



FHLBank
Chicago

Weekly Market Update

James Hotchkiss | November 4, 2021



DISCUSSION TOPICS

- Weekly Interest Rate Comparisons
- Economic Data Releases
- GDP
- Manufacturing
- Preview of the Coming Week
- Q and A

Weekly Interest Rate Comparisons

U.S. Treasury Yields

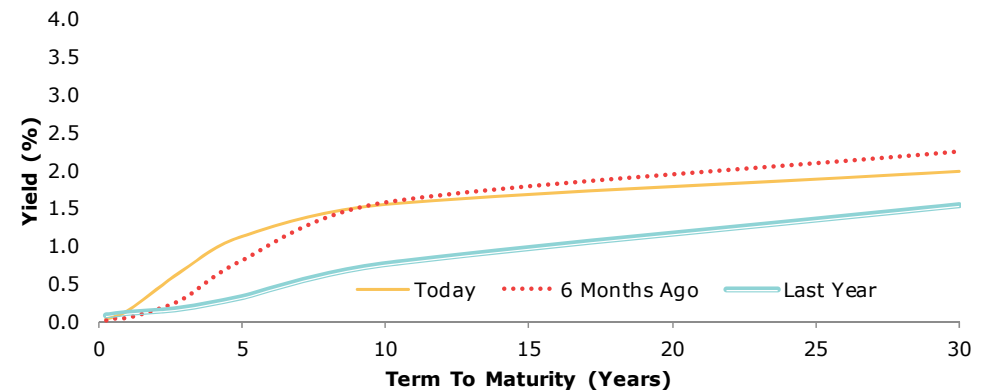
	11/4/21	10/28/21
3 mo	0.04%	0.04%
2 yr	0.42%	0.35%
5 yr	1.13%	1.05%
10 yr	1.55%	1.52%

FHLBank Chicago Advance Rates

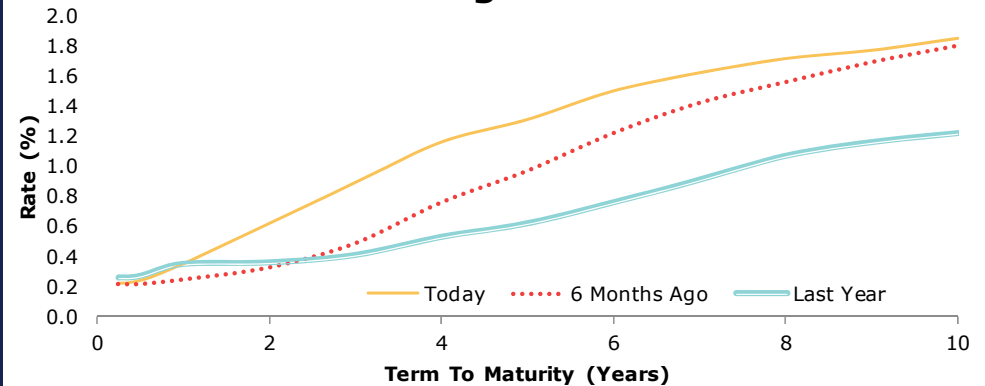
	11/4/21	10/28/21
3 mo	0.22%	0.22%
2 yr	0.62%	0.57%
5 yr	1.31%	1.25%
10 yr	1.85%	1.84%

