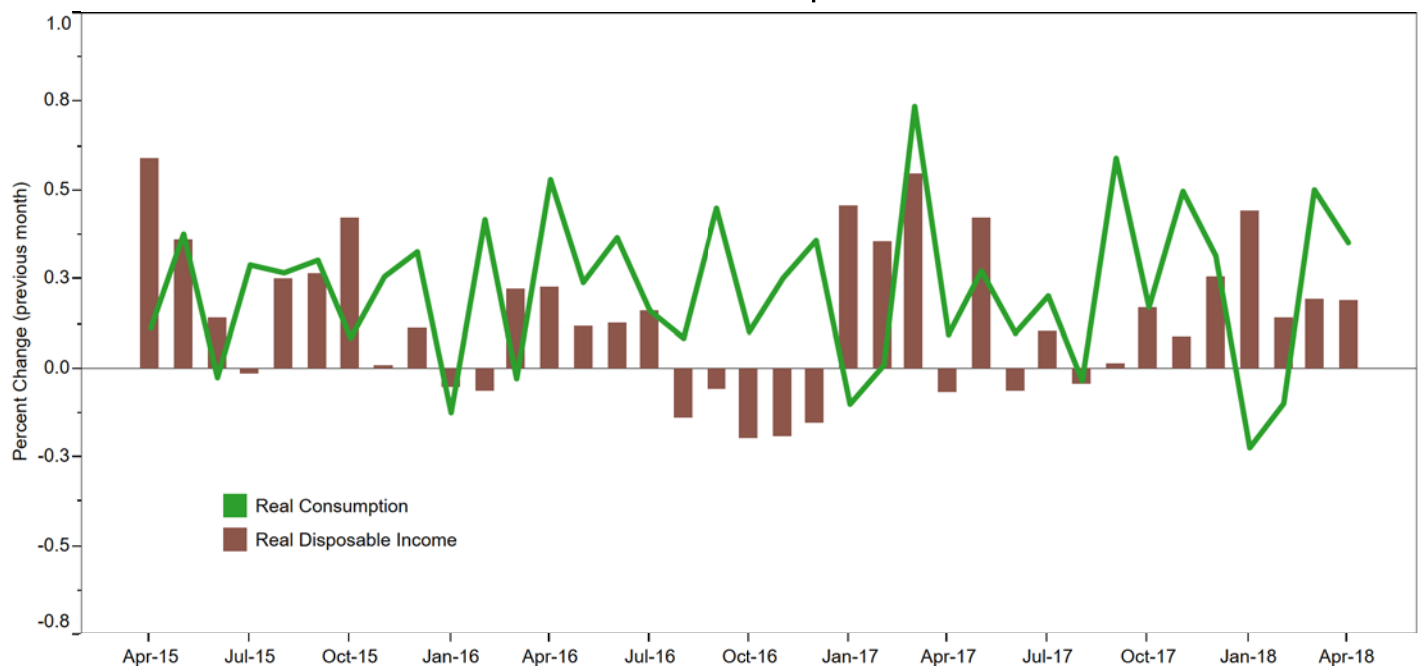
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in April, their seventh consecutive monthly increase. Consumption also rose in April, albeit at a slower rate than seen in March, which was revised up a tick from the previously reported gain.

