



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

April 5, 2013

Current Economic Developments - April 5, 2013

Data released since your last Directors' meeting show the economy was stronger in the fourth quarter than previously estimated and suggest faster growth during the first quarter. The housing market continues to strengthen and consumer spending remains resilient, while labor market, consumer attitudes, and manufacturing data have been mixed. Downside risks associated with fiscal issues in Europe and the domestic budget sequester remain areas of concern, but the economy continues on track to grow at a moderate pace in the first half of the year.

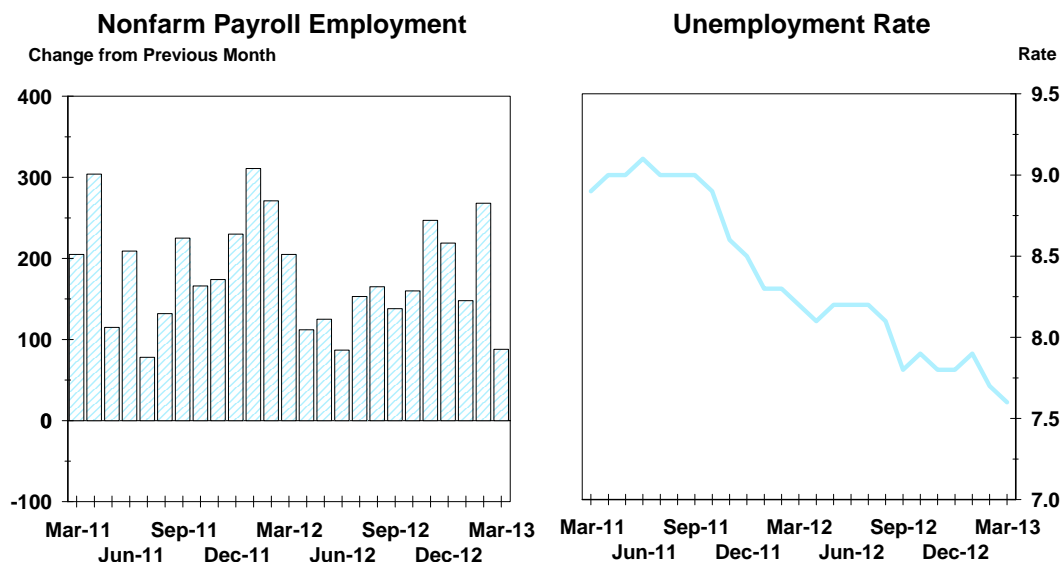
In March, nonfarm payrolls posted a smaller than expected gain, but job increases in the previous two months were revised higher. The unemployment rate fell one-tenth of a percentage point due to a decrease in the labor force. Initial claims for unemployment insurance rose in March, but remain close to a five-year low. Consumer attitudes were mixed across the two primary surveys in March, though the decrease in the confidence index was recorded prior to the improvement seen in the sentiment index. Vehicle sales slowed in March but finished the first quarter with their best quarterly sales pace in five years. In February, both real consumption and real incomes increased.

The housing market continued to show mostly positive signs in February. New home sales eased in February, but have had their best start to a year since 2008. Existing home sales increased in February to their highest level in over three years. Also in February, new residential construction data improved, with single-family starts and total permits up to their highest levels since June 2008.

Recent manufacturing data was mixed. The ISM index fell in March, but continued to signal expansion in the manufacturing sector, and the employment component of the index increased. In February, industrial production accelerated, and capacity utilization also rose. New orders for durable goods increased in February, but orders for nondefense capital goods excluding aircraft fell.

Headline inflation accelerated in February due to higher energy prices, but core indices remain more steady, with core consumer prices inching up and core producer prices easing slightly.

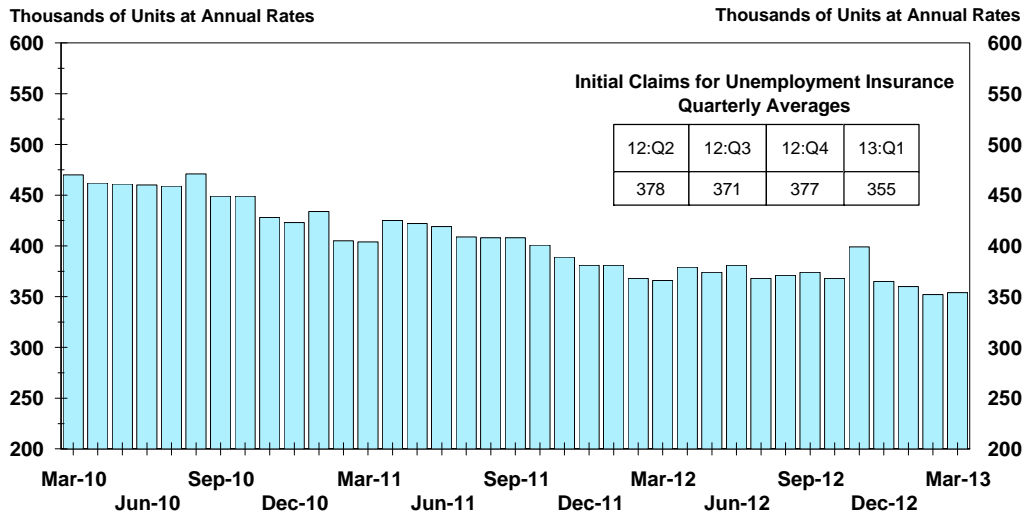
Payroll employment increased by 88,000 jobs in March, well below expectations and the weakest gain since June. On the positive side, payroll gains in January and February were revised up by a total of 61,000 to 148,000 and 268,000, respectively. The unemployment rate eased further to 7.6% in March, due to a decline in the labor force.



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance increased in March from the five-year low seen in February, but their first quarter average was still the lowest since the first quarter of 2008.

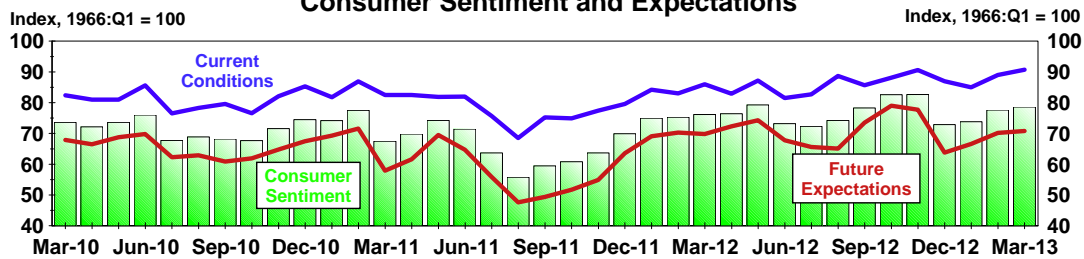
Initial Claims



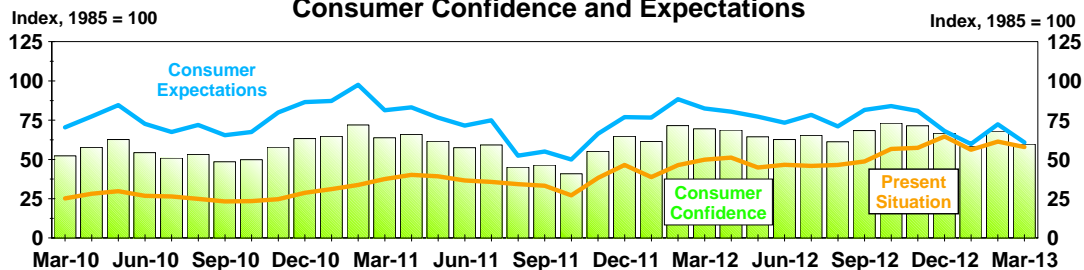
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in March. Sentiment increased for the third month in a row, as the current conditions index reached its highest level in over five years. However, confidence dropped in March, led by a sizeable decline in the expectations index. Respondants in the sentiment survey remained positive about buying plans, while economic uncertainty stemming from the government sequester was a major concern reported in the confidence survey.

Consumer Sentiment and Expectations



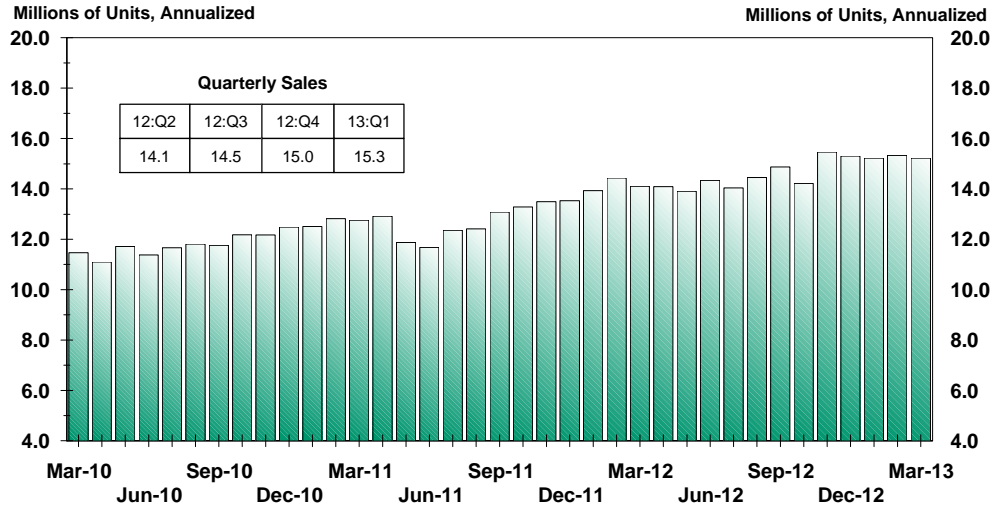
Consumer Confidence and Expectations



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

Total vehicle sales dipped slightly below expectations in March, yet remain in line with sales rates seen in the prior three months. Domestic vehicle sales held steady in March for the fifth consecutive month. First quarter sales were the strongest since the fourth quarter of 2007, due in part to increasing light truck sales, which dealers attributed to growing demand in the construction industry.

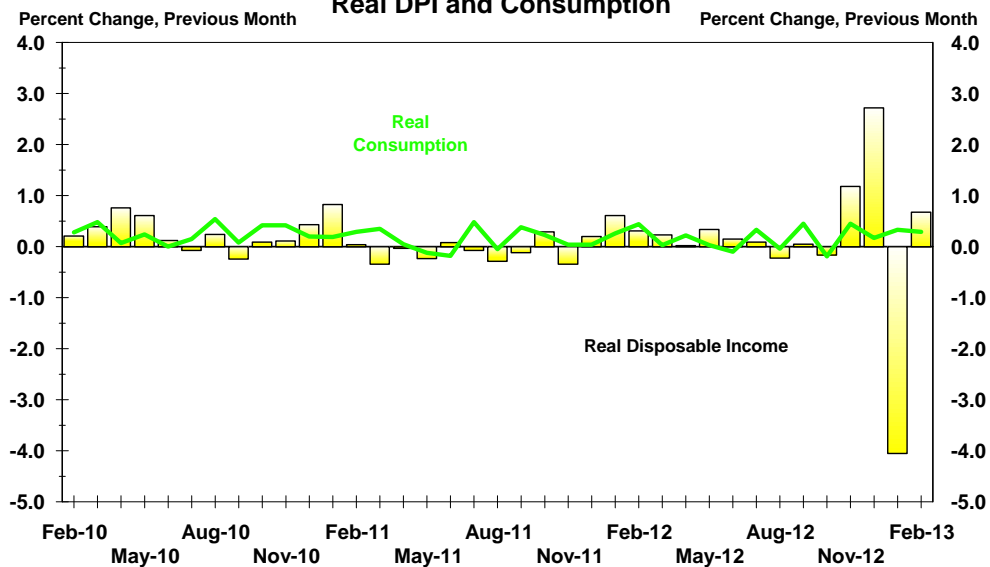
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

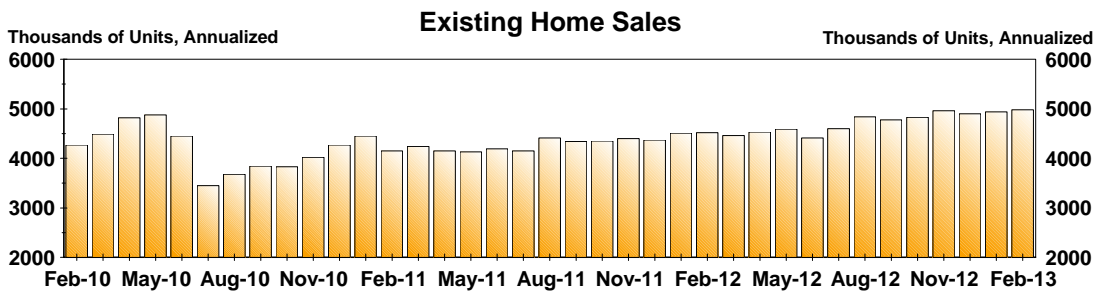
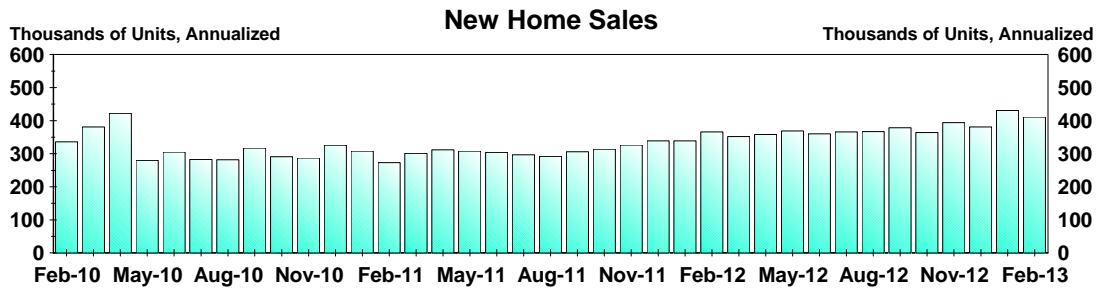
Real disposable income rose in February, after plunging in January, and has now risen in three of the past four months. Real consumption continued to increase in February, albeit at a slower pace than income. Thus, the personal saving rate inched up in February, yet it remains near a five-year low.

Real DPI and Consumption



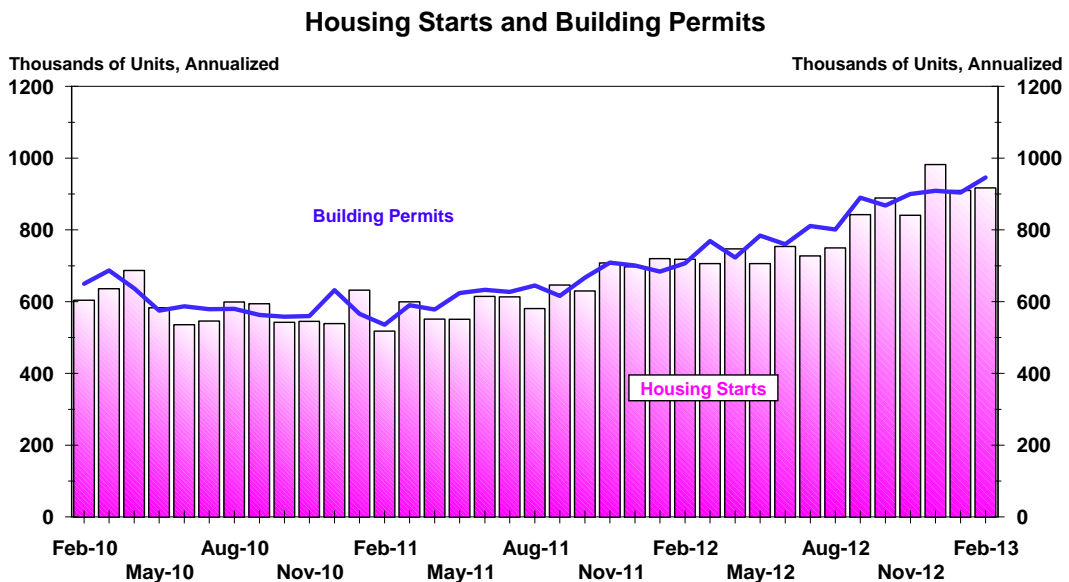
Source: Bureau of Economic Analysis / Haver Analytics.

New home sales declined in February, from a level in January that was revised lower. However, new home sales still managed their best start to a year since 2008. Meanwhile, sales of existing homes increased in February to their highest level since November 2009.



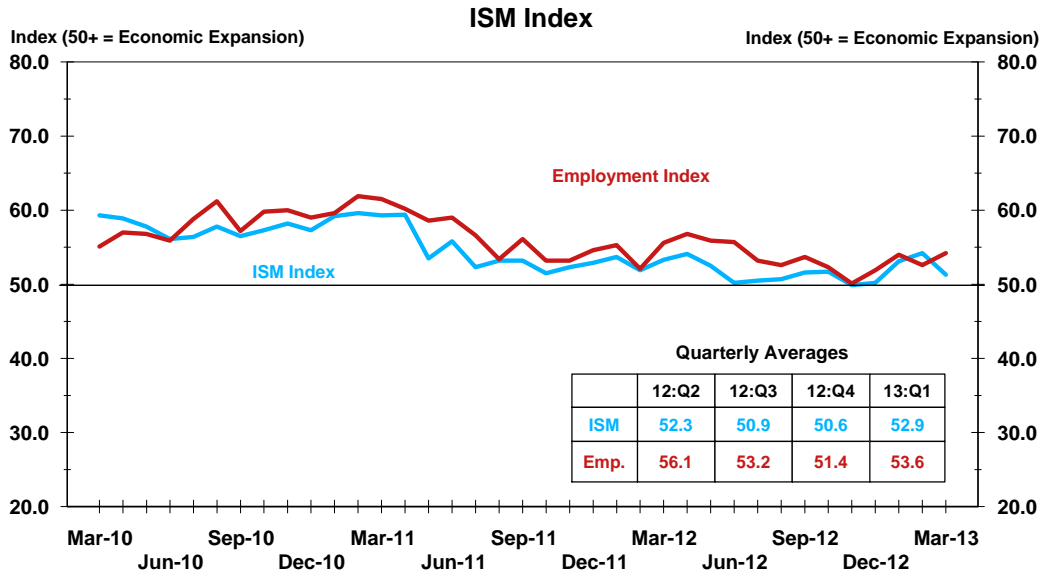
Sources: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

Housing starts rose in February, as single-family starts reached their highest level since June 2008 and multi-family starts also increased. Building permits also rose in February to their highest level since June 2008.



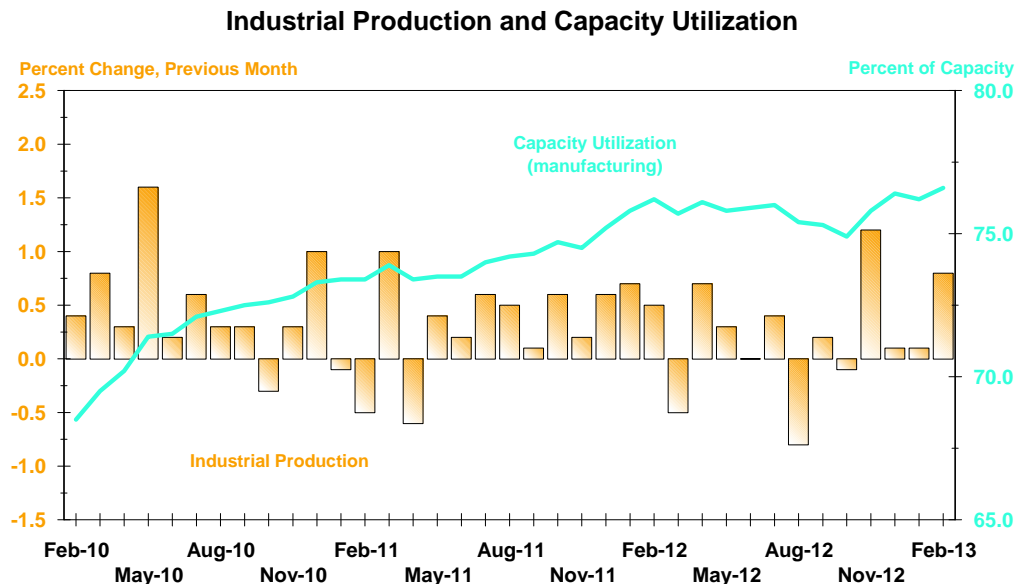
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index fell in March to its lowest level since December. However, the index remained above 50, signaling expansion in the manufacturing sector for the fourth consecutive month. The employment index rose in March, reaching its highest level since June.



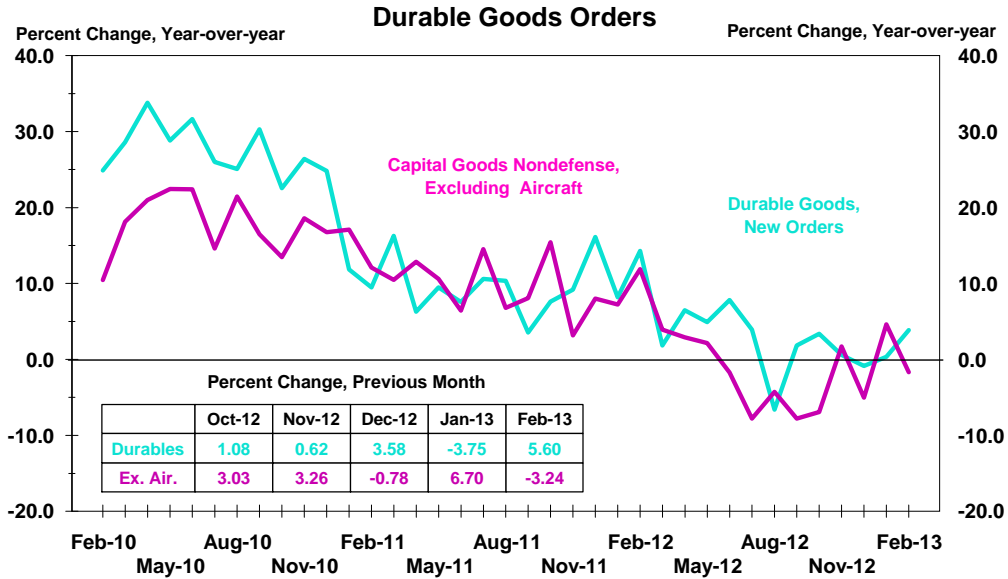
Source: Institute of Supply Management / Haver Analytics.

Industrial production accelerated in February, and was revised slightly higher in January. Strength in durable goods manufacturing and utilities output contributed to the total production increase in February. Capacity utilization improved in February, reaching its highest level since April 2008.



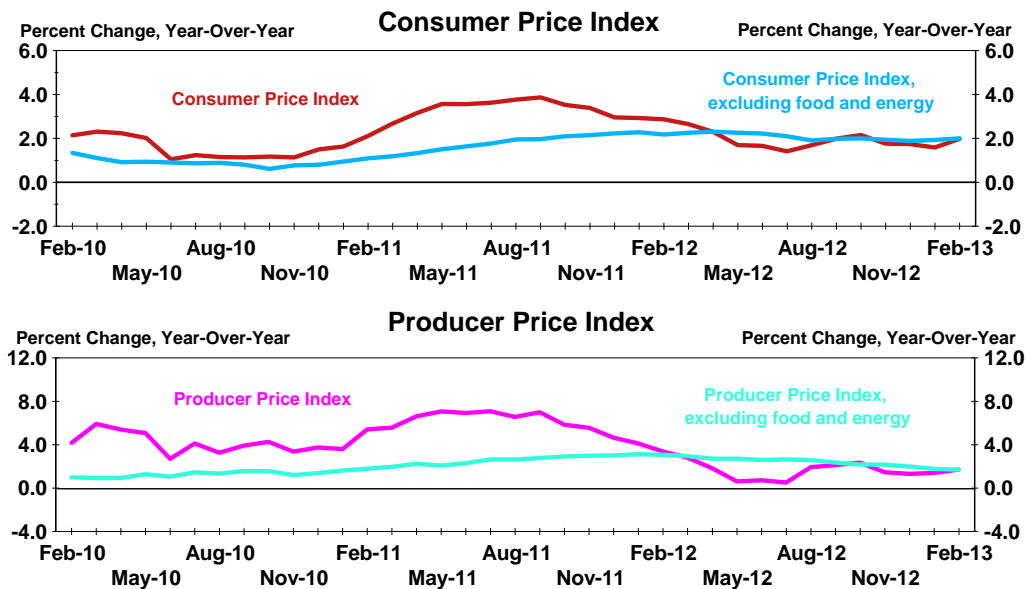
Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods jumped in February, more than offsetting the decline seen in January, and also posted a moderate year-over-year gain. Meanwhile, orders of nondefense capital goods excluding aircraft dropped in February, offsetting a little less than half of the strong increase seen in January. Core orders also fell on a year-over-year basis in February.



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

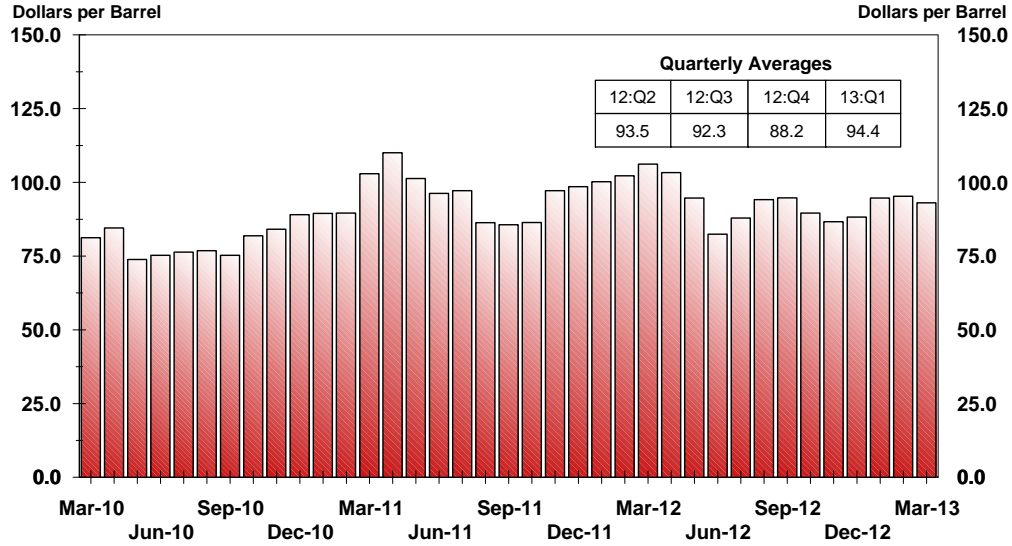
Total consumer prices accelerated in February on a year-over-year basis, mostly due to a sharp rise in energy costs. Core CPI, which excludes the volatile energy and food categories, also edged up in February. Total producer prices underwent similar changes, but core producer inflation eased a bit in February.



Source: Bureau of Labor Statistics / Haver Analytics.

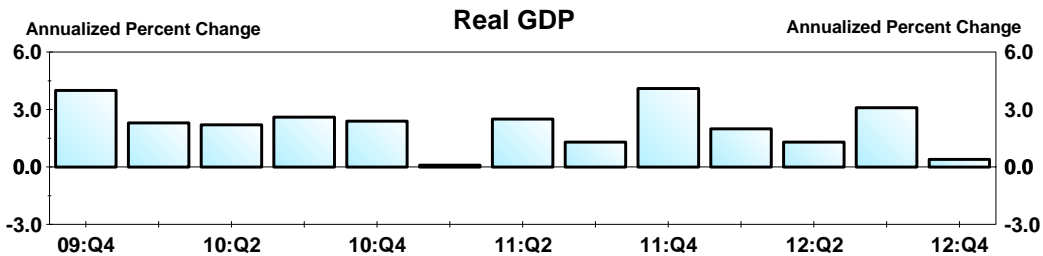
Oil prices eased a bit in March to their lowest monthly average since December. After increasing in the first couple of days in April, prices fell to \$93.3 per barrel as of April 4th, in line with their March average.

Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the final fourth quarter estimate, primarily reflecting upward revisions to nonresidential fixed investment and to exports, which were partly offset by a downward revision to personal consumption expenditures.

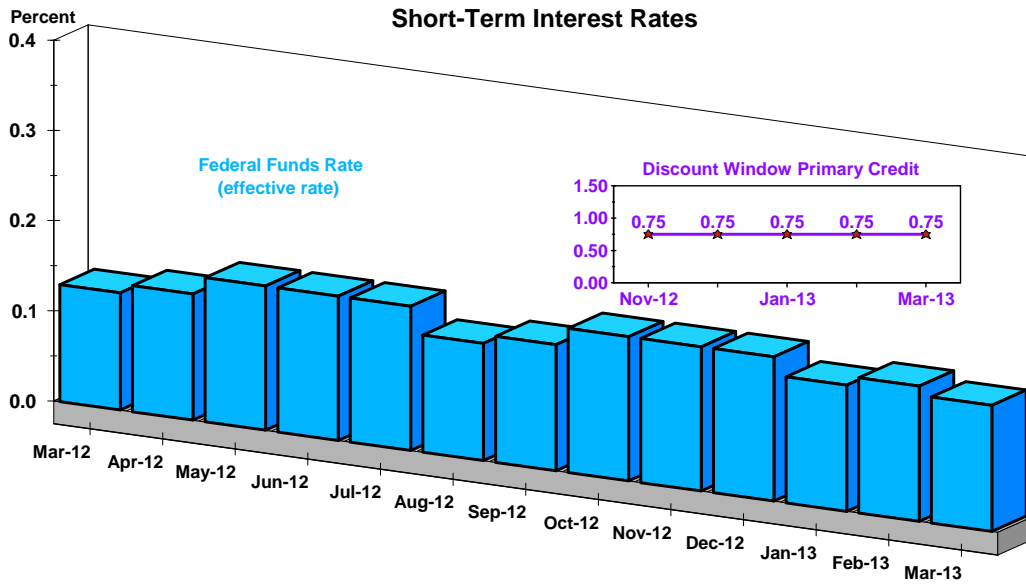


Fourth Quarter Revisions

Description	Second Estimate	Third Estimate
Real GDP	0.1	0.4
Personal Consumption	2.1	1.8
Business Investment	9.7	13.2
Equipment and Software	11.3	11.8
Residential Investment	17.5	17.6
Government	-6.9	-7.0
Exports	-3.9	-2.8
Imports	-4.5	-4.2
Final Sales	1.7	1.9

Source: Bureau of Economic Analysis / Haver Analytics.

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Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni