



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

September 4, 2018

CURRENT ECONOMIC DEVELOPMENTS - September 4, 2018

Data released since your last Directors' meeting show the economy grew at a slightly faster pace in the second quarter than originally thought, and while growth is expected to slow from the strong second quarter rate over the second half of the year, it is likely to remain above potential. Labor markets continued to strengthen, consumer spending increased, and support from manufacturing was mostly positive. However, consumer attitudes and housing market data were mixed. The effects of tariffs and potential trade wars provide downside risks to the economic outlook, but overall, data remain consistent with above-trend growth.

In the three weeks ending August 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 August. The unemployment rate is expected to decrease one-tenth to 3.8% in August.

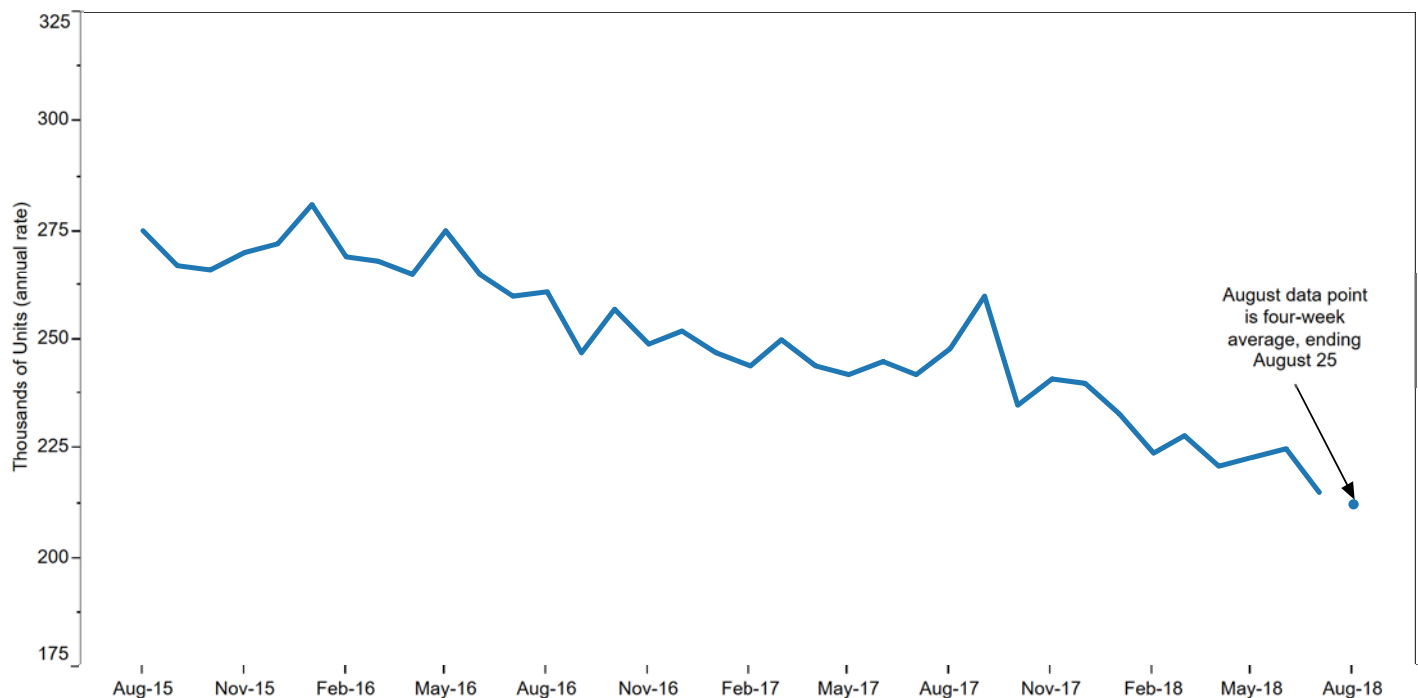
Consumer attitudes were mixed in August, as the sentiment index fell to its lowest level since January, while the confidence index rose to an 18-year high. Consumption increased in July, as incomes also rose. Primary measures of real estate activity were mixed in July, as both new and existing home sales continued to decline, while housing starts and building permits both ticked up.

In the manufacturing sector, the ISM index unexpectedly rose in August to its highest level in over fourteen years and continued to signal expansion in the manufacturing industry. Industrial production rose in July, and capacity utilization also increased. Orders for durable goods declined in July on a monthly basis, but were up from their year-ago level. Meanwhile, nondefense capital goods, excluding aircraft, increased in July on both a monthly and a year-over-year basis.

Growth in total consumer prices accelerated in July as measured by the Personal Consumption Expenditure (PCE) Price Index and held steady as measured by the Consumer Price Index (CPI). Meanwhile, growth in core prices, which exclude the volatile food and energy sectors, picked up a bit in July. Oil prices declined on average in August, but edged up a bit in the last several days of the month.

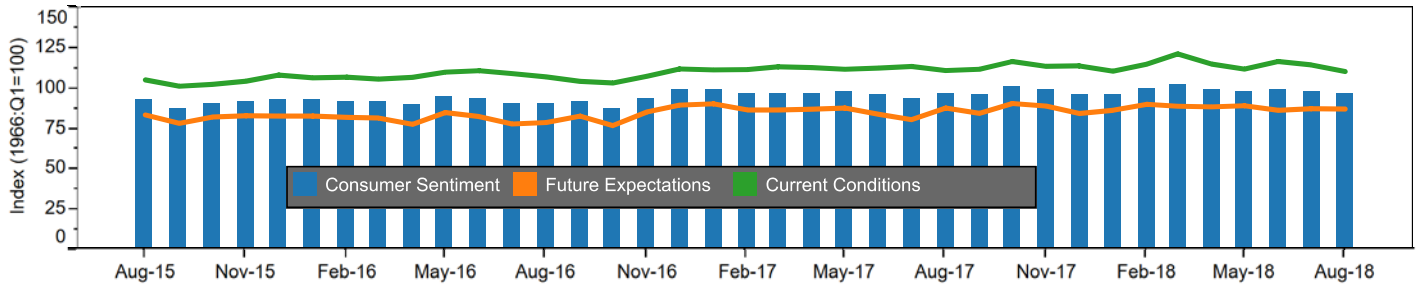
Initial claims for unemployment insurance have fallen a bit further, on average, in the four weeks ending August 25th, after declining in July. The latest claims estimates were at 49-year lows and remain at a level consistent with further labor market improvement.

Initial Claims

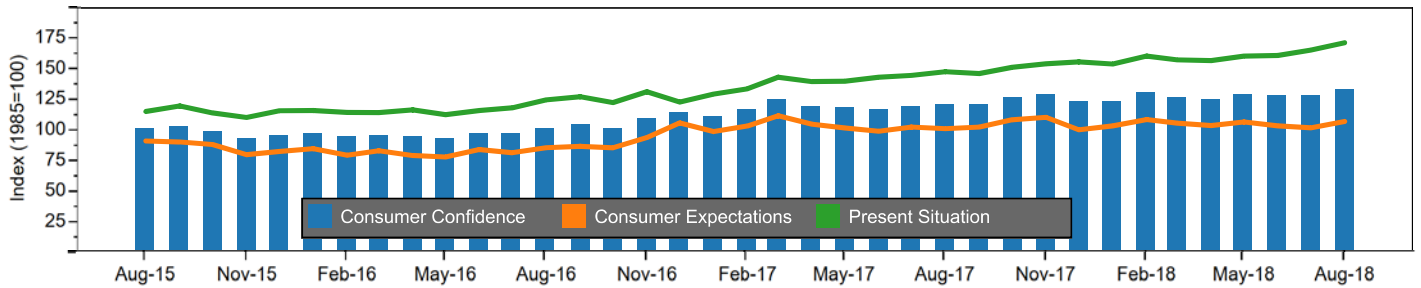


Consumer attitudes were mixed in August. The sentiment index fell to its lowest level since January, mostly due to a decline in the current conditions component, while the confidence index increased in August to its highest level in eighteen years. The increase in confidence was due to improved assessments of business and labor market conditions, as well as more optimism towards the economic outlook, while respondents to the sentiment survey provided a less favorable assessment of buying conditions, mainly due to less favorable perceptions of prices.

