



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

September 2, 2014

CURRENT ECONOMIC DEVELOPMENTS - September 2, 2014

Data released since your last Directors' meeting show the economy grew at a faster pace in the second quarter than originally thought. Growth is expected to slow in the third quarter but remain above trend throughout the second half of the year. Recent data has been mixed, with support from manufacturing and improvement in the labor market partially offset by weakness in consumer spending. However, consumer attitudes have improved and housing data have been more positive. Economic and political tensions abroad pose areas of concern.

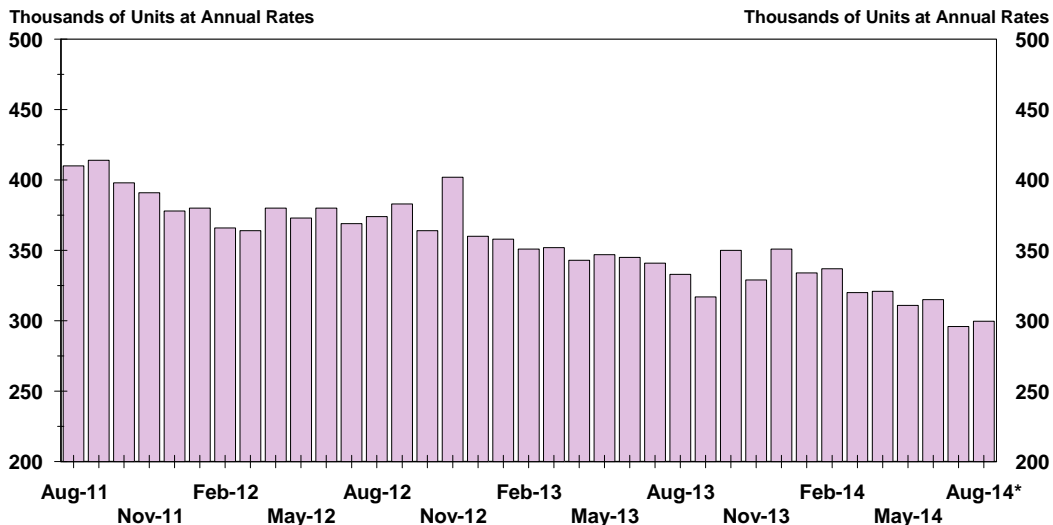
In August, initial claims increased slightly but remained near the eight-year low seen in July. Consumer attitudes improved, as consumers felt more strongly about current conditions. In July, consumption posted its biggest decline since January, despite a small increase in disposable incomes.

The housing market showed mostly positive signs in July. Existing home sales, housing starts and building permits all increased, while new home sales declined. In the manufacturing sector, the ISM index improved to a three-year high in August and continued to signal expansion. Industrial production and capacity utilization both rose in July, with utilization reaching a six-year high. Also in July, orders for both durable goods and nondefense capital goods, excluding aircraft, continued to post strong year-over-year gains.

Both total and core price indices continued to decelerate in July. Oil prices fell in August, leading to their lowest monthly average since January.

Initial claims for unemployment insurance ticked up a bit in August, but remained below 300,000 on average. Weekly claims in July had registered their lowest monthly average since February 2006.

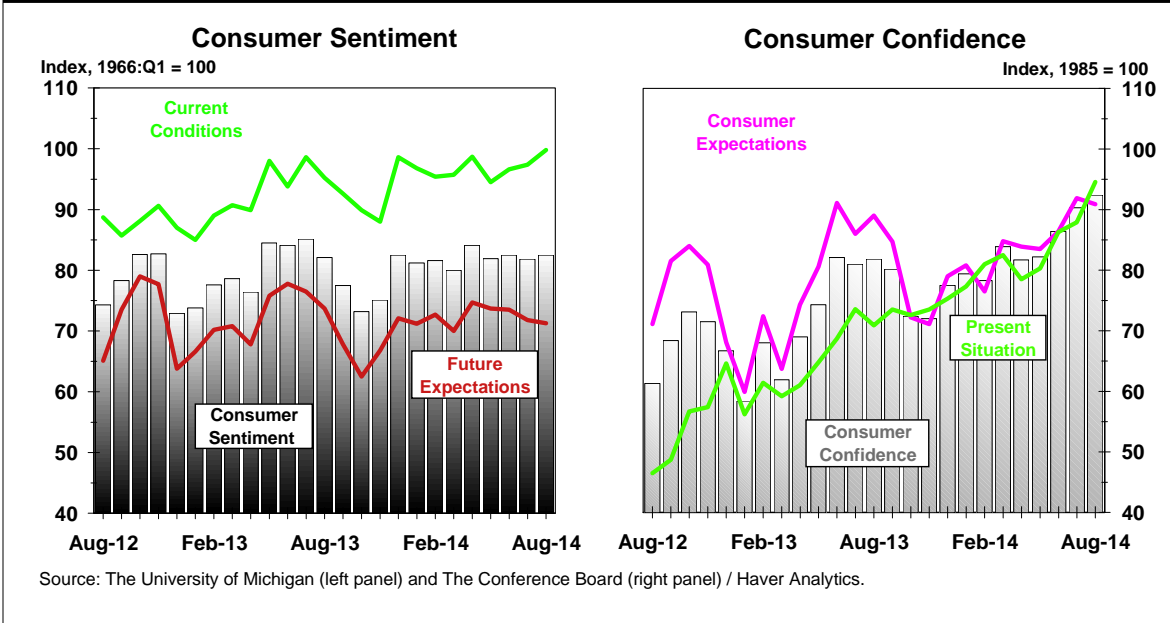
Initial Claims



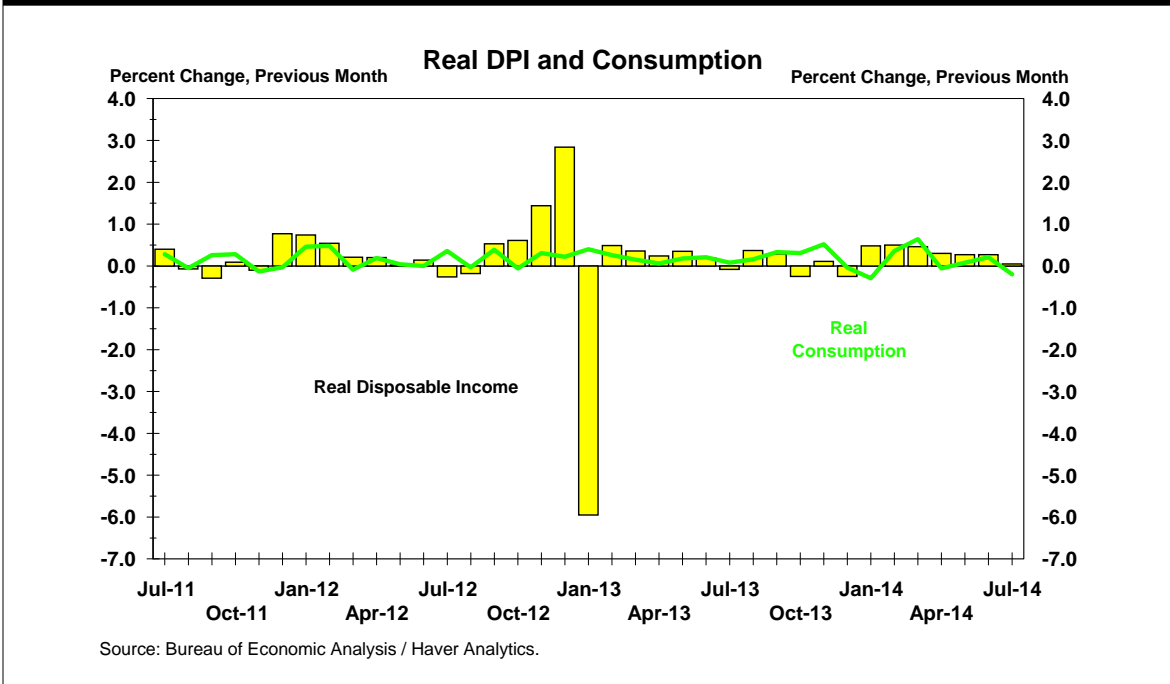
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

* 4-wk. ave. ending Aug 23

Consumer attitudes improved in August due to better feelings towards current conditions, offsetting declines in future expectations. The Conference Board's confidence index increased to its highest level since October 2007. Consumer attitudes were more positive towards business conditions and the labor market, while expectations for personal finances and negative perceptions about government economic policies remain areas of concern.

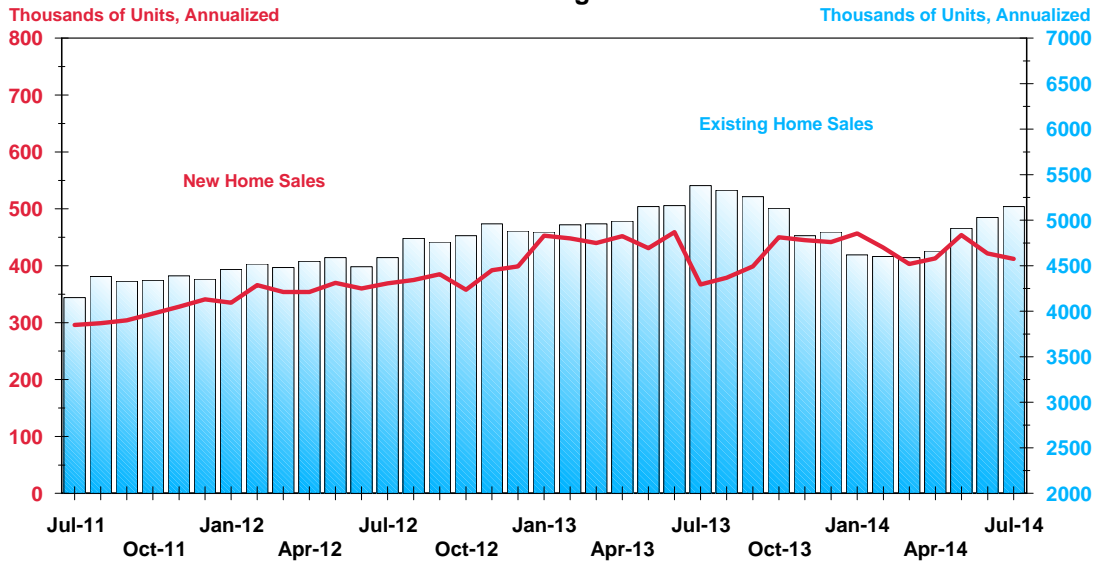


In July, real incomes increased for the seventh consecutive month, albeit at their lowest rate so far this year. The higher incomes failed to boost spending, however, as consumption decreased in July. The decline in consumption in July was partly due to a decrease in vehicle sales and lower spending on electricity as a result of unseasonably mild weather.



Home sales data was mixed in July. Existing home sales rose for the fourth consecutive month, reaching their highest sales pace since September. Meanwhile, new home sales fell in July for the second month in a row.

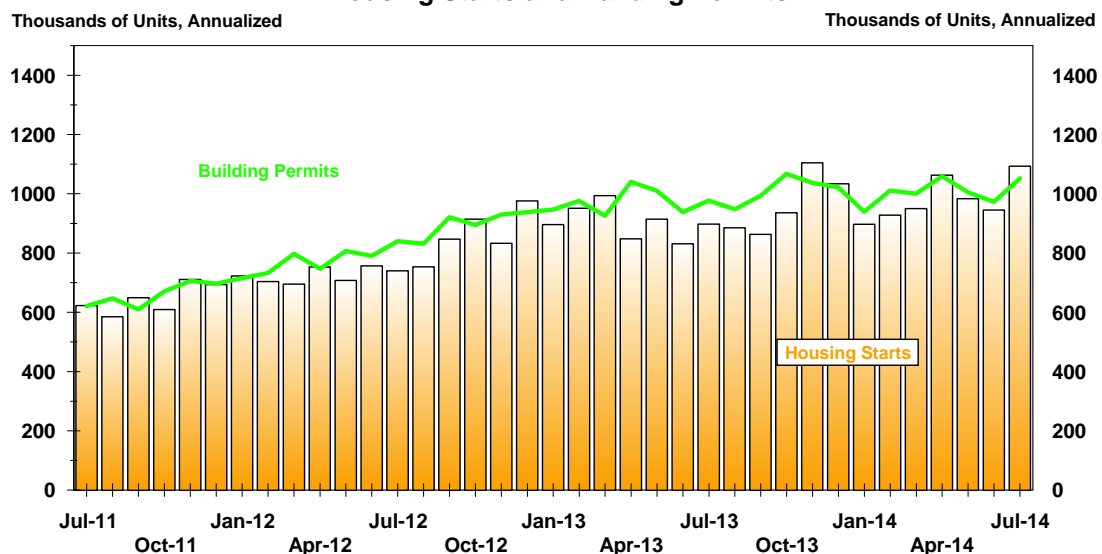
New and Existing Home Sales



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

New construction picked up in July, as housing starts and building permits both increased, and housing starts reached their highest rate since November. Starts and permits had both declined in each of the prior two months.

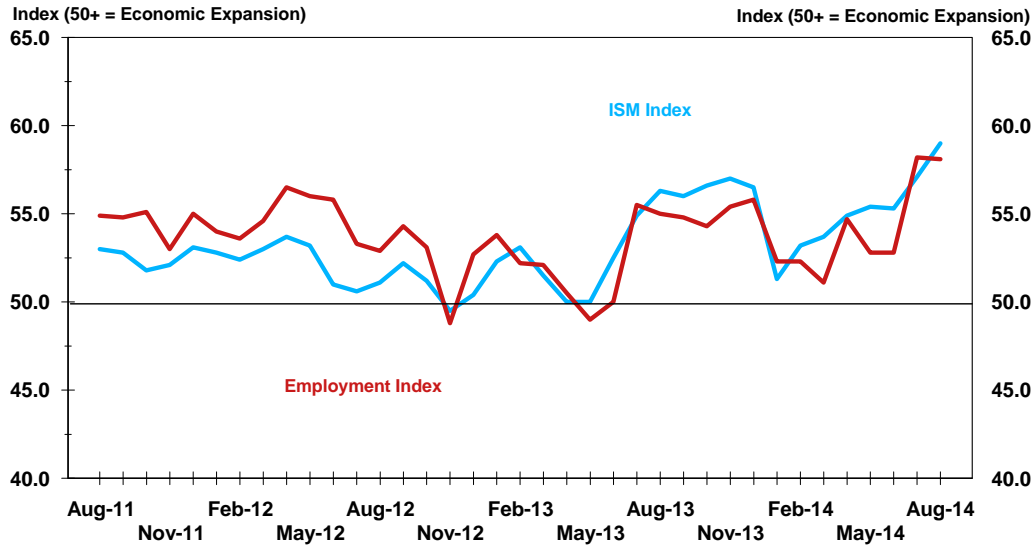
Housing Starts and Building Permits



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

The ISM manufacturing index rose in August, reaching its highest level in over three years and continuing to signal expansion in the manufacturing sector. The employment index held relatively steady in August, easing just one-tenth of a percent from the three-year high seen in July.

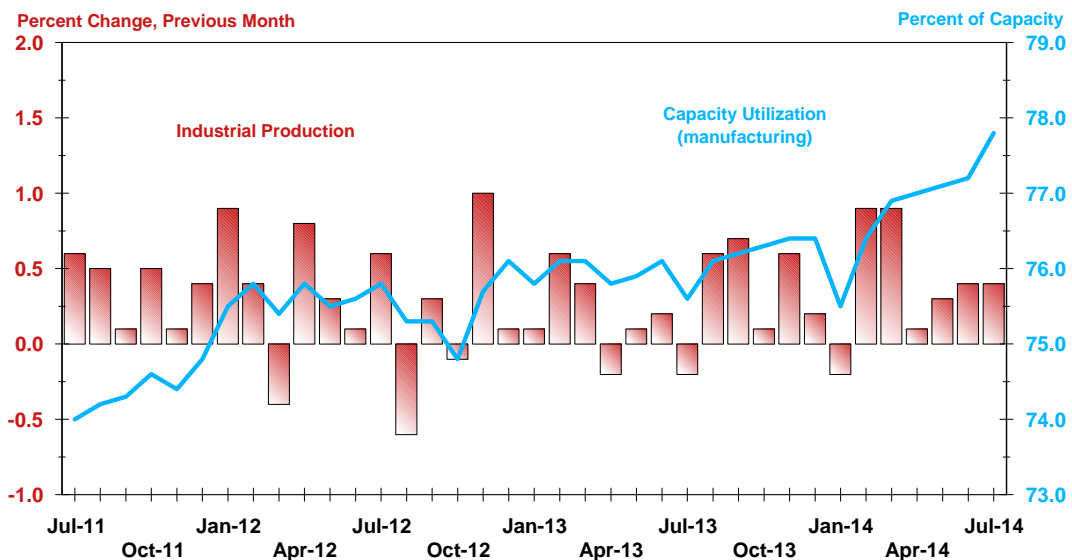
ISM Index



Source: Institute for Supply Management / Haver Analytics.

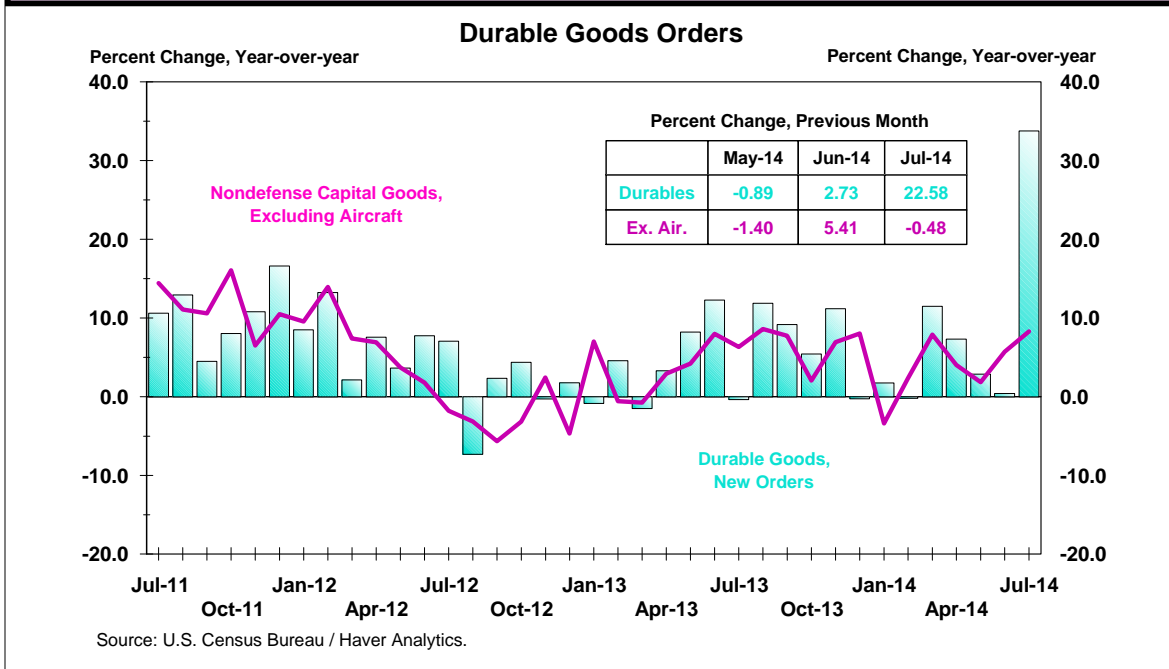
Industrial production posted an increase in July equal to its upwardly revised increase in June. Industrial production has risen in each of the past six months. Capacity utilization also rose in July, reaching its highest level in over six years.

