



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

October 5, 2012

CURRENT ECONOMIC DEVELOPMENTS - October 5, 2012

Data released since your last Directors' meeting show the economic recovery continues at a slow pace. Most of the recent ongoing concerns remain - growth in the labor market is weak and manufacturing is slowing - while financial conditions and the European debt crisis continue to pose downside risks. Still, positives can be found in the housing market, auto sales, lower oil prices, and improving consumer attitudes.

In September, nonfarm payrolls posted their smallest gain of the third quarter, but gains in the prior two months were revised higher. The unemployment rate decreased three-tenths of a percent in September to reach its lowest level in over three years. Initial claims posted another small increase in September but were down in the third quarter overall. Consumer attitudes improved in September, with the majority of respondents more optimistic about economic conditions improving in the coming months. Auto sales were up in September to their best sales pace in over four years. In August, personal incomes shrunk for the first time since last fall, yet consumption rose slightly.

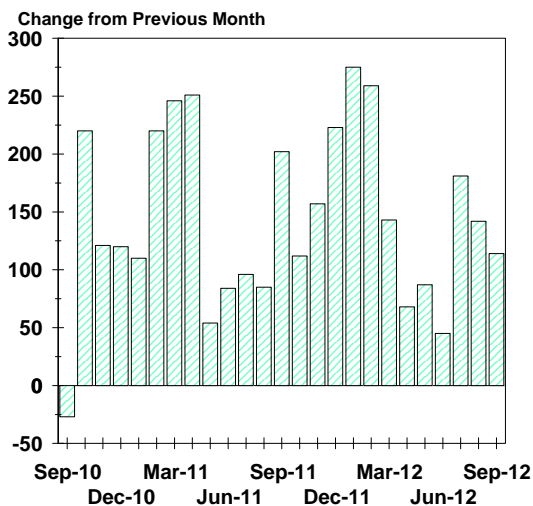
The housing market showed further signs of improvement in August. Existing home sales jumped, and new home sales were essentially unchanged from the two year high seen in July. New construction data was mixed in August, as starts rose and permits fell. However, both series are well above their levels from early last year.

In the business sector, the ISM index rose to above 50 in September for the first time in four months, but other recent data has been less favorable. Industrial production and capacity utilization both decreased in August, and have mostly stagnated this year after rising steadily over the previous two years. Durable goods orders fell sharply in August, while orders of nondefense capital goods, excluding aircraft, showed only small improvement after falling in each of the prior two months.

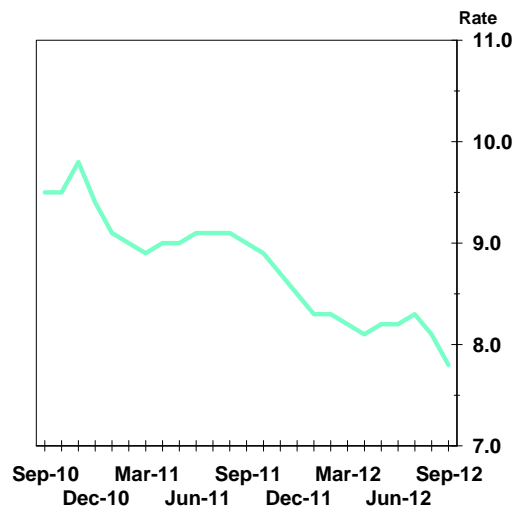
Headline consumer and producer prices accerated in August due to higher energy prices, while core measures remained subdued. Oil prices spiked in early September but have fallen steadily over the past three weeks.

Nonfarm payrolls added 114,000 jobs in September. Gains for August and July were revised higher by a combined 86,000, but the third quarter average of 146,000 was well below levels seen at the beginning of the year. Meanwhile, the unemployment rate fell three-tenths of a percent to 7.8% in September, its lowest level since January 2009, as a strong gain in civilian employment outpaced a smaller increase in the labor force.

