



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

October 4, 2016

## CURRENT ECONOMIC DEVELOPMENTS - October 4, 2016

Data released since your last Directors' meeting suggest growth in the third quarter is likely to pick up from the rate seen in the second quarter, which was slightly faster than previously estimated. Labor markets showed signs of continued strengthening and consumer attitudes improved. However, consumer spending unexpectedly declined and support from manufacturing was mixed. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

In the four weeks ending September 24th, initial claims for unemployment insurance fell, on average, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in September. The unemployment rate is expected to hold steady at 4.9%.

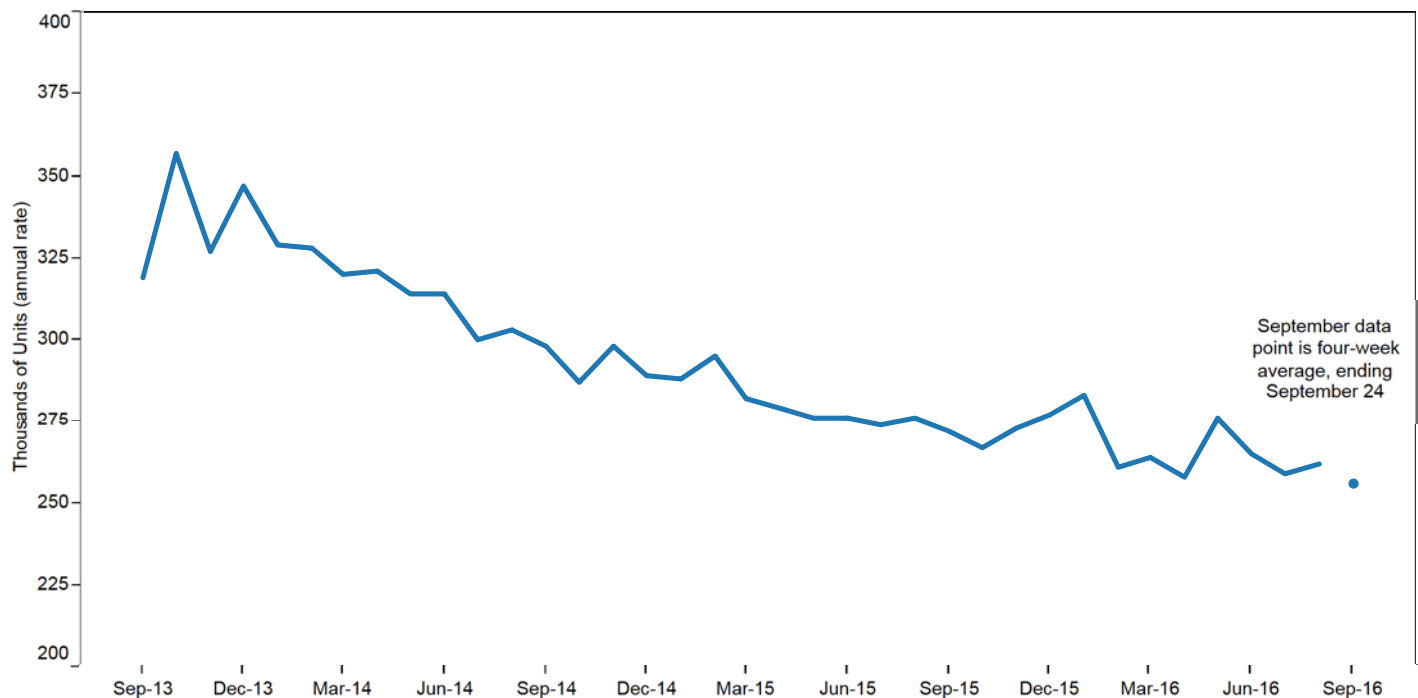
Consumer attitudes improved in September, as the sentiment index increased due in part to stronger expectations for personal financial prospects, and the confidence index rose among more favorable views of the labor market and employment outlook. In August, consumption fell despite a slight increase in disposable incomes. Primary measures of real estate activity mostly slowed in August. Both new and existing home sales fell during the month, and housing starts and building permits also declined, despite an uptick in single-family permits. Vehicle sales rose in September, after falling in August.

In the manufacturing sector, industrial production fell in August, due to decreases in manufacturing and utilities output, and capacity utilization also declined. Orders for durable goods were essentially flat in August, while orders for nondefense capital goods, excluding aircraft, continued to increase. Both total and core orders registered declines from their year-ago levels. The ISM index rose in September to signal expansion in the manufacturing sector, after falling below 50 in August.

Measures of total consumer inflation accelerated in August, as did the core indices. Oil prices in September continued to hold relatively steady as compared to their July and August averages, but prices rose in the first few days of October.

