



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

November 2, 2021

CURRENT ECONOMIC DEVELOPMENTS - November 2, 2021

Data released since your last Director’s meeting show that real GDP growth decelerated in the third quarter as supply-chain issues, the delta variant, price pressures, and Hurricane Ida all weighed on the economy. According to the advance estimate, real GDP grew 2.0% in the third quarter—hindered by a slowdown in spending on services (led by food services and accommodations) and a decline in spending on goods (led by motor vehicles and parts). However, the seven-day moving average of new cases has fallen by more than 50% since the beginning of September and nearly 70% of the adult population has been fully vaccinated. Although the pace of recovery slowed in the third quarter, as supply-chain constraints moderate and the public health outlook improves, it becomes more likely that growth will rebound through the fourth quarter and into 2022.

Employment growth slowed significantly in August and September, yet the unemployment rate continued to fall, decreasing by 1.1 percentage points between June and September. October data are due out this Friday and market expectations are for an increase of around 450,000 and the unemployment rate ticking down to 4.7%. Initial claims for unemployment insurance have fallen for four consecutive weeks—recent weekly data represents the lowest number of claims since March 2020.

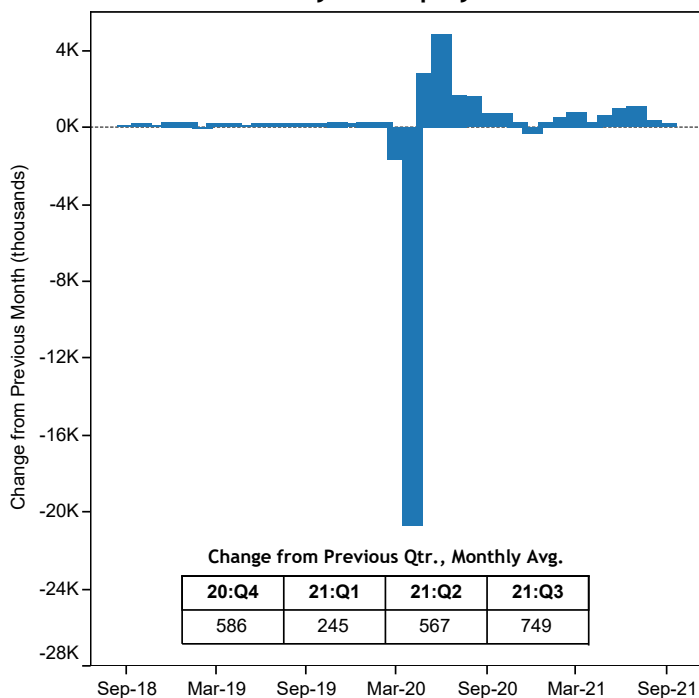
Real consumption decelerated sharply in the third quarter but still posted modest gains. Personal income declined in September but rose slightly in the third quarter on an annualized basis. Real disposable income fell in September as well as in the third quarter. Consumer attitudes were mixed in October as consumer confidence rose and sentiment declined—both remained at the depressed levels seen since the mid-year downturn in response to the surge in cases of the delta variant. Housing market data remained at elevated levels but were mixed, as starts and permits fell in the third quarter and housing sales increased.

Orders for durable goods declined in September—the first decline since April—and growth in orders decelerated both in the third quarter and year-over-year. Orders for nondefense capital goods, excluding aircraft rose in September but also decelerated in the third quarter. The ISM manufacturing index declined slightly in October while regional manufacturing surveys from the Federal Reserve were mixed—all continued to signal expansion. Industrial production fell in September and August’s modest gain was revised to a small decline—these declines are the first downturns since February and were due largely to disruptions caused by Hurricane Ida. Meanwhile, capacity utilization in manufacturing fell for the second consecutive month in September, although the third quarter accelerated a bit from the previous quarter.

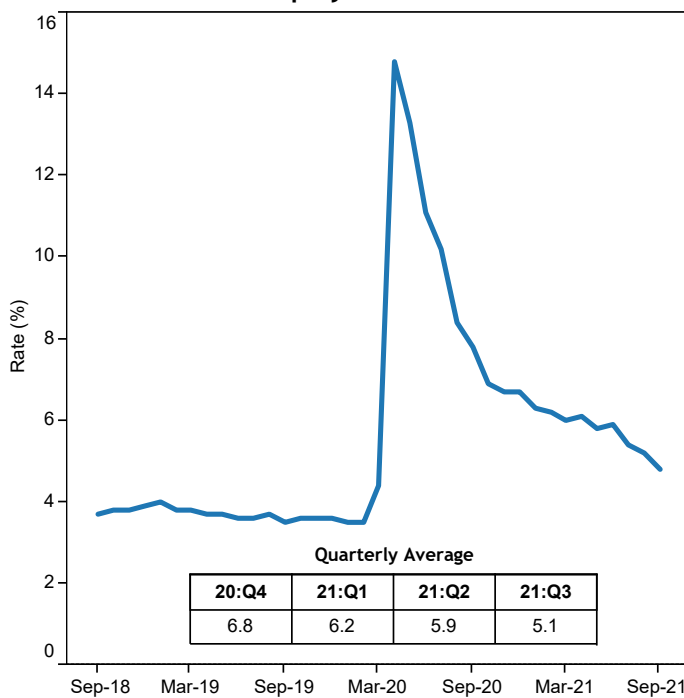
Inflation measures accelerated in the third quarter on a year-over-year basis, compared to the second quarter. In September, annual growth in total CPI and total PCE both ticked up slightly while core measures essentially held steady. Compensation per hour, unit labor costs, and wages and salaries all accelerated in the third quarter. On average, oil prices have continued their upward trend in every quarter since the start of the pandemic and recent daily prices have hovered above \$80 per barrel.

September’s payroll employment rose only 194,000, due largely to declines in the education sector, which is subject to large seasonal distortions. Excluding the effects from this sector, payrolls expanded 374,000 in September. The unemployment rate fell from 5.2% to 4.8% in September due to a large increase in civilian employment and a decline in the labor force. Employment data for October are due Friday, with market expectations for a 450,000 increase in jobs and a slight decrease in the unemployment rate to 4.7%.

Nonfarm Payroll Employment



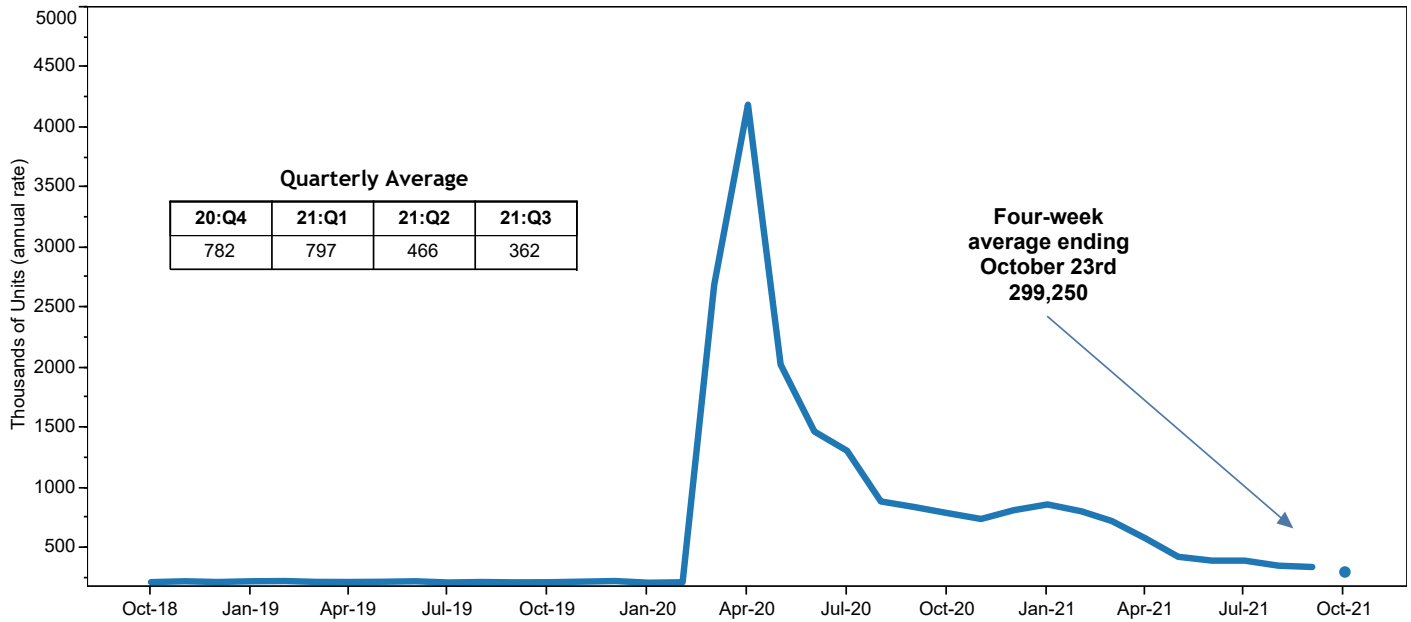
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance have fallen in each of the last four weeks—falling 10,000 in the week ended October 23 to reach 281,000 —the lowest level since March 2020. The four-week moving average fell 20,750 to 299,250, a level that is approximately 73,000 above the level seen on March 14, 2020—the last week of reported claims prior to the economic shutdowns associated with the virus.

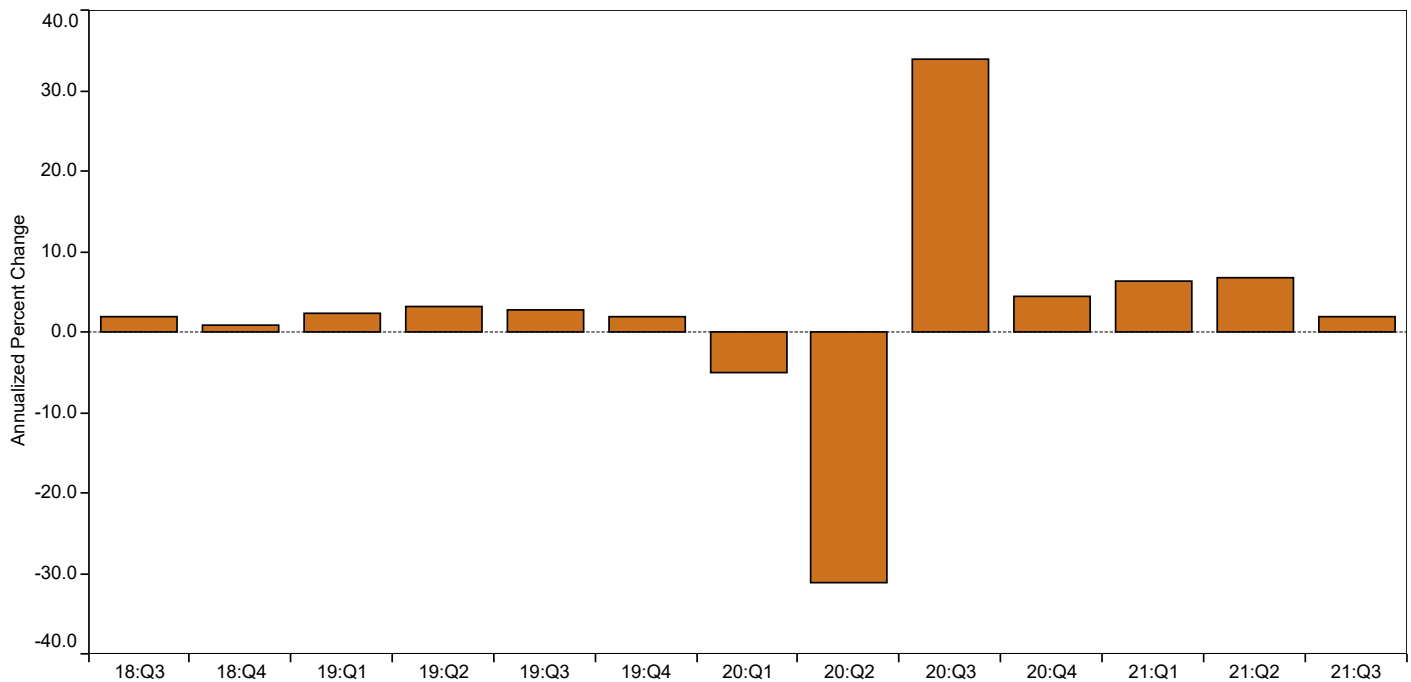
Initial Claims



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

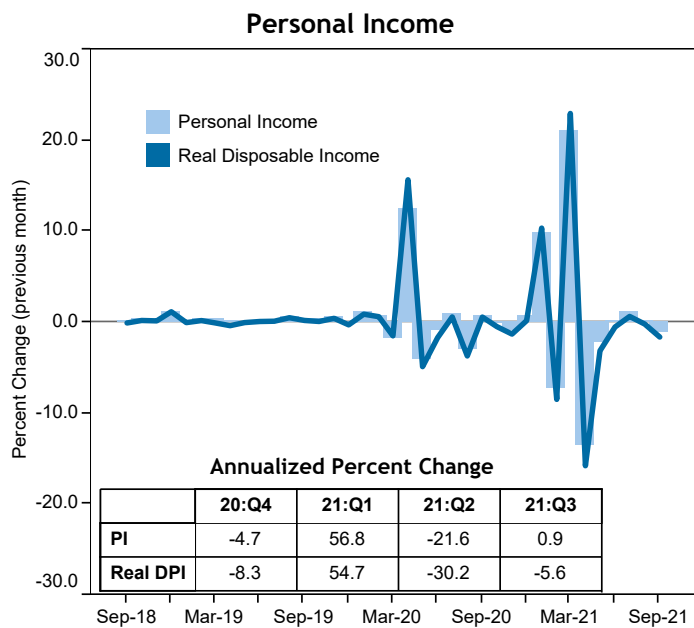
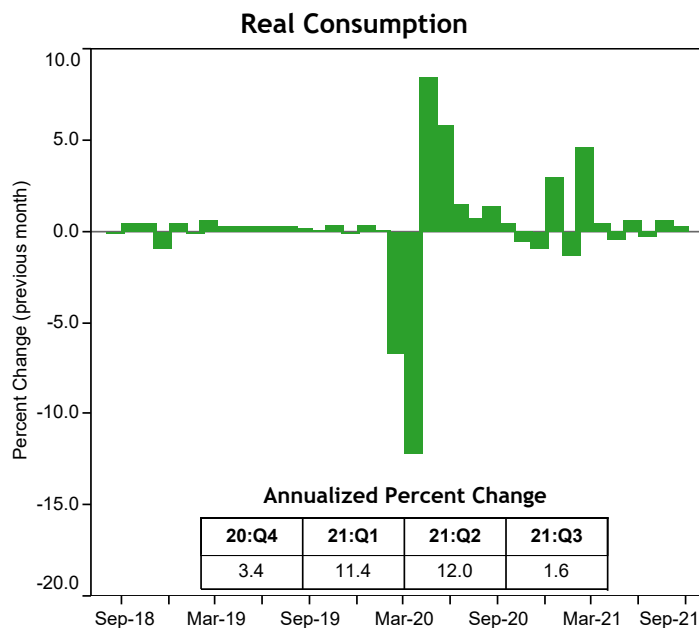
Real GDP increased 2.0% in the third quarter, decelerating from the second quarter growth rate of 6.7% and marking the weakest quarterly growth since the start of the pandemic. The increase reflected gains in private inventory investment, personal consumption expenditures, state and local government spending, and nonresidential fixed investment that were partially offset by declines in residential fixed investment, federal government spending, and net exports.

Real Gross Domestic Product



Source: Bureau of Economic Analysis / Haver Analytics.

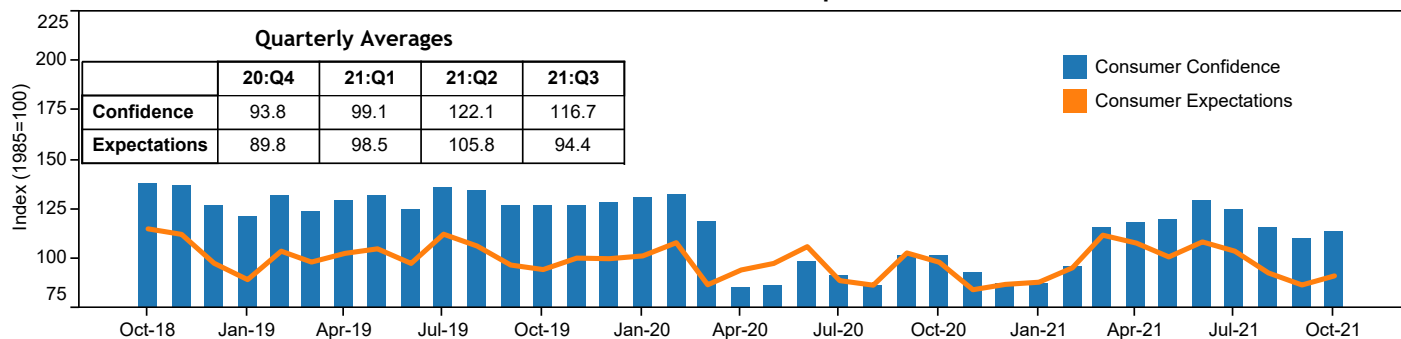
Real consumption rose 0.3% in September and rose at a 1.6% annualized rate in the third quarter overall. Personal incomes increased at a 0.9% annualized rate in the third quarter aided by stimulus payments and extended unemployment insurance payments. However, as those programs expired and payments waned in September, there was a corresponding decline of 1.0% in personal income for the last month of the quarter. Real disposable income fell 1.6% in September and fell at a 5.6% annualized rate in the third quarter.



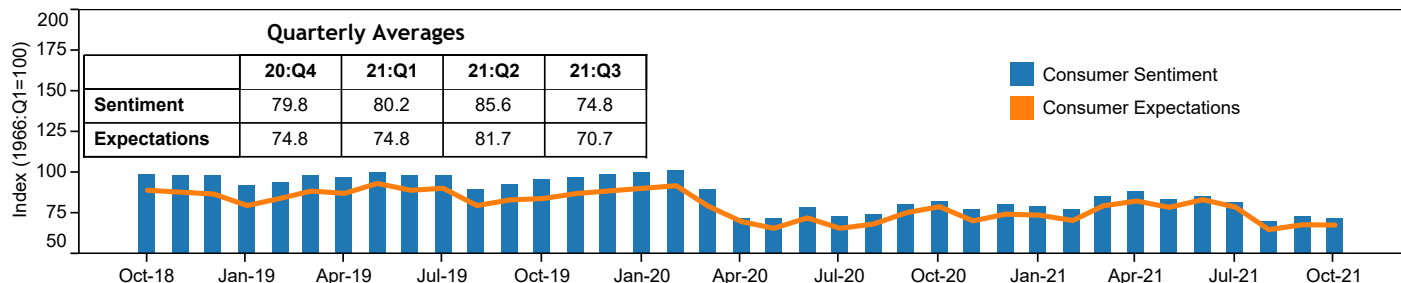
Source: Bureau of Economic Analysis / Haver Analytics.

The consumer confidence index rose to 113.8 in October following three consecutive monthly declines that put the third quarter, on average, 5.4 points below the second. The expectations subcomponent regained some ground in October, rising to 91.3. The consumer sentiment index fell to 71.7 in October's final reading from 72.8 in September. On average, sentiment in the third quarter fell 10.8 points from the prior quarter as higher income expectations and receding coronavirus case counts were offset by higher inflation and falling confidence in government policies. The expectations subcomponent fell to 67.9 in October.

Consumer Confidence and Expectations



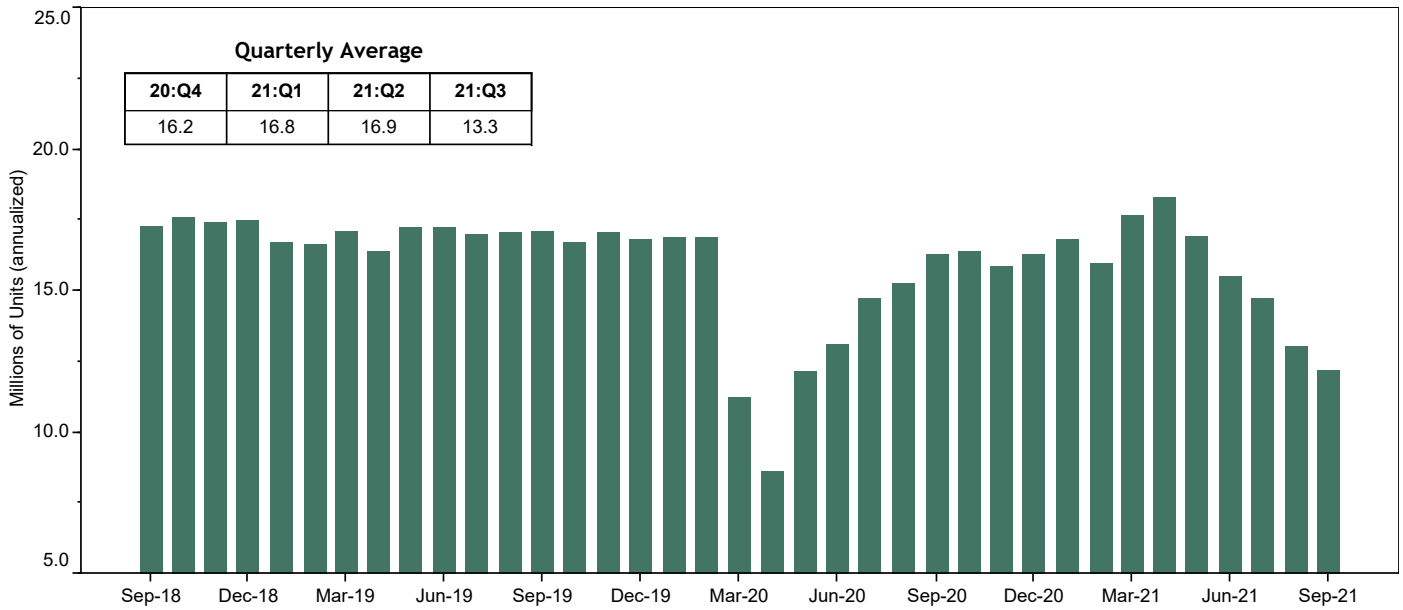
Consumer Sentiment and Expectations



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

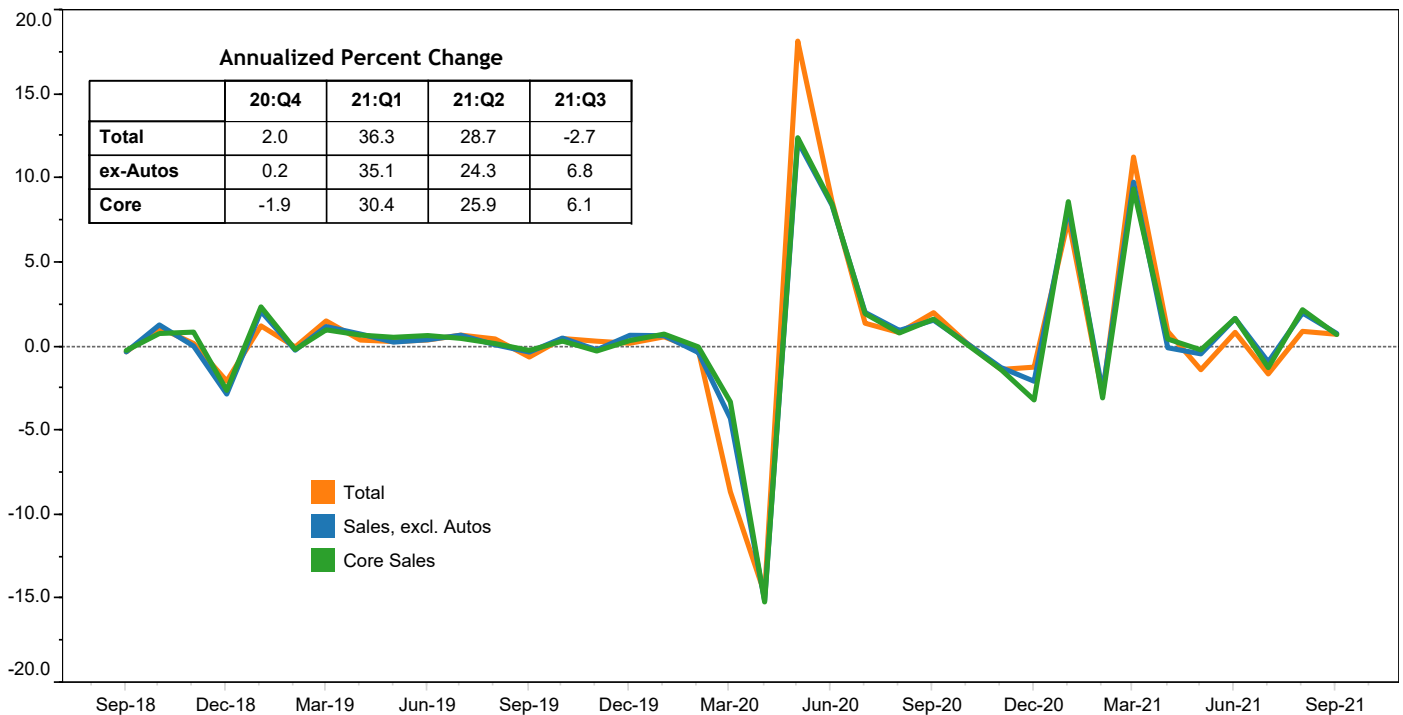
Sales of lightweight vehicles fell for the fifth consecutive month in September as supply-chain issues and high prices continue to weigh on the sector. Sales in the third quarter fell to an annual rate of 13.3 million units, down from 16.9 million in the second quarter. Estimates of October sales data will be available Wednesday morning, with markets anticipating a 12.4 million-unit annual rate—a small improvement from September’s annual rate of 12.2 million units.

Total Lightweight Vehicle Sales



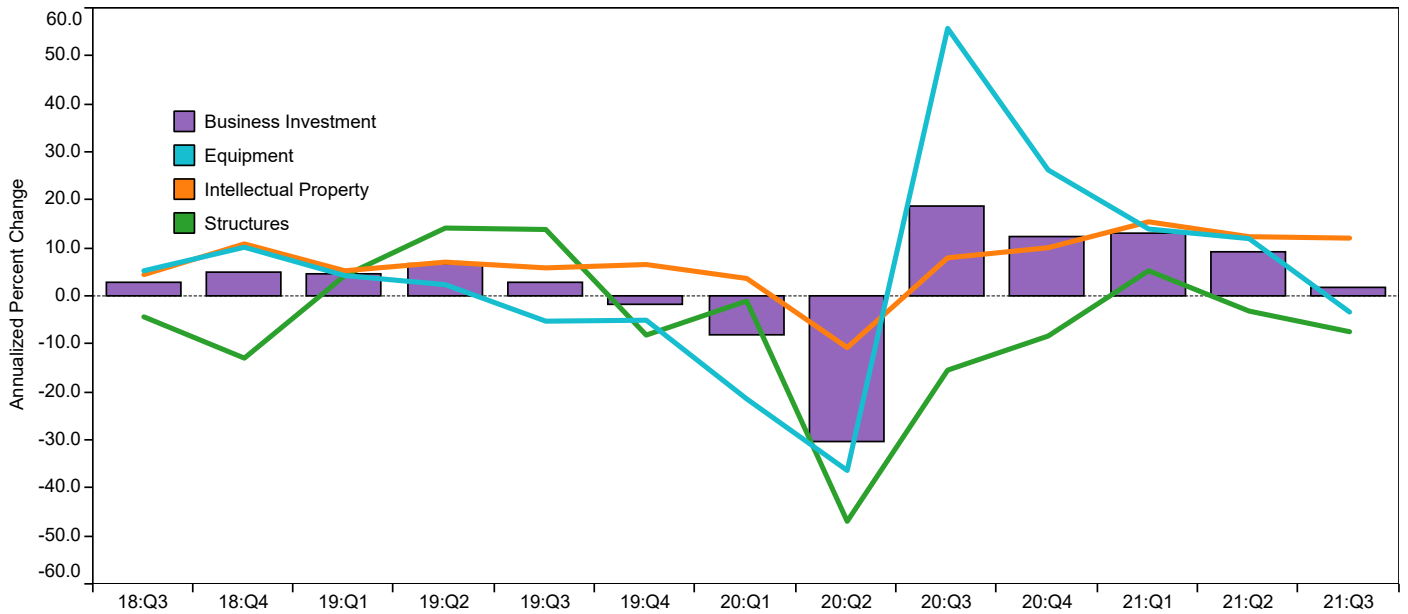
Retail sales rose 0.7% in September after August’s gain was revised upward to 0.9%. Also in September, sales excluding autos rose 0.8% and core sales increased 0.7%. These data were above expectations, suggesting greater momentum for consumption heading into the fourth quarter.

Retail Sales



Business investment increased at an annualized rate of 1.8% in the third quarter, a marked slowdown from the large gains seen over the previous four quarters. Healthy increases in intellectual property (led by software) more than offset decreases seen in structures and equipment.

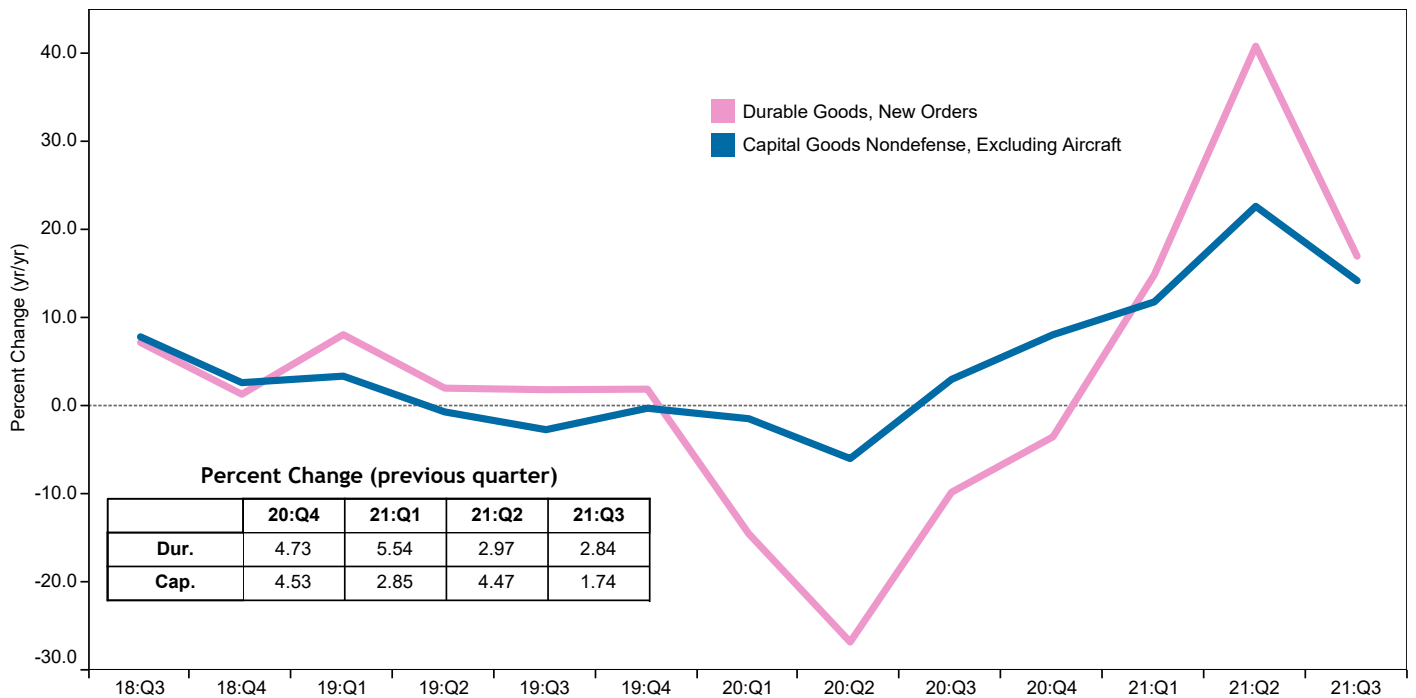
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

Orders for durable goods fell 0.4% in September, following August's 1.3% gain (revised downward from 1.8%). Third quarter growth in orders slowed sharply from the second quarter annual rate but remained elevated. On a quarterly basis, orders have been trending higher since the start of the recovery in mid-2020, though the rate of improvement has slowed over the past two quarters. However, nearly all of the gains since November of last year reflect higher prices—after adjusting for prices, real orders have remained essentially flat since then. Orders of nondefense capital goods excluding aircraft rose for the seventh consecutive month—increasing 0.8% in September.

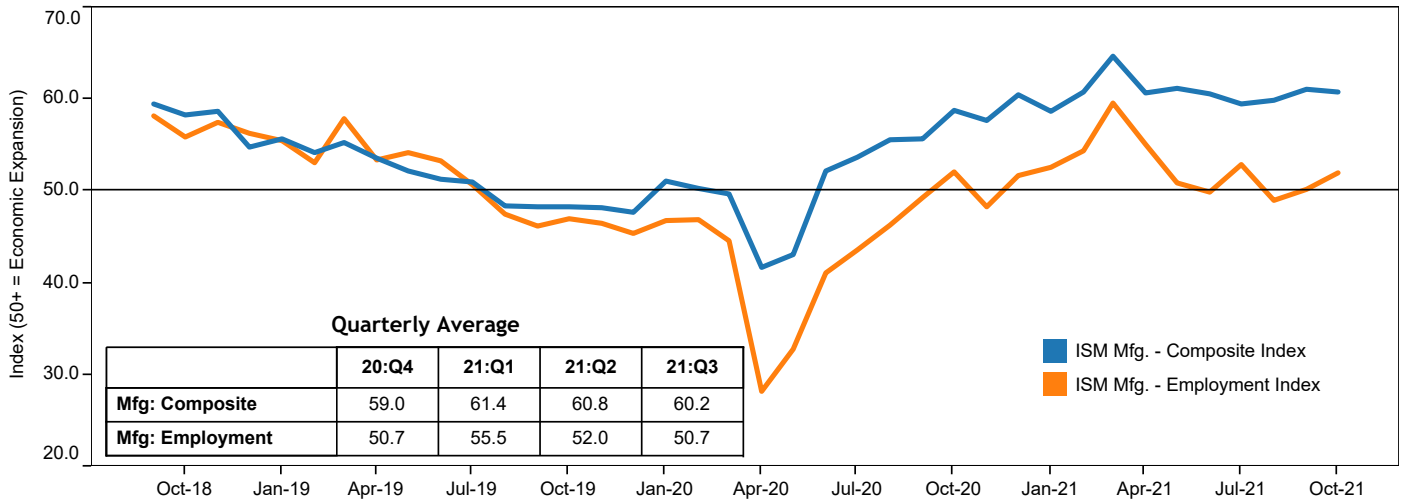
Durable Goods Orders



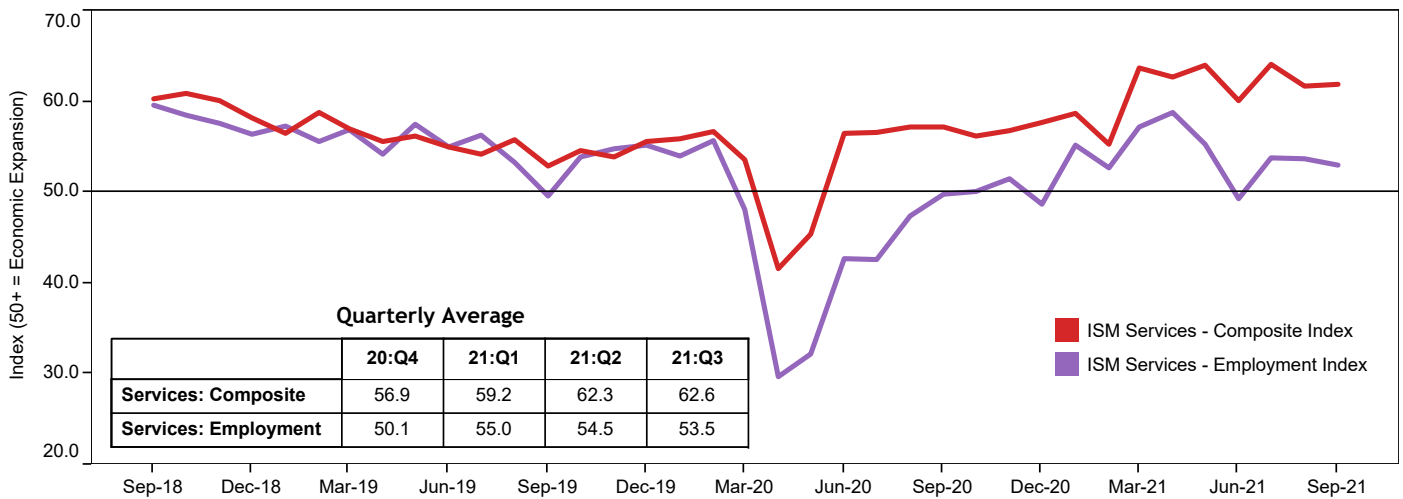
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index fell to 60.8 in October from September's reading of 61.1 and the employment component rose from 50.2 to 52.0. Regional surveys from the Federal Reserve were mixed in October, and all remained in expansionary territory. Looking further back, the ISM services index edged higher in September, but market expectations are for a slight decline in October (data due Wednesday).

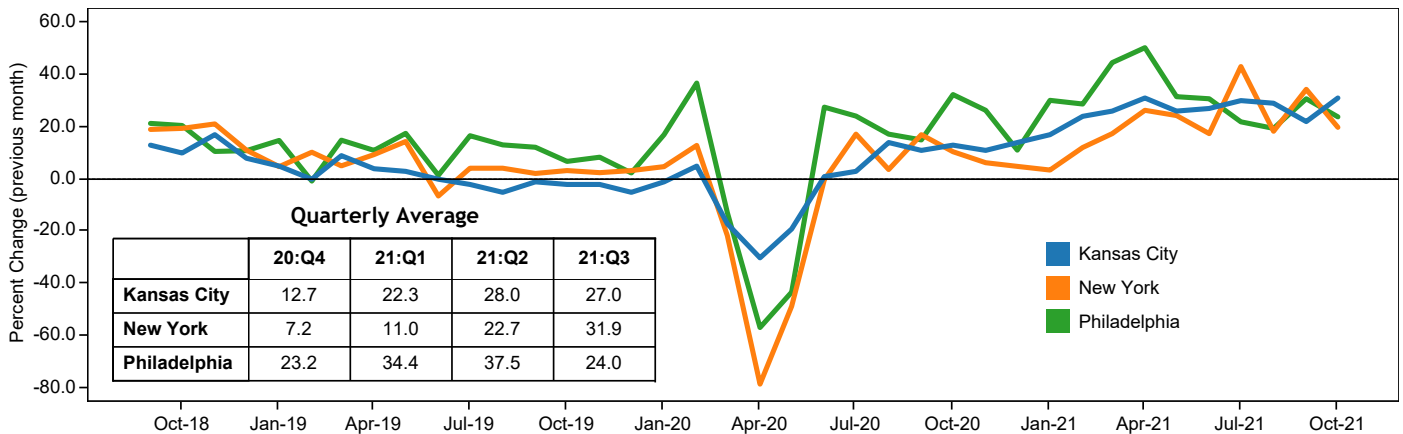
ISM Manufacturing Indices



ISM Services Indices

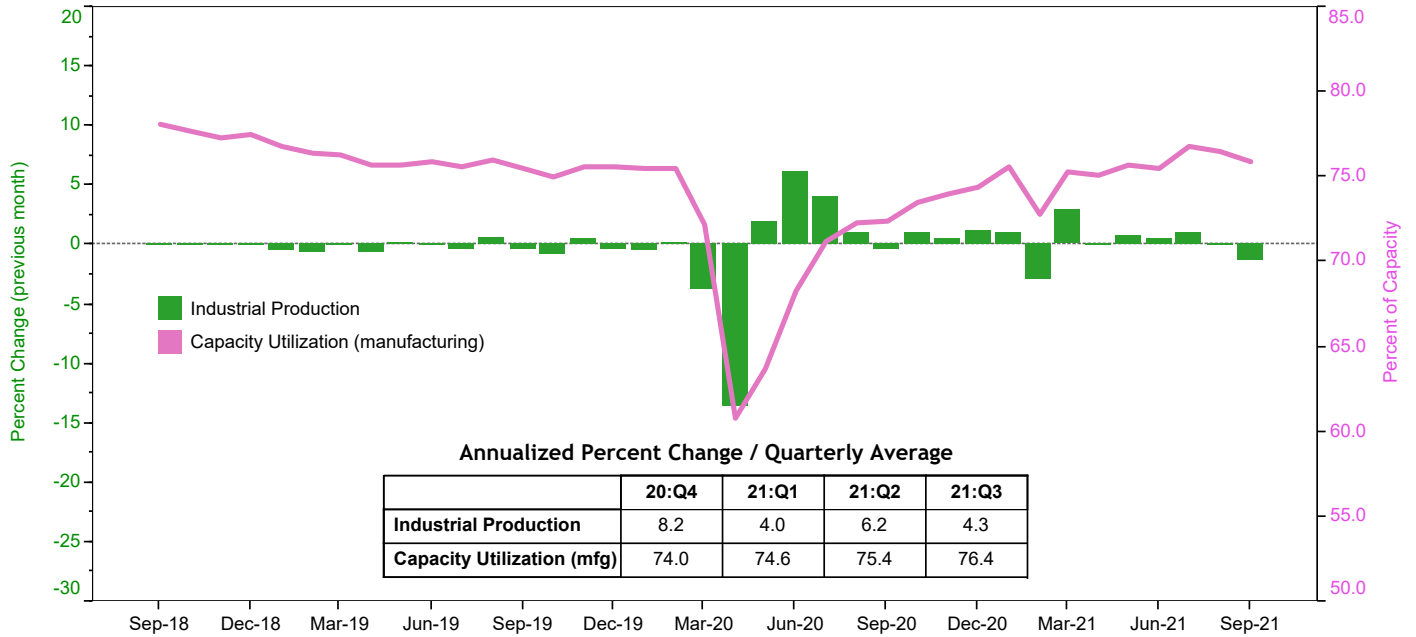


Regional FRB Manufacturing Surveys



Industrial production fell 1.3% in September and August's reading was revised from a 0.4% gain to a 0.1% loss. Output in manufacturing, mining, and utilities all saw declines in September as continued supply-chain constraints and plant closures due to Hurricane Ida weighed heavily on the sector once again. Capacity utilization in manufacturing fell to 75.9 in September but accelerated, on average, in the third quarter to 76.4—just above the levels seen just prior to the pandemic.

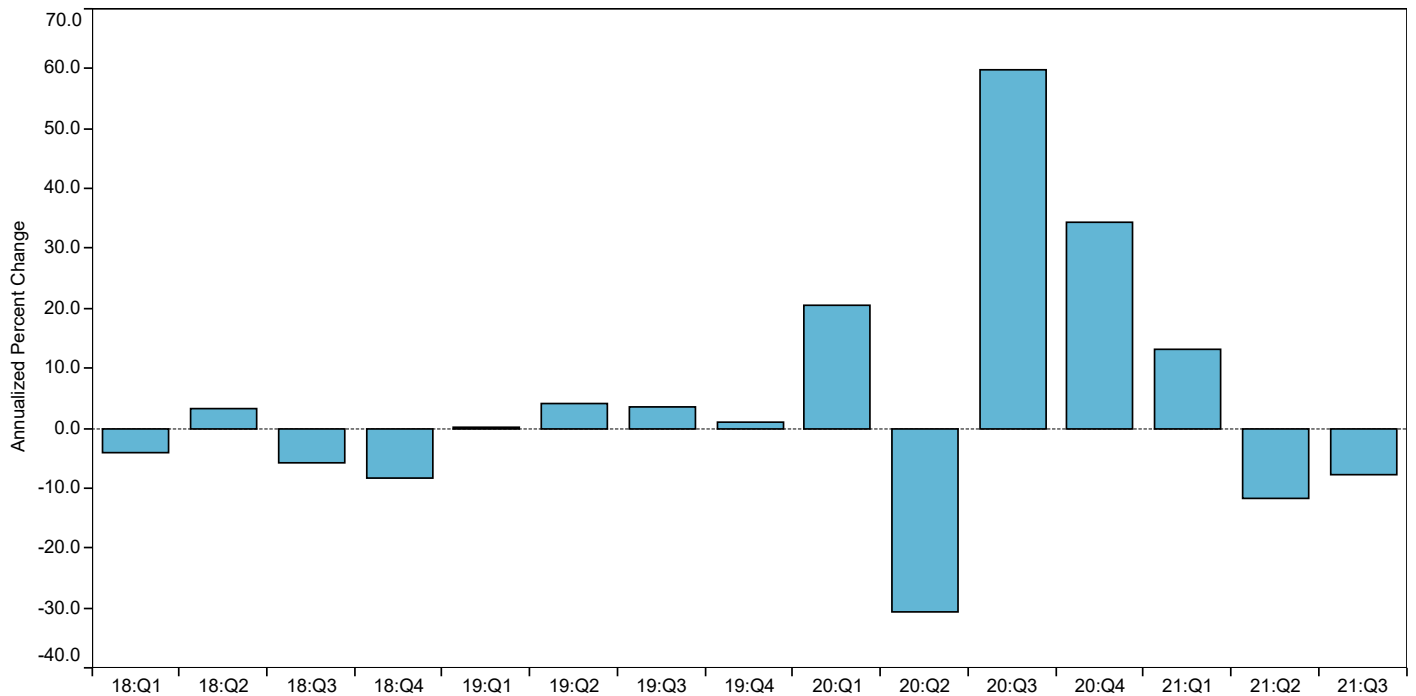
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment declined further in the third quarter, falling at an annualized rate of 7.7%. The decline reflected decreases in improvements and new single-family structures.

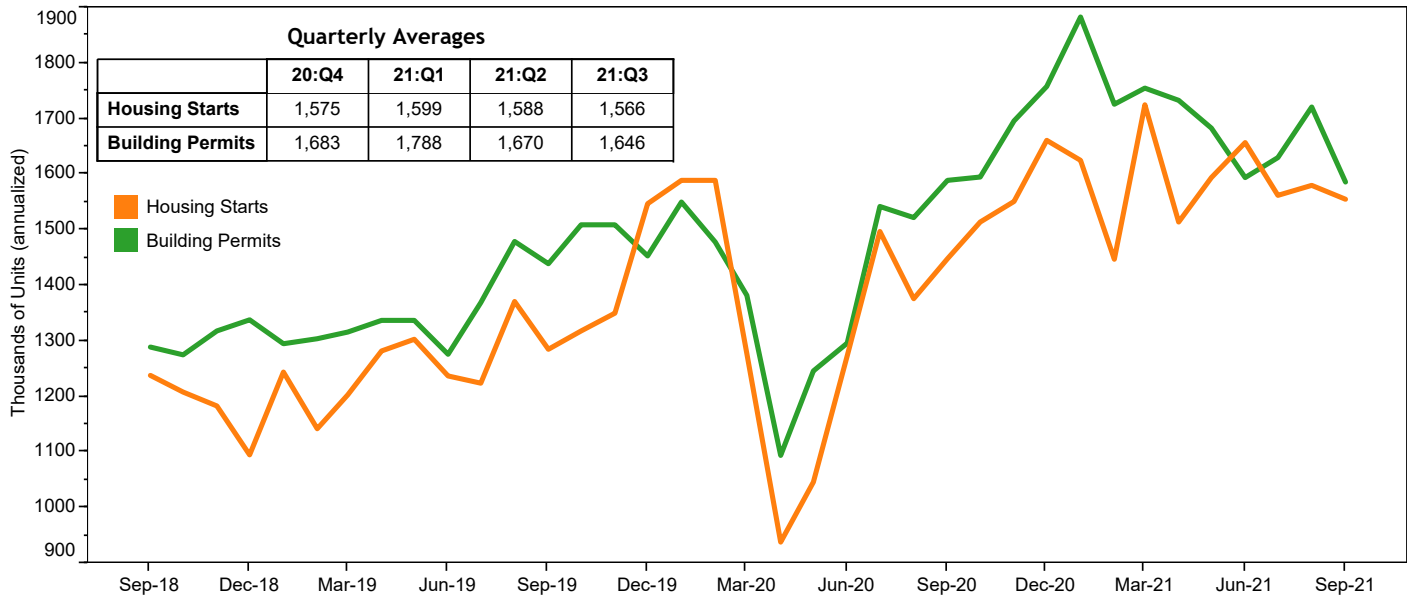
Residential Investment



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

Housing starts and permits both declined, on average, in the third quarter as well as in September—but both remained at elevated levels. Multi-family housing starts declined in September while single-family housing starts were flat. Both multi- and single-family permits also declined in September, with the multi-family sector responsible for most of the decline in the headline number.

