



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

October 4, 2013

## CURRENT ECONOMIC DEVELOPMENTS - October 4, 2013

Data released since your last Directors' meeting show the economic recovery has continued at a moderate pace, although growth is not likely to pick up much through the end of the year. The housing market continued to show signs of improvement, manufacturing data was mostly positive, and consumer spending remained resilient. However, consumer attitudes have declined and fiscal policy uncertainty surrounding the government shutdown and debt ceiling poses a risk to the outlook, one that grows as these issues linger.

Initial claims for unemployment insurance eased in August to their lowest level in nearly six years and have continued to fall, on average, in the first four weeks of September. Consumer attitudes worsened in September, with the majority of respondents less optimistic about future expectations. Auto sales were down in September, falling to their slowest sales pace in five months, but were up in the third quarter overall. Personal incomes rose in August, contributing to a slight acceleration in consumption growth.

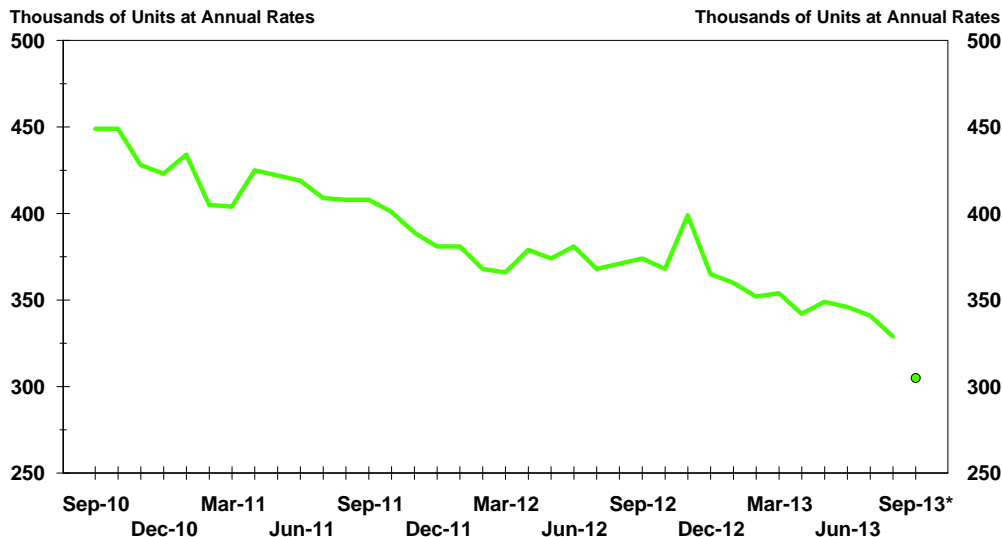
Housing data was mostly positive in August. Both new and existing home sales increased, with existing home sales reaching their highest level in six and a half years. New construction data was mixed in August, as starts rose and permits fell. However, single-family starts and permits both increased in August.

In the business sector, the ISM index increased and remained above 50 for the fourth consecutive month, signaling expansion in manufacturing. Industrial production and capacity utilization both rose in August, as did durable goods orders and orders of nondefense capital goods, excluding aircraft. Despite the positive data reports, investment spending is likely to increase only slightly in the coming months.

Headline consumer prices decelerated in August due to lower energy prices, while core measures inched up but remained subdued. Oil prices in the third quarter reached their highest quarterly average in five years, but began to fall at the end of September as tensions in the Middle East eased.

Initial claims for unemployment insurance fell to 329,000 on average in August, a nearly six year low. Weekly claims have decreased further in September, and the four-week moving average fell to 305,000 in the week ending September 28.

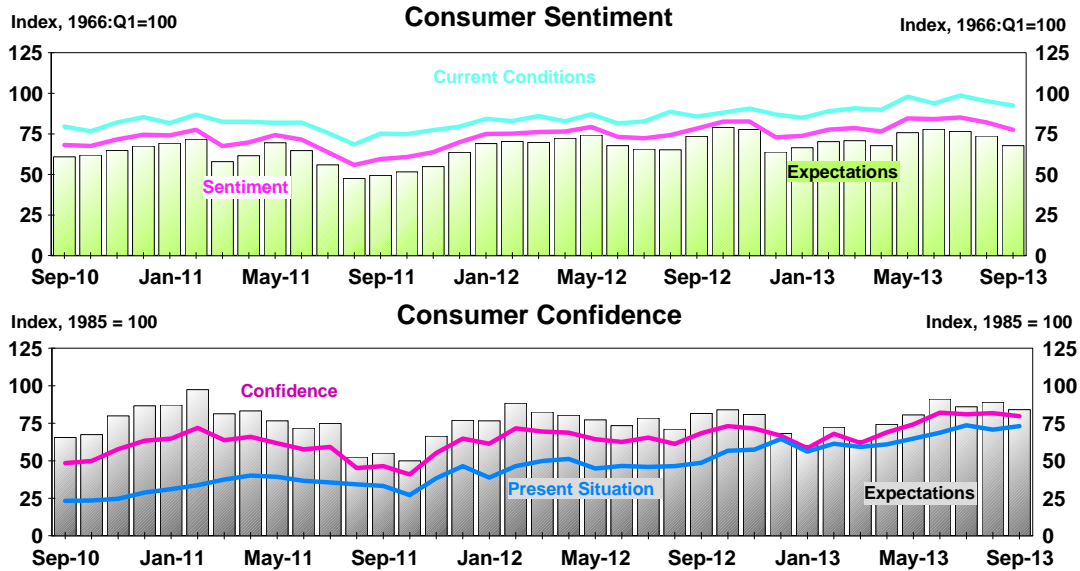
### Initial Claims



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

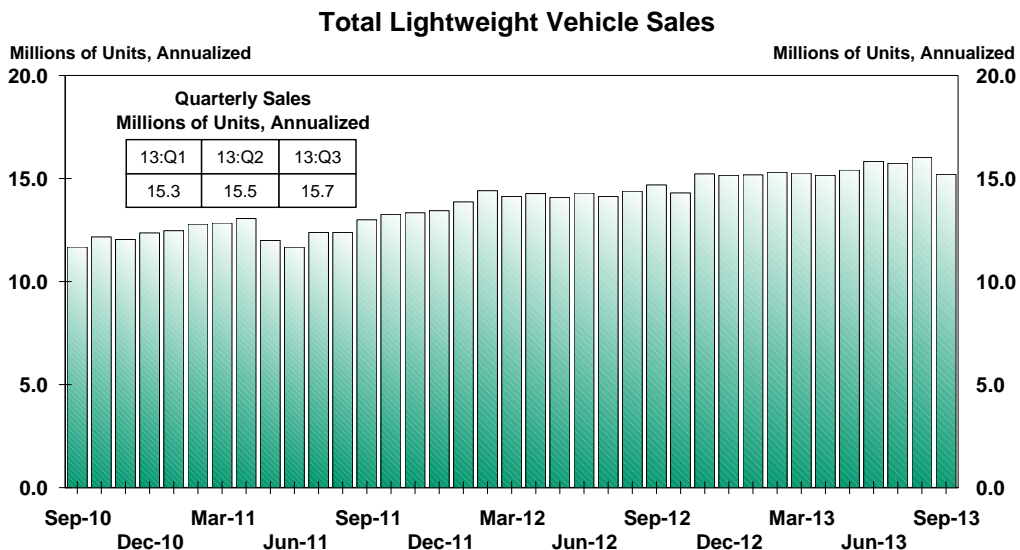
\* 4-wk. ave. ending September 28

Measures of consumer attitudes fell in September, with sentiment and confidence reaching their lowest levels since April and May, respectively. The decreases were mostly due to less optimism about future expectations, specifically in terms of job growth and earnings. However, the present situation component of the confidence index increased in September, indicating more positive attitudes towards current labor market and business conditions.



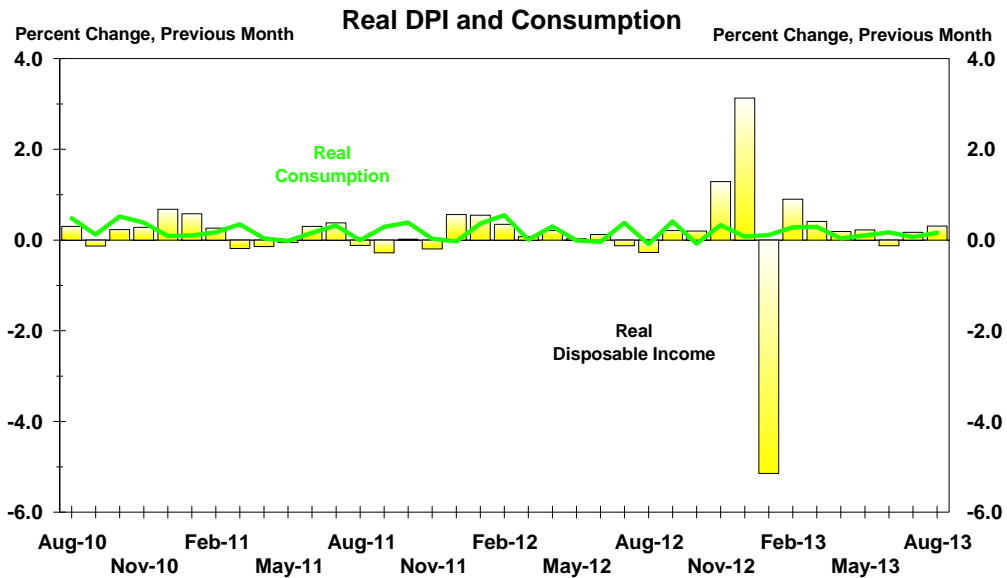
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

Lightweight vehicle sales fell in September, reaching their lowest level since April. Part of the decrease likely reflects the fact that Labor Day weekend fell partly in August this year, which may have improved August sales at the expense of September. On average, sales increased in the third quarter.



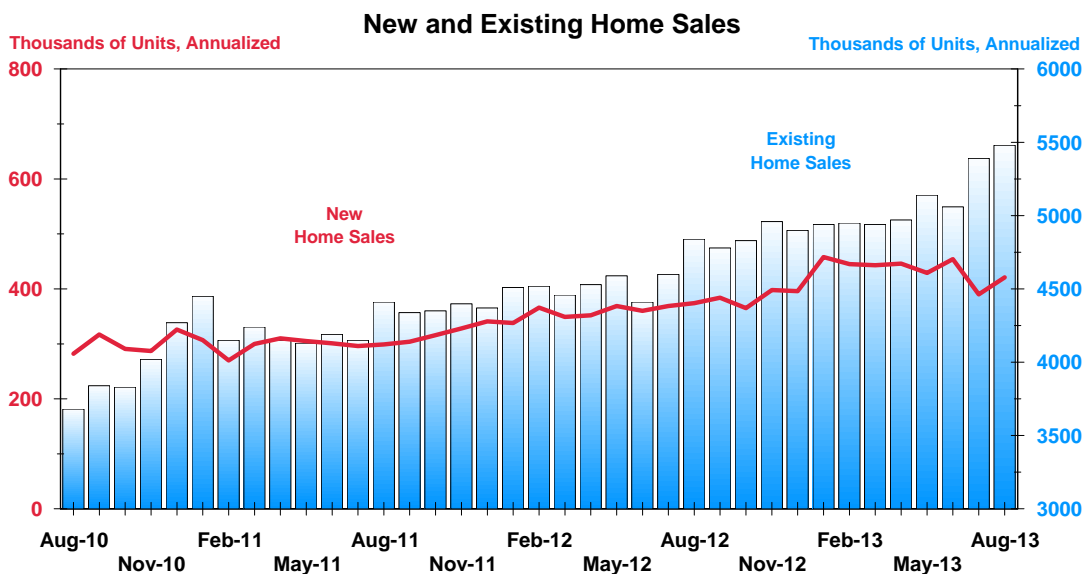
Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in August, posting their largest monthly increase since March. Income changes have been mostly positive, albeit small, since the large drop in January, contributing to slight improvements in consumer spending. Consumption rose a bit in August and has increased in each of the past ten months.



Source: Bureau of Economic Analysis / Haver Analytics.

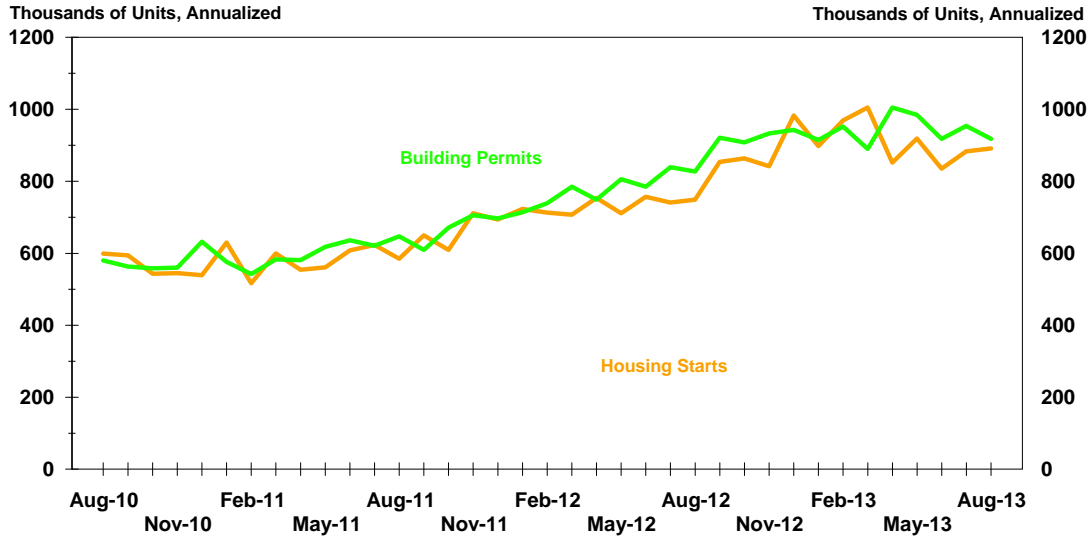
Existing home sales continued on their upward trend, rising in August to their highest level since February 2007. Meanwhile, new home sales also increased in August, but not enough to offset the large drop seen in the prior month.



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

Housing starts rose slightly in August, while building permits fell during the month. Both series have been volatile so far this year, after trending upward over the prior two years, and are currently below their twelve and six month averages. However, single-family starts and permits both increased in August, with single-family permits reaching their highest level in over five years.

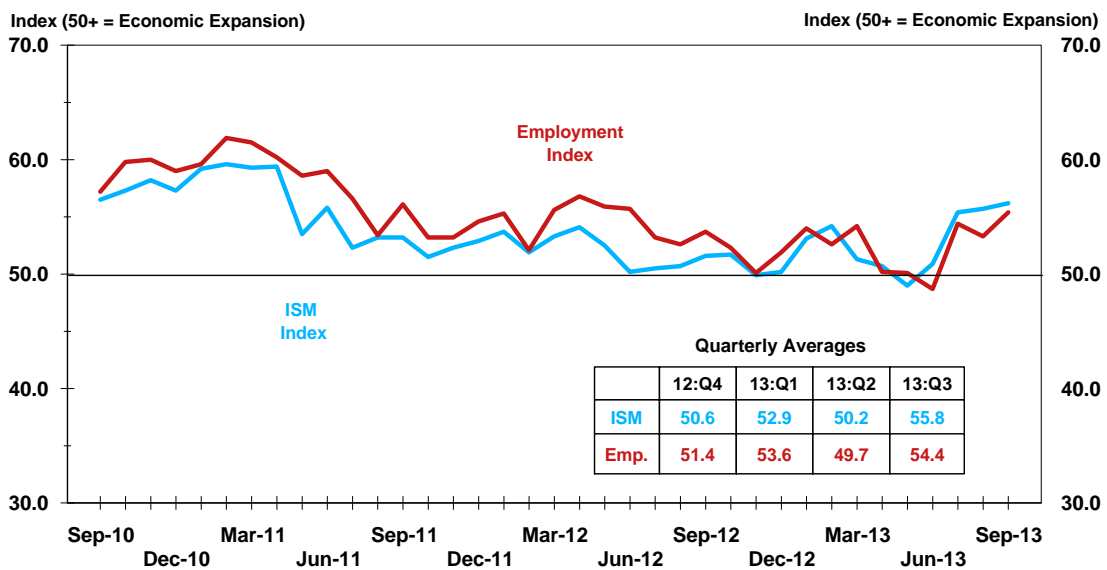
### Housing Starts and Building Permits



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

The ISM manufacturing index increased in September, reaching its highest level since April 2011, and recording its fourth consecutive reading over 50. Readings above 50 indicate manufacturing expansion. The employment component of the index also improved in September, reaching its highest level in over one year.

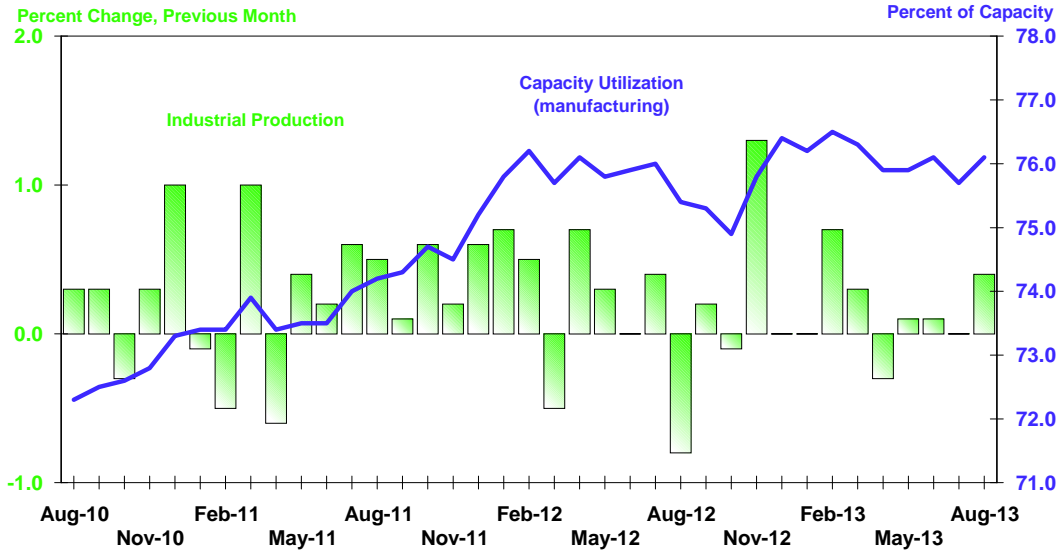
### ISM Index



Source: Institute for Supply Management / Haver Analytics.

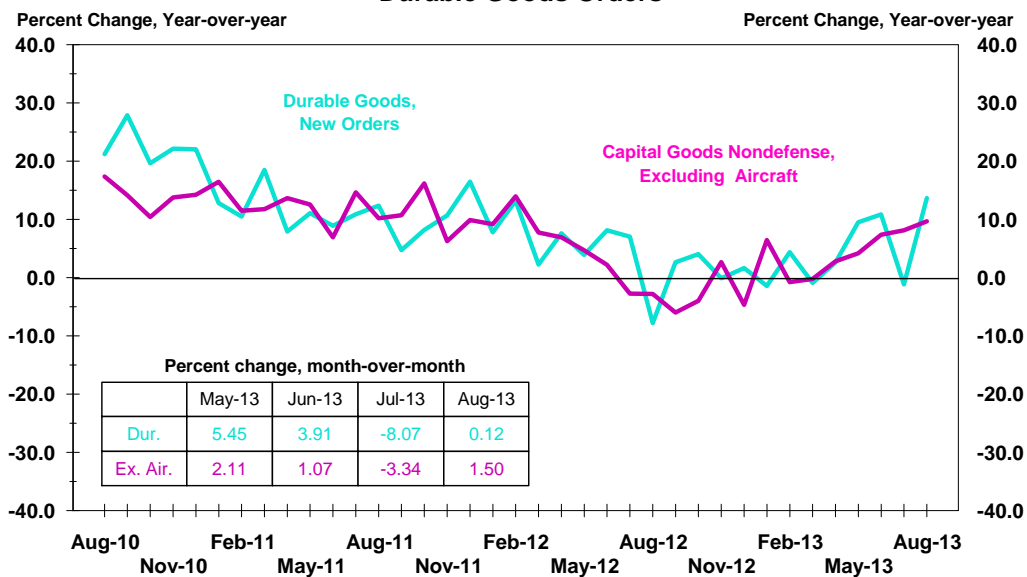
In August, industrial production posted its largest gain since January, despite a decline in utilities output due to cooler-than-average temperatures this summer. Both manufacturing and mining production posted gains in August. Capacity utilization also rose in August, offsetting the decrease seen in July.

### Industrial Production and Capacity Utilization

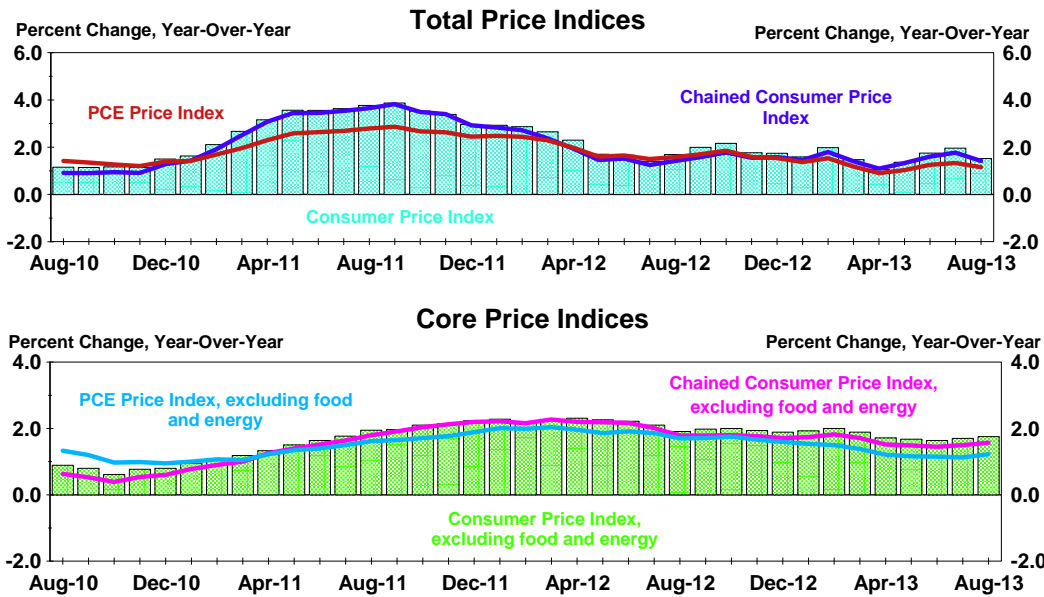


Durable goods orders rose in August on both a year-over-year and month-to-month basis, due in part to an increase in orders of transportation equipment. Orders of nondefense capital goods, excluding aircraft, also rose in August compared to both July and a year ago.