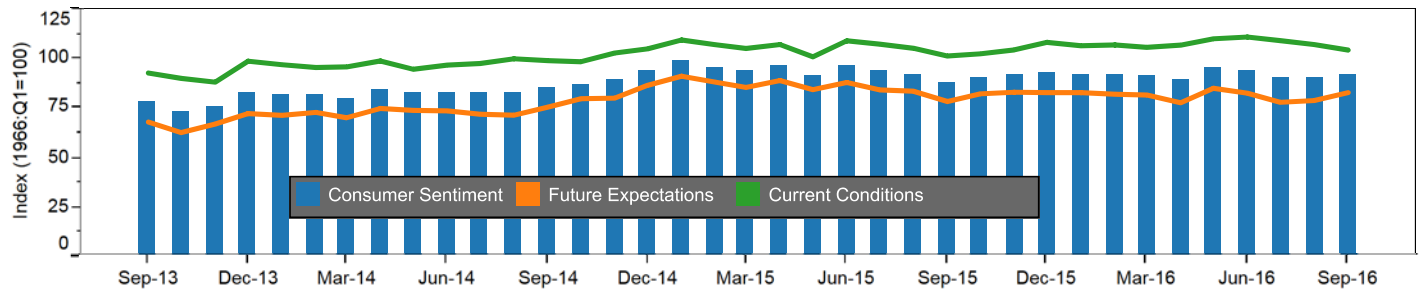
Initial claims for unemployment insurance have fallen, on average, in the four weeks ending September 24th, after ticking up in August. Claims remain at a level consistent with further labor market improvement.

### Initial Claims

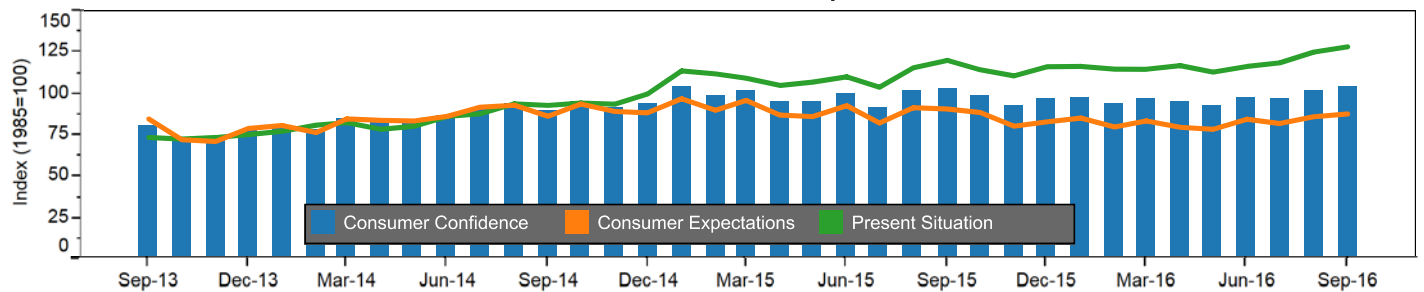


Consumer attitudes improved in September, as the sentiment index increased due to a rise in future expectations, and the confidence index rose to its highest level in nine years. Respondents to the confidence survey expressed more favorable views of the labor market and employment outlook, while respondents to the sentiment survey expressed less favorable views of their current finances but more optimism towards future financial prospects.

