

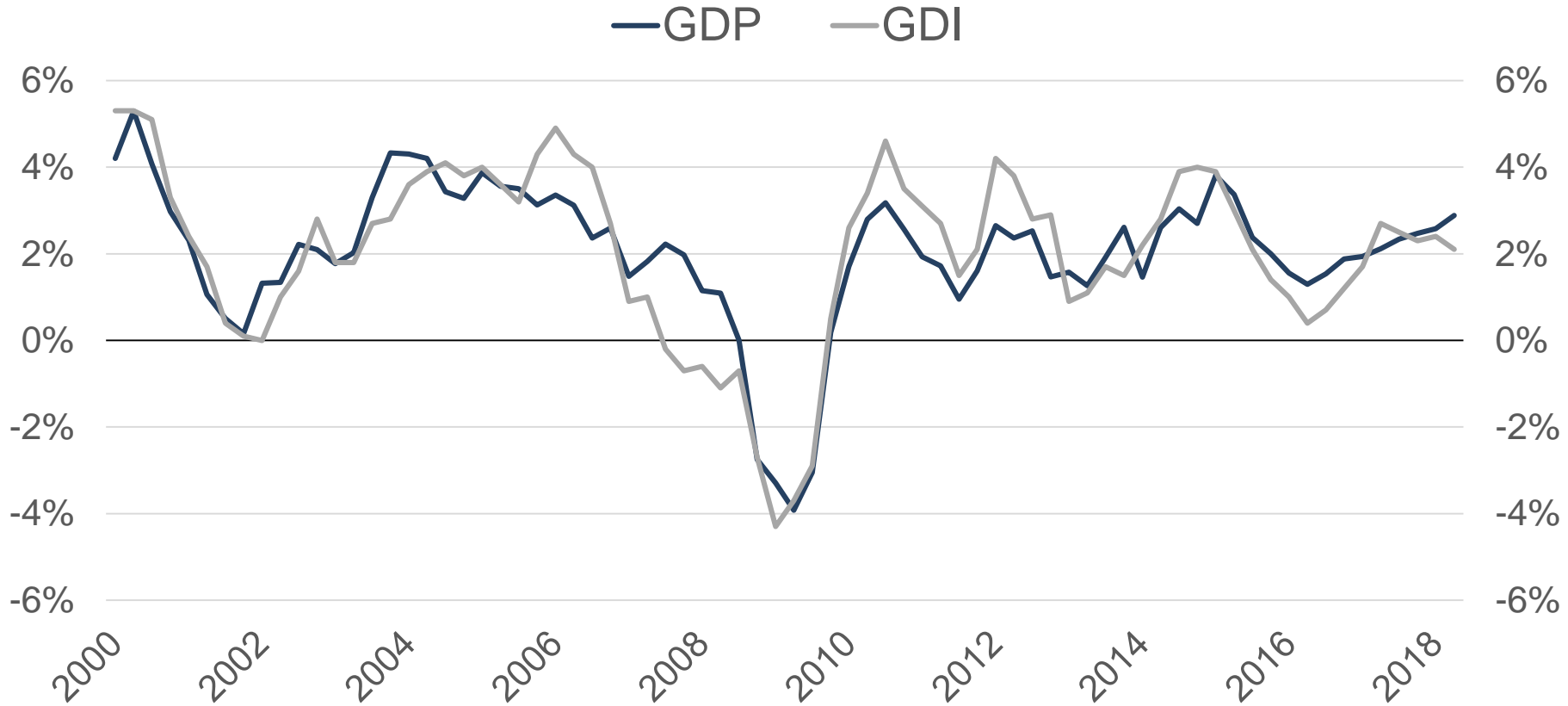
Economic & Industry Update

NAFCU Research Division

Curt Long, Chief Economist



Economic Growth

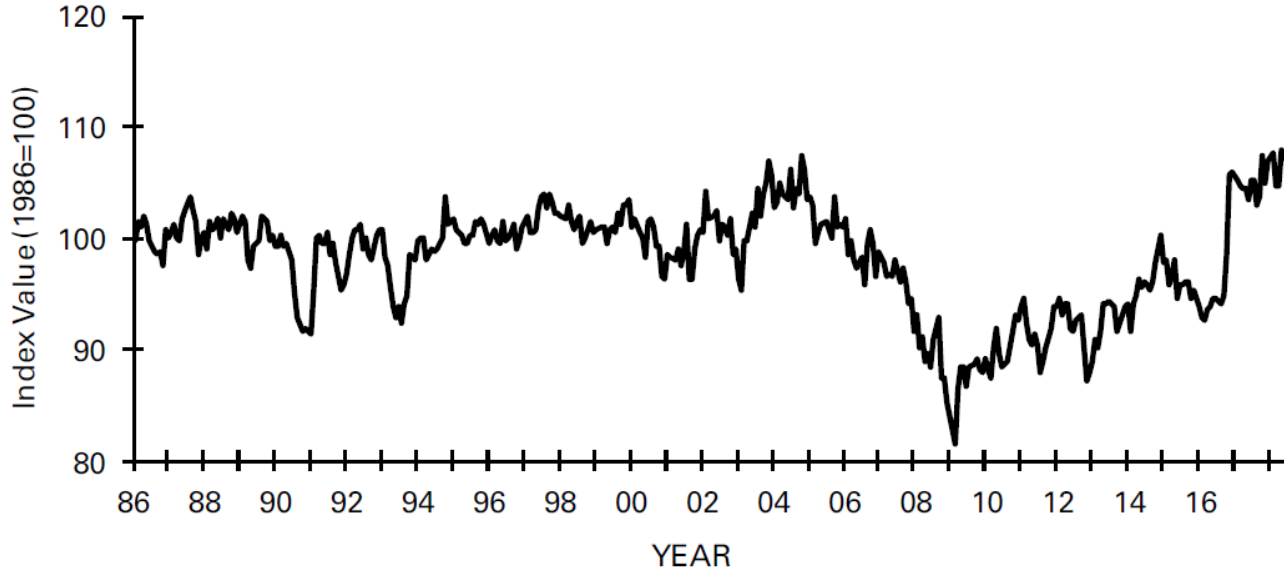




Business Sentiment

OPTIMISM INDEX

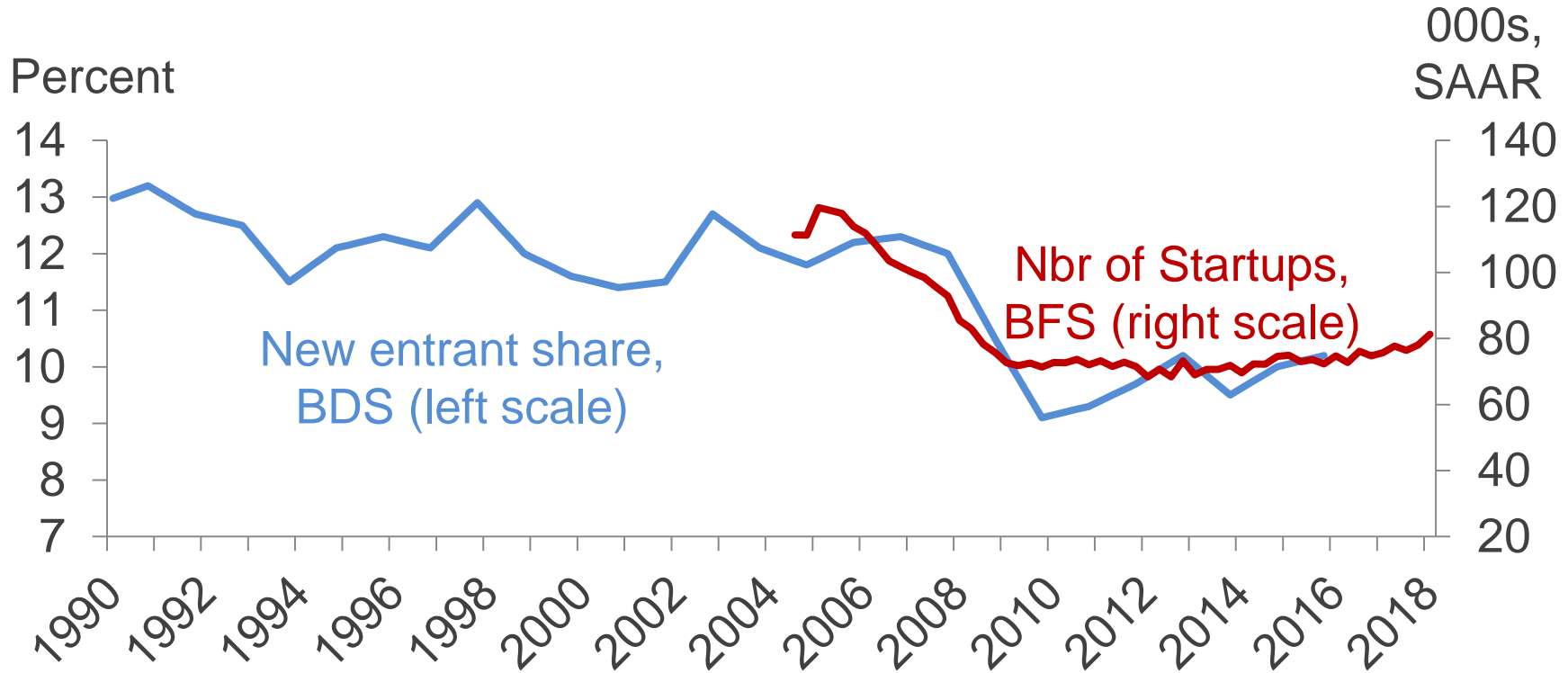
Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)



Source: National Federation of Independent Business



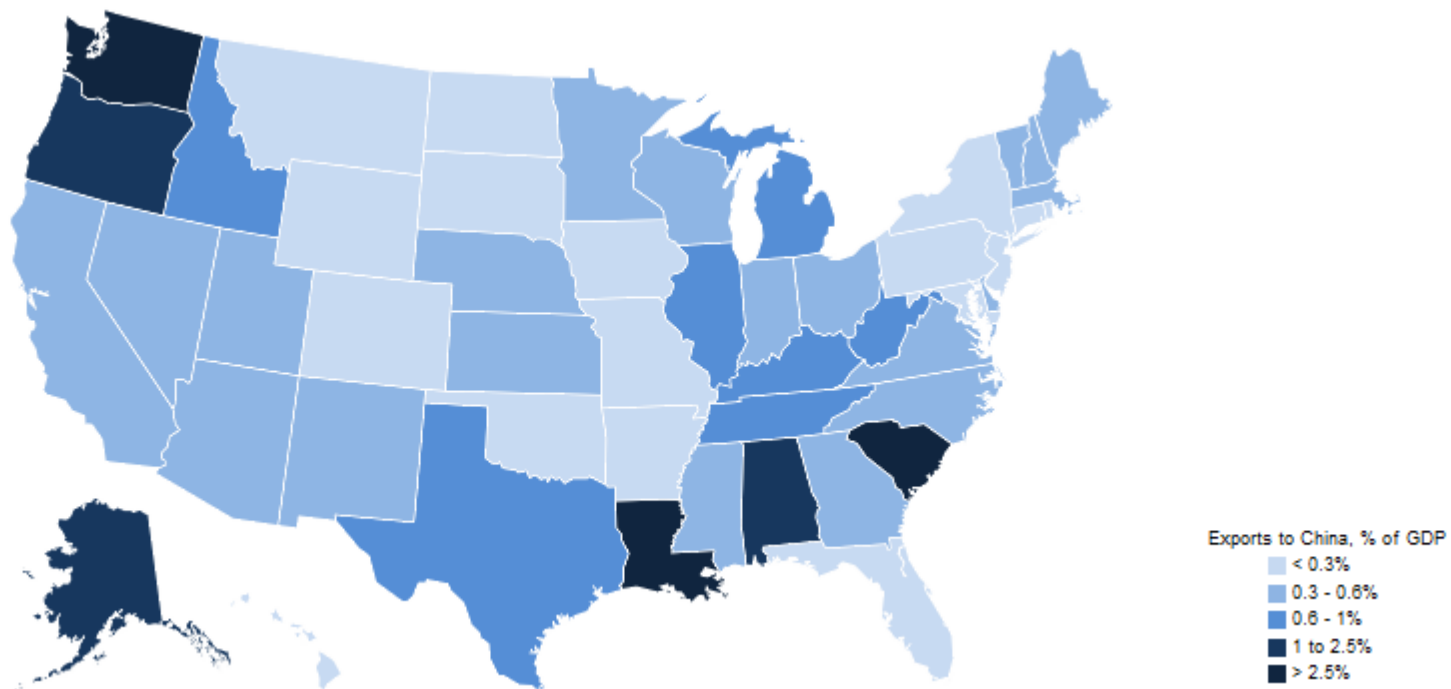
Business Formation



Sources: *Business Dynamics Statistics (BDS)* & *Business Formation Statistics (BFS)*, U.S. Census Bureau

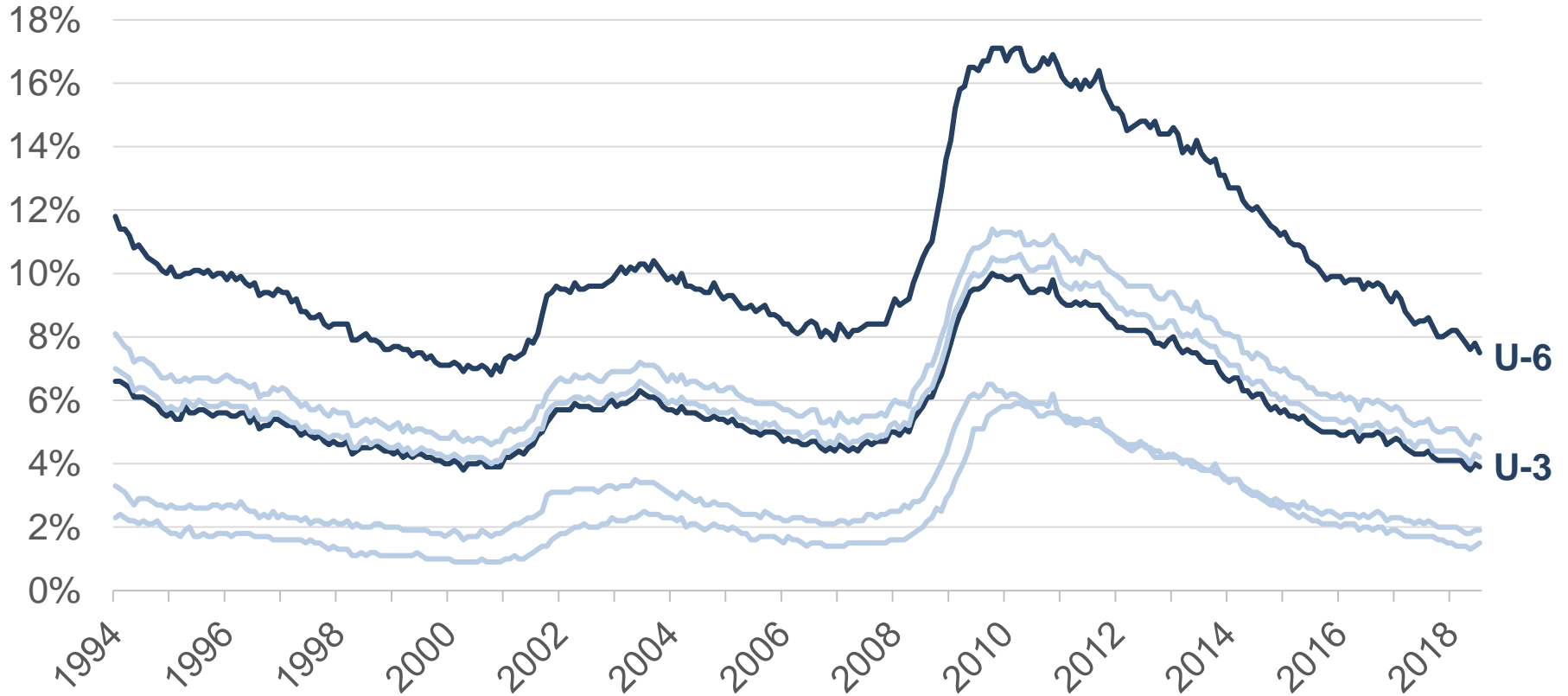
Tariffs

Exports to China by State





Unemployment Measures





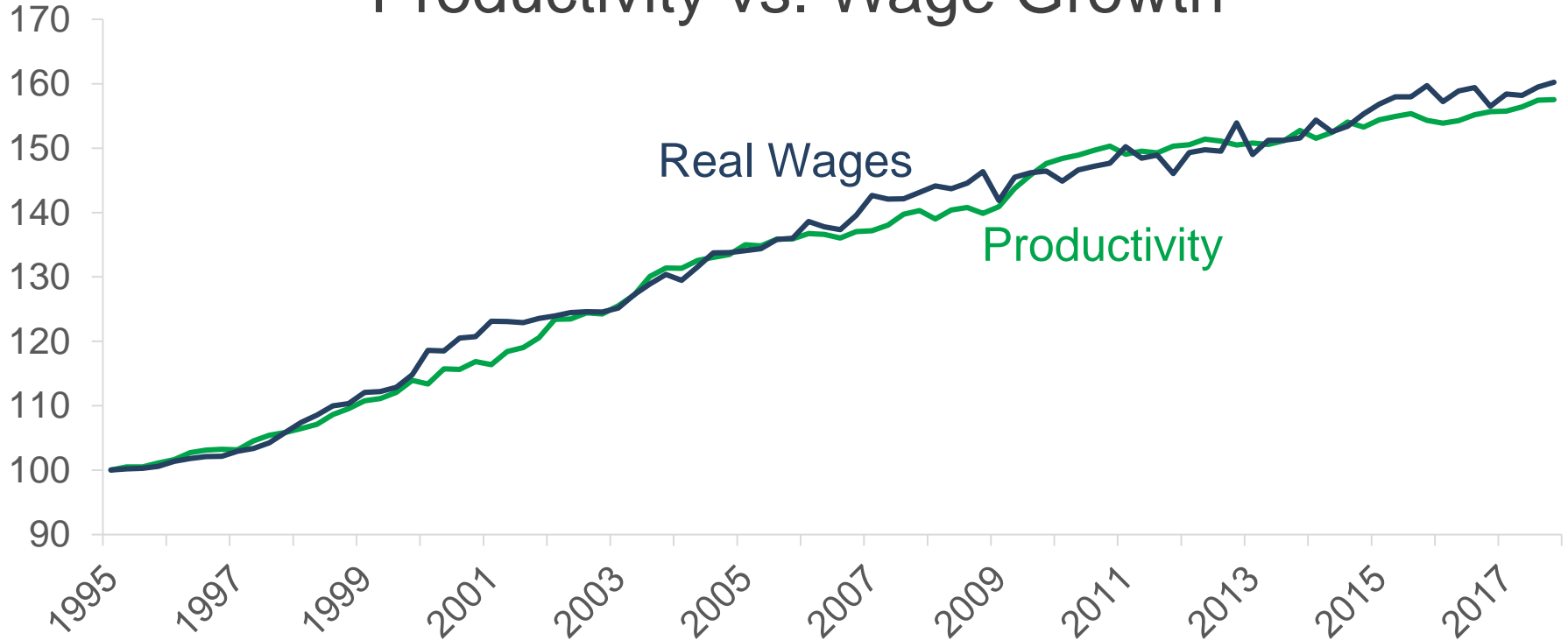
Weak Wage Growth

Comparison with Previous Unemployment Troughs

Date	Unemployment Rate	Wage Growth	Core Inflation
Dec 1968	3.4%	6.5%	5.1%
Oct 1973	4.6%	6.0%	4.3%
May 1979	5.6%	7.9%	9.4%
Mar 1989	5.0%	4.2%	4.7%
Apr 2000	3.8%	3.9%	2.3%
May 2007	4.4%	4.1%	2.3%
Jul 2018	3.9%	2.7%	2.3%

Weak Wage Growth

Productivity vs. Wage Growth

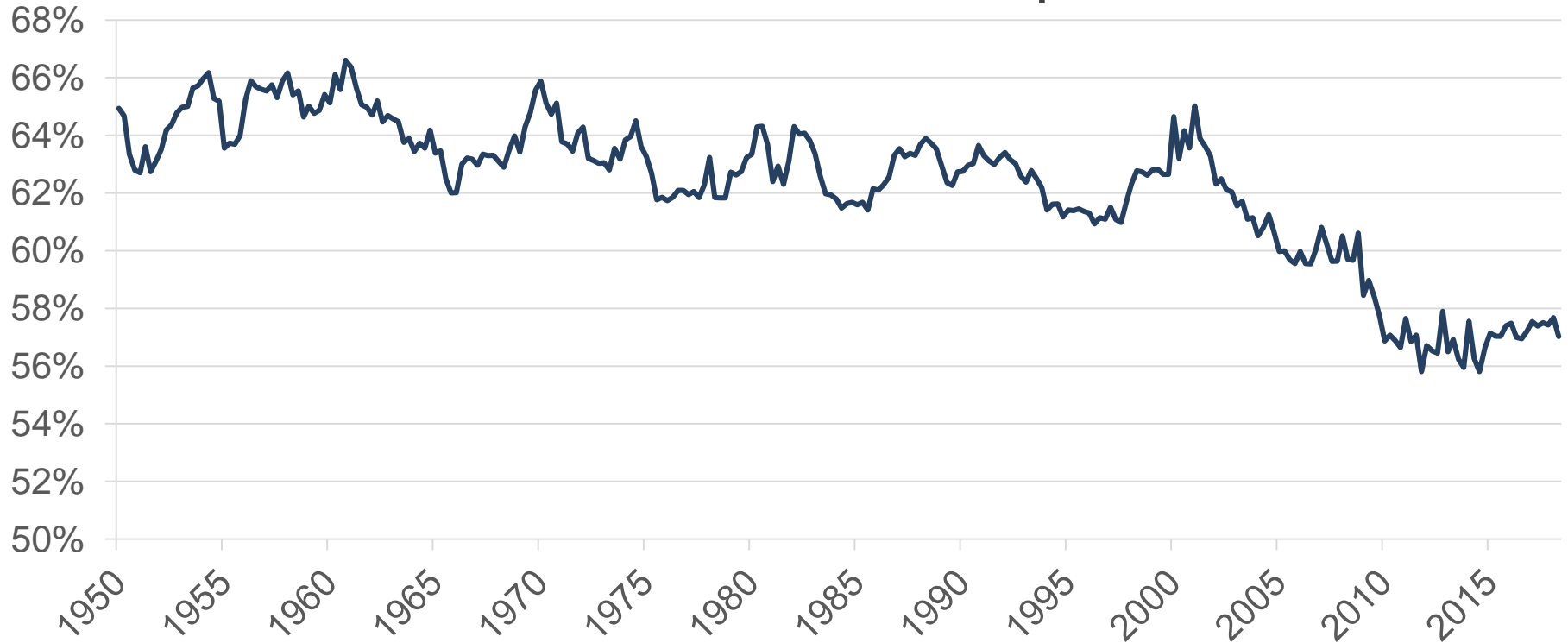


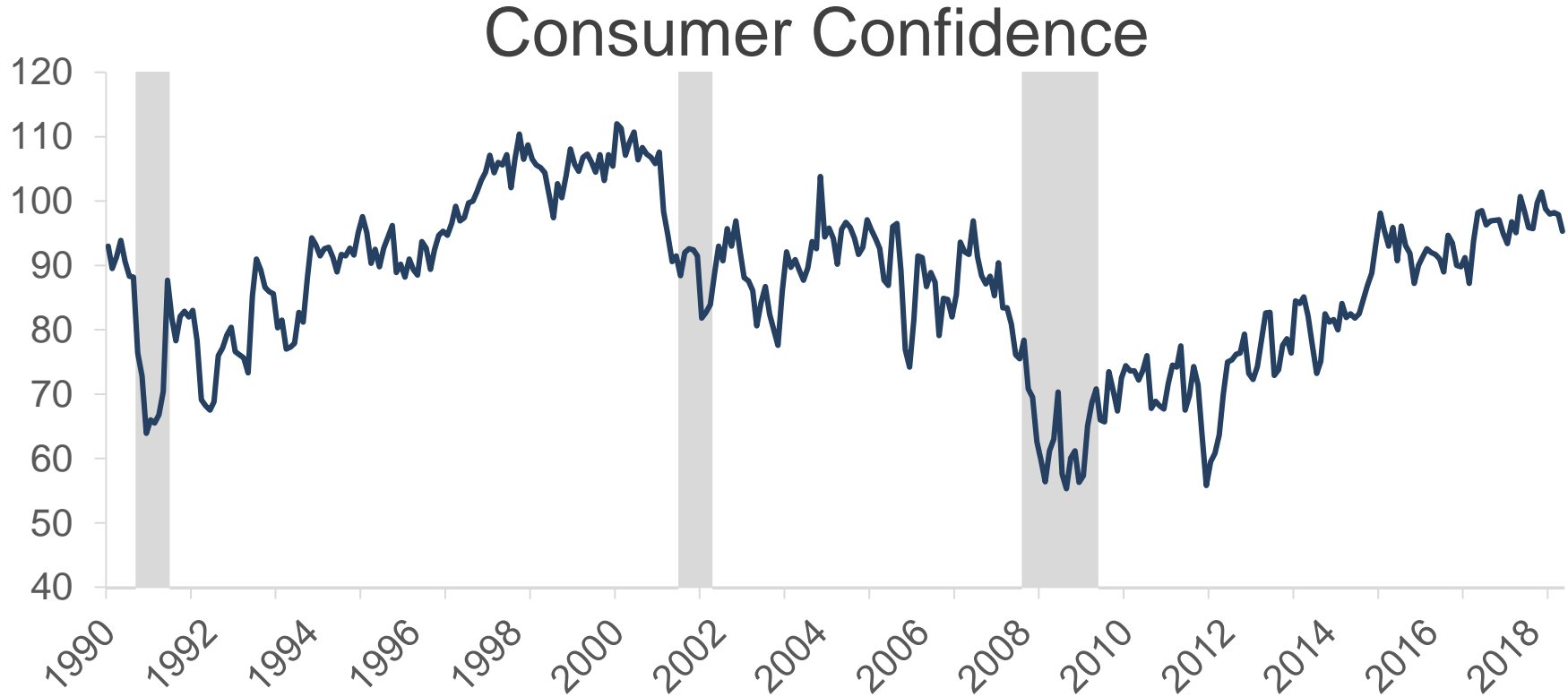
Both series indexed to 100 in 1995



Weak Wage Growth

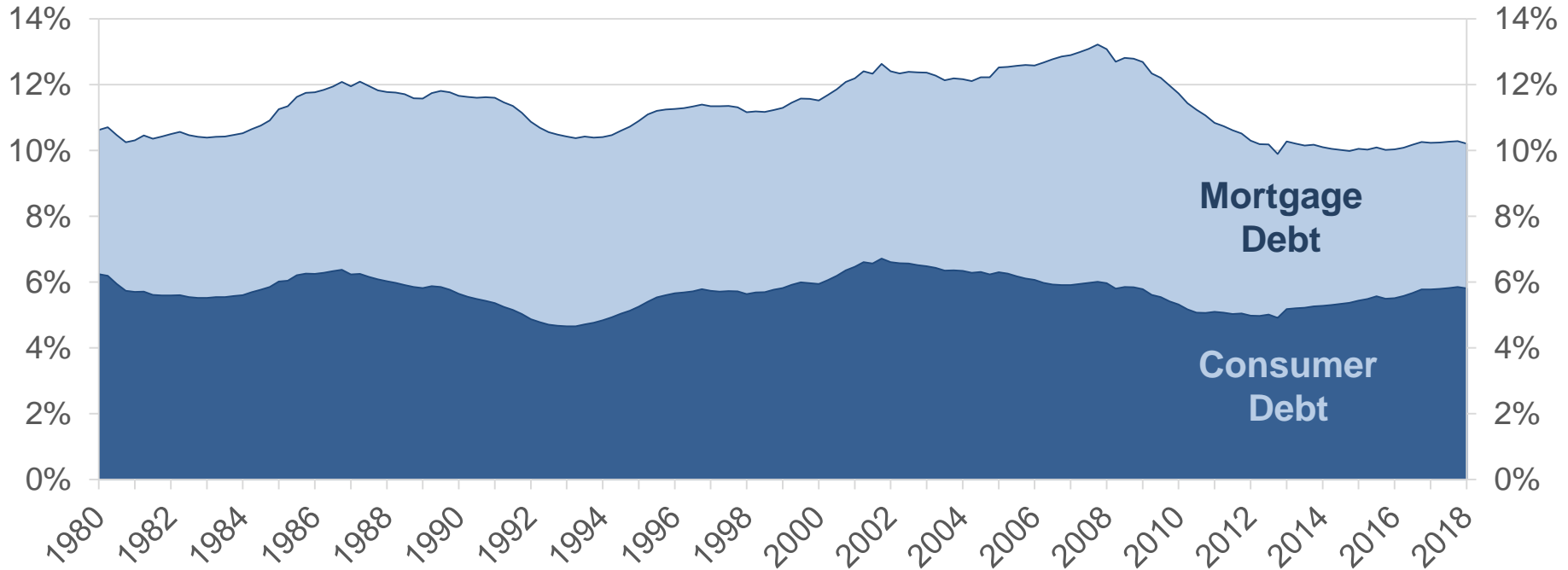
Labor Share of Output





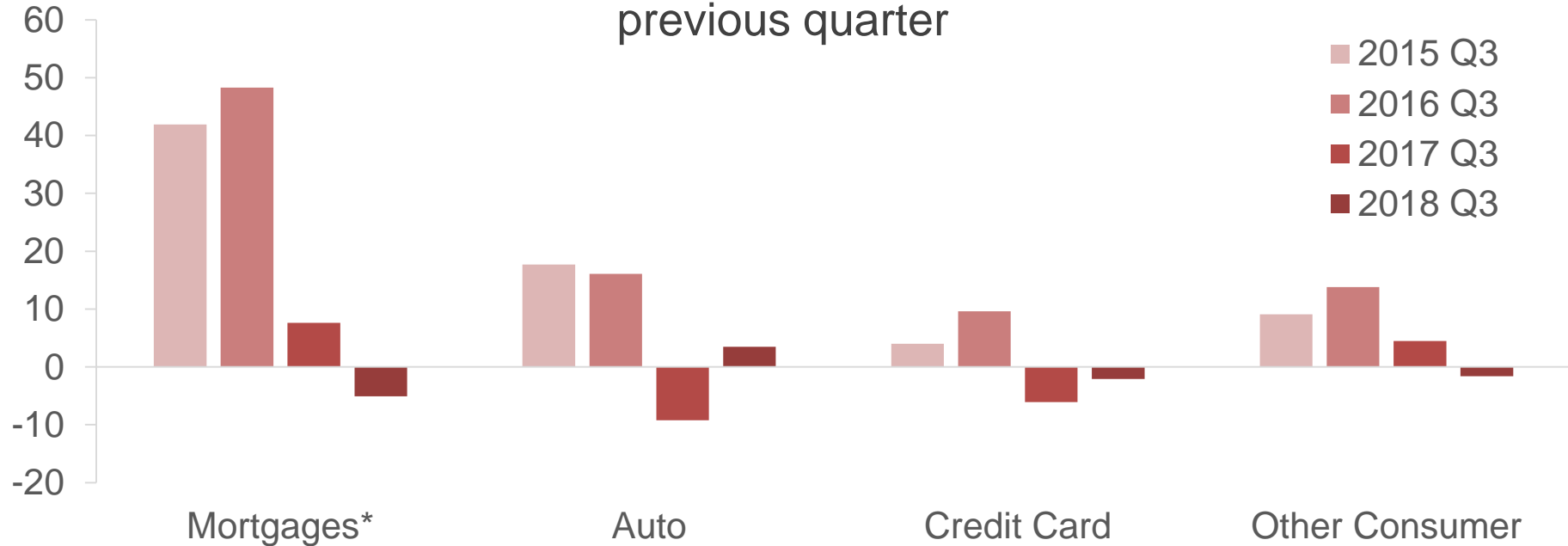
Consumers

Household Debt Service Payments as % of Disposable Income



Loan Demand

Net percent of lenders reporting stronger demand than previous quarter

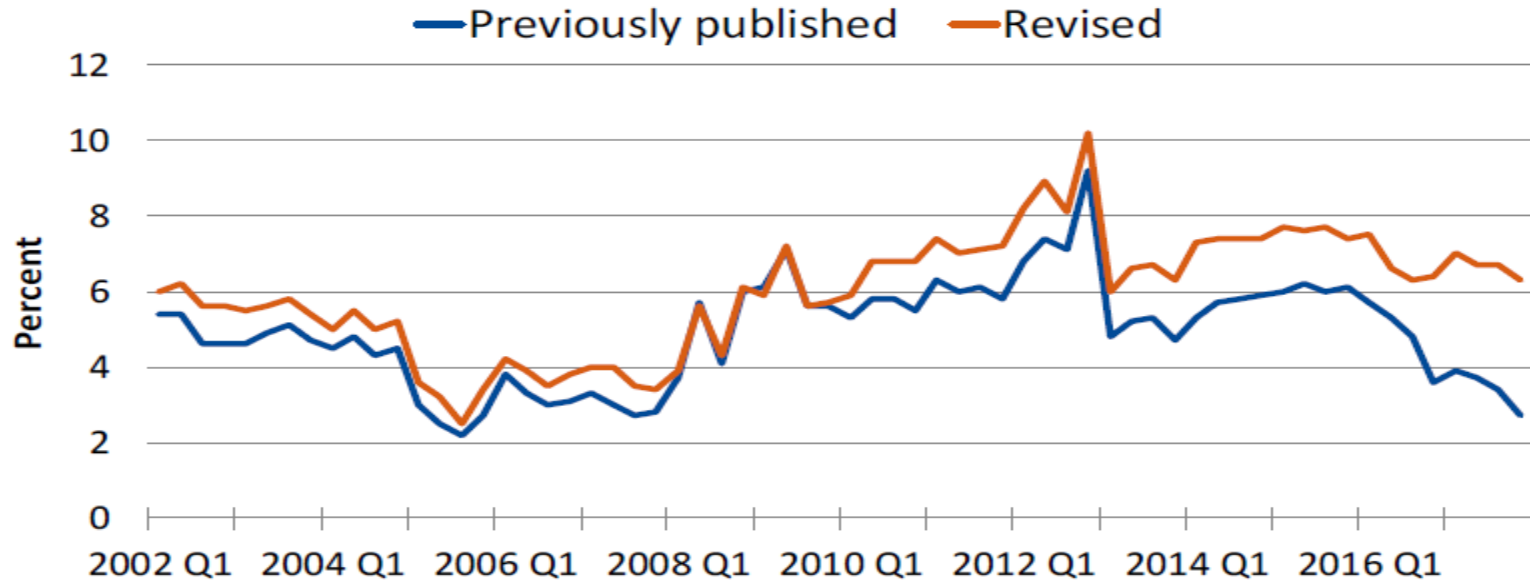


* GSE-eligible

Savings

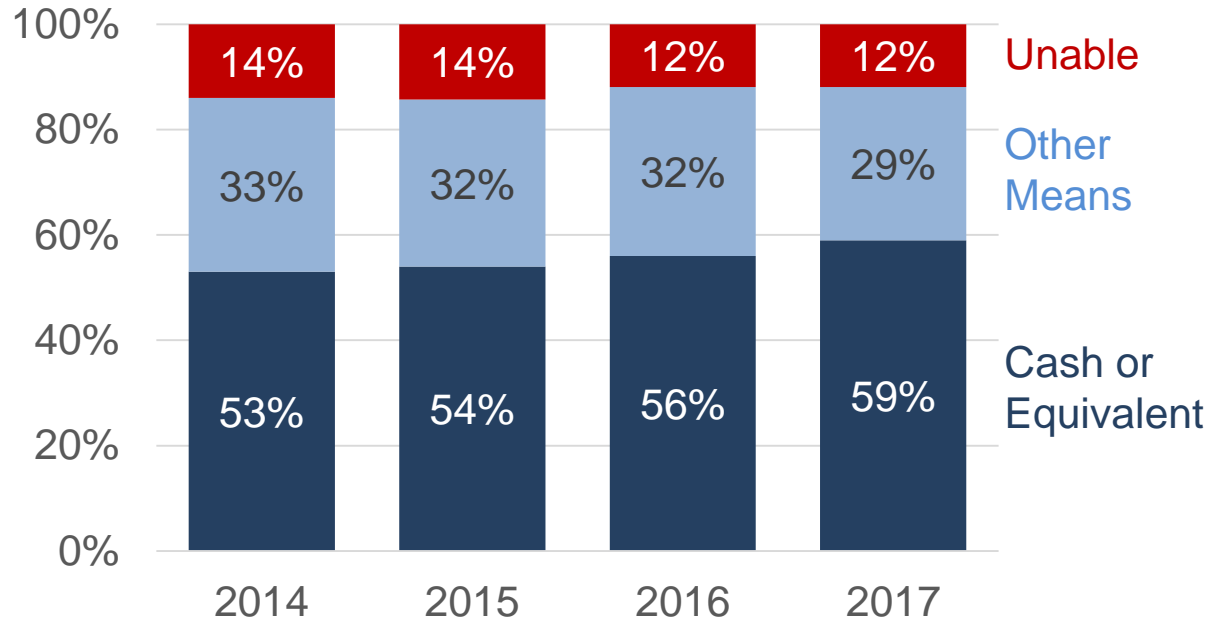
Personal saving rate

[Personal saving as a percentage of disposable personal income]



Savings

Households' Ability to Cover Unforeseen \$400 Expense



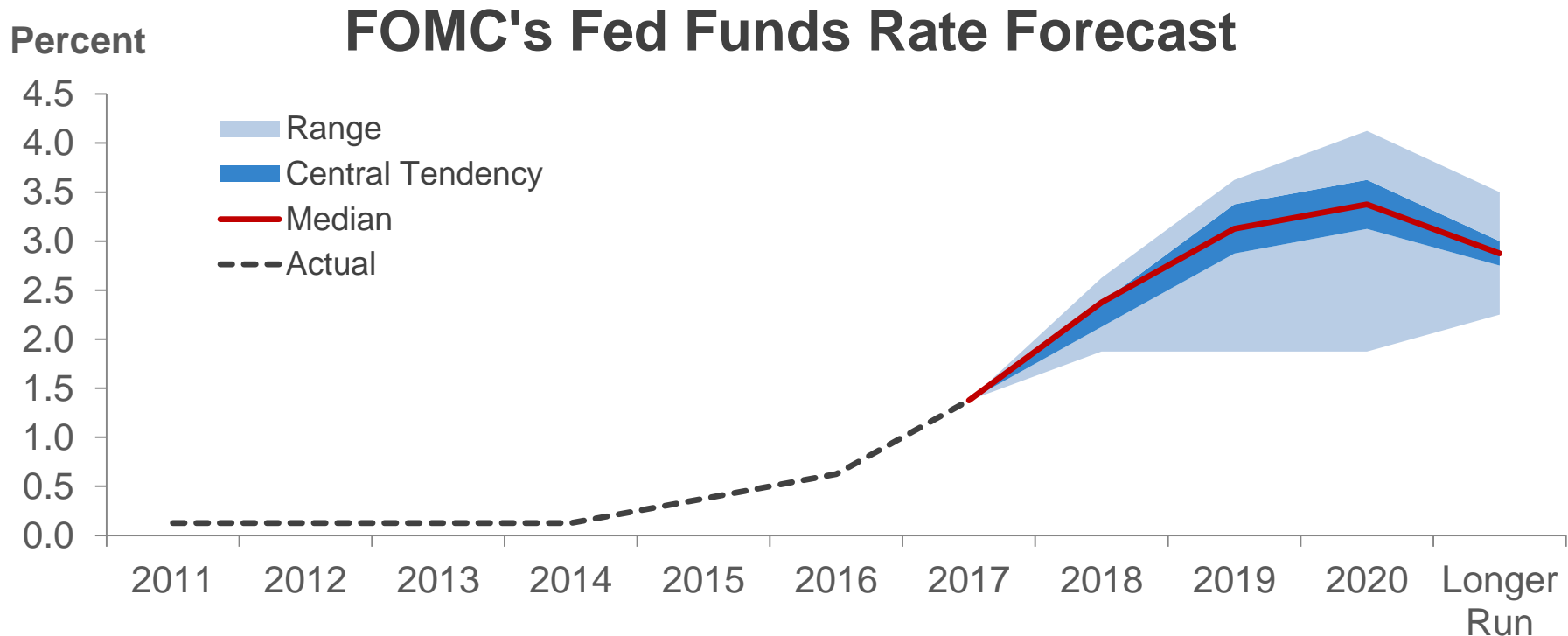
Source: Federal Reserve



Rising Inflation



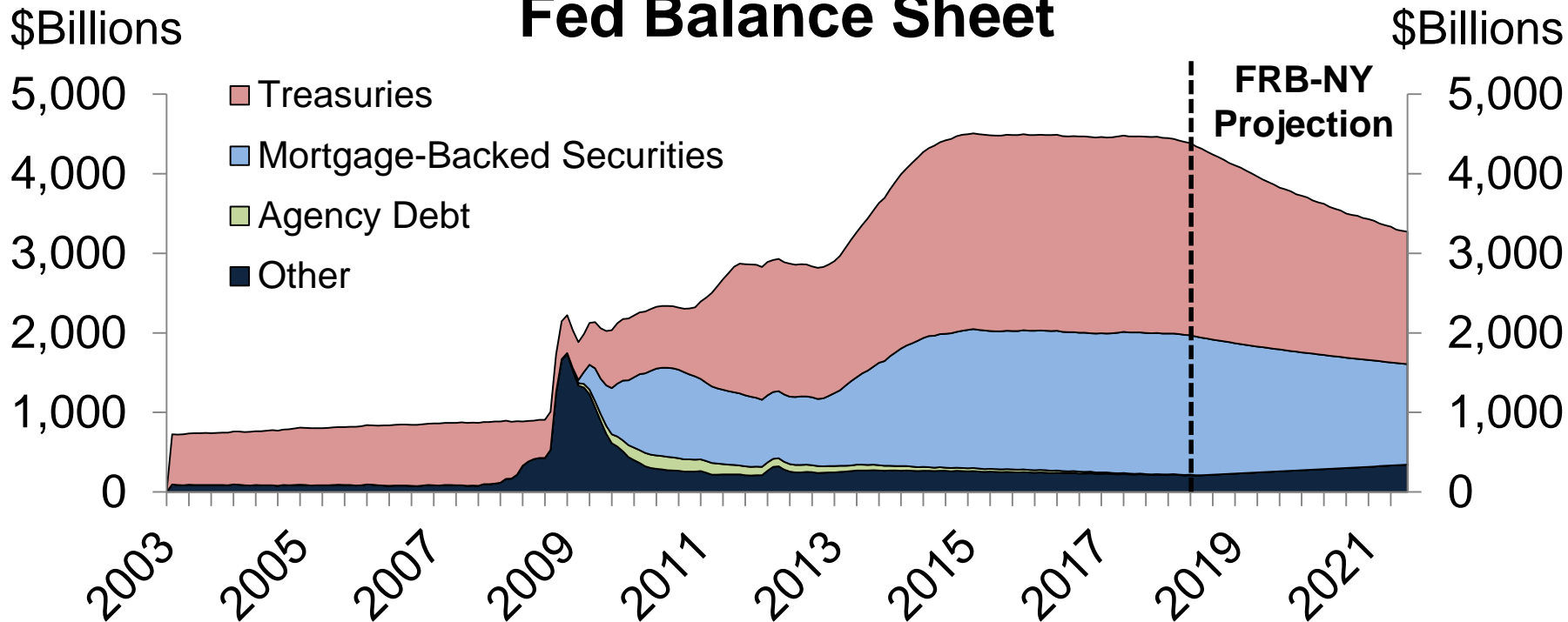
Notes: "Actual" shows year-over-year growth in core PCE inflation; "Expected" shows smoothed 10-year inflation expectations
Sources: Commerce Department, Cleveland Fed



Note: Central tendency removes the three highest and three lowest forecasts

Source: FOMC "Summary of Economic Projections"

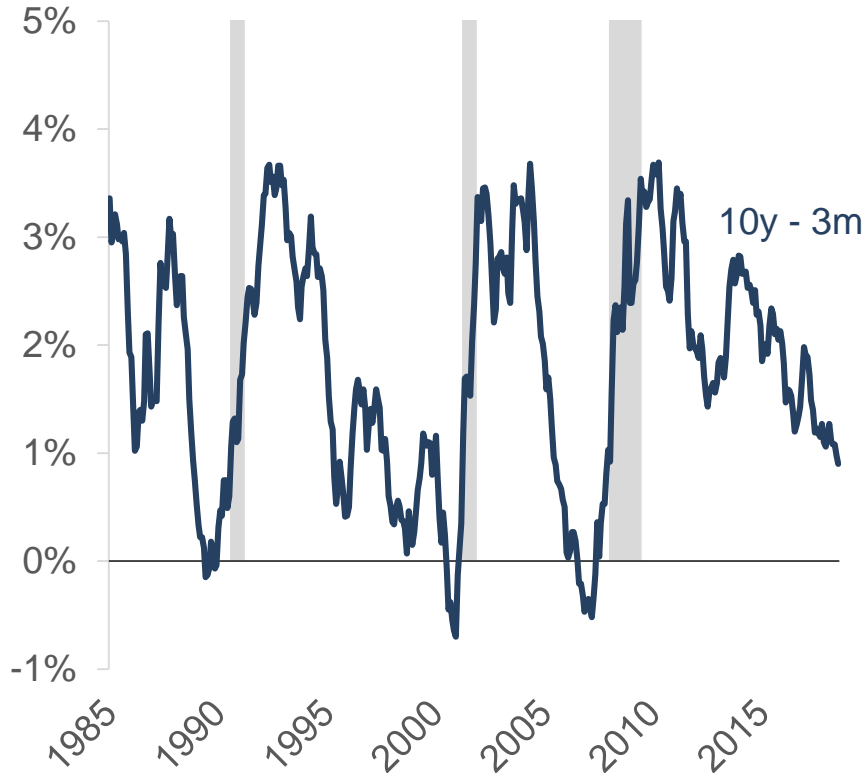
Fed Balance Sheet



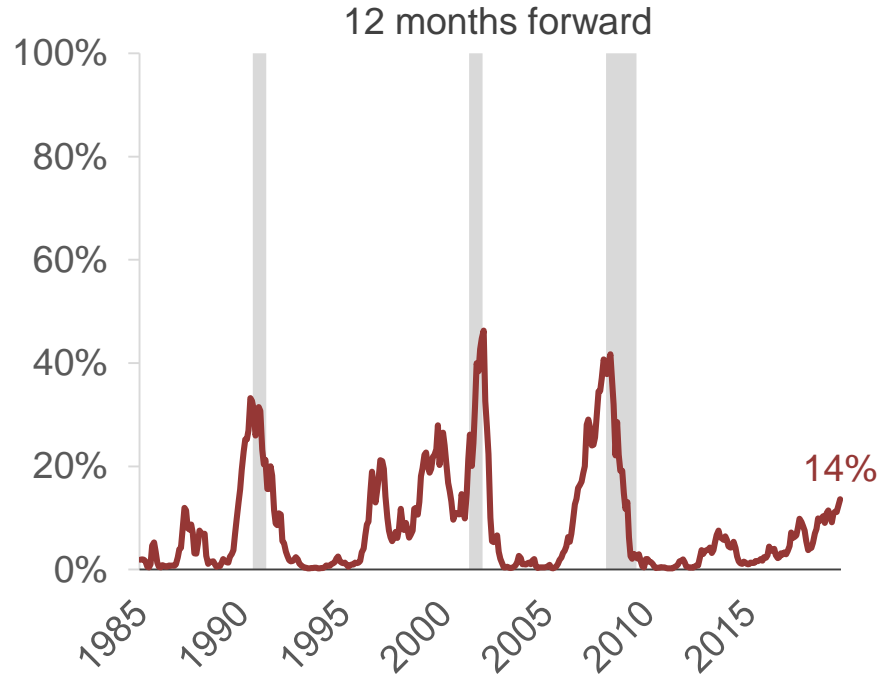
Note: Projection based on Federal Reserve Bank of New York's "Projections for the SOMA Portfolio and Net Income" (July 2017)

Interest Rates

Term Spread



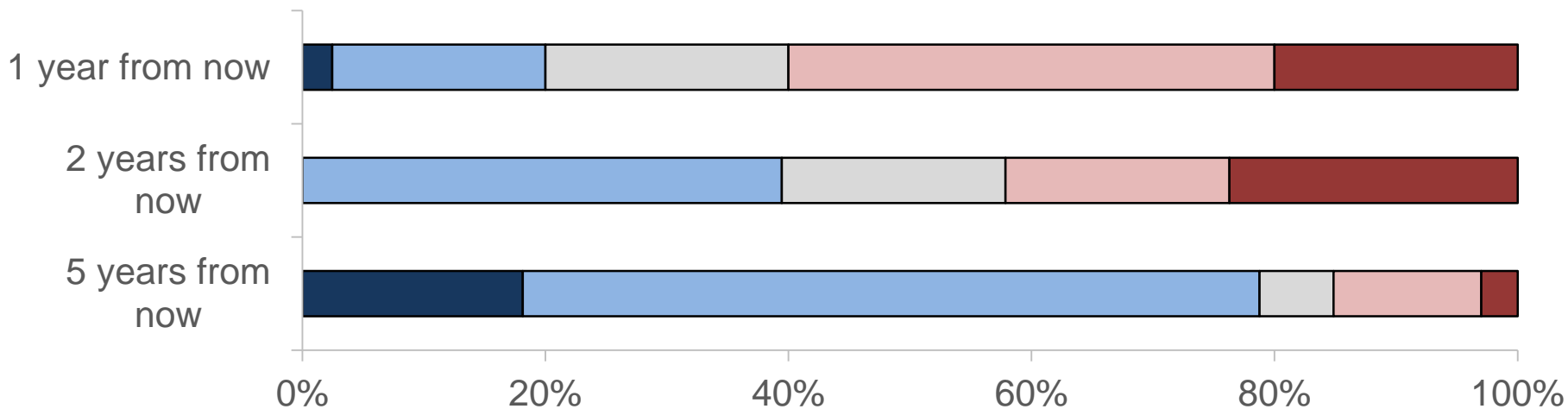
Probability of Recession



Interest Rates

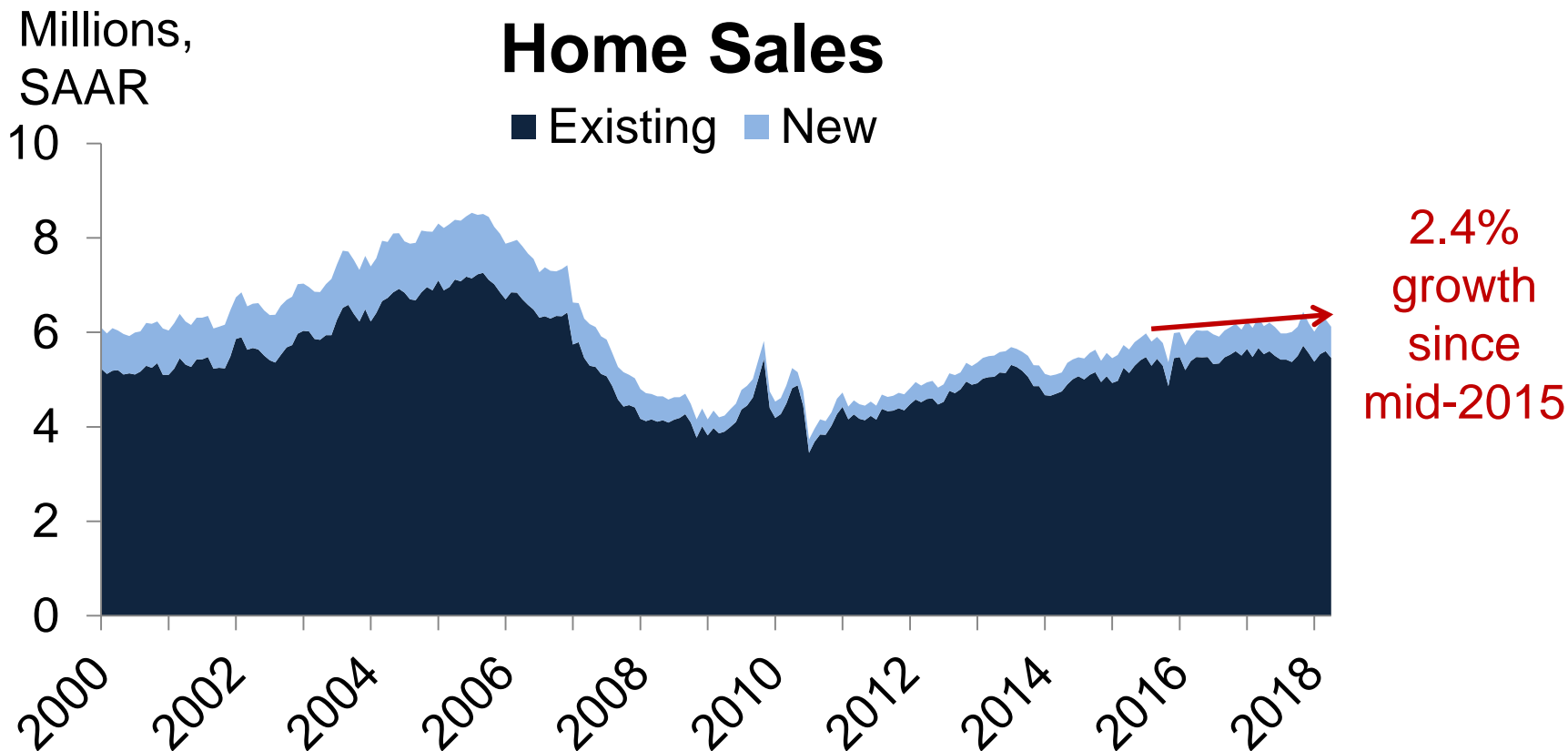
What Are Your Expectations for the Treasury Yield Curve over the Following Time Frames?

- Significantly steeper
- Somewhat steeper
- About the same
- Somewhat flatter
- Significantly flatter



Source: NAFCU *Economic & CU Monitor* survey (Aug 2018)

Housing



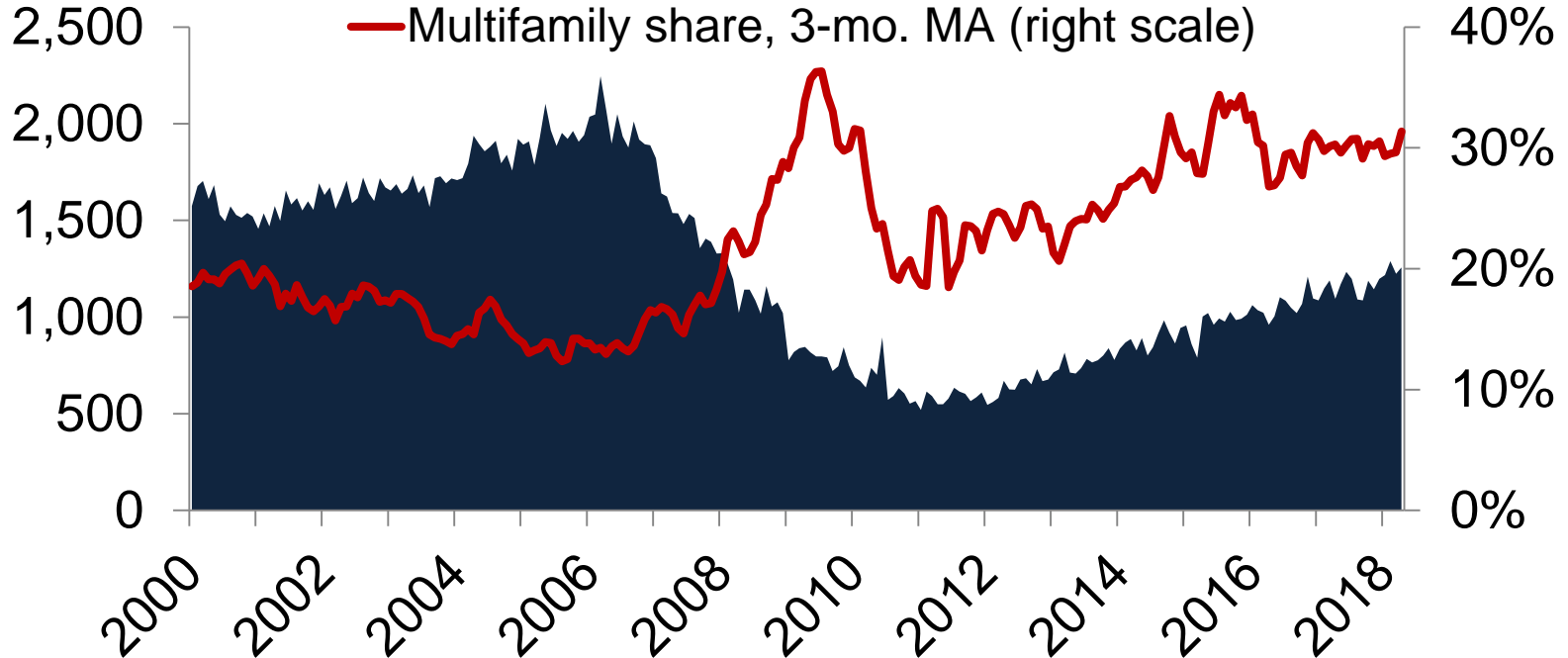
Housing

000s,
SAAR

Home Construction

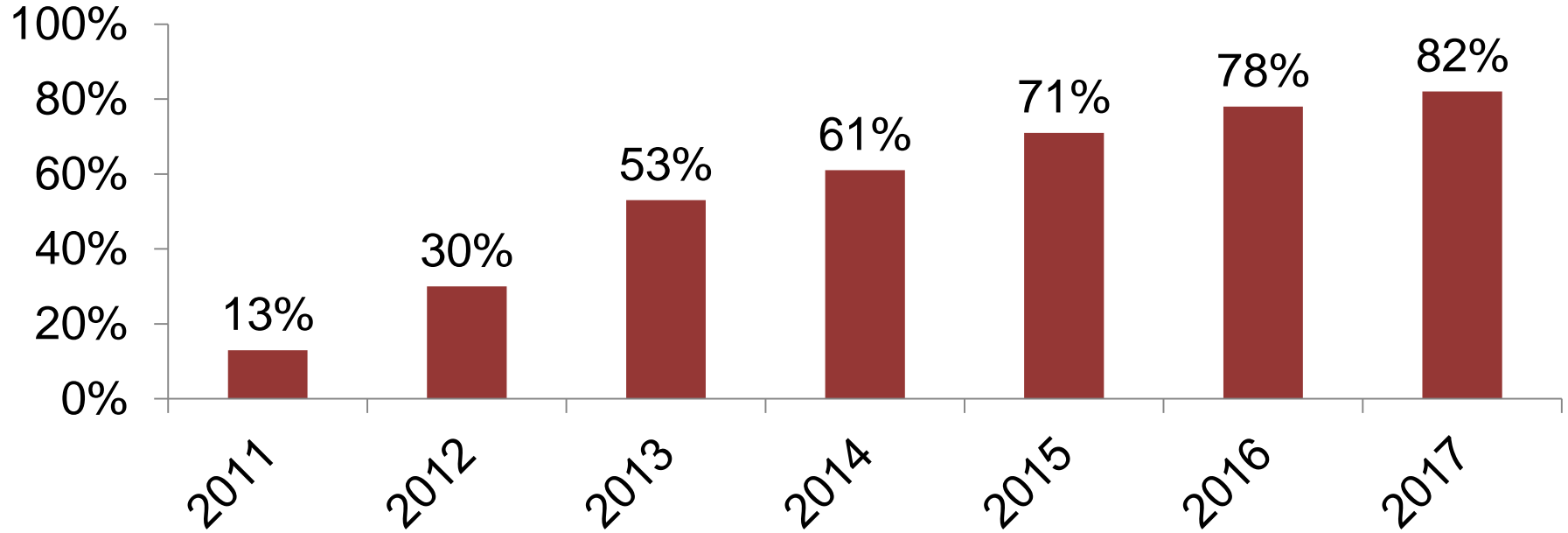
■ Total units (left scale)

— Multifamily share, 3-mo. MA (right scale)



