



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

November 7, 2017

## CURRENT ECONOMIC DEVELOPMENTS - November 7, 2017

Data released since your last Directors' meeting show that economic growth slowed a bit in the third quarter, but remained above recent trends, and suggest growth will slow a bit further through the end of the year. The labor market showed further signs of strengthening, consumer spending increased, and consumer attitudes improved, while data on the housing market were mixed. Overall, recent data remain consistent with the expectation for moderately above-trend growth through the end of the year.

In October, nonfarm payrolls posted a smaller-than-expected increase, while total job gains for the previous two months were revised up. The unemployment rate fell one-tenth of a percentage point to 4.1% in October, as a decline in the size of the labor force outpaced a decrease in civilian employment. Initial claims for unemployment insurance declined in October, after rising on average in the third quarter.

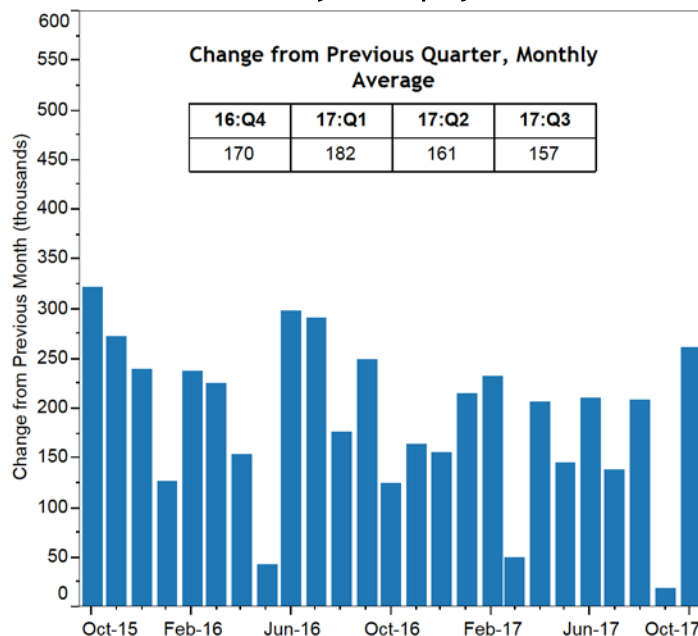
The growth in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending that were partly offset by negative contributions from residential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

Consumer spending increased in September, while real income was unchanged. Consumer attitudes improved in October, as both the confidence and the sentiment indexes rose above their third quarter averages. Durable goods orders fell in the third quarter compared to the second, but continued to rise on a year-over-year basis, while core orders continued to increase on both a quarterly and year-over-year basis. The ISM index declined in October, but continued to suggest expansion in the manufacturing sector. Industrial production rose more than expected in September, while capacity utilization was unchanged. Housing market data were mixed in September, as housing starts and building permits both fell below their third quarter averages, while both new and existing home sales picked up.

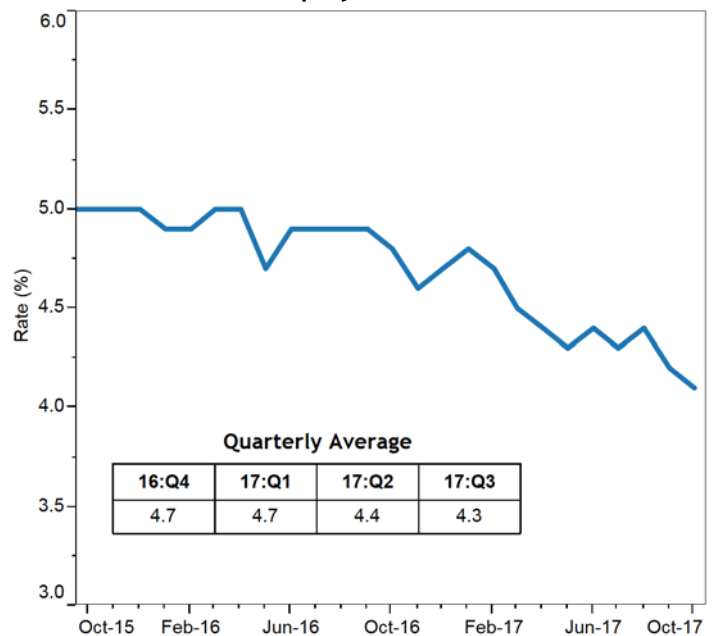
Total consumer inflation accelerated in the third quarter, as measured by the CPI, but eased a bit as measured by the PCE index. Meanwhile, core consumer inflation continued to decelerate in the third quarter. Growth in employment costs inched up in the third quarter. After holding relatively steady in the third quarter, oil prices rose on average in October and continued to increase in the first several days of November.

Nonfarm payrolls added 261,000 jobs in October, and job gains for the previous two months were revised up by a total of 90,000 jobs. The unemployment rate fell one-tenth of a percentage point to 4.1% in October, as a decrease in the size of the labor force outpaced a decline in civilian employment.

### Nonfarm Payroll Employment

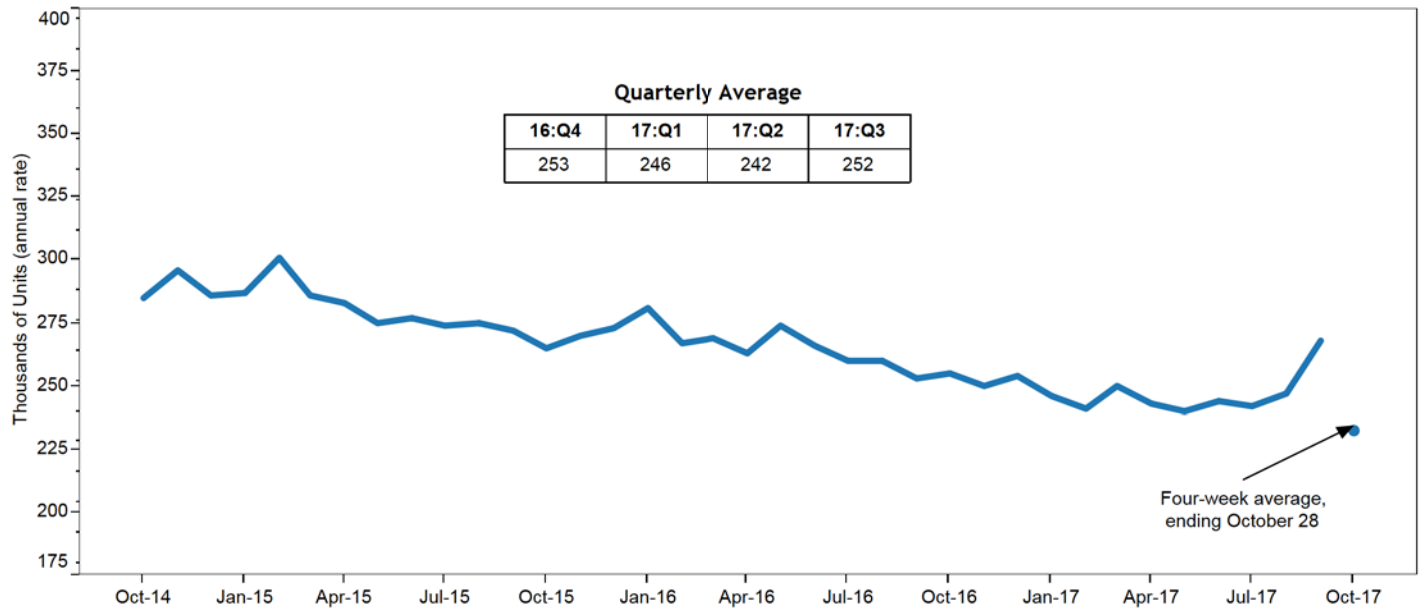


### Unemployment Rate



Initial claims for unemployment insurance fell in October to well below their third quarter average, which was the highest quarterly average so far this year, rising in the wake of the recent hurricanes.