### Consumer Sentiment and Expectations



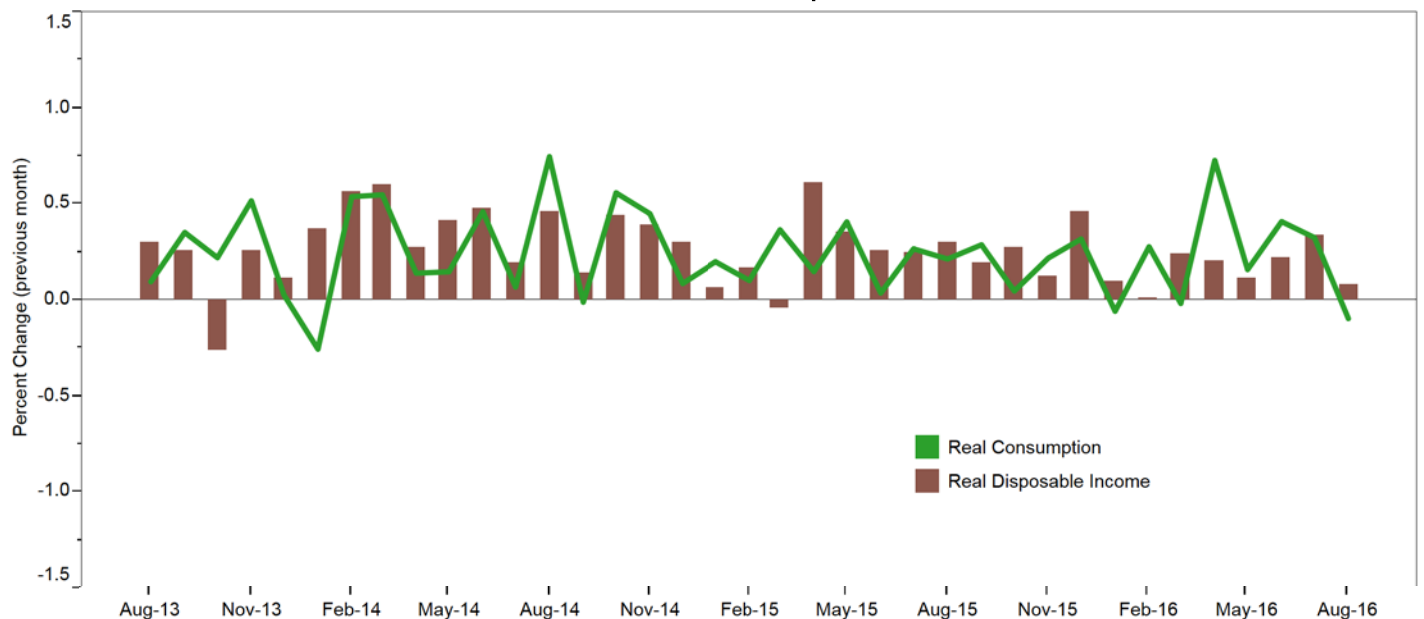
### Consumer Confidence and Expectations



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

Real incomes ticked up in August, albeit at a slower rate than seen in July. Despite the higher incomes, consumption fell unexpectedly in August, after rising in each of the past four months.

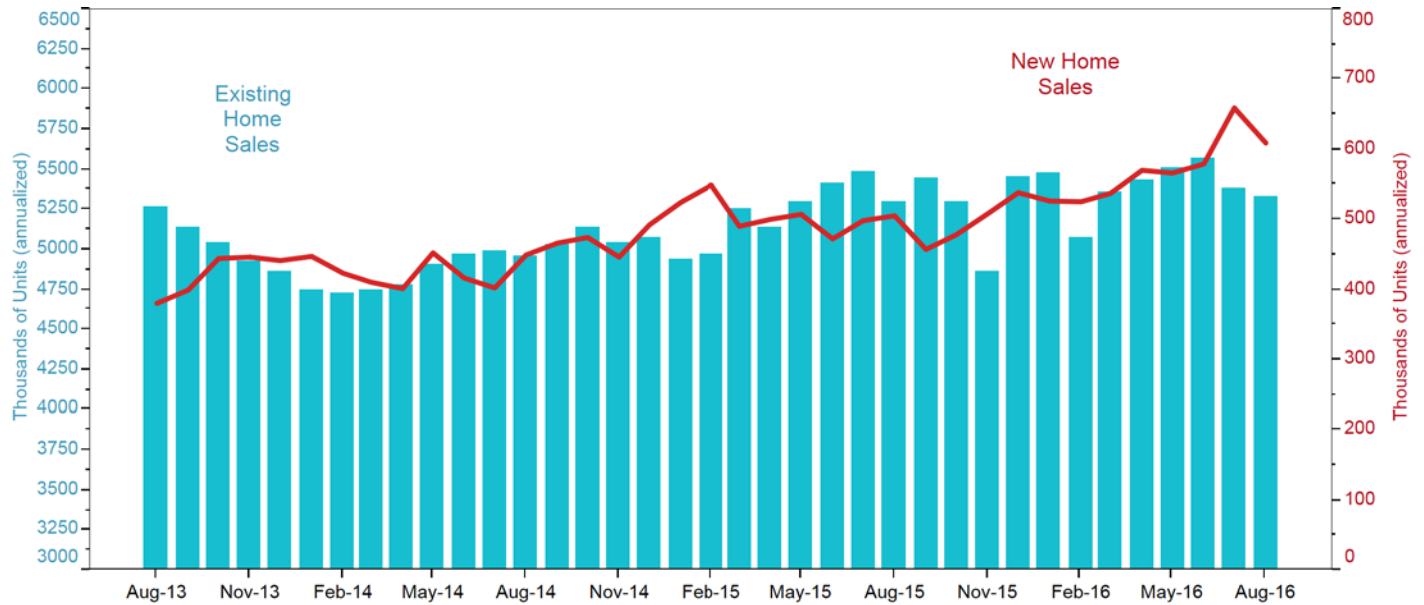
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data declined in August. Existing home sales fell for the second consecutive month, while new home sales dropped after increasing to a nearly-nine-year high in July.

