

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

December 3, 2019

## CURRENT ECONOMIC DEVELOPMENTS - December 3, 2019

Data released since your last Director's meeting saw the economy grow at 2.1% in the third quarter, revised upward from the previous estimate of 1.9%. New employment data will be released this Friday, and expectations are for the report to provide further evidence of the strong labor market. Consumer attitudes were mixed in November while housing market data continued to show encouraging signs in October due in part to falling mortgage rates. Manufacturing has remained soft. While uncertainty around some geopolitical concerns has eased recently, downside risks remain, especially as trade policy remains unsettled despite some earlier signs of potential progress. Overall, data remain consistent with the expectation for growth to slow a bit in the current quarter before picking up again in the new year.

In the four weeks ending November 23rd, initial claims for unemployment insurance rose a bit, while remaining near historic lows. The employment report for November from the Bureau of Labor Statistics is due out Friday morning and markets are anticipating another solid gain in employment of close to 200,000 with the unemployment rate holding steady at 3.6 percent.

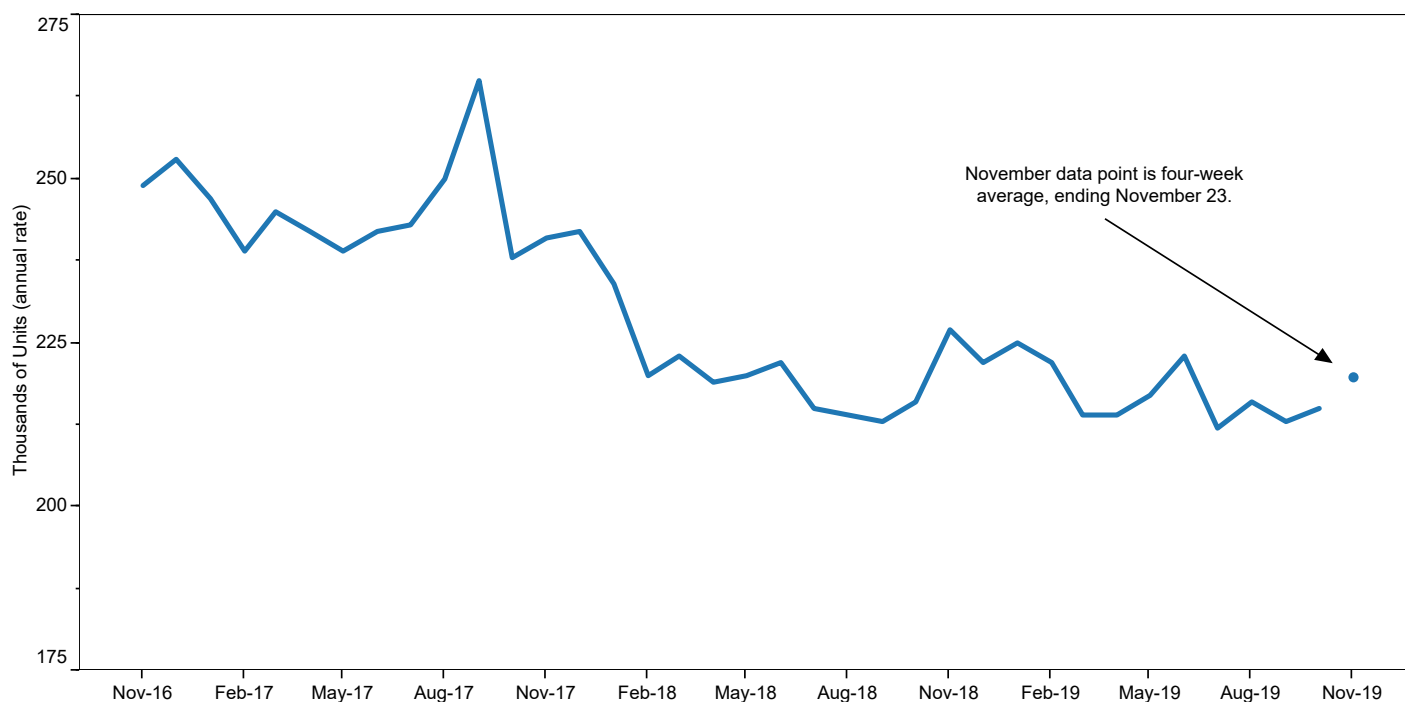
Consumer attitudes were mixed in November. The consumer confidence index declined further in November, yet the consumer sentiment index improved, likely aided by tentative signs of trade policy progress and growth in financial markets. New home sales eased in October after rising further in September while existing home sales rose a bit. Housing starts and permits both rose in November with increases in both single- and multi-family activity.

Recent manufacturing data have remained soft. The ISM index fell slightly in November and continued to signal contraction. Industrial production fell sharply in October and capacity utilization fell to its lowest level in two years, partially reflecting the shutdown at GM. Orders for durable goods rose in October mostly due to military-related spending. On a year-over-year basis, orders fell in October, although at a slower rate than those seen in the previous two months. Orders for nondefense capital goods, excluding aircraft, dipped slightly on a year-over-year basis in October although rebounded on a monthly basis.

Inflation measures were a bit mixed in October. Headline CPI and PCE picked up on a monthly basis due largely to higher energy prices, while core readings were in line with those of prior months. On a year-over-year basis, both the core CPI and PCE slowed by one-tenth. Lastly, oil prices rose a bit in November but have generally remained steady in recent months.

Initial claims for unemployment insurance have risen, on average, in the four weeks ending November 23rd, after an uptick in October.

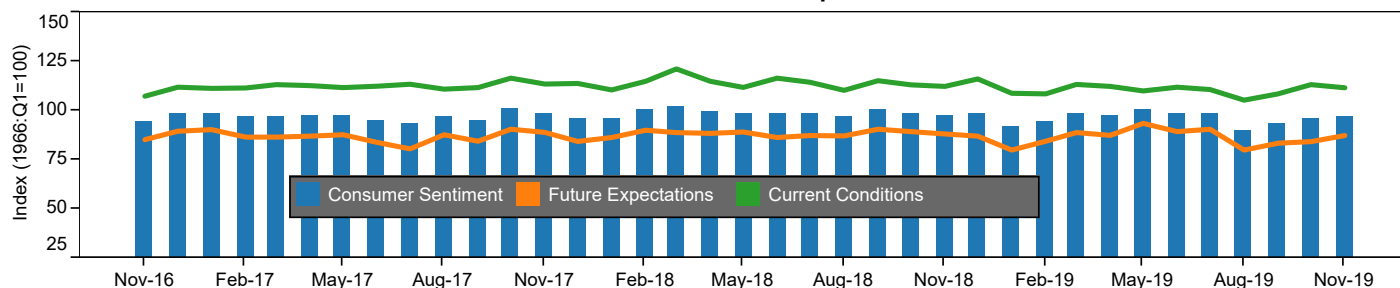
Initial Claims



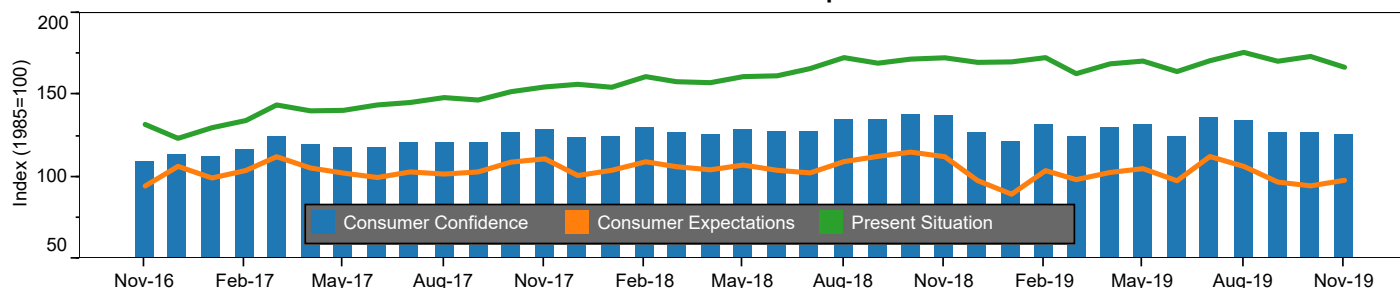
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in November. The consumer sentiment index registered its third straight monthly gain while the confidence index marked its fourth straight monthly decline. Both surveys have consumer expectations rising while both the current conditions (sentiment) component and the present situation (confidence) component fell in November.

### Consumer Sentiment and Expectations



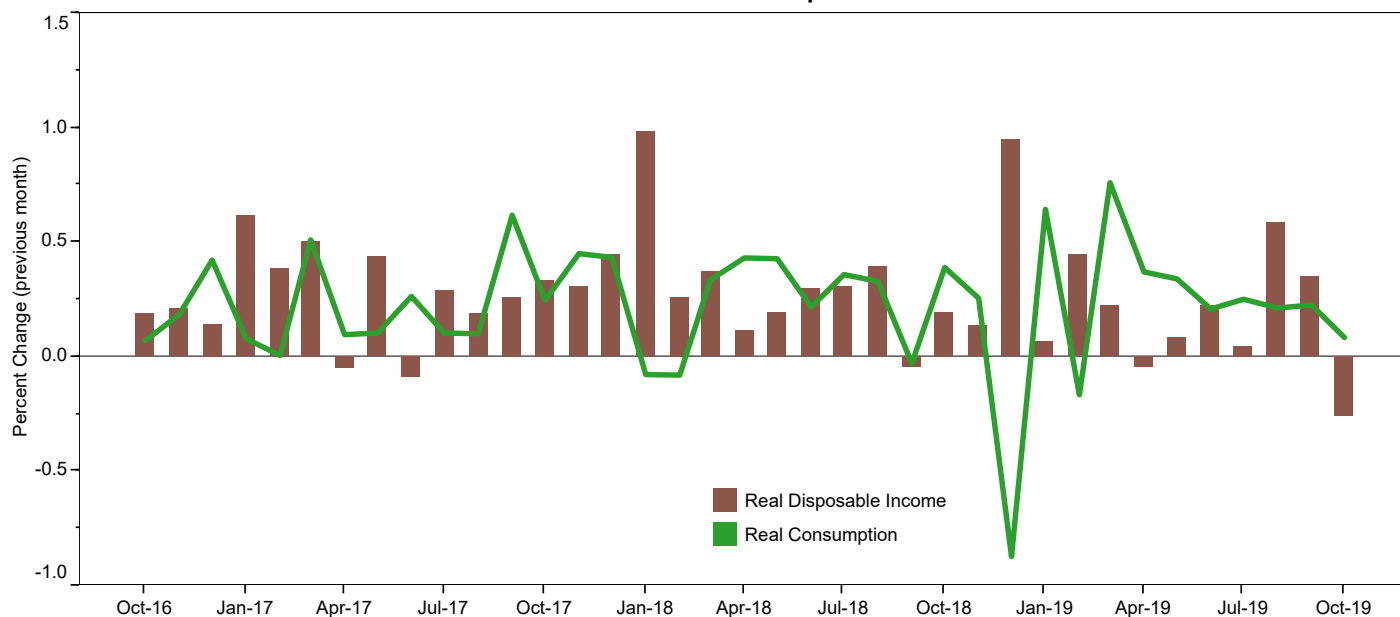
### Consumer Confidence and Expectations



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

Real incomes fell 0.3% in October, giving back the equivalent gain seen in September (after rounding). Consumption increased 0.1% in October, the smallest of eight consecutive monthly gains.

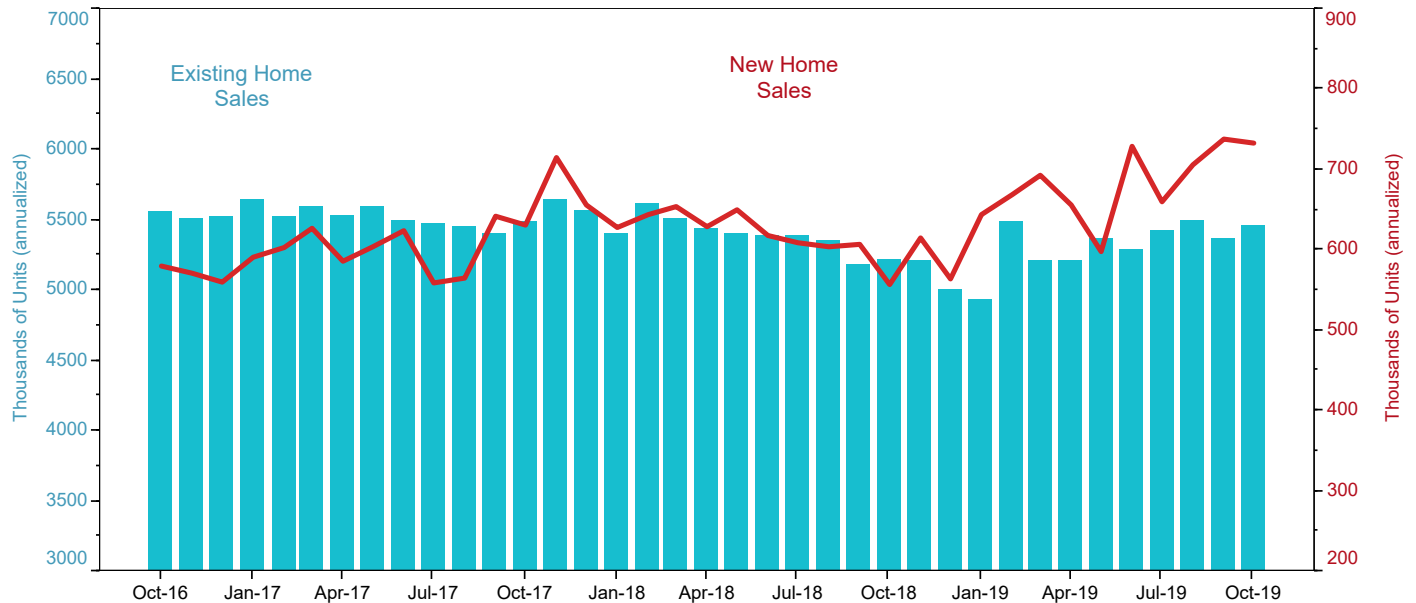
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New home sales eased in October following a sharp upward revision in September that retroactively registered the highest level since July 2007. Also in October, existing home sales rose a bit after a dip in September that was revised lower still in the most recent data.

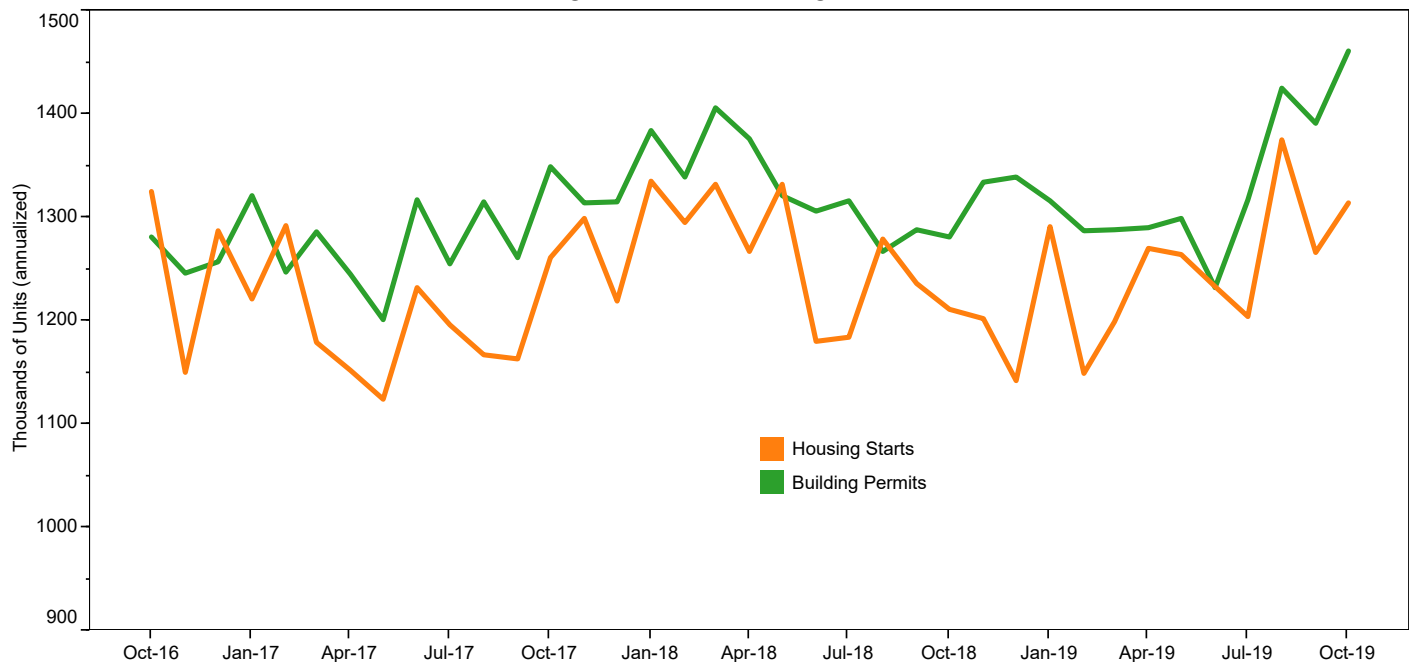
### New and Existing Home Sales



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

Housing starts rose in October – as both single- and multi-family starts increased – continuing their recent volatile, yet upward, trend. The Northeast was the only region to see a decline in starts. Building permits rose in October to a more than 12-year high, also seeing increases in both single- and multi-family activity.

### Housing Starts and Building Permits



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

The ISM index fell slightly to 48.1 in November, holding close to the 10-year low reached in September. Remaining below 50, the index continued to signal contraction in manufacturing activity. The employment component of the index also fell in November, mostly offsetting the small improvement seen in October.

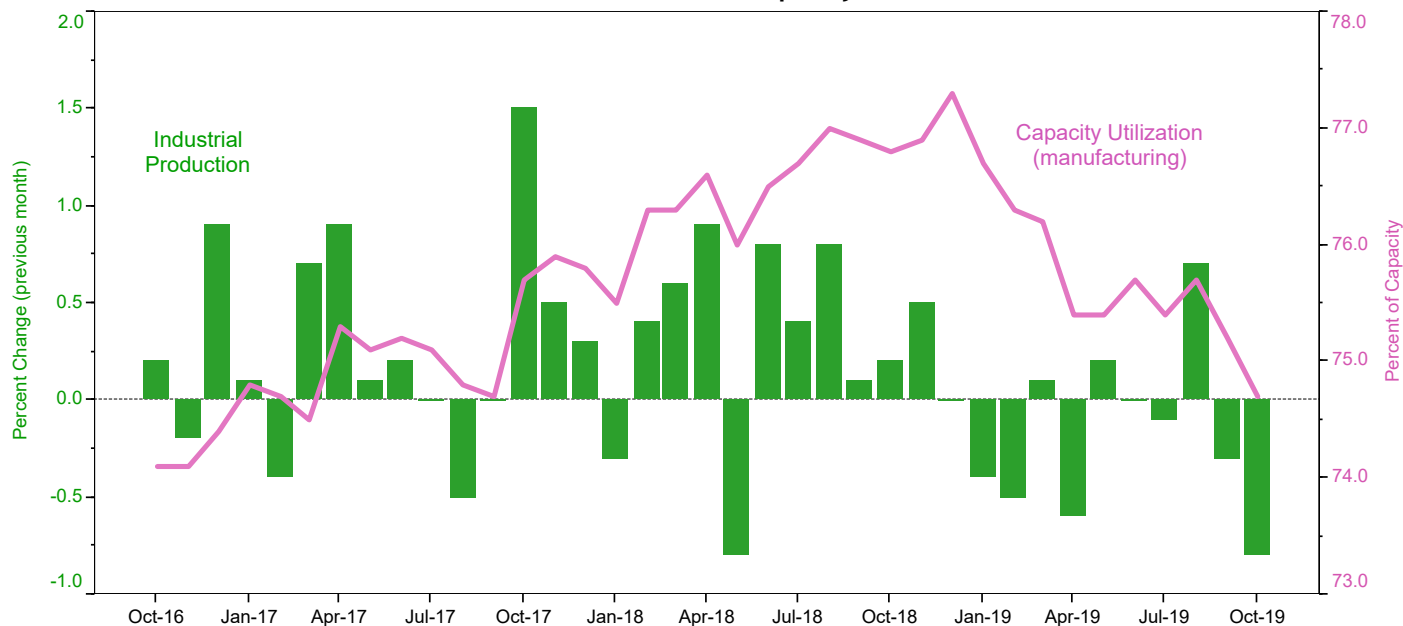
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production dropped 0.8% in October, the largest decline since May 2018 and the third drop in the last four months. Manufacturing production fell in October, as did mining and utilities. Capacity utilization in manufacturing fell in October to match a two-year low.

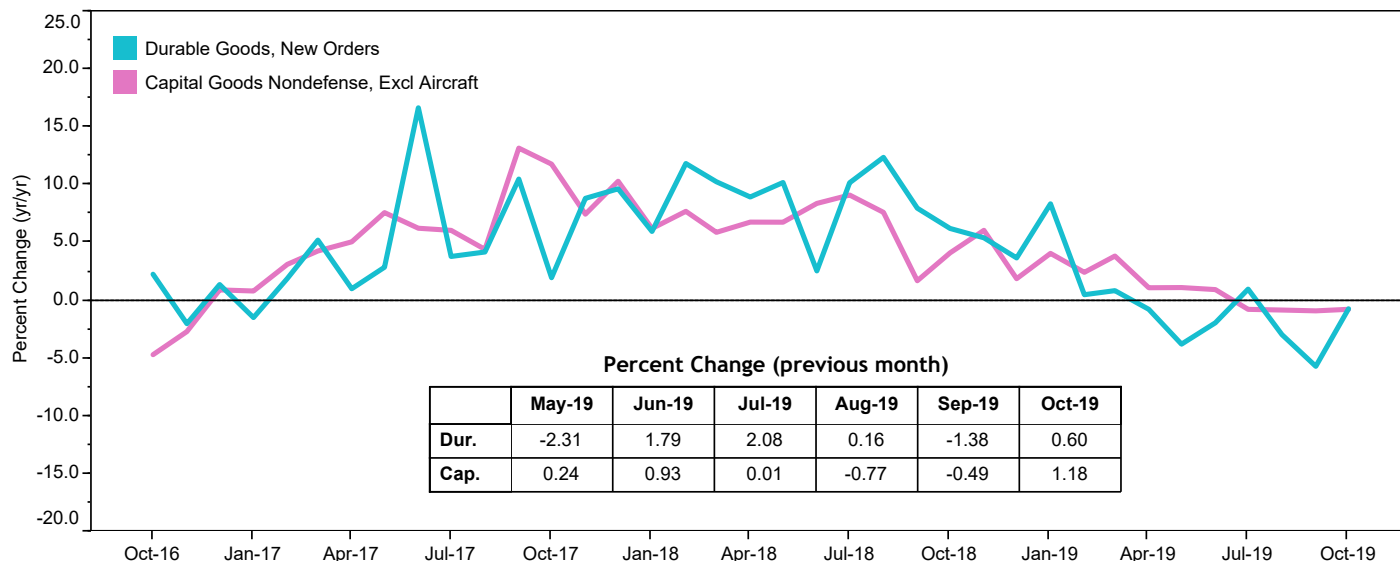
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in October, mostly due to military-related spending. On a year-over-year basis, orders fell in October, although at a slower rate than the declines seen in August and September. Orders for nondefense capital goods, excluding aircraft, dipped slightly on a year-over-year basis despite rebounding on a monthly basis.

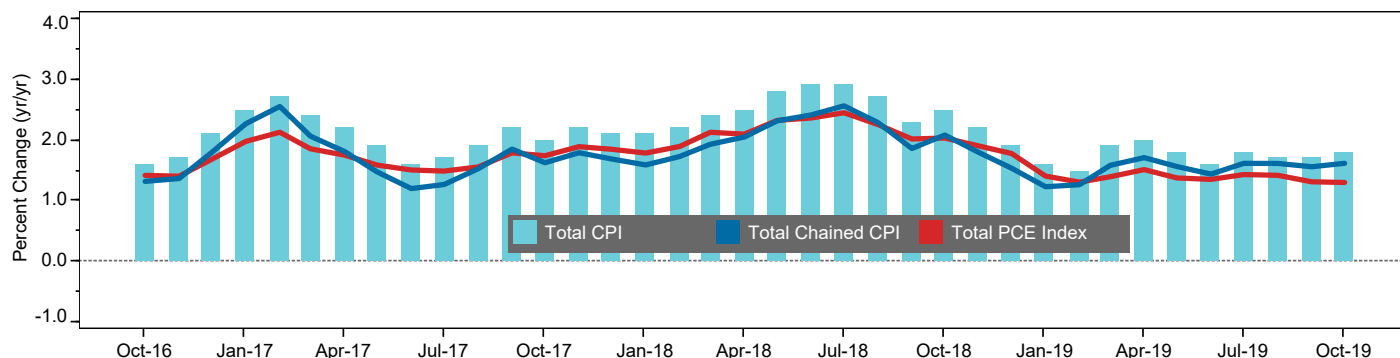
### Durable Goods Orders



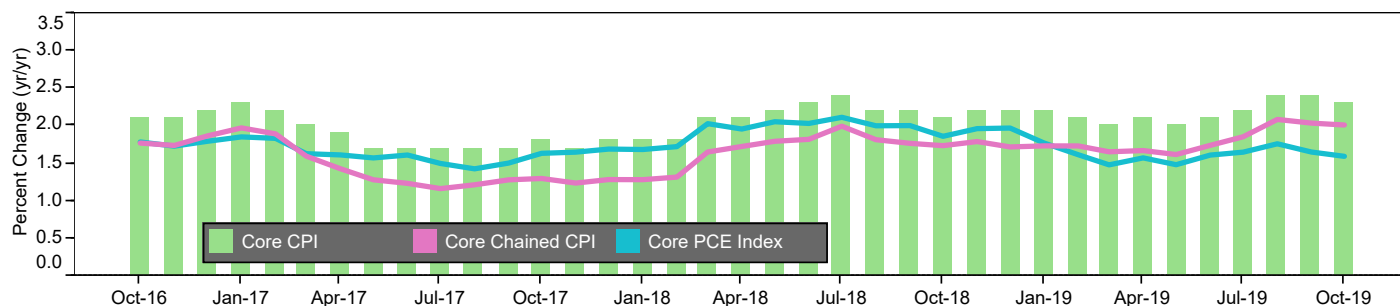
Source: U.S. Census Bureau / Haver Analytics.

Inflation as measured by the Consumer Price Index (CPI) rose 0.4% in October, the largest gain since March. Core CPI, a measure that excludes the volatile food and energy categories, rose 0.2% in October. The Personal Consumption Expenditure (PCE) Price Index rose 0.2%, while the core measure increased by 0.1%. On a year-over-year basis, total CPI accelerated one-tenth while total PCE held steady. Core measures slowed by one-tenth in October.

### Total Price Indices

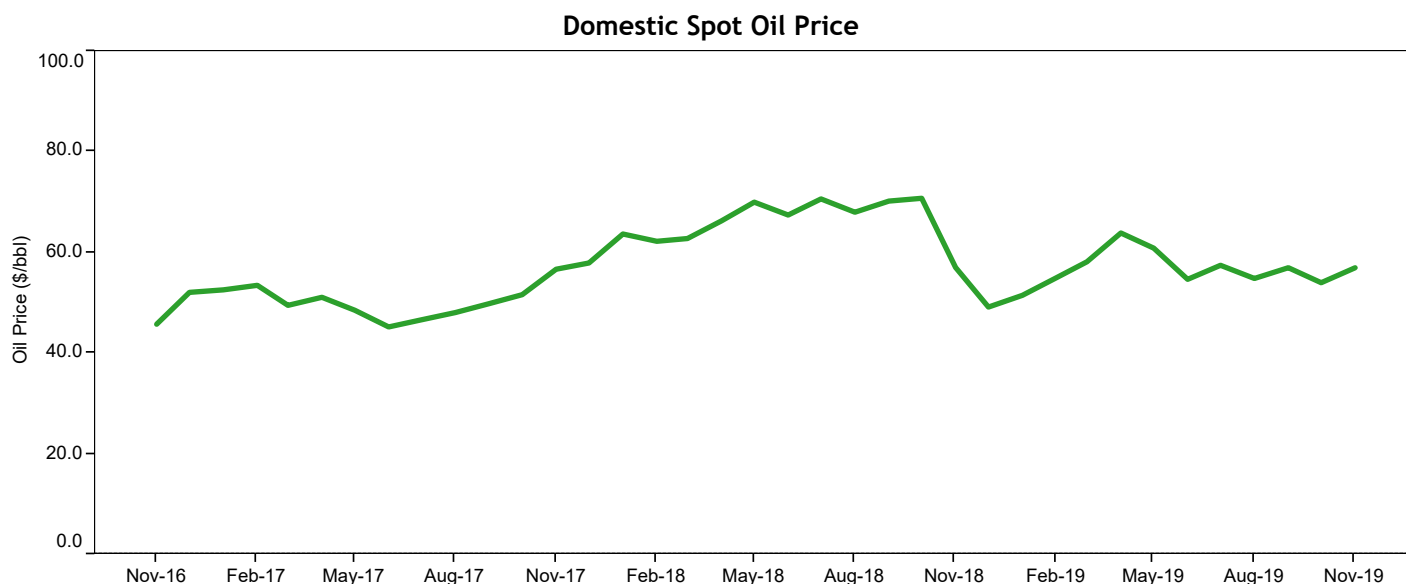


### Core Price Indices



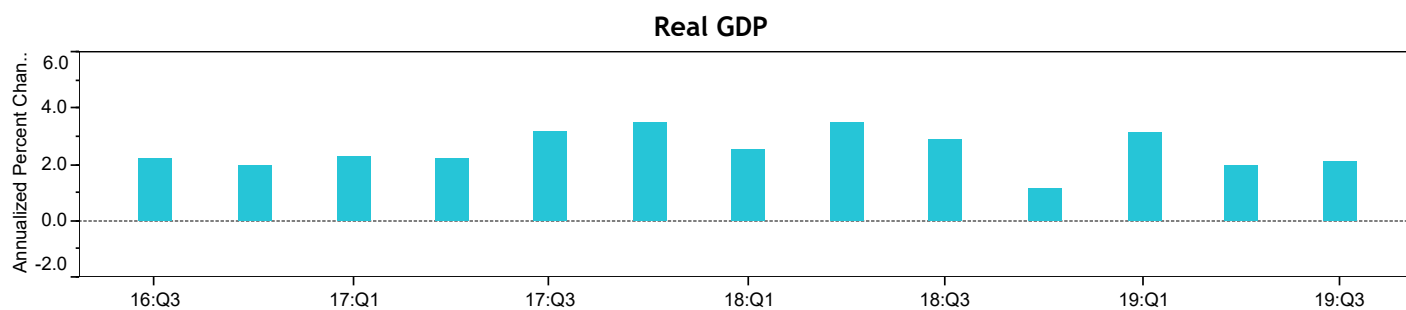
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices rose, on average, in November, after declining in October, and have held mostly steady since the Spring.



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

Third quarter real GDP growth was revised up to 2.1% from the previous estimate of 1.9%. The faster growth rate primarily reflected upward revisions to private inventory investment, nonresidential fixed investment, and PCE that were partly offset by a downward revision to state and local government spending.



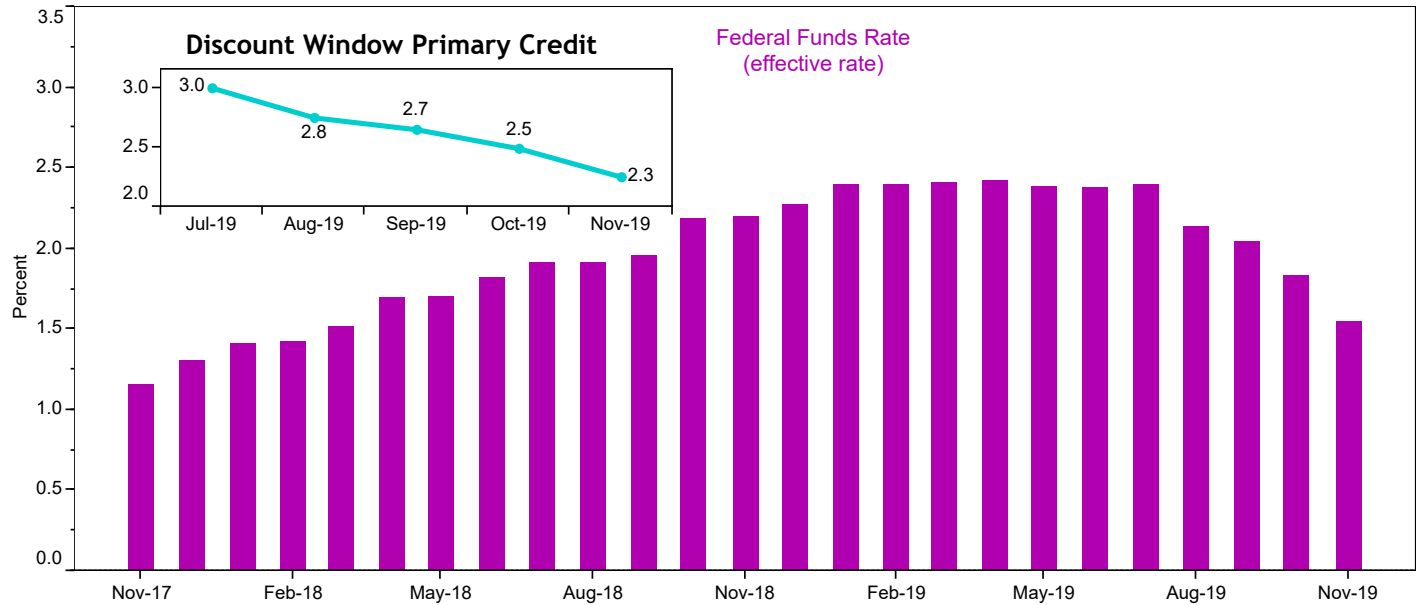
#### Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	1.9	2.1
Personal Consumption	2.9	2.9
Business Investment	-3.0	-2.7
Equipment and Software	-3.8	-3.8
Residential Investment	5.1	5.1
Government	2.0	1.6
Exports	0.7	0.9
Imports	1.2	1.5
Final Sales	2.0	2.0

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 Mike Corbett and David J. Brown.