



Weekly Market Update

Hosted by:

James Hotchkiss

Director, Member Strategy and Solutions

Date:

January 24, 2019

FHLB  Chicago
Federal Home Loan Bank of Chicago

Upcoming Guest Speakers

Morgan Stanley

2019 Economic and Investment Outlook

Thursday, January 31

2:00 – 4:00 p.m. CST

Guest speaker webinar with Morgan Stanley

The Federal Home Loan Bank of Chicago is pleased to announce that experts from Morgan Stanley will join James Hotchkiss and Ashish Tripathy on a special two-hour webinar on January 31. This event will include an economic update and the 2019 outlook on fixed income products from a panel of Morgan Stanley strategists. All FHLBank Chicago members are invited to attend.

2019 Economic and Fixed Income Outlook

Thursday, January 31 • 2:00 – 4:00 p.m. CST

2:00 to 2:25 p.m.	Economics – Jeremy Nalewaik
2:25 to 2:50 p.m.	Regulatory Update – Betsy Graseck
2:50 to 3:15 p.m.	Agency MBS – Jay Bacow
3:15 to 3:40 p.m.	CRE and CMBS – Richard Hill
3:40 to 4:00 p.m.	Rates – Matthew Hornbach

To join the call, dial 1-877-309-2074

Access Code: 621-016-163

Webinar ID: 782-424-651

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Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- Survey of Consumer Expectations
- Preview of the Coming Week
- Q and A

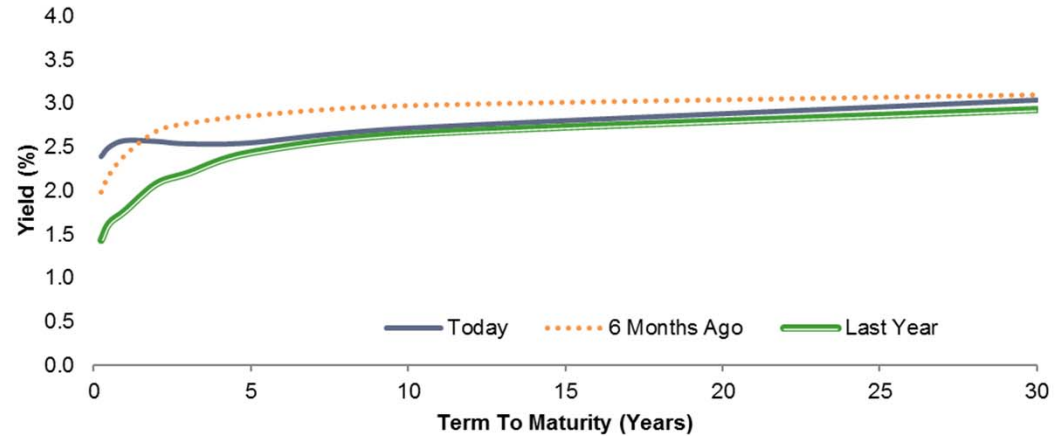
Weekly Interest Rate Movements

For the Week Ending 1/24/2019

U.S. Treasury Yields

	1/24/19	1/17/19
3mo	2.39%	2.42%
2yr	2.57%	2.50%
5yr	2.55%	2.48%
10yr	2.71%	2.64%

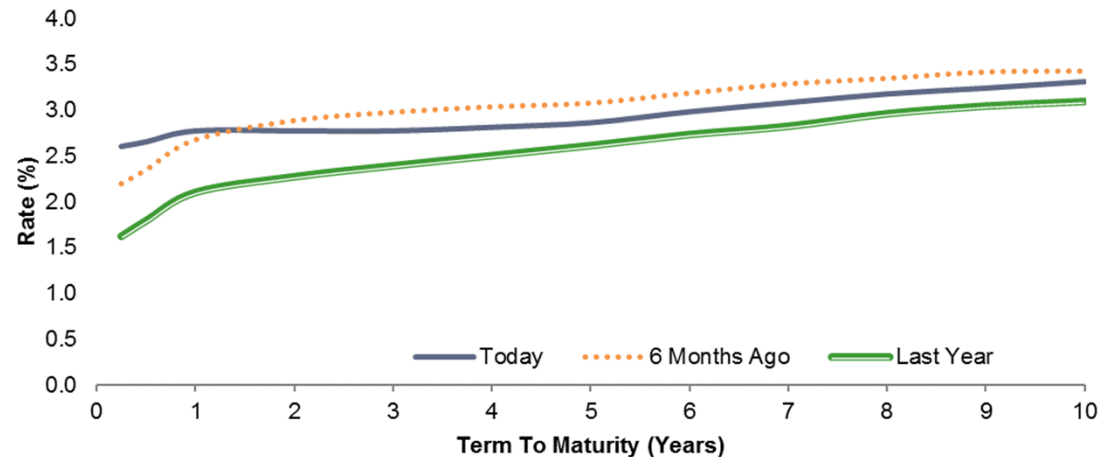
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

	1/24/19	1/17/19
3mo	2.60%	2.63%
2yr	2.77%	2.70%
5yr	2.87%	2.78%
10yr	3.31%	3.25%

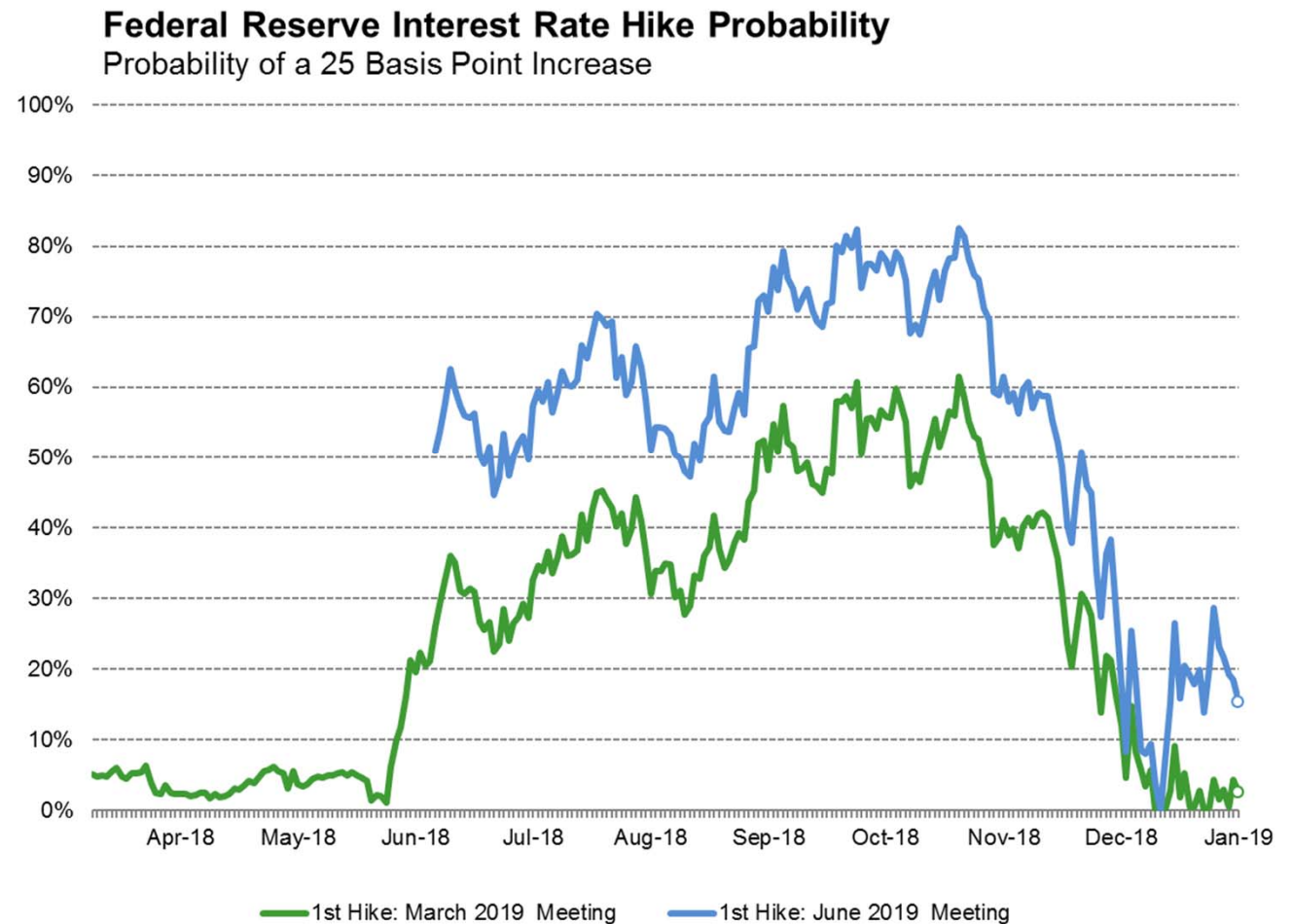
FHLBank Chicago Advance Rates



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 rose to 2.58% as of January 24.

If rates do not increase in March, the market implied probability of the first rate hike of the year occurring in June 2019 decreased to 15.41% this week.



Source: Bloomberg

U.S. Economic Data Releases

For the Week Ending 1/24/2019

Industrial Production

December: 0.3% vs. November: 0.4%

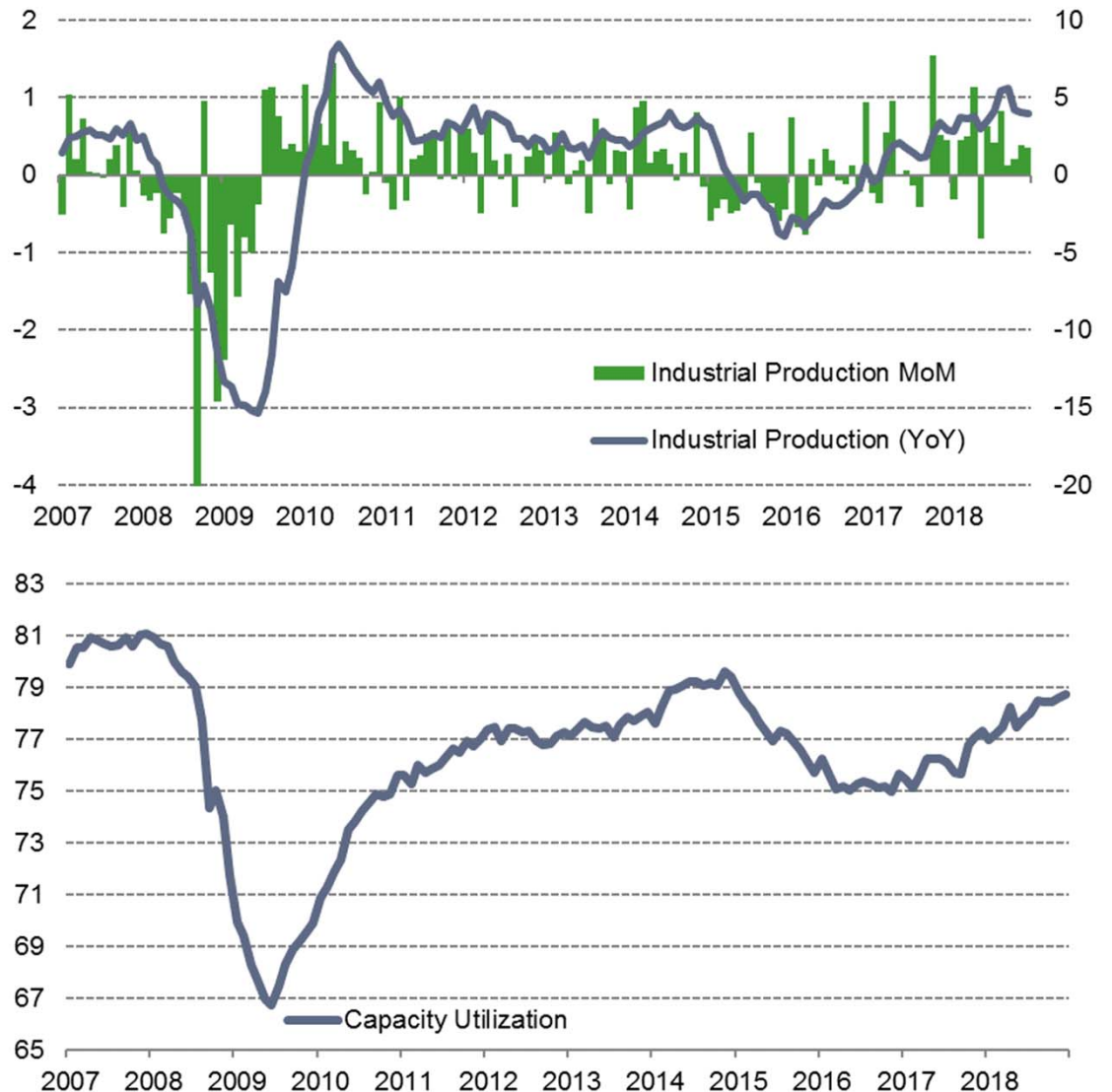
- Was one-tenth above expectations, rising 0.3% in December. The prior month was downwardly revised from 0.6% to 0.4%. Production was supported by a 1.5% increase in mining but was offset by a decline of 6.3% in utilities. Manufacturing, which makes up approximately 70% of industrial production, increased 1.1%, the largest monthly gain since February 2018.

Capacity Utilization

December: 78.7% vs. November: 78.6%

- Rose to 78.7% in December from an upwardly revised level of 78.6% the prior month.

Source: Federal Reserve



U.S. Economic Data Releases

For the Week Ending 1/24/2019

FHFA House Price Index

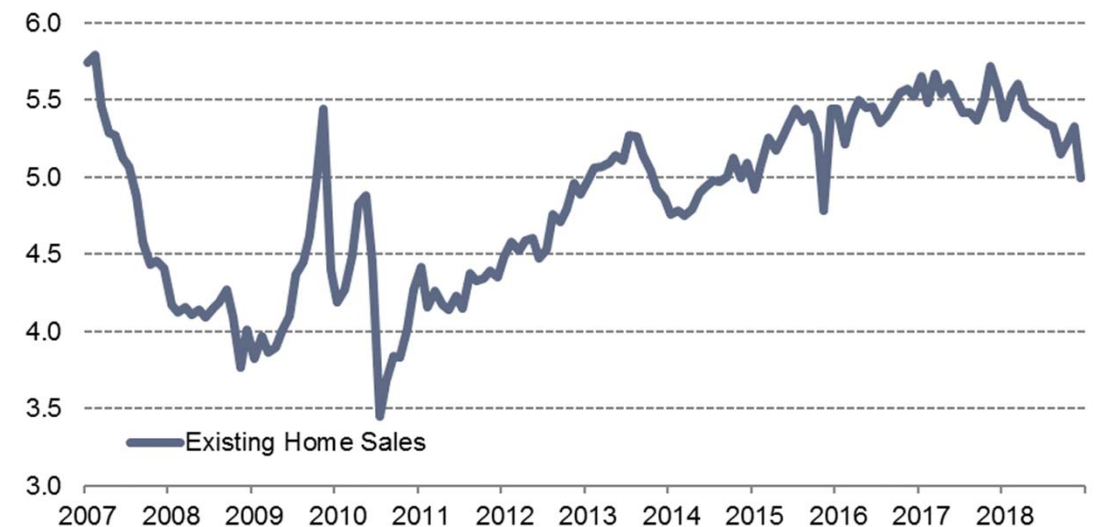
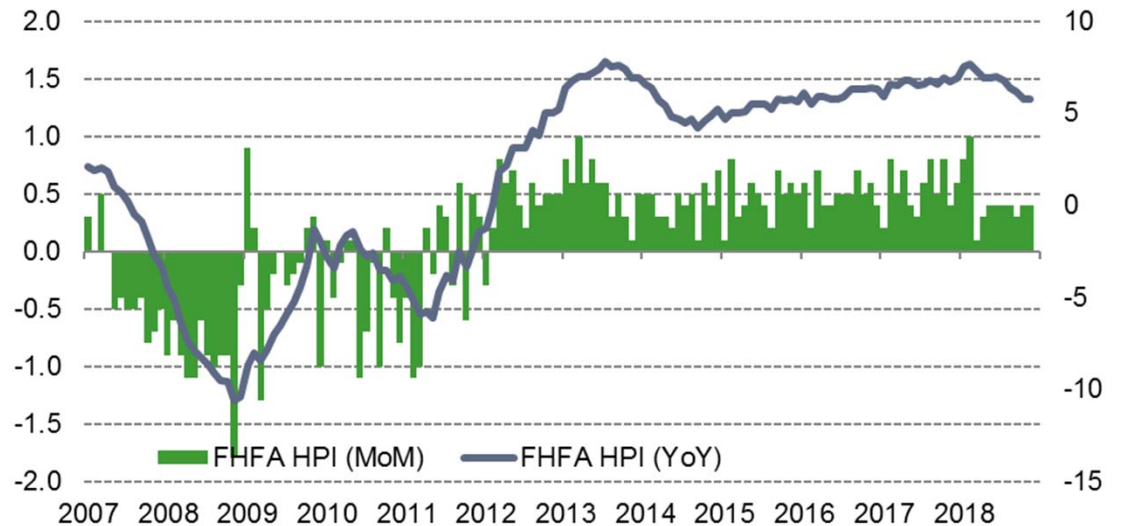
November: 0.4% vs. October: 0.4%

- Rose 0.4% in November. The prior month was upwardly revised from 0.3% to 0.4%. House prices are up 5.8% from one year ago. The East North Central division—including Michigan, Wisconsin, Illinois, Indiana, and Ohio—fell 0.2% from the prior month but is up 5.7% year-over-year.

Existing Home Sales

December: 4.99M vs. November: 5.33M

- Fell by a more-than-expected 6.4% in December to an annual rate of 4.99M. The prior month was upwardly revised from 5.32M to 5.33M. Existing home sales are down 10.3% from one year ago.



Source: FHFA, National Association of Realtors

U.S. Economic Data Releases

For the Week Ending 1/24/2019

Initial Jobless Claims

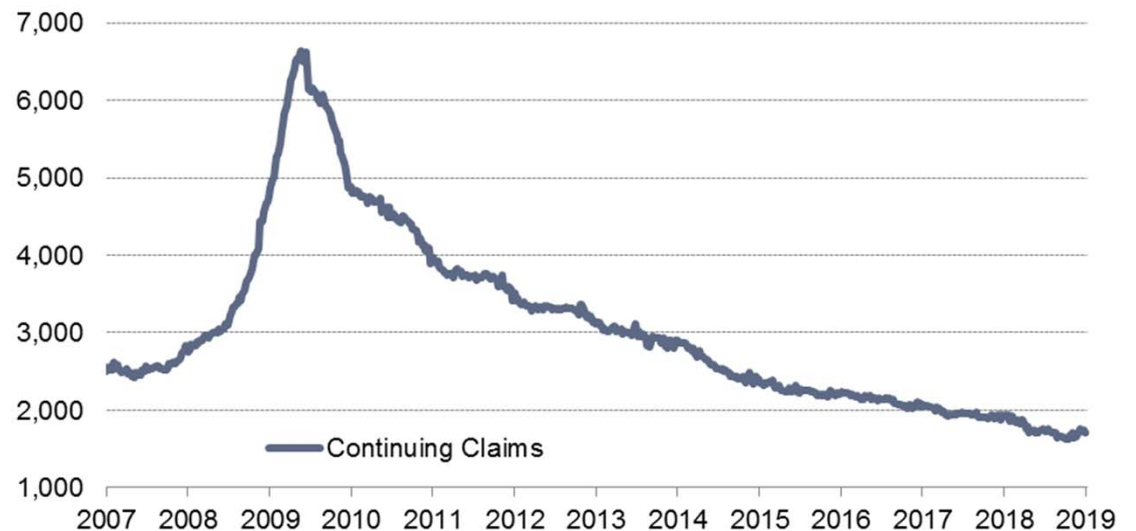
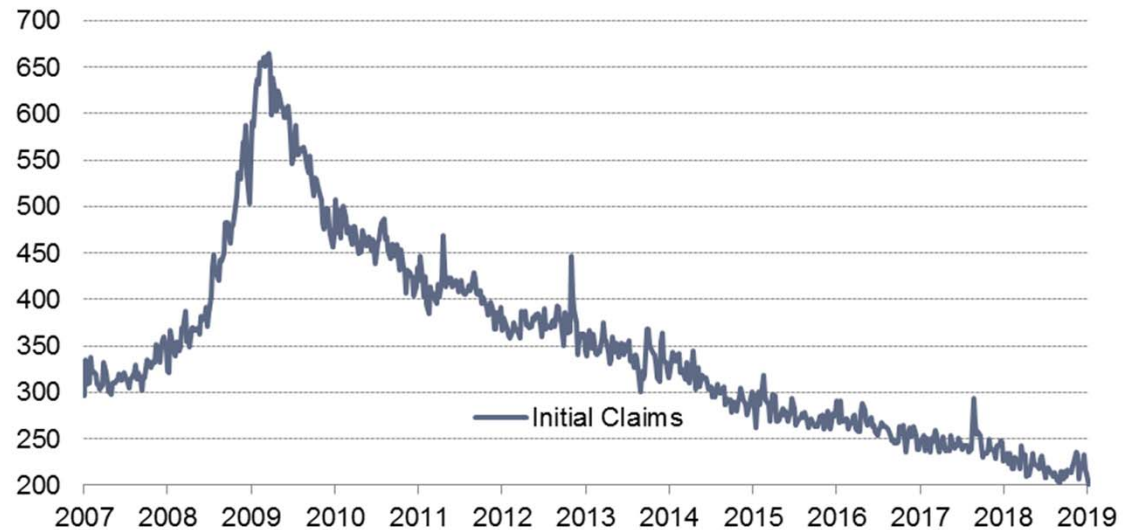
Jan. 19: 199K vs. Jan. 12: 212K

- Decreased by 13K week-over-week to 199K. This is the lowest level since November 15, 1969. The prior week's level was downwardly revised by 1K to 212K. The 4-week moving average edged lower by 5.5K to 215K.

Continuing Claims

Jan. 12: 1.713M vs. Jan. 5: 1.737M

- Dropped by 24K to 1.713M. The previous week's level was unrevised at 1.737M. Despite the decline, the 4-week moving average increased by 1.25K to 1.729M. The insured unemployment rate held steady at 1.2%.



Source: Department of Labor

Survey of Consumer Expectations

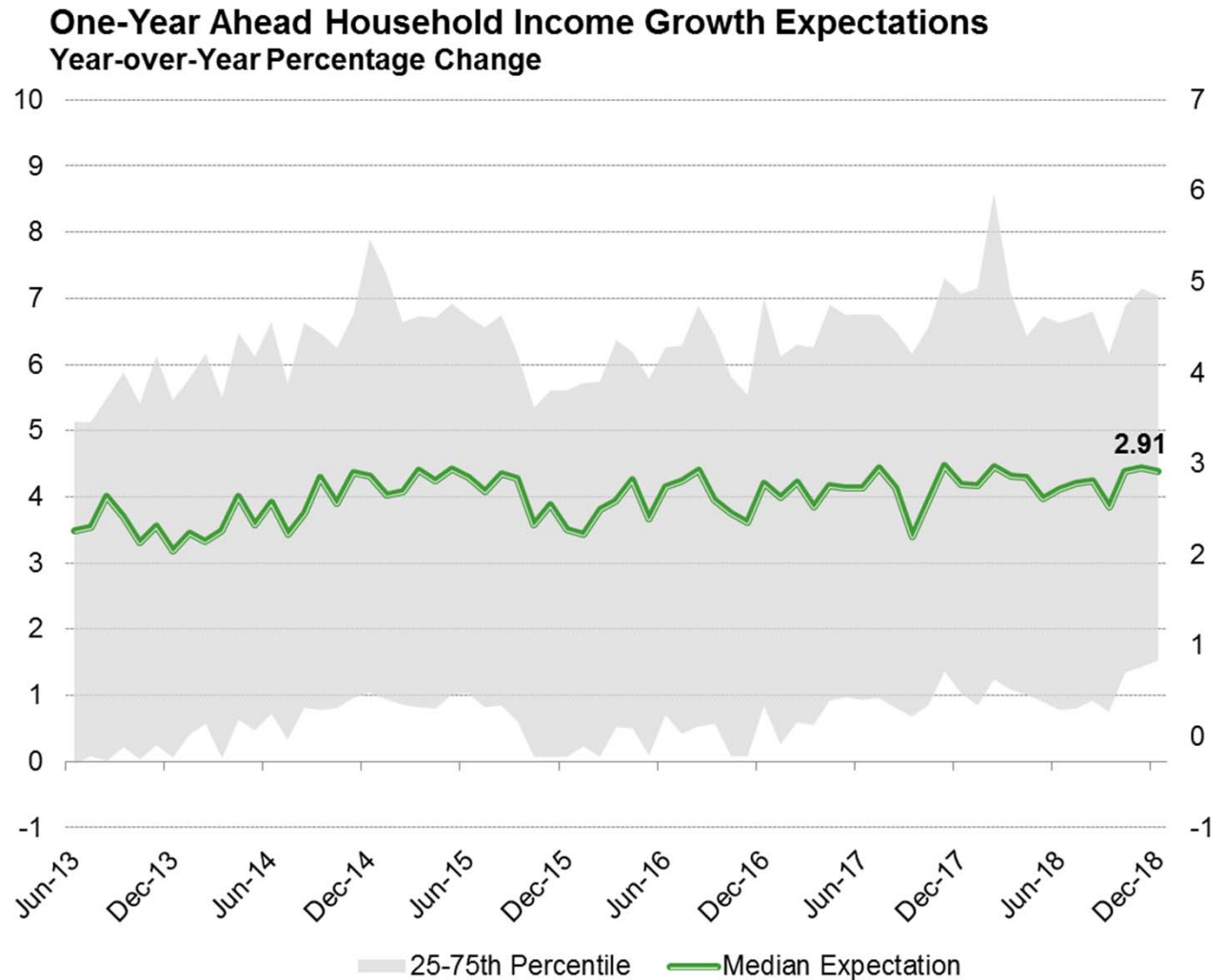
- The Federal Reserve Bank of New York recently released its Survey of Consumer Expectations (SCE) for December 2018.
- What is the SCE?
 - The SCE is an internet-based survey of a rotating panel of approximately 1,300 households.
 - Respondents participate in the panel for up to 12 months, with a roughly equal number rotating in and out of the panel each month.
 - Respondents are surveyed on expectations for various topics, including: inflation, wage growth, house prices, job search, access to credit, and other similar topics.
- The survey consists of two separate components.
 - Monthly data: expectations about macroeconomic and household-level data
 - Quarterly data: special topics covering different aspects of household economic behavior

Survey of Consumer Expectations

Earnings Expectations

The first set of questions concern changes in the respondents' household income.

Expected income growth in the next 12 months fell from 2.95% in November to 2.91% in December.



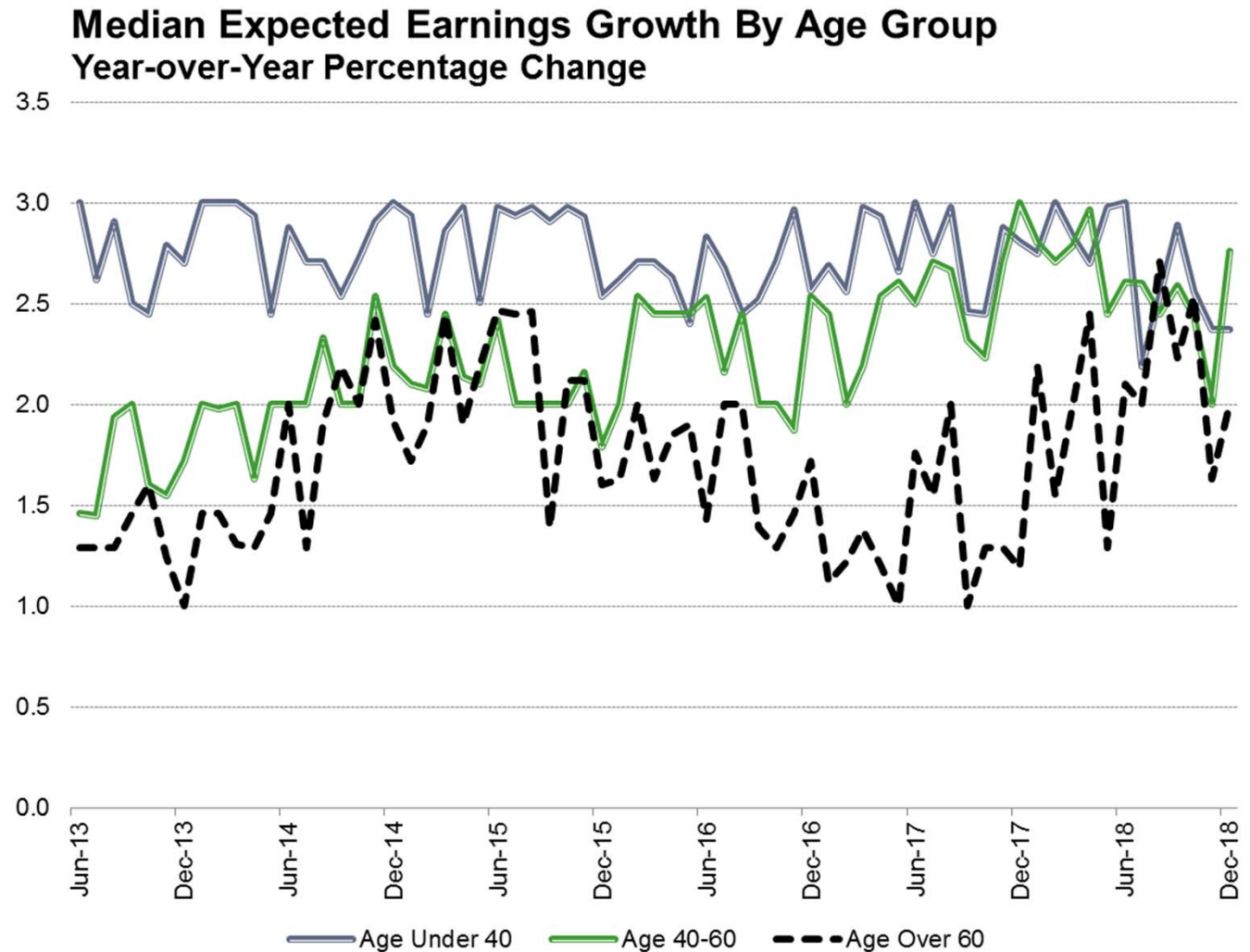
Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

Earnings Expectations By Age Group

Expectations of earnings growth increased or remained unchanged across all age groups.

As of December 2018, consumers over the age of 60 expect earnings to slow the fastest, followed by those under age 40, and then followed by those between 40 to 60 years of age.



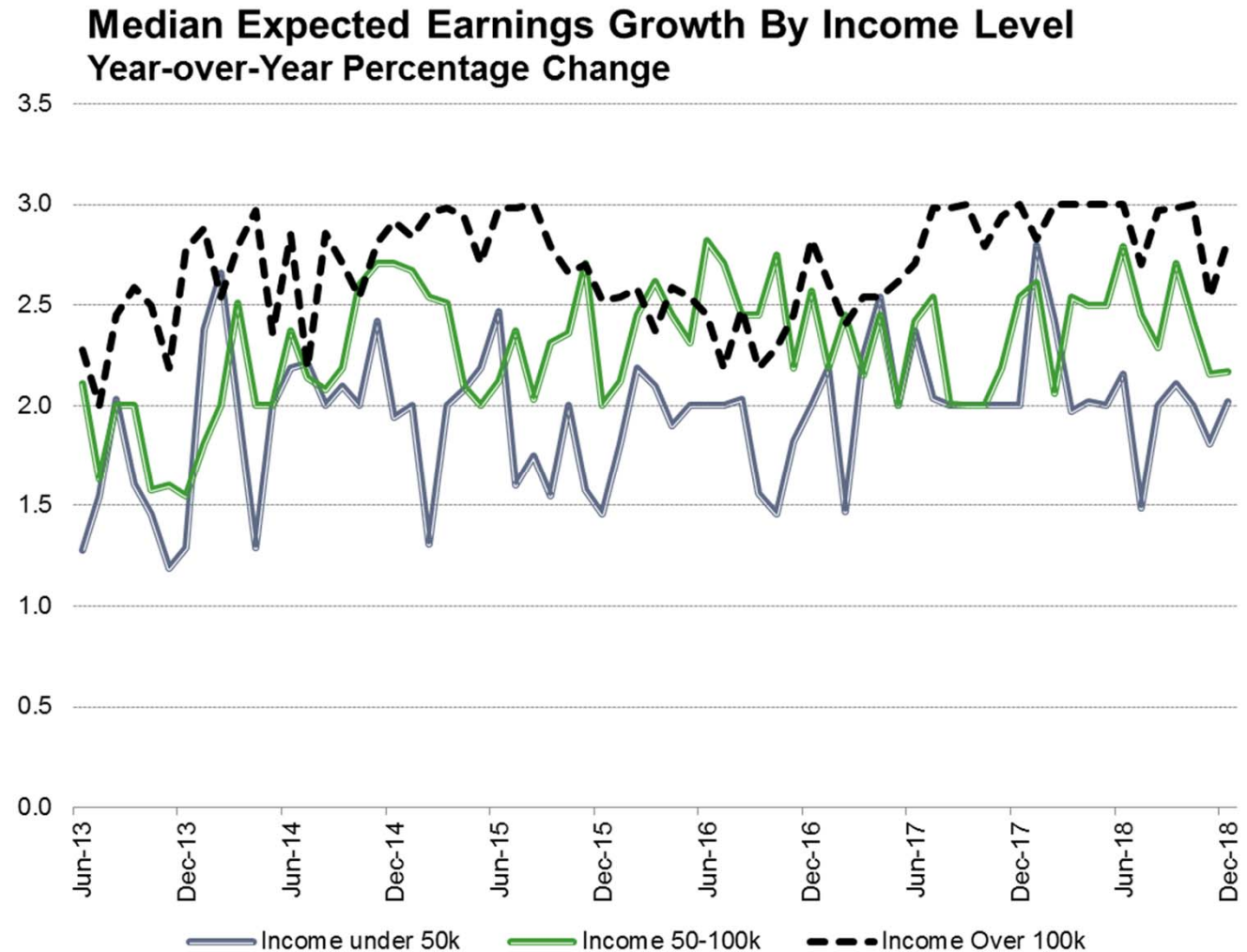
Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

Earnings Expectations By Income Level

Earnings expectations increased across all income levels. Although these expectations still show positive growth, expected earnings growth is slowing.

Expectations of consumers with income over \$100K increased the most month-over-month.



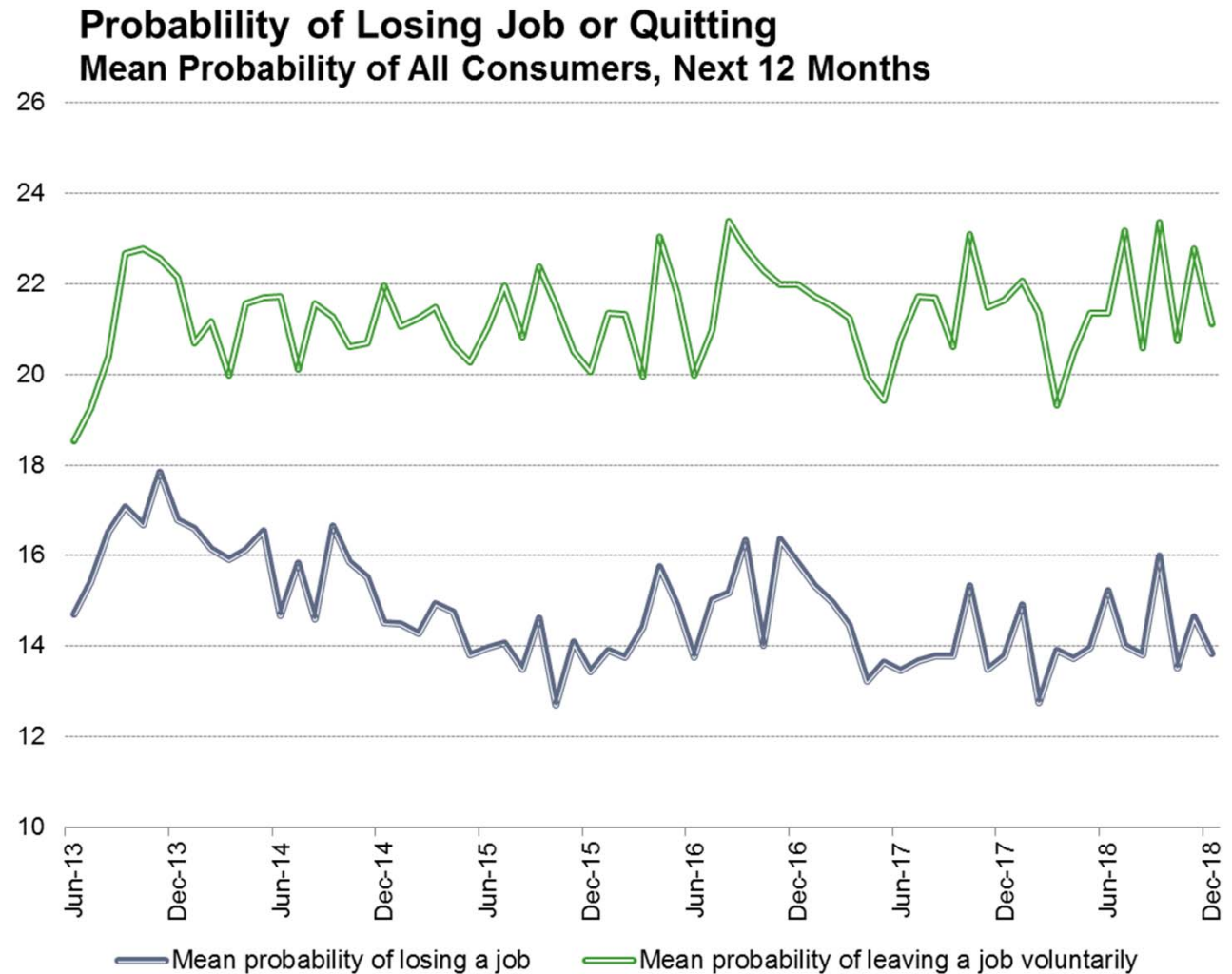
Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

Probability of Losing Job or Quitting Job on the Rise

The December report shows the probability of quitting or losing one's job in the next year both declined.

The probability of losing one's job in the next year fell by 0.83 percentage points to 13.83%, while the probability of quitting in the next year declined by 1.64 percentage points to 21.13%.



Source: Federal Reserve Bank of New York

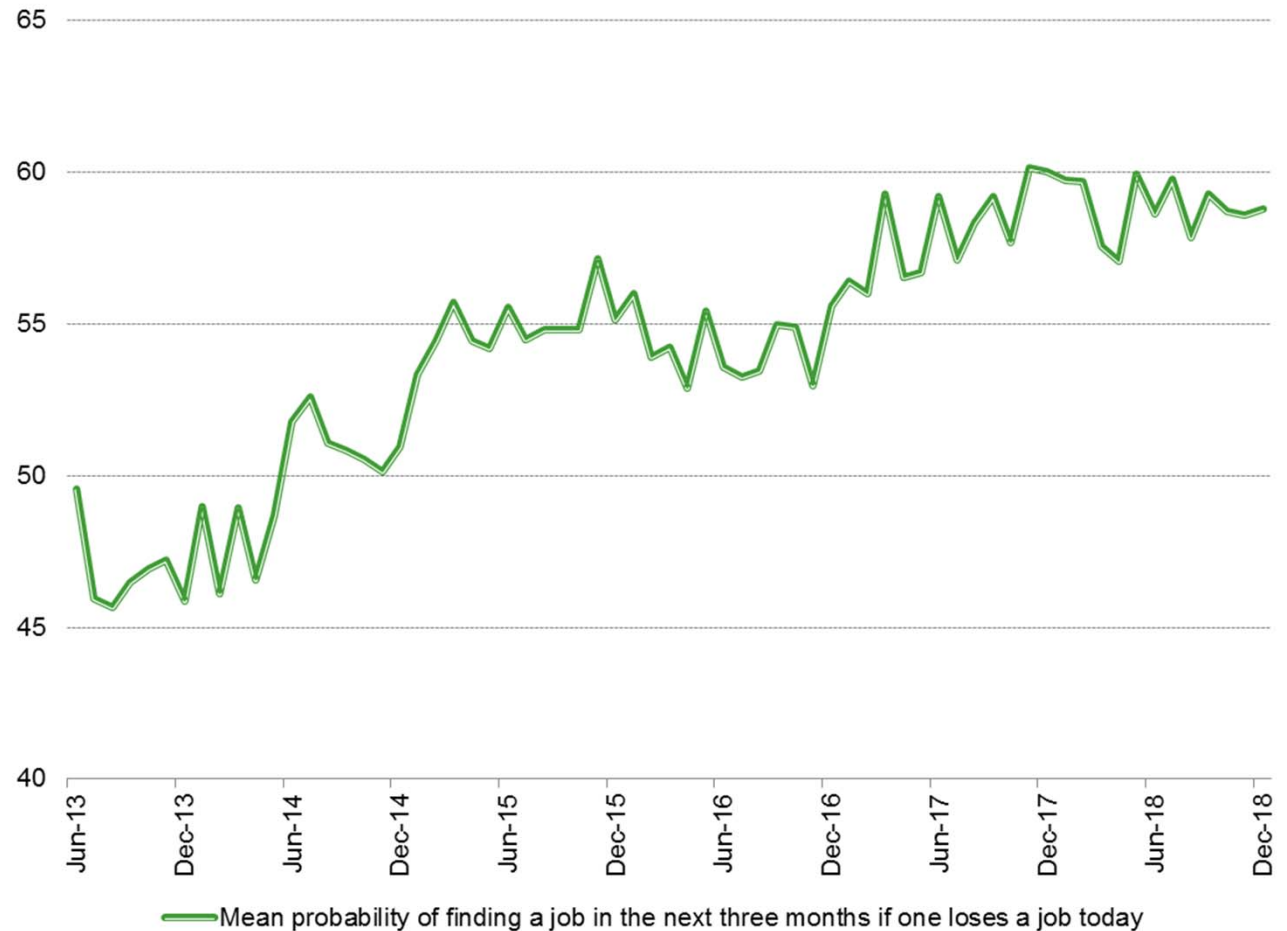
Survey of Consumer Expectations

Probability of Finding a Job

If a consumer lost his or her job today, the mean probability of finding a new job in the next three months has been increasing since 2013.

In December, the probability rose to 58.79% compared to 45.66% probability in August 2013.

Job Finding Expectations
Mean Probability of All Consumers, Next 3 Months



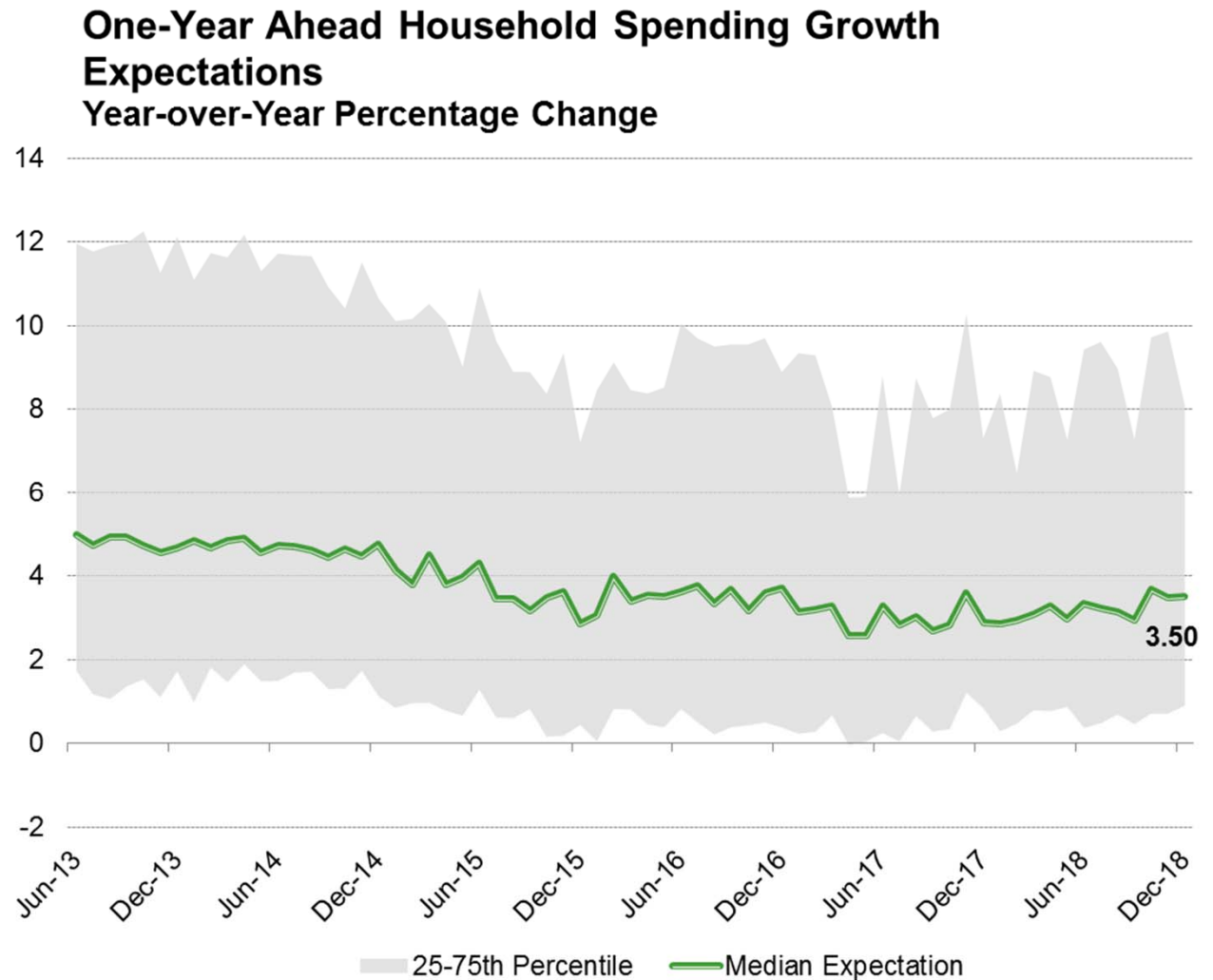
Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

Spending Expectations

After a decrease last month, median household spending growth expectations increased by 0.1 percentage points in December to 3.5%.

The median household's expectation of spending growth in 12 months has been steadily declining since 2013.



Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

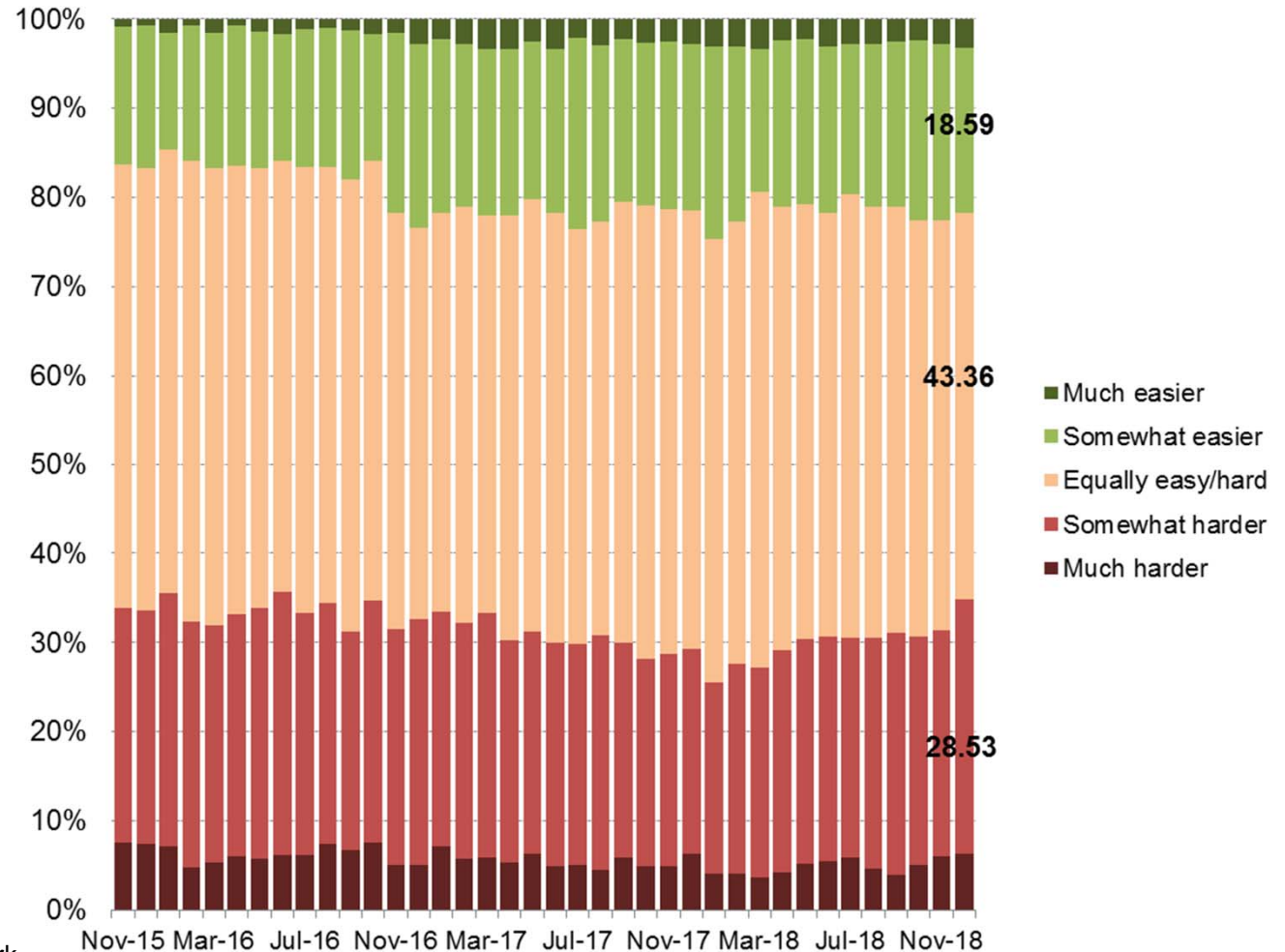
Expected Changes in Credit Availability in the Next 12 Months

Perceptions regarding expected credit access 12 months from now show that consumers have mixed opinions.

About 21.77% expect “somewhat easier” or “much easier” access to credit, compared to 28.02% one year ago.

Those that anticipate access to credit to be “somewhat harder” or “much harder” worsened, increasing from 29.46% in December 2017 to 34.87% in December 2018.

**Expected Change In Credit Availability
Harder or Easier to Obtain Credit One Year from Now**



Source: Federal Reserve Bank of New York

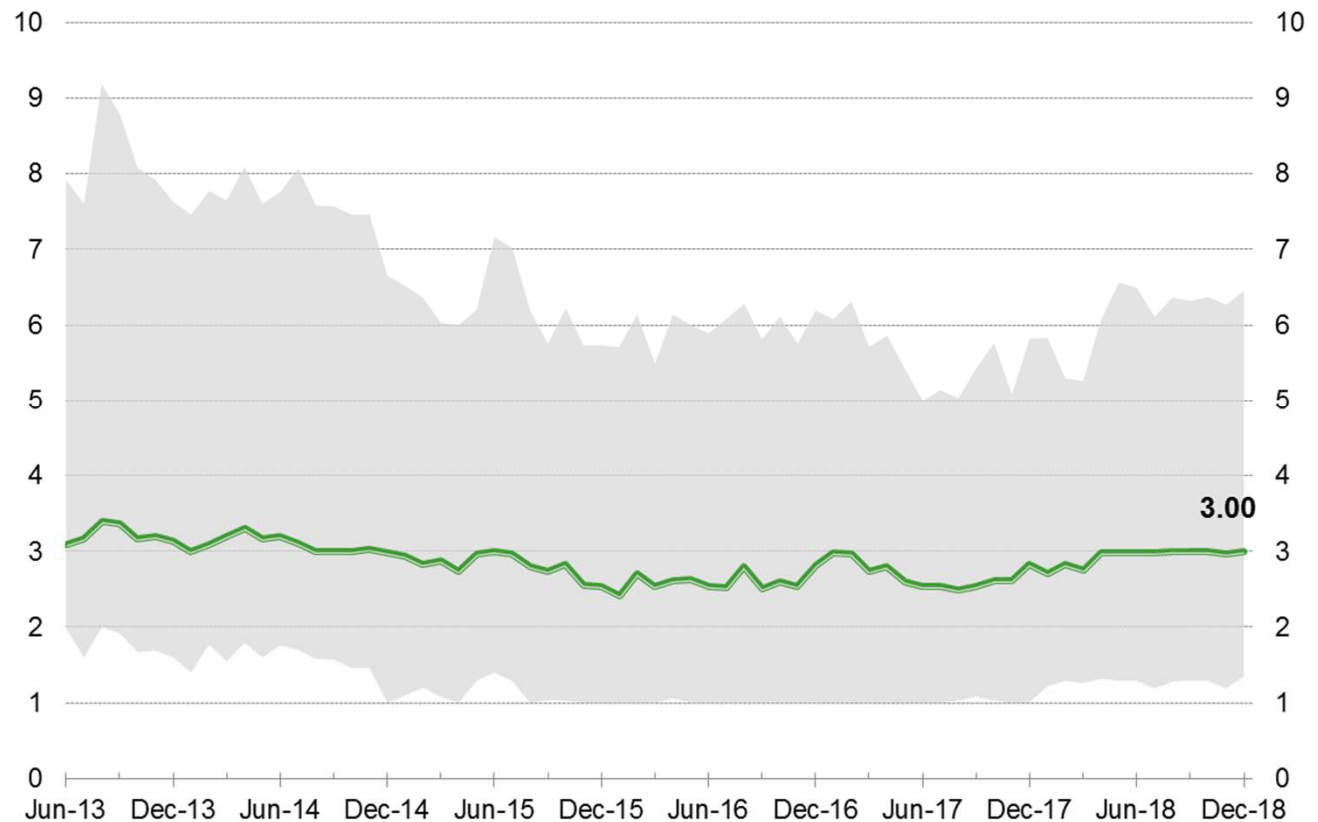
Survey of Consumer Expectations

Inflation Expectations

The median one-year ahead expected rate of inflation edged higher from 2.97% in November, to 3.00% in December.

The expected rate of inflation has been hovering around 3.0% for nine consecutive months.

One-Year Ahead Inflation Growth Expectations
Year-over-Year Percentage Change



75th Percentile one-year ahead expected inflation rate
 Median one-year ahead expected inflation rate

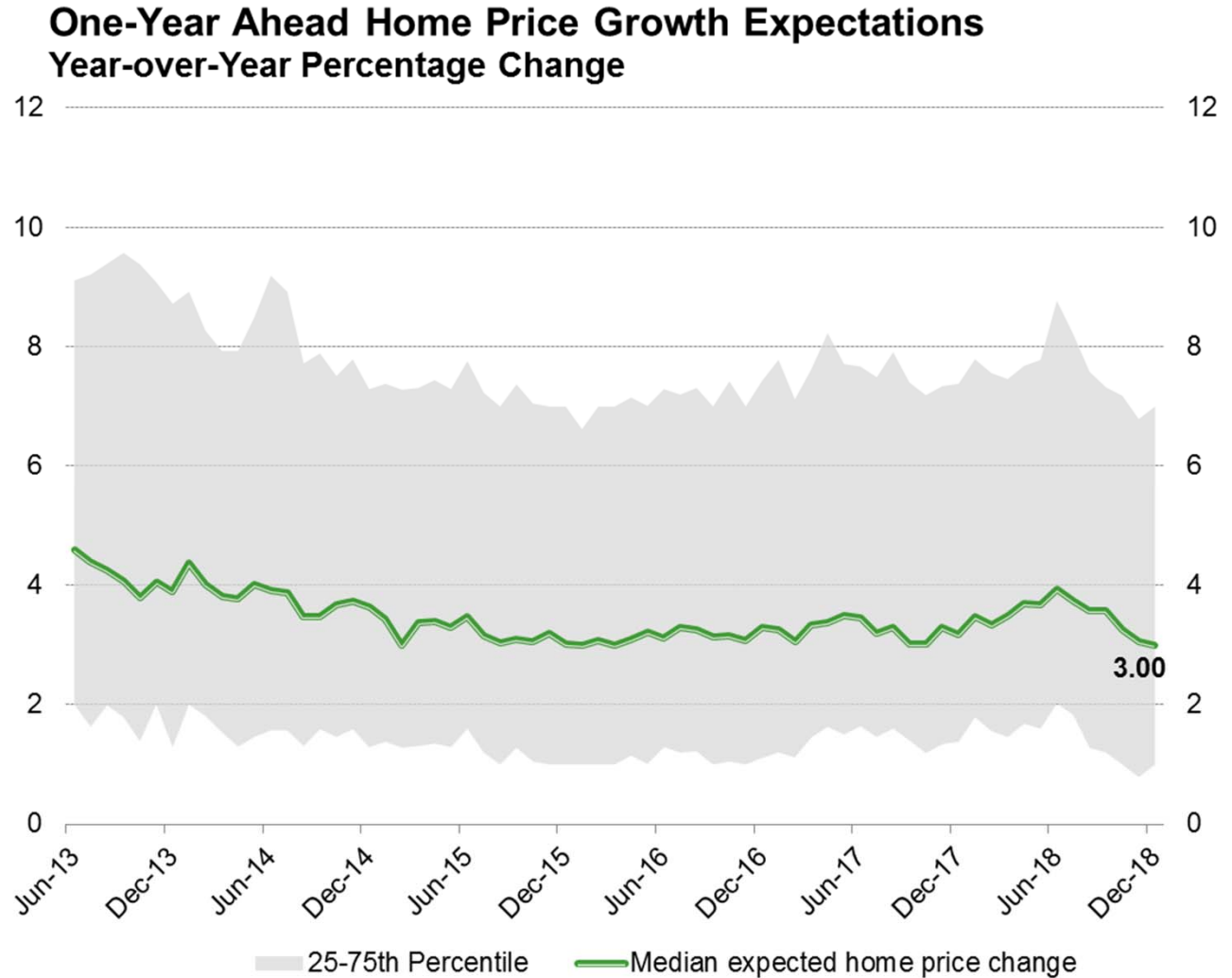
Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

Home Price Expectations

Home price growth expectations continued to decline in December, falling to 3.00% compared to 3.05% in November.

This marks the lowest level since March 2016.



Source: Federal Reserve Bank of New York

Survey of Consumer Expectations

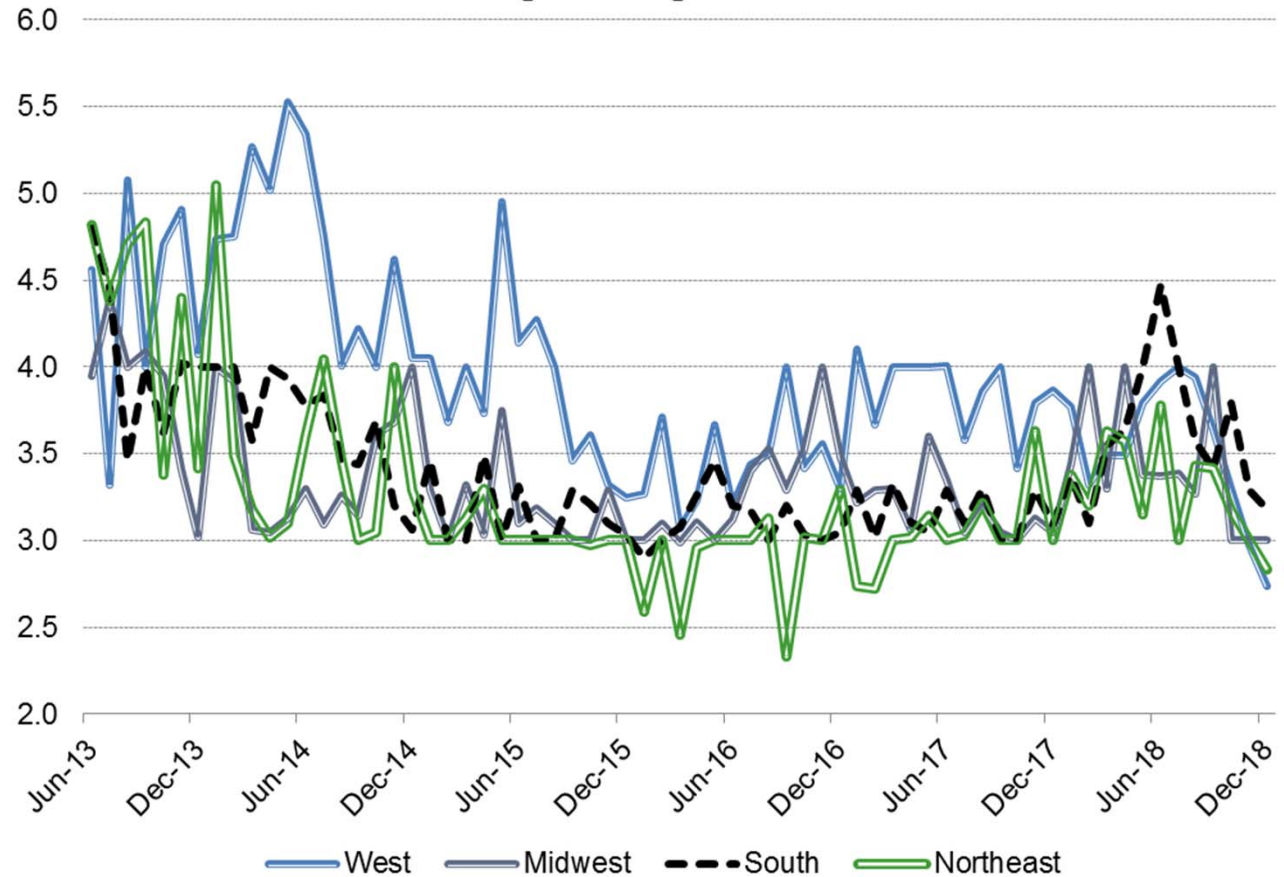
Home Price Expectations By Region

Median expectations for home prices by region primarily declined in December.

The South fell 0.11 percentage points to 3.18%, the West fell 0.23 percentage points to 2.74%, and the Northeast fell 0.17 percentage points to 2.83%.

On the other hand, the Midwest remained unchanged at 3.0%.

Median Expected Home Price Growth By Region
Year-over-Year Percentage Change



Source: Federal Reserve Bank of New York

December Survey of Consumer Expectations

Summary:

- After solid gains in the first half of the year, home price expectations have declined steadily from a high of 3.9% in June, reaching its lowest level in the past 12 months in December.
- The median one-year ahead expected inflation rate was relatively unchanged for the ninth straight month on a rounded basis, at 3.0%, while expectations at the three-year horizon increased slightly to 2.9% from 2.8% the month prior.
- Median one-year ahead earnings growth expectations rebounded from 2.0% in November to 2.5% in December.
- Other areas of the report not covered in this presentation:
 - The mean probability that interest rates on savings accounts will be higher one year from now rose to 37.90% from 34.50%.
 - The mean probability that U.S. Stock Prices will be higher one year from now decreased to 39.60% in December, the lowest level since October 2016.

Source: Federal Reserve Bank of New York

This and That

The Federal Reserve Bank of Atlanta recently released a survey discussing millennial's financial situations and their aversion to taking financial risks. According to the survey, millennials are less well off than members of previous generations at comparable ages. For instance, they tend to have lower incomes, higher levels of student debt, and fewer assets.

Millennials have also grown up witnessing domestic and international financial crises, such as the bursting of the housing bubble, and began entering the workforce around the time of the Great Recession. Faced with these financial hurdles, the generation has become disillusioned toward financial risk-taking, including investing and opening up new credit cards, and prefer instead to spend their money on immediate experiences where they can see the “return on their investment” instantly.

Source: Federal Reserve Bank of Atlanta


Economic Data Release Calendar

January 2019

Prior to the weekend, economic data will be released on Durable Goods Orders and New Home Sales.

Next week, focus will shift to the FOMC's rate decision following the first FOMC meeting of 2019. The December employment report will also be released at the end of the week.

January 2019				
Monday	Tuesday	Wednesday	Thursday	Friday
31	1 New Year's Day Federal Holiday FHLBC Closed	2 MBA Mortgage Applications ADP Employment Report	3 Jobless Claims ISM Manufacturing Index Construction Spending Total Vehicle Sales	4 Employment
7 Factory Orders ISM Non-Manufacturing	8 Small Business Optimism JOLTS	9 MBA Mortgage Applications FOMC Meeting Minutes	10 Jobless Claims Trade Balance	11 Consumer Price Index
14	15 Producer Price Index Final	16 MBA Mortgage Applications Retail Sales Business Inventories NAHB Housing Market Beige Book	17 Jobless Claims Housing Starts Philadelphia Fed Outlook	18 Industrial Production Consumer Sentiment
21 MLK Day Federal Holiday FHLBC Closed	22 Existing Home Sales	23 MBA Mortgage Applications FHFA House Price Index	24 Jobless Claims	25 Durable Goods Orders New Home Sales
28 Chicago Fed Natl. Activity Dallas Fed Manufacturing	29 S&P Case-Shiller HPI	30 MBA Mortgage Applications ADP Employment Report GDP Pending Home Sales FOMC Rate Decision	31 Jobless Claims Personal Income Chicago PMI	1 Employment Total Vehicle Sales ISM Manufacturing Index Construction Spending Consumer Sentiment



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