



Economic Overview Q4 2019

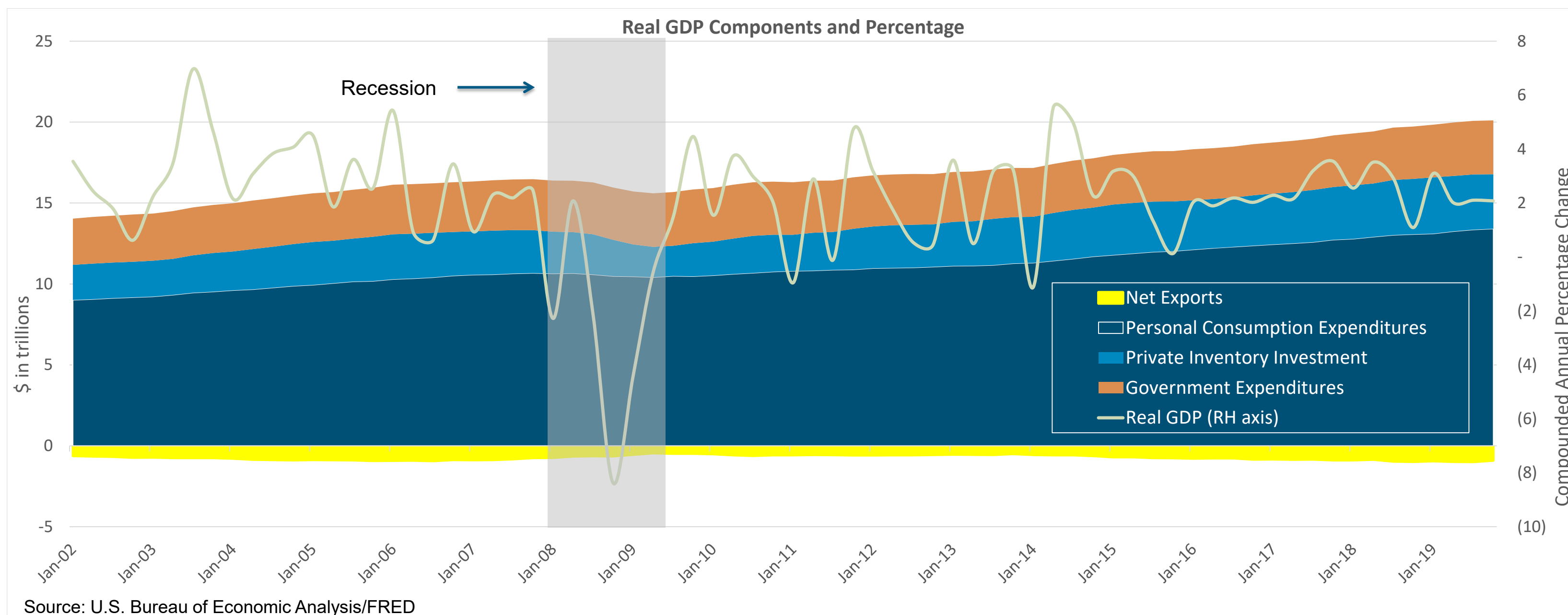
Quarterly data is as of fourth quarter 2019

Monthly data as of December 31, 2019

Gross Domestic Product

Economic Overview

US GDP CONTINUES SLOWER GROWTH IN FOURTH QUARTER AS CONSUMER SPENDING STALLS



Third-quarter (third estimate) Real GDP

- The third estimate for third-quarter real GDP came in at 2.1%, unchanged from the previous estimation. Upward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment were offset by a downward revision to private inventory investment.

Fourth-quarter (advance estimate) Real GDP

- The advance estimate for fourth-quarter real GDP was 2.1%, the same as the third-quarter (third estimate). Growth reflected positive contributions from PCE, federal government spending, residential fixed investment and exports that were partly offset by negative contributions from nonresidential fixed investment and private inventory investment. Imports decreased.
- Real GDP growth in the fourth quarter was the same as that in the third. In the fourth quarter, a downturn in imports, an acceleration in government spending, and a smaller decrease in nonresidential investment were offset by a larger decrease in private inventory investment and a slowdown in PCE.
- Real GDP increased 2.3% in 2019, compared to 2.9% in 2018.



Prices

Prices: Consumer Price Indices

INFLATION CONTINUES TO RUN BELOW FED TARGET

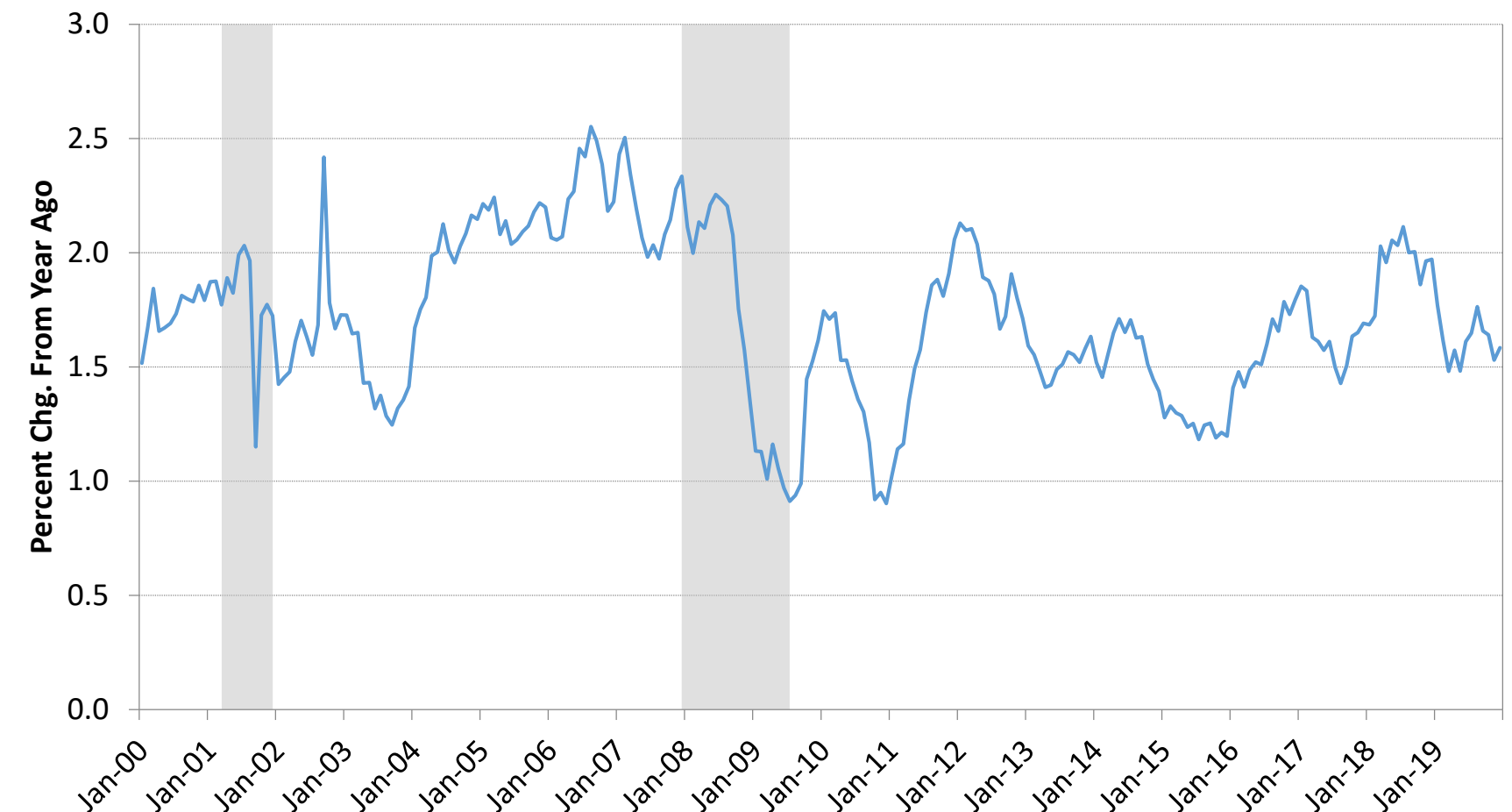
Personal Consumption Expenditures (PCE)

- December's price index for PCE posted a year-over-year increase of 1.6%, the fourteenth straight month below the Fed's goal of 2.0%. When backing out food and energy, Core PCE was also 1.6%.
- On a month-over-month basis, December's real PCE increased \$6.8 billion. Breaking it down, goods increased \$2.5 billion, with prescription drugs being the leading contributor, and services increased \$4.4 billion, with health care spending being the largest contributor.
- Personal income increased by \$40.7 billion (0.2%) and outlays increased by \$51.5 billion in December. Personal income increased primarily due to increases in compensation of employees and personal interest income, which were partially offset by a decrease in farm proprietors' income.

Consumer Price Index (CPI)

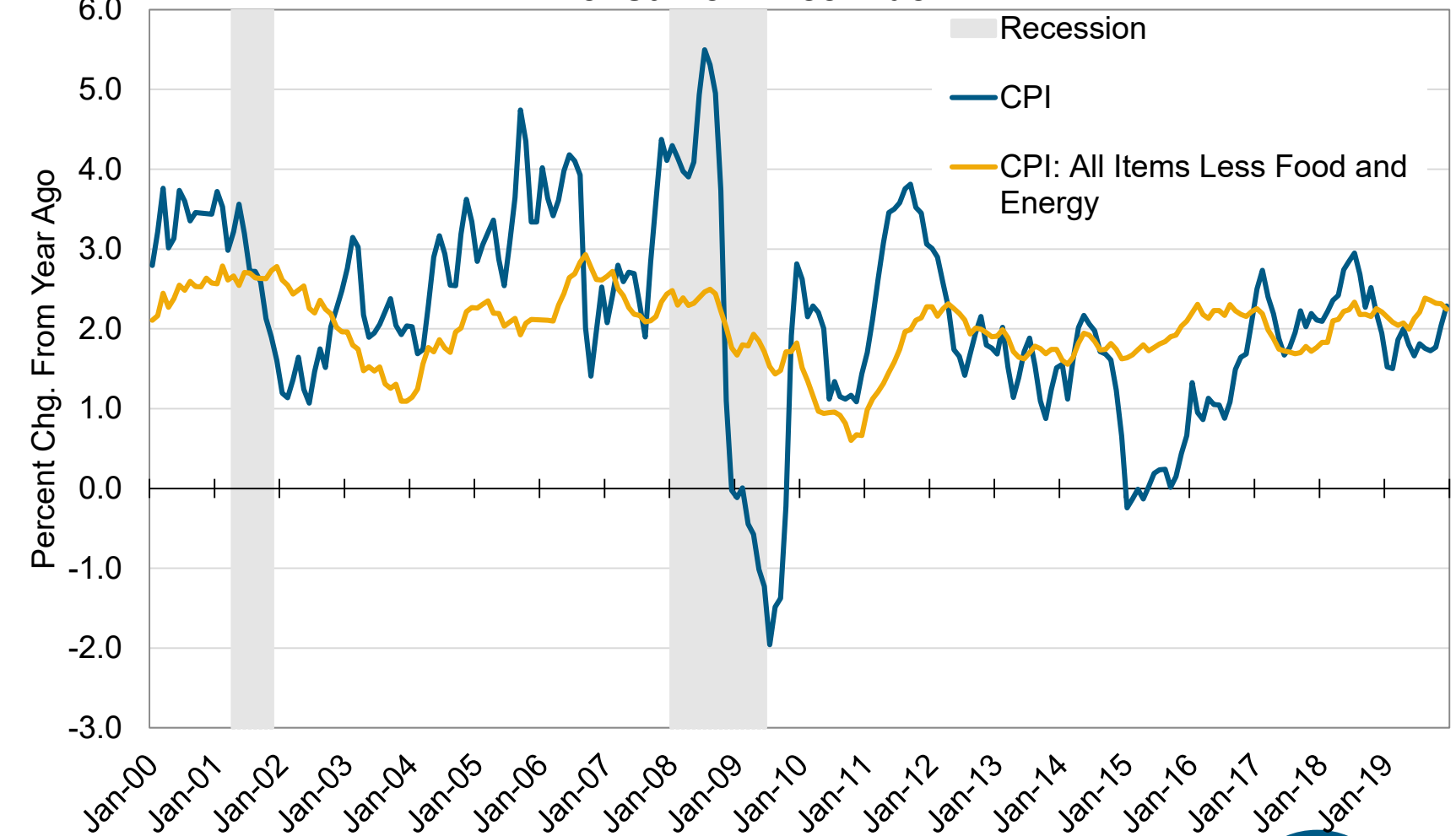
- The all items index rose 2.3% for the 12 months ending December, the largest 12-month increase since October 2018. The energy index increased 3.4% over the past year, while the food index increased 1.8%.
- On a month-over-month basis, the all items index rose 0.1% in December. The index for gasoline increased 2.8% and the energy index rose 1.4% overall. The food index increased 0.2% with increases for both food at home and food away from home.
- The index for all items less food and energy rose 2.3% for the 12 months ending December.
- Month-over-month, the index for all items less food and energy increased 0.1% in December after increasing 0.2% in November. Along with the index for shelter and medical care, the indexes for apparel, recreation, new vehicles and motor vehicles insurance all rose in December. The indexes for used cars and trucks, household furnishings and operations and airline fares all declined in December.
- The Fed voted to cut rates three times (August, September, and October) in 2019 and are projecting to hold rates steady in 2020.

Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index)



Source: U.S. Bureau of Economic Analysis/FRED

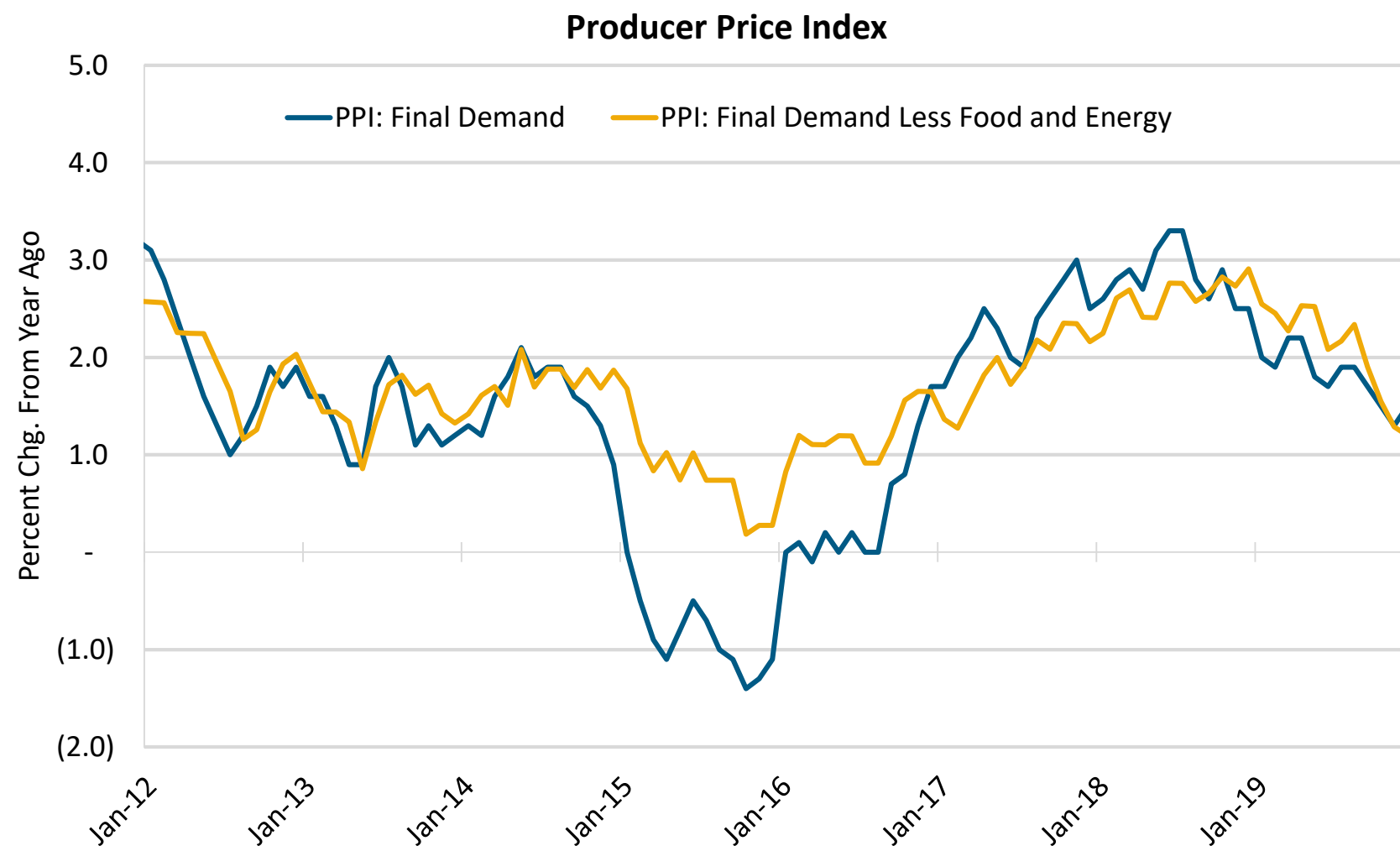
Consumer Price Index



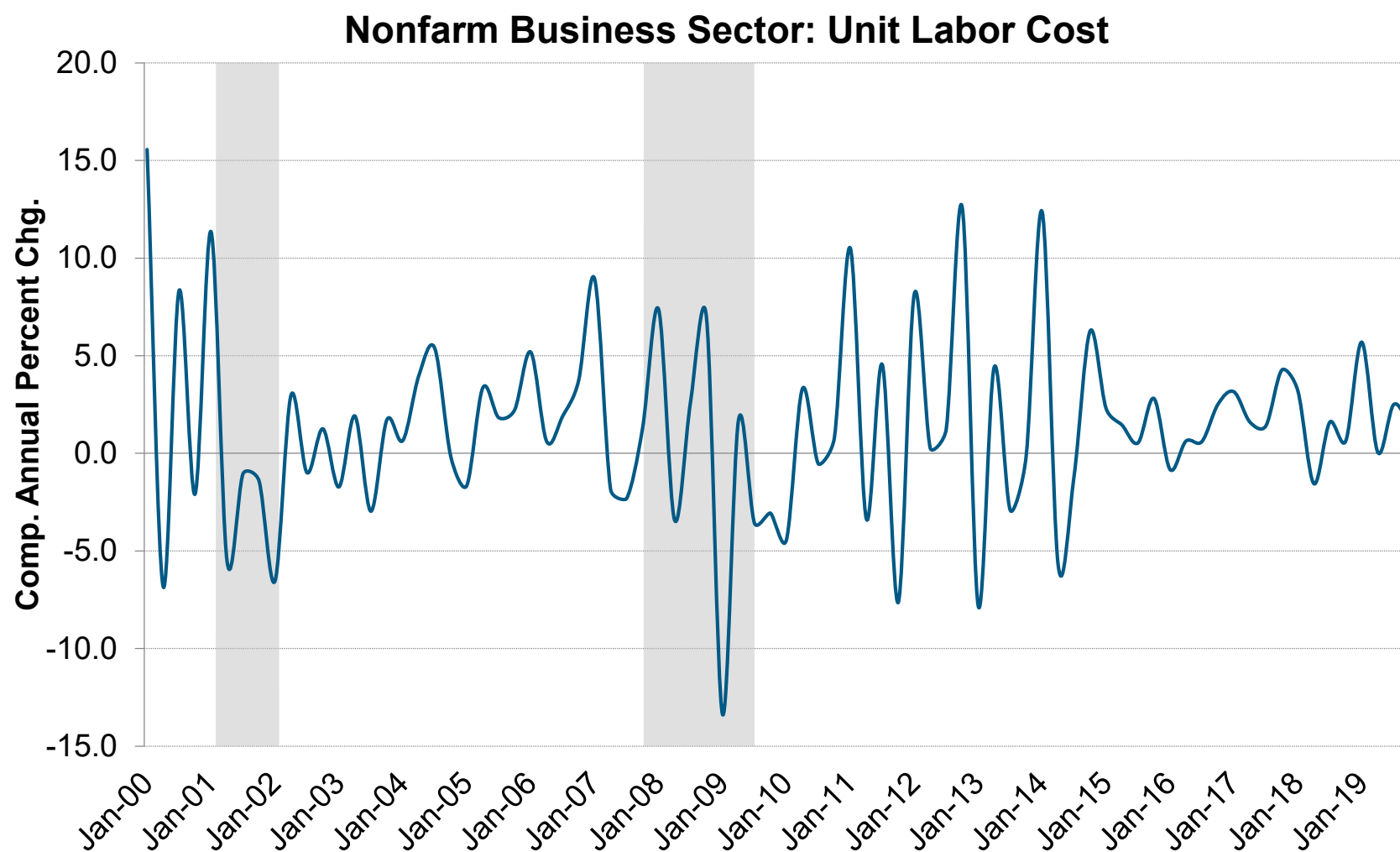
Source: U.S. Bureau of Economic Analysis/FRED

Prices: Producer Price Indices

PRODUCER INFLATION CONTINUES TO DECELERATE



Source: U.S. Bureau of Economic Analysis/FRED



Source: U.S. Bureau of Labor Statistics/FRED

Producer Price Index (PPI)

- The PPI for final demand increased 1.3% for 2019 (on an unadjusted basis), half the 2.6% increase seen in 2018. The index for final demand less food, energy and trade services rose 1.5% in 2019, down from 2.8% in 2018..
- Month-over-month, the final demand index (seasonally adjusted) increased 0.1% in December. The increase in the final demand index is attributed to a 0.3% rise in prices for final demand goods. Final demand services were unchanged.
- Prices for final demand services remaining unchanged is attributed to a 2.7% advance in final demand transportation and warehousing services being offset by a 0.3% drop in margins for final demand trade services and a 0.1% decline in final demand services less trade, transportation and warehousing.
- In December, prices for transportation of passengers (partial) jumped 8.5 percent. The indexes for machinery and vehicle wholesaling; machinery and equipment parts and supplies wholesaling; health, beauty, and optical goods retailing; and portfolio management also increased. In contrast, margins for apparel, jewelry, footwear, and accessories retailing declined 3.7 percent. The indexes for chemicals and allied products wholesaling, guestroom rental, fuels and lubricants retailing, and professional and commercial equipment wholesaling also moved lower.
- Most of the increase in December in final demand goods is attributable to prices for final demand energy increasing 1.5%. The index for final demand goods less foods and energy edged up 0.1 percent. In contrast, prices for final demand foods moved down 0.2 percent.
- Over 60 percent of the December increase in the index for final demand goods can be attributed to a 3.7-percent advance in gasoline prices. The indexes for diesel fuel, fresh fruits and melons, carbon steel scrap, residential electric power, and pork also moved higher. Conversely, prices for beef and veal fell 7.0 percent. The indexes for jet fuel and for plastic resins and materials also declined.

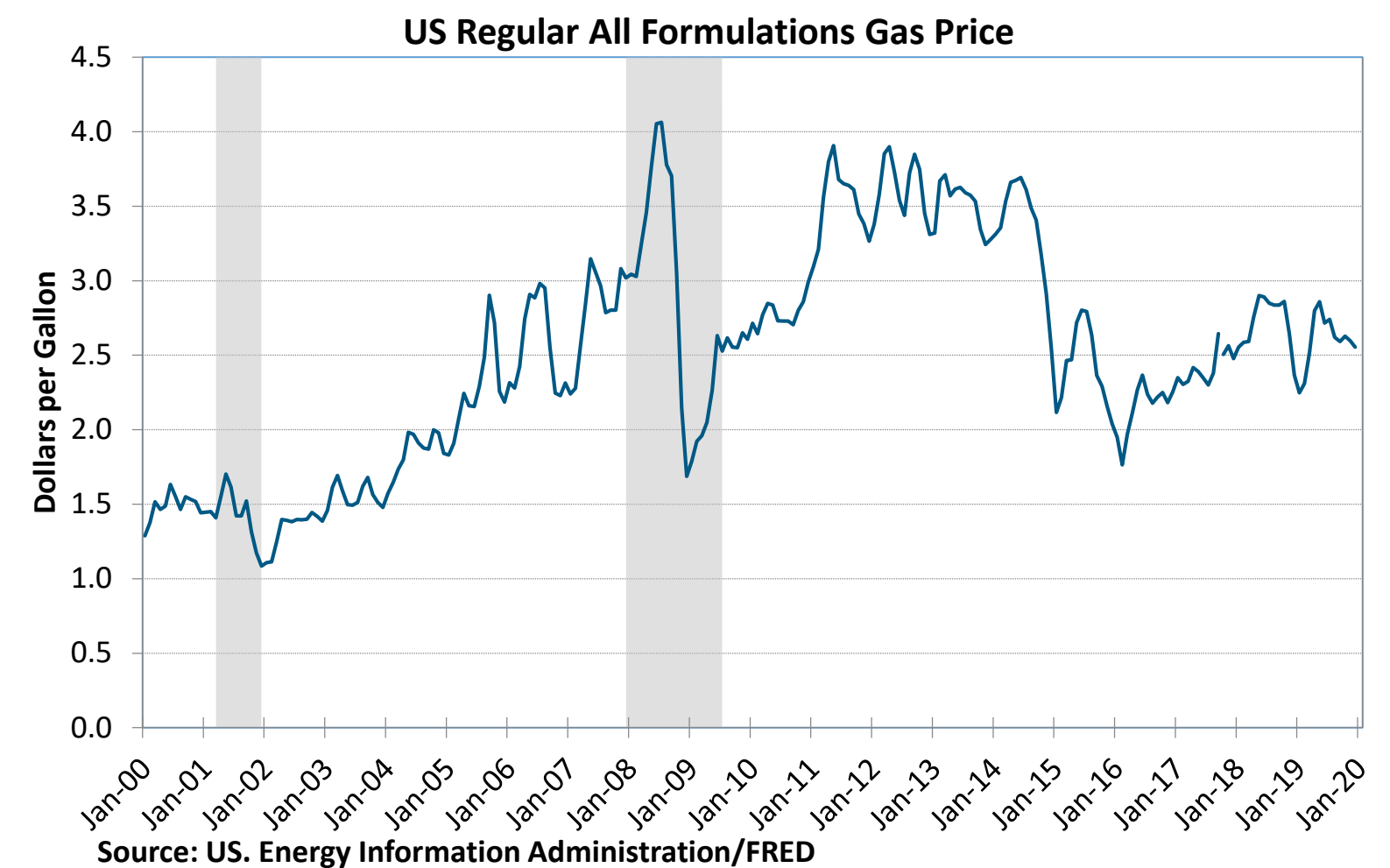
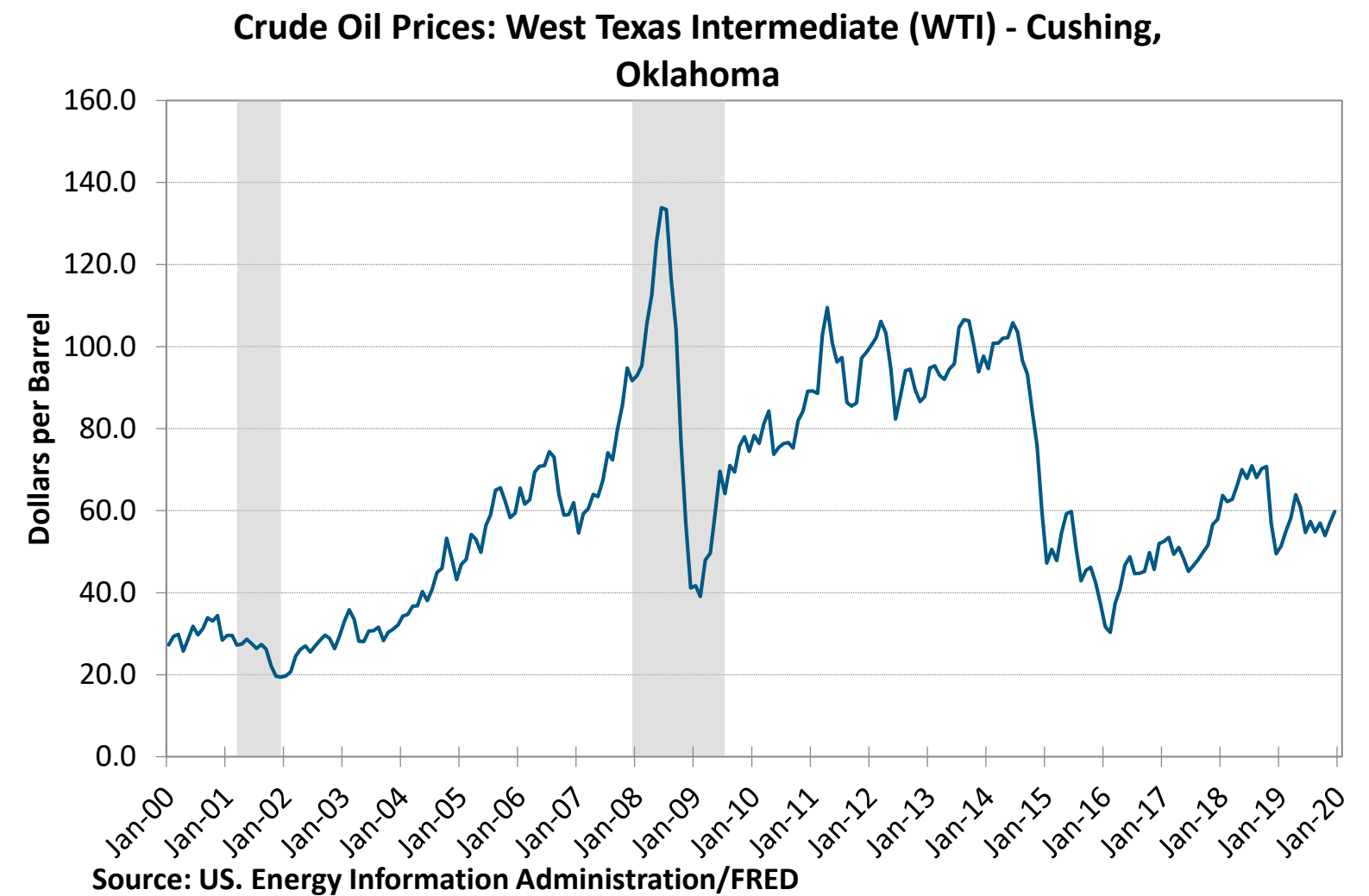
Nonfarm Unit Labor Cost

- Unit labor cost increased 1.4% (preliminary) in the fourth quarter of 2019, led by a 2.5% increase in output and a 1.1% increase in hours worked. Unit labor costs increased 2.4% over the last four quarters.
- The manufacturing sector labor productivity decreased 1.2% in the fourth quarter of 2019, as output decreased 1.0% and hours worked increased 0.2%. Over the last four quarters, total manufacturing sector productivity decreased 0.7%.
- An overall unit labor cost of 3.0% and above is widely seen as feeding overall inflation.

Prices: Oil & Gas

DEMAND AND PRICES WERE RELATIVELY STABLE IN 2019

- The U.S. Energy Information Administration (EIA) estimates U.S. crude oil production averaged 12.2 million b/d in 2019, up by 1.3 million from the 2018 level. Forecast crude oil production will average 13.3 million b/d in 2020 and 13.7 million b/d in 2021.
- Brent crude oil spot prices averaged \$64 per barrel in 2019. EIA forecasts Brent spot prices will average about \$65 per barrel in 2020 and \$68 per barrel in 2021. West Texas Intermediate (WTI) crude oil prices are expected to average about \$5.50 per barrel less than Brent prices in both 2020 and 2021, compared to \$7.35 per barrel less in 2019.
- U.S. regular gasoline retail prices averaged \$2.60/gallon in 2019, and the EIA forecasts call for U.S. regular gasoline prices to average \$2.63/gallon in both 2020 and 2021.