Nonfarm Payroll Employment



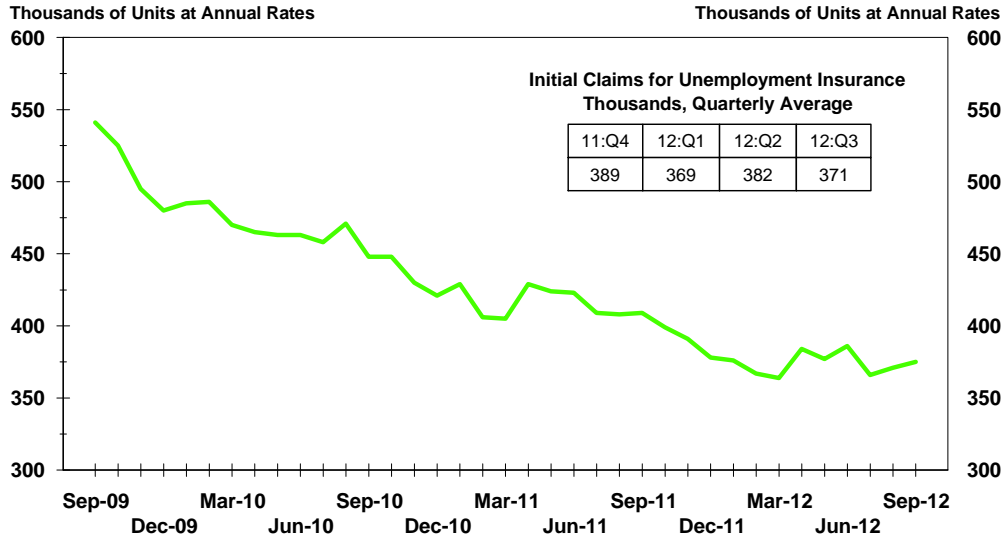
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance increased in September, but were down in the third quarter overall. Claims have hovered around 375,000 for most of this year, stalling the downward trend seen in the second half of last year.

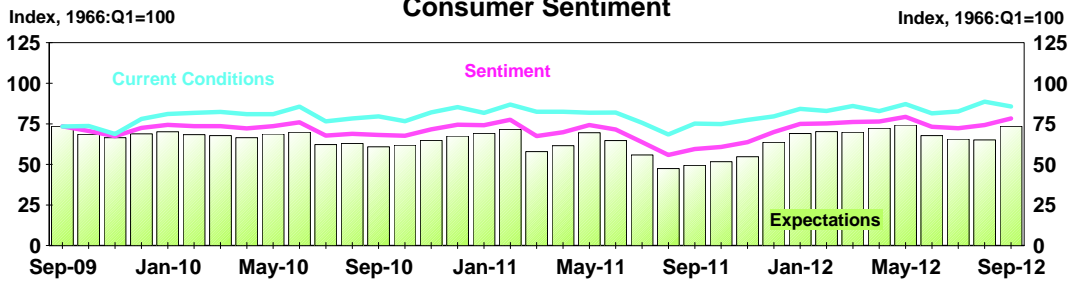
Initial Claims



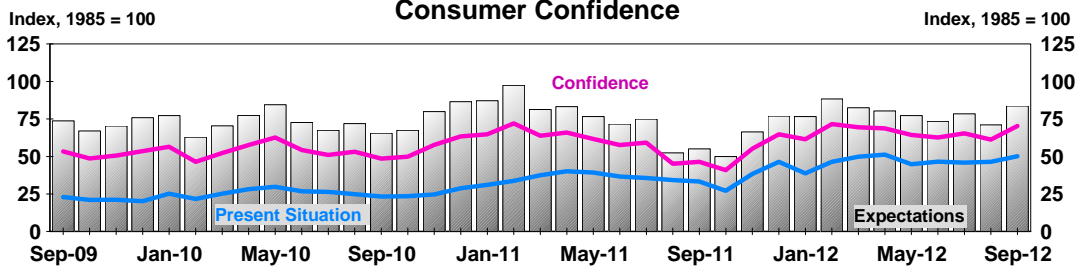
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes improved in September, with sentiment and confidence reaching their highest levels since May and February, respectively. The increases were mainly due to healthier opinions of future expectations, and those who responded had more optimism regarding job market and business conditions.

Consumer Sentiment



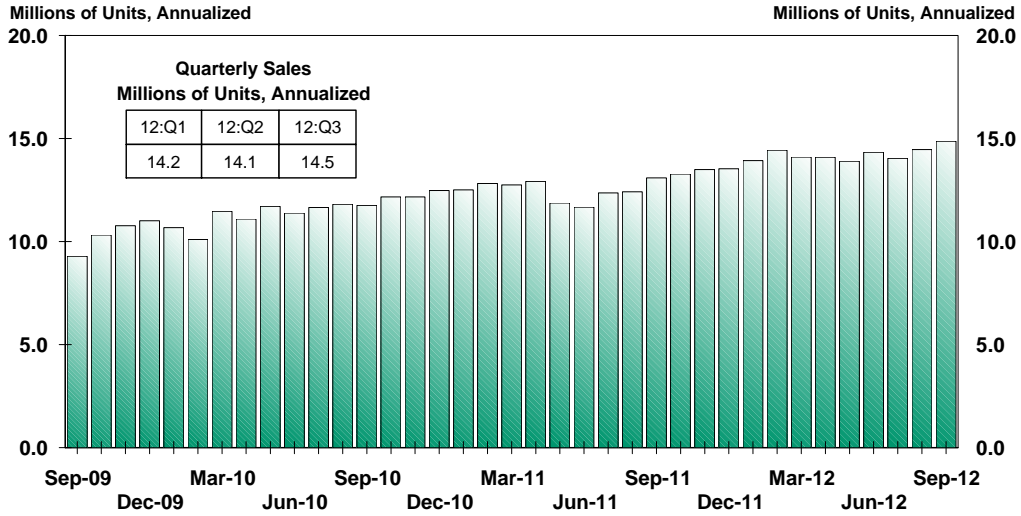
Consumer Confidence



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

Lightweight vehicle sales posted another strong gain in September, reaching their highest level since early 2008. Sales were up on average in the third quarter, despite the weak labor market and cautious consumers. The September increase was aided by better-than-expected imported vehicle sales.

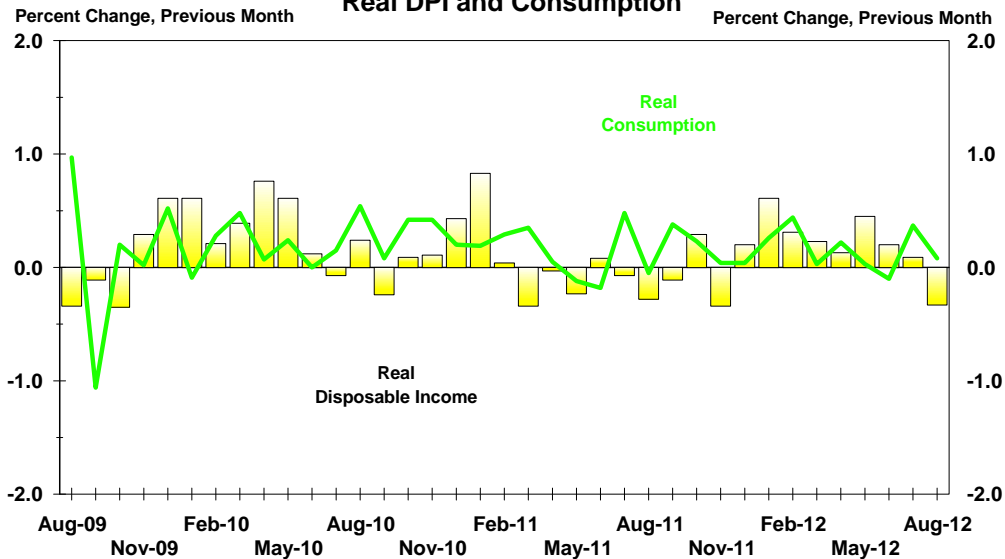
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

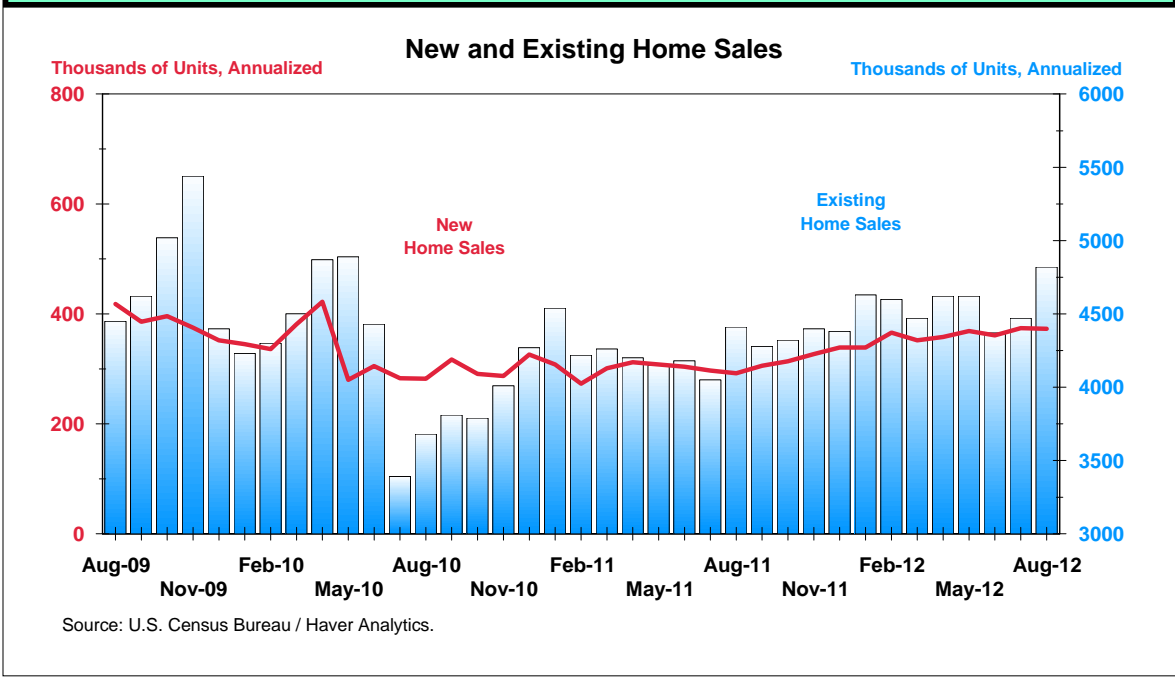
Real incomes fell in August, posting their first monthly decline since November 2011. Income changes had been positive, albeit small, for most of this year, contributing to slight improvements in consumer spending. Despite the decrease in incomes, consumption rose in August and has increased in eleven of the past twelve months.

Real DPI and Consumption

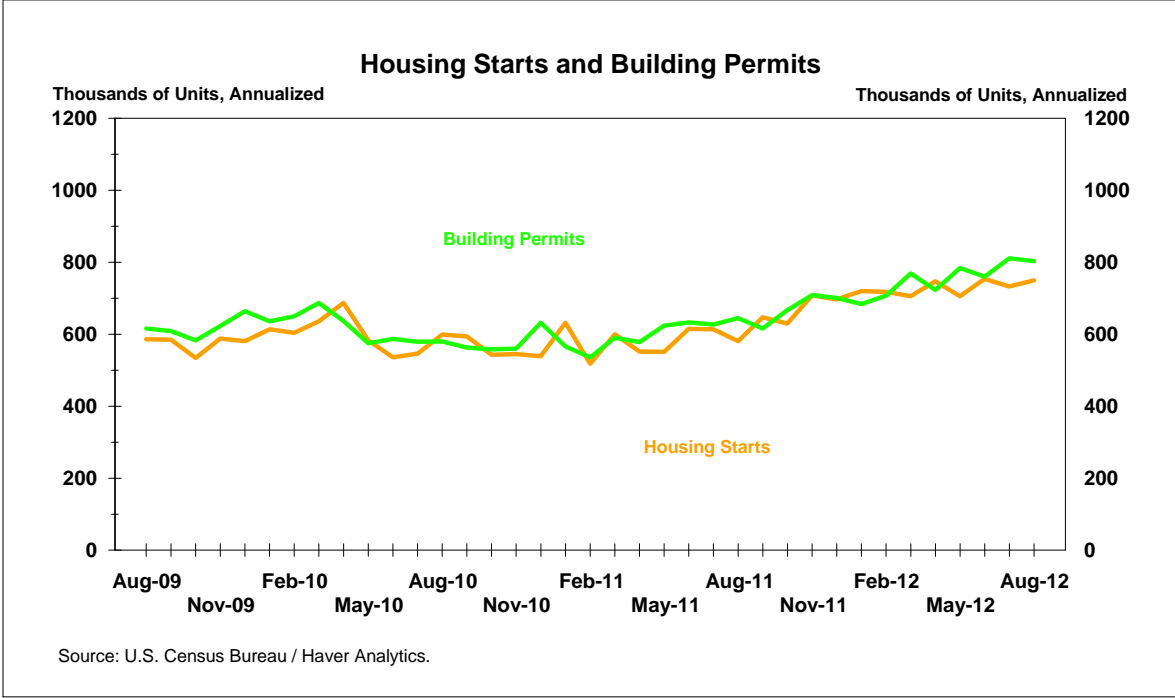


Source: Bureau of Economic Analysis / Haver Analytics.

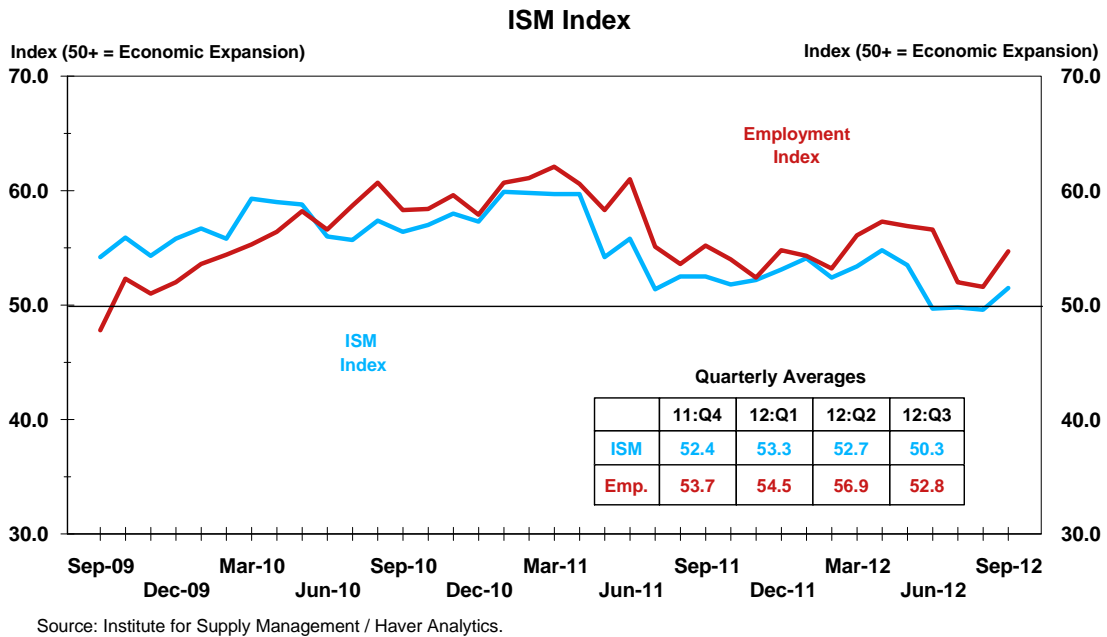
Home sales have been trending upward over the past year, due in part to low interest rates and slowly improving employment conditions. Existing home sales surged in August to their highest level since May 2010, while new home sales eased slightly in August but remain at levels not seen since early 2010.



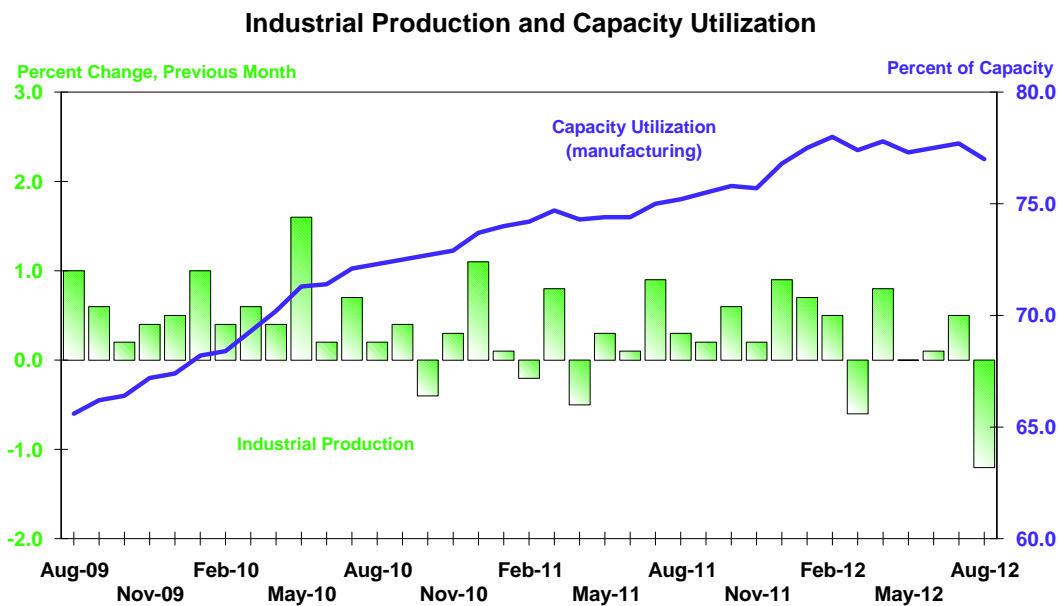
Housing starts rose in August, while building permits fell a bit during the month. Both series have been trending upward since early last year, with starts and permits well above their twelve and six month averages.



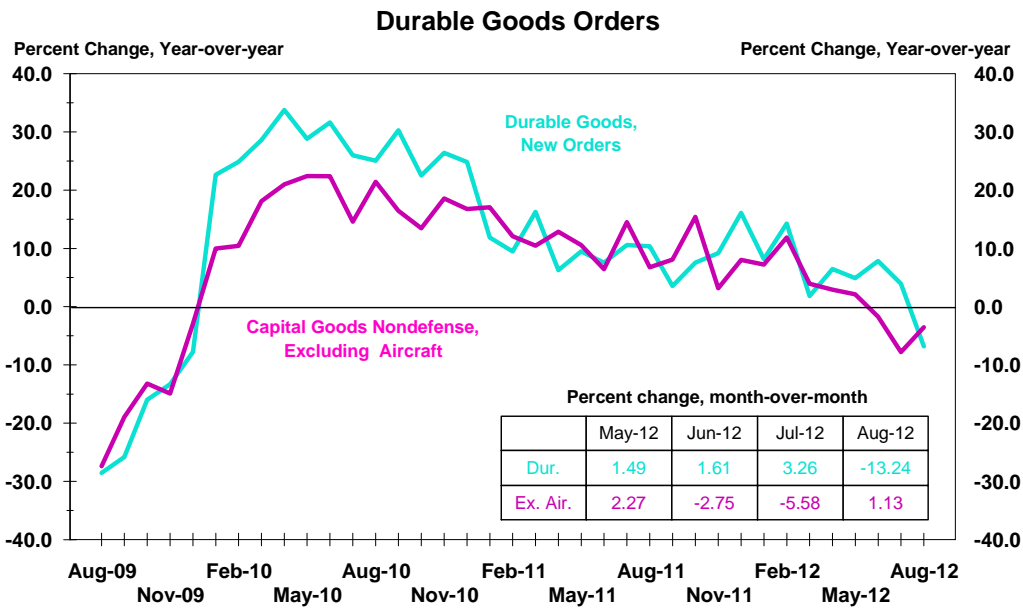
The ISM manufacturing index increased in September, following three consecutive months below 50. Readings above 50 indicate manufacturing expansion. The employment component of the index also improved in September, after decreasing in each of the previous four months.



In August, industrial production posted its largest drop since March 2009, due in part to the effects of Hurricane Isaac on output in the Gulf Coast. Production had increased a bit in each of the prior two months. Capacity utilization also fell in August and has held mostly steady throughout the year.

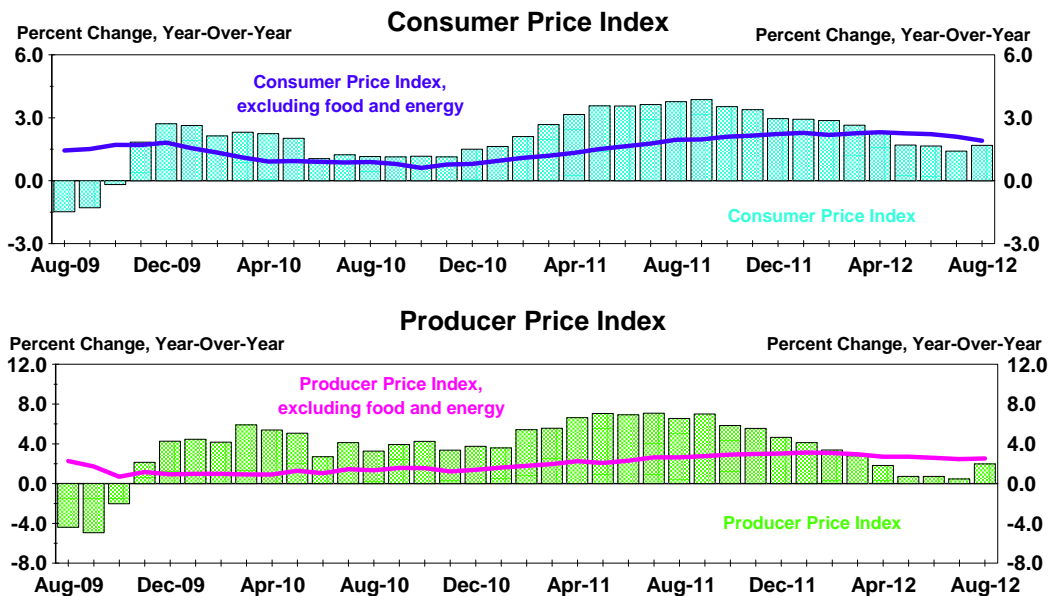


Durable goods orders plunged in August on both a year-over-year and month-to-month basis, due in large part to a steep decline in aircraft orders. Orders of nondefense capital goods, excluding aircraft, rose in August compared to July, but still decreased compared to a year ago.



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

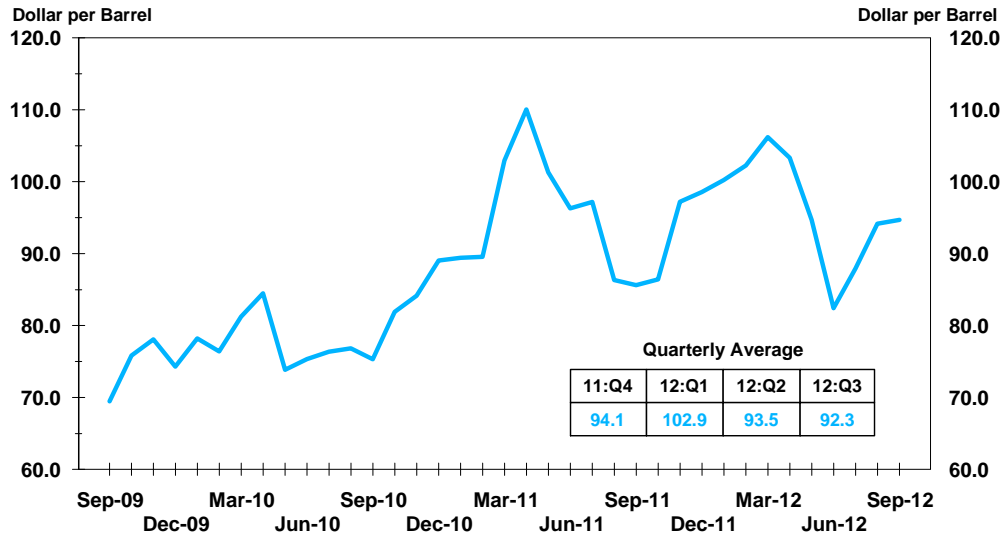
Growth in headline consumer prices crept up in August, after decelerating for the past year. Meanwhile, core consumer prices continued to decelerate in August, growing at their slowest rate in over a year. Total prices also accelerated in August at the producer level, while core price growth was little changed.



Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices ticked up on average in September, after rising steadily for the previous two months. However, the third quarter average was the lowest quarterly average in a year. Prices have begun to fall in the first few days of October, averaging \$90.8 per barrel as of October 4th.

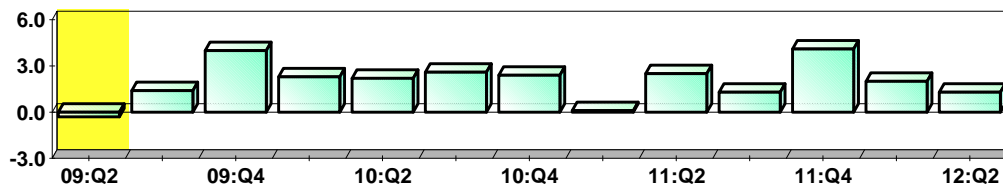
Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised lower in the final second quarter estimate, due primarily to downward revisions to private inventory investment, to personal consumption expenditures, and to exports.

Real GDP



Revisions to Second Quarter Real GDP

Description	Second Estimate	Final Estimate
Real GDP	1.7	1.3
Consumption	1.7	1.5
Business Investment	4.2	3.6
Equipment & Software	4.7	4.8
Residential Investment	8.9	8.5
Government	-0.9	-0.7
Exports	6.0	5.3
Imports	2.9	2.8
Final Sales	2.0	1.7

Source: Bureau of Economic Analysis / Haver Analytics.

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