



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

July 10, 2018

CURRENT ECONOMIC DEVELOPMENTS - July 10, 2018

Data released since your last Directors' meeting suggest growth in the second quarter likely accelerated from the downwardly revised rate seen in the first quarter. Labor markets continued to tighten, and support from manufacturing was mostly positive. However, consumer spending was flat and consumer attitudes were mixed. Overall, economic growth is projected to pick up over the course of the year.

In June, 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 4.0 percent in June, due to an increase in the size of the labor force that outpaced a rise in civilian employment. Initial claims for unemployment insurance edged up in June but remain consistent with further improvements in the labor market.

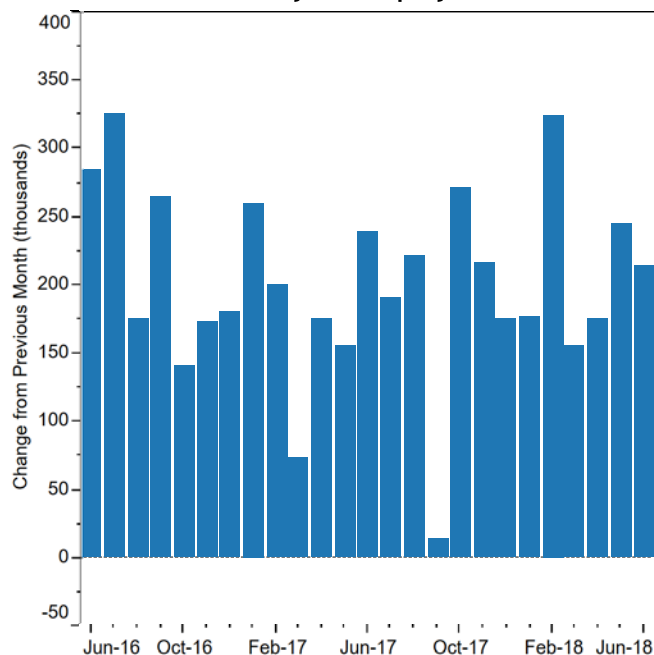
Consumer attitudes were mixed in June, as the sentiment index ticked up, while the confidence index declined but remained favorable. The expectations component of each index decreased in June. The pace of vehicle sales picked up in June, erasing the declines seen in the previous two months. Consumption was unchanged in May, despite an increase in real incomes. Primary measures of real estate activity were mixed in May, as new home sales increased, while existing home sales continued to decline. Housing starts rose in May to their fastest pace in nearly eleven years, while building permits continued to fall.

In the manufacturing sector, the ISM index rose in June and continued to signal expansion in the industry. Industrial production and capacity utilization both declined in May. Orders for durable goods decreased in May compared to April but were up from their year-ago level, while nondefense capital goods, excluding aircraft, increased on both a monthly and year-over-year basis.

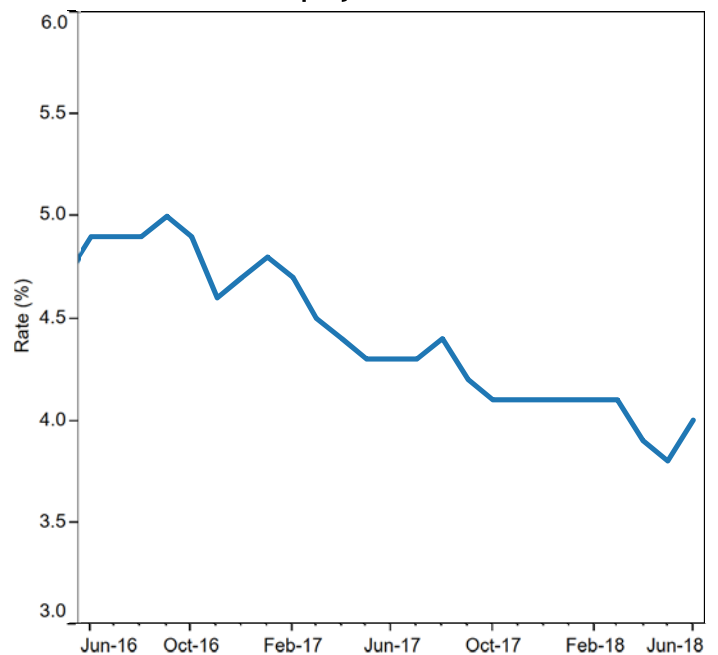
Growth in total consumer prices continued to accelerate in May, while growth in core prices, which exclude the volatile food and energy sectors, also picked up. Oil prices fell, on average, in June but have risen a bit in the first several days of July.

Nonfarm payrolls added 213,000 jobs in June, while job gains for the previous two months were revised up by a total of 37,000 jobs. The unemployment rate rose two-tenths of a percentage point to 4.0% in June, as an increase in the size of the labor force outpaced the rise in civilian employment.

Nonfarm Payroll Employment

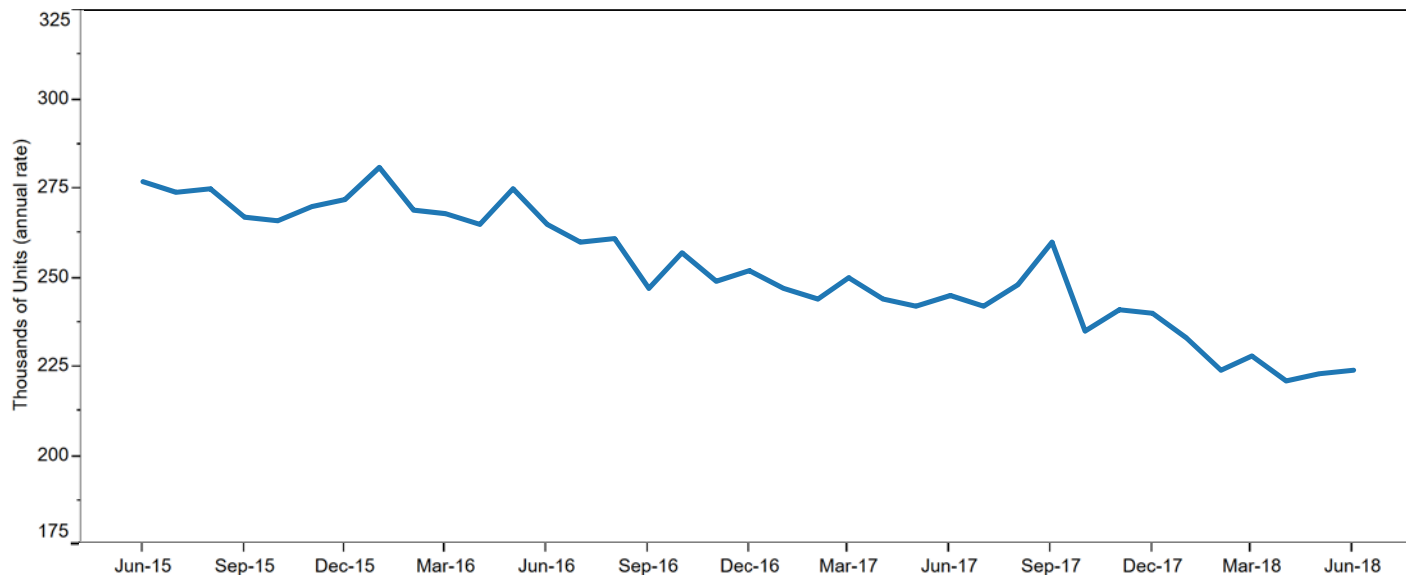


Unemployment Rate



Initial claims for unemployment insurance edged up in June, after rising in May, but remained at a level consistent with further labor market improvement.

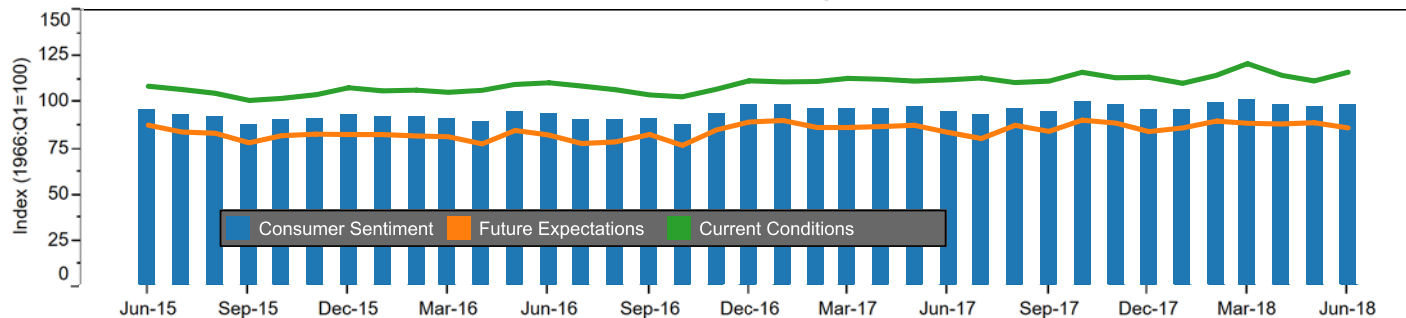
Initial Claims



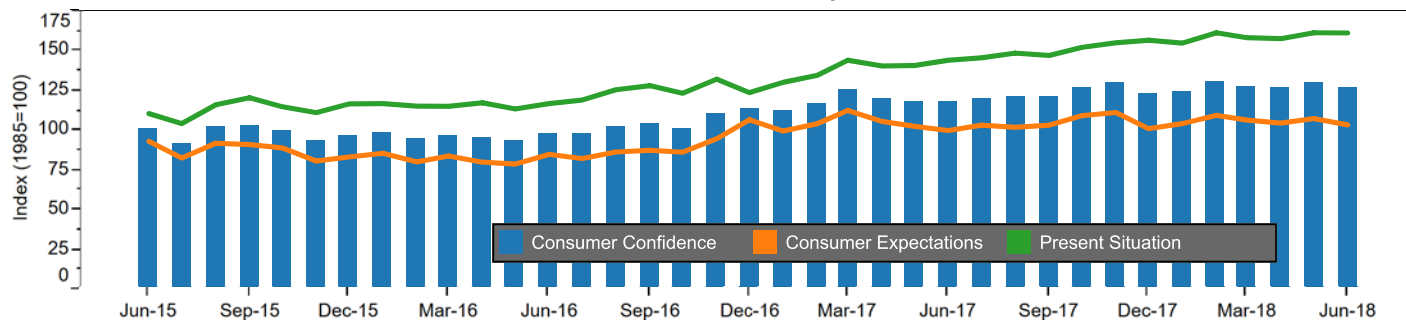
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in June, as the sentiment index ticked up after easing in each of the prior two months, while the confidence index declined but remained favorable. The expectations component of each index decreased in June, as respondents to both surveys expressed less optimism towards the economic outlook. Some respondents to the sentiment survey expect trade policies to have a negative effect on the economy. Respondents to the sentiment survey also expressed more favorable views of the labor market and personal finances.

Consumer Sentiment and Expectations



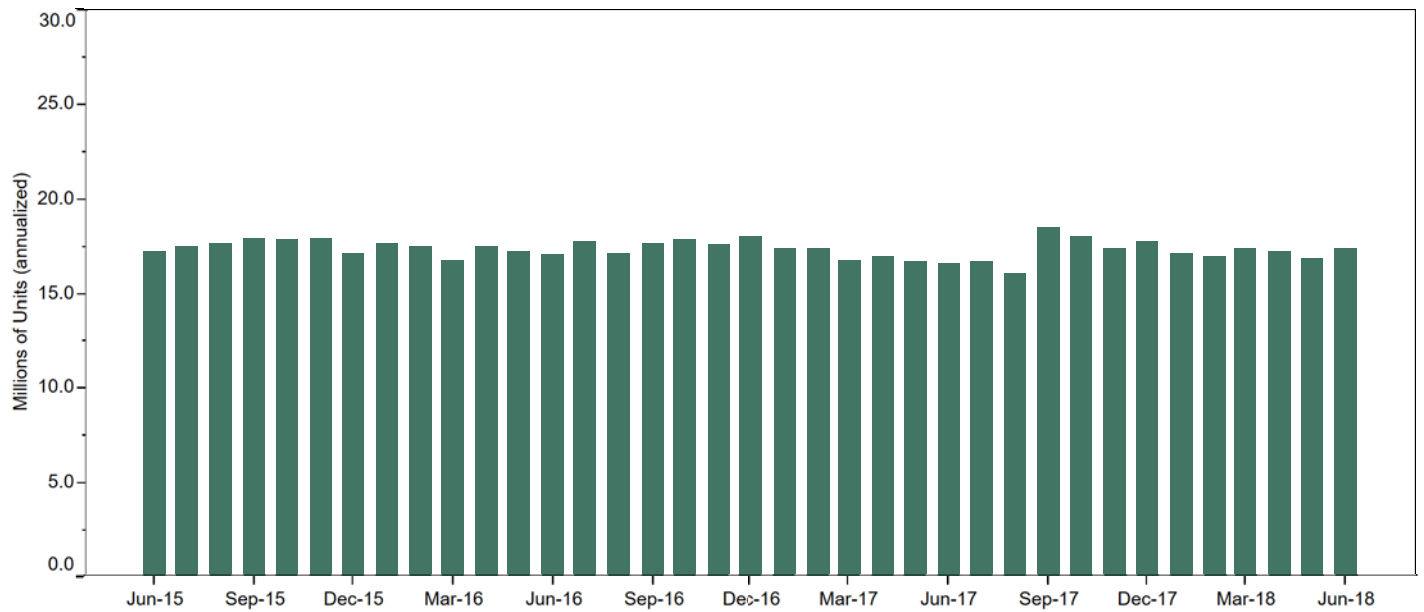
Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales increased above expectations in June, after declining in each of the prior two months. The faster rate in June was mainly due to a rise in the pace of light duty truck sales.

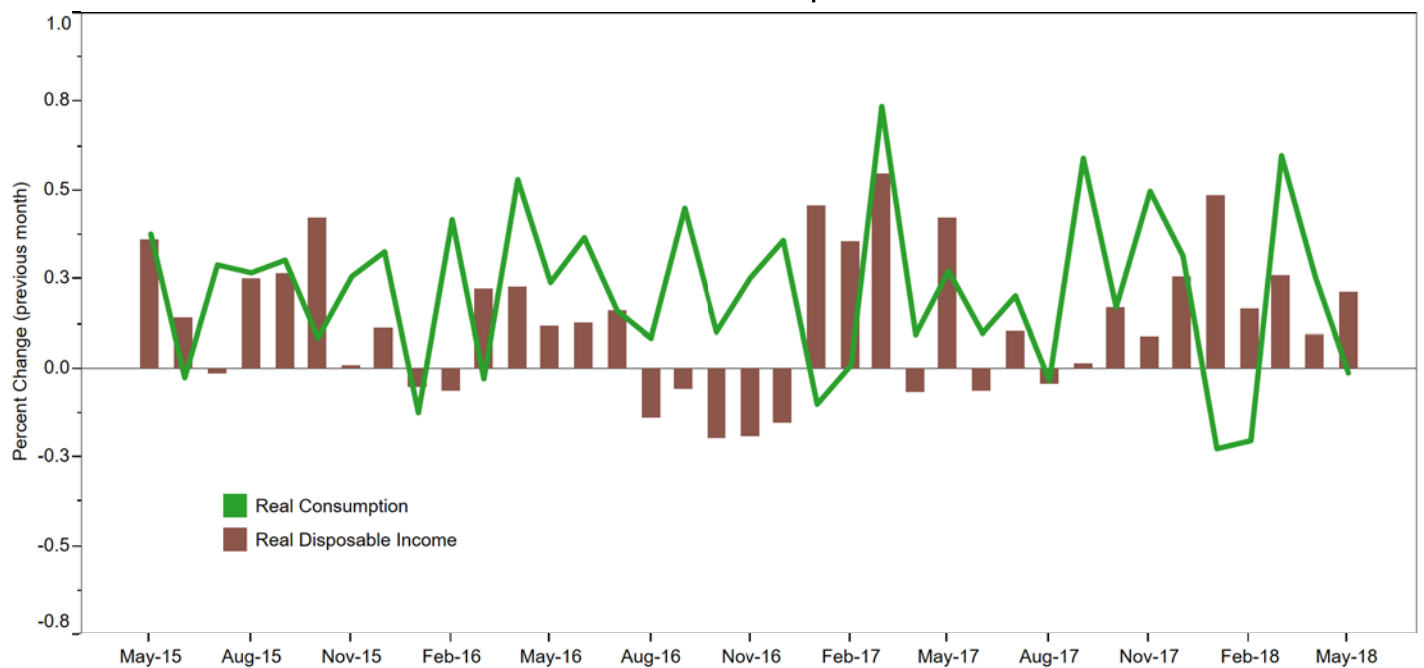
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes rose in May, their eighth consecutive monthly increase. Despite the higher incomes, consumption was flat in May, after increasing in each of the prior two months.

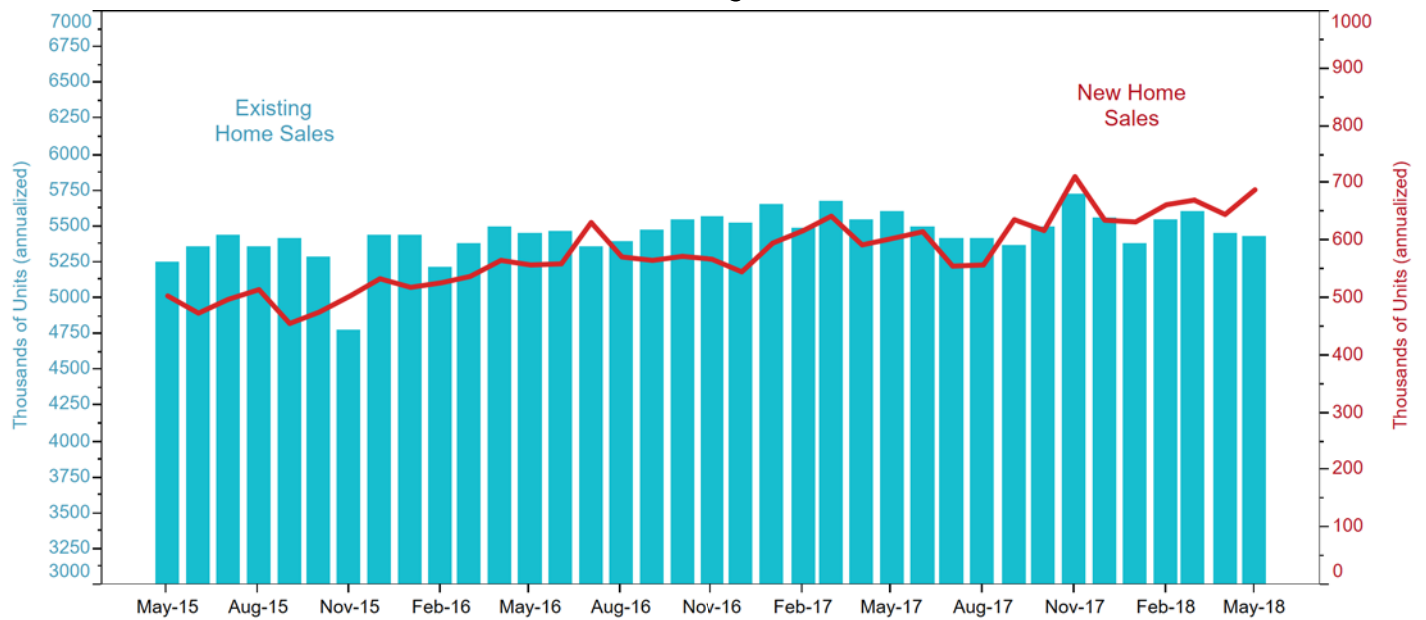
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in May. New home sales rose to their fastest pace since November, after falling in April, while existing home sales eased in May, after decreasing in April.

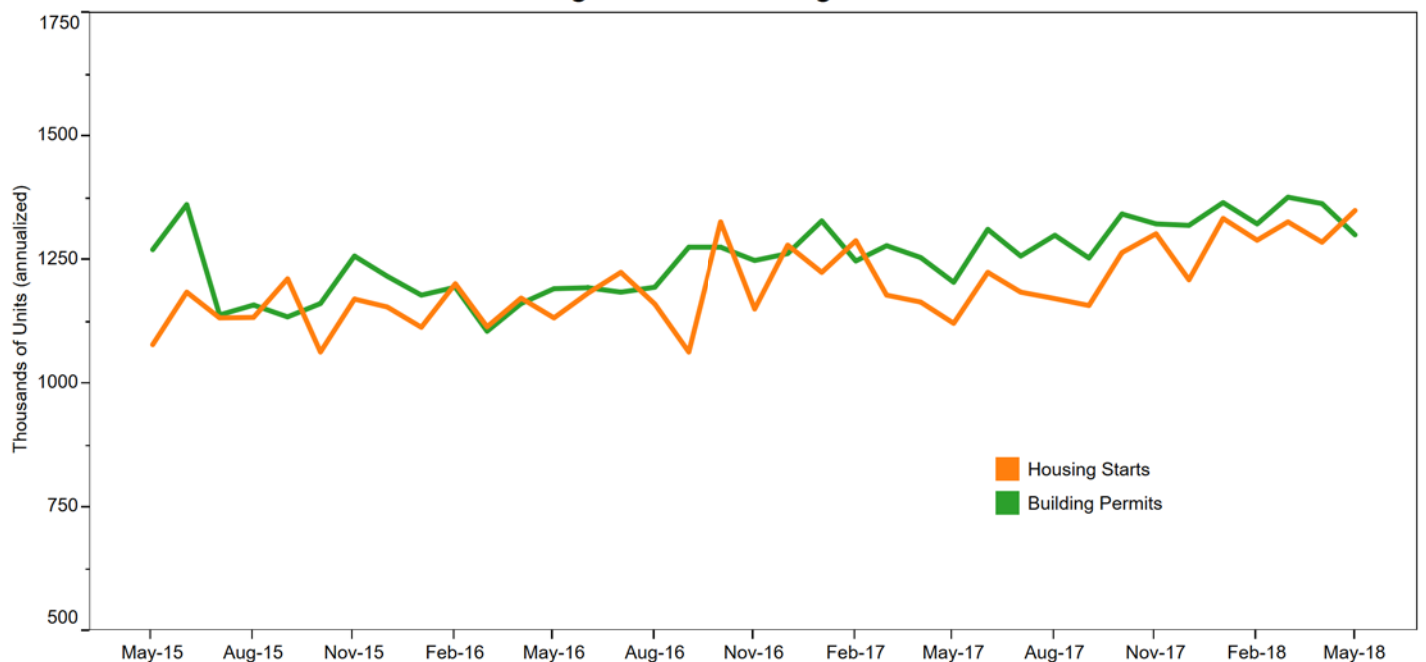
New and Existing Home Sales



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

Housing starts jumped in May to their highest rate since July 2007, as both single-family and multi-family starts increased. Meanwhile, building permits fell in May, their second consecutive monthly decline, due to decreases in both single-family and multi-family permits.

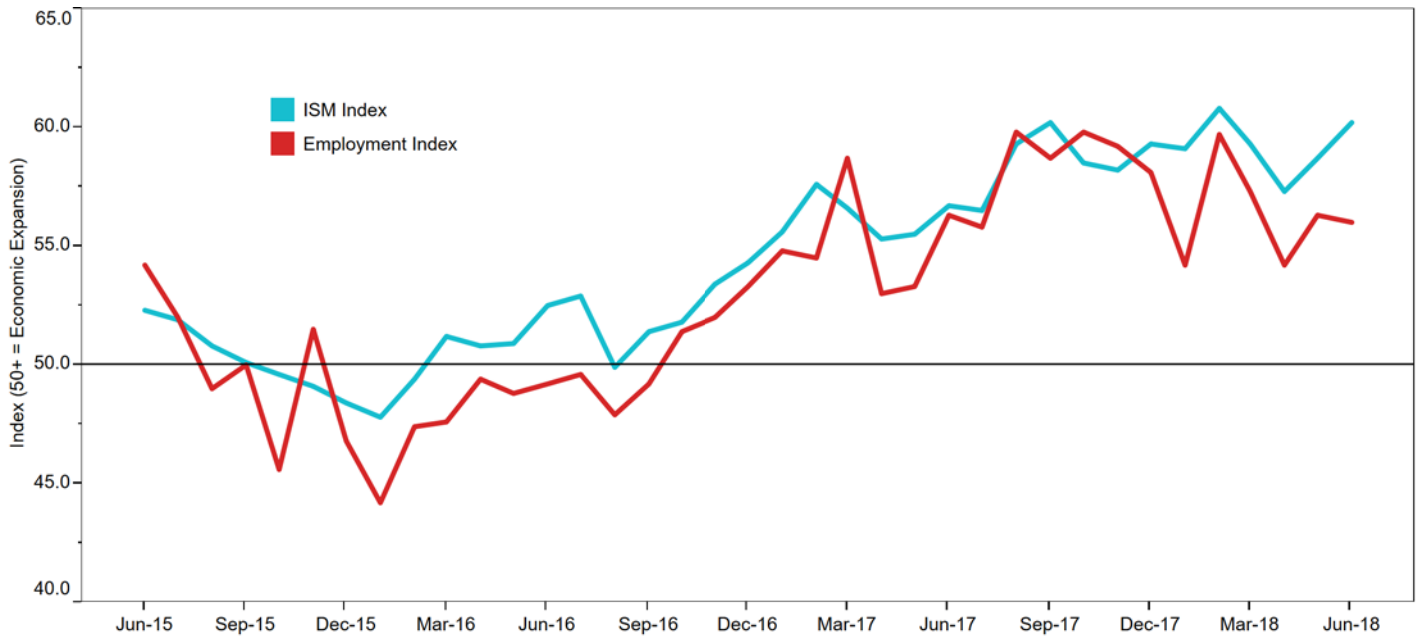
Housing Starts and Building Permits



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

The ISM manufacturing index continued to rise in June, after increasing in May, and signalled further expansion in the manufacturing industry. Meanwhile, the employment component of the index eased a bit in June, after increasing in May.

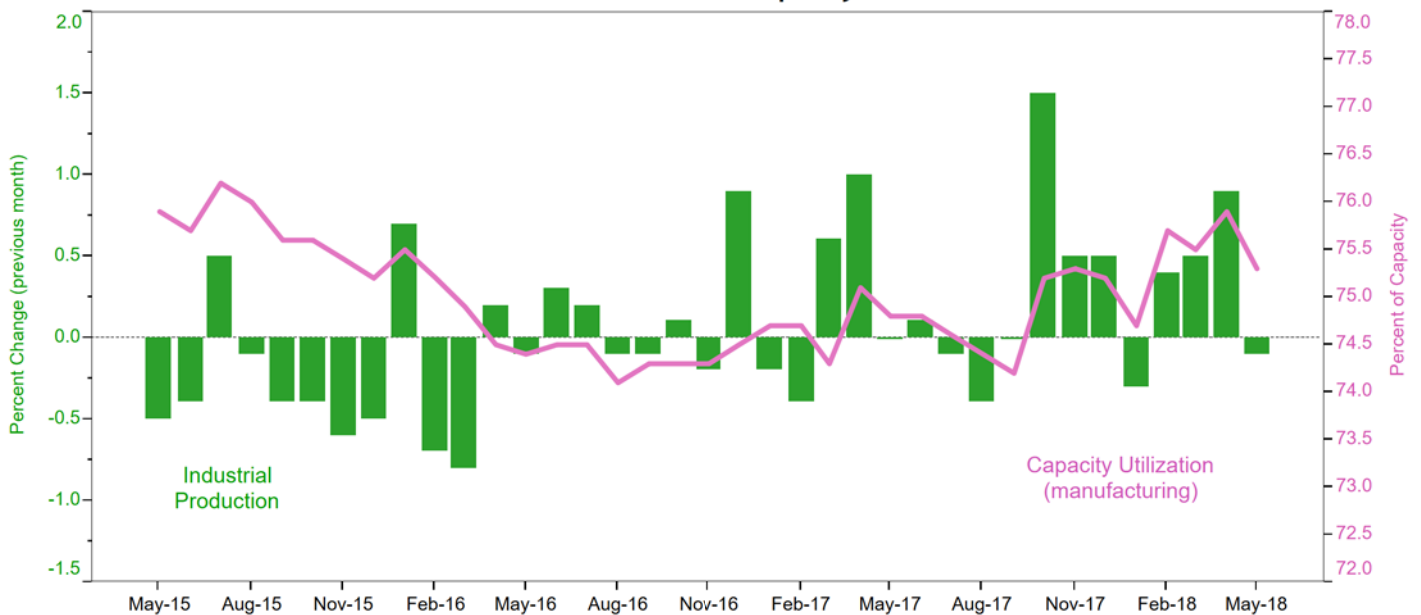
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production edged down in May, after rising in each of the previous three months. Both mining and utilities production posted increases in May, while manufacturing output decreased. Capacity utilization also fell in May, reaching its lowest level since January.

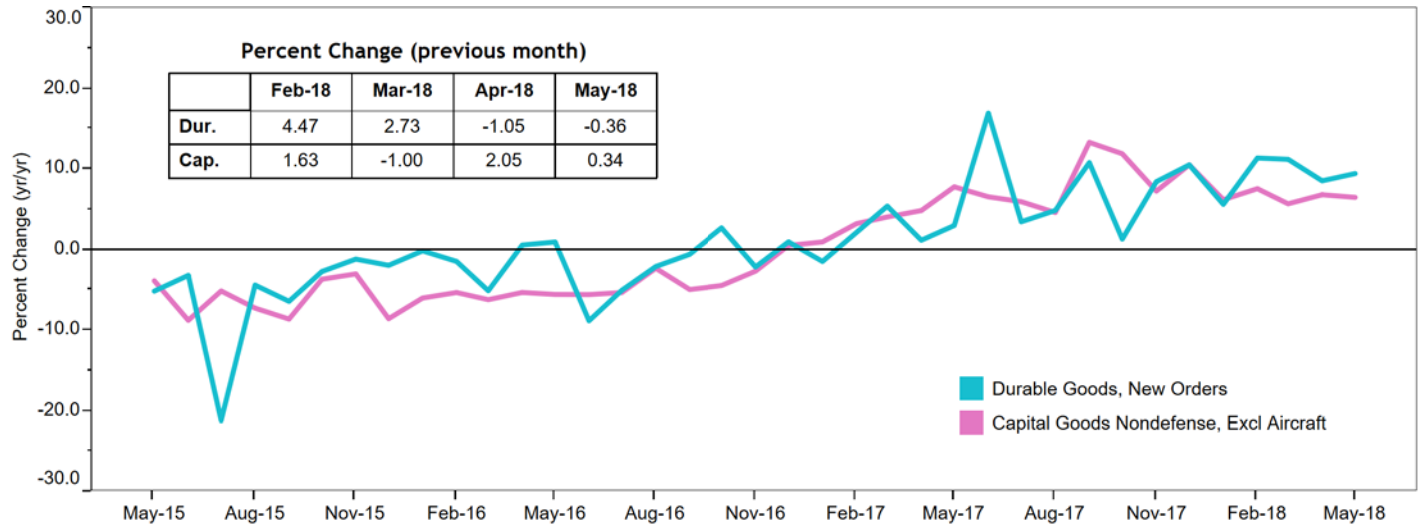
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods decreased in May, after falling in April, but continued to increase on a year-over-year basis. Meanwhile, orders for nondefense capital goods excluding aircraft rose in May, after increasing in April, and continued to rise on a year-over-year basis.

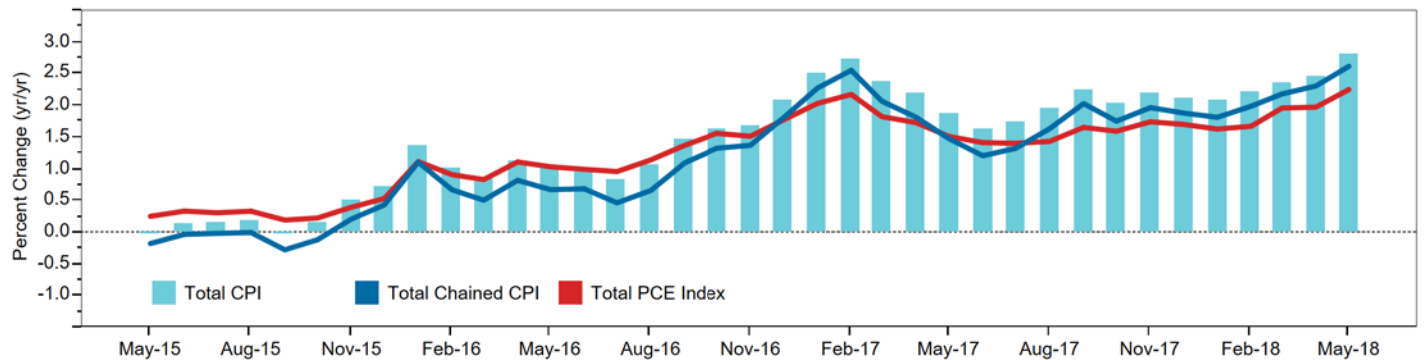
Durable Goods Orders



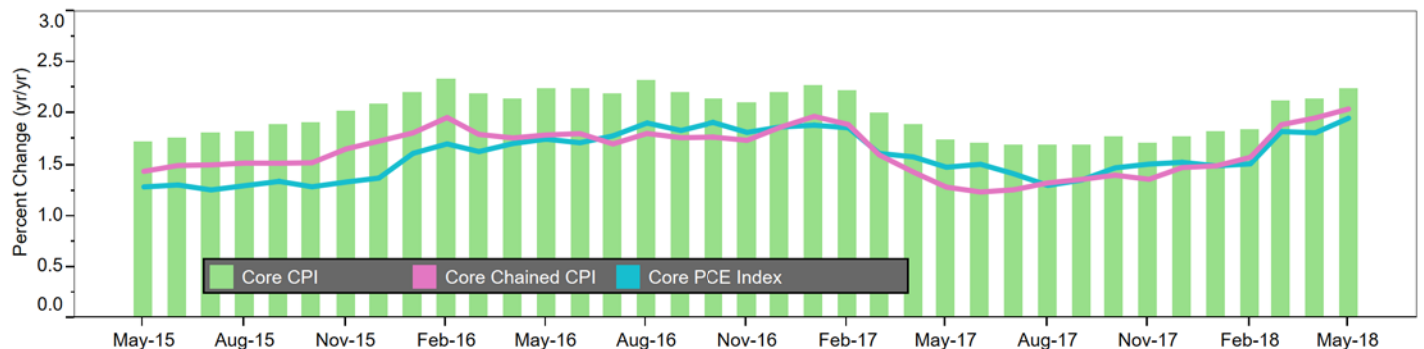
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to accelerate in May, as both the Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) Price Index reached their highest rates since early 2012. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, accelerated in May, after holding relatively steady in April.

Total Price Indices



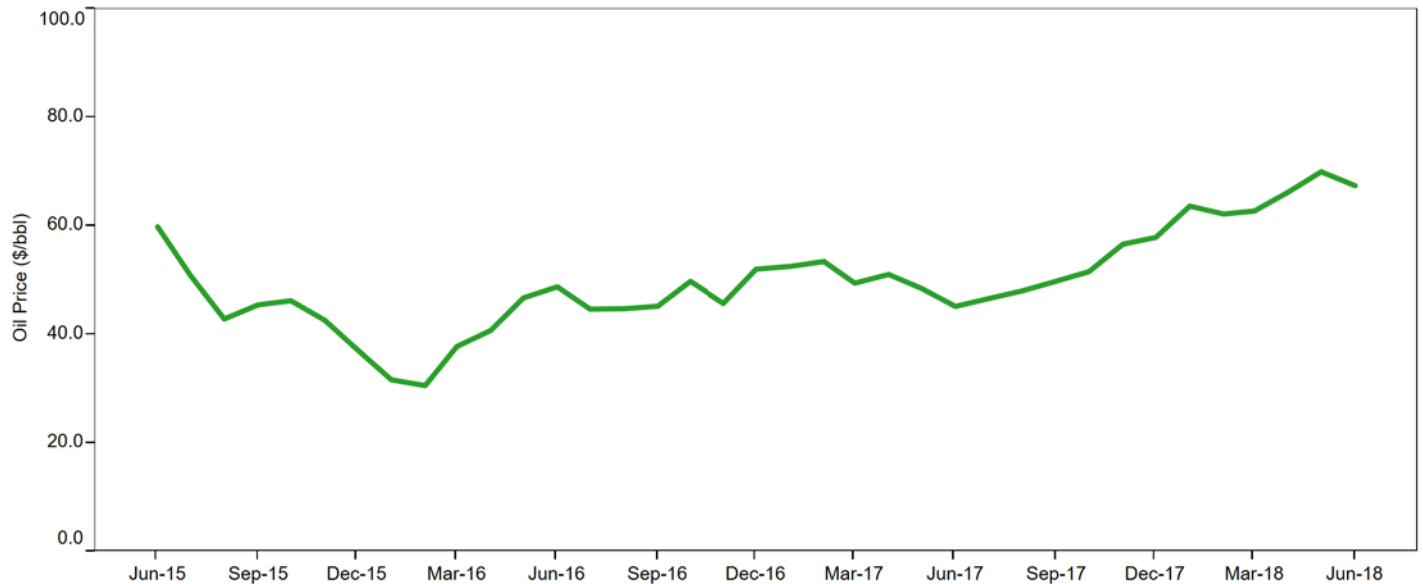
Core Price Indices



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

Oil prices declined, on average, in June, after rising in each of the previous three months. Prices have increased in the first several days of July, registering \$73.9 per barrel on July 9th.

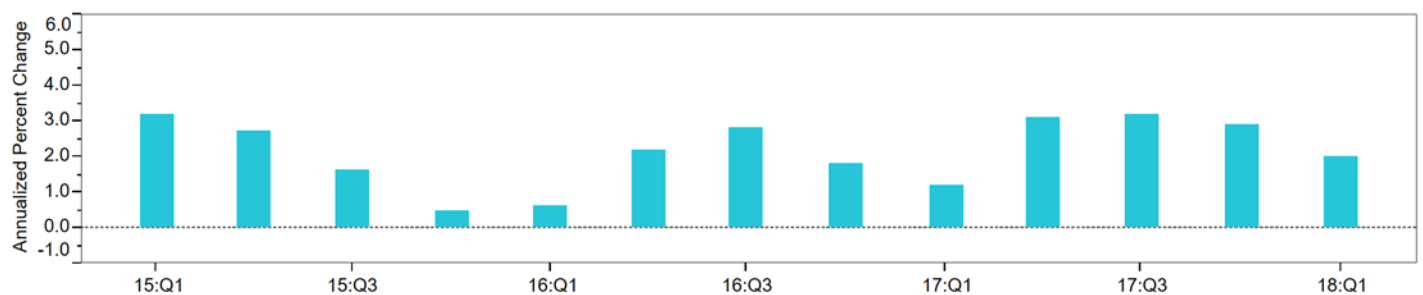
Domestic Spot Oil Price



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

First quarter real GDP growth was revised down in the third estimate to 2.0% from 2.2%. The lower rate primarily reflected downward revisions to private inventory investment, personal consumption expenditures, and exports that were partly offset by an upward revision to nonresidential fixed investment.

Real GDP



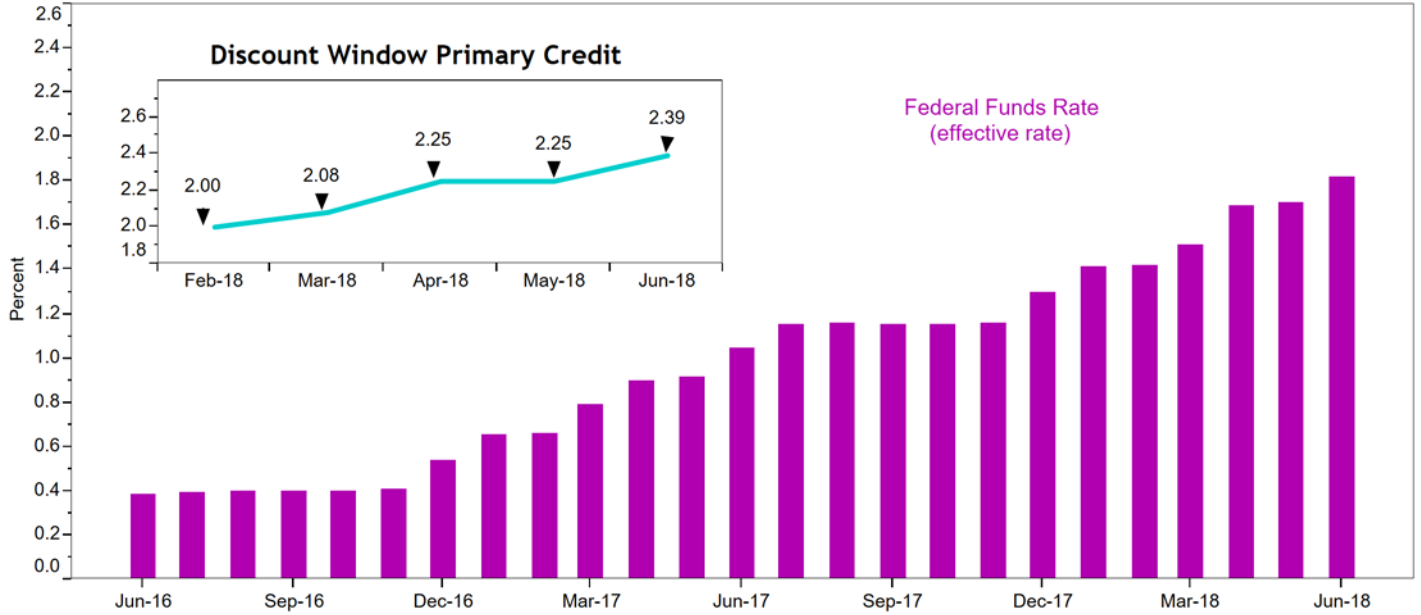
Revisions to First Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	2.2	2.0
Personal Consumption	1.0	0.9
Business Investment	9.2	10.4
Equipment and Software	5.5	5.8
Residential Investment	-2.0	-1.1
Government	1.1	1.3
Exports	4.2	3.6
Imports	2.8	3.2
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 Christy Marieni.