



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

December 2, 2014

## CURRENT ECONOMIC DEVELOPMENTS - December 2, 2014

Data released since your last Directors' meeting suggest that growth in the fourth quarter is likely to slow from the upwardly revised growth seen in the third quarter, but it is poised to pick up a bit in the coming year. Consumer spending increased, yet consumer attitudes have been mixed. Growth in the housing market showed improvement, while advancements in the manufacturing sector have eased. Weak growth abroad and foreign political unrest remain areas of concern.

Initial claims for unemployment insurance rose in November, from a level in October that was the lowest in fourteen years. Consumer attitudes were mixed in November as the confidence index declined, while the sentiment index continued to rise due, in part, to increasing optimism towards job prospects and expected income gains among lower income households.

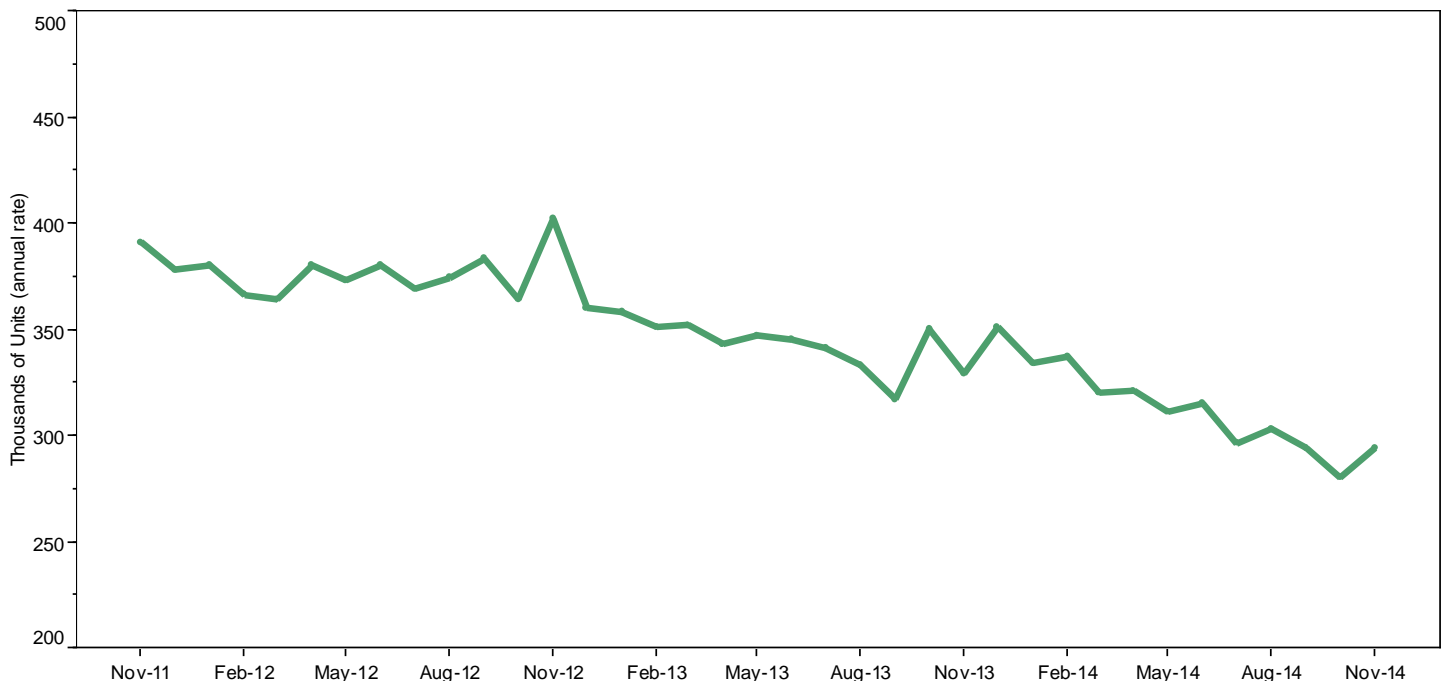
The housing market continued to show signs of recovery in October. Existing home sales rose to their highest pace in over one year, and new home sales also increased. New construction data showed some improvement in October, as permits jumped to their highest level in over six years and single-family starts increased.

In the manufacturing sector, the ISM index eased in November but continued to signal expansion. Industrial production fell in October due to declines in utilities and mining production, and capacity utilization eased. A surge in defense orders in October drove an overall increase in orders for durable goods, while nondefense capital goods, excluding aircraft, decreased in October. Both series registered further improvement over their year-ago levels.

Measures of total consumer prices held steady or decelerated in October, but the core indices, which exclude the volatile food and energy sectors, accelerated. Oil prices continued to drop in November, reaching their lowest monthly average in over four years.

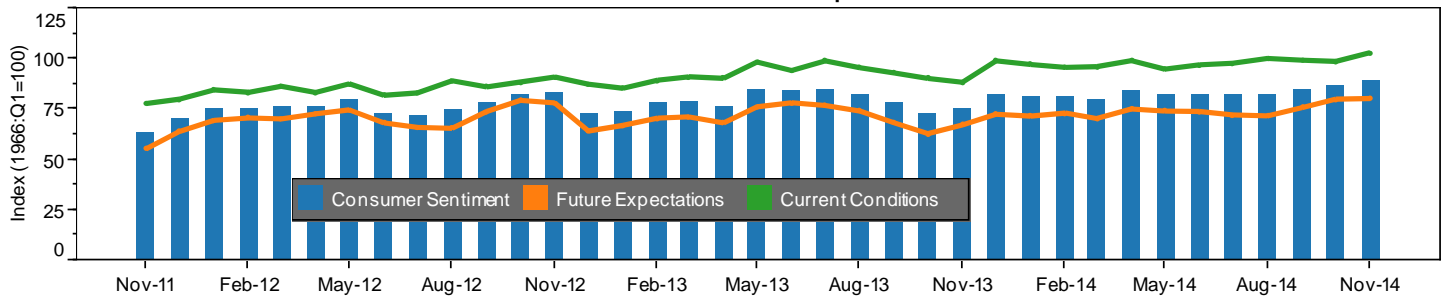
Initial claims for unemployment insurance have risen, on average, in the four weeks ending November 22nd, erasing the decline seen in October. Weekly claims in October had registered their lowest monthly average in over fourteen years.

### Initial Claims

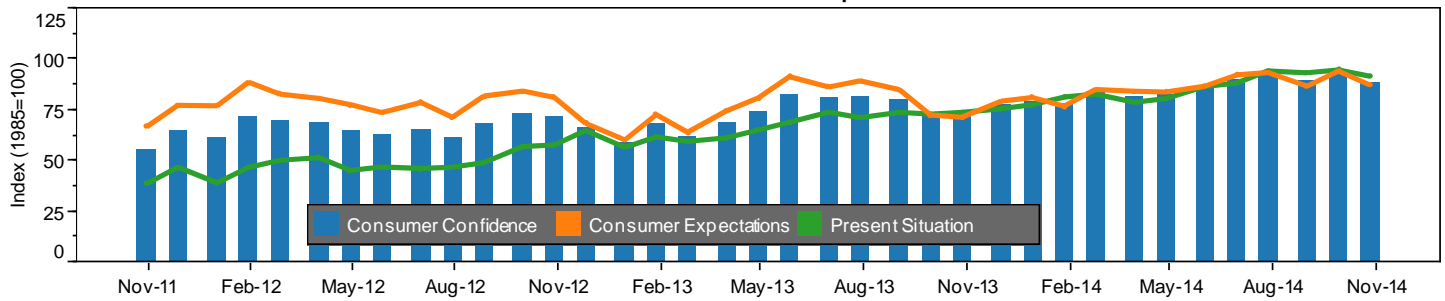


Consumer attitudes were mixed in November, as the Conference Board's confidence index fell to its lowest level since June, while the University of Michigan's sentiment index rose for the fourth consecutive month. The rise in the sentiment index was mostly due to an increase in the current conditions index, and consumers were also more optimistic about job prospects and expected income gains, specifically among lower income households. However, respondents to the confidence survey were less optimistic about the short-term outlook for business conditions and the job market.

### Consumer Sentiment and Expectations



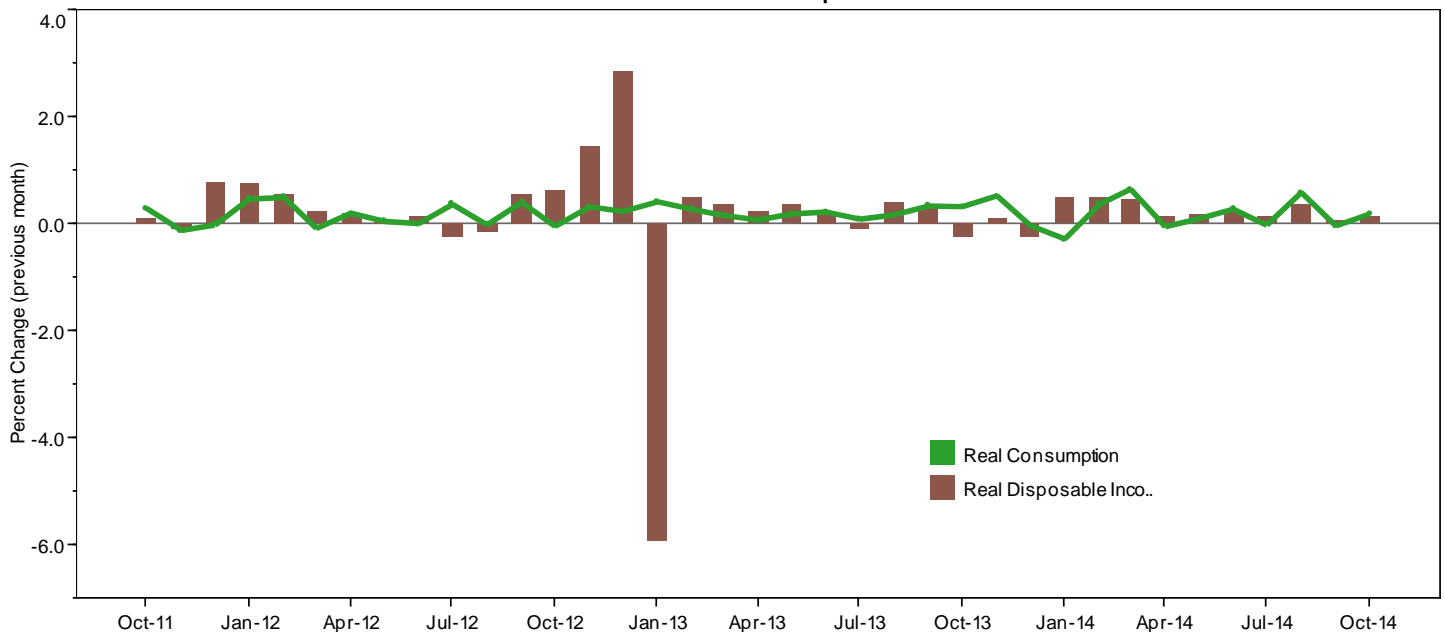
### Consumer Confidence and Expectations



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

Real incomes ticked up in October, and consumption increased, after registering roughly no change in the previous month. Income changes have been positive, albeit small, in each month so far this year, while consumer spending has been a bit more volatile.

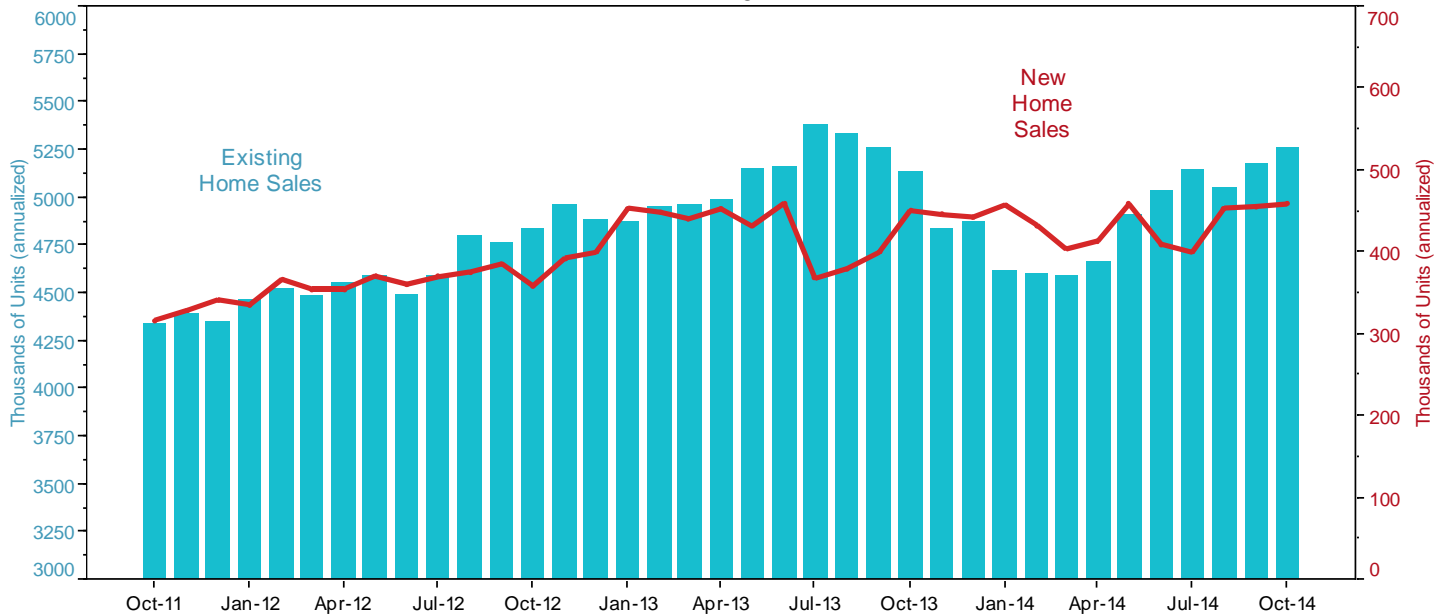
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales rose in October, after increasing in September, to reach their fastest pace in over one year. New home sales also rose in October, yet sales in each of the prior three months were revised down.

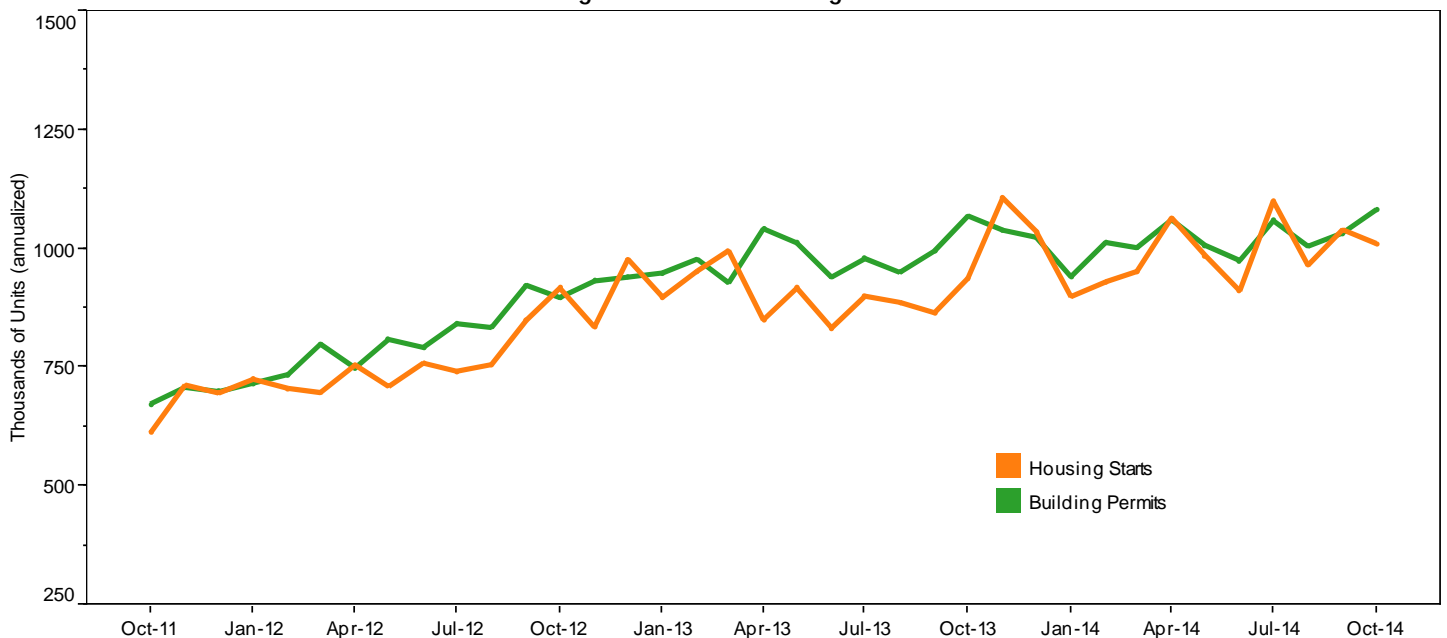
### New and Existing Home Sales



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

Housing starts fell in October, due to a decline in multifamily starts. Meanwhile, single-family starts increased to their highest rate since November and were revised up in each of the prior two months. Building permits rose in October to their highest rate in over six years, as both multifamily and single-family permits increased.

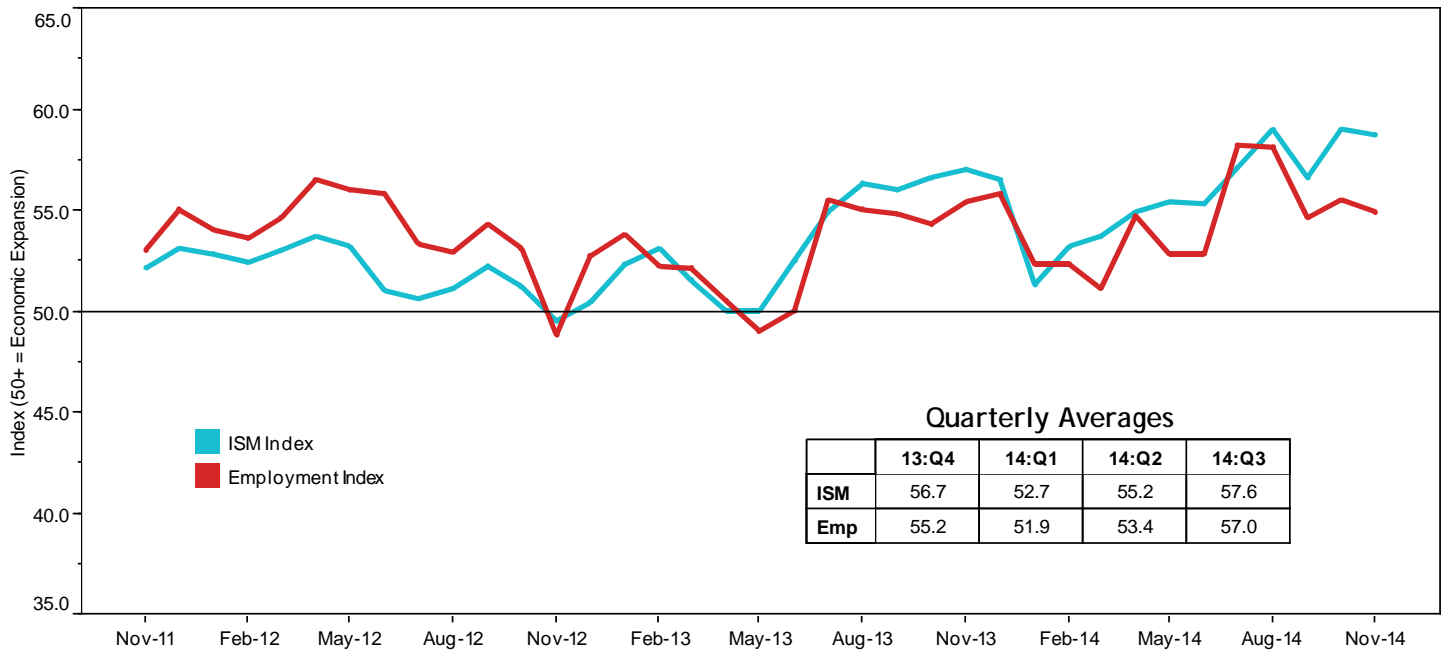
### Housing Starts and Building Permits



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

The ISM manufacturing index eased in November but remained above its third quarter average and well above 50. Readings higher than 50 signal expansion in the manufacturing industry. The employment component of the index also fell in November.

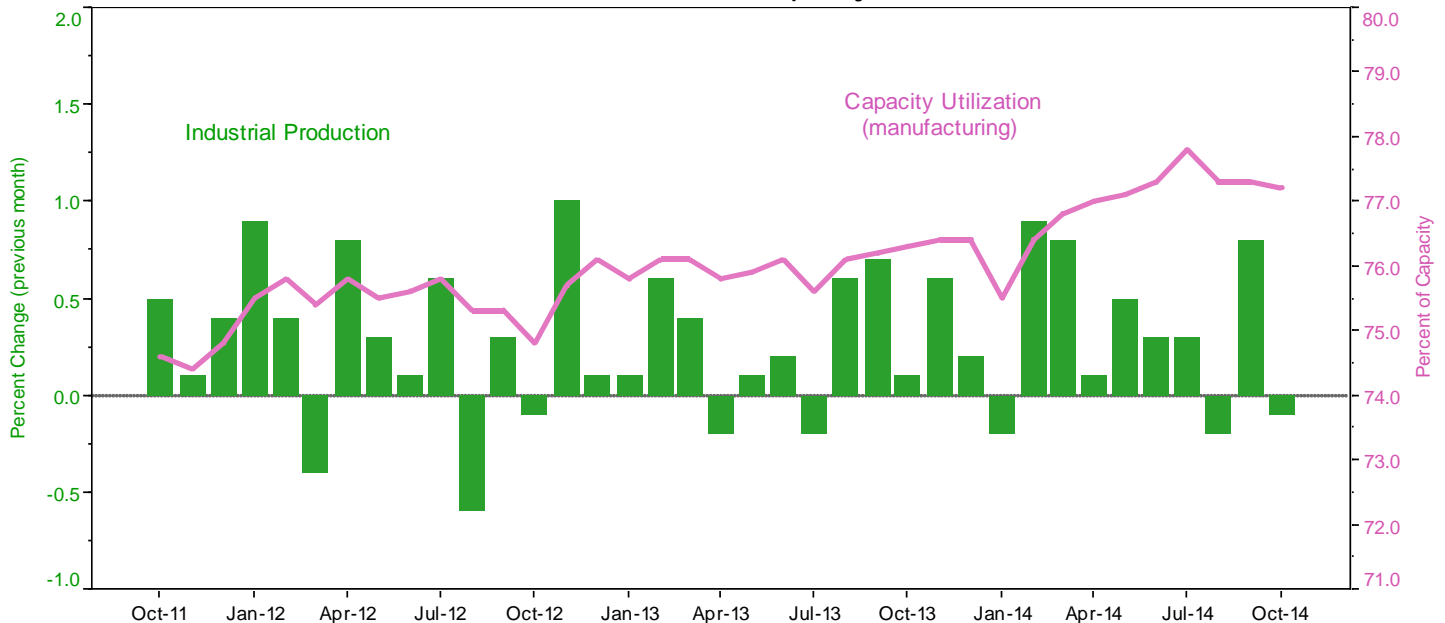
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell slightly in October, due to decreases in mining and utilities production, and the increase in September was revised down a bit. Manufacturing production posted a gain in October, while capacity utilization eased a bit after holding steady in September.

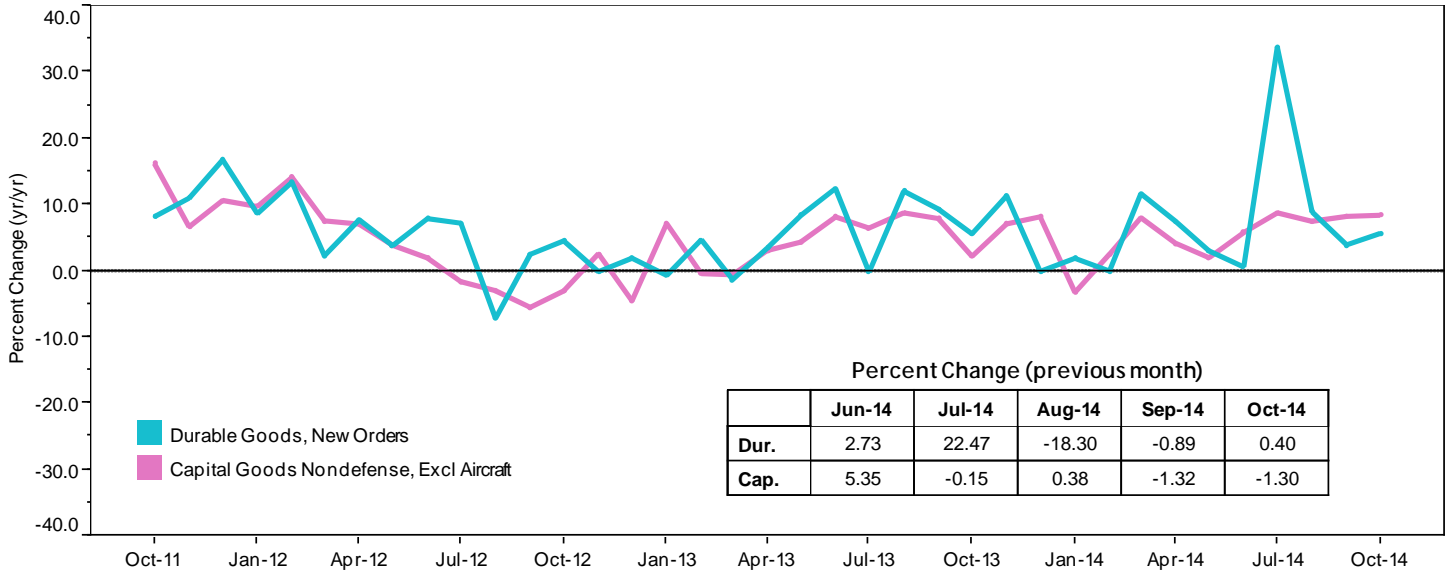
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in October, due primarily to a surge in defense orders. Meanwhile, nondefense capital goods, excluding aircraft, fell in October. Both series continued to increase on a year-over-year basis, rising at a faster pace than seen in September.

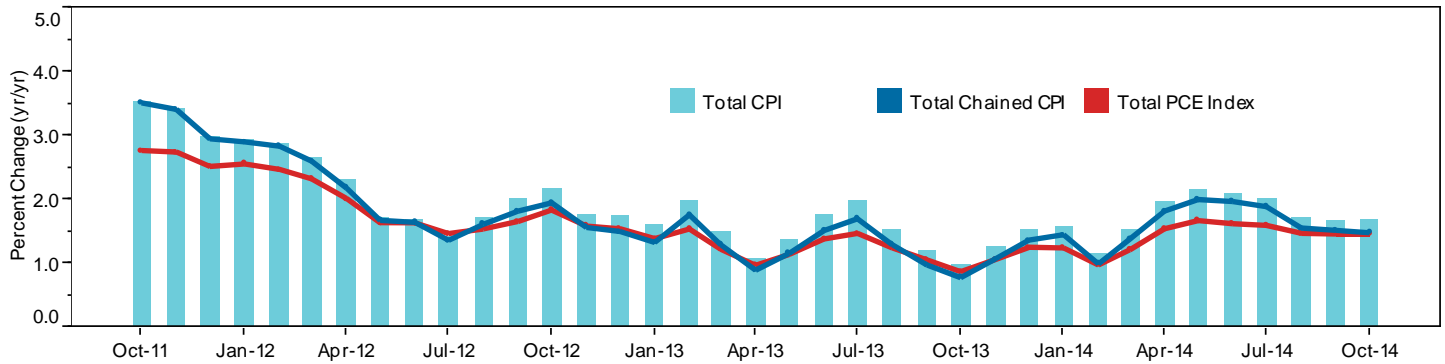
### Durable Goods Orders



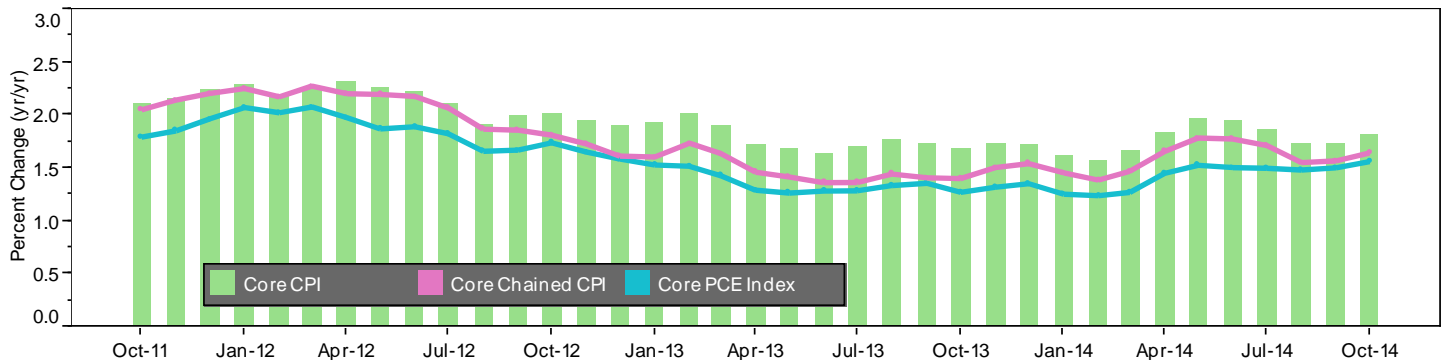
Source: U.S. Census Bureau / Haver Analytics.

The headline Consumer Price Index held steady in October, after decelerating in each of the prior four months, while the Chained CPI and the PCE Price Index both eased further. Excluding the volatile food and energy categories, core prices accelerated in October.

### Total Price Indices

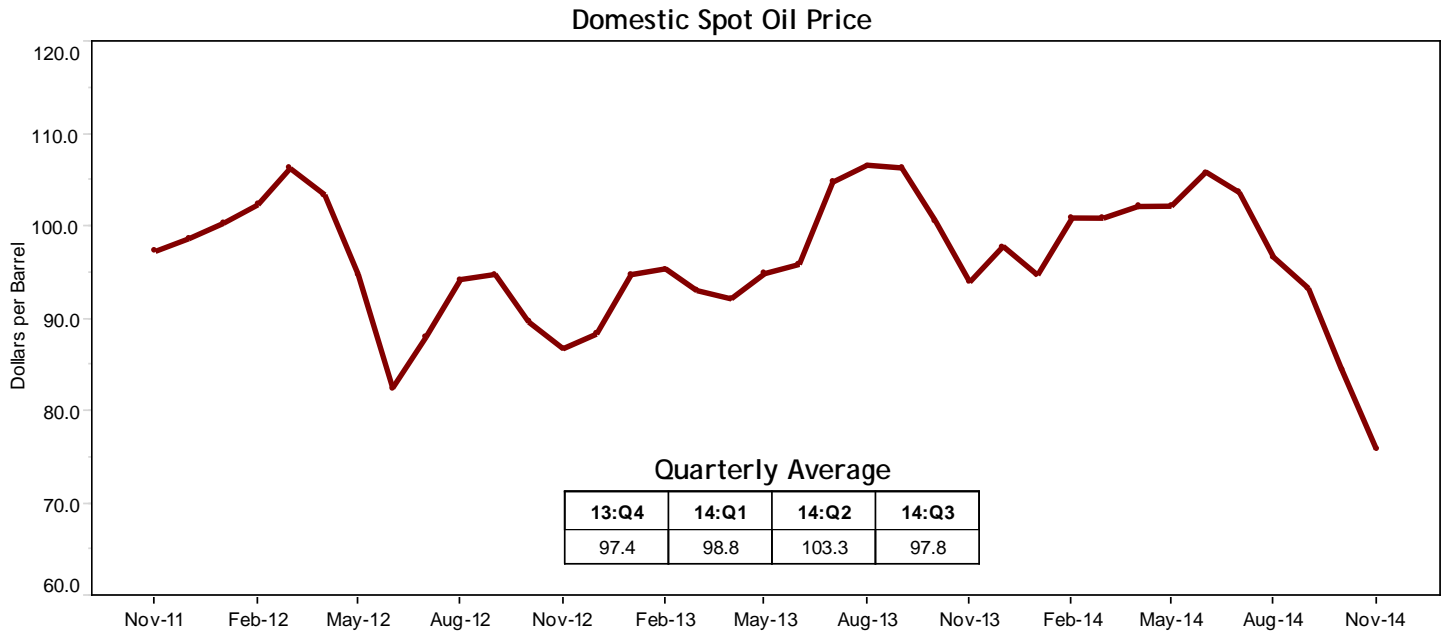


### Core Price Indices



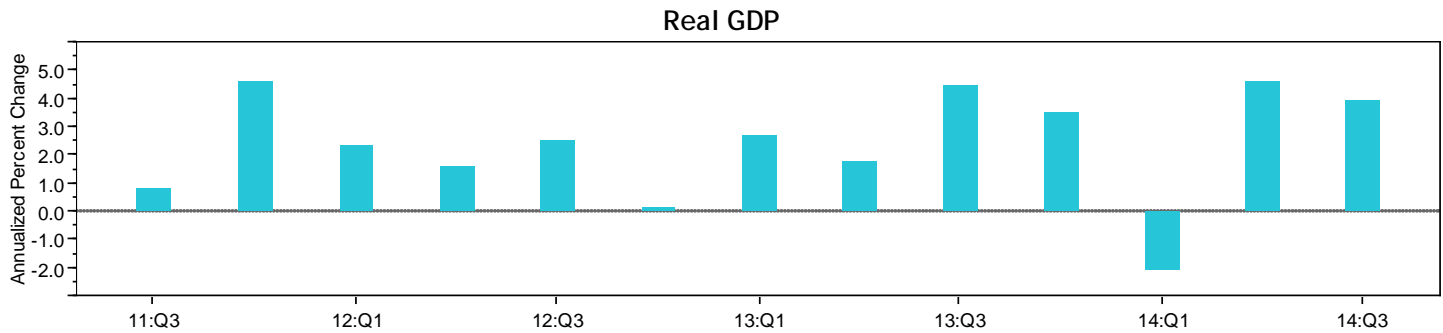
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices continued to fall in November, as the monthly average reached its lowest level since September 2010. Prices ended the month at \$66.2 per barrel on November 28th, the lowest closing price in over five years.



Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.

Third quarter real GDP growth was revised higher in the second estimate. The upward revision to third quarter GDP growth primarily reflected upward revisions to private inventory investment, to personal consumption expenditures, and to nonresidential fixed investment that were partly offset by a downward revision to exports and an upward revision to imports.



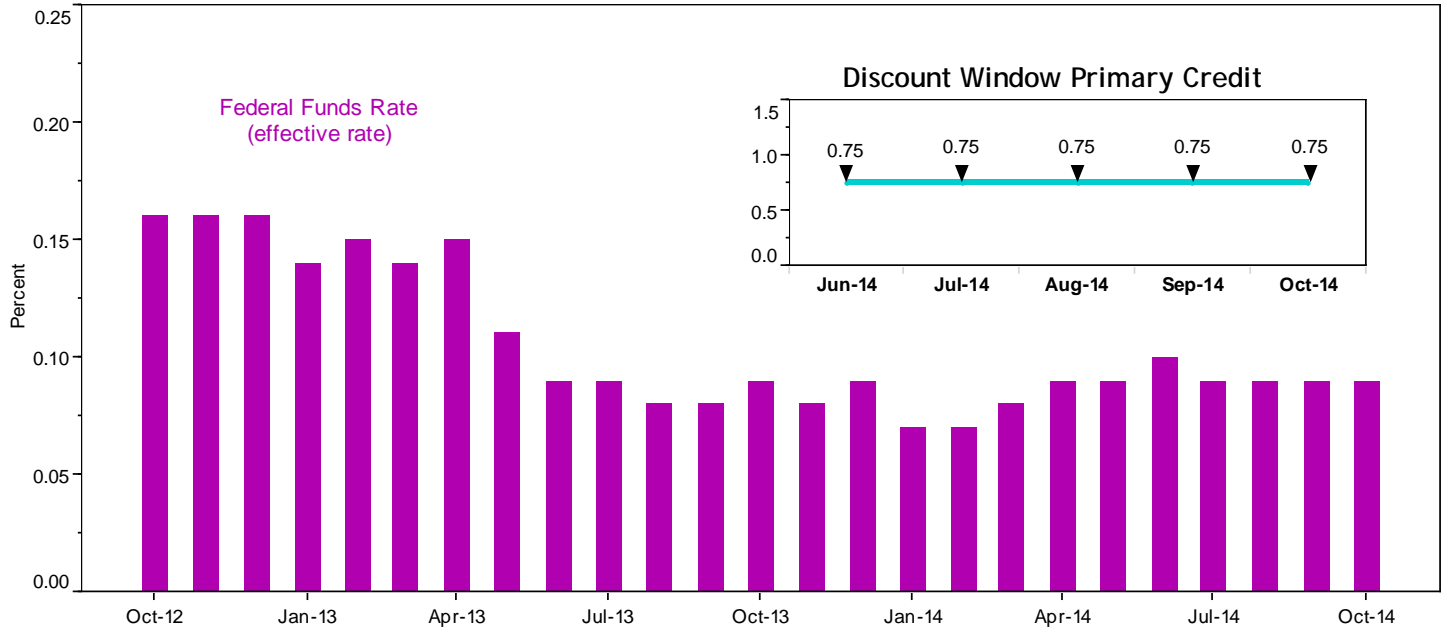
#### Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
<b>Real GDP</b>	3.5	3.9
<b>Personal Consumption</b>	1.8	2.2
<b>Business Investment</b>	5.5	7.1
<b>Equipment and Software</b>	7.2	10.7
<b>Residential Investment</b>	1.8	2.7
<b>Government</b>	4.6	4.2
<b>Exports</b>	7.8	4.9
<b>Imports</b>	-1.7	-0.7
<b>Final Sales</b>	4.2	4.1

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting suggest that growth in the fourth quarter is likely to slow from the upwardly revised growth seen in the third quarter, but it is poised to pick up a bit in the coming year. Consumer spending increased, yet consumer attitudes have been mixed. Growth in the housing market showed improvement, while advancements in the manufacturing sector have eased. Weak growth abroad and foreign political unrest remain areas of concern.

### Short-Term Interest Rates



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