



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

April 7, 2015

## CURRENT ECONOMIC DEVELOPMENTS - April 7, 2015

Data released since your last Directors' meeting showed no revision to the previously estimated slowdown in fourth quarter economic growth, and suggest growth likely slowed further in the first quarter. Meanwhile, growth in the manufacturing sector mostly showed signs of softening and housing market data were mixed. Adverse weather conditions likely contributed to the slower first quarter growth, but these effects are expected to subside as the economy rebounds to a moderate growth pace over the remainder of the year.

In March, nonfarm payrolls posted a much lower-than-expected increase and job gains for the previous two months were revised downward. The unemployment rate held steady at 5.5% in March. Initial claims for unemployment insurance decreased in March, after rising in February, and remain consistent with improvements in the labor market.

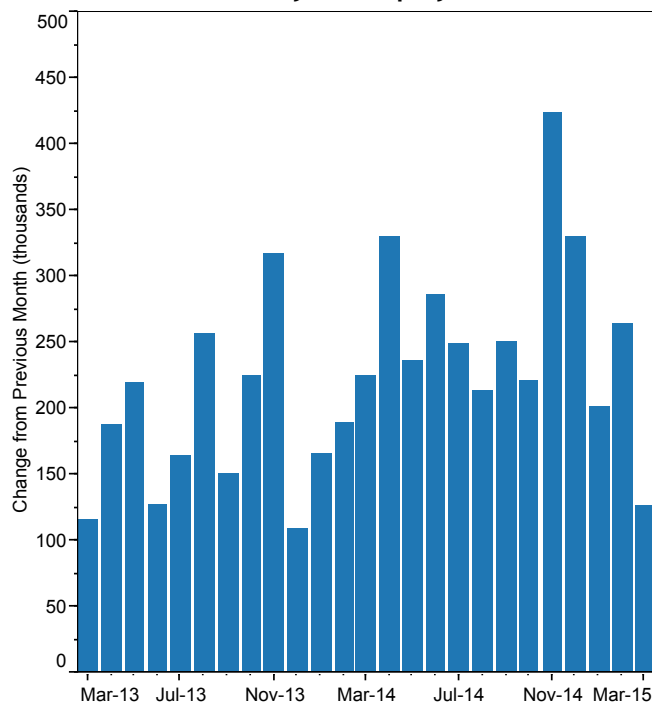
Consumer attitudes were mixed in March. The sentiment index fell to its lowest level since November, while the confidence index increased as respondents were more optimistic about future expectations for employment and income. In February, real incomes rose, while consumption posted a decrease for the first time since last April. Primary measures of real estate activity were mixed in February, as new and existing home sales rose during the month, while housing starts plunged. Building permits increased slightly in February, despite a decline in single-family permits.

In the manufacturing sector, the ISM index fell in March but continued to signal expansion. Industrial production ticked up in February due to an increase in utilities production, while capacity utilization declined. Orders for durable goods and nondefense capital goods, excluding aircraft, decreased in February, but both series registered slight improvement over their year-ago levels.

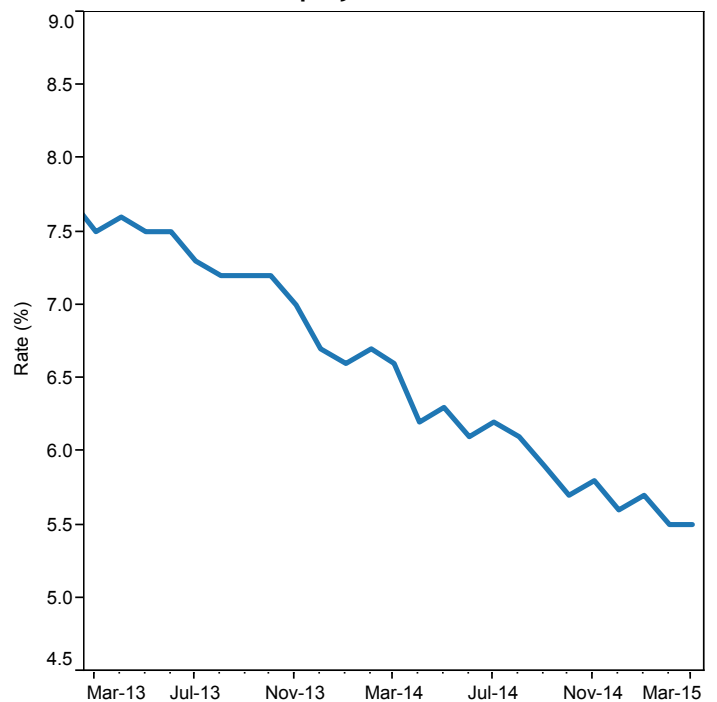
Total consumer prices decreased in February, as measured by the Consumer Price Index, yet the core indices, which exclude the volatile food and energy sectors, accelerated a bit. Oil prices dropped in March, after rising in February, and have increased in the first few days of April.

Nonfarm payrolls added 126,000 jobs in March, and job gains for the previous two months were revised down by a total of 69,000 jobs. Payroll gains in March were well below expectations and were the lowest since December 2013. The unemployment rate was unchanged at 5.5% in March, despite a decline in the labor force and a small increase in civilian employment.

### Nonfarm Payroll Employment

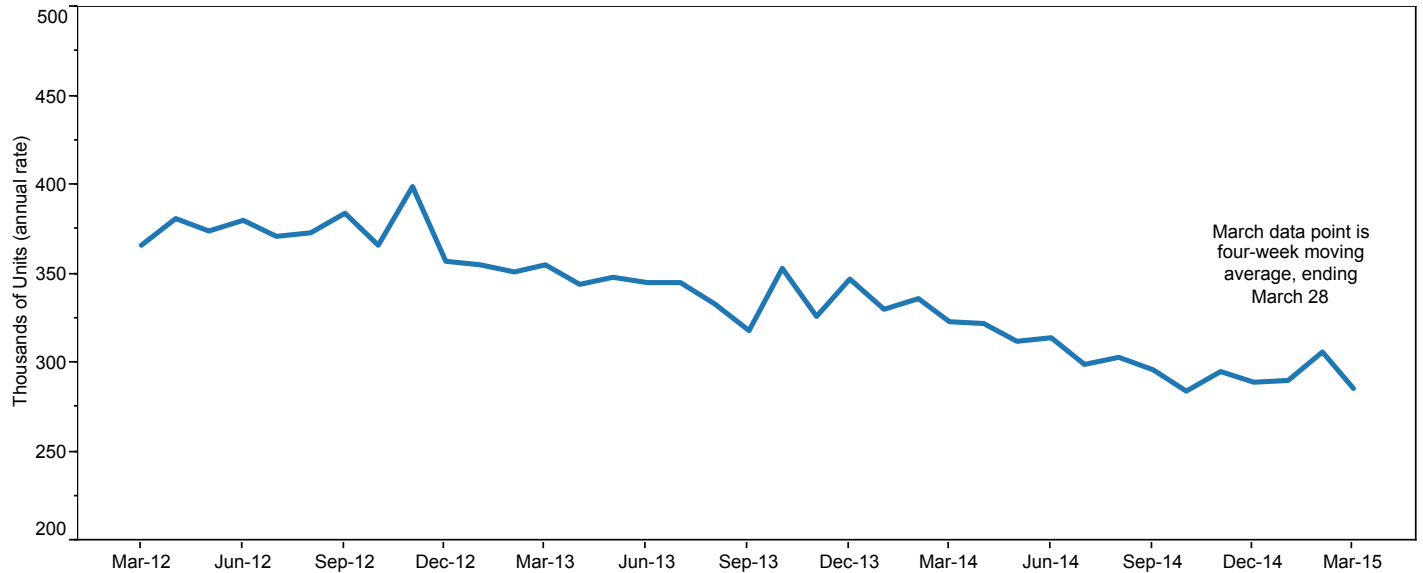


### Unemployment Rate



Initial claims for unemployment insurance fell in March, after rising in February. Claims in March were nearly in line with their average in October, which was a fourteen-year low.

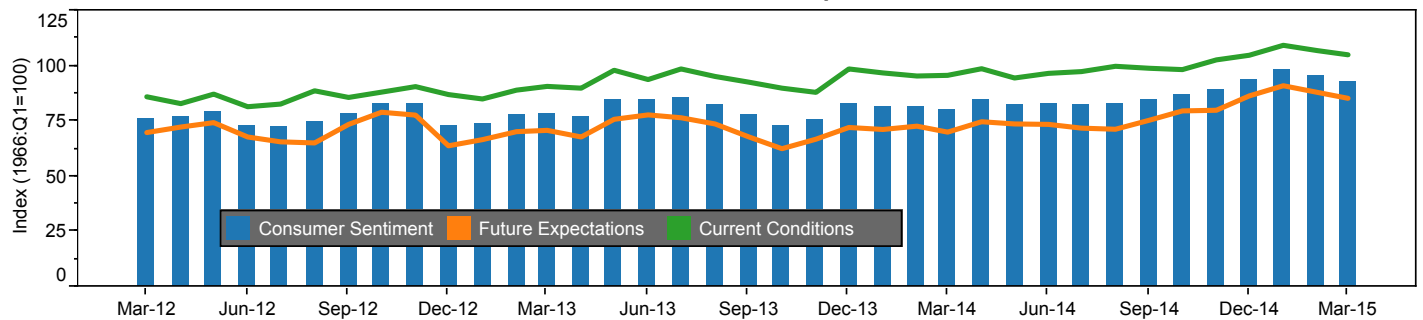
### Initial Claims



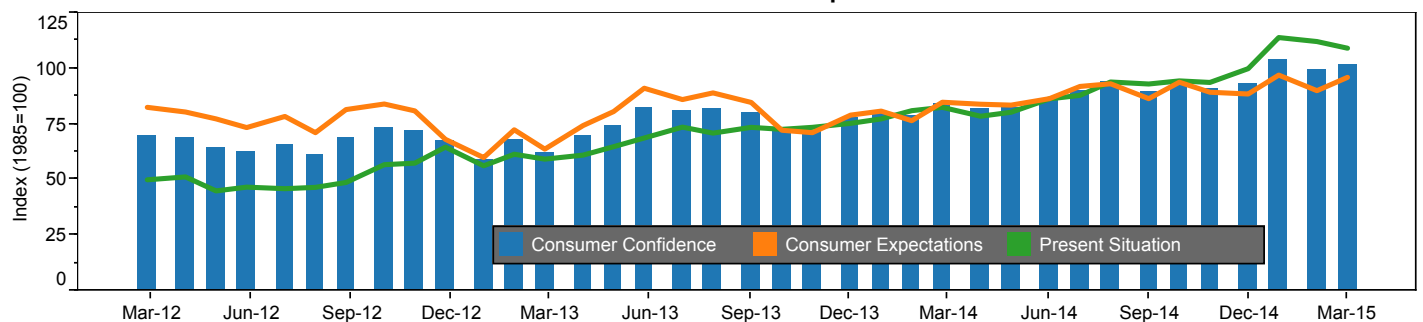
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in March. The sentiment index fell to its lowest level since November, yet its first quarter average was the highest quarterly average in over ten years. March's decrease in sentiment was mostly due to lower income households, as middle and top income households reported gains in sentiment. Meanwhile, the confidence index rose in March, due to an increase in expectations. Respondents to the confidence survey recorded improvement in short-term employment and income prospects, but were less optimistic toward business conditions.

