Today’s Economy & Credit Unions

CUNA Community CU Conference
The Federation Annual Conference

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Credit Union National Association
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Economic Summary

- Beginning the seventh year of recovery.
- Job market improving, but still some slack.
- Inflation outlook moderate.
- Economy now in a sustained recovery: escape velocity.
- External risks not life threatening.
Gross Domestic Product

Quarterly Changes at Annual Rates, Real

2001 Recession

Great Recession Of 2008 - 2009
Household Finances

• Recovered:
  – Debt payments low
  – Stock market recovered
  – Home prices rising

• But still room for further improvement:
  – Debt outstanding still relatively high
  – Home prices still off peak

• Improved ability to spend, willingness hasn’t yet caught up

• Demand backlogs
Household Debt Outstanding
To Annual Disposable Income

Latest: 2015 Q1

Mortgage

Consumer

123%

96%

0% 20% 40% 60% 80% 100% 120% 140%

US Home vs. Stock Prices

Case-Schiller National Index, S&P 500
Annual Light Vehicle Sales
Millions

Sales $19 million below trend: 08 to 12
Non-Farm Payrolls
Monthly Changes SA, to August 2015

8.7 million jobs lost
12.4 million jobs gained
Net Gain: 3.7 million
Job Loss and Recovery: Four Recessions Since 1980
Scaled to 2008 Employment of 138 million

Great Recession

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# Job Loss and Recovery: Four Recessions Since 1980

Scaled to 2008 Employment of 138 million

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Percent Change in Nonfarm Payroll Employment Since Start of Recession

Source: CBPP calculations from Bureau of Labor Statistics data.
Unemployment Rates and Recessions
Percent of the Labor Force

Broatest Measure 10.3%
Down from 17.4%, Oct 2009

Narrow Measure 5.1%
Down from 10.1%
Consumer Confidence?  
Conference Board
Consumer Price Inflation
1970 to Present, Annual Rates

12 Months to August
Top Line = 0.2%
Core = 1.8%
Interest Rate Outlook
Waiting on the Fed

• The Fed has lost its patience.
• But we exist in international financial markets.
• Fed Funds Rate Move:
  – October, December?
  – Speed and frequency
• Longer-term rates.
• Liquidity vs. NEV or Net Interest Income
Interest Rates
1988 to Present

10-yr Treas
Credit Union Outlook Through 2015

• Weak savings and asset growth
  – Low interest rates
  – Consumer spending growth

• Strengthening loan growth
  – Household de-leveraging slowing
  – Improving confidence, building backlogs

• Loan delinquencies and losses about back to normal

• Mixed outlook for net income
  – See below

• Rising net worth ratios
What’s Driving Earnings?

POSITIVES:
• Lower provision expenses
• Finished stabilization assessments

NEGATIVE, for a while longer:
• Net Interest Income EVAPORATING
• Mortgage refinance revenue AT LONG-TERM RISK
• Debit interchange revenue
• Overdraft revenue
Credit Union Credit Quality
(As a % of Loans)

- Loan Loss Provisions
- Allowance for Loan Losses
- Net Charge-offs

Source: NCUA
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Corporate Stabilization Assessments
Basis Points of Insured Shares

![Bar chart showing basis points from 2009 to 2014.]

- 2009: 4
- 2010: 13.4
- 2011: 25.1
- 2012: 9.5
- 2013: 8
- 2014: 0
Corporate Stabilization Assessments
Basis Points of Insured Shares

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- 13.4
- 25.1
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Net Interest Margin vs. Operating Expense to Average Assets

- Basis Points
- Net Interest Margin (NIM)
- Operating Expense

Graph showing the trend of Net Interest Margin (NIM) and Operating Expense from 1998 to 2014.
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