



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

November 10, 2020

CURRENT ECONOMIC DEVELOPMENTS - November 10, 2020

Data released since your last Director's meeting continue to show both signs of improvement as well as the weight of uncertainty. According to the advance estimate of real GDP growth, the third quarter showed a record expansion of 33.1%. Since the lows seen this spring, many areas are beginning to regain their pre-pandemic levels, though the expiration of government stimulus programs, elevated levels of unemployment, and the ongoing surge in virus cases will likely temper growth in the current quarter. Medical advances to treat the virus and continued adherence to precautions designed to limit the contagion remain central to a full recovery.

Nonfarm payrolls rose by 638,000 jobs in October while the unemployment rate fell to 6.9%, as employment conditions continued to improve but at a slower rate than seen in previous months. Initial claims for unemployment insurance fell to 751,000 in recent data, continuing their downward trend from the peaks seen in March and April.

Real consumption rose in September and posted substantial gains in the third quarter. Incomes also rose in September but declined in the third quarter. Consumer attitudes rose in the third quarter, although they were mixed in October.

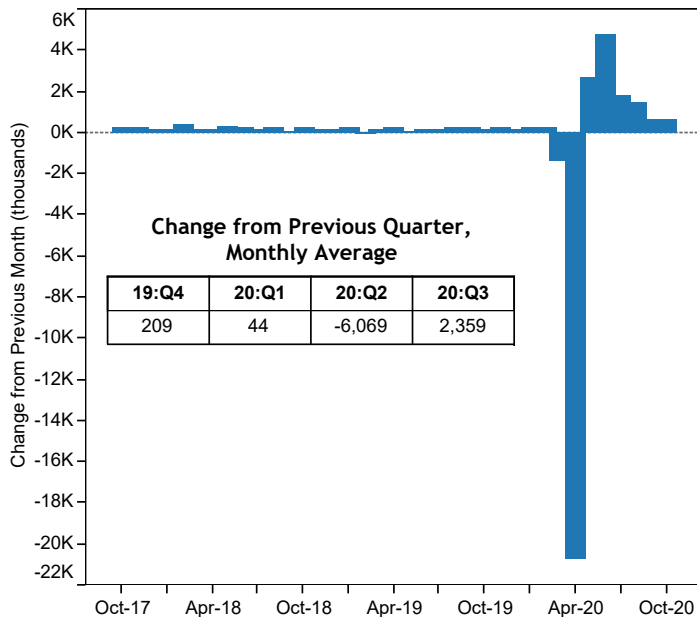
Durable goods orders have rebounded in the third quarter, while orders for nondefense capital goods, excluding aircraft, have more than regained the ground lost due to the pandemic. The ISM Manufacturing index rose to nearly a two-year high and all regional manufacturing surveys from the Federal Reserve continued to signal expansion. Meanwhile, the Services index registered a small decline. Industrial production fell in September but posted sizable gains in the third quarter. Capacity utilization in manufacturing also rose in the third quarter but fell slightly in September from August.

Housing starts, building permits, and home sales all rose in the third quarter while permits and existing home sales hit their highest levels since 2007 and 2006, respectively. Residential investment surged at a 59.3% annual rate in the third quarter.

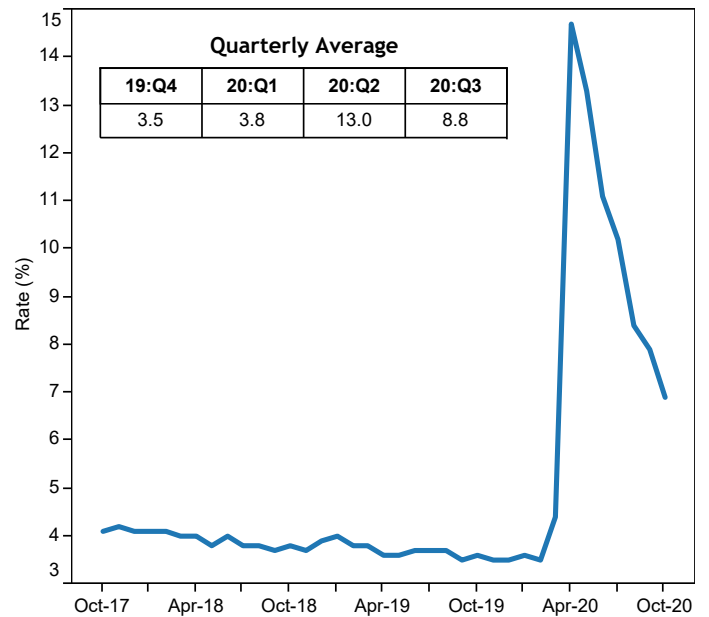
Inflation measures rose in the third quarter, but remain below the rates seen earlier this year. In September, core CPI held steady while total CPI and both measures from the PCE Index increased. Compensation per hour and unit labor costs both fell substantially in the third quarter - as lower-wage jobs that were lost early in the pandemic were refilled - and, on a year-over-year basis, total compensation and wage and salary growth both decelerated. Oil prices have held steady at around \$40 per barrel for the past several months.

Nonfarm payrolls rose by 638 thousand jobs in October. The increase was held back slightly by declines in government payrolls as temporary Census workers were laid off and state-and-local governments failed to see the normal uptick in education services typically seen in October. The unemployment rate recovered a full percentage point in October, falling to 6.9%.

Nonfarm Payroll Employment



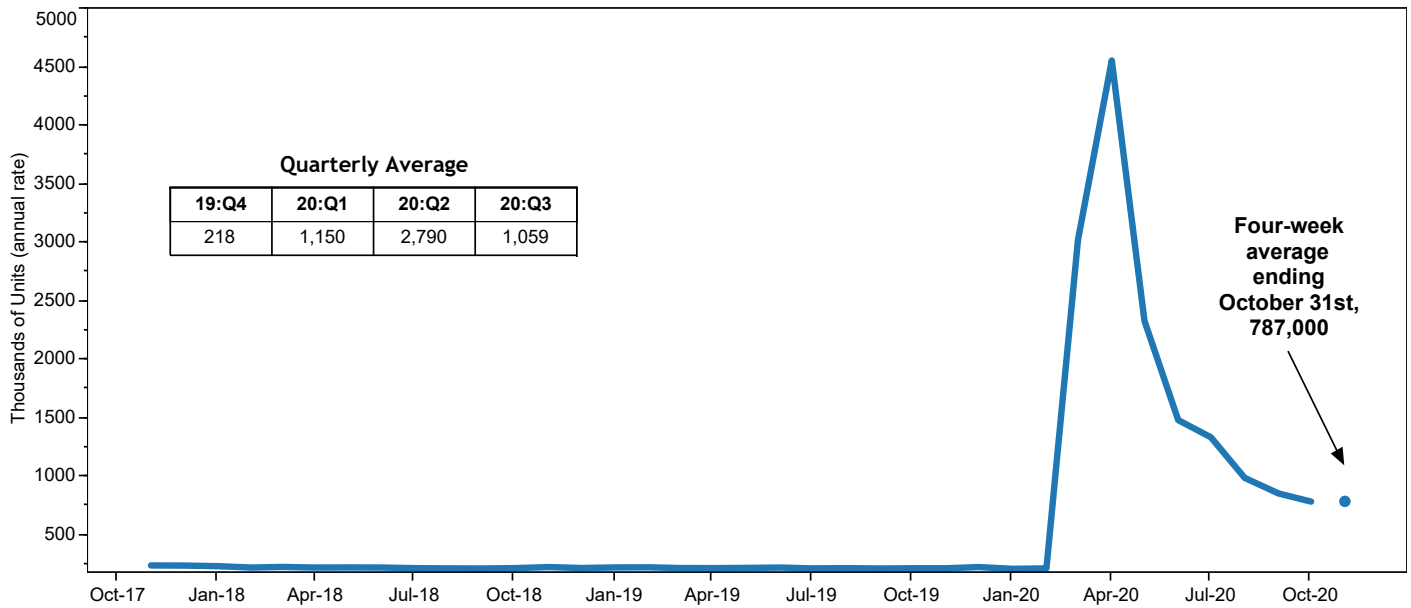
Unemployment Rate



Source: Bureau of Labor Statistics / Haver Analytics.

Initial claims for unemployment insurance fell to 751,000 in the week ending October 31st. The four-week moving average fell to 787,000 in October. While claims have continued to slowly drift downward they remain at historically high levels. For comparison, claims peaked at 665,000 during the Great Recession.

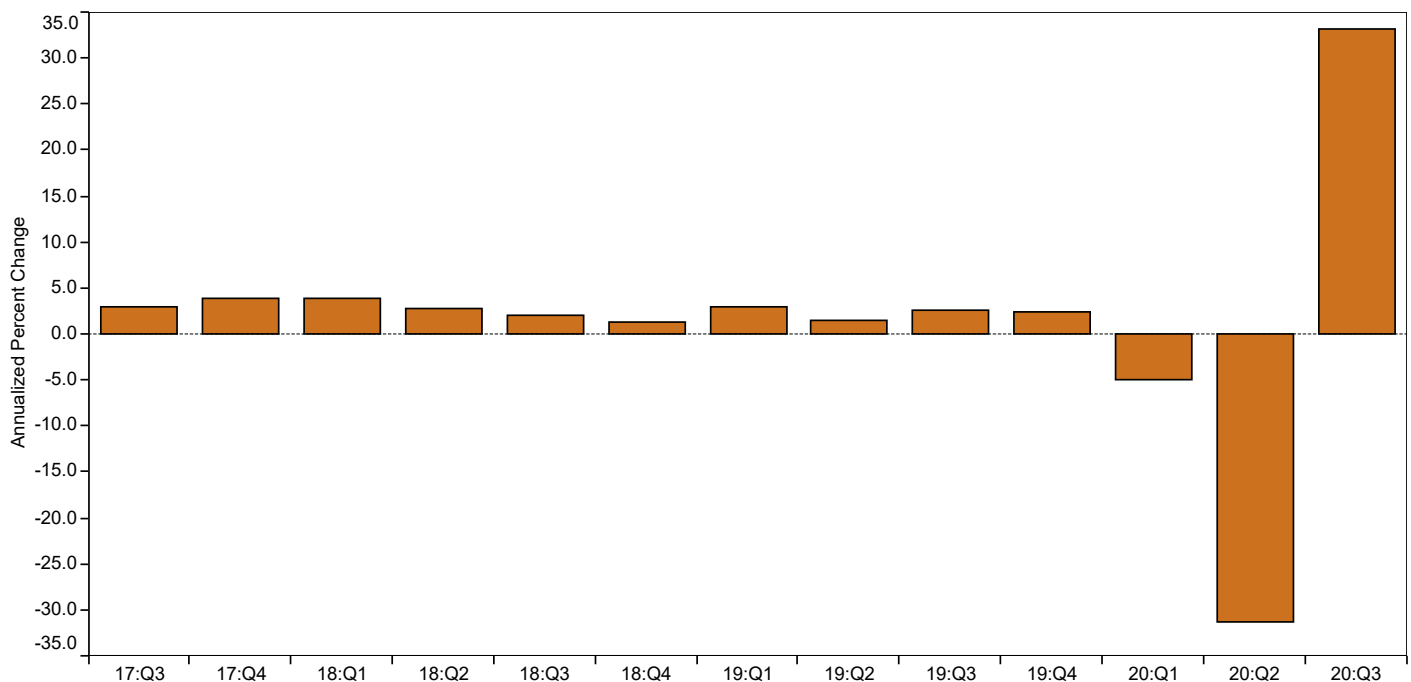
Initial Claims



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

Real GDP increased at an annual rate of 33.1% in the third quarter. The increase reflected increases in personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

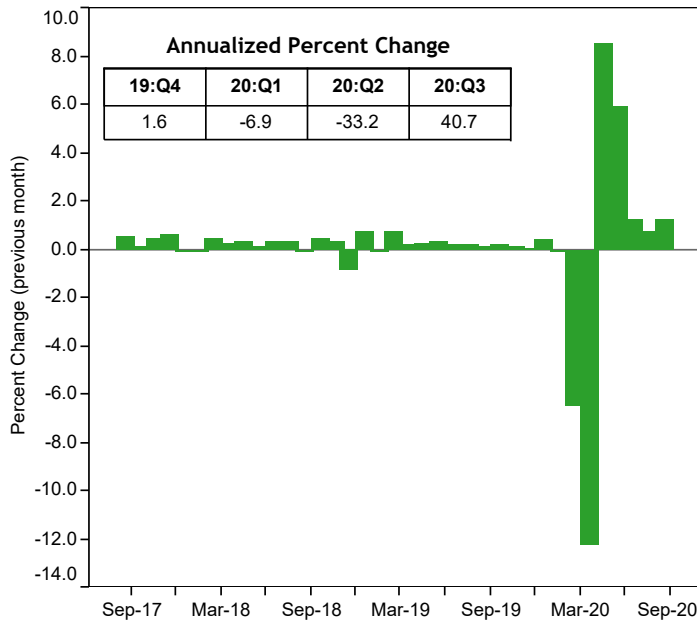
Real Gross Domestic Product



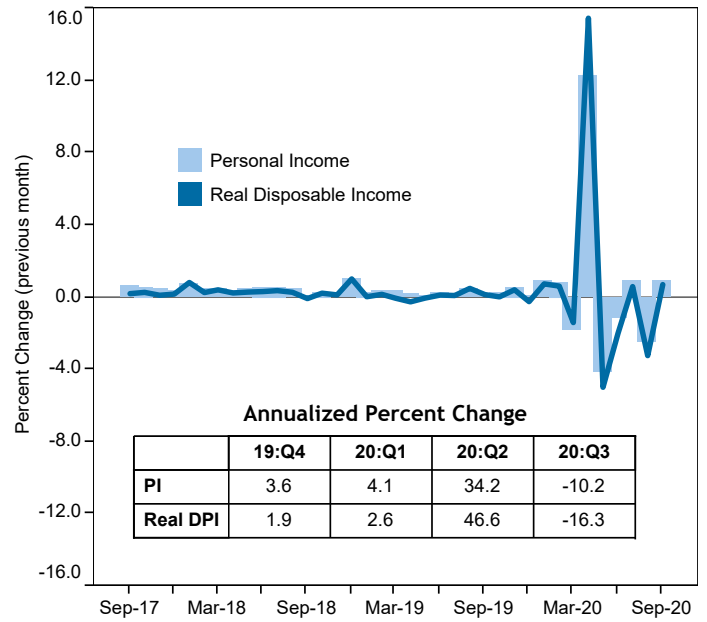
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of income growth and real consumption were mixed on a quarterly basis, but rose in September. Consumption ticked up 1.2% in September while soaring 40.7% in the third quarter. Nominal and real incomes also posted small gains in September but registered sizable declines in the third quarter with the expiration of stimulus payments.

Real Consumption



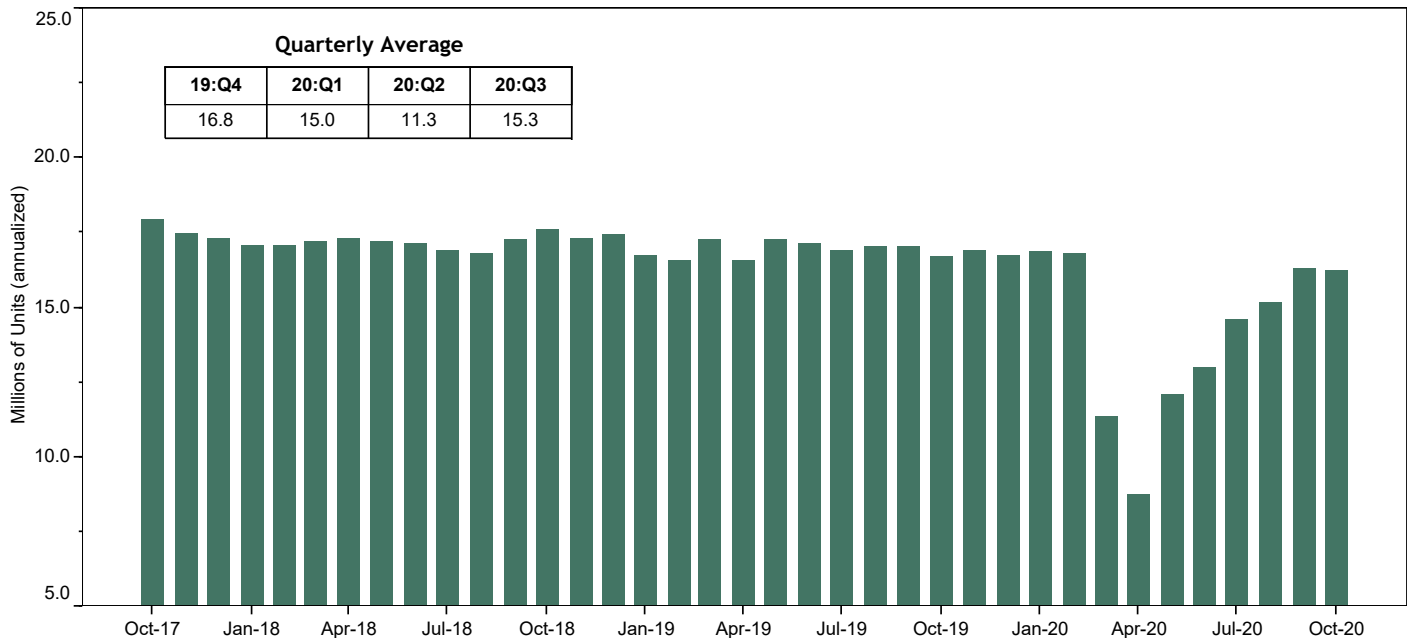
Personal Income



Source: Bureau of Economic Analysis / Haver Analytics.

Lightweight vehicles sold at an annual rate of 16.2 million units in October. Although this is down a bit from September, the pace of sales is only slightly below the trend seen prior to the pandemic.

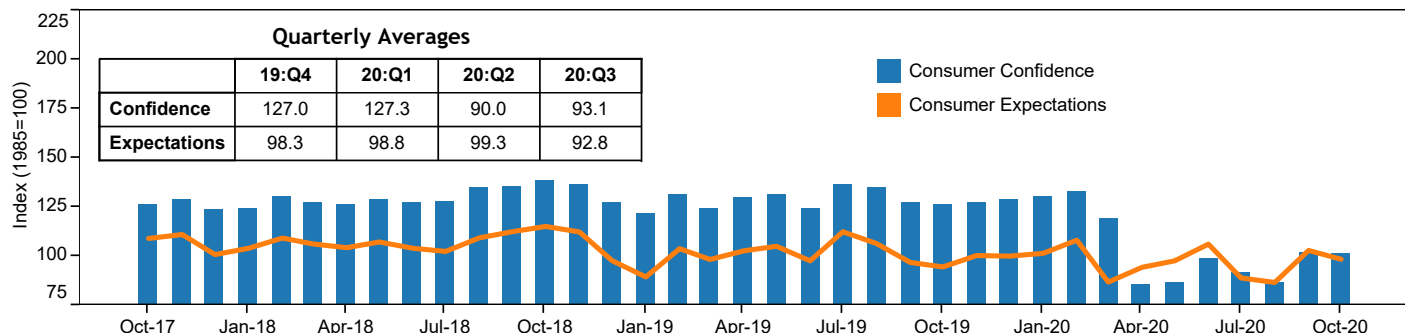
Total Lightweight Vehicle Sales



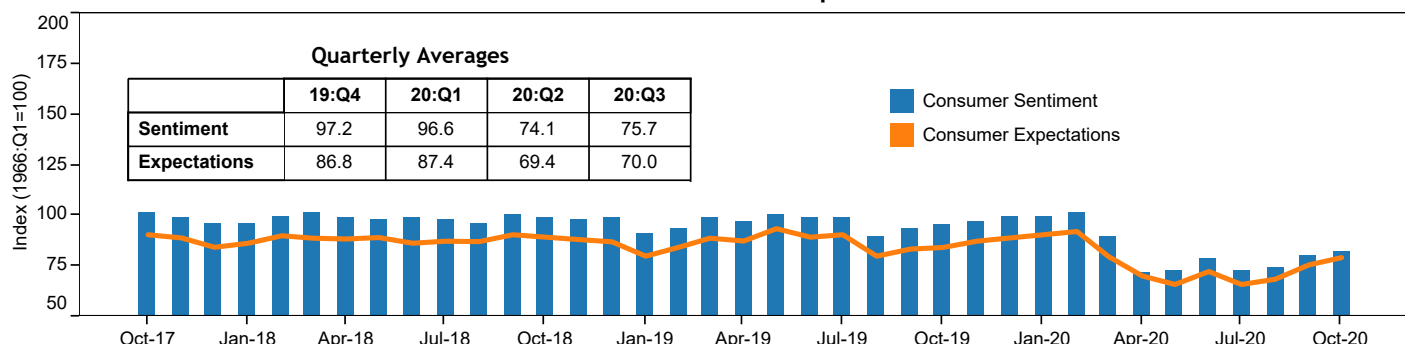
Source: Bureau of Economic Analysis / Haver Analytics.

Measures of consumer attitudes were mixed in October. The confidence index dipped to 100.9 in October after September's 15 point jump. The present situation index rose 5.7 points to 104.6, the highest since March, but was nearly offset by a decline in the expectations index, which fell 4.5 points to 98.4. The sentiment index ticked up 1.4 points in October's final reading, reaching 81.8. The sentiment subindices were also mixed as the expectations index rose 3.6 points to 79.2, while the current conditions index dipped 1.9 points to 85.9.

Consumer Confidence and Expectations



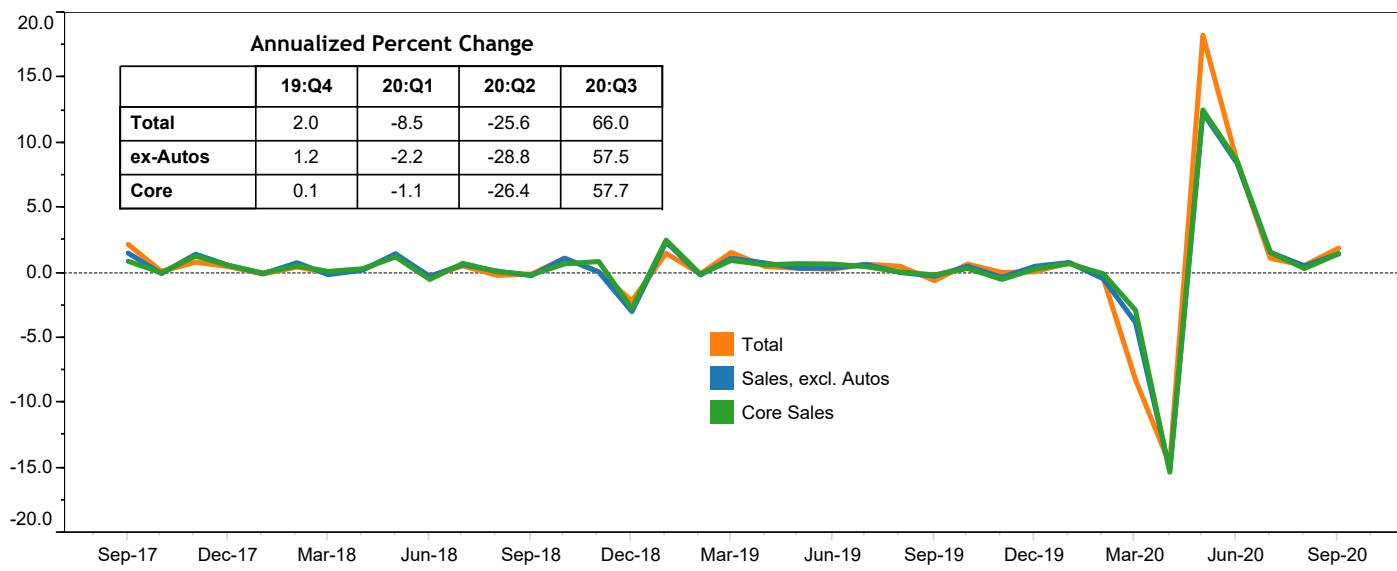
Consumer Sentiment and Expectations



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

Total retail sales increased 1.9% in September, led by spending on vehicles, clothing and sporting goods. The recovery in retail sales has been stronger than expected, with both total and core sales now above their pre-pandemic trends.

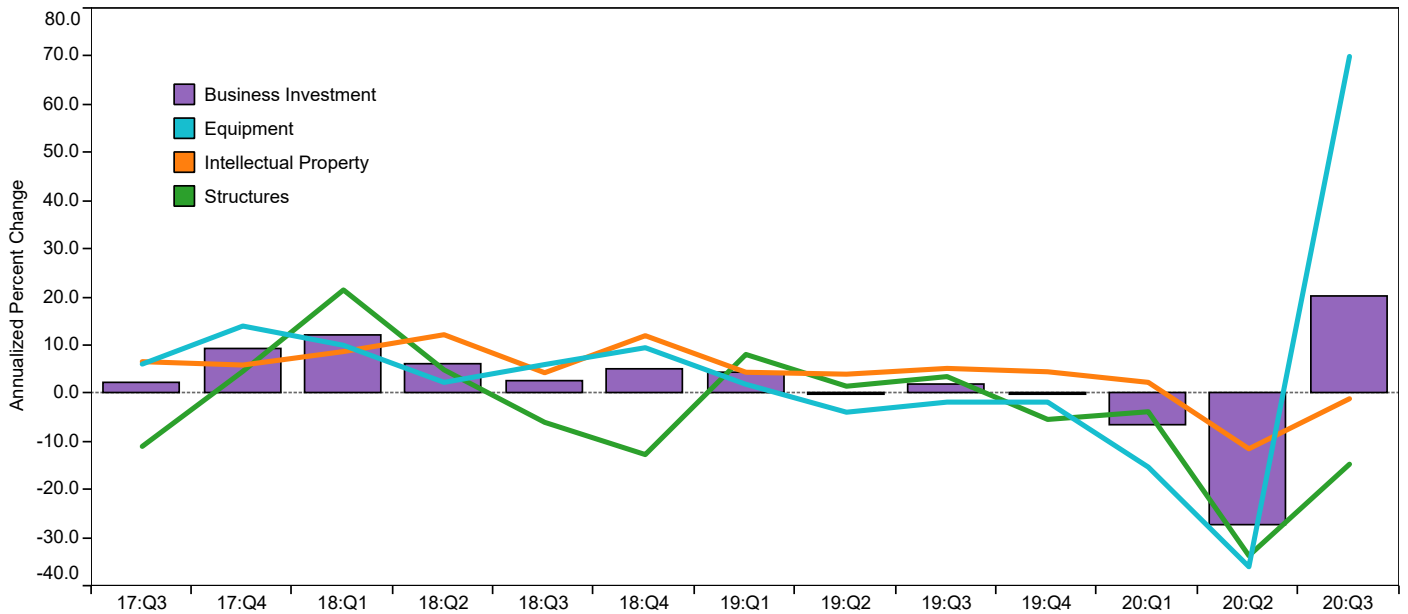
Retail Sales



Source: U.S. Census Bureau / Haver Analytics

Business investment rose by 20.3% in the third quarter. A 70.1% increase in equipment was more than enough to offset the declines seen in structures and intellectual property, down -14.6% and 1.0%, respectively.

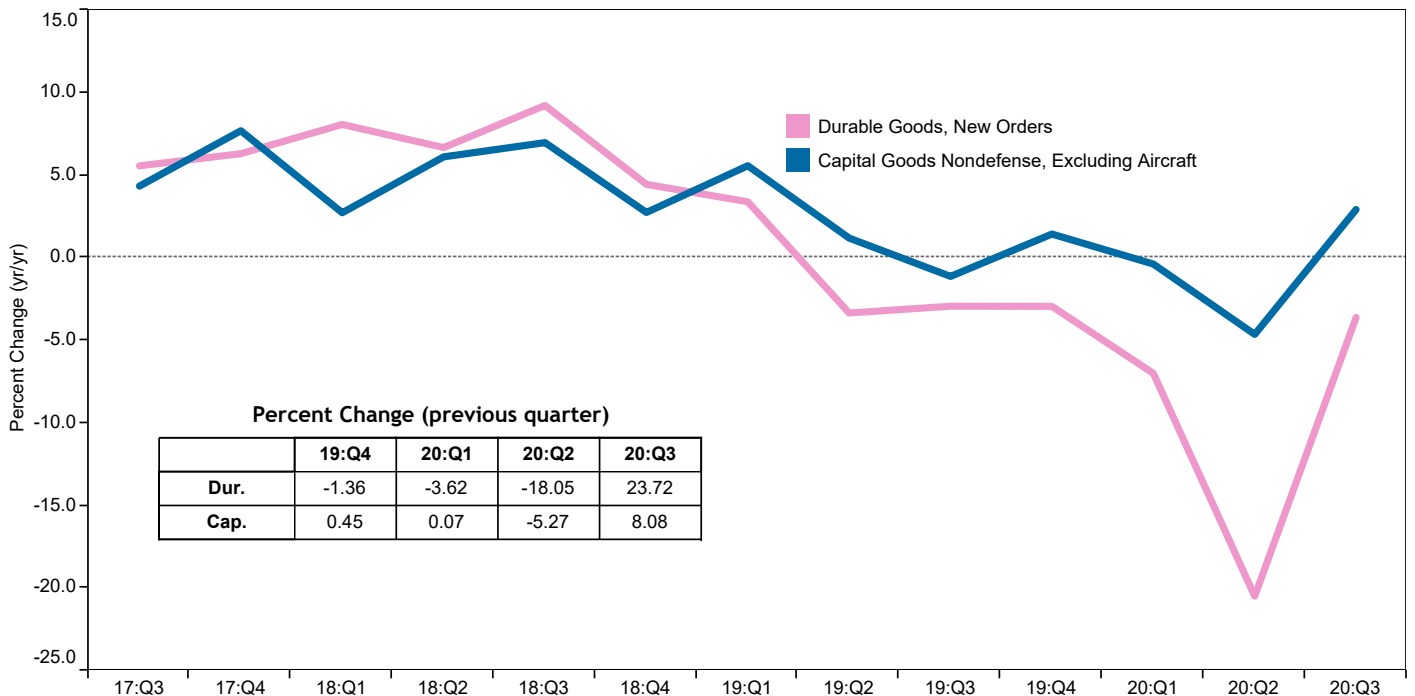
Business Investment



Source: Bureau of Economic Analysis / Haver Analytics.

Durable goods orders rebounded sharply in the third quarter, though remain slightly below their year-ago levels. The rebound in core capital goods orders has been more pronounced, and with their continued gains (along with an upward revision for August) have easily eclipsed their pre-pandemic level to reach a six-year high.

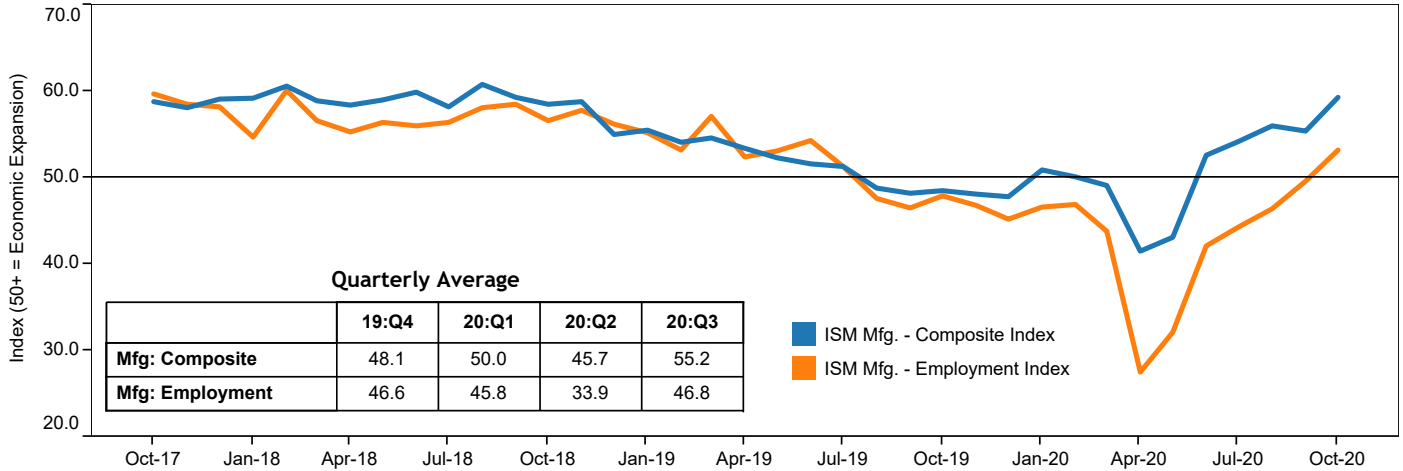
Durable Goods Orders



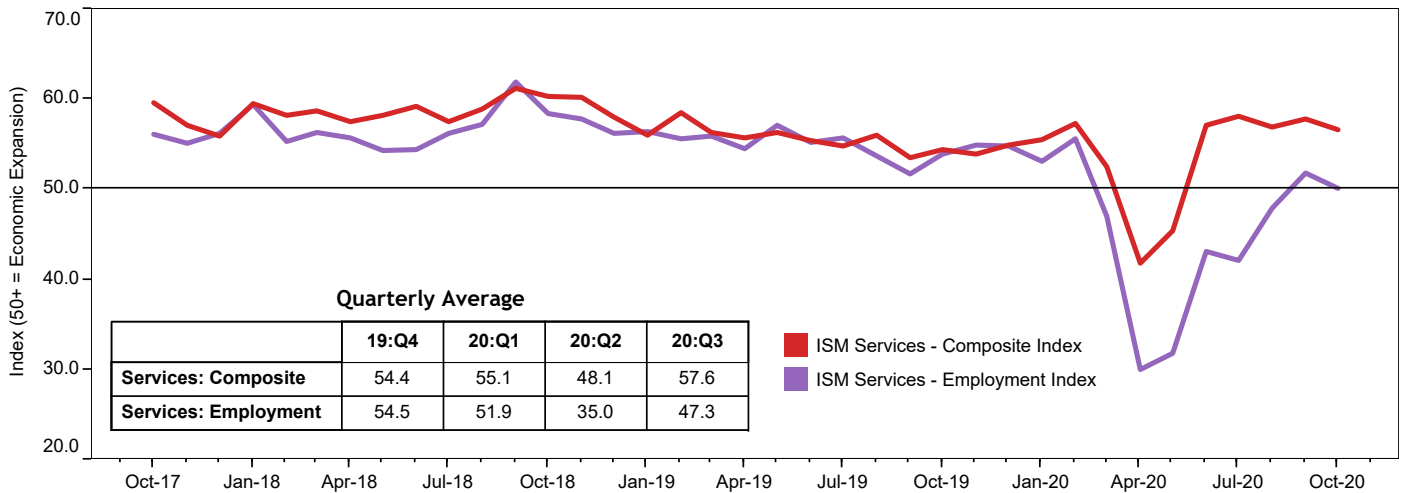
Source: U.S. Census Bureau / Haver Analytics.

The ISM Manufacturing index rose to 59.3 in October, nearly a two-year high, and the employment subindex rose from 49.6 to 53.2. The ISM Services index slipped to 56.6 last month from September's reading of 57.8, but continued to signal expansion. The employment subindex declined from 51.8 in September to 50.1 in October. The continued improvement in manufacturing conditions signaled by the positive ISM readings is reflected in regional surveys from the Federal Reserve, which remained in expansionary territory in October.

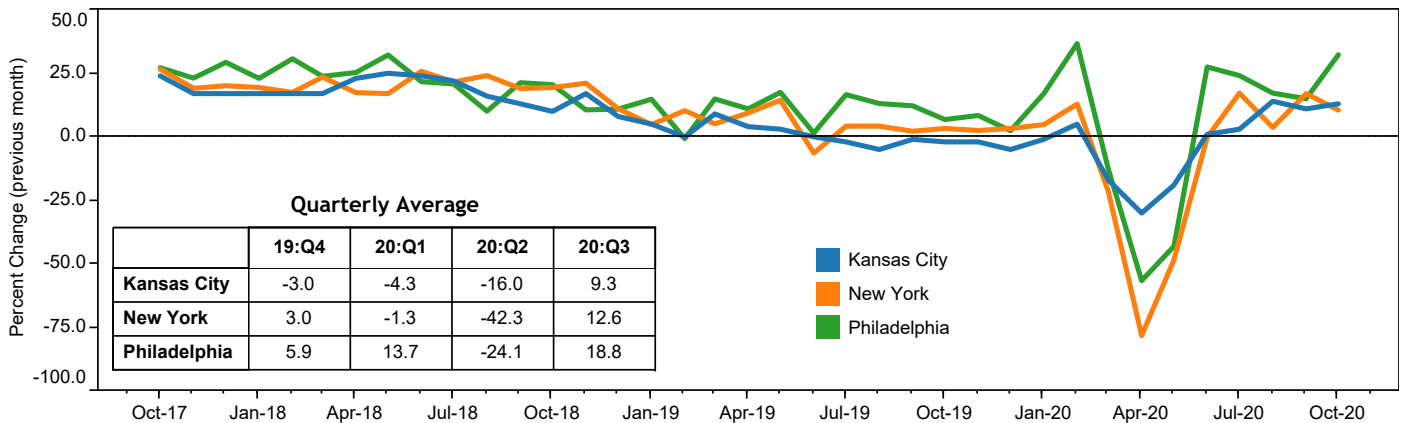
ISM Manufacturing Indices



ISM Services Indices



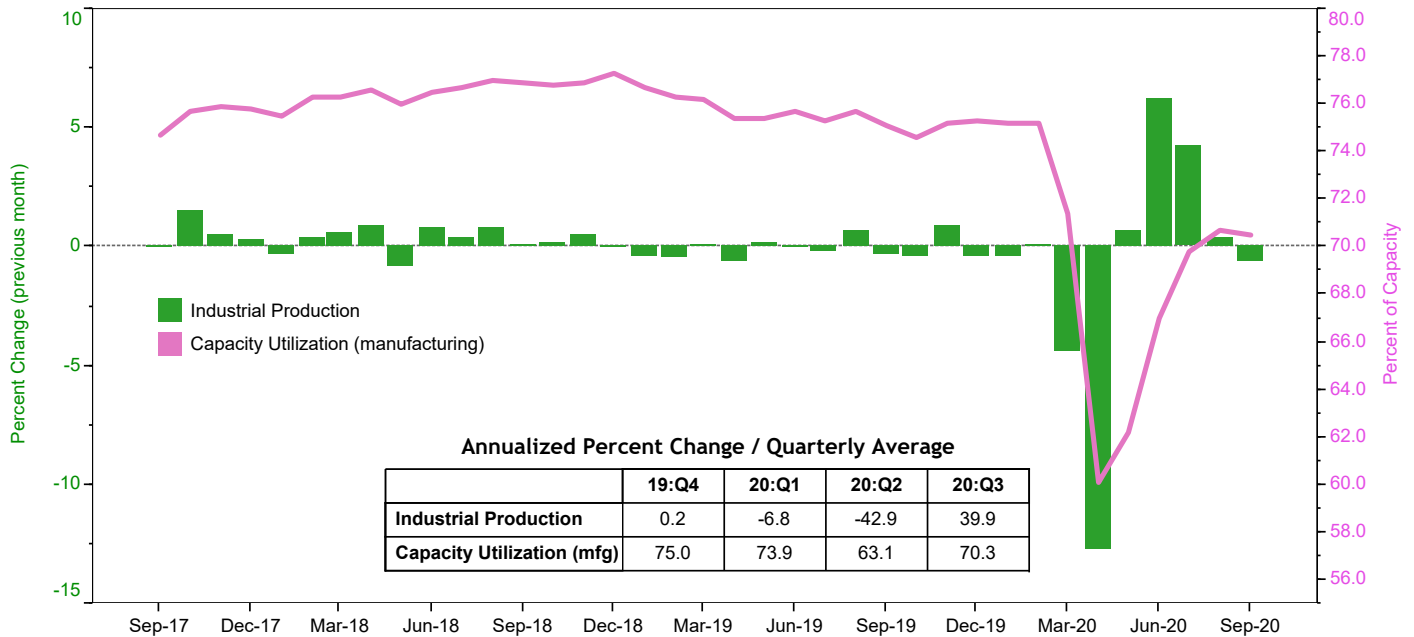
Regional FRB Manufacturing Surveys



Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Industrial production fell 0.6% in September, the lowest reading since the spring. Production in manufacturing and utilities decreased, while mining increased. After falling 42.9% in the second quarter, total production rose at an annual rate of 39.9% in the third quarter. Capacity utilization in manufacturing rose, on average, in the third quarter, to 70.3, despite September's monthly reading decreasing slightly from August.

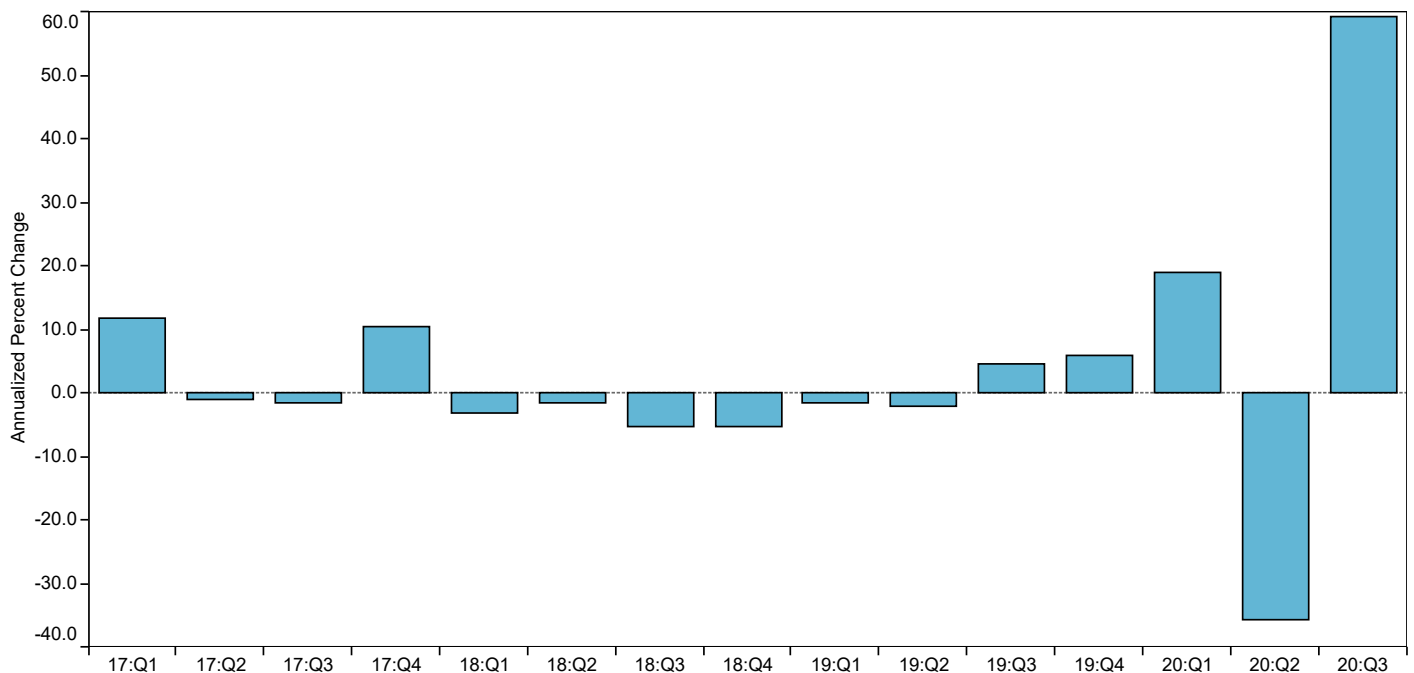
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Low mortgage rates and demand for more spacious living conditions have spurred a dramatic recovery in the housing market. Residential investment soared at a 59.3 percent annual rate in the third quarter, reflecting an increase in brokers' commissions and other ownership transfer costs.

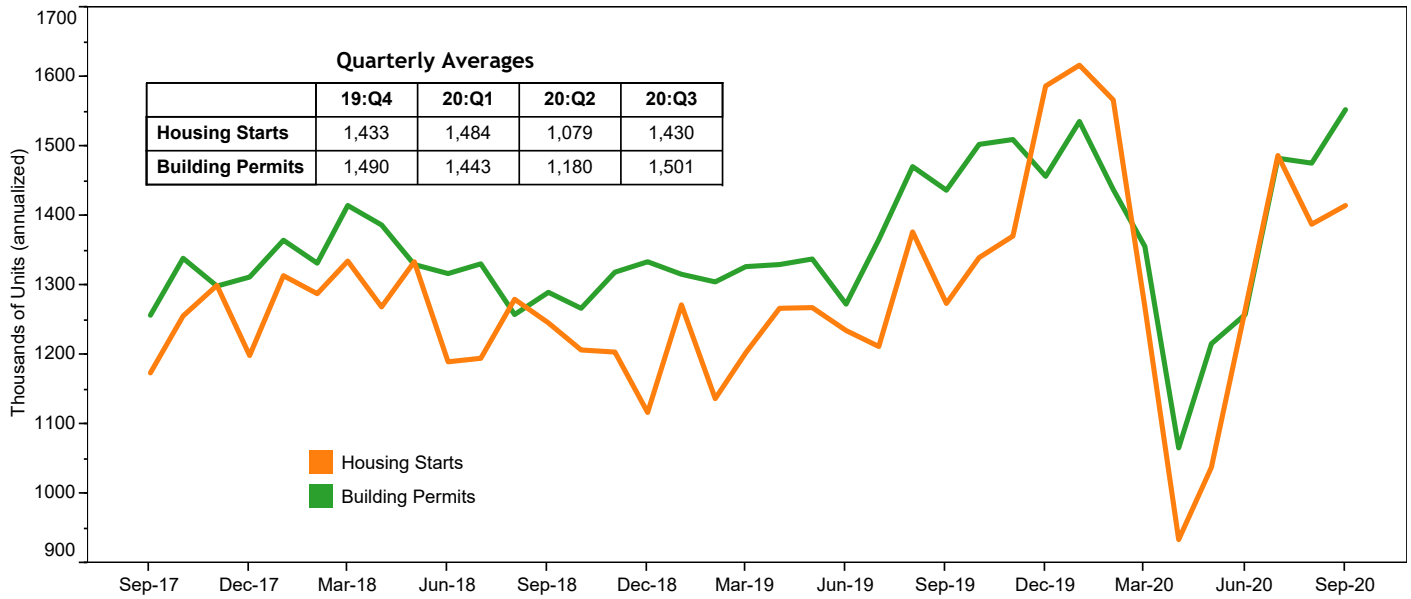
Residential Investment



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

Single- and multi-family permits both rose, on average, in the third quarter, with September levels reaching levels not seen since 2007. Housing starts also rose, on average, in the third quarter as well as in September, however, the increase there was driven by single-family starts as multifamily construction declined.

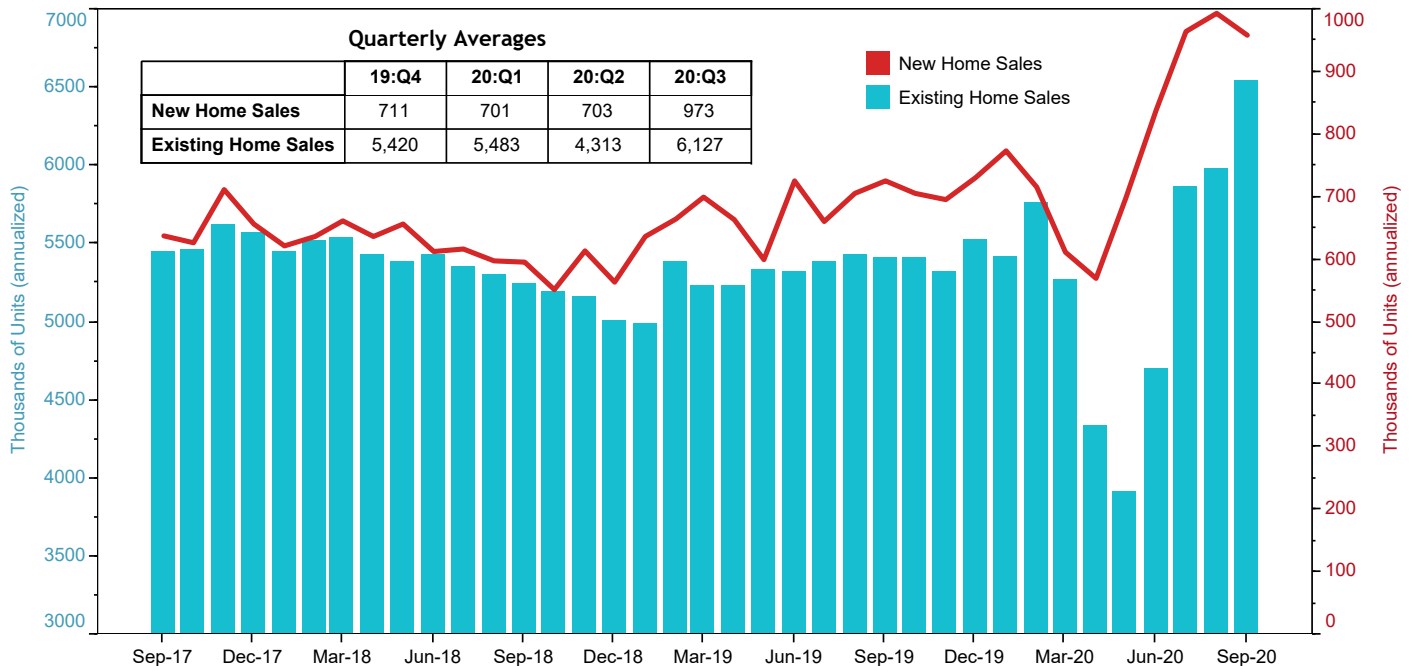
Housing Starts and Building Permits



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

New home sales dipped in September but are up 32.1% over last year. Existing home sales rose in September to their highest reading since March 2006, and are up 20.9% from a year earlier.

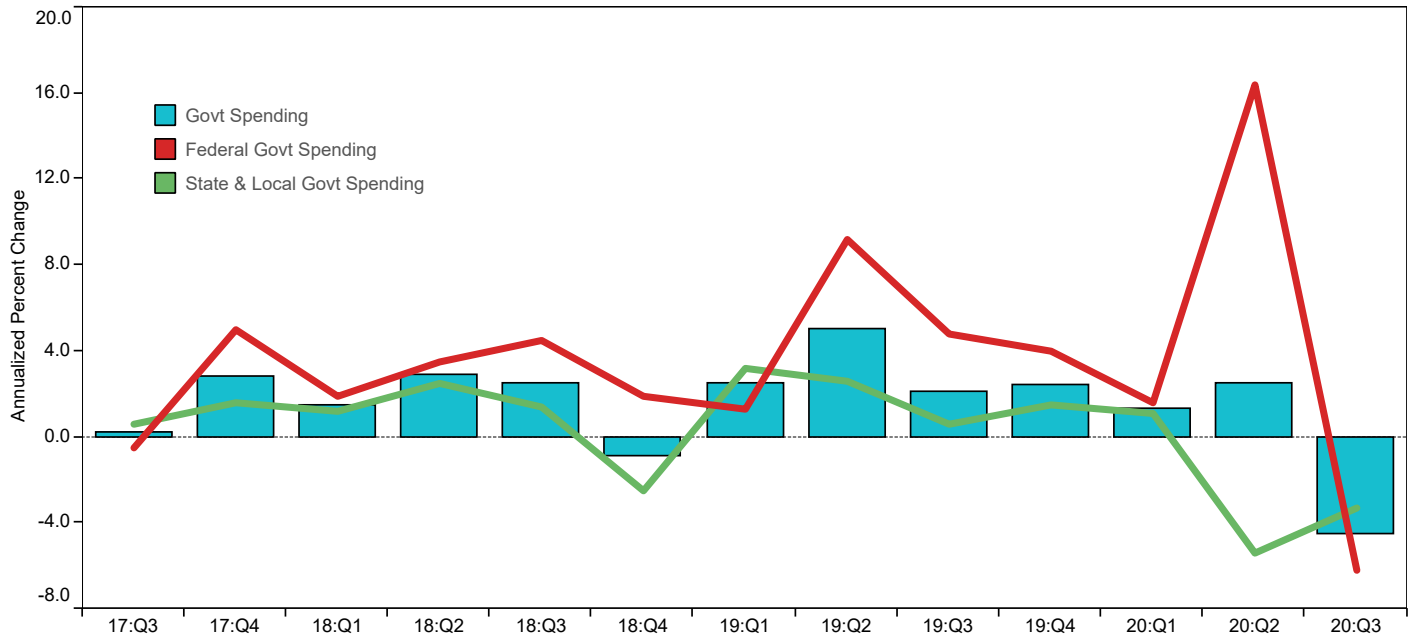
New and Existing Home Sales



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, driven largely by the expiration of federal stimulus programs. State and local spending accelerated from the previous quarter, but remained a net drag on real GDP growth.

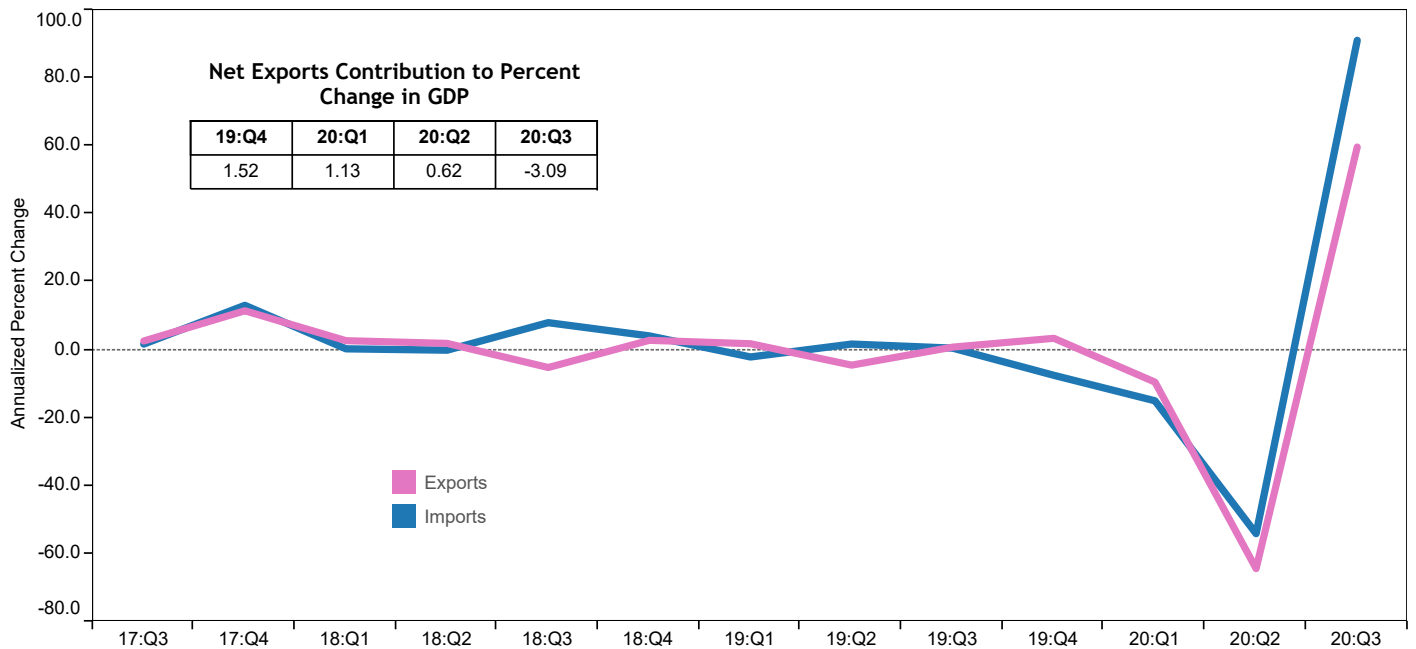
Government Spending



Source: Bureau of Economic Analysis / Haver Analytics.

Net exports weighed on real GDP in the third quarter. While both exports and imports surged, the 91.1% increase in imports more than offset the increase of 59.7% seen in exports.

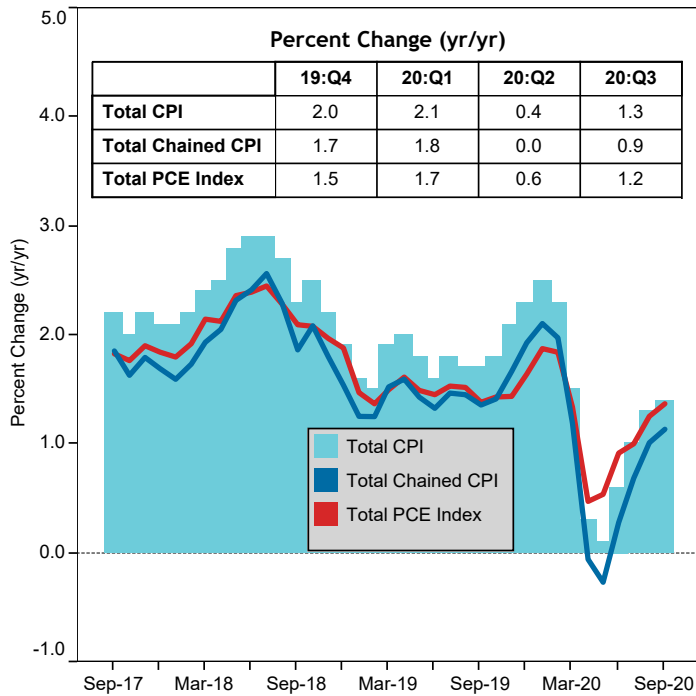
Exports and Imports



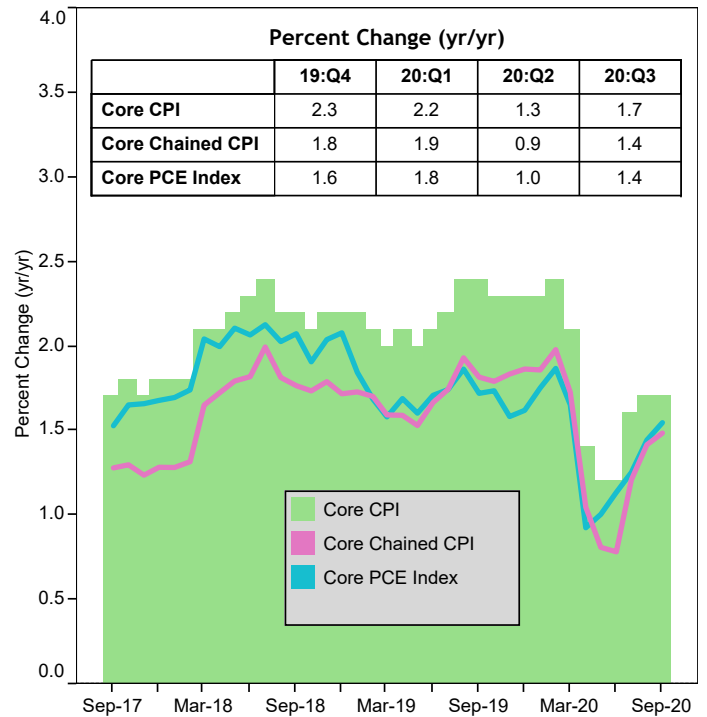
Source: Bureau of Economic Analysis / Haver Analytics.

Inflation measures tightened in the third quarter, as total and core measures for both the CPI and PCE Index moved higher, but remained well below the rates seen before the pandemic. In September, on a year-over-year basis, total CPI ticked up one-tenth and core CPI held steady, while both PCE measures rose one-tenth.

Total Price Indices



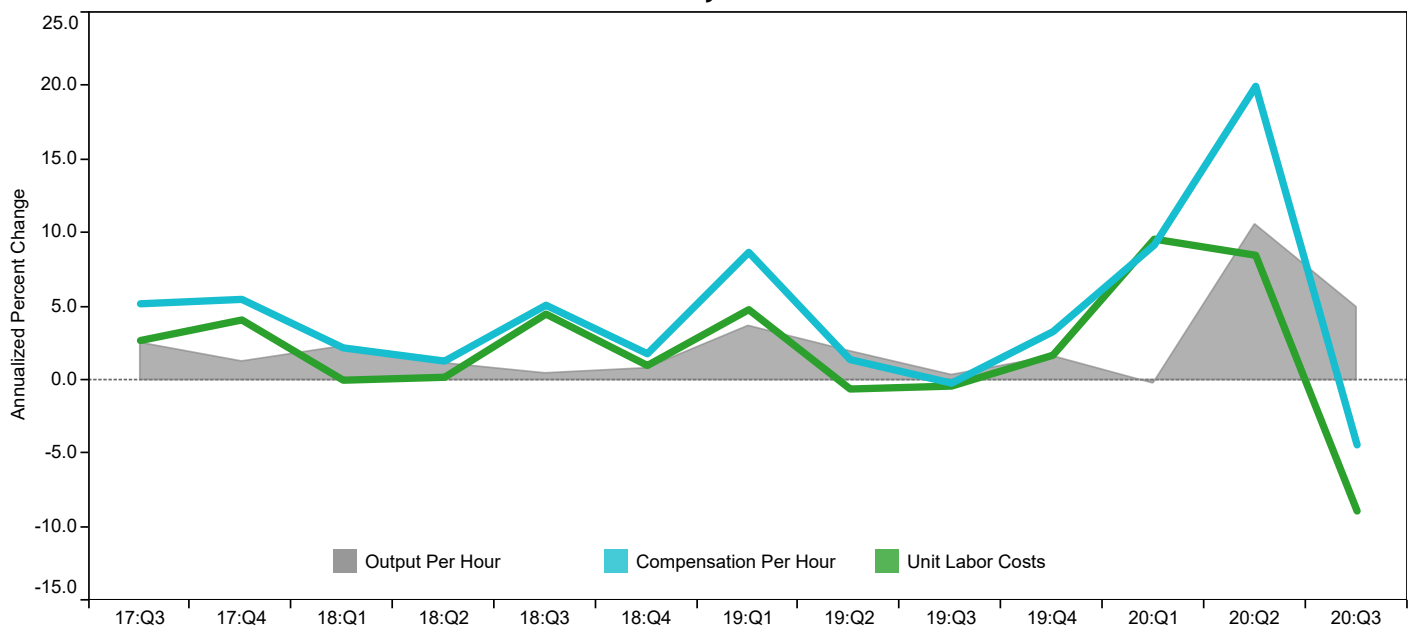
Core Price Indices



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

Productivity in the nonfarm business sector increased 4.9% in the third quarter as a steep rebound in output outpaced a large increase in hours worked. While productivity decelerated from the 10.6% increase seen in the second quarter, compared against other two-quarter growth rates the 7.7% increase over the second and third quarters represents the highest rate of productivity growth since 1965.

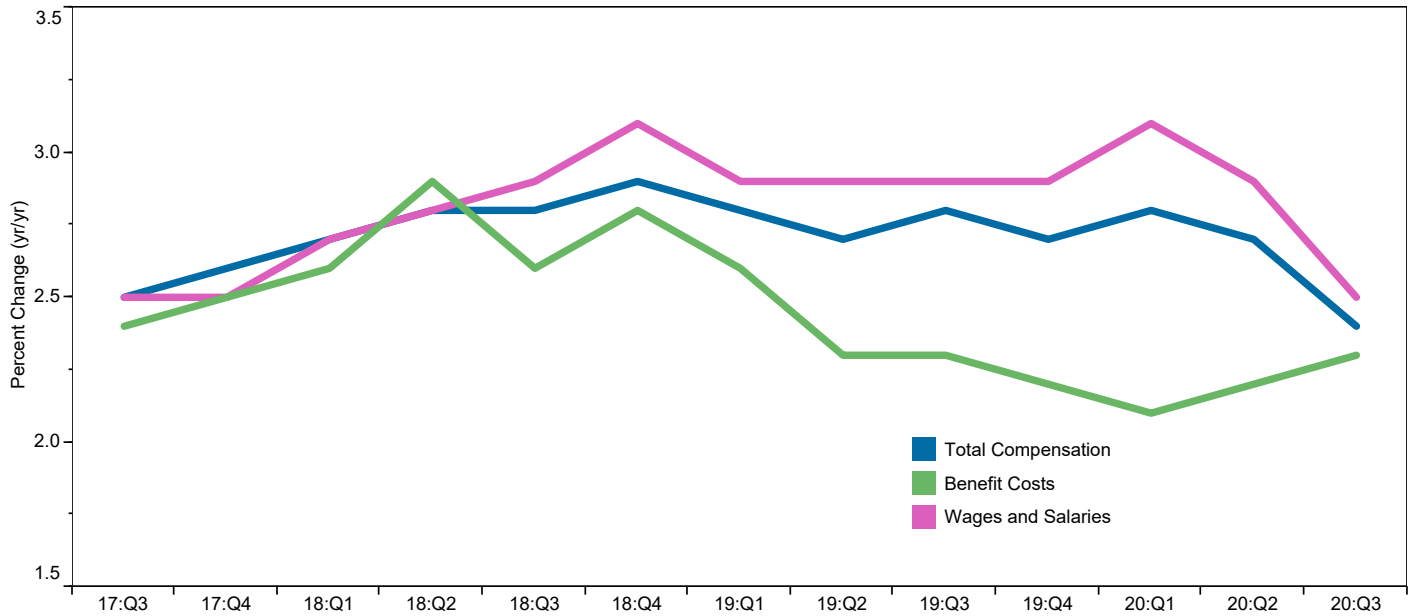
Productivity and Costs



Source: Bureau of Labor Statistics / Haver Analytics.

On a year-over-year basis, growth in the Employment Cost Index slowed as a deceleration in wages and salaries more than offset an acceleration in benefit costs. The third quarter growth rate in the ECI was the slowest since 2017:Q2.

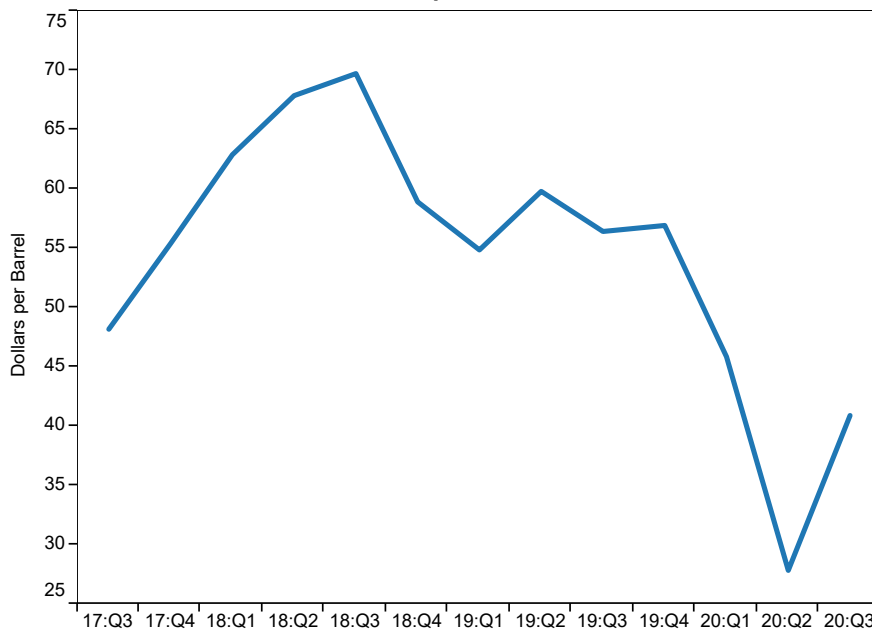
Employment Cost Index



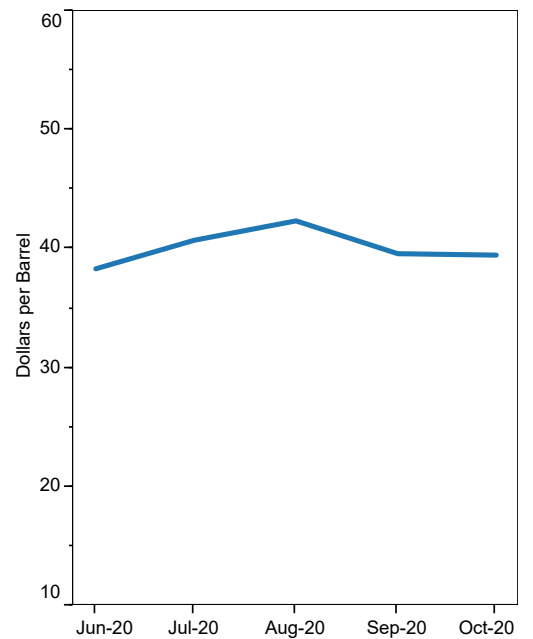
Source: Bureau of Labor Statistics / Haver Analytics.

On average, oil prices have hovered around \$40 per barrel since June, slowly recovering from the sharp declines seen in the second quarter. On November 9, daily prices closed out at \$40.29 per barrel.

Domestic Spot Oil Price



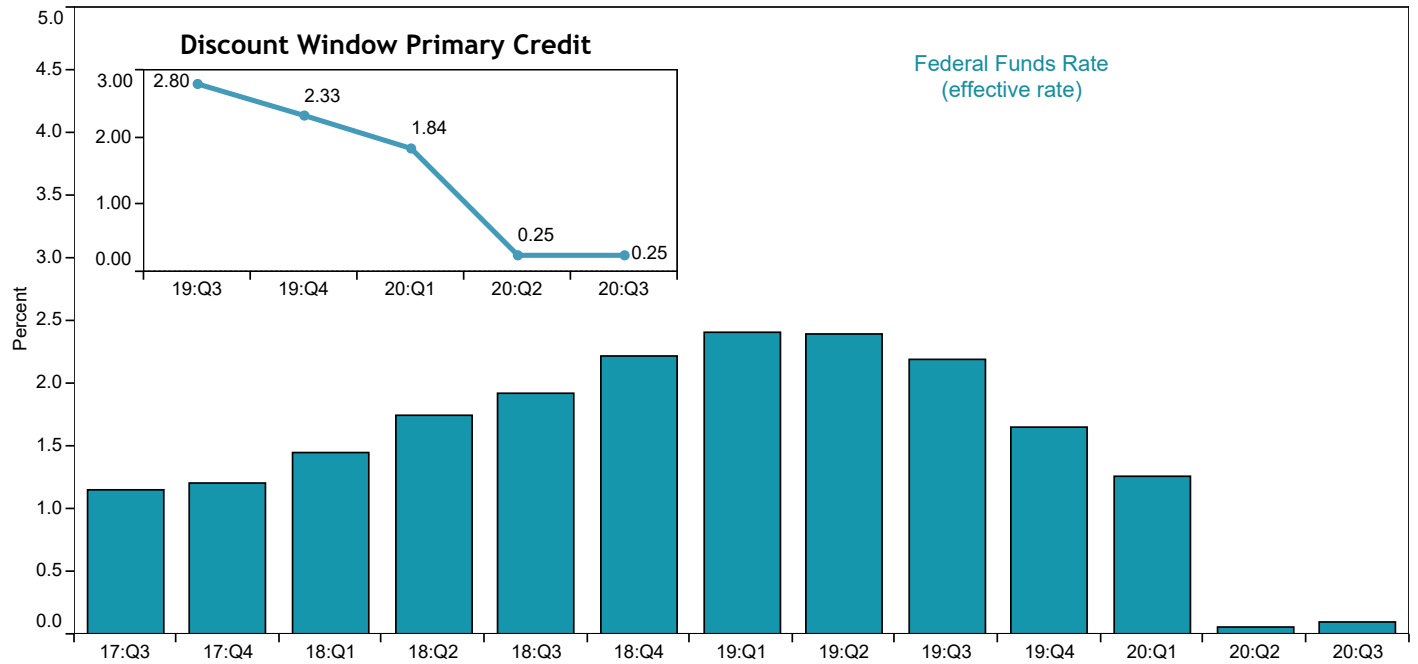
Past Five Months



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

Data released since your last Director's meeting continue to show both signs of improvement as well as the weight of uncertainty. According to the advance estimate of real GDP growth, the third quarter showed a record expansion of 33.1%. Since the lows seen this spring, many areas are beginning to regain their pre-pandemic levels, though the expiration of government stimulus programs, elevated levels of unemployment, and the ongoing surge in virus cases will likely temper growth in the current quarter. Medical advances to treat the virus and continued adherence to precautions designed to limit the contagion remain central to a full recovery.

Short-Term Interest Rates



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