

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

July 7, 2020

Data released since your last Directors' talk continued to show signs of improvement, though the economy remains weak and the months ahead are full of uncertainty. Adding to this uncertainty, several states began seeing severe upticks in the number of confirmed coronavirus cases. This renewed concern is only partially captured by a few of the series presented in this report. Amidst the continuing pandemic, GDP growth in the first quarter slowed by 5.0%, unchanged from the previous estimate. A much sharper contraction likely occurred in the second quarter, while medical advances and adherence to precautions remain central to the strength and speed of the recovery over the second half of the year.

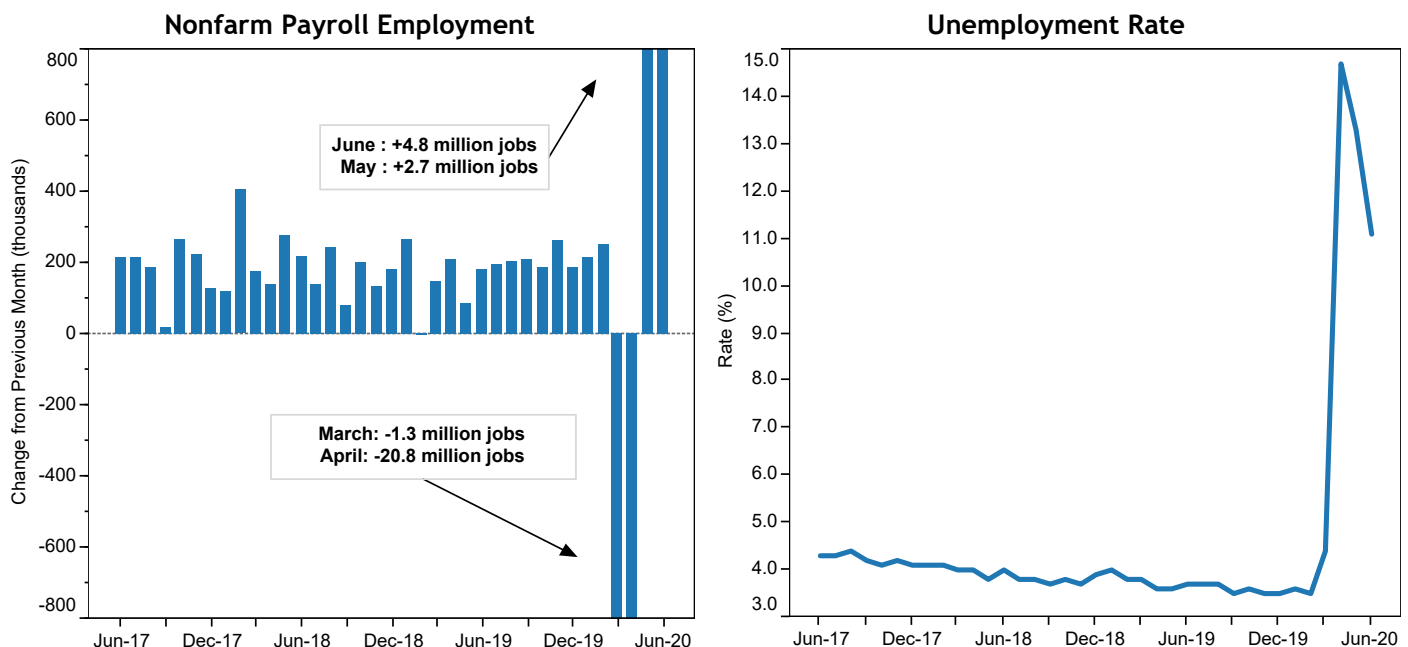
The employment report again surprised to the upside, as nonfarm payrolls rose by 4.8 million jobs and the unemployment rate fell further to 11.1%. The discrepancy caused by misclassification issues in previous months' data has shrunk, however a clear employment picture will most likely take several months to emerge. Initial unemployment claims remain historically high but weekly totals have been trending downward steadily since the end of March.

All measures of consumer attitudes rose as did all measures for retail sales. Lightweight vehicle sales, hampered by low inventories caused by the shutdown, were able to regain some ground lost in recent months. Incomes surged in April due to direct payments to individuals provided by the CARES Act of 2020, though fell in May as much fewer payments were distributed. Real consumption rebounded sharply in May, as business reopened and mobility restrictions eased. New home sales rose in May though existing home sales - which are more backward looking - decreased for the third consecutive month. Housing starts ticked up in May while building permits increased markedly, suggesting starts will pick up in the coming months.

Orders for durable goods surged in May, allowing the year-over-year metrics to regain some of the ground lost over the last two months. The ISM manufacturing and nonmanufacturing indices, as well as the regional Federal Reserve manufacturing indexes, all posted solid gains, allowing many of the indexes to signal expansion. Industrial production rose slightly in May after declining for four of the last five months. Manufacturing output rose while mining and utilities output saw declines. The May reading for capacity utilization in manufacturing also ticked up over April.

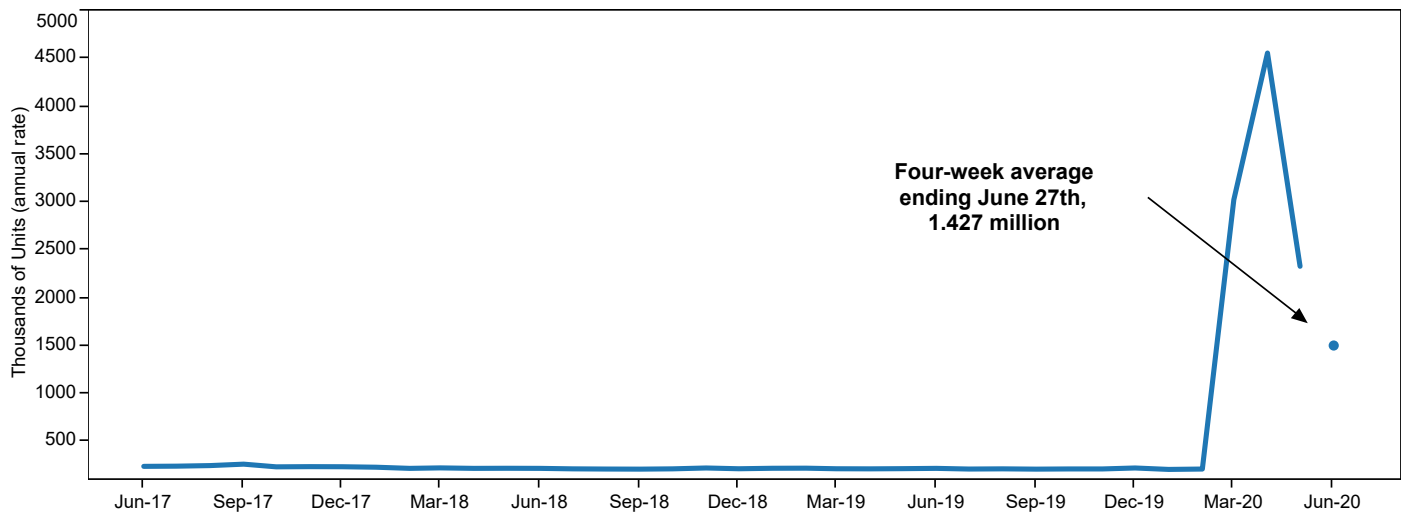
Consumer inflation measures were mixed on a monthly basis. Total and core CPI ticked up while the same measures from the PCE ticked down. On a yearly basis, all measures slowed except core PCE which held steady. Oil prices regained ground for two consecutive months after the 20-year low reached in April.

Nonfarm payrolls rose 4.8 million jobs in June as the unemployment rate fell from 13.3% to 11.1%. As was the case in each of the last three months of data, many workers were classified as "employed - but absent from work," resulting in an underestimation of unemployment. However, the size of the discrepancy has shrunk in June data. Revisions to recent monthly data have cast April's job losses further downward to 20.8 million and May's increase further upward to 2.7 million. Collection for June data stopped mid-month and has not captured the recent surge in cases seen in some states.



Initial claims for unemployment insurance declined a bit further in the week ending June 27th, falling by 55,000 to 1.427 million. While these data remain at historic highs, they have been trending downward since the all-time high of 6.86 million seen at the end of March.

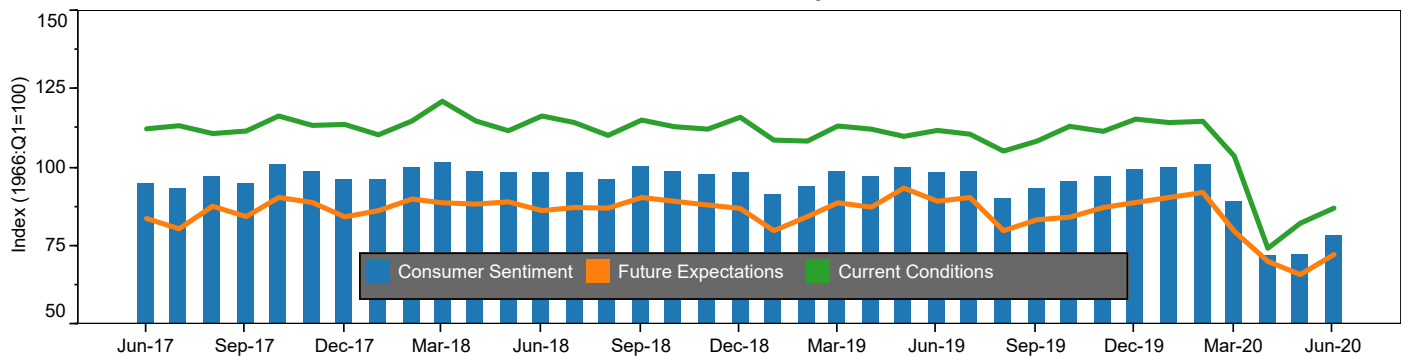
Initial Claims



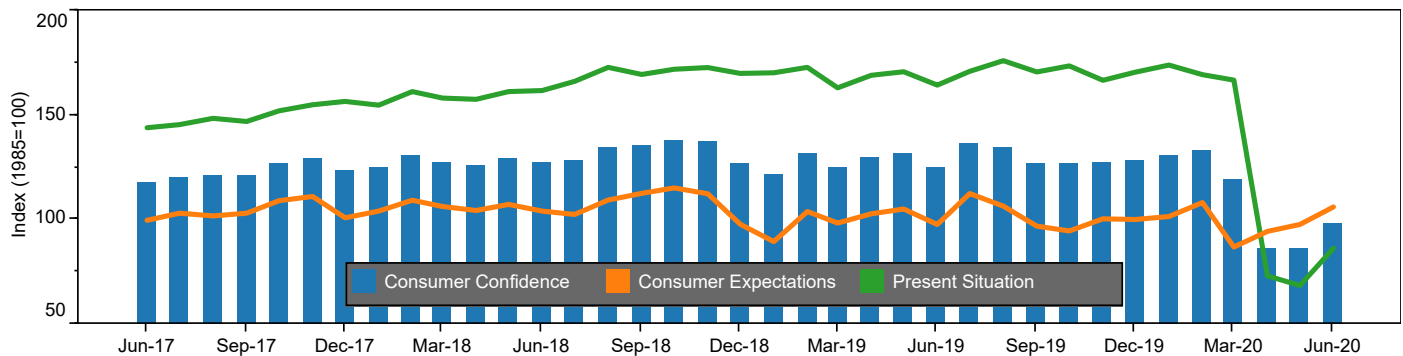
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

The consumer sentiment index rose 5.8 points to 78.1 in June, while the current conditions and expectations indices both saw gains as well. Survey collection ended June 22nd and thus was able to capture some early feedback regarding the resurgence of COVID-19 cases in some states. Consumer confidence jumped 12.2 points to 98.1 in June. With survey collection ending June 18th, the renewed virus concerns are likely not fully reflected in these data.

Consumer Sentiment and Expectations



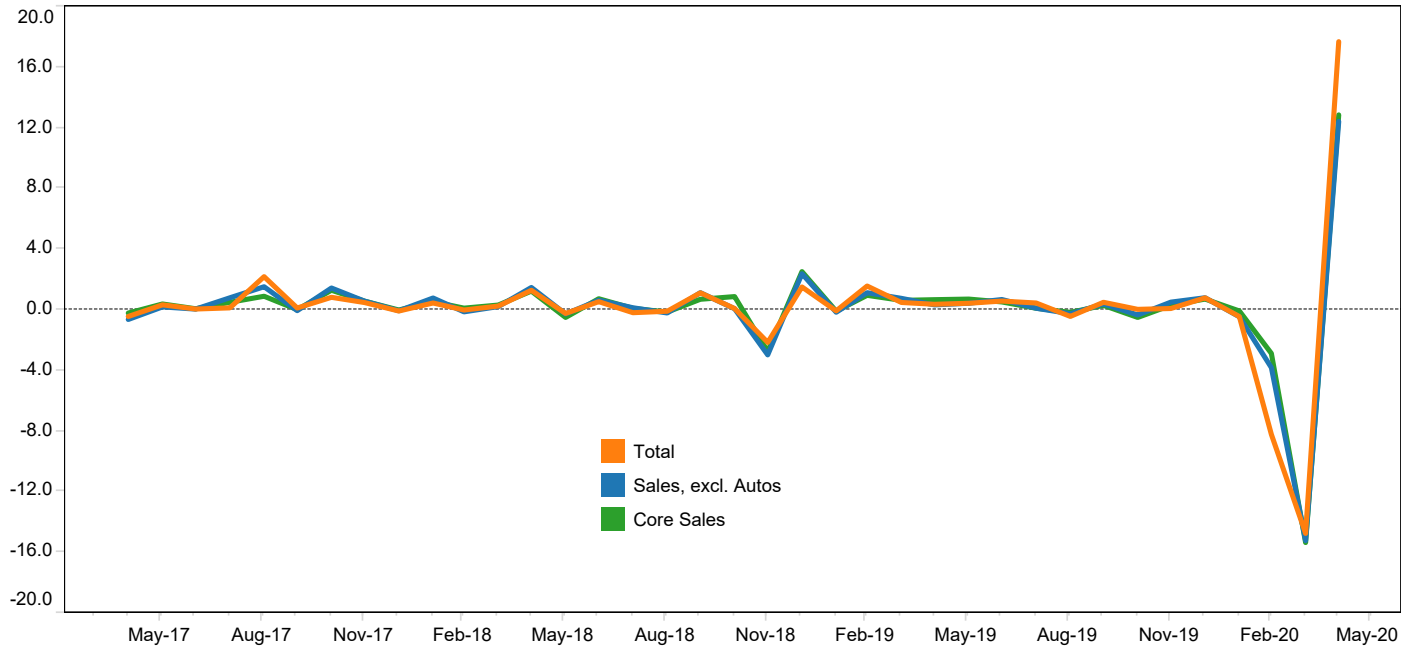
Consumer Confidence and Expectations



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

May retail sales data jumped 17.7% after March and April registered a cumulative 21.8% decline. The increase was seen in all major categories. Core sales and sales excluding autos rose, 12.9% and 12.4%, respectively.

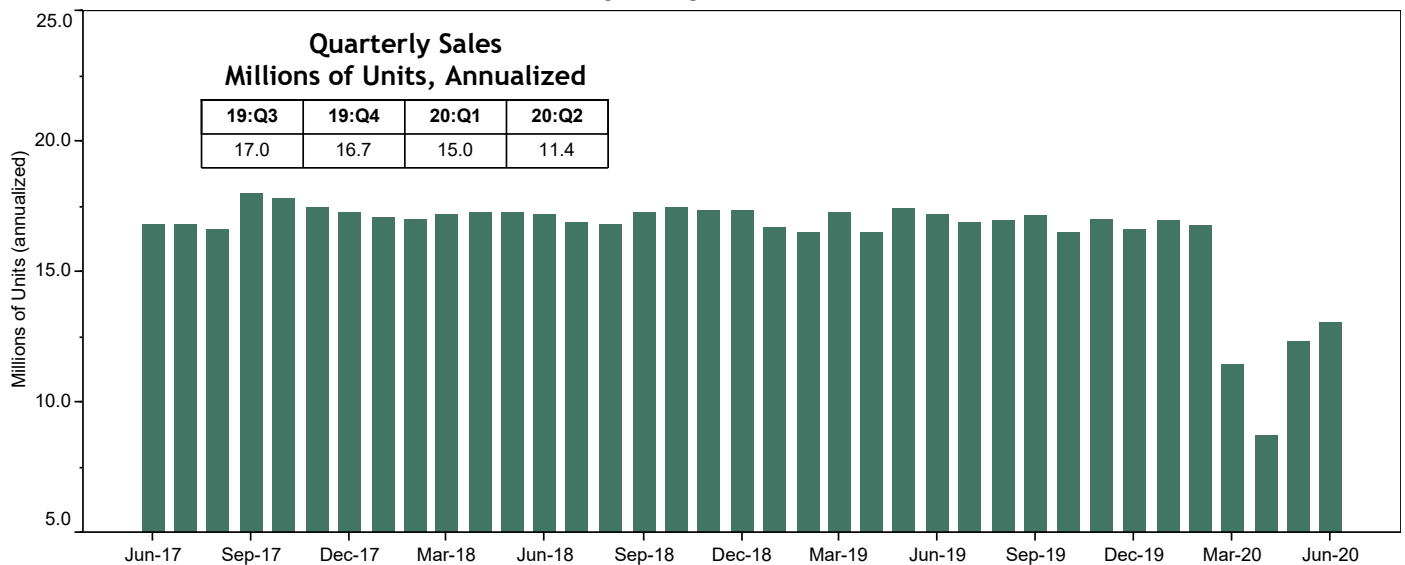
Retail Sales



Source: U.S. Census Bureau / Haver Analytics

The pace of lightweight vehicle sales rose slightly to an annualized 13.0 million units in June from May's rate of 12.3 million units. The tailwinds of reopening are clashing with the headwinds of low inventory and the resurgence in COVID-19 infections in some states.

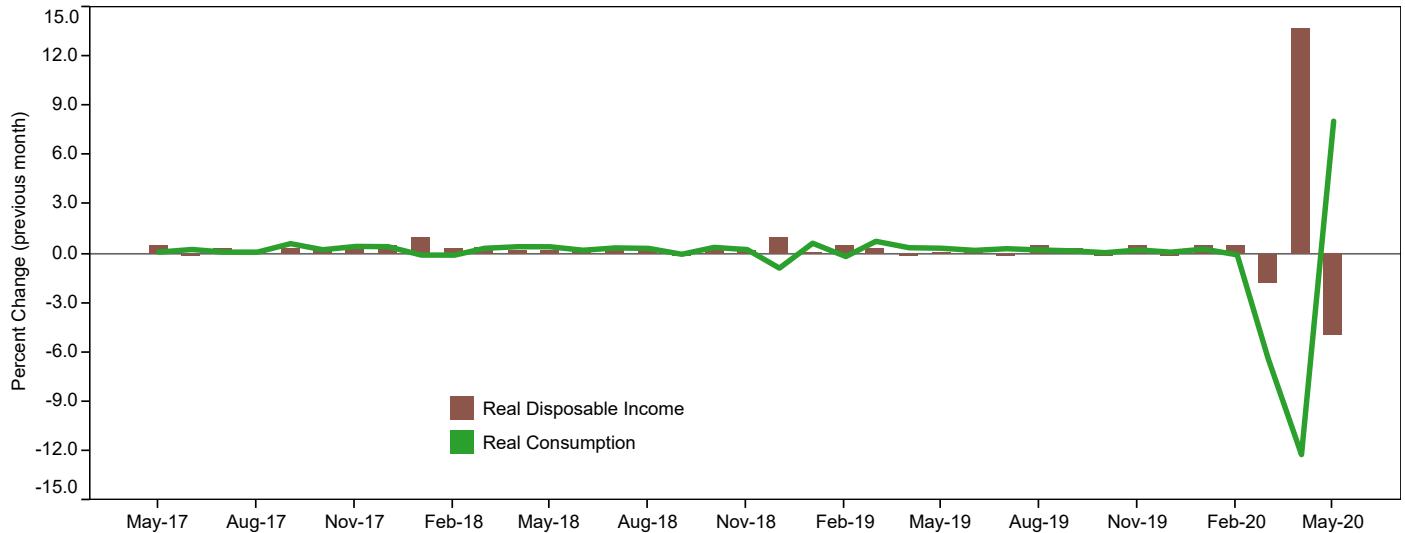
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real disposable income fell 5.0% in May as fewer "economic impact payments" were made, more than offsetting an expansion in unemployment insurance benefits. Real consumption jumped 8.1% over April as many stay-at-home orders were lifted and businesses began reopening.

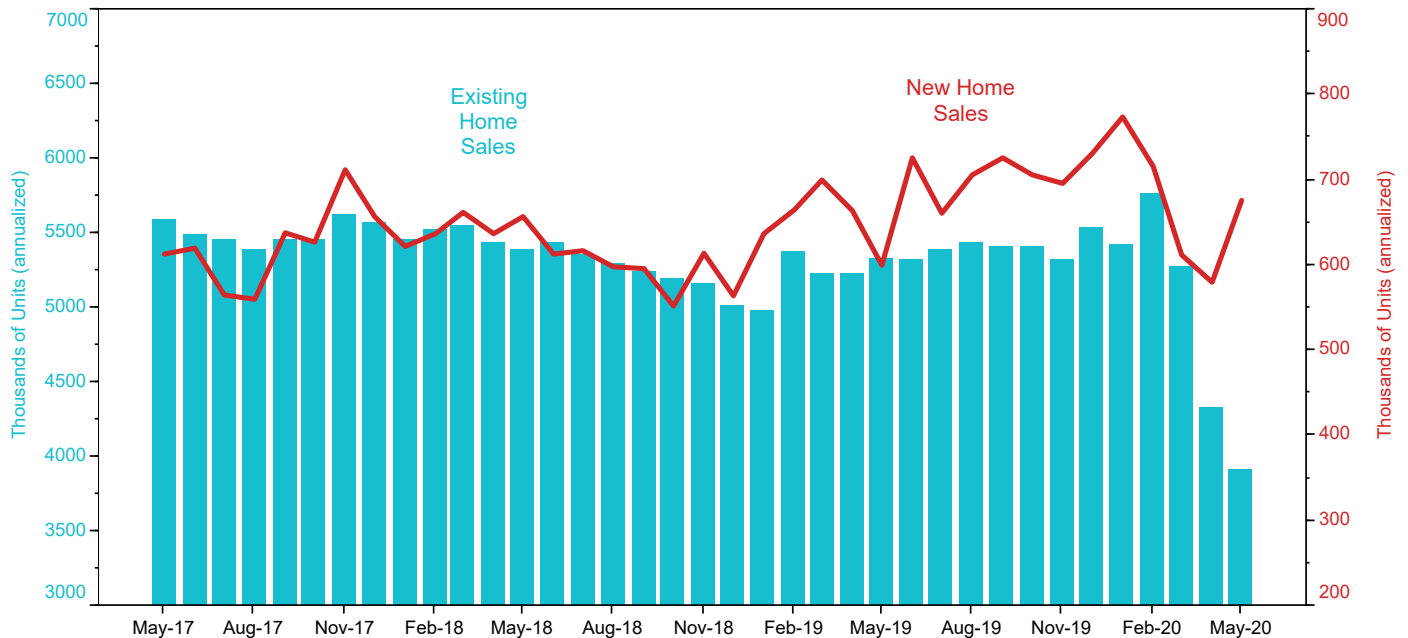
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

In May, sales of new homes rebounded to an annual rate of 676,000 units, a 16.6% increase over April's downward revision. After falling for three consecutive months, May's rate is up 12.7% over the last year. Existing home sales decreased for the third consecutive month, falling 9.7% in May to an annual rate of 3.91 million units. Existing home sales fell in all four regions, and overall, sales have plunged 32% since February, hitting a 10-year low.

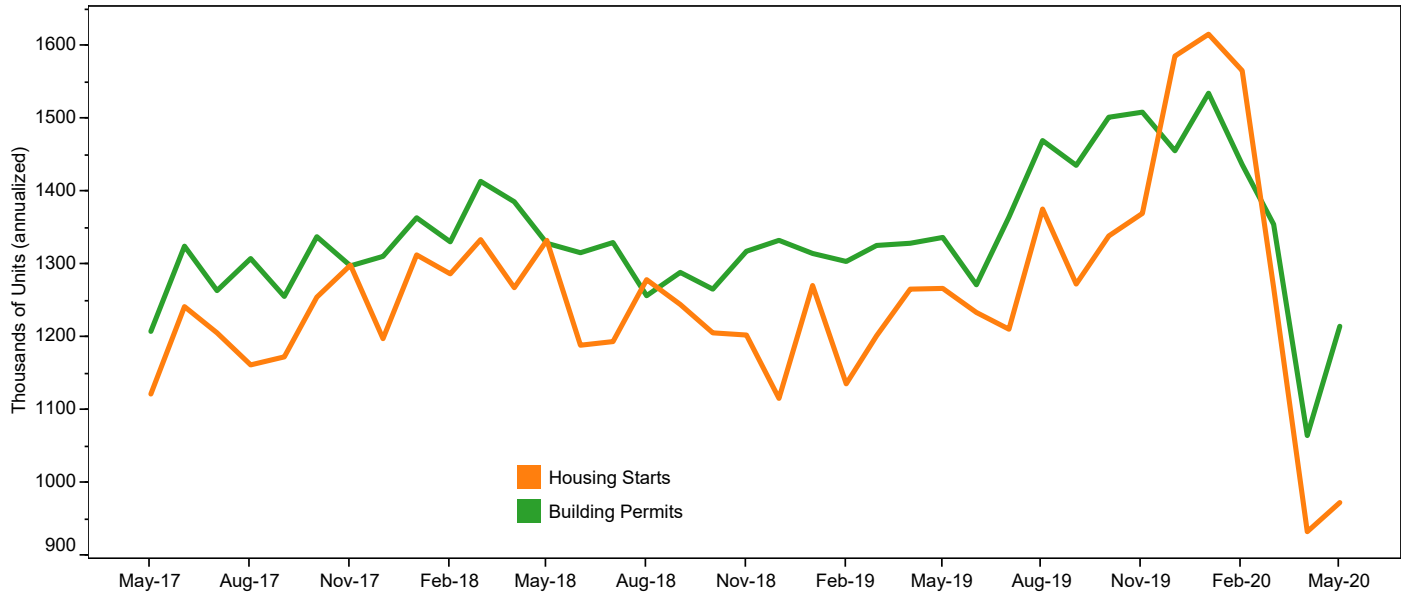
New and Existing Home Sales



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

Housing starts rebounded slightly in May, following sharp drops in both March and April. The recovery in building permits was more pronounced, suggesting starts will pick up in the coming months. Both single- and multi-family permits posted double digit gains in May, with increases seen across all four regions.

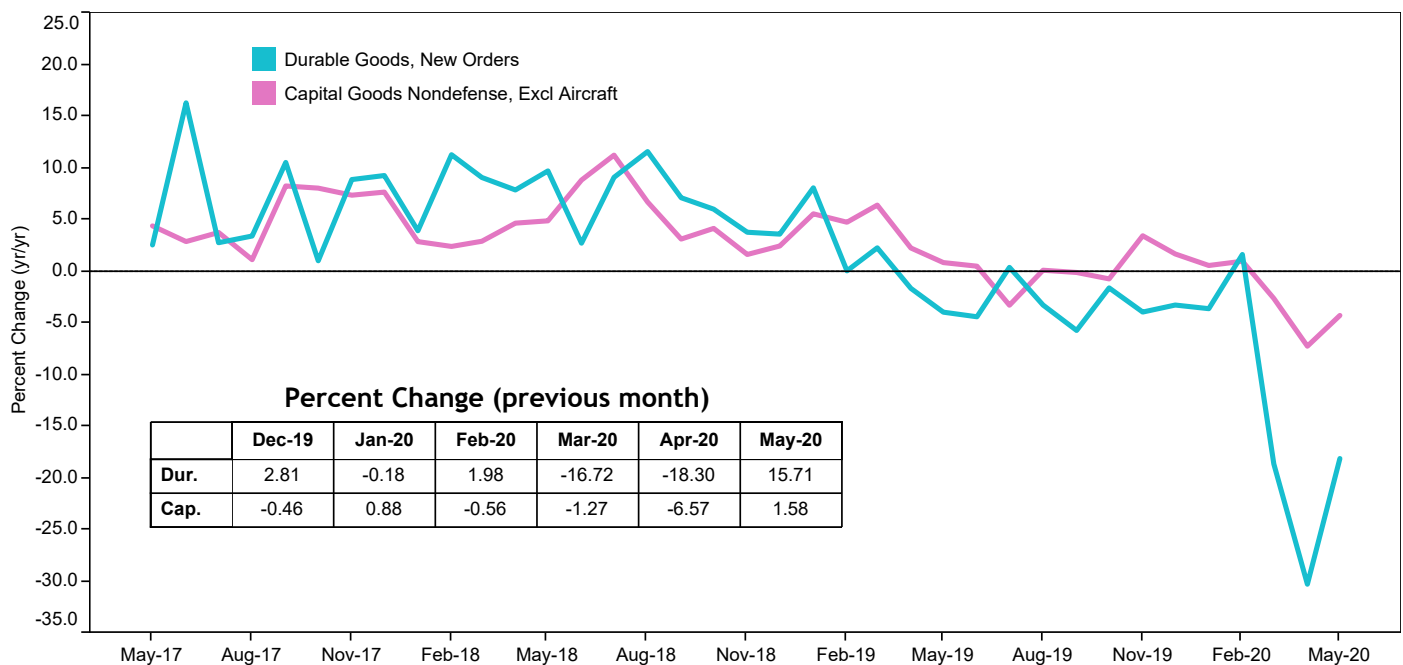
Housing Starts and Building Permits



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

Durable goods orders jumped 15.7% in May after plunging 16.7% and 18.3% in March and April, respectively. Nondefense aircraft and parts, along with motor vehicles and parts, were together responsible for most of the increase. Orders of nondefense capital goods excluding aircraft rose 2.3% in May after plunging 6.5% in April. Consistent with the monthly increases, both series regained some ground on a year-over-year basis.

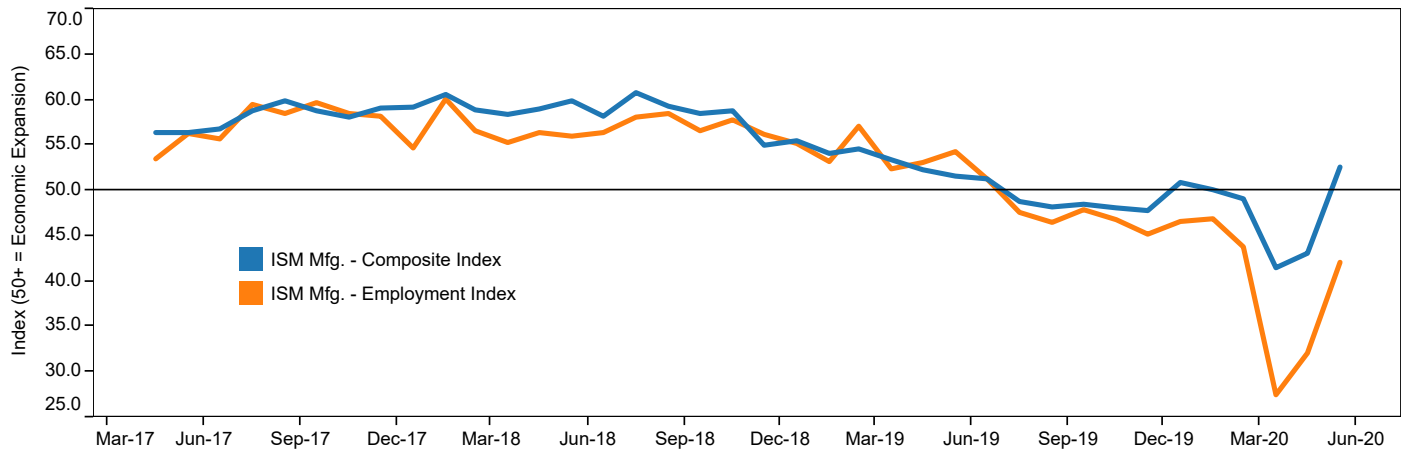
Durable Goods Orders



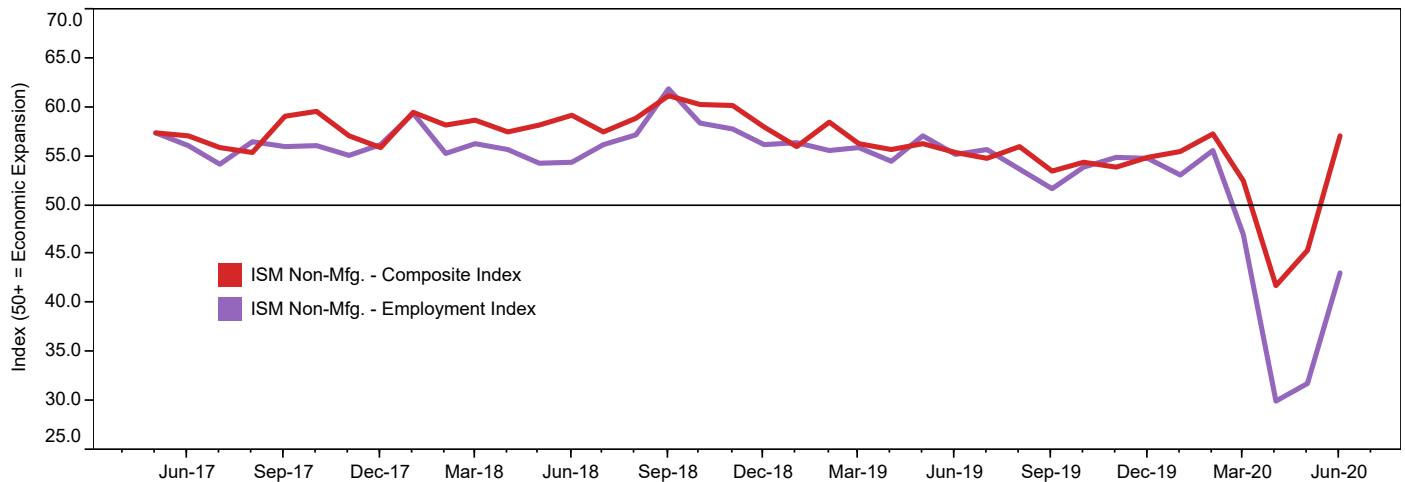
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index rebounded in June, rising from 43.1 in May to 52.6 in June, the highest level in more than a year. The ISM nonmanufacturing index also jumped to 57.1 from 45.4. The employment components of both indexes also saw solid gains. The NY Fed manufacturing index increased 48 points to -0.2 as its future business conditions subindex rose to its highest level in more than a decade. The Philadelphia manufacturing index jumped from -43.1 to 27.5, its first positive reading since February. The Kansas City (KC) manufacturing index also saw positive territory as it climbed from -19 to 1. Of those surveyed by the KC survey, 76% have taken advantage of the Small Business Administration's Paycheck Protection Program since March, while 97% of surveyed applicants reported receiving the loan.

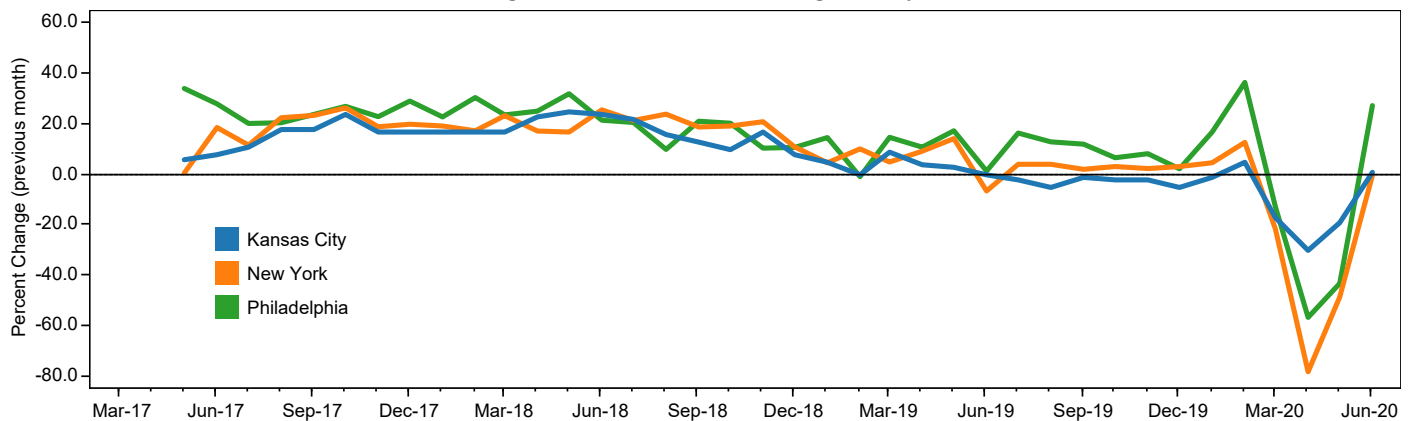
ISM Manufacturing Indices



ISM Non-Manufacturing Indices

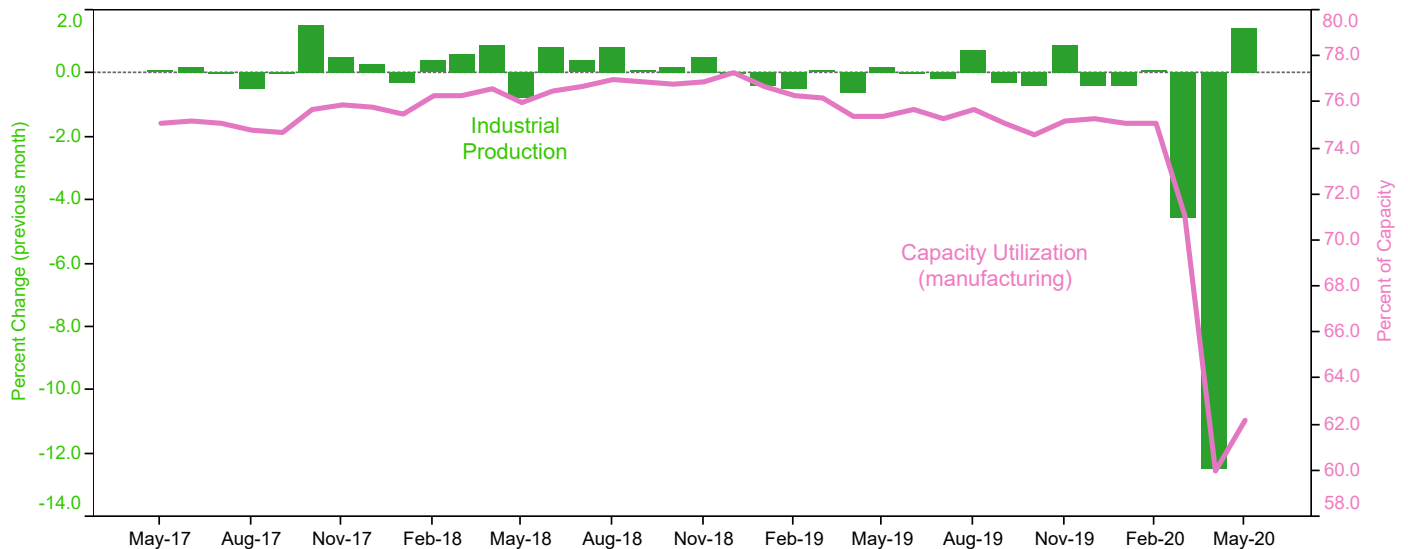


Regional FRB Manufacturing Surveys



Industrial production, after declining in four of the last 5 months, rose 1.4% in May as factories began the reopening process. Most major industries saw gains, although primary metals, machinery, and electronic equipment all continued to decline. Manufacturing output increased 3.8% while output in mining and utilities declined 6.8% and 2.3%, respectively. Capacity utilization in manufacturing rose to 62.2% in May from April's reading of 60%.

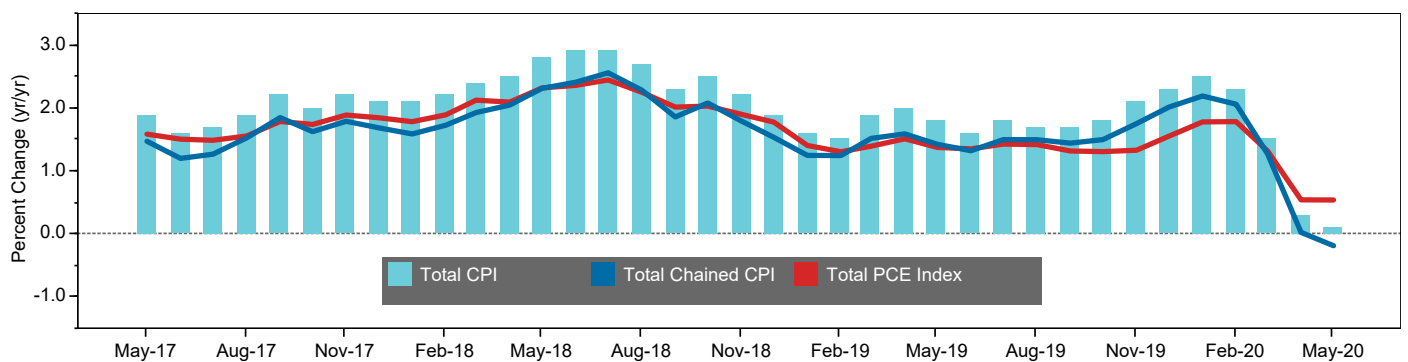
Industrial Production and Capacity Utilization



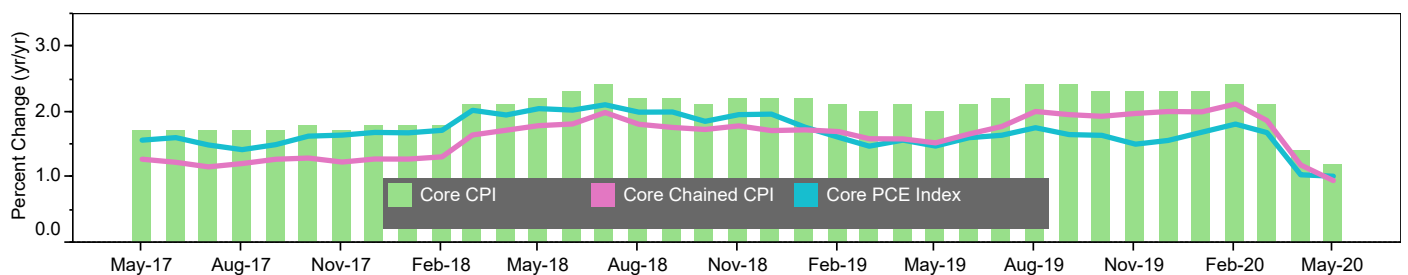
Source: Federal Reserve Board of Governors / Haver Analytics.

Marking the third straight monthly decline, consumer price inflation for both total and core CPI fell 0.1% in May, after April's release saw historic one-month declines. This is the first time core CPI has declined for three consecutive months. Meanwhile, total and core PCE ticked up 0.1% in May. Over the past year, total CPI gained 0.1% after climbing 0.3% in April and core CPI growth slowed to 1.2%. Total PCE growth also slowed, on a year-over-year basis, to 0.5%, while core PCE remained steady at 1.0%.

Total Price Indices



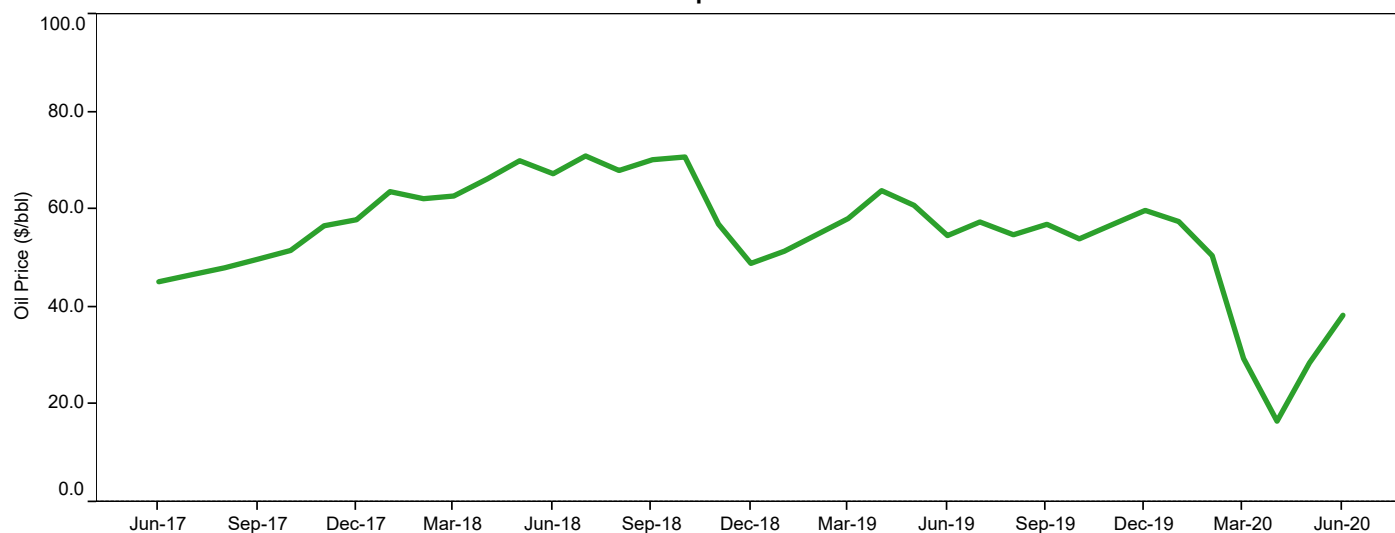
Core Price Indices



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

After rebounding from 20-year lows in May, oil prices gained further ground in June. The continued easing of mobility restrictions have boosted prices, closing at 40.63 per barrel on July 6.

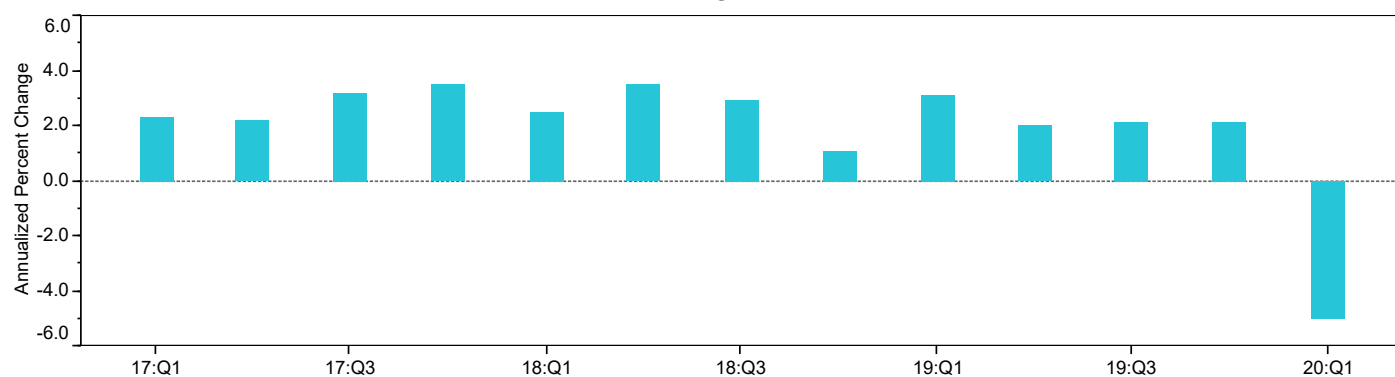
Domestic Spot Oil Price



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

Real GDP fell 5.0% in the first quarter according to the third estimate, which was unrevised from the second estimate. With the third estimate, an upward revision to nonresidential fixed investment was offset by downward revisions to private inventory investment, personal consumption expenditures (PCE), and exports.

Real GDP



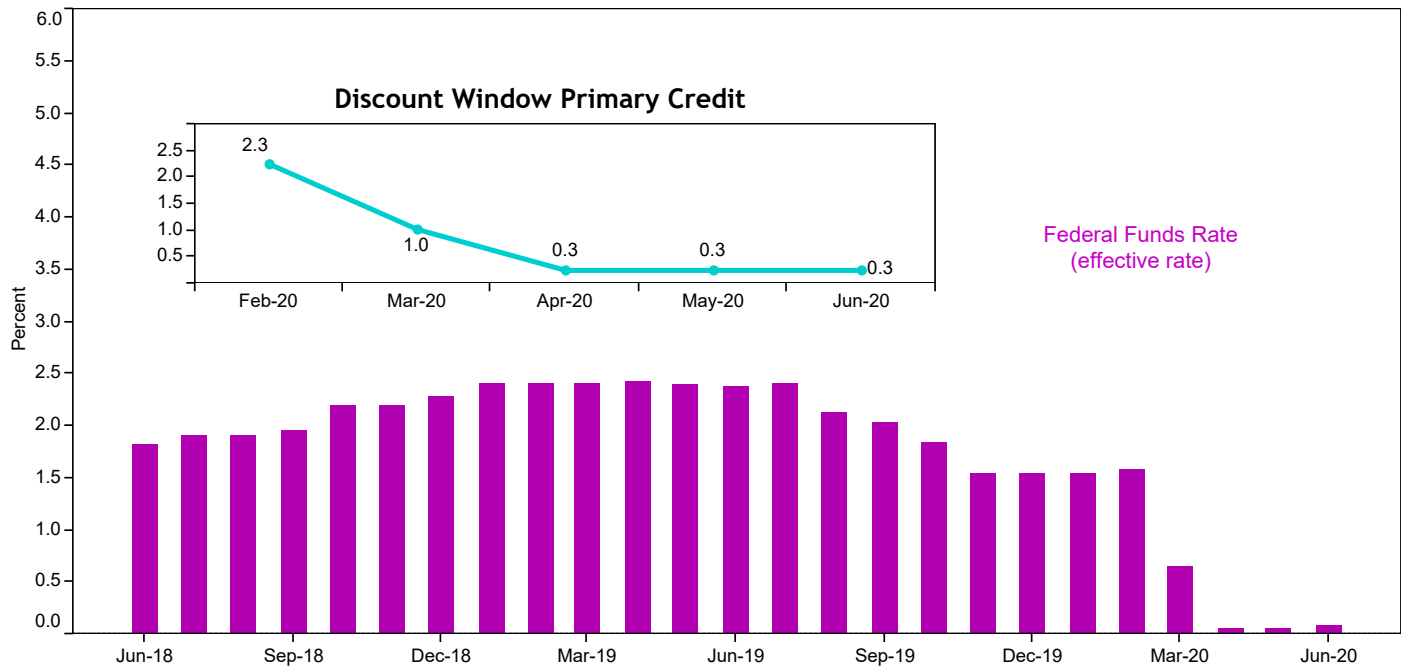
Revisions to First Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	-5.0	-5.0
Final Sales	-3.7	-3.5
Personal Consumption	-6.8	-6.8
Business Investment	-7.9	-6.4
Equipment and Software	-16.7	-16.6
Residential Investment	18.5	18.2
Imports	-15.5	-15.7
Exports	-8.7	-9.0
Government	0.8	1.1

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 Mike Corbett and David J. Brown.