



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

October 10, 2017

CURRENT ECONOMIC DEVELOPMENTS - October 10, 2017

Data released since your last Directors' meeting suggest growth in the third quarter likely slowed from the rate seen in the second quarter, which was slightly faster than previously estimated. The expected slow-down in growth in the third quarter is largely due the effects of the recent hurricanes, which are expected to be temporary and to provide a boost to GDP growth in the near term. Labor markets showed signs of continued strengthening, despite the hurricane-related disruptions, and consumer attitudes remained favorable. However, consumer spending declined and support from manufacturing was mixed. Overall, growth is poised to pick up over the remainder of the year and into the next.

In September, nonfarm payrolls fell for the first time in seven years, and job gains for the previous two months were revised down. The unemployment rate fell two-tenths in September, due to an increase in civilian employment that outpaced a rise in the labor force. Initial claims for unemployment insurance increased in September, but remain consistent with further improvements in the labor market.

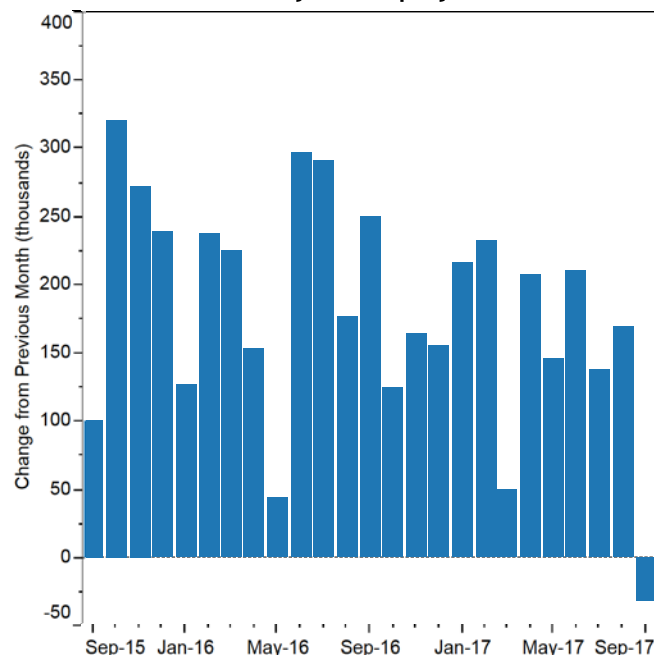
Consumer attitudes declined a bit in September but remained favorable, as the sentiment index eased due to a decrease in the expectations component, while the confidence index edged down due to a decrease in the present situation component. The pace of vehicle sales jumped in September, reaching its highest rate since July 2005. Consumption decreased in August, after rising in each of the past five months, and real incomes also fell. Primary measures of real estate activity mostly slowed in August. Both new and existing home sales fell during the month, and housing starts also declined, despite a rise in single-family starts. Building permits increased in August, due to a rise in the volatile multi-family category.

In the manufacturing sector, the ISM index rose in September to its highest level since May 2004 and continued to signal expansion in the industry. Industrial production fell in August, its first decrease since January, while capacity utilization also declined. Orders for durable goods increased in August on a monthly basis and were up from their year-ago level, while nondefense capital goods, excluding aircraft, also increased on both a monthly and a year-over-year basis.

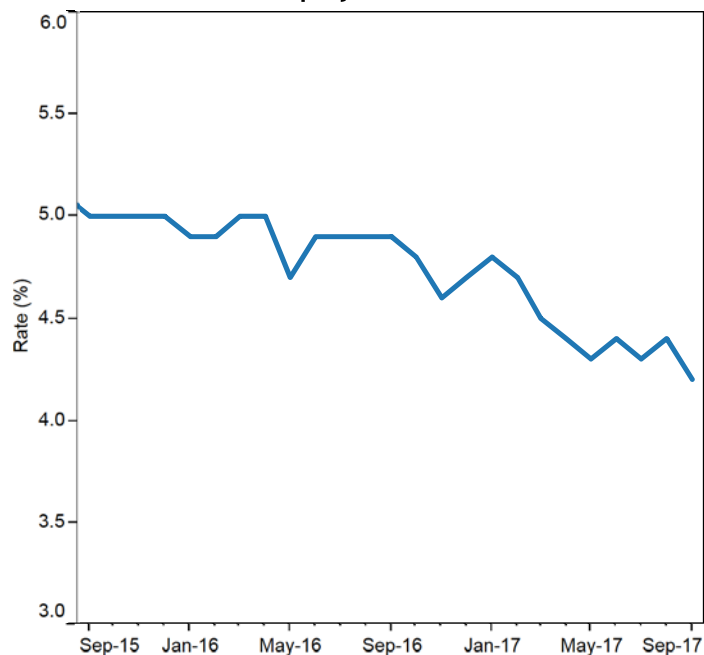
Growth in total consumer prices continued to accelerate in August as measured by the CPI and held steady as measured by the PCE index, while growth in core prices, which exclude the volatile food and energy sectors, held steady as measured by the CPI and decelerated as measured by the PCE index. Oil prices continued to rise on average in September, and were little changed in the first several days of October.

Nonfarm payrolls lost 33,000 jobs in September, reflecting disruptions from the hurricanes, while job gains for the previous two months were revised down by a net 38,000 jobs. The unemployment rate fell two-tenths to 4.2% in September, as a rise in civilian employment outpaced an increase in the size of the labor force.

Nonfarm Payroll Employment

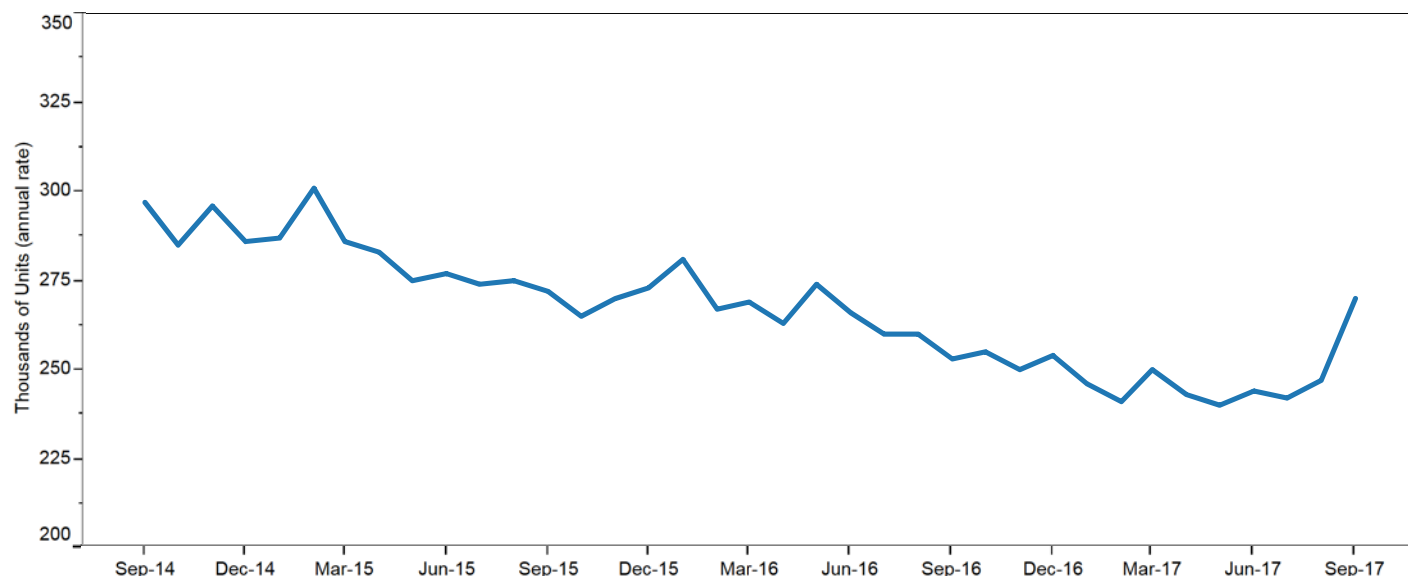


Unemployment Rate



Initial claims for unemployment insurance rose in September, after edging up in August, likely fueled by hurricane-related job losses. Despite the increase, weekly claims remain at a level consistent with further labor market improvement.

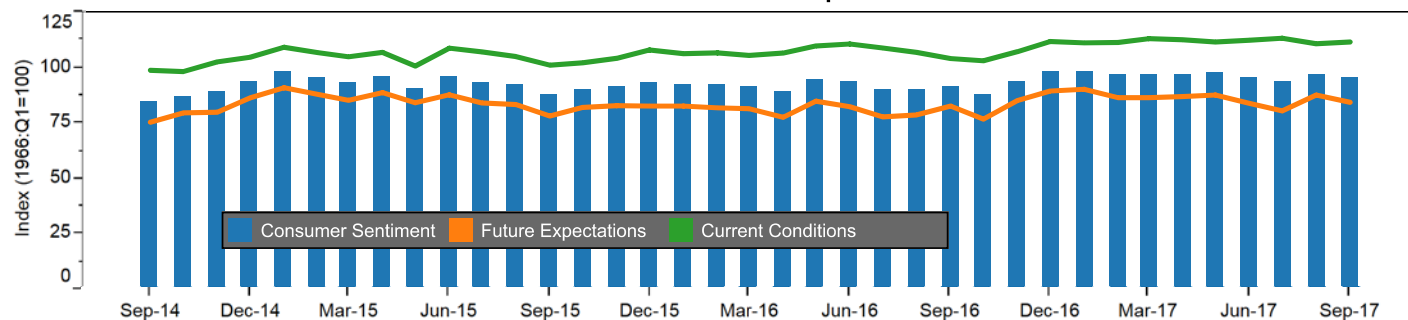
Initial Claims



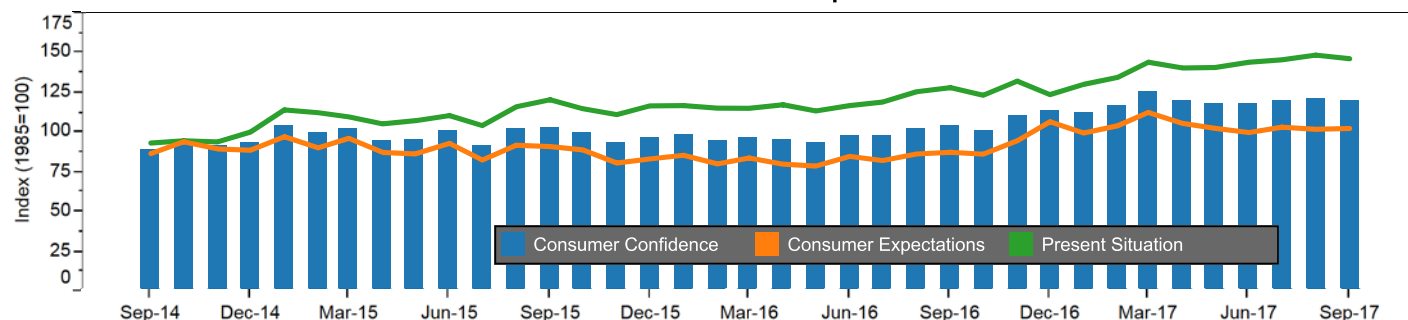
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes declined a bit in September, but remained favorable. The sentiment index decreased due to a fall in the future expectations component, while the current conditions component was little changed. Meanwhile, the confidence index edged down in September, as the present situation component declined, while the expectations component was little changed. Respondents to the sentiment survey expressed less favorable views of personal finances, likely due to the effects of the recent hurricanes.

Consumer Sentiment and Expectations



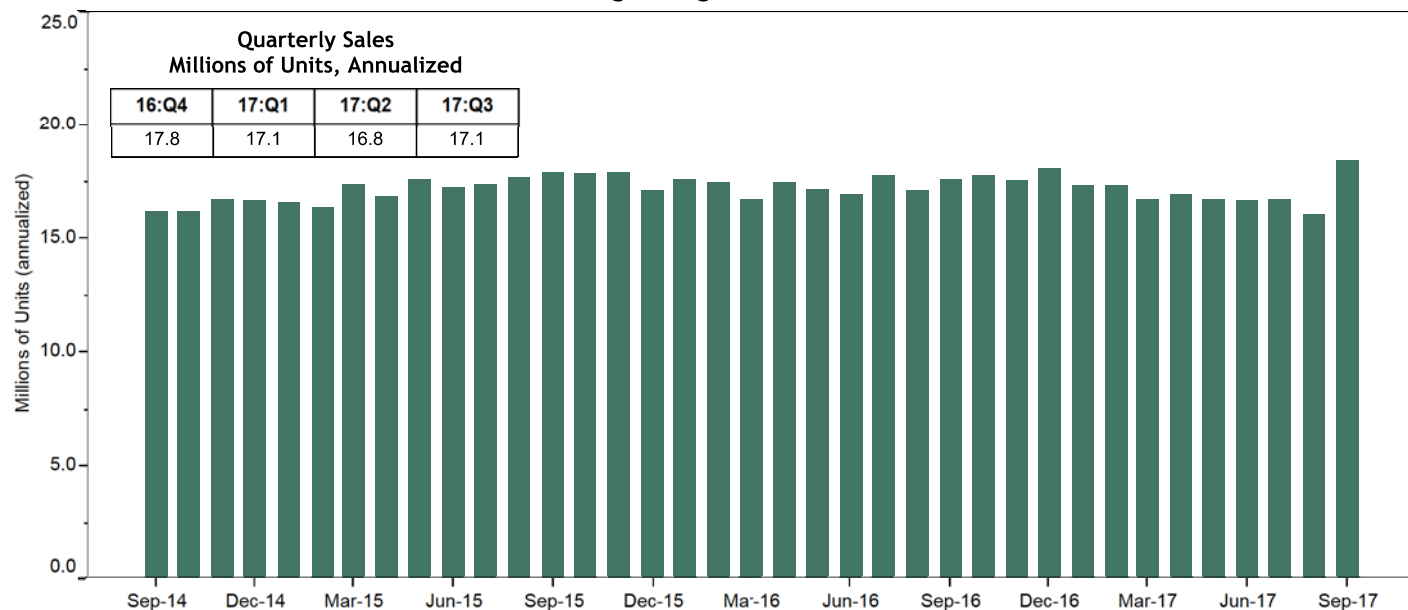
Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales surged in September, after falling in August. The effects of Hurricane Harvey likely delayed sales from August to September and caused an increase in replacement sales in September. Total sales in September reached the highest rate since July 2005.

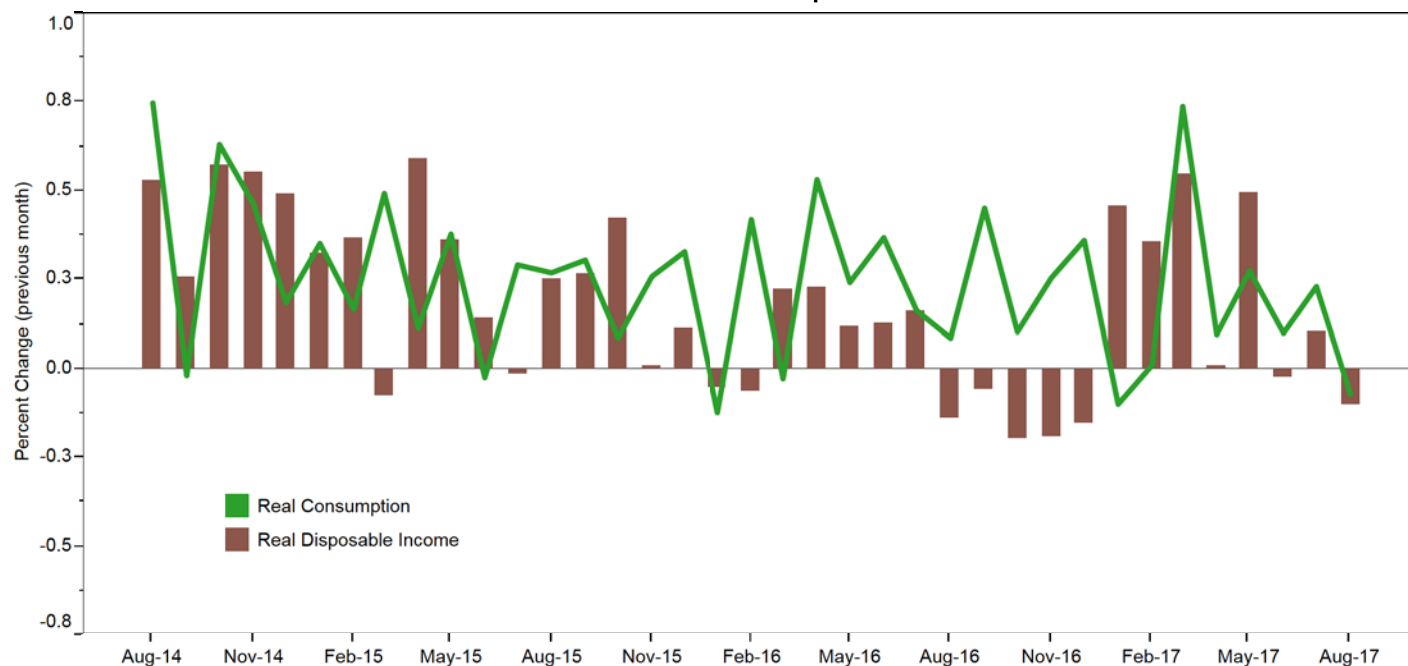
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes fell in August, following the downwardly-revised increase seen in July. Consumption also declined in August, its first decrease since January.

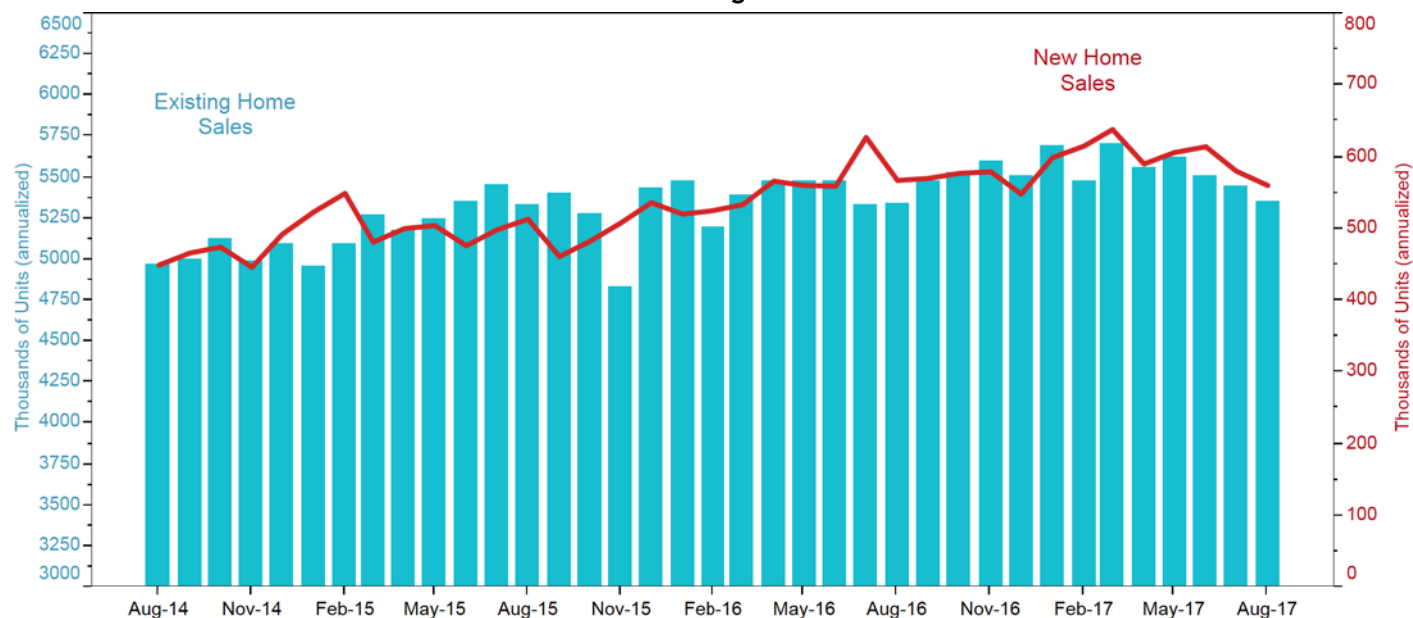
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data continued to decline in August. New home sales fell for the second consecutive month, reaching their lowest rate since December. Meanwhile, existing home sales decreased in August for the third consecutive month, reaching their lowest rate in one year.

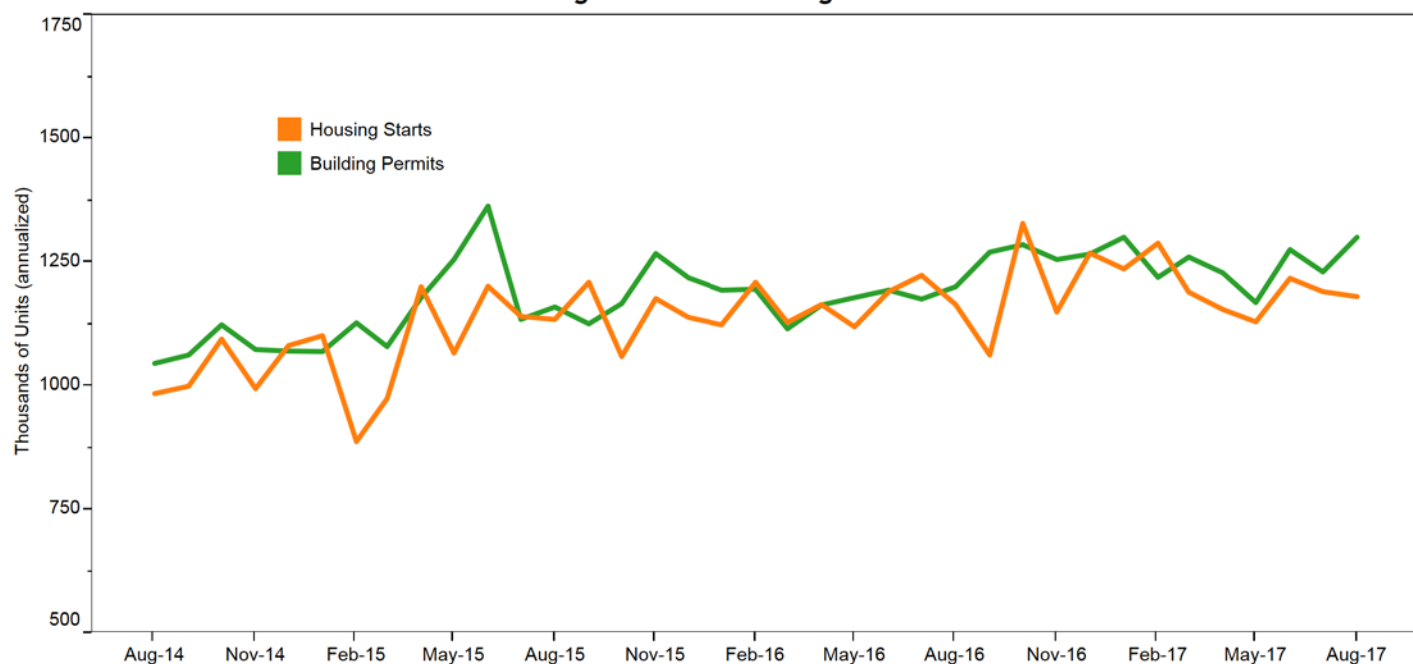
New and Existing Home Sales



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

Housing starts declined further in August, due to a decrease in multi-family starts, while single-family starts increased. Meanwhile, building permits rose in August to match a two-year high, due to an increase in multi-family permits. Single-family permits fell in August.

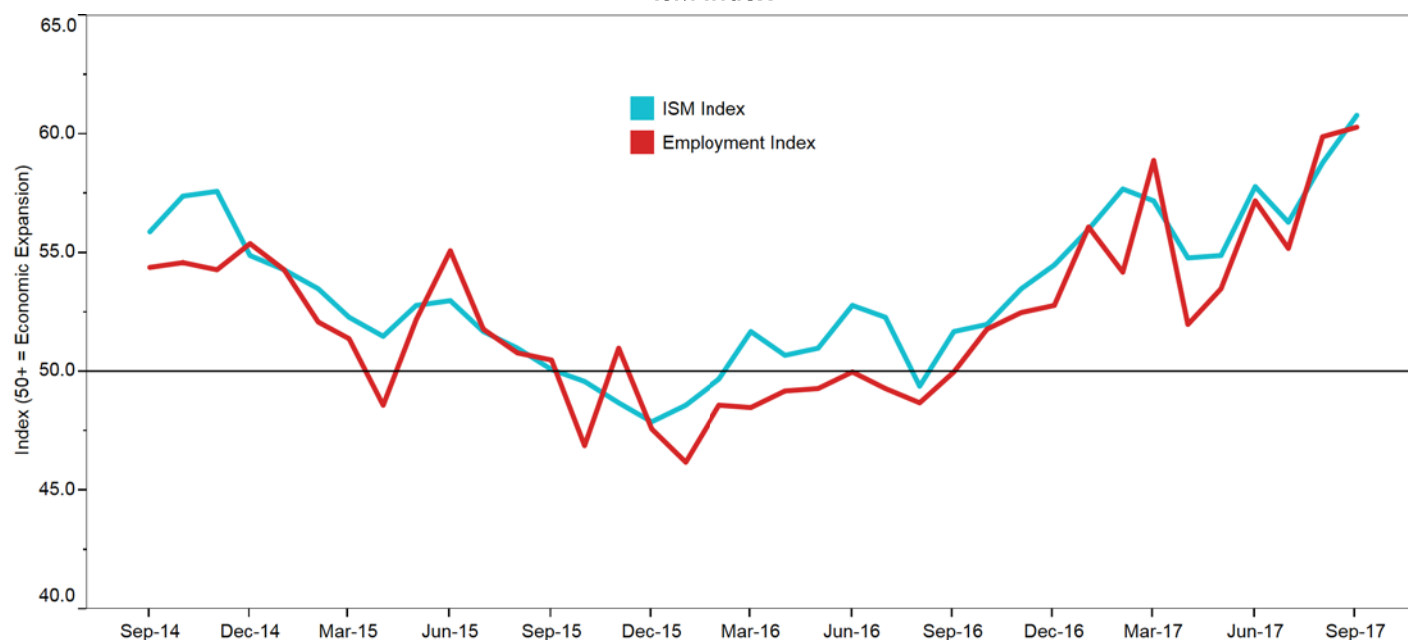
Housing Starts and Building Permits



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

The ISM manufacturing index rose in September to its highest level since May 2004, after increasing in August, and signalled further expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in September for the second consecutive month.

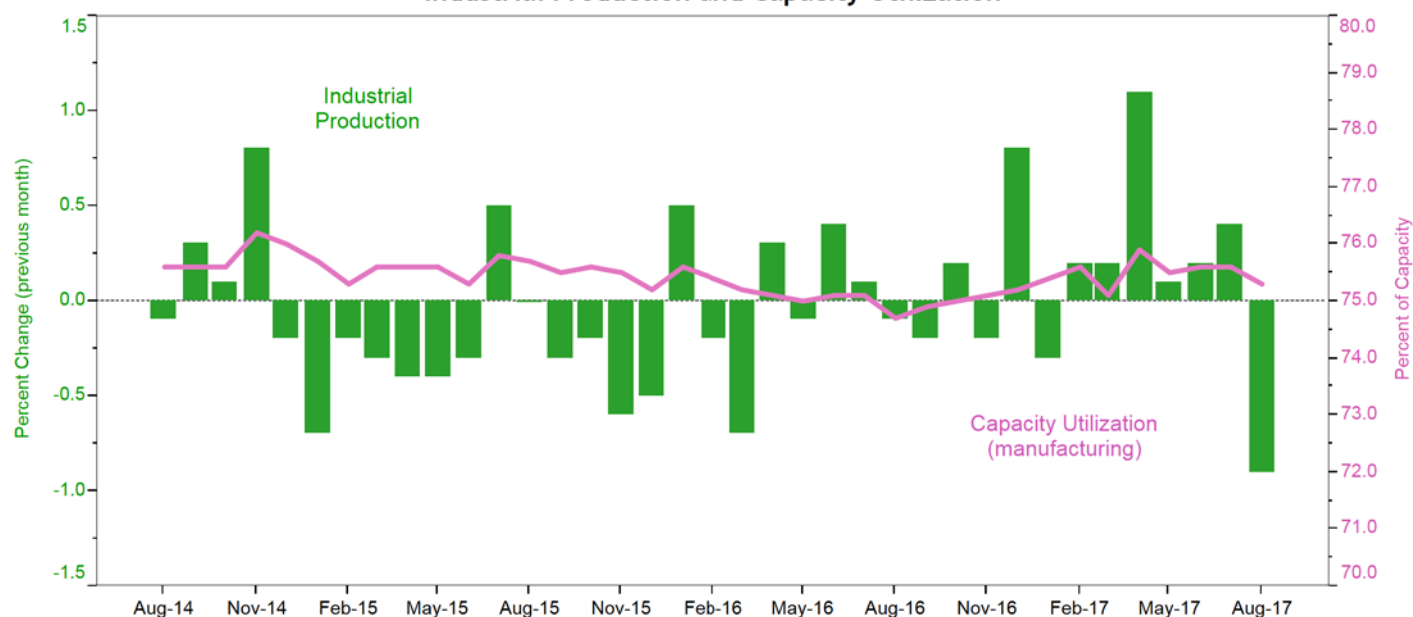
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production fell in August, after rising in each of the prior six months. Manufacturing, mining and utilities production all posted decreases in August. Capacity utilization also declined in August, after holding steady in July.

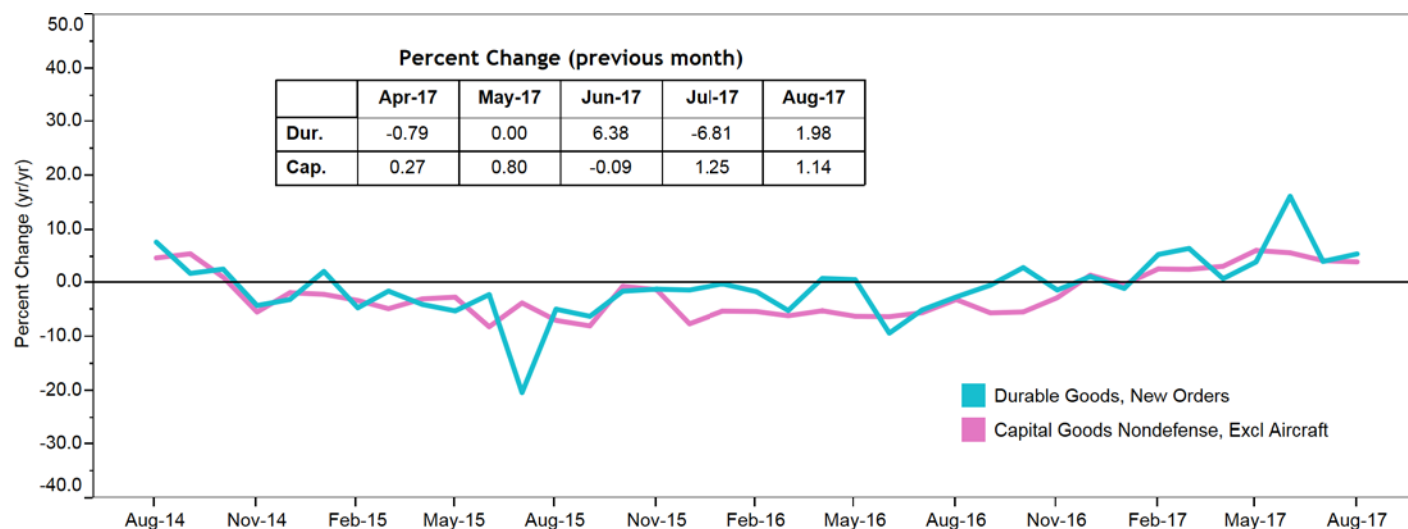
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in August, after falling in July, and continued to increase on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, also rose in August, after increasing in July, and continued to rise on a year-over-year basis.

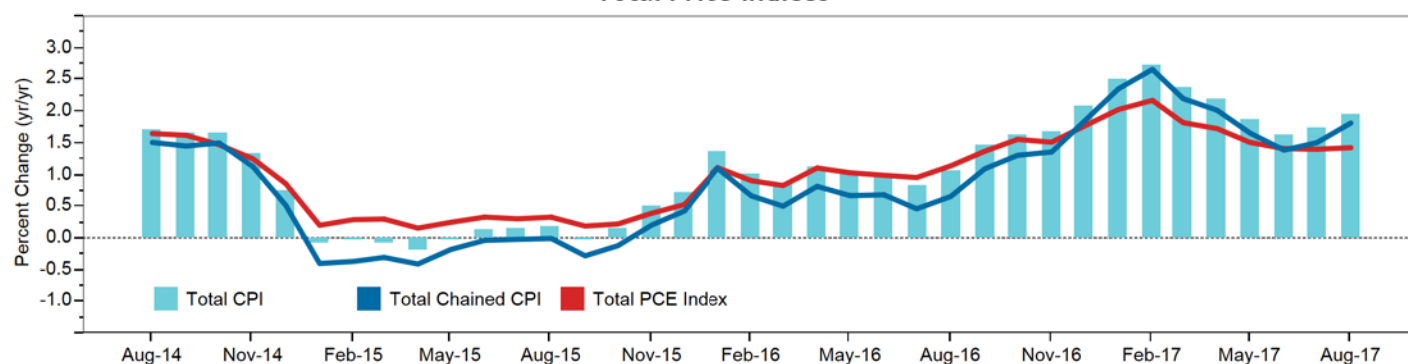
Durable Goods Orders



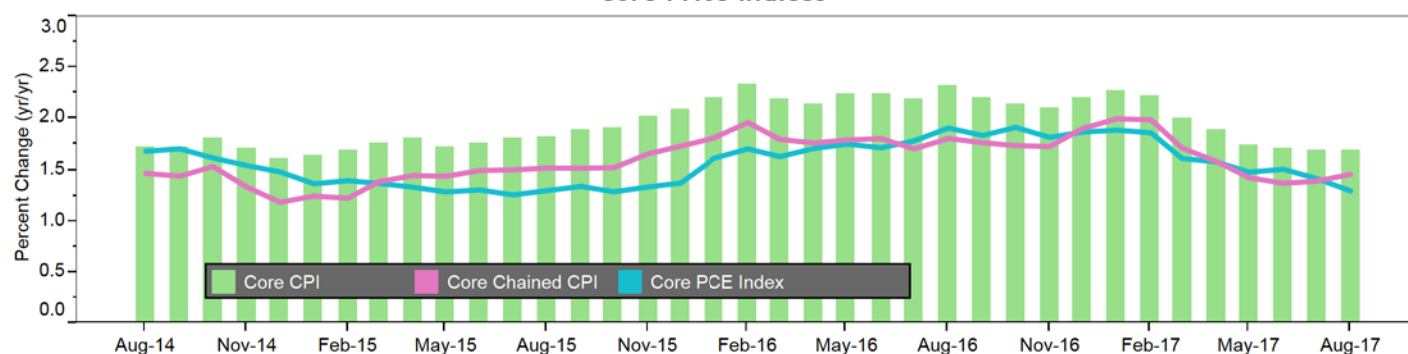
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices continued to pick up in August, as measured by the Consumer Price Index. The Personal Consumption Expenditure price index was essentially unchanged in August. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, held steady as measured by the CPI and eased a bit as measured by the PCE index.

Total Price Indices



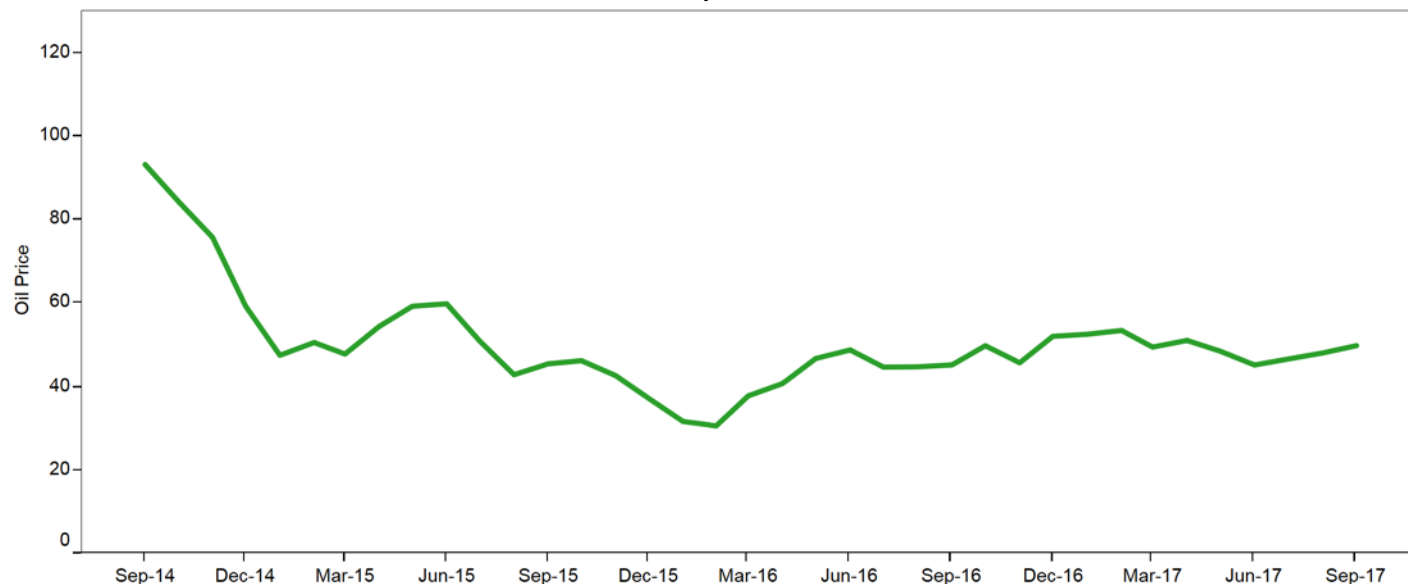
Core Price Indices



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

Oil prices edged up on average in September for the third consecutive month. Prices have shown little change in the first several days of October, registering \$49.6 per barrel on October 9th.

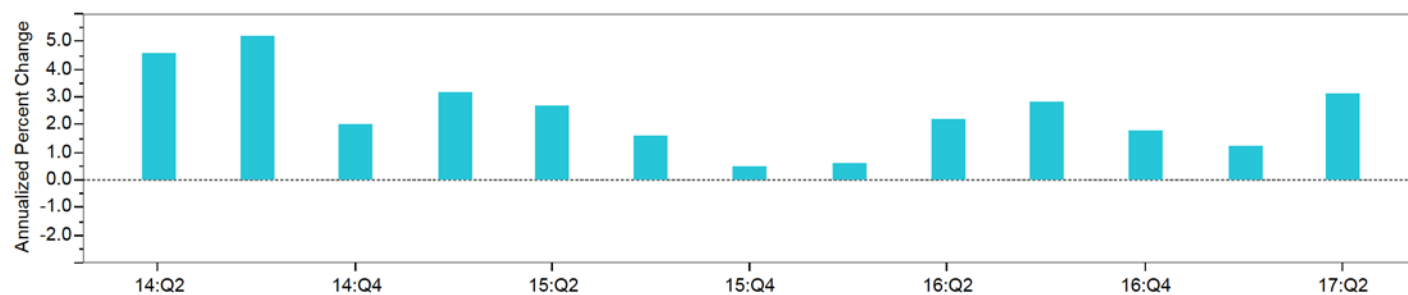
Domestic Spot Oil Price



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

Second quarter real GDP growth was revised up a tick in the third estimate to 3.1% from 3.0%. The higher rate primarily reflected an upward revision to private inventory investment.

Real GDP



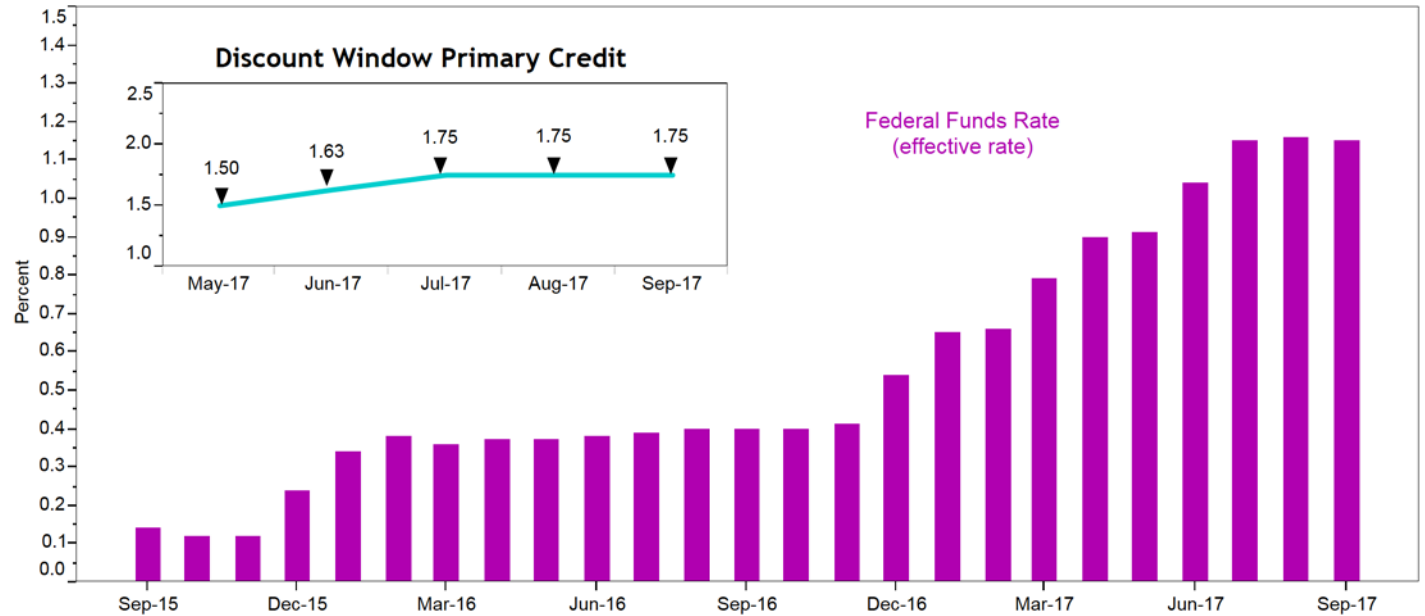
Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	3.0	3.1
Personal Consumption	3.3	3.3
Business Investment	6.9	6.7
Equipment and Software	8.8	8.8
Residential Investment	-6.5	-7.3
Government	-0.3	-0.2
Exports	3.7	3.5
Imports	1.6	1.5
Final Sales	3.0	2.9

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting suggest growth in the third quarter likely slowed from the rate seen in the second quarter, which was slightly faster than previously estimated. The expected slow-down in growth in the third quarter is largely due the effects of the recent hurricanes, which are expected to be temporary and to provide a boost to GDP growth in the near term. Labor markets showed signs of continued strengthening, despite the hurricane-related disruptions, and consumer attitudes remained favorable. However, consumer spending declined and support from manufacturing was mixed. Overall, growth is poised to pick up over the remainder of the year and into the next.

Short-Term Interest Rates



Source: Federal Reserve Board of Governors / Haver Analytics.
Report compiled by Christy Marieni.