



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

November 8, 2013

CURRENT ECONOMIC DEVELOPMENTS - November 8, 2013

Data released since your last Directors' meeting were mixed, but show that the economy accelerated a bit in the third quarter due primarily to further buildup of inventories. Support from manufacturing and business investment has improved, while consumer spending has slowed and consumer attitudes have declined in the wake of the government shutdown. Overall, recent data remains consistent with a slowly growing economy - one that is unlikely to improve much further over the rest of the year.

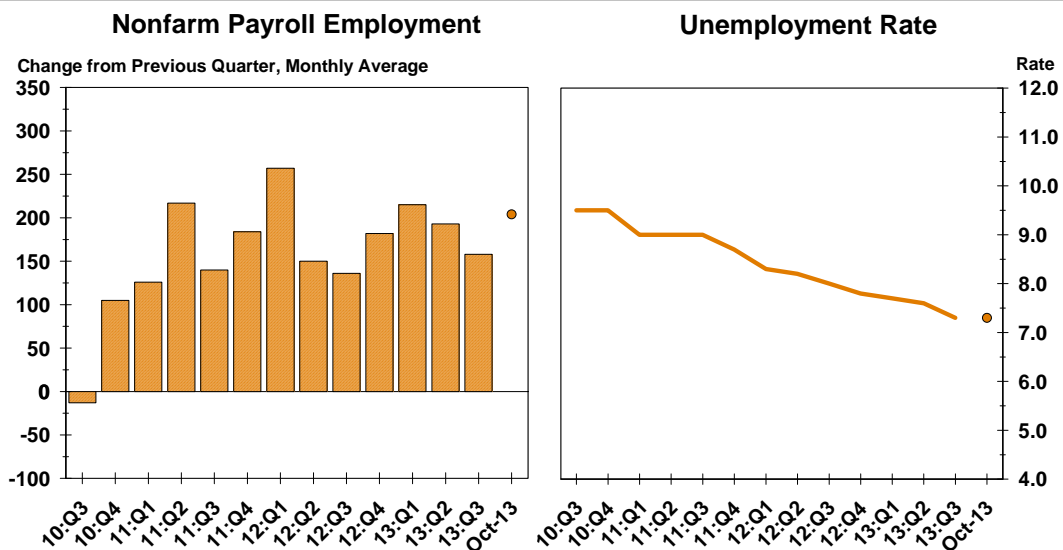
In October, nonfarm payrolls posted a stronger-than-expected increase and job gains for the previous two months were revised higher. However, the unemployment rate ticked up one-tenth of a percentage point from the nearly five-year low seen in September. Initial claims for unemployment insurance increased in October, erasing the decline seen in the third quarter.

The growth in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, residential fixed investment, nonresidential fixed investment, and state and local government spending. Those effects were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Consumer attitudes worsened in October and November to their lowest levels in months, with the majority of respondents less optimistic about future conditions, likely due to continued fiscal policy uncertainty.

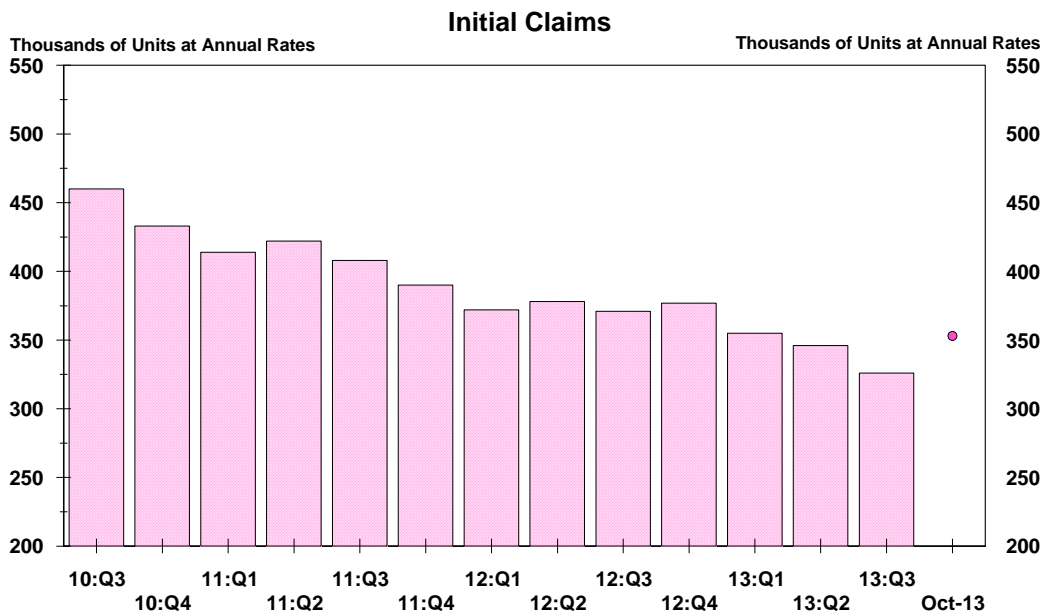
Total consumer inflation accelerated slightly in the third quarter, as did the core index, but both measures remained subdued. Oil prices fell steadily through October and into November, reaching their lowest level since the spring.

Nonfarm payrolls added 204,000 jobs in October, and job gains for the previous two months were revised upward by a total of 60,000 jobs. Despite the better-than-expected payroll gains, the unemployment rate rose one-tenth of a percentage point to 7.3% in October. The uptick in the unemployment rate was due primarily to a sizeable decrease in the labor force that was outpaced a larger decline in civilian employment.



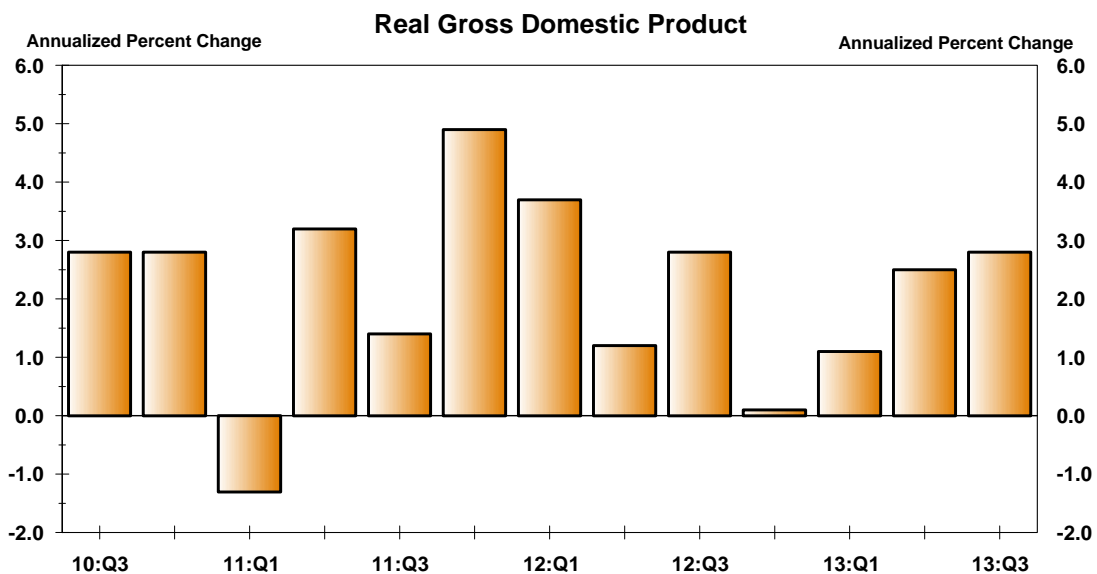
Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance declined in the third quarter to reach their lowest level since Q3 2007. However, claims edged back up in October, in line with levels seen at the beginning of the year.



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

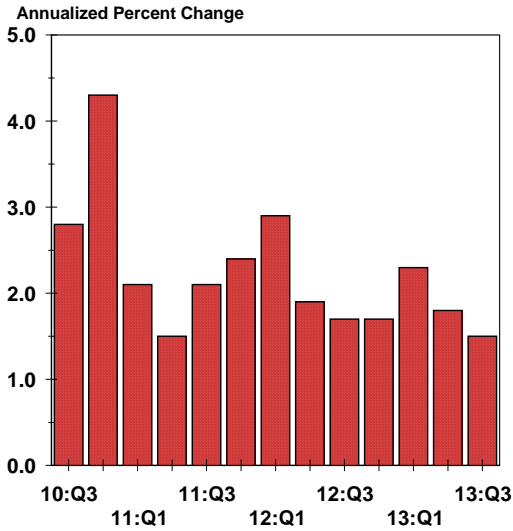
Real GDP growth accelerated in the third quarter. The higher rate was due primarily to a deceleration in imports and accelerations in private inventory investment and in state and local government spending that were partly offset by decelerations in exports, in nonresidential fixed investment, and in PCE.



