



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

June 3, 2014

CURRENT ECONOMIC DEVELOPMENTS - June 3, 2014

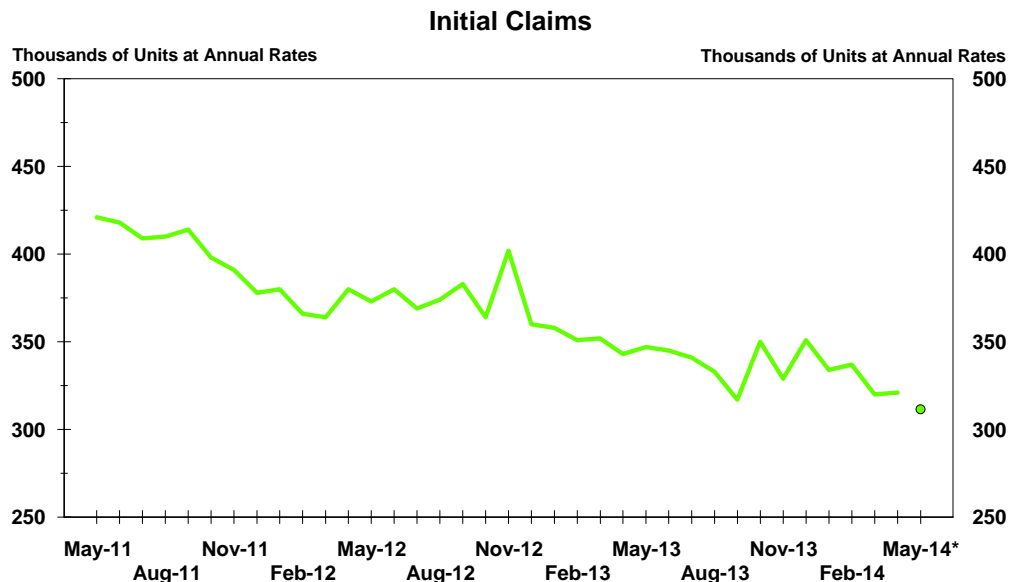
Data released since your last Directors' meeting show that the economy contracted slightly in the first quarter but suggest a rebound in growth in the second quarter. The labor market showed further signs of strengthening, consumer attitudes were mixed but remained favorable, and the housing market improved a bit but remained weak in the single family sector. Economic growth is projected to pick up to a moderate pace over the rest of the year, as the effects that contributed to the contraction in the first quarter - namely adverse weather conditions, lower inventory investment, and a decline in exports - are likely to be temporary.

Initial claims for unemployment insurance ticked up in April but have fallen, as of May 24th, to their lowest four-week moving average since before the recession. Consumer attitudes were mixed in May, as indices measured by the Conference Board increased while those measured by the University of Michigan decreased. In April, real incomes inched up, but real consumption decreased for the first time since December.

The housing market showed mostly positive signs in April. New and existing home sales rose in April, with sales of existing homes reaching their highest rate so far this year. Housing starts and building permits both increased in April, but the improvement occurred mainly in the multifamily sector. In the manufacturing sector, industrial production fell and capacity utilization eased in April. New orders for durable goods ticked up in April, while orders for nondefense capital goods, excluding aircraft, declined. Improvement eased on a year-over-year basis for both series. However, the ISM index improved in May to its highest level since December.

Headline and core prices accelerated further in April. Oil prices rose on average in April, and were unchanged from that elevated level in May.

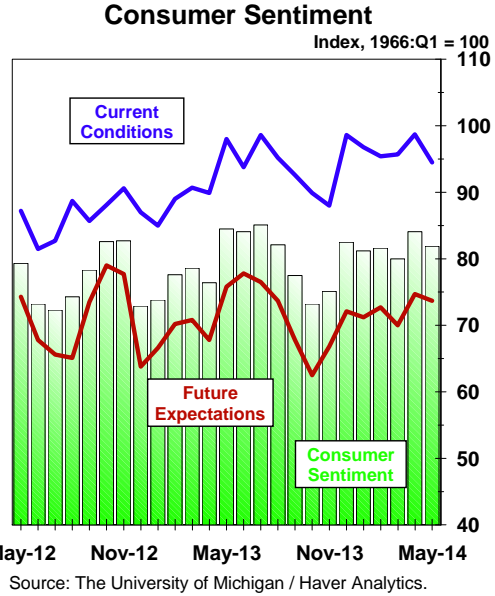
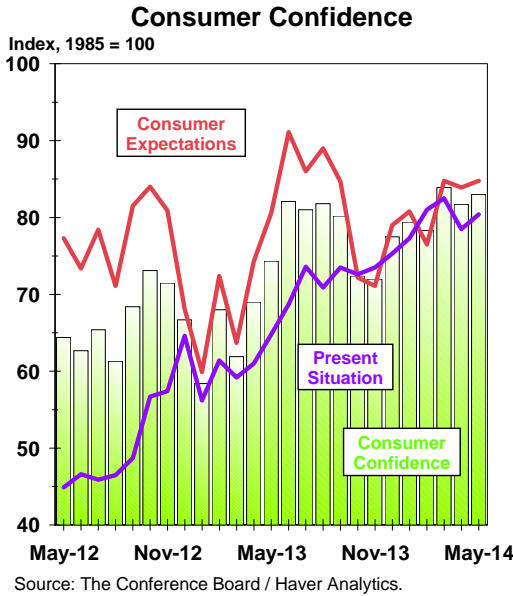
Initial claims for unemployment insurance ticked up to 321,000 on average in April, from a six-month low in March. Weekly claims have declined in May, and the four-week moving average fell to 311,500 in the week ending May 24.



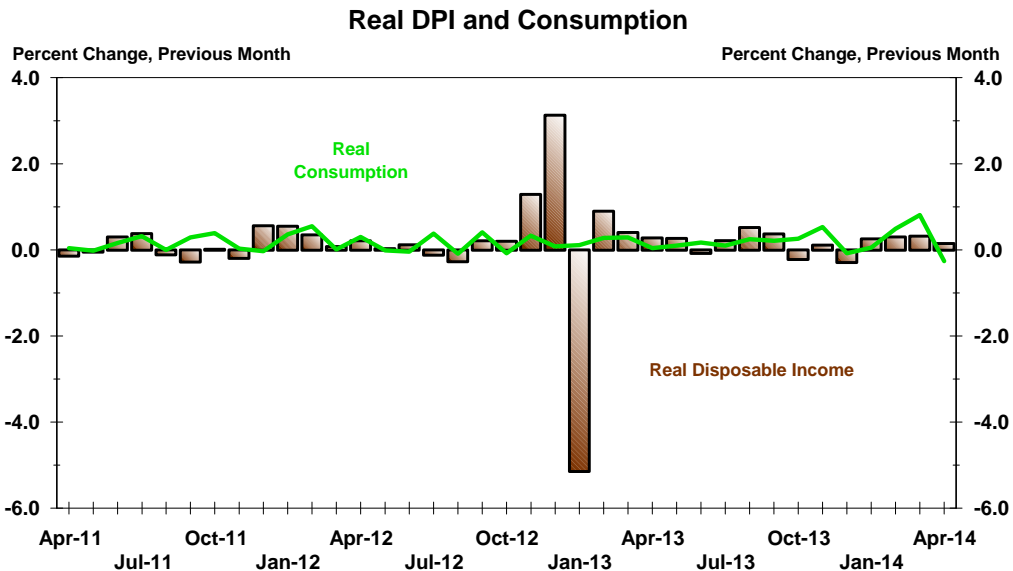
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

* 4-wk. ave. ending May 24

Primary measures of consumer attitudes were mixed in May. The confidence index increased, while the sentiment index declined. Consumers were more optimistic about labor market conditions and future job trends. The main concerns for respondents of the sentiment survey were personal financial prospects and income growth.

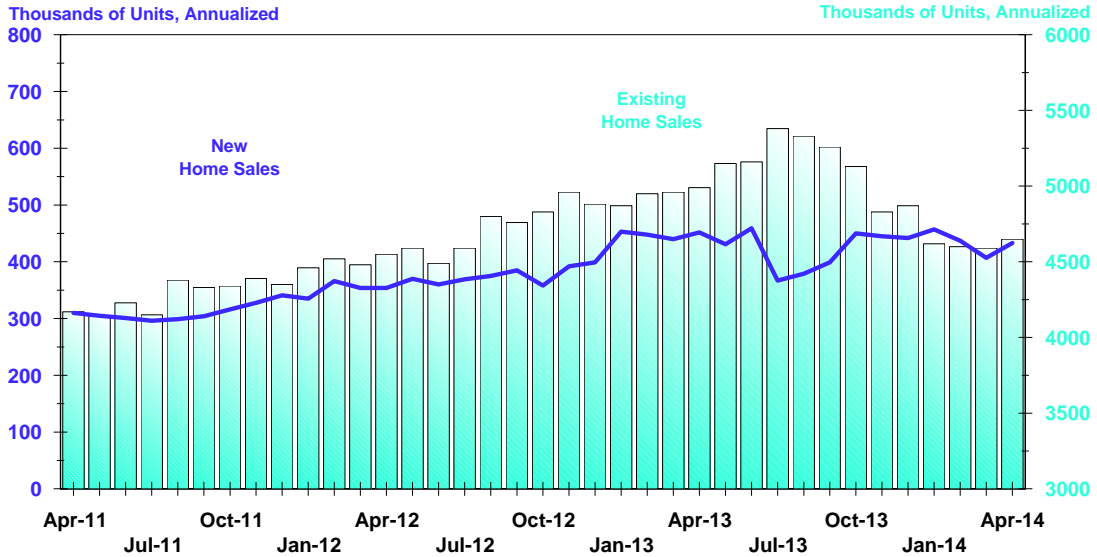


Real disposable incomes rose 0.2% in April, and have grown 0.3%, on average, over the past four months. Despite the increase in incomes, real consumption fell 0.3% in April, its first decline since December.



Housing data in April improved a bit after easing in the first quarter. New home sales rose above expectations in April, following a decrease in March that was revised smaller. Sales of existing homes also increased in April, reaching their highest sales rate since December.

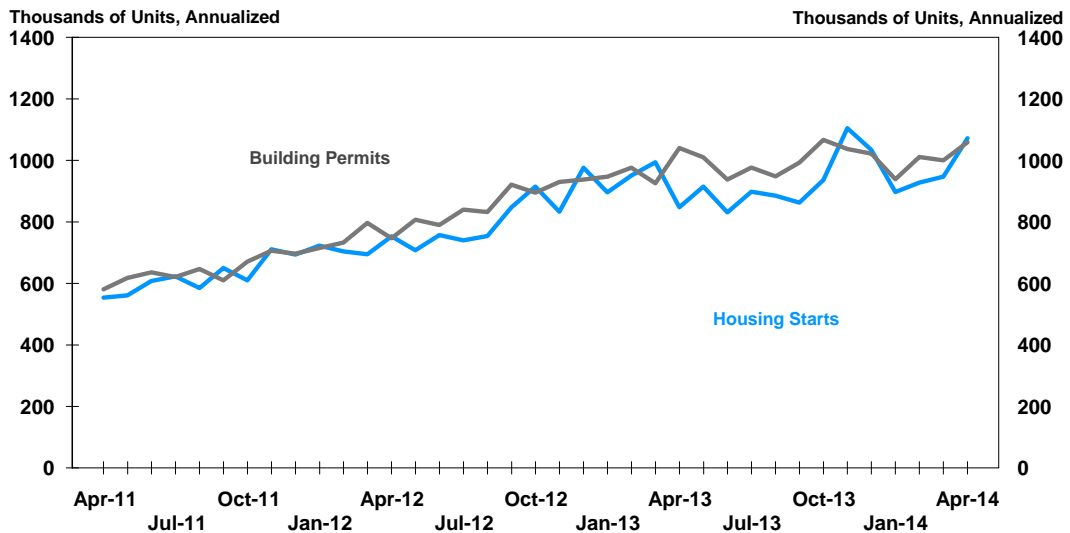
New and Existing Home Sales



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

Housing starts rose in April for their third consecutive monthly increase, due mostly to a jump in multifamily starts. Building permits also increased in April, due to a rise in multifamily permits, as single-family permits decreased.

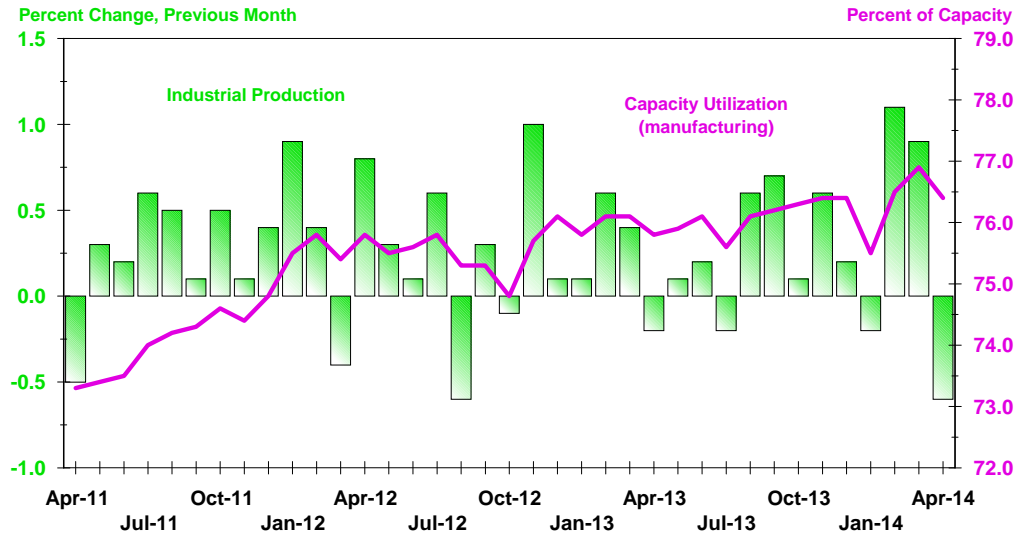
Housing Starts and Building Permits



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

Industrial production fell more than expected in April, while gains in March were revised higher. Capacity utilization eased in April, after increasing in each of the prior two months.

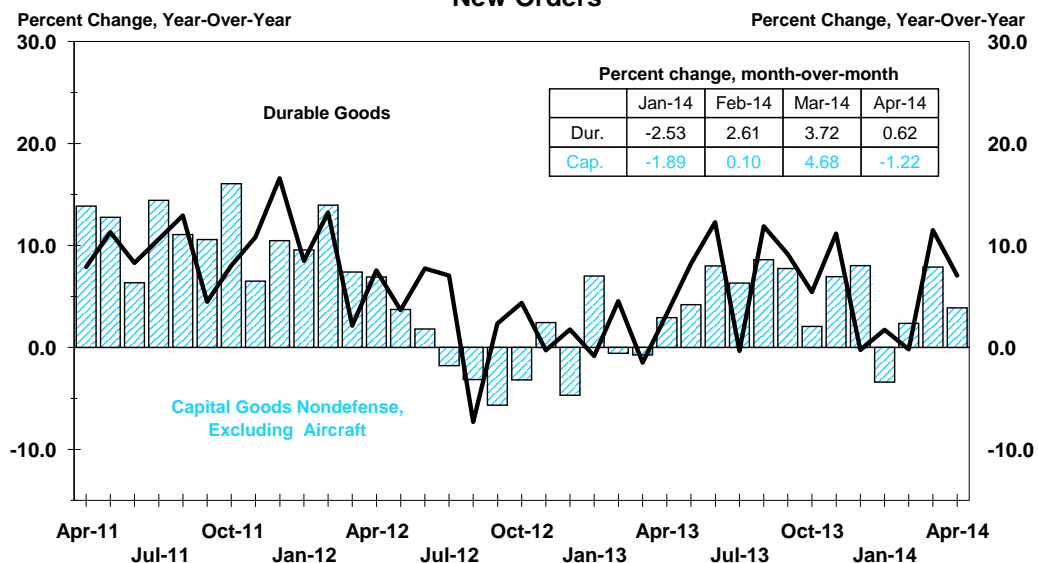
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

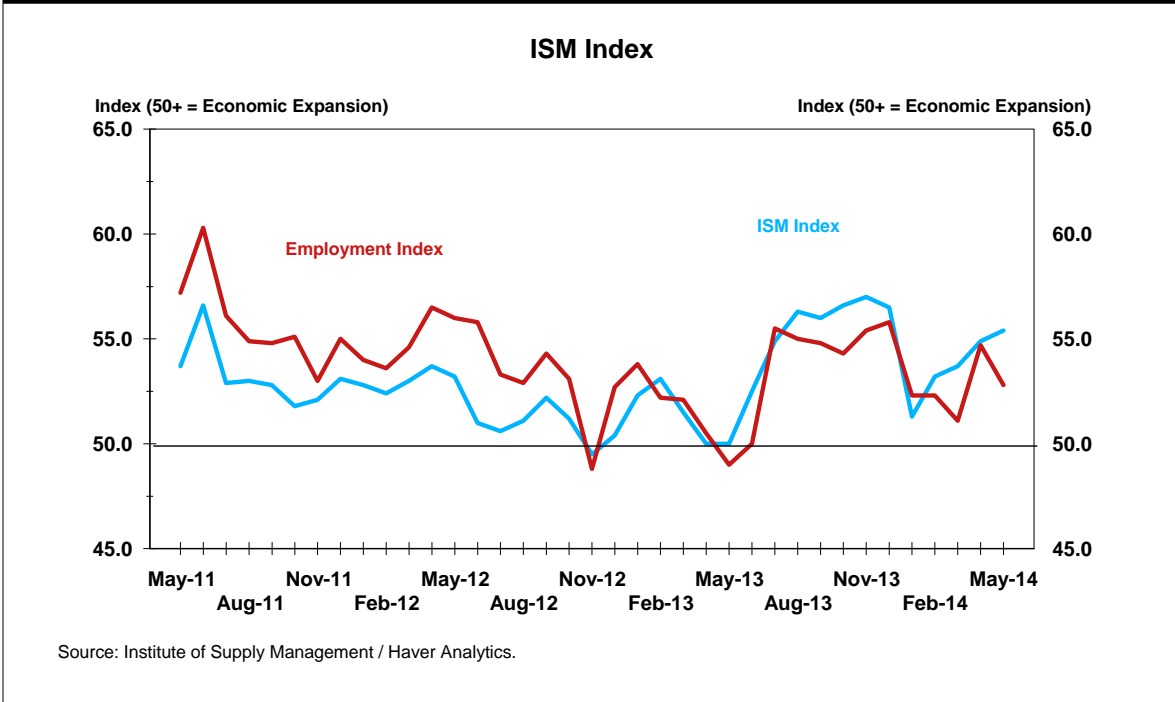
New orders for durable goods rose slightly in April, following a sizeable increase in March that was revised higher. Orders of nondefense capital goods, excluding aircraft, fell in April after rising in March. Both series showed improvement on a year-over-year basis in April, albeit at a slower pace than seen in the previous month.

New Orders

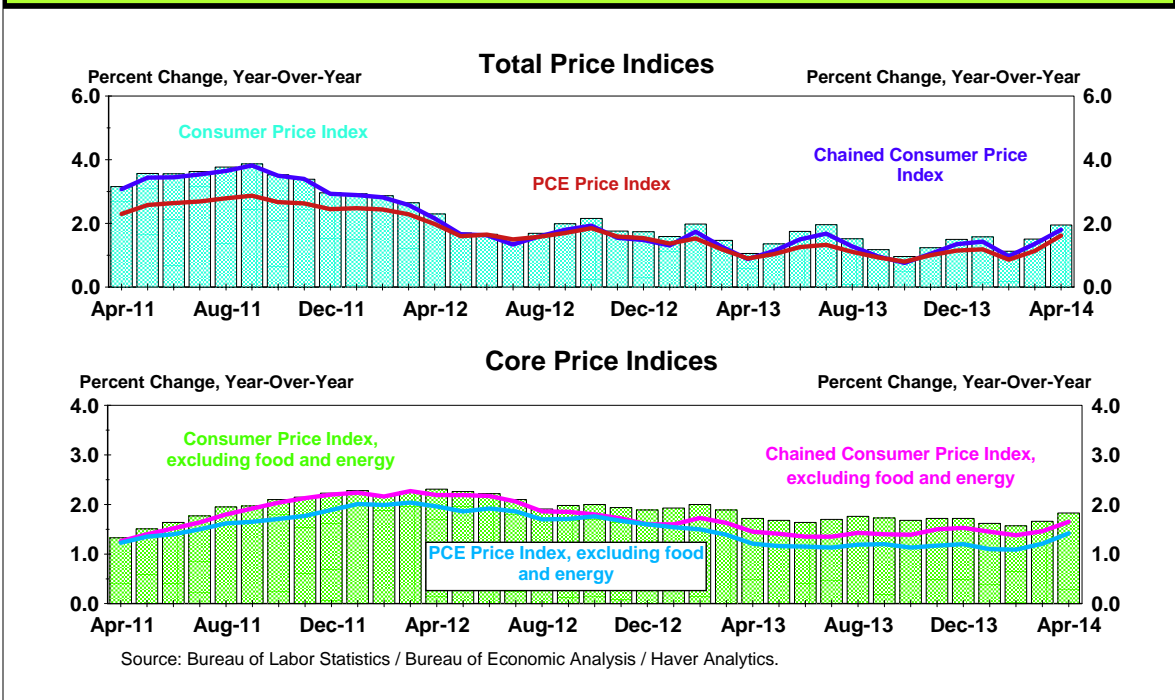


Source: U.S. Census Bureau / Haver Analytics.

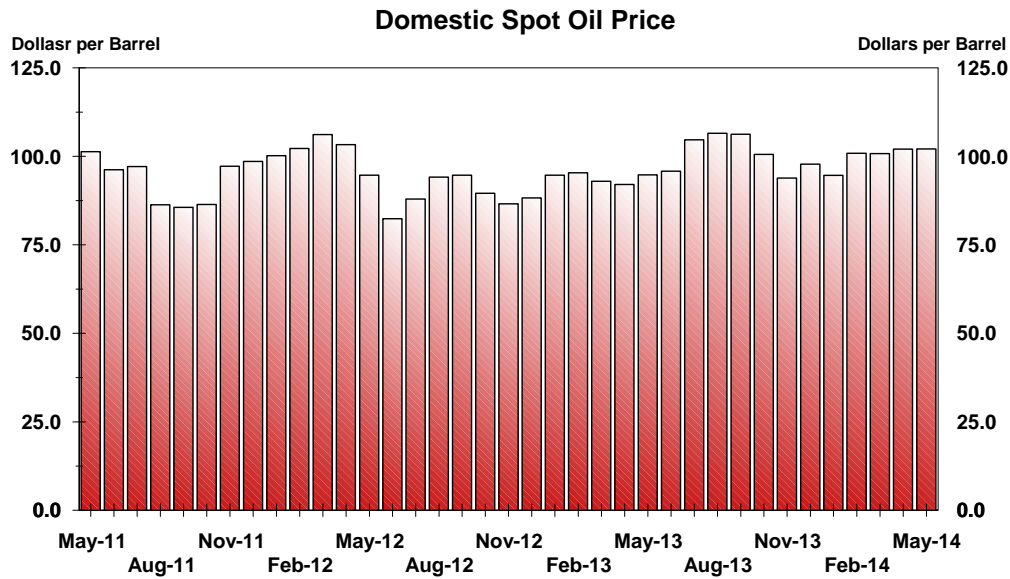
The ISM manufacturing index rose in May, reaching its highest level so far this year and continuing to signal expansion in the manufacturing sector. However, the employment component of the index declined in May.



Headline consumer prices accelerated in April, their second consecutive monthly acceleration, as the PCE index reached its highest rate since October 2012. Core prices, which exclude food and energy, also accelerated in April for the second consecutive month, and the PCE index reached its highest rate in over one year.



Oil prices in May, on average, were unchanged from their April level, which was the highest monthly average since September. Prices edged up towards the end of May, and started June at \$102.5 per barrel as of June 2.

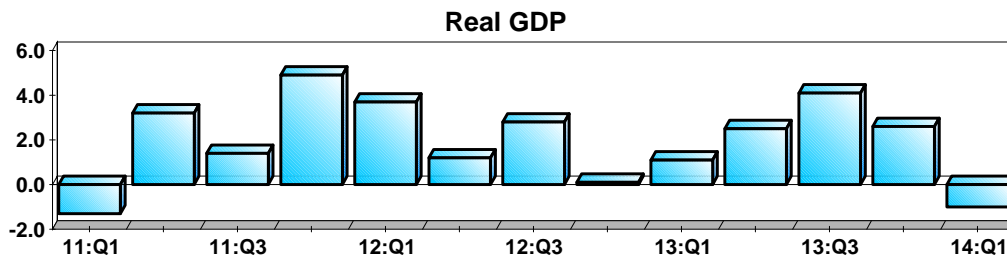


Source: Wall Street Journal / Haver Analytics.

First quarter GDP growth was revised down in the second estimate to -1.0% from 0.1%. The lower growth rate primarily reflected a downward revision to private inventory investment and an upward revision to imports that were partly offset by an upward revision to exports.

Revisions to First Quarter Real GDP

Description	Advance Estimate	2nd Estimate
Real GDP	0.1	-1.0
Personal Consumption (PCE)	3.0	3.1
Business Investment	-2.1	-1.6
Residential Investment	-5.7	-5.0
Government	-0.5	-0.8
Exports	-7.6	-6.0
Imports	-1.4	0.7
Final Sales	0.7	0.6
Change in Nonfarm Inv. (\$2005 Bil.)	65.7	30.4



Source: Bureau of Economic Analysis / Haver Analytics.

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