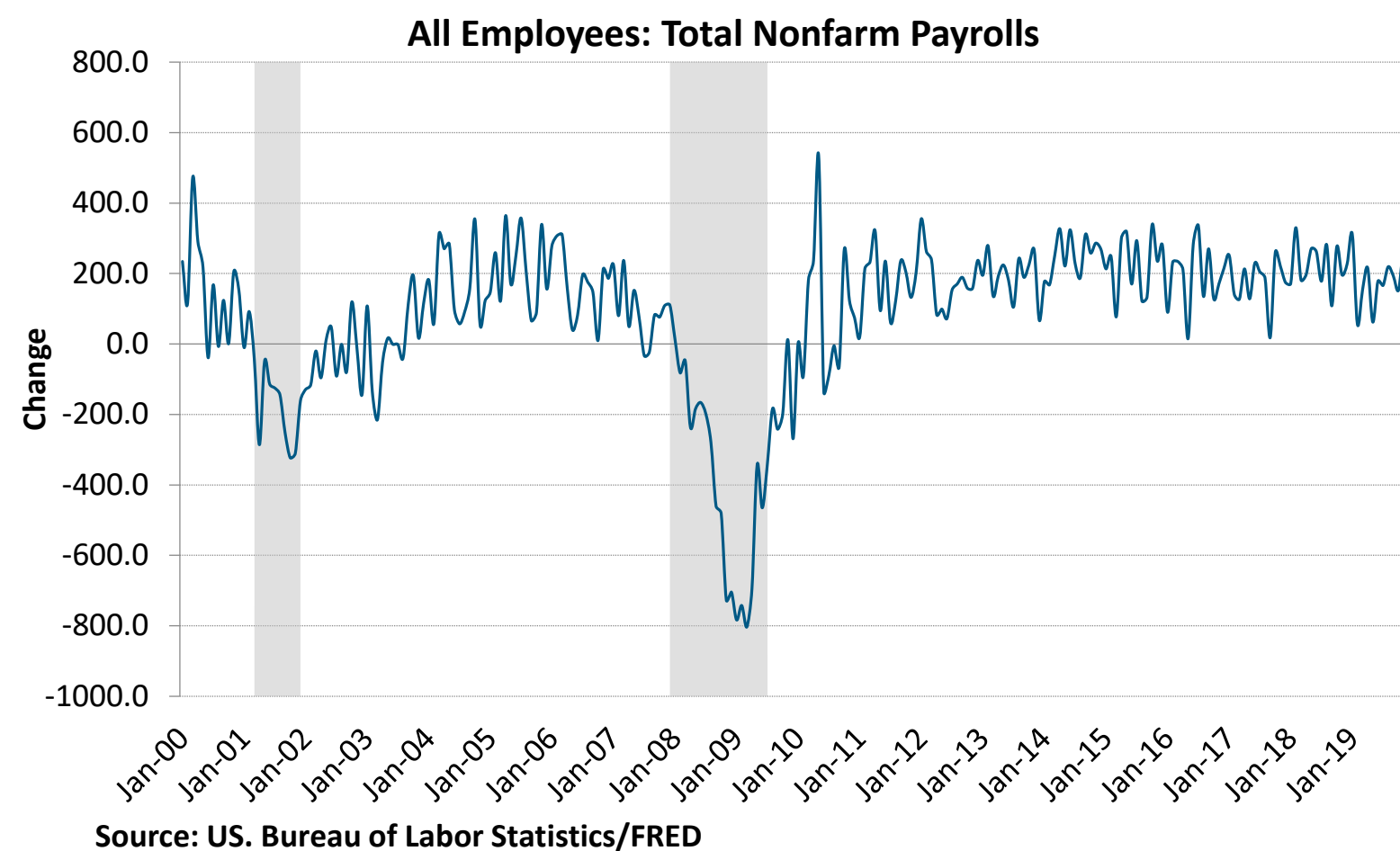
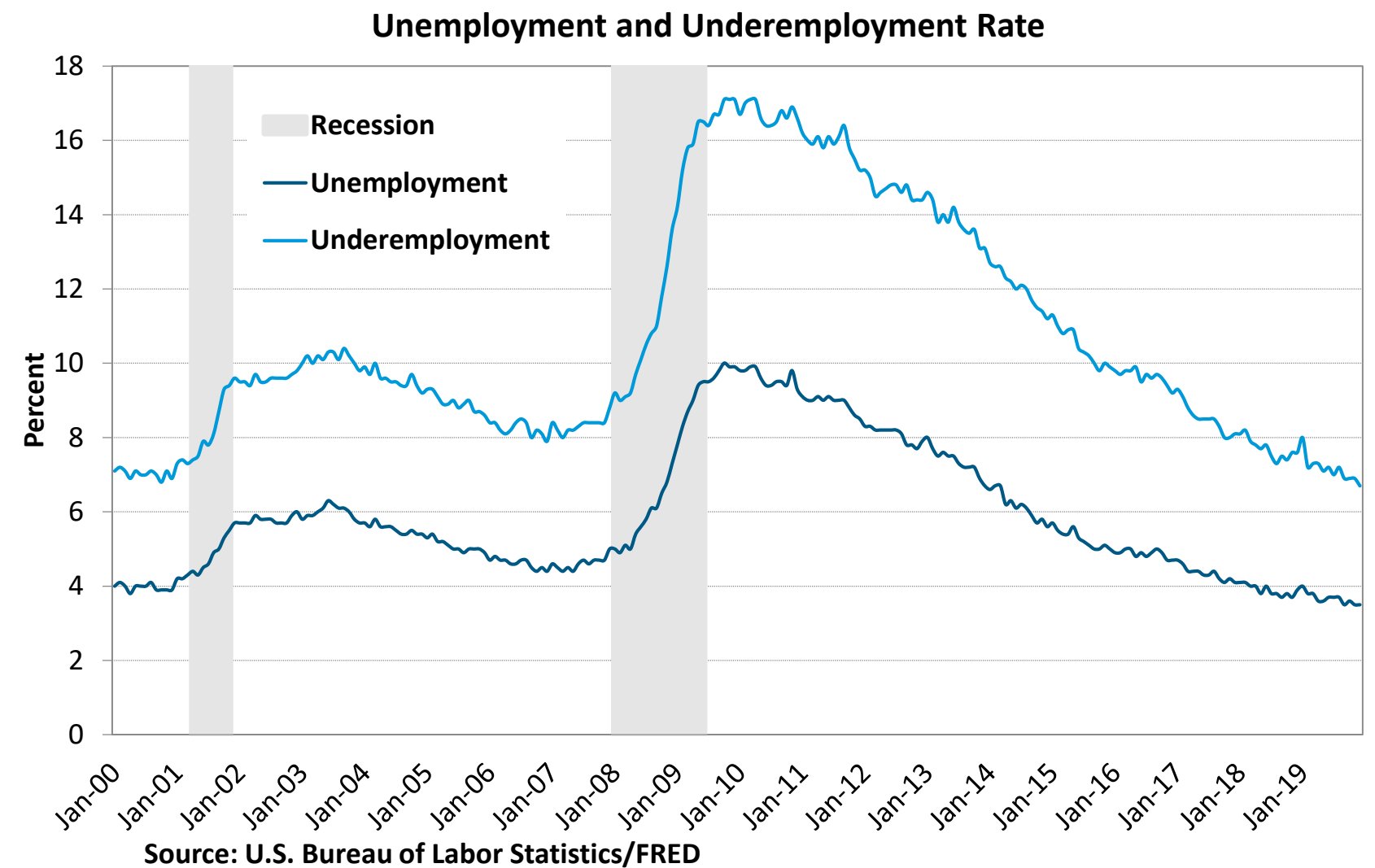


Employment

Employment

EMPLOYMENT REMAINS STRONG

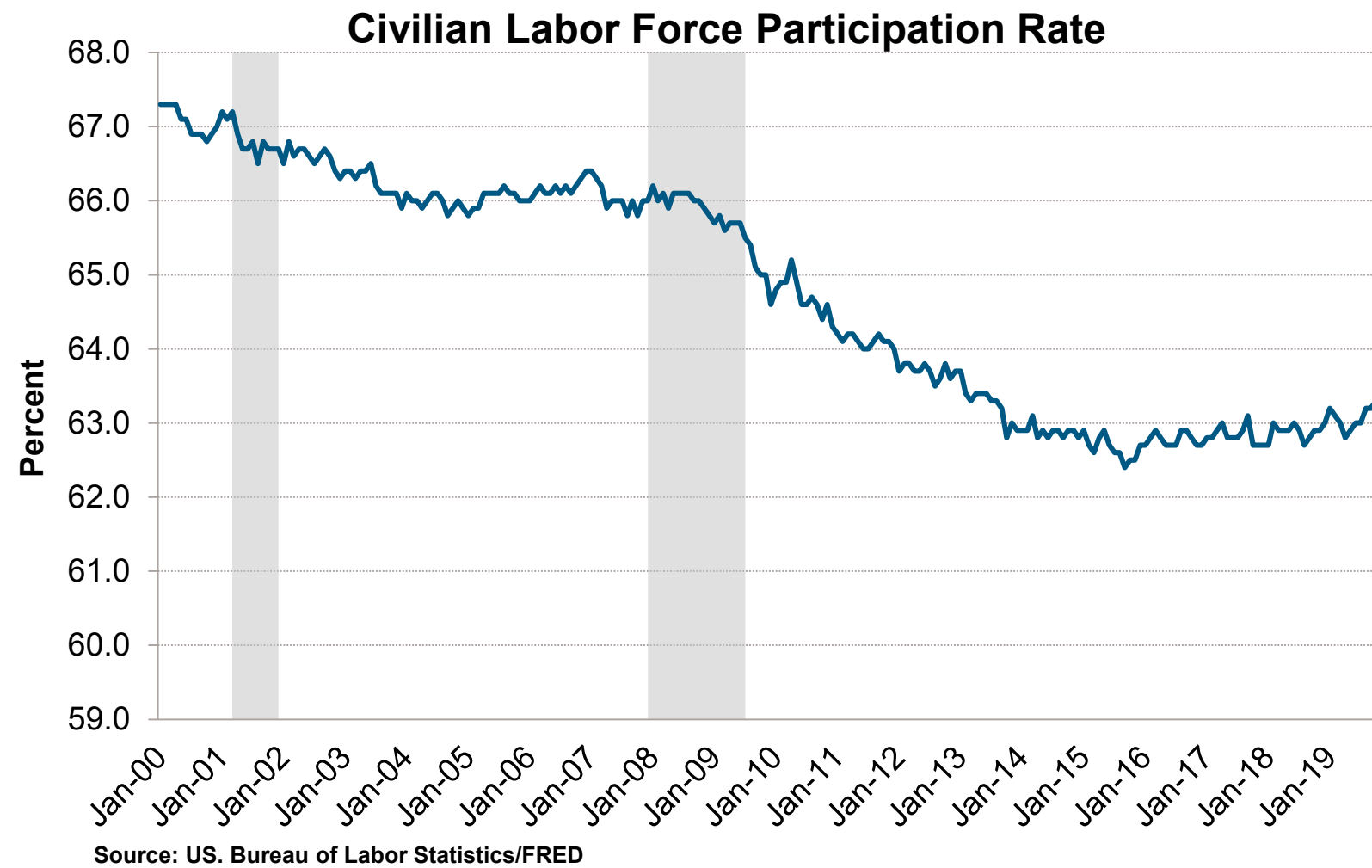
- The December unemployment rate was unchanged at 3.5%, the lowest since December 1969, and the number of unemployed was also unchanged at 5.8 million, month-over-month.
- The number of long-term unemployed (those jobless for 27 weeks or more) was unchanged at 1.2 million in December and accounted for 20.5% of the unemployed.
- The underemployed rate, or the U-6 rate, was three-tenths lower at 6.7% in December. It remains at pre-recession levels and well below the historical median level of 9.7%; recording began in January 1994.



- Total nonfarm payroll employment for December increased by 145,000. Payrolls rose by 2.1 million in 2019 after increasing by 2.7 million in 2018.
- Notable job gains occurred in retail trade and health care at 41,000 and 28,000, respectively, while mining lost 8,000 jobs.
- Nonfarm employment in October was revised down 4,000 to 152,000 and November was revised down from 266,000 to 256,000.

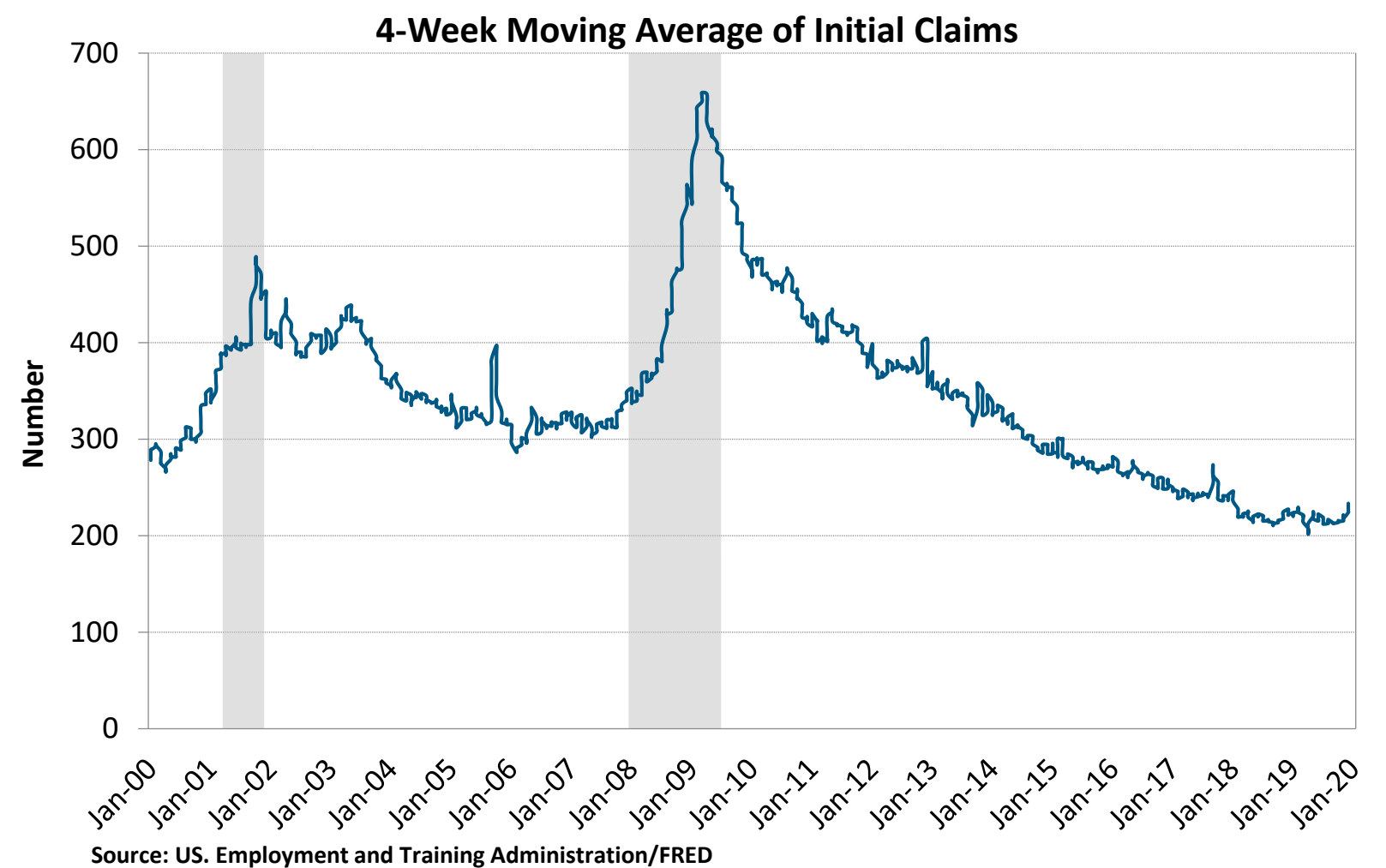
Employment

EMPLOYMENT REMAINS STRONG



- The 4-week moving average for initial claims was 233,500 as of the week ending December 28, 5,000 higher than the previous week's revised level. The historic low was set in October 2018, when the reading was 206,000.
- The weekly initial claims for the week ending December 28, was 223,000, a decrease of 1,000 from the previous week's revised level.

- The labor force participation rate, at 63.2%, was unchanged month-over-month. The employment-population ratio (not shown in graphs), was 61.0% for the fourth consecutive month, but up 0.4% over the year.
- At the current participation rate and population growth rate, maintaining an unemployment rate of 3.5% suggests the economy needs to add 103.7k jobs on average each month. (Source: Federal Reserve Bank of Atlanta/Jobs Calculator)



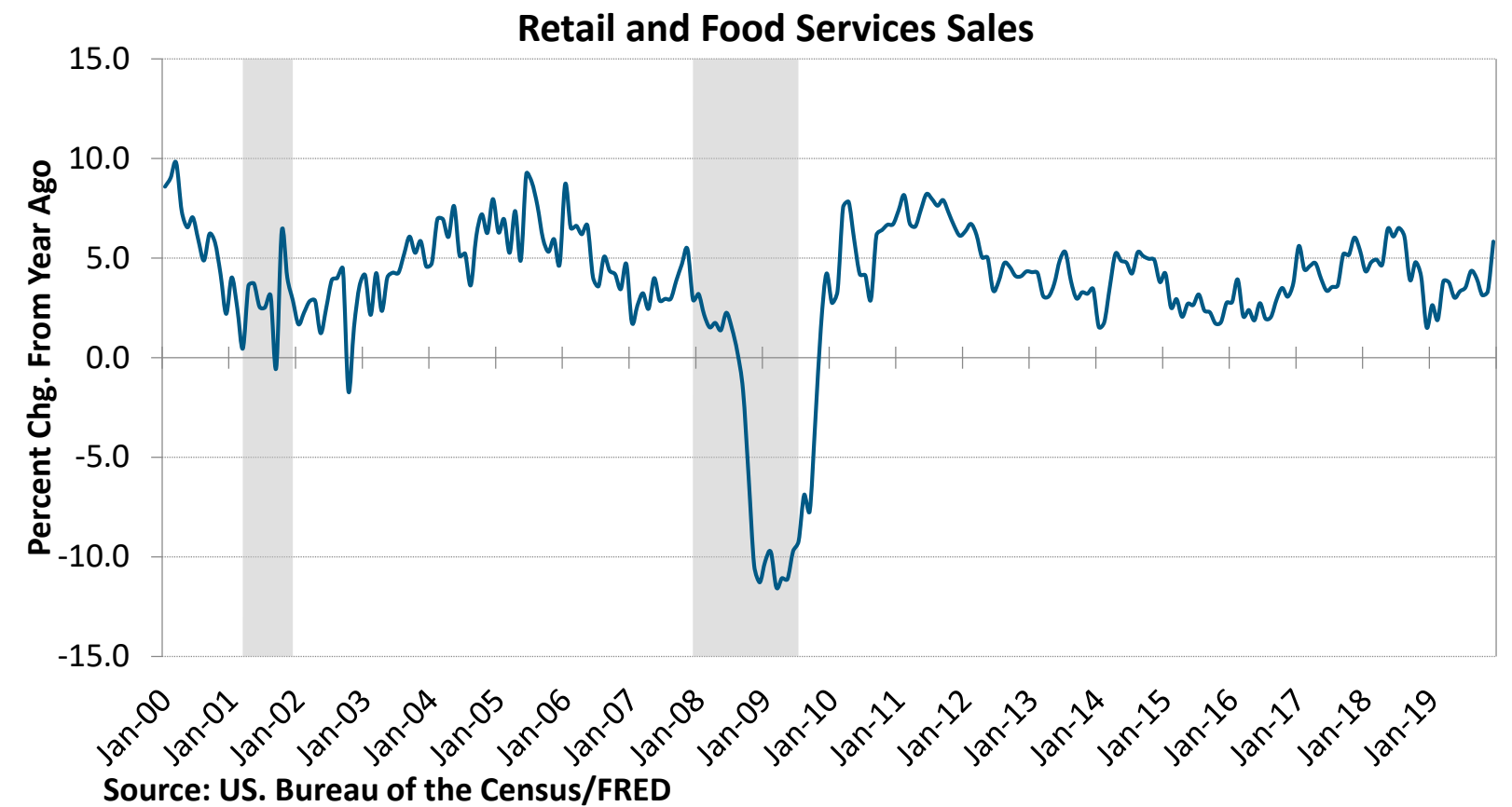


Consumer

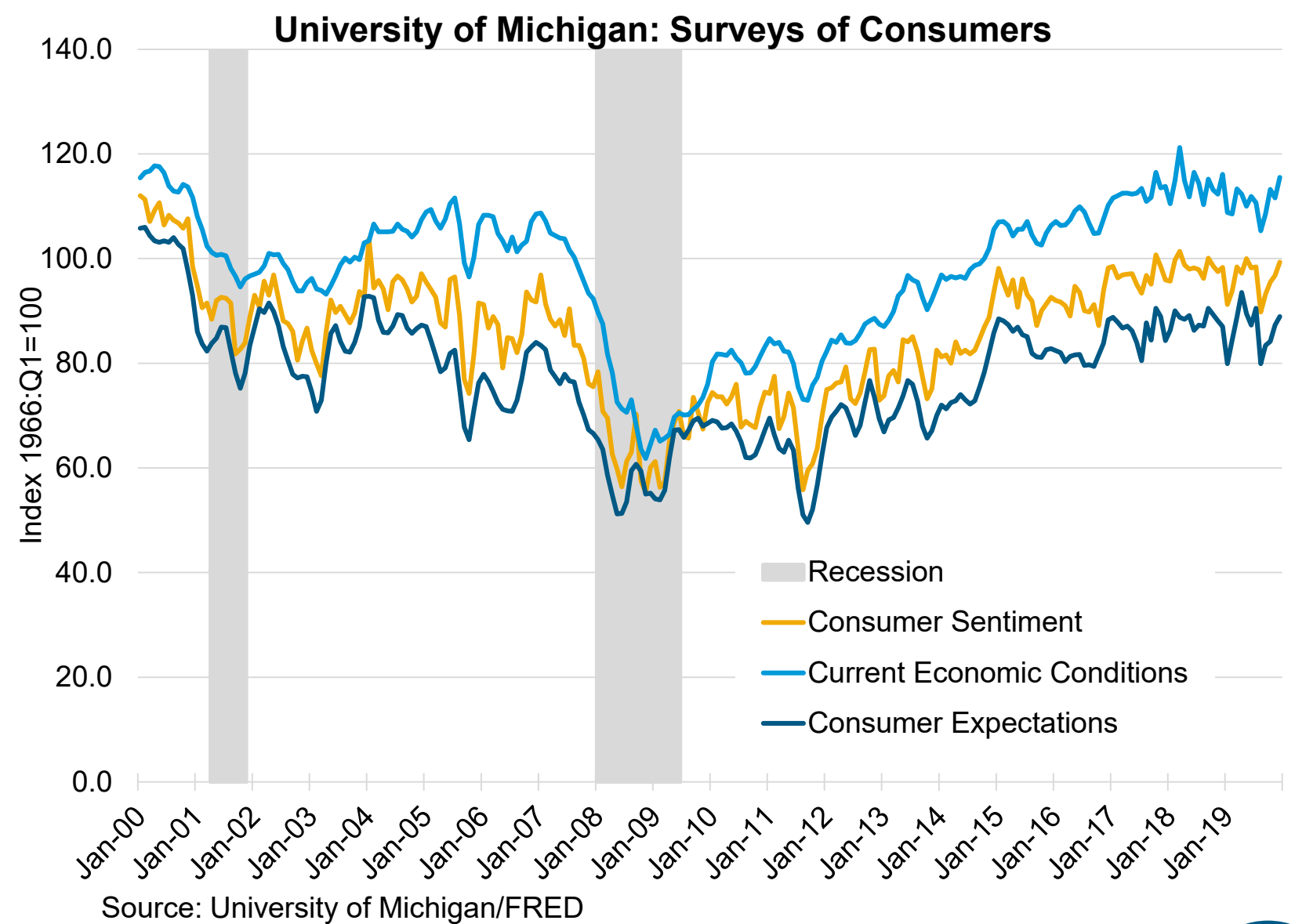
Consumer

RETAIL SALES WERE UP DURING THE HOLIDAY SEASON, CONFIDENCE BOUNCES BACK TO END 2019

- Advance estimates of U.S. retail and food services sales, which is adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, for December posted a increase of 0.3% month-over-month and a 5.8% increase year-over-year.
- When excluding motor vehicles and gasoline stations, retail sales increased 0.5% in December and 5.7% in 2019.



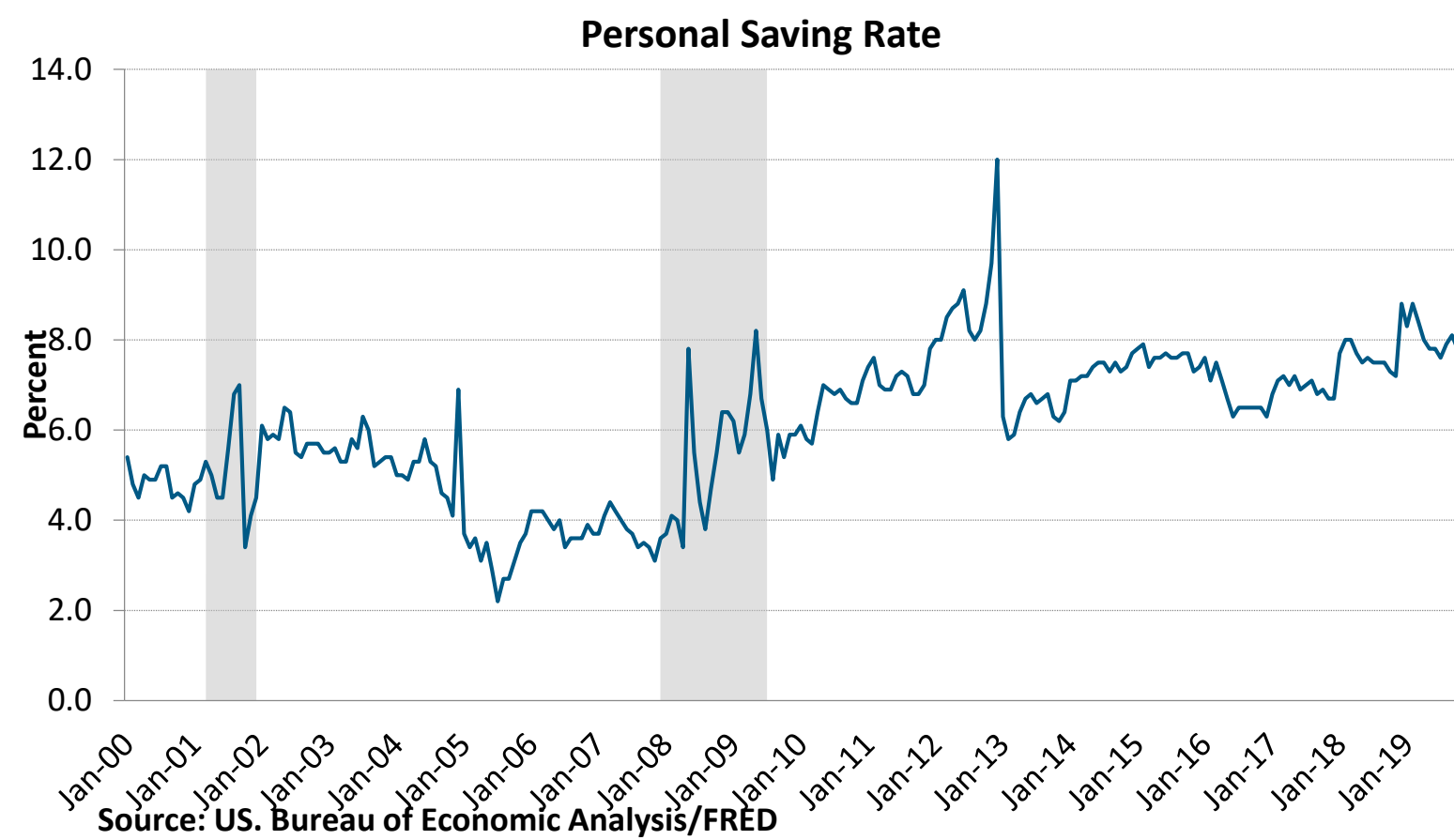
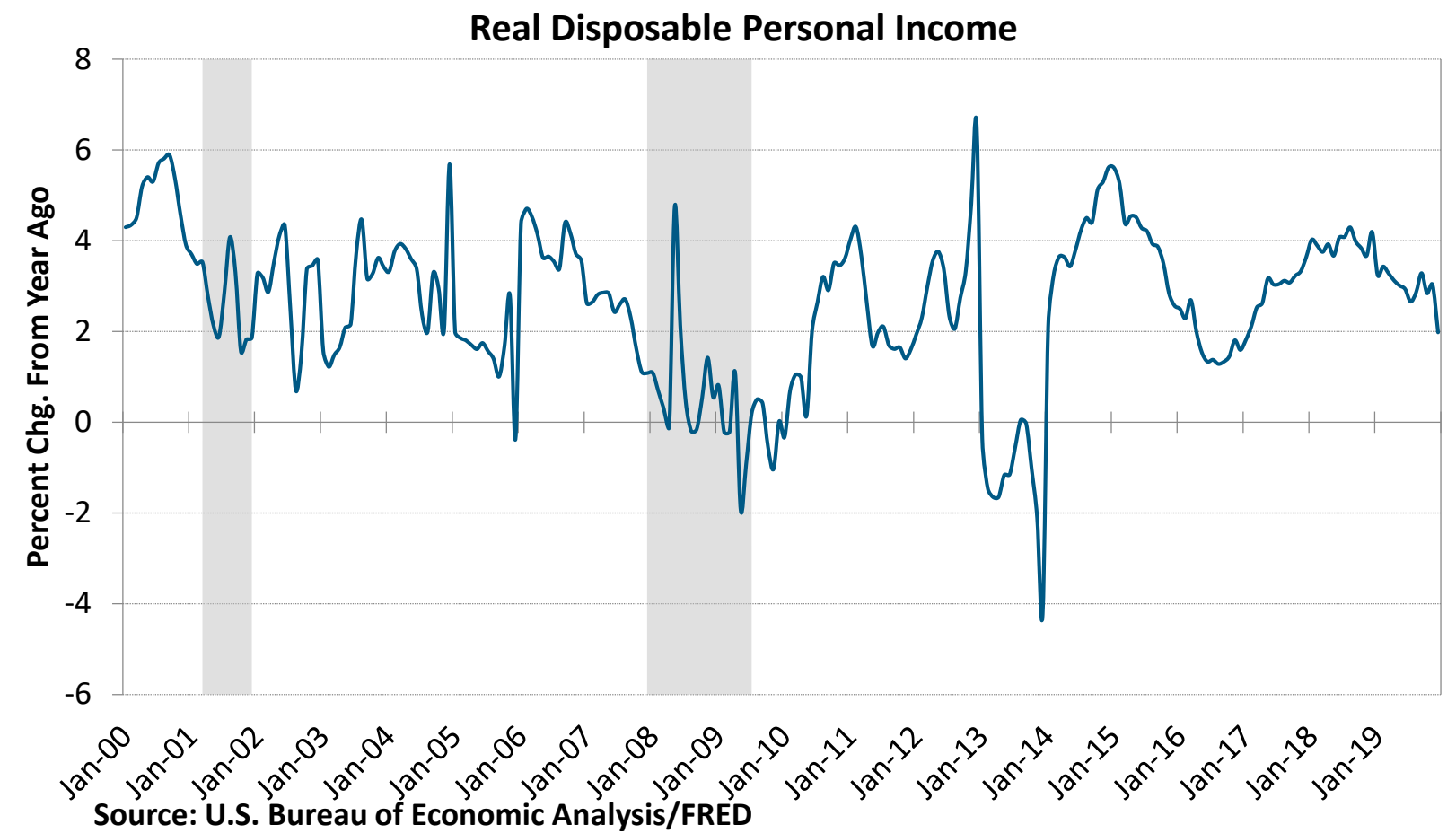
- The University of Michigan's Surveys of Consumers rebounded to a reading of 99.3 in December, the fourth consecutive monthly increase. Most of the gain was among upper income households, with those in the top third of the income distribution gaining 7.5% from last month, while the bottom two-thirds posted a gain of just 0.8%..
- Respondents across all income groups believe economic conditions will remain favorable and the expansion would continue in 2020.
- The expected year-ahead inflation was 2.3%, the lowest since December 2016. The five-year expected inflation is 2.2%, the lowest since the question was introduced in the late 1970s.



Consumer

INCOME GROWTH FALTERS TO CLOSE 2019, SAVINGS CONTINUES ABOVE LONG RUN AVERAGE

- Real disposable personal income decreased 0.1% in December and is up 2.0% year-over-year, the lowest since January 2017.



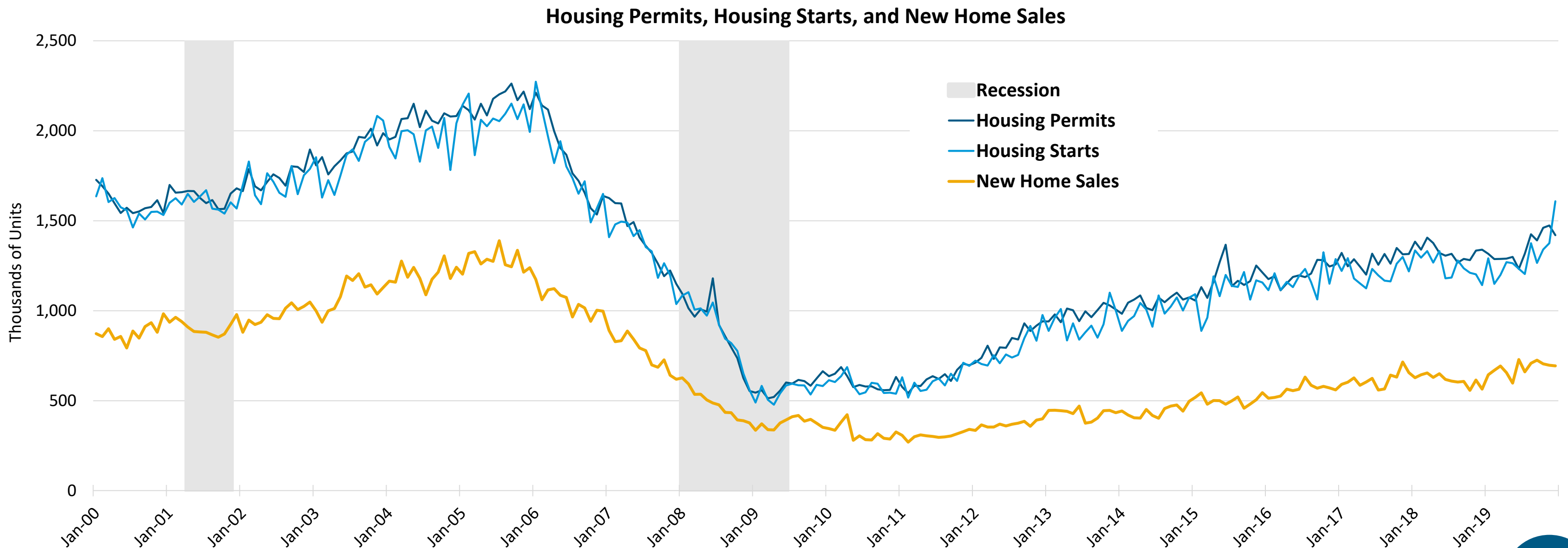
- Personal savings was \$1.28 trillion in December, up \$0.03 trillion month-over-month. The personal savings rate was 7.6%.

Housing

Housing

HOUSING ON THE RISE TO END THE YEAR, PRICES CONTINUE TO MOVE HIGHER

- Building permits, which lead housing starts by 1-3 months and are subject to less volatility, in December were at a seasonally adjusted annual rate of 1,416,000, 3.9% below the revised November rate, but 5.8% above the December 2018 level. Single-family building permits were at a rate of 916,000, 0.5% above the revised November rate. Building permits for 5+ units were at a rate of 458,000 in December.
- Housing starts in December 2019 were at a seasonally adjusted rate of 1,608,000, 16.9% above the revised November rate and 40.8% above the December 2018 rate. Single-family housing starts in December were at a rate of 1,055,000, 11.2% above the revised November rate. Housing Starts for 5+ units was 536,000 in December.
- New home sales in December 2019 were at a seasonally adjusted rate of 694,000, 0.4% below the revised November rate, but 23.0% above the December 2018 rate. The median sales price of new houses sold in December 2019 was \$331,400. The average sales price was \$384,500. The seasonally adjusted estimate of new houses for sale at the end of December was 327,000, which represents a supply of 5.7 months at the current sales rate.
- Existing-home sales (not graphed), as reported by the National Association of Realtors, grew 3.6% in December, or a seasonally adjusted annual rate of 5.54 million. Sales are up 10.8% from a year ago.
- The median price for existing-home sales was \$274,500, up 7.8% from a year ago. December's price increase marks the 94th straight month of year-over-year gains.
- Supply was lower at 1.40 million in December and down 8.5% from one year ago. Relative to sales, supply is at 3.0 months vs. 3.7 months a year ago.
- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 3.72% in December from 3.70% in November. The average commitment rate for all of 2019 was 3.94%.
- Existing-home sales in the Midwest were down 1.5% in December, but are up 9.2% year-over-year. The median price was \$208,500, up 9.2% from a year ago. Sales in the West rose 4.6% in December and are 10.7% higher year-over-year. The median price was \$411,800, up 8.1% year-over-year.



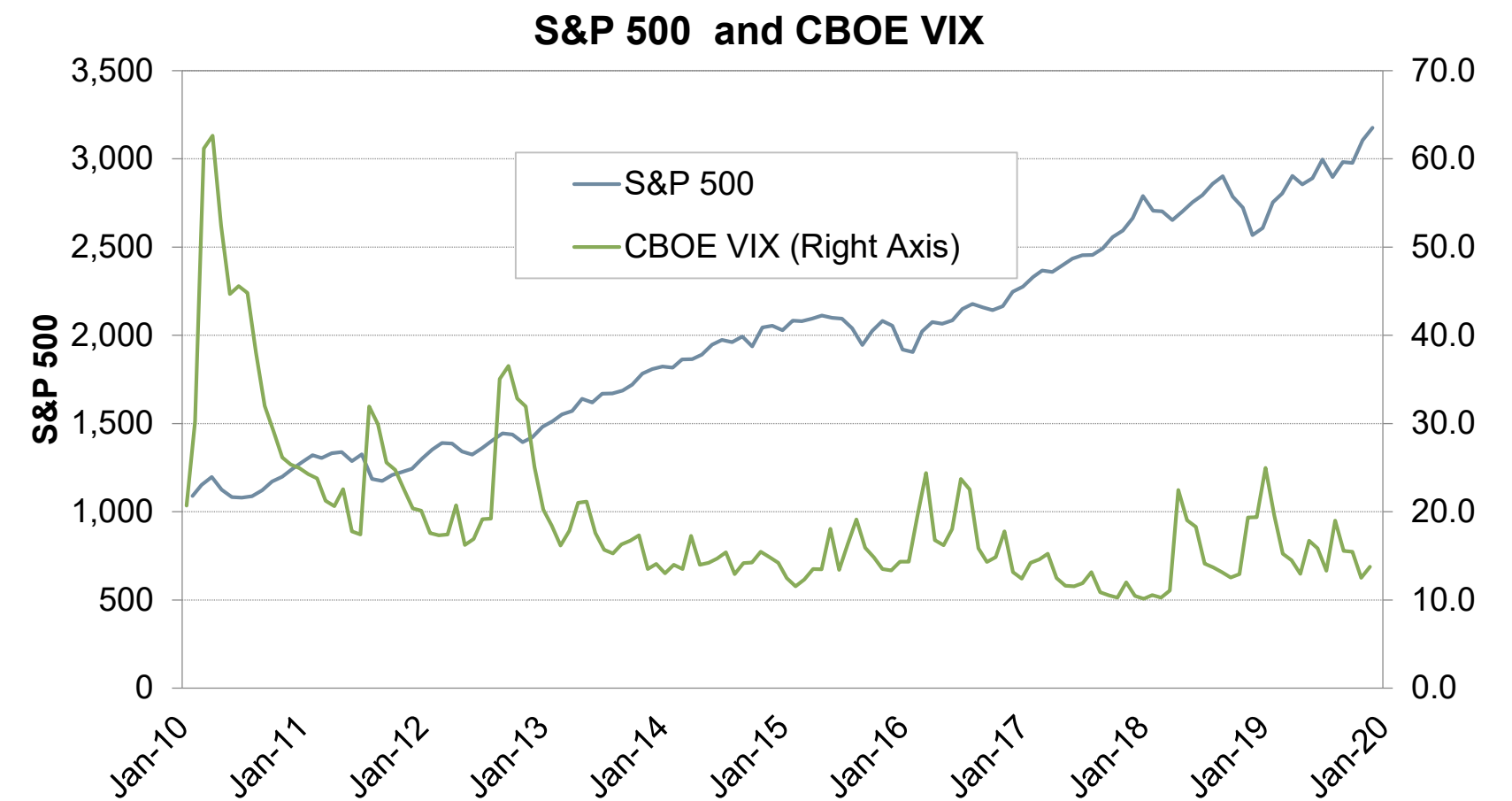
Source: US. Bureau of the Census/FRED

Market Indices

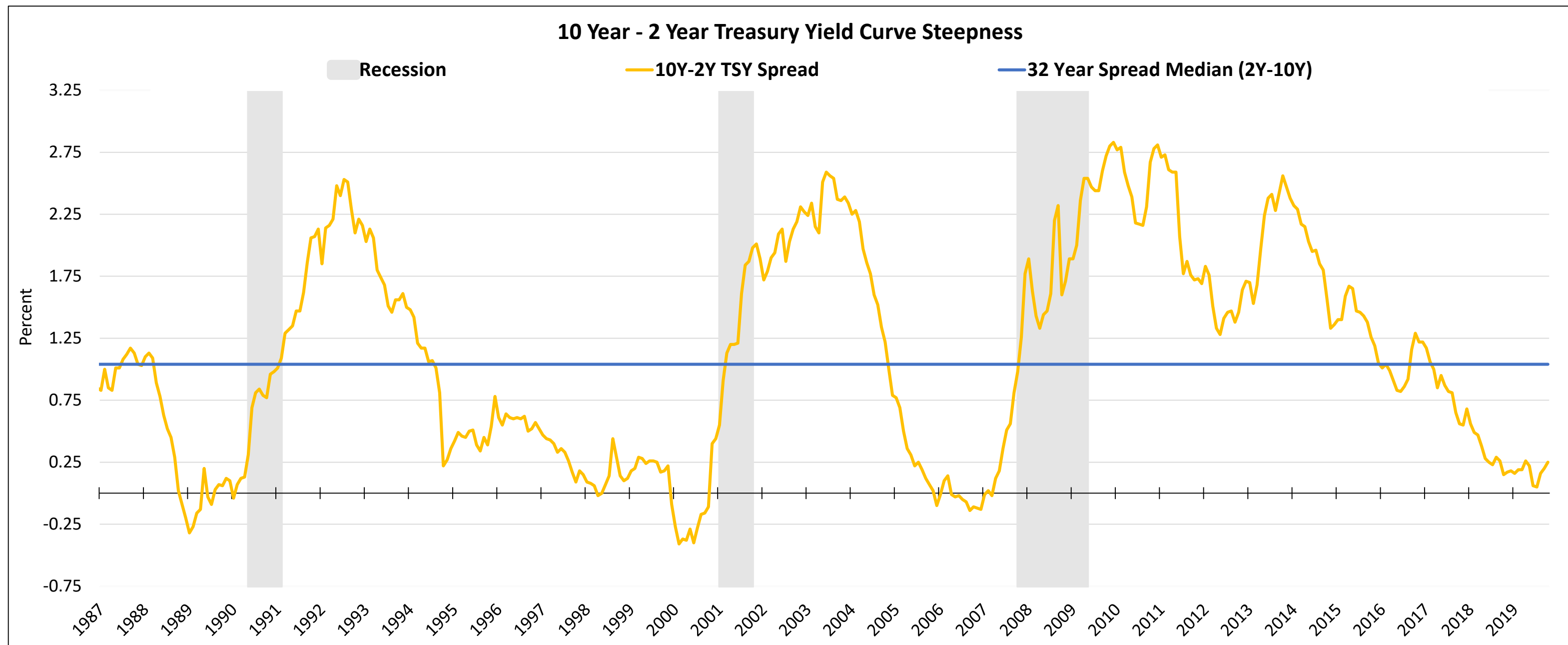
Market Indices

STOCK MARKET SURGES AND YIELD CURVE STEEPENS TO CLOSE 2019

- S&P 500 closed December at 3,230.78, 28.9% higher than 12-months prior. The CBOE Volatility Index, a measure representing the market's expectation of stock market volatility, indicates that the market expects the range of movement, up or down, in the S&P 500 index over the next year to be 13.8%. 3-Month LIBOR (not graphed) ended December at 1.91%.
- U.S. Treasury yields steepened some to close out the last three months of 2019. The 10-year Treasury Note minus 2-year Treasury Note spread ended December at 0.25%, the highest it has been at month-end since June, and remains below the 32 year median of 1.04%.



Source: S&P Dow Jones Indices LLC/Chicago Board Options Exchange/FRED

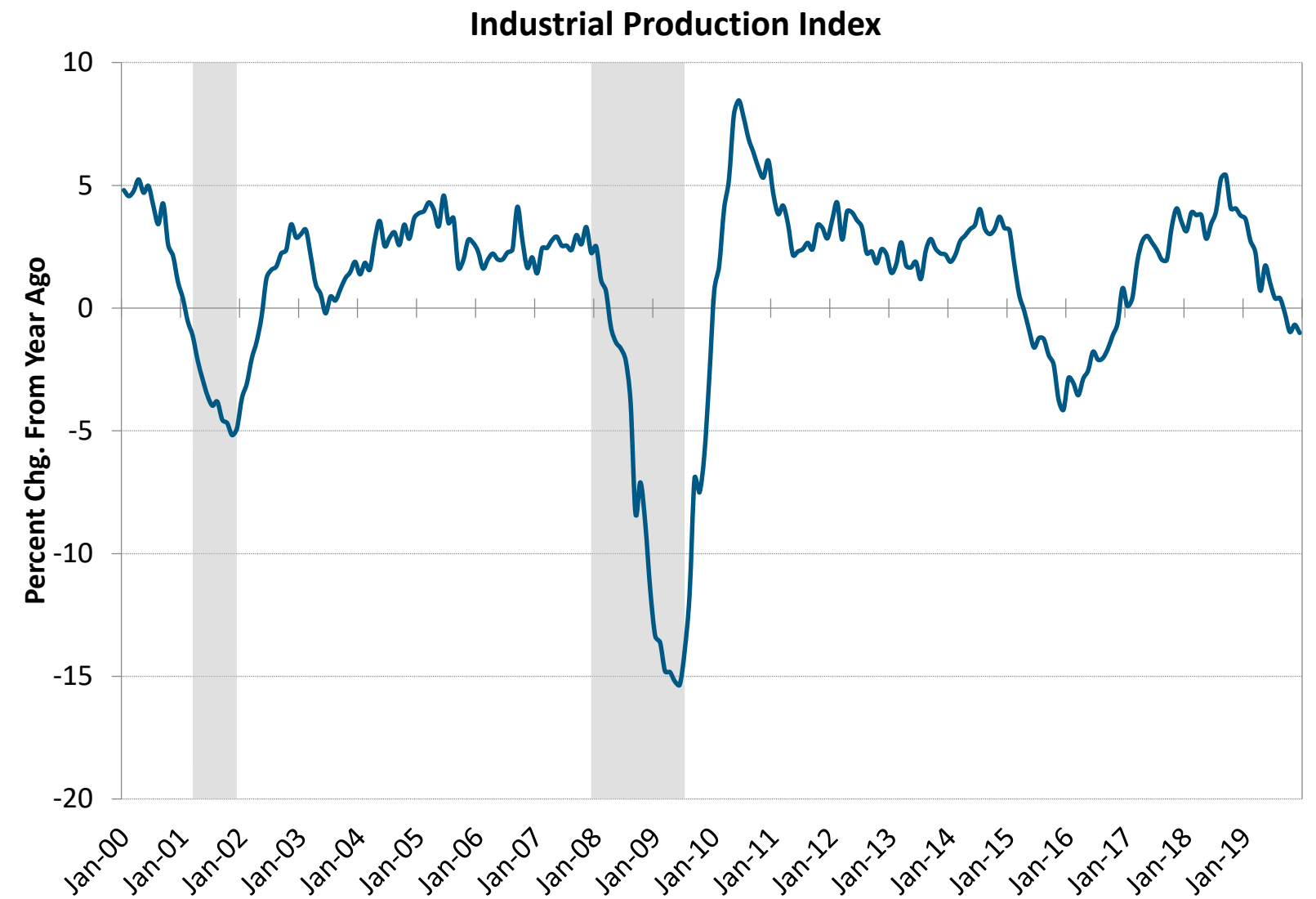


..||| Economic Activity

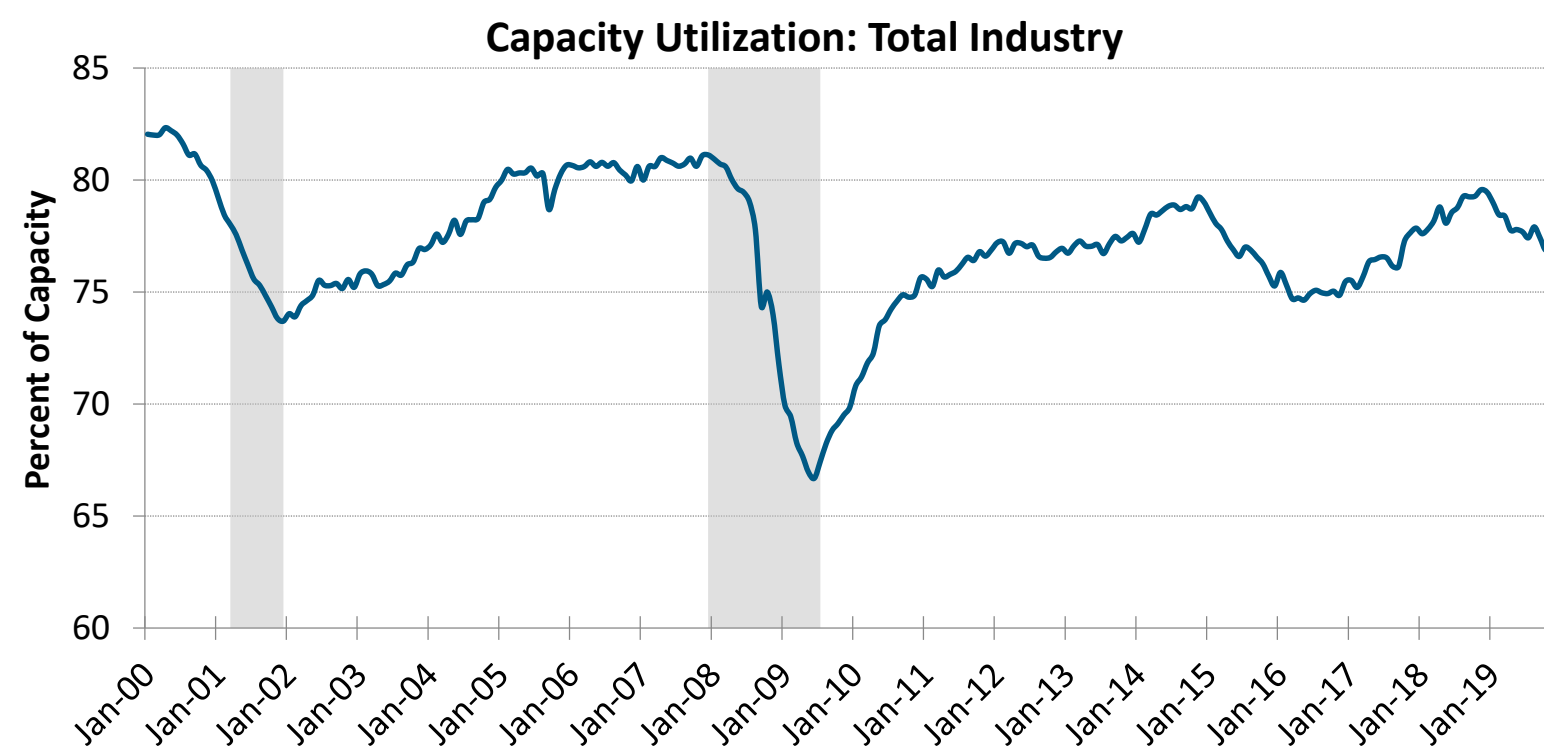
Economic Activity

INDUSTRIAL PRODUCTION TURNS NEGATIVE AS MAUFACTURING TUMBLES

- Industrial production fell 0.3% in December after increasing 0.8% in November, and posted a 1.0% decrease year-over-year. Output growth in December for manufacturing, mining, and utilities, posted month-over-month changes of 0.2%, 1.3%, and -5.6%, respectively. Year-over-year, manufacturing, mining, and utilities changed by -1.3%, 1.4%, and -1.9%, respectively.
- Manufacturing makes up the bulk of the industrial sector and posted monthly gains in two consecutive months.
- Mining increased, ending a run of three straight monthly declines.
- The utilities index fell for the first time in four months.



Source: Board of Governors of the Federal Reserve System (US)/FRED



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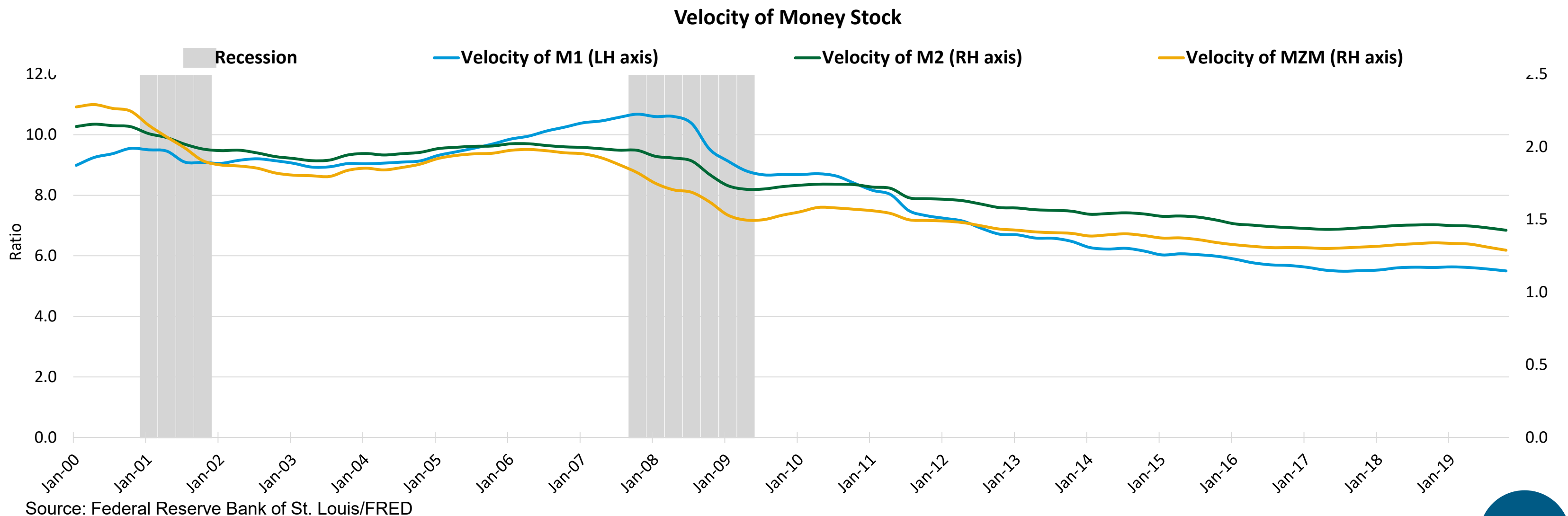
- Capacity utilization was 77.0% in December, a rate that is 2.8% below its long run average.
- The manufacturing component was at 75.2% in December, a rate that is 3.1% below its long-run average.
- Utilization for mining increased to 89.6% in December, above its long-run average of 87.1%.
- The operating rate for utilities was at 73.5%, well below its long-run average of 85.4%.

➤ **Money Supply and Velocity**

Money Supply & Velocity

FOURTH QUARTER VELOCITY OF MONEY REMAINS NEAR ALL-TIME LOWS

- The velocity of M2, which includes M1 and savings deposits, CDs, and money market deposits, is the most common measurement referenced for the velocity of money and provides some insight into how quickly the economy is spending versus saving when compared to the velocity of M1.
- The velocity of M2 dropped slightly and remains near an all-time low at 1.43, indicating that money isn't changing hands and consumers continue to save.
- The velocity of M1, which is the money supply of currency in circulation and represents everyday short-term consumption transactions, is 5.50 versus the peak reading of 10.68 in the 4th quarter 2007. The latest reading is little changed and remains close to the lowest reading since 3rd quarter 1973.
- The velocity of MZM, which is the broadest money supply and helps determine how often financial assets are changing hands, is 1.29 and remains near the lowest reading in the history of this measurement which started in January 1959.





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