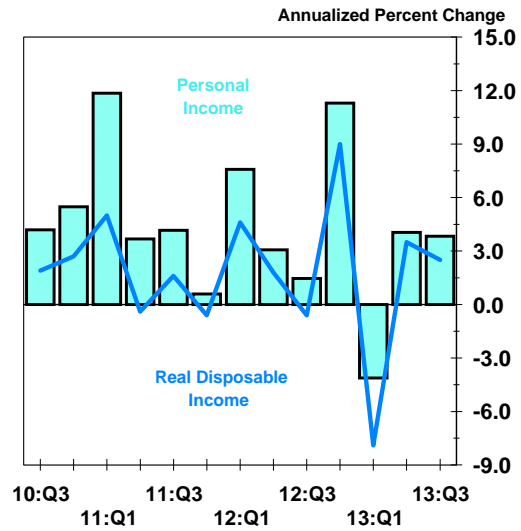
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption continued to decelerate in the third quarter and was a smaller contributor to growth in third quarter GDP. Growth in both real and nominal incomes also slowed in the third quarter. Without more growth in either jobs or income, consumption growth is unlikely to improve much in the near term.

Real Consumption



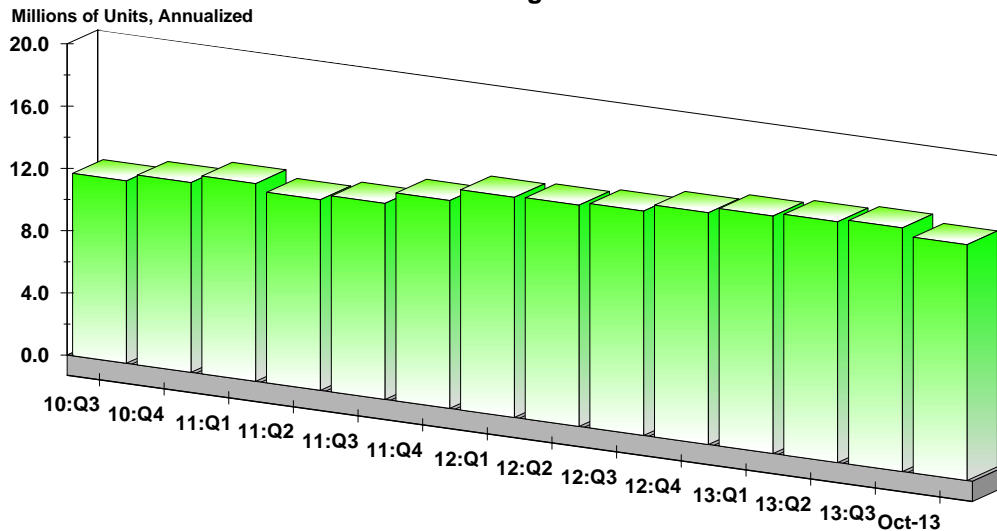
Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Total lightweight vehicle sales in October were unchanged from their September pace, and below their third quarter average. The recent softening of sales may have been a result of declining consumer attitudes, likely due to fiscal policy uncertainty, leading consumers to delay large purchases.

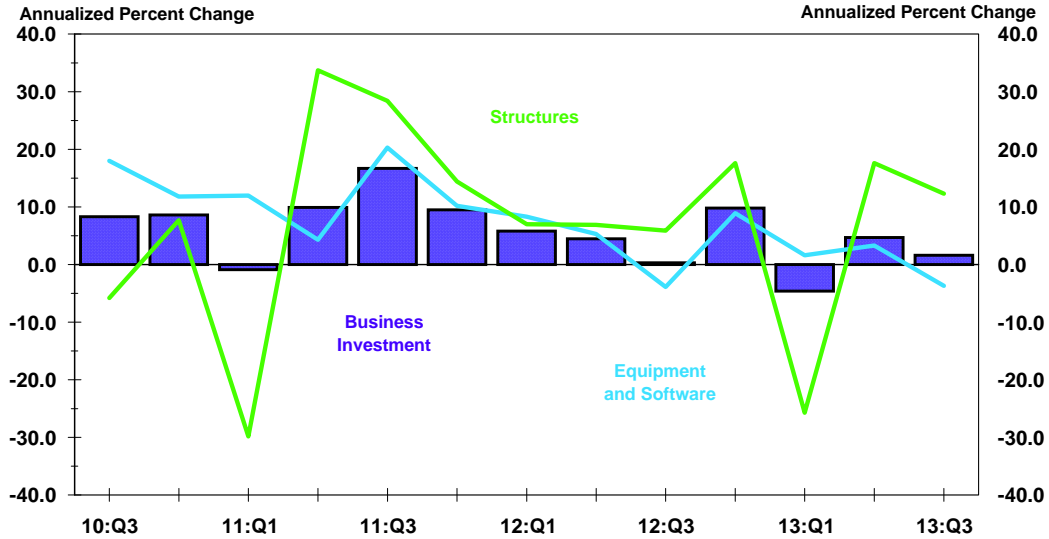
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics / Edmunds.com / N.Y Times.

Business investment slowed in the third quarter, as nonresidential structures decelerated and equipment and software decreased for the first time in one year.

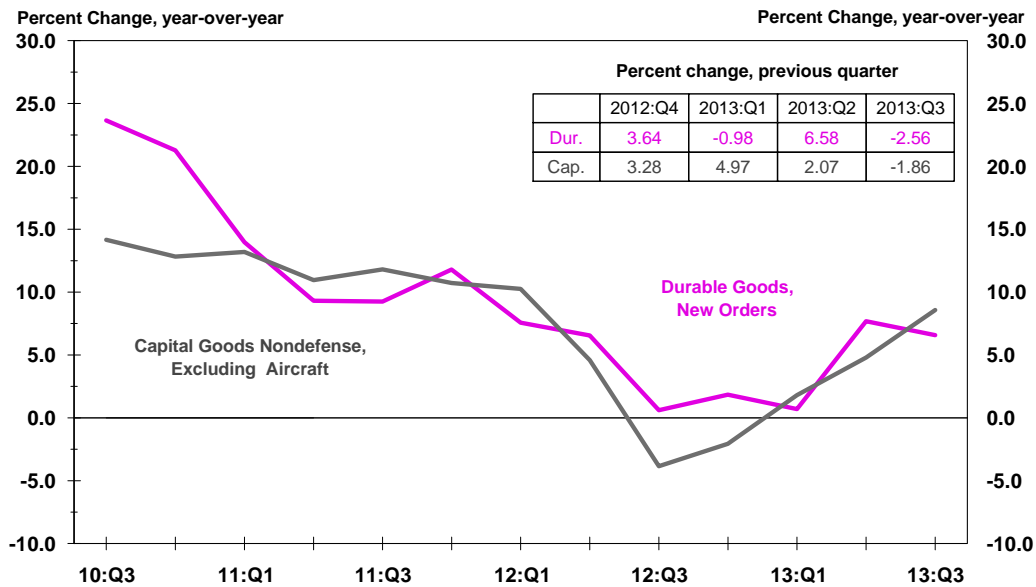
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

On a year-over-year basis, new orders for durable goods decelerated in the third quarter, after surging in the second quarter. Meanwhile, orders of nondefense capital goods, excluding aircraft, rose on a year-over-year basis, but fell a bit when compared to the second quarter.

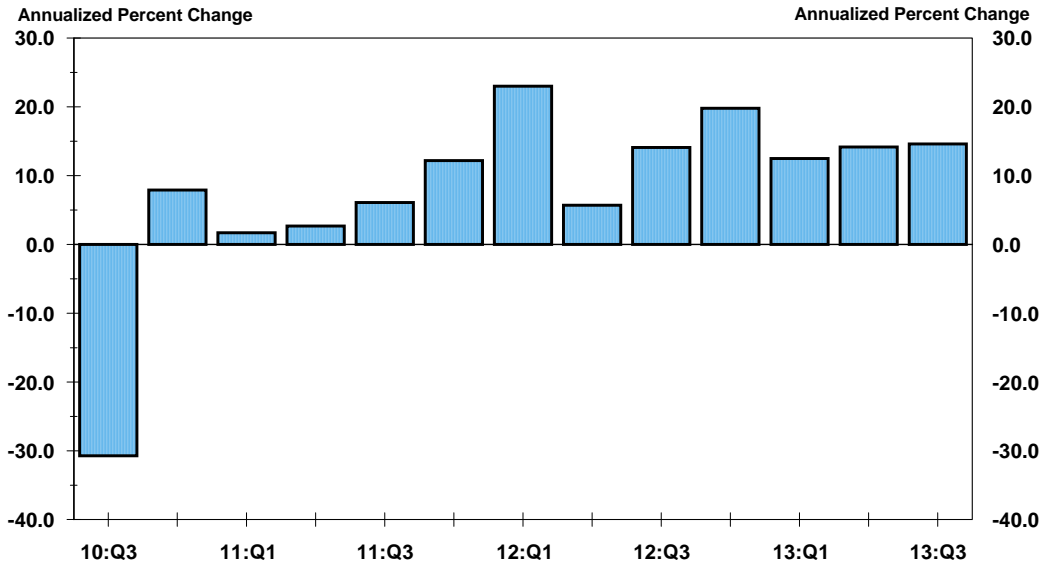
Durable Goods Orders



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

Residential investment posted another solid gain in the third quarter and has now increased in each of the last twelve quarters.

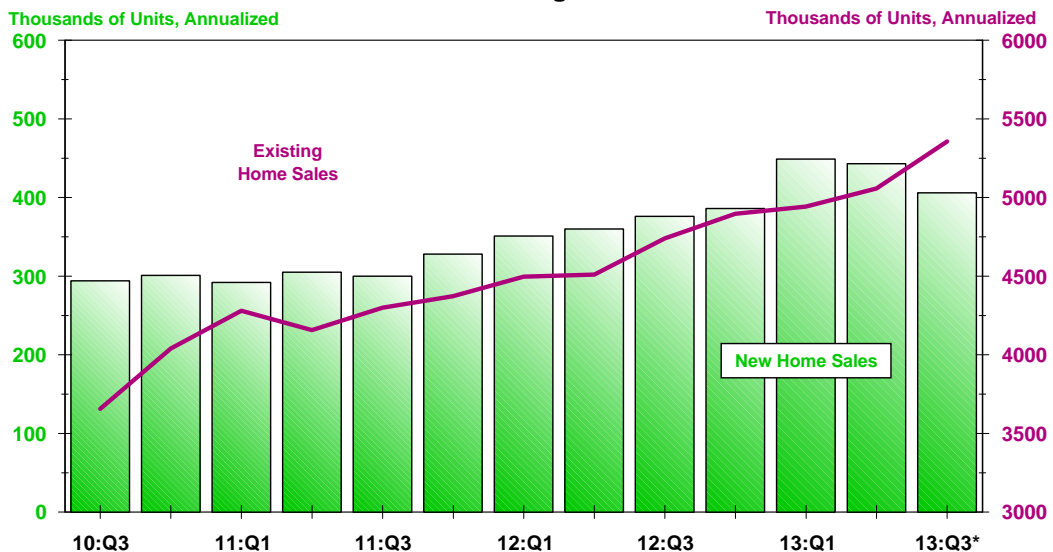
Residential Investment



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

Housing data was mixed in the third quarter. Existing home sales rose for the ninth consecutive quarter to reach their highest quarterly average in over six years. New home sales fell slightly in the second quarter, and have continued to fall, on average, in July and August. New home sales data for September will be released on 12/4.

New and Existing Home Sales

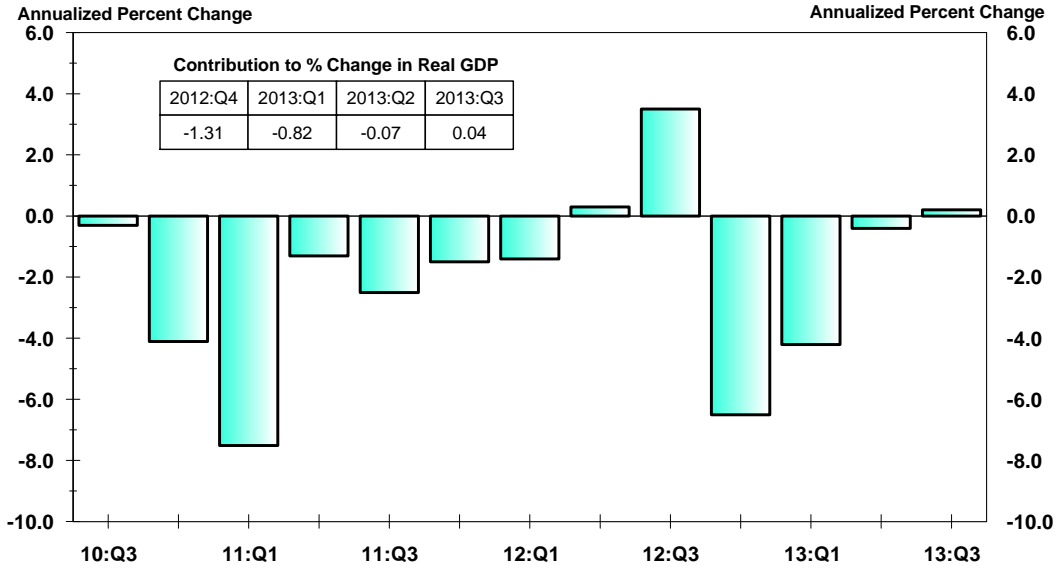


Source: U.S. Census Bureau / Haver Analytics.

* New Home Sales 13:Q3 estimate is the average of July & Aug, since Sept data is currently unavailable

Government spending ticked up in the third quarter, its first increase in one year. The improvement was due to an acceleration in state and local government spending, as federal spending continued to fall.

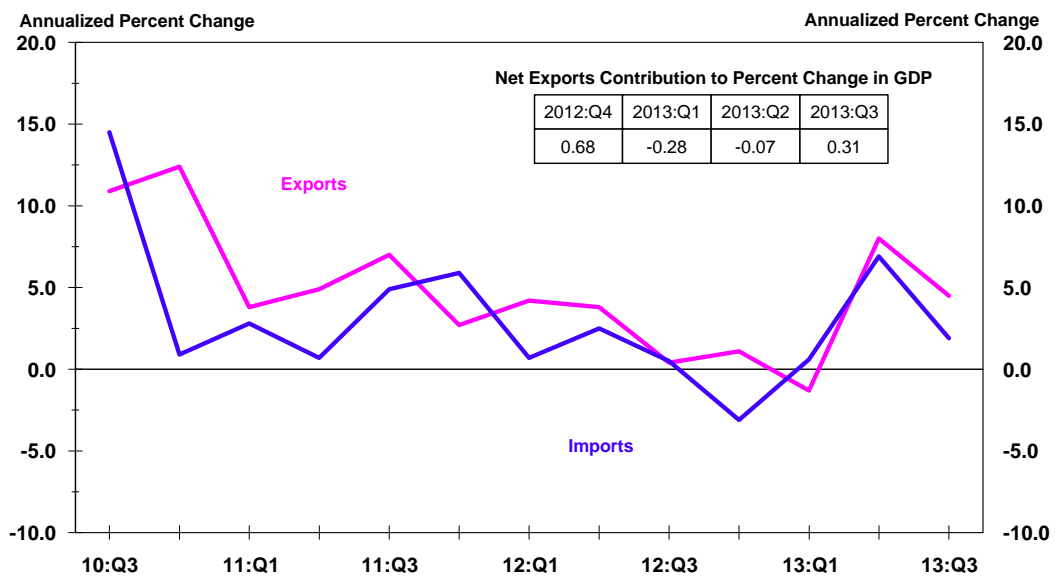
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

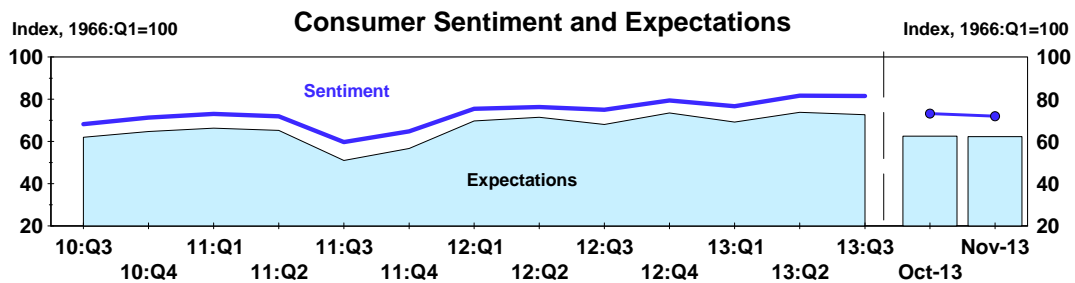
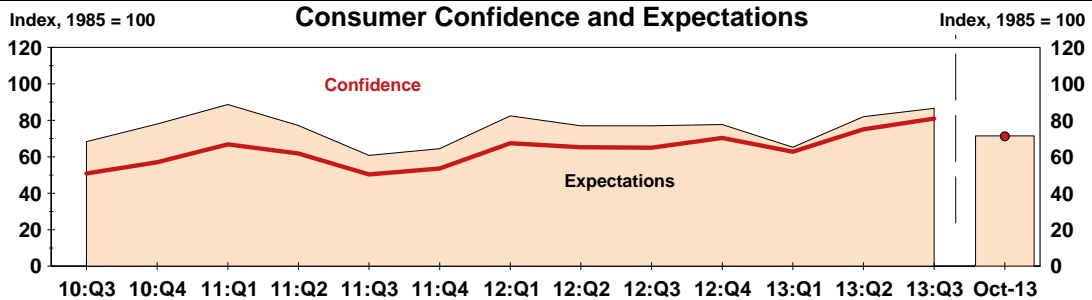
Export growth slowed in the third quarter, but managed to offset a smaller increase in imports, which resulted in a boost to GDP from net exports.

Exports and Imports



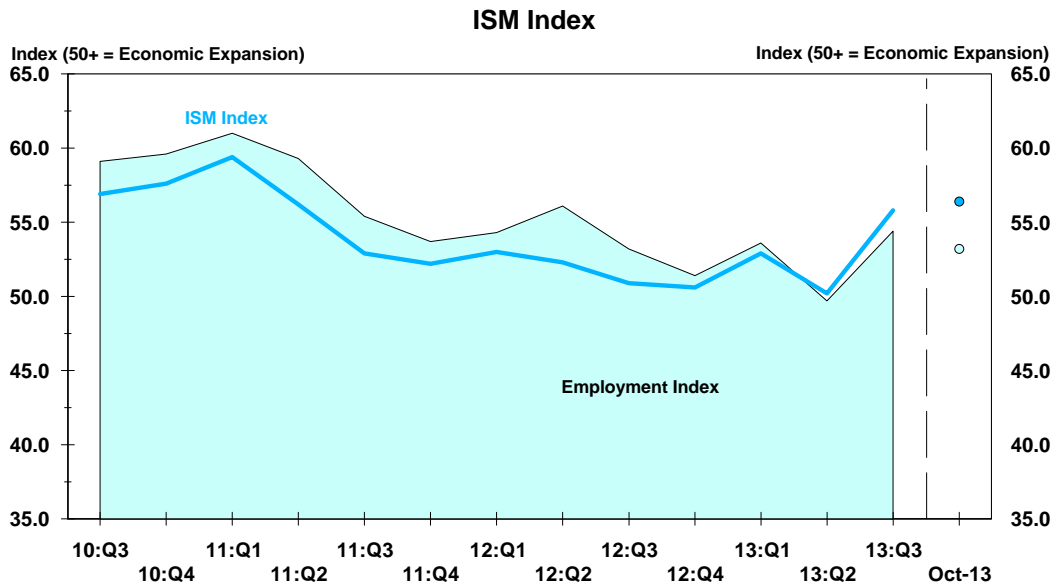
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes have declined so far in the fourth quarter, as the confidence index in October reached its lowest level since April and the sentiment index in mid-November reached its lowest level in nearly two years. The declining attitudes were due, in part, to large drops in the expectations indices, as the federal government shutdown decreased consumers' optimism about future economic conditions.



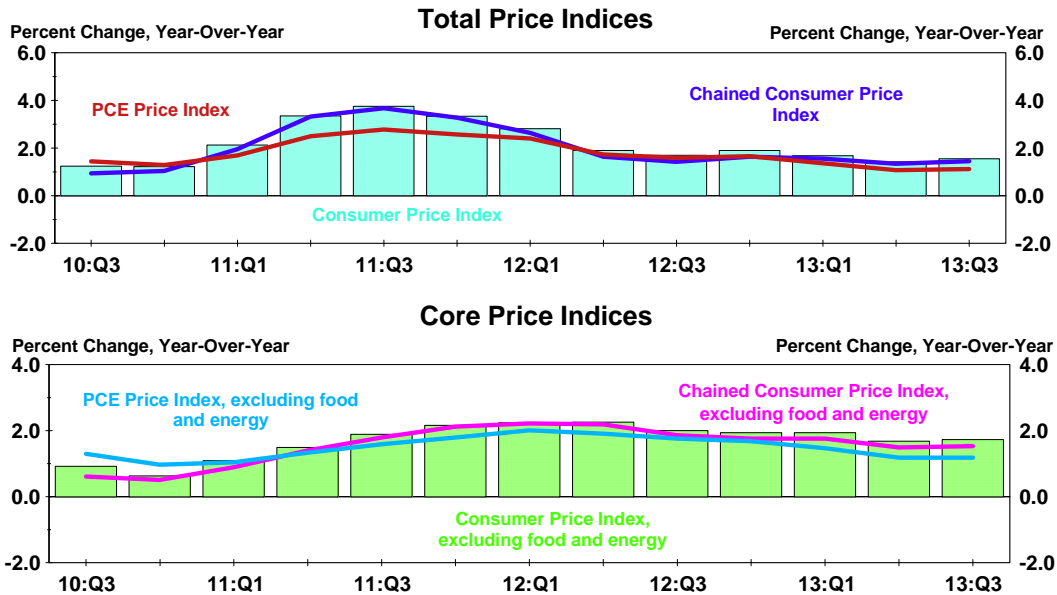
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

The ISM manufacturing index continued to improve in October, after rising on average in the third quarter, and continued to show expansion in the sector. The employment index declined in October, falling below its third quarter average.



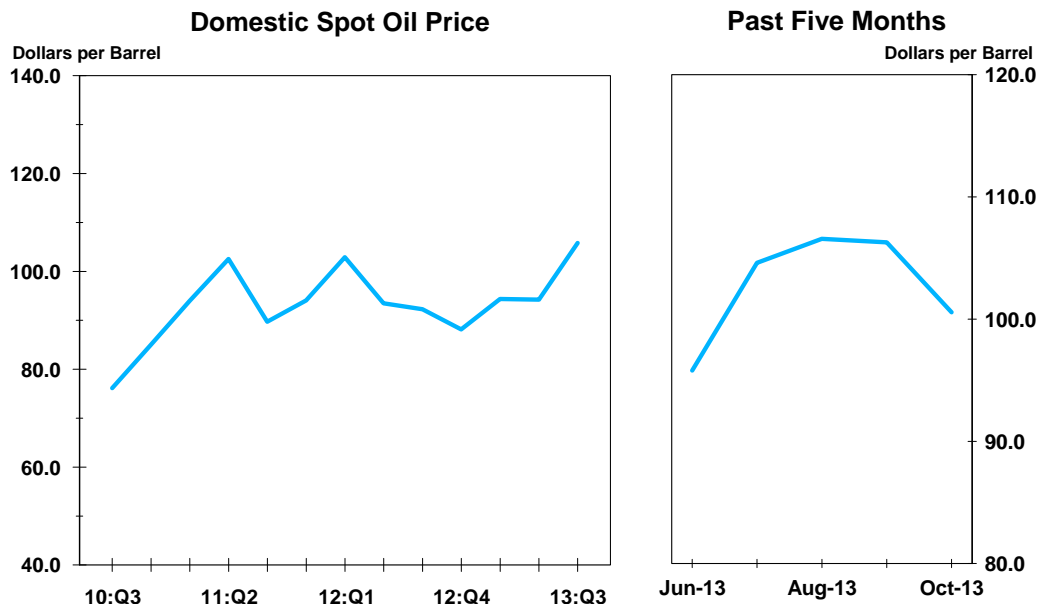
Source: Institute for Supply Management / Haver Analytics.

Growth in total consumer prices ticked up a bit in the third quarter, after easing in each of the past two quarters. Growth in core prices also edged up in the third quarter, but remains subdued.



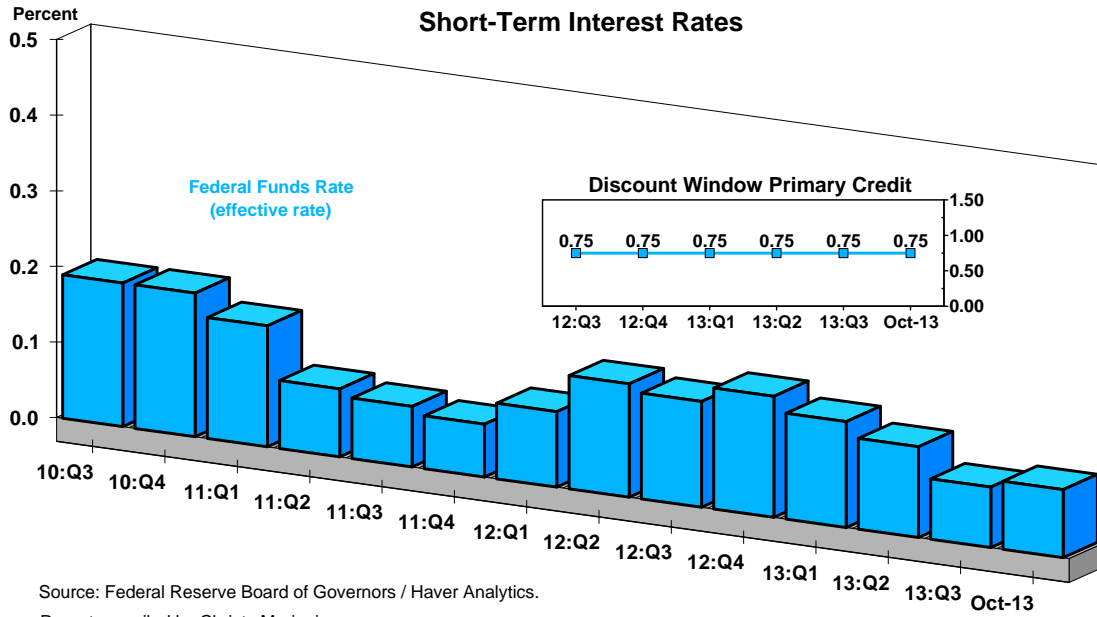
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in October dropped from the levels seen in the third quarter. The daily closing prices fell consistently during the month and have continued to fall in early November, reaching \$94.2 per barrel on November 7.



Source: Wall Street Journal / Haver Analytics.

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Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni