



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

February 11, 2015

CURRENT ECONOMIC DEVELOPMENTS - February 11, 2015

Data released since your last Directors' meeting show that economic growth slowed in the fourth quarter from its strong rates in the middle quarters of 2014, and suggest the moderate growth will continue through this year. The labor market showed further signs of strengthening and consumer attitudes have improved, while business investment and growth in the manufacturing sector have eased. Overall, recent data remains consistent with a moderately growing economy, while the downside risks stemming from weakness in growth abroad remain a concern.

In January, nonfarm payrolls posted a sizeable increase and job gains for the previous two months were revised higher. The unemployment rate rose one-tenth of a percentage point to 5.7% in January, as an increase in the labor force outpaced a gain in civilian employment. Initial claims for unemployment insurance ticked up in January, after declining on average in the fourth quarter.

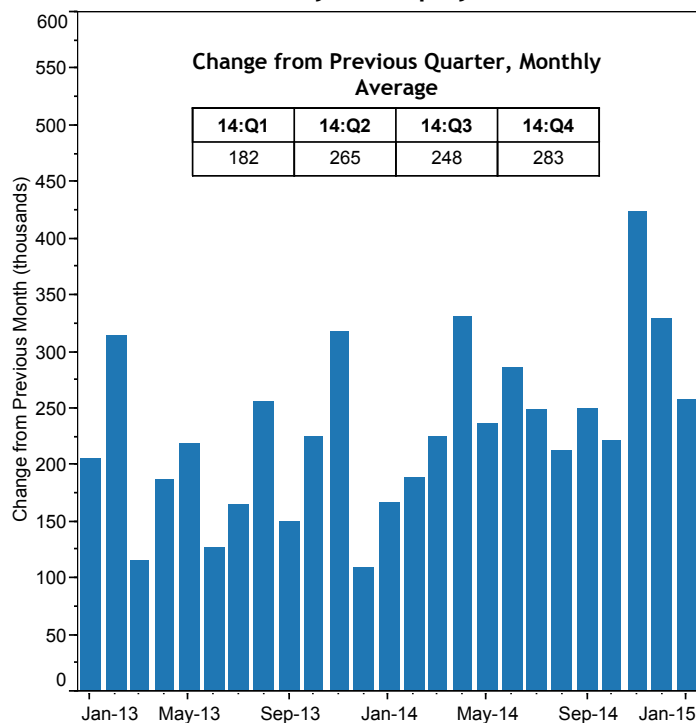
The growth in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures, private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment that were partly offset by a negative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

Consumer attitudes improved in January, as the confidence index and sentiment index reached seven-year and eleven-year highs, respectively. The majority of survey respondents were more optimistic about future conditions for the overall economy and towards current business and labor market conditions. Durable goods orders and core orders both increased in the fourth quarter on a year-over-year basis, despite falling from their levels in the third quarter. The ISM index declined in January, but continues to suggest expansion in the manufacturing sector.

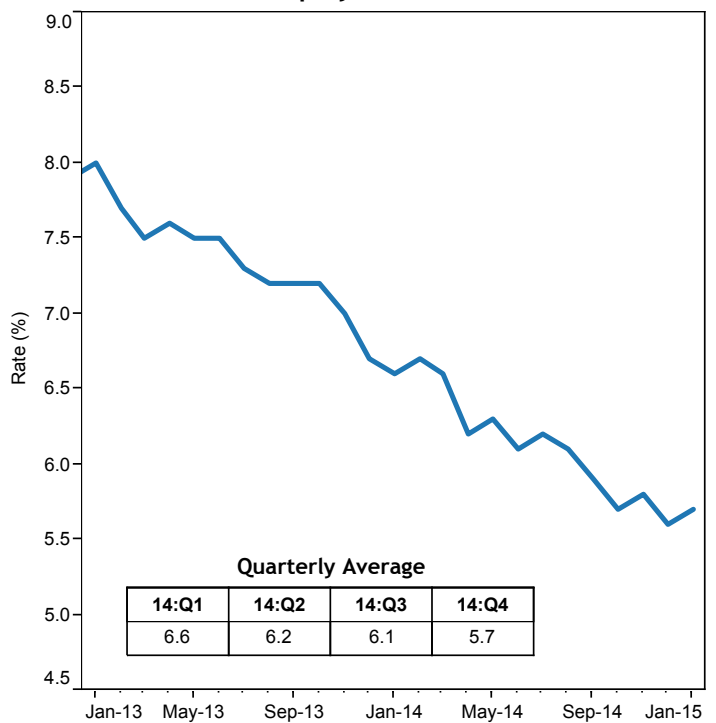
Total consumer inflation decelerated in the fourth quarter, as did the core index. Oil prices fell steadily through the fourth quarter and into 2015, as prices in January reached their lowest monthly average in nearly six years.

Nonfarm payrolls added 257,000 jobs in January, more than anticipated, and job gains for the previous two months were revised upward by a total of 147,000 jobs. Payroll gains have now exceeded 200,000 in 11 consecutive months. The unemployment rate rose one-tenth of a percentage point to 5.7% in January, as growth in the labor force outpaced gains in civilian employment.

Nonfarm Payroll Employment

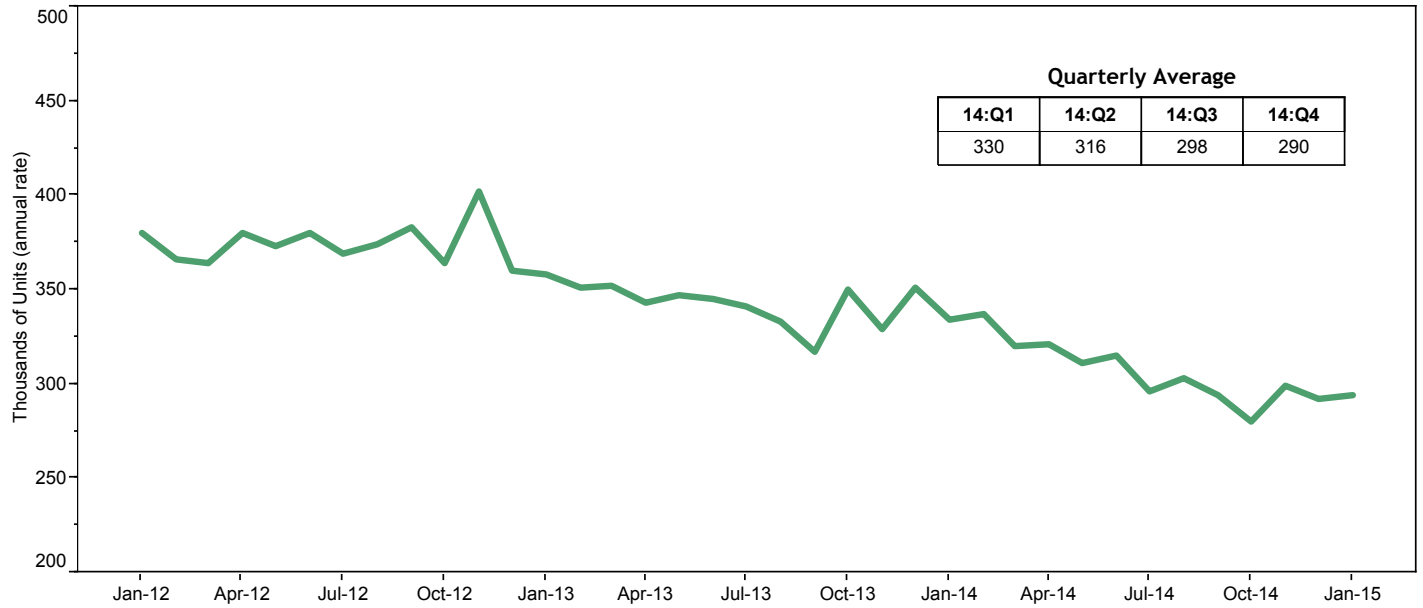


Unemployment Rate



Initial claims for unemployment insurance declined in the fourth quarter, recording their lowest quarterly average in over fourteen years. However, claims edged up in January, rising slightly above their fourth quarter average.

