



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

January 12, 2021

CURRENT ECONOMIC DEVELOPMENTS - January 12, 2021

Data released since your last Director's meeting show that the economy grew at 33.4% in the third quarter, according to the third estimate, revised upward from the second estimate of 33.1%. However, economic activity slowed considerably in the fourth quarter as virus cases surged and containment measures were once again used to attempt to curtail the spread. The effects of these measures were evident in job losses at restaurants and other areas sensitive to social distancing measures, and in reduced consumer spending. Some of these effects are also likely to spill over into the new year and restrain growth in the current quarter, but the outlook improves after that as the latest round of stimulus takes effect and vaccines are administered.

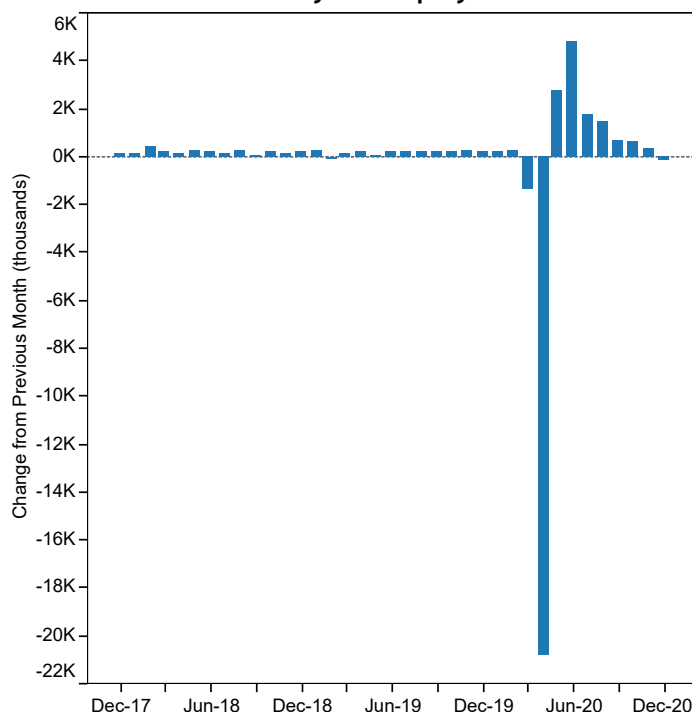
Initial claims for unemployment insurance declined in recent data while nonfarm payroll unemployment fell by 140,000 jobs in December, though job gains were revised higher for prior months. The unemployment rate remained flat at 6.7% in December. Consumer attitudes were mixed as the sentiment index rose and the confidence index fell. Retail sales fell in November after October data were revised down, suggesting less support to GDP from consumption in the fourth quarter. Sales of lightweight vehicles rose in December after a faster-than-expected recovery from the effects of the pandemic. As federal stimulus waned, real disposable incomes declined in November and weighed on real consumption which also fell.

Housing market data softened a bit in November, as sales of both new and existing homes declined despite remaining at levels not seen since 2007. Housing starts and building permits are also at or near-14-year highs with both rising in November. Industrial production and capacity utilization for manufacturing both ticked up in November, although both metrics remain below their pre-pandemic levels. The recovery in manufacturing has continued as measured by survey data, with both the ISM manufacturing and services indices increasing in December. Meanwhile, the regional Federal Reserve manufacturing indices were mixed in November but remained in expansionary territory. Orders for durable goods and orders for nondefense capital goods excluding aircraft both rose in November on a monthly and a year-over-year basis.

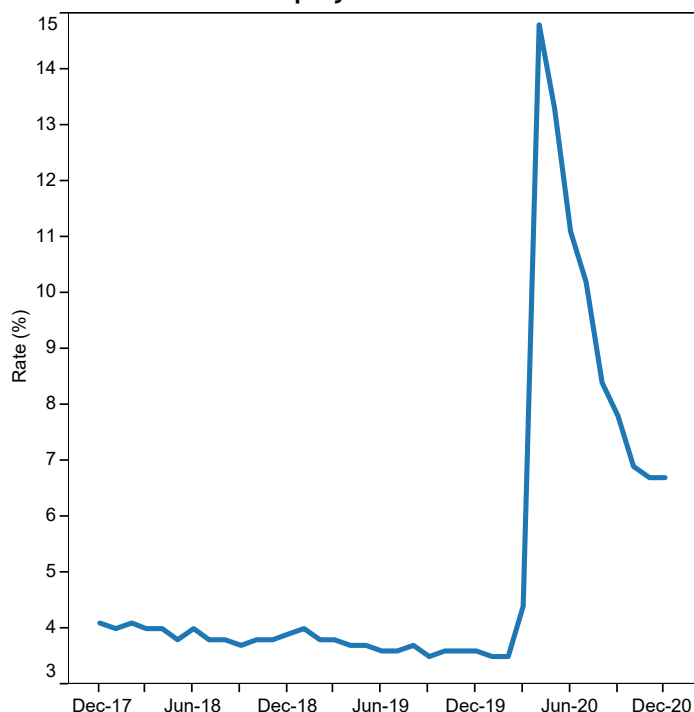
Annual inflation rates essentially held steady in November. On a monthly basis, total and core measures for PCE index were flat in November while the total and core CPI both ticked up two-tenths. Oil prices have been recovering steadily since the lows seen in the spring. In recent daily data, prices have exceeded \$50 per barrel for the first time since February 2020.

Nonfarm payroll unemployment fell by 140,000 jobs in December, the first decline since April. However, job gains in October and November were revised up by a total of 135,000. Job losses in December were primarily from food services and other social distance-sensitive areas - due to COVID restrictions - while employment in construction and manufacturing continued to grow. The unemployment rate was unchanged at 6.7% in December.

Nonfarm Payroll Employment

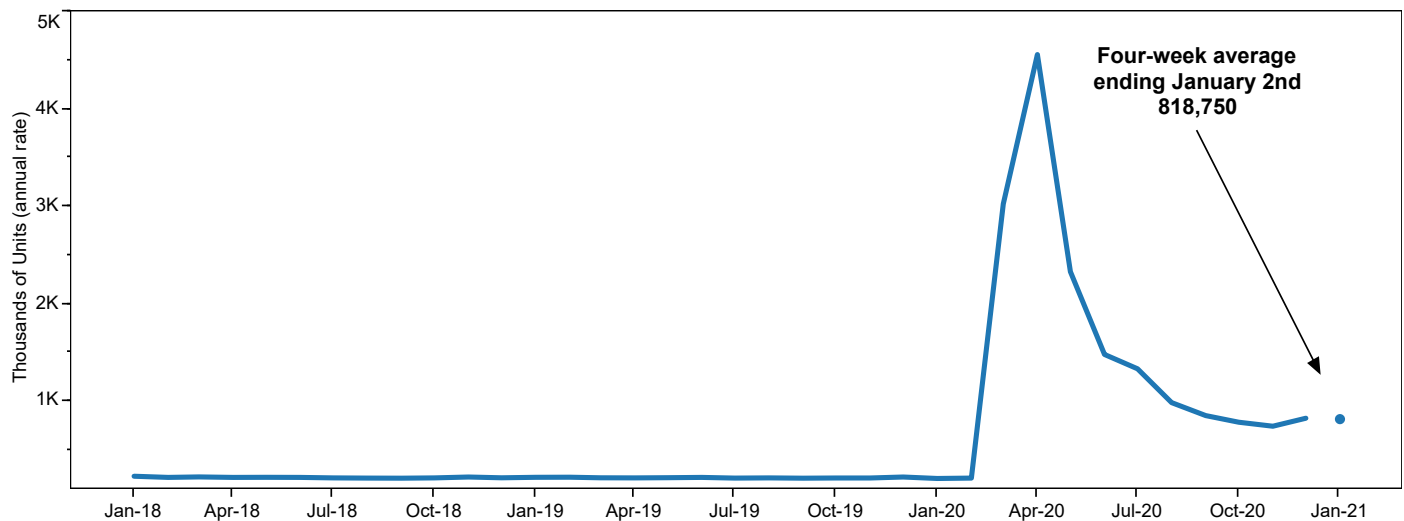


Unemployment Rate



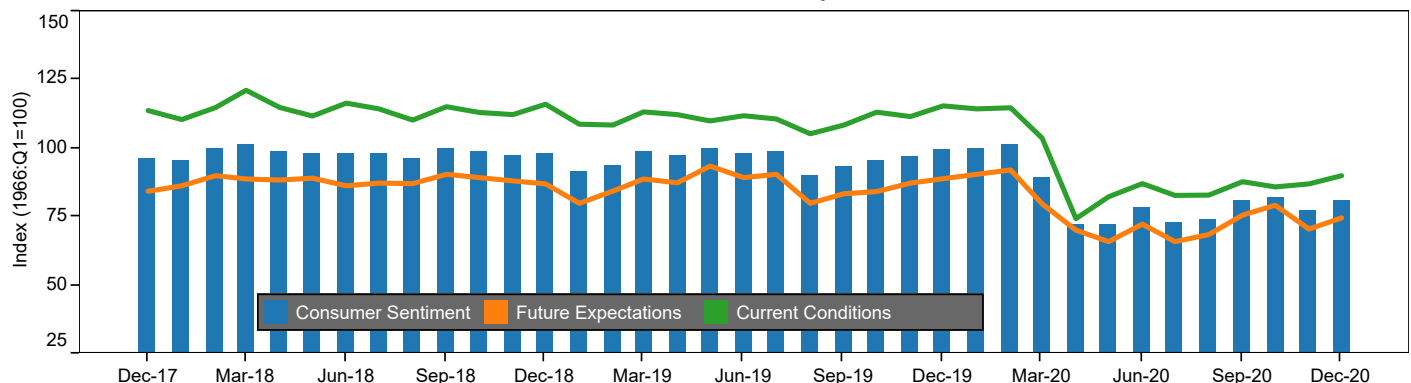
Initial claims for unemployment insurance declined a bit further in the week ending January 2nd, more in line with the levels seen through most of October and November before spiking in December as virus cases surged and additional restrictions were imposed.

Initial Claims

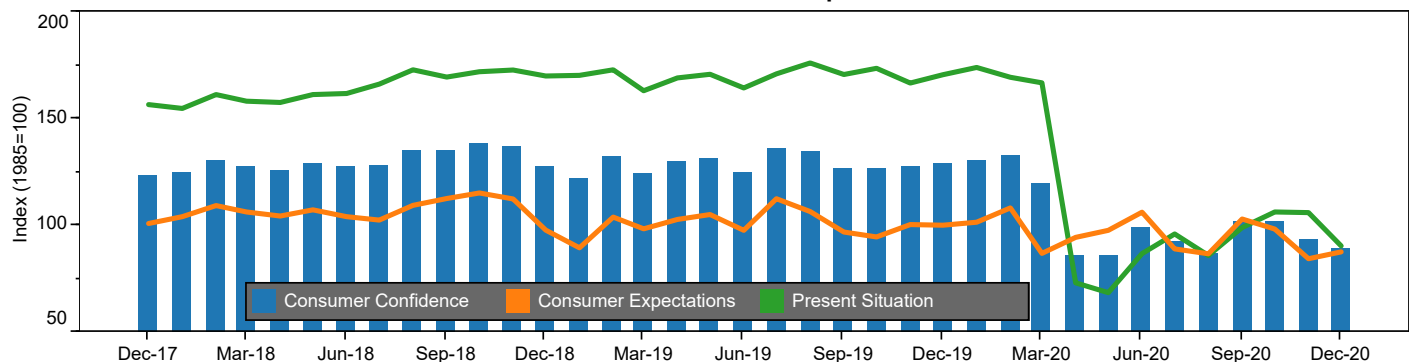


Consumer sentiment rose to 80.7 in December from 76.9 in November. However, the mid-month preliminary estimate had registered 81.4, which suggests that surging coronavirus cases and the associated lockdowns weighed on attitudes later in the month. The expectations index rose 4.1 points to 74.6 in December, while the current conditions index rose 3.0 points to 90.0. Consumer confidence fell to a four-month low, registering 88.6 in December. The expectations index rose 3.2 points to 87.5, but was more than offset by the present situation index falling 15.6 points to 90.3.

Consumer Sentiment and Expectations

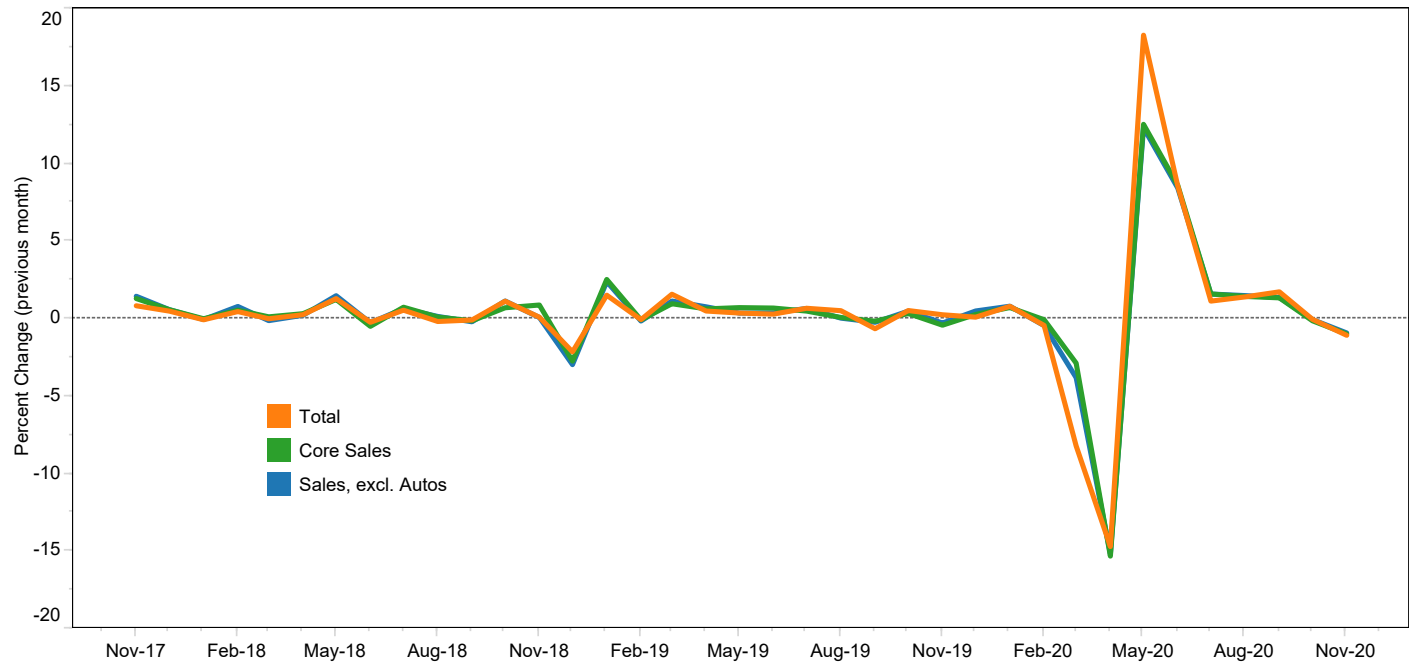


Consumer Confidence and Expectations



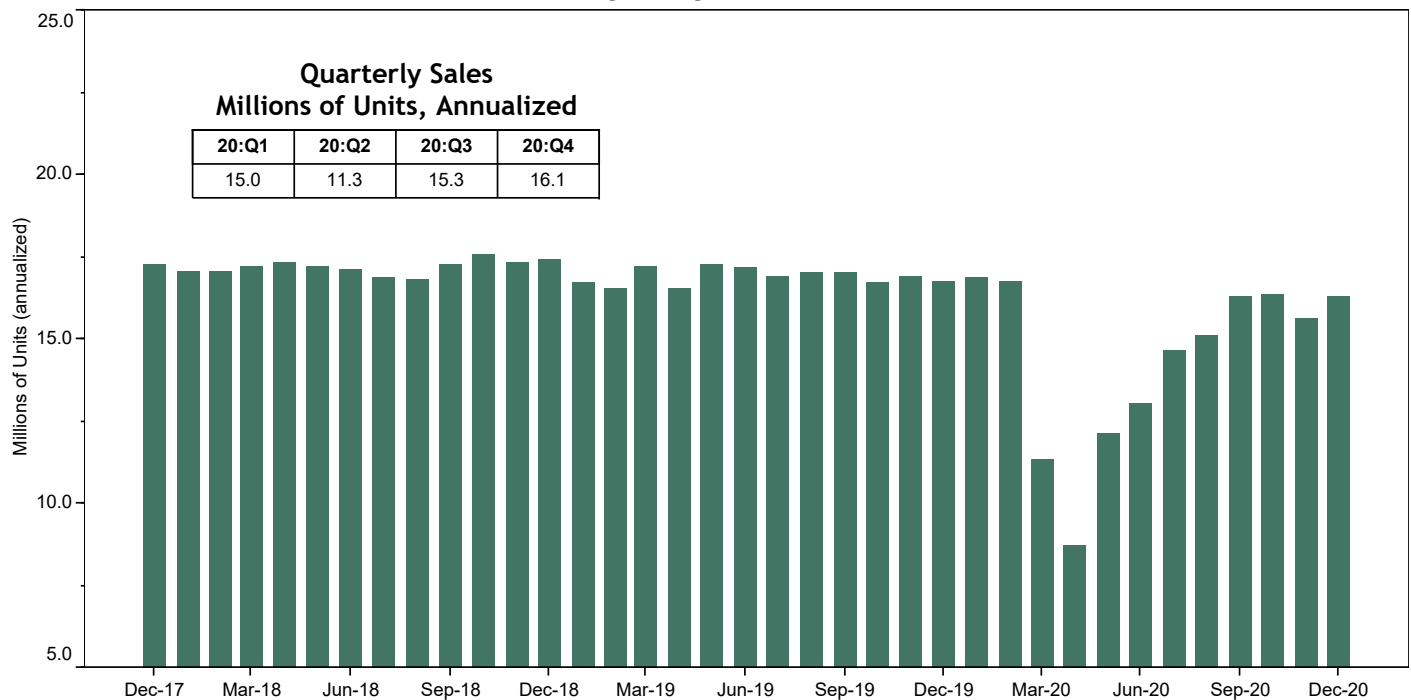
Retail sales fell 1.1% November from October's reading, which was revised down to indicate a decrease of 0.1%, the first decrease since April. Sales excluding autos and core sales were also both negative in October and November. The slower sales were consistent with the expectation of less support to GDP from consumption in the fourth quarter.

Retail Sales



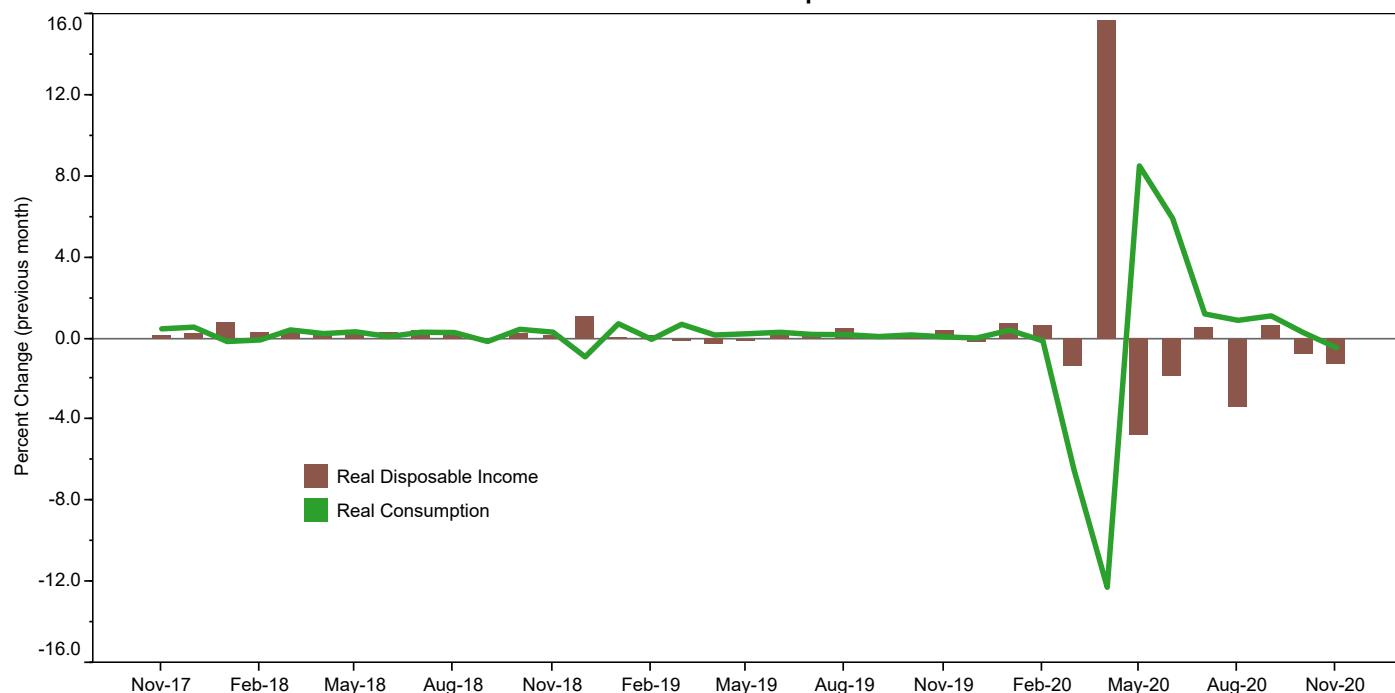
The pace of lightweight vehicle sales rose to a rate of 16.3 millions units in December. Sales have been close to their pre-pandemic averages for the past few months after recovering more quickly than expected from many of the effects of the pandemic.

Total Lightweight Vehicle Sales



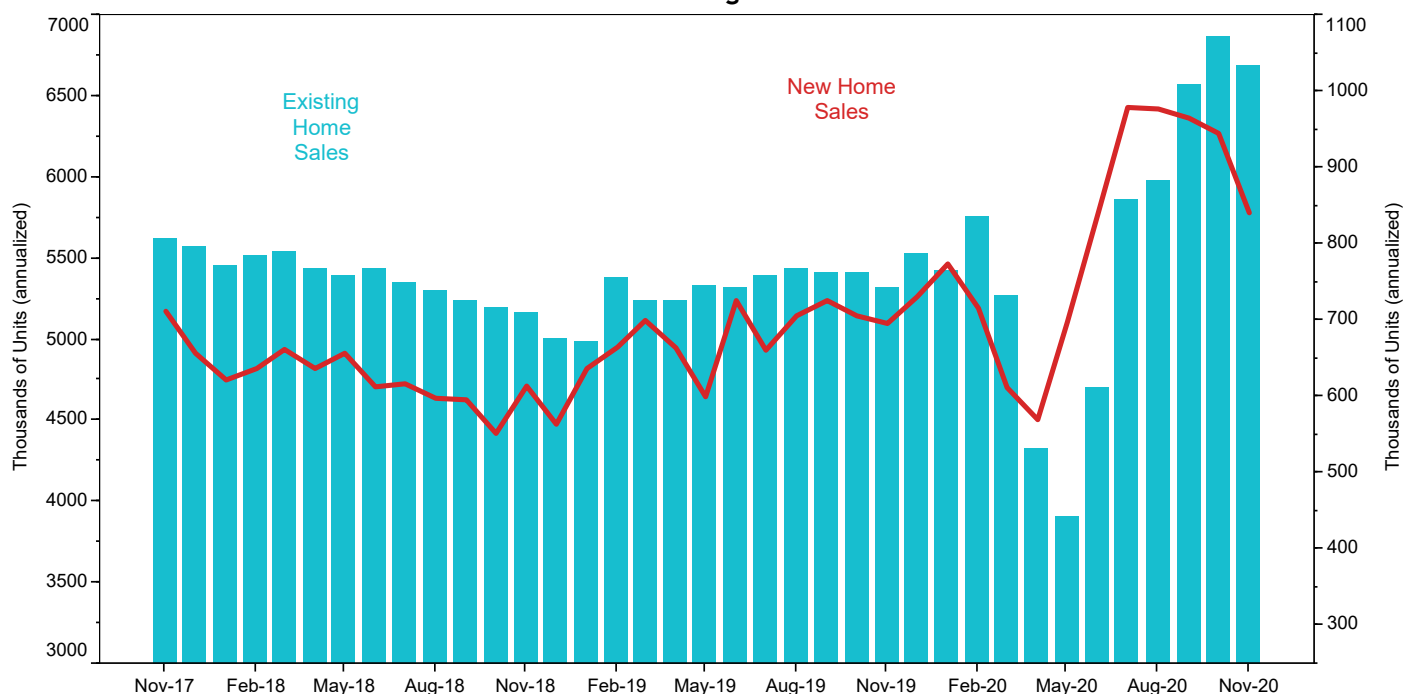
Real disposable income fell 1.3% in November, the third decrease in the past four months as federal stimulus continued to wane. The falling incomes were reflected in a 0.4% decline in real personal consumption – the first decrease since April. Spending on both goods and services declined in November.

Real DPI and Consumption



Sales of existing homes dipped in November for the first time in 5 months, after climbing to a 14-year high in October. New home sales also drifted lower after reaching their own 14-year in August. Low mortgage rates have made steadily rising house prices more tolerable for potential buyers, but limited supply has been restraining sales a bit more recently.

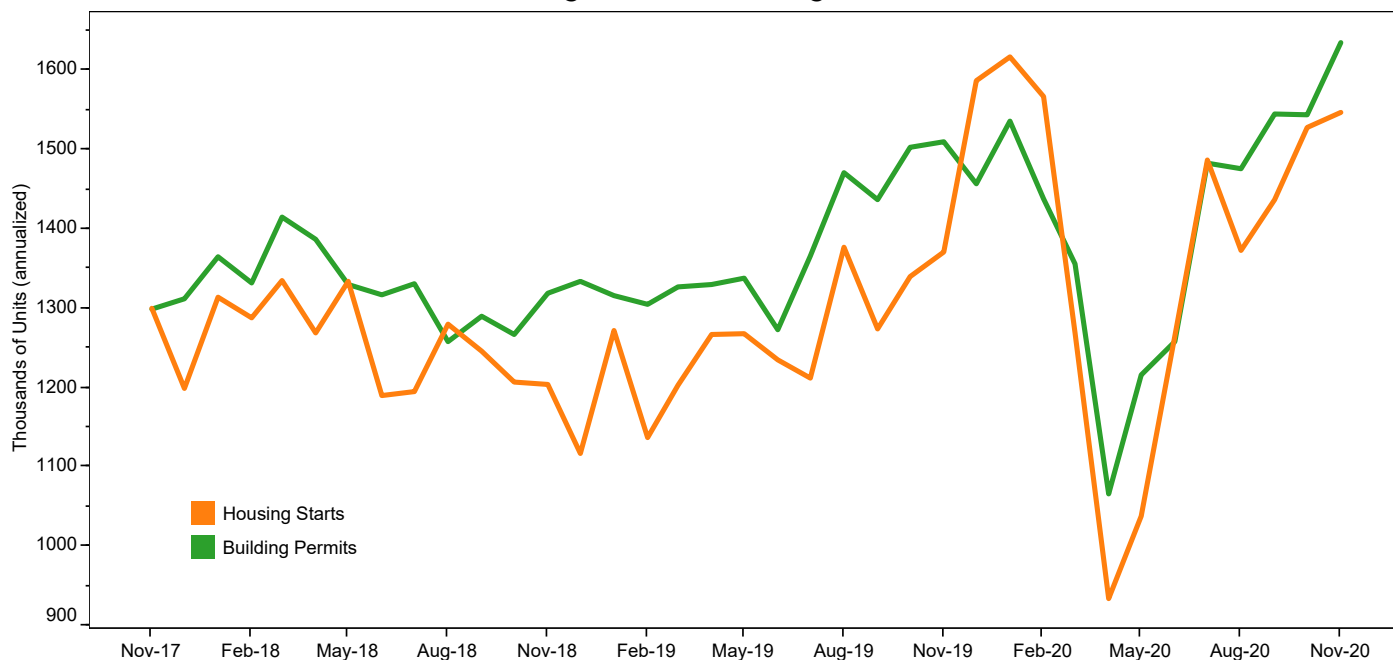
New and Existing Home Sales



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

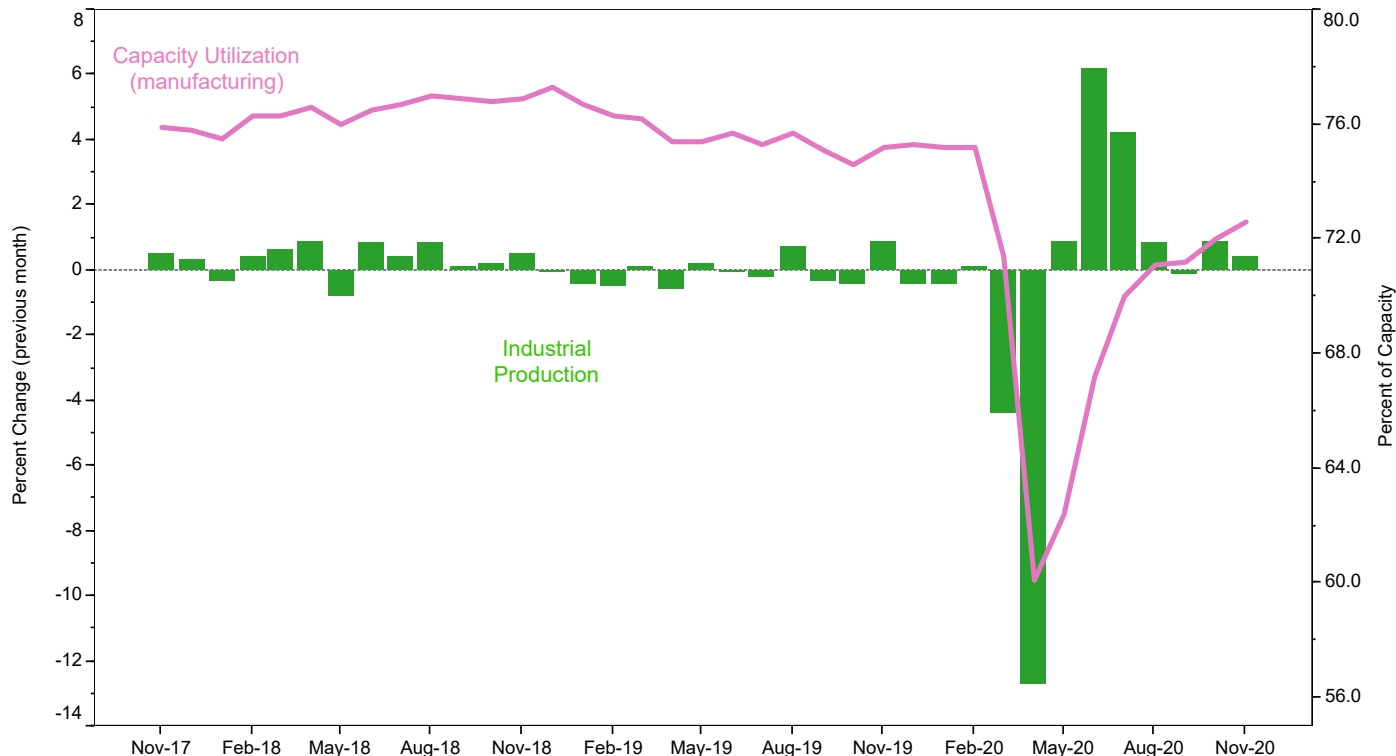
Housing starts and building permits both rose in November with both single- and multi-family components contributing to the rise. Both series remain at levels not seen since 2007. The Northeast was the only region to register year-over-year declines in housing starts.

Housing Starts and Building Permits



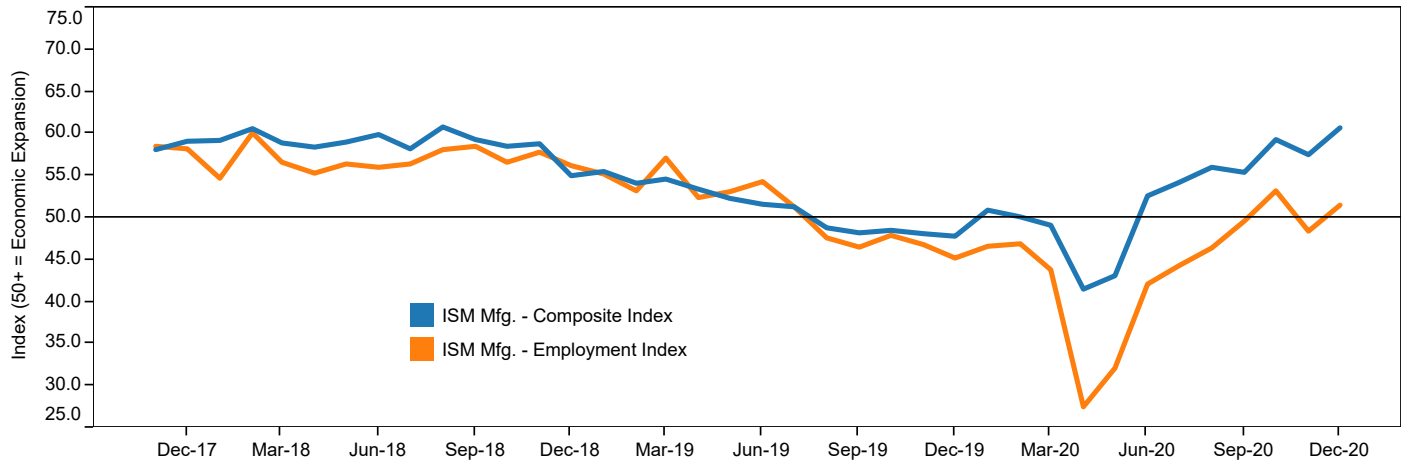
Industrial production increased 0.4% in November, continuing to slowly recover from the steep drop seen at the onset of the pandemic. Still, IP remains almost 5% below its February level. Due to recent mild winter temperatures, output from utilities registered a sizable decline, although this was more than offset by increases in manufacturing and mining. Capacity utilization in manufacturing also continued to rise but similarly remains below the levels seen early in 2020.

Industrial Production and Capacity Utilization

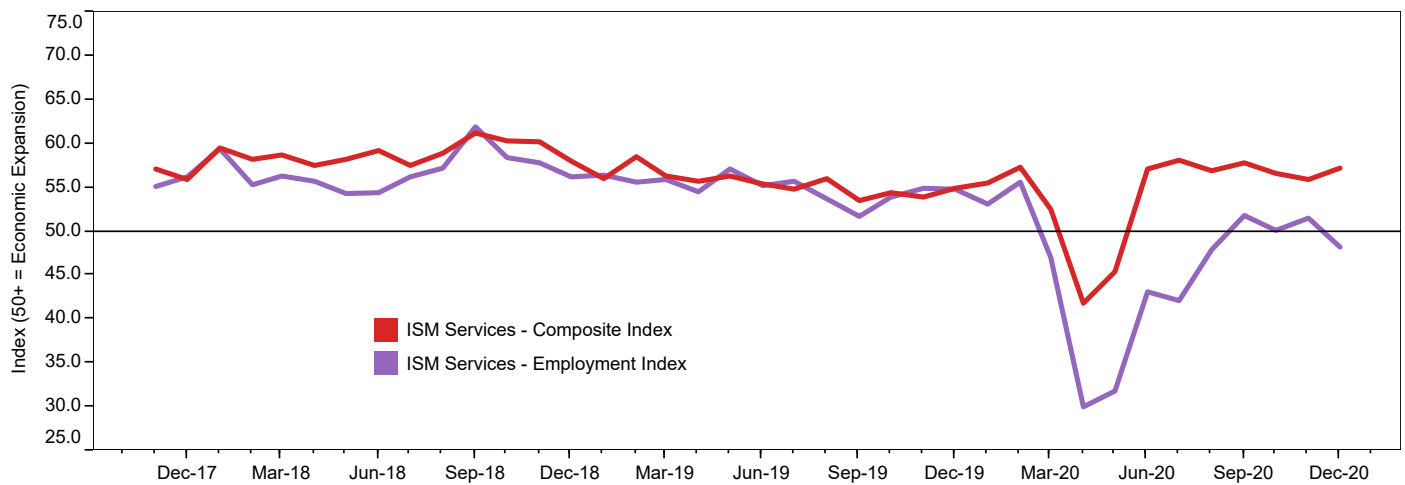


Both the ISM manufacturing index and their services index rose in December and both increases were again buoyed by lengthening supplier delivery times. In normal times, growth in this component indicates high demand causing the delays. However, these longer times can also indicate shortages related to the pandemic. Regional manufacturing surveys from the Federal Reserve all signaled expansion. The New York Fed Survey posted a modest gain while the Philadelphia and Kansas City indexes both registered declines.

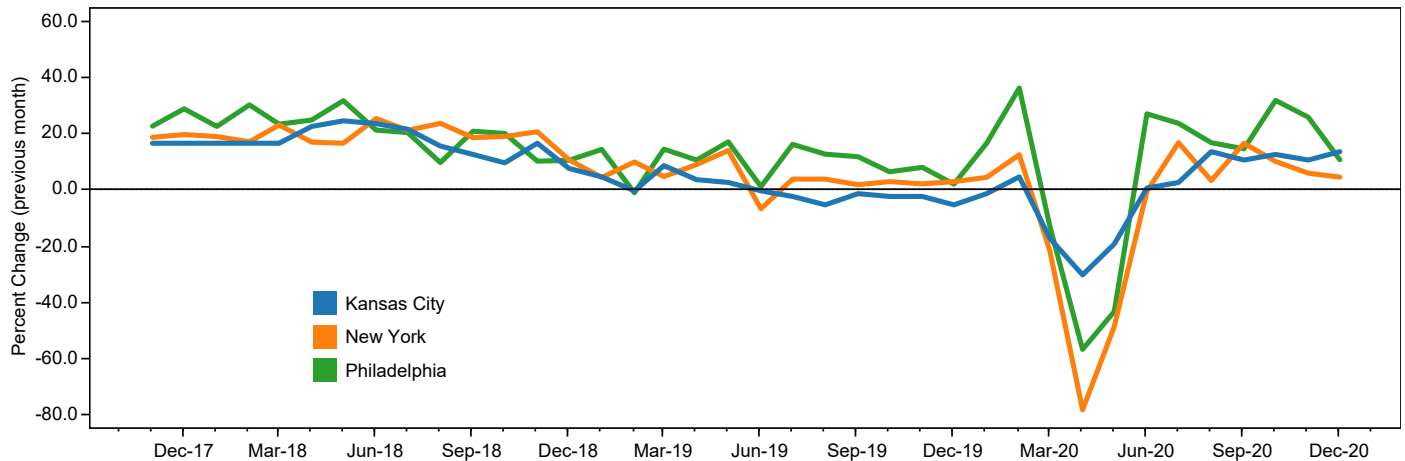
ISM Manufacturing Indices



ISM Services Indices

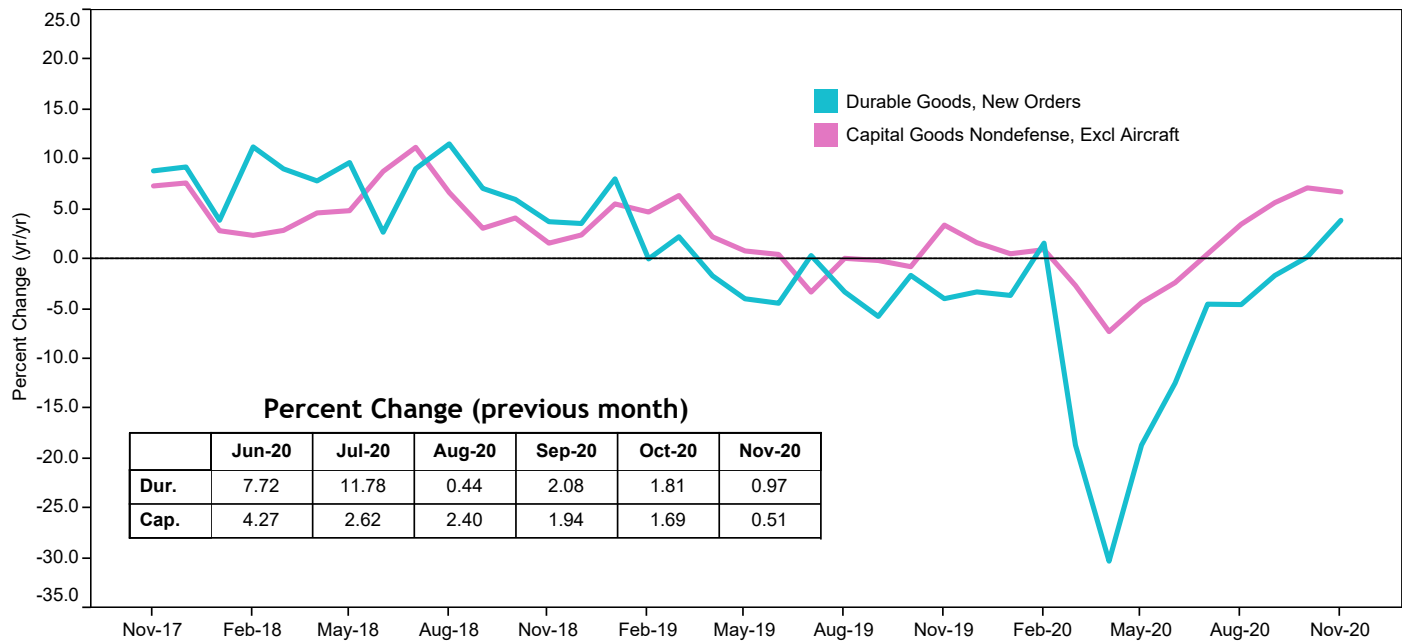


Regional FRB Manufacturing Surveys



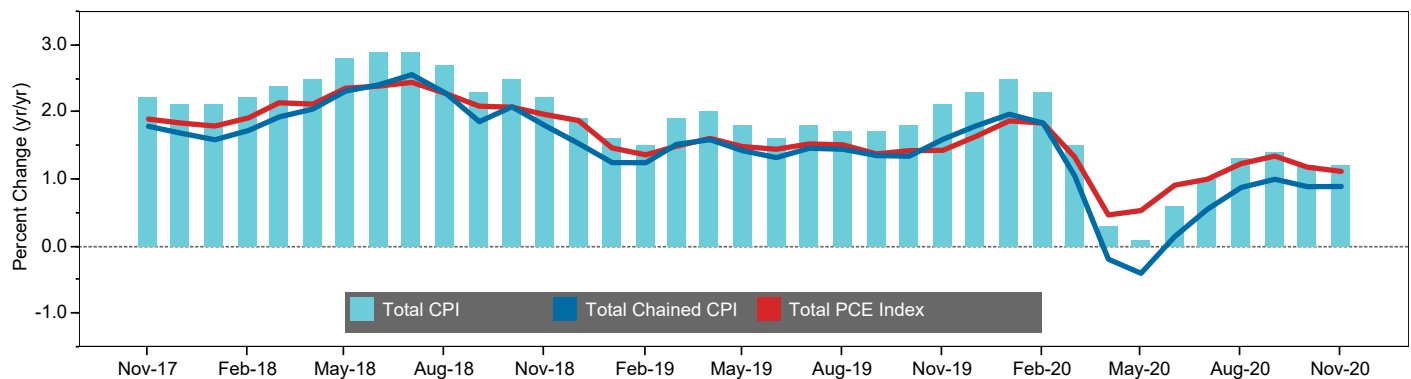
Orders for durable goods rose for the seventh straight month in November, also marking the second consecutive month of year-over-year gains. Orders for nondefense capital goods excluding aircraft also rose in November from October and posted another strong year-over-year gain. The recovery in manufacturing has continued in recent months where other sectors have slowed. Total orders have nearly regained their pre-pandemic level and core orders have surpassed it.

Durable Goods Orders

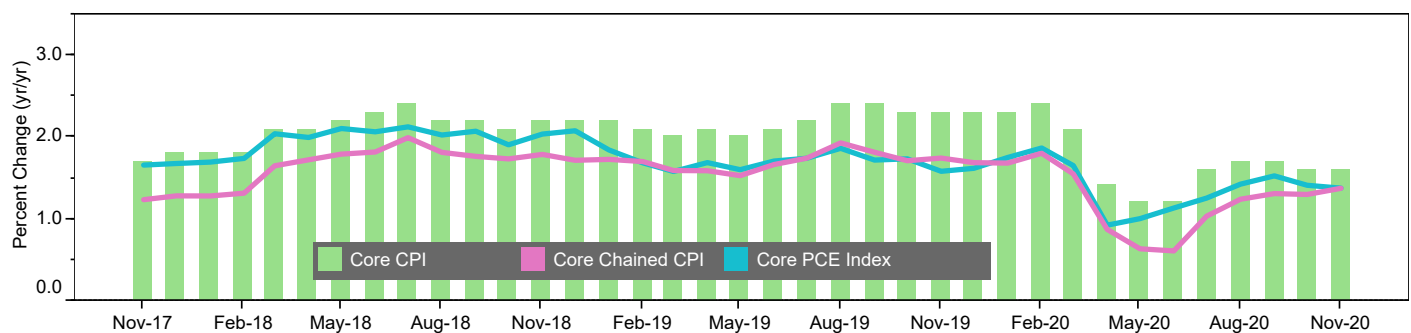


Consumer prices as measured by the total and core PCE index remained flat in November after also holding steady in October. Prices as measured by the total and core CPI both ticked up by two-tenths in November, following steady readings in October. On a year-over-year basis, all measures were essentially unchanged at levels well below the 2% objective.

Total Price Indices

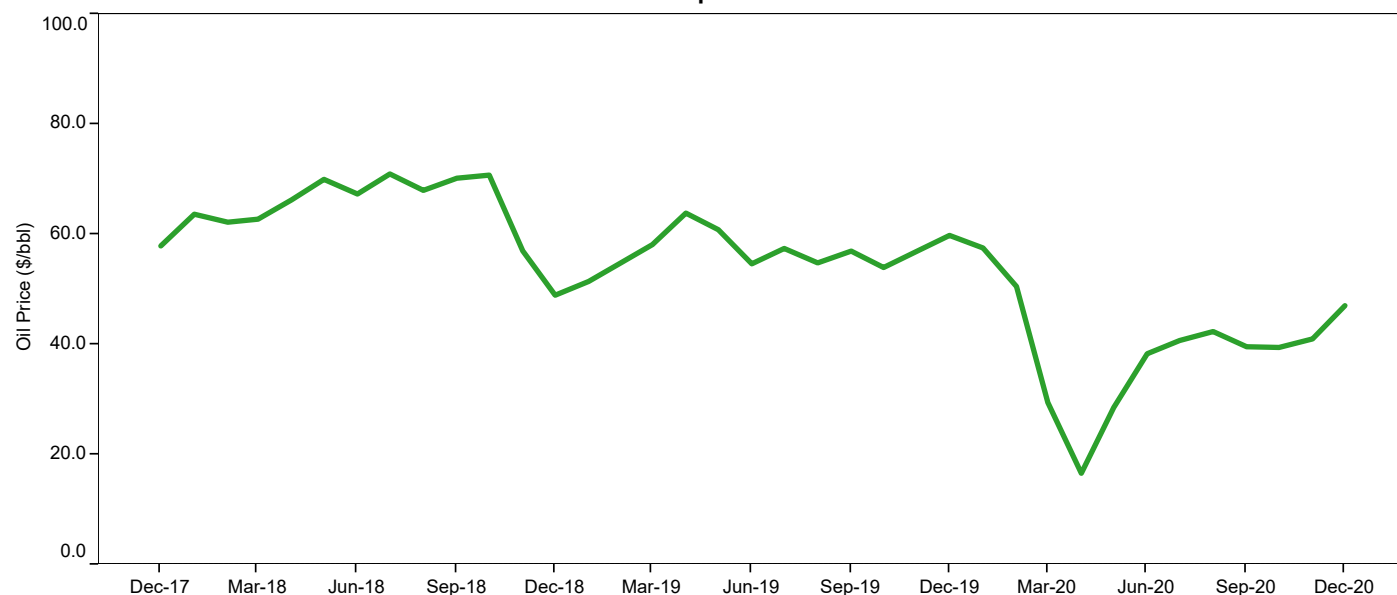


Core Price Indices



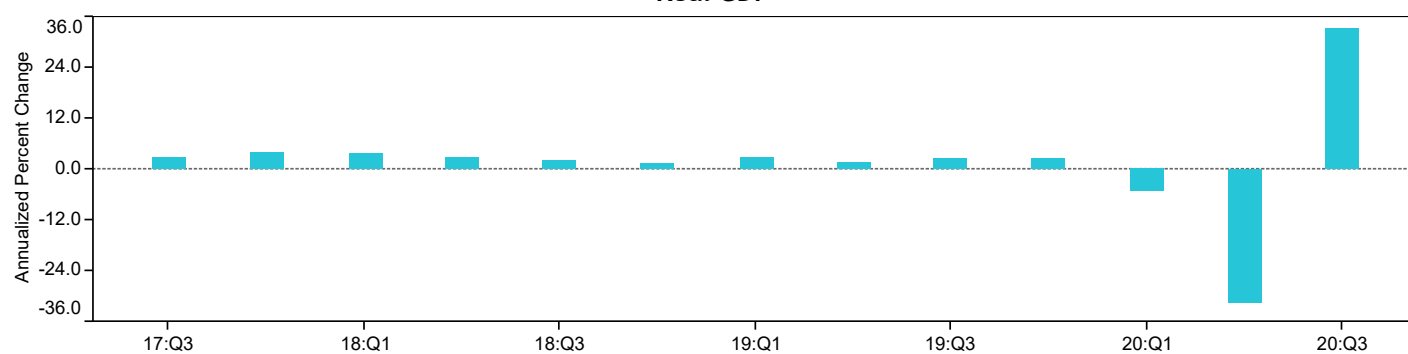
Oil prices have been on a slow but steady trend upward since the lows seen in April of 2020, closing the last month of the year at \$47.10 per barrel. Prices in early January have moved above \$50 per barrel for the first time since February, and closed on January 11th at \$52.25 per barrel.

Domestic Spot Oil Price



Real GDP grew by 33.4% in the third quarter according to the third estimate, revised up from the second estimate of 33.1%. The updated estimate primarily reflected upward revisions to consumer spending and nonresidential fixed investment that were partly offset by a downward revision to exports. Real GDP fell 31.4% in the second quarter.

Real GDP

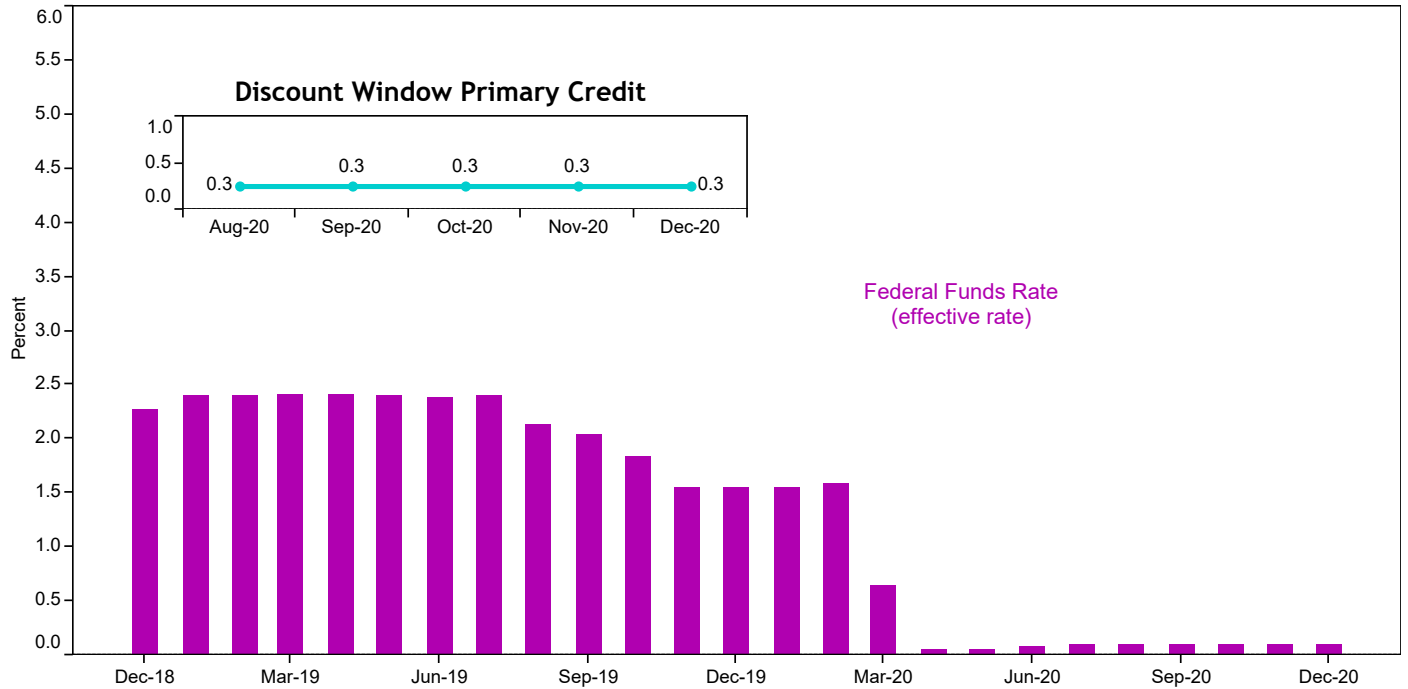


Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	33.1	33.4
Personal Consumption	40.6	41.0
Business Investment	21.8	22.9
Equipment and Software	66.6	68.2
Residential Investment	62.3	63.0
Government	-4.9	-4.8
Exports	60.5	59.6
Imports	93.1	93.1
Final Sales	25.6	25.9

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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.