



2019 Annual Report

President's Letter

Greetings, and welcome to the Bank's 2019 Annual Report. You have my gratitude for your ongoing commitment to the Federal Reserve Bank of Chicago. While the Covid-19 pandemic will undoubtedly impact the economic situation in unprecedented ways throughout the rest of the current year, we take this opportunity to reflect on what happened in 2019 at the Chicago Fed.

The Economy

The economy was on a solid footing as we entered 2019. Like many of my colleagues, I expected that economic growth would decelerate but remain above potential. Inflation was also picking up a bit after running below the Federal Open Market Committee's (FOMC) 2 percent symmetric target for many years. These solid fundamentals led me and most FOMC participants to expect that it would likely be appropriate to raise policy rates another 50 to 75 basis points in 2019. However, as the year progressed, concerns about weak global growth, trade policy uncertainty, and muted inflation expectations mounted.

The FOMC held policy rates steady for the first half of the year as it evaluated the rising downside risks. By midyear, a deteriorating outlook and rising uncertainty prompted the FOMC to lower the target range for the federal funds rate by 25 basis points, followed by two additional 25 basis point reductions later in the year. I viewed these policy actions as sufficiently accommodative to maintain solid economic growth. I also saw the actions as promoting a faster return of inflation to our symmetric 2 percent objective. The year ended with solid annual growth of 2.3 percent and an unemployment rate of only 3.5 percent. However, inflation edged down further in 2019 and ended the year at only 1.6 percent.

FedListens

Also last year, the Federal Open Market Committee conducted a major review of its monetary policy strategies, tools, and communications practices. The review was prompted in part by the difficulties in providing monetary policy accommodation in an environment in which equilibrium real interest rates are low. The Chicago Fed played a prominent role in this work, as several of our economists are leaders in this area and contributed directly to the review process.

Charles L. Evans,
President and Chief Executive Officer
May 2020



Economic Research: Looking at Monetary Policy Differently

The Bank made important contributions to the FOMC’s initiative reviewing monetary policy strategy, tools, and communications practices, most notably by hosting the Board of Governors’ Fed Listens conference in June. Over 170 current and former policymakers, academics, and community leaders met to discuss key themes of the review, such as monetary policy since the 2008 financial crisis, maintaining sustainable employment, and how the central bank shares information. In October, the Research Department hosted the Bank’s own Fed Listens conference to better understand the impact of monetary policy on disadvantaged workers and their communities across the Seventh District.

The Bank launched a new “Big Data” view of the economy called the Brave-Butters-Kelley Indexes (BBKI). Combining 500 different data series with GDP, the indexes can be used to track U.S. businesses and inflation cycles in real time and estimate monthly real GDP growth, providing a new way to measure the health of the U.S. economy.



Supervision & Regulation: Increasing Our Efficiency

A team of S&R specialists enhanced a Federal Reserve System supervisory model, improving productivity and reducing processing time from more than 24 hours to just 70 minutes. The District’s S&R leadership led artificial intelligence and machine learning projects focused on increasing operational and supervisory efficiency that may have a broader impact across the System.

The number of examinations and inspections conducted in 2019 grew by 9 percent to 807.



Payments: Improving Transaction Speeds, Evolving Access to Services

The Customer Relations and Support Office (CRSO) played a key role in developing, leading, and advancing efforts to improve the U.S. payment system. Specifically, the CRSO made significant contributions to further the System's faster payments decision to offer the FedNowSM service, a new instant payment service providing immediate settlement and funds availability. As a key function for delivering and supporting the service, the CRSO created specific work streams to support market development activities, connectivity via the FedLine channel, and customer support enhancements. Further, the CRSO made significant progress and investments in evolving the FedLine network used by customers to access Federal Reserve Bank services.



Community Outreach: Connecting with Our District in New Ways

The Chicago Fed's Community Development and Policy Studies group (CDPS) held the Preserving Chicago's Middle Neighborhoods forum to address growing inequities among its constituents. Researchers addressed the changing trajectories of middle-class neighborhoods and policies for safeguarding the housing market.

CDPS also organized approximately 40 events that informed stakeholders about best practices, data and programs, and networking opportunities, including:

- The Renewing the Promise of the Middle Class research conference that explored the role of policy in creating a wider path to the middle class and highlighting research that focused on successes and shortcomings of recent policy initiatives.
- The Fed's Inclusive Economies Initiative included a series of focus groups with community leaders in mid-sized Seventh District cities, understanding how these communities think about connecting economic growth to economic opportunity.
- The Fed's Community Development Finance in Smaller Markets Initiative included organized efforts in understanding the ecosystem of investors, intermediaries, and service providers.



Culture: Highlighting Our Diversity & Inclusion

The Bank’s cultural efforts were recognized by several external organizations in 2019, including the following awards:

2019 Top Companies for Executive Women
National Association for Female Executives



**Perfect Score of 100 on HRC Foundation's
2019 Corporate Equality Index**
Human Rights Campaign (HRC)



2019 Best Place to Work for LGBTQ Equality
(HRC)



New Executive Committee Members



Kathryn Medina was promoted to Senior Vice President of People & Culture and Chief Human Resources Officer



Anna Paulson was promoted to Executive Vice President and Director of Research



Frederick Martin became Senior Vice President and Chief Financial Officer (CFO)

2019 Chicago Board of Directors



Federal Reserve Chair Jerome Powell (center) visited the Chicago Fed in June 2019

(Pictured left to right): Helen D. Gayle, Class B Director; Jorge Ramirez*, Class B Director; David W. Nelms, Class A Director; Scott E. Santi* (Deputy Chair), Class C Director; Anne R. Pramaggiore* (Chair), Class C Director; Jerome Powell, Federal Reserve Chair; Charles Evans, President & CEO, Federal Reserve Bank of Chicago; Ellen Bromagen, First Vice President & COO, Federal Reserve Bank of Chicago; Abram A. Tubbs, Class A Director; Susan M. Collins, Class B Director; Christopher J. Murphy III, Class A Director; Wright L. Lassiter III (not pictured) Class C Director

* Fulfilled a previous director's unexpired term

2019 Detroit Board of Directors



Federal Reserve Chair Jerome Powell (center) visited the Chicago Fed in June 2019

(Pictured left to right): Michael L. Seneski*, Michael Hoppe Senior Vice President, Detroit Branch Manager; Linda P. Hubbard, Joseph B. Anderson, Jr.* (Chair); Jerome Powell, Federal Reserve Chair; Charles Evans, President & CEO, Federal Reserve Bank of Chicago; Ellen Bromagen, First Vice President & COO, Federal Reserve Bank of Chicago; Sandy Baruah *, James Nicholson*, Sandra Pierce*, Rip Rapson* (not pictured)

* Fulfilled a previous director's unexpired term

New Directors for 2020



CHICAGO
Linda Jojo
Class B Director
Executive Vice President
of Technology & Chief
Digital Officer,
United Airlines, Inc.



CHICAGO
Michael O'Grady
Class A Director
Chairman/CEO,
Northern Trust Bank



CHICAGO
Susan Whitson
Class A Director
CEO,
First National Bank



CHICAGO
Dave Habiger
Class B Director
President & CEO,
J.D. Power



DETROIT
Ronald E. Hall
President & CEO,
Bridgewater Interiors

Financial Statements

Auditor Independence

The Federal Reserve Board engaged KPMG to audit the 2019 combined and individual financial statements of the Reserve Banks.¹

In 2019, KPMG also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for KPMG services totaled \$7.0 million. To ensure auditor independence, the Board of Governors requires that KPMG be independent in all matters relating to the audits. Specifically, KPMG may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2019, the Bank did not engage KPMG for any non-audit services.

The Federal Reserve Bank of Chicago — Financial Statements as of and for the Years Ended December 31, 2019 and 2018, Management's Report on Internal Control Over Financial Reporting, and Independent Auditors' Report

¹ In addition, KPMG audited the Office of Employee Benefits of the Federal Reserve System (OEB), the Retirement Plan for Employees of the Federal Reserve System (System Plan), and the Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The System Plan and the Thrift Plan provide retirement benefits to employees of the Board, the Federal Reserve Banks, the OEB, and the Consumer Financial Protection Bureau.