



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

June 30, 2015

CURRENT ECONOMIC DEVELOPMENTS - June 30, 2015

Data released since your last Directors' meeting suggest a rebound in economic growth in the second quarter, following a contraction in the first quarter that was smaller than previously estimated. The labor market showed signs of continued strengthening, personal consumption picked up, consumer attitudes improved, and the housing market continued to show positive signs. However, growth in the manufacturing sector mostly showed signs of softening. Economic growth is projected to pick up to a moderate pace over the rest of the year.

Initial claims for unemployment insurance fell in the first three weeks of June, from a level in May that was the lowest in over fifteen years. Employment data from the Bureau of Labor Statistics are due out on Thursday morning, and nonfarm payrolls are expected to post another solid gain in June, even if not as robust as the increase seen in May. The unemployment rate is expected to fall one-tenth of a percentage point to 5.4% in June. Consumer attitudes improved in June, as both the sentiment index and the confidence index increased.

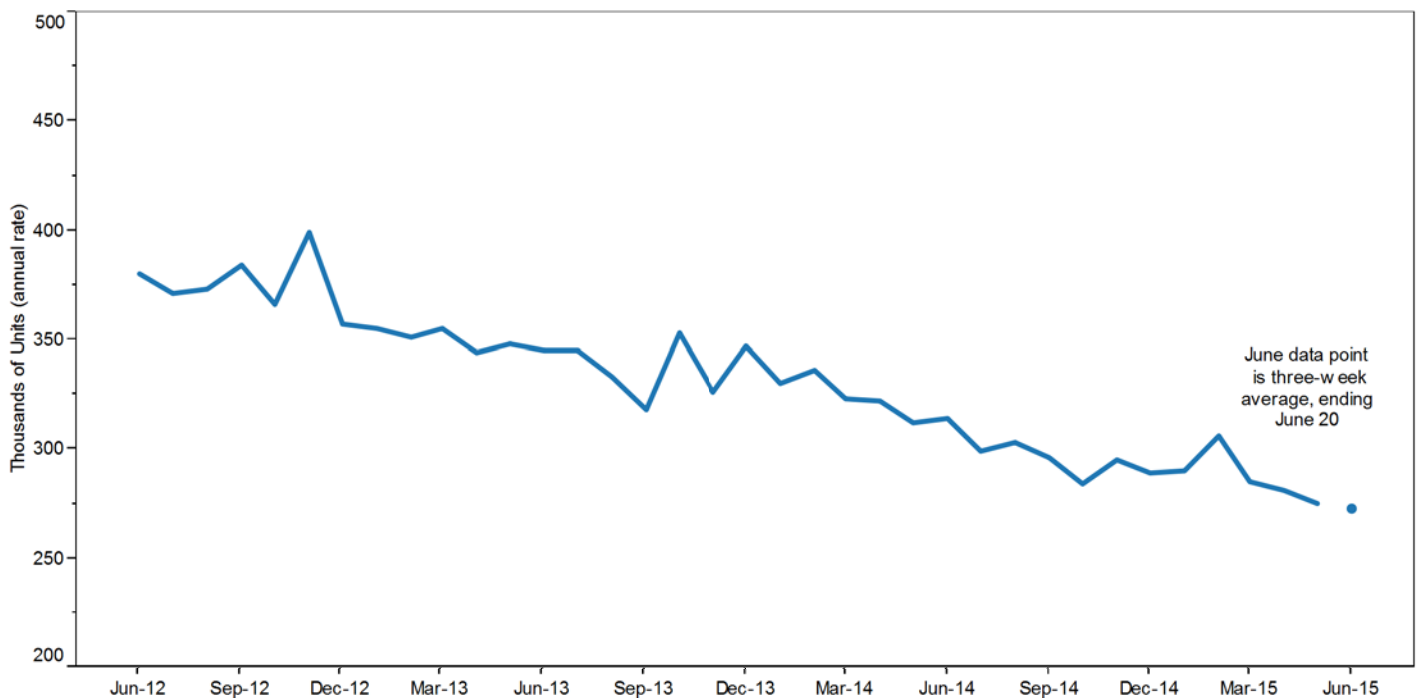
The housing market showed some improvement in May. Both new and existing home sales increased, registering new post-recession highs. Housing starts declined in May, while permits surged to their highest rate in over eight years.

In the manufacturing sector, industrial production fell in May due to declines in manufacturing and mining production, and capacity utilization eased. Orders for durable goods decreased in May, while orders for nondefense capital goods, excluding aircraft, ticked up a bit. Both series registered declines from their year-ago levels.

Measures of total consumer prices were little change in May, but the core indices, which exclude the volatile food and energy sectors, decelerated. Oil prices in June held relatively steady around their May average, and registered \$58.3 per barrel on June 29.

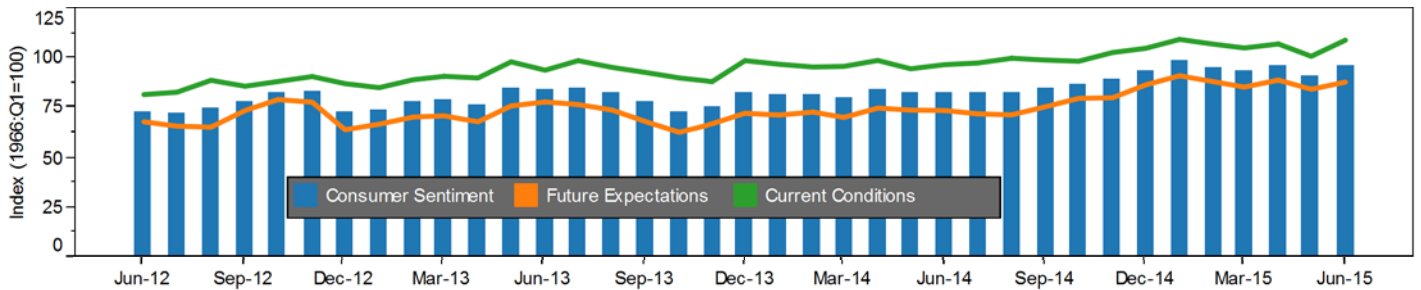
Initial claims for unemployment insurance have fallen, on average, in the three weeks ending June 20th, after declining in each of the previous two months. Weekly claims in May had registered their lowest monthly average in over fifteen years.

Initial Claims

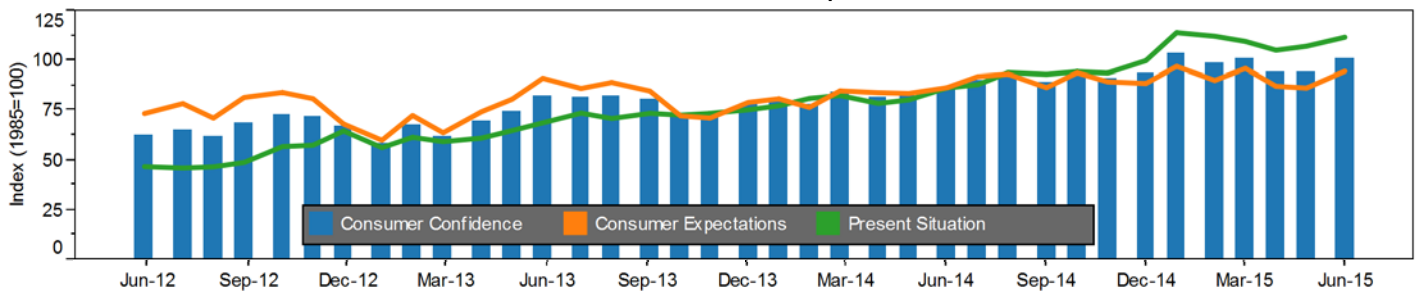


Consumer attitudes were positive in June. The sentiment and confidence indices both rose due to increases in their respective expectations and current conditions components. Consumers expressed more favorable views towards current employment and business conditions, as well as towards the short-term economic outlook. However, the favorable assessments by respondents to the sentiment survey partly resulted from comparison to diminished long-term economic prospects.

Consumer Sentiment and Expectations



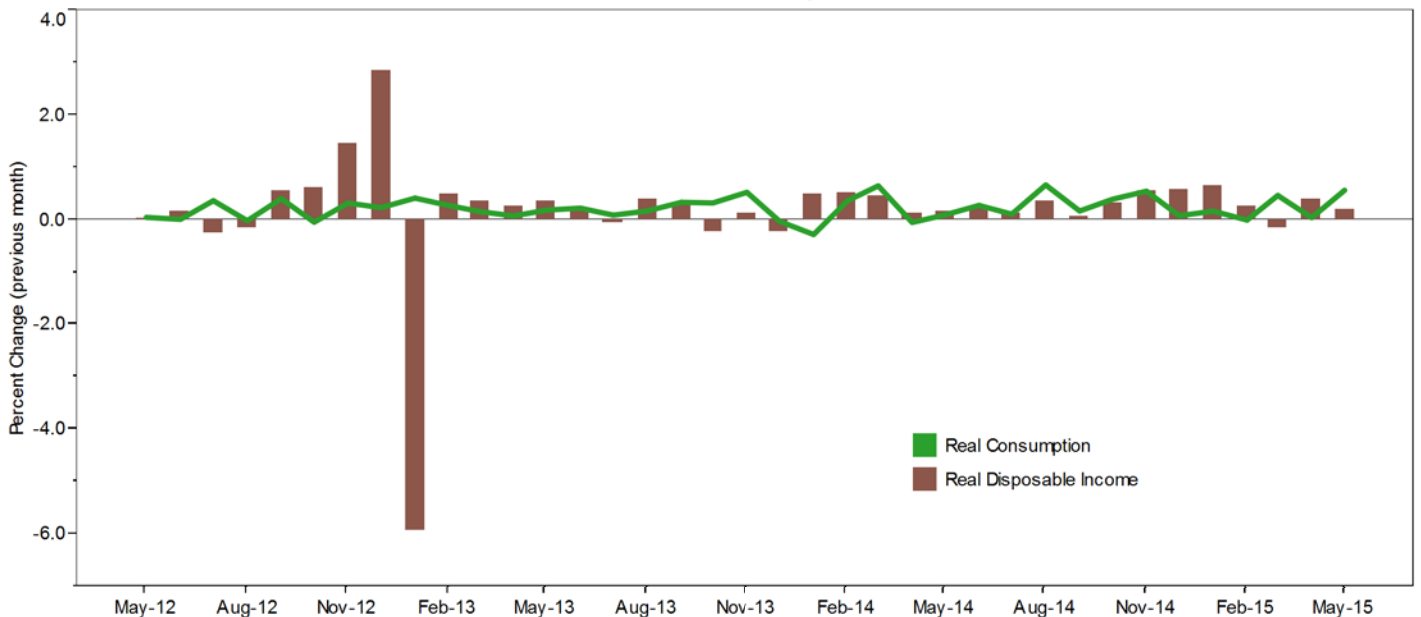
Consumer Confidence and Expectations



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

Real incomes rose in May, albeit at a slower pace than seen in April. The higher incomes provided a boost to spending in May, as consumption posted its largest increase in nine months.

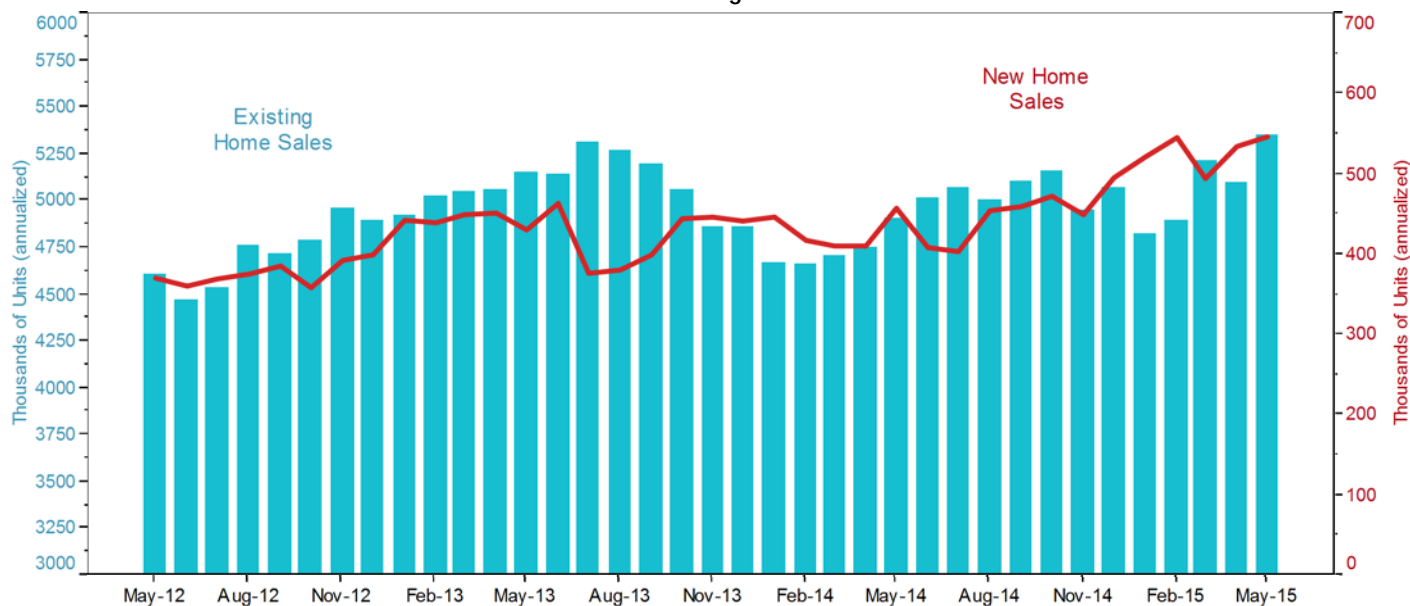
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales increased in May, after falling in April, and reached their fastest pace since November 2009. New home sales also rose in May, reaching their highest rate in over seven years, following an upwardly revised increase in April.

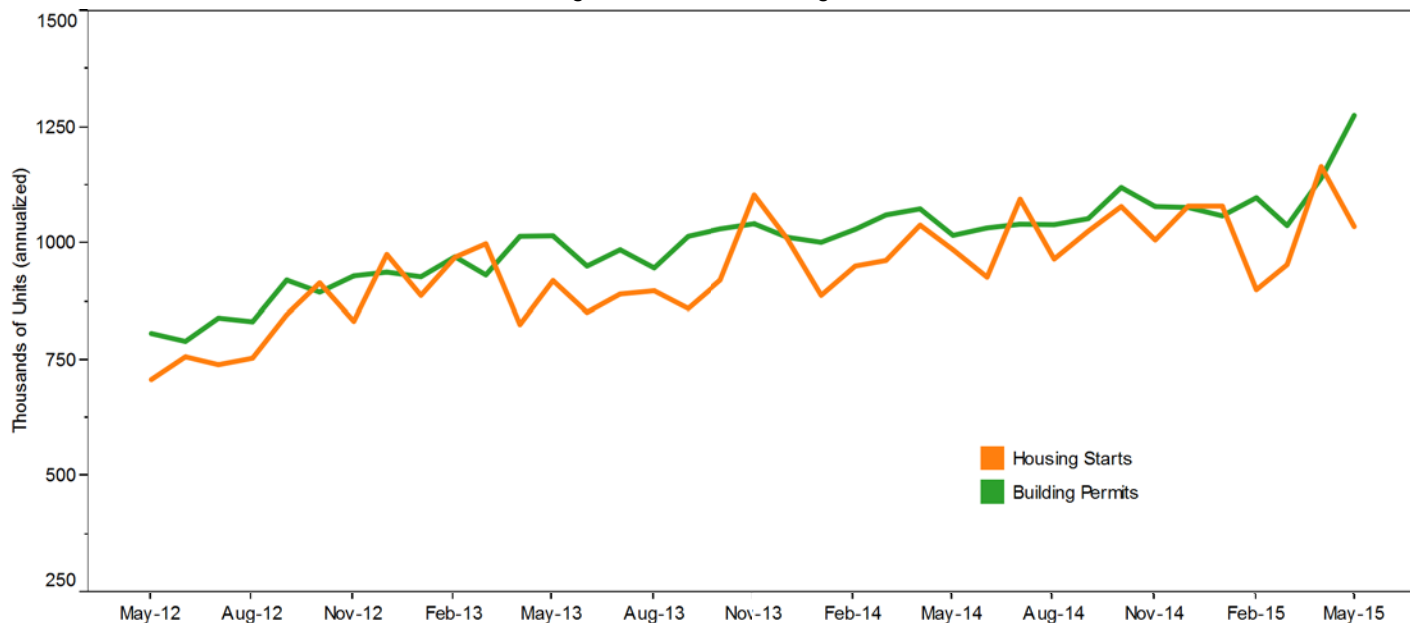
New and Existing Home Sales



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

Housing starts dropped below expectations in May, from an upwardly revised rate in April that was the highest since November 2007. Meanwhile, building permits surged in May, reaching their highest rate in over eight years.

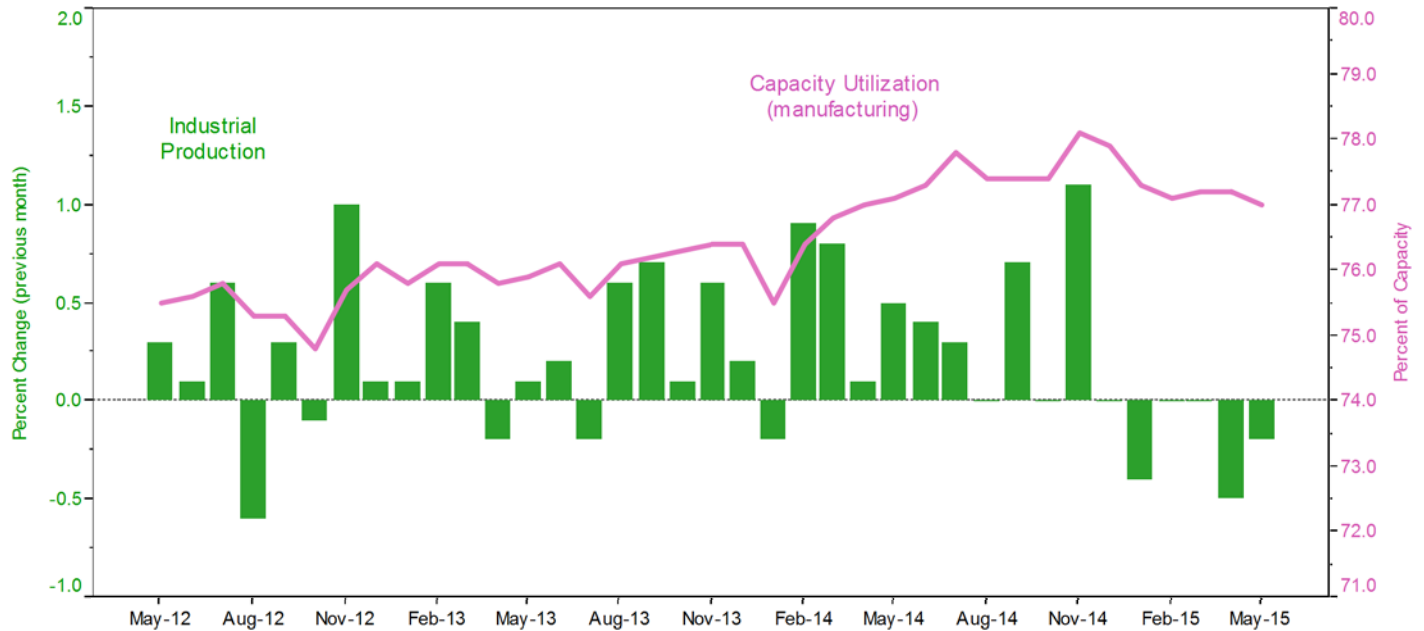
Housing Starts and Building Permits



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

Industrial production declined in May, and has fallen or remained flat in each of the previous six months. Both manufacturing and mining production posted decreases in May, while utilities output increased. Capacity utilization also declined in May.

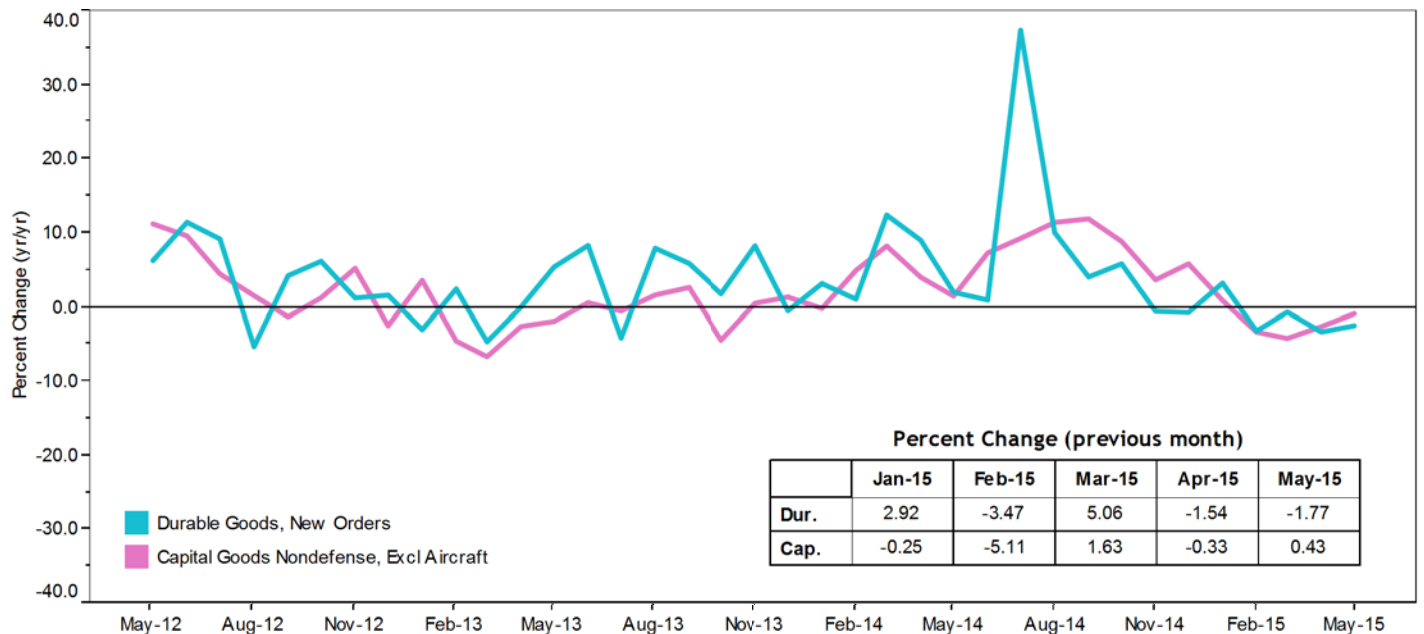
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders fell in May, their second consecutive monthly decline, while orders for nondefense capital goods excluding aircraft rose in May, after falling in April. Both series continued to decrease on a year-over-year basis, albeit at slightly slower paces than seen in the prior month.

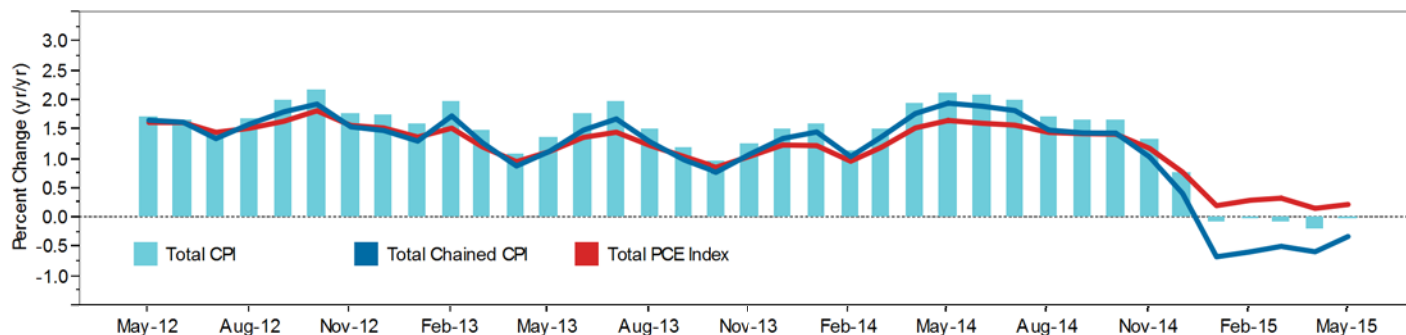
Durable Goods Orders



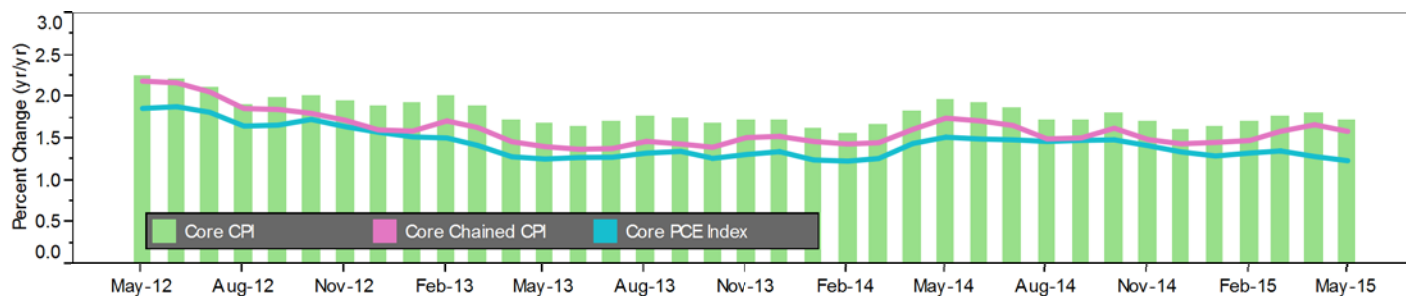
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices were essentially flat in May, and last increased in December, as measured by the Consumer Price Index, while the headline Personal Consumption Expenditure price index ticked up a bit. Core prices, which exclude the volatile food and energy categories, decelerated in May.

Total Price Indices



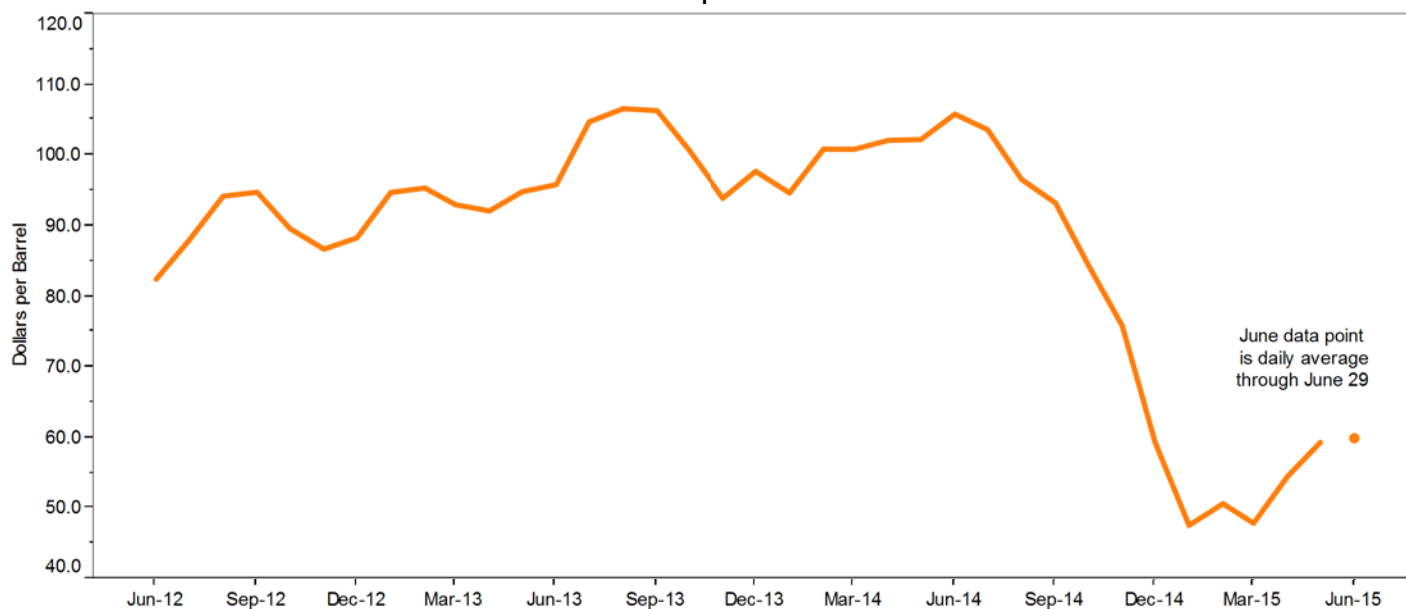
Core Price Indices



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

Oil prices in June were little changed from their May average, registering \$58.3 per barrel on June 29.

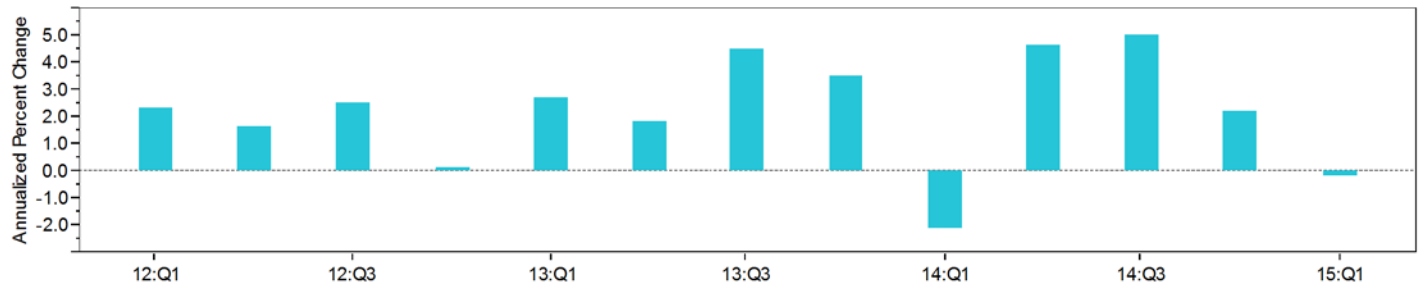
Domestic Spot Oil Price



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

First quarter real GDP growth was revised up in the second estimate to -0.2% from -0.7%. The higher rate primarily reflected upward revisions to exports, to personal consumption expenditures, to private inventory investment, to nonresidential fixed investment, and to state and local government spending that were partly offset by an upward revision to imports.

Real GDP



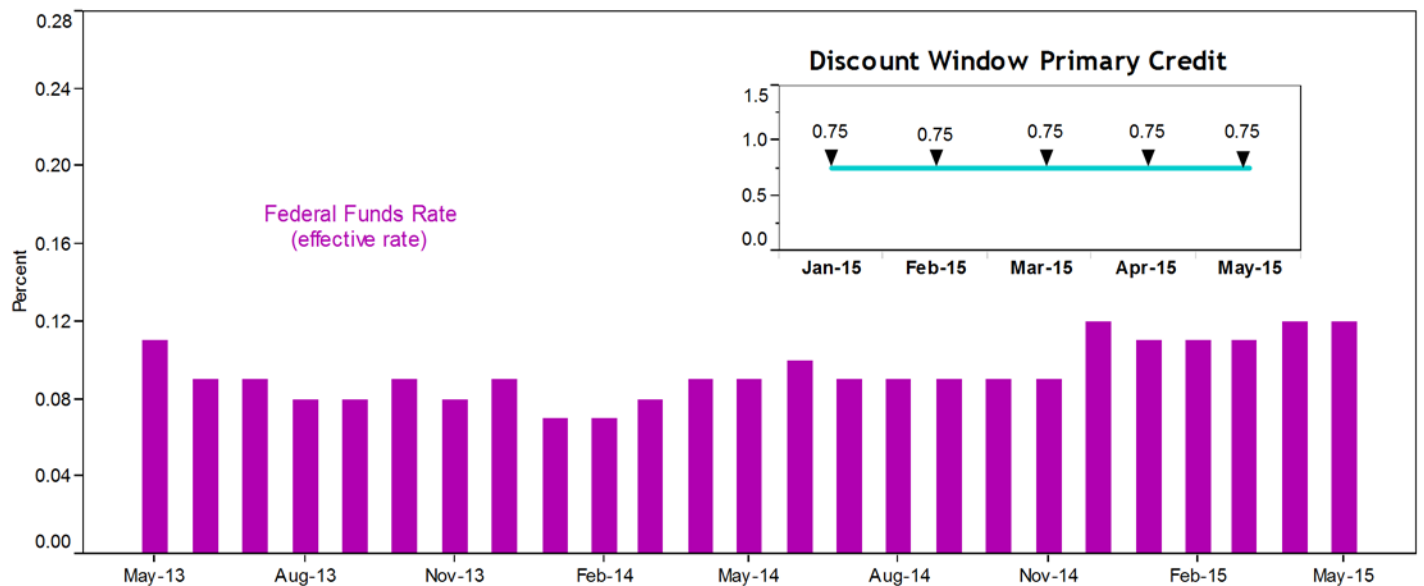
Revisions to Third Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	-0.7	-0.2
Personal Consumption	1.8	2.1
Business Investment	-2.8	-2.0
Equipment and Software	2.7	2.6
Residential Investment	5.0	6.5
Government	-1.1	-0.6
Exports	-7.6	-5.9
Imports	5.6	7.1
Final Sales	-1.1	-0.6

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.