



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

September 5, 2019

CURRENT ECONOMIC DEVELOPMENTS - September 5, 2019

Data released since your last Director's meeting show the economy grew at a slightly slower pace in the second quarter than originally thought. Labor markets remained tight and higher incomes continued to support greater consumption. Consumer attitudes were mixed, while the housing market showed some positive signs. Manufacturing remained soft. Trade tensions, tariffs, and other international concerns continue to present downside risks to the outlook, but data remain consistent with domestic growth continuing at or slightly above potential through the second half of the year.

In the four weeks ending August 24th, initial claims for unemployment insurance rose, on average, but remain near historic lows. The employment situation report for August is due Friday, and nonfarm payrolls are expected to post another solid gain with the unemployment rate holding steady at 3.7%.

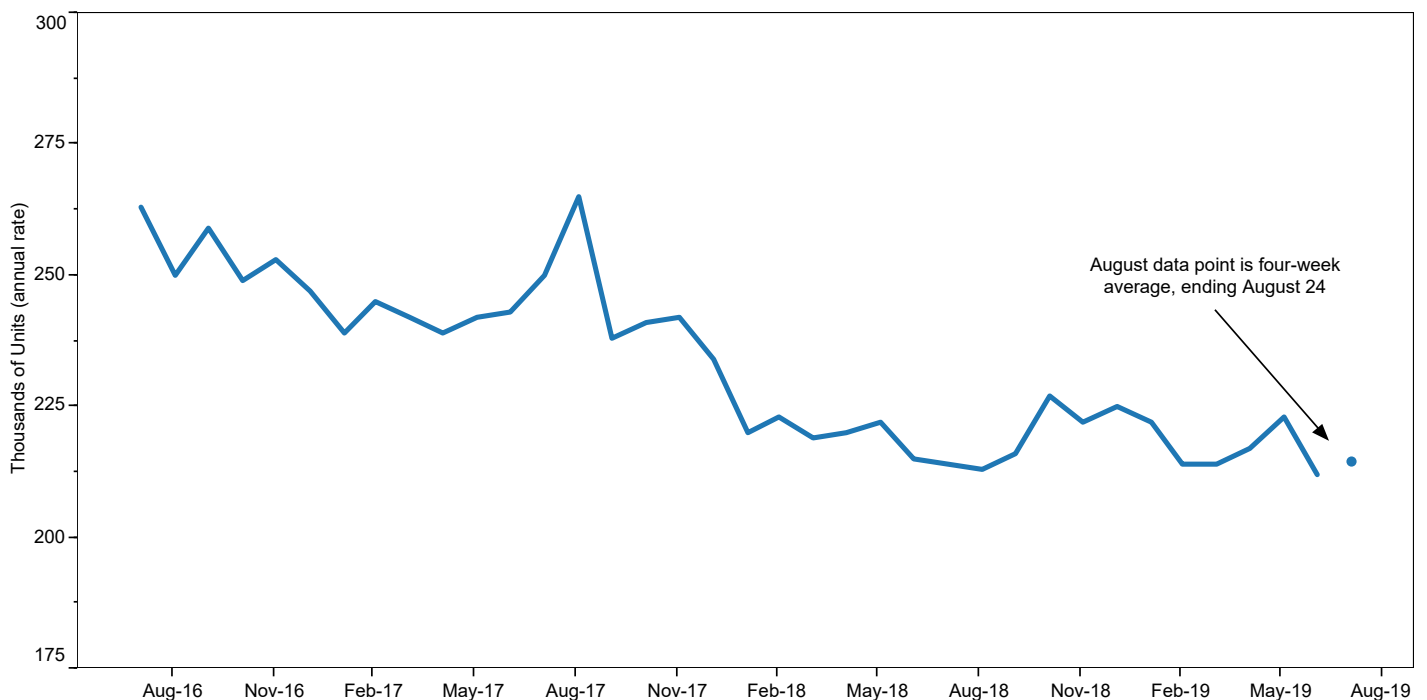
Consumer attitudes were mixed in August, as the sentiment index saw its largest monthly decline since December 2012. Yet, the consumer confidence index held close to an 18-year high, despite falling slightly from July. Both consumption and incomes continued to rise in July. Primary measures of real estate activity were generally positive in July, as existing home sales, housing starts, and permits all increased. New home sales fell, but from a 12-year high in June.

In the manufacturing sector, the ISM index fell to 49.1 in August, the lowest reading since 2016. Any reading below 50 signals contraction. Industrial production fell in July while capacity utilization in manufacturing also declined, returning to the level seen in April and May. Orders for durable goods rose in July for the second consecutive month and began to rise on a year-over-year basis. Orders for nondefense capital goods excluding aircraft, marked their sixth increase in the past seven months.

Measures of consumer prices rose in July, as the Personal Consumption Expenditure (PCE) Price Index and the Consumer Price Index (CPI) increased from June for both the total and core measures, while the CPI also accelerated on a year-over-year basis. Oil prices declined on average in August after rising in July.

Initial claims for unemployment insurance have risen a bit, on average, in the four weeks ending August 24th, after declining in July.

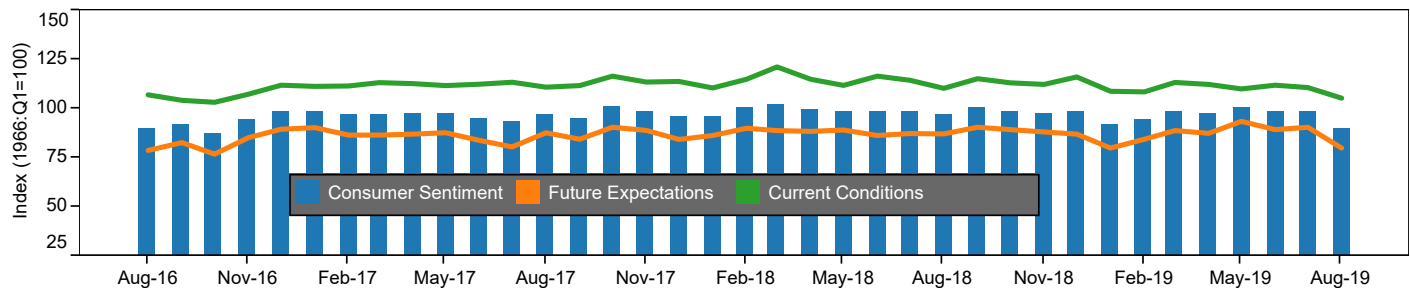
Initial Claims



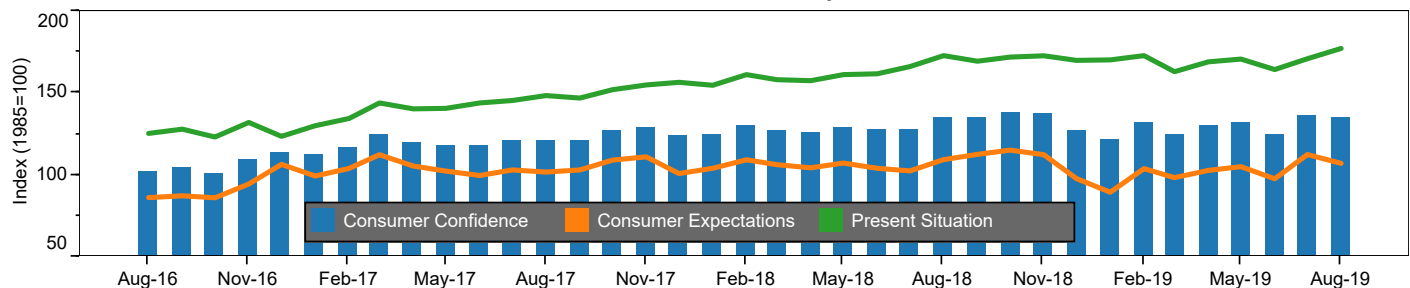
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The consumer sentiment index fell from 98.4 in July to 89.8 in August, the largest monthly decline since December 2012. The consumer confidence index remains close to an 18-year high, despite falling slightly from July to August. The present situation index rose in August from July's reading of 170.9 to 177.2 in August. The expectations index, a measure that looks out over the next six months, slipped from 112.4 in July to 107.0 in August.