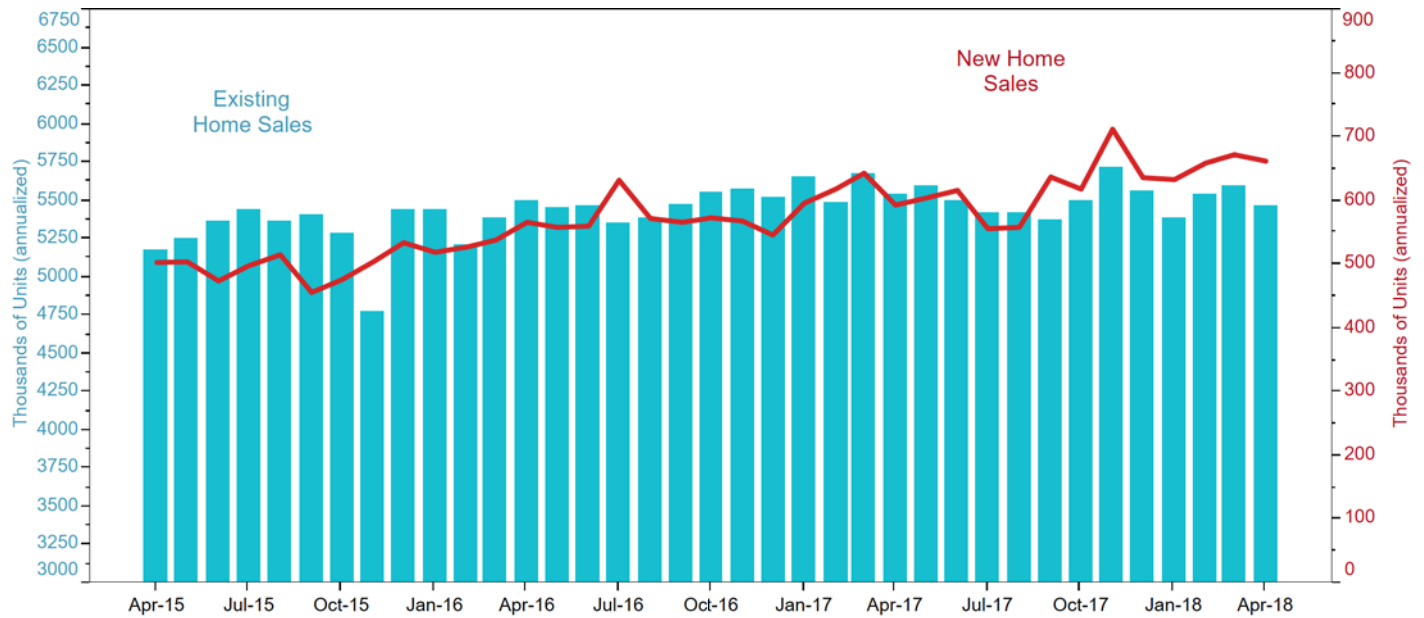
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data declined in April. New home sales eased, after rising in each of the prior two months. Existing home sales also fell in April, after increasing in both February and March.