Consumer Sentiment and Expectations



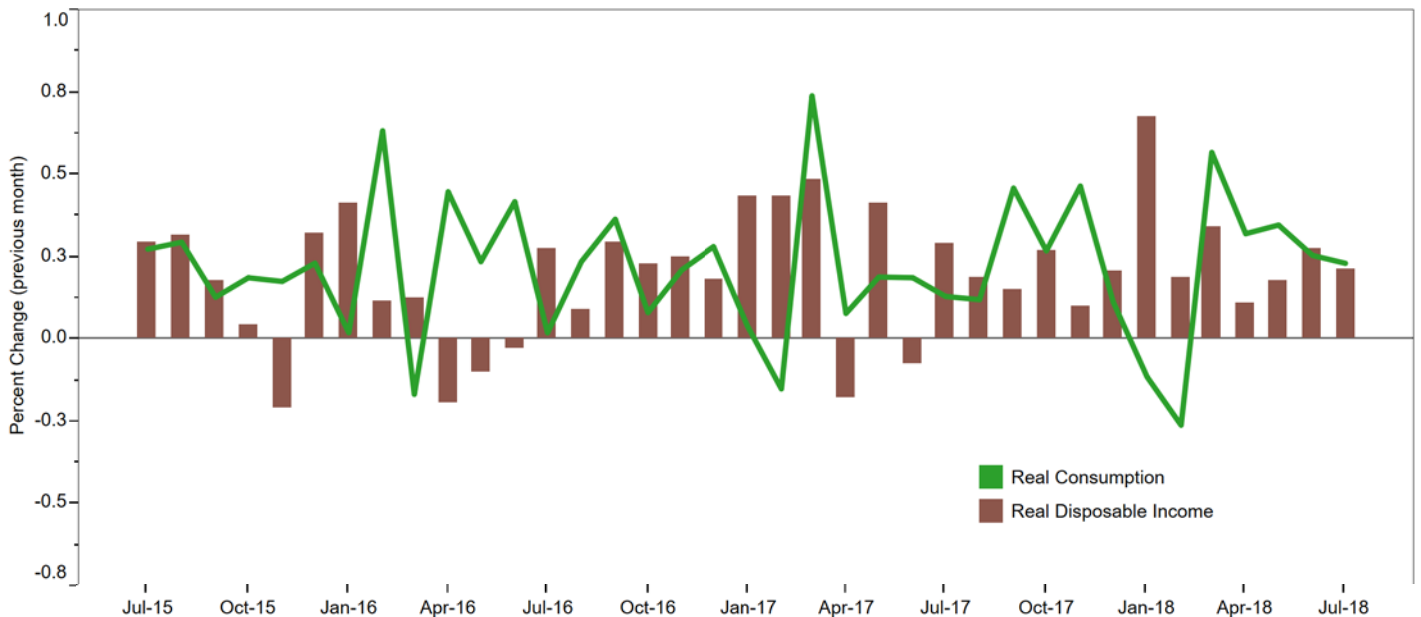
Consumer Confidence and Expectations



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

Real incomes rose in July, their thirteenth consecutive monthly increase, albeit at a slightly slower rate than seen in June. Consumption also increased in July, after rising in each of the previous four months.

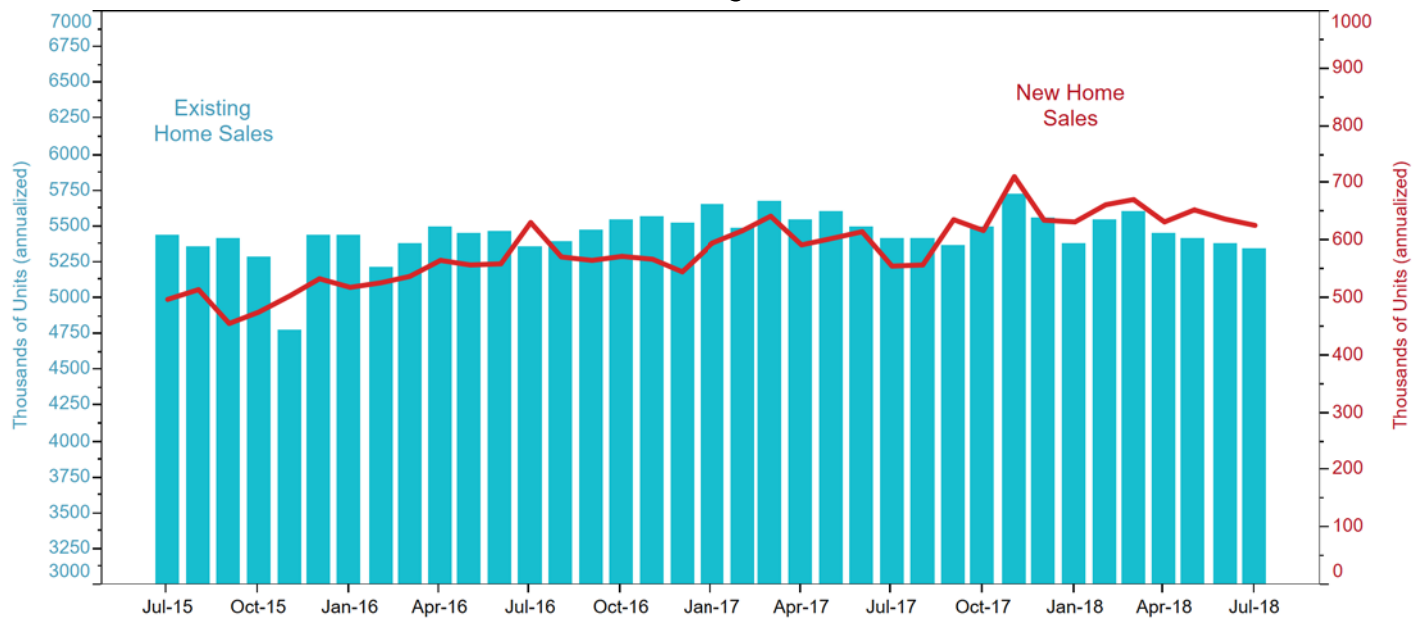
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data continued to decline in July. New home sales fell to their lowest rate since October, while existing home sales decreased in July for the fourth consecutive month, reaching their lowest rate since February 2016.