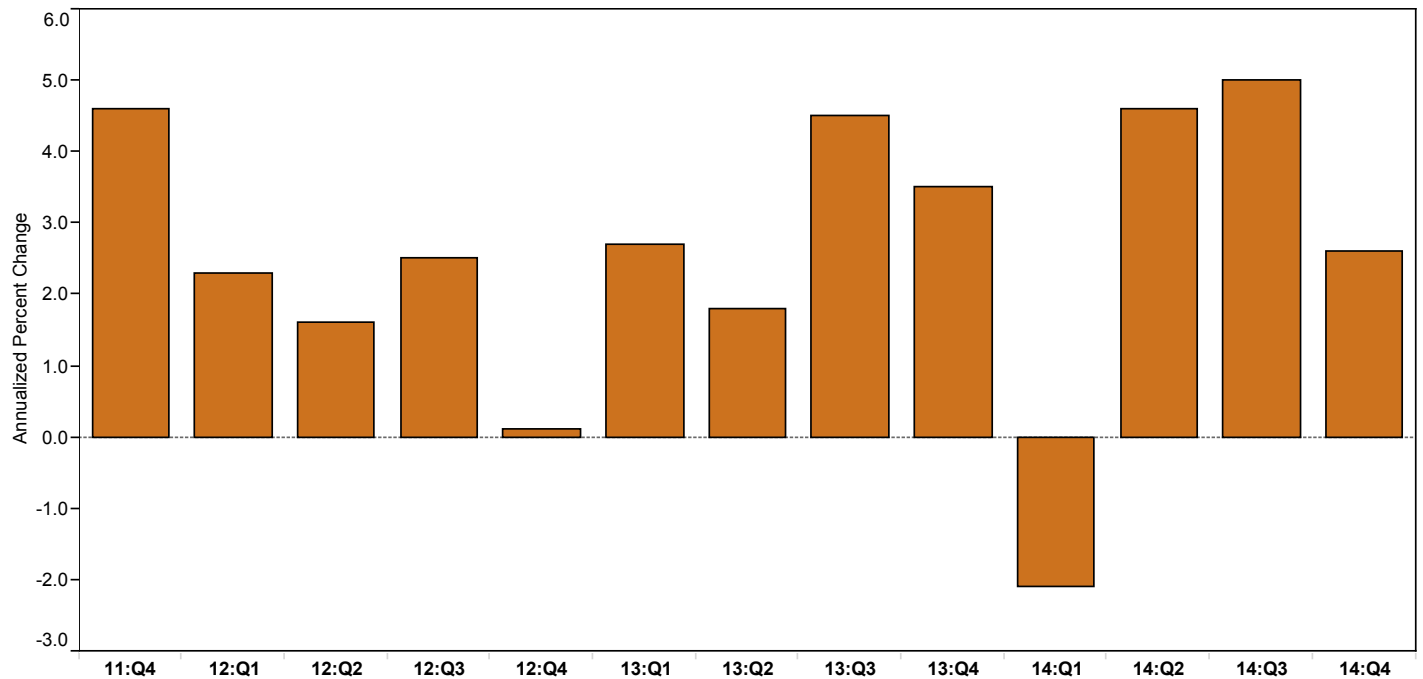
Initial Claims



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

Real GDP growth decelerated in the fourth quarter. The lower rate was due primarily to an upturn in imports, a downturn in federal government spending, and decelerations in nonresidential fixed investment and in exports that were partly offset by an upturn in private inventory investment and an acceleration in PCE.

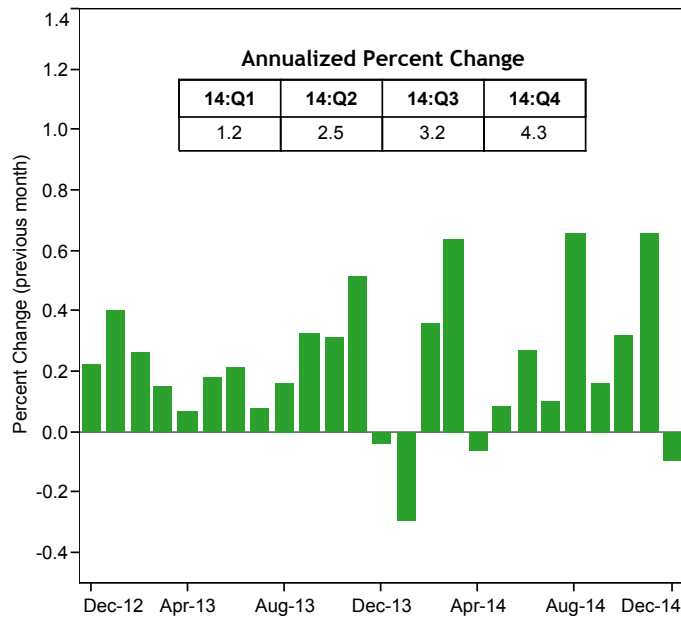
Real Gross Domestic Product



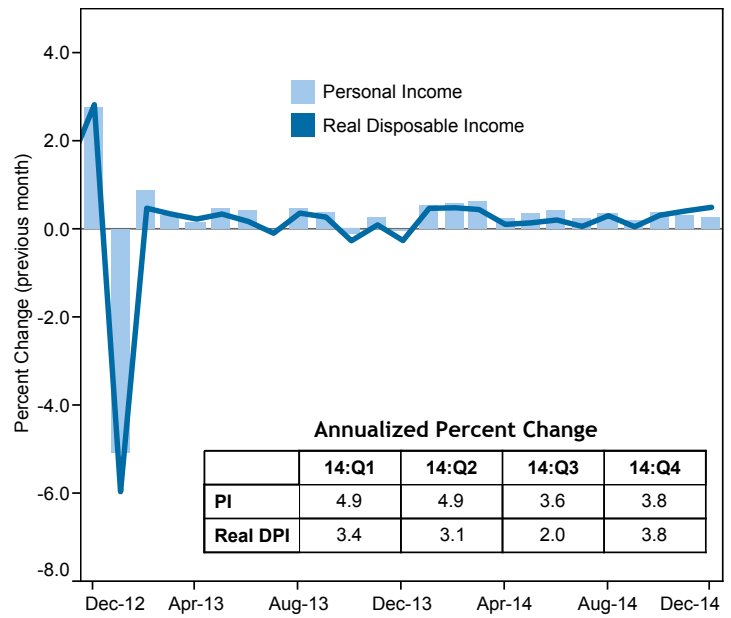
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth accelerated in the fourth quarter, and was a larger contributor to GDP growth, as both nominal and real income growth also sped up in the fourth quarter. On a monthly basis, consumption fell in December, its first decline in eight months, despite increases in incomes.

Real Consumption



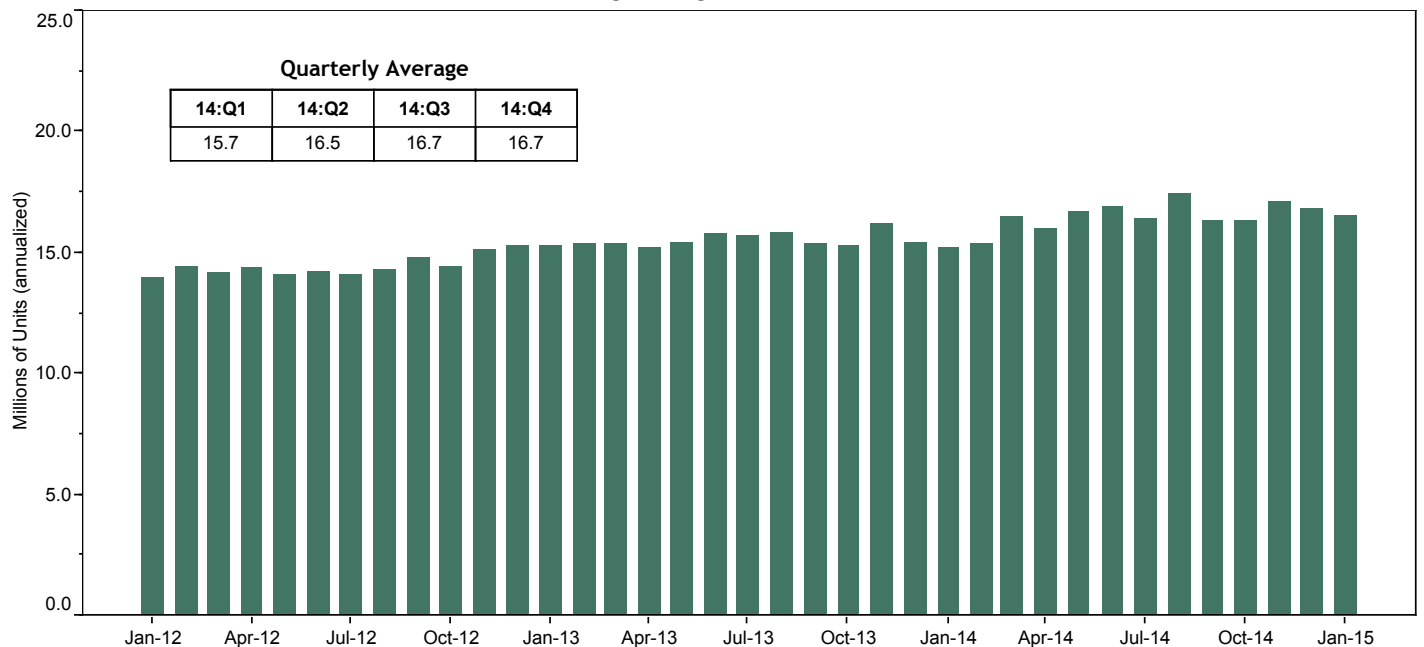
Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Total lightweight vehicle sales in January were below their fourth quarter average, and fell a bit from their December pace. The decline in total vehicle sales was due to a decrease in auto sales, as light duty truck sales rose in January to their highest pace in over nine years.

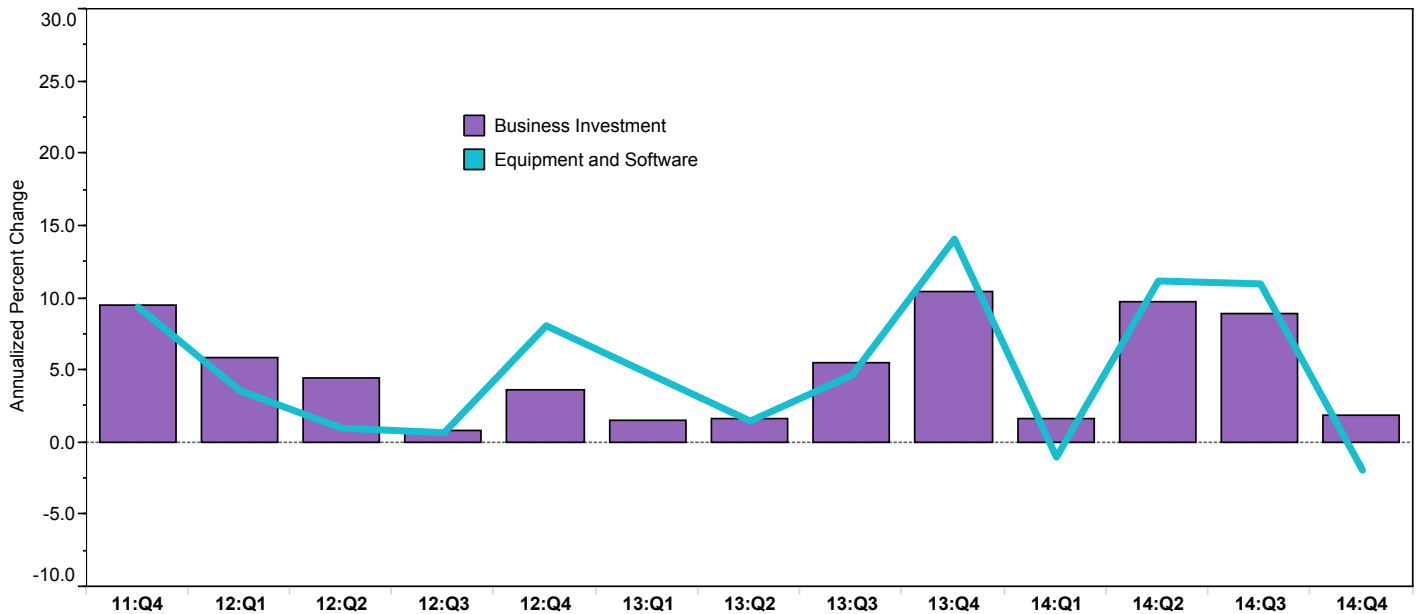
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment slowed in the fourth quarter, due in part to a decline in equipment and software investment, after both series posted strong increases in the prior two quarters.

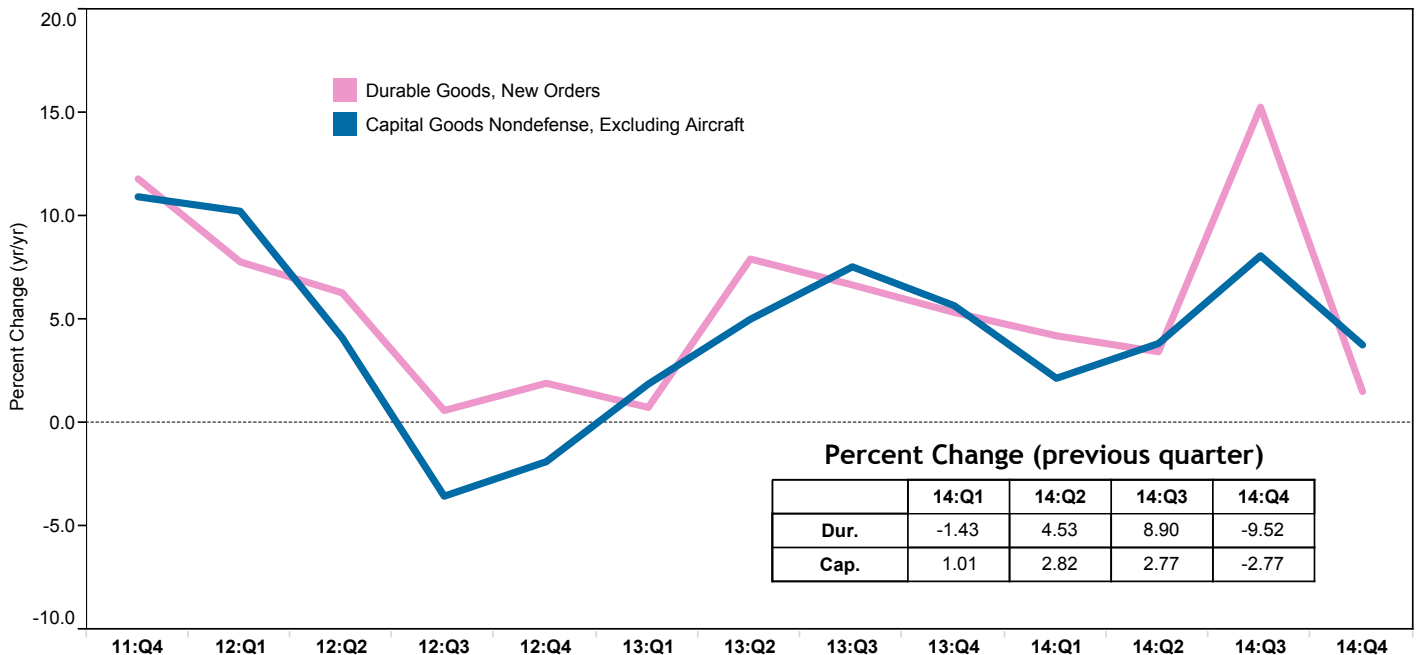
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the fourth quarter, durable goods orders and orders for nondefense capital goods, excluding aircraft, both grew compared to a year ago, albeit at much slower rates than seen in the third quarter. Both total and core orders decreased in the fourth quarter compared to the third.

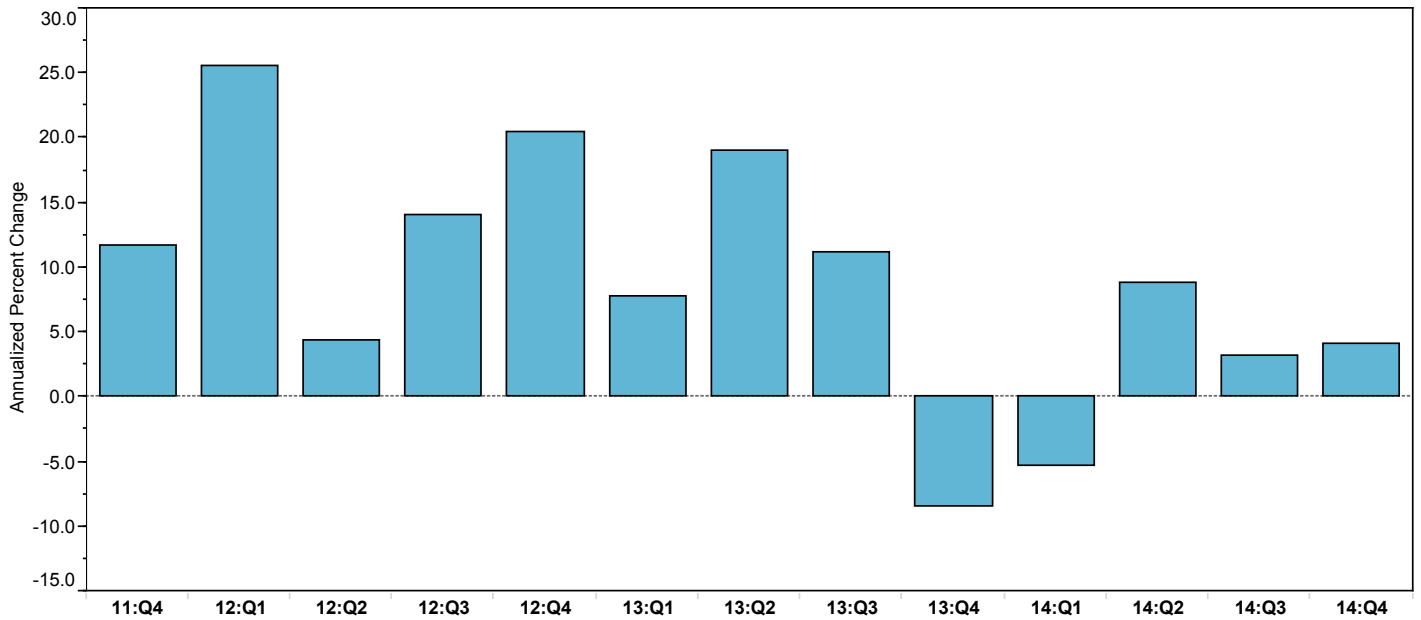
Durable Goods Orders



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

Residential investment posted a gain in the fourth quarter, increasing at a slightly faster rate than that seen in the third quarter.

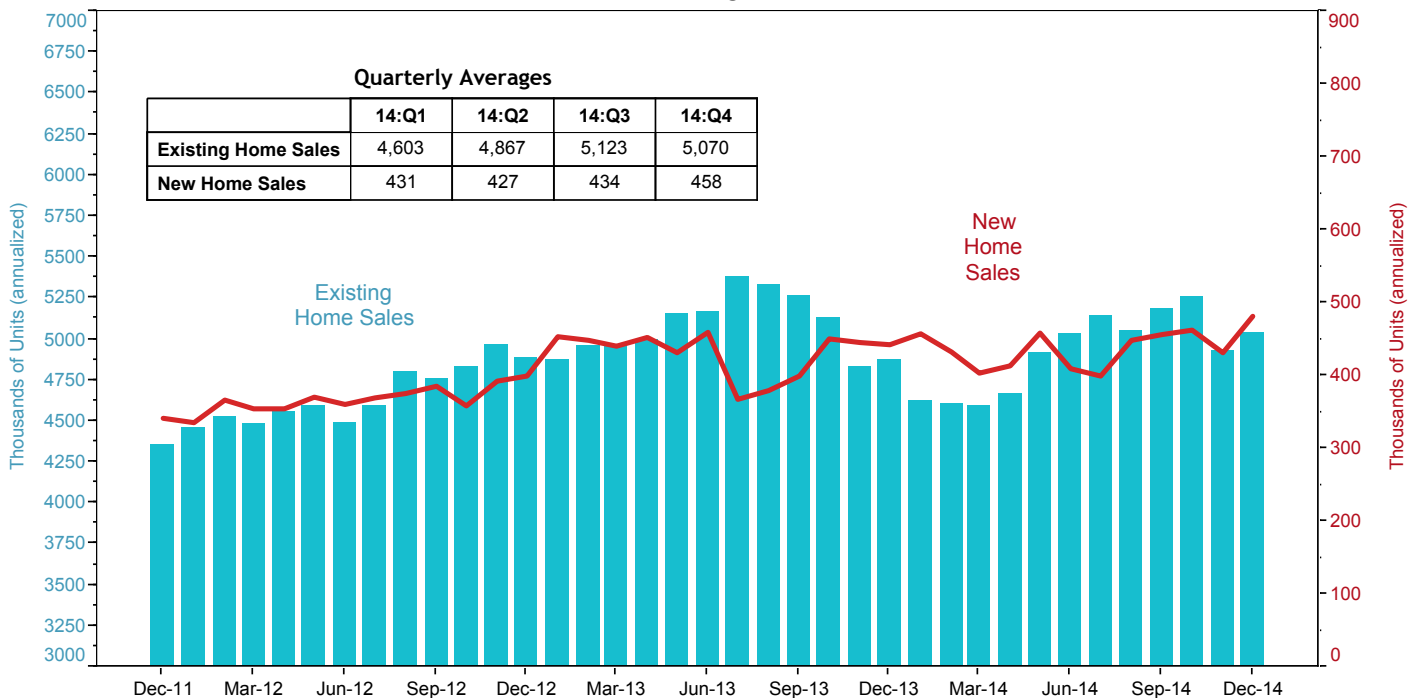
Residential Investment



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

Housing data was mixed in the fourth quarter, as existing home sales fell while new home sales increased to their highest quarterly average in over six years. In December, both new and existing home sales rose, after declining in the prior month.

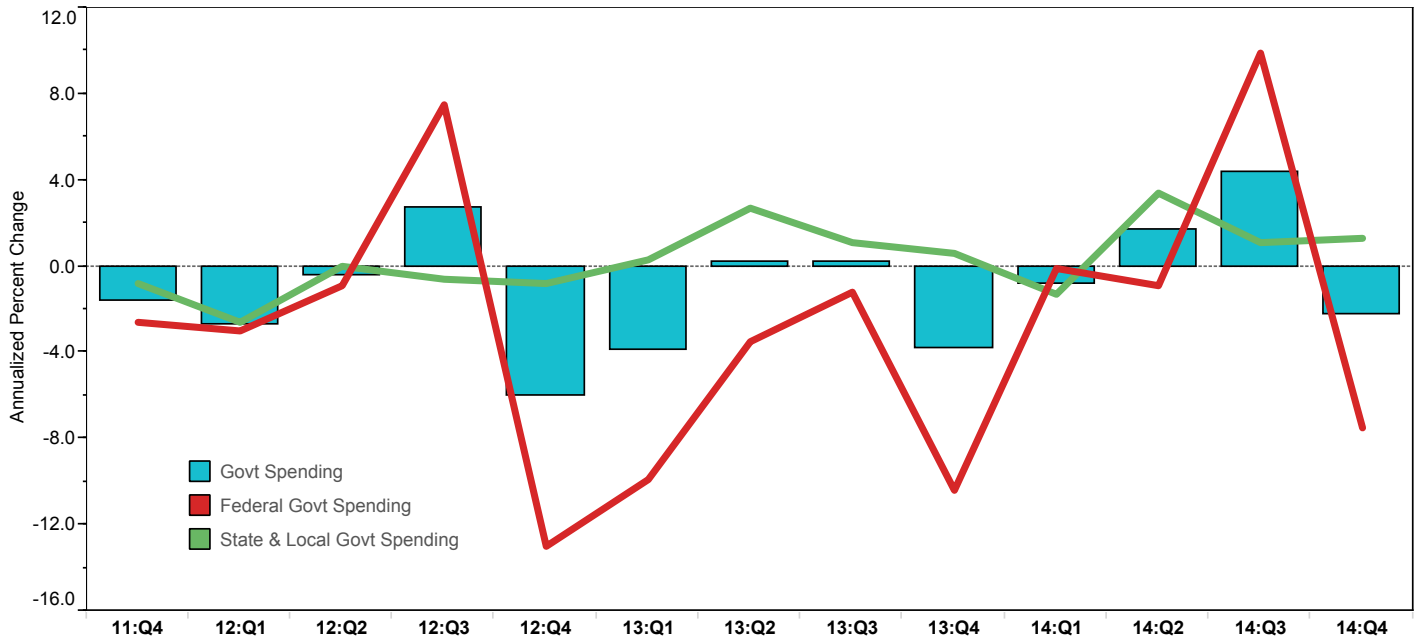
New and Existing Home Sales



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

In the fourth quarter, government spending declined, after posting a gain in each of the previous two quarters. The decrease was due to a plunge in federal government spending, as state and local spending continued to rise in the fourth quarter.

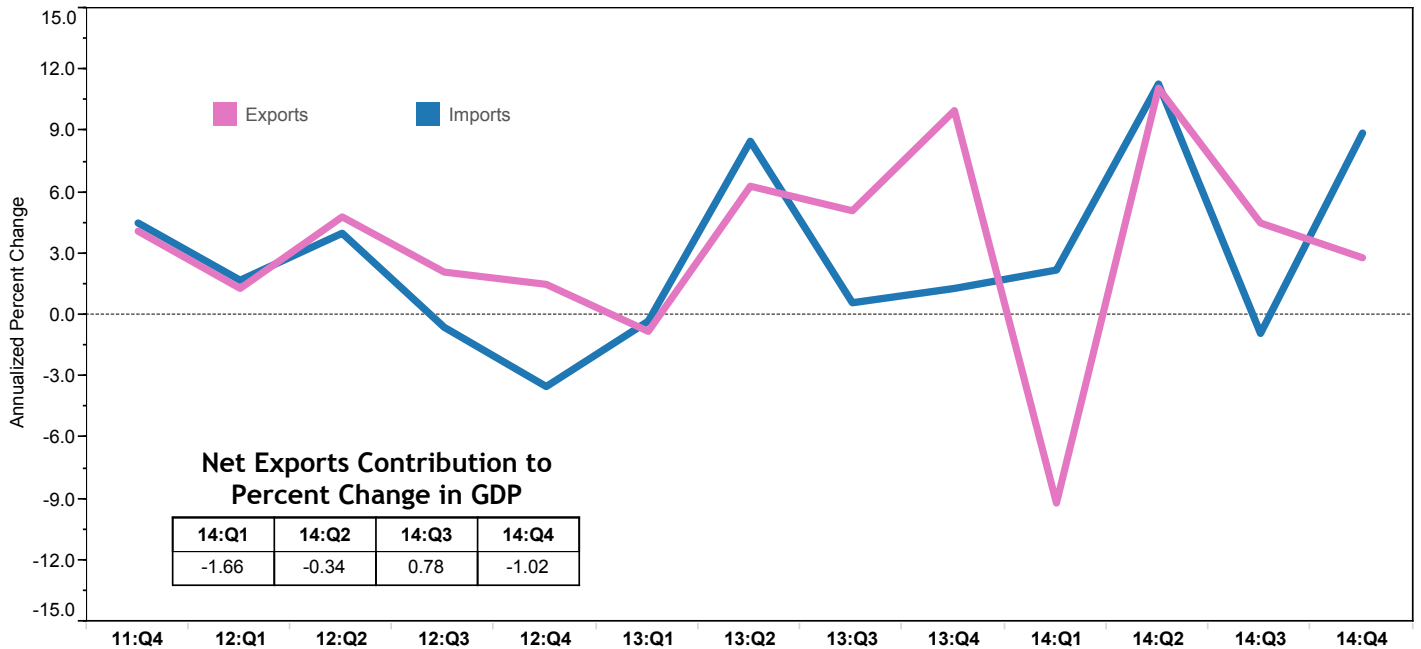
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Export growth slowed in the fourth quarter, and was offset by a larger increase in imports, which resulted in a drag on GDP from net exports.

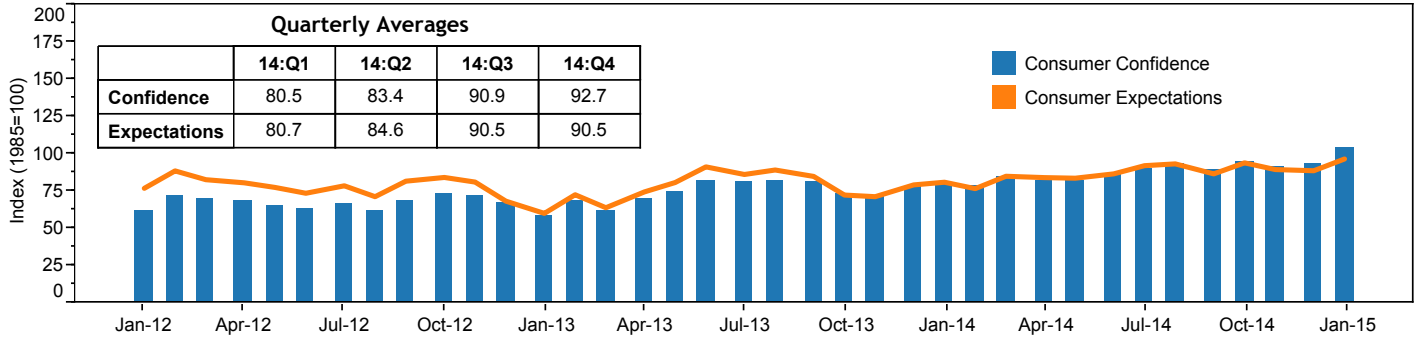
Exports and Imports



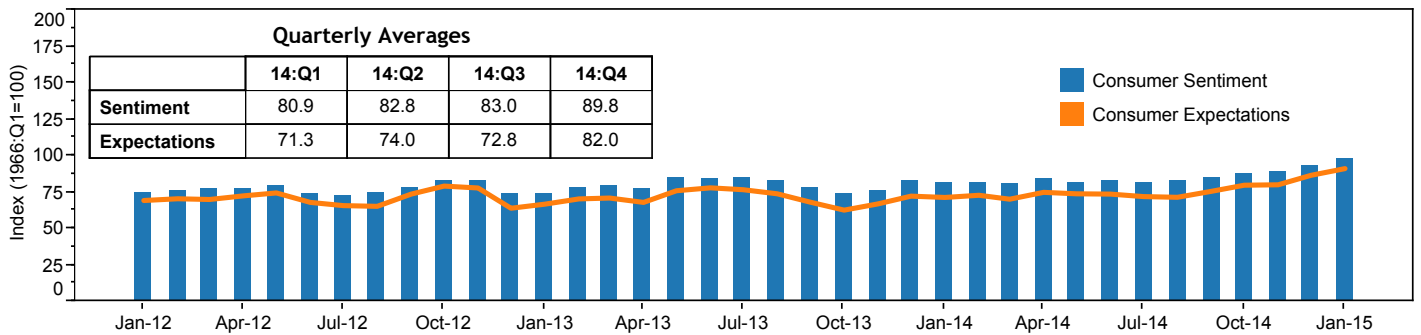
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes improved in January, as the confidence and the sentiment indices both increased above their fourth quarter averages, reaching seven- and eleven-year highs, respectively. In general, consumers had more favorable assessments of current business and labor market conditions, and were more optimistic towards the outlook for the national economy.

Consumer Confidence and Expectations



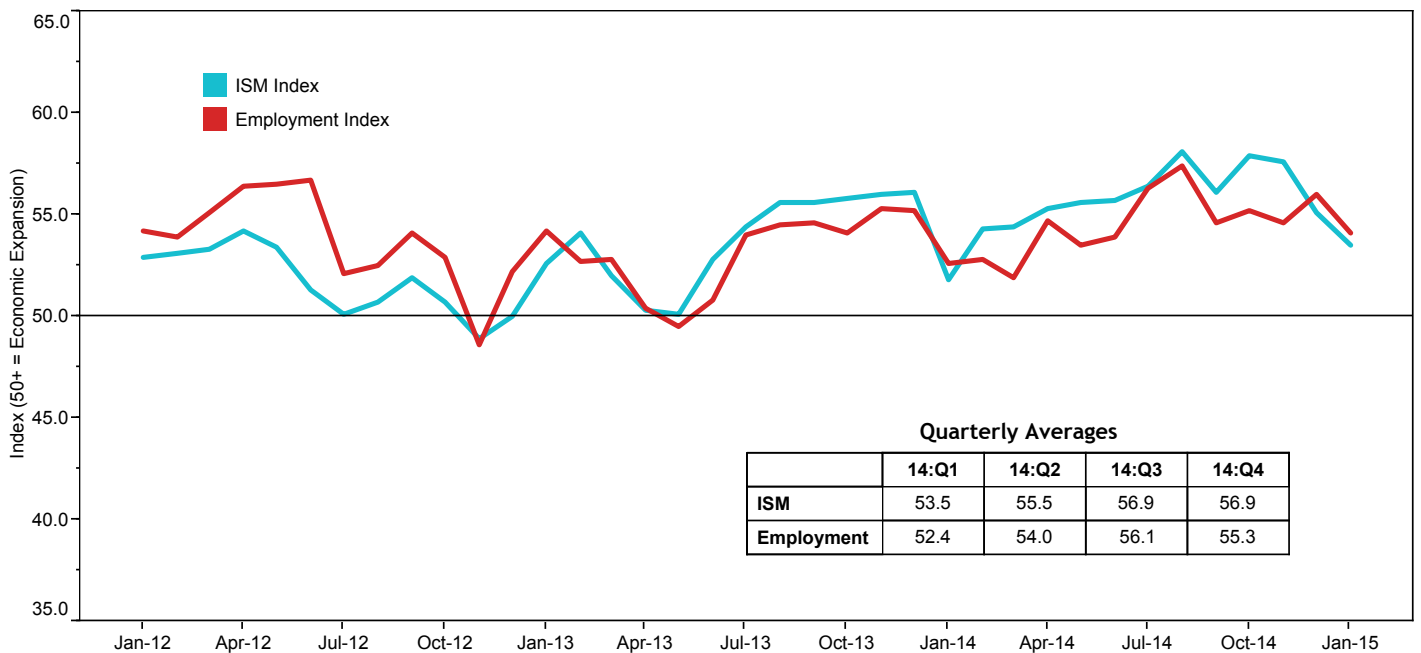
Consumer Sentiment and Expectations



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

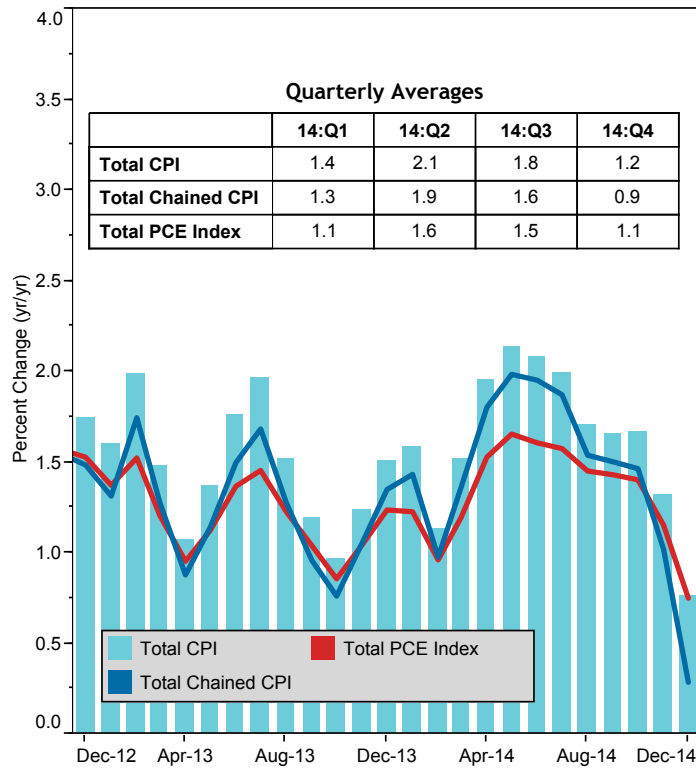
The ISM index decreased in January to its lowest level in one year, but continued to indicate expansion in the manufacturing sector. The employment index also declined in January and was below its fourth quarter average.

ISM Index

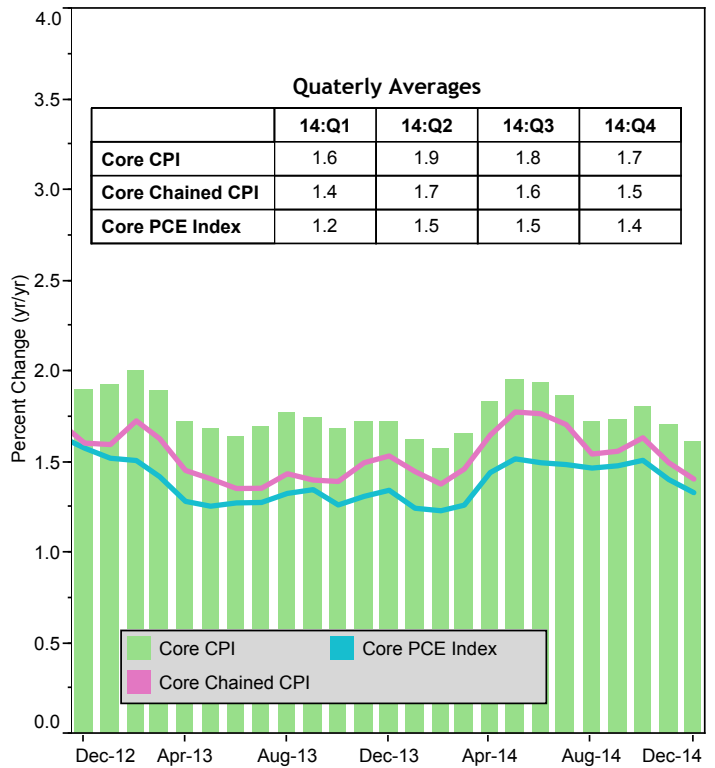


Growth in total consumer prices continued to ease in the fourth quarter as energy prices plummeted. Excluding the volatile food and energy sectors, growth in core prices also decelerated in the fourth quarter.

Total Price Indices

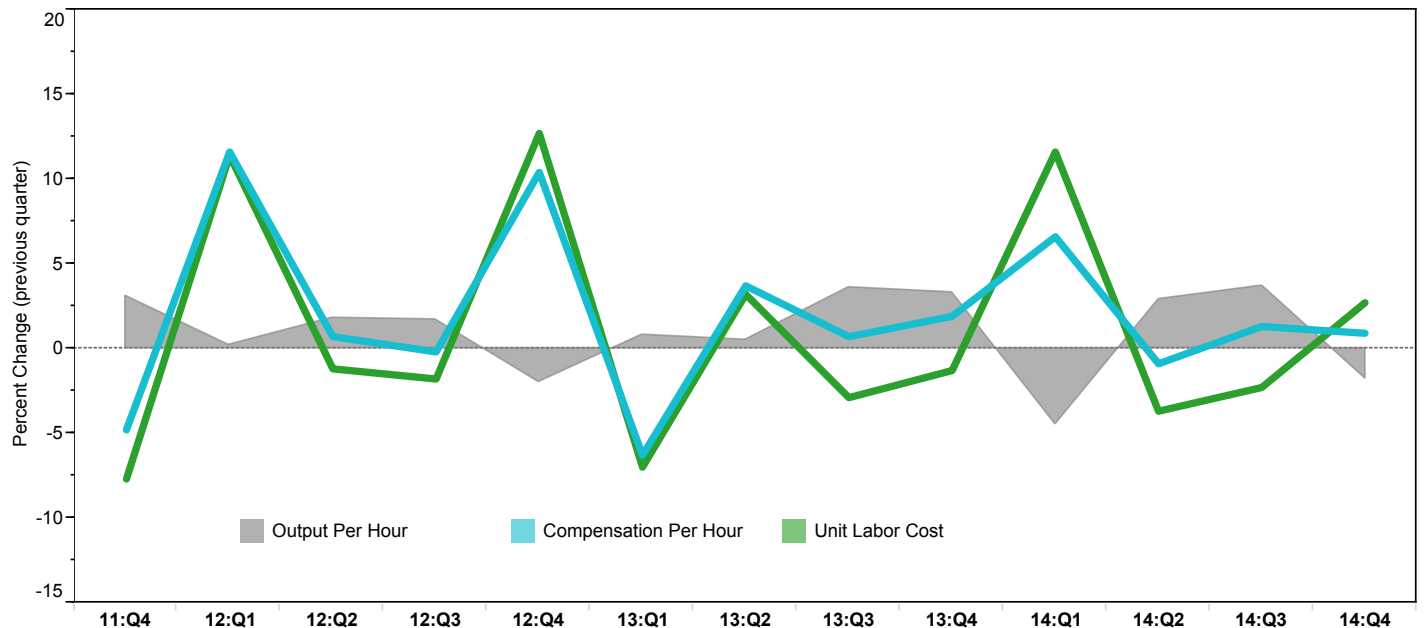


Core Price Indices



Productivity fell in the fourth quarter, after rising in each of the prior two quarters, as hours worked increased more than output. Growth in compensation eased a bit in the fourth quarter, while unit labor costs increased after declining in the previous two quarters.

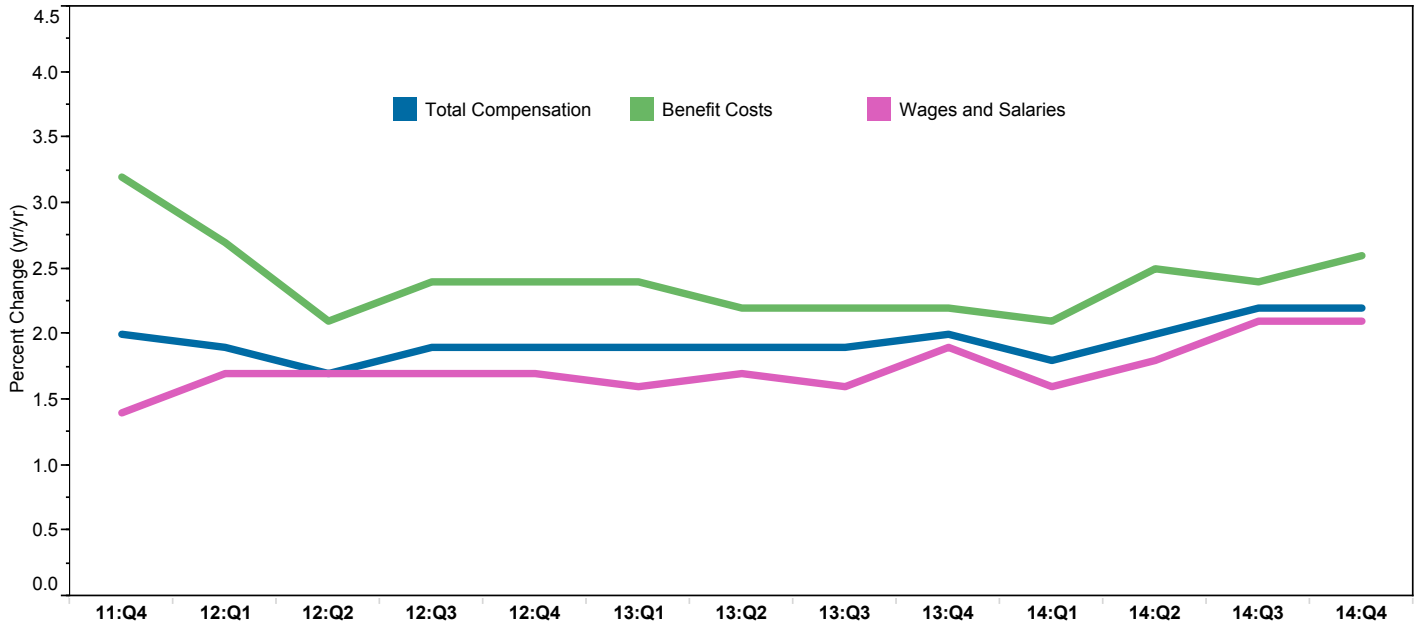
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the fourth quarter, both total compensation growth and wages and salaries growth were unchanged from the rates seen in the third quarter. Meanwhile, benefits costs growth accelerated in the fourth quarter.

