



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

June 2, 2015

CURRENT ECONOMIC DEVELOPMENTS - June 2, 2015

Data released since your last Directors' meeting show that the economy contracted slightly in the first quarter but suggest a rebound in growth in the second quarter. The labor market showed signs of continued strengthening, consumer attitudes were mixed but remained favorable, and the housing market improved a bit. Economic growth is projected to pick up to a moderate pace over the rest of the year, as the effects that conceivably contributed to the contraction in the first quarter - namely adverse weather conditions, residual seasonality, and the dollar appreciation - are likely to be temporary.

Initial claims for unemployment insurance fell in the first four weeks of May, from a level in April that was the lowest in fifteen years. Consumer attitudes were mixed in May as the sentiment index declined, while the confidence index rose due, in part, to more favorable views of the labor market.

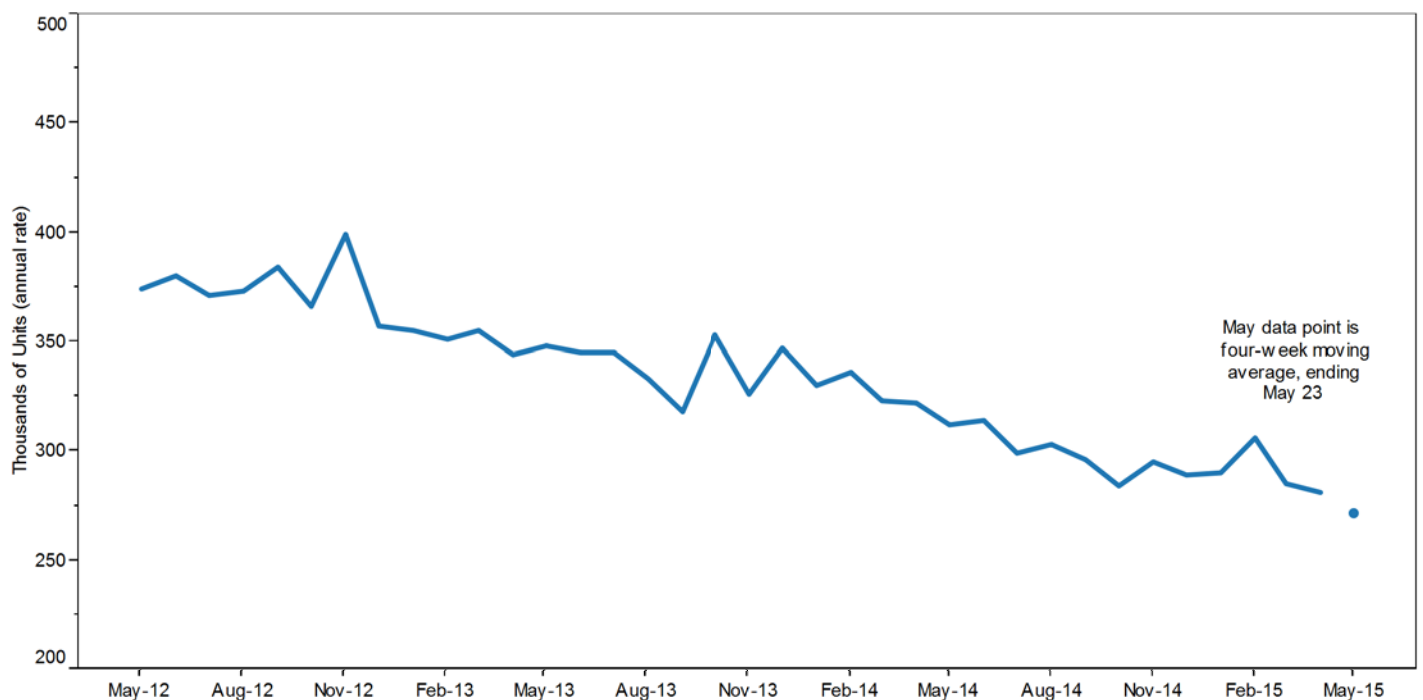
The housing market showed some improvement in April. Housing starts jumped above expectations, and permits rose to their highest rate in almost seven years. New home sales increased in April, while existing home sales declined.

In the manufacturing sector, the ISM index increased in May, signaling further expansion. Industrial production fell in April due to declines in utilities and mining production, and capacity utilization eased. Orders for durable goods decreased in April, and orders for nondefense capital goods, excluding aircraft, also fell a bit. Both series registered declines from their year-ago levels.

Measures of total consumer prices fell or decelerated in April, but the core indices, which exclude the volatile food and energy sectors, were mixed. Oil prices stabilized a bit around \$60 per barrel in May, and started June at the same level.

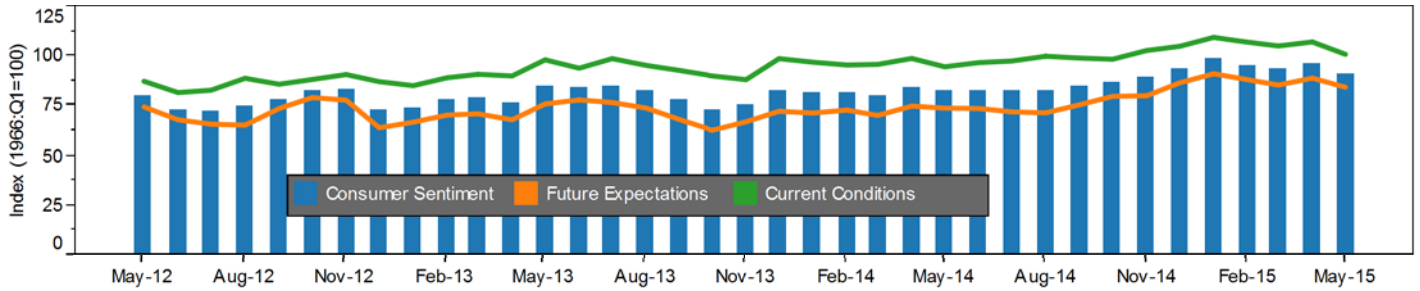
Initial claims for unemployment insurance have fallen, on average, in the four weeks ending May 23rd, after declining in April. Weekly claims in April had registered their lowest monthly average in fifteen years.

Initial Claims

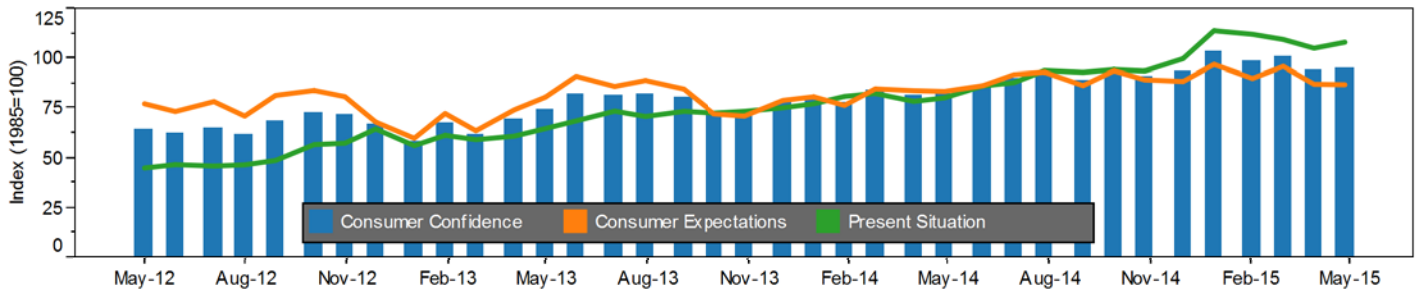


Consumer attitudes were mixed in May, as the sentiment index fell to its lowest level since November, while the confidence index increased. The rise in the confidence index was due to an increase in the present situation index, as consumers expressed more favorable views of the labor market. However, respondents to both surveys were less optimistic about the short-term outlook.

Consumer Sentiment and Expectations



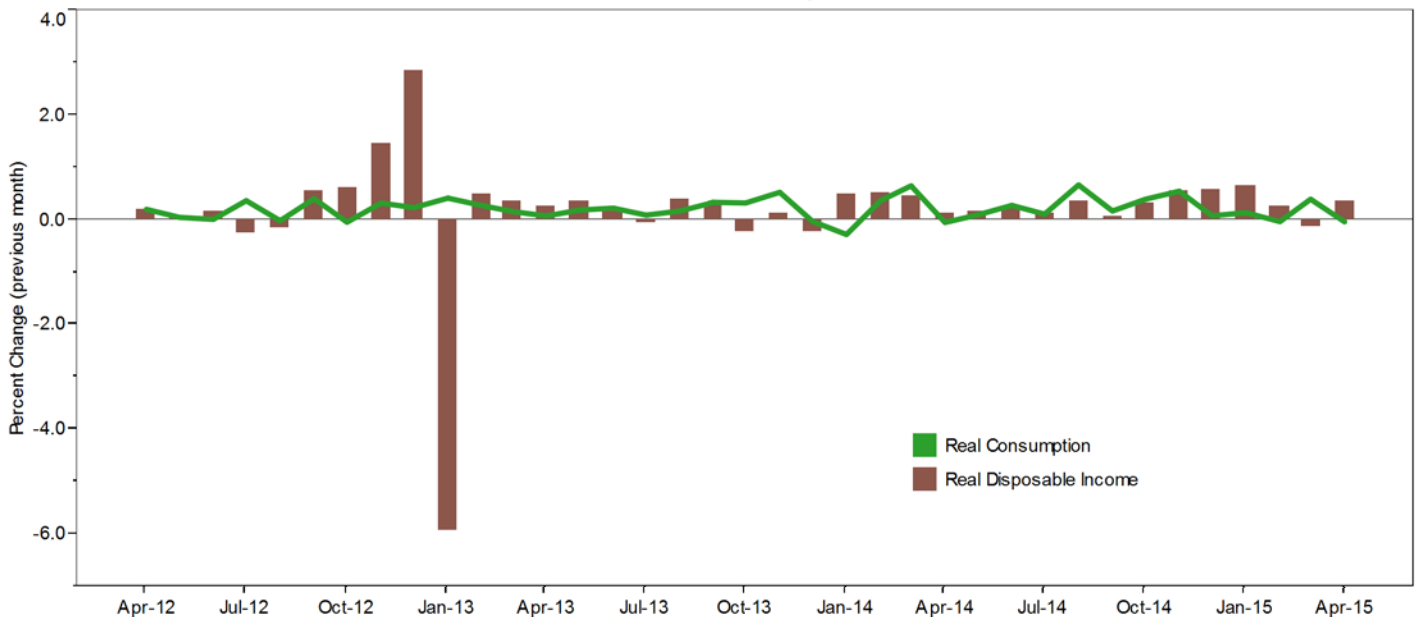
Consumer Confidence and Expectations



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

Real incomes rose in April, after declining in March. Despite the higher incomes, consumption was essentially flat in April, following an upwardly revised increase in March.

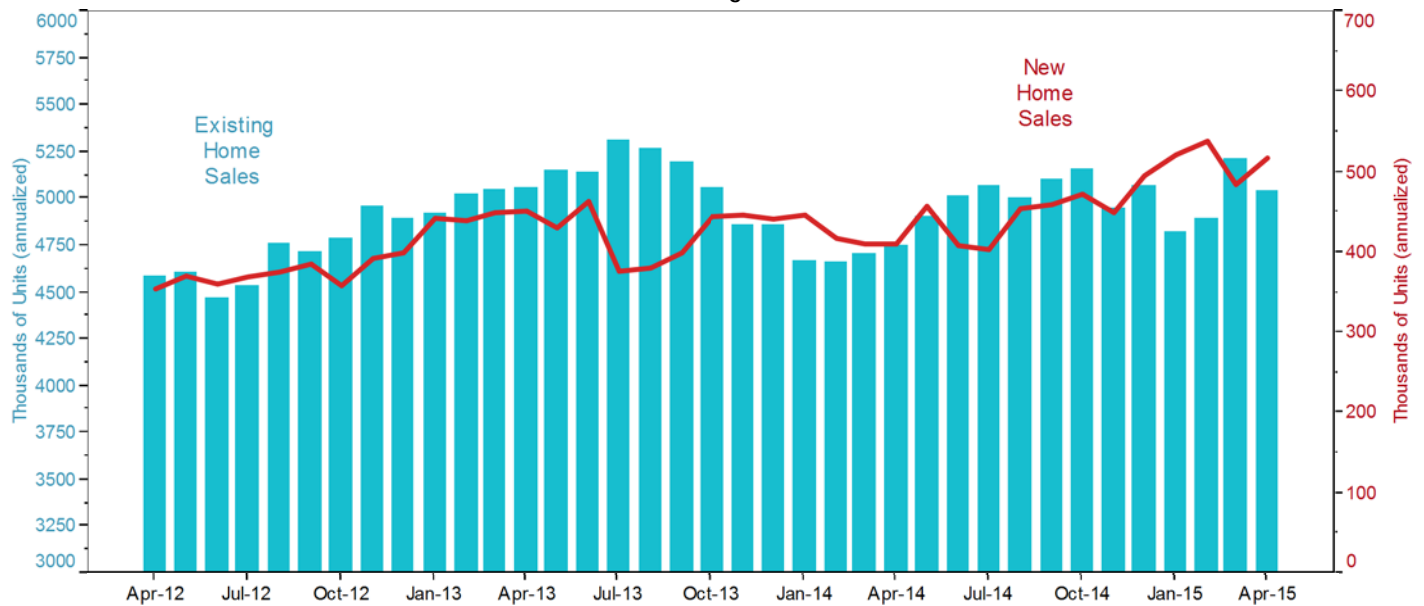
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales declined in April after rising in each of the prior two months. New home sales increased in April, following a drop in March that, after revisions, was smaller than previously reported.

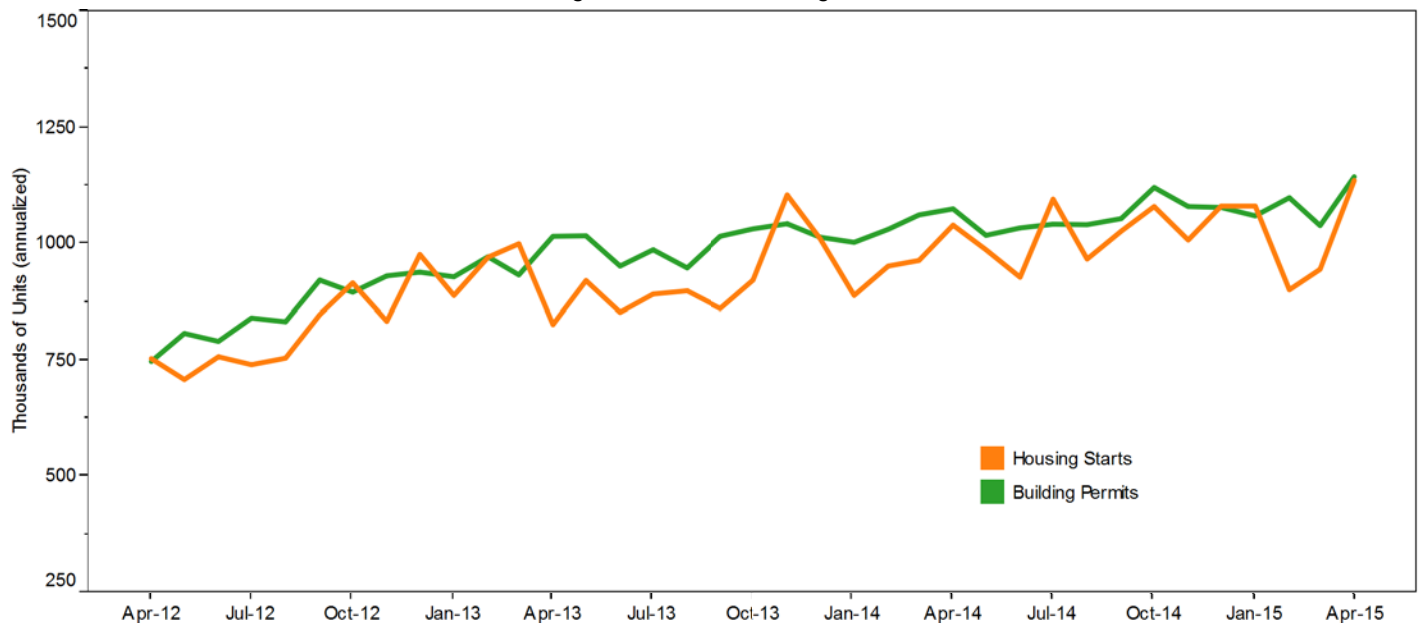
New and Existing Home Sales



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

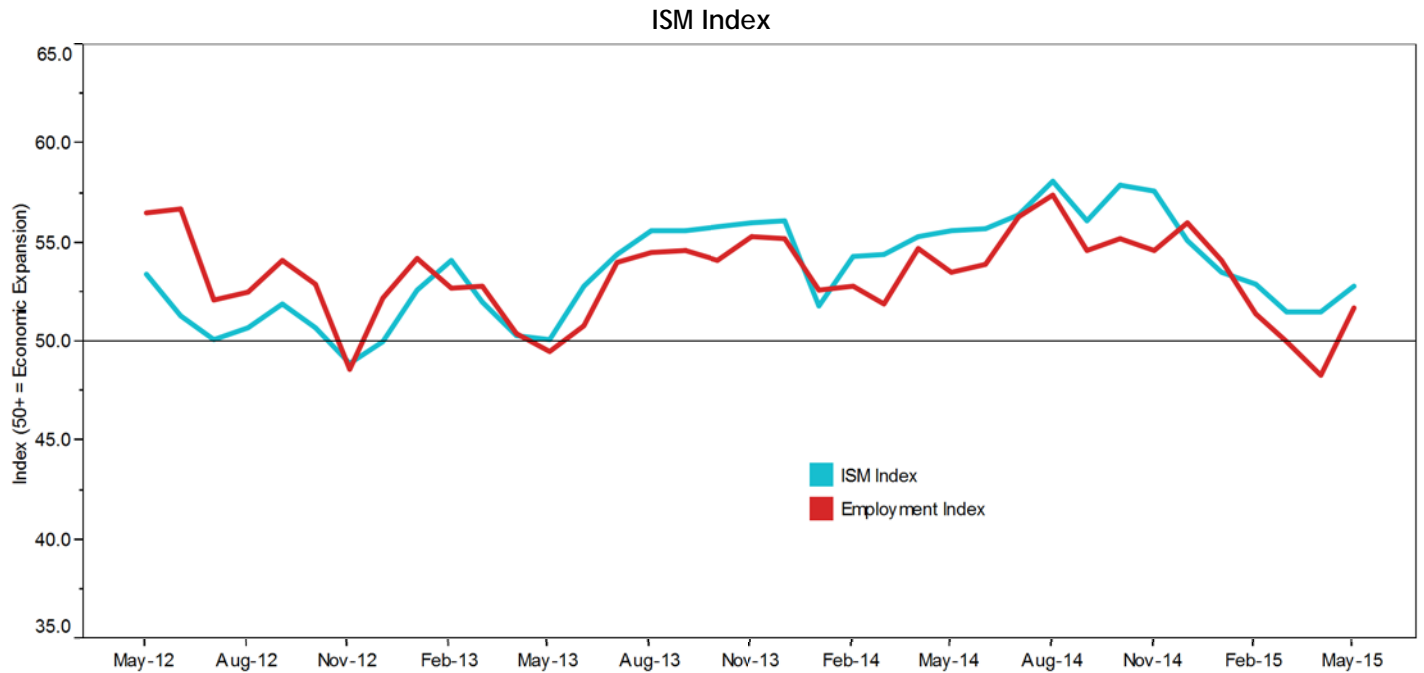
Housing starts surged above expectations in April, from an upwardly revised rate in March, and reached their highest pace since November 2007. Building permits also increased in April, reaching their highest rate since June 2008. Particularly of note in the report was an increase in activity for single-family structures.

Housing Starts and Building Permits



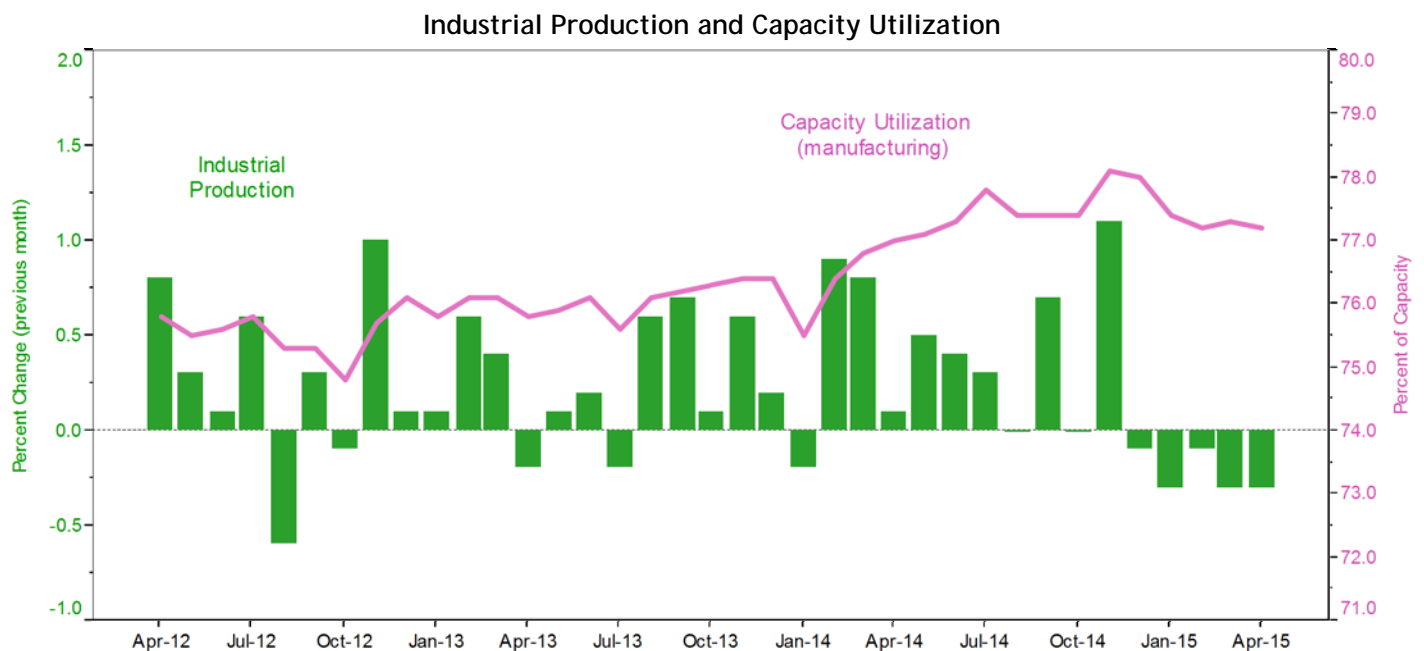
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index increased in May, after holding steady at a nearly two-year low in April, and signaled further expansion in the manufacturing industry. The employment component of the index also rose in May, following four consecutive monthly decreases.



Source: Institute of Supply Management / Haver Analytics.

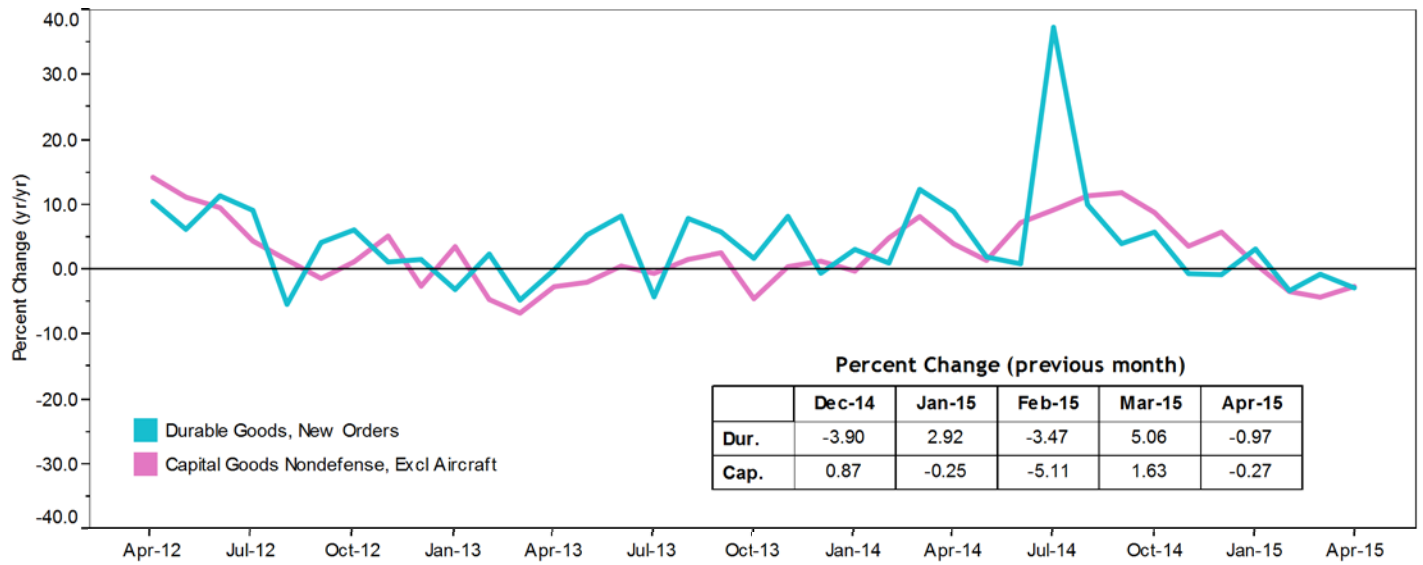
In April, industrial production posted its fifth consecutive monthly decline, as utilities and mining production fell, while manufacturing production was unchanged. Capacity utilization eased slightly in April.



Source: Federal Reserve Board of Governors / Haver Analytics.

Durable goods orders and orders for nondefense capital goods, excluding aircraft, fell in April, after rising in March. Both series continued to decrease on a year-over-year basis.

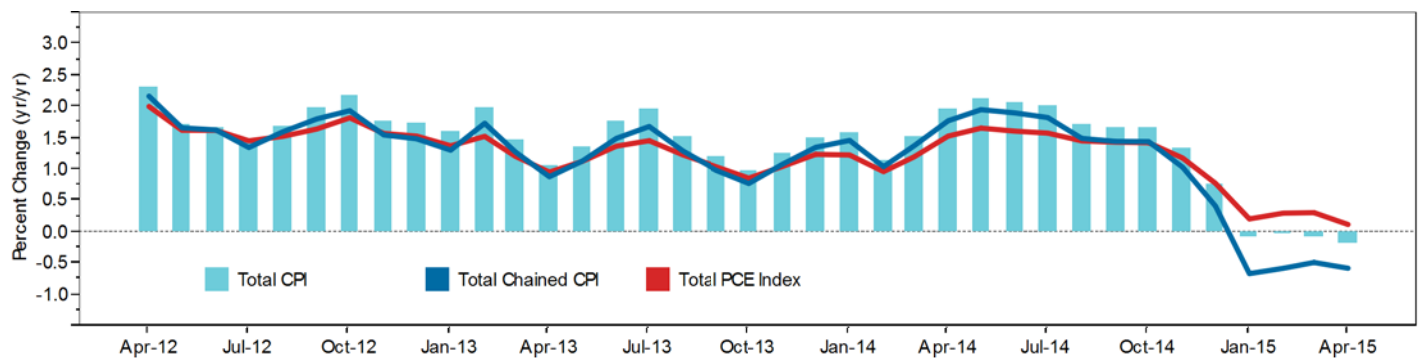
Durable Goods Orders



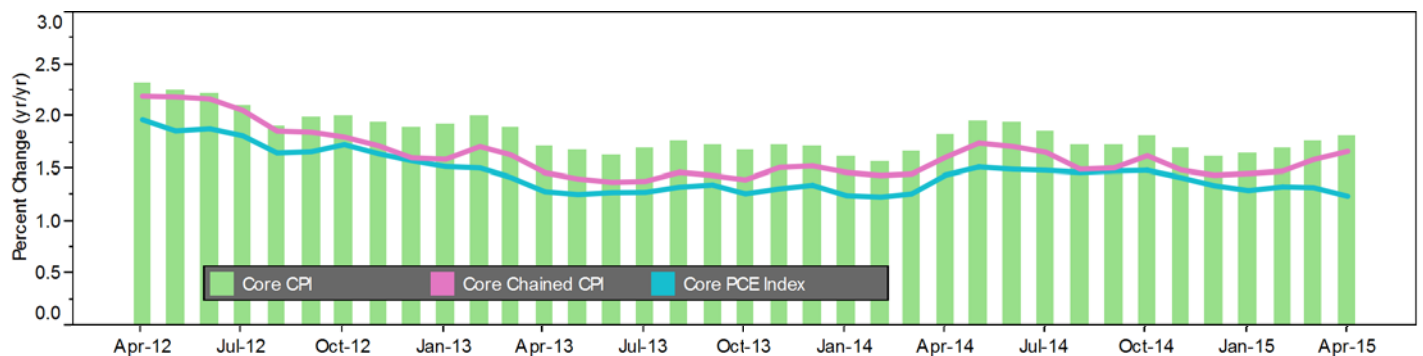
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices fell in April for the fourth consecutive month, as measured by the Consumer Price Index, while the headline Personal Consumption Expenditure price index decelerated. Core prices, which exclude the volatile food and energy categories, accelerated a bit as measured by the CPI, while the core PCE index eased.

Total Price Indices

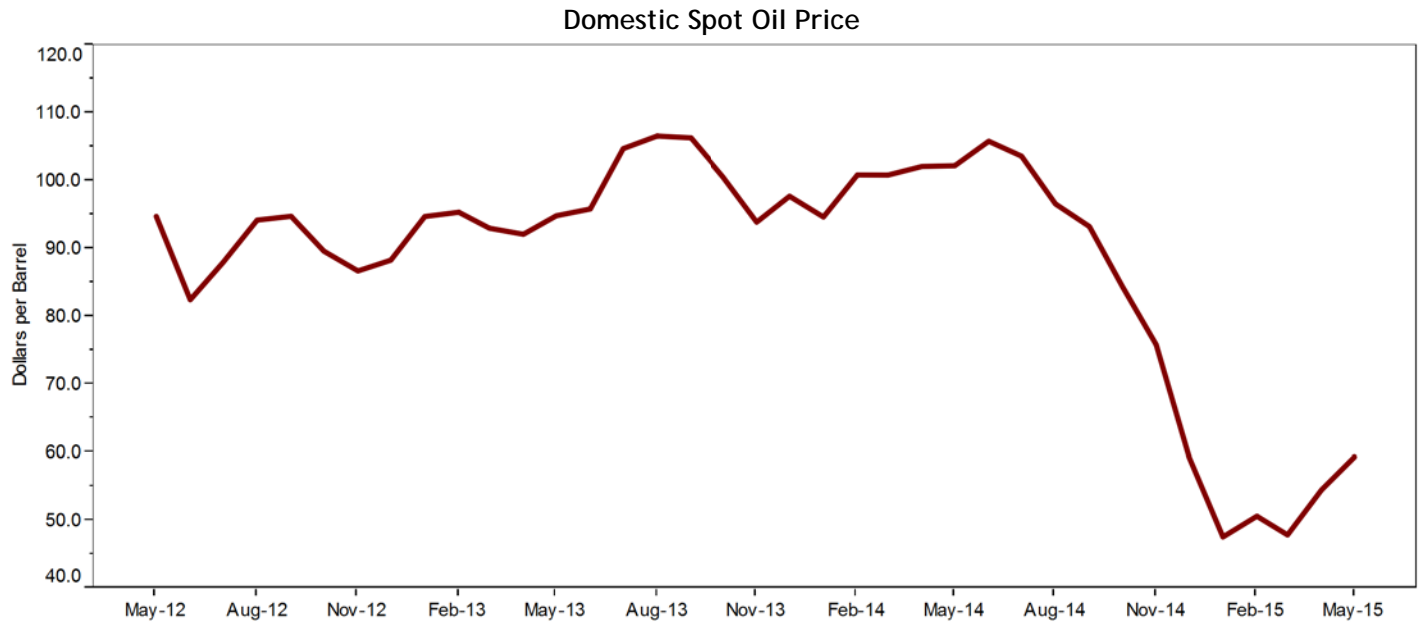


Core Price Indices



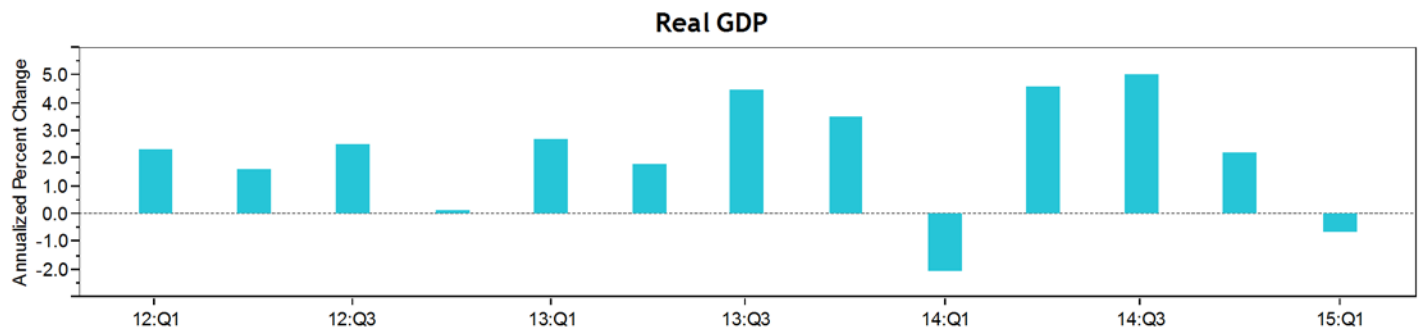
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices continued to rise, on average, in May, and held close to that level, closing at \$60.2 per barrel on June 1st.



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

First quarter real GDP growth was revised down in the second estimate to -0.7% from 0.2%. The lower growth rate primarily reflected an upward revision to imports and downward revisions to private inventory investment and to personal consumption expenditures that were partly offset by an upward revision to residential fixed investment.



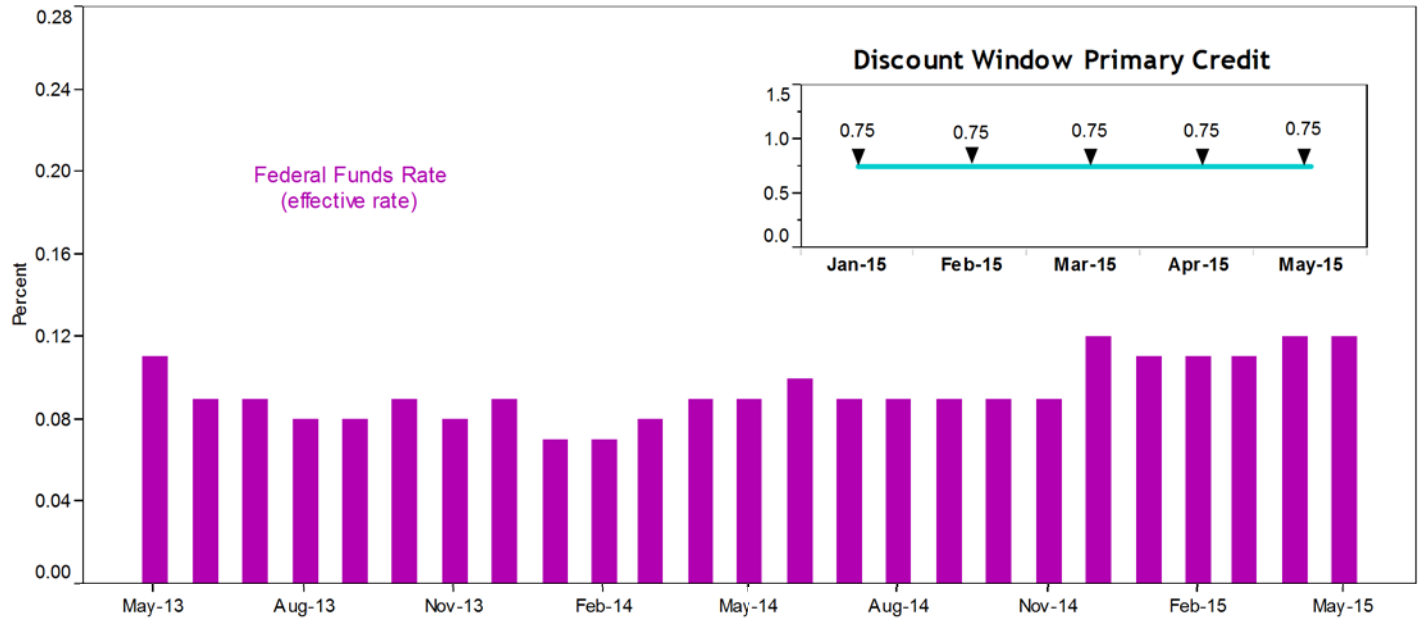
Revisions to Third Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	0.2	-0.7
Personal Consumption	1.9	1.8
Business Investment	-3.4	-2.8
Equipment and Software	0.1	2.7
Residential Investment	1.3	5.0
Government	-0.8	-1.1
Exports	-7.2	-7.6
Imports	1.8	5.6
Final Sales	-0.5	-1.1

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.