



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

May 6, 2014

CURRENT ECONOMIC DEVELOPMENTS - May 6, 2014

Data since your last Directors' meeting show that growth in the economy continued to slow in the first quarter but suggest a rebound in growth in the second quarter. Support from consumer spending remains resilient and the labor market showed further signs of strengthening, while gains in the housing market continue to ease. Contributing to the slowdown in the first quarter were effects that are likely to be temporary - namely the results of adverse weather conditions - and growth is expected to pick up moderately over the rest of the year.

In April, nonfarm payrolls posted a stronger-than-expected increase, while job gains in the previous two months were revised higher. The unemployment rate fell four-tenths of a percentage point to 6.3% in April, but the decrease was due to a sizeable drop in the labor force and not an increase in employment. Initial claims for unemployment insurance were unchanged, on average, in April compared to March, but were below their first quarter average.

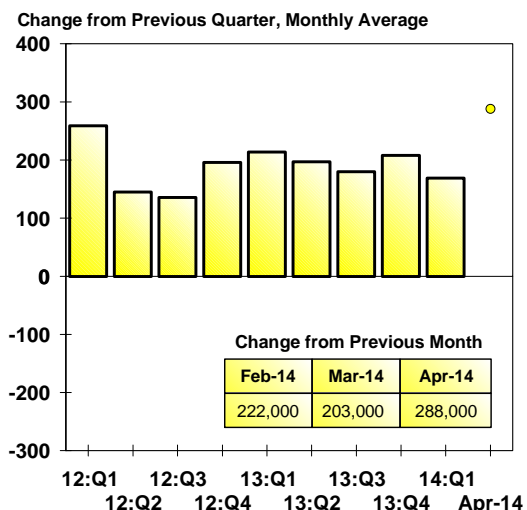
The increase in real GDP in the first quarter primarily reflected a positive contribution from personal consumption expenditures that was partly offset by negative contributions from exports, private inventory investment, nonresidential fixed investment, residential fixed investment, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased.

In April, consumer attitudes were mixed but remained above their first quarter levels. The ISM manufacturing index rose in April, suggesting a possible improvement in manufacturing following the mixed durable goods data for the first quarter.

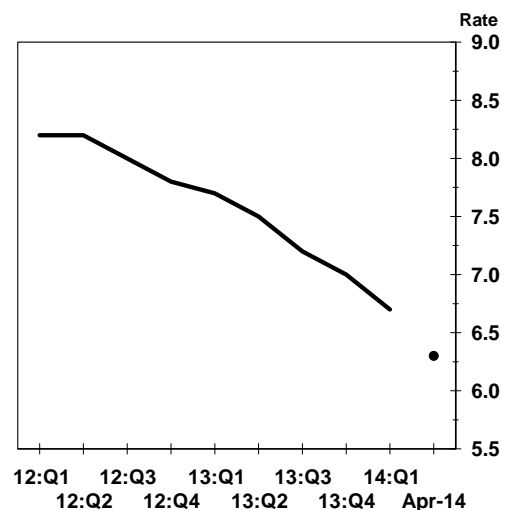
Inflation concerns remained minimal as headline measures ticked up in the first quarter but remained subdued, and core indices decelerated slightly. Total compensation costs, as measured by the ECI, eased in the first quarter. Oil prices rose a bit in April, averaging \$102 per barrel.

In April, nonfarm payrolls added 288,000 jobs, and revisions to the previous two months' estimates resulted in a gain of 36,000 additional jobs. Payroll gains were higher than anticipated and well above the first quarter monthly average of 169,000. The unemployment rate fell four-tenths of a percentage point in April to 6.3%, as a decrease in civilian employment was outpaced by a larger drop in the labor force.

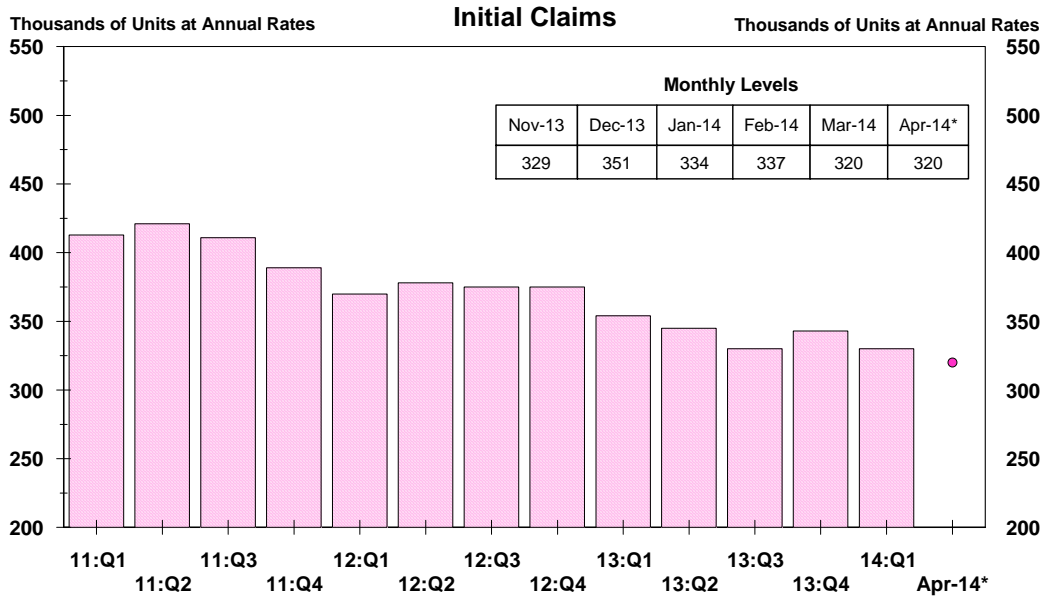
Nonfarm Payroll Employment



Unemployment Rate



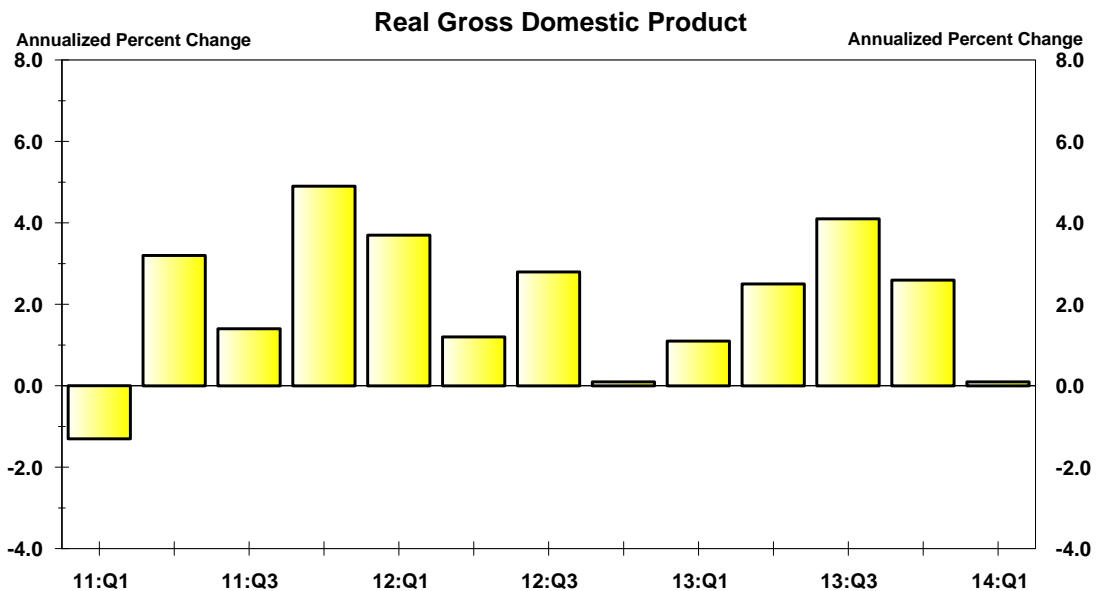
Initial claims for unemployment insurance decreased, on average, in the first quarter after rising in the fourth quarter. Claims fell further at the beginning of April but picked up in the last couple of weeks, resulting in a monthly average that was unchanged from its level in March.



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

* 4-wk. ave. ending April 26

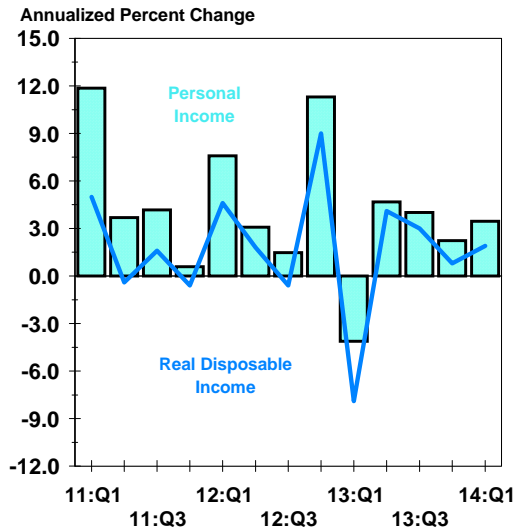
The deceleration in real GDP in the first quarter primarily reflected downturns in exports and in nonresidential fixed investment, a larger decrease in private inventory investment, a deceleration in PCE, and a downturn in state and local government spending that were partly offset by an upturn in federal government spending and a downturn in imports.



Source: Bureau of Economic Analysis / Haver Analytics.

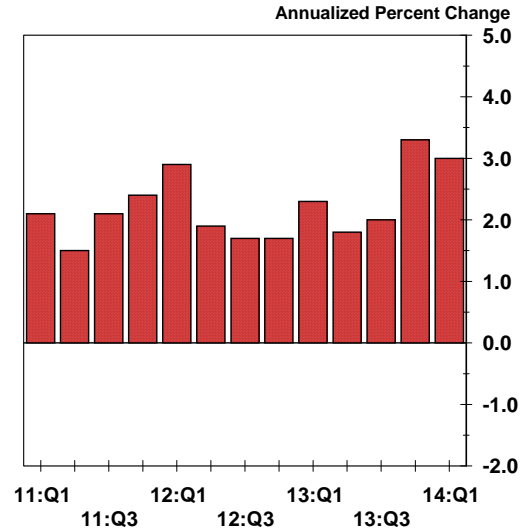
In the first quarter, growth in both nominal and real personal income accelerated, after slowing in the previous two quarters. Consumption decelerated in the first quarter, despite the higher real income, but continued to be a primary contributor to GDP growth.

Personal Income



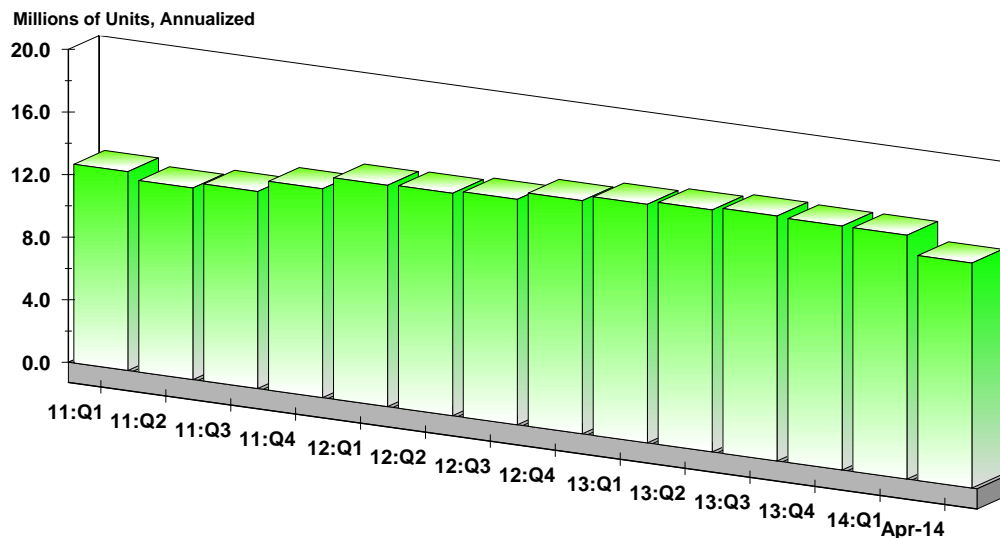
Source: Bureau of Economic Analysis / Haver Analytics.

Real Consumption



Lightweight vehicle sales inched up in April, slightly above their March level, but not quite reaching their first quarter average. Sales in April were largely supported by increased demand for smaller, more fuel-efficient vehicles as consumers looked to combat elevated gas prices.

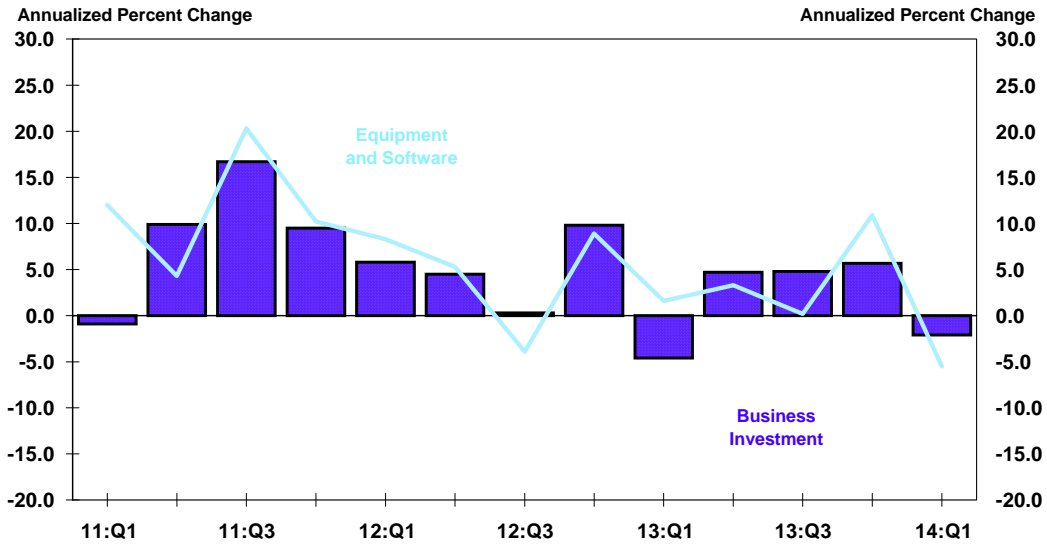
Total Auto and Light Truck Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment decreased in the first quarter for the first time in one year, and equipment and software investment also declined after a strong increase in the fourth quarter.

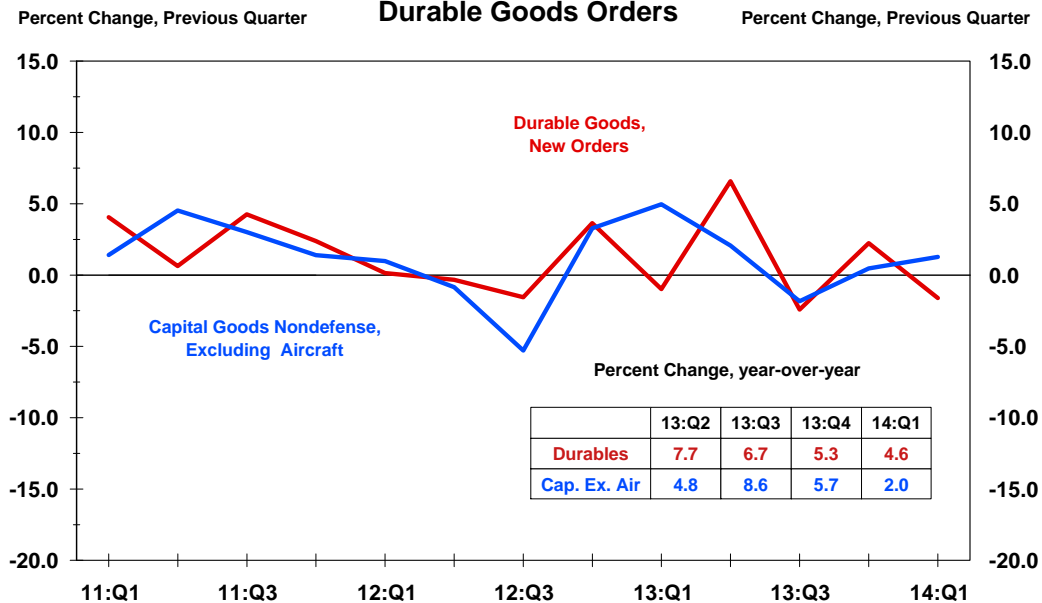
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, durable goods orders decreased and orders of nondefense capital goods, excluding aircraft, ticked up but remained subdued. On a year-over-year basis, growth of both durable goods orders and core orders continued to decelerate.

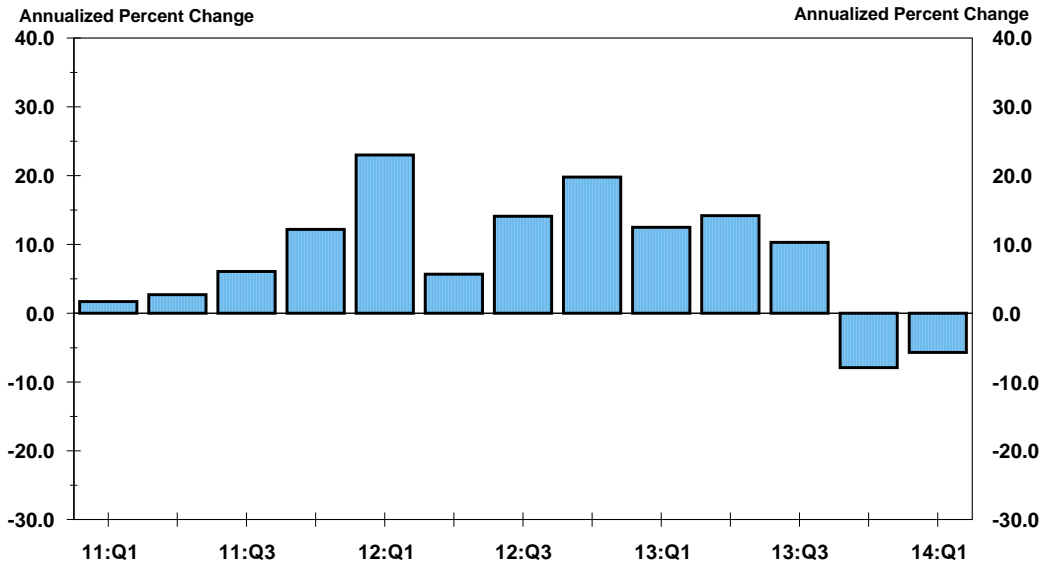
Durable Goods Orders



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

Residential investment decreased for the second consecutive quarter, albeit at a slightly slower rate than that seen in the fourth quarter.

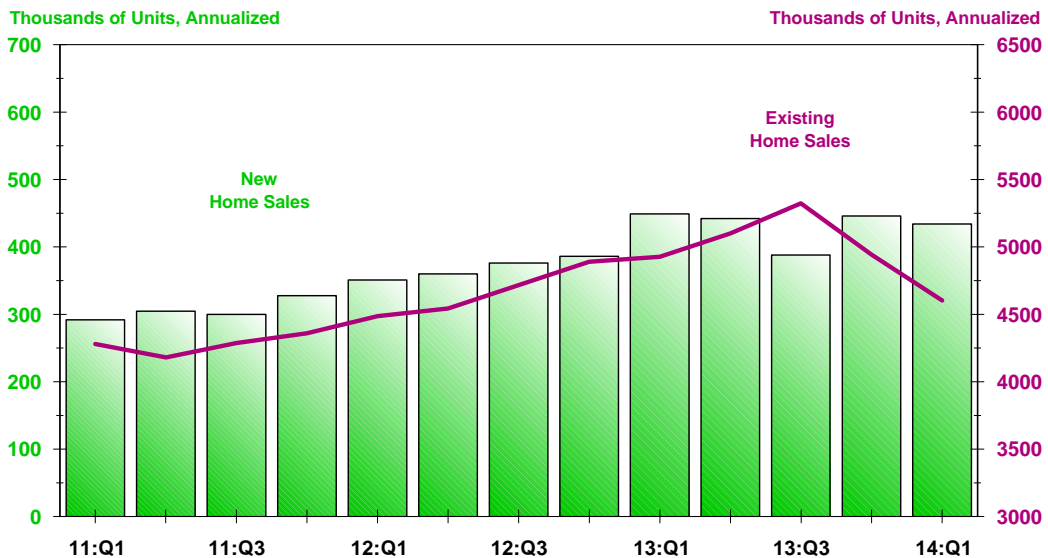
Residential Investment



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

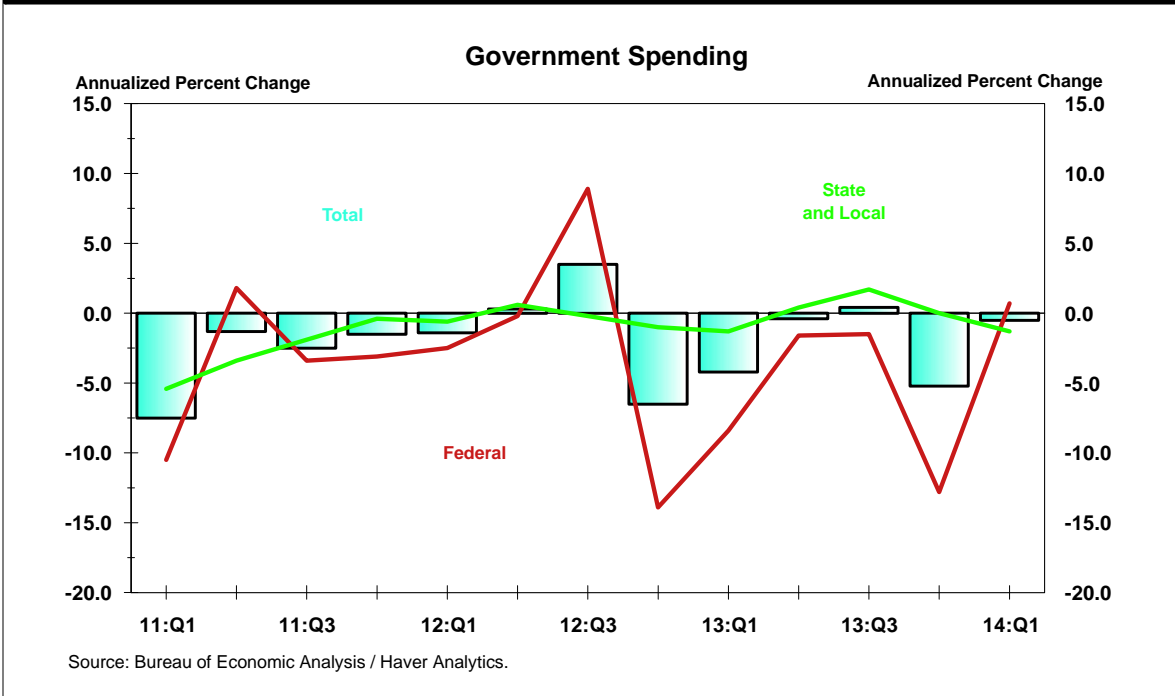
New home sales eased slightly in the first quarter, following a solid increase in the previous quarter. Meanwhile, existing home sales posted a decline for the second consecutive quarter, and have more than erased the gains seen in 2013.

New and Existing Home Sales

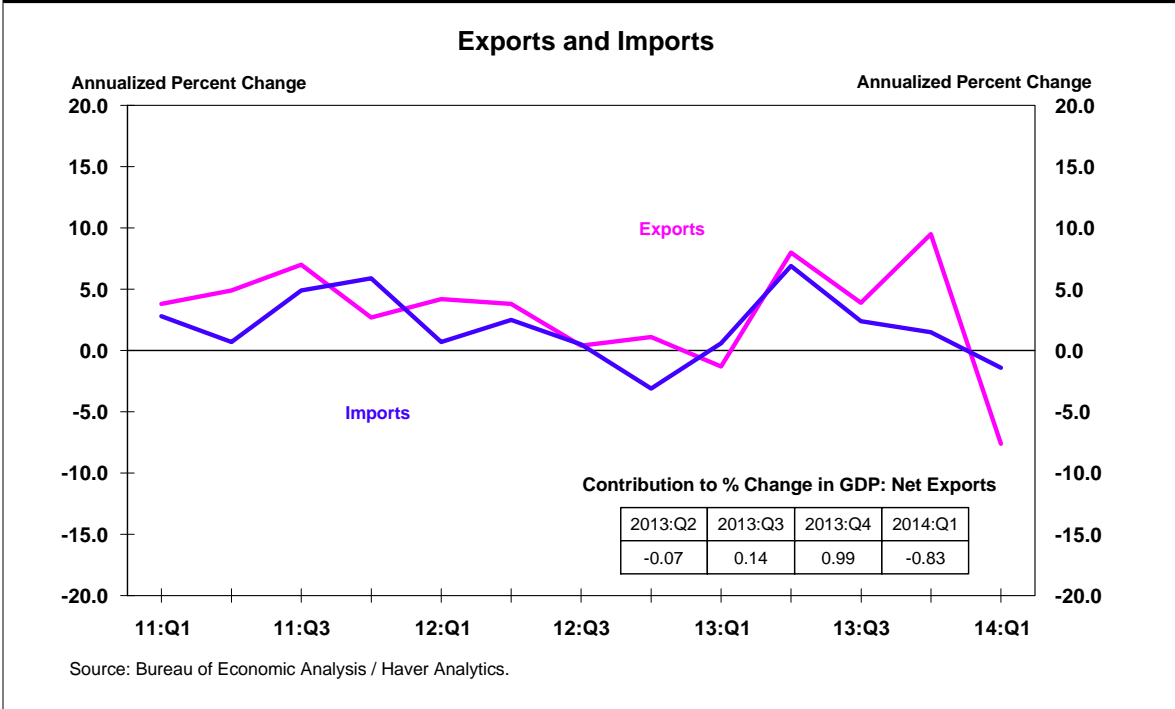


Source: U.S. Census Bureau / Haver Analytics.

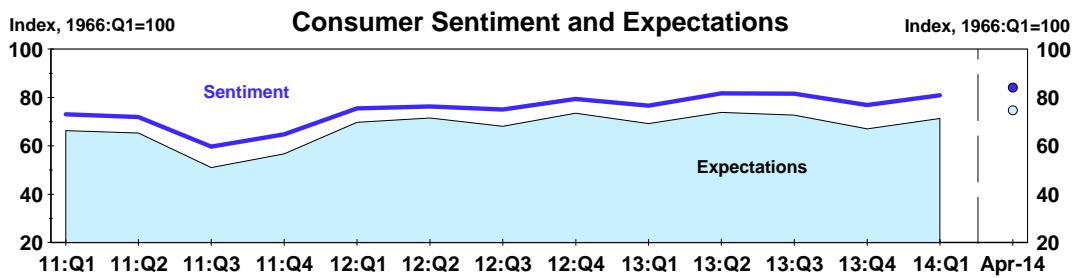
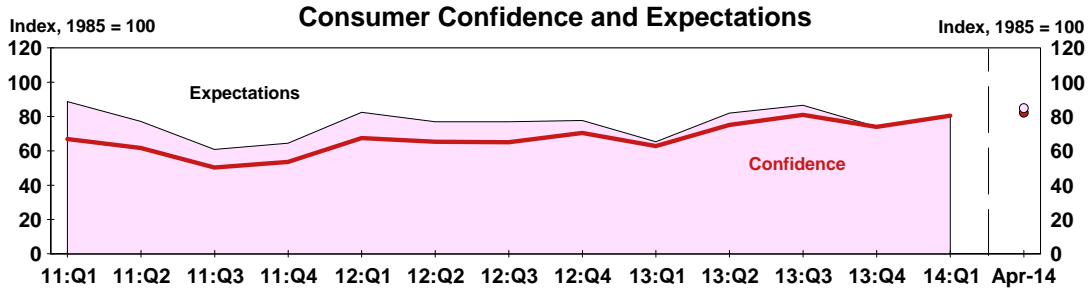
Government spending declined again in the first quarter, although not as much as in the previous quarter, subtracting one-tenth of a percentage point from GDP growth. State and local government cutbacks contributed to the decline in overall government expenditures, as federal government spending ticked up.



Imports declined in the first quarter, while exports fell at their fastest rate in five years. Overall net exports were a drag on GDP in the first quarter, after adding nearly one percentage point to GDP growth in the fourth quarter.

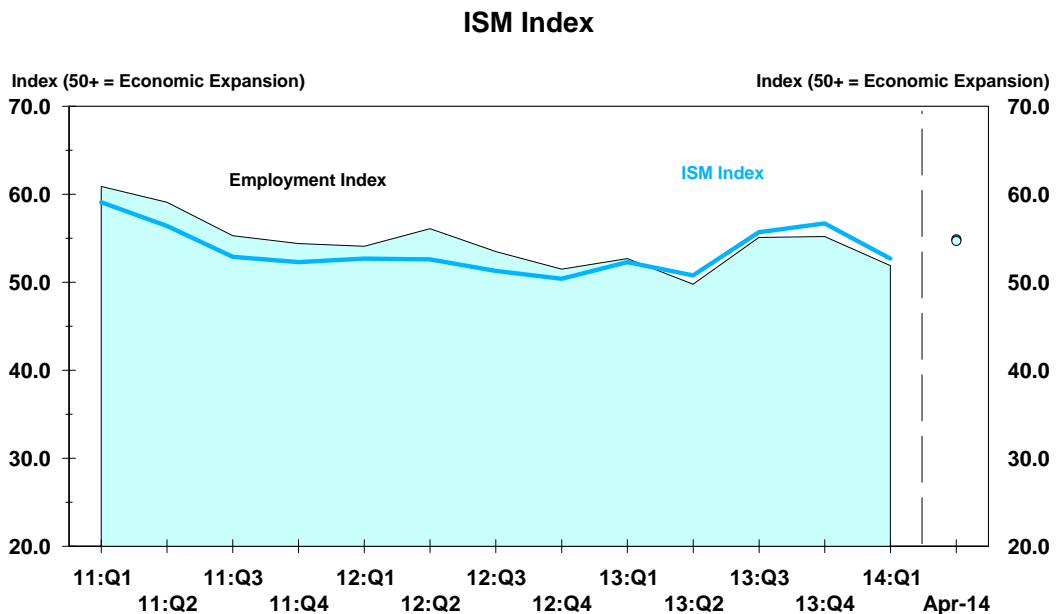


Consumer confidence fell unexpectedly in April, but was still higher than its first quarter average. Sentiment increased in April, reaching its highest level since July 2013. In general, consumers remained optimistic towards the economic outlook, while respondents to the confidence survey were less upbeat towards current business and labor market conditions.



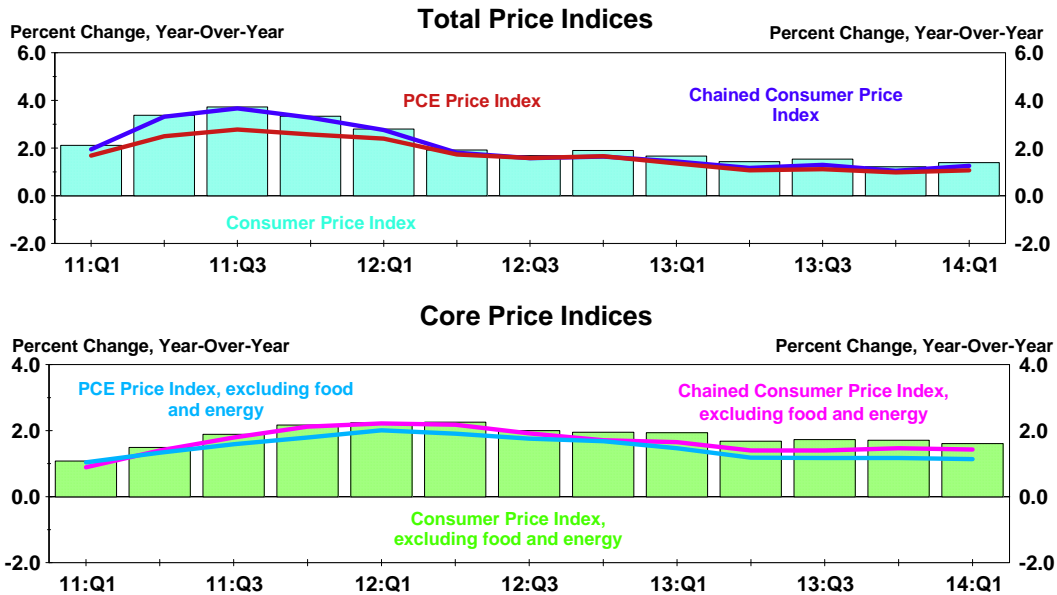
Source: The Conference Board (confidence) and University of Michigan (sentiment) / Haver Analytics.

Both the ISM index and the employment index improved in April to their highest levels so far this year, indicating continued expansion of the manufacturing sector.



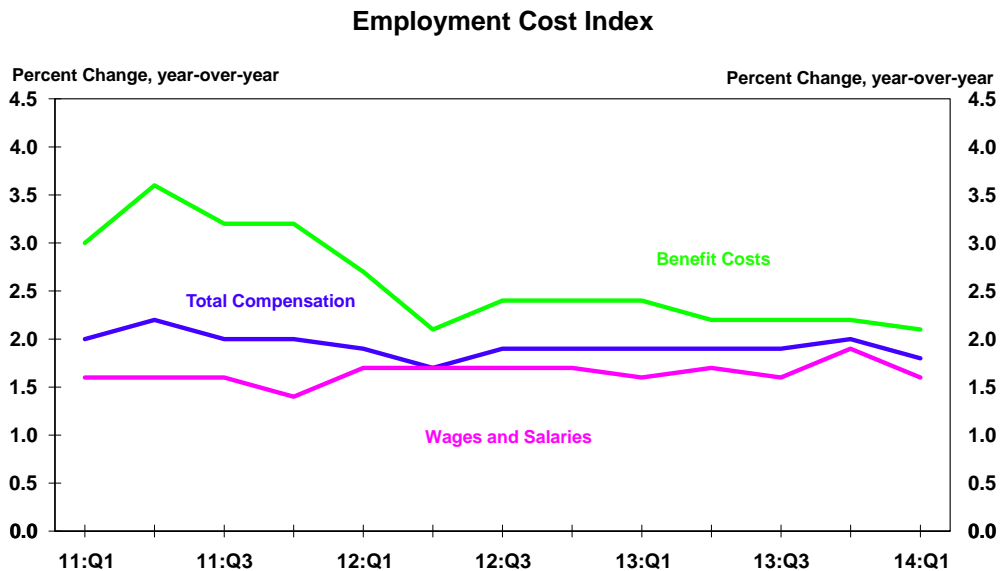
Source: Institute for Supply Management / Haver Analytics.

Growth in total consumer prices accelerated a bit in the first quarter, after easing in the fourth quarter. Growth in core prices was little changed from that of the prior three quarters, registering a slight deceleration in the first quarter and remaining subdued.



