



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

December 4, 2018

CURRENT ECONOMIC DEVELOPMENTS - December 4, 2018

Data released since your last Directors' meeting suggest growth in the fourth quarter has likely slowed from the strong rates seen in the second and third quarters, but remains solid. Labor markets continued to tighten, consumer spending increased, and consumer attitudes remain elevated. However, housing market data have been soft and business investment has slowed from the more robust rates seen earlier this year. Overall, data remain consistent with the expectation for growth, although slower, to remain above trend as we move into next year.

In the three weeks ending November 24th, initial claims for unemployment insurance rose further, on average, but remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and markets are anticipating another solid gain in employment of around 200,000 with the unemployment rate holding steady at 3.7 percent.

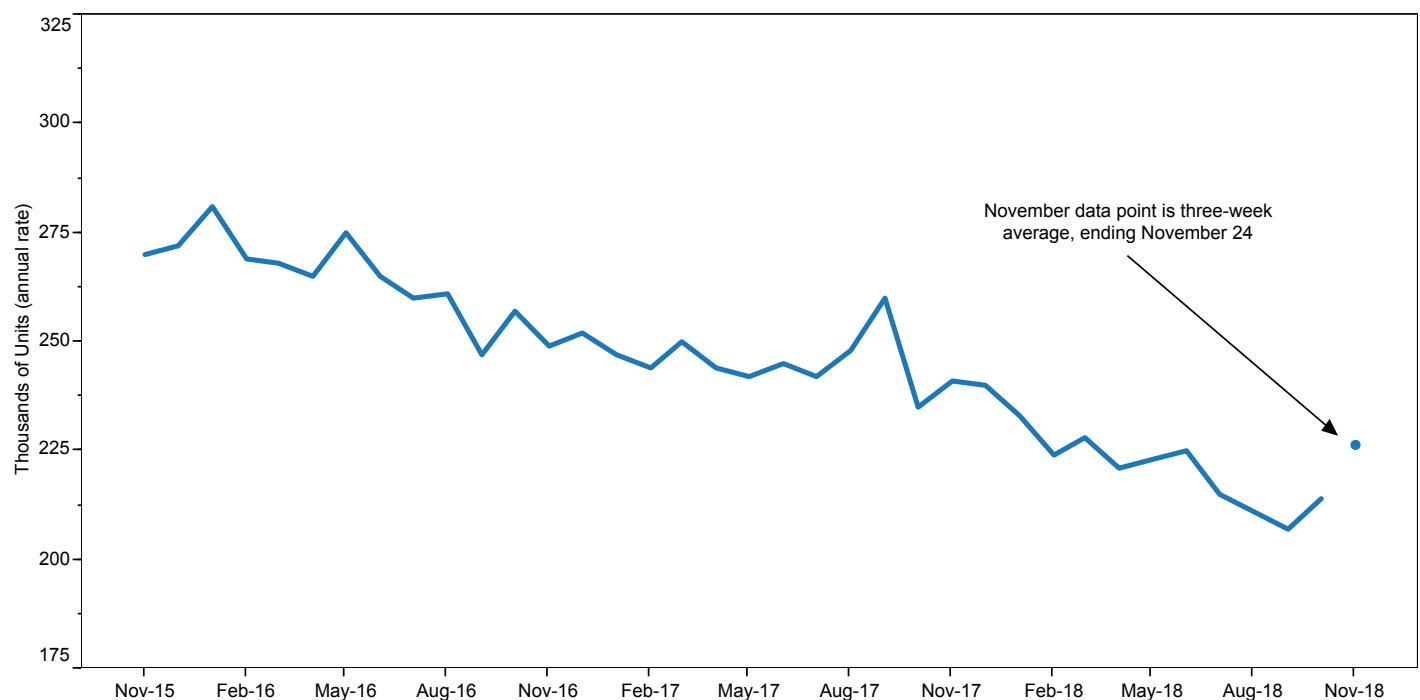
Consumer attitudes eased a bit in November, but remain elevated by historical standards. Consumption increased again in October, boosted by a solid increase in incomes, while vehicle sales were little changed in November from the two previous months. Primary measures of real estate activity were largely soft in October. New home sales fell sharply while existing home sales managed a small gain following six consecutive declines. Also, single-family housing starts and building permits both decreased.

In the manufacturing sector, the ISM index rebounded in November to regain some of the decline seen in September and October. Industrial production continued to rise in October, as did capacity utilization in manufacturing. On the other hand, both total and core durable goods orders fell further in October, though continued to maintain year-over-year gains.

Recent inflation data have been mixed. The total CPI accelerated a bit in October, though growth in the PCE index held steady. Core inflation measures slowed a bit in October, continuing the slight downward trend seen over the past few months. Lastly, oil prices fell sharply in November, reaching their lowest levels in over one year.

Initial claims for unemployment insurance have risen in recent weeks, climbing to their highest level since May in the week ending November 24th. Still, claims remain low by historical standards and continue to be at a level consistent with a strong labor market.

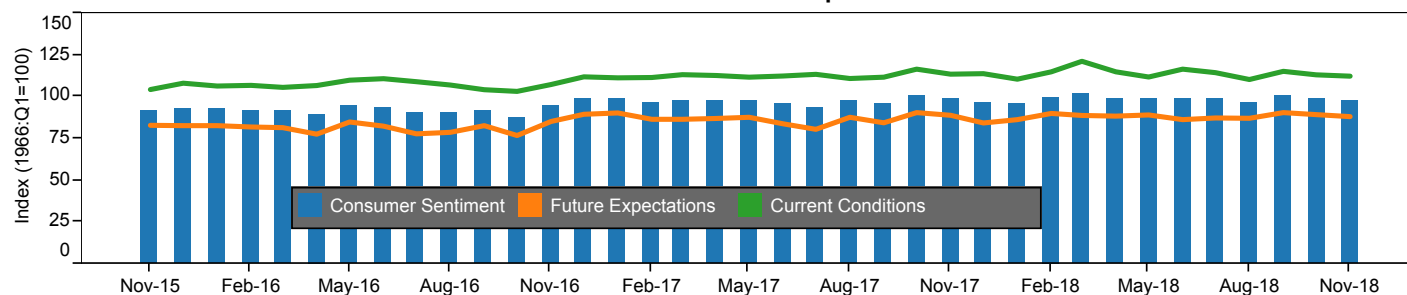
Initial Claims



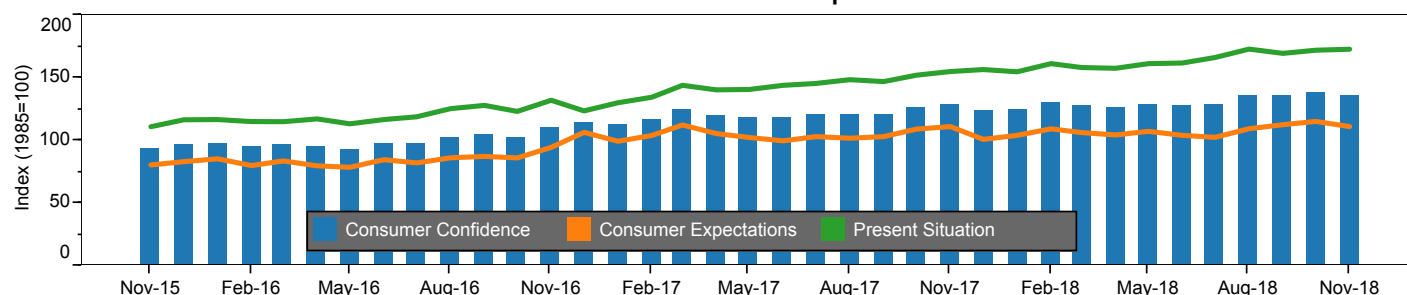
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes declined a bit in November, yet remain at high levels. Sentiment fell due to small losses in both the current conditions and expectations indices, but overall has been moving mostly sideways since the spring. Confidence reached an 18-year high in October before retreating in November due to lower expectations.

Consumer Sentiment and Expectations



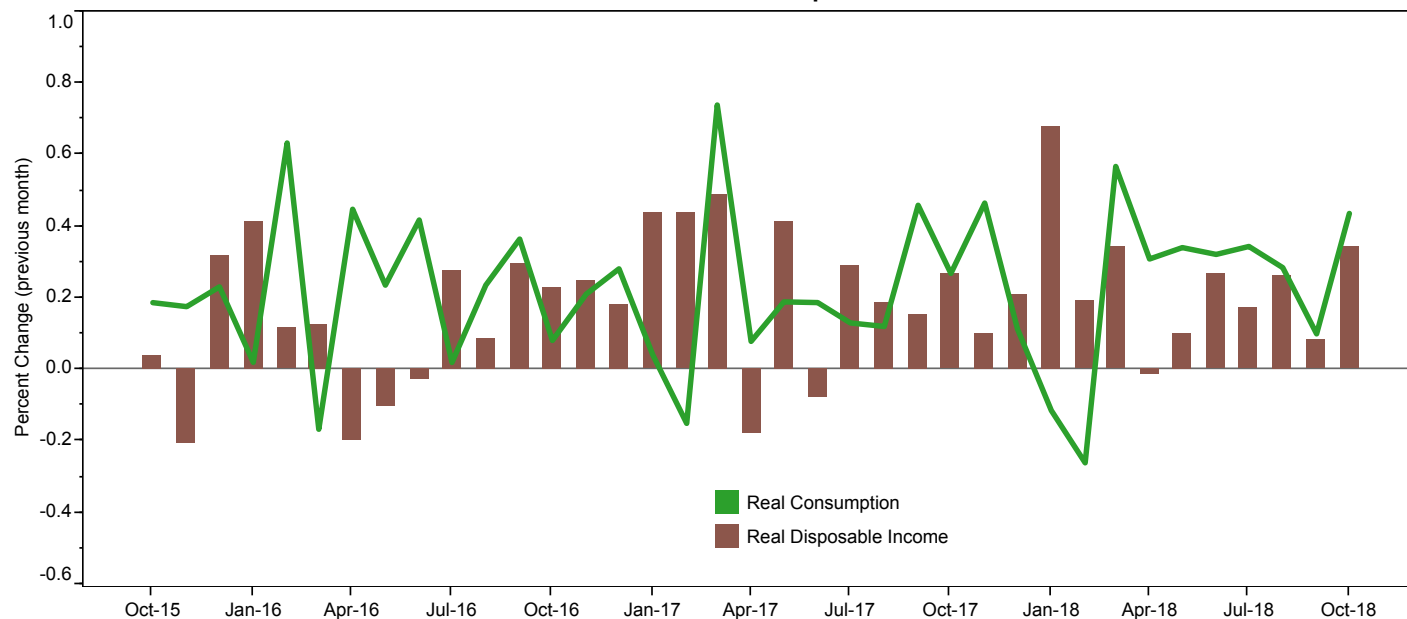
Consumer Confidence and Expectations



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

Real incomes rose again in October, their sixth consecutive monthly increase. Consumption also increased in October - at the fastest pace since March - as consumers are increasingly confident about spending more of their earnings.

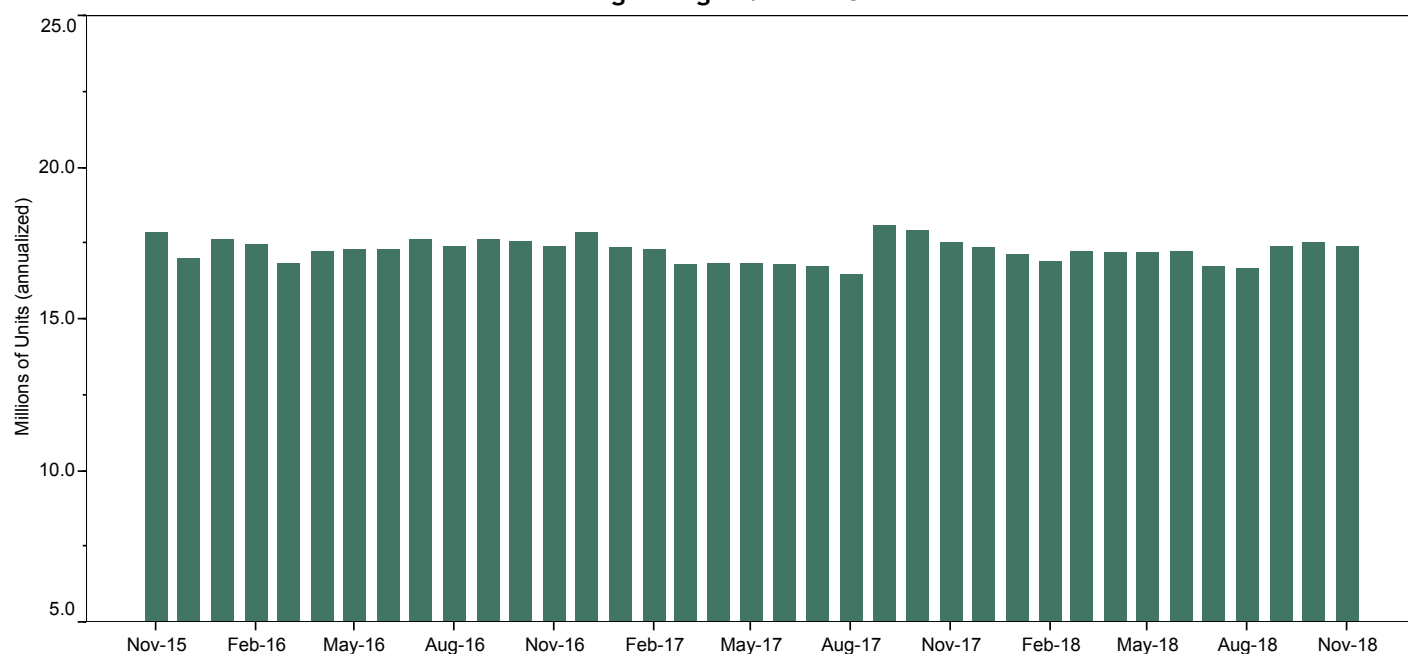
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

The pace of lightweight vehicle sales eased slightly in November, but generally was little changed from the sales rates of the two prior months. Consumers continue to favor bigger vehicles, as light duty trucks (a segment that includes crossovers and SUVs) sold at their second-fastest rate on record in November. Auto sales fell in November following surprising gains in September and October.

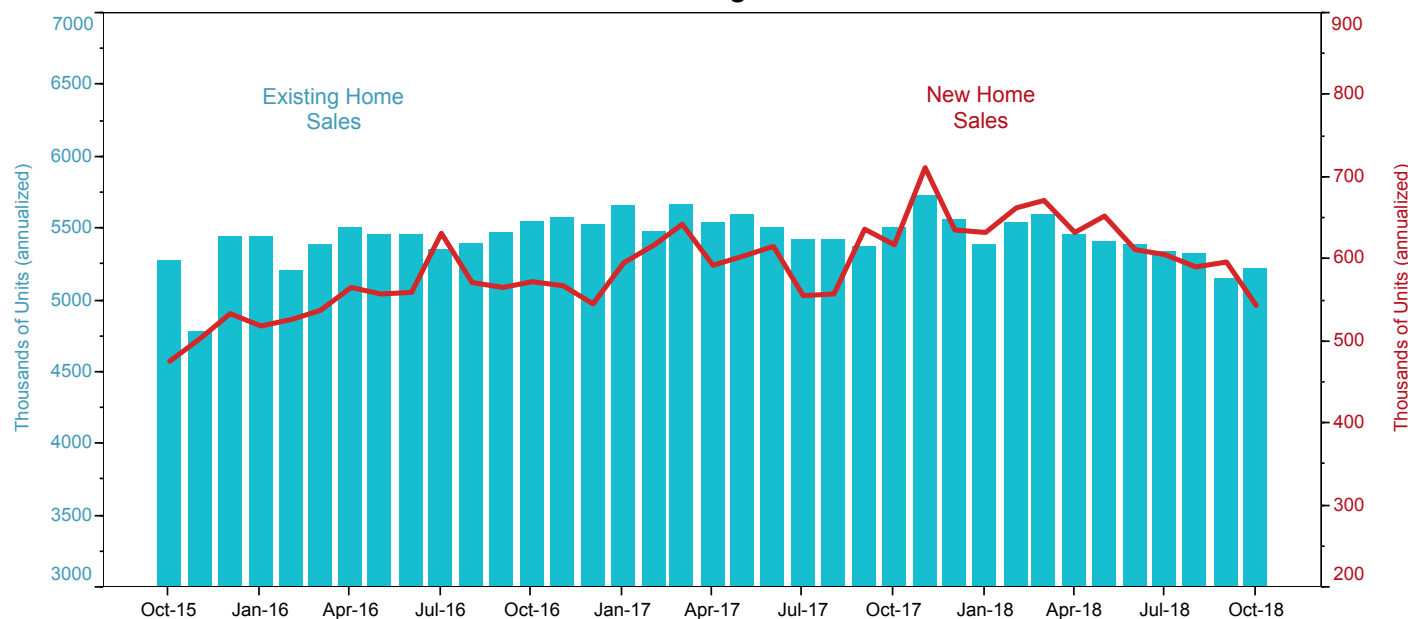
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in October. New home sales fell sharply, and despite upward revisions to prior months' data their downward trend continues. Existing home sales rose in October to break a string of six consecutive drops, but due to rising prices and higher mortgage rates such increases are not likely to continue.

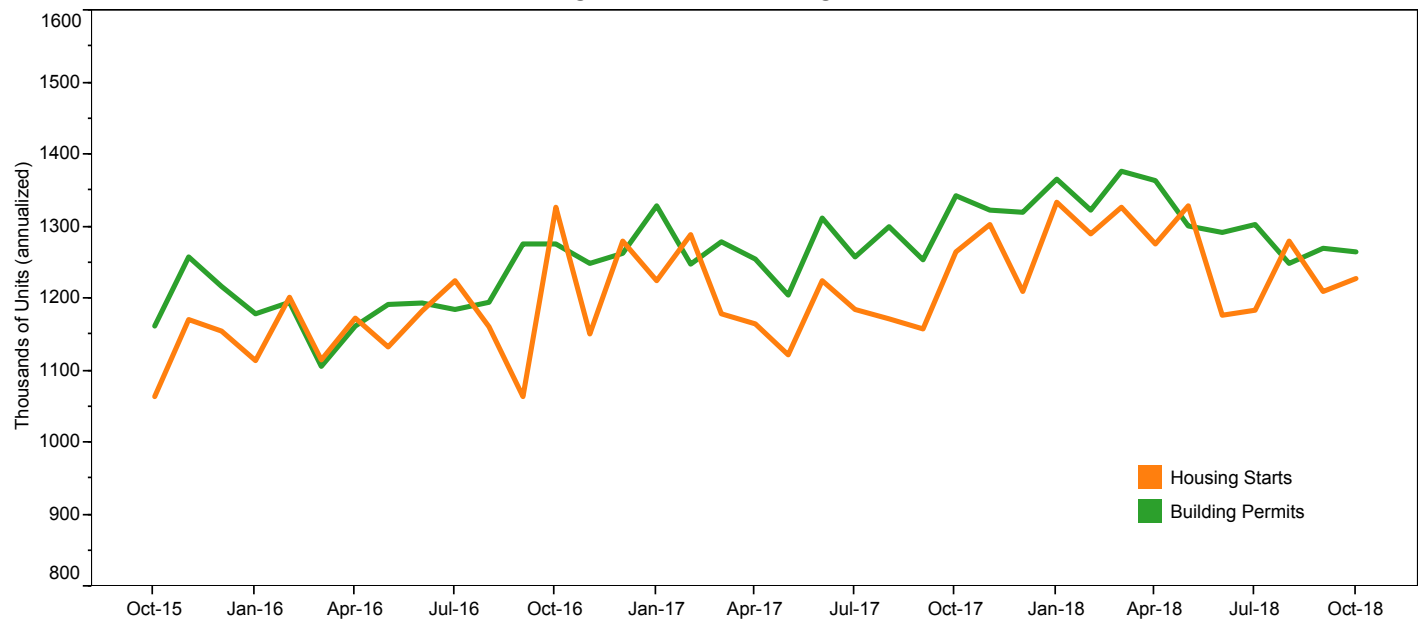
New and Existing Home Sales



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

New residential construction remained soft in October. Housing starts picked up a bit, but the gains were all in the multi-family sector as single-family starts slowed further. Building permits declined in October, as a decrease in single-family permits more than offset an increase in multi-family activity.

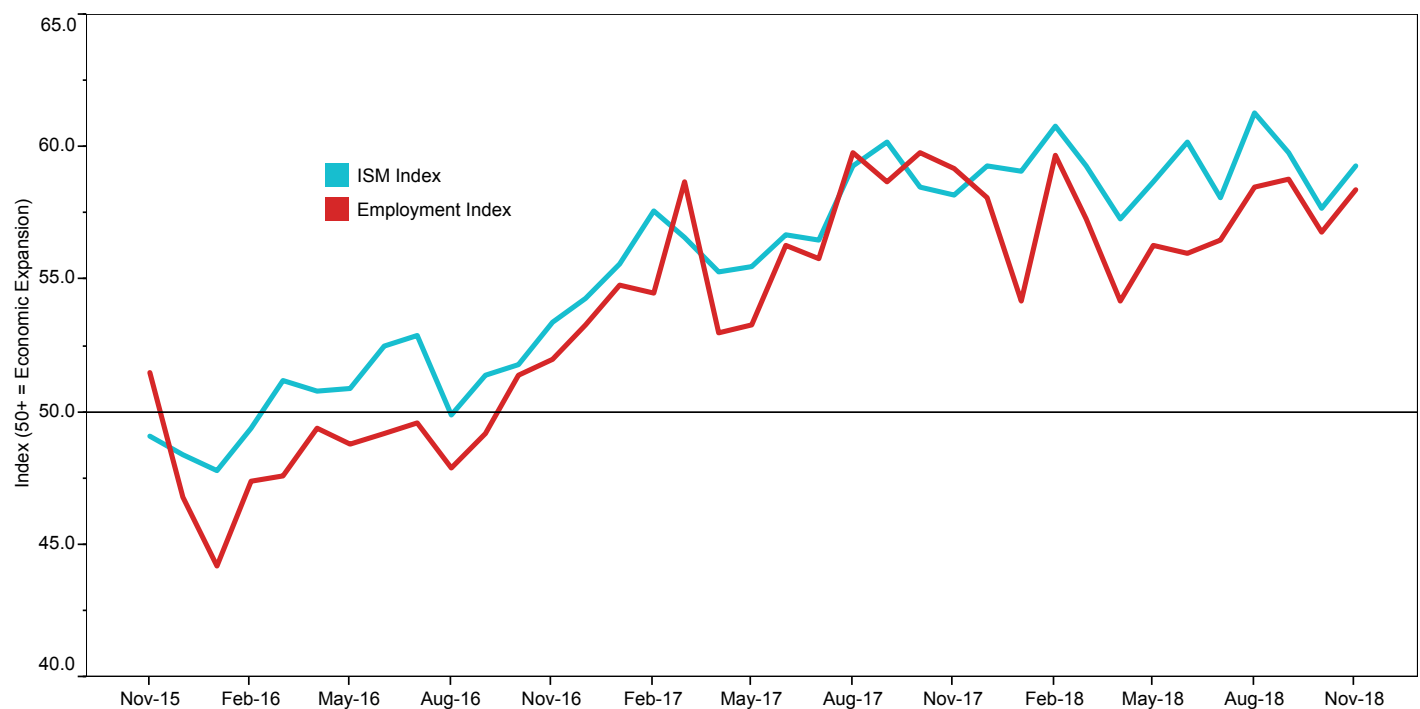
Housing Starts and Building Permits



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

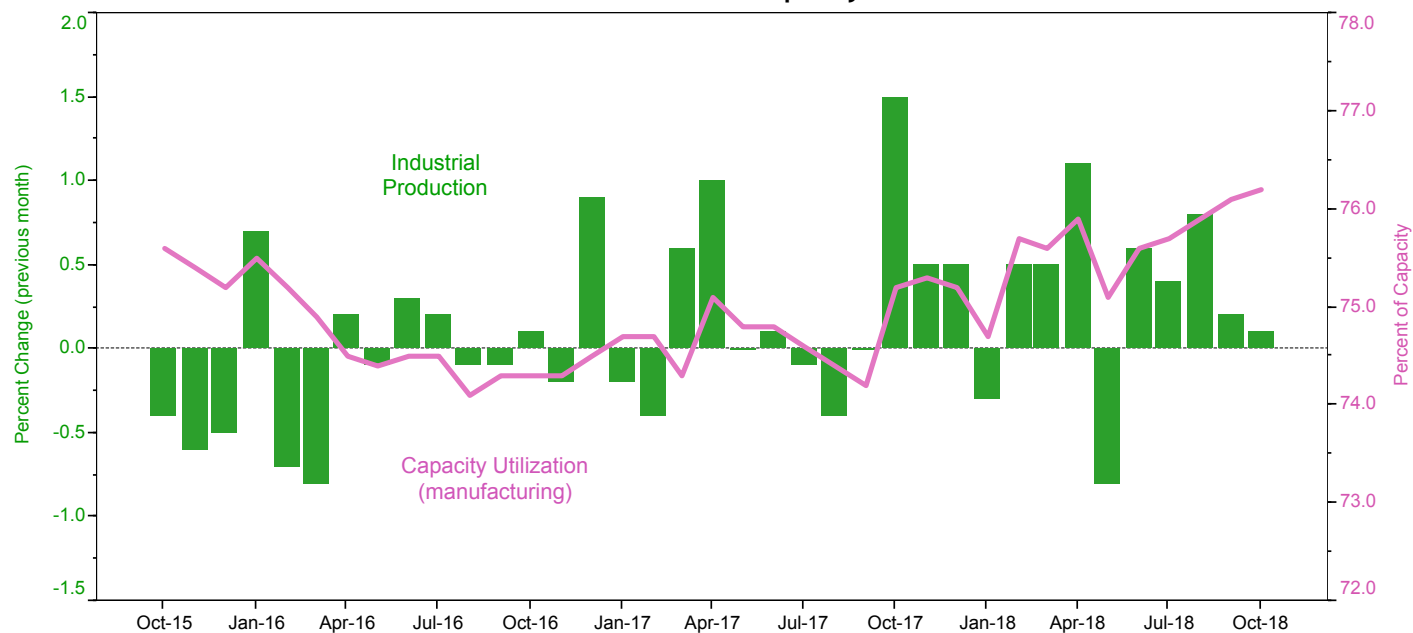
The ISM manufacturing index rebounded in November, after falling in both September and October, and continues to signal expansion of manufacturing activity. The improvement in November was led by the new orders index, although the employment index also posted a solid gain.

ISM Index



Industrial production ticked a bit higher in October, the fifth consecutive monthly gain. A solid gain in manufacturing production more than offset drops in both utilities and mining production. Capacity utilization in manufacturing edged up in November to match its highest reading since the end of 2014.

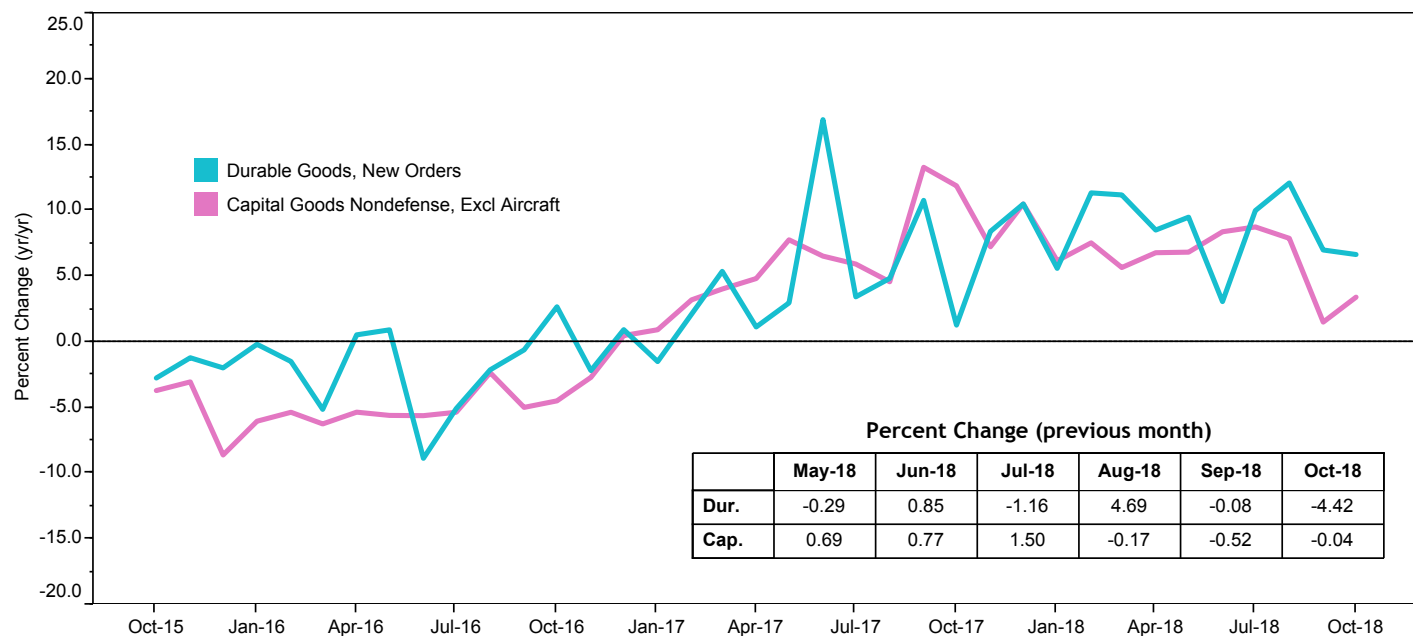
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell sharply in October, their third decrease in the past four months. Meanwhile, orders for nondefense capital goods, excluding aircraft, posted their third consecutive decline. However, both total and core orders continued to increase from their year-ago levels in October.

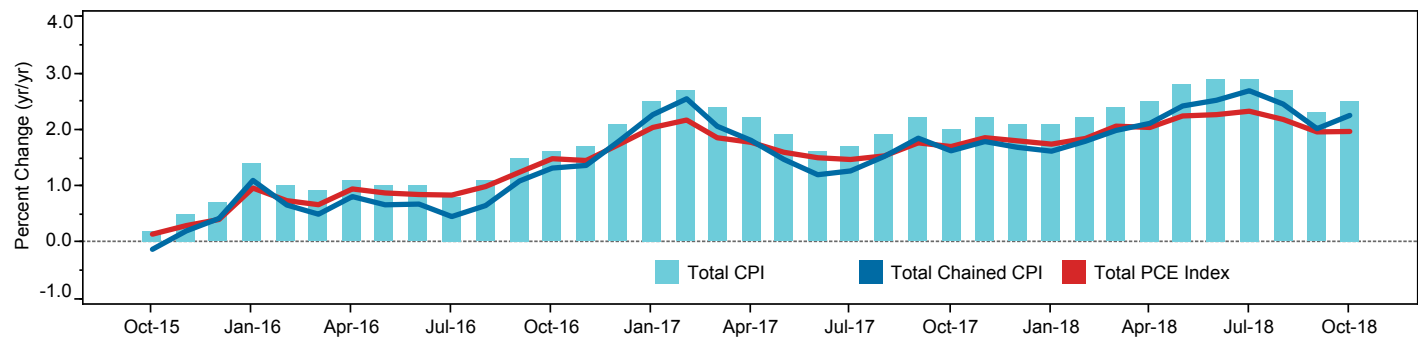
Durable Goods Orders



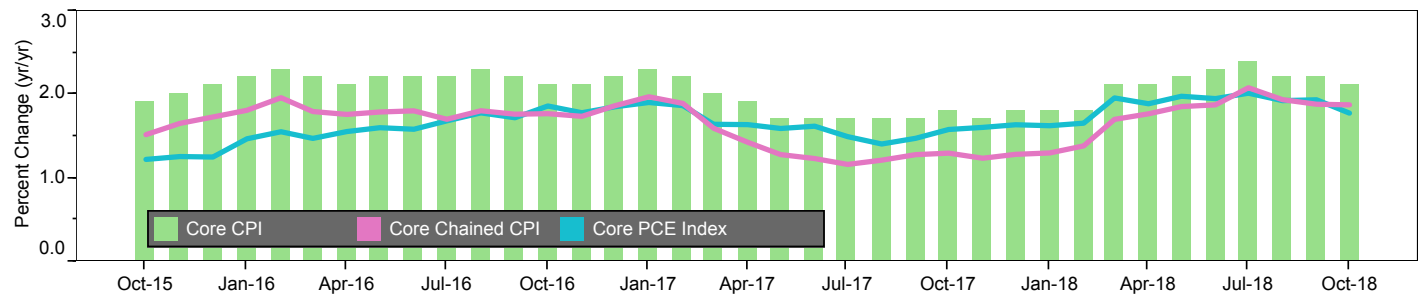
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices was mixed in October, with the CPI accelerating a bit and the PCE holding steady. Core inflation slowed a bit in October, continuing the slight downward trend seen since July.

Total Price Indices



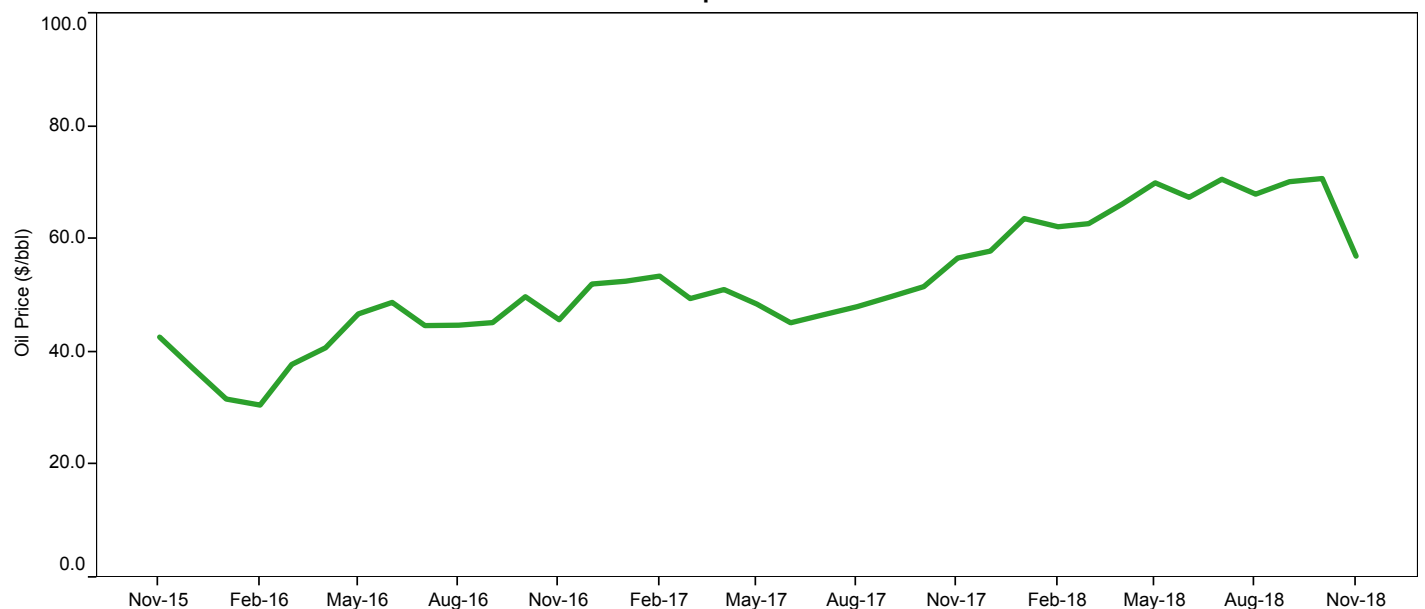
Core Price Indices



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

Oil prices continued to fall throughout November, ending the month with a daily average of \$57.0 per barrel - the lowest average since November 2017. Oil closed at \$53.0 per barrel on December 3rd.

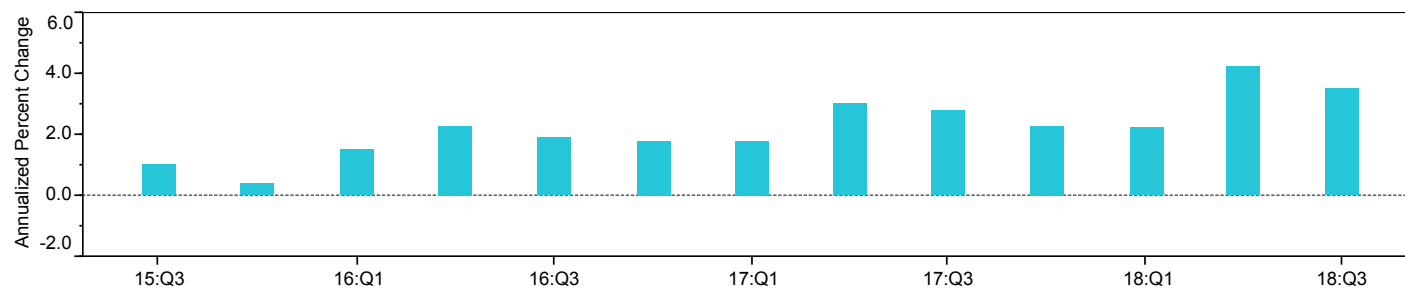
Domestic Spot Oil Price



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

Real GDP grew at 3.5 percent in the third quarter, according to the second estimate, unrevised from the advance estimate reported at the end of October. The steady growth rate primarily reflects upward revisions to nonresidential investment and private inventory investment that were offset by downward revisions to PCE and state and local government spending.

Real GDP



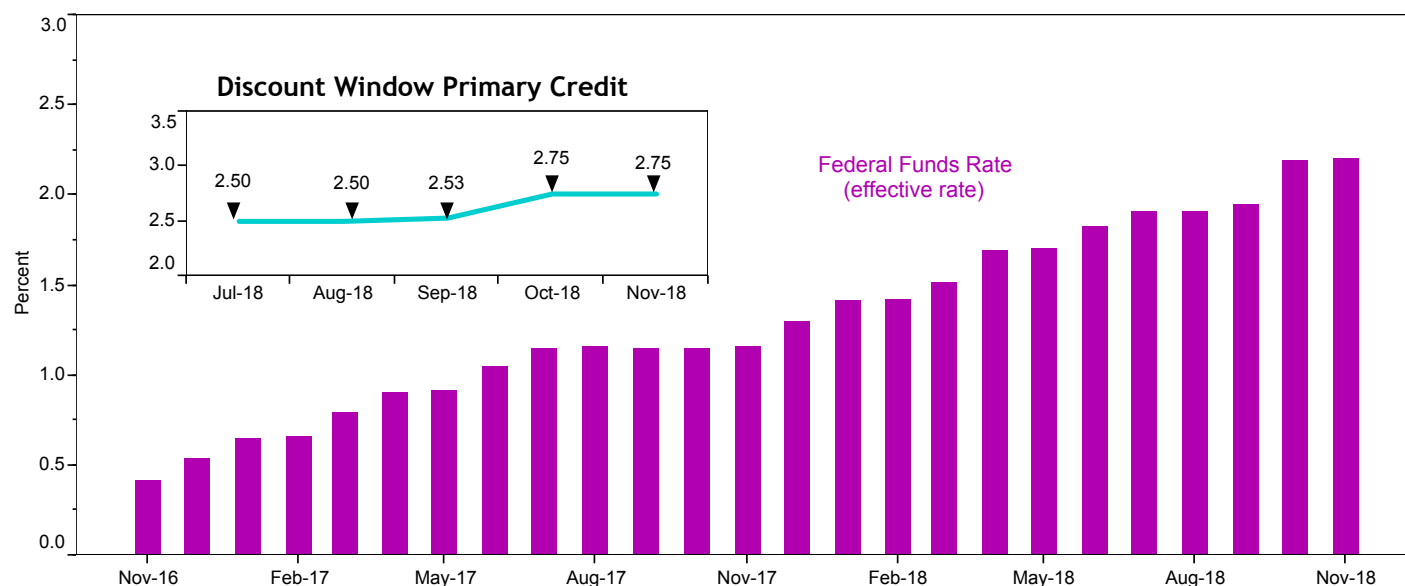
Revisions to Third Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	3.5	3.5
Personal Consumption	4.0	3.6
Business Investment	0.8	2.5
Equipment and Software	0.4	3.5
Residential Investment	-4.0	-2.6
Government	3.3	2.6
Exports	-3.5	-4.4
Imports	9.1	9.2
Final Sales	1.4	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 David Brown.