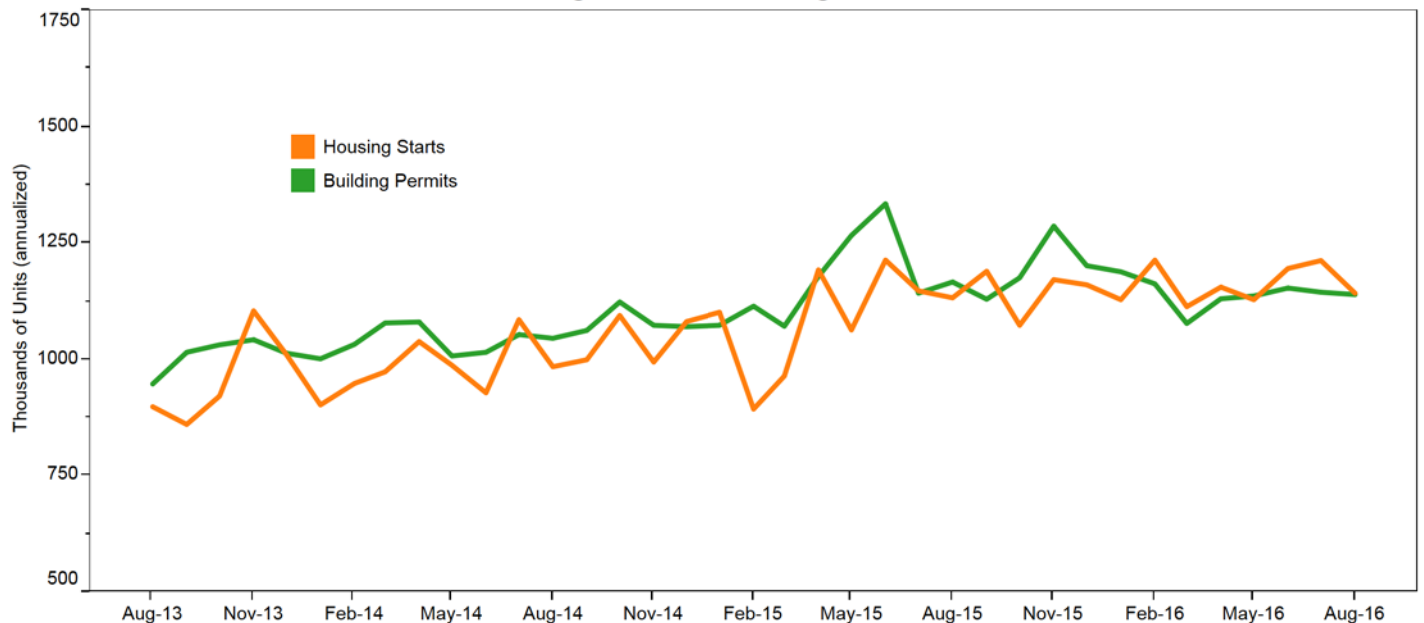
### New and Existing Home Sales



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

Housing starts fell in August, due to decreases in both single- and multi-family starts. Meanwhile, building permits eased a bit in August, due to a decrease multi-family permits, while single-family permits increased.

