The Economy and Credit Unions

Federation and Community Credit Union Conference

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Agenda

• The economic outlook through 2017

• Credit union finance issues
Economic Summary

• Beginning eighth year of recovery.
• Approaching full employment, but still some slack.
• Inflation outlook moderate.
• Interest rates poised to start rising.
• External risks overstated, not life threatening.
Household Finances

• Recovered:
  – Debt payments low
  – Stock market recovered, but touchy
  – Home prices recovered
  – Jobs and incomes

• But still room for further improvement:
  – Debt outstanding still relatively high
  – Labor force participation rate

• Improved ability to spend, willingness finally catching up

• Demand backlogs
Household Debt Service Ratio
Monthly Payments to Disposable Income

Latest: 2016 Q2

Percent

14
12
10
8
6
4
2
0


Mortgage
Consumer
US Home vs. Stock Prices
Case-Schiller National Index, S&P 500

Wealth Effects!
Unemployment Rates and Recessions

Percent of the Labor Force

Broadest Measure 9.5%
Down from 17.4%, Oct 2009

Narrow Measure 5.9%
Down from 10.1%
Non-Farm Payrolls
Monthly Changes SA, to October 2016

8.7 million jobs lost

15.1 million jobs gained
Net Gain: 6.4 million
Percent Change in Nonfarm Payroll Employment Since Start of Recession

Source: CBPP calculations from Bureau of Labor Statistics data.
Consumer Price Inflation
1970 to Present, Annual Rates

12 Months to September
Top Line = 1.5%
Core = 2.2%
Interest Rate Outlook
Watching the Fed

• Inflation approaching target.
• But we exist in international financial markets.
• How many Fed Funds rate moves next year:
  – 0, 2, 4?
• Longer-term rates.
• Liquidity vs. NEV or Net Interest Income
Interest Rates and Mortgage Refis
1988 to Present

10-yr Treas
Credit Union Outlook Through 2017

• Moderate savings and asset growth
  – Low interest rates
  – Rising short rates?
  – Consumer spending growth
• Strong loan growth
  – More jobs, spending
  – Still backlogs
• Loan delinquencies and losses back to normal