



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

November 13, 2018

CURRENT ECONOMIC DEVELOPMENTS - November 13, 2018

Data released since your last Directors' meeting show that economic growth slowed a bit in the third quarter, but remained above recent trends. The labor market remains strong, consumer spending increased, and consumer attitudes remain elevated. Business investment has slowed from the levels seen earlier this year, while data from the housing market were soft. Overall, recent data remain consistent with the expectation for continued growth moderately above potential through the fourth quarter and into next year.

In October, nonfarm payrolls posted a larger-than-expected increase, while revisions to job gains in the previous two months were mixed. The unemployment rate held steady at a 48-year-low of 3.7% in October, as both the labor force and civilian employment posted sizable gains. Initial claims for unemployment insurance increased in October, but remain close to their recent lows.

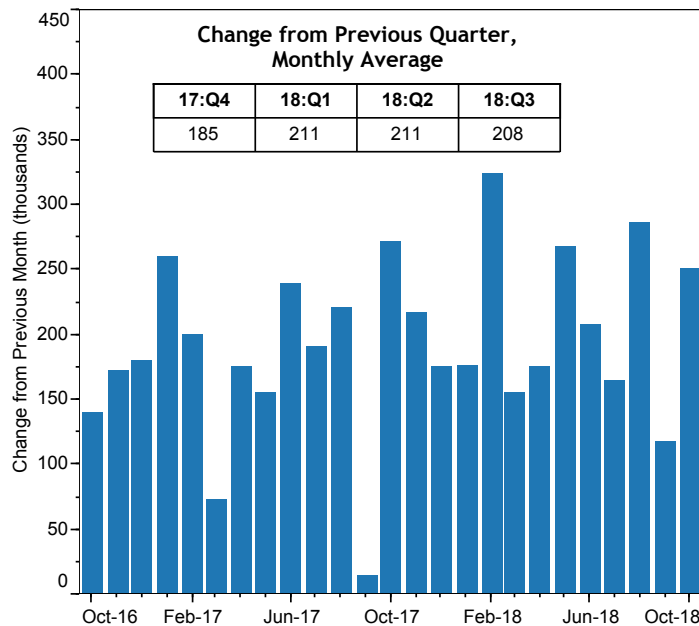
The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, private inventory investment, state and local government spending, federal government spending, and nonresidential fixed investment that were partly offset by negative contributions from net exports and residential fixed investment.

Consumer spending continued to increase in September, although at a slower rate as income growth moderated a bit. Consumer attitudes were mixed in October, as sentiment eased and confidence rose. Sentiment edged down a bit further in early November but remains elevated. Durable goods orders accelerated in the third quarter, on both a quarterly and year-over-year basis, while core orders slowed a bit. The ISM index declined further in October, but continued to suggest expansion in manufacturing activity. Industrial production and capacity utilization both rose further in September. Turning to the housing market, incoming data remain soft. Housing starts and building permits both fell further in the third quarter, although permits did pick up a bit in September. New and existing home sales continued to fall throughout the third quarter, as potential buyers faced the challenges of higher prices and rising mortgage rates.

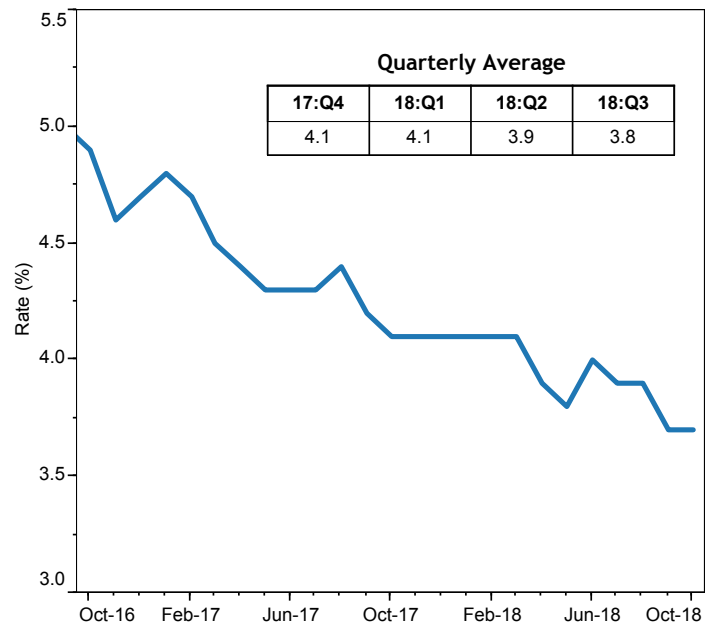
Total consumer inflation held steady in the third quarter, as measured by both the CPI and PCE index, but slowed on a monthly basis in both August and September. Core CPI growth was flat in the third quarter, while the core PCE edged up one tenth. Growth in compensation and unit labor costs increased in the third quarter while total employment costs, as measured by the ECI, held steady. After rising in the third quarter, oil prices peaked at over \$76 per barrel in early October but have fallen steadily since, dropping below \$60 per barrel earlier this week.

Nonfarm payrolls added 250,000 jobs in October, and revisions to previous months' gains were offsetting. The unemployment held steady at 3.7% in October, as both the labor force and civilian employment posted large gains. Participation rose two-tenths to 62.9%.

Nonfarm Payroll Employment



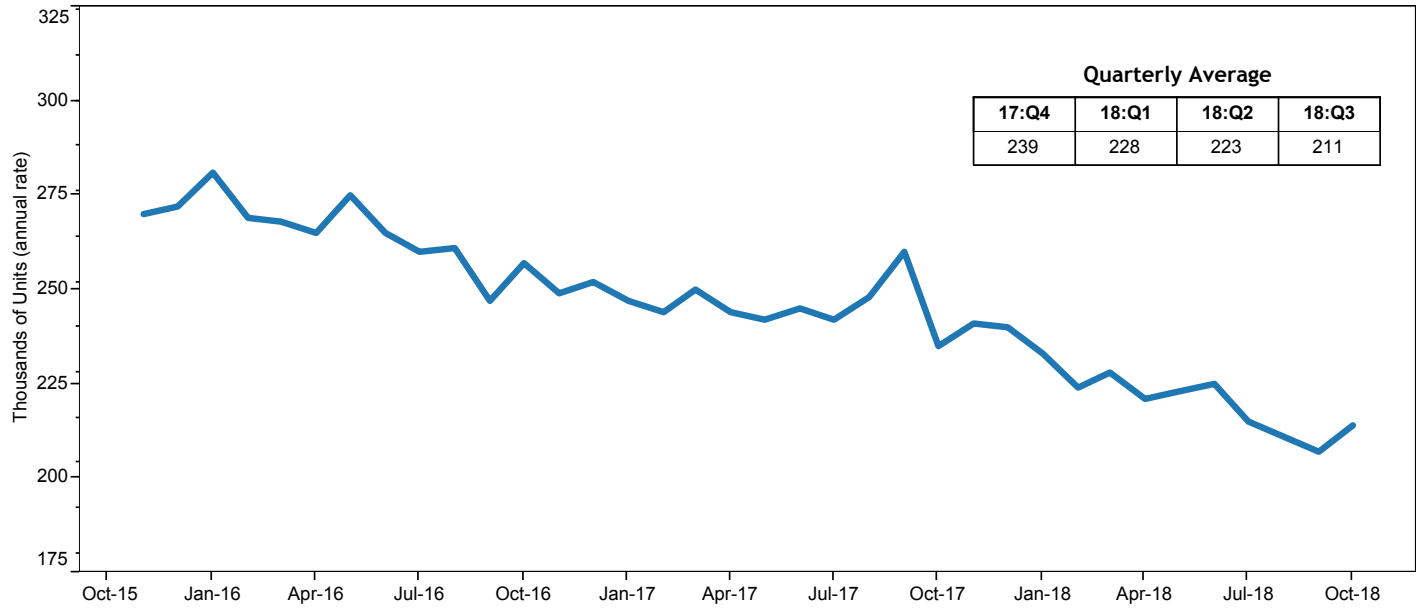
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance rose a bit in October, but remained close to the historic recent lows. The third quarter average for initial claims was the lowest in 48 years.

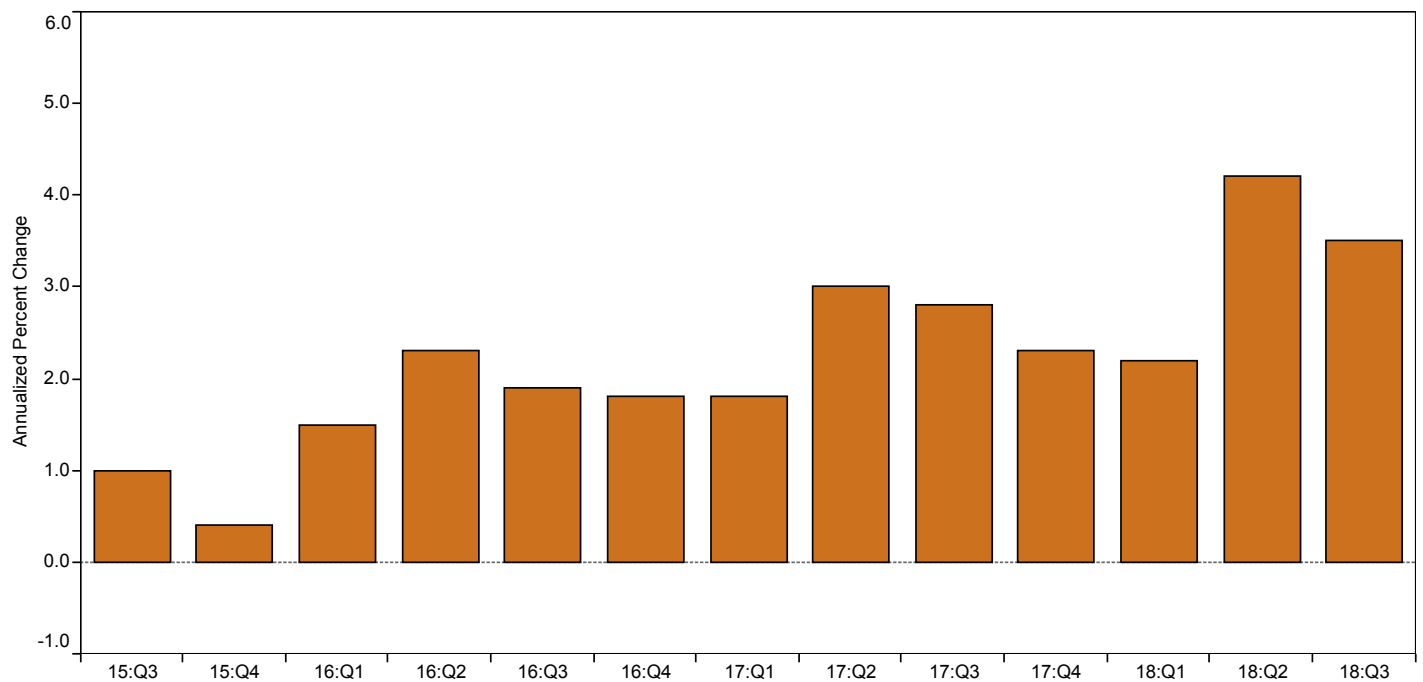
Initial Claims



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

Real GDP growth eased in the third quarter. The slower rate primarily reflected a downturn in exports and a deceleration in nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

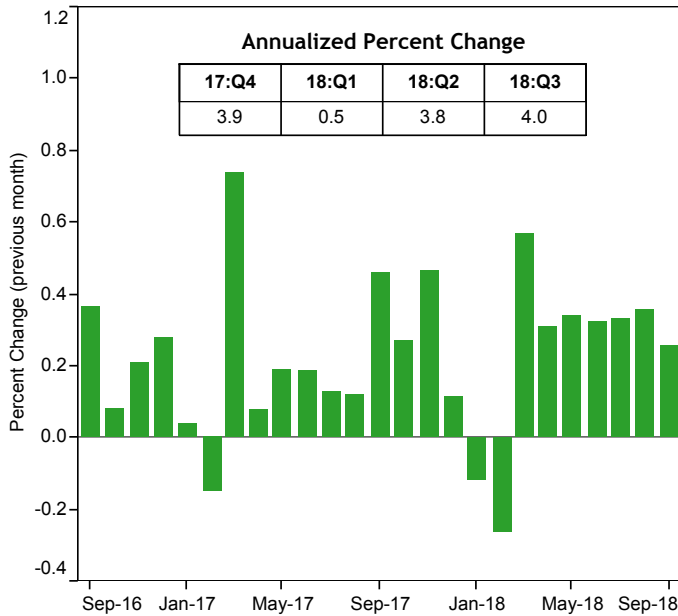
Real Gross Domestic Product



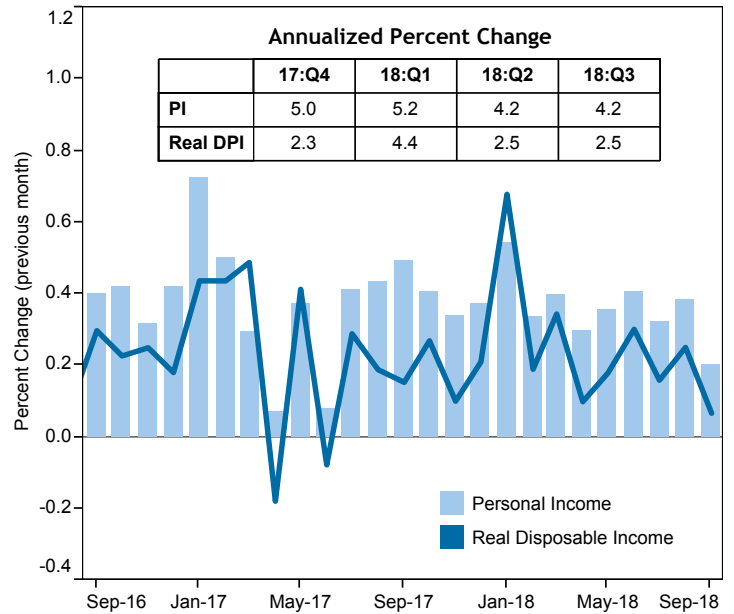
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth picked up, on average, in the third quarter, as nominal and real income growth both held steady. On a monthly basis, consumption rose in September, albeit at a slower pace than seen in the previous month, while both nominal and real income growth also decelerated.

Real Consumption



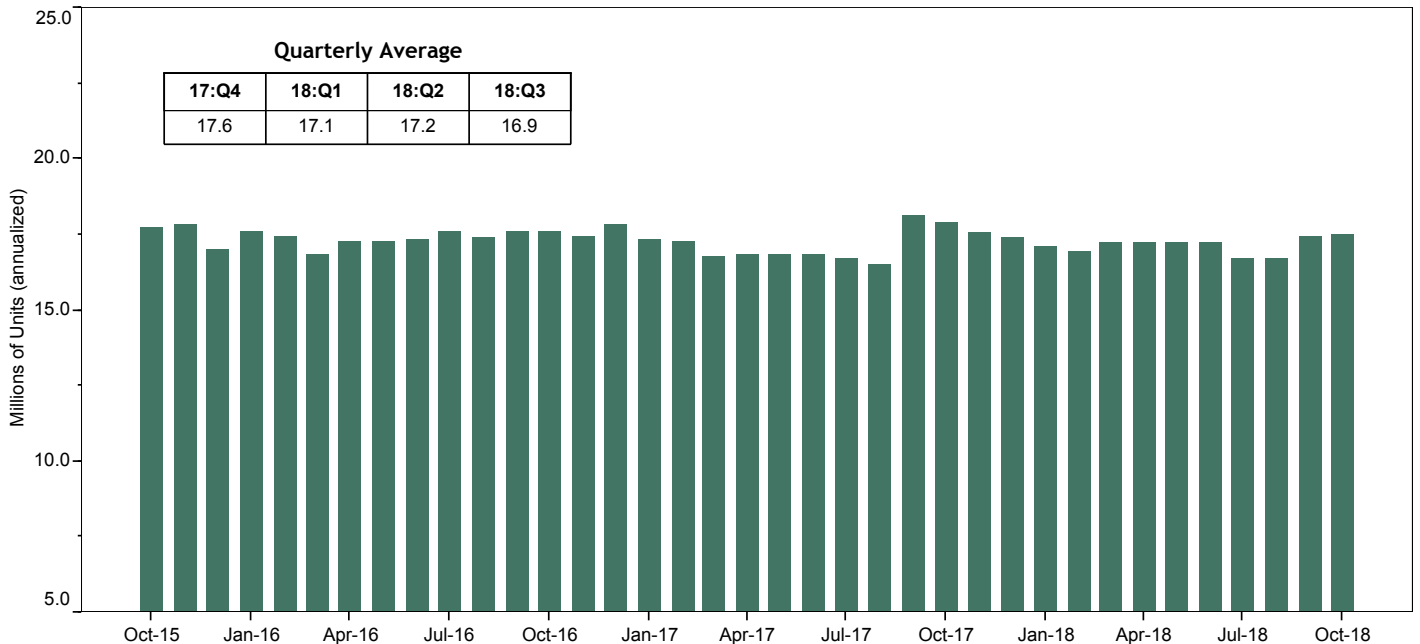
Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Total lightweight vehicle sales edged a bit higher in October, picking up from third quarter sales that were a bit slower (on average) than the recent trend. The increase in total vehicle sales in October was due to an uptick in auto sales, which had been falling steadily since 2014. Truck sales eased a bit in October.

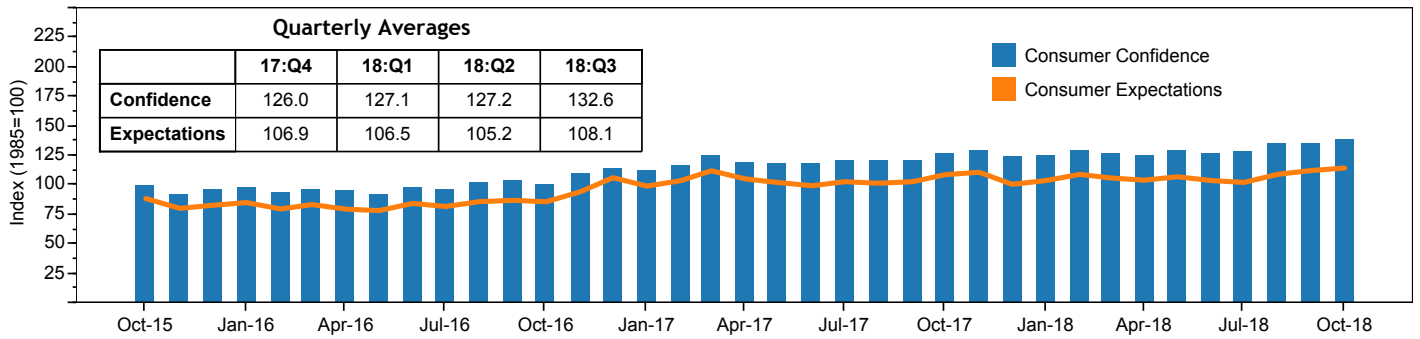
Total Lightweight Vehicle Sales



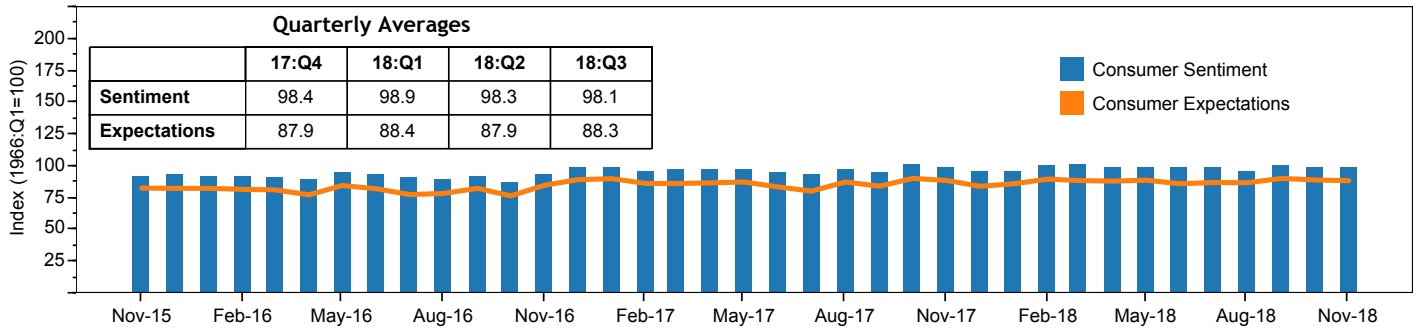
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in October and into early November, as the confidence index improved a bit while the sentiment index eased. Both indices remain above their third quarter averages. In general, consumers had more favorable assessments of current labor market conditions, and respondents to the confidence survey were more optimistic towards the short-term economic outlook.

Consumer Confidence and Expectations



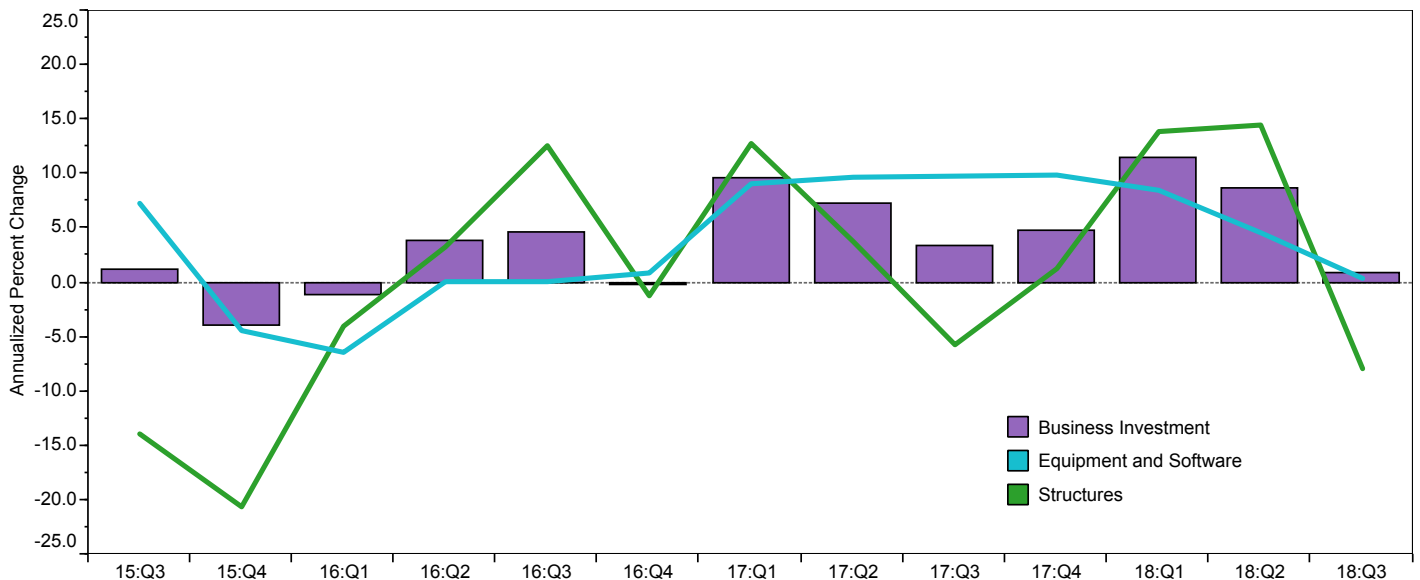
Consumer Sentiment and Expectations



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

Business investment continued to decelerate in the third quarter, as structures investment declined, while equipment and software investment decelerated to its slowest rate in two years.

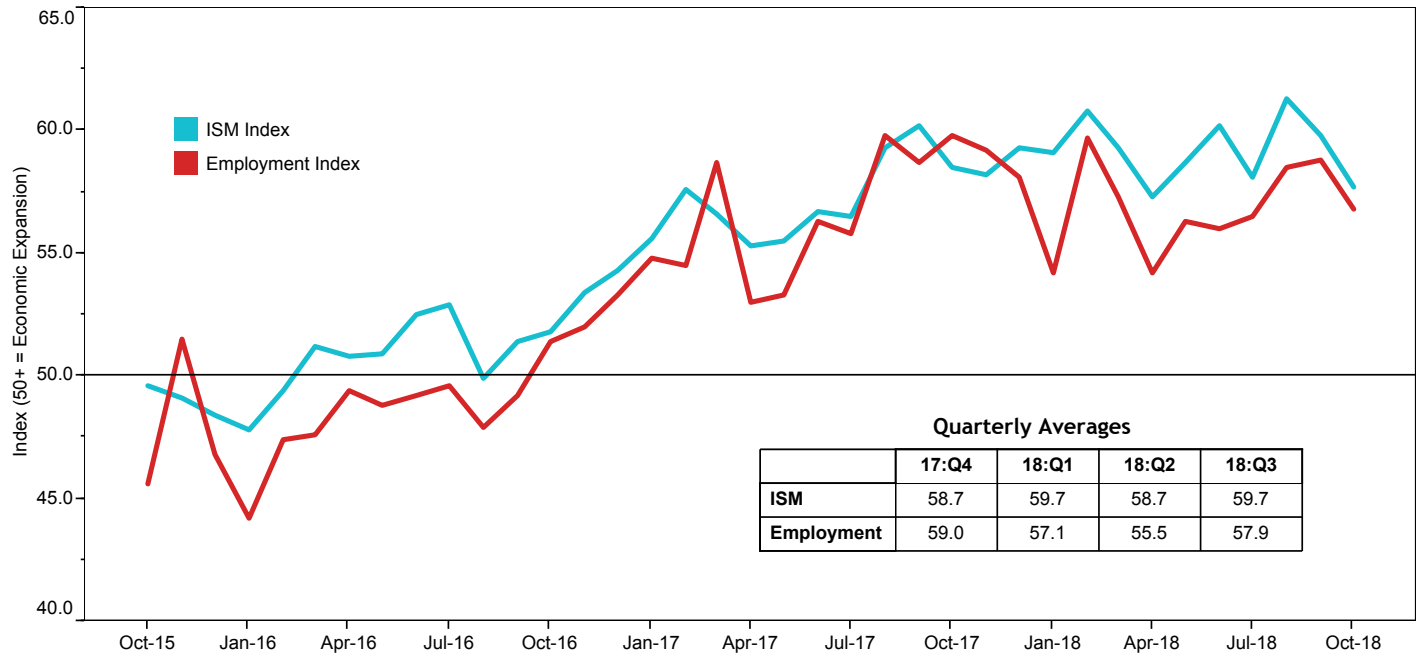
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

The ISM index fell to a six-month low in October, but continued to signal expansion in manufacturing activity. The employment index also declined; supplier deliveries was the only component of the total index to improve in October.

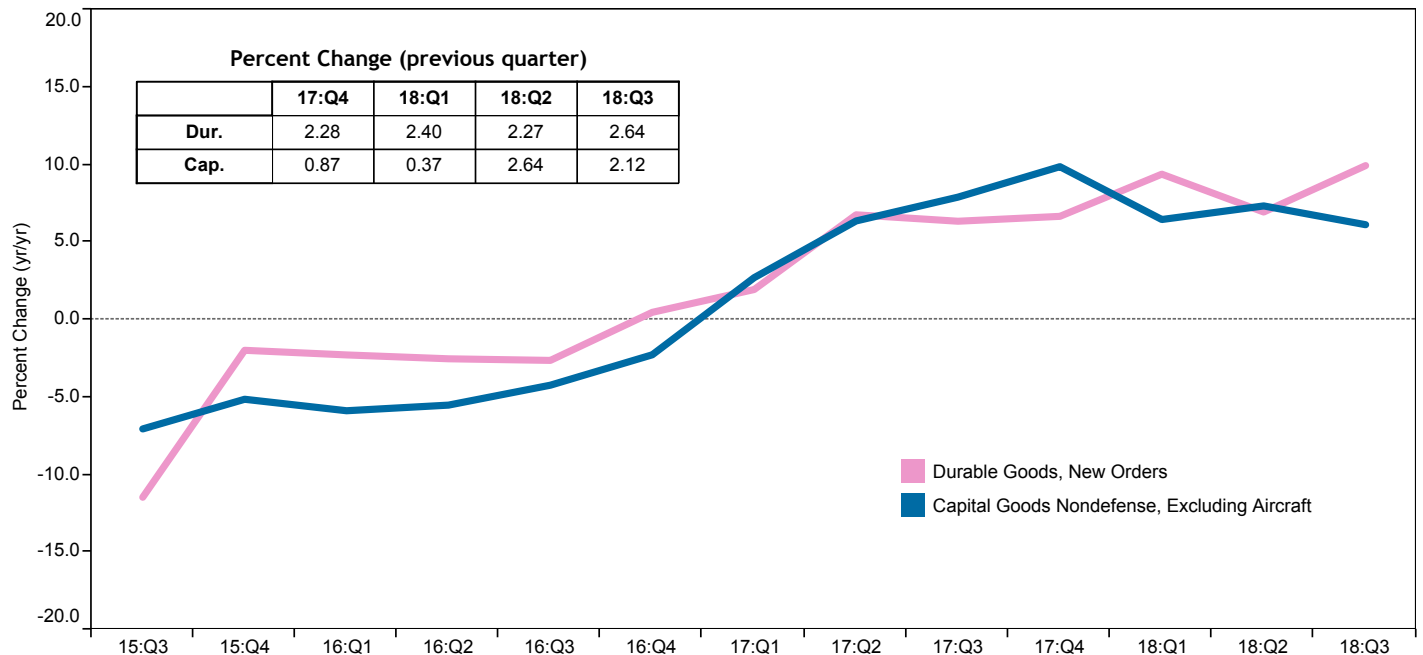
ISM Index



Source: Institute of Supply Management / Haver Analytics.

In the third quarter, durable goods orders continued to rise on a year-over-year basis, growing at their fastest rate in four years. 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.

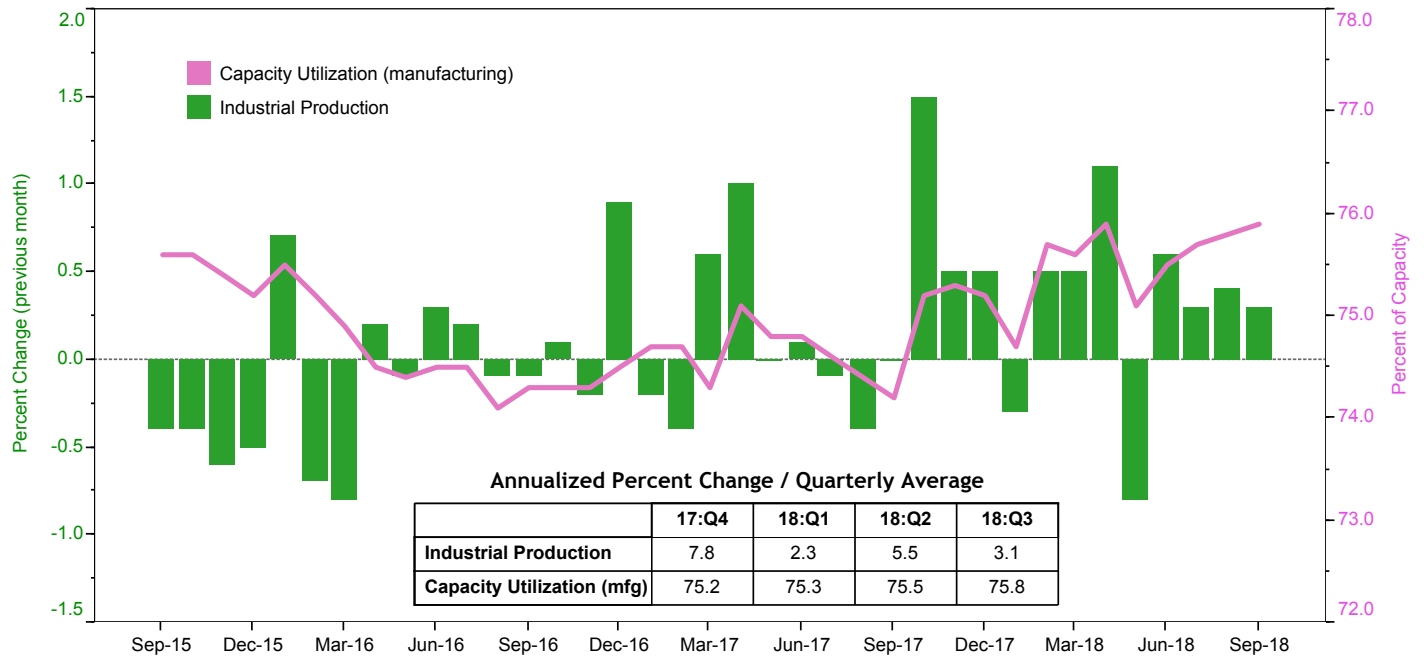
Durable Goods Orders



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

Industrial production increased in the third quarter, but at a slower rate than seen in the second quarter, and capacity utilization continued to pick up. In September, industrial production posted its fourth consecutive monthly increase, as manufacturing and mining production rose, while utilities output was unchanged. Capacity utilization continued to edge up in September.

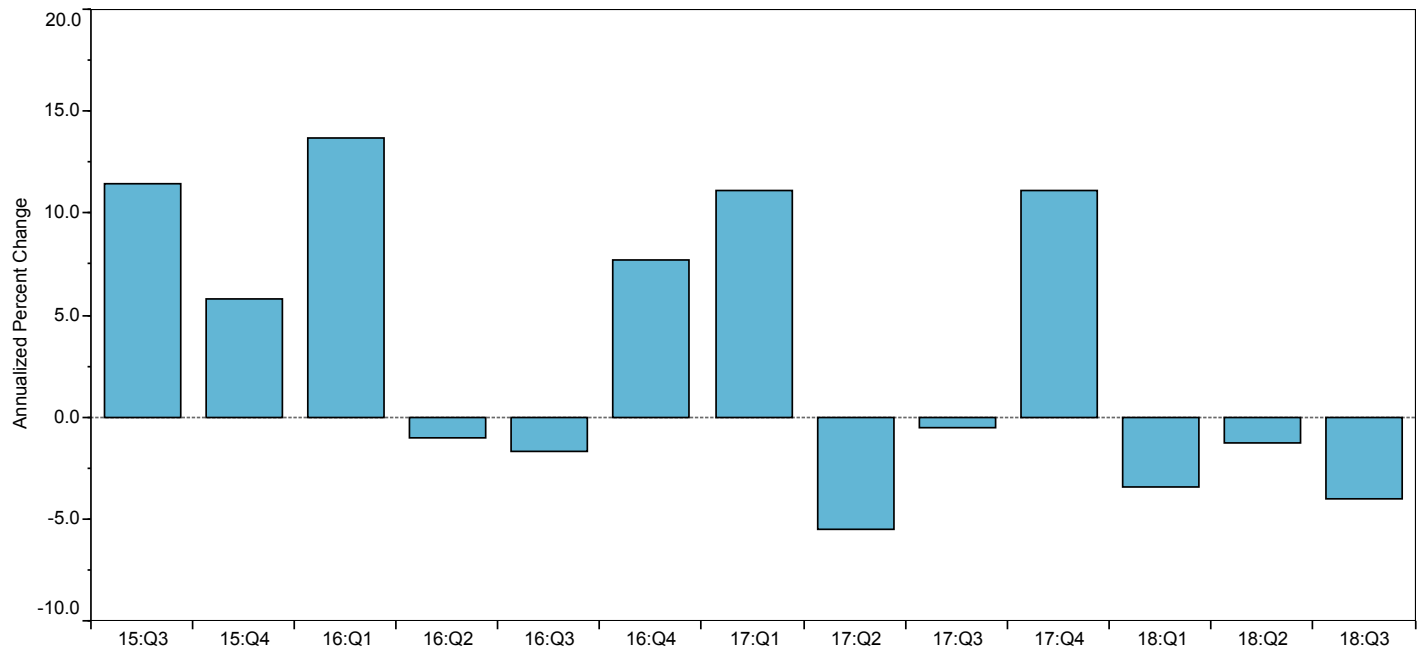
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment decreased in the third quarter, and has registered a decline in each quarter so far this year.

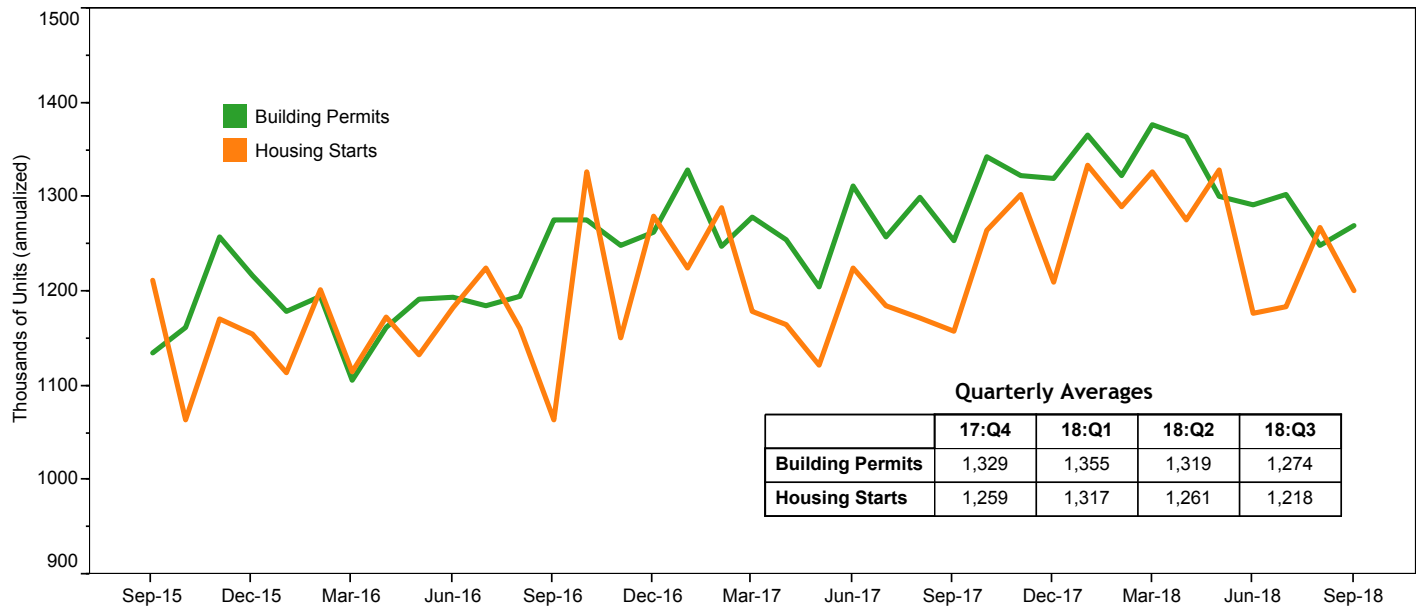
Residential Investment



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

Housing starts and building permits both continued to ease in the third quarter. In September, housing starts fell - after rising in each of the prior two months - as both single- and multi-family starts declined. Building permits rose a bit in September, as an increase in single-family permits more than offset a decline in permits for multi-family buildings.

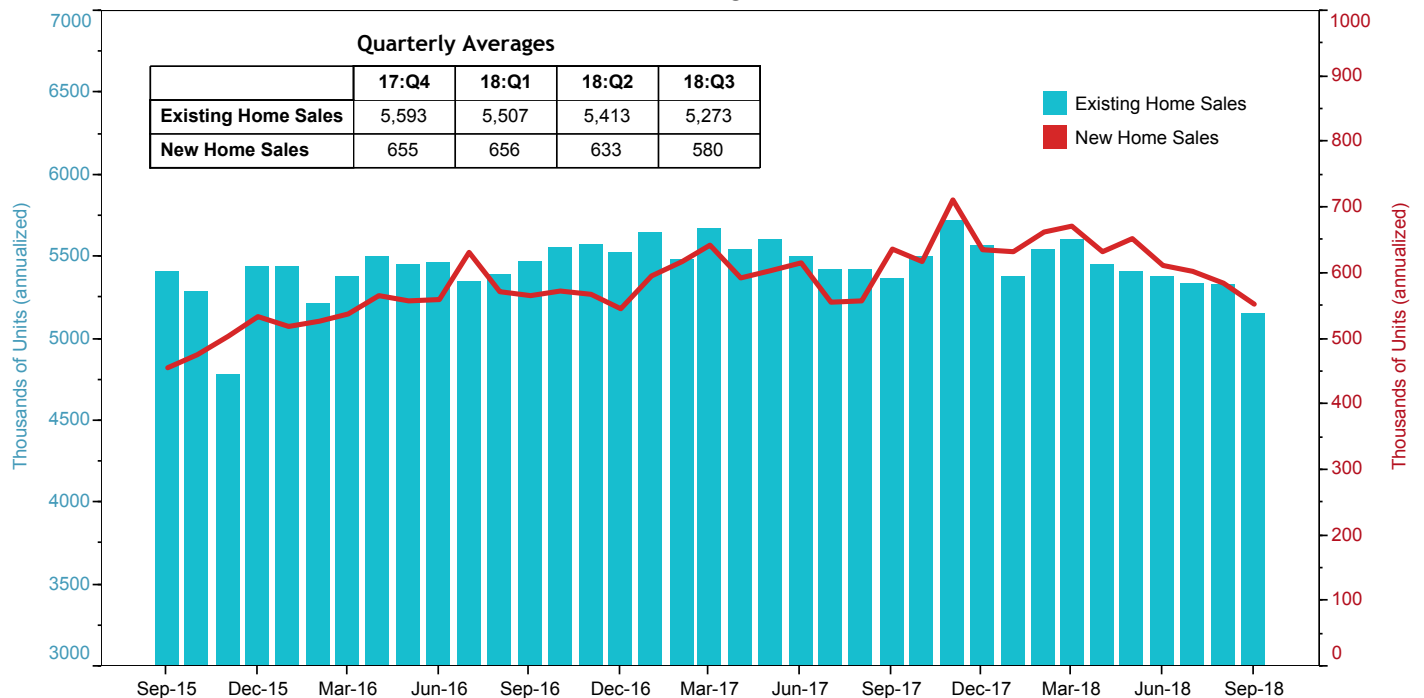
Housing Starts and Building Permits



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

Home sales continued to fall throughout the third quarter. Existing home sales fell to their lowest quarterly average since 2015:Q4, while new home sales declined to their lowest quarterly average since 2016:Q4. Sales will likely remain hampered in the coming months by elevated prices and rising mortgage rates.

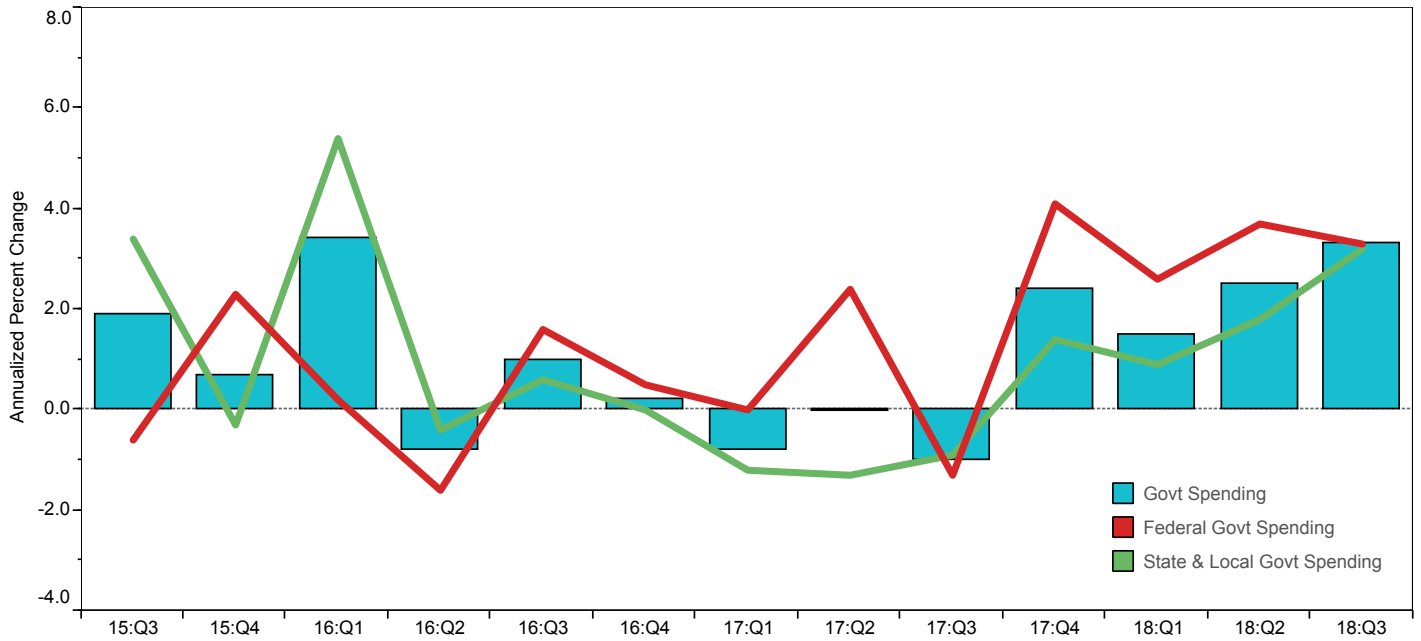
New and Existing Home Sales



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

In the third quarter, government spending accelerated, registering an increasing for the fourth consecutive quarter. The higher rate in the third quarter was due to an acceleration in state and local government spending, while federal government spending eased a bit.

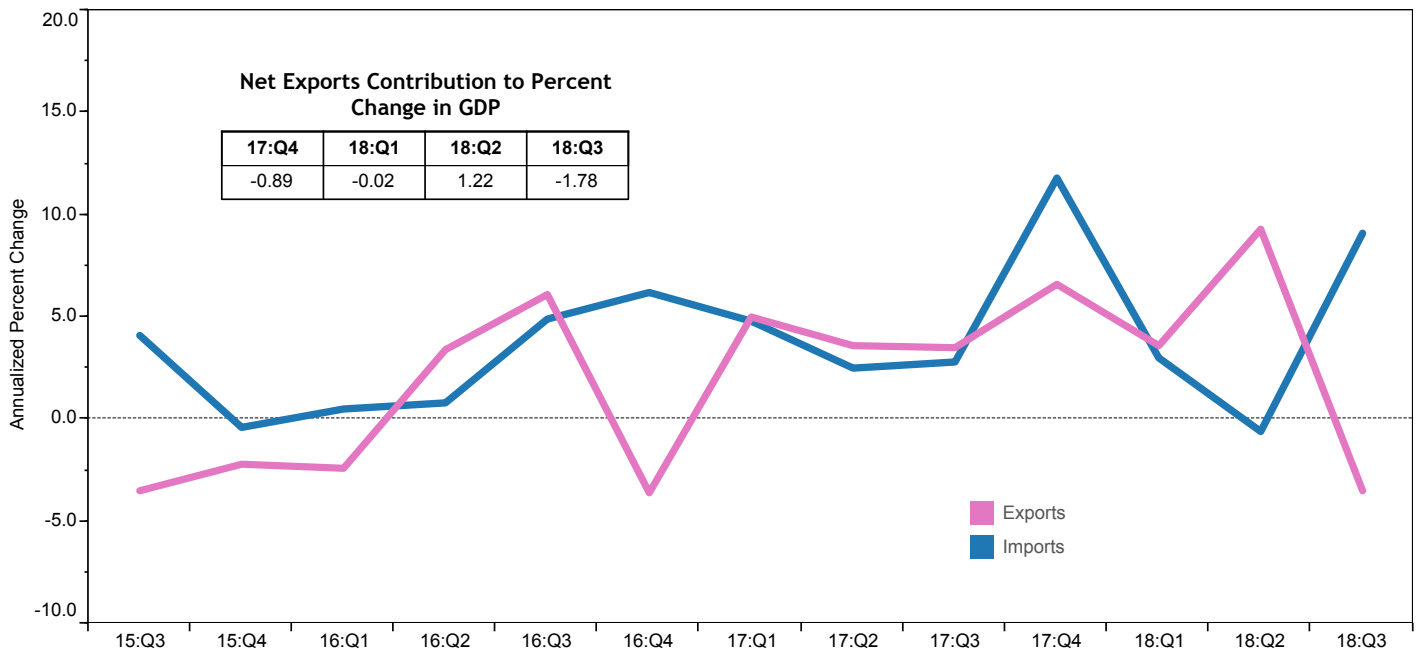
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Exports fell in the third quarter, after increasing in each of the prior six quarters, while imports rebounded from a second quarter decline. This resulted in a drag on GDP from net exports.

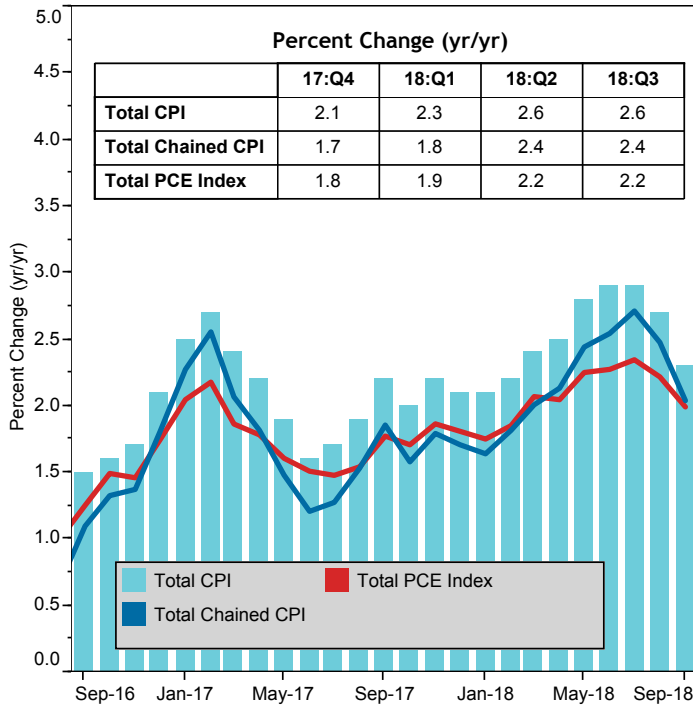
Exports and Imports



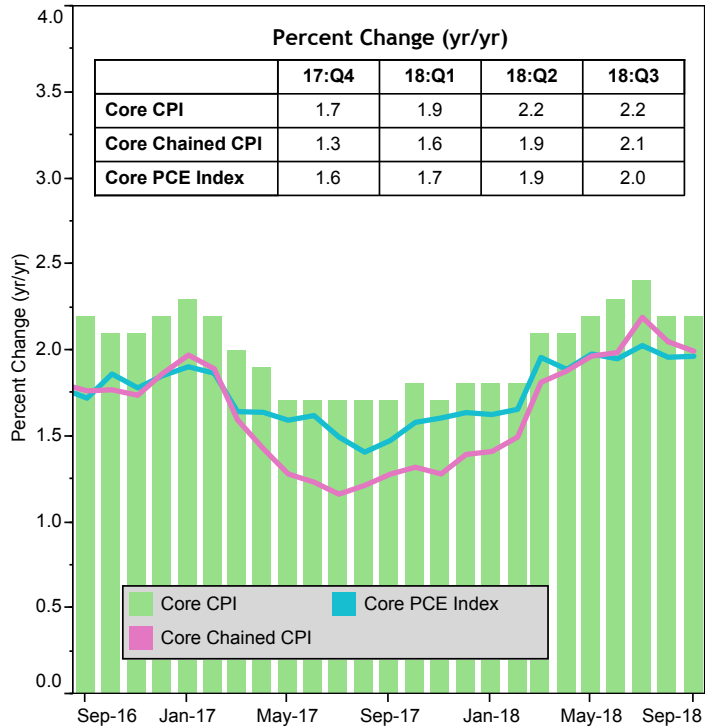
Source: Bureau of Economic Analysis / Haver Analytics.

Growth in total consumer prices held steady in the third quarter. Excluding the volatile food and energy sectors, growth in core prices also held steady in the third quarter as measured by the Consumer Price Index (CPI), but continued to accelerate as measured by the Personal Consumption Expenditure (PCE) price index. In September, growth in total prices decelerated, while growth in core prices was essentially unchanged from the prior month.

Total Price Indices



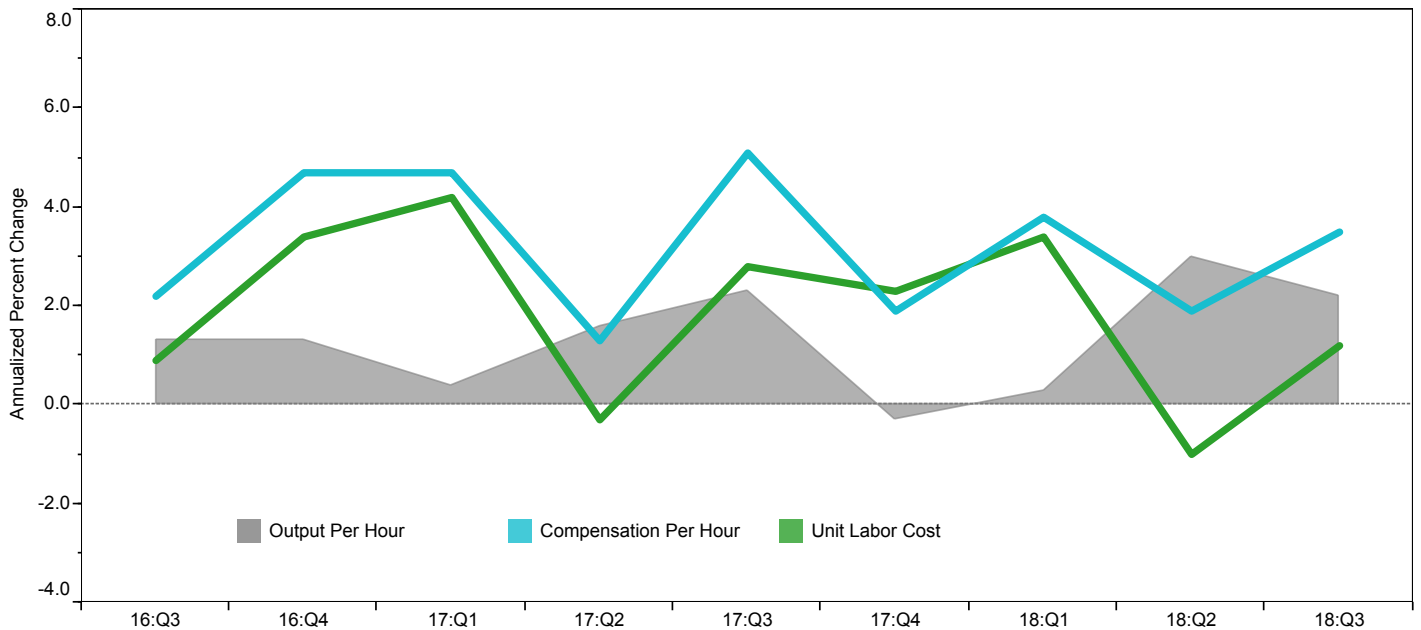
Core Price Indices



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

Productivity growth slowed a bit in the third quarter, but remained above the recent trend. Growth in compensation accelerated in the third quarter, while unit labor costs increased after falling in the second quarter.

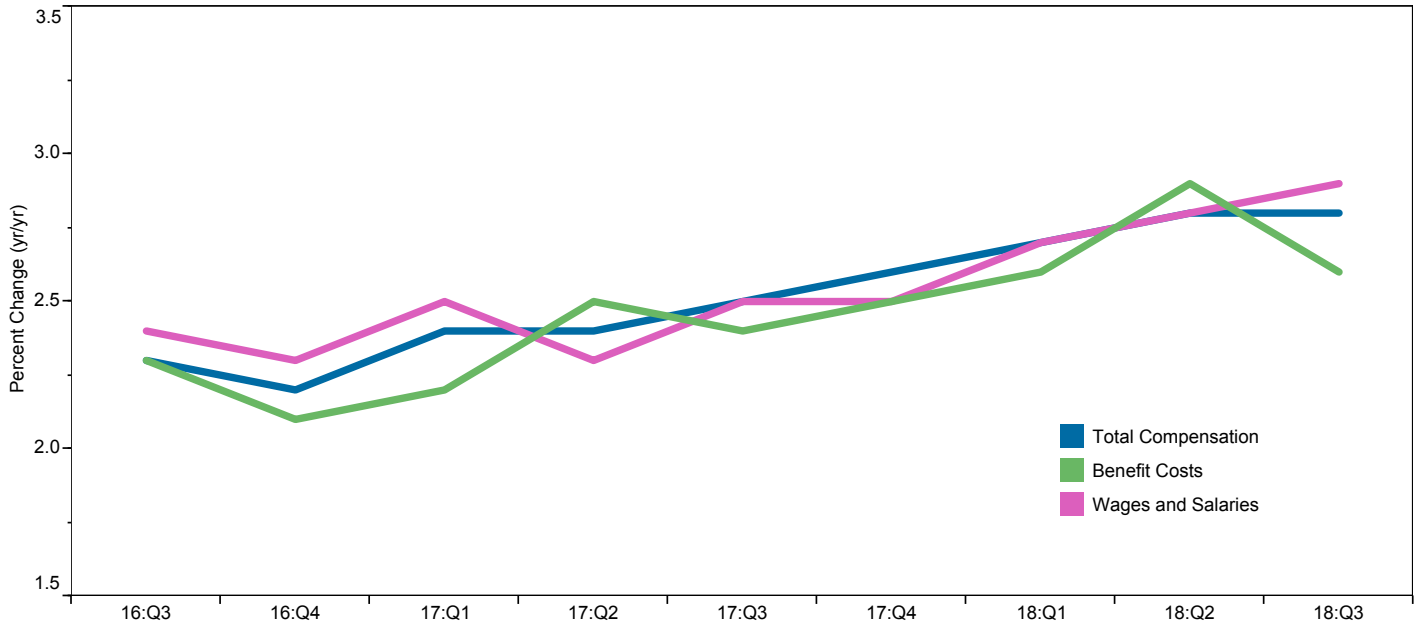
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

In the third quarter, total compensation growth held steady at the rate seen in the second quarter. Meanwhile, wage and salary growth accelerated to its fastest year-over-year growth in 10 years and benefit costs decelerated.

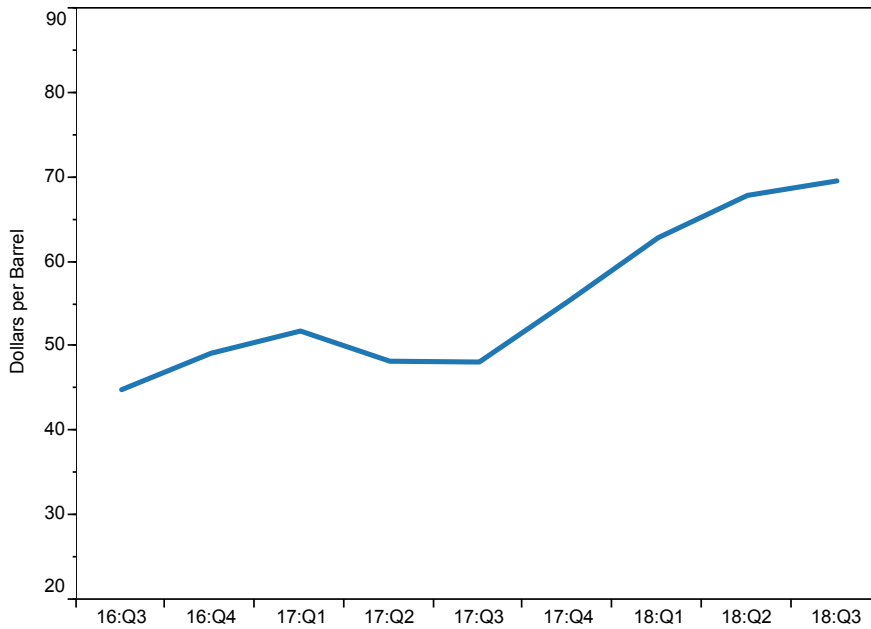
Employment Cost Index



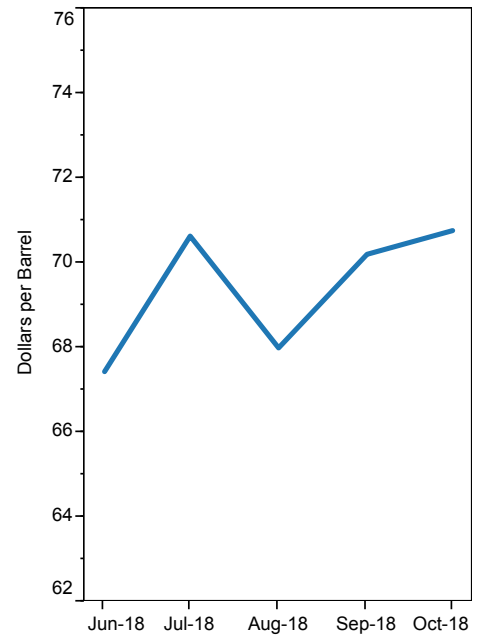
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices were higher in October than seen in September and in the third quarter, but daily closing prices fell steadily throughout the month. Prices continued to fall in early November, reaching \$59.9 per barrel on November 12 - dropping below \$60/barrel for the first time since February.

Domestic Spot Oil Price



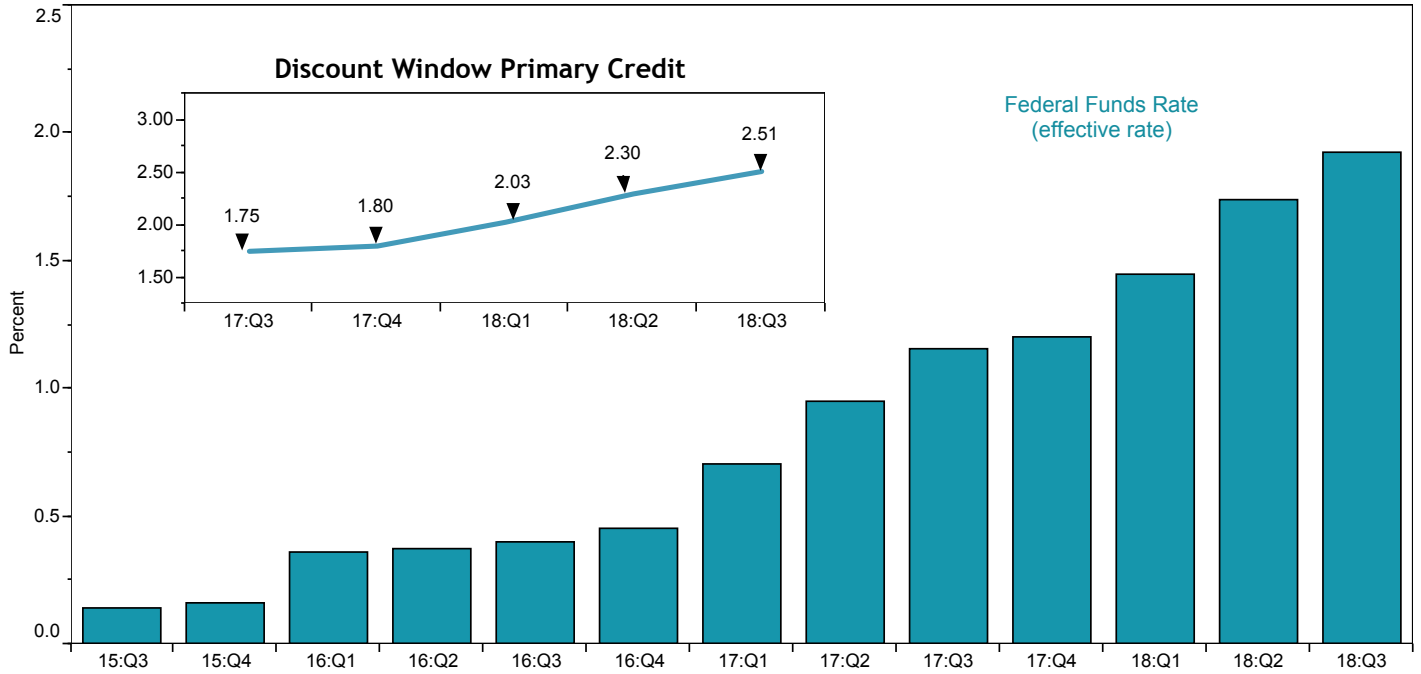
Past Five Months



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

Data released since your last Directors' meeting show that economic growth slowed a bit in the third quarter, but remained above recent trends. The labor market remains strong, consumer spending increased, and consumer attitudes remain elevated. Business investment has slowed from the levels seen earlier this year, while data from the housing market were soft. Overall, recent data remain consistent with the expectation for continued growth moderately above potential through the fourth quarter and into next year.

Short-Term Interest Rates



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