

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

April 5, 2016

CURRENT ECONOMIC DEVELOPMENTS - April 5, 2016

Data released since your last Directors' meeting showed growth in the fourth quarter was a bit stronger than previously estimated, but suggest growth likely slowed in the first quarter. The labor market showed signs of continued strengthening, the housing market continued to show some positive signs, yet personal consumption remained sluggish. Also, growth in the manufacturing sector mostly showed signs of softening. Overall, economic growth is projected to pick up over the course of the year, but downside risks to that outlook remain.

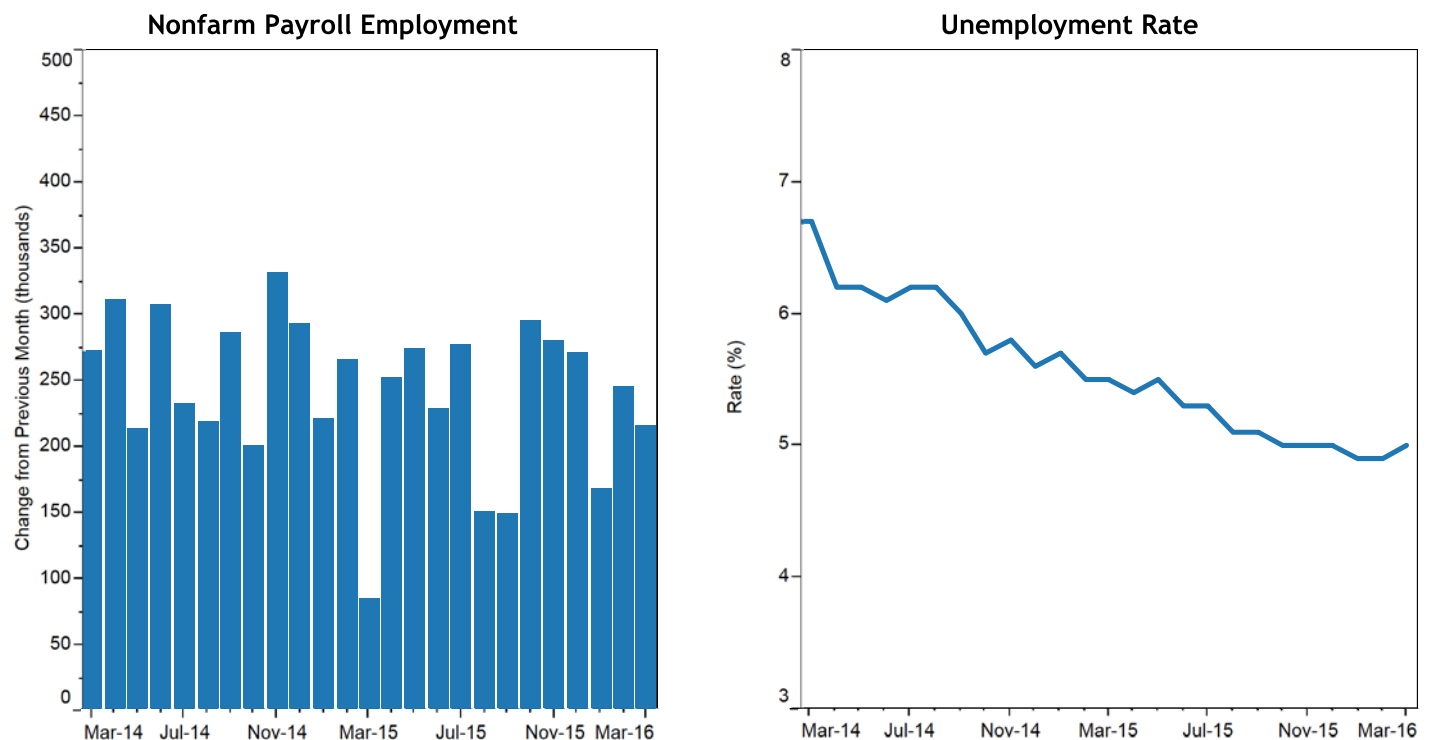
In March, nonfarm payrolls posted a larger-than-expected increase, while job gains for the previous two months were revised down slightly. The unemployment rate rose one-tenth to 5.0% in March, due to an increase in the labor force. Initial claims for unemployment insurance inched up in March, after falling in February, but remain consistent with further improvements in the labor market.

Consumer attitudes were mixed in March. The sentiment index eased to its lowest level since October, while the confidence index increased as respondents were more optimistic about future expectations. Vehicle sales fell in March to their lowest rate in over one year. In February, real incomes rose, and although consumption posted an increase, it was from a level in January that was revised sharply lower. Primary measures of real estate activity were mixed in February, as new home sales rose during the month, while existing home sales fell. Housing starts increased in February, while building permits declined, despite a rise in single-family permits.

In the manufacturing sector, the ISM index rose in March to signal expansion for the first time in seven months. Industrial production declined in February due to decreases in mining and utilities production, while capacity utilization was little changed. Orders for durable goods fell in February, but registered a slight improvement over their year-ago level, while non-defense capital goods, excluding aircraft, decreased in February on both a monthly and year-over-year basis.

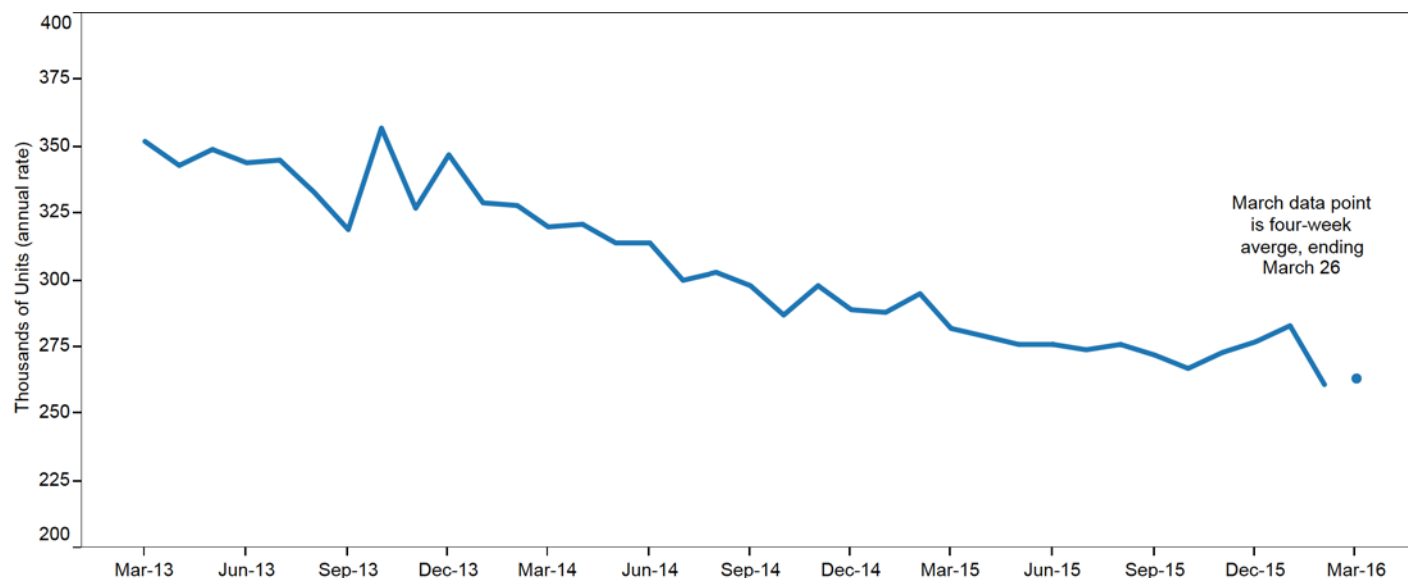
Growth in total consumer prices eased in February, yet growth in core prices, which exclude the volatile food and energy sectors, accelerated as measured by the CPI and held steady as measured by the PCE Index. Oil prices rose in March, but have fallen slightly in the first few days of April.

Nonfarm payrolls added 215,000 jobs in March, a bit more than anticipated, while job gains for the previous two months were revised down slightly by a net 1,000 jobs. The unemployment rate rose one-tenth to 5.0% in March, as an increase in the size of the labor force outpaced the rise in civilian employment.



Initial claims for unemployment insurance ticked up in March, after falling in February. Weekly claims remain at a level consistent with further labor market improvement.

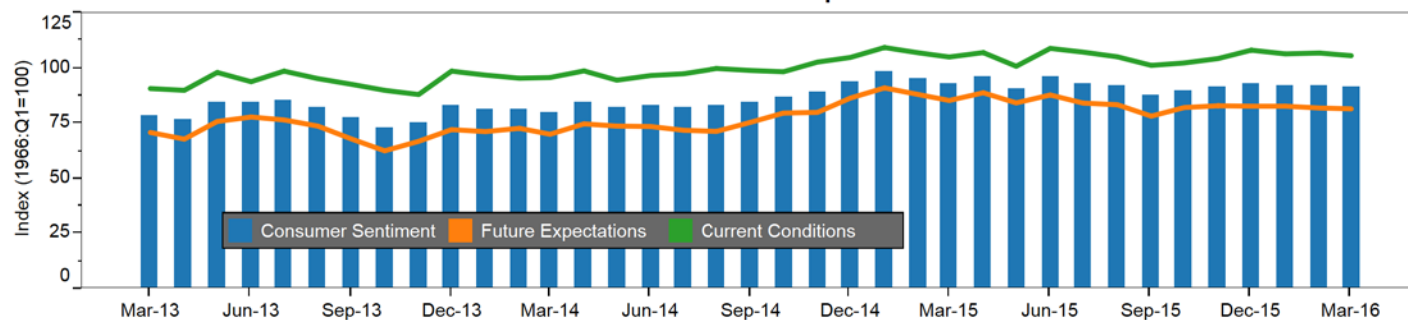
Initial Claims



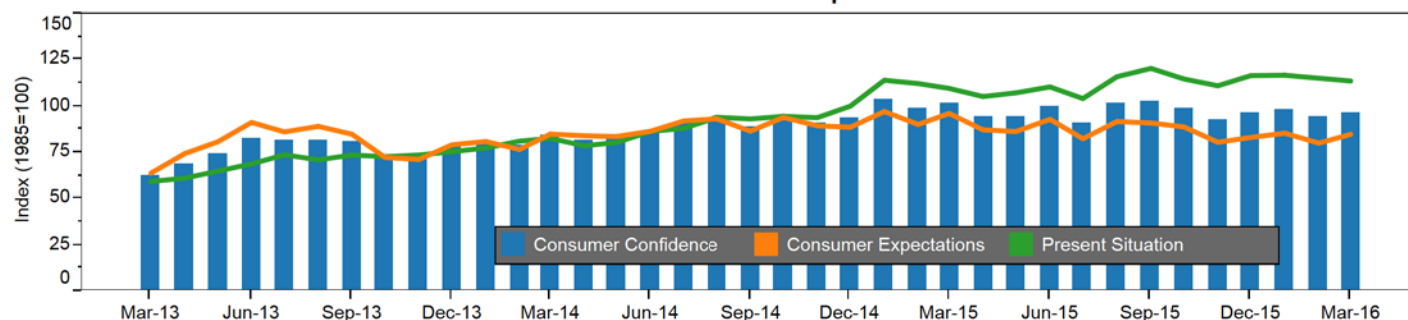
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Primary measures of consumer attitudes were mixed in March. The sentiment index eased to its lowest level since October, yet respondents expressed favorable views of both their current and expected financial conditions. Meanwhile, the confidence index increased in March due to a rise in the consumer expectations component. Respondents to the confidence survey recorded improvement in short-term business conditions and employment prospects, but were less optimistic toward income expectations.

Consumer Sentiment and Expectations



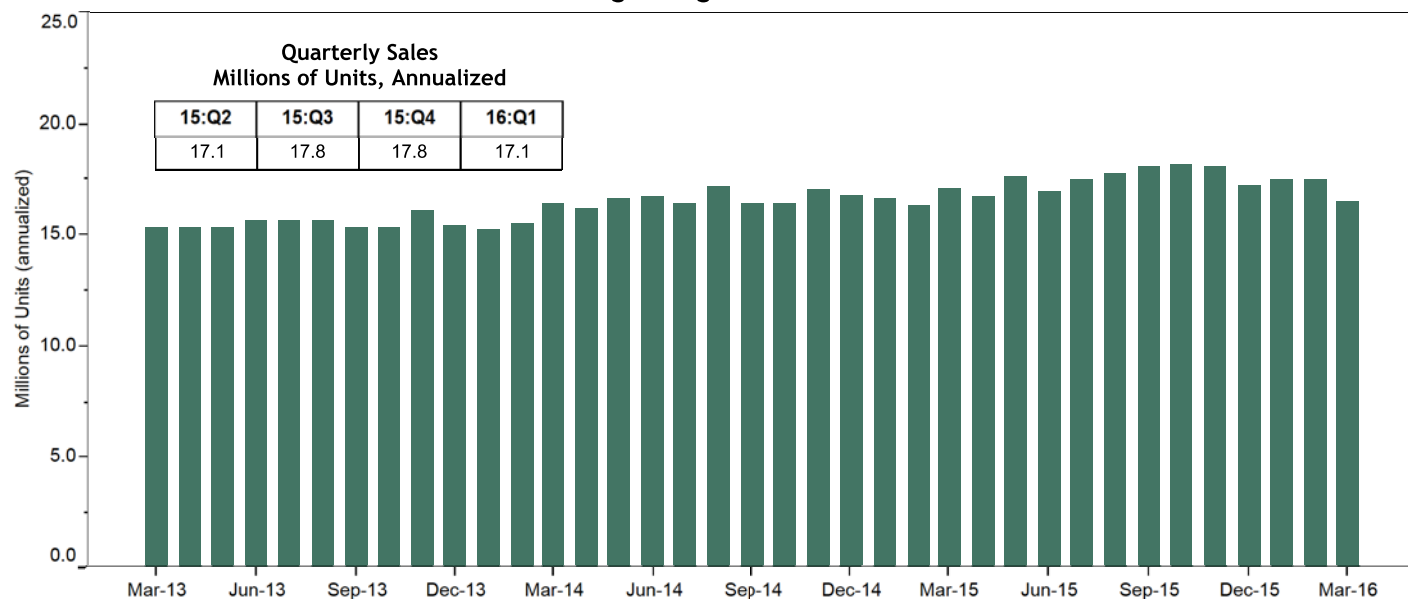
Consumer Confidence and Expectations



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

Lightweight vehicle sales unexpectedly fell in March to their lowest annual rate in over one year, as both auto and light duty truck sales decreased. On average, sales in the first quarter were below the rates seen throughout the second half of 2015.

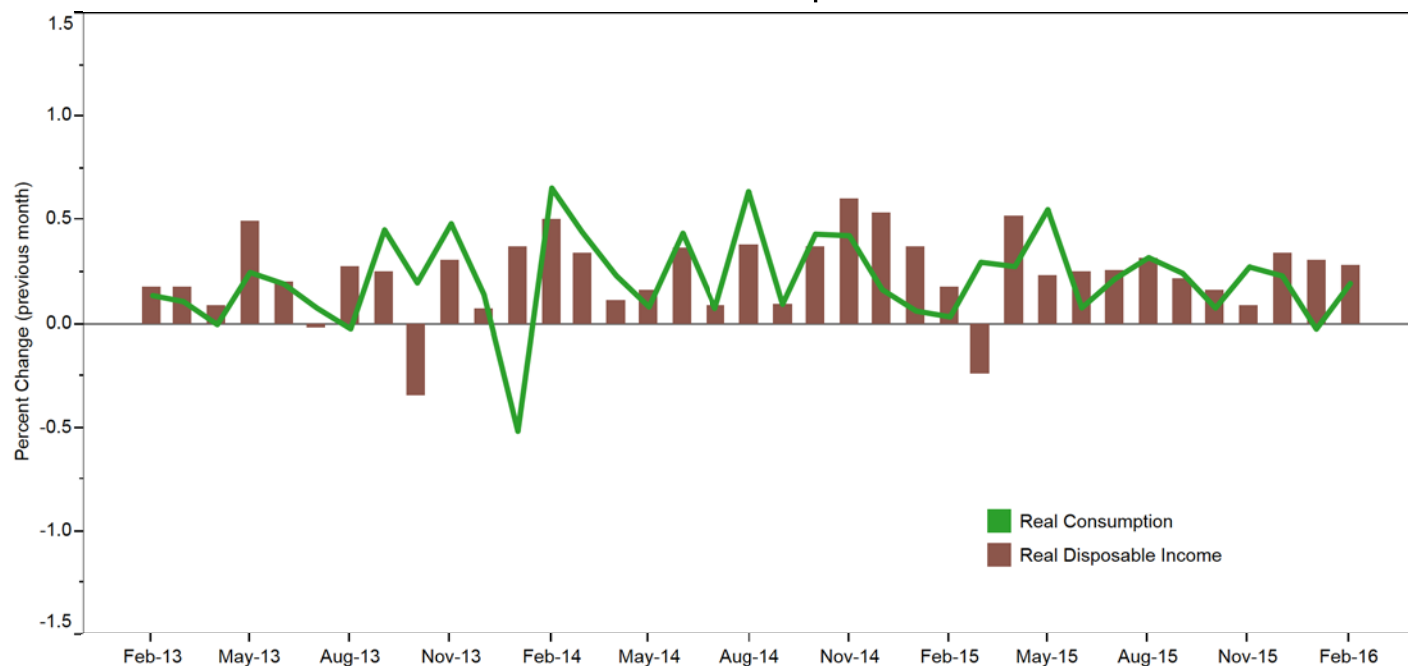
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in February, their eleventh consecutive monthly increase. The higher incomes provided a boost to spending in February, as consumption rose, following no change in January that was revised down substantially from an originally reported increase.

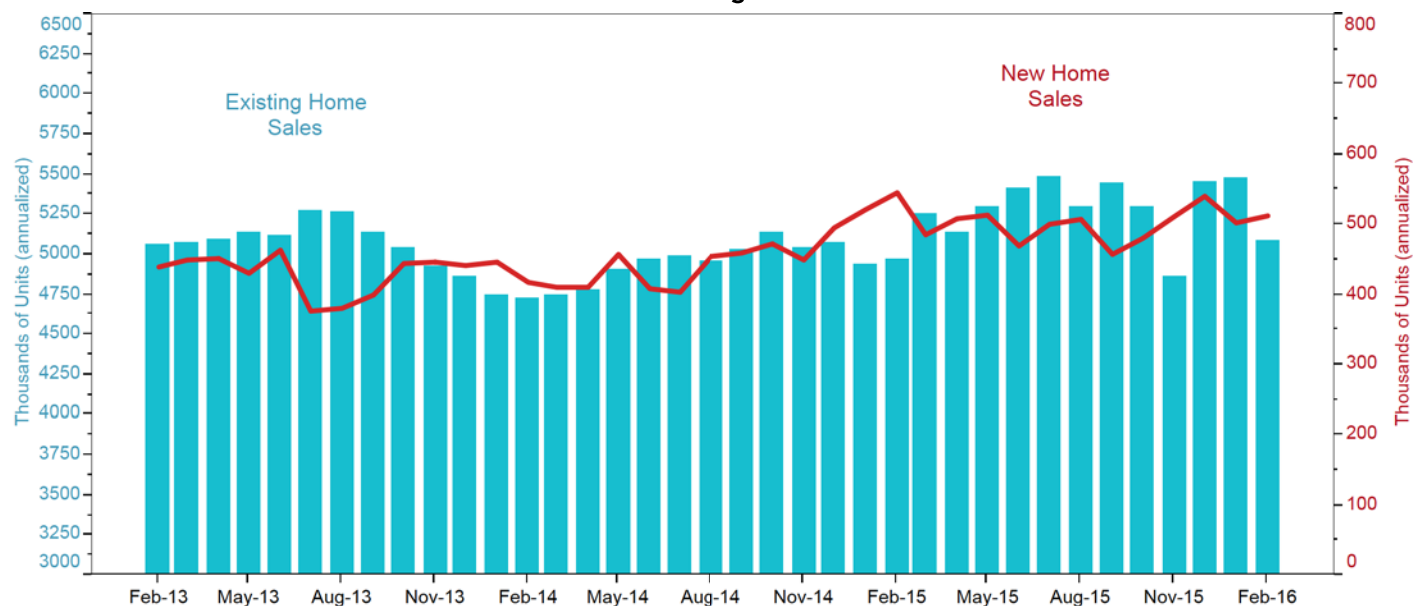
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in February. New home sales rose, offsetting part of the decline seen in the prior month, while existing home sales fell in February, after inching up in January.

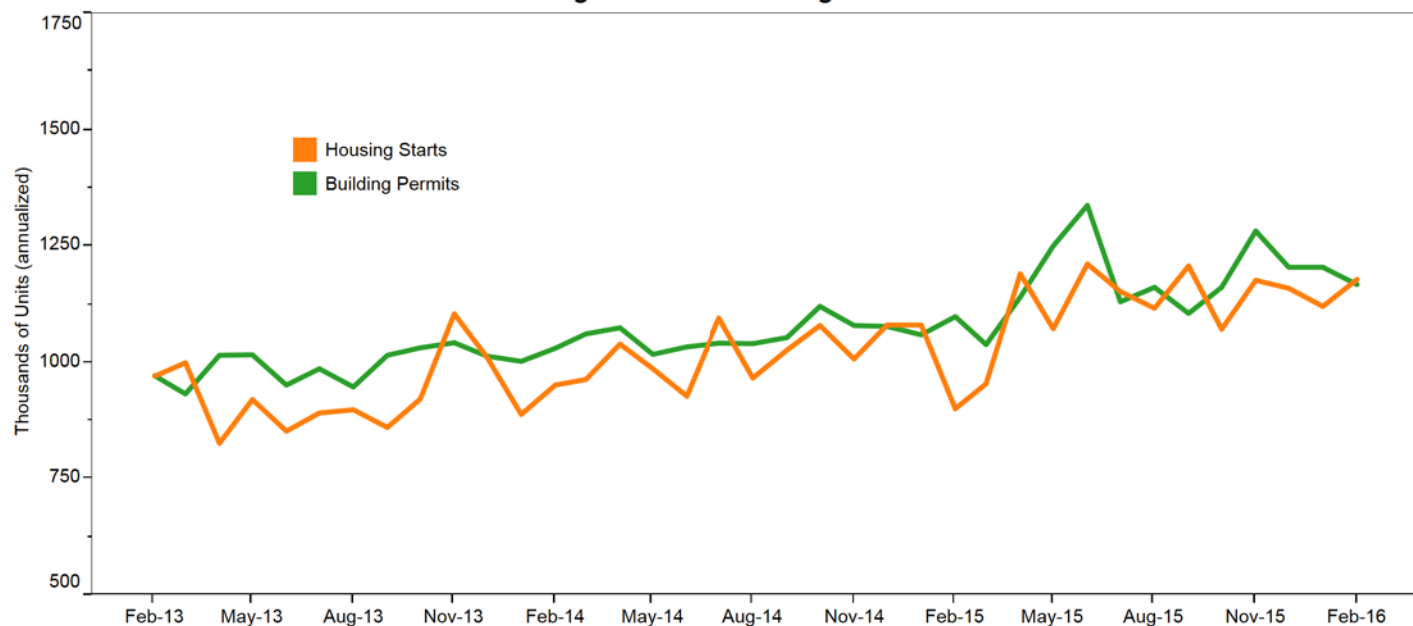
New and Existing Home Sales



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

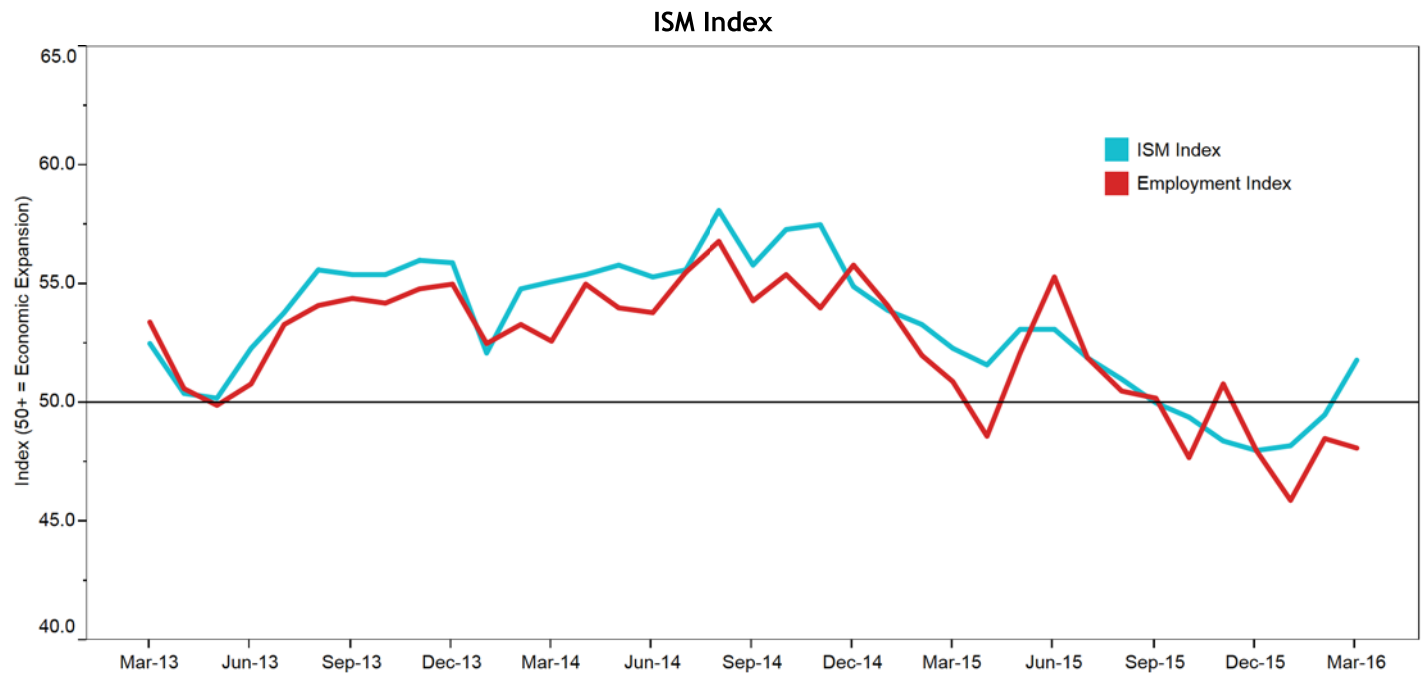
Housing starts rose in February, more than offsetting the declines registered over the prior two months, as both single-family and multi-family starts increased. Meanwhile, building permits fell in February, after holding steady in January. The decline in February was due to a decrease in multi-family permits, as single-family permits increased a bit during the month.

Housing Starts and Building Permits



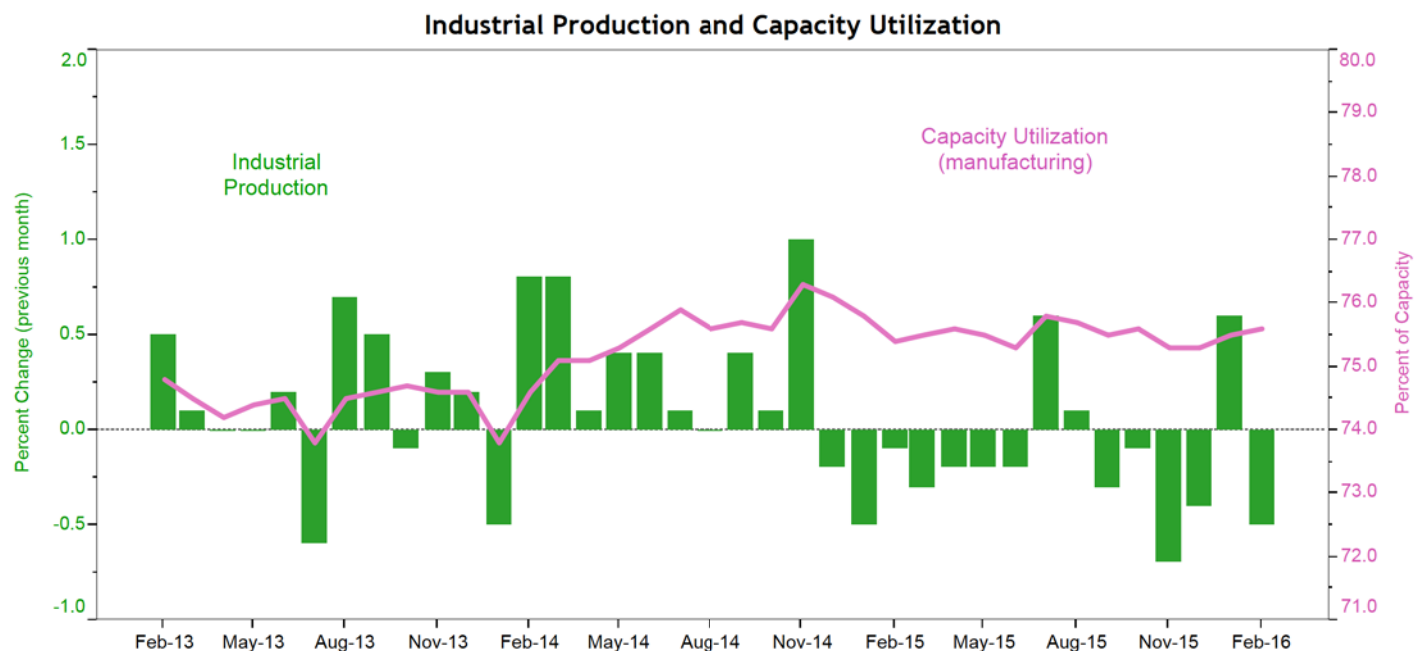
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index increased above expectations in March, signalling expansion in the manufacturing industry for the first time in seven months. Meanwhile, the employment component of the index declined in March, offsetting part of the increase seen in the prior month.



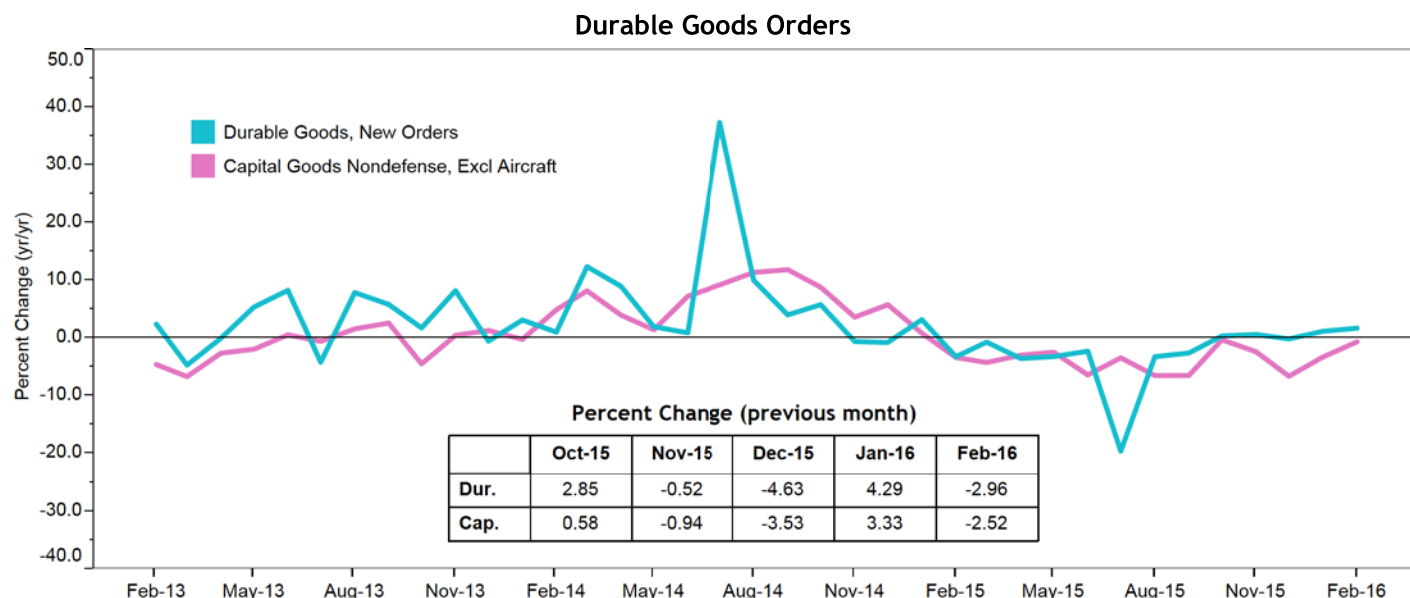
Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in February, following an increase in January that was revised down slightly. Both mining and utilities production posted decreases in February, while manufacturing output increased. Capacity utilization ticked up in February, after rising in January.



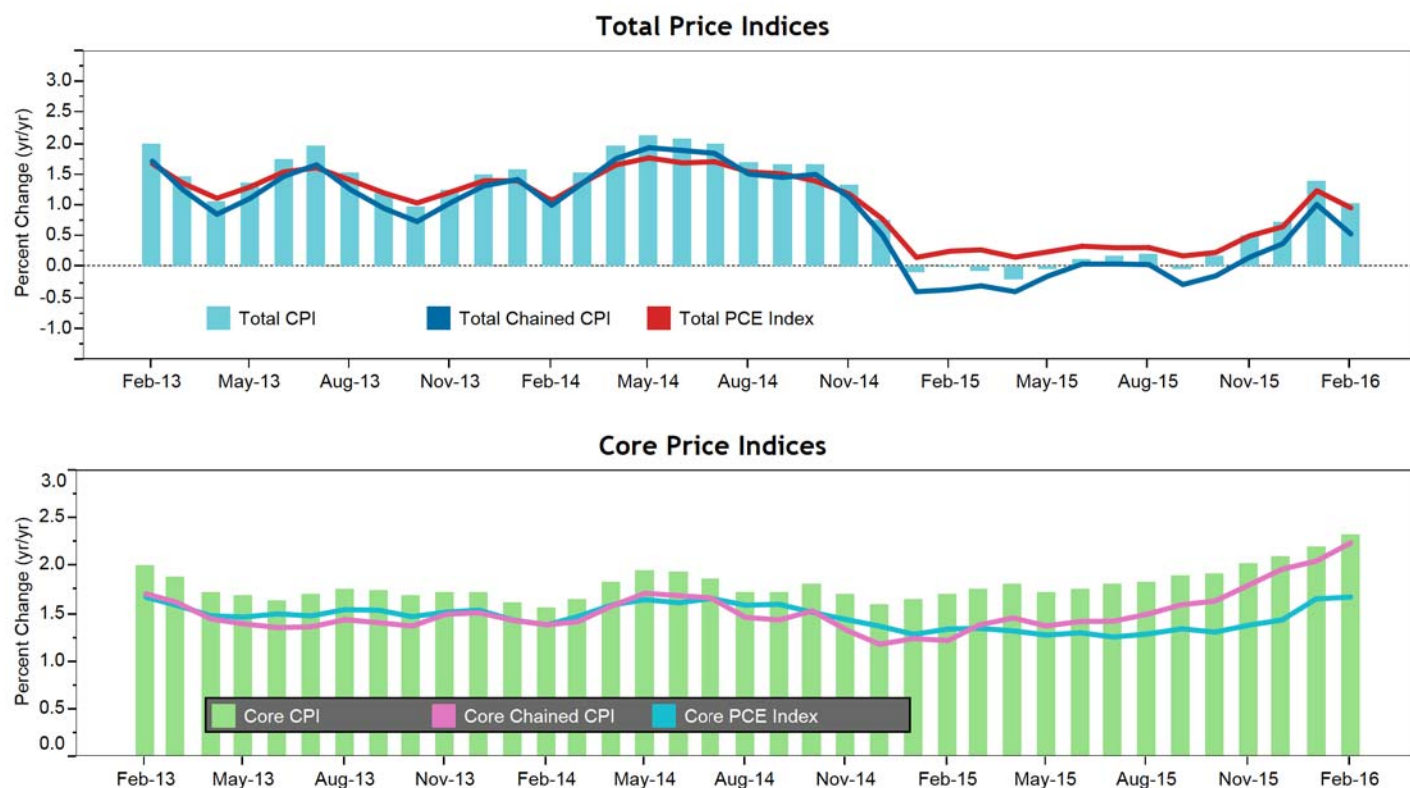
Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in February, after rising in January, yet picked up a bit from their year-ago level. Meanwhile, orders for nondefense capital goods, excluding aircraft, fell in February as compared to the prior month and continued to decrease on a year-over-year basis. Core orders have declined from their year-ago levels in each of the past thirteen months.



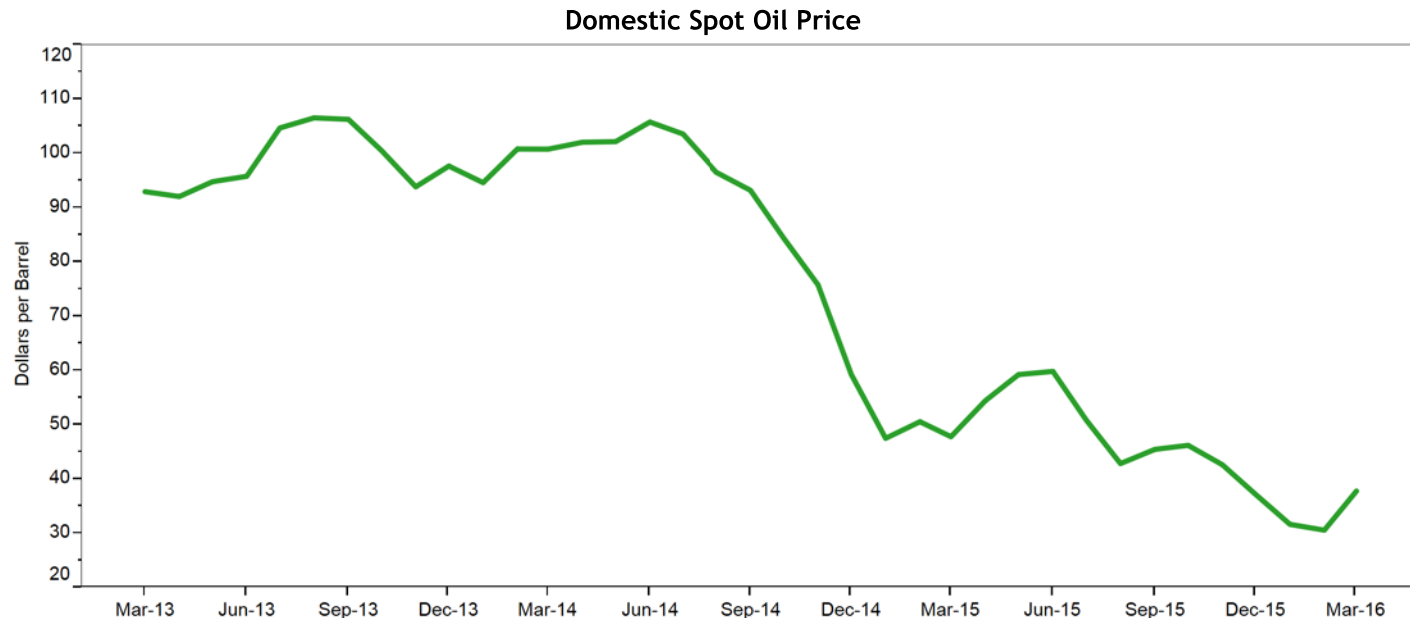
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices eased in February, mostly due to a decline in energy prices. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, continued to pick up in February, as measured by the CPI. The core PCE Index held steady in February.



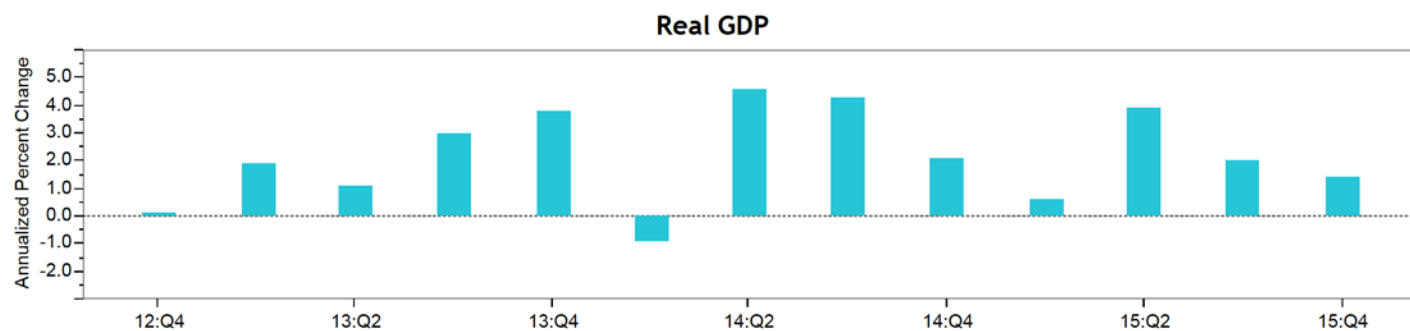
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices rose on average in March, reaching their highest monthly average since November, after declining in each of the prior four months. Prices have decreased a bit in the first few days of April, registering \$35.7 per barrel on April 4.



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

Fourth quarter real GDP growth was revised up in the third estimate to 1.4% from 1.0%. The higher rate primarily reflected upward revisions to personal consumption expenditures (PCE) and to exports that were partly offset by a downward revision to private inventory investment.



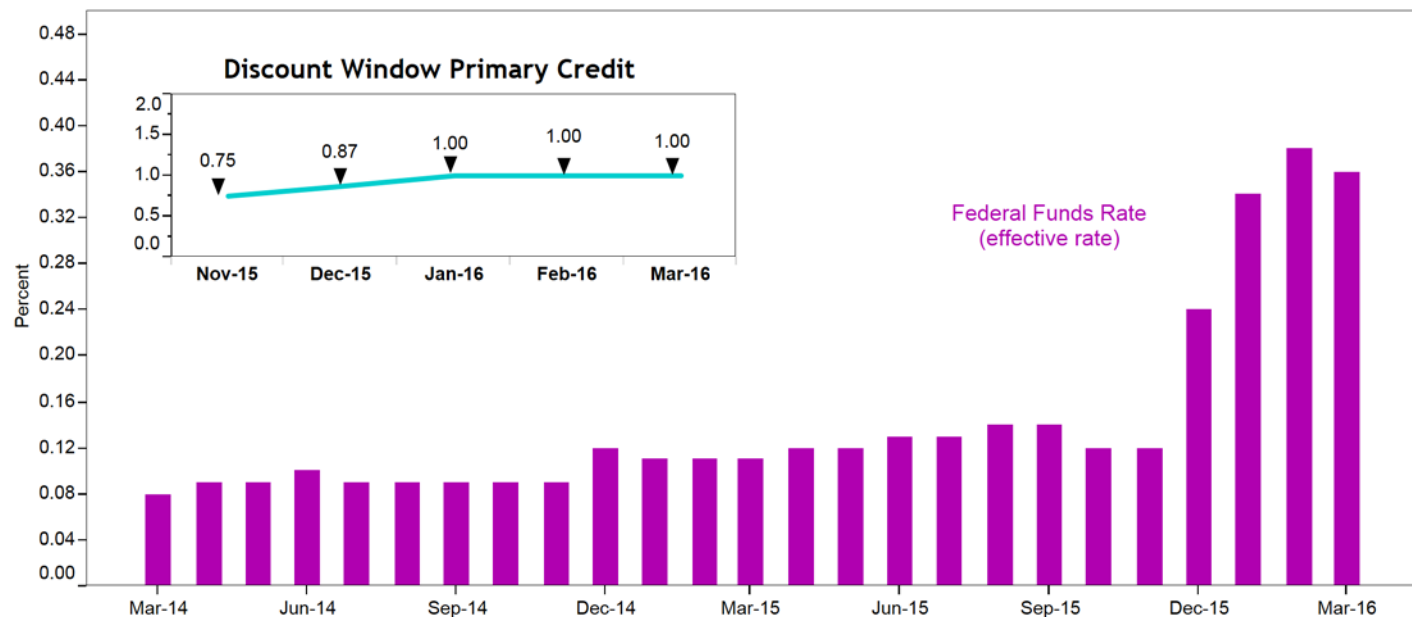
Revisions to Fourth Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	1.0	1.4
Personal Consumption	2.0	2.4
Business Investment	-1.9	-2.1
Equipment and Software	-1.8	-2.1
Residential Investment	8.0	10.1
Government	-0.1	0.1
Exports	-2.7	-2.0
Imports	-0.6	-0.7
Final Sales	1.2	1.6

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting showed growth in the fourth quarter was a bit stronger than previously estimated, but suggest growth likely slowed in the first quarter. The labor market showed signs of continued strengthening, the housing market continued to show some positive signs, yet personal consumption remained sluggish. Also, growth in the manufacturing sector mostly showed signs of softening. Overall, economic growth is projected to pick up over the course of the year, but downside risks to that outlook remain.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.