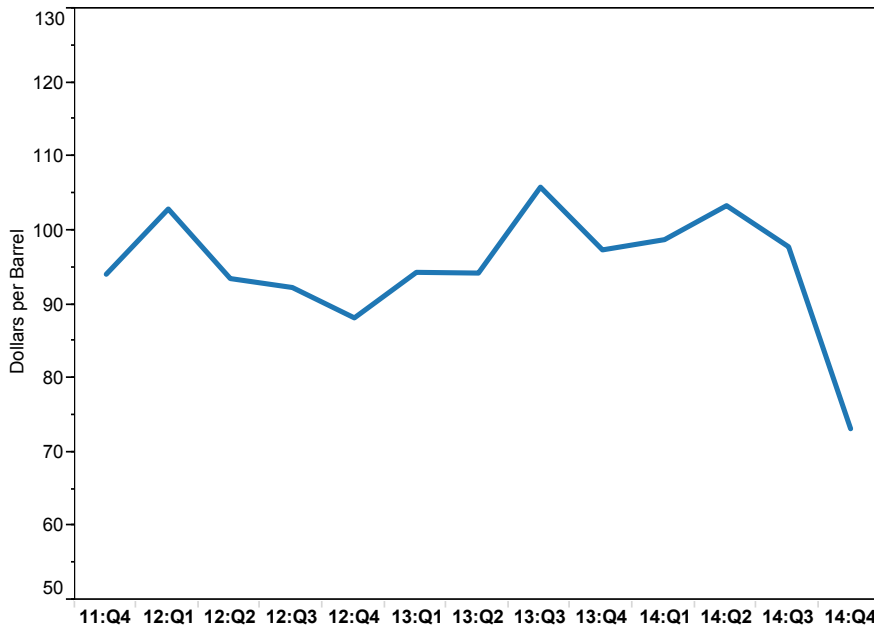
Employment Cost Index



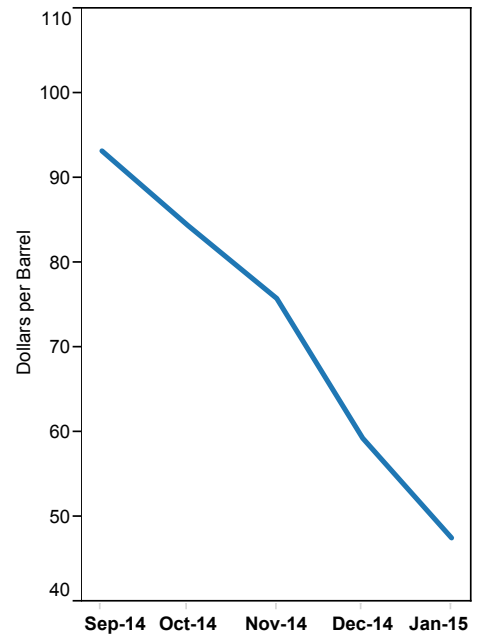
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in January dropped well below the levels seen in the fourth quarter, reaching their lowest monthly average since February 2009. The daily closing prices have ticked up a bit in early February, reaching \$50.0 per barrel on February 10.

Domestic Spot Oil Price



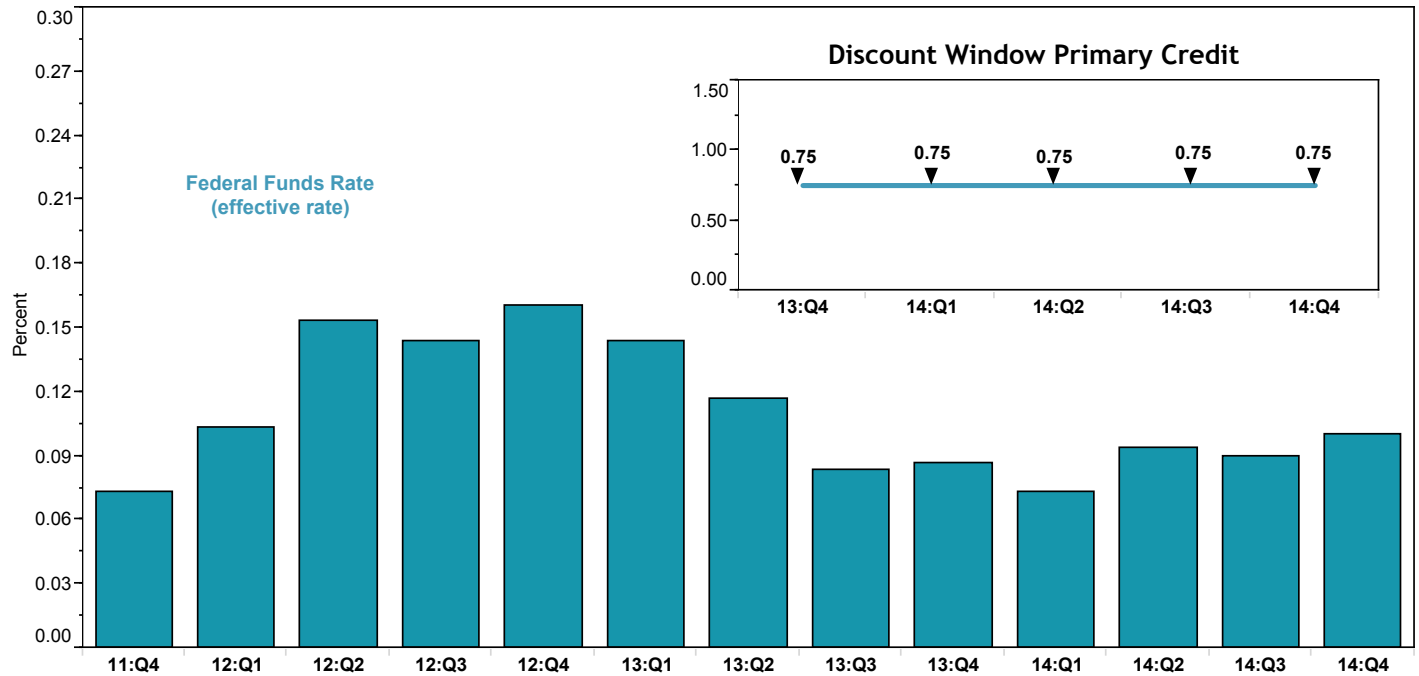
Past Five Months



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

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Short-Term Interest Rates



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