



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

September 5, 2017

CURRENT ECONOMIC DEVELOPMENTS - September 5, 2017

Data released since your last Directors' meeting show the economy grew at a slightly faster pace in the second quarter than originally thought, and growth is expected to remain above recent trends throughout the second half of the year. Labor markets showed signs of continued strengthening, consumer attitudes improved, and consumer spending increased modestly. However, improvement in the housing market showed signs of slowing down and support from manufacturing was mixed. The effects of Hurricane Harvey provide a downside risk to the economic outlook for the third quarter, but overall, growth is poised to pick up over the remainder of the year.

In August, nonfarm payrolls posted a smaller-than-expected increase, while total job gains for the previous two months were revised down. The unemployment rate rose one-tenth to 4.4% in August, due to an increase in the labor force and a decline in civilian employment. Initial claims for unemployment insurance continued to edge down in August and remain consistent with further improvements in the labor market.

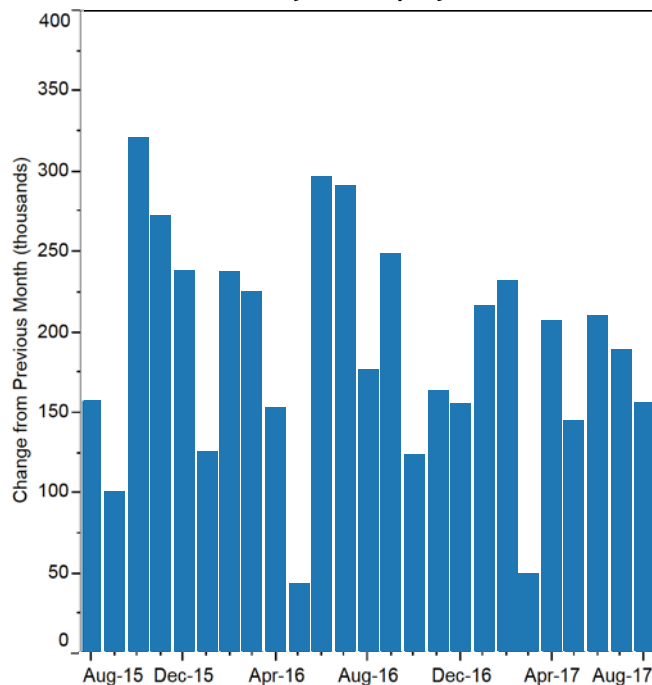
Consumer attitudes improved in August, as the sentiment index rose due to an increase in the expectations component, while the confidence index rose due mostly to an increase in the present situation component. The pace of vehicle sales declined in August, reaching its lowest rate in three and a half years. Consumption increased in July, essentially unchanged from the growth rate seen in June, as incomes also rose in July. Primary measures of real estate activity declined in July, as both new and existing home sales decreased, and housing starts and building permits both fell.

In the manufacturing sector, the ISM index rose to an over six-year high in August and continued to signal expansion in the industry. Industrial production increased in July, while capacity utilization inched down. Orders for durable goods decreased in July on a monthly basis, but were up from their year-ago level. Meanwhile, nondefense capital goods, excluding aircraft, increased in July on both a monthly and a year-over-year basis.

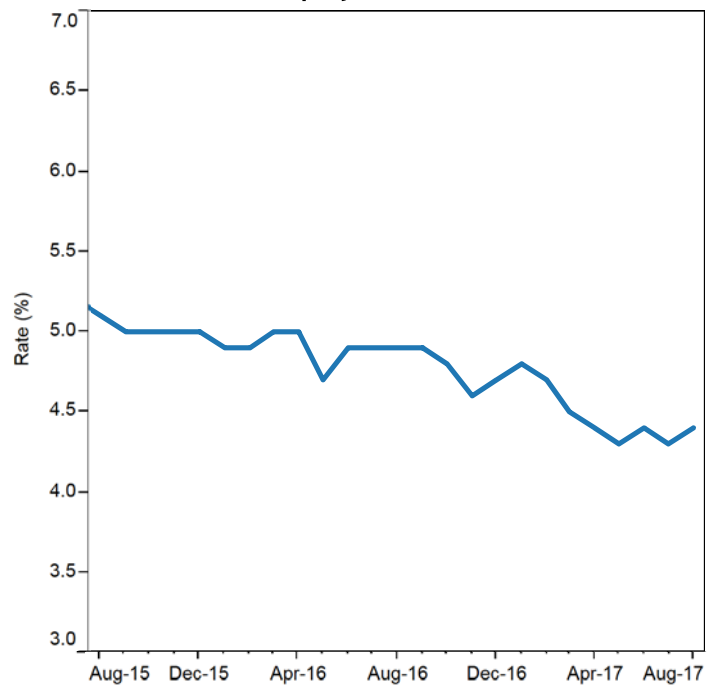
Growth in total consumer prices accelerated in July as measured by the CPI and held steady as measured by the PCE index, while growth in core prices, which exclude the volatile food and energy sectors, held steady as measured by the CPI and decelerated as measured by the PCE index. Oil prices rose, on average, in August, and were little changed in the first day of September.

Nonfarm payrolls added 156,000 jobs in August, fewer than anticipated, while job gains for the previous two months were revised down by a total of 41,000 jobs. The unemployment rate rose one-tenth to 4.4% in August, due to a decline in civilian employment and an increase in the size of the labor force .

Nonfarm Payroll Employment

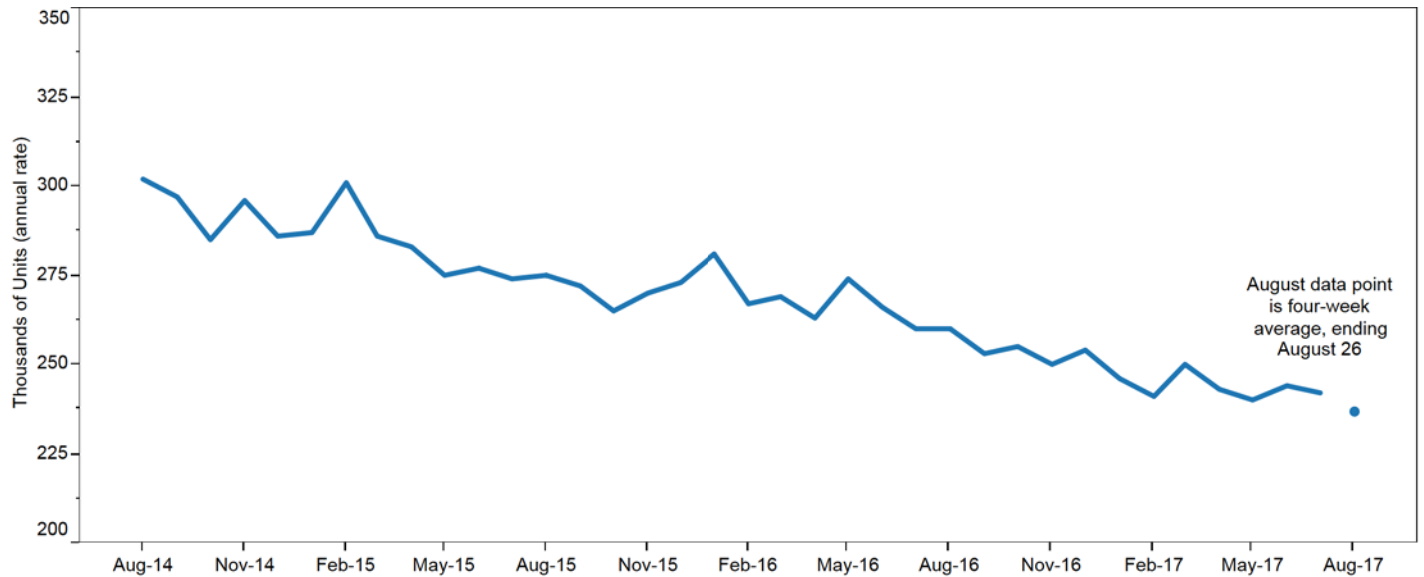


Unemployment Rate



Initial claims for unemployment insurance declined, on average, in the first four weeks of August, after easing in July. Weekly claims remain at a level consistent with further labor market improvement.

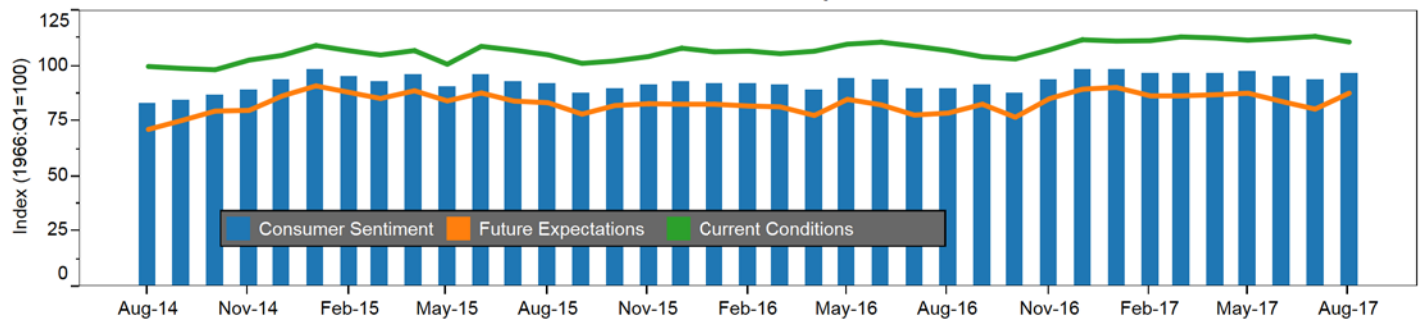
Initial Claims



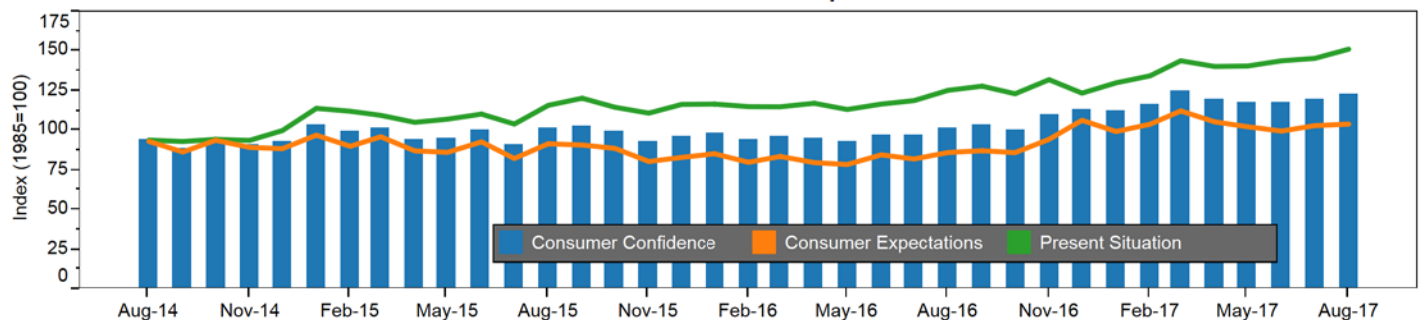
Source: Department of Labor, Employment and Training Administration / Haver Analytics.

Consumer attitudes improved in August, as the sentiment index increased due to a rise in the future expectations component, while the current conditions component inched down. Meanwhile, the confidence index continued to rise in August, as the present situation component continued to increase, while the expectations component was little changed. Respondents to the sentiment survey expressed more favorable views of personal finances, while the optimism of respondents to the confidence survey towards the short-term economic outlook was relatively unchanged.

Consumer Sentiment and Expectations



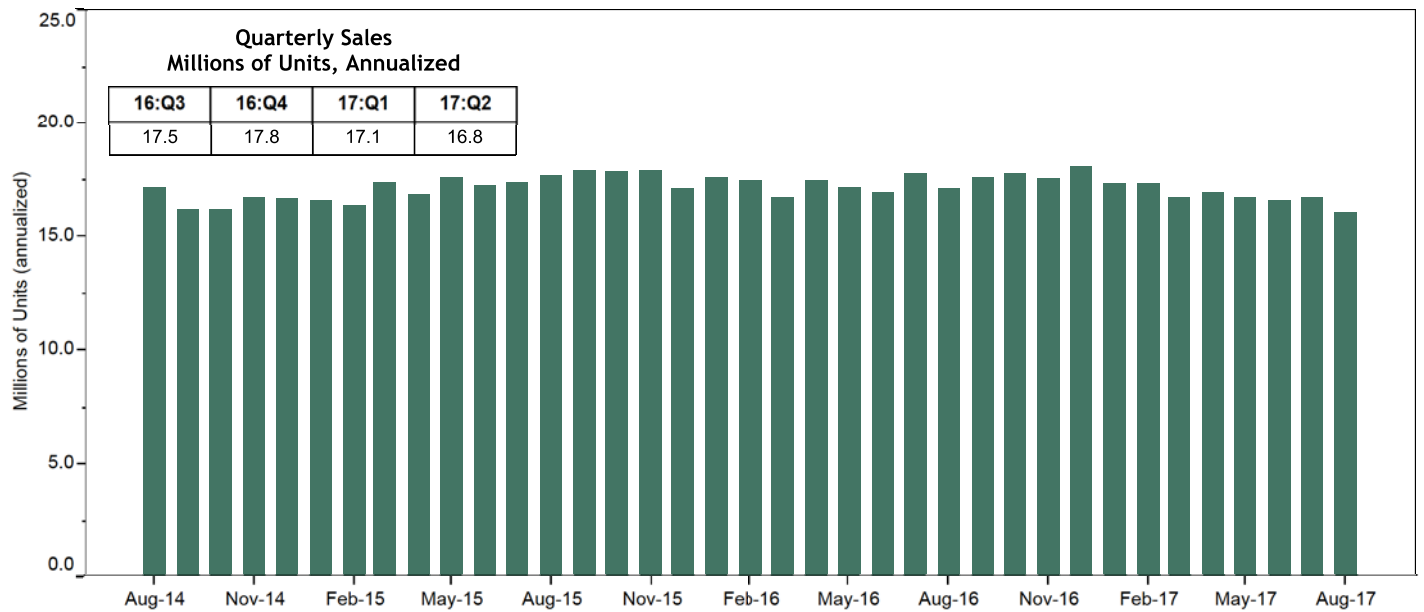
Consumer Confidence and Expectations



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

The pace of lightweight vehicle sales fell in August, after edging up in July, as the effects of Hurricane Harvey likely held down sales in the last week of the month. Total sales in August reached the lowest rate since February 2014.

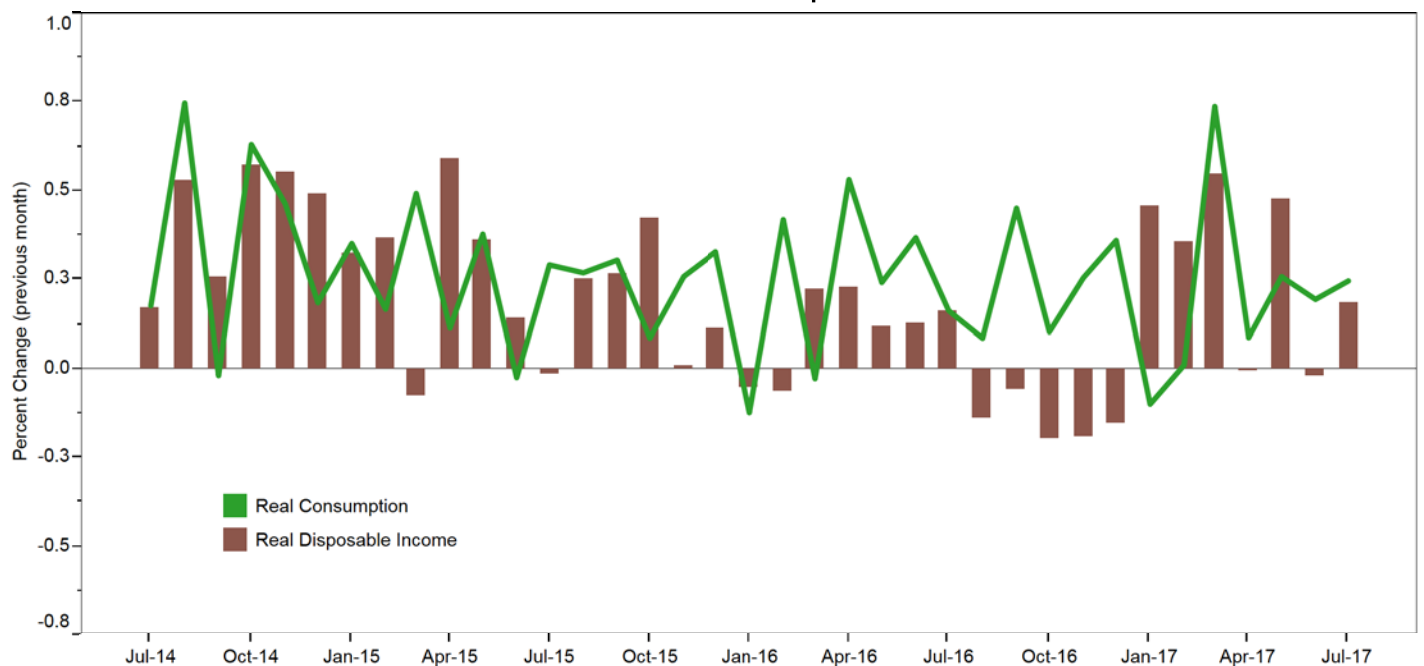
Total Lightweight Vehicle Sales



Source: Bureau of Economic Analysis / Haver Analytics.

Real incomes increased in July, after holding steady in June. Consumption also rose in July, in line with the increase in June that was upwardly revised from the previous estimate of no change.

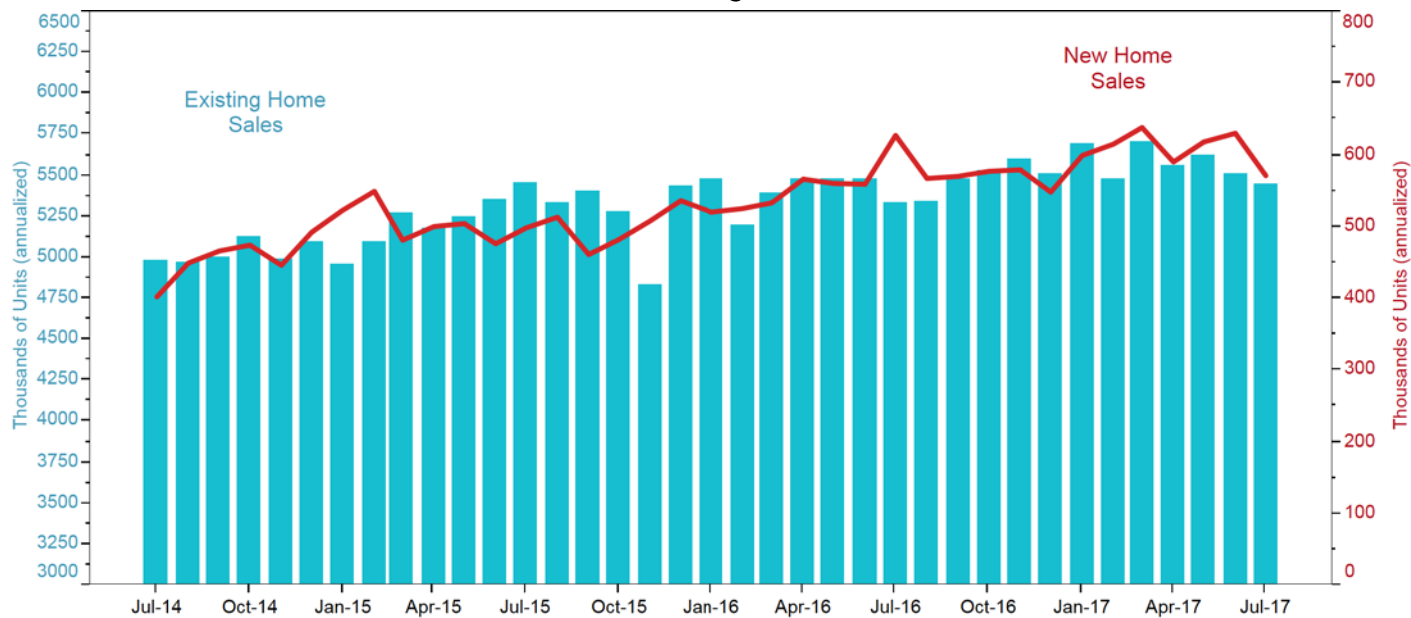
Real DPI and Consumption



Source: Bureau of Economic Analysis / Haver Analytics.

Home sales data declined in July. New home sales fell to their lowest rate since December, after increasing in each of the prior two months. Meanwhile, existing home sales decreased in July for the second consecutive month, reaching their lowest rate in nearly one year.

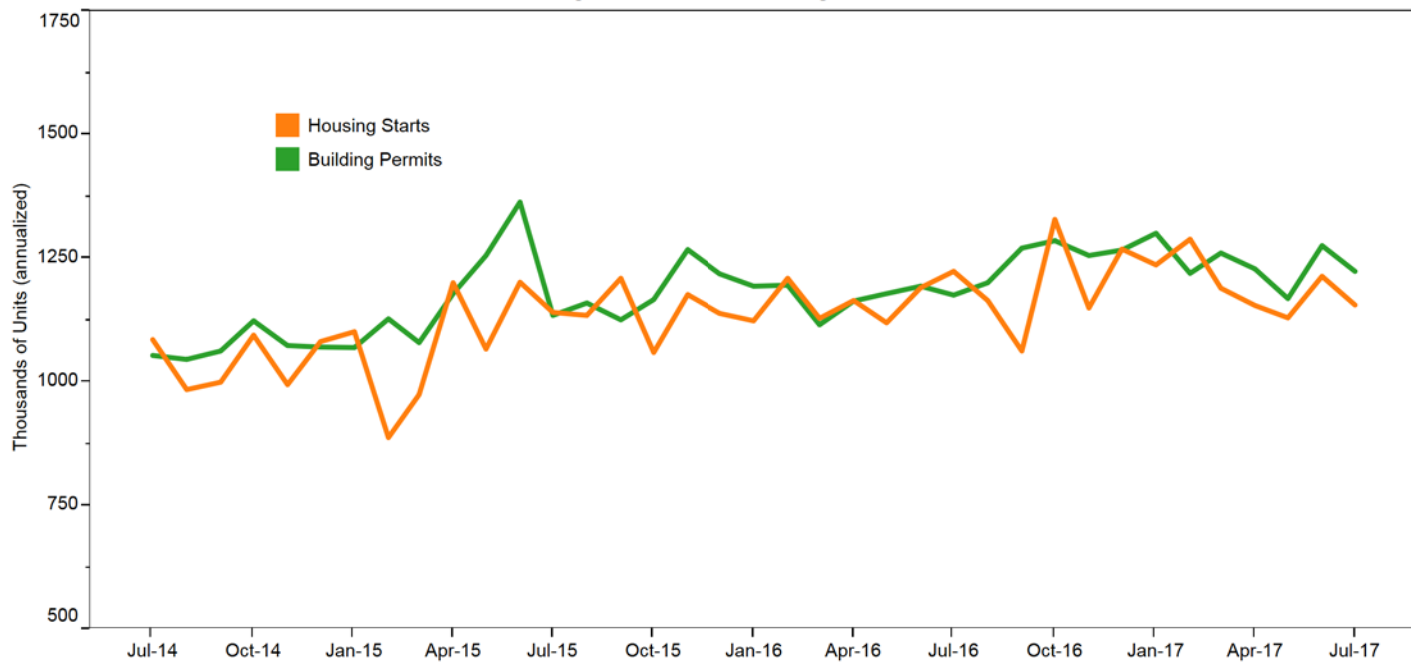
New and Existing Home Sales



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

Both housing starts and building permits fell in July, partially offsetting the increases seen in June. The July declines in both series were mostly driven by decreases in the multi-family sector. Single-family permits held steady in July, while single-family starts edged down a bit.

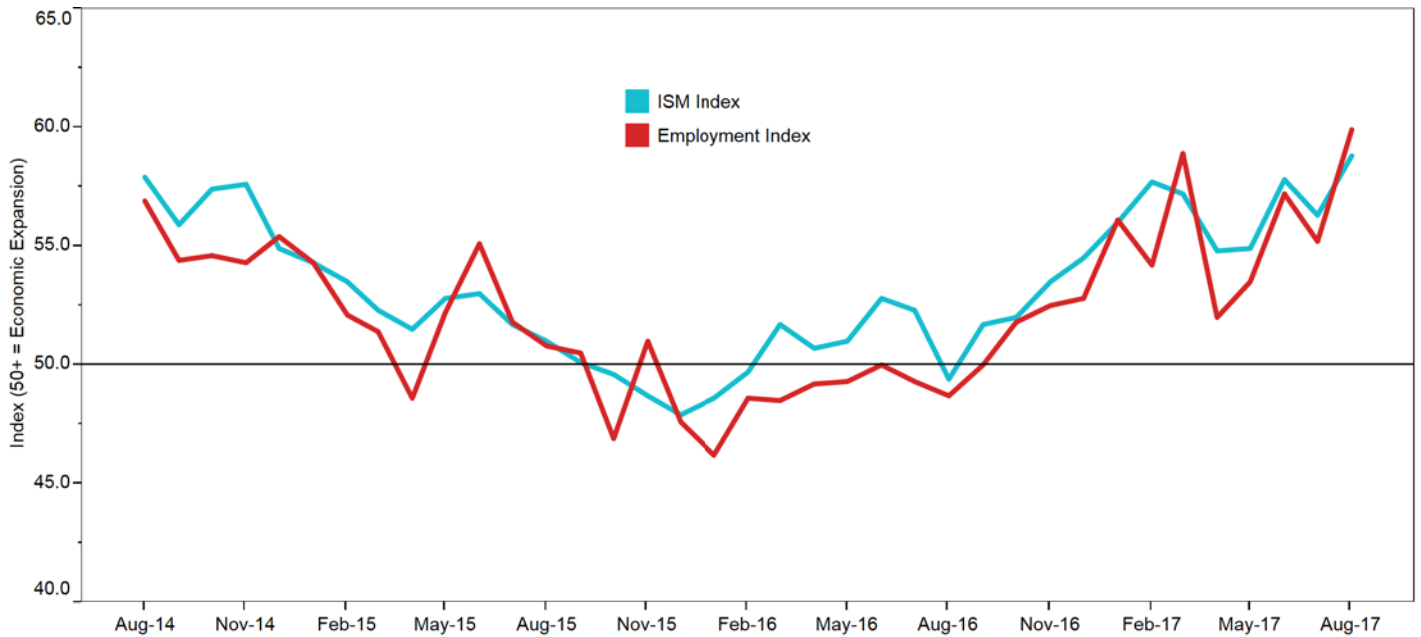
Housing Starts and Building Permits



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

The ISM manufacturing index rose in August to its highest level in over six years, after falling in July, and continued to signal expansion in the manufacturing industry. Meanwhile, the employment component of the index also increased in August, after falling in July.

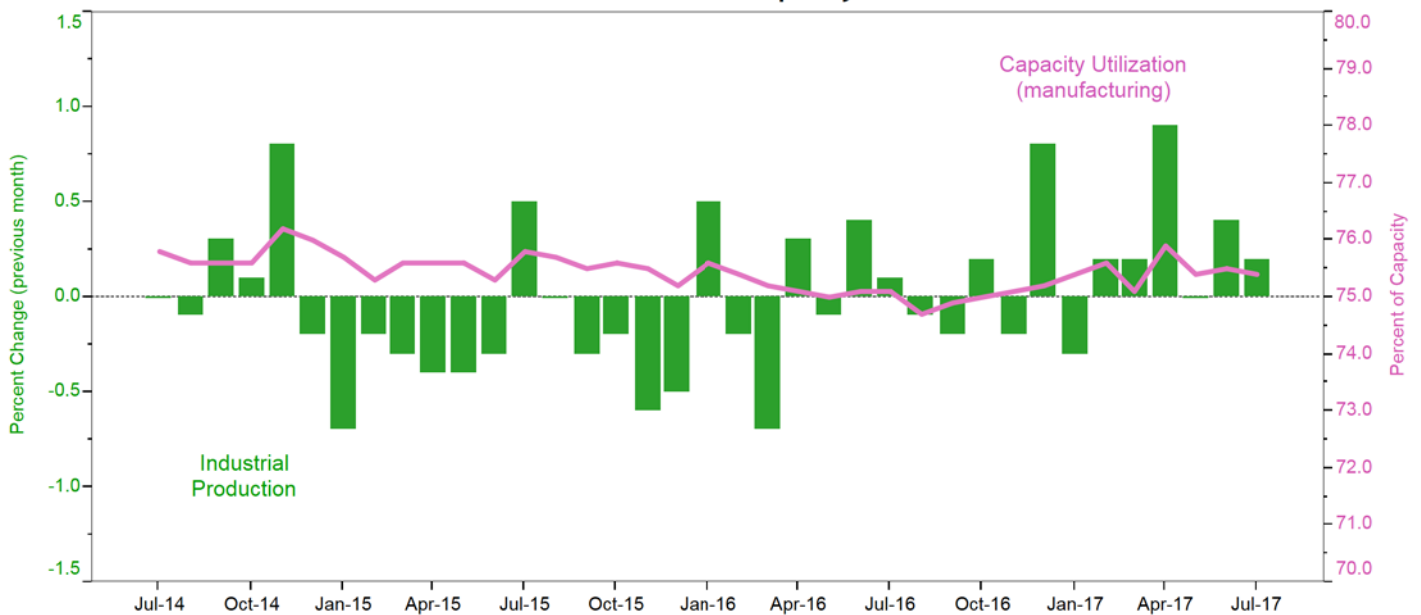
ISM Index



Source: Institute of Supply Management / Haver Analytics.

Industrial production rose in July, albeit at a slower rate than seen in June. Both mining and utilities production posted increases in July, while manufacturing output decreased. Capacity utilization eased a bit in July, offsetting the slight increase seen in June.

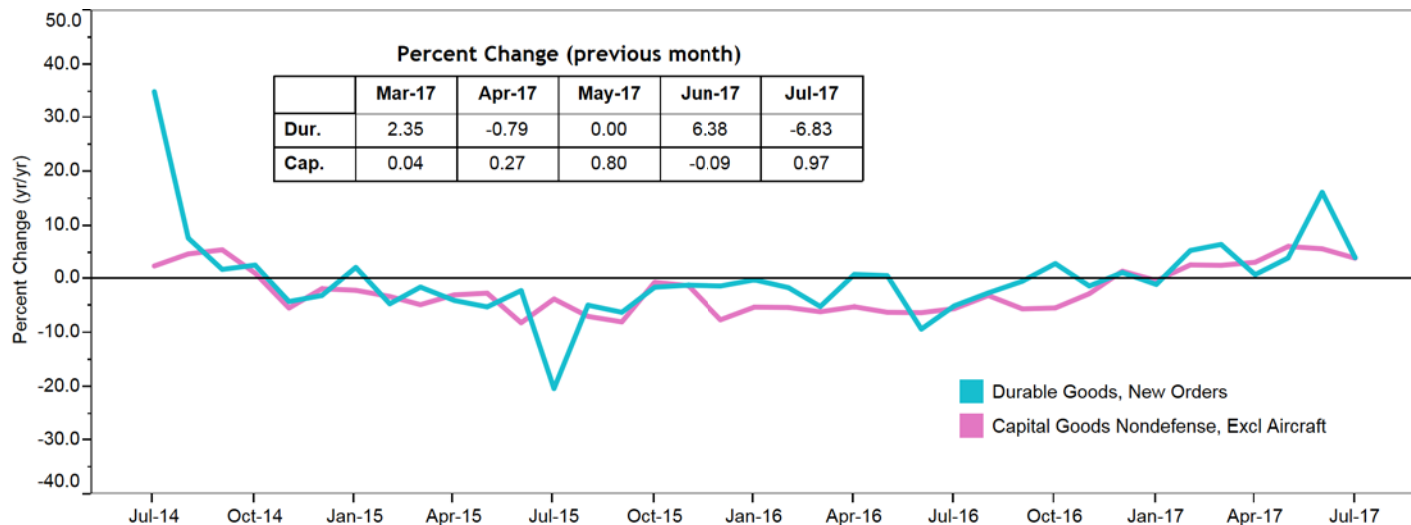
Industrial Production and Capacity Utilization



Source: Federal Reserve Board of Governors / Haver Analytics.

Orders for durable goods fell in July, more than offsetting the increase seen in June, but continued to rise on a year-over-year basis. Orders for nondefense capital goods, excluding aircraft, increased in July, after falling a bit in June, and continued to rise on a year-over-year basis.

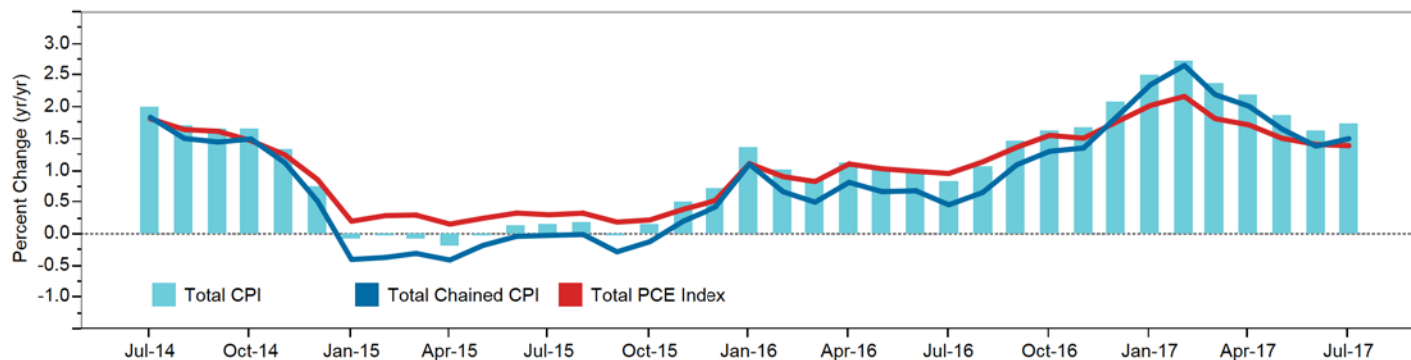
Durable Goods Orders



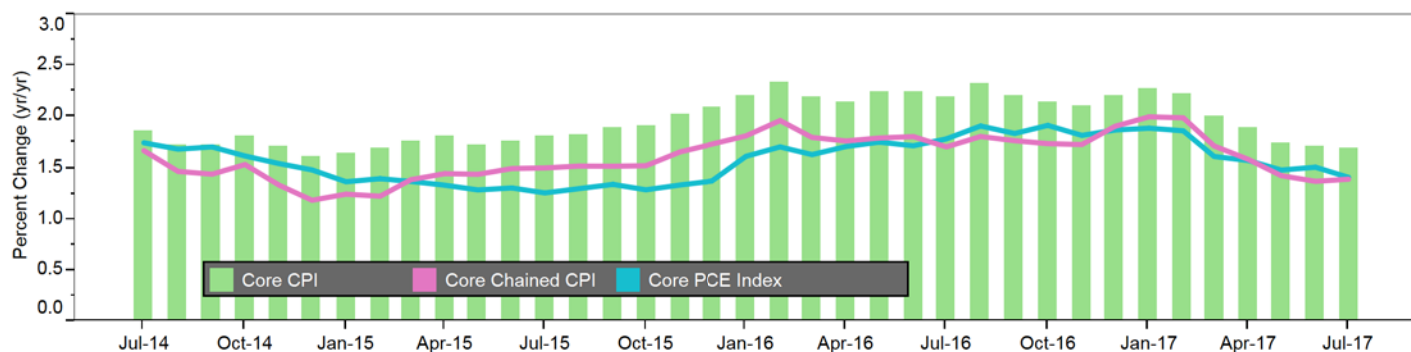
Source: U.S. Census Bureau / Haver Analytics.

Growth in headline consumer prices picked up in July, as measured by the Consumer Price Index. The Personal Consumption Expenditure price index was essentially unchanged in July. 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



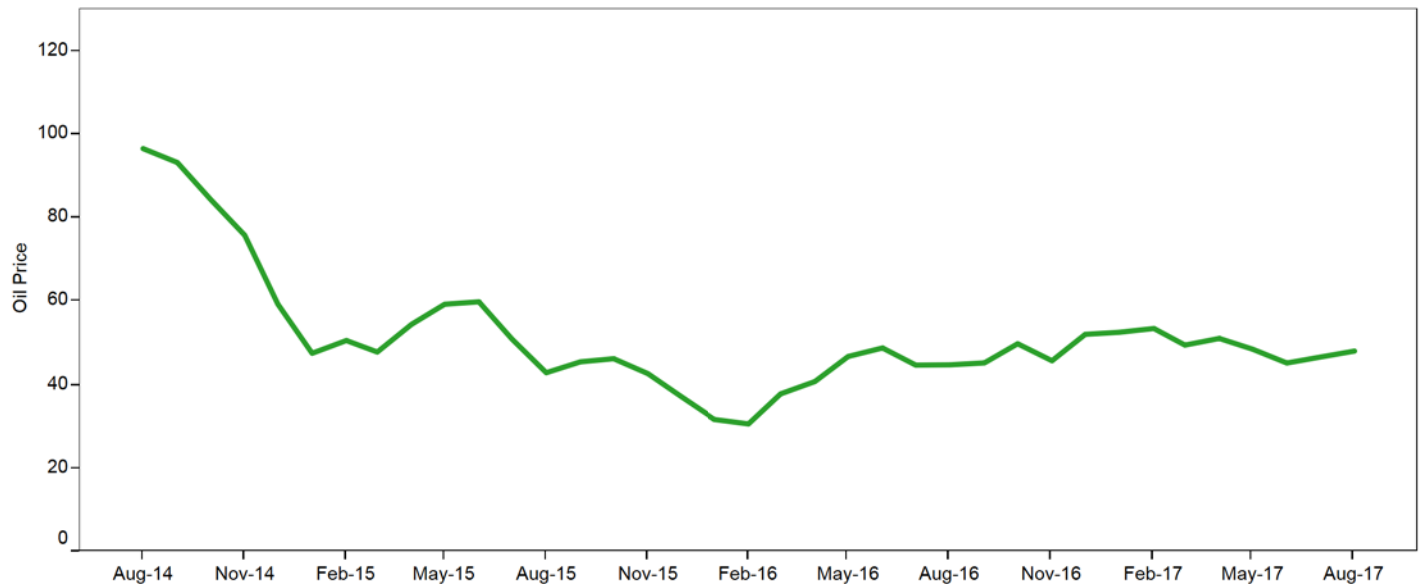
Core Price Indices



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

Oil prices edged up on average in August for the second consecutive month. Prices have shown little change in the first day of September, registering \$47.3 per barrel on September 1.

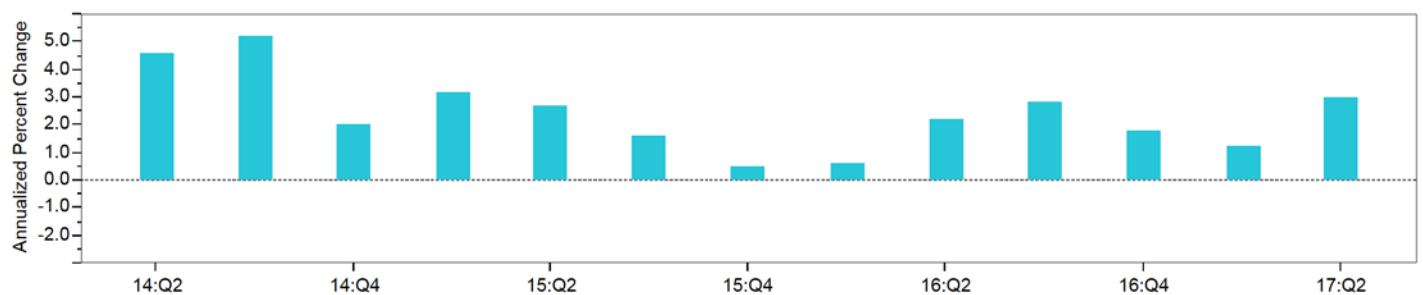
Domestic Spot Oil Price



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

Second quarter real GDP growth was revised up in the second estimate to 3.0% from 2.6%. The higher rate primarily reflected upward revisions to personal consumption expenditures and to nonresidential fixed investment that were partly offset by a downward revision to state and local government spending.

Real GDP



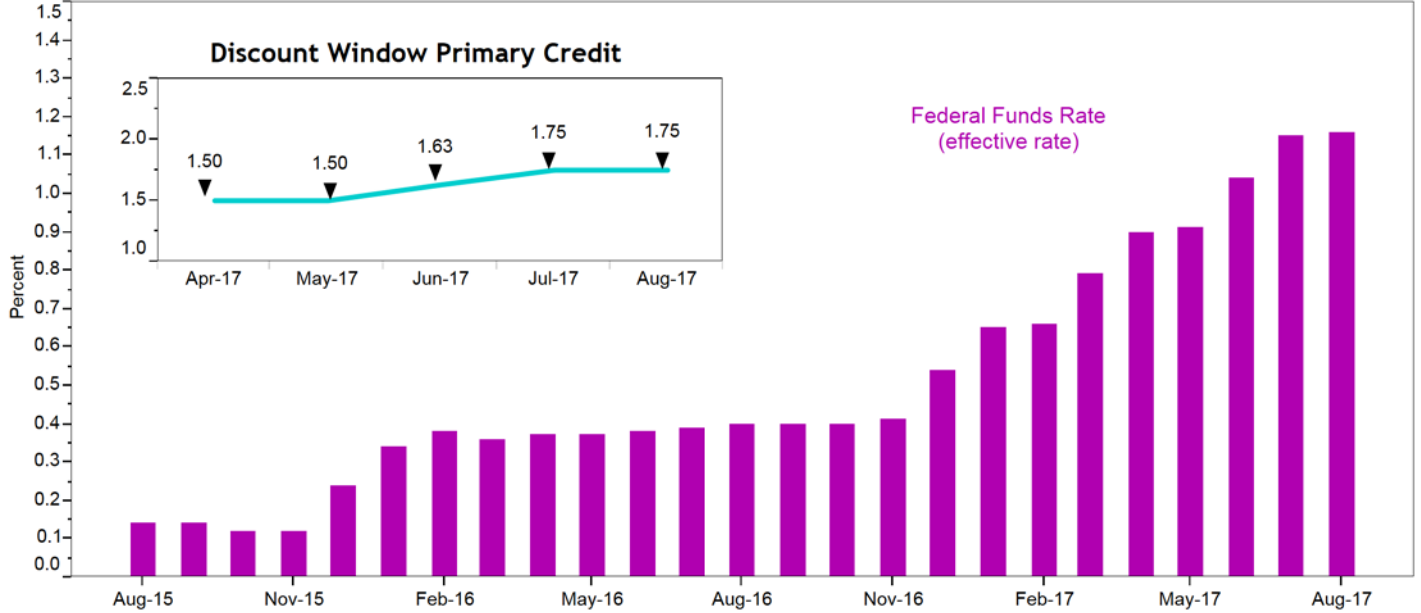
Revisions to Second Quarter Real GDP

Description	Advance Estimate	Second Estimate
Real GDP	2.6	3.0
Personal Consumption	2.8	3.3
Business Investment	5.2	6.9
Equipment and Software	8.2	8.8
Residential Investment	-6.8	-6.5
Government	0.7	-0.3
Exports	4.1	3.7
Imports	2.1	1.6
Final Sales	2.6	3.0

Source: Bureau of Economic Analysis / Haver Analytics.

Data released since your last Directors' meeting show the economy grew at a slightly faster pace in the second quarter than originally thought, and growth is expected to remain above recent trends throughout the second half of the year. Labor markets showed signs of continued strengthening, consumer attitudes improved, and consumer spending increased modestly. However, improvement in the housing market showed signs of slowing down and support from manufacturing was mixed. The effects of Hurricane Harvey provide a downside risk to the economic outlook for the third quarter, but overall, growth is poised to pick up over the remainder of the year.

Short-Term Interest Rates



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