Consumer Sentiment and Expectations



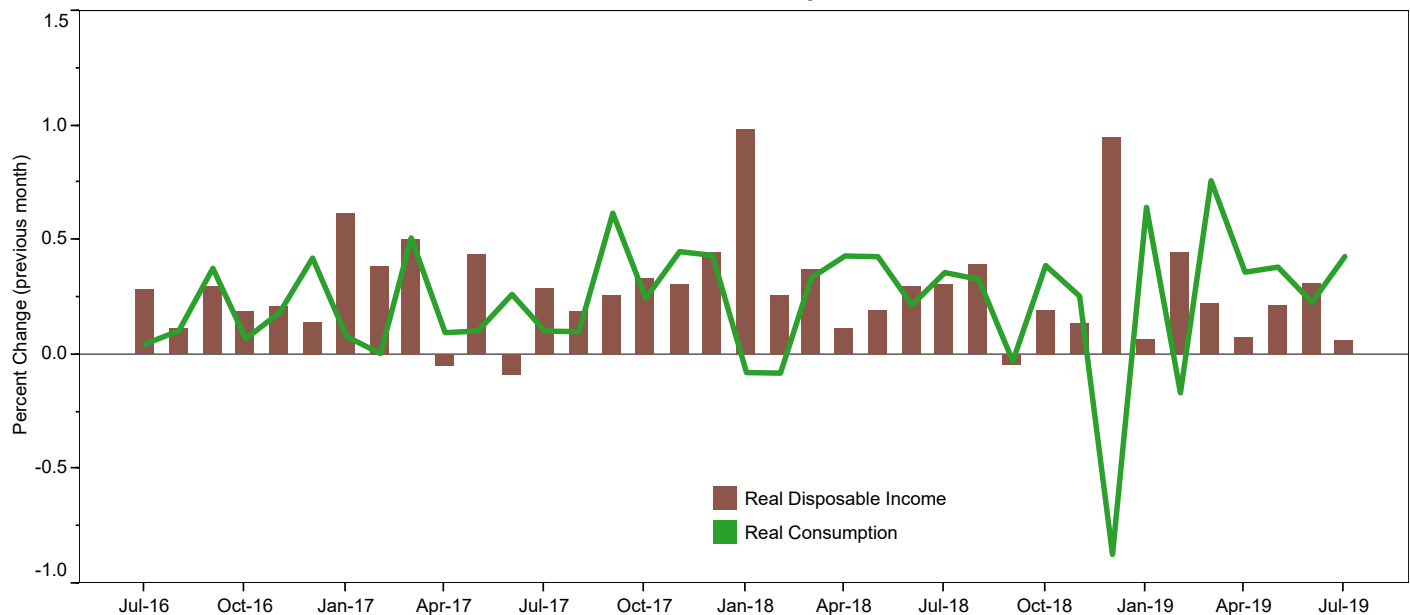
Consumer Confidence and Expectations



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

Real incomes rose 0.1% in July after June's increase of 0.3%, marking their tenth consecutive monthly increase. Consumption also increased in July after rising in each of the previous four months.

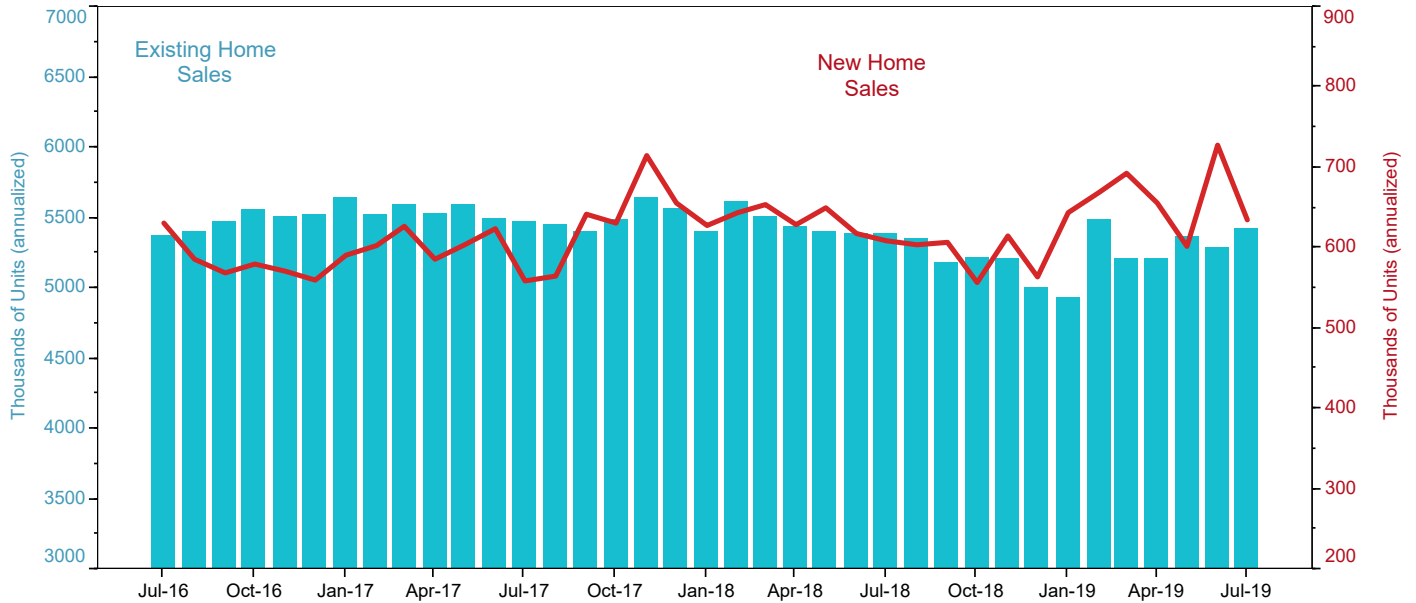
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales fell in July after June sales reached the highest annual rate since July 2007. Existing home sales rose in July after June's tick downward. Existing sales in the Northeast fell while the other three regions saw increases.