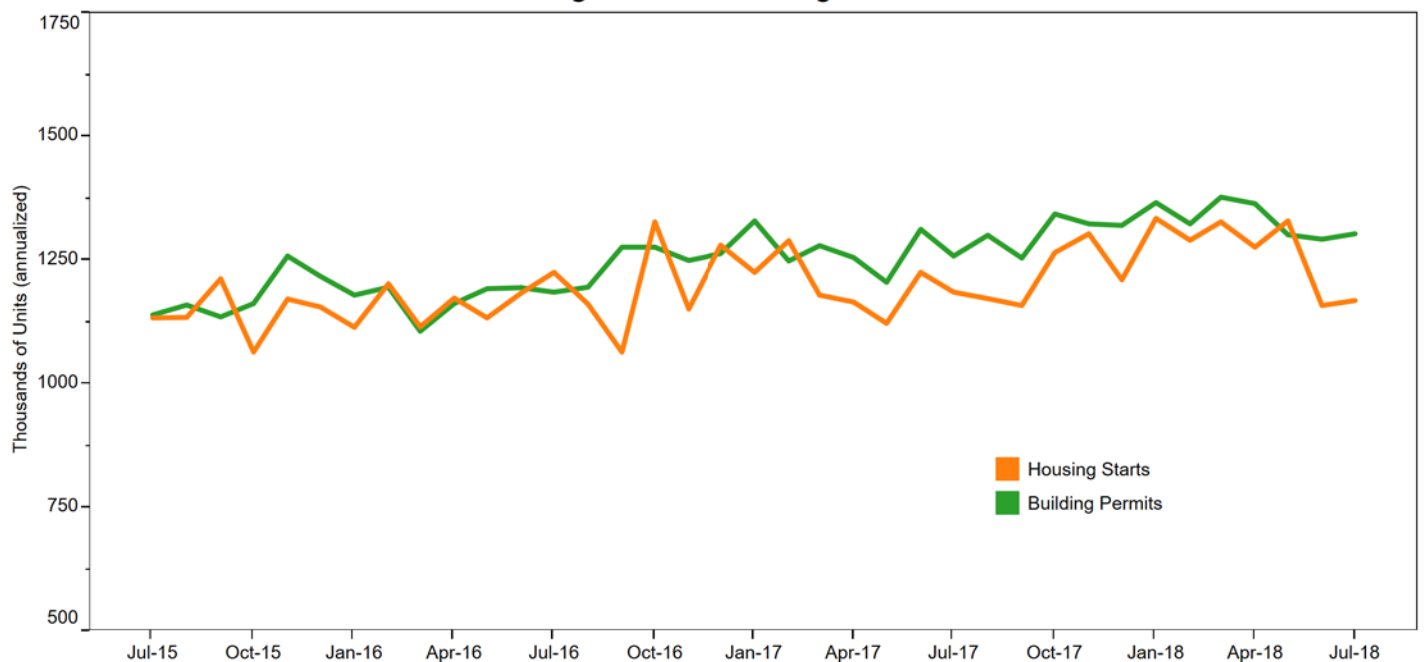
New and Existing Home Sales



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

Housing starts ticked up in July, after plunging in June, as both single-family and multi-family starts increased. Meanwhile, building permits also edged up in July, more-than-offsetting the decline seen in June. The July increase in permits was driven by single-family permits, as multi-family permits decreased.

