



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

May 31, 2016

CURRENT ECONOMIC DEVELOPMENTS - May 31, 2016

Data released since your last Directors' meeting show that the slowdown in growth in the first quarter was a bit less than originally estimated, and recent data suggest a rebound in growth in the second quarter. Labor markets continued to improve, consumer spending increased, and the housing market showed further signs of strengthening. However, support from manufacturing was mixed. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

In the first three weeks of May, initial claims for unemployment insurance rose, on average, yet remain at a level consistent with further improvement in the labor market. 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 May. The unemployment rate is expected to fall one-tenth to 4.9% in May. Consumer attitudes were mixed in May, as the sentiment index increased due in part to stronger assessments of personal finances, while the confidence index decreased among greater concerns towards the outlook for the labor market and business conditions. In April, both consumption and disposable incomes increased.

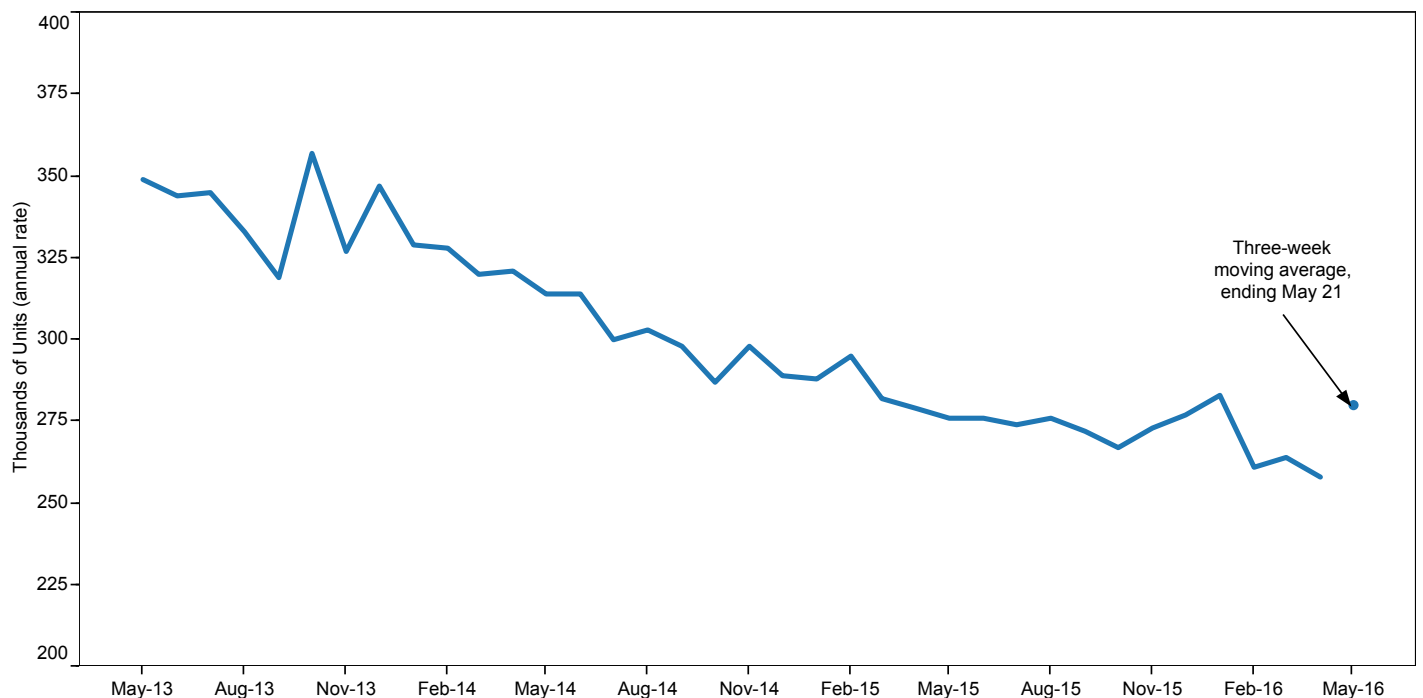
Housing market data improved in April. Both new and existing home sales increased, with new home sales reaching their fastest pace in over eight years. Housing starts and building permits also both increased in April.

In the manufacturing sector, industrial production rose in April, due to increases in manufacturing and utilities output, and capacity utilization also increased. Orders for durable goods rose in April on both a monthly and year-over-year basis, while orders for nondefense capital goods, excluding aircraft, continued to decline on both a monthly and year-over-year basis.

Measures of total consumer inflation accelerated in April, while core inflation was essentially unchanged from the previous month. Oil prices in May continued to rise, reaching \$49.3 per barrel on May 27th.

Initial claims for unemployment insurance have risen, on average, in the three weeks ending May 21st, after falling in April to their lowest monthly average since November 1973. Despite the uptick in May, weekly claims remain at a level consistent with further labor market improvement.

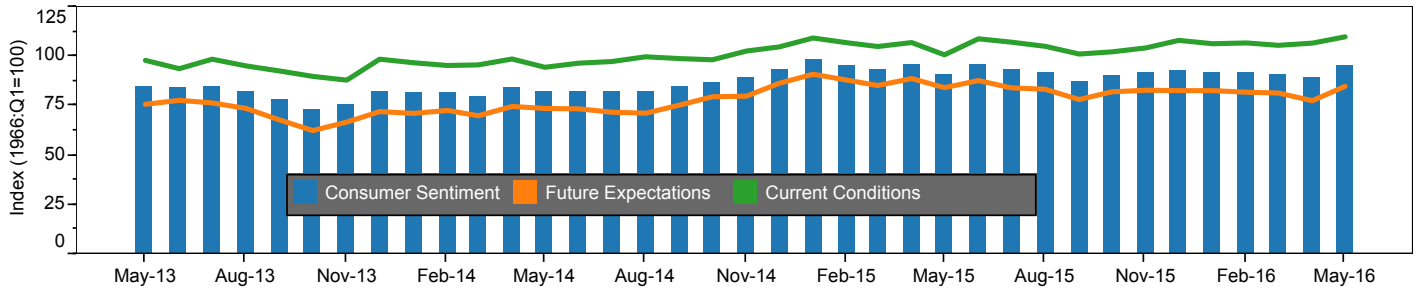
Initial Claims



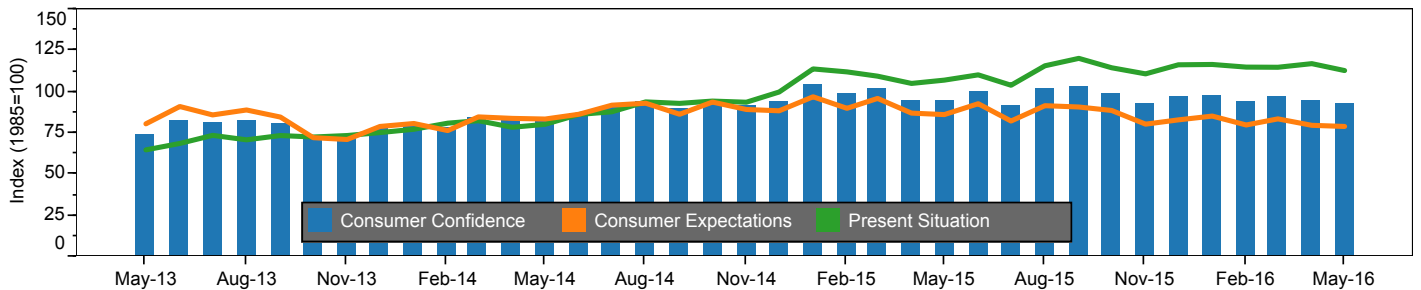
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in May, as the sentiment index increased to its highest level since last June, while the confidence index eased to its lowest level since November. Respondents to the sentiment survey were more optimistic towards their personal financial situations, while respondents to the confidence survey expressed concern towards the outlook for the labor market and business conditions.

Consumer Sentiment and Expectations



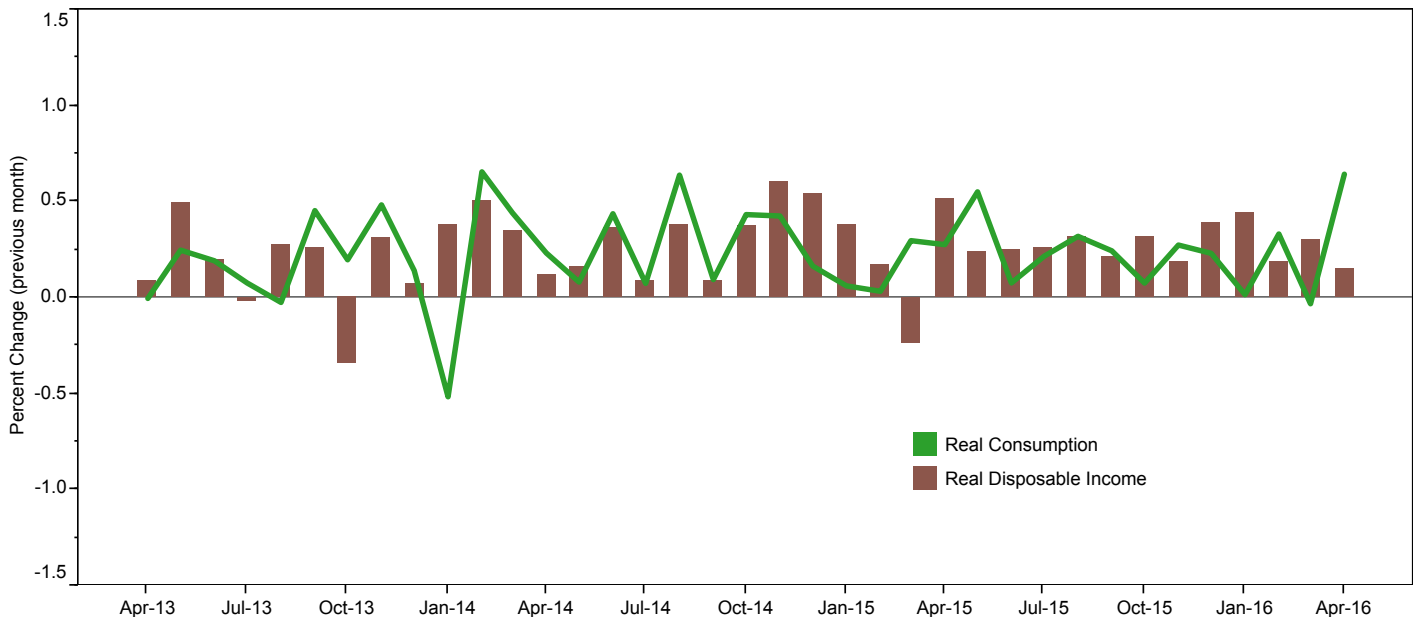
Consumer Confidence and Expectations



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

Real incomes rose in April, their thirteenth consecutive monthly increase. The higher incomes provided a boost to spending in April, as consumption rose above expectations, posting its largest increase since last May.

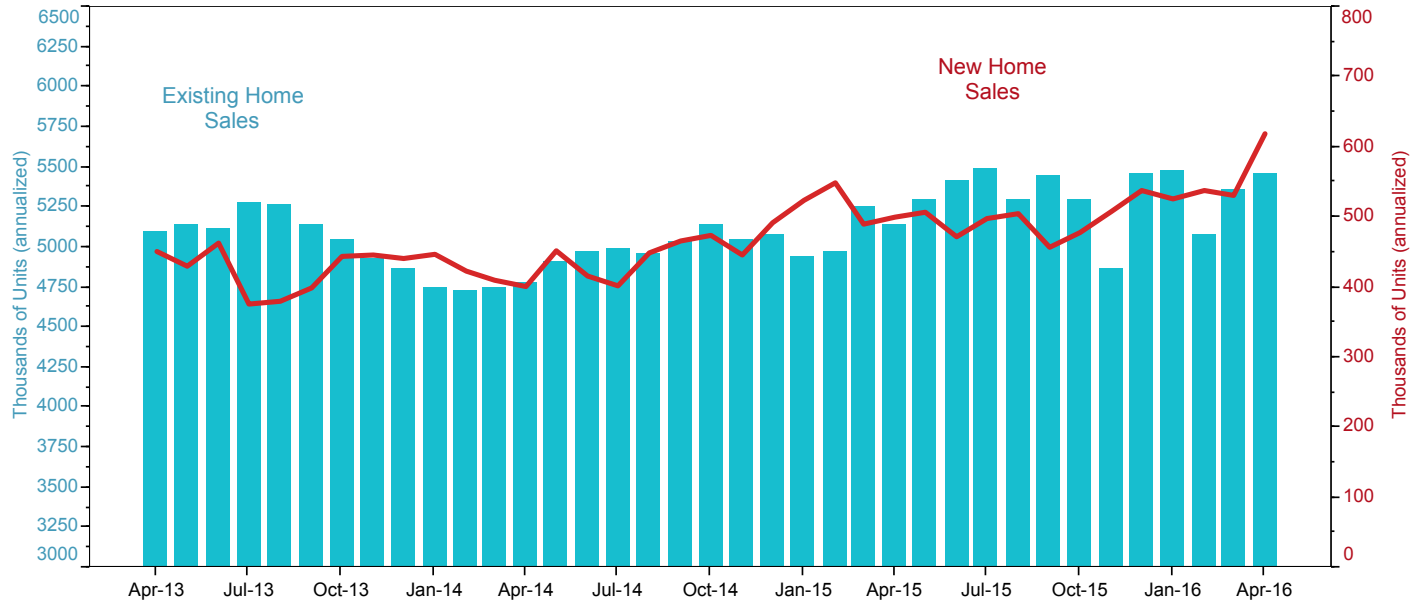
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data improved in April. New home sales surged to their highest rate in over eight years, while existing home sales increased in April for the second consecutive month.

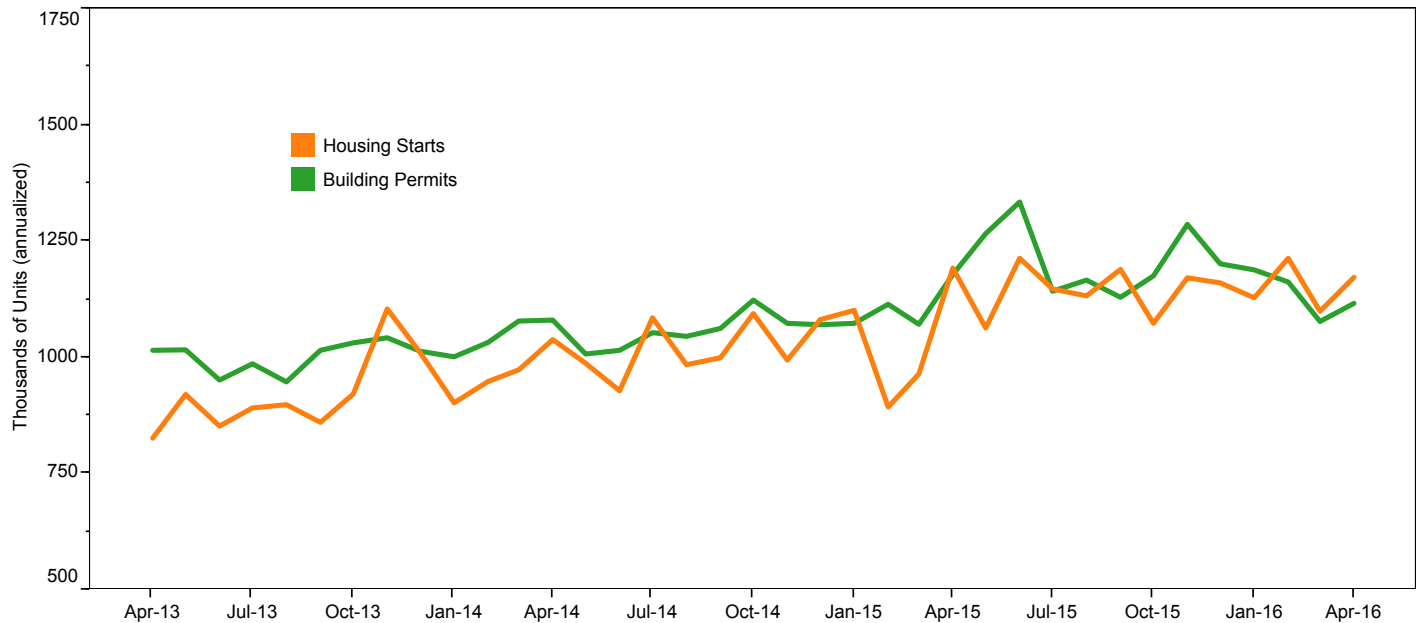
New and Existing Home Sales



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

Housing starts rose in April, offsetting part of the decline seen in the prior month, as both single-family and multi-family starts increased. Building permits also rose in April, after declining in each of the previous four months, due to increases in both single-family and multi-family permits.

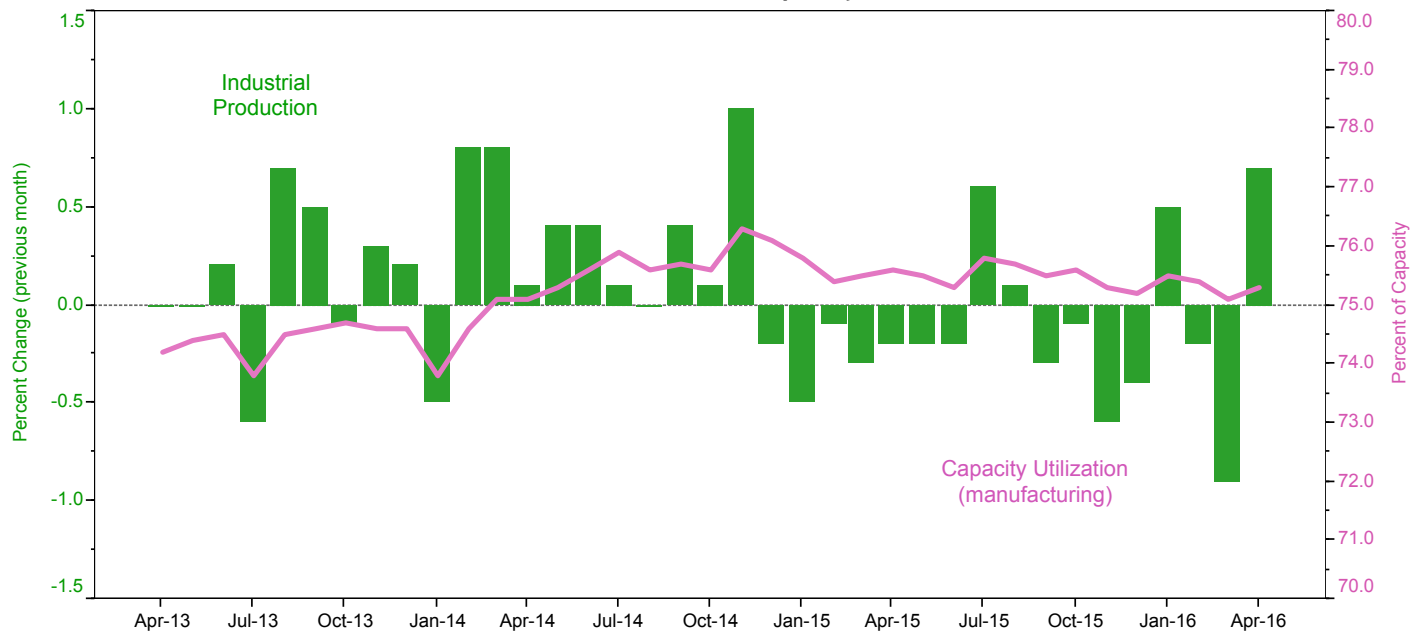
Housing Starts and Building Permits



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

Industrial production rose in April, after falling in each of the prior two months. Both manufacturing and utilities production posted increases in April, while mining output decreased. Capacity utilization rose in April, after declining in each of the previous two months.

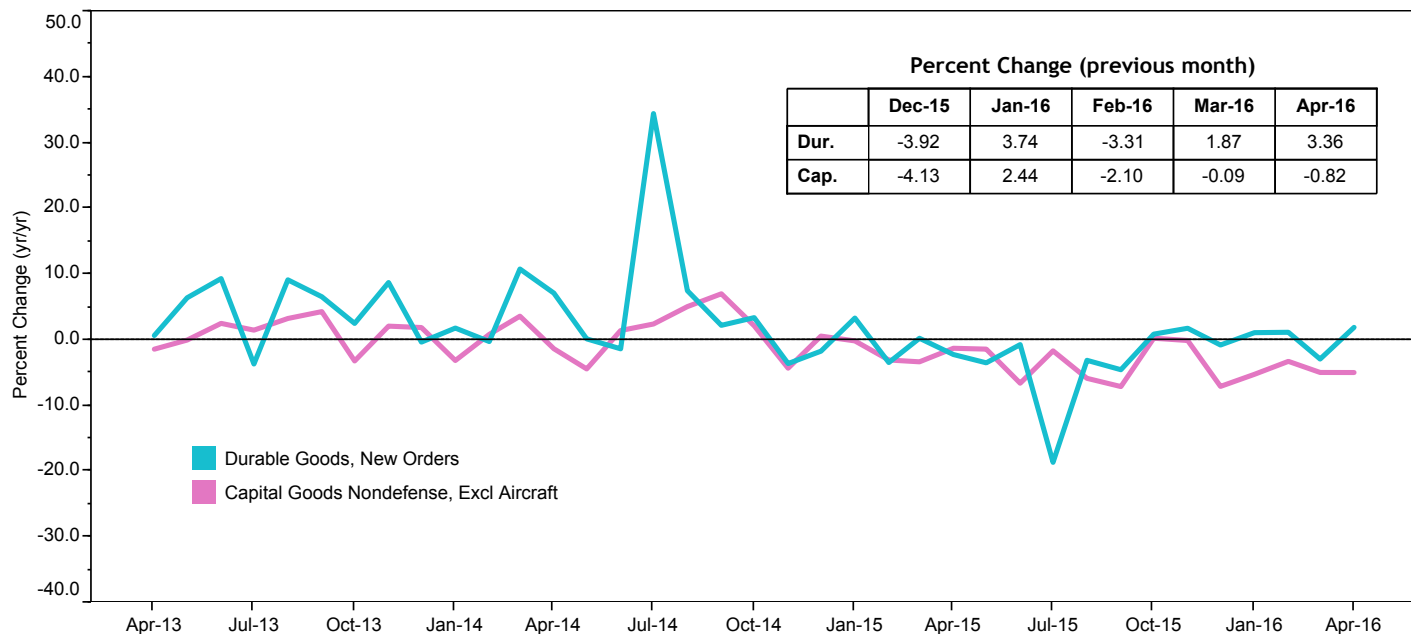
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in April, following an upwardly revised increase in March, and also increased on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, declined in April on both a monthly and year-over-year basis. Core orders have declined from their year-ago levels in each of the past six months.

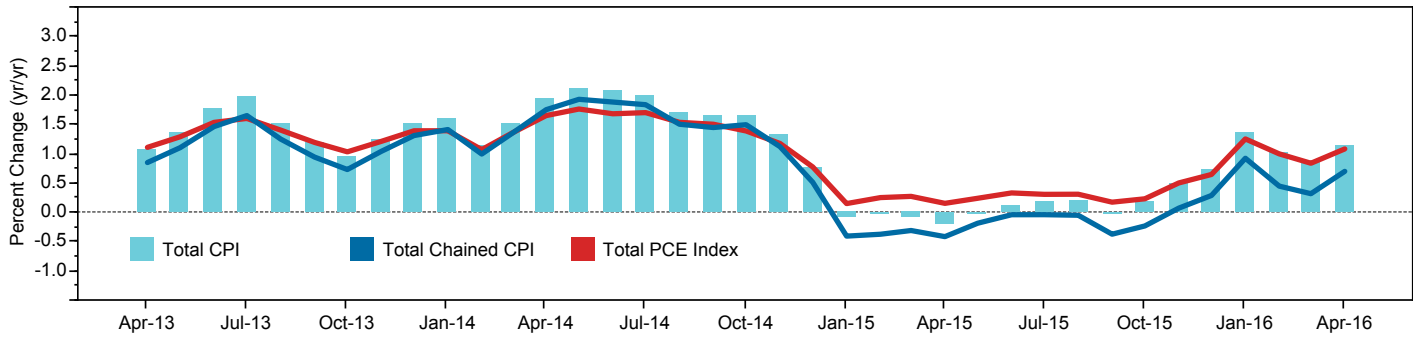
Durable Goods Orders



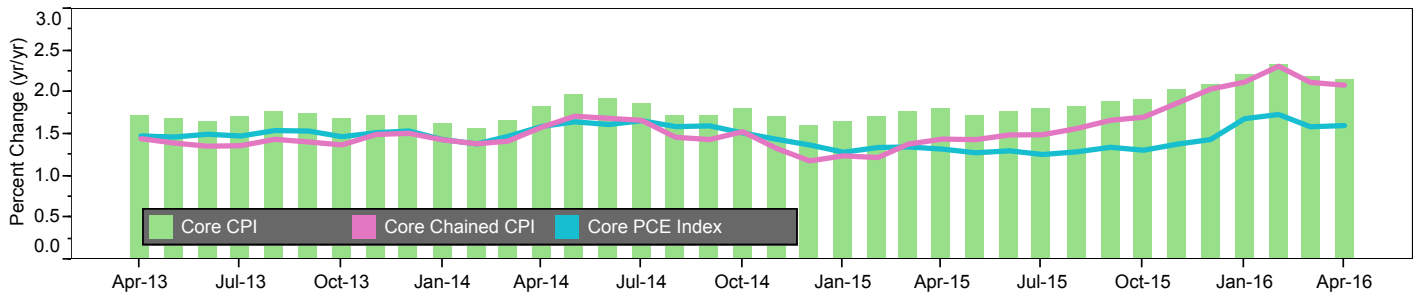
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices accelerated in April, after easing in each of the prior two months. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, was essentially flat in April.

Total Price Indices



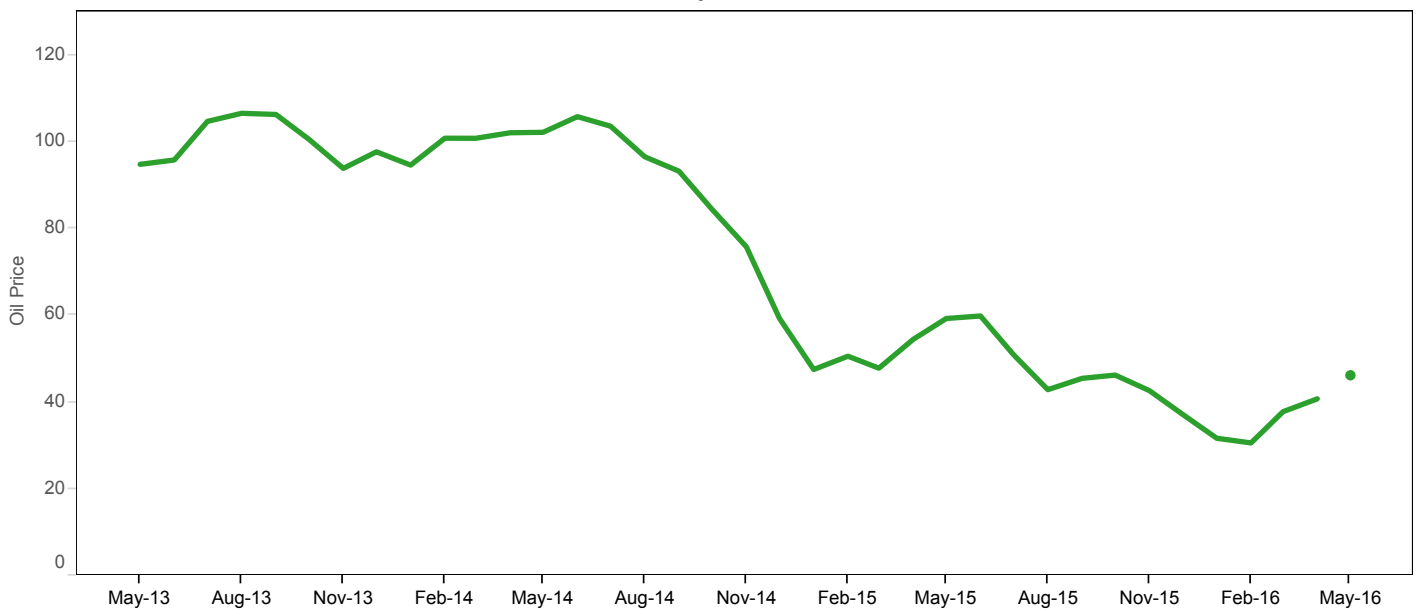
Core Price Indices



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

Oil prices continued to rise in May, reaching \$49.3 per barrel on May 27th. Prices have increased, on average, in each month since registering a twelve-year low in February.

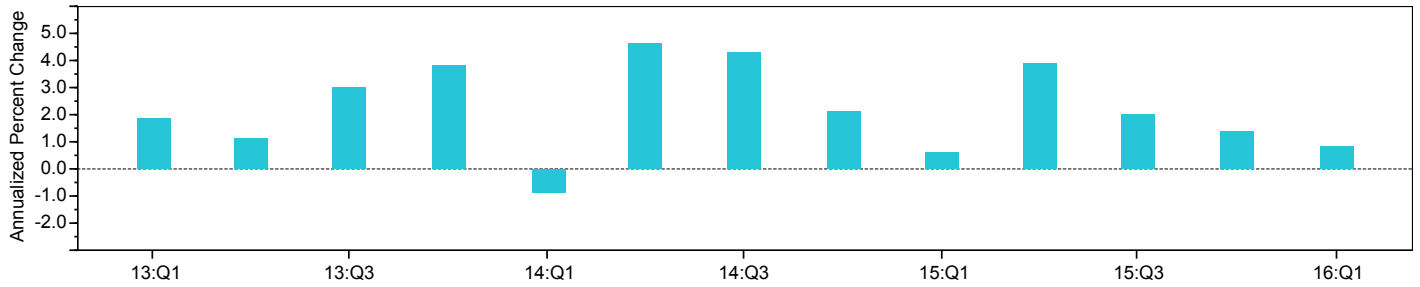
Domestic Spot Oil Price



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

First quarter real GDP growth was revised up in the second estimate to 0.8% from 0.5%. The higher rate primarily reflected upward revisions to private inventory investment, to residential fixed investment, and to exports and a downward revision to imports.

Real GDP



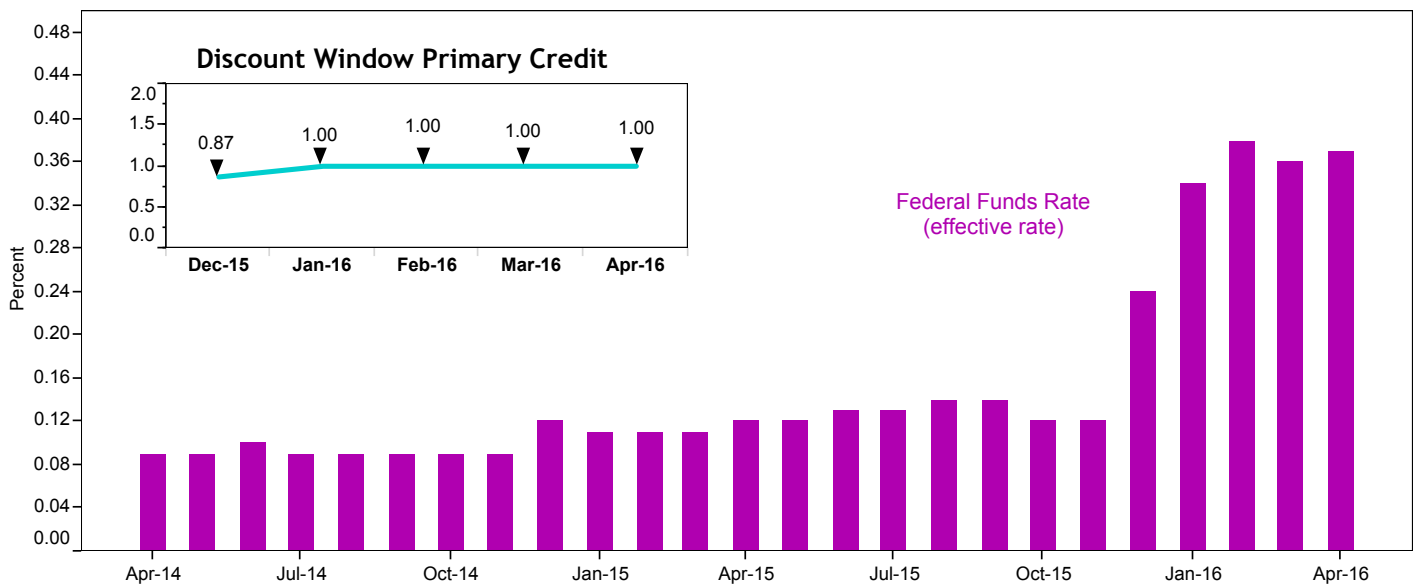
Revisions to First Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	0.5	0.8
Personal Consumption	1.9	1.9
Business Investment	-5.9	-6.2
Equipment and Software	-8.6	-9.0
Residential Investment	14.8	17.1
Government	1.2	1.2
Exports	-2.6	-2.0
Imports	0.2	-0.2
Final Sales	0.9	1.0

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.