



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

May 11, 2021

CURRENT ECONOMIC DEVELOPMENTS - May 11, 2021

Data released since your last Directors' meeting show that economic growth accelerated in the first quarter, supported by robust fiscal stimulus and improving public health conditions amid increasing vaccinations. Employment conditions have continued to improve and consumer attitudes have risen as optimism about returning to more normal activities has increased. Business and residential investment both rose further, though slowed from the strong gains seen in the previous two quarters. Overall, as health outcomes related to the virus continue to improve and businesses and consumers face fewer restrictions, strong GDP growth is poised to continue through the rest of the year.

In April, nonfarm payrolls posted a smaller than expected increase, and gains in prior months were revised down on net. The unemployment rate also edged up one-tenth, though this was due primarily to a growing labor force offsetting an increase in civilian employment. Despite the soft April report, job gains are expected to continue in the coming months along with further declines in the unemployment rate. Initial claims for unemployment insurance fell further in the latest week to their lowest level since the onset of the pandemic, consistent with an improving labor market.

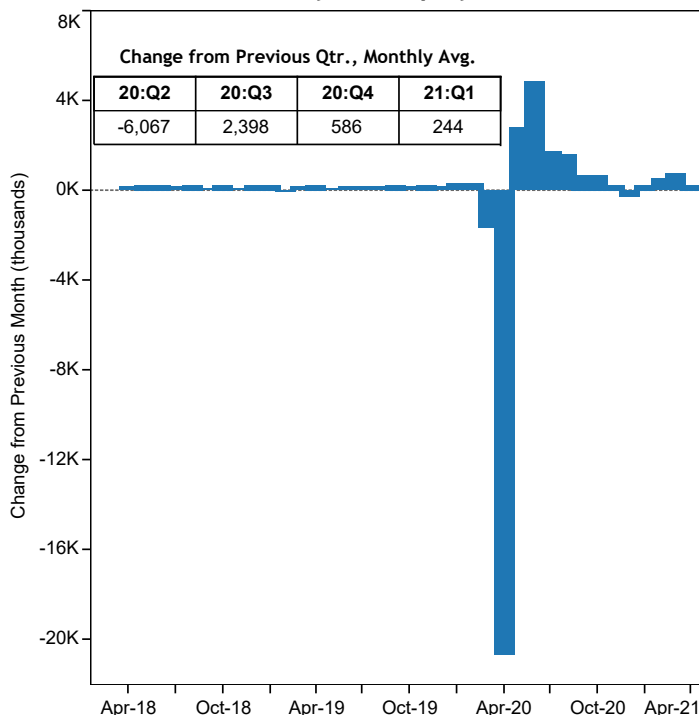
The increase in real GDP in the first quarter primarily reflected increases in personal consumption expenditures, nonresidential fixed investment, residential fixed investment, and government spending. These increases were partly offset by decreases in private inventory investment and exports and an increase in imports. Consumer spending rose sharply in the first quarter, reflecting a surge in incomes from both stimulus payments and wages. Both consumer sentiment and confidence improved to their highest levels since the start of the pandemic. Despite some inventory constraints, lightweight vehicles sold at their fastest pace in over 15 years.

Incoming data on manufacturing remained mostly upbeat. Both total and core durable goods orders rebounded in March after declining in February and remain above their pre-pandemic levels. The ISM manufacturing survey and regional surveys from the Federal Reserve all continued to signal expansion in manufacturing in April, and industrial production and capacity utilization picked up in March. Housing market data have been mixed. Housing starts and building permits both rose in March, and new home sales rebounded sharply. But existing home sales declined further amid rising prices and limited inventory.

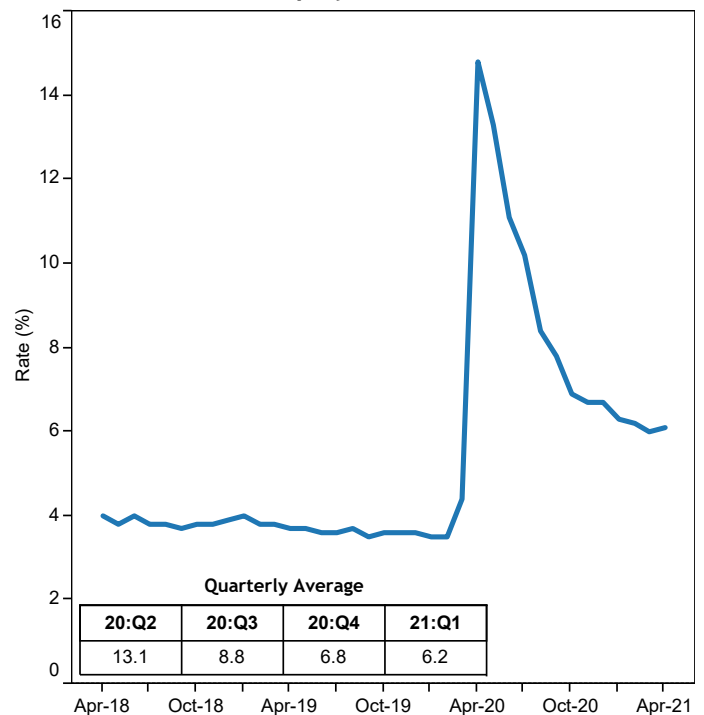
Consumer inflation measures all posted sizable increases in March from February, contributing to mostly large gains for the first quarter as a whole. Core CPI was the exception, decelerating in the first quarter. Year-over-year inflation also accelerated sharply in March, due largely to the low levels seen last year at the start of the pandemic. Compensation per hour rose in the first quarter though unit labor costs declined slightly, and, as measured by the ECI, year-over-year growth in total compensation and wages and salaries both accelerated. After making steady gains since the start of 2021 (gains that boosted the first quarter average above its pre-pandemic levels), oil prices fell slightly in April. Thus far, daily prices have hovered at or above \$64.00 per barrel in May.

Nonfarm payrolls added 266,000 jobs in April while the unemployment rate ticked up to 6.1%. While the increase in jobs was smaller than expected, average hourly earnings and the average workweek increased suggesting faster rising incomes. Also, the increase in the unemployment rate was largely due to an increase in labor force participation rather than a lack of jobs - which is a positive sign for the economy, especially within the context of the pandemic.

Nonfarm Payroll Employment

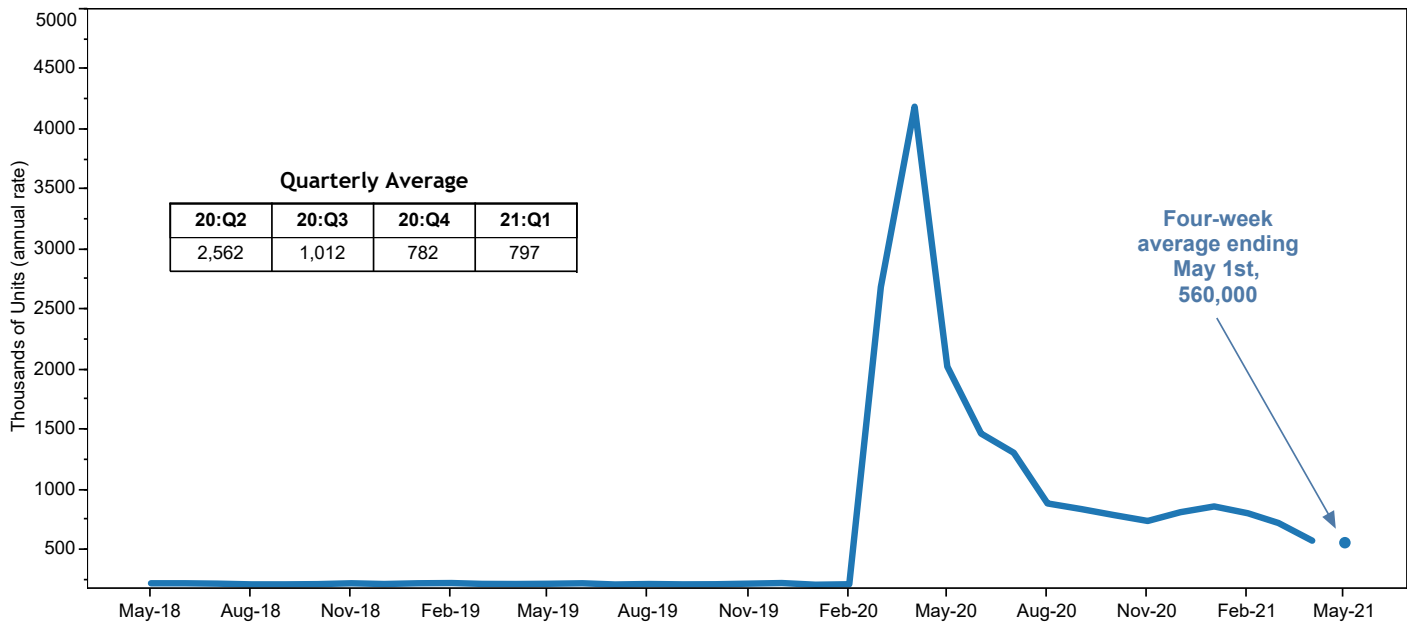


Unemployment Rate



Initial claims for unemployment insurance fell to 498,000 in the week ending May 1 and the four-week moving average fell to 560,000. For both measures these readings were the lowest since March 2020.

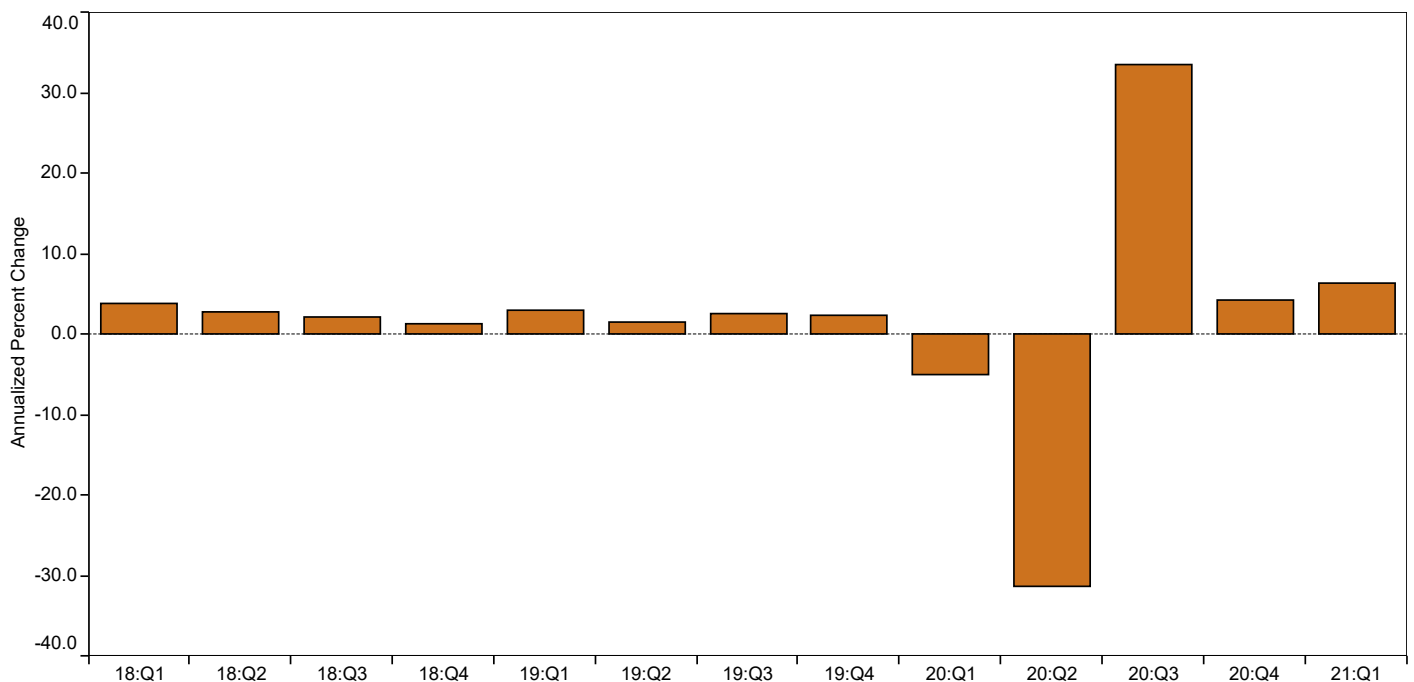
Initial Claims



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

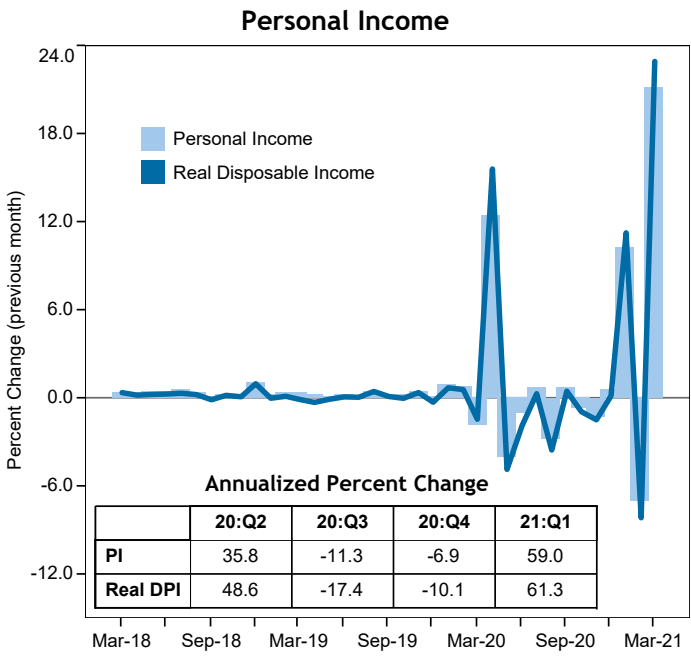
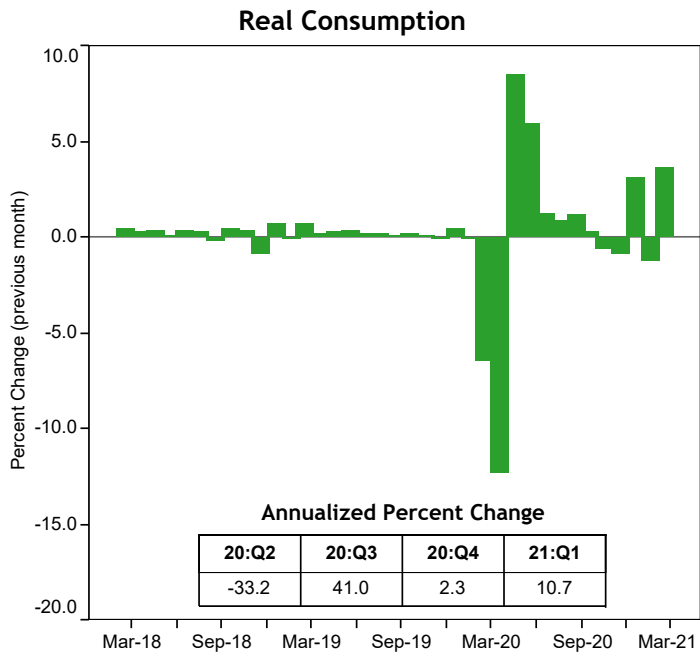
Real GDP grew by 6.4% in the first quarter, accelerating from 4.3% in the fourth quarter. Key contributors to first quarter growth were increases in PCE (notably for motor vehicles, food and beverages, and services), equipment investment, and software products. The increase in federal government spending primarily reflected greater payments made to banks for processing and administering the PPP loan applications as well as purchases of COVID-19 vaccines for distribution to the public. The decrease in inventory investment was primarily in retail trade inventories.

Real Gross Domestic Product



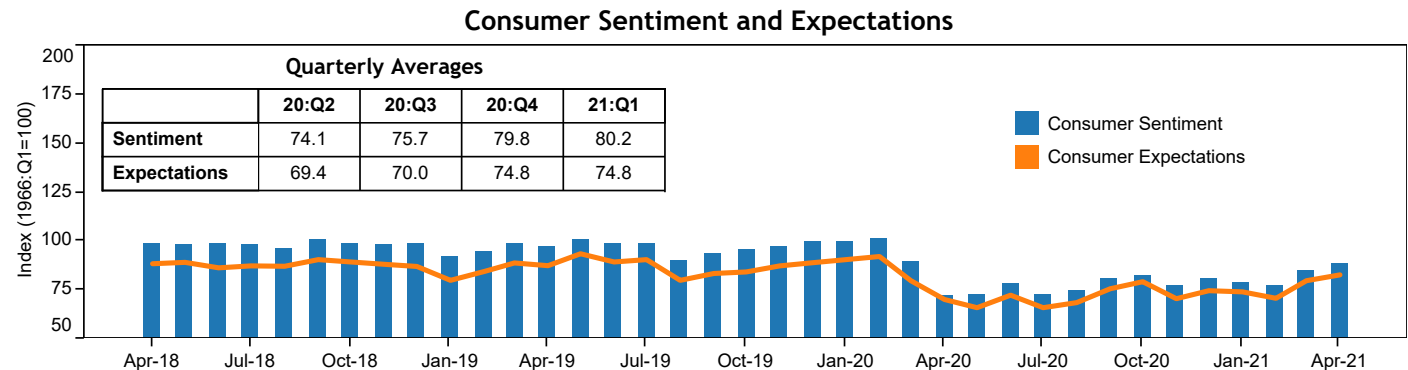
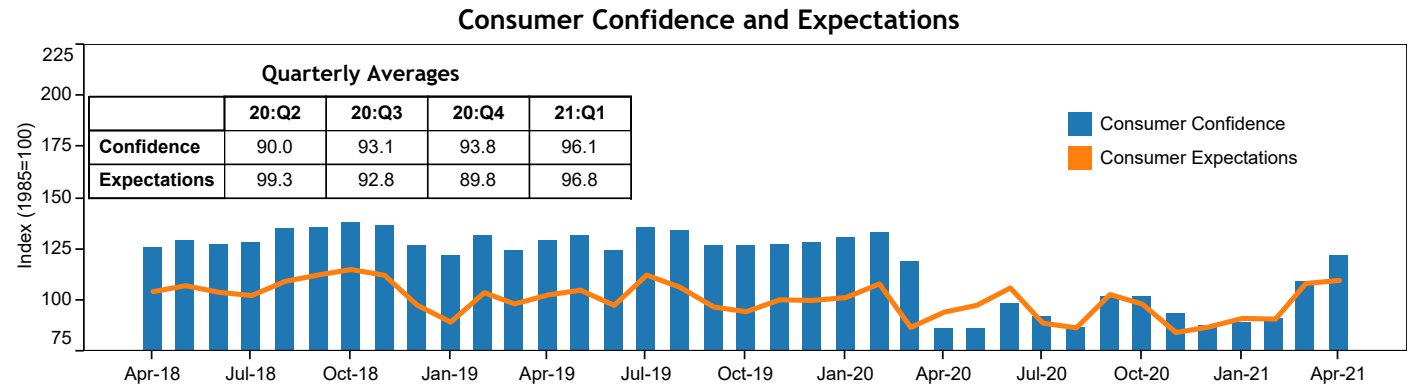
Source: Bureau of Economic Analysis / Haver Analytics.

As most stimulus funds were disbursed in March, measures of income and real consumption surged in recent data on both a quarterly and monthly basis. Real disposable income saw the largest month-to-month change on record in March.



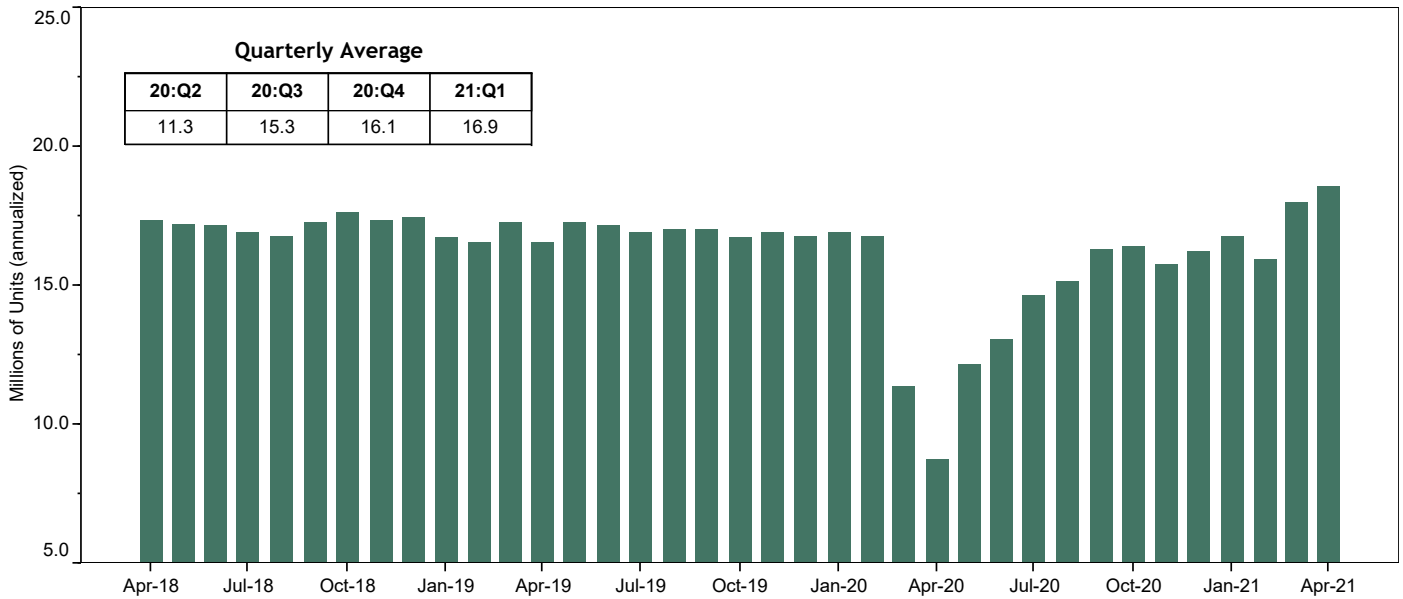
Source: Bureau of Economic Analysis / Haver Analytics.

Consumer attitudes continued to improve in April, on average, after rising in the first quarter. In April, the consumer confidence and sentiment indices rose to their highest levels since February and March of 2020, respectively. The expectations and current conditions subindices evenly contributed to the gains in the sentiment index. However, the gains in the confidence index were almost entirely due to the present situation index soaring, as the expectations index posted only a small gain.



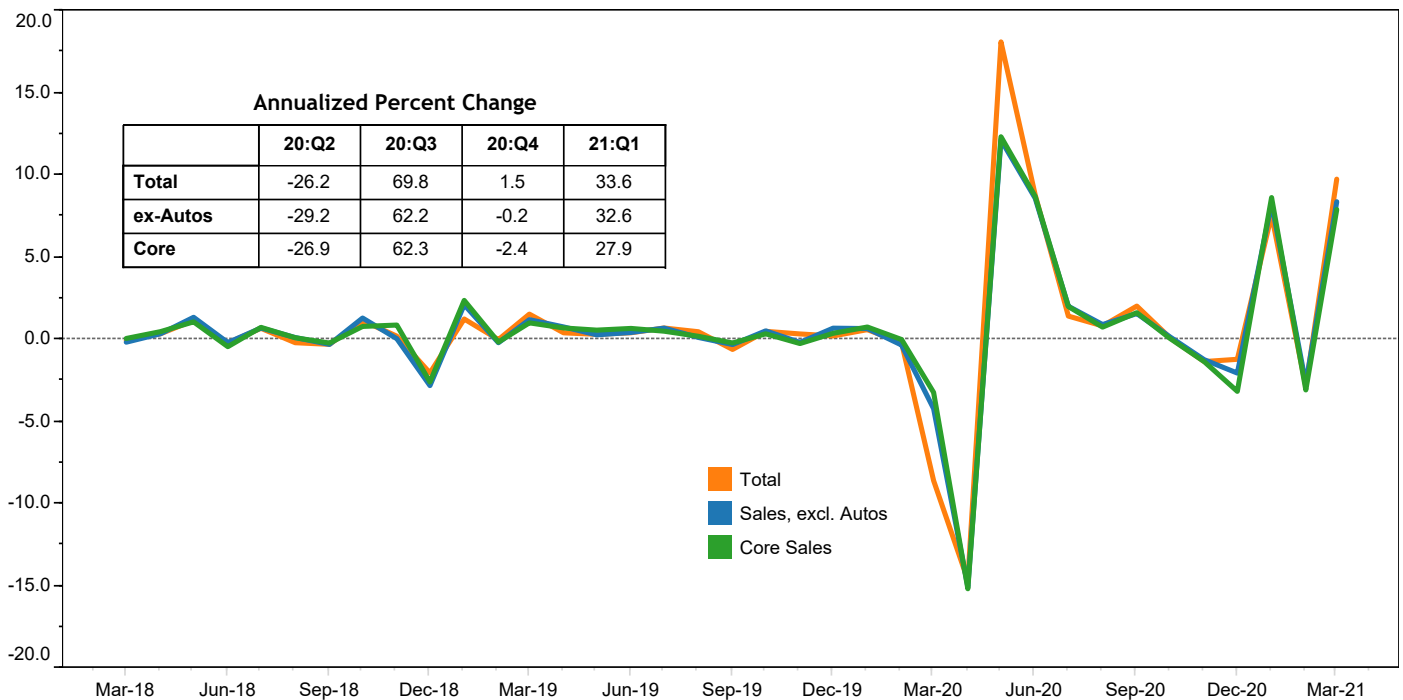
Lightweight vehicle sales sold at an annual rate of 16.9 million units in the first quarter and in March and April sold at robust annual rates of 18.0 million and 18.5 million, respectively, the fastest sales rates in 16 years. However, a semi-conductor shortage and other supply-chain constraints continue to limit inventories and weigh on the industry's ability to meet demand.

Total Lightweight Vehicle Sales



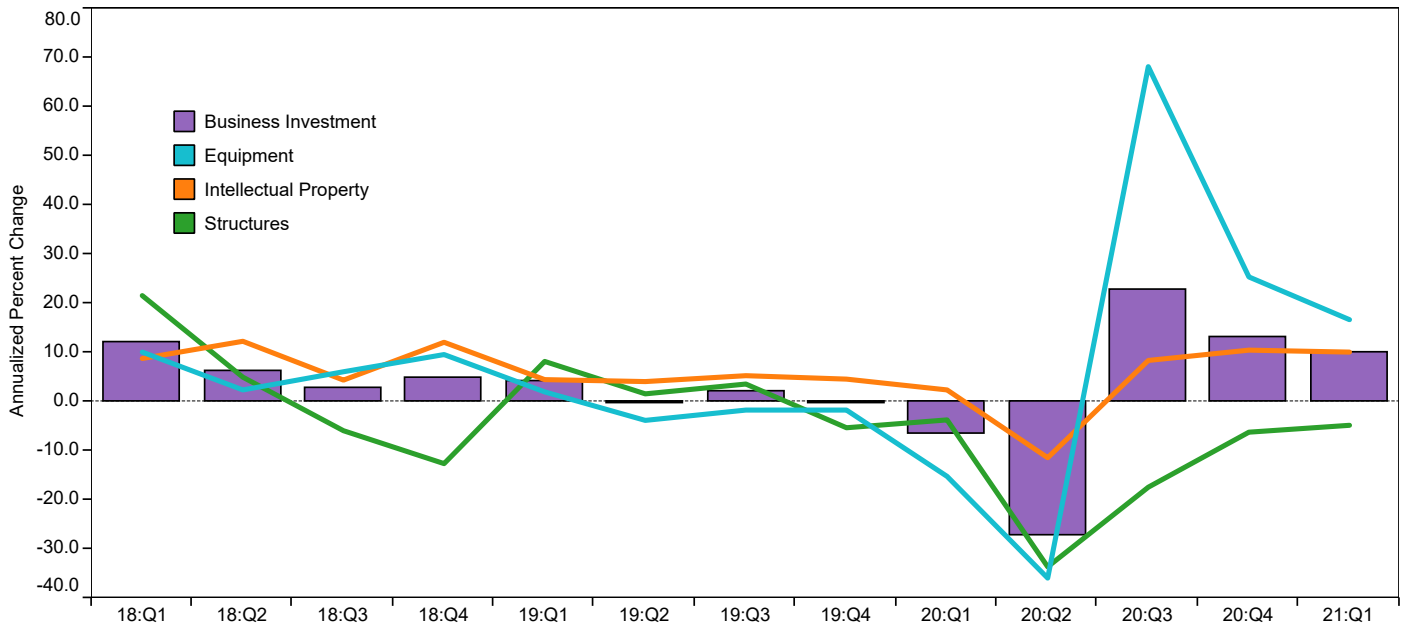
Retail sales jumped 9.7% in March – more than offsetting a February decline – completing a very strong first quarter. First quarter sales were aided in January and March by two rounds of federal stimulus, while February slouched under the weight of unusually poor weather and the pause of stimulus funds. Retail sales data for April are due Friday and markets anticipate another small gain.

Retail Sales



Business investment rose 9.9% in the first quarter as gains in equipment and intellectual property offset a decline in structures.

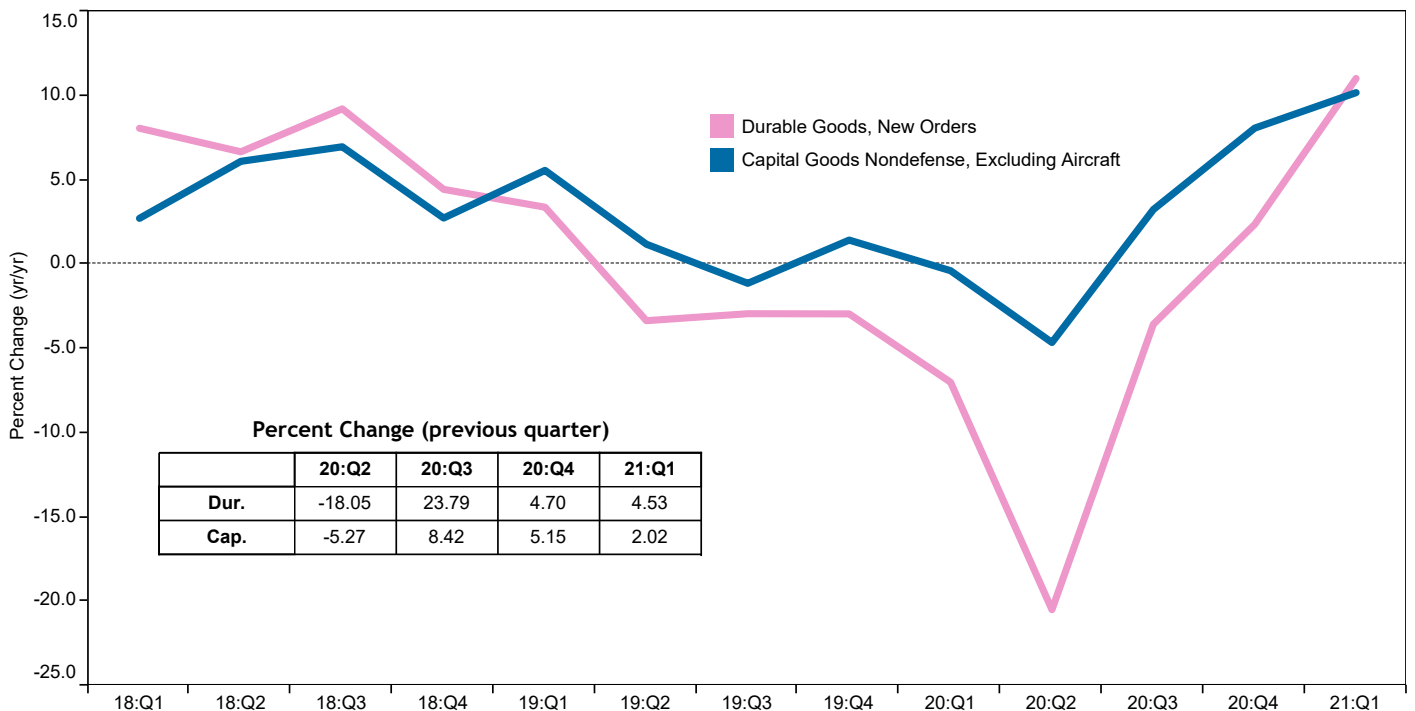
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

Total and core durable goods orders remain a source of strength for the economy - continuing to outpace their pre-pandemic levels – as goods consumption seems to be serving as a substitute for the consumption of services during the pandemic. Orders rebounded in March after slowing in February due in part to bad weather, and posted strong gains both in the first quarter and year-over-year.

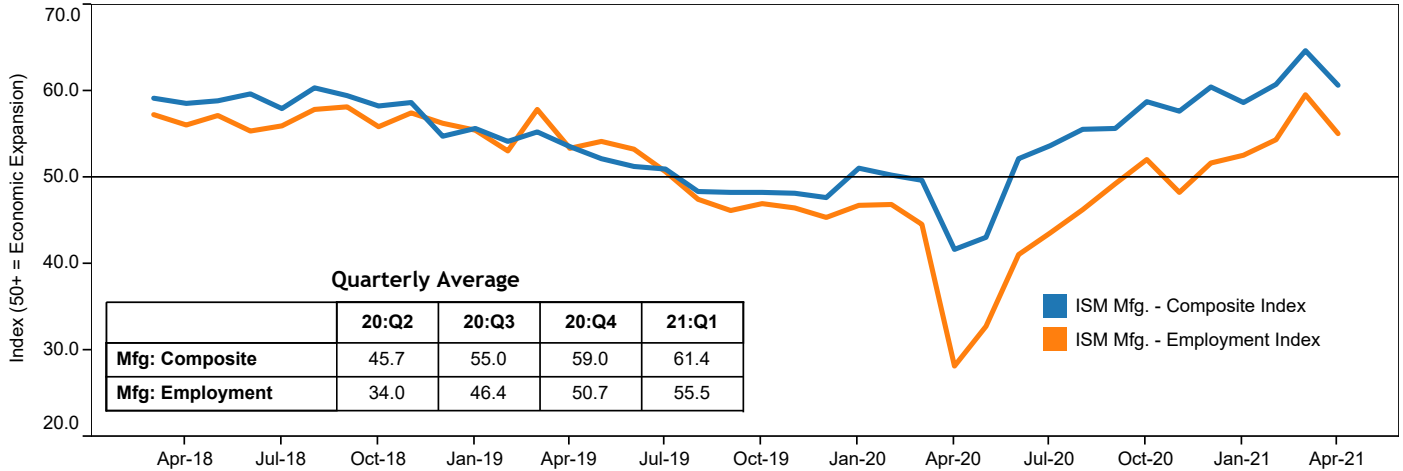
Durable Goods Orders



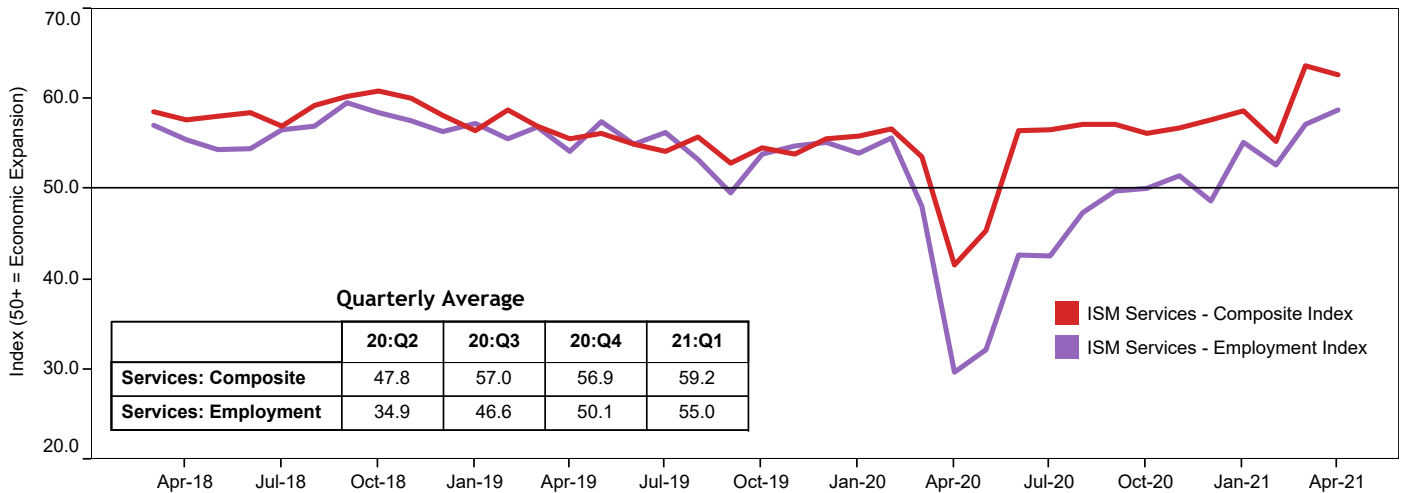
Source: U.S. Census Bureau / Haver Analytics.

The ISM Manufacturing and Services indices both dipped in April after finishing out a strong first quarter above their pre-pandemic levels. The employment subindex for manufacturing faltered in line with the composite as the services employment metric rose to partially offset declines in other components. The regional surveys from the Federal Reserve all improved in April and continued to signal expansion. The Kansas City index climbed to a record high in April while the Philadelphia index reached its highest level in nearly 50 years.

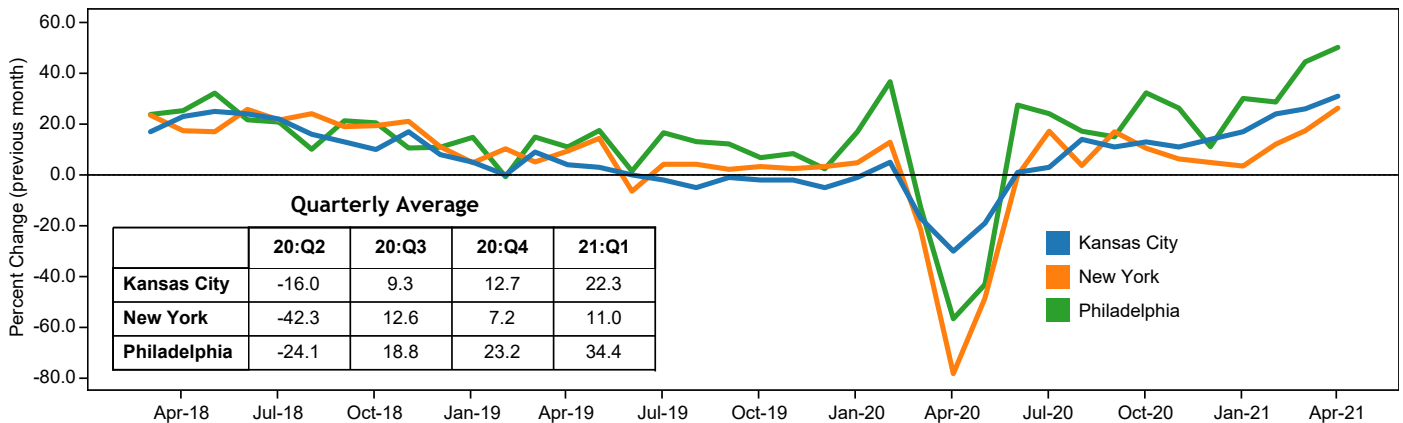
ISM Manufacturing Indices



ISM Services Indices

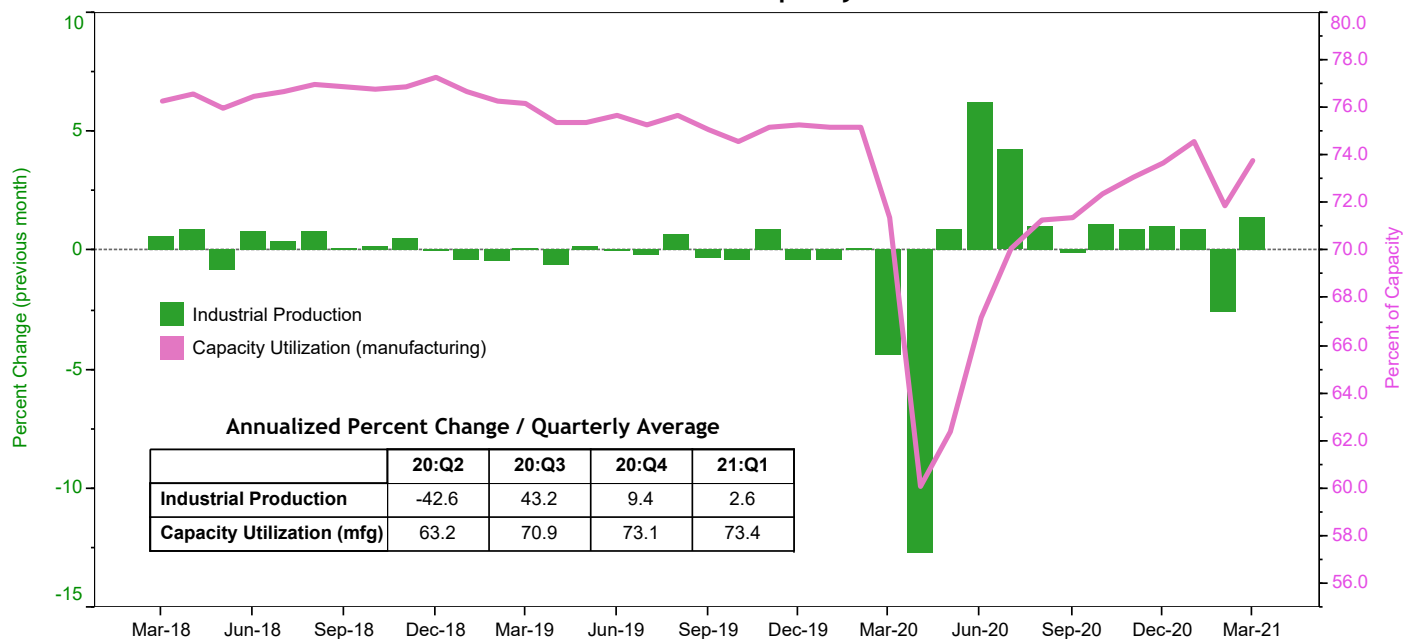


Regional FRB Manufacturing Surveys



Industrial production increased 1.4% in March as gains in manufacturing and mining offset a precipitous decline in utilities output due to the warmer weather and the resulting decrease in heating demand. Capacity utilization in manufacturing rose in March from February's dip, reaching 73.8 - still short of it's pre-pandemic reading of 75.2 in February 2020.

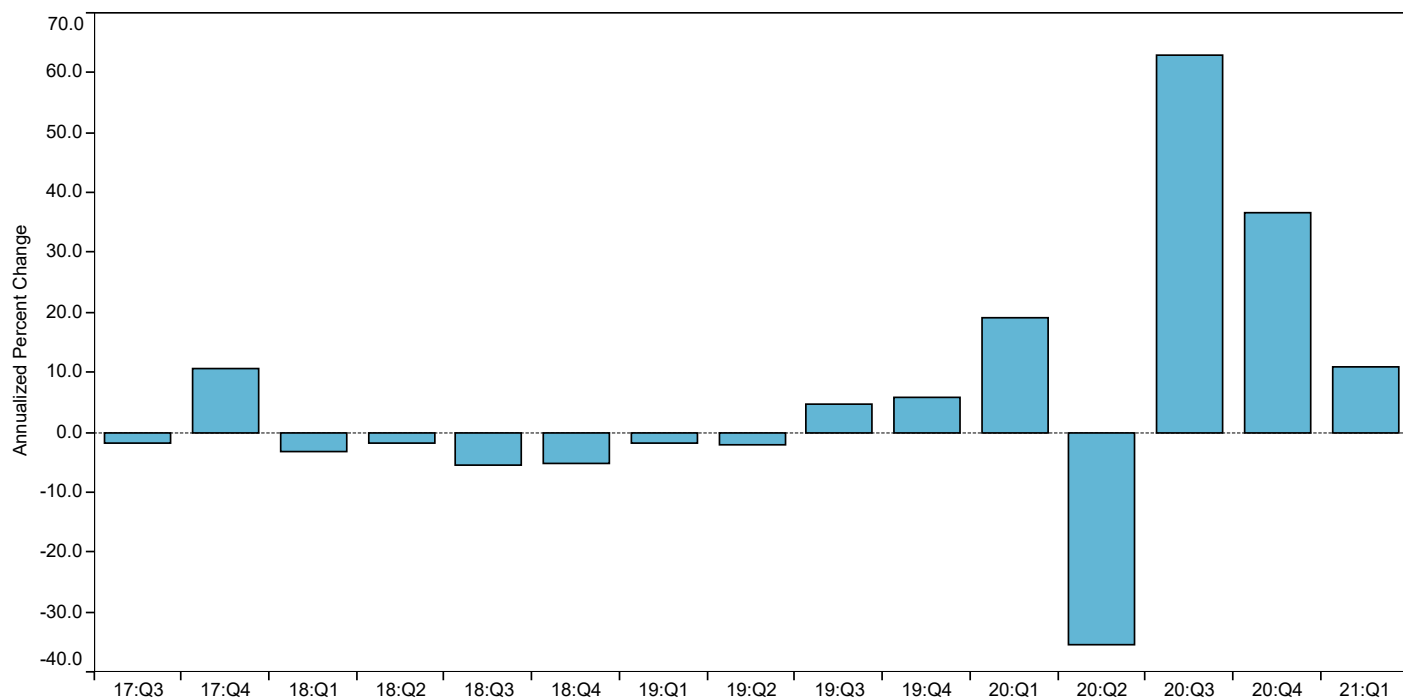
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment continued to rise in the first quarter, albeit at a slower rate than seen in the two previous quarters. The deceleration was due in part to bad weather in February, but also to rising materials costs which could further slow housing construction in the months ahead.

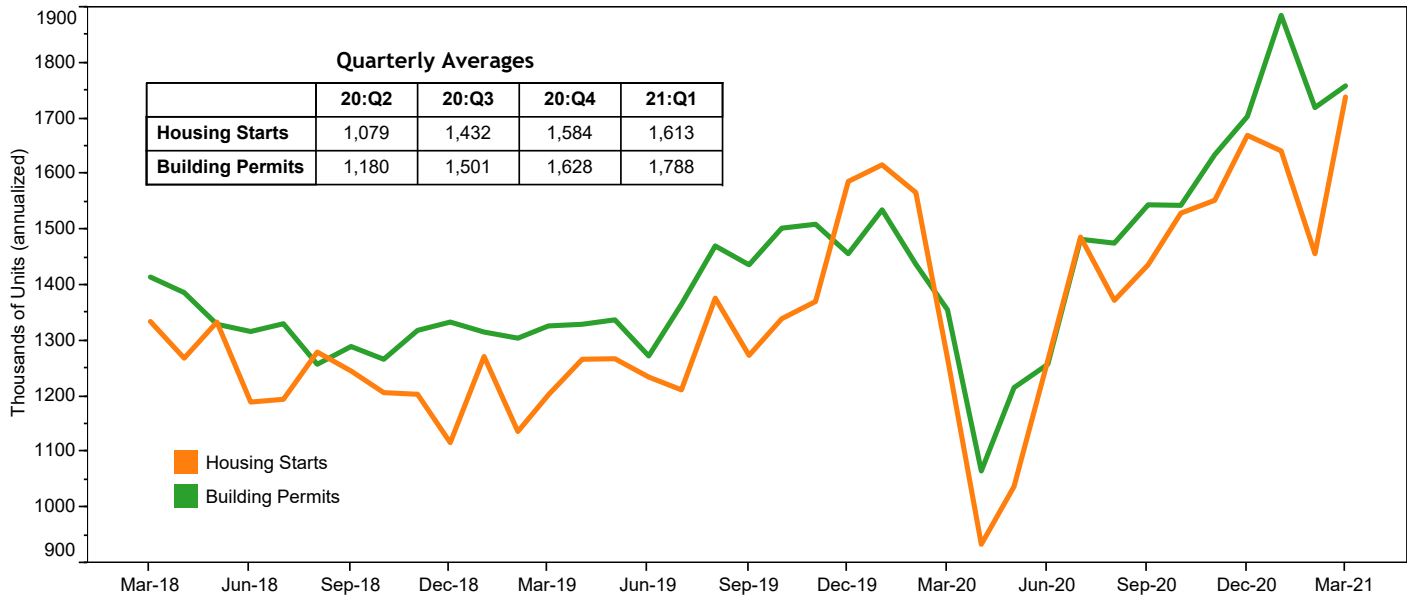
Residential Investment



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

Both housing starts and building permits increased in March, led by increases in single-family activity. Total starts and permits in the first quarter were the highest since mid-2006.

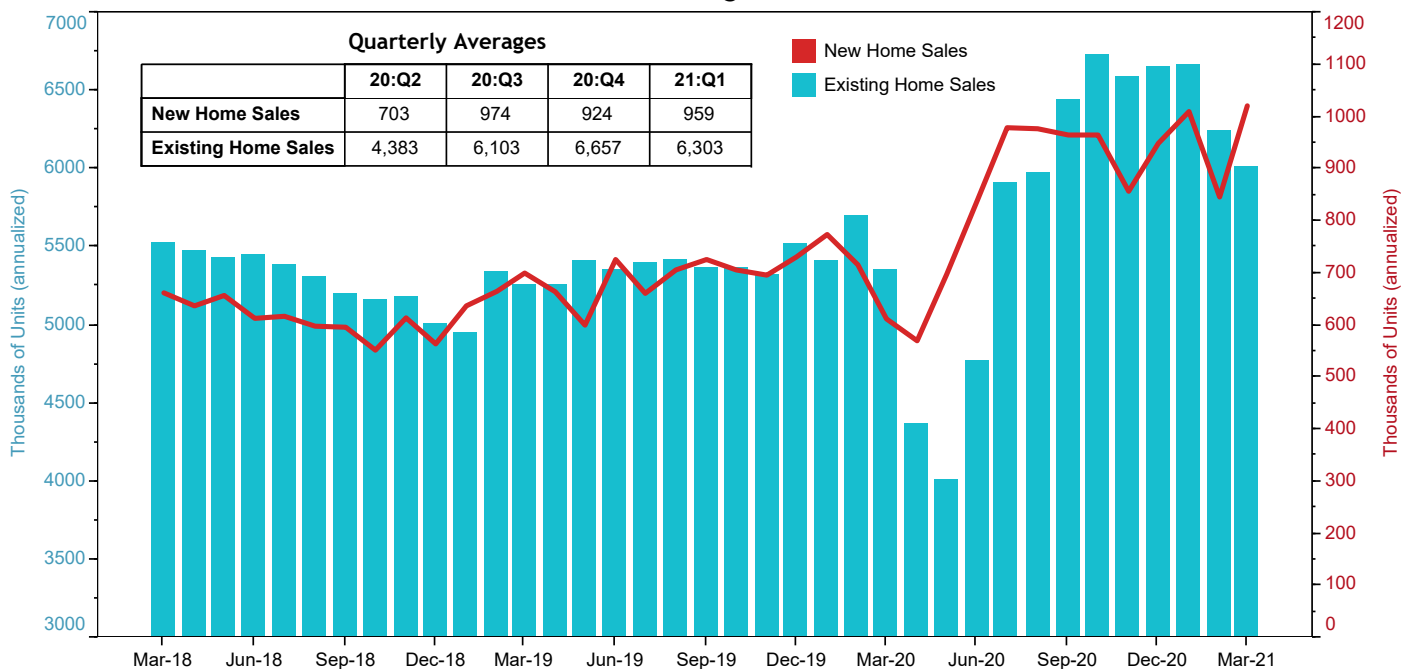
Housing Starts and Building Permits



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

Sales of new homes rose sharply in March, rebounding from an equally sharp drop in February. Existing home sales declined further in March due to a combination of limited supply and higher prices. Still, both new and existing home sales in the first quarter remained close to their highest levels in about 15 years.

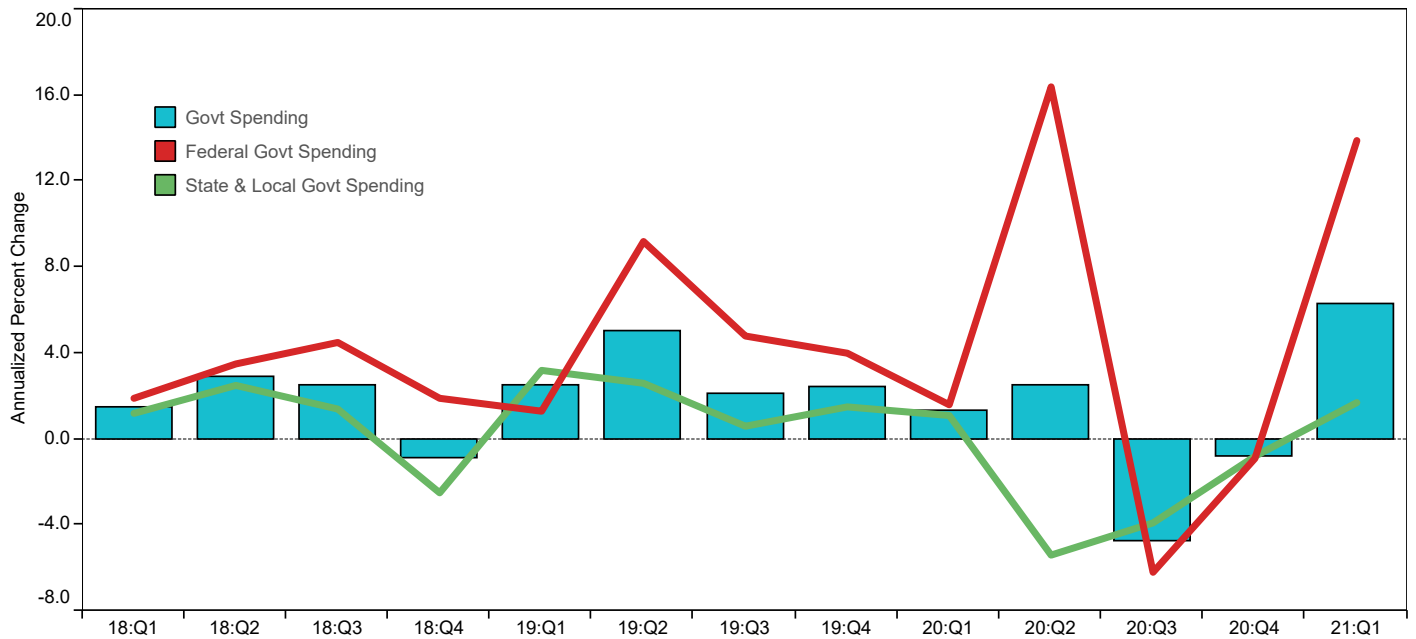
New and Existing Home Sales



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

Government spending jumped up in the first quarter, largely due to federal spending for stimulus programs, the administration of the Paycheck Protection Program, and the purchase of COVID-19 vaccines for public distribution. State and local government spending also contributed to net GDP growth in the first quarter, having been an offset since the second quarter of 2020.

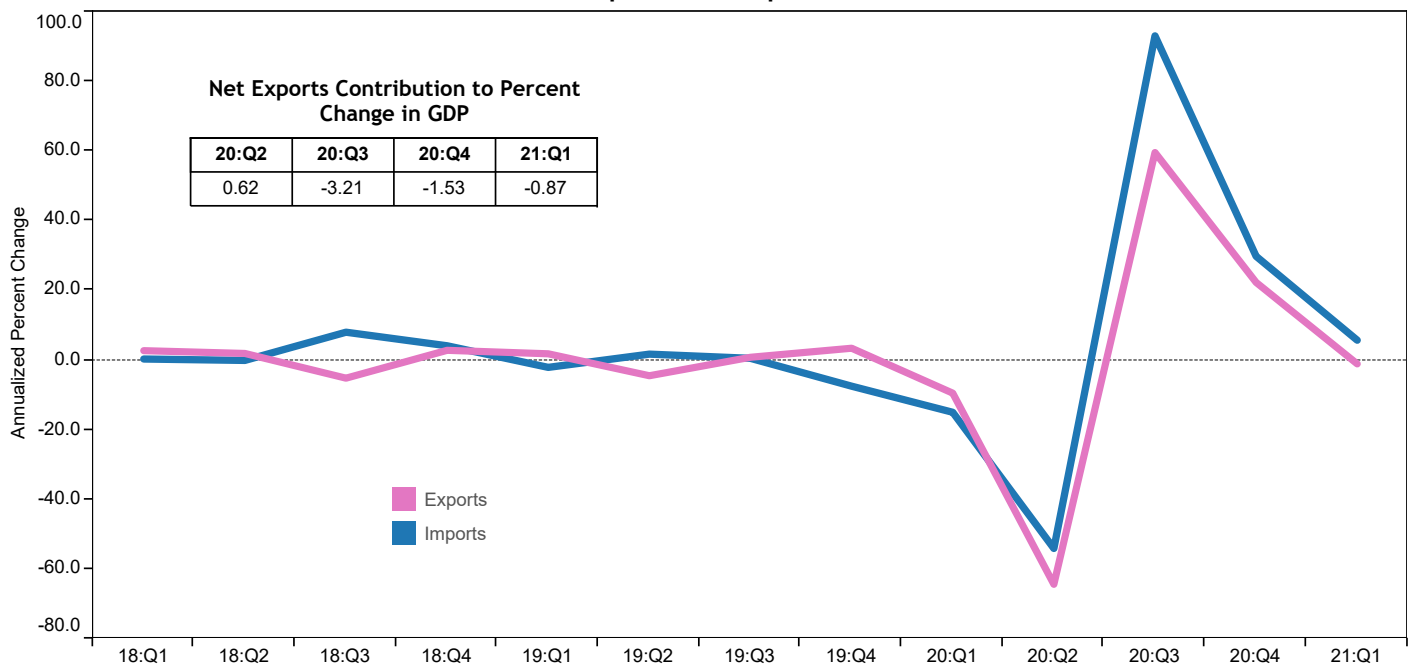
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Imports and exports both slowed in the first quarter, and marked the third consecutive quarter that net exports weighed on real GDP growth.

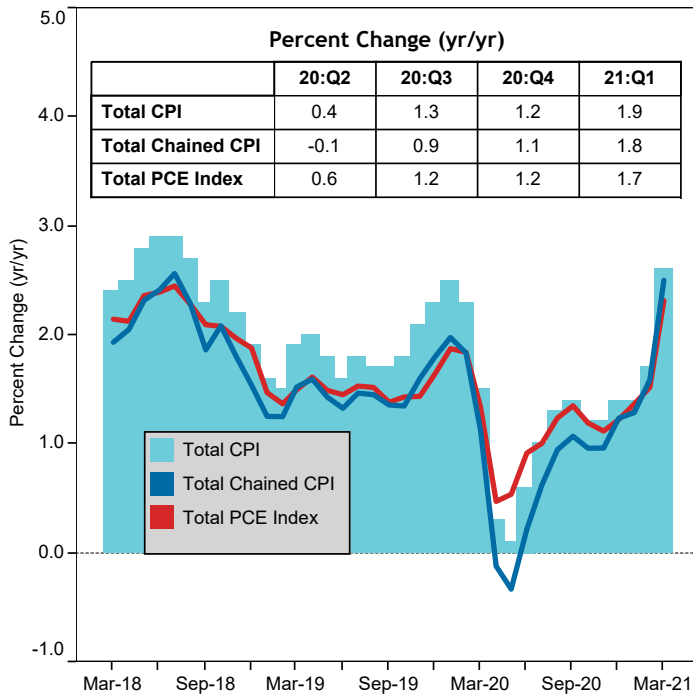
Exports and Imports



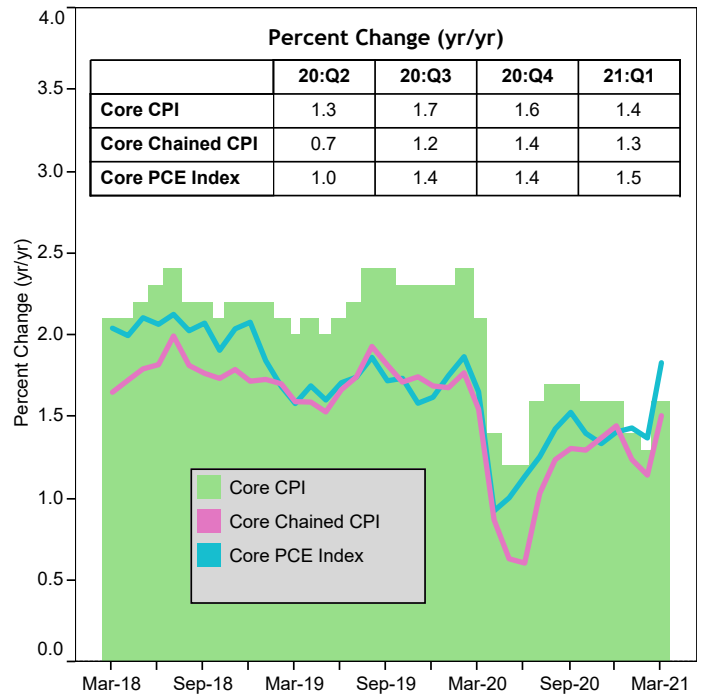
Source: Bureau of Economic Analysis / Haver Analytics.

Headline measures of consumer price inflation all accelerated sharply in March on a year-over-year basis, contributing to similarly sized gains in the first quarter overall (year-over-year). Core inflation also picked up in March but first quarter growth was little changed from the fourth quarter. Due to year-over-year comparisons to the lowered levels seen at the beginning of the pandemic, additional increases in the coming months are to be expected.

Total Price Indices



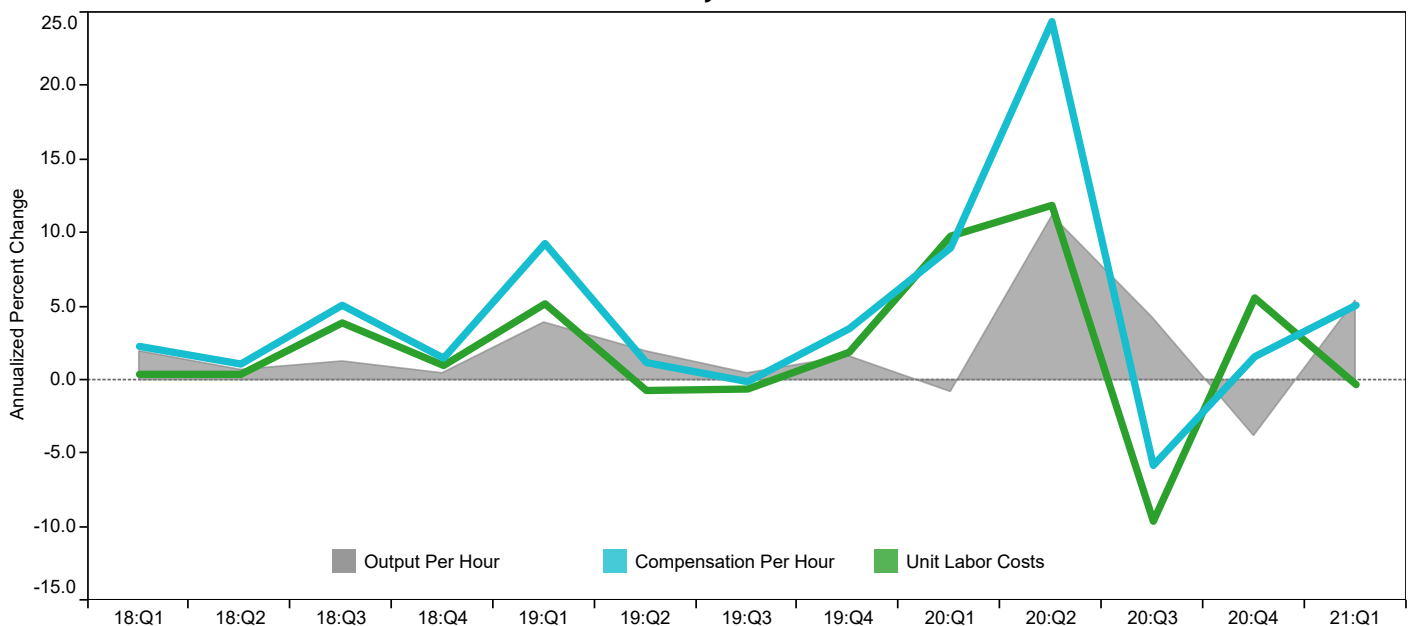
Core Price Indices



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

Productivity in the nonfarm business sector rebounded in the first quarter, as a large increase in output more than offset a smaller increase in hours worked. This follows a sharp drop in the fourth quarter of last year.

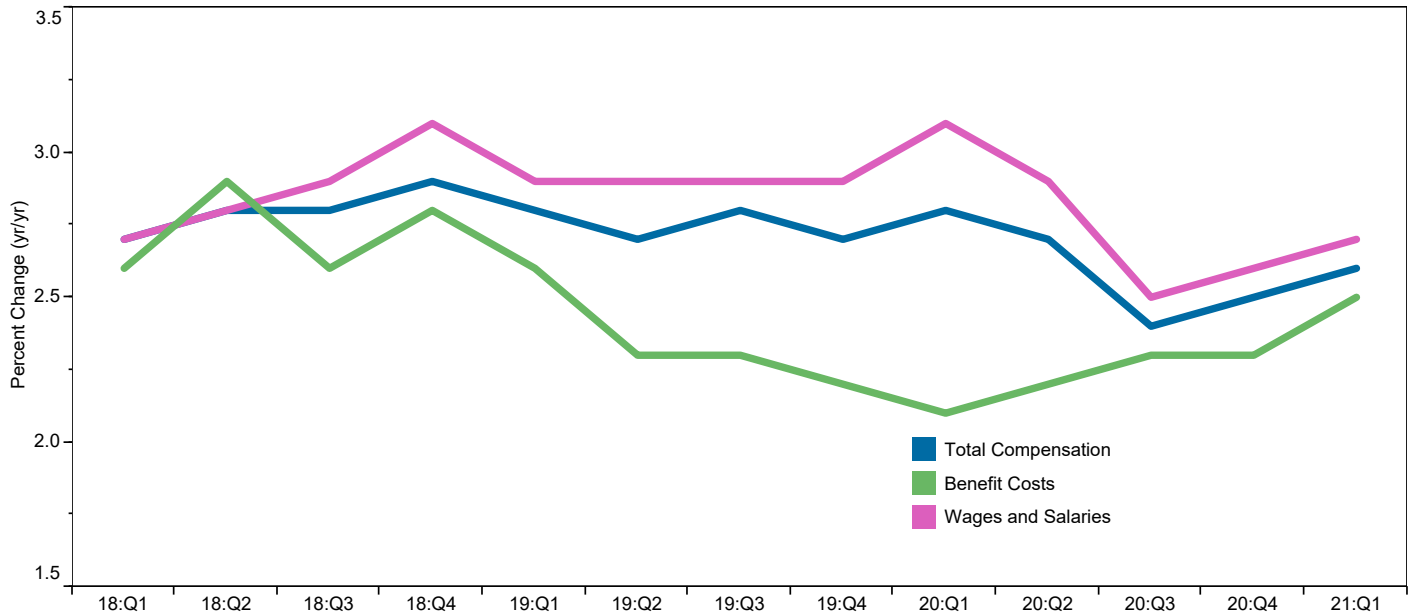
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

On a year-over-year basis, the Employment Cost Index increased 2.6% in the first quarter, accelerating from 2.5% in the previous quarter. Wages and salaries rose 2.7% on a year-over-year basis.

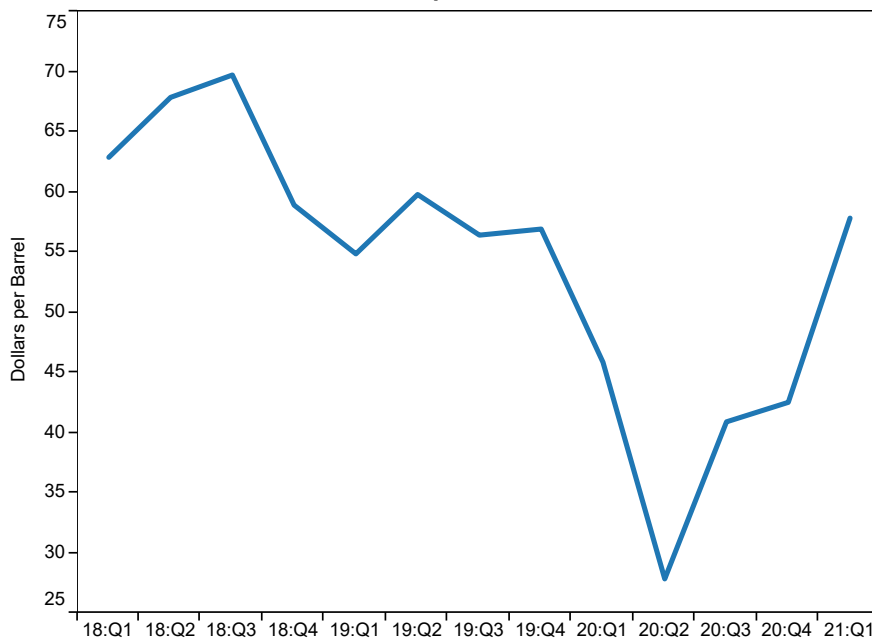
Employment Cost Index



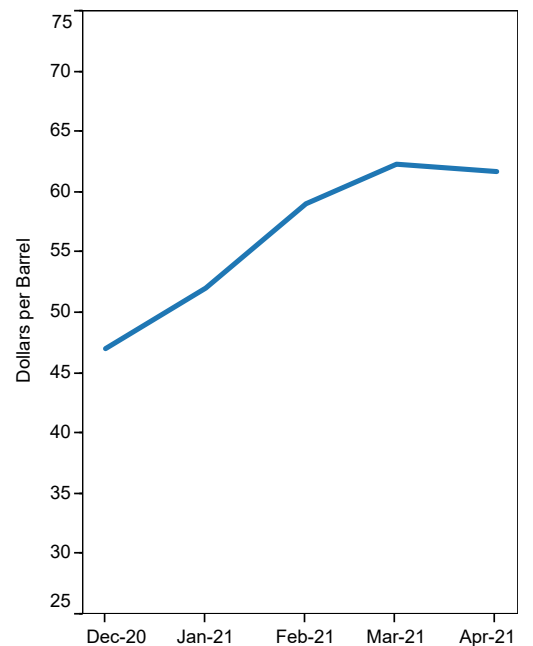
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices dipped slightly in April after making consecutive monthly gains since October 2020. Recent daily prices have thus far stayed above \$64.00 per barrel in May.

Domestic Spot Oil Price



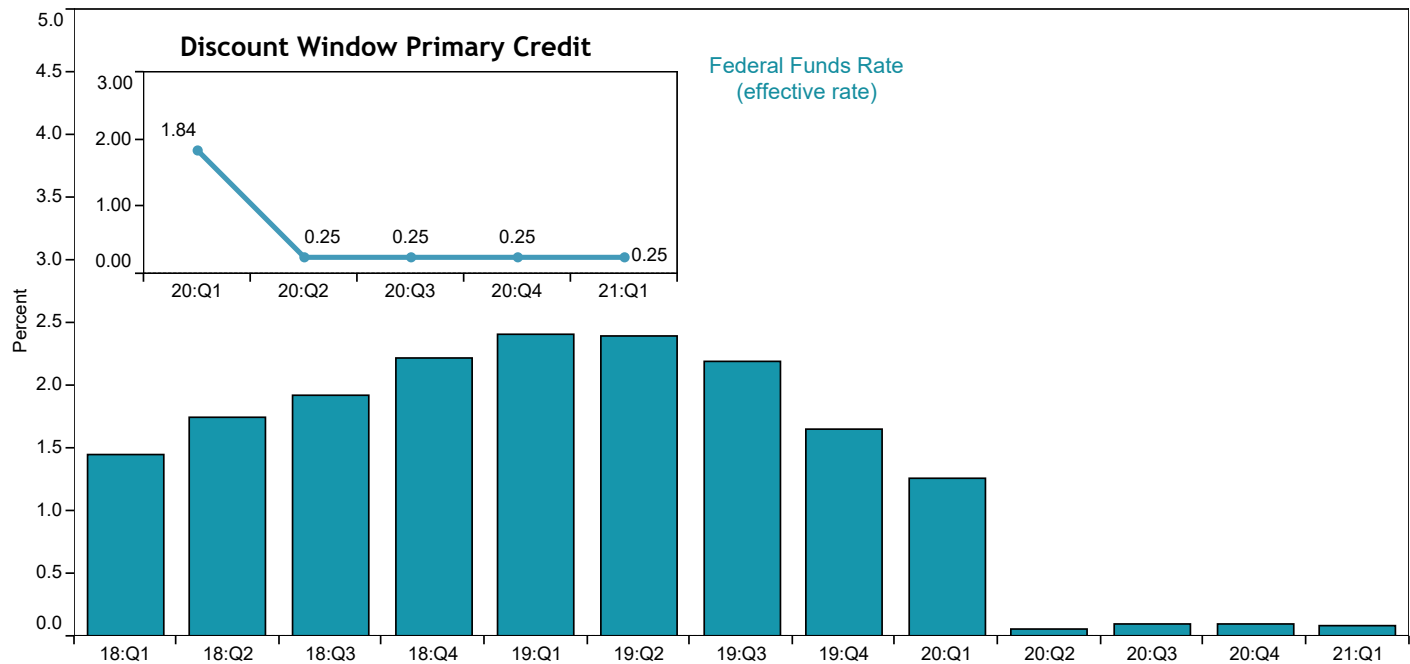
Past Five Months



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 Michael Corbett and David J. Brown