



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

December 1, 2015

## CURRENT ECONOMIC DEVELOPMENTS - December 1, 2015

Data released since your last Directors' meeting suggest that growth in the fourth quarter is likely to slow a bit from the upwardly revised growth seen in the third quarter, but it is poised to pick up in the coming year. The labor market showed signs of continued strengthening and consumer spending increased modestly. However, consumer attitudes, housing data, and support from manufacturing have been mixed, and the downside risks stemming from weakness in growth abroad remain a concern.

In the first three weeks of November, initial claims for unemployment insurance rose, on average, yet remained near the historic lows seen in the prior few months. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in November, albeit not as large as the higher-than-expected increase in October. The unemployment rate is expected to hold steady at 5.0%. Consumer attitudes were mixed in November, as the sentiment index rose while the confidence index declined. In October, both consumption and disposable incomes continued to rise.

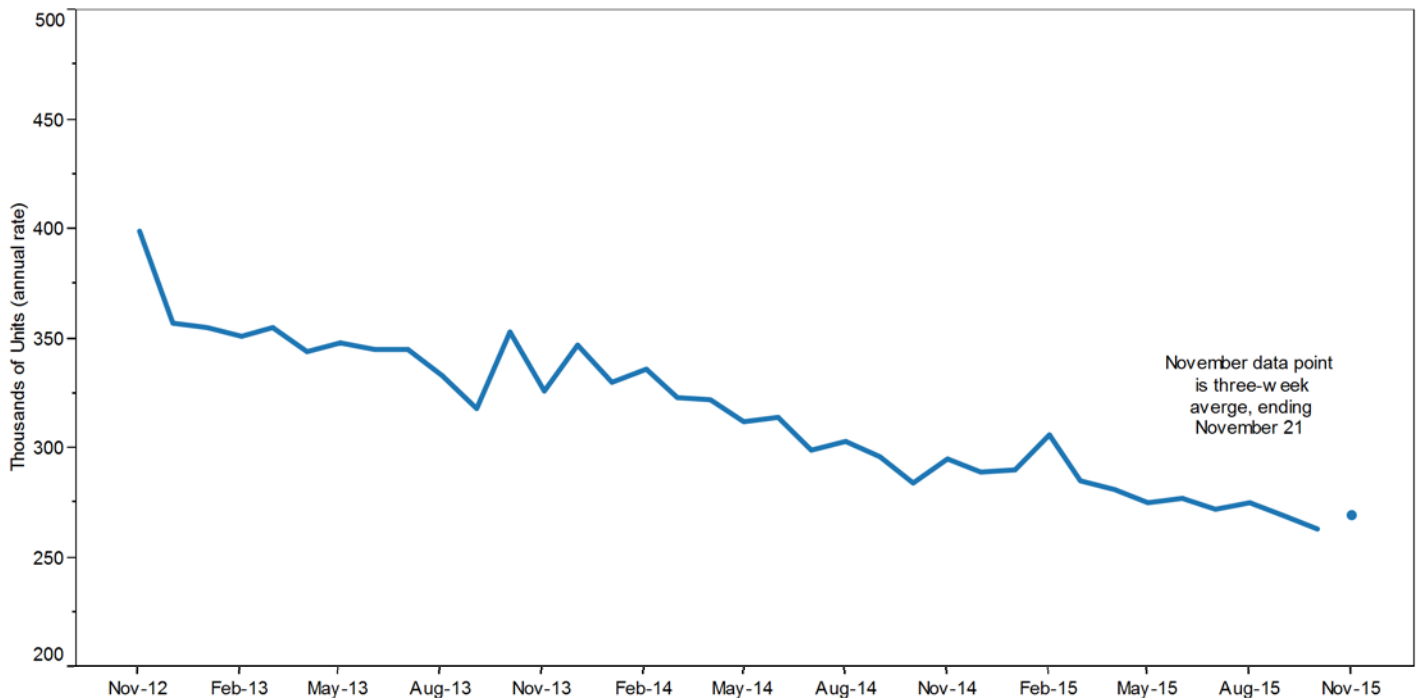
Housing data were mixed in October, while the market continued to show some improvement. New home sales increased in October, while existing home sales decreased. Housing starts also declined in October, while permits rose.

In the manufacturing sector, the ISM index declined in November and signalled contraction for the first time in three years. Industrial production fell in October, while capacity utilization increased. Orders for both durable goods and nondefense capital goods, excluding aircraft, rose in October, and both series registered increases from their year-ago levels for the first time since January.

Total consumer inflation, as measured by the PCE Index, held steady in October, while growth in core prices eased a bit. As measured by the CPI, both total and core inflation accelerated in October. Oil prices in November fell to their lowest monthly average in over six years and reached \$41.7 per barrel on November 30.

Initial claims for unemployment insurance have risen, on average, in the three weeks ending November 21st, after falling in each of the previous two months. Despite the increase in November, weekly claims in the past several months have been hovering near historic lows.

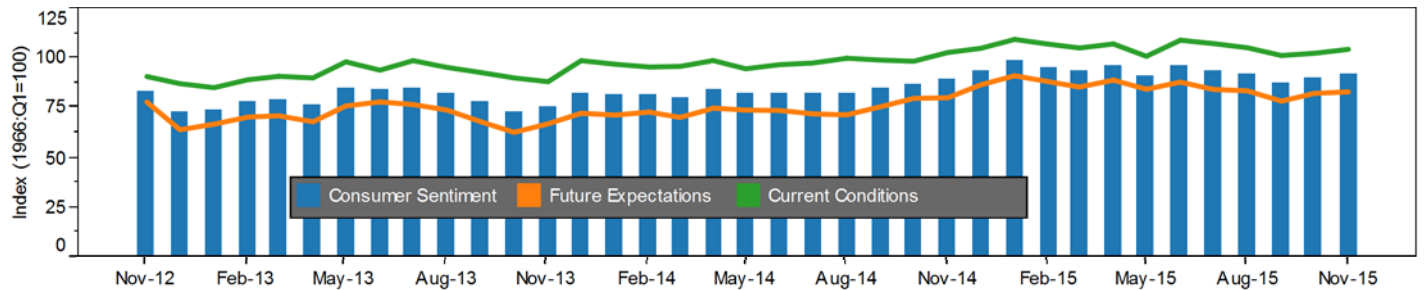
### Initial Claims



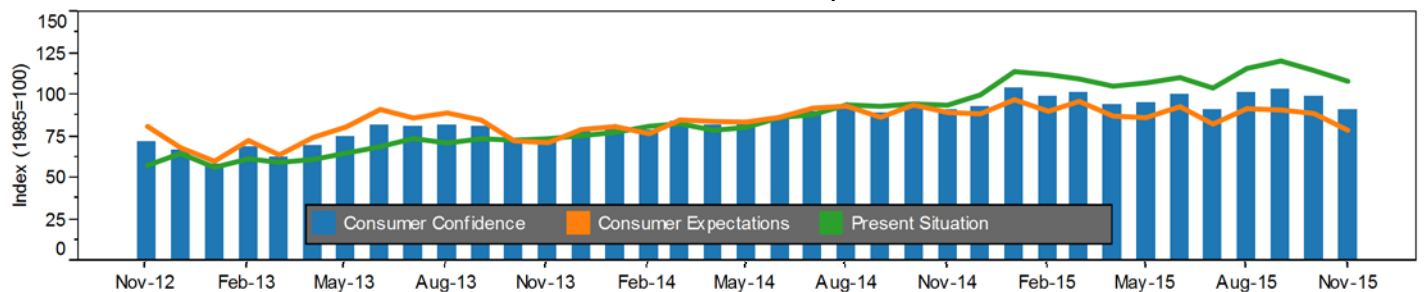
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in November, as the sentiment index increased for the second month in a row, while the confidence index dropped to its lowest level in over one year. The increase in the sentiment index was mostly due to a rise in the current conditions component, yet higher income households were less optimistic towards expectations for the national economy. Meanwhile, respondents to the confidence survey expressed less favorable views of the labor market and the short-term outlook.

### Consumer Sentiment and Expectations



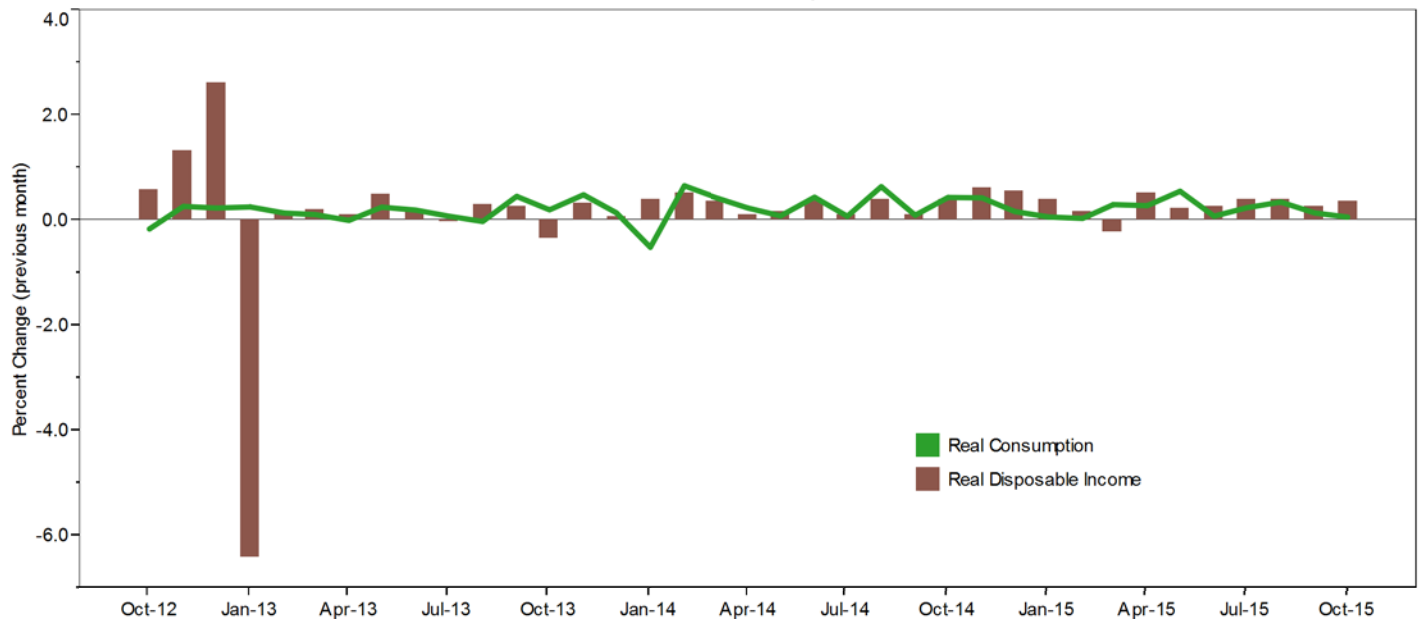
### Consumer Confidence and Expectations



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

Real incomes rose in October, their seventh consecutive monthly increase, and were revised up in September. Consumption ticked up in October but was revised down in each of the prior two months, despite the higher incomes, resulting in the highest personal savings rate in nearly three years.

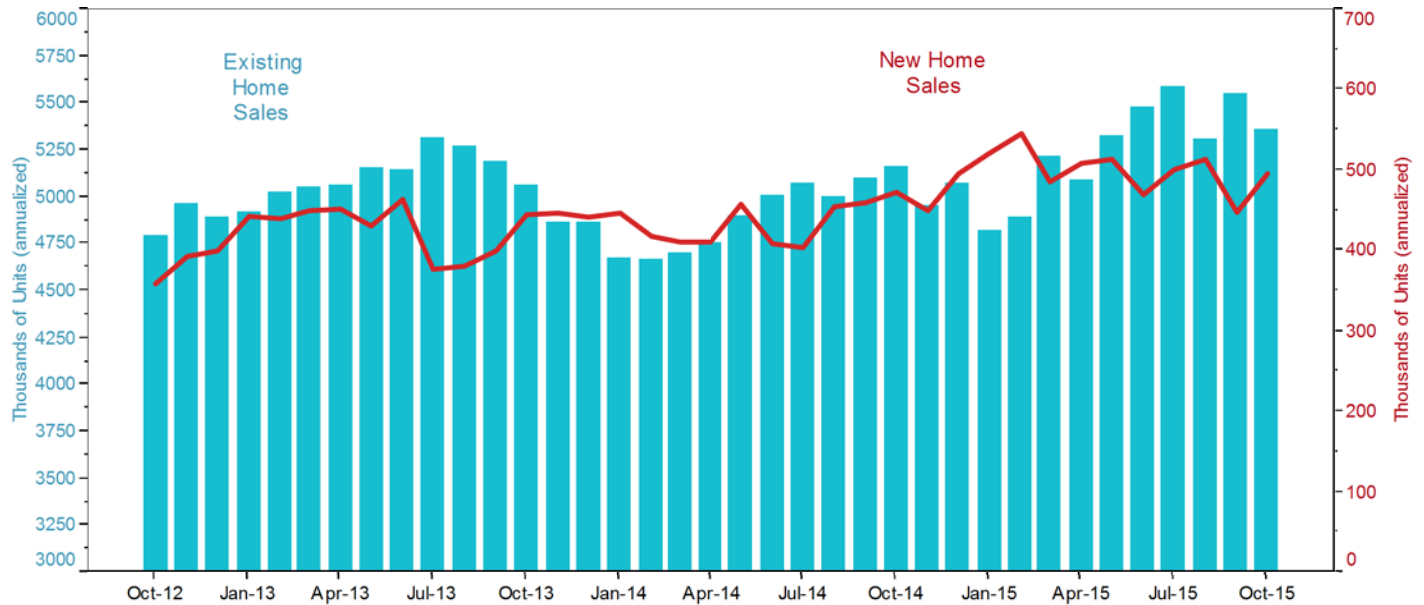
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in October. New home sales increased, offsetting most of the decline seen in the prior month. Meanwhile, existing home sales fell in October, after rising in September.

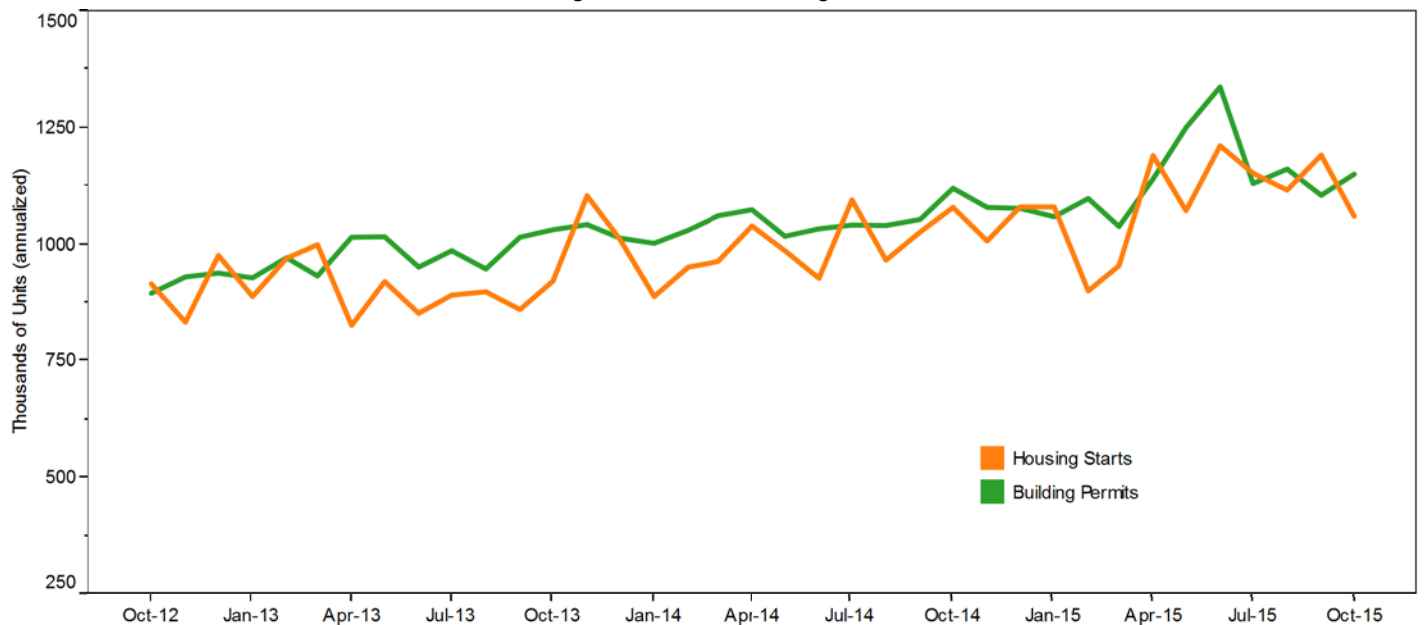
New and Existing Home Sales



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

Housing starts dropped in October to their lowest rate in seven months, after increasing in September. The decline in October was due to decreases in both single-family and multi-family starts. Meanwhile, building permits rose in October, offsetting most of the drop seen in September.

Housing Starts and Building Permits



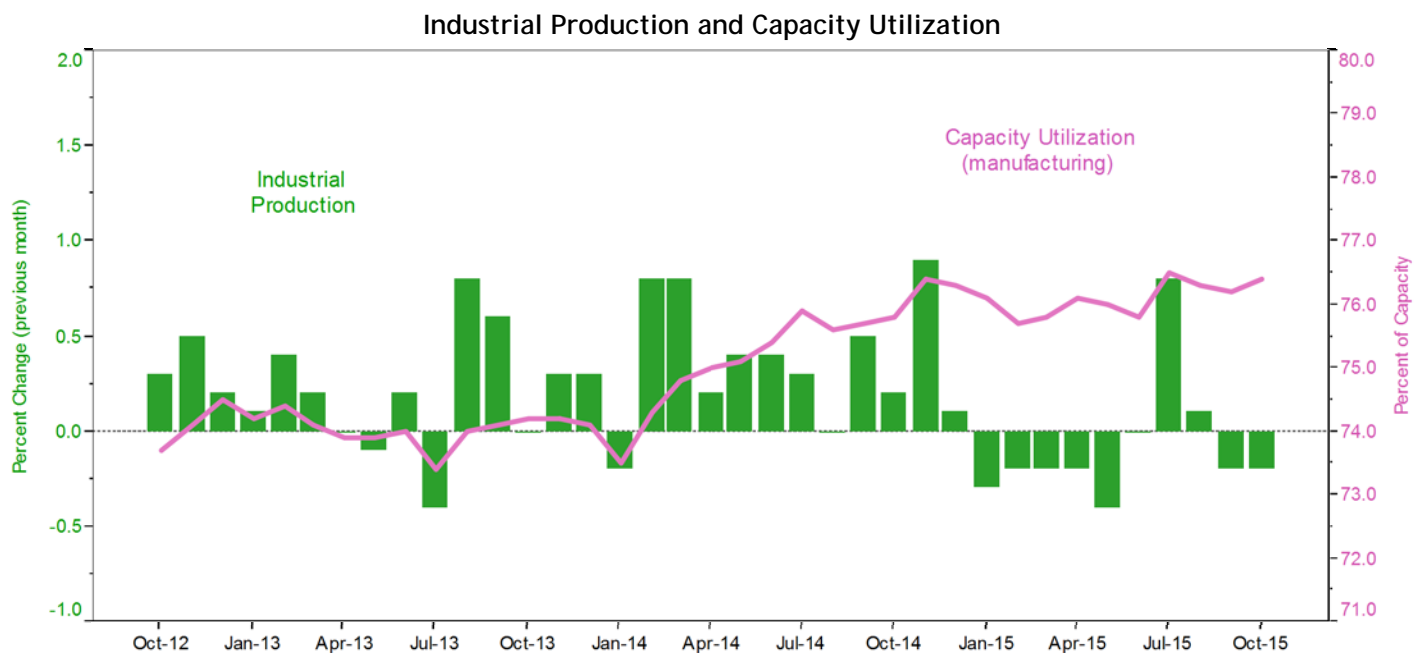
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index dropped in November to its lowest level since June 2009, signalling contraction in the manufacturing industry for the first time in three years. Meanwhile, the employment component of the index increased in November, more than offsetting the decline seen in the prior month.



Source: Institute of Supply Management / Haver Analytics.

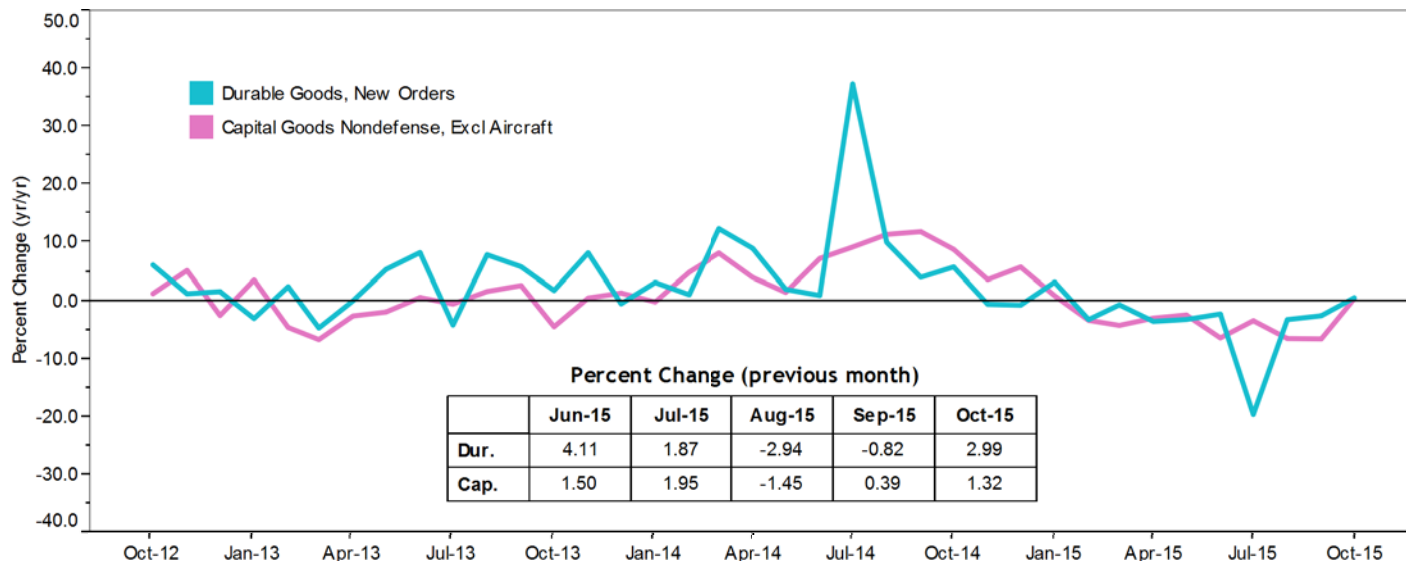
Industrial production fell in October, matching the decline seen in September. Both mining and utilities production posted decreases in October, while manufacturing output increased. Capacity utilization rose in October, and was revised up in each of the previous three months.



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for both durable goods and nondefense capital goods, excluding aircraft, rose in October on both a monthly and year-over-year basis. This was the first year-over-year increase since January for either series.

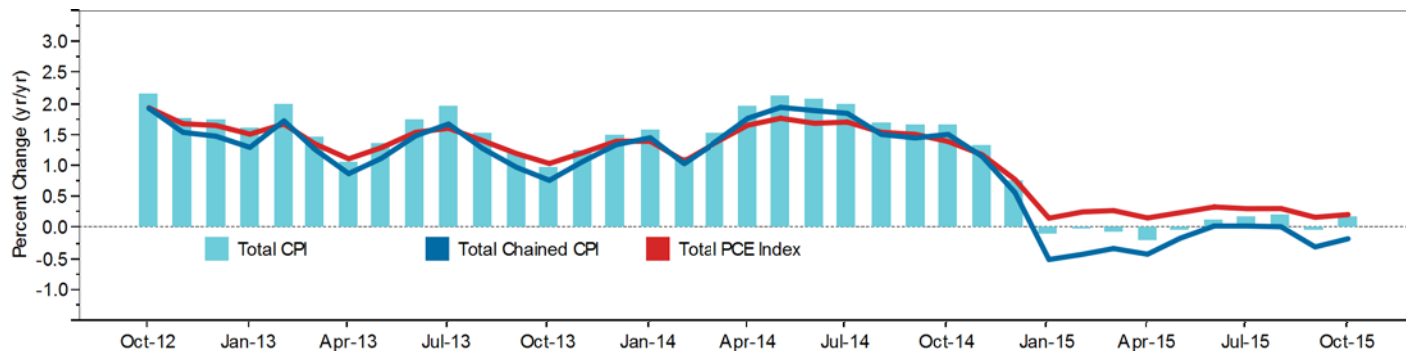
### Durable Goods Orders



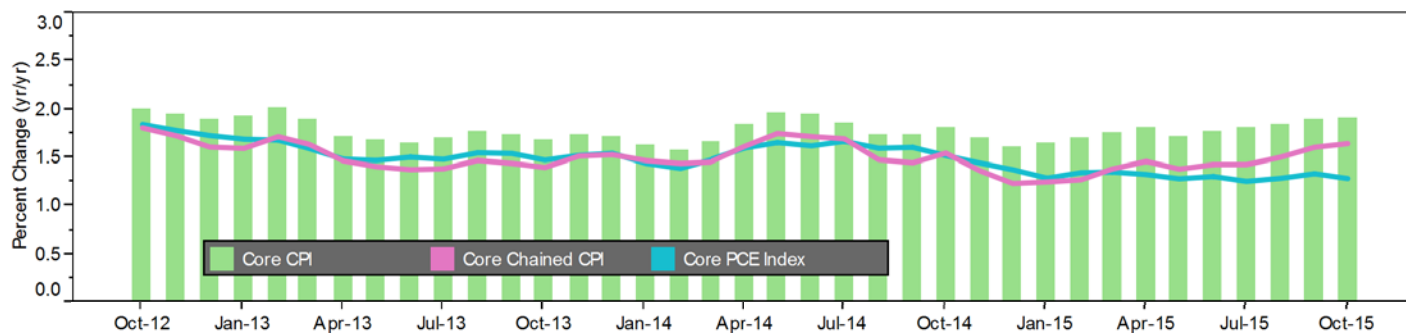
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices ticked up in October, after holding steady in September, as measured by the Consumer Price Index, while the headline Personal Consumption Expenditure price index continued to increase. Meanwhile, the core CPI, which excludes the volatile food and energy categories, accelerated in October for the fifth consecutive month, while the core PCE index eased a bit.

### Total Price Indices



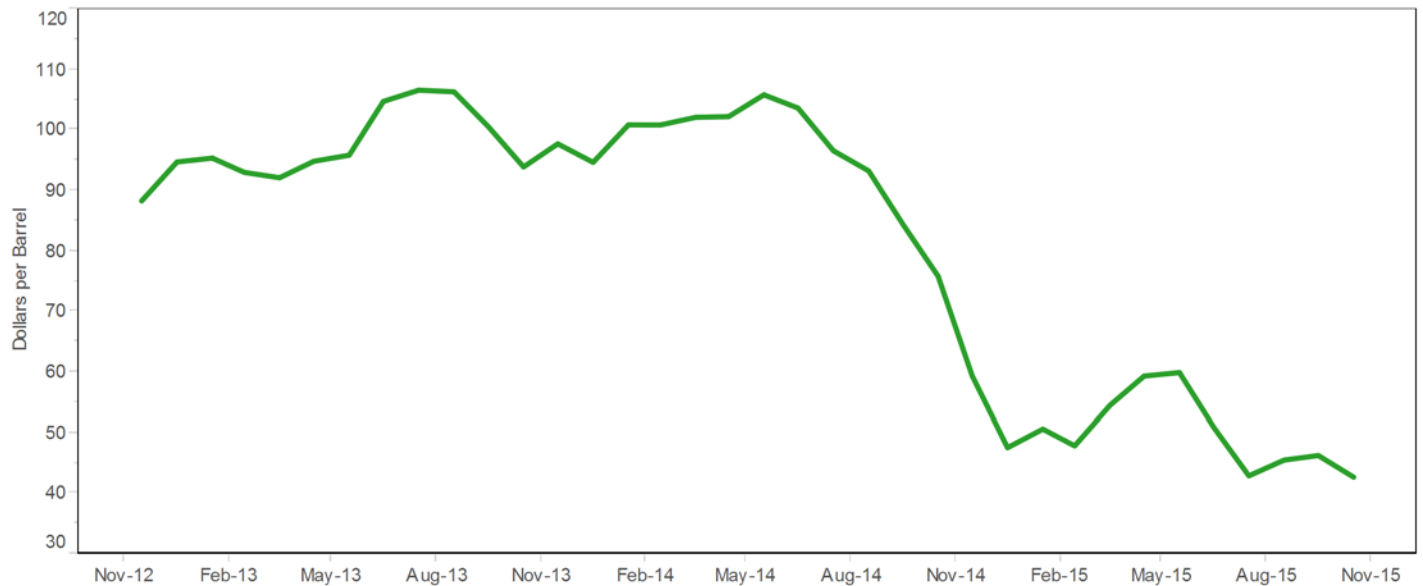
### Core Price Indices



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

Oil prices fell on average in November, after increasing in each of the previous two months, and reached their lowest monthly average since February 2009. Prices closed the month at \$41.7 per barrel on November 30.