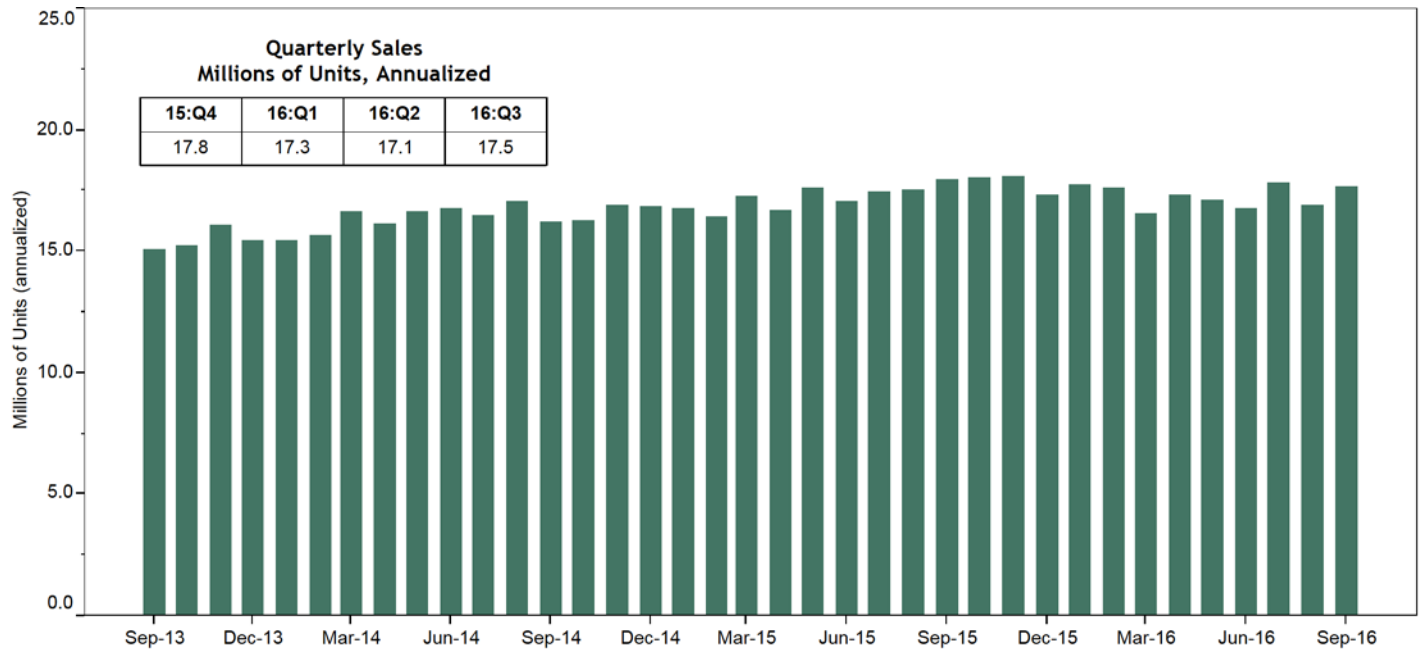
### Housing Starts and Building Permits



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

Lightweight vehicle sales rose above expectations in September, after declining in the prior month, and the third quarter average was the strongest quarterly average so far this year.

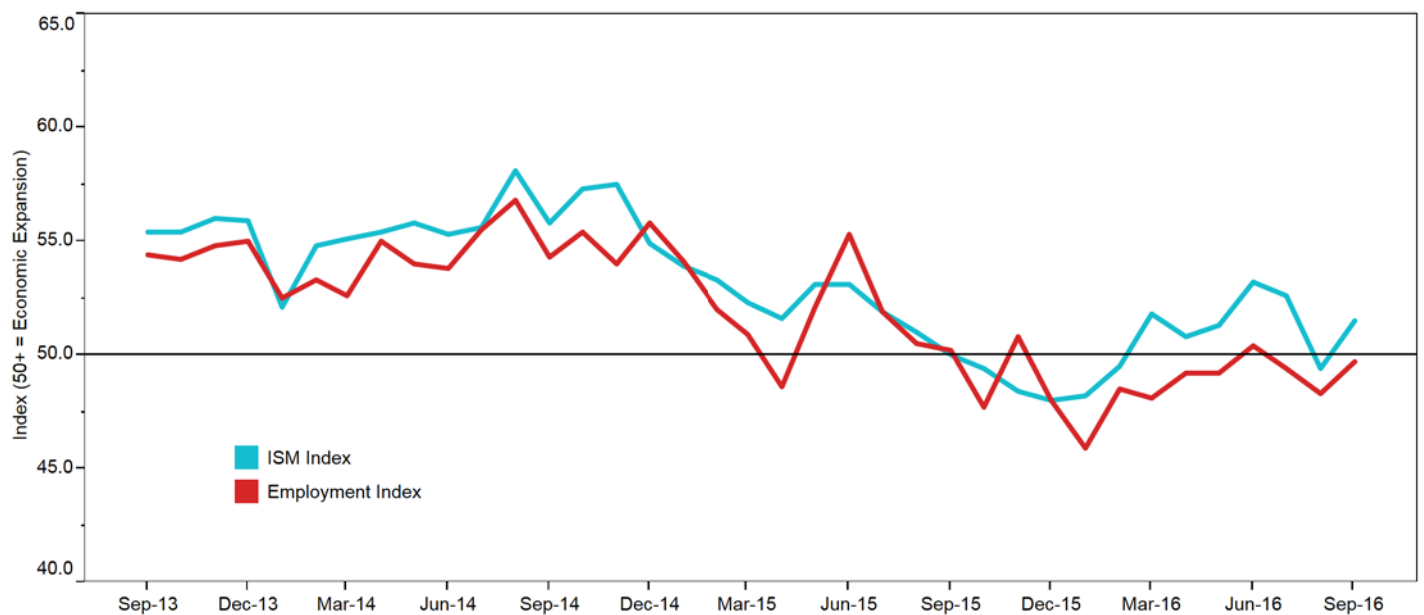
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index increased above 50 in September, signalling expansion in the manufacturing industry, after falling below 50 in August. Meanwhile, the employment component of the index also increased in September, more than offsetting the decline seen in the prior month.

