



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

April 4, 2014

Current Economic Developments - April 4, 2014

Data released since your last Directors' meeting show the economy was a bit stronger in the fourth quarter than previously estimated but suggest slower growth during the first quarter. Support from consumer spending remains resilient, while improvement in the housing market continues to show signs of slowing and manufacturing data was mixed. Adverse weather conditions likely contributed to slower growth in the first quarter, but these effects are expected to subside as the economy rebounds to a moderate growth pace over the remainder of the year.

In March, nonfarm payrolls posted a strong gain, albeit one that was slightly below expectations, while job gains in the previous two months were revised higher. The unemployment rate held steady in March, as the labor force increased. Initial claims for unemployment insurance fell in March, and were down on average in the first quarter. Consumer attitudes were mixed across the two primary surveys in March, as the sentiment index fell while the confidence index rose to a six-year high. Vehicle sales increased to a seven-year high in March. In February, both real consumption and real incomes increased.

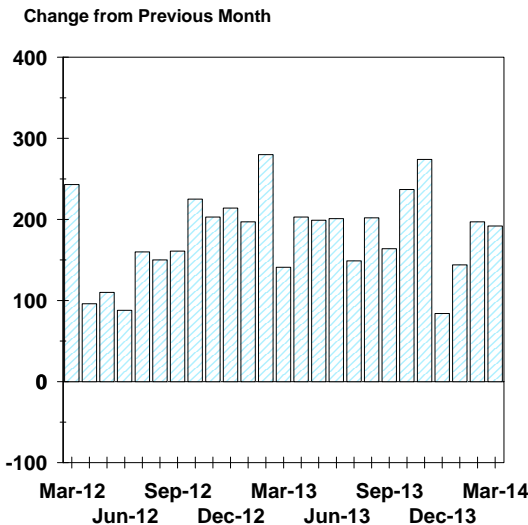
The ongoing recovery in the housing market showed further signs of easing in February. Both new and existing home sales declined in February, as did housing starts. Meanwhile, housing permits rose to their highest rate since October, due to an increase in multi-family permits.

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

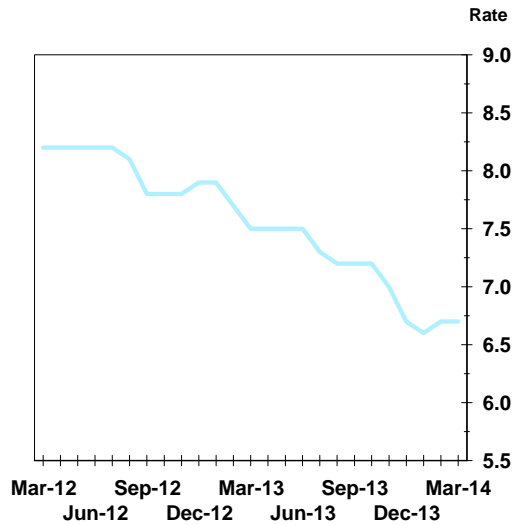
Headline inflation decelerated in February while core indices eased or held steady. Oil prices held steady on average in March, and remained little changed in early April.

Payroll employment increased by 192,000 jobs in March, a bit below expectations. Payroll gains in January and February were revised up by a total of 37,000 to 144,000 and 197,000, respectively. The unemployment rate held steady at 6.7% in March, as a sizeable increase in the labor force was on pace with the rise in civilian employment.

**Nonfarm Payroll Employment**



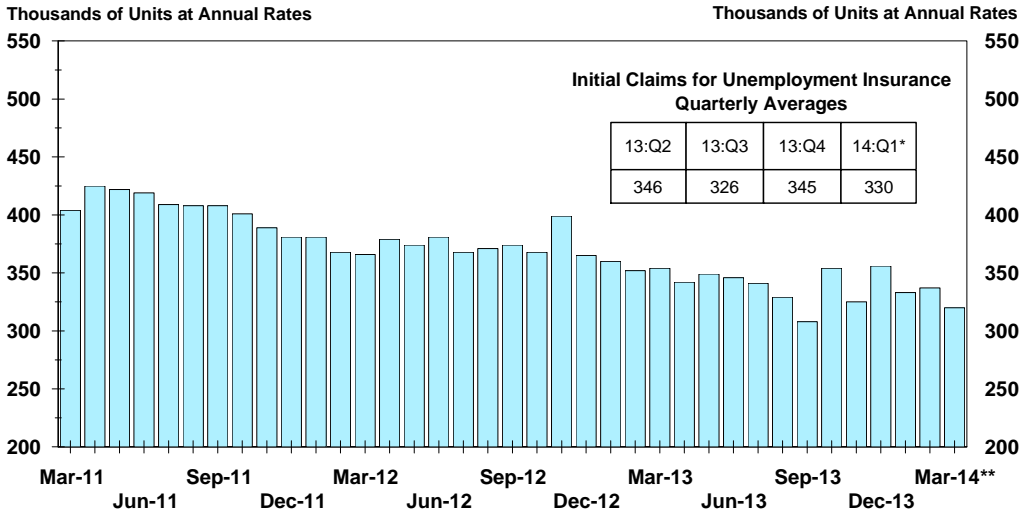
**Unemployment Rate**



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance decreased in March, to their lowest rate since September, and were down on average in the first quarter compared to the fourth quarter.

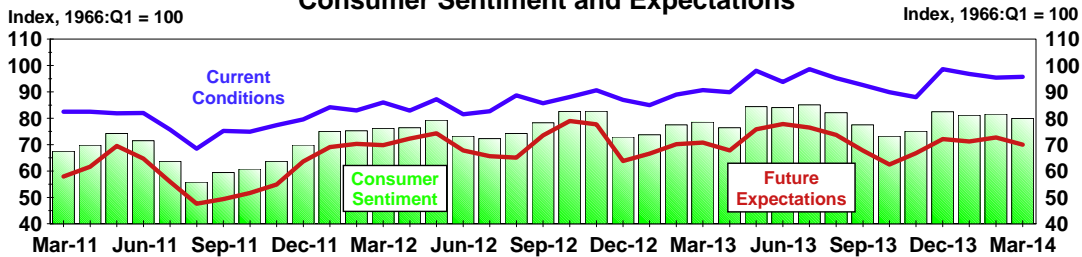
### Initial Claims



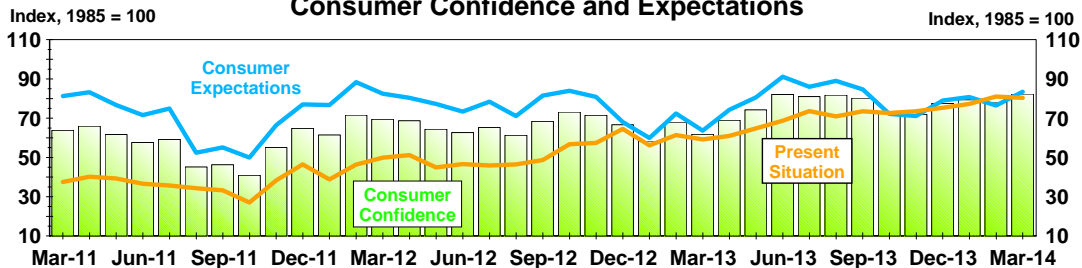
Source: Department of Labor, Employment and Training Administration / Haver Analytics. \*Includes four-week moving average, ending March 29, as estimate for March in quarterly average. \*\*Four-week moving average, ending March 29.

Primary measures of consumer attitudes were mixed in March. Sentiment fell to its lowest level since November, due to a decrease in expectations. Meanwhile, confidence rose in March to its highest level in over six years, due to a jump in the expectations index. Respondants in the sentiment survey remained positive about personal finances but were more pessimistic about the general economic outlook, while respondents in the confidence survey were less optimistic about income growth.

### Consumer Sentiment and Expectations



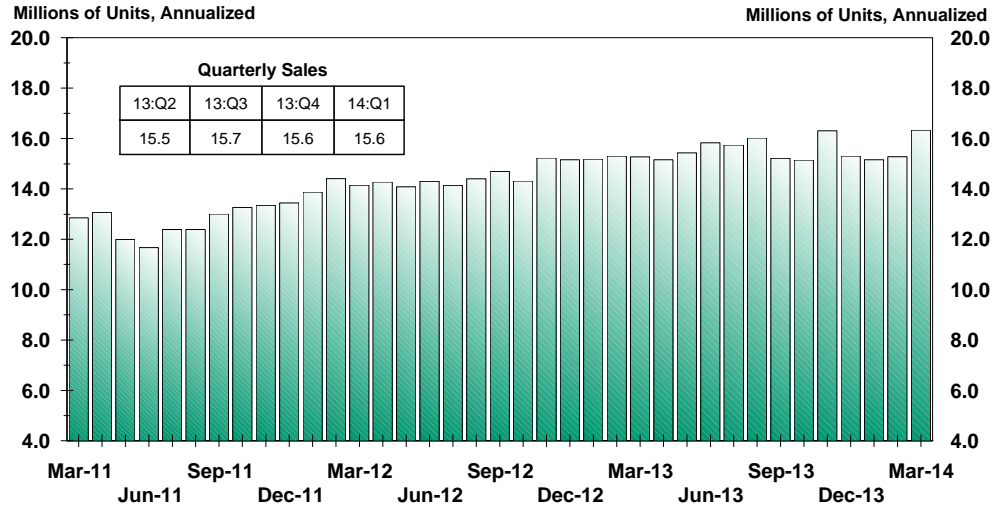
### Consumer Confidence and Expectations



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

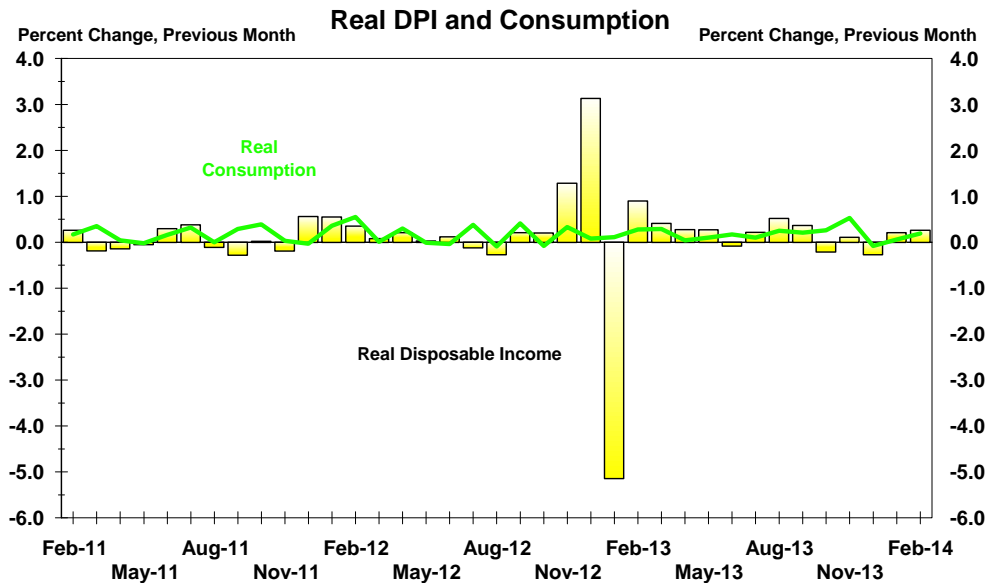
Total vehicle sales rose above expectations in March, to their highest annual rate in seven years. Domestic vehicle sales also increased to a seven-year high in March. First quarter sales were unchanged from their fourth quarter rate, as the uptick in March offset the likely result of unseasonably cold weather holding back shoppers in January and February.

### Total Auto and Light Truck Sales



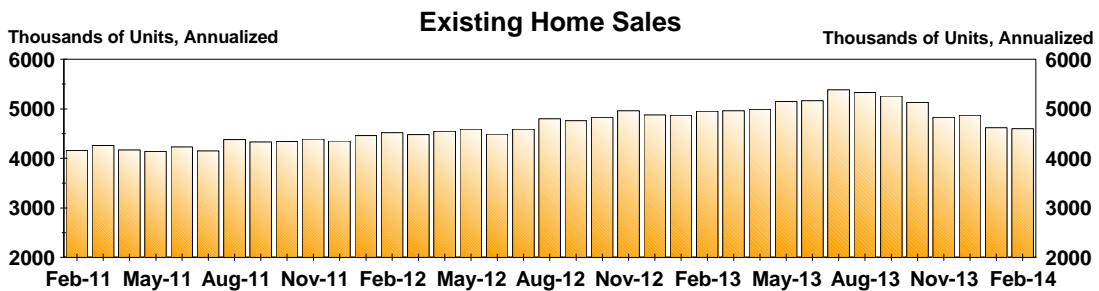
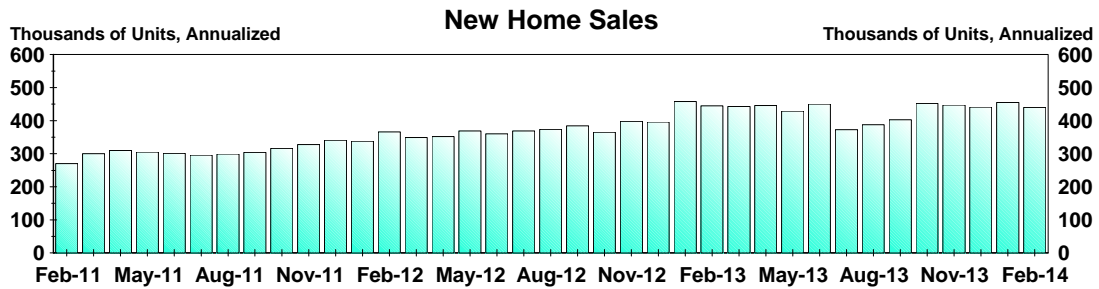
Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable income increased in February for the second consecutive month. Real consumption also rose in February, following an increase in January that was revised lower. The growth in incomes slightly outpaced the growth in consumption, thus, the personal saving rate inched up in February.



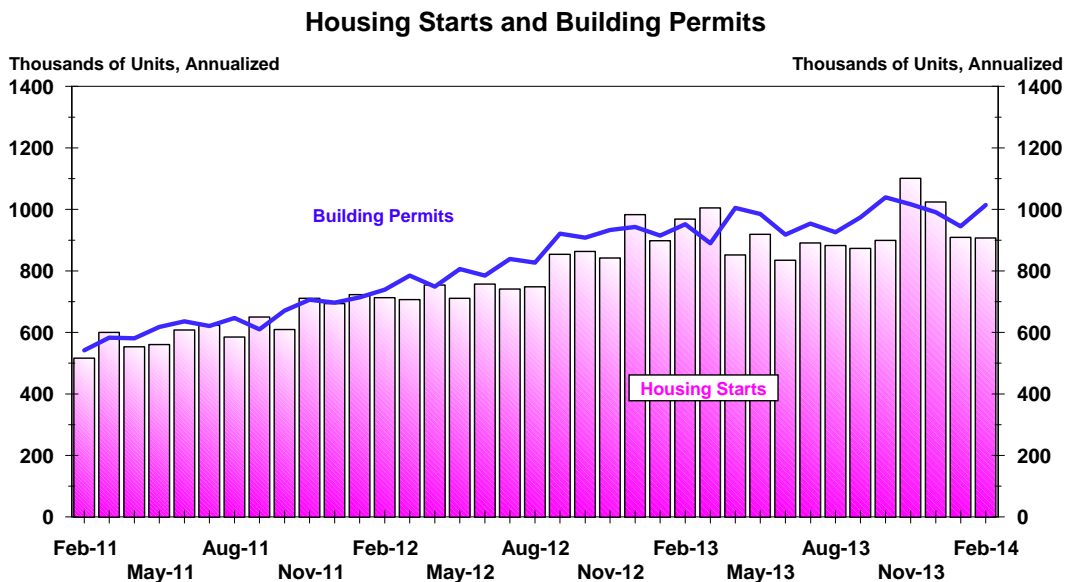
Source: Bureau of Economic Analysis / Haver Analytics.

New home sales declined in February, from a rate in January that was revised lower. Meanwhile, sales of existing homes eased slightly in February to their lowest rate since July 2012.



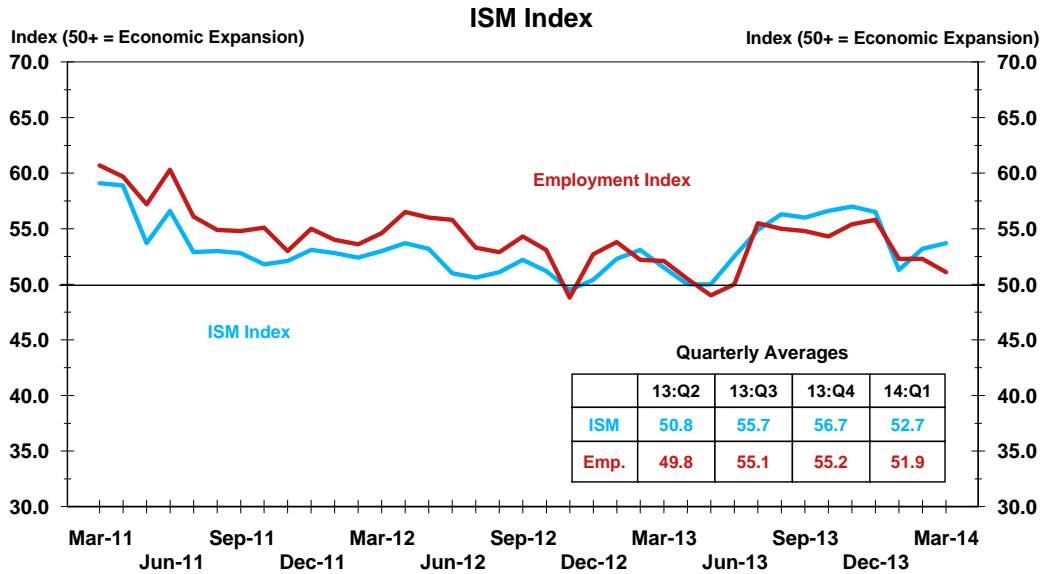
Sources: U.S. Census Bureau (new homes sales) and National Association of Realtors (existing home sales) / Haver Analytics.

Housing starts were essentially unchanged in February, as a decrease multi-family starts offset an increase in single-family starts. Meanwhile, building permits rose in February to their highest rate since October, due to an increase in multi-family permits that more than offset a decline in single-family permits.



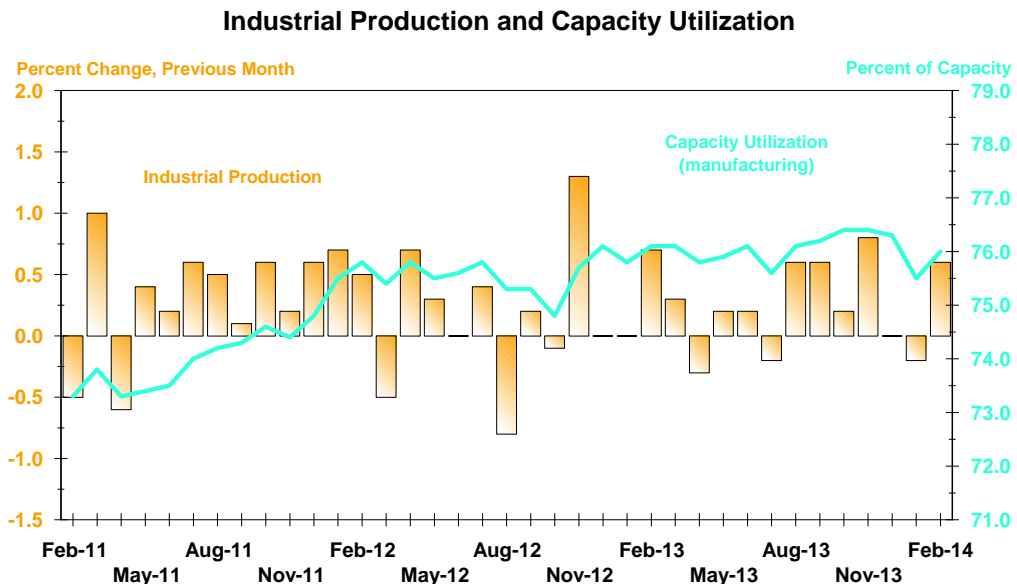
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index ticked up in March, but its first quarter average was below the averages seen in the third and fourth quarter of last year. The index remained above 50, continuing to signal expansion in the manufacturing sector. The employment index fell in March, reaching its lowest level since June.



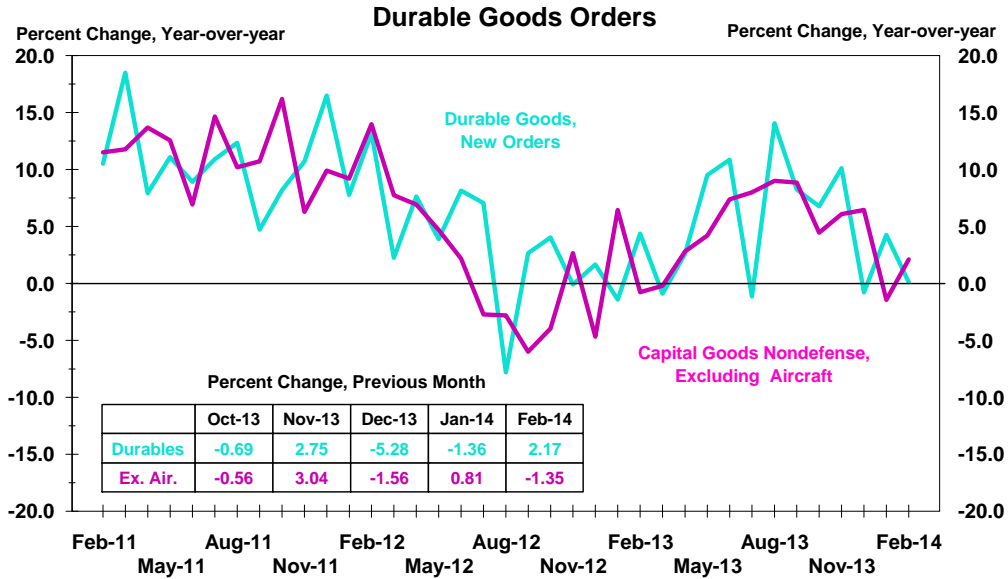
Source: Institute of Supply Management / Haver Analytics.

Industrial production increased in February, following a decline in January. Production rose in manufacturing and mining, more than offsetting the decrease in utilities production. Capacity utilization improved in February, after declining in each of the previous two months.



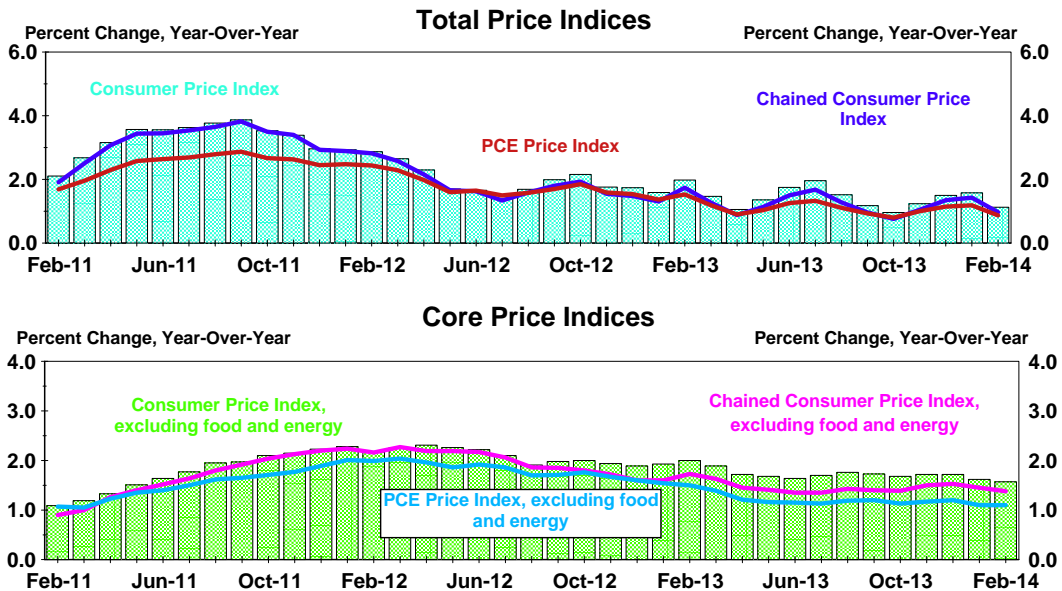
Source: Federal Reserve Board of Governors / Haver Analytics.

New orders for durable goods increased in February, more than offsetting the decline seen in January, but barely posted a year-over-year gain. Meanwhile, orders of nondefense capital goods excluding aircraft fell in February, their second decline in three months. However, core orders rose on a year-over-year basis in February.



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

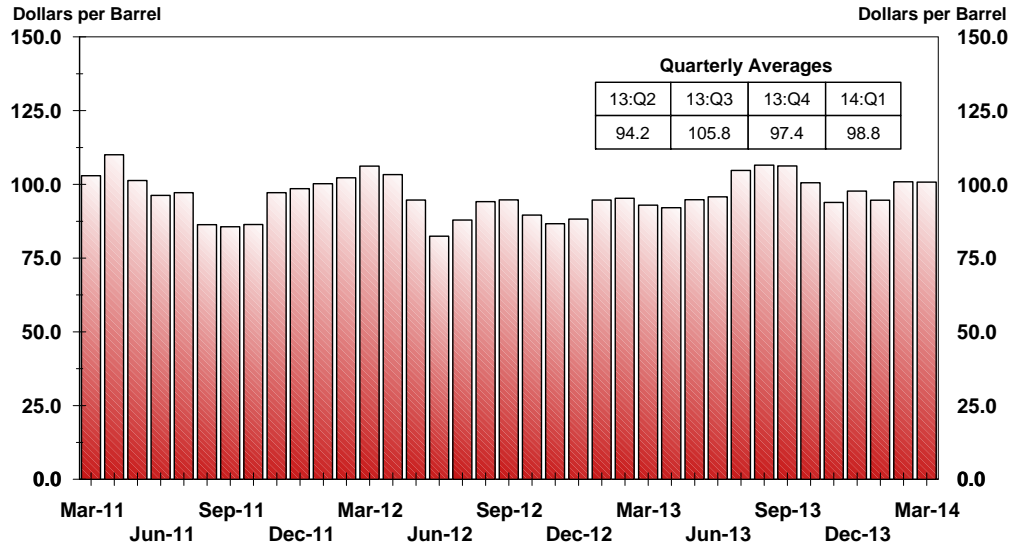
Headline consumer prices eased in February, after accelerating in each of the prior three months. Core prices, which exclude food and energy, also eased in February as measured by the CPI, but held steady as measured by the PCE Price Index.



Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

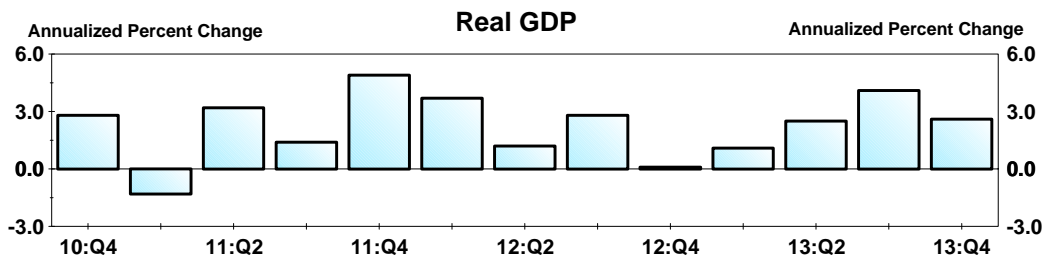
Oil prices held steady on average in March, reaching over \$100 per barrel for the second consecutive month. Prices continued to hover around \$100 per barrel in the first few days of April.

### Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised upward in the final fourth quarter estimate, primarily reflecting an upward revision to personal consumption expenditures that was partly offset by downward revisions to nonresidential fixed investment and to private inventory investment.



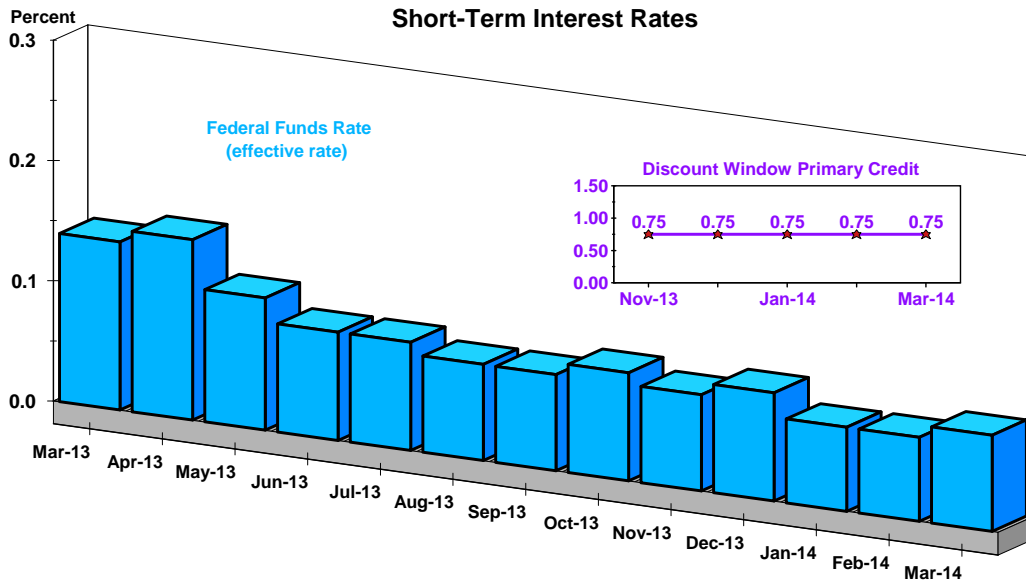
### Fourth Quarter Revisions

Description	Second Estimate	Third Estimate
Real GDP	2.4	2.6
Personal Consumption	2.6	3.3
Business Investment	7.3	5.7
Equipment and Software	10.6	10.9
Residential Investment	-8.7	-7.9
Government	-5.6	-5.2
Exports	9.4	9.5
Imports	1.5	1.5
Final Sales	2.3	2.7

Source: Bureau of Economic Analysis / Haver Analytics.



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Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni