



*The*

**President's**

**Report** *to the*

**Board** *of*

**Directors**

March 1, 2016

## CURRENT ECONOMIC DEVELOPMENTS - March 1, 2016

Data released since your last Directors' meeting show the economy was stronger in the fourth quarter than originally estimated, and recent data suggest growth will pick up modestly in the first quarter. The labor market showed signs of continued strengthening, consumer spending increased, and manufacturing began to show positive signs. However, consumer attitudes declined, and although diminished, the downside risks stemming from weakness in growth abroad and unsettled financial markets remain a concern.

In the first three weeks of February, initial claims for unemployment insurance fell, on average, and remained close to the historic lows seen near the end of 2015. 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 February. The unemployment rate is expected to hold steady at 4.9%. Consumer attitudes declined in February, as both the sentiment and confidence indexes decreased, and consumers expressed concern towards the outlook for the labor market. In January, both consumption and disposable incomes increased.

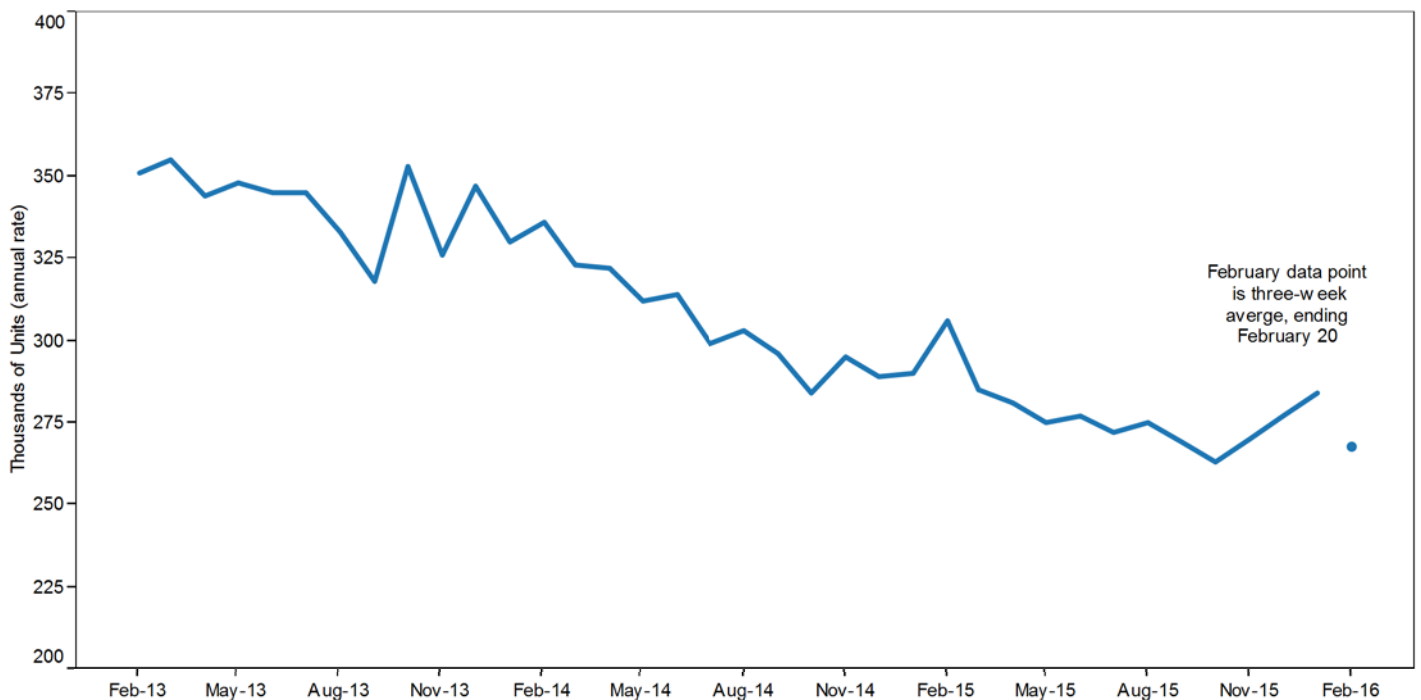
Housing market data was mixed in January. New home sales fell, while existing home sales ticked up to their fastest pace since the post-recession high in July. Housing starts also decreased in January, while building permits held steady.

In the manufacturing sector, the ISM index increased in February, yet continued to signal contraction in manufacturing. Industrial production rose in January, its first increase in six months, and capacity utilization also increased. Orders for durable goods rose in January on both a monthly and year-over-year basis, while orders for nondefense capital goods, excluding aircraft, continued to decline on a year-over-year basis, yet increased when compared to the prior month.

Measures of both total and core consumer inflation accelerated in January. Oil prices in February fell to their lowest monthly average in over twelve years, despite ticking up in the last few days of the month to reach \$33.8 per barrel on February 29th.

Initial claims for unemployment insurance have fallen, on average, in the three weeks ending February 20th, after rising in each of the previous three months. Weekly claims remain at a level consistent with further labor market improvement.

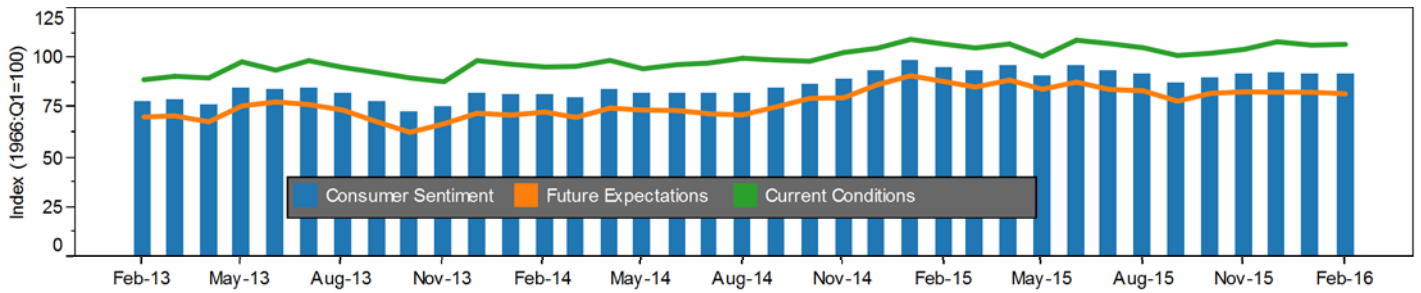
### Initial Claims



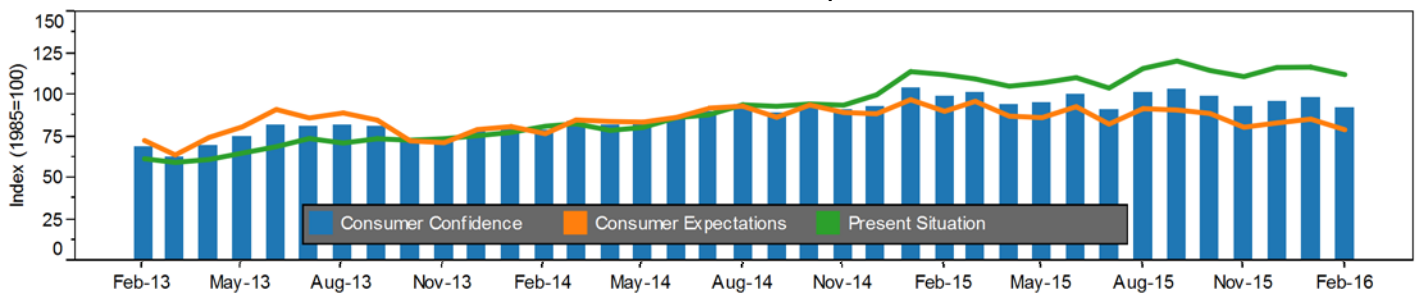
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes declined in February, as the sentiment index decreased for the second consecutive month due to a fall in the future expectations component, while the current conditions component ticked up. The confidence index also decreased, after rising in each of the prior two months. Respondents to the sentiment survey were more optimistic towards their personal financial situations, while respondents to both surveys expressed concern towards the outlook for the labor market and the economy in general.

Consumer Sentiment and Expectations



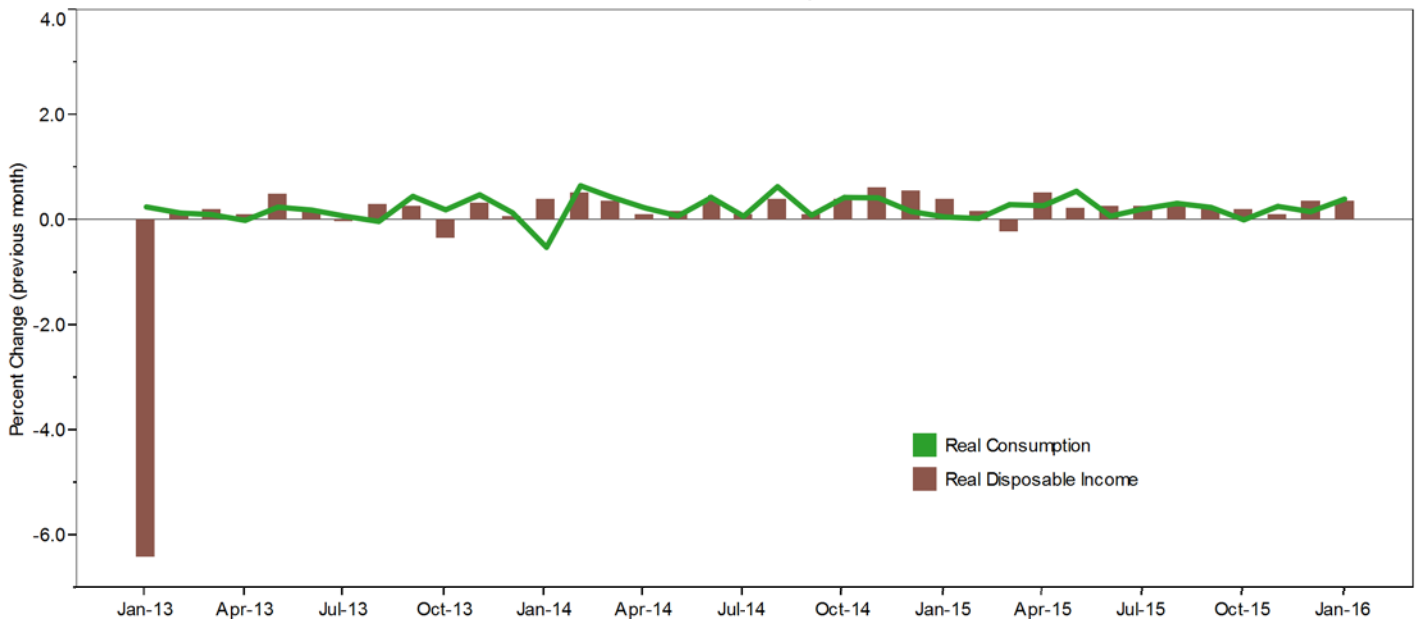
Consumer Confidence and Expectations



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

Real incomes rose in January, their tenth consecutive monthly increase. The higher incomes provided a boost to spending in January, as consumption rose, following an increase in December that was revised up slightly. Meanwhile, November's increase in consumption was revised down a tick.

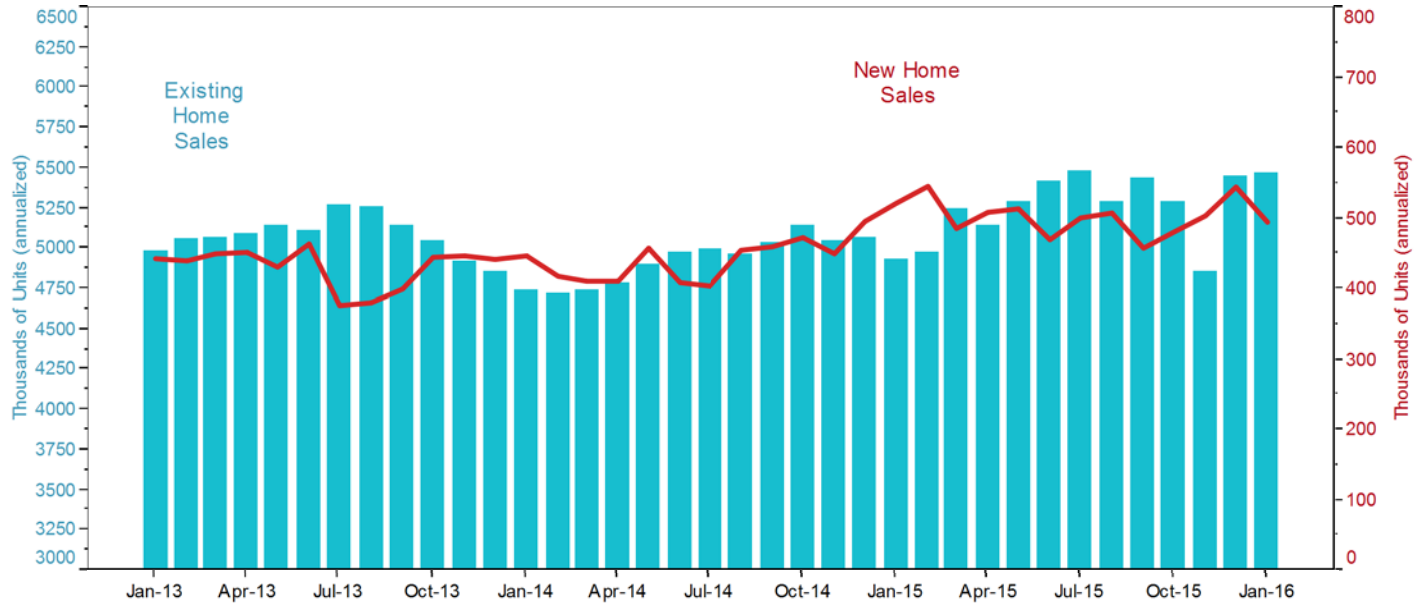
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in January. New home sales fell, after rising in each of the prior three months, while existing home sales inched up in January, after surging in December. Existing home sales reached their fastest pace since the post-recession high in July.

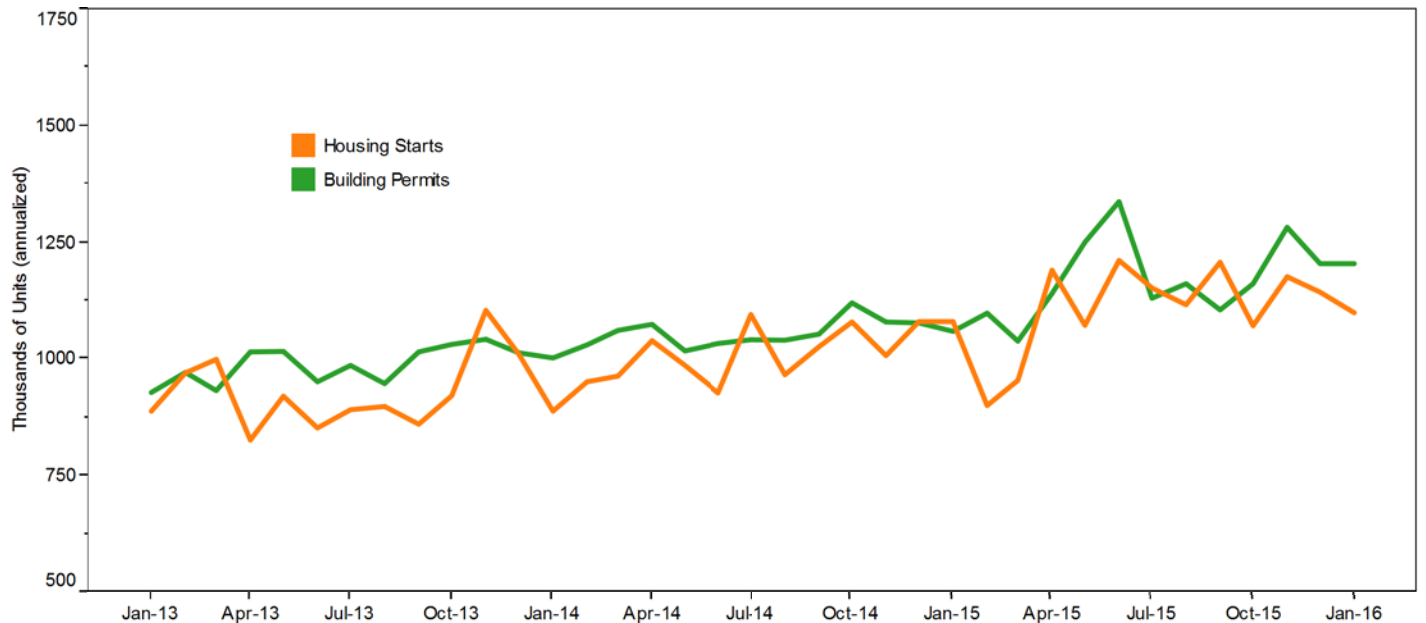
New and Existing Home Sales



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

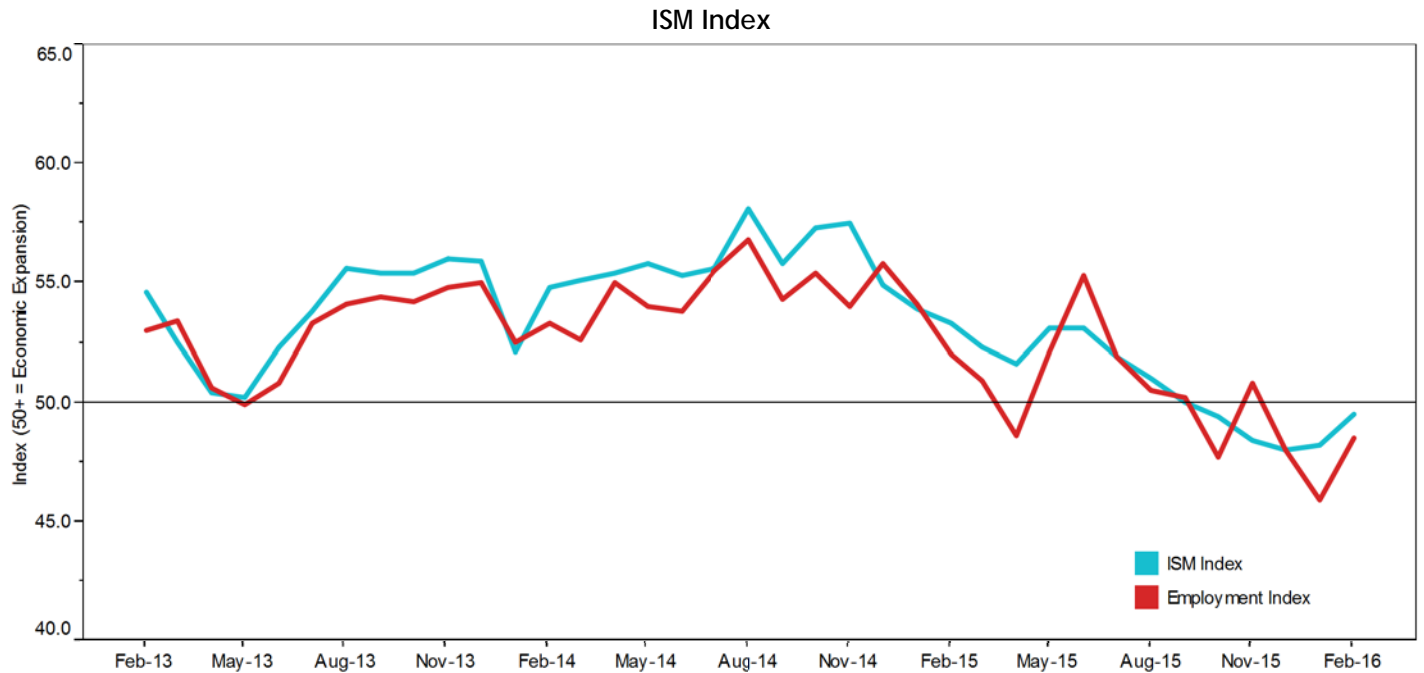
Housing starts fell in January, after dropping in December, as both single-family and multi-family starts decreased. Building permits were flat in January, as both single- and multi-family permits showed little change.

Housing Starts and Building Permits



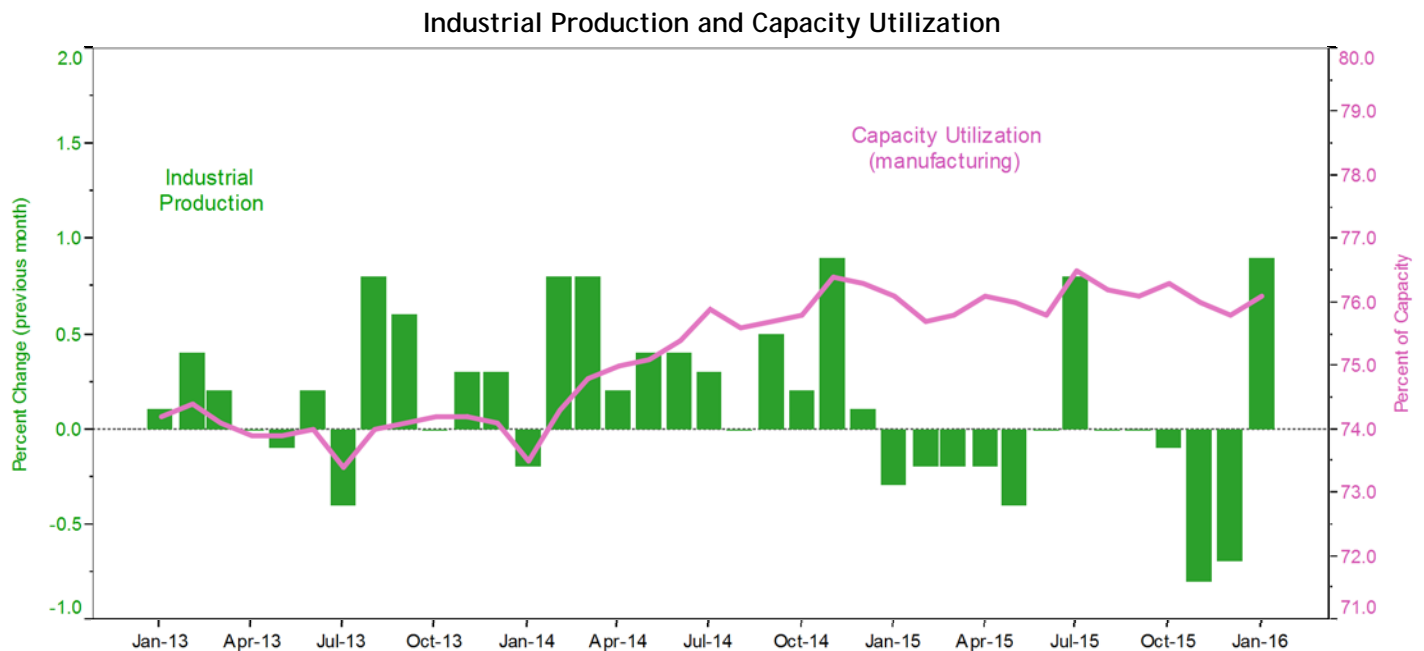
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index increased in February, after rising in January, but remained below 50, signalling contraction in the manufacturing industry for the fifth consecutive month. Meanwhile, the employment component of the index also rose in February, more than offsetting the decline seen in the prior month.