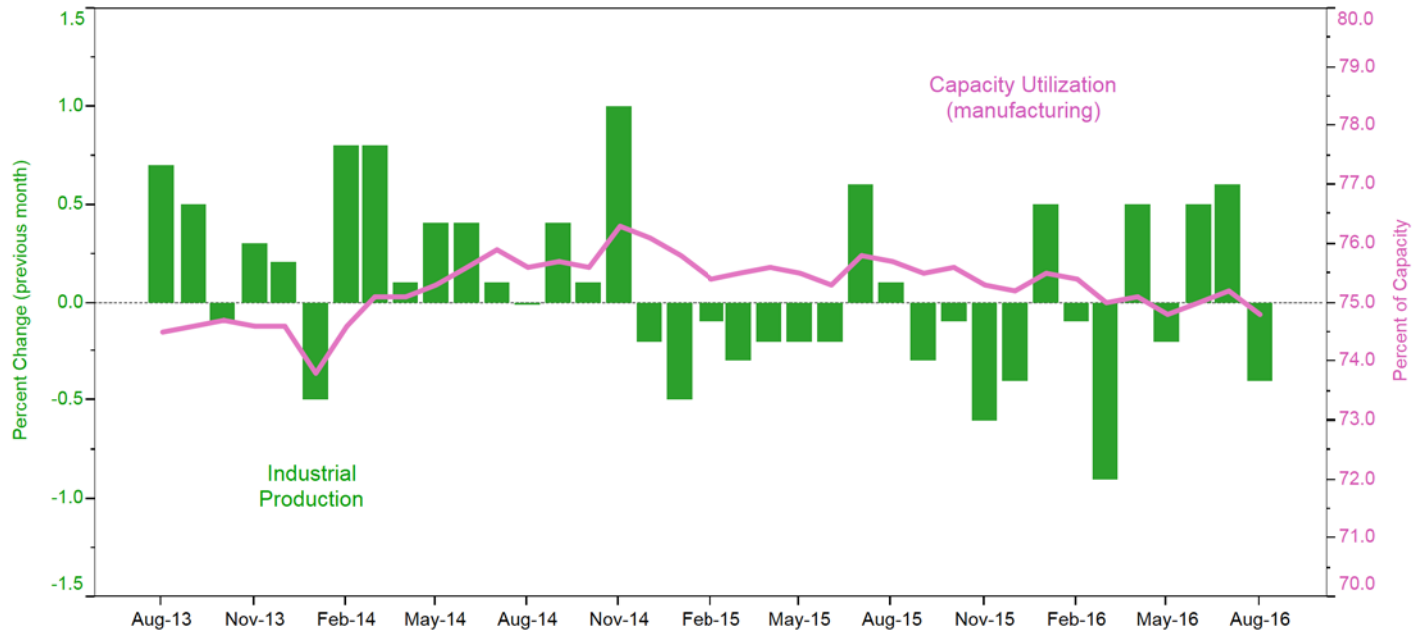
### ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in August, after rising in each of the prior two months. Both manufacturing and utilities production posted decreases in August, while mining output increased. Capacity utilization also fell in August, after rising in each of the previous two months.

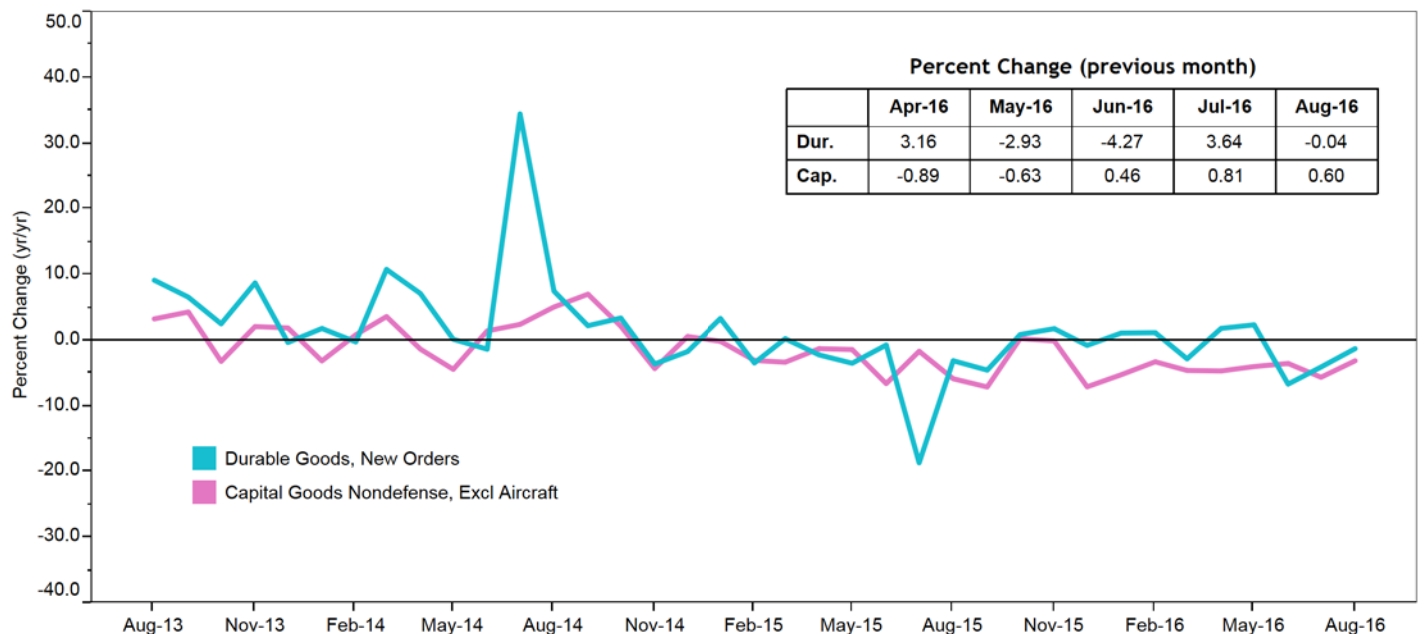
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods were essentially flat in August, following a downwardly revised increase in July. Meanwhile, orders for nondefense capital goods, excluding aircraft, rose in August, their third consecutive monthly increase. Both total and core orders continued to decline from their year-ago levels in August, albeit at slower rates than seen in the prior month.