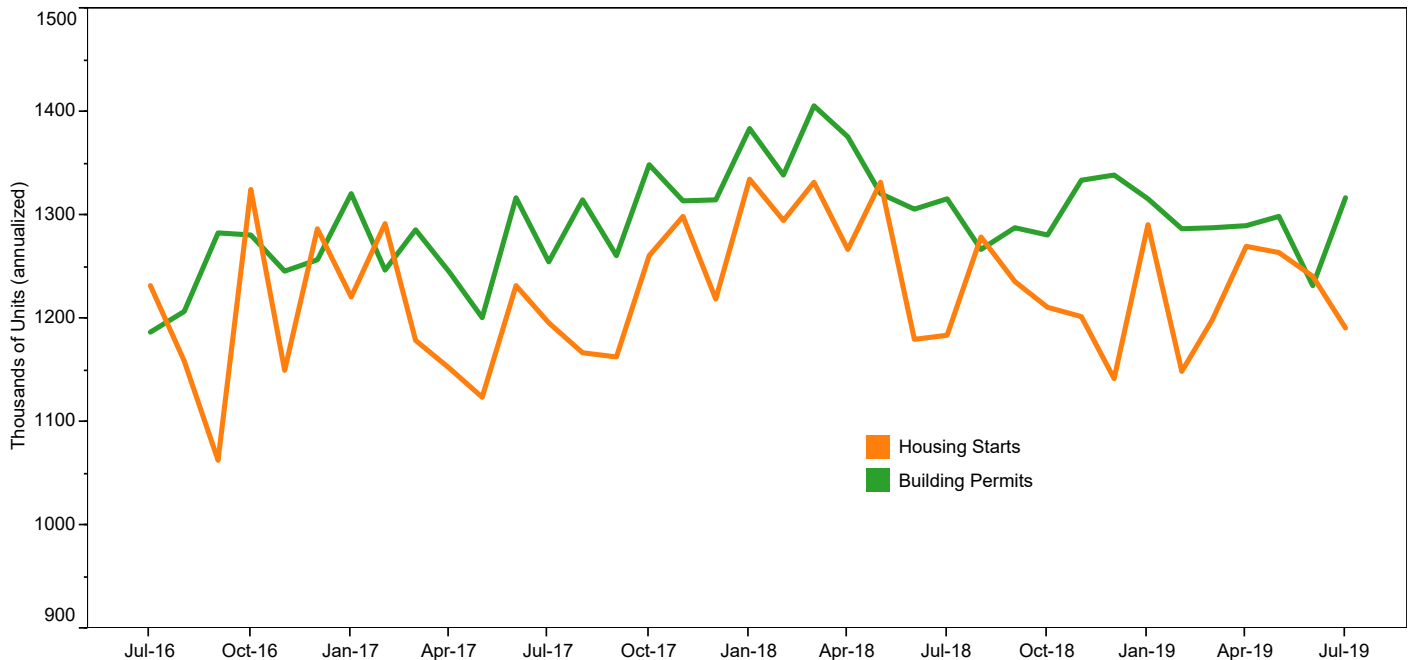
New and Existing Home Sales



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

Housing starts fell for their third consecutive month in July as a decline in multi-family starts more than offset a gain in single-family starts. Meanwhile, building permits have rebounded in July to reach their highest level of 2019. Both single and multi-family permits increased in July.