Source: U.S. Treasury, FHLBank Chicago

U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates



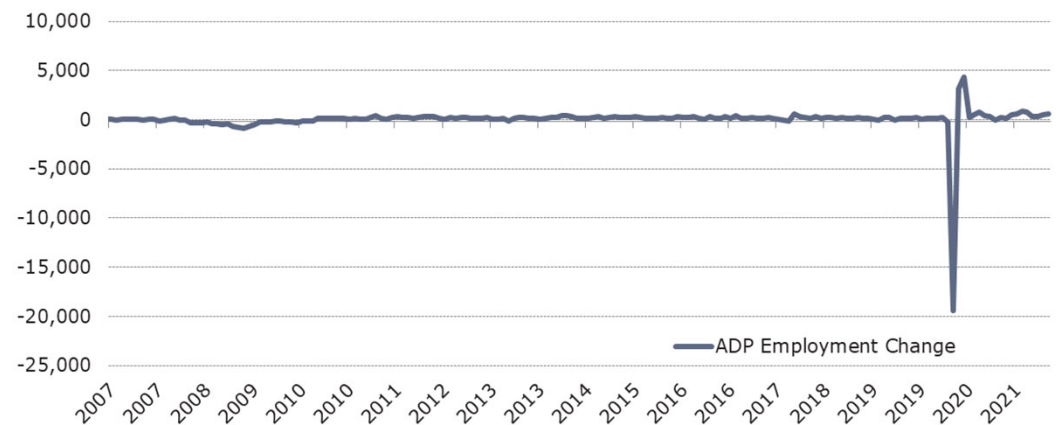


Economic Data Releases

ADP Employment

October: 571K vs. September: 568K

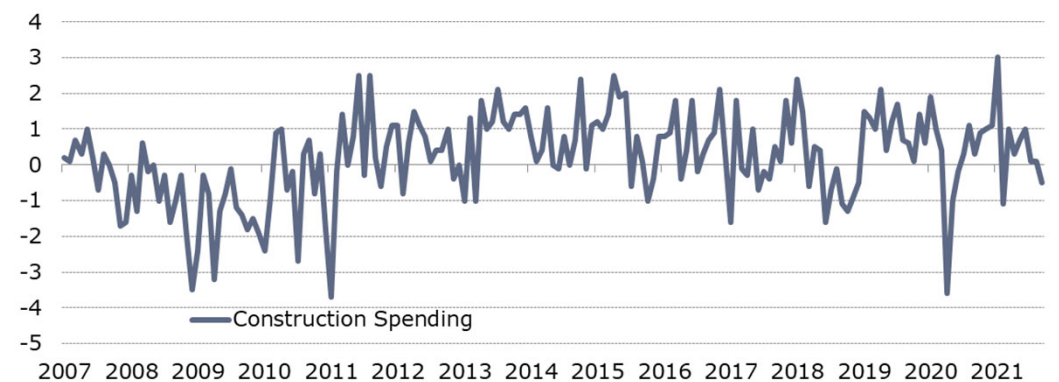
Exceeded consensus expectations of a 400K increase and rose by 571K. The largest increase was seen in the service-providing sector, with an additional 458K jobs, while the goods-producing sector gained 113K. Midsized companies added 114K jobs while small and large businesses added 115K and 342K, respectively.



Construction Spending

September: -0.5% vs. August: 0.1%

Declined 0.4% in September contrary to expectations of a 0.4% increase. Contributing to the index, private residential fell 0.4% while public residential had the largest decline falling 1.6% over the month. For non-residential construction, public and private both declined by 0.6% in September.