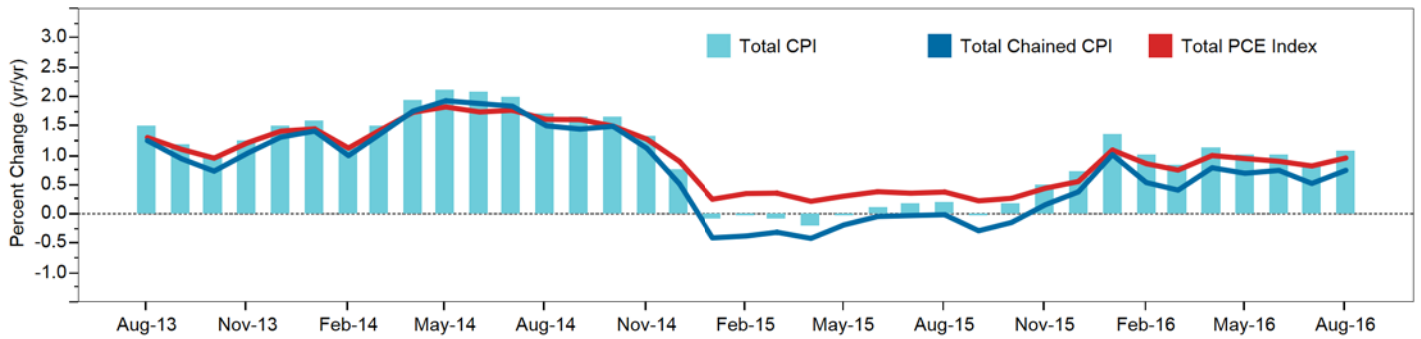
### Durable Goods Orders



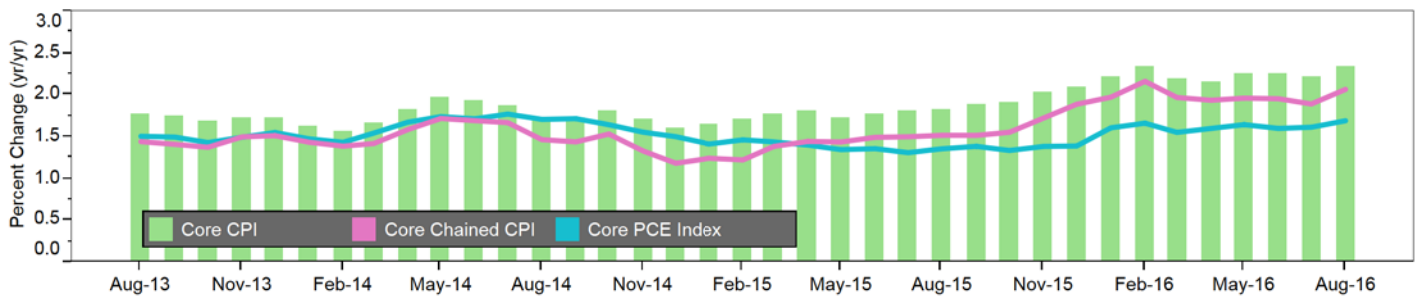
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices accelerated in August, after easing in July. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, also accelerated in August.