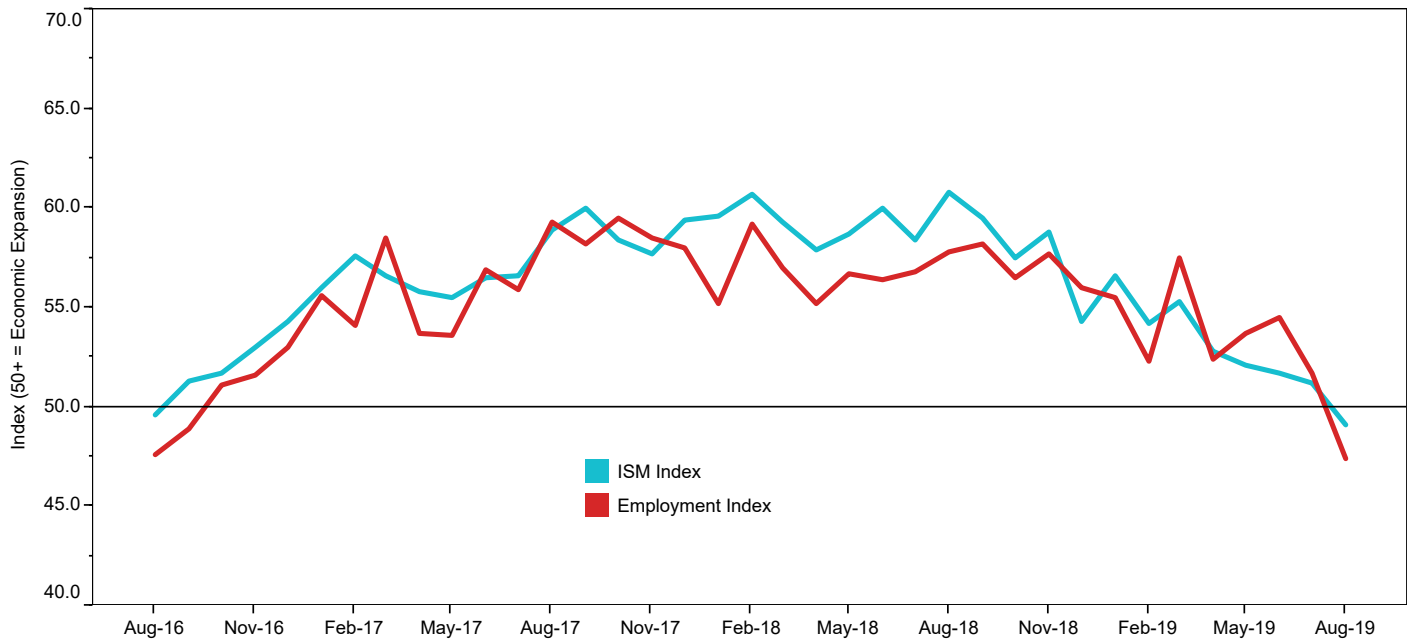
Housing Starts and Building Permits



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

The ISM index fell to 49.1 in August, the lowest reading since the beginning of 2016. Falling below 50, the index signalled contraction for the first time in three years. The employment component of the index also fell below 50. Respondents to the survey expressed slightly more concern over the U.S.-China trade tensions than in the past.

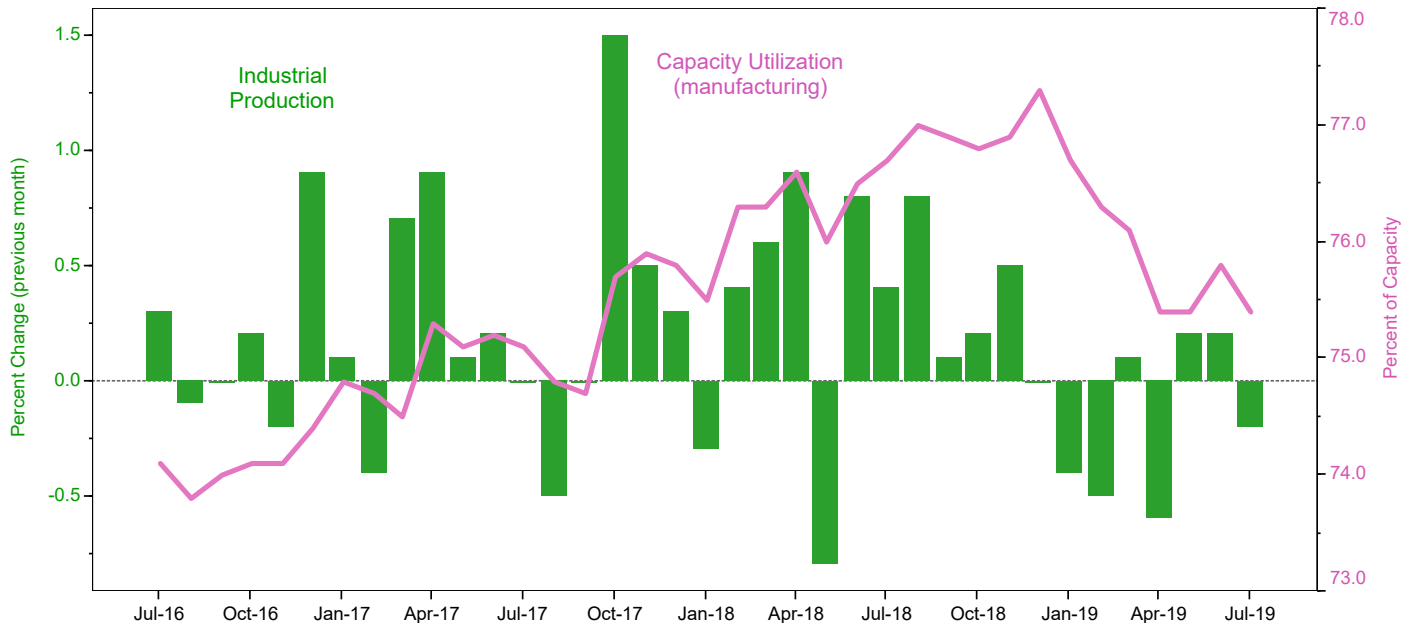
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production declined following successive gains, due in part from disruptions from Hurricane Barry. Still, manufacturing production fell in July, its fifth decline in seven months this year. Capacity utilization in manufacturing also in July.

