



# Weekly Market Update

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**Hosted by:**

**James Hotchkiss**

Director, Member Strategy and Solutions

**Date:**

October 31, 2019

FHLB  Chicago  
Federal Home Loan Bank of Chicago

# Contacts



## **James Hotchkiss**

Director, Member Strategy and Solutions

[jhotchkissjr@fhlbc.com](mailto:jhotchkissjr@fhlbc.com)

312-565-5691

Twitter: [@econ\\_james\\_](https://twitter.com/econ_james_)



## **Jessica Nick**

Associate Director, Member Strategy and Solutions

[jnick@fhlbc.com](mailto:jnick@fhlbc.com)

312-616-4739

# Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- FOMC Rate Decision
- Q3 GDP Advance Estimate
- Survey of Consumer Expectations
- Preview of the Coming Week
- Q and A

# Weekly Interest Rate Movements

## For the Week Ending 10/31/2019

### U.S. Treasury Yields

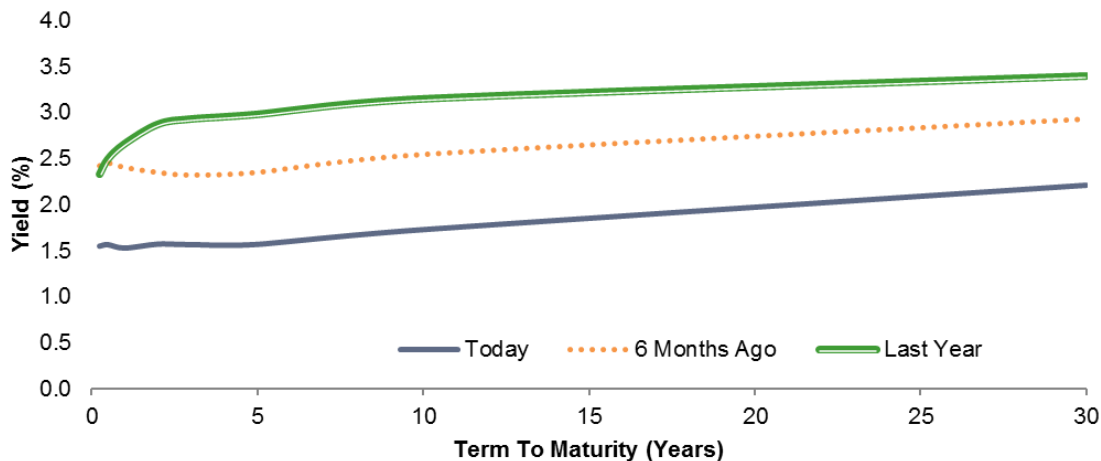
	10/31/19	10/24/19
<b>3mo</b>	1.55%	1.65%
<b>2yr</b>	1.58%	1.56%
<b>5yr</b>	1.57%	1.56%
<b>10yr</b>	1.73%	1.74%

### FHLBank Chicago Advance Rates

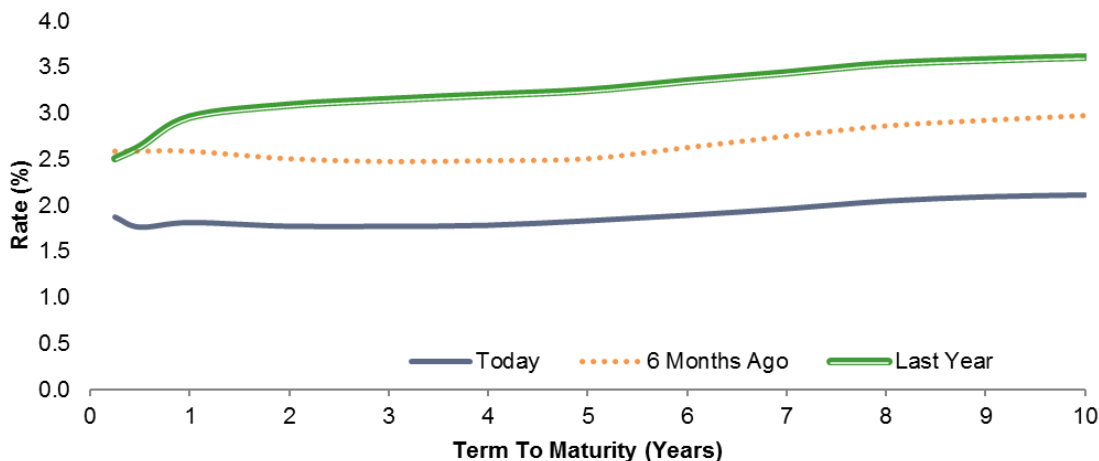
	10/31/19	10/24/19
<b>3mo</b>	1.87%	1.96%
<b>2yr</b>	1.77%	1.77%
<b>5yr</b>	1.83%	1.83%
<b>10yr</b>	2.11%	2.13%

Source: U.S. Treasury, FHLBank Chicago

### U.S. Treasury Yield Curve



### FHLBank Chicago Advance Rates



# Federal Reserve Interest Rate Probability

## For the Week Ending 10/31/2019

There is a 0.00% probability of a rate hike in 2019.

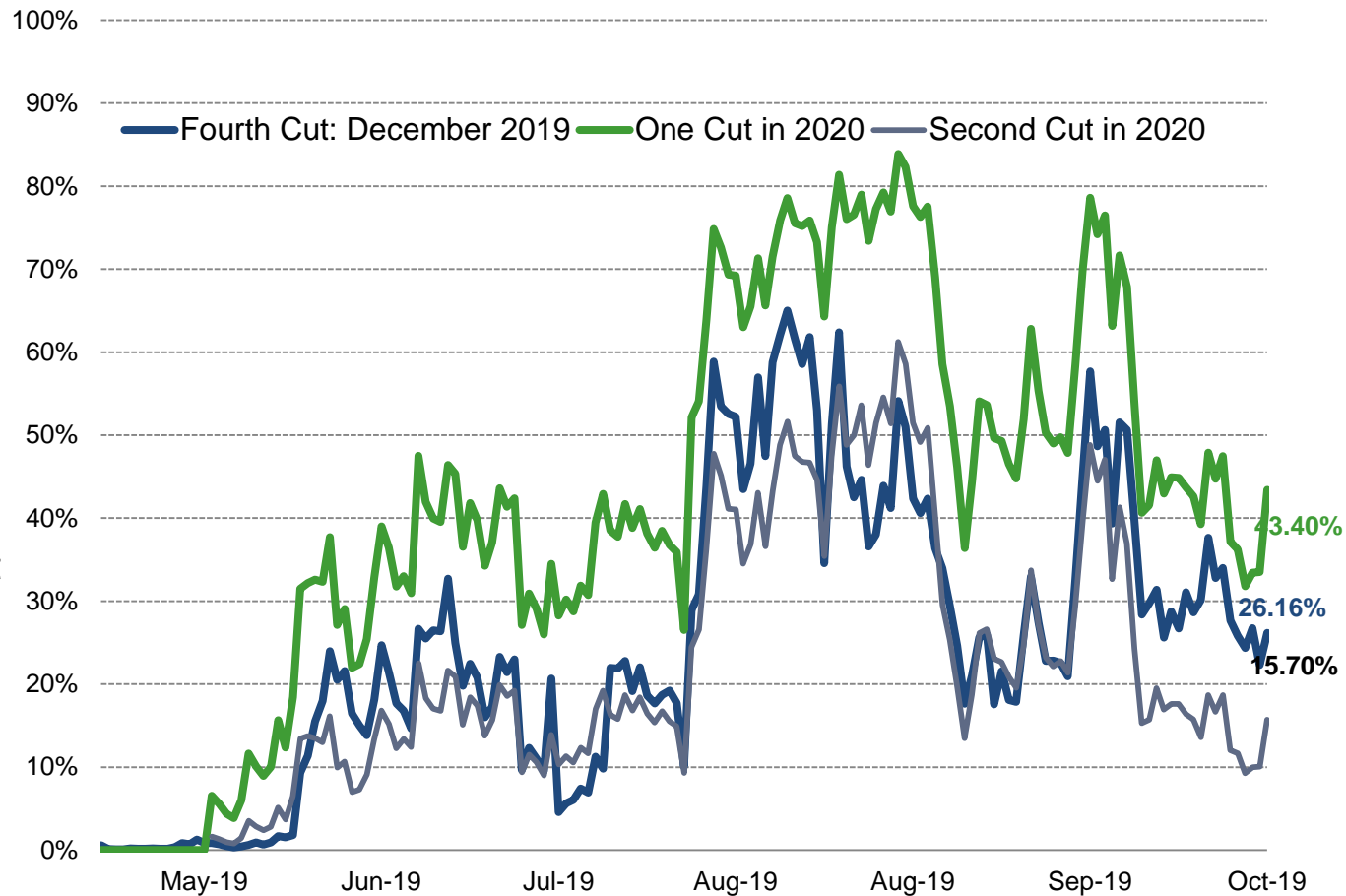
Following the rate cut in October, the market implied probability of an additional rate cut of at least 25 bps occurring in December 2019 is 26.16%.

The probability of at least one rate cut in 2020 is 43.40%.

The probability of two cuts in 2020 is 15.70%, as of this week.

### Federal Reserve Interest Rate Probability

Probability of a 25 Basis Point Cut



Source: Bloomberg

# U.S. Economic Data Releases

## For the Week Ending 10/31/2019

### Chicago Fed Nat'l Activity Index

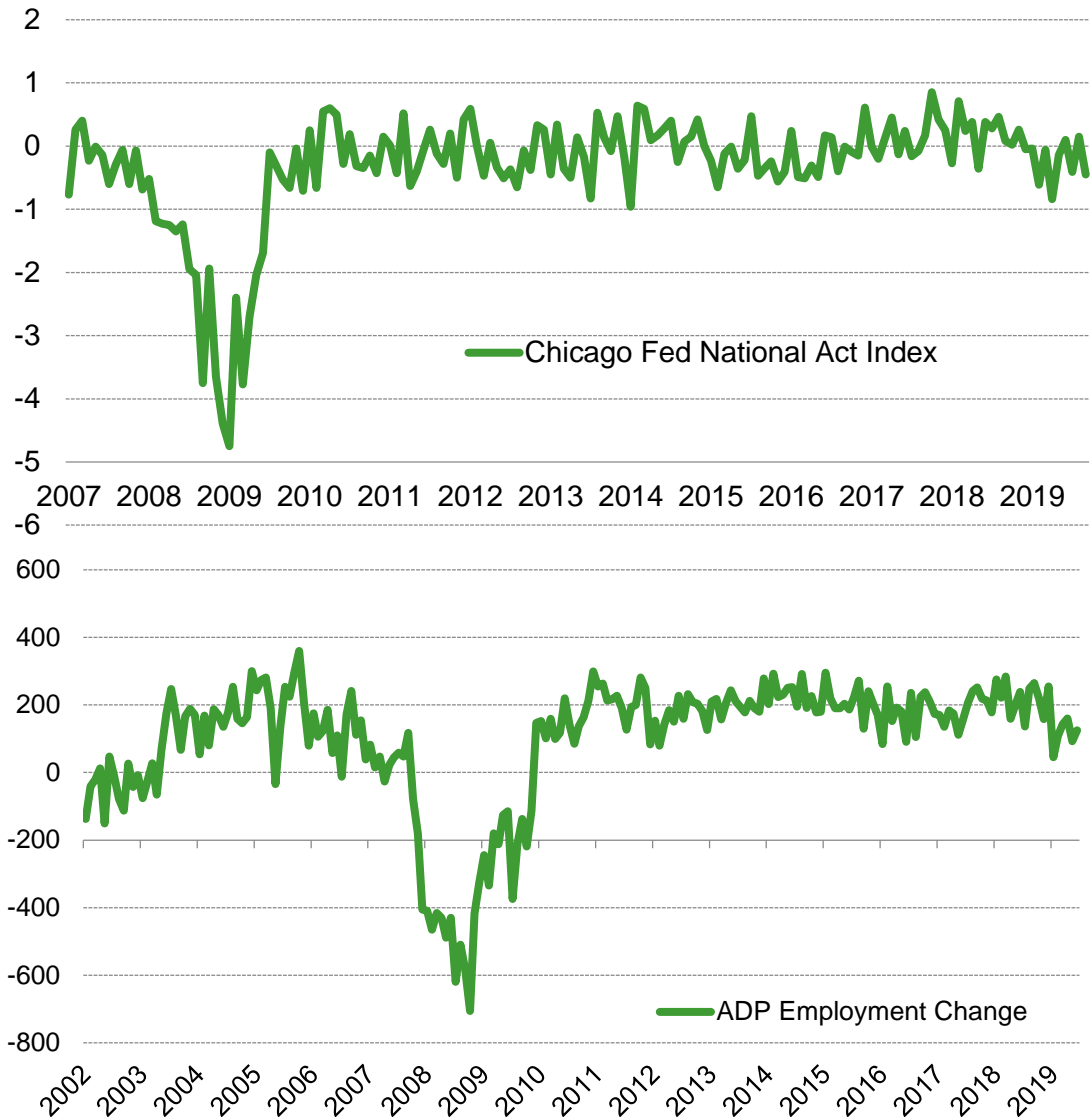
September: -0.45 vs. August: 0.15

- Decreased to -0.45, despite consensus expectations of remaining flat. Three of the four categories of indicators decreased from August, and all four categories ended in negative territory in September. The index's 3-month moving average decreased from -0.06 to -0.24.

### ADP Employment

October: 125K vs. September: 93K

- Rose by 125K in October, beating expectations of a 110K growth. The largest growth was seen in mid-sized businesses, with an increase of 64K, meanwhile large businesses increased 44K and small businesses employment increased by 17K.



Source: Federal Reserve Bank of Chicago, ADP

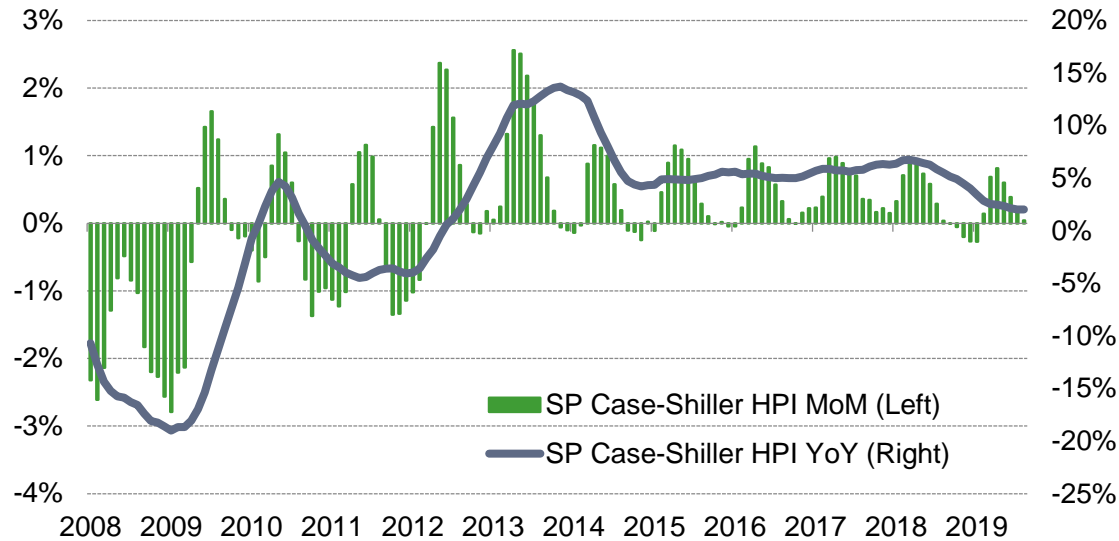
# U.S. Economic Data Releases

## For the Week Ending 10/31/2019

### S&P Case-Shiller Home Price Index

August: 0.04% vs. July: 0.16%

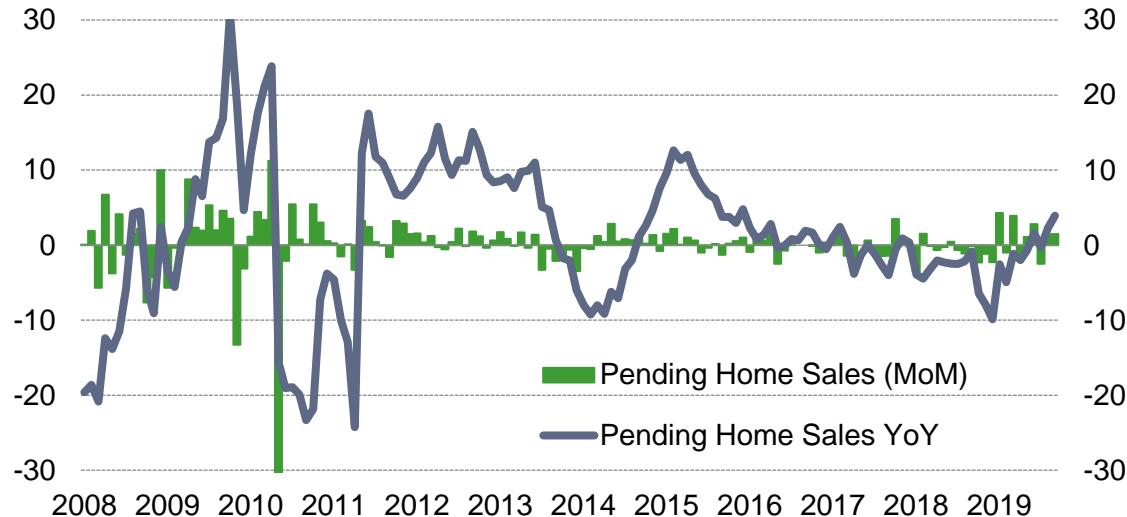
- Rose 0.04%, following an increase of 0.16% in July. Five of the 20 cities reported a monthly decline, three reported no growth, and the remaining were positive. Chicago was relatively unchanged at 1.4% annual growth. Home prices on a national level are 0.2% higher than one year ago, a seven-year low.



### Pending Home Sales

September: 1.5% vs. August: 1.6%

- Rose 1.5% in September. Pending home sales are 3.92% higher than one year ago. The Midwest rose the most at 3.1%, while the South increased 2.6%. The Northeast decreased 0.4% while the West declined 1.3%.



Source: S&P Global, National Association of Realtors

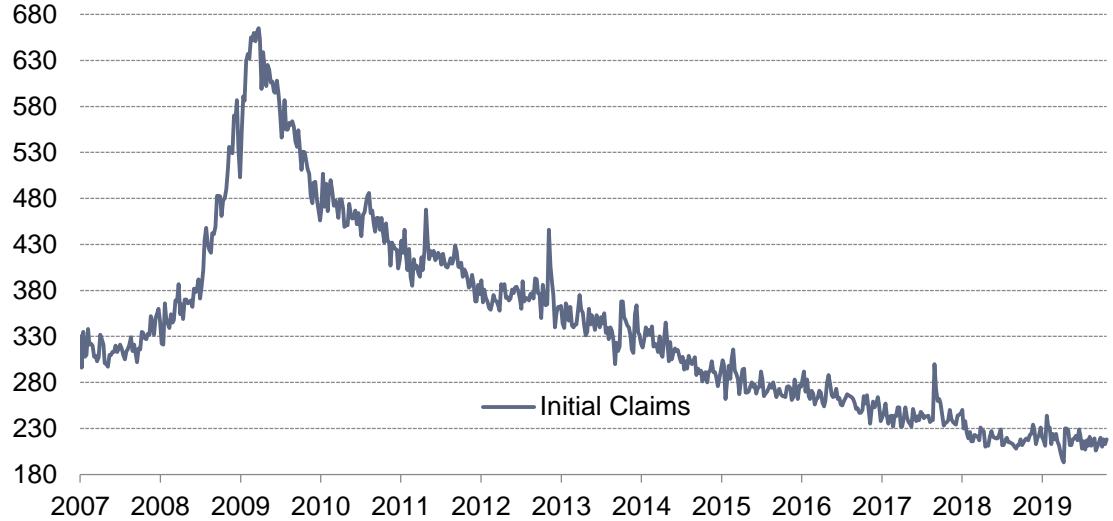
# U.S. Economic Data Releases

## For the Week Ending 10/31/2019

### Initial Jobless Claims

**October 26: 218K vs. October 19: 213K**

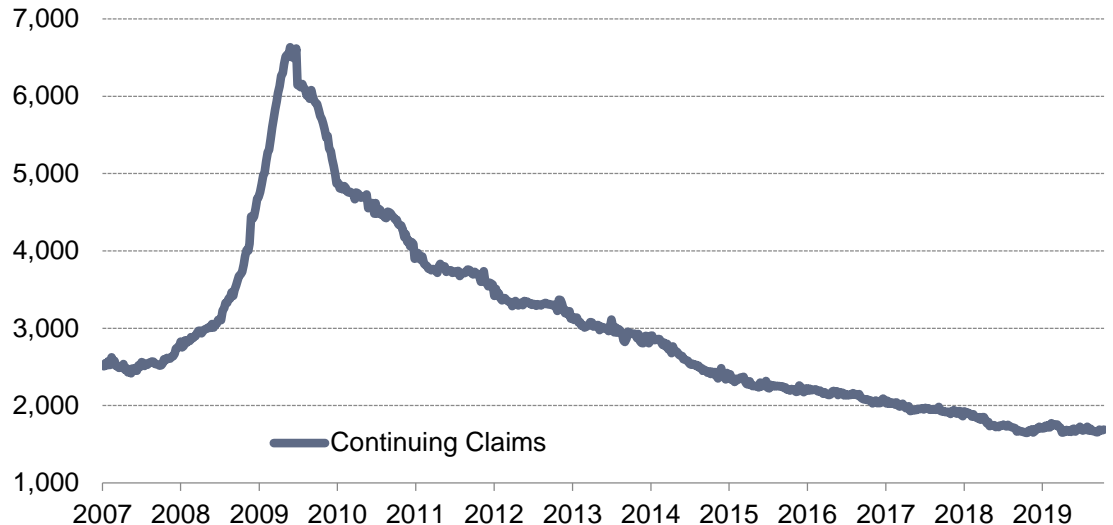
- Increased by 5K to 218K in the week ending October 26. The previous week was upwardly revised by 1K from 212K. As a result, the 4-week moving average decreased by .5K to 214.75K.



### Continuing Claims

**October 19: 1,690K vs. October 12: 1,683K**

- Increased by 7K to 1,690K in the week ending October 19. The prior week was upwardly revised by 1K to 1,683K. As a result, the 4-week moving average increased by 8.75K to 1,686.25K. The insured unemployment rate remained unchanged at 1.2%.



Source: Department of Labor



# FOMC Announcement

- The Federal Open Market Committee (FOMC) met on October 29 – 30, and consequently made some changes to its policy stance and its economic and policy projections, with the overall statement in-line with expectations.
  - The FOMC cited uncertainties in global developments for the economic outlook as well as muted inflation pressures as the primary drivers behind the decision to lower the target range.
  - As expected, the FOMC lowered the federal funds target range by 0.25% to 1.50% to 1.75%, following a previous rate cut in September.
  - The Committee stated that “this action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain.”
  - Voting against this action were Kansas City Fed President Esther George and Boston Fed President Eric Rosengren, who preferred maintaining the target range at 1.75% to 2.00%.

Source: Federal Reserve Board of Governors

# U.S. GDP Still Strong in Q3 Advance Estimate

- U.S. GDP increased at an annual rate of 1.9% in the advance estimate for the third quarter of 2019, compared to 2.0% in the second quarter.
- The advance estimate reflected positive contributions from personal consumption expenditures (PCE), federal government spending, residential fixed investment, state and local government spending, and exports. The contributions were partly offset by negative contributions from nonresidential fixed investment and private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.
- Deceleration in real GDP growth reflects decelerations in PCE, federal government spending, state and local government spending, and a larger decrease in nonresidential fixed investment. These were partially offset by a smaller decrease in private inventory investment, and upturns in exports and in residential fixed investment.
- Current dollar GDP increased 3.5% or \$185.6B in the third quarter to a level of \$21.53T.
- PCE increased 1.4% in Q3 compared to 2.3% in Q2.

Source: Bureau of Economic Analysis

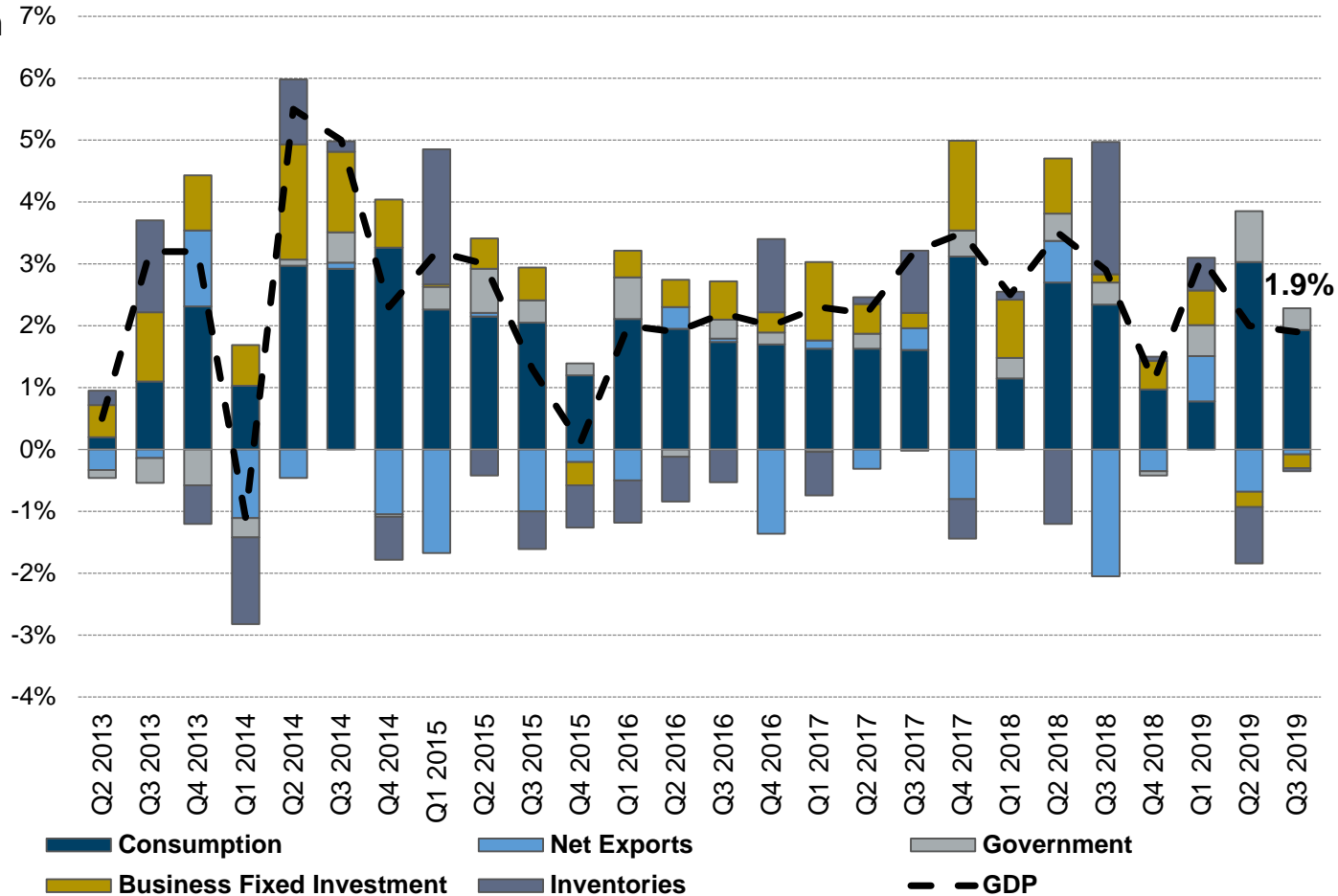
# GDP Increased in Q3

## GDP Rose Despite Declines in Some Sectors

### GDP and Sector Contributions

Personal Consumption added 1.93 percentage points to GDP in Q3, while Government added 0.35 percentage points.

Business Fixed Investments and Net Exports both fell in Q3, decreasing 0.22 and 0.08 percentage points, respectively. Inventories also declined by 0.05 percentage points.



Source: Bureau of Economic Analysis

# Survey of Consumer Expectations

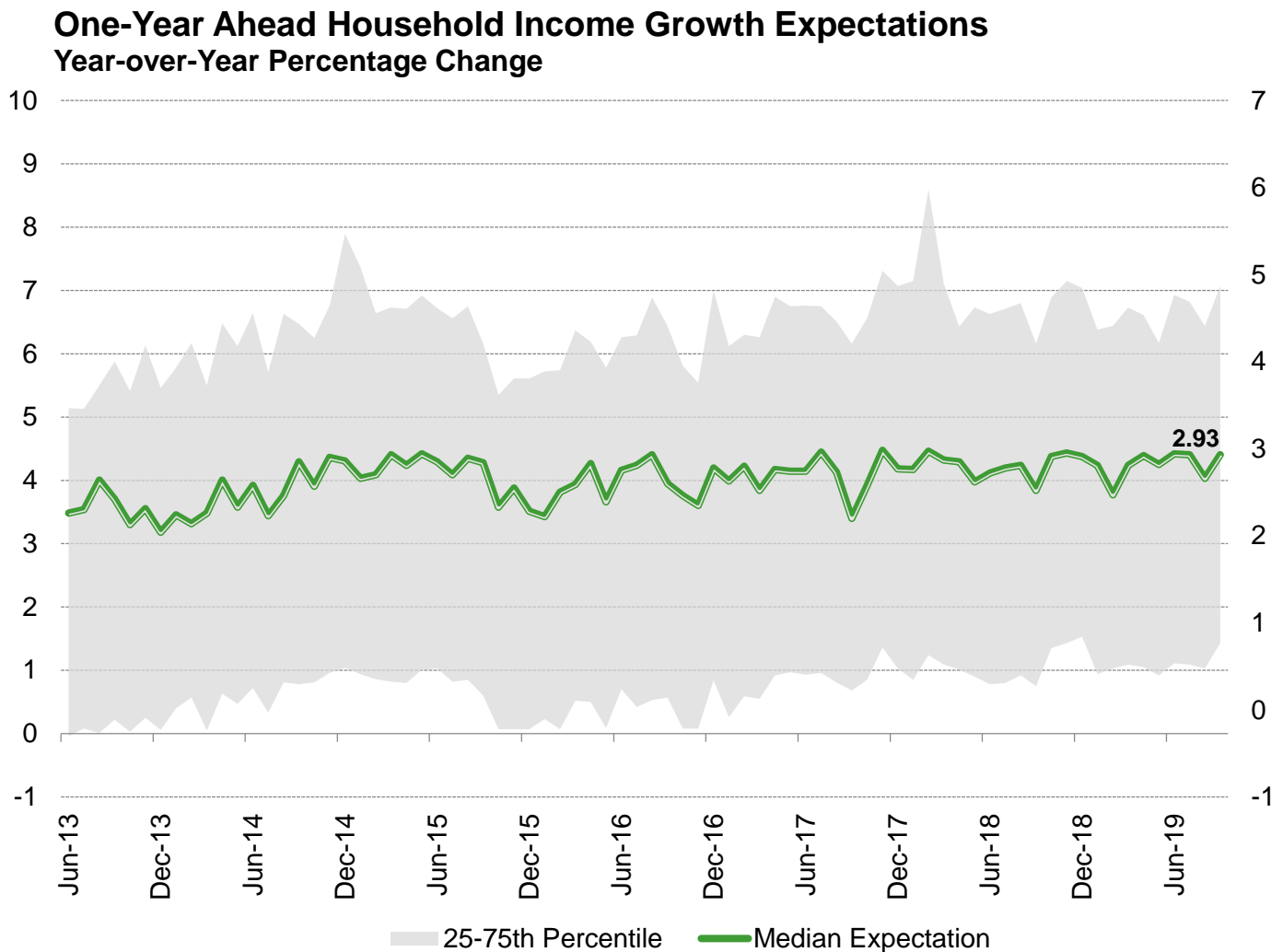
- The Federal Reserve Bank of New York recently released its Survey of Consumer Expectations (SCE) for September 2019.
- What is the SCE?
  - The SCE is an internet-based survey of a rotating panel of approximately 1,300 households.
  - Respondents participate in the panel for up to 12 months, with a 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

# Survey of Consumer Expectations

## Earnings Expectations

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

Expected income growth in the next 12 months dipped slightly in August, but rose from 2.66% to 2.93% in September.



Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

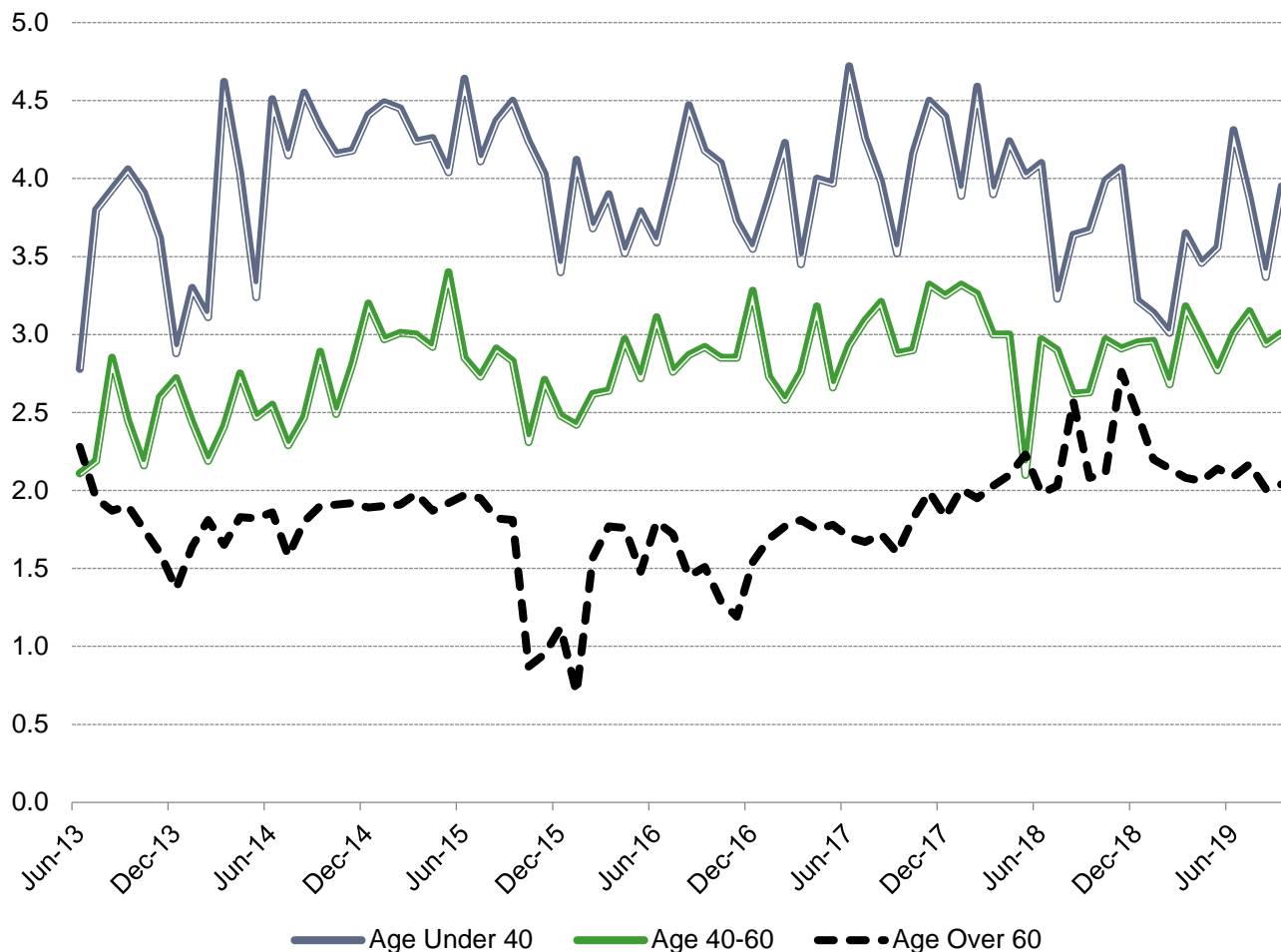
## Earnings Expectations by Age Group

Expectations of earnings growth varied across all age groups, but remained strong overall.

As of June 2019, consumers under the age of 40 expect earnings to grow the fastest, followed by consumers between ages 40 and 60.

Those over age 60 expect earnings to increase the slowest.

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



Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

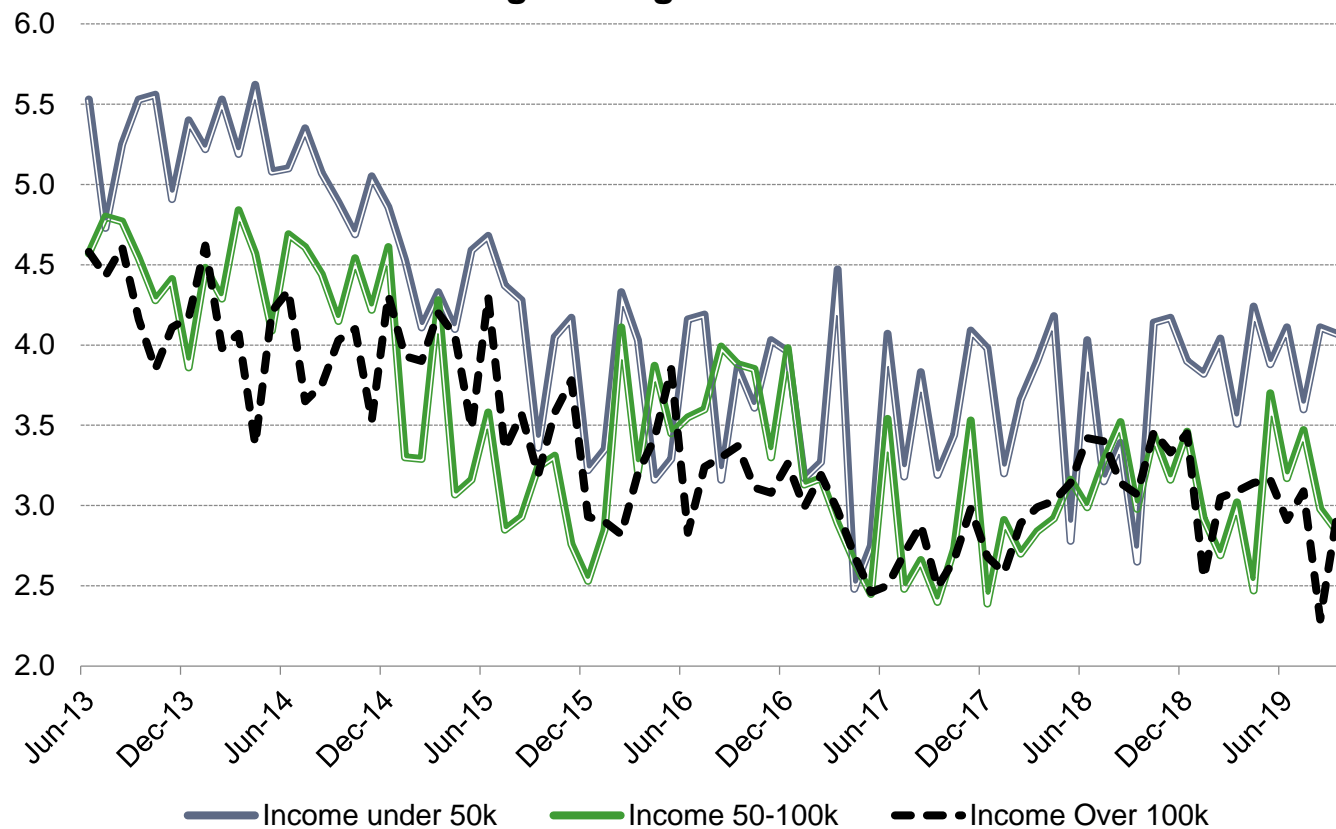
## Earnings Expectations by Income Level

Earnings expectations increased in only one income level while the other two declined.

Overall expected earnings growth is slowing. Expectations from consumers with incomes between \$50-\$100K dropped for the second consecutive month.

Expectations of consumers with income over \$100K, was the only level to increase month-over-month, after dropping significantly in August.

### Median Expected Spending Growth By Income Level Year-over-Year Percentage Change



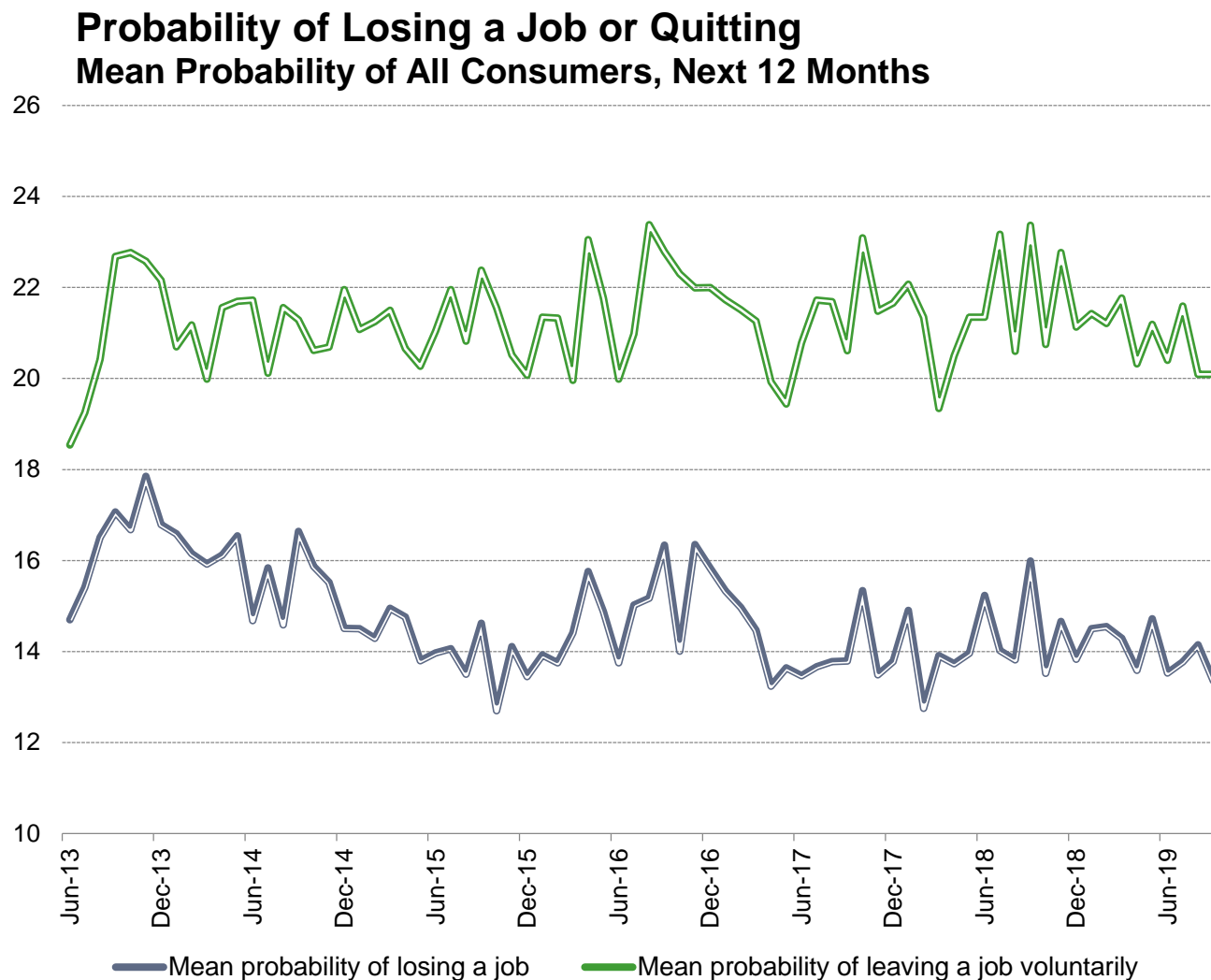
Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

## Probability of Losing a Job and Quitting Decline

The September report shows that the probability of losing one's job in the next year is declining, while the probability of quitting one's job in the next year remained flat.

The probability of losing one's job in the next year fell by 0.79 percentage points to 13.36%, while the probability of quitting in the next year remained flat at 20.09%.



Source: Federal Reserve Bank of New York



# Survey of Consumer Expectations

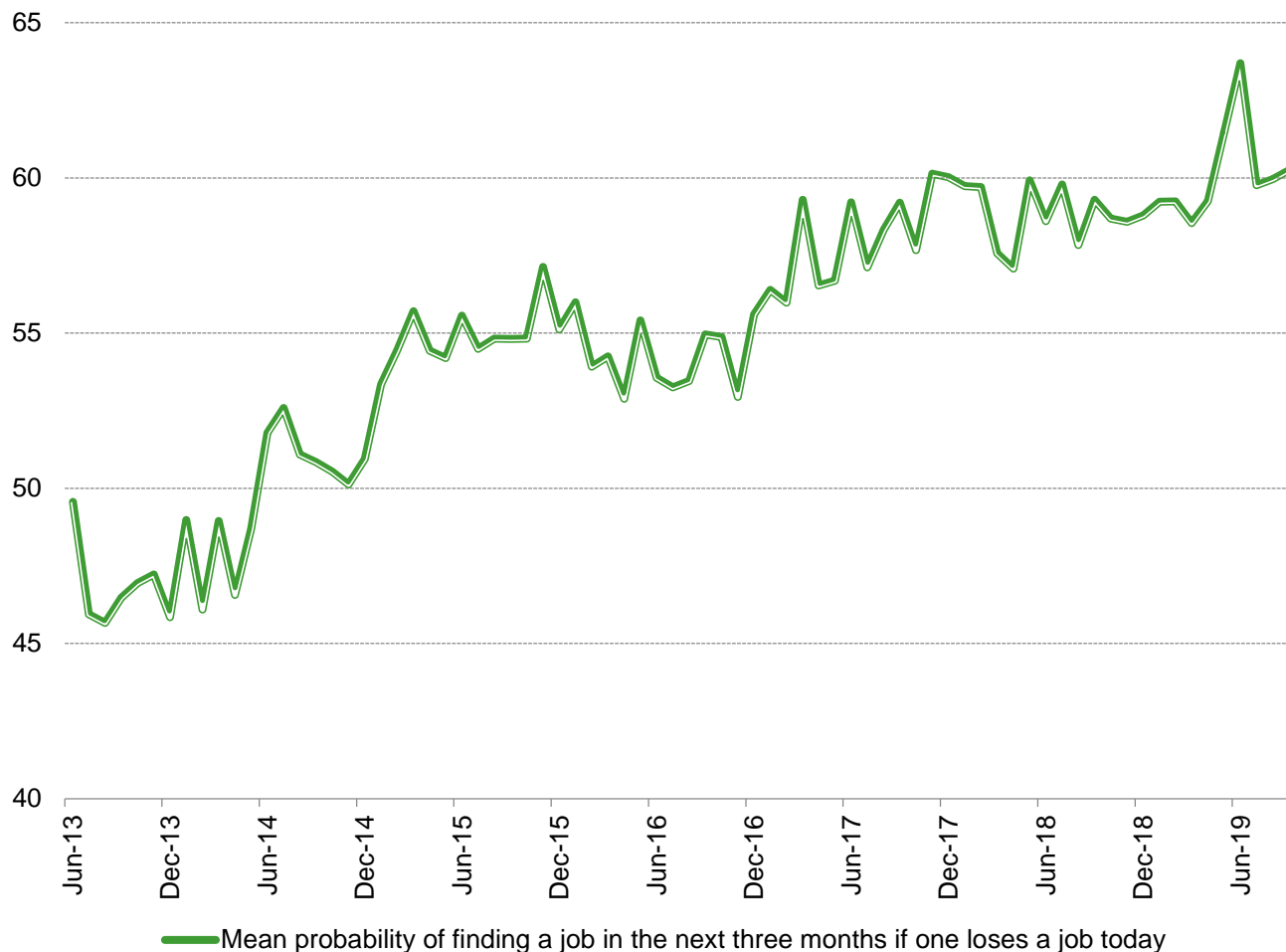
## Probability of Finding a Job

If a consumer lost his or her job today, the mean expected probability of finding a new job in the next three months has increased to 60.25%.

The probability of finding a job took a slight dip in July and August after reaching a recorded high level in June at 63.69%. The probability has overall trended upward since 2013.

### Job Finding Expectations

#### Mean Probability of All Consumers, Next Three Months



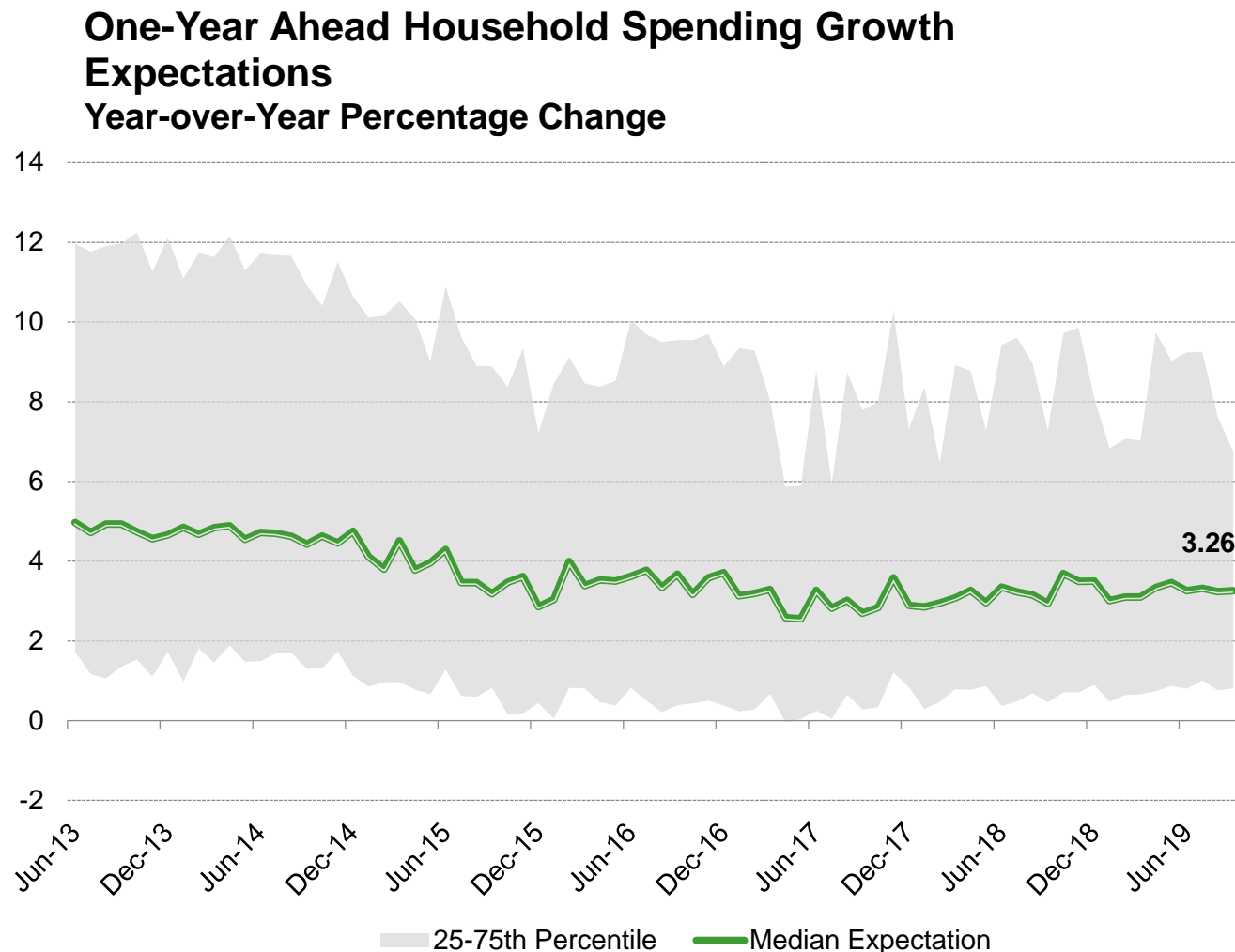
Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

## Spending Expectations

Median household spending growth expectations in the next year decreased to 3.26% in September.

The median household's expectation of spending growth in the next 12 months ahead has been steadily declining since 2013.



Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

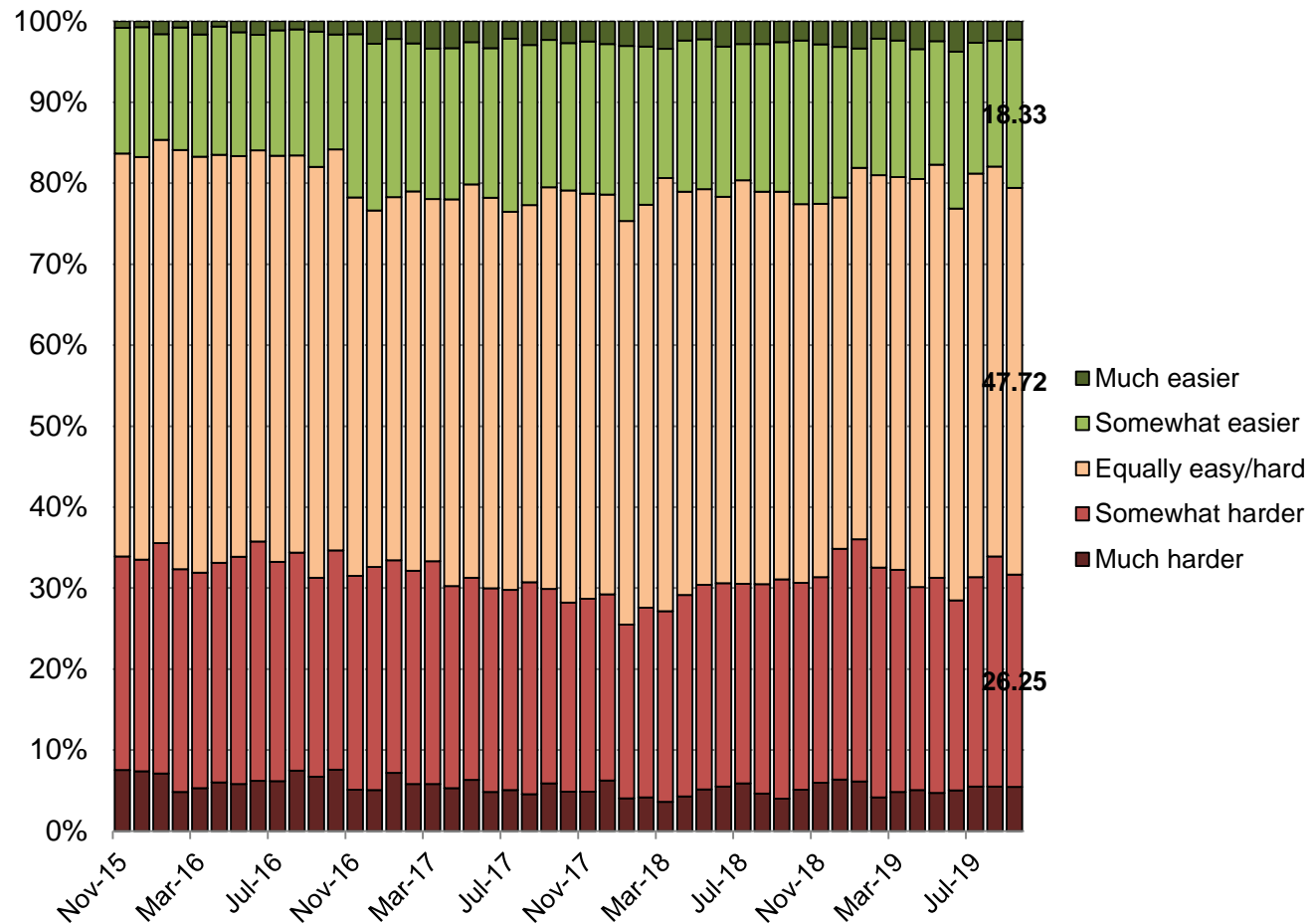
## Expected Changes in Credit Availability in the Next 12 Months

Perceptions regarding expected credit access 12 months from now show that consumers have mixed opinions.

About 20.6% expect “somewhat easier” or “much easier” access to credit, compared to 21.07% one year ago.

Those that anticipate access to credit to be “somewhat harder” or “much harder” worsened, increased from 31.07% in September 2018 to 31.69% in September 2019.

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



Source: Federal Reserve Bank of New York

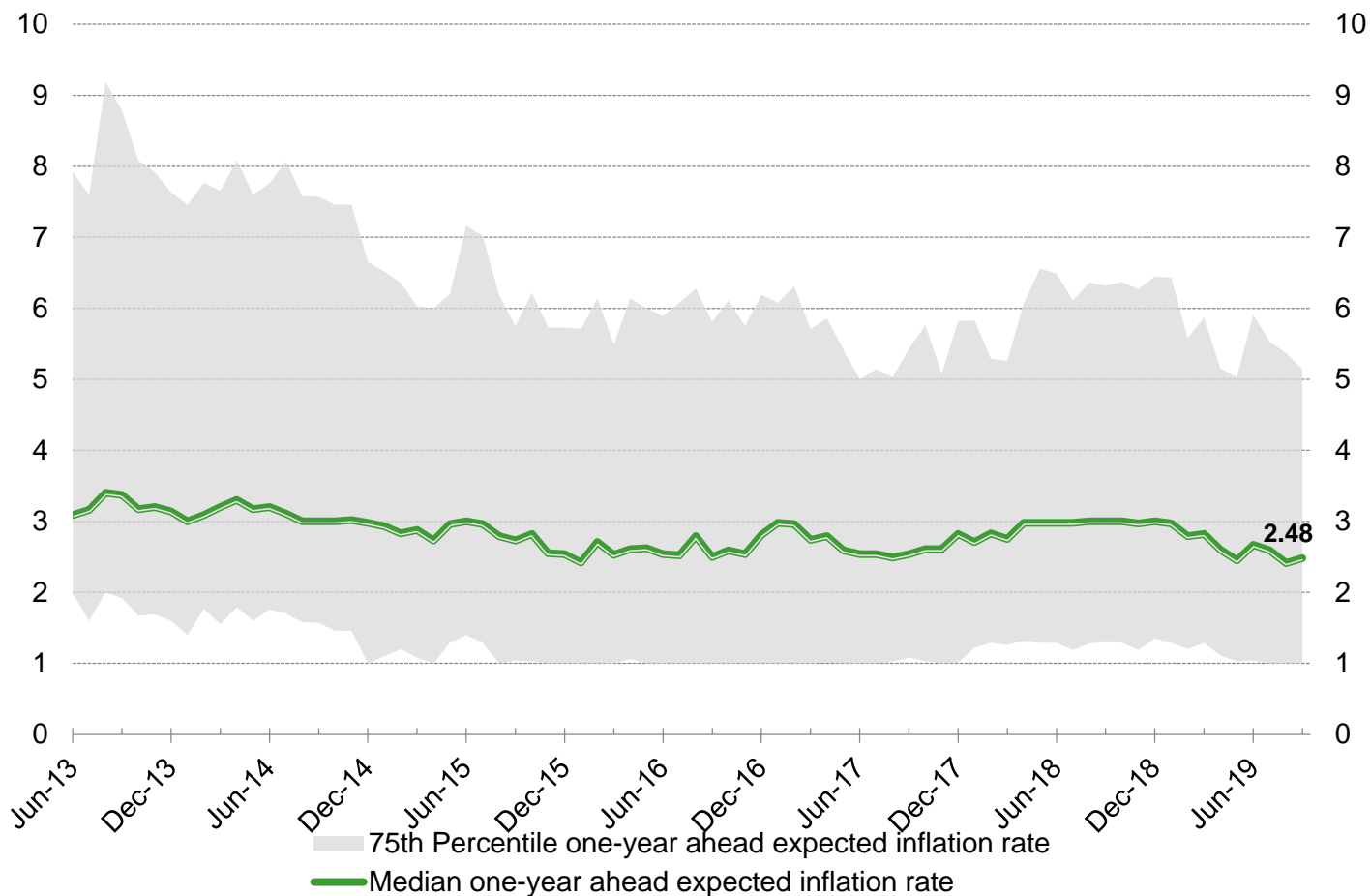
# Survey of Consumer Expectations

## Inflation Expectations

The median one-year ahead expected rate of inflation edged higher from 2.41% in August, to 2.48% in September.

The expected rate of inflation has been hovering around or below 2.75% for the past 12 months.

### One-Year Ahead Inflation Growth Expectations Year-over-Year Percentage Change



Source: Federal Reserve Bank of New York

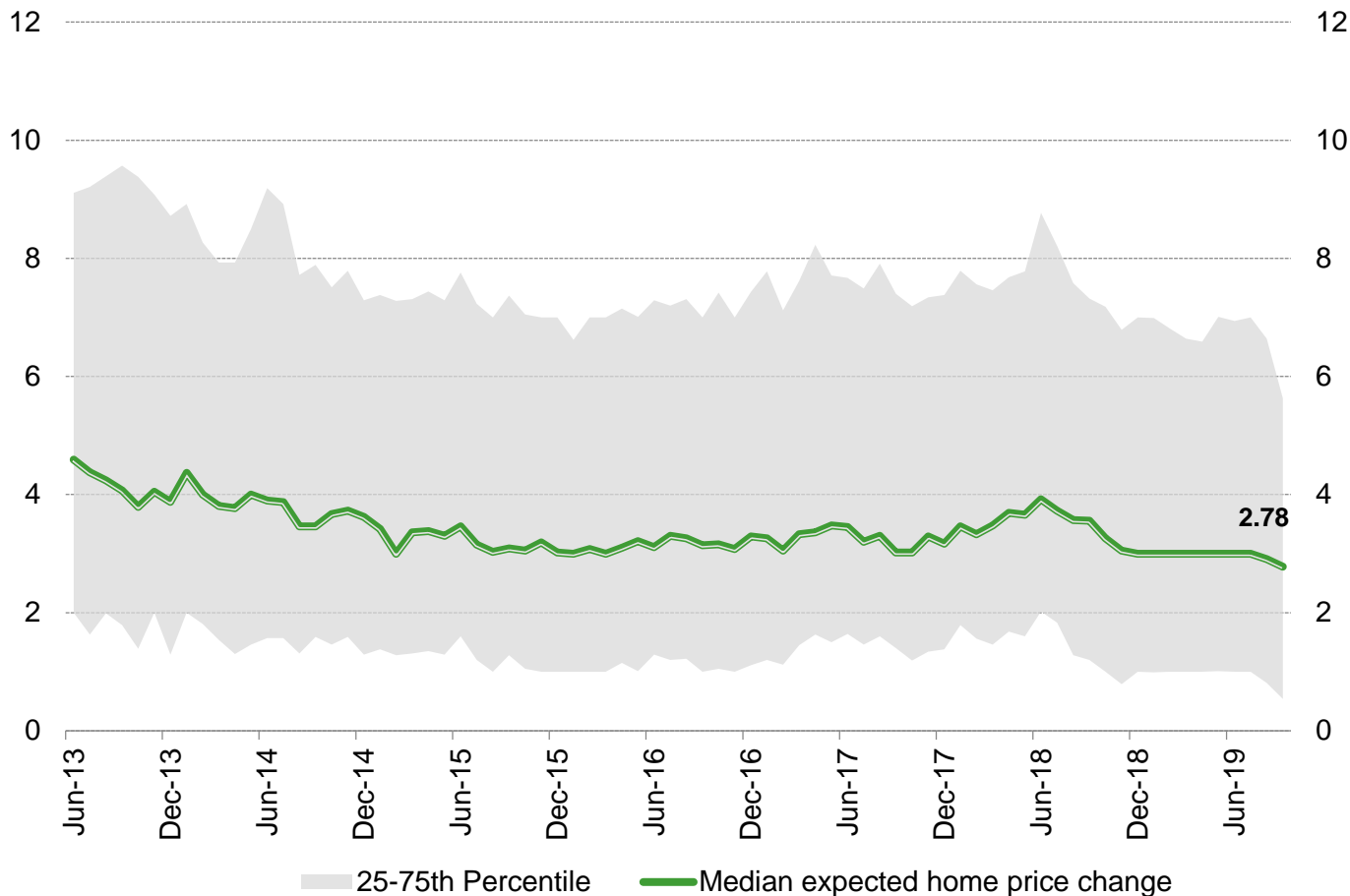
# Survey of Consumer Expectations

## Home Price Expectations

Home price growth expectations dropped for the first time since December 2018 to 2.78% in September.

This marks the lowest level since March 2016.

### One-Year Ahead Home Price Growth Expectations Year-over-Year Percentage Change



Source: Federal Reserve Bank of New York

# Survey of Consumer Expectations

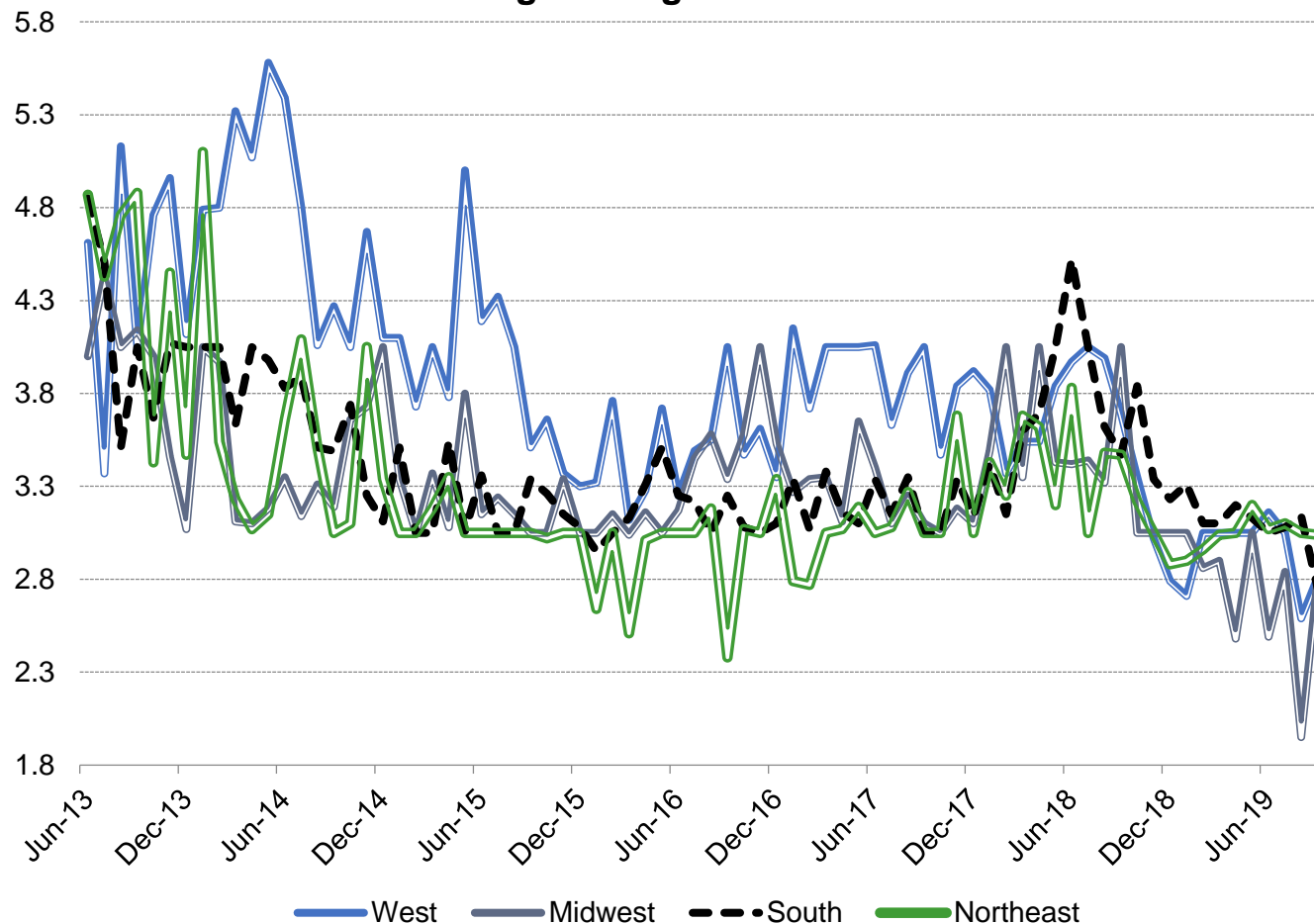
## Home Price Expectations by Region

Median expectations for home prices by region were mixed in September.

The Midwest increased most substantially from 1.9% to 2.76%, while the West rose from 2.54% to 2.76%.

The South declined significantly in September from 3.09% to 2.70%. The Northeast declined just slightly, falling from 3.00% to 2.99%.

**Median Expected Home Price Growth By Region**  
Year-over-Year Percentage Change



Source: Federal Reserve Bank of New York

# June Survey of Consumer Expectations

## Summary:

- Home price growth expectations dropped for the first time since December 2018 to 2.78% in September.
- The median one-year ahead expected inflation rate increased slightly to 2.48% from 2.41% in the prior month, while expectations at the three-year horizon decreased to 2.37% from 2.5% in the month prior.
- Median one-year ahead earnings growth expectations increased slightly to 2.54% from 2.26% in August.
- Other areas of the report not covered in this presentation:
  - The mean probability that interest rates on savings accounts will be higher one year from now fell to 26.27%, the lowest level since February 2015.
  - The mean probability that U.S. stock prices will be higher one year from now increased from 38.3% in August to 39.79% in September.

Source: Federal Reserve Bank of New York

# This and That

An article by *The Wall Street Journal* reported on news that the U.S. Treasury Department is considering several new debt products. The agency said it is conducting analysis and reaching out to market participants about a range of products, including a one-year floating-rate note linked to the secured overnight refinancing rate, known as SOFR, the Fed's preferred replacement to the London interbank offered rate (Libor).

The article reported that the Treasury Department is also considering the possibility of a 50-year nominal coupon bond, as well as the reintroduction of a 20-year bond, something the Treasury last issued in March 1986. Treasury Secretary Steven Mnuchin said last month the Treasury was “very seriously considering” issuing a 50-year Treasury bond next year, as the administration looks to take greater advantage of low interest rates to slow soaring borrowing costs.

The Treasury also said it is closely monitoring the Fed's recently announced purchases of Treasury bills following strains in money markets last month. The Fed began buying short-term Treasury debt earlier this month and said it would continue the purchases—starting at \$60 billion a month—into the second quarter of 2020. That marked a turnaround for the central bank, which until August had been shrinking its nearly \$4 trillion balance sheet.

Source: The Wall Street Journal



# Economic Data Release Calendar

## November 2019

All eyes will be focused on the October Employment Report this Friday.

Economic data on Construction Spending and the ISM Manufacturing Index will be released prior to the weekend.

Next week begins with economic data releases on Factory Orders, ISM Non-Manufacturing and JOLTS.

November 2019				
Monday	Tuesday	Wednesday	Thursday	Friday
Notes:				<b>1</b> <b>Employment</b> Total Vehicle Sales ISM Manufacturing Index Construction Spending
<b>4</b> Factory Orders	<b>5</b> ISM Non-Manufacturing JOLTS	<b>6</b> MBA Mortgage Applications	<b>7</b> Jobless Claims	<b>8</b> Consumer Sentiment Wholesale Trade
<b>11</b> Veterans Day Federal Holiday FHLBC Closed	<b>12</b> Small Business Optimism	<b>13</b> MBA Mortgage Applications Consumer Price Index	<b>14</b> Jobless Claims Producer Price Index Final	<b>15</b> Retail Sales Import Price Index Industrial Production Business Inventories
<b>18</b> Net TIC Flows	<b>19</b> Housing Starts NAHB Housing Market	<b>20</b> MBA Mortgage Applications <b>FOMC Meeting Minutes</b>	<b>21</b> Jobless Claims Philadelphia Fed Outlook Existing Home Sales	<b>22</b> Consumer Sentiment
<b>25</b> Chicago Fed Natl Activity Dallas Fed Manufacturing	<b>26</b> S&P Case-Shiller HPI FHFA House Price Index New Home Sales	<b>27</b> MBA Mortgage Applications Durable Goods Orders GDP Jobless Claims <b>Beige Book</b>	<b>28</b> Thanksgiving Day Federal Holiday FHLBC Closed	<b>29</b> Chicago PMI

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