



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

February 28, 2017

## CURRENT ECONOMIC DEVELOPMENTS - February 28, 2017

Data released since your last Directors' meeting show that economic growth in the fourth quarter was unrevised from its original estimate, and recent data suggest that the economy will continue to grow modestly in first quarter. Labor markets showed signs of continued strengthening, and consumer attitudes remain at a level consistent with further consumption growth. However, support from manufacturing has been mixed. Overall, data remain consistent with a moderately growing economy.

In the three weeks ending February 18th, initial claims for unemployment insurance fell, on average, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out next Friday morning, March 10th, and nonfarm payrolls are expected to post another moderate gain in February.

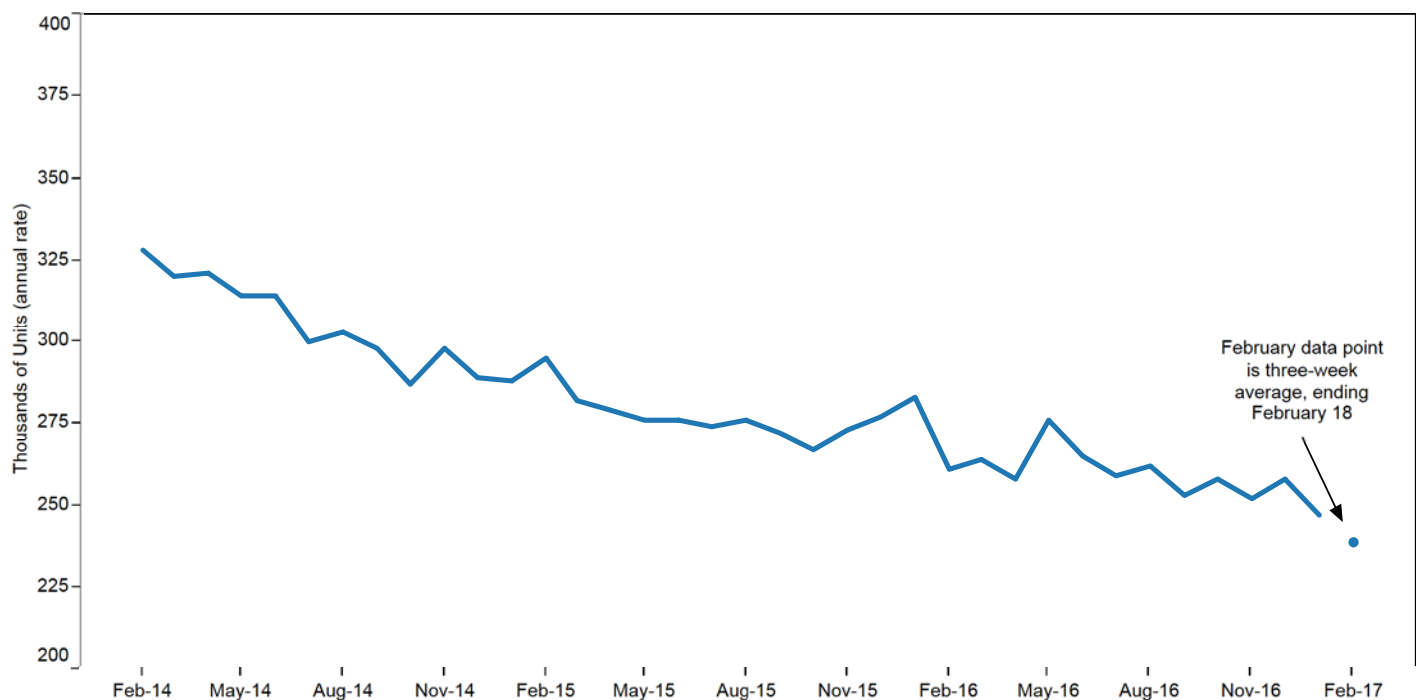
Consumer attitudes were mixed in February, as the sentiment index fell due to a decrease in the future expectations components, while the confidence index rose to an over-fifteen-year high. Primary measures of real estate activity mostly picked up in January. New and existing home sales and building permits all rose during the month, while housing starts declined.

In the manufacturing sector, industrial production fell in January, as utilities output decreased, while manufacturing and mining production increased. Capacity utilization edged up in January. Orders for durable goods increased in January, but fell from their year-ago level, while orders for nondefense capital goods, excluding aircraft, declined in January but continued to rise on a year-over-year basis.

Both total and core consumer inflation, as measured by the Consumer Price Index, continued to accelerated in January. Oil prices in February, on average, were slightly above their December and January levels, as prices edged up towards the end of the month.

Initial claims for unemployment insurance have fallen further, on average, in the three weeks ending February 18th, after declining in January to their lowest monthly average since October 1973. Claims remain at a level consistent with further labor market improvement.

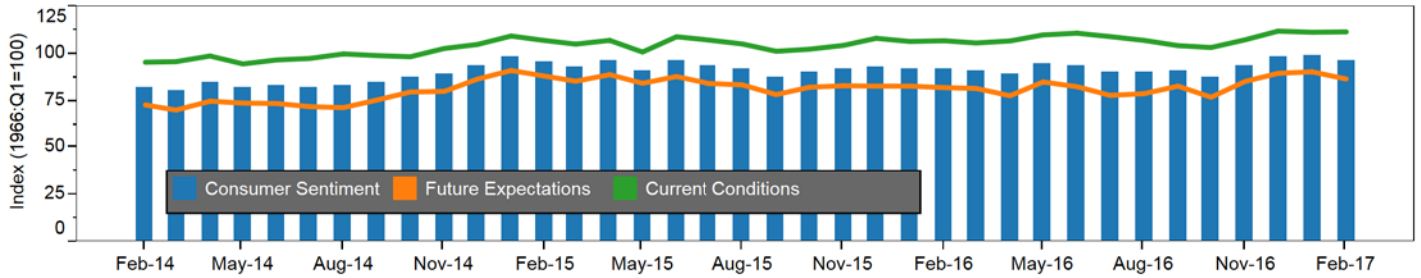
### Initial Claims



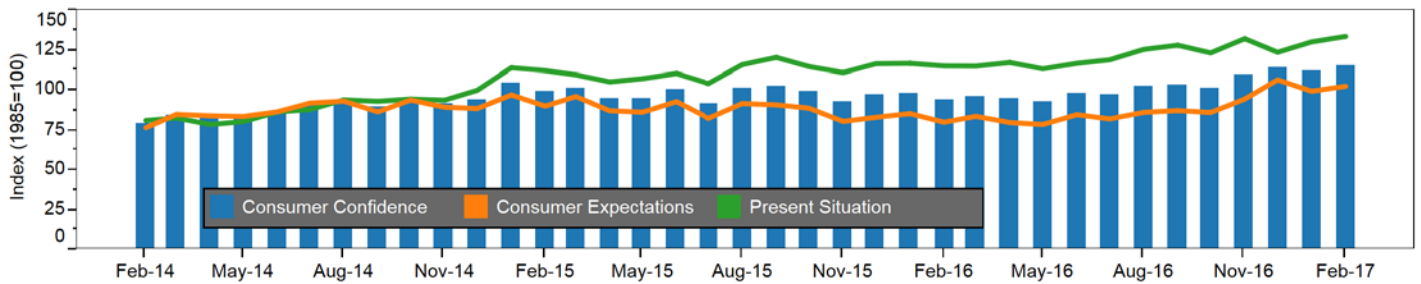
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes were mixed in February, as the sentiment index declined due to a fall in the future expectations component, while the confidence index increased to its highest level in over fifteen years. Respondents to the confidence survey expressed more favorable views of current business and labor market conditions, as well as more optimism towards the short-term economic outlook, while divergence along political party lines among respondents to the sentiment survey was weighted a bit more towards the pessimism expressed by Democrats about the future economic outlook.

### Consumer Sentiment and Expectations



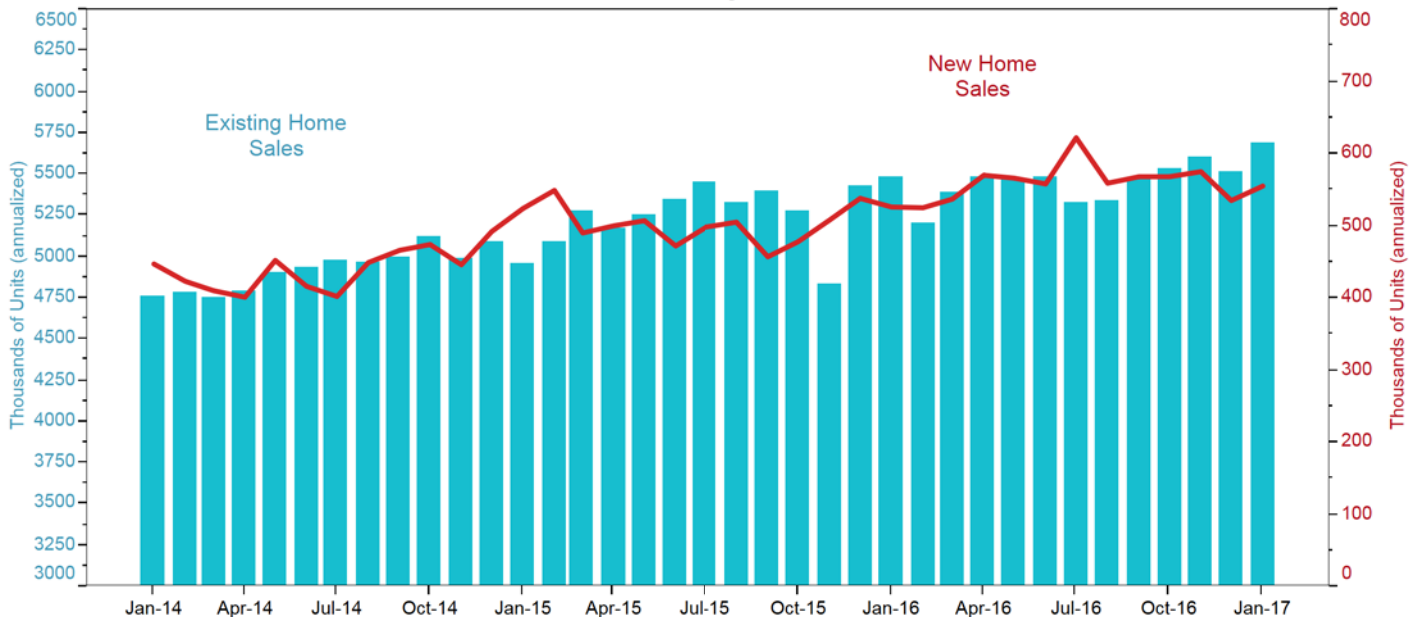
### Consumer Confidence and Expectations



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

Home sales data improved in January. Existing home sales rose to their fastest pace in almost ten years, after falling in December. Meanwhile, new home sales also increased in January, partially offsetting the decrease seen in December.

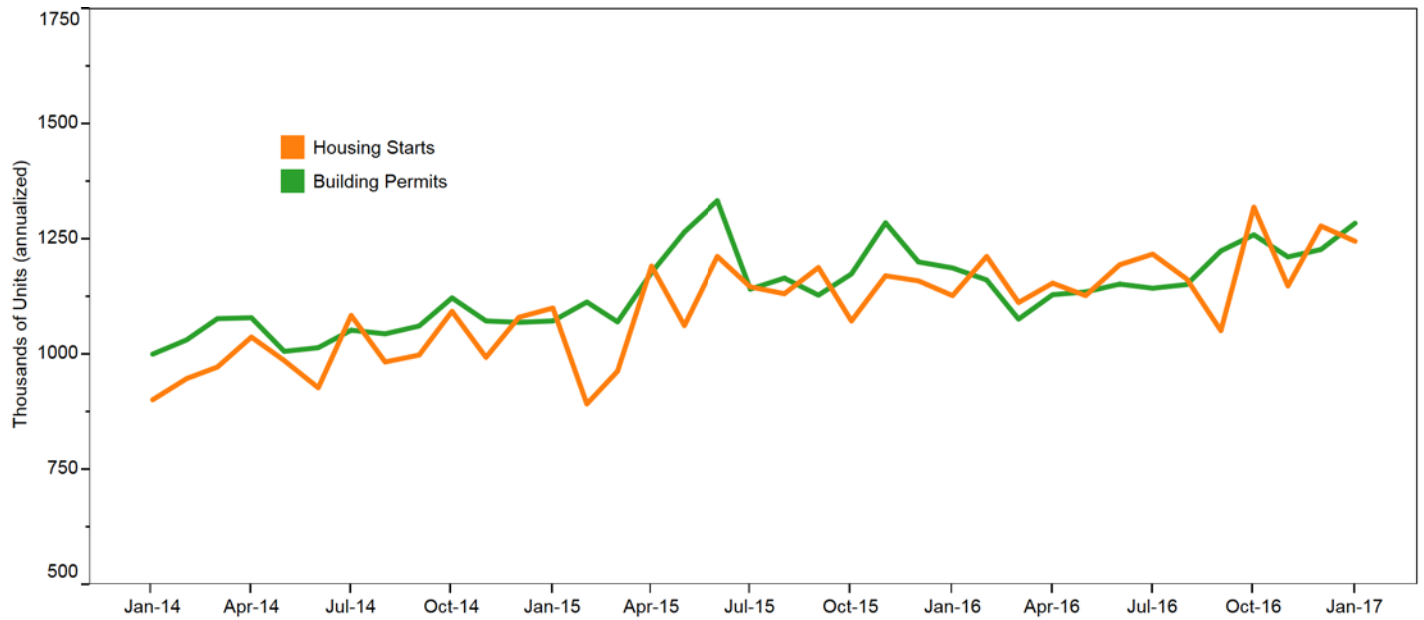
### New and Existing Home Sales



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

Housing starts fell in January, as a decline in multi-family starts more than offset a rise in single-family starts. Meanwhile, building permits continued to increase in January, reaching their highest level since November 2015, as an increase in multi-family permits more than offset a decline in single-family permits.

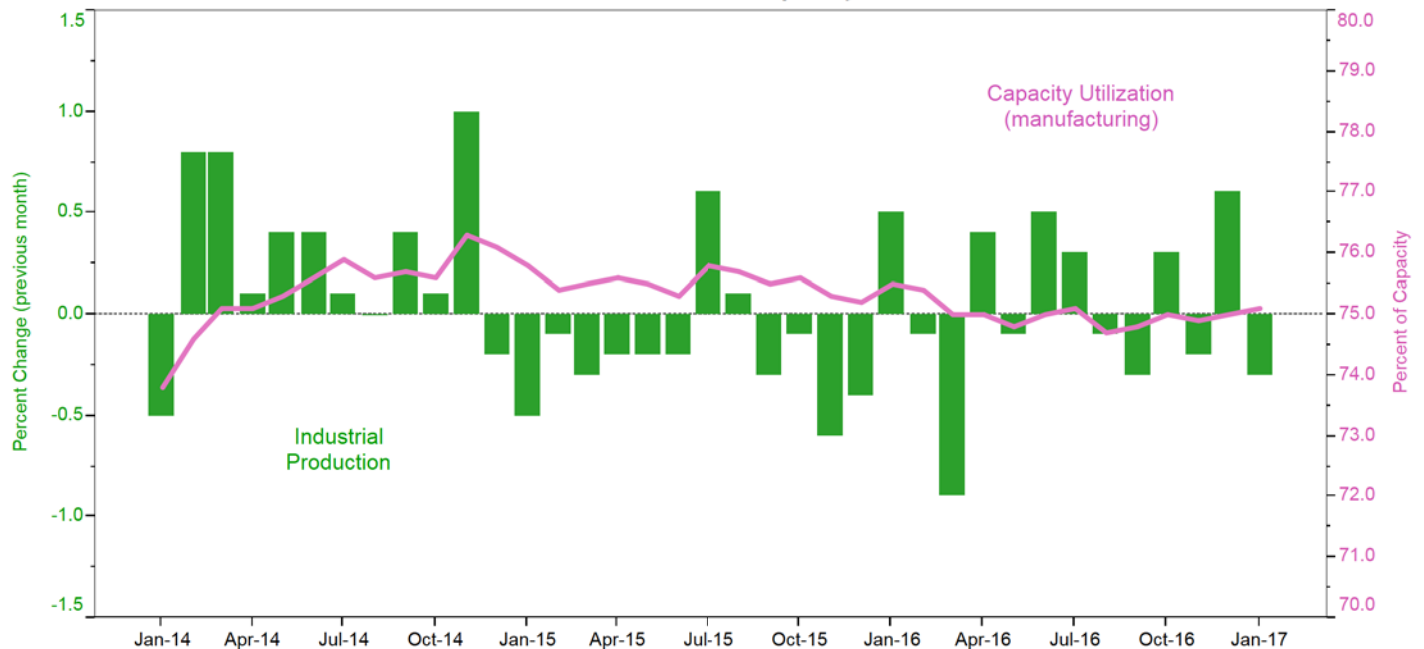
### Housing Starts and Building Permits



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

Industrial production declined in January, following an increase in December that was revised down a bit from the prior estimate. Both manufacturing and mining production posted increases in January, while utilities output decreased. Capacity utilization ticked up in January, from an upwardly revised level in December.

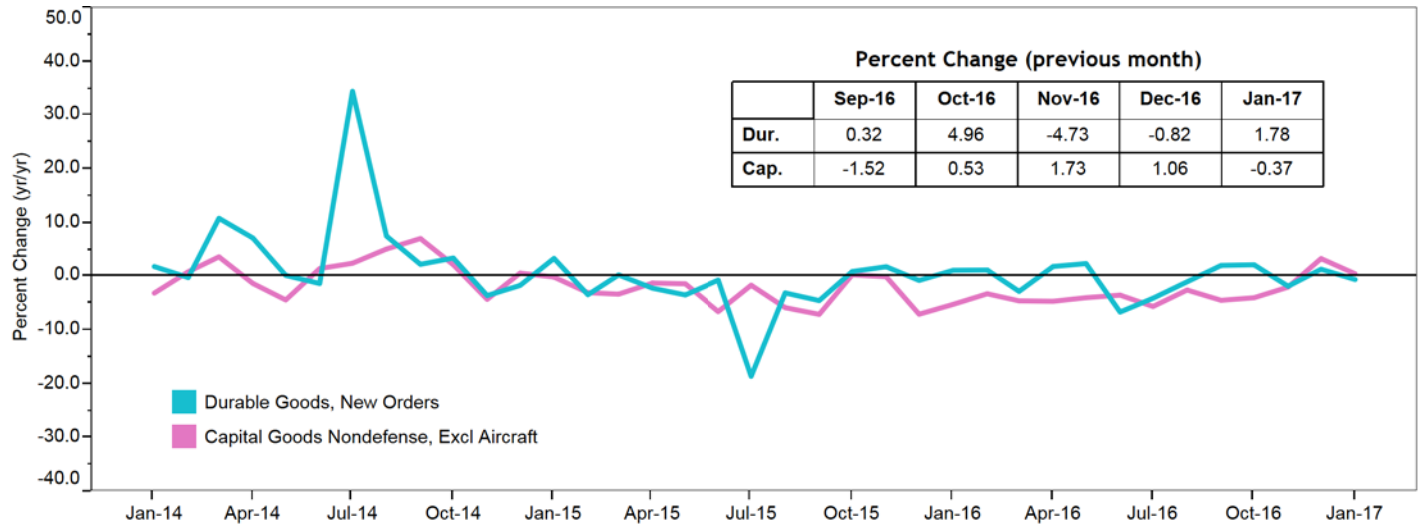
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in January, after falling in each of the prior two months, but were down from their year-ago level. The monthly increase in January was driven in large part by a surge in aircraft orders, which are highly volatile. Orders for nondefense capital goods, excluding aircraft, declined in January, yet continued to rise on a year-over-year basis.

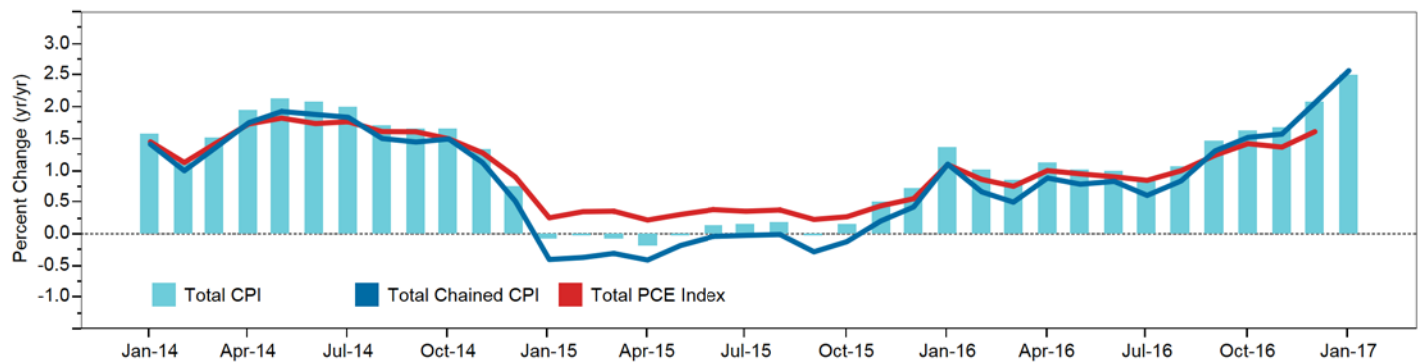
### Durable Goods Orders



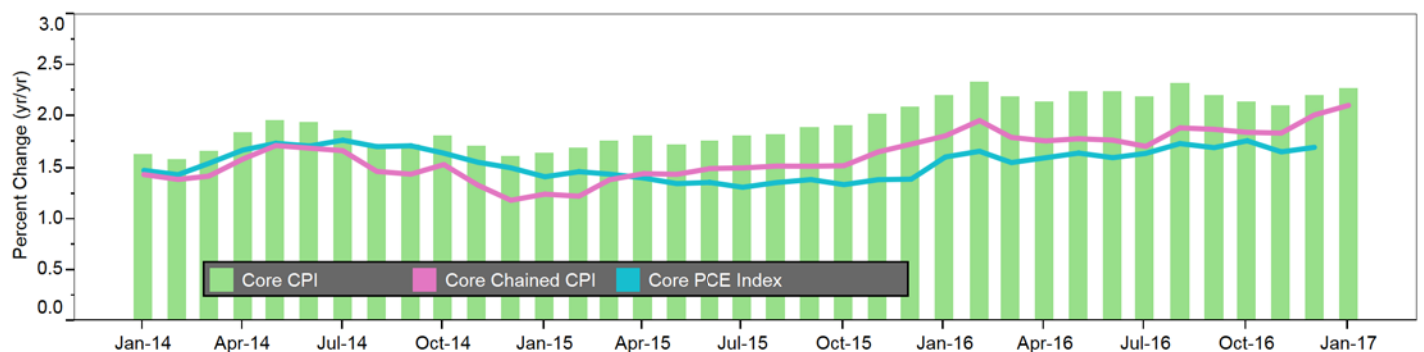
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices, as measured by the Consumer Price Index, continued to accelerate in January, reaching its highest rate in almost five years. Meanwhile, the core CPI, which excludes the volatile food and energy categories, also continued to rise in January. Data on the Personal Consumption Expenditure Price Index for January will be released on March 1st.

### Total Price Indices



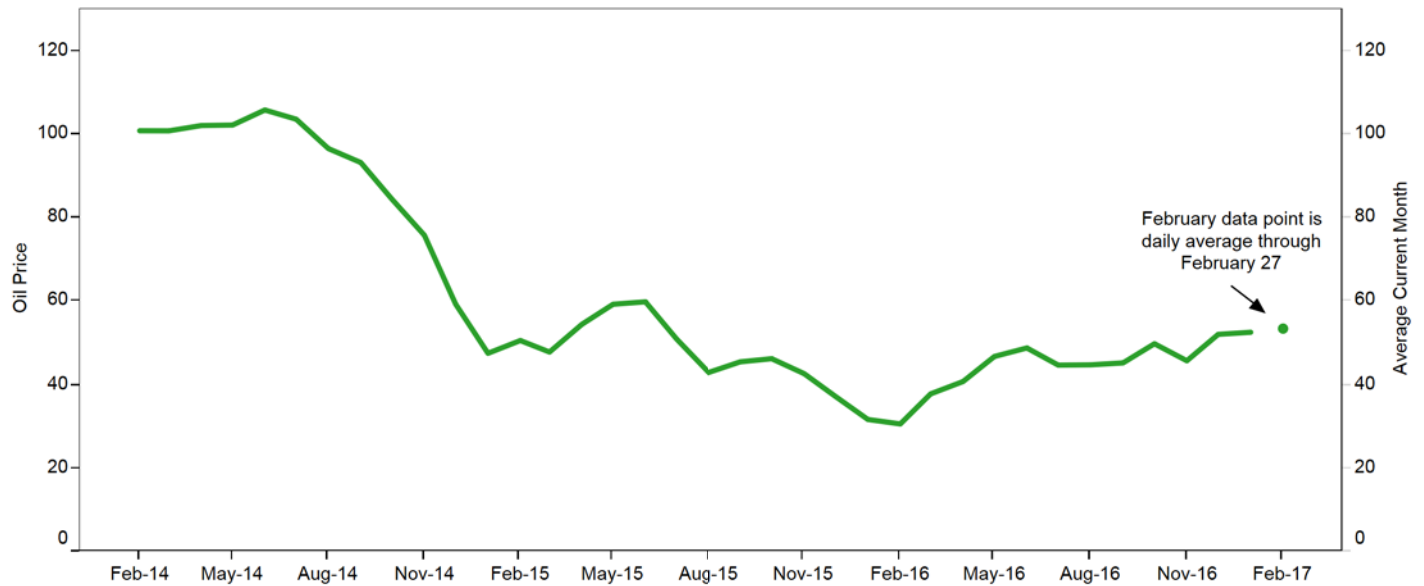
### Core Price Indices



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

Oil prices edged up on average in February, after holding relatively steady in January. Prices ticked up in the last few days of the month, registering \$54.1 per barrel on February 27th.

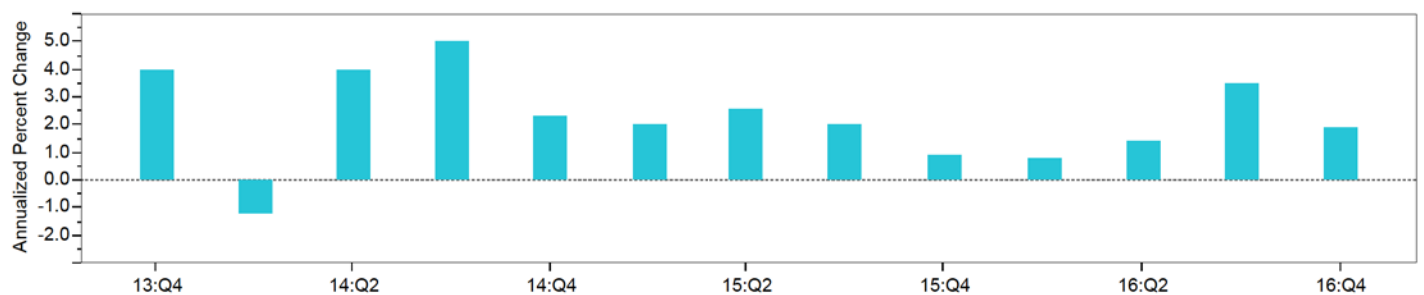
### Domestic Spot Oil Price



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

Fourth quarter real GDP growth was unrevised in the second estimate at 1.9%. The unrevised rate primarily reflected an upward revision to personal consumption expenditures that was offset by downward revisions to state and local government spending and to nonresidential fixed investment.

### Real GDP



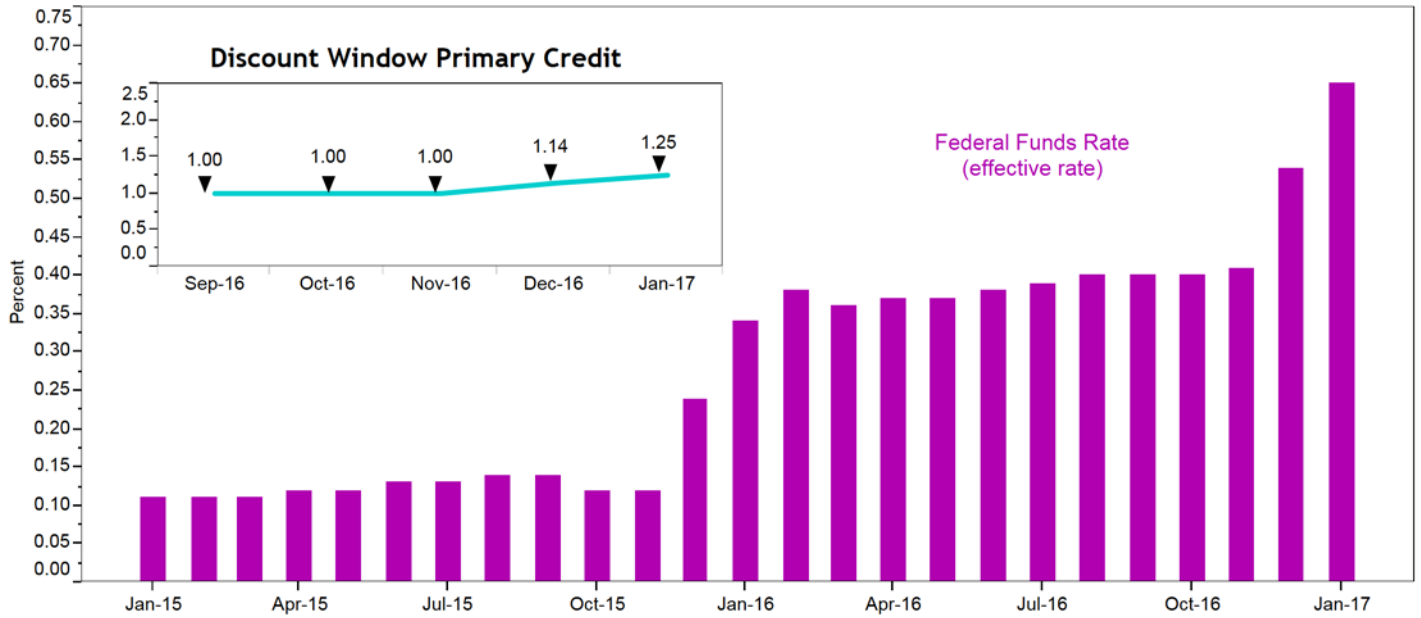
### Revisions to Fourth Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	1.9	1.9
Personal Consumption	2.5	3.0
Business Investment	2.4	1.3
Equipment and Software	3.1	1.9
Residential Investment	10.2	9.6
Government	1.2	0.4
Exports	-4.3	-4.0
Imports	8.3	8.5
Final Sales	0.9	0.9

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting show that economic growth in the fourth quarter was unrevised from its original estimate, and recent data suggest that the economy will continue to grow modestly in first quarter. Labor markets showed signs of continued strengthening, and consumer attitudes remain at a level consistent with further consumption growth. However, support from manufacturing has been mixed. Overall, 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.