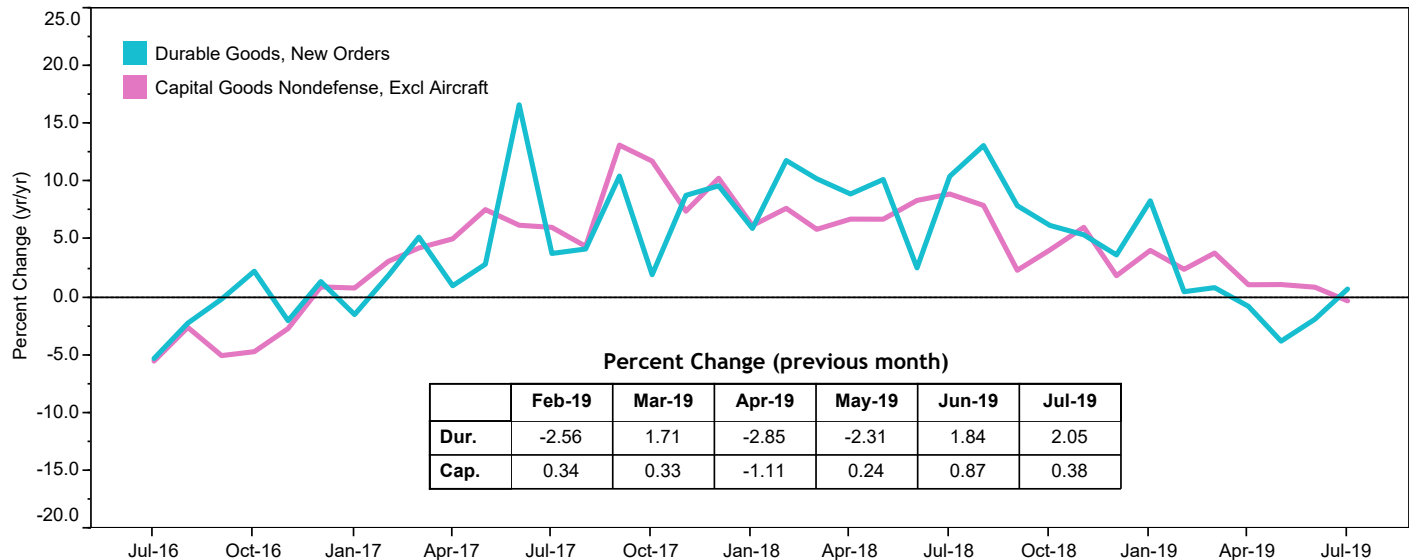
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in July for the second consecutive month and began to rise on a year-over-year basis. Orders for nondefense capital goods excluding aircraft, rose in July, for their sixth increase in the past seven months, yet posted their first year-over-year decline since November 2016.

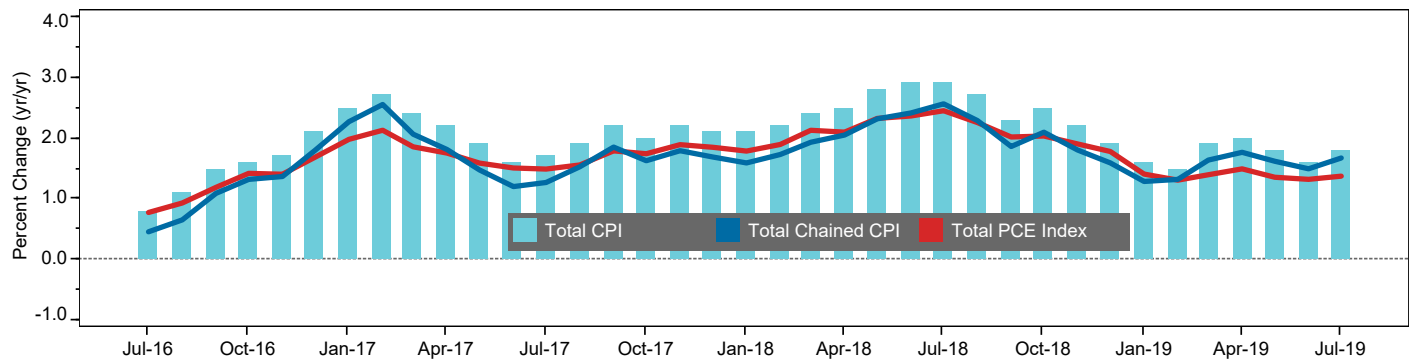
Durable Goods Orders



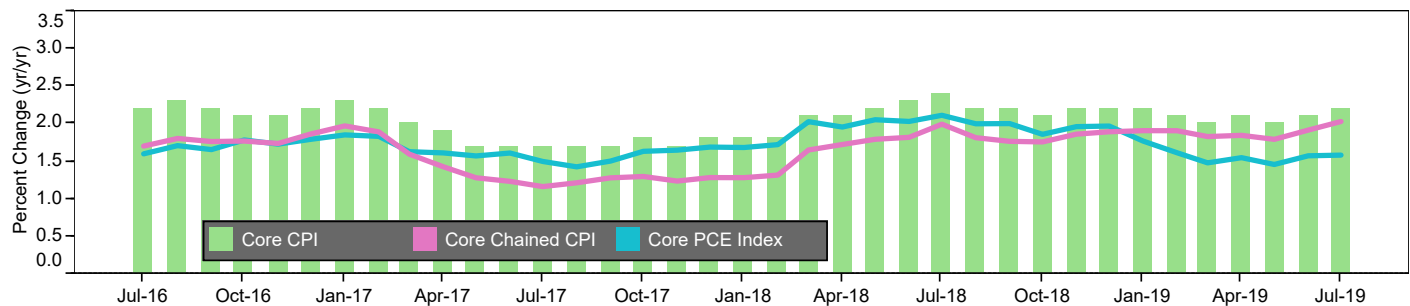
Source: U.S. Census Bureau / Haver Analytics.

Measures of consumer prices rose in July. Both the total and core PCE Price Index rose 0.2% while the total and core CPI rose 0.3%. On a year-over-year basis, the PCE Indexes held mostly steady while the CPI measures accelerated a bit.

Total Price Indices



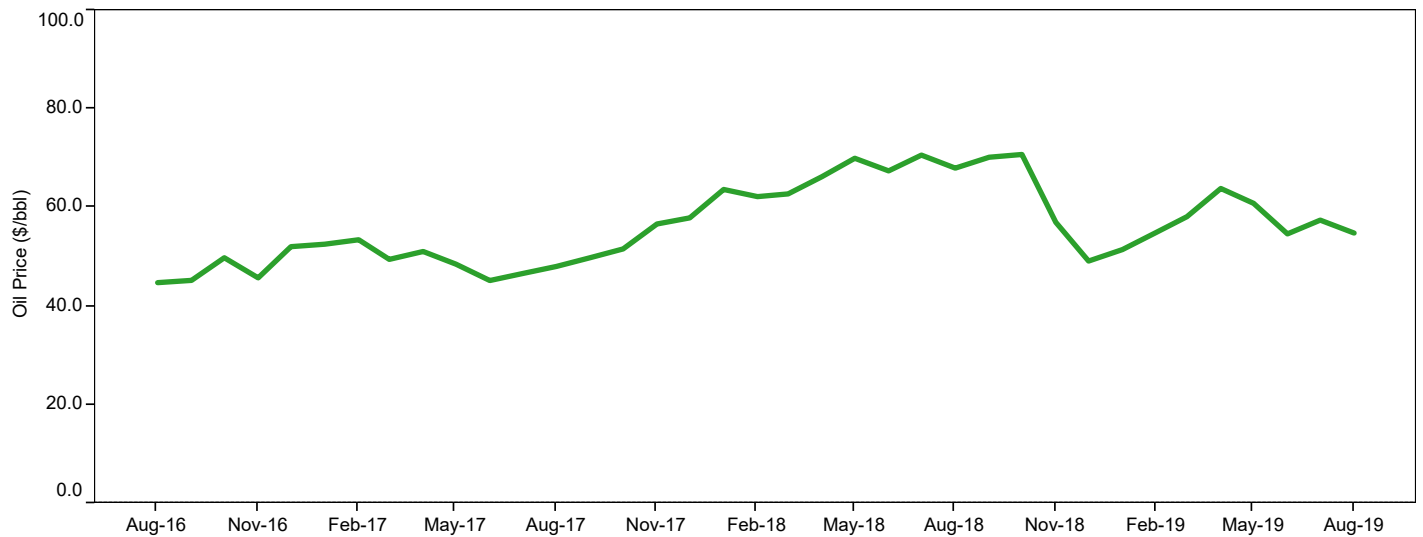
Core Price Indices



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

Oil prices declined, on average, in August, after rising in July. Daily prices held mostly steady in August, generally moving within a narrow band around \$55 per barrel.

