



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

April 13, 2021

CURRENT ECONOMIC DEVELOPMENTS - April 13, 2021

Data released since your last Director's meeting suggest broadly improving conditions in the first quarter, following fourth quarter growth that was revised higher. Nearly one-quarter of the US population has been vaccinated and many states continue to ease coronavirus-related restrictions, though case counts and hospitalizations have turned higher in recent days. A third round of stimulus funds began being dispersed on March 17th and the initial effects from that fiscal support can be seen in some recent high-frequency spending data. As public health conditions improve and the stimulus funds are fully distributed, a strengthening recovery is expected in the second and third quarters.

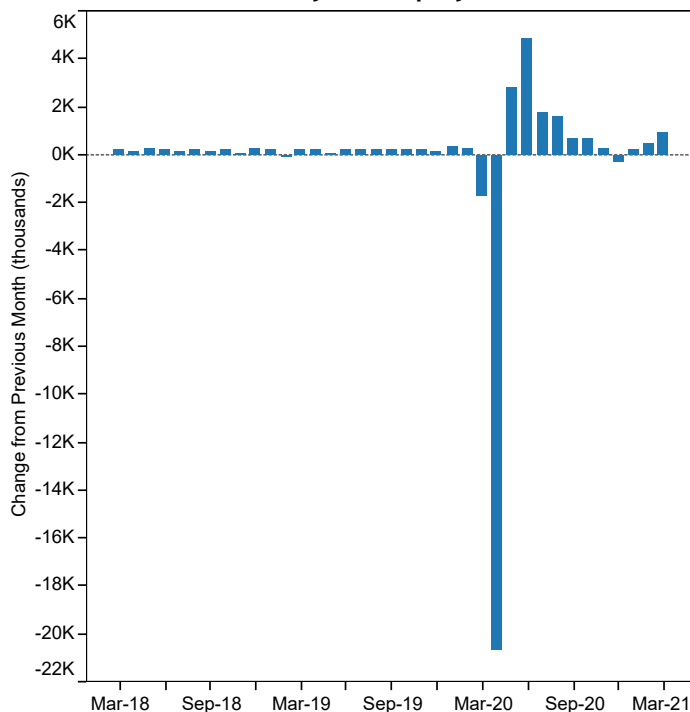
The March employment report was stronger than expected. Nonfarm payrolls rose by 916,000 and gains in prior months were revised higher, while the unemployment rate fell by two-tenths to 6.0%. However, the four-week moving average for initial claims edged higher in the latest week, remaining out of sync with other labor market trends. Consumer attitudes improved sharply in March, boosted by increased vaccinations and the latest round of stimulus. Still, these indices remain below their pre-pandemic levels. Retail sales, real disposable incomes and real consumption data all declined in February data due to historically bad weather and a decline in the dispersal of stimulus funds. Sales of lightweight vehicles suffered from the same issues in February but have rebounded in March data despite additional headwinds from the continuing semi-conductor shortage. Similar rebounds are expected in other spending data for March.

All measures of housing market activity declined sharply in February data, although they remain elevated relative to levels seen prior to the pandemic. Industrial production and capacity utilization both fell in February as the weather and semi-conductor shortage affected manufacturing output. Still, the ISM activity indices and the regional manufacturing surveys all saw notable gains in March and continued to signal expansion.

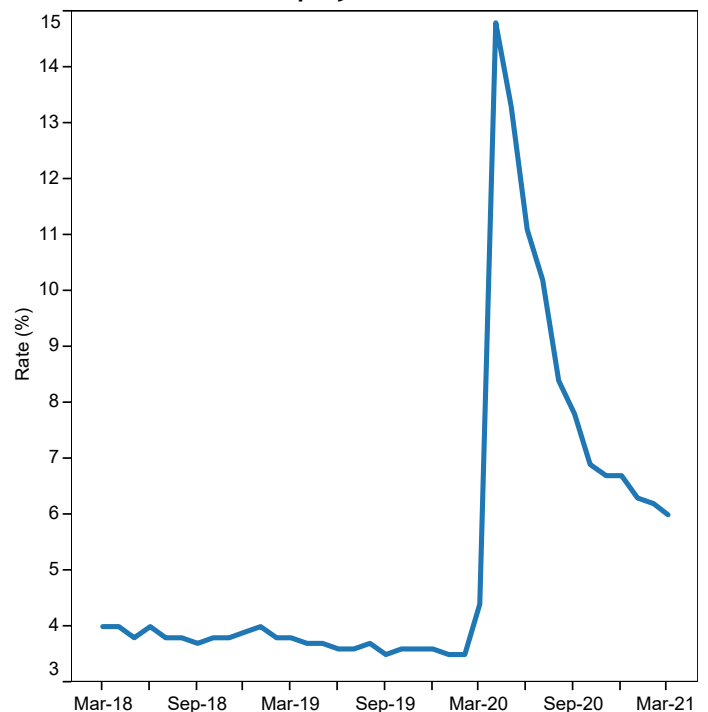
Inflation rates as measured by the CPI rose more than expected in March. On a monthly basis, total CPI rose six-tenths while core CPI rose three-tenths. On a year-over-year basis, total CPI jumped 2.6% and core CPI rose 1.6%. The sharp year-over-year gains were due in part to the price declines seen in March of last year at the start of the pandemic. Oil prices have leveled off near \$60 per barrel in April after rising steadily over most of the previous year.

Nonfarm payroll employment posted the largest increase since August as 916,000 jobs were added and gains in prior months were revised higher. A rebound in construction employment, down from the weather-related decline in February, accounted for over 50% of the month's gain. Leisure and hospitality services also contributed to the growth as covid-related restrictions continued to loosen in many regions. Even with an expanding labor force, the unemployment rate declined in March to 6.0% from 6.2% in February. Despite the continued improvement in labor markets, both payrolls and the unemployment rate remain well-distanced from their pre-pandemic levels.

Nonfarm Payroll Employment

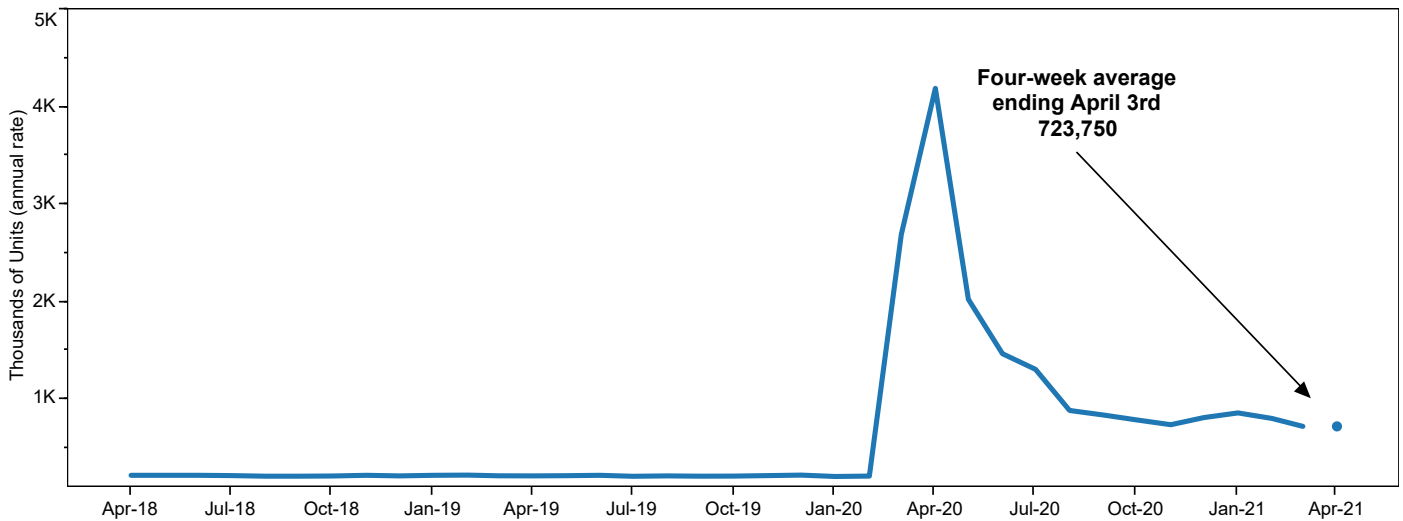


Unemployment Rate



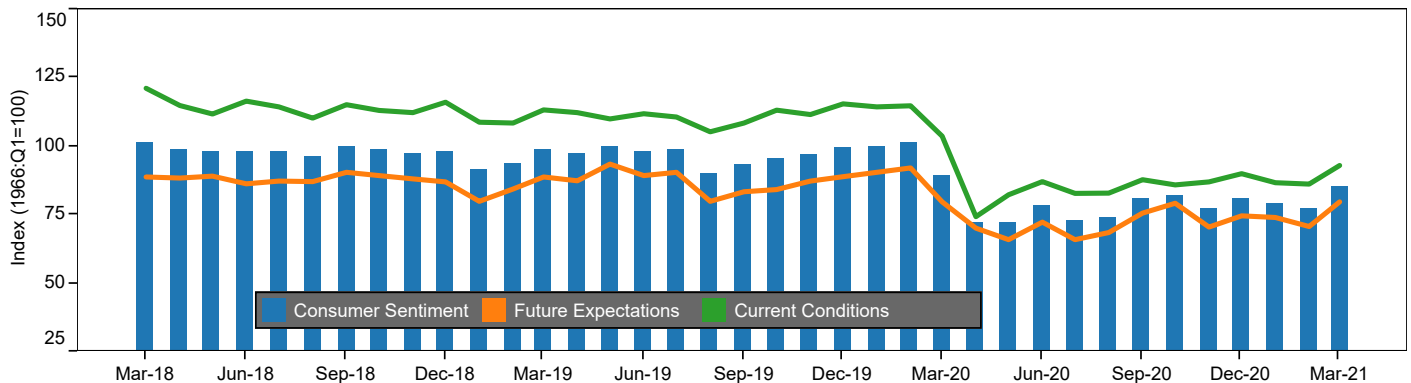
Initial claims for unemployment insurance rose to 744,000 in the week ending April 3rd, while the four-week average increased to 723,750. Recent claims data stand in contrast to the improvements seen in other recent employment data, possibly due to people cycling in and out of jobs seeking steady employment as parts of the economy reopen.

Initial Claims

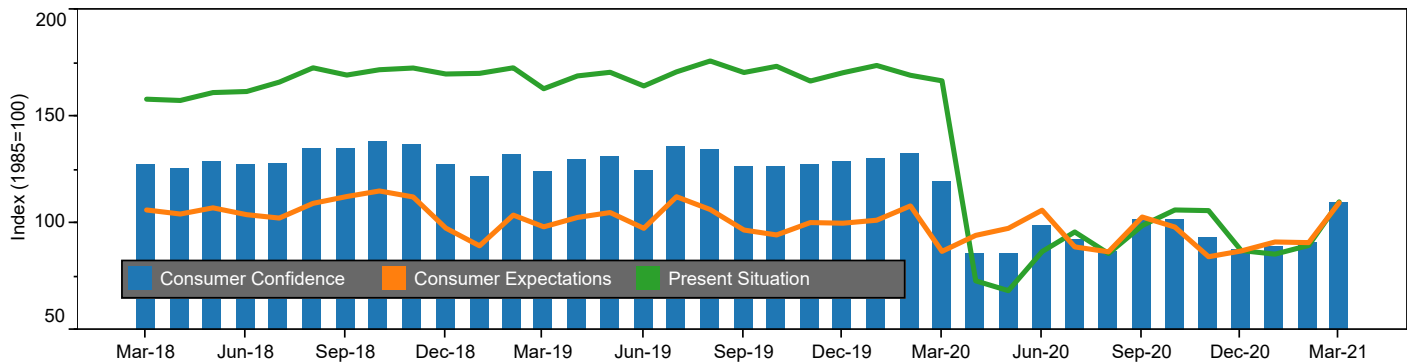


Despite remaining below their pre-pandemic levels, consumer attitudes broadly improved in March. Consumer sentiment increased to 84.9 in March from 76.8 in February. Both the expectations and the current conditions index contributed to the gains. All measures showed improvement in the latter half of the month as stimulus funds began being dispersed. Consumer confidence surged to 109.7 in March from February's reading of 90.4. Both the present situation index and the expectations index posted sizable contributions to the increase, as the expectations index reached a nearly-two-year high.

Consumer Sentiment and Expectations

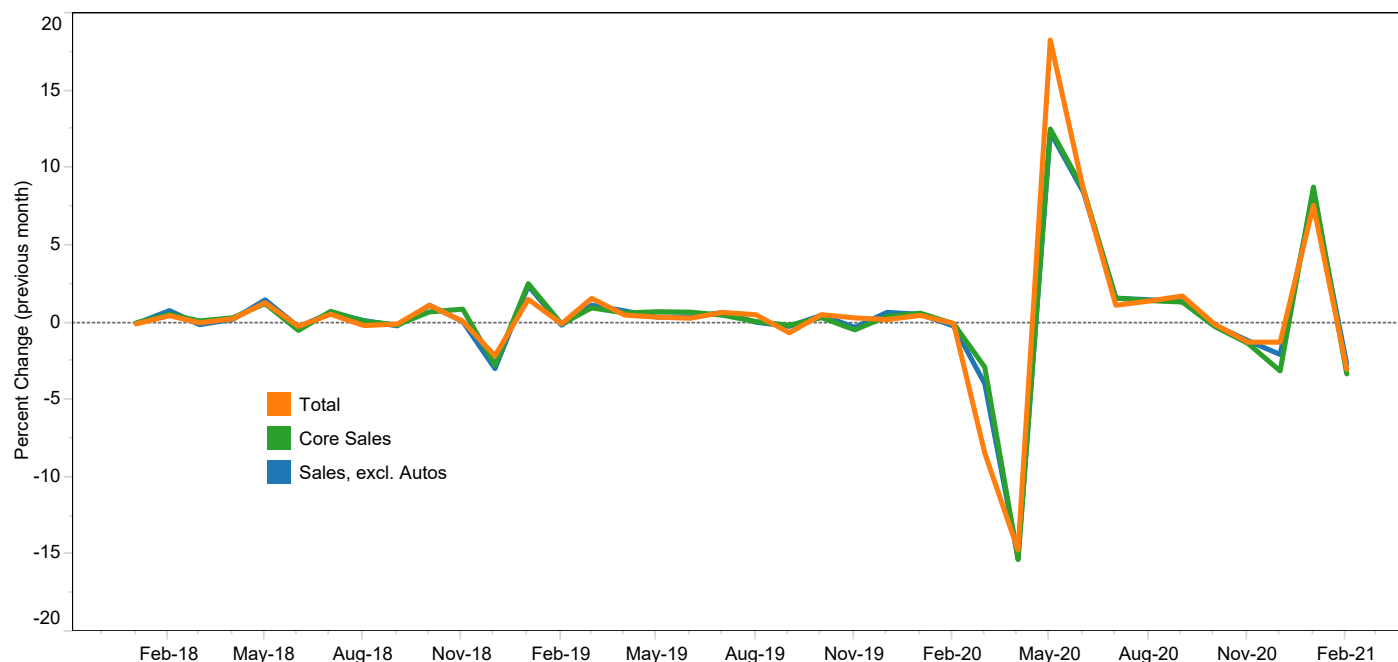


Consumer Confidence and Expectations



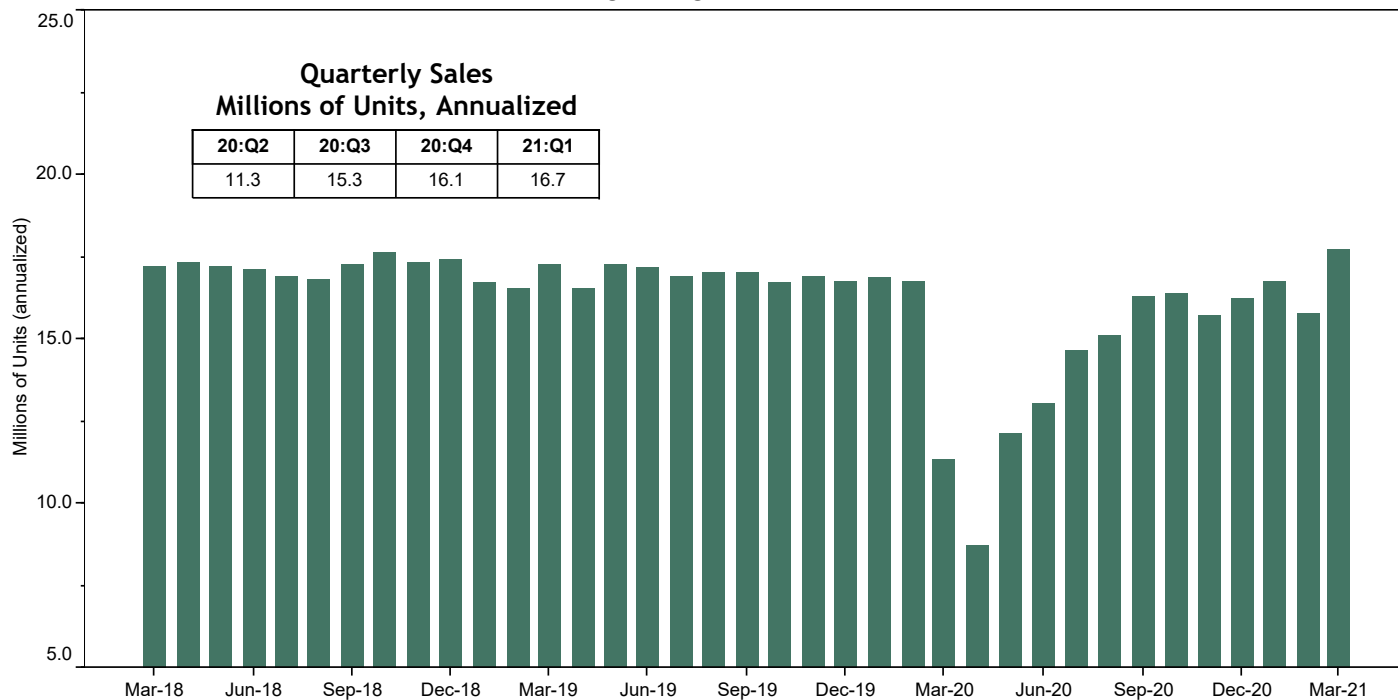
Retail sales dropped 3.0% in February data after starting the year off with a 7.6% increase - an improvement that was revised upward from 5.3%. Amid many encouraging signs for the economy, the dip in sales is likely due to unusually bad weather across the nation as well as sharply lower levels of government aid. Sales excluding autos and core sales also posted similar decreases, falling 2.7% and 3.3%, respectively. However, the third major round of stimulus funds began being dispersed in mid-March and will help strengthen consumer spending in the first quarter.

Retail Sales



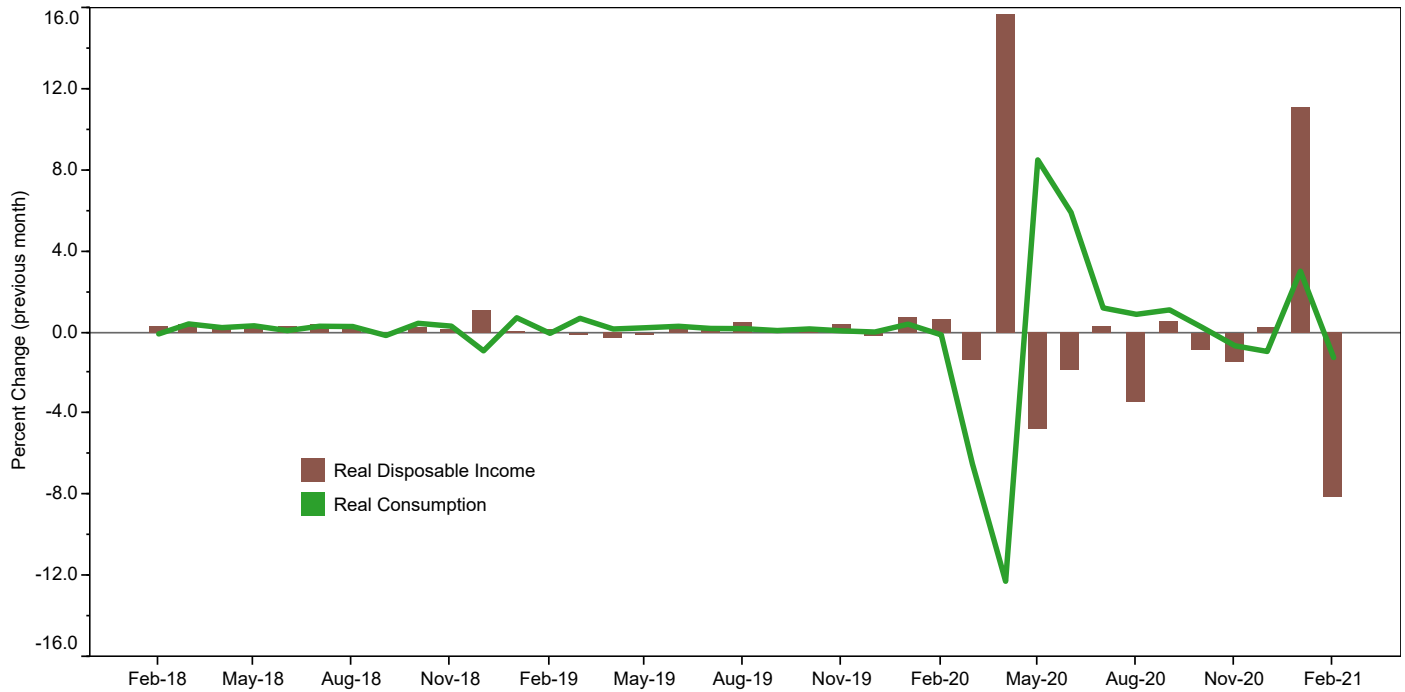
Sales of lightweight vehicles accelerated to a rate of 17.7 million units in March from the weather-depressed levels seen in February. Several major companies reported a doubling in sales in March data from a month earlier, likely due to pent up demand and the dispersal of stimulus funds in the latter half of the month. Although bad weather is no longer weighing on the pace of sales, a semi-conductor shortage continues to be a hindrance to production.

Total Lightweight Vehicle Sales



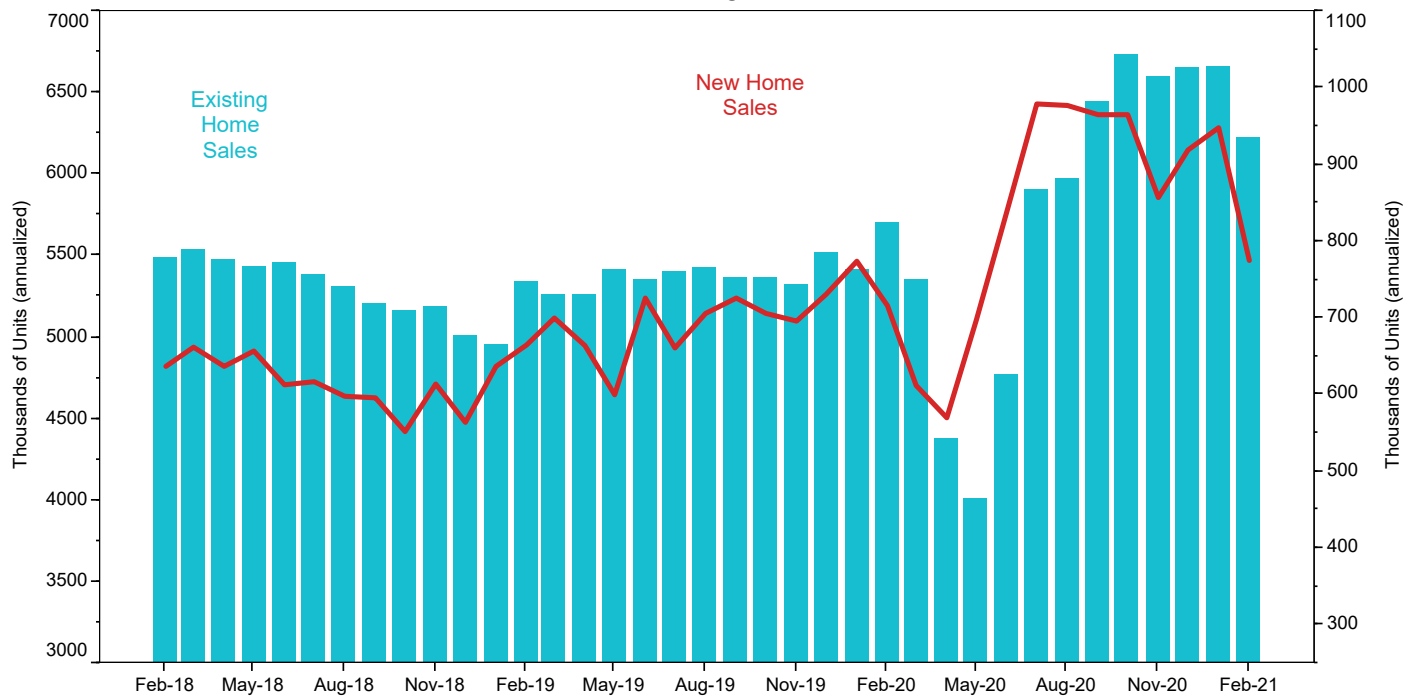
Real disposable income fell 8.0% in February and real consumption fell 1.2%, following strong gains in January fueled by stimulus payments. Income and spending are likely to turn higher again in March due to another round of fiscal support, the increasing number of vaccinations, and the suspension of many monthly payments on debts and mortgages.

Real DPI and Consumption



Sales of new and existing homes fell sharply in February although both measures remain above their pre-pandemic levels. While mortgage rates ticked up in February, they are still historically low and are aiding demand, even as tightened supply continues to push prices upward. Recent data showed all regions posted double digit price gains.

New and Existing Home Sales



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

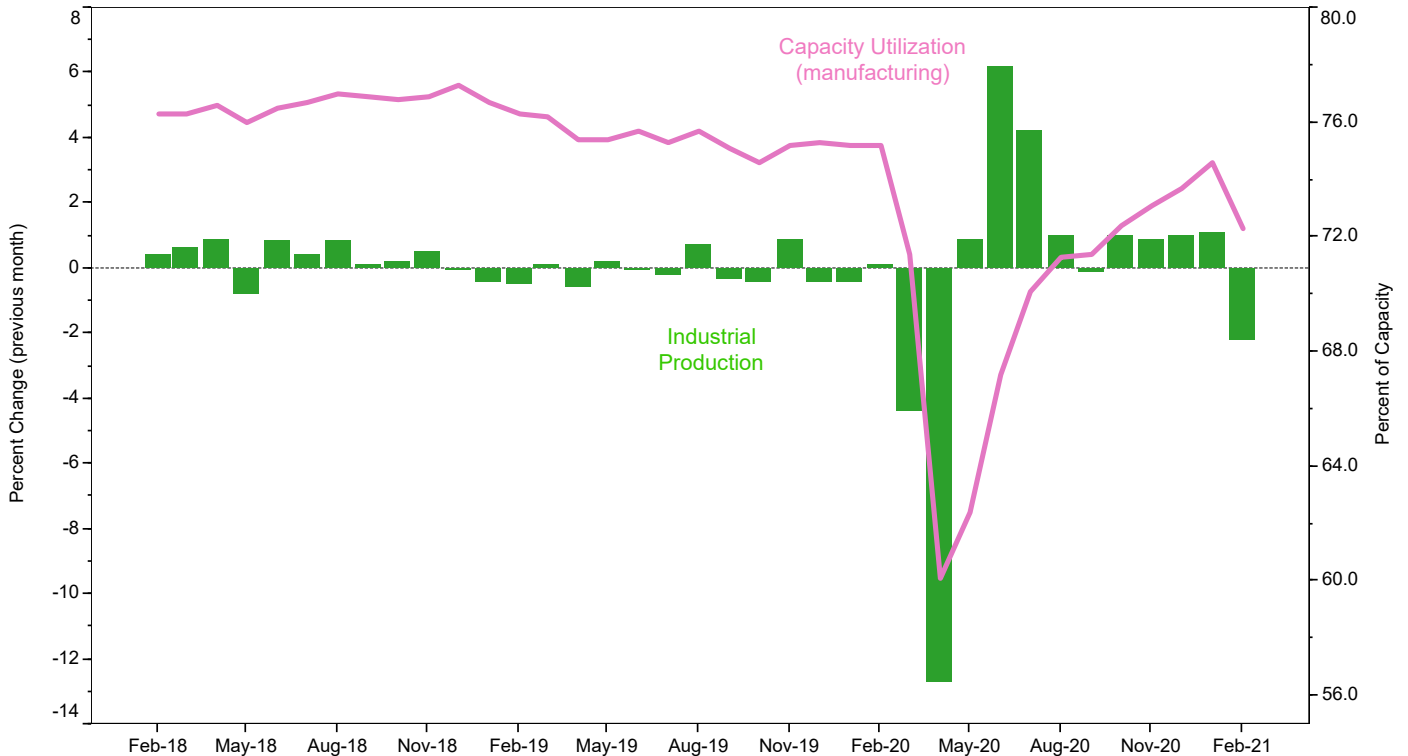
Housing starts and building permits both fell in February, as bad weather and increased construction costs weighed on new construction. However, both measures remain at levels not seen since before the Great Recession. Starts and permits fell for both single- and multi-family homes in February, and the softness was consistent across most of the country. Only the West saw an increase in starts and only the Midwest an increase in permits.

Housing Starts and Building Permits



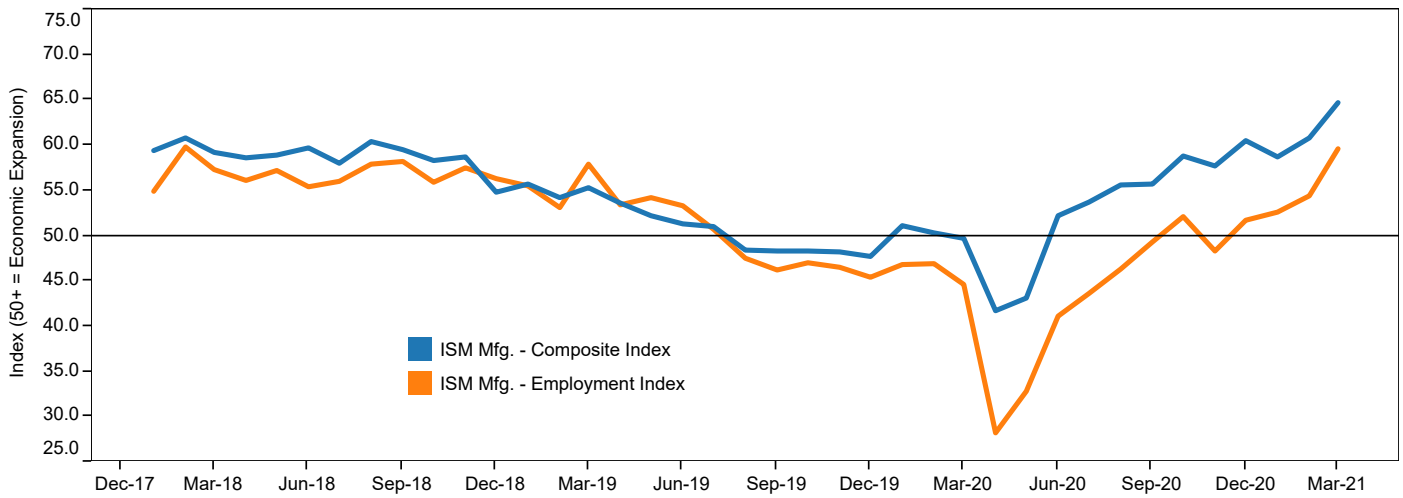
Industrial production fell 2.2% in February as decreases in manufacturing and mining output were partially offset a spike in output from utilities. In addition to the continuing semi-conductor shortage, historically poor weather - despite helping to boost utilities output - weighed heavily on manufacturing and mining. Capacity utilization in manufacturing fell to 73.8%, the lowest level since October.

Industrial Production and Capacity Utilization

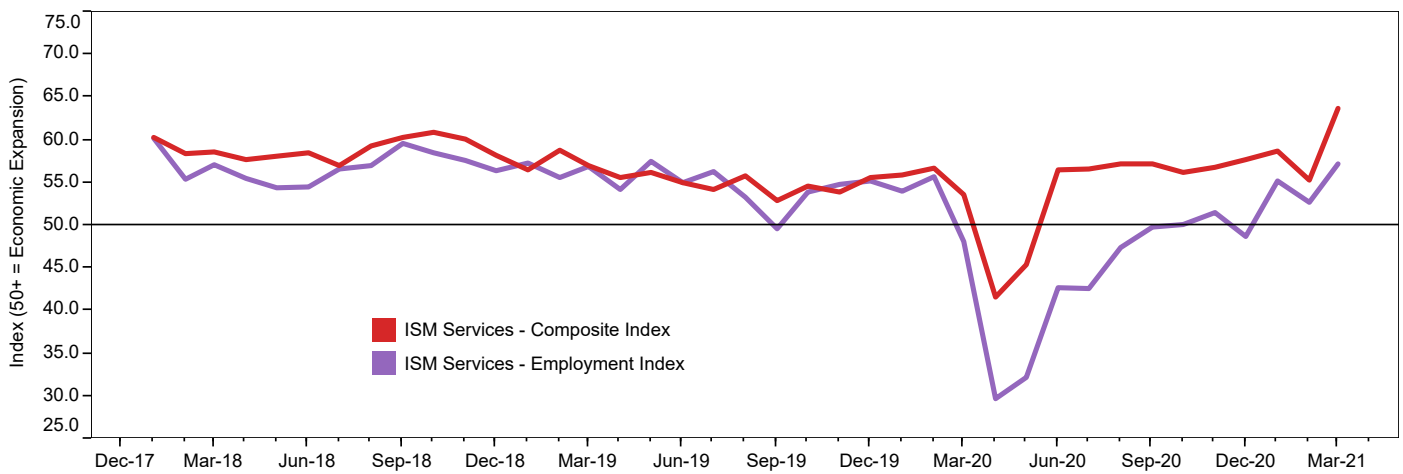


The ISM manufacturing index surged to a 37-year high in March while the employment component also rose to its highest level since February 2018. The ISM services index jumped to a record high while the employment component saw its highest level since May 2019. All three regional manufacturing surveys from the Federal Reserve posted increases while continuing to signal expansion. The Philadelphia survey reached a 50-year high.

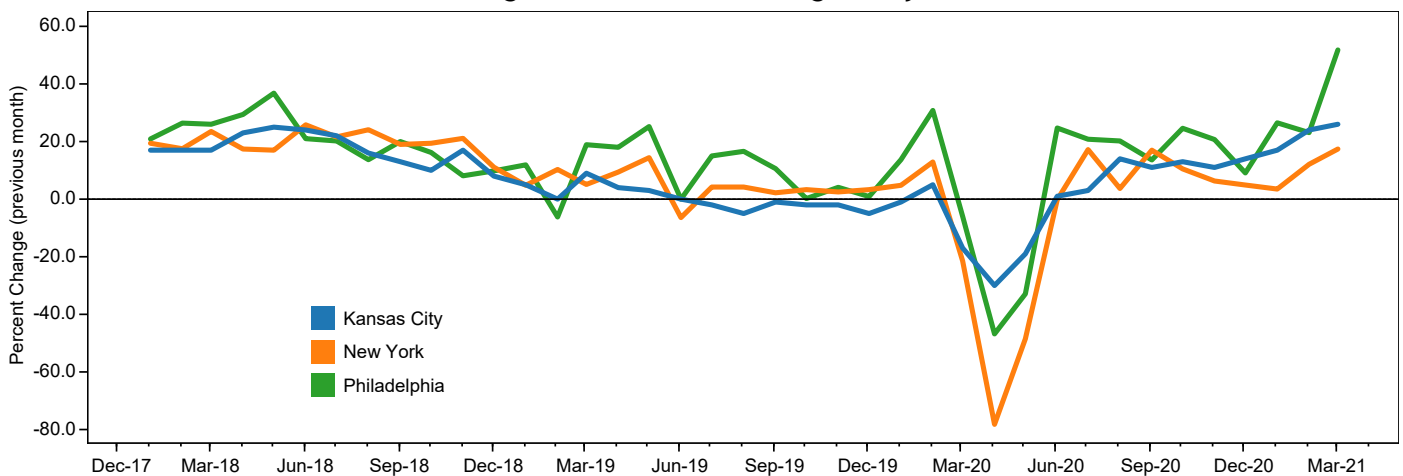
ISM Manufacturing Indices



ISM Services Indices



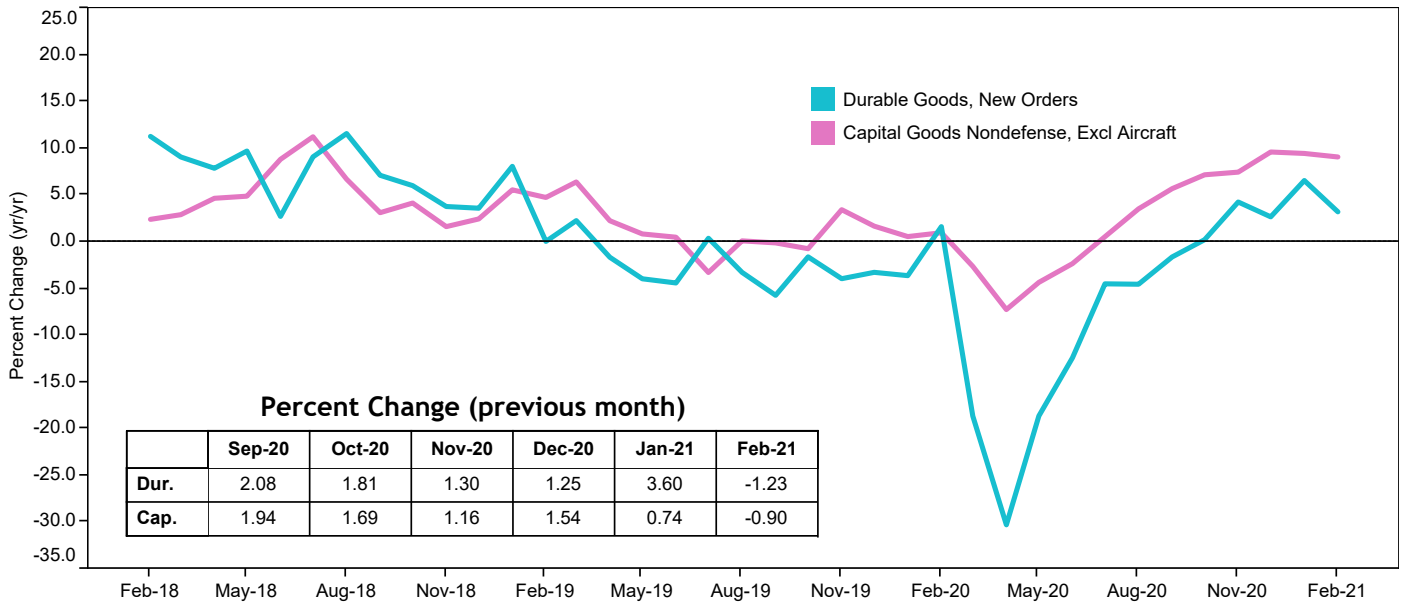
Regional FRB Manufacturing Surveys



Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

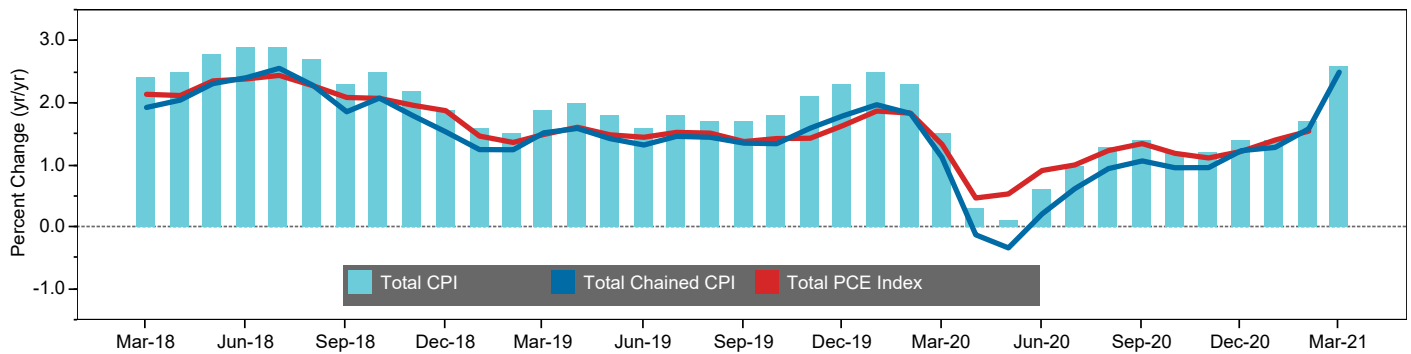
Despite remaining at historically elevated levels, both total and core orders for durable goods slowed in February from January, as well as on a year-over-year basis.

Durable Goods Orders

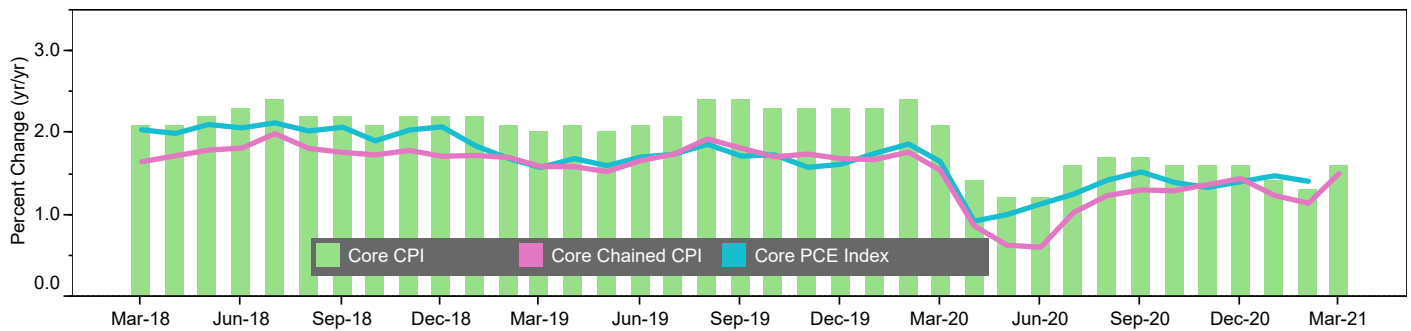


Consumer prices as measured by the total CPI rose six-tenths in March after gaining four-tenths in February. Excluding the volatile categories of energy and food, the core CPI rose three-tenths. On a year-over-year basis, total CPI jumped 2.6% - however, current levels are being compared to the depressed levels seen last year. In February data, prices as measured by the total PCE rose two-tenths from January, while the core PCE rose one-tenth. On a year-over-year basis, total and core PCE rose 1.6% and 1.4%, respectively. March data for the PCE are due out April 29th.

Total Price Indices



Core Price Indices



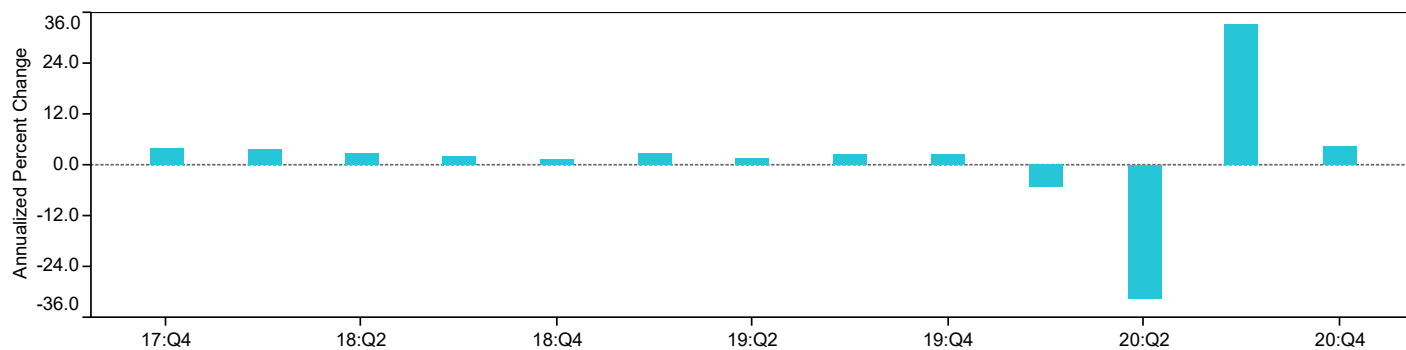
In March, oil prices reached their highest level since April 2019, rising to \$62.30 per barrel. Prices closed at \$59.70 per barrel on April 12th.

Domestic Spot Oil Price



Real GDP growth in the fourth quarter was revised up to an annual rate of 4.3%, from the second estimate of 4.1%. The increase in real GDP reflected increases in exports, nonresidential fixed investment, personal consumption expenditures, residential fixed investment, and private inventory investment, that were partly offset by decreases in state and local government spending as well as federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans). Imports, which are a subtraction in the calculation of GDP, increased.

Real GDP

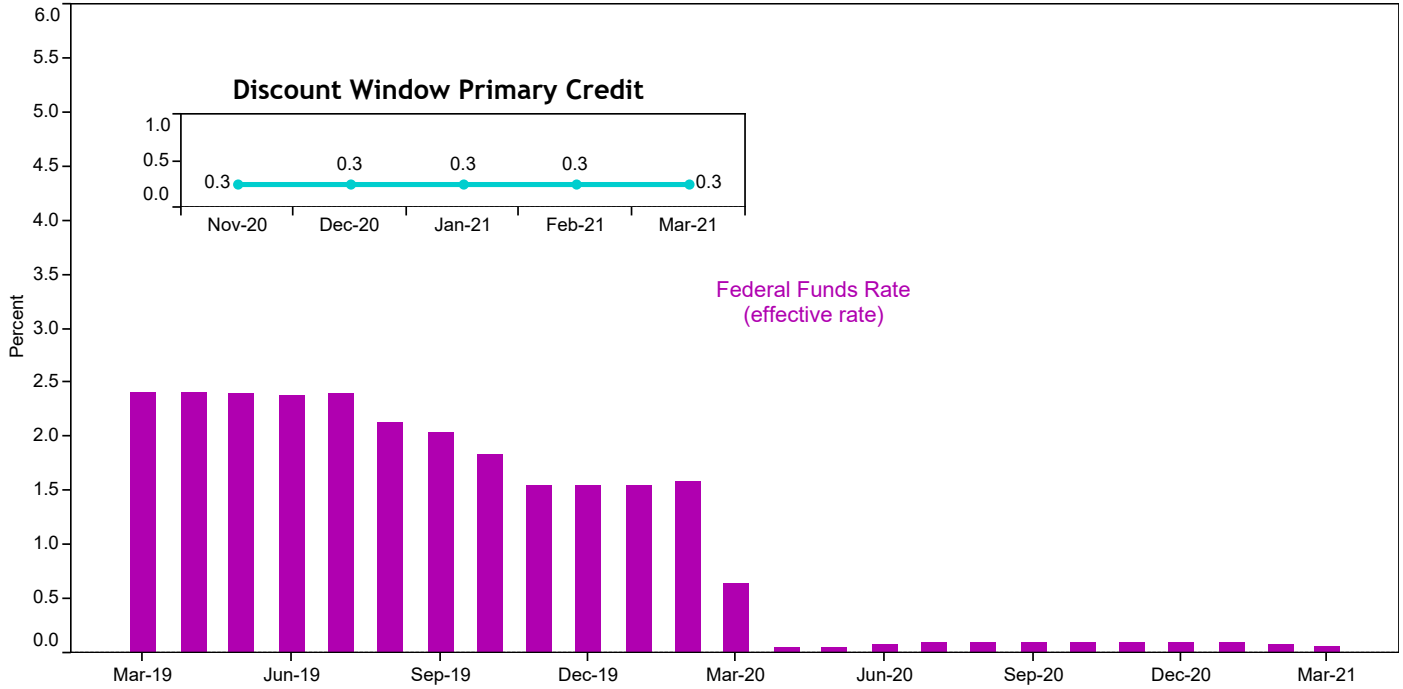


Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	4.1	4.3
Personal Consumption	2.4	2.3
Business Investment	14.0	13.1
Equipment and Software	25.7	25.4
Residential Investment	35.8	36.6
Government	-1.1	-0.8
Exports	21.8	22.3
Imports	29.6	29.8
Final Sales	3.0	2.9

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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
 Report compiled by Mike Corbett and David J. Brown.