



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

March 9, 2021

CURRENT ECONOMIC DEVELOPMENTS - March 9, 2021

Data released since your last Director's meeting point to increased activity in the first quarter as case counts decrease, vaccine distribution broadens, and states ease coronavirus-related restrictions. These improvements follow fourth quarter growth that was revised up slightly to 4.1% according to the second estimate. The recovery is expected to accelerate as additional stimulus funds are distributed and public health conditions continue to improve, resulting in strong growth through the second and third quarters.

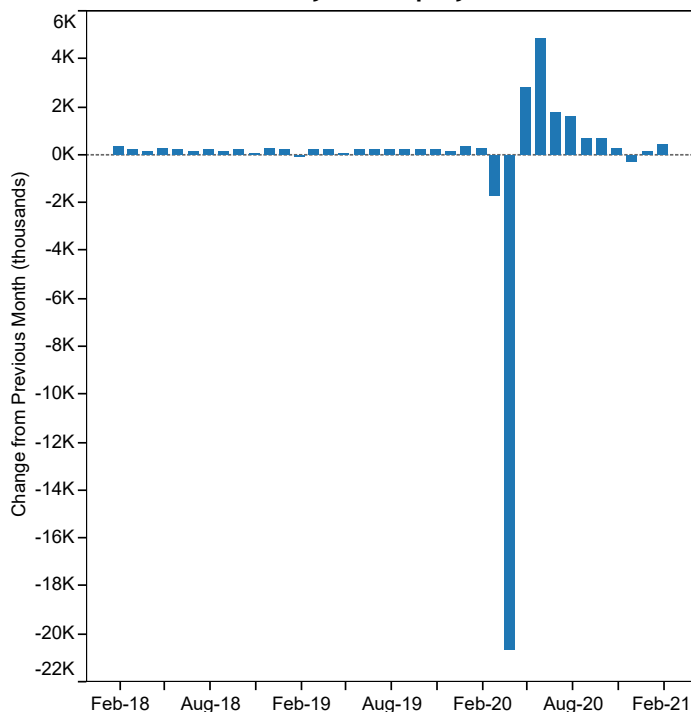
Nonfarm payrolls rose by 379,000 jobs in February and the unemployment rate fell one-tenth to 6.2%. The four-week moving average for initial claims for unemployment insurance fell to a three-month low despite rising a bit in the latest week. Consumer attitudes were mixed, with sentiment falling and confidence rising, yet both remain depressed. Retail sales surged 5.3% in January supported by stimulus payments, yet vehicles sales fell in February due to cold weather and inventory issues. Real disposable incomes surged 11% in January, another beneficiary of recent stimulus funds. Real consumption rose by less than expected however, as consumers chose to save some of their increased income. Still, PCE is likely to accelerate in upcoming months.

Housing market data remained near historic levels as sales of both new and existing homes ticked up in January. Housing permits rose in January, reaching their highest level in almost 15 years, though housing starts cooled a bit from a 14-year high in January. Industrial production and capacity utilization in manufacturing both increased further in January and have nearly regained their pre-pandemic levels. The ISM activity indices and regional manufacturing surveys all continued to signal expansion in February. Total and core orders for durable goods continued to post year-over-year gains in January and both increased on a monthly basis.

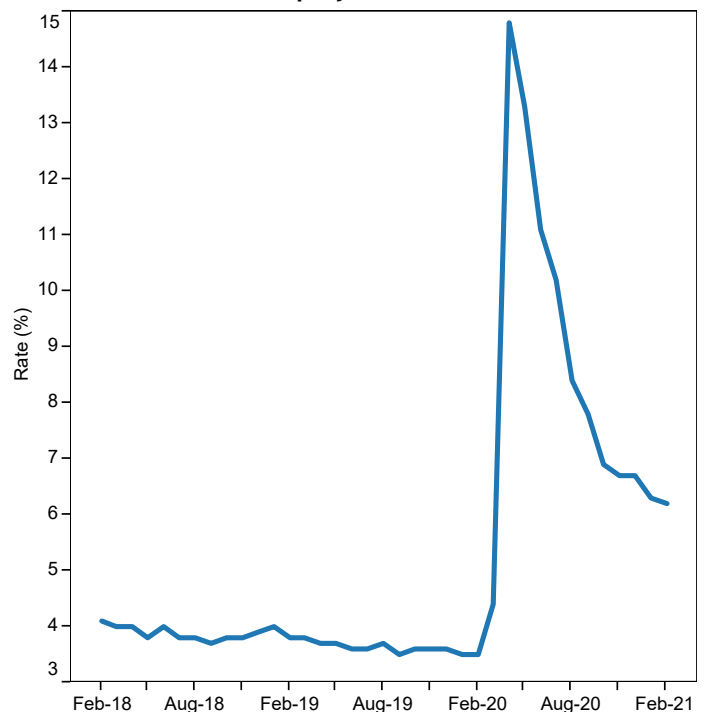
Annual inflation rates were mixed in January but overall little changed, remaining below the 2.0% objective. February data for the Consumer Price Index are due to be released on March 10th. Oil prices continued their recovery since the lows seen last spring. In recent daily data, prices have risen above \$60 dollars per barrel for the time since May 2019.

Nonfarm payroll employment exceeded expectations in February, rising by 379,000 jobs. The gain was seen primarily in leisure and hospitality as covid-related restrictions are loosening in many regions. Despite the positive report, payrolls are still 9.5 million jobs below their pre-pandemic levels. The unemployment rate in February declined to 6.2% from 6.3% in January.

Nonfarm Payroll Employment

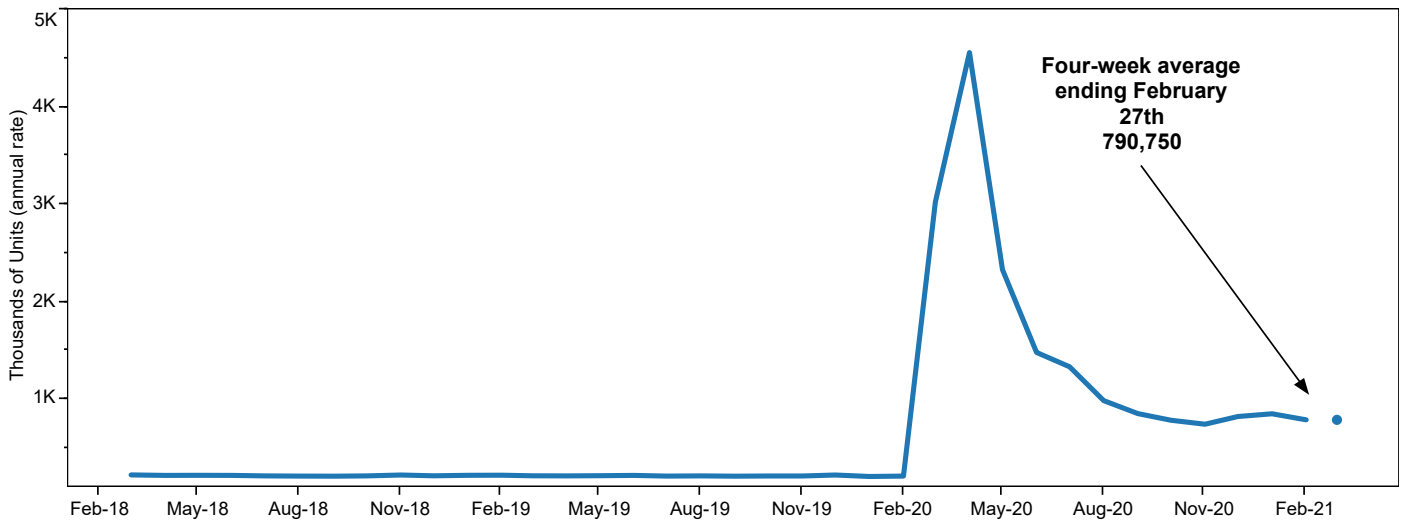


Unemployment Rate



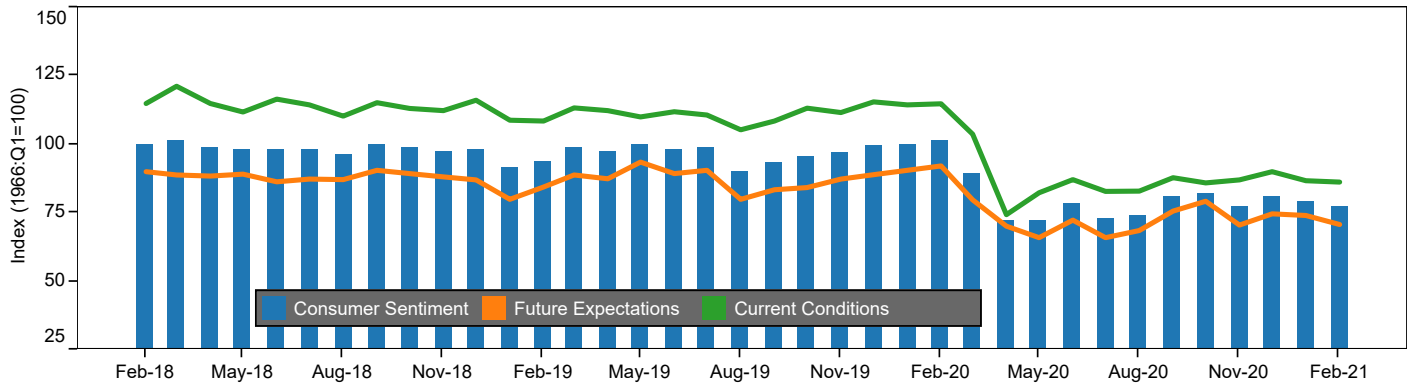
Initial claims for unemployment insurance rose a bit in the week ending February 27th, while the 4-week moving average fell to a 3-month low. Still, claims remain at historically high levels.

Initial Claims

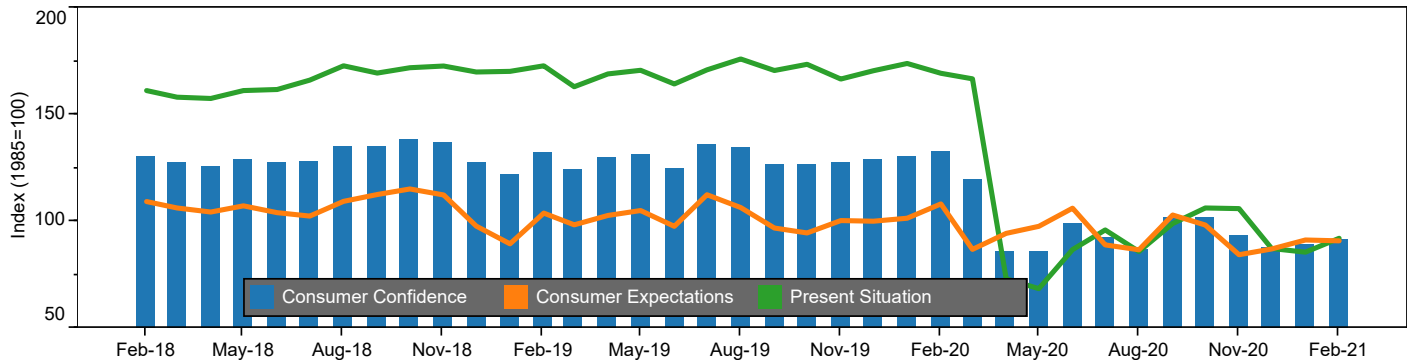


Consumer sentiment fell to 76.8 in February from 79.0 in January. The expectations index fell half of a point in February from January while the current conditions index fell 3.3 points in February. Consumer confidence registered 91.3 in February data, up from January's reading of 88.9. The present situation index climbed from 85.5 to 92.0, while the expectations index dipped a bit from 91.2 to 90.8. Despite improving health and economic conditions, attitudes remain far below their pre-pandemic levels.

Consumer Sentiment and Expectations

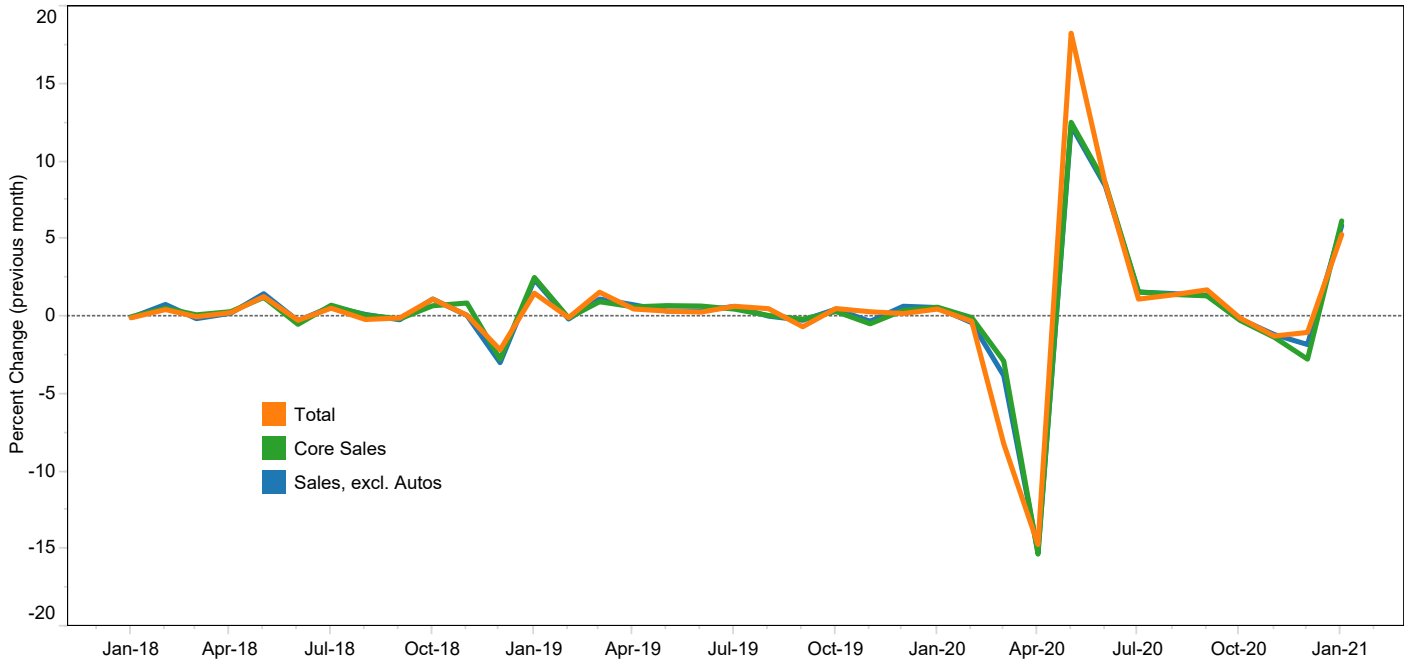


Consumer Confidence and Expectations



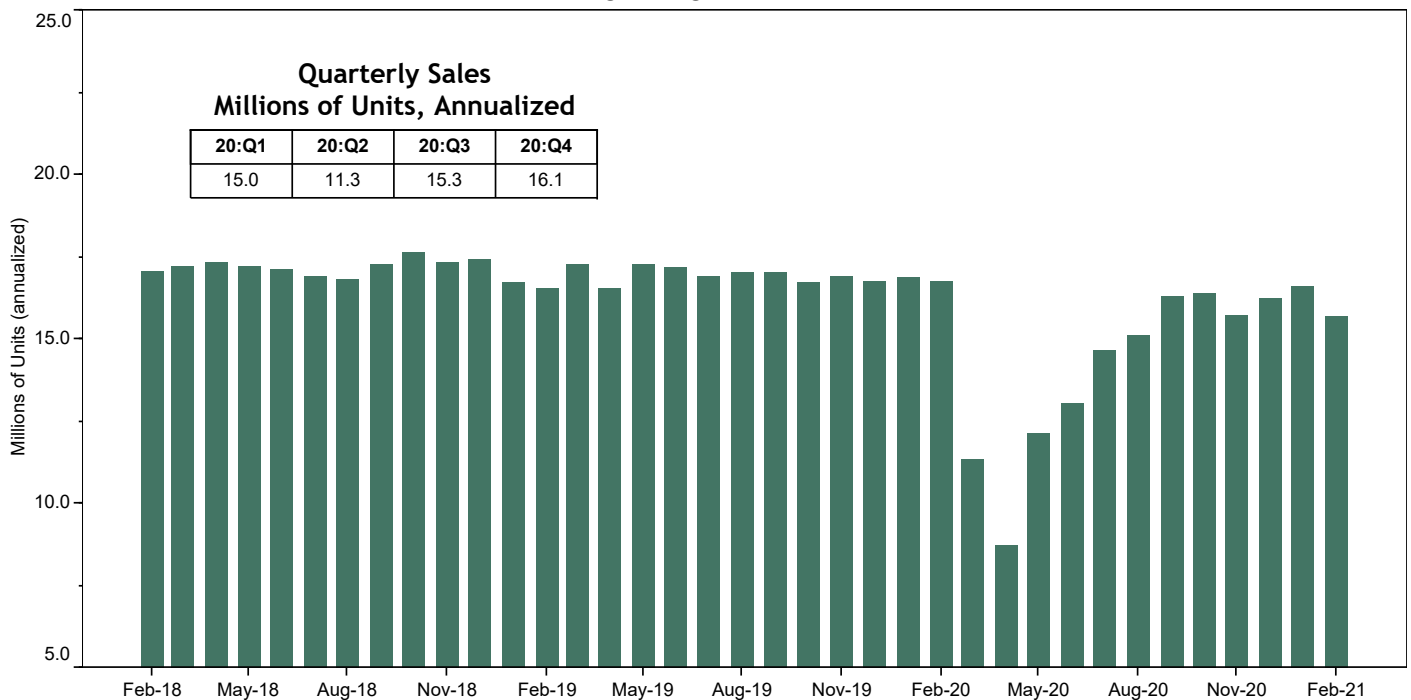
Retail sales surged 5.3% in January supported by stimulus income. Sales excluding autos and core sales also posted large gains consistent with the expectation of strong consumer spending in the first quarter.

Retail Sales



Sales of lightweight vehicle slowed to a rate of 15.7 million units in February from 16.6 million units in January. Excluding the covid-related lows seen last year, the February sales pace was the slowest since February 2014. Weather patterns across the country and inventory issues due to a semi-conductor shortage likely impacted these estimates.

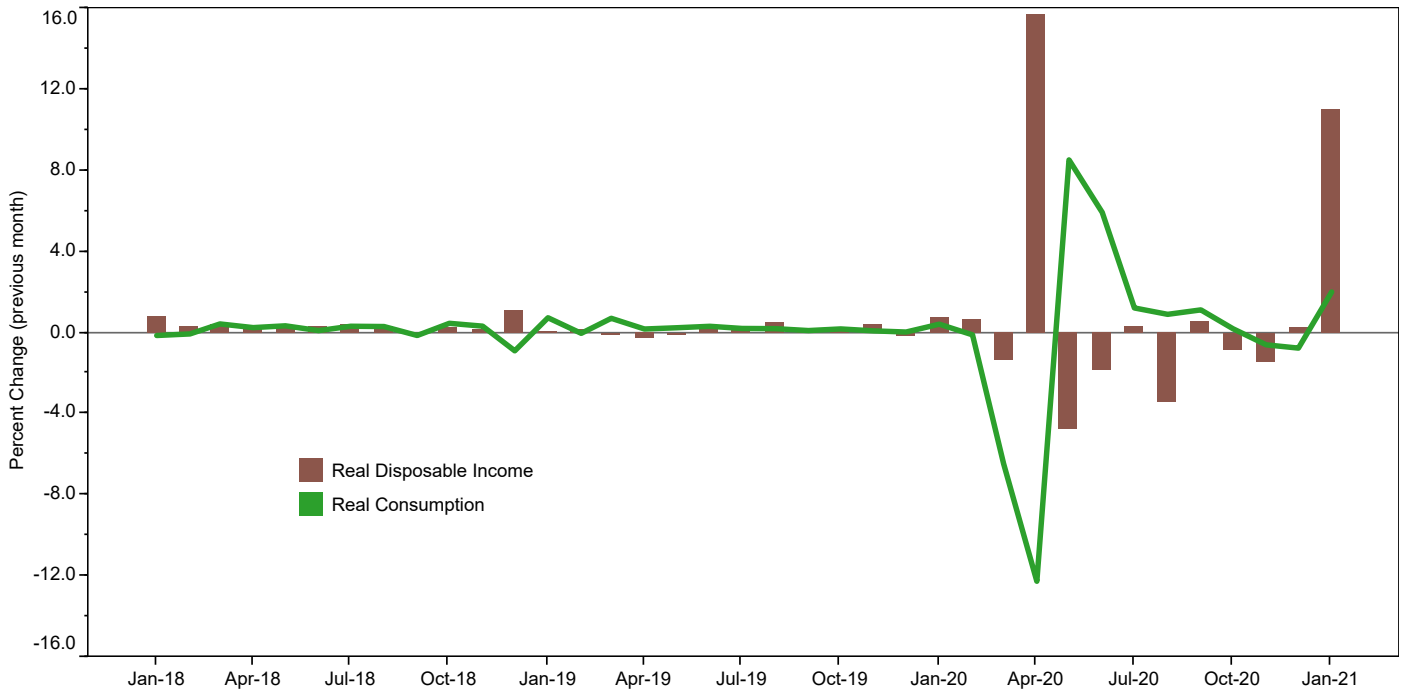
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

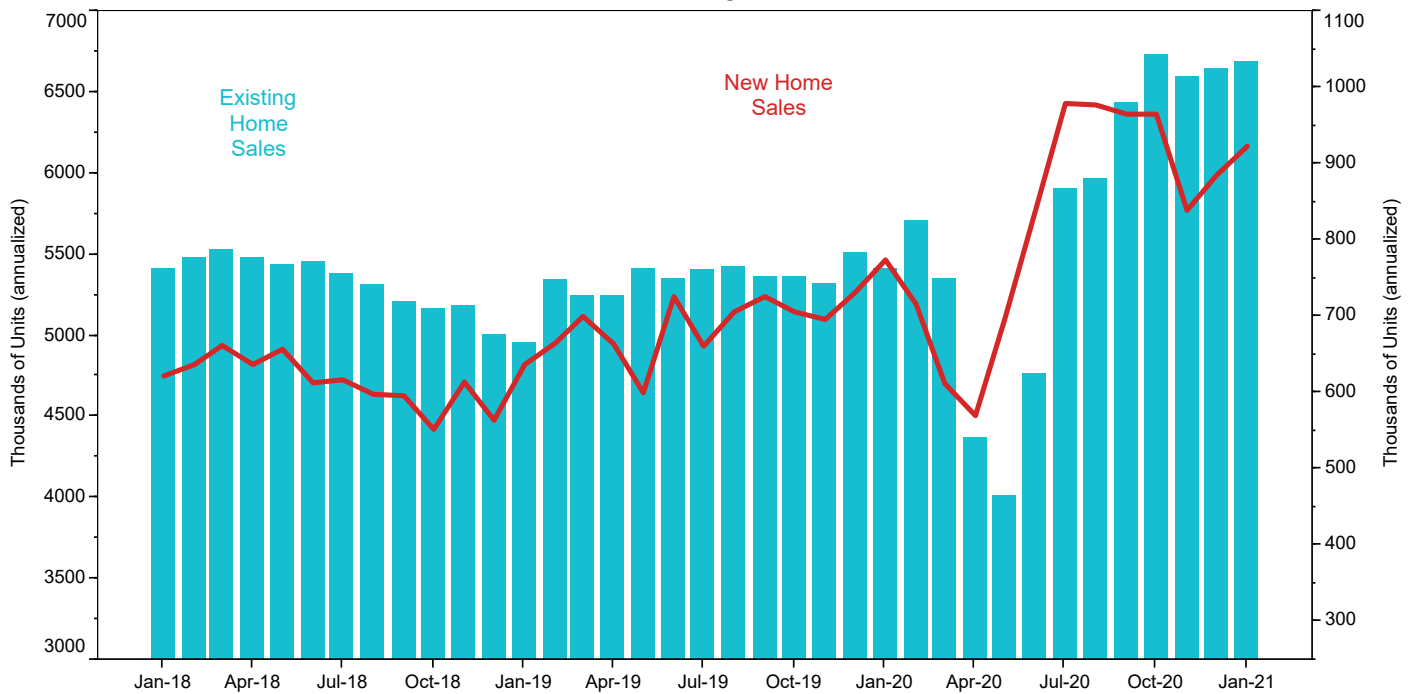
Real disposable income saw a stimulus-fueled surge in January, rising 11% from December. However, recipients chose to save much of the money, as real consumption increased only 2% in January. Still, with additional stimulus payments arriving after January, PCE is likely to accelerate through most of 2021.

Real DPI and Consumption



Low mortgage rates continue to aid potential buyers as new home sales rose in January and December's pace was revised further upward. Sales of existing homes rose in January to the second highest reading in 14 years, despite increased prices from tightened supply. Regional sales were mixed - falling in the Northeast and West while rising in the South and Midwest.

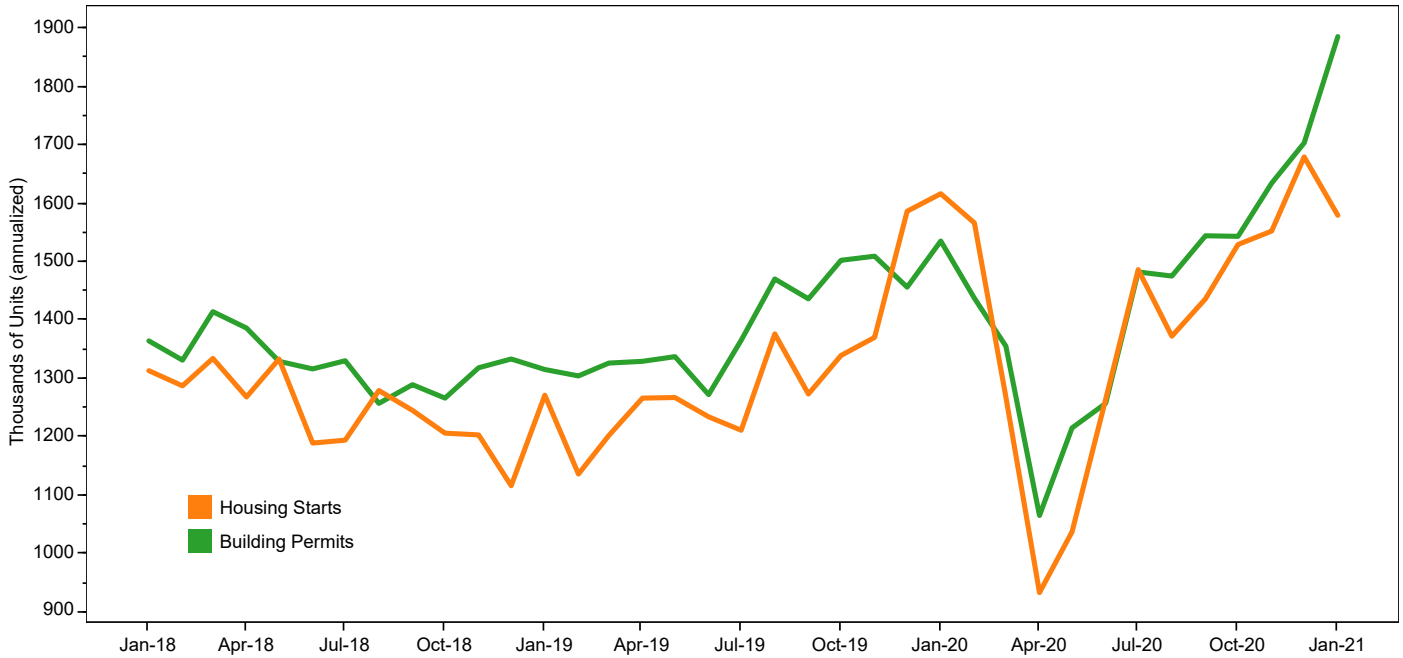
New and Existing Home Sales



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

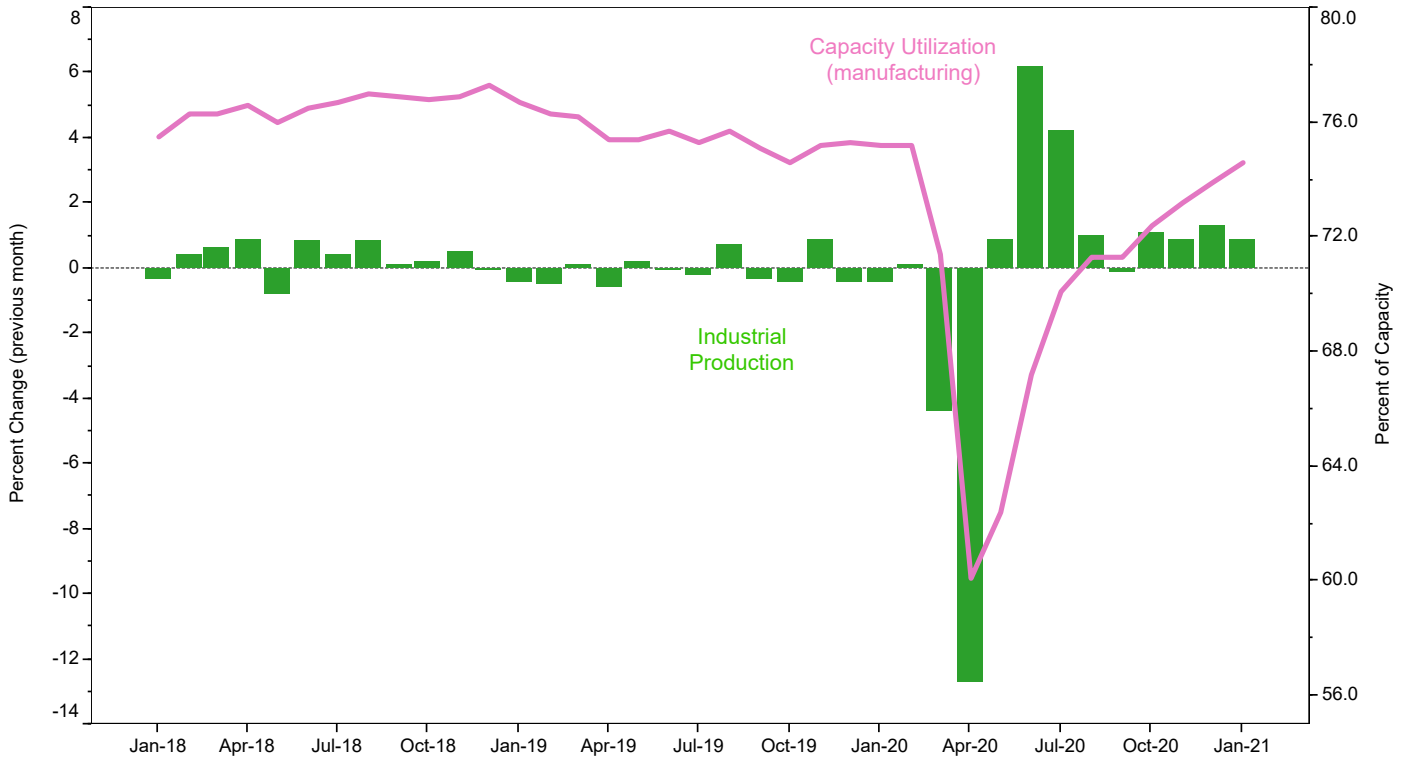
Housing starts fell in January from a 14-year high in December. Permits continued to rise led by the ninth consecutive monthly increase in single-family permits. Permits increased in all four regions, suggesting starts will increase as the weather improves.

Housing Starts and Building Permits



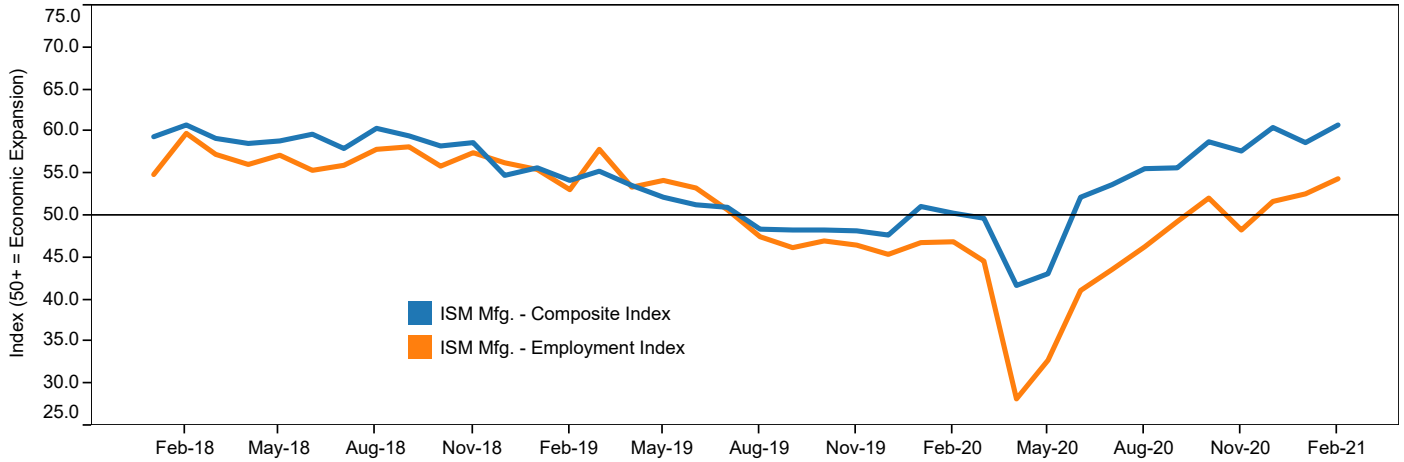
Industrial production increased 0.9% in January as manufacturing and mining output saw increases that more than offset a decline in output from utilities. The increase in production would have been even stronger but was held back by the semi-conductor shortage impacting vehicle production. Capacity utilization in manufacturing also continued to rise, registering 75.6% in January.

Industrial Production and Capacity Utilization

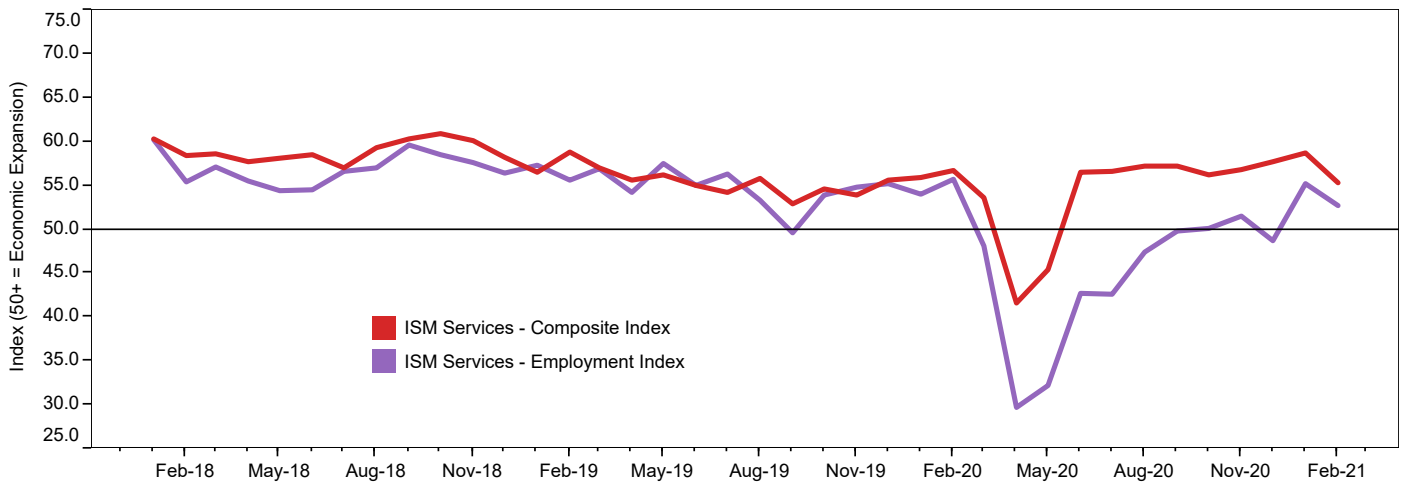


The ISM manufacturing index rose to a three-year high in February while the employment component also rose to a two-year high. The ISM services index fell in February from January's two-year high while the employment subindex also fell. Regional manufacturing surveys from the Federal Reserve all signaled expansion. The New York and Kansas City Fed Survey both posted gains while the Philadelphia index registered a decline.

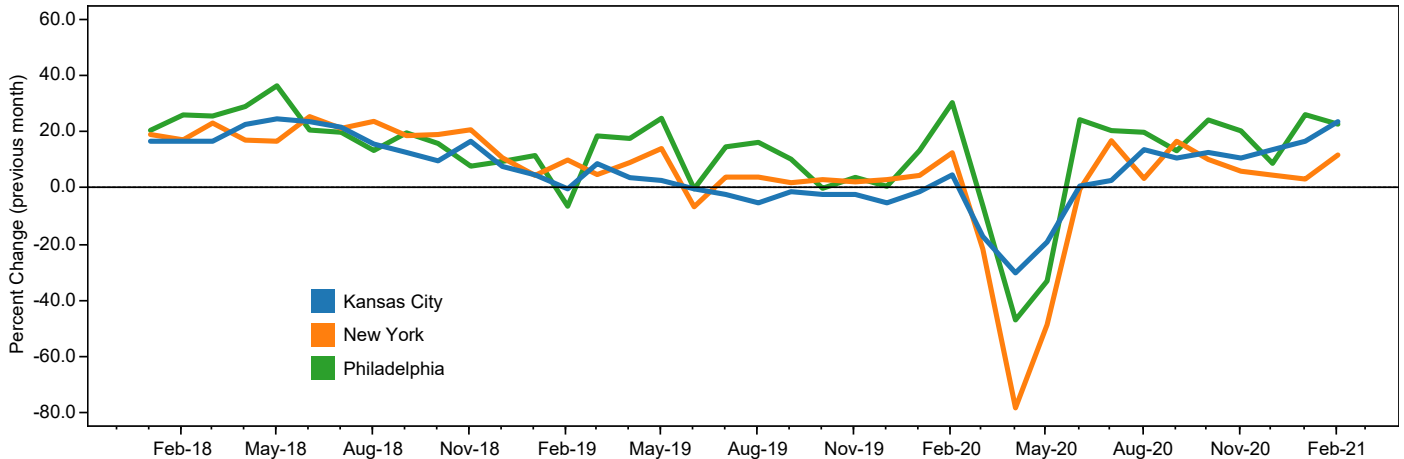
ISM Manufacturing Indices



ISM Services Indices



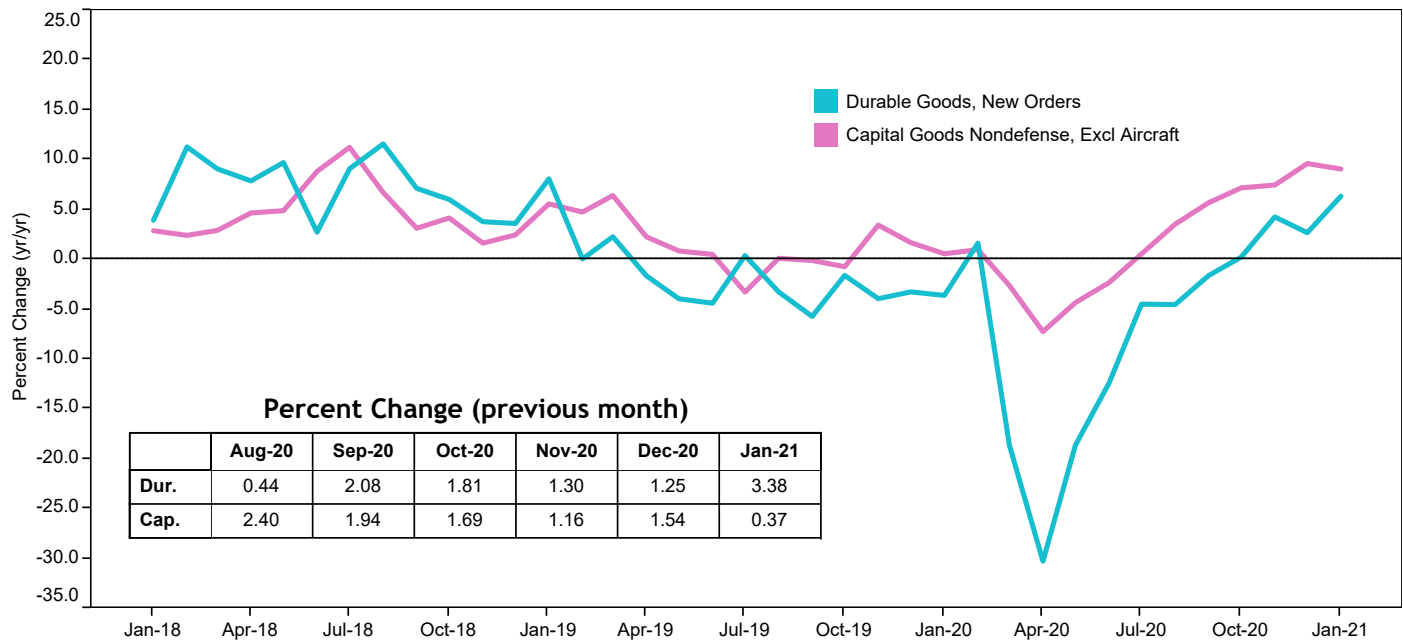
Regional FRB Manufacturing Surveys



Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

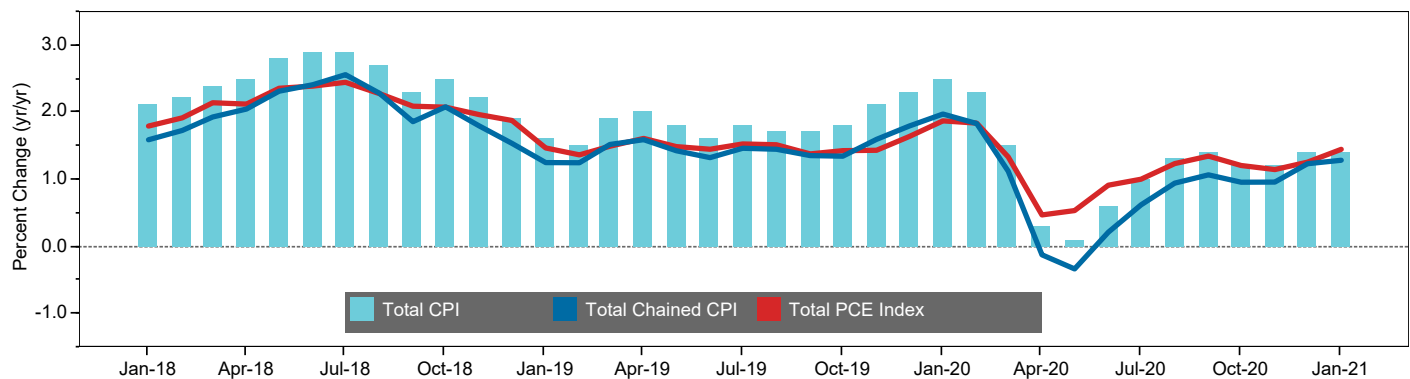
Orders for durable goods rose in January while marking the fourth consecutive month of year-over-year gains. The increase was partially due to the return to service of Boeing's 737 MAX aircraft, which occurred in December. Orders for nondefense capital goods excluding aircraft slowed on a year-over-year basis in January, despite rising slightly over December's reading. Both total and core orders have surpassed their pre-pandemic levels.

Durable Goods Orders

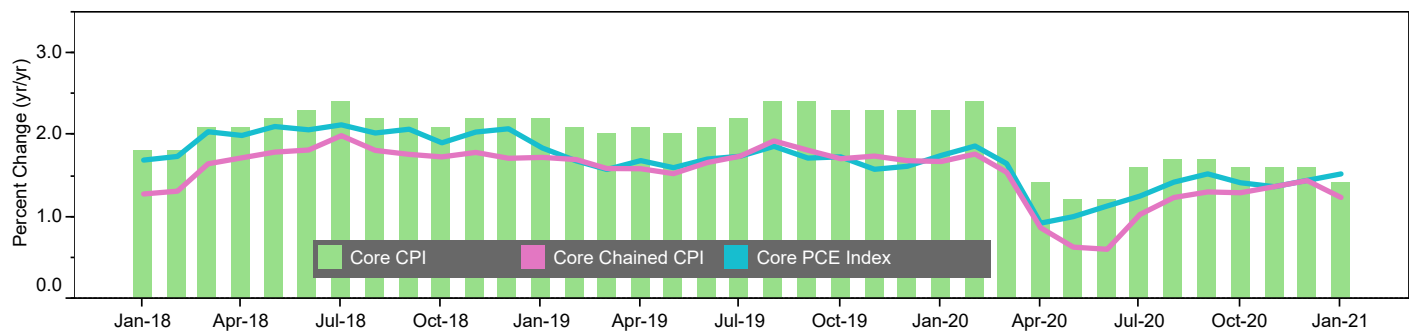


Consumer prices as measured by the core CPI remained flat in January while total CPI rose three-tenths. Prices as measured by the total and core PCE also rose by three-tenths. Despite the monthly increases, year-over-year measures of inflation were little changed in January and remain well below the 2.0% objective.

Total Price Indices



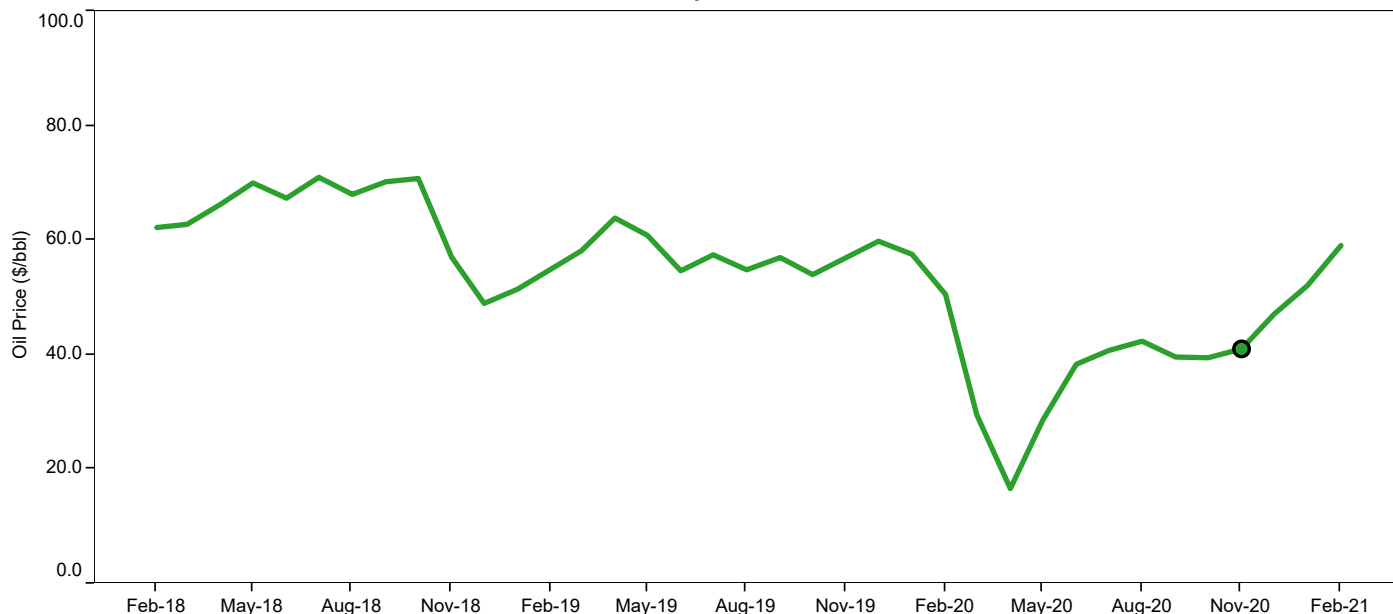
Core Price Indices



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

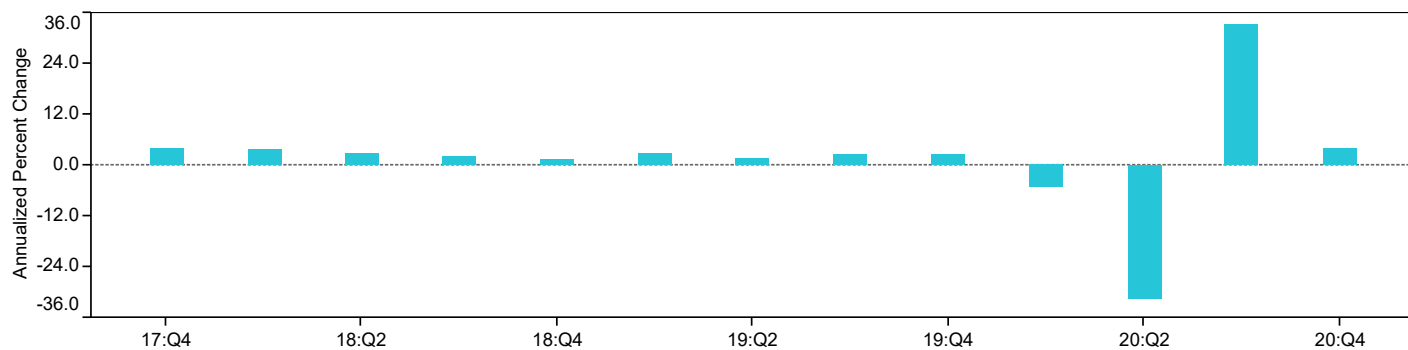
Oil prices continued their slow trend upward in February, as prices closed out the month at \$59.10 per barrel. Prices in early March were at their highest levels in two years and closed at \$65.05 per barrel on March 8th.

Domestic Spot Oil Price



Real GDP grew by 4.1% in the fourth quarter according to the second estimate, revised up from the advance estimate of 4.0%. The increase in real GDP reflected increases in exports, nonresidential fixed investment, PCE, residential fixed investment, and private inventory investment that were partly offset by decreases in state and local government spending and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Real GDP

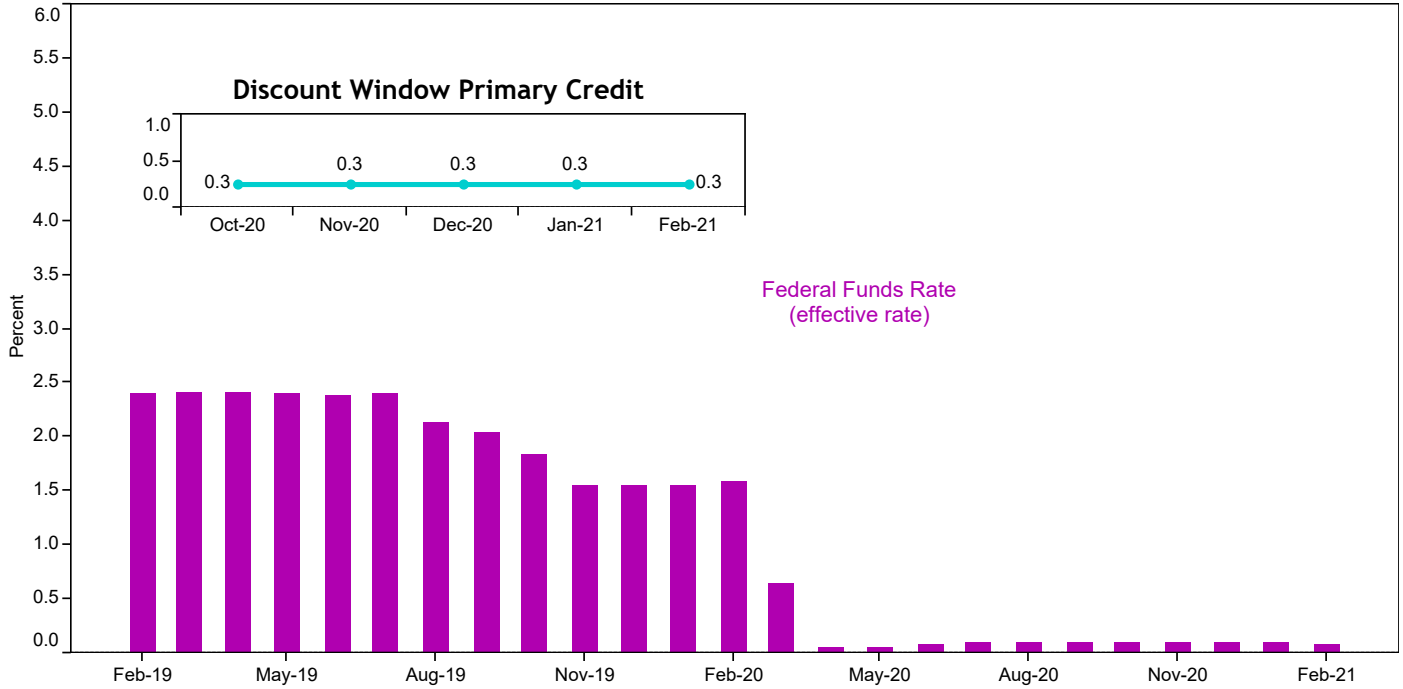


Revisions to Second Quarter Real GDP

| Description | Advance Estimate | Second Estimate |
|-------------------------------|------------------|-----------------|
| Real GDP | 4.0 | 4.1 |
| Personal Consumption | 2.5 | 2.4 |
| Business Investment | 13.8 | 14.0 |
| Equipment and Software | 24.9 | 25.7 |
| Residential Investment | 33.5 | 35.8 |
| Government | -1.2 | -1.1 |
| Exports | 22.0 | 21.8 |
| Imports | 29.5 | 29.6 |
| Final Sales | 3.0 | 3.0 |

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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.