



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

May 5, 2015

CURRENT ECONOMIC DEVELOPMENTS - May 5, 2015

Data released since your last Directors' meeting show that economic growth continued to slow in the first quarter, but suggest a rebound in growth in the second quarter. Consumer spending increased modestly, consumer attitudes, while mixed, were generally positive, and labor markets continued to improve. The slowdown in first quarter growth can be attributed to many factors - poor weather, a stronger dollar, weaker business investment - but some of them are likely to be temporary in nature. The expectation remains for growth to pick up through the end of the year.

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

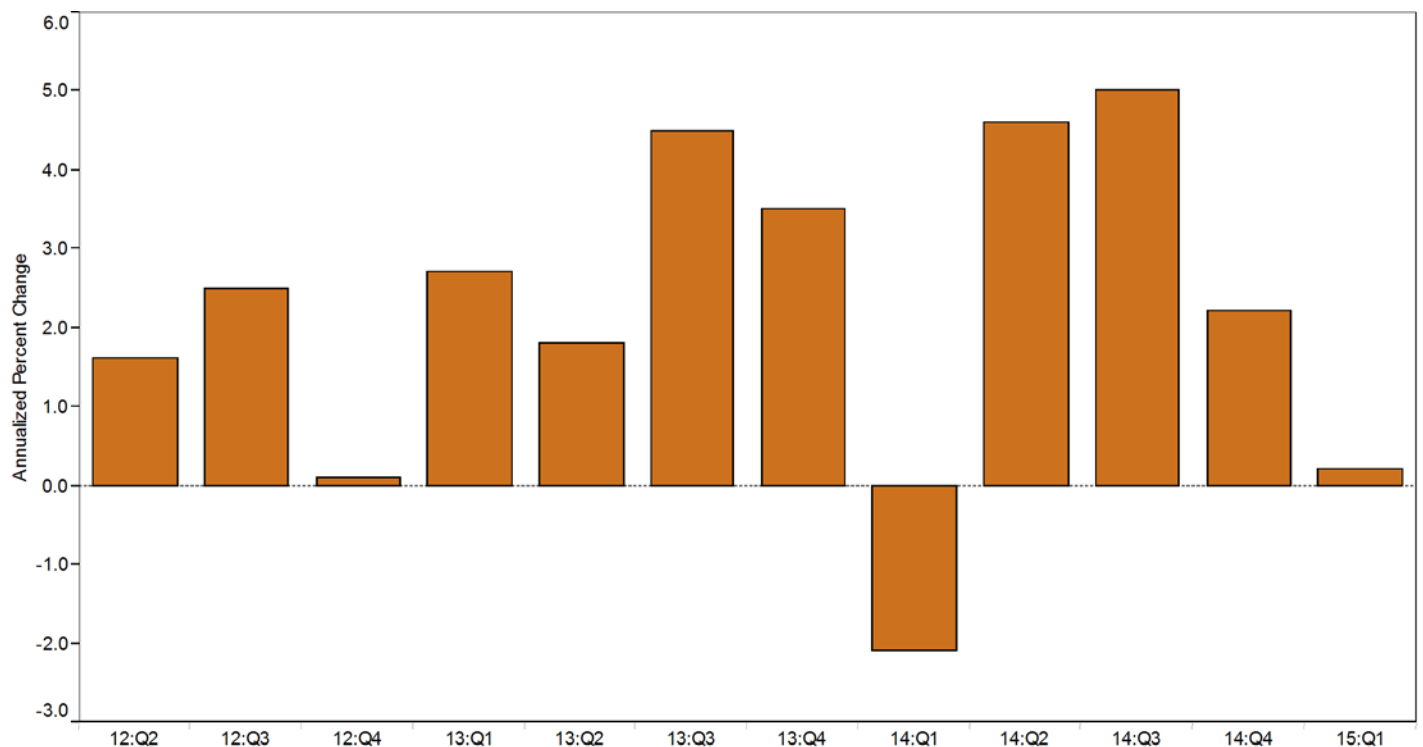
Consumer attitudes were mixed in April, as the confidence index fell amid less favorable views of current conditions and the short-term outlook, while the sentiment index increased. The majority of sentiment survey respondents were more optimistic about their personal financial situations. Durable goods orders and core orders both increased in the first quarter on a year-over-year basis, despite falling from their levels in the fourth quarter. The ISM index was unchanged from its two-year low in April, but continued to suggest expansion in the manufacturing sector.

Initial claims for unemployment insurance edged down in April, after rising on average in the first quarter. Employment data from the Bureau of Labor Statistics is due out on Friday morning, and nonfarm payrolls are expected to improve in April, after posting a much lower-than-expected gain in March. The unemployment rate is expected to fall one-tenth of a percentage point to 5.4% in April.

Total consumer prices, as measured by the CPI, fell in the first quarter, while core inflation held steady. Meanwhile, both the total and core PCE indices decelerated in the first quarter. After reaching their lowest quarterly average in six years in the first quarter, oil prices increased in April and into the beginning of May. Employment costs accelerated in the first quarter.

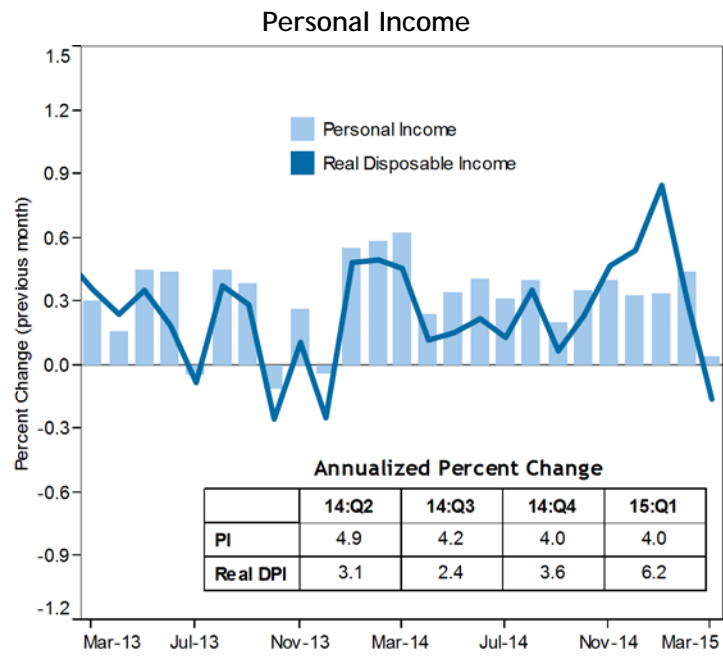
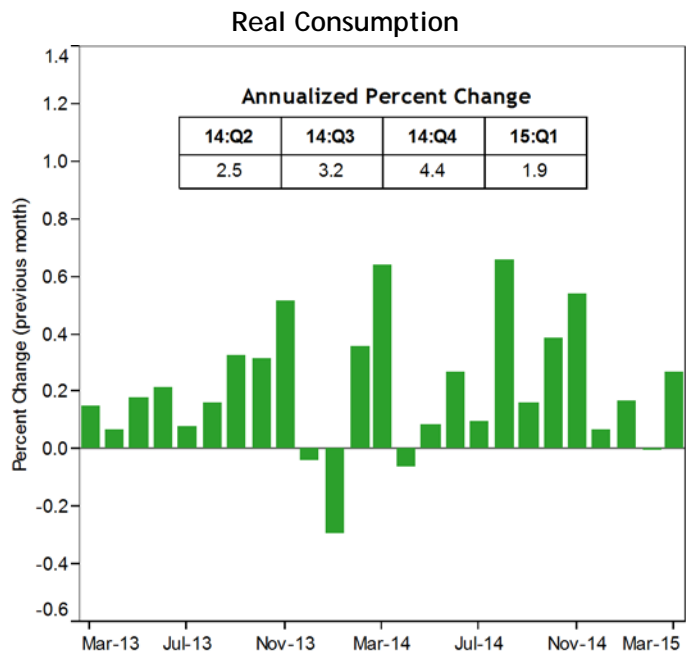
Real GDP growth decelerated further in the first quarter. The lower rate was due primarily to a deceleration in PCE, downturns in exports, in nonresidential fixed investment, and in state and local government spending, and a deceleration in residential fixed investment that were partly offset by a deceleration in imports and upturns in private inventory investment and in federal government spending.

Real Gross Domestic Product



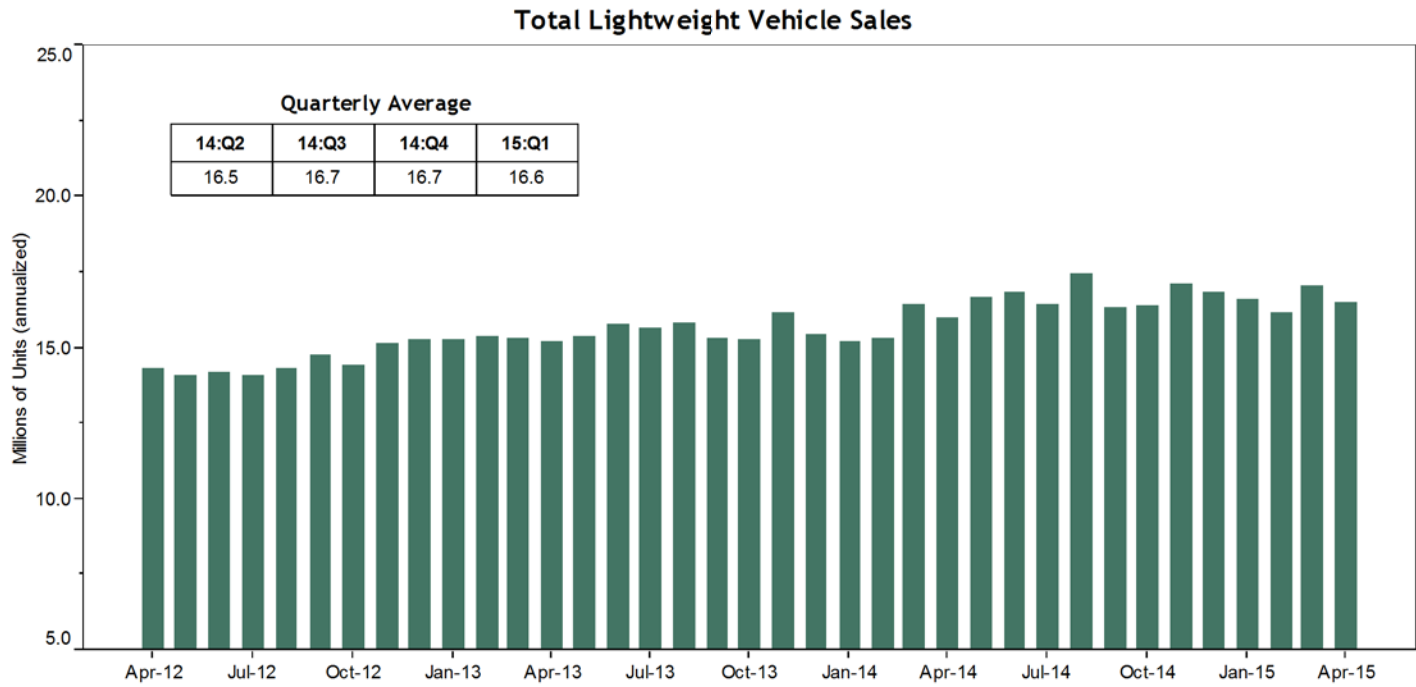
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the first quarter, despite nominal and real income growth that was flat and accelerated, respectively, in the first quarter. On a monthly basis, consumption rose in March, after no change in February, while nominal income was essentially unchanged and real income declined for the first time since December 2013.



Source: Bureau of Economic Analysis / Haver Analytics.

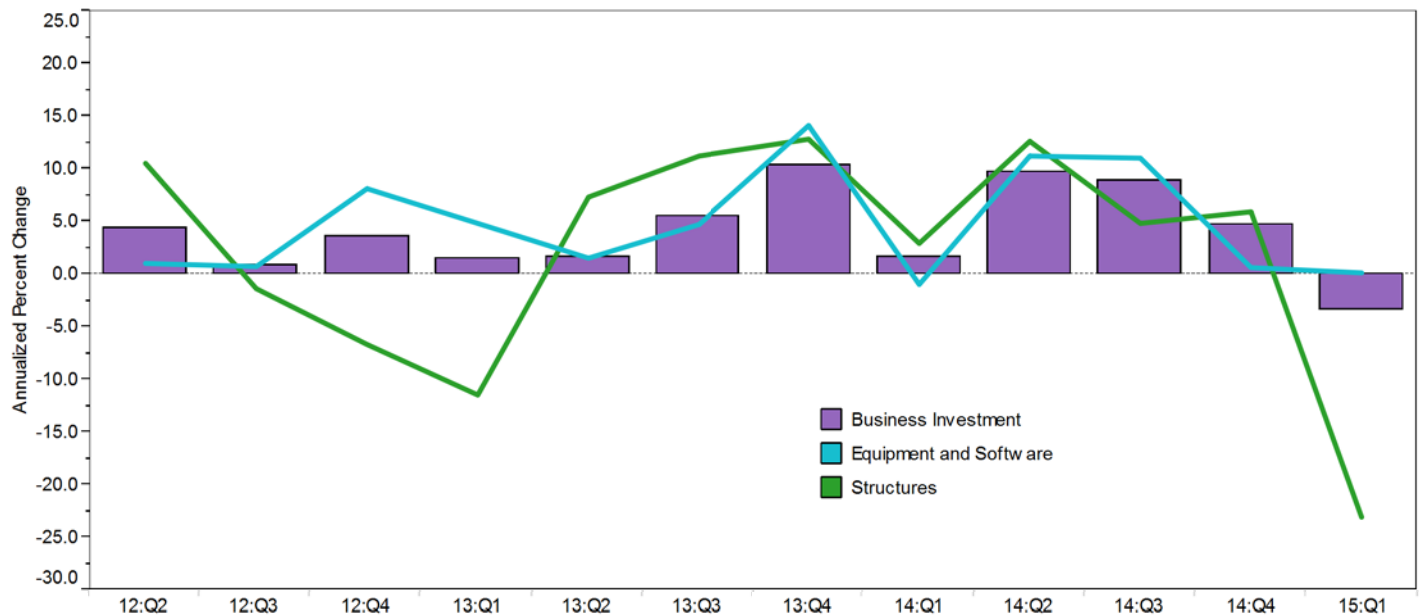
Total lightweight vehicle sales fell more than expected in April, as both auto and light duty truck sales declined. However, total sales were roughly in line with their first quarter average.



Source: Bureau of Economic Analysis / Haver Analytics.

Business investment fell in the first quarter, its first decrease in four years, mostly due to a sharp decline in structures investment. Equipment and software investment decelerated to its lowest growth rate in one year.

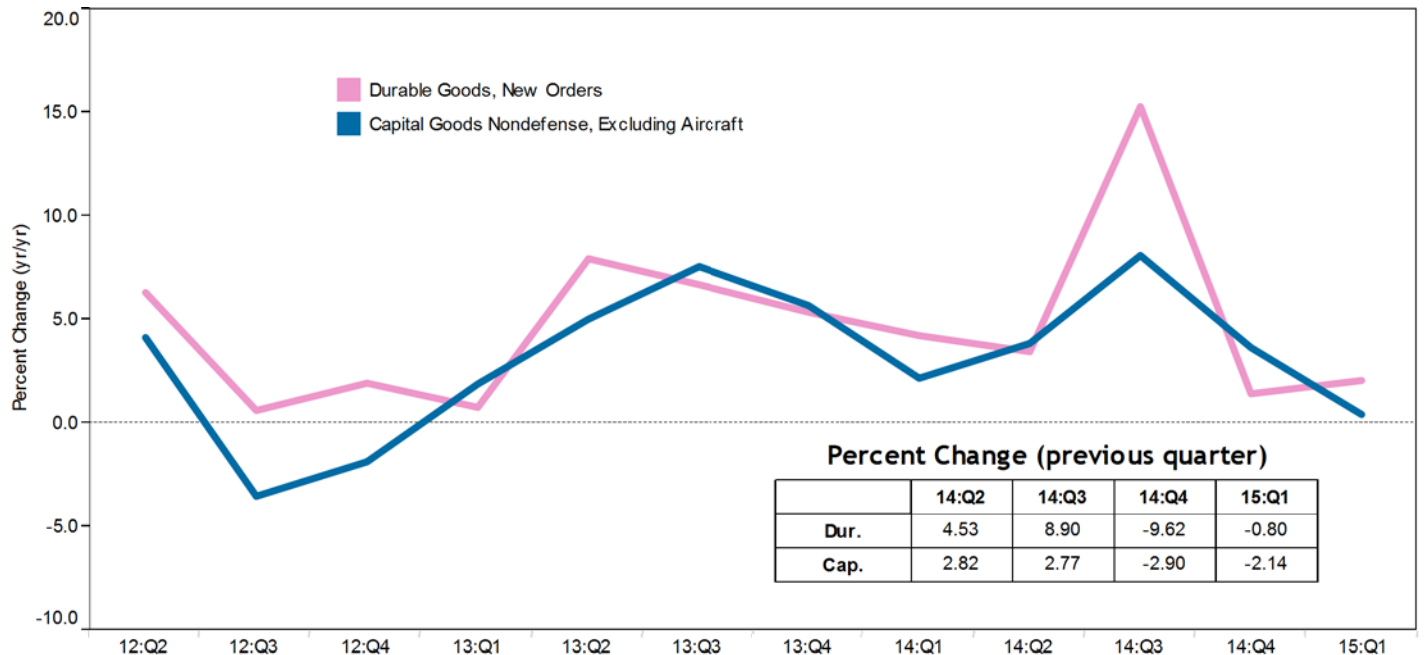
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, durable goods orders grew on a year-over-year basis, but decreased when compared to the fourth quarter. Orders for nondefense capital goods, excluding aircraft, also grew compared to a year ago, albeit at a much slower rate than seen in the fourth quarter, and declined further on a quarterly basis.

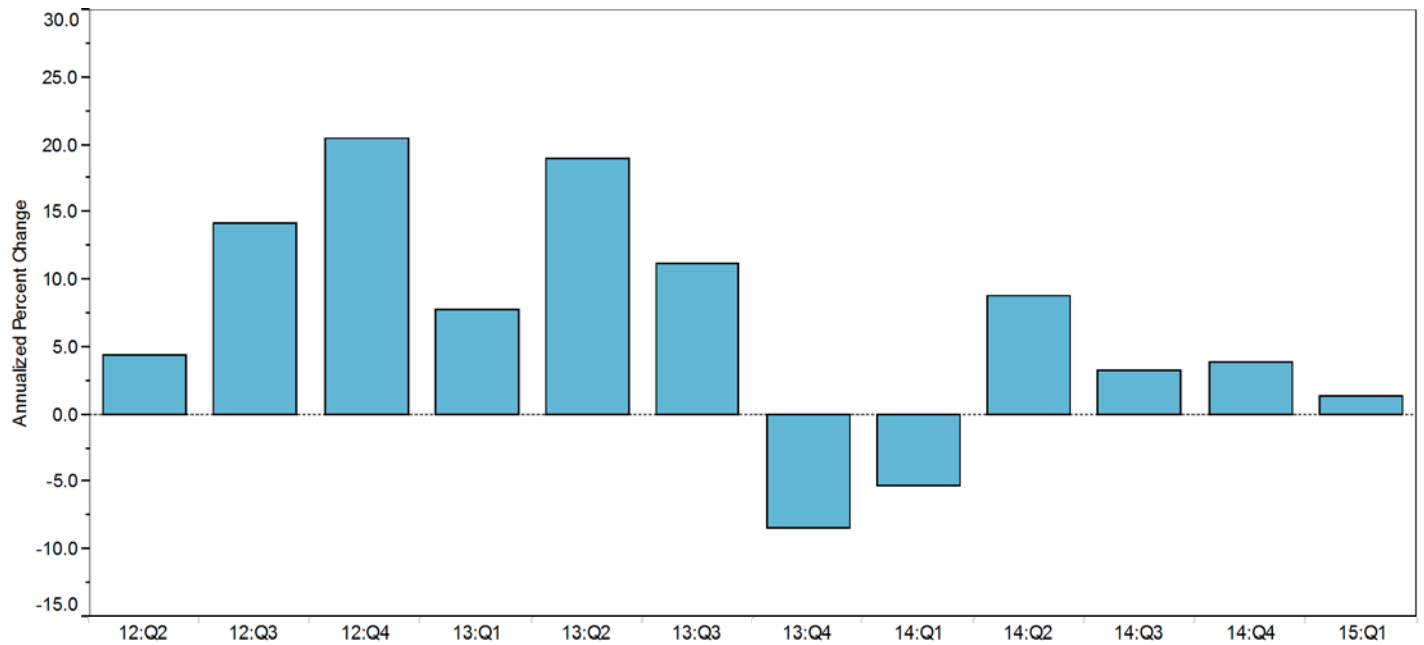
Durable Goods Orders



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

Residential investment posted a gain in the first quarter, but increased at a slower rate than that seen in the fourth quarter.

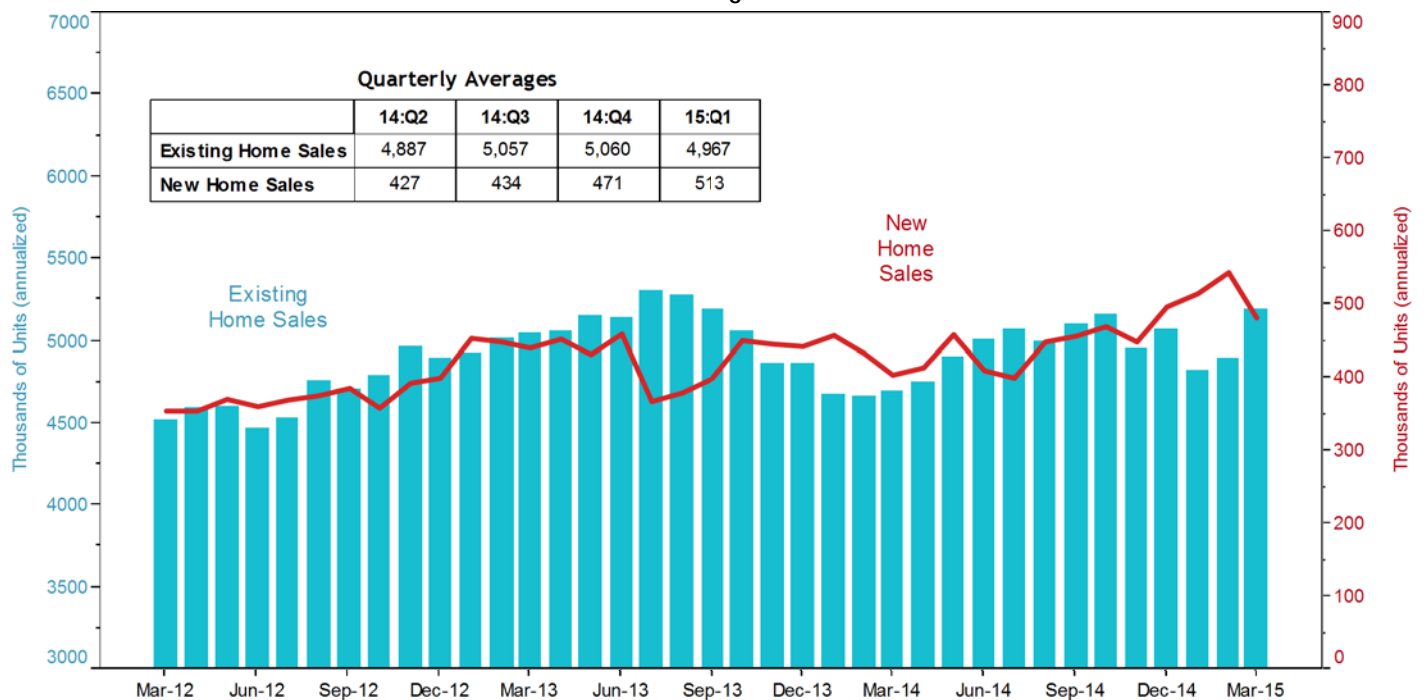
Residential Investment



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

Housing data was mixed in the first quarter. Existing home sales declined, on average, despite a surge in March to their fastest sales pace since September 2013. Meanwhile, new home sales fell in March, but increased in the first quarter to their highest quarterly average in seven years.

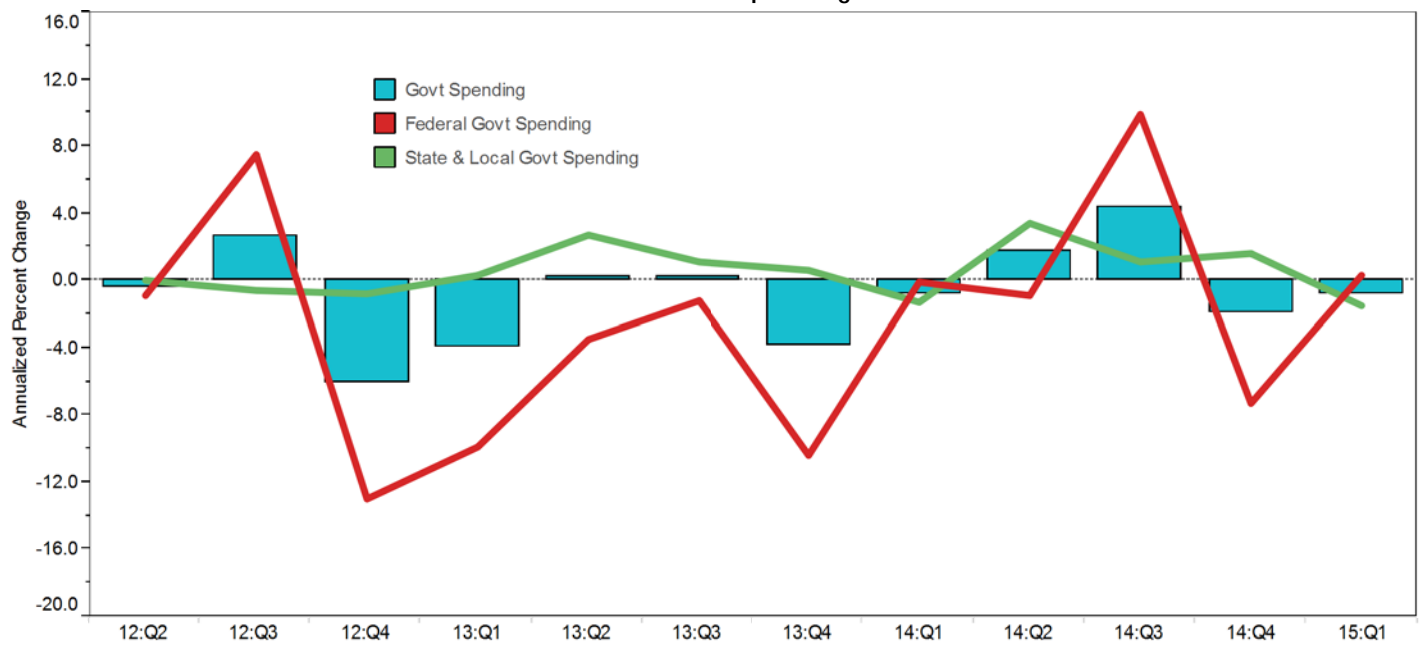
New and Existing Home Sales



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

In the first quarter, government spending declined for the second consecutive quarter, albeit at a slower rate than that seen in the fourth quarter. The decrease was due to a decline in state and local government spending, as federal spending was little changed.

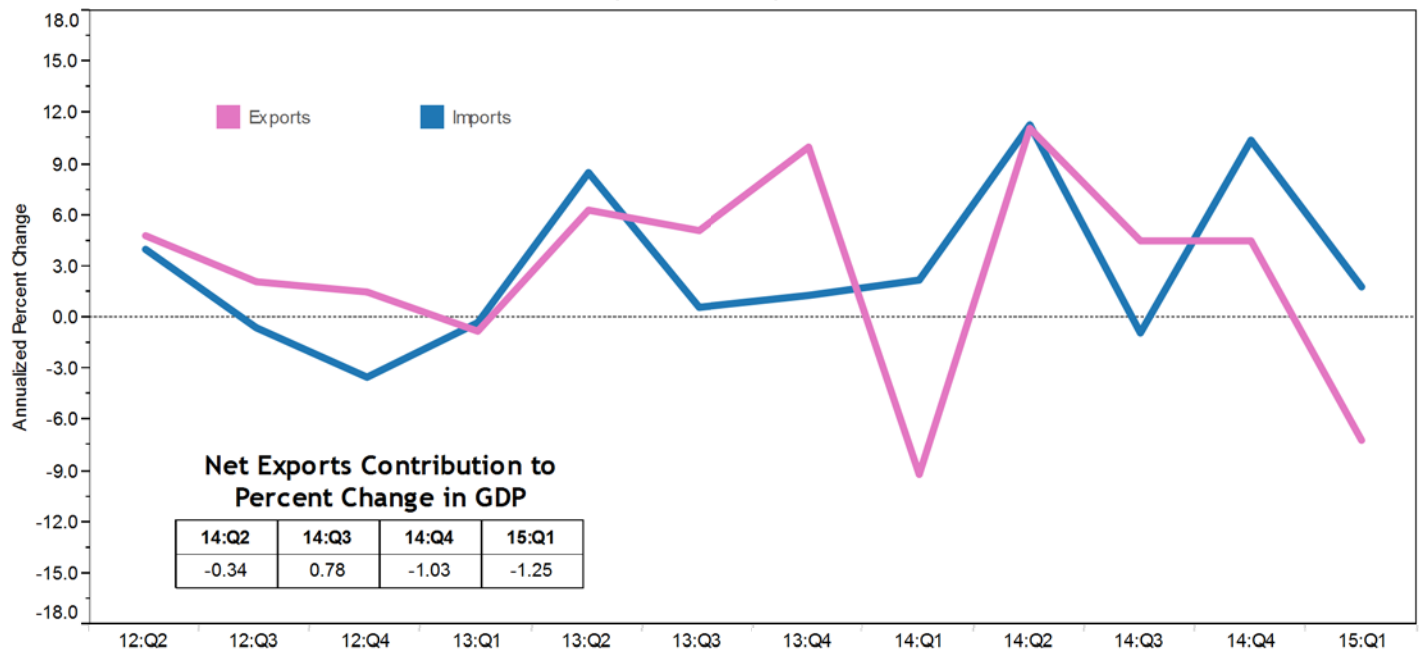
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Exports fell in the first quarter, their first quarterly decline in one year, while import growth decelerated. This resulted in a significant drag on GDP from net exports.

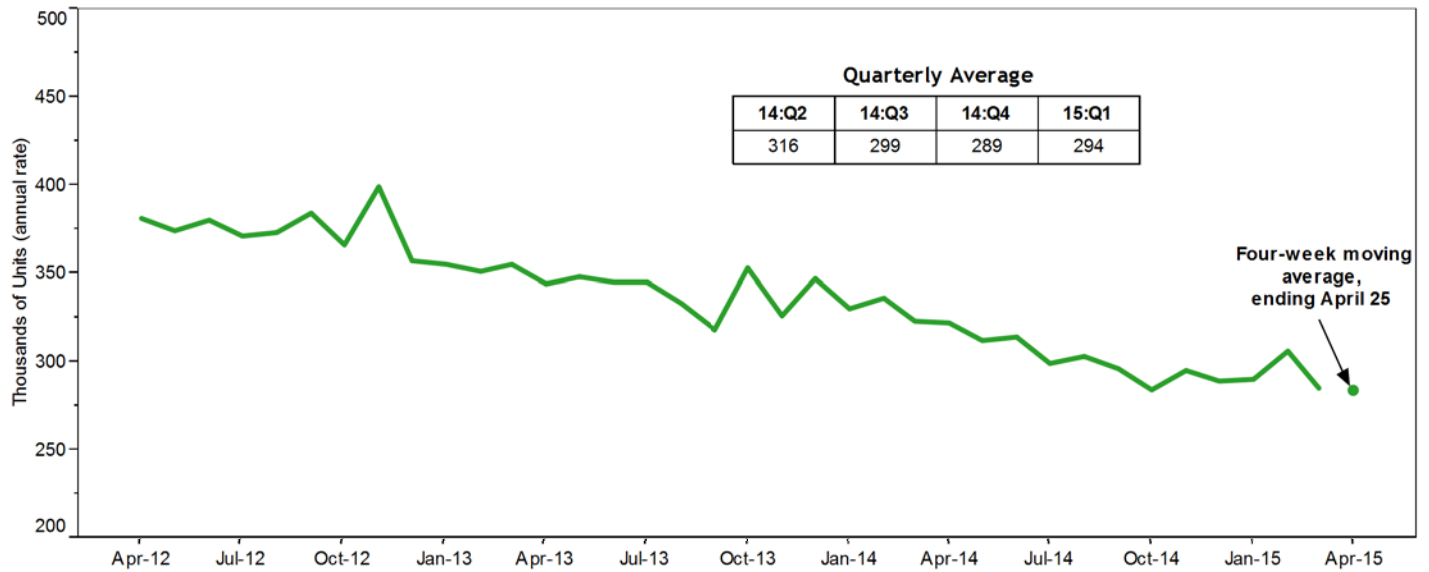
Exports and Imports



Source: Bureau of Economic Analysis / Haver Analytics.

Initial claims for unemployment insurance rose, on average, in the first quarter, but remained near the fourteen-year low seen in the fourth quarter. On a monthly basis, claims inched down in April, and remained below their first quarter average.

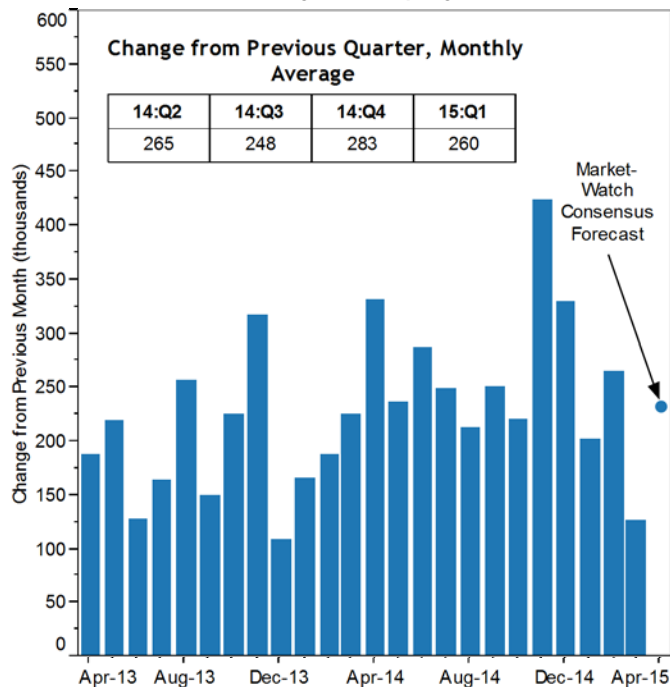
Initial Claims



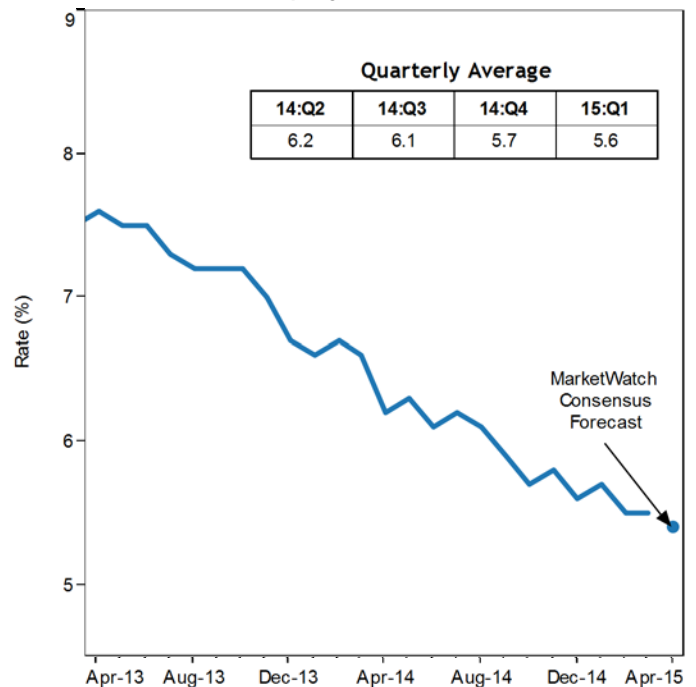
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Employment data from the Bureau of Labor Statistics is due out on Friday morning. Market expectations are for nonfarm payrolls to post a monthly gain of 233,000 in April, up from the March gain of 126,000, but below the first quarter monthly average. The unemployment rate is expected to decline one-tenth of a percentage point to 5.4% in April.

Nonfarm Payroll Employment



Unemployment Rate

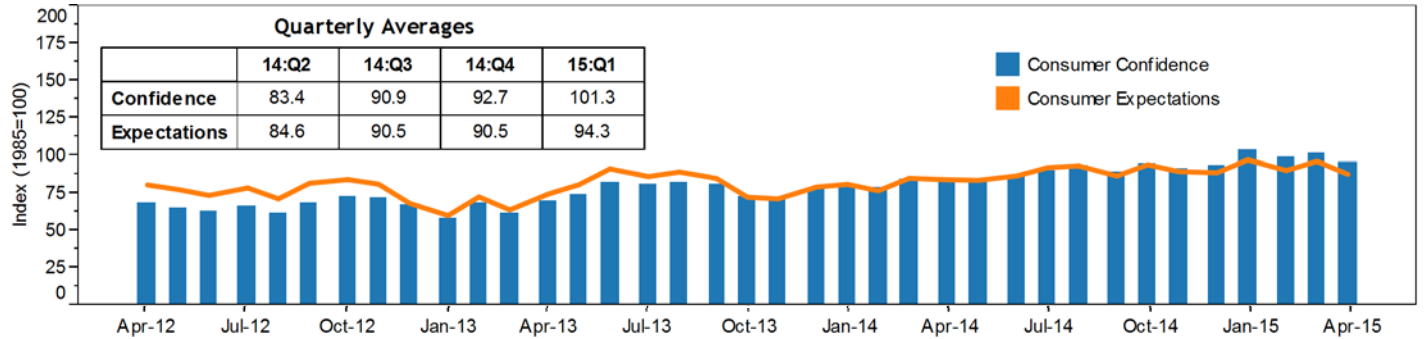


Source: Bureau of Labor Statistics / Haver Analytics.

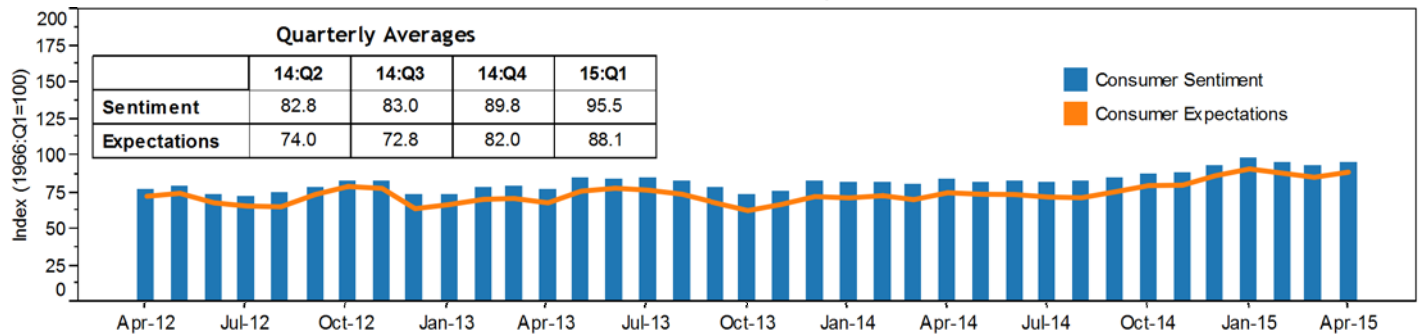
Note: April Data will be released on 5/8

Measures of consumer attitudes were mixed in April, as the confidence index dropped below its first quarter average, while the sentiment index rose slightly above its first quarter average. Respondents to the confidence survey expressed less favorable views of both current conditions and the short-term economic outlook, while respondents to the sentiment survey expressed better feelings about their current and expected financial situations.

Consumer Confidence and Expectations



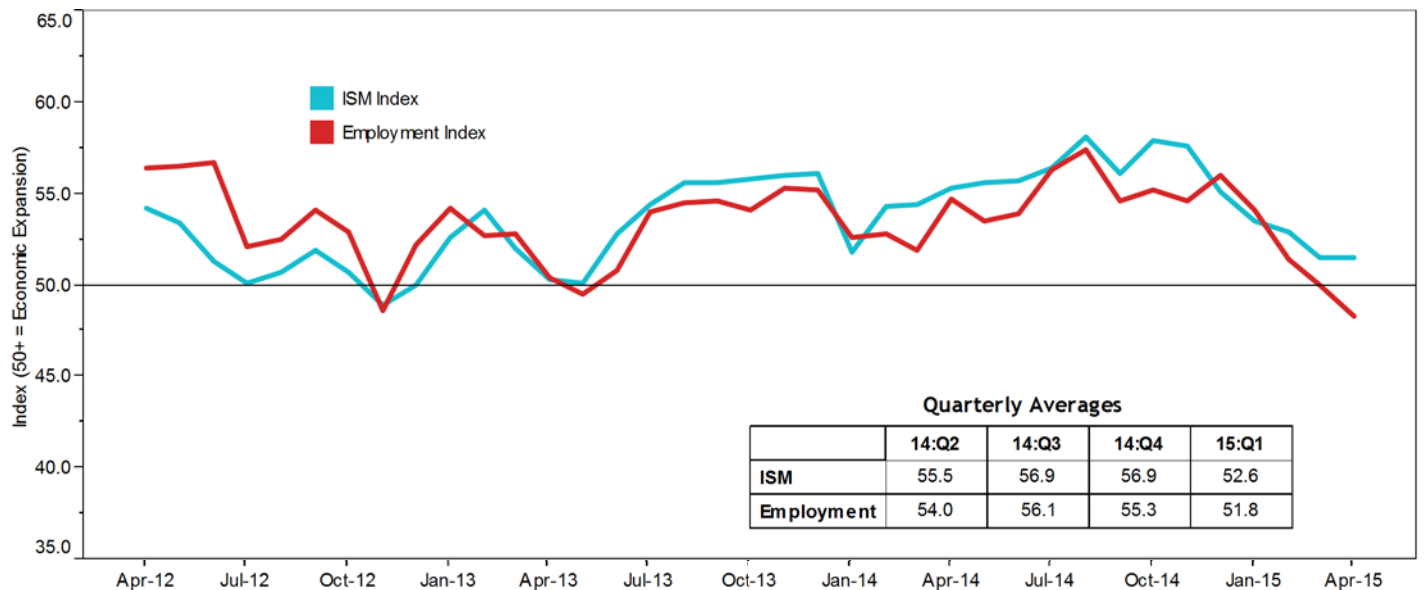
Consumer Sentiment and Expectations



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

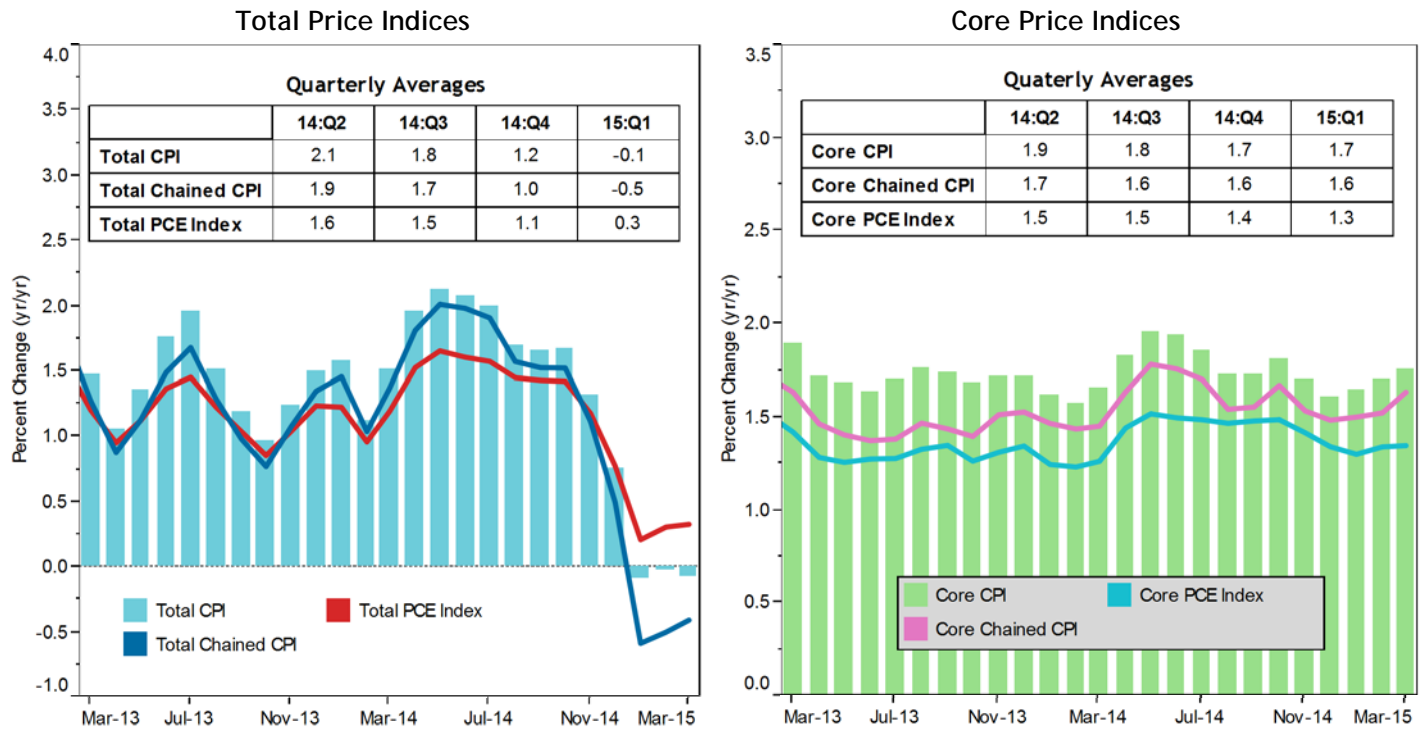
The ISM index held steady in April at a two-year low, but continued to signal expansion in the manufacturing sector. The employment index declined below 50 in April for the first time since May 2013, indicating contraction in employment levels.

ISM Index



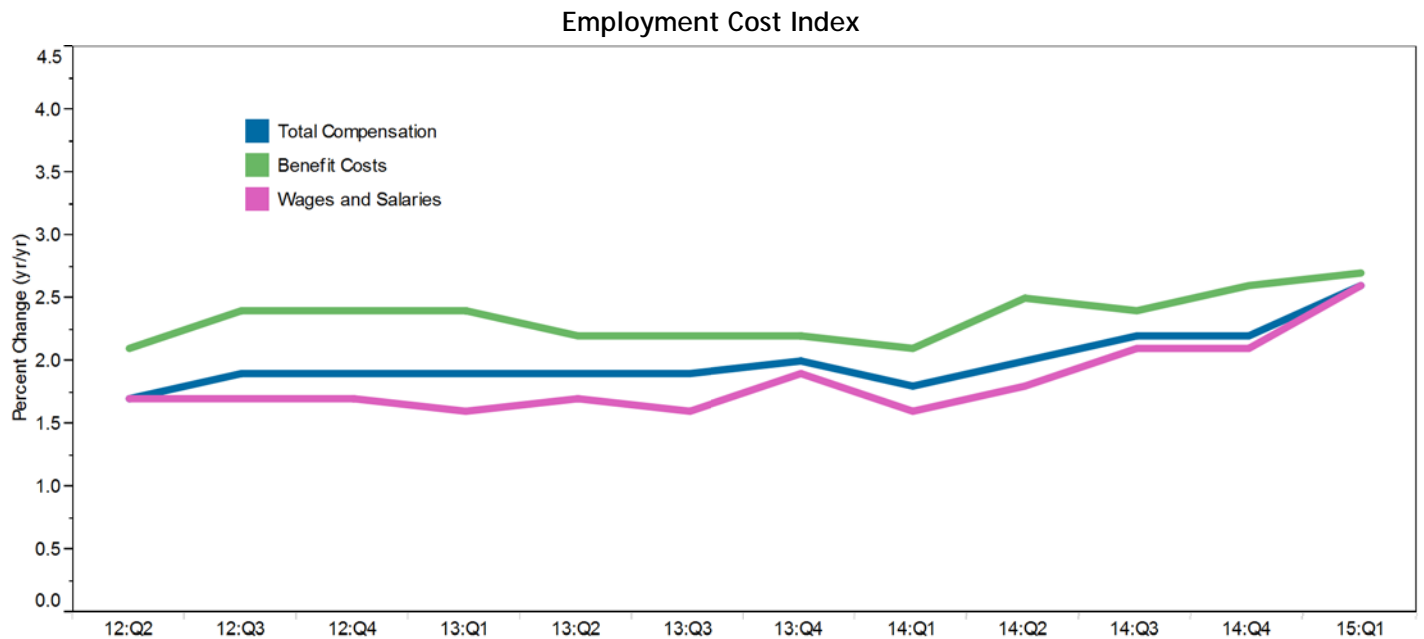
Source: Institute of Supply Management / Haver Analytics.

