



FHLBank
Chicago

INSTITUTIONAL INSIGHTS

James Hotchkiss | April 25, 2024

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DISCUSSION TOPICS

- Monthly Interest Rate Comparison
- Rates, Inflation, and Recession Risks
- Housing and Labor Market Trends
- Q and A



MONTHLY INTEREST RATE COMPARISON

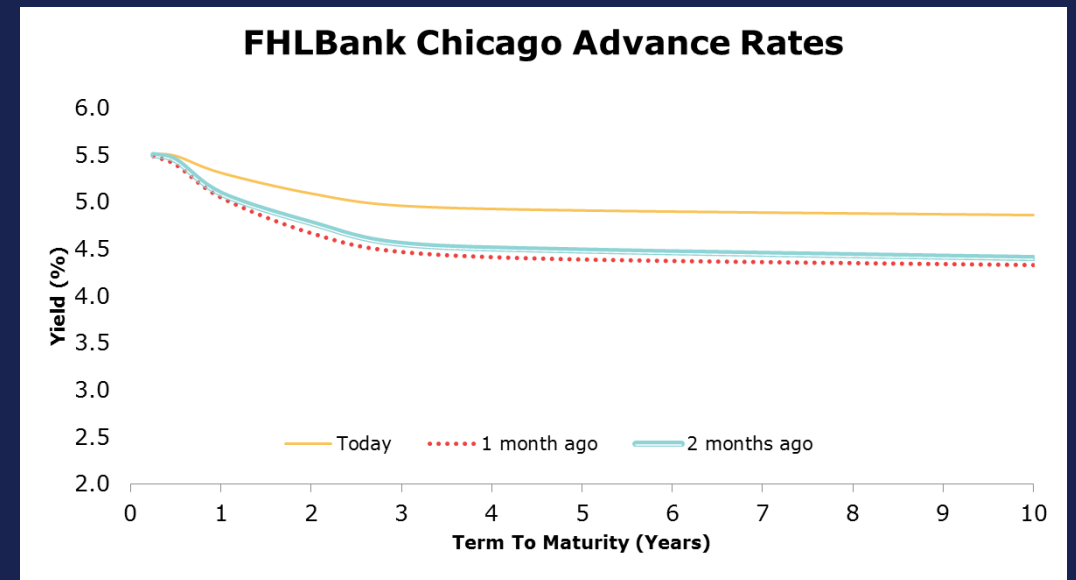
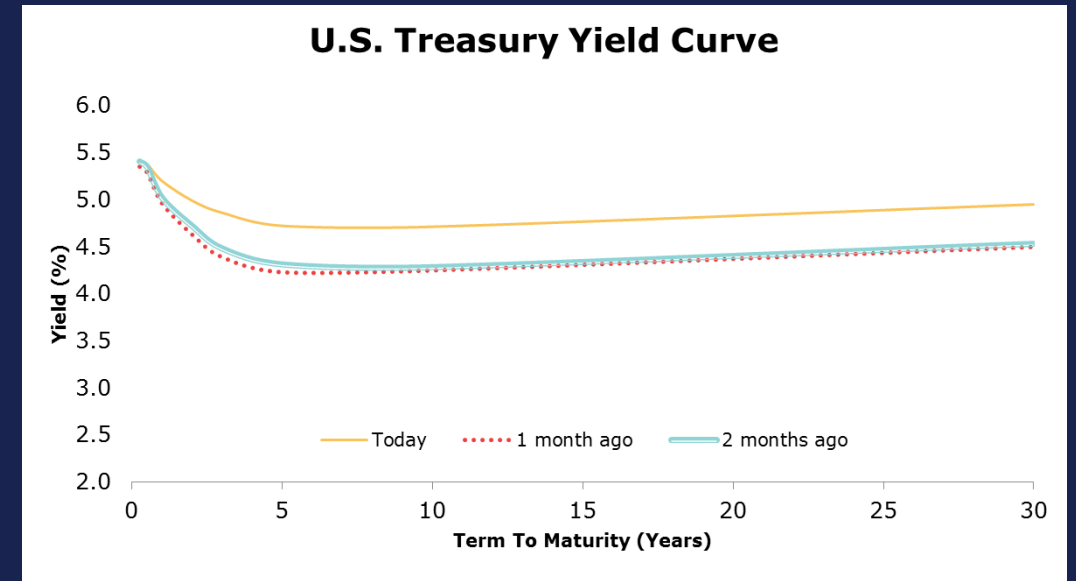


U.S. Treasury Yields

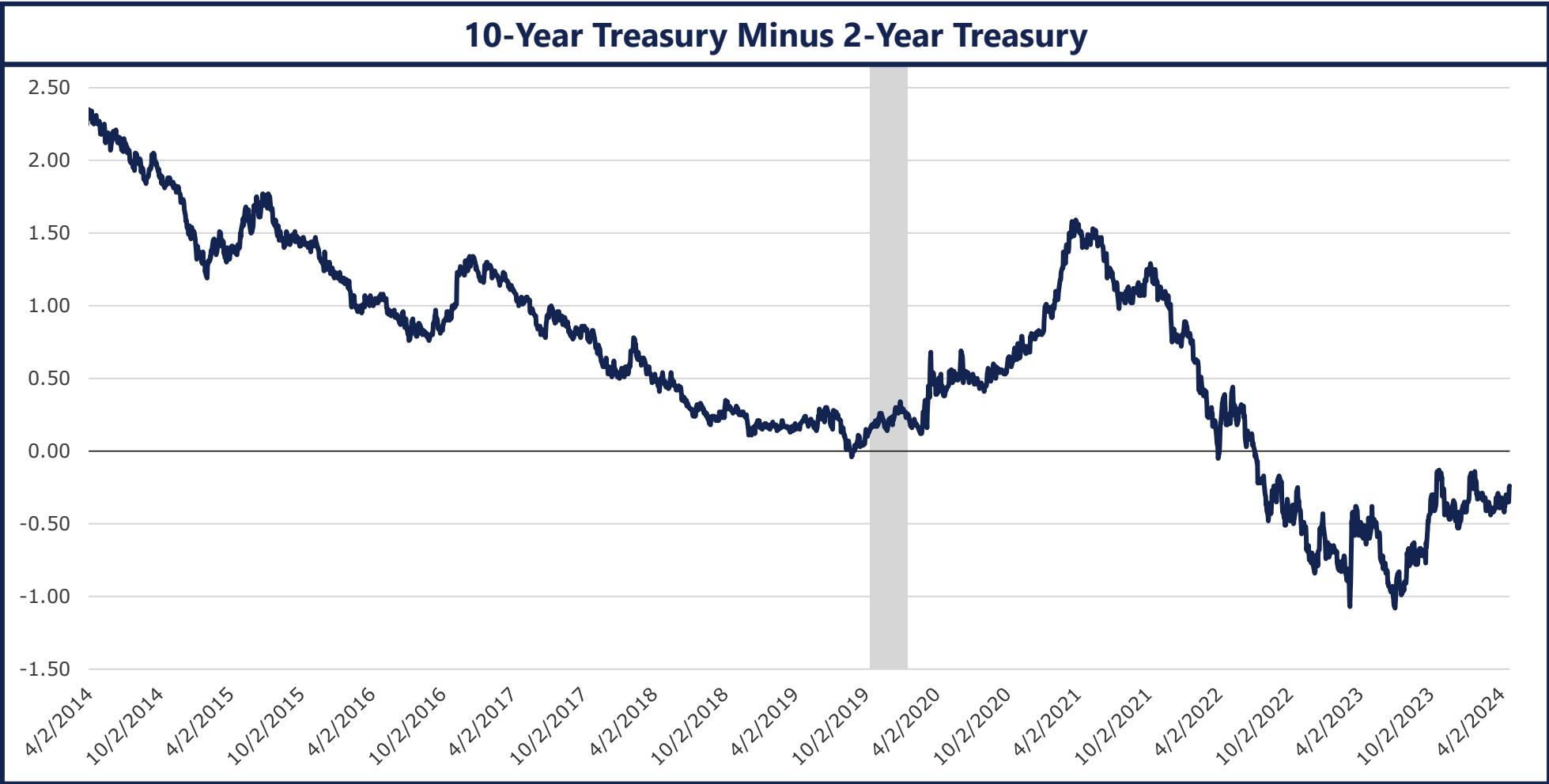
	3/25/24	4/25/24
3 mo	5.35%	5.41%
2 yr	4.63%	4.99%
5 yr	4.23%	4.72%
10 yr	4.25%	4.71%

FHLBank Chicago Advance Rates

	3/25/24	4/25/24
3 mo	5.49%	5.51%
2 yr	4.67%	5.09%
5 yr	4.33%	4.86%
10 yr	4.60%	5.08%



LONGEST INVERTED CURVE IN HISTORY

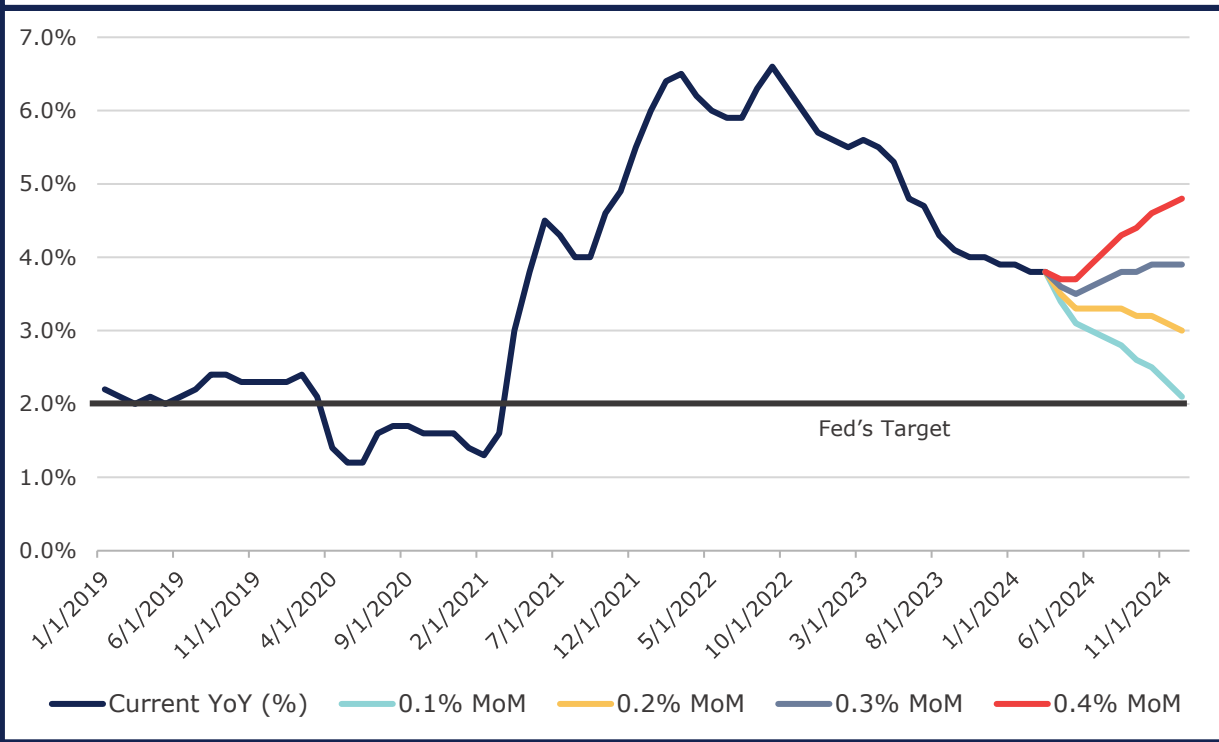


RATES,
INFLATION, AND
RECESSION RISKS



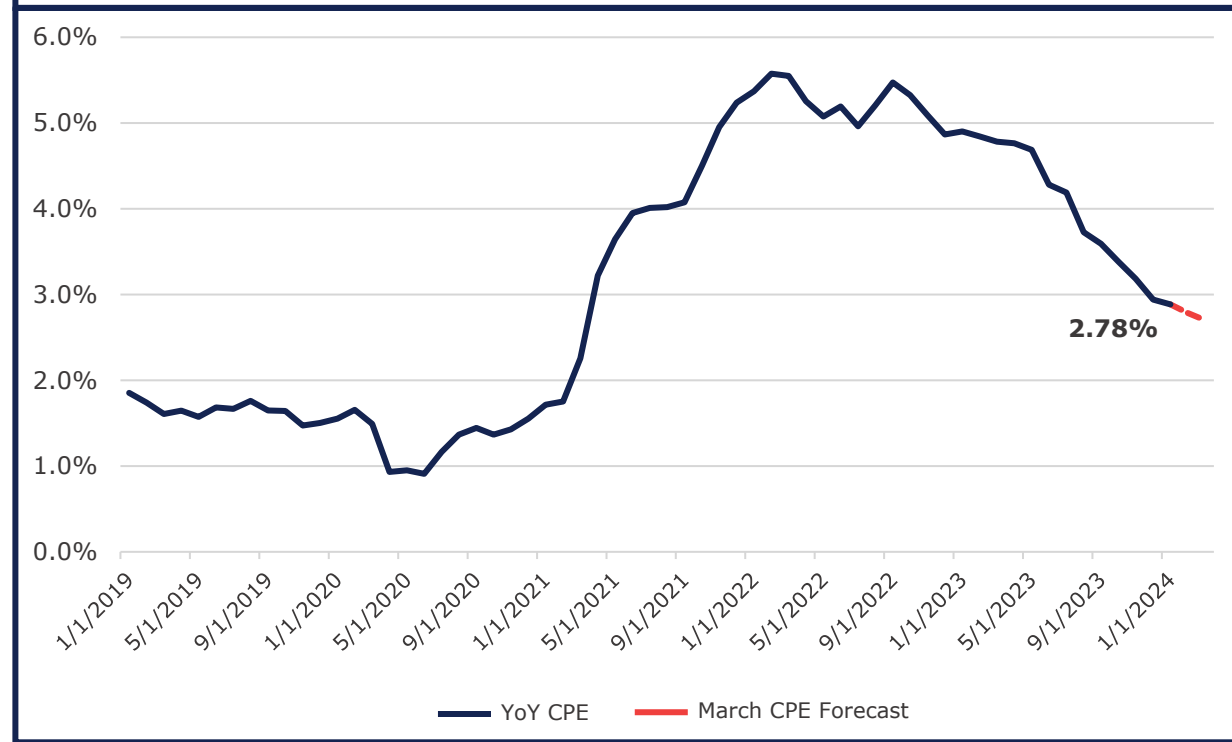
INFLATION CONTINUES TO BE STICKY

Year-Over-Year Core Consumer Price Index



Core Consumer Prices increased by 3.8% year-over-year in March, and was up 0.4% for the month. If inflation continues to trend at the same rate as the last three months, YoY Core CPI would end 2024 at 4.8%.

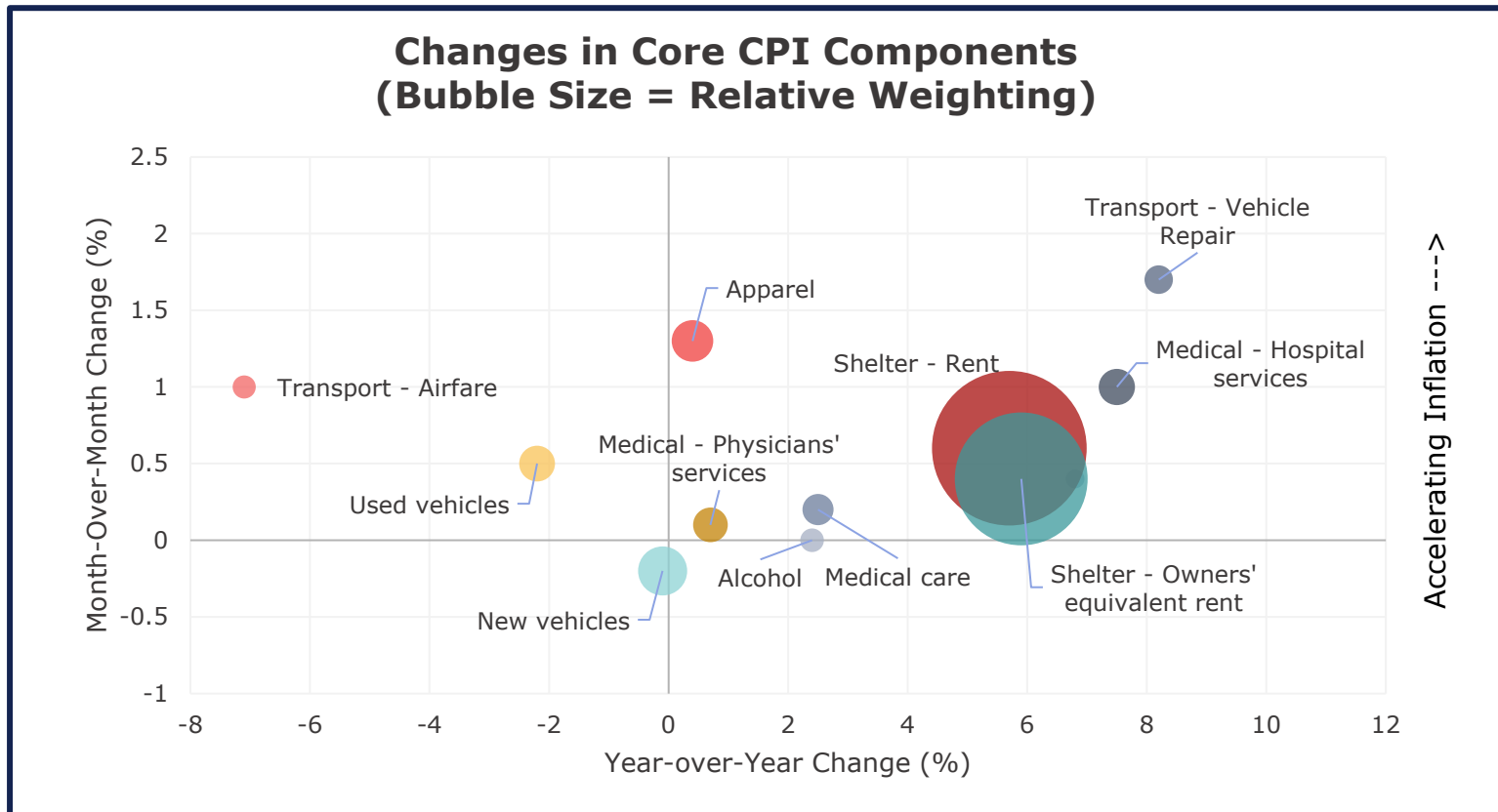
Year-Over-Year Core Personal Consumption Expenditure



Core Personal Consumption Expenditure price index decreased to 2.78% in February and March's figure is expected to decrease even further to 2.7%.



THE DRIVING FACTORS FOR HIGH INFLATION

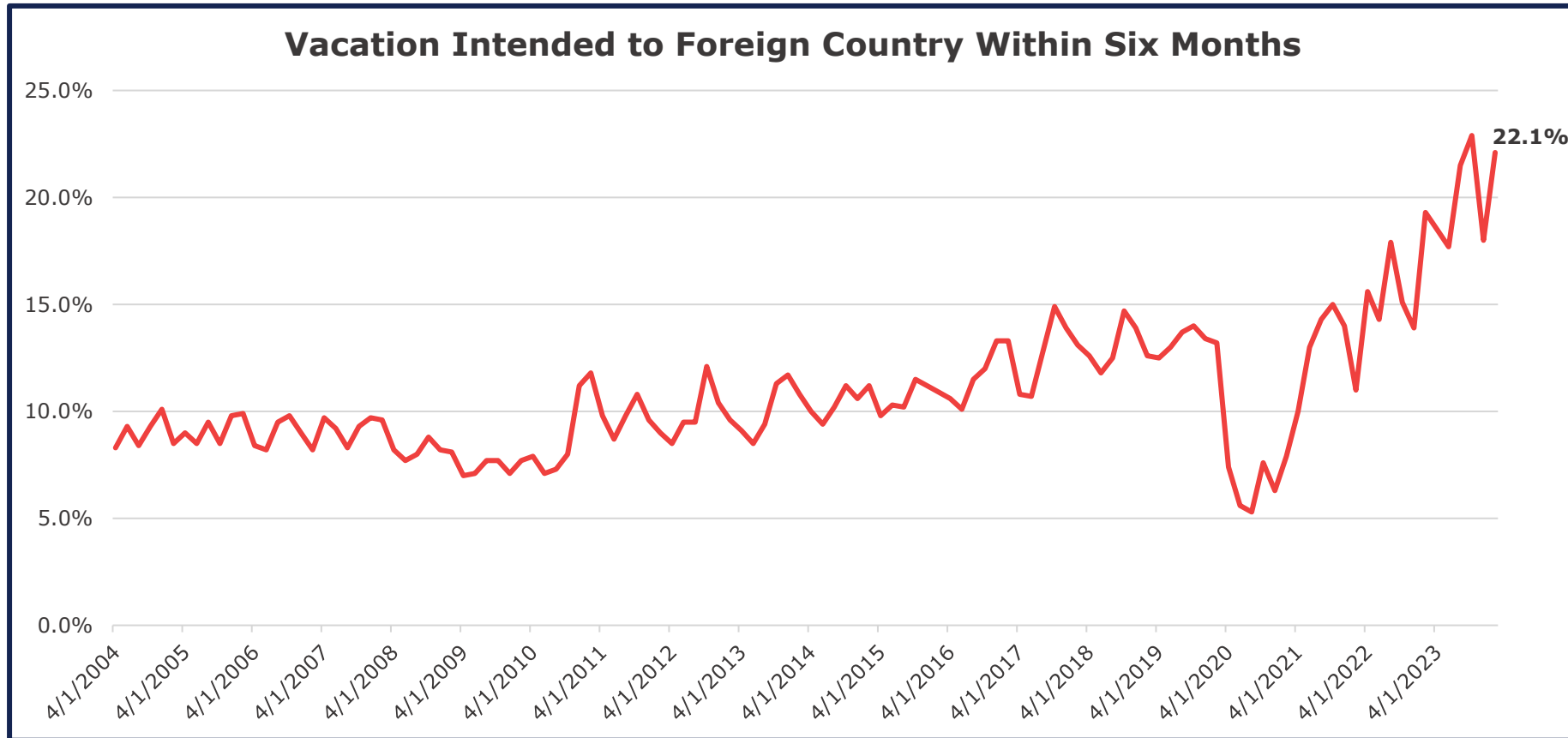


Headline Consumer Price Index (CPI) rose 0.4% in March and was up 3.5% year-over-year.

Shelter prices drove the faster-than-expected rise in prices as they increased 0.6% during the month.

Other major drivers of inflation was transportation services (+2.1% MoM), apparel (+1.3% MoM), and used vehicles (+0.5% MoM)

STRONG CONSUMER SERVICES DEMAND



Households have more money to travel on airplanes, stay at hotels, eat at restaurants, go to sporting events, and concerts, which is contributing to the high inflation in the non-housing service sector. Rates will stay higher for longer as strong gains in employment and wealth continue to provide a tailwind to consumer services.

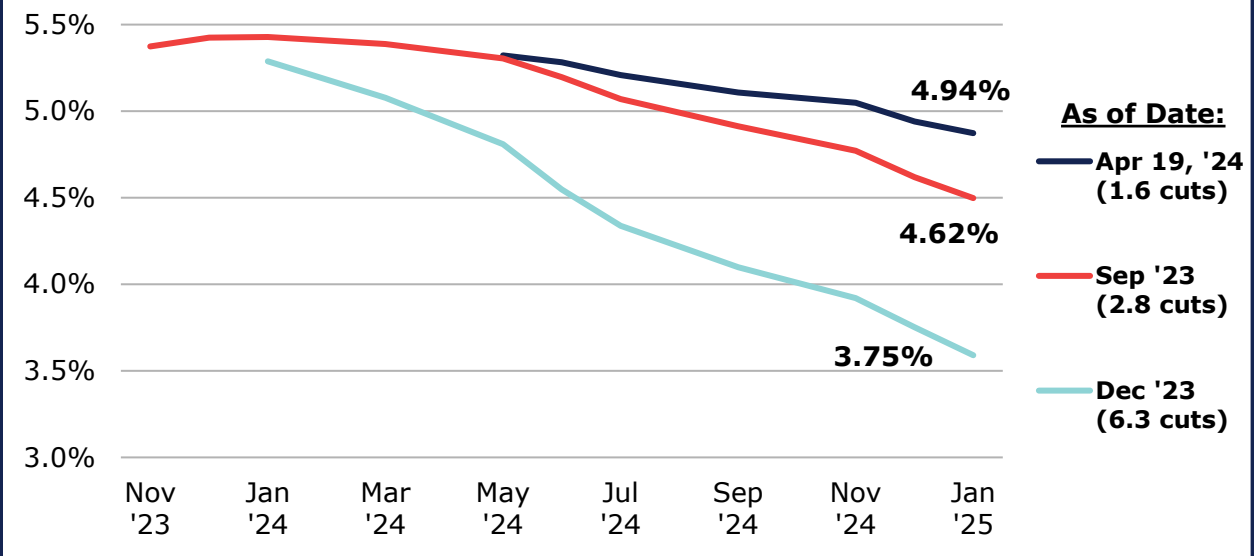


FED DOT PLOT AND RATE CUT EXPECTATIONS

CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES

MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
5/1/2024			0.0%	0.0%	0.0%	0.0%	4.2%	95.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	16.2%	83.3%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.2%	6.4%	41.1%	52.3%
9/18/2024	0.0%	0.0%	0.0%	0.1%	3.2%	23.1%	46.5%	27.2%
11/7/2024	0.0%	0.0%	0.0%	0.9%	8.3%	29.1%	41.5%	20.2%
12/18/2024	0.0%	0.0%	0.5%	4.5%	18.5%	35.2%	31.0%	10.2%
1/29/2025	0.0%	0.1%	1.7%	8.9%	23.7%	33.9%	24.6%	7.1%
3/19/2025	0.1%	0.8%	4.7%	15.1%	28.0%	30.0%	17.2%	4.1%
4/30/2025	0.3%	1.9%	7.5%	18.6%	28.5%	26.5%	13.7%	3.0%

Implied 2024 Fed Funds Rate Path



Higher than expected inflation and a resilient labor market have continued to dampen expectations of rate cuts in 2024, with markets currently forecasting only one or two cuts this year. Federal Reserve (Fed) Chair Jerome Powell in his speech last week stated that the recent data has not given the Fed greater confidence, and has instead made keeping rates higher for longer more prudent.

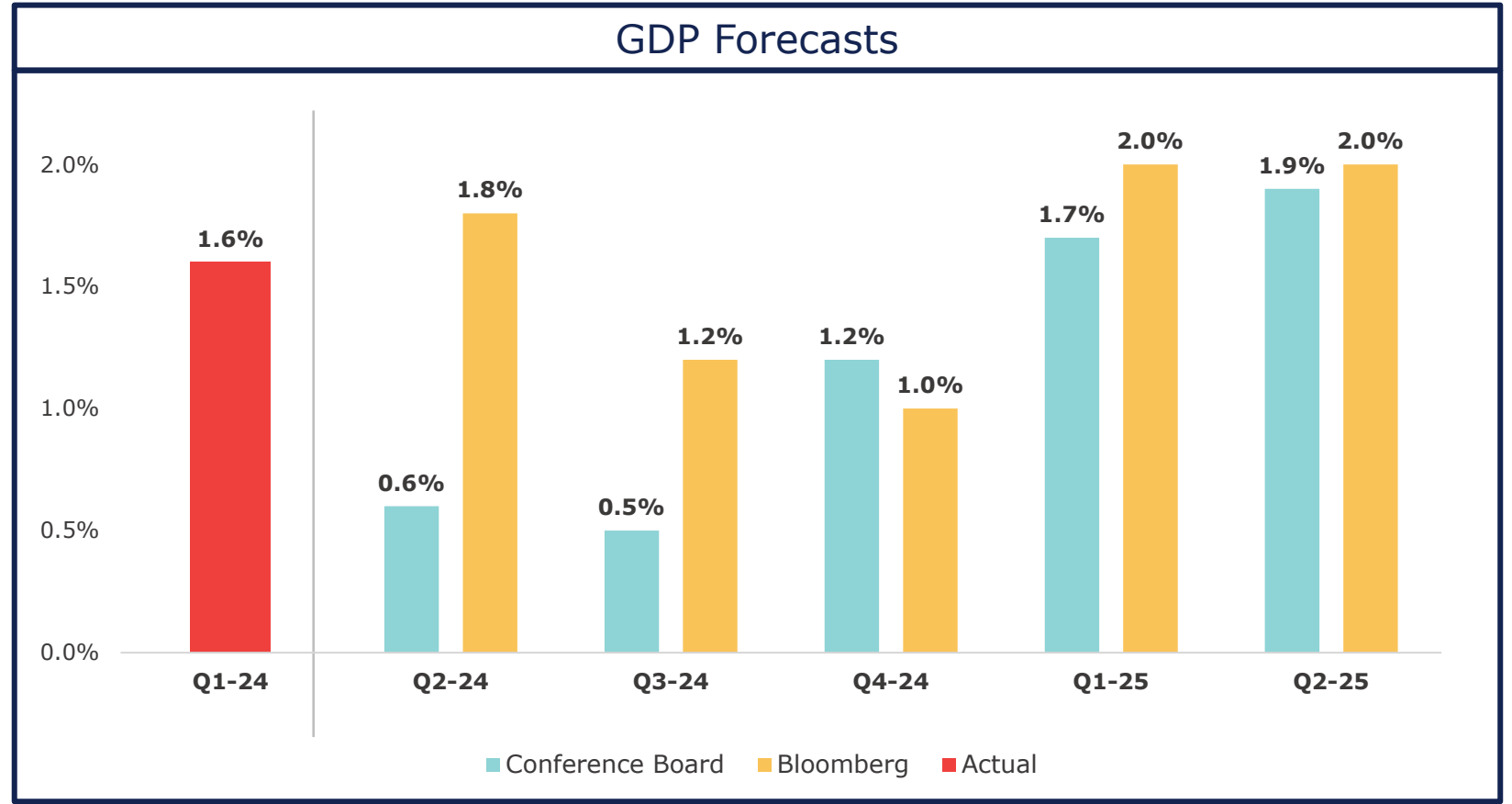


THE CURRENT CONSENSUS OF FORECASTERS

The U.S. economy expanded at an annualized rate of **1.6%** in Q1 2024, compared to a 3.4% rise in the prior quarter, and below market expectations of 2.5%.

Although there was a significant slowdown in consumer goods spending (-0.4% quarter-over-quarter), spending on services rose by 4%.

There is a slight disparity between various forecasters for upcoming gross domestic product (GDP) numbers, but none are forecasting negative growth.



RECESSION EXPECTATIONS DECLINING



Instead of a 'soft landing' that many economists expected was underway, there is growing concern of a possible 'no landing' scenario where the economy continues to grow, inflation remains stubborn, and the Fed either keeps rate high or hikes them even further.



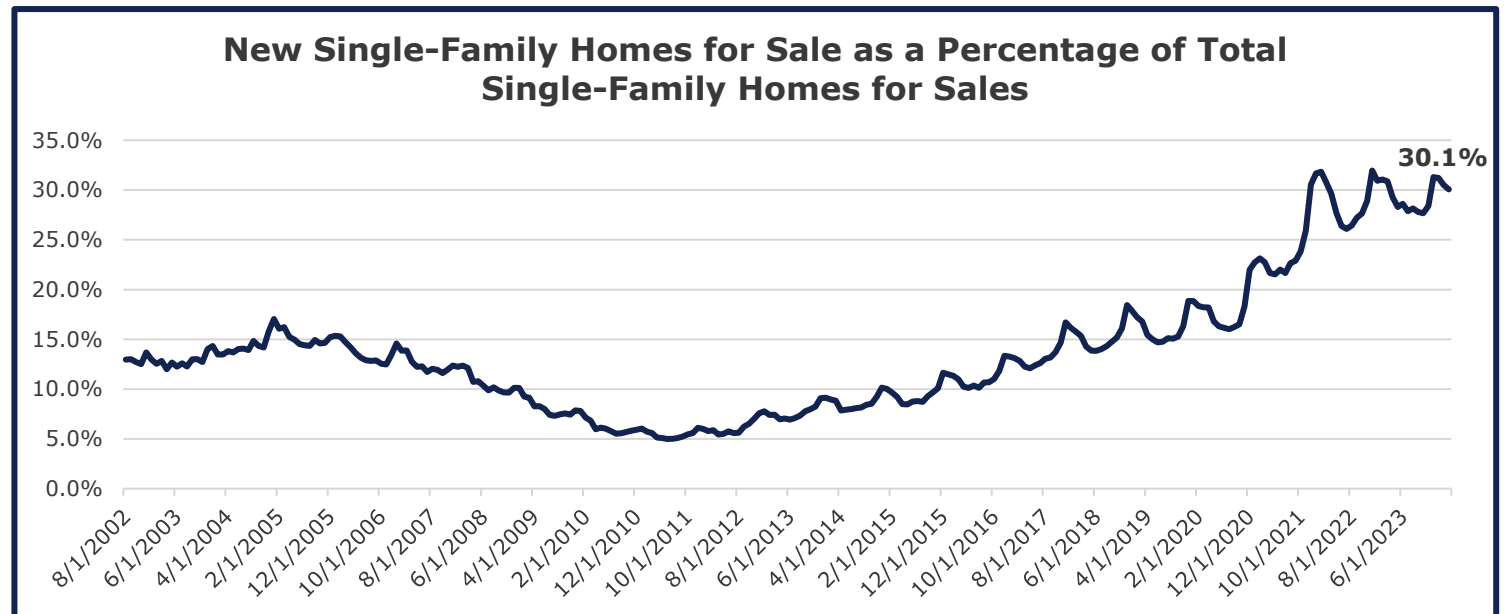
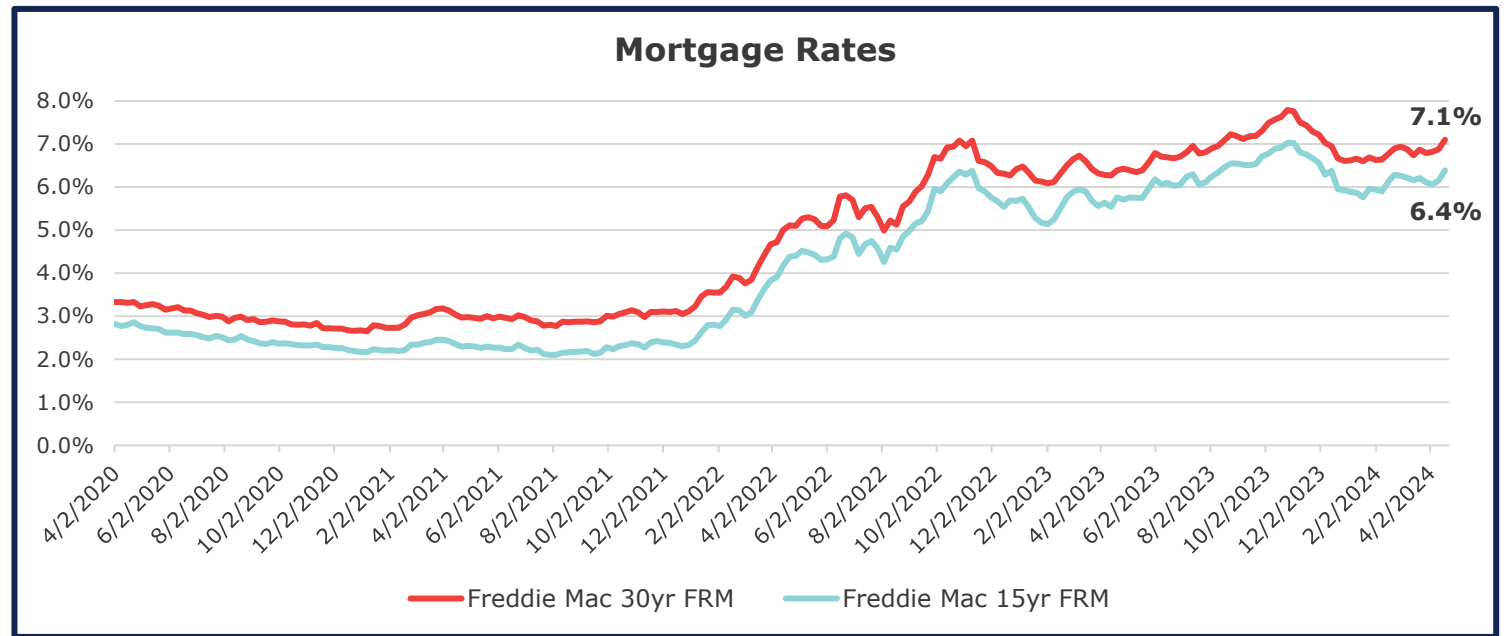
HOUSING AND LABOR MARKET TRENDS



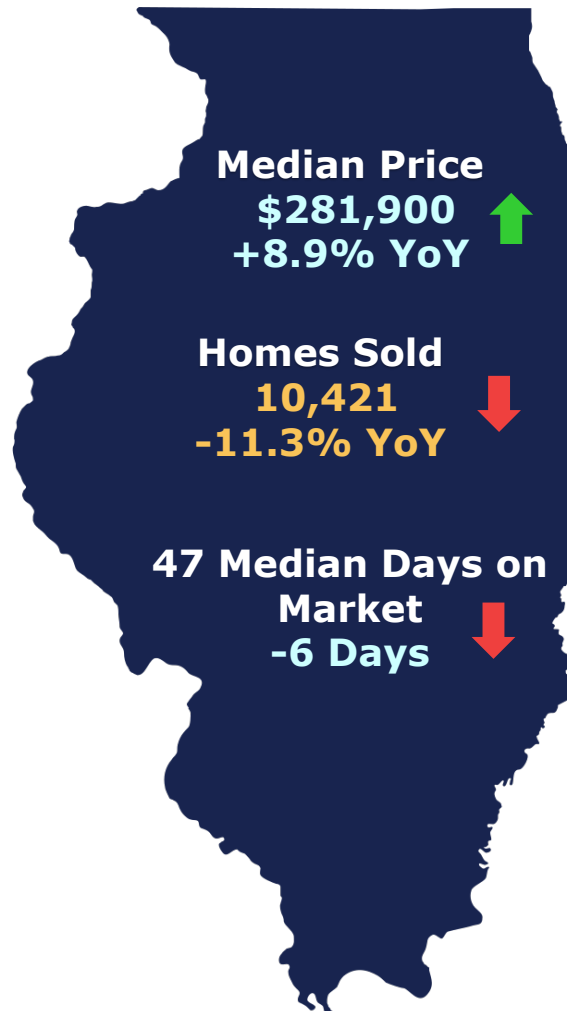
NATIONAL HOUSING MARKET TRENDS

After the 2008 financial crisis, one out of 20 homes for sale was a new home. **Today, one out of three homes for sale is a new home.**

The source of the current low inventory of existing homes for sale is the lock-in effect, as homeowners with low mortgage rates are unwilling to sell their houses and buy a new one at a higher rate.



HOUSING MARKET OUTLOOK: ILLINOIS



Home Prices On the Rise

Top 10 Metropolitan Areas With Highest Sales Price Growth (YoY)

Palos Hills +62.6%	Libertyville +43.9%
Rock Island +58.9%	La Grange +43.2%
Machesney Park +55.8%	Highland Park +42.4%
Lisle +49.7%	Kankakee +33.3%
Homewood +48.0%	Rockford 21.6%

Supply: Constrained

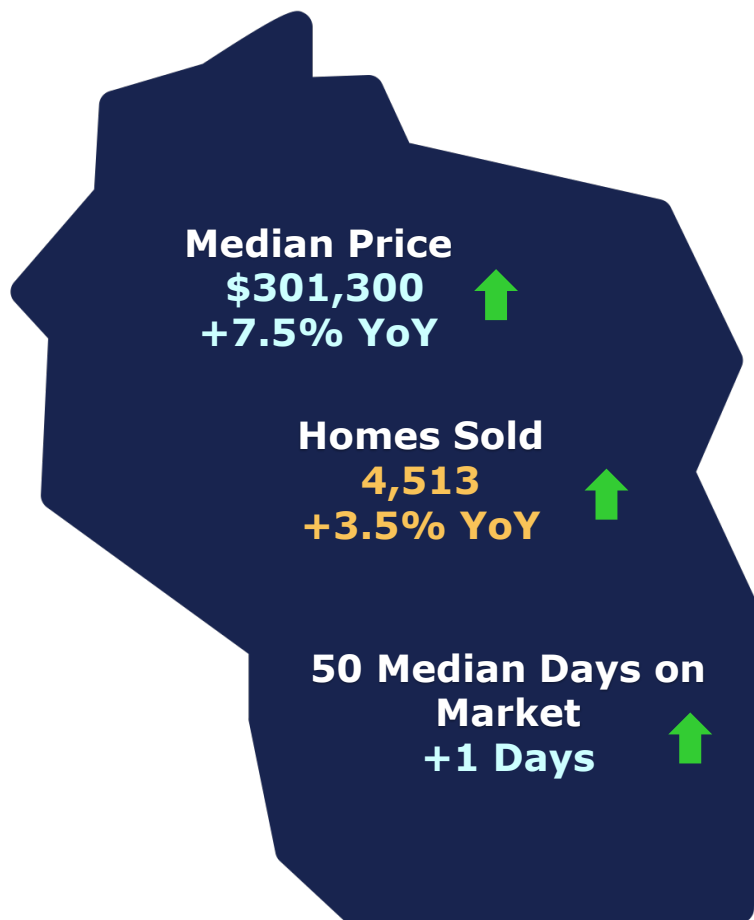
37,365 Homes for Sale **-10.8% YoY**
12,945 Newly listed Homes **-10.0% YoY**
Two-Months Housing Supply

Demand: Competitive

37.0% Homes Sold Above Listing **+4.9% YoY**
15.1% Sale Price Reductions **+1.1% YoY**
99.1% Sale-to-List Price **+0.8% YoY**



HOUSING MARKET OUTLOOK: WISCONSIN



Home Prices On the Rise

Top 10 Metropolitan Areas With Highest Sales Price Growth (YoY)	
Fond du Lac +31.7%	De Pere +18.9%
Mount Pleasant +28.4%	Kenosha +18.5%
Brookfield +21.0%	Sheboygan +18.3%
Sun Prairie +19.6%	Oshkosh +16.2%
Wauwatosa +19.4%	Oconomowoc +15.3%

Supply: Constrained but Stable

16,119 Homes for Sale **+6.5% YoY**

5,693 Newly listed Homes **-0.26% YoY**

Two-Months Housing Supply

Demand: Strong but Slowing

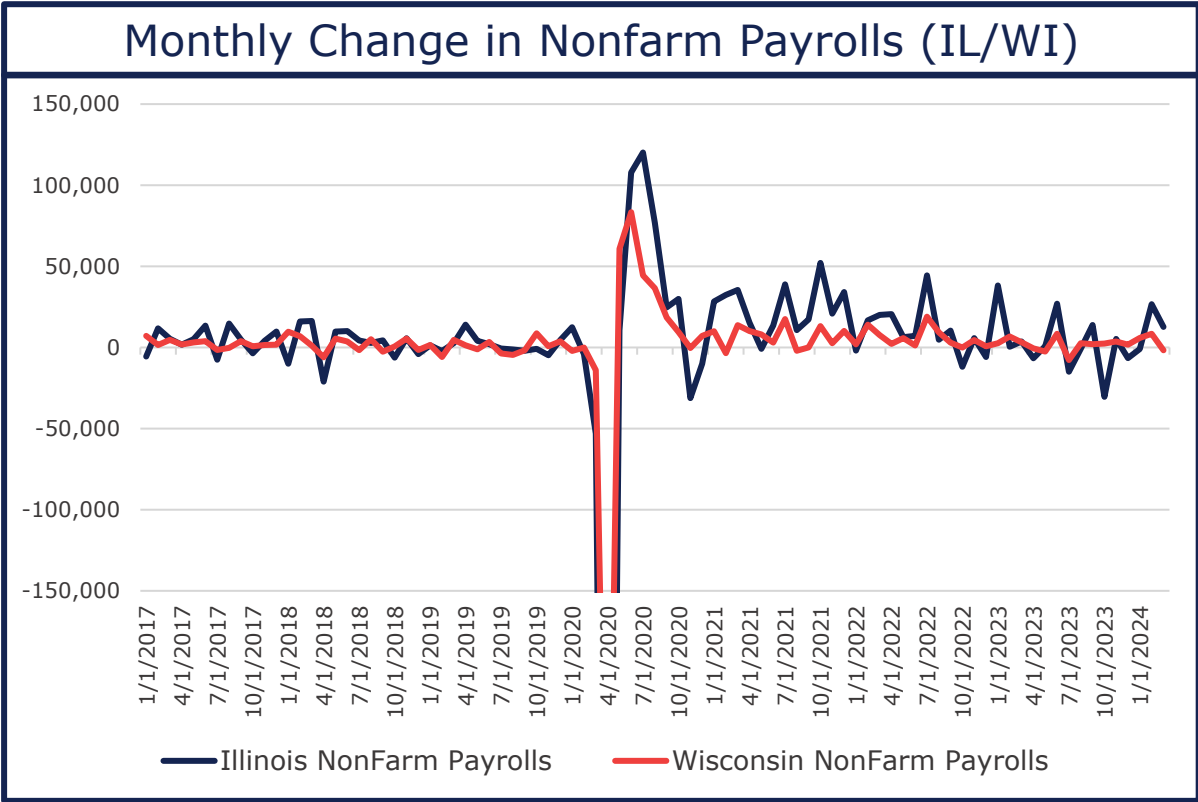
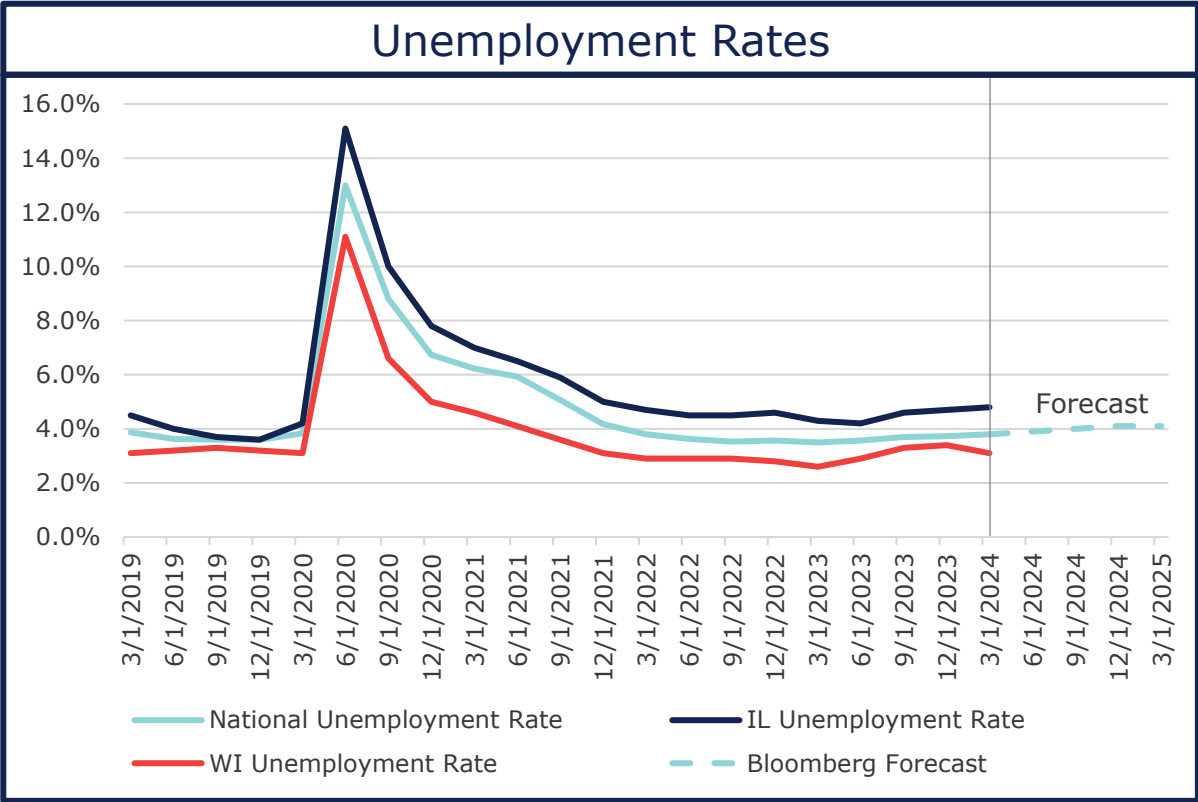
41.7% Homes Sold Above Listing **-0.5% YoY**

13.0% Sale Price Reductions **+2.8% YoY**

100.1% Sale-to-List Price **+0.01% YoY**



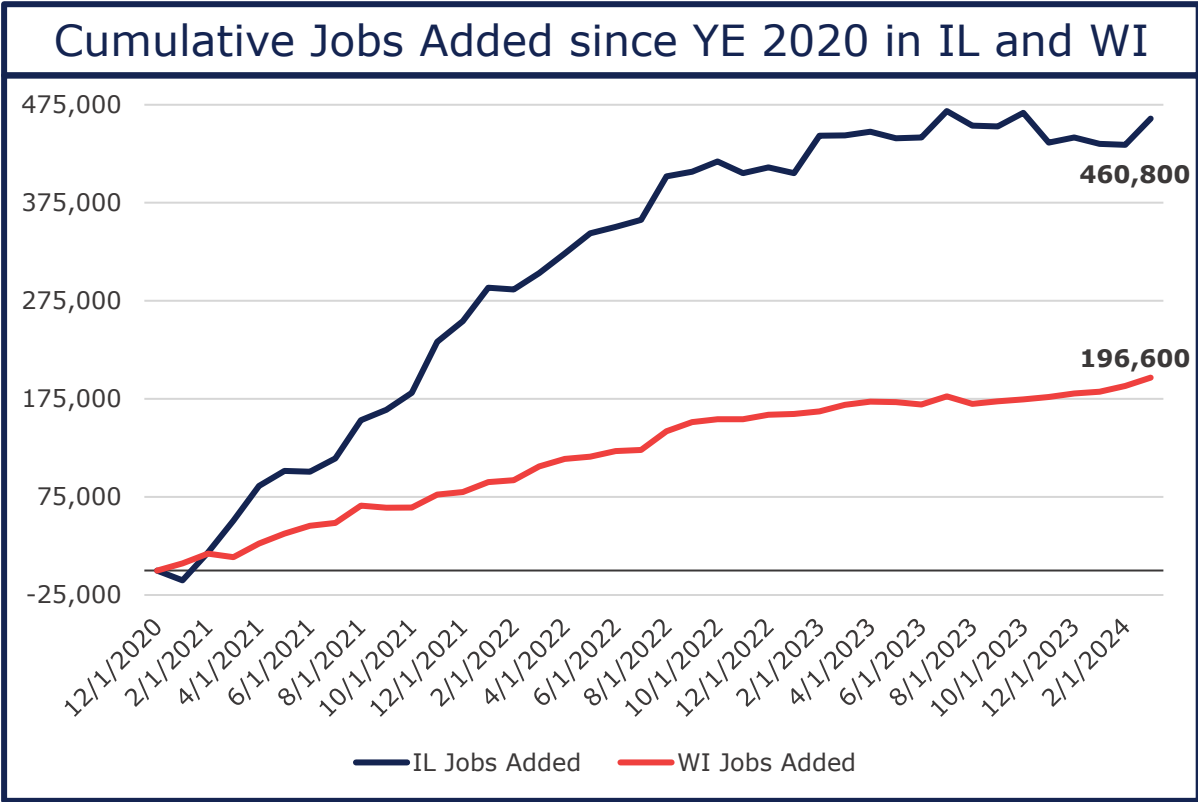
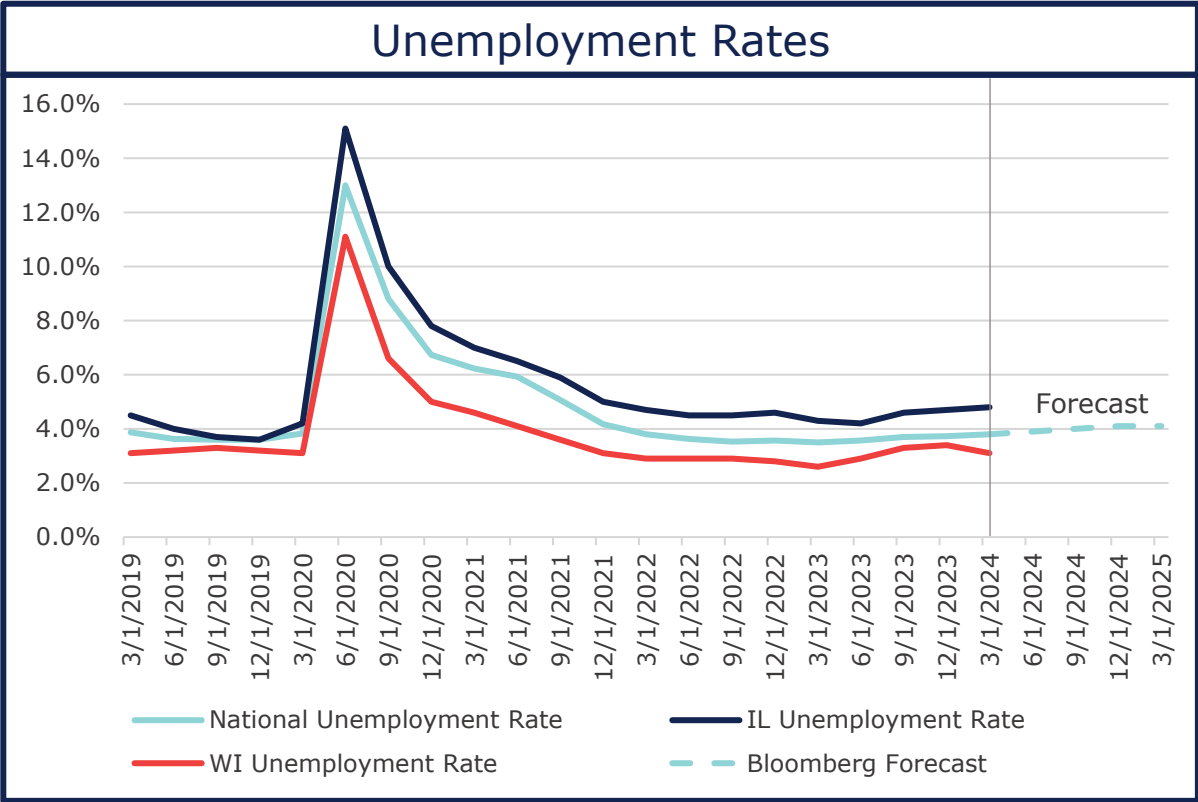
LABOR MARKET NOT EXPECTED TO DETERIORATE



The national unemployment rate is forecasted to stabilize around 4% by the end of the year as the labor market tightens and hiring continues to slows down. The current unemployment rate in Illinois is 4.8% and 3.1% in Wisconsin.



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Questions?

Contact jhotchkissjr@fhlbc.com with any questions or reach out to your Sales Director