Industrial Production and Capacity Utilization

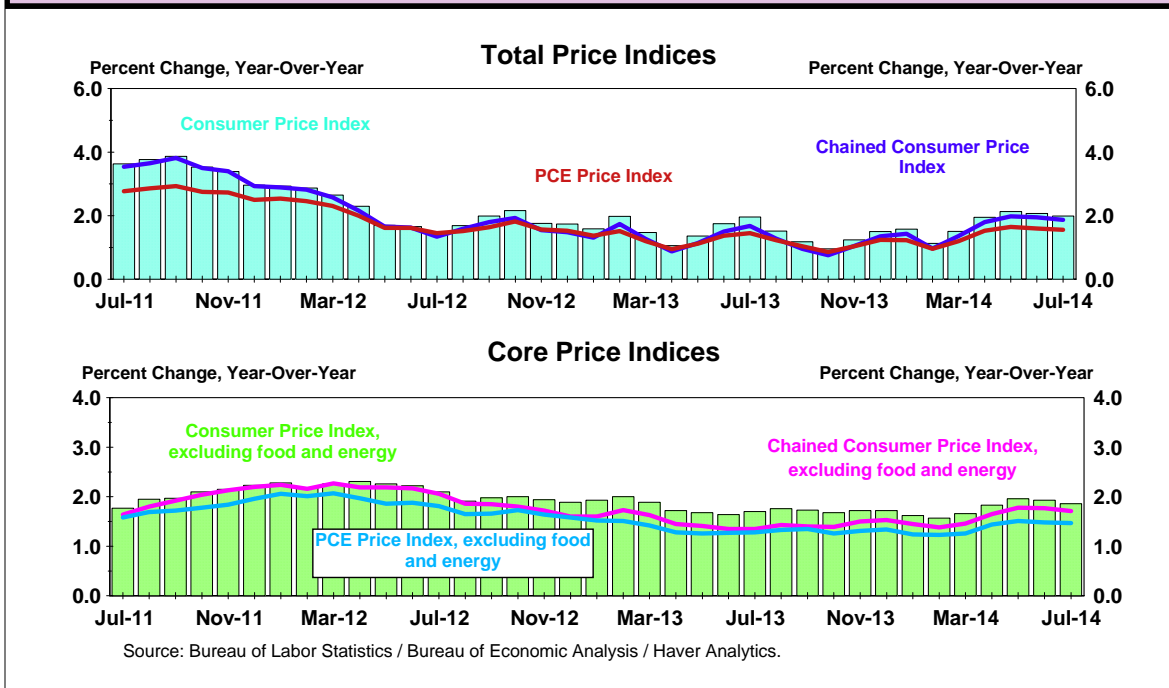


Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders surged on both a year-over-year and a monthly basis in July, driven by a large increase in orders for civilian aircraft. When excluding transportation, orders of durable goods eased slightly from June to July. Orders for nondefense capital goods, excluding aircraft, accelerated in July on a year-over-year basis, despite a small drop from their June level.

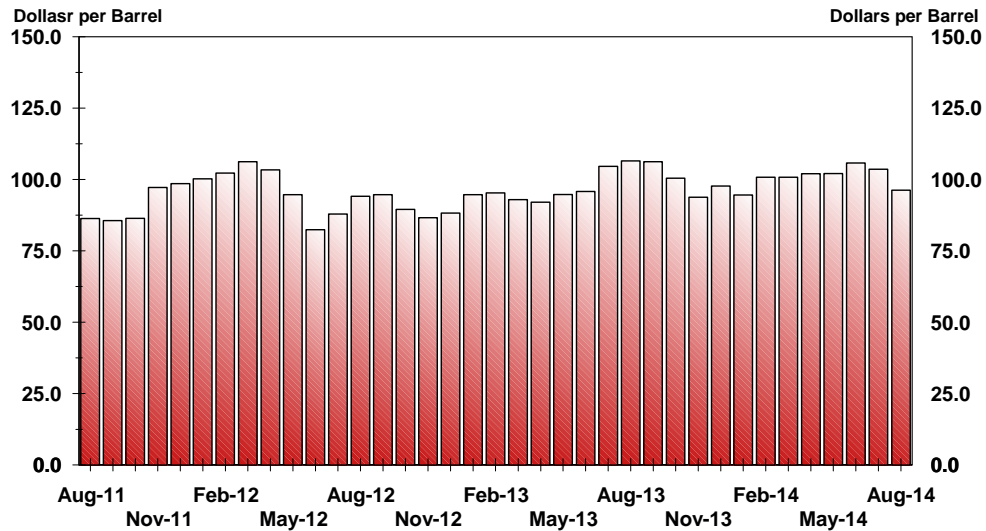


Headline consumer prices continued to decelerate in July. Core prices, which exclude food and energy, also eased in July for the second consecutive month.



Oil prices fell in August and their monthly average was the lowest since January. Prices reached \$96.0 per barrel as of August 29.

Domestic Spot Oil Price



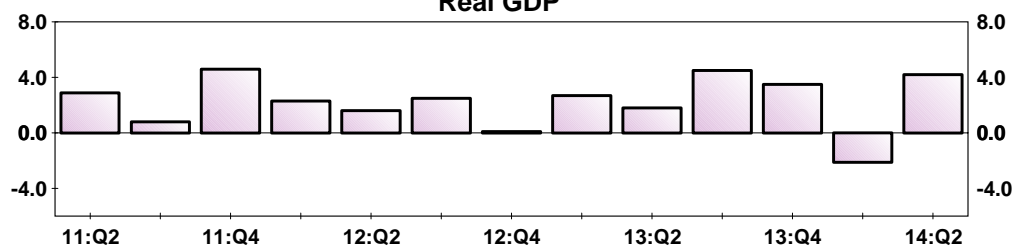
Source: Wall Street Journal / Haver Analytics.

Second quarter real GDP growth was revised higher in the second estimate. The upward revision to second quarter GDP growth primarily reflected an upward revision to nonresidential fixed investment and a downward revision to imports that were partly offset by a downward revision to private inventory investment.

Revisions to Second Quarter Real GDP

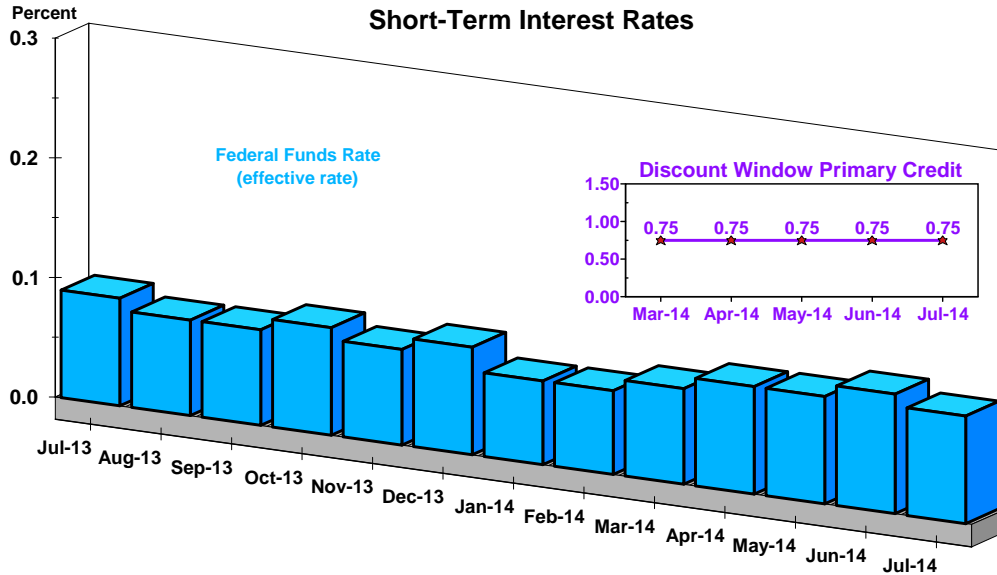
Description	Advanced	2nd Estimate
Real GDP	4.0	4.2
Personal Consumption	2.5	2.5
Business Investment	5.5	8.4
Equipment and Software	7.0	10.7
Government	1.6	1.4
Residential	7.5	7.2
Exports	9.5	10.1
Imports	11.7	11.0
Final Sales	2.3	2.8

Real GDP



Source: Bureau of Economic Analysis / Haver Analytics.

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Source: Federal Reserve Board of Governors / Haver Analytics.

Report compiled by Christy Marieni