



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

October 7, 2014

CURRENT ECONOMIC DEVELOPMENTS - October 7, 2014

Data released since your last Directors' meeting show the economic recovery has continued at a moderate pace, although growth in the second half of the year is likely to slow from the strong expansion seen in the second quarter. The labor market continued to improve and consumer spending strengthened, yet consumer attitudes were mixed. The manufacturing sector continued to expand, while growth in the housing market remained subdued. Economic and political tensions abroad pose areas of concern.

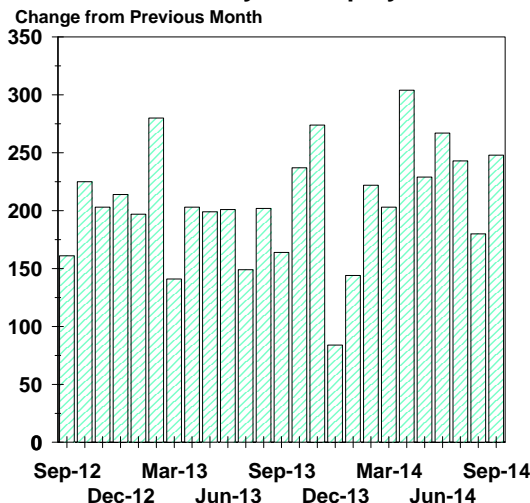
In September, nonfarm payrolls posted a larger than expected gain, and job increases in the previous two months were revised higher. The unemployment rate fell two-tenths of a percentage point to 5.9% in September, as civilian employment increased while the size of the labor force declined. Initial claims for unemployment insurance eased, on average, in the first four weeks of September and are in line with the eight-year low seen in July. Consumer attitudes were mixed in September as the index measured by the University of Michigan increased, while that measured by the Conference Board fell. 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 an acceleration in consumption growth.

Housing data was mixed in August. New home sales rose at their fastest pace in over six years, while existing home sales decreased. Housing starts and building permits both fell in August. In the business sector, the ISM index eased in September but remained above 50, signaling expansion in manufacturing. Industrial production and capacity utilization both declined in August, as did durable goods orders. However, the drop in durable goods orders was mostly due to aircraft orders returning to trend after surging in July, and orders of nondefense capital goods, excluding aircraft, rose in August.

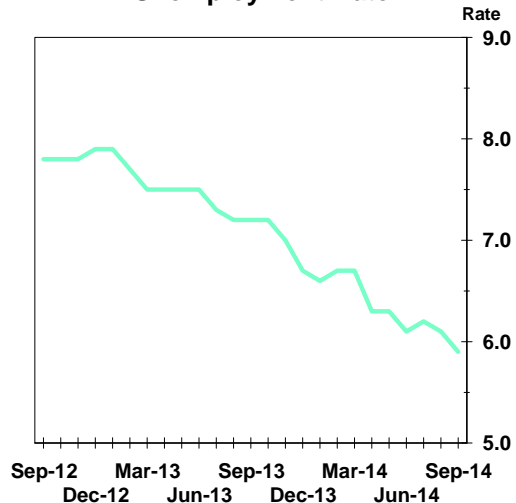
Headline consumer prices eased in August, partly due to lower energy prices, but core measures also decelerated. Oil prices in the third quarter reached their lowest quarterly average in one year, and they continued to fall in early October.

The September employment report was stronger than expected, and payroll gains in the previous two months were revised higher. The 224,000 jobs added per month, on average, in the third quarter was down from the second quarter, but still above the twelve-month average. The unemployment rate fell two-tenths of a percentage point to 5.9% in September, due to a decrease in the size of the labor force, as well as an increase in civilian employment.

Nonfarm Payroll Employment



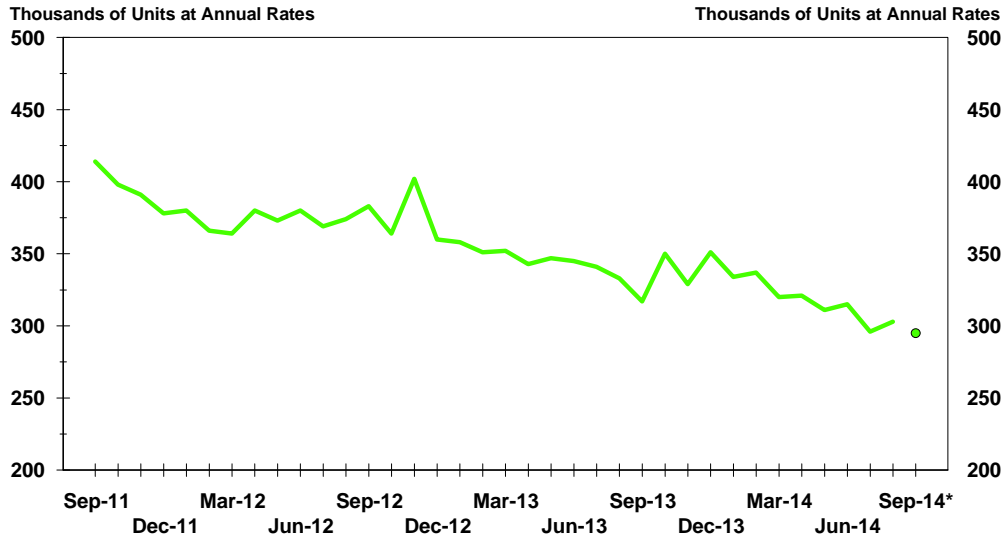
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance fell below 300,000 again in September, after rising slightly above that mark in August. Claims are now in line with the rate seen in July, which was an eight-year low.

Initial Claims

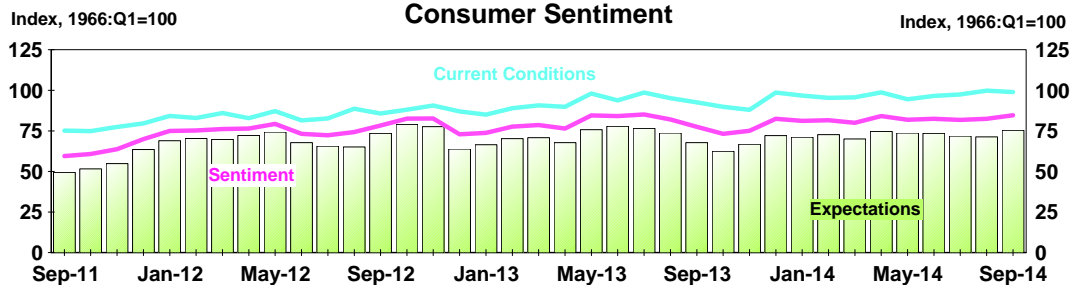


Source: Department of Labor, Employment and Training Administration / Haver Analytics.

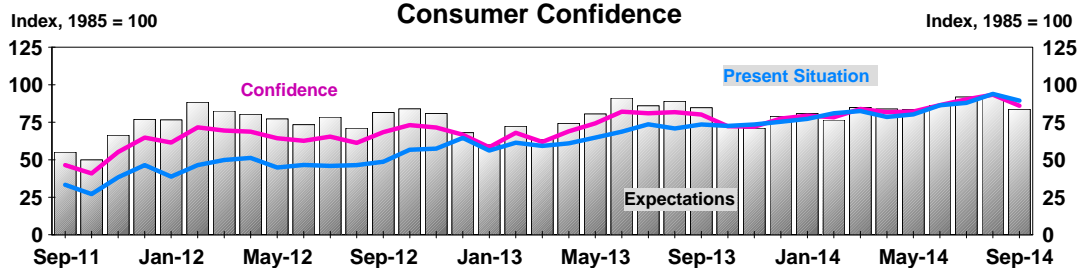
* 4-wk. ave. ending September 27

Measures of consumer attitudes were mixed in September. The sentiment index rose to its highest level since July 2013, due to an increase in expectations, while the confidence index declined for the first time in five months. The decrease in confidence was partly due to less optimism about the current labor market, as well as lower expectations for economic growth. However, respondents to the sentiment survey were more optimistic about future economic prospects and personal income.

Consumer Sentiment

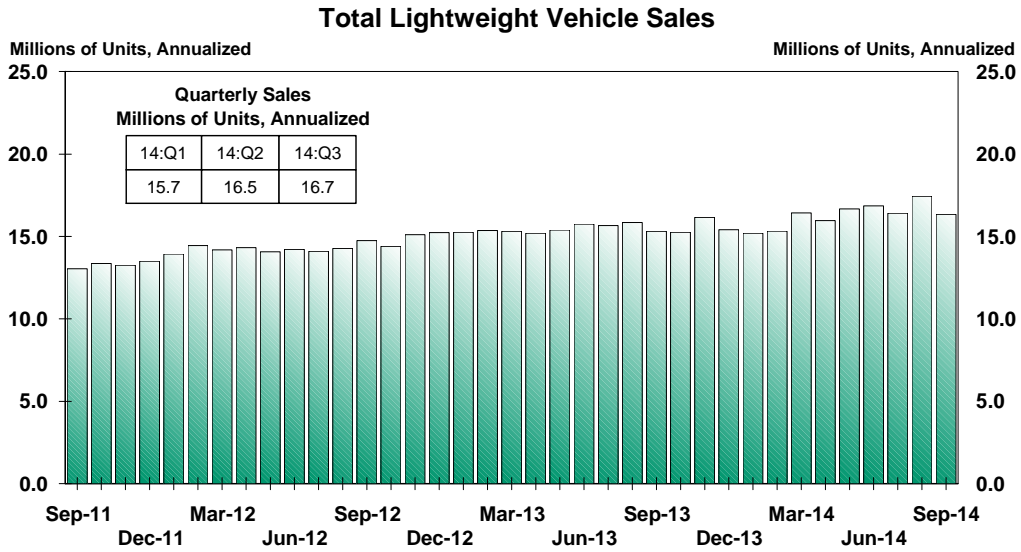


Consumer Confidence



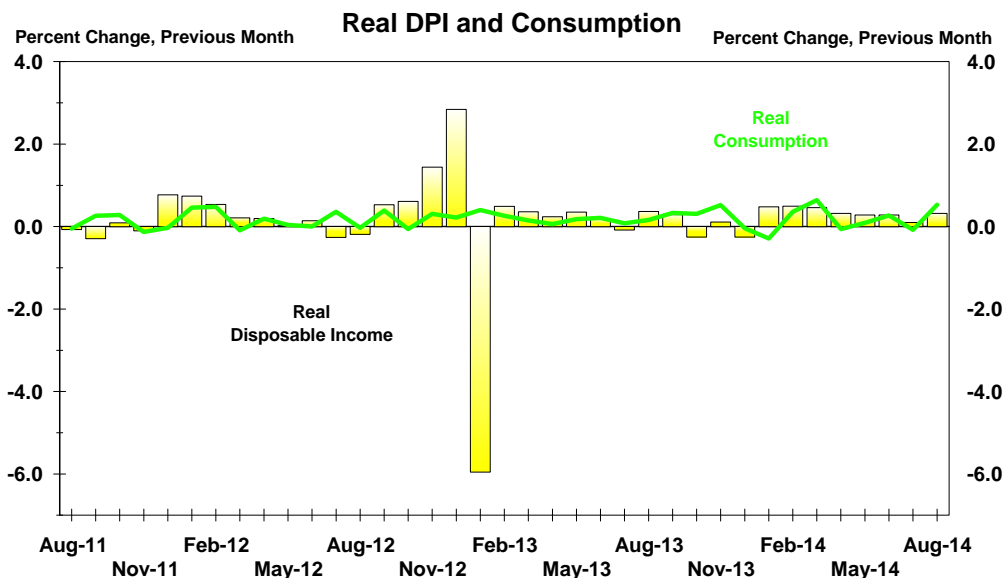
Source: University of Michigan (sentiment) and The Conference Board (confidence) / Haver Analytics.

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.



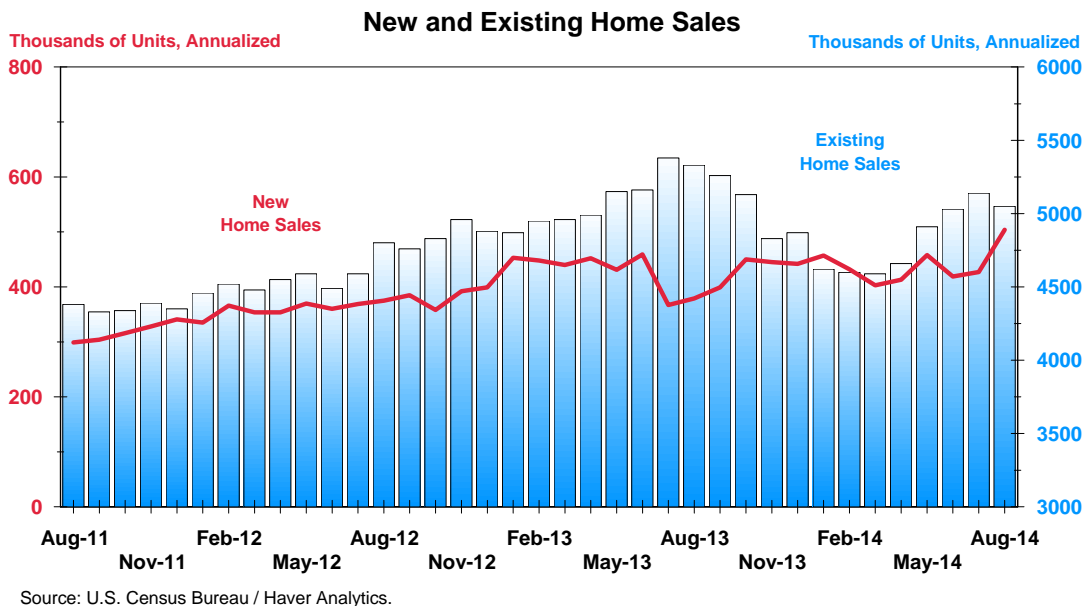
Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in August, posting their largest monthly increase since April. Income changes have been positive, albeit small, in each month so far this year, yet consumer spending has been slightly volatile. Consumption rose in August, posting its largest increase in five months, after declining in July.

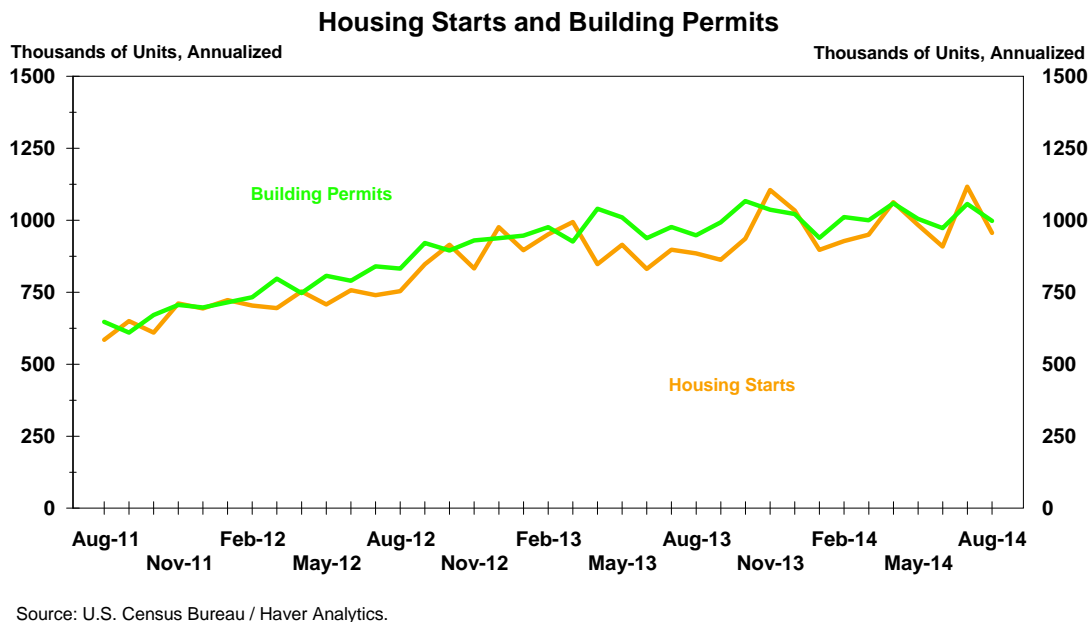


Source: Bureau of Economic Analysis / Haver Analytics.

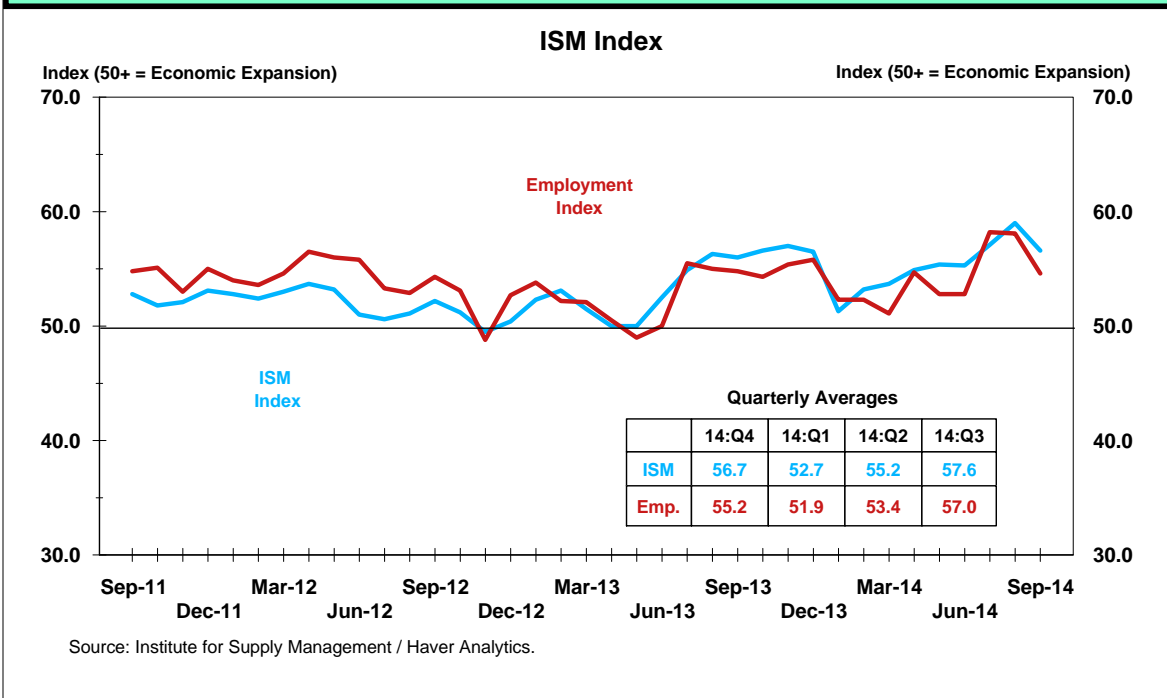
Home sales data was mixed in August. New home sales surged in August to their fastest pace in over six years, and sales in July were revised higher. Meanwhile, existing home sales fell in August, after rising in each of the previous four months.



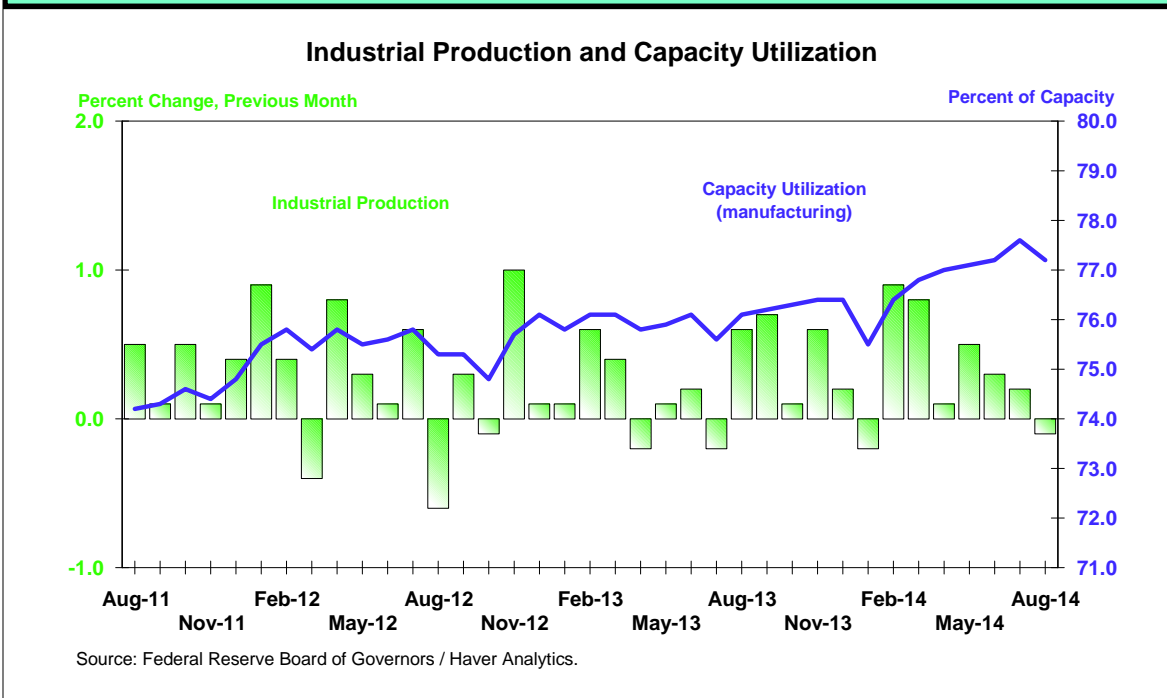
Housing starts and building permits fell in August, after increasing in July. Both series have been volatile so far this year, and are currently below their twelve and six month averages. The declines in both series were led by large decreases in the multifamily sector, yet single family starts and permits also fell.



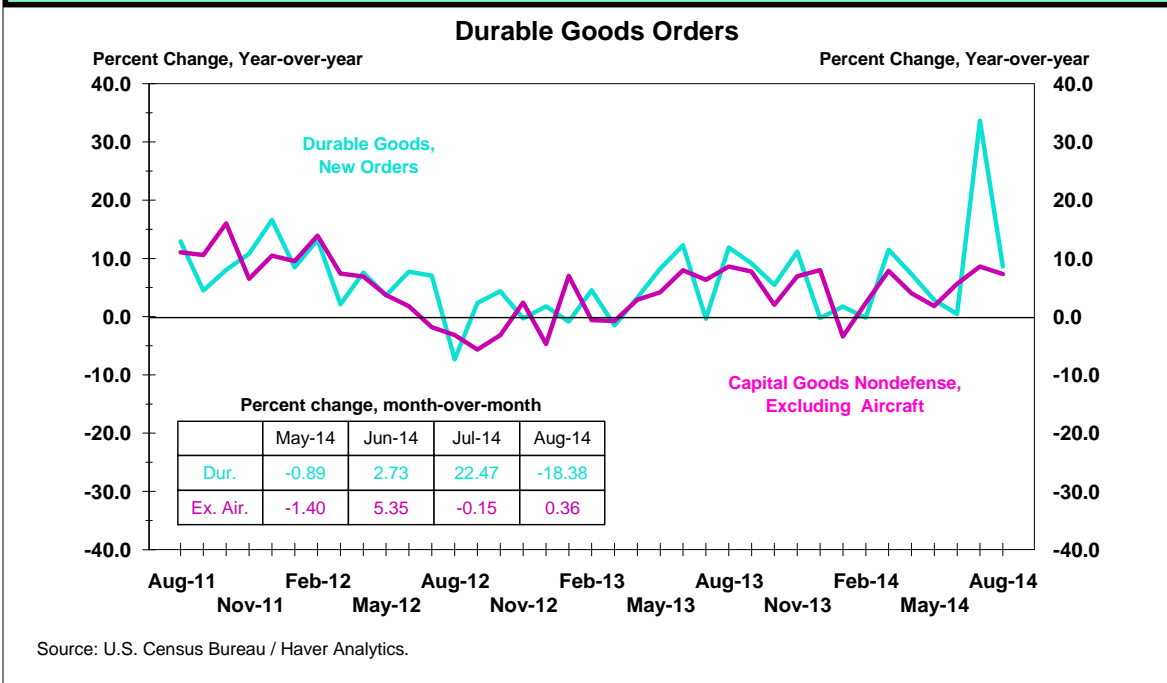
The ISM manufacturing index decreased in September, but remained well over 50. Readings above 50 indicate manufacturing expansion. The employment component of the index also declined in September. However, both indices increased on average in the third quarter.



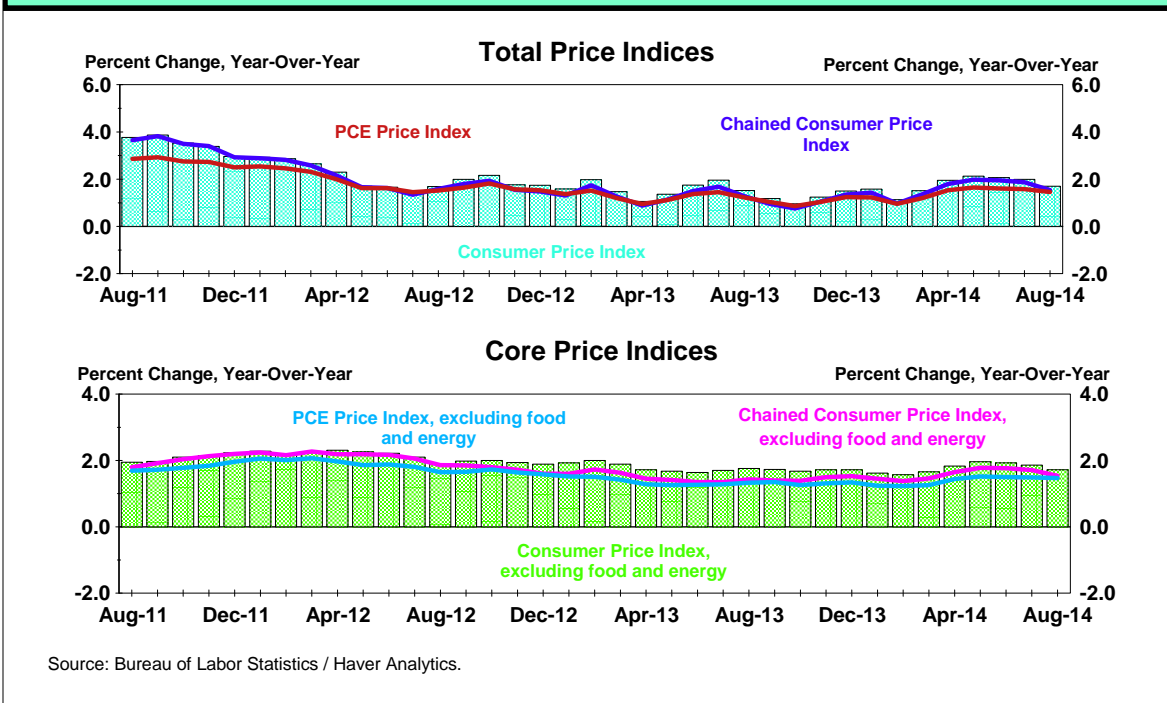
In August, industrial production fell for the first time since January, due to a decrease in manufacturing production. Both mining and utilities production posted gains in August. Capacity utilization also declined in August, offsetting the increase seen in July.



Durable goods orders decelerated on a year-over-year basis and plunged in August compared to July, mostly due to a return to normal aircraft orders from July's surge. Orders of nondefense capital goods, excluding aircraft, rose in August compared to July but eased slightly on a year-over-year basis.

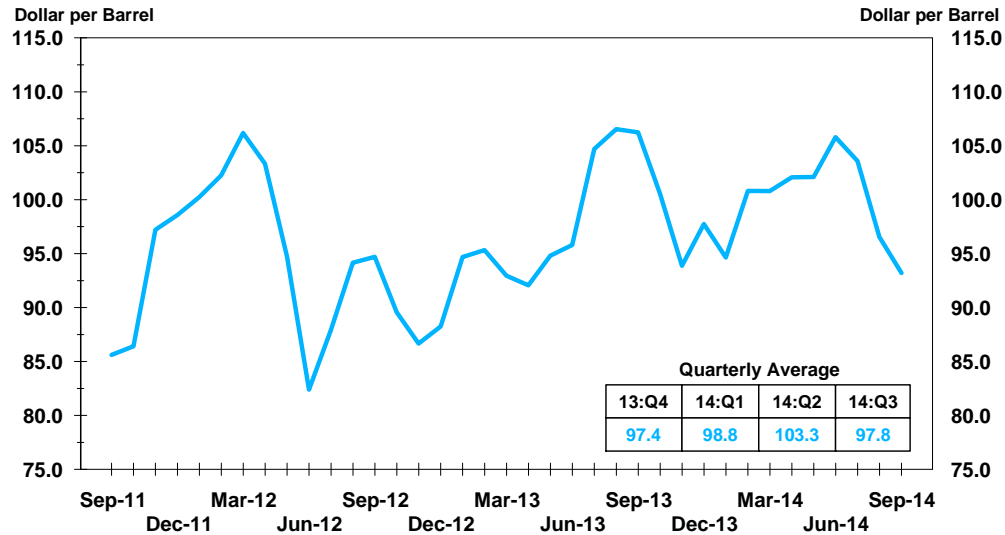


Growth in headline prices eased in August for the third consecutive month. Growth in core prices, which exclude food and energy, also continued to decelerate.



Oil prices continued to ease in September, reaching their lowest monthly average since April-2013. The third quarter average was the lowest quarterly average in one year. Prices continued to fall in early October, reaching \$90.3 per barrel as of October 6th.

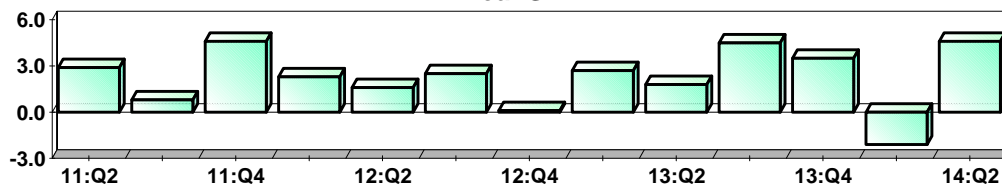
Domestic Spot Oil Price



Source: Wall Street Journal / Haver Analytics.

Real GDP growth was revised higher in the final second quarter estimate, primarily reflecting upward revisions to nonresidential fixed investment and to exports.

Real GDP



Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	4.2	4.6
Consumption	2.5	2.5
Business Investment	8.4	9.7
Equipment & Software	10.7	11.2
Residential Investment	7.2	8.8
Government	1.4	1.7
Exports	10.1	11.1
Imports	11.0	11.3
Final Sales	2.8	3.2

Source: Bureau of Economic Analysis / Haver Analytics.

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