



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

November 8, 2016

CURRENT ECONOMIC DEVELOPMENTS - November 8, 2016

Data released since your last Directors' meeting show that economic growth accelerated in the third quarter, but suggest the growth will slow a bit through the end of the year. The labor market showed further signs of strengthening and consumer spending increased modestly, while support from manufacturing was mixed. Overall, recent data remain consistent with a moderately growing economy.

In October, nonfarm payrolls posted a moderate increase and job gains for the previous two months were revised higher. The unemployment rate fell one-tenth of a percentage point to 4.9% in October, reflecting a slight decline in the labor force. Initial claims for unemployment insurance ticked up in October, after declining on average in the third quarter, but remain near record lows.

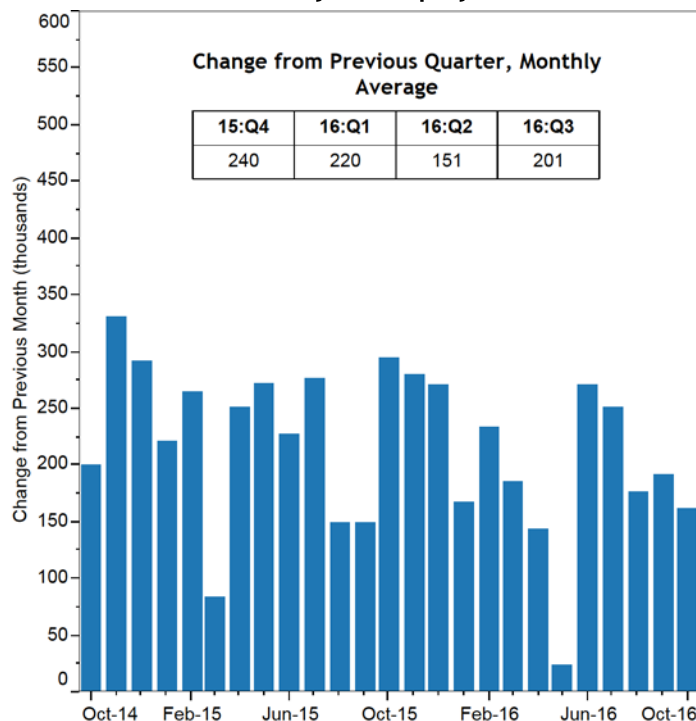
The growth in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and nonresidential fixed investment that were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Consumer attitudes declined in October, as both the confidence index and the sentiment index fell below their third quarter averages. The majority of survey respondents were less optimistic about future conditions for the overall economy and towards current business and labor market conditions. Durable goods orders and core orders both decreased in the third quarter on a year-over-year basis, yet core orders rose from their level in the second quarter. The ISM index increased in October and continued to suggest expansion in the manufacturing sector.

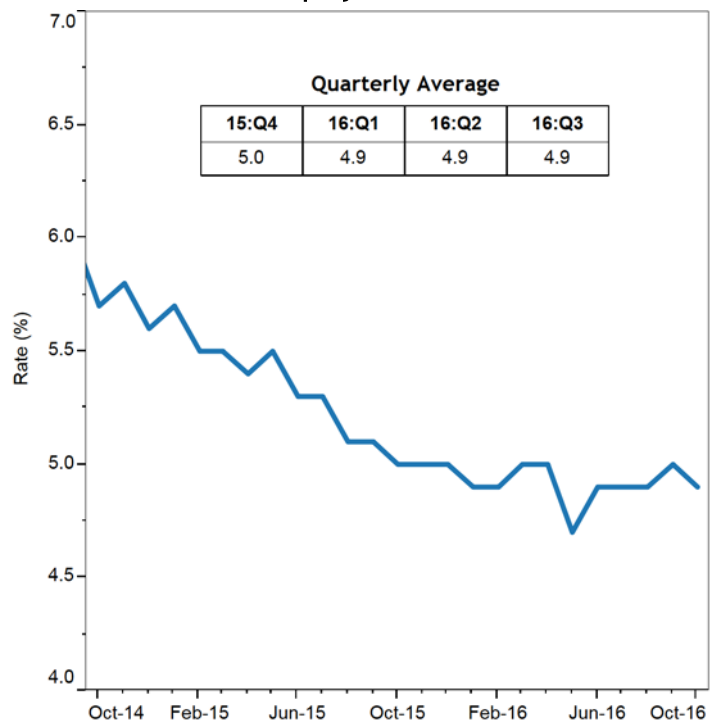
Total consumer inflation held steady in the third quarter, as did the core CPI, while the core PCE index edged up. After holding relatively steady in the third quarter, oil prices rose in October before falling to \$44.9 per barrel on November 7.

Nonfarm payrolls added 161,000 jobs in October, and job gains for the previous two months were revised upward by a total of 44,000 jobs. The unemployment rate fell one-tenth of a percentage point to 4.9% in October, as a decline in the labor force outpaced a slight fall in civilian employment.

Nonfarm Payroll Employment

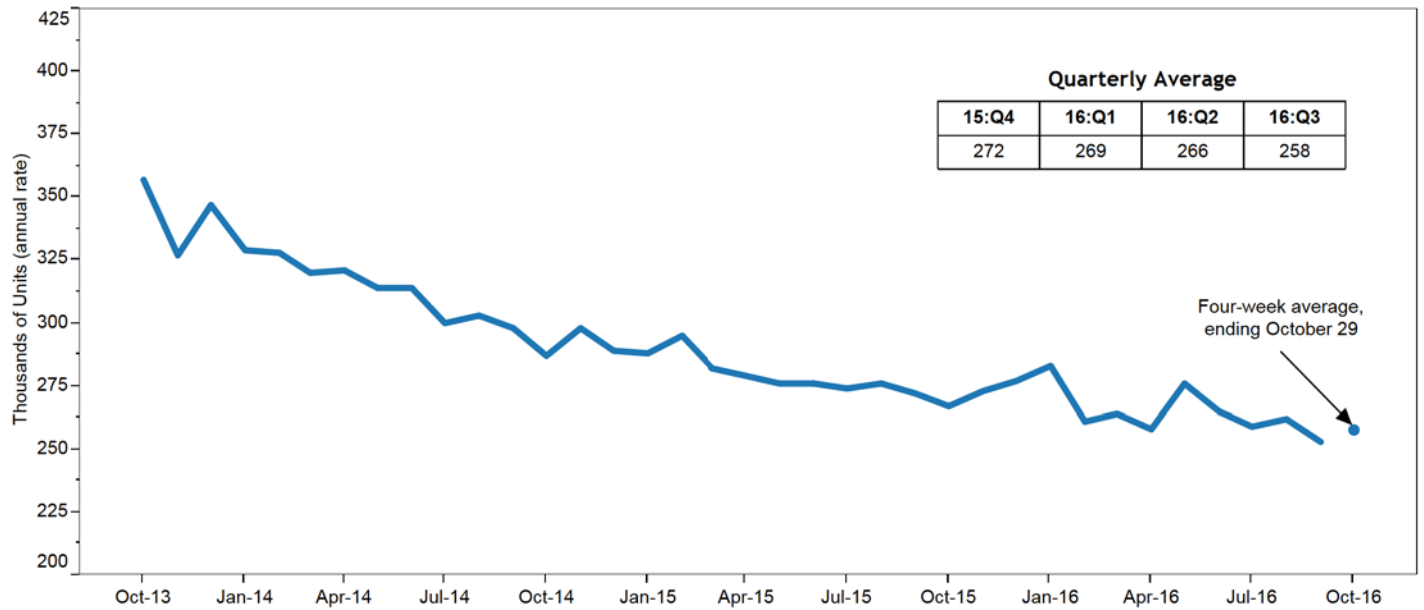


Unemployment Rate



Initial claims for unemployment insurance continued to decline in the third quarter, recording their lowest quarterly average in 43 years. Claims edged up in October, but remained in line with the third quarter average.

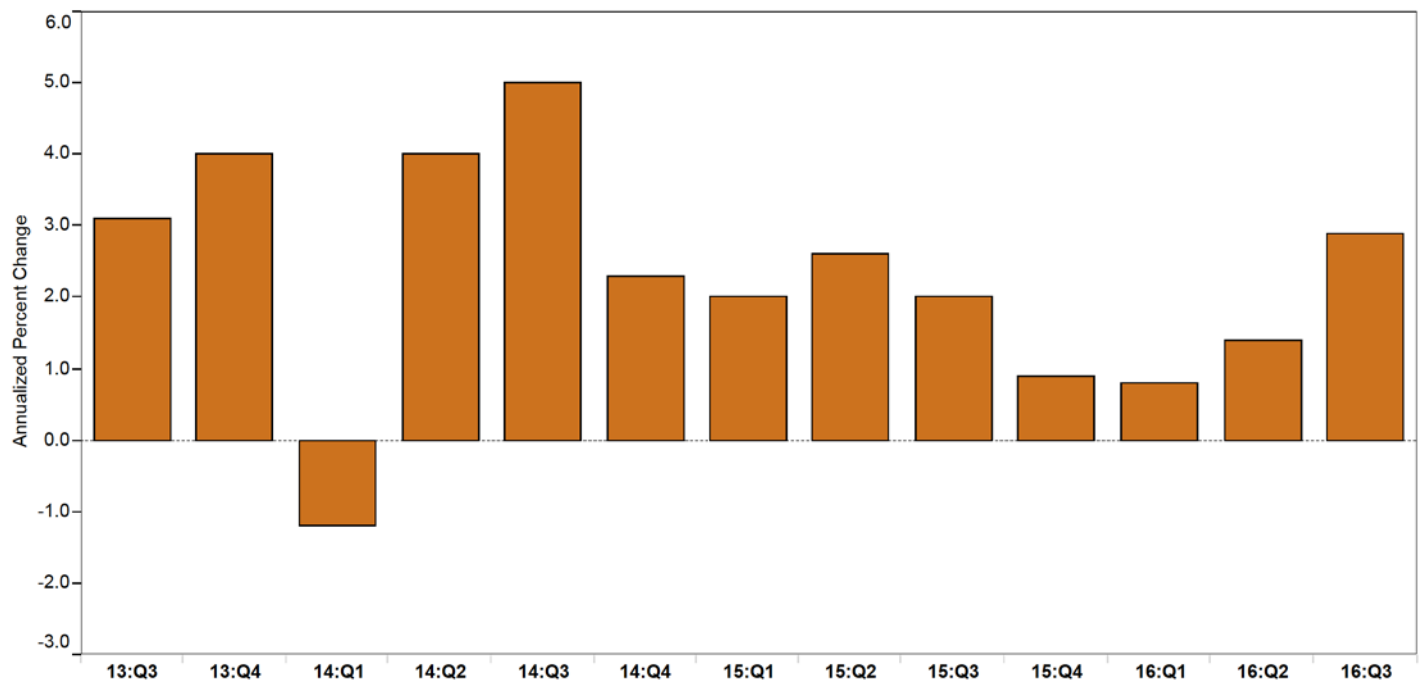
Initial Claims



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

Real GDP growth accelerated in the third quarter. The higher rate was due primarily to an upturn in private inventory investment, an acceleration in exports, a smaller decrease in state and local government spending, and an upturn in federal government spending. These were partly offset by a smaller increase in PCE, and a larger increase in imports.

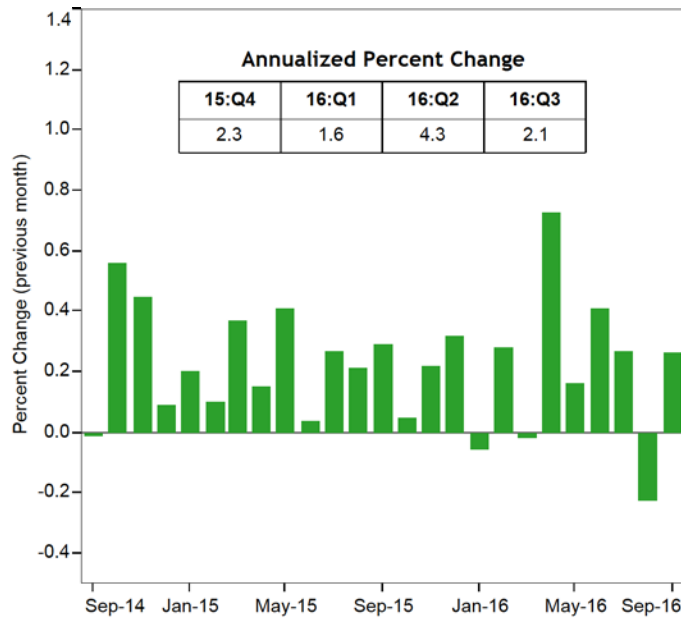
Real Gross Domestic Product



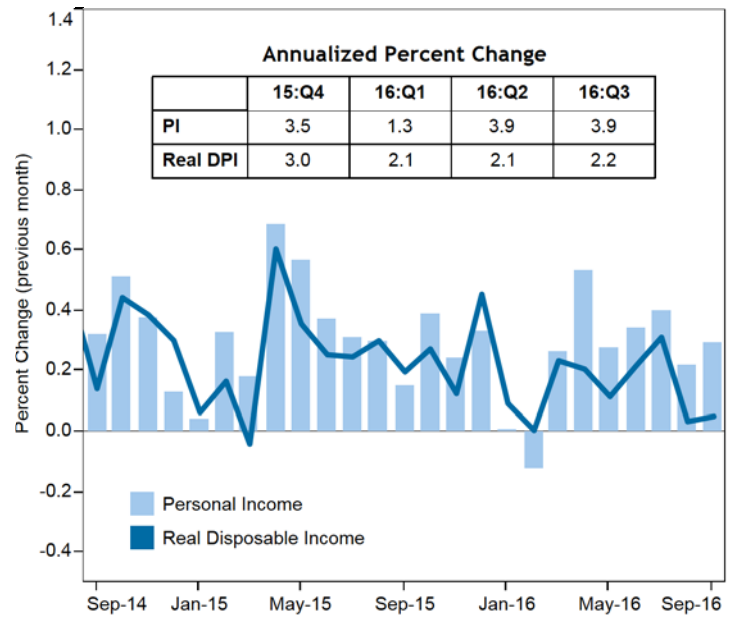
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the third quarter, despite a slight uptick in real income growth. On a monthly basis, consumption rose in September, after falling in August, while nominal and real income growth both accelerated in September.

Real Consumption



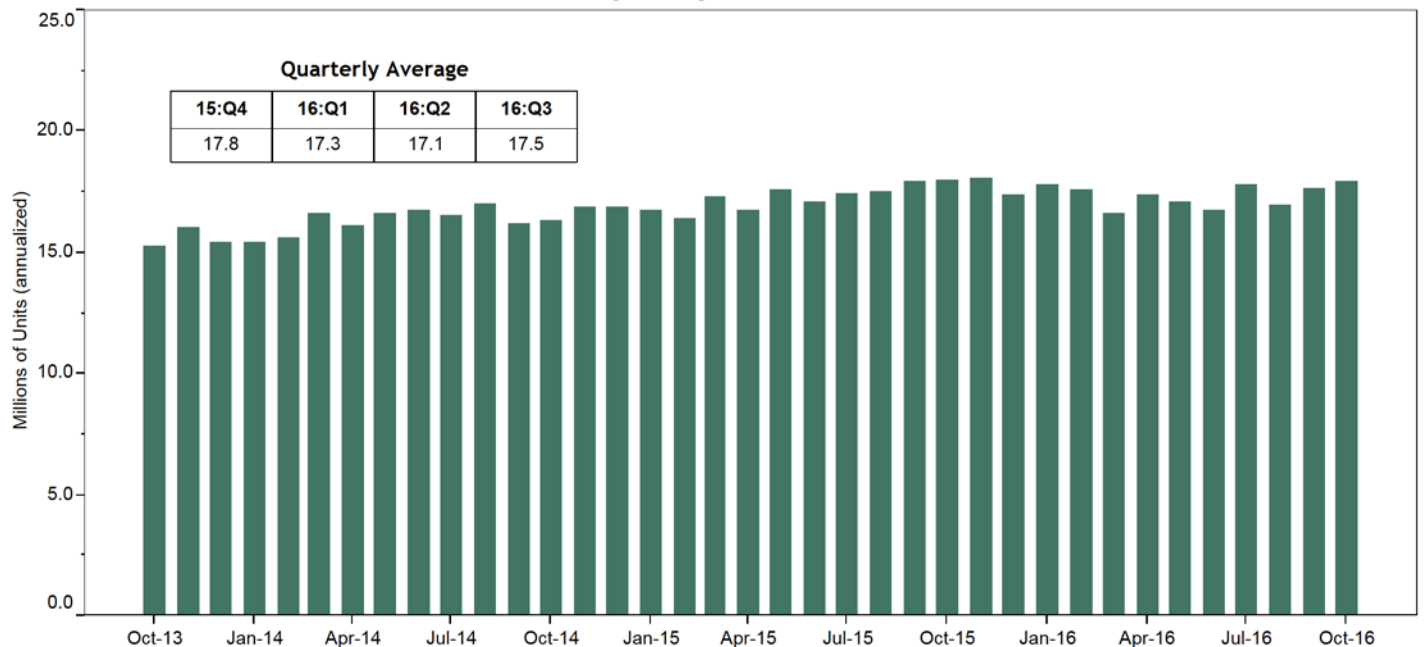
Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Total lightweight vehicle sales in October were above their third quarter average, and rose from their September pace. The increase in total vehicle sales was due to a rise in light duty truck sales, as auto sales declined in October.

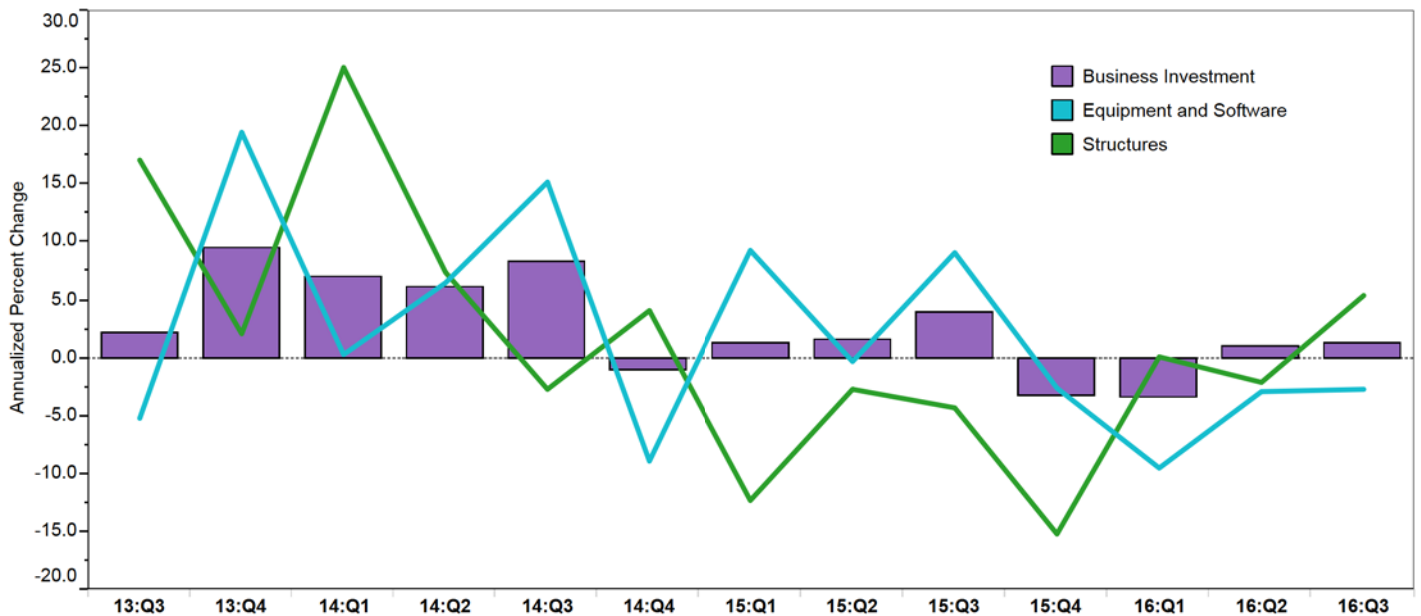
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment picked up slightly in the third quarter, mostly due to a rise in structures investment. Equipment and software investment registered its fourth consecutive decline in the third quarter.

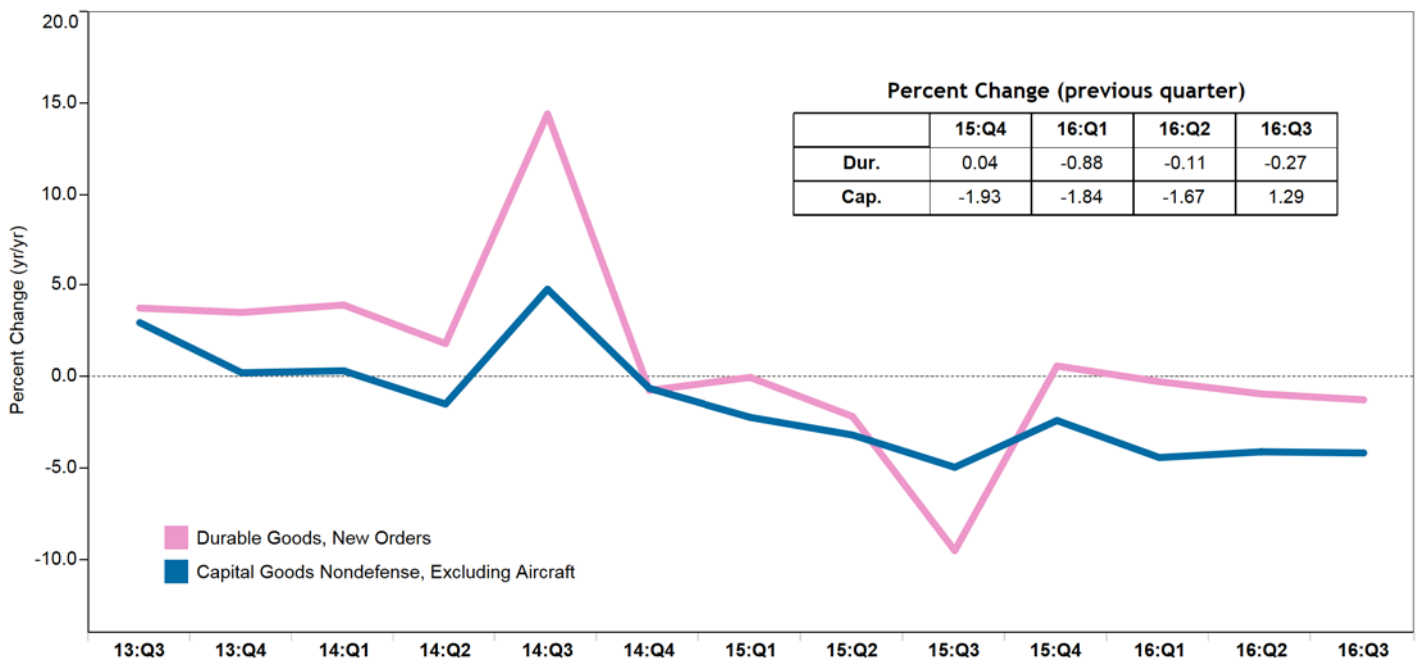
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the third quarter, durable goods orders continued to fall on a year-over-year basis, and also decreased when compared to the second quarter. Orders for nondefense capital goods, excluding aircraft, also declined further compared to a year ago, but rose on a quarterly basis.

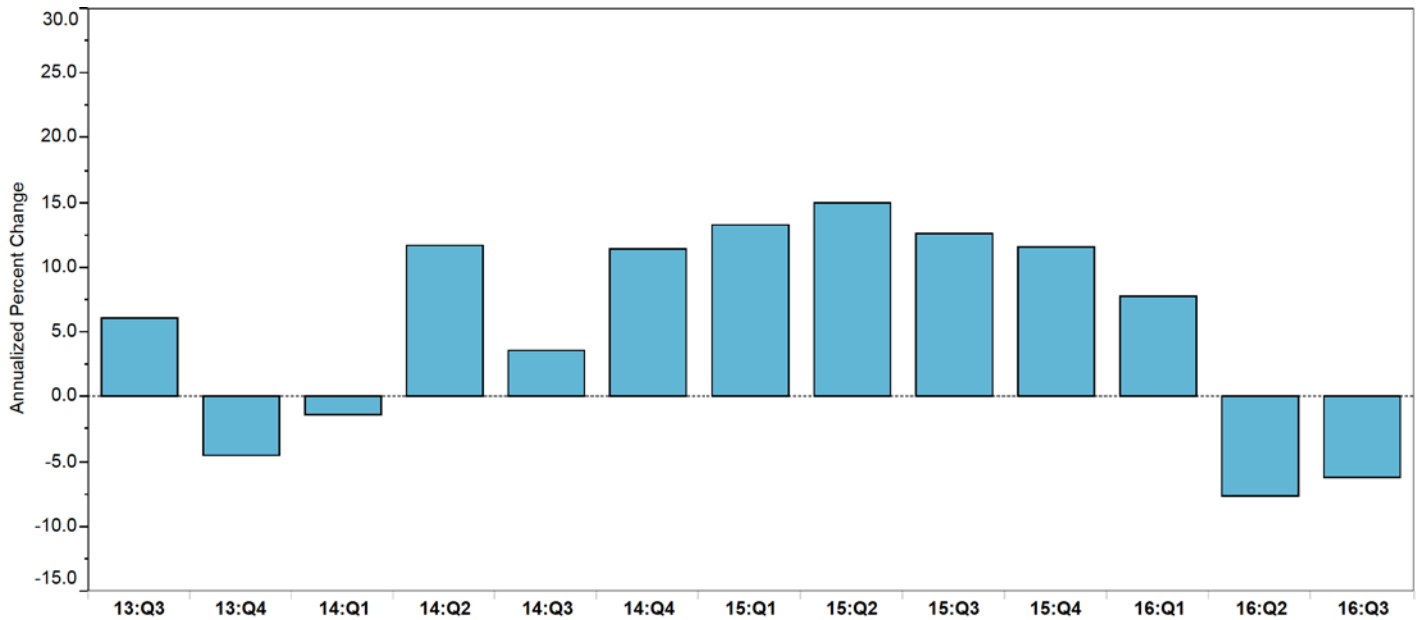
Durable Goods Orders



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

Residential investment posted a decline in the third quarter, but fell at a slightly slower rate than seen in the second quarter.

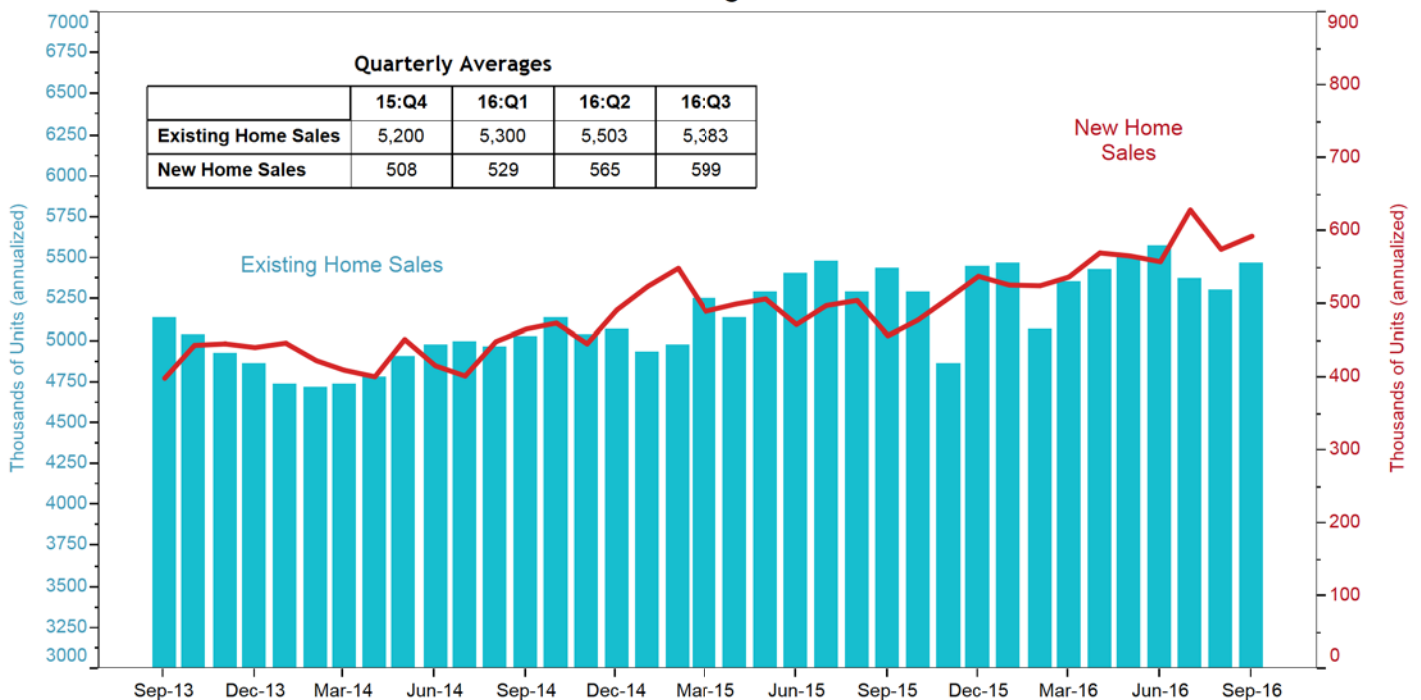
Residential Investment



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

Housing data was mixed in the third quarter. Existing home sales declined, on average, despite an increase in September. Meanwhile, new home sales rose in September and increased in the third quarter to their highest quarterly average in nine years.

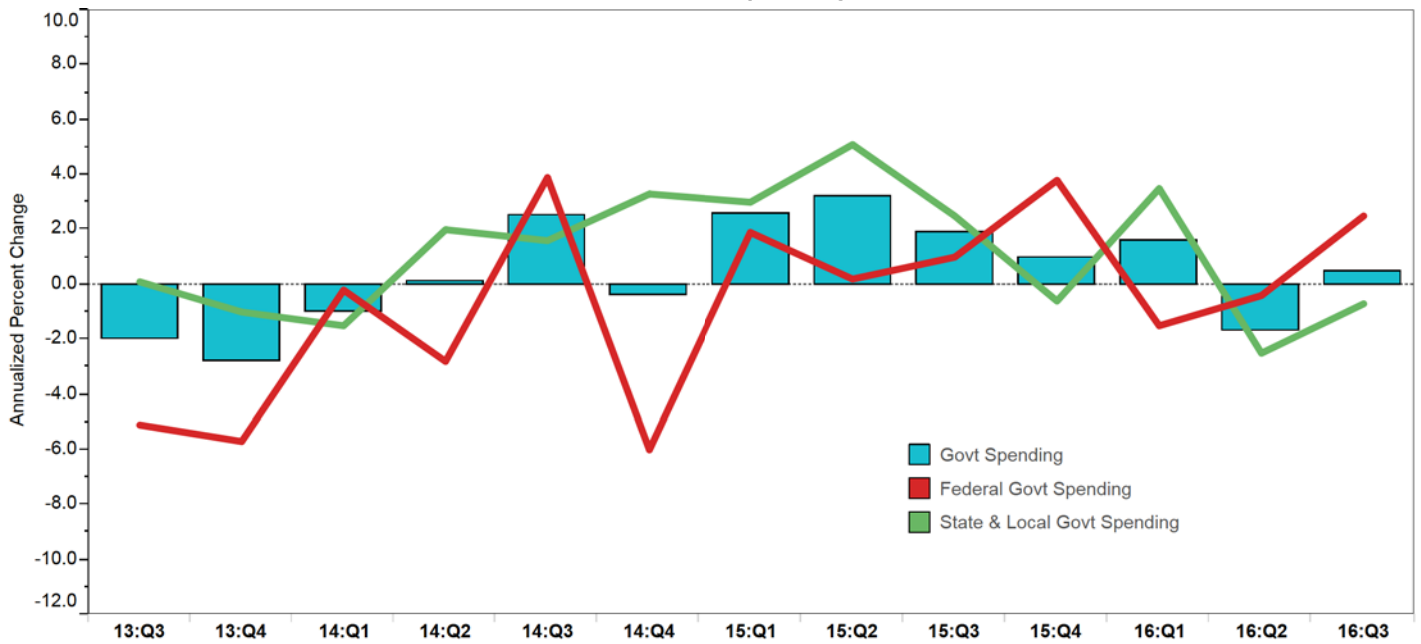
New and Existing Home Sales



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

In the third quarter, government spending rose, after declining in the second quarter. The increase was due to a rise in federal government spending, as state and local spending continued to decline, albeit at a slower rate than seen in the second quarter.

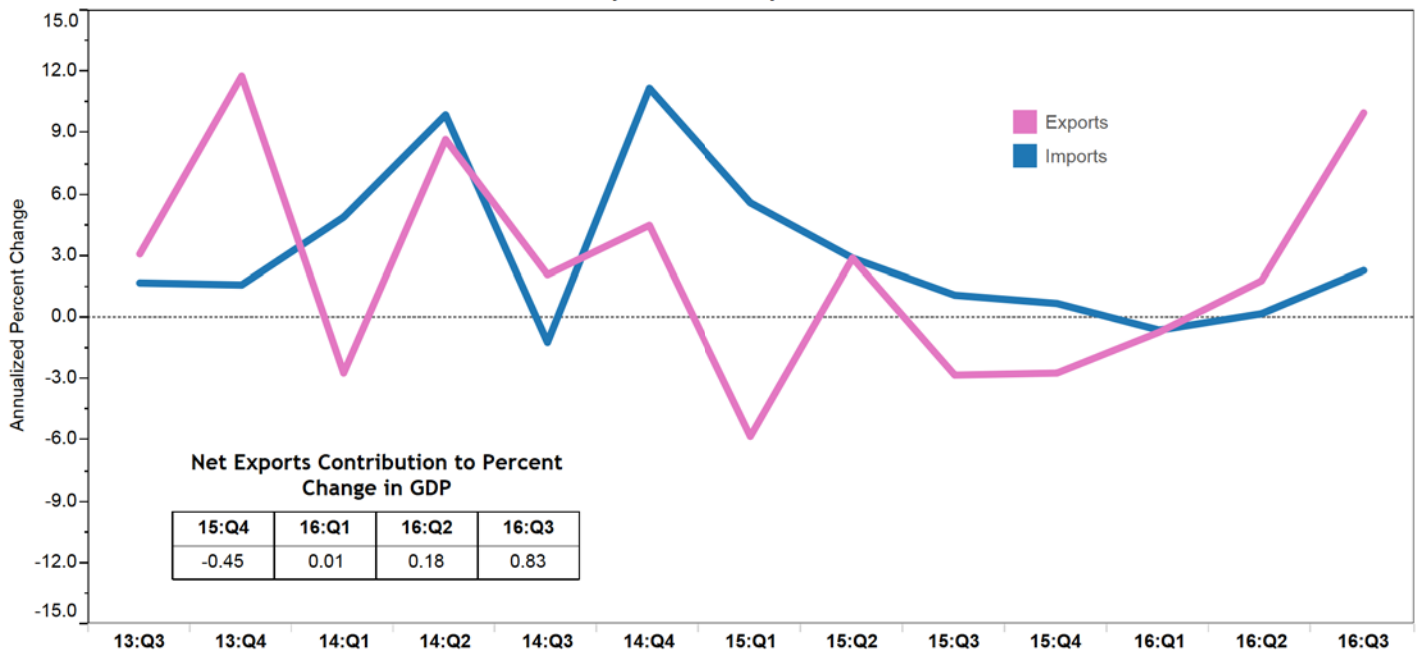
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Export growth accelerated in the third quarter and offset a smaller increase in imports, which resulted in a boost to GDP from net exports.

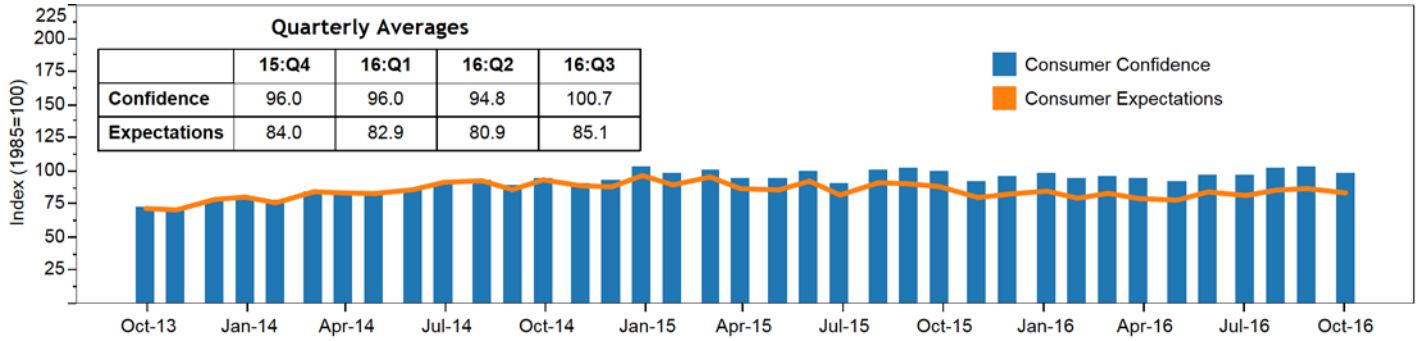
Exports and Imports



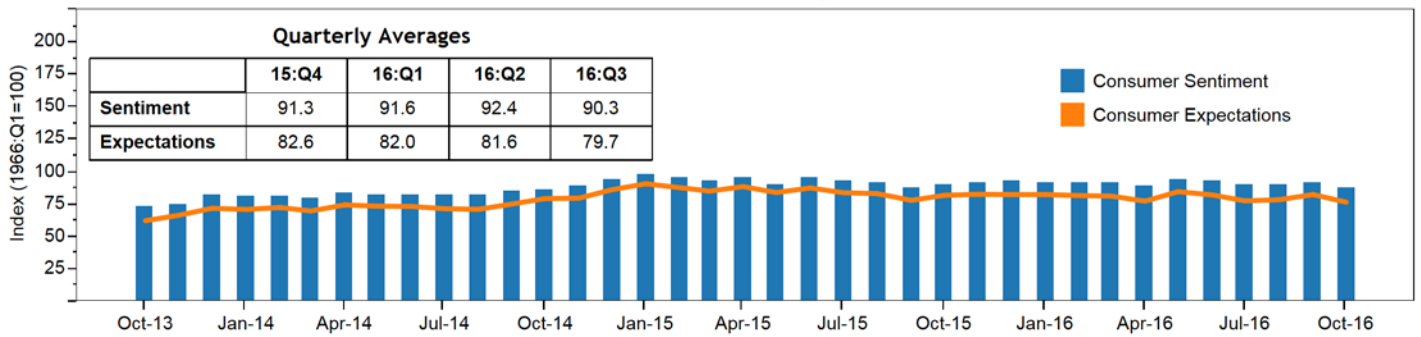
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes declined in October, as the confidence and the sentiment indexes both decreased below their third quarter averages. In general, consumers had less favorable assessments of current business and labor market conditions, and were less optimistic towards the outlook for the national economy.

Consumer Confidence and Expectations



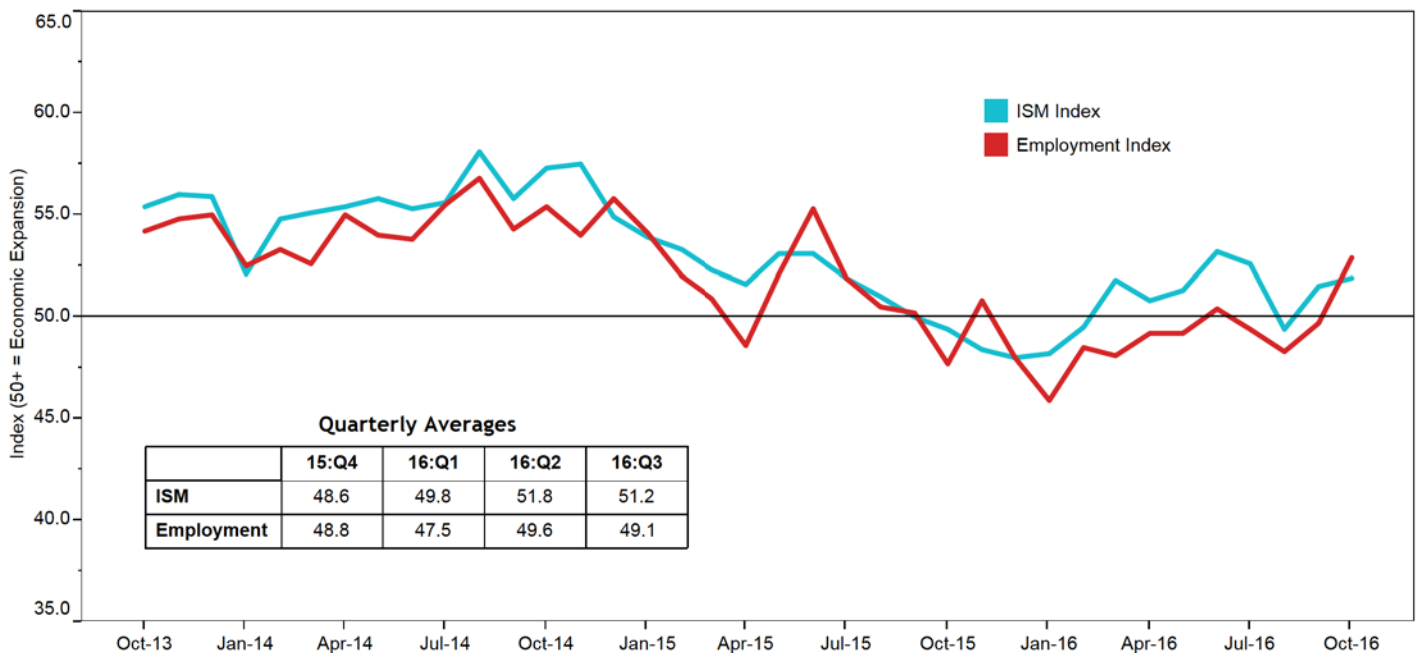
Consumer Sentiment and Expectations



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

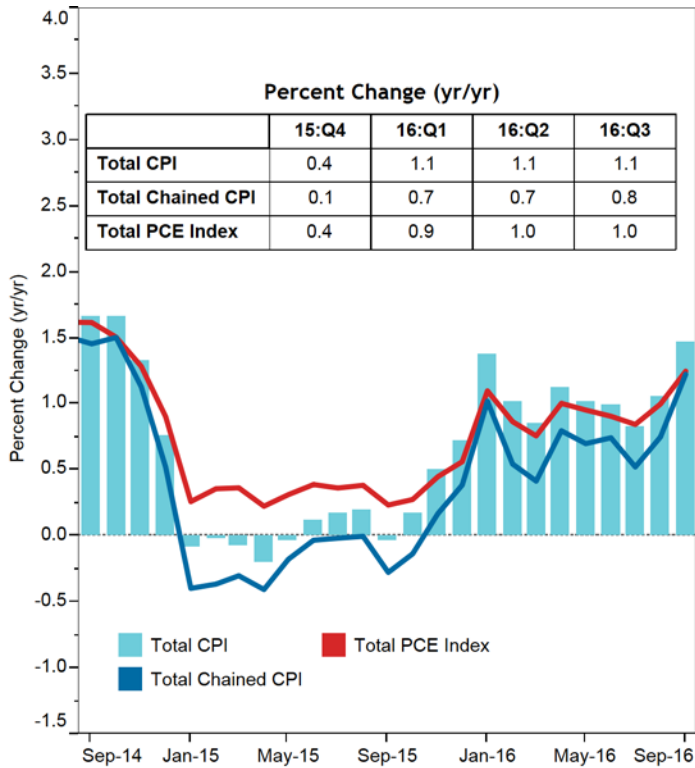
The ISM index increased in October to above its third quarter average and continued to indicate expansion in the manufacturing sector. The employment index also rose in October and was well above its third quarter average.

ISM Index

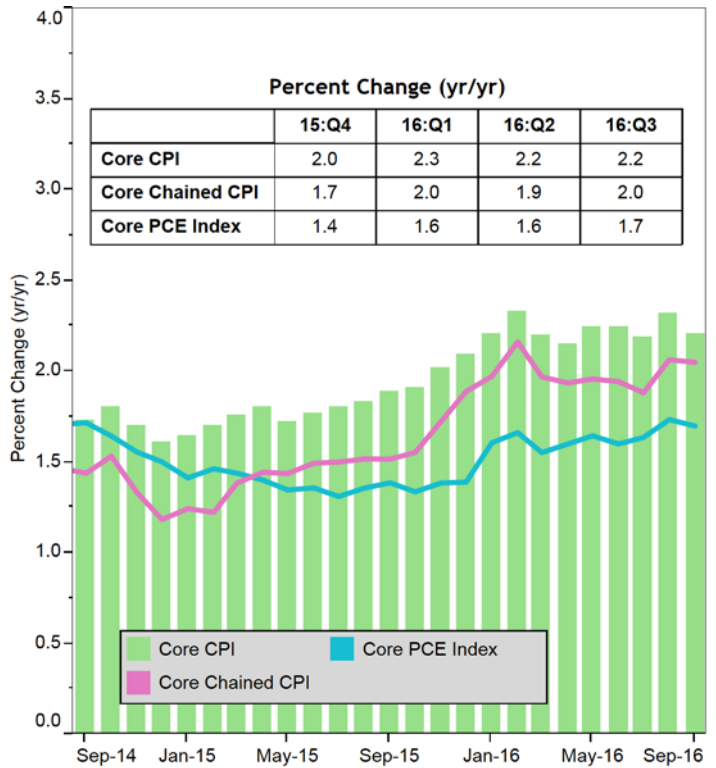


Growth in total consumer prices was essentially unchanged in the third quarter. Excluding the volatile food and energy sectors, growth in the core PCE index ticked up in the third quarter, while growth in the core CPI held steady.

Total Price Indices

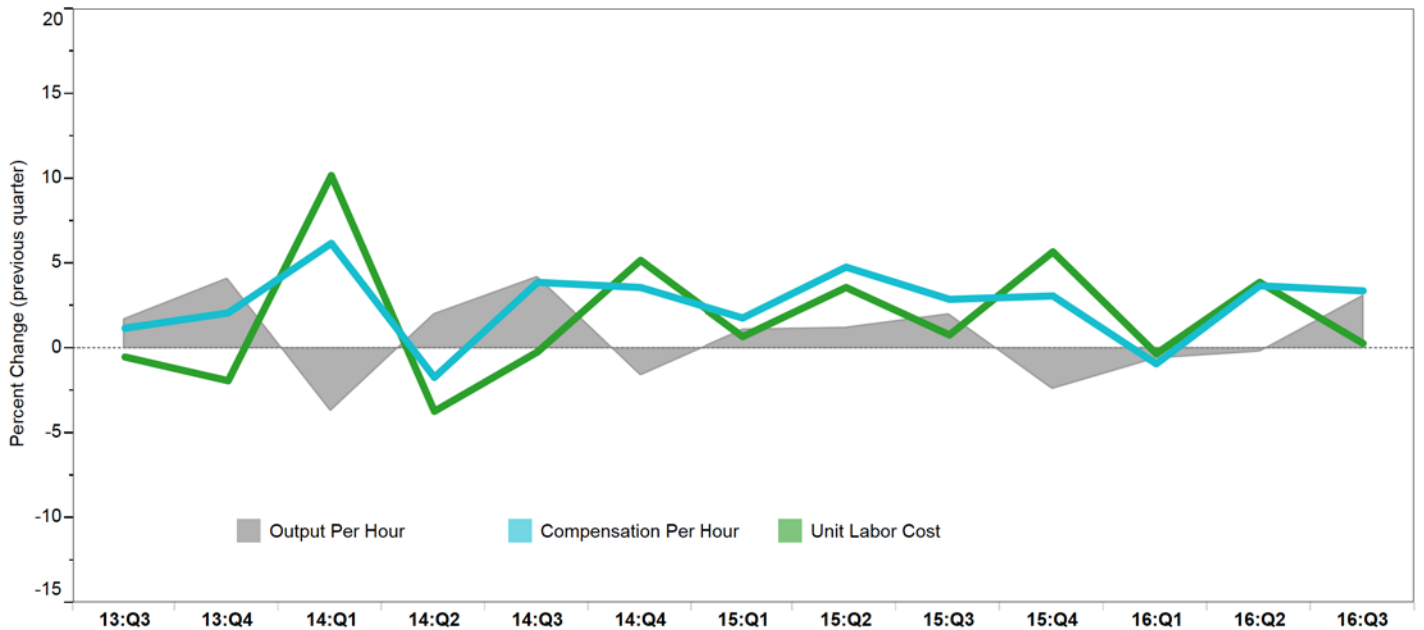


Core Price Indices



Productivity rose in the third quarter, its largest increase in two years, as output increased more than hours worked. However, the third quarter increase followed three consecutive quarterly declines, resulting in an average productivity growth of zero over the past year. Growth in compensation eased a bit in the third quarter, and growth in unit labor costs decelerated.

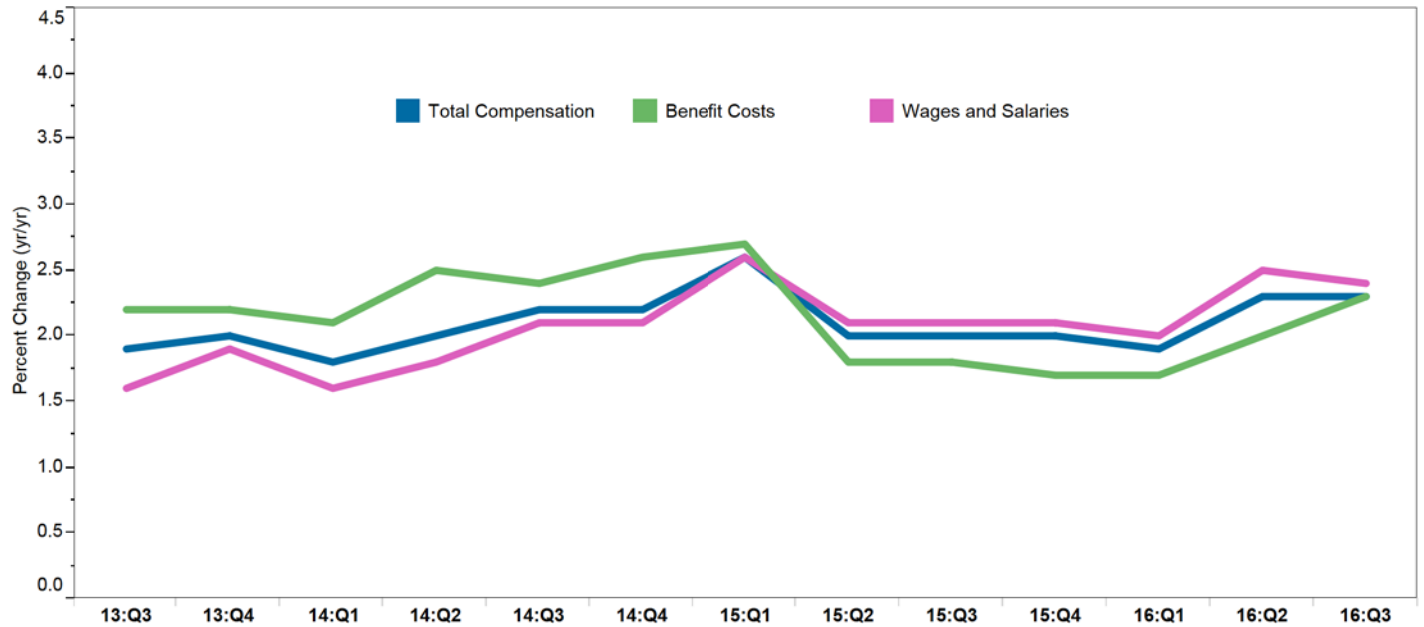
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the third quarter, total compensation growth was unchanged from the rate seen in the second quarter. Meanwhile, benefits costs growth continued to accelerate in the third quarter, while wages and salaries growth eased a bit.

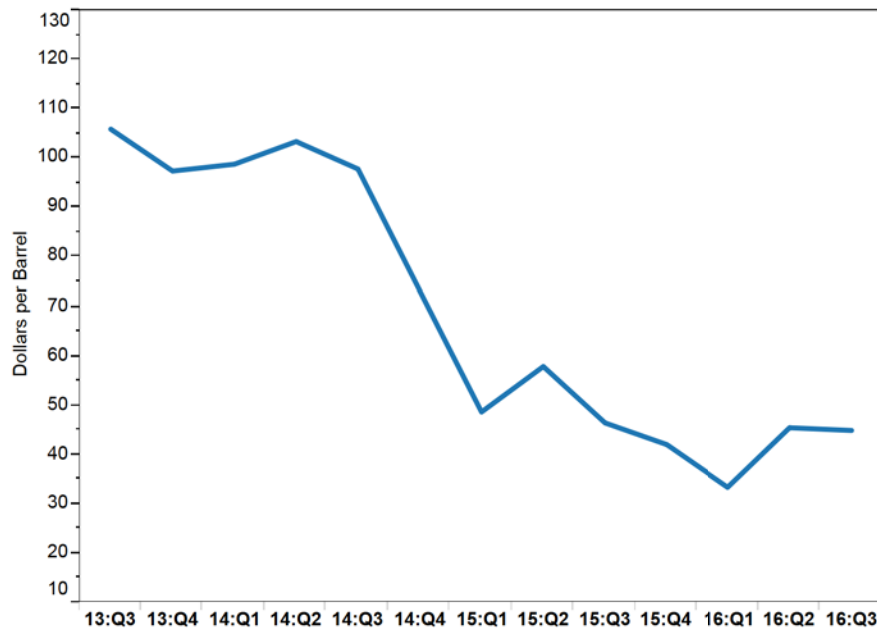
Employment Cost Index



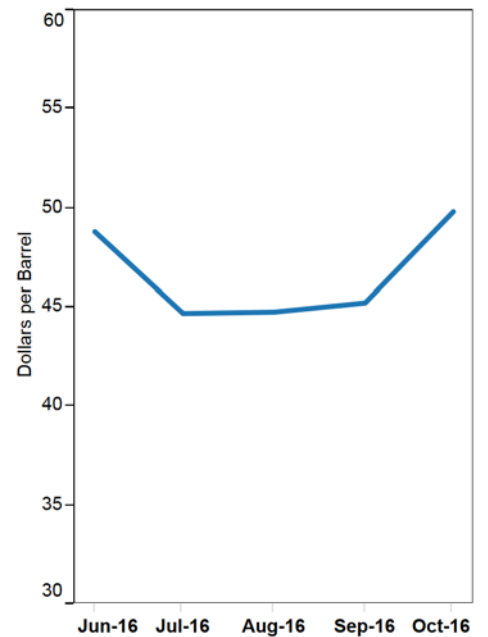
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in October rose above the levels seen in the third quarter, reaching their highest monthly average since July 2015. The daily closing prices have fallen in early November, reaching \$44.9 per barrel on November 7.

Domestic Spot Oil Price



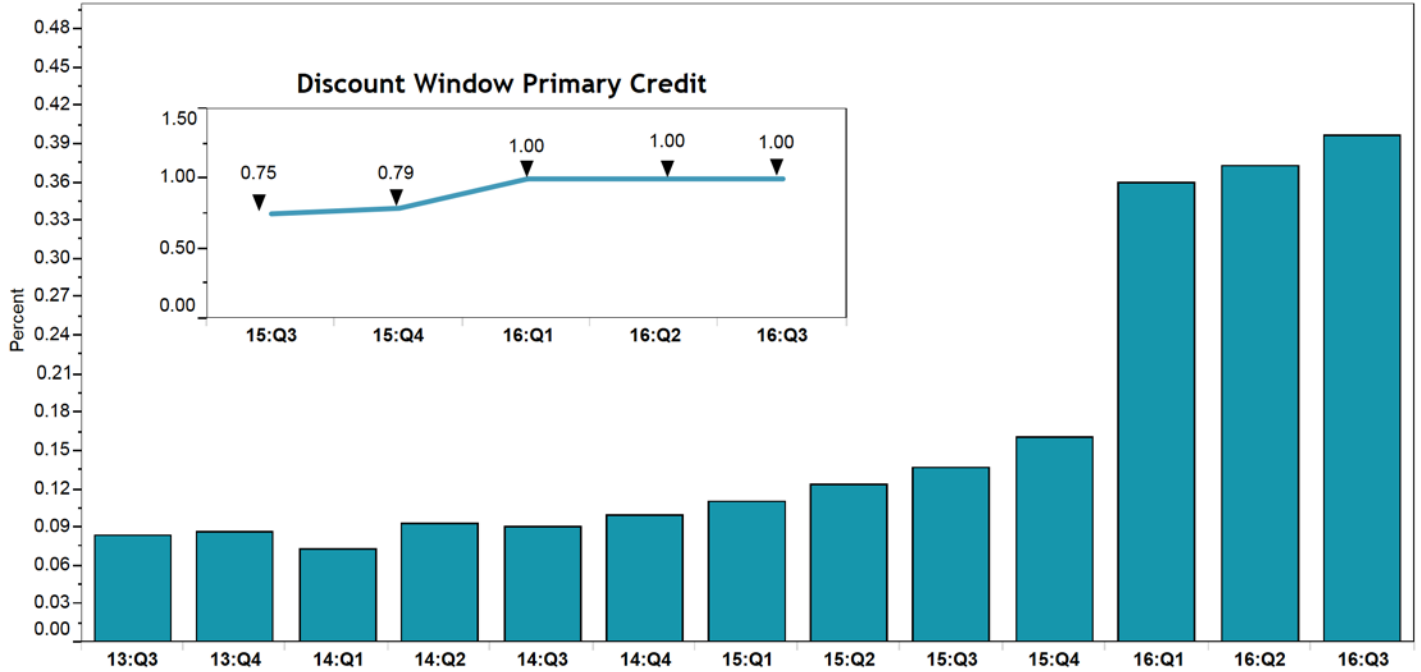
Past Five Months



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

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Short-Term Interest Rates



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