

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

October 13, 2020

CURRENT ECONOMIC DEVELOPMENTS - October 13, 2020

Data released since your last Director's meeting continue to show signs of improvement while simultaneously reflecting the weight of uncertainty. The third estimate of economic growth showed real GDP contracted by 31.4% in the second quarter, a slight upward revision from the previous estimate of 31.7%. Despite considerable improvement in many areas since March and April of this year - likely resulting in a substantial rebound in growth in the third quarter - uncertainty surrounding the virus and the expiration of fiscal stimulus have slowed the recovery heading into the fourth 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 661,000 in September and the unemployment rate declined to 7.9%, as employment conditions continued to improve but at a slower rate than in the previous few months. Discrepancies caused by misclassification issues and low response rates continued to decrease, however clarity on the extent of these issues will likely take several months to emerge. Initial unemployment claims continued their downward trend from the peaks seen in March, but the pace of improvement has slowed and claims remain historically high.

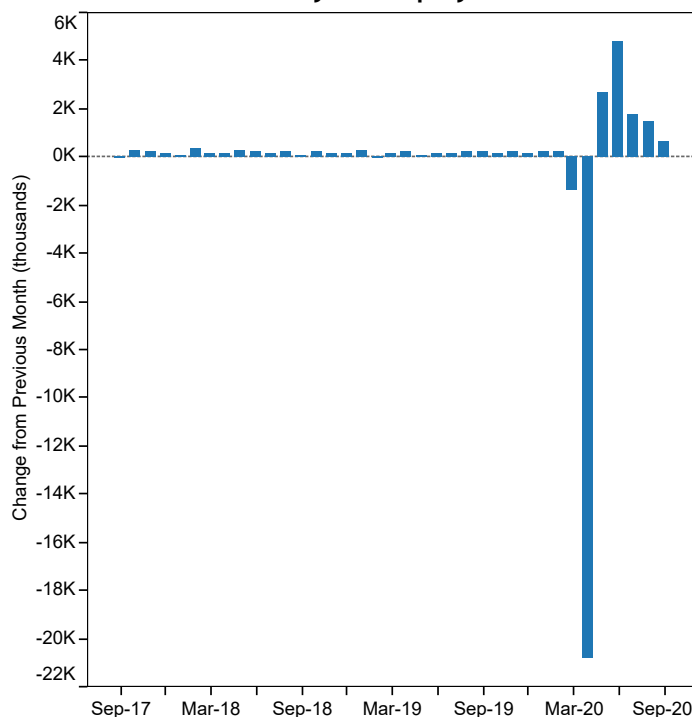
August data for real incomes posted a decline, and while real consumption increased, spending gains have been trending lower. Consumer attitudes remained below pre-pandemic levels in September but did climb to their highest levels since March. August housing market data continued their robust upward trends as sales of both new and existing homes soared to levels not seen since December 2006. Single-family housing starts and permits both rose further in August, though multi-family declines held back headline figures.

Durable goods orders rose in August and have almost regained the ground lost due to the effects of the pandemic. Industrial production also ticked up in recent months but has only reversed about half of the spring declines. Capacity utilization in manufacturing also rose in August. The ISM Manufacturing Index dipped in September from the two-year high hit in August, while the ISM Nonmanufacturing Index rose above its pre-pandemic level in recent data. The regional Federal Reserve manufacturing indices were mixed but remained in expansionary territory.

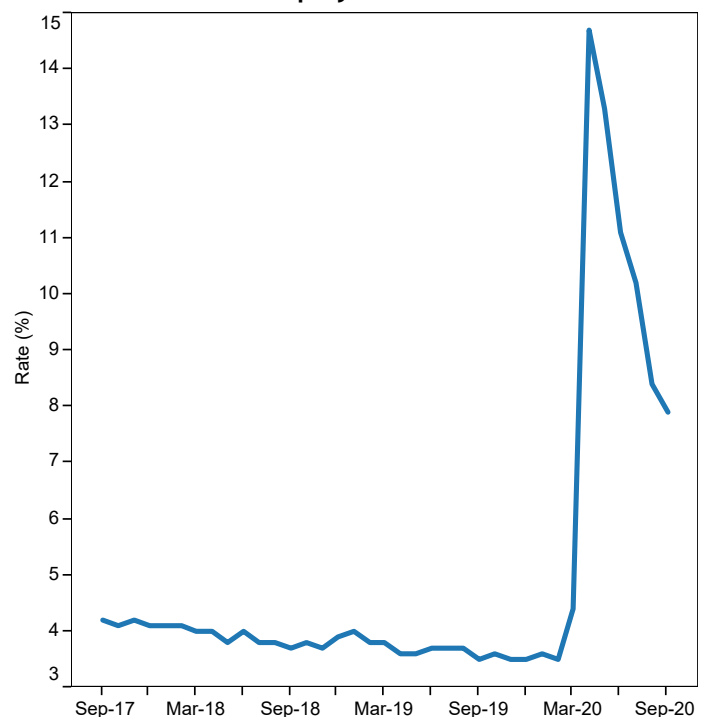
Consumer price measures rose in September, though at slower rates than in previous months as sectors that initially rebounded sharply have started to level off. Annual inflation rates also ticked higher in September but remained below their levels from earlier this year. Oil prices dipped slightly in September, but have regained much of the ground lost since the record lows seen in April.

Nonfarm payrolls rose by 661,000 in September while the unemployment rate fell to 7.9 percent. Both metrics have improved for five consecutive months, though hiring slowed considerably in September after job gains topped 1 million in each of the four prior months. Job growth may also be restrained in the coming months by recently announced corporate layoffs stemming from a lack of additional fiscal support.

Nonfarm Payroll Employment

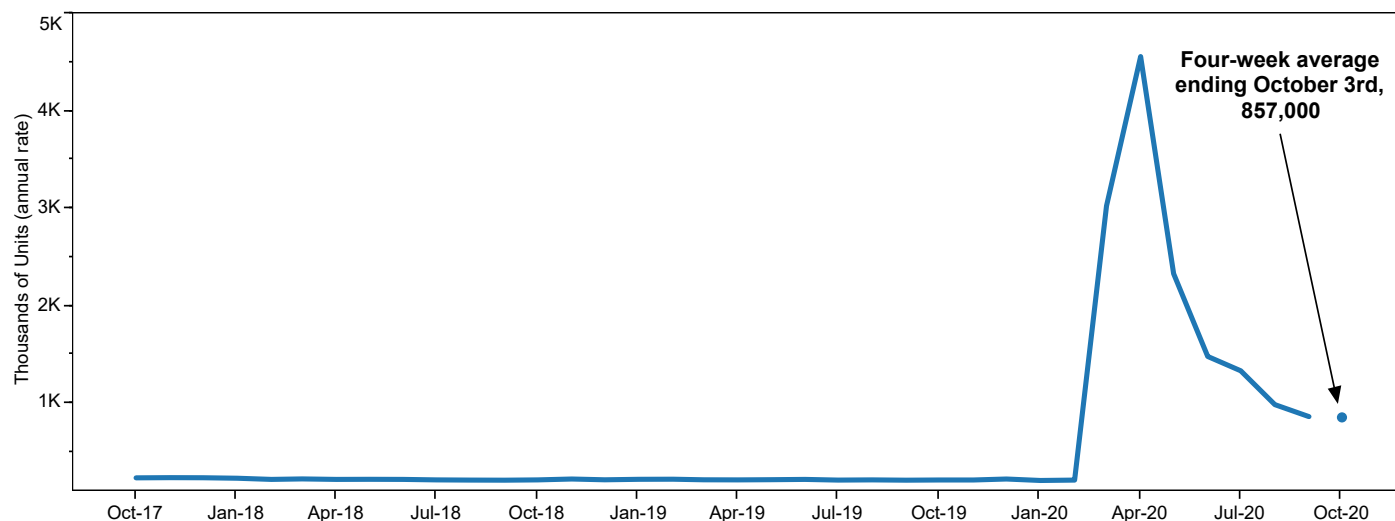


Unemployment Rate



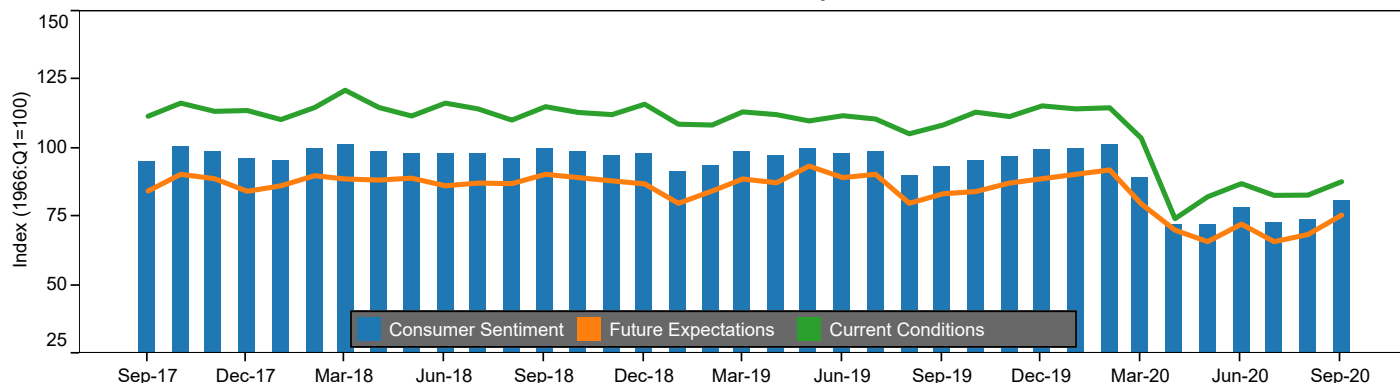
Initial claims for unemployment insurance declined further to 840,000 in the week ending October 3rd, while the four-week moving average declined to 857,000. Claims remain historically high and in general are little changed since late August. Notably, due to an internal review of state operations, California has instituted a two-week pause in its processing of initial claims. Claims for California are being held steady until after the pause, at which point the weekly data will be revised.

Initial Claims

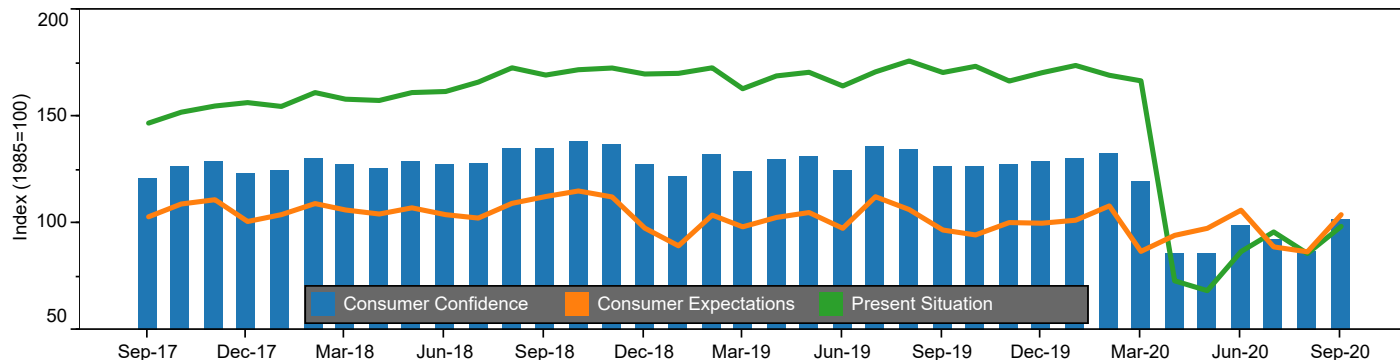


The consumer sentiment index rose to 80.4 in the final September reading, up from 74.1 in August. The current conditions and expectations index both rose in similar intervals, registering September readings of 87.8, and 75.6, respectively. The consumer confidence index improved to 101.8 in September, up from August's reading of 86.3. Both the present situation and expectations index rose, reaching 98.5, and 104.0, respectively. Sentiment and confidence are both at their highest levels since March, but remain well below pre-pandemic levels.

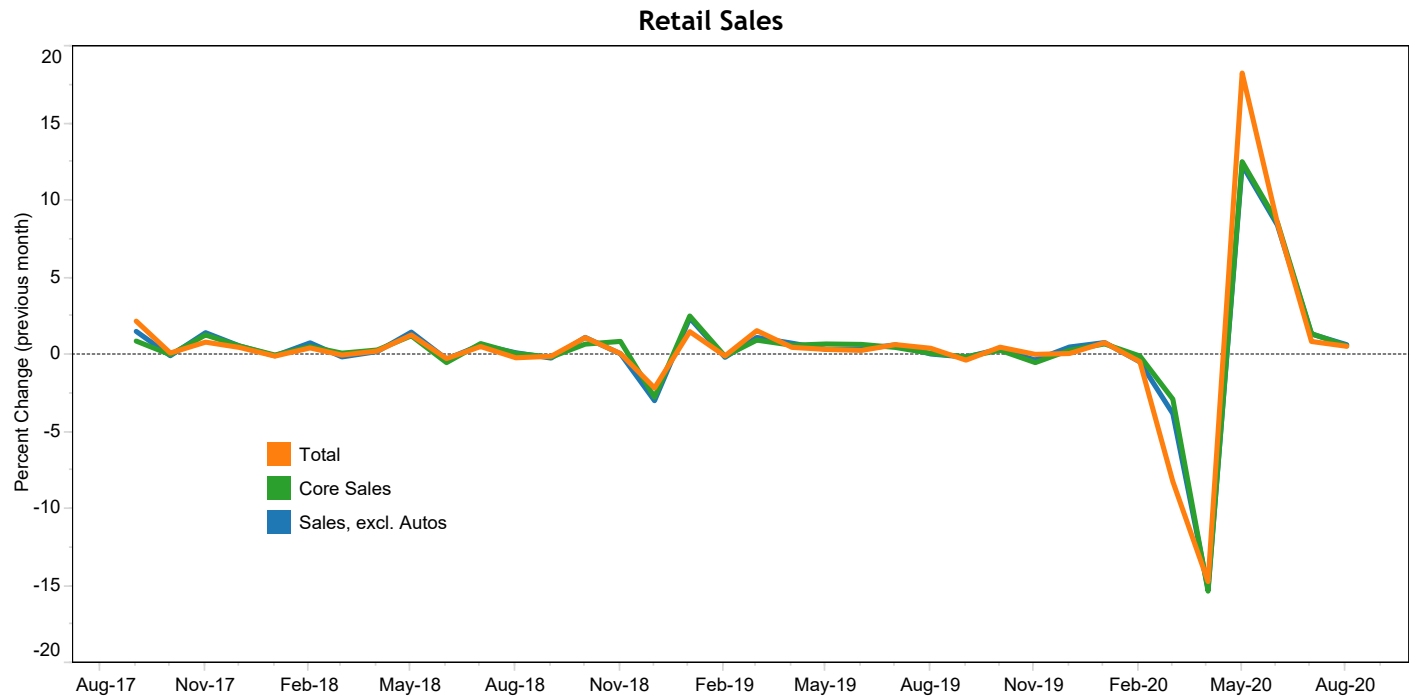
Consumer Sentiment and Expectations



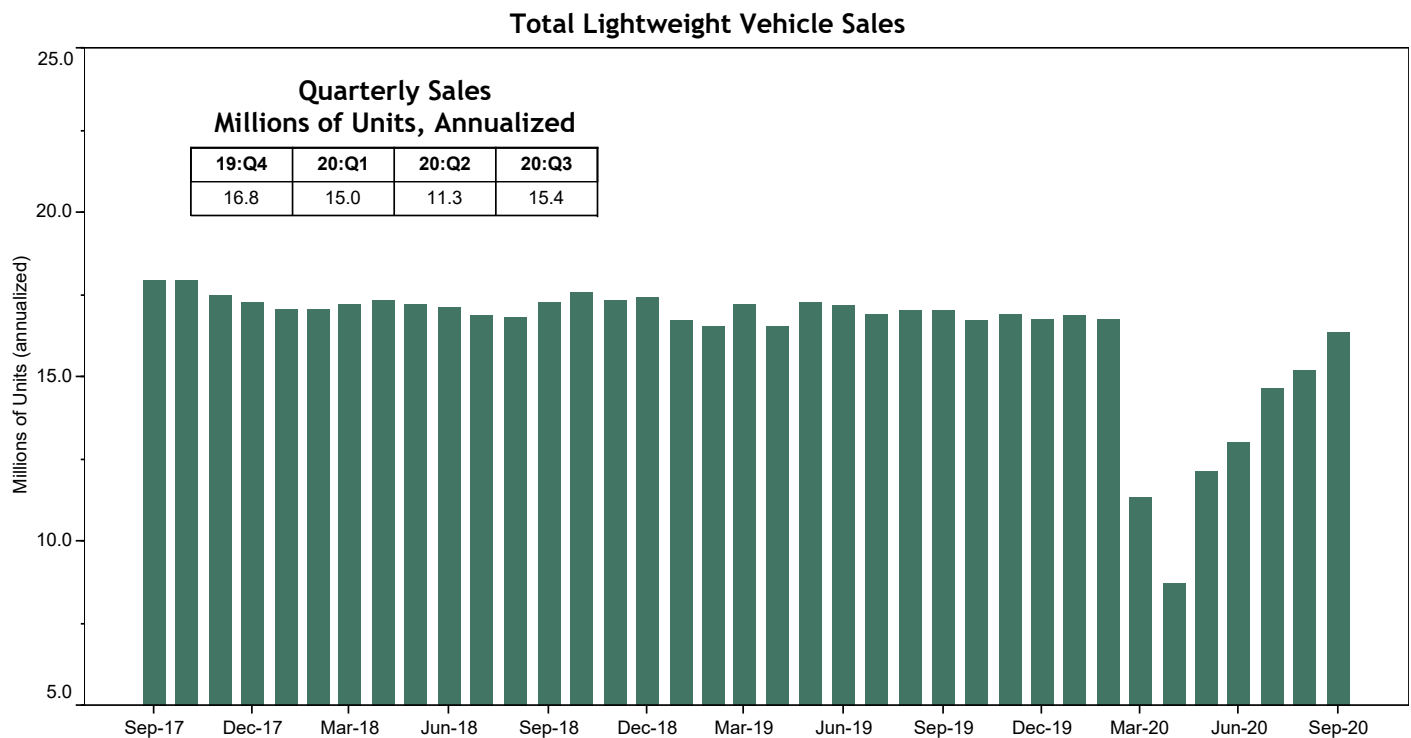
Consumer Confidence and Expectations



Retail sales increased for the fourth straight month in August, although at a slower pace. Retail sales surpassed pre-pandemic levels in June, but further increases will be difficult as unemployment remains high, sentiment remains subdued, and additional fiscal support appears unlikely.

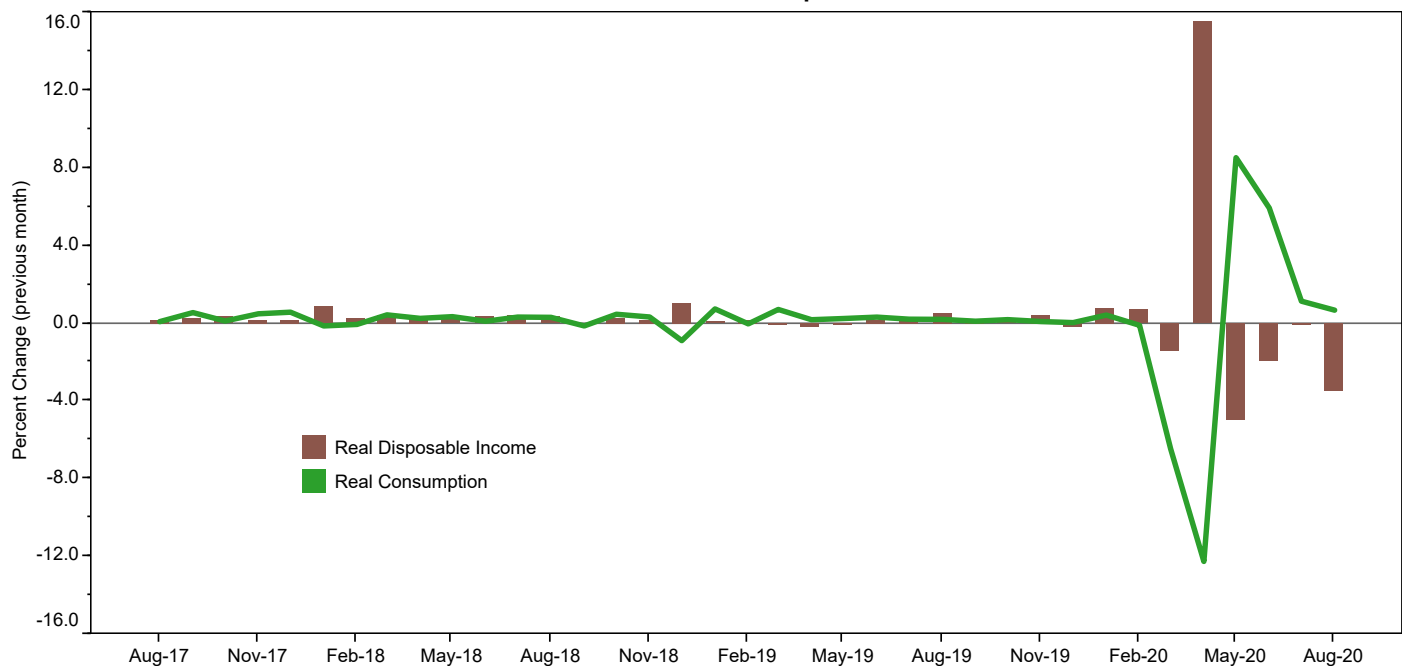


The pace of lightweight vehicle sales has been recovering far better than expectations, reaching a rate of 16.3 million units in September, nearly equaling the pre-pandemic sales rate. Sales have been rising despite decreased inventory (due to factory shutdowns this spring), due largely to dealer incentives and low interest rates.



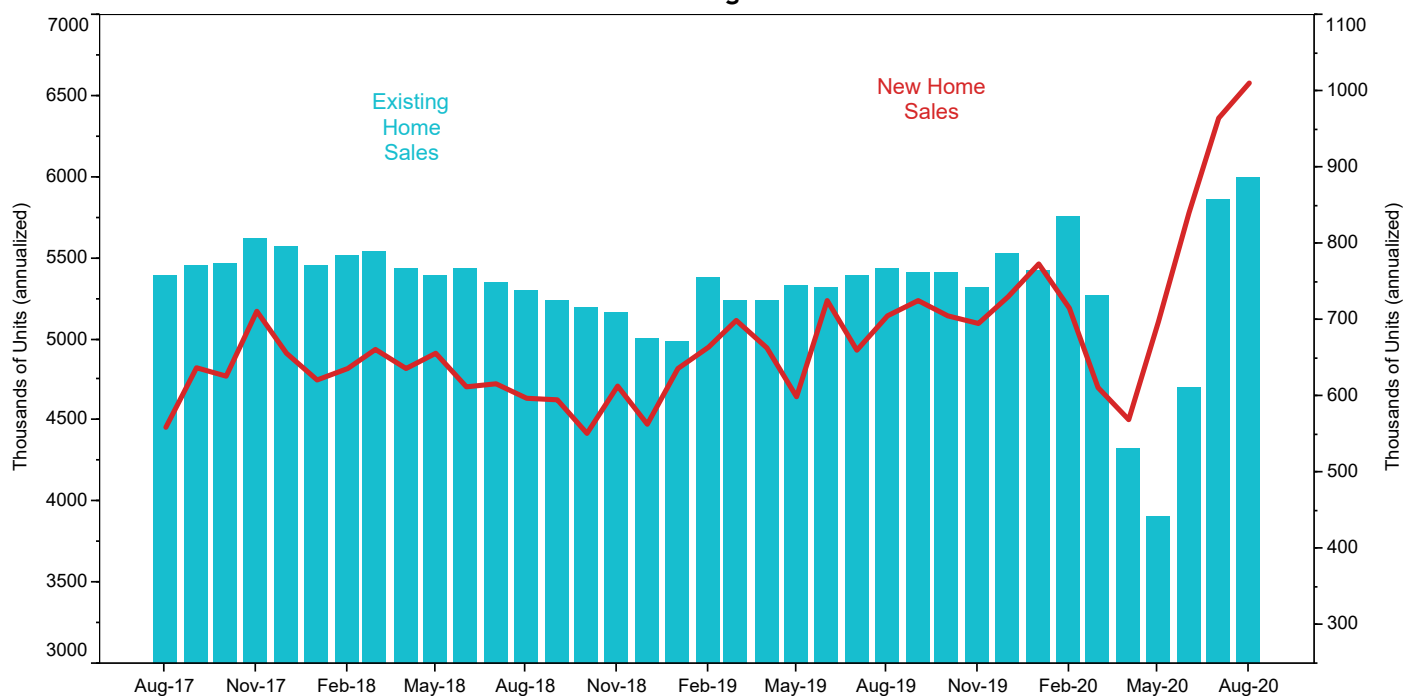
Real disposable income fell 3.5% in August, due largely to the expiration of additional unemployment insurance benefits. Despite the lower incomes real consumption increased 0.7% in August, but was revised downward in July and the slowing trend in consumption suggests less support to GDP from PCE in the fourth quarter.

Real DPI and Consumption



The robust recovery in the housing market continued in August. New home sales rose to an annual rate of 1.01 million units and existing home sales increased to a rate of 6.00 million - both the fastest sales rates since late 2006.

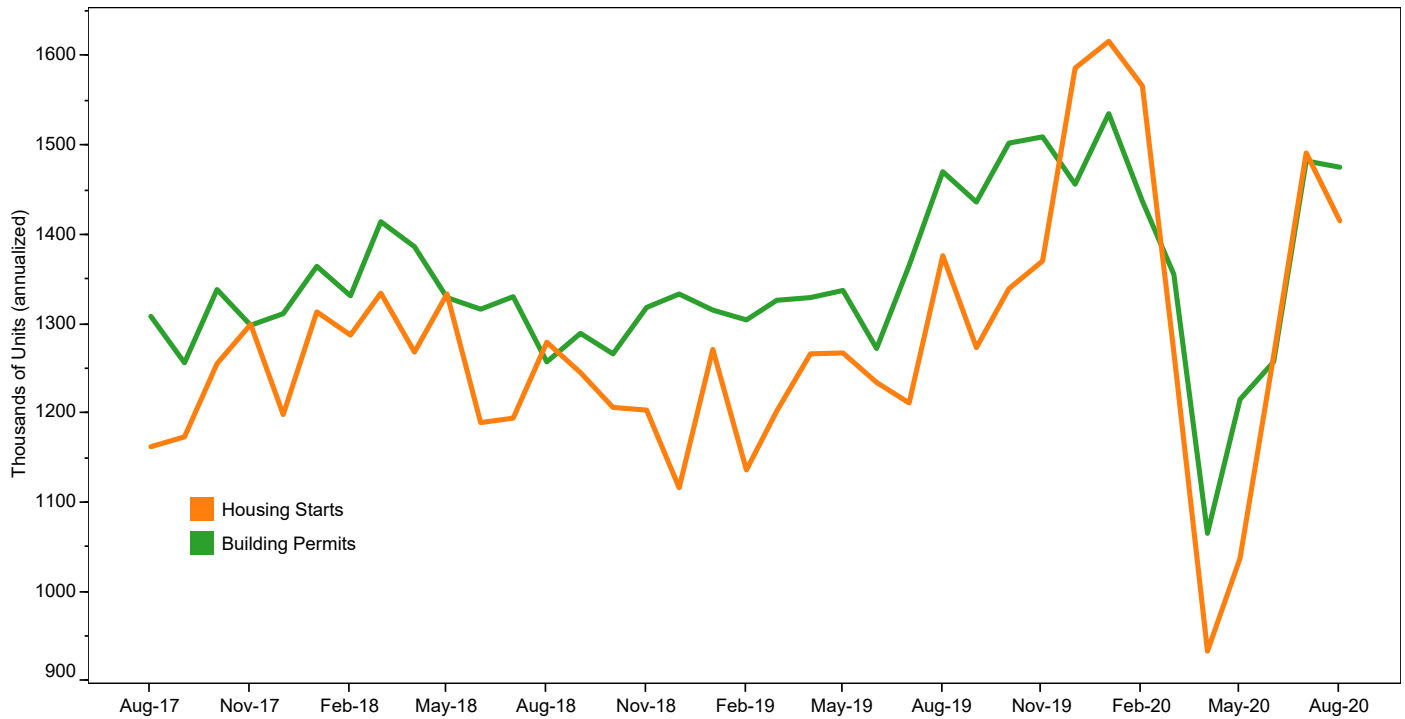
New and Existing Home Sales



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

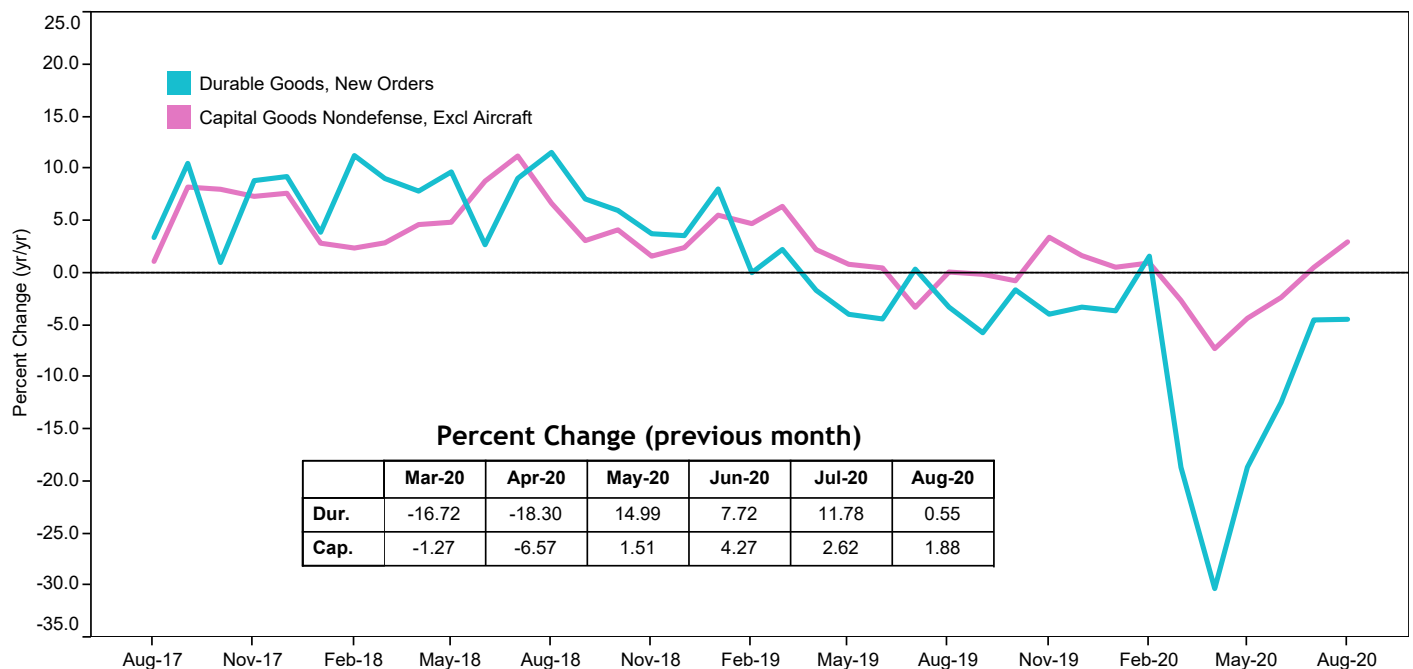
Housing starts and permits both fell in August from the previous month, though the headline figures were restrained by decreases in the volatile multi-family sector. Single-family starts and permits both continued to rise in August, with permits reaching their highest level since before the Great Recession.

Housing Starts and Building Permits



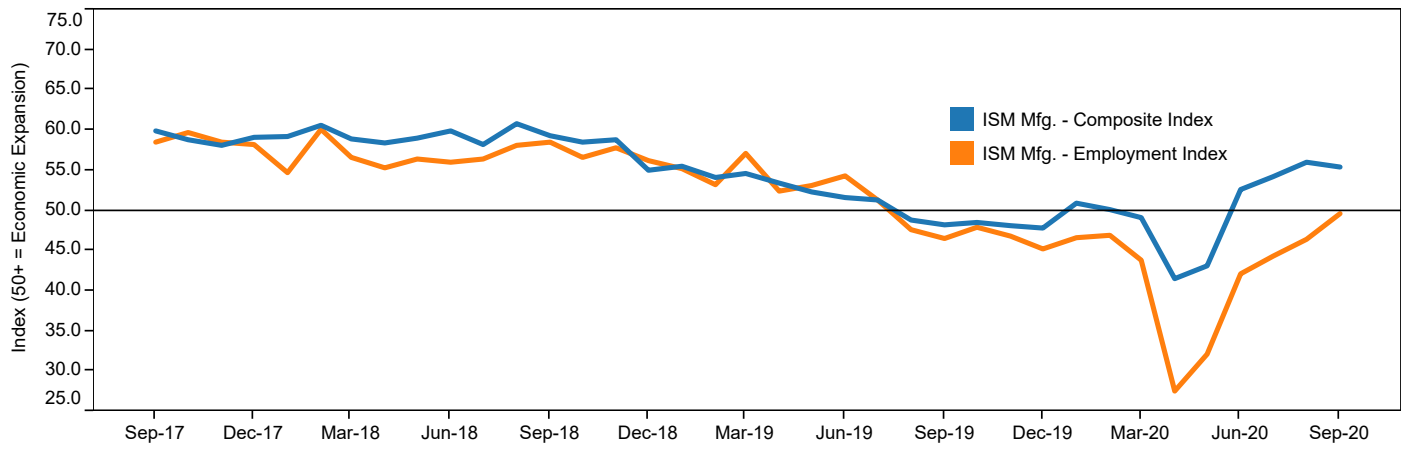
Orders for durable goods ticked up 0.5% in August and posted the fourth straight monthly increase since the lows seen this spring. On a year-over-year basis, however, orders are still declining. Orders for nondefense capital goods, excluding aircraft, posted a 1.9% increase in August from July and registered year-over-year gains in both July and August.

Durable Goods Orders

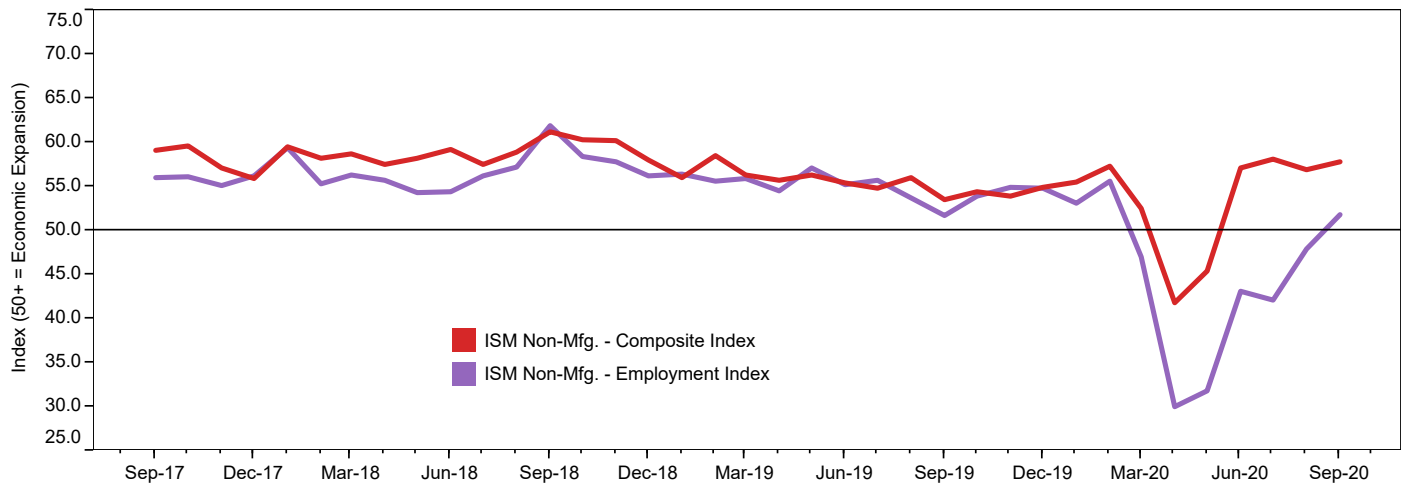


The ISM manufacturing index ticked down in September but marked the fourth consecutive month of expansion by remaining above 50. The employment subindex rose in recent data, but could not quite break the expansion threshold. The ISM nonmanufacturing index rose above prepandemic levels in September, signalling expansion for the fourth consecutive month. The index's employment component rose to signal expansion for the first time since February. Regional manufacturing surveys from the Federal Reserve were mixed in August, but all continued to signal improving business conditions.

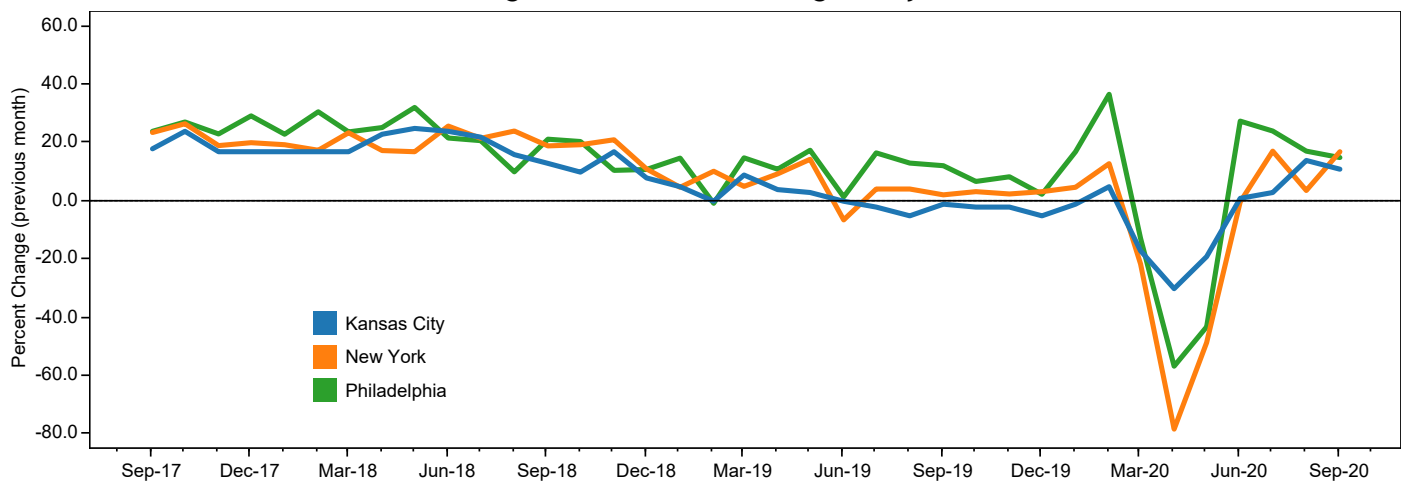
ISM Manufacturing Indices



ISM Non-Manufacturing Indices

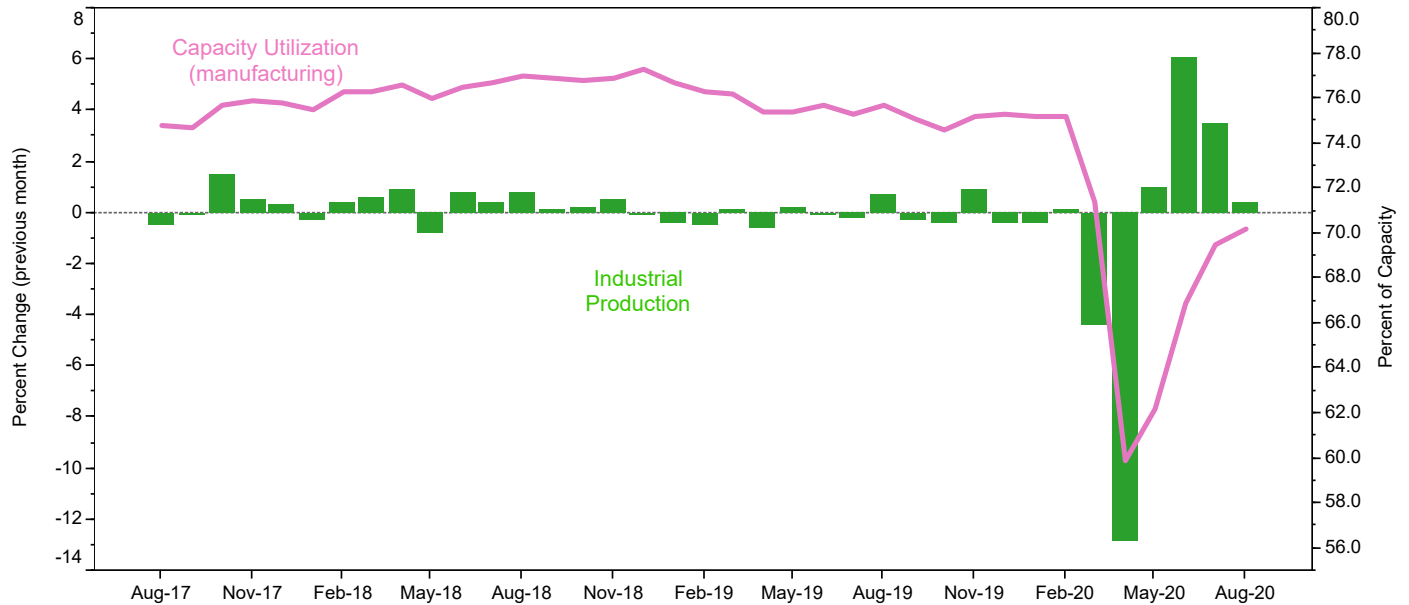


Regional FRB Manufacturing Surveys



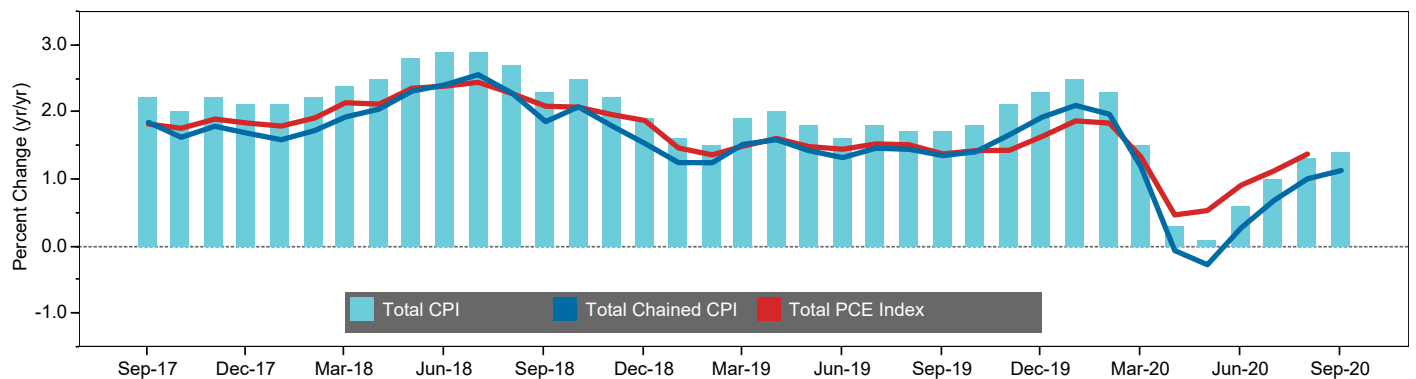
Industrial production expanded 0.4% in August after July's increase of 3.0% was revised further upward to 3.5%. Manufacturing output ticked up while mining and utilities output posted declines. Capacity utilization in manufacturing rose to 70.2% in August. This reading is 10.3 percentage points above its April trough, but still 8.0 percentage points below its long-run average.

Industrial Production and Capacity Utilization

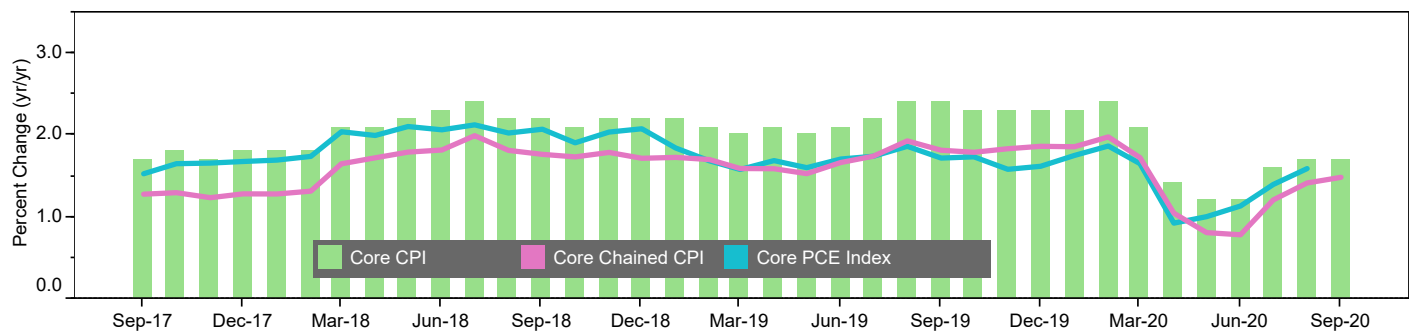


Measures of consumer prices rose in September, as both total and core CPI rose 0.2%. Meanwhile, the most recent data for total and core PCE both rose 0.3% in August. On a year-over-year basis, the total and core CPI rose 1.4% and 1.7%, respectively, while the total and core PCE Indexes rose 1.4% and 1.6%, respectively.

Total Price Indices

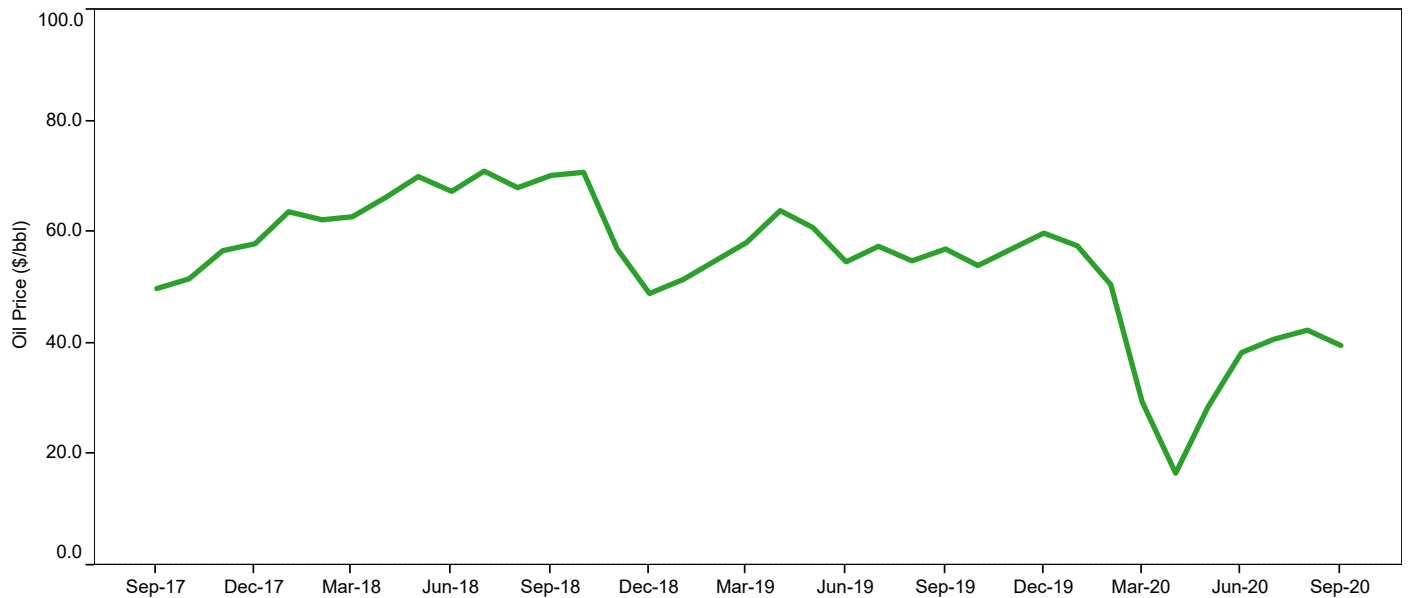


Core Price Indices



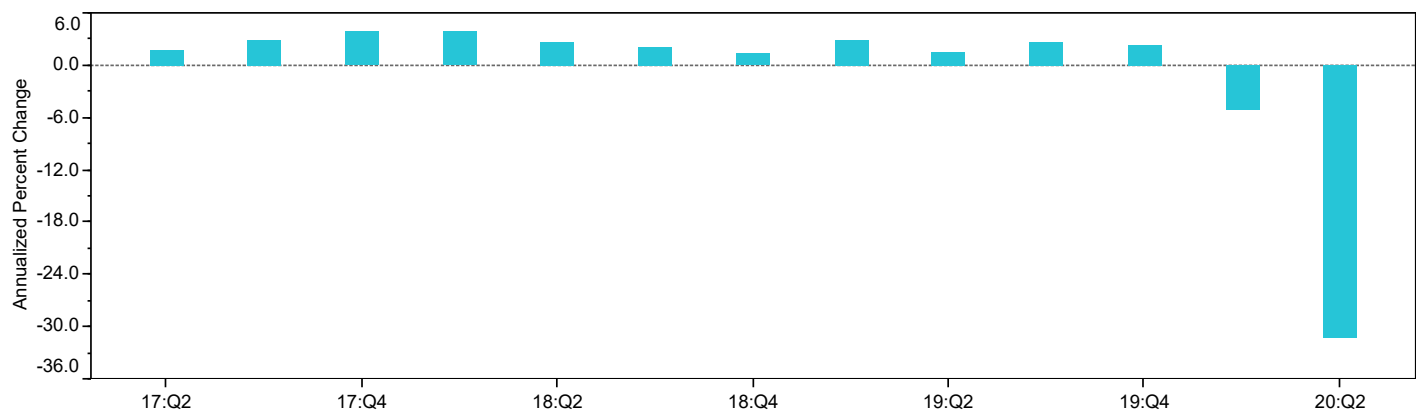
The recovery from April's all-time lows faltered in September as oil prices posted a small decline, on average.

Domestic Spot Oil Price



According to the third estimate, real GDP growth in the second quarter declined at a 31.4% annual rate. Despite being revised upward from the second estimate of 31.7%, the final estimate still reflects the largest quarterly decline on record. Relative to the second estimate, the improvement primarily reflected an upward revision to personal consumption expenditures (PCE) that was partly offset by downward revisions to exports and to nonresidential fixed investment.

Real GDP

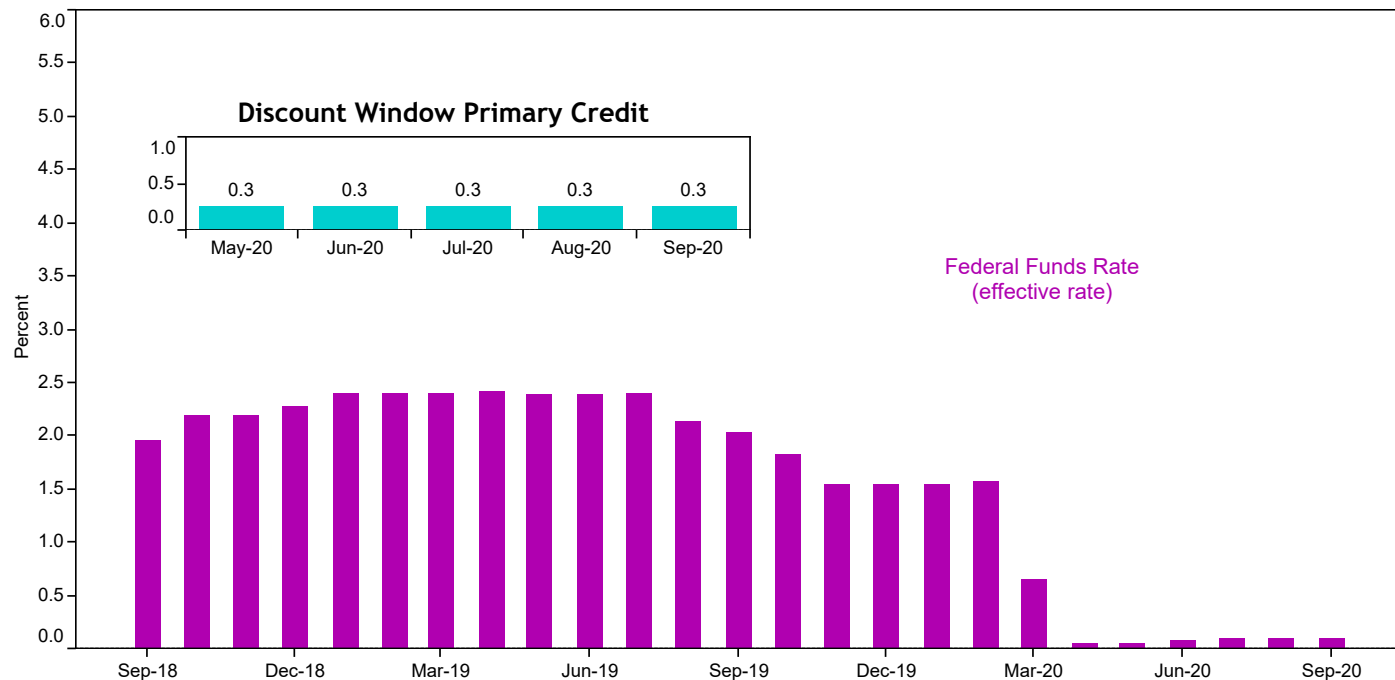


Revisions to Second Quarter Real GDP

Description	Second Estimate	Third Estimate
Real GDP	-31.7	-31.4
Personal Consumption	-34.1	-33.2
Business Investment	-26.0	-27.2
Equipment and Software	-35.9	-35.9
Residential Investment	-37.9	-35.6
Government	2.8	2.5
Exports	-63.2	-64.4
Imports	-54.0	-54.1
Final Sales	-28.5	-28.1

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Short-Term Interest Rates



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