



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

December 1, 2020

CURRENT ECONOMIC DEVELOPMENTS - December 1, 2020

Data released since your last Director's meeting continued to show signs of improvement but were also indicative of a slowdown in the recovery. The second estimate of third quarter real GDP growth was unrevised at 33.1%, but with expiring federal stimulus and the ongoing surge in coronavirus cases, growth has likely slowed dramatically in the current quarter. Surging virus incidence has led to increased containment measures, which could impact consumer activity and lead to increased unemployment. However, the possibility that distribution of a vaccine could start before the year is out provides some cautious optimism. In the meantime, continued adherence to precautions designed to limit the contagion remain central to continued recovery.

Initial unemployment claims have risen in the last two weeks of data, signaling some headwinds in the labor market due to the increase in coronavirus cases. Employment data are due out this Friday and are expected to exhibit some moderate improvements. Consumer attitudes declined in November, due almost entirely to lower expectations. Retail sales data posted further gains in October and were revised higher in the third quarter, suggesting less of a drop-off in consumption in the fourth quarter than previously anticipated. Real incomes posted a decline in October from last month, however levels have improved relative to this time last year. Real consumption continued to rise in October, though at a slower rate than in prior months.

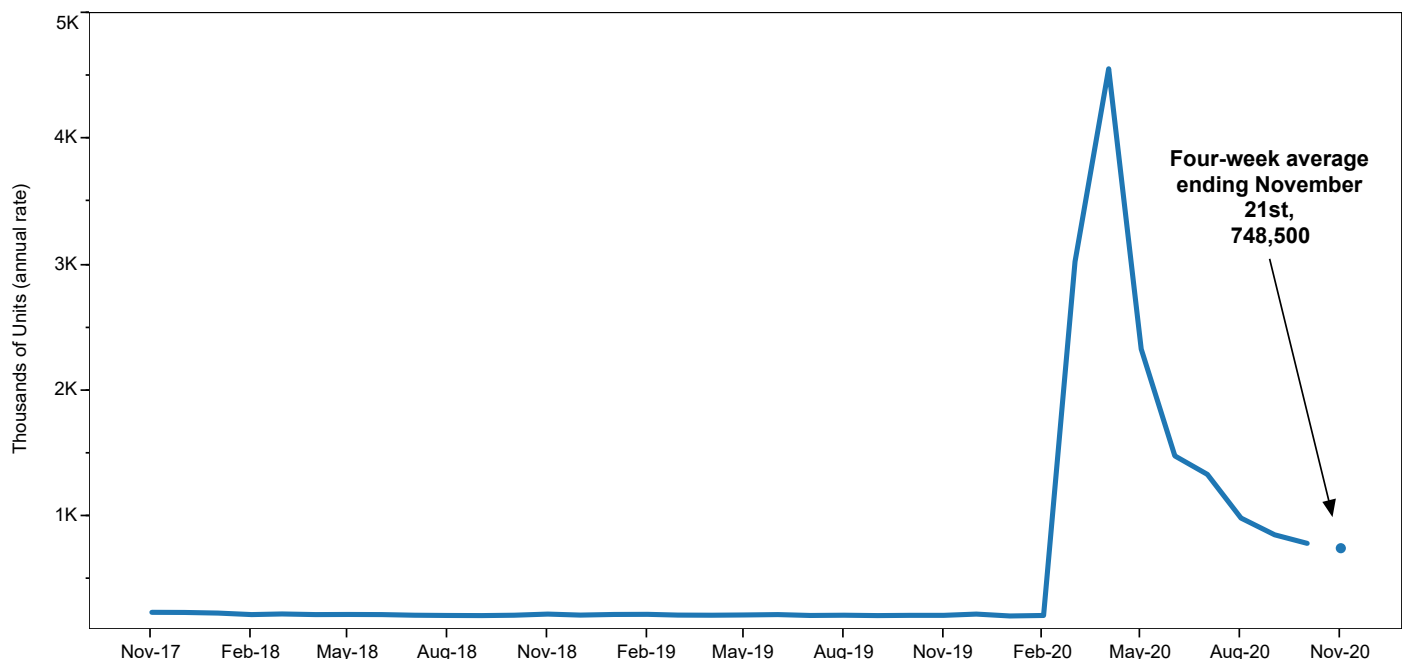
Data for sales of new homes softened a bit in October but are still well above the levels seen this time last year. Existing home sales rose at a pace not seen since February 2006. Single-family housing starts drove an uptick in total starts as the multi-family sector remained flat. Housing permits fell a bit in October as an increase in single-family permits was not enough to offset the decline seen in the multi-family segment.

The recovery in manufacturing has been a bit slower than in other areas. Industrial production and capacity utilization in manufacturing remain well below their pre-pandemic levels but have been making steady gains in recent monthly data. The ISM Manufacturing Index dipped in November but still signaled expansion after hitting a two-year high in October. The regional Federal Reserve manufacturing indices all declined in November but remained in expansionary territory. Durable goods orders rose again in October and have almost regained the ground lost since the spring.

Consumer prices were flat in October and annual inflation rates softened. Oil prices were consistent with the trend exhibited in recent months, although an uptick to 45 dollars per barrel was seen in the final days of November.

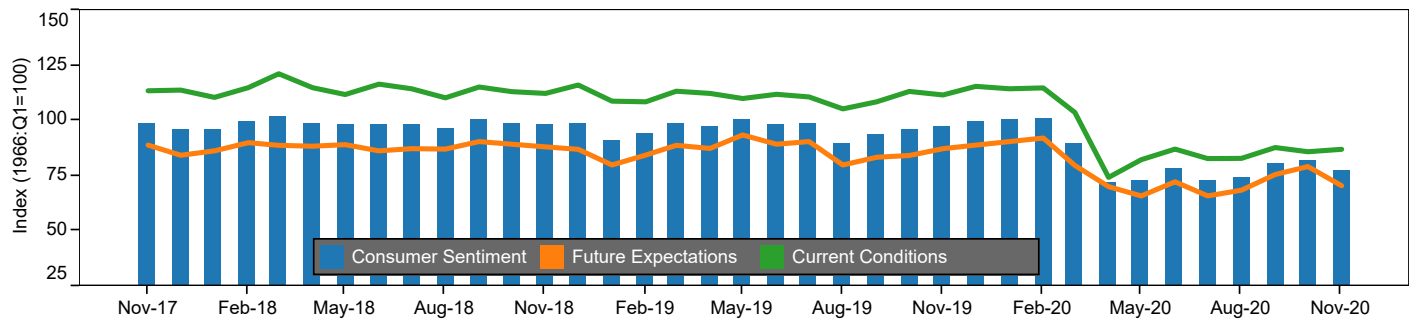
Initial claims for unemployment insurance rose by 30,000 to 778,000 in the week ending November 21st, following a similar increase in the previous week. The recent increases are likely due to the rise in coronavirus cases, yet so far, claims have not spiked like they did at the onset of the pandemic.

Initial Claims

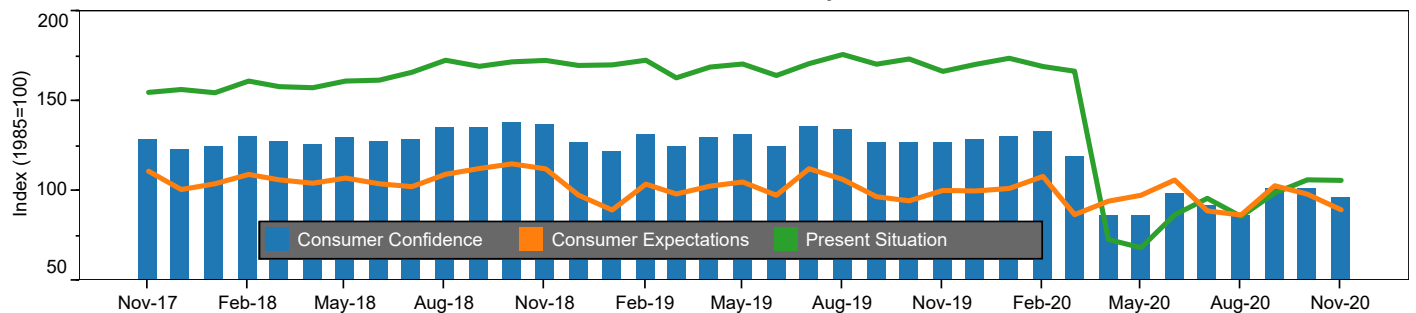


Consumer attitudes mostly declined in November as the surge in virus cases dragged down expectations. Measures of current conditions were little changed however - and actually improved in the Michigan survey - suggesting the surge had not yet further impacted respondents' behavior. As the surge has continued after the last response collection, attitudes are likely to deteriorate further in December data, though promising vaccine news may provide some offsetting optimism.

Consumer Sentiment and Expectations



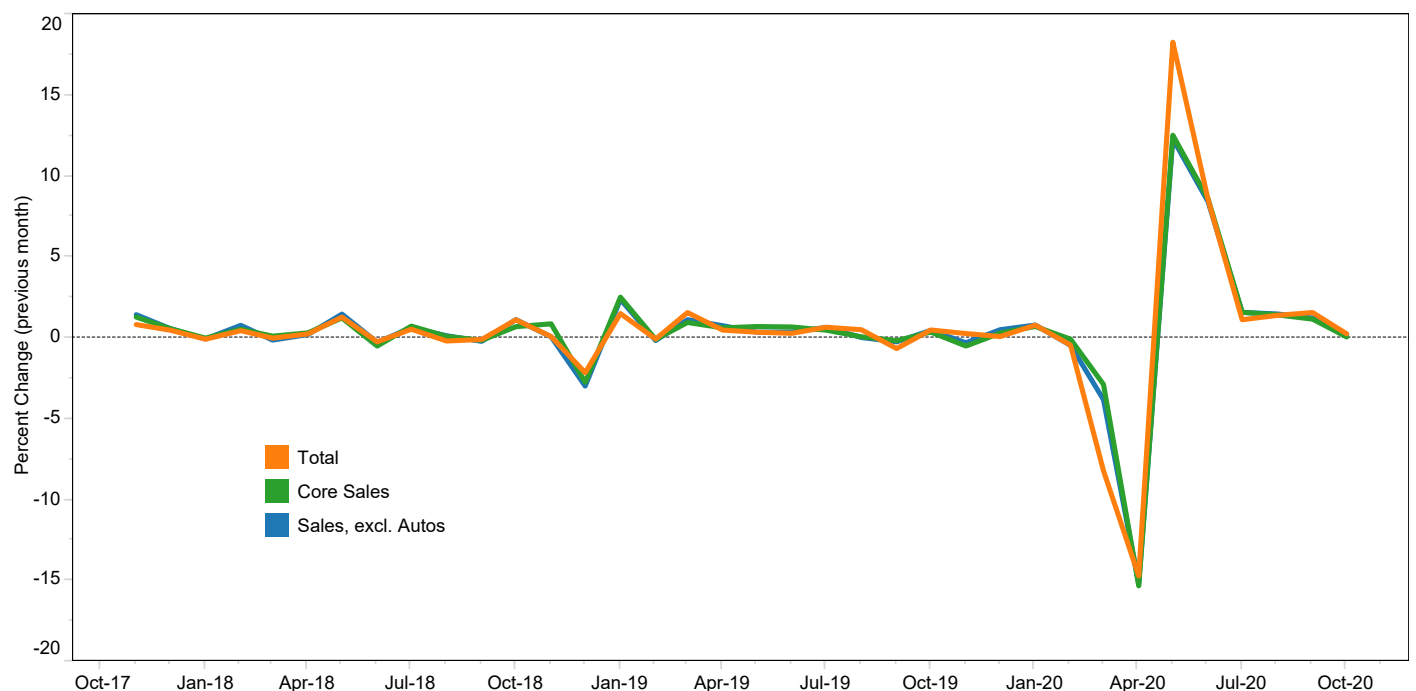
Consumer Confidence and Expectations



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

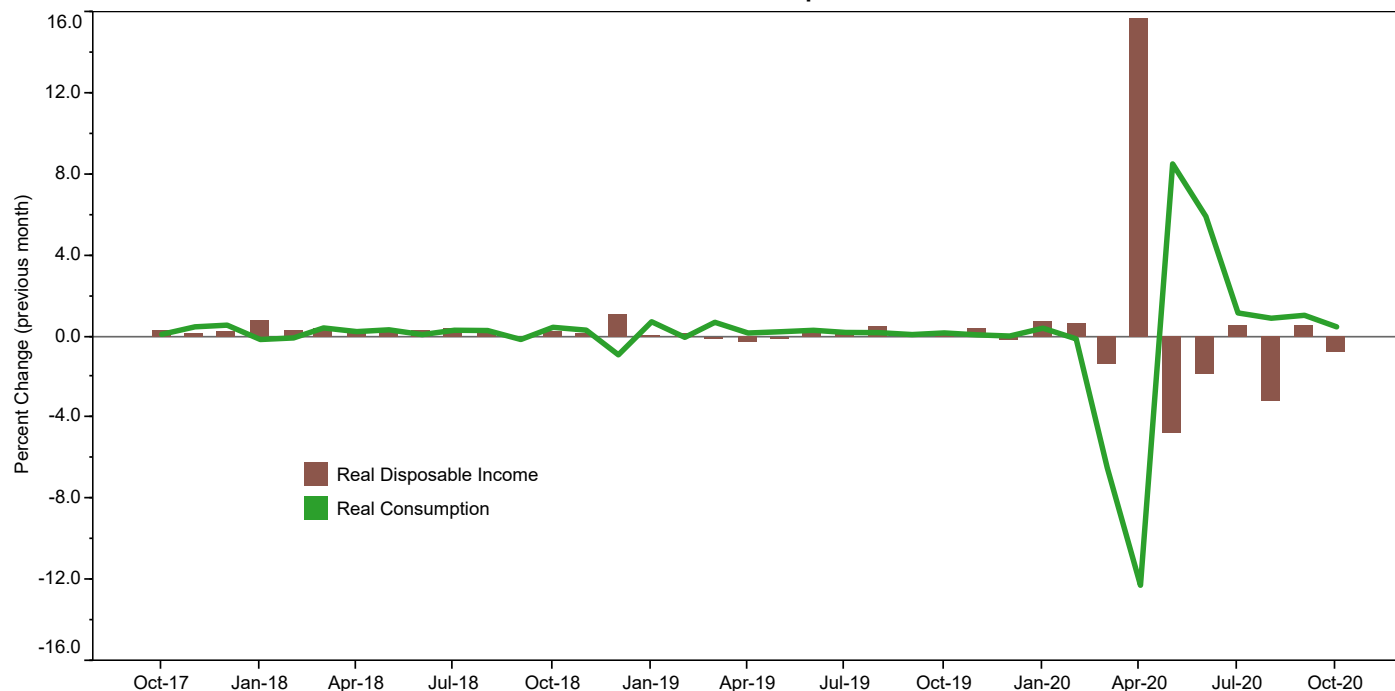
Retail sales rose slightly in October following third quarter sales that were revised higher. Heavy declines in in-person services like air travel and movies have been counteracted by increased spending on things like new cars, home improvement, and fitness equipment.

Retail Sales



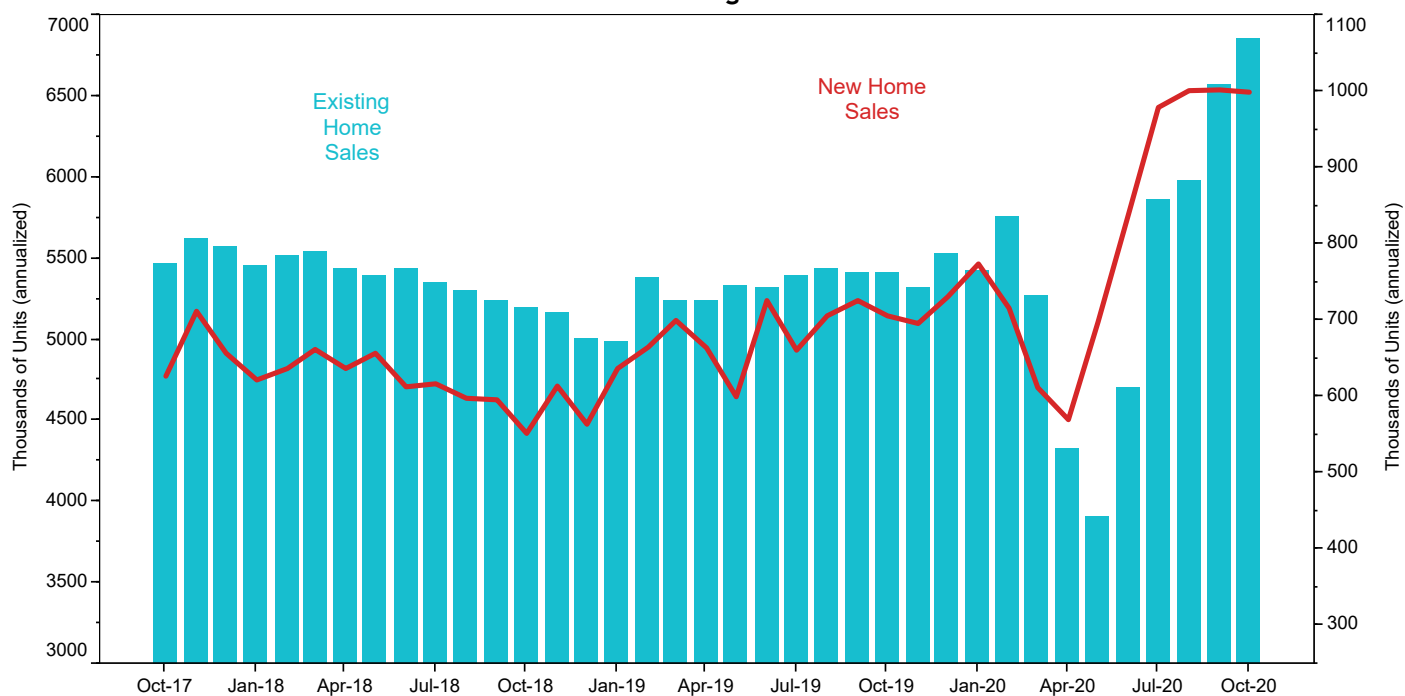
Real consumption rose 0.5% in October, though September's increase was revised down slightly from a 1.2% gain to 1.1%. Real disposable income dipped in recent data, continuing the pattern of alternating gains and losses seen over the last five months.

Real DPI and Consumption



Sales of new homes dipped in October but were 41.5% higher on a year-over-year basis. Existing home sales continued to rise in October, driven by record low mortgage rates and increases in migration patterns from cities to suburbs.

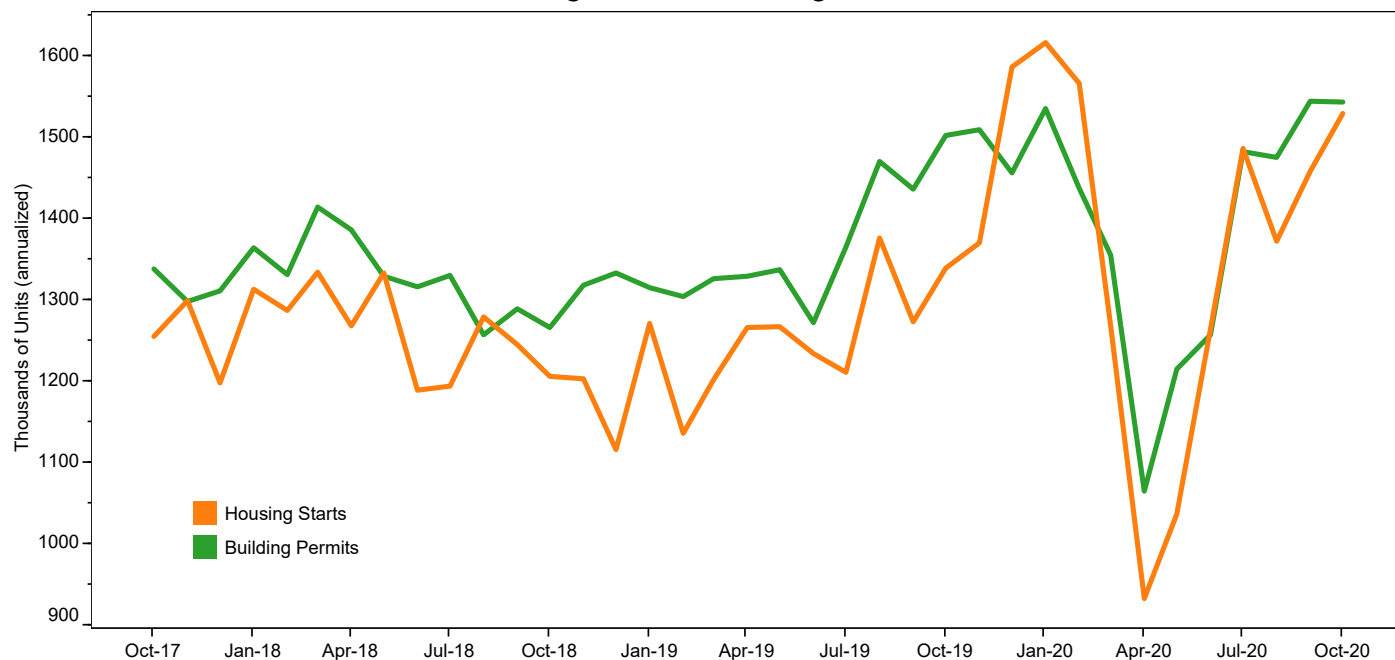
New and Existing Home Sales



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

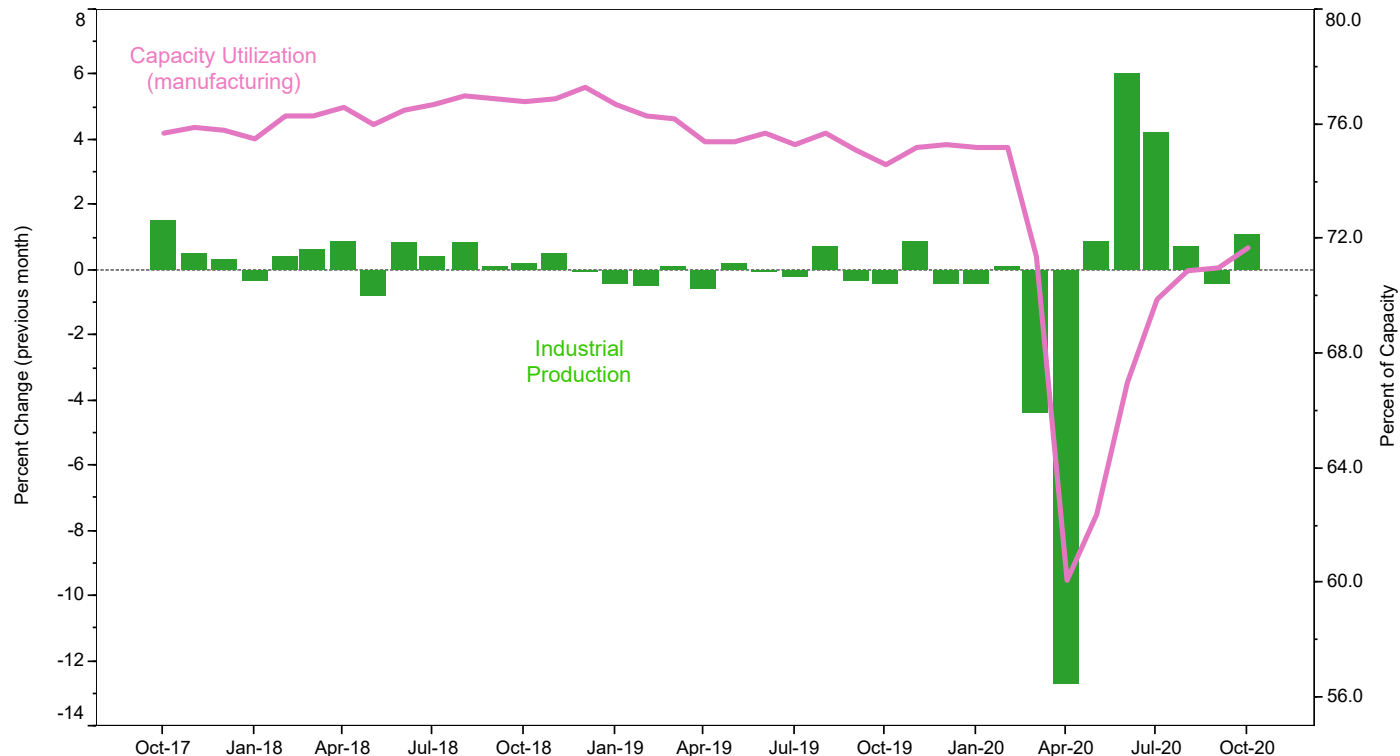
New residential construction remained robust in October, again driven by single-family activity. Single-family housing starts and building permits both rose further in October to reach their highest levels since 2007 - before the Great Recession. Multi-family activity has been trending down a bit in recent months, somewhat restraining the headline figures.

Housing Starts and Building Permits



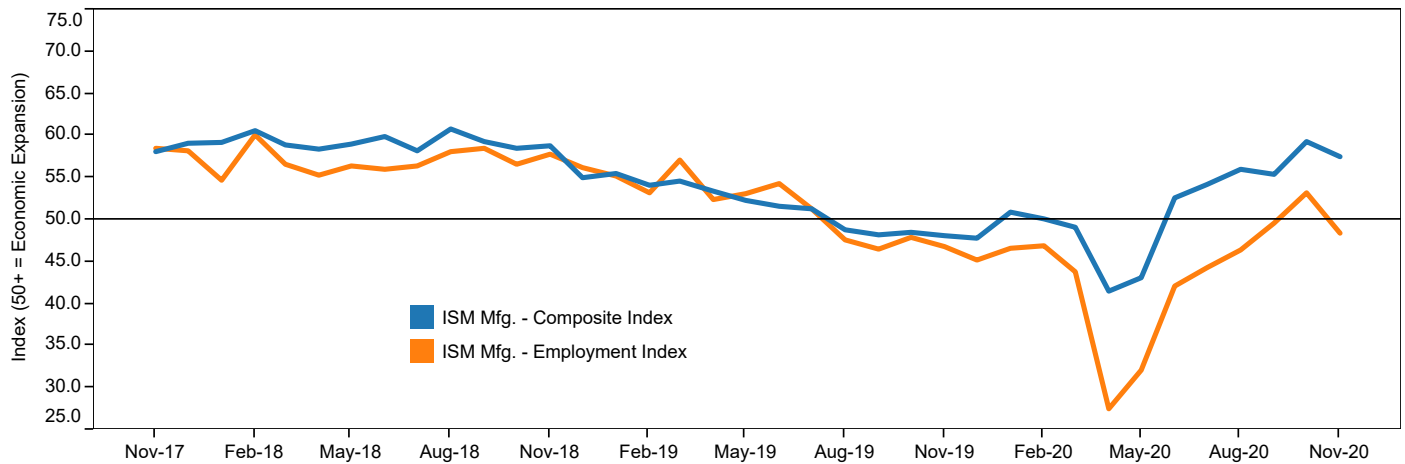
Industrial production expanded by 1.1% in October after September's decline was revised upward from -0.6% to -0.4%. Manufacturing and utilities output both rose, while mining output declined. Capacity utilization in manufacturing has risen in each month since the April low, reaching 71.7% in September. Both industrial production and capacity utilization in manufacturing remain well below their pre-pandemic levels.

Industrial Production and Capacity Utilization

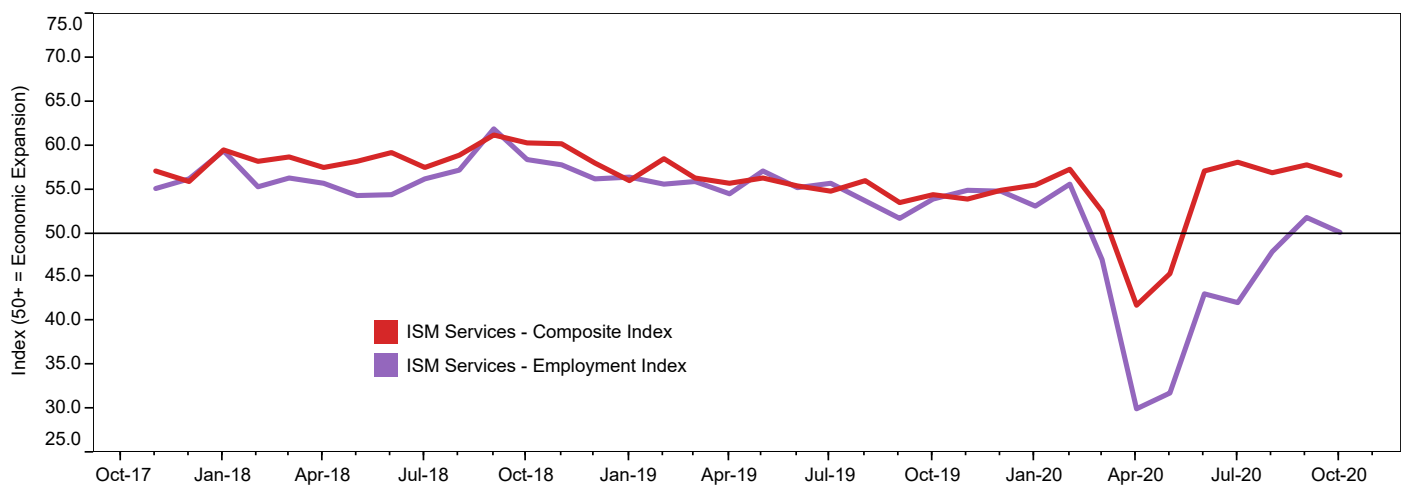


The ISM manufacturing index slowed in November from the two-year high seen in October, but continued to signal expansion by remaining above 50. The employment subindex signaled contraction in November by falling to 48.4 from September's reading of 53.2. The ISM services index eased in October, and November data will be released Thursday. Regional manufacturing surveys from the Federal Reserve all declined in November, but all continued to signal improving business conditions.

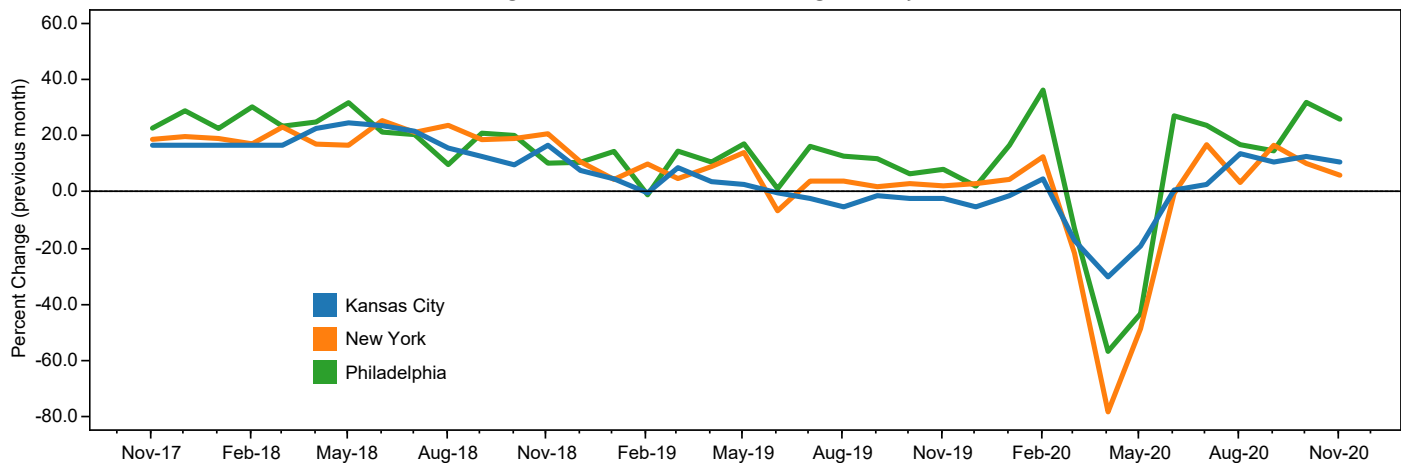
ISM Manufacturing Indices



ISM Services Indices

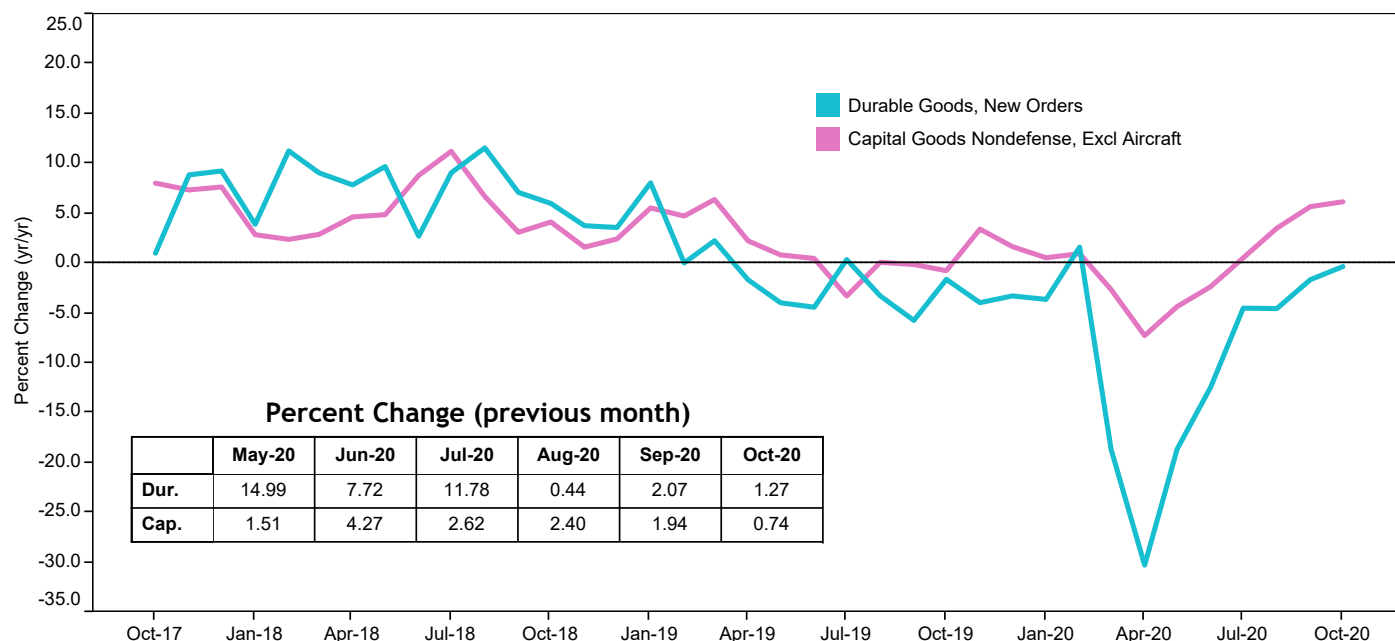


Regional FRB Manufacturing Surveys



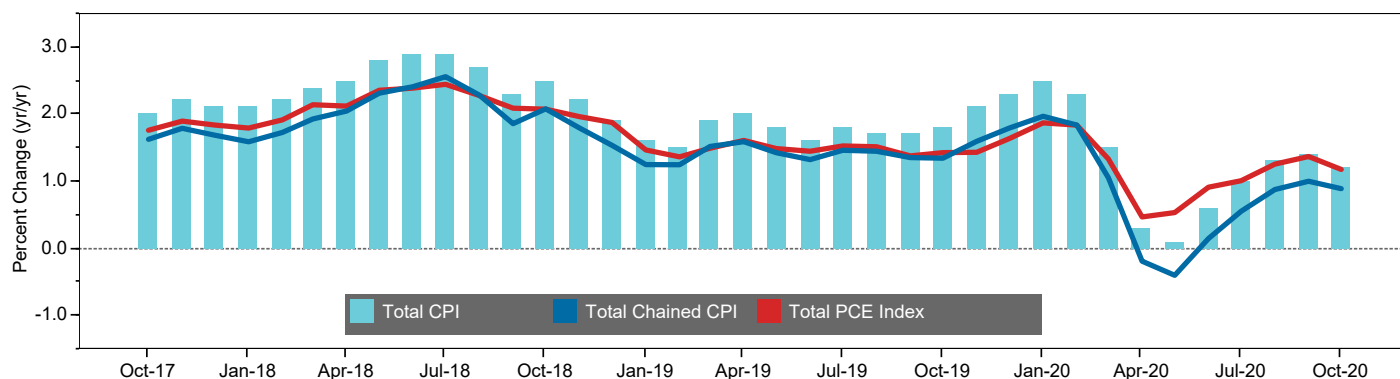
Orders for durable goods have risen in every month since the sharp decline seen in April. However, October data were still below the levels seen this time last year. Orders for nondefense capital goods excluding aircraft have been rising consistently since April and have also been growing on a year-over-year basis.

Durable Goods Orders

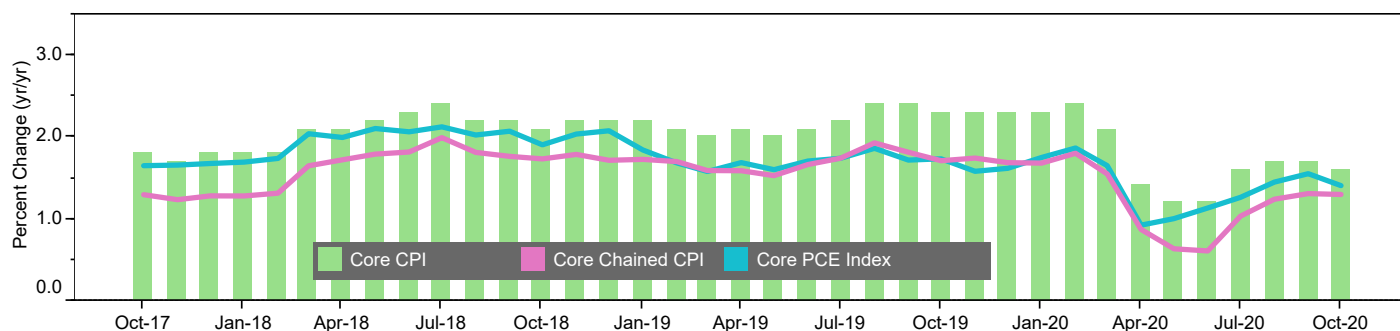


Measures of consumer prices were flat in October on a monthly basis, following several months of moderate increases. On a year-over-year basis, total CPI and both total and core PCE inflation slowed by two-tenths in October, while core CPI eased by one-tenth.

Total Price Indices

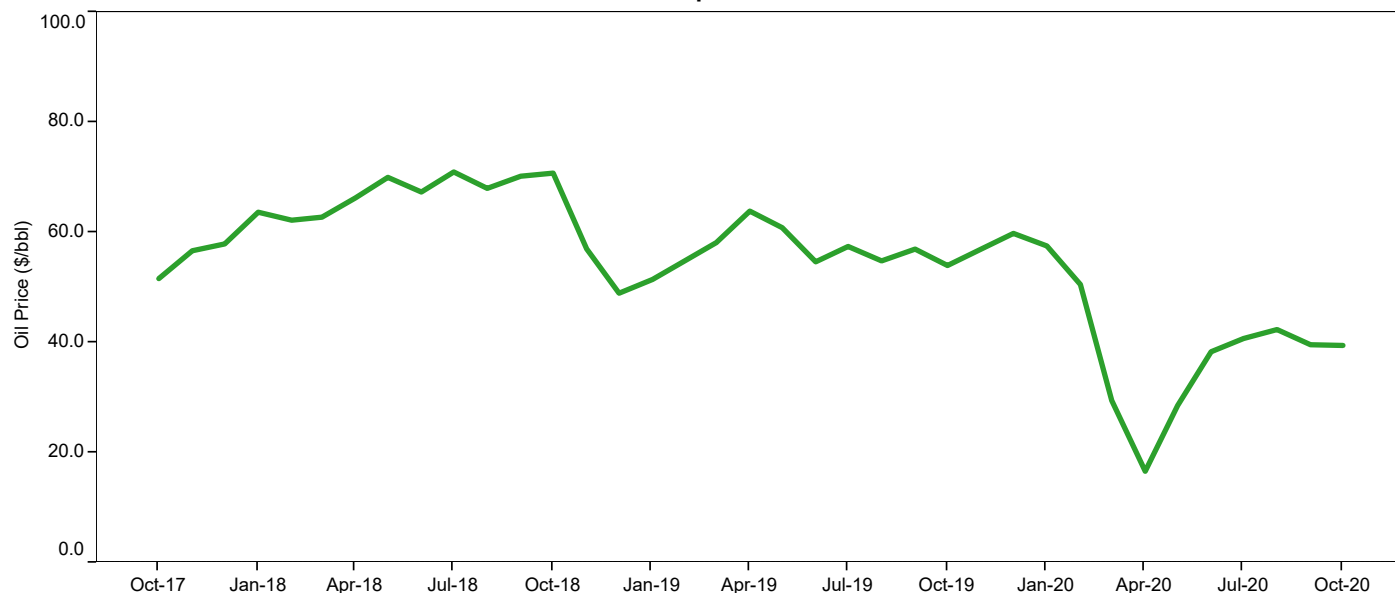


Core Price Indices



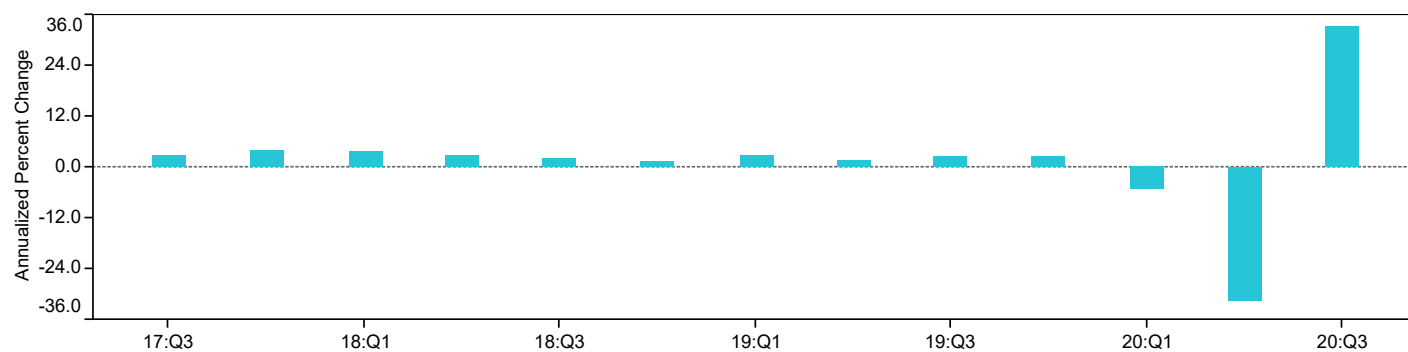
Oil prices have hovered around 40 dollars per barrel since regaining some of the ground lost in April. In recent daily data, prices have ticked up - November 30th marked the third consecutive day that prices closed above 45 dollars per barrel.

Domestic Spot Oil Price



Real GDP in the third quarter remained unrevised at 33.1%. The increase reflected increases in PCE, private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Real GDP

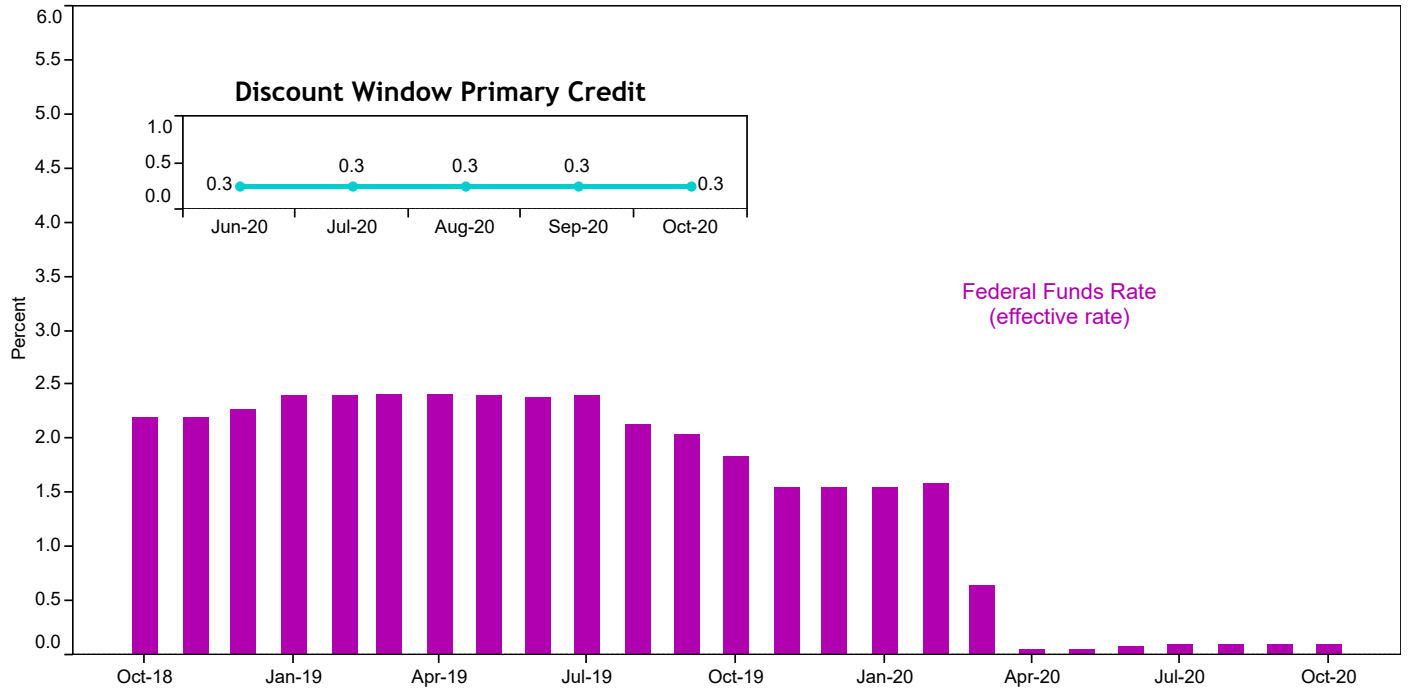


Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	33.1	33.1
Personal Consumption	40.7	40.6
Business Investment	20.3	21.8
Equipment and Software	70.1	66.6
Residential Investment	59.3	62.3
Government	-4.5	-4.9
Exports	59.7	60.5
Imports	91.1	93.1
Final Sales	25.5	25.6

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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.