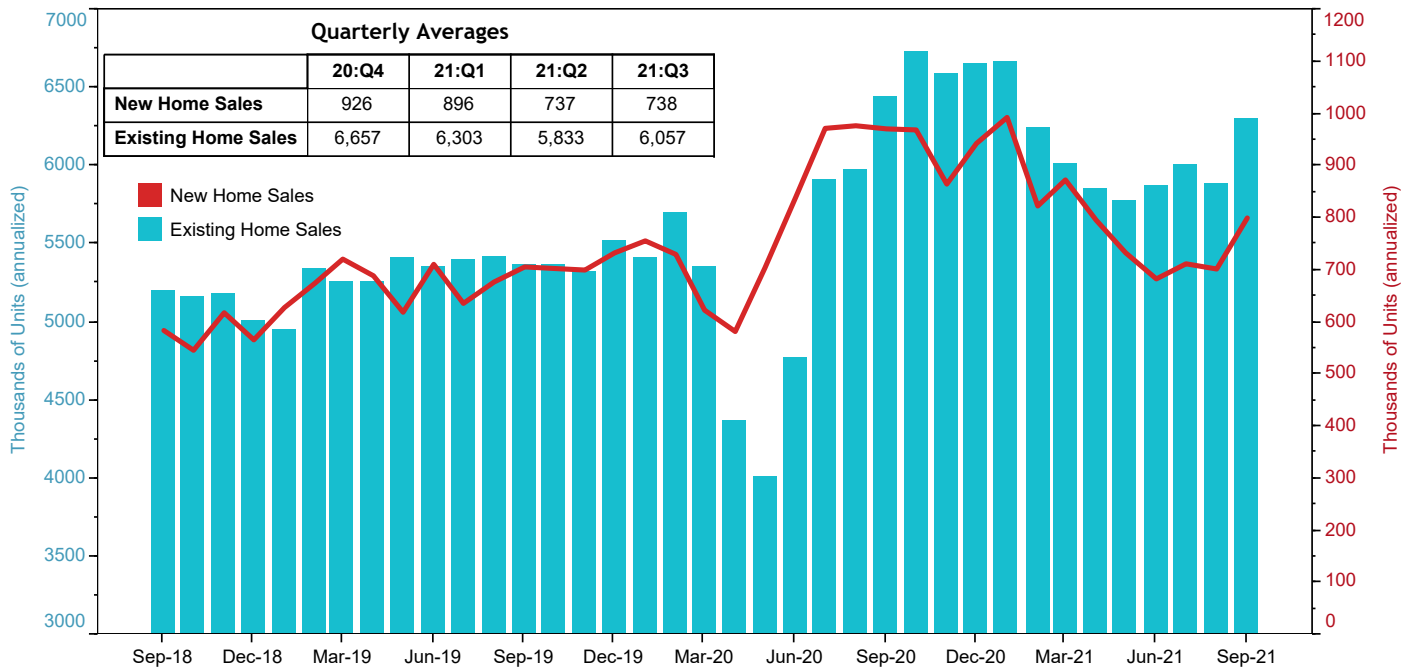
Housing Starts and Building Permits



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

Sales of new homes rose on average, in the third quarter and increased by 14.0% in September following August's reading being revised downward. Sales of existing homes also rose in the third quarter as well as rising to an eight-month high in September. All four regions saw sales rise for both new and existing homes.

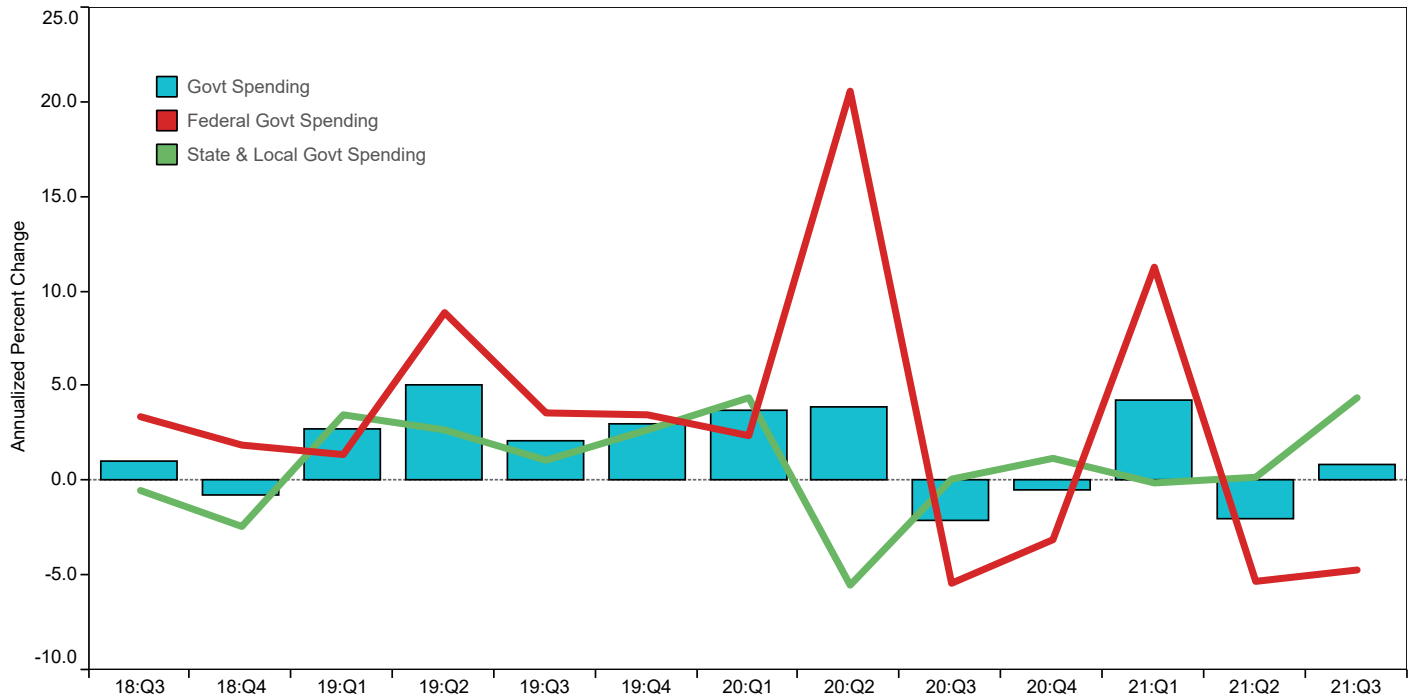
New and Existing Home Sales



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

Government spending increased at an annualized rate of 0.8% in the third quarter. State and local spending increased 4.4%, led by employee compensation—notably, in education. Federal spending posted a decline of 4.7% in the third quarter due to a fall in nondefense spending associated with the retirement of the Paycheck Protection Program.

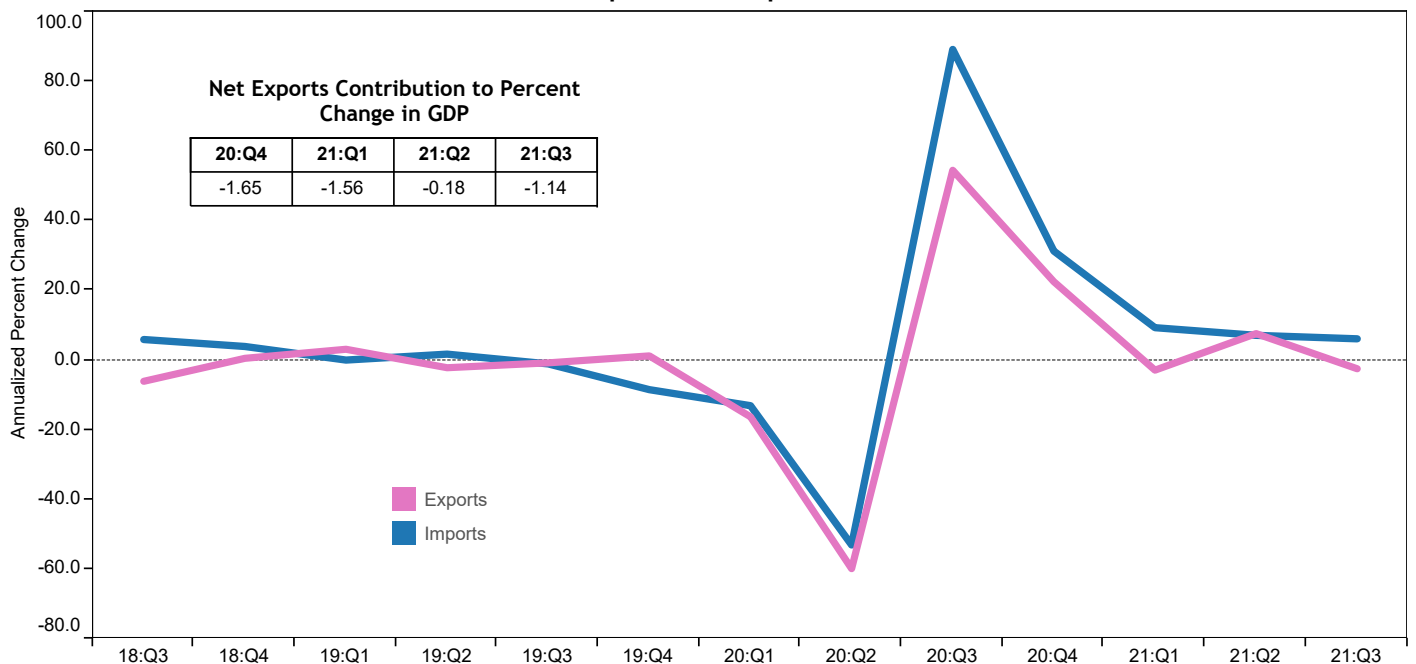
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Net exports weighed on GDP for the fifth consecutive quarter. A decrease in exports reflected a decrease in goods that was only partially offset by an increase in services. An increase in imports also weighed on growth and reflected an increase in services (led by travel and transport).

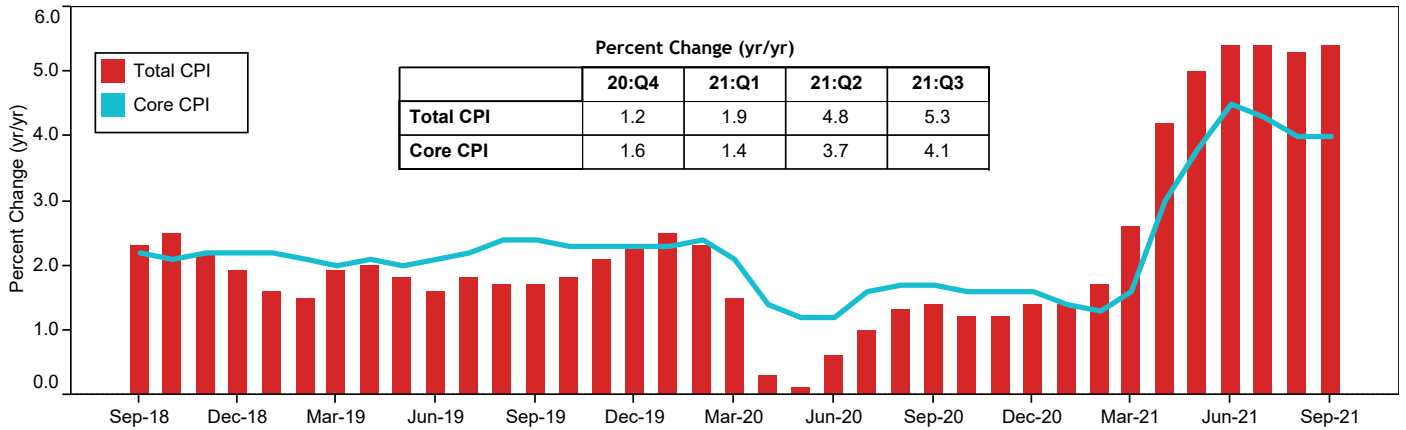
Exports and Imports



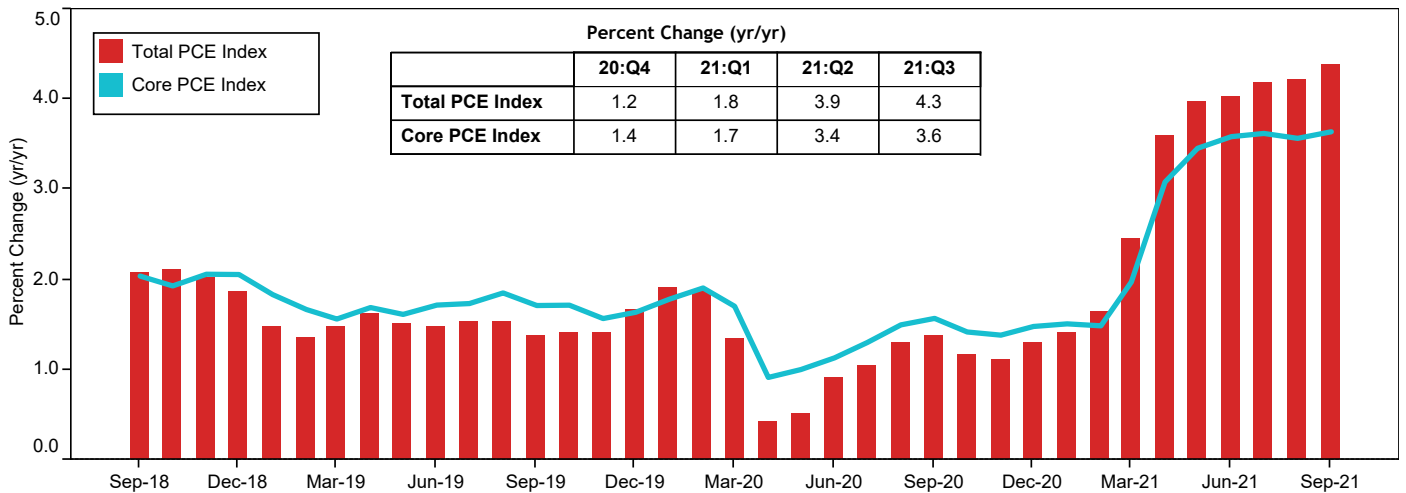
Source: Bureau of Economic Analysis / Haver Analytics.

Inflation measures accelerated in the third quarter on a year-over-year basis and have remained elevated in the most recent figures. In September, on a year-over-year basis, total CPI and total PCE accelerated—ticking up one-tenth, and two-tenths, respectively. Meanwhile, core CPI and core PCE held essentially steady. At the wholesale level, total PPI accelerated in September while the core index slowed a bit.

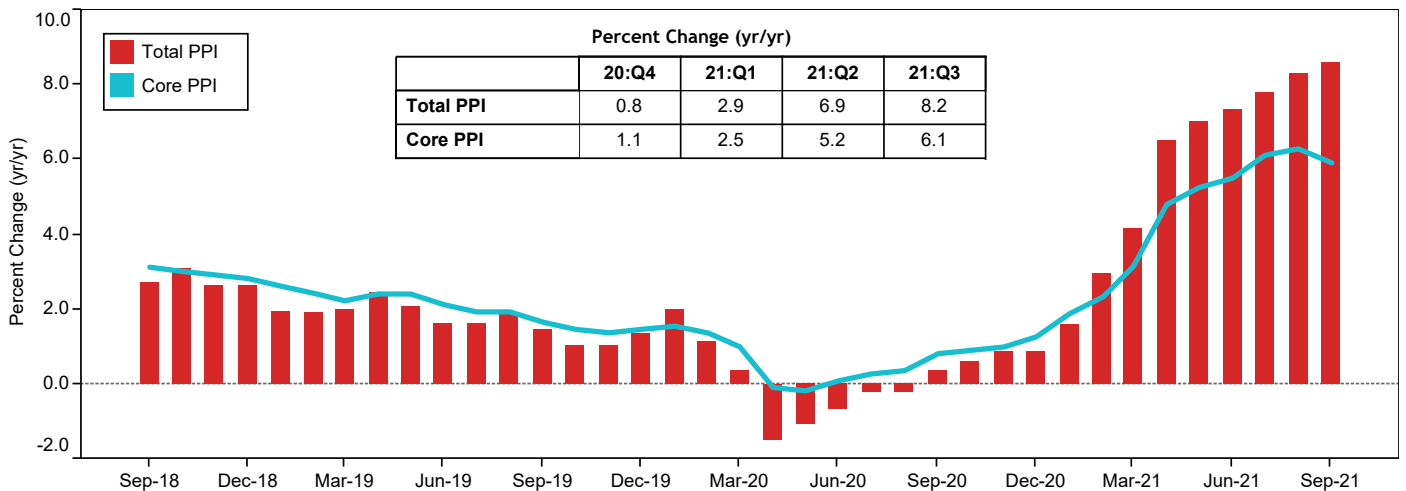
Consumer Price Index (CPI)



Personal Consumption Expenditures Price Index (PCE)