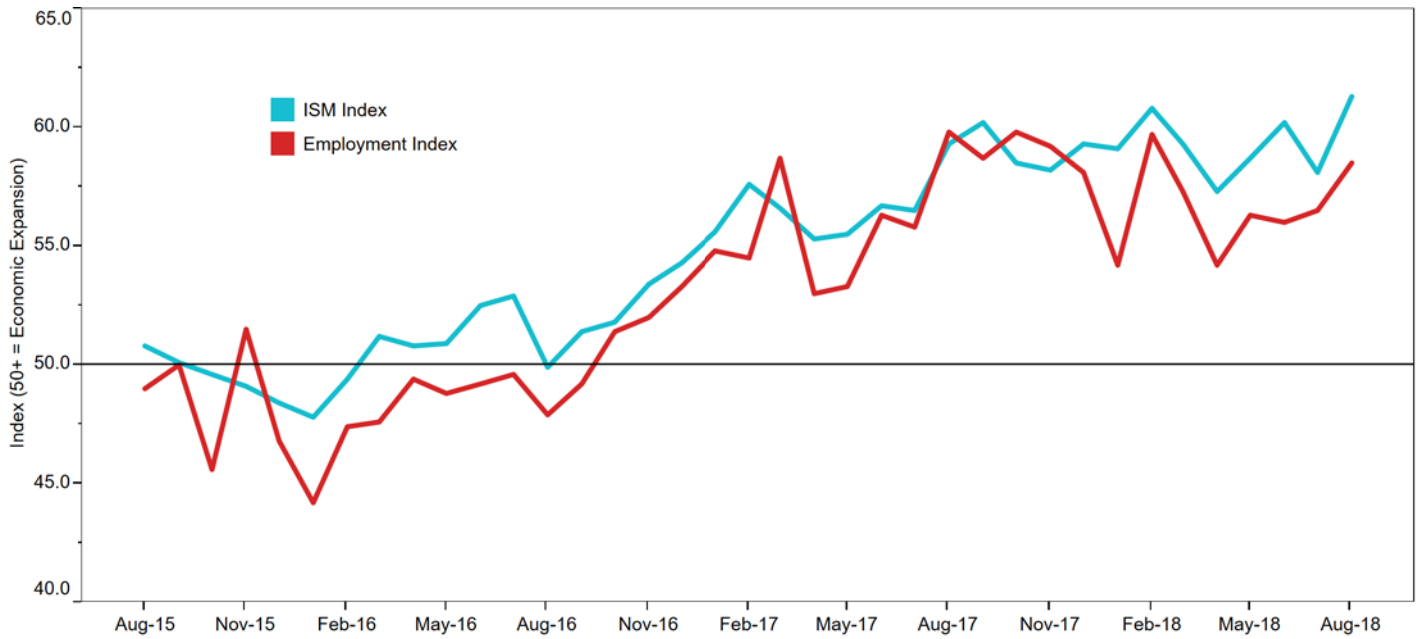
Housing Starts and Building Permits



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

The ISM manufacturing index increased in August to its highest level since May 2004, after falling in July, and signalled further expansion in the manufacturing industry. Meanwhile, the employment component of the index also rose in August, after increasing in July.

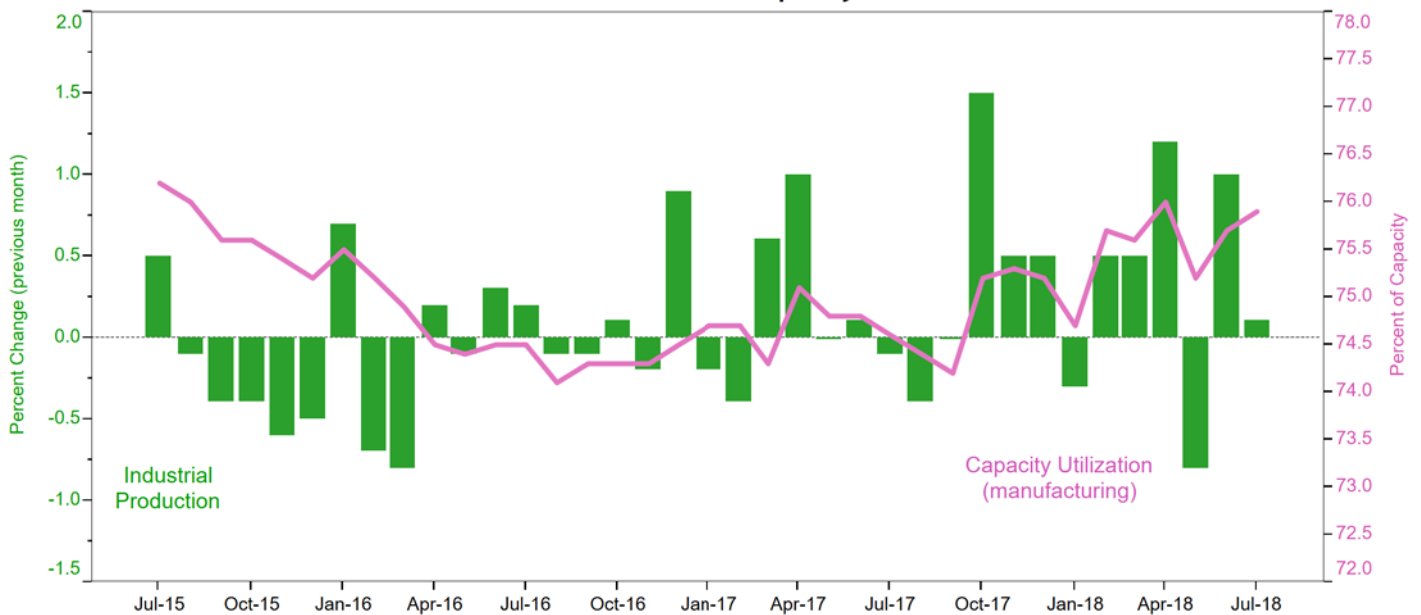
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in July, albeit at a slower rate than seen in June. Manufacturing output posted an increase in July, while mining and utilities production both fell. Capacity utilization increased in July, after rising in June.