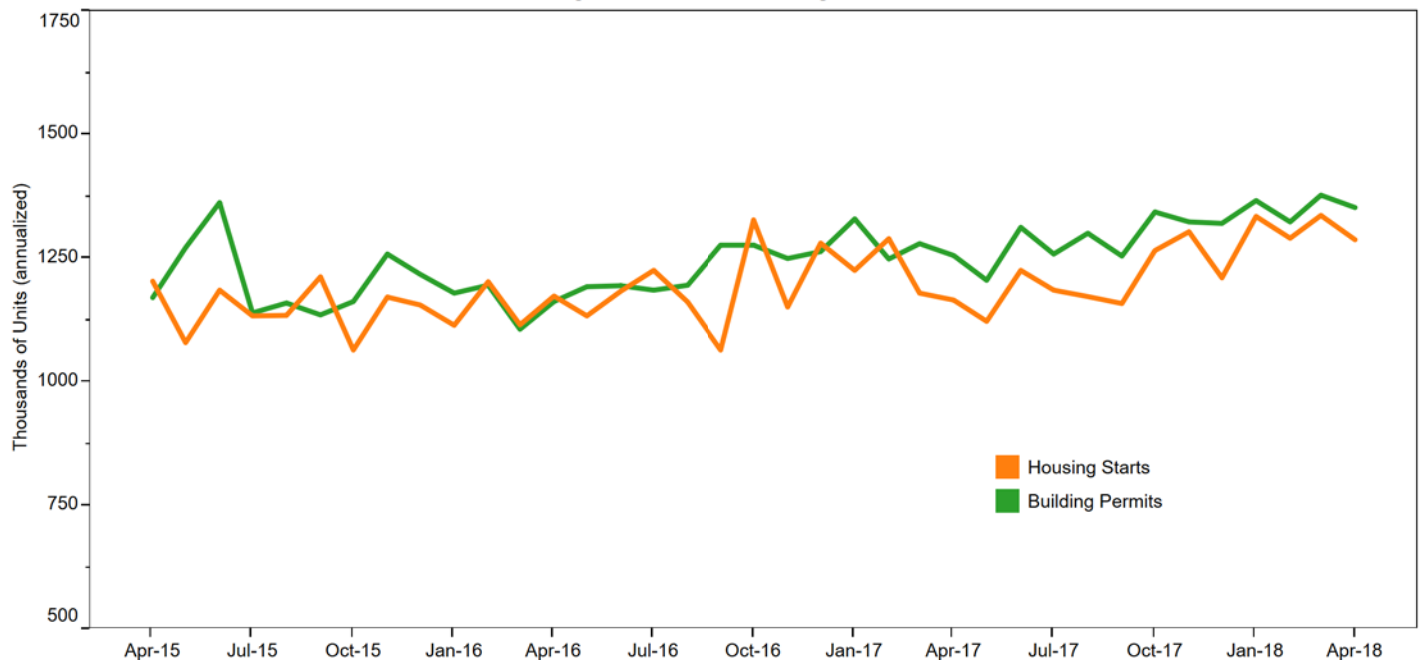
New and Existing Home Sales



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

Housing starts fell in April, more than offsetting the increase in March, due to a decrease in multi-family starts. Single-family starts edged up a tick in April. Meanwhile, building permits declined in April, after rising in March, as a decline in multi-family permits more than offset an increase in single-family permits.

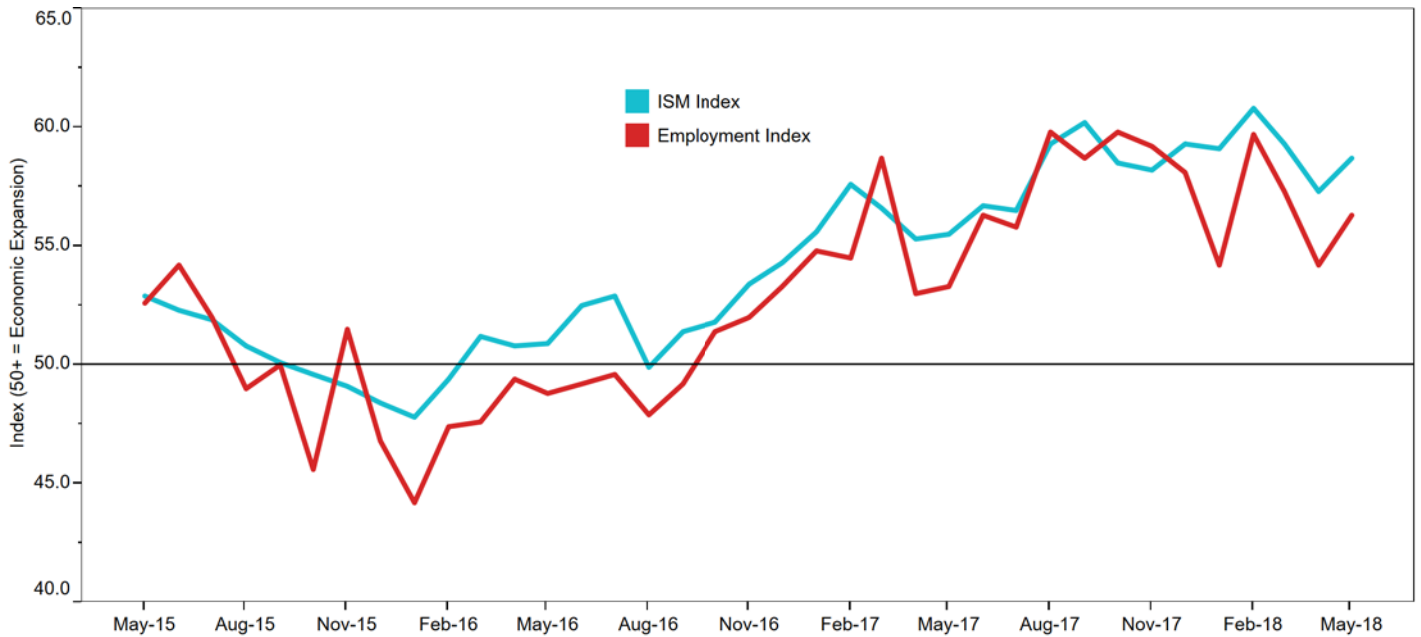
Housing Starts and Building Permits



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

The ISM manufacturing index rose in May, after decreasing in each of the prior two months, and continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in May, after falling in each of the prior two months.