### Total Price Indices



### Core Price Indices



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

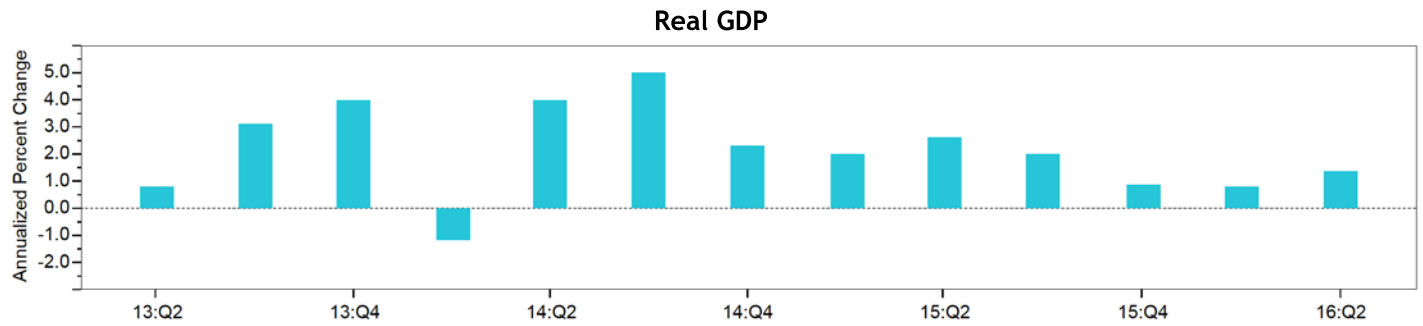
Oil prices, on average, in September were little changed from their July and August levels. Prices have increased a bit in the first few days of October, registering \$48.8 per barrel on October 3rd.

### Domestic Spot Oil Price



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

Second quarter real GDP growth was revised up in the third estimate to 1.4% from 1.1%. The higher rate primarily reflected upward revisions to nonresidential fixed investment, private inventory investment, and exports.



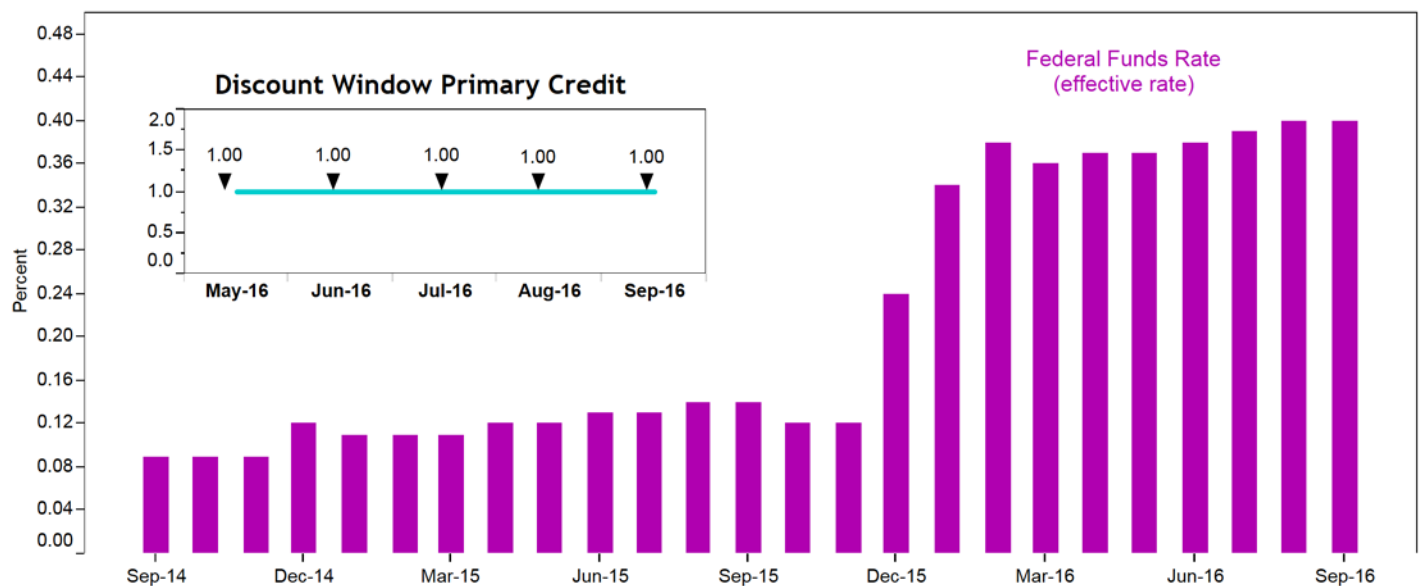
### Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	1.1	1.4
Personal Consumption	4.4	4.3
Business Investment	-0.9	1.0
Equipment and Software	-3.7	-2.9
Residential Investment	-7.7	-7.7
Government	-1.5	-1.7
Exports	1.2	1.8
Imports	0.3	0.2
Final Sales	2.4	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.