



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

November 14, 2019

**CURRENT ECONOMIC DEVELOPMENTS - November 14, 2019**

Data released since your last Directors' meeting show that economic growth slowed slightly in the third quarter. Labor markets remain strong and consumer spending increased, while consumer attitudes have been mixed. The housing market showed further signs of improvement, yet business investment remained soft. Overall, recent data remain consistent with the expectation for growth to slow a bit in the current quarter before picking up again in the new year.

In October, nonfarm payrolls posted another solid gain and were revised higher in previous months. Still, the unemployment rate ticked up one-tenth as an increase in the labor force more than offset a gain in civilian employment. Initial claims for unemployment insurance remain steady near historic lows.

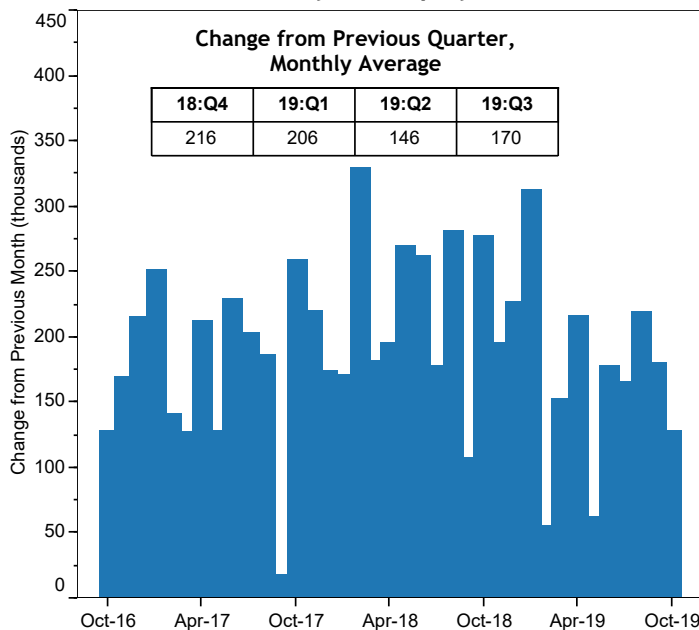
The increase in real GDP in the third quarter reflected positive contributions from personal consumption expenditures, government spending, residential fixed investment, and exports. Those effects were partly offset by negative contributions from nonresidential fixed investment and private inventory investment and an increase in imports.

Consumer spending pulled back a bit in the third quarter from its robust second quarter rate, though it remained the primary contributor to GDP growth, reflecting the strong labor market, rising incomes, and elevated levels of consumer sentiment. The ongoing strength of the consumer sector has helped offset weaker business investment. The ISM index, despite rising in October, remained in contractionary territory. Both total and core durable goods orders declined in the third quarter, with core orders falling for the first time since late 2016. Industrial production fell in September, following a strong increase in August. Housing market data improved further in the third quarter - despite some pullback in September - with housing starts, building permits, and new home sales all at or close to post-recession highs.

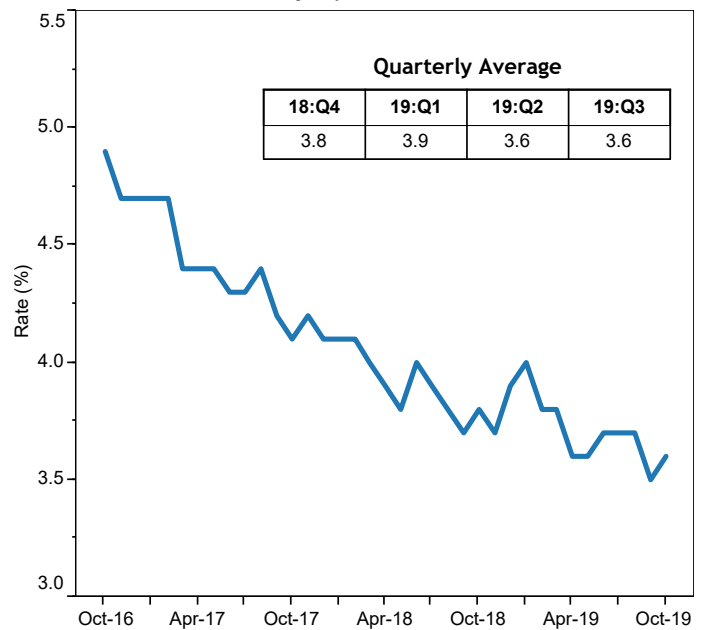
Total consumer inflation held steady in the third quarter, as measured by both the CPI and PCE indices. Core measures moved a bit higher, however, suggesting inflation continues to firm following the lower readings seen earlier this year. Growth in compensation slowed in the third quarter while unit labor costs picked up, and total compensation as measured by the ECI accelerated slightly. Lastly, oil prices fell in October below both their September and third quarter averages, but have moved a bit higher again in early November.

Nonfarm payrolls added 128,000 jobs in October, and previous months' gains were revised upward by a net 95,000 jobs. The unemployment rate rose to 3.6 percent while the labor force participation rate rose another tenth to a six-year high of 63.3 percent.

**Nonfarm Payroll Employment**



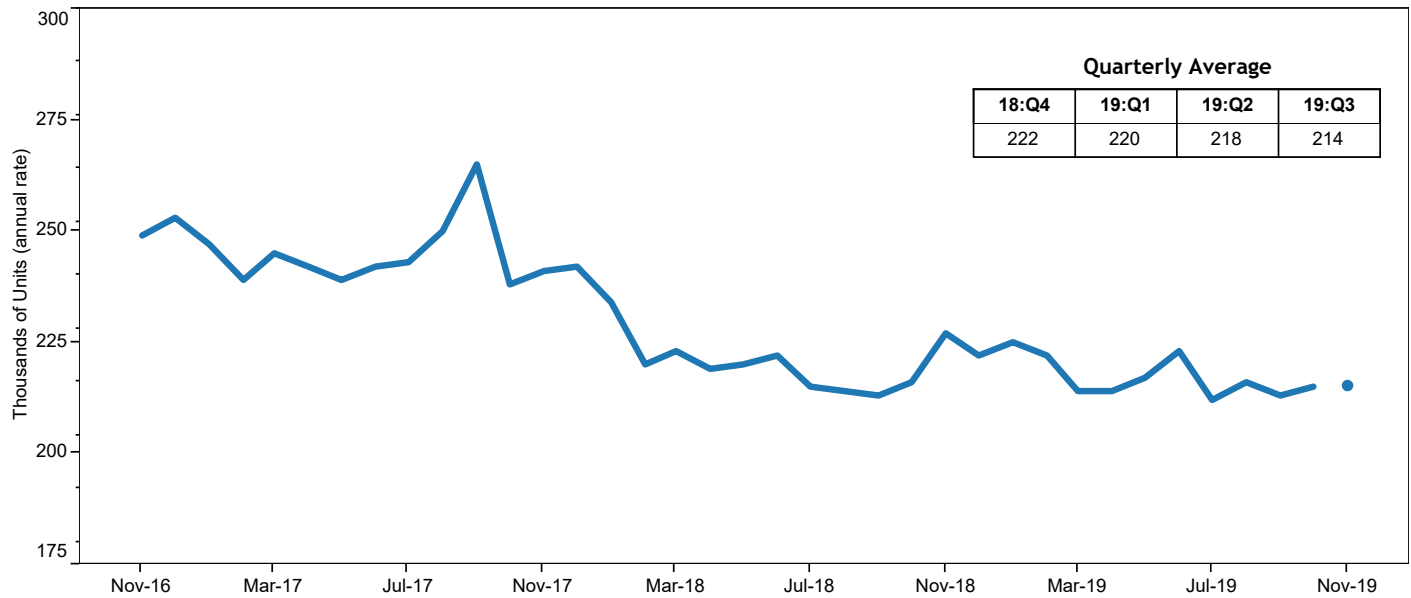
**Unemployment Rate**



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance fell to 211,000 in the week ending November 2nd, while the four-week moving average edged up by 250 to 215,250. Average claims in the third quarter matched a 49-year low.

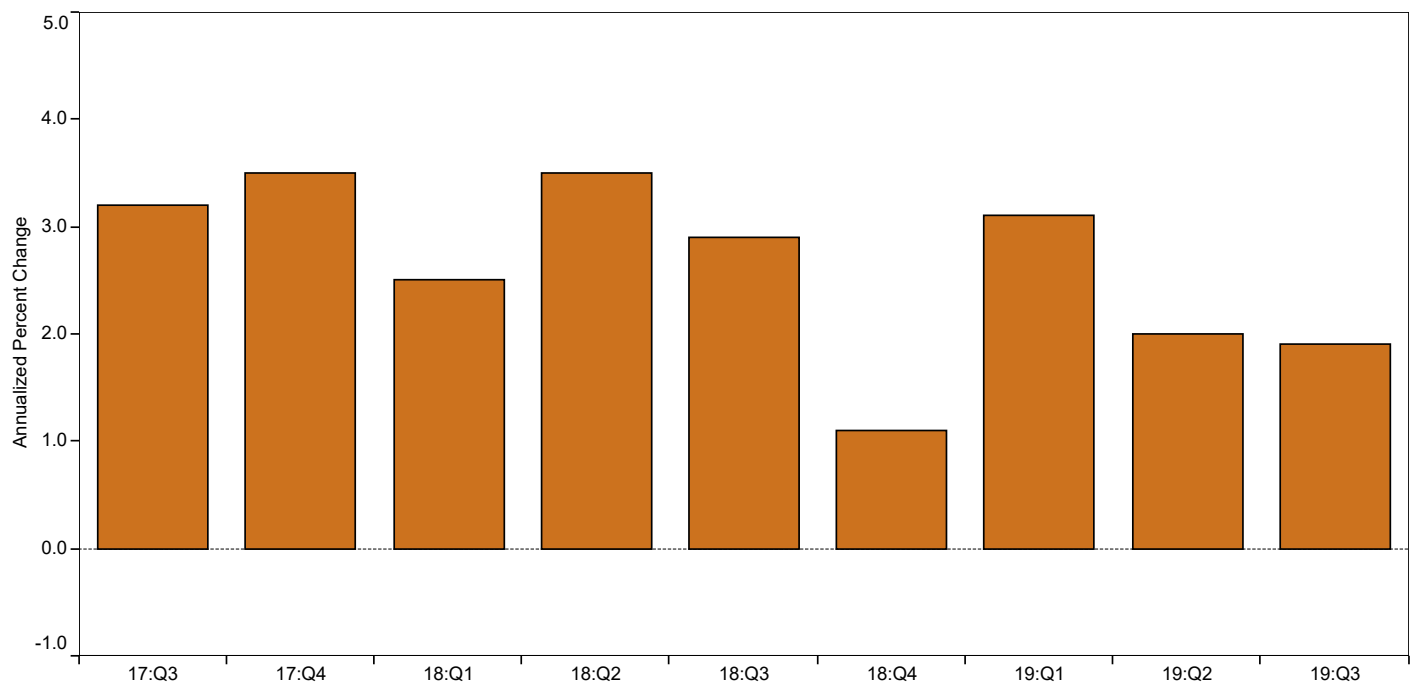
### Initial Claims



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

Real GDP grew 1.9% in the third quarter, slowing a bit from the second quarter rate of 2.0%. The deceleration in real GDP in the third quarter reflected decelerations in PCE, government spending, and a larger decrease in nonresidential fixed investment. These movements were partly offset by a smaller decrease in private inventory investment, and upturns in exports and in residential fixed investment.

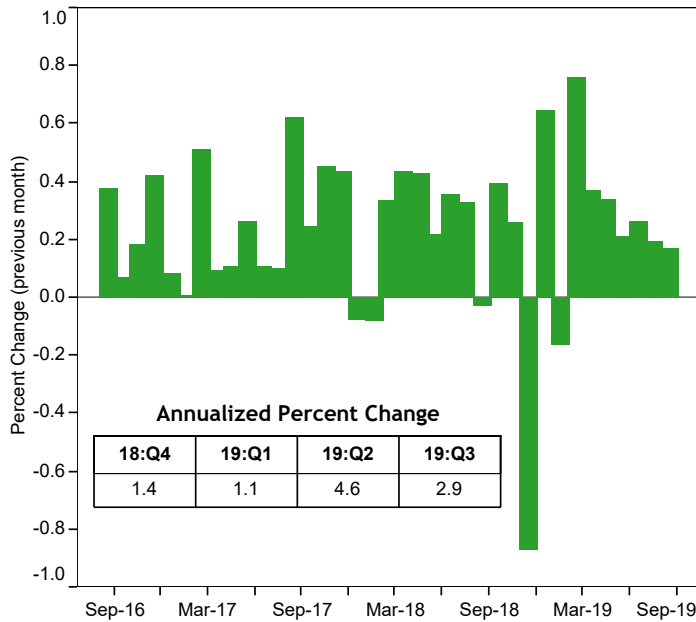
### Real Gross Domestic Product



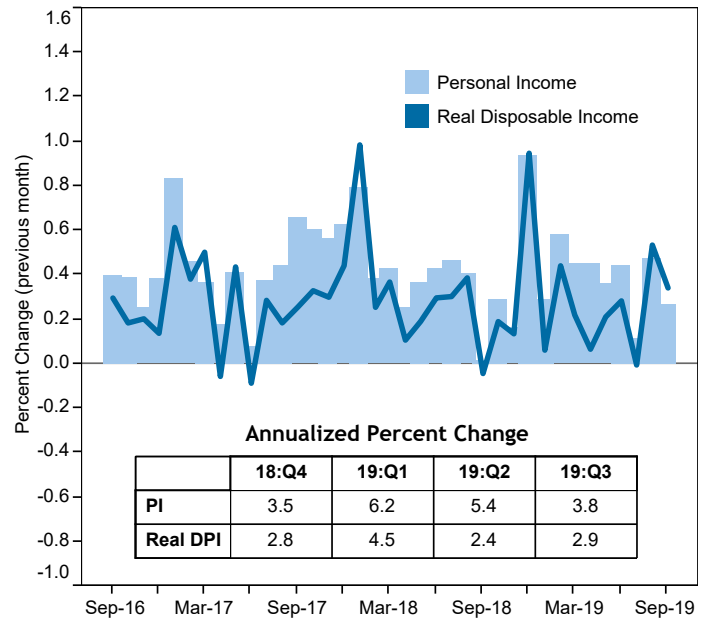
Source: Bureau of Economic Analysis / Haver Analytics.

Real consumption growth slowed a bit in the third quarter, though remained strong following the robust growth seen in the second quarter. Real income growth picked up in the third quarter, while nominal income growth slowed. On a monthly basis, consumption posted another small increase in September while both nominal and real income growth decelerated.

### Real Consumption



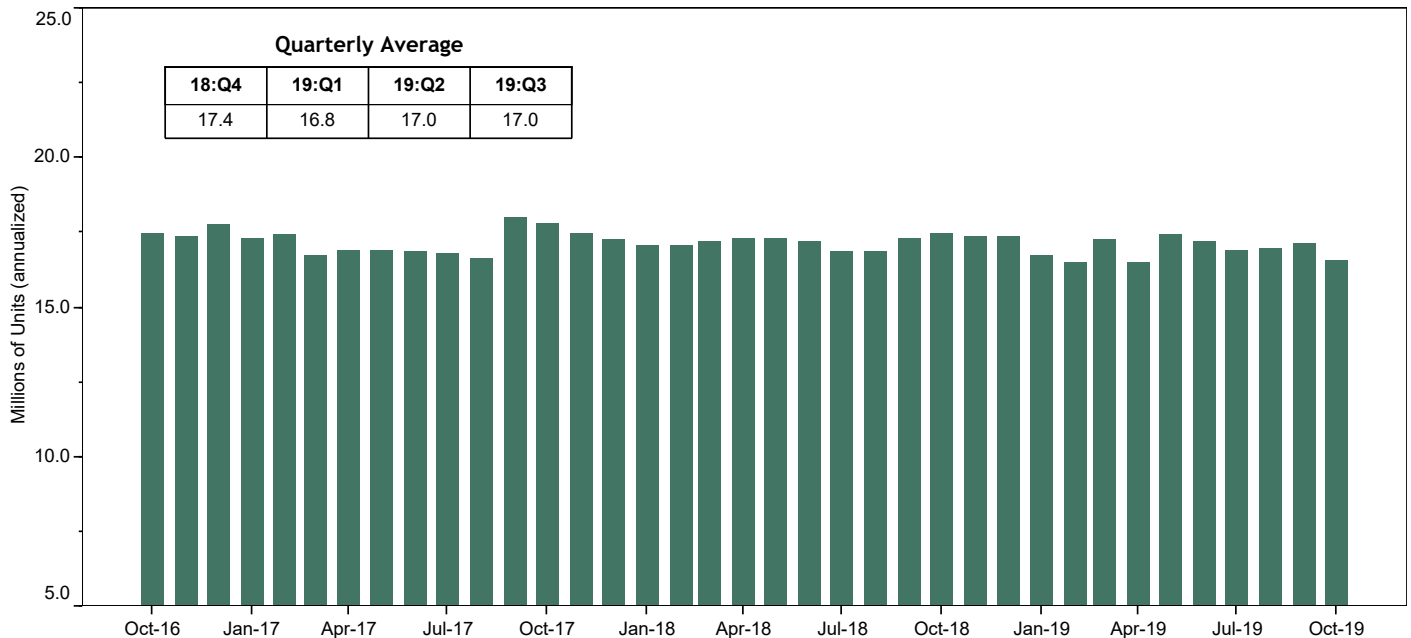
### Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicles sold at an annual rate of 16.5 million units in October. Truck sales have been moving mostly sideways in recent months, while auto sales have continued to trend downward, reaching a record low in October. GM's U.S. assemblies were halted for much of the month, which may account for some of the deviation from the annual rate of 17.0 million units seen over the last six months.

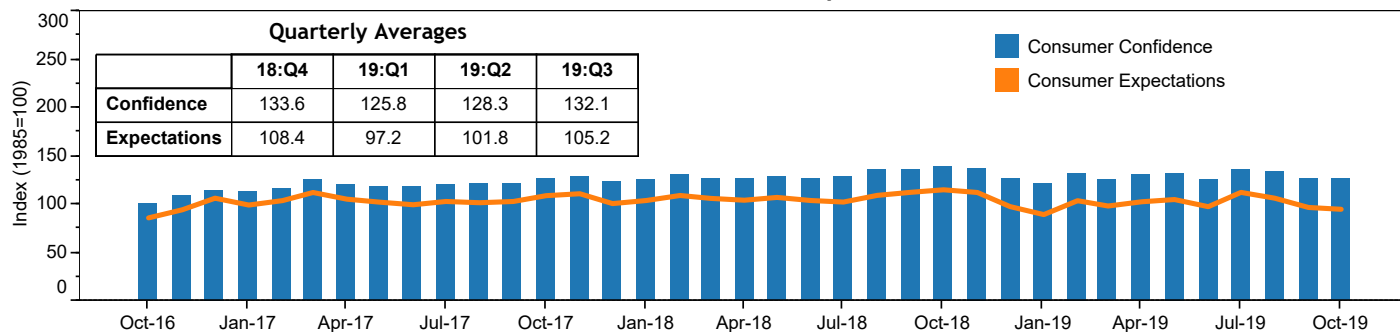
### Total Lightweight Vehicle Sales



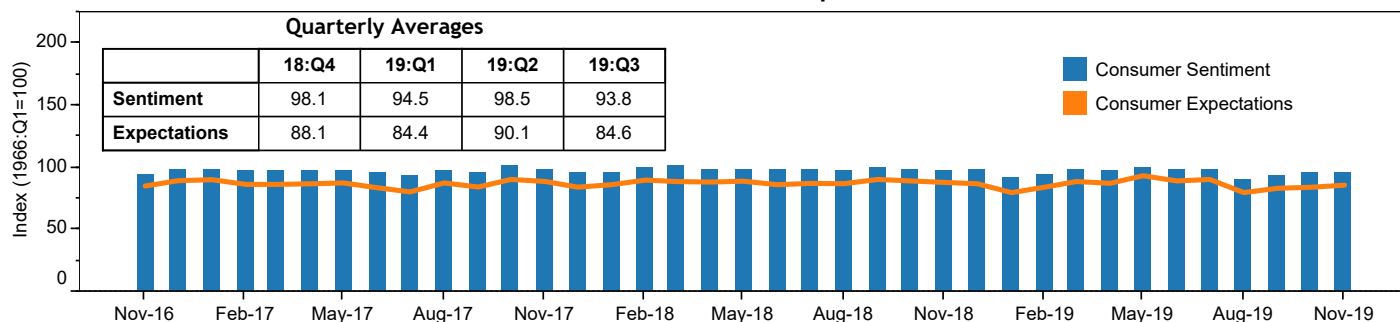
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in October and into early November, as the confidence index dipped slightly and the sentiment ticked up. This disparity was reversed on a quarterly basis, with confidence improving in the third quarter on average and sentiment falling.

### Consumer Confidence and Expectations



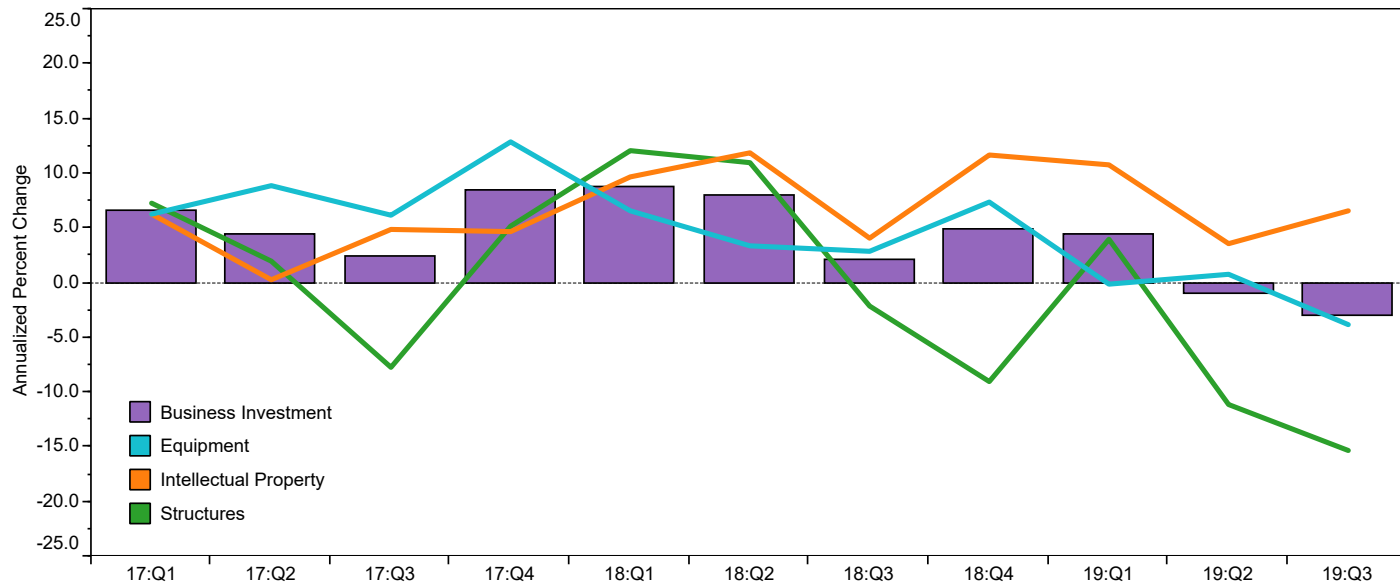
### Consumer Sentiment and Expectations



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

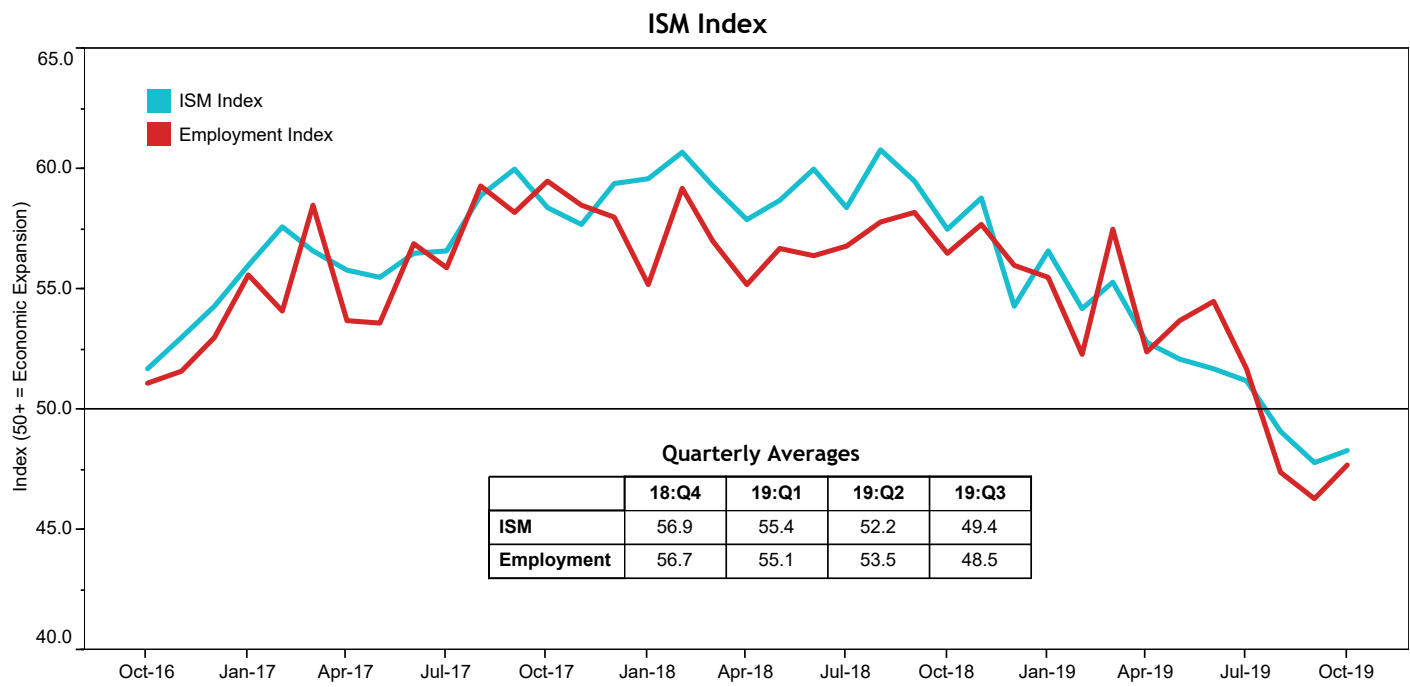
Business investment fell further in the third quarter, as structures investment saw its second straight quarter of double-digit declines. Investment in equipment also declined while intellectual property investment accelerated.

### Business Investment



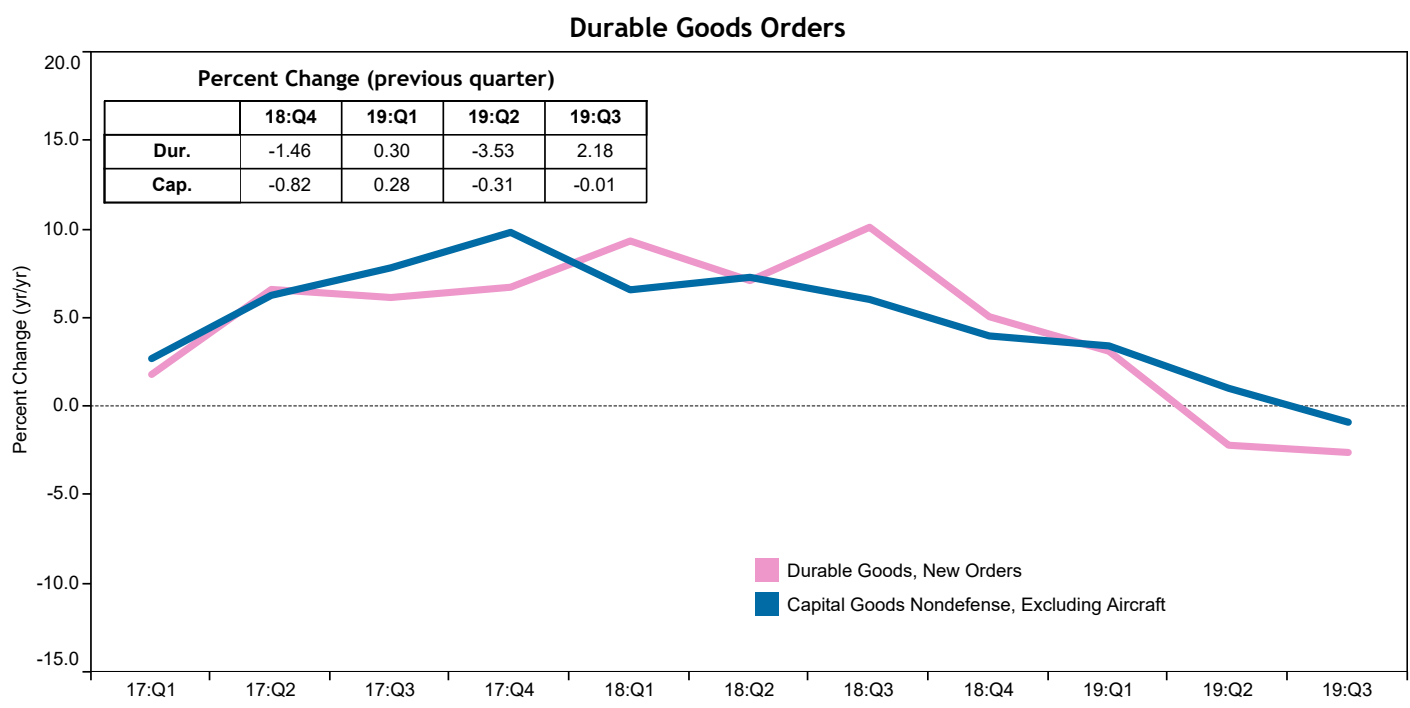
Source: Bureau of Economic Analysis / Haver Analytics.

The ISM manufacturing index rose slightly in October from September's 10-year low, despite continuing to signal contraction in manufacturing activity. The third quarter average of the manufacturing index was the lowest since 2015:Q4. The employment index also improved in October though remained in contraction territory.



Source: Institute of Supply Management / Haver Analytics.

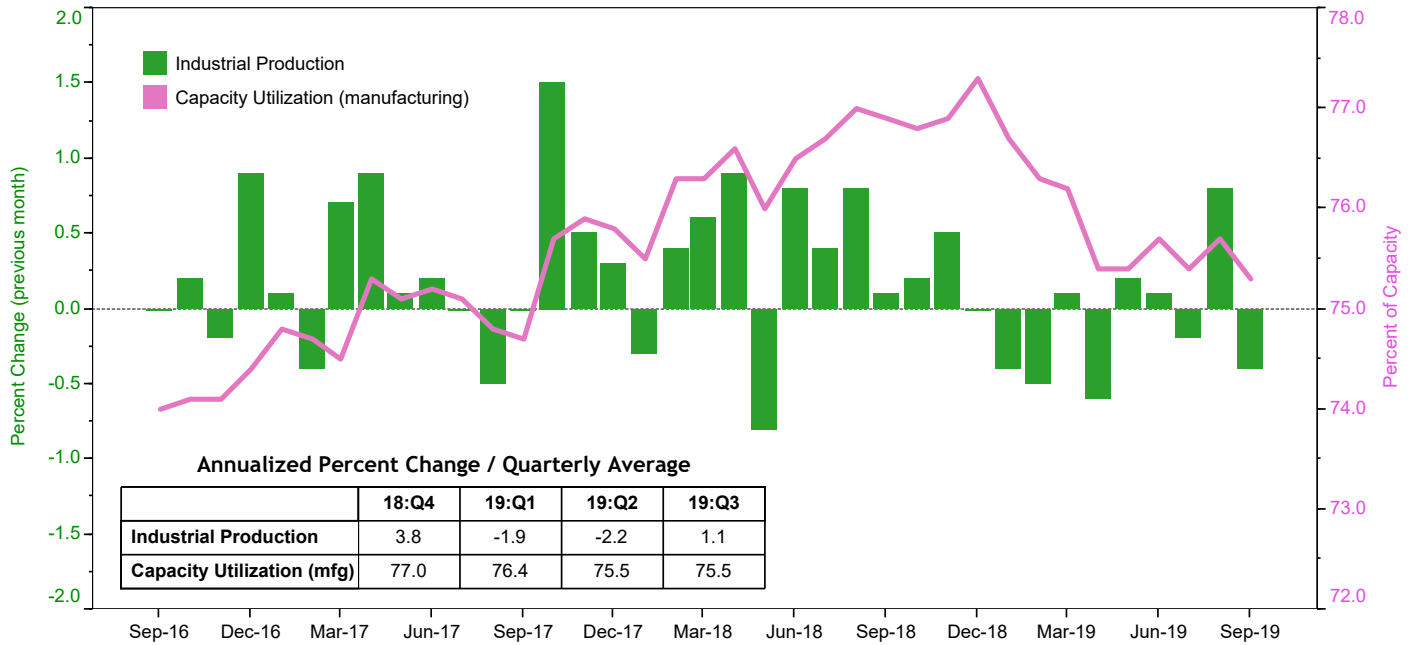
In the third quarter, both durable goods orders and orders for nondefense capital goods, excluding aircraft, fell on a year-over-year basis, consistent with the drag on GDP from nonresidential investment. Durable goods orders did rebound in the third quarter from the second quarter, however.



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

Industrial production declined in September, though picked up overall in the third quarter thanks to a strong gain in August. Capacity utilization in manufacturing continued to largely move sideways in September.

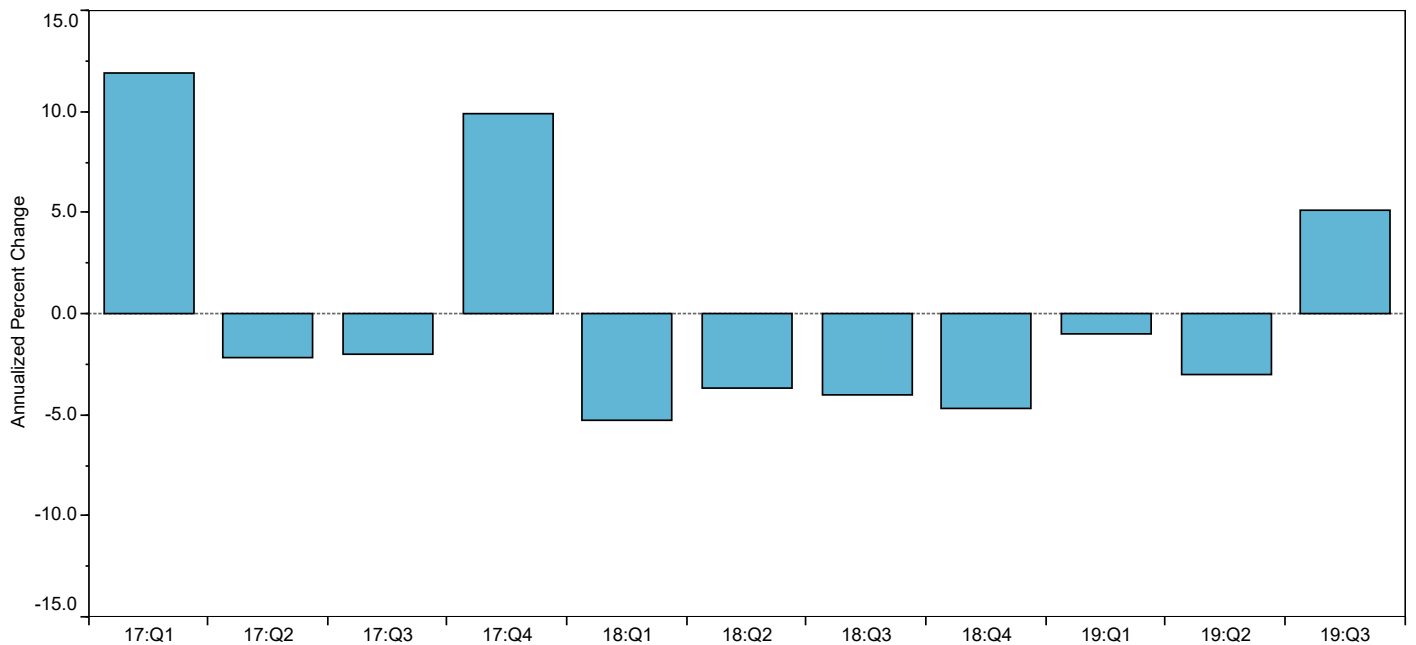
### Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Residential investment rose in the third quarter, the first increase in almost two years.

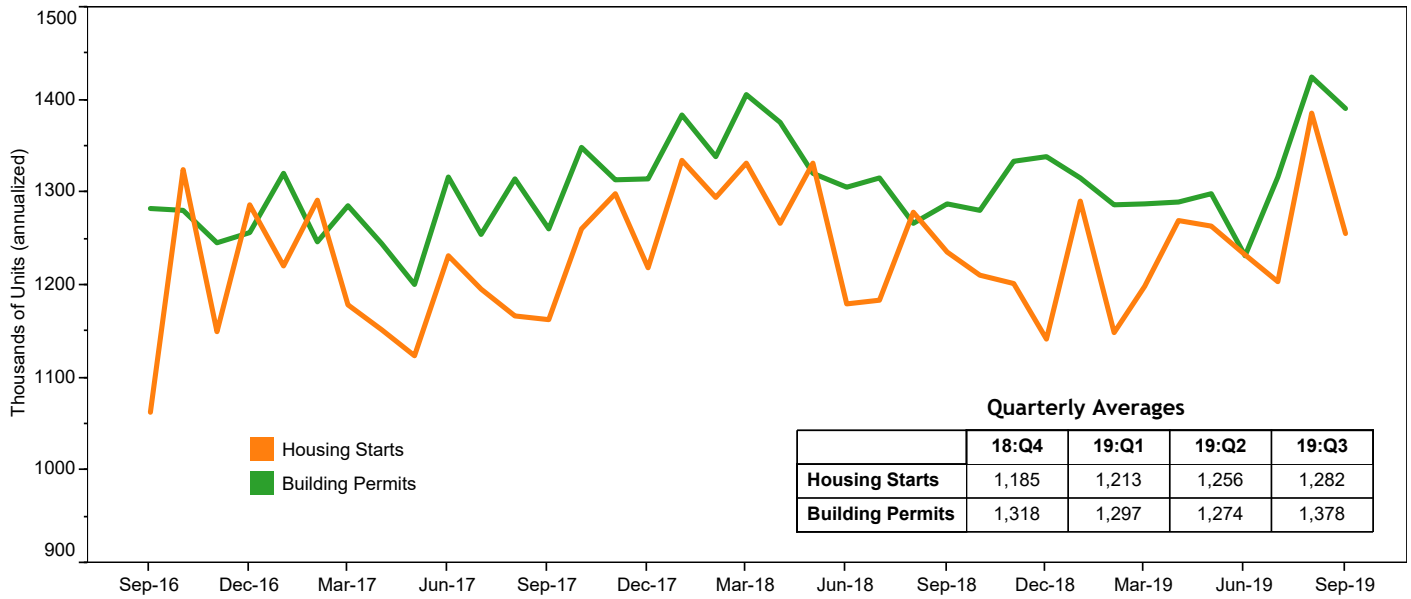
### Residential Investment



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

New residential construction data pulled back in September, after housing starts and building permits both reached post-recession highs in August. Single-family starts and permits both edged higher in September, however, continuing the upward trends seen over the past few months.

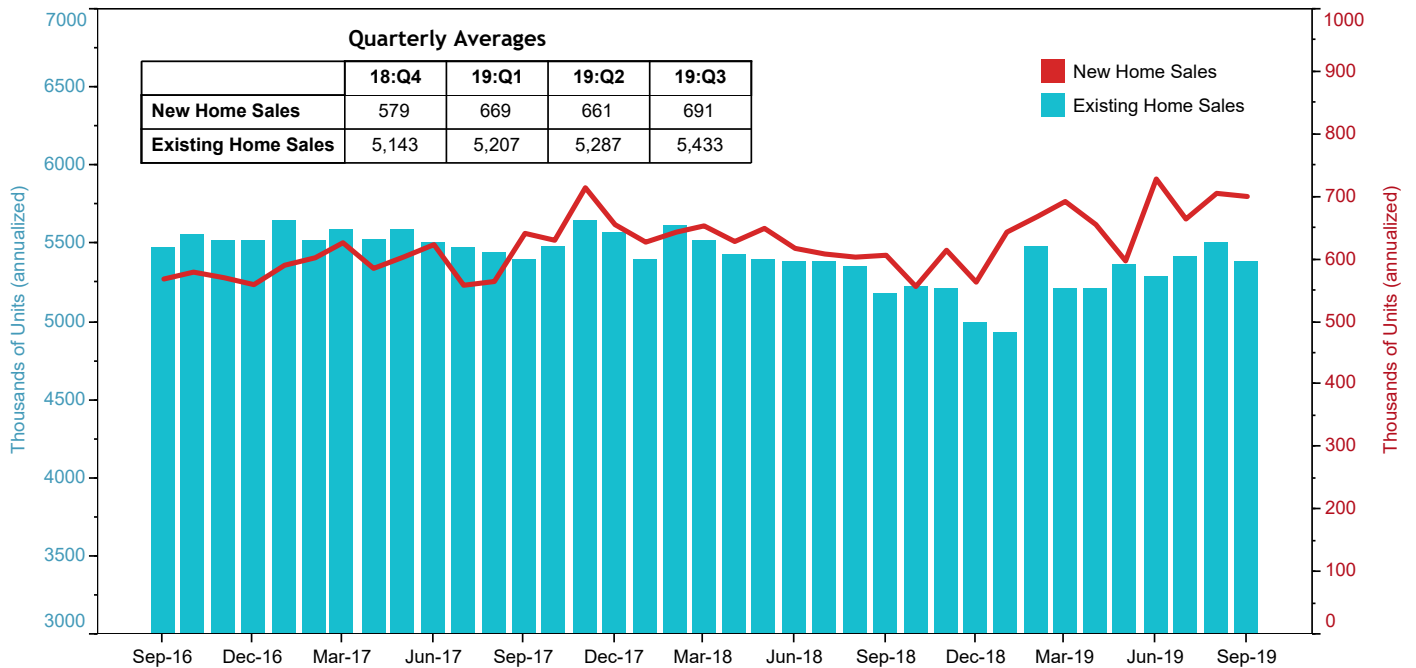
### Housing Starts and Building Permits



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

New home sales eased a bit in September, but average sales in the third quarter were the highest in 12 years. Existing home sales also slowed in September, remaining in line with the sales rates seen throughout most of 2019.

### New and Existing Home Sales

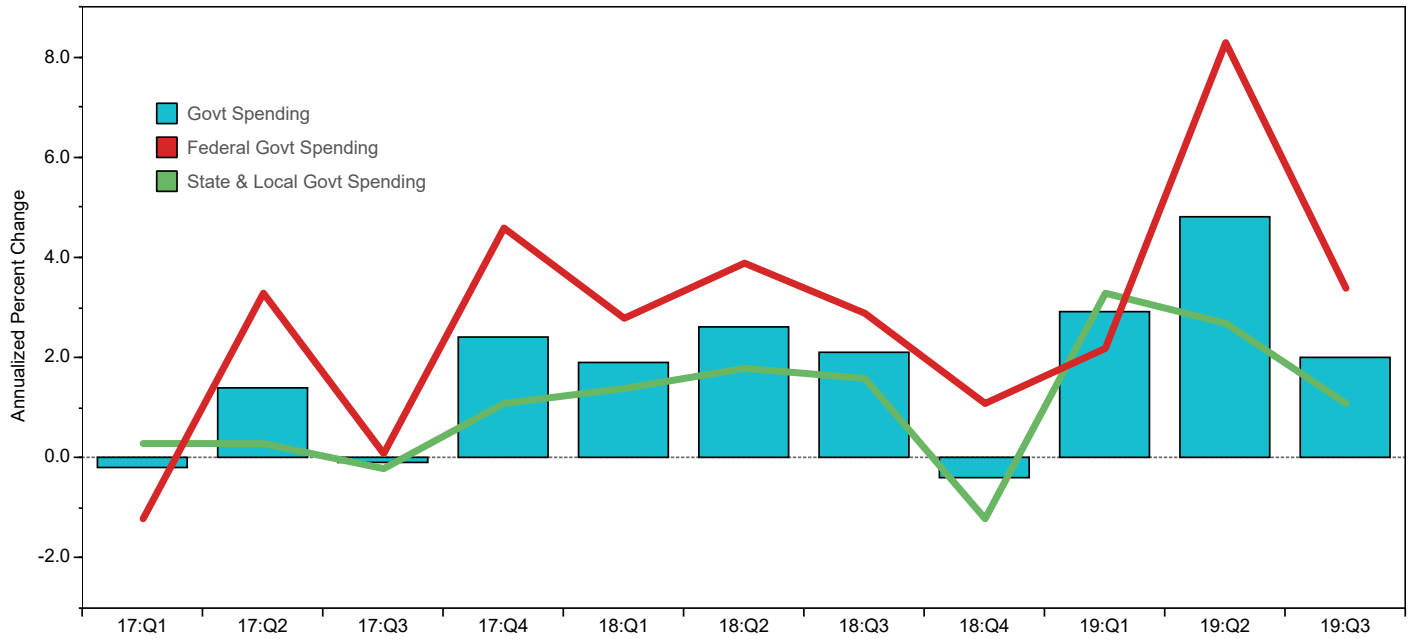


Source: National Association of Realtors (existing home sales) and U.S. Census Bureau (new homes sales) / Haver Analytics.



Government spending slowed in the third quarter - with both federal and state and local expenditures decelerating - but remained a positive contributor to GDP growth.

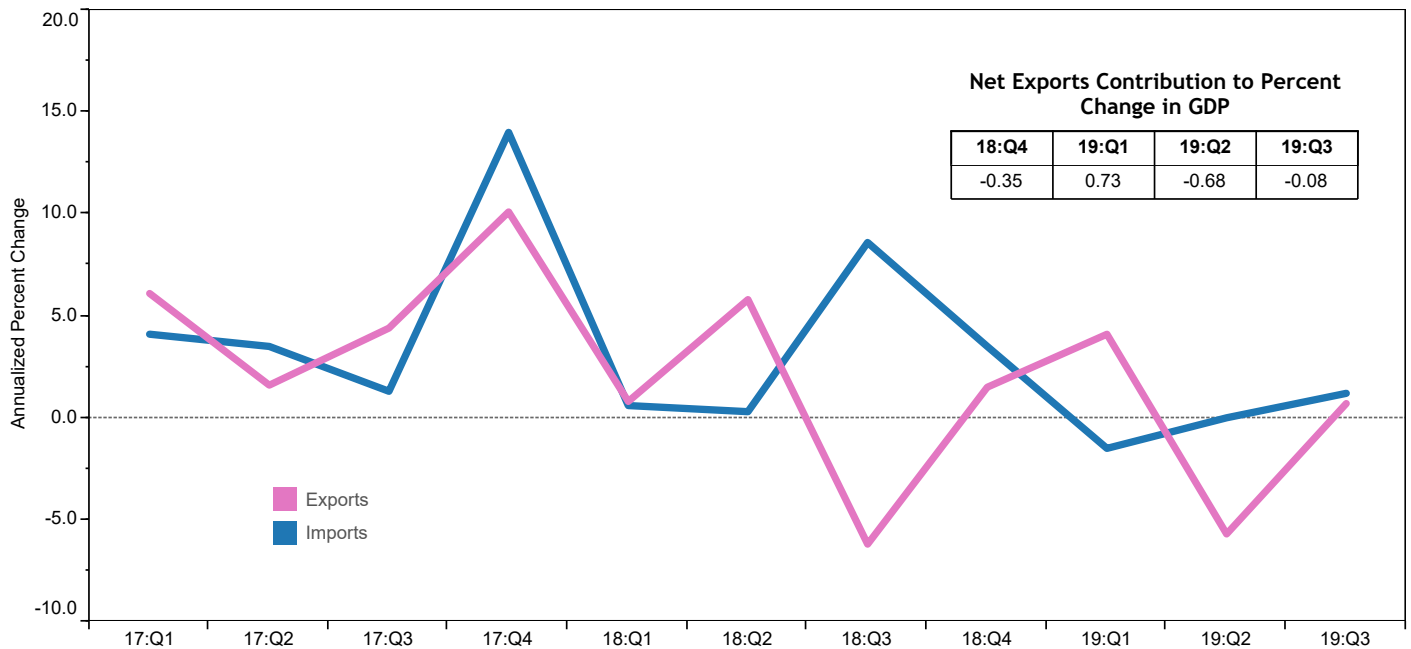
### Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Imports and exports both posted small gains in the third quarter, offsetting a small piece of the declines seen in previous quarters.

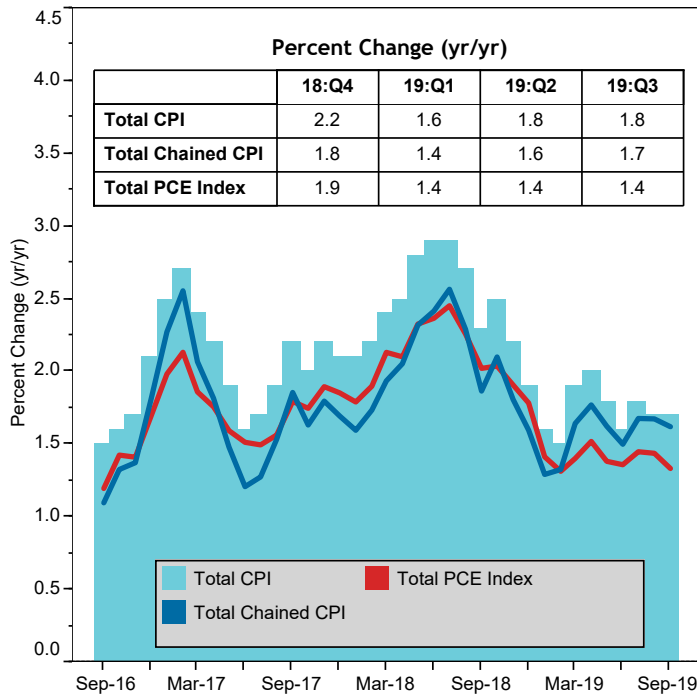
### Exports and Imports



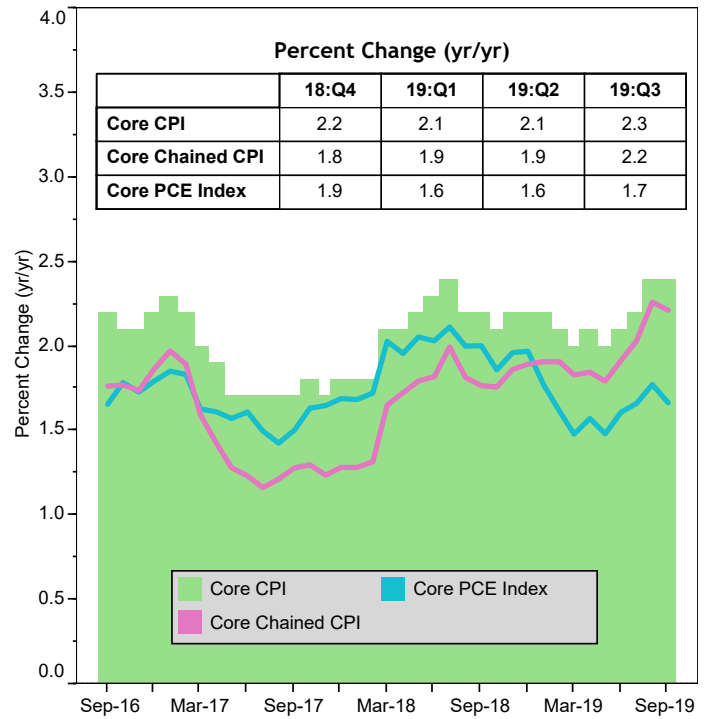
Source: Bureau of Economic Analysis / Haver Analytics.

Inflation measures showed signs of further tightening in the third quarter. Total indices held mostly steady, but both core CPI and core PCE moved higher. In September, total and core CPI were unchanged while the PCE measures both slowed by one-tenth of a percentage point.

### Total Price Indices



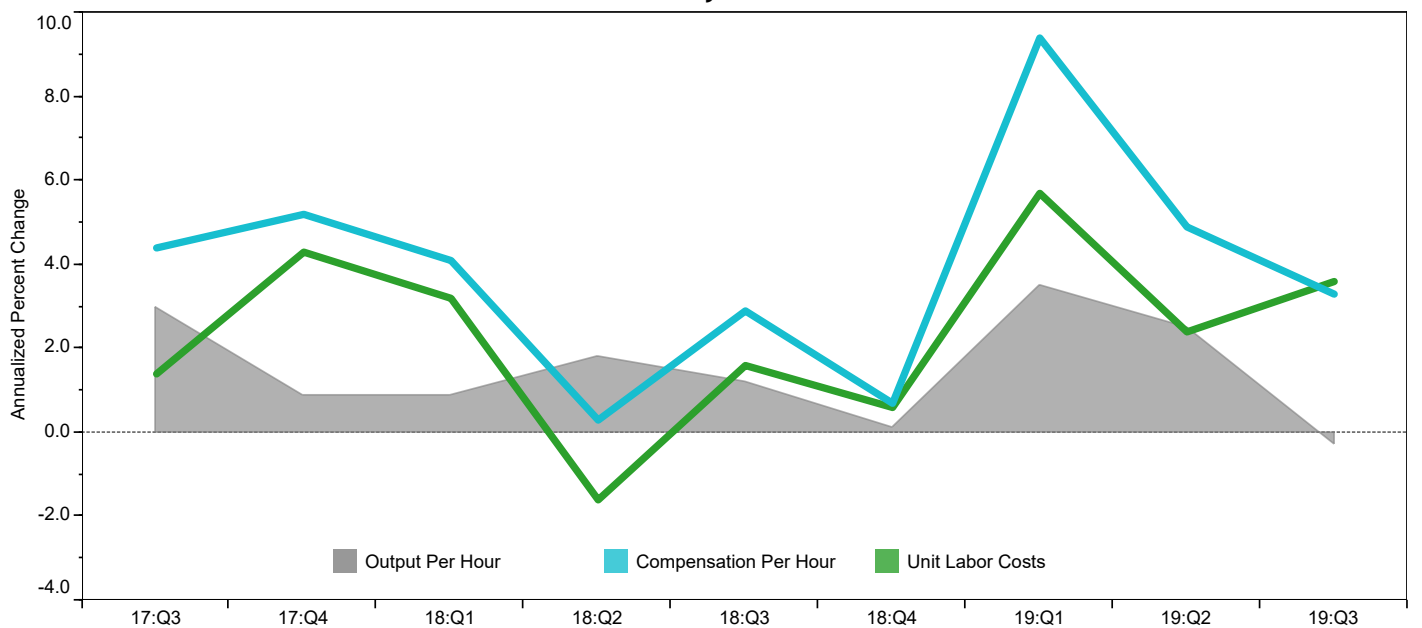
### Core Price Indices



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

During the third quarter, productivity eased at an annual rate of 0.3% in the nonfarm business sector - the first decrease in almost four years - as increased hours more than offset greater output. Compensation growth slowed in the third quarter following strong gains in the first half of the year.

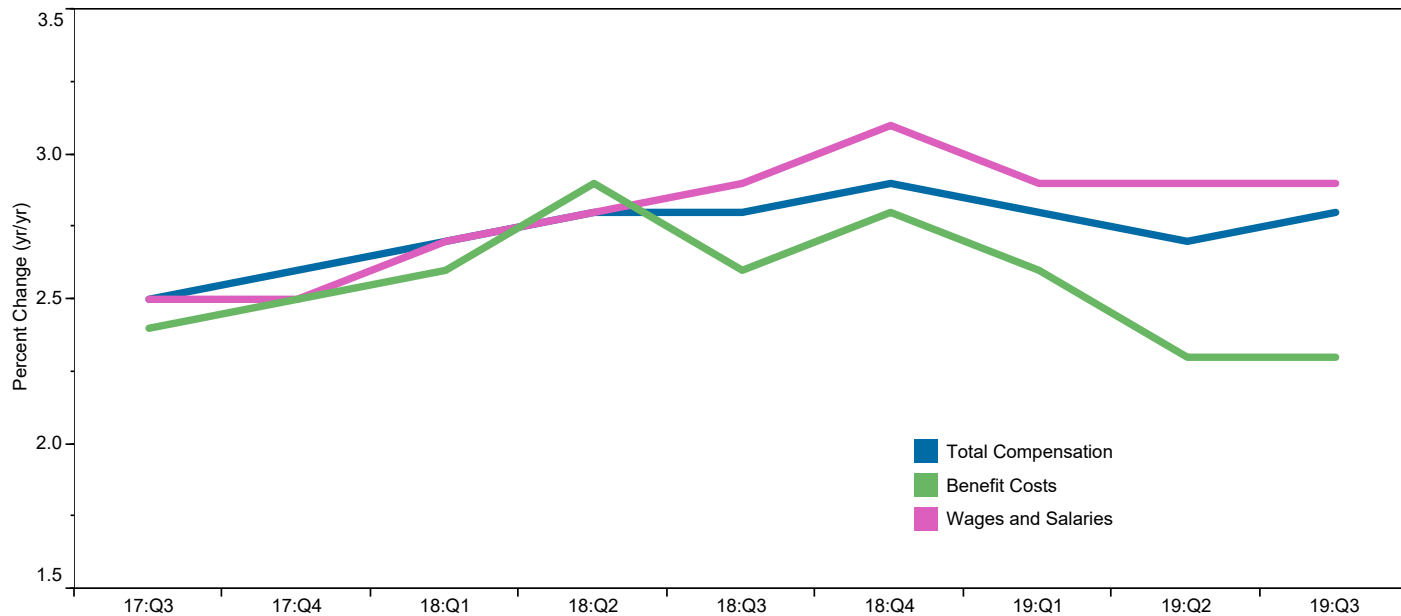
### Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

Total compensation growth accelerated slightly in the third quarter, while growth in both wages and salaries and benefit costs held steady.

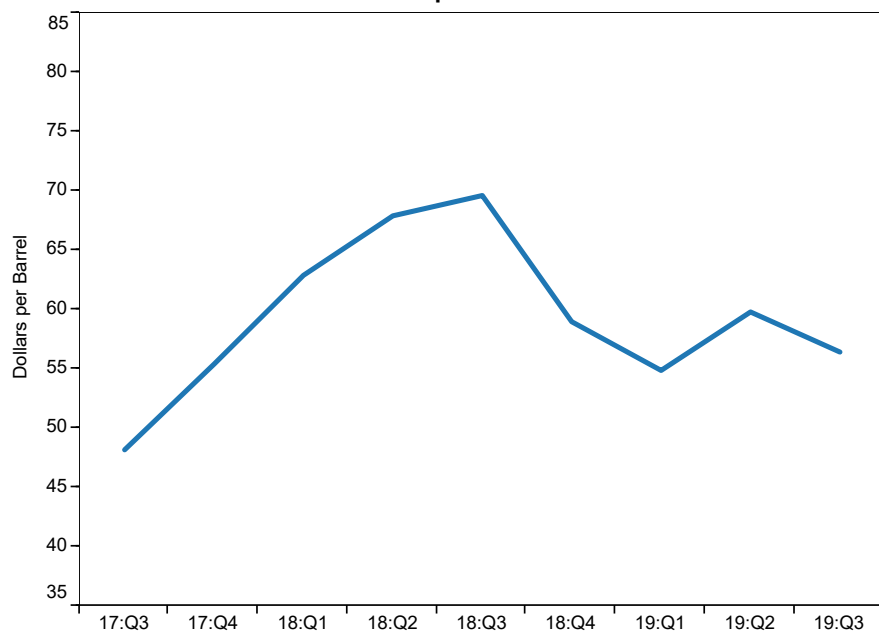
**Employment Cost Index**



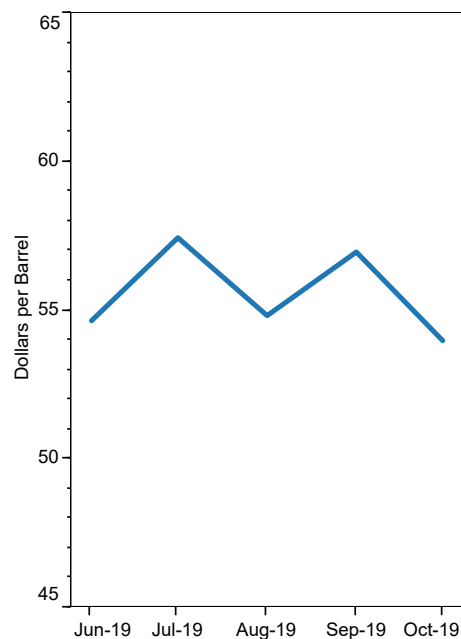
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices were lower in October than seen in September and in the third quarter. In early November, daily prices have been hovering around \$56.0 per barrel.

**Domestic Spot Oil Price**



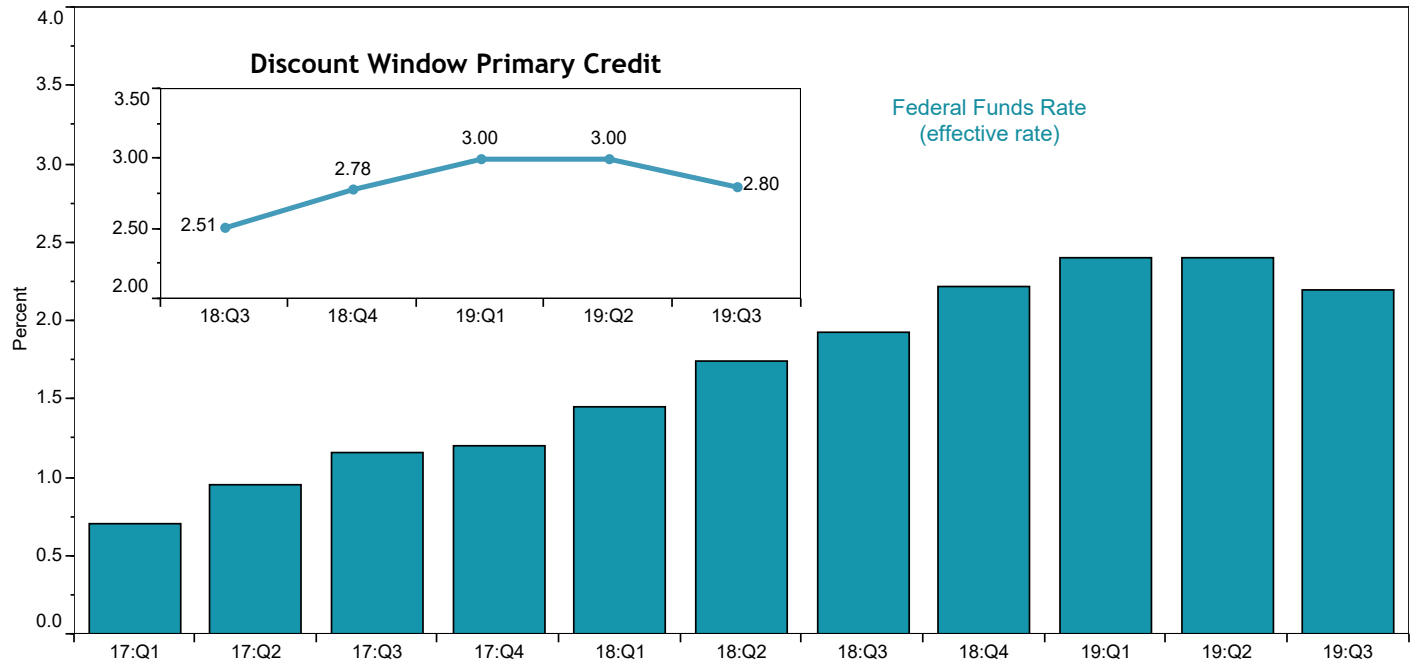
**Past Five Months**



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

Data released since your last Directors' meeting show that economic growth slowed slightly in the third quarter. Labor markets remain strong and consumer spending increased, though consumer attitudes have been mixed. The housing market showed further signs of improvement, yet business investment remained soft. Overall, recent data remain consistent with the expectation for growth to slow a bit in the current quarter before picking up again in the new year.

### Short-Term Interest Rates



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