Source: Institute of Supply Management / Haver Analytics.

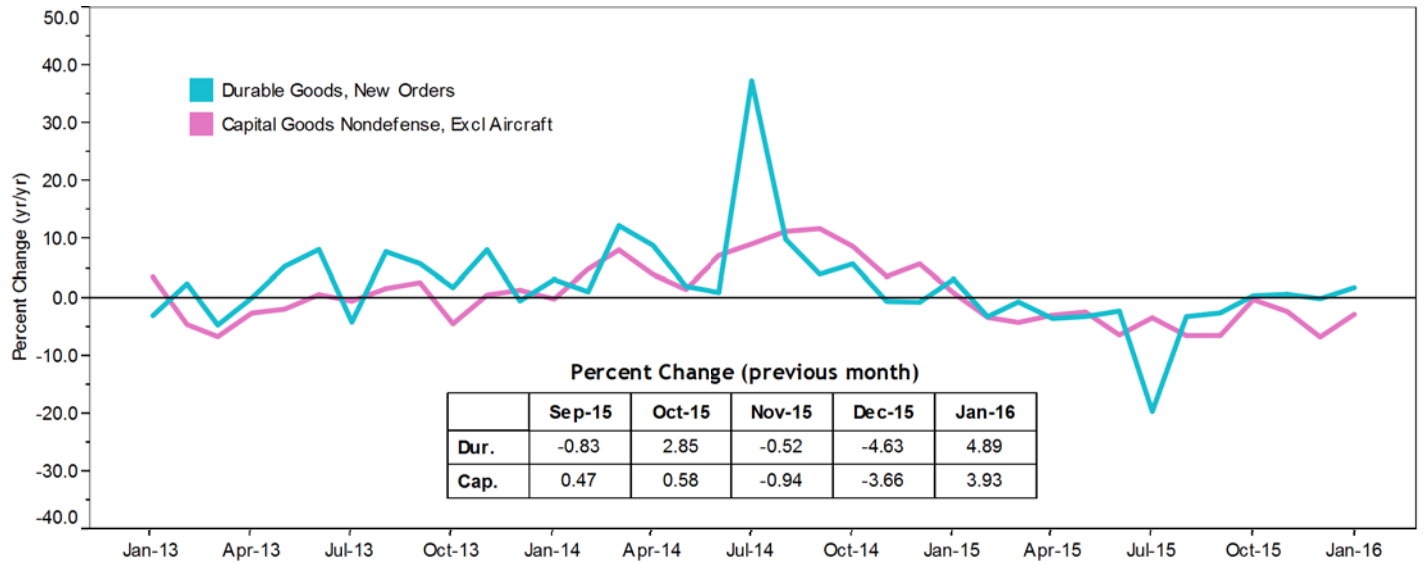
Industrial production rose in January, the first increase since July, while December's decrease was revised down further. Both manufacturing and utilities production posted increases in January, while mining output was unchanged. Capacity utilization rose in January, after falling in each of the prior two months.



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in January, after falling in December, and also increased on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, increased in January as compared to the prior month, but continued to decrease on a year-over-year basis. Core orders have declined from their year-ago levels in each of the past twelve months.

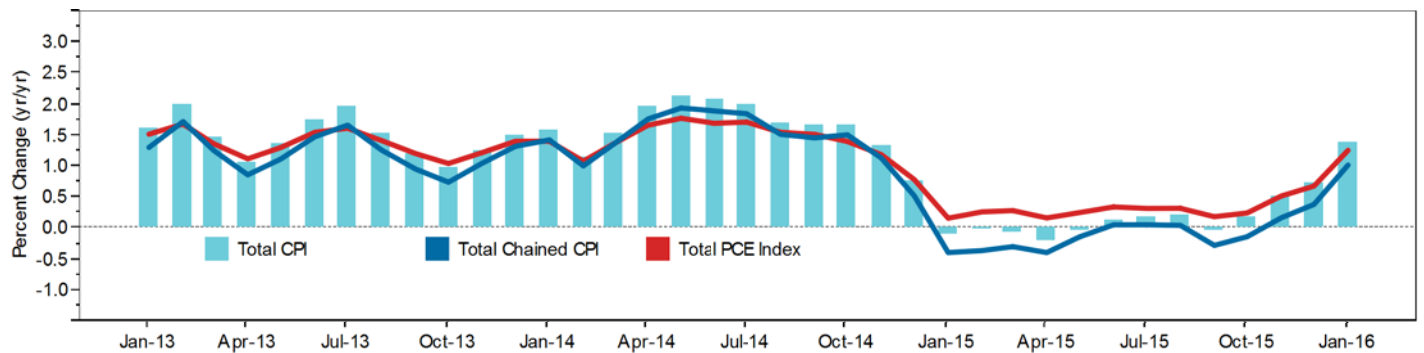
### Durable Goods Orders



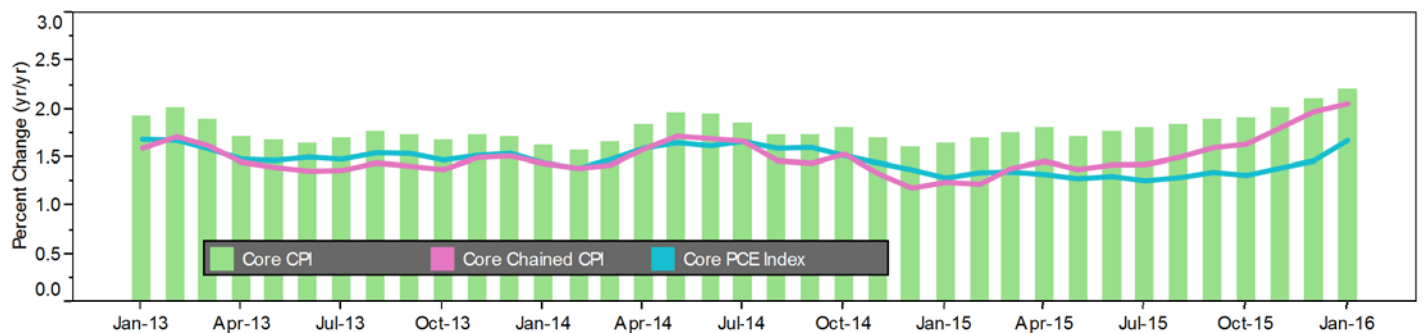
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to accelerate in January, 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 continued to pick up in January.

### Total Price Indices



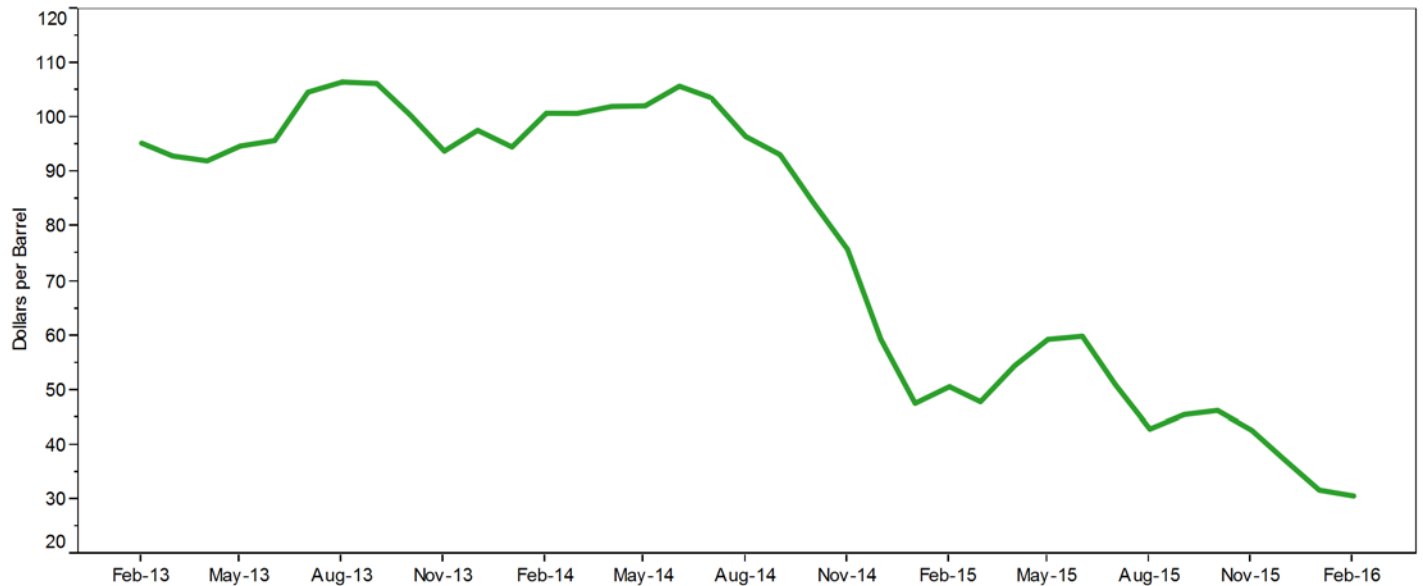
### Core Price Indices



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

Oil prices continued to fall on average in February, posting their fourth consecutive monthly decline, despite ticking up in the last few days of the month. Prices in February registered their lowest monthly average since October 2003.

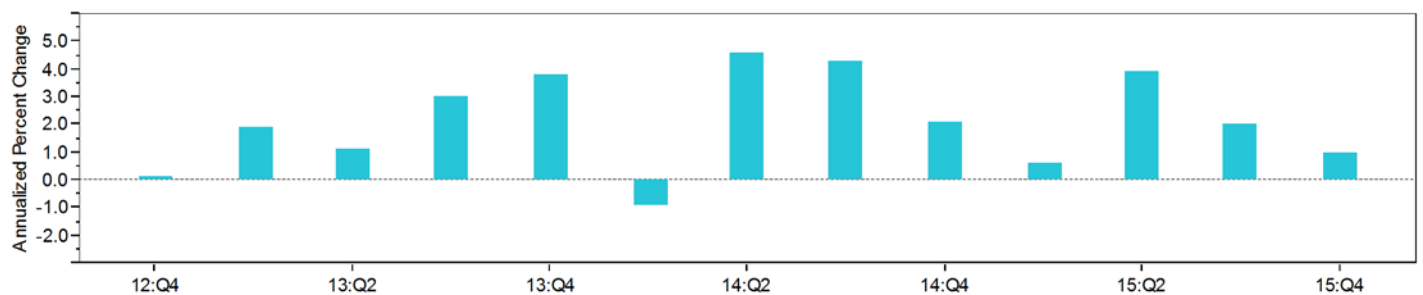
Domestic Spot Oil Price



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

Fourth quarter real GDP growth was revised up in the second estimate to 1.0% from 0.7%. The higher rate primarily reflected an upward revision to private inventory investment and a downward revision to imports that were partly offset by downward revisions to state and local government spending and to personal consumption expenditures.

Real GDP



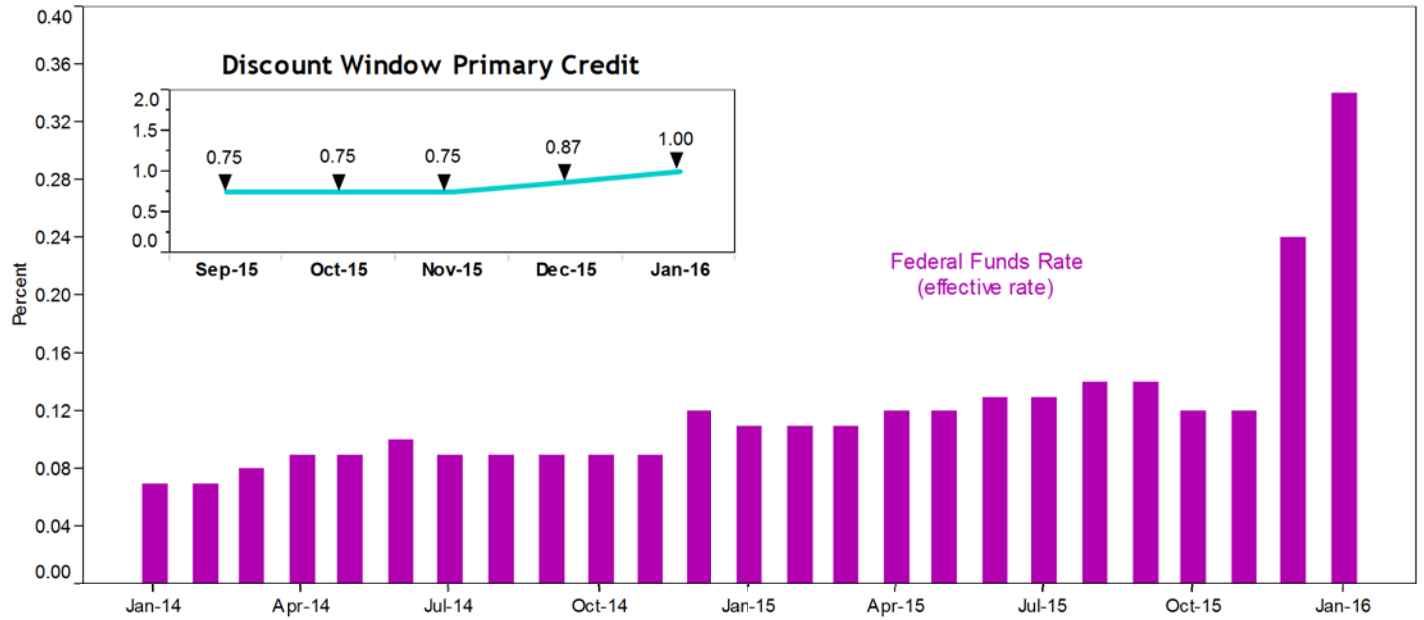
Revisions to Fourth Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	0.7	1.0
Personal Consumption	2.2	2.0
Business Investment	-1.8	-1.9
Equipment and Software	-2.5	-1.8
Residential Investment	8.1	8.0
Government	0.7	-0.1
Exports	-2.5	-2.7
Imports	1.1	-0.6
Final Sales	1.2	1.2

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.