



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

May 4, 2012

CURRENT ECONOMIC DEVELOPMENTS - May 4, 2012

Data since your last Directors' meeting show the economy continued to grow in the first quarter, but at a slower pace than in the fourth quarter. Contributing to the slowdown were effects that are expected to be temporary - namely higher oil prices and another sizeable drop in military spending - and growth is expected to pick up a bit over the rest of the year. While the recovery remains on course, persistent downside risks stemming from domestic fiscal issues and the European debt crisis continue to shed some uncertainty on the outlook.

In April, nonfarm payrolls posted a weaker-than-expected gain, but the unemployment rate fell one-tenth of a percentage point as the size of the labor force shrunk further. Initial claims for unemployment insurance increased in April, and were well above their first quarter average.

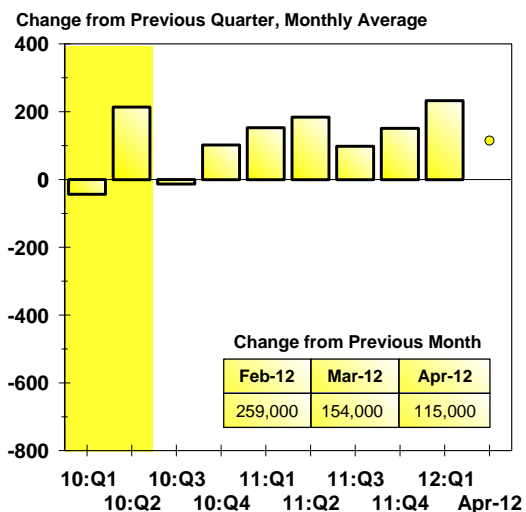
The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, and residential investment that were partly offset by negative contributions from government spending and nonresidential investment, as well as an increase in imports.

In April, consumer attitudes were mixed but remained well above their late summer/early fall levels. The ISM manufacturing index improved in April, suggesting a possible improvement in manufacturing following the disappointing durable goods data for March.

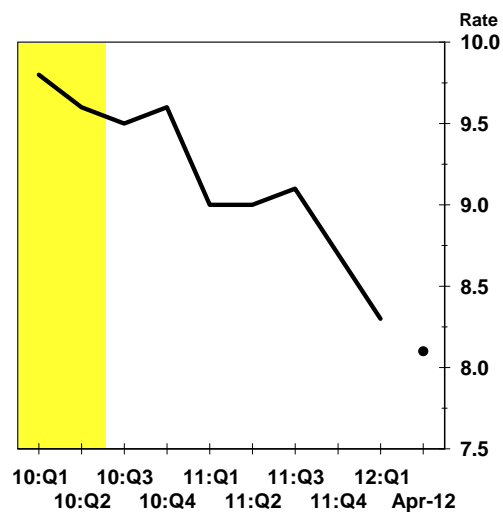
Inflation concerns remain minimal as headline measures slowed in the first quarter, and core indices remained at moderate levels. Unit labor costs eased in the first quarter, as did total compensation costs, as measured by the ECI. Oil prices fell in April but still averaged over \$103 per barrel for the month.

In April, nonfarm payrolls added 115,000 jobs, and revisions to the previous two months' estimates resulted in 53,000 additional jobs being created. Payroll gains were lower than anticipated and well below the first quarter monthly average of 233,000. The unemployment rate fell one-tenth of a percentage point in April to 8.1%, as a decrease in civilian employment was outpaced by a larger drop in the labor force.

