



The

President's

Report *to the*

Board *of*

Directors

September 1, 2015

CURRENT ECONOMIC DEVELOPMENTS - September 1, 2015

Data released since your last Directors' meeting show the economy grew at a faster pace in the second quarter than originally thought. Growth is expected to slow in the third quarter but remain slightly above recent trends throughout the second half of the year. The labor market showed signs of continued strengthening, personal consumption picked up, and the housing market continued to show positive signs. However, financial and economic uncertainty abroad, especially in China, pose areas of concern.

In the first three weeks of August, initial claims for unemployment insurance increased slightly but remained near the over-fifteen-year low seen in July. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and non-farm payrolls are expected to post another solid gain in August, even if not as robust as the increase seen in July. The unemployment rate is expected to hold steady at 5.3% in August. Consumer attitudes were mixed in August, as the sentiment index declined while the confidence index increased. In July, consumption rose, after holding steady in June, as disposable incomes continued to increase.

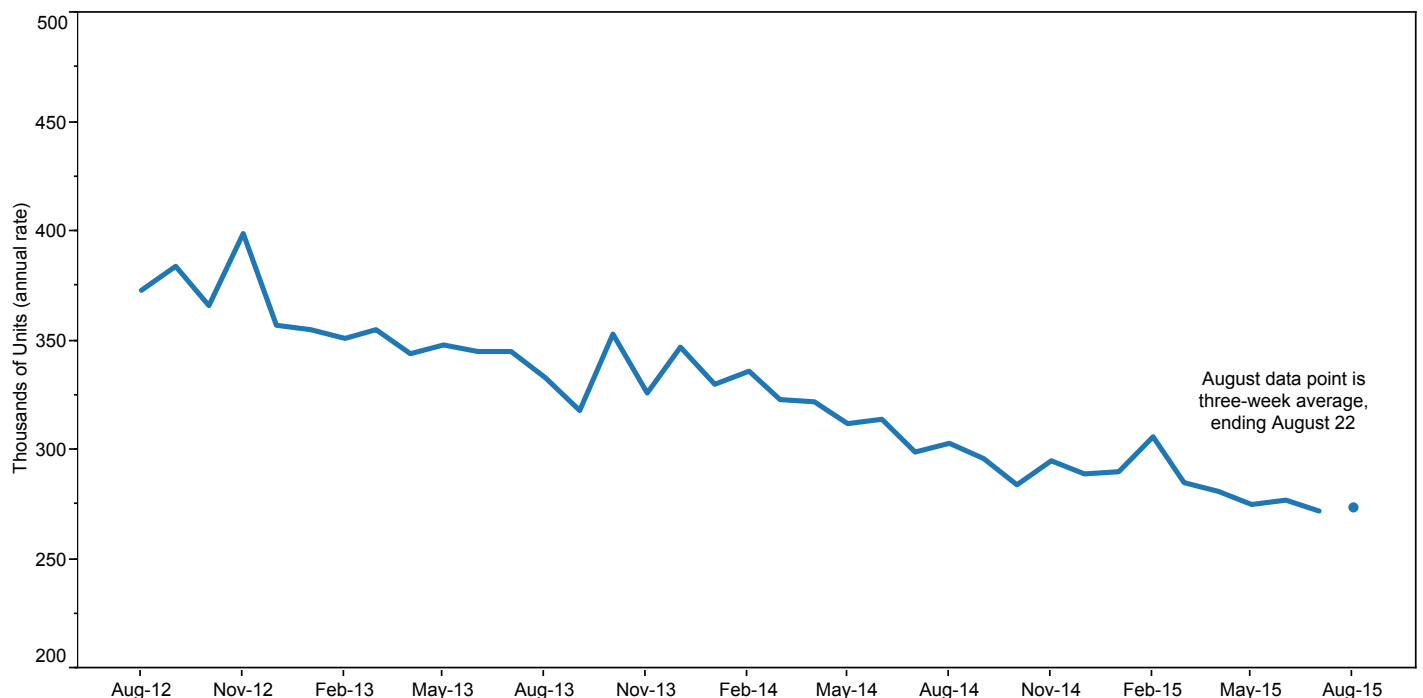
The housing market showed some improvement in July. Both new and existing home sales increased, and existing home sales registered a new post-recession high. Housing starts also rose to a new post-recession high in July, while permits declined.

In the manufacturing sector, the ISM index declined in August to its lowest level in over two years, but continued to signal expansion. Industrial production and capacity utilization both rose in July, with utilization reaching its highest level so far this year. Also in July, orders for both durable goods and nondefense capital goods, excluding aircraft, continued to increase on a monthly basis. Yet both series registered declines from their year-ago levels.

Both the total and core CPI increased in July, but measured by the PCE indices, total and core prices declined. Oil prices in August fell from their July average, but rose in the last few days of the month to reach \$49.2 per barrel on August 31.

Initial claims for unemployment insurance have risen slightly, on average, in the three weeks ending August 22nd, after declining in the previous month. Weekly claims in July had registered their lowest monthly average in over fifteen years.

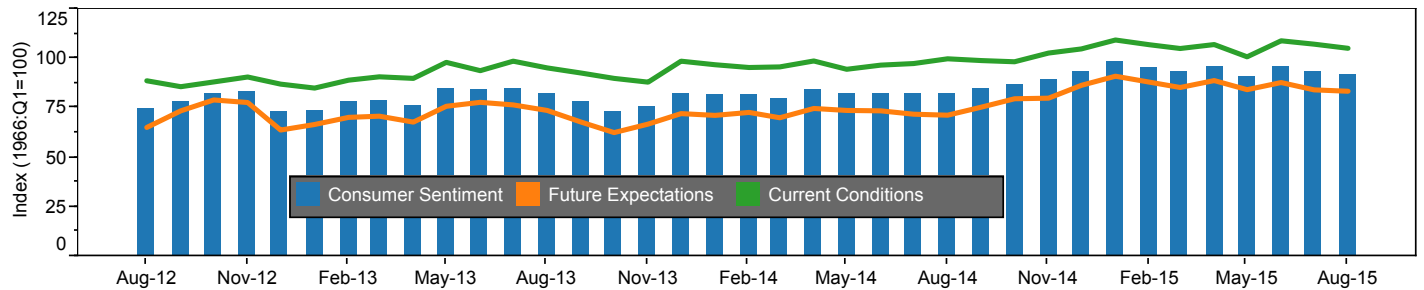
Initial Claims



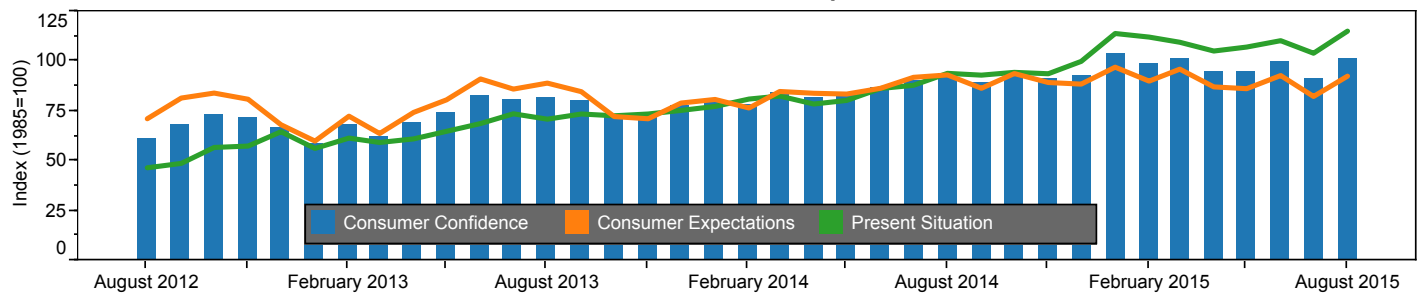
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in August, as the sentiment index declined for the second consecutive month, while the confidence index increased to its highest level since January. Respondents to the confidence survey expressed more favorable views towards the labor market and the short-term economic outlook. Meanwhile, the decline in the sentiment index was due, in part, to less favorable views towards economic expectations and buying conditions, likely resulting from volatile stock prices in late August.