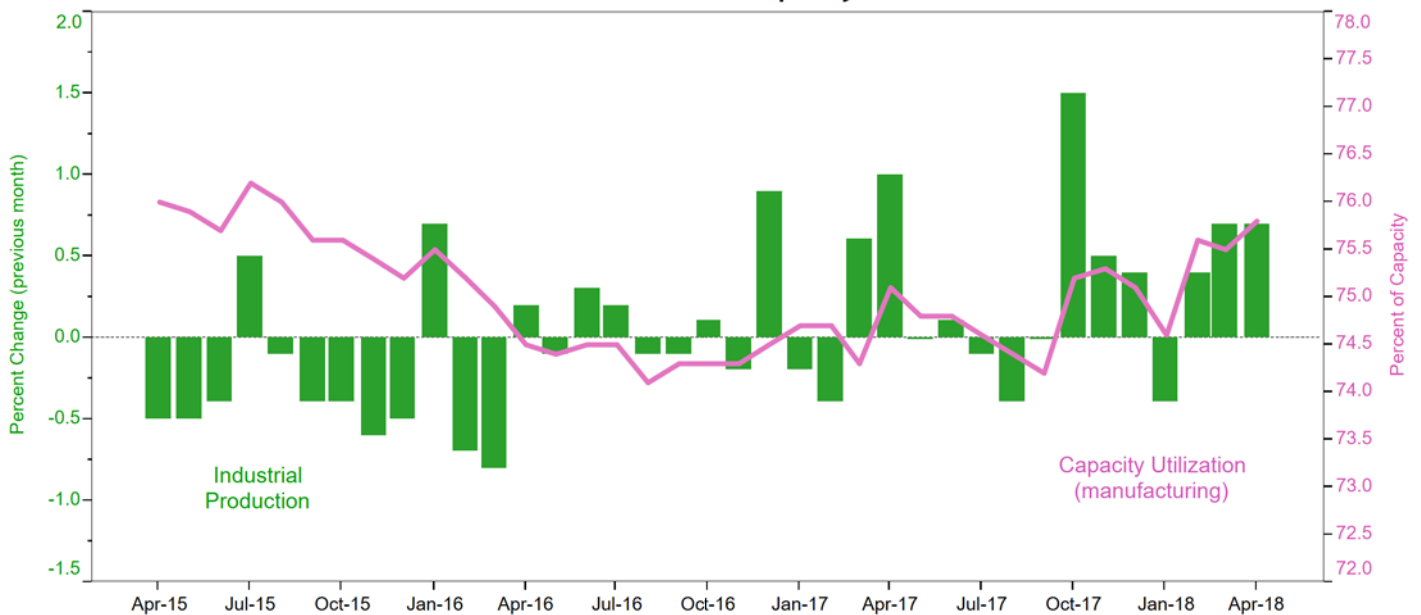
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in April, matching the increase seen in March. Manufacturing, mining, and utilities production all posted increases in April. Capacity utilization also rose in April, reaching its highest level in over two-and-a-half years.

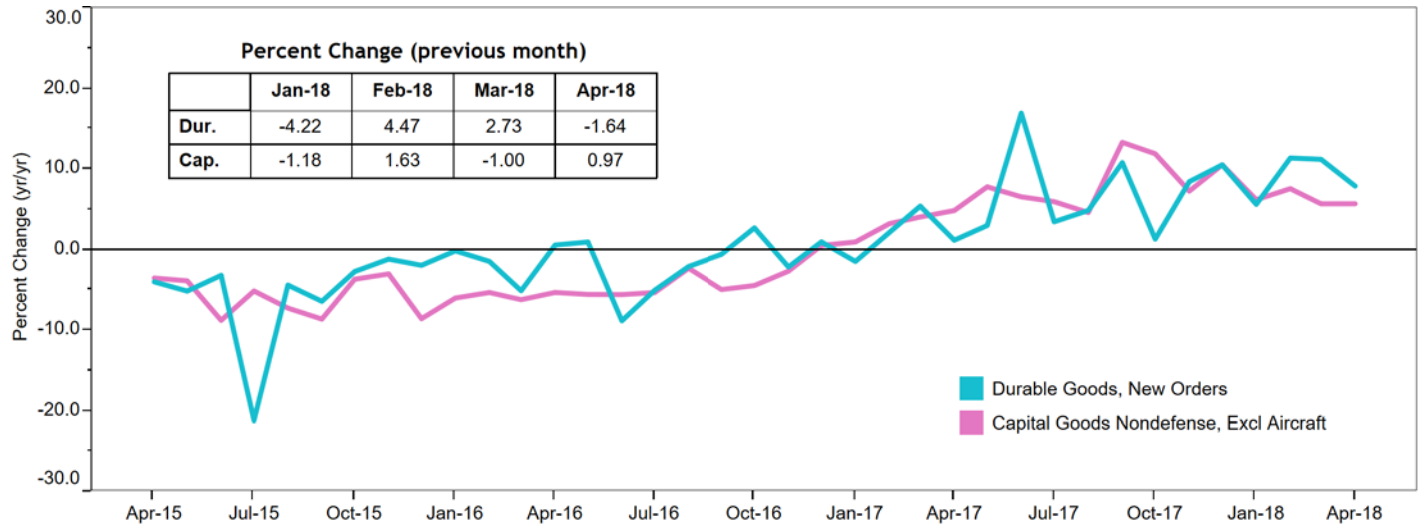
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods decreased in April, after rising in each of the prior two months, but continued to increase on a year-over-year basis. Meanwhile, orders for nondefense capital goods excluding aircraft rose in April, after declining in March, and continued to increase on a year-over-year basis.

