



Weekly Market Update

Hosted by:

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FHLB  Chicago
Federal Home Loan Bank of Chicago

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Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- January FOMC Meeting Announcement
- January Employment Report
- Preview of the Coming Week
- Q and A

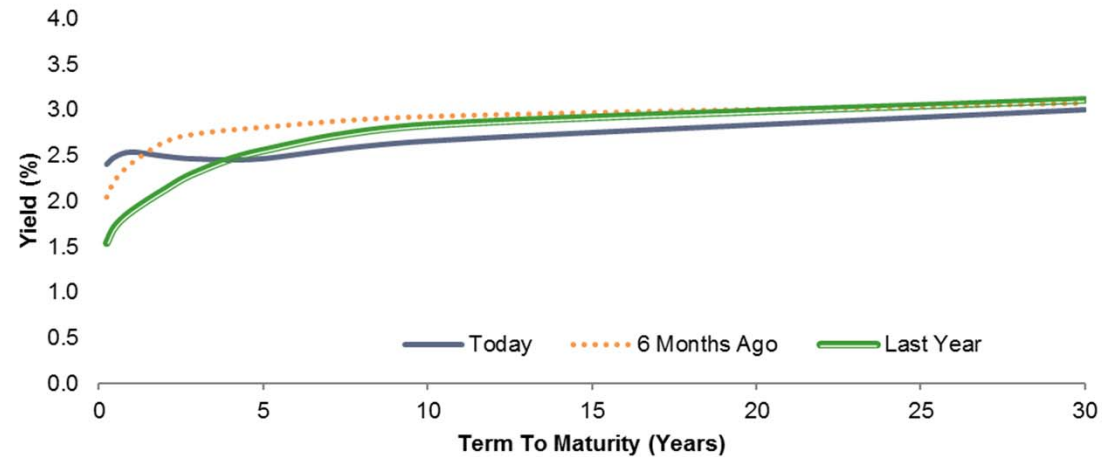
Weekly Interest Rate Movements

For the Week Ending 2/7/2019

U.S. Treasury Yields

	2/7/19	1/31/19
3mo	2.40%	2.41%
2yr	2.49%	2.45%
5yr	2.46%	2.43%
10yr	2.66%	2.63%

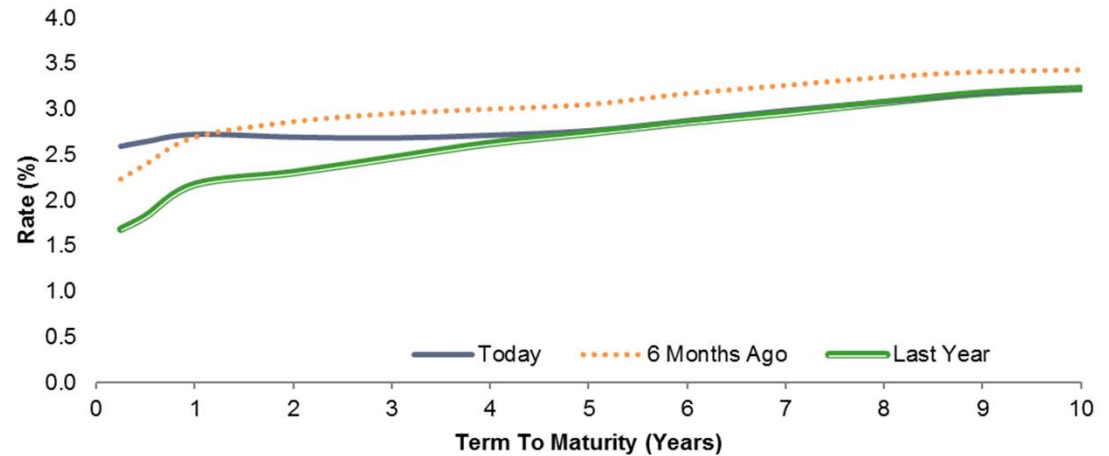
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

	2/7/19	1/31/19
3mo	2.59%	2.60%
2yr	2.69%	2.68%
5yr	2.76%	2.76%
10yr	3.22%	3.24%

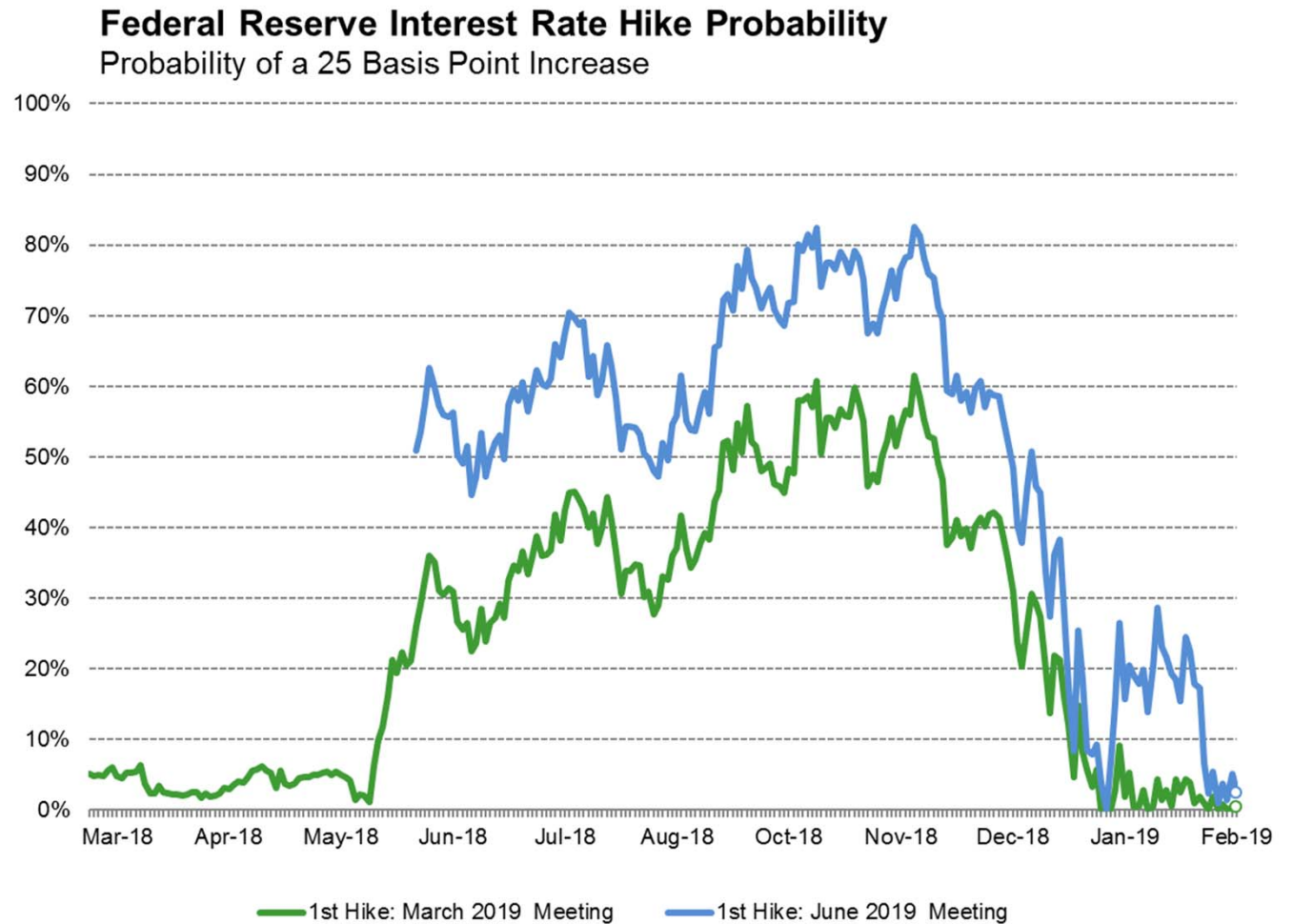
FHLBank Chicago Advance Rates



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 dropped significantly to 0.45% as of February 7.

If rates do not increase in March, the market implied probability of the first rate hike occurring in June 2019 rises to only 2.52%.