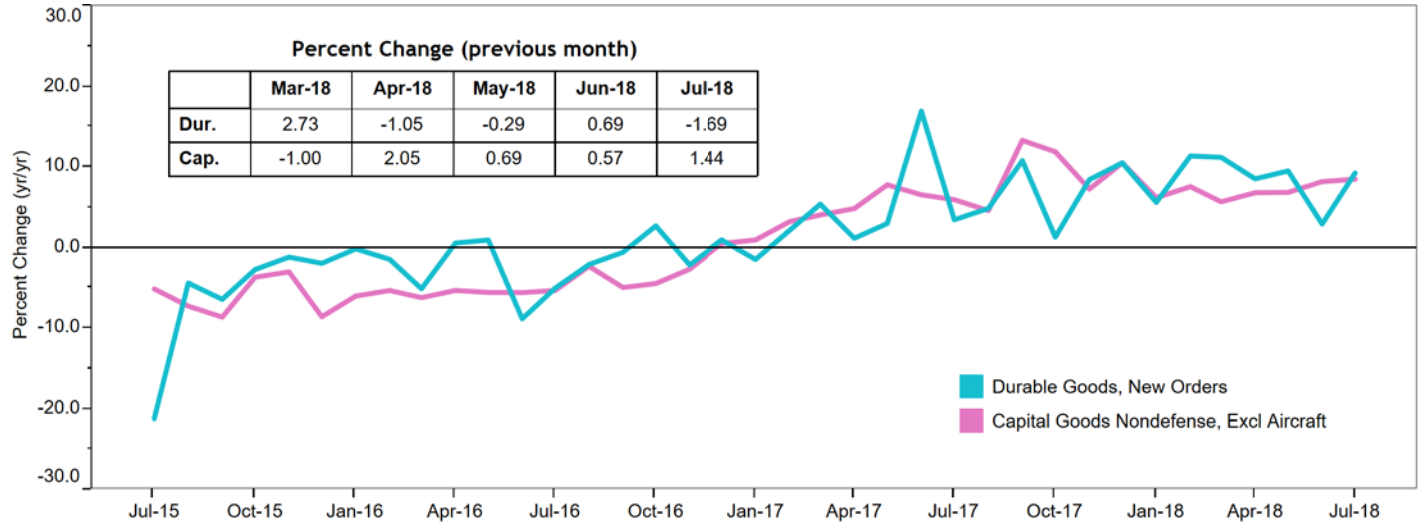
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in July, more-than-offsetting the increase seen in June, but continued to rise on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, rose in July, their fourth consecutive monthly increase, and continued to rise on a year-over-year basis.

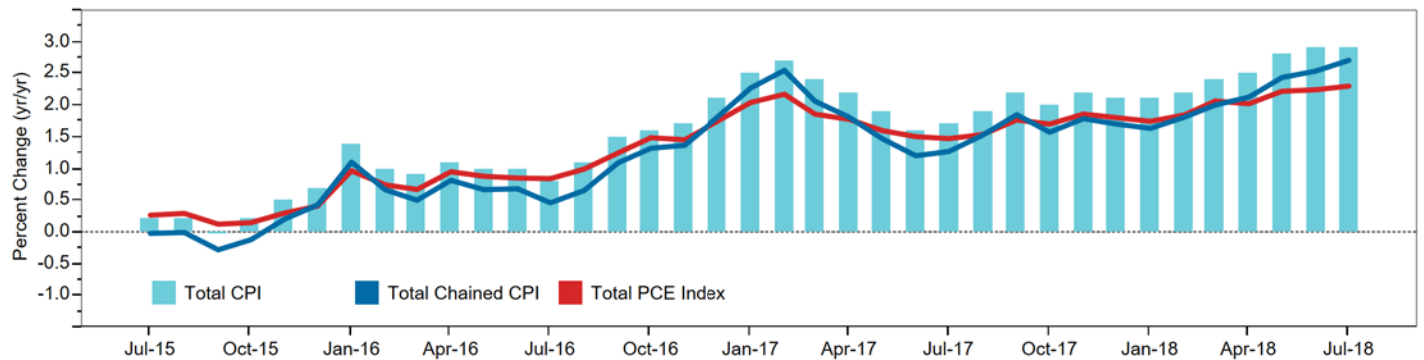
Durable Goods Orders



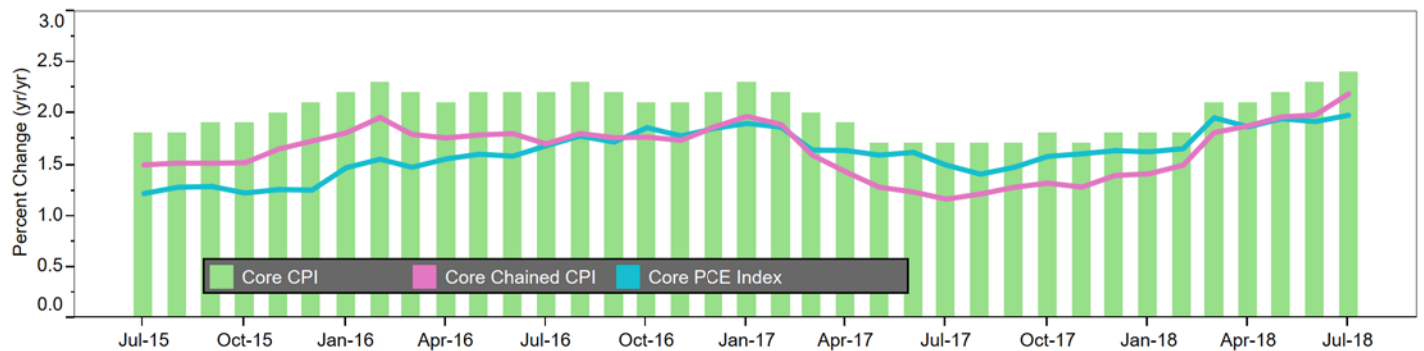
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices picked up a bit in July, as measured by the Personal Consumption Expenditure (PCE) Price Index. The Consumer Price Index (CPI) was essentially unchanged in July. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, accelerated a tick in July.

Total Price Indices



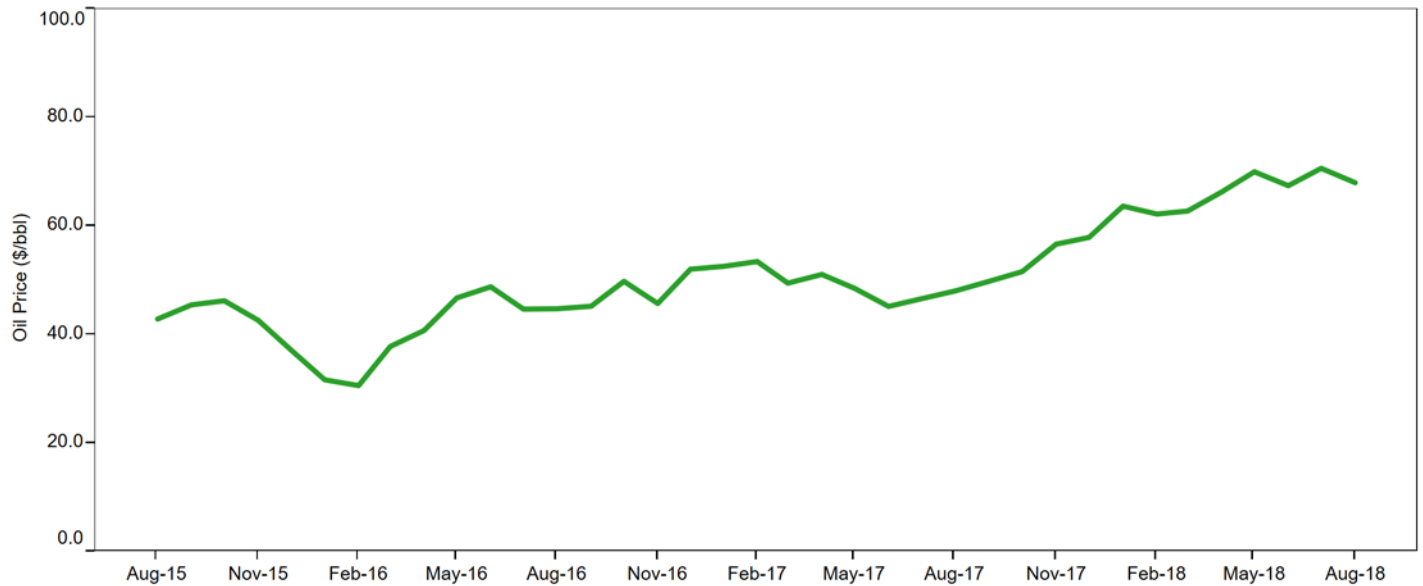
Core Price Indices



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

Oil prices declined, on average, in August, after rising in July. Prices crept up a bit in the last several days of August, registering \$69.8 per barrel on August 31st.

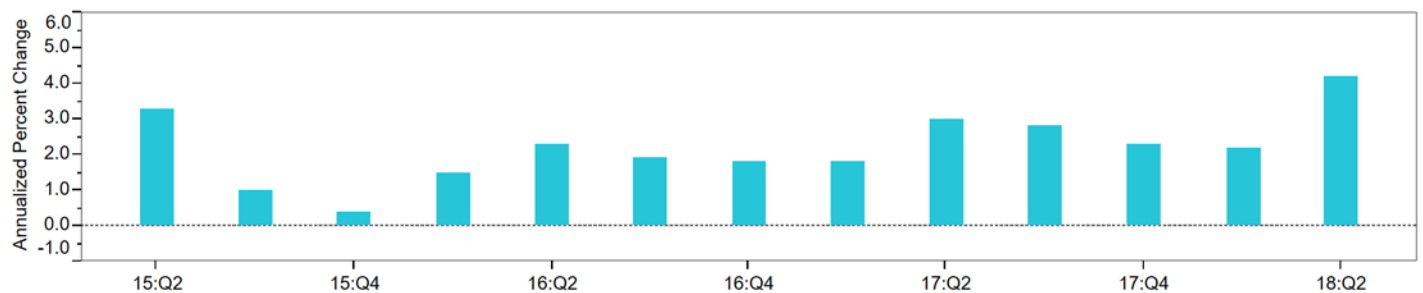
Domestic Spot Oil Price



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

Second quarter real GDP growth was revised up in the second estimate to 4.2% from 4.1%. The higher rate primarily reflected upward revisions to nonresidential fixed investment, private inventory investment, federal government spending, and state and local government spending that were partly offset by downward revisions to personal consumption expenditures, residential fixed investment, and exports. Imports were revised down.

Real GDP



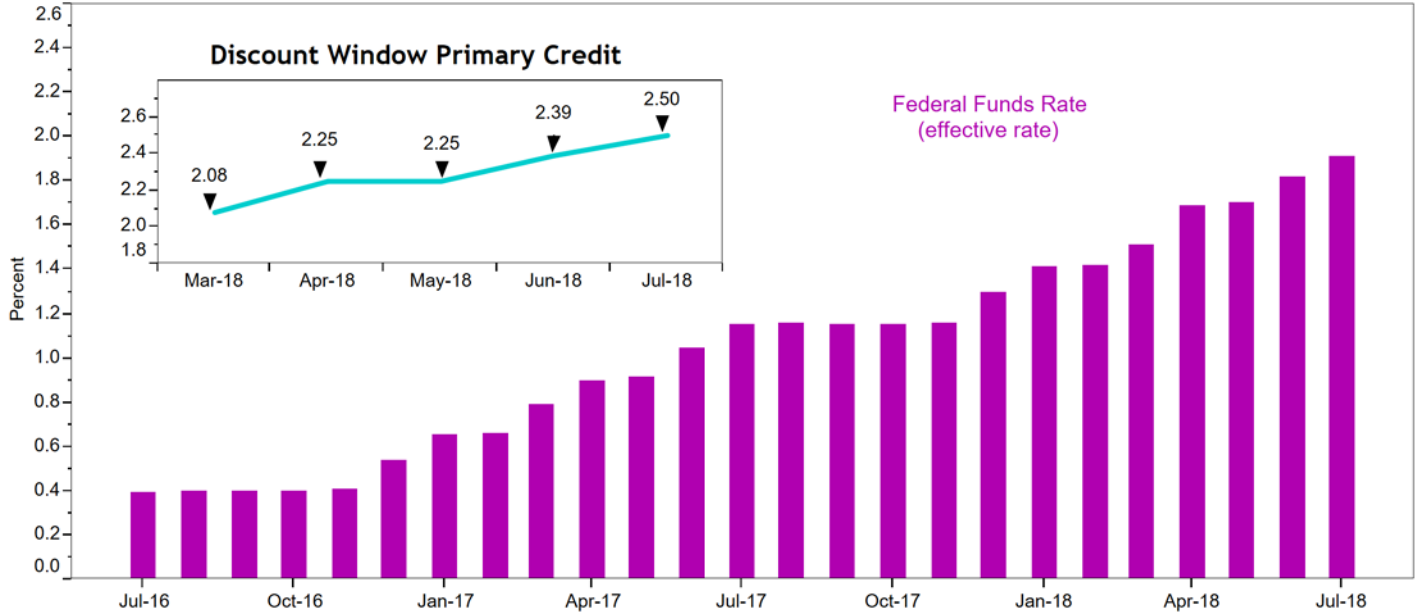
Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	4.1	4.2
Personal Consumption	4.0	3.8
Business Investment	7.3	8.5
Equipment and Software	3.9	4.4
Residential Investment	-1.1	-1.6
Government	2.1	2.3
Exports	9.3	9.1
Imports	0.5	-0.4
Final Sales	5.1	5.3

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.