



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

April 14, 2020

## CURRENT ECONOMIC DEVELOPMENTS - April 14, 2020

The outbreak of the novel-coronavirus (COVID-19) has immensely disrupted all activity, economic and otherwise, across the country and around the world. The dramatic effects are starting to be seen in incoming data, while data reported with more of a lag continued to show the economy was on solid footing before the pandemic. The advance estimate of first quarter GDP growth is still two weeks away, but it is likely to show a moderate decrease, followed by a much more severe contraction in the second quarter.

The shutdown of nonessential business has already had an historic impact on labor markets, with the worst still to come. In March, nonfarm payrolls lost 701,000 jobs while the unemployment rate jumped to 4.4 percent, though this estimate would have been higher if job losses had been categorized correctly. Initial claims, hovering near historic lows in February, jumped to a weekly average of over three million in March as COVID-19 forced mass layoffs and furloughs - sixteen million Americans have filed for benefits over the last three weeks. Consumer attitudes plunged in the most recent data, most noticeable in the largest recorded single-month decline in consumer sentiment in early April. Consumer confidence also registered a large decline in March. Vehicle sales also fell sharply in March, with shoppers unable to visit dealerships.

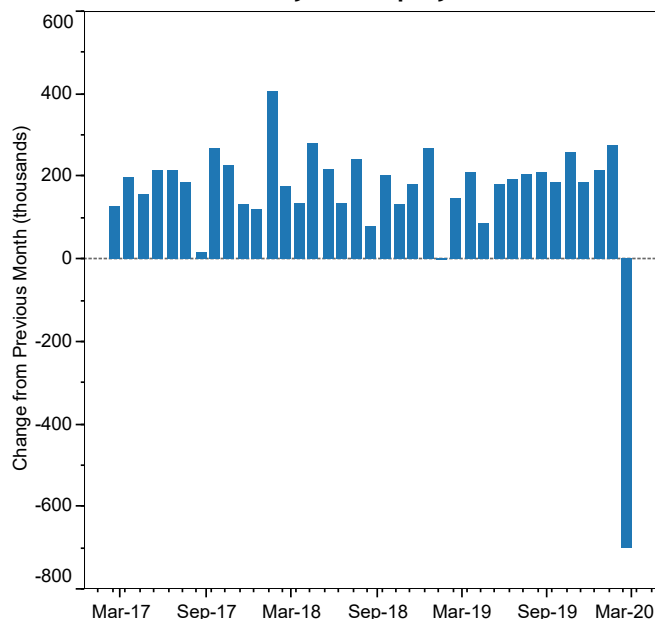
Prior to the crisis escalating, housing market data remained upbeat. Existing home sales surged to a 13-year high in February while new home sales dipped a bit after January's 12-year high. Single-family housing starts and permits also climbed higher in February, though were offset by dips in the multi-family sectors of each series.

Industrial production rose 0.6 percent in February while capacity utilization remained flat - measures also captured before serious disruptions began. Manufacturing surveys have begun to show the effects business closures are having on manufacturing. The ISM Manufacturing Index, as well as its employment subcomponent, fell below 50 in March, signaling contraction. The ISM Non-Manufacturing Index also fell, although remained above 50. Regional manufacturing surveys from the Federal Reserve have turned down much more dramatically, with reports from New York, Philadelphia, and Kansas City all showing massive declines in response to the pandemic.

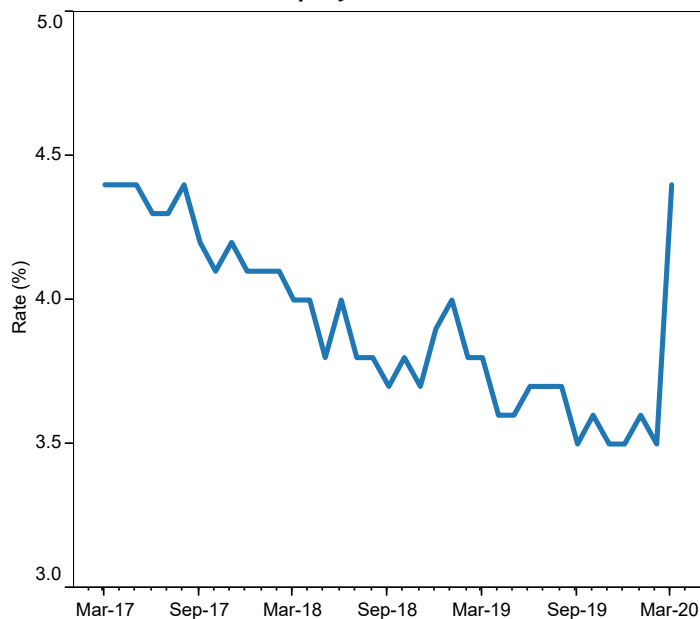
Measures of inflation have softened, reflecting lower oil prices and virus-related decreases in prices for lodging, airfare, and clothing. Total inflation, as measured by the CPI, fell 0.4 percent in March, while the core index eased 0.1 percent. On a year-over-year basis, total CPI slowed to 1.5 percent, while core inflation slowed to 2.1 percent. PCE inflation measures for February were little changed. On average, oil prices declined to \$29.46 per barrel in March, nearly 50 percent below their average in March of 2019.

Coronavirus-related job losses impacted payroll data significantly in March, despite many nonessential business closures not occurring until later in the month. Nonfarm payrolls declined by 701,000 jobs in March, with the restaurant industry hit particularly hard, accounting for about 60 percent of the losses. The unemployment rate rose nine-tenths to 4.4 percent in March. However, many workers were incorrectly classified as "employed - but absent from work". If these workers had been reported accurately, the rate would have been almost a full percentage point higher.

**Nonfarm Payroll Employment**

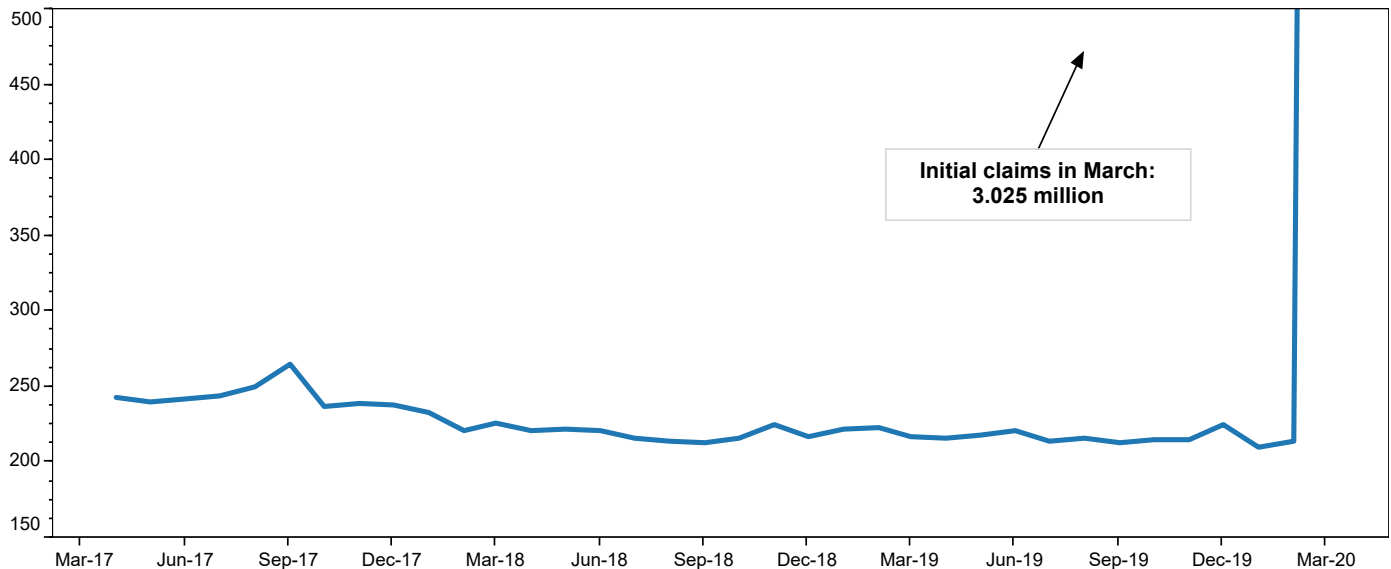


**Unemployment Rate**



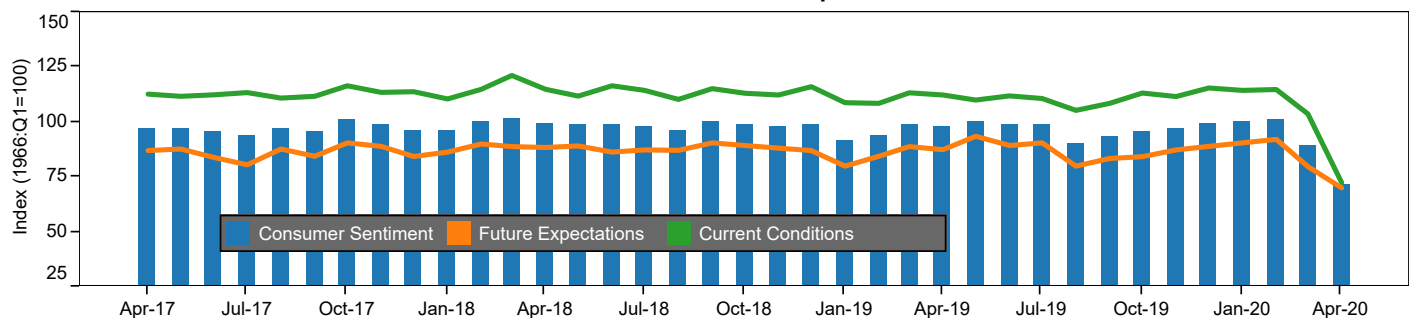
Over sixteen million individuals filed for unemployment insurance in the last three weeks with further large declines expected in the coming weeks. There is some evidence that processing of claims in certain states fell behind at the beginning of the crisis (California and New York among them,) suggesting that reported estimates may not fully represent the actual number of claims.

### Initial Claims

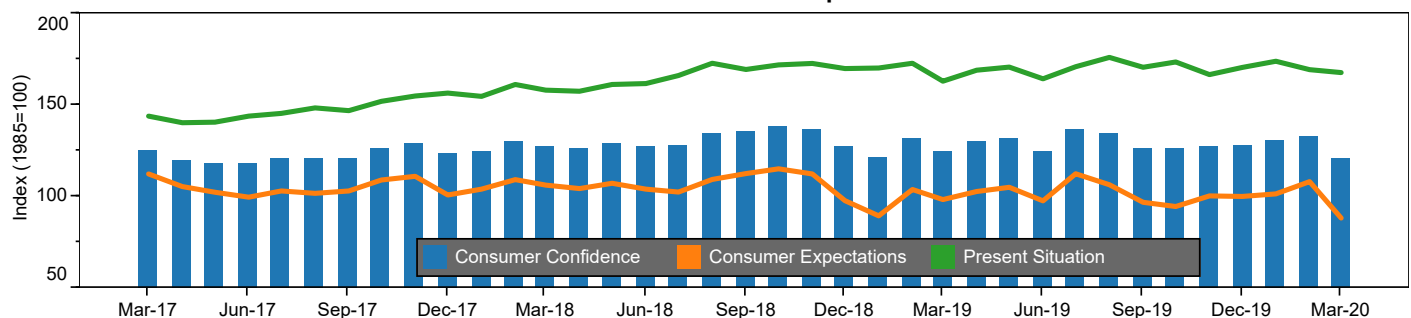


In its largest decline on record (since 1978), the consumer sentiment index's preliminary April reading dove 18.1 points to 71.0. While the current conditions and expectations subindices both fell, to 72.4 and 70.0, respectively, the fact that the two components are at similar levels suggests that consumers do not expect further worsening in the economy. The consumer confidence index fell 12.6 points to 120.0 in March, largely due to the expectations component plunging 19.9 points to 88.2. The present situation subindex only dipped 1.6 points, yet this relative stability is likely a result of the fact that data collection for the index ended March 19th. The Conference Board's press release assures us that: "further declines are sure to follow."

### Consumer Sentiment and Expectations

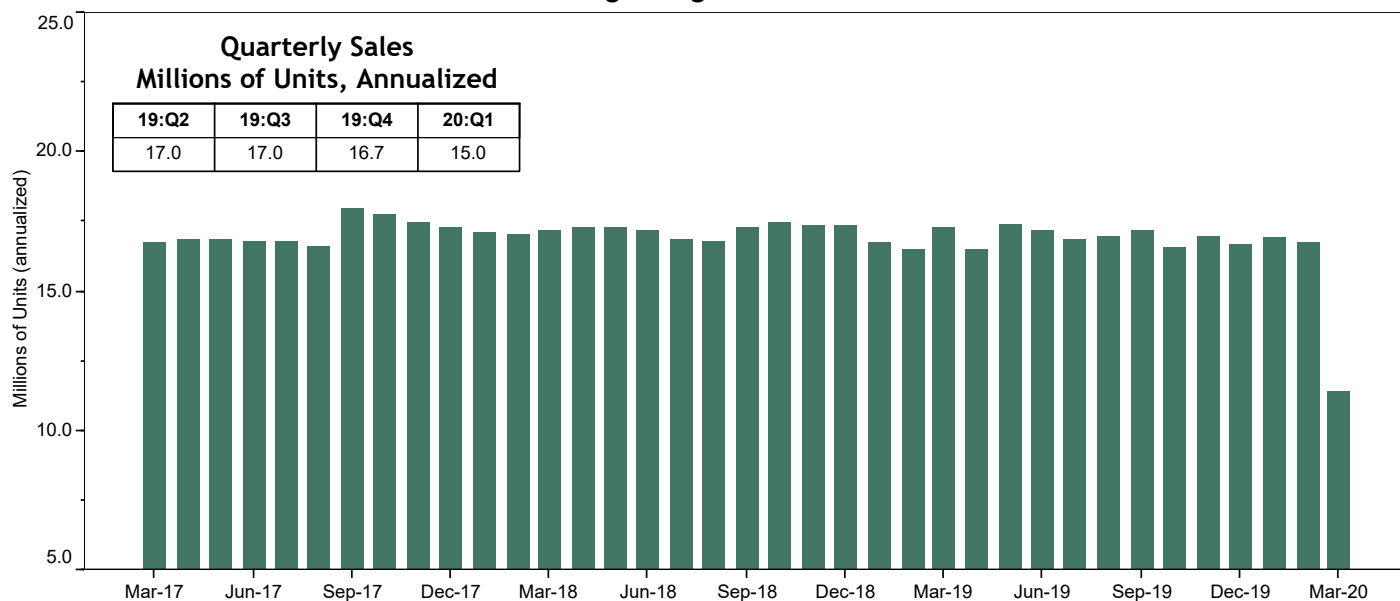


### Consumer Confidence and Expectations



Prior to COVID-19, demand for lightweight vehicles was expected to remain solid. However, as social-distancing rules kept shoppers from dealer lots, the pace of lightweight vehicle sales plummeted to an annualized 11.4 million units in March. Further declines are expected in April.

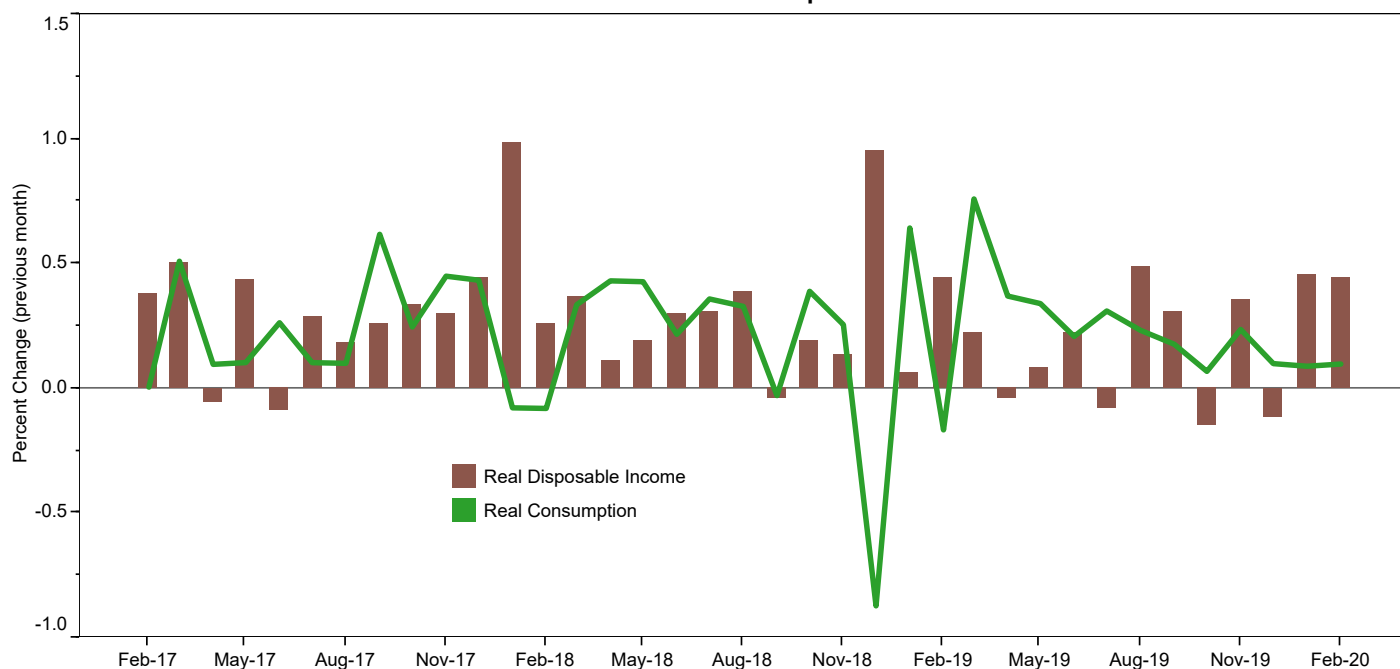
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

February data for real incomes rose 0.4 percent while real consumption edged up 0.1 percent for the third consecutive month. However, these data do not yet capture much of the impact of the coronavirus.

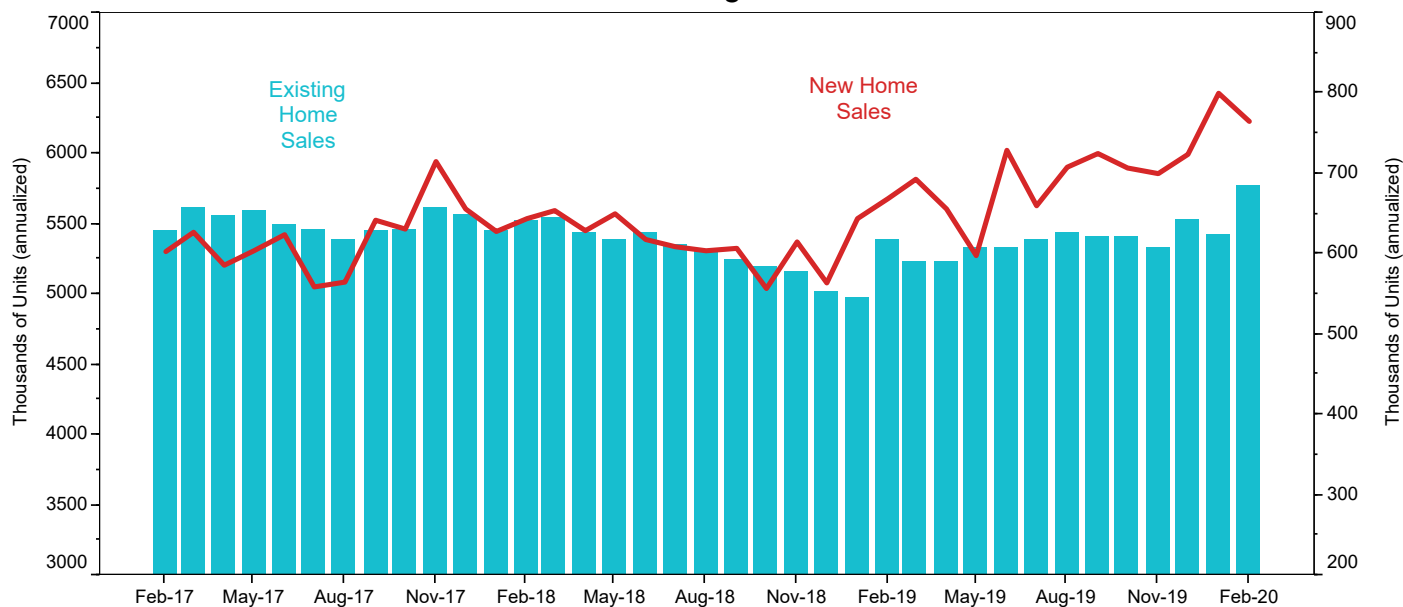
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

The effects of COVID-19 have not yet hit housing data. Existing homes sales surged to a 13-year high in February reflecting contracts signed in January and February. New home sales dipped in February after January's surge was revised even higher. Sales are likely to fall in the coming months.

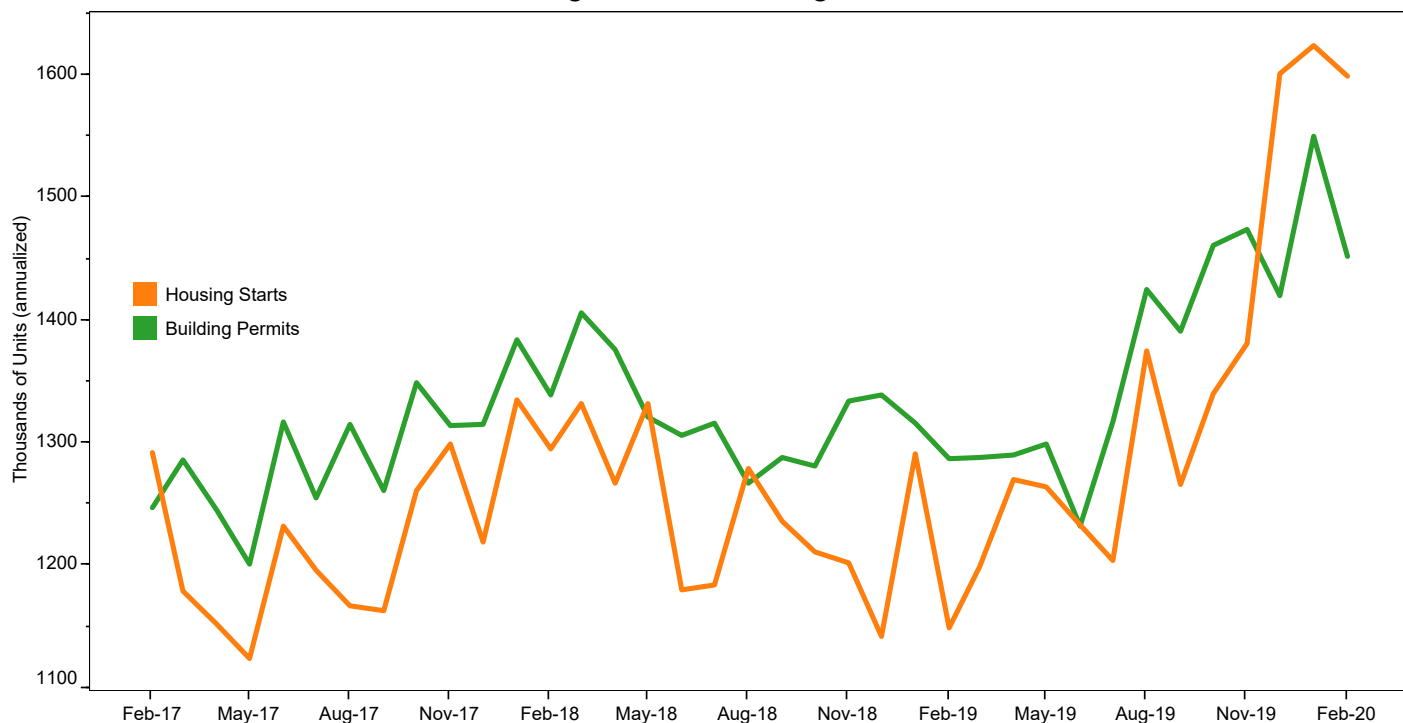
### New and Existing Home Sales



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

Unseasonably warm weather continued to support residential construction in February. Single-family starts and permits both rose to their highest level in nearly 13 years, though decreases in multi-family activity led to overall declines in the headline figures. While disentangling the effects of recent weather from COVID-19 in these data is difficult, March and April promise to capture more effects of the virus and the related shutdown.

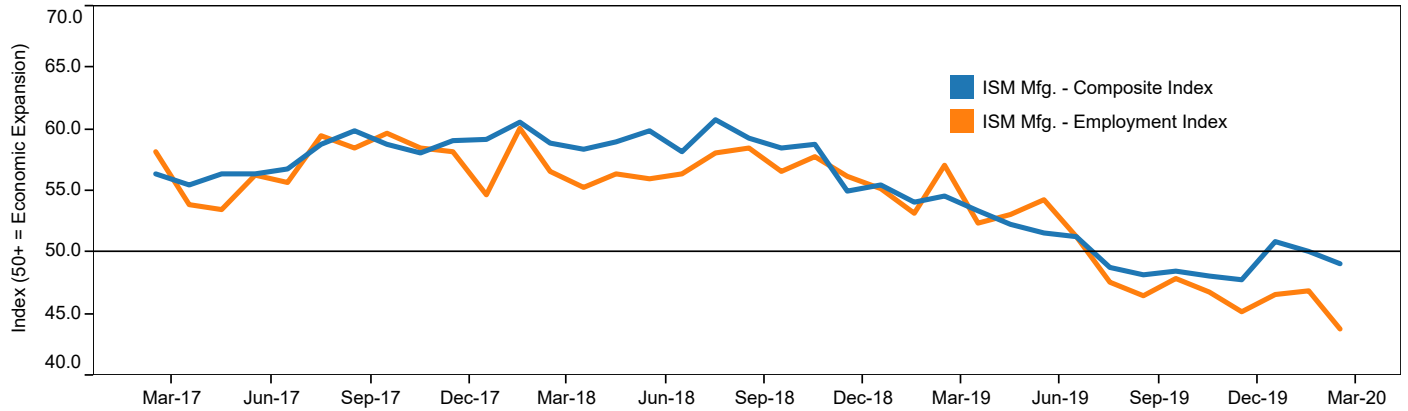
### Housing Starts and Building Permits



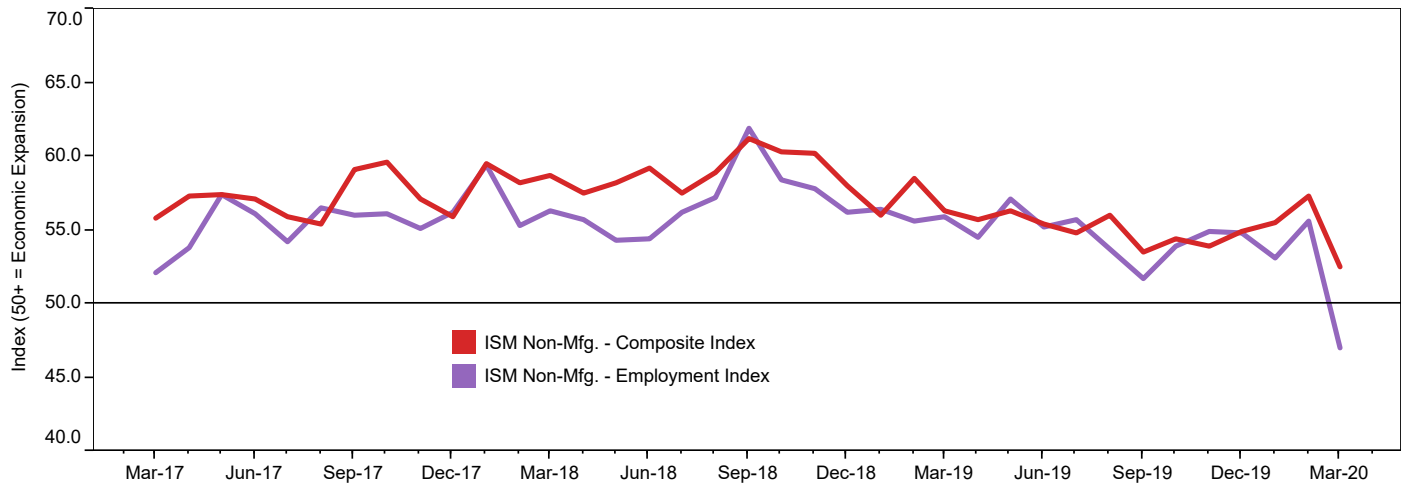
Source: U.S. Census Bureau / Haver Analytics.

The ISM's Manufacturing Index fell to 49.1 in March, while their Non-Manufacturing Index fell to 52.5. The decreases in both indices were limited by gains in the supplier deliveries subindex: the only subindex to register an increase. Higher values for this subindex indicate slower delivery times, which in turn, typically indicate higher demand and improving conditions. However, March's delivery times slowed due to supply shortages connected with COVID-19, not improvement in demand. While the ISM surveys were stronger than expected, regional surveys from the Federal Reserve displayed dramatic virus-related declines. The New York and Kansas City manufacturing indices fell to 11-year lows, while the Philadelphia index matched a nine-year low.

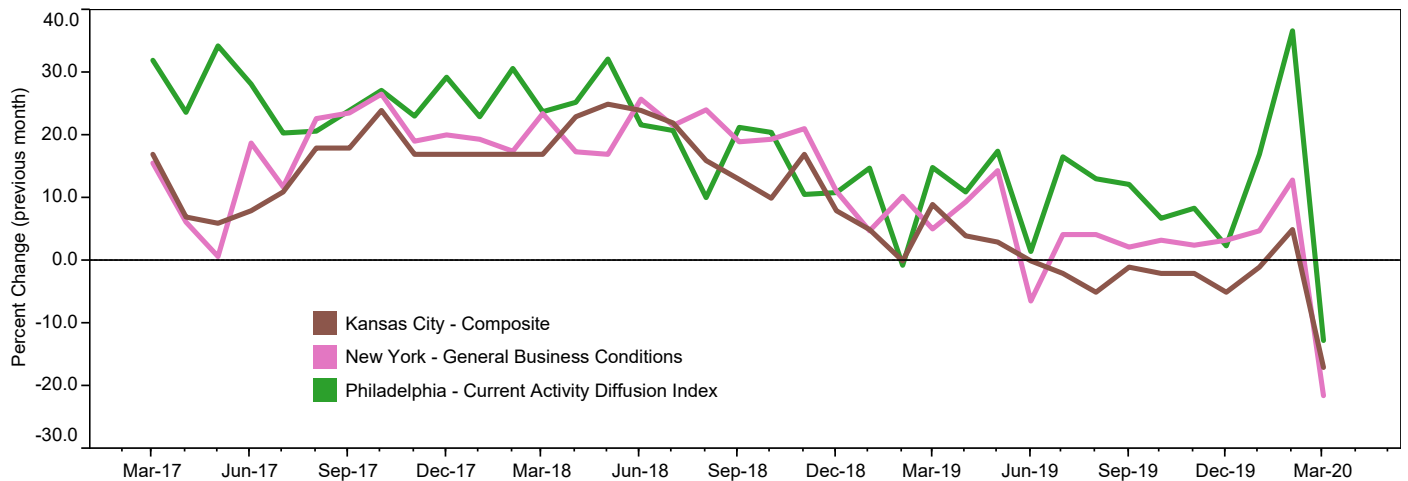
### ISM Manufacturing Indices



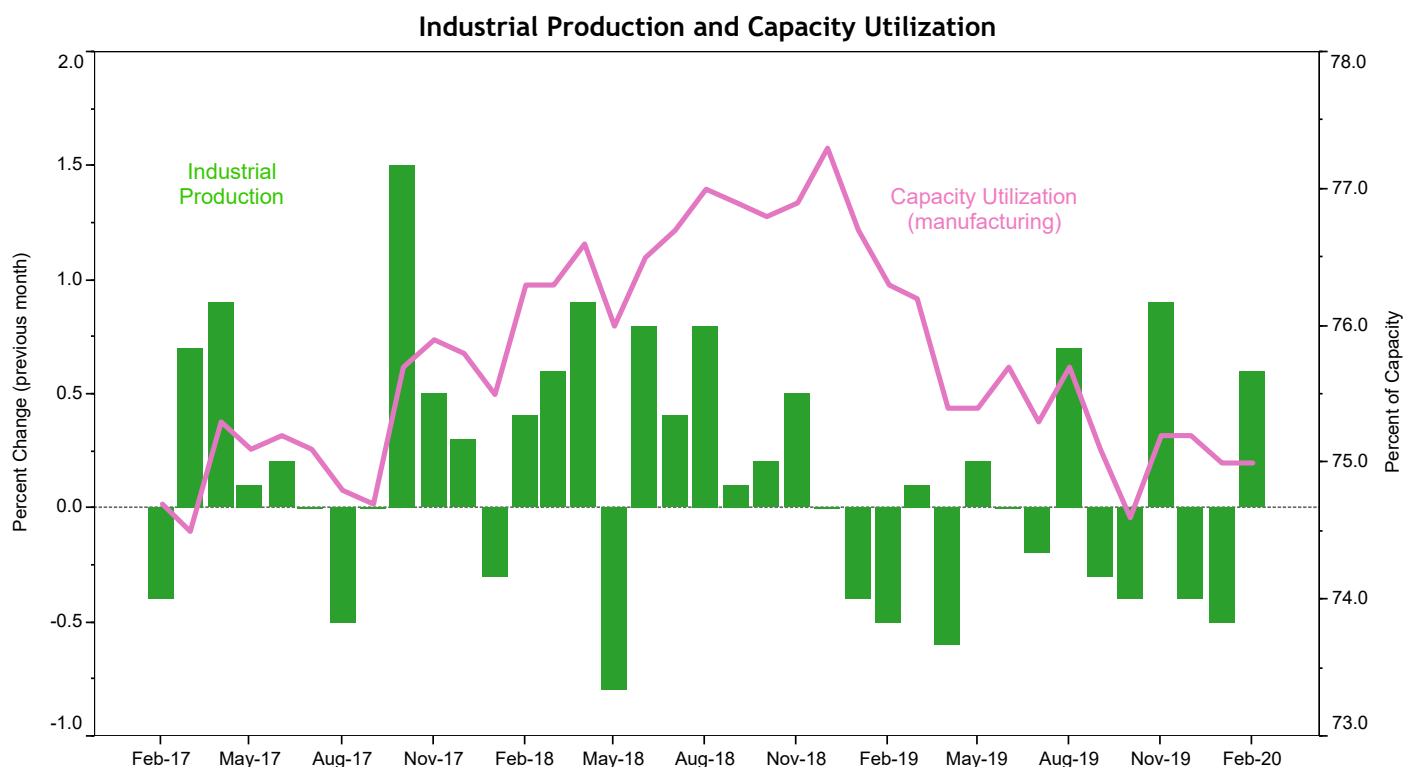
### ISM Non-Manufacturing Indices



### Regional FRB Manufacturing Surveys

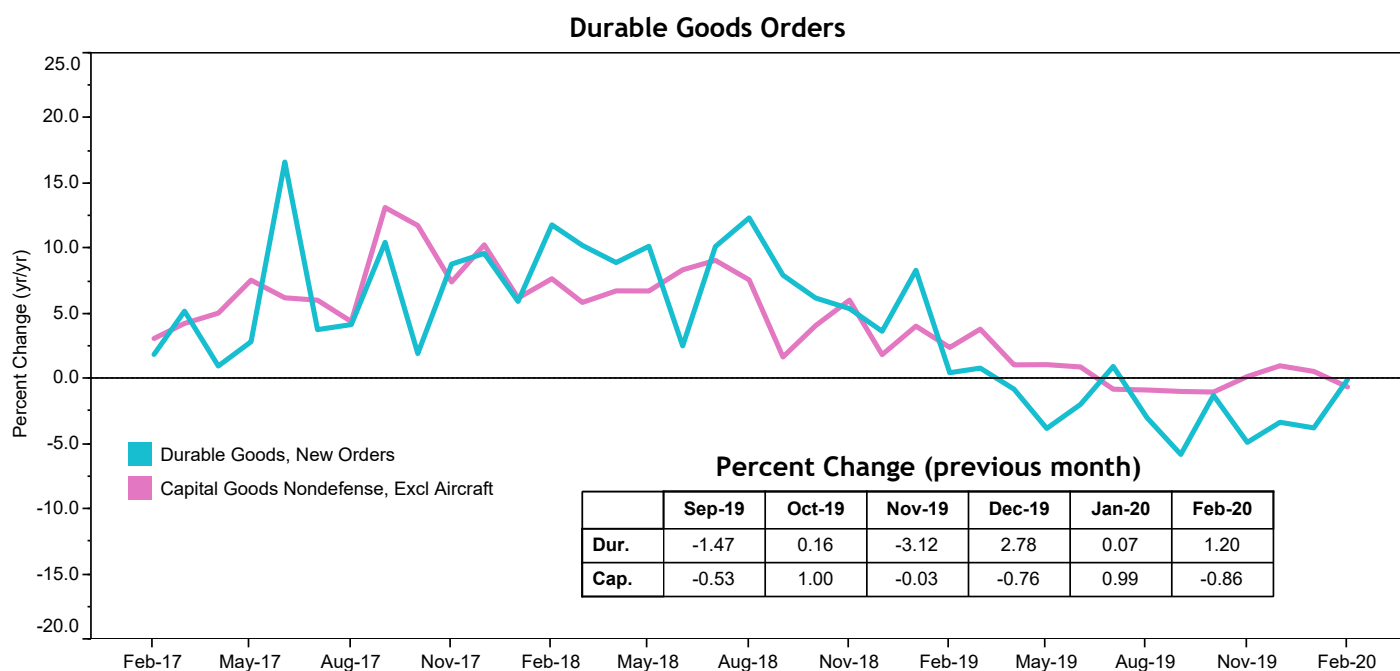


Industrial production rose 0.6 percent in February, after January's decline was revised further downward. Manufacturing output edged up a bit in February. Elsewhere, utilities output helped to offset a decline in manufacturing production. Capacity utilization in manufacturing held steady at 75 percent in February.



Source: Federal Reserve Board of Governors / Haver Analytics.

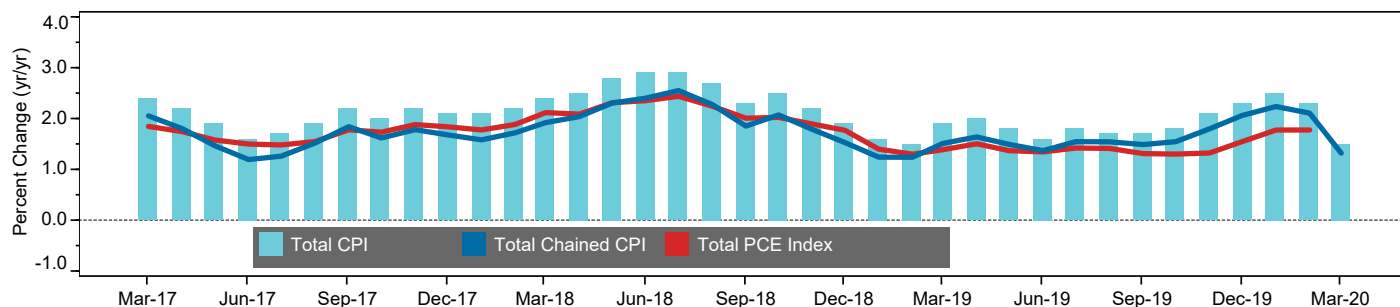
February data showed that orders for durable goods remained essentially flat on a year-over-year basis while they rose from January to February. This monthly increase was due almost entirely to defense spending, as orders excluding defense were essentially flat. Orders for nondefense capital goods, excluding aircraft, fell both on a monthly and a year-over-year basis. The next few months of data promise to capture more effects from COVID-19.



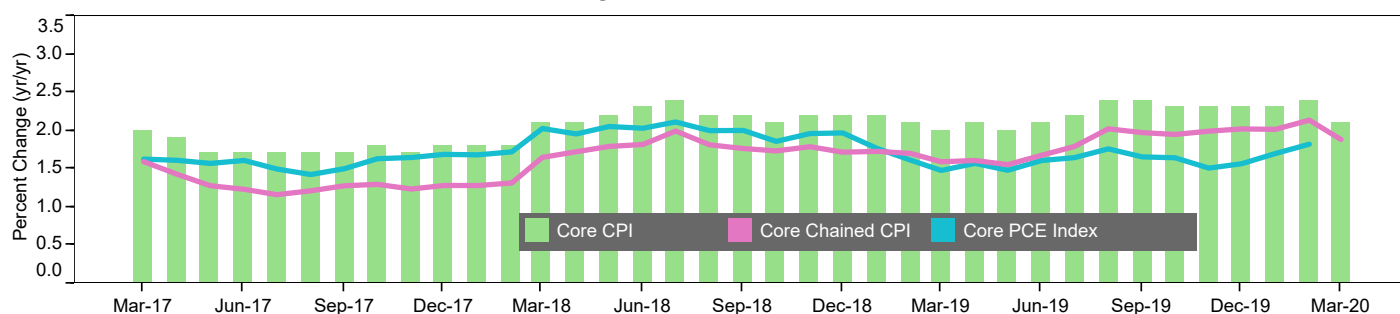
Source: U.S. Census Bureau / Haver Analytics.

Consumer prices fell in March as measured by the CPI, with the total index falling 0.4 percent and the core index easing 0.1 percent. These indices last declined on a monthly basis in 2010 and 2015, respectively. On a year-over-year basis, total CPI slowed by eight-tenths to 1.5 percent, while core inflation slowed three-tenths to 2.1 percent. In February, as measured by the PCE Index, inflation was little changed.

### Total Price Indices



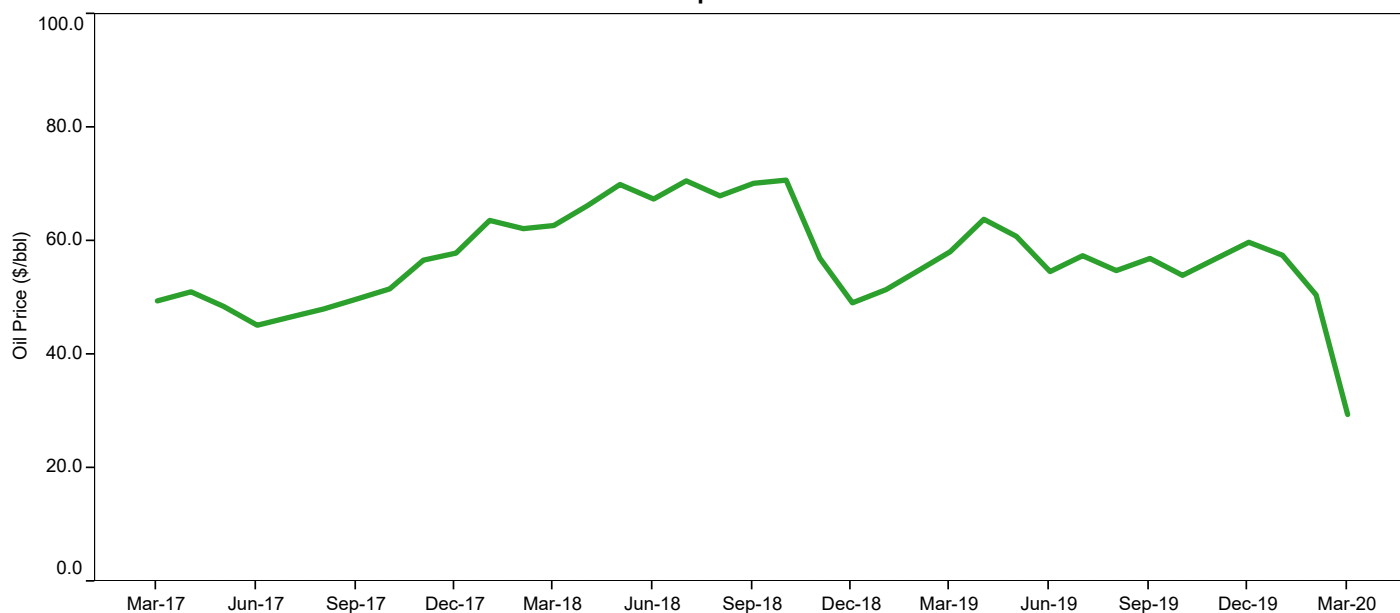
### Core Price Indices



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

Numerous factors, including a fall in demand as COVID-19 forces much of the nation to refrain from travel, caused oil prices, on average, to fall to \$29.50 per barrel in March. Oil closed at \$22.41 per barrel on April 13th.

### Domestic Spot Oil Price

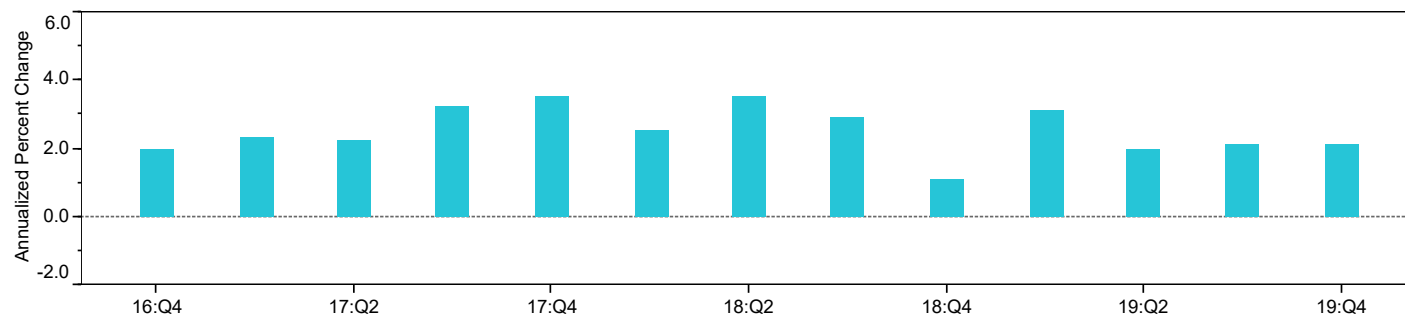


Source: U.S. Energy Information Association / Wall Street Journal / Haver Analytics.



The third estimate of real GDP for the fourth quarter of last year was unrevised at an annualized growth rate of 2.1 percent. Relative to the second estimate, there were some minor revisions to the components of real GDP. An upward revision to personal consumption expenditures (PCE) was largely offset by downward revisions to federal government spending and nonresidential fixed investment.

### Real GDP



### Revisions to Fourth Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.1	2.1
Personal Consumption	1.7	1.8
Business Investment	-2.3	-2.4
Equipment and Software	-4.4	-4.3
Residential Investment	6.2	6.5
Government	2.6	2.5
Exports	2.0	2.1
Imports	-8.6	-8.4
Final Sales	3.1	3.1

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### Short-Term Interest Rates

