

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

May 3, 2016

CURRENT ECONOMIC DEVELOPMENTS - May 3, 2016

Data released since your last Directors' meeting show that economic growth continued to slow in the first quarter, but suggest a rebound in growth in the second quarter. Labor markets continued to improve, the housing market showed further signs of strengthening, and although down slightly, consumer attitudes remained high. Conversely, support from manufacturing continued to be soft. Overall, recent data are consistent with the expectation for growth to pick up through the end of the year.

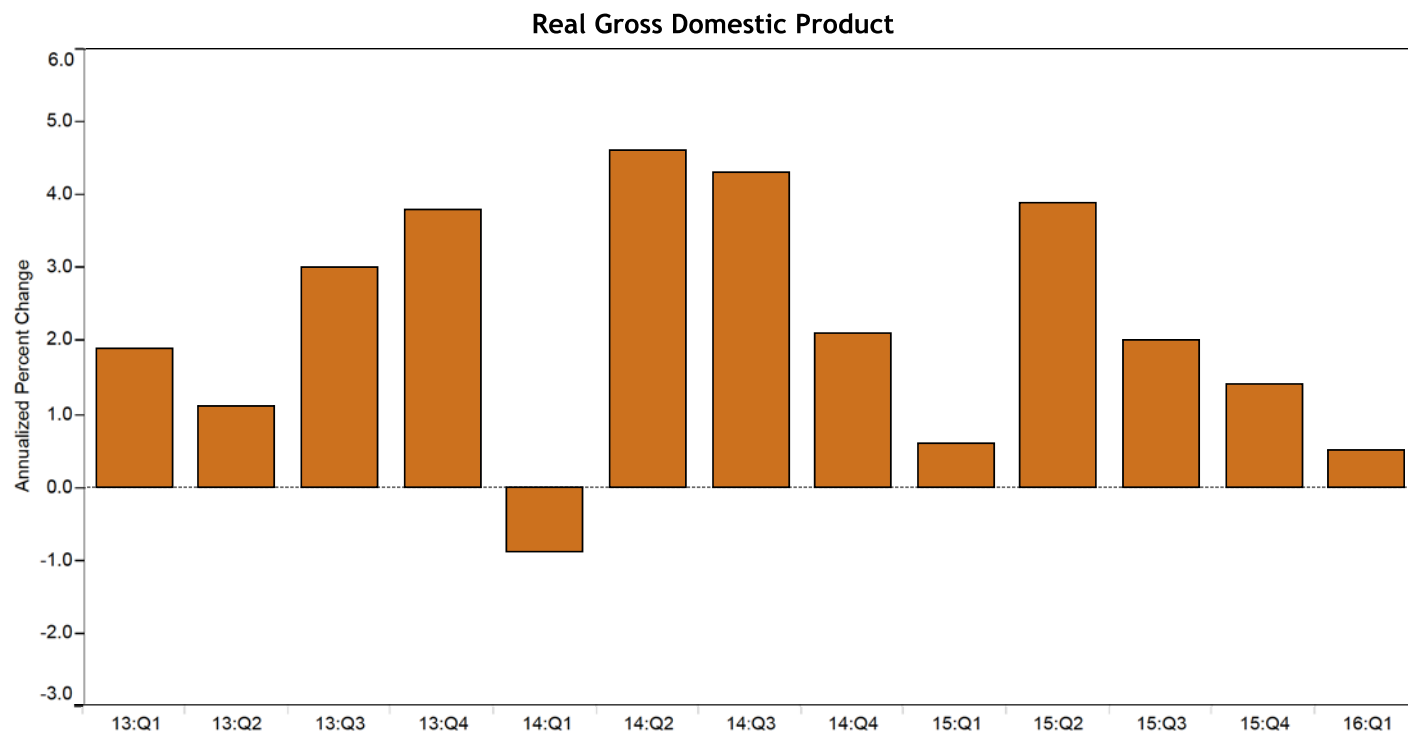
The growth in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures, residential fixed investment, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment, private inventory investment, exports, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Initial claims for unemployment insurance fell in April, after declining on average in the first quarter, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in April. The unemployment rate is expected to fall one-tenth to 4.9% in April.

Consumer spending was essentially unchanged in March, despite an increase in income growth. Consumer attitudes declined in April, amid less favorable views of expectations for personal financial situations and for the short-term outlook. Durable goods orders were flat in the first quarter compared to their year-ago level and decreased on a quarterly basis, while core orders fell on both a quarterly and a year-over-year basis. The ISM index fell in April, but continued to suggest expansion in the manufacturing sector. Home sales data were mixed in March, as sales of existing homes increased, while new home sales eased below their first quarter average, which was the highest quarterly average in one year.

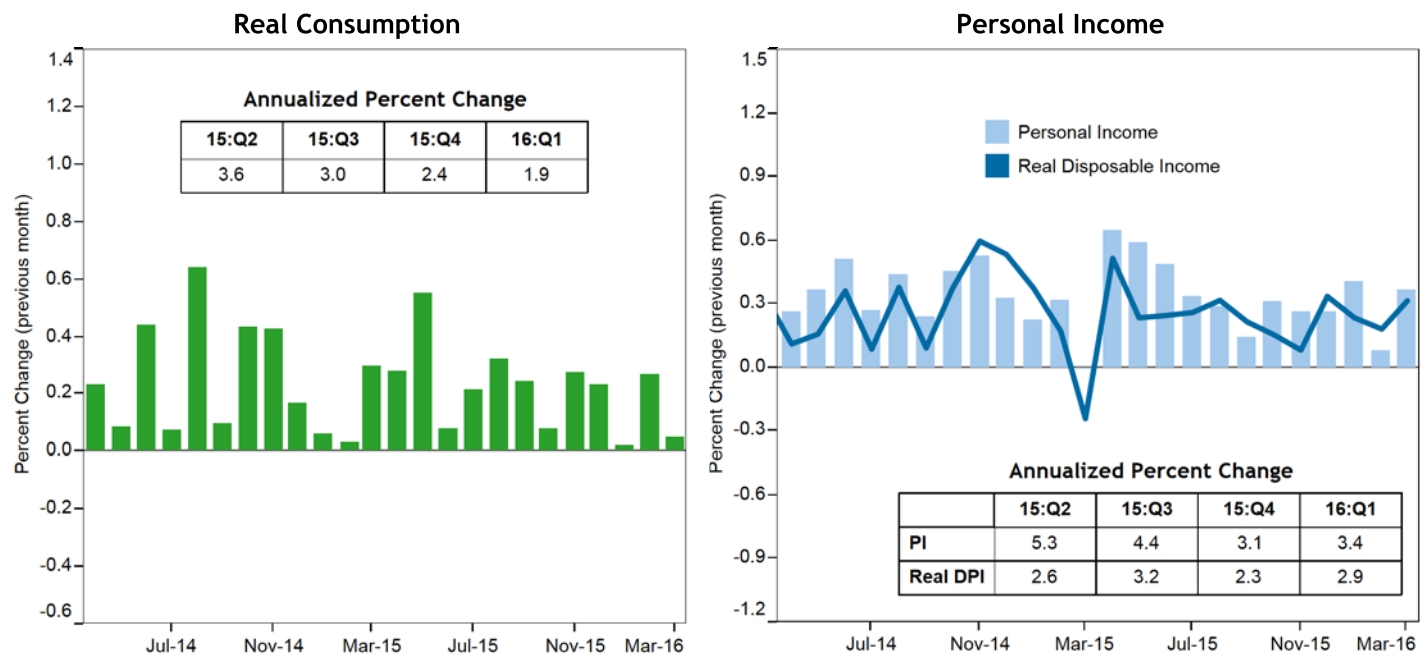
Total consumer inflation accelerated on average in the first quarter, as did growth in core prices, despite easing in March. Growth in employment costs eased a bit in the first quarter. After reaching their lowest quarterly average in over twelve years in the first quarter, oil prices increased in April and reached \$44.8 per barrel on May 2.

Real GDP growth decelerated in the first quarter. The slower rate was due primarily to a larger decrease in nonresidential fixed investment, a deceleration in PCE, a downturn in federal government spending, an upturn in imports, and larger decreases in private inventory investment and in exports that were partly offset by an upturn in state and local government spending and an acceleration in residential fixed investment.



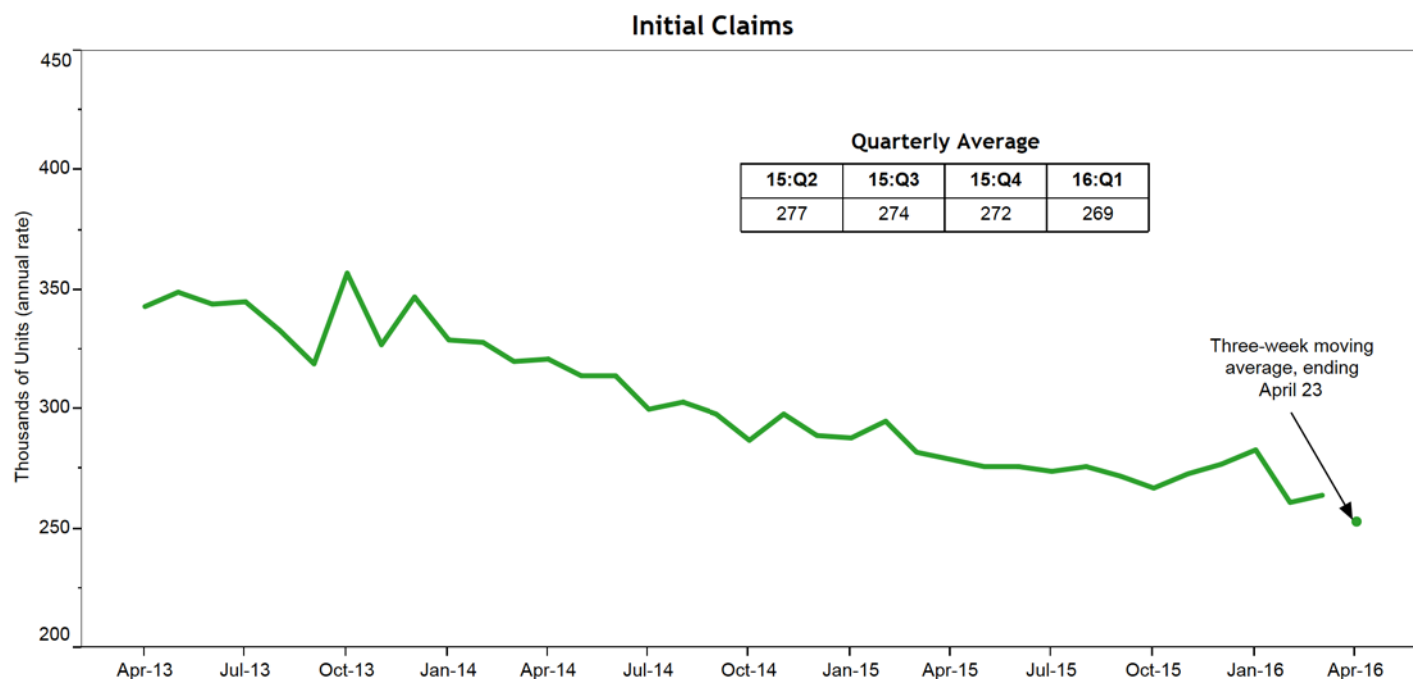
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the first quarter, despite accelerations in both nominal and real income growth. On a monthly basis, consumption was essentially unchanged in March, after posting an increase February that was revised slightly higher. Nominal and real income growth both picked up in March.



Source: Bureau of Economic Analysis / Haver Analytics.

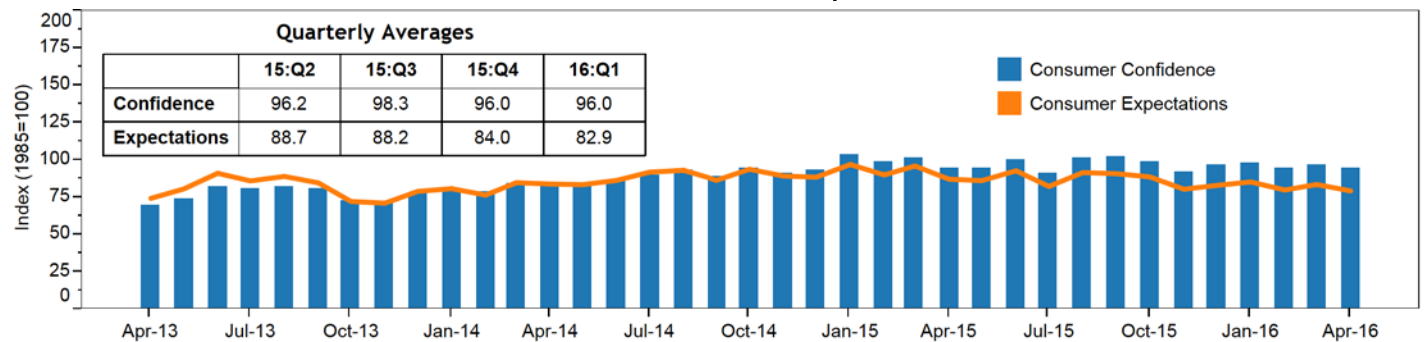
Initial claims for unemployment insurance declined, on average, in the first quarter. Claims fell further in the first three weeks of April, remaining near historic lows.



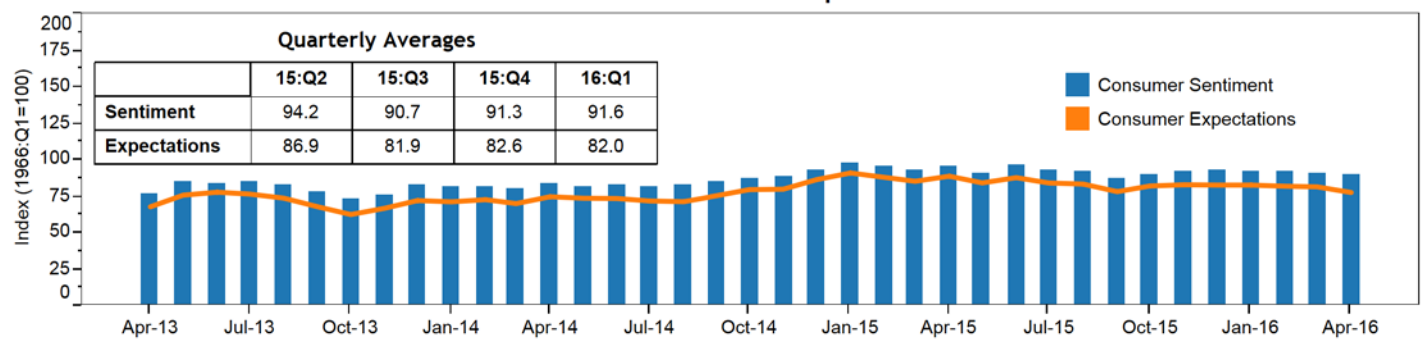
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes declined in April, as both the confidence index and the sentiment index dropped below their first quarter averages. The declines in both headline indices were due to decreases in the expectations components, as respondents expressed less favorable views of prospects for their personal financial situations, as well as for the health of the economy. However, consumers were more optimistic towards current conditions.

Consumer Confidence and Expectations



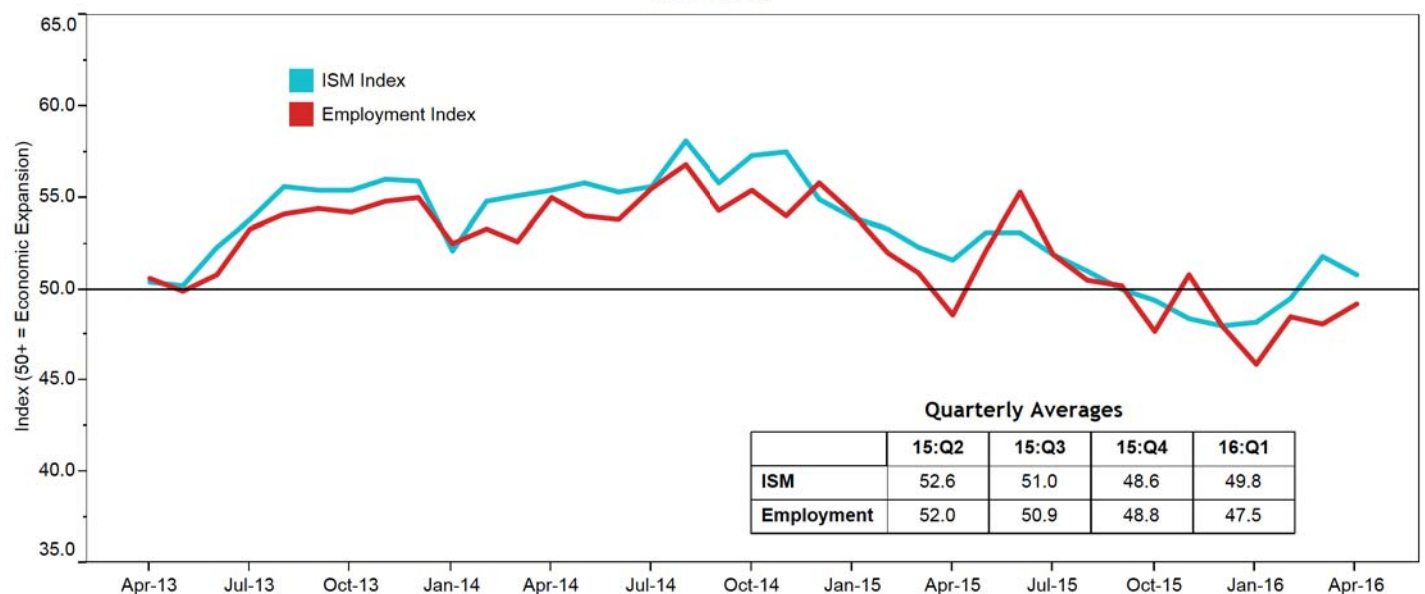
Consumer Sentiment and Expectations



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

The ISM index declined in April, but continued to signal expansion in the manufacturing sector. The employment index increased in April, but remained below 50, indicating contraction in employment levels.

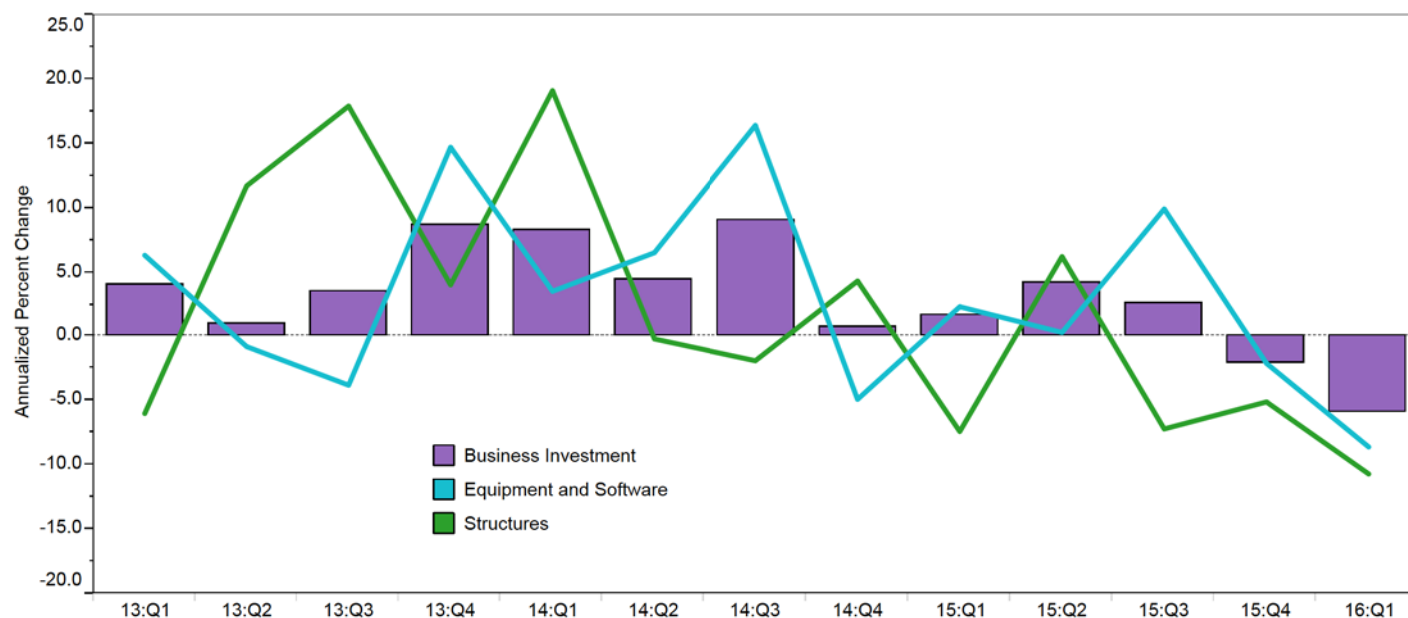
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Business investment slowed further in the first quarter, as both structures investment and equipment and software investment decelerated to their lowest rates since 2011:Q1 and 2009:Q2, respectively.

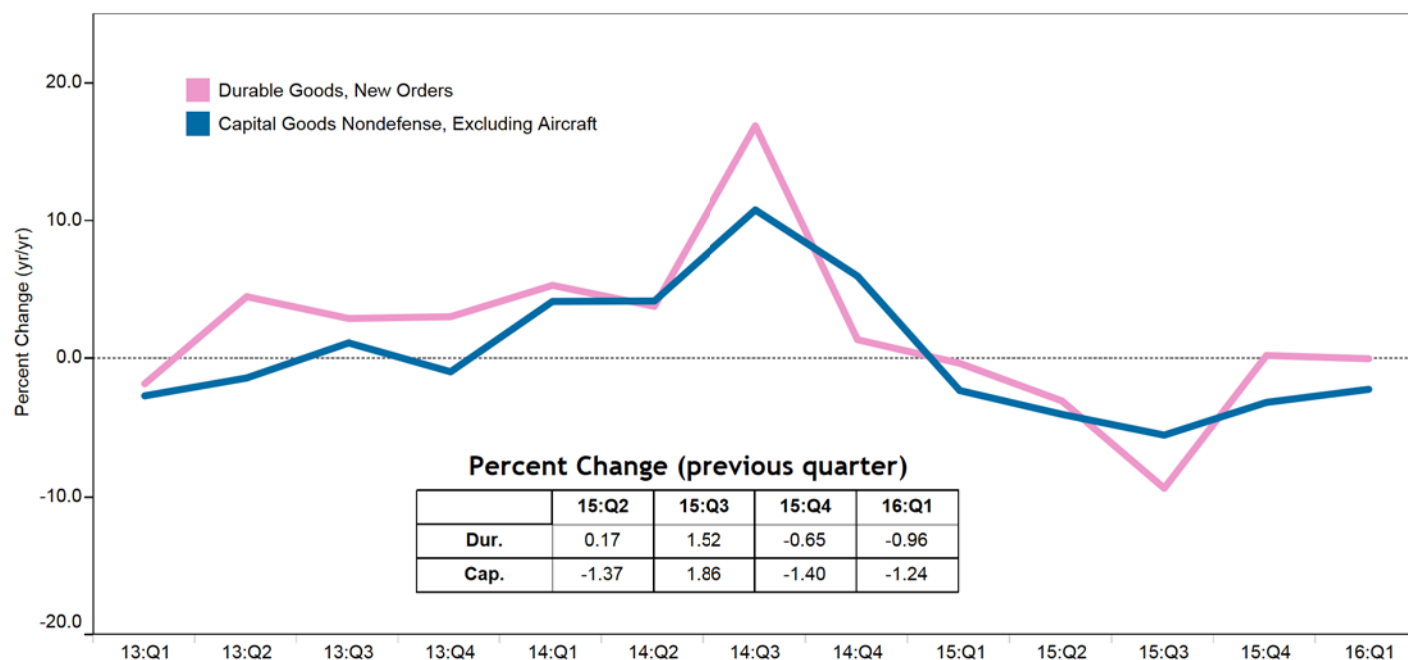
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, durable goods orders were flat on a year-over-year basis, but dropped a bit when compared to the fourth quarter. Orders for nondefense capital goods, excluding aircraft, continued to decline on both a year-over-year and a quarterly basis.

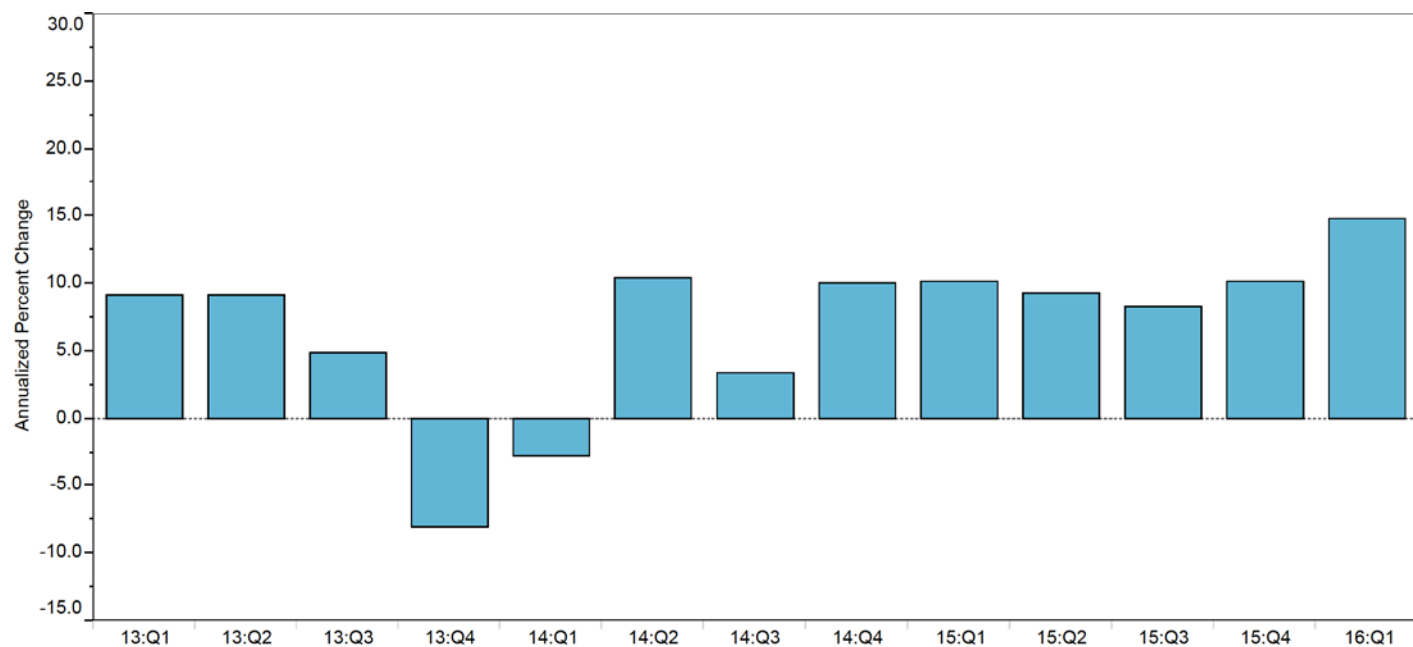
Durable Goods Orders



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

Residential investment accelerated in the first quarter and reached its highest growth rate in over three years.

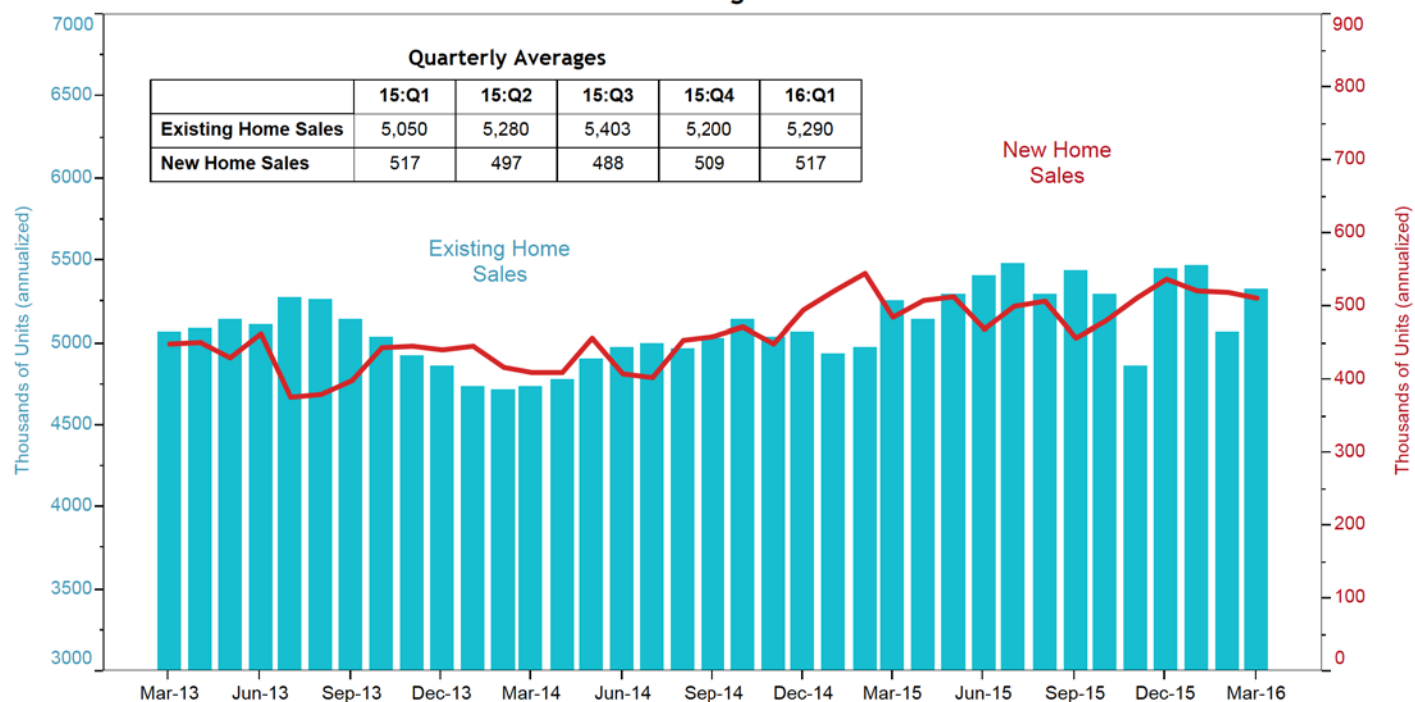
Residential Investment



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

Housing data improved in the first quarter, as both new and existing home sales increased, on average. New home sales posted its highest quarterly average in one year, despite easing a bit in March.

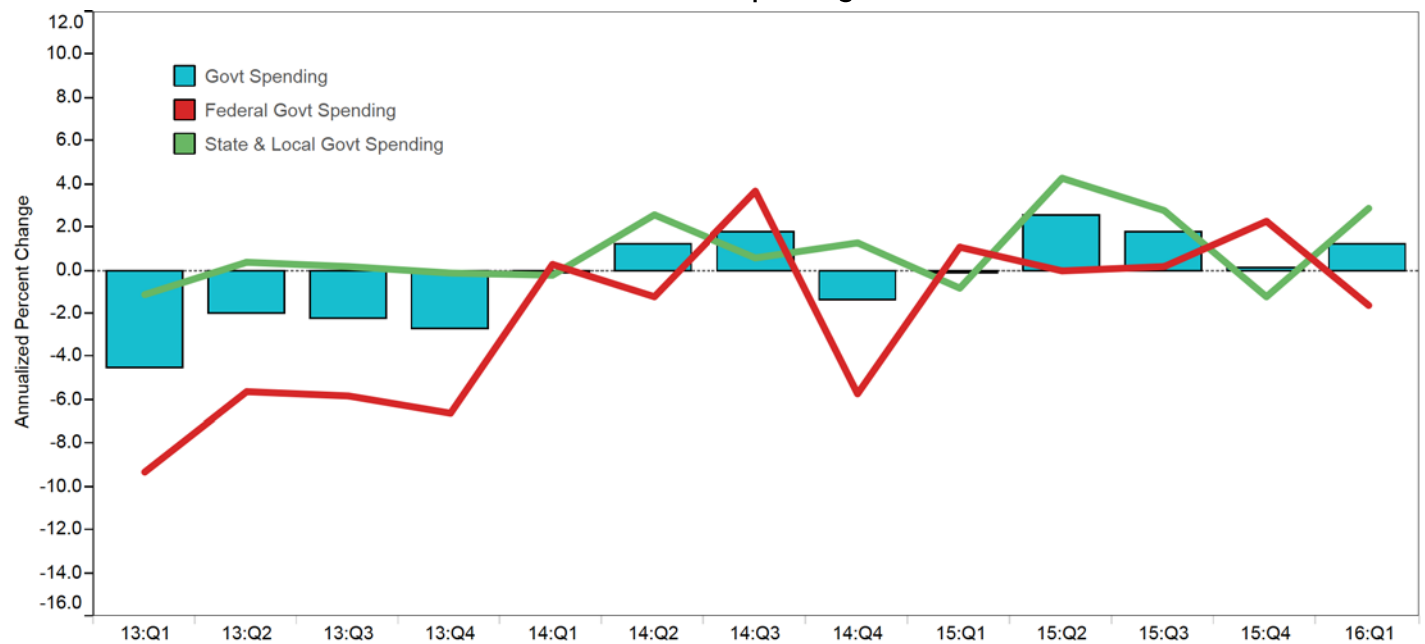
New and Existing Home Sales



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

In the first quarter, government spending accelerated, posting an increase for the fourth consecutive quarter. The higher rate was due to an increase in state and local government spending, which more than offset the decline in federal government spending in the first quarter.

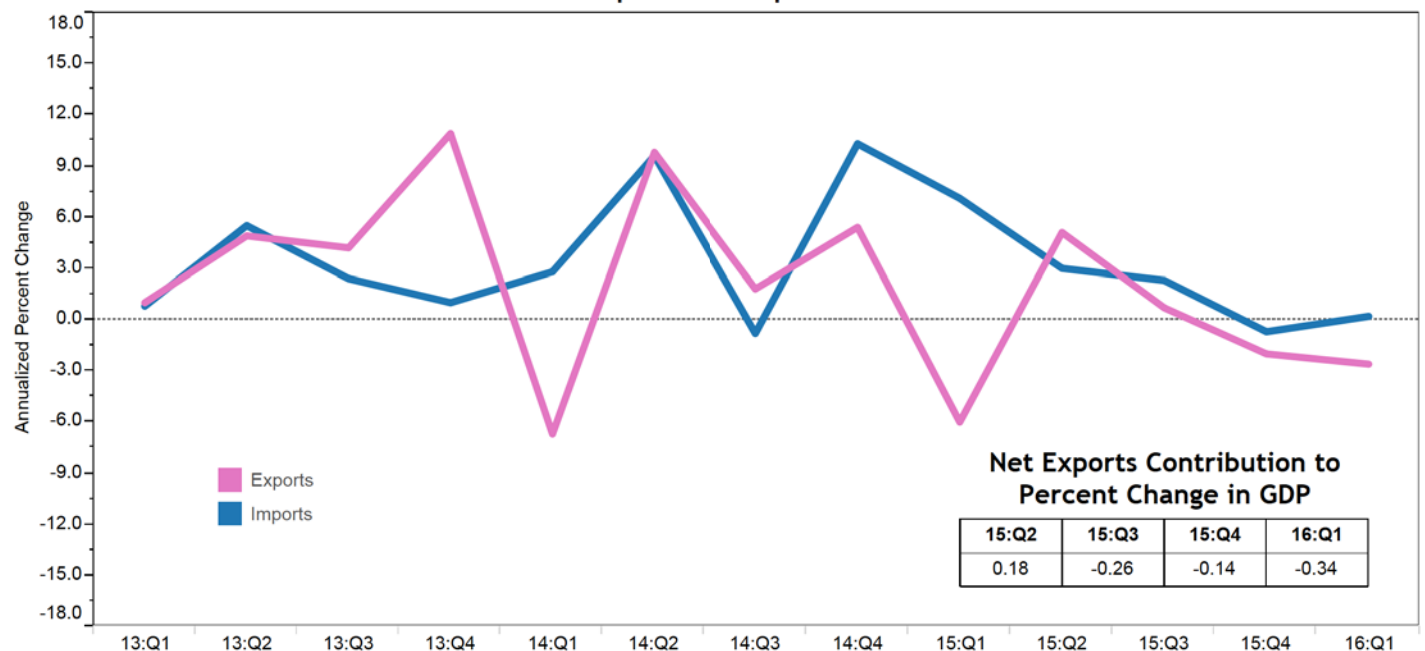
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Exports continued to fall in the first quarter, while import growth ticked up after falling in the fourth quarter. This resulted in a drag on GDP from net exports in the first quarter.

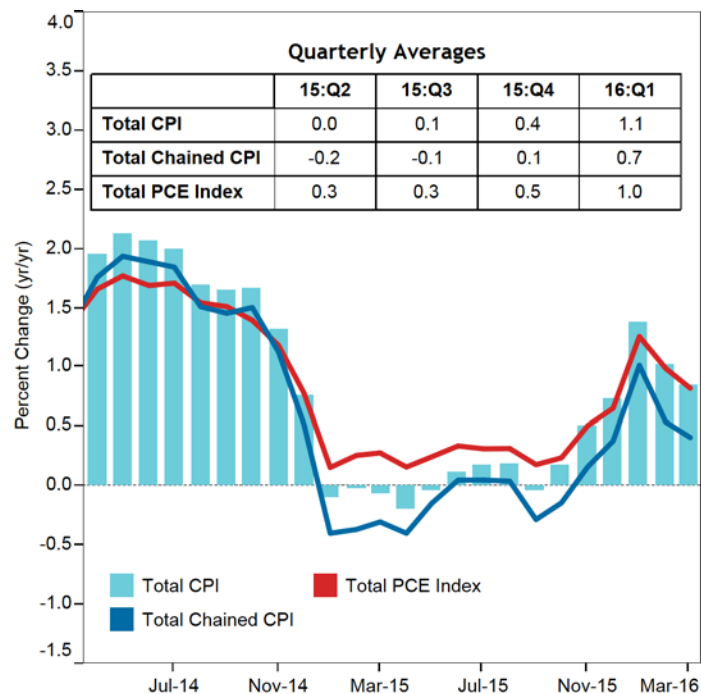
Exports and Imports



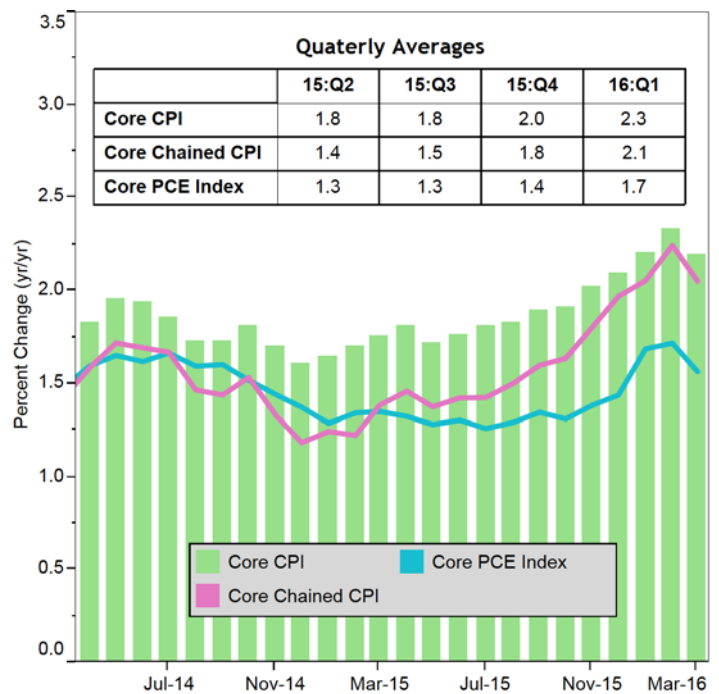
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in total consumer prices continued to ease in March, yet was up, on average, in the first quarter compared to the fourth. Excluding the volatile food and energy sectors, growth in core prices also decelerated in March, but picked up, on average, in the first quarter.

Total Price Indices



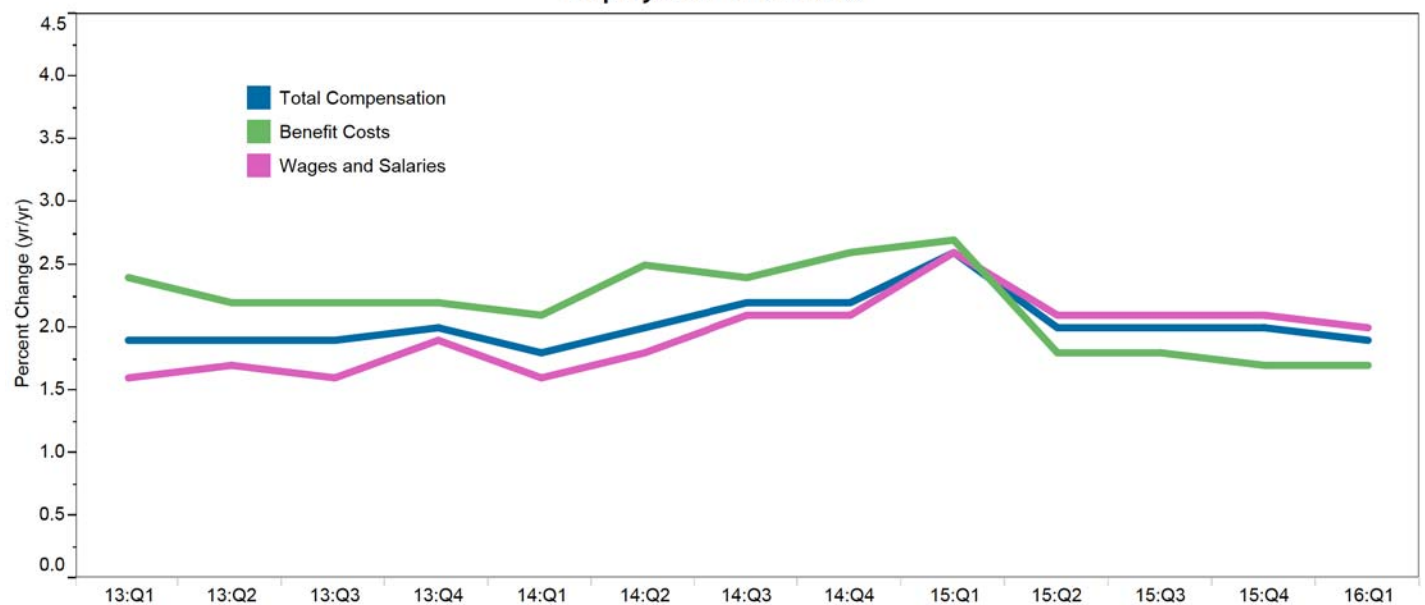
Core Price Indices



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

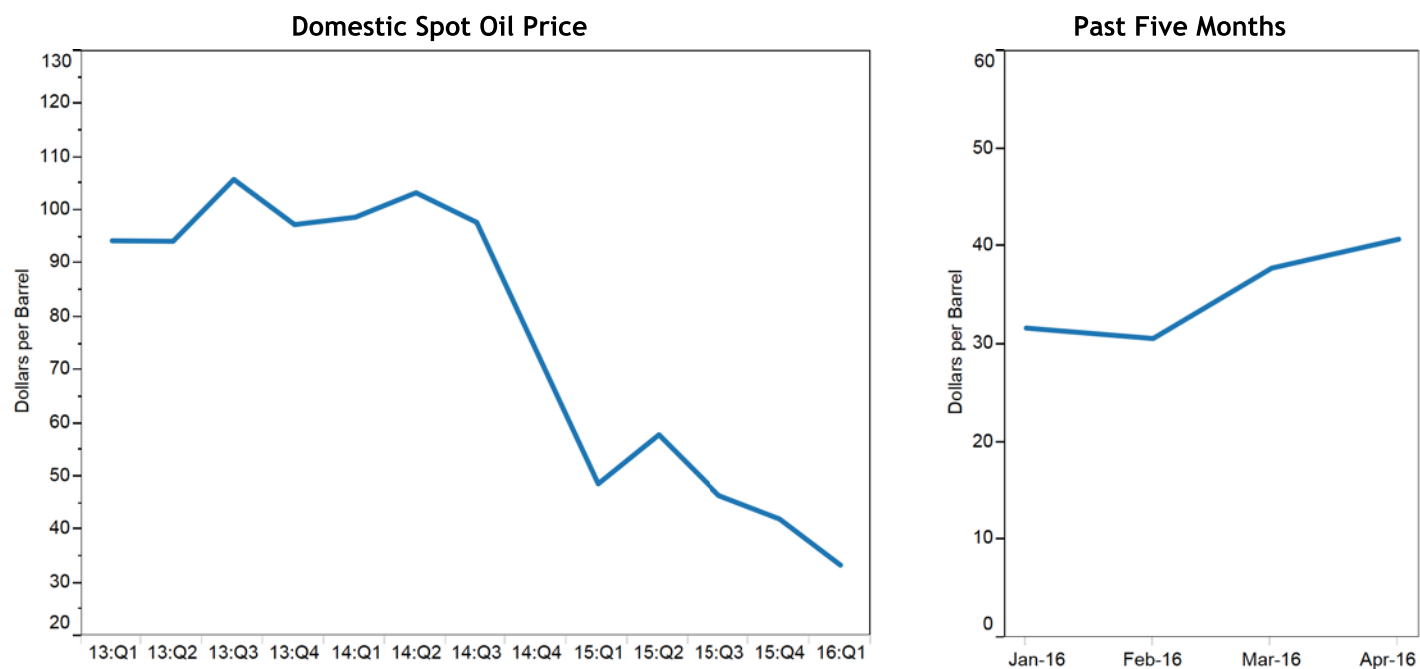
In the first quarter, total compensation growth eased a bit from its rate in the fourth quarter, as growth of wages and salaries decelerated slightly while growth of benefits costs held steady.

Employment Cost Index



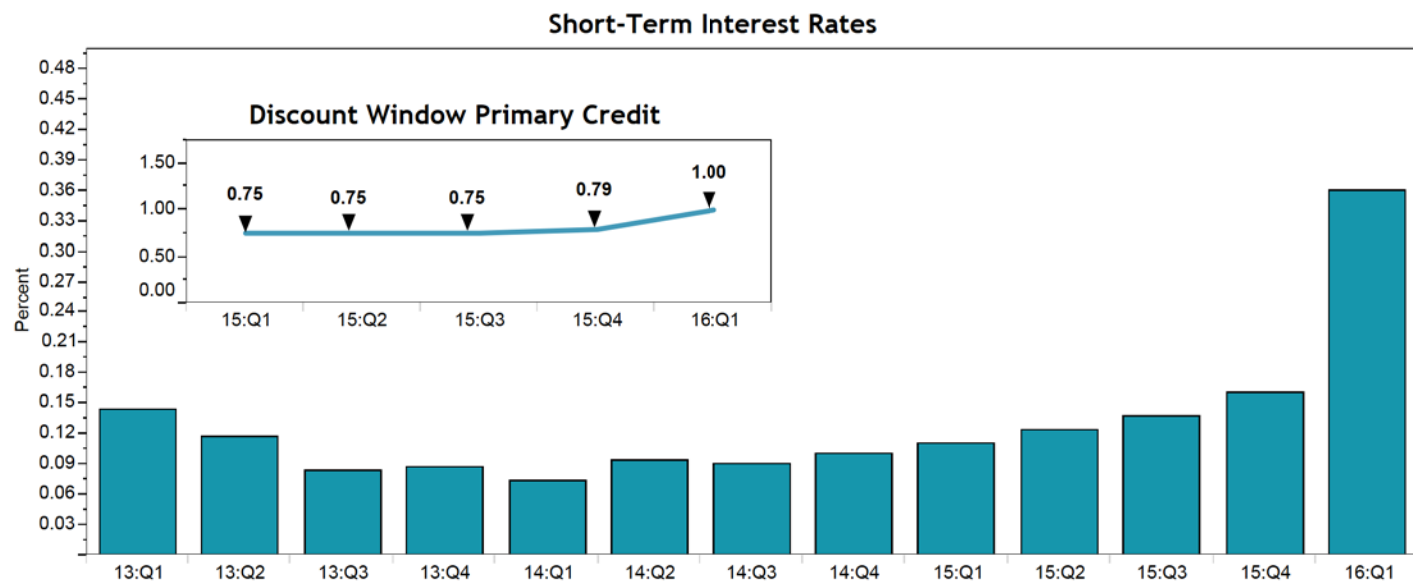
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices in April increased from the level seen in the first quarter, which was the lowest quarterly average in over twelve years. The daily closing prices have risen further in early May, reaching \$44.8 per barrel on May 2.



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

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Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.