Data released since your last Directors’ meeting show the economy continues to expand, although at a slow pace. Concern about future strength remains high and data for the first quarter remains sparse. Nonfarm payroll employment rose by 143,000 in January, marking the biggest job gain since November 2000. Still December's payroll employment was revised further downward and the 3-month moving average, which is a better indicator of labor market strength, remains below zero. The unemployment rate fell to 5.7%.

In January, auto and light truck sales slowed, as consumer confidence fell. And on the supply side, the ISM index edged slightly downward.

During the fourth quarter, real GDP growth slowed, led by a pullback in consumer spending on durable goods. The deceleration in consumer spending was partly offset by an increase in fixed investment and an acceleration in government spending.
Initial claims edged downward in January to its lowest level since July 2002, yet claims have been relatively flat over the past six months. The unemployment rate fell in January to 5.7 percent.

Unemployment Rate and Initial Claims

Total auto and light truck sales slowed in January, compared to December. January’s estimate was also slightly lower than the average seen during the fourth quarter.
Consumer confidence and expectations fell in January, as concern about weak economic growth increased and geo-political risks rose.

The ISM index slowed in January, compared to December. Still estimates over the past two months show some improvement, compared to the previous five months.
Economic growth slowed during the fourth quarter. The deceleration was led by a sharp pullback in consumption.

**Real Gross Domestic Product**

![Graph showing Real Gross Domestic Product with annualized percent change.](source: Bureau of Economic Analysis)

During the fourth quarter, the slowdown in consumer spending was led by a drop in durable goods consumption.

**Real Consumption**

![Graph showing Real Consumption with annualized percent change.](source: Bureau of Economic Analysis)
The weaker consumer spending was offset somewhat by increases in residential and business investment. Business investment posted its first gain in over two years.

Slower consumer spending was also offset somewhat by an increase in government spending.
And productivity fell during the fourth quarter for the first time since the second quarter of 2001. Despite the drop in productivity, compensation costs eased somewhat.

During the fourth quarter, the ECI's total compensation eased somewhat, following the recent pattern of wages and salaries, despite an increase in benefit costs.
Over the past year, inflation at both the consumer and producer levels have remained low.

Overall, the economy is expanding, but increasing geopolitical risks and falling consumer confidence have raised downside risks.