

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

December 12, 2017

## CURRENT ECONOMIC DEVELOPMENTS - December 12, 2017

Data released since your last Directors' meeting suggest growth in the fourth quarter is likely to slow a bit from the upwardly revised rate seen in the third quarter. Labor markets showed signs of continued strengthening, consumer attitudes were mixed but remained favorable, and consumer spending increased. However, support from manufacturing was mixed. Overall, recent data remain consistent with moderately above-trend growth expected through the end of the year.

In November, nonfarm payrolls posted a larger-than-expected increase, and total job gains for the previous two months were revised up slightly. The unemployment rate was unchanged in November, due to an increase in civilian employment that offset a rise in the labor force. Initial claims for unemployment insurance increased in November, but remain consistent with further improvements in the labor market.

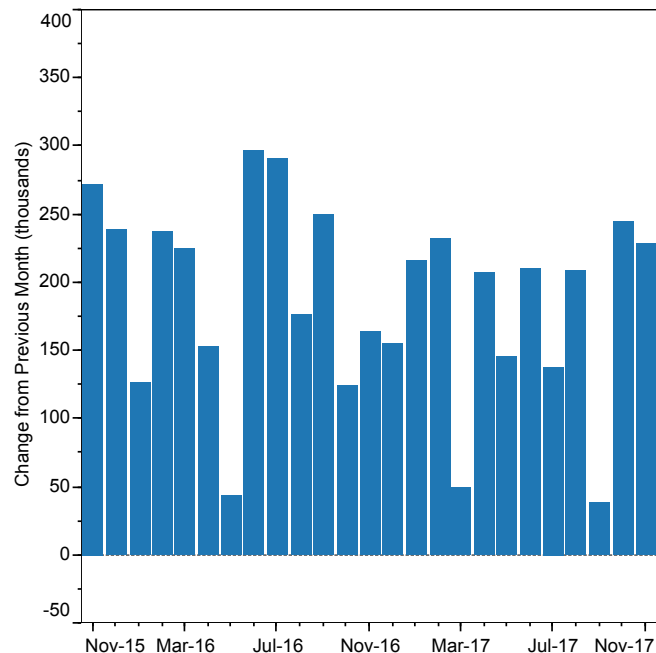
Consumer attitudes were mixed in November, as the sentiment index declined, while the confidence index increased to a seventeen-year high. In early December, the sentiment index fell a bit further due to a decrease in the expectations component, while the current conditions component increased. The pace of vehicle sales fell in November, but was above the average rate seen in the third quarter. Consumption edged up in October, after increasing in September, and real incomes also rose. Primary measures of real estate activity were positive in October. Both new and existing home sales rose during the month, as new home sales reached their highest rate in ten years. Housing starts and building permits also both increased in October.

In the manufacturing sector, the ISM index declined in November but continued to signal expansion in the industry. Industrial production continued to increase in October, and capacity utilization rose to its highest level in over nine years. Orders for durable goods decreased in October on a monthly basis but were up from their year-ago level, while nondefense capital goods, excluding aircraft, increased on both a monthly and a year-over-year basis.

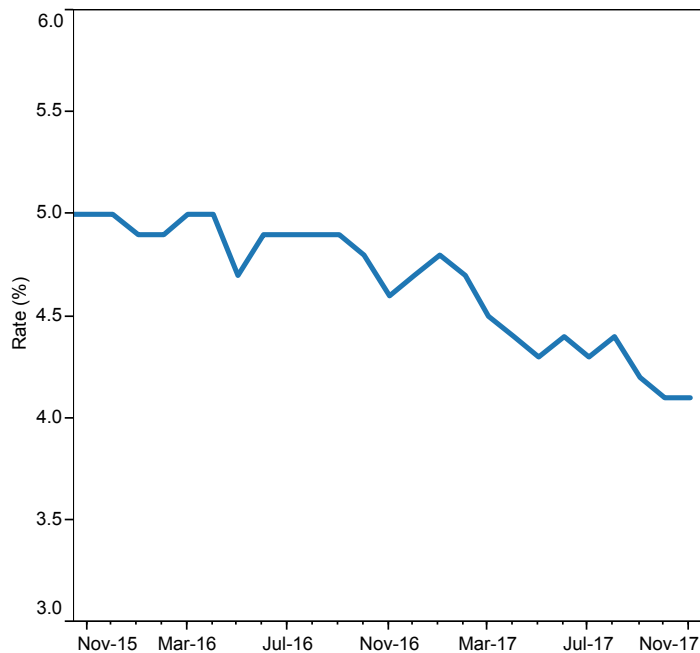
Growth in total consumer prices decelerated in October, while growth in core prices, which exclude the volatile food and energy sectors, picked up a bit. Oil prices continued to rise on average in November and increased a bit further in the first two weeks of December.

Nonfarm payrolls added 228,000 jobs in November, while job gains for the previous two months were revised up by a net 3,000 jobs. The unemployment rate held steady at 4.1% in November, as a rise in civilian employment was offset by an increase in the size of the labor force.

**Nonfarm Payroll Employment**

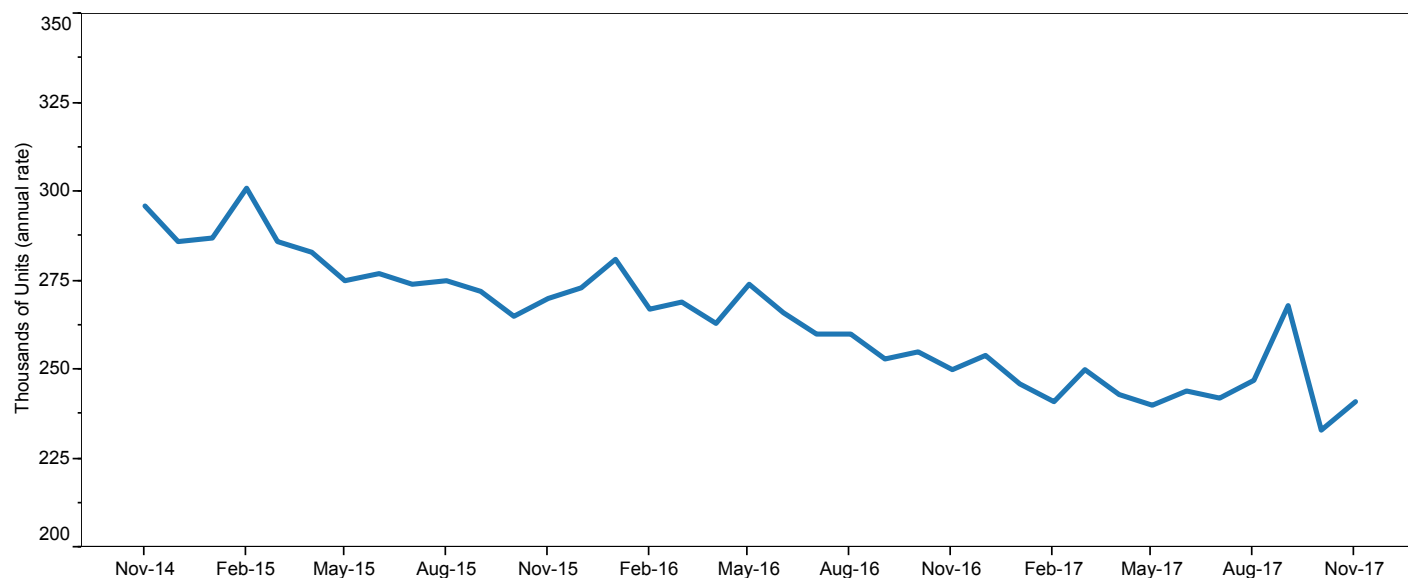


**Unemployment Rate**



Initial claims for unemployment insurance rose in November, after falling in October. Despite the increase, weekly claims remain at a level consistent with further labor market improvement.

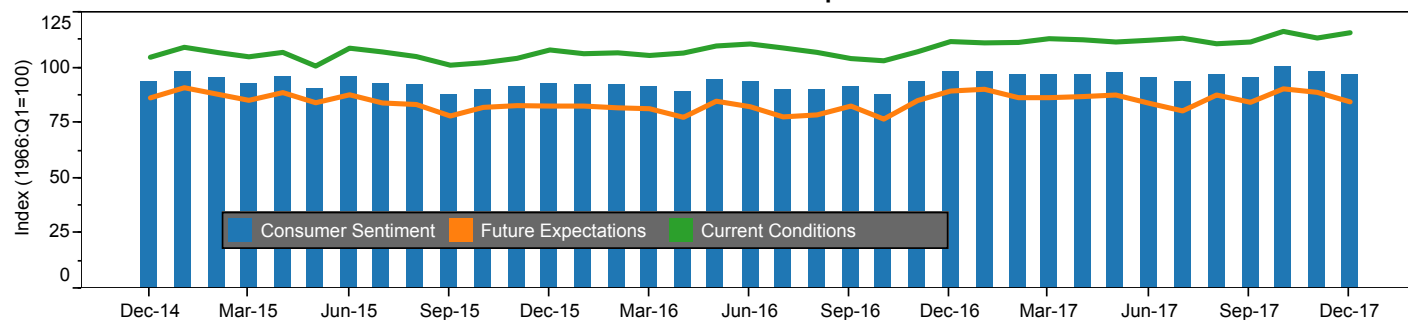
### Initial Claims



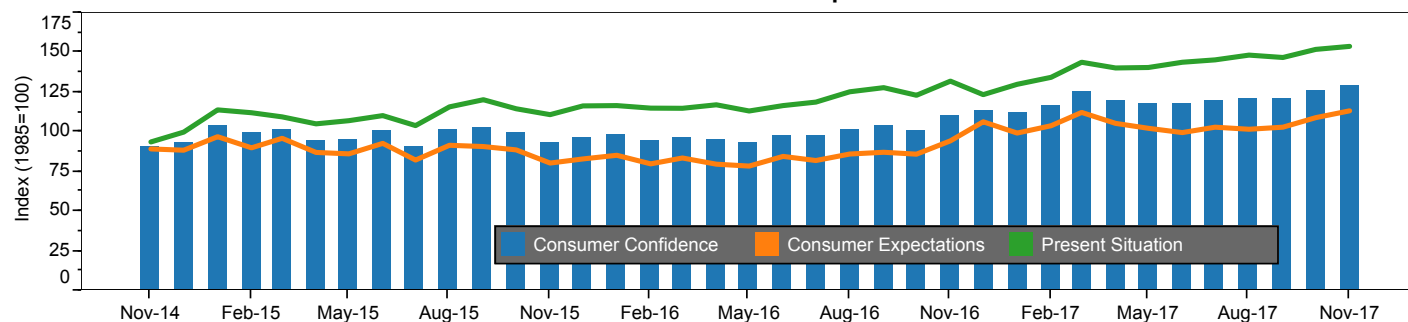
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in November, and have declined a bit in early December. The sentiment index decreased in November and early December, but remained favorable. The decline in early December was due to a decrease in expectations, as the current conditions component of the index increased. Meanwhile in November, the confidence index rose to a seventeen-year high due to increases in both of its components. Respondents to the confidence survey expressed more optimism towards improvements in the labor market.

### Consumer Sentiment and Expectations



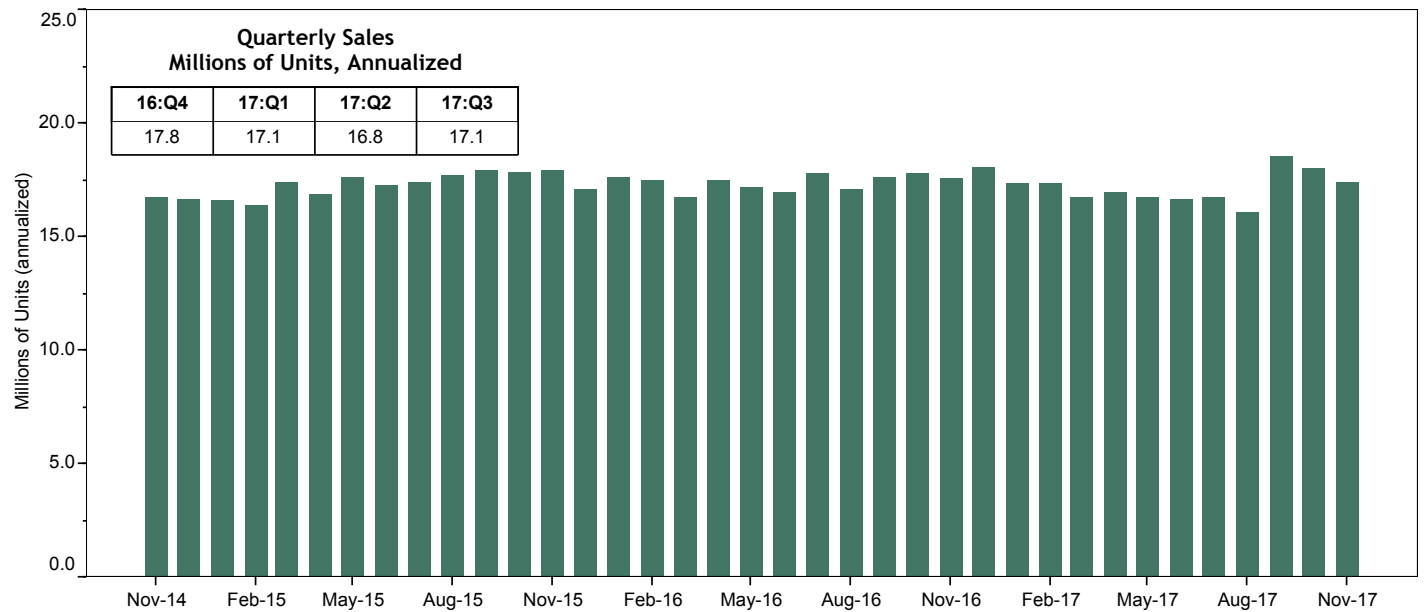
### Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales fell in November to roughly in line with expectations, after declining in October from an elevated level in September that was likely an effect of the late-summer hurricanes. Despite the decline, sales in November were above the average pace seen in the third quarter.

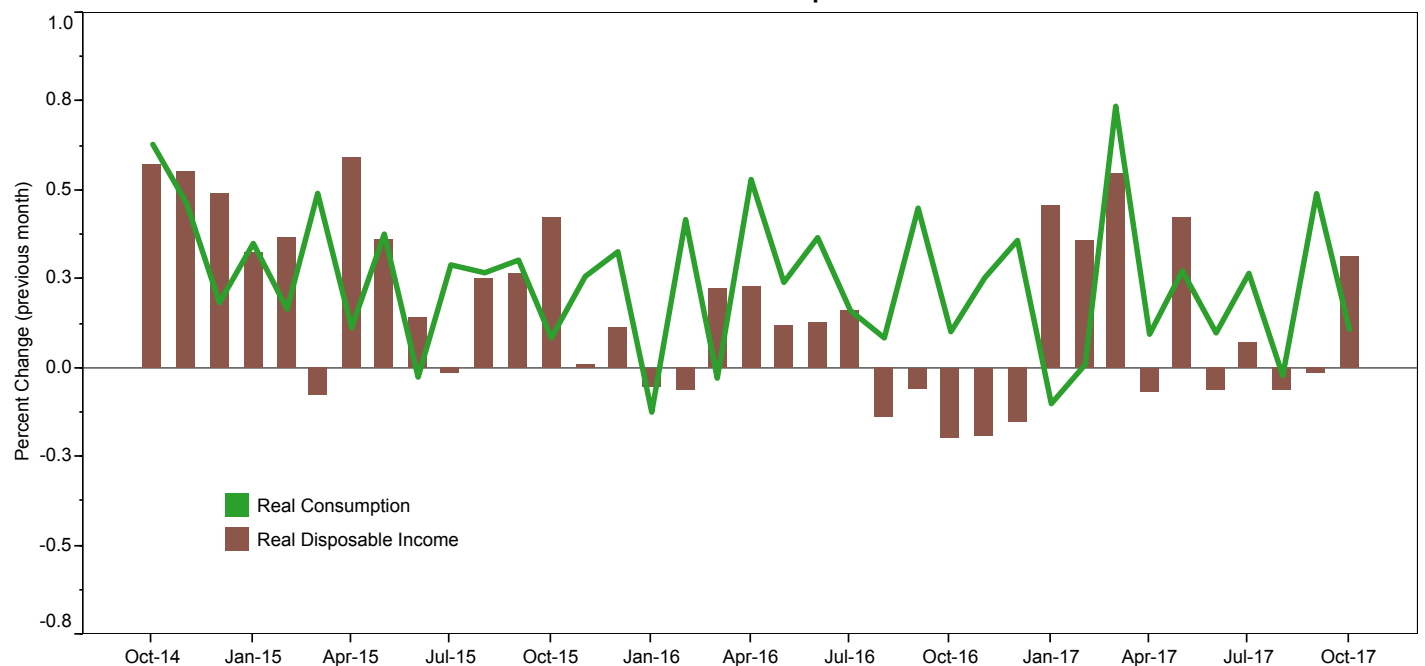
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes increased in October, after holding steady in September. Consumption also rose in October, albeit at a slower rate than seen in the prior month.

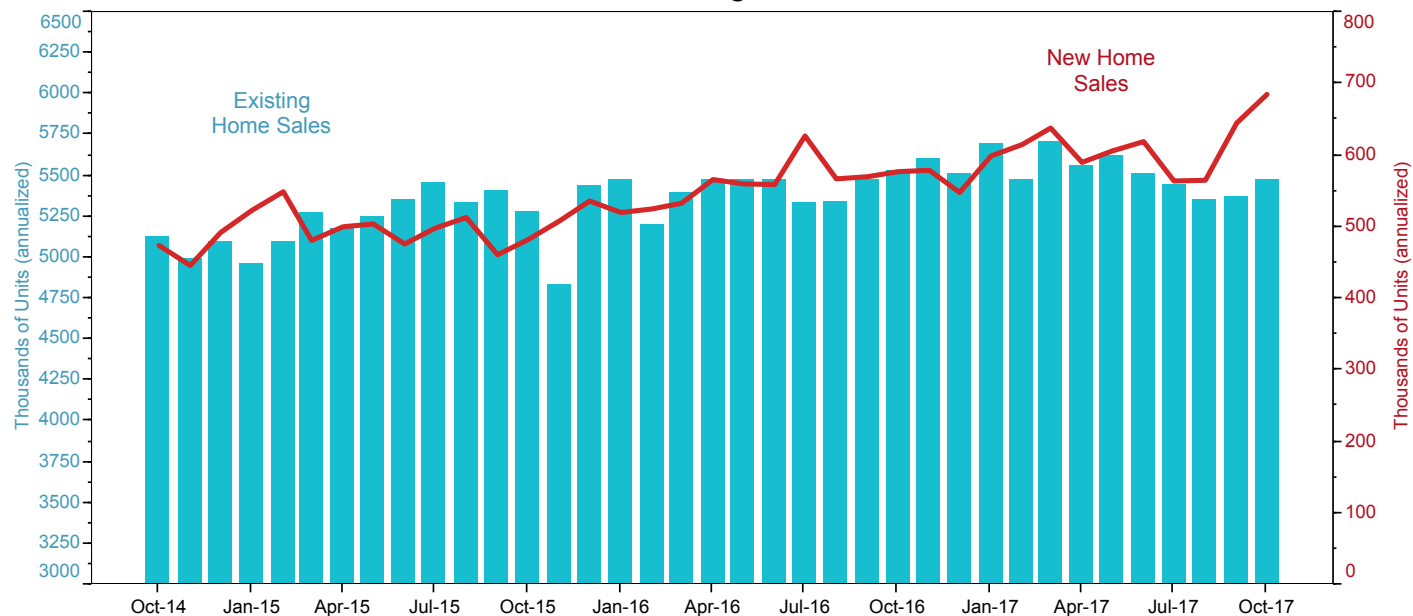
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data continued to improve in October. New home sales rose for the second consecutive month, reaching their highest rate in ten years. Meanwhile, existing home sales also increased in October for the second consecutive month.

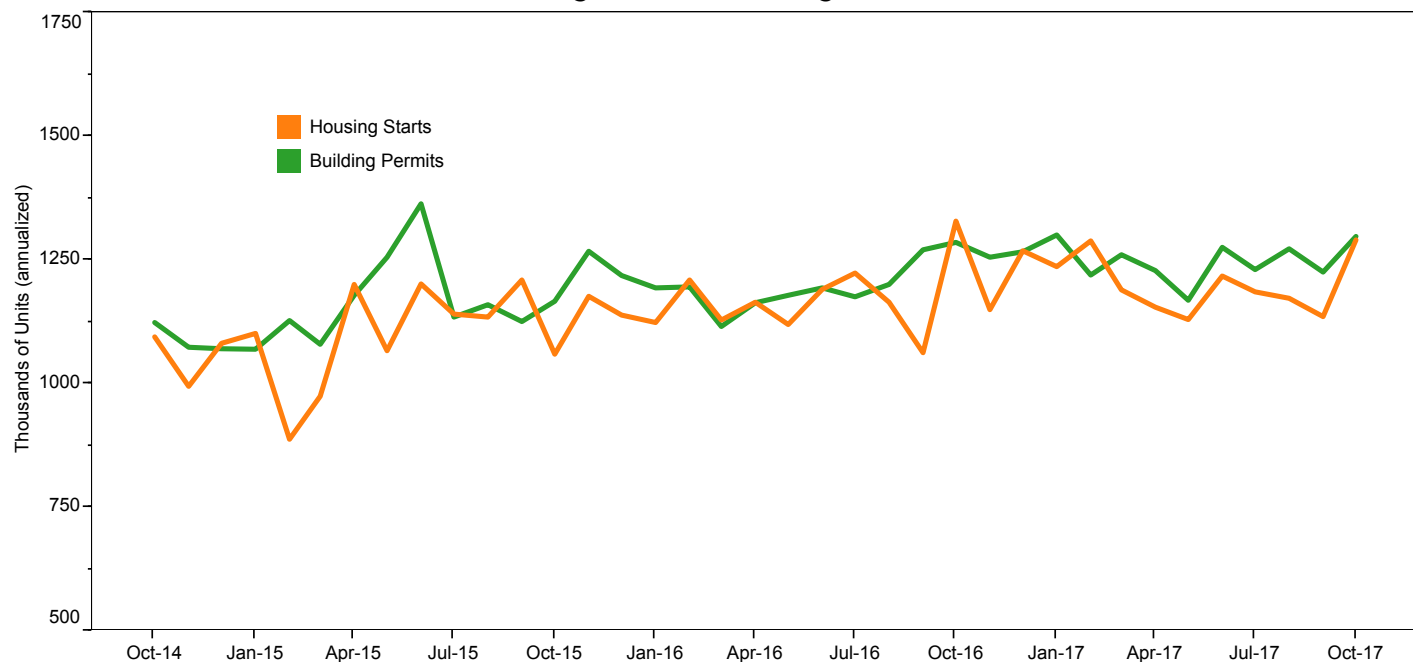
### New and Existing Home Sales



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

Housing starts picked up in October, after falling in each of the prior three months, and reached their highest rate in one year. Meanwhile, building permits rose in October to their highest rate since January.

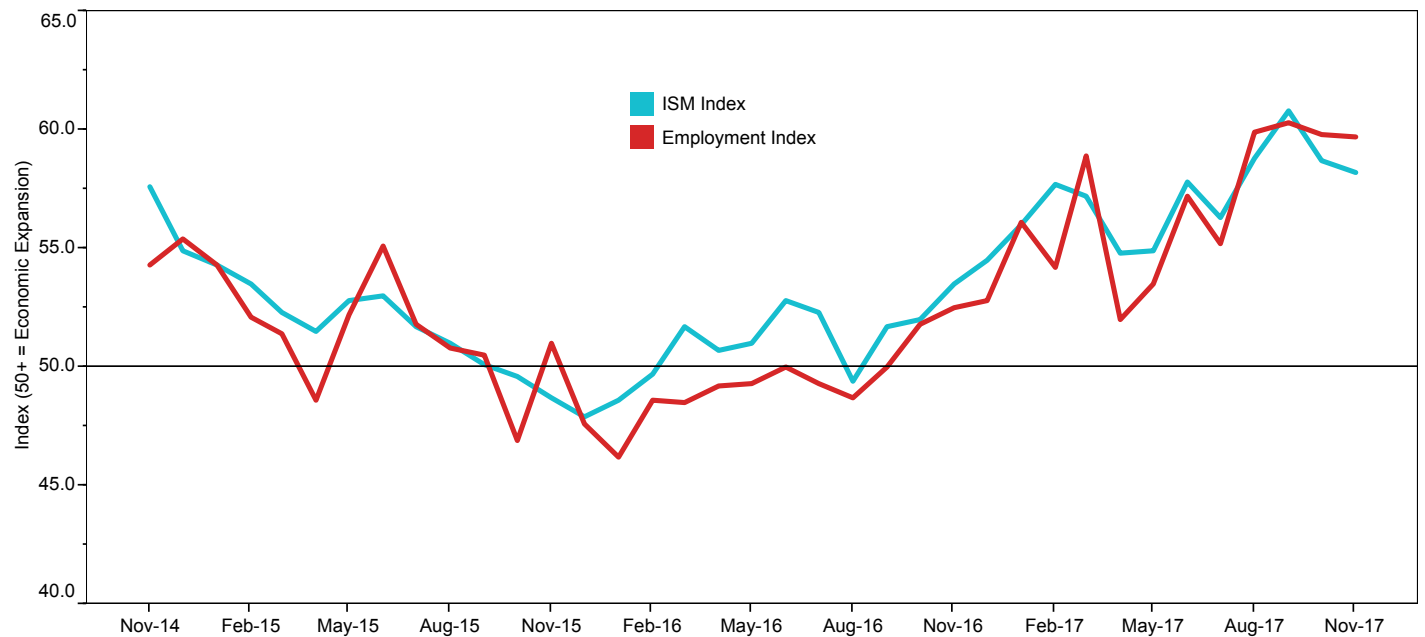
### Housing Starts and Building Permits



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

The ISM manufacturing index fell in November, after decreasing in October, but continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also declined in November for the second consecutive month.

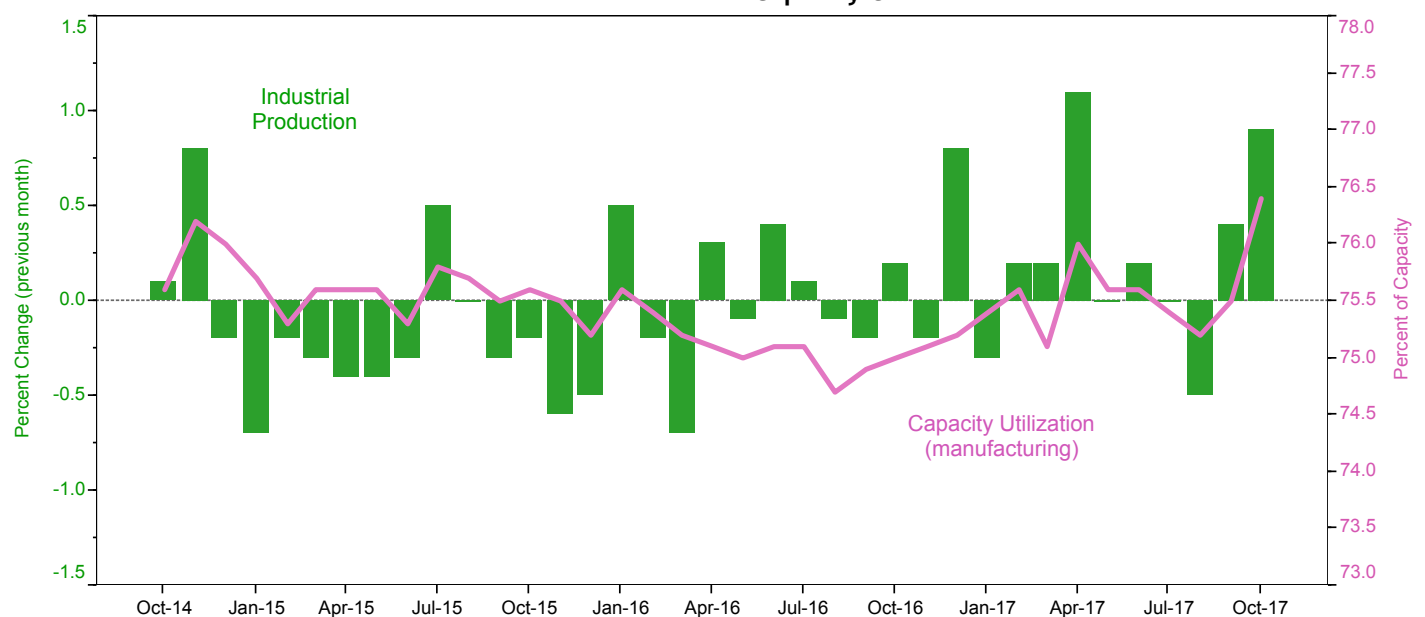
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production increased further in October, after rising in September. Manufacturing and utilities production both posted increases in October, while mining output declined. Capacity utilization continued to increase in October, reaching its highest level in over nine years.

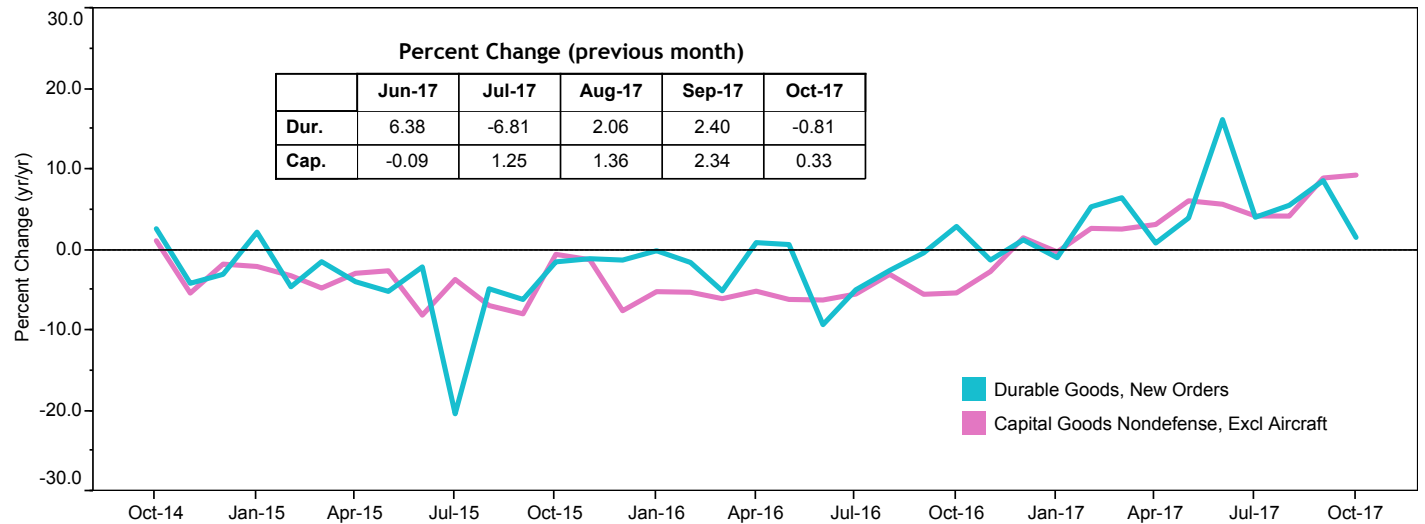
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in October, after rising in each of the prior two months, but continued to increase on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, continued to rise in October on both a monthly and a year-over-year basis.

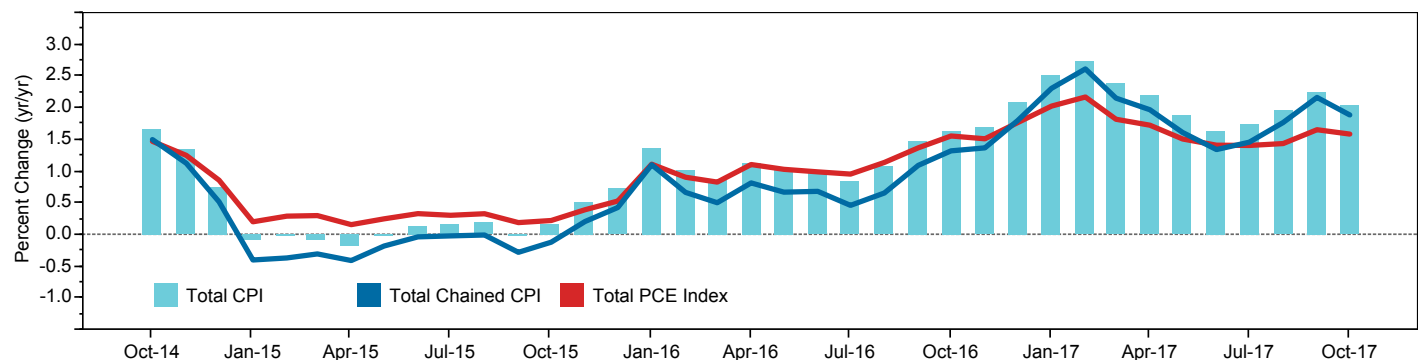
### Durable Goods Orders



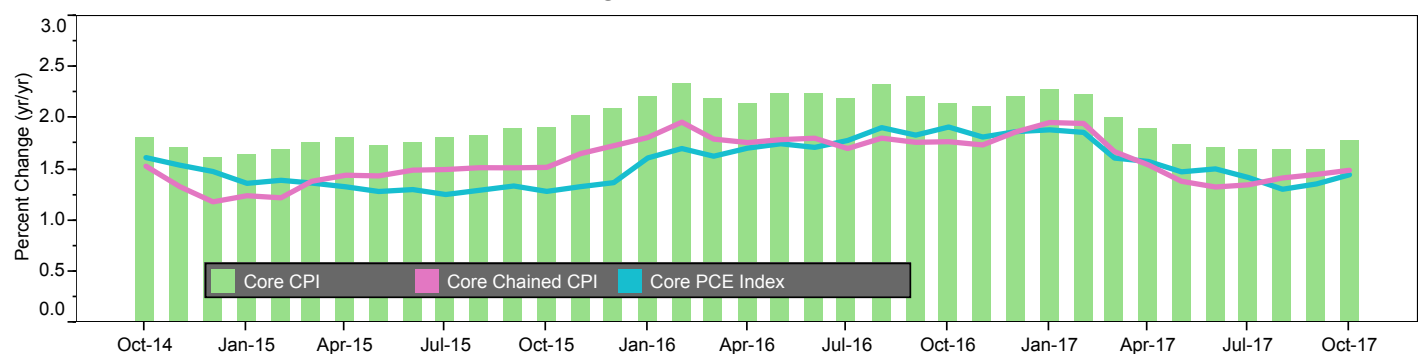
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices slowed in October, after accelerating in September. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, picked up a bit in October.

### Total Price Indices

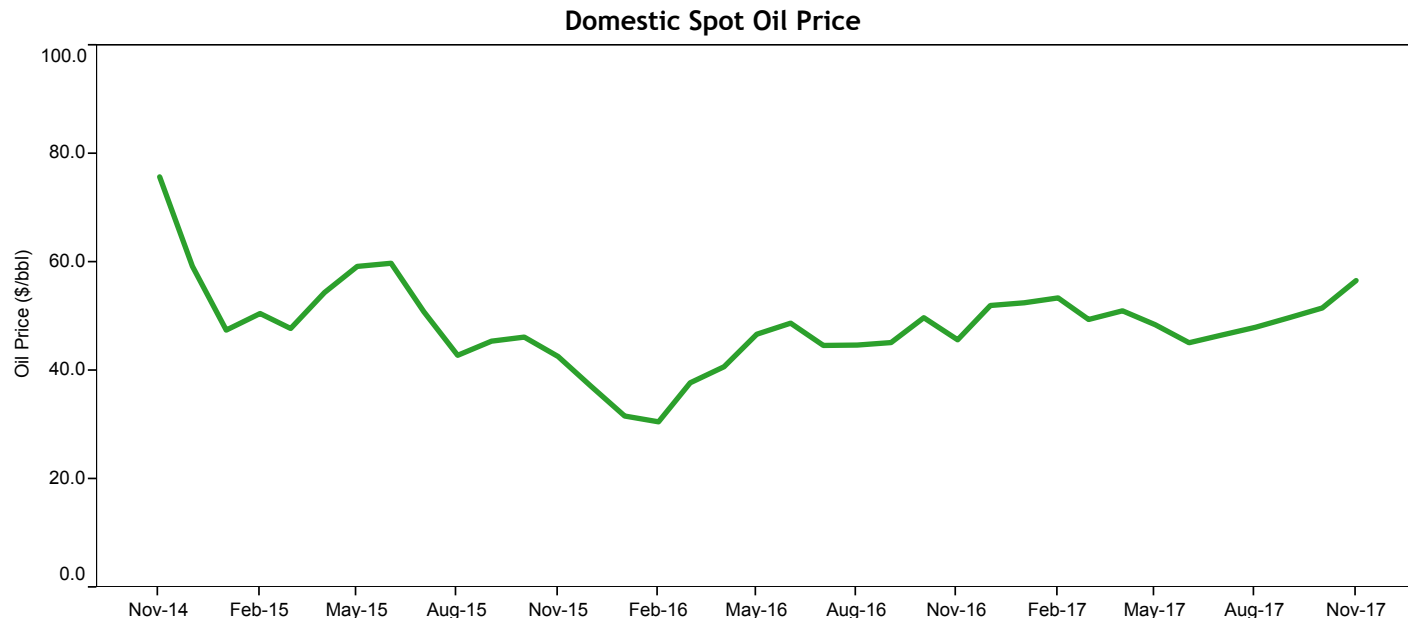


### Core Price Indices



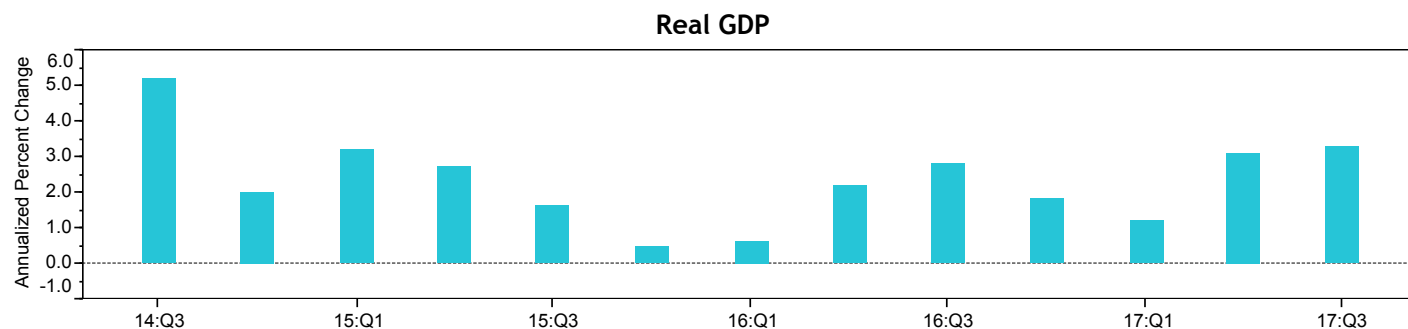
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices continued to rise in November, registering their fifth consecutive monthly increase. Prices have risen a bit further in the first two weeks of December, registering \$57.99 per barrel on December 11th.



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

Third quarter real GDP growth was revised up in the second estimate to 3.3% from 3.0%. The higher rate primarily reflected upward revisions to nonresidential fixed investment, state and local government spending, and private inventory investment.



**Revisions to Third Quarter Real GDP**

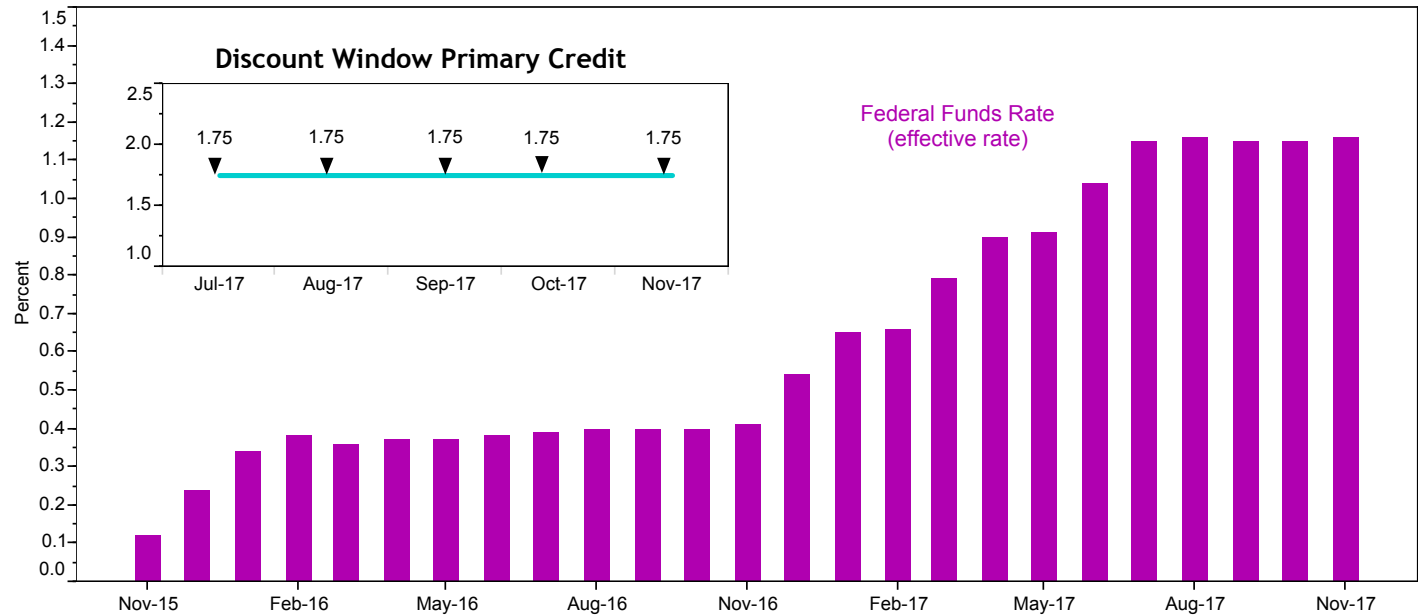
Description	Advance Estimate	Second Estimate
Real GDP	3.0	3.3
Personal Consumption	2.4	2.3
Business Investment	3.9	4.7
Equipment and Software	8.6	10.4
Residential Investment	-6.0	-5.1
Government	-0.1	0.4
Exports	2.3	2.2
Imports	-0.8	-1.1
Final Sales	2.3	2.5

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.