



Weekly Market Update

Hosted by:

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FHLB  Chicago
Federal Home Loan Bank of Chicago

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Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- Beige Book
- U.S. Recession of Goldilocks Zone
- Preview of the Coming Week
- Q and A

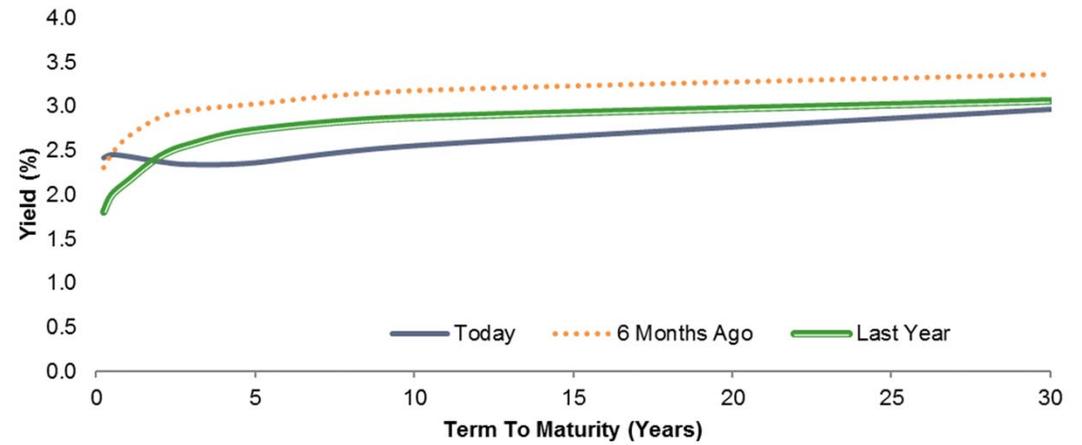
Weekly Interest Rate Movements

For the Week Ending 4/18/2019

U.S. Treasury Yields

| | 4/18/19 | 4/11/19 |
|-------------|---------|---------|
| 3mo | 2.42% | 2.41% |
| 2yr | 2.38% | 2.35% |
| 5yr | 2.36% | 2.31% |
| 10yr | 2.55% | 2.50% |

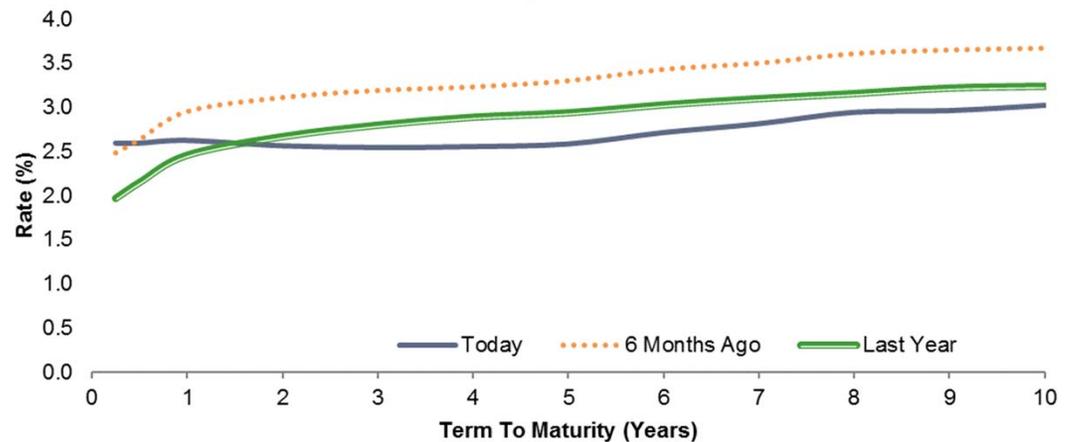
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

| | 4/18/19 | 4/11/19 |
|-------------|---------|---------|
| 3mo | 2.59% | 2.59% |
| 2yr | 2.56% | 2.54% |
| 5yr | 2.58% | 2.52% |
| 10yr | 3.02% | 2.98% |

FHLBank Chicago Advance Rates



Source: U.S. Treasury, FHLBank Chicago

U.S. Economic Data Releases

For the Week Ending 4/18/2019

Import Price Index

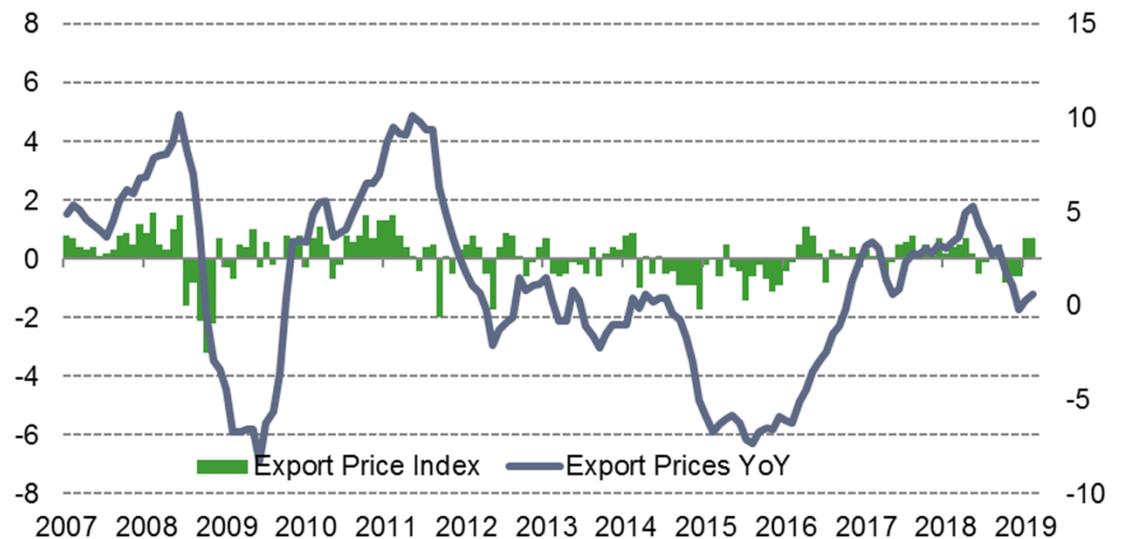
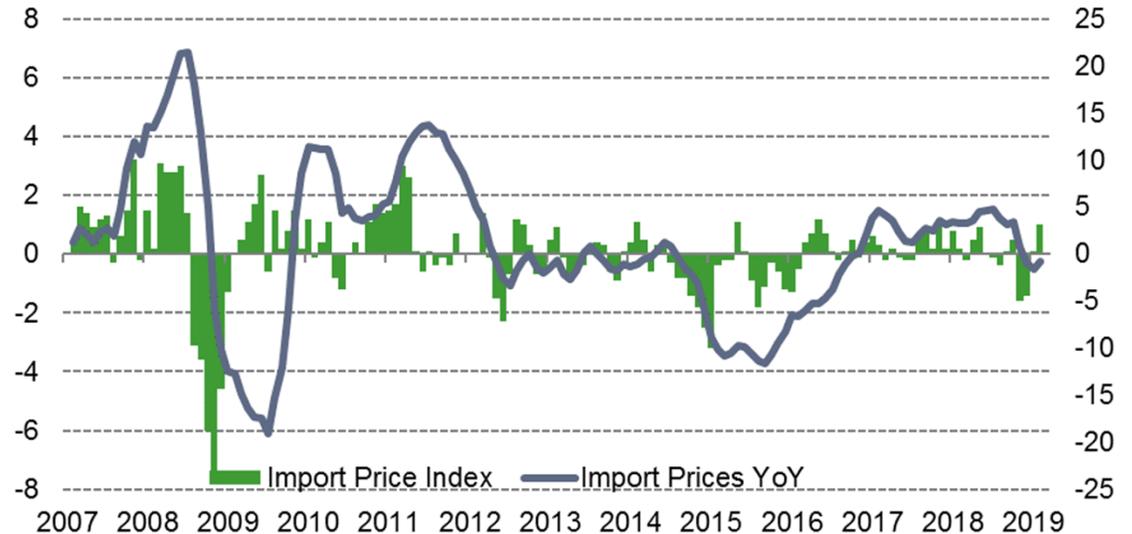
March: 0.6% vs. February: 1.0%

- Increased 0.6% in March and 1.7% in the first three months of 2019, the largest three-month increase since October 2017 to January 2018. Fuel imports increased 6.4% from the prior month. Non-fuel imports fell 0.2%. From one year earlier, prices are flat.

Export Price Index

March: 0.7% vs. February: 0.7%

- Increased 0.7% in March, after rising 0.7% the previous month. Agricultural exports rose 0.9% in, and all other exports advanced 0.7%. Year-over-year, the index is up 0.6%.



Source: Bureau of Labor Statistics

U.S. Economic Data Releases

For the Week Ending 4/18/2019

Industrial Production

March: -0.1% vs. February: 0.1%

- Was three-tenths below expectations, falling 0.1% in March. The decline in production was primarily due to a 0.8% decrease in mining, a 0.2% fall in consumer goods, and a 0.3% decline in materials.

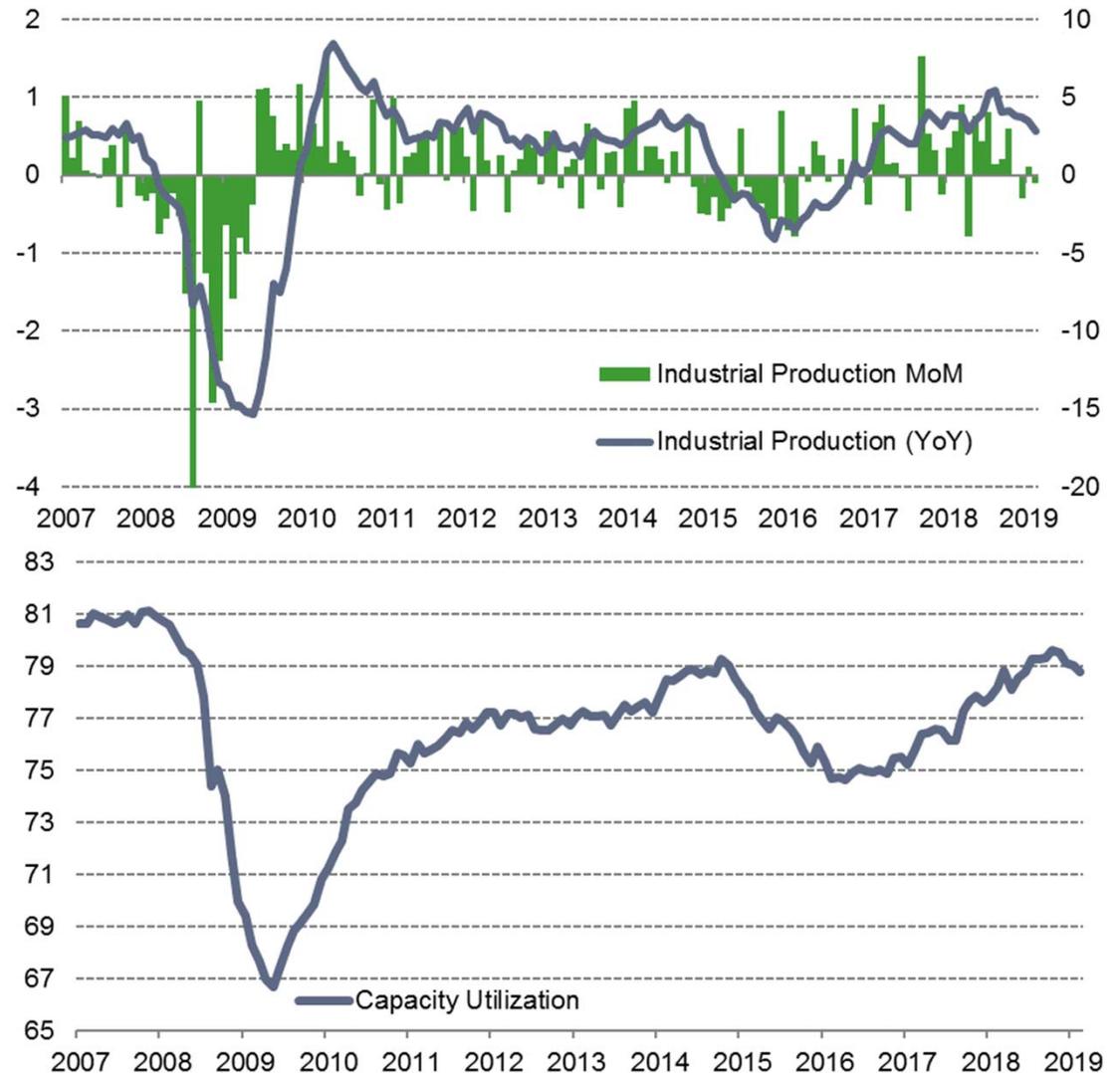
Manufacturing, which makes up approximately 70% of industrial production, was unchanged in March after declining the prior two months.

Capacity Utilization

March: 78.8% vs. February: 79.0%

- Declined to 78.8% in March, which is 1.0 percentage point below its long-run average.

Source: Federal Reserve



U.S. Economic Data Releases

For the Week Ending 4/18/2019

Retail Sales

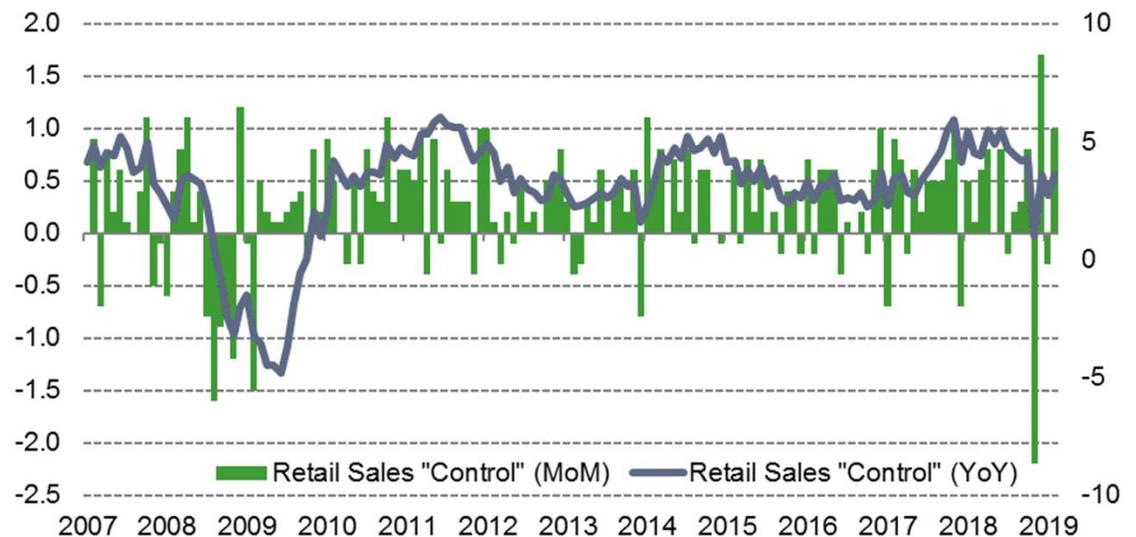
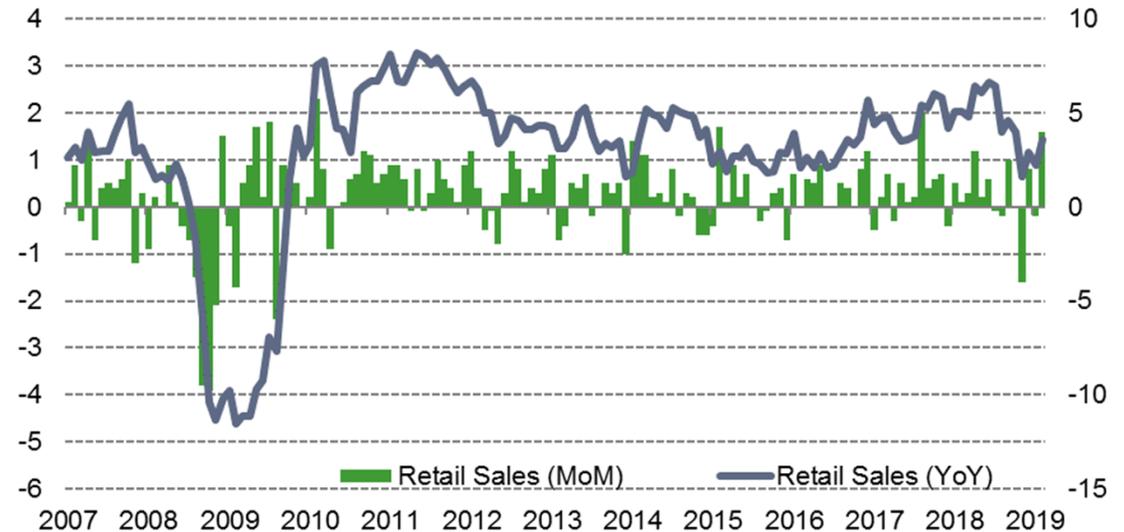
March: 1.6% vs. February: -0.2%

- Unexpectedly rose 1.6% in March compared to expectations of increasing 1.0%. The increase was supported by sales at gas stations and clothing stores, which rose 3.5% and 2.0%, respectively. Sales at sporting goods stores dragged down the index and declined 0.3% month-over-month.

Retail Sales Control Group

March: 1.0% vs. February: -0.3%

- Rose 1.0% versus expectations of only 0.4% growth. The prior month was downwardly revised from -0.2% to -0.3%. Year-over-year, the index is up 3.6%.



Source: U.S. Census Bureau

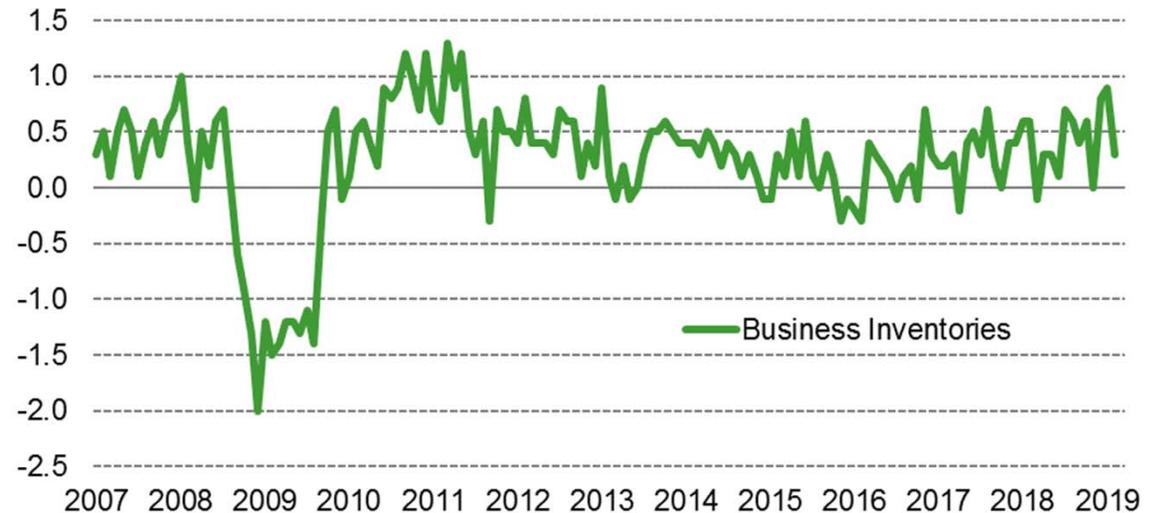
U.S. Economic Data Releases

For the Week Ending 4/18/2019

Business Inventories

February: 0.3% vs. March: 0.9%

- Increased 0.3% in February. Inventories at wholesalers and manufacturers rose 0.3% and 0.4%, respectively. These were partially offset by retailers' inventories falling 0.3%. Overall, the index is up 4.9% from one year ago.



NAHB Housing Market Index

April: 63 vs. March: 62

- Rose one point to 63 in April, in-line with expectations. The index for single family sales in the present rose one point but was offset by single family sales in the next six months, falling by one point. Traffic of prospective borrowers rose three points.



Source: U.S. Census Bureau, National Association of Home Builders (NAHB)

U.S. Economic Data Releases

For the Week Ending 4/18/2019

Initial Jobless Claims

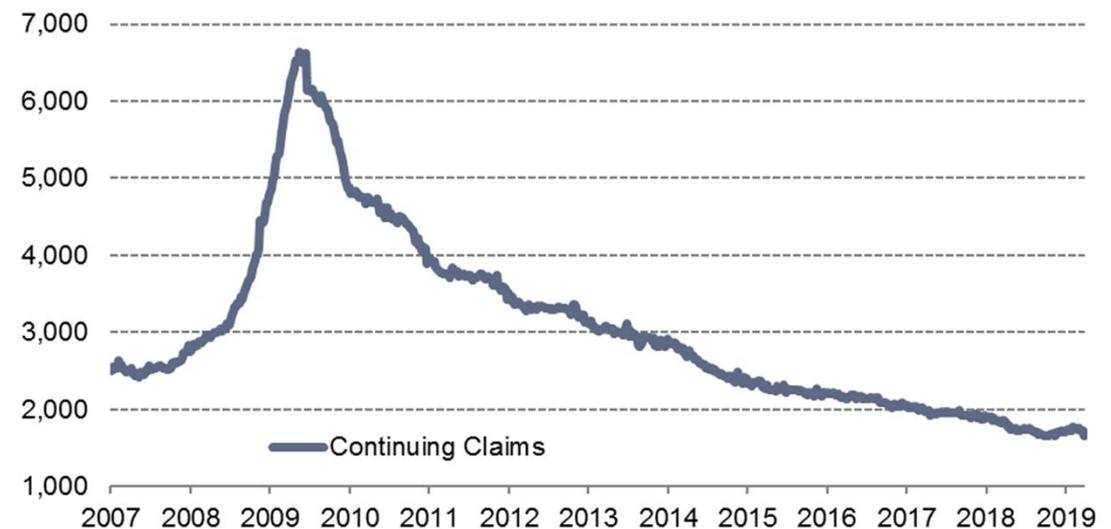
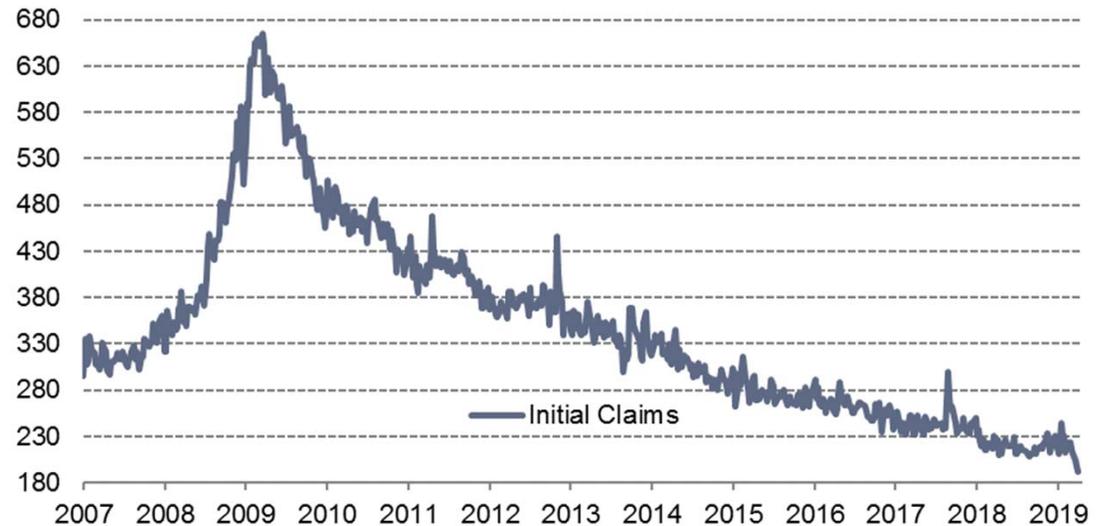
April 13: 192K vs. April 6: 197K

- Decreased by 5K to 192K in the week ending April 13. This is the lowest level for initial claims since September 6, 1969. As a result, the four-week moving average decreased slightly by 6K to 201.25K, reaching its lowest level since November 1, 1969.

Continuing Claims

April 6: 1,653K vs. March 30: 1,716K

- Declined by 63K to 1,653K in the week ending April 6. As a result, the four-week moving average fell by 22.75K to 1,712.5K. The insured unemployment rate remained unchanged at 1.2%.



Source: Department of Labor

Federal Reserve Beige Book

The Federal Reserve released its Beige Book reporting on activity that occurred in March and early April. It stated that “economic activity expanded at a slight-to-moderate pace” with most districts seeing growth at a similar pace and a few districts reporting some strengthening.

Since the last Beige Book:

- Consumer spending activity was mixed across the country but suggested sluggish sales for both general retailers and auto dealers.
- Most Districts reported stronger home sales, although some noted low demand for higher-priced homes.
- Employment increased in all Districts. Employers throughout the country continued to report tight labor markets and shortages of skilled laborers or qualified workers.
- Wages continued to rise, growing at a moderate pace in most Districts.
- All Districts noted that prices continued to increase modestly. Input costs increased in the modest-to-moderate range. Tariffs, freight costs, and rising wages were cited as the key factors in driving up input costs.

Source: Federal Reserve Board of Governors

Federal Reserve Beige Book

Chicago District:

- Economic activity increased slightly on balance though contacts expected growth to return to a modest pace over the next six to 12 months.
- Contacts reported a tight labor market and difficulty finding workers at all skill levels.
- Wage growth remained modest overall.

Minneapolis District:

- The economy grew modestly overall, with many sectors hampered by worse-than-normal winter weather.
- Employment grew modestly, wage pressures rose moderately, and price pressures were modest.
- Job postings fell among the majority of the District states. Minnesota, Michigan's Upper Peninsula, and Montana saw a decline in job postings while North and South Dakota's postings remained flat.

St. Louis District:

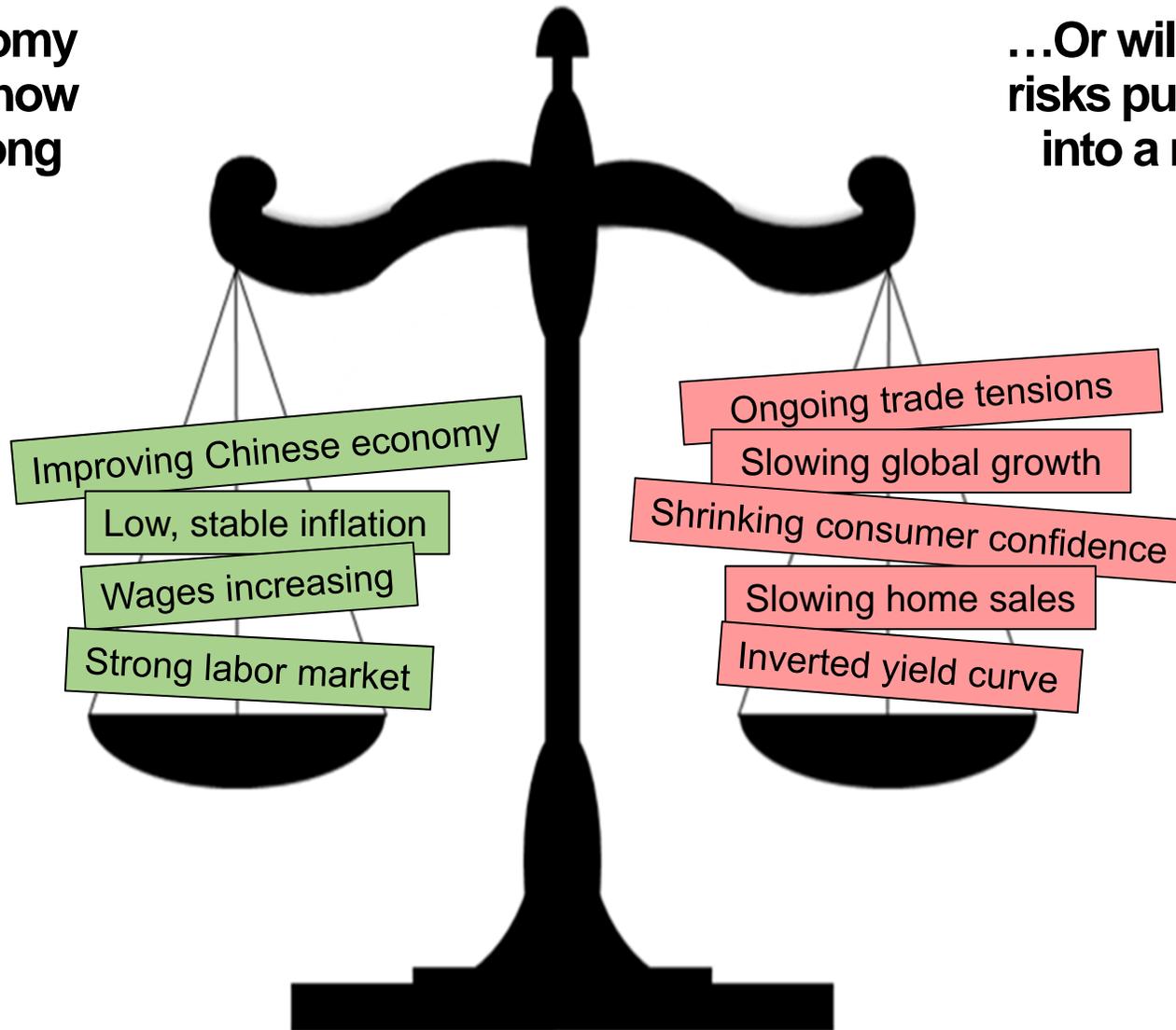
- Economic conditions have improved slightly since the previous report.
- Labor market conditions remained tight while wages increased at a moderate pace.

Source: Federal Reserve Board of Governors

Current Environment

U.S. Recession of Goldilocks Zone?

Will the economy continue to show steady-to-strong growth...

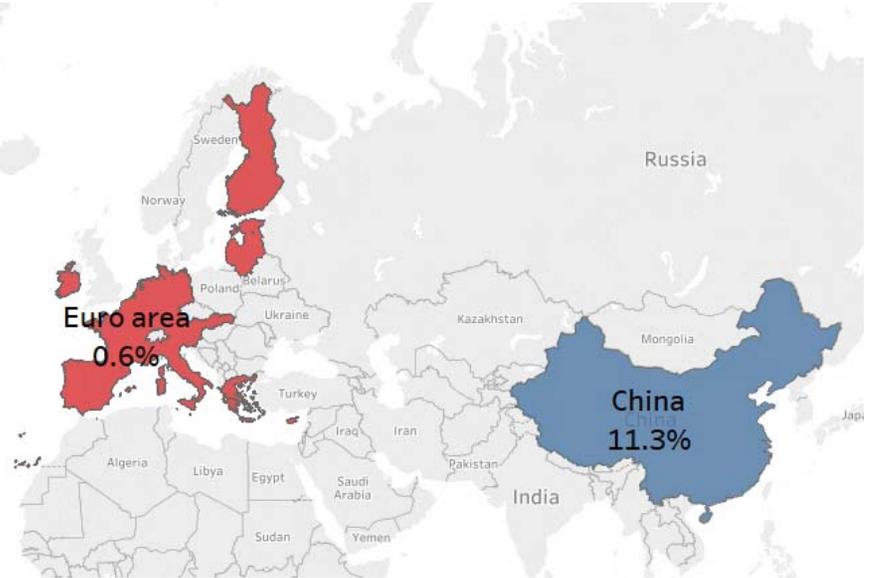
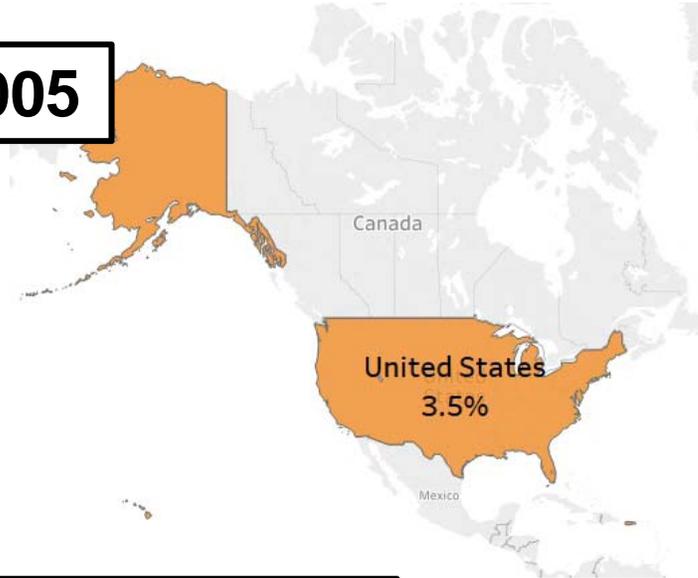


...Or will downside risks push the U.S. into a recession?

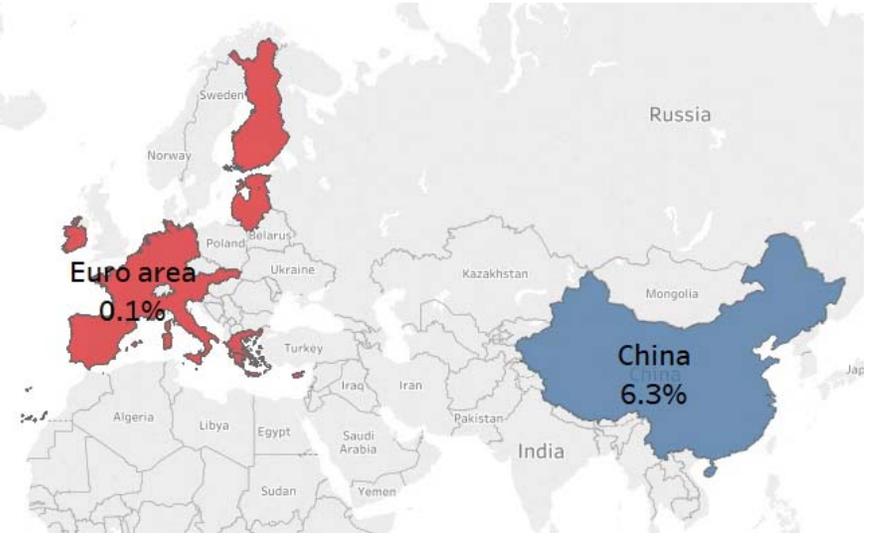
Current Environment

Global GDP Growth is Slowing

2005



2019 Forecast



Source: International Monetary Fund

Current Environment

Global GDP Growth: U.S., China, and Euro area

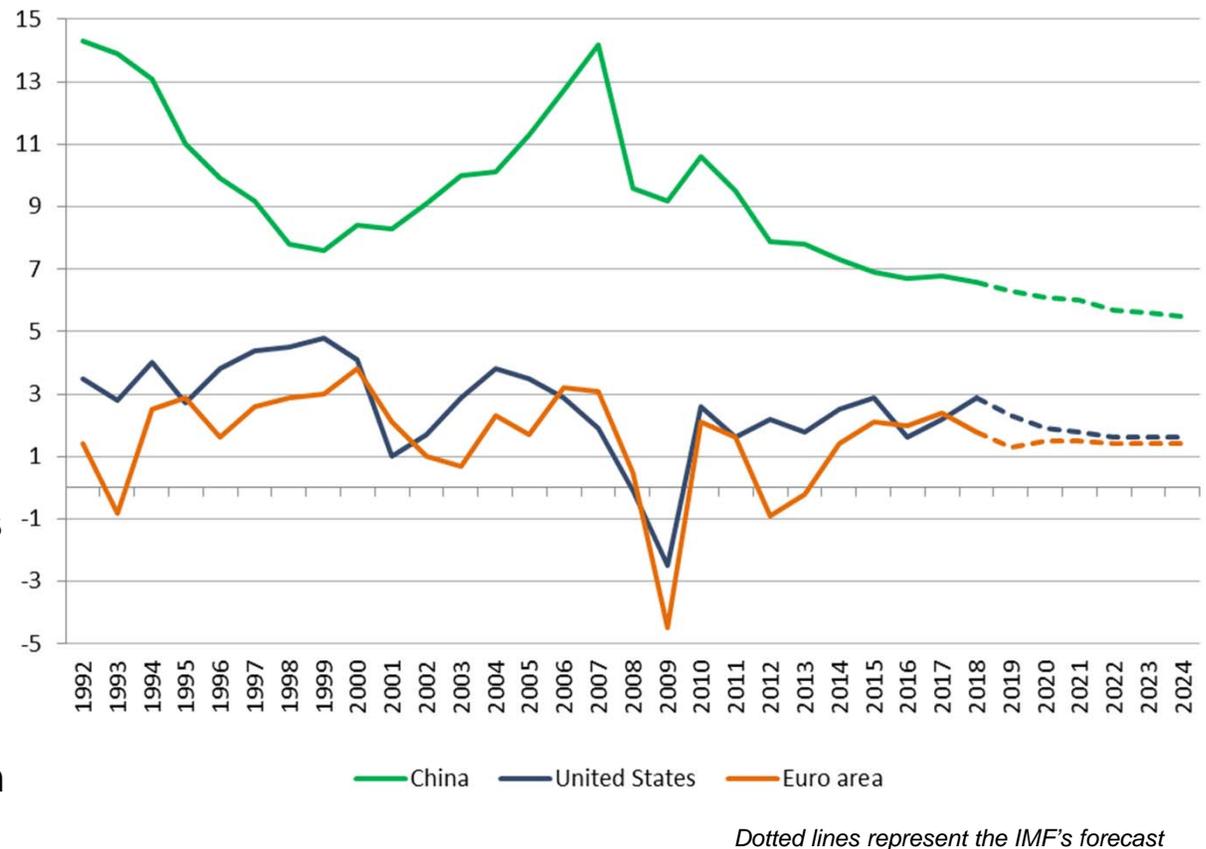
As of April 2019, the International Monetary Fund (IMF) is projecting a slowdown in GDP growth for the U.S., China, and Euro area from 2019 to 2024.

These economies are already experiencing a slowdown in GDP growth. The U.S. is seeing fading gains from tax cuts. China is weighed down by restrictions on riskier lending, deterring new investments. The Euro zone has been seeing deteriorating economic performance as well as uncertainty around trade as a result of the impending Brexit.

Despite slowing growth, GDP remains stable and a recession in the near future remains unlikely.

Source: International Monetary Fund

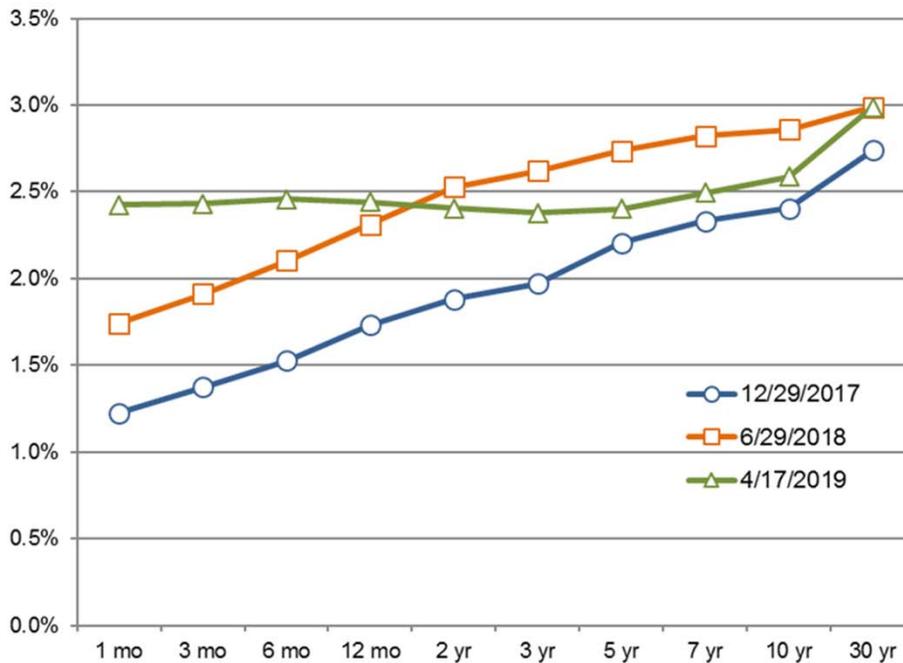
Real GDP Growth by Country
Annual Percent Change



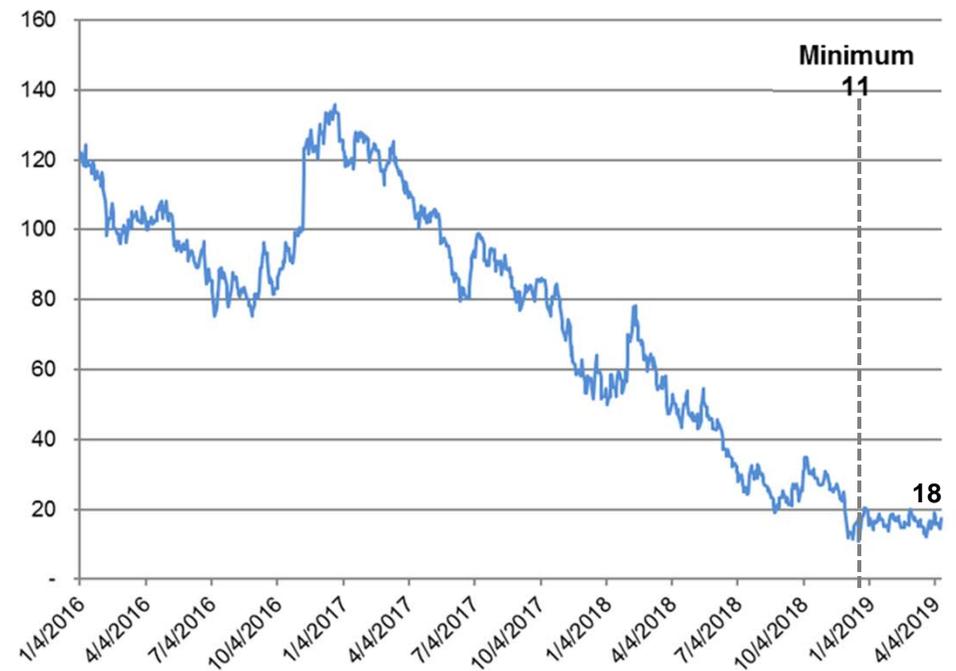
Current Environment

Yield Curve Flattening

U.S. Treasury Yield Curve



U.S. 2-Year 10-Year Treasury Curve



The yield curve has inverted in the 1-5 year part of the curve, resulting from the considerable flattening the past year. Further Fed rate hikes risk inverting the yield curve further and has put pressure on financial institution balance sheets.

Source: Federal Reserve Board of Governors, U.S. Treasury; as of 4/17/2019

Current Environment

Housing Sales Slow Down While Home Prices Decline

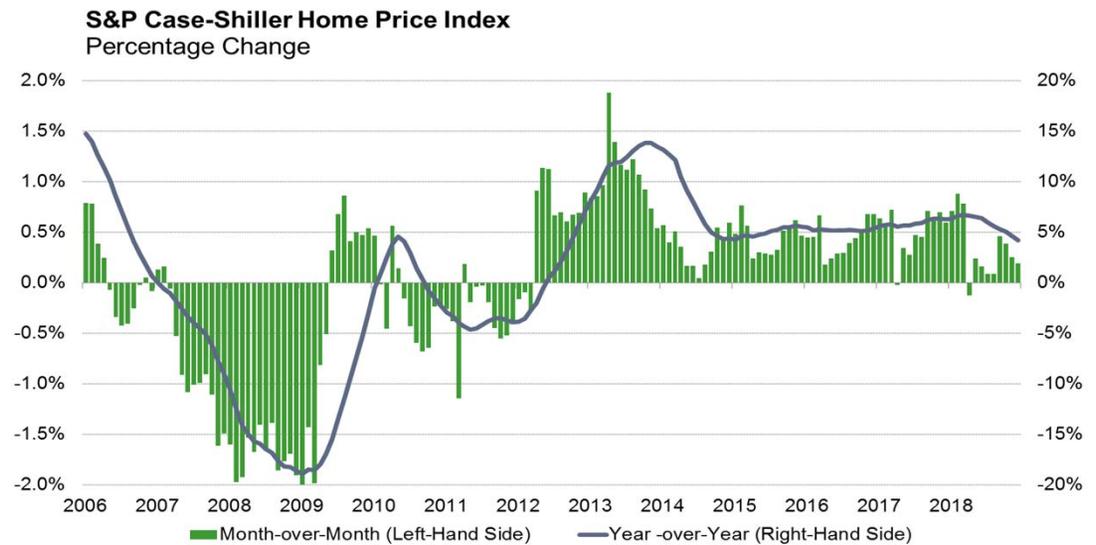
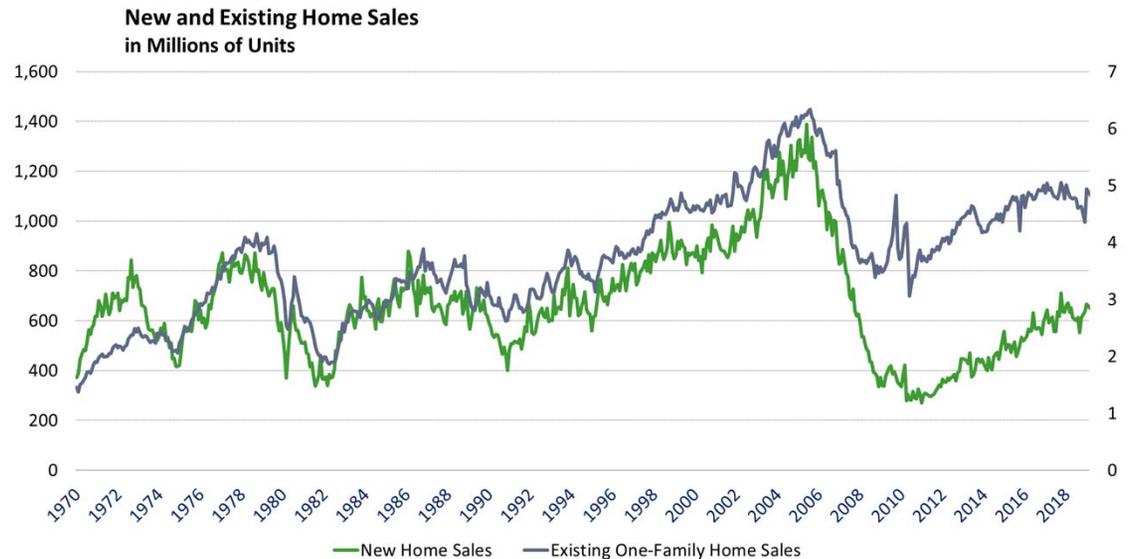
Single-family new home sales increased to 667K in February, while single-family existing home sales rose to 4.94M.

Despite the monthly rebound, both new and existing home sales are lower than one year ago, signaling a slowdown in the housing market in spite of a considerable decline in mortgage rates in recent months.

Further, home price growth has continued to slow, increasing only 3.2% from a year ago.

However, slowing home prices and lower mortgage rates could reopen the market to certain segments of the population that had previously been priced out.

Source: Census Bureau



Current Environment

Businesses and Consumers Show Slowing Confidence

The Small Business Optimism Index was little changed in March. The index rose slightly to 101.8, marking the third month in a row in a narrow range. Overall, however, the index remains at a historically strong level and is consistent with solid growth, indicating that small businesses continue to power the economy.

Consumer Confidence has been somewhat volatile over the past few months due to fluctuations in the financial markets, a partial government shutdown, and a weak February jobs report. Consumers, however, remain confident that the economy will continue expanding despite the slight slow down since mid-2018.

Source: National Federation of Independent Business, Conference Board



Current Environment

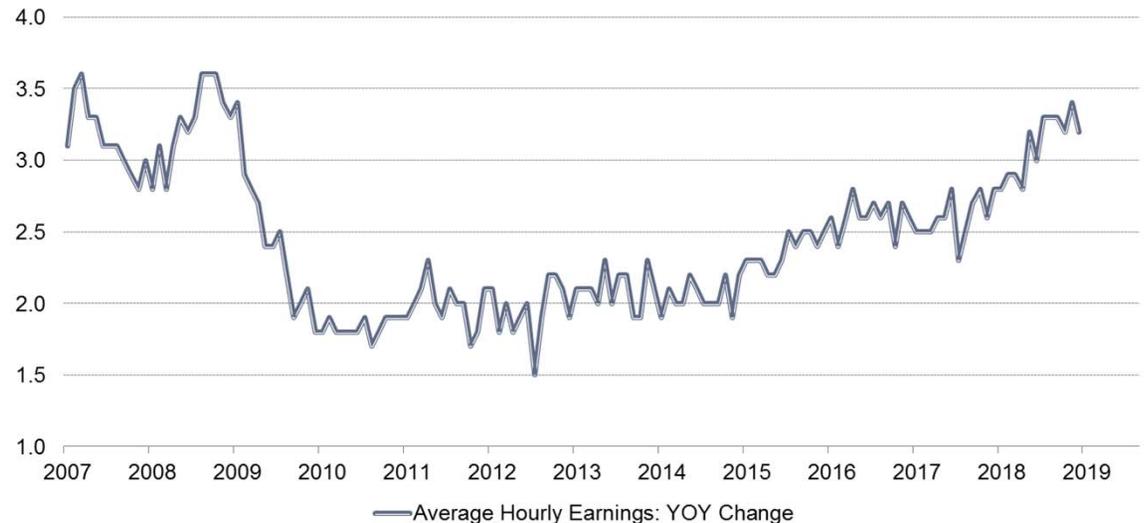
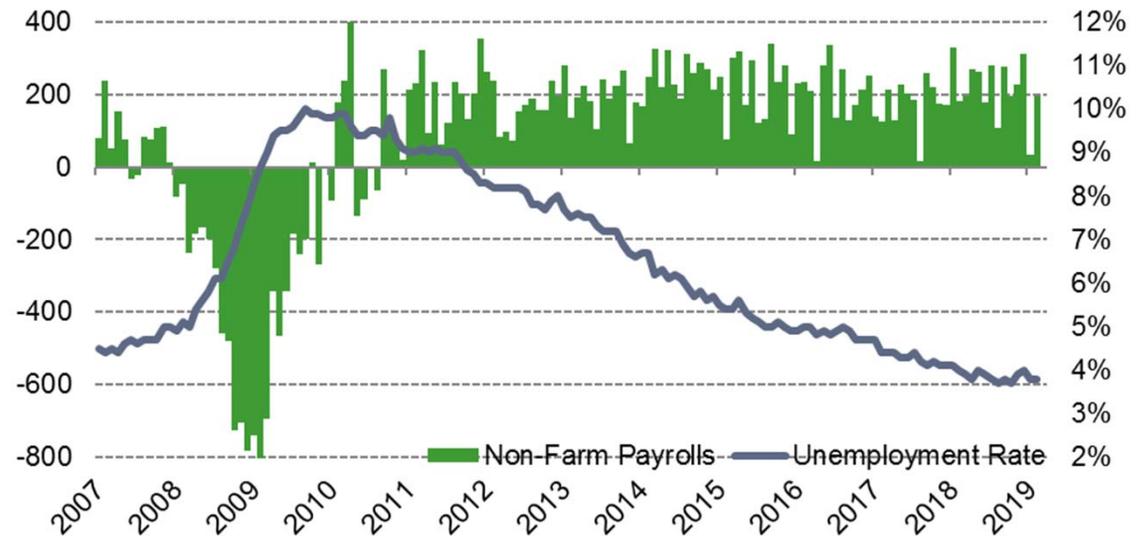
Labor Market Shows No Sign of Slowing Down

U.S. employment remains strong as 196K jobs were added in March. Further, the 3- and 6-month averages show no sign of slowing down as they continue to hover around 200K.

Further, the unemployment rate remained unchanged at 3.8%. Last week, initial jobless claims dropped to 196K, which is the lowest level since October 1964.

Average hourly earnings are showing signs of heating up, rising 3.2% from one year ago, a level not seen since the financial crisis.

A tighter labor market could lead to better wage growth in the coming months.



Source: Bureau of Labor Statistics

Current Environment

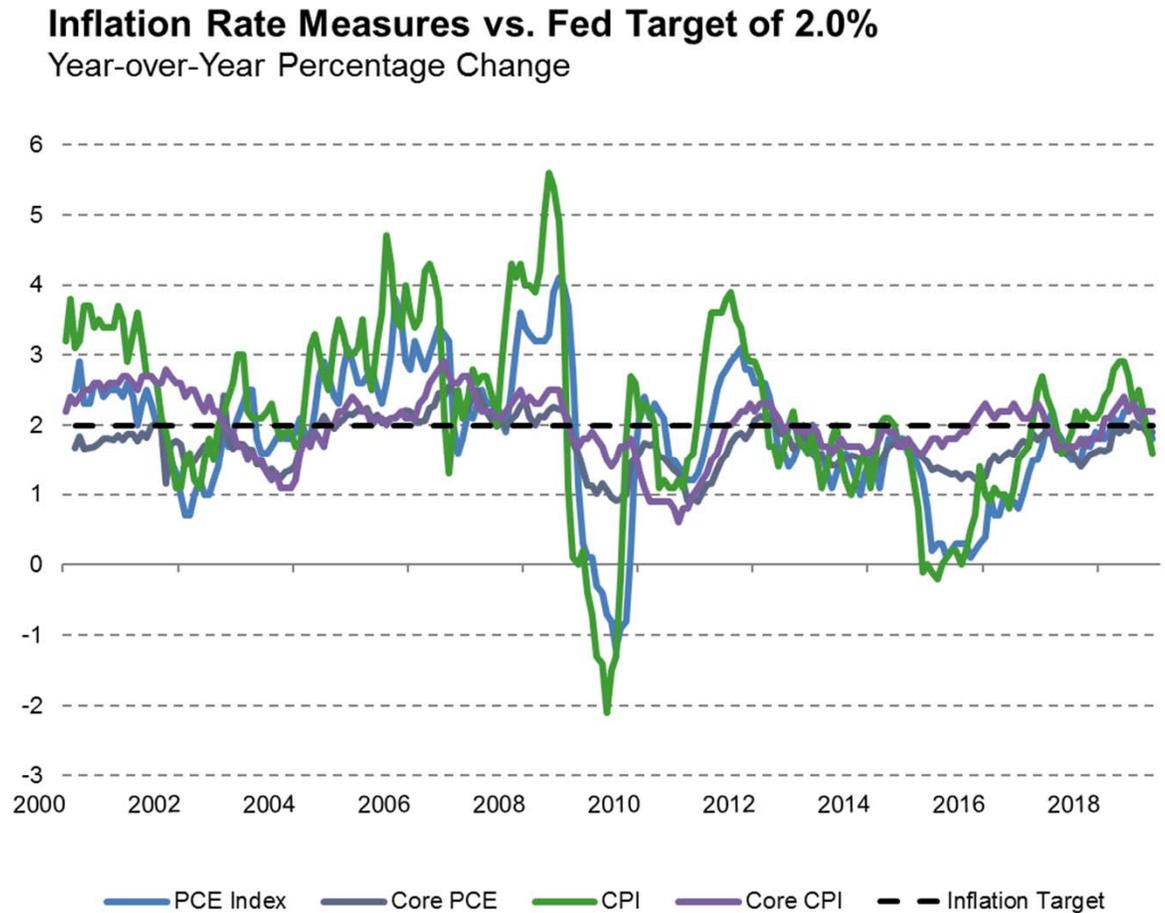
Inflation Rate Measures All Nearing 2% Target

The central bank's preferred gauge of inflation, the Personal Consumption Expenditures (PCE) Index, remains below the inflation target of 2.0%.

PCE fell to 1.4% in January 2019, while core PCE decreased to 1.8%. Similarly, the Consumer Price Index (CPI) showed inflation fell to 1.6% year-over-year in January from 1.9% in December. Core CPI remained unchanged year-over-year at 0.2%.

Despite strong employment numbers, inflation has not reared its head. This makes the Fed's job easier by not having to raise rates and stifle economic growth. The Fed has the ability to wait, and this should help corporate earnings, keep borrowing costs relatively low, and possibly prolong the expansion.

Source: Bureau of Labor Statistics



Current Environment

Younger Adults Hindering Housing Market Rebound

Home sales could be beginning to slow because of American's delaying marriage and living at home longer.

The average age a male first marries is 29.8 and the average age a female first marries is 27.8.

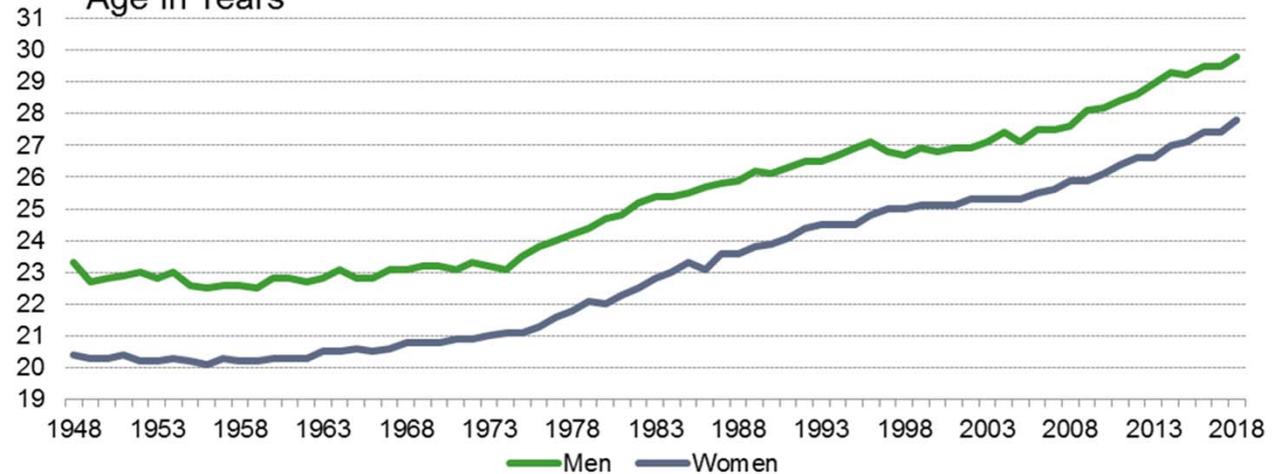
The number of 25-34 year olds—both men and women—living at home reached the highest level since 1982 (16.8%).

If Americans continue to delay marriage, many will opt to live at home longer. This will impact housing, causing it to rebound at a slower rate.

Source: Census Bureau

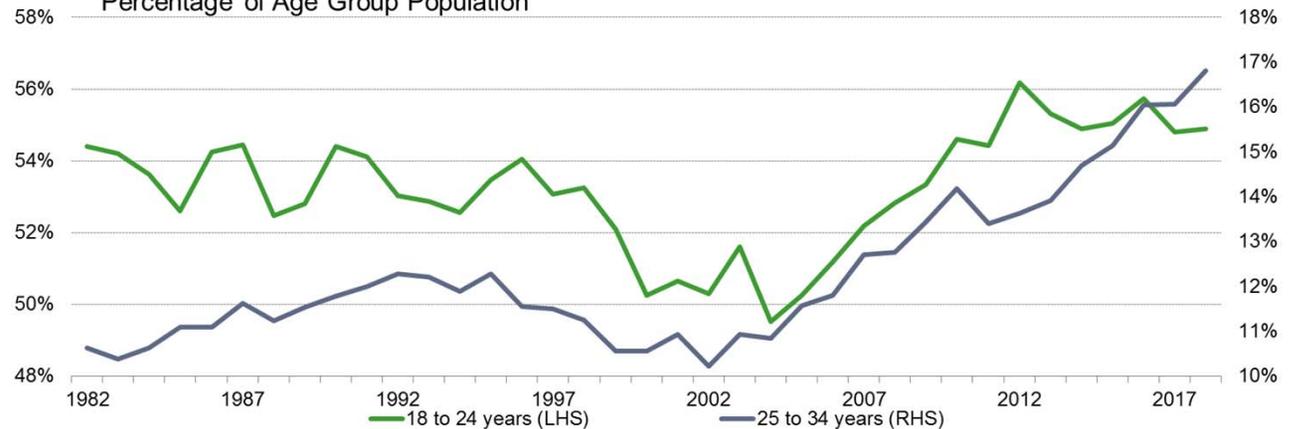
U.S. Median Age at First Marriage

Age in Years



Young Adults Living with Parents

Percentage of Age Group Population

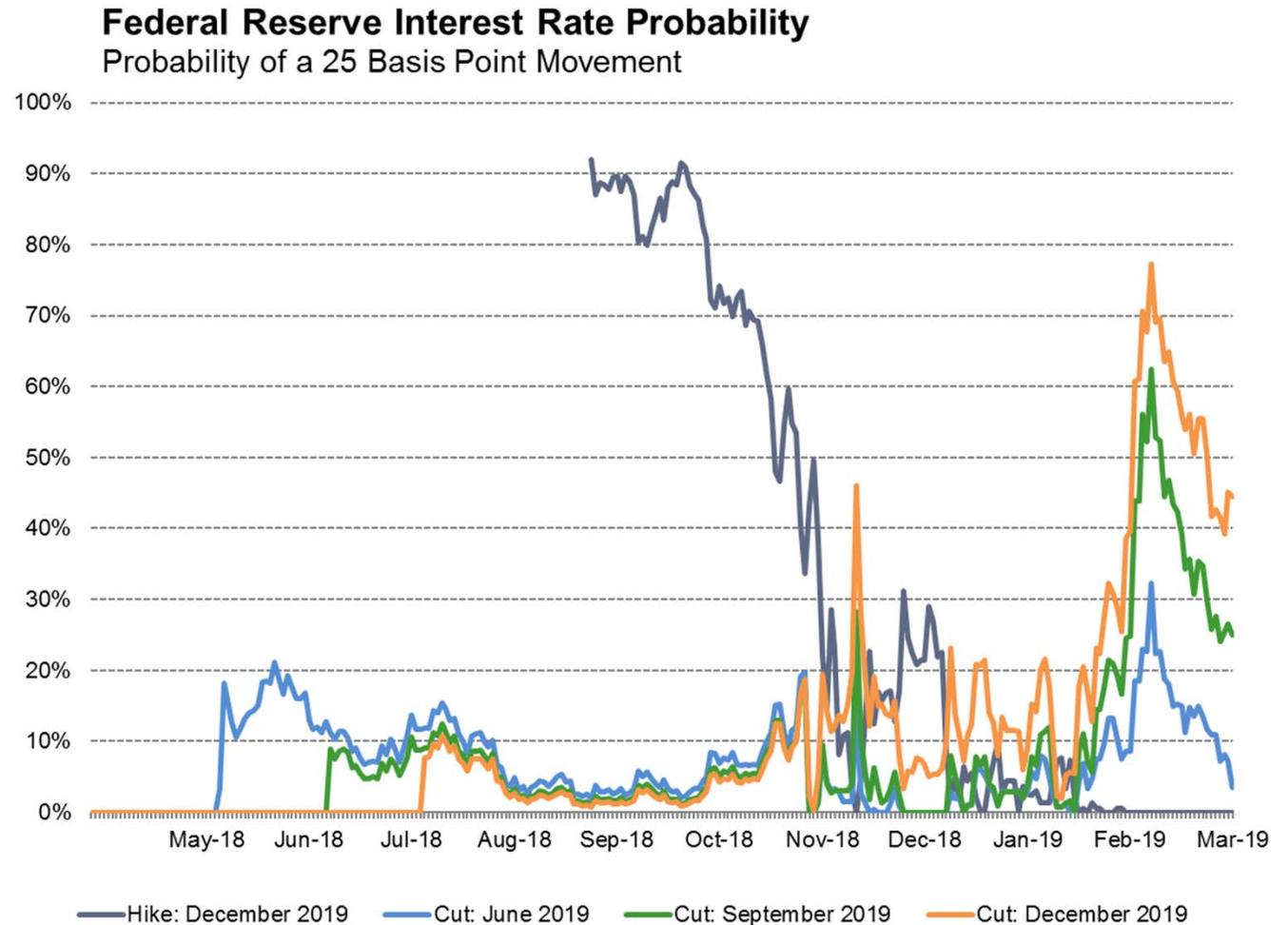


Current Environment

Federal Reserve Interest Rate Probability

Following no rate hike in March 2019, the market implied probability of the first rate hike occurring in June 2019, September 2019, or December 2019 remains the same at 0.00% as of April 18.

If the Fed decides to cut rates instead, the market implied probability of the first rate cut occurring in June 2019, September 2019, or December 2019 is at 3.47%, 24.96%, and 44.50%, respectively.



Source: Bloomberg

Current Environment

Global Conditions: Trade Tensions and Brexit

According to the International Monetary Fund (IMF), the global economy is continuing to grow at a “slower pace” which could require world leaders to coordinate stimulus measures. The global economy is expected to grow 3.3%, the slowest expansion since 2016. Part of the decline can be tied to trade tensions between the U.S. and China and Brexit.

- Escalation of U.S. and China trade tensions have increased tariffs on imports and exports for goods from both nations.
- Because of both nation’s large economies, the trade tensions have impacted the economies of numerous other nations resulting in changes to GDP, employment, and currency values.
- Currently, the U.S and China trade war has resulted in a truce and both countries are negotiating terms.
- The United Kingdom is still at a standstill over how to leave the European Union, having until October 31st to determine an exit.
- The GDP of the United Kingdom has continued to slow since the referendum passed in 2016.
- Brexit has impacted the global economy because of the uncertainty with the deal.

Source: International Monetary Fund

Current Environment Summary

- **Global Growth:** Signs of a future slowdown
- **Employment:** Strong at a 3.8% unemployment rate
- **Wages:** Steady and continuing to rise
- **Inflation:** Stable and hovering around 2.0%
- **Outlook:** Confidence declining
- **Housing Rebound:** Slowing down
- **Yield Curve:** Continuing to flatten
- **Trade:** Considerable uncertainty

Overall, employment is strong with inflation remaining relatively stable. This will allow the Fed time to be patient and for a continued recovery sans any near term recession. Historically, an inverted yield curve has been a good indicator of a recession, but a better indicator is the Fed raising rates above the rate at which the economy can handle. The longer the Fed can keep the Fed funds rate below the neutral rate, the longer the expansion can run.

This and That

According to S&P Global, although national banks are spending billions of dollars a year on technology, community banks have some advantages when trying to keep pace in the fintech race. Community banks mainly have smaller operations, which makes technology upgrades less difficult and less expensive. Some of these banks are also experimenting with product offerings that can deliver customer experiences that are competitive with those of the largest banks, such as offering above-average rates to attract online deposits.

Analysts agreed that all banks need to focus on developing deeper relationships with their depositors to protect against attrition, and encouraged small community banks to explore alternative, manual solutions if they lack the technological capability. Further, they also suggested investing in data scientists who can develop smart analytics strategies to drive down the cost of digital upgrades. Overall, profitability can be found at almost any size, and being small has its advantages.

Source: S&P Global Market Intelligence

Economic Data Release Calendar

April 2019

Prior to the weekend, economic data will be released on Housing Starts.

Next week economic data will be released on the Chicago Fed. Natl. Activity Index, Existing Home Sales, FHFA House Price Index, New Home Sales and Durable Goods Orders.

All eyes will be focused on the initial Q1 2019 GDP release next Friday.

| April 2019 | | | | |
|--|--|---|---|---|
| Monday | Tuesday | Wednesday | Thursday | Friday |
| 1 ISM Manufacturing Index Construction Spending Retail Sales | 2 Durable Goods | 3 MBA Mortgage Applications ADP Employment Report ISM Non-Manufacturing | 4 Jobless Claims | 5 Employment |
| 8 Factory Orders | 9 Small Business Optimism JOLTS | 10 MBA Mortgage Applications Consumer Price Index FOMC Meeting Minutes | 11 Jobless Claims Producer Price Index Final | 12 Import Price Index Consumer Sentiment |
| 15 Net TIC Flows | 16 Industrial Production NAHB Housing Market | 17 MBA Mortgage Applications Wholesale Trade Beige Book | 18 Jobless Claims Philadelphia Fed Outlook Retail Sales Business Inventories | 19 Housing Starts |
| 22 Chicago Fed Natl. Activity Existing Home Sales | 23 FHFA House Price Index New Home Sales | 24 MBA Mortgage Applications | 25 Durable Goods Orders Jobless Claims | 26 GDP Consumer Sentiment |
| 29 Personal Income Dallas Fed Manufacturing | 30 S&P Case-Shiller HPI Chicago PMI Pending Home Sales | Notes: | | |



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