



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

November 3, 2015

CURRENT ECONOMIC DEVELOPMENTS - November 3, 2015

Data released since your last Directors' meeting show that economic growth decelerated in the third quarter, but suggest a pick-up in growth through the rest of the year. Consumer spending increased modestly, consumer attitudes, while mixed, were generally positive, and labor markets continued to improve, while support from manufacturing continued to show signs of softening. Overall, recent data remain consistent with a moderately growing economy, while the downside risks stemming from weakness in growth abroad remain a concern.

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

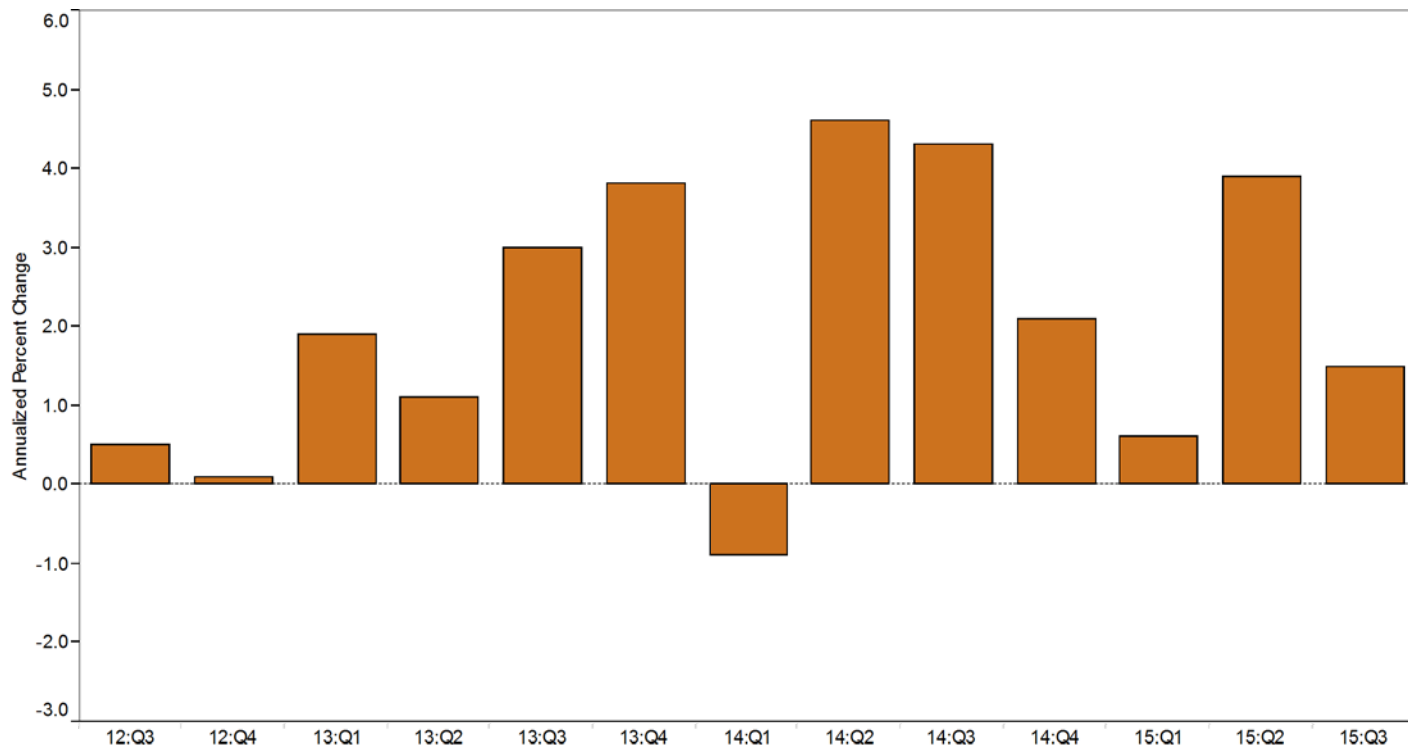
Consumer attitudes were mixed in October, as the confidence index fell amid less favorable views of current conditions and the short-term outlook, while the sentiment index increased. Sentiment survey respondents in the lower two-thirds of the income distribution were more optimistic about their personal financial situations. Durable goods orders and core orders both decreased in the third quarter on a year-over-year basis, despite rising from their levels in the second quarter. The ISM index ticked down in October, but continued to suggest expansion in the manufacturing sector.

Initial claims for unemployment insurance fell in October to their lowest four-week average since 1973, after declining on average in the third quarter. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to improve in October, after posting a lower-than-expected gain in September. The unemployment rate is expected to hold steady at 5.1% in October.

Total consumer inflation, as measured by the PCE Index, held steady in the third quarter, as did growth in core prices. After reaching their lowest quarterly average in over six years in the third quarter, oil prices inched up in October before easing a bit to \$46.1 per barrel on Nov 2. Growth in employment costs held steady in the third quarter.

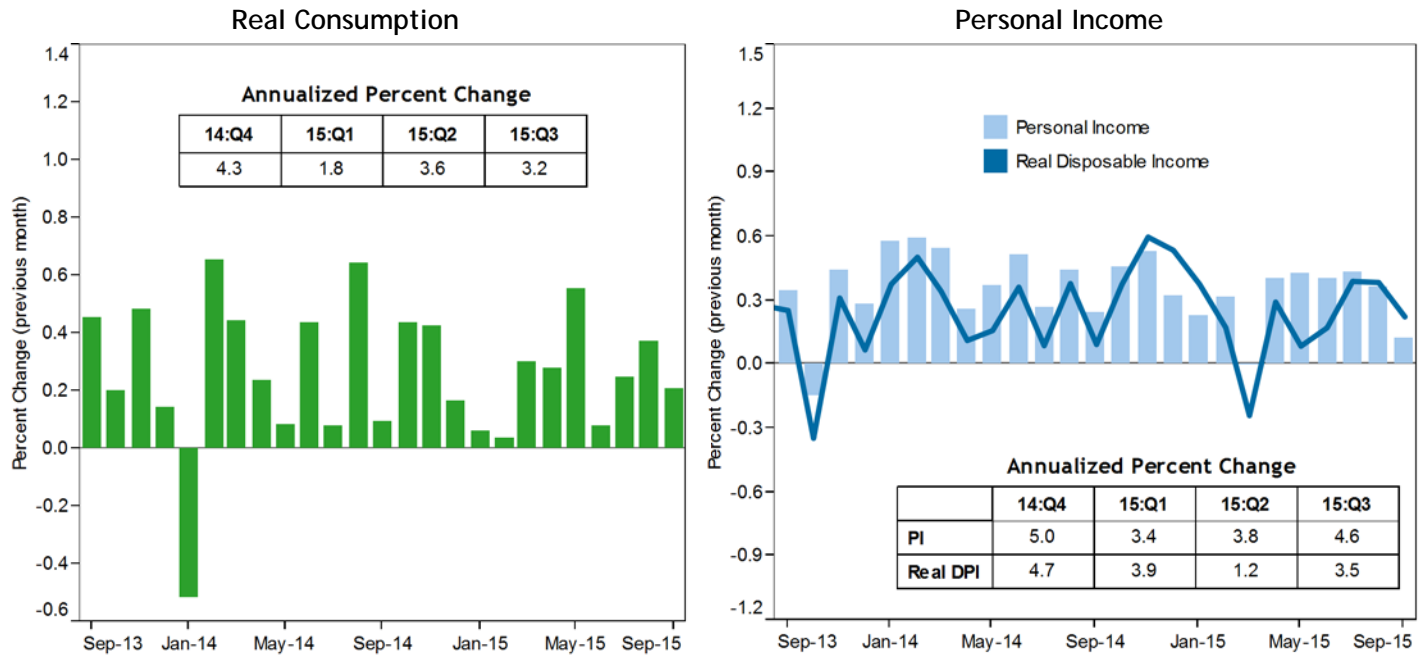
Real GDP growth decelerated in the third quarter. The lower rate was due primarily to a downturn in private inventory investment and decelerations in exports, in nonresidential fixed investment, in PCE, in state and local government spending, and in residential fixed investment that were partly offset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

Real Gross Domestic Product



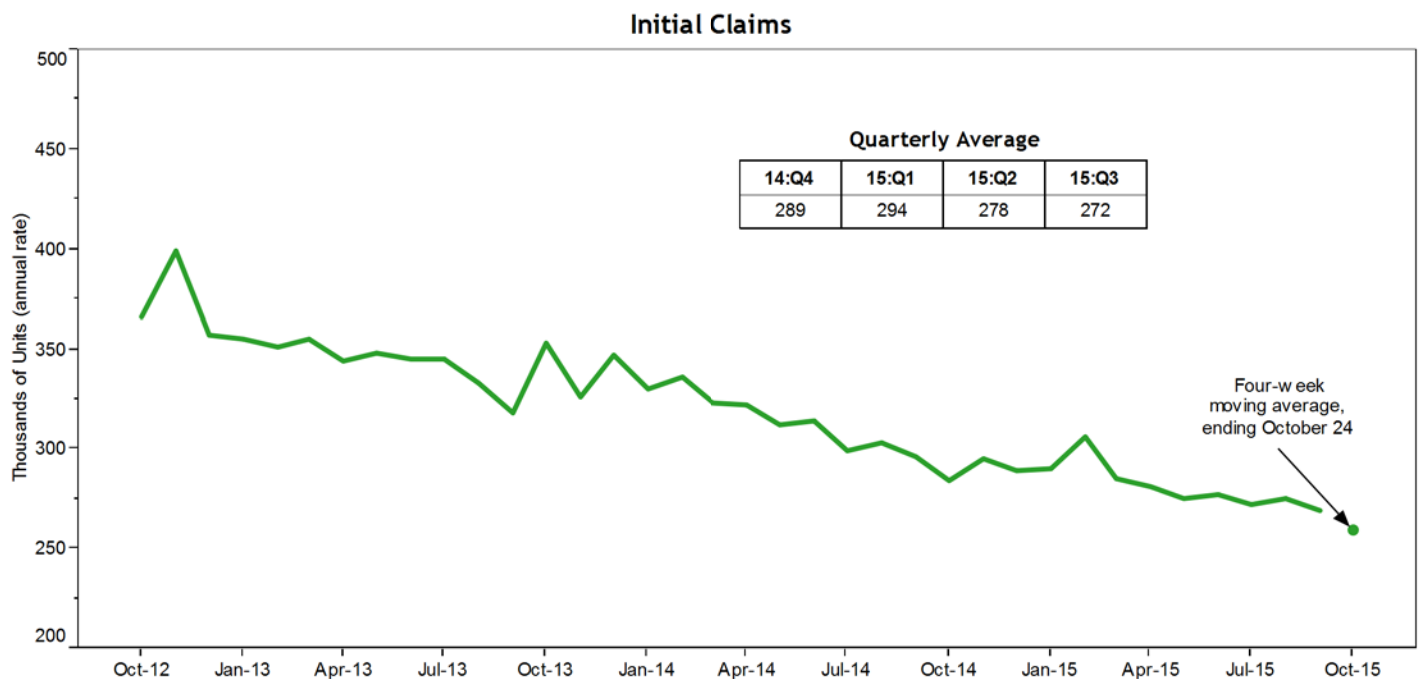
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the third quarter, despite accelerations in both nominal and real income growth. On a monthly basis, consumption growth decelerated in September, while nominal and real income growth also eased.



Source: Bureau of Economic Analysis / Haver Analytics.

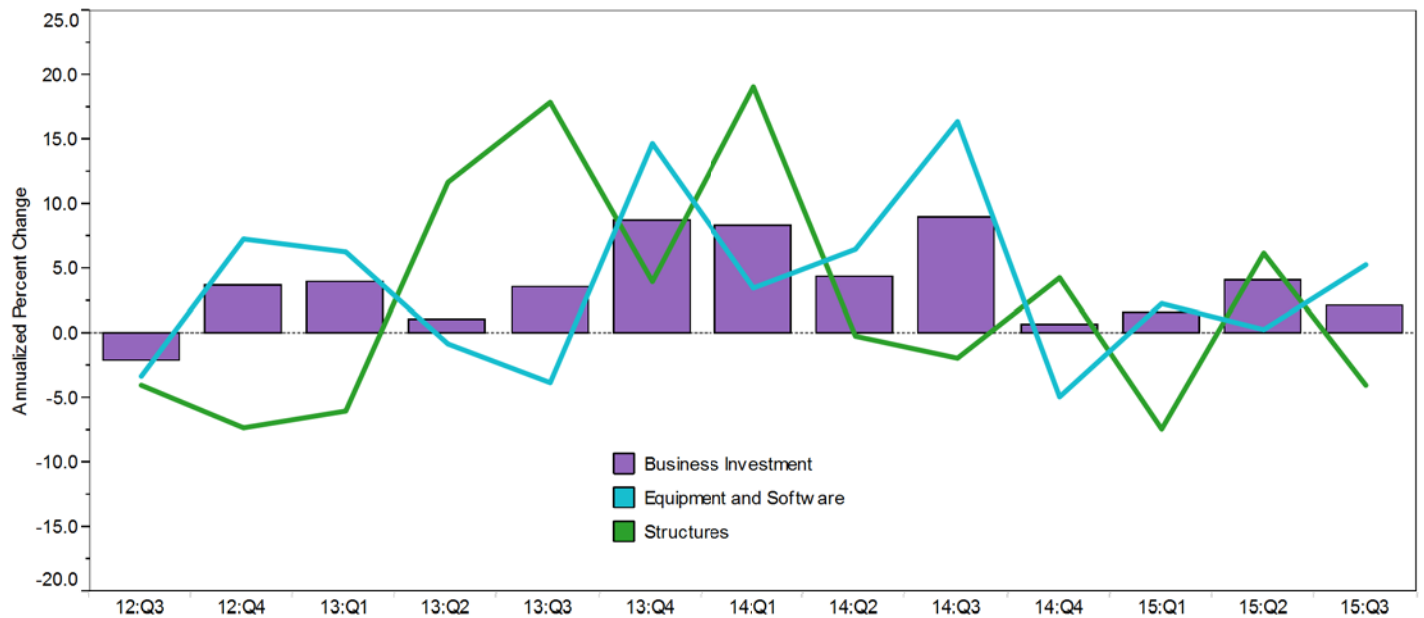
Initial claims for unemployment insurance declined, on average, in the third quarter. Claims fell further in October, reaching their lowest four-week average since 1973.



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

Business investment slowed in the third quarter, mostly due to a decline in structures investment. Equipment and software investment accelerated to its fastest growth rate in one year.

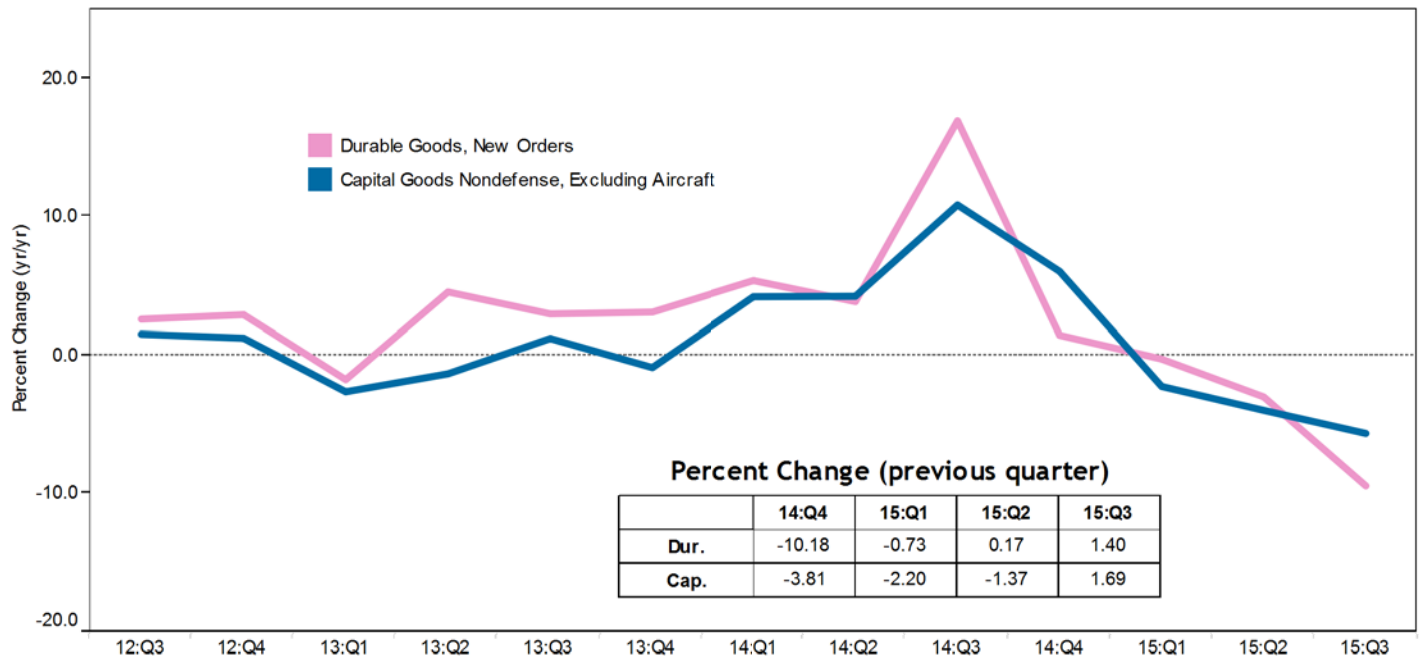
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the third quarter, durable goods orders continued to fall on a year-over-year basis, but increased when compared to the second quarter. Orders for nondefense capital goods, excluding aircraft, also declined further compared to a year ago and rose on a quarterly basis.

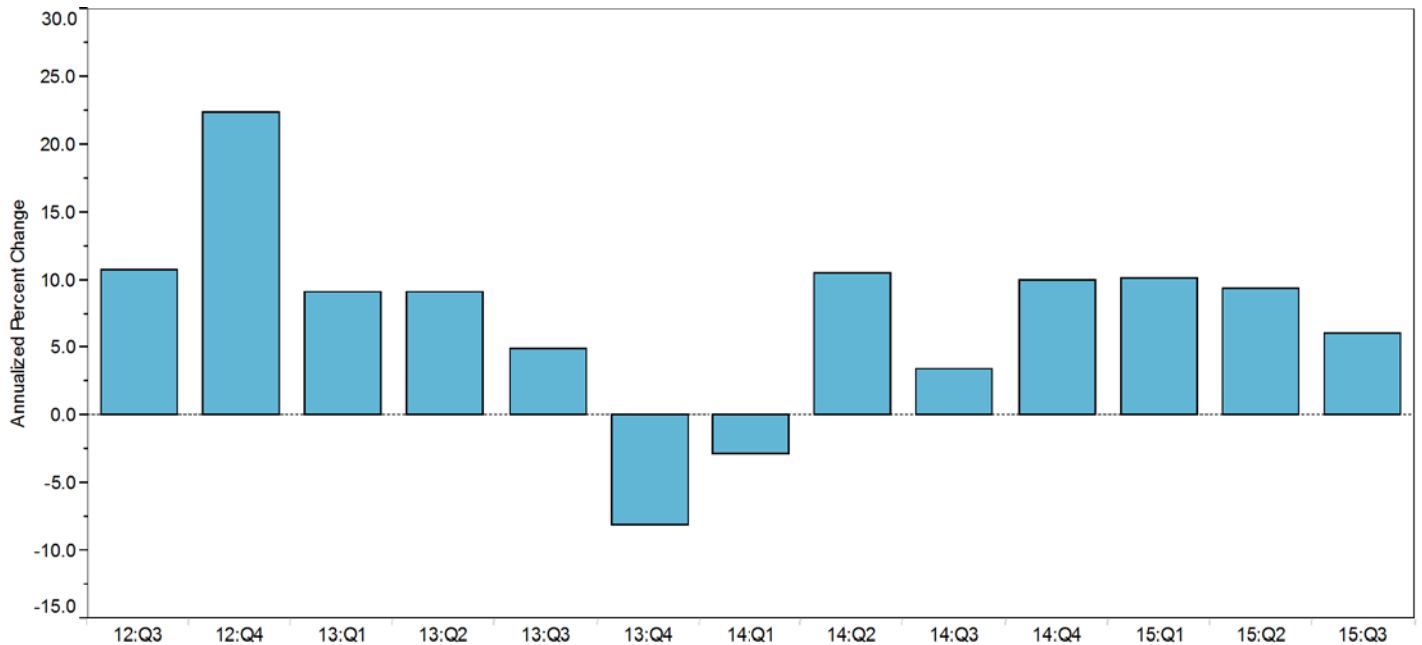
Durable Goods Orders



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

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

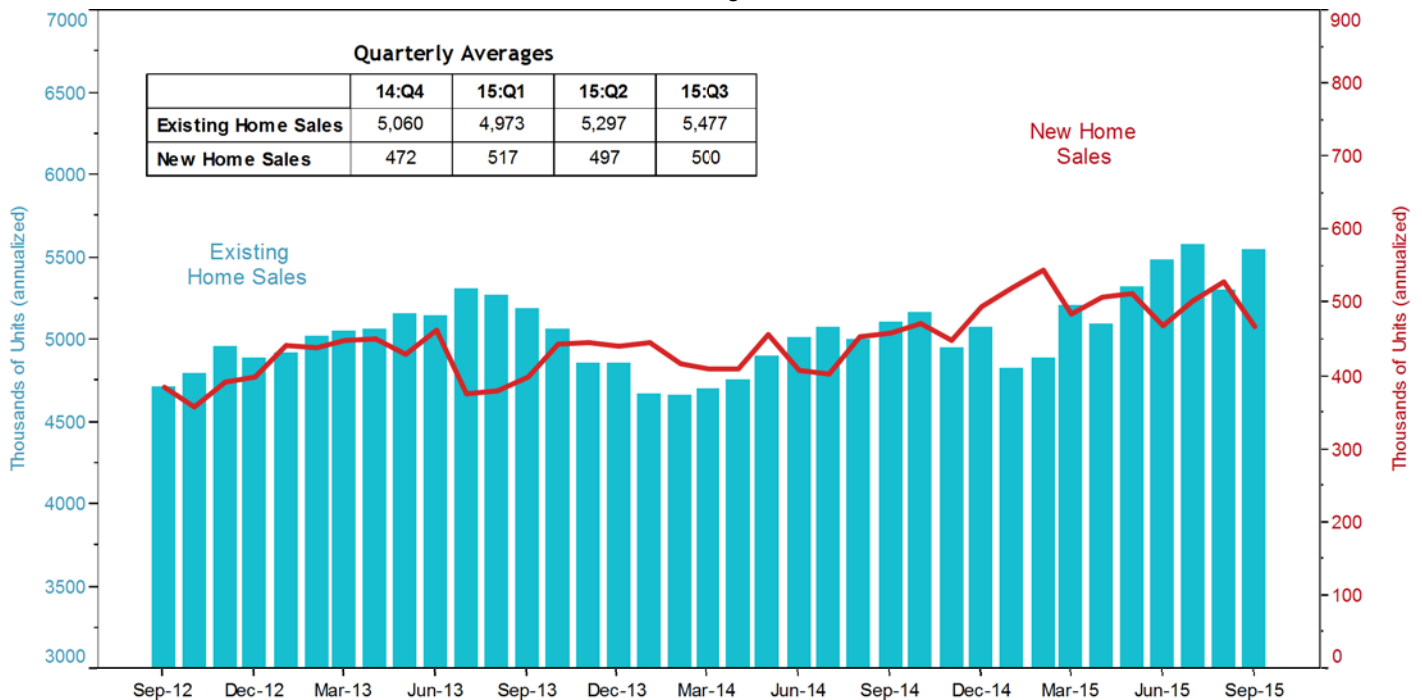
Residential Investment



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

Housing data improved in the third quarter, as existing home sales increased to their highest quarterly average in over eight years. New home sales also rose, on average, in the third quarter, despite declining in September to their slowest sales pace so far this year.

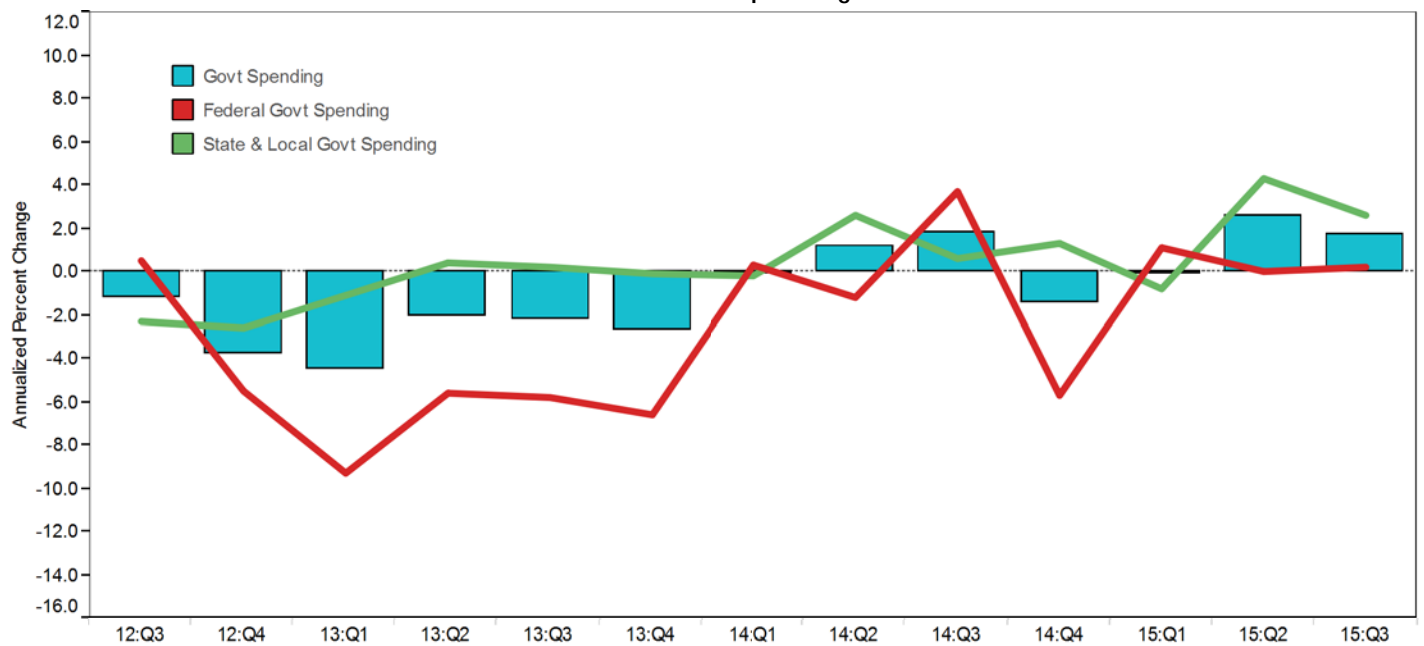
New and Existing Home Sales



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

In the third quarter, government spending increased for the second consecutive quarter, albeit at a slower rate than that seen in the second quarter. The lower rate was due to a deceleration in state and local government spending, as federal spending was little changed in the third quarter.

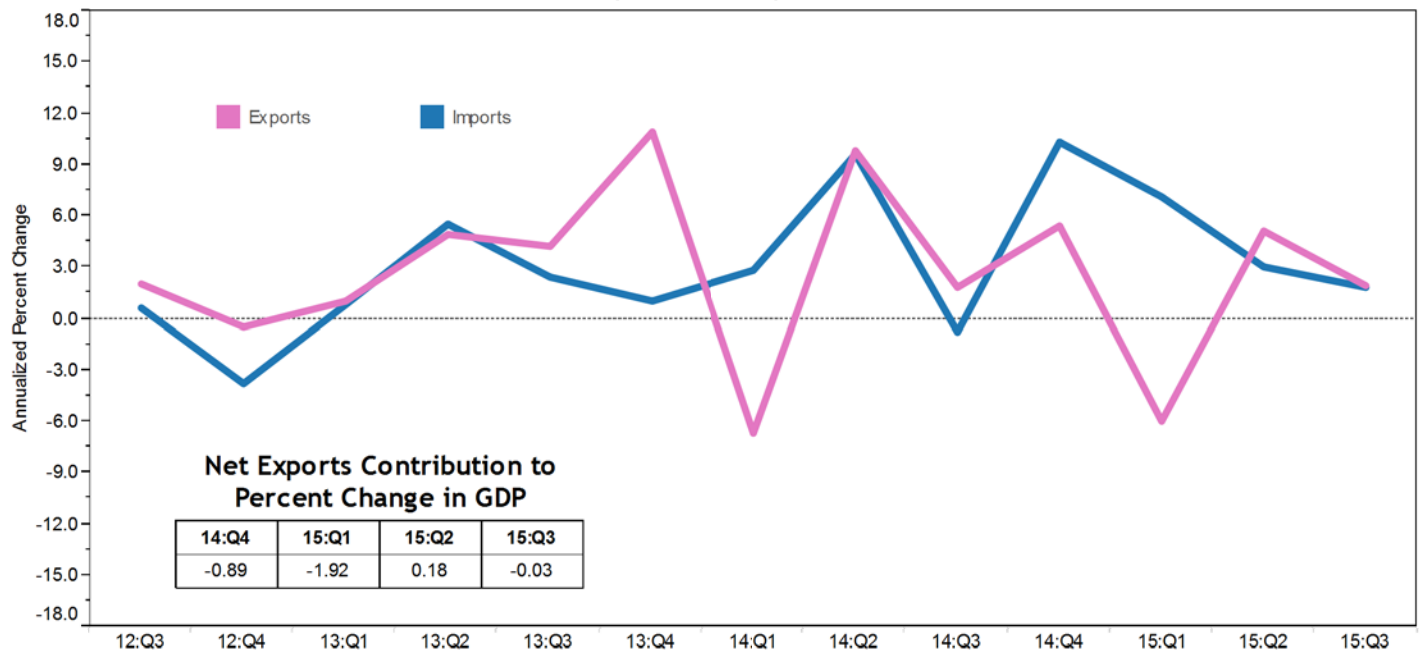
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Export growth and import growth both slowed in the third quarter, leaving the contribution of net exports to GDP growth roughly unchanged.

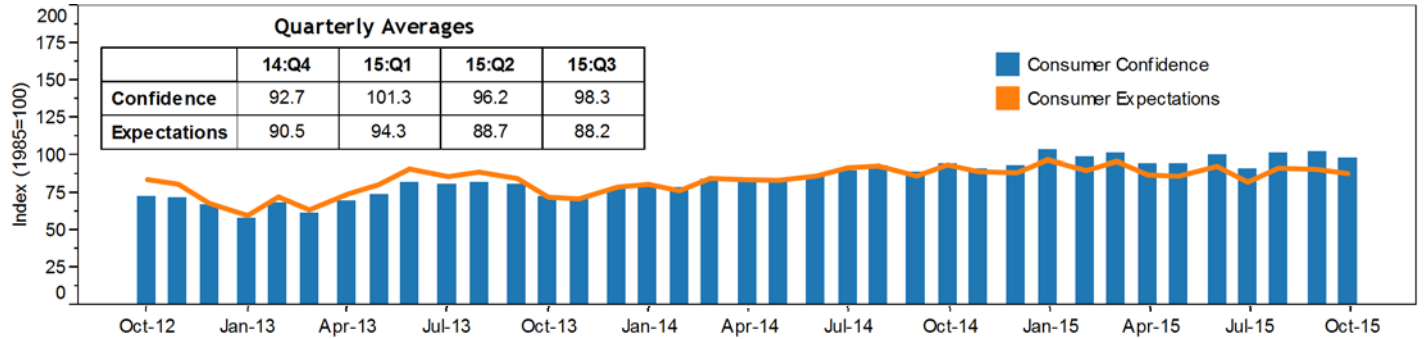
Exports and Imports



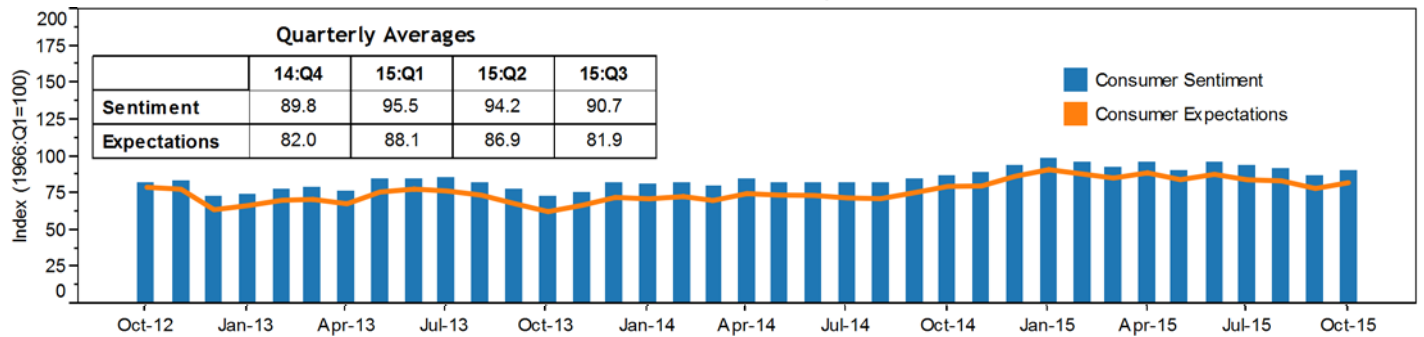
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in October, as the confidence index dropped below its third quarter average, while the sentiment index increased but remained below its third quarter average. Respondents to the confidence survey expressed less favorable views of both current conditions and the short-term economic outlook, while low and middle-income respondents to the sentiment survey expressed better feelings about their current and expected financial situations.

Consumer Confidence and Expectations



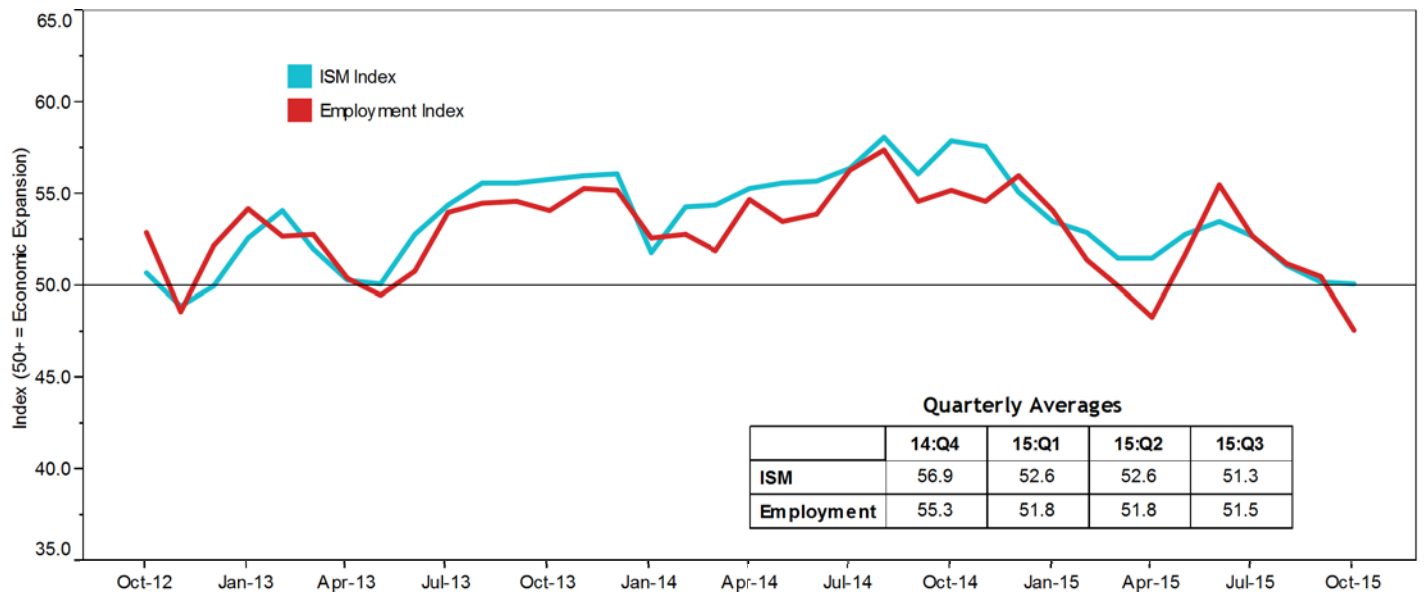
Consumer Sentiment and Expectations



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

The ISM index inched down in October to its lowest level in over two years, but continued to signal expansion in the manufacturing sector. The employment index declined below 50 in October for the second time this year, indicating contraction in employment levels.

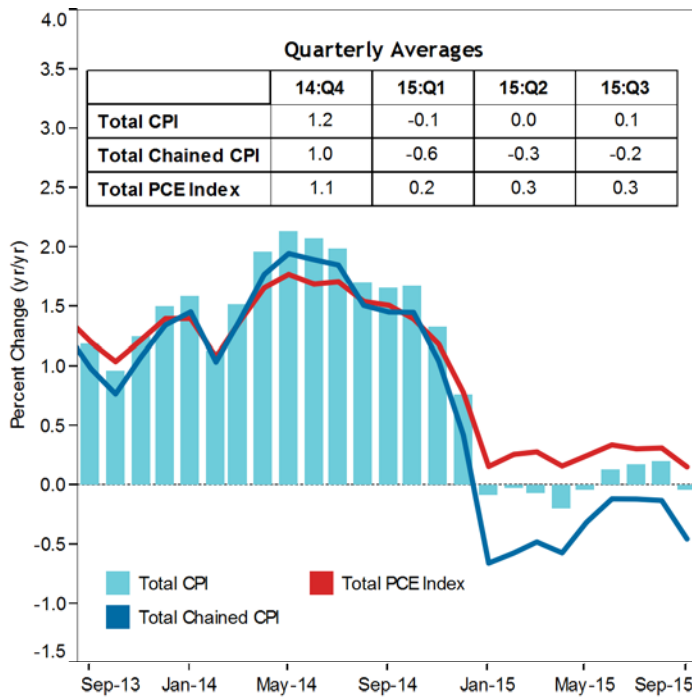
ISM Index



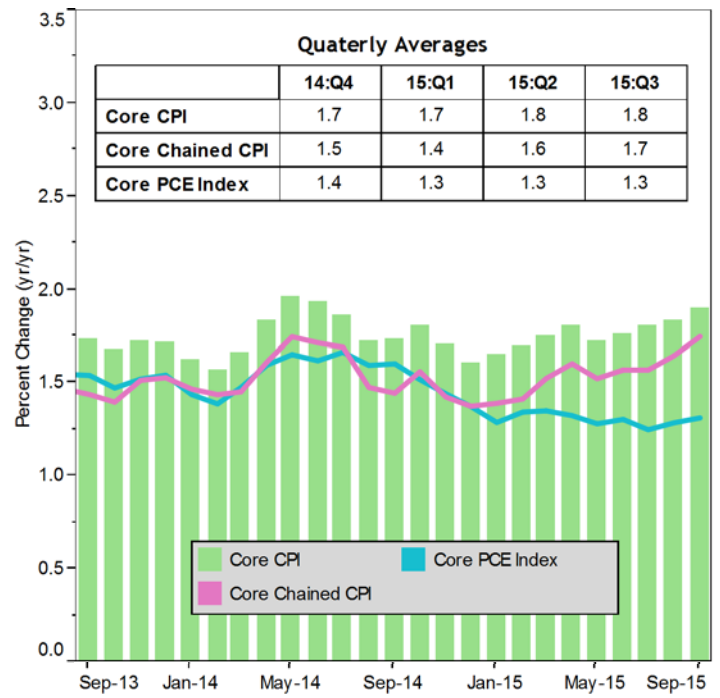
Source: Institute of Supply Management / Haver Analytics.

Total consumer prices, as measured by the CPI, ticked up in the third quarter, while growth in the PCE index held steady. Excluding the volatile food and energy sectors, growth in core prices, as measured by both the CPI and the PCE Index, held steady in the third quarter.

Total Price Indices



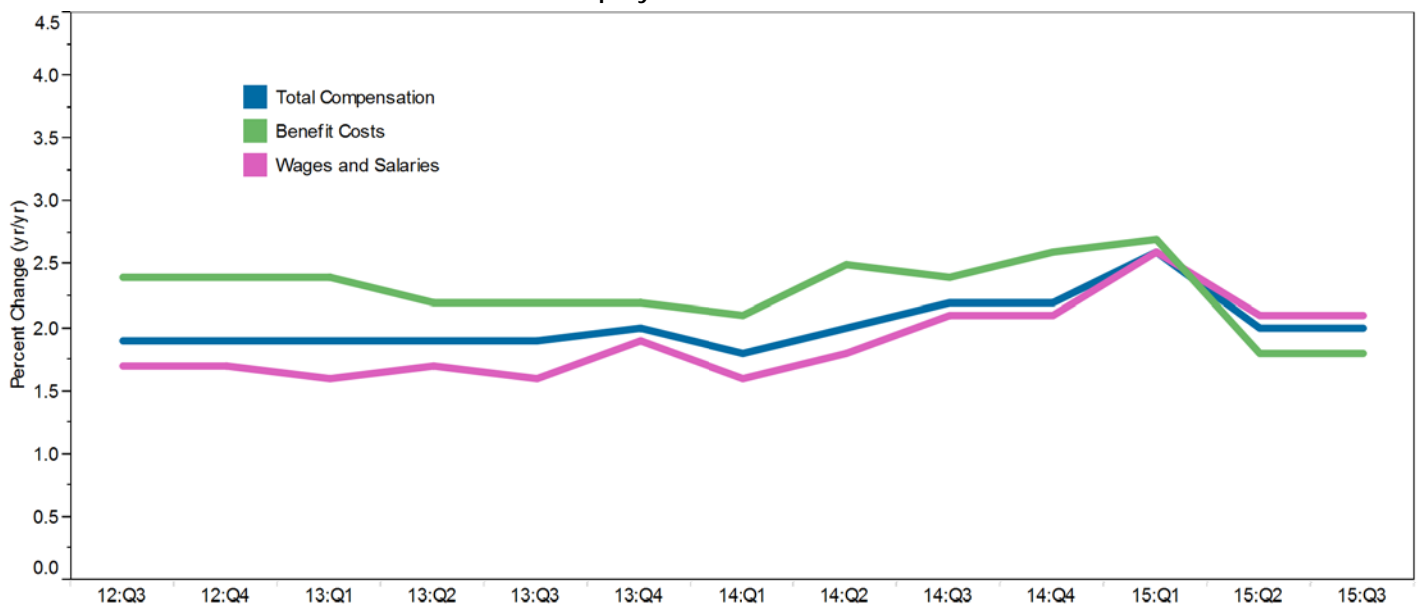
Core Price Indices



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

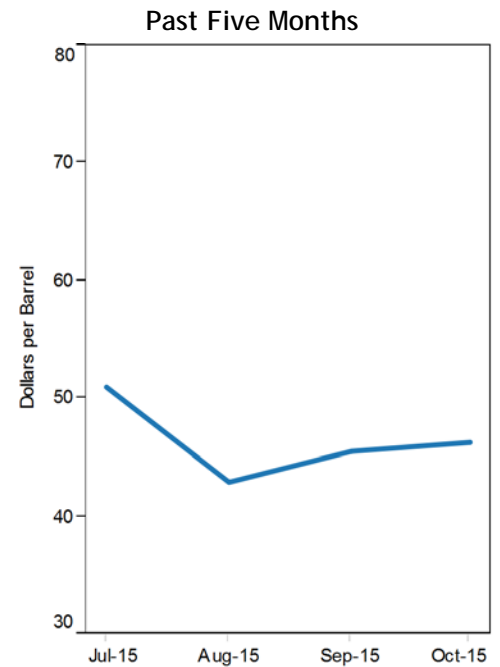
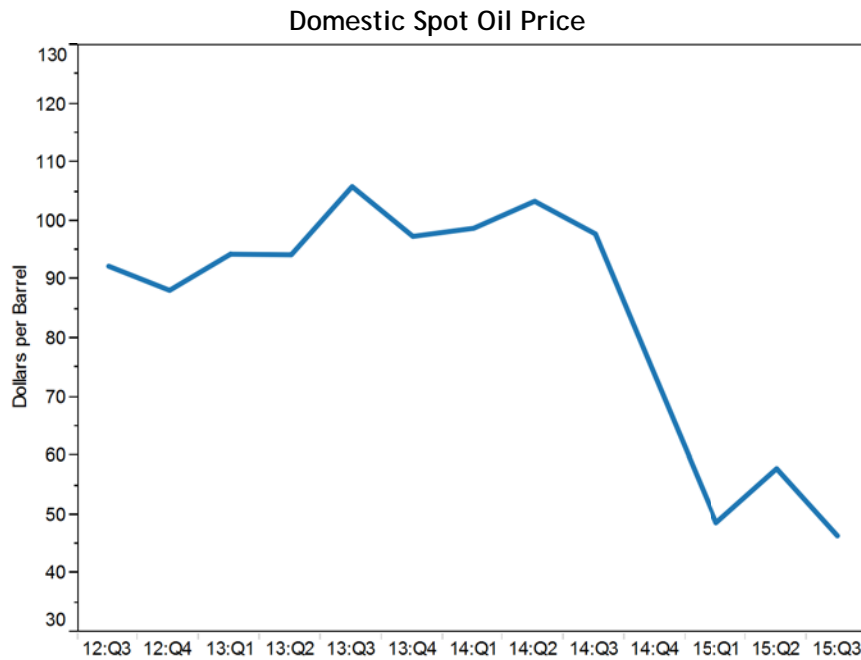
In the third quarter, total compensation growth was unchanged from its rate in the second quarter, as growth held steady for both wages and salaries and benefits costs.

Employment Cost Index



Source: Bureau of Labor Statistics / Haver Analytics.

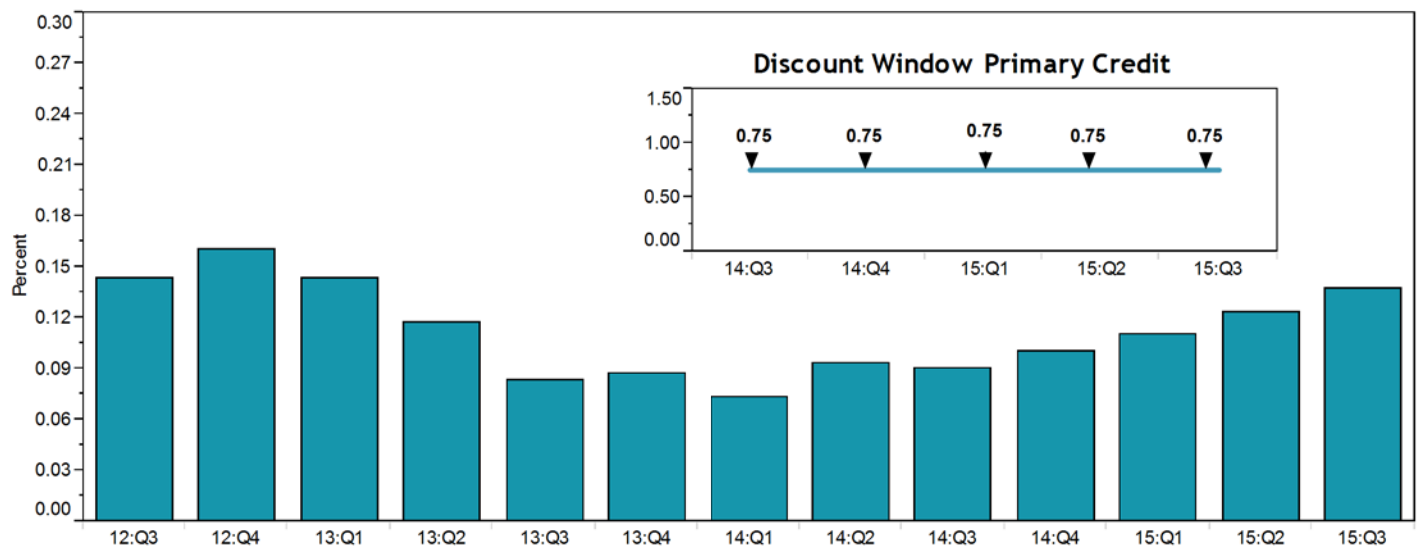
Oil prices in October ticked up from their September average, but were down slightly from the level seen in the third quarter, which was the lowest quarterly average in over six years. The daily closing prices have fallen in early November, reaching \$46.1 per barrel on Nov 2.



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.