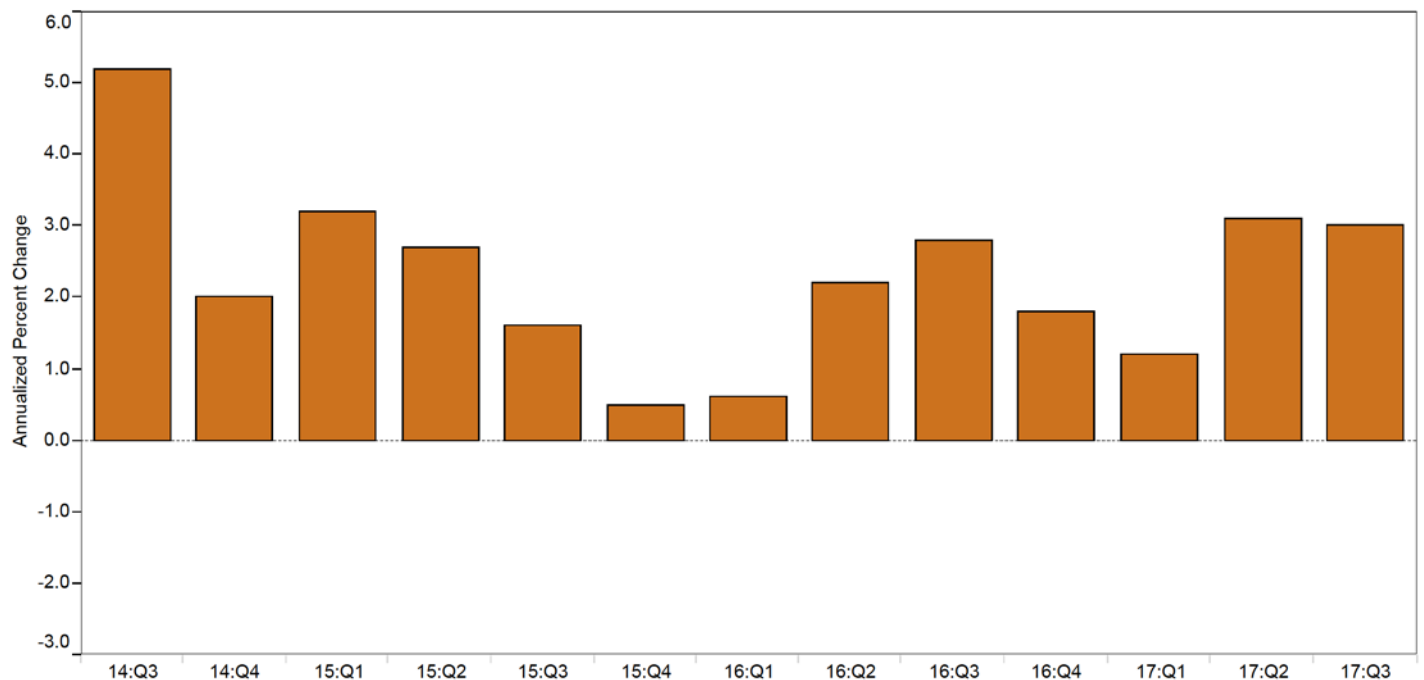
### Initial Claims



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

Real GDP growth eased a tick in the third quarter. The slower rate primarily reflected decelerations in personal consumption expenditures (PCE), in nonresidential fixed investment, and in exports that were partly offset by an acceleration in private inventory investment and a downturn in imports.

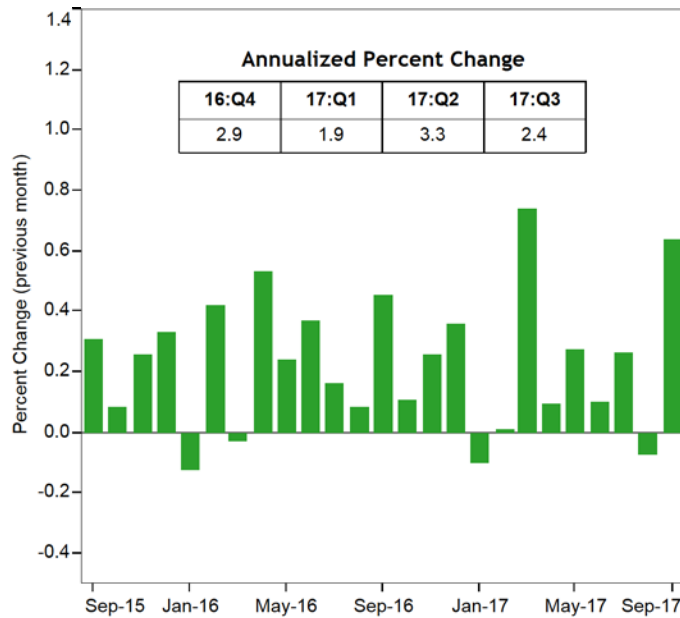
### Real Gross Domestic Product



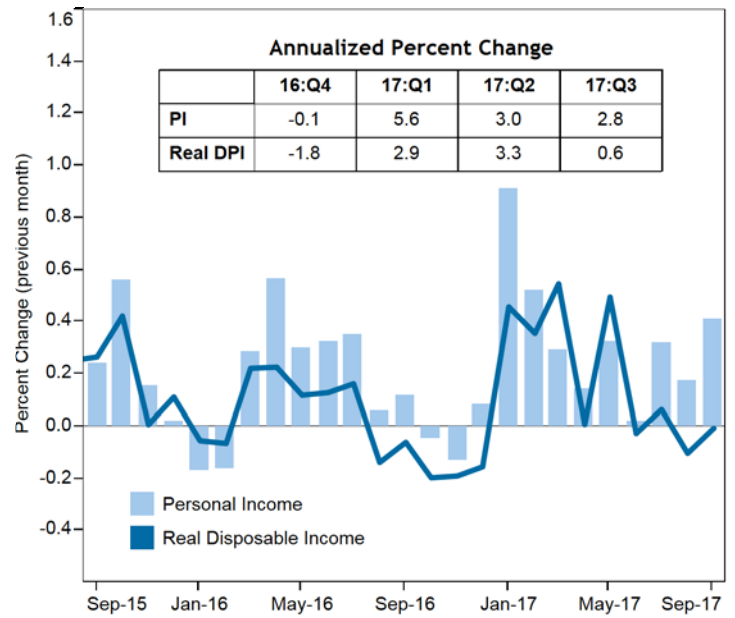
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the third quarter, as nominal and real income growth both decelerated. On a monthly basis, consumption rose in September, after falling in the previous month, despite essentially no change in real income.

### Real Consumption



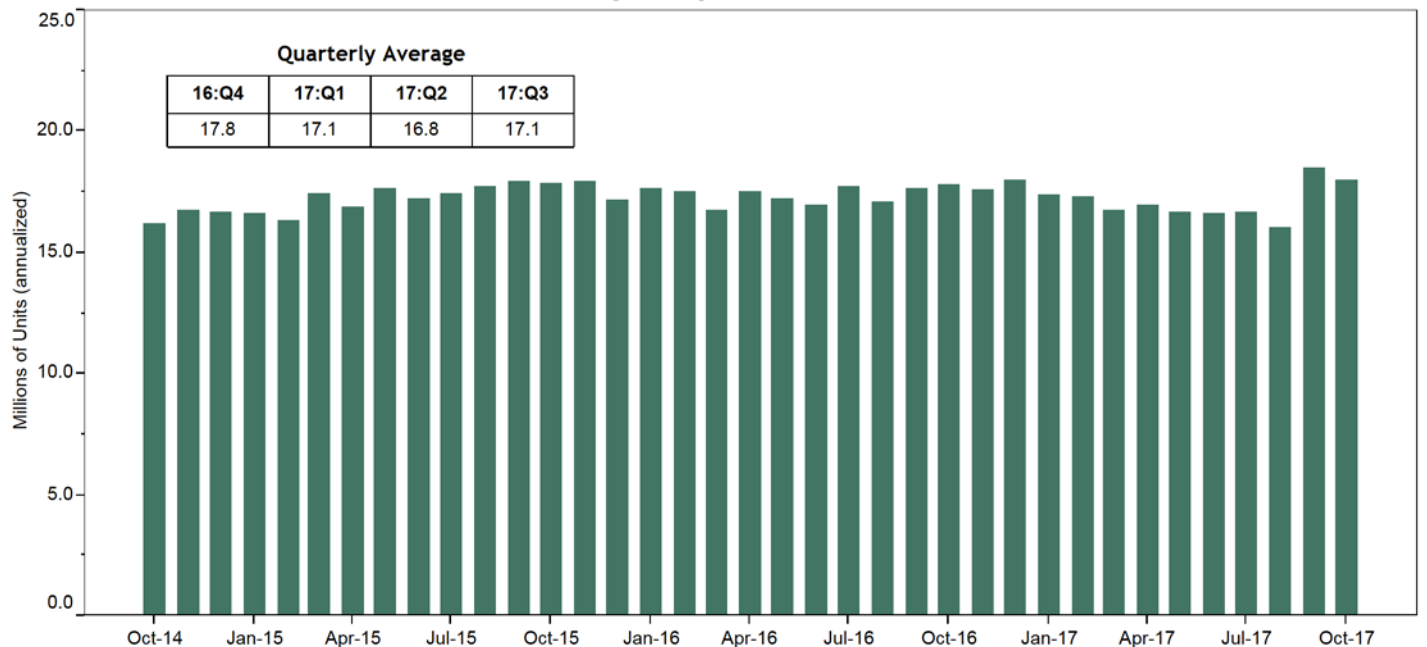
### Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Total lightweight vehicle sales in October were above their third quarter average, but fell from their September pace, which was the highest rate since July 2005. The decrease in total vehicle sales in October was due to declines in both light duty truck sales and auto sales.

