



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

September 1, 2020

CURRENT ECONOMIC DEVELOPMENTS-September 1, 2020

Data released since your last Director's meeting continue to show signs that the worst of the pandemic's effects are behind us, though conditions remain uncertain. While GDP contracted by 31.7 percent in the second quarter, many measures reflect at least some degree of recovery over the most recent months. Looking ahead, a full recovery still hinges on medical advances to treat the virus and continued adherence to precautions designed to limit the contagion.

The employment report for August is due Friday, and another gain of 1-2 million jobs is expected, with the unemployment rate moving back below 10 percent. Still, it may take a few months for a clearer employment picture to emerge, as mis-classification and response rate issues have made providing accurate estimates more difficult. Initial unemployment claims remain historically high, hovering around 1 million over the past several weeks.

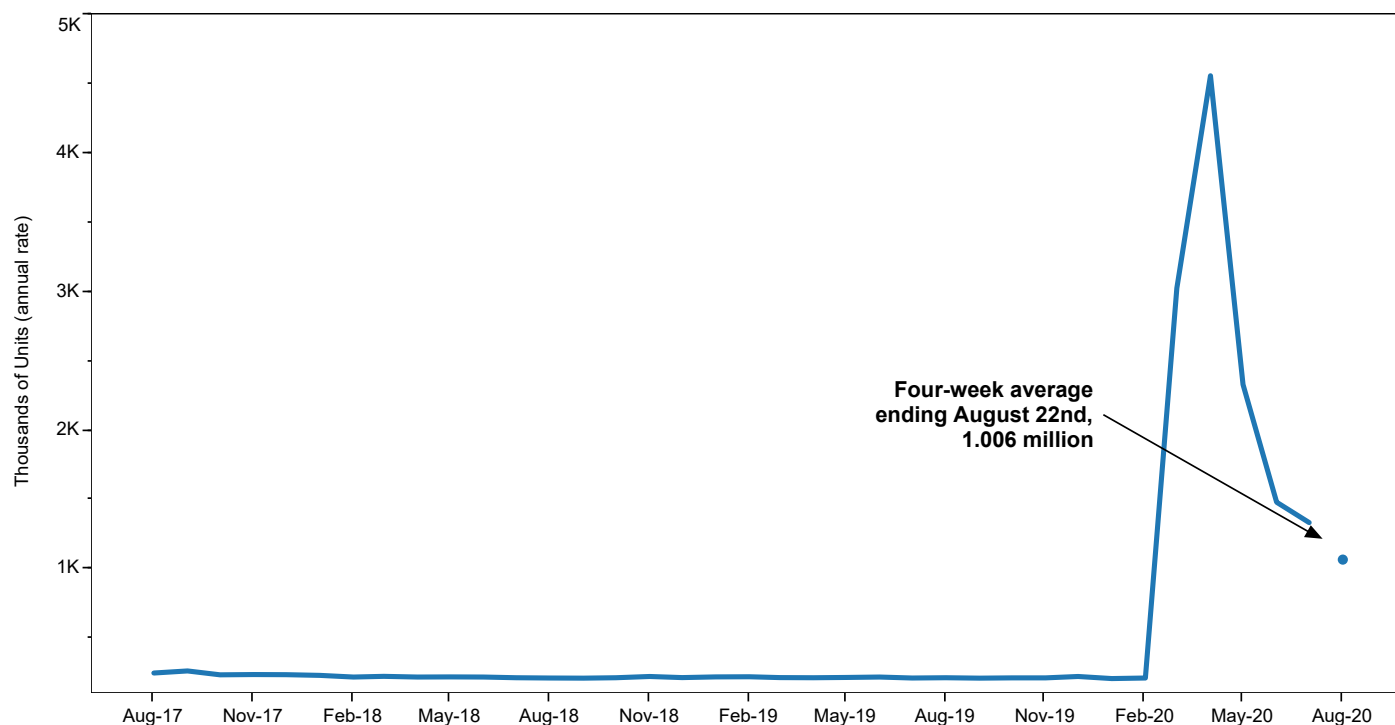
August data for real incomes posted a small decline while real consumption increased. Consumer attitudes remained depressed in August as consumer sentiment posted a small gain and the confidence index fell. July housing market data were very positive. Sales of both new and existing homes soared to levels not seen since December 2006, and both starts and permits saw double digit increases over the previous month.

Durable goods orders rebounded in July but both total and core orders were down on a year-over-year basis. Industrial production also ticked up in recent months but remains below pre-pandemic levels. Capacity utilization in manufacturing also rose in July. The ISM Manufacturing Index rose in August to its highest level since late 2018, and regional Federal Reserve manufacturing indices remained in expansionary territory.

Consumer prices as measured by the total and core CPI rose in June and July, regaining some of the ground lost in the three months prior. Both measures also rose on a year-over-year basis, but at rates below their pre-pandemic levels. Total and core prices as measured by the PCE index also rose on a monthly basis in July and accelerated a bit year-over-year. Oil prices have regained much of the ground lost since the record lows seen in April as prices have risen 155.0 percent over the last four months.

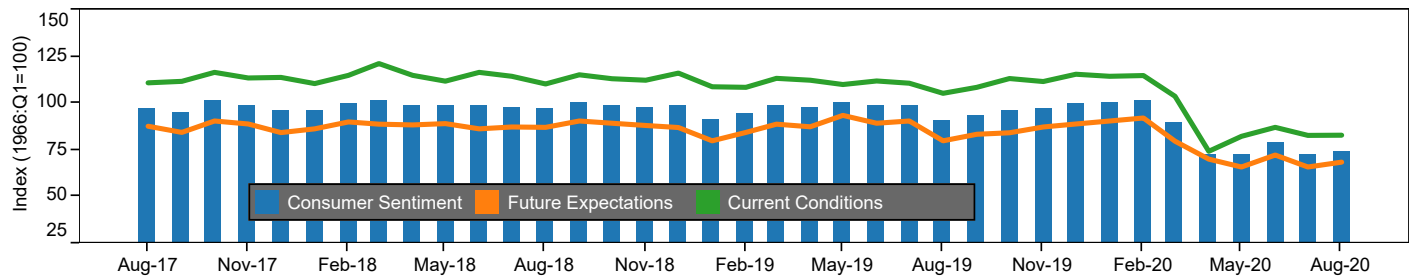
Initial claims for unemployment insurance have hovered around 1 million over the past few weeks, and while far below the peak reached in late March, they remain elevated well above historical norms.

Initial Claims

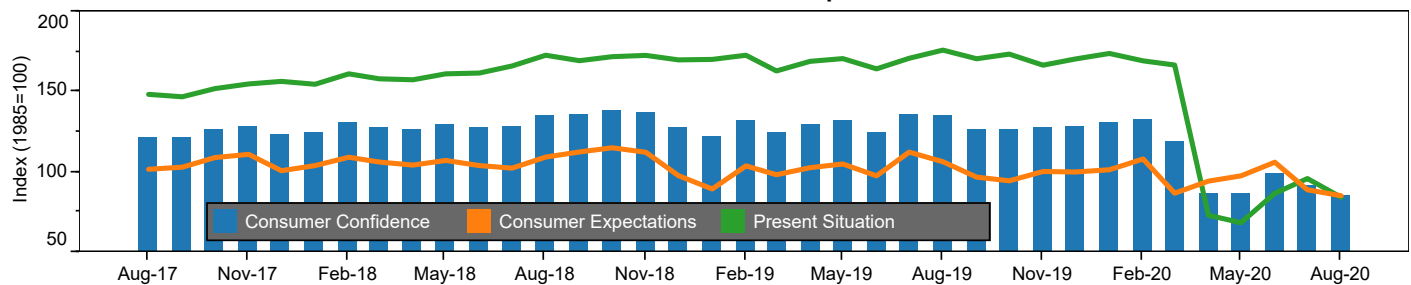


The consumer sentiment index rose to 74.1 in the final August reading, an increase driven by a 2.6 percent bump in the expectations index. The current conditions component edged up 0.1 point to 82.9. The consumer confidence index fell almost 7 points to 84.8 in August while the main driver here was the present situation component, which fell 11.7 points to 84.2. The expectations index fell 3.7 points to 85.2. Overall, consumer attitudes are little changed from the troughs reached in April.

Consumer Sentiment and Expectations



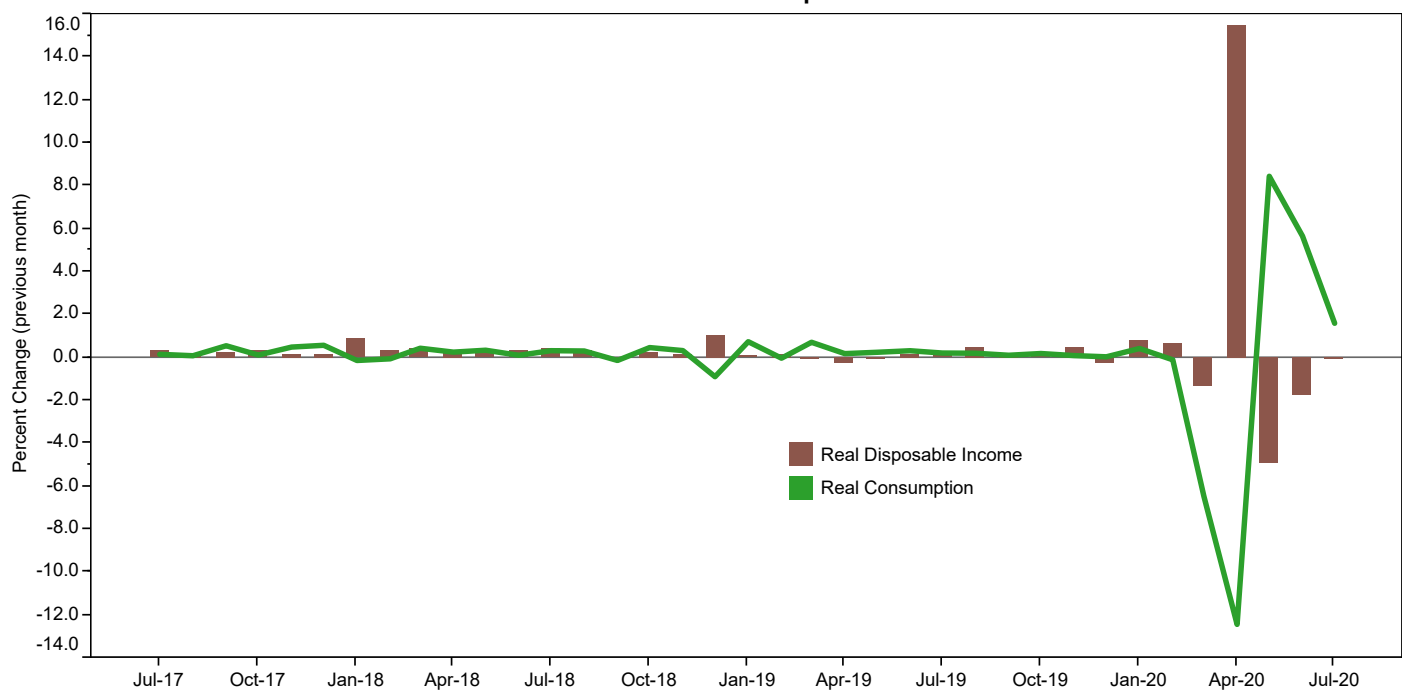
Consumer Confidence and Expectations



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

Real incomes dipped 0.1 percent in July after June's 1.8 percent decline. Incomes have risen only once in the past five months, when boosted in April by CARES Act stimulus checks. Consumption grew another 1.6 percent in July, but still remained almost 5 percent below its pre-pandemic level.

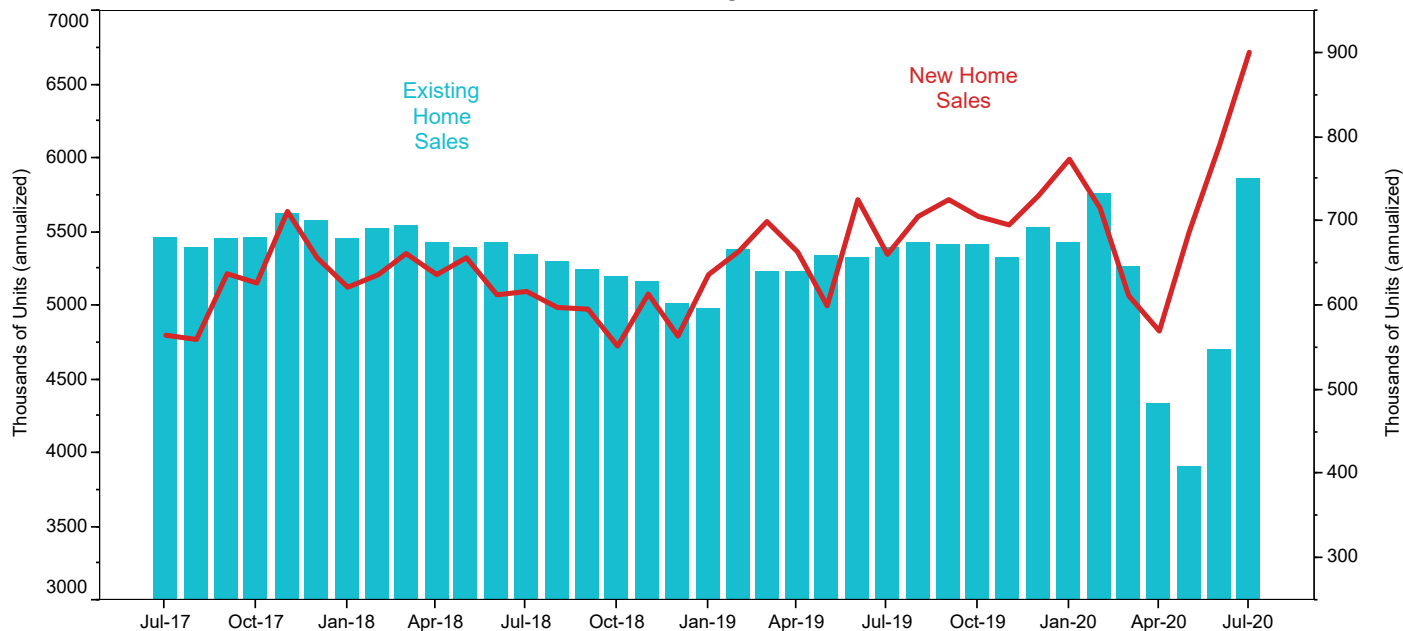
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

New and existing home sales both beat expectations in July and reached levels not seen since December 2006. New home sales rose 13.9 percent to a seasonally adjusted annual rate of 901,000 units, while existing home sales reached a 5.86-million-unit annual rate.

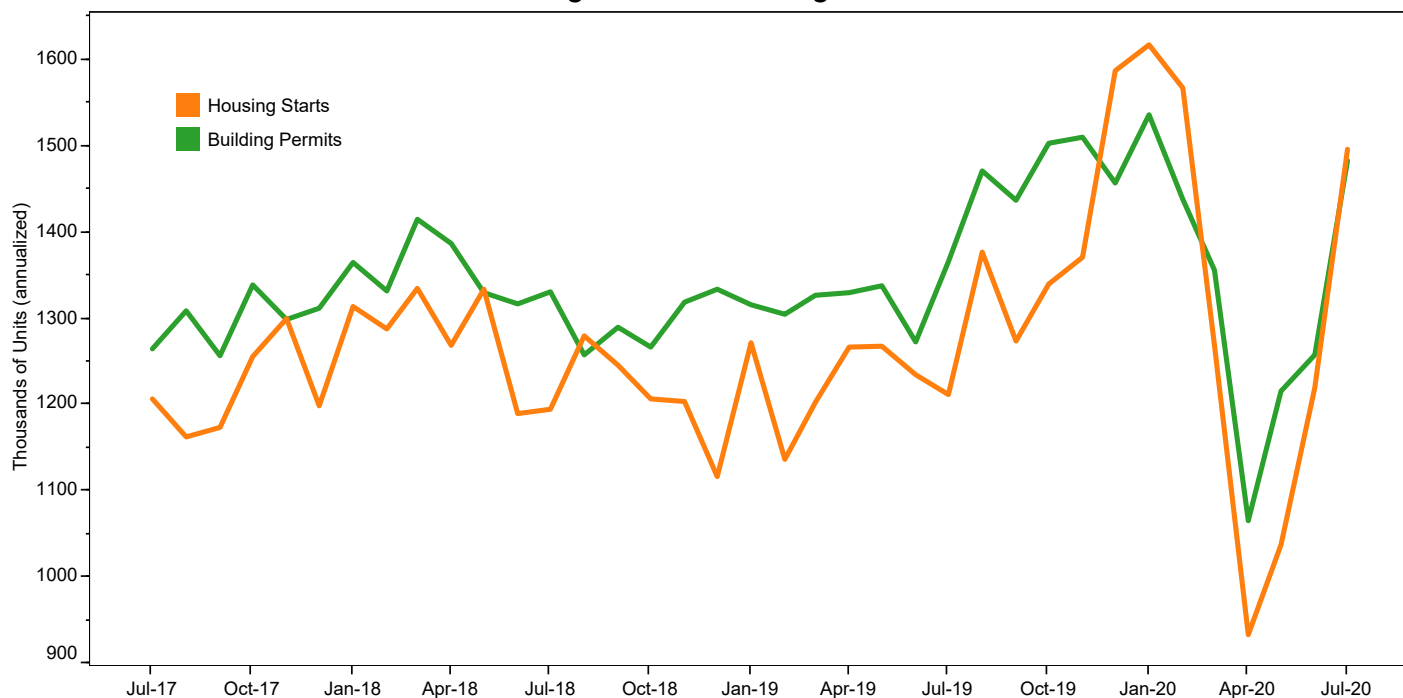
New and Existing Home Sales



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

The strong recovery in new residential construction continued in July. Housing starts soared 22.6 percent to an annual rate of 1.496 million units and housing permits rose 17.9 percent to a rate of 1.483 million units. Both starts and permits rose in all four regions, with gains seen for both single- and multi-family categories.

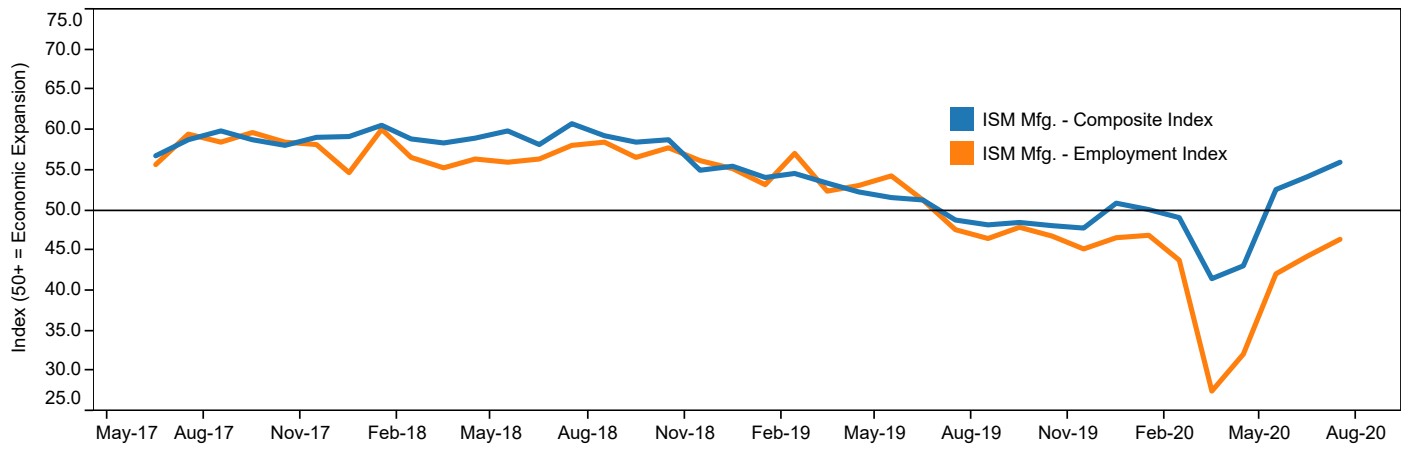
Housing Starts and Building Permits



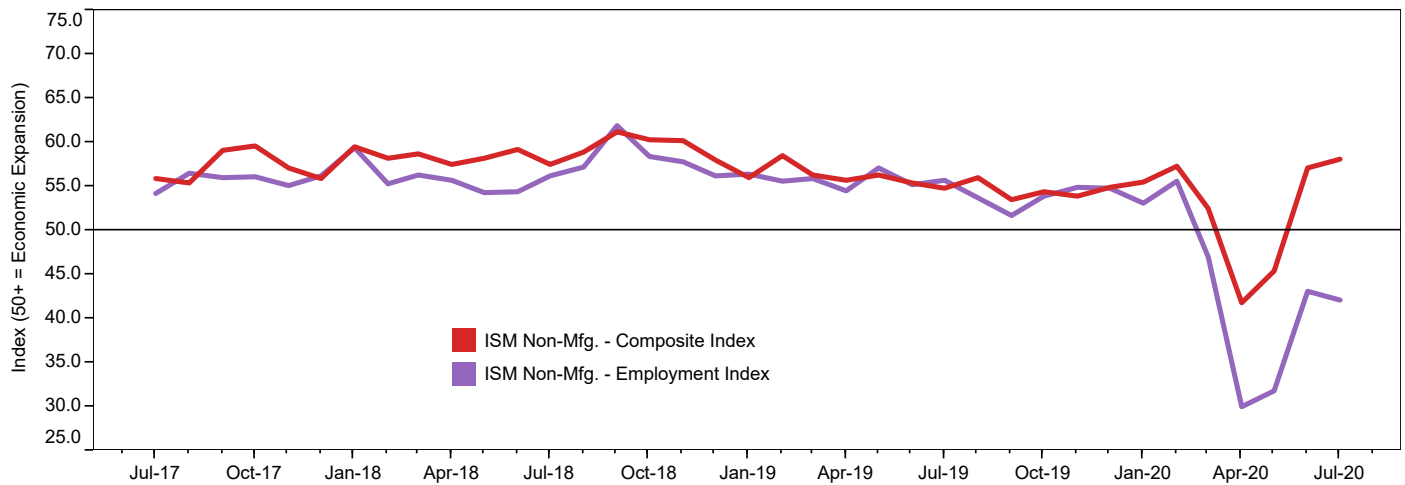
Source: U.S. Census Bureau / Haver Analytics.

The ISM manufacturing index rose to 56.0 in August, its fastest pace since November 2018. This marked the third consecutive month the index signaled expansion by remaining above 50. July data for the ISM nonmanufacturing index has signaled expansion for two months, rising to 58.1 in July from 57.1 in June. Both indices' employment components ticked up a few points while still signaling contraction. Regional manufacturing surveys from the Federal Reserve were mixed in August, but all continued to signal improving business conditions.

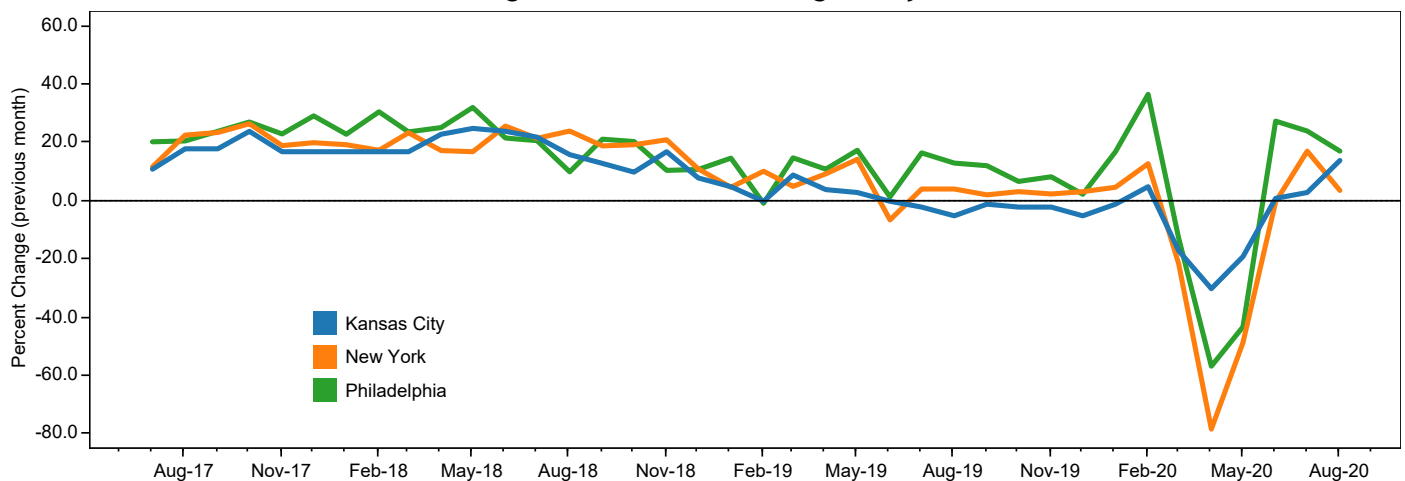
ISM Manufacturing Indices



ISM Non-Manufacturing Indices

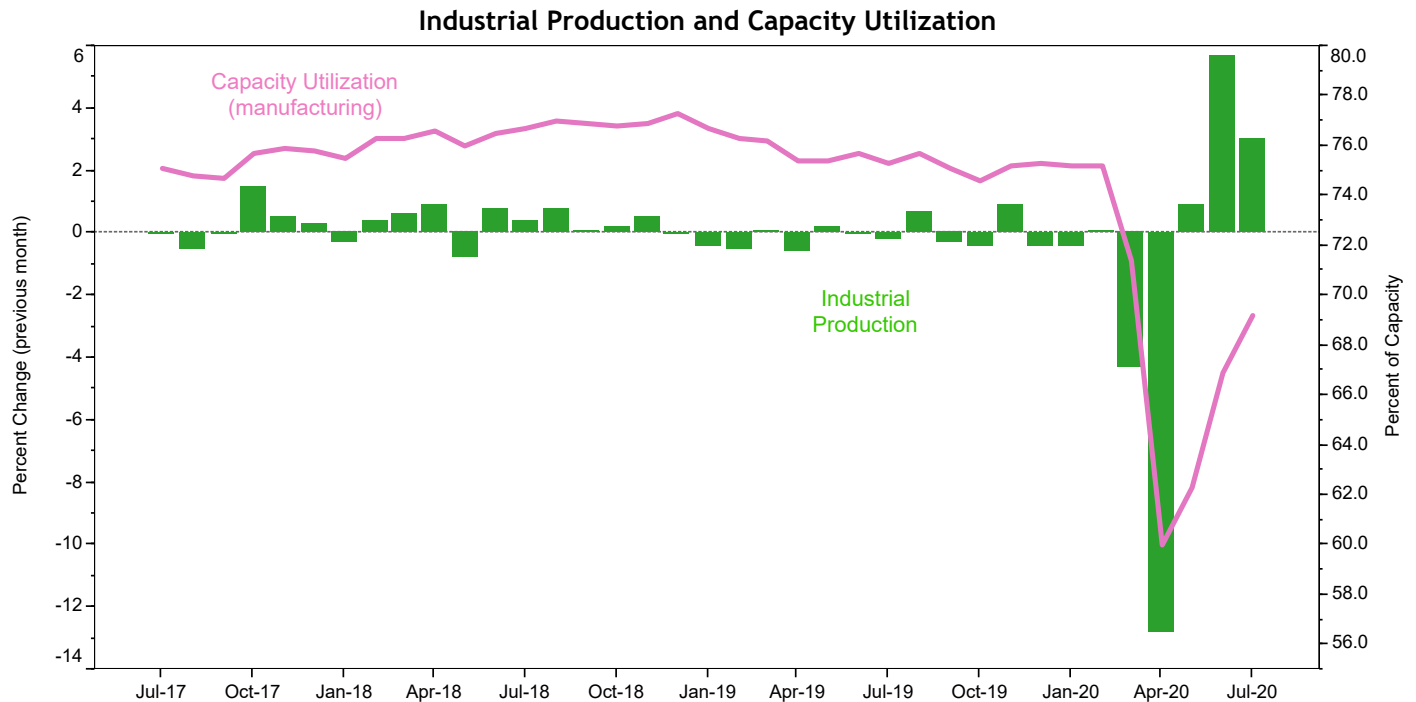


Regional FRB Manufacturing Surveys



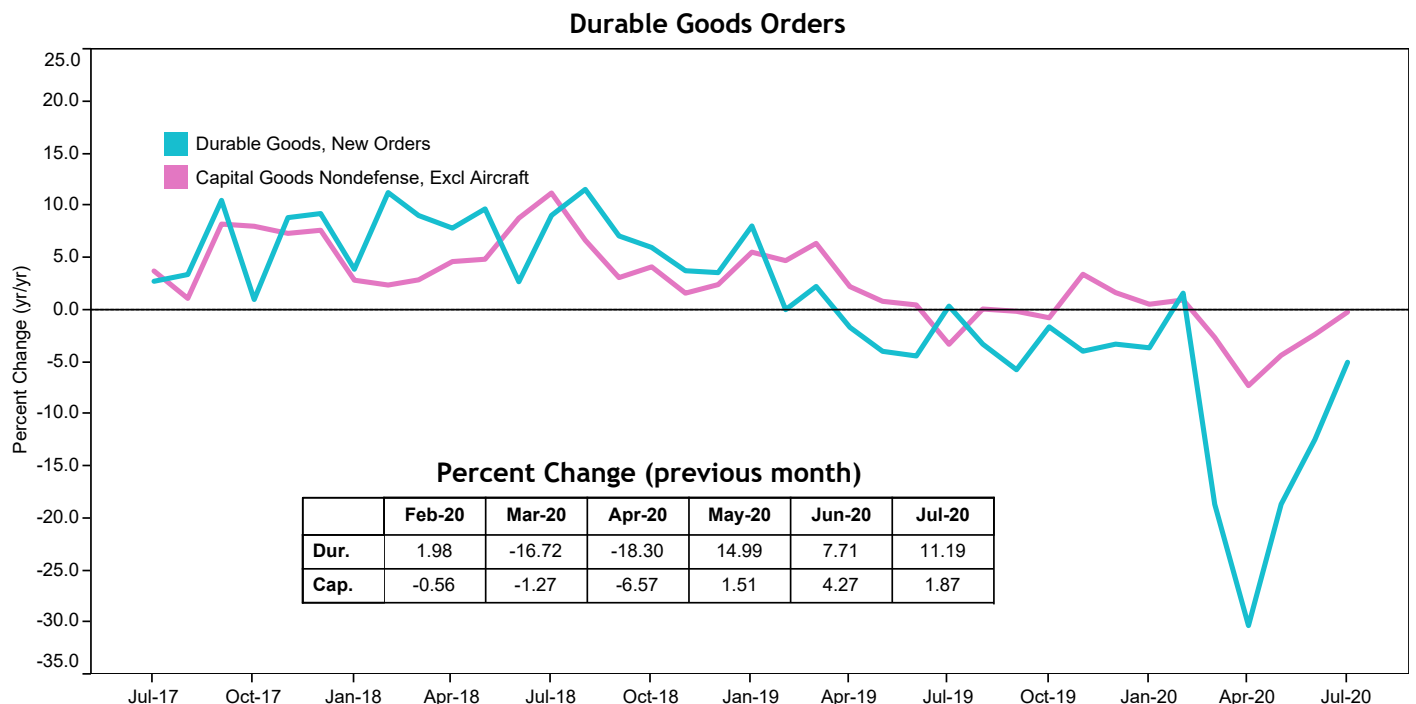
Source: Institute of Supply Management / FRB Regional Banks: New York, Philadelphia, Kansas City / Haver Analytics.

Industrial production rose 3.0 percent in July and June's increase was revised further upward. However, July's reading remains 8.3 percent below the pre-pandemic level. This most recent increase marks the third monthly gain since the sharp declines seen in March and April. Manufacturing output rose 3.4 percent in July while most major industries posted gains as well. Capacity utilization in manufacturing rose in July to 69.2 from June's reading of 66.9.



Source: Federal Reserve Board of Governors / Haver Analytics.

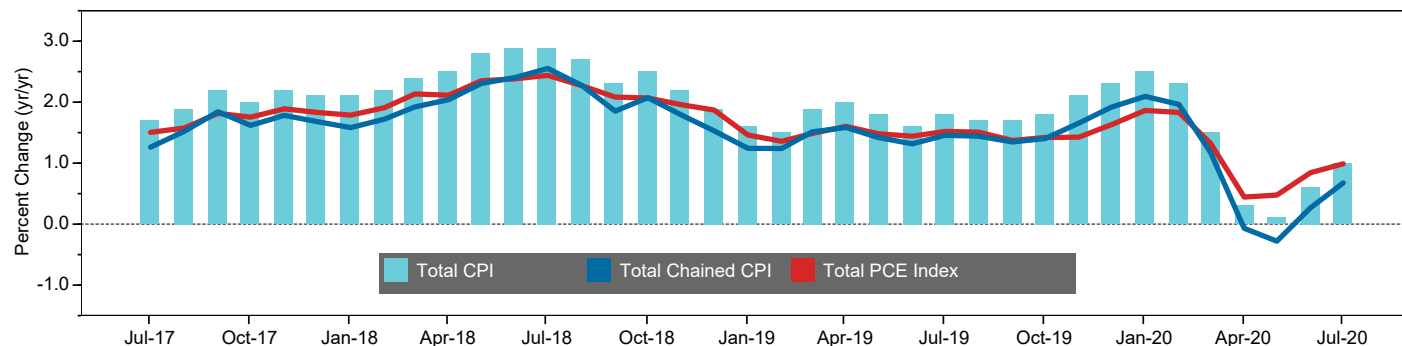
Orders for durable goods rose 11.2 percent in July. While this increase brings the measure near levels seen prior to the pandemic, it is still declining on a year-over-year basis. Orders for nondefense capital goods, excluding aircraft, posted a 1.9 percent increase in July while posting a 0.2 percent year-over-year decline.



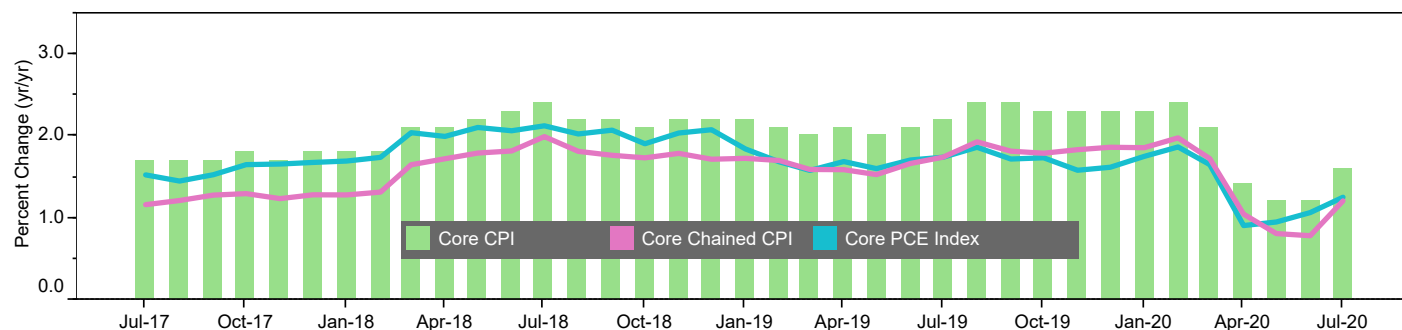
Source: U.S. Census Bureau / Haver Analytics.

Measures of consumer prices rose in July. Both the total and core PCE Index rose 0.3 percent while the total and core CPI rose 0.6 percent. On a year-over-year basis, the total and core PCE Indexes rose 1.0 percent and 1.3 percent respectively, while the total and core CPI rose 1.0 percent and 1.6 percent, respectively.

Total Price Indices



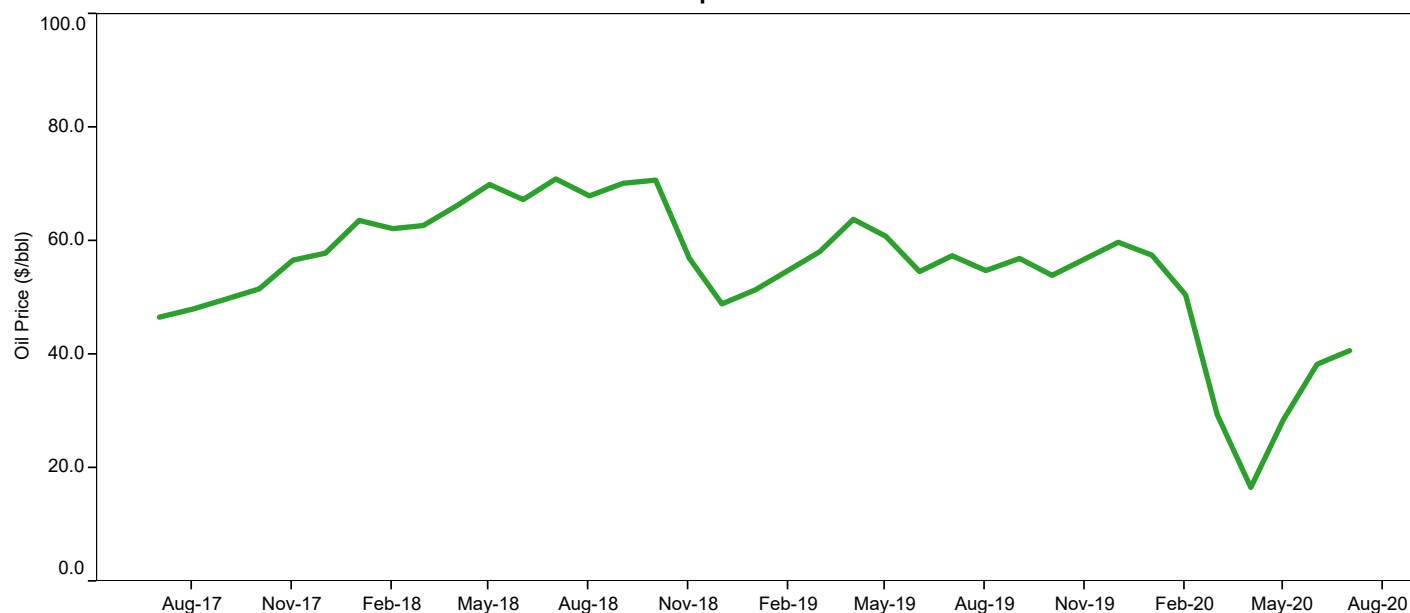
Core Price Indices



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

Oil prices posted another small increase in August, on average, continuing their recovery since hitting an all-time low in April. Daily prices in August averaged \$42.36 per barrel, closing out the month on August 31st at \$42.61 per barrel.

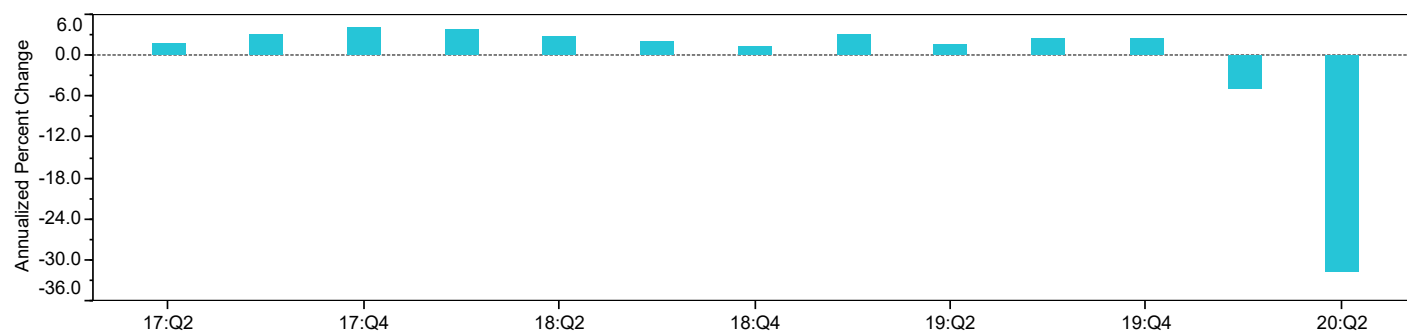
Domestic Spot Oil Price



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

Real GDP growth in the second quarter declined at a 31.7 percent annual rate. Despite being revised upward from the advance estimate of 32.9 percent, the second estimate reflected the biggest quarterly decline on record. Much of the revision resulted from smaller decreases in private inventory investment and personal consumption expenditures (PCE) than previously estimated. Corporate profits fell at a 37.7 percent annual rate in the second quarter after declining 39.9 percent in the first quarter.

Real GDP



Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	-32.9	-31.7
Personal Consumption	-34.6	-34.1
Business Investment	-27.0	-26.0
Equipment and Software	-37.7	-35.9
Residential Investment	-38.7	-37.9
Government	2.7	2.8
Exports	-64.1	-63.2
Imports	-53.4	-54.0
Final Sales	-29.3	-28.5

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Short-Term Interest Rates

