



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

January 10, 2017

CURRENT ECONOMIC DEVELOPMENTS - January 10, 2017

Data released since your last Directors' meeting suggest that growth likely slowed in the fourth quarter compared to the upwardly revised growth seen in the third quarter. Labor markets showed signs of continued strengthening, consumer spending increased modestly, and consumer attitudes improved. However, support from manufacturing has been mixed. Overall, recent data remain consistent with a moderately growing economy.

In December, nonfarm payrolls posted a smaller-than-expected increase, while net job gains for the previous two months were revised up. The unemployment rate rose one-tenth to 4.7% in December, due to an increase in the labor force. Initial claims for unemployment insurance increased in December, after falling in November, but remain consistent with further improvements in the labor market.

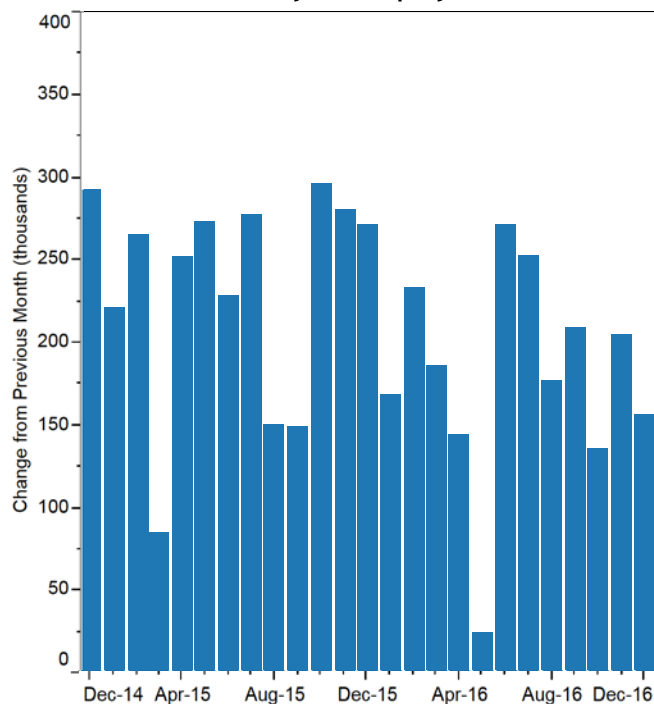
Consumer attitudes improved in December, as the sentiment index rose to its highest level since January 2004, and the confidence index increased to its highest level since August 2001. Vehicle sales rose more than expected in December, after falling in November. Consumption increased in November, despite a decline in real incomes. Primary measures of real estate activity were mixed in November, as both new and existing home sales rose during the month, while housing starts and building permits both fell.

In the manufacturing sector, the ISM index rose further in December, continuing to signal expansion in the industry. Industrial production fell in November, and capacity utilization also decreased. Orders for durable goods fell in November and declined from their year-ago level, while nondefense capital goods, excluding aircraft, increased in November but continued to decline on a year-over-year basis.

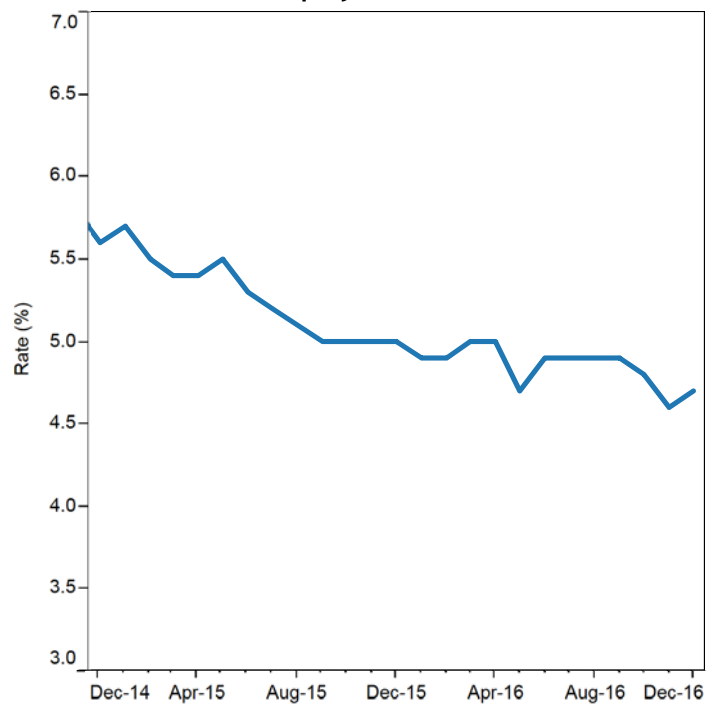
Growth in total consumer prices continued to accelerate in November, as measured by the CPI, and held steady as measured by the PCE index. Meanwhile, growth in core prices, which exclude the volatile food and energy sectors, held steady as measured by the CPI and decelerated as measured by the PCE index. Oil prices rose, on average, in December and were little changed in the first several days of January.

Nonfarm payrolls added 156,000 jobs in December, fewer than anticipated, while job gains for the previous two months were revised up by a net 19,000 jobs. The unemployment rate rose one-tenth to 4.7% in December, as an increase in the size of the labor force outpaced the rise in civilian employment.

Nonfarm Payroll Employment

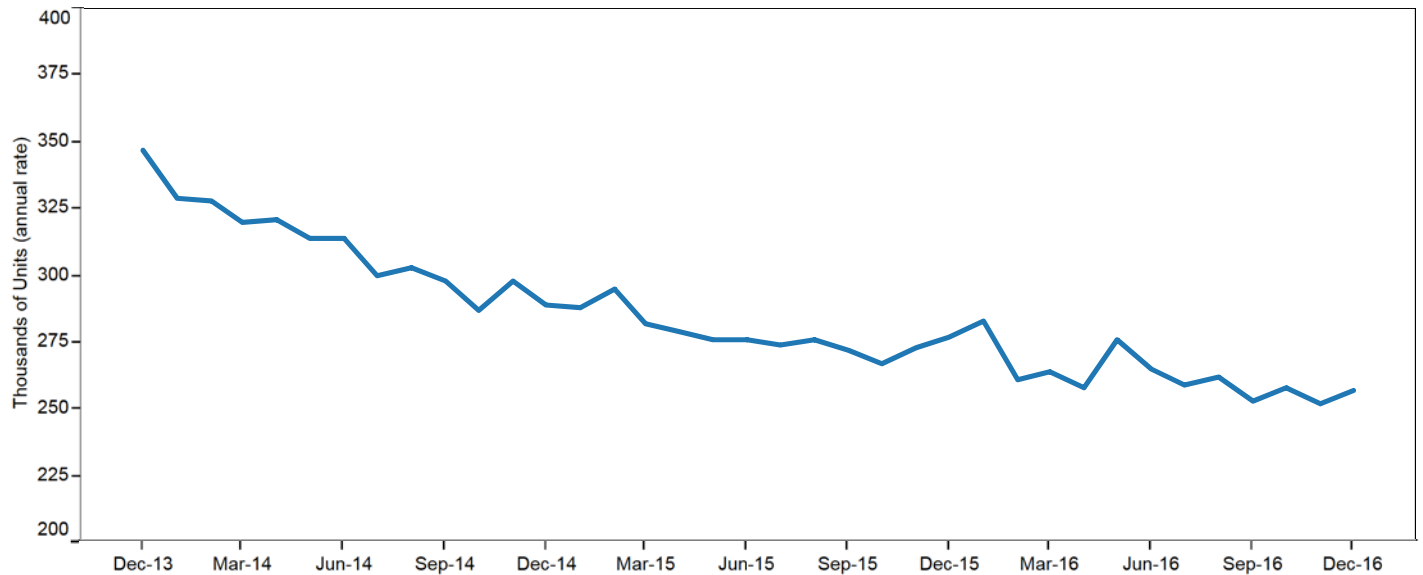


Unemployment Rate



Initial claims for unemployment insurance edged up in December, after falling in November. Despite the uptick in December, weekly claims remain close to historic lows, at a level consistent with further labor market improvement.

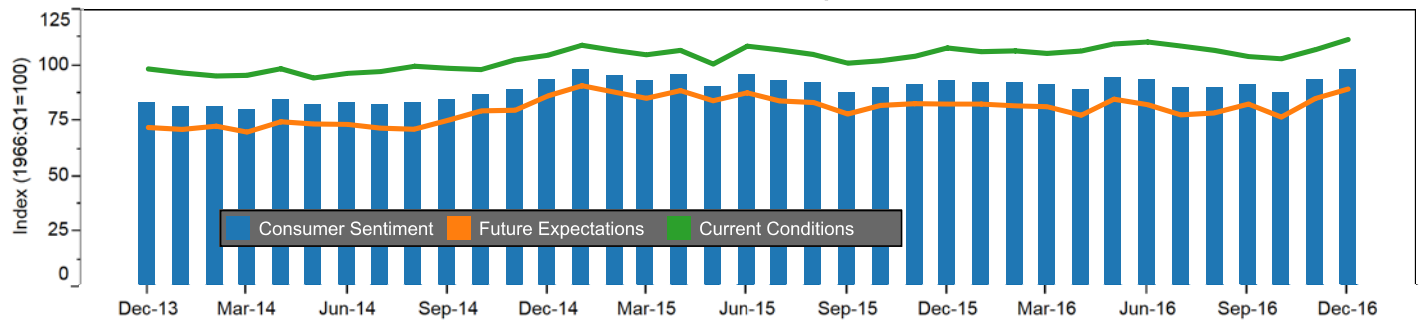
Initial Claims



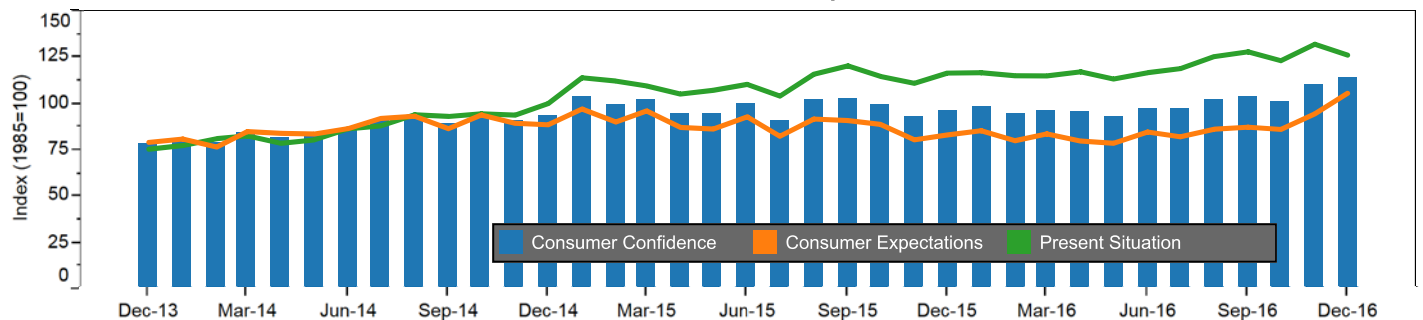
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in December, as the sentiment index rose to its highest level since January 2004. Meanwhile, the confidence index increased in December to its highest level since August 2001 due to a rise in the expectations component, while the present situation component eased a bit. Consumers expressed more optimism towards the outlook for the economy and for personal finances following the election.

Consumer Sentiment and Expectations



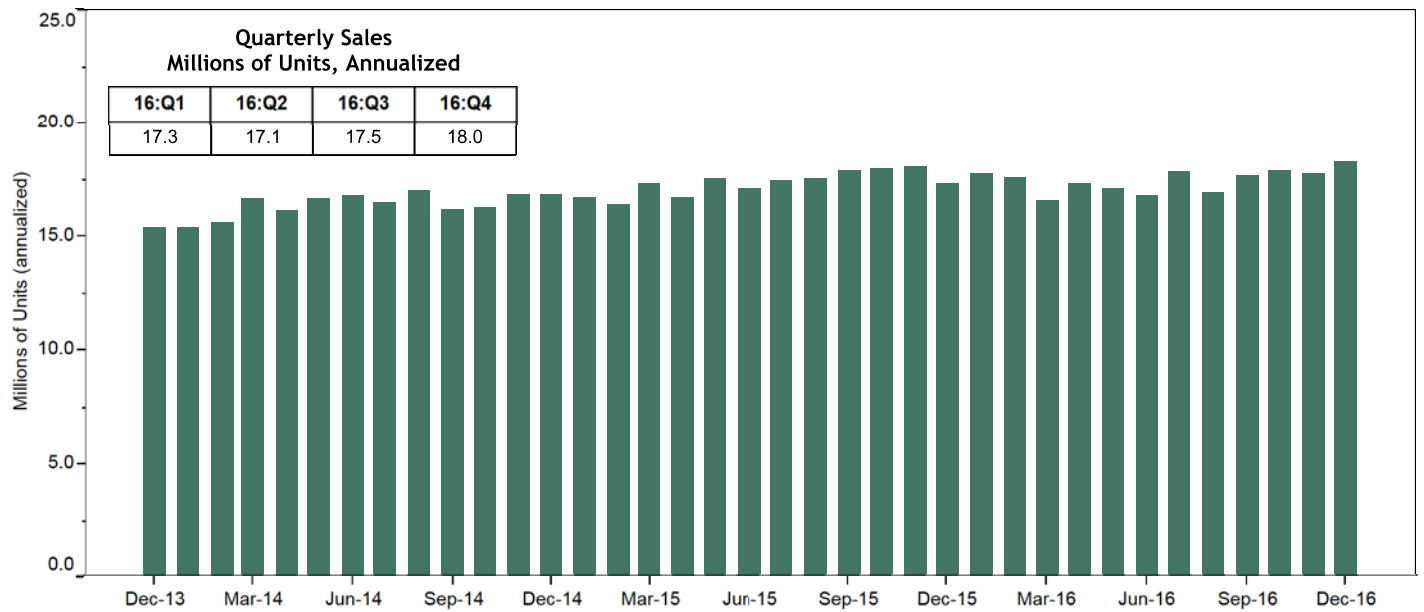
Consumer Confidence and Expectations



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

Lightweight vehicle sales rose more than expected in December, after easing in November, as both auto and light duty truck sales increased. Total sales in December reached the highest rate since July 2005.

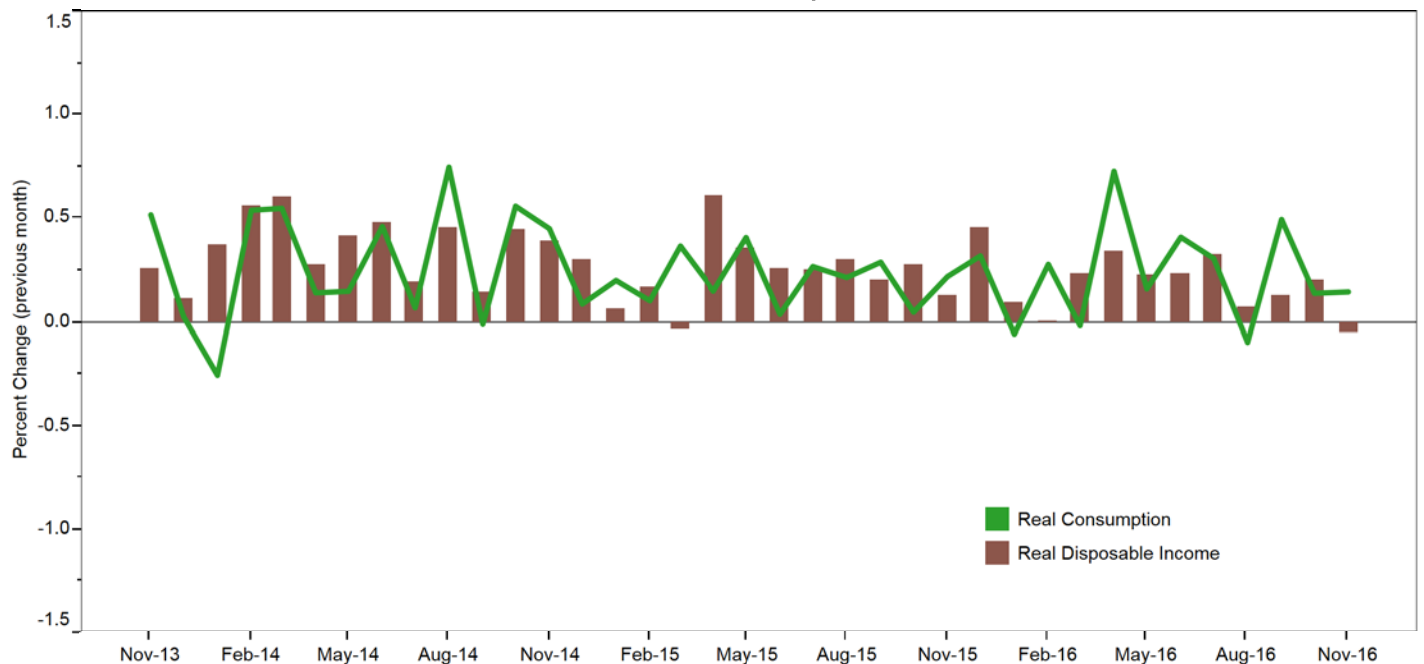
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes ticked down in November, after rising in each of the past eight months. Despite the lower incomes, consumption inched up in November, matching the increase seen in October.

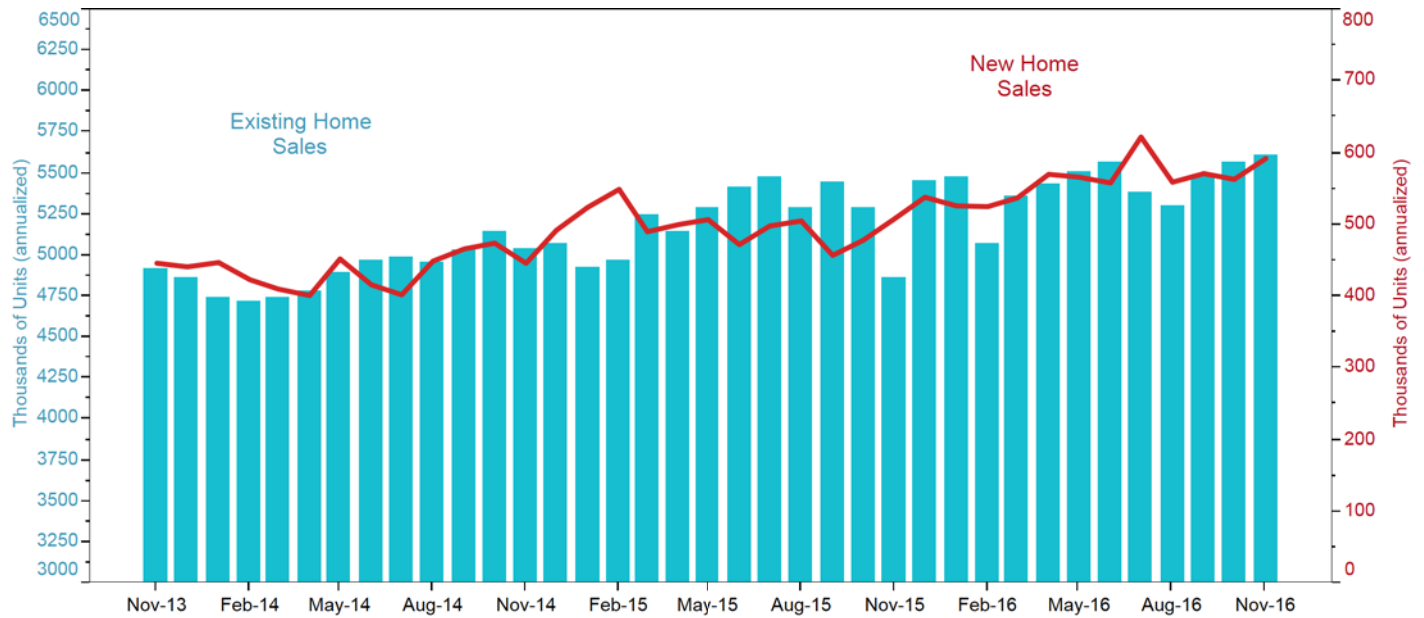
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data improved in November. Existing home sales rose for the third consecutive month, reaching their highest level since February 2007. Meanwhile, new home sales also increased and more than offset the upwardly-revised decrease in October.

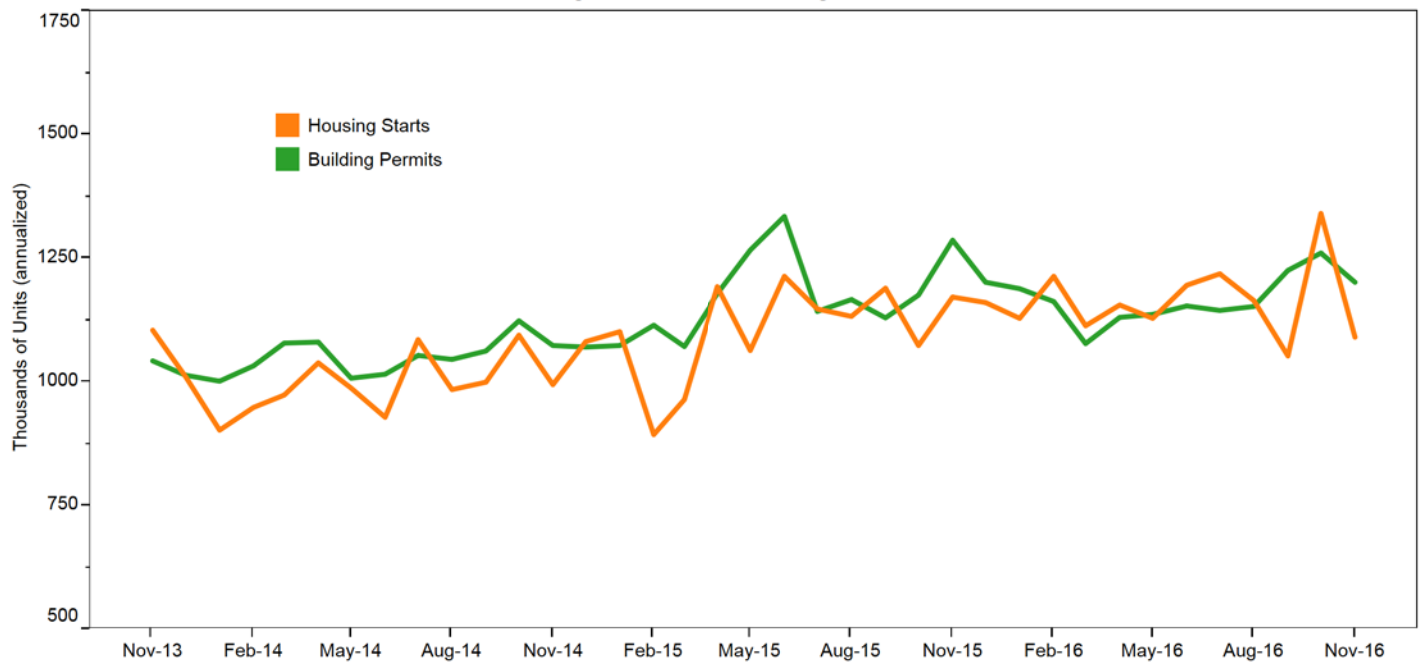
New and Existing Home Sales



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

Housing starts dropped in November, offsetting most of the increase seen in October. Building permits also fell in November, due to a decline in multi-family permits. Single-family permits ticked up in November.

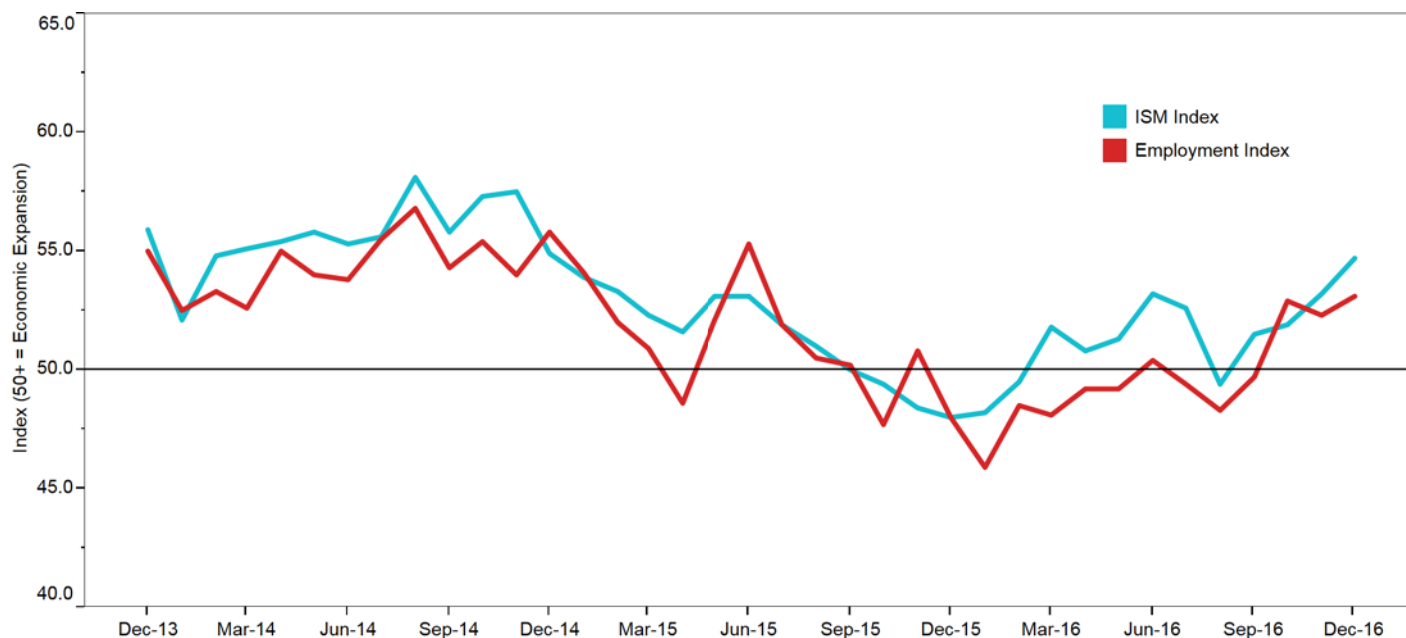
Housing Starts and Building Permits



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

The ISM manufacturing index continued to improve in December, reaching its highest level in two years and continuing to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in December, more than offsetting the decline seen in November.

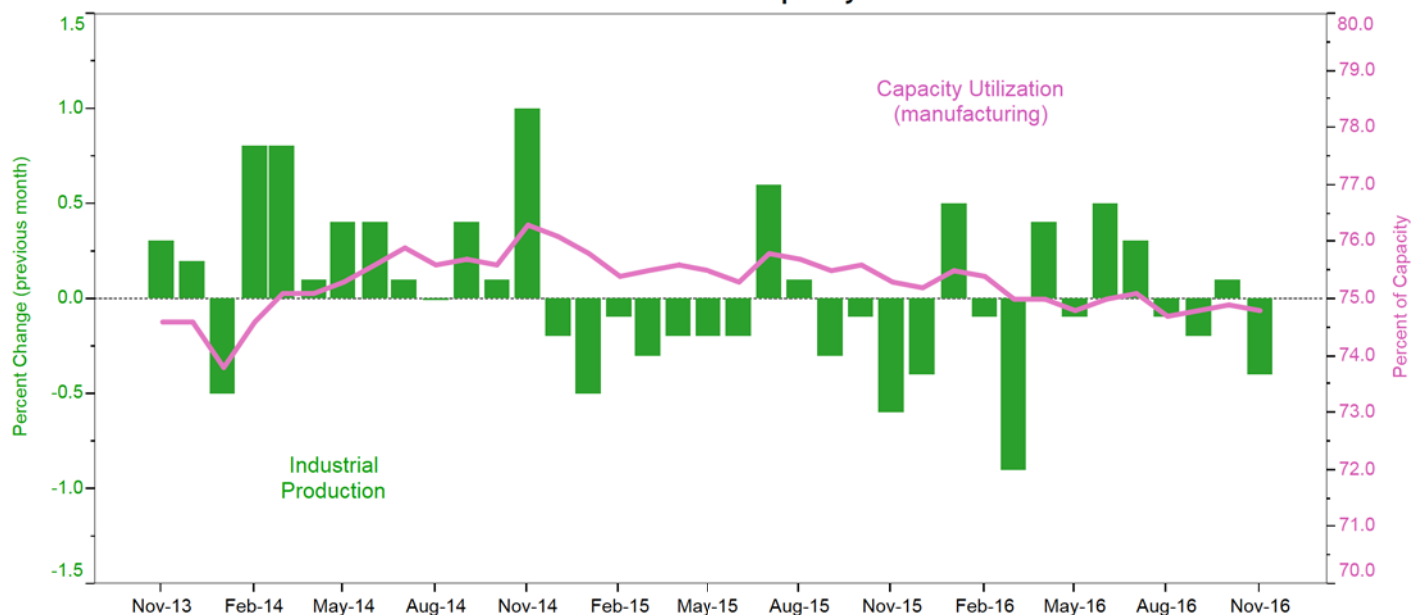
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in November, following an increase in October that was revised up from a previous reading of no change. Both manufacturing and utilities production posted decreases in November, while mining output increased. Capacity utilization eased in November, after rising a bit in each of the prior two months.

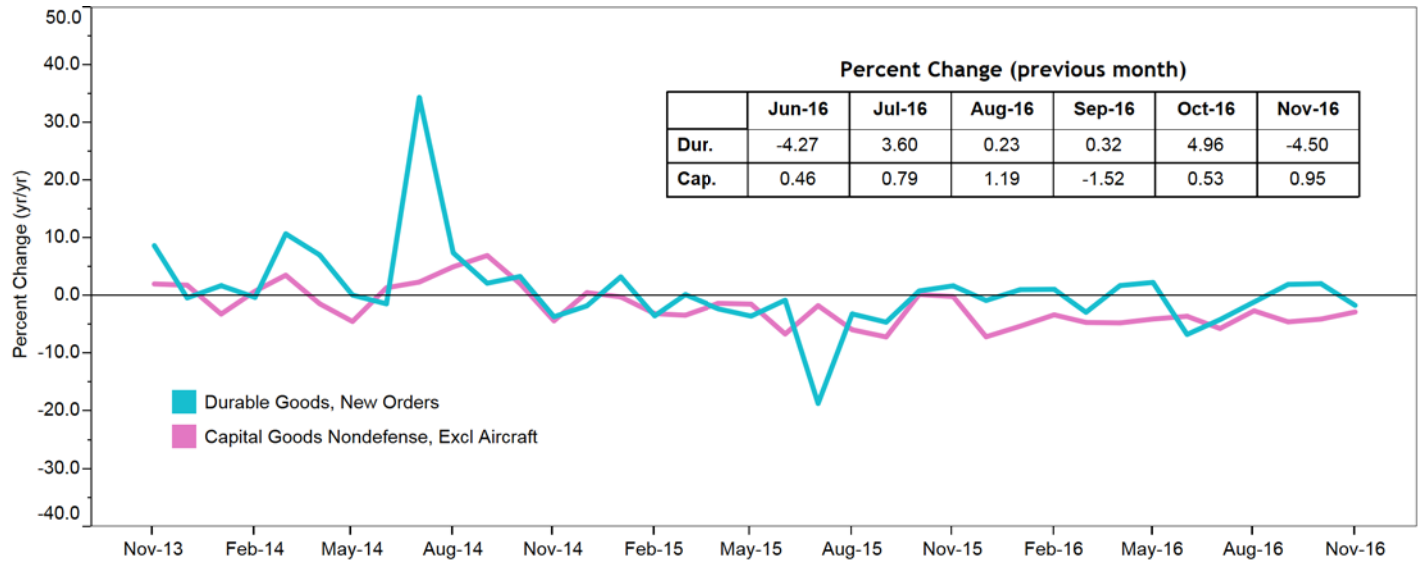
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in November, after rising in each of the past four months, and were down from their year-ago level. Orders for nondefense capital goods, excluding aircraft, increased in November, yet continued to decline on a year-over basis.

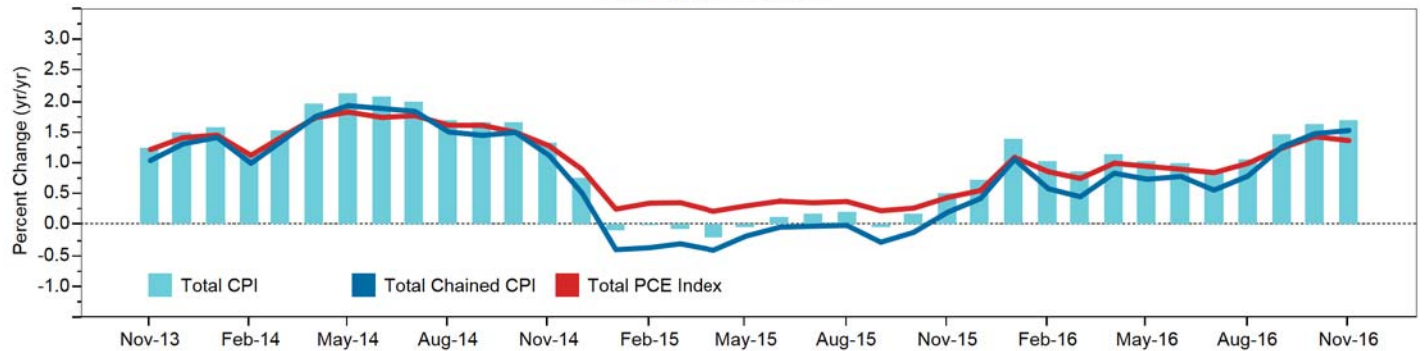
Durable Goods Orders



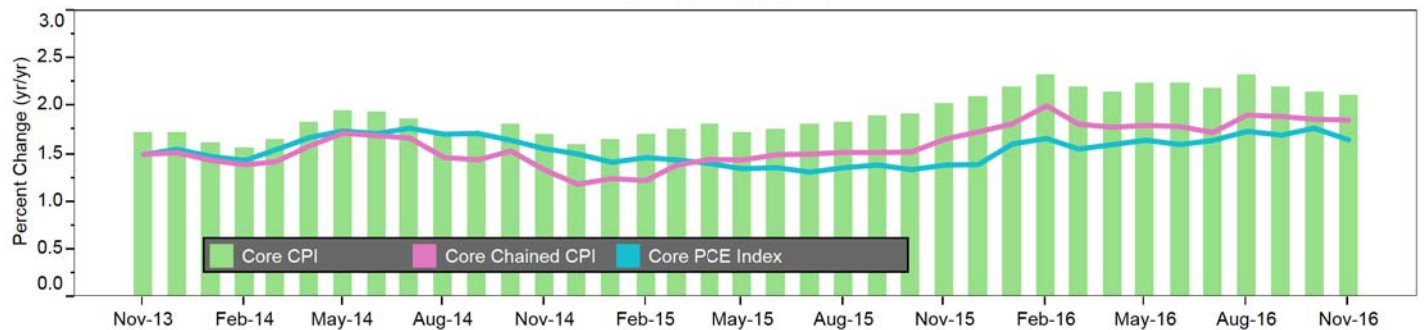
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices, as measured by the Consumer Price Index, continued to rise in November, while the Personal Consumption Expenditure index held steady. Meanwhile, the core CPI, which excludes the volatile food and energy categories, was essentially unchanged in November, while the core PCE index eased.

Total Price Indices



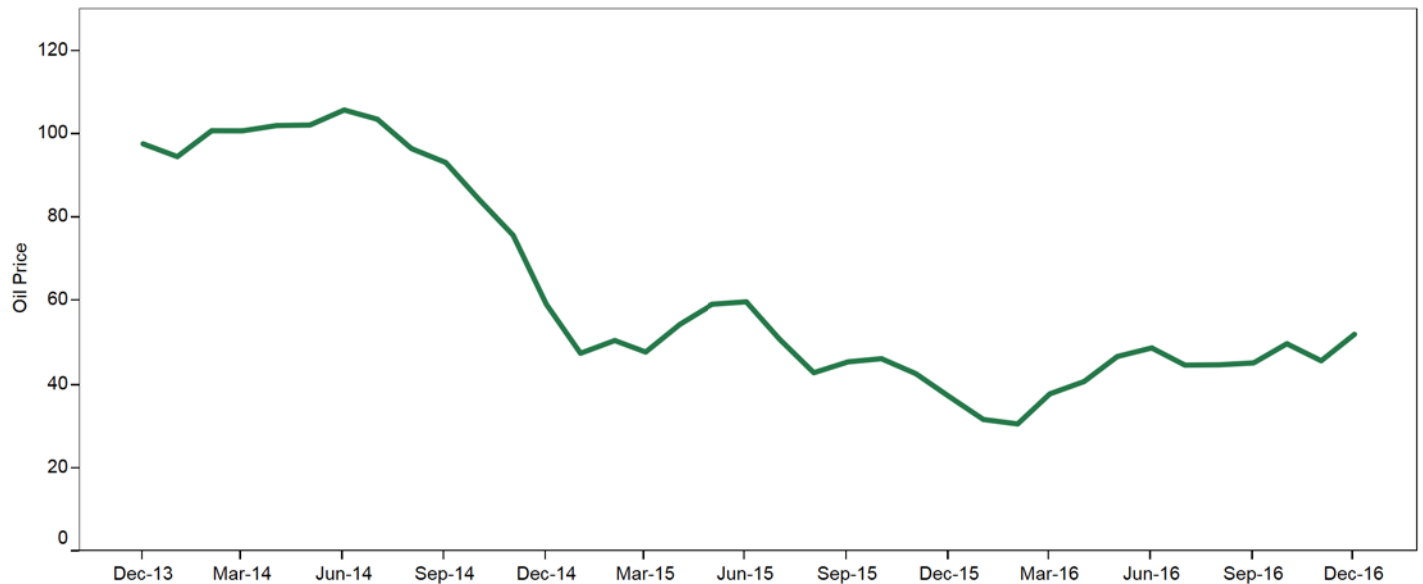
Core Price Indices



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

Oil prices rose on average in December, registering their highest monthly average since June 2015. Prices have hovered around their December average so far in January, registering \$52.0 per barrel on January 9th.

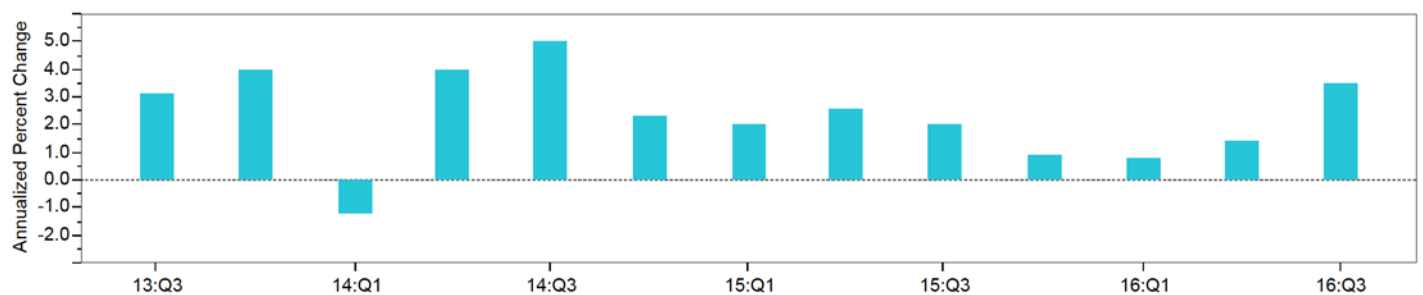
Domestic Spot Oil Price



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

Third quarter real GDP growth was revised up in the third estimate to 3.5% from 3.2%. The higher rate primarily reflected upward revisions to nonresidential fixed investment, personal consumption expenditures, and state and local government spending.

Real GDP



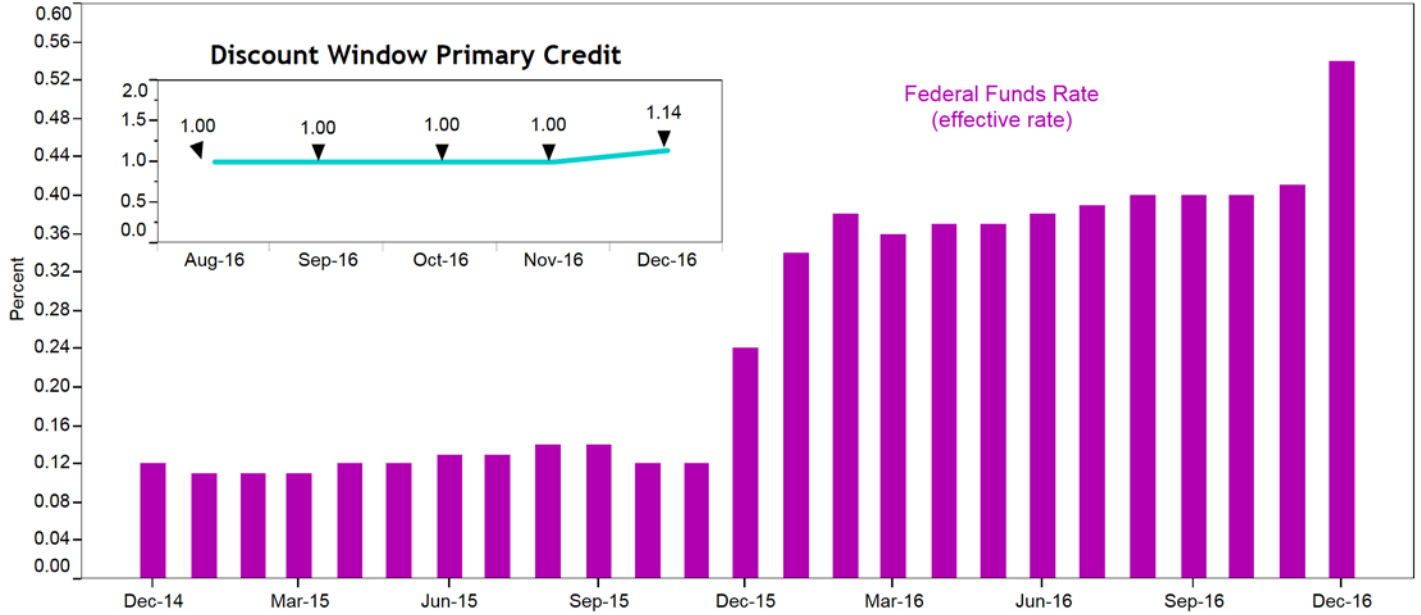
Revisions to Third Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	3.2	3.5
Personal Consumption	2.8	3.0
Business Investment	0.1	1.4
Equipment and Software	-4.8	-4.5
Residential Investment	-4.4	-4.1
Government	0.2	0.8
Exports	10.1	10.0
Imports	2.1	2.2
Final Sales	2.7	3.0

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting suggest that growth likely slowed in the fourth quarter compared to the upwardly revised growth seen in the third quarter. Labor markets showed signs of continued strengthening, consumer spending increased modestly, and consumer attitudes improved. However, support from manufacturing has been mixed. Overall, recent data remain consistent with a moderately growing economy.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.