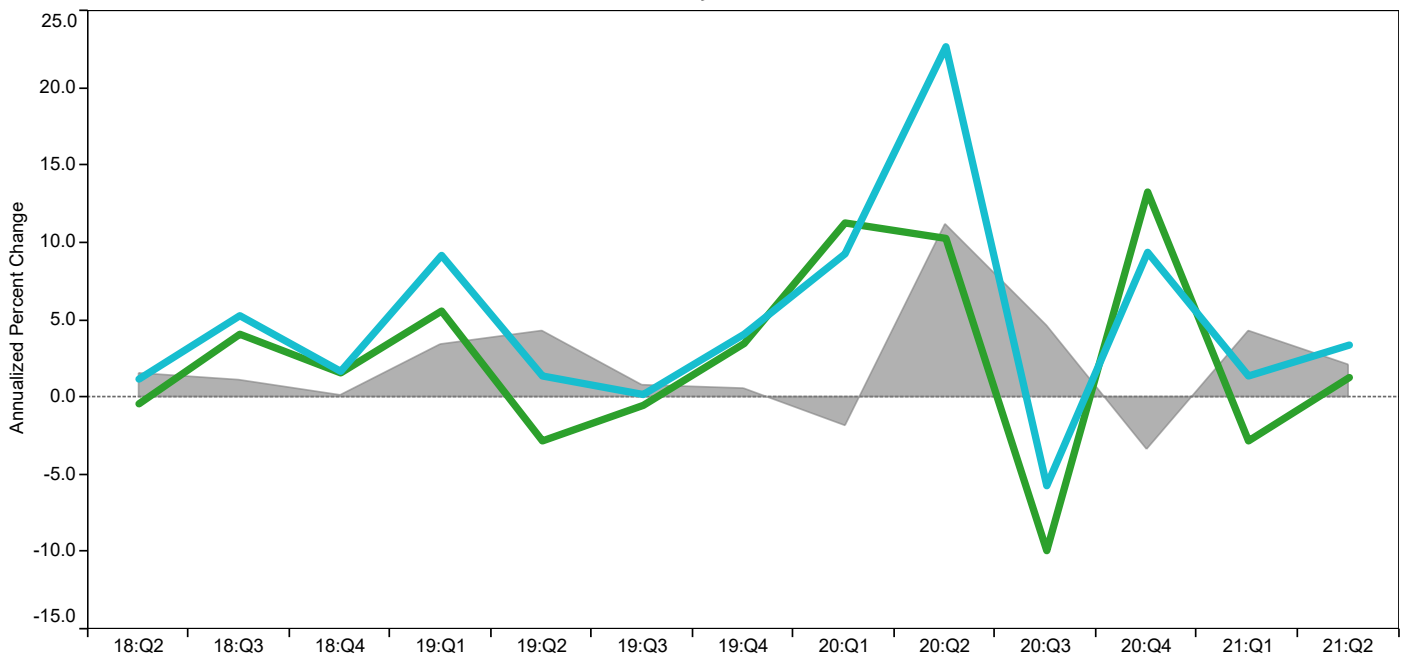
Producer Price Index (PPI)



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

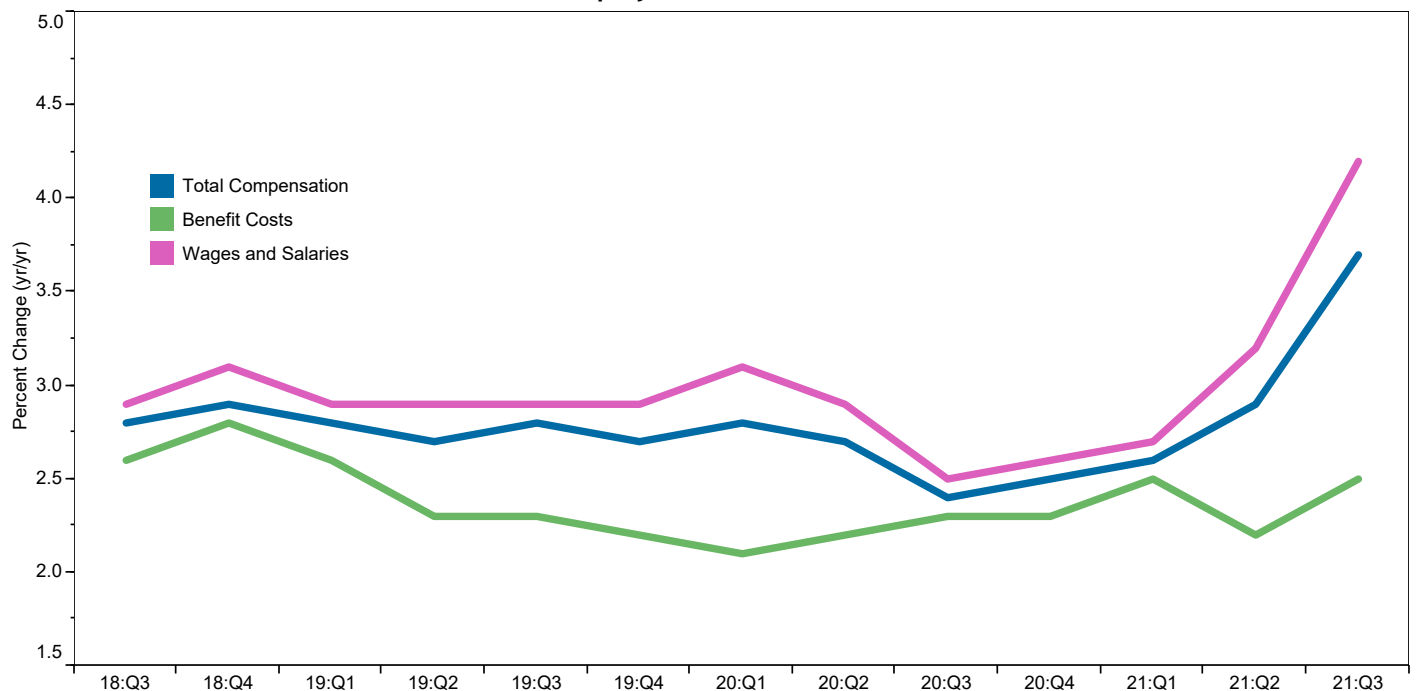
Productivity in the nonfarm business sector increased at a 2.1% annual rate in the second quarter as an increase in output more than offset an increase in hours worked. The second quarter was the fourth consecutive quarter where both output and hours worked increased. Unit labor costs rose at a 1.3% annual rate while compensation per hour rose at a 3.4% annual rate. Third quarter data will be released on Thursday and the market expects productivity growth to decline at a 1.8% annual rate and unit labor costs to rise 5.8%.

Productivity and Costs



The Employment Cost Index accelerated in the third quarter. On a year-over-year basis, total compensation grew 3.7%, accelerating from 2.9% in the second quarter to its fastest growth in 17 years. The increase was led by wages and salaries, which matched the fastest year-over-year growth rate of the past 30 years (4.2%). Growth in benefit costs was in line with previous quarters.

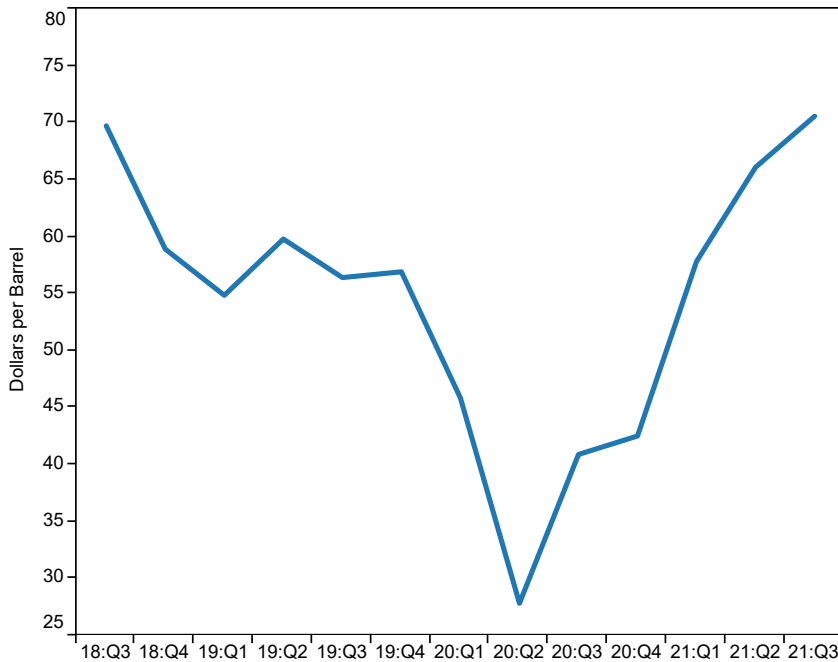
Employment Cost Index



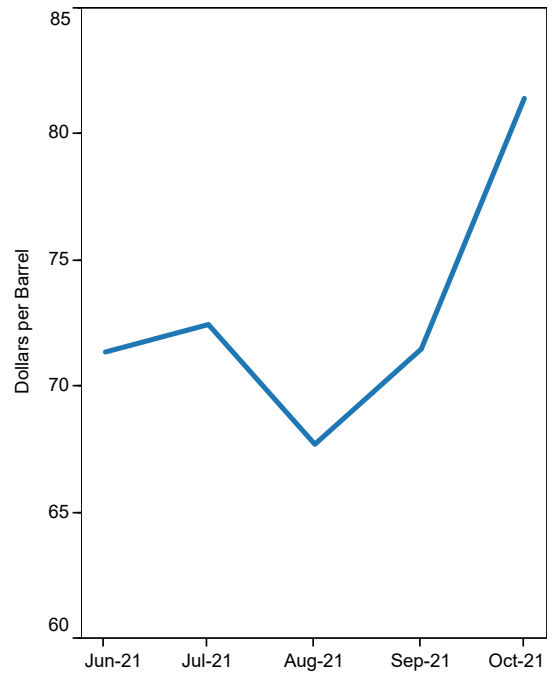
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices rose to \$81.44 in October, their highest average since October 2014. Daily prices on November 1st closed at \$84.05/barrel.

Domestic Spot Oil Price



Past Five Months



Data released since your last Director’s meeting show that real GDP growth decelerated in the third quarter as supply-chain issues, the delta variant, price pressures, and Hurricane Ida all weighed on the economy. According to the advance estimate, real GDP grew 2.0% in the third quarter—hindered by a slowdown in spending on services (led by food services and accommodations) and a decline in spending on goods (led by motor vehicles and parts). However, the seven-day moving average of new cases has fallen by more than 50% since the beginning of September and nearly 70% of the adult population has been fully vaccinated. Although the pace of recovery slowed in the third quarter, as supply-chain constraints moderate and the public health outlook improves, it becomes more likely that growth will rebound through the fourth quarter and into 2022.

Short-Term Interest Rates