Consumer Sentiment and Expectations



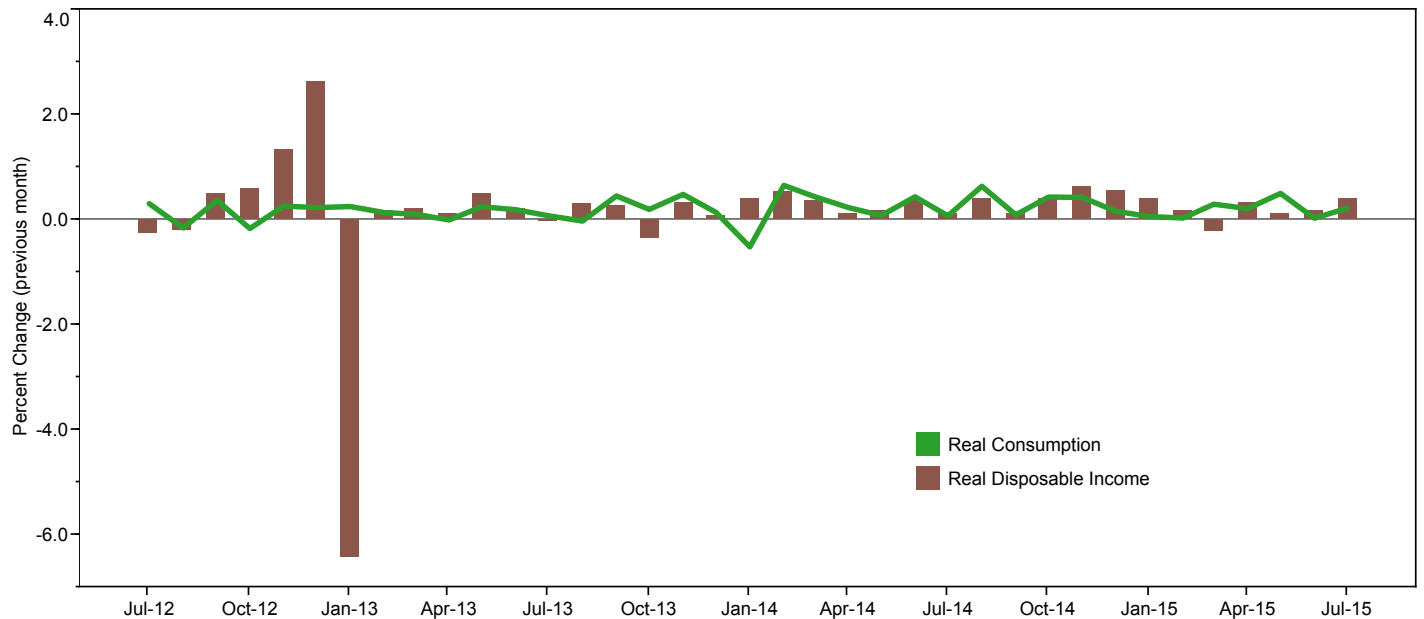
Consumer Confidence and Expectations



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

Real incomes rose in July, their fourth consecutive monthly increase. The higher incomes provided a boost to spending in July, as consumption increased after holding steady in June.

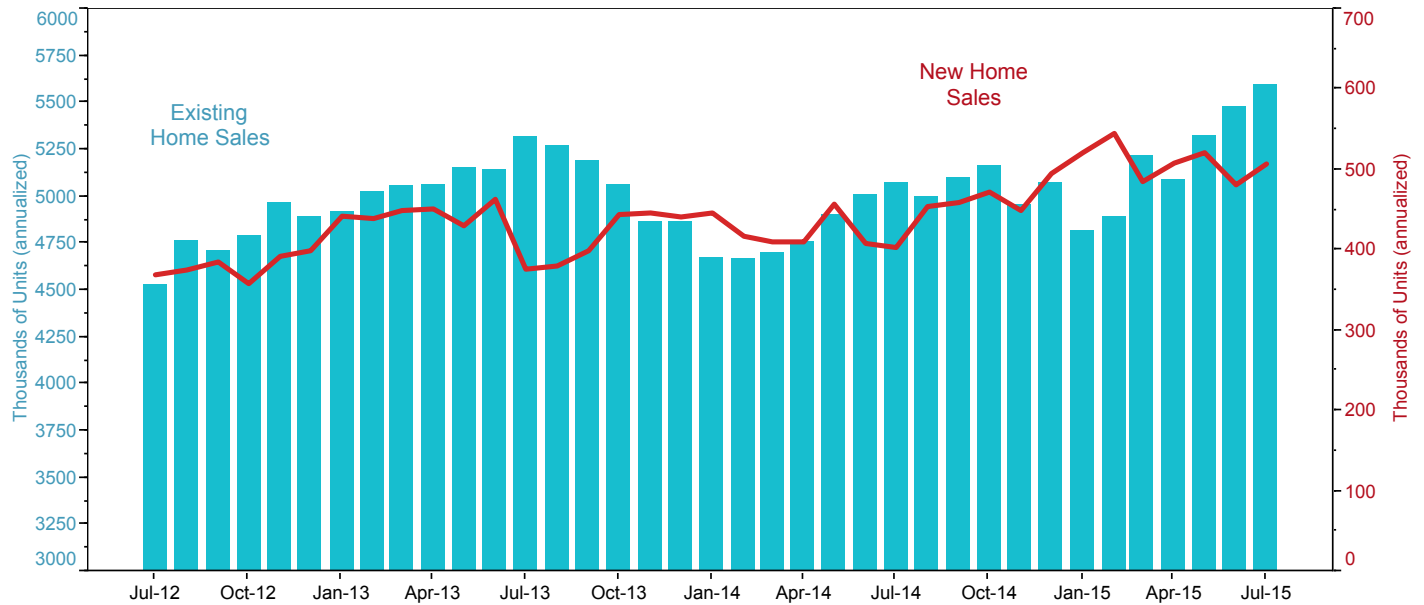
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales increased in July, their third consecutive monthly increase, and reached their fastest pace since February 2007. New home sales also rose in July, but from a level in June that was revised downward.

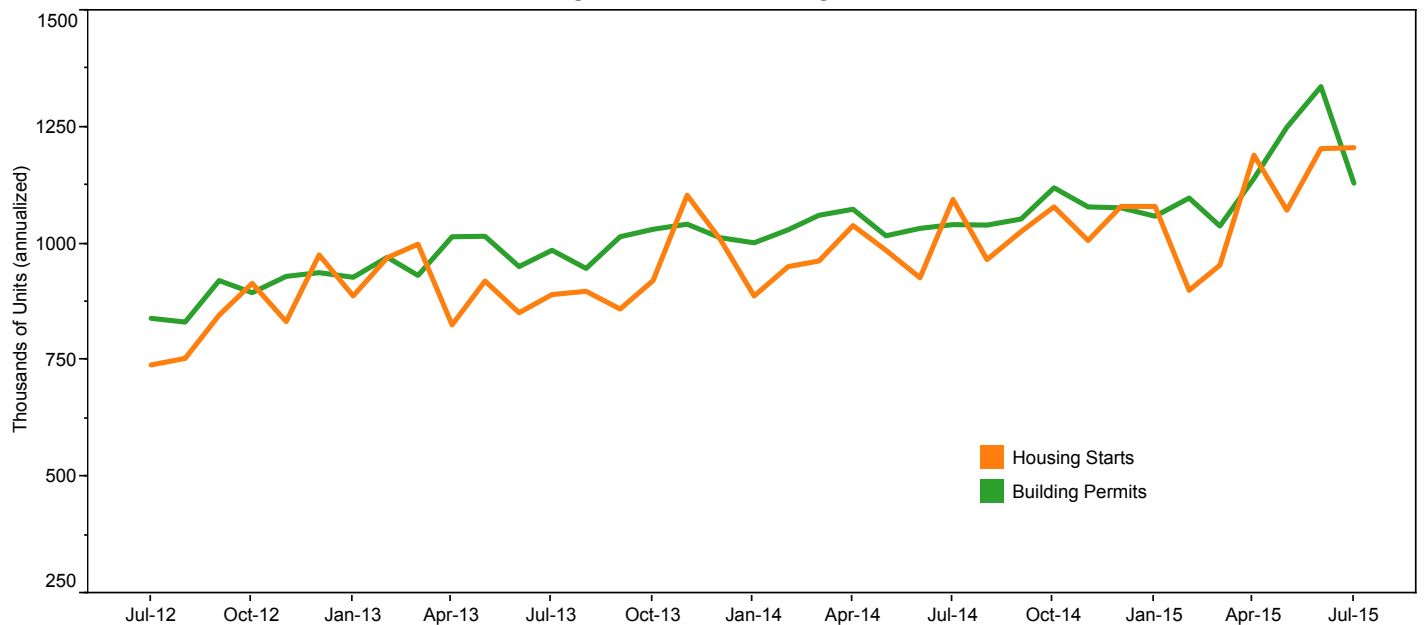
New and Existing Home Sales



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

Housing starts rose in July, following an upwardly revised increase in June, and reached their highest rate since October 2007. The increase in July was due to a rise in single-family starts, as multifamily starts fell. Meanwhile, building permits plunged in July, mostly due to a drop in multifamily permits, although single-family permits also declined.

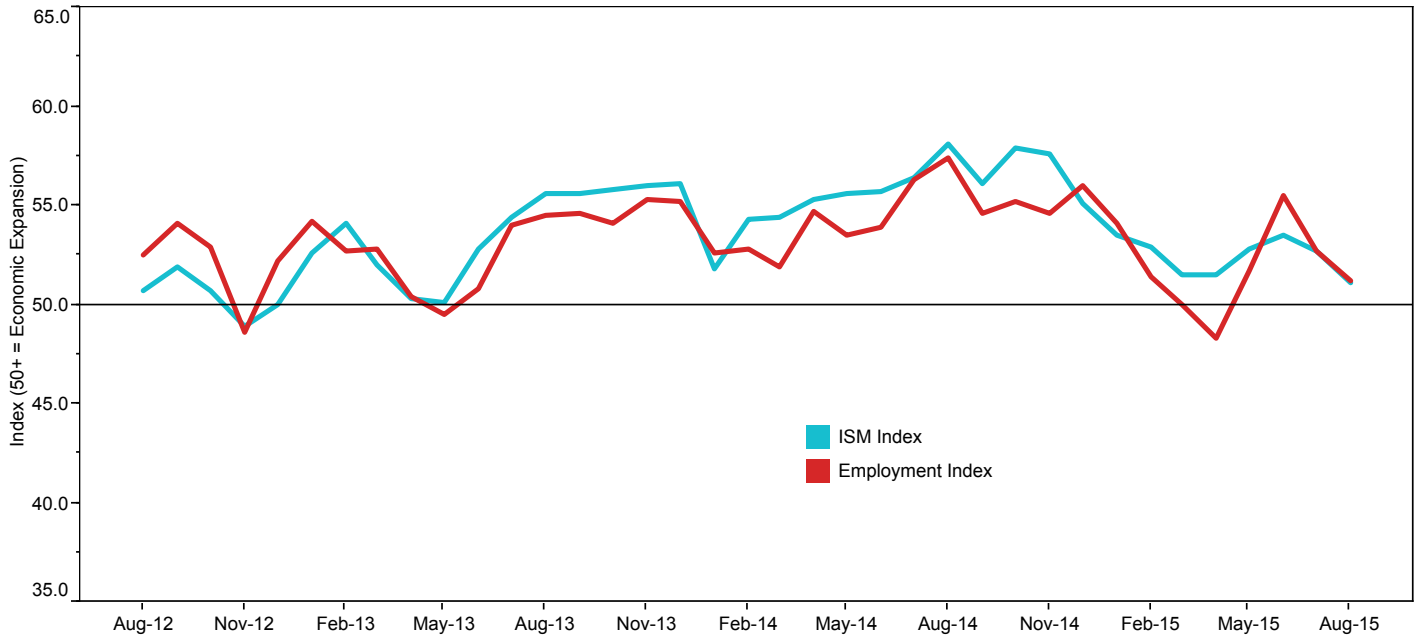
Housing Starts and Building Permits



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

The ISM manufacturing index declined in August to its lowest level since May 2013, but continued to signal expansion in the manufacturing industry. The employment component of the index also fell in August, after decreasing in July.

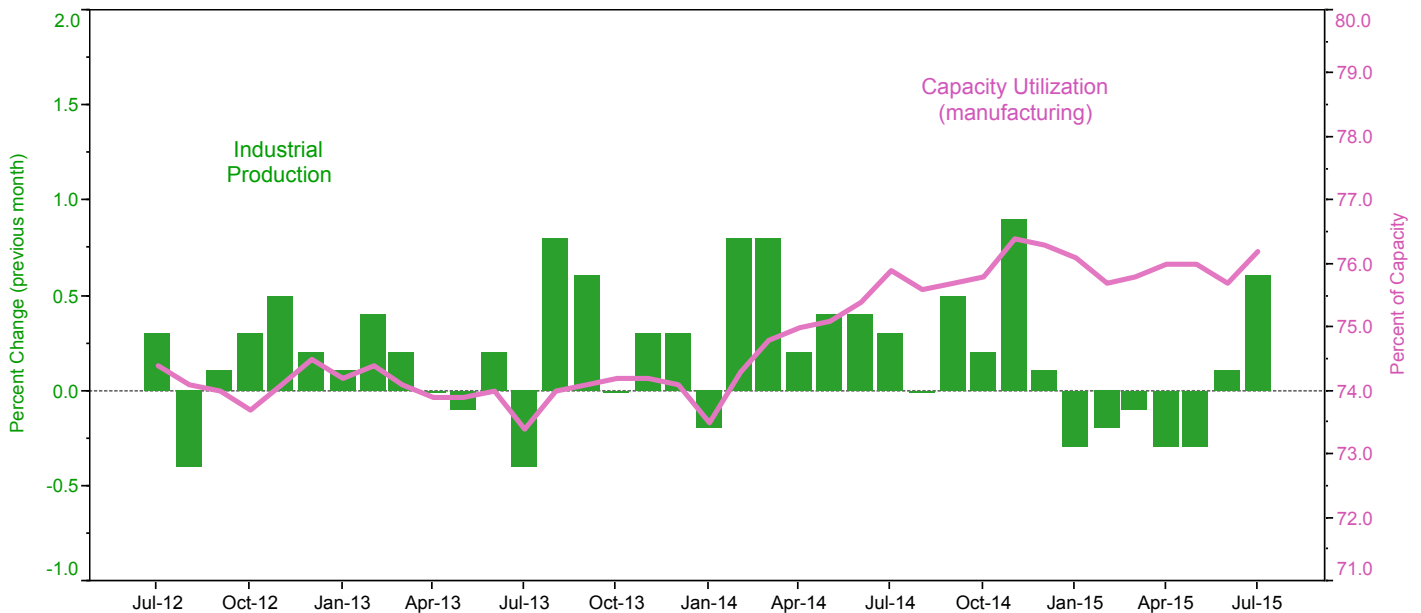
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production increased in July, after rising in June. Both manufacturing and mining production posted increases in July, while utilities output decreased. Capacity utilization also rose in July, reaching its highest level since December 2014.

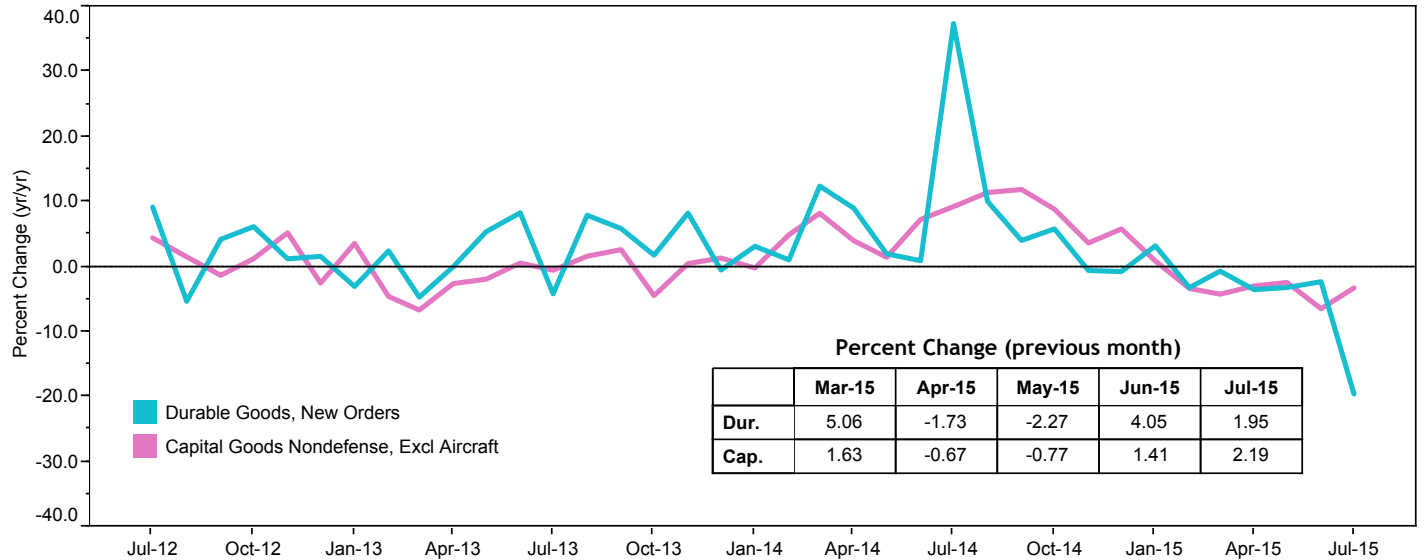
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for both durable goods and nondefense capital goods, excluding aircraft, rose in July, their second consecutive monthly increases. The rise in core capital goods was the largest increase in over one year. Both series continued to decrease on a year-over-year basis, however the drop in durable goods is a bit misleading, as it was mostly due to a surge in aircraft orders the previous July.

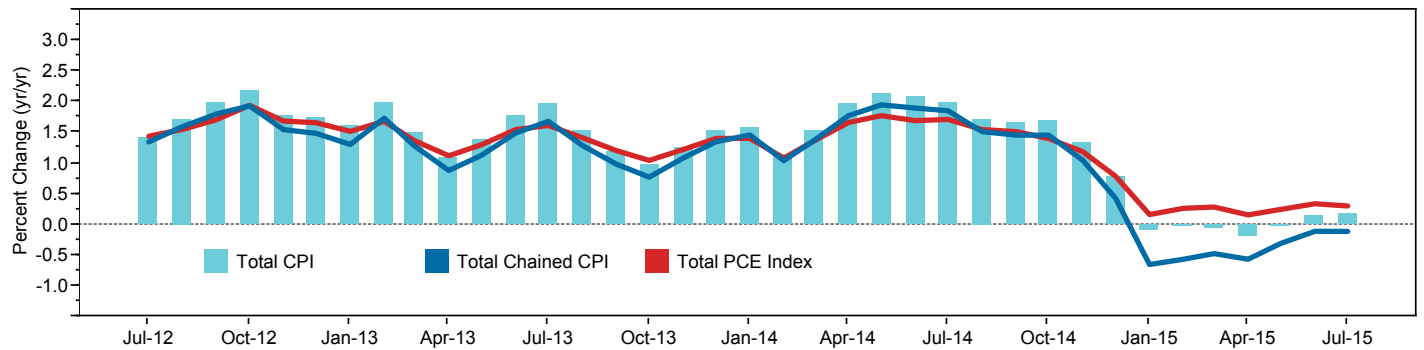
Durable Goods Orders



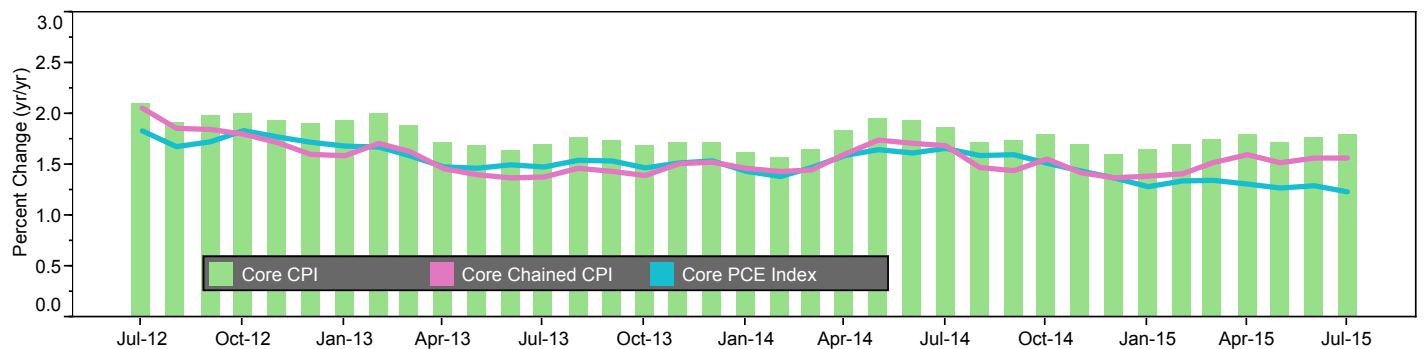
Source: U.S. Census Bureau / Haver Analytics.

Headline consumer prices inched up in July, their second increase so far this year, as measured by the Consumer Price Index, while the headline Personal Consumption Expenditure price index decelerated a bit. Similarly, the core CPI, which excludes the volatile food and energy categories, increased in July, while the core PCE index decelerated.

Total Price Indices

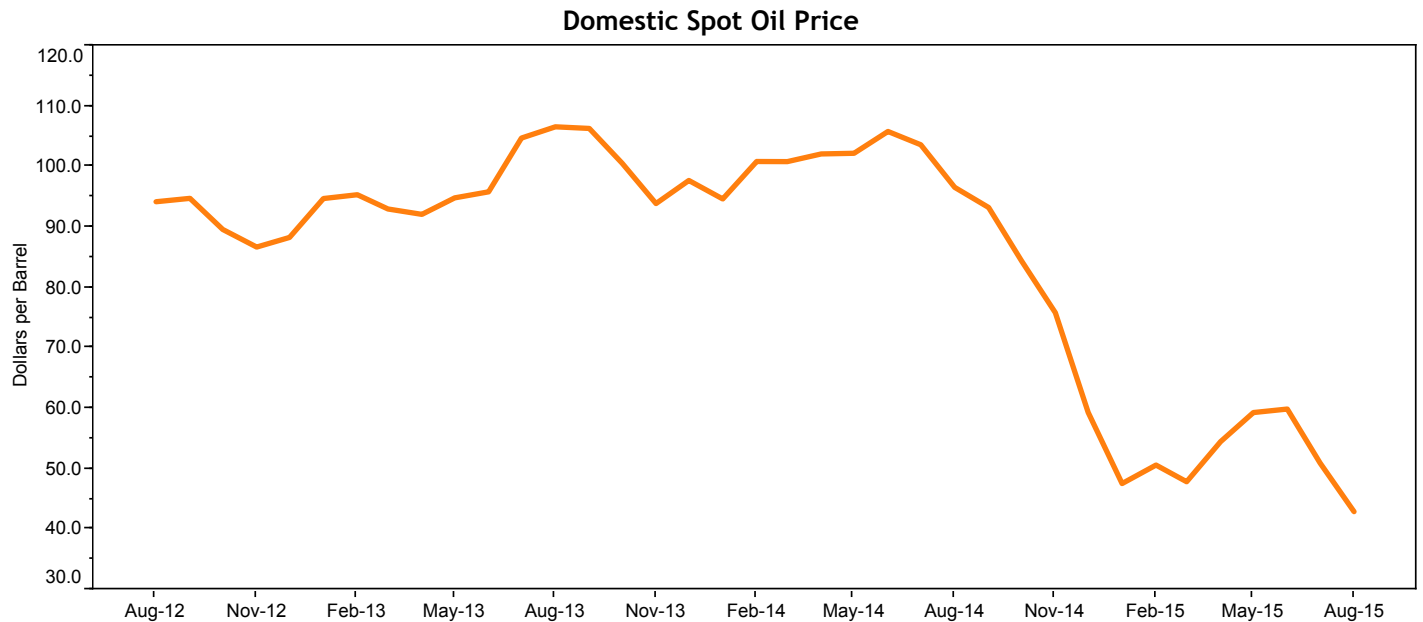


Core Price Indices



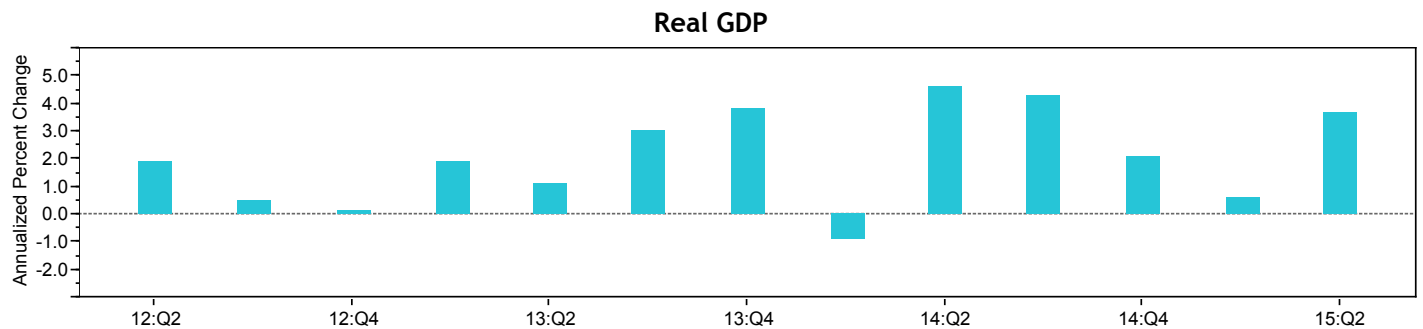
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices fell on average in August, after decreasing in July, but picked up a bit in the last couple of days of the month. Prices reached \$49.2 per barrel on August 31.



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

Second quarter real GDP growth was revised up in the second estimate to 3.7% from 2.3%. The higher rate primarily reflected upward revisions to nonresidential fixed investment, to private inventory investment, to state and local government spending, and to PCE and a downward revision to imports.



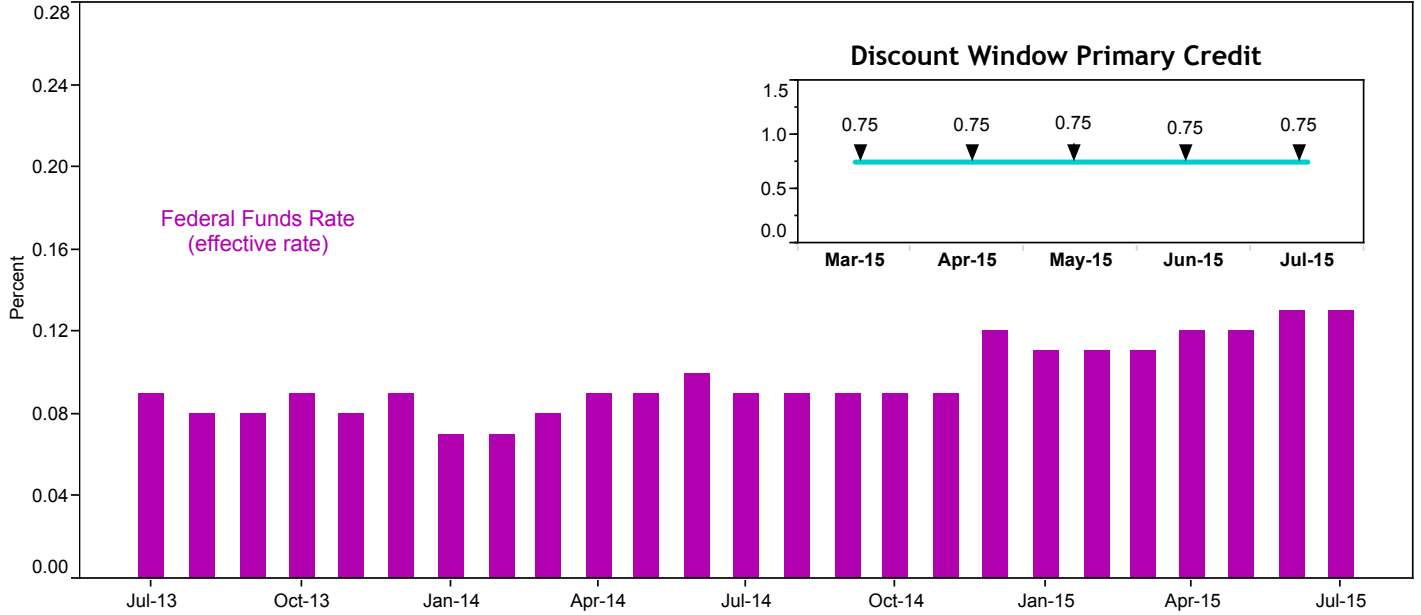
Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.3	3.7
Personal Consumption	2.9	3.1
Business Investment	-0.6	3.2
Equipment and Software	-4.1	-0.4
Residential Investment	6.6	7.8
Government	0.8	2.6
Exports	5.3	5.2
Imports	3.5	2.8
Final Sales	2.4	3.5

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.