Total consumer prices, as measured by the CPI, decreased in the first quarter, while growth in the PCE index eased further, as energy prices continued to decline. Excluding the volatile food and energy sectors, growth in core prices, as measured by the CPI, held steady in the first quarter, while growth in the PCE Index decelerated a bit.



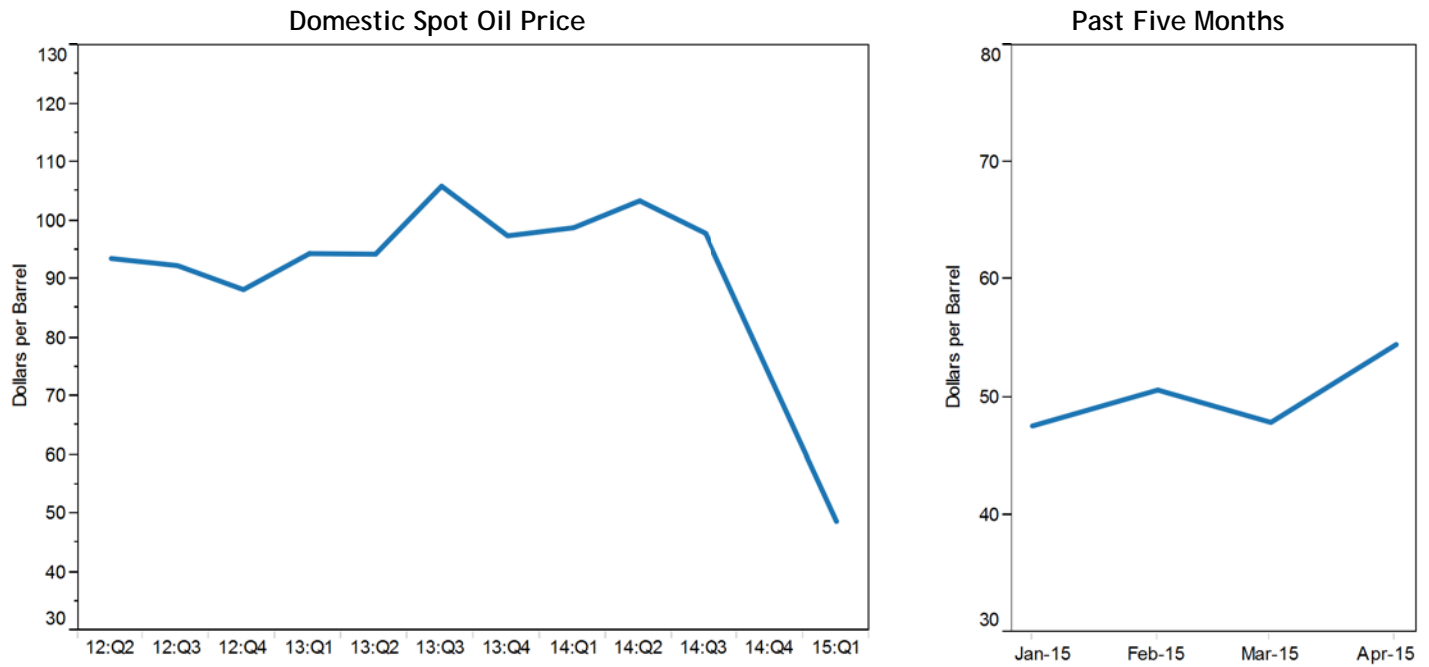
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

In the first quarter, total compensation growth accelerated to its fastest pace since the fourth quarter of 2008, as growth picked up for both wages and salaries and benefits costs.



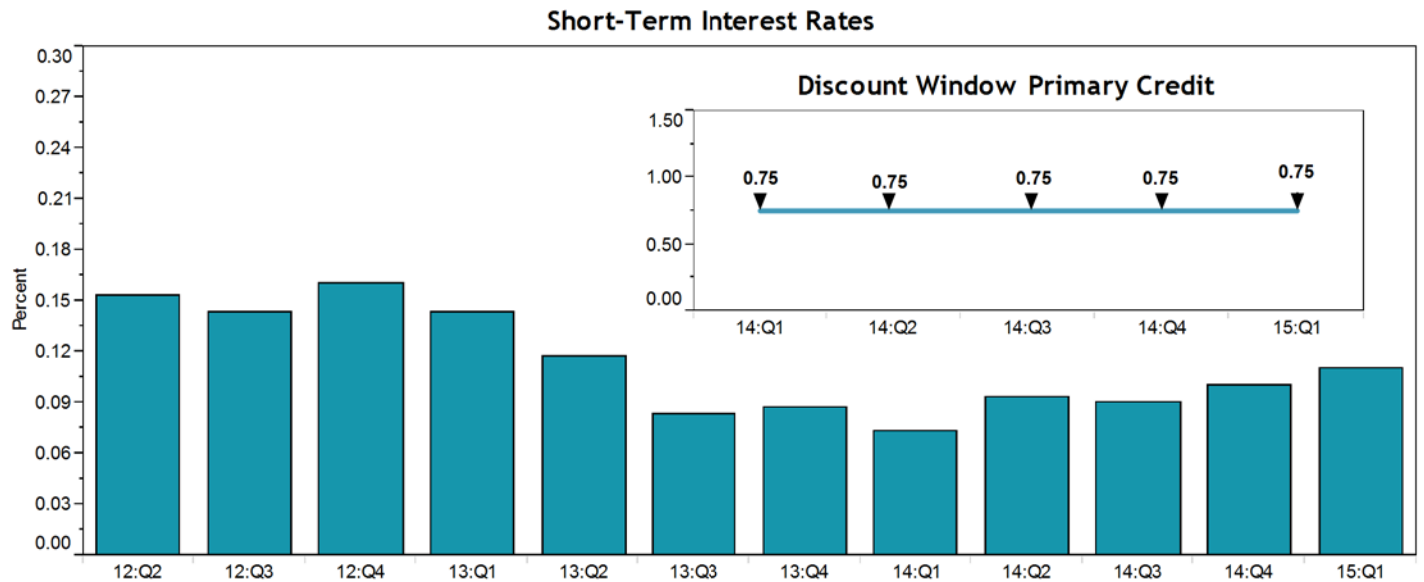
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in April increased from the level seen in the first quarter, which was the lowest quarterly average in six years. The daily closing prices have risen further in early May, reaching \$58.9 per barrel on May 4.



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

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