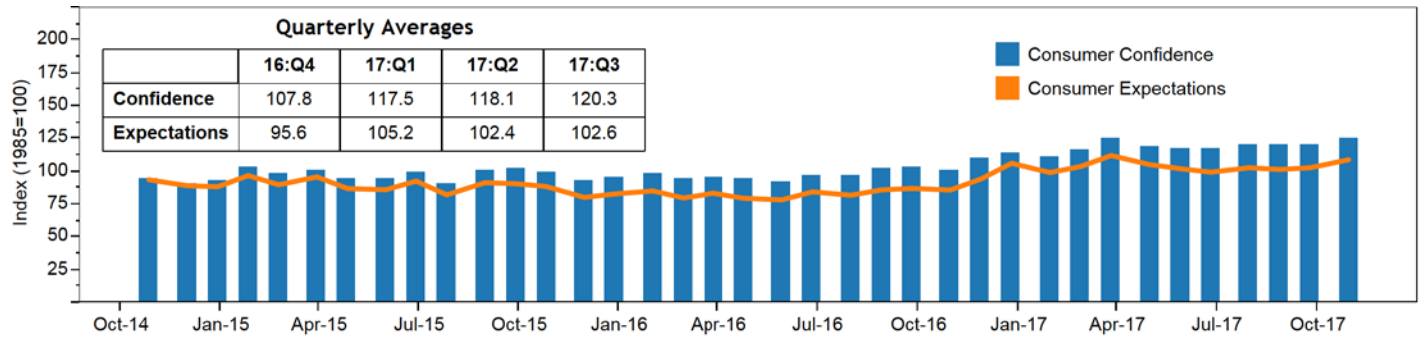
### Total Lightweight Vehicle Sales



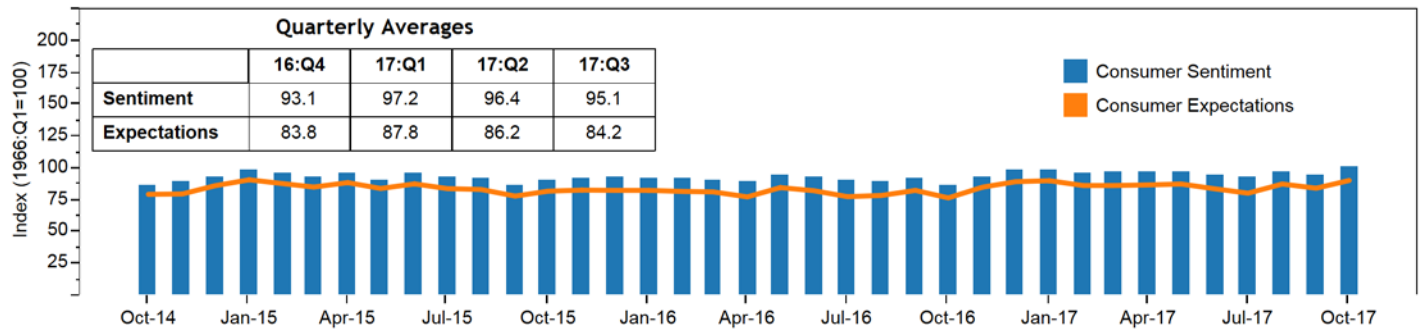
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes improved in October, as the confidence and the sentiment indexes both increased above their third quarter averages. In general, consumers had more favorable assessments of current labor market conditions and personal finances, and were more optimistic towards the outlook for the national economy.

### Consumer Confidence and Expectations



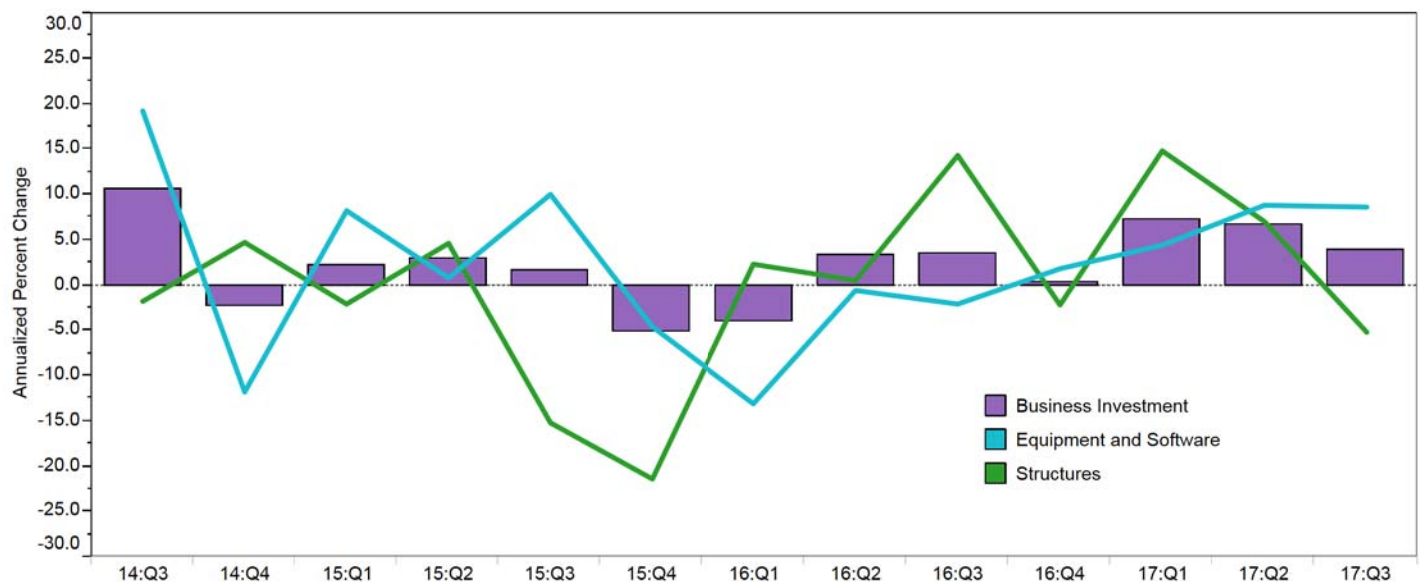
### Consumer Sentiment and Expectations



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

Business investment continued to decelerate in the third quarter, mostly due to a decline in structures investment. Meanwhile, equipment and software investment registered its fourth consecutive increase in the third quarter.

