



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

January 13, 2015

CURRENT ECONOMIC DEVELOPMENTS - January 13, 2015

Data released since your last Directors' meeting suggest stronger-than-expected growth in the second half of 2014, yet growth likely slowed in the fourth quarter compared to the third. The labor market continues to strengthen, consumer attitudes have improved, and consumer spending has increased. Meanwhile, growth in the housing market remains subdued, and data in the manufacturing sector have been mixed. Weak growth abroad and foreign political unrest remain areas of concern.

In December, nonfarm payrolls posted a higher-than-expected increase and job gains for the previous two months were revised upward. The unemployment rate fell two-tenths of a percentage point to 5.6% in December, partly due to a decline in the labor force. Initial claims for unemployment insurance decreased in December, after rising in November, and remain consistent with improvements in the labor market.

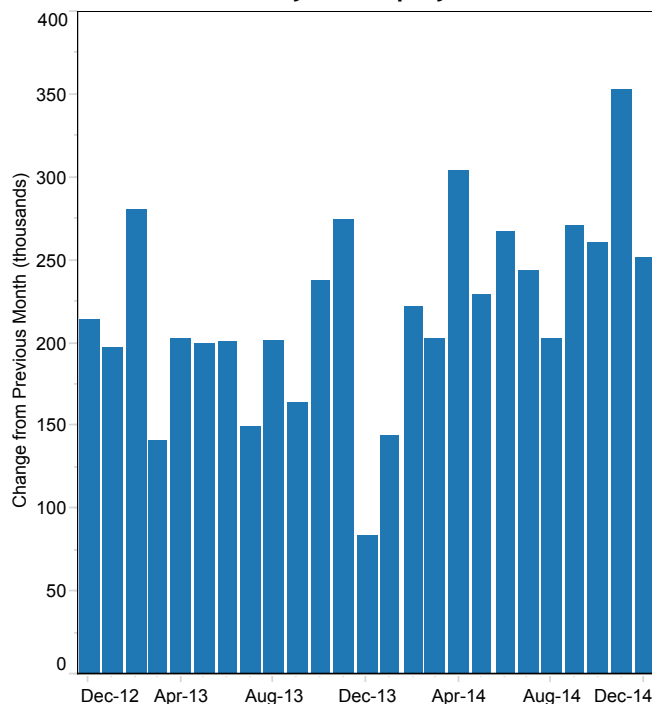
Consumer attitudes were mostly positive in December, as the sentiment index rose to its highest level in nearly eight years, and the confidence index also increased. However, respondents to the confidence survey were less optimistic about the short-term economic outlook. In November, real incomes rose and consumption posted its largest increase since August 2009. Primary measures of real estate activity mostly slowed in November, but remained above the levels seen over the previous few years. New and existing home sales fell during the month, and housing starts and building permits also declined.

In the manufacturing sector, the ISM index eased in December but continued to signal expansion. Industrial production jumped in November due to increases in utilities and manufacturing production, and capacity utilization also rose. Orders for durable goods and nondefense capital goods, excluding aircraft, decreased in November, but both series registered slight improvement over their year-ago levels.

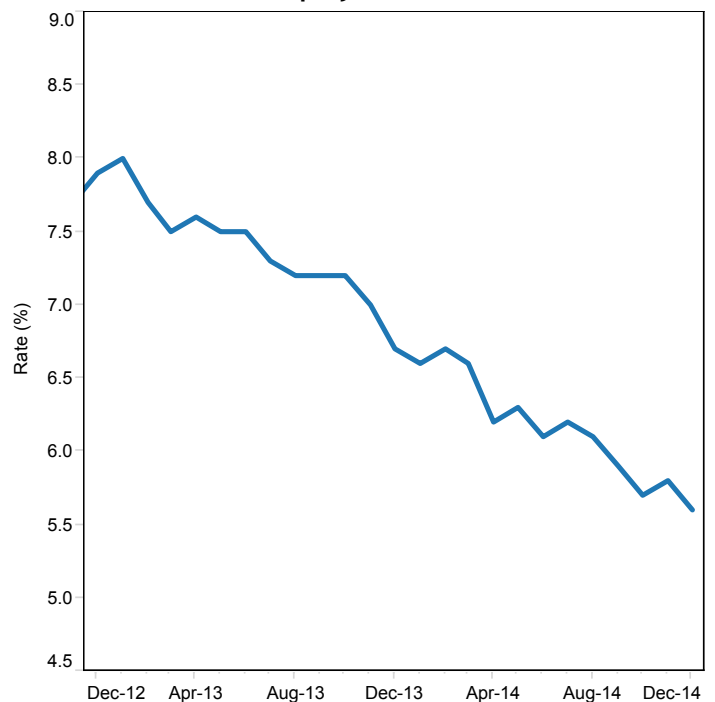
Measures of total consumer prices decelerated in November, as did the core indices, which exclude the volatile food and energy sectors. Oil prices continued to drop in December, reaching their lowest monthly average in over five-and-a-half years.

Nonfarm payrolls added 252,000 jobs in December, and job gains for the previous two months were revised up by a total of 50,000 jobs. Payroll gains have exceeded 200,000 in each of the previous eleven months. The unemployment rate fell two-tenths of a percentage point to 5.6% in December, its lowest level since June 2008. The decline in the unemployment rate was due, in part, to a decrease in the labor force.

Nonfarm Payroll Employment

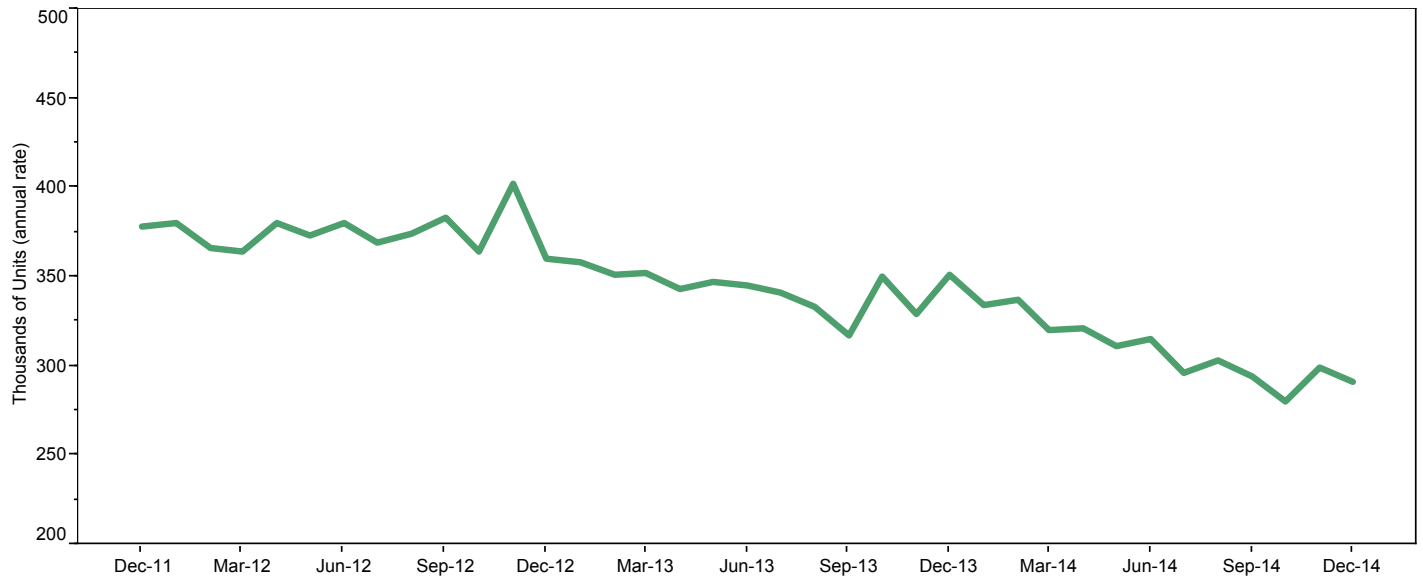


Unemployment Rate



Initial claims for unemployment insurance fell in December, after rising in November. Claims have remained below 300,000, on average, in each of the prior four months, reaching levels not seen since before the recession.

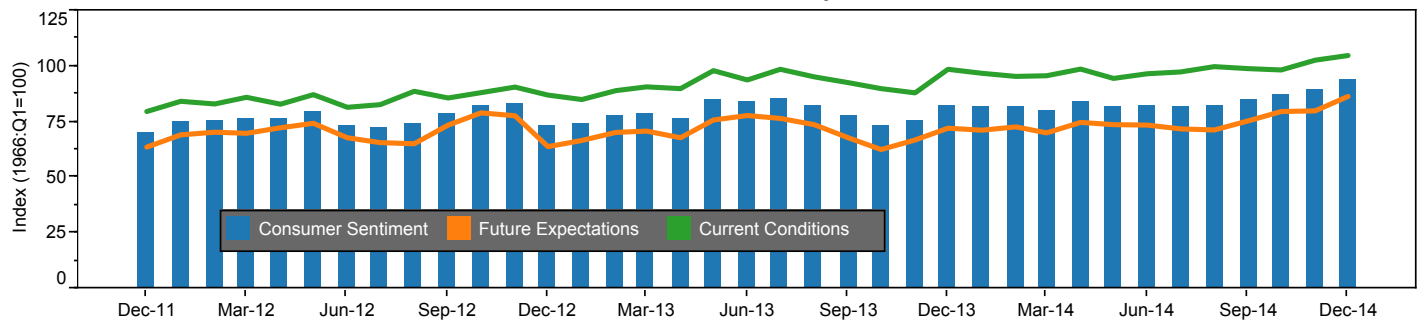
Initial Claims



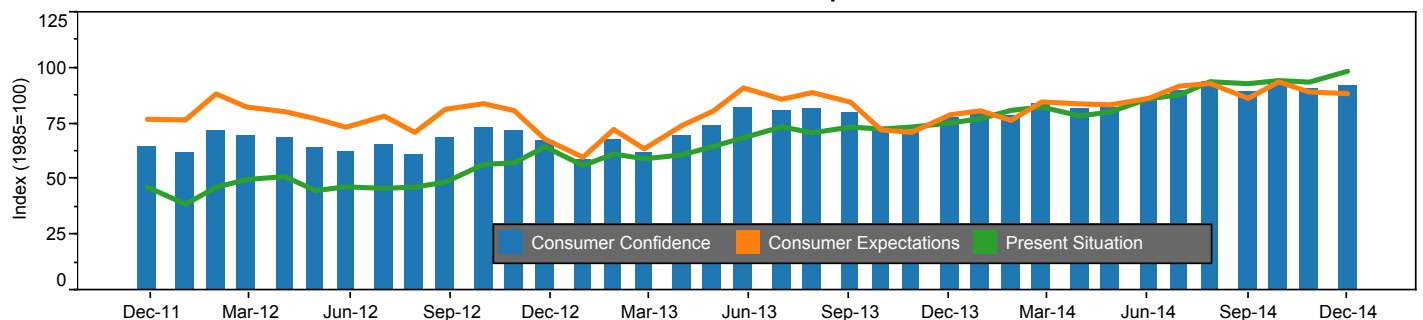
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes improved in December, as the sentiment index rose to its highest level since January 2007 and the confidence index also increased. However, the rise in confidence was driven solely by improvement in the present situation index, as the expectations index declined slightly. Overall, consumer attitudes were more favorable towards the labor market and wage prospects, while respondents to the confidence survey were less optimistic towards the short-term outlook for the economy.

Consumer Sentiment and Expectations



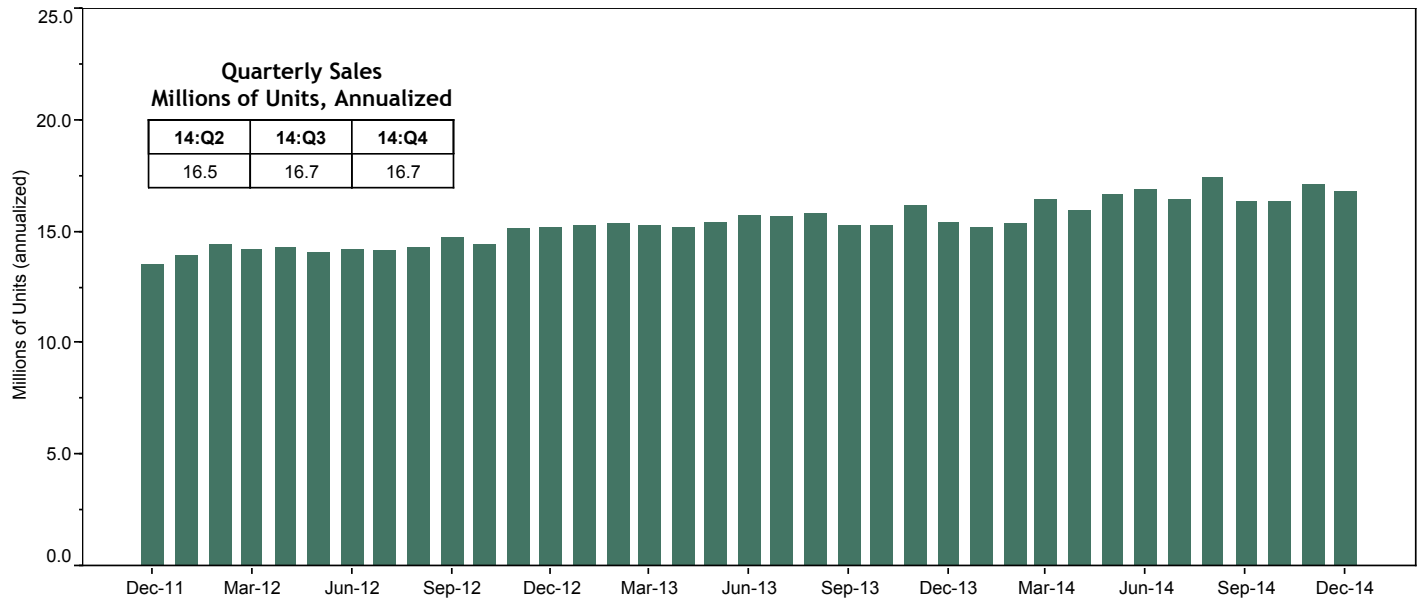
Consumer Confidence and Expectations



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

Lightweight vehicle sales declined in December, yet sales held steady on average in the fourth quarter compared to the third. Total sales in 2014 reached 16.4 million vehicles, their highest annual total since 2006.

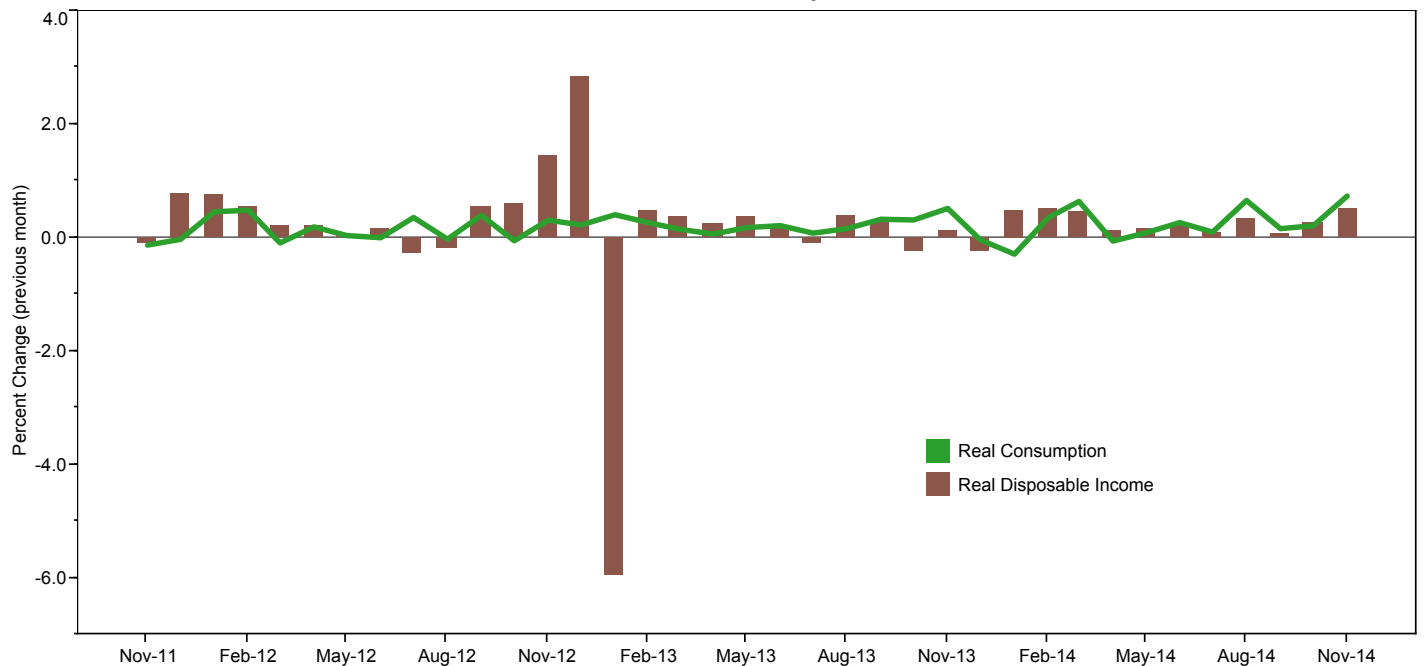
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in November, posting their largest increase since February. Income changes have been positive, albeit small, in each month of 2014. Consumption also rose in November, posting its largest monthly increase in over five years.

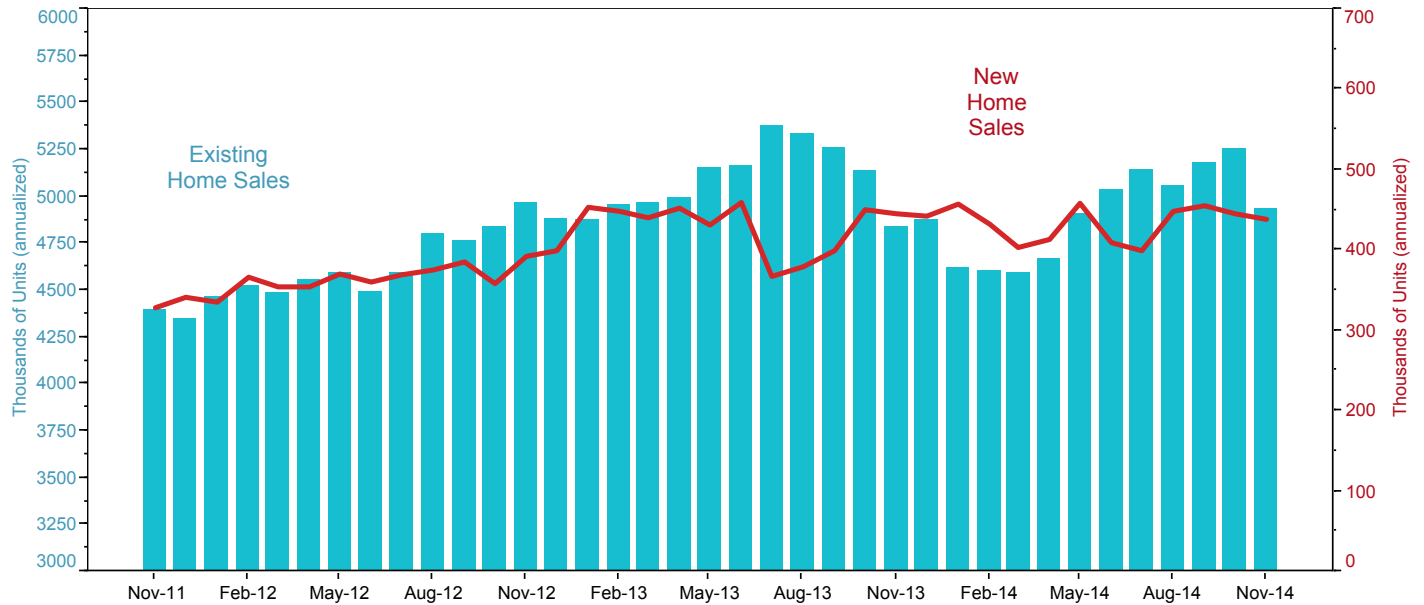
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales dropped in November to their slowest pace since May, after rising in each of the prior two months. New home sales also fell in November, their second consecutive monthly decline.

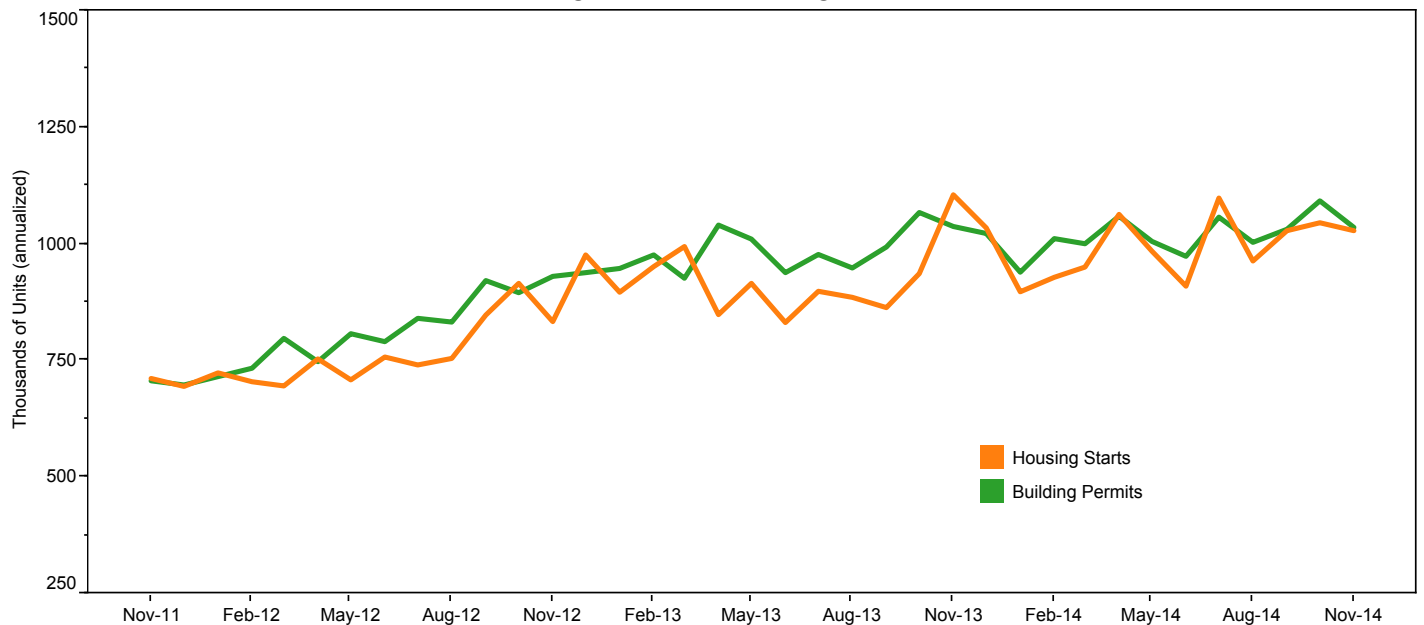
New and Existing Home Sales



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

Housing starts fell in November, from a revised increase in October that was previously reported as a decrease. The decline in November was due to a decrease in single-family starts, as multifamily starts increased. Building permits also fell in November, as both single-family and multifamily permits declined.

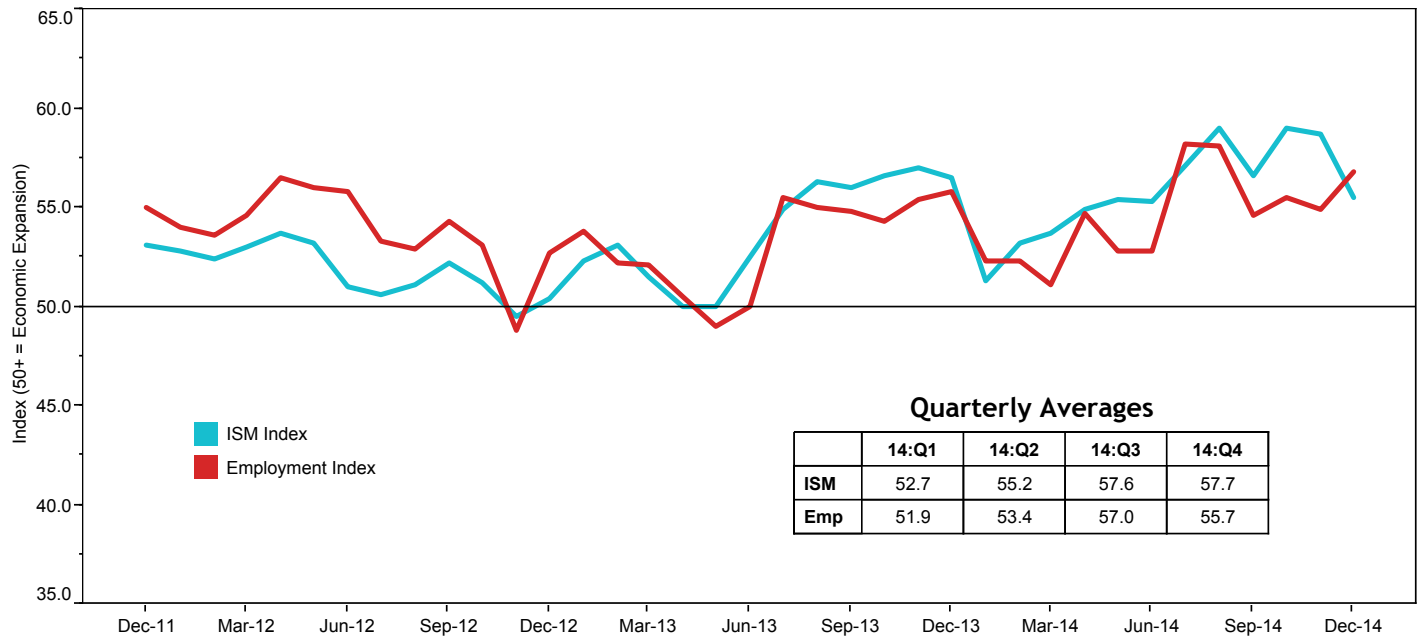
Housing Starts and Building Permits



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

The ISM manufacturing index eased in December to its lowest level since June, but remained above 50. Readings higher than 50 signal expansion in the manufacturing industry. Meanwhile, the employment component of the index rose in December.

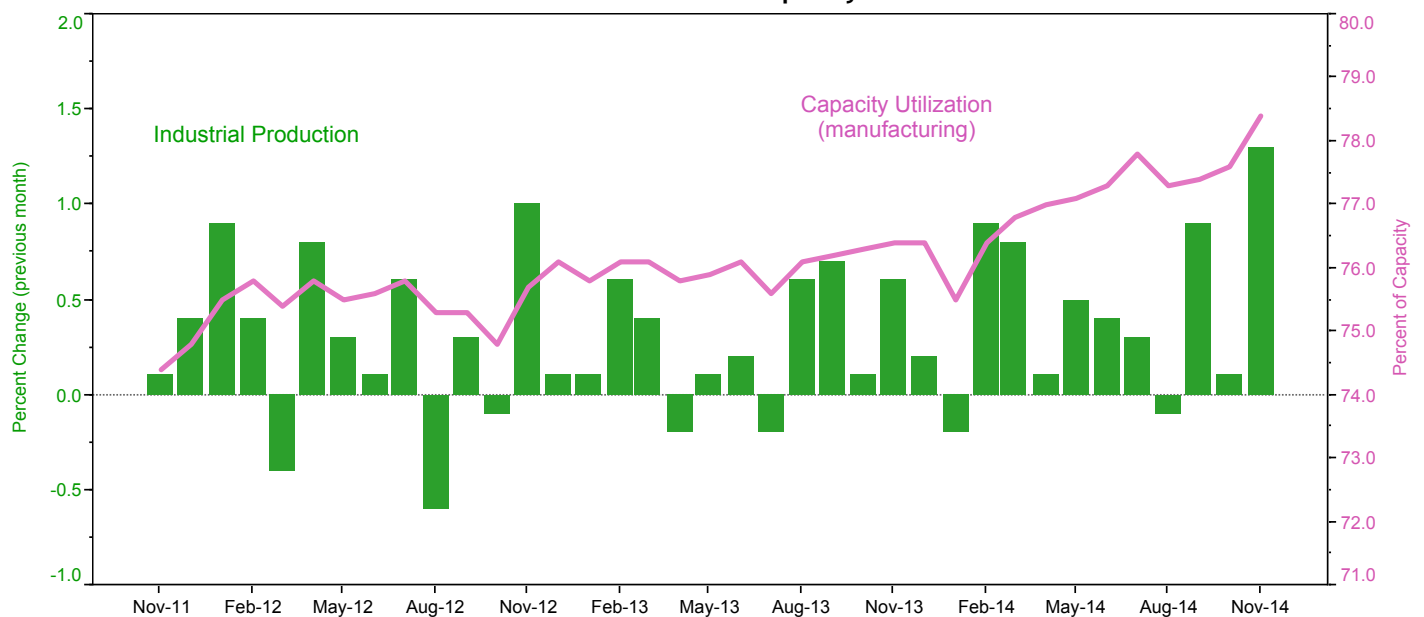
ISM Index



Source: Institute of Supply Management / Haver Analytics.

In November, industrial production posted its largest monthly increase since May 2010, due to surges in utilities and manufacturing production. Capacity utilization also rose in November, reaching a nearly seven-year high.

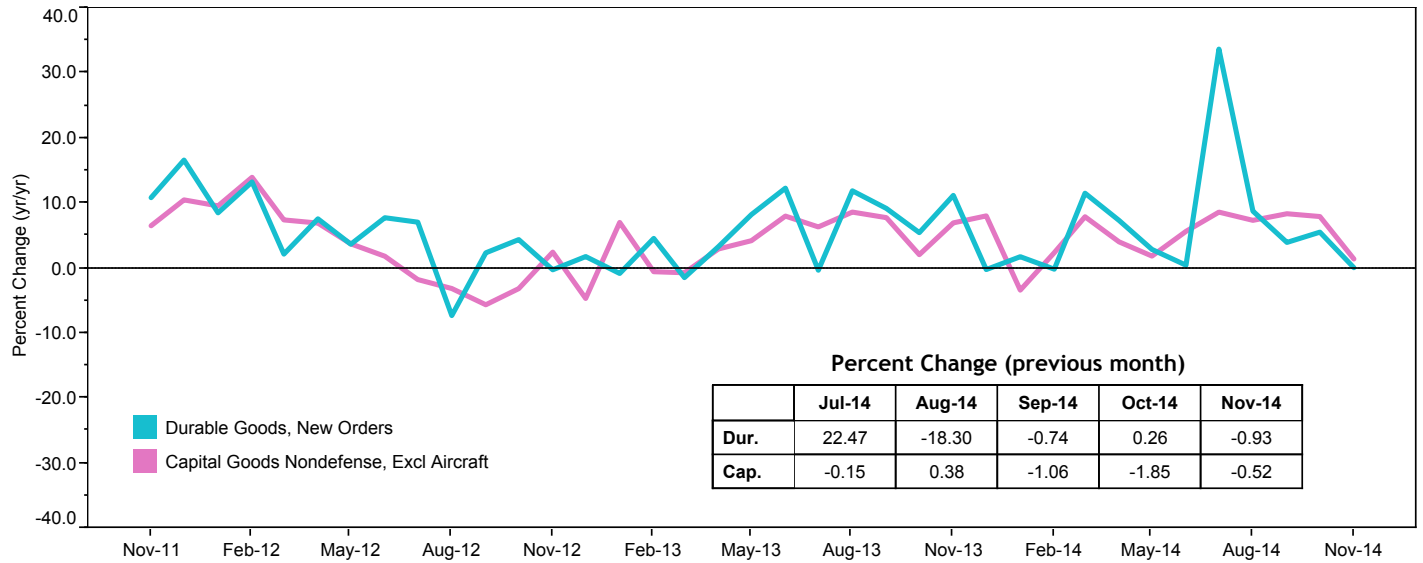
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders fell in November, after rising slightly in the previous month. Orders for nondefense capital goods, excluding aircraft, also fell in November, their third consecutive monthly decline. Both series continued to increase on a year-over-year basis, albeit at a much slower pace than seen in October.

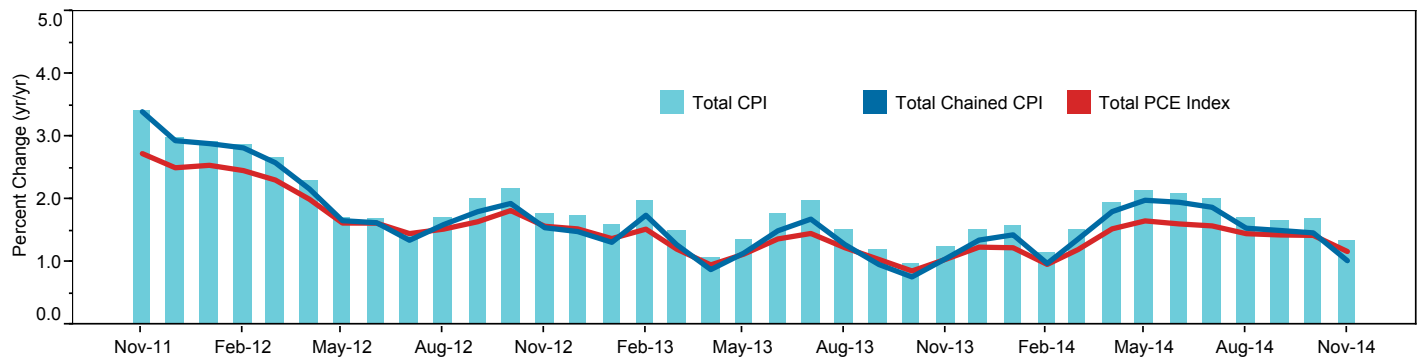
Durable Goods Orders



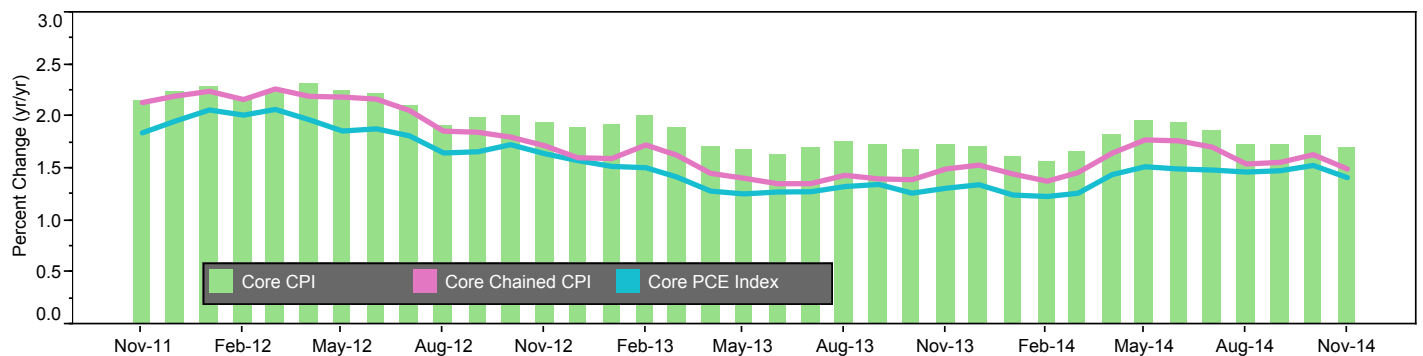
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer price indices decelerated in November, and core prices, which exclude the volatile food and energy categories, also eased.

Total Price Indices



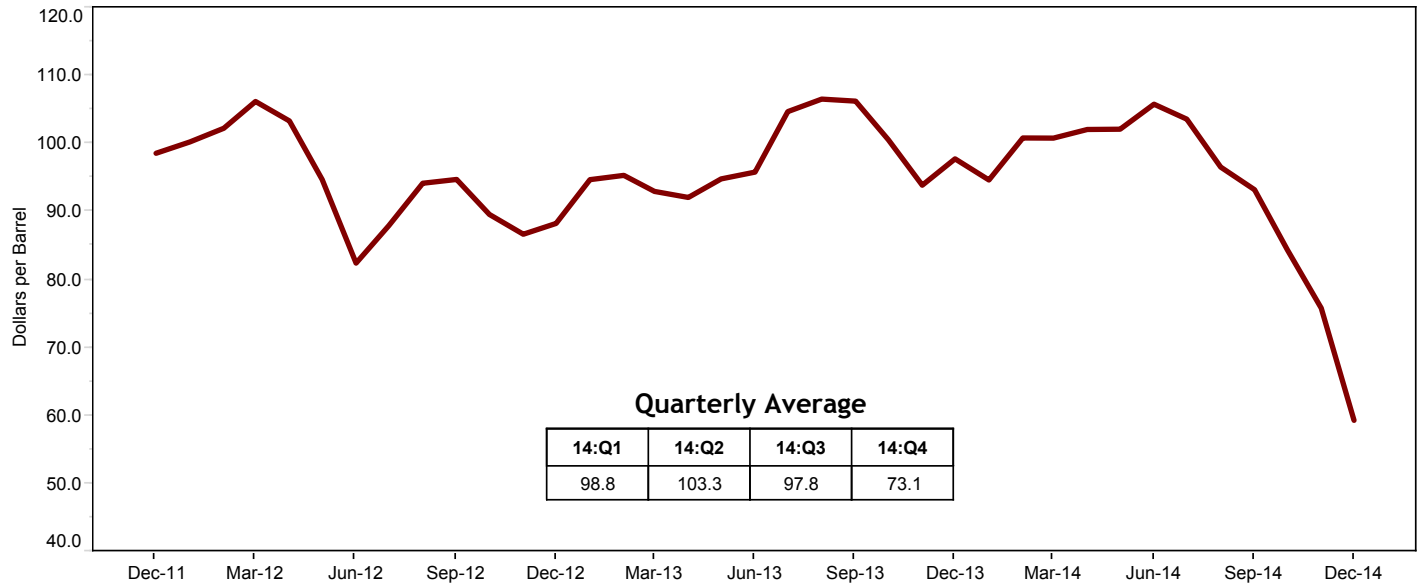
Core Price Indices



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

Oil prices continued to drop in December, as the monthly average reached its lowest level since May 2009. Prices have fallen further at the beginning of January, reaching \$46.1 per barrel on January 12th.

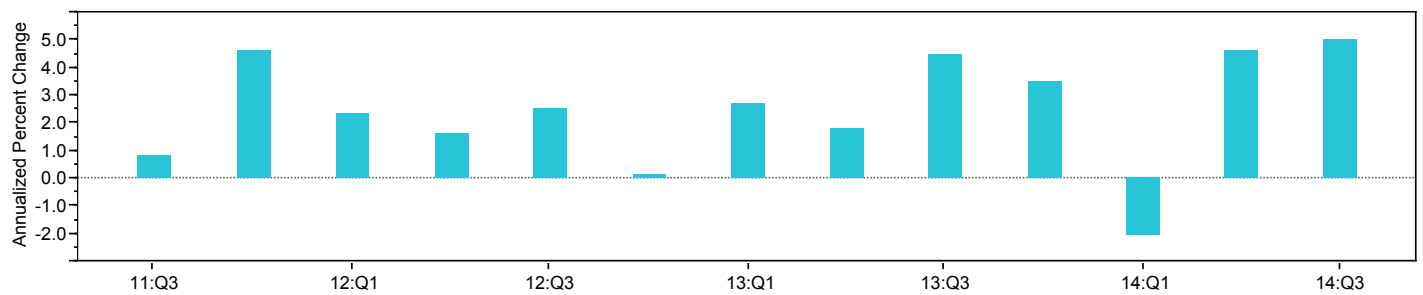
Domestic Spot Oil Price



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

Third quarter real GDP growth was revised higher in the third estimate. The upward revision to third quarter GDP growth primarily reflected upward revisions to personal consumption expenditures, to nonresidential fixed investment, and to private inventory investment.

Real GDP



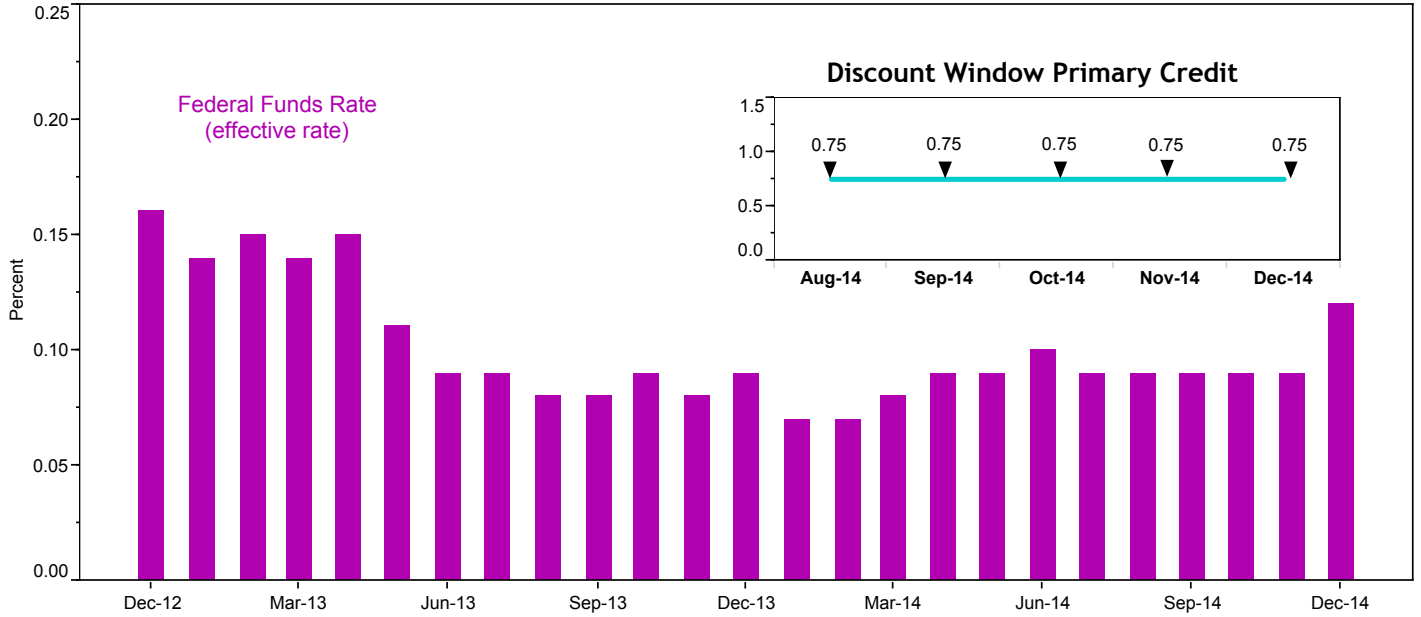
Revisions to Third Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	3.9	5.0
Personal Consumption	2.2	3.2
Business Investment	7.1	8.9
Equipment and Software	10.7	11.0
Residential Investment	2.7	3.2
Government	4.2	4.4
Exports	4.9	4.5
Imports	-0.7	-0.9
Final Sales	4.1	5.0

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.