



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

October 2, 2018

CURRENT ECONOMIC DEVELOPMENTS - October 2, 2018

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 unchanged from its previous estimate. Labor markets continued to strengthen, consumer spending increased, and consumer attitudes improved. However, housing market data were mixed. Overall, data remain consistent with the expectation for above-trend growth through the end of the year.

In the three weeks ending September 22nd, initial claims for unemployment insurance fell, on average, and remain at a level consistent with further improvement in the labor market. Employment data from the Bureau of Labor Statistics are due out on Friday morning, and nonfarm payrolls are expected to post another solid gain in September. The unemployment rate is expected to decrease one-tenth to 3.8% in September.

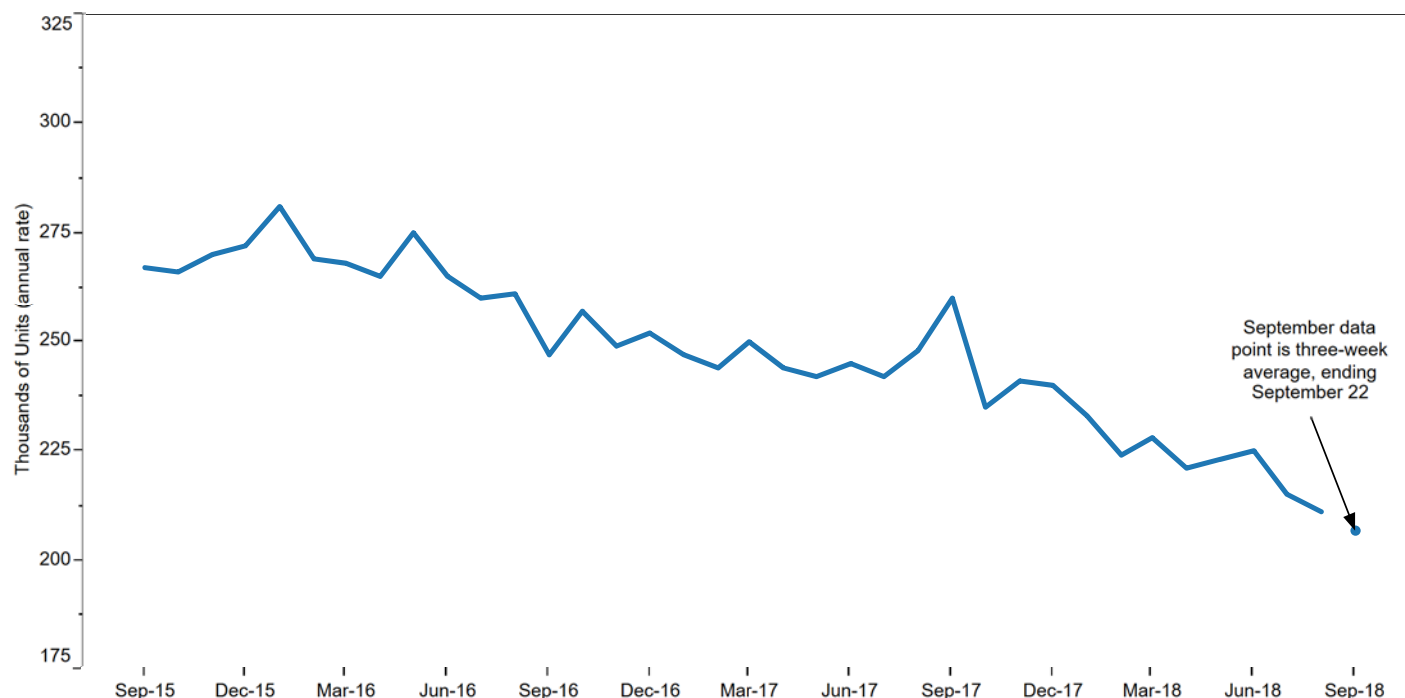
Consumer attitudes improved in September, as the sentiment index rose to its highest level since March and the confidence index rose to an 18-year high. Consumption increased in August, as incomes also rose. Primary measures of real estate activity were mixed in August. New home sales picked up in August, while existing home sales held steady, and housing starts increased, while building permits fell.

In the manufacturing sector, the ISM index declined in September but continued to signal expansion in the manufacturing industry. Industrial production rose in August, and capacity utilization also increased. Orders for durable goods increased in August on both a monthly and a year-over-year basis. Meanwhile, nondefense capital goods, excluding aircraft, fell in August compared to July, but were up from their year-ago level.

Growth in total consumer prices decelerated in August, while growth in core prices, which exclude the volatile food and energy sectors, also decelerated as measured by the core Consumer Price Index, but held steady as measured by the core Personal Consumption Expenditure Price Index. Oil prices rose on average in September, and increased further in the first day of October.

Initial claims for unemployment insurance have fallen a bit further, on average, in the three weeks ending September 22nd, after declining in July and August. Claims estimates remain near 49-year lows and levels consistent with further labor market improvement.

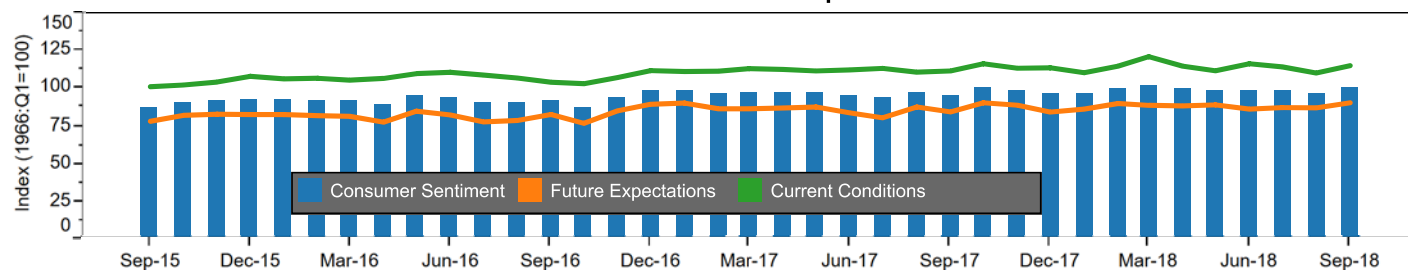
Initial Claims



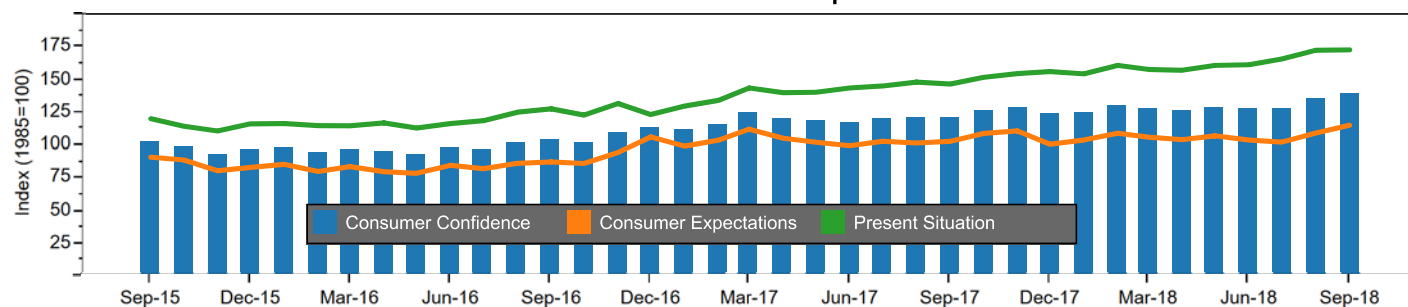
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in September. The sentiment index rose to its highest level since March, while the confidence index increased to its highest level in eighteen years. Consumers expressed improved assessments of current conditions, as well as more optimism towards the economic outlook. Respondents to the sentiment survey were especially optimistic towards personal financial prospects, and the gain in the overall sentiment index was mostly due to improvement from the bottom third of the income distribution.

Consumer Sentiment and Expectations



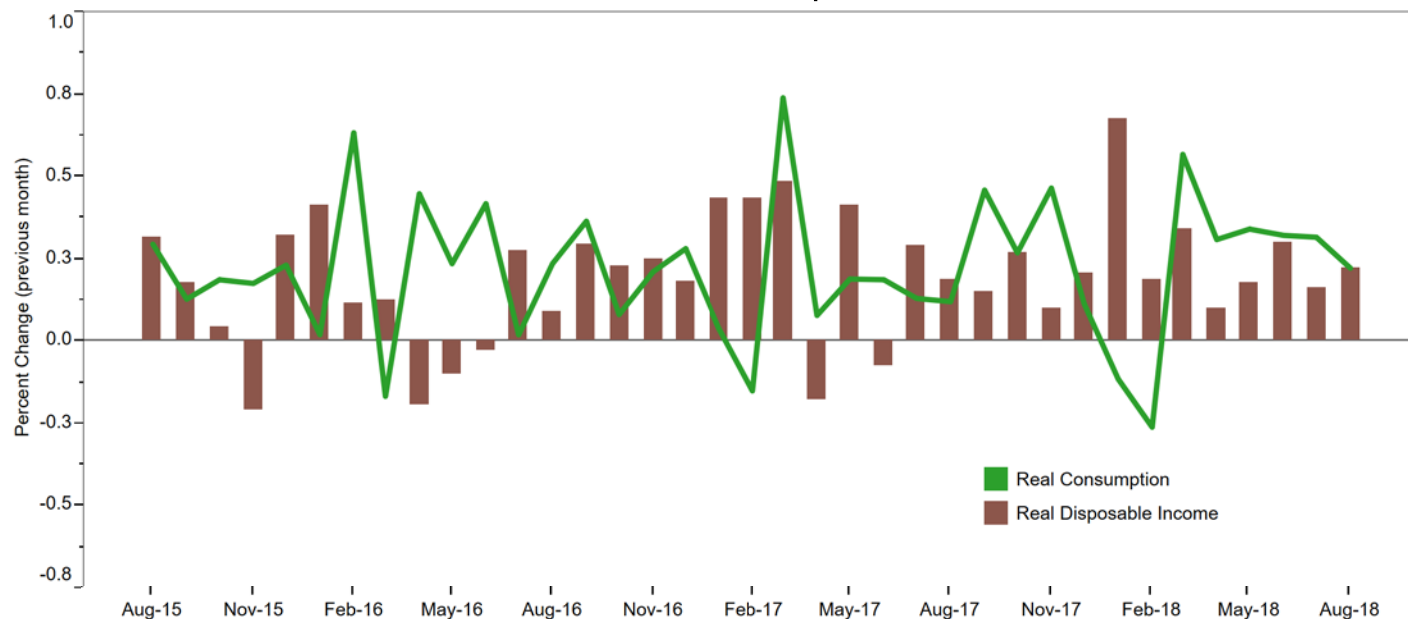
Consumer Confidence and Expectations



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

Real incomes rose in August, their fourteenth consecutive monthly increase. Consumption also increased in August, albeit at a slightly slower rate than seen in July, and has risen in each of the previous five months.

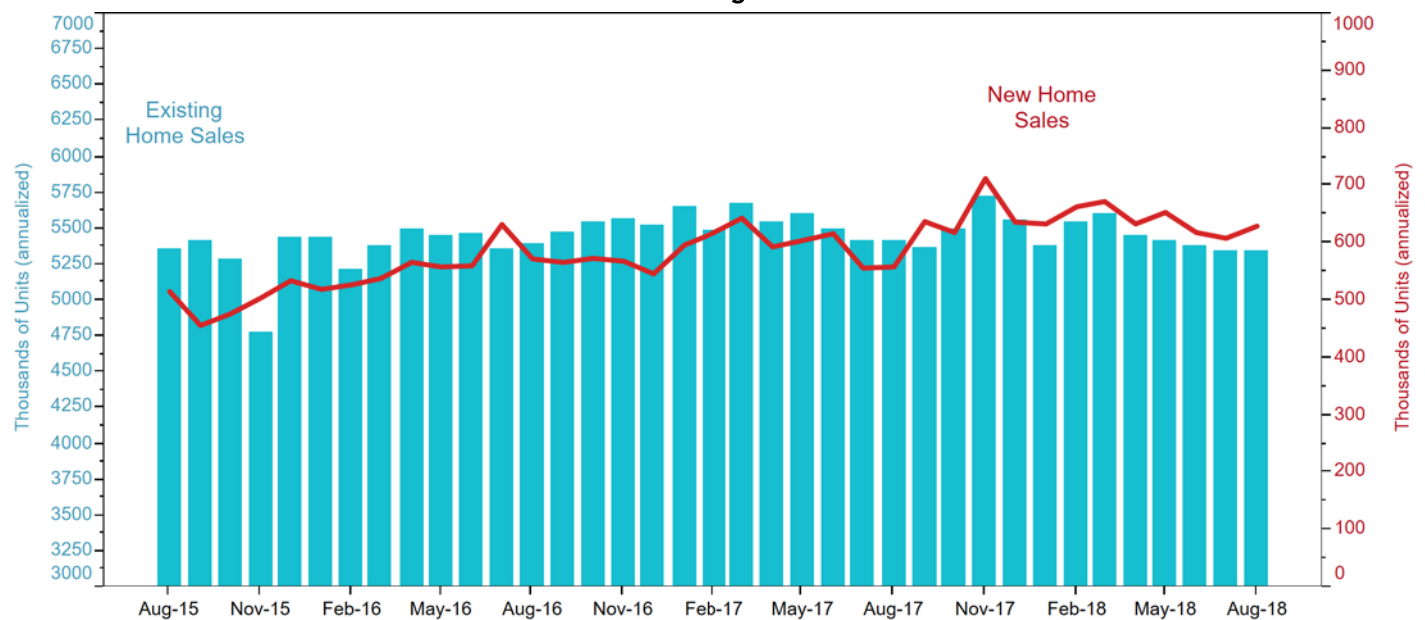
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data were mixed in August. New home sales increased, after falling in each of the prior two months, while existing home sales held steady at their lowest rate since February 2016.

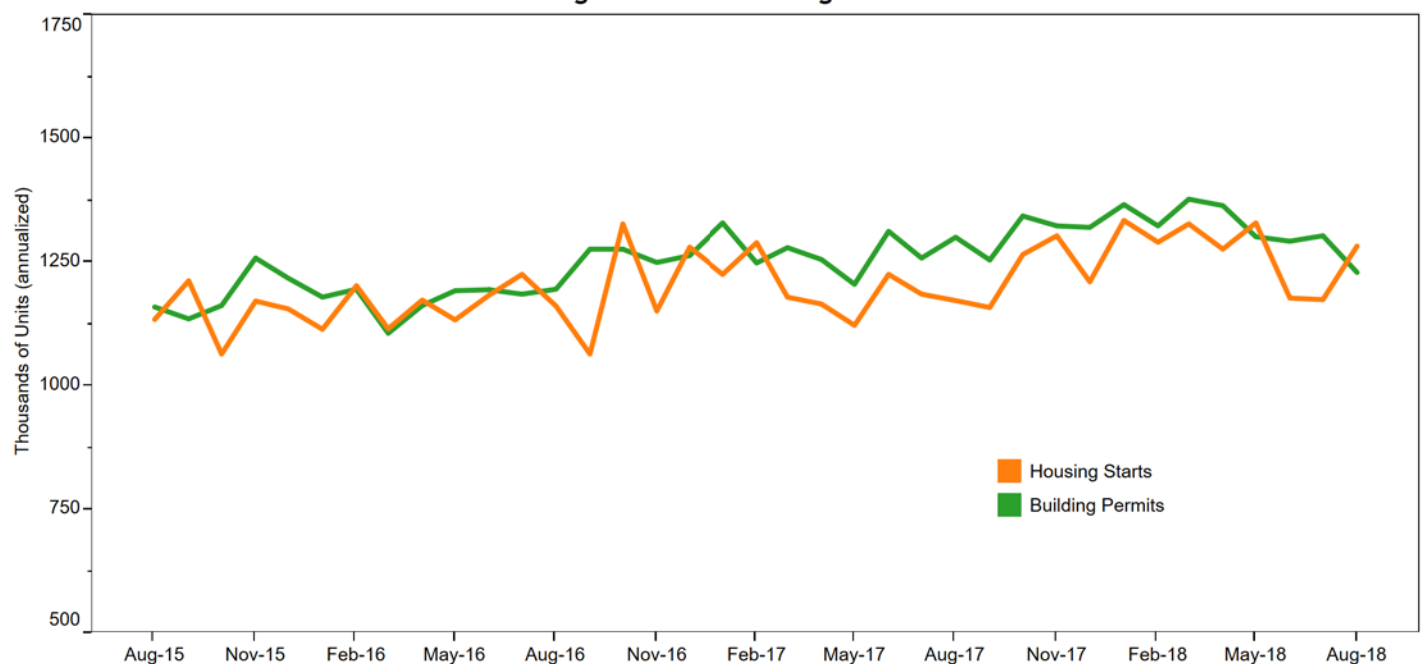
New and Existing Home Sales



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

Housing starts rose in August, after declining in each of the prior two months, as both single-family and multi-family starts increased. Meanwhile, building permits fell in August, registering their lowest rate since May of last year, as both single-family and multi-family permits decreased.

Housing Starts and Building Permits



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

The ISM manufacturing index declined in September, erasing part of the increase seen in August, but continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index continued to rise in September.

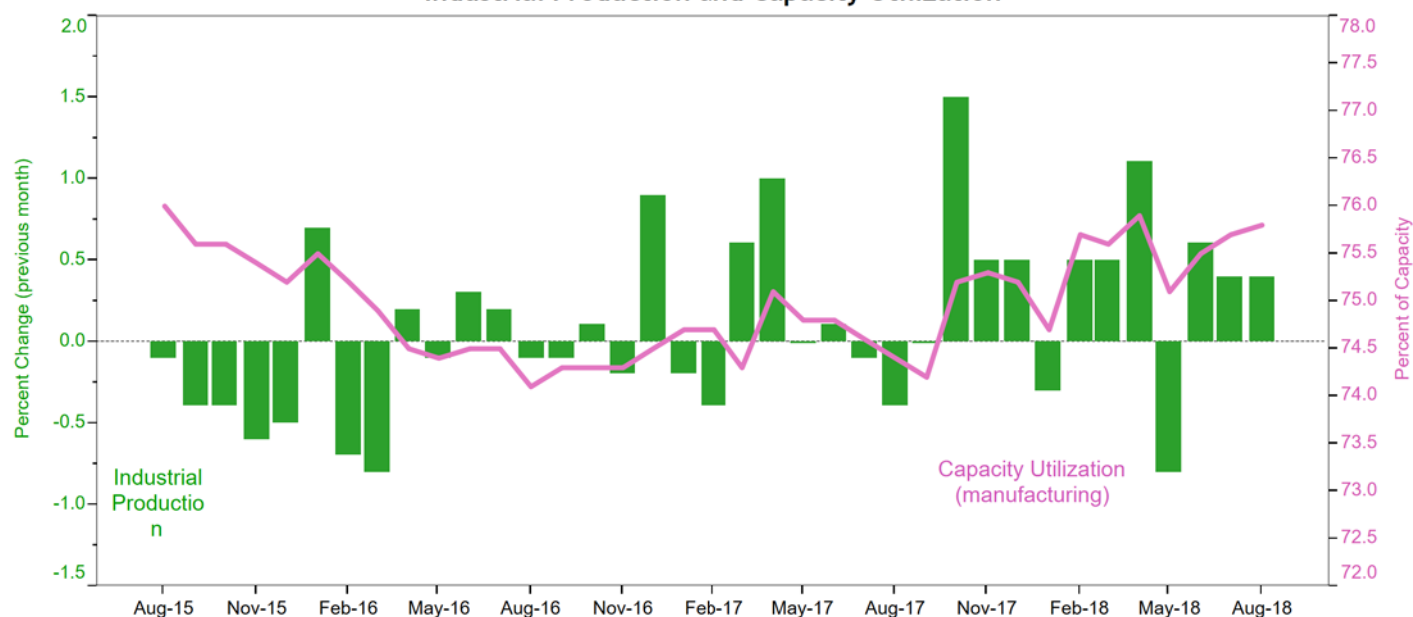
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in August, its third consecutive monthly increase, as manufacturing, mining and utilities production all posted increases. Capacity utilization also rose in August, after increasing in each of the prior two months.

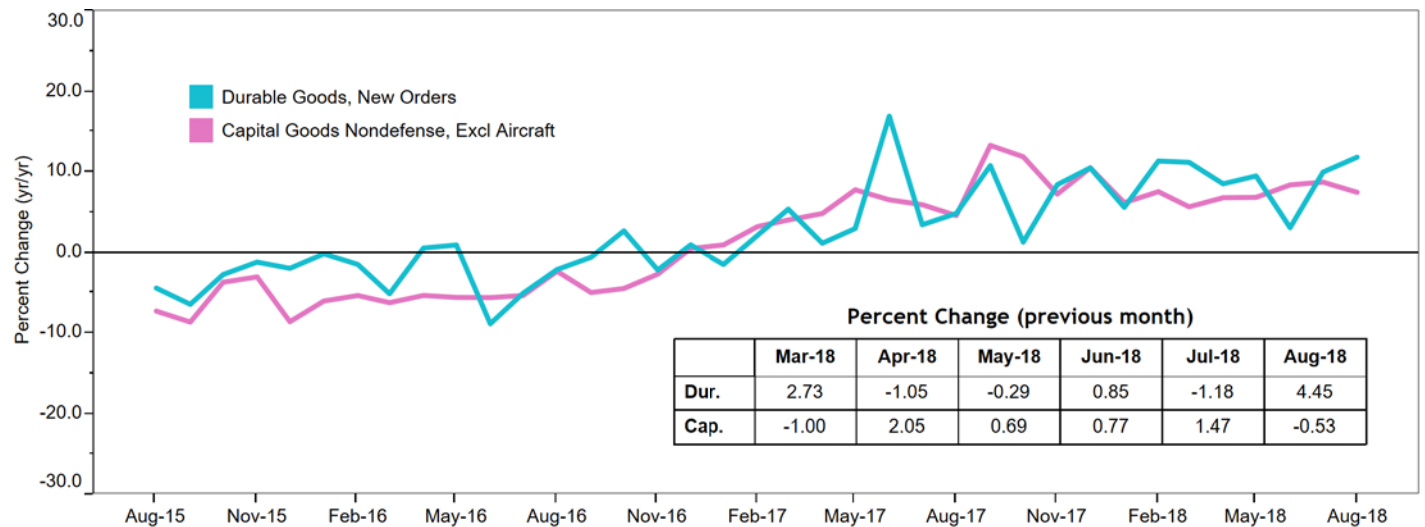
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods rose in August, after falling in July, mainly due to an increase in civilian aircraft orders. Durable goods orders continued to rise on a year-over-year basis. Meanwhile, orders for nondefense capital goods, excluding aircraft, fell in August, their first decline since March, but continued to rise on a year-over-year basis.

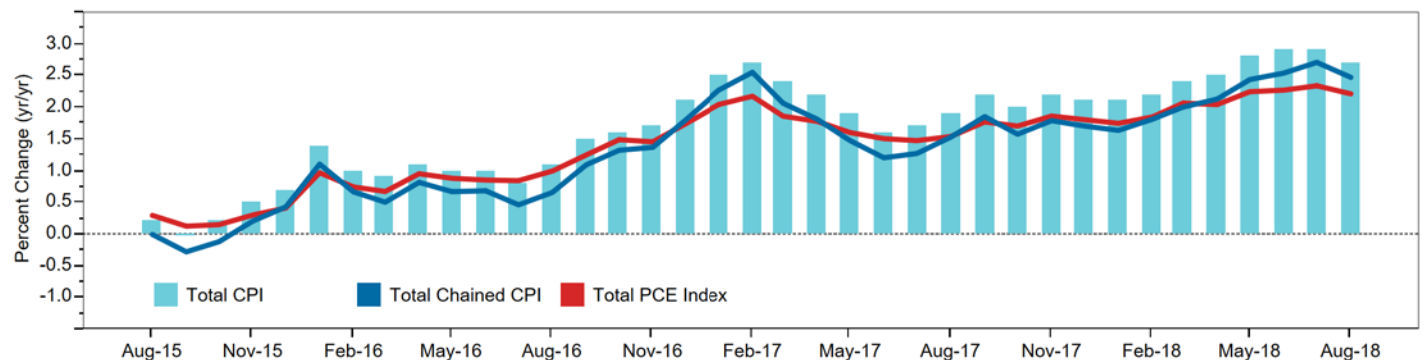
Durable Goods Orders



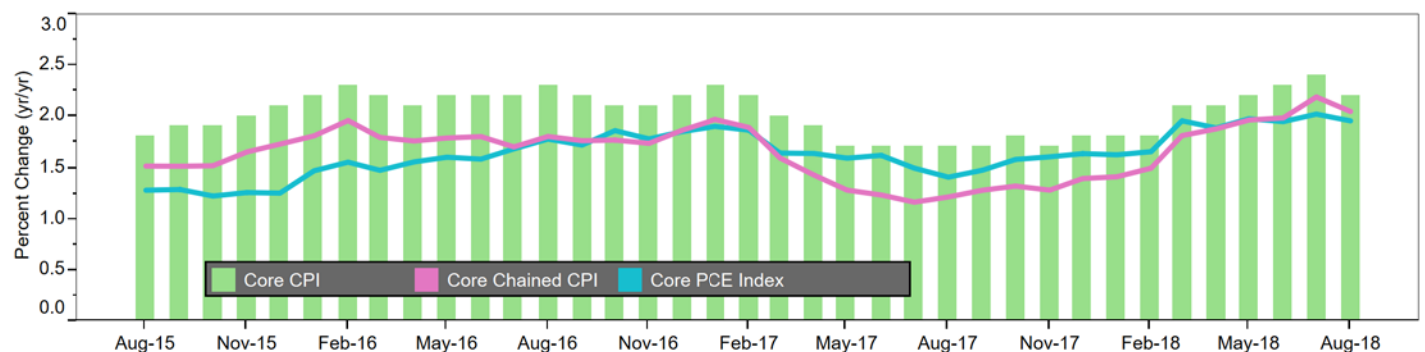
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices decelerated in August, after holding relatively steady in July. Meanwhile, growth in core prices, which exclude the volatile food and energy categories, also decelerated in August as measured by the Consumer Price Index. The core Personal Consumption Expenditure Price Index was essentially unchanged in August.

Total Price Indices

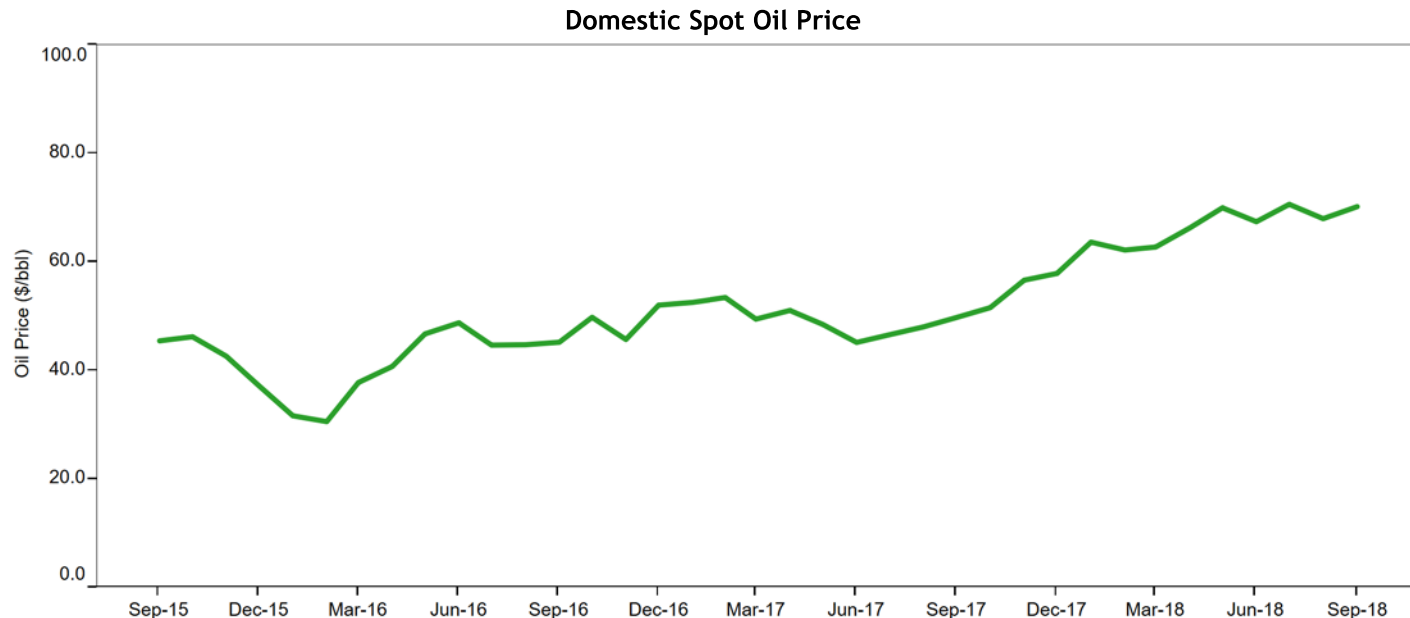


Core Price Indices



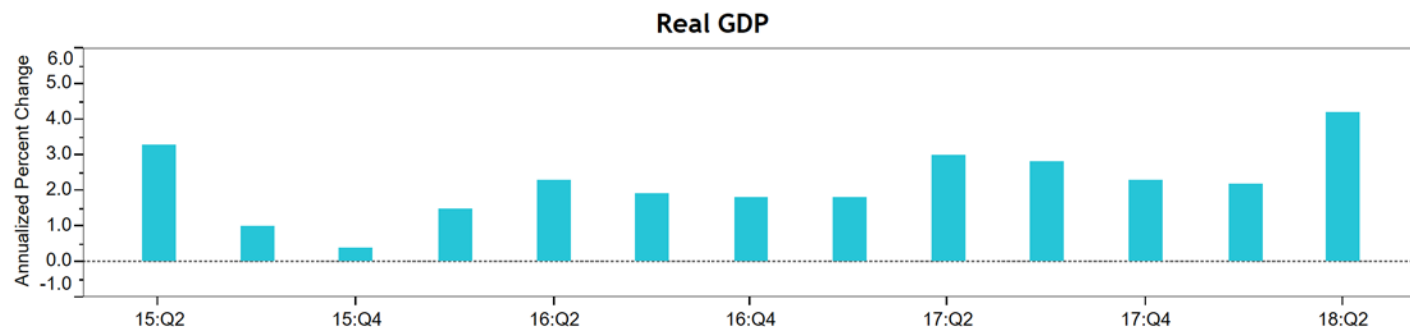
Source: Bureau of Labor Statistics / Bureau of Economic Analysis / Haver Analytics.

Oil prices increased, on average, in September, after falling in August. Prices rose further at the beginning of October, registering \$75.3 per barrel on October 1st.



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

Second quarter real GDP growth of 4.2% was unrevised in the third estimate. The steady rate primarily reflected a downward revision to private inventory investment that was offset by upward revisions to state and local government spending, personal consumption expenditures, nonresidential fixed investment, exports, and residential fixed investment. Imports were revised down slightly.



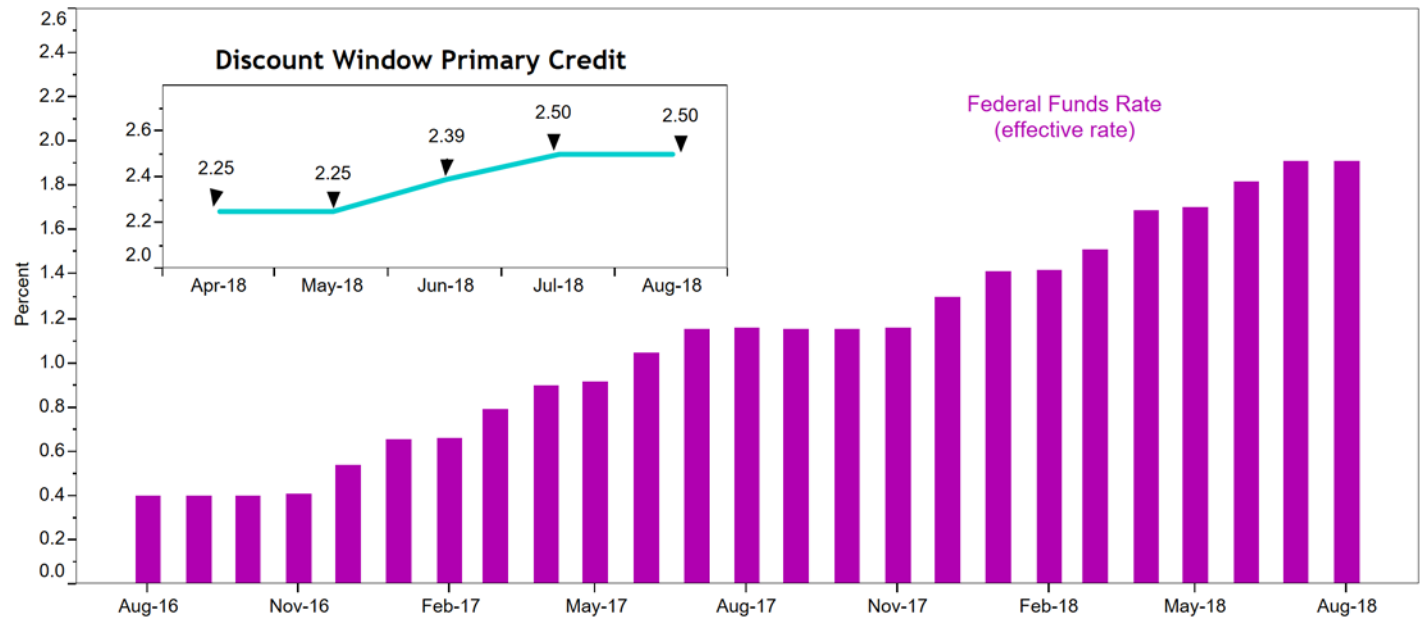
Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	4.2	4.2
Personal Consumption	3.8	3.8
Business Investment	8.5	8.7
Equipment and Software	4.4	4.6
Residential Investment	-1.6	-1.3
Government	2.3	2.5
Exports	9.1	9.3
Imports	-0.4	-0.6
Final Sales	5.3	5.4

Source: Bureau of Economic Analysis / Haver Analytics.

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Short-Term Interest Rates



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