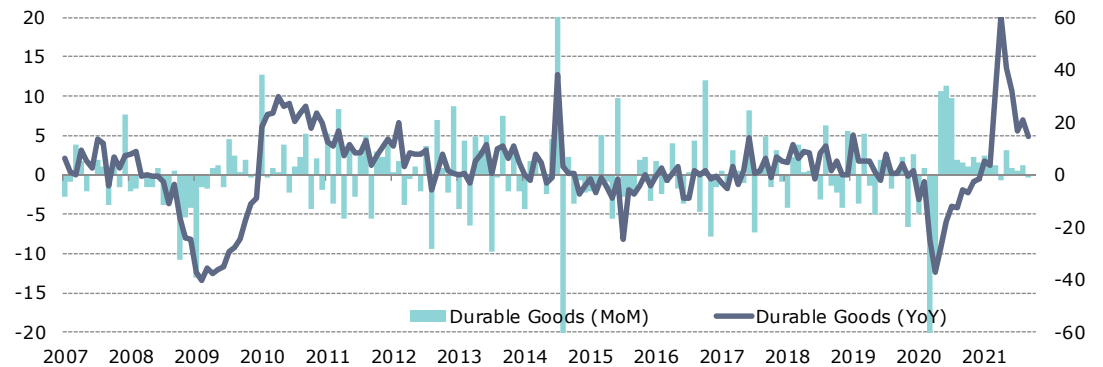


Source: ADP, U.S. Census Bureau

Durable Goods

September: -0.4% vs August: 1.3%

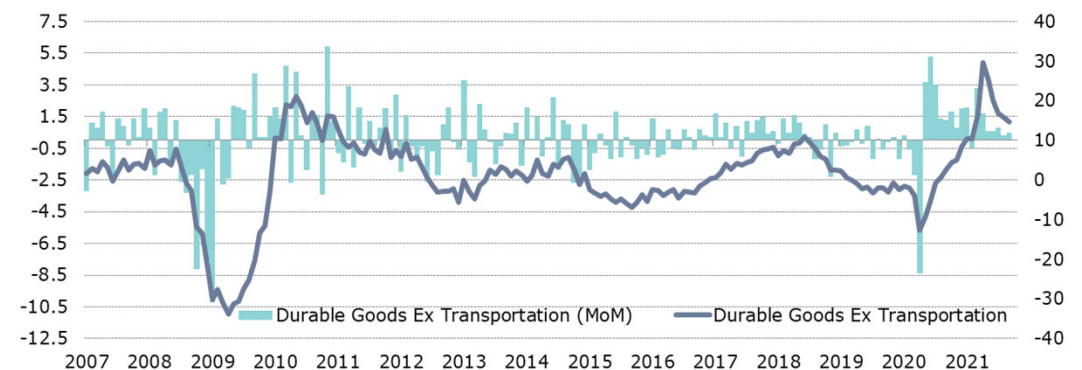
New orders decreased by 0.4% to \$1.0B in September. This decrease can primarily be attributed to defense aircraft and parts decreasing 4.1%.



Durable Goods Ex Transportation

September: 0.4% vs August: 0.3%

Excluding transportation, orders increased 0.4%. Year-over-year, the index rose 14.75%. Shipments excluding transportation rose 14.1% in September.

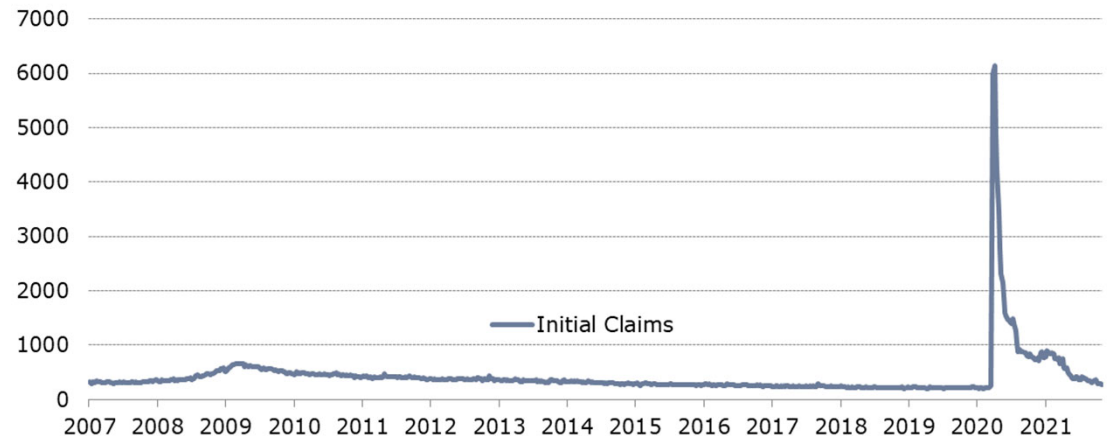


Source: U.S. Census Bureau

Initial Jobless Claims

October 30: 269K vs. October 23: 283K

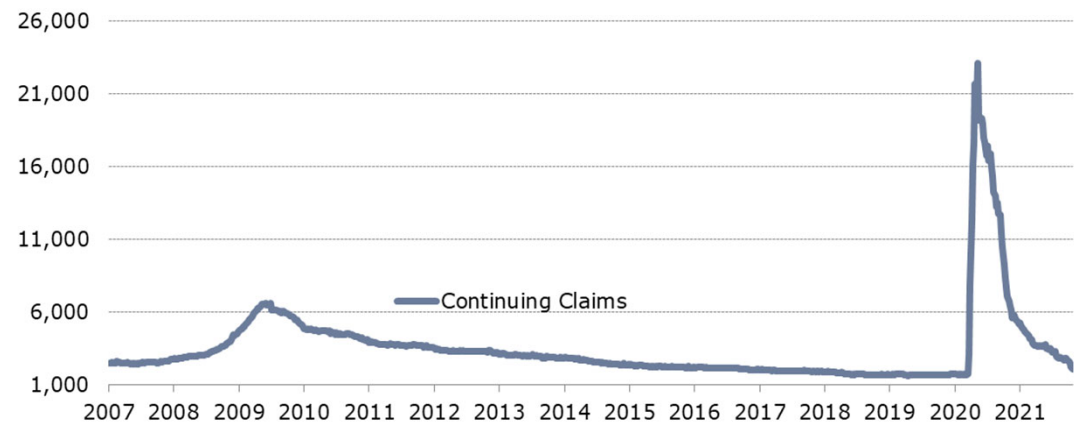
Decreased by 14K to 269K in the week ending October 30, the lowest level since March 14, 2020. The previous week was upwardly revised by 2K from 281K to 283K. As a result, the 4-week moving average decreased by 15K to 284.75K from the previous week's revised level of 299.75K. This is the lowest level for the average since March 14, 2020 when it was 225.5K.



Continuing Claims

October 23: 2,105K vs. October 16: 2,239K

Decreased by 134K to 2,105K in the week ending October 23, the lowest level for insured unemployment since March 14, 2020. The prior week's level was downwardly revised by 4K to 2,239K. As a result of this week's reading, the 4-week moving average decreased by 155.5K to 2,356.75K. The insured unemployment rate decreased 0.1% to 1.6%.



Source: U.S. Department of Labor



FOMC Rate Decision

FOMC Announcement

The Federal Open Market Committee (FOMC) held a scheduled meeting on November 3, 2021.

- The FOMC voted to leave the target range for the Federal Funds Rate unchanged at a range of 0.00% to 0.25%.
- The Committee seeks to “achieve maximum employment and inflation at the rate of 2% over the longer run.”
- The statement acknowledged the improvement of economic activity and employment and recognized.
- The Committee stated that financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.
- The Committee went on to state that the path of the economy will depend significantly on the course of the virus and progress with vaccines as the pandemic continues to weigh on economic activity, employment, and inflation.
- The Fed announced a tapering of asset purchases at a \$15B/month pace (\$10B of Treasuries and \$5B of MBS), suggesting an end to purchases in June 2022.

Source: Federal Reserve Board of Governors

G D P

U.S. GDP Rises in Advance Q3 Estimate

- U.S. GDP increased at an annual rate of 2.0% in the advance estimate for the third quarter of 2021. This follows the 6.7% increase in the second quarter of 2021.
- The deceleration in third quarter GDP increase reflected the slowdown in consumer spending and resurgence of COVID-19 cases that resulted in new restrictions and delays in the reopening of establishments in some parts of the country.
- The advance estimate reflects increases in private inventory investment, personal consumption expenditures, state and local government spending, and nonresidential fixed investments. These were partly offset by decreases in residential fixed investment, federal government spending, and exports.
 - Current-dollar GDP increased 7.8% or \$432.5B to a level of \$23.17T.
 - The price index for gross domestic purchases increased 5.4% in Q3, compared to an increase of 5.8% increase in Q2.
 - Current-dollar personal income increased \$47.8B quarter-over-quarter.
 - Disposable personal income decreased \$29.4B or 0.7% in Q3.
 - Personal savings was \$1.60T in Q3, down from with \$1.90T in Q2.

Source: Bureau of Economic Analysis

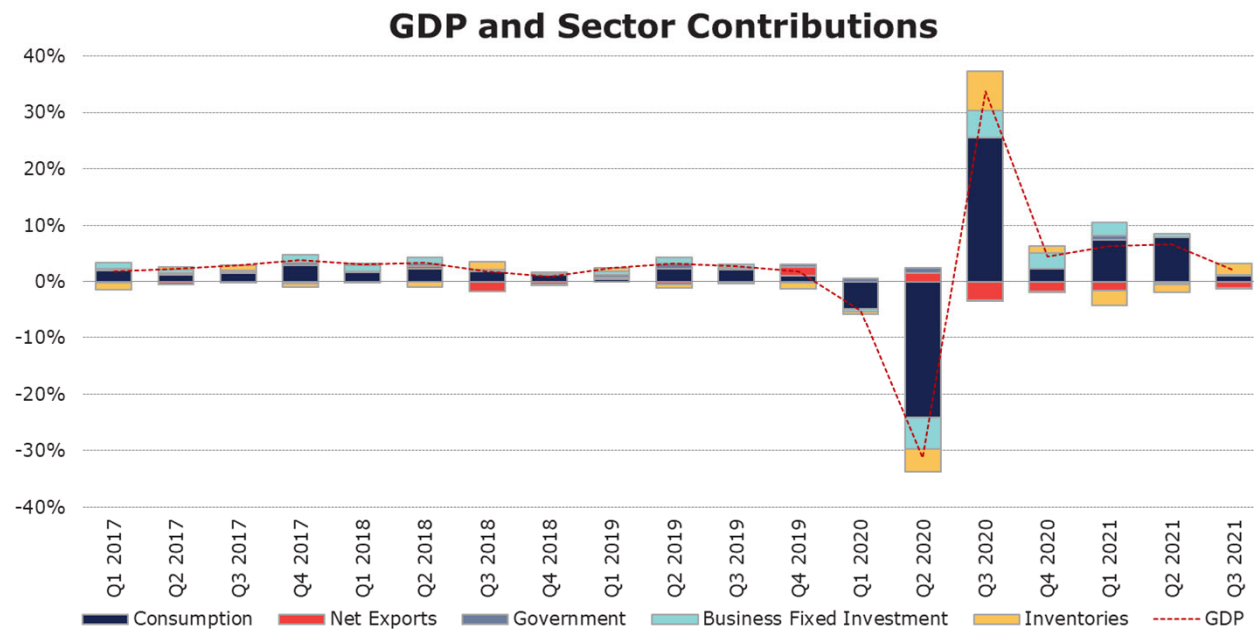
GDP Increases Due to Rise in Inventories

Personal consumption contributed 1.09 points to GDP as spending on goods and services decreased 2.3% and 1.4% quarter-over-quarter.

Inventories and government spending contributed a gain of 2.07 points and 0.14 points, respectively.

Business fixed investments and net exports negatively impacted GDP, contributing -0.14 and -1.14, respectively.

Source: Bureau of Economic Analysis





U.S. Manufacturing

U.S. Manufacturing: Continued Expansion in October

The ISM Manufacturing Index registered 60.8 in October, down 0.3 percentage point from 61.1 in September and exceeded expectations of 60.5 growth. In October, 16 manufacturing industries reported growth while Wood Products and Nonmetallic Mineral Products decreased.

A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting.

This represents the seventeenth month in a row that the overall economy has expanded following the three months of contraction in March, April, and May of 2020. The month-over-month decrease was largely driven by declines in New Orders and Imports. These indices fell 6.9 and 5.8 percentage points, respectively. The Imports Index declined into contractionary territory.

The Prices Index rose 4.5 percentage points to 85.7 while employment and inventories increased by 1.8 and 1.4 percentage points, respectively.

Regional data showed that manufacturing in the Chicago area increased to 68.4 in October, after declining in August and September.

Source: Institute for Supply Management

ISM Manufacturing New Orders Index Decreases

In October, the New Orders Index fell 6.9 points to 59.8 from 66.7 in September.

The index continues to expand at a strong level. October marks its 17th consecutive month of expansion.

Of the 18 manufacturing industries, 14 reported growth while Nonmetallic Mineral Products and Plastics and Rubber Products declined.

ISM Manufacturing New Orders Index

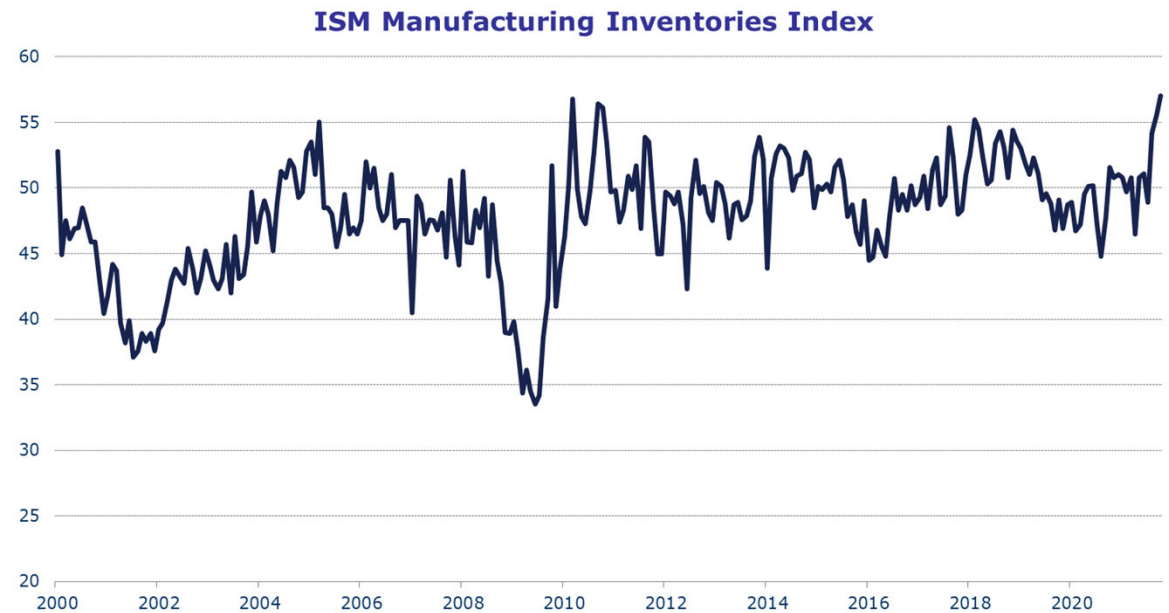


Source: Institute for Supply Management

ISM Manufacturing Inventories Index Rises

The Inventories Index rose from 55.6 in September to 57.0 in October.

Of the 18 industries, 14 reported higher inventories, two reported no change, and two reported a decrease in inventories month-over-month.



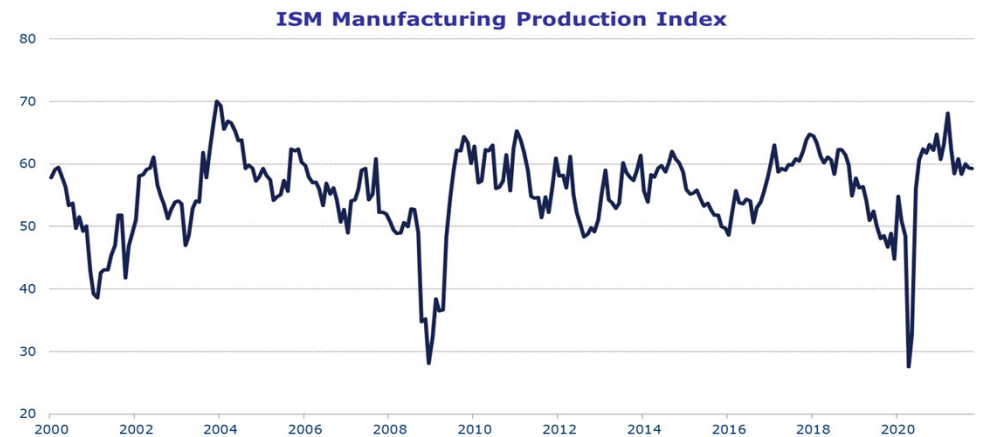
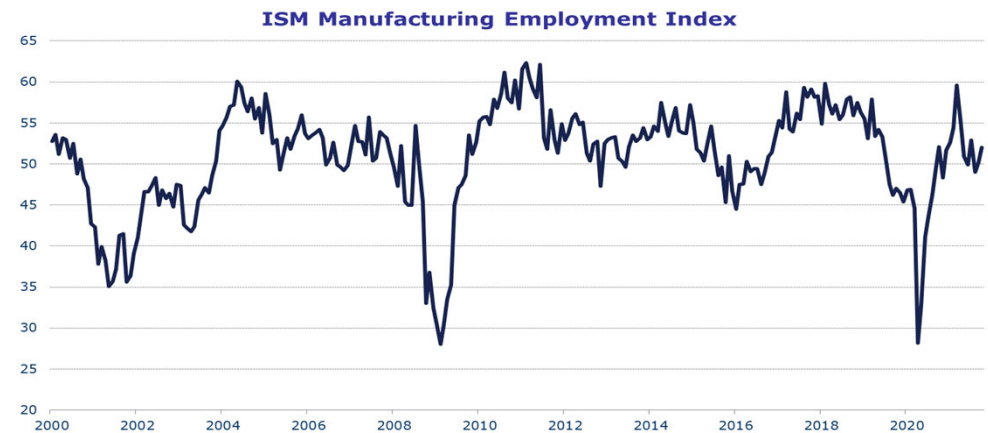
Source: Institute for Supply Management

ISM Manufacturing Employment and Production

The Employment Index rose 1.8 points to 52.0 in October. The second month of expansion for the index.

The Production Index fell one tenth of a percentage point to 59.3 from 59.4 in September. While this is the 17th consecutive month of growth for production, the rate is slowing.

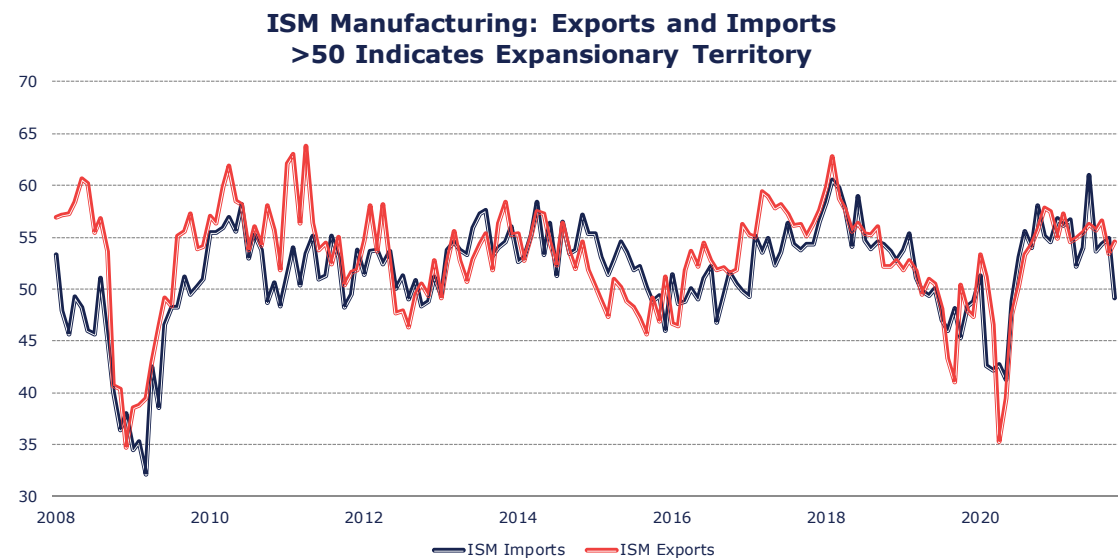
Source: Institute for Supply Management



ISM Manufacturing Imports and New Export Orders

The ISM Exports Index continues to expand, however, the Imports Index fell into contractionary territory. The Exports Index increased 1.2 points month-over-month, while the Imports Index fell 5.8 points to 49.1.

Exports continue to contribute to the strength of the New Orders Index while supply constraints continue to weigh on production expansion.



Source: Institute for Supply Management

ISM Manufacturing and GDP Growth

The ISM Index is closely correlated with changes in GDP.

Following the steep dip at the onset of the pandemic, the ISM Index and GDP have rebounded in line with each other.

The ISM Index has continued to grow since it first crossed back into expansion territory (>50) in June. Advance estimates of third quarter GDP have shown 2.0% growth QoQ and an increase of 4.9% YoY.



Source: Institute for Supply Management

Midwest Manufacturing Rebounds

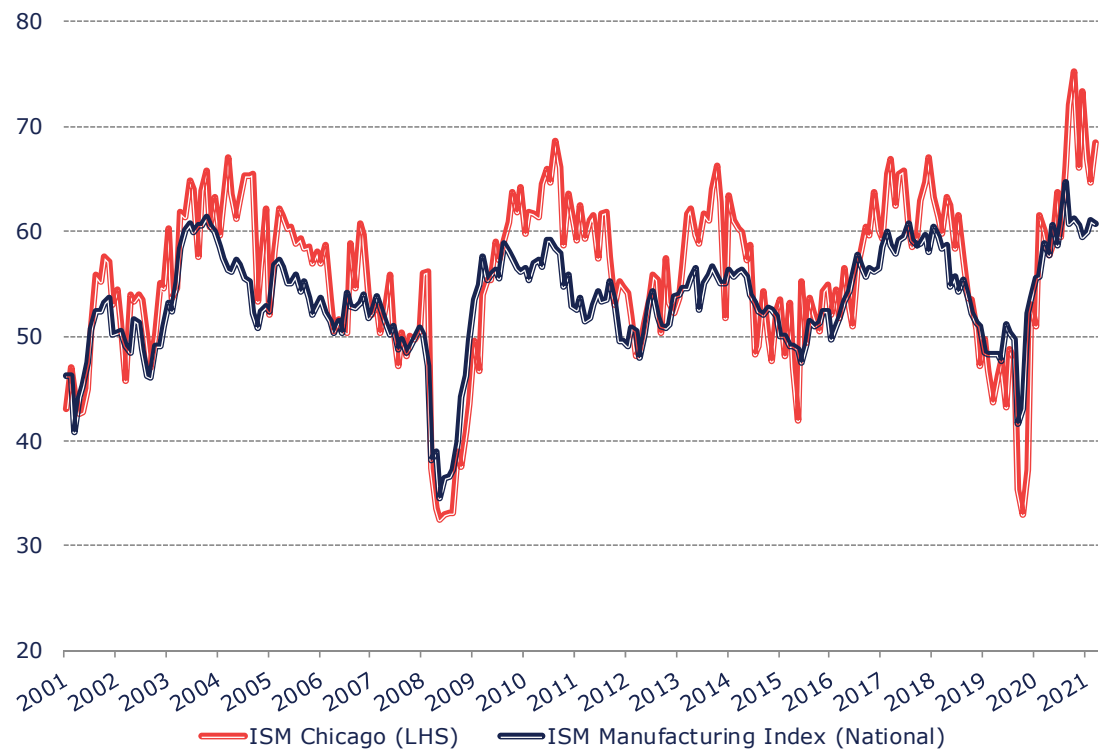
The ISM Chicago Index increased 3.7 points to 68.4 in October, after declining in the two months prior.

Orders Backlog had the largest increase, rising 13.5 points. The increase was driven by pressure to keep up with rising demand as New Orders increased by 3.1 points. Employment improved rising 4.2 points, rising for the fourth consecutive month.

Production was the only component to decline over the month, falling 2.2 points over the month. Prices rose 3.6 points to a 42-year high.

Source: Institute for Supply Management

**ISM Chicago Vs. ISM Manufacturing Index
Index: Above 50 Indicates Expansion**



U.S. Manufacturing: Steady Monthly Growth

Summary:

- The ISM Manufacturing Index fell month-over-month, decreasing 0.3 percentage points to 60.8 in October.
- Manufacturing continued to expand; October marked the 17th consecutive month of growth.
- Within the index, new orders decreased 6.9%, backlog of orders decreased 1.2%, and production decreased 0.1%, while prices, employment, and exports reported gains of 4.5%, 1.8%, and 1.2%, respectively.
- Imports fell 5.8% to 49.1, indicating contraction.
- On a more regional level, the ISM Chicago Index rose 3.7 points to 68.4 in October.

This and That

Although retailers seems to start the holiday shopping earlier each year, this year it is for good reason. Supply-chain challenges driven by shipping delays, component shortages, and factory closures don't work well for last-minute shoppers. To try and fight this issue, retailers are trying to get consumers to purchase gifts earlier. Retailers such as Amazon, Target, Best Buy, and Walmart have started "Black Friday" deals as early as October 4.

Rising prices are driven by everything from increased demand to supply-chain issues, and while during the early stages of the pandemic companies were willing to shoulder some additional component costs and shipping-cost increases, these days they're passing those costs along to consumers.

Not only has inflation complicated online holiday shopping, but delays in shipping have been getting worse as supply chain issues continue. Shipping-container shortages and backups at the coast have forced cargo ships to remain floating in the Hudson Bay and outside Los Angeles for weeks at a time.

Some of the items suggested to buy now in order to arrive in December: batteries, TVs, game consoles, laptops, phones, bikes, cordless vacuums, and stand mixers. To ensure your gifts arrive in time for the holidays, don't put your shopping off too late.

Source: New York Times

Economic Data Release Calendar

The week ends with economic data published on Consumer Credit.

Next week, economic data will be released on Small Business Optimism, Wholesale Inventories, and the Consumer Price Index.

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

November 2021				
Monday	Tuesday	Wednesday	Thursday	Friday
1 ISM Manufacturing Index Construction Spending	2 Vehicle Sales	3 MBA Mortgage Application ADP Employment Reports ISM Services Factory Orders FOMC Announcement	4 Jobless Claims	5 Employment Consumer Credit
8	9 Small Business Optimism Producer Price Index	10 MBA Mortgage Application Jobless Claims Consumer Price Index Wholesale Inventories	11 Veterans Day Federal Holiday FHLBC Closed	12 JOLTS Consumer Sentiment
15	16 Retail Sales Industrial Production Business Inventories NAHB Housing Market	17 MBA Mortgage Application Housing Starts	18 Jobless Claims Philadelphia Fed Outlook Kansas City Fed Outlook	19
22 Chicago Fed Nat'l Activity Existing Home Sales	23 Richmond Fed Outlook	24 MBA Mortgage Application Jobless Claims New Home Sales FOMC Meeting Minutes GDP	25 Thanksgiving Day Federal Holiday FHLBC Closed	26
29 Pending Home Sales Dallas Fed Outlook	30 S&P Case-Shiller HPI FHFA House Price Index Chicago PMI Consumer Confidence	Notes:		

Questions?

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