Housing

Share of Single-Family Builders Reporting Labor Cost/ Availability Problems



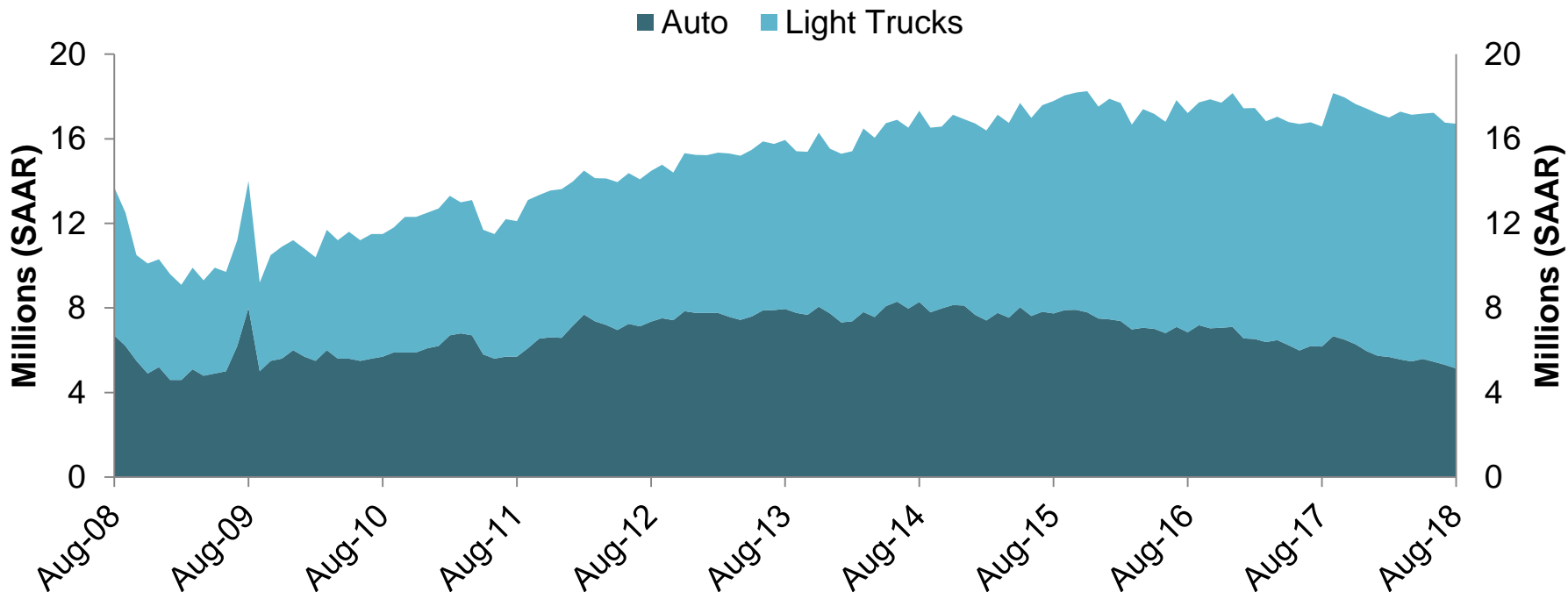
Source: National Association of Home Builders



Housing

Vehicle Sales

Seasonally Adjusted Annualized Rate





Household FI Choice

Households' Top Reason Given for Selecting FI for Primary Checking Account (1998 vs. 2016)

	All Ages		Ages 21 to 35	
	1998	2016	1998	2016
Location	37.9%	40.4%	31.2%	35.7%
Variety of Services Offered	13.9%	14.2%	9.5%	12.5%
Rates/ Fees	16.1%	13.0%	21.1%	13.9%
Safety/ Absence of Risk	0.2%	4.2%	2.1%	3.8%
Customer Service	0.7%	0.9%	0.5%	1.0%
Prefer Institution Type	0.1%	0.6%	0%	1.0%

Source: Federal Reserve *Survey of Consumer Finances*



Household FI Choice

Likelihood that Household Chooses CU,
by Reason Given for Selecting FI (1998 vs. 2016)

	All Ages		Ages 21 to 35	
	1998	2016	1998	2016
Location	6.8%	9.8%	10.3%	11.8%
Variety of Services Offered	21.7%	21.7%	27.1%	27.2%
Rates/ Fees	25.9%	32.1%	30.8%	20.9%
Safety/ Absence of Risk	8.8%	25.7%	14.3%	31.8%
Customer Service	11.1%	19.2%	20.3%	23.0%
<i>Total</i>	<i>13.0%</i>	<i>17.2%</i>	<i>16.9%</i>	<i>17.2%</i>

Source: Federal Reserve *Survey of Consumer Finances*

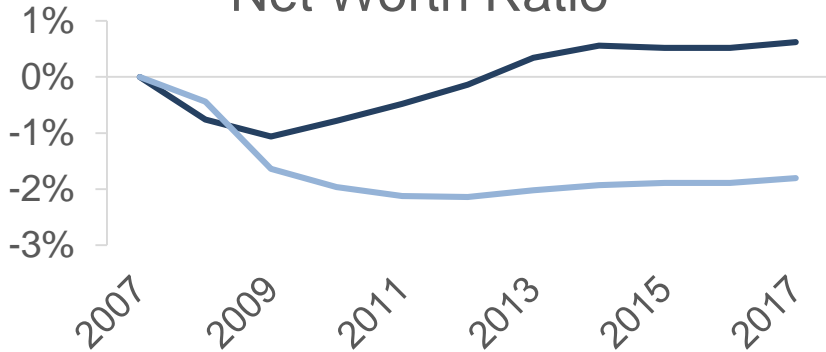


Large vs Small CU Divergence

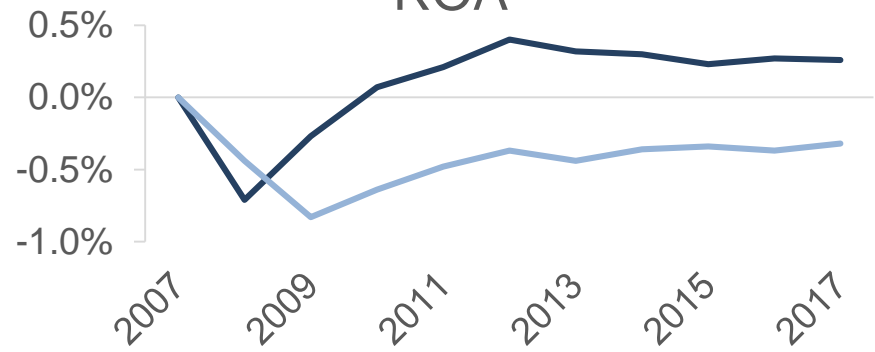
— Large CUs

— Small CUs

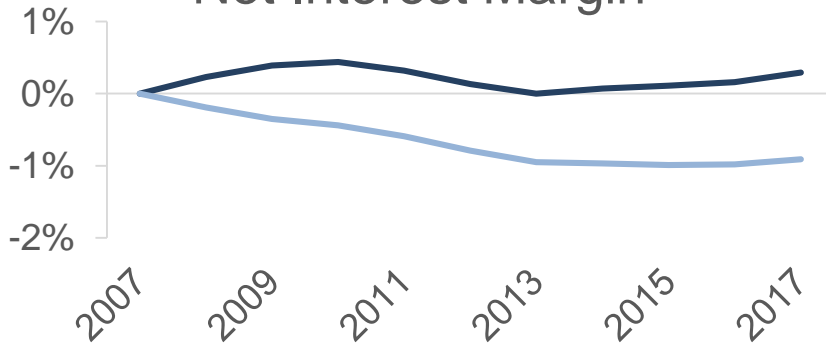
Net Worth Ratio



ROA



Net Interest Margin



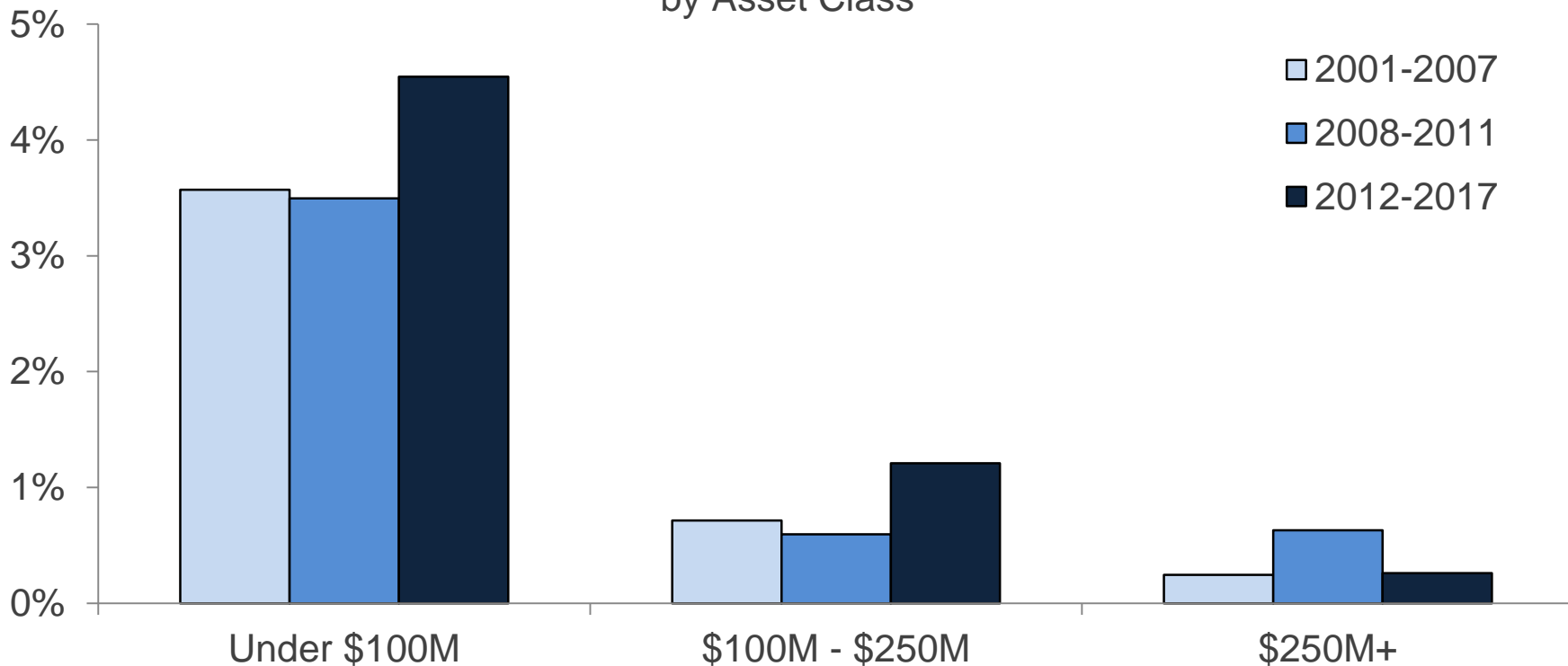
Member Growth





Consolidation Trends

Average Annual Merger Rate
by Asset Class

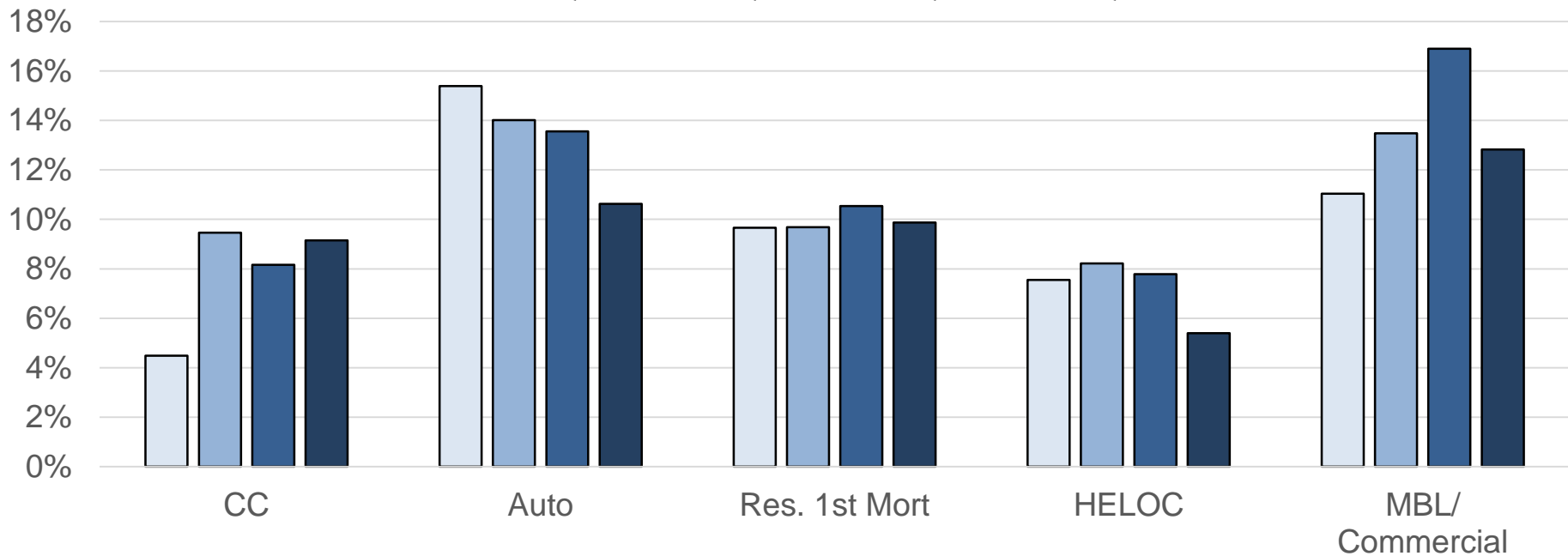




Credit Union Lending

Loan Growth (year-over-year)

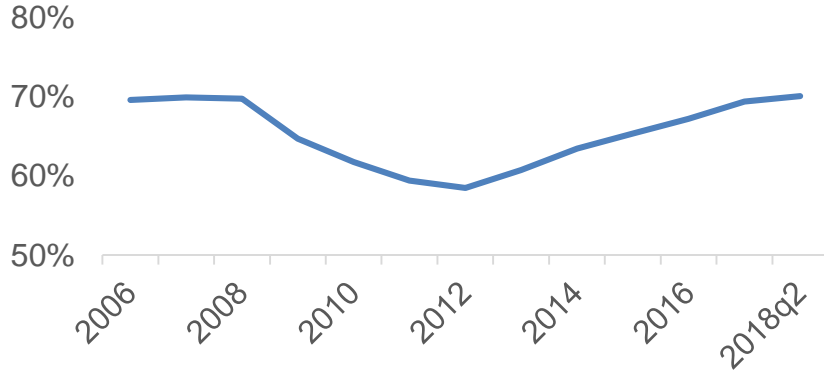
□ 2015 Q2 ■ 2016 Q2 ■ 2017 Q2 ■ 2018 Q2



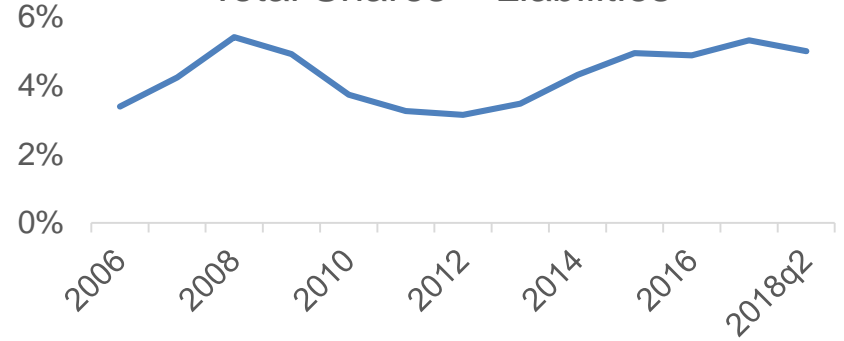


Liquidity

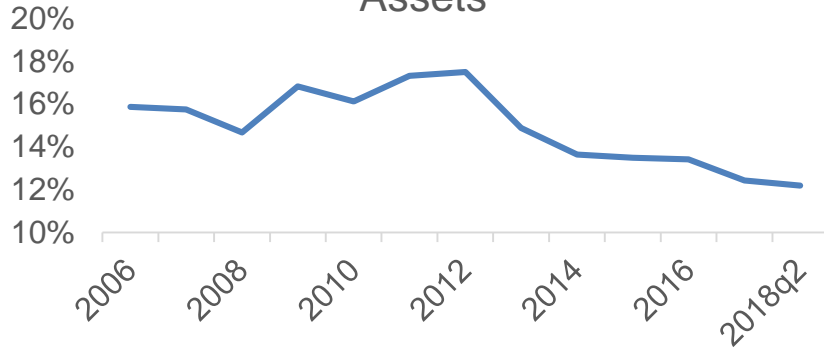
Loans-to-Assets



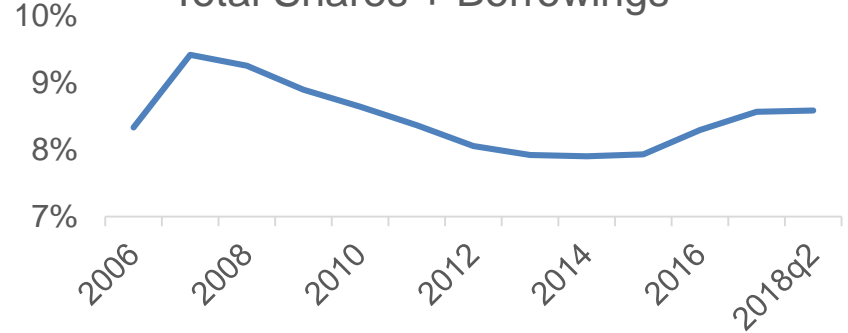
Borrowings + Non-Member Deps / Total Shares + Liabilities



Cash + S-T Investments / Assets



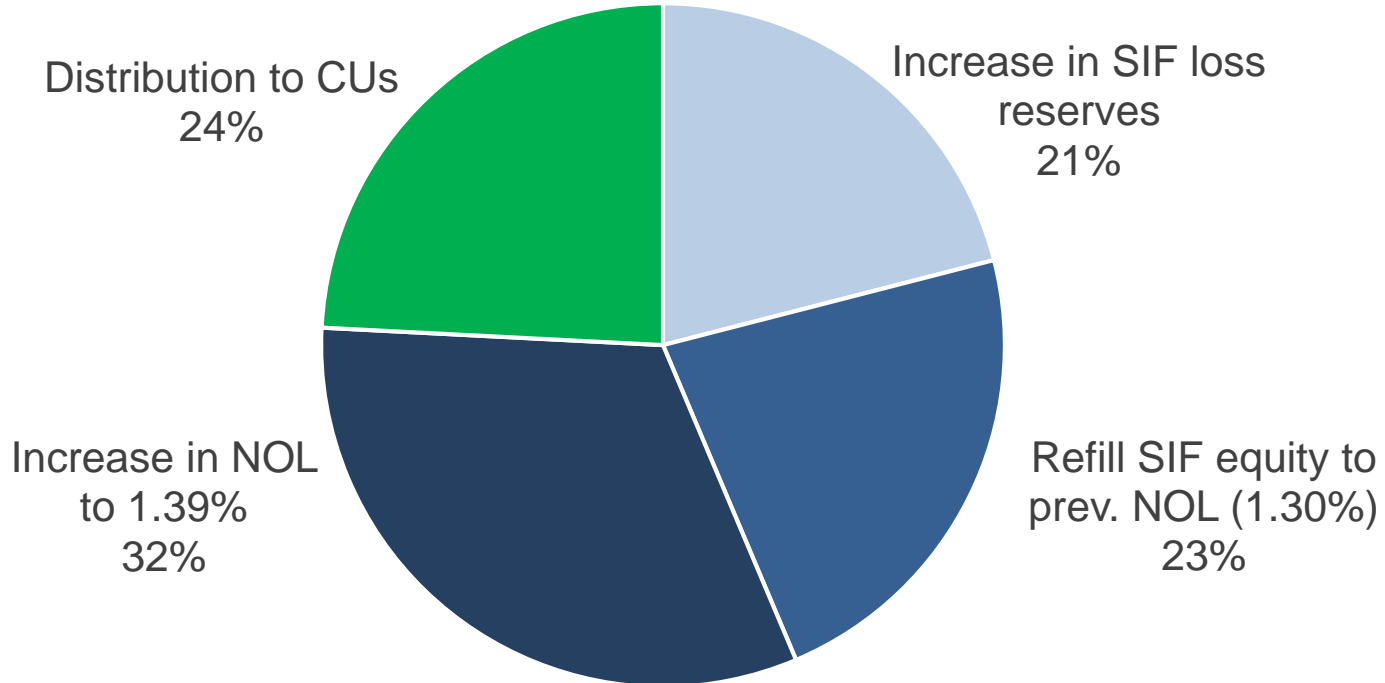
Jumbo CDs / Total Shares + Borrowings





Share Insurance Fund

Use of TCCUSF Funds
at 12/31/17





Recap

- Economic growth likely to moderate, but still on solid footing
- Quarterly rate hikes through mid-2019; even flatter yield curve
- CU performance starting to be weighed down by declining loan demand, tighter liquidity conditions
- CU appeal is growing!

- Economy
 - Trade tensions
 - Yield curve
 - Inflation
- Industry
 - Liquidity
 - Impact of taxi medallion loans on NCUSIF

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