



Weekly Market Update

Hosted by:

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Date:

February 21, 2019

FHLB  Chicago
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Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- FOMC Meeting Minutes
- Retail Sales
- Inflation
- Preview of the Coming Week
- Q and A

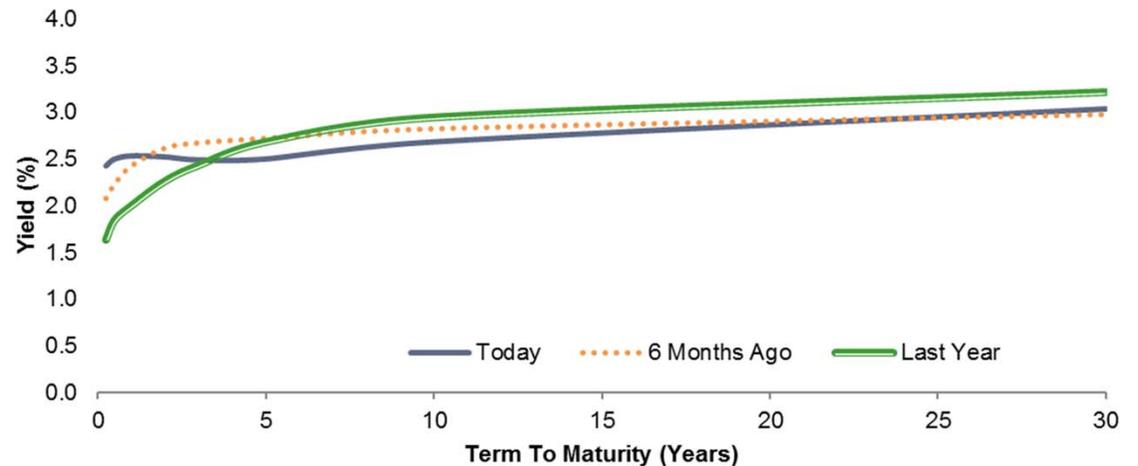
Weekly Interest Rate Movements

For the Week Ending 2/21/2019

U.S. Treasury Yields

	2/21/19	2/14/19
3mo	2.44%	2.43%
2yr	2.52%	2.50%
5yr	2.51%	2.48%
10yr	2.69%	2.66%

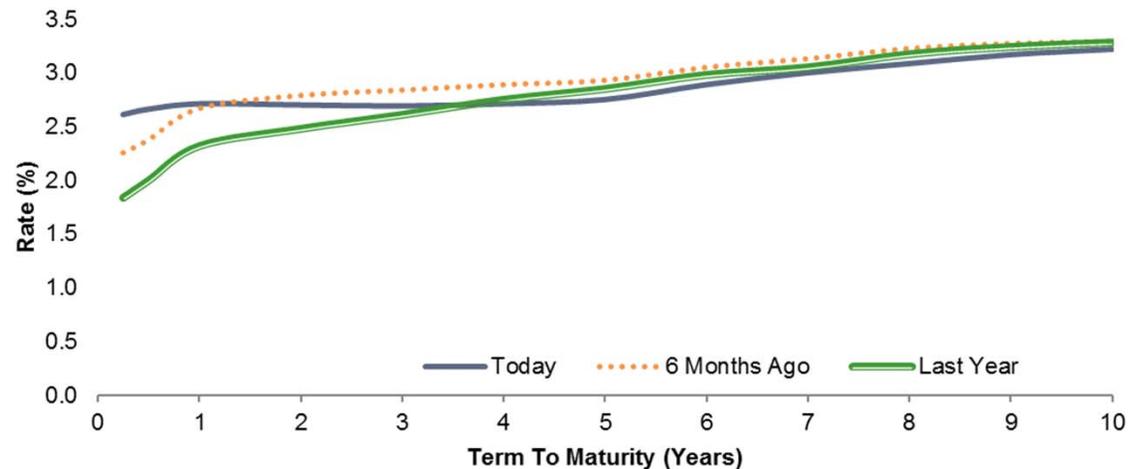
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

	2/21/19	2/14/19
3mo	2.61%	2.60%
2yr	2.69%	2.68%
5yr	2.75%	2.73%
10yr	3.22%	3.20%

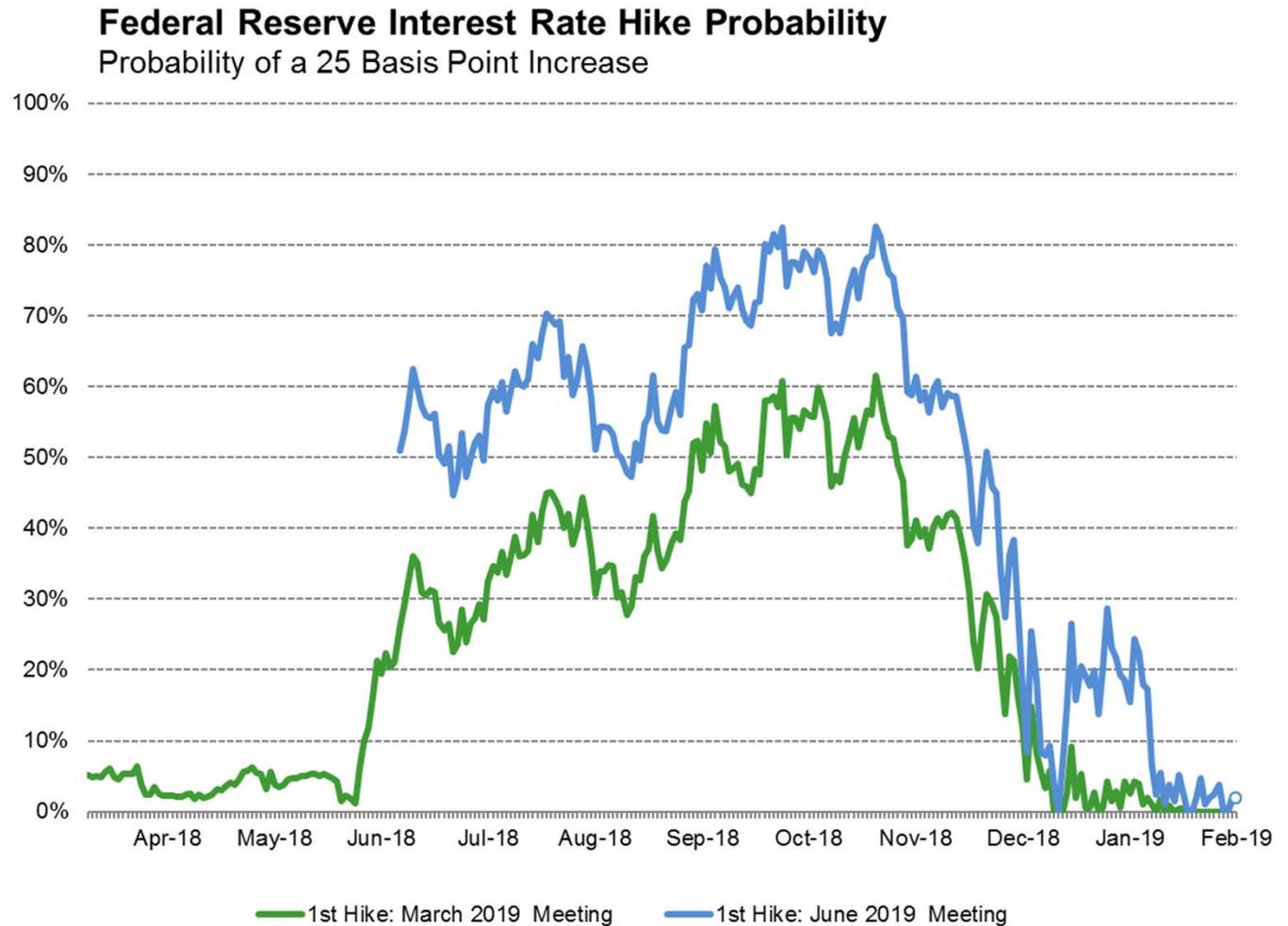
FHLBank Chicago Advance Rates



Federal Reserve Interest Rate Probability

Following the fourth rate hike of 2018 in December, the market implied probability of a rate hike in March 2019 increased to 1.86%, as of February 21.

If rates do not increase in March, the market implied probability of the first rate hike occurring in June 2019 is about the same at 1.85%.



Source: Bloomberg

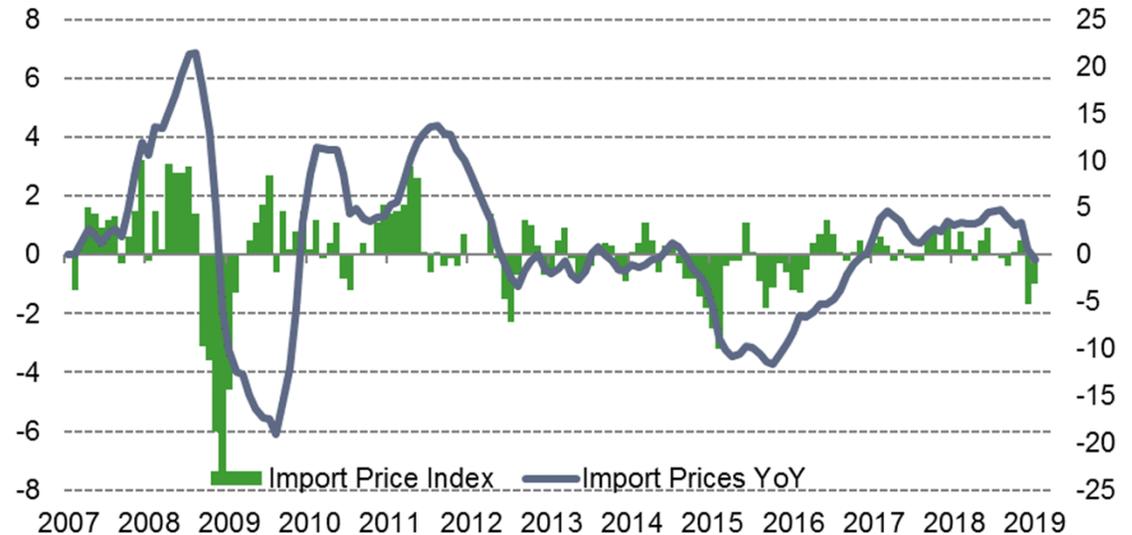
U.S. Economic Data Releases

For the Week Ending 02/21/2019

Import Price Index

January: -0.5% vs. December: -1.0%

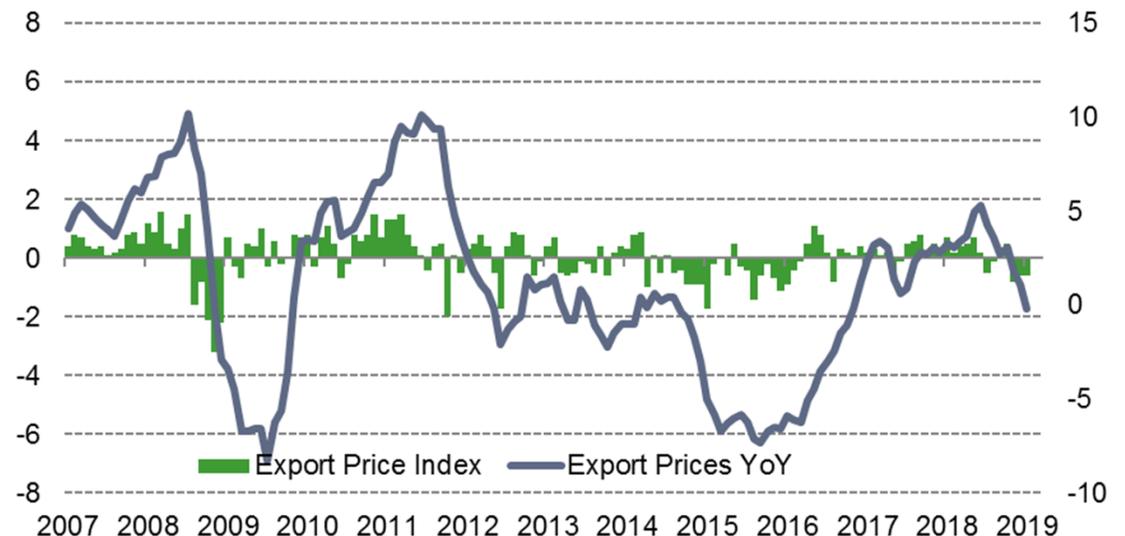
- Decreased 0.5% in January compared to falling 1.0% in December. Fuel imports decreased 3.2% from the prior month. Non-fuel imports fell 0.2%. Excluding petroleum, the index only fell 0.7% in January. From one year earlier, prices are 1.7% lower.



Export Price Index

January: -0.6% vs. December: -0.6%

- Decreased 0.6% in January, following declines in both December and November. Agricultural exports fell 2.1% in January, while all other exports declined 0.3%. Year-over-year the index is down 0.2%, which is the first 12-month decline since November 2016.



Source: Bureau of Labor Statistics

U.S. Economic Data Releases

For the Week Ending 02/21/2019

Industrial Production

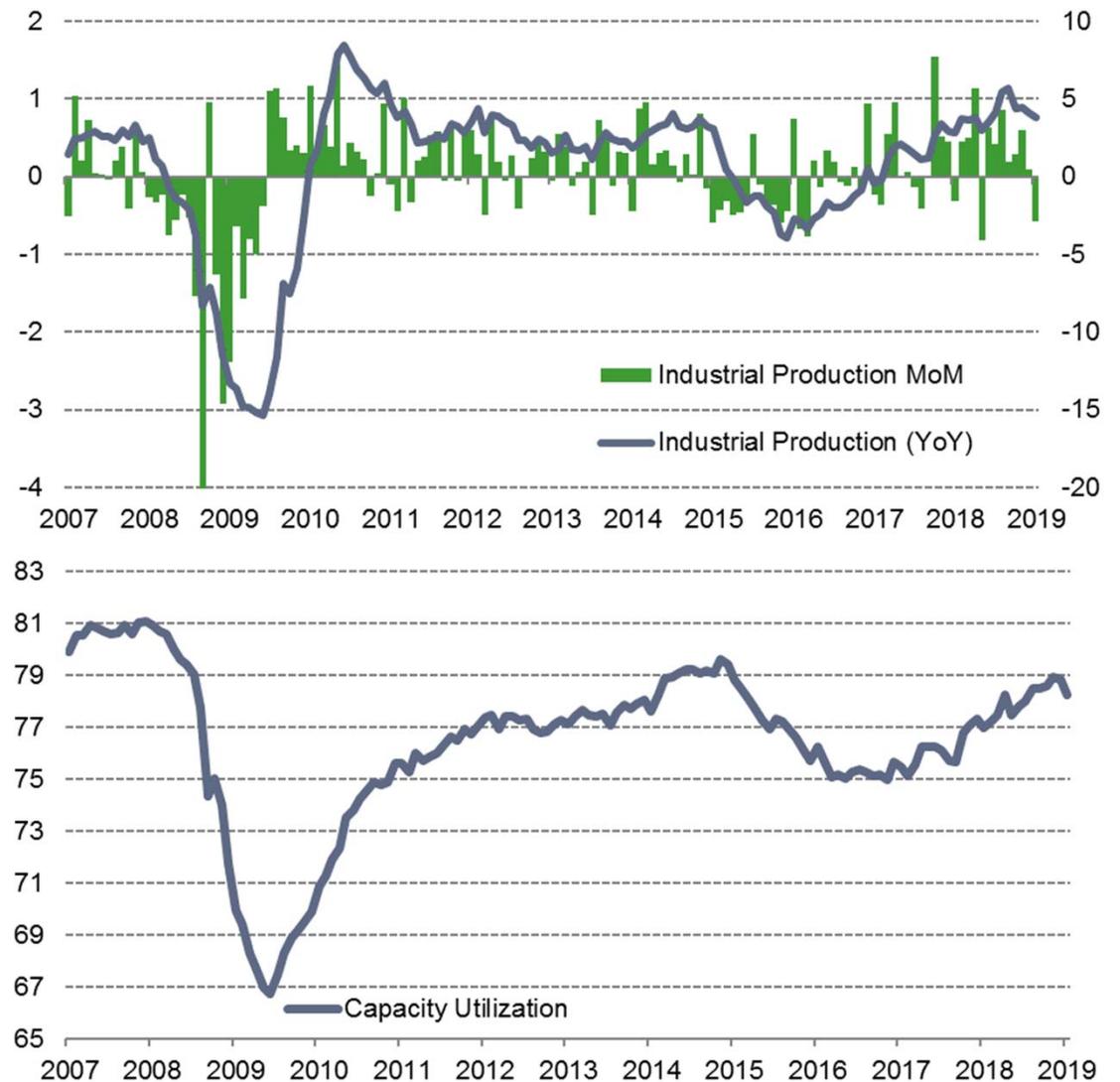
January: -0.6% vs. December: 0.1%

- Was seven-tenths below expectations, falling 0.6% in January. The decline in production was primarily due to an 8.0% decrease in automotive products, a 5.3% fall in transit equipment, and a 1.2% decline in clothing. Manufacturing, which makes up approximately 70% of industrial production, decreased 0.9% month-over-month.

Capacity Utilization

January: 78.2% vs. December: 78.8%

- Declined to 78.2% in January, which is 1.6 percentage points below its long-run average.



Source: Federal Reserve

U.S. Economic Data Releases

For the Week Ending 02/21/2019

NAHB Housing Market Index

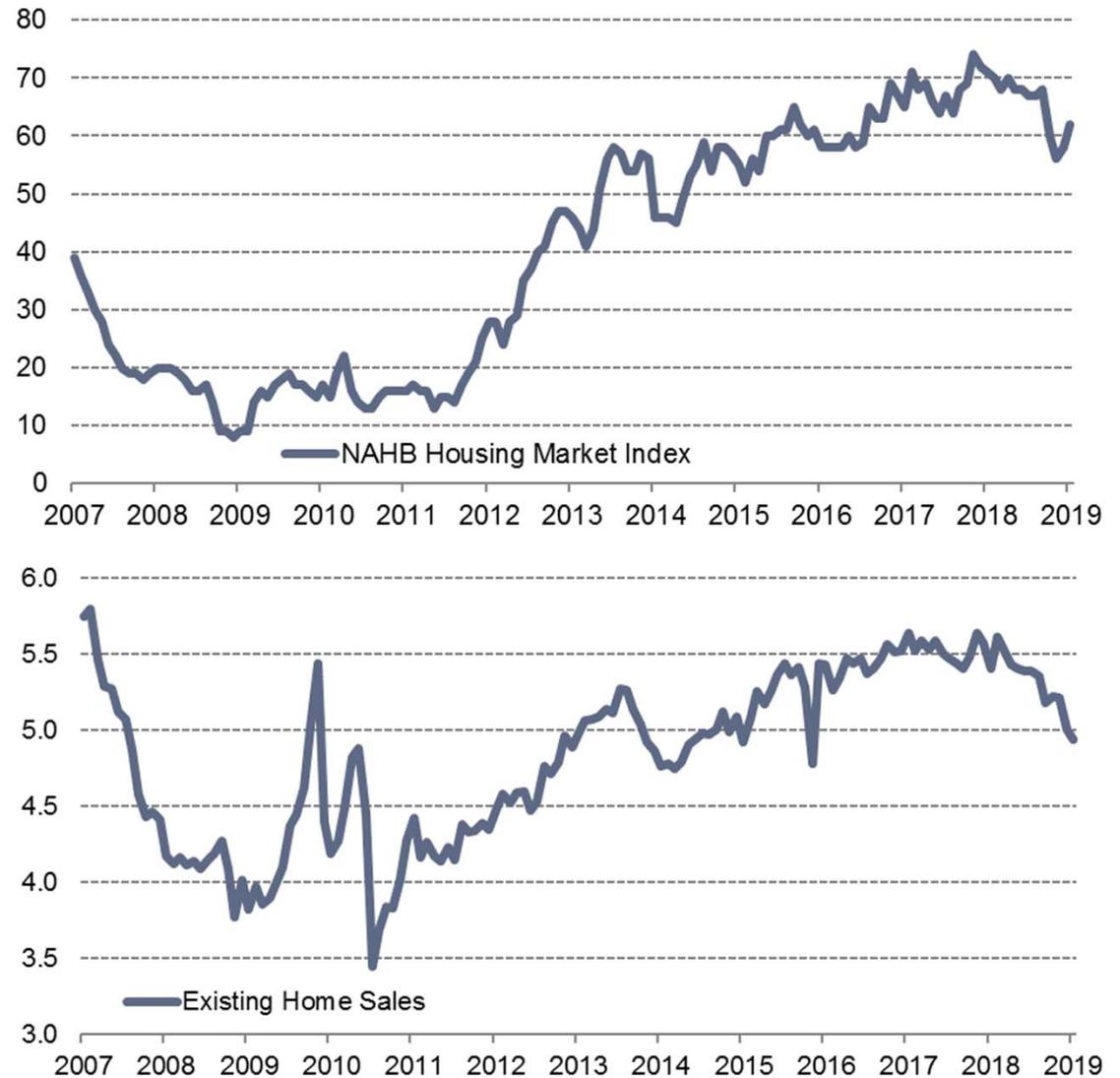
February: 62.0 vs. January: 58.0

- Rose four points to 62.0 in February. Both the present and next six months measurement of single family sales pushed higher by three points and five points, respectively. The Midwest and South regions increased from the prior month, while the Northeast and West decreased slightly.

Existing Home Sales

January: 4.94M vs. December: 5.00M

- Fell by a more-than-expected 1.2% in January to an annual rate of 4.94M. The prior month was upwardly revised from 4.99M to 5.00M. Existing home sales are down 8.5% from one year ago.



Source: Natl. Assoc. of Home Builders, Natl. Assoc. of Realtors

U.S. Economic Data Releases

For the Week Ending 02/21/2019

Initial Jobless Claims

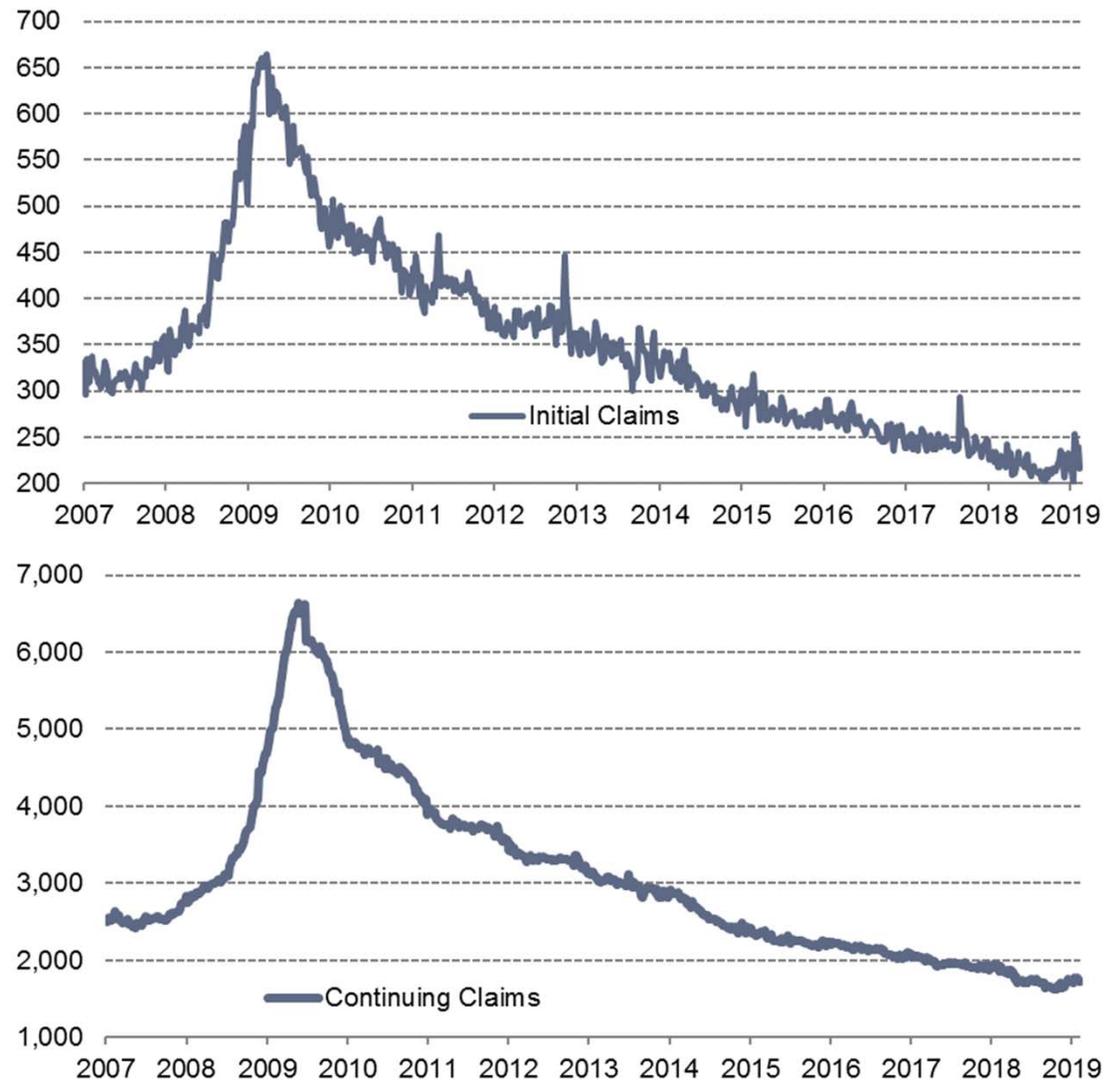
February 16: 216K vs. February 9: 239K

- Decreased by 23K to 216K in the week ending February 16. The prior week was unrevised at 239K. The four-week moving average edged higher by 4K to 235.75K, its highest level since January 2018.

Continuing Claims

February 9: 1.725M vs. February 2: 1.780M

- Decreased by 55K to 1.725M in the week ending February 9. The prior week was upwardly revised by 7K to 1.780M. The four-week moving average rose by 2.75K to 1.754M. The insured unemployment rate remained stable at 1.2%.



Source: Department of Labor

FOMC Meeting Minutes

- The Federal Open Market Committee (FOMC) released its meeting minutes from its January 29-30 meeting.
- The statement continued to emphasize patience due to uncertainty around financial conditions, slowing global growth, and softer inflation. Participants did however still characterize growth as "solid" and noted inflation "remained near 2 percent."
- The minutes read, "labor market conditions continued to strengthen and that growth in GDP was solid in the fourth quarter of last year, although the availability of data was more limited than usual because of the partial federal government shut-down that extended from December 22 to January 25. Consumer price inflation, as measured by the 12-month percentage change in the price index for PCE, was a bit below 2 percent in November, held down in part by recent declines in consumer energy prices."
- Fed Chair Powell stated in a press conference, "Many participants suggested that it is not yet clear what adjustments to the target range for the federal funds rate may be appropriate later this year; several of these participants argued that rate increases might prove necessary only if inflation outcomes were higher than in their baseline outlook."

December Retail Sales

Retail Sales Drop Most Since 2009

- The importance of the consumer to the health of the U.S. economy can never be underestimated, as consumer spending accounts for approximately 70% of GDP.
- Retail sales missed expectations of a 0.1% increase and unexpectedly declined 1.2% in December, the sharpest decline since September 2009.
- Sales this month were dragged down by a 5.1% drop in sales at gasoline stations and a 3.9% decline in sales at non-store retailers.
- After excluding volatile components such as auto sales, gasoline sales, and building material sales, “core” retail sales still fell 1.7% in December.

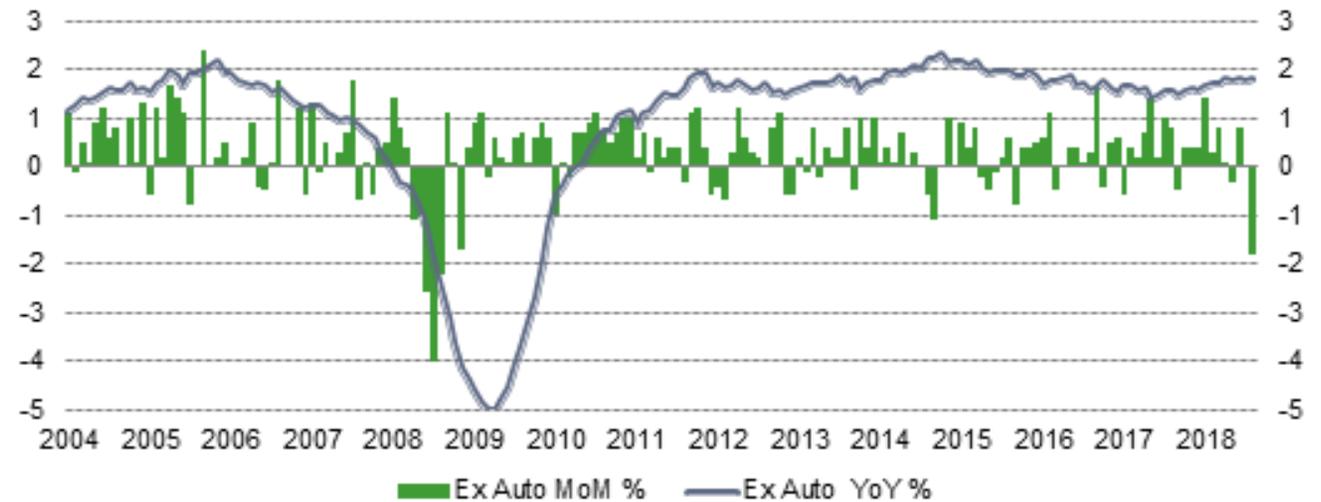
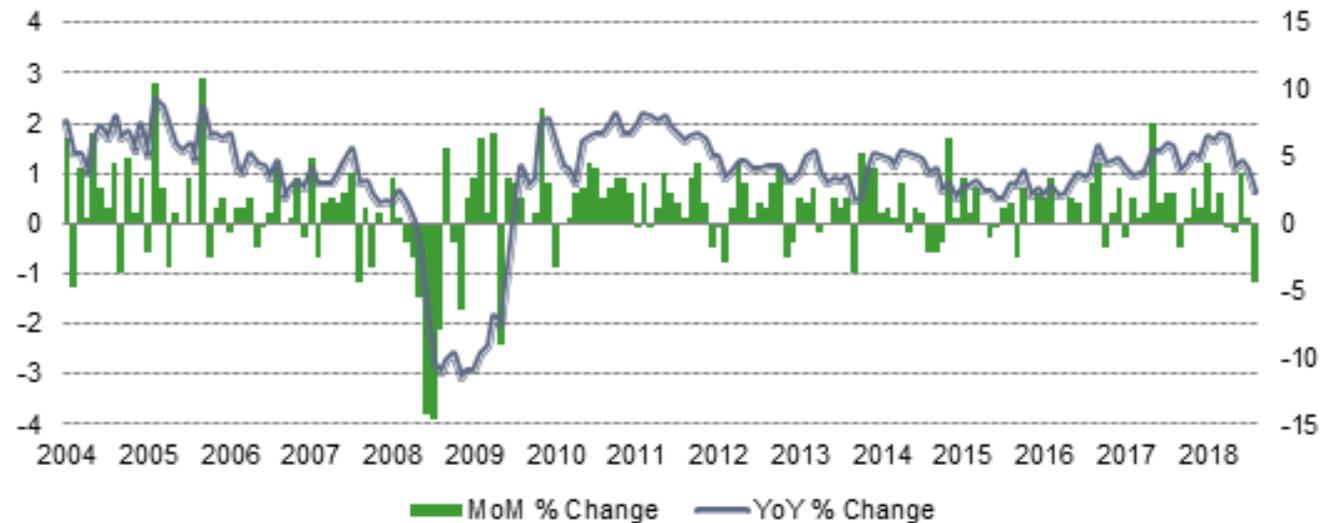
Source: U.S. Census Bureau

December Retail Sales

Retail Sales Miss Expectations

Retail sales fell 1.2% in December following a modest increase in November. As a result, the year-over-year growth declined from 4.1% in November to 2.3% in December.

Excluding autos, retail sales also decreased 1.8%, while in November it was unchanged. Year-over-year growth however edged higher to 1.8%.



Source: U.S. Census Bureau

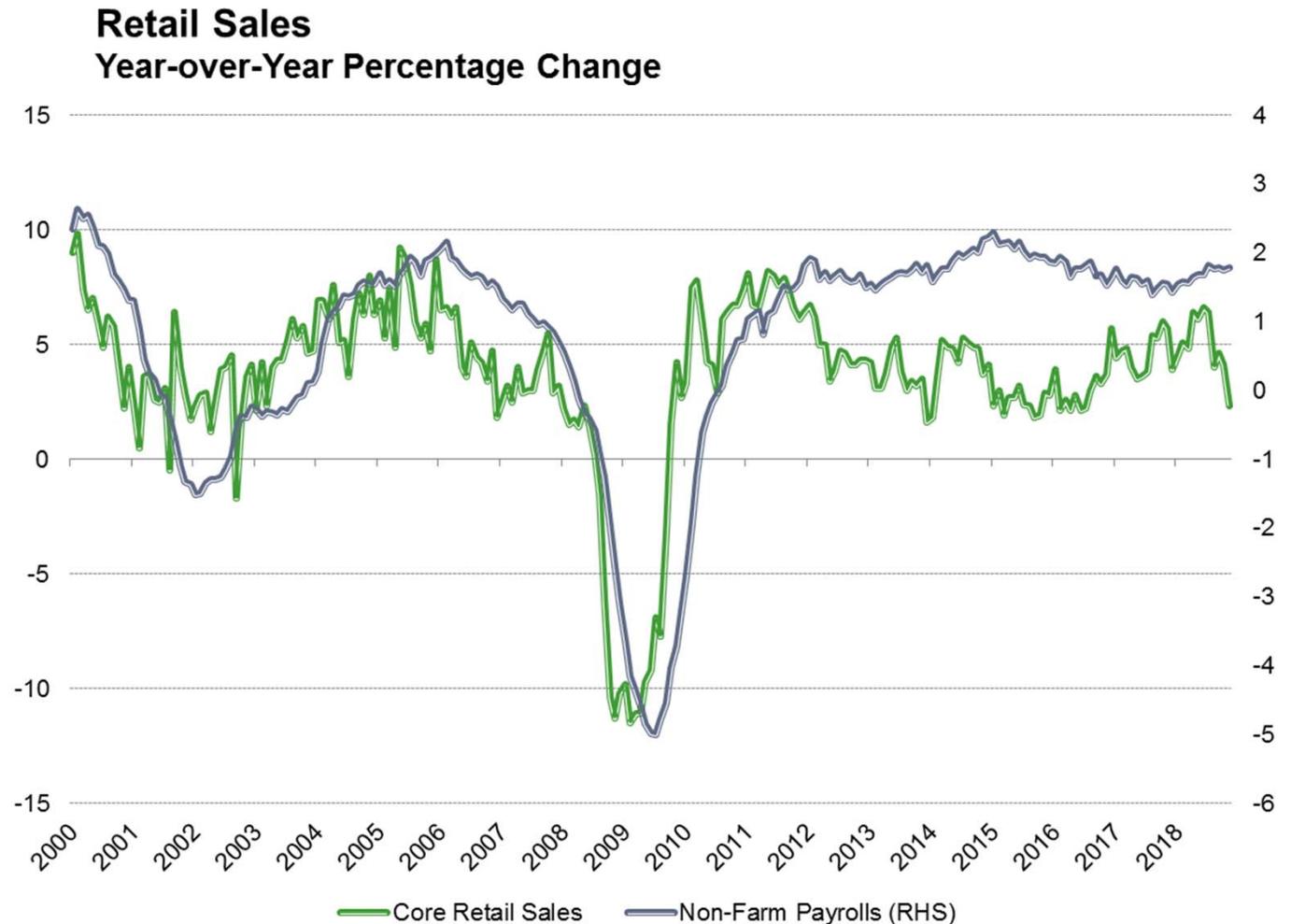
December Retail Sales

Retail Sales vs. Employment

Retail sales are generally correlated to payroll growth.

Retail sales growth tends to lead employment by approximately six months, suggesting payrolls may begin to slow.

The gap between core retail sales and non-farm payrolls is beginning to widen, suggesting people are spending less money.

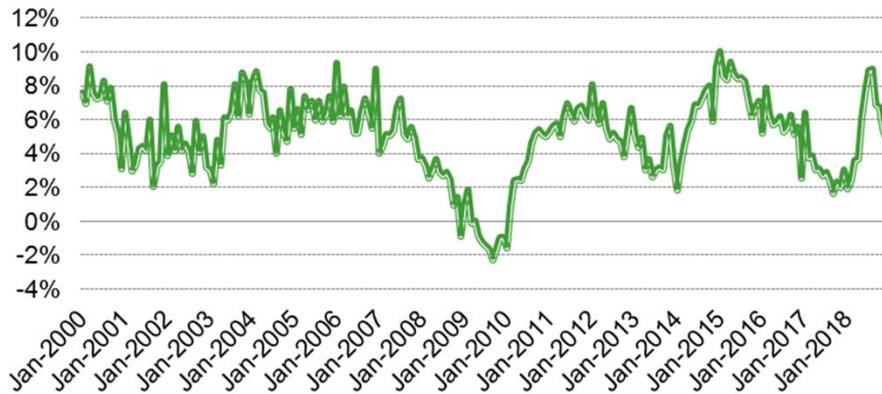


Source: U.S. Census Bureau, Bureau of Labor Statistics

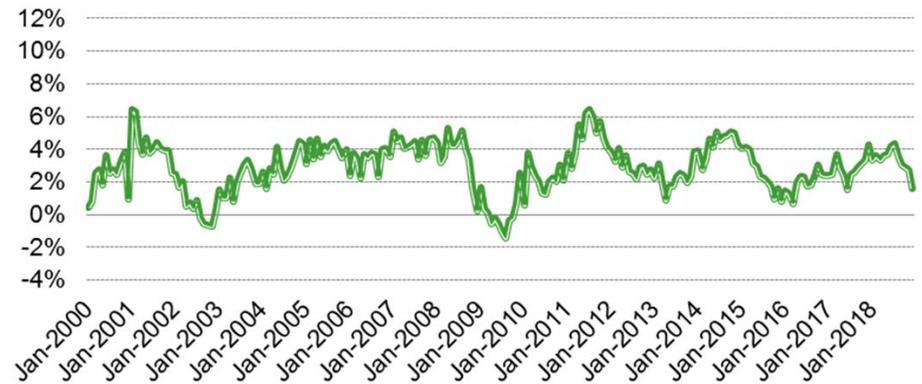
December Retail Sales

Discretionary Sales Across Sectors All Decline

Restaurant Sales
Year-over-Year Percentage Change



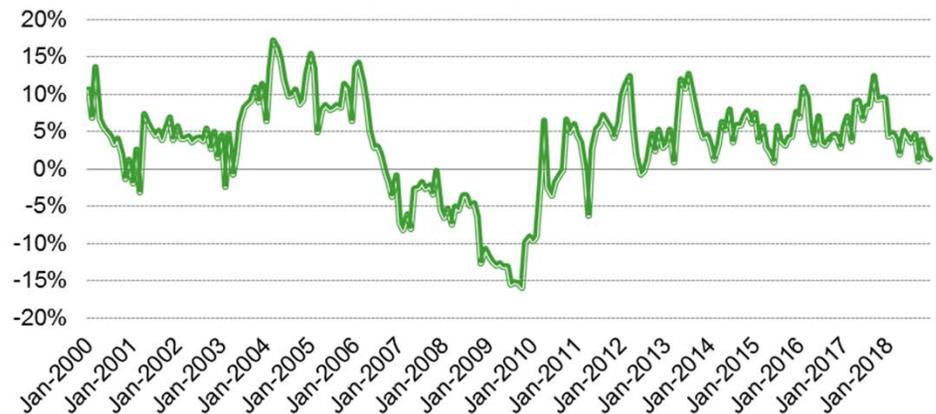
Food and Beverage Stores Sales
Year-over-Year Percentage Change



Non-Store (Internet) Sales
Year-over-Year Percentage Change



Building Materials and Garden Equipment Sales
Year-over-Year Percentage Change



Source: U.S. Census Bureau

Inflation

- The headline Consumer Price Index (CPI) was unchanged in January, missing consensus expectations of a 0.1% increase. The year-over-year rate edged lower from 1.9% to 1.6%.
 - Excluding food and energy, core CPI increased 0.2% in January and is up 2.2% over the past year.
- Within the index, food prices increased 0.2% month-over-month which were offset by energy prices declining 3.1%.
 - Excluding food and energy, the index rose 0.2%. Supporting the increase, shelter prices increased 0.3%, and the indexes for apparel, medical care, recreation, and household furnishings and operations also rose.

Source: Bureau of Labor Statistics

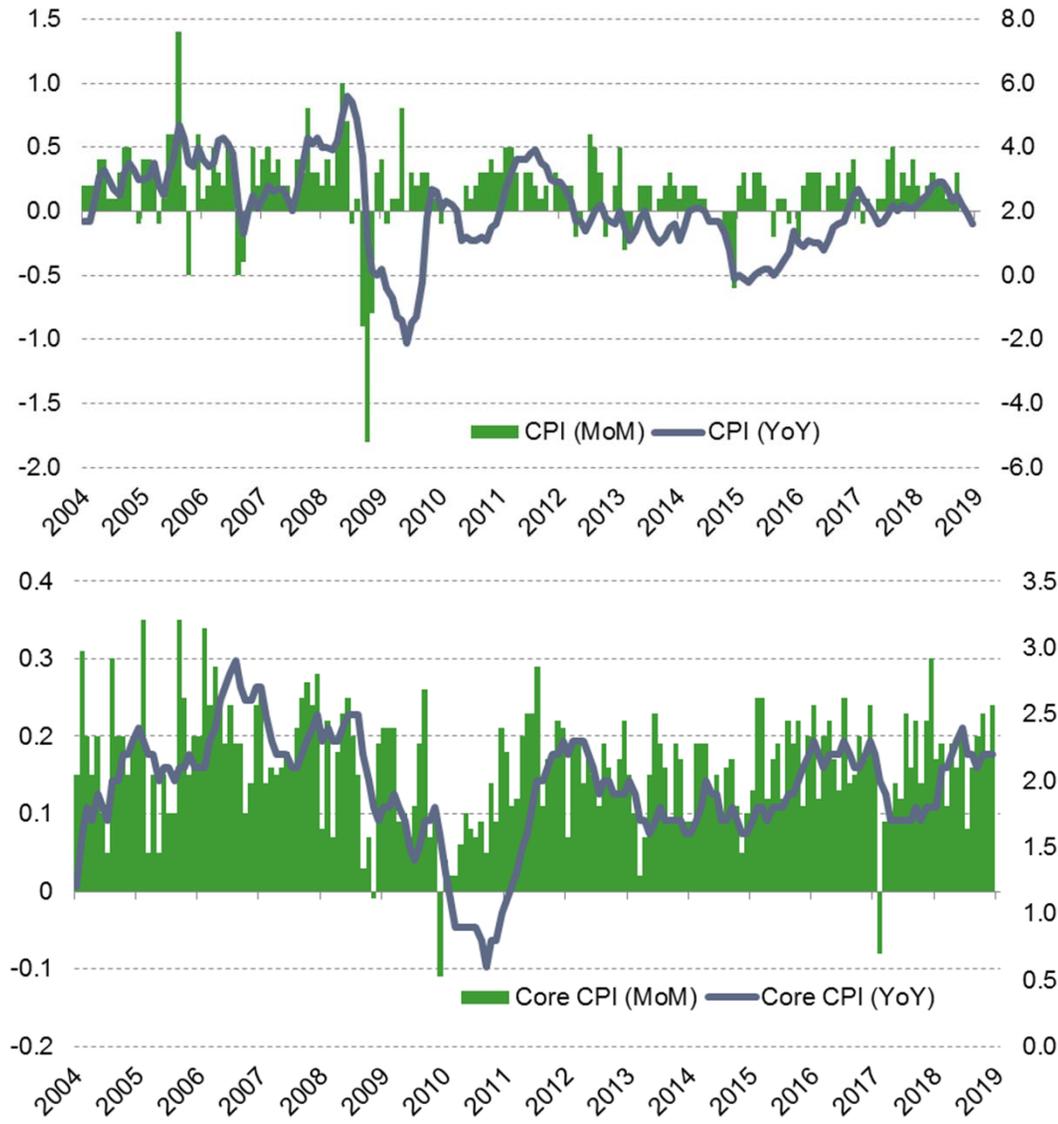
Inflation

Core CPI Edges Higher in January

Headline CPI remained unchanged in January and missed expectations of a 0.1% increase.

The energy index declined for the third consecutive month, which offset increases within the index. The food and shelter indices increased 0.2% and 0.3% month-over-month, respectively.

Excluding food and energy, the core index advanced 0.2% month-over-month and remains 2.2% higher than one year ago, the same level as December.



Source: Bureau of Labor Statistics

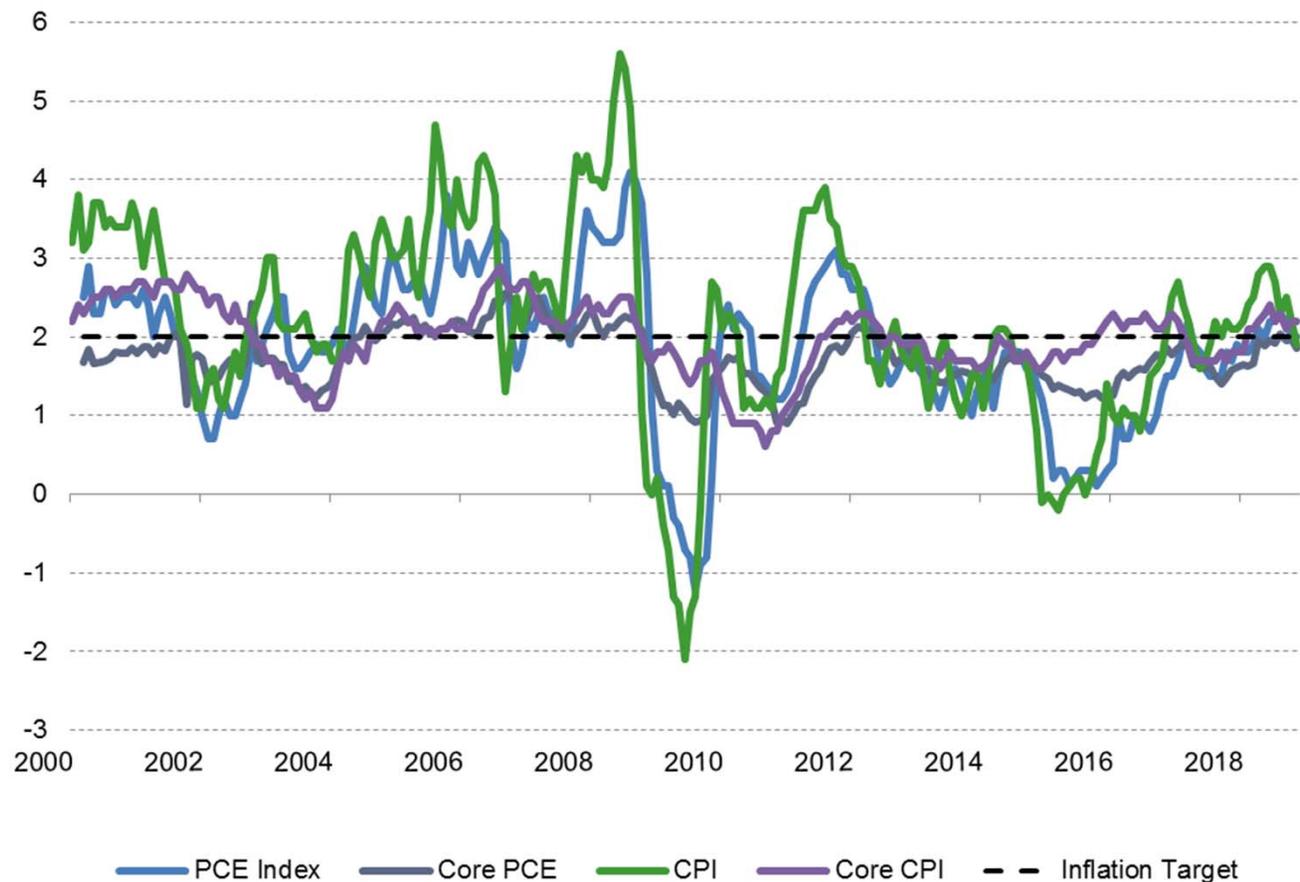
Inflation

Most Inflation Measures Below Fed Target

Inflation measures fell slightly year-over-year, with most measures below the Fed's 2.0% target. CPI slowed to 1.9% from 2.2% in December, and the PCE index fell 0.2% to 1.8% in November.

Most indicators have recently moved below the Fed's target, with core CPI as the only component remaining above 2.0%, at 2.2%.

Inflation Rate Measures vs. Fed Target of 2.0%
Year-over-Year Percentage Change



Source: Bureau of Labor Statistics

Inflation

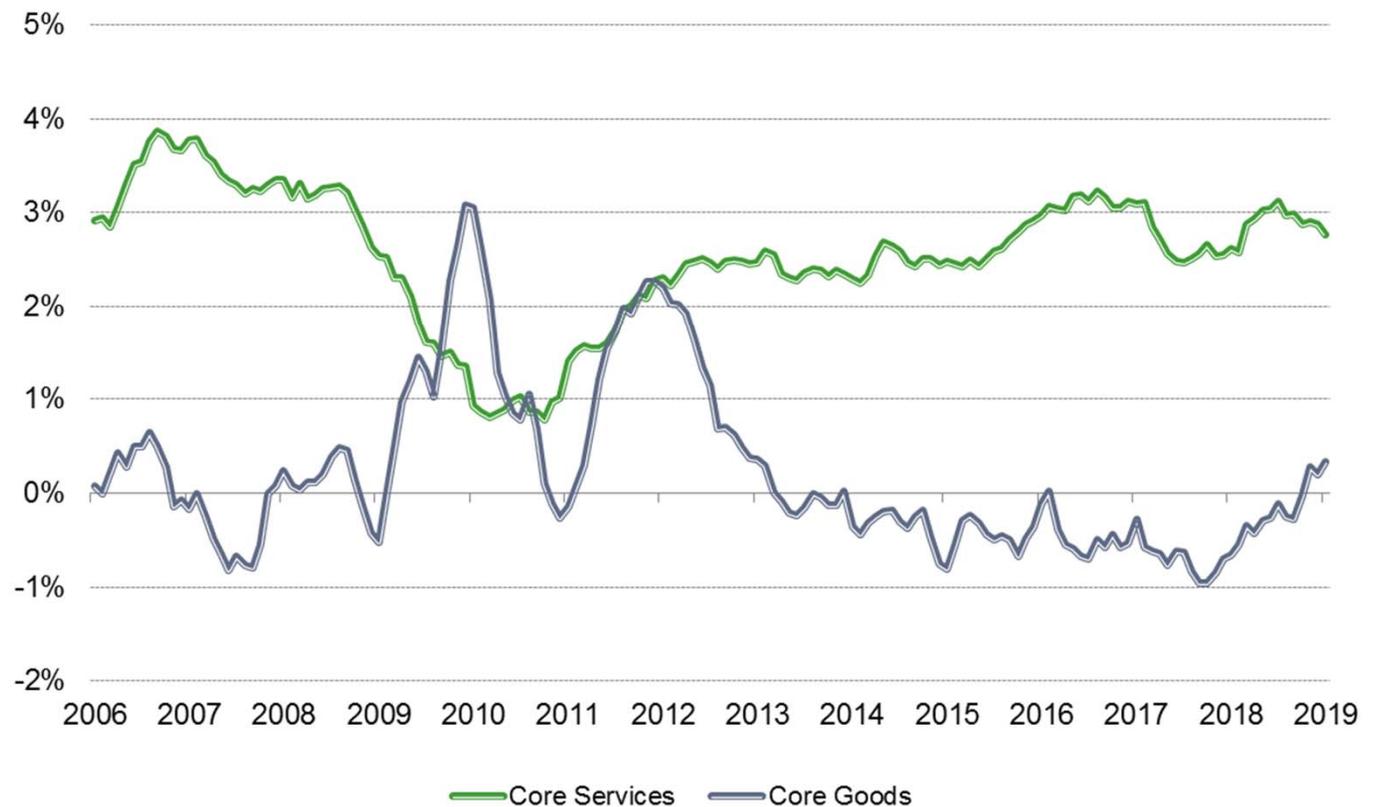
Services Inflation Edges Lower and Goods Inflation Rises

Services account for two-thirds of core inflation, while goods account for the remaining one-third of the index.

Core services annual percentage change edged slightly lower from 2.88% to 2.76%.

The goods annual percentage change increased from 0.2% to 0.3%.

Consumer Price Index (CPI) By Sector
Year-over-Year Percentage Change



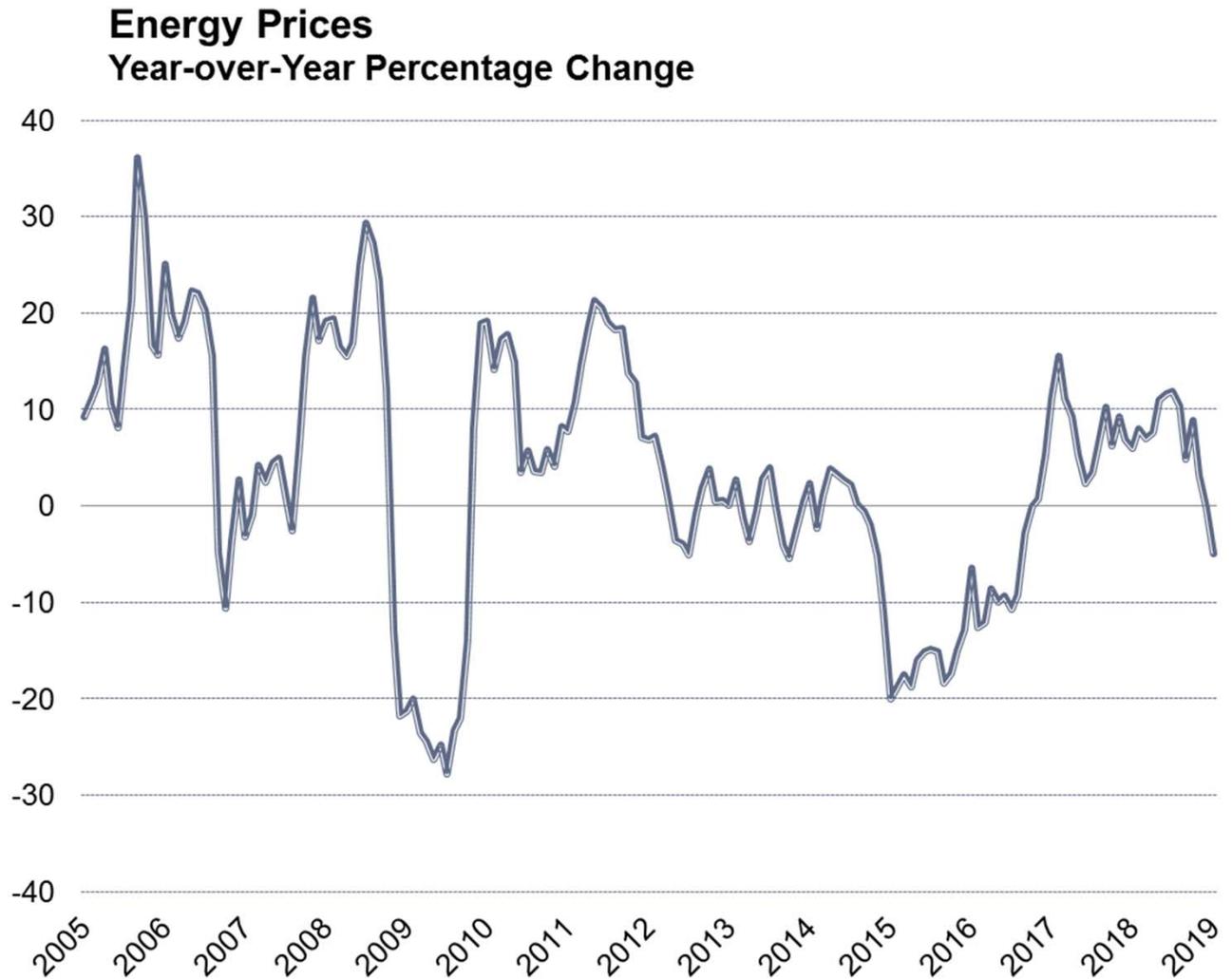
Source: Bureau of Labor Statistics

Inflation

Energy Price Growth Slows

The energy index dropped 3.1% in January, which pushed the year-over-year growth down to -4.8% compared to -0.2% in December.

A 5.5% drop in the gasoline index weighed down the energy index most, but natural gas and electricity also decreased.



Source: Bureau of Labor Statistics

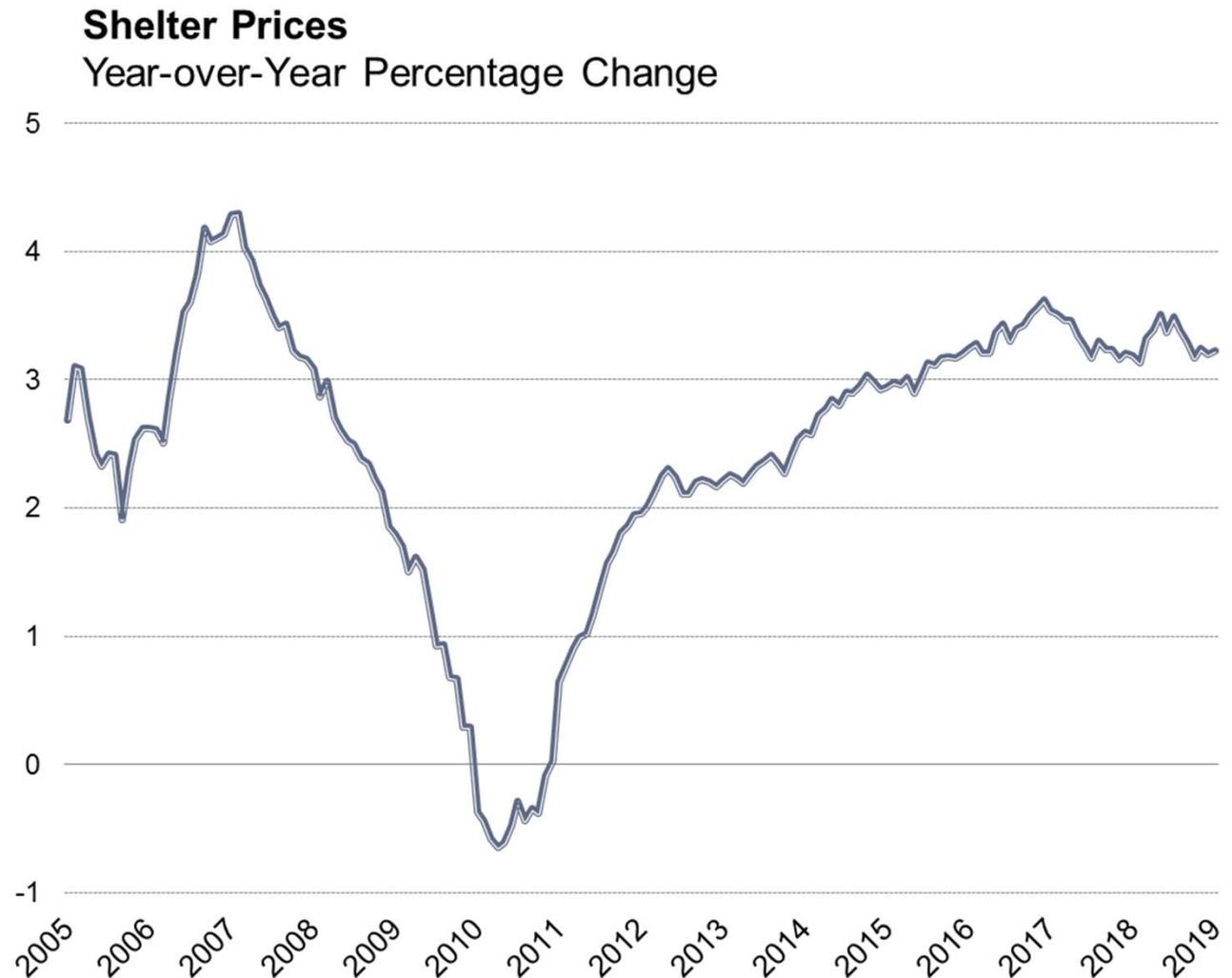
Inflation

Shelter Prices Support Gain in Core CPI

Shelter prices supported the monthly increase in core CPI.

Shelter prices increased 0.3% on the month. The index for rent and owners' equivalent rent both rose 0.3%.

Despite the increase, the annual percentage change of shelter prices remained unchanged from the previous month at 3.2%.



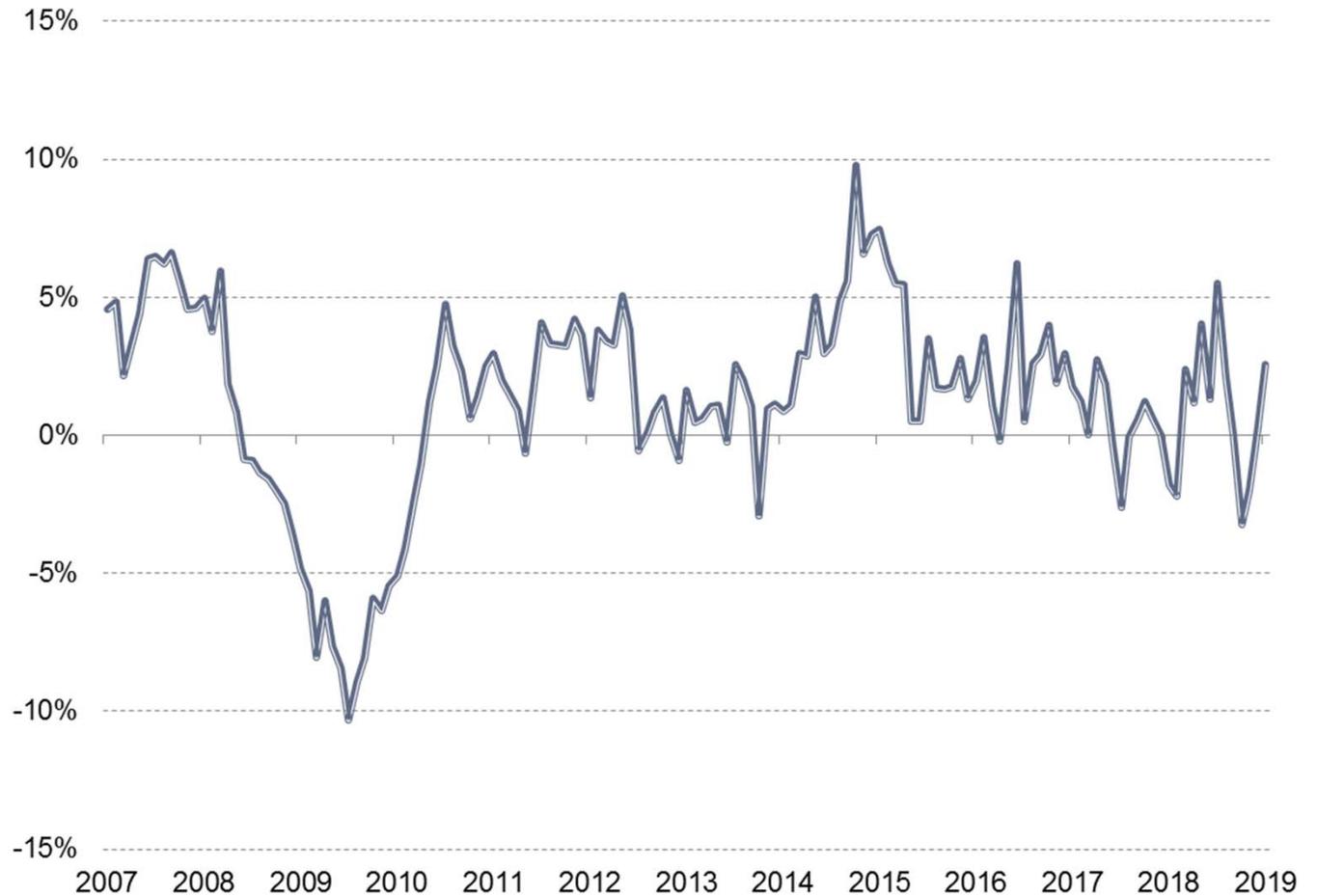
Source: Bureau of Labor Statistics

Inflation

Lodging Away from Home Remains Volatile

Within shelter prices, the index measuring lodging away from home, such as hotels and motels, rose 0.5% for the month, or 2.6% year-over-year in January.

**Lodging Away From Home Prices
Year-over-Year Percentage Change**



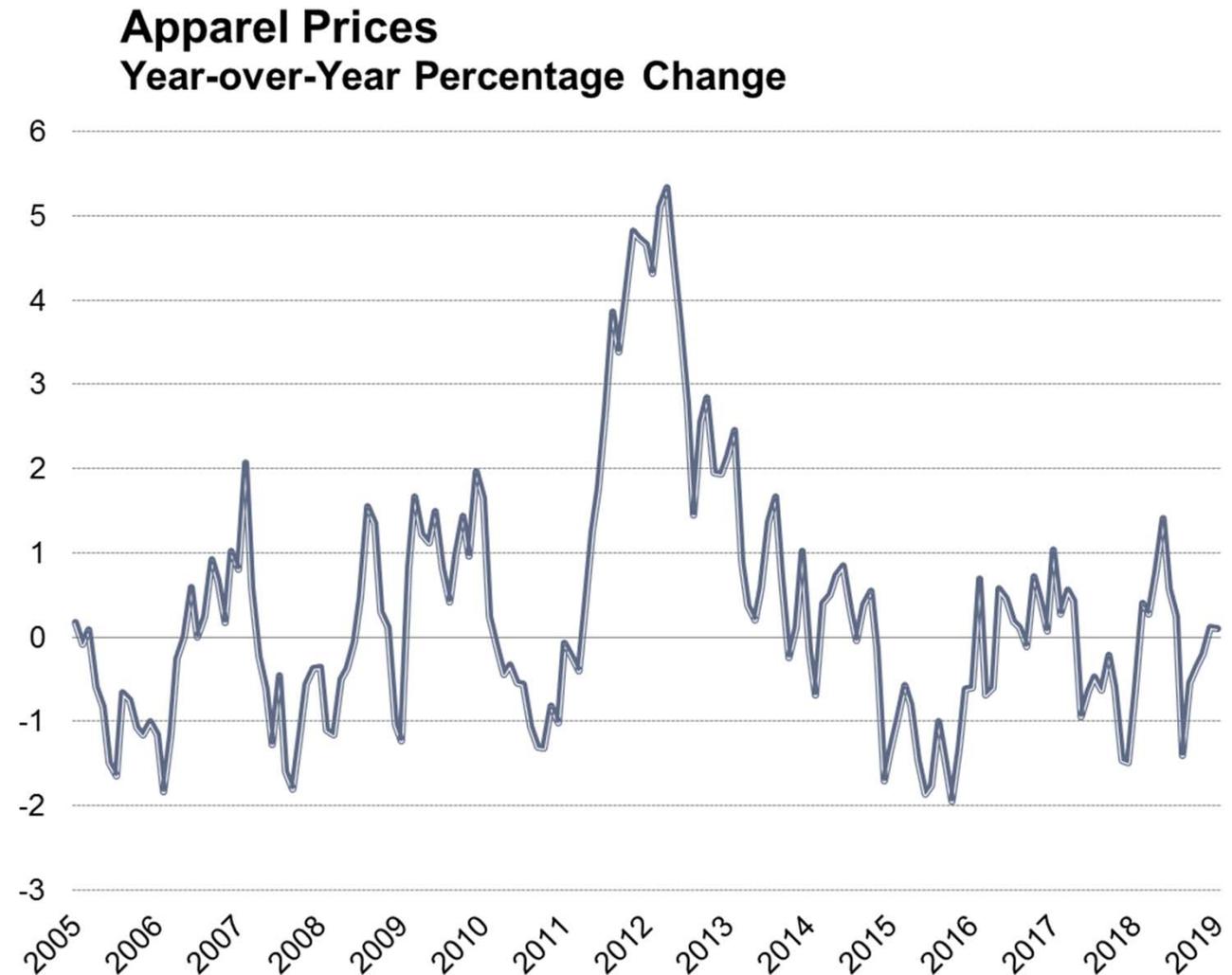
Source: Bureau of Labor Statistics

Inflation

Apparel Prices Remain Volatile

Apparel prices increased 1.1% month-over-month and remain 0.1% higher than one year ago.

This is the largest monthly increase since February 2018.



Source: Bureau of Labor Statistics

Inflation

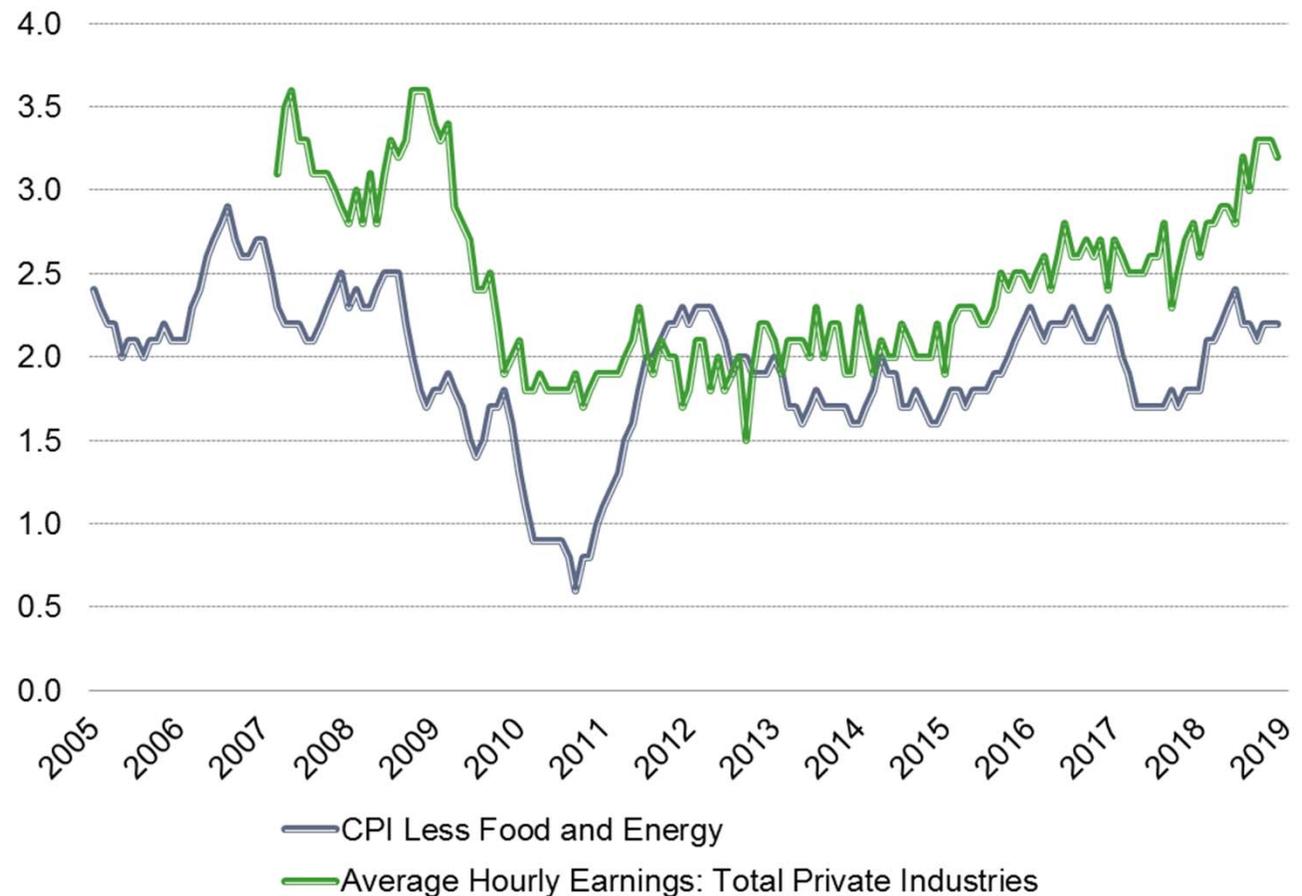
Wage Growth Declines; Inflation Unchanged

Wage growth in January declined slightly to 3.2% compared to 3.3% in December.

Wage growth has been recovering since 2013 overall and has been at or above 3.0% since August 2018.

Core CPI surpassed the Fed's 2.0% target in March and continues to remain above target. Core CPI was stable at 2.2% in January.

Inflation vs. Wage Growth
Year-Over-Year Percentage Change



Source: Bureau of Labor Statistics

This and That

A recent poll from Gallup found that Americans' optimism about their personal finances has increased to levels not seen in more than 16 years. Sixty-nine percent of Americans expect to be financially better off "at this time next year," which is only two percentage points below the all-time high of 71% in March 1998. Further, 50% say they are better off today than they were a year ago. This is a post-recession milestone as it is the first time since 2007 that at least half the public has said that they are financially better off than the year prior. On the other hand, only 26% of those polled say they are worse off than a year ago, which is the lowest level since October 2000.

In 109 Gallup polls going back to 1976, there have been only 11 times that at least half of those polled said they were in better financial shape than they had been a year ago. In 114 polls stretching back to 1977, only once have Americans been more optimistic about their personal finances in the coming year than they are today.

Source: Gallup

Economic Data Release Calendar

February 2019

No economic data is set to be released prior to the weekend.

Next week is busy with various economic data releases on housing prices and home sales as well as durable goods orders.

Further, all eyes will be focused on the preliminary release of Q4 GDP on Thursday.

February 2019				
Monday	Tuesday	Wednesday	Thursday	Friday
Notes:				1 Employment Total Vehicle Sales ISM Manufacturing Index Construction Spending Consumer Sentiment
4 Factory Orders	5 ISM Non-Manufacturing	6 MBA Mortgage Applications	7 Jobless Claims	8 Wholesale Trade
11	12 JOLTS	13 MBA Mortgage Applications Consumer Price Index	14 Jobless Claims Producer Price Index Final Retail Sales Business Inventories	15 Import Price Index Consumer Sentiment Net TIC Flows
18 President's Day Federal Holiday FHLBC Closed	19 NAHB Housing Market	20 MBA Mortgage Applications Housing Starts FOMC Meeting Minutes	21 Jobless Claims Existing Home Sales	22
25 Chicago Fed Natl Activity Dallas Fed Manufacturing	26 S&P Case-Shiller HPI FHFA House Price Index New Home Sales	27 MBA Mortgage Applications Durable Goods Orders Pending Home Sales	28 Jobless Claims GDP Chicago PMI	Notes:



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