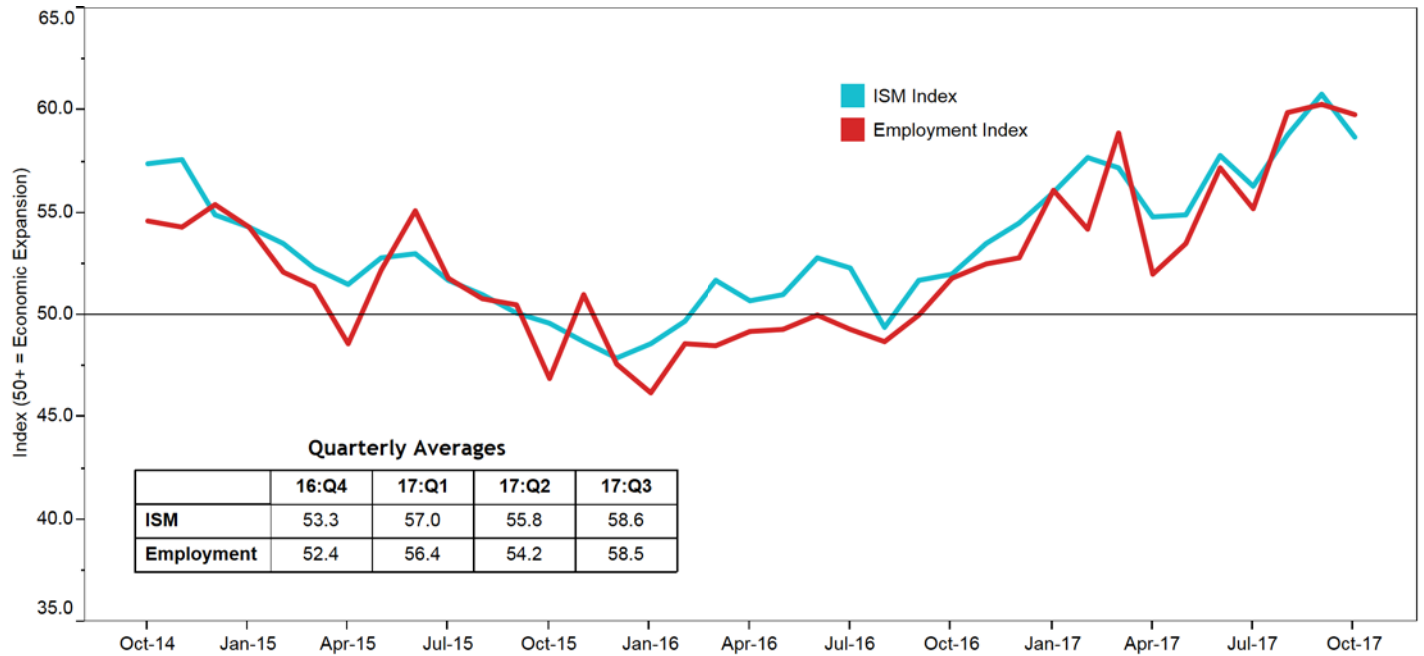
### Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM index fell in October to roughly in line with its third quarter average, yet continued to signal expansion in the manufacturing sector. The employment index also declined in October but was above its third quarter average.

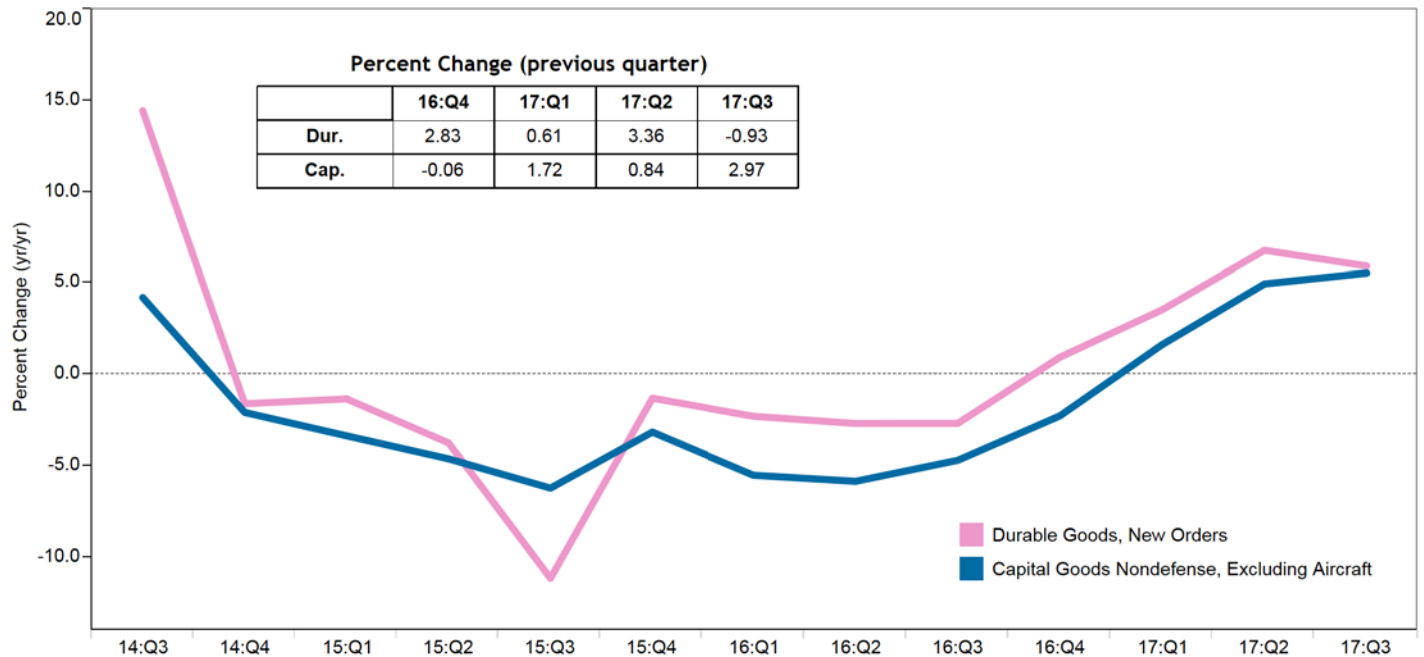
### ISM Index



Source: Institute of Supply Management / Haver Analytics.

In the third quarter, durable goods orders continued to rise on a year-over-year basis, but decreased when compared to the prior quarter. Meanwhile, orders for nondefense capital goods, excluding aircraft, continued to rise on both a year-over-year and a quarterly basis.

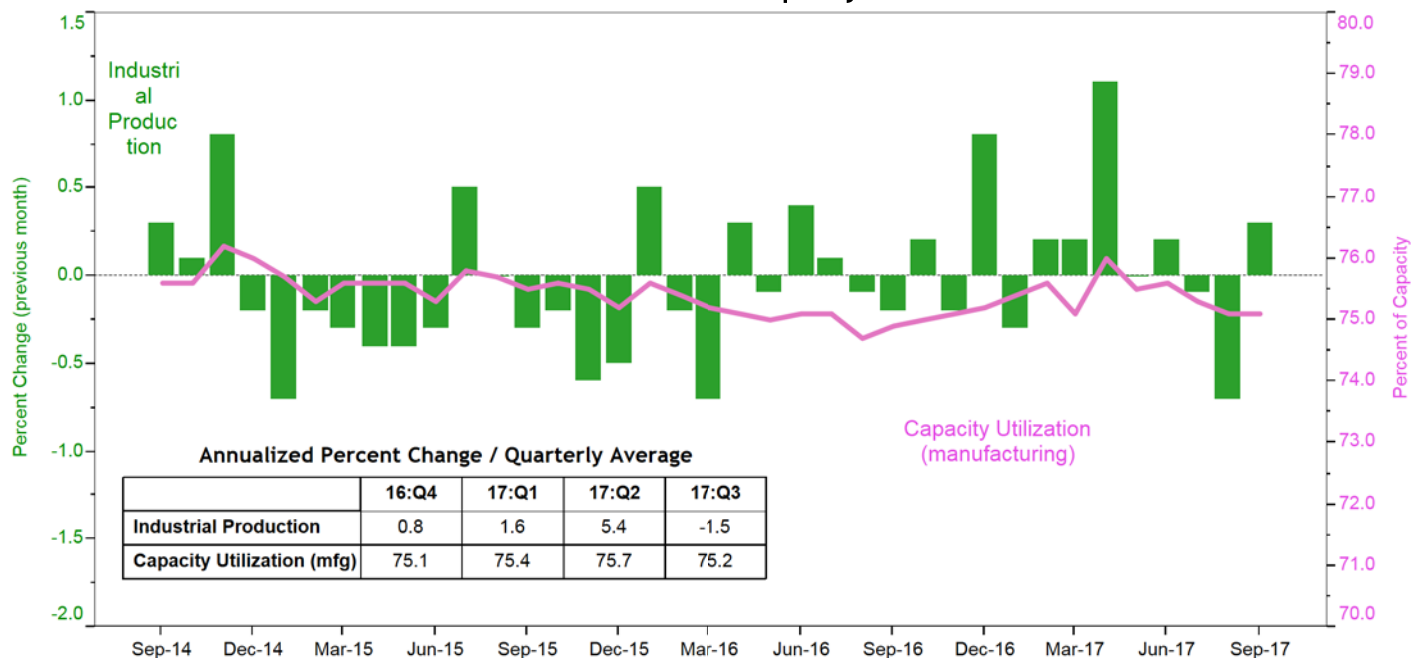
### Durable Goods Orders



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

Industrial production fell in the third quarter, and capacity utilization eased. In September, industrial production posted a larger-than-expected increase, as manufacturing, mining, and utilities production all rose. Capacity utilization was unchanged in September.

