



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

March 5, 2019

CURRENT ECONOMIC DEVELOPMENTS - March 5, 2019

Data released since your last Directors' meeting show growth in the fourth quarter was a bit stronger than previously anticipated, but also suggest growth has slowed in the first quarter. The labor market remains strong, incomes have increased further, and consumer attitudes rebounded with the resolution of the government shutdown. However, housing market data have been soft and manufacturing data slowed in January. Overall, given the solid fundamentals, growth is expected to pick up again in the second quarter.

Initial claims for unemployment insurance were little changed, on average, in February and remain at a level consistent with further improvement in the labor market. Employment data for February from the Bureau of Labor Statistics are due out on Friday morning, and markets are anticipating another solid gain in employment of close to 200,000 with the unemployment rate edging down to 3.9 percent.

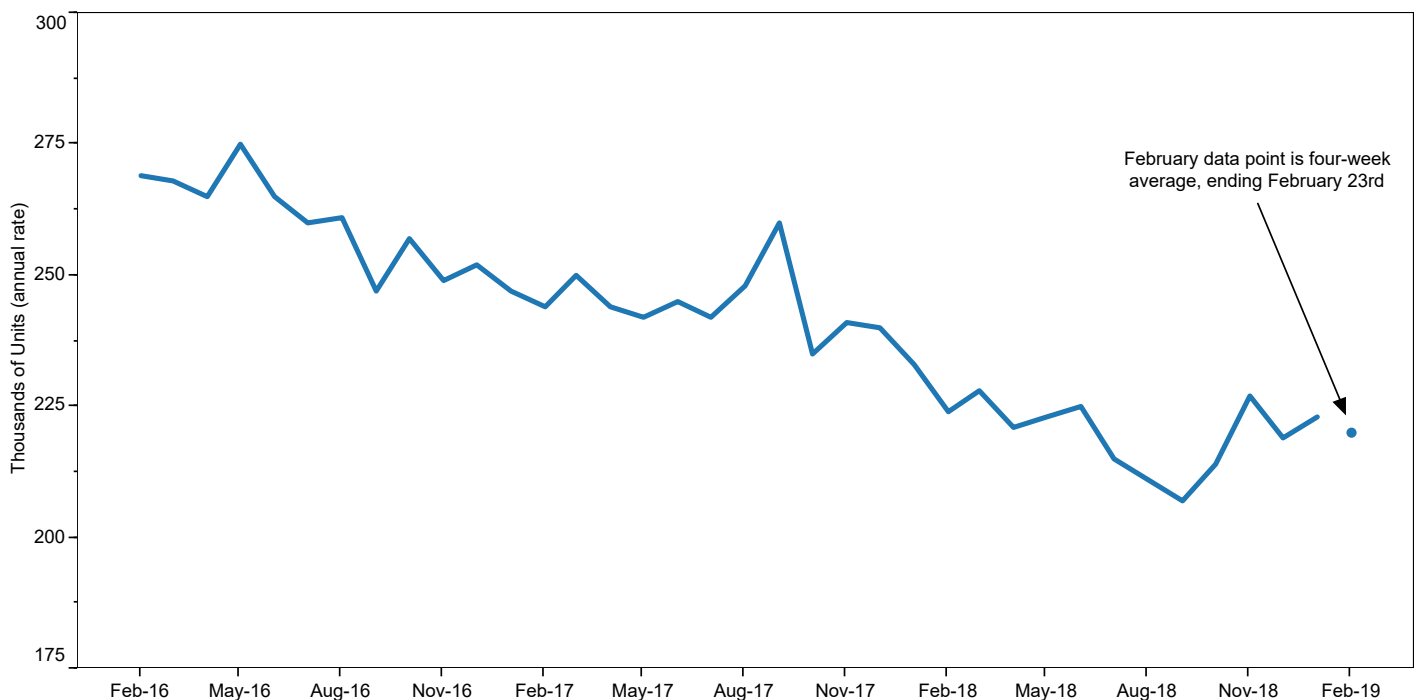
Consumer attitudes rebounded in February, and generally remain elevated by historical standards. Consumption fell sharply in December - despite another increase in incomes - but is expected to pick up again in the coming months. Vehicle sales slowed a bit further in February, due to a combination of affordability concerns and poor weather. Primary measures of real estate activity were largely soft in recent months. New home sales rose in December, but average sales for the fourth quarter were the lowest in over a year. Existing home sales fell to a three-year low in January. Also, single-family housing starts and building permits both decreased.

In the manufacturing sector, the ISM index fell in February to erase the increase seen in January. Industrial production fell in January for the first time in eight months, and capacity utilization in manufacturing also fell. Looking further back, total orders for durable goods rose again in December, yet core orders fell further. Growth in both measures slowed on a year-over-year basis.

Inflation measures remain muted. The total CPI slowed further in January, due primarily to lower energy prices, while growth in the core CPI held steady. As measured by the PCE price indices, inflation was little changed in December from November. Lastly, oil prices increased a bit more in February, but remain below the levels seen through most of last year.

Initial claims for unemployment insurance have been volatile in recent weeks, likely due to a number of factors including weather, holidays, and the government shutdown. Still, claims remain low by historical standards and continue to be at a level consistent with a strong labor market.

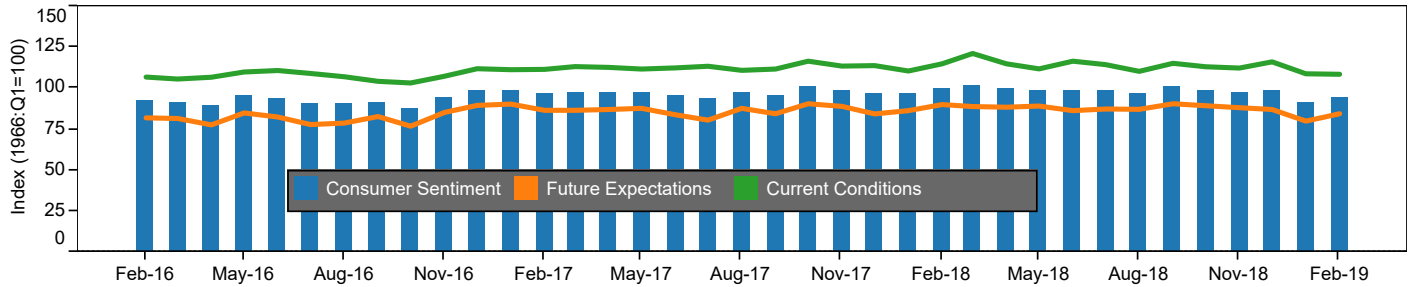
Initial Claims



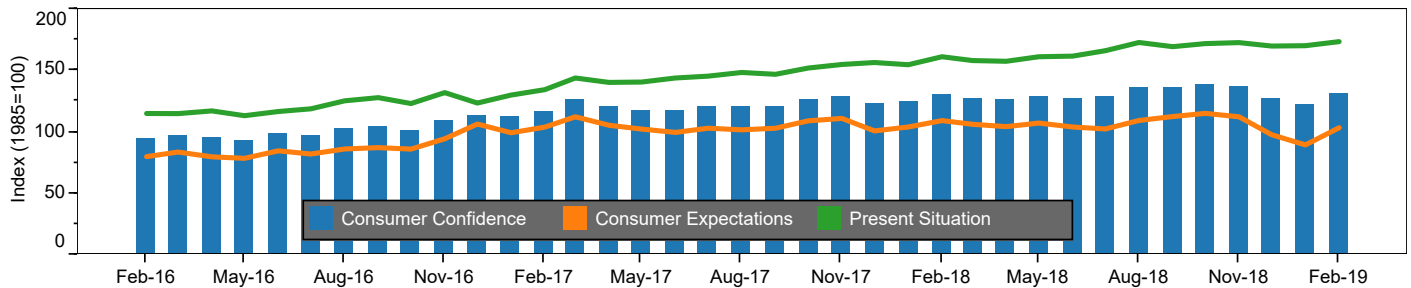
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes rebounded in February, after falling in January amid concerns about the government shutdown. The February improvement was due mostly to higher expectations, as the Michigan current conditions index edged down slightly and the Conference Board present situation index posted a small gain. Overall consumers expect the economy to continue to grow, but that optimism isn't as strong as it was in recent months.

Consumer Sentiment and Expectations



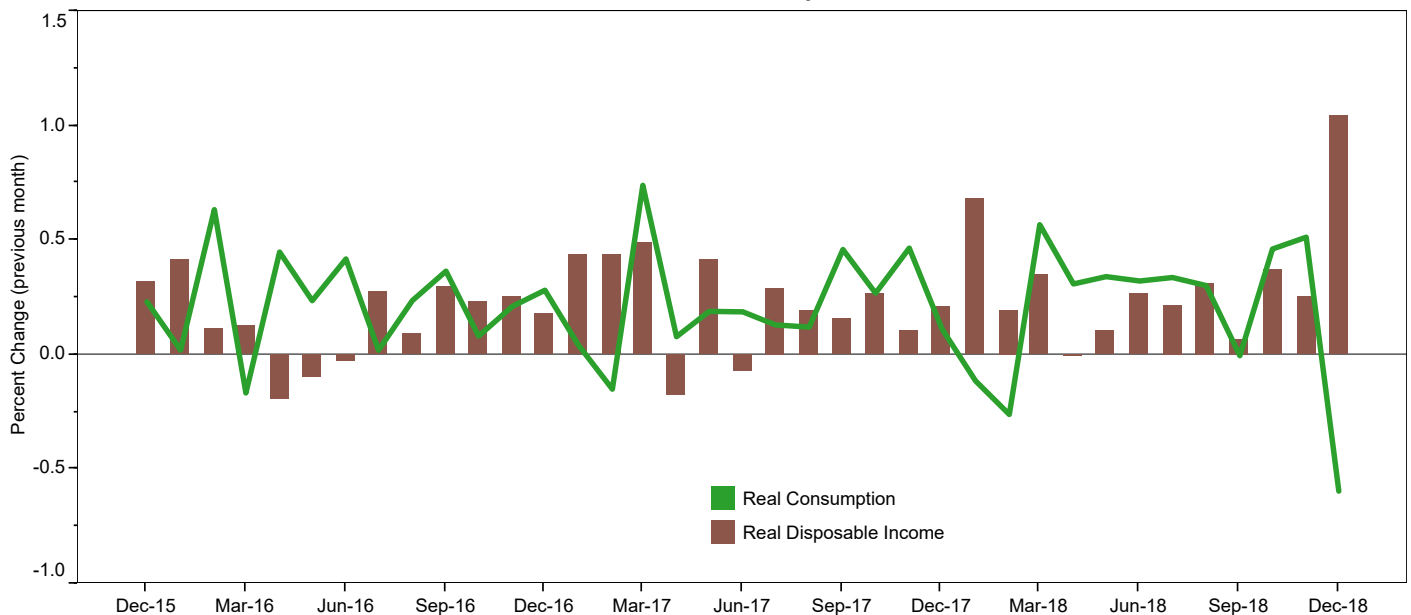
Consumer Confidence and Expectations



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

Real incomes jumped in December, due largely to special factors (a one-time dividend payment from VMware Incorporated and subsidy payments to farmers hurt by Chinese tariffs), continuing the recent pattern of income gains. However, real consumption fell sharply in December for its steepest drop since 2009. Given the consistent income growth and improved consumer mood, though, spending is expected to rebound in the coming months.

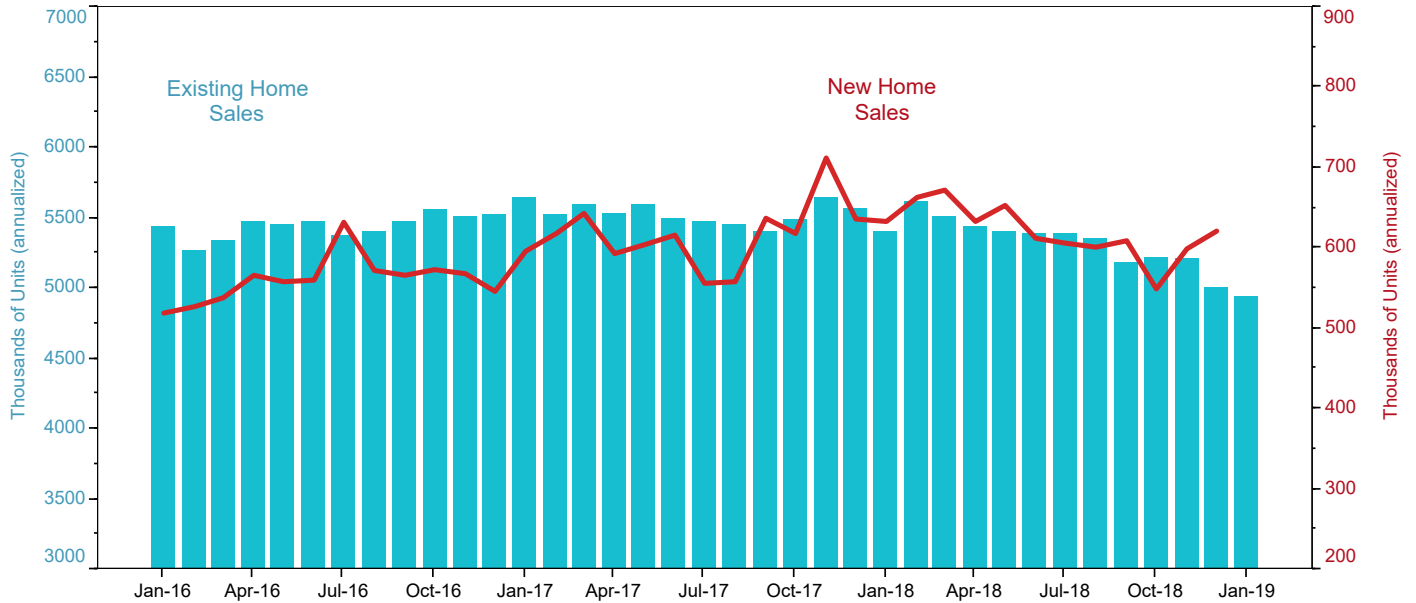
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Existing home sales fell further in January, dropping to their lowest level in over three years. The Northeast was the only region to show a sales increase in January. Conversely, new home sales rose again in December, although sales were revised downward for previous months. New home sales data for January will be released next week.

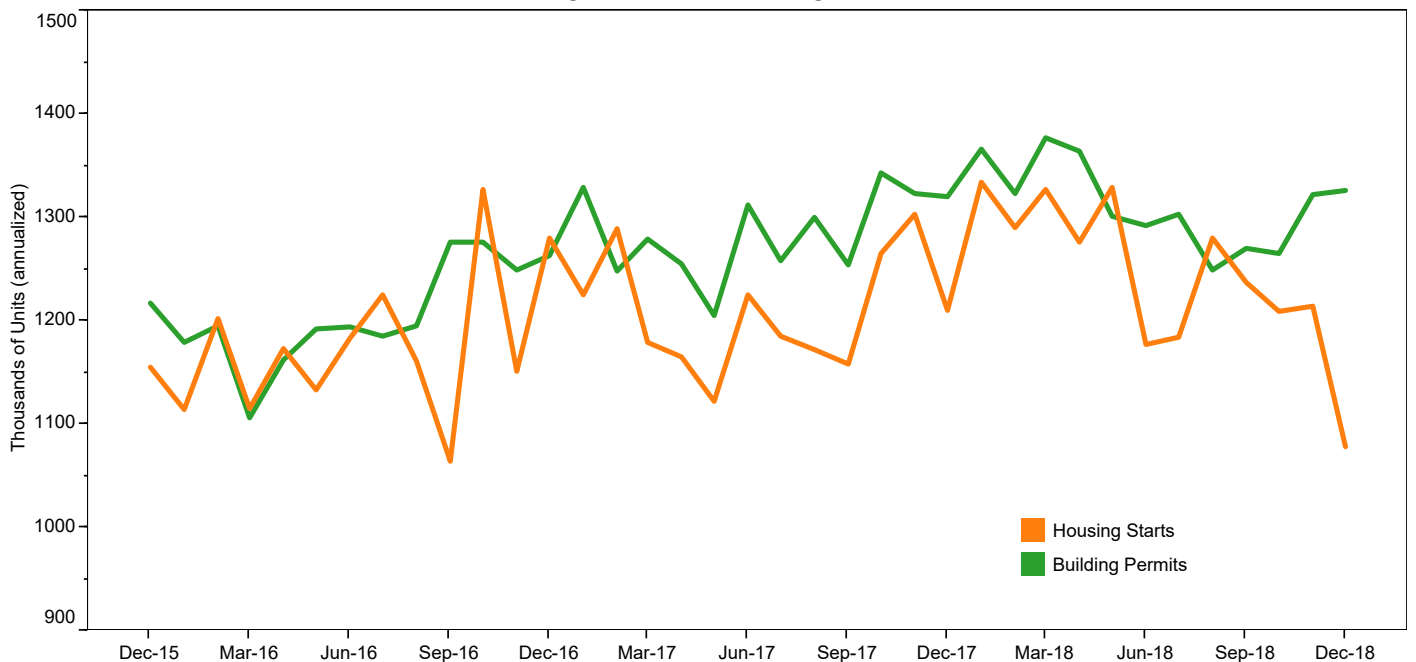
New and Existing Home Sales



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

New residential construction data were soft in December. Housing starts fell sharply to their lowest level in over two years, with both single- and multi-family starts falling. Total permits managed a small increase, as a gain in multi-family activity more than offset a decline in single-family permits. Single-family permits have fallen for three consecutive quarters, suggesting single-family starts are unlikely to rebound strongly in the coming months.

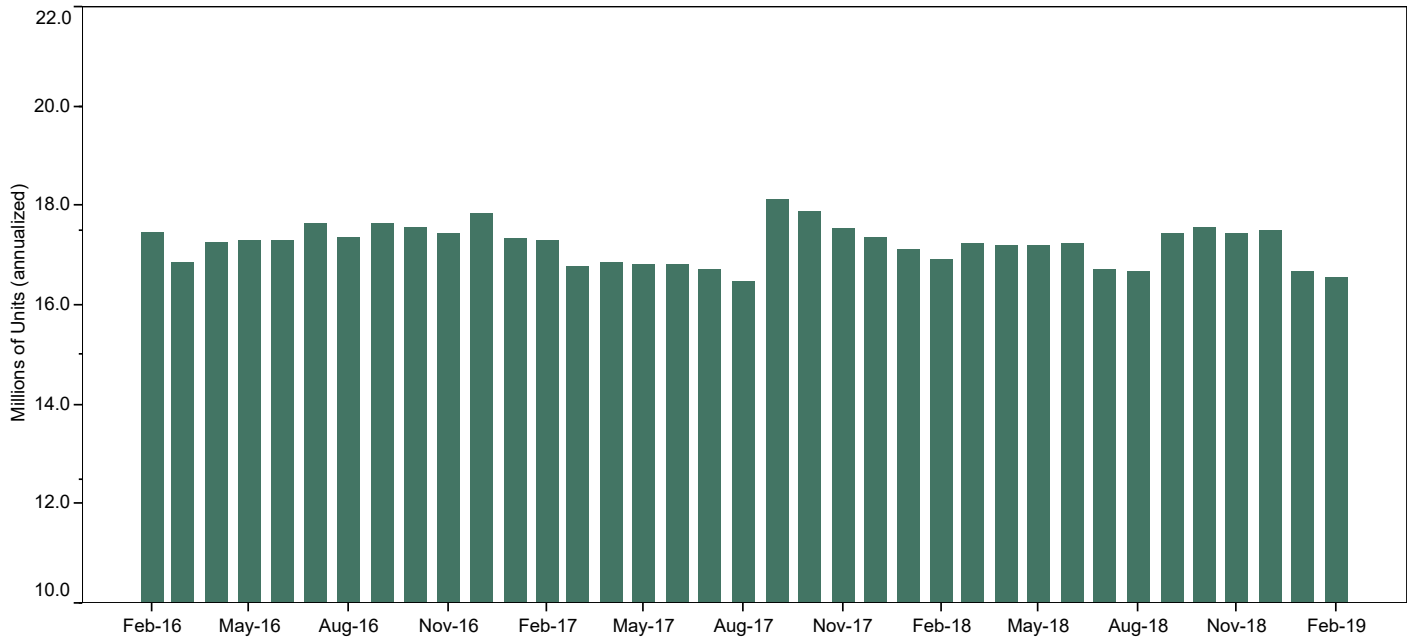
Housing Starts and Building Permits



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

Lightweight vehicle sales slowed a bit more in February, falling to their slowest sales rate since August 2017. Multiple reasons were cited for the slower sales, including higher prices, higher interest rates, delayed tax refunds, and bad weather. Continuing the recent trends, light duty truck sales rose in February while auto sales fell further to their lowest level in over nine years.

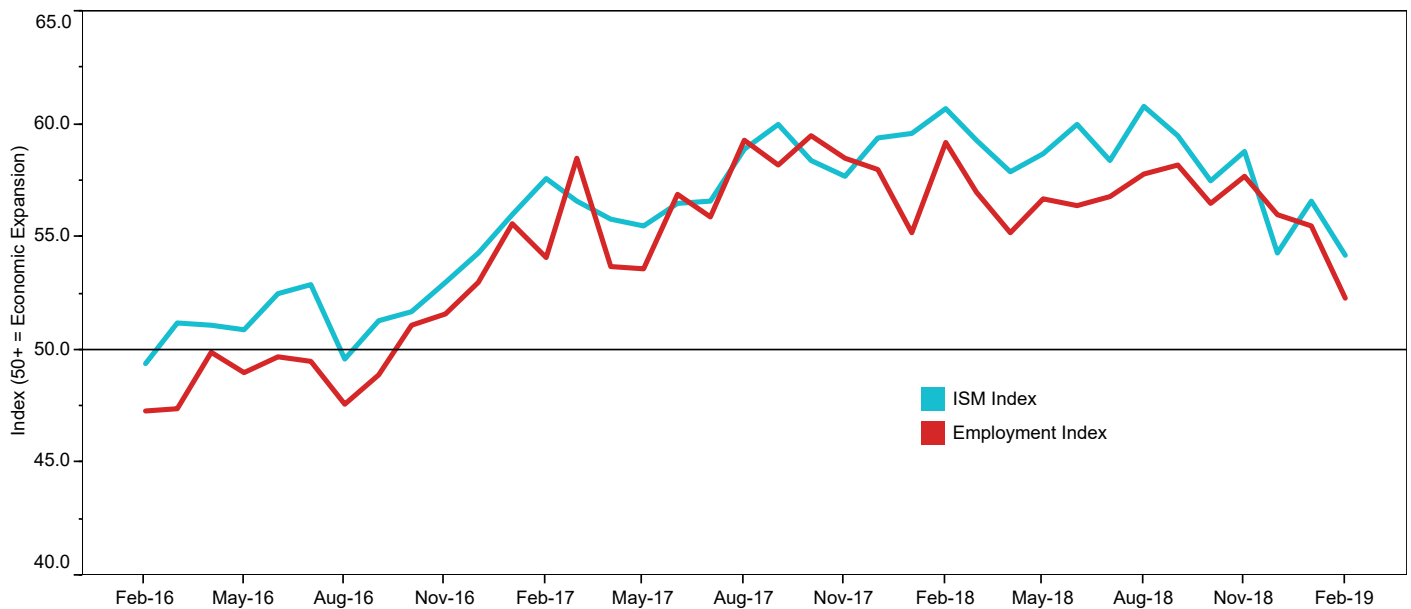
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index fell in February, giving back the increase recorded in January. Still, the index remained above 50 to continue to signal expansion of manufacturing activity. The employment component of the index fell sharply in February, reaching its lowest level in over two years.

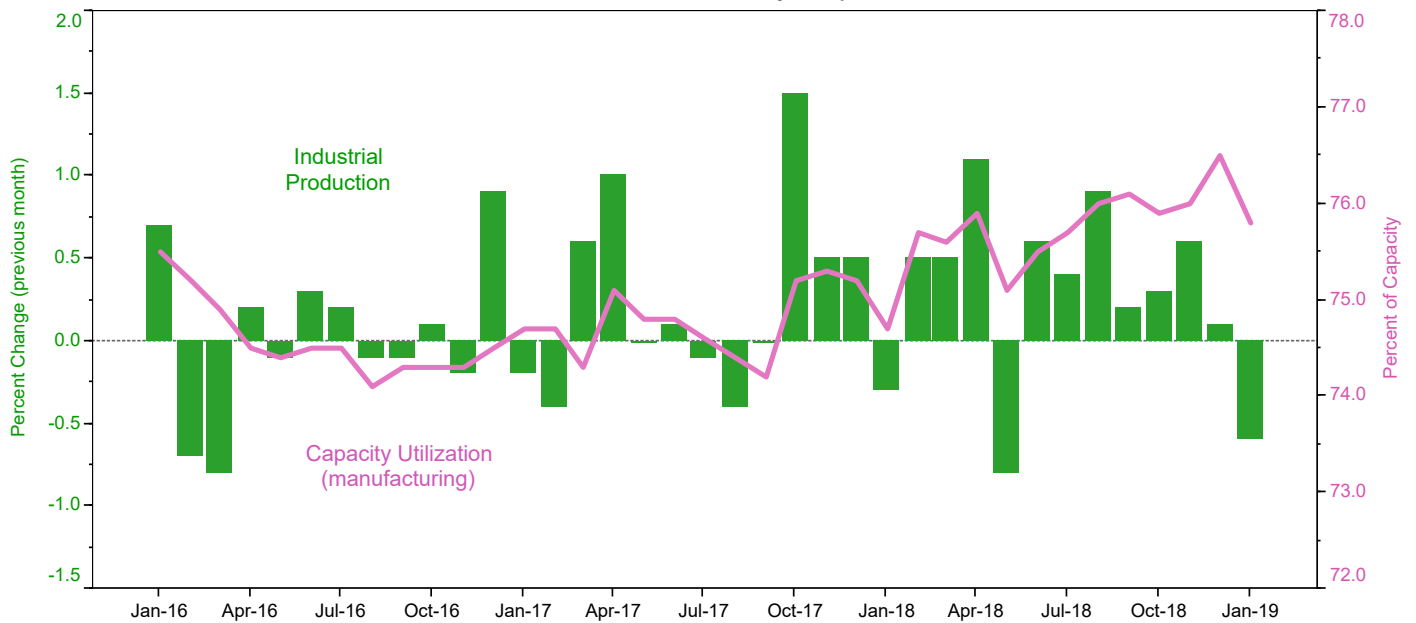
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in January, after rising in each of the previous seven months. The decrease in January was due to a sharp drop in manufacturing production, which erased the strong gain in December and offset small gains in both utilities and mining production. Capacity utilization in manufacturing fell in January to a six-month low.

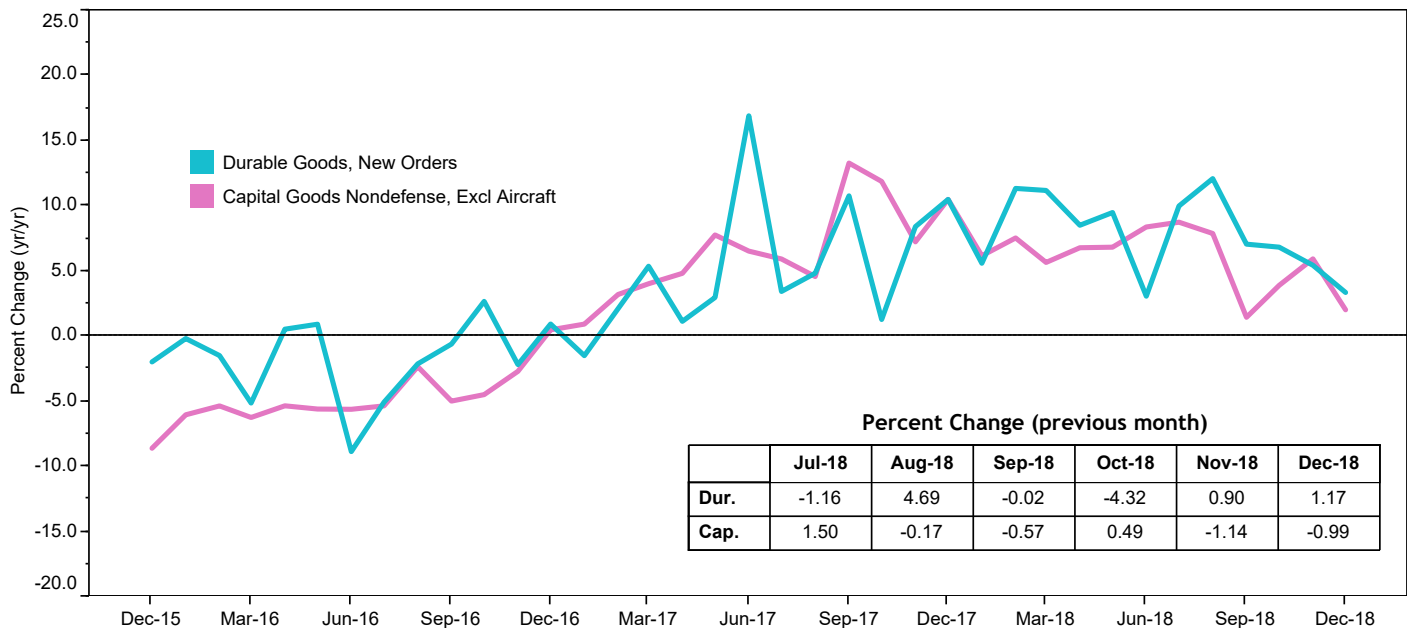
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose again in December, but orders of nondefense capital goods, excluding aircraft, remained weak, falling for the fourth time in five months. Both total and core orders continued to increase from their year-ago levels in December, albeit at slower rates than seen in November.

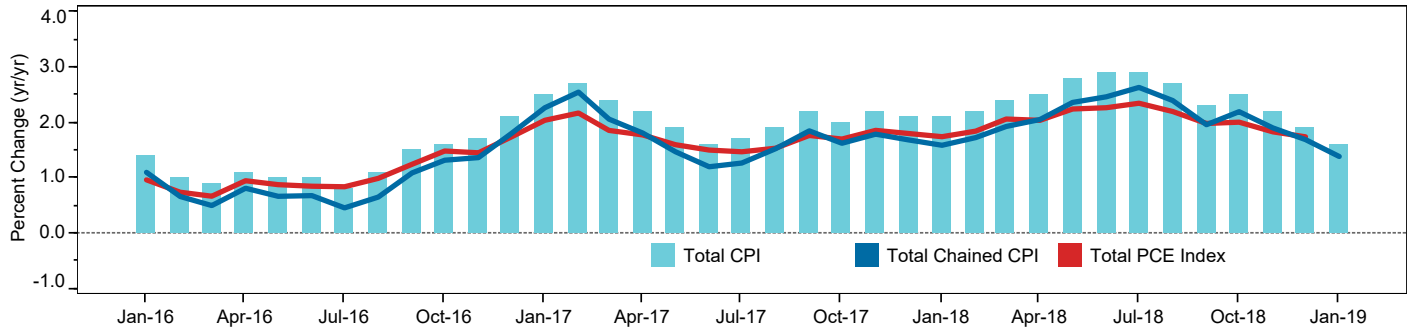
Durable Goods Orders



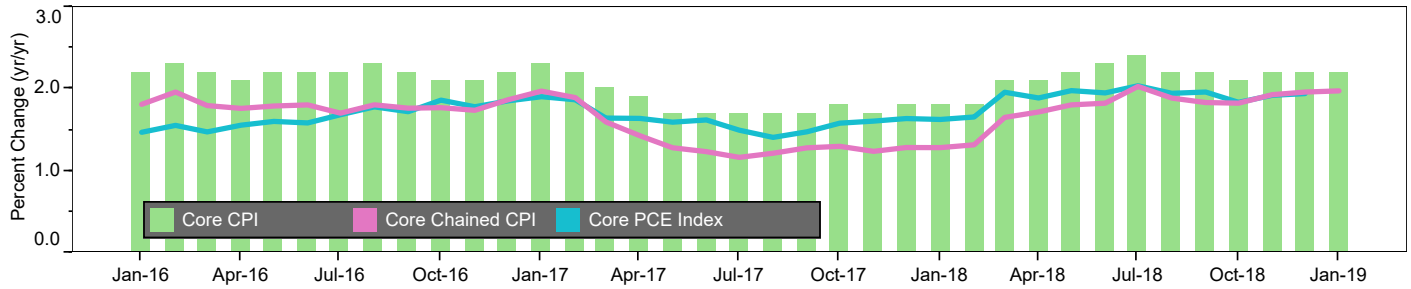
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices as measured by the CPI slowed further in January, due primarily to lower energy prices. Core inflation, which excludes both food and energy prices, was essentially unchanged in January. PCE inflation data, which are one month behind due to the government shutdown, were little changed in December from the growth rates seen in November.

Total Price Indices



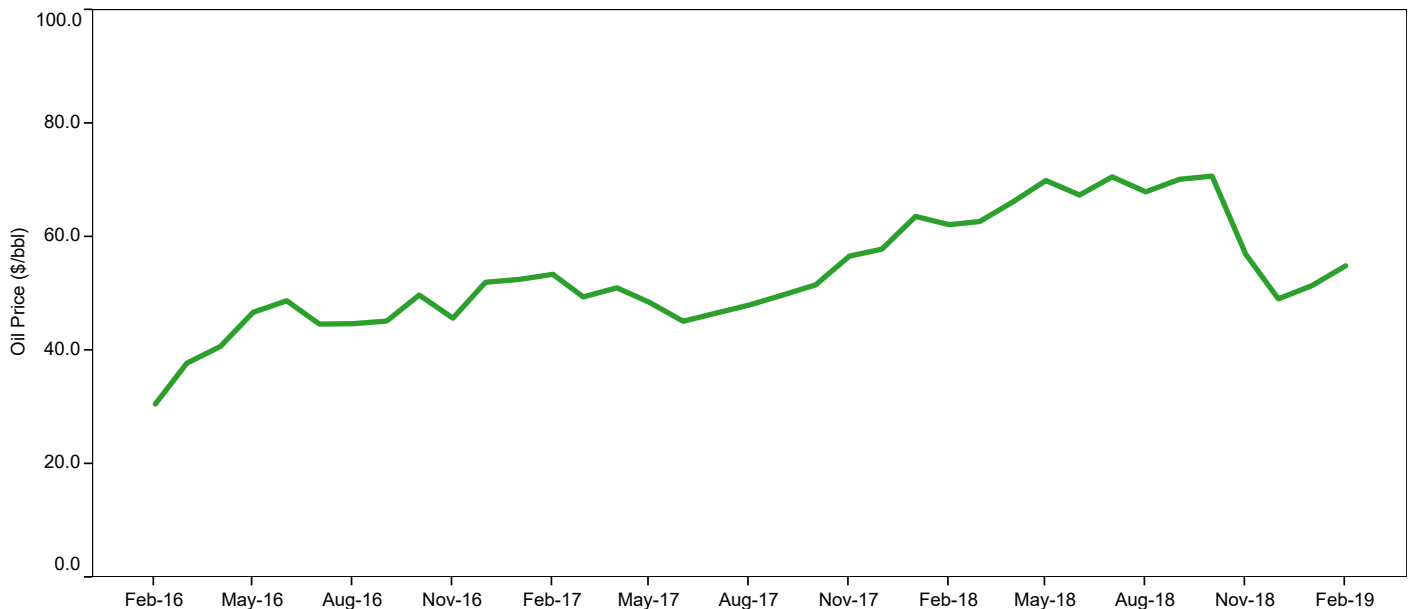
Core Price Indices



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

Oil prices rose a bit further in February, but still remain below the levels seen throughout most of 2018. Oil closed at \$56.59 per barrel on March 4th.

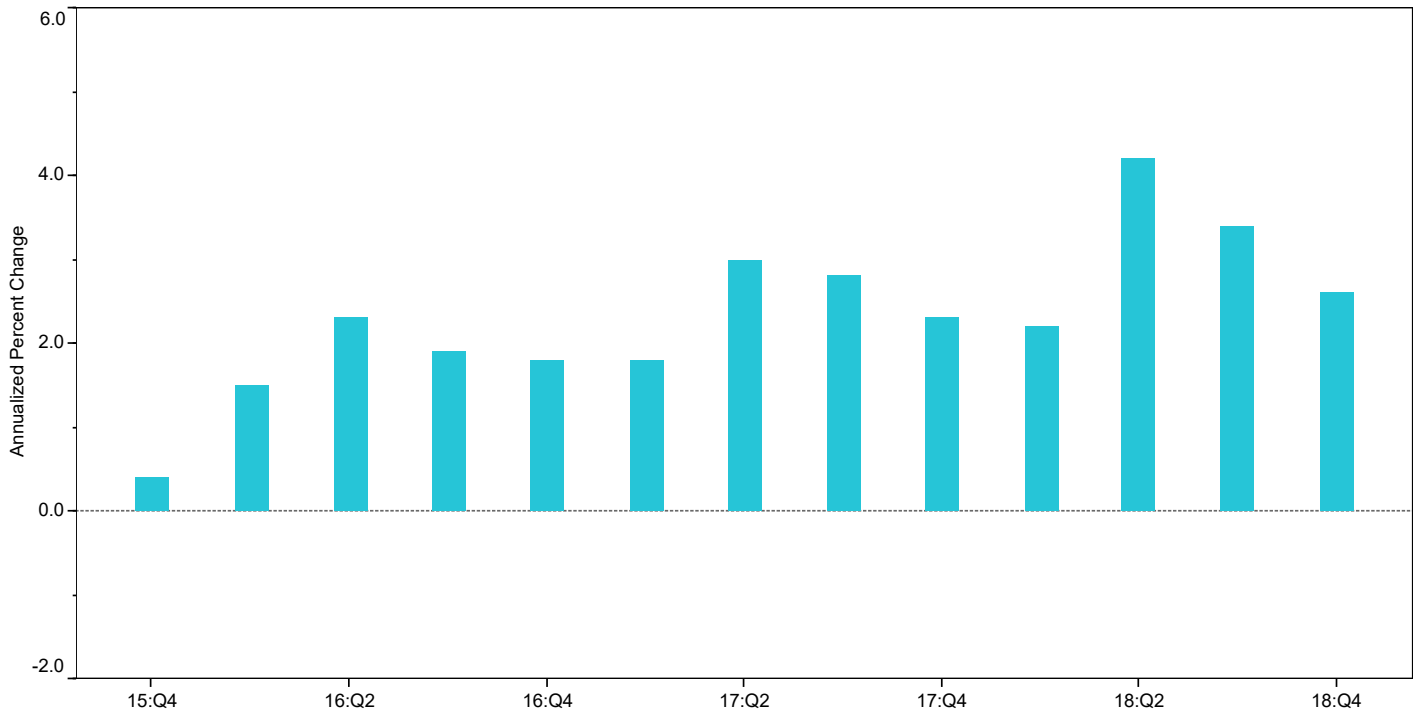
Domestic Spot Oil Price



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

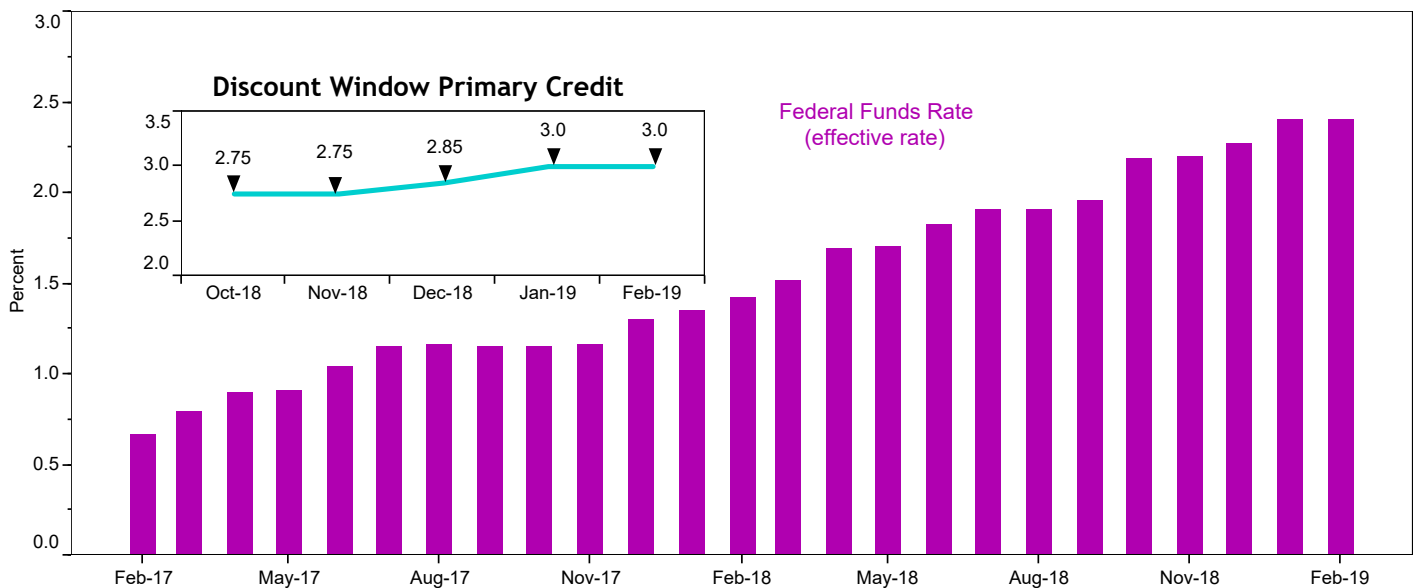
Real GDP grew 2.6 percent in the fourth quarter, according to the shutdown-delayed initial estimate. The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, exports, private inventory investment, and federal government spending. Those were partly offset by negative contributions from residential fixed investment, state and local government spending, and an increase in imports.

Real GDP



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Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by David Brown.