



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

January 8, 2019

## CURRENT ECONOMIC DEVELOPMENTS - January 8, 2019

Data released since your last Directors' meeting suggest growth remained strong in the fourth quarter, even as it slowed a bit from the robust growth seen through the middle of the year. Labor markets continued to tighten, consumer attitudes remained elevated, and income gains have helped drive consumption. However, housing and manufacturing data remain mixed. Despite financial market volatility, economic fundamentals remain strong and growth is likely to continue close to potential in 2019.

In December, nonfarm payrolls posted a larger-than-expected increase, and total job gains for the previous two months were revised up. The unemployment rate rose two-tenths to 3.9 percent in December, due to an increase in the size of the labor force that outpaced a rise in civilian employment. Participation in December matched its highest level of the past five years. Initial claims for unemployment insurance came down a bit in December after rising in the two previous months.

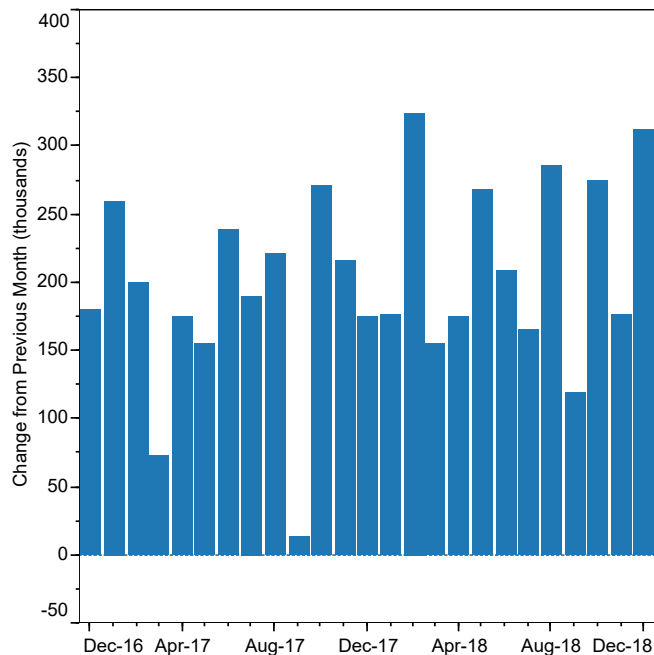
Consumer attitudes were mixed - and remained elevated - in December, as the sentiment index ticked up while the confidence index declined. The expectations component of each index decreased in December. Vehicle sales increased slightly in December, but generally were little changed throughout the fourth quarter. Consumption posted a solid gain in November, supported by another increase in real incomes. Primary measures of real estate activity were mixed in November. Existing home sales increased while new home sales data, which has been trending downward, was delayed by the government shutdown. Housing starts and building permits both rose in November, due solely to greater multi-family activity. Single-family starts fell and single-family permits were essentially unchanged.

In the manufacturing sector, the ISM index fell sharply in December, though did remain in expansionary territory. Industrial production rebounded in November, due to gains in utilities and mining, as manufacturing production was flat. Capacity utilization declined slightly. Orders for durable goods posted a small gain in November after falling in October, while core orders fell for the third time in four months. On a year-over-year basis, both total and core orders rose further.

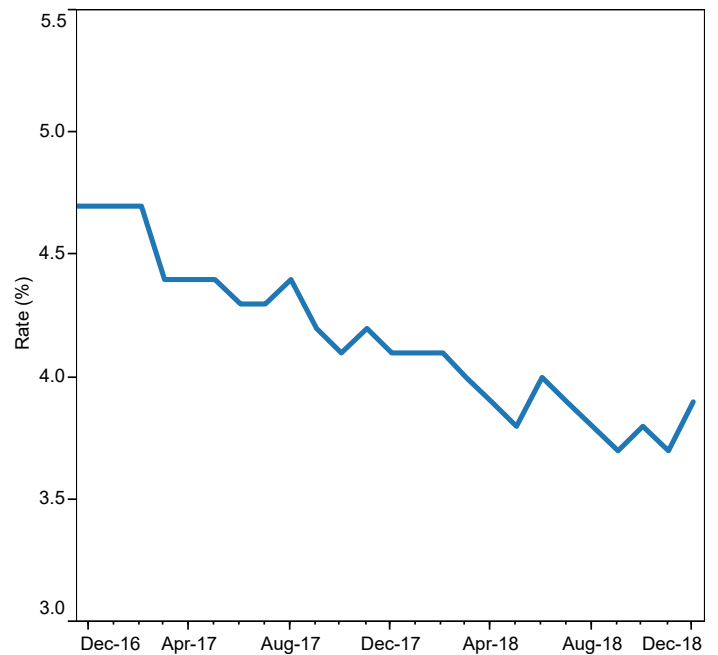
Growth in total consumer prices slowed in November, while growth in core prices, which exclude the volatile food and energy sectors, picked up a bit. Oil prices continued to fall in December and have remained low through the first few days of January.

Nonfarm payrolls added 312,000 jobs in December, while job gains for the previous two months were revised up by a total of 58,000 jobs. The unemployment rate rose two-tenths of a percentage point to 3.9% in December, as an increase in the size of the labor force outpaced the rise in civilian employment.

### Nonfarm Payroll Employment

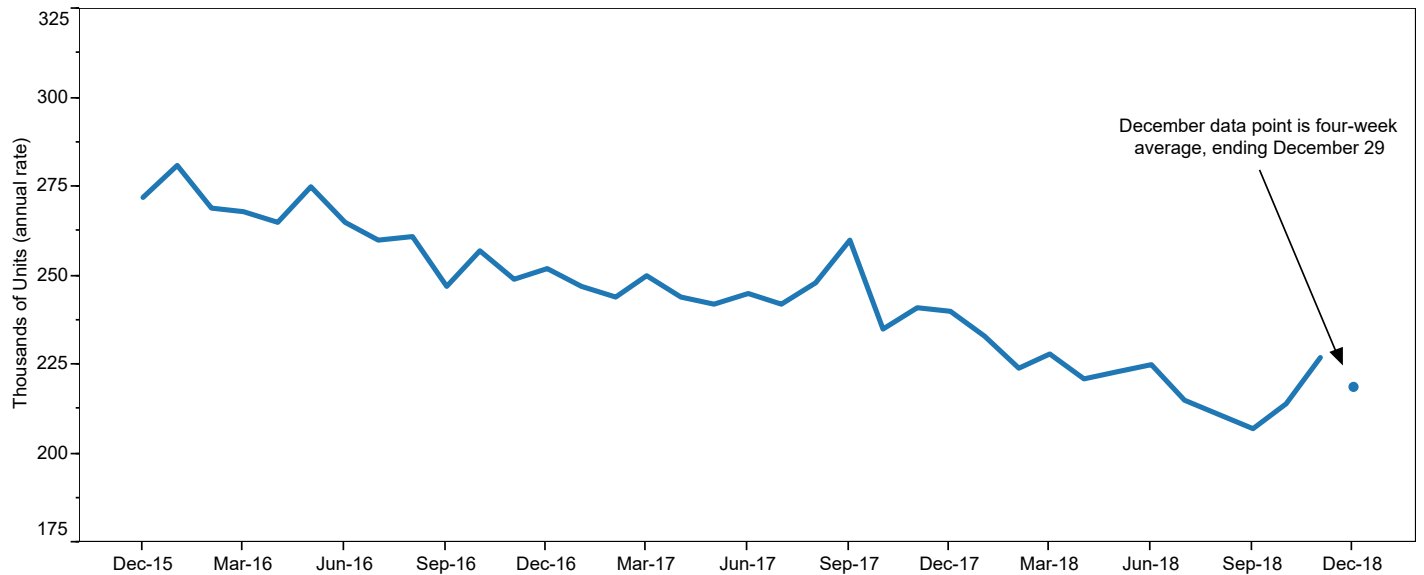


### Unemployment Rate



Initial claims for unemployment insurance declined in December, offsetting some of the increases seen over October and November. Claims remain very low by historical standards and consistent with further labor market improvement.

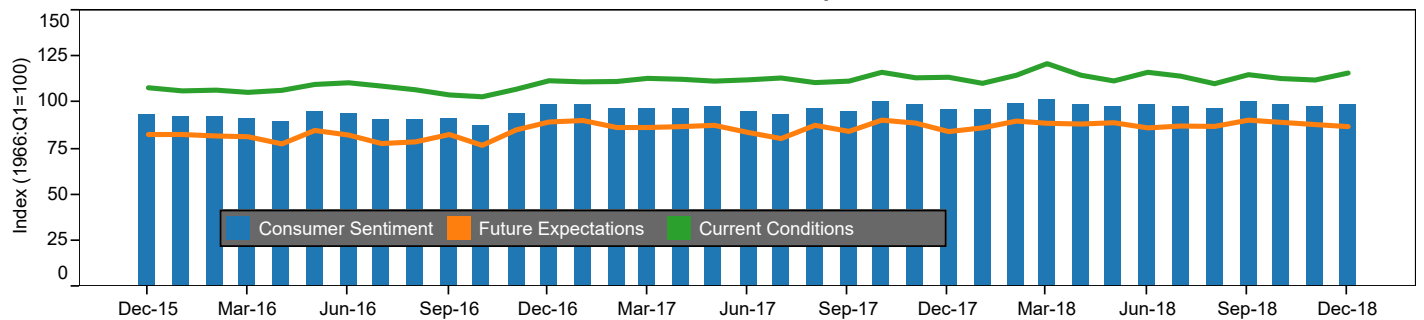
### Initial Claims



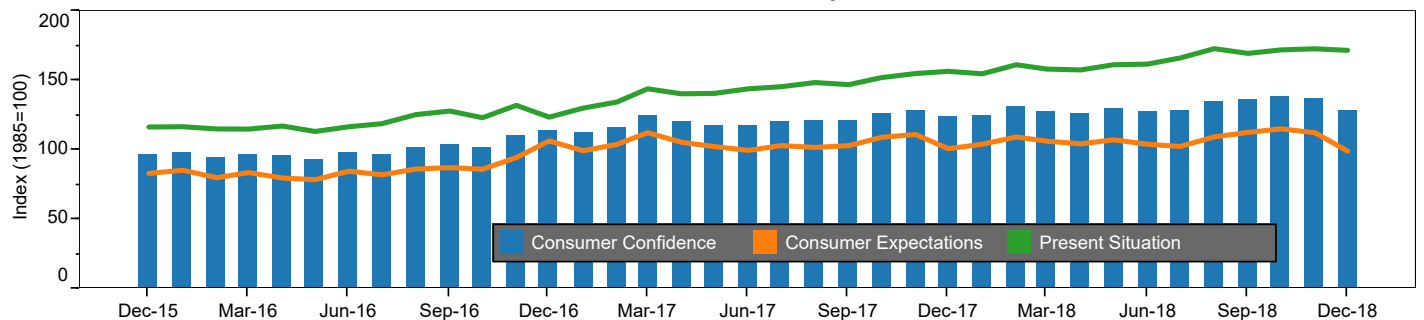
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes were mixed in December, as sentiment improved a bit while confidence fell. The expectations component fell for both surveys. Despite some moderation recently, attitudes remain elevated due primarily to favorable assessments of job opportunities and personal finances. However, consumers have started to express less optimism about the pace of economic growth remaining as strong in 2019.

### Consumer Sentiment and Expectations



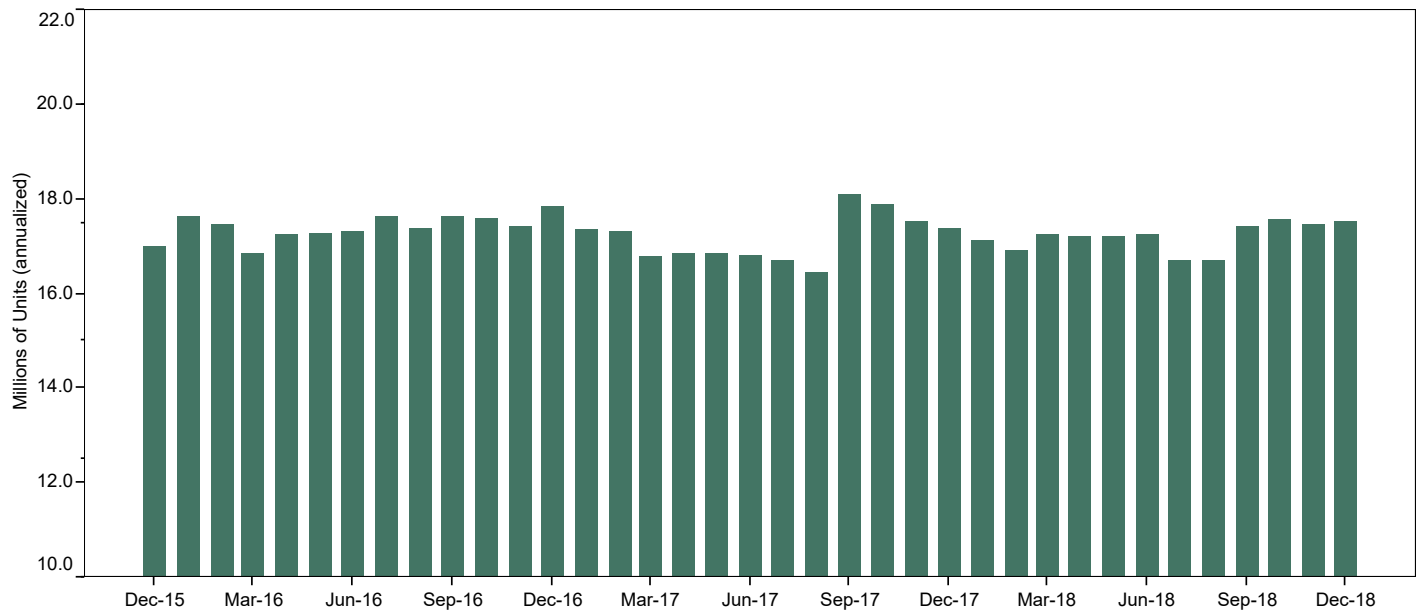
### Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales picked up a bit in December, but generally held steady throughout the fourth quarter. Total vehicle sales in 2018 were essentially unchanged from 2017, as declining auto sales continued to be offset by rising light truck sales.

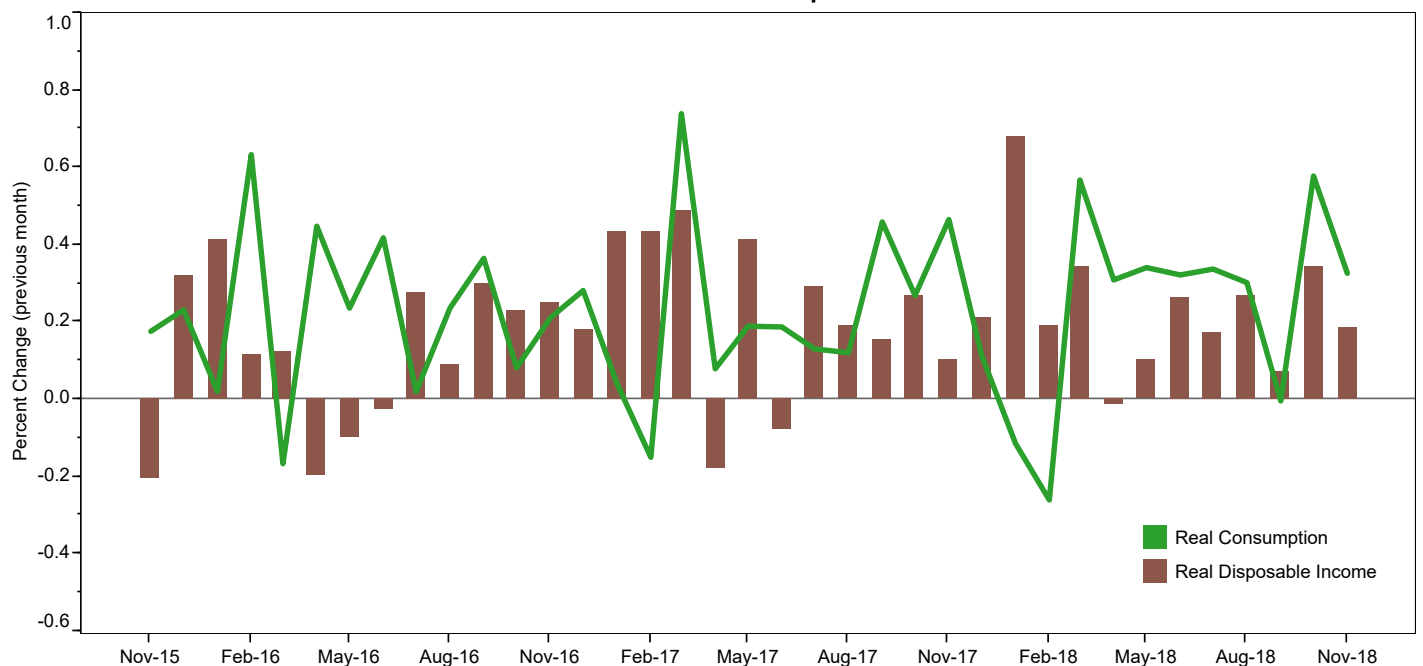
### Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes continued to rise in November, their seventh consecutive monthly increase. The higher incomes remained supportive of increased consumption, which posted a second consecutive strong gain in November after pausing in September.

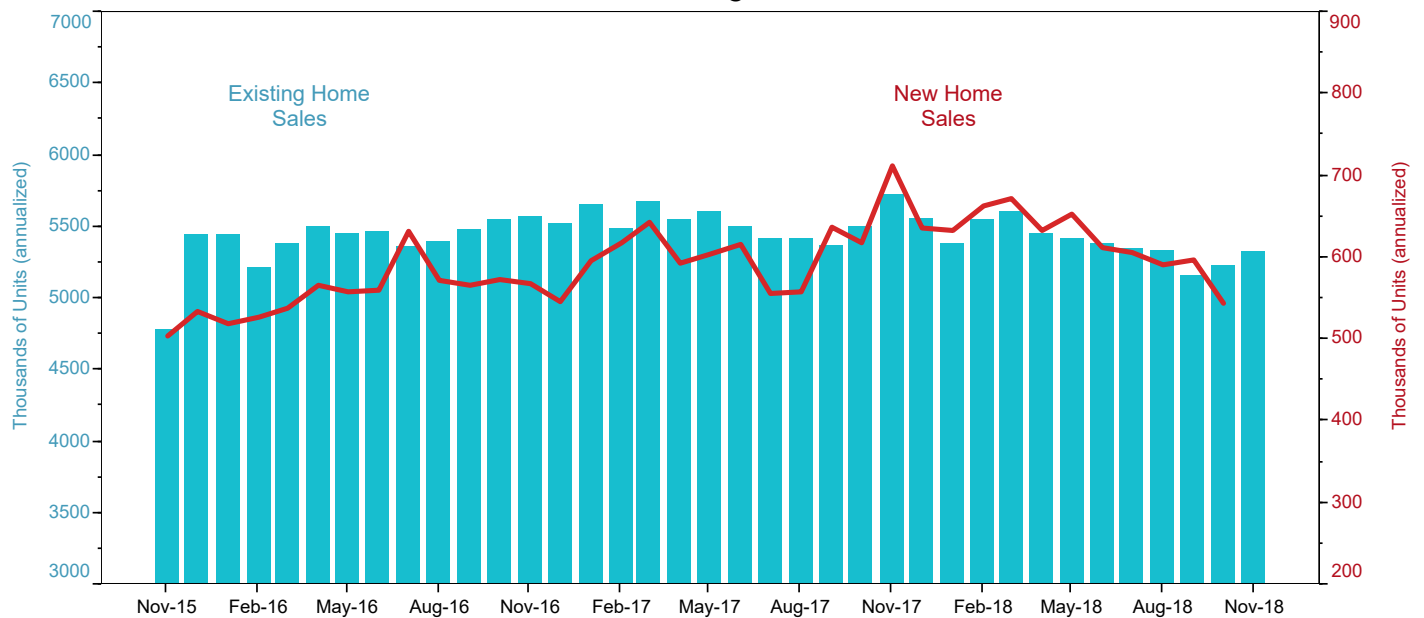
### Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales rose again in November, moving back in line with the sales rates seen earlier in the year. Sales increased in each region except the West. The release of new home sales data for November has been delayed by the partial government shutdown, but markets had been anticipating a moderate increase, which would be in contrast to the downward trend seen over the past several months.

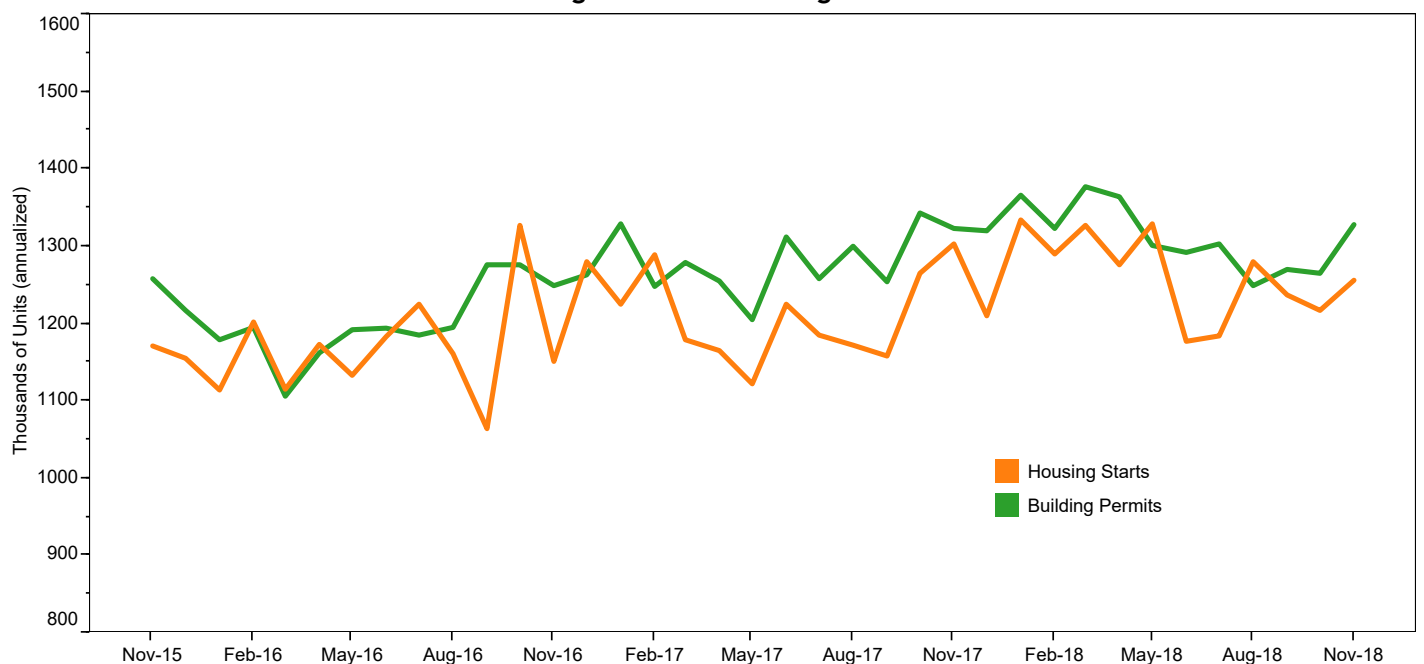
### New and Existing Home Sales



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

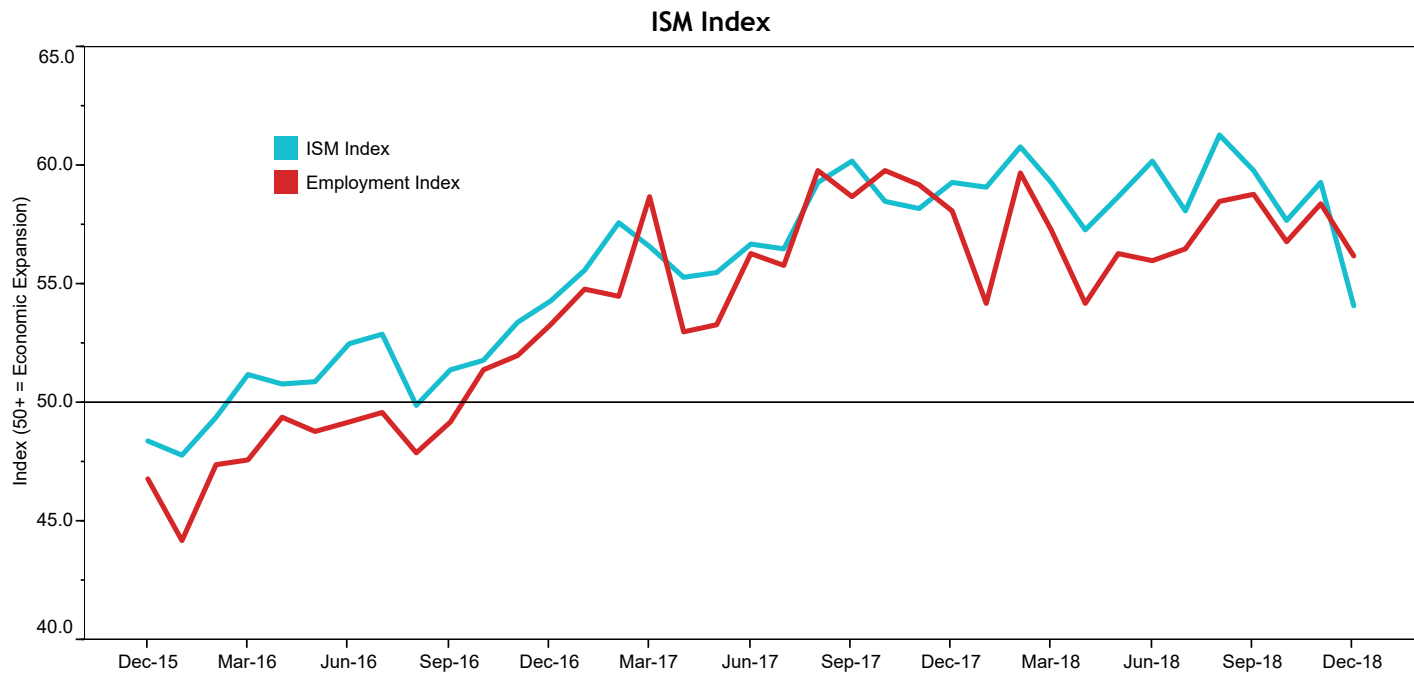
New residential construction picked up in November, due to increases in multi-family activity. Overall total starts and permits have largely been moving sideways over the past two years, and data in November were little different from their 12-month averages. In November, single-family starts declined while single-family permits were essentially flat. Multi-family starts and permits both increased by over 10 percent in November.

### Housing Starts and Building Permits



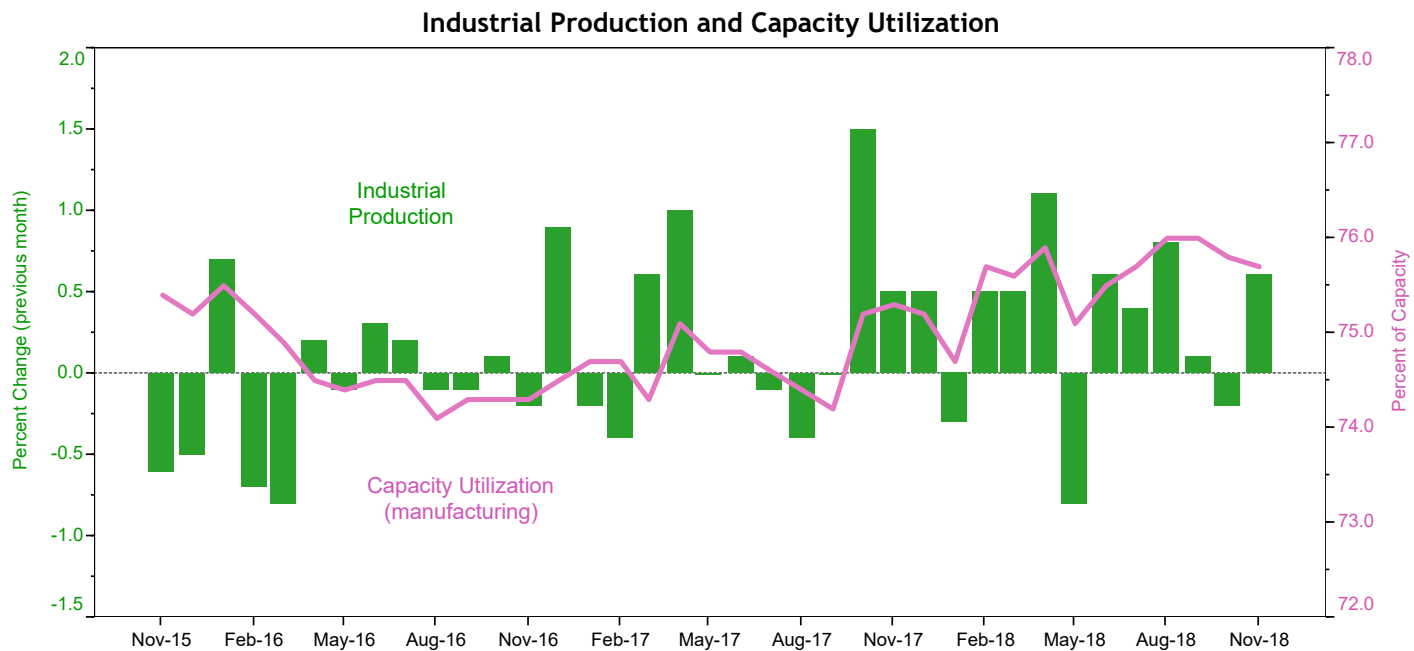
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index fell sharply in December, dropping to its lowest point in just over two years. The index did remain above 50, however, continuing to signal expansion in the manufacturing industry. Declines were seen across all five components of the index, led by an 11.0 point drop in the new orders index. The employment index eased by 2.2 points in December, offsetting the November gain.



Source: Institute of Supply Management / Haver Analytics.

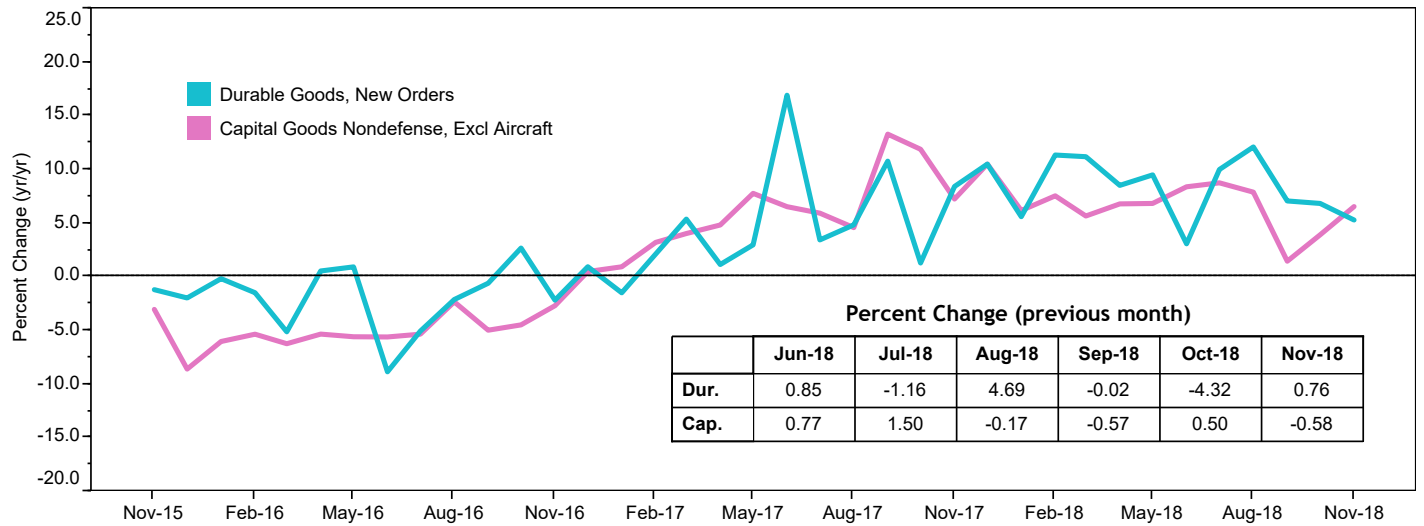
Industrial production rebounded in November, following a decrease in October, revised down from the small gain originally reported. The increase in total production in November was due to increases in both utilities and mining, as manufacturing production was flat after easing slightly in October. Capacity utilization in manufacturing declined a bit further in November.



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods posted a small increase in November, after falling sharply in October. Orders for nondefense capital goods, excluding aircraft, fell in November for the third time in four months. Both measures, however, did continue to rise in November on a year-over-year basis. Revised data typically released early in the month has been delayed by the government shutdown.

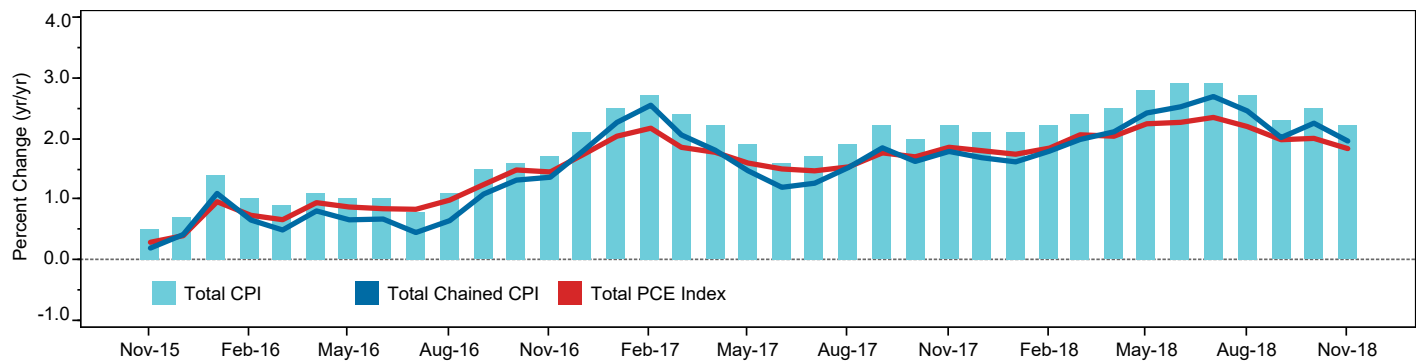
### Durable Goods Orders



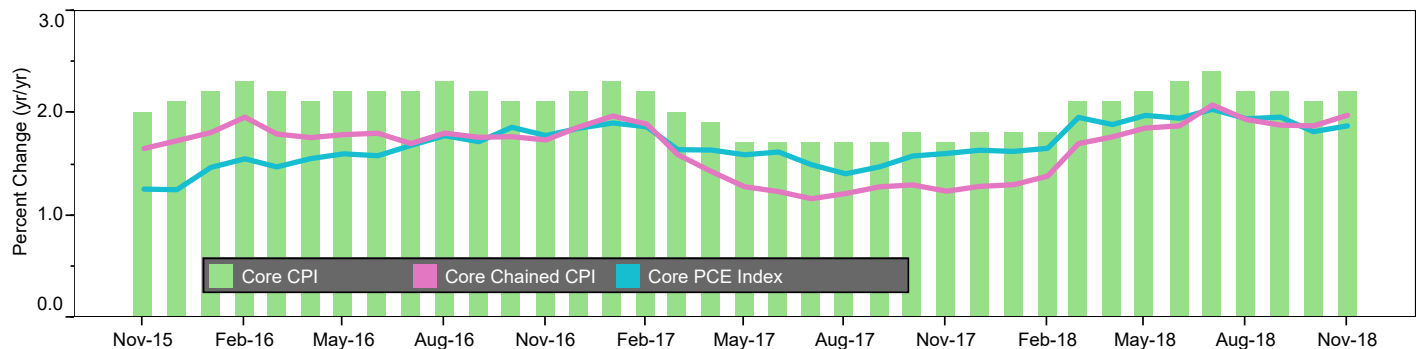
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices slowed in November, with the CPI declining three-tenths and the PCE declining two-tenths. Core inflation, however, picked up a bit in November. These divergent movements are likely due to falling energy prices, which are excluded from the core measures.

### Total Price Indices



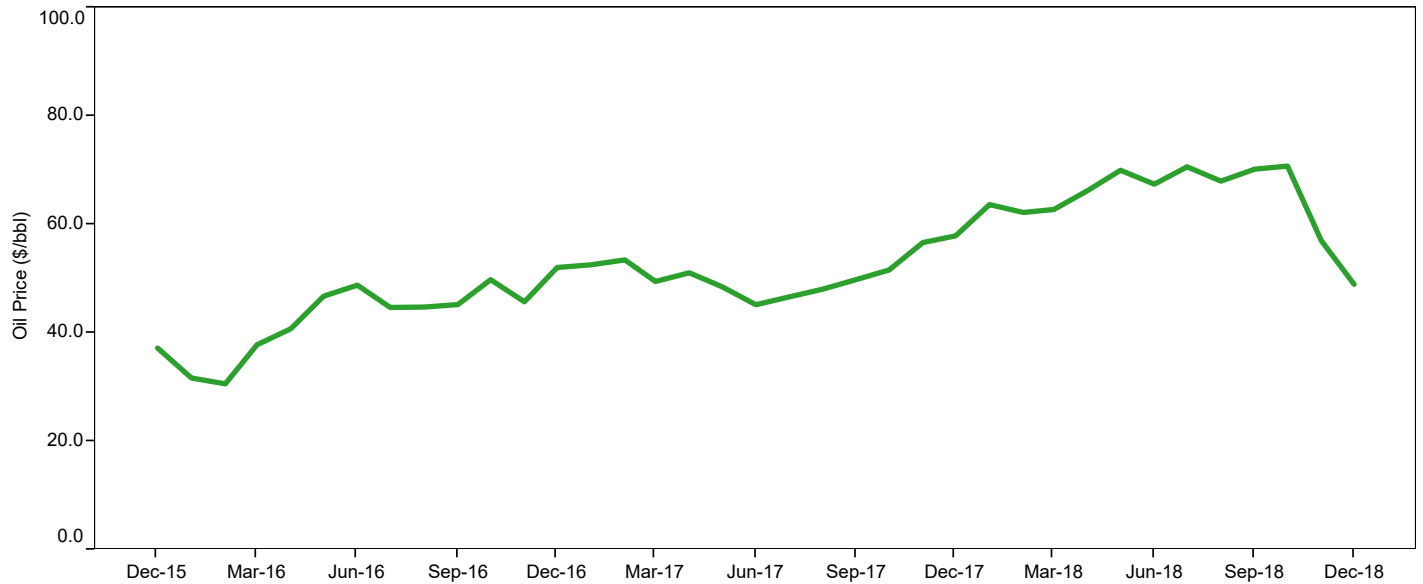
### Core Price Indices



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

Oil prices continued to fall throughout much of December, ending the month with a daily average of \$49.14 per barrel - the lowest average since August 2017. Prices have remained low through the first few days of the year, closing at \$48.52 per barrel on January 7th.

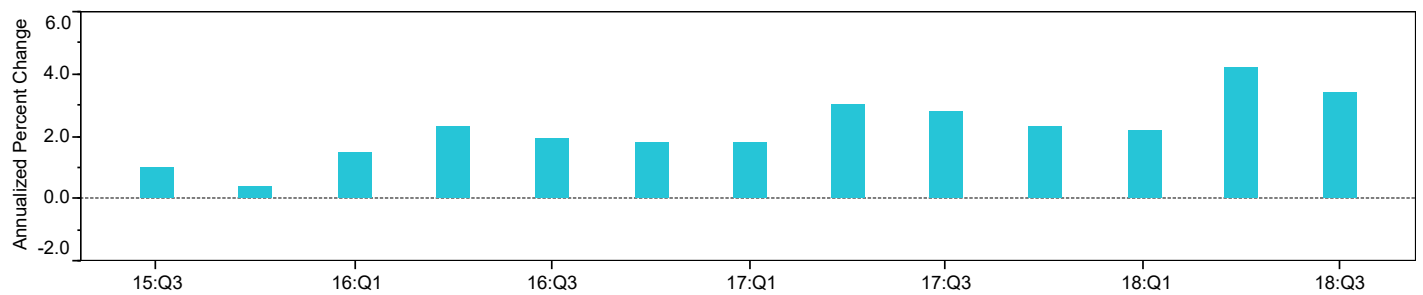
### Domestic Spot Oil Price



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

Real GDP grew at 3.4 percent in the third quarter, according to the third estimate, revised down slightly from the advance estimate of 3.5 percent reported at the end of November. The slower growth rate primarily reflects downward revisions to PCE and exports that were partly offset by an upward revision to private inventory investment. GDP grew 4.2 percent in the second quarter.

### Real GDP



### Revisions to Third Quarter Real GDP

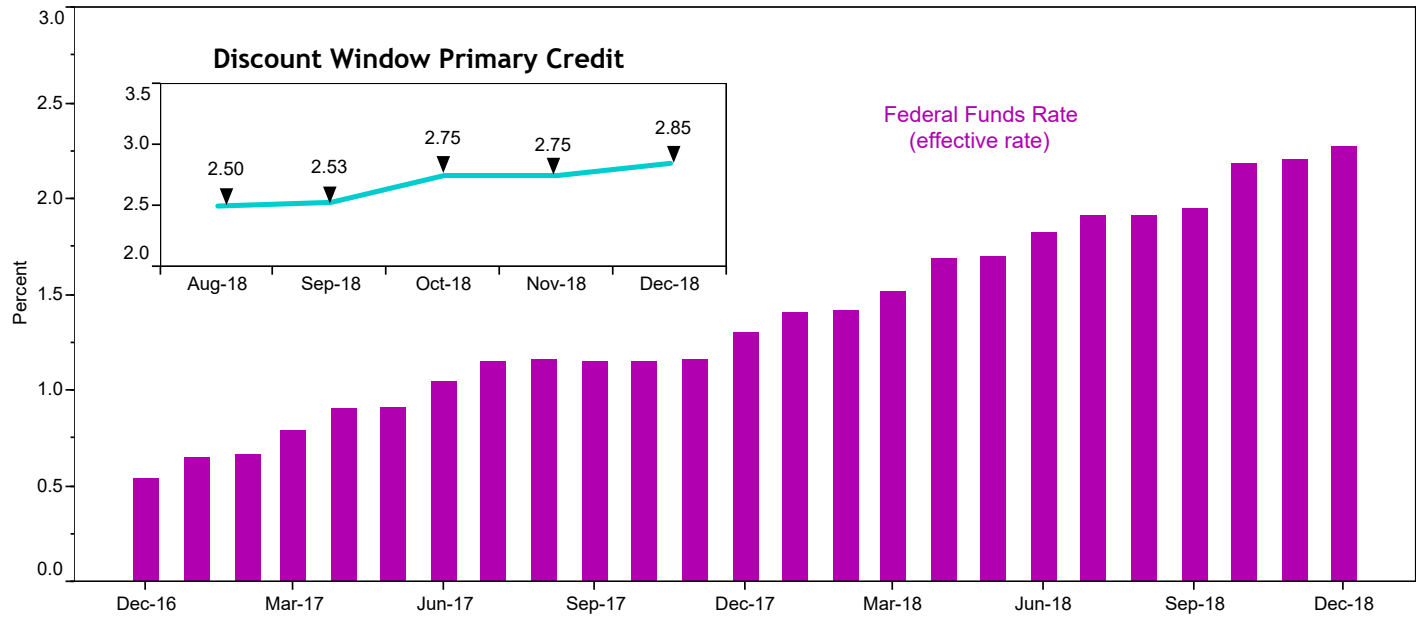
Description	Second Estimate	Third Estimate
Real GDP	3.5	3.4
Personal Consumption	3.6	3.5
Business Investment	2.5	2.5
Equipment and Software	3.5	3.4
Residential Investment	-2.6	-3.6
Government	2.6	2.6
Exports	-4.4	-4.9
Imports	9.2	9.3
Final Sales	1.2	1.0

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 David Brown.