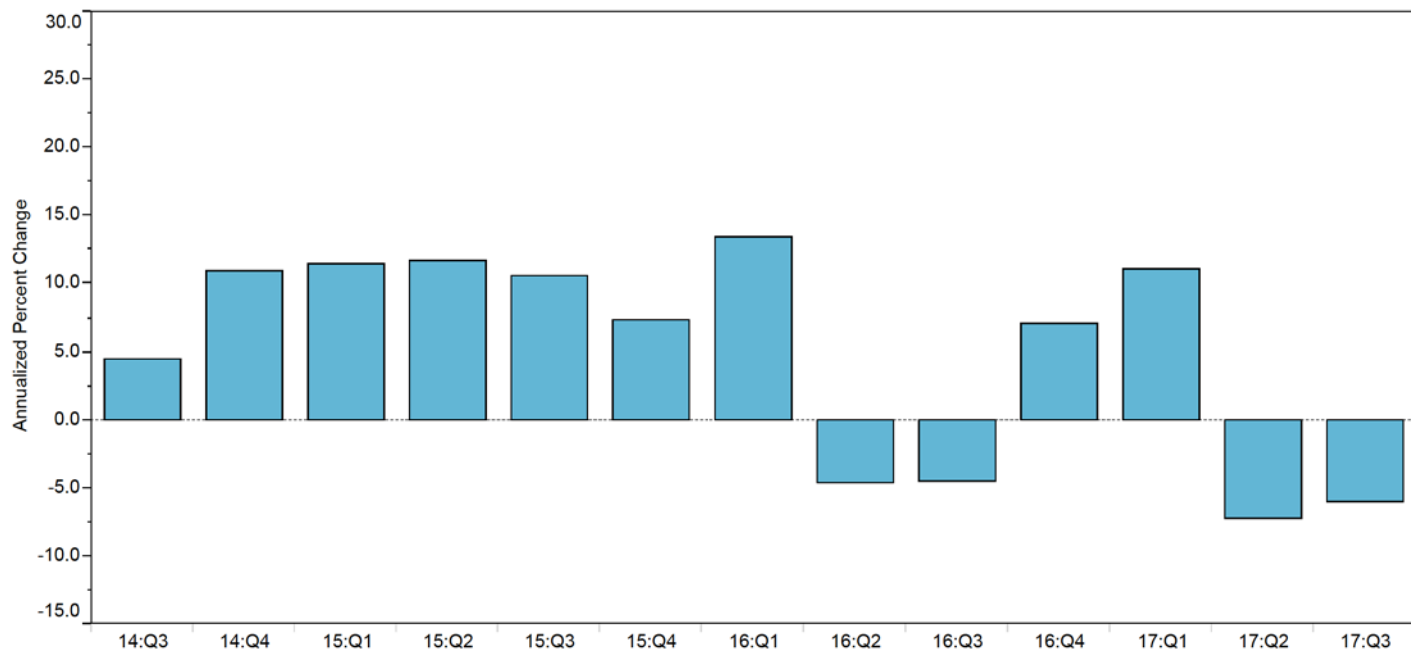
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment continued to decrease in the third quarter, albeit at a slower rate than seen in the prior quarter.

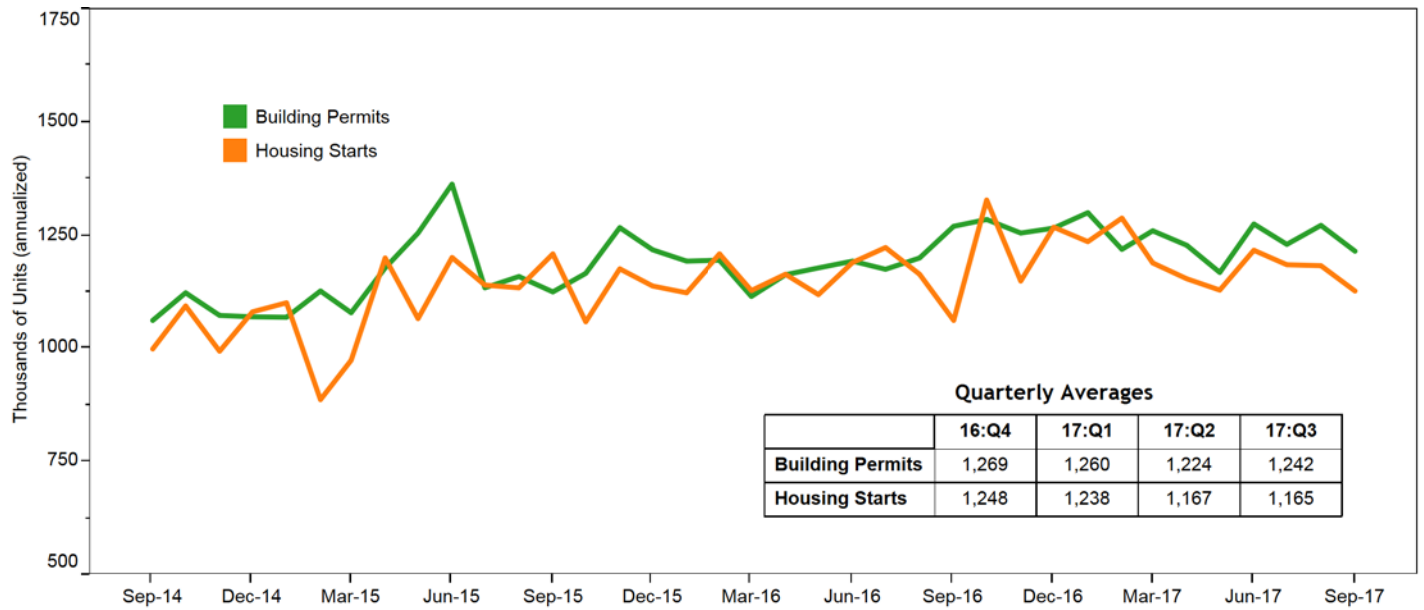
### Residential Investment



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

Housing starts eased a bit in the third quarter, while building permits picked up. In September, housing starts fell below their third quarter average, as single-family and multi-family starts both declined. Building permits also fell below their third quarter average in September, due to a drop in multi-family permits. Single-family permits increased in September.