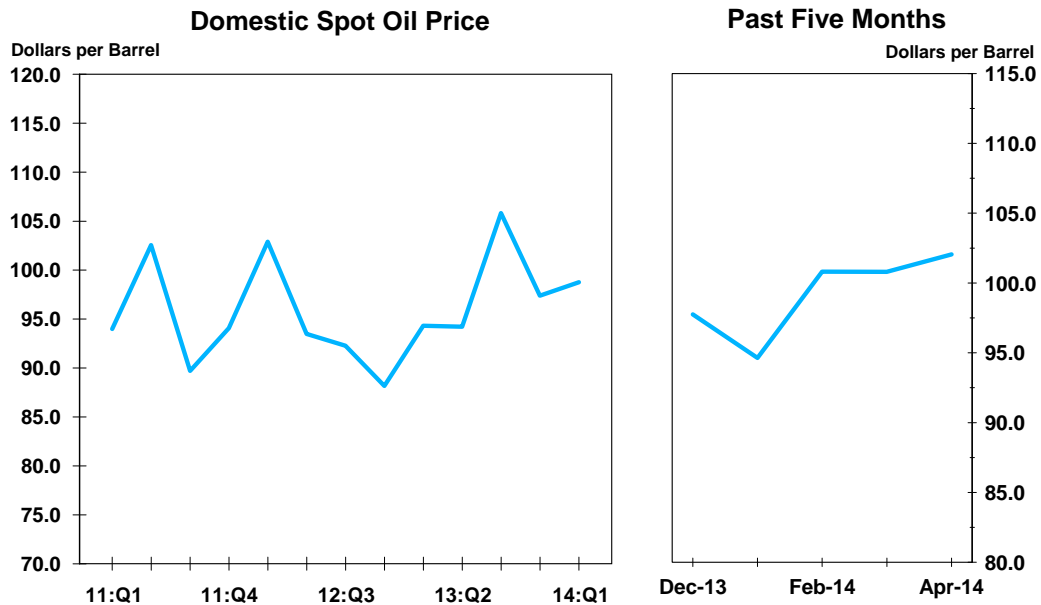
Source: Bureau of Labor Statistics / Haver Analytics.

In the first quarter, total compensation growth eased as both benefit costs growth and wage and salary growth slowed.



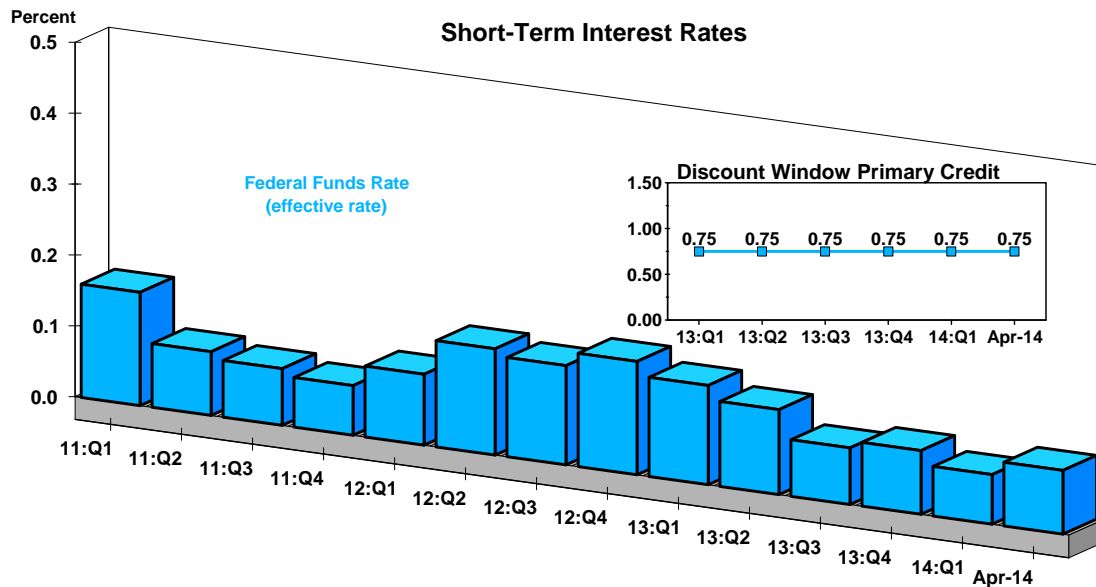
Source: Bureau of Labor Statistics / Haver Analytics.

Oil prices rose slightly during the first quarter, averaging just under \$99 per barrel, after declining in the fourth quarter of last year. Prices continued to rise in April, averaging \$102 per barrel.



Source: Wall Street Journal / Haver Analytics.

Data since your last Directors' meeting show that growth in the economy continued to slow in the first quarter but suggest a rebound in growth in the second quarter. Support from consumer spending remains resilient and the labor market showed further signs of strengthening, while gains in the housing market continue to ease. Contributing to the slowdown in the first quarter were effects that are likely to be temporary - namely the results of adverse weather conditions - and growth is expected to pick up moderately over the rest of the year.



Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni