



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

September 29, 2015

CURRENT ECONOMIC DEVELOPMENTS - September 29, 2015

Data released since your last Directors' meeting suggest growth in the third quarter is likely to slow from the rate seen in the second quarter, which was slightly faster than previously estimated. The labor market showed signs of continued strengthening, and personal consumption picked up. However, consumer attitudes were mixed and growth in the manufacturing sector mostly showed signs of softening. Unsettled financial markets and economic uncertainty abroad remain areas of concern.

In the first three weeks of September, initial claims for unemployment insurance dropped below the over-fifteen-year low seen in July, more than offsetting the increase seen in August. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in September, while the unemployment rate is expected to hold steady at 5.1%. Consumer attitudes were mixed in September, as the sentiment index declined while the confidence index increased. In August, both consumption and disposable incomes continued to rise.

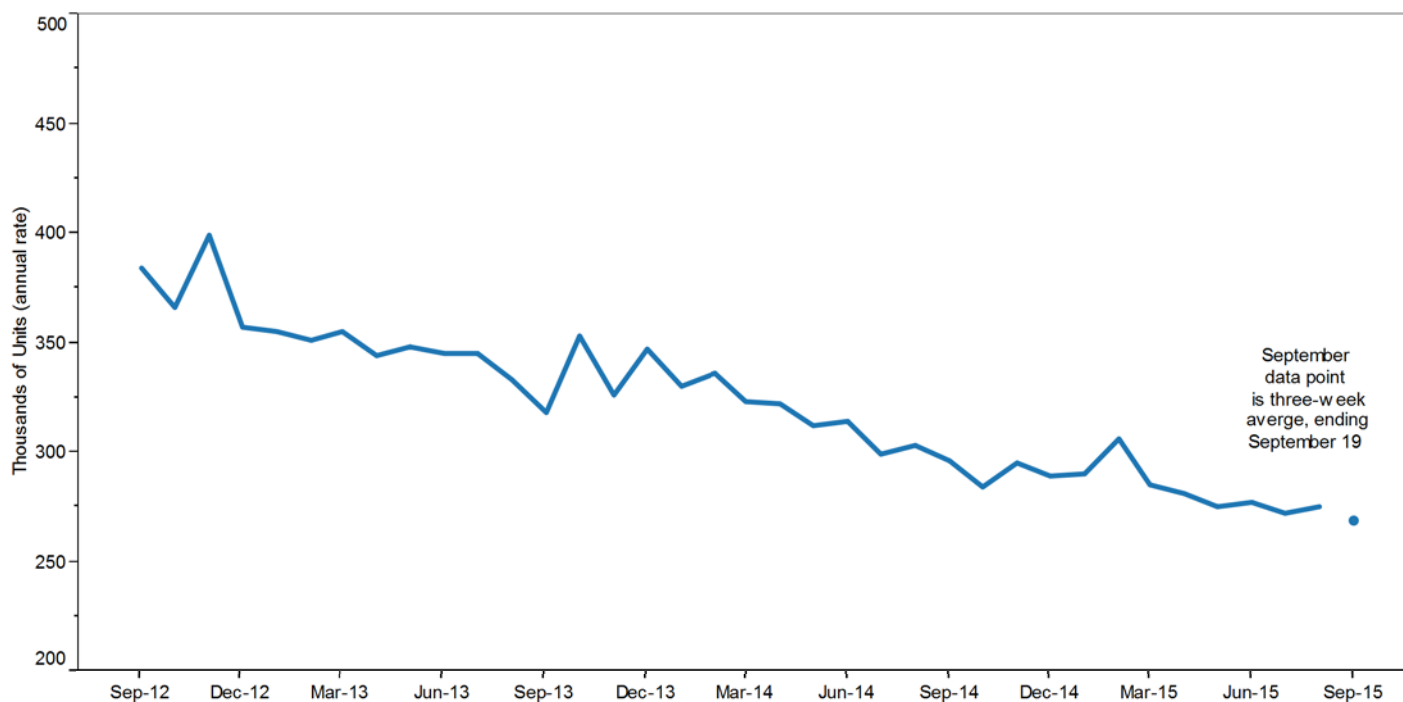
Housing data were mixed in August, while the market continued to show some improvement. New home sales increased in August to a new post-recession high, while existing home sales decreased. Housing starts also decreased in August, while permits rose.

In the manufacturing sector, industrial production and capacity utilization both fell in August. Orders for both durable goods and nondefense capital goods, excluding aircraft, also decreased in August, and both series continued to register declines from their year-ago levels.

Inflation measures held mostly steady in August, with both monthly and year-over-year growth little changed from July. Oil prices in September rose from their August average, and reached \$44.4 per barrel on September 28.

Initial claims for unemployment insurance have fallen, on average, in the three weeks ending September 22nd, after rising in the previous month. Weekly claims in the past several months have been hovering around lows not seen consistently since early 2000.

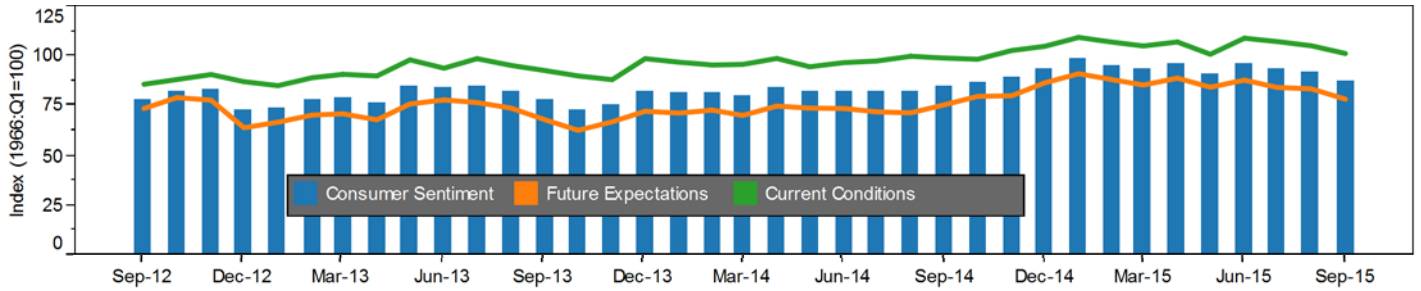
Initial Claims



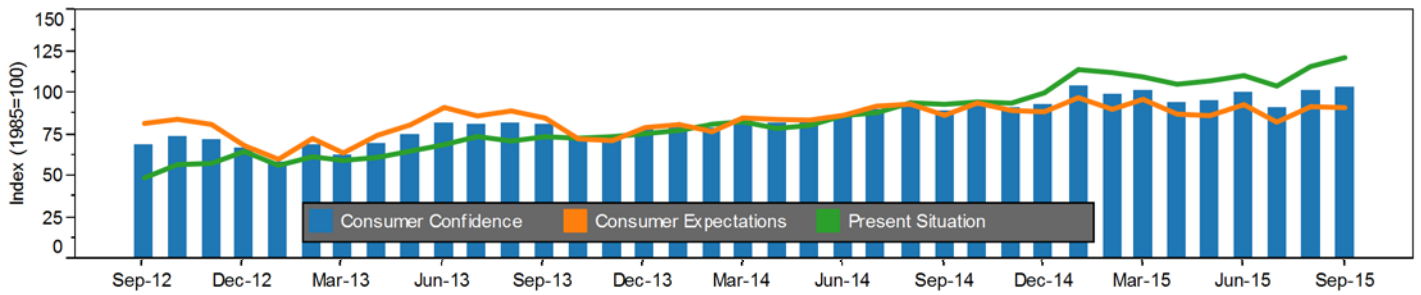
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in September, as the sentiment index declined for the third consecutive month, while the confidence index increased to its highest level since January. The increase in the confidence index was due to a rise in the present situation component, which reached an eight-year high in September, while the expectations component was relatively flat. Respondents to the sentiment survey expressed less favorable views of economic growth, and expect slower growth in jobs and wages.

Consumer Sentiment and Expectations



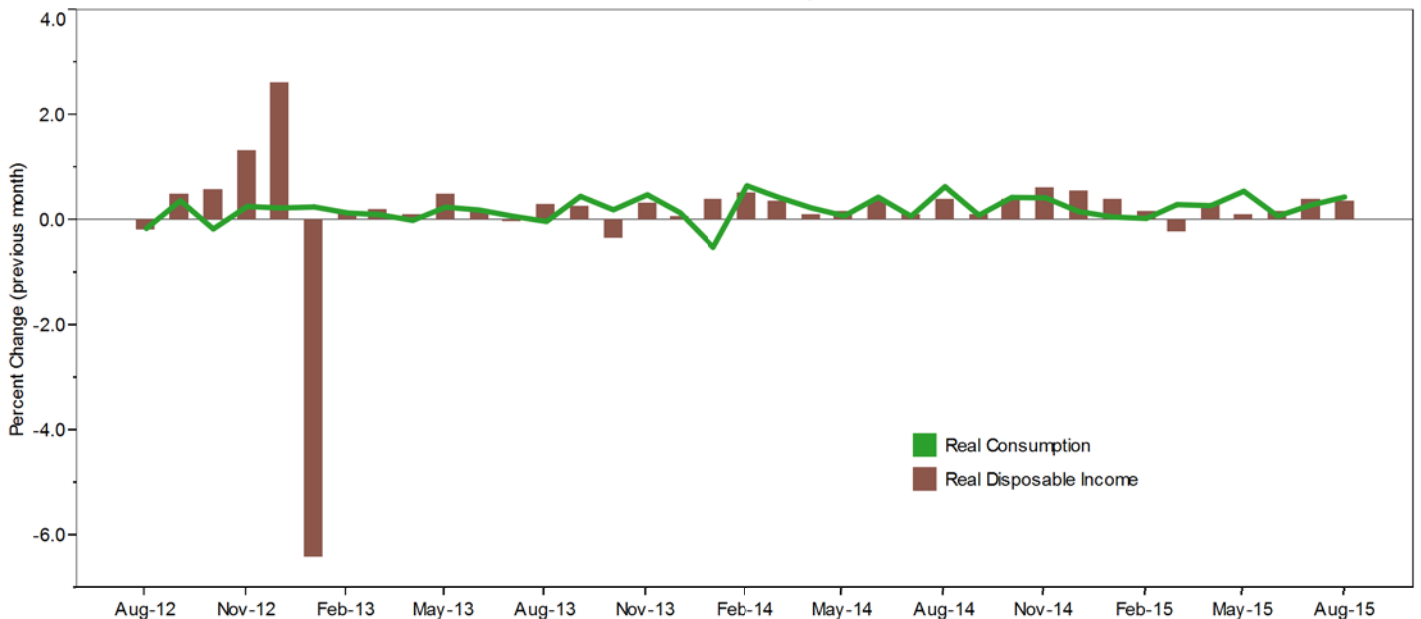
Consumer Confidence and Expectations



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

Real incomes rose in August, their fifth consecutive monthly increase. The higher incomes provided a boost to spending, as consumption increased in August and was revised up in each of the prior two months.

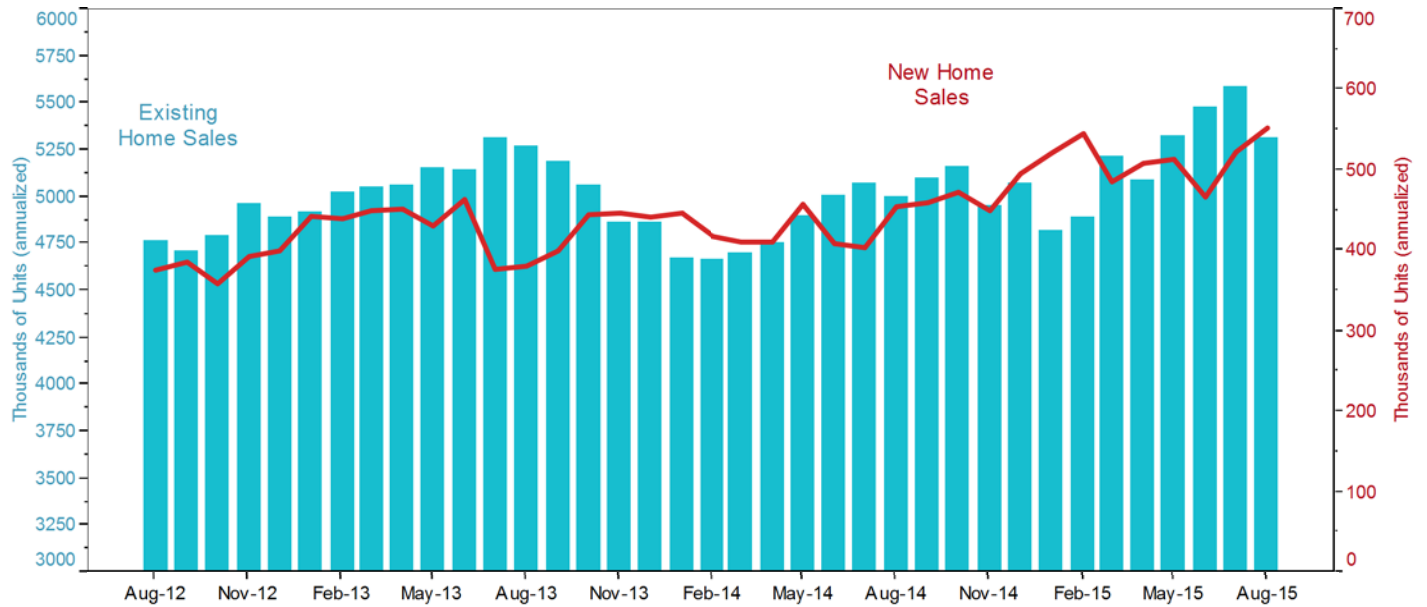
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in August. New home sales increased to their fastest pace in over seven years, and sales in July were revised higher. Meanwhile, existing home sales fell in August, after rising in each of the previous three months and reaching an eight-year high in July.

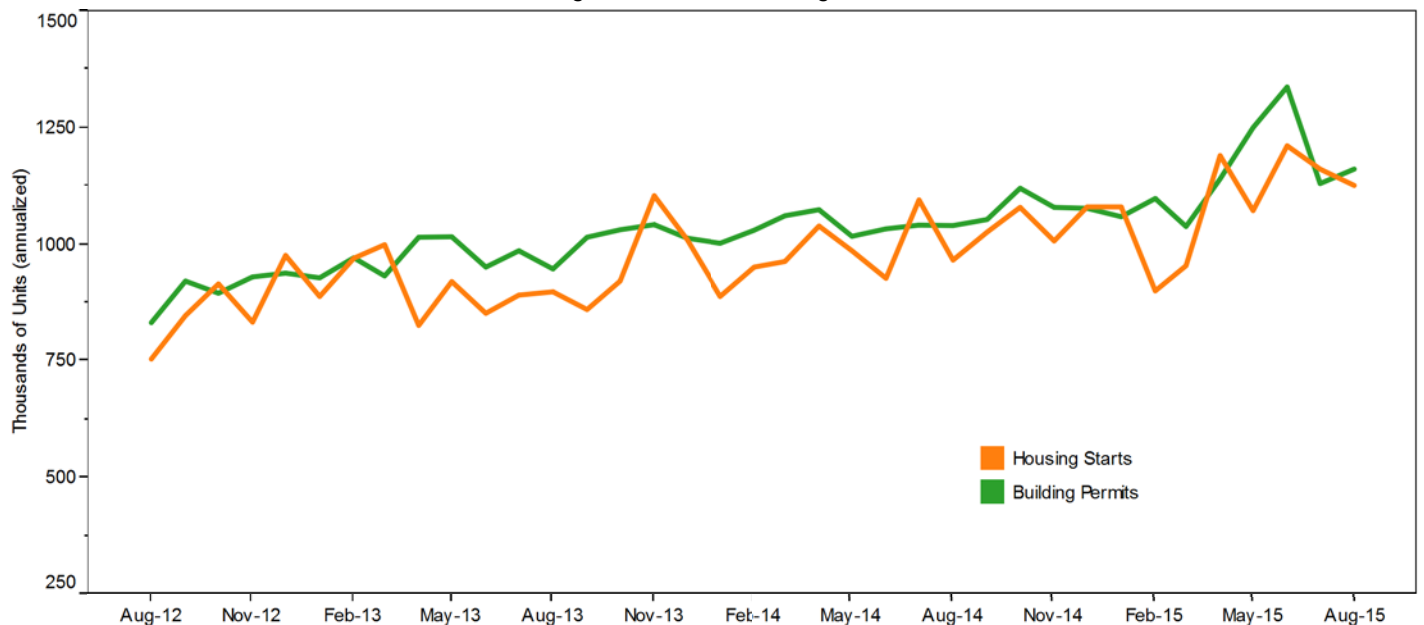
New and Existing Home Sales



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

Housing starts fell in August, following a revised decrease in July that was previously reported as a slight increase. The decline in August was due to decreases in both single-family and multifamily starts. Meanwhile, building permits rose in August, partially offsetting the steep drop seen in July.

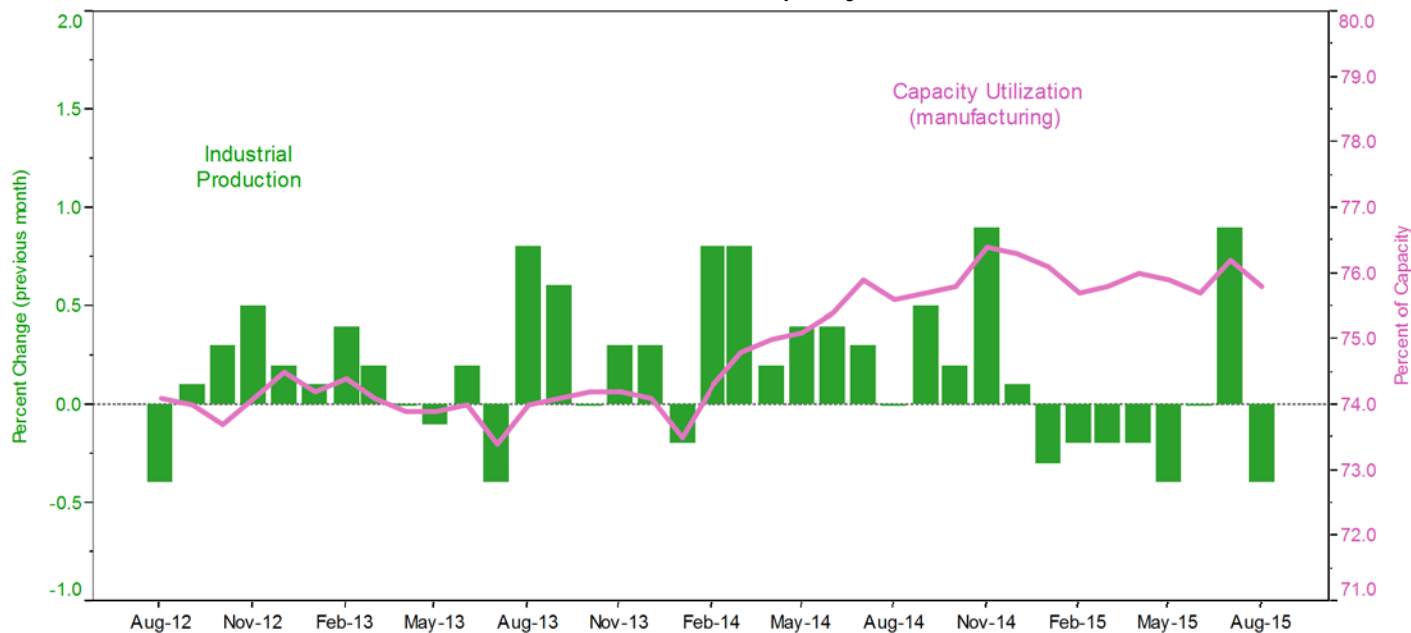
Housing Starts and Building Permits



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

Industrial production declined in August, following an upwardly revised increase in July. Both manufacturing and mining production posted decreases in August, while utilities output increased. Capacity utilization also declined in August, offsetting the increase seen in July.

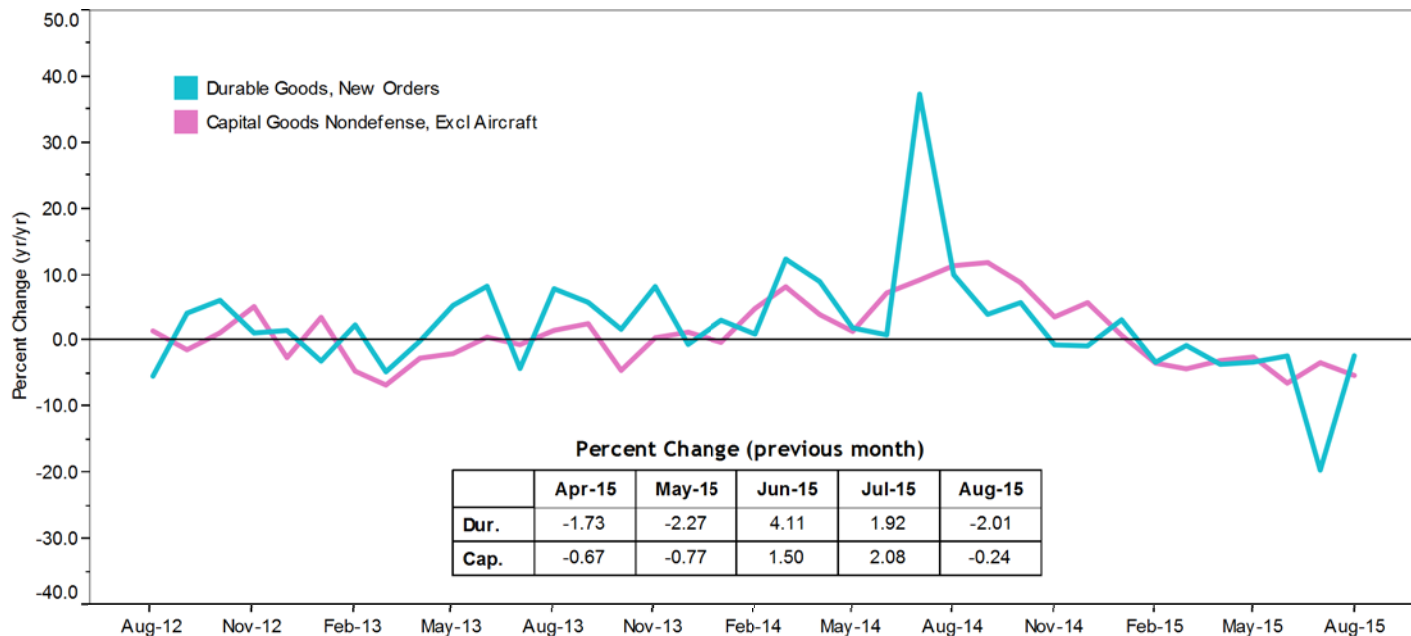
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for both durable goods and nondefense capital goods, excluding aircraft, fell in August, after rising in each of the prior two months. Both series continued to decrease on a year-over-year basis.

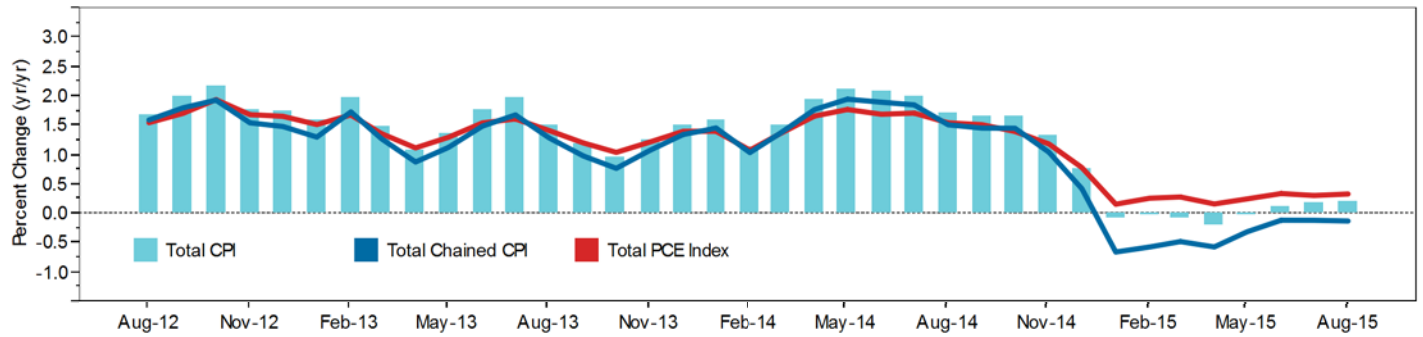
Durable Goods Orders



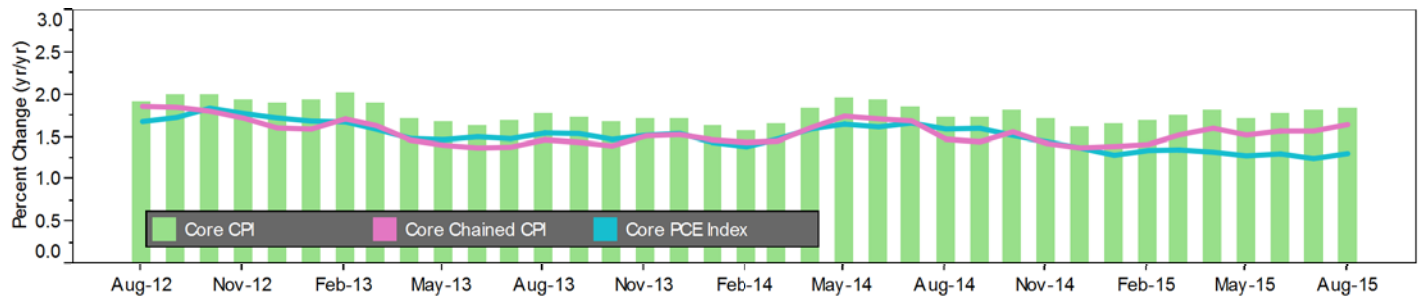
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices continued to inch up in August, as measured by both the Consumer Price Index and the Personal Consumption Expenditure price index. Growth in core prices, which exclude the volatile food and energy categories, accelerated in August.

Total Price Indices



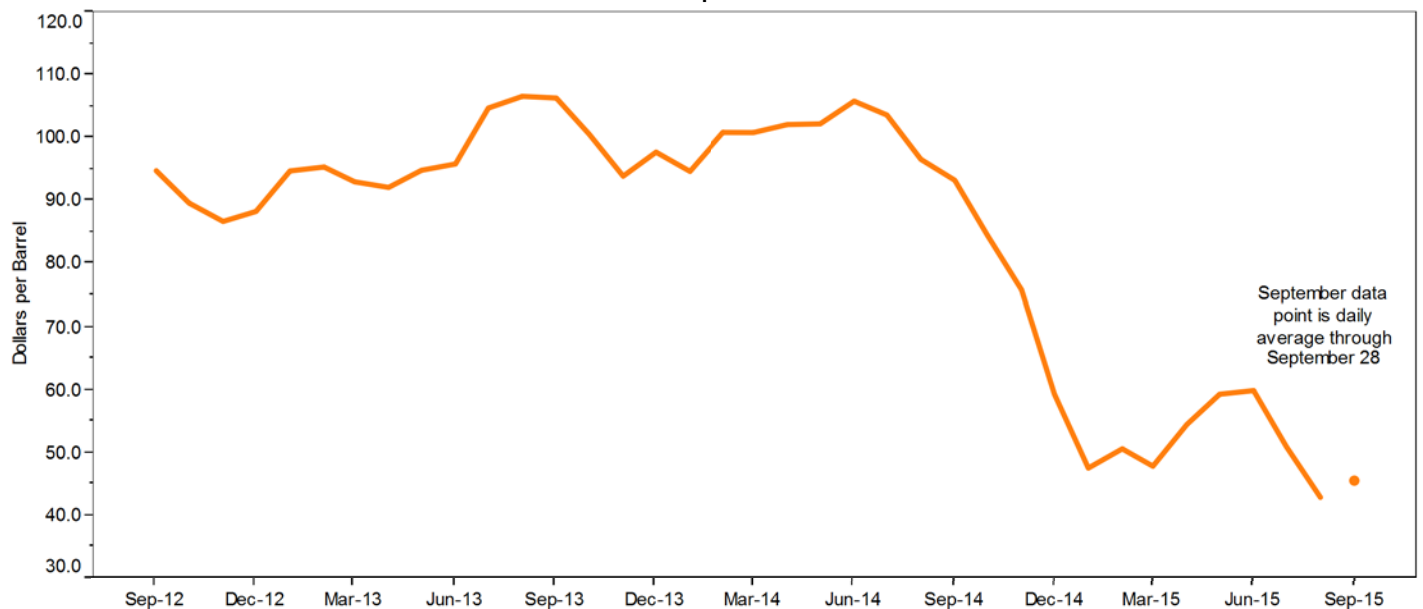
Core Price Indices



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

Oil prices rose on average in September, up a bit from the six-and-a-half year low seen in August. Prices reached \$44.4 per barrel on September 28.

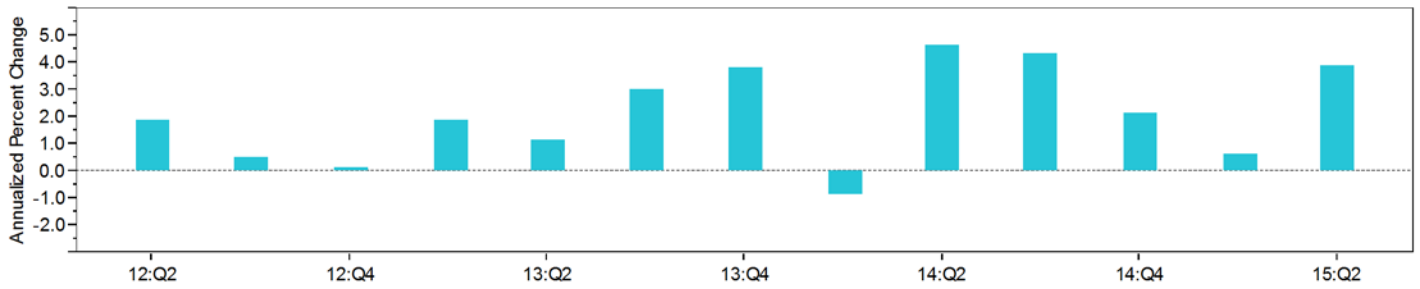
Domestic Spot Oil Price



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

First quarter real GDP growth was revised up in the third estimate to 3.9% from 3.7%. The higher rate primarily reflected upward revisions to personal consumption expenditures, to nonresidential fixed investment, and to residential fixed investment that were partly offset by a downward revision to private inventory investment.

Real GDP



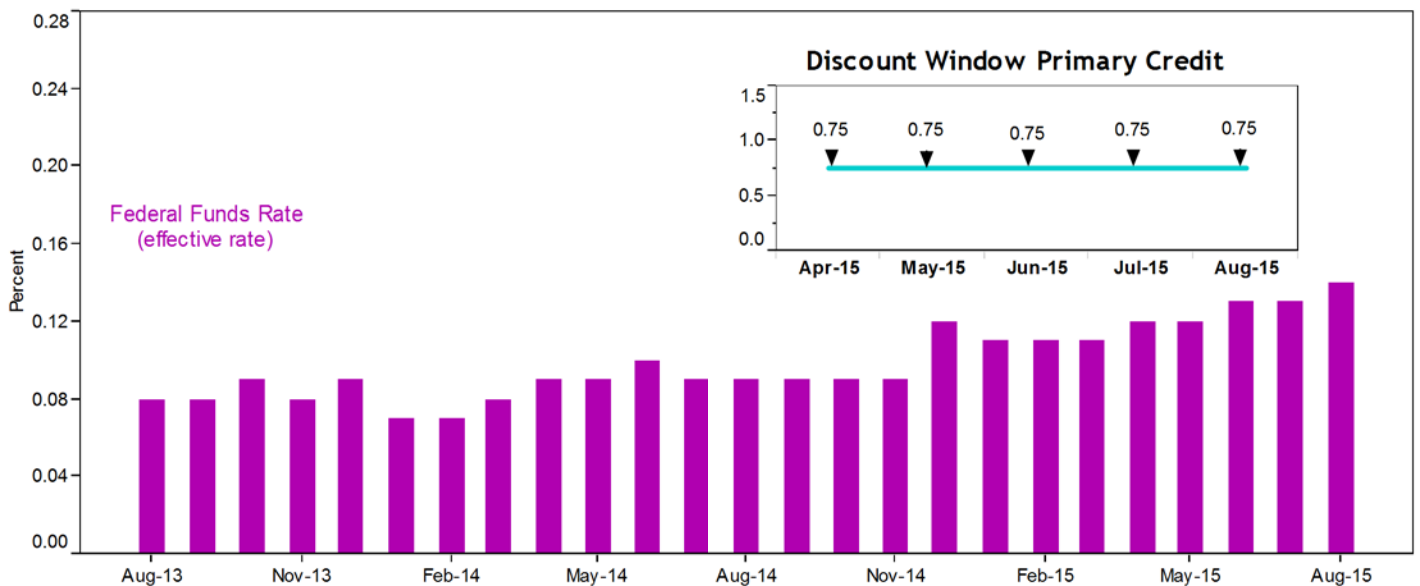
Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	3.7	3.9
Personal Consumption	3.1	3.6
Business Investment	3.2	4.1
Equipment and Software	-0.4	0.3
Residential Investment	7.8	9.3
Government	2.6	2.6
Exports	5.2	5.1
Imports	2.8	3.0
Final Sales	3.5	3.9

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.