



President's Letter

After a year in which the pandemic has further challenged our employees, region, and nation, it is with gratitude that I share a review of 2021. I thank you all for your ongoing commitment to the Federal Reserve Bank of Chicago, as we serve the public by promoting a healthy, stable, and inclusive economy and financial system where all have an opportunity to thrive.

The Economy

Although the Covid-19 virus has taken a horrible toll on the health and livelihoods of so many people, the economy recovered rapidly in 2021. This economic progress is remarkable given how dire an event the pandemic has been. Households and businesses showed amazing ingenuity in finding ways to operate safely. The health care sector was able to develop and deploy vaccines extremely rapidly. And the government provided crucial support through fiscal and monetary policy actions. By the second quarter of the year, real gross domestic product had surpassed its pre-pandemic level; and despite new waves of infections during the second half, growth for the year was a quite robust 5.6 percent and the economy appears to be entering 2022 with solid momentum.

In the labor market, after peaking near 15 percent early in the pandemic, the unemployment rate fell quickly and ended the year at a very healthy 3.9 percent. By this measure, the labor market appears to have largely recovered from the effects of the pandemic, and by a number of other measurements, such as unfilled job openings at businesses and the rate at which people quit their jobs for other opportunities, the labor market is quite tight. However, the number of people actually employed is still well below pre-pandemic trends, as many workers who left the labor force during the pandemic have not returned. This is especially true of older workers who retired. As the pandemic recedes further, many of those sitting on the sidelines likely will eventually return to the workforce, though the timing and extent are open questions.

With people avoiding activities requiring closer contact with others, spending patterns shifted considerably over the pandemic: Expenditures for goods rose substantially while spending on services declined. These changes in spending patterns, together with Covid disruptions here and abroad, stressed global supply chains, leading to higher costs and ultimately higher prices for many items. Earlier in the year as activity began to normalize, prices for goods and services that were especially sensitive to the pandemic adjusted higher. However, as the year progressed, strong demand and continuing supply challenges, including shortages of workers in many sectors, resulted in prices rising across a broader range of goods and services. Inflation for the year was an uncomfortably high 5.8 percent.¹ For people whose incomes have not kept pace, higher inflation is a real hardship, and particularly so for those least able to meet the higher costs of essentials such as food, housing, and transportation.

At the Federal Reserve Bank of Chicago (FRBC)

As the world continued to experience the ongoing pandemic, employees of the Chicago Fed worked diligently to maintain continuity of our operations, while advancing key Federal Reserve System and local initiatives. These included improving our nation's payments systems, expanding outreach, understanding the pandemic's disruption to the economy, supporting market liquidity, increasing the efficiency and resiliency of our operations through new technology, and providing learning and development opportunities for Bank and Federal Reserve System employees.

I invite you to learn more about the work of the Bank over the past year and how we are putting all our tools to work here at the Chicago Fed to meet the challenges of our District and the nation.

Charles L. Evans
President and Chief Executive Officer

¹This was the change in the price index for personal consumption expenditures between December 2020 and December 2021.



Supervision and Regulation: Critical Operations, New Approaches

The Supervision and Regulation department (S&R) focused on critical operations to ensure the safety and soundness of supervised banks and other financial institutions, while successfully navigating the disruptions posed by the Covid pandemic. S&R provided resources, input, and leadership to Federal Reserve programs and functions both in the Bank and across the Federal Reserve System.

As the pandemic shifted, S&R moved towards a more normalized environment, implementing a supervisory program that still recognizes an agile approach, tailored for the size and complexity of firms. Such an approach promoted sound risk management, focused more on capital and liquidity resiliency, and promoted prudent credit risk management. Additionally, S&R successfully partnered with Board staff and the other federal banking agencies to execute the shared national credit program on behalf of the Federal Reserve System.

S&R completed cornerstone efforts to establish a new monitoring model to conduct supervisory work in business technology risk supervision. Additionally, S&R expanded commercial real estate-focused risk analytics and surveillance to identify market trends. Analytics now include monthly snapshots, geographic risk assessments, and customized market overviews, which are leveraged to inform supervisory portfolios throughout the Federal Reserve System.



Administrative Services: Reliability and Returning to Bank

As employees returned to the office, Administrative Services collaborated with departments across the Chicago Fed's District on planning this transition, including coordinating security, facility, and other physical processes. In addition, the Bank continues to support the transition to what's next for the Bank and its employees onsite, including unveiling a new dedicated co-working space in the Chicago main office that will be completely self-service and incorporate new technology, collaborative space, and huddle and focus rooms. The Law Enforcement Unit kept on-site staff safe and secure while carefully observing Covid-19 precautions. In particular, the work of the unit was a major factor in the Bank's ability to continue to deliver cash services.



Innovation Office: Creative Problem Solving

The Innovation Office continues to advance innovation across the Bank and focused in 2021 on the coming shift to hybrid work. To support this new way of working, the team developed a set of collaboration best practices to leverage the lessons learned from the pandemic and evolve the way we work. This included optimizing the use of the many new technologies to support virtual and hybrid meetings and enabling effective collaboration no matter how and when teams chose to work.



District Cash Services and Central Bank Services: Liquidity through Bank Operations

A core mission of the Chicago Fed is to ensure liquidity for the financial institutions we serve across the Seventh District. By providing liquidity, the Bank strives to help businesses and communities thrive and grow, supporting the broader regional and national economy. The Chicago Fed continued, in the face of the pandemic, to provide high-quality, reliable cash services, reflecting the Bank's commitment to serving the public good by contributing to the integrity of the U.S. financial system without interruption. Along with the other Federal Reserve banks, the Chicago Fed distributes, receives, and processes paper money and distributes and receives coin through offsite coin terminals. A major factor in the Bank's ability to continue to deliver cash services amid the pandemic was the commitment and dedication of the cash teams, which worked onsite throughout the last two years to continue operations.

The Chicago Fed's Credit Risk Management function continued to provide liquidity to financial institutions during the pandemic by extending credit through Discount Window lending, which supports the smooth flow of credit to households and businesses. During the pandemic, the credit risk team continued providing Discount Window loan advances to Seventh District institutions. This support was used significantly during the height of the Covid-19 pandemic as institutions needed the additional liquidity to support customers. In addition, along with the other Federal Reserve Banks, the Credit Risk team facilitated lending to small businesses by issuing Paycheck Protection Program Liquidity Facility loan advances until the program ended on July 30, 2021. This facility helped support the federal government's Paycheck Protection Program, which provided loans through banks to small businesses during the pandemic.



Information Technology: Cloud Computing and Agile Processes

Information Technology led the modernization of the Chicago Fed's technology in 2021 with the launch of the first District-built application on cloud computing infrastructure. Applications are being transitioned to the cloud in pursuit of the Bank's "cloud first" transformation strategy. IT also supported the integration of Bank applications and reports across the Seventh District on a new human capital and financial systems platform, which is being implemented across the Federal Reserve System.

IT continued its work on adopting an agile, product-centric framework, streamlining and improving processes and increasing delivery predictability. To support this adoption, the department continued to grow the skills and talent of its team by prioritizing career planning and development, including fostering a learning environment and redefining information technology careers across the Seventh District.



Customer Relations and Support Office – Payment Systems: Transforming Payments

In 2021, the Customer Relations and Support Office (CRSO) celebrated its 20th anniversary of providing sales, marketing, industry relations, customer support, and network services to meet the needs of Federal Reserve Financial Services customers and the payments industry. The CRSO successfully delivered significant FedLine® network enhancements to provide more resilient and secure 24x7x365 access to Federal Reserve services.

In preparation for the 2023 launch of FedNowSM, a new instant payments infrastructure, the CRSO, partnering across the Reserve Banks, made significant contributions to prepare the industry. This work ranged from a pilot program to onboarding technology development to expansive instant payments education and readiness programs. Additional areas of focus included industry collaboration on business-to-business payment challenges and payments fraud related to synthetic identity and authentication practices.



Community Development and Policy Studies: Advancing Economic Mobility and Inclusion

Community Development and Policy Studies (CDPS) worked to promote economic mobility and resilience among low- and moderate-income and historically underserved people and places through work within the Seventh District and across the Federal Reserve System.

Project Hometown, a major research and community engagement initiative, provided an opportunity to hear from communities throughout the region about addressing longstanding inequities and strengthening the recovery from the pandemic. This work included convening a series of virtual public forums on such topics as supporting minority-owned businesses, strengthening summer jobs in Chicago and beyond, and examining learning loss from the pandemic. Project Hometown held a video contest where teenagers in Chicago produced videos about how the pandemic affected their communities.

Staff in CDPS supported federal rulemaking efforts on the Community Reinvestment Act to strengthen the regulation's ability to encourage bank lending to communities of color. Their work also included increasing the diversity of participants informing monetary policymaking, while raising awareness of the barriers to economic inclusion through research and outreach. This research included an examination of how to close racial and economic gaps during and after Covid-19 and an analysis of how a voluntary equal wage policy impacted Detroit's wage gap in the 1940s.



Economic Research: Impactful Research and Valuable Insights

The Economic Research Department continued to emphasize policy and outreach work that delivers the most impactful and valuable insights given the unique questions raised by the pandemic. In 2021, topics of staff briefings to President Evans included the sensitivity of inflation expectations to incoming data, labor market developments associated with the pandemic, household financial conditions, the potential impact of pandemic-related fiscal policy on activity and inflation, the sustainability of fiscal deficits, and financial market developments.

The Economic Research team had over 30 articles accepted for publication in peer-reviewed academic journals. This research looked at a range of topics including inflation targeting, bond pricing, the long-run effects of redlining, housing vouchers, the effects of stay-at-home orders on consumer behavior, and international trade agreements. Staff members continued to host and collaborate on virtual events and conferences, from annual conferences on agriculture, the automotive sector, and the outlook for the U.S. economy to co-sponsoring virtual events on risk management and exploring careers in economics and related fields.

The Economic Research team launched a new bimonthly data index, Chicago Fed Advance Retail Trade Summary (CARTS), that tracks the U.S. Census Bureau's Monthly Retail Trade Survey on a weekly basis, providing an early snapshot of national retail spending.



Diversity, Equity, and Inclusion: Growing Scope and Impact

The Chicago Fed's diversity and inclusion work expanded its scope and impact, changing its name and focus to Diversity, Equity, and Inclusion (DEI). The Bank developed its 2021-23 DEI strategy, which includes goals focused on creating a more diverse workforce, advancing equity in the workplace and community, and strengthening the Bank's culture of inclusion.

In 2021, almost half of the Bank's staff continued to advance an inclusive culture by actively participating in one of the Employee Support Network Groups, eight diversity-oriented affinity and inclusion groups. The Bank's 16 DEI community partners continued to support diversity recruiting efforts, provide learning opportunities, and have a positive impact in the communities the Chicago Fed serves.

The Bank onboarded two new partners, Blacks in Technology and the Black Marketers Association of America, provided a record number of participants in Chicago United's Corporate Inclusion Institute, and increased its number of Year Up students. . Business Smart Week, the Bank's signature supplier diversity initiative, provided crucial assistance to more than 200 minority- and women-owned businesses, and for the 10th consecutive year, the business the Chicago Fed did with minority and women-owned businesses trended upward.

The Bank continued its support of the Financial Services Pipeline to advance Black and Latinx talent in the local financial services industry by sponsoring the Pipeline's Annual Summit and Intern Career Conference.

Economic Research and CDPS continued to partner with the American Economic Association on programs for minority undergraduate economics students and women in graduate economics as well as the Sadie Collective, an organization aimed at increasing the representation of Black women in economics and related fields.



People and Culture: Supporting Employees through the Pandemic

The Chicago Fed's Benefits Team continued to support Bank employees through the pandemic by providing guidance on practices and policies that promote health and safety. The Bank enhanced the benefits portfolio to help meet the needs of employees during this unprecedented time, including several benefits to support the needs of employees specific to caregiving and mental well-being.

The Benefits Team recognized the need to continue to attract and retain talent, implementing and enhancing such benefits as online tutoring for dependent children and increasing commuter and wellness stipends.



System Leadership Initiative: Developing Federal Reserve Leaders

The Chicago Fed's System Leadership Initiative team continued to innovate and adapt programs to meet the on-going, and often unpredictable, pace of change for Federal Reserve System leaders. The Bank committed to the mission of delivering experiences that enrich the development and engagement of System leaders by providing timely and relevant content. Programming topics included leadership excellence in a hybrid environment, advancing diversity, equity and inclusion, and delivering strategic solutions and outcomes.

Awards



**Seramount's Best Companies
for Dads for 2021**



**Human Rights Campaign Corporate
Equality Index 100% + Designated as a
Best Place to Work for LGBTQ Equality**

2021 Chicago Board of Directors



Lisa Cook
Class B Director



Helene D. Gayle
Class C Director



David C. Habiger
Class B Director



Linda Jojo
Class B Director



Christopher J. Murphy III
Class A Director



Michael O'Grady
Class A Director



Jennifer Scanlon
Class C Director

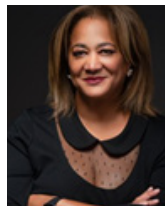


Susan Whitson
Class A Director

2021 Detroit Board of Directors



Sandy K. Baruah
Director



Anika Goss
Director



Ronald E. Hall
Director



Linda Hubbard
Chair



James M. Nicholson
Director



Kevin Nowlan
Director



Dr. Roy Wilson
Director

Financial Statements

Auditor Independence

The Federal Reserve Board engaged KPMG to audit the 2021 combined and individual financial statements of the Reserve Banks and the financial statements of the five limited liability companies (LLCs) that are associated with the Board of Governors' actions to address the coronavirus pandemic, of which four LLCs are consolidated in the statements of the Federal Reserve Bank of New York and one LLC is consolidated in the statements of the Federal Reserve Bank of Boston.¹

In 2021, KPMG also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for KPMG services totaled \$9.8 million, of which approximately \$2.3 million were for the audits of the LLCs.² 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 affiliated entities 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 2021, the Bank did not engage KPMG for any non-audit services.

Financial Statements: Federal Reserve Bank of Chicago--As of and for the Years Ended December 31, 2021 and 2020 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.

² Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available assets.