Source: Bloomberg

U.S. Economic Data Releases

For the Week Ending 2/7/2019

ISM Manufacturing Index

January: 56.6 vs. December: 54.3

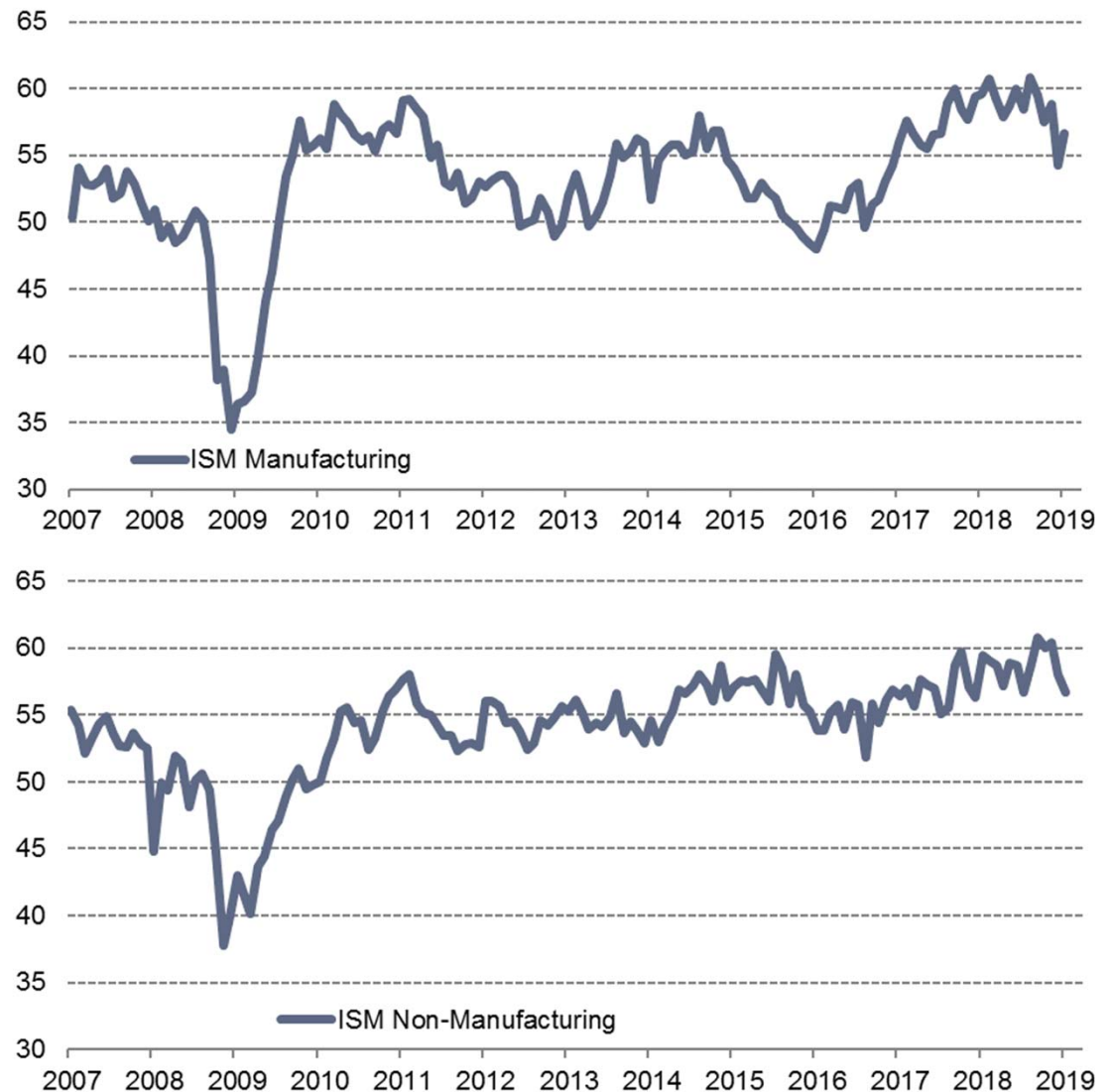
- Increased 2.3 percentage points to 56.6 in January. The index for new orders increased 6.9 percentage points, inventories rose 1.6 percentage points, and prices dropped 5.3 percentage points.

ISM Non-Manufacturing

January: 56.7 vs. December: 58.0

- Eased 1.3 percentage points to 56.7 in January. The index for business activity declined 1.5 percentage points and new orders decreased 5.0 percentage points. On the other hand, hiring rose 1.2 percentage points. Overall, the non-manufacturing sector has expanded for 108 consecutive months.

Source: Institute for Supply Management



U.S. Economic Data Releases

For the Week Ending 2/7/2019

New Home Sales

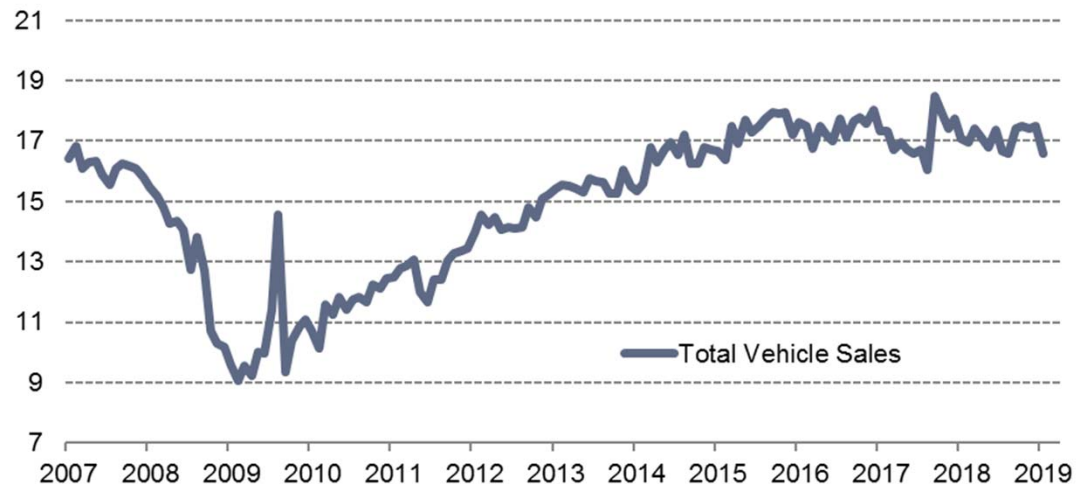
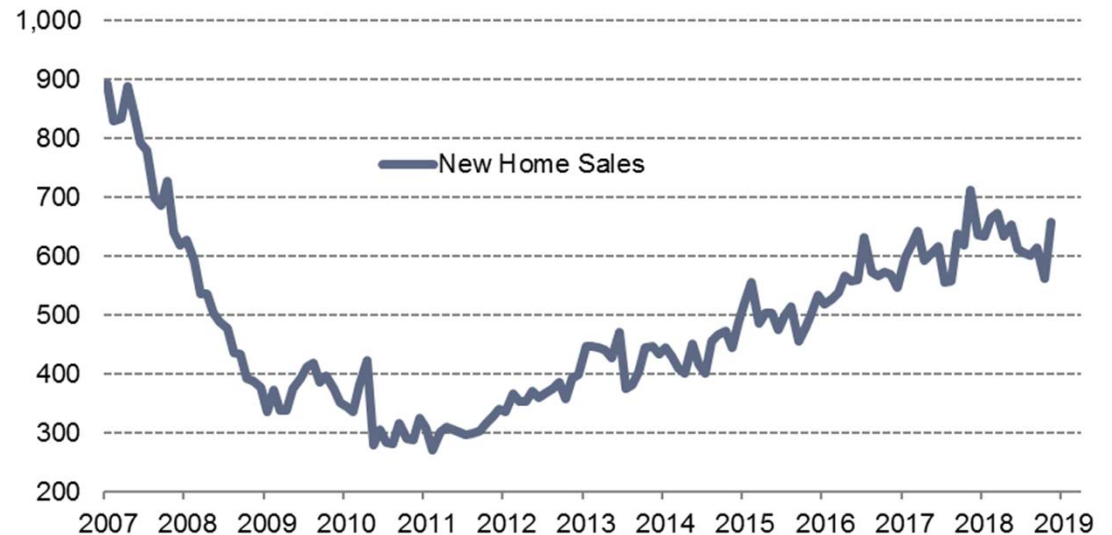
November: 657K vs. October: 562K

- Rose 16.9% to an annual rate of 657K in November and is 7.7% lower than one year ago. The prior month was upwardly revised to 562K from the initial 544K. Regional data was mixed. The Midwest rose 30.5%, the Northeast increased 100.0%, the South grew 20.6%, and the West fell 5.9%.

Total Vehicle Sales

January: 16.6M vs. December: 17.5M

- Decreased month-over-month to 16.6M in January, which is the first month to drop under 17M since August 2018. Domestic sales accounted for 3.74M and imported sales were 3.68M in January.



Source: U.S. Census Bureau, WARD's Automotive Group

U.S. Economic Data Releases

For the Week Ending 2/7/2019

Chicago PMI

January: 56.7 vs. December: 63.8

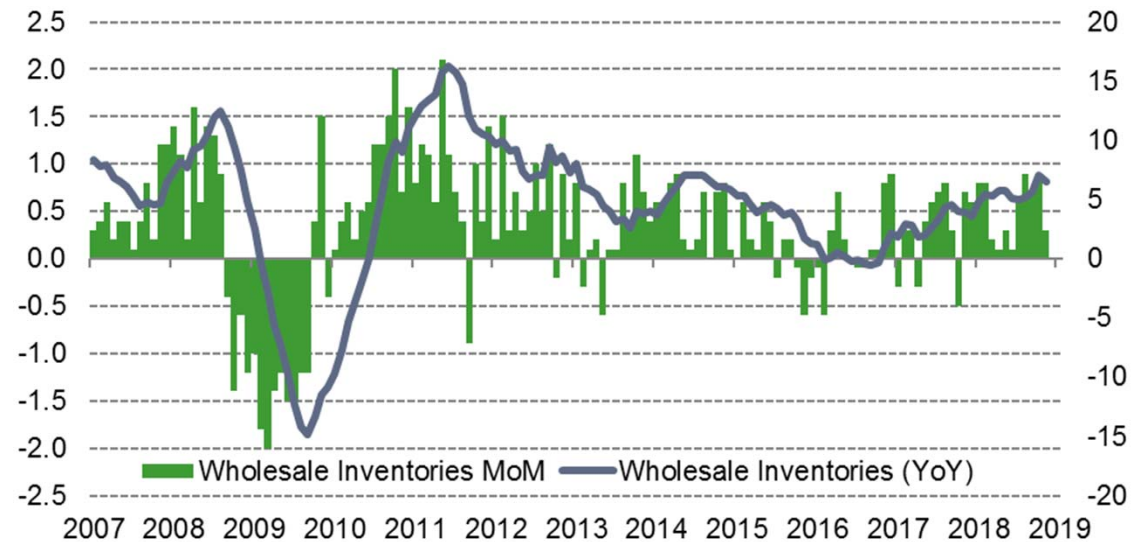
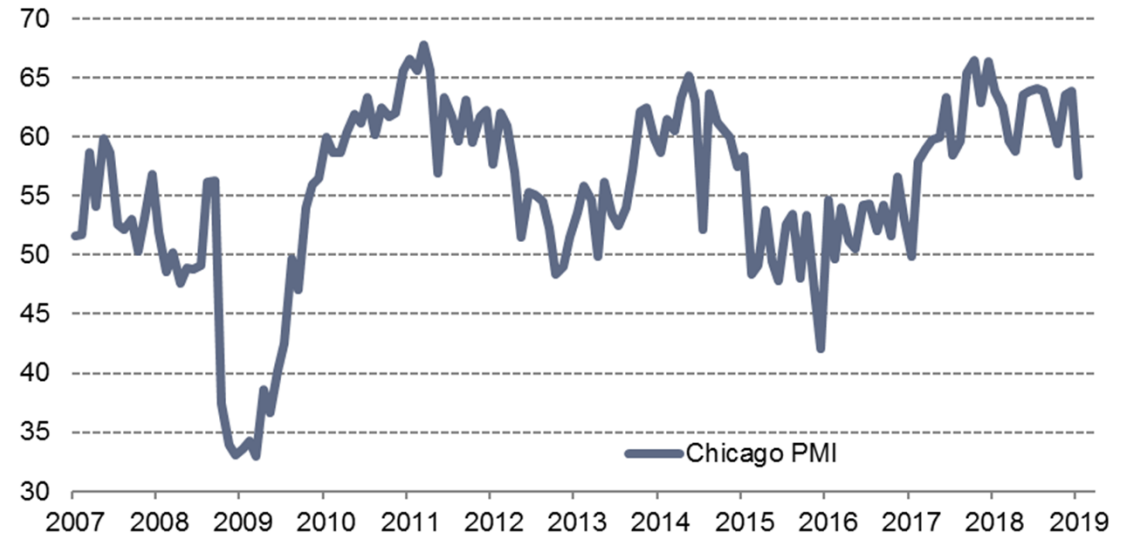
- Dropped 7.1 points to 56.7 in January. Weighing on the index, production fell to a 10-month low and supplier deliveries decreased to a 17-month low. Elsewhere in the report, the employment indicator was relatively unchanged since December.

Wholesale Inventories

Nov P: 0.3% vs. Oct F: 0.9%

- Rose 0.3% in the preliminary November reading compared to consensus expectations of a 0.5% increase. The prior month was upwardly revised from 0.8% to 0.9%. Durable goods inventories rose 0.7% and were partially offset by nondurable goods falling 0.3%.

Source: Market News International, U.S. Census Bureau



U.S. Economic Data Releases

For the Week Ending 2/7/2019

Construction Spending

November: 0.8% vs. October: 0.1%

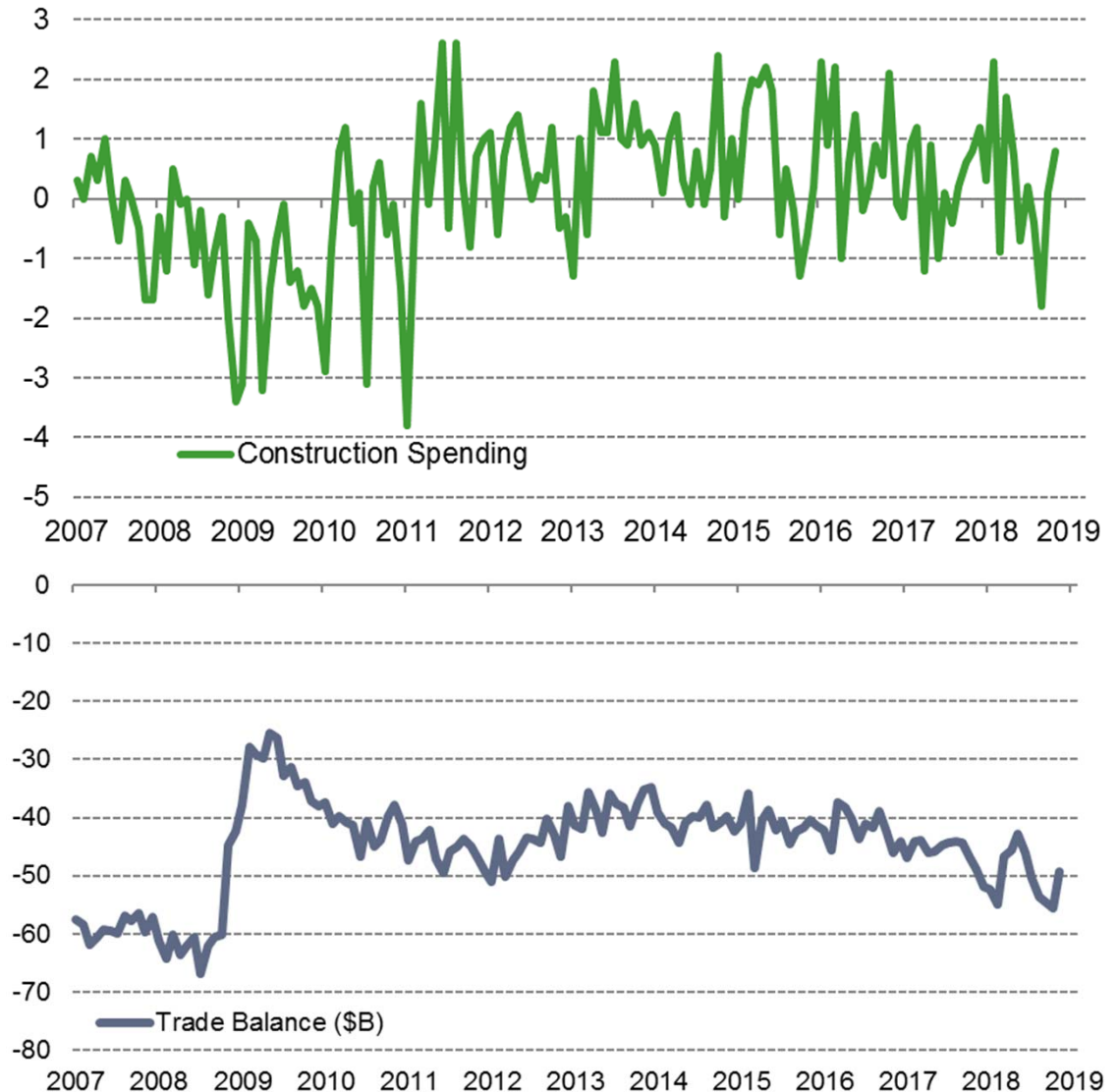
- Increased 0.8% in November as the prior month was upwardly revised. There was a 1.0% decrease in nonresidential construction but it was offset by a 3.4% rise in residential construction. Overall, the index is up 3.4% on a year-over-year basis.

Trade Balance

November: \$-49.3B vs. October: \$-55.7B

- The nation's goods and services deficit narrowed by \$6.4B in November to \$49.3B. The month prior was upwardly revised from \$55.5B to \$55.7B. Exports decreased 0.6%, and imports fell 2.9% month-over-month.

Source: U.S. Census Bureau



U.S. Economic Data Releases

For the Week Ending 2/7/2019

Initial Jobless Claims

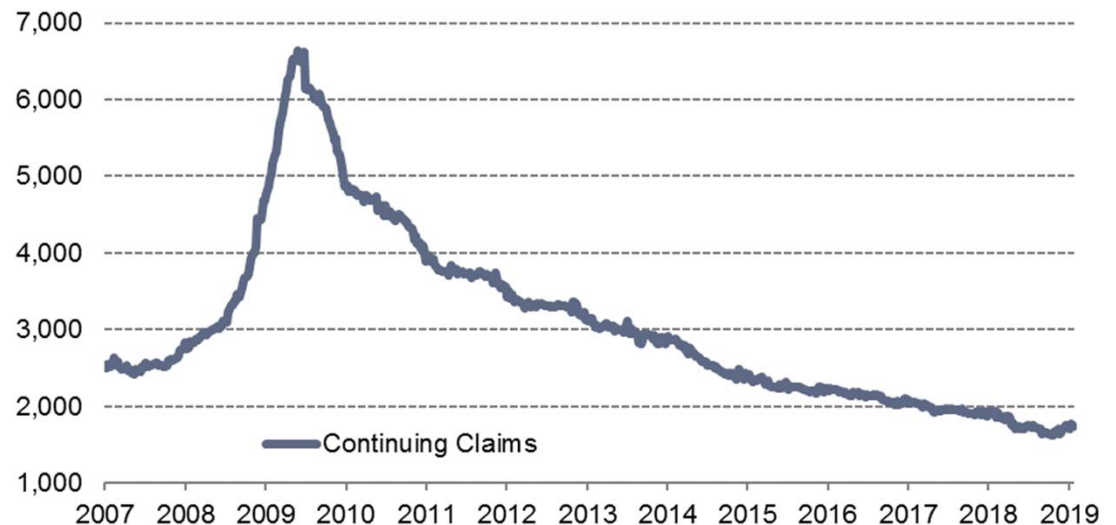
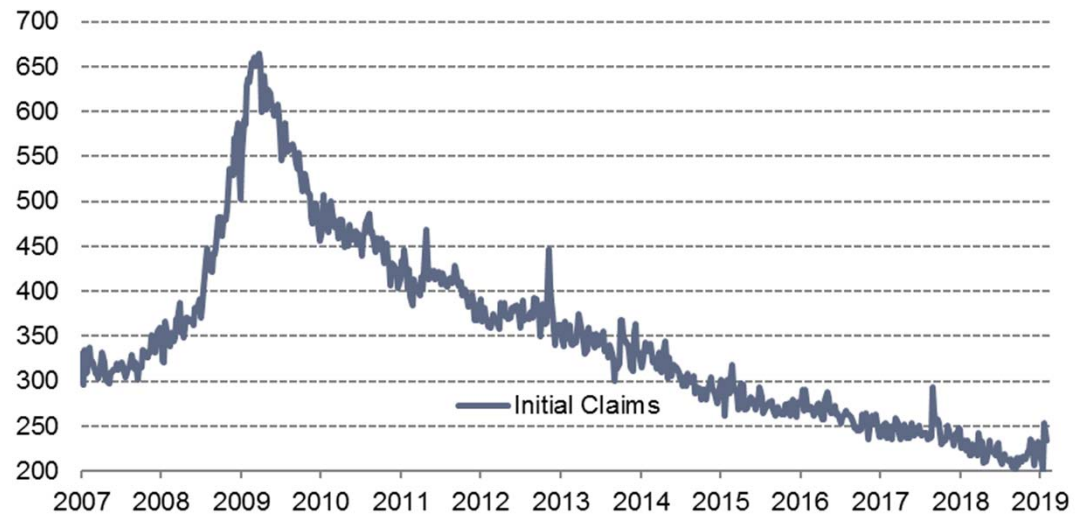
Feb 2: 234K vs. Jan 26: 253K

- Decreased by 19K to 234K in the week ending February 2. The previous week was unrevised at 253K. Despite the decline, the four-week moving average increased slightly by 4.5K to 224.75K.

Continuing Claims

Jan 26: 1.736M vs. Jan 19: 1.778M

- Decreased by 42K to 1.736M in the week ending January 26. The prior week was downwardly revised by 4K to 1.778M. As a result, the four-week moving average rose by 4.25K to 1.741M. The insured unemployment rate remained unchanged at 1.2%.



Source: Department of Labor

FOMC Press Release

- The Federal Open Market Committee (FOMC) released its press release from its first meeting of 2019 held from January 29 – 30.
- The FOMC left current interest rates unchanged. The release stated that the FOMC seeks to maximize employment and price stability by maintaining the target range for the federal funds rate at 2.25% to 2.5%.
- The statement expressed a strong evaluation of economic growth and confidence in a lasting return to the 2.0% inflation target but also reiterated the FOMC's intentions to continue with gradual rate hikes.
- The statement read, "The [FOMC] continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the [FOMC's] symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the [FOMC] will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate."

January Non-Farm Payroll Report

- The Bureau of Labor Statistics released January's Non-Farm Payroll Report. Payrolls rose by 304K, beating consensus expectations of 165K growth.
 - The unemployment rate edged higher from 3.9% to 4.0%.
 - Employment growth by industry was greatest in leisure and hospitality, education and healthcare, and construction.
 - Average hourly earnings rose only 0.1% month-over-month and are 3.2% year-over-year.
 - The labor force participation rate increased slightly to 63.2%.
- Payrolls in December were downwardly revised from 312K to 222K. November payrolls were also revised from 176K to 196K. As a result, employment gains in November and December combined were 70K less than previously reported.

Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

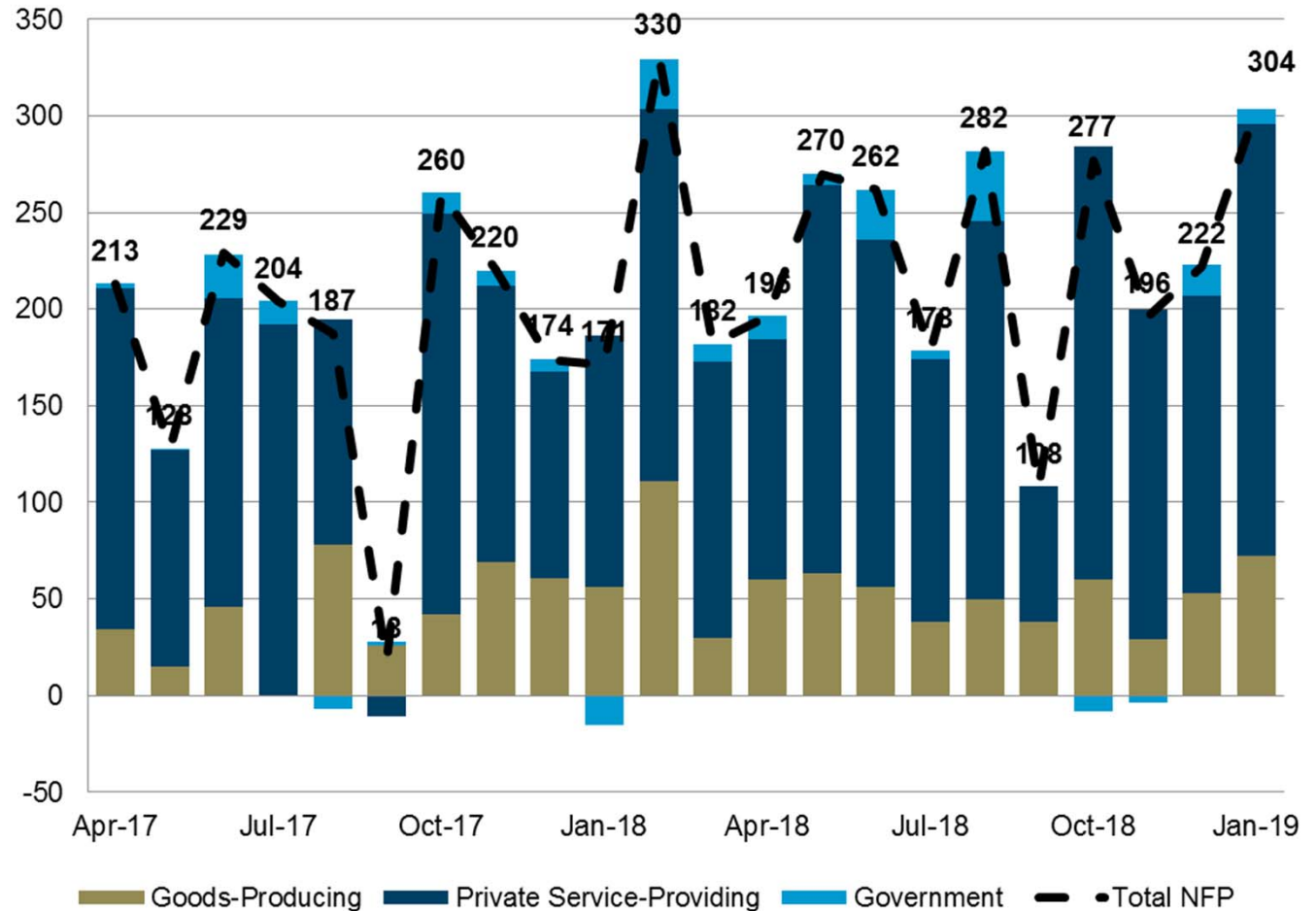
Goods and Services Payrolls Increase

Within the 304K increase, the private service-providing sector increased by 224K jobs in January compared to 153K in December.

The goods-producing sector rose by 72K, which is the largest monthly gain since February 2018.

Employment in the government sector increased by 8K after a 16K increase the month prior.

Non-Farm Payrolls Changes by Industry in Thousands

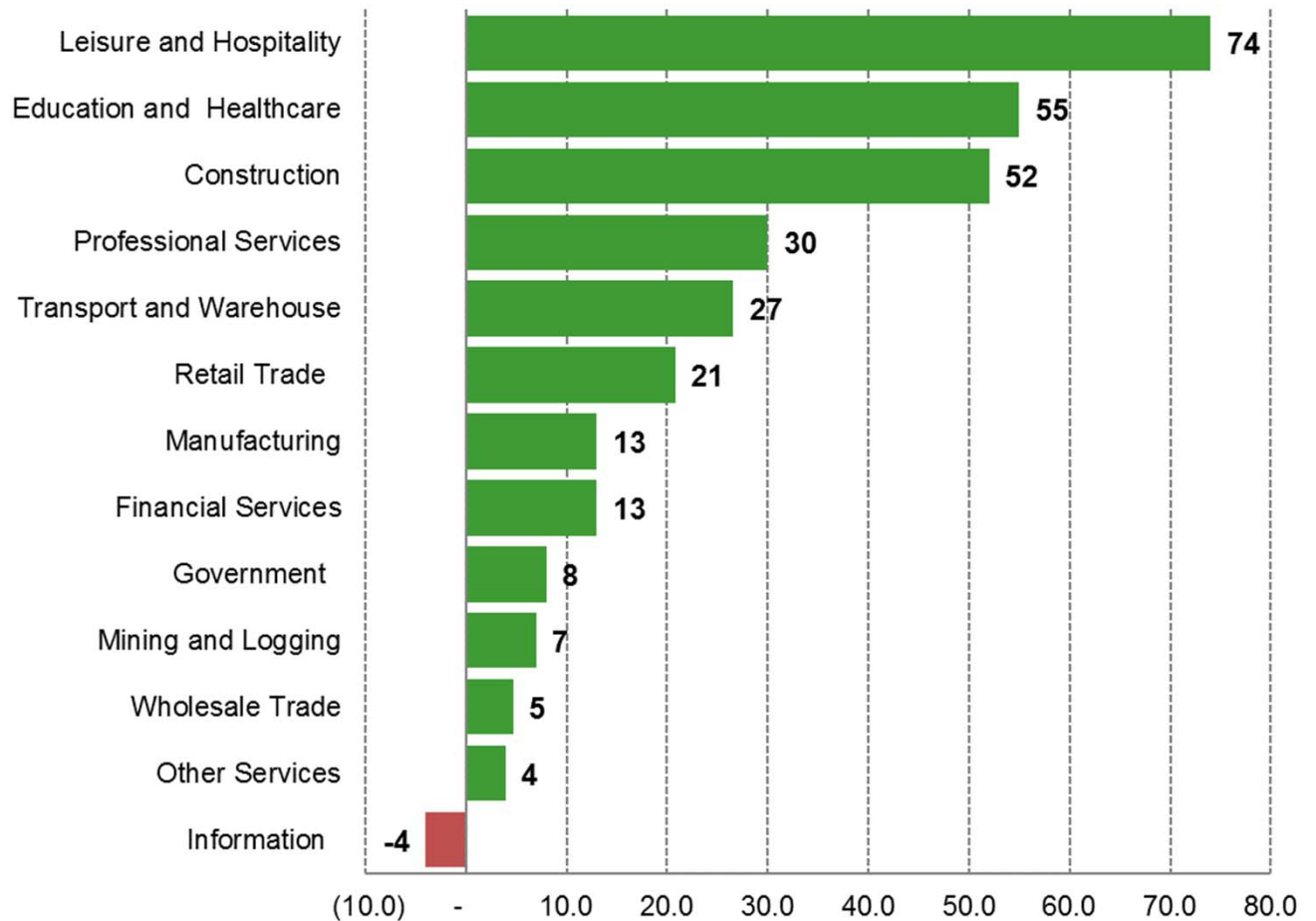


Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Payrolls by Sector

Non-Farm Payroll Change By Sector: December
Thousands of Jobs



The majority of sectors posted an increase this month. Leisure and Hospitality rose the most month-over-month by 74K.

Next Education and Healthcare and Construction increased by 55K and 52K, respectively.

The Information sector was the only sector that posted a decline.

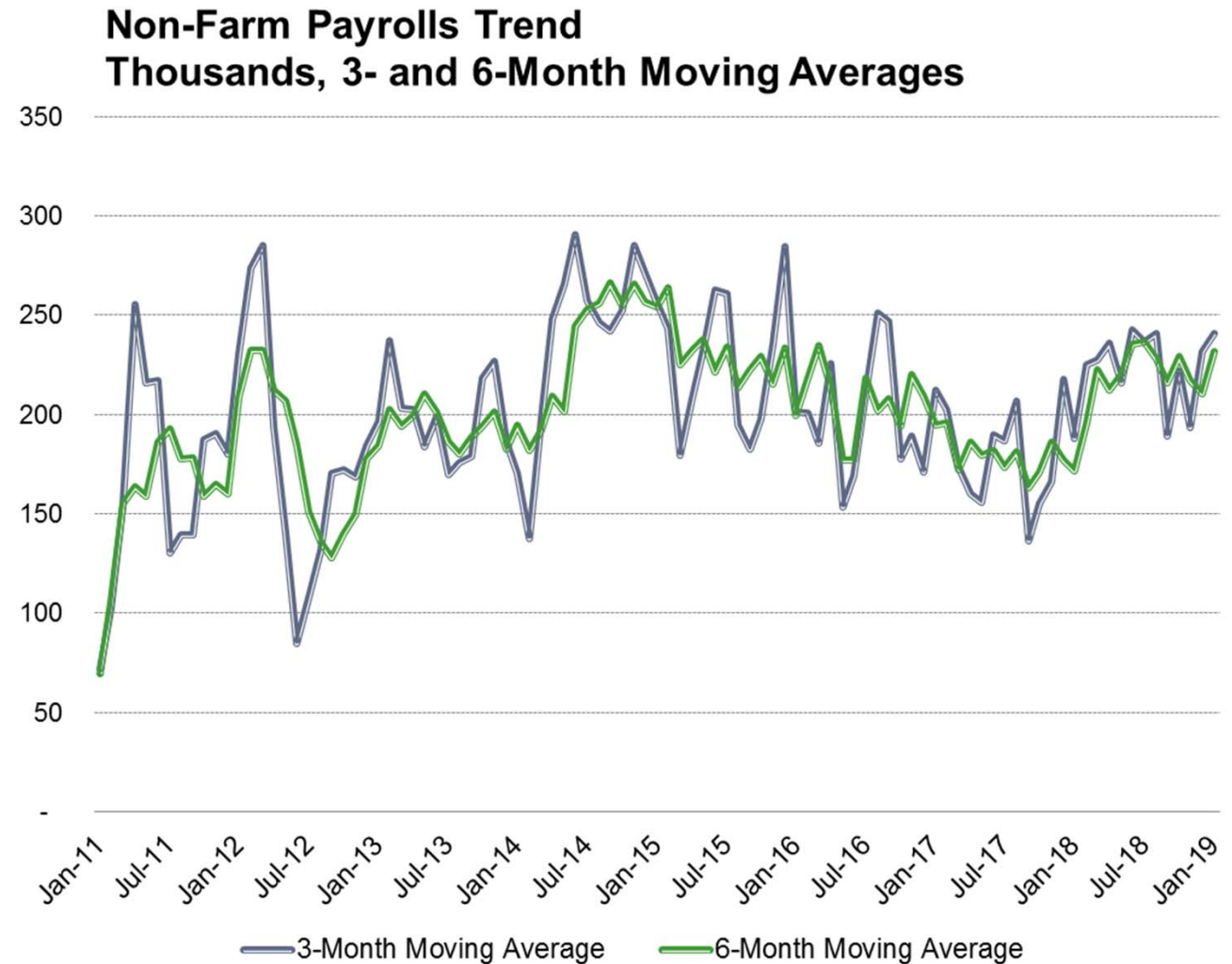
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

3-Month and 6-Month Moving Averages Nearing 250K

As January payrolls exceeded expectations, and despite November and December's downward revisions, both the 3-month and 6-month moving averages increased.

The 3-month moving average jumped by 9K to 241K in January, while the 6-month moving average increased by 21K to 232K.



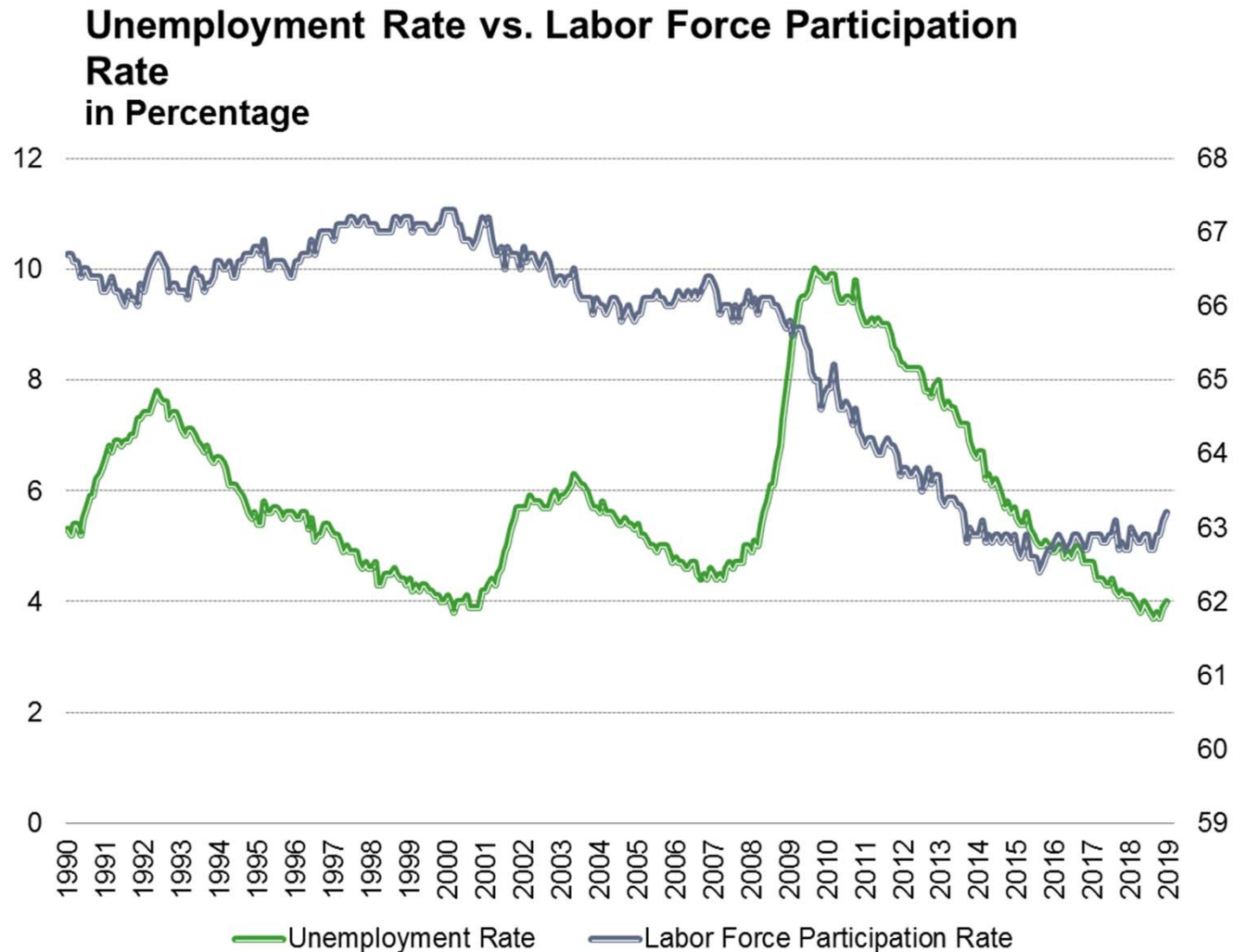
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Unemployment Rate Rises as Labor Force Participation Increases