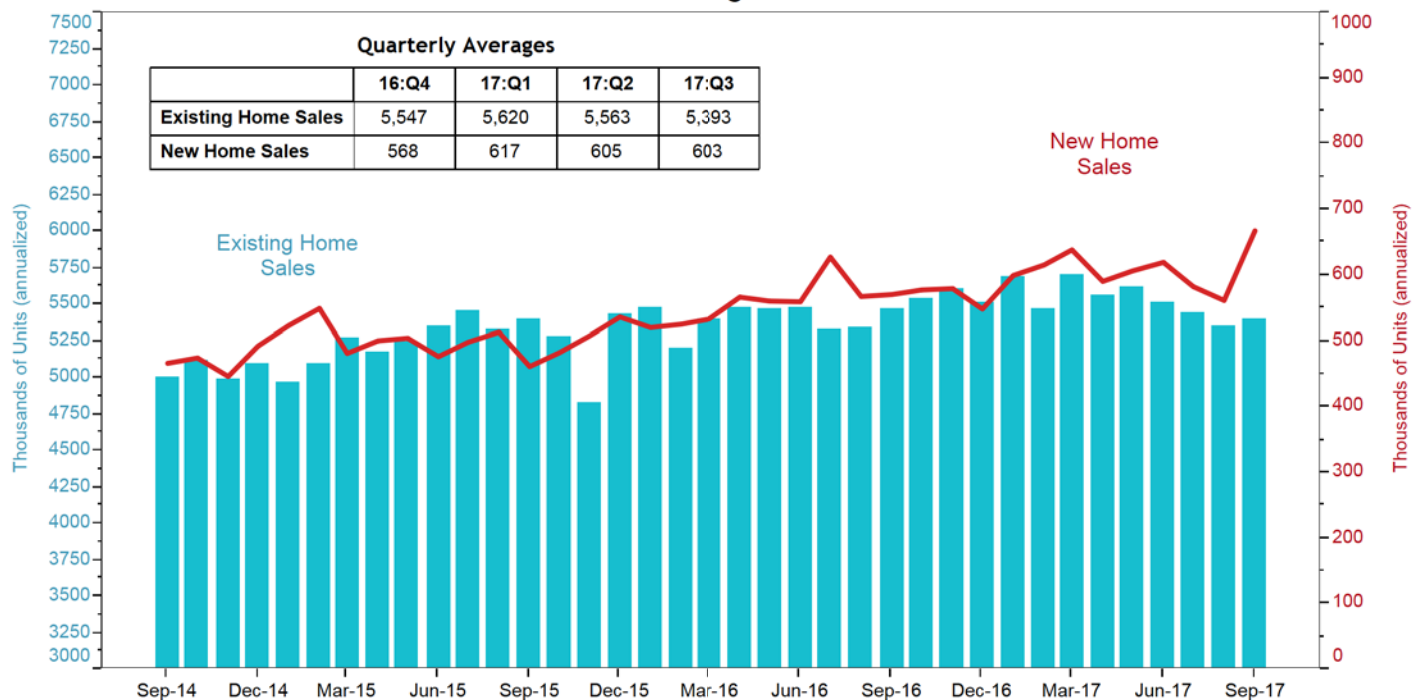
### Housing Starts and Building Permits



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

Home sales data eased in the third quarter. Existing home sales fell to their lowest quarterly average in one year, while new home sales declined a bit to their lowest quarterly average so far this year. Both new and existing home sales picked up in September from their August pace, and new home sales reached their fastest pace in 10 years.

### New and Existing Home Sales

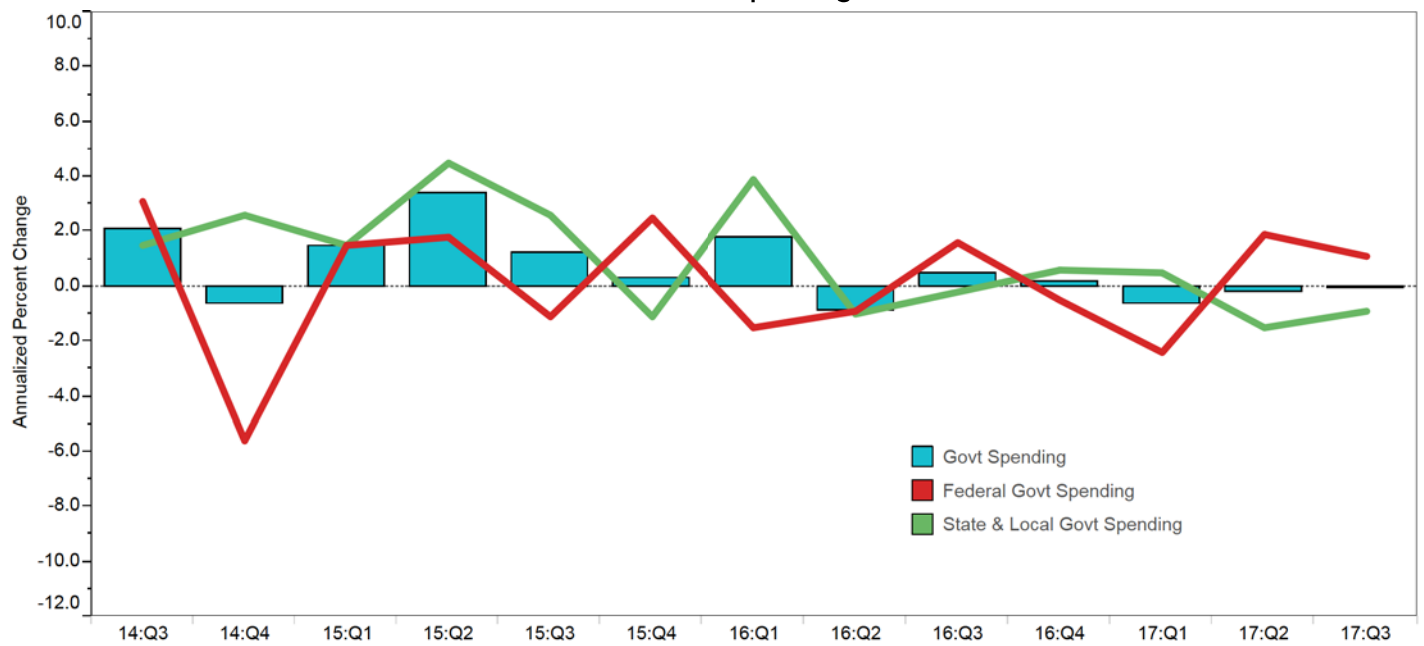


Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.



In the third quarter, government spending edged down, albeit at a slower rate than seen in each of the previous two quarters. The decrease was due to a decline in state and local government spending, while federal government spending continued to rise.

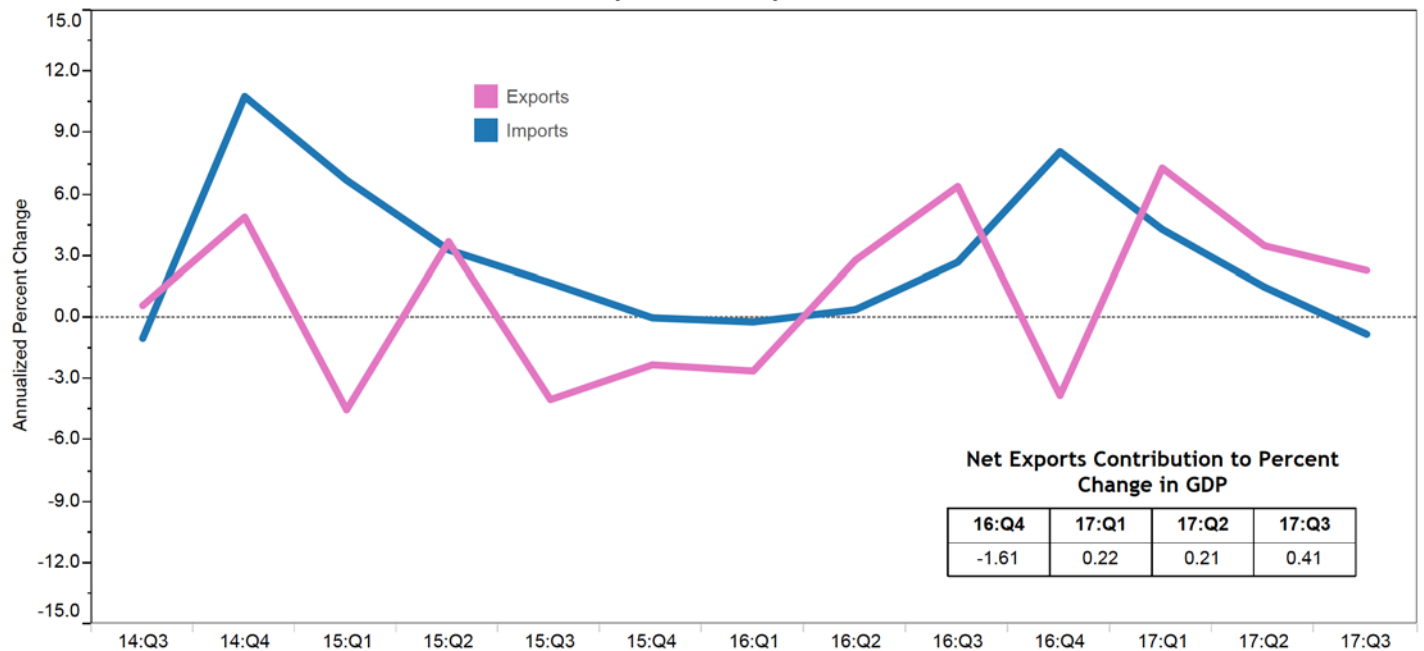
### Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Exports rose in the third quarter, after increasing in each of the prior two quarters, while imports declined, which resulted in a slight boost to GDP from net exports.

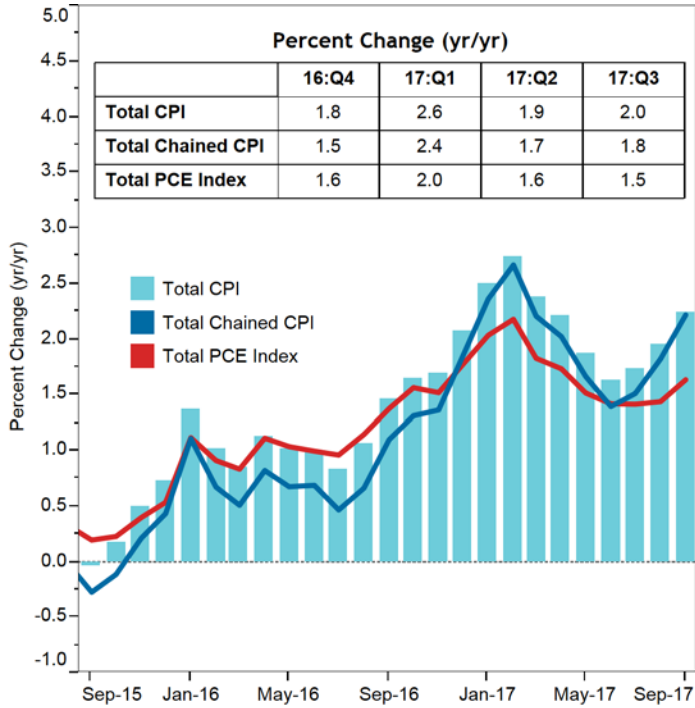
### Exports and Imports



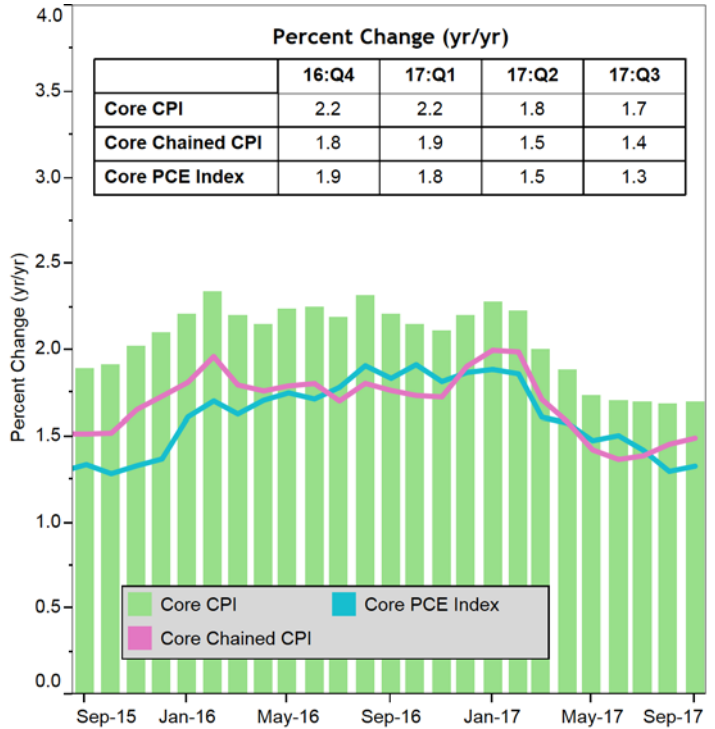
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in total consumer prices accelerated in the third quarter, as measured by the Consumer Price Index (CPI), but decelerated as measured by the Personal Consumption Expenditure (PCE) price index. Excluding the volatile food and energy sectors, growth in core prices continued to ease in the third quarter. In September, growth in total prices picked up, while growth in core prices was essentially unchanged from the prior month.

### Total Price Indices



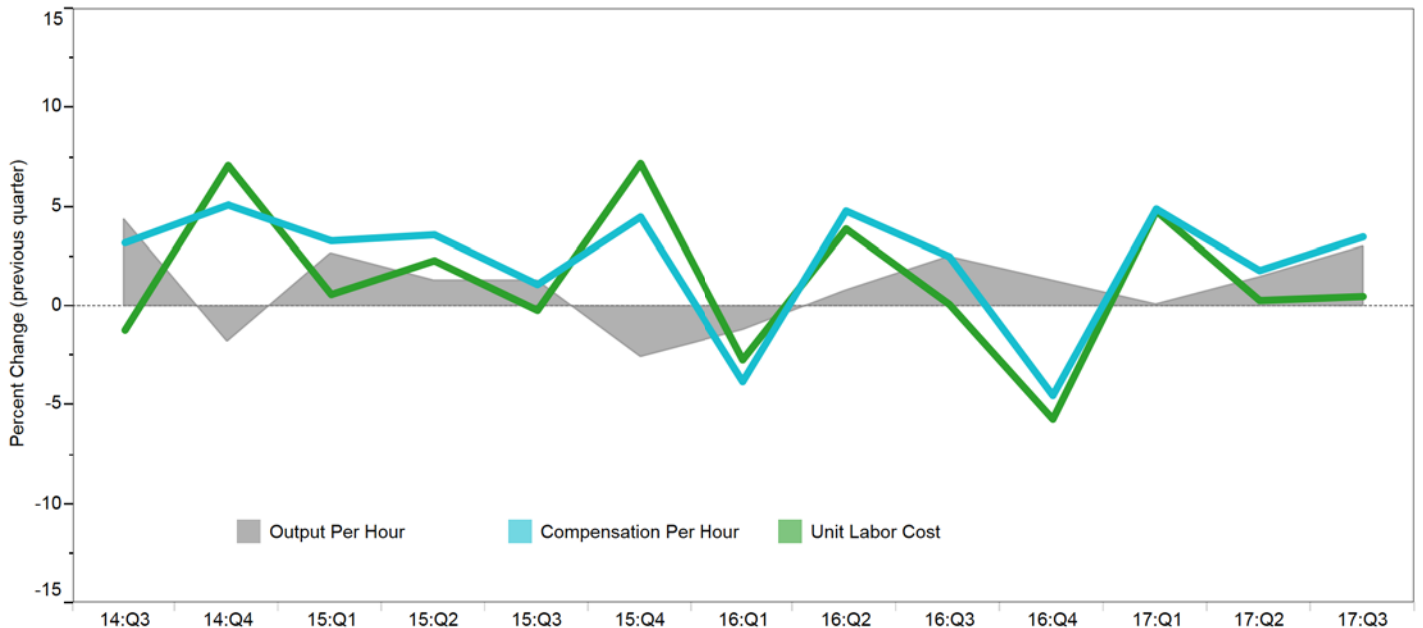
### Core Price Indices



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

Productivity continued to rise in the third quarter, registering its largest increase in three years, as output increased more than hours worked. Growth in compensation accelerated in the third quarter, and growth in unit labor costs edged up.

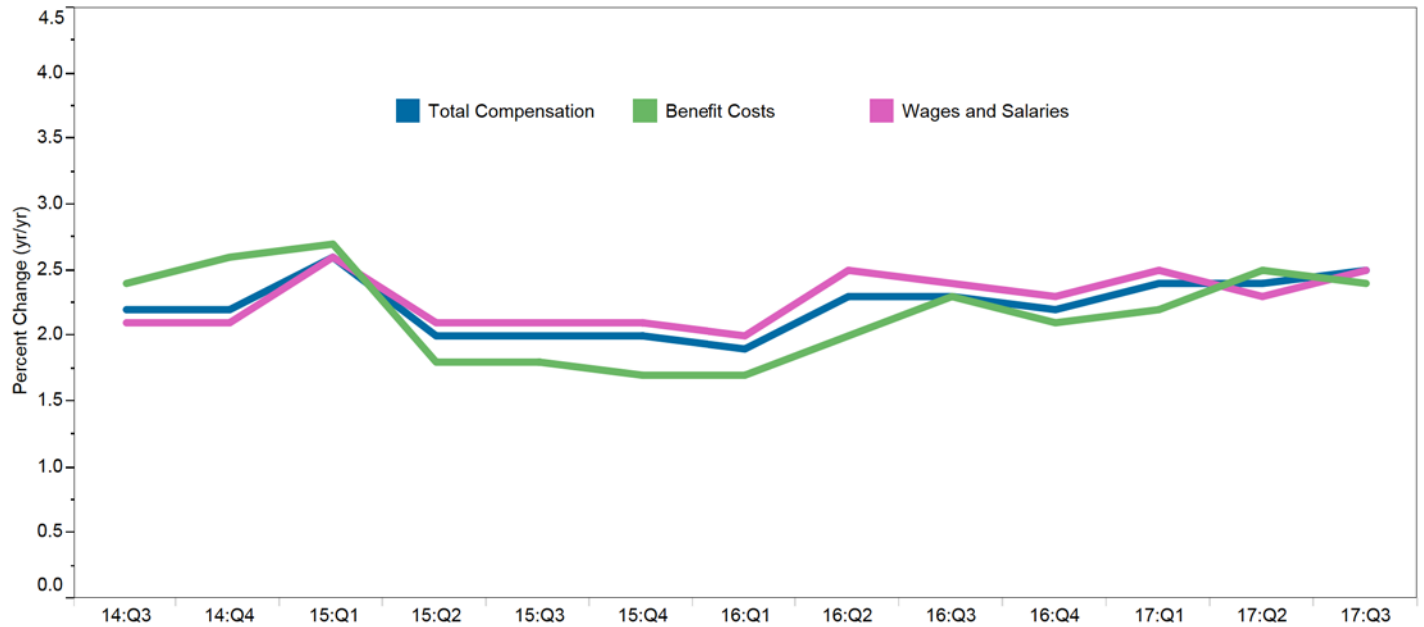
### Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the third quarter, total compensation growth picked up a tick from the rate seen in the second quarter. Meanwhile, benefit costs growth eased a bit in the third quarter, while wages and salaries growth accelerated.

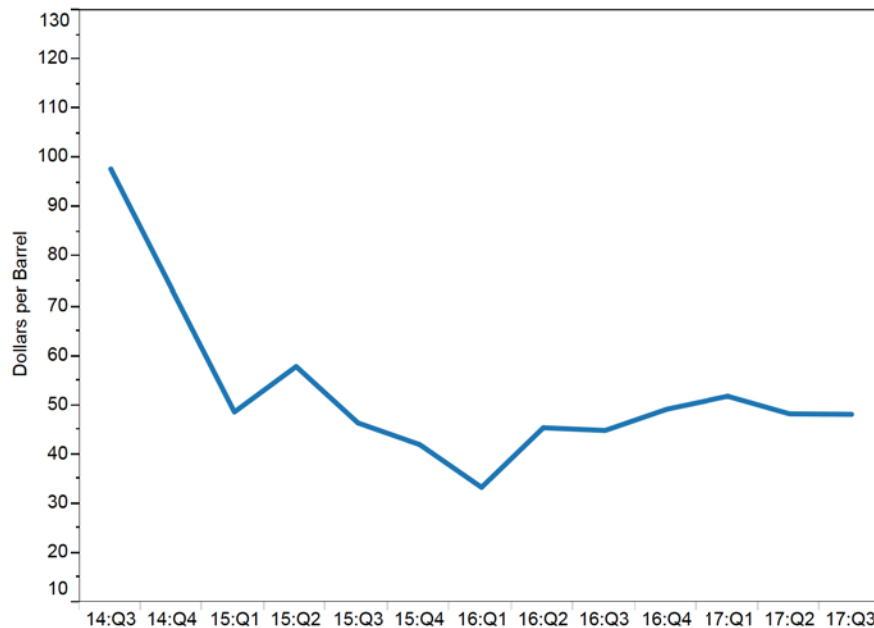
### Employment Cost Index



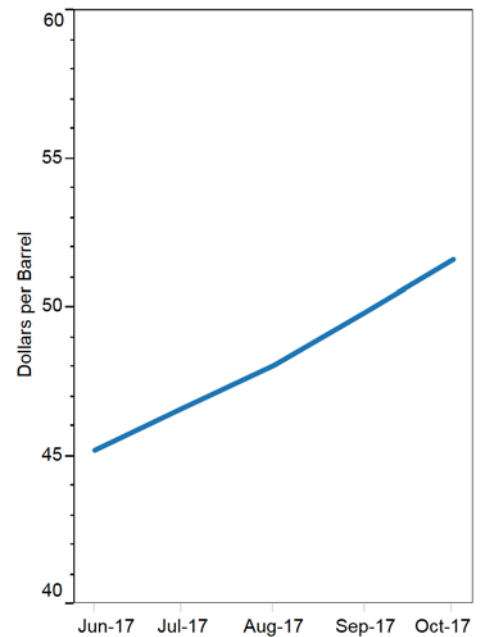
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in October continued to rise above the levels seen in the third quarter, reaching their highest monthly average since February. The daily closing prices have risen further in the first week of November, reaching \$57.4 per barrel on November 6.

### Domestic Spot Oil Price



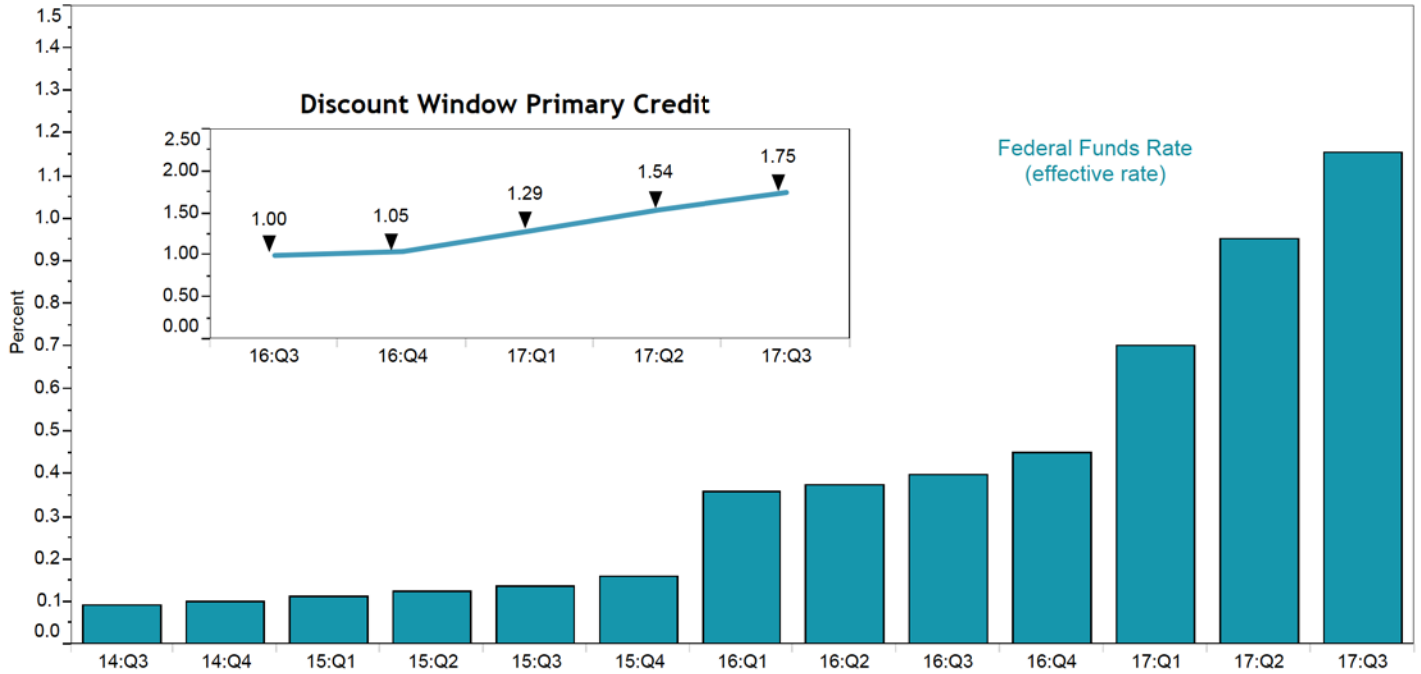
### Past Five Months



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.