

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

May 9, 2019

CURRENT ECONOMIC DEVELOPMENTS - May 9, 2019

Data released since your last Directors' meeting show that economic growth jumped above expectations in the first quarter, albeit with signs that the uptick might be temporary. In April, the unemployment rate reached the lowest level since December 1969. Consumer spending and attitudes have been somewhat mixed but generally positive. Business investment has remained stable near the muted levels that ended last year. Data from the housing market were mixed. Overall, recent data suggest a moderation in growth rates closer to potential over the next few quarters.

In April, nonfarm payrolls posted a healthy increase, while the previous two months' job gains were revised upward on net. The unemployment rate fell to a 48-year-low of 3.7% in April although the decrease was due largely to a drop in the labor force. Initial claims for unemployment insurance remained near historic lows despite increases seen over the last few weeks.

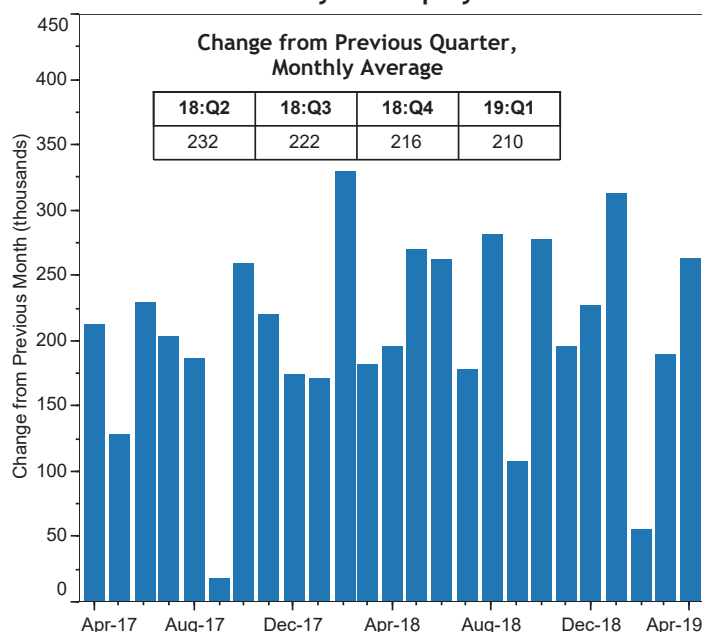
The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures, private inventory investment, exports, state and local government spending, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased. These contributions were partly offset by a decrease in residential investment.

Consumer spending increased in March despite a decline in real income. Vehicle sales declined to their lowest rate since 2015. Consumer attitudes were mixed in April as sentiment eased and confidence rose. Both durable goods orders and core orders rose in the first quarter after falling in the fourth quarter, and continued to grow on a year-over-year basis. The ISM index declined in April to its weakest level since late 2016, though still remained above 50 to signal continued expansion. Industrial production and capacity utilization both declined in March extending their recent stretch of soft readings. The housing market data improved in the first quarter but remained soft overall. Housing starts rose and building permits eased, while new and existing home sales both increased. Still, residential investment remains a slight drag on GDP growth.

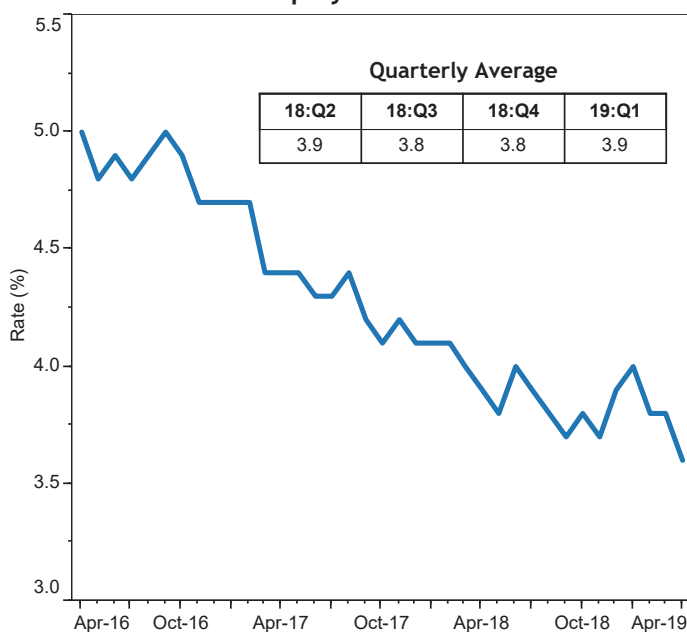
Total consumer inflation slowed in the first quarter as measured by both the CPI and the PCE, despite an 8.2% increase in gasoline prices during February and March. Core measures also slowed in the first quarter but to a lesser extent. Growth in compensation and total employment costs both slowed in the first quarter while unit labor costs declined. Oil prices fell from an average of \$59.0 per barrel in 2018:Q4 to \$54.9 in the first quarter of this year, but have been rising steadily in recent months.

Nonfarm payrolls added 263,000 jobs in April, and previous months' gains were revised upward by a net 16,000 jobs. The unemployment rate fell to 3.6% in April - the lowest level in almost 50 years - while participation declined to 62.8%.

Nonfarm Payroll Employment

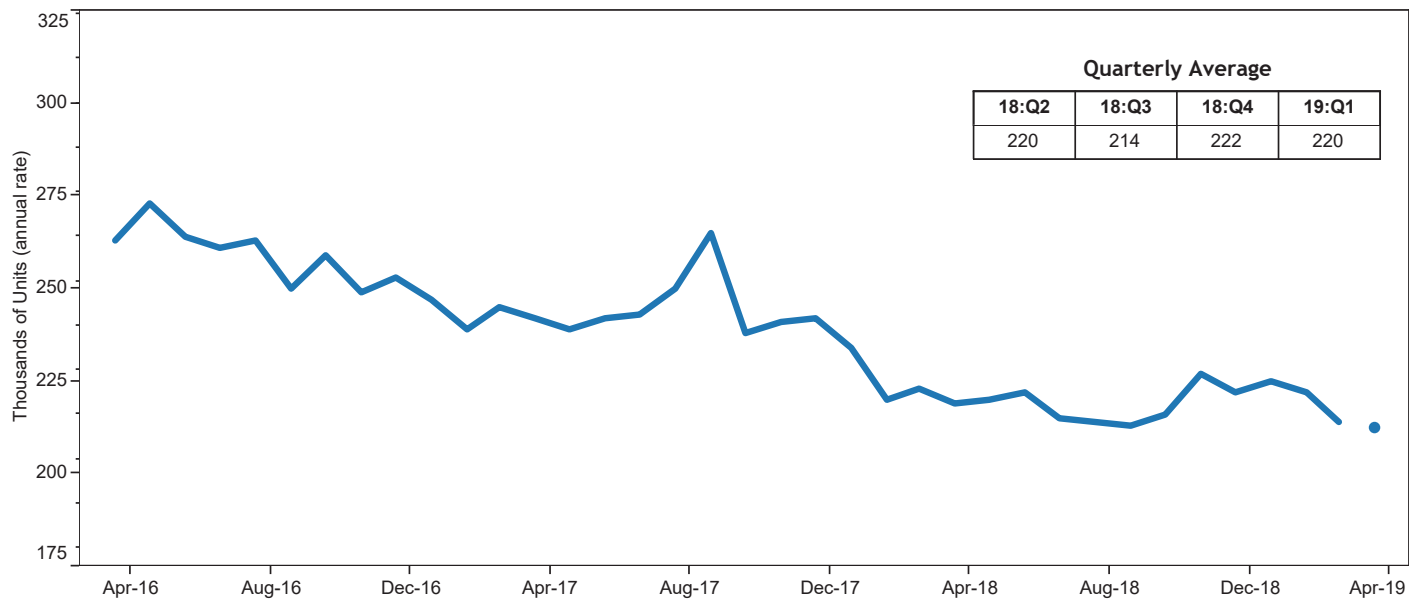


Unemployment Rate



Initial claims for unemployment insurance held steady in the last week of April remaining close to recent historic lows. The latest 4-week moving average rose to 212,500 claims filed - still below March's reading.

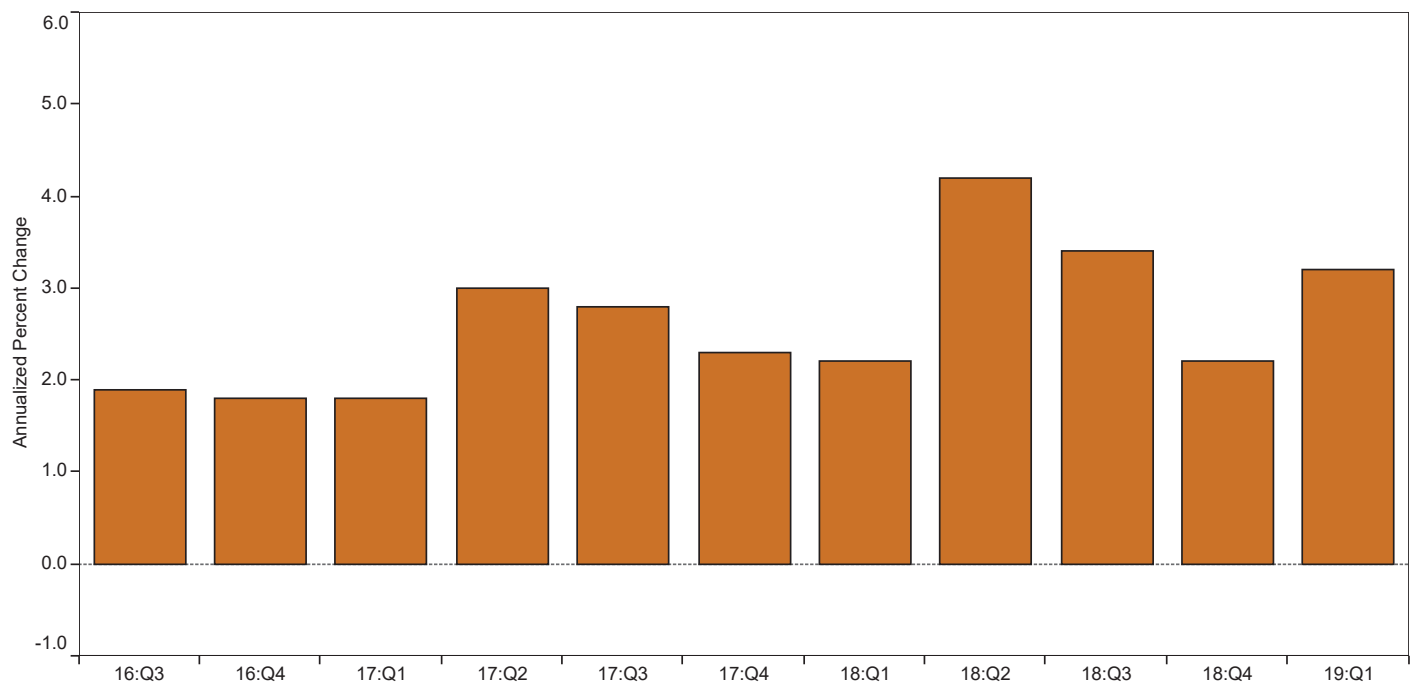
Initial Claims



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

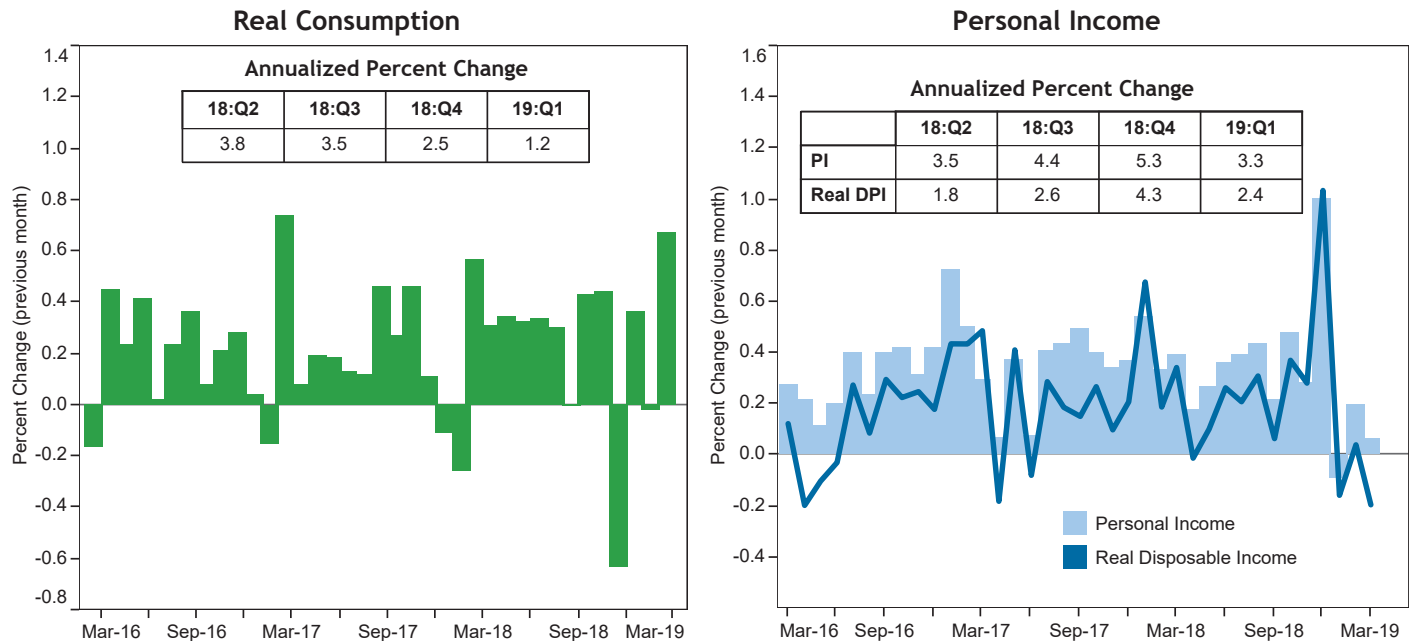
Real GDP beat expectations by rising to 3.2% in the first quarter. Lower than expected government spending and gross investment were more than offset by strength in net exports and an unexpectedly sharp build in inventory investment. A measure which excludes those components, final sales to domestic purchasers, rose only 1.4% which suggests the increase will not be a trend. The increase comes despite a much smaller contribution to growth from personal income expenditures (PCE).

Real Gross Domestic Product



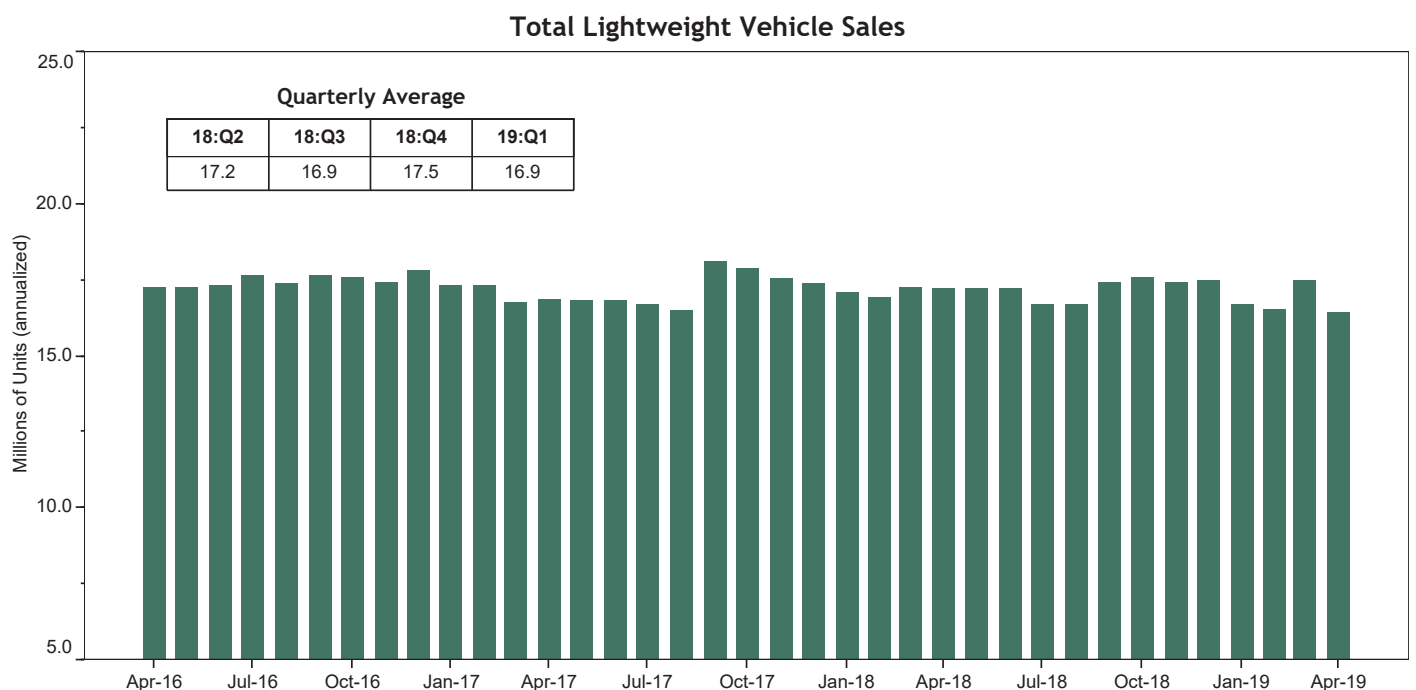
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth was up 1.2% in the first quarter. Nominal and real income also grew, 3.3% and 2.4%, respectively. On a monthly basis, consumption rose sharply in March to 0.7% over February's reading. Nominal income growth saw a small gain of 0.1% while real income dipped 0.2%.



Source: Bureau of Economic Analysis / Haver Analytics.

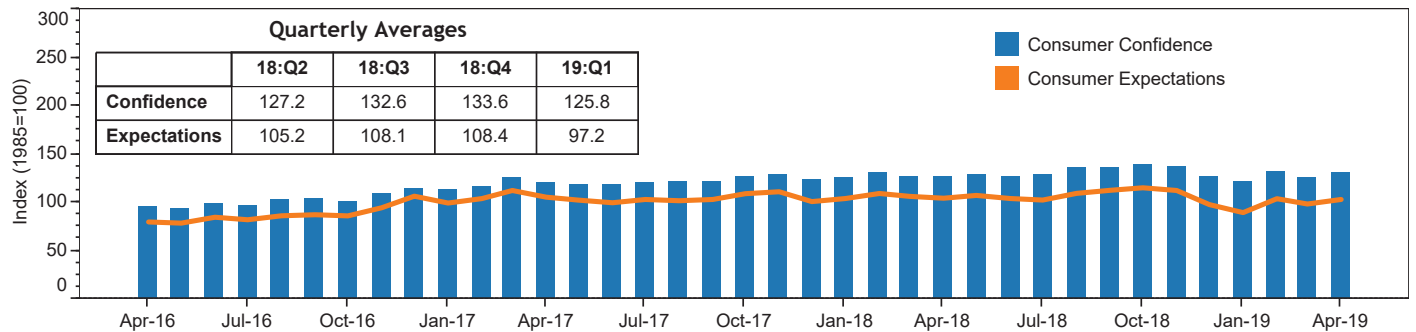
In April, total lightweight vehicle sales fell to the lowest rate since the beginning of 2015. The annual sales rate fell to 16.4 million units due in part to increases in new car prices and interest rates above 6%.



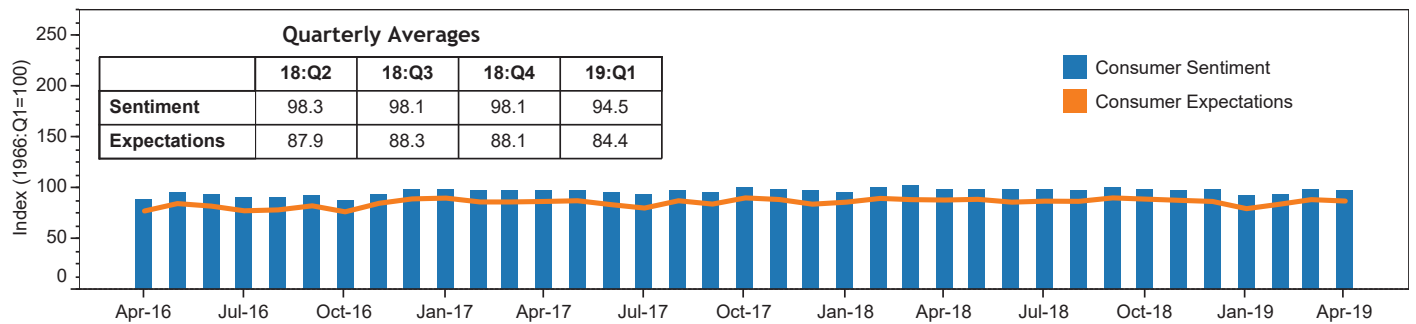
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in April, as the confidence index improved while the sentiment index eased. Both indices were above their first quarter averages, when measures were restrained by the government shutdown and weak February jobs report. Overall, wage growth, stock market highs, and low inflation suggest attitudes will remain elevated in the coming months.

Consumer Confidence and Expectations



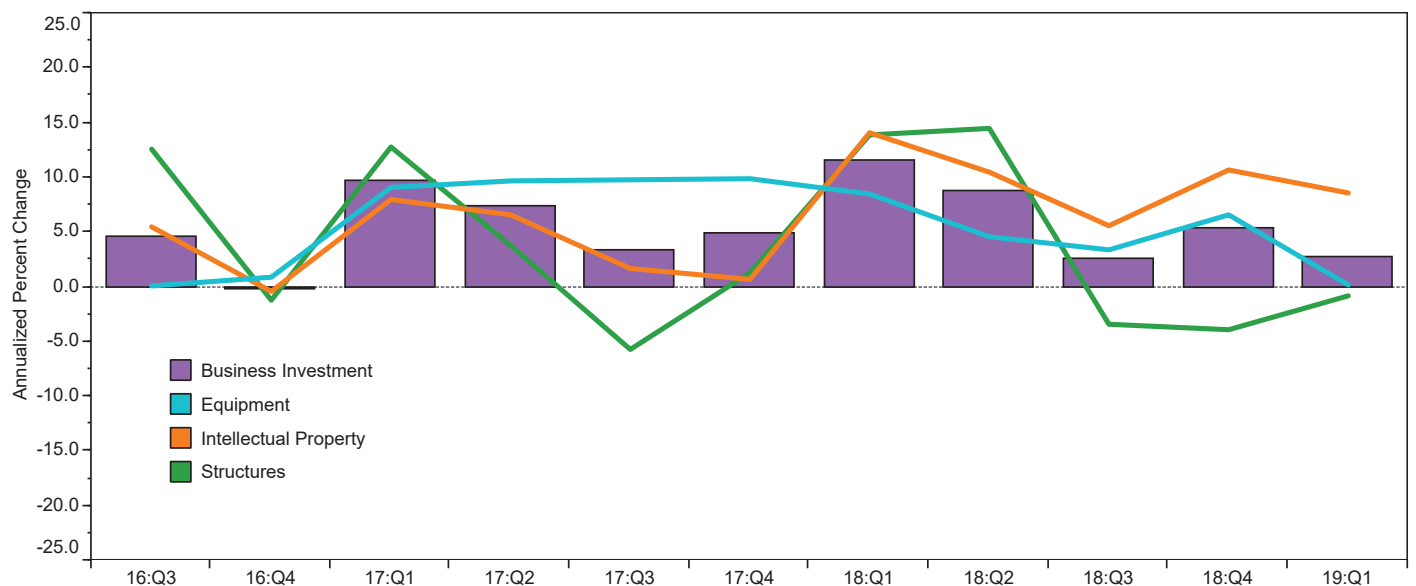
Consumer Sentiment and Expectations



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

Business investment rose 2.7% in the first quarter, after hitting 5.4% in the previous quarter. The first quarter increase was led by an 8.6% gain in intellectual property, while investment in structures and equipment was little changed.

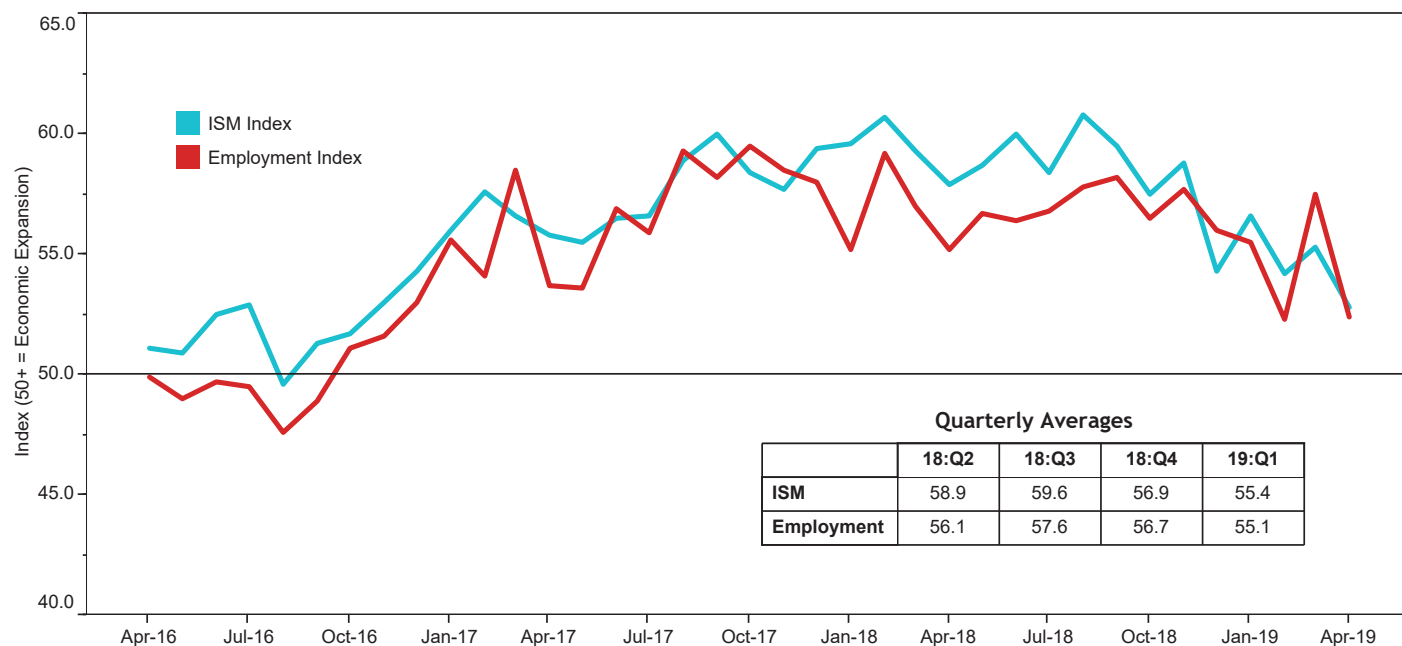
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM index fell to 52.8 in April, down from 55.3 in the prior month. The employment index fell to a two year low of 52.4 from 57.5. Supplier deliveries rose from 54.2 to 54.6 and inventories rose from 51.8 to 52.9. While the ISM index has been trending downward since last August, it continues to signal expansion of manufacturing activity.

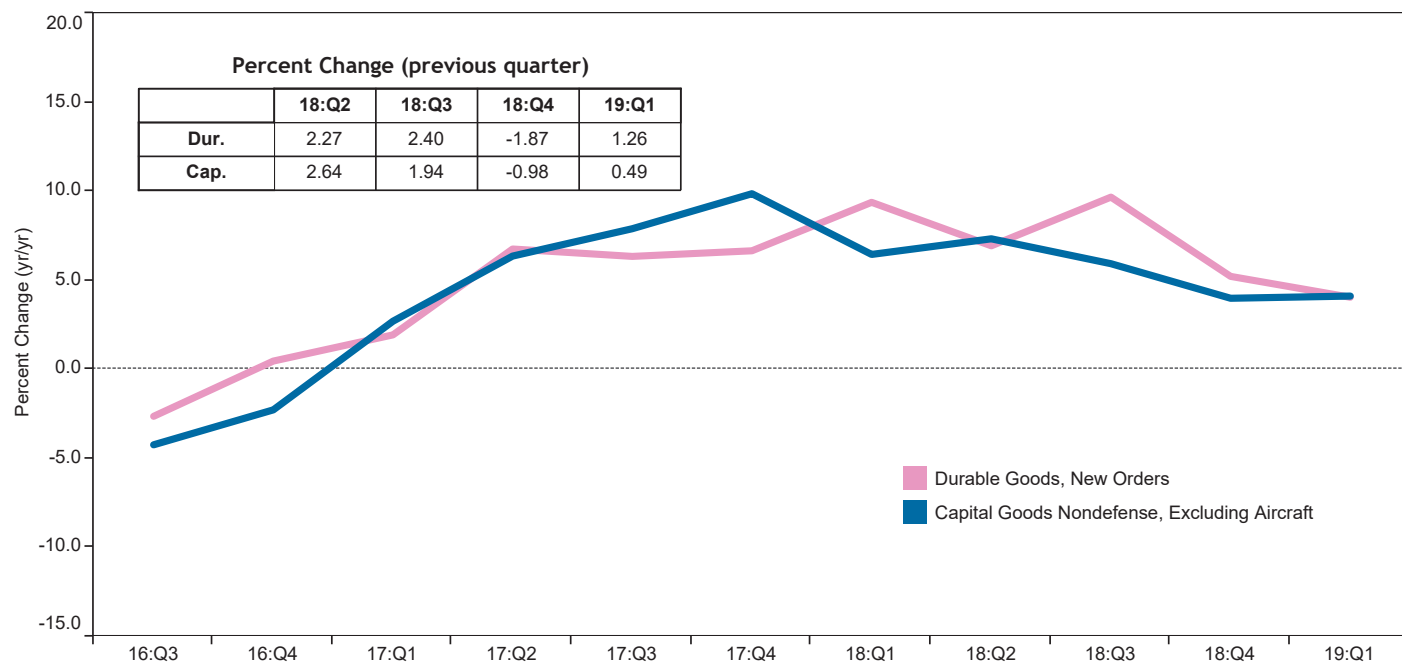
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Both total and core durable goods orders rose above expectations in March, and rebounded overall in the first quarter from a disappointing fourth quarter. Year-over-year growth was little changed.

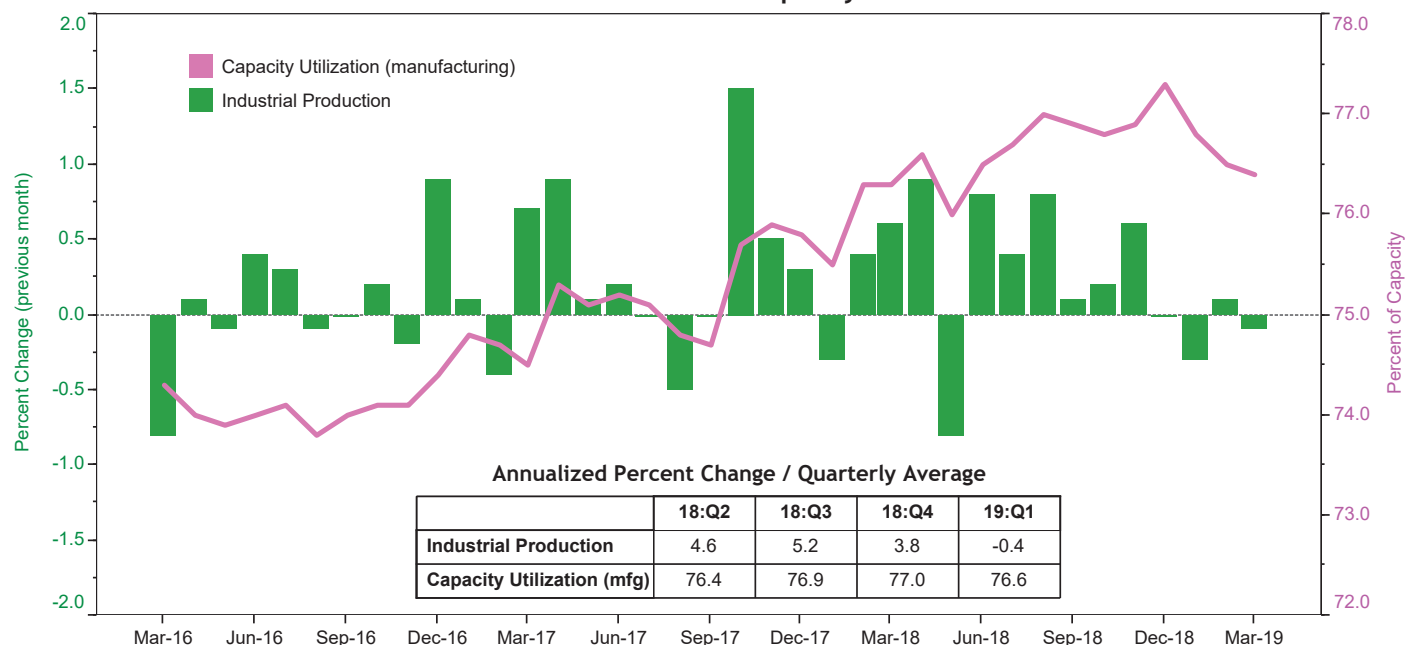
Durable Goods Orders



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

At an annual rate, industrial production slowed in the first quarter after rising in each of the previous five quarters. In March, mining production declined by 0.8%, more than offsetting a small increase in utilities output of 0.2%, while manufacturing remained flat. Capacity utilization for manufacturing edged down 0.1 percentage point in March to 76.4%.

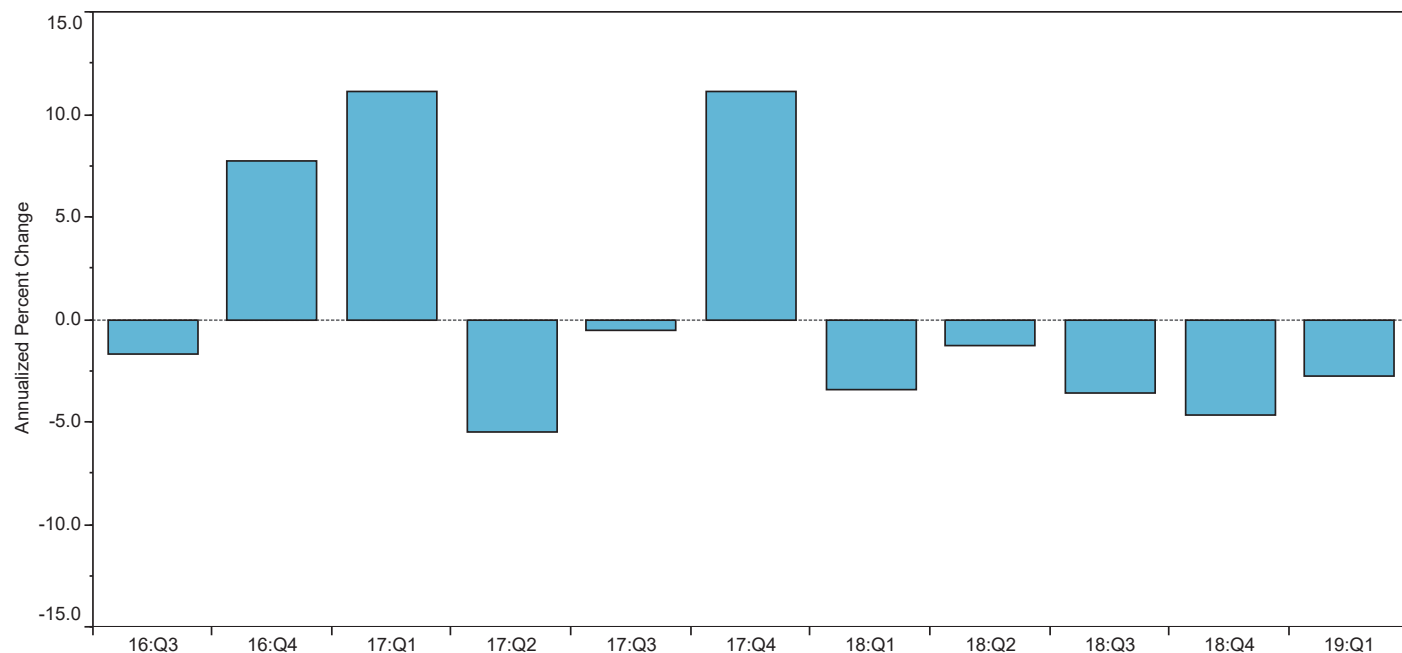
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment, which decreased 2.8% in 2019:Q1, has seen decreases in every quarter since 2017:Q4.

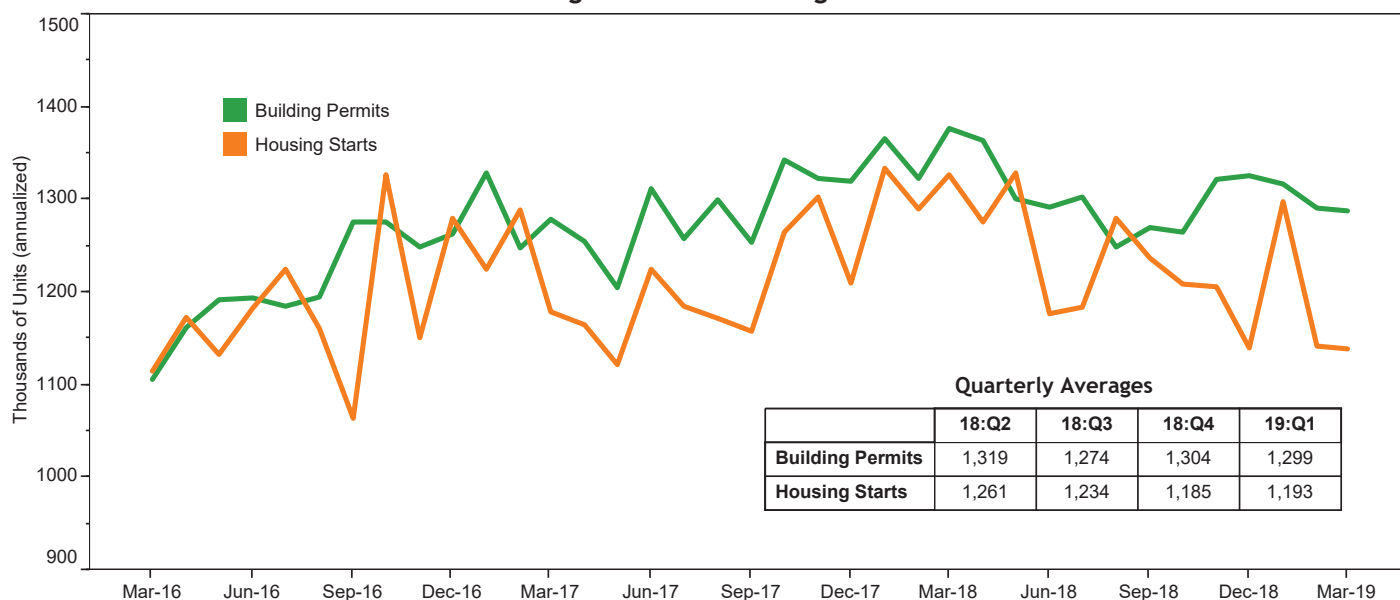
Residential Investment



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

New residential construction data were little changed in March. Housing starts eased slightly after falling sharply in February, while building permits edged down for the third consecutive month. Notably, single-family activity has been trending downward, as starts were the slowest since September 2016 and permits the slowest since August 2017.

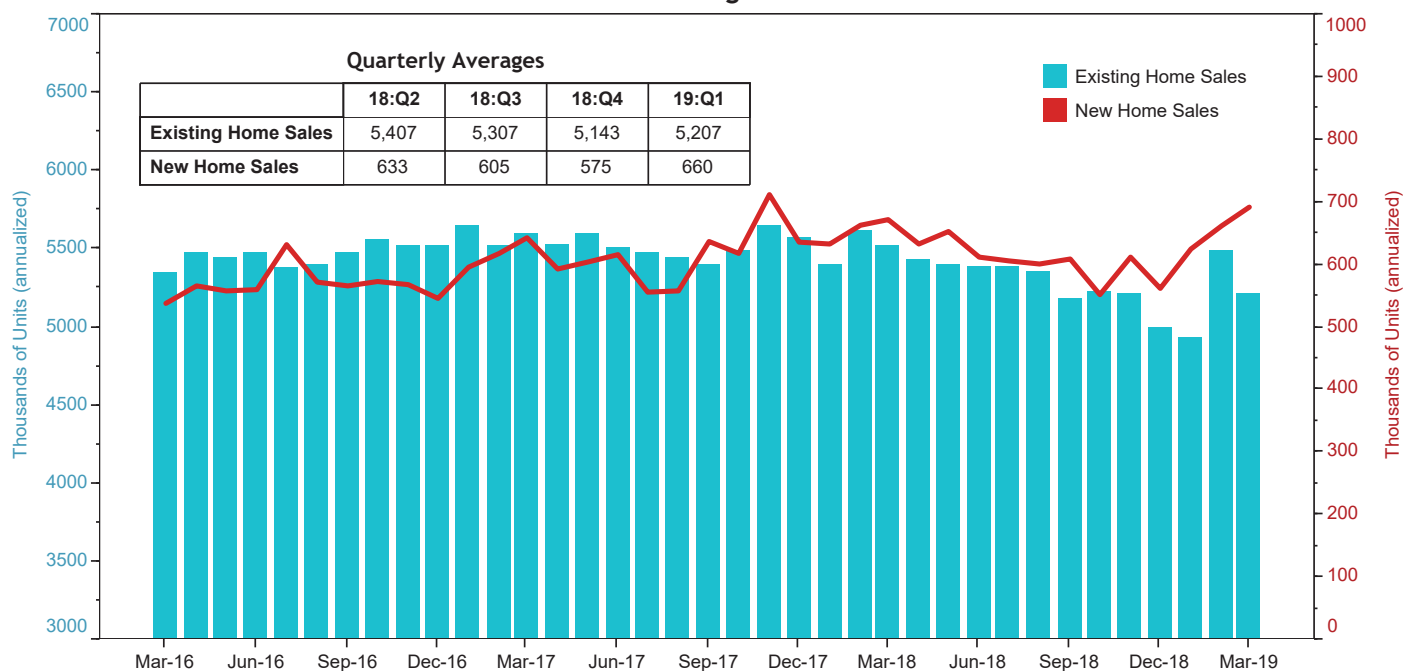
Housing Starts and Building Permits



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

Existing home sales fell 4.9% in March. All U.S. regions saw declines, with the Midwest being hit the hardest. Existing sales have been declining on a year-over-year basis for more than a year. Conversely, new home sales rose 4.5% in March, their third consecutive monthly gain. The median sales price of a new home fell to \$302,700, the lowest level in more than two years.

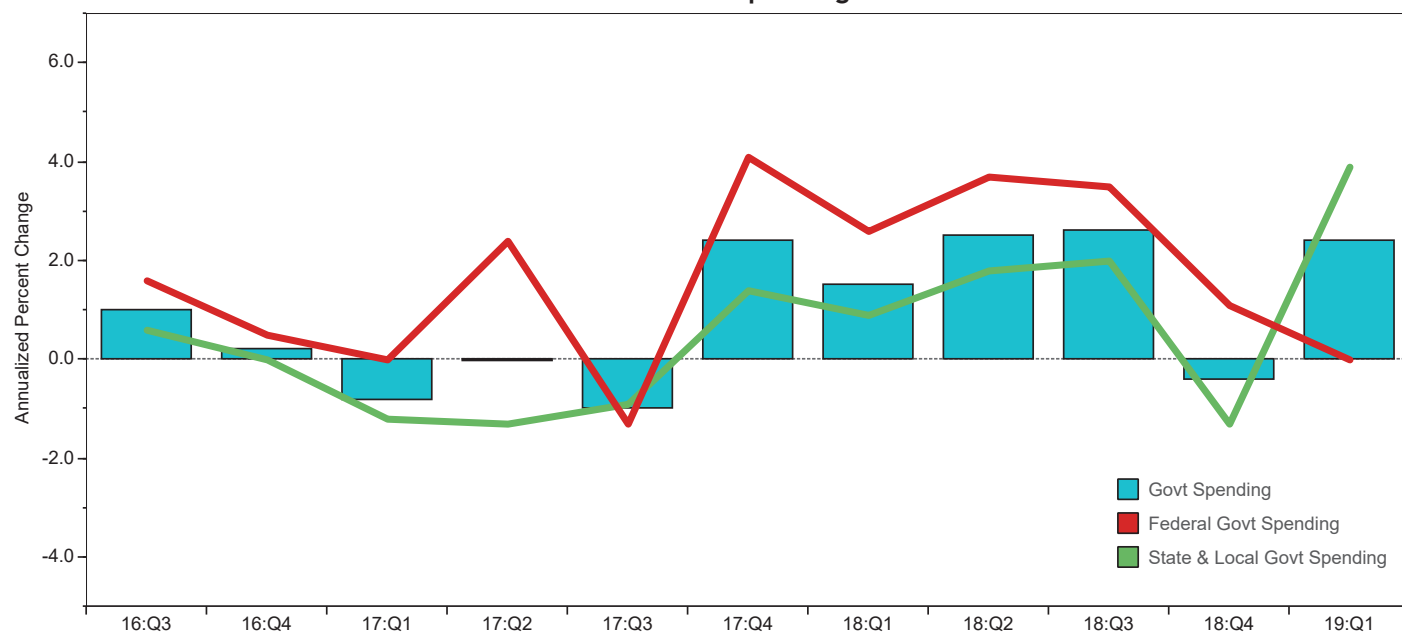
New and Existing Home Sales



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

In the first quarter, government spending rebounded to a gain of 2.4%, which was due to an increase of 3.9% in state and local government spending. Federal government spending was flat.

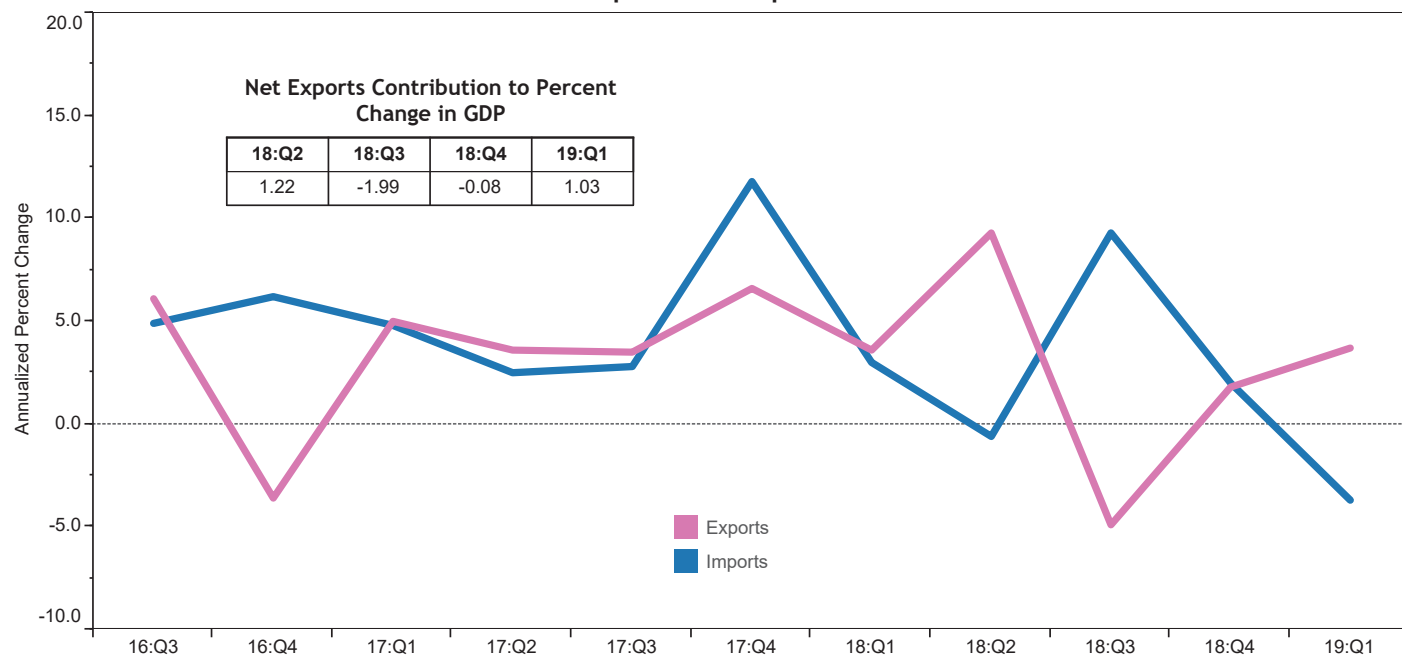
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Net exports added 1.03% to GDP in the first quarter of 2019, the largest contribution to growth since the second quarter of 2018.

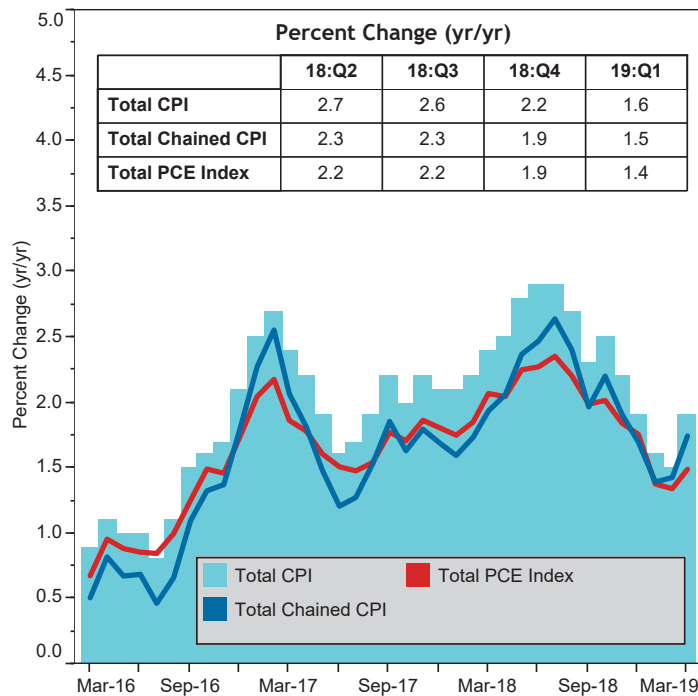
Exports and Imports



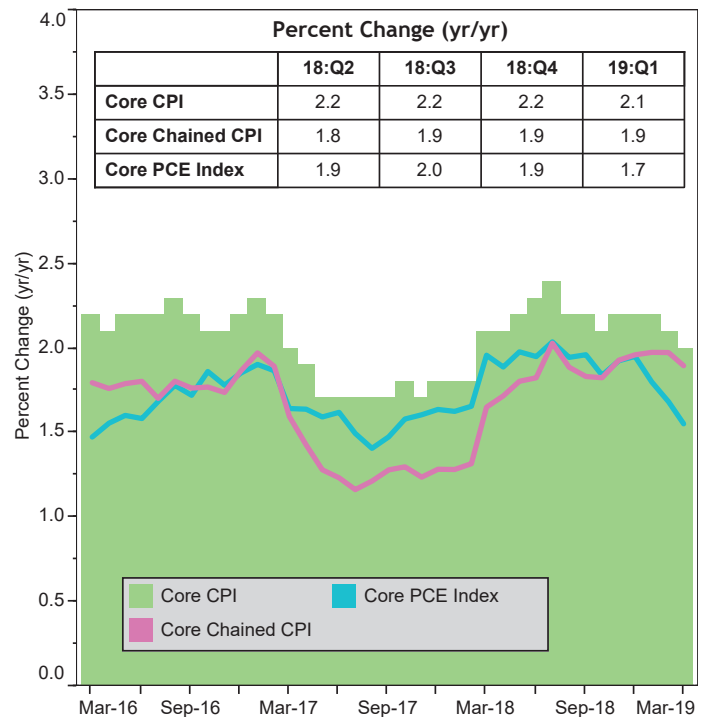
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in total consumer prices decelerated in the first quarter. Measures of the growth in core prices, excluding the volatile food and energy sectors, as measured by both the CPI and PCE, declined as well. In March, growth in total prices accelerated due to rises in oil prices, while growth in core prices increased in line with expectations at 0.15%.

Total Price Indices



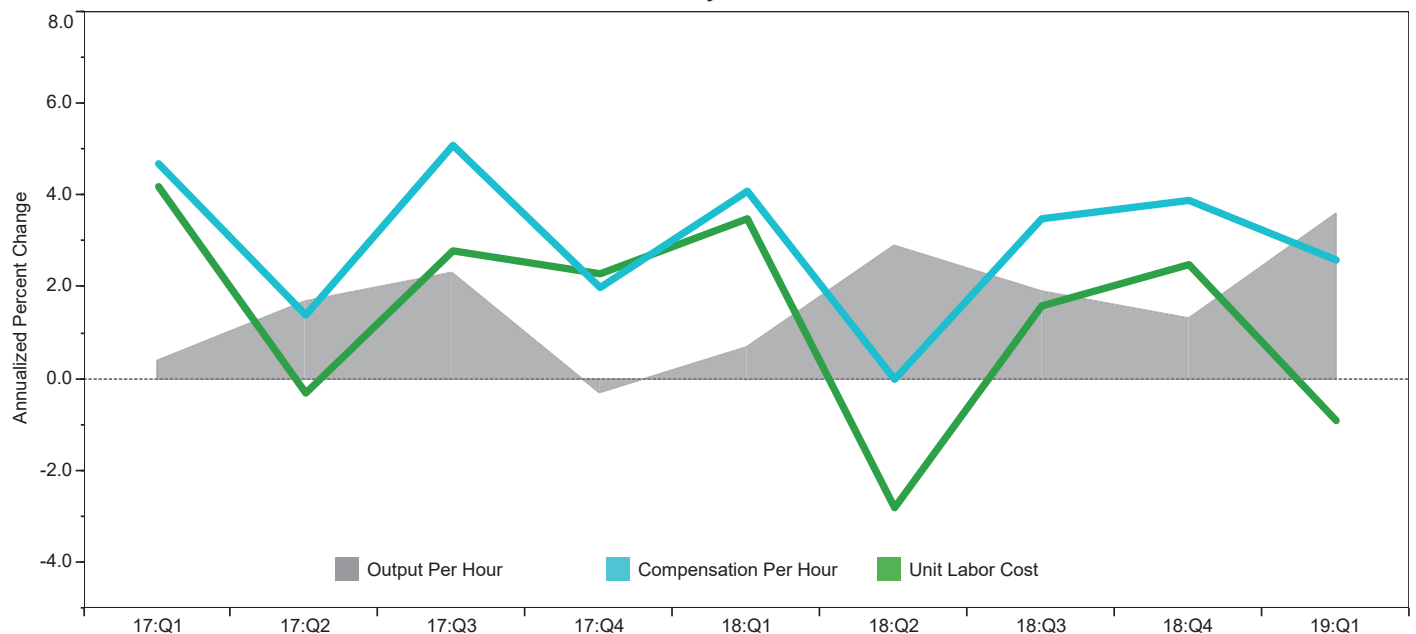
Core Price Indices



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

Productivity growth increased at a 3.6% seasonally adjusted annual rate in the first quarter. Year over year, productivity rose 2.4%, the best year-over-year performance since the third quarter of 2010. Unit-labor costs, a gauge of compensation expenses, decreased at a 0.9% annual rate in the first quarter compared to Q4 2018. However, from a year earlier, unit-labor costs are up 0.1%, showing that pay increases were mostly offset by better efficiency, which helps keep inflation in check.

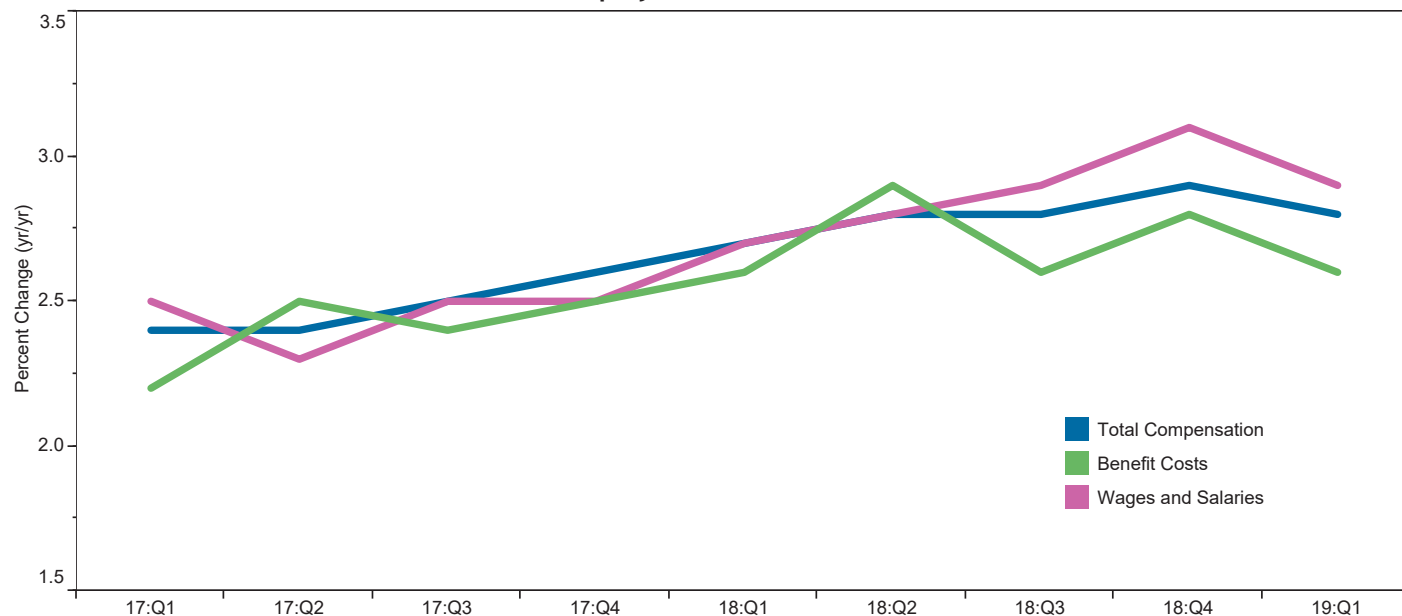
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the first quarter, total compensation growth and wage and salary growth both held steady at 0.7%. From a year earlier, total compensation increased 2.8% in the first quarter, down slightly from 2.9% in the fourth quarter of last year. Private-sector workers saw wages and salaries rise 0.7% while benefits grew more slowly at 0.5%. State and local government employees saw a 0.6% gain in wages and salaries while benefits climbed 1.0%.

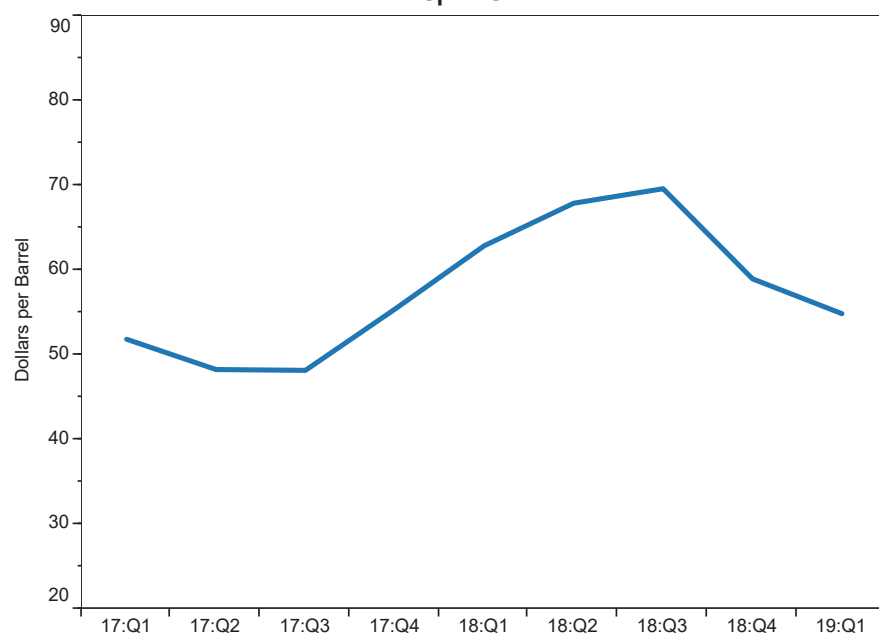
Employment Cost Index



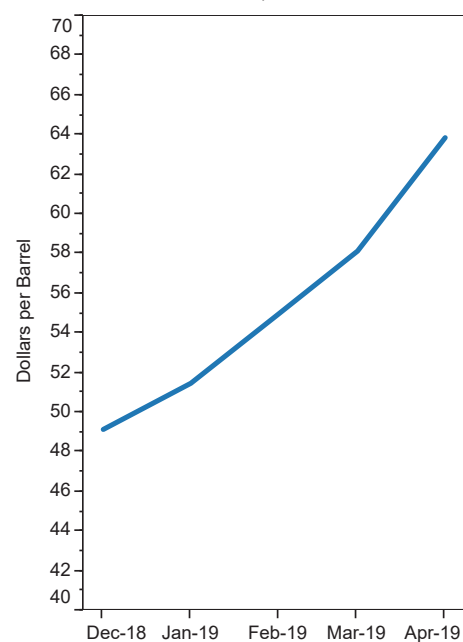
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices continued to rise in April after rising steadily throughout the first quarter.

Domestic Spot Oil Price



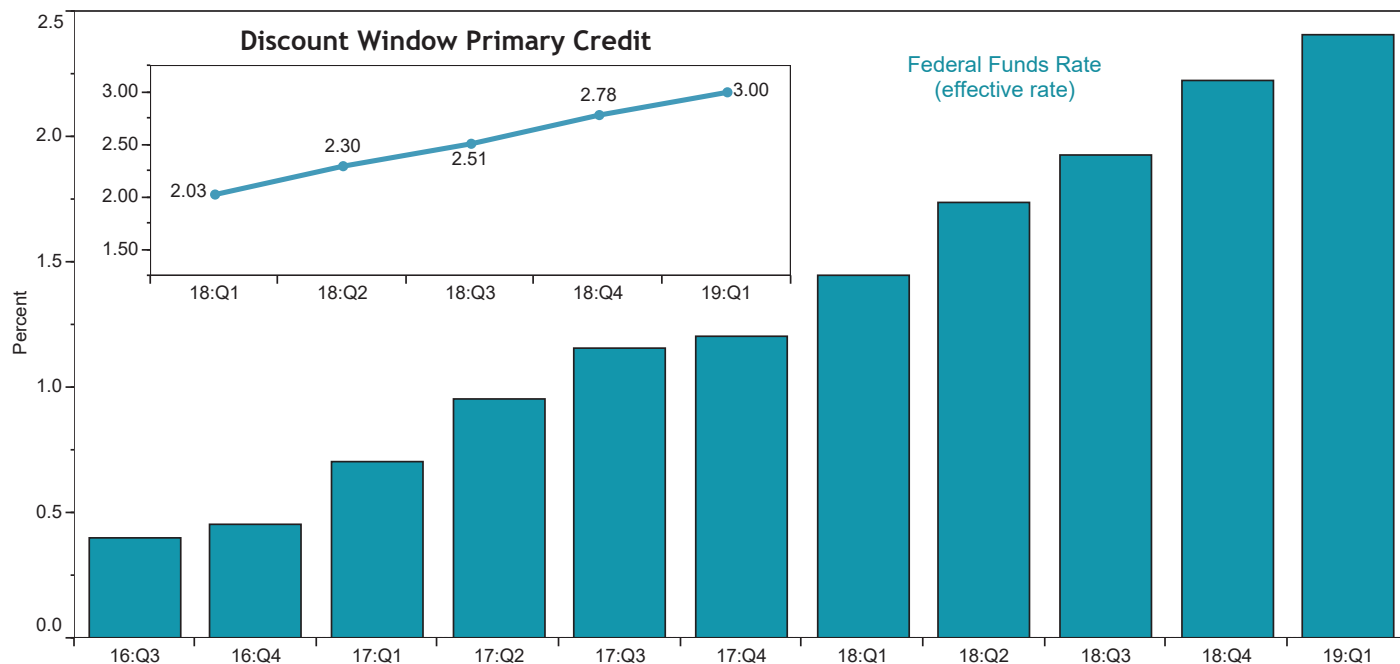
Past Five Months



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

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Short-Term Interest Rates



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