### Durable Goods Orders

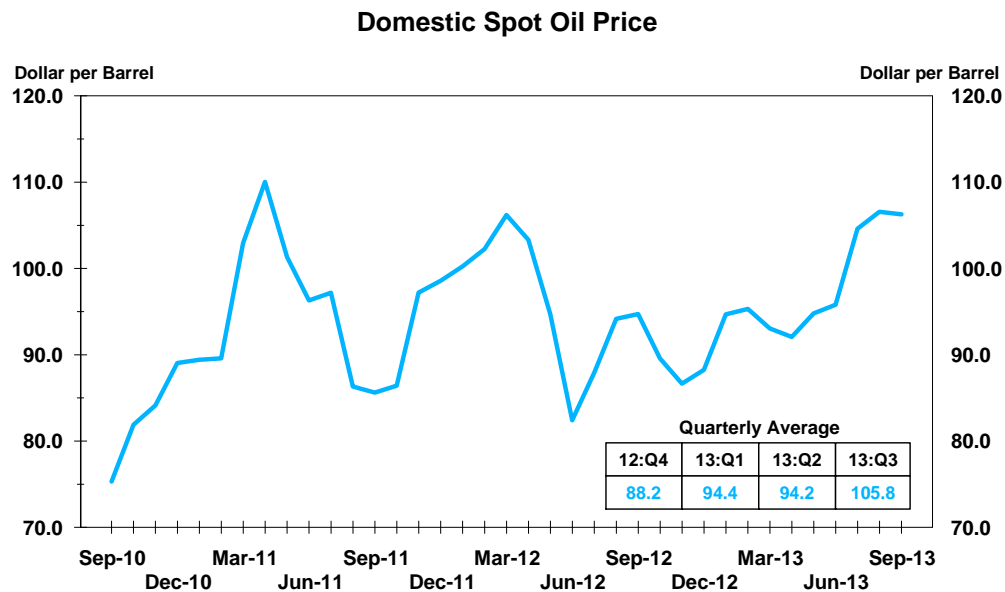


Growth in headline prices eased in August, after accelerating in each of the prior three months, reflecting a decline in energy prices in August. Meanwhile, growth in core prices ticked up a bit in August, but has remained relatively stable since April.



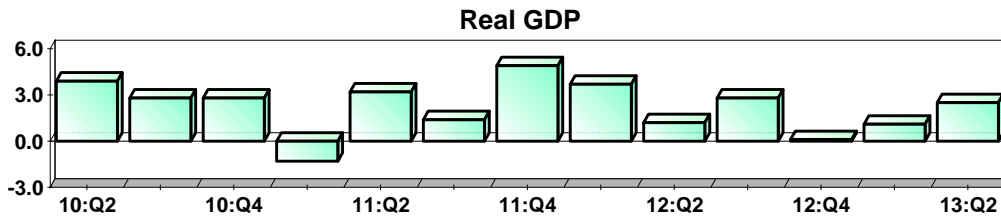
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices eased slightly on average in September, after rising steadily for the previous four months. The third quarter average was the highest quarterly average in five years. Prices fell at the end of September and into early October as tensions eased over the situation in Syria, averaging \$103.3 per barrel as of October 3rd.



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was unchanged in the final second quarter estimate, primarily reflecting downward revisions to private inventory investment and to exports that were offset by an upward revision to state and local government spending.

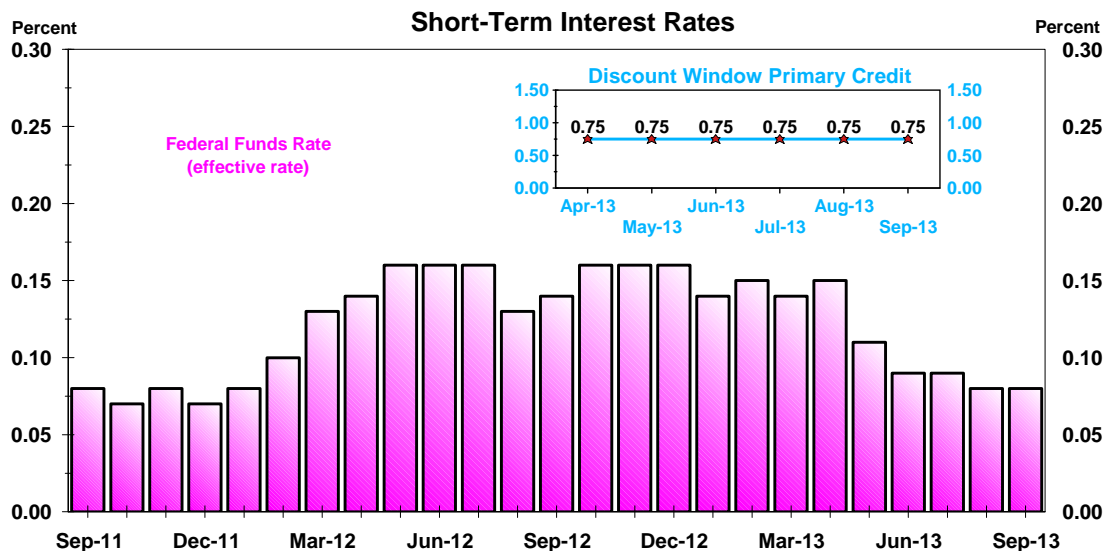


Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.5	2.5
Consumption	1.8	1.8
Business Investment	4.4	4.7
Equipment & Software	2.9	3.3
Residential Investment	12.9	14.2
Government	-0.9	-0.4
Exports	8.6	8.0
Imports	7.0	6.9
Final Sales	1.9	2.1

Source: Bureau of Economic Analysis / Haver Analytics.

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Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni