



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

May 1, 2018

## CURRENT ECONOMIC DEVELOPMENTS - May 1, 2018

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. The labor market showed further signs of strengthening, consumer spending rebounded in March, and although mixed, consumer attitudes remained favorable. However, support from manufacturing was mixed. 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 nonresidential fixed investment, personal consumption expenditures, exports, private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

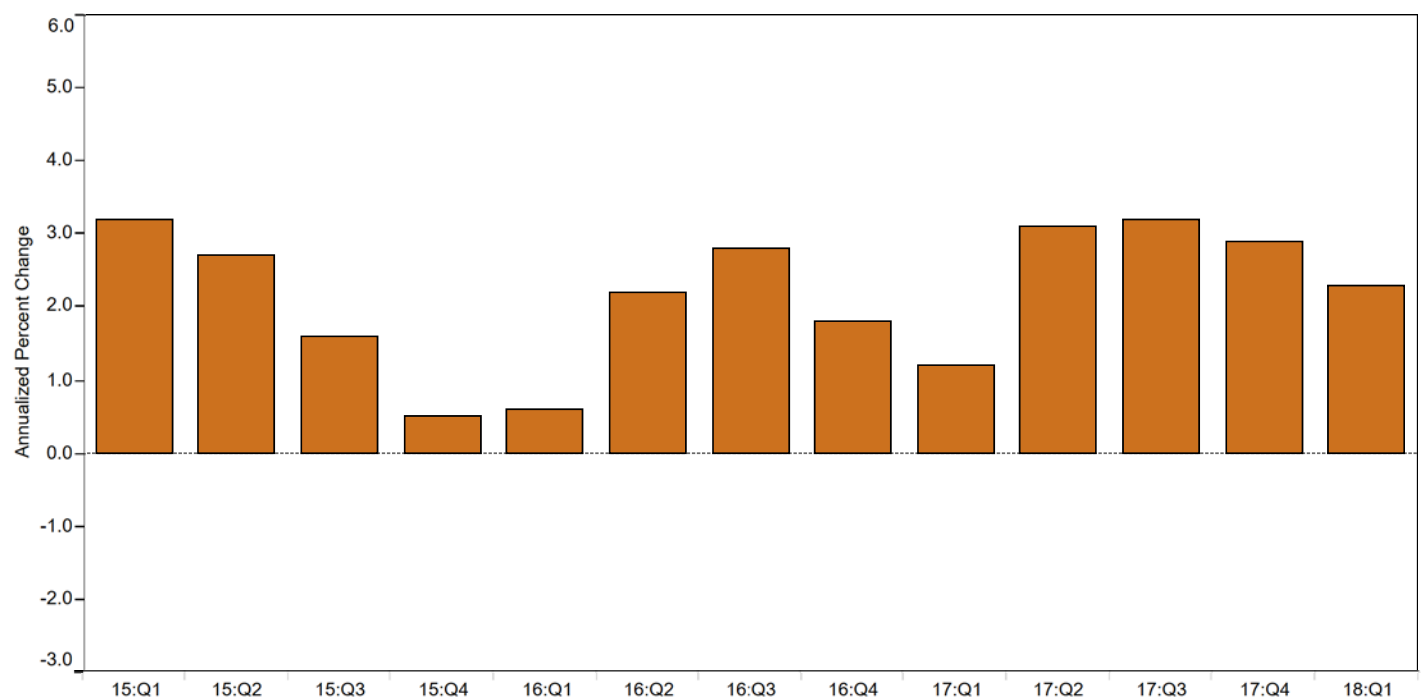
Initial claims for unemployment insurance fell, on average, in the first three weeks of April, after declining in the first quarter to a 45-year low. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in April. The unemployment rate is expected to fall one-tenth to 4.0% in April.

Consumer spending increased in March, as incomes rose. Consumer attitudes were mixed in April, as the confidence index rose above its first quarter average, while the sentiment index declined to a tick below its first quarter average. Durable goods orders increased in the first quarter compared to the second and on a year-over-year basis, while core orders fell on a quarterly basis but were up from their year-ago level. The ISM index fell in April, but continued to suggest expansion in the manufacturing sector. Industrial production rose a bit more than expected in March, while capacity utilization edged down. Home sales data improved in March, as sales of both new and existing homes picked up. Housing starts and building permits both rose in March, as increases in multi-family starts and permits offset declines in single-family activity.

Both total and core consumer inflation accelerated in the first quarter and picked up in March. Growth in employment costs picked up in the first quarter. After reaching their highest quarterly average in over three years in the first quarter, oil prices rose on average in April compared to March, reaching \$68.6 per barrel on April 30.

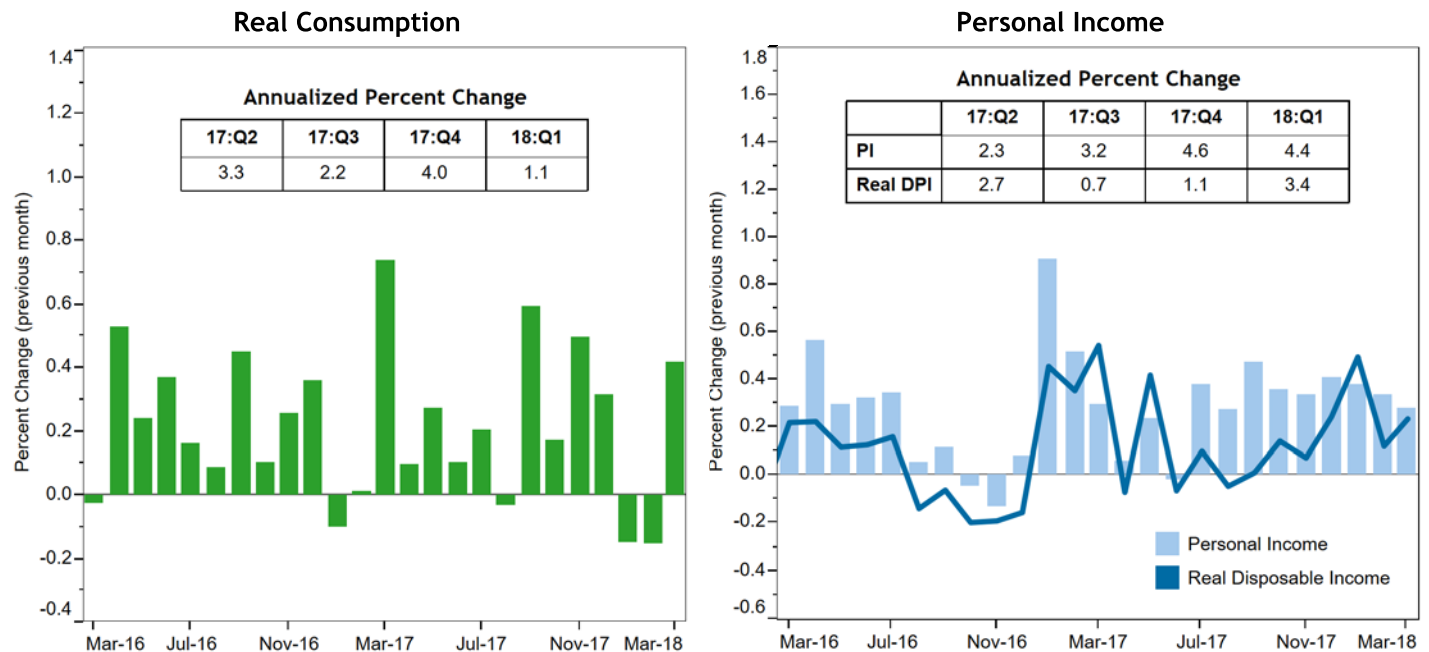
Real GDP growth decelerated in the first quarter. The slower rate was due primarily to decelerations in personal consumption expenditures, residential fixed investment, exports, and state and local government spending that were partly offset by an upturn in private inventory investment. Imports, which are a subtraction in the calculation of GDP, decelerated.

**Real Gross Domestic Product**



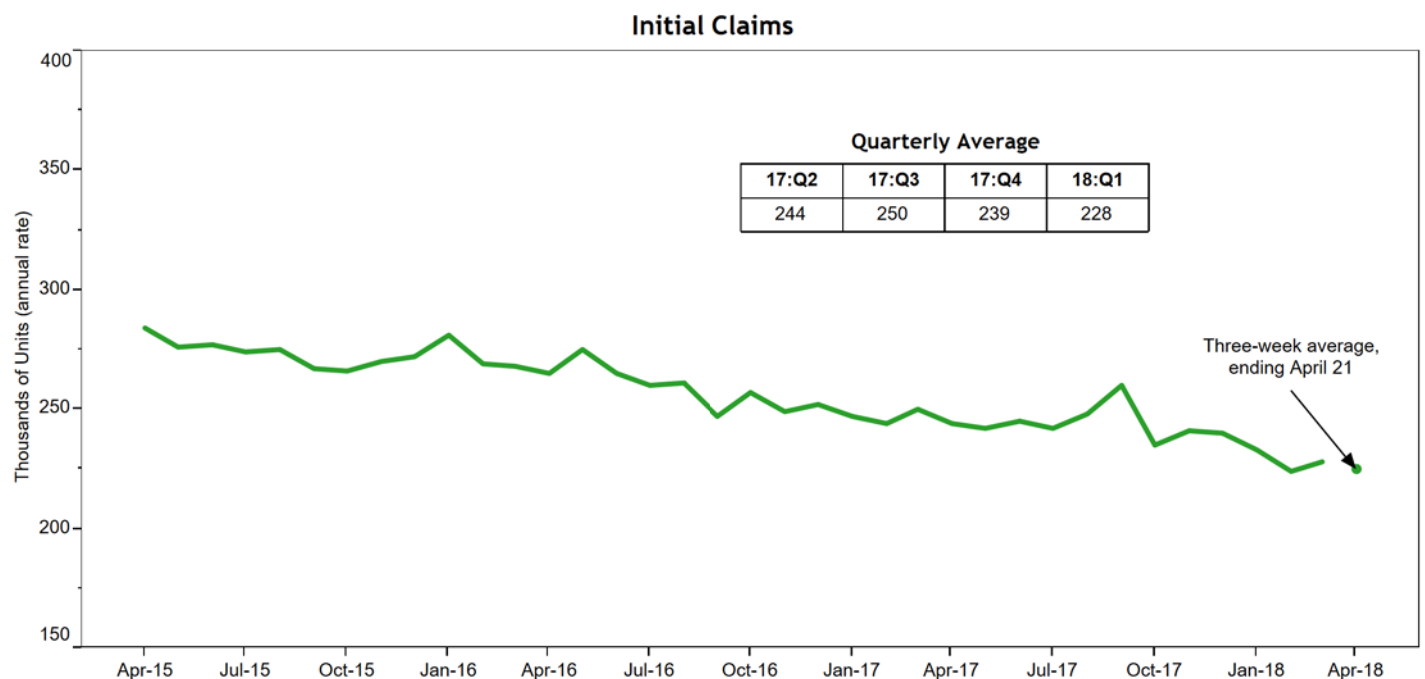
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth eased in the first quarter, despite an acceleration in real income growth. On a monthly basis, consumption rose in March, after falling in each of the previous two months, while real income growth picked up a bit in March.



Source: Bureau of Economic Analysis / Haver Analytics.

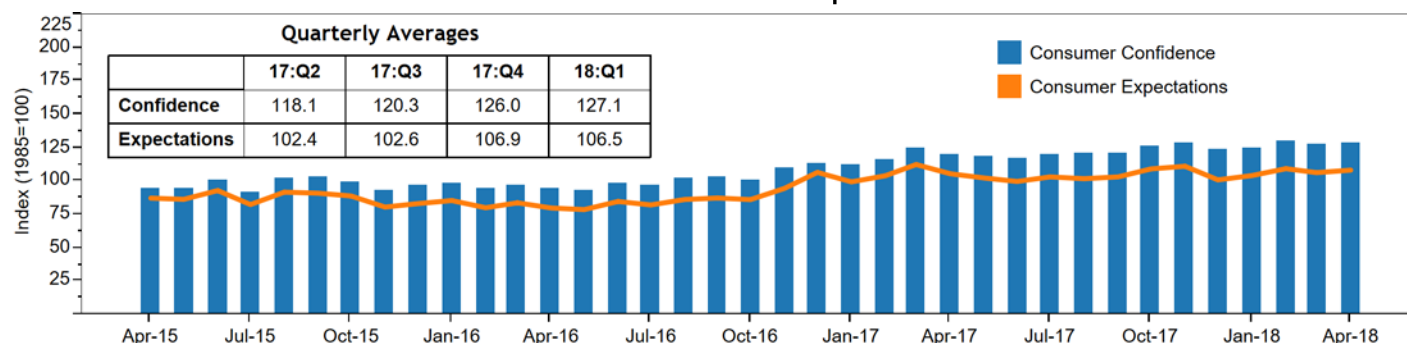
Initial claims for unemployment insurance continued to decline in the first quarter, recording their lowest quarterly average in 45 years. Claims edged down in the first three weeks of April to just below the first quarter average.



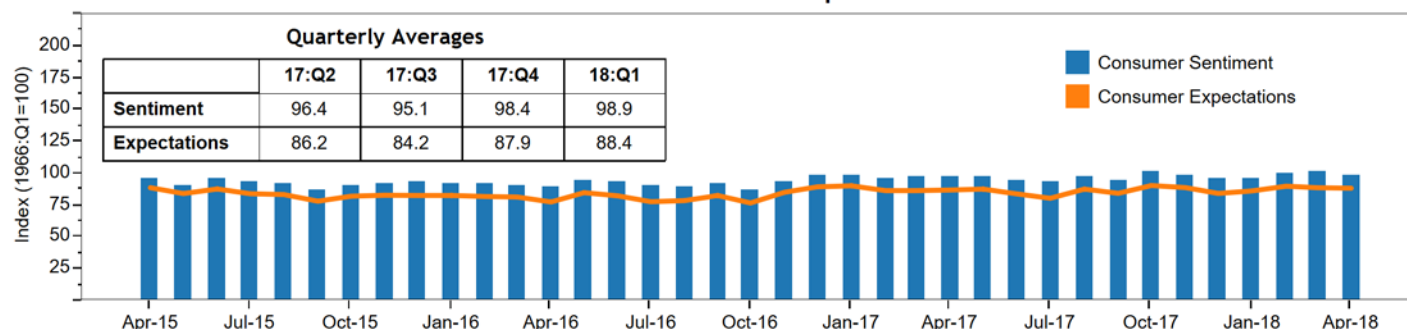
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Measures of consumer attitudes were mixed but remained elevated in April, as the confidence index rose above its first quarter average, while the sentiment index declined to a tick below its first quarter average. Respondents to the confidence survey expressed more favorable views of labor market and business conditions, and were more optimistic towards the short-term outlook. Meanwhile, respondents to the sentiment survey were slightly less optimistic about the economic outlook and expressed less favorable views of current conditions, yet remained positive about their personal finances.

### Consumer Confidence and Expectations



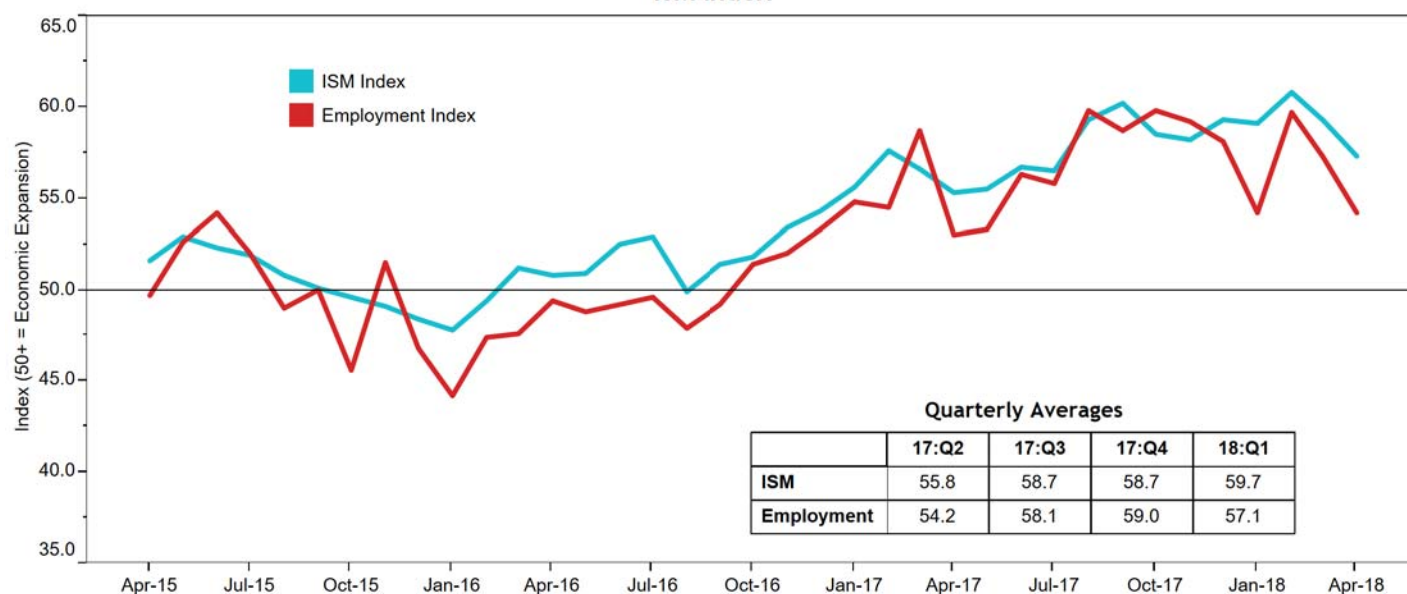
### Consumer Sentiment and Expectations



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

The ISM index declined in April to below its first quarter average, yet continued to signal expansion in the manufacturing sector. The employment index also fell in April and was below its first quarter average.

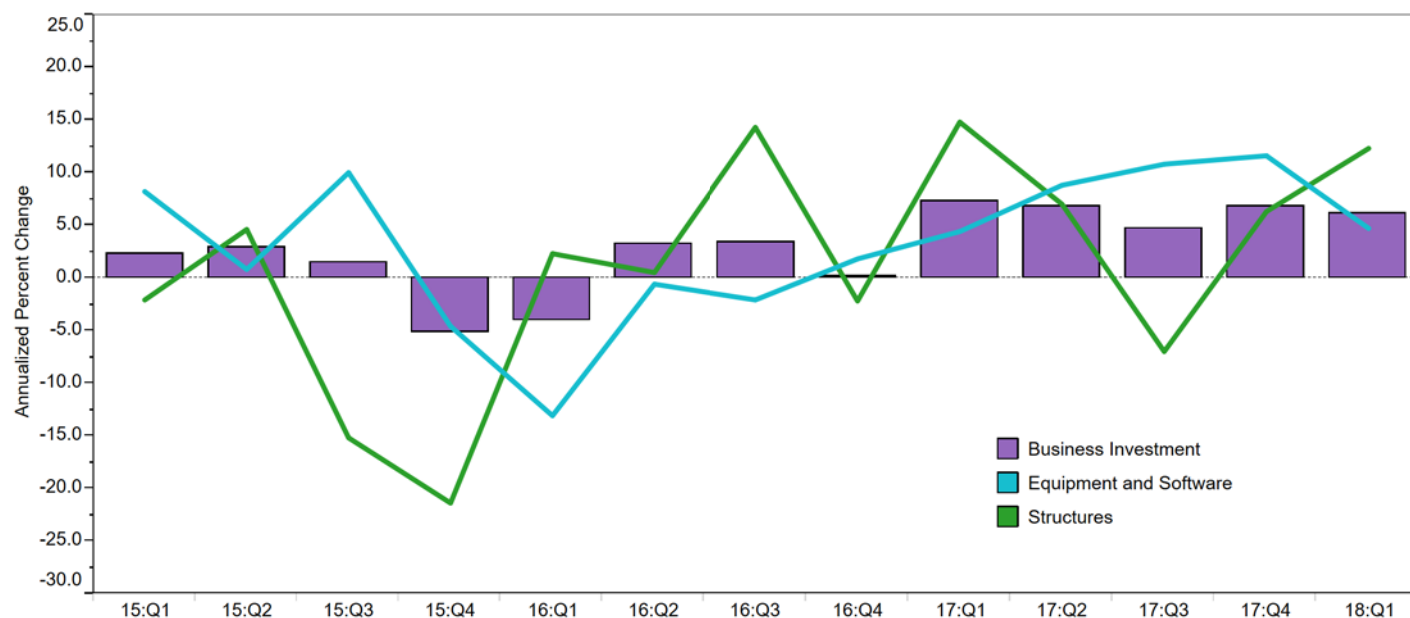
### ISM Index



Source: Institute of Supply Management / Haver Analytics.

Business investment slowed a bit in the first quarter, as a deceleration in equipment and software investment more than offset an acceleration in structures investment.

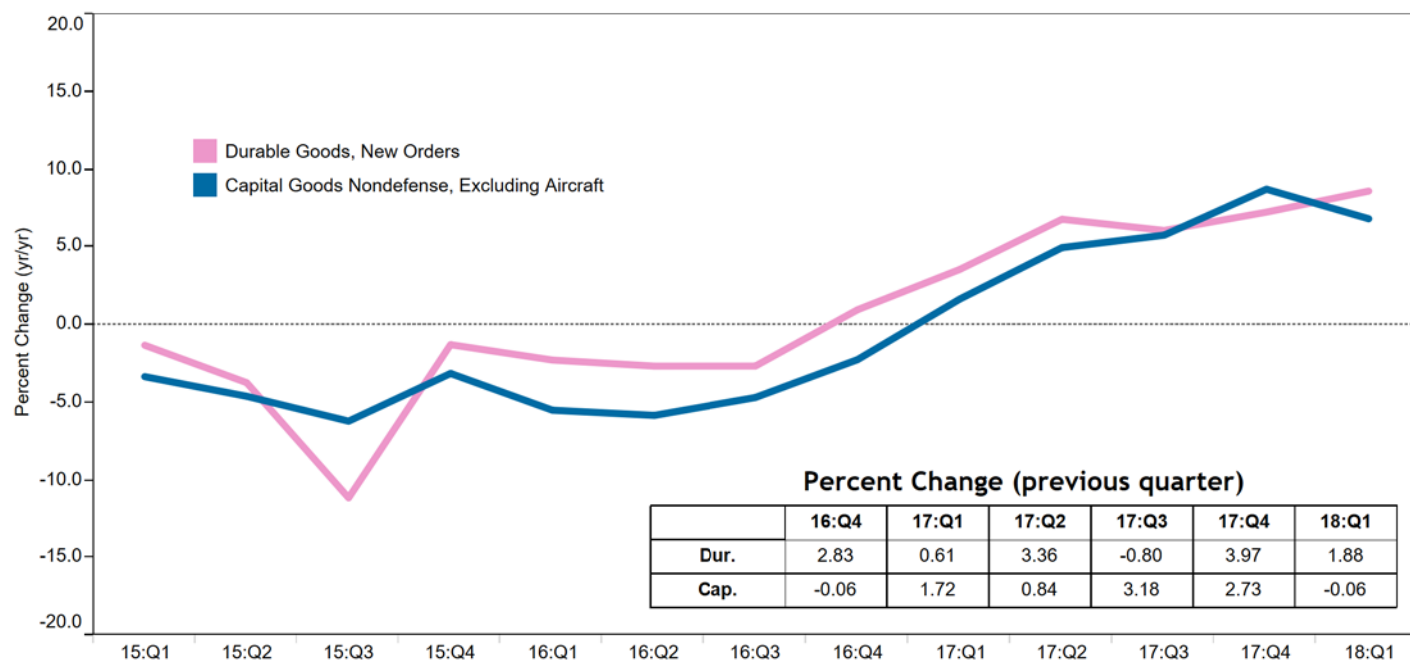
### Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

In the first quarter, durable goods orders continued to rise on a year-over-year basis, and also increased when compared to the fourth quarter. Orders for nondefense capital goods, excluding aircraft, also rose on a year-over-year basis, albeit at a slower rate than seen in the prior quarter. Core orders eased a bit on a quarterly basis, their first quarterly decline in over one year.

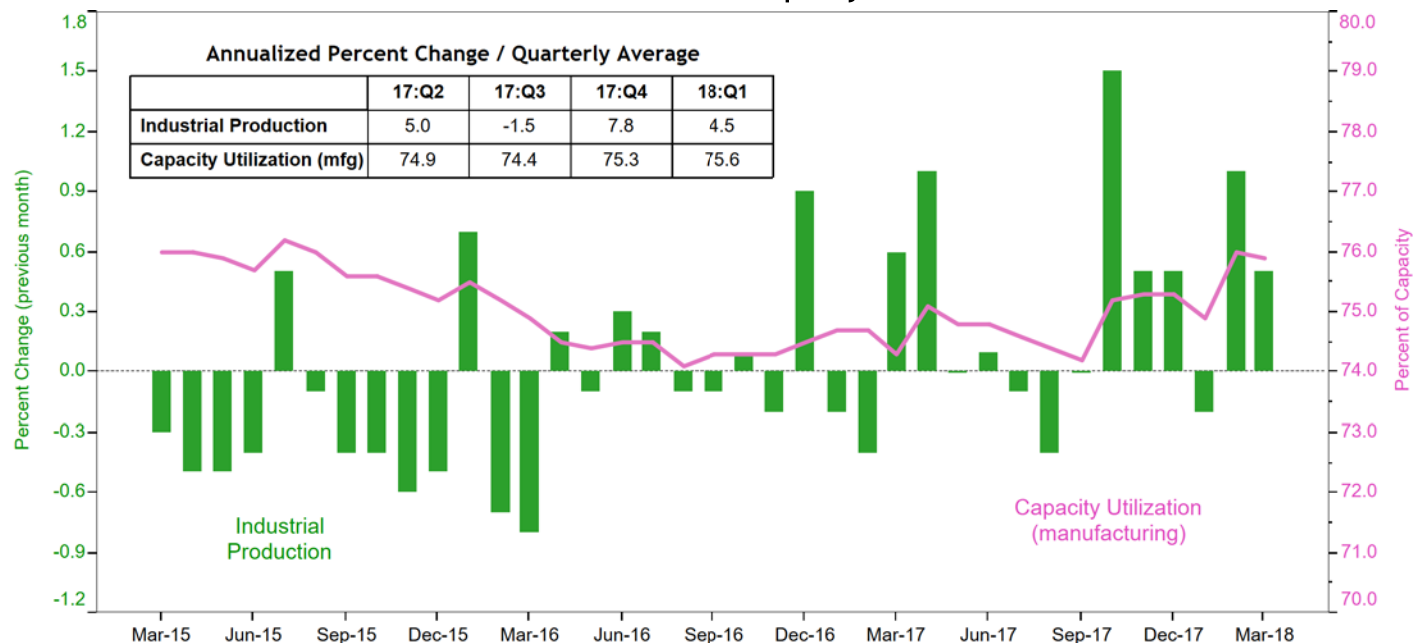
### Durable Goods Orders



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

Industrial production continued to rise in the first quarter, albeit at a slower rate than seen in the fourth quarter, and capacity utilization continued to pick up. In March, industrial production posted its second consecutive monthly increase, as manufacturing, mining, and utilities production all rose. Capacity utilization eased a bit in March, after increasing in February.

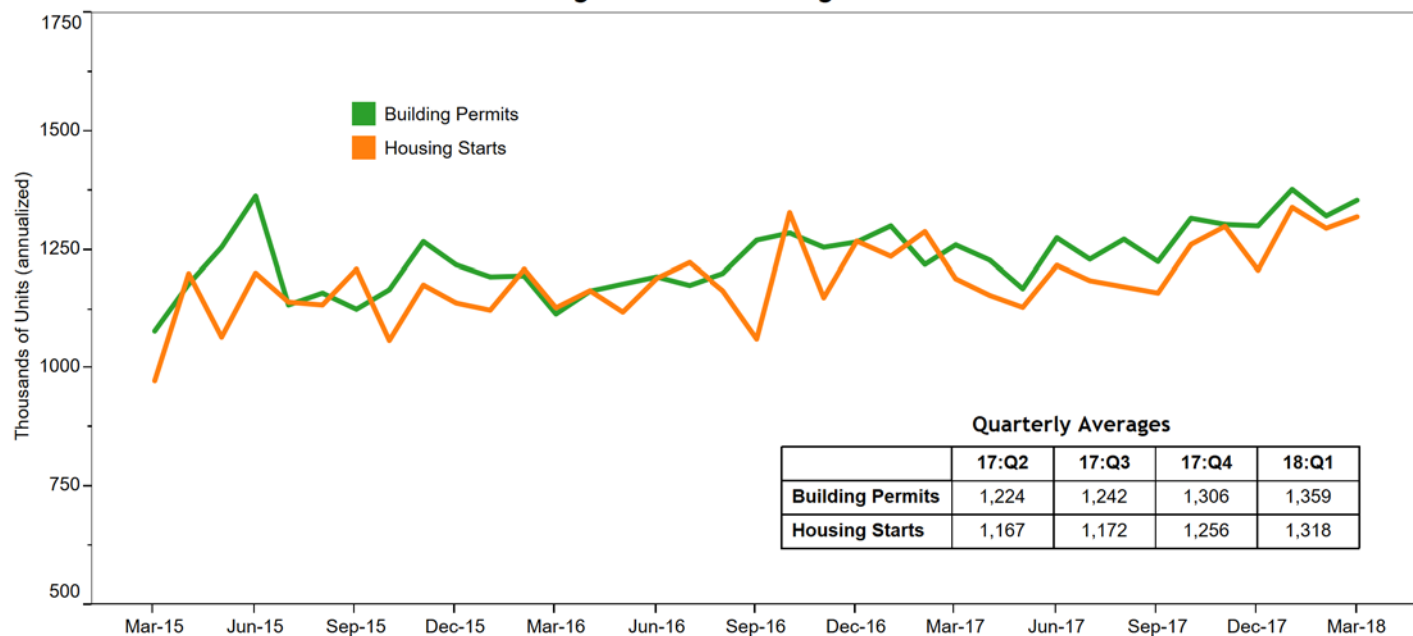
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Housing starts and building permits both picked up in the first quarter. In March, housing starts and building permits both rose, after falling in February, due to increases in multi-family starts and permits. Single-family starts and permits both declined in March.

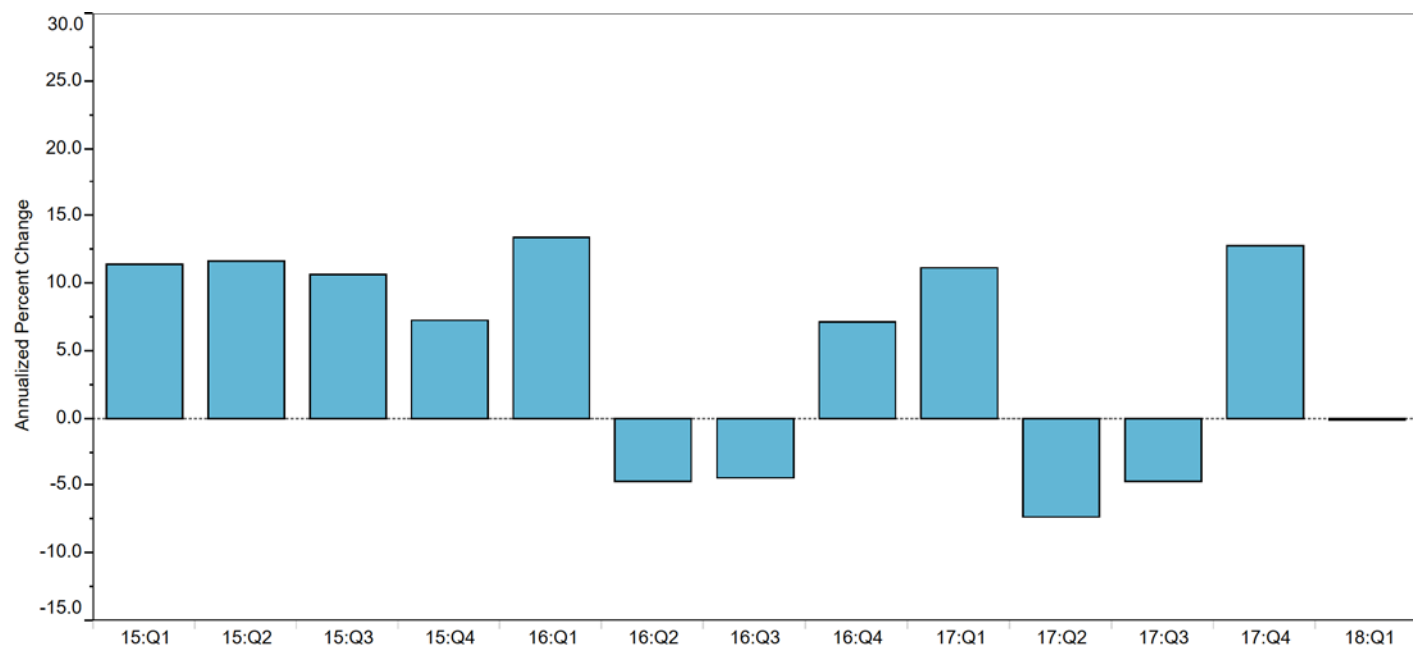
### Housing Starts and Building Permits



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

Residential investment was unchanged in the first quarter, after growing in the fourth quarter at its fastest pace in nearly two years.

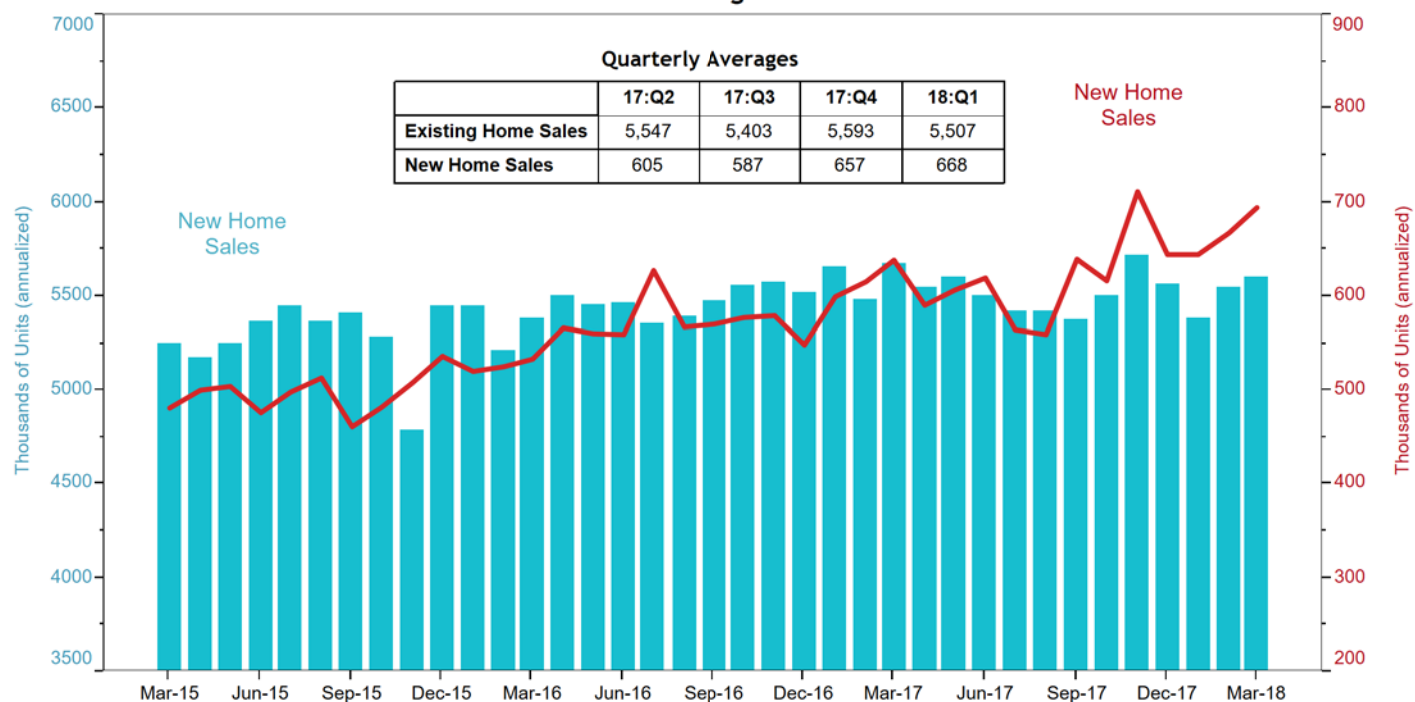
### Residential Investment



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

Housing data were mixed in the first quarter, as existing home sales eased, on average, while new home sales increased to their highest quarterly average in over ten years. Both new and existing home sales picked up in March from their February paces.

### New and Existing Home Sales

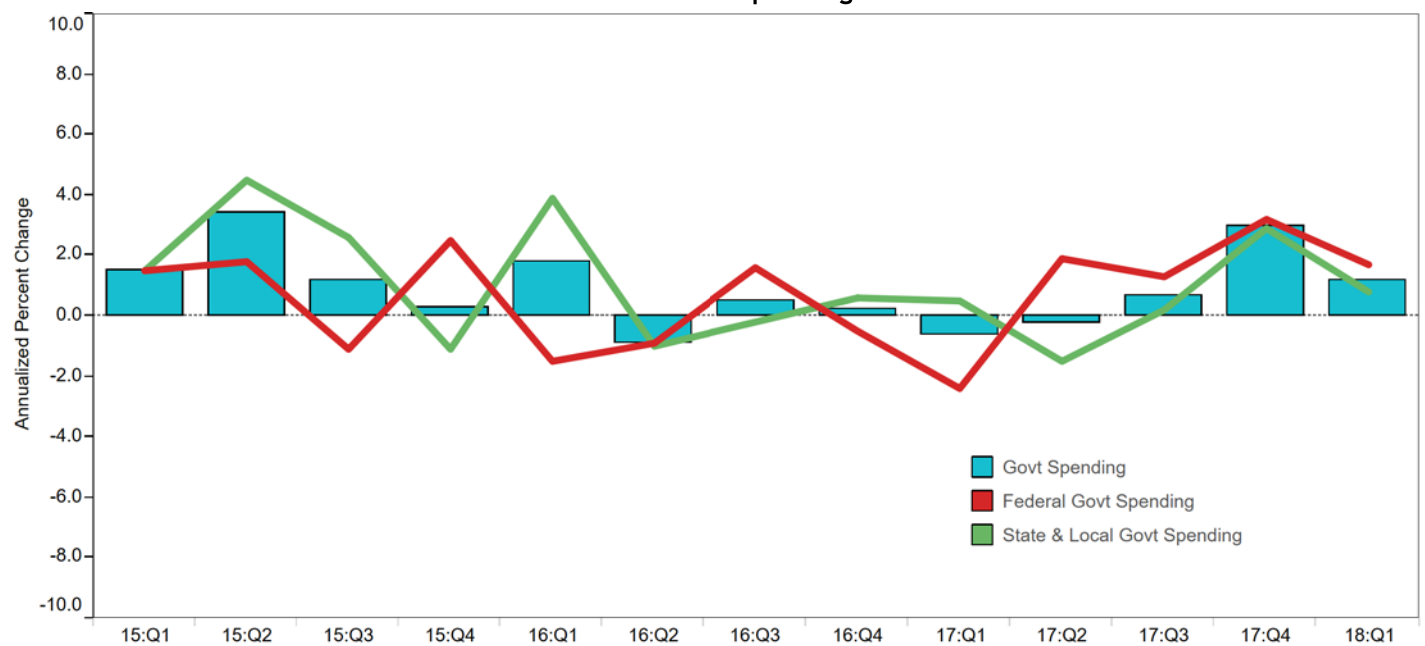


Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.



In the first quarter, government spending decelerated while registering an increase for the third consecutive quarter. The lower rate in the first quarter was due to decelerations both in federal and in state and local government spending.

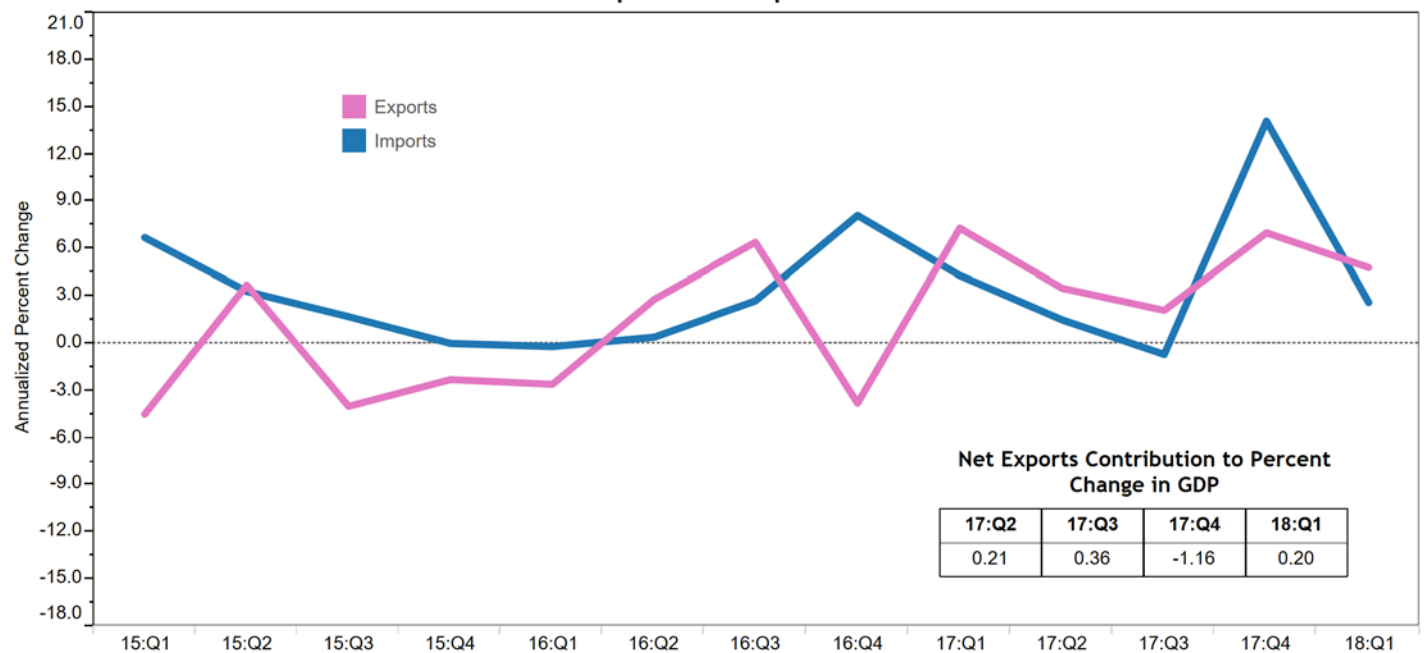
### Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Growth in both exports and imports decelerated in the first quarter, but exports growth outpaced that of imports. This resulted in a boost to GDP from net exports in the first quarter.

### Exports and Imports

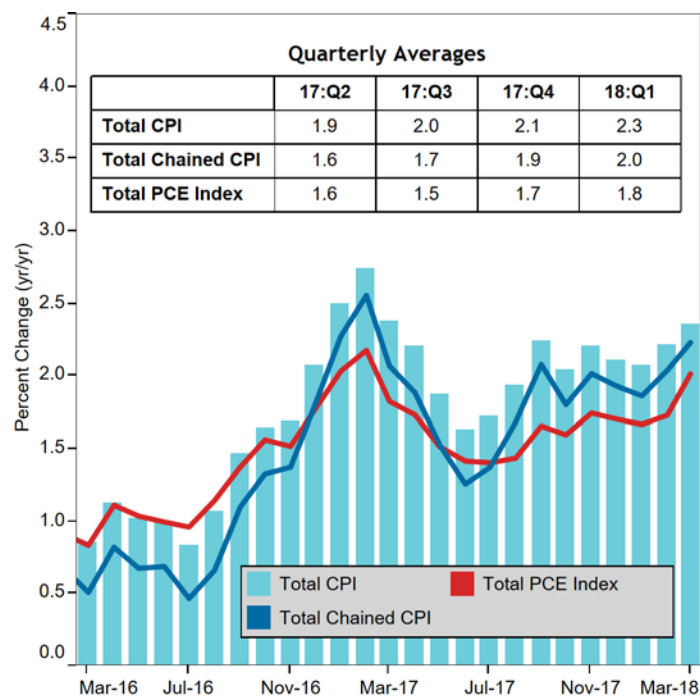


Source: Bureau of Economic Analysis / Haver Analytics.

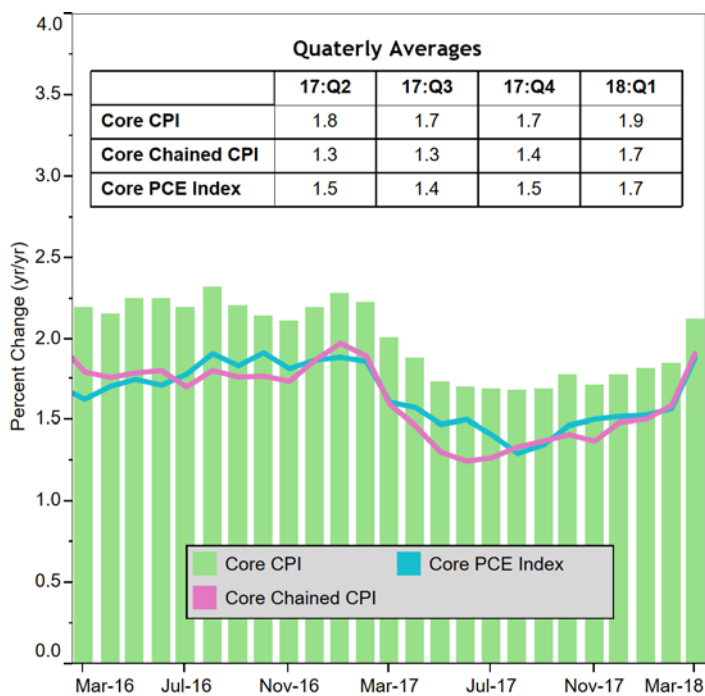


Growth in total consumer prices continued to pick up in March, and was up, on average, in the first quarter compared to the fourth. Excluding the volatile food and energy sectors, growth in core prices also accelerated in March, and picked up, on average, in the first quarter.

### Total Price Indices



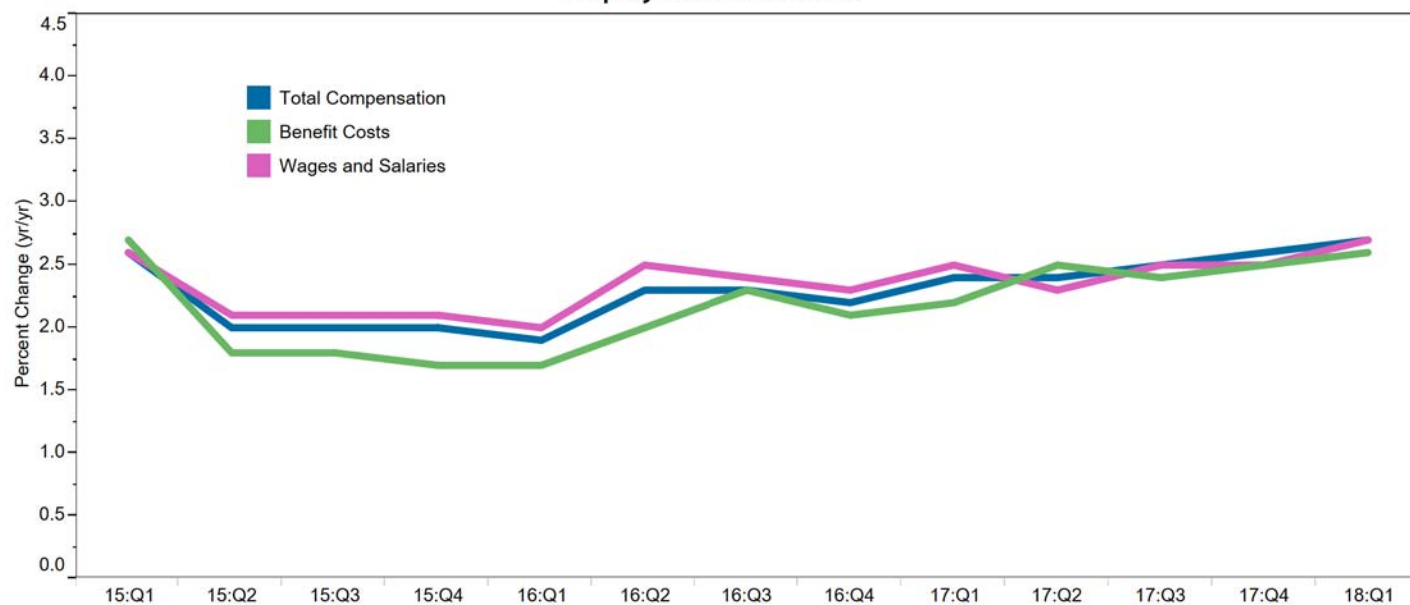
### Core Price Indices



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

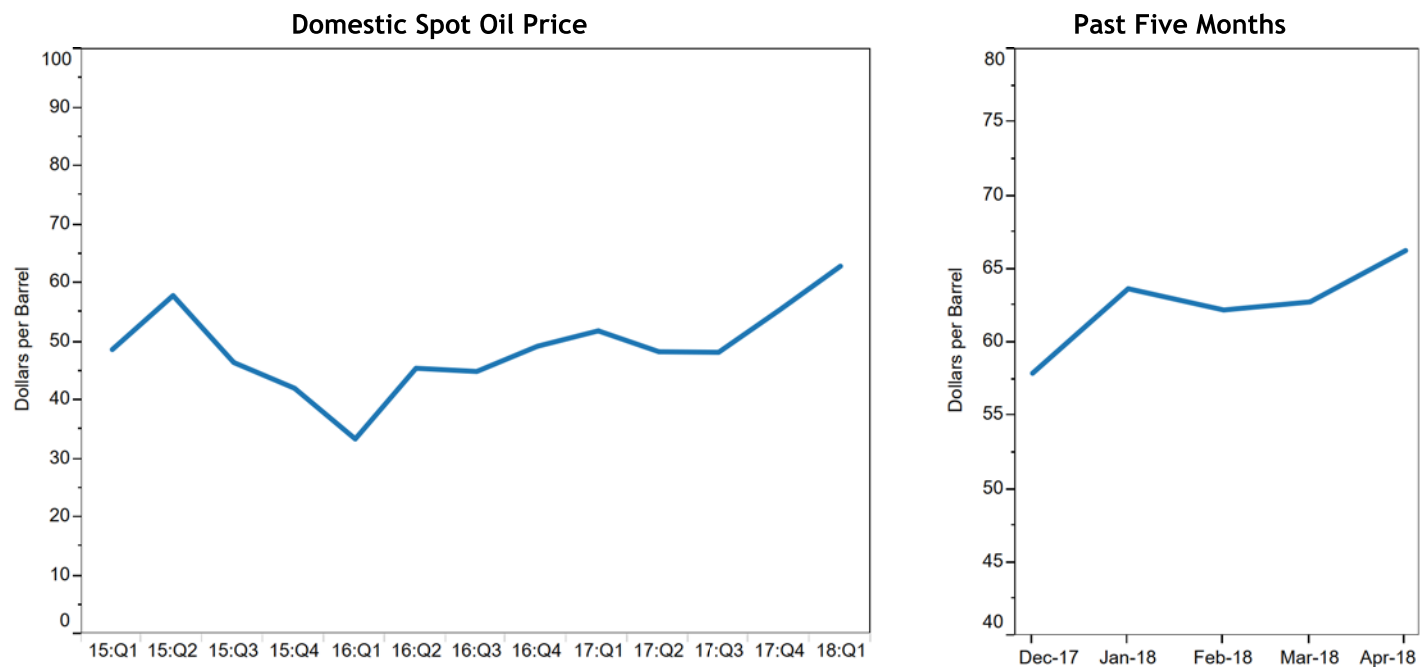
In the first quarter, total compensation growth picked up a bit from its rate in the fourth quarter, as growth of wages and salaries and growth of benefit costs both accelerated slightly.

### Employment Cost Index



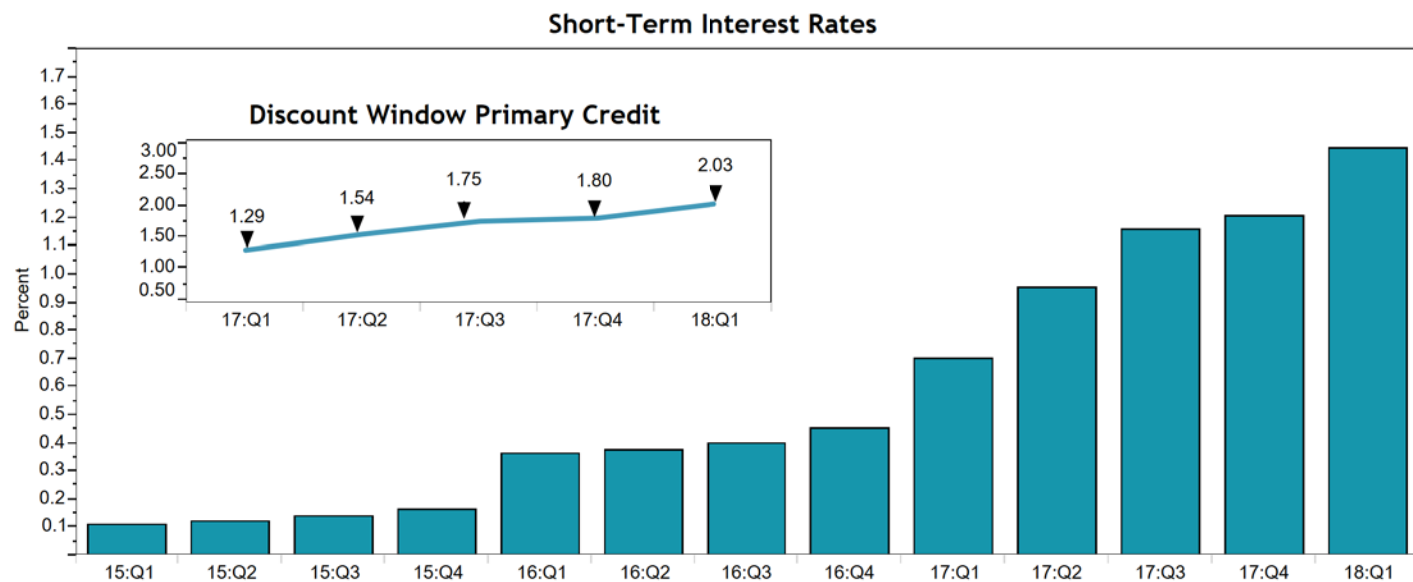
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices rose in April from the prior month and were above the levels seen in the first quarter, which was the highest quarterly average in over three years. The daily closing prices reached \$68.6 per barrel on April 30.



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.