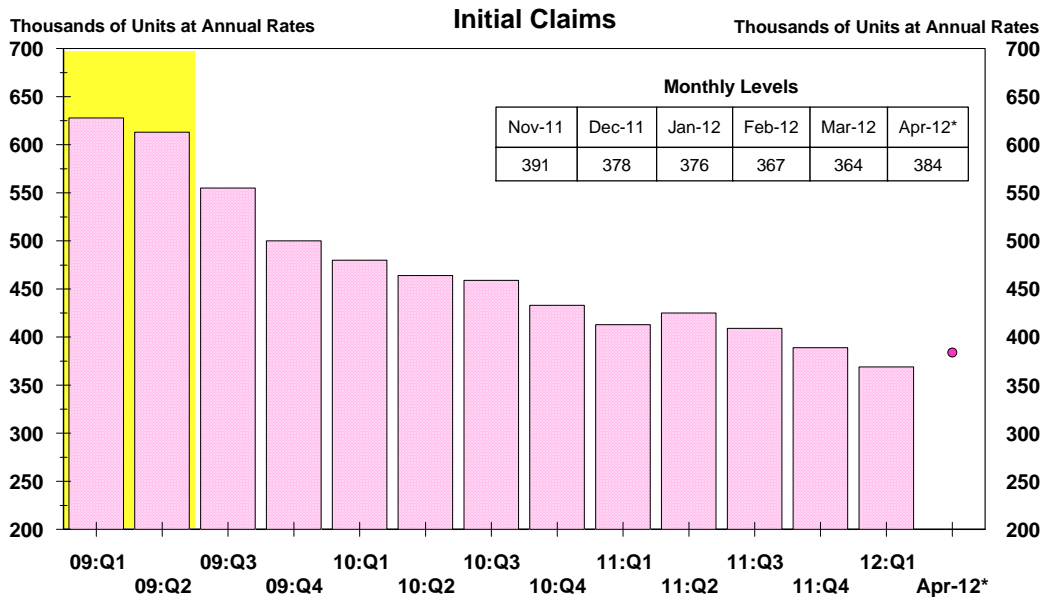
Nonfarm Payroll Employment



Unemployment Rate



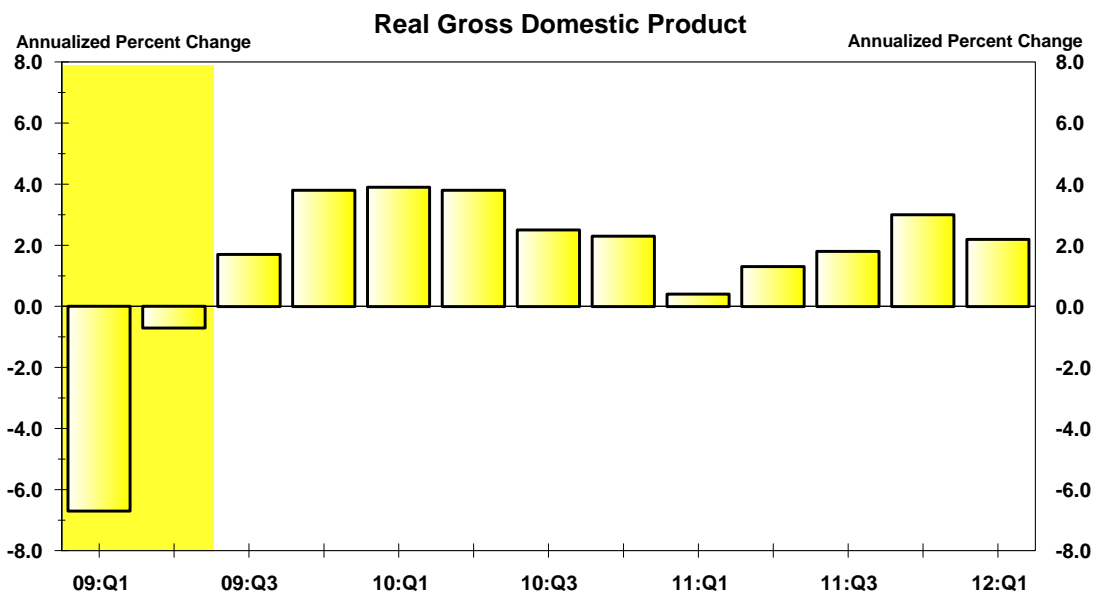
Initial claims for unemployment insurance rose on average in April, reaching their highest level since November, despite a decrease in the last week of the month. Increases in first three weeks of the month marked a shift away from the downward trend seen since the middle of last year.



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

* 4-wk. ave. ending April 28

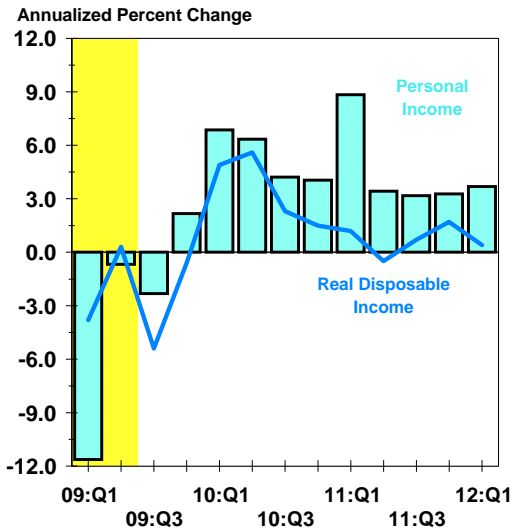
The deceleration in real GDP in the first quarter primarily reflected a deceleration in private inventory investment and a downturn in nonresidential fixed investment that were partly offset by accelerations in personal consumption expenditures and in exports.



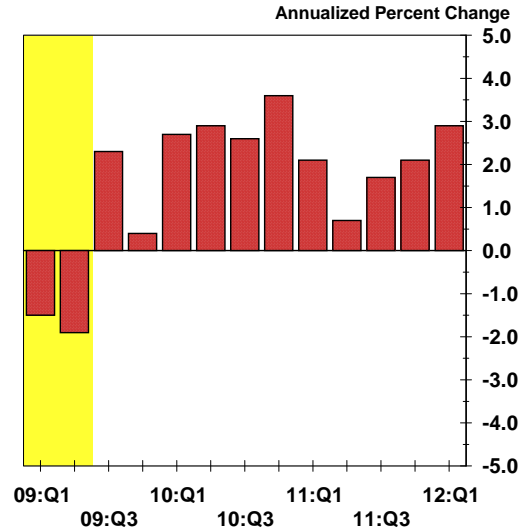
Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, personal income posted its largest quarterly gain in one year, but real incomes slowed following two quarters of accelerated growth. Consumption accelerated for the third straight quarter, despite the lower real income, and continued to be a primary contributor to GDP growth.

Personal Income



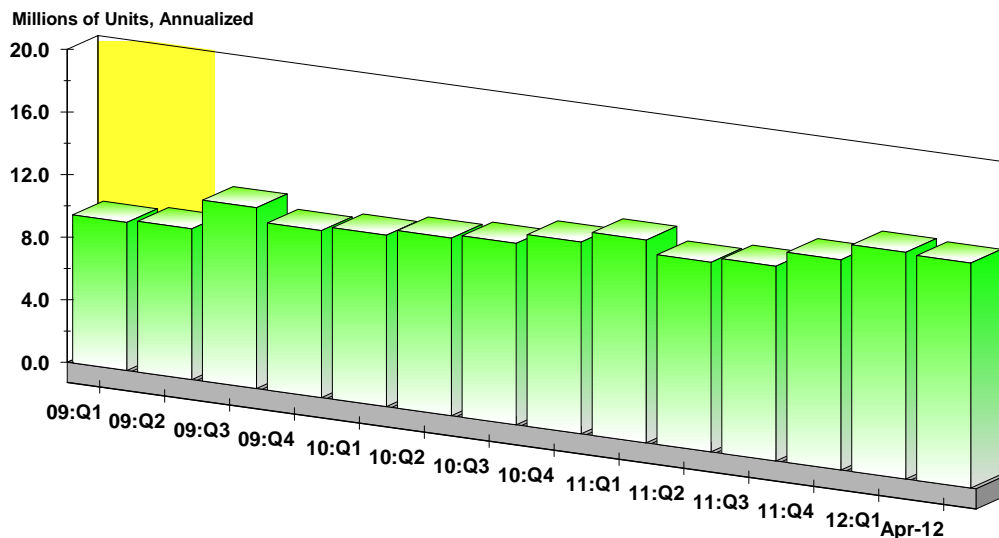
Real Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicle sales inched up in April, slightly above their March level, but not quite reaching their first quarter average. Sales in April were largely supported by increased demand for smaller, more fuel-efficient vehicles as consumers looked to combat elevated gas prices.

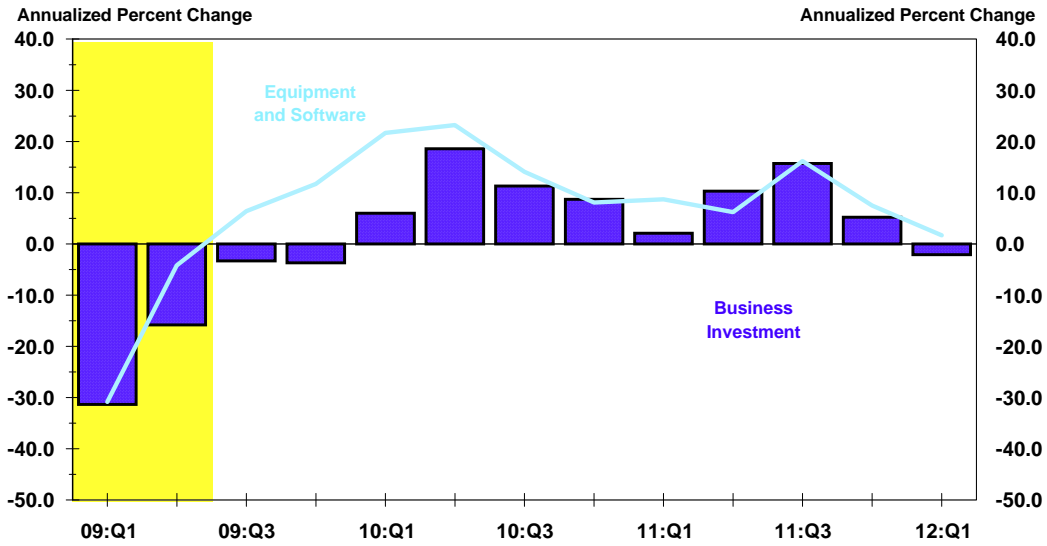
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment decreased in the first quarter for the first time in over two years, and equipment and software investment slowed for the second consecutive quarter.

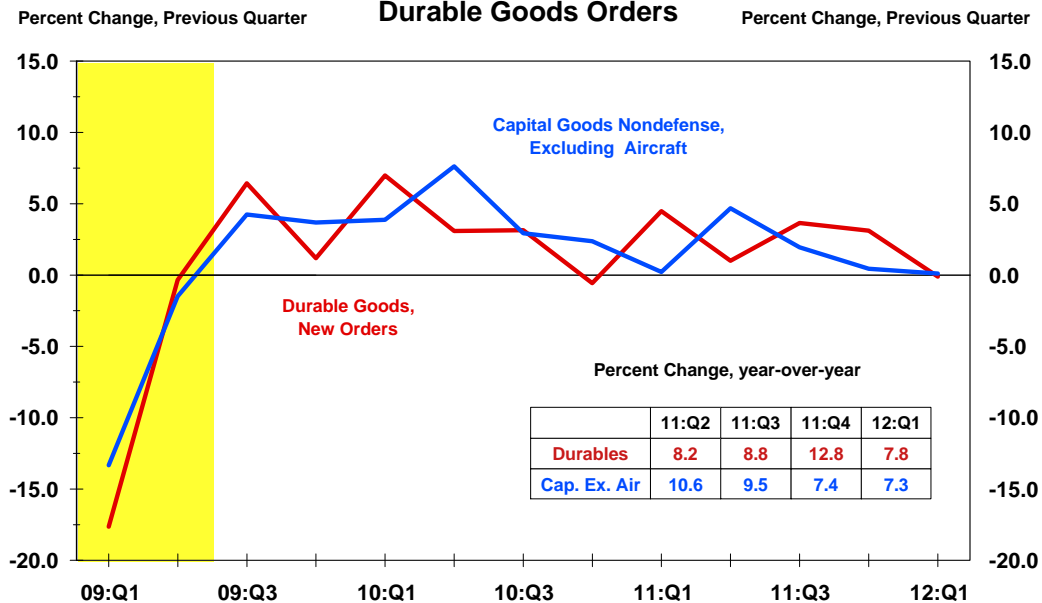
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, durable goods orders decreased slightly for the first time in over one year, and orders of nondefense capital goods, excluding aircraft, slowed to nearly flat. On a year-over-year basis, durable goods orders posted a weaker gain compared to the sharp upturn in the fourth quarter of 2011, and growth of core orders continued to decelerate.

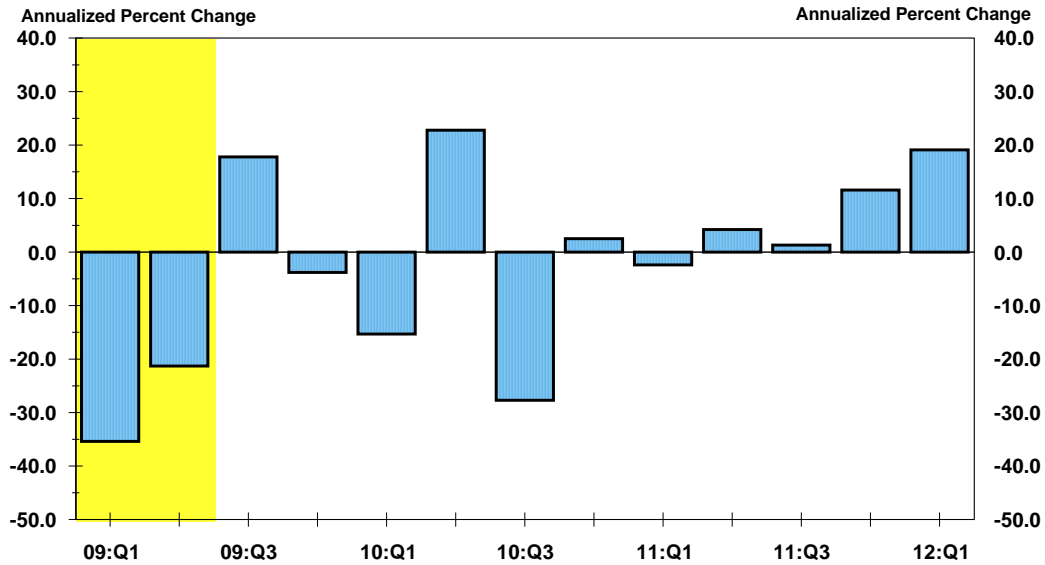
Durable Goods Orders



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

Residential investment increased in the first quarter at its fastest pace in nearly two years. This marks the fourth consecutive quarterly increase, following a period of volatility directly after the recession.

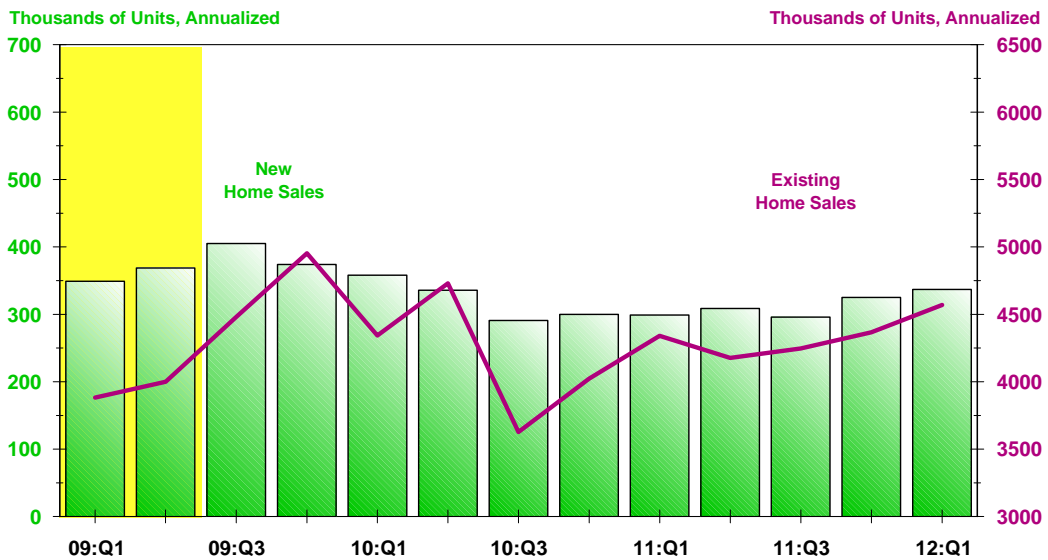
Residential Investment



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

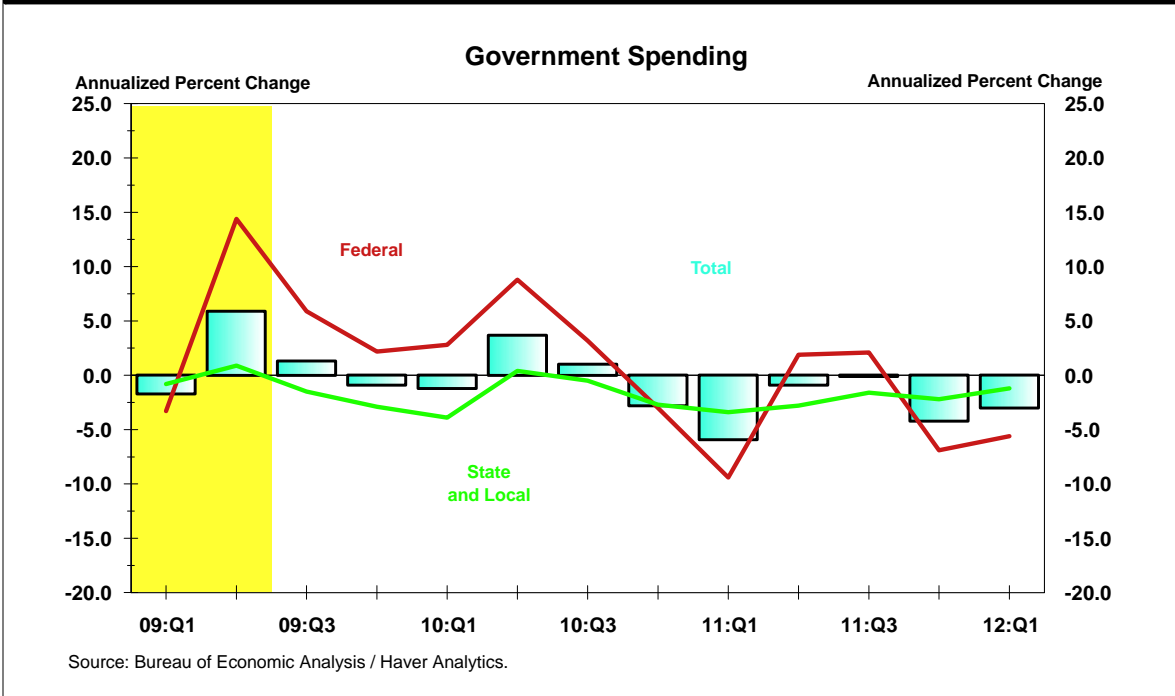
New home sales ticked upward in the first quarter, following a solid increase in the previous quarter. Existing home sales posted another strong gain in the first quarter and have erased the majority of the losses seen in the first three quarters of 2010.

New and Existing Home Sales

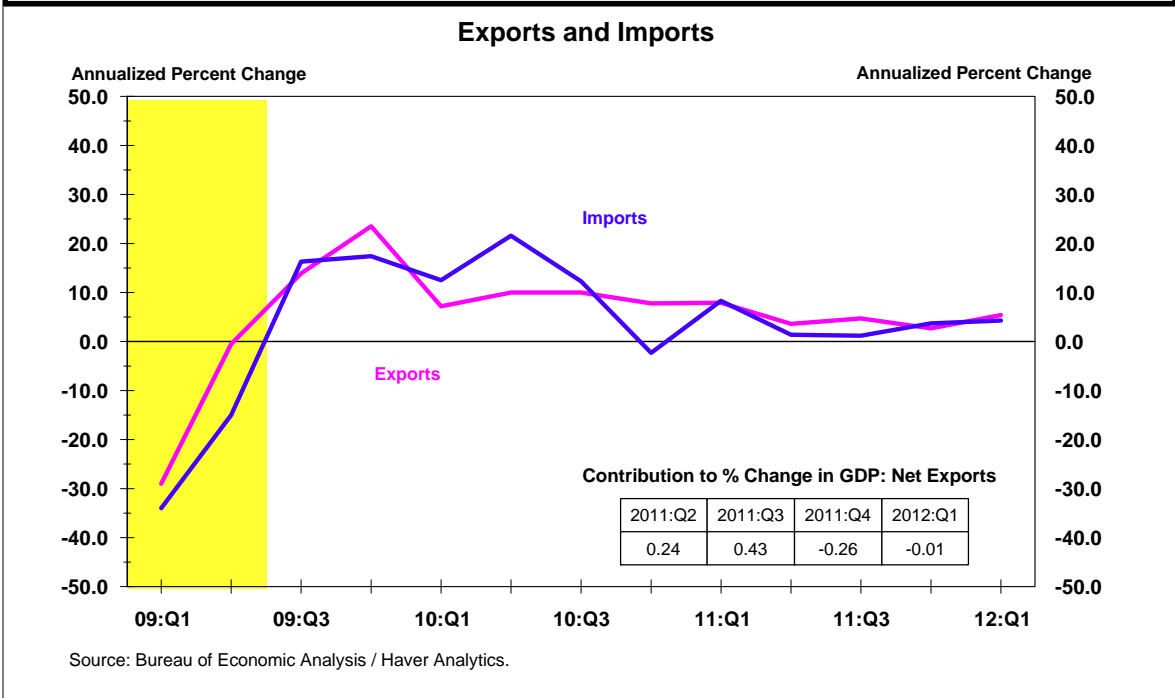


Source: U.S. Census Bureau / Haver Analytics.

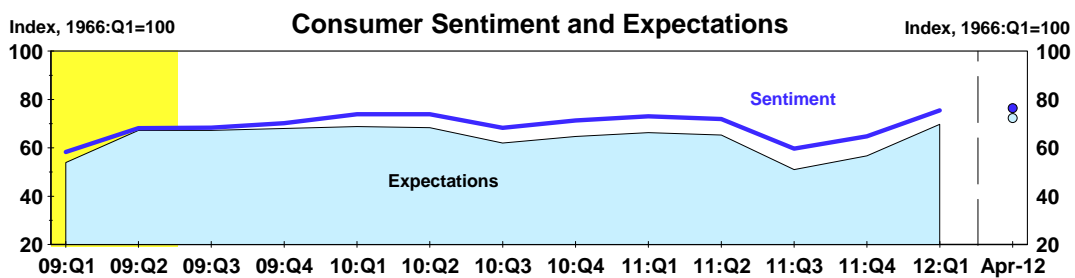
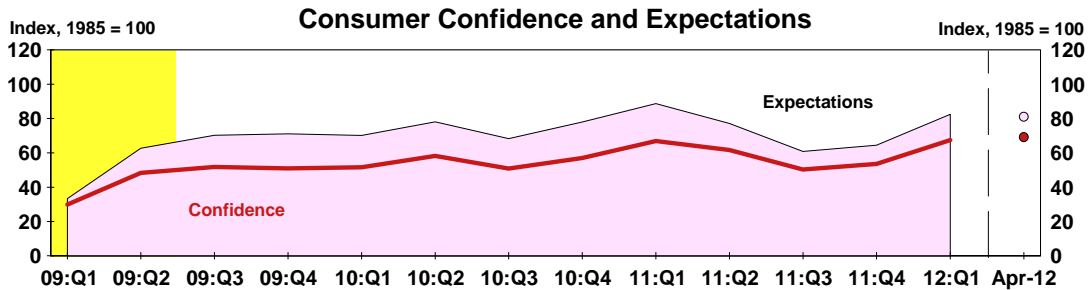
Government spending declined again in the first quarter, although not as much as in the previous quarter, subtracting over half of a percentage point from GDP growth. State and local government cutbacks, as well as another decrease in federal defense spending, contributed to the decline in overall government expenditures.



Imports continued to accelerate in the first quarter, led by large increases in industrial supplies and auto imports, while exports grew at a slightly faster rate. Overall net exports had a nearly neutral effect on GDP in the first quarter, after providing a slight drag in the fourth quarter.

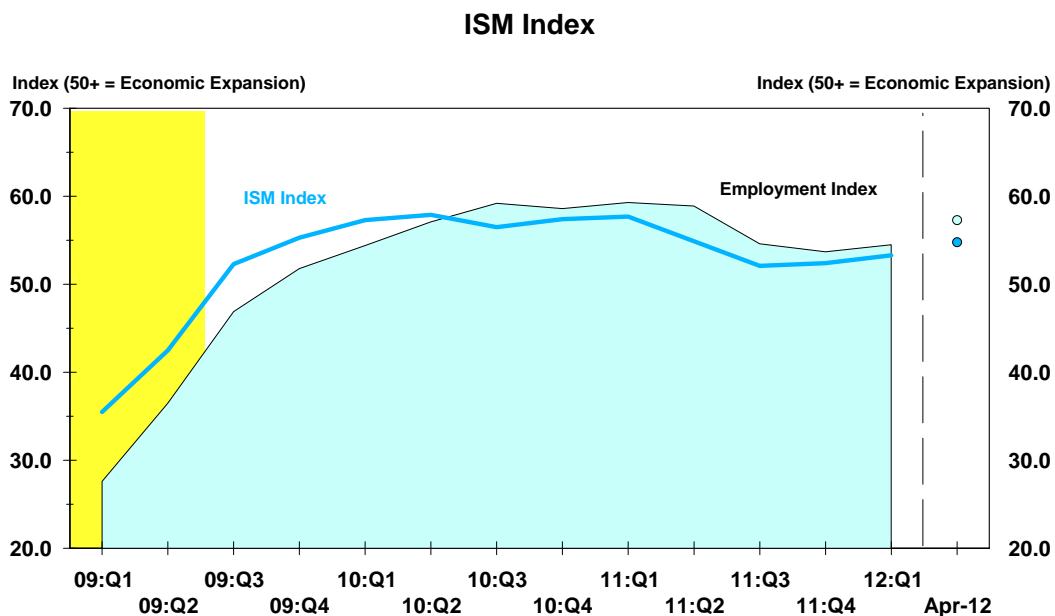


Consumer confidence fell unexpectedly in April, but was still higher than its first quarter average. Sentiment increased again in April, reaching its highest level since February 2011. In general, consumers are slightly less upbeat towards employment conditions and reported weaker personal financial situations.



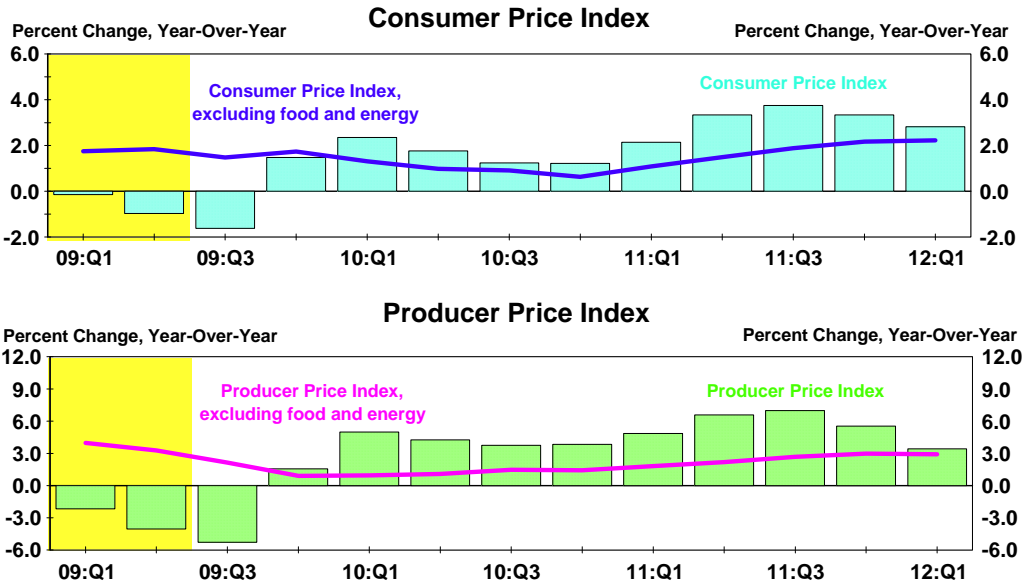
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Both the ISM index and the employment index improved in April to their highest levels since June 2011, indicating the continued expansion of the manufacturing sector that began after the end of the recession.



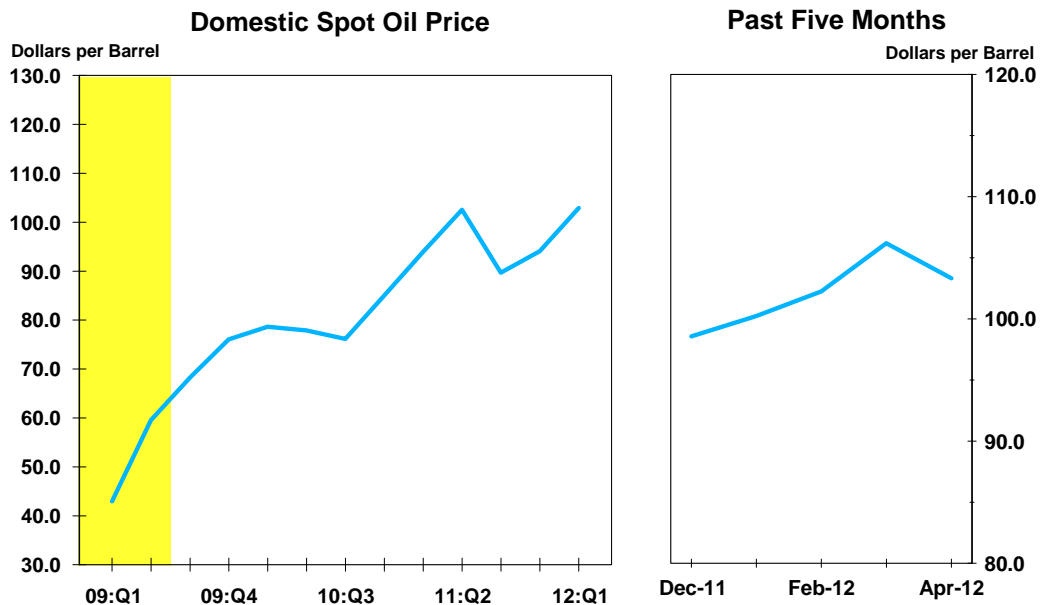
Source: Institute for Supply Management / Haver Analytics.

Headline consumer inflation eased further in the first quarter, due primarily to decelerating food and energy prices. The core index continued to pick up in the first quarter, but appears to be leveling off from the steady increases of last year. The headline producer price index exhibited similar behavior in the first quarter, while the core index eased slightly.



Source: Bureau of Labor Statistics / Haver Analytics.

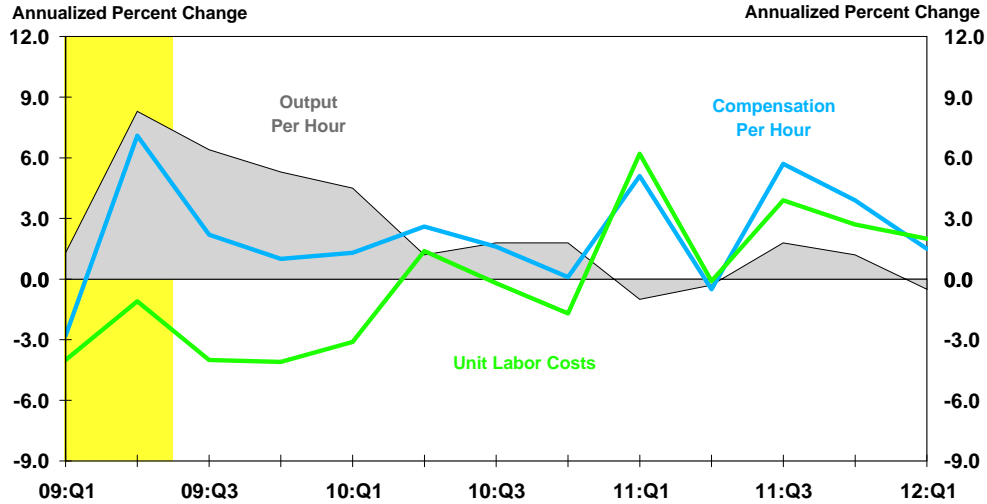
Oil prices continued to rise sharply during the first quarter, averaging over \$102 per barrel and erasing the decline seen in the third quarter of last year. However, prices fell in April from March, the first monthly decline since September 2011.



Source: Wall Street Journal / Haver Analytics.

Productivity fell in the first quarter, as hours worked increased faster than output. Compensation per hour and unit labor costs both slowed for the second straight quarter.

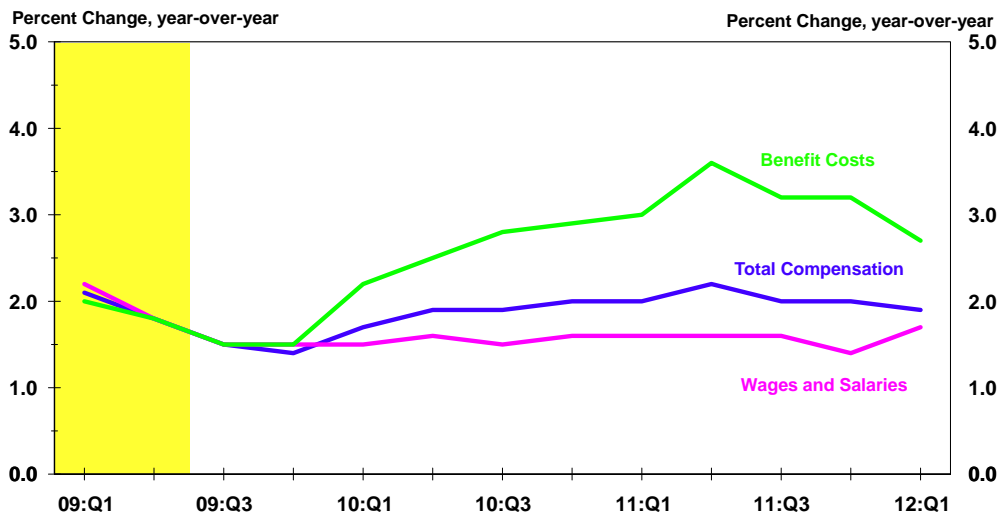
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the first quarter, total compensation growth eased as slowing benefit costs offset faster wage and salary growth. Growth in benefit costs has slowed substantially since mid-2011 and has been the driving force behind the downward trend in total compensation seen over that time.

Employment Cost Index



Source: Bureau of Labor Statistics / Haver Analytics.

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