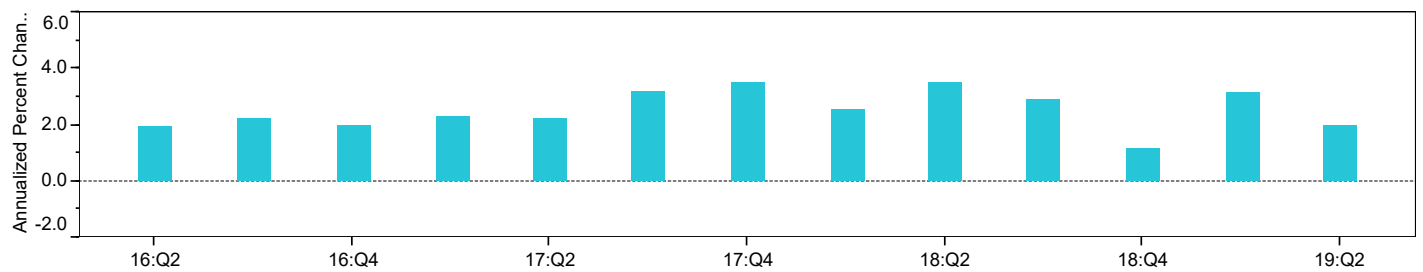
Domestic Spot Oil Price



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

Second quarter real GDP growth was revised downward to 2.0% compared with the previous estimate of 2.1% growth. An upward revisions to consumer spending was offset by downward revisions to residential investment and exports.

Real GDP



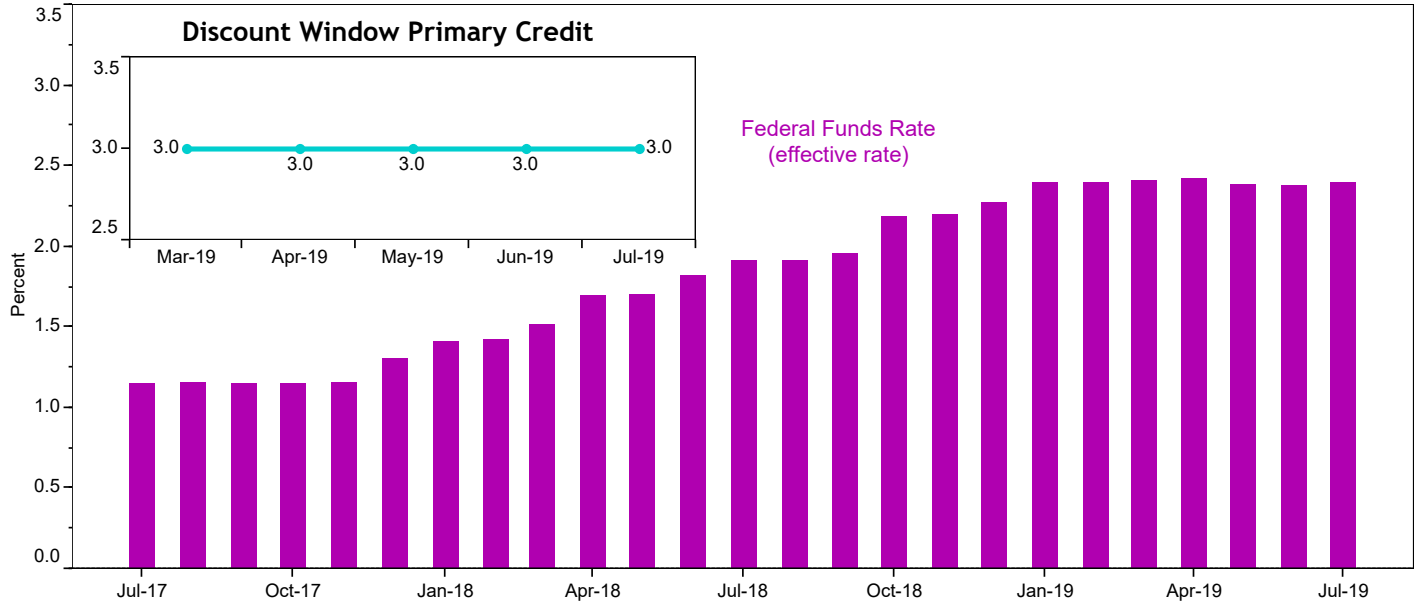
Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.1	2.0
Personal Consumption	4.3	4.7
Business Investment	-0.6	-0.6
Equipment and Software	0.7	0.7
Residential Investment	-1.5	-2.9
Government	5.0	4.5
Exports	-5.2	-5.8
Imports	0.1	0.1
Final Sales	3.0	3.0

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 Mike Corbett.