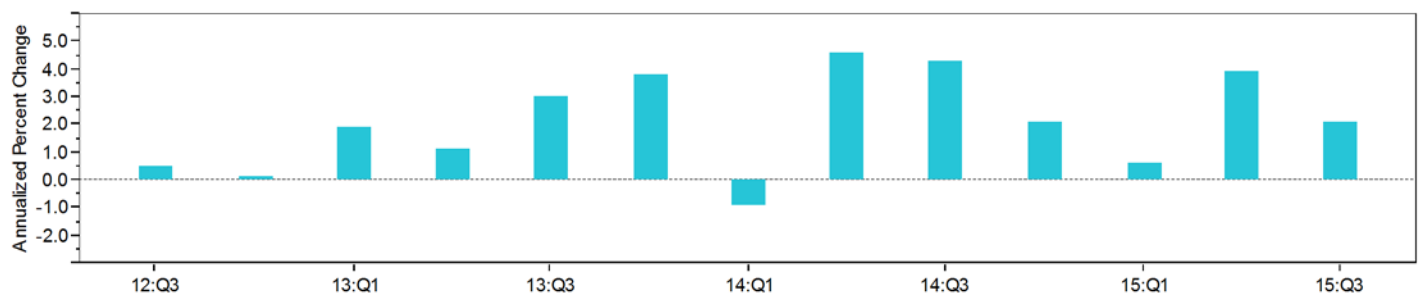
Domestic Spot Oil Price



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

Third quarter real GDP growth was revised up in the second estimate to 2.1% from 1.5%. The higher rate primarily reflected an upward revision to private inventory investment that was partly offset by downward revisions to PCE and to exports.

Real GDP



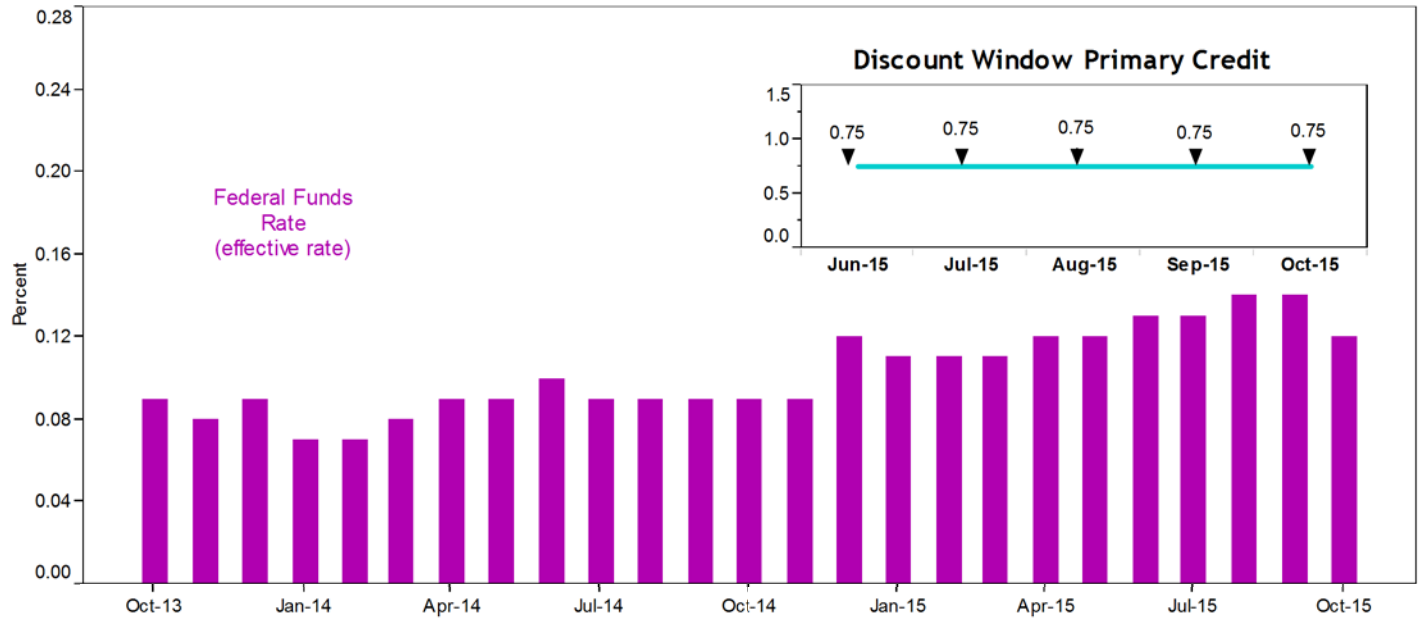
Revisions to Third Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	1.5	2.1
Personal Consumption	3.2	3.0
Business Investment	2.1	2.4
Equipment and Software	5.3	9.5
Residential Investment	6.1	7.3
Government	1.7	1.7
Exports	1.9	0.9
Imports	1.8	2.1
Final Sales	3.0	2.7

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.