The unemployment rate increased from 3.9% to 4.0% in January.

The labor force participation rate, which includes underemployed and discouraged workers, has been little changed since 2014. It rose slightly to 63.2% in January.



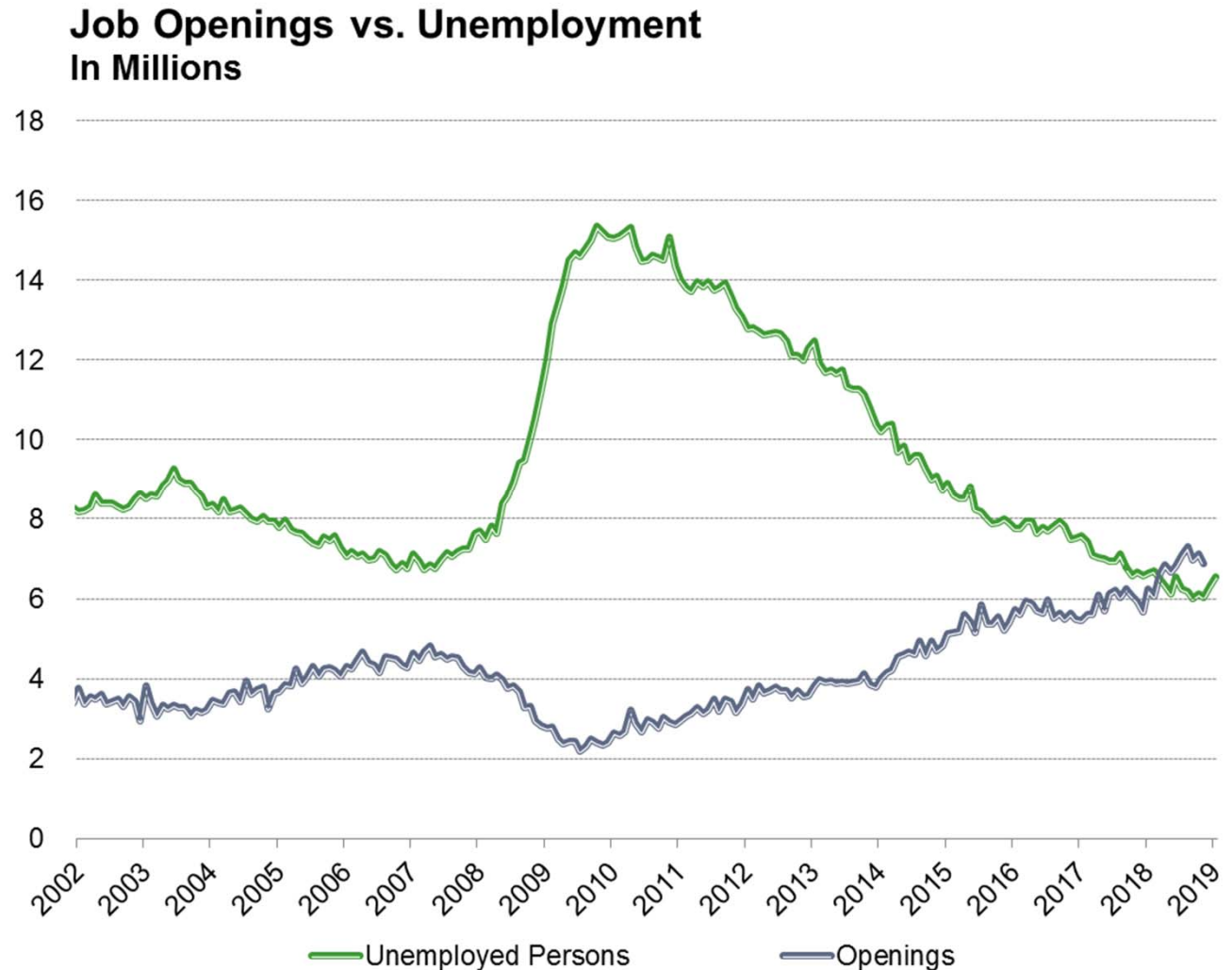
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Job Openings Fall While Unemployment Rises

The number of job openings decreased by 243K in November. Although the number of unemployed persons edged lower in November, it increased to 6.535M in January.

The number of job openings still remains above the number of unemployed persons. Job openings initially passed unemployed persons in March 2018.



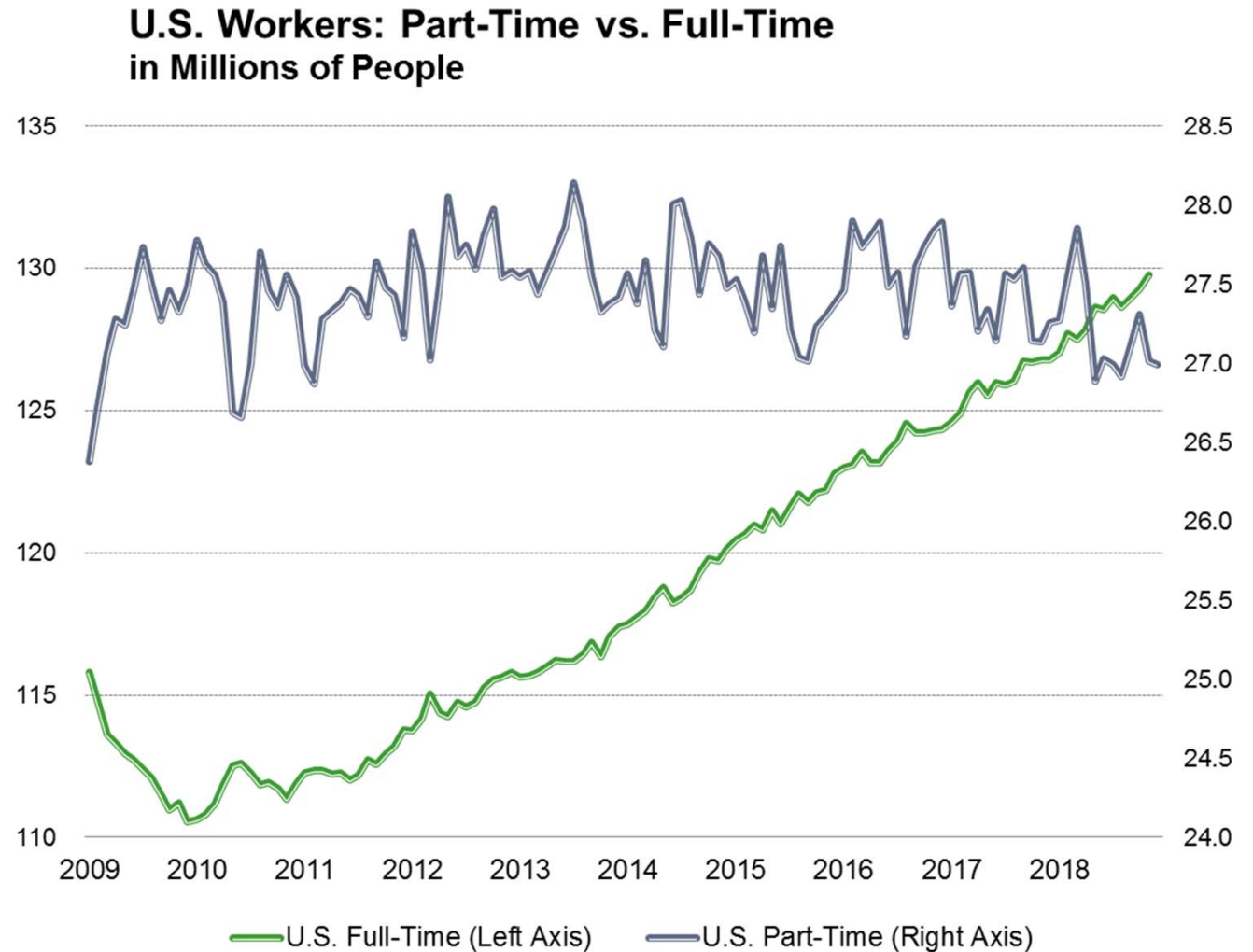
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Full-Time Workers Rise While Part-Time Workers Fall

The number of full-time workers increased by 139K to 129.9M in December.

Part-time workers edged lower by 23K in December to 26.9M.



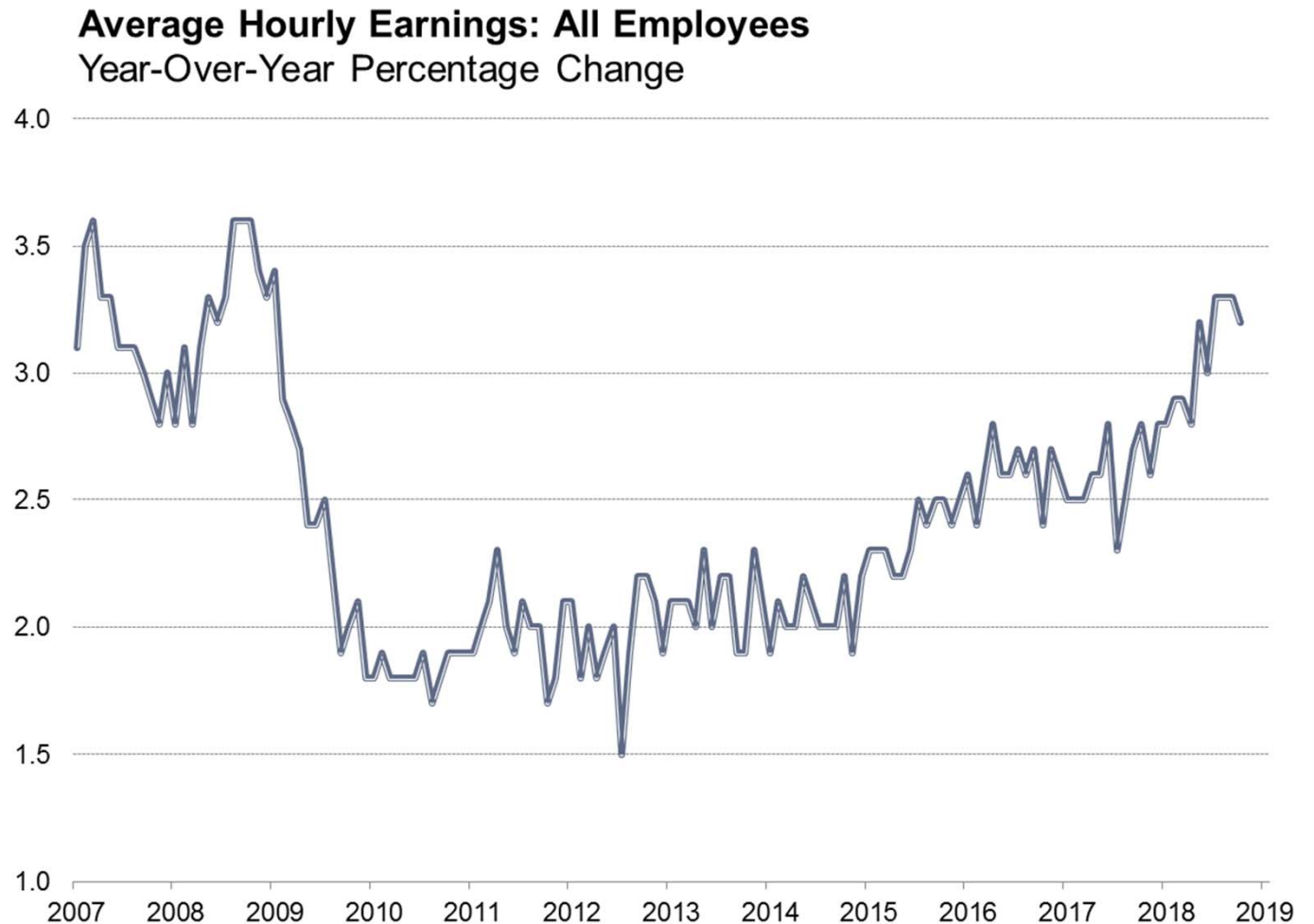
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Average Hourly Earnings Miss Expectations

Average hourly earnings increased 0.1% month-over-month, less than consensus expectations of a 0.3% increase.

Year-over-year, wages fell to 3.2%, one-tenth lower than in December.



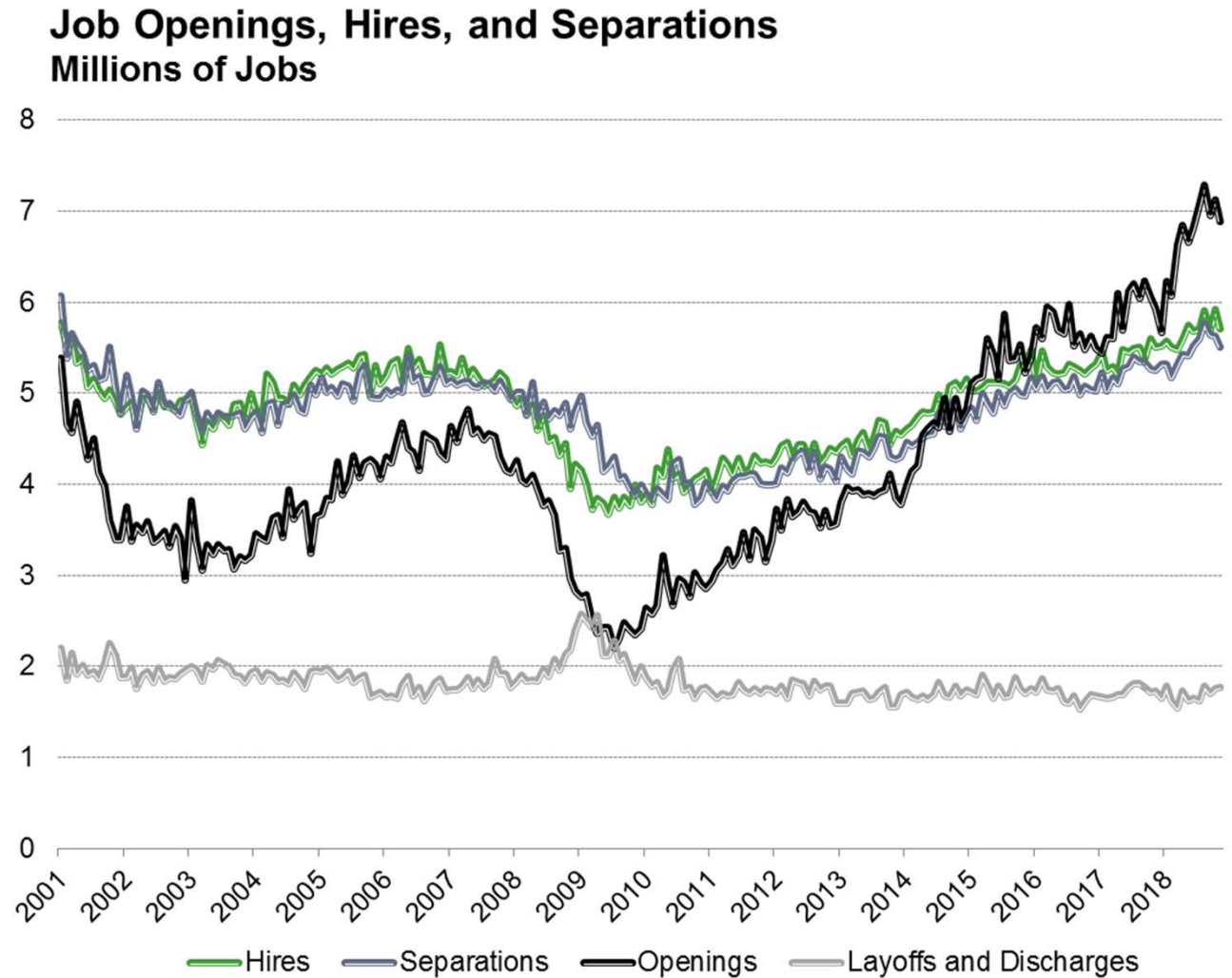
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Job Openings and Hires Fall

Within the components in the Job Openings and Labor Turnover Survey (JOLTS), hires, separations, and openings decreased, while layoffs slightly increased in November.

Openings fell 243K to 6.888M. Hires decreased 218K to 5.710M, and separations declined 114K to 5.507M. Layoffs rose 8K to 1.769M.



Source: Bureau of Labor Statistics

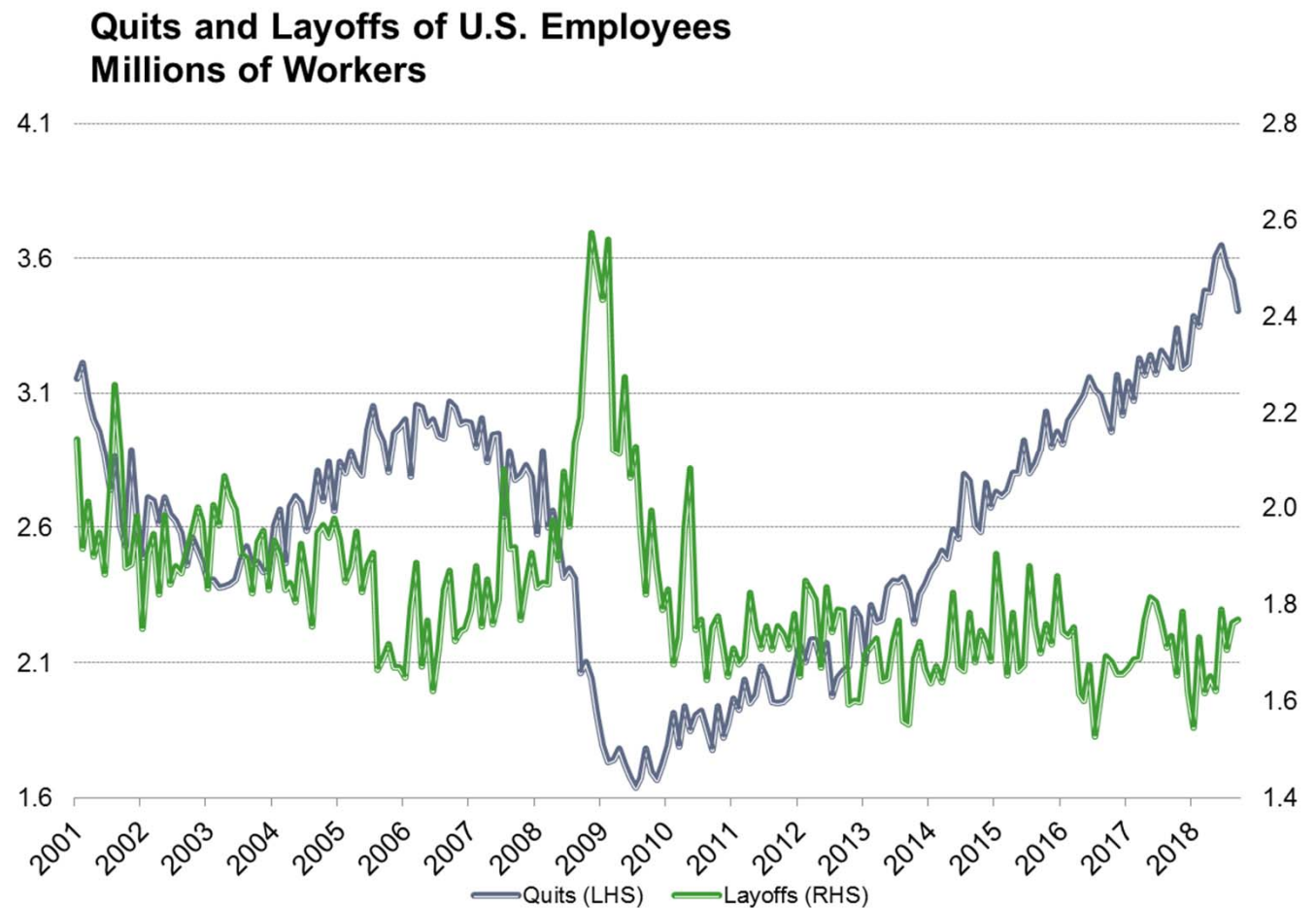
January Non-Farm Payroll Report

Quits Edge Lower While Layoffs Rise

The steady rise in the number of workers quitting their jobs is an underlying sign of strength in the labor market.

However, quits dropped by 112K in November, while layoffs rose by 8K.

While quits have moved lower in the last two months, the level remains historically high and continues to suggest that people are more confident they can find other opportunities.



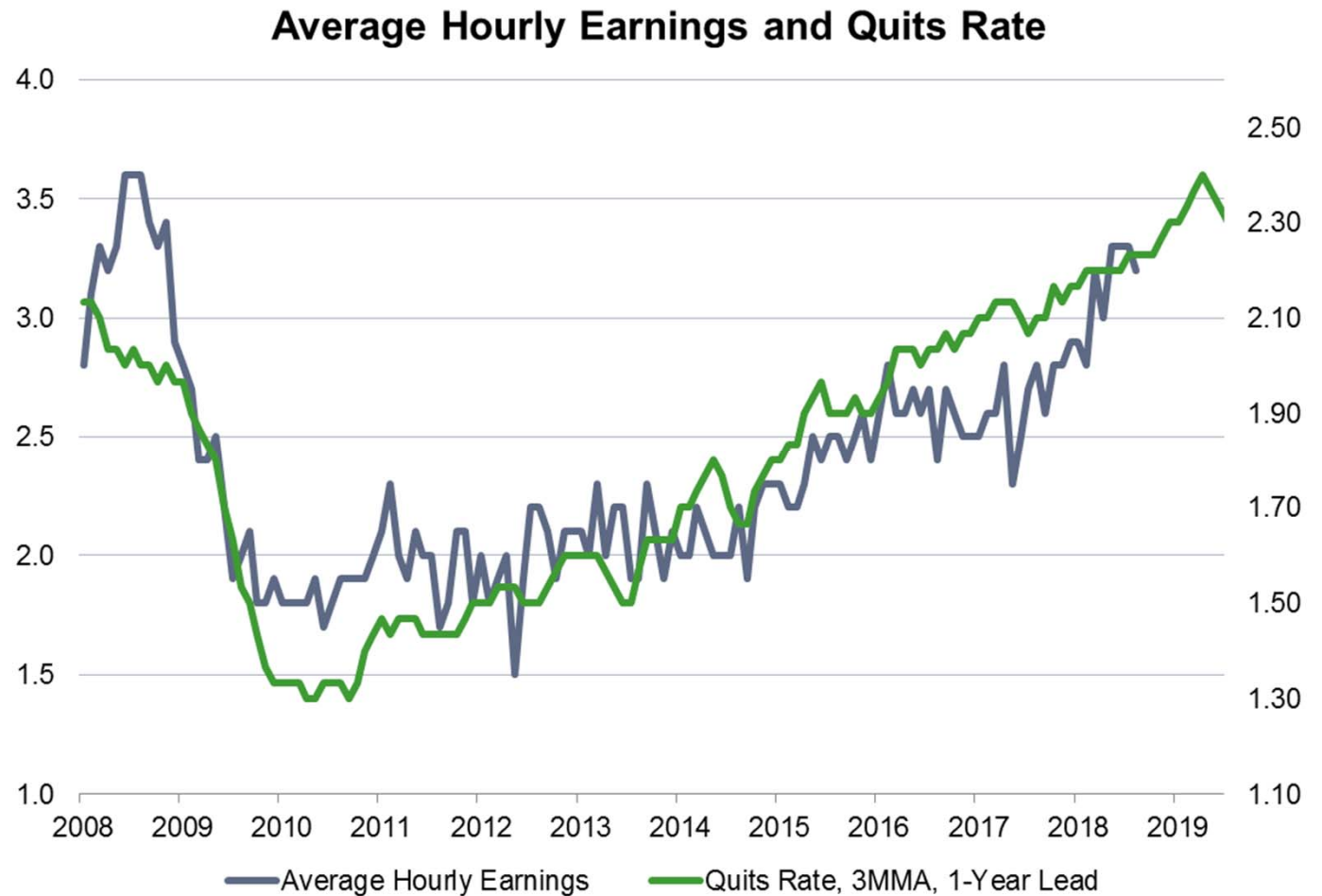
Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Is the Quits Rate a Leading Indicator of Average Hourly Earnings?

While average hourly earnings have been steadily increasing since 2014, they edged lower to 3.2% in January.

As the labor market continues to tighten, wages may continue to increase, leading to more people voluntarily quitting their jobs.



Source: Bureau of Labor Statistics

January Non-Farm Payroll Report

Summary:

- Payrolls increased by 304K in January following net revisions to November and December payrolls that resulted in a 70K net decrease.
- The 3- and 6-month moving averages both increased to over 200K.
- The unemployment rate increased 0.1% to 4.0%.
- Hourly wages increased 0.1% month-over-month but edged lower by one-tenth to 3.2% from one year ago.

Source: Bureau of Labor Statistics

This and That

According to S&P Global, shadow banking now accounts for almost half the world's financial assets. Shadow banking is a term for non-bank financial intermediaries that provide services similar to a bank, such as lending to corporations or households, but that are not regulated like banks. The Financial Stability Board (FSB) reported that shadow banking grew for the sixth consecutive year in 2017 to \$184.3T, which accounts for 48.2% of total global financial assets. Further, the broadest measure of shadow banking, including insurance corporations and pension funds, grew.

Shadow banking activity could be beneficial to corporations and households, but the FSB also warned of potential systemic risk, especially if it involves activities usually carried out by banks. The interconnectedness within the banking system between banks and non-bank finance companies could increase and is a key concern of the FSB. As shadow banking institutions become increasingly important players in areas where banks traditionally have played dominant roles, the FSB will continue to assess global trends and risks in shadow banking, and identify financial entities or activities that might lead to review of existing regulation.

Source: S&P Global, Financial Stability Board


Economic Data Release Calendar

February 2019

Prior to the weekend, economic data will be released on wholesale trade.

Next week investors will be focused on the releases of economic data on job openings and inflation.

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	15 Retail Sales Import Price Index Business Inventories 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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