



FHLBank
Chicago

Institutional Insights

James Hotchkiss | May 26, 2022



DISCUSSION TOPICS

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

WEEKLY INTEREST RATE COMPARISONS

U.S. Treasury Yields

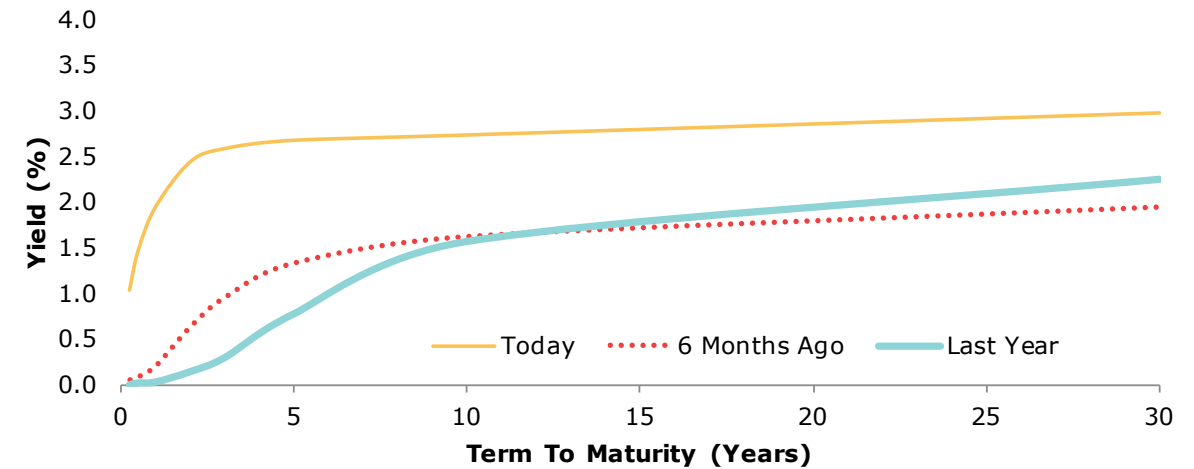
	5/19/22	5/26/22
3 mo	1.05%	1.05%
2 yr	2.63%	2.45%
5 yr	2.84%	2.68%
10 yr	2.84%	2.74%

FHLBank Chicago Advance Rates

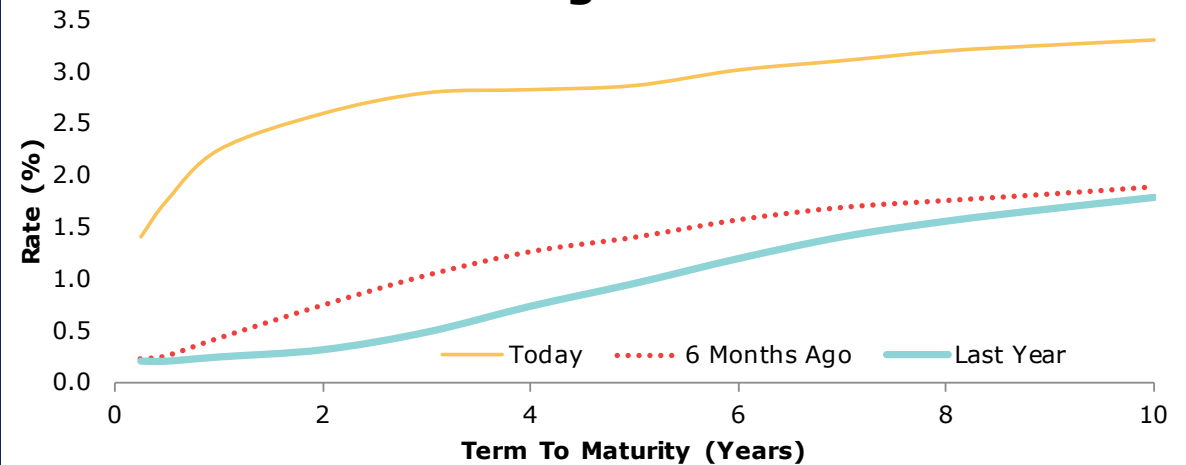
	5/19/22	5/26/22
3 mo	1.28%	1.41%
2 yr	2.77%	2.60%
5 yr	2.96%	2.87%
10 yr	3.34%	3.31%

Source: U.S. Treasury, FHLBank Chicago

U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

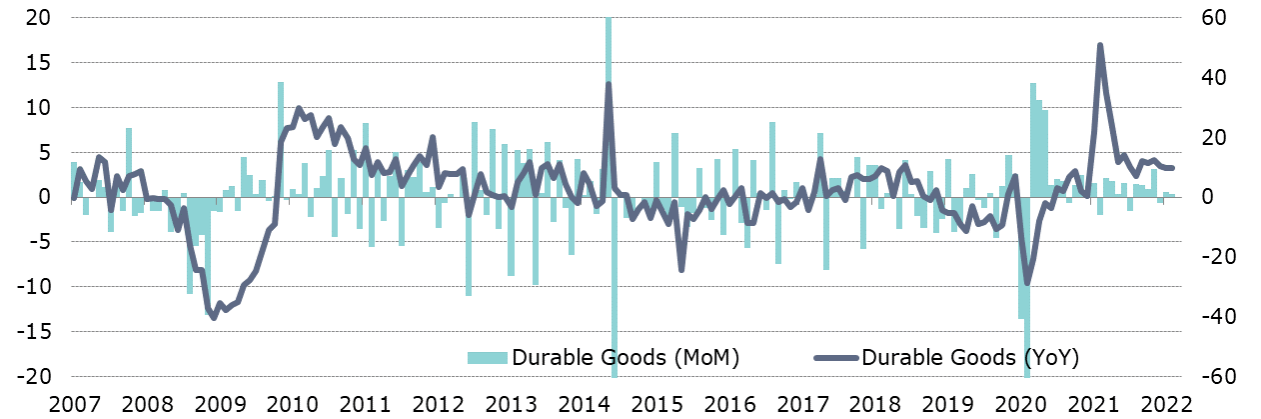


ECONOMIC DATA RELEASES

Durable Goods

April: 0.4% vs March: 0.6%

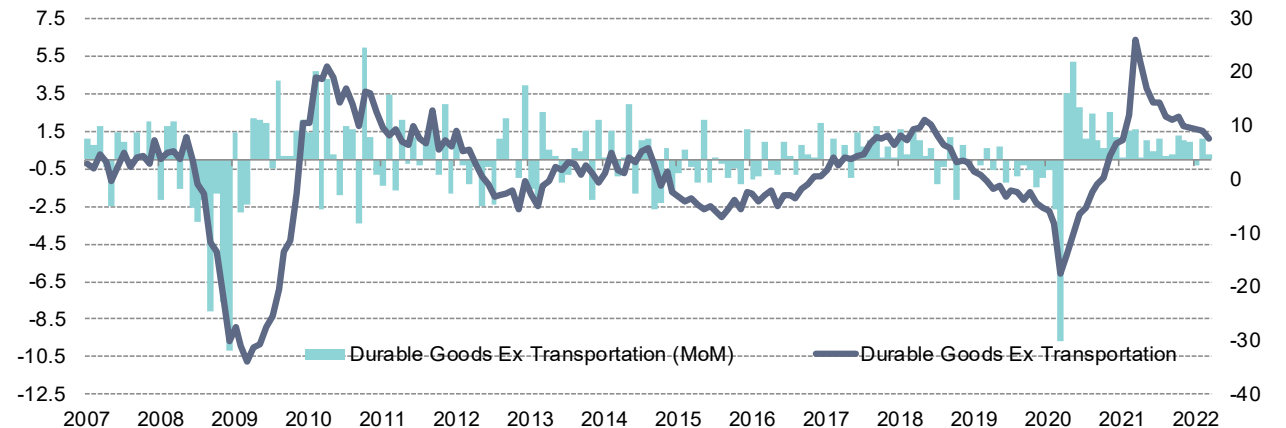
New orders increased by 0.4% to \$265.3B in April. The largest increase was in transportation equipment, which rose 0.6%. The index rose 9.9% year-over-year.



Durable Goods Ex Transportation

April: 0.3% vs March: 1.1%

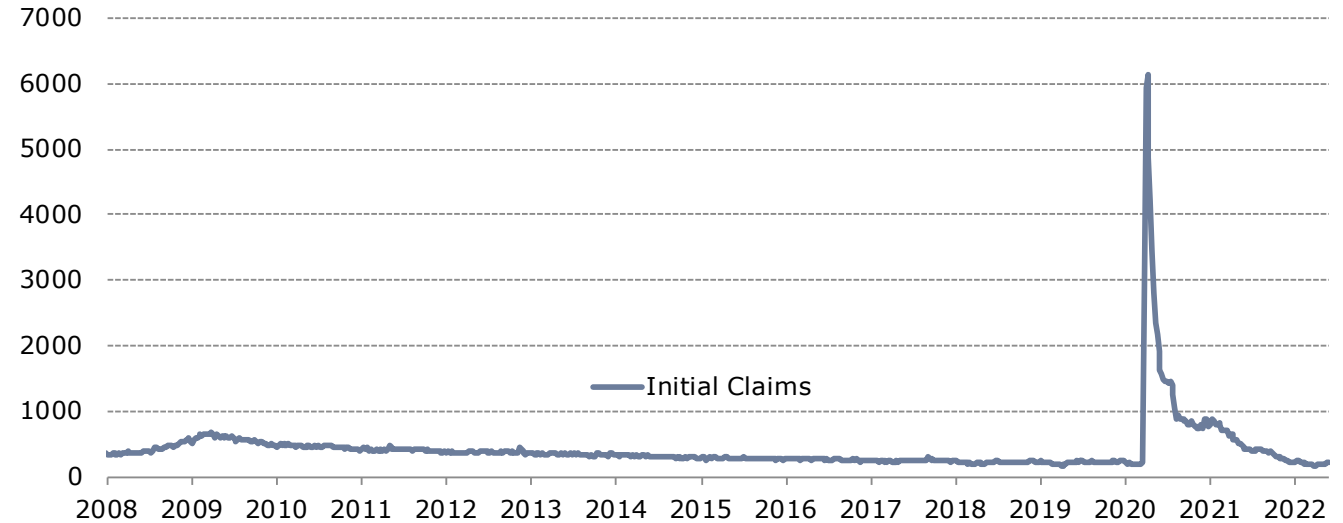
Excluding transportation, orders increased 0.3%. Year-over-year, the index rose 7.55%. Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, edged up 0.3%, below 1.1% in March.



Initial Jobless Claims

May 26: 210K vs. May 19: 218K

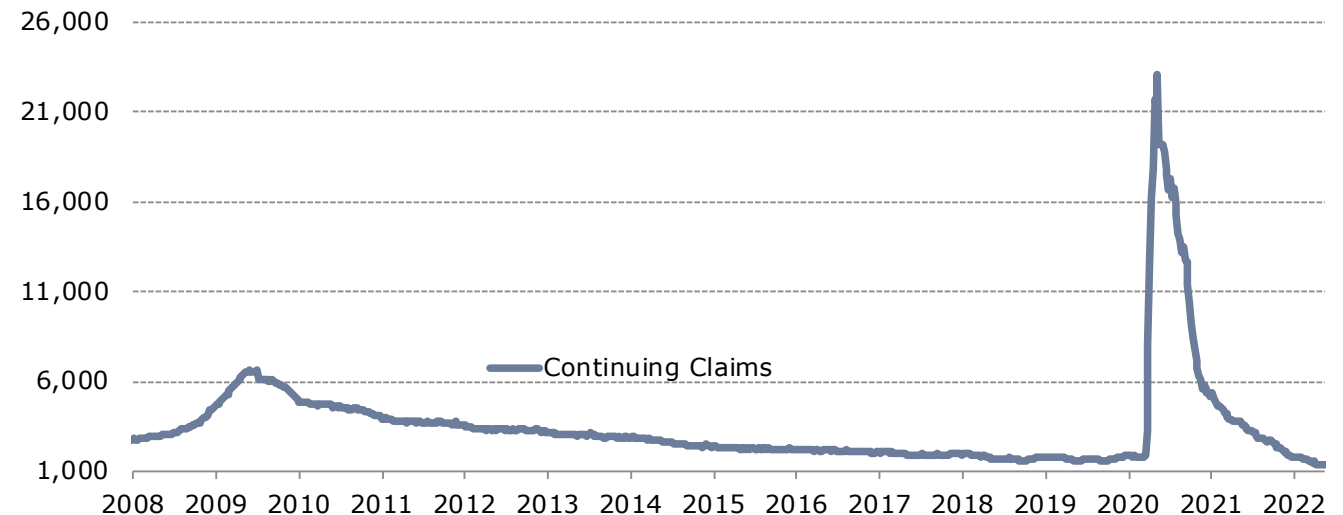
Decreased by 8K to 210K in the week ending January 22. The previous week was left unchanged at 218K. As a result, the 4-week moving average increased by 8.25K to 199K from the previous week's revised level of 191K.



Continuing Claims

May 26: 1,317K vs. May 19: 1,342K

Decreased by 25K to 1,317K in the week ending January 15. This is the lowest reading since December 1969. The prior week's level was downwardly revised by 1K to 1,342K. As a result of this week's reading, the 4-week moving average decreased by 10.75K to 1,651.75K. This average is the lowest level since January 1970. The insured unemployment rate decreased 0.1% to 0.9%.



GDP

U.S. GDP Falls in Second Q1 Estimate

- U.S. GDP decreased at an annual rate of 1.5% in the second estimate for the first quarter of 2022. This follows the 6.9% increase in the fourth quarter of 2021.
- The second estimate reflects decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased.
 - Current-dollar GDP increased 6.5% or \$381.5B to a level of \$24.9B.
 - The price index for gross domestic purchases increased 8.0% in Q1, compared to an increase of 7.0% increase in Q4.
 - Current-dollar personal income increased \$248.3B quarter-over-quarter.
 - Disposable personal income increased \$7.51B or 0.2% in Q1.
 - Personal savings was \$1.03T in Q1, down from \$1.45T in Q4.
 - Personal savings rate was 5.6% in Q1, down from 7.9% in Q4.

GDP Decreases Due to Fall in Exports

Net Exports contributed -3.23 points to GDP as widespread decreases in nondurable goods were partly offset by an increase in "other" business services (mainly financial services).

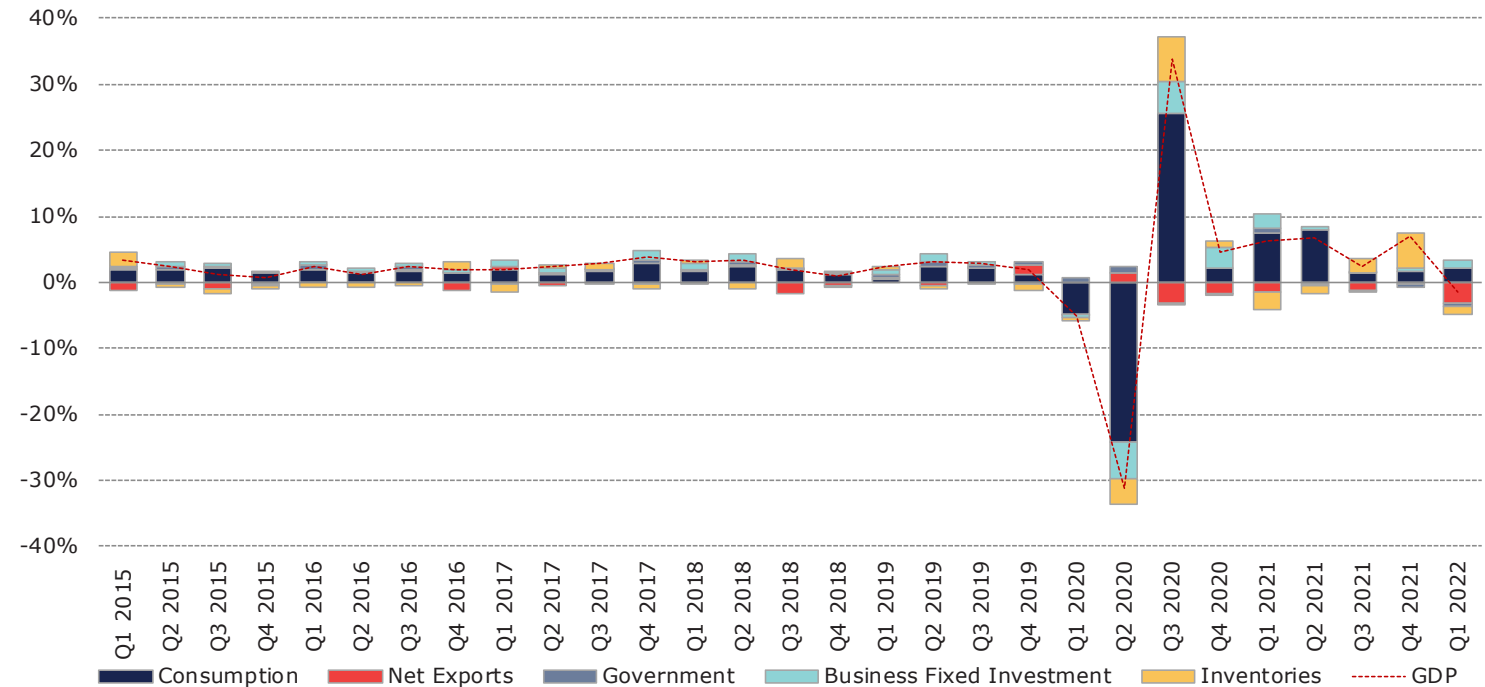
Inventories contributed -1.09 points to GDP due to decreases in wholesale trade (mainly motor vehicles) as well as mining, utilities, and construction.

Personal consumption contributed 2.09 points to GDP, entirely driven by widespread increases in services, led by housing and utilities.

Business fixed investment contributed 1.18 points to GDP, reflecting increases in equipment and intellectual property products.

Source: Bureau of Economic Analysis

GDP and Sector Contributions



FOMC MEETING MINUTES

FOMC Meeting Minutes

- The FOMC released its meeting minutes from May, in which participants noted a strong economic outlook with several areas of concern. Participants observed a decline in real GDP in Q1 as well as increasing inflation and a tightening job market. These concerns were offset by improving employment data.
- With regard to the economic outlook, the staff anticipated that GDP would rebound in the second quarter and advance at a solid pace over the remainder of the year. GDP was then expected to slow in 2023 and 2024 as monetary policy became less accommodative.
- The near-term projection for PCE price inflation was revised up slightly in the second half of 2022 and 2023 in response to the slower resolution of supply issues and issues related to the war in Ukraine and continued lockdowns in China. Staff continued to expect that monthly inflation rates would move lower as supply constraints eased.
- Committee members agreed to raise the target range for the federal funds rate by 50 basis points (bps). They anticipated that ongoing increases would be warranted to achieve the committee's goals. They also agreed to start reducing the size of the Federal Reserve's balance sheet by capping the amount of principal reinvested each month.

SURVEY OF CONSUMER EXPECTATIONS

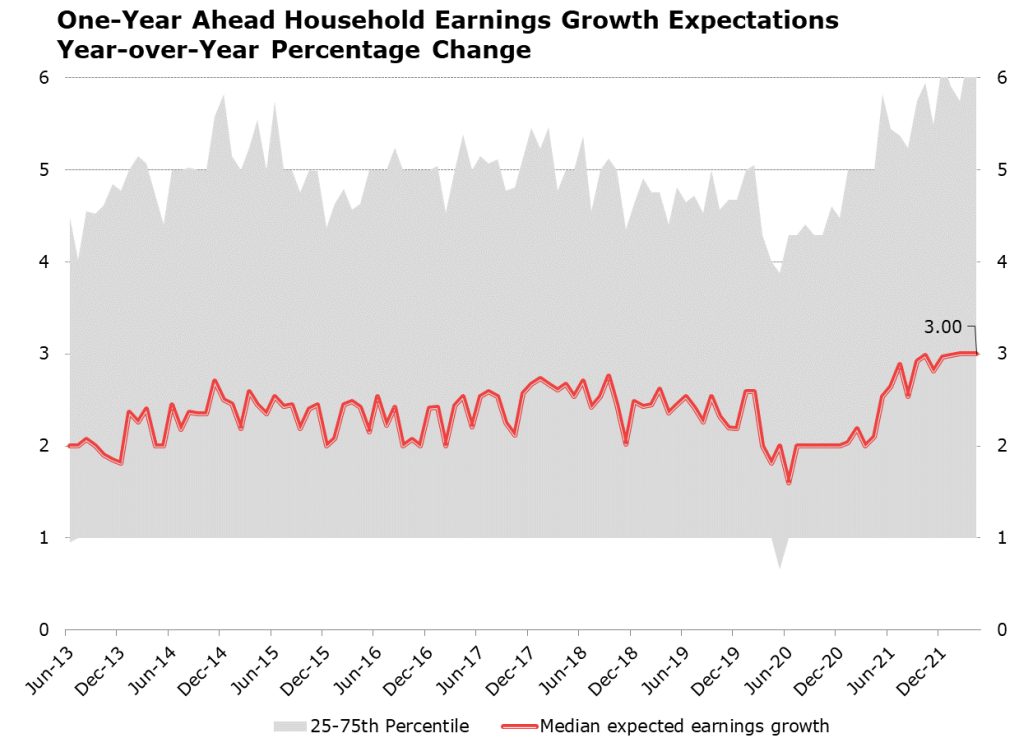
Survey of Consumer Expectations

- The Federal Reserve Bank of New York recently released its Survey of Consumer Expectations (SCE) for April 2021.
- 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

Earnings Expectations

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

Expected income growth in the next 12 months stayed constant at 3.00%, where it has been for the last three months.



Source: Federal Reserve Bank of New York

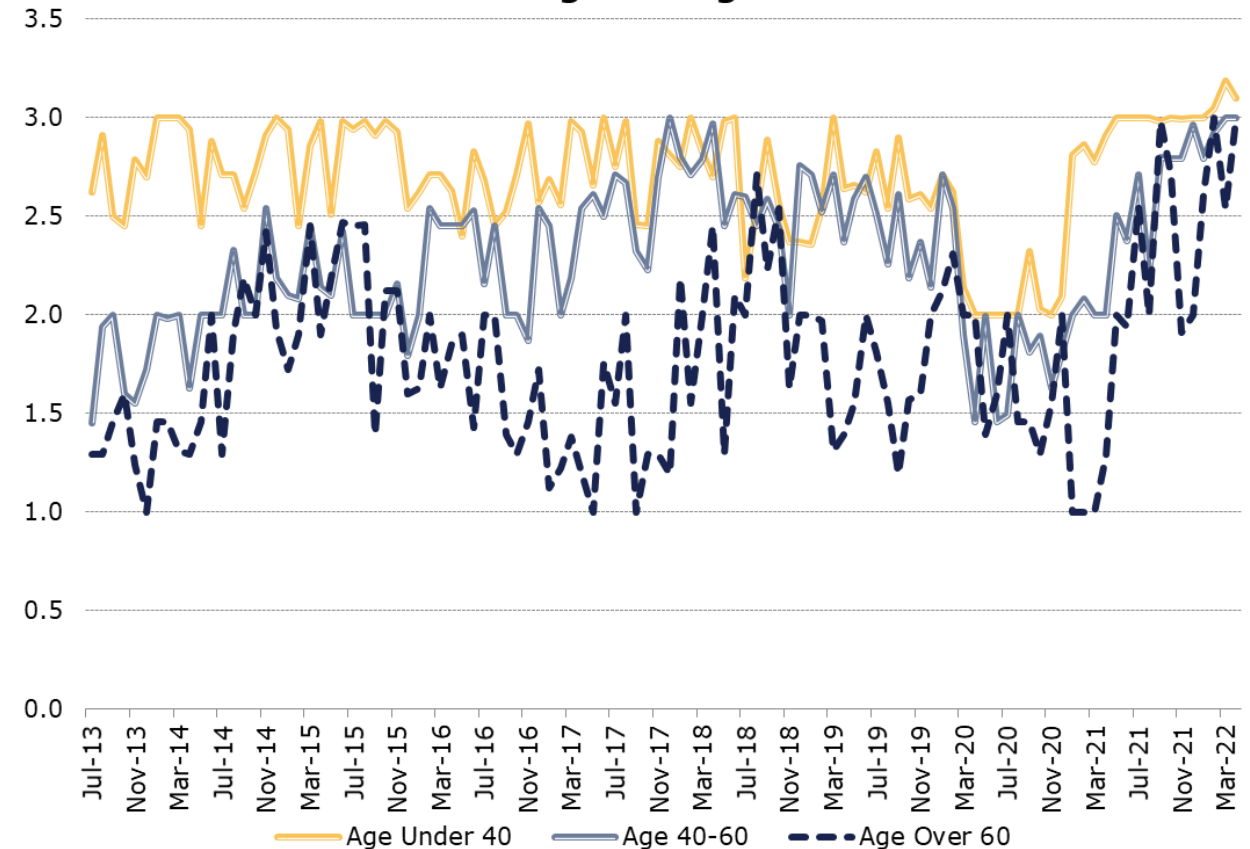
Earnings Expectations by Age Group

Earnings expectations across all age groups had mixed results this month.

Consumers over 60 had the steepest increase in optimism in April, with expectations rising 0.46%. Expectations rose to 3.00% from 2.54%.

Consumers under 40 experienced a modest decrease, falling 0.09% to 3.10%. Consumers between 40 and 60 stayed flat at 3.00%.

**Median Expected Earnings Growth By Age Group
Year-over-Year Percentage Change**



Source: Federal Reserve Bank of New York

Earnings Expectations by Income Level

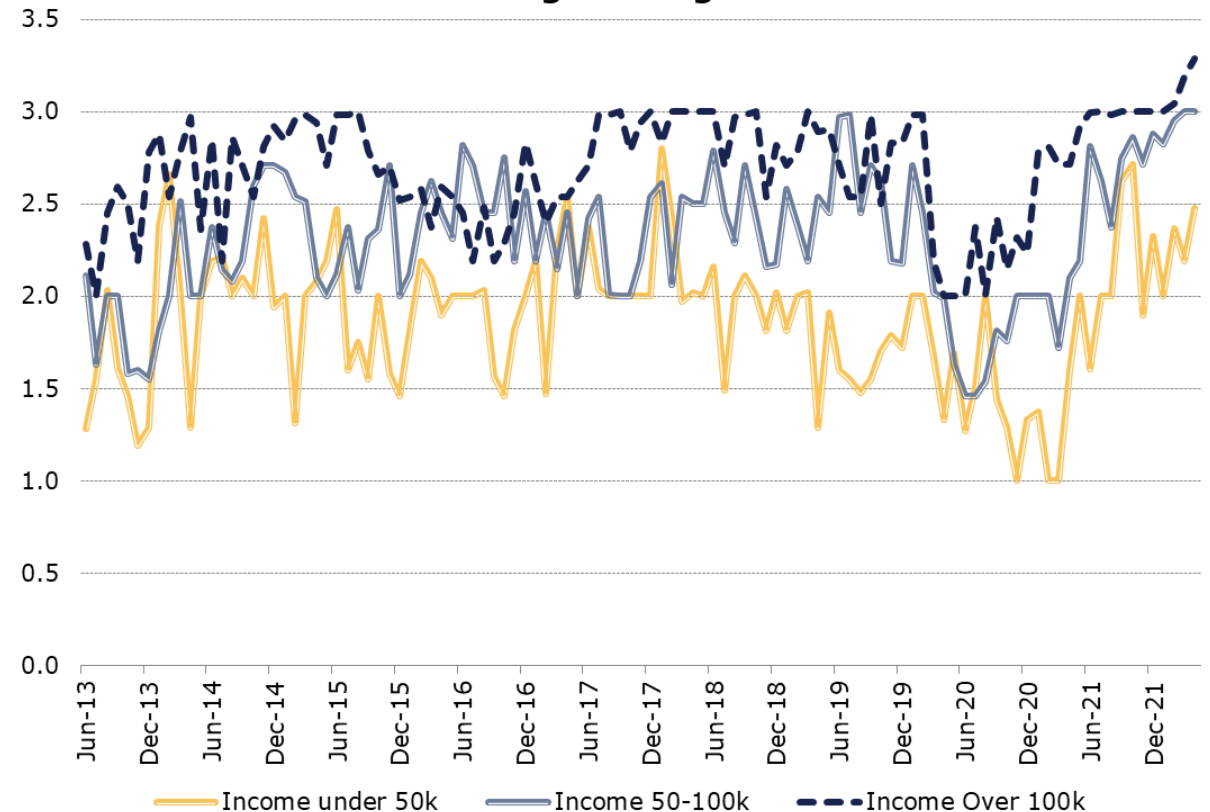
Earnings expectations in different income groups similarly increased across the board.

Expectations for consumers with incomes under \$50K increased the most, rising by 0.29% to 2.48%.

Meanwhile, expectations for other income groups showed a more modest increase. Expectations for consumers with income between \$50K and \$100K stayed flat at 3.00%, while consumers with income over \$100K increased 0.10% to 3.29%.

Source: Federal Reserve Bank of New York

**Median Expected Earnings Growth By Income Level
Year-over-Year Percentage Change**



Probability of Losing a Job and Quitting Fall

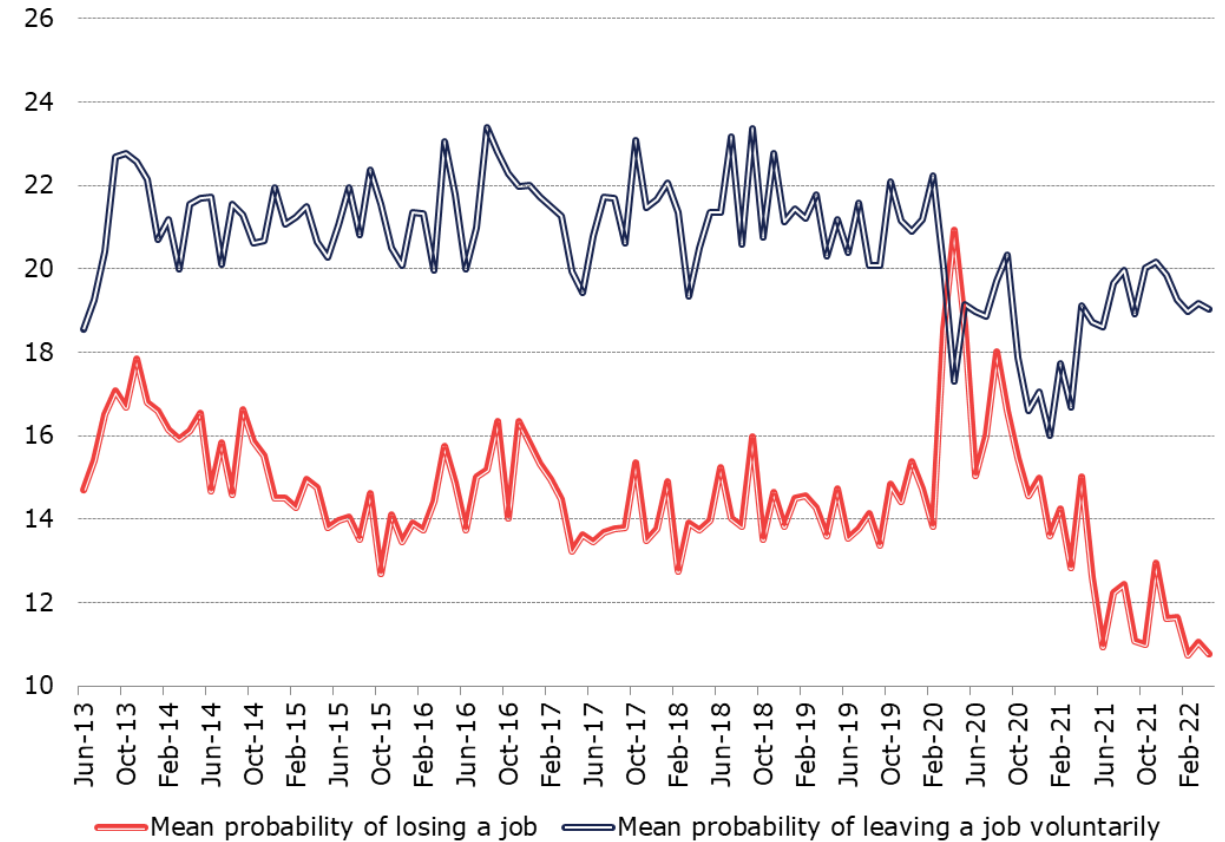
The April report indicated a decrease in both the probability of losing one's job and the probability of quitting within the next 12 months.

The perceived probability of losing one's job in the next year dipped to 10.76% from 11.06% in the prior month.

The probability of leaving a job voluntarily in the next year decreased in April, declining 0.13% to 19.03%. Although this figure has been rising in recent months, it remains below pre-pandemic levels.

Source: Federal Reserve Bank of New York

Probability of Losing Job or Quitting
Mean Probability of All Consumers, Next 12 Months

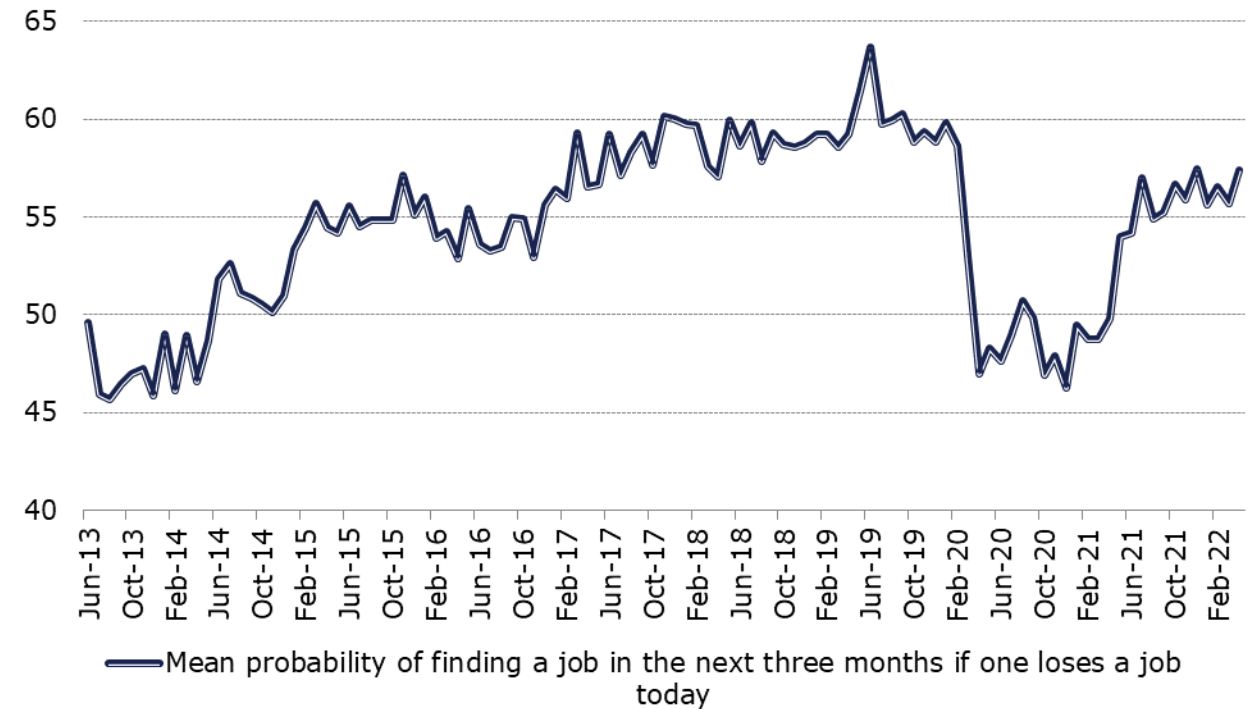


Probability of Finding a Job

The mean expected probability of finding a job in the next three months if a consumer lost their job today increased in April.

The probability rose 1.70% to 57.41% from 55.70% in March. This is its highest level since 57.47% in December 2021.

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

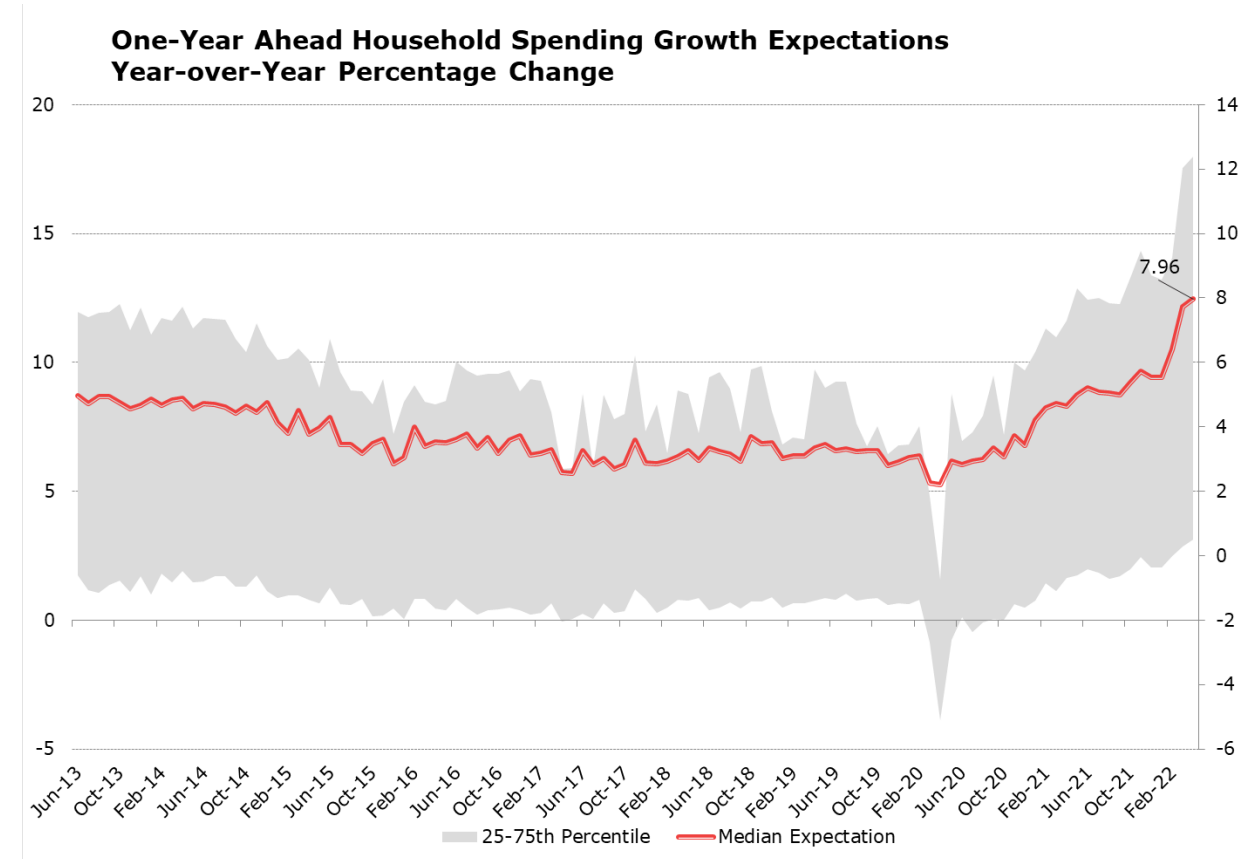


Source: Federal Reserve Bank of New York

Spending Expectations

Median household spending growth expectations for the year ahead increased to 7.96% in April from 7.73% in March.

April was the highest recorded survey reading for expected household spending growth. Expectations are up 2.24% from the beginning of the year.



Source: Federal Reserve Bank of New York

Expected Changes in Credit Availability in the Next 12 Months

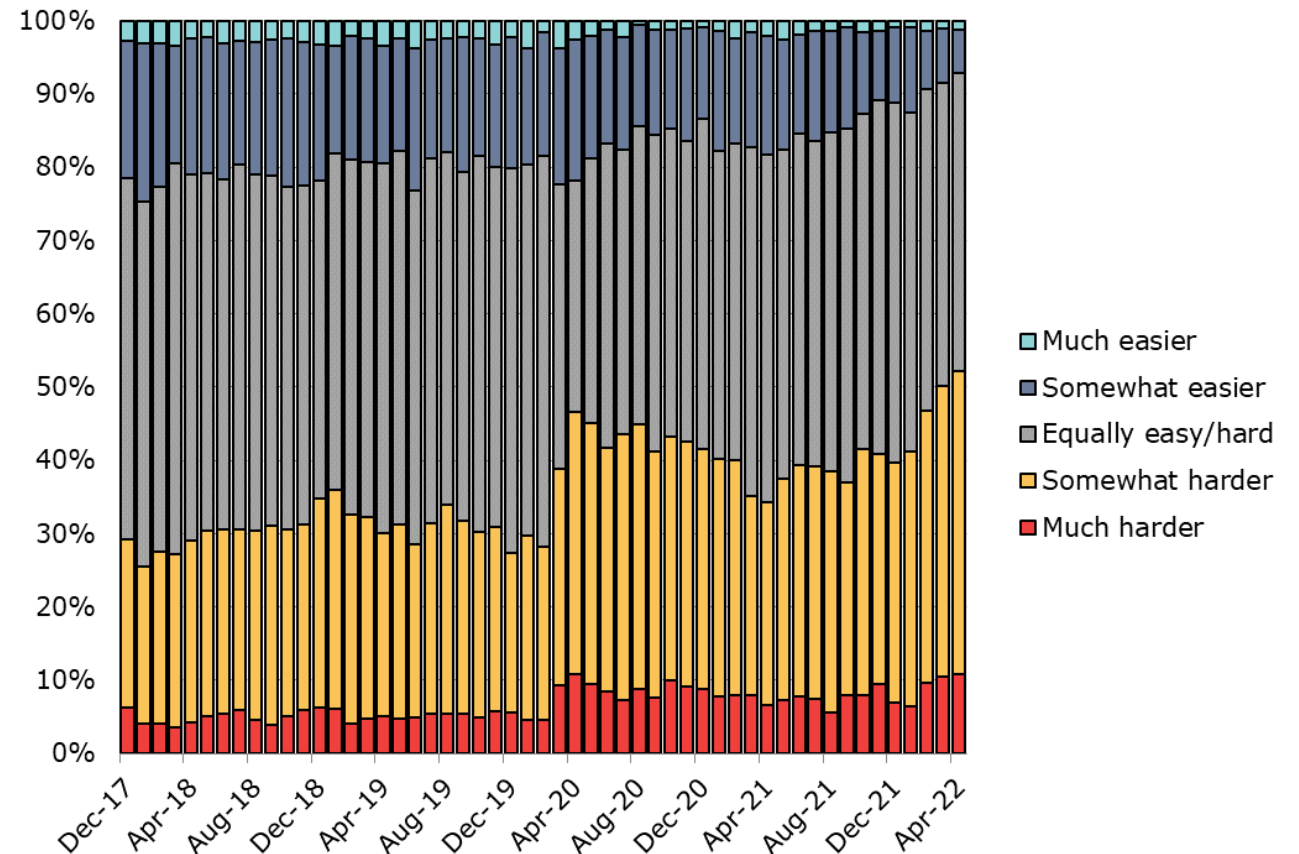
Perceptions regarding expected credit access 12 months from now show that consumers are expecting a less favorable credit environment in 12 months.

52.14% of respondents expect “much harder” or “somewhat harder” access to credit.

Consumers who anticipate access to credit to be “somewhat easier” or “much easier” decreased from 8.40% in March to 7.20% in April.

Source: Federal Reserve Bank of New York

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

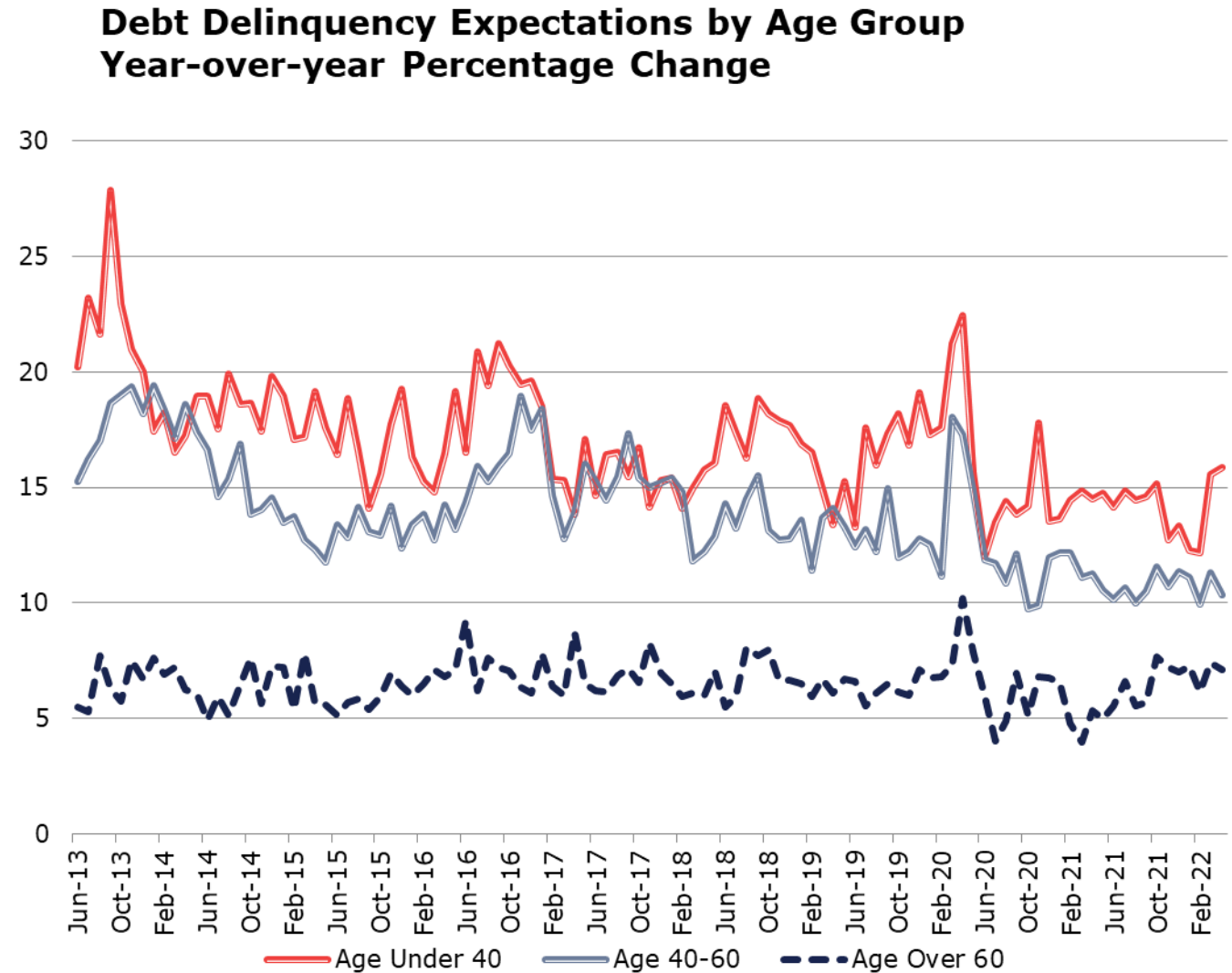


Expected Changes in Debt Delinquencies

Expectations for debt delinquencies in all consumers decreased 0.39% to 10.69% with varied changes across demographic groups.

Expectations from consumers under age 40 increased in April, rising 0.29% to 15.85%. This came after a significant increase of 3.38% in March.

Expectations for consumers between 40 and 60 and consumers over 60 both fell in April, declining 1.00% to 10.33% and 0.29% to 7.13%, respectively.

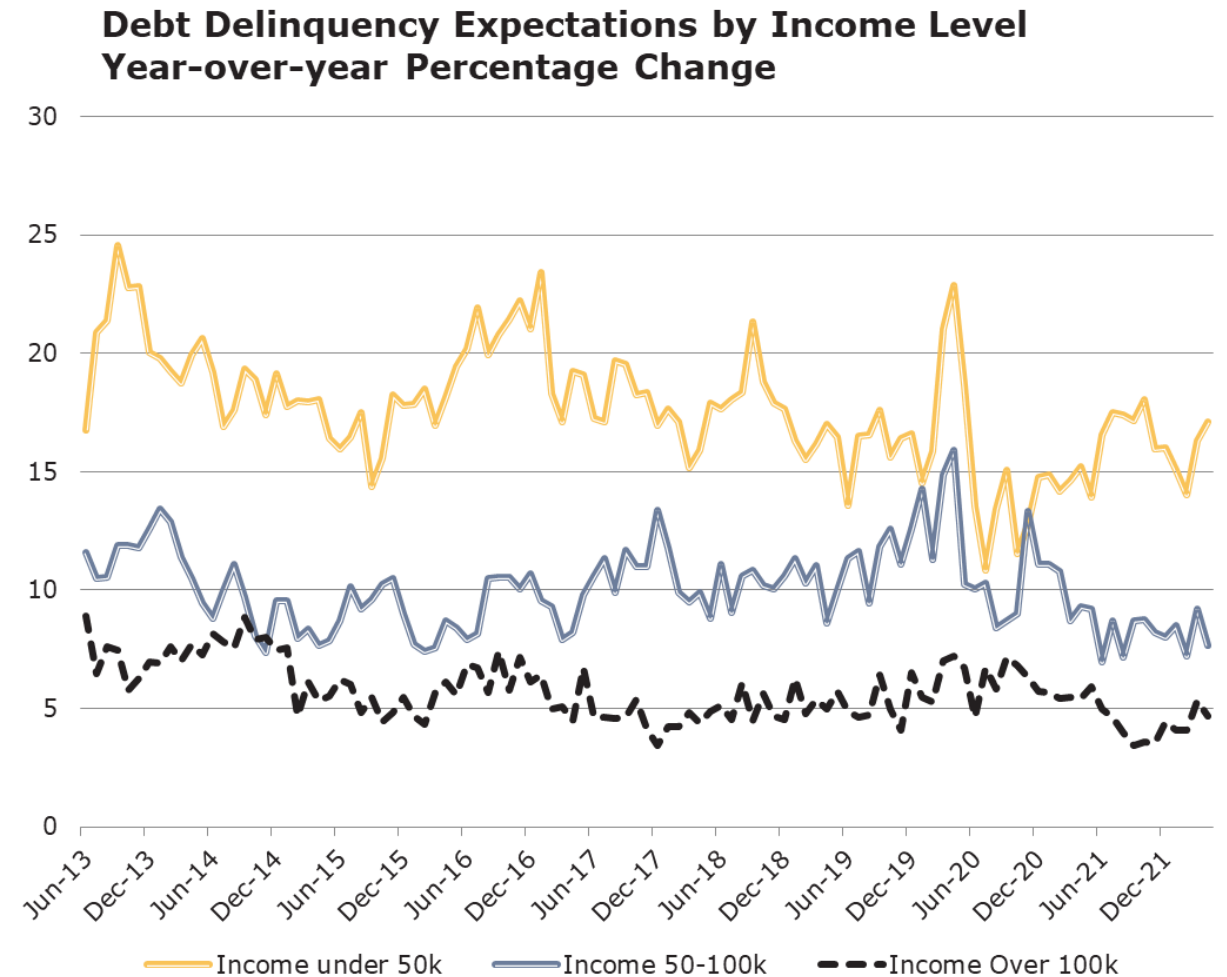


Source: Federal Reserve Bank of New York

Expected Changes in Debt Delinquencies

Survey responses by income level signaled worsening expectations for respondents with incomes under \$50K. Respondents in this category reported their expectations of missing a debt payment increasing by 0.78% to 17.09%. This follows a 2.28% increase in March.

Expectations for those with incomes between \$50K and \$100K decreased 1.52% to 7.67% while those over \$100k decreased 0.66% to 4.68%.

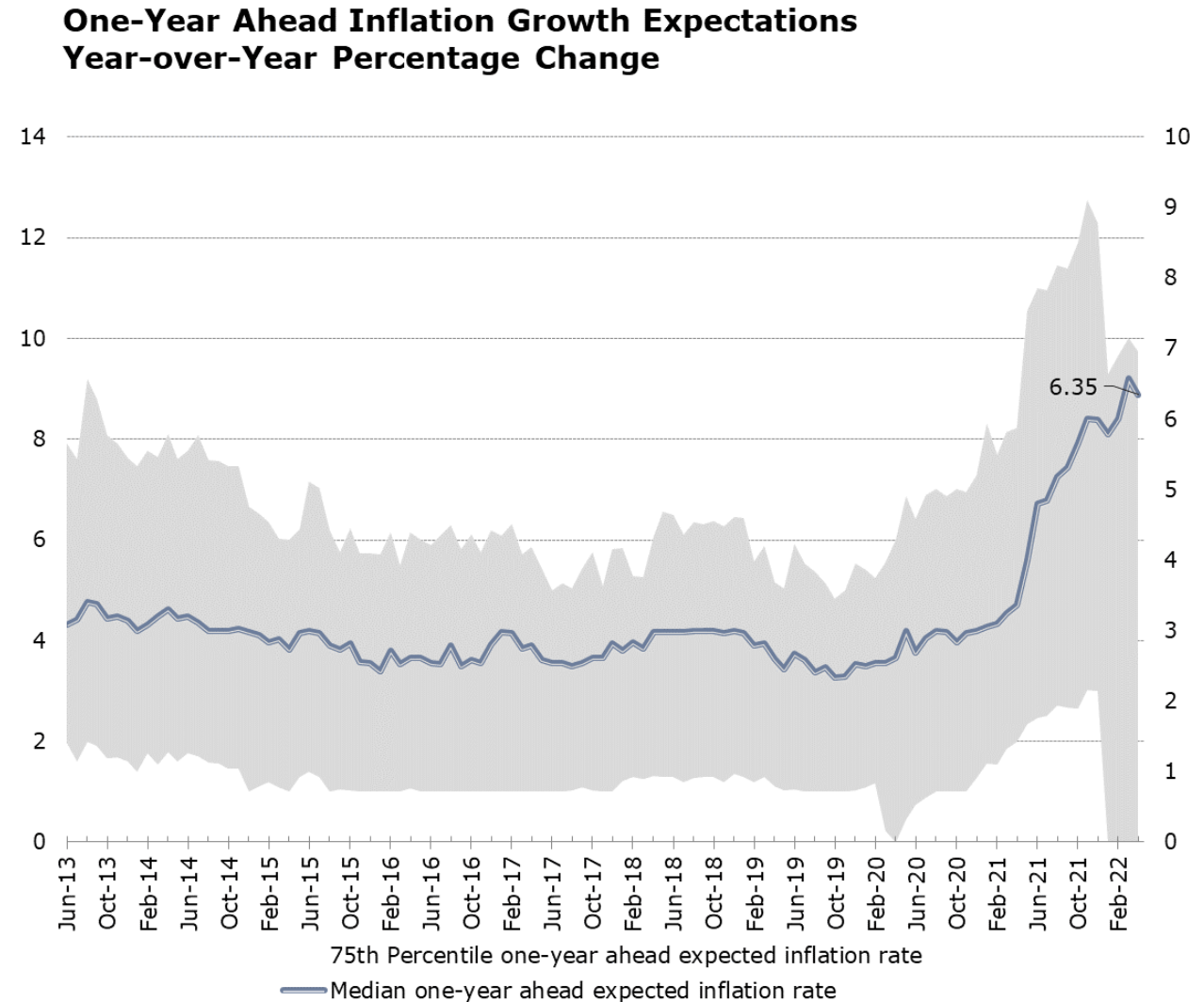


Source: Federal Reserve Bank of New York

Inflation Expectations

The median one-year ahead expected rate of inflation fell to 6.35% in April from 6.58% in March.

The expected rate of inflation has been rising significantly since the start of the year. April's reading was the first decline since January.



Source: Federal Reserve Bank of New York

Home Price Expectations by Region

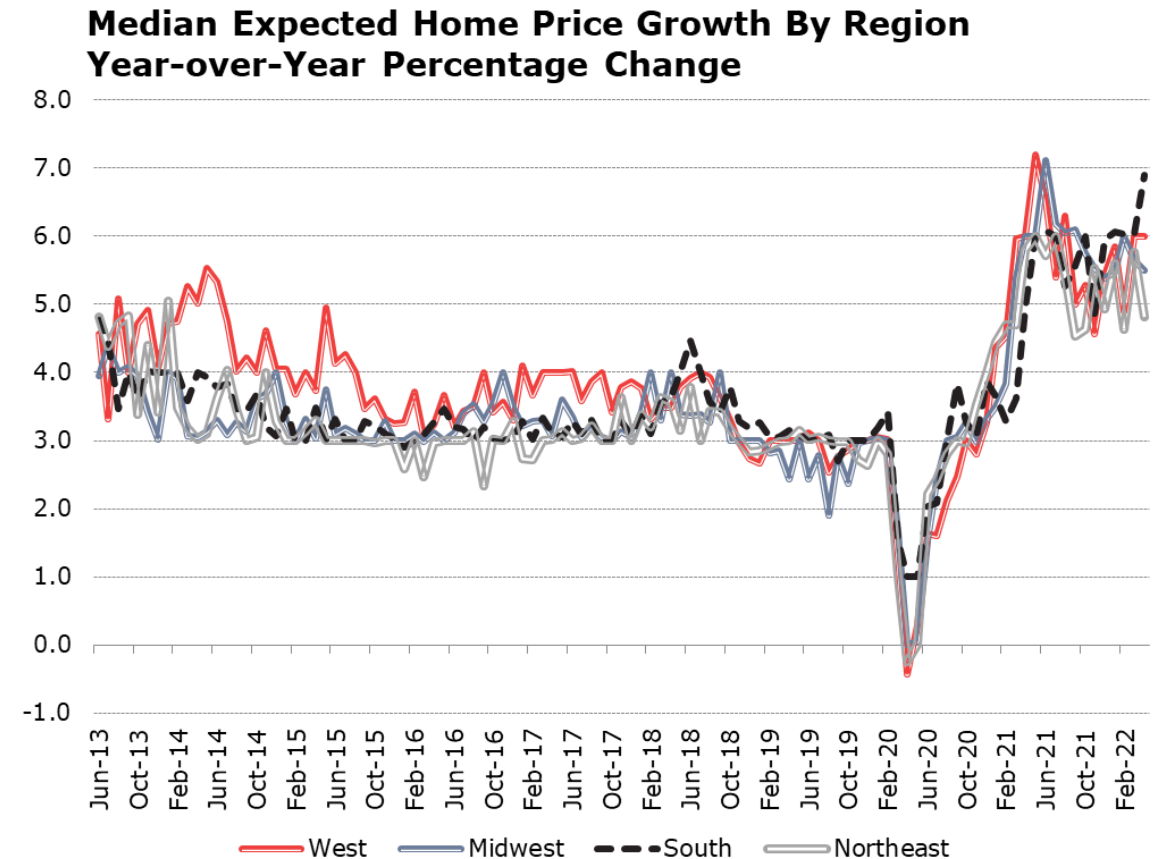
Median expectations for home prices across regions were mixed.

The South is the most optimistic with expectations of a 6.90% growth in April. This increased 0.86% compared to March.

The West had expectations of a 6.00% growth, unchanged from March.

The Midwest and Northeast had a decrease in growth expectations, declining 0.13% to 5.51% and 0.95% to 4.82%, respectively.

Source: Federal Reserve Bank of New York



Survey of Consumer Expectations

Summary:

- Consumer expectations remained constant about earnings and financial condition overall and were mixed across different demographics.
- Median one-year ahead earnings growth expectations stayed at 3.00% in April.
- Expectations for home price growth remained at 6.00% in April, the same reading as in January and March.
- Respondents are more optimistic about the likelihood of losing their job in the next 12 months, while also less likely to voluntarily quit in the same time period.
- Expectations for debt delinquency decreased 0.39% month-over-month despite elevated delinquency expectations coming from consumers under the age of 40 and consumers with incomes less than \$50K.
- Other areas of the report not covered in this presentation:
 - Expectations for credit access fell for the fourth consecutive month to a series low.
 - Expectations for an increase in stock prices a year from now have decreased almost 5% since this time last year.
 - Government debt growth expectations have continued to decrease recording the lowest level since November 2020.

This and That

The rapid fall in the value of the Euro against the U.S. Dollar has brought the possibility that the two currencies could reach parity this year. It would be the first time the two currencies equaled each other since 2002, shortly after the Euro was first put into circulation.

The world's second most traded currency fell as low as \$1.035 USD earlier in May and is currently trading in the \$1.05-\$1.07 range, compared to a January 3 reading of \$1.136. A combination of factors including the U.S. Fed's aggressive rate hikes, the war in Ukraine's disproportionate effect on Europe, and an economic slowdown in China have caused investors to seek haven in dollars and conversely abandon the Euro.

The economic ramifications of this are mixed. Foreign investors might shy away from investing in European economies fearing their real return will be worsened by a weakening Euro. On the other hand, goods and services produced in Europe will now be more attractive to foreign consumers which could stimulate demand. In other words, if you have been holding off on that trip to Venice—now might be the time to book accommodations.

Economic Data Release Calendar

Next week, economic data will be released on Chicago PMI, JOLTS, ISM Manufacturing, ISM Services, and the ADP Employment Reports.

All eyes will be focused on Friday's Employment release.

May 2022				
Monday	Tuesday	Wednesday	Thursday	Friday
2 PMI Manufacturing ISM Manufacturing	3 JOLTS Factory Orders	4 MBA Mortgage Applications ADP Employment Report Motor Vehicle Sales	5 Jobless Claims ISM Services Factory Orders	6 Employment Consumer Credit
9 Wholesale Inventories	10 Small Business Optimism	11 MBA Mortgage Applications Consumer Price Index	12 Jobless Claims	13 Consumer Sentiment Import and Export Prices
16 Empire Manufacturing	17 Retail Sales Industrial Production Housing Market Index	18 MBA Mortgage Applications Housing Starts and Permits	19 Jobless Claims Philadelphia Fed Outlook Existing Home Sales	20
23 Chicago Fed Outlook	24 Richmond Fed Outlook New Home Sales	25 MBA Mortgage Applications FOMC Minutes	26 Jobless Claims Pending Home Sales GDP Kansas City Fed Outlook	27 Consumer Sentiment
30 Memorial Day	31 FHFA House Price Index Case-Shiller House Price Consumer Confidence Chicago PMI	1 MBA Mortgage Applications PMI Manufacturing ISM Manufacturing JOLTS Beige Book	2 Jobless Claims ADP Employment Report Motor Vehicle Sales	3 Employment

Questions?

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