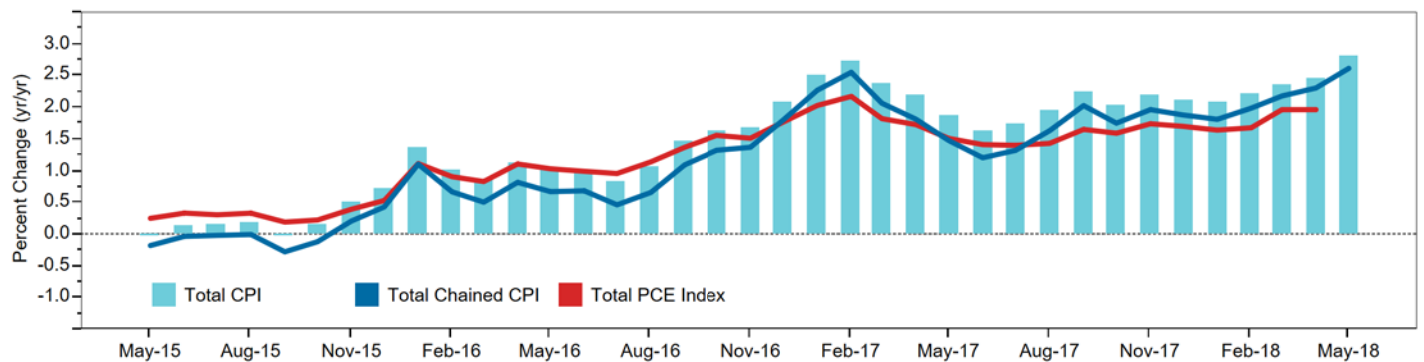
Durable Goods Orders



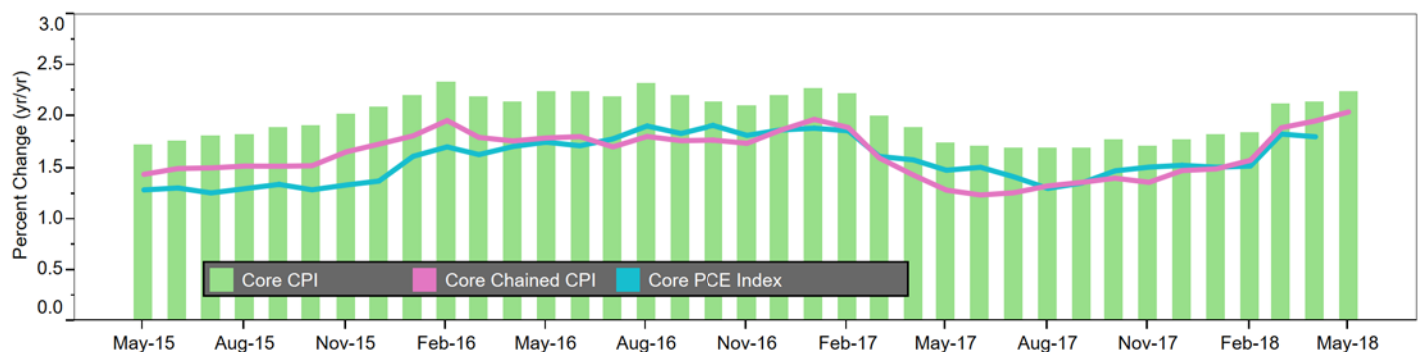
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to accelerate in May, while growth in core prices, which exclude the volatile food and energy categories, ticked up, as measured by the Consumer Price Index (CPI). Growth in both the headline and the core Personal Consumption Expenditure (PCE) indexes held relatively steady in April, and PCE index data for May will be released later this month.

Total Price Indices



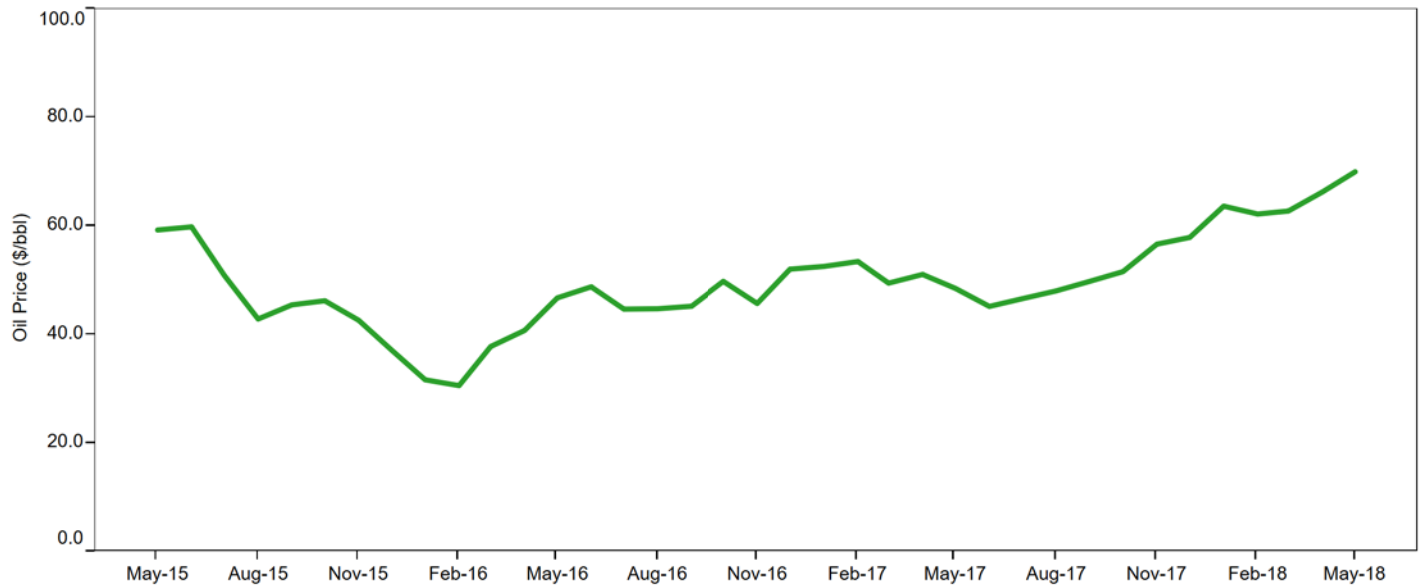
Core Price Indices



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

Oil prices continued to rise in May, reaching their highest monthly average since November 2014. Prices have eased a bit in the first several days of June, registering \$66.1 per barrel on June 11th.

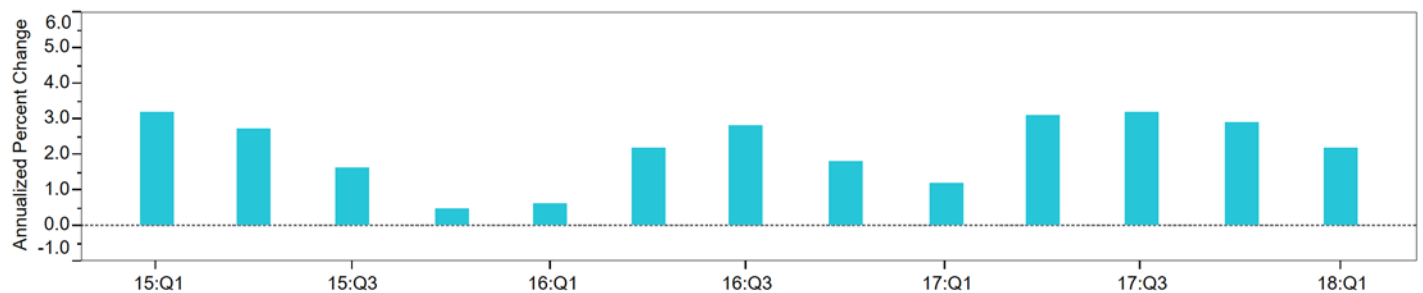
Domestic Spot Oil Price



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

First quarter real GDP growth was revised down a tick in the second estimate to 2.2% from 2.3%. The lower rate primarily reflected downward revisions to private inventory investment, residential fixed investment, and exports that were partly offset by an upward revision to nonresidential fixed investment.

Real GDP



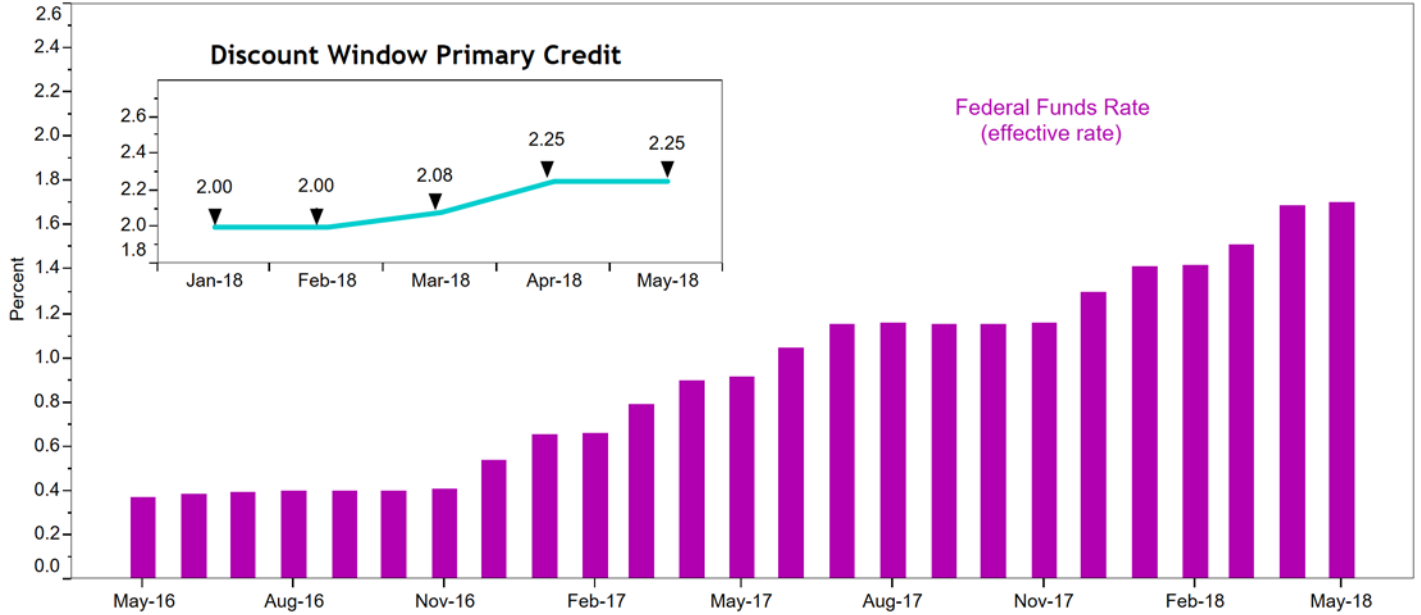
Revisions to First Quarter Real GDP

| Description | Advance Estimate | Second Estimate |
|------------------------|------------------|-----------------|
| Real GDP | 2.3 | 2.2 |
| Personal Consumption | 1.1 | 1.0 |
| Business Investment | 6.1 | 9.2 |
| Equipment and Software | 4.7 | 5.5 |
| Residential Investment | 0.0 | -2.0 |
| Government | 1.2 | 1.1 |
| Exports | 4.8 | 4.2 |
| Imports | 2.6 | 2.8 |
| Final Sales | 1.9 | 2.0 |

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting show that economic growth in the first quarter was a bit lower than originally estimated, but also suggest that economic growth will strengthen in the second quarter. Labor markets continued to tighten, consumer spending increased, and support from manufacturing was mostly positive. However, housing market data declined. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

Short-Term Interest Rates



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