### Consumer Sentiment and Expectations



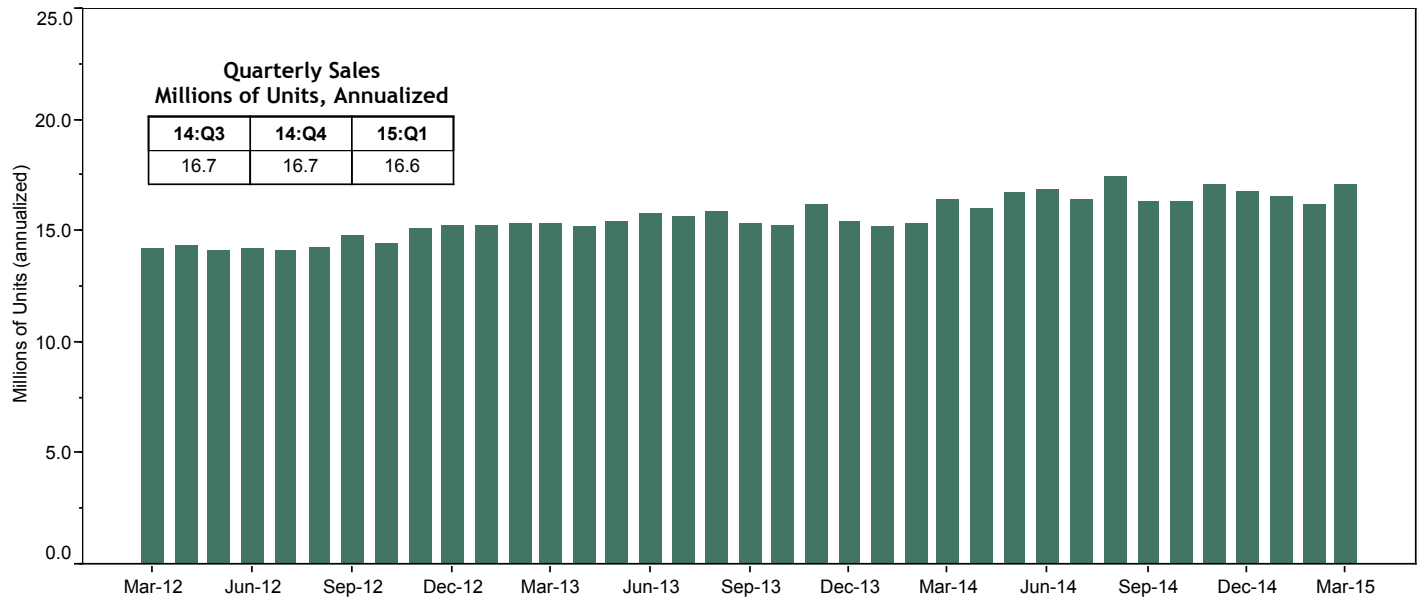
### Consumer Confidence and Expectations



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

Lightweight vehicle sales rose in March to their highest annual rate since November, after declining in each of the past three months. The increase in March likely reflects a return to seasonable weather from the abnormal cold and snow that presumably held back shoppers in February.

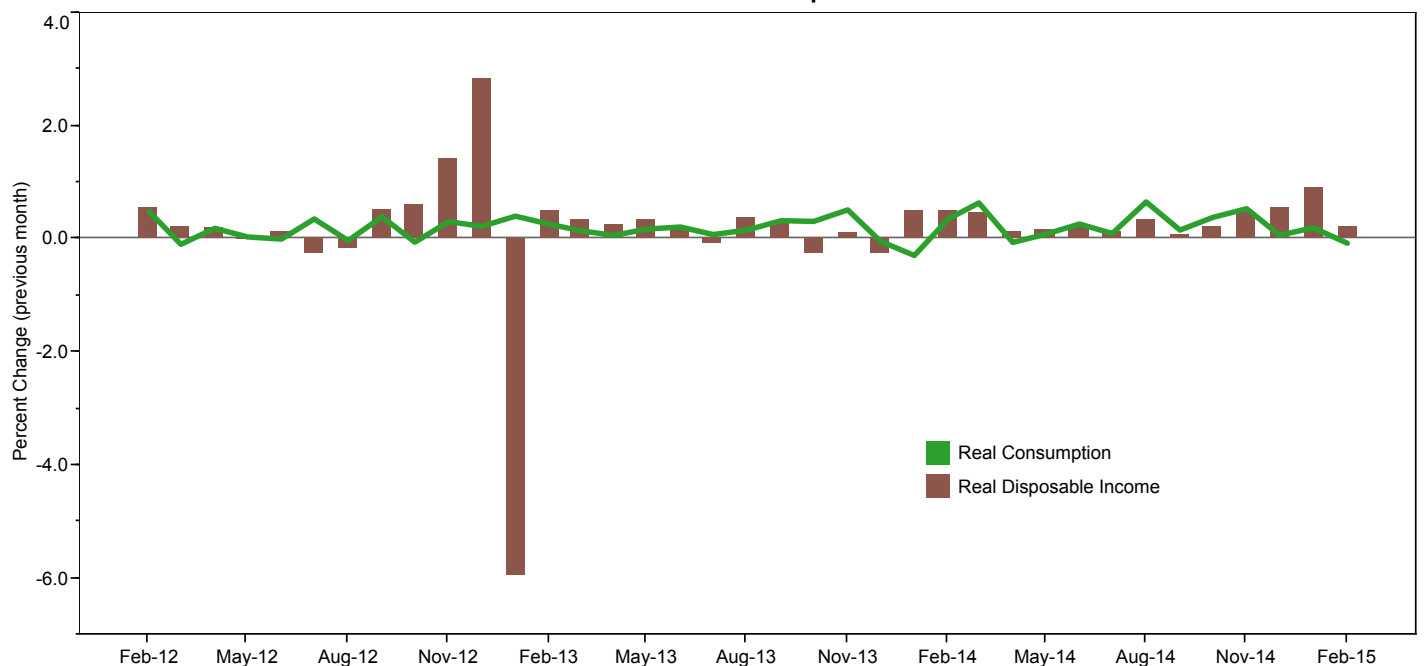
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes ticked up in February, their fourteenth consecutive monthly increase. Meanwhile, consumption eased in February, posting its first monthly decline since April 2014.

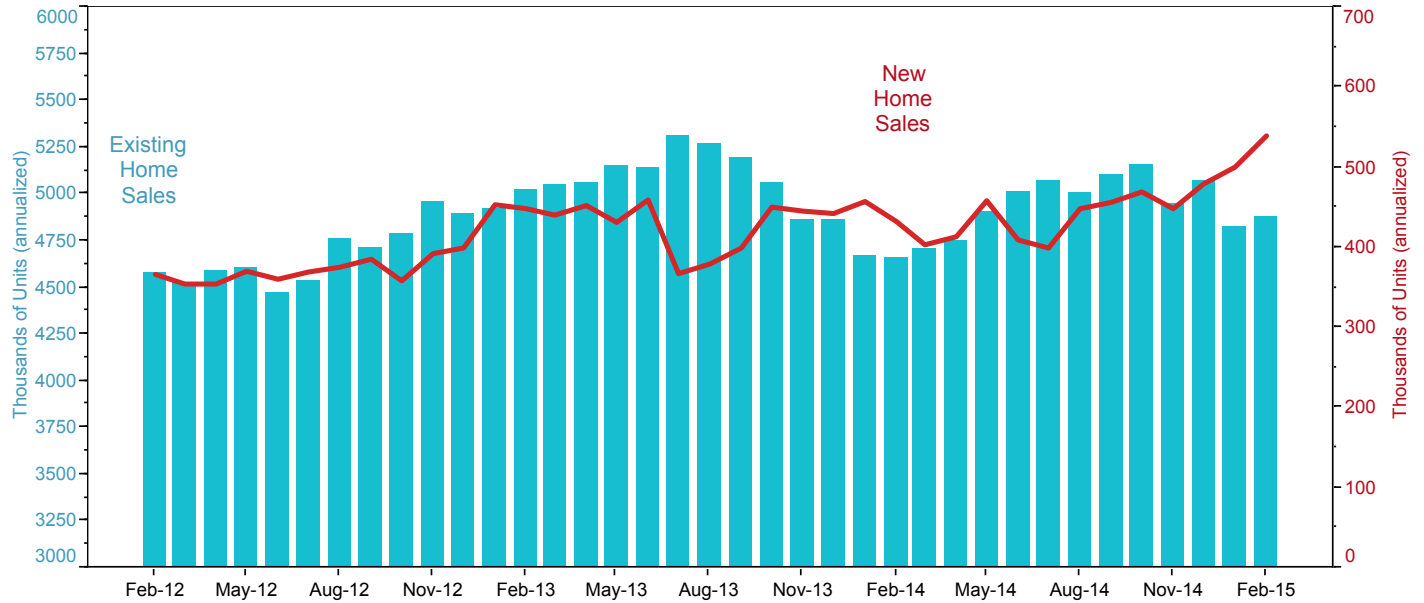
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales rose in February after falling in January. New home sales also increased in January, reaching their highest sales pace in seven years.

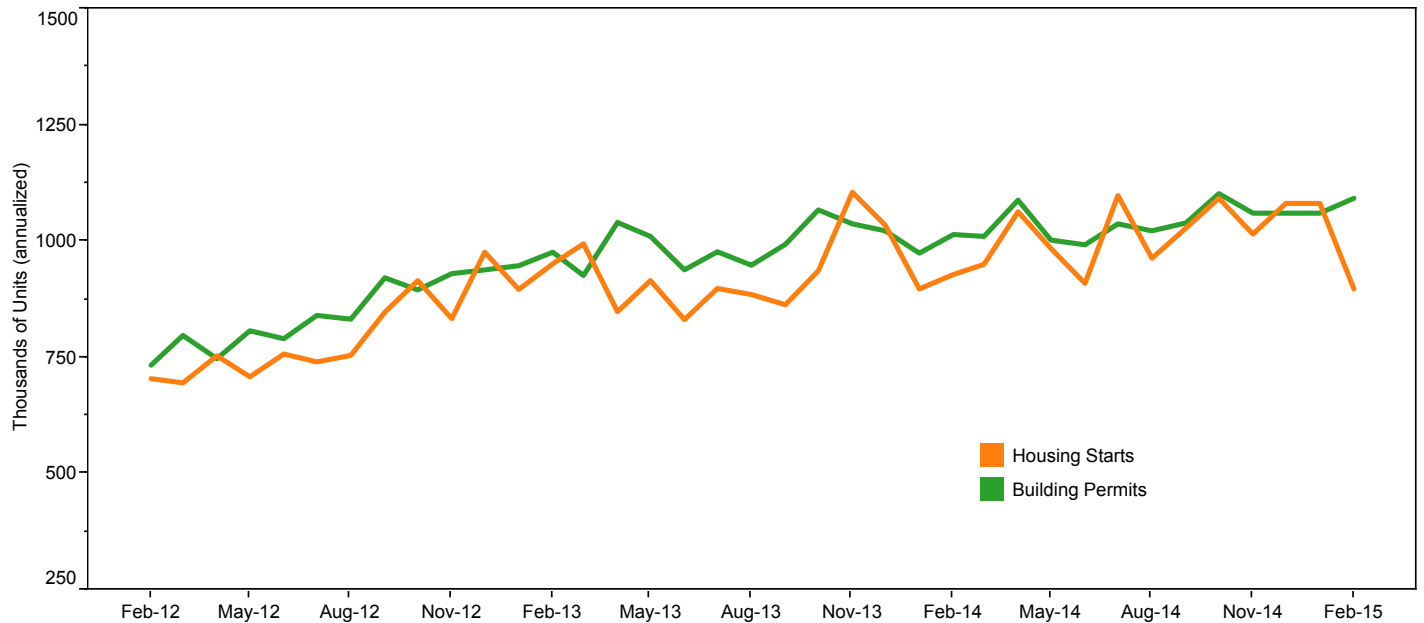
### New and Existing Home Sales



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

Housing starts plunged in February, from an upwardly revised rate in January. The decline in February was mostly due to adverse weather conditions in the northeast and midwest. Meanwhile, building permits rose in February, as a decline in single-family permits was offset by an increase in multifamily permits.

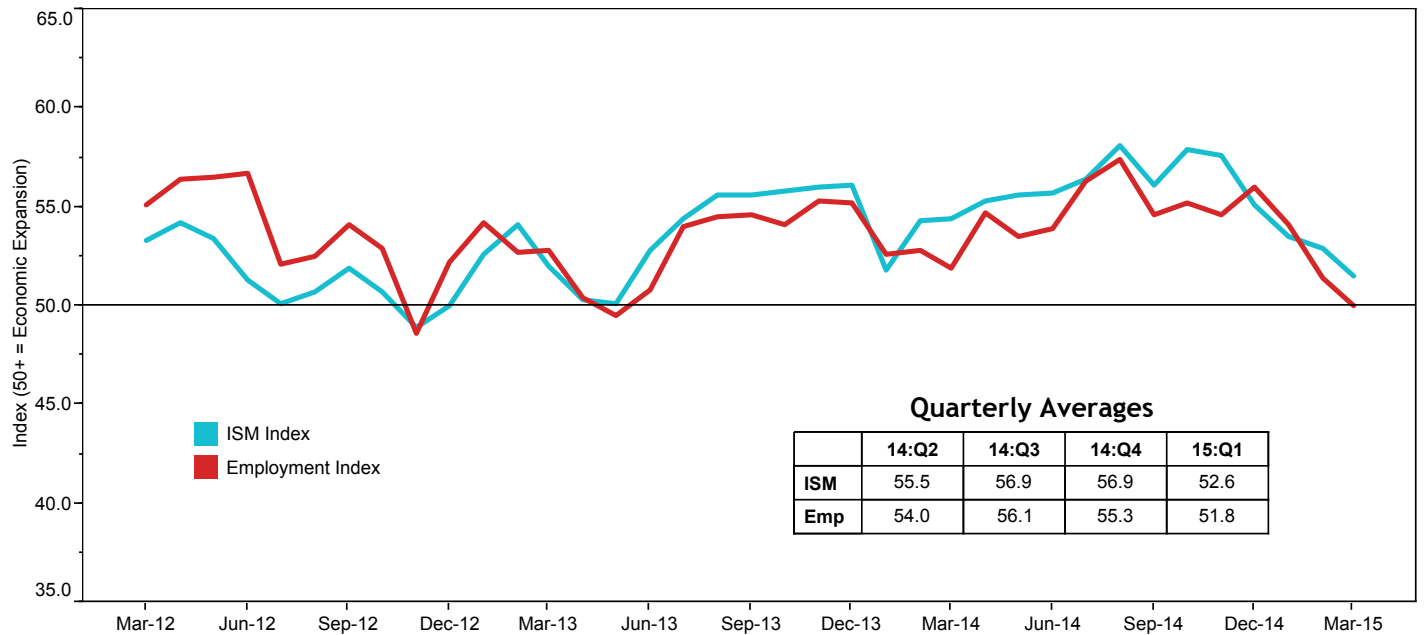
### Housing Starts and Building Permits



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

The ISM manufacturing index eased in March to its lowest level since May 2013. The index has declined in each of the past five months, but remained above 50. Readings higher than 50 signal expansion in the manufacturing industry. The employment component of the index also fell in March, its third consecutive monthly decrease.

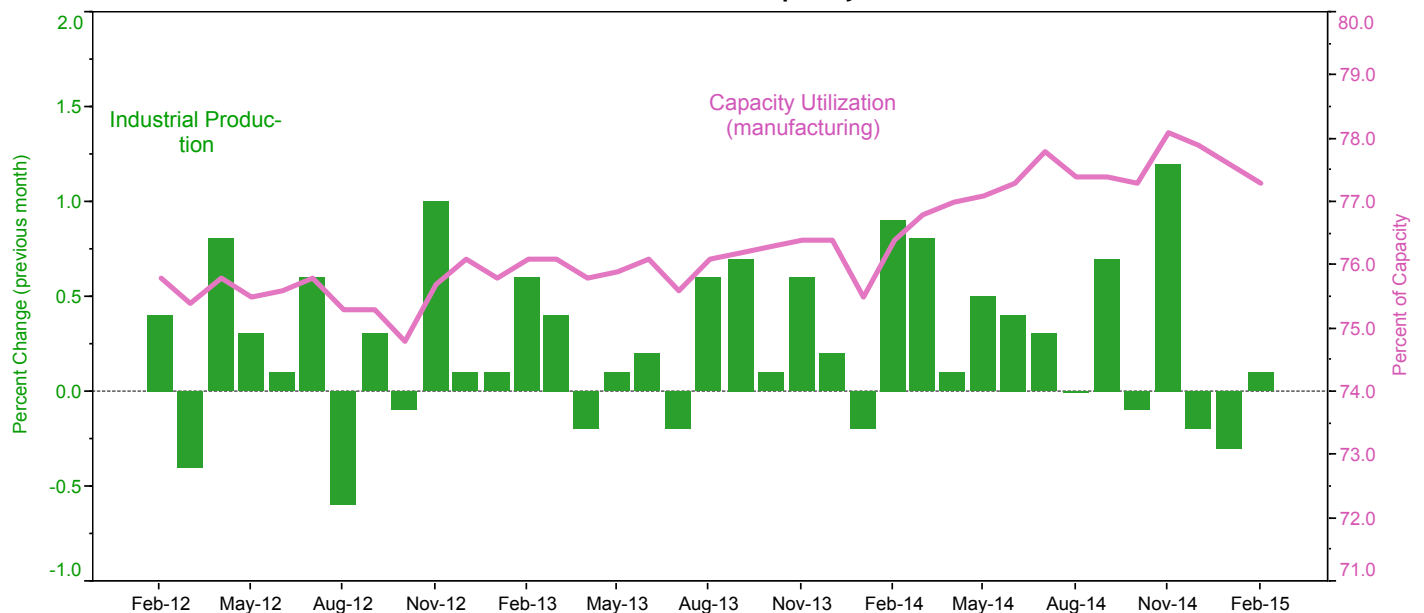
### ISM Index



Source: Institute of Supply Management / Haver Analytics.

In February, industrial production inched up due to a surge in utilities production that was partially offset by declines in manufacturing and mining production. Capacity utilization fell in February, its third consecutive monthly decrease.

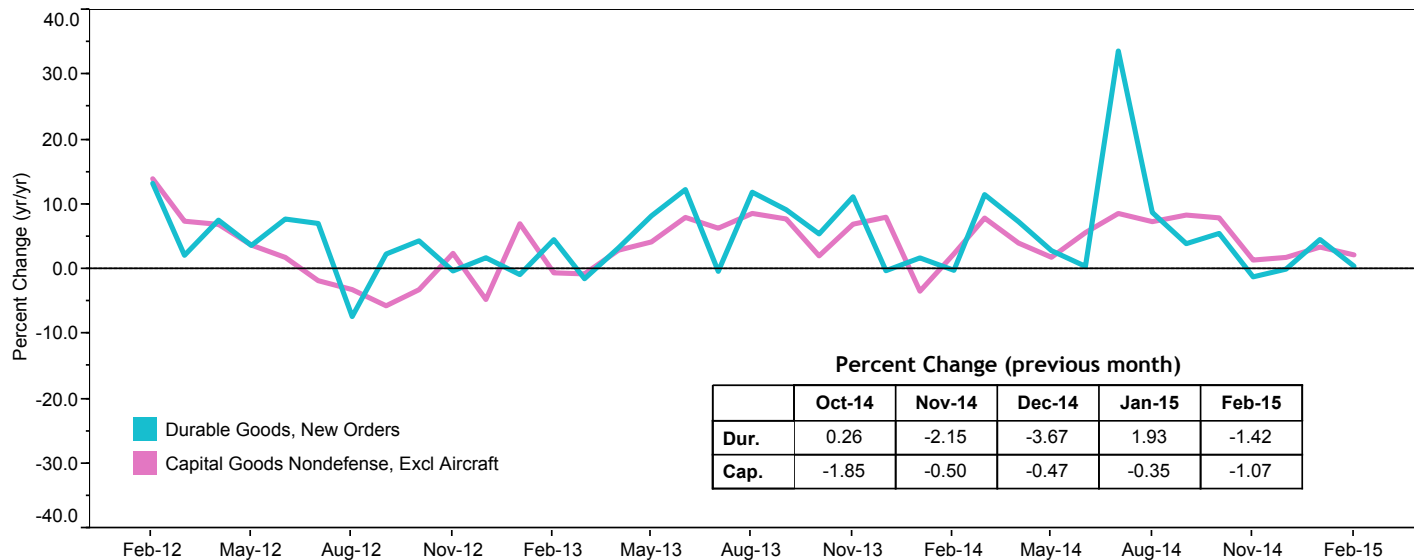
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders fell in February, after rising in January. Orders for nondefense capital goods, excluding aircraft, also fell in February, their sixth consecutive monthly decline. Both series continued to increase on a year-over-year basis, albeit at a slower pace than seen in January.

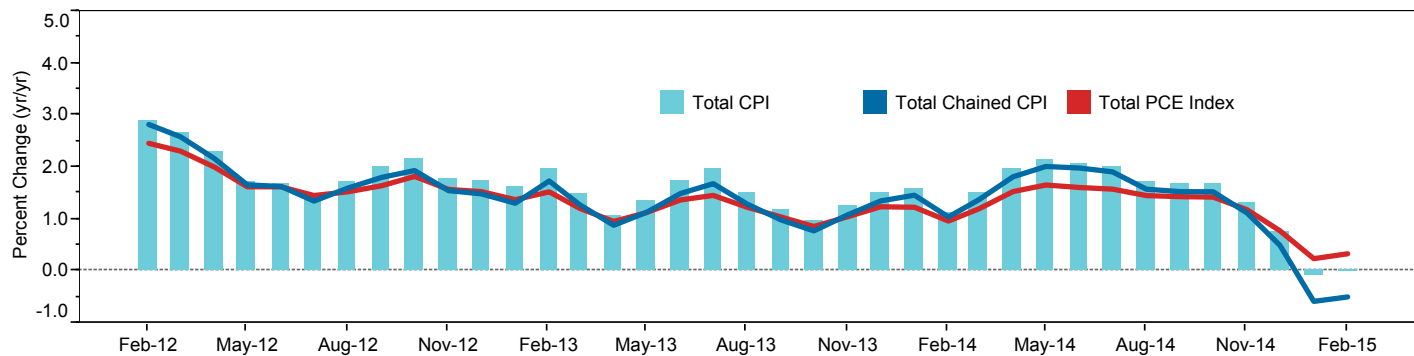
### Durable Goods Orders



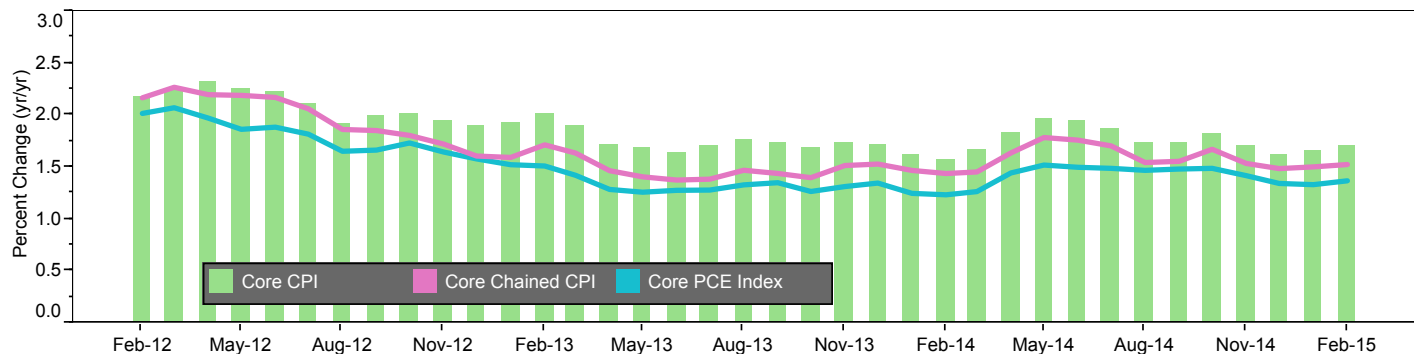
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices fell in February for the second consecutive month, as measured by the Consumer Price Index. The headline Personal Consumption Expenditure Price Index ticked up in February but remained near the five-year low seen in January. Core prices, which exclude the volatile food and energy categories, accelerated a bit in February.

### Total Price Indices



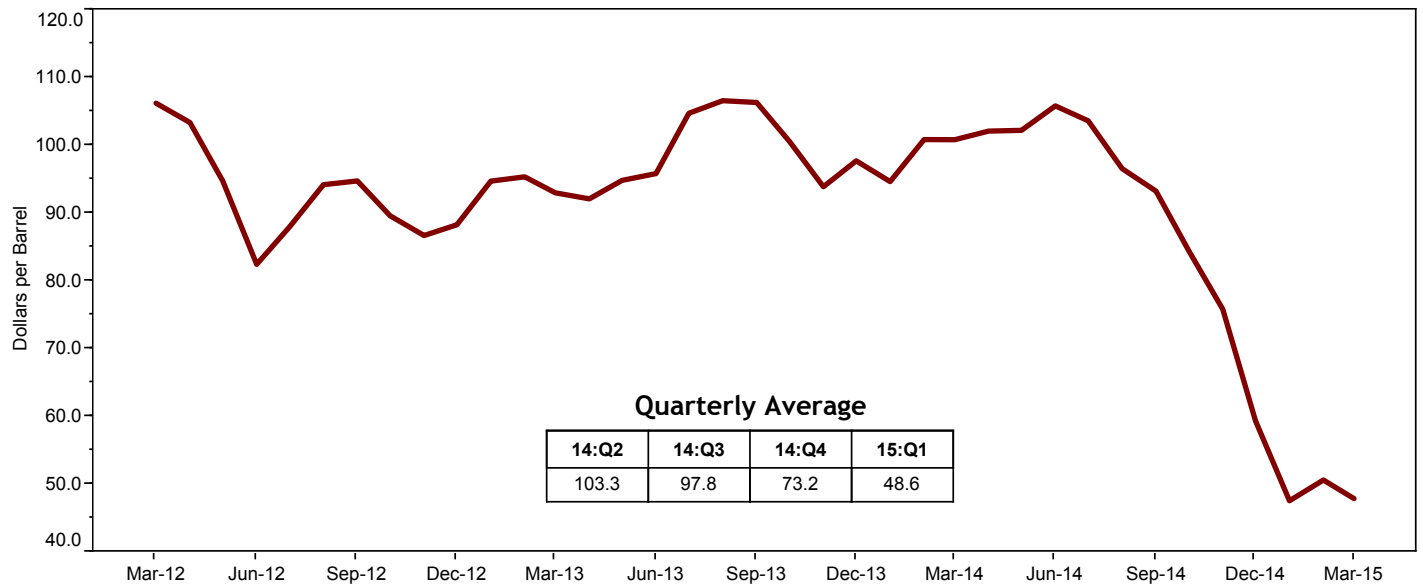
### Core Price Indices



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

Oil prices fell on average in March, after rising in February, and returned near the six-year low seen in January. Prices have increased a bit at the beginning of April, reaching \$52.1 per barrel on April 6th.

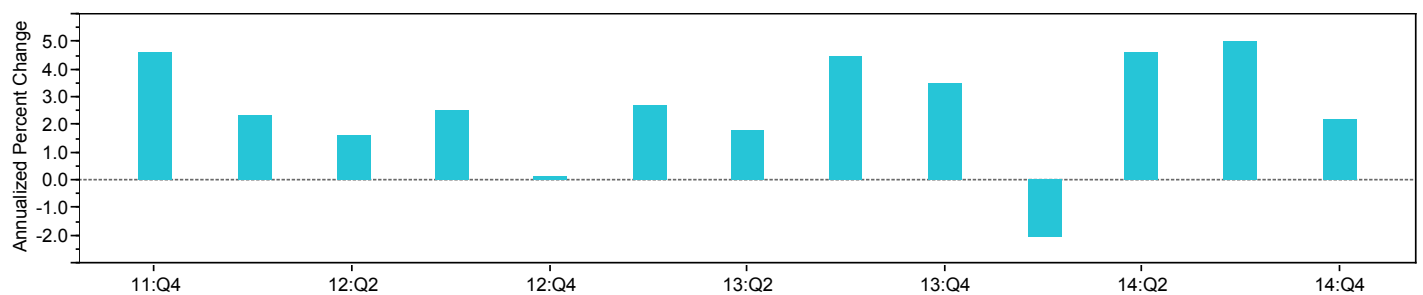
### Domestic Spot Oil Price



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

Third quarter real GDP growth was unrevised in the third estimate. The unrevised growth rate primarily reflected upward revisions to exports and to personal consumption expenditures that were mostly offset by a downward revision to private inventory investment.

### Real GDP



### Revisions to Third Quarter Real GDP

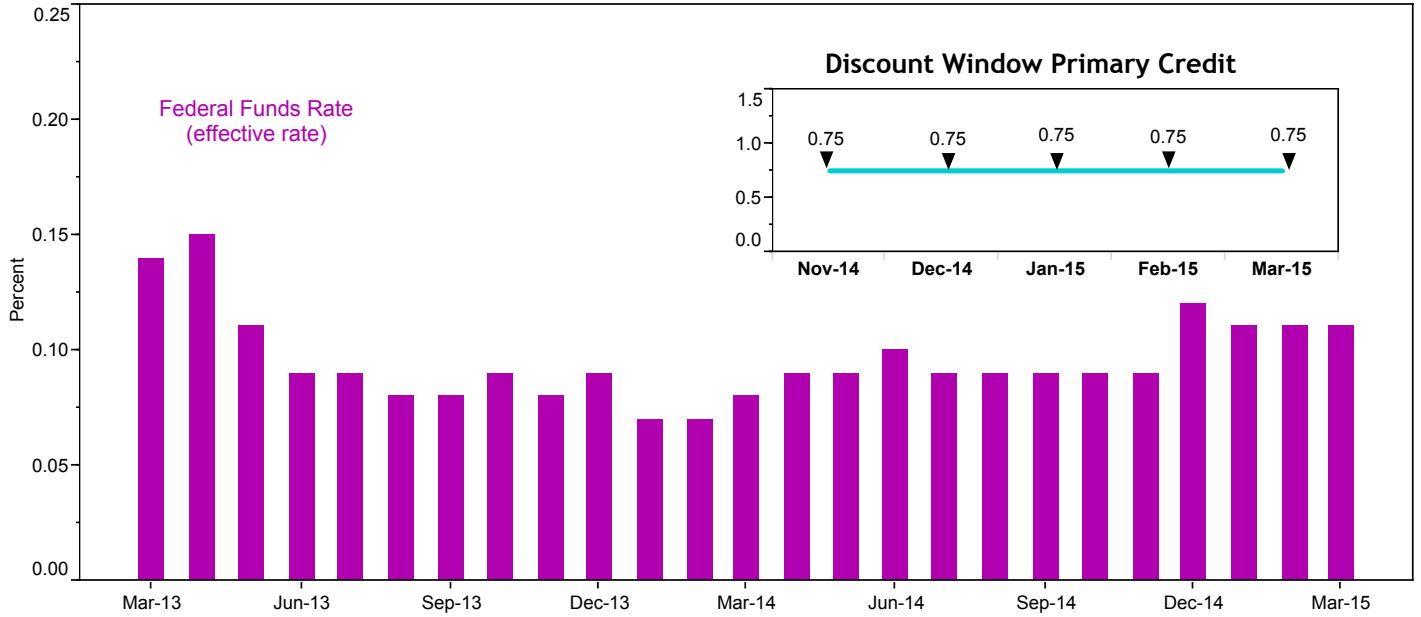
Description	Second Estimate	Third Estimate
Real GDP	2.2	2.2
Personal Consumption	4.2	4.4
Business Investment	4.8	4.7
Equipment and Software	0.9	0.6
Residential Investment	3.4	3.8
Government	-1.8	-1.9
Exports	3.2	4.5
Imports	10.1	10.4
Final Sales	2.1	2.3

Source: Bureau of Economic Analysis / Haver Analytics.



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### Short-Term Interest Rates



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