



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
- FOMC Rate Decision
- GDP
- Inflation
- Preview of the Coming Week
- Q and A

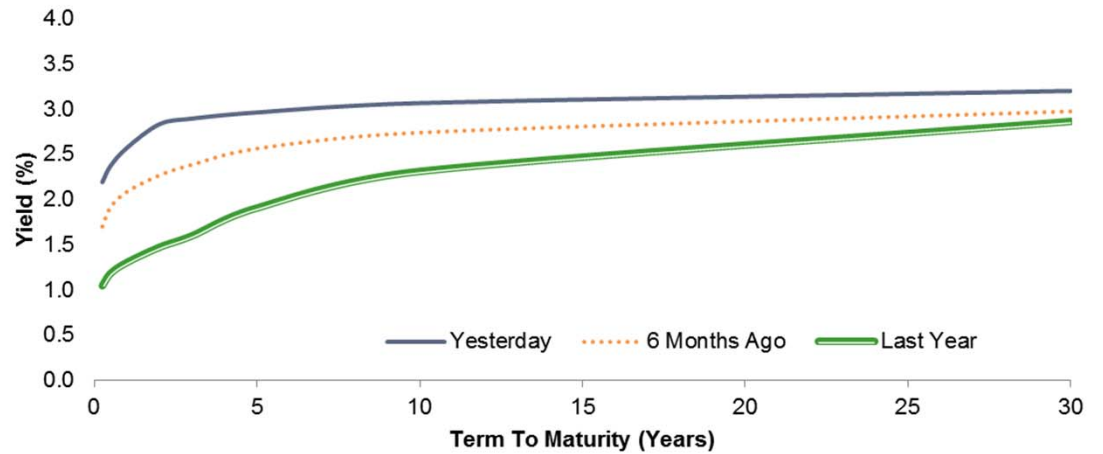
Weekly Interest Rate Movements

For the Week Ending 09/27/2018

U.S. Treasury Yields

	09/27/18	09/20/18
3mo	2.19%	2.16%
2yr	2.83%	2.80%
5yr	2.96%	2.95%
10yr	3.06%	3.06%

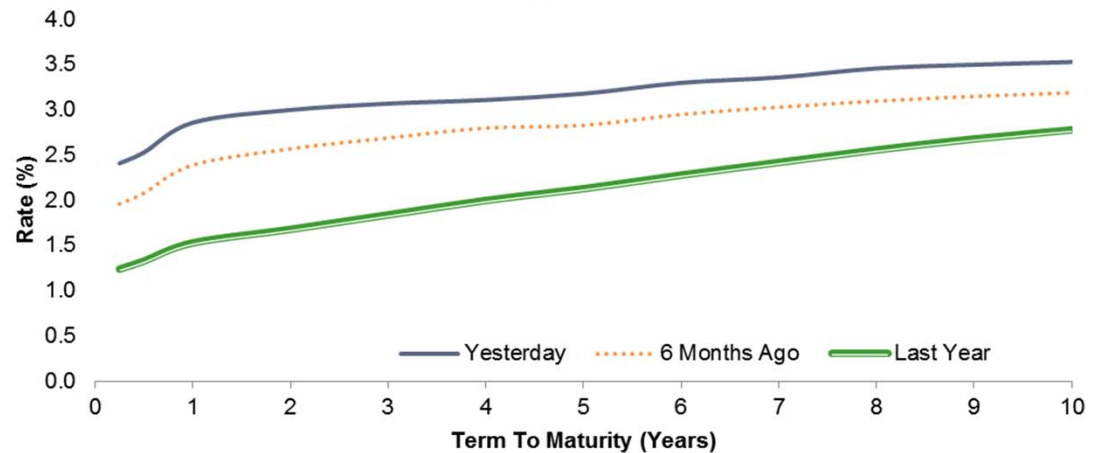
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

	09/27/18	09/20/18
3mo	2.41%	2.36%
2yr	3.00%	2.99%
5yr	3.18%	3.19%
10yr	3.53%	3.55%

FHLBank Chicago Advance Rates



U.S. Economic Data Releases

For the Week Ending 09/27/2018

Chicago Fed National Activity Index

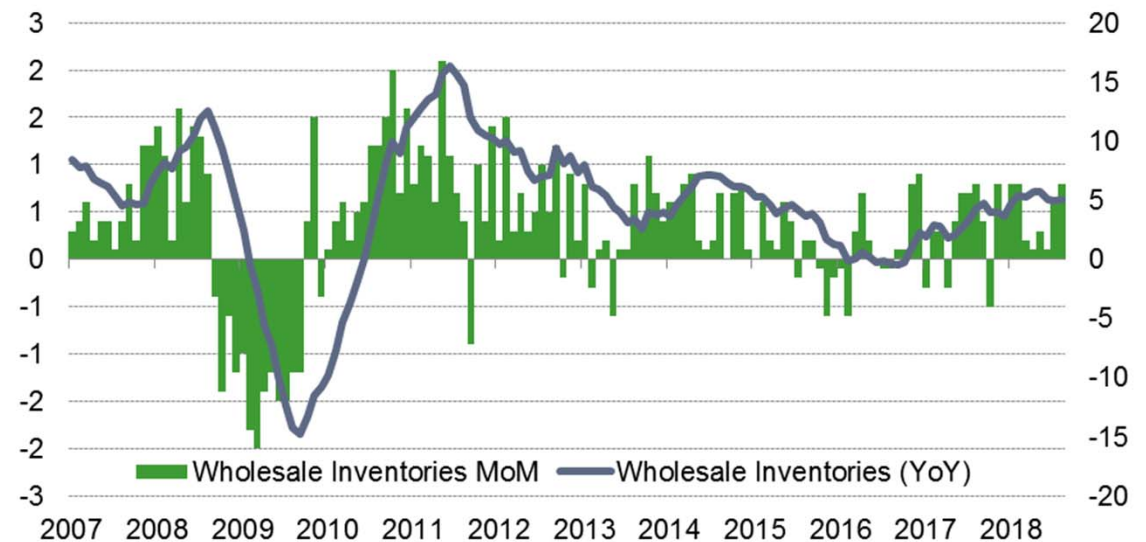
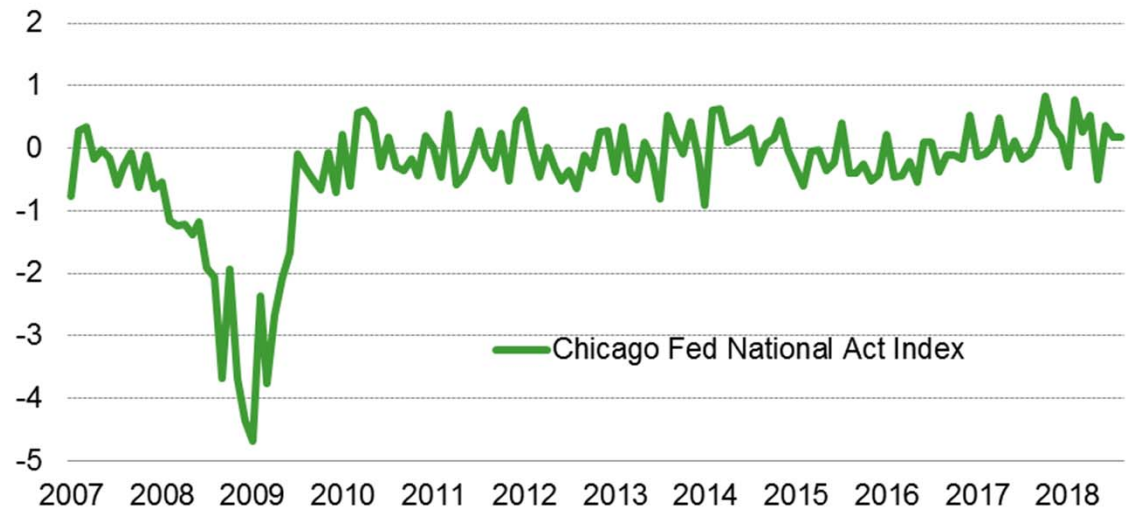
August: 0.18 vs. July: 0.18

- Remained unchanged at 0.18 in August, against expectations of an increase to 0.205. Three of the four components that make up the index increased from the prior month, while two of the four made positive contributions to the index in August. The measurement's 3-month moving average edged higher from 0.22 to 0.24 month-over-month.

Wholesale Inventories

Aug P: 0.8% vs. July F: 0.6%

- Rose 0.8% in the advance August estimate following an unrevised 0.6% rise in July.



Source: Chicago Federal Reserve, U.S. Census Bureau

U.S. Economic Data Releases

For the Week Ending 09/27/2018

Durable Goods Orders

Aug P: 4.5% vs. July F: -1.7%

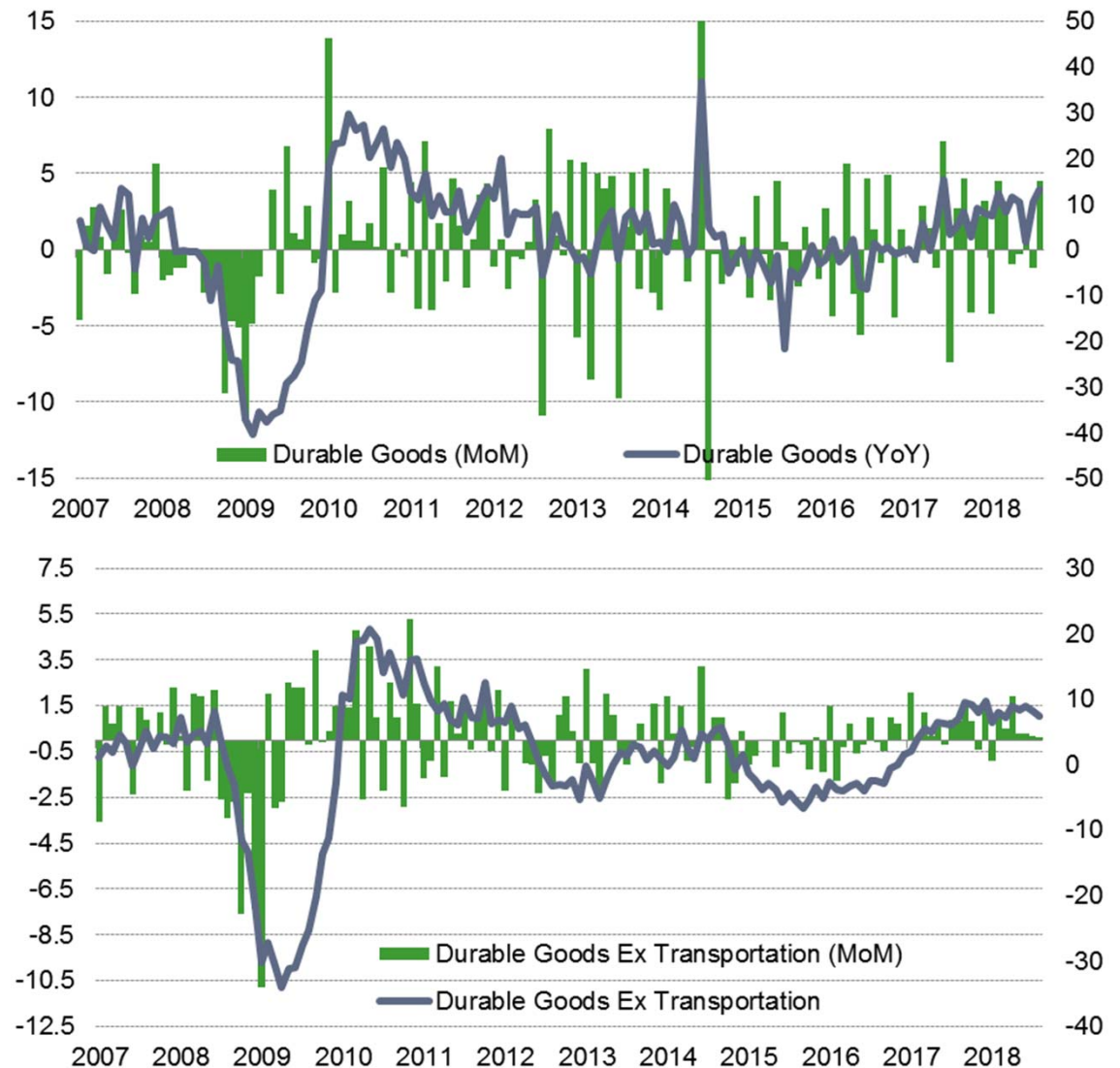
- Rose by a more-than-expected 4.5% to \$259.6B in the advance August reading. The index is up 9.2% from one year ago. Transportation equipment jumped 13.0%, and manufactured goods rose 0.9%.

Durable Goods Ex Transportation

Aug P: 0.1% vs. July F: 0.2%

- Excluding transportation, the index rose only 0.1% in August but remains 8.2% higher than one year ago. Gains in machinery and primary metal goods were slightly offset by declines in computers and electronic products.

Source: U.S. Census Bureau



U.S. Economic Data Releases

For the Week Ending 09/27/2018

Case Shiller Home Price Index

July: 0.09% vs. June: 0.16%

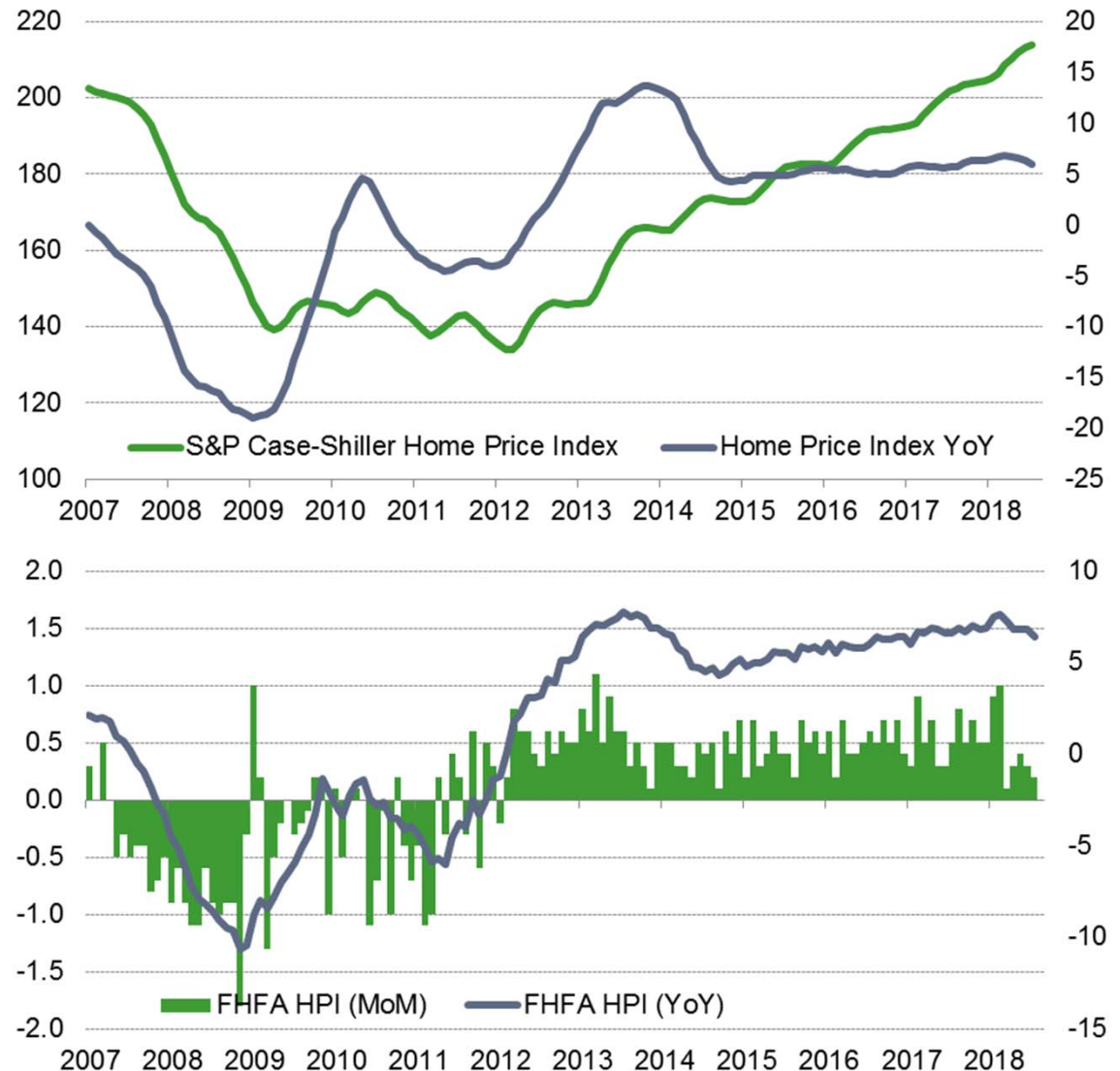
- Increased 0.09% as 18 of the 20 cities reported a monthly increase. Cleveland and Las Vegas posted the largest monthly gains of 1.4% each. In particular, Chicago rose 0.3% from the prior month, but is up 5.8% year-over-year. Home prices are up 6.0% nationally from one year ago.

FHFA House Price Index

July: 0.2% vs. June: 0.3%

- Rose 0.2% in July. As a result, house prices are up 6.4% from one year ago. The East North Central division—including Michigan, Wisconsin, Illinois, Indiana, and Ohio—rose 0.2% from the prior month.

Source: S&P Case-Shiller, FHFA



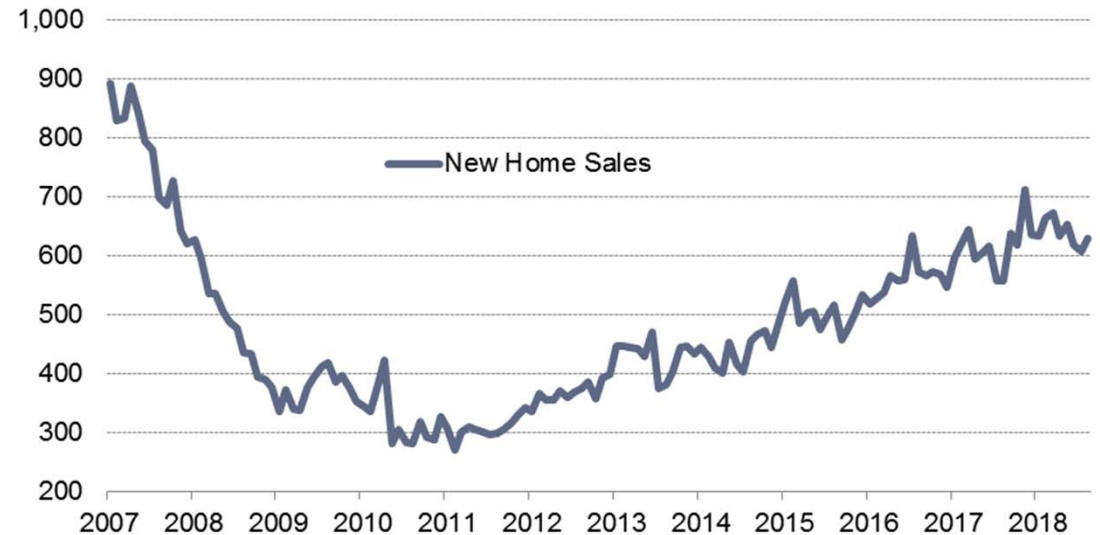
U.S. Economic Data Releases

For the Week Ending 09/27/2018

New Home Sales

August: 630K vs. July: 608K

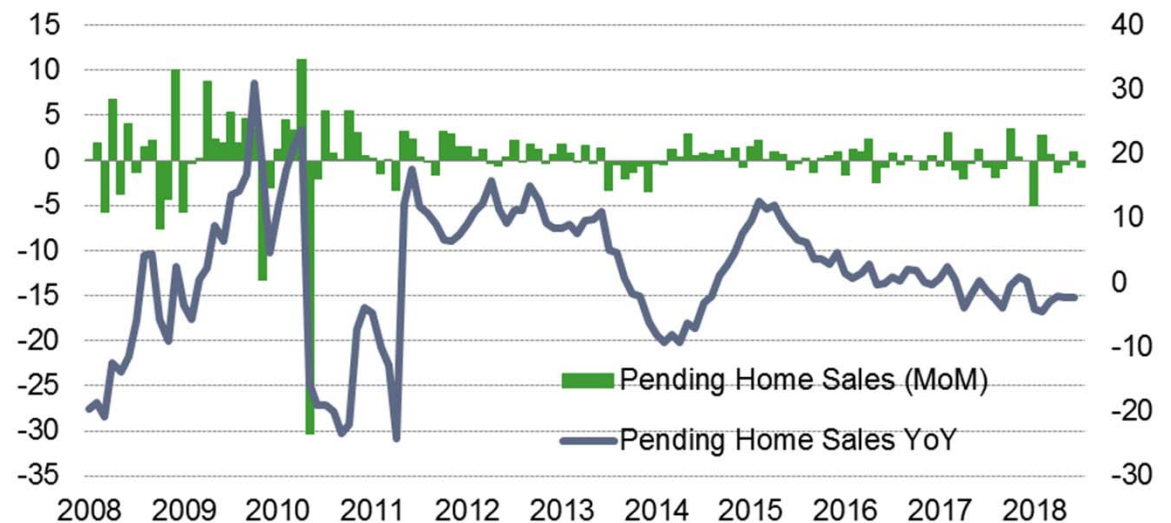
- Rose 3.5% to an annual rate of 630K in August and is 12.7% higher than one year ago. Regional data was primarily positive as the South was the only region to decline. The Northeast jumped 47.8%, the West rose 9.1%, and the Midwest increased 2.7%.



Pending Home Sales

August: -1.8% vs. July: -0.8%

- Unexpectedly dropped 1.8% in August. As a result, the index is down 2.3% year-over-year. Regional data was negative with the Northeast falling 1.3%, the Midwest decreasing 0.5%, the South declining 0.7%, and the West falling 5.9% month-over-month.



Source: U.S. Census Bureau, Natl. Assoc. of Realtors

U.S. Economic Data Releases

For the Week Ending 09/27/2018

Initial Jobless Claims

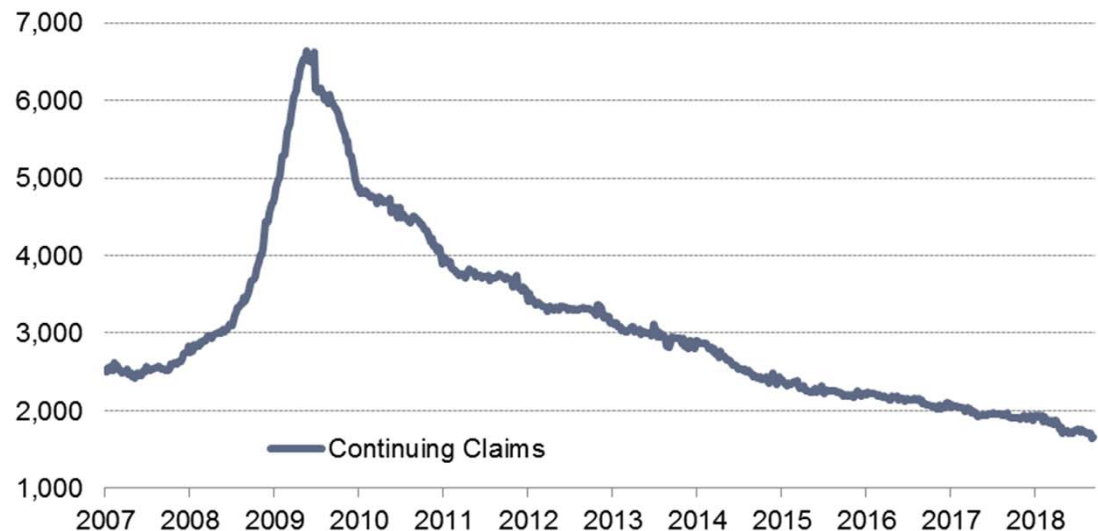
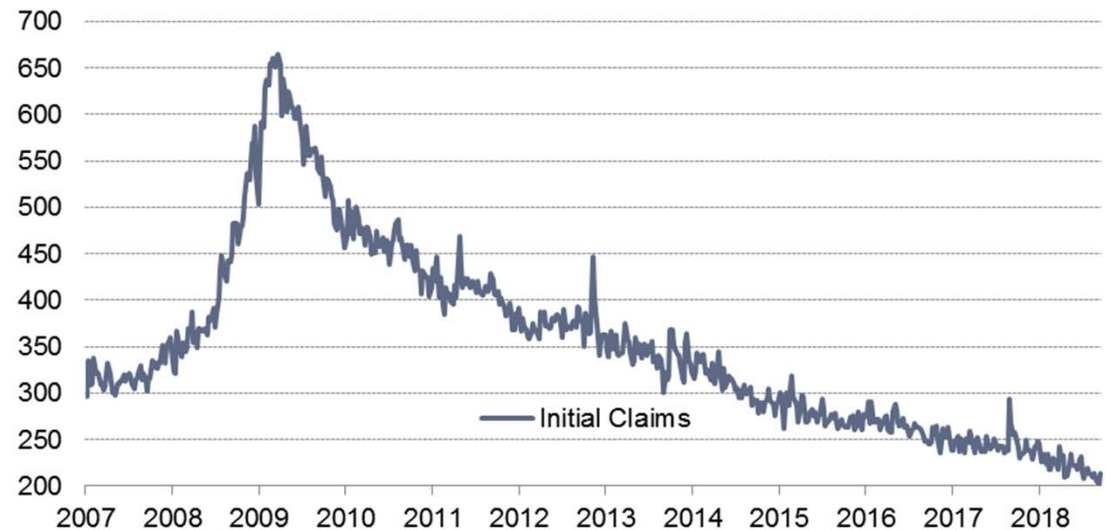
Sept. 22: 214K vs. Sept. 15: 202K

- Claims increased by 12K week-over-week while the prior week was upwardly revised by 1K to 202K. As a result, the 4-week moving average edged higher by 0.25K to 206.25K.

Continuing Claims

Sept. 15: 1,661K vs. Sept. 8: 1,645K

- Likewise, continuing claims increased by 16K, after falling the previous two weeks. Consequently, the 4-week moving average increased by 16K to 1.679M, its lowest level since November 10, 1973 when it was 1.673M. The insured unemployment rate held steady at 1.2%.



Source: Department of Labor

FOMC Announcement

- The Federal Open Market Committee (FOMC) met on September 25-26 and consequently made some changes to its policy stance and its economic and policy projections with the overall statement in-line with expectations.
 - As expected, the Committee increased the federal funds target range to 2.00% to 2.25%.
 - This marks the third interest rate hike this year but the eighth rate hike since the central bank began increasing interest rates in December 2015.
 - Language regarding growth and inflation remained the same as it was in the August meeting.
 - The line characterizing the stance of monetary policy as “accommodative” was dropped.

Source: Federal Reserve Board of Governors

FOMC Announcement

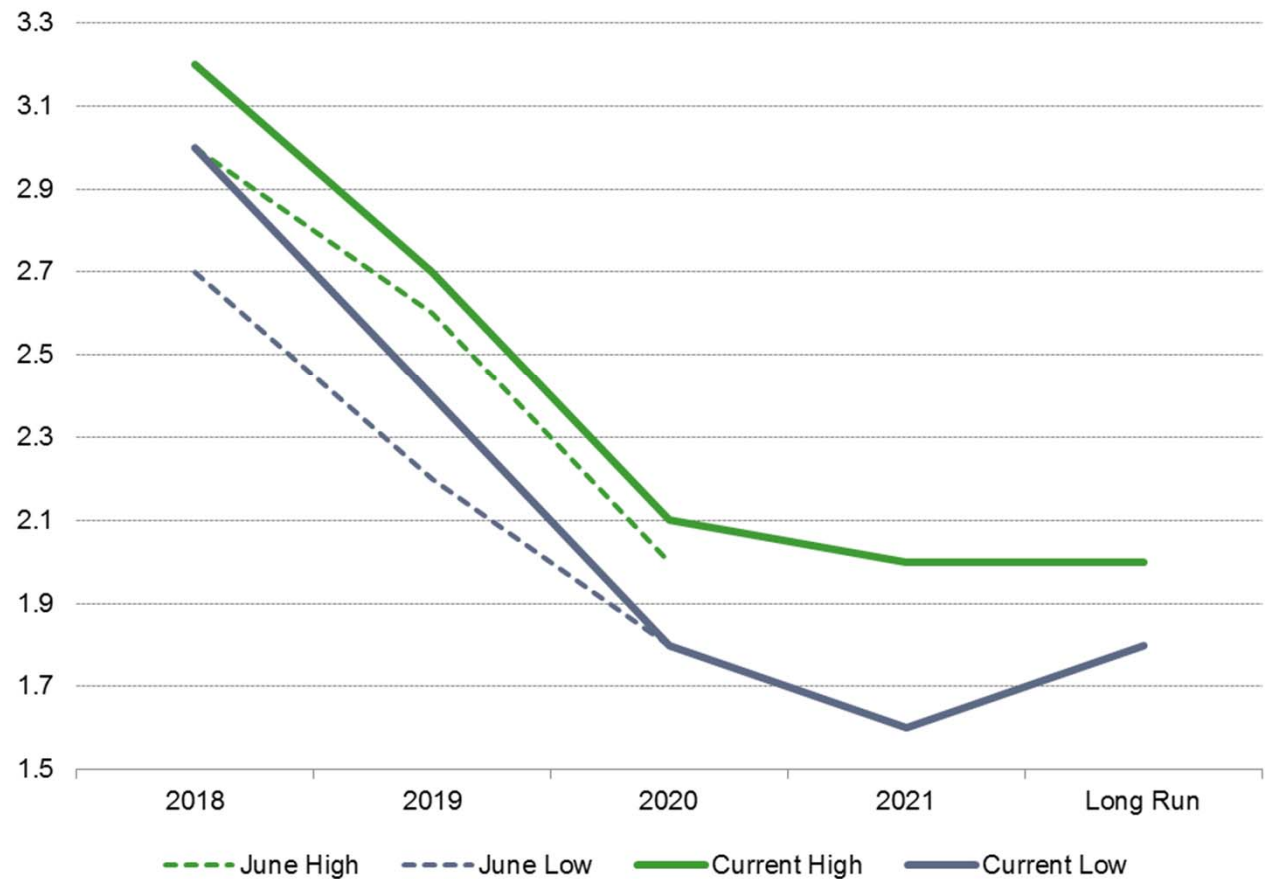
GDP Growth Revised Higher in Near Term

The FOMC's economic projections shifted its upper bound of the range in 2018-2020 but only shifted the lower range higher in 2018 and 2019.

The central tendency for growth by 2021 was added at 1.6%-2.0%.

Longer run expectations remain the same from June to September.

FOMC Forecasts: GDP Growth Annual Percentage Change



Source: Federal Reserve Board of Governors

FOMC Announcement

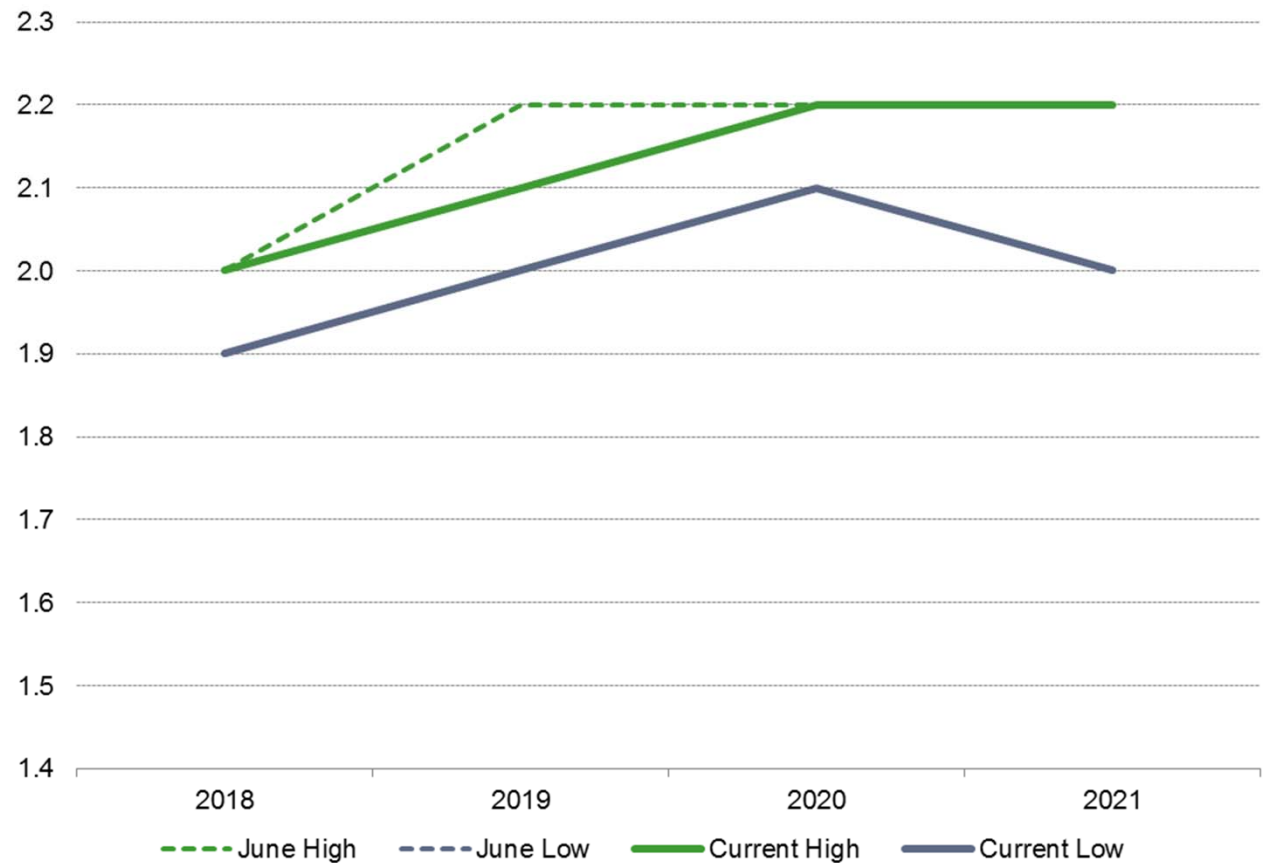
Expected Inflation Revised Lower in 2019

Inflation projections were unchanged in the lower bound of the target range.

However, the upper bound was revised lower from 2.2% to 2.1% in 2019.

Inflation is expected to be between 2.0% and 2.2% in 2021.

FOMC Forecasts: Core PCE Inflation Annual Percentage Change



Source: Federal Reserve Board of Governors

FOMC Announcement

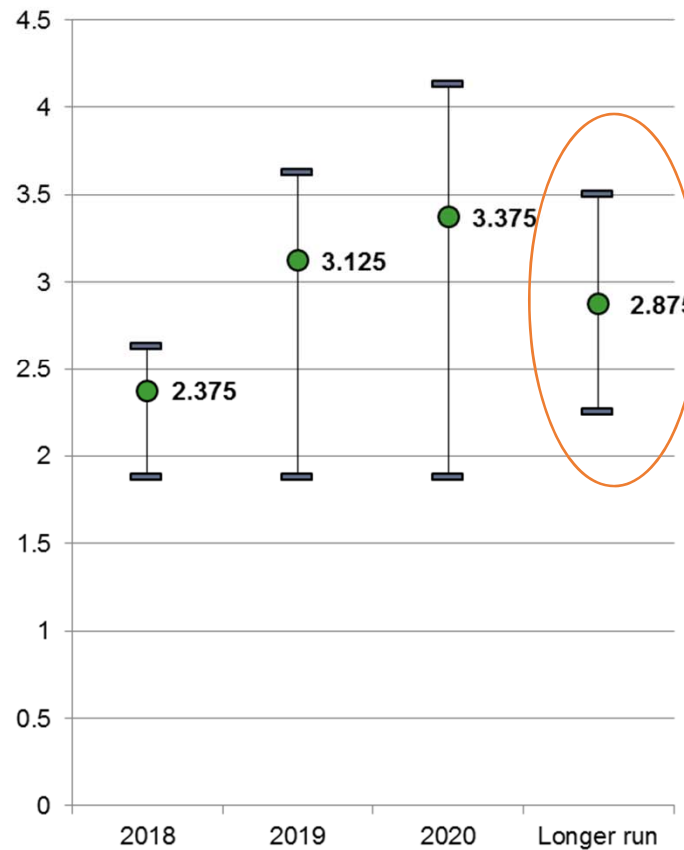
Dot Plot Shows Another Rate Hike This Year

The median fed funds rate expectation of the 16 FOMC members suggest one additional rate hike this year, three rate hikes in 2019 (unchanged), and one rate hike in 2020.

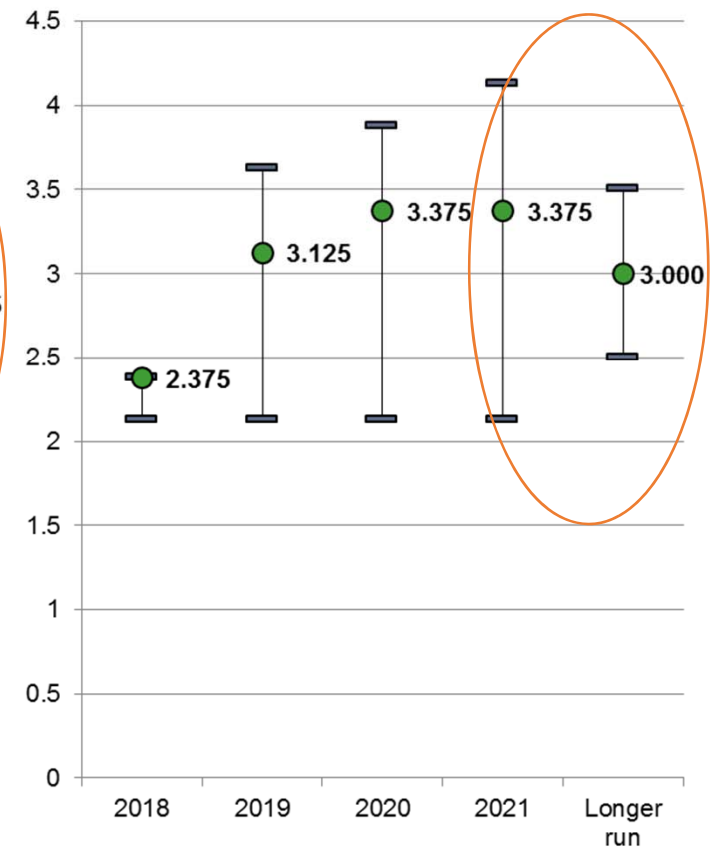
There will be no rate hike in 2021 (added in September).

Finally, the longer run target shifted from 2.875 to 3.000.

FOMC Year-End Fed Funds Rate Expectations: June 2018
Percentage Points



FOMC Year-End Fed Funds Rate Expectations: September 2018
Percentage Points



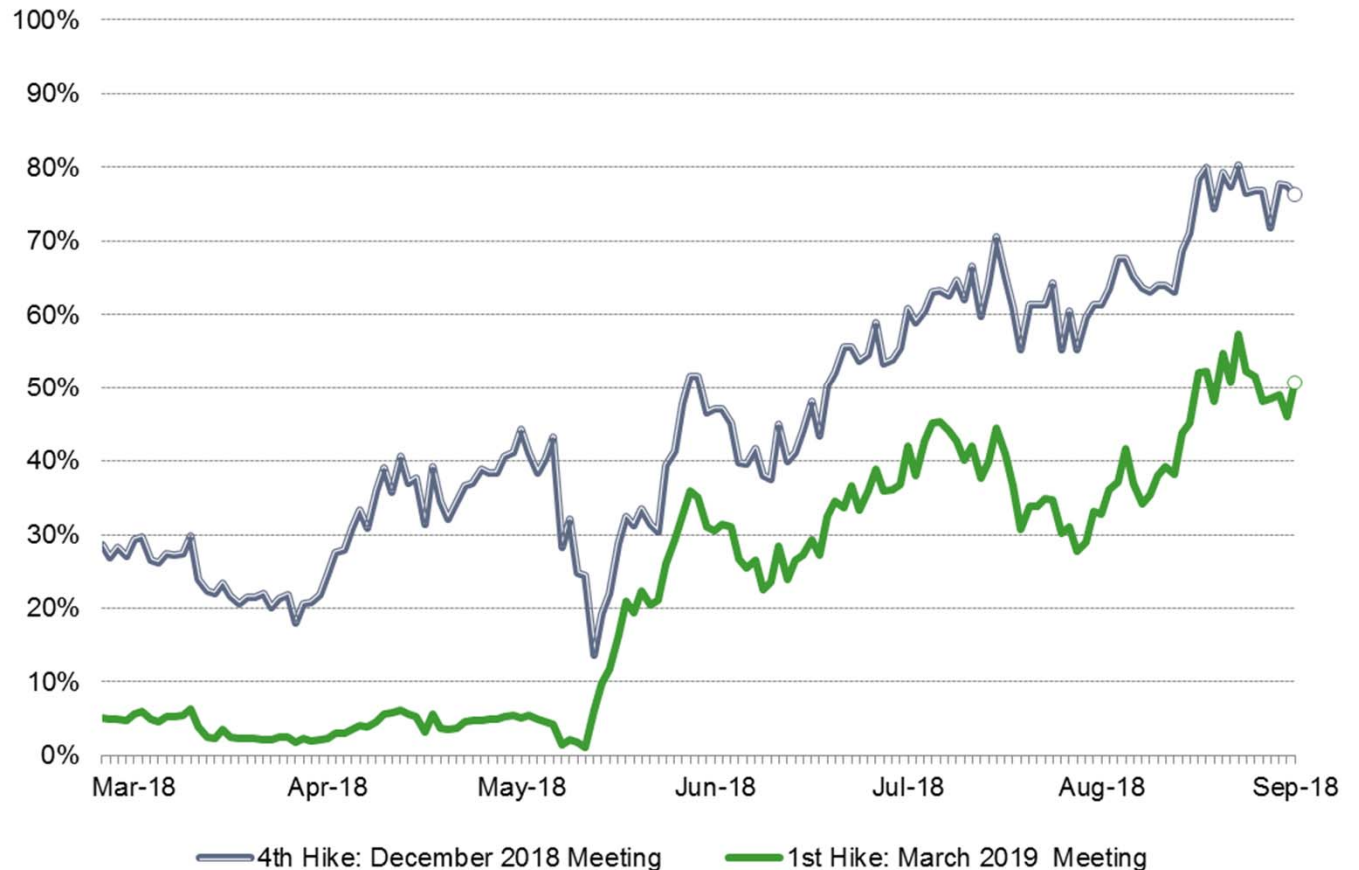
Source: Federal Reserve Board of Governors

Federal Reserve Interest Rate Probability

Following the third rate hike of the year on September 26, the market-implied probability of a fourth interest rate hike at the December meeting is at 76.29% as of September 27.

Following the anticipated fourth hike in December, the market-implied probability of a rate hike in March 2019 is now 50.74%.

Federal Reserve Interest Rate Hike Probability Probability of a 25 Basis Point Increase



Source: Bloomberg

FOMC Announcement

- During Fed Chair Powell's second press conference as Fed Chair, he stated, "The main thing where we might need to move along a little quicker would be if inflation surprises to the upside."
- Additionally, the interest on excess reserves (IOER) rate was raised by only 25 basis points to 2.20%. This follows the decision in March to raise the IOER rate by only 20 basis points.
 - When asked about the IOER change at Powell's press conference, he stated they could make use of another "off target" policy move at some point in the future but seemed satisfied with the impact of the original move.

Source: Federal Reserve Board of Governors

GDP Unchanged in Third and Final Q2 Estimate

- The third estimate of second quarter GDP was in-line with consensus expectations of 4.2% and remained unchanged from the second estimate, according to the Commerce Department.
- This is the highest growth rate since Q3 2014.
- There was a downward revision to private inventory investment and imports but was offset by small upward revisions to most of the other components.
- Personal consumption – which accounts for more than two-thirds of the total economic activity – grew 3.8%.
- The annual personal savings rate was 6.8% in Q2 versus 7.2% in Q1.

Source: Bureau of Economic Analysis

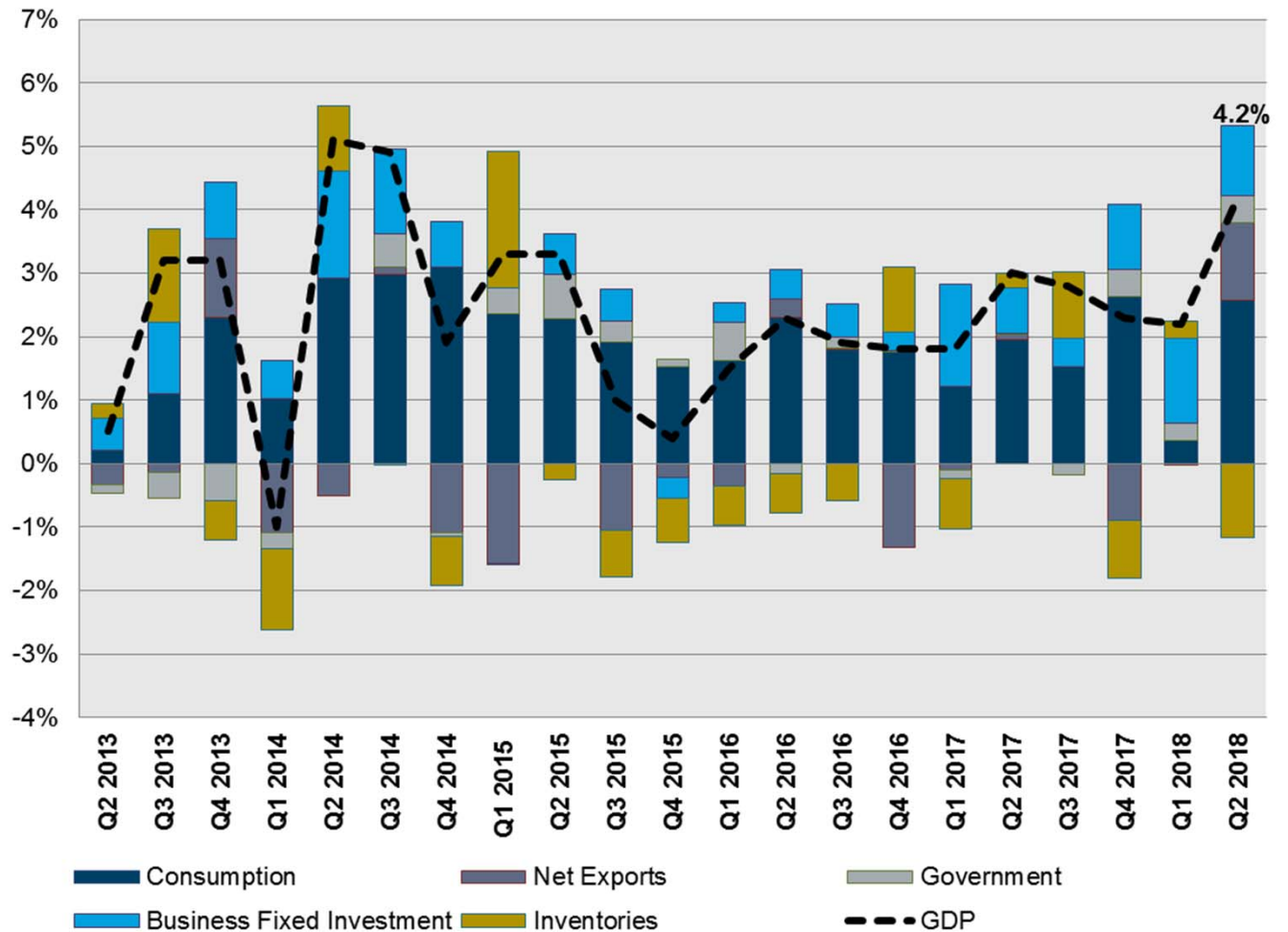
GDP Unchanged in Third and Final Q2 Estimate

GDP Growth Supported by Personal Consumption

Personal consumption supported the increase and added 2.57 percentage points to GDP compared to adding only 0.36 percentage points to GDP in Q1.

Non-residential investment added 1.1 percentage points to GDP, and exports added 1.22 percentage points.

GDP and Sector Contributions



Source: Bureau of Economic Analysis

Inflation

- Headline CPI increased 0.2% in August, missing consensus expectations. The year-over-year rate edged lower from 2.8% to 2.7%.
 - Excluding food and energy, core CPI increased 0.1% in August and 2.2% over the past year.
- Within the index, food prices rose 0.1% month-over-month and energy prices jumped 1.9%. Excluding food and energy, the index rose 0.1%. Supporting the increase, shelter prices and transportation services both increased 0.3%.

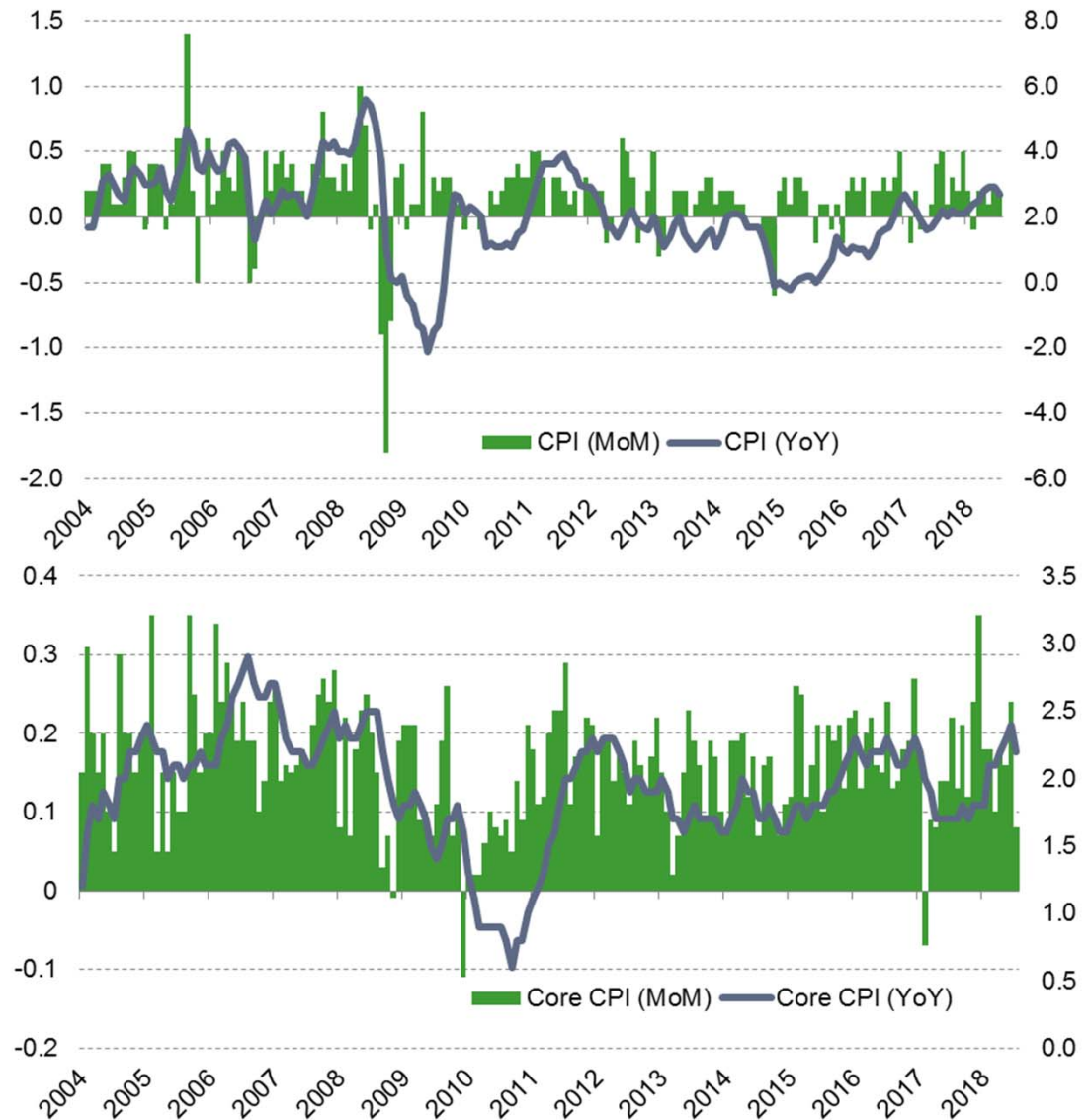
Source: Bureau of Labor Statistics

Inflation

The Consumer Price Index (CPI) Gaining Strength

The headline index posted a positive contribution in August, rising 0.2%, but year-over-year growth pushed lower one-tenth to 2.7%. Food prices rose 0.1% month-over-month and energy prices jumped 1.9%.

Excluding food and energy, the index advanced 0.1%. Supporting the increase, shelter prices and transportation services both increased 0.3%. The core index is up to 2.2% year-over-year.



Source: Bureau of Labor Statistics

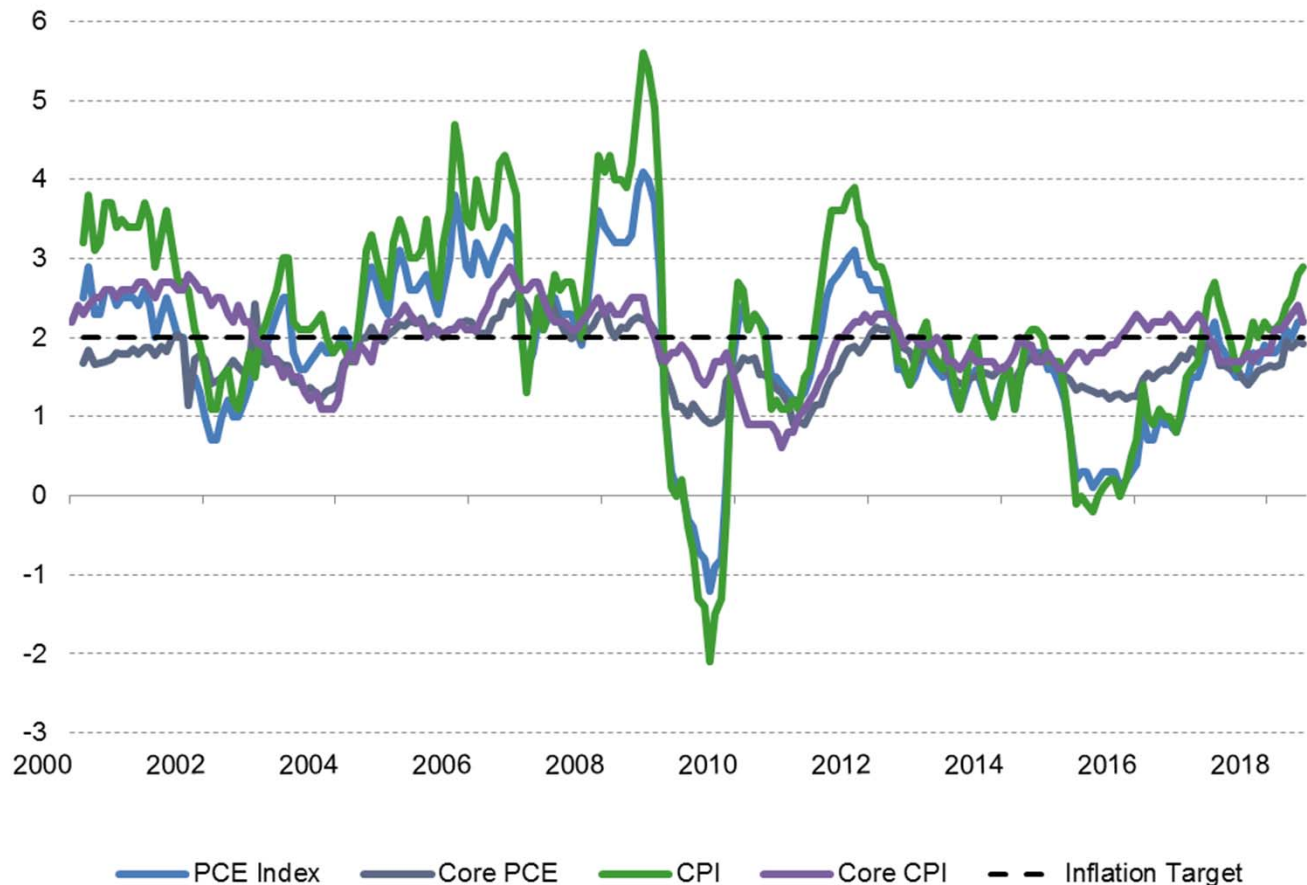
Inflation

All Inflation Measures Near or Above Fed Target

Inflation measures grew year-over-year with most measures reaching the Fed's 2% target. CPI slowed to 2.7% from 2.9% in August. Core CPI also slowed by 0.2% but still remains above the Fed target at 2.2%.

Core PCE is the only component remaining below 2%, increasing to 1.98% from 1.93% in July.

Inflation Rate Measures Vs. Fed Target of 2.0% Year-over-Year Percentage Change



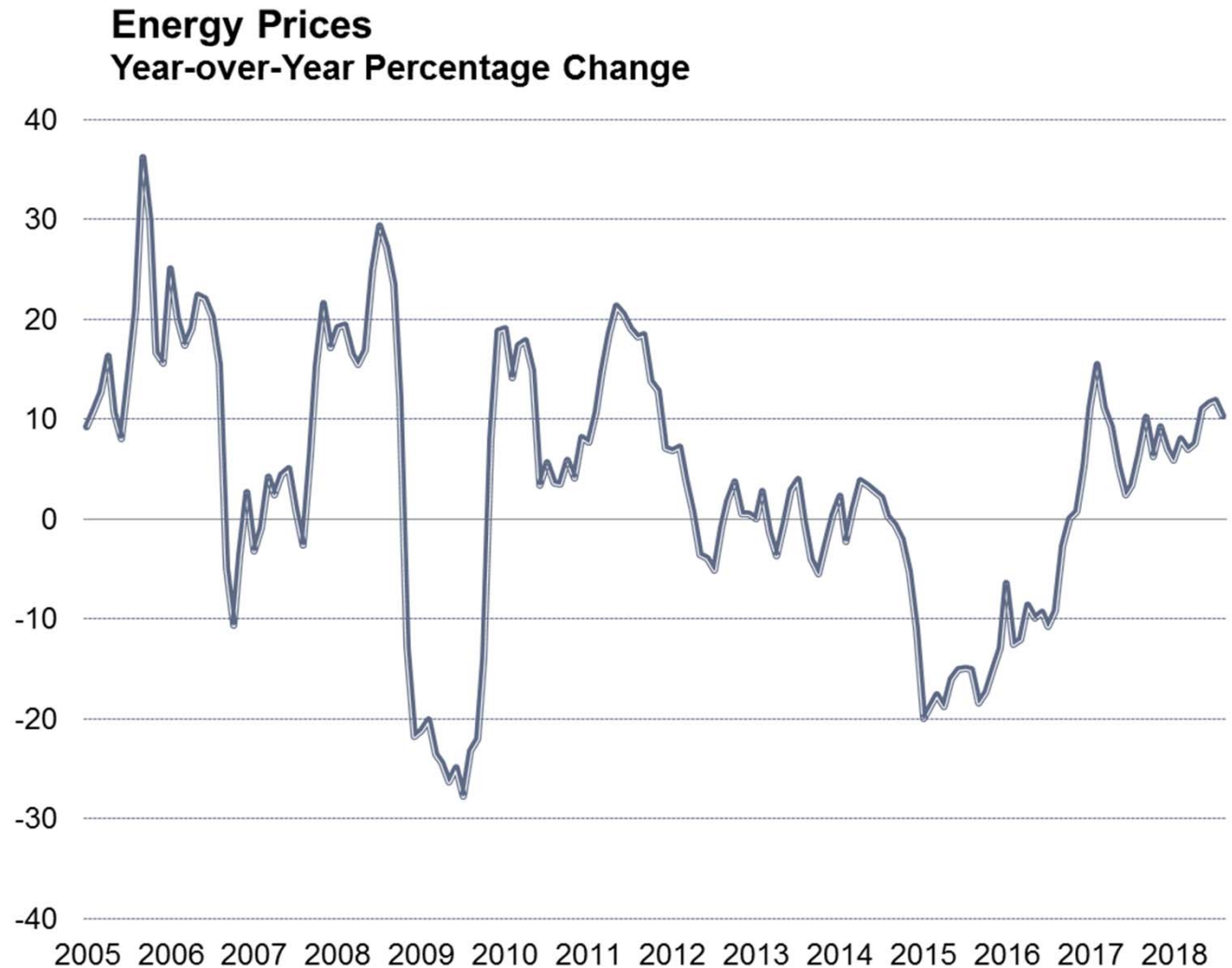
Source: Bureau of Labor Statistics

Inflation

Energy Price Growth Slows Since Early 2018

The energy index rose 1.9% in August, which pushed the year-over-year growth down to 10.3% compared to 11.9% in July.

A 3.0% increase in the gasoline index supported the increase the most, but fuel oil and electricity also increased.



Source: Bureau of Labor Statistics

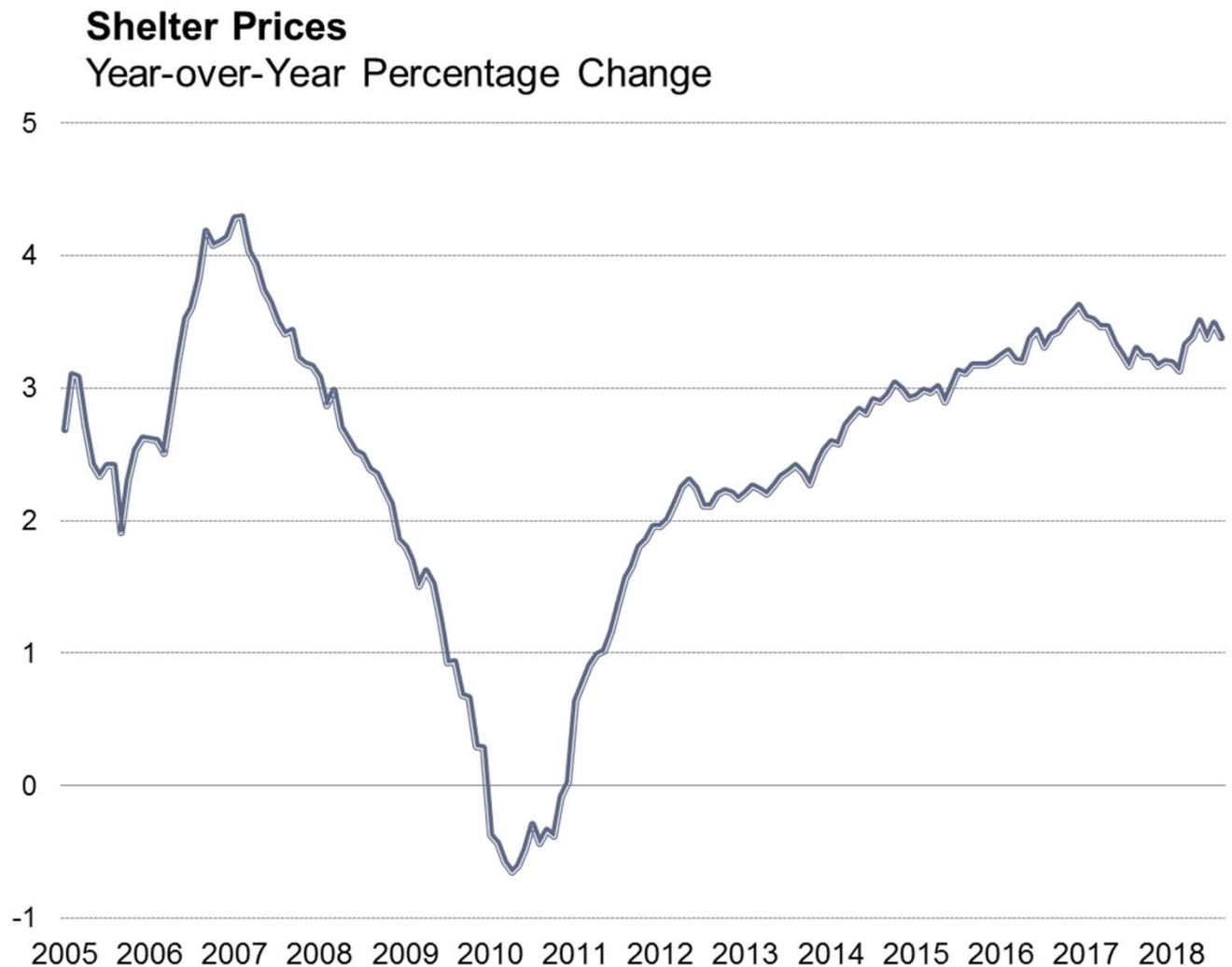
Inflation

Shelter Prices Support Gain in Core CPI

One of the main drivers of the 0.2% advance in core CPI was the shelter component.

Shelter prices rose 0.3% on the month. The index for rent increased 0.4% and owners' equivalent rent rose 0.3%.

The annual percentage change has edged lower to 3.4%.



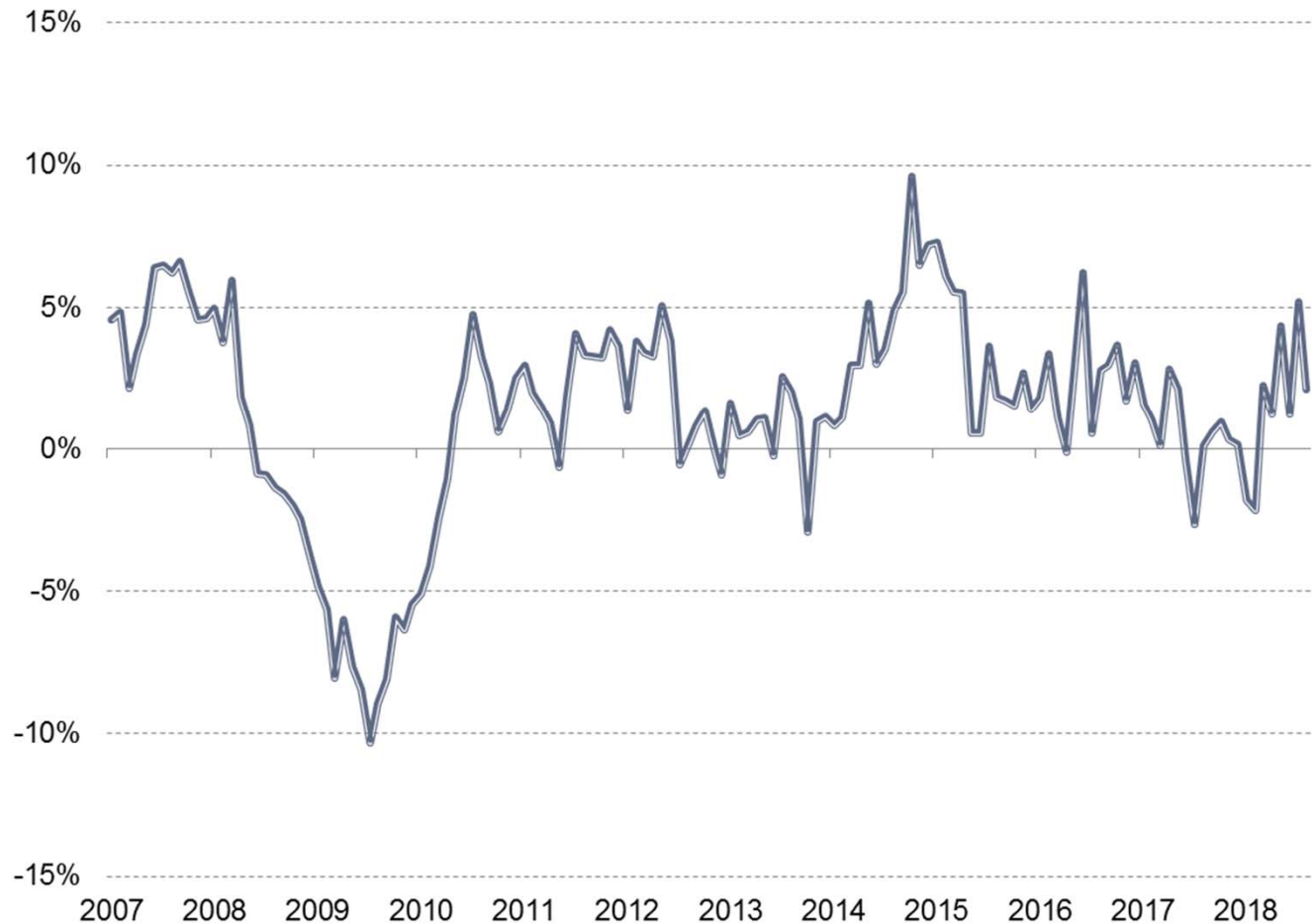
Source: Bureau of Labor Statistics

Inflation

Lodging Away from Remains Volatile

Within shelter prices, the index measuring lodging away from home, such as hotels and motels, prices fell 1.2% for the month or 2.1% year-over-year in August compared to 5.2% in July.

**Lodging Away From Home Prices
Year-over-Year Percentage Change**



Source: Bureau of Labor Statistics

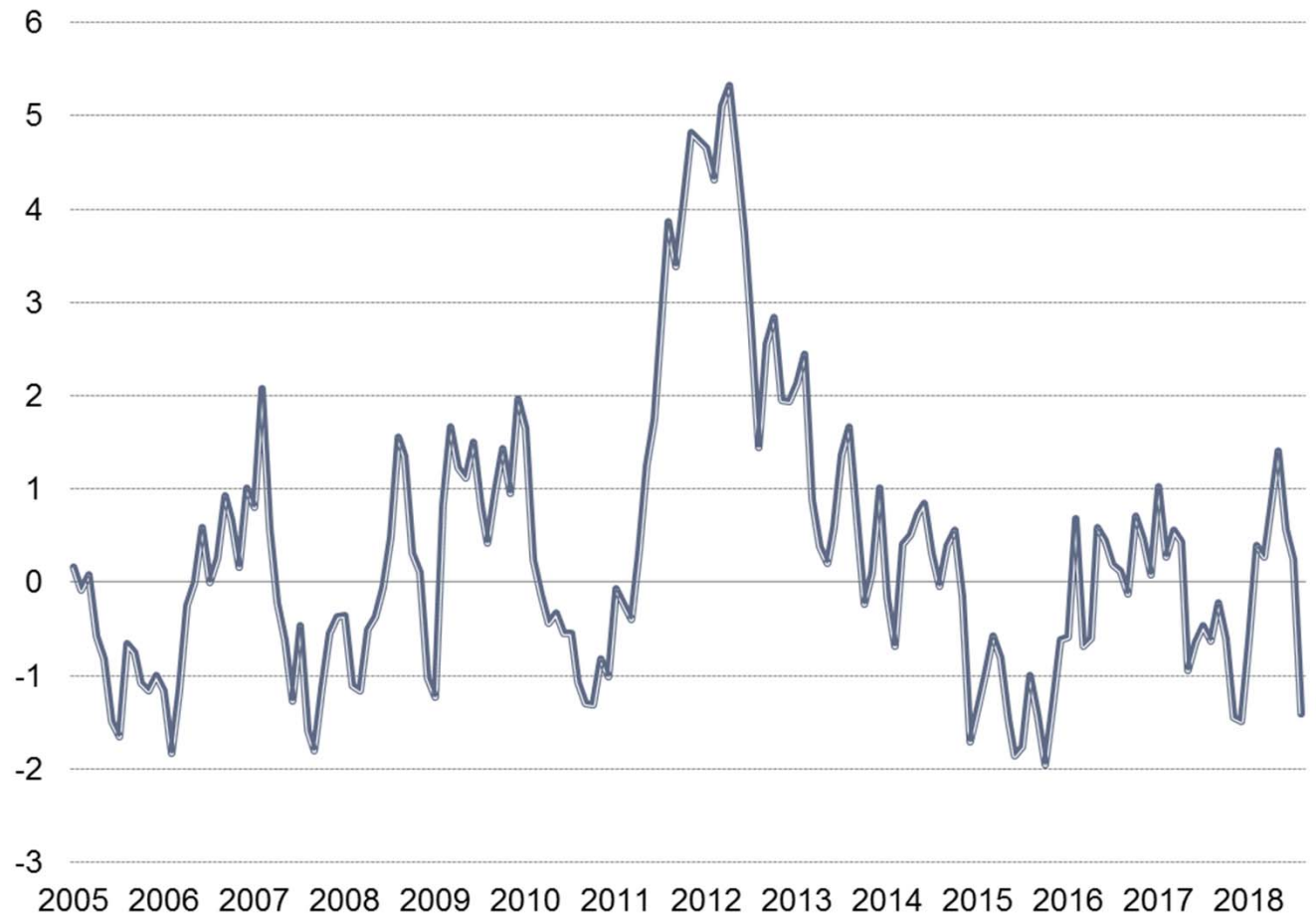
Inflation

Apparel Prices Drop

Month-over-month changes in apparel prices dropped 1.4% in August. As a result, year-over-year the index fell 1.4%.

This is the lowest level of annual percentage change for apparel prices since December 2017 when they fell 1.5%.

Apparel Prices Year-over-Year Percentage Change



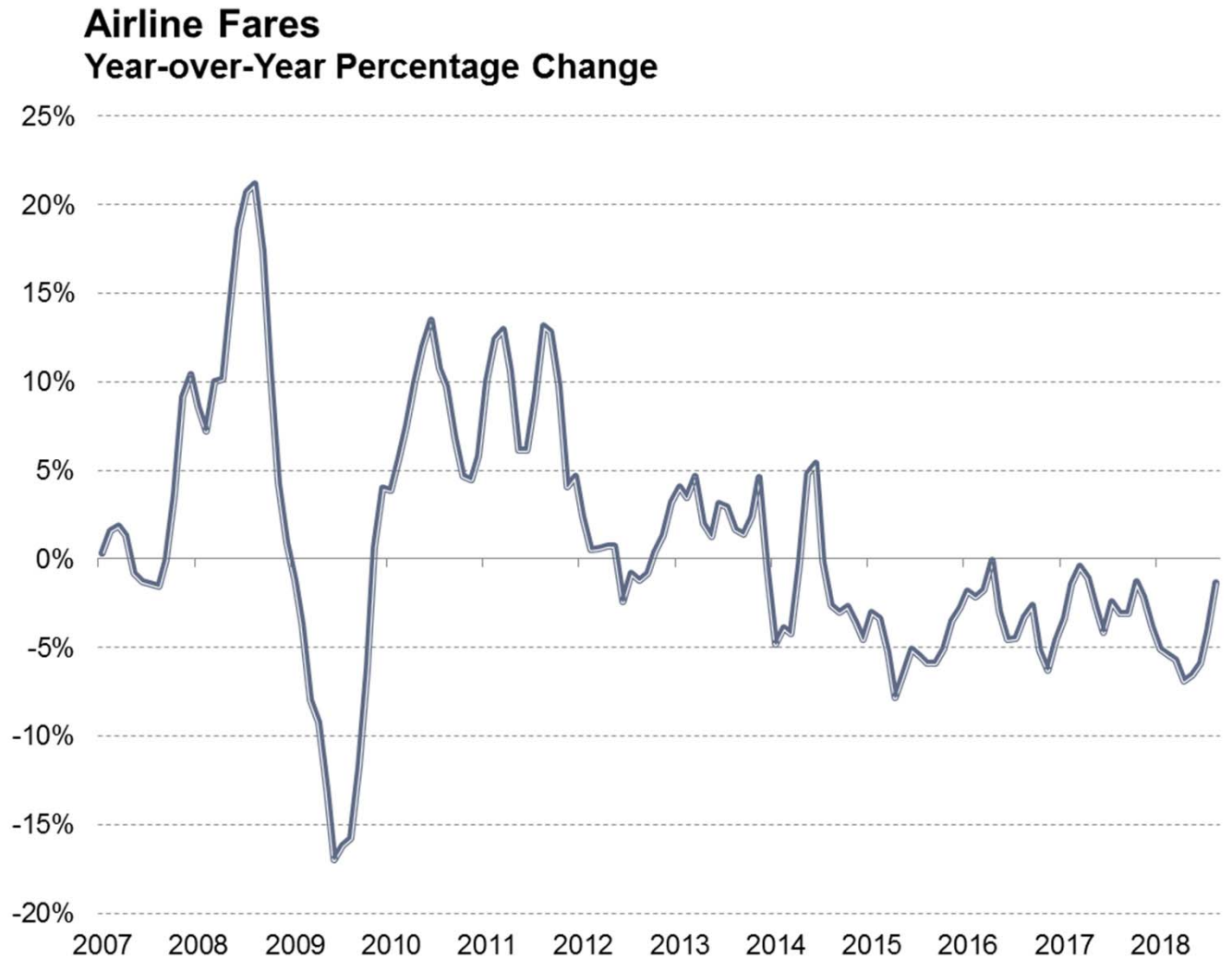
Source: Bureau of Labor Statistics

Inflation

Airline Fares Begin to Rise

Within transportation services, airline fares posted a 2.4% positive contribution in August following a 2.7% increase in July.

Despite the increases, airline fares are down 1.3% from one year ago compared to -4.1% in July, indicating a pick-up in prices.



Source: Bureau of Labor Statistics

Inflation

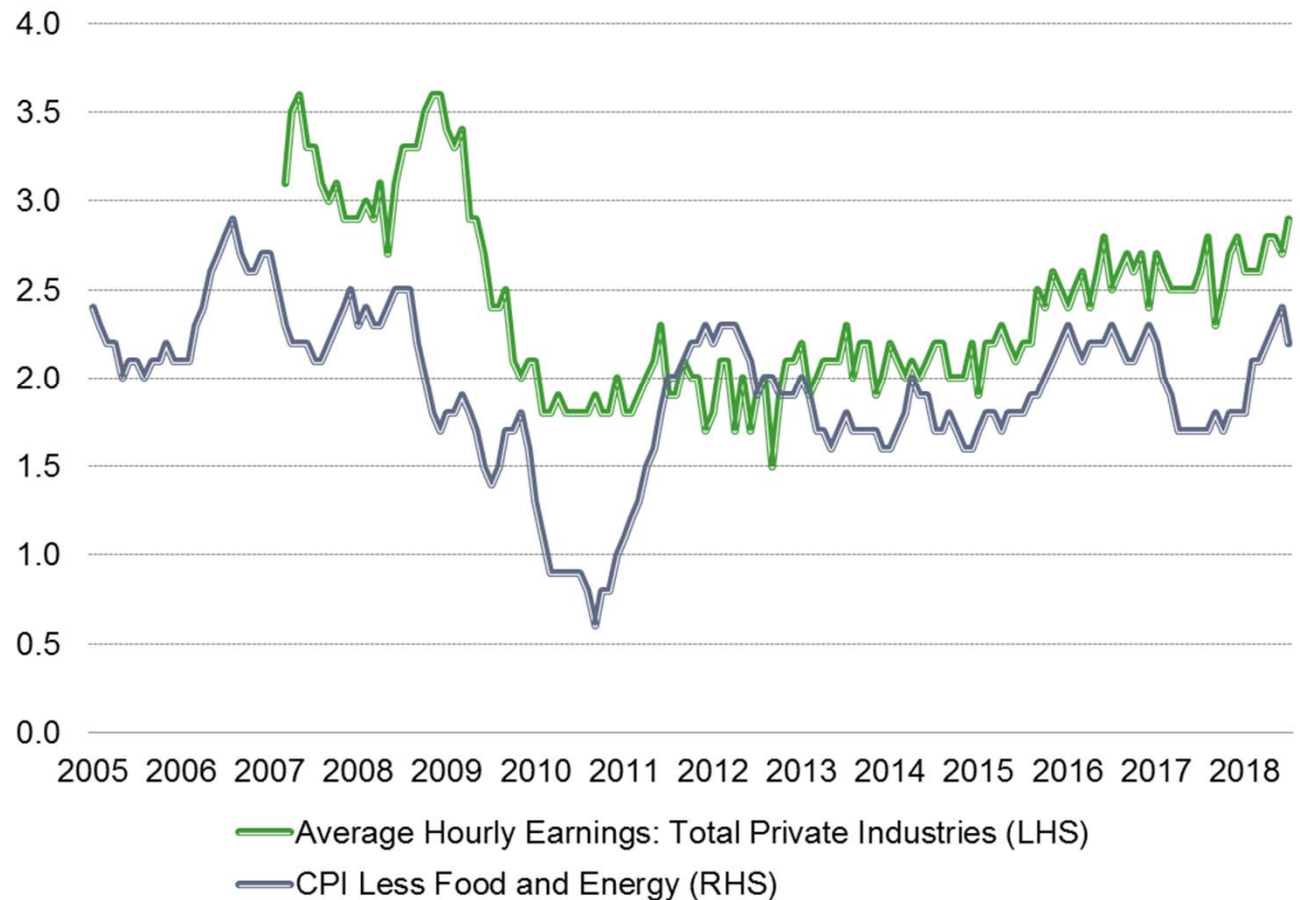
Wage Growth Improves As Inflation Increases

Wage growth in August advanced to 2.9% compared to 2.7% in July.

Wage growth has been recovering since 2013 overall and is beginning to near 3.0%.

Core CPI surpassed the Fed's 2.0% target in March by rising to 2.1% but slowed in August by falling from 2.4% to 2.2%.

Inflation Vs. Wage Growth
Year-Over-Year Percentage Change



Source: Bureau of Labor Statistics

Inflation

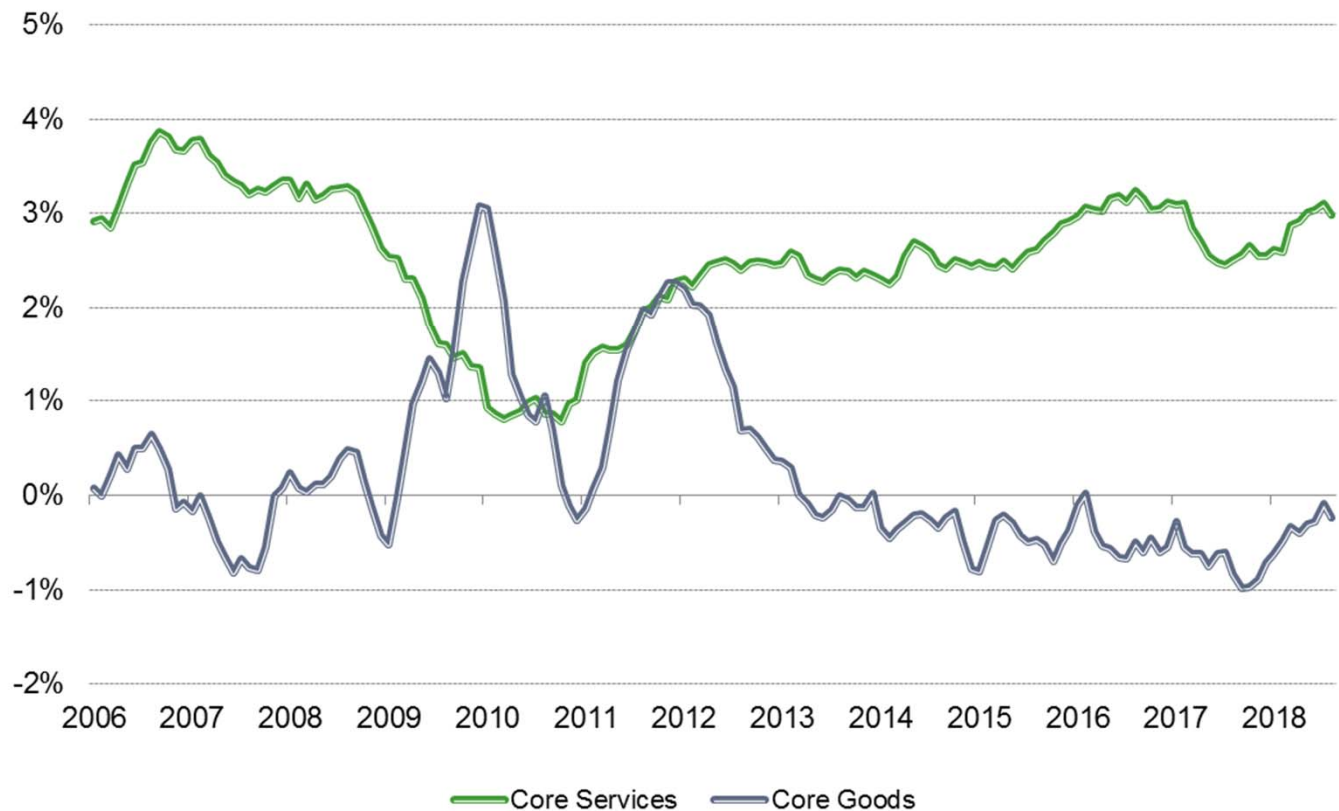
Services and Goods Inflation Show a Decline

Services account for two-thirds of core inflation, while goods account for the remaining one-third of the index.

Core services annual percentage change edged lower from 3.11% to 2.98%.

Goods annual percentage change also declined from -0.1% to -0.2%.

**Consumer Price Index By Sector
Year-over-Year Percentage Change**



Source: Bureau of Labor Statistics

Inflation

- Summary:
 - August's Consumer Price Index increased 0.2% in August, the same increase as in July.
 - Inflation in goods and services has been gaining momentum recently but slowed in August.
 - The index for all items, less food and energy, rose 0.1% in August, but it is the smallest monthly increase since April 2018.

Source: Bureau of Economic Analysis

This and That

A recent study from Humley found that digital banking users are beginning to prefer a chatbot versus human interaction for their financial needs. Forty-three percent of respondents said they would address issues they have with their banking provider this way, compared to only 35% of respondents saying they would go to a branch, and 35% that would refer to the website. Interestingly, only 6% said they would reach out on social media.

Source: Humley, eMarketer, Inc. 2018

Economic Data Release Calendar


October 2018

Prior to the weekend, economic data will be released on personal income and consumer sentiment.

Next week has a quiet start with data on the manufacturing and non-manufacturing sectors.

All eyes will be focused on the September employment report to be released Friday.

October 2018				
Monday	Tuesday	Wednesday	Thursday	Friday
			27 Initial Jobless Claims Durable Goods GDP Wholesale Inventories Pending Home Sales	28 Personal Income Chicago PMI Consumer Sentiment
1 ISM Manufacturing Construction Spending	2 Total Vehicle Sales	3 MBA Mortgage Applications ADP Employment ISM Non-Manufacturing	4 Initial Jobless Claims Factory Orders	5 Employment Trade Balance Consumer Credit
8 Columbus Day Federal Holiday FHLBC Closed	9 Small Business Optimism	10 MBA Mortgage Applications Producer Price Index	11 Initial Jobless Claims Consumer Price Index Monthly Budget Statement	12 Import Price Index Consumer Sentiment
15 Retail Sales Business Inventories	16 Industrial Production NAHB Housing Market JOLTS Total Net TIC Flows	17 MBA Mortgage Applications Housing Starts FOMC Meeting Minutes	18 Initial Jobless Claims	19 Existing Home Sales
22 Chicago Fed Ntl. Act. Index	23	24 MBA Mortgage Applications FHFA House Price Index New Home Sales Beige Book	25 Initial Jobless Claims Durable Goods Wholesale Inventories Pending Home Sales	26 GDP Consumer Sentiment



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