



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

September 7, 2021

## CURRENT ECONOMIC DEVELOPMENTS - September 7, 2021

Data released since your last Director's meeting have been mixed but still point to a recovering economy and continued strong growth through the second half of the year. Coronavirus cases have risen steeply over the last few months due to the Delta variant, but now nearly two-thirds of the adult population has been fully vaccinated. While a great deal of uncertainty remains regarding the continued evolution of the virus, the long-term efficacy of the vaccines, and the broader public health scenario, the latest wave of the virus has yet to significantly impact consumer behavior. The economy still faces headwinds from supply chain issues, worker shortages, and increasing price pressures—however, each of these headwinds are expected to moderate over the quarters ahead.

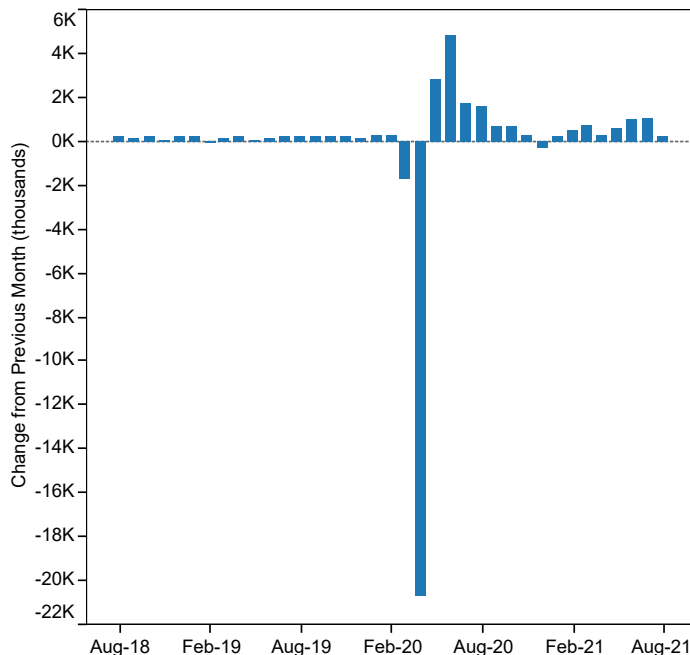
The August employment report showed that nonfarm payrolls rose by 235,000 jobs and the prior two months of data were revised higher. The unemployment rate fell as a moderate gain in civilian employment outpaced a smaller increase in the labor force. In the latest week of data, initial claims for unemployment insurance reached their lowest level since March 2020. Consumer attitudes fell sharply in August, with sentiment falling to its lowest level in nearly ten years and confidence falling to a six-month low. Despite rising incomes, personal consumption and retail sales both declined in July while lightweight vehicle sales fell for a fourth straight month in August amid lean inventory and high prices.

Although the housing market has cooled from the beginning of the year, new and existing home sales both rose in July while new home sales for June were revised substantially upward. Single-family housing starts and building permits both declined in July – continuing recent downward trends – but both remained above their pre-pandemic levels. Industrial production grew more than expected in July and essentially regained its pre-pandemic level, while capacity utilization in manufacturing rose to its highest level in over two and a half years. Orders for durable goods and orders of nondefense capital goods excluding aircraft were little changed in July and remain at elevated levels, though recent gains have largely been nominal due to sharply rising prices in manufacturing. The ISM activity indices were mixed in August with manufacturing improving and services declining; the employment subindex declined for both. Regional surveys from the Federal Reserve all declined in August but also continued to signal expansion. All composite activity indices remained in expansionary territory.

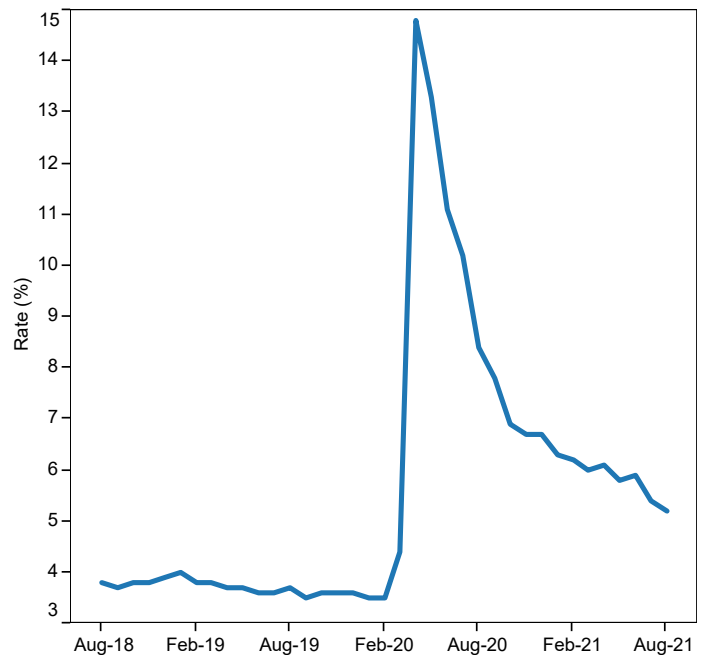
Inflation measures remained elevated in July. Year-over-year growth in the total CPI held steady at a 13-year high in July, though core inflation slowed by two-tenths. Total PCE inflation accelerated to a 30-year high in July while core inflation held steady. On a monthly basis, however, all of these inflation measures slowed from their June rates. On average, oil prices dipped in August and have continued to hover just under \$70 per barrel through the first few days of September.

Nonfarm payroll employment added 235,000 jobs in August while June and July data were revised upward to show a net increase of 134,000 more jobs than were previously reported. August's gains were driven by gains in professional and business services, transportation and warehousing, private education, and manufacturing sectors. Retail, accommodation and food service industries all reported a decrease in jobs in August, perhaps reflecting the impact of the Delta variant. The unemployment rate fell to 5.2% in August, down two-tenths from July's reading of 5.4% to its lowest level since March 2020.

### Nonfarm Payroll Employment

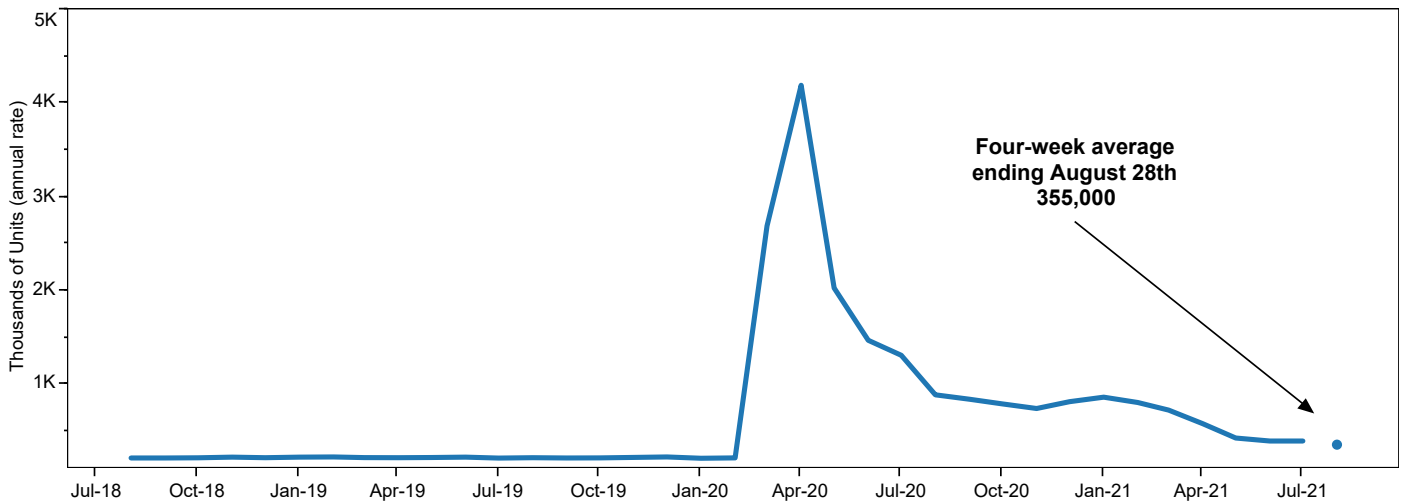


### Unemployment Rate



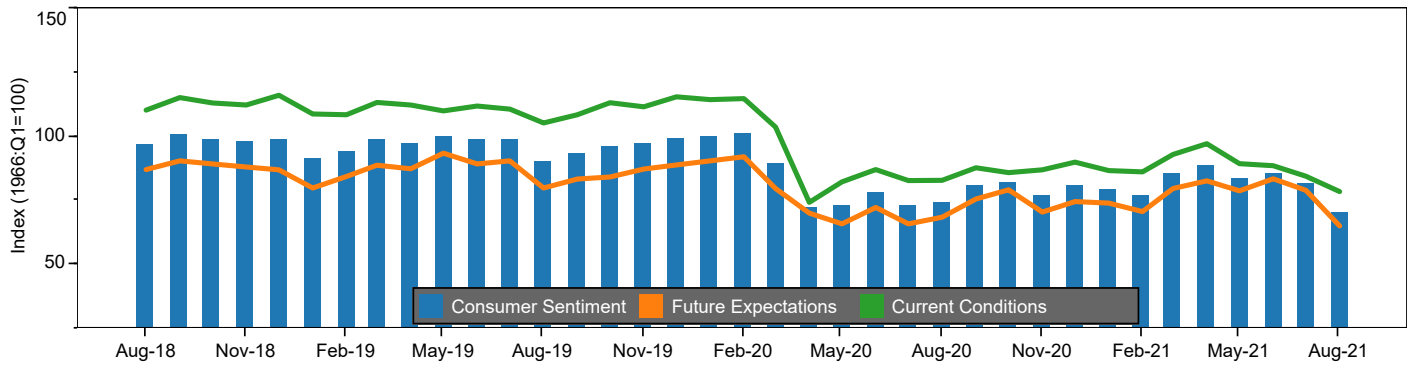
Initial claims for unemployment insurance fell by 14,000 to 340,000 last week - the lowest level of claims since March of 2020. Meanwhile, the four-week moving average fell 11,750 to 355,000. Claims for federal unemployment benefits from both the Pandemic Emergency Unemployment Compensation program and the Pandemic Unemployment Assistance program accounted for 76% of all claims under all programs; these programs came to an end on September 6th suggesting claims data could fall sharply in the weeks ahead.

### Initial Claims

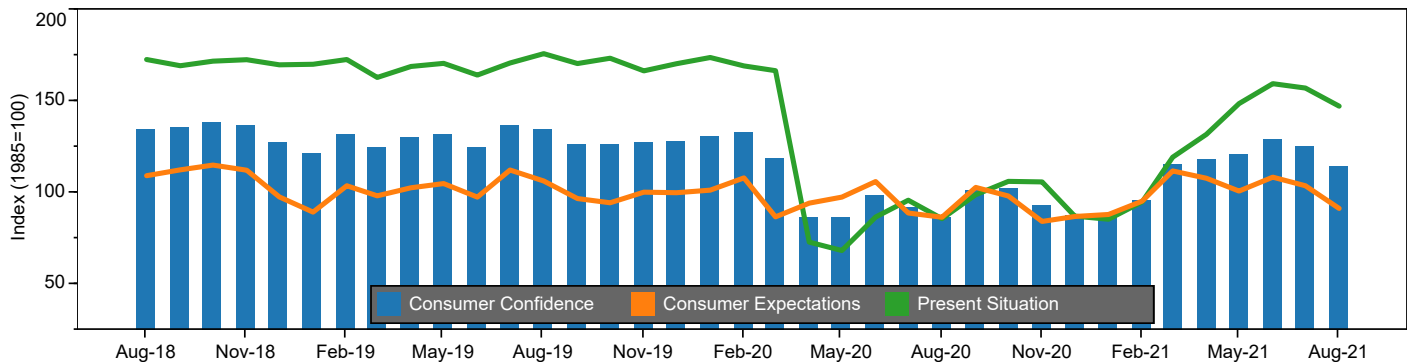


In August, the consumer confidence index fell 11.3 points to 113.8, while downward revisions to July data left the index at 125.1 - instead of 129.1, as was previously reported. Both subindices fell sharply in August from July. The present situation index fell to 147.3 from 157.2 while the expectations index fell to 91.4 from 103.8. The consumer sentiment index fell as well - reaching 70.3 in August's final estimate - down from 81.2 in July but little changed from August's preliminary reading. The expectations subindex fell sharply to 65.1 in August from 79.0 in July, while the current conditions subindex fell to 78.5 from 84.5.

### Consumer Sentiment and Expectations



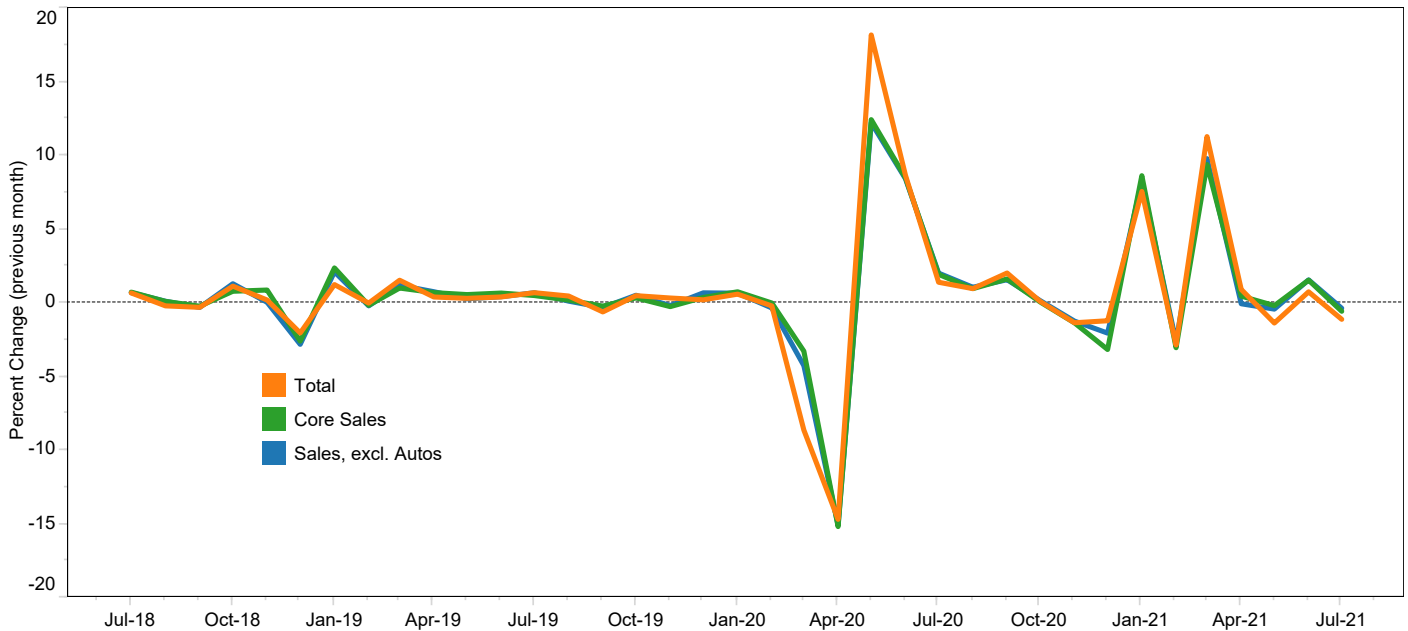
### Consumer Confidence and Expectations



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

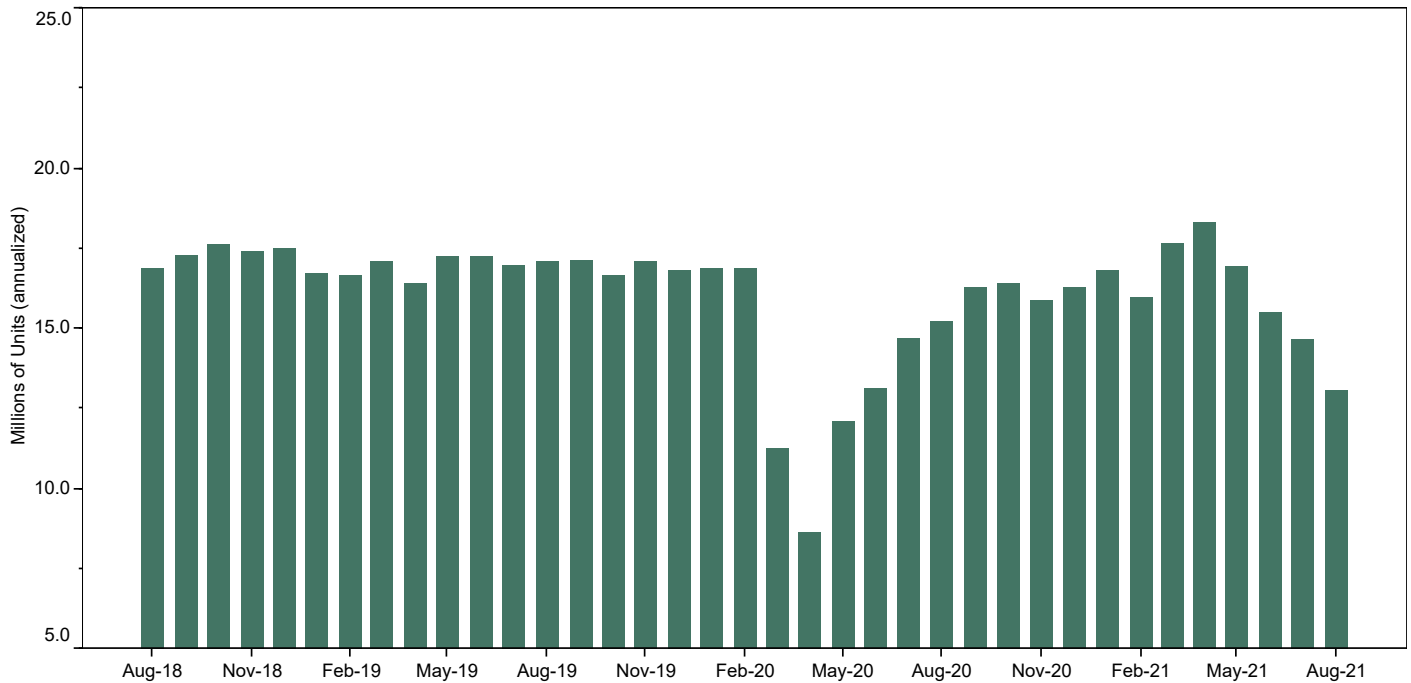
Total retail sales declined by 1.1% in July though from a second quarter level that was revised higher. Sales were again restrained in July by a decline in vehicle sales, though sales also fell for clothing, building materials, and furniture. Core sales and sales excluding autos also declined in July following upward revisions in the second quarter.

**Retail Sales**



Sales of lightweight vehicles decelerated for the fourth consecutive month in August, falling to a 13.1 million-unit annual rate, down from the previous month's rate of 14.6 million. August's rate represents the slowest sales rate since June 2020. Ongoing supply-chain issues and the resulting low inventory continue to weigh on the industry.

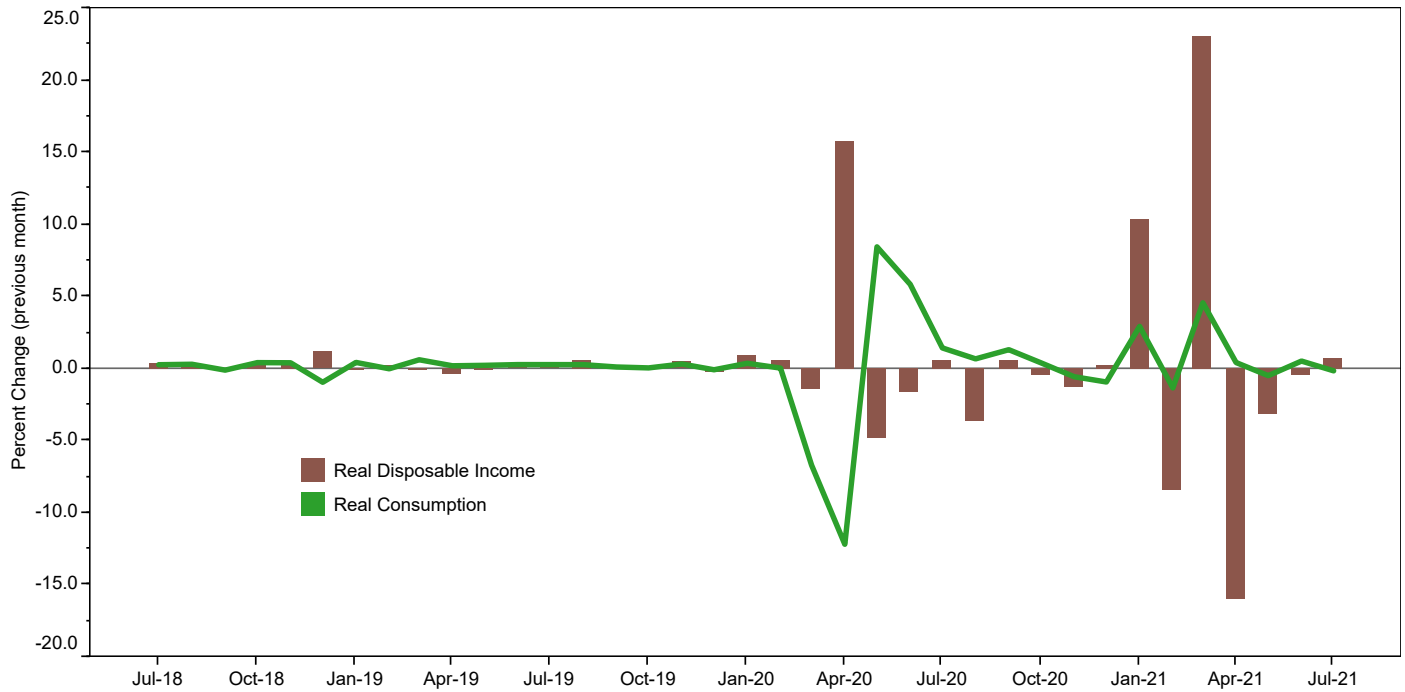
**Total Lightweight Vehicle Sales**



Source: Bureau of Economic Analysis / Haver Analytics.

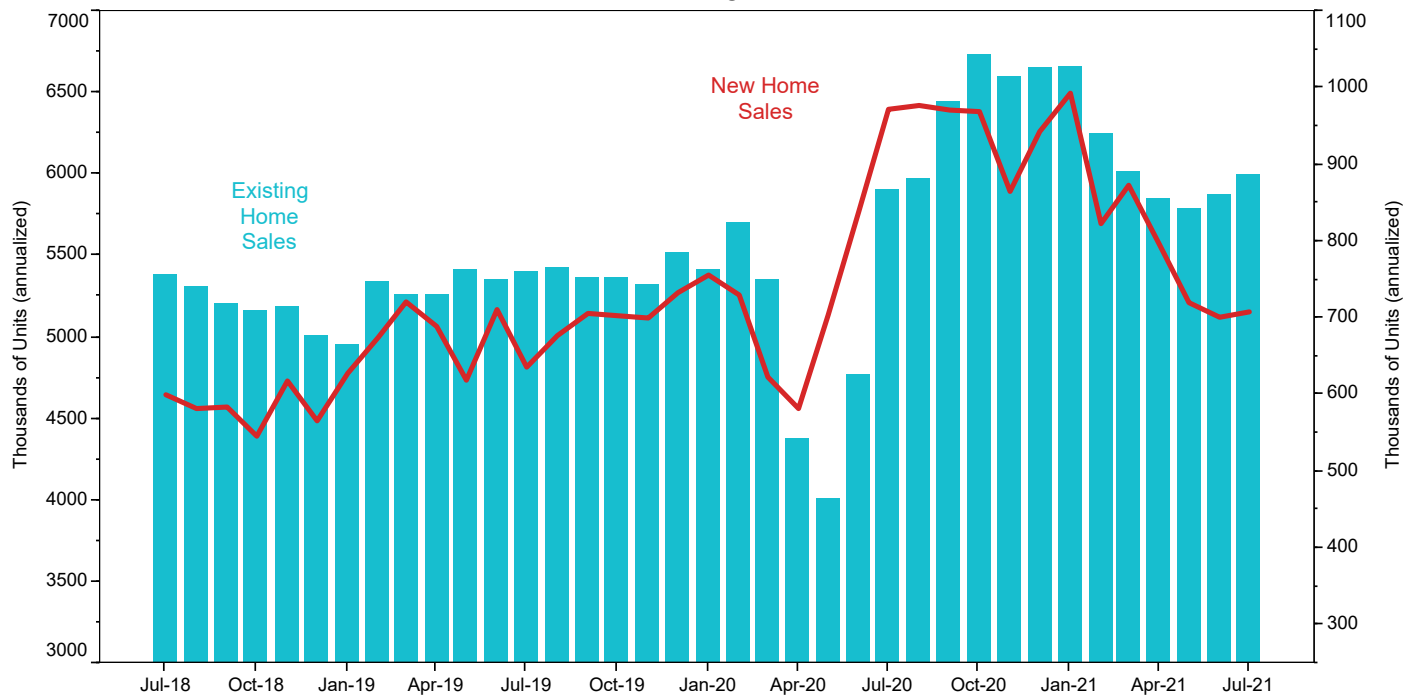
Personal income rose 1.1% in July led by a 1.0% gain in wage and salary income, which was the biggest since November 2020. Real disposable income increased 0.7% in July – the first increase in four months. Despite the higher incomes, real consumption fell 0.1% in July from the month prior as a decline in spending on goods offset a smaller increase in spending on services.

**Real DPI and Consumption**



New home sales rose 1.0% from the month prior to an annual rate of 708,000 units, while June data was revised up from 676,000 units to 701,000 units. While existing home sales have lost momentum since the beginning of 2021, they registered the second straight monthly increase in July - rising 2.0% to an annual rate of 5.99 million units.

**New and Existing Home Sales**



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

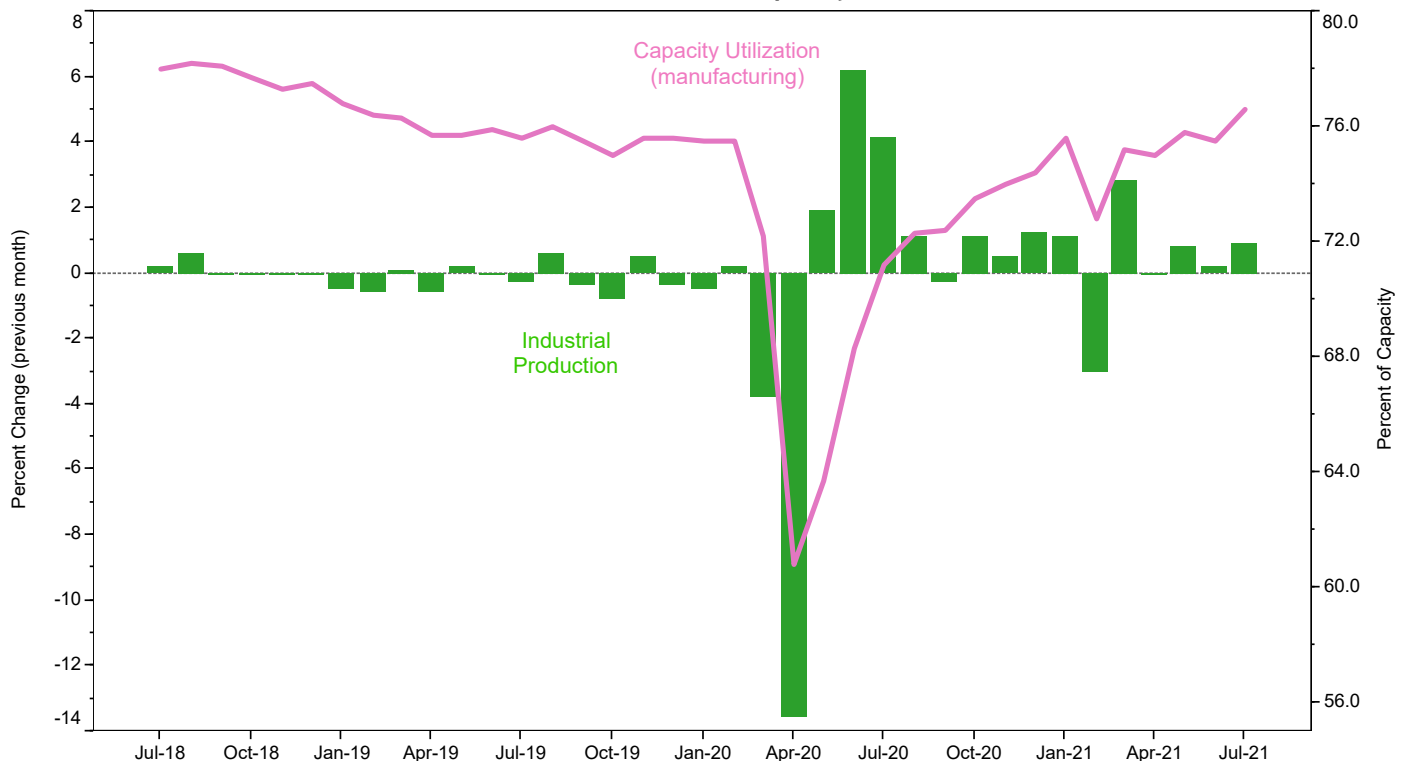
Housing starts fell 7.0% to a 1.53 million-unit annual rate in July, while data for June were revised upward. Single- and multi-family starts both fell in July, although multi-family starts fell more precipitously. Housing permits rose 2.3% in July, to a 1.63 million-unit annual rate. Single-family permits fell for the fourth straight month as elevated prices continue to shift demand from the single-family market to the multi-family market. Accordingly, in July, multi-family permits rose to their fifth-highest monthly reading in 30 years.

**Housing Starts and Building Permits**



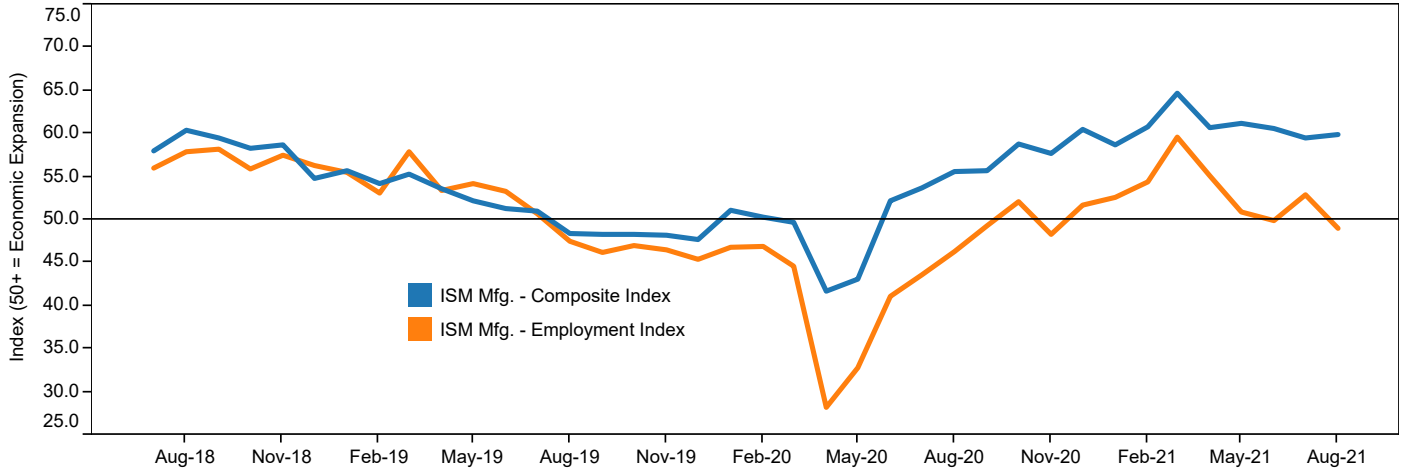
Industrial production grew 0.9% on a monthly basis in July after June's 0.4% gain was revised down to 0.2%. Manufacturing and mining output posted gains while output for utilities declined. Capacity utilization in manufacturing rose to 76.6% in July – the highest reading since January 2019.

**Industrial Production and Capacity Utilization**

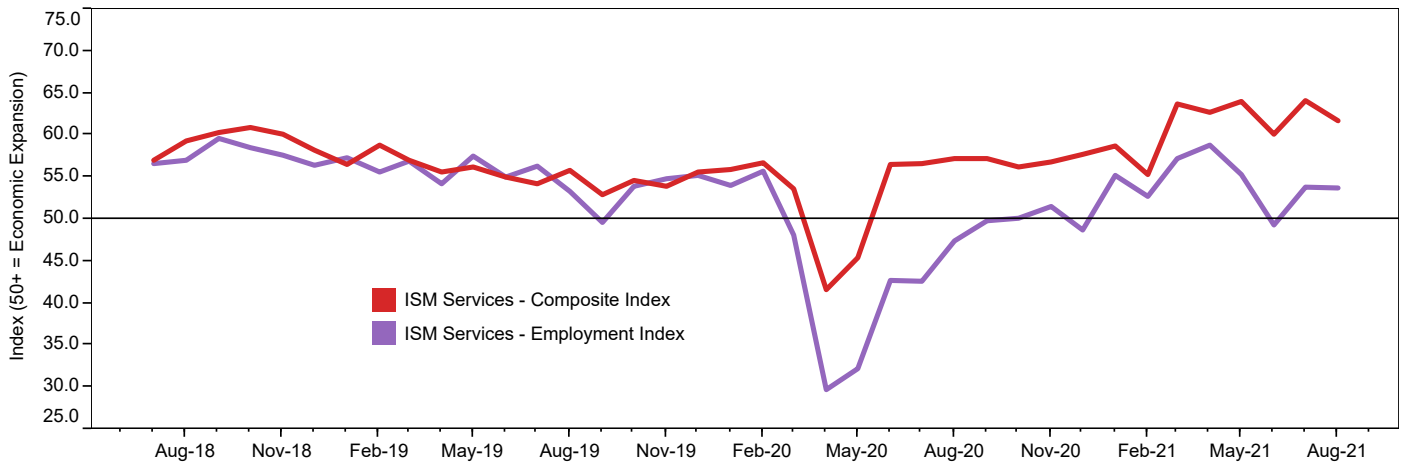


The ISM manufacturing index continues to hover at elevated levels, rising a bit in August to 59.9 from July's reading of 59.5. The employment component of the index signaled contraction and fell to 49.0 - the lowest reading since November 2020. The ISM services index continued to signal expansion but declined in August to 61.7 from 64.1 in July. The employment component ticked down from 53.8 to 53.7 but also continued to signal expansion. Regional surveys from the Federal Reserve all declined in August – most notably New York's Empire State Manufacturing Survey – but all remained in expansionary territory.

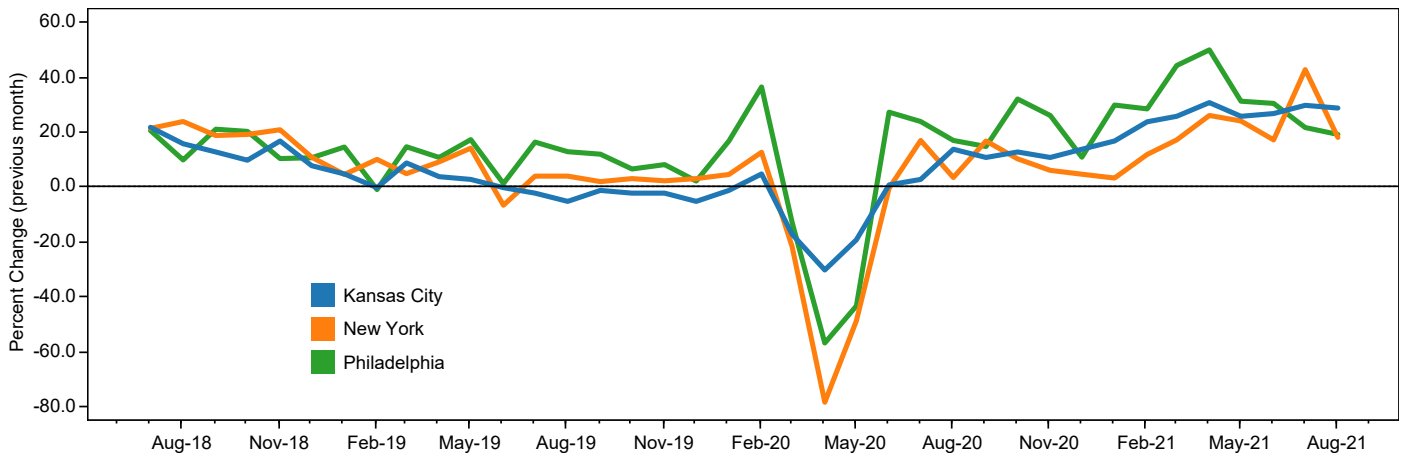
### ISM Manufacturing Indices



### ISM Services Indices



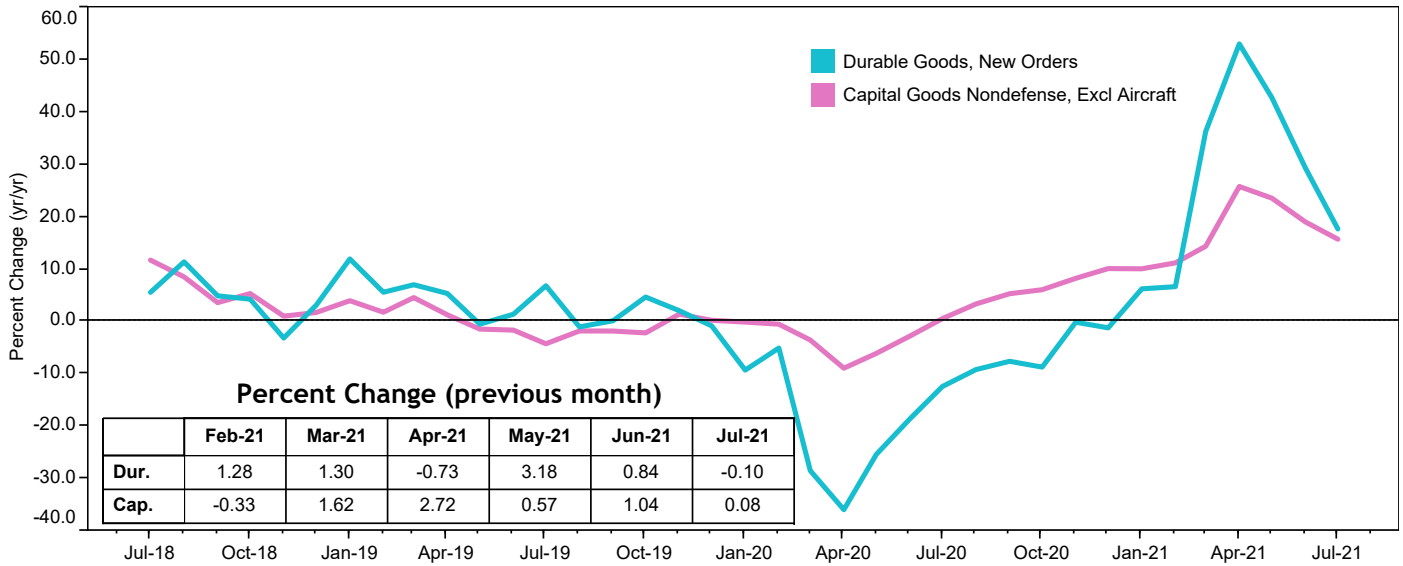
### Regional FRB Manufacturing Surveys



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

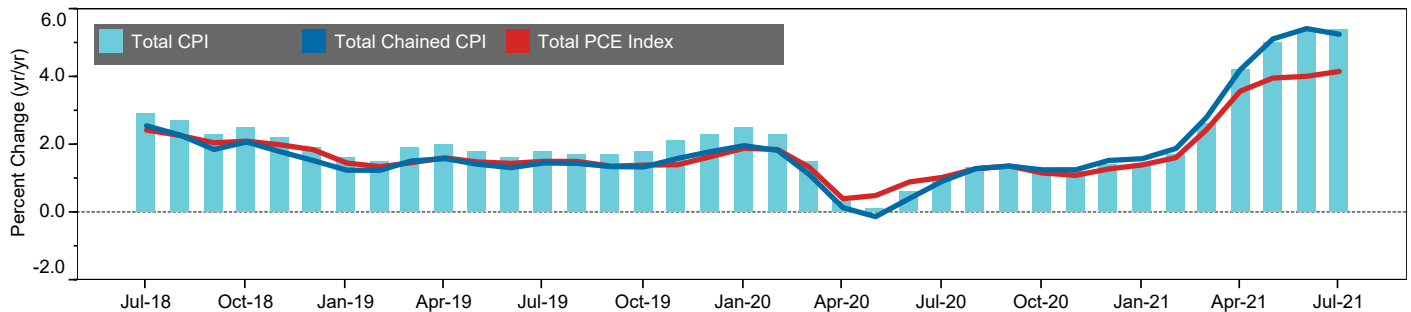
Orders for durable goods declined 0.1% in July following a 0.8% June increase. Orders were restrained by a drop in civilian aircraft orders; excluding transportation, orders rose 0.8% in July. Orders of nondefense capital goods excluding aircraft rose 0.1% in July after a 1.0% increase in June. Despite being somewhat distorted by the pandemic's lows last year, year-over-year orders remained elevated.

### Durable Goods Orders

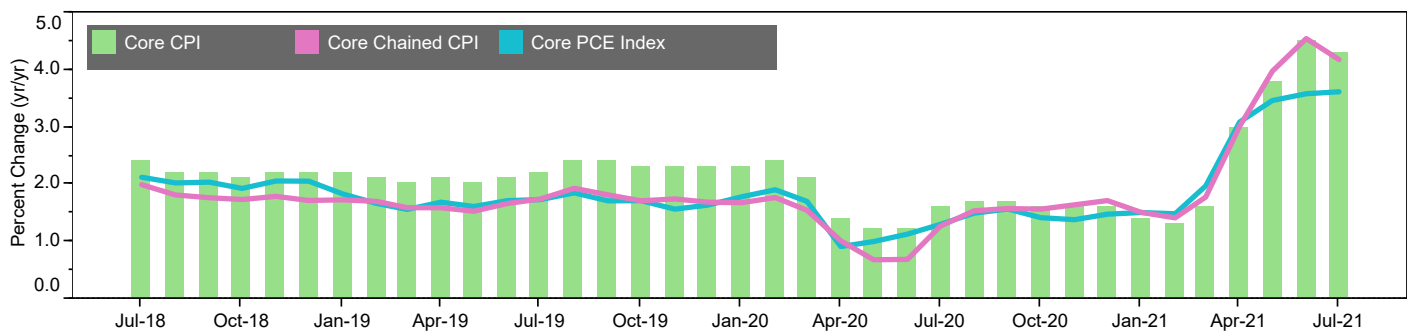


On a monthly basis, consumer inflation as measured by the CPI slowed a bit in July as total CPI rose 0.5% - down from 0.9% in June. Core CPI followed suit, increasing only 0.3% in July, also down from 0.9% in June. On a year-over-year basis, total CPI held steady at 5.4%, while core CPI rose 4.3%, decelerating two-tenths from June's reading. Inflation also slowed on a monthly basis as measured by the PCE index. Total PCE decelerated by one-tenth to 0.4% while core PCE decelerated two-tenths to 0.3%. On a year-over-year basis, total PCE accelerated two-tenths to 4.2% in July, while core PCE head steady at 3.6%.

### Total Price Indices



### Core Price Indices



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



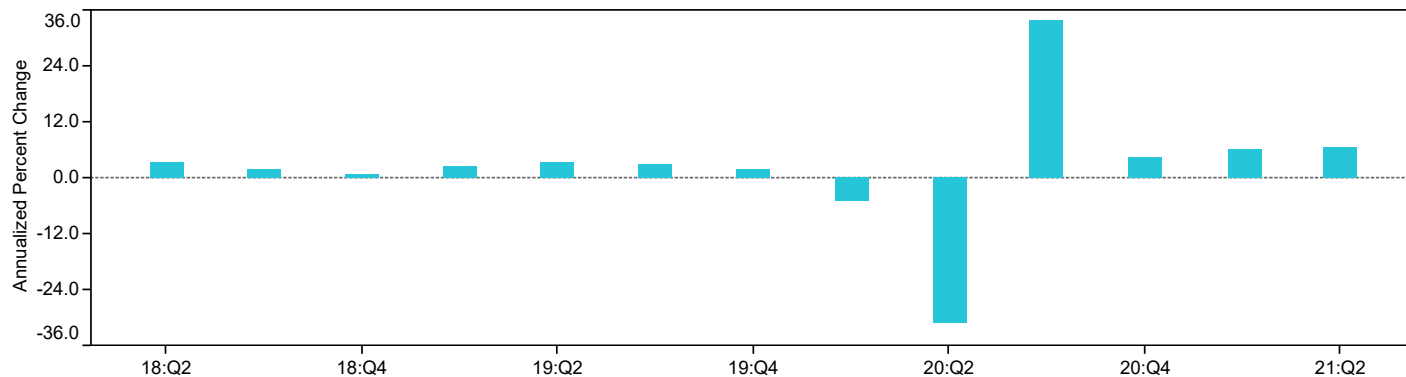
On average, oil prices fell to \$67.70 per barrel in August down from \$72.50 per barrel in July. July's reading was the highest monthly average since November 2014. Recent daily prices in September have ticked up slightly from August's average—closing at \$69.29 per barrel on September 3rd.

**Domestic Spot Oil Price**



In the second estimate, second-quarter real GDP growth was revised up slightly to 6.6% from the first estimate of 6.5%. Upward revisions to nonresidential fixed investment, PCE, and exports and a downward revision to imports were partly offset by downward revisions to private inventory investment, residential fixed investment, and government spending.

**Real GDP**

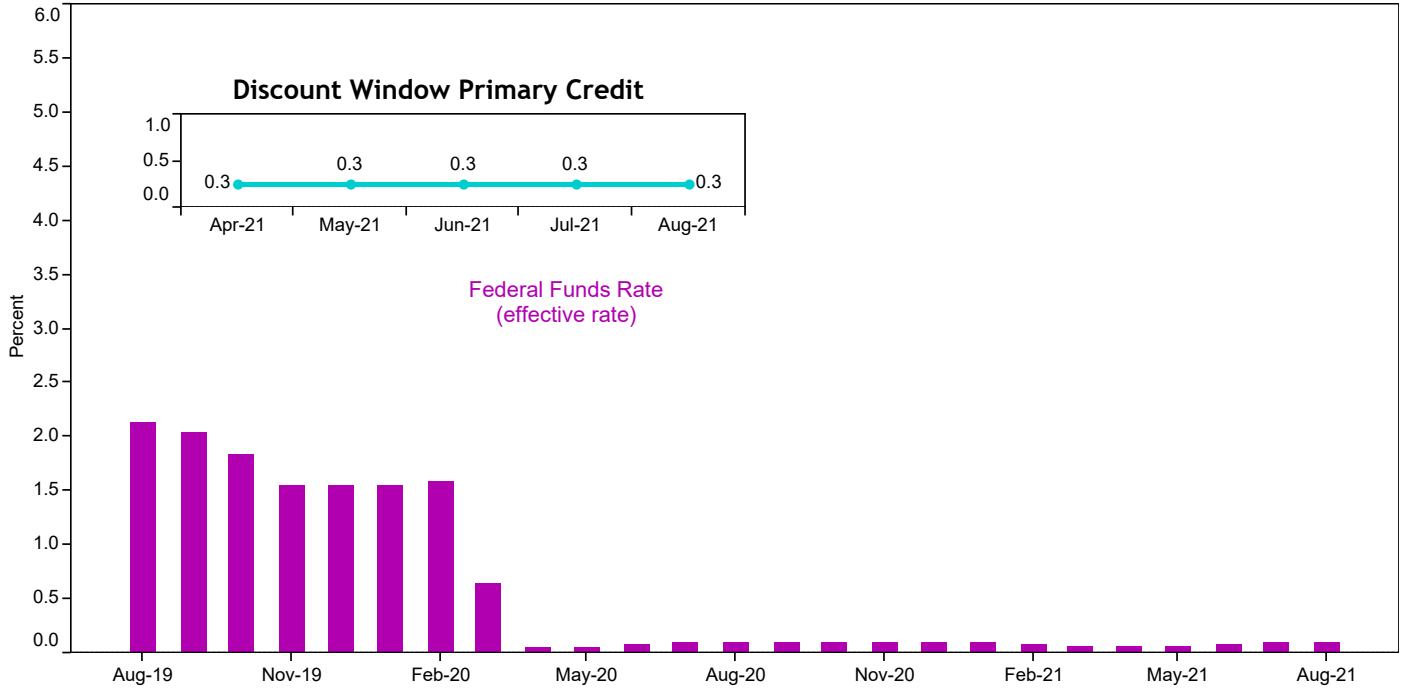


**Revisions to Q2 Real GDP**

Description	Advance Estimate	Second Estimate
<b>Real GDP</b>	6.5	6.6
<b>Personal Consumption</b>	11.8	11.9
<b>Business Investment</b>	8.0	9.3
<b>Equipment and Software</b>	13.0	11.6
<b>Residential Investment</b>	-9.8	-11.5
<b>Government</b>	-1.5	-1.9
<b>Exports</b>	6.0	6.6
<b>Imports</b>	7.8	6.7
<b>Final Sales</b>	7.7	7.9

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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.