



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

January 5, 2016

CURRENT ECONOMIC DEVELOPMENTS - January 5, 2016

Data released since your last Directors' meeting suggest that growth likely slowed a bit in the fourth quarter compared to the third, but is poised to pick up in 2016. The labor market showed signs of continued strengthening, consumer spending increased modestly, and consumer attitudes improved. However, support from manufacturing has been mixed, and although diminished, the downside risks stemming from weakness in growth abroad remain a concern.

In the first four weeks of December initial claims for unemployment insurance rose, on average, yet remained close to the historic lows seen in the prior few months. 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 December. The unemployment rate is expected to hold steady at 5.0%. Consumer attitudes improved in December, as the sentiment index rose to its highest level since July, and the confidence index also increased. In November, both consumption and disposable incomes increased.

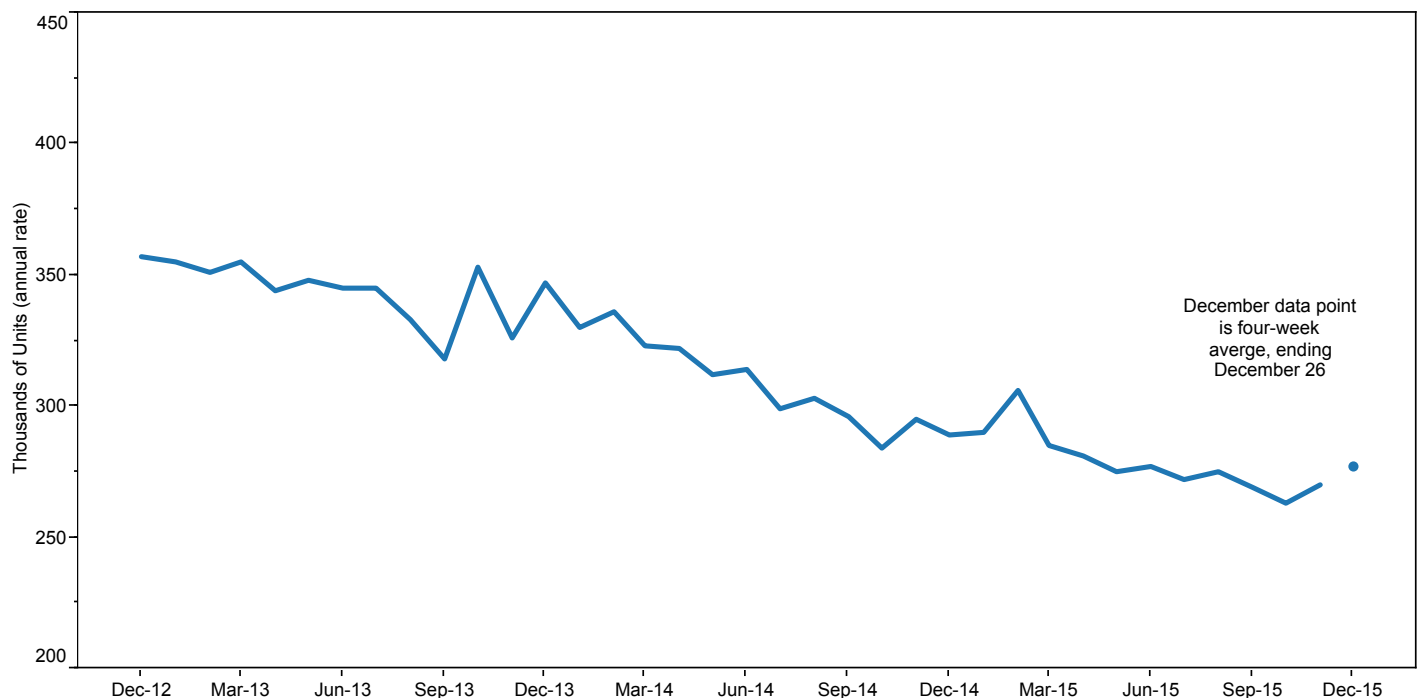
The housing market continued to show some improvement in November. New home sales, housing starts, and building permits all increased in November, yet existing home sales plunged to their slowest pace since April 2014.

In the manufacturing sector, the ISM index declined further in December and signalled additional contraction in manufacturing. Industrial production fell in November, due in part to the unseasonably warm weather, and capacity utilization eased. Orders for durable goods were unchanged in November but registered an increase from their year-ago level, yet orders for nondefense capital goods, excluding aircraft, declined on both a monthly and year-over-year basis.

Measures of both total and core consumer inflation accelerated a bit in November. Oil prices in December fell to their lowest monthly average in over six years, but drifted a bit higher late in the month and into January.

Initial claims for unemployment insurance have risen, on average, in the four weeks ending December 26th, after rising in November. Despite the increases, weekly claims remain close to the historic lows seen over the past several months.

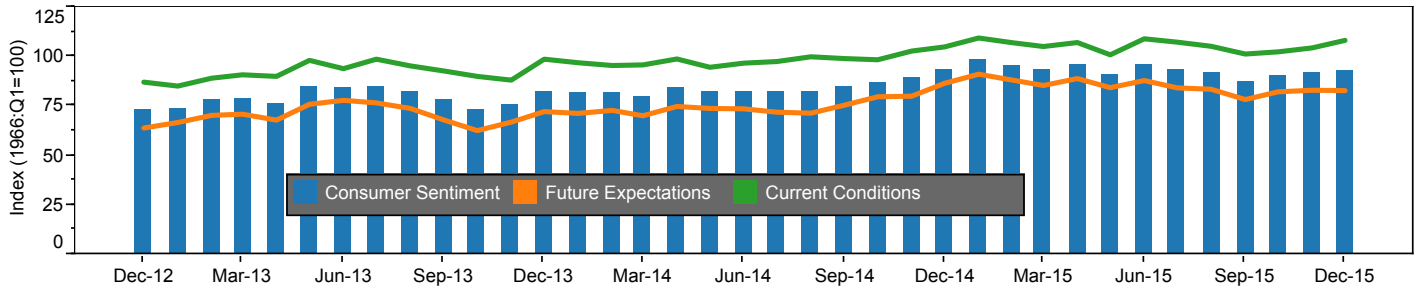
Initial Claims



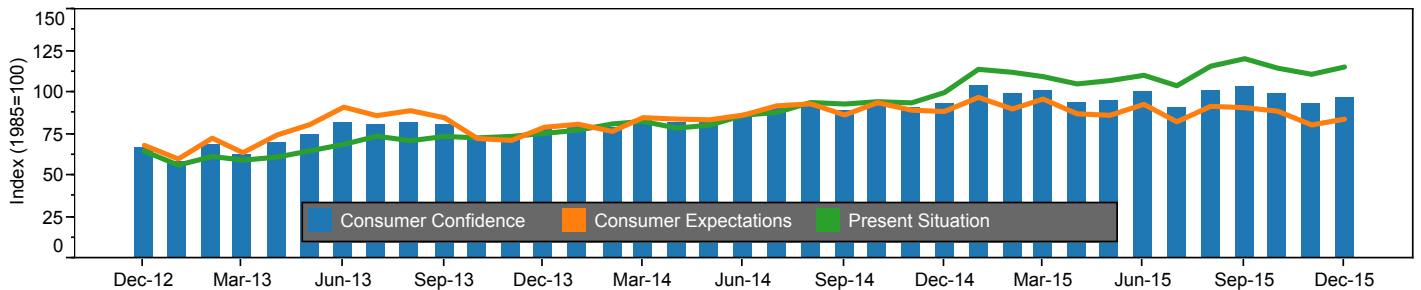
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in December, as the sentiment index increased for the third consecutive month due to a rise in the current conditions component, while the future expectations component eased slightly. The confidence index also increased, after falling in each of the prior two months. Consumers were more optimistic towards their personal financial situations and labor market conditions, yet expressed mixed feelings toward current and expected business conditions.

Consumer Sentiment and Expectations



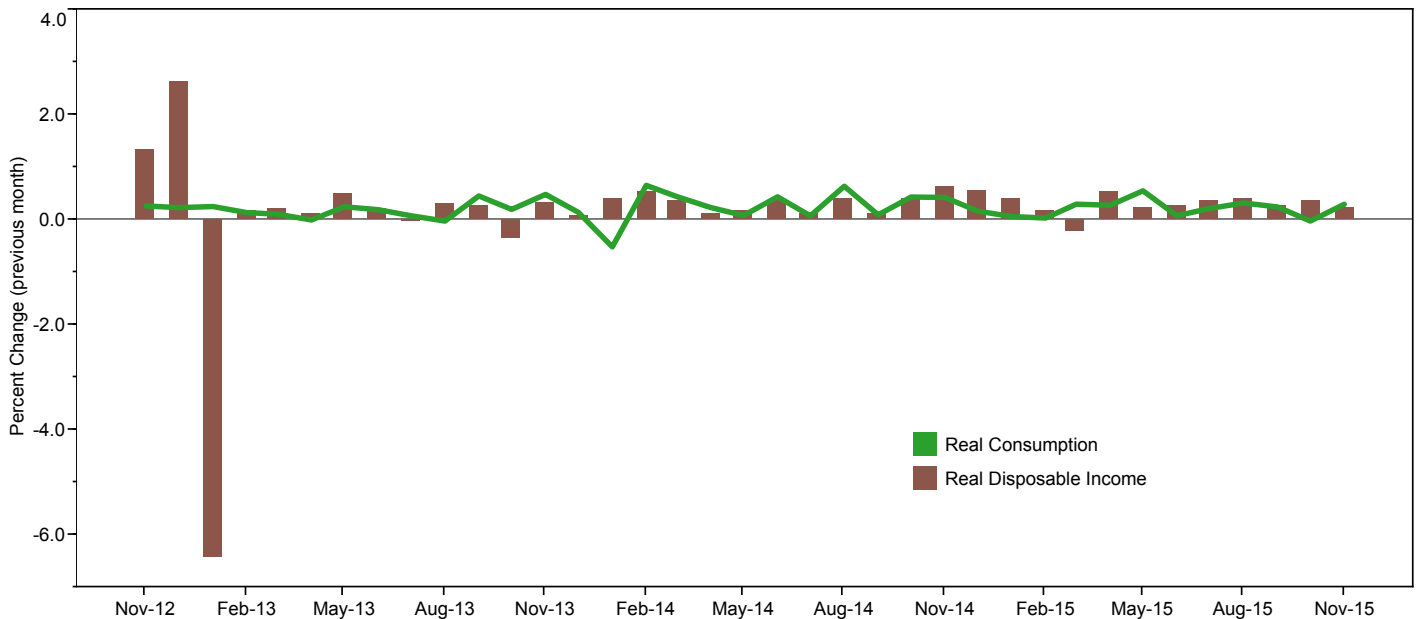
Consumer Confidence and Expectations



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

Real incomes rose in November, their eighth consecutive monthly increase, but were revised down a tick in October. The higher incomes provided a boost to spending in November, as consumption increased, following no change in October that was previously reported as a slight increase. September's increase in consumption was revised up slightly.

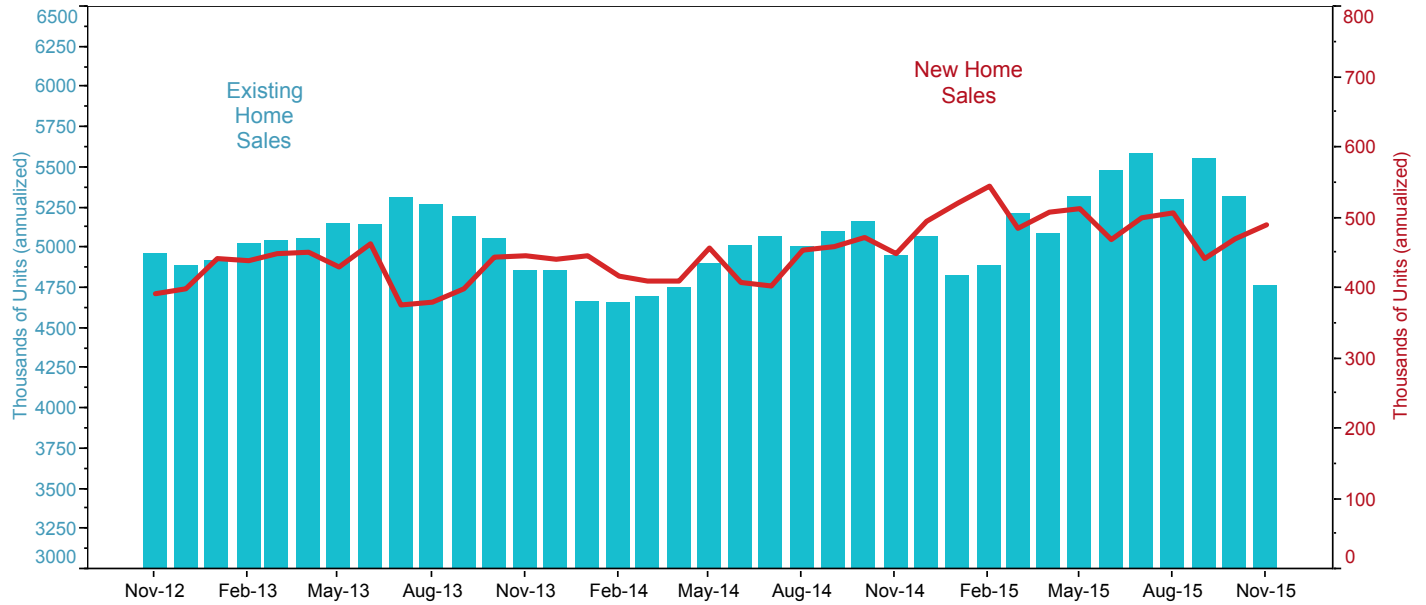
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in November. New home sales increased for the second consecutive month, while existing home sales plunged in November, after declining in October. Existing home sales reached their slowest pace since April 2014.

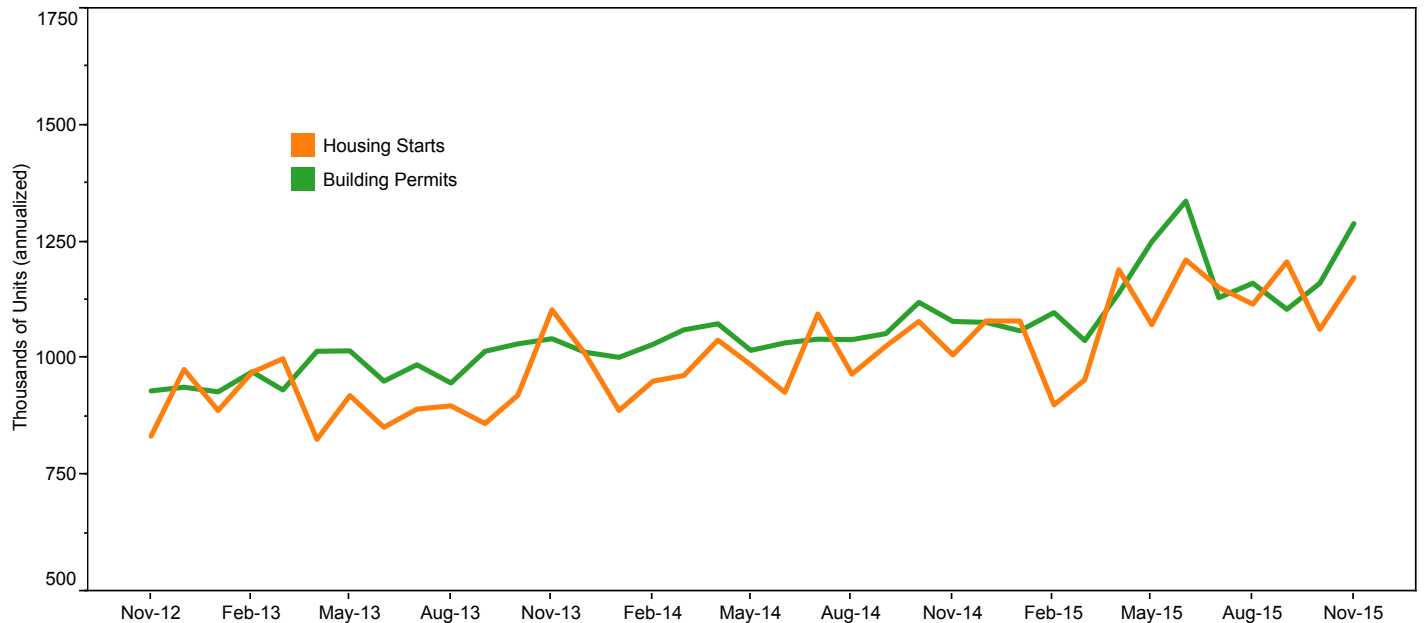
New and Existing Home Sales



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

Housing starts rose in November, after dropping in October, as both single-family and multi-family starts increased. Building permits also rose in November, reaching their fastest pace since June.

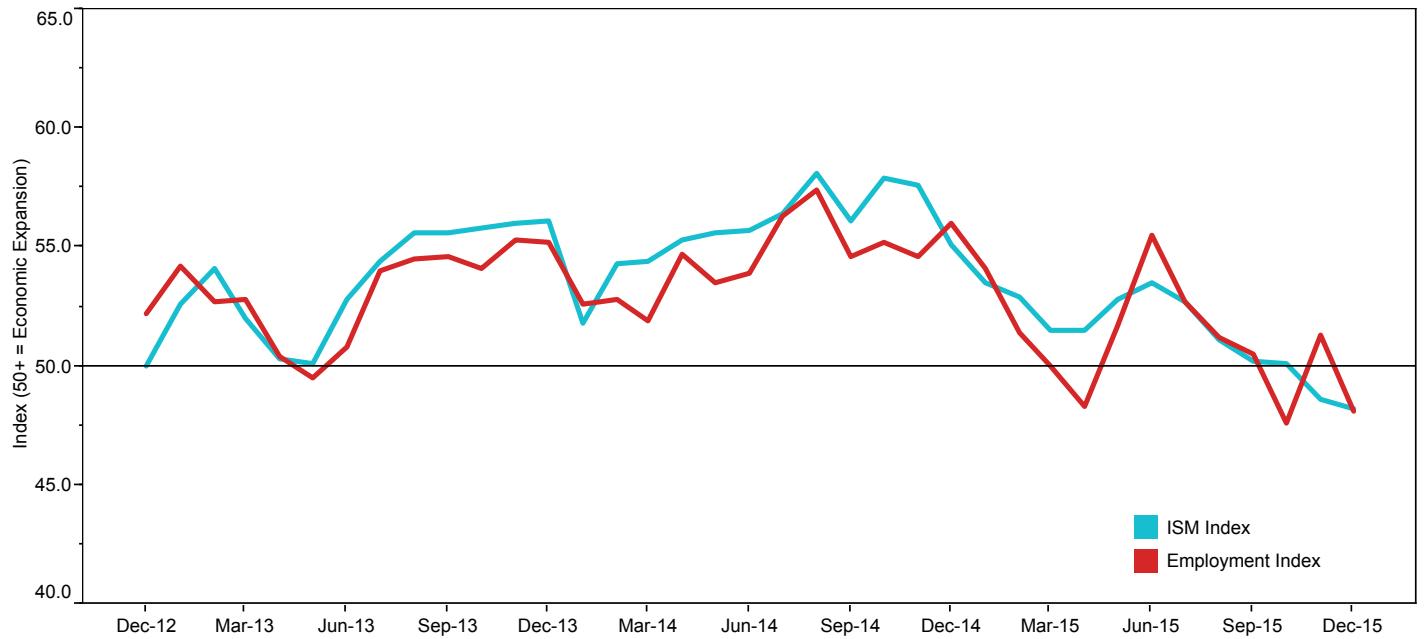
Housing Starts and Building Permits



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

The ISM manufacturing index declined further in December to its lowest level since June 2009, signalling additional contraction in the manufacturing industry. Meanwhile, the employment component of the index also decreased in December, offsetting nearly all of the improvement seen in the prior month.

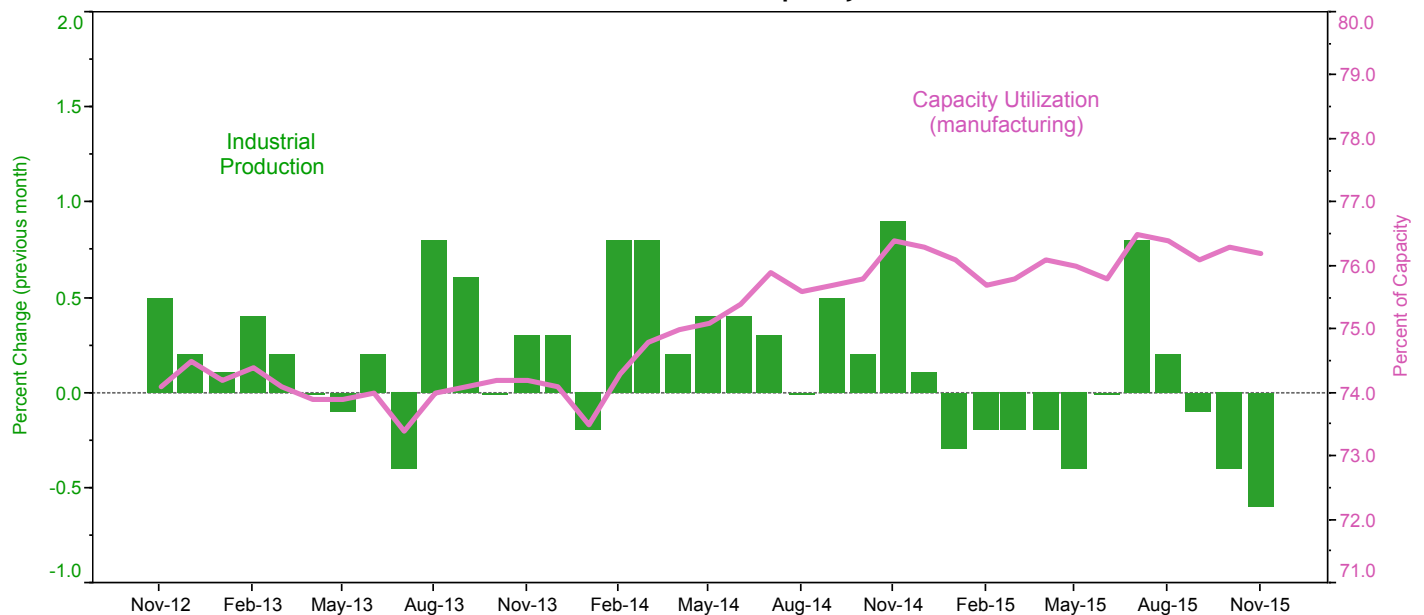
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in November for the third consecutive month, registering the largest decline since March 2012. Both mining and utilities production posted decreases in November, while manufacturing output was unchanged. Capacity utilization eased in November, after rising a bit in October.

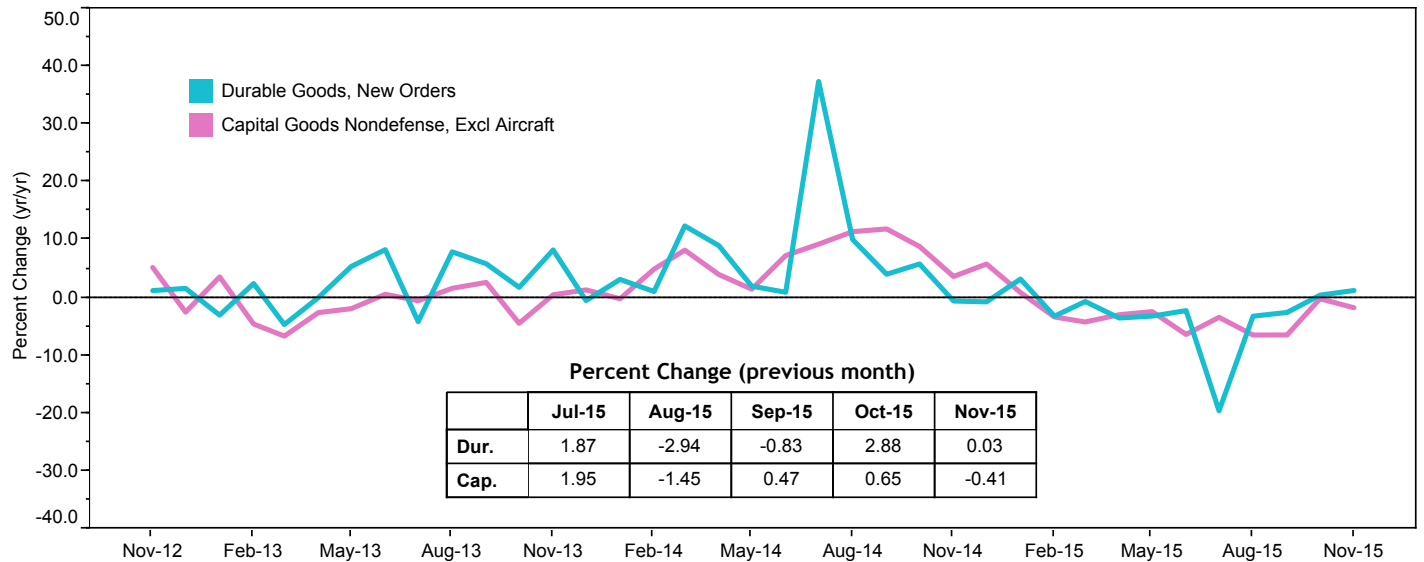
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods were essentially flat in November, after rising in October, but continued to increase on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, declined in November on both a monthly and year-over-year basis. Core orders have declined from their year-ago levels in each month since January.

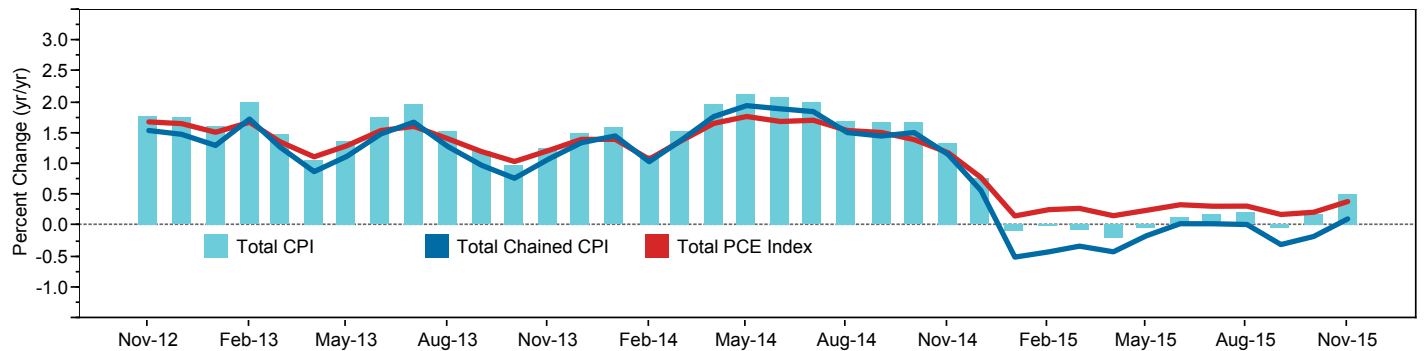
Durable Goods Orders



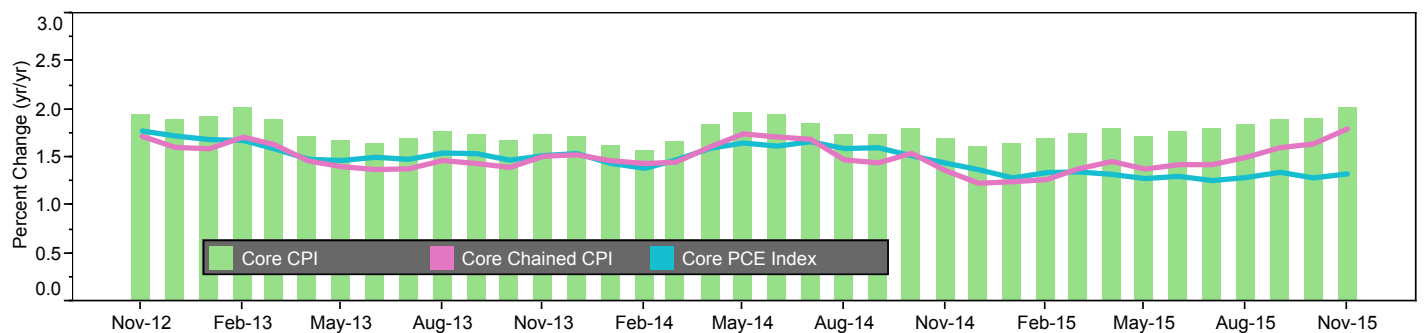
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices accelerated a bit in November, 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, also picked up in November.

Total Price Indices



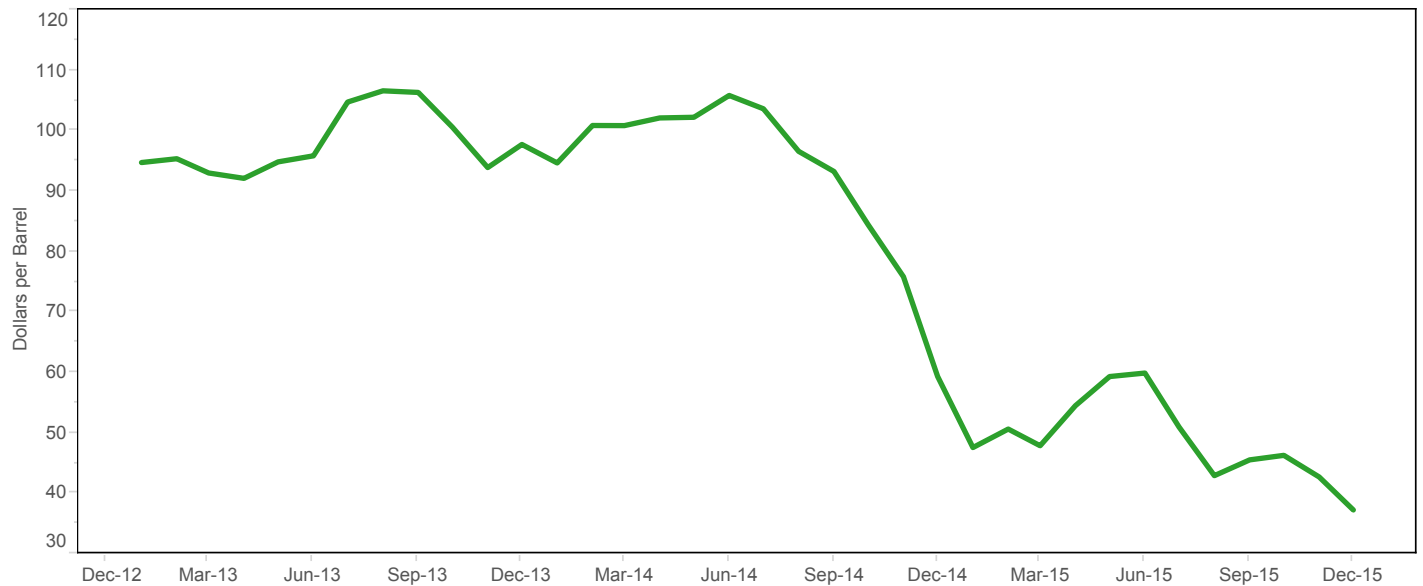
Core Price Indices



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

Oil prices continued to fall through the first three weeks of December, before drifting upward a bit at the end of the month. Overall, oil prices in December registered their lowest monthly average since April 2004.

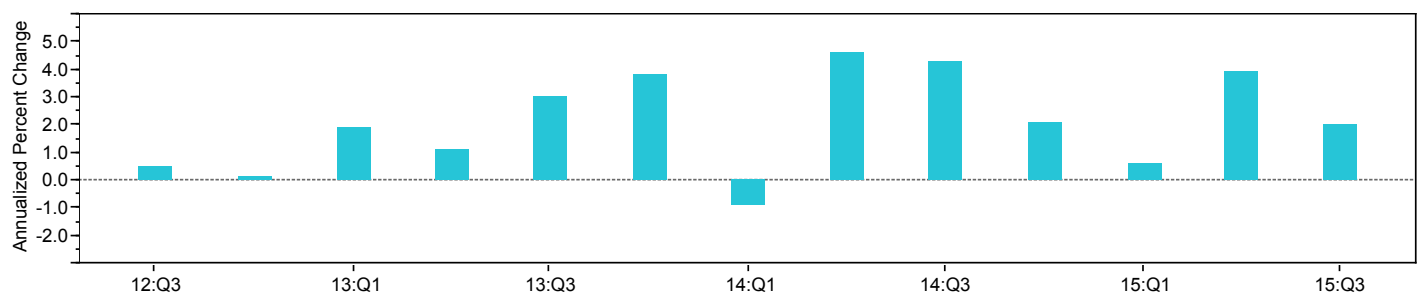
Domestic Spot Oil Price



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

Third quarter real GDP growth was revised down slightly in the third estimate to 2.0% from 2.1%. The lower rate primarily reflected a downward revision to private inventory investment, based primarily on revised Census inventory data.

Real GDP



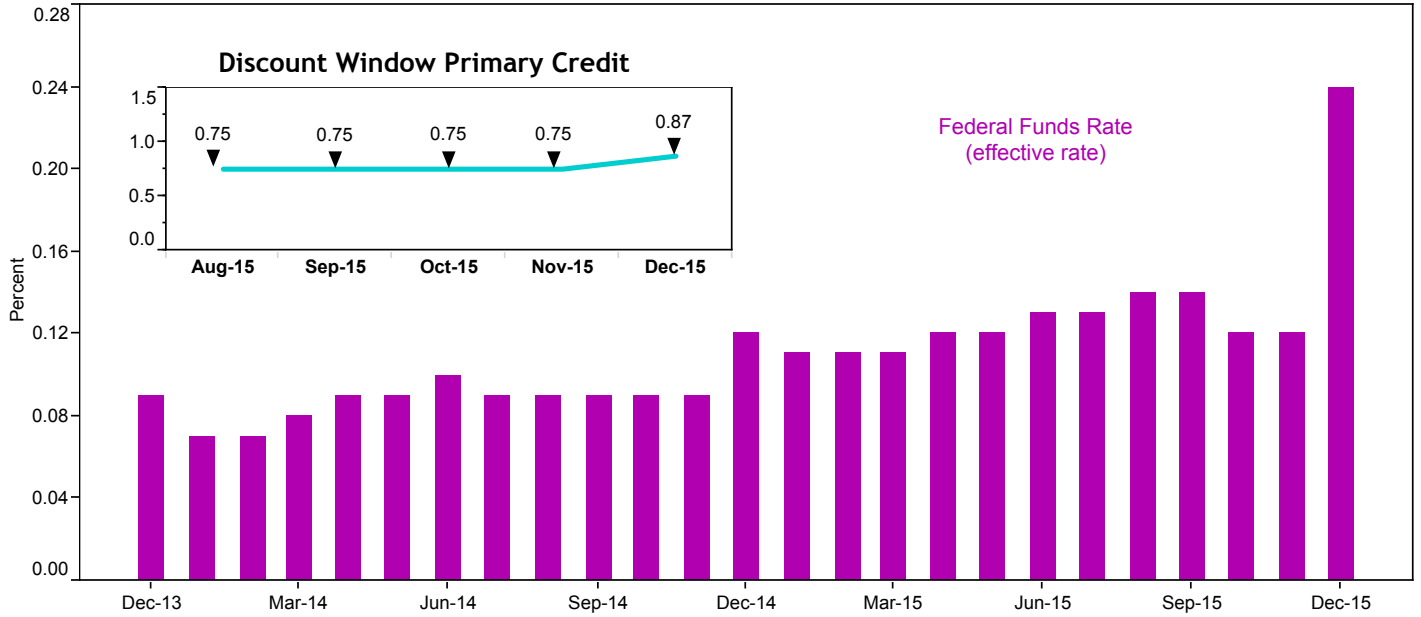
Revisions to Third Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.1	2.0
Personal Consumption	3.0	3.0
Business Investment	2.4	2.6
Equipment and Software	9.5	9.9
Residential Investment	7.3	8.2
Government	1.7	1.8
Exports	0.9	0.7
Imports	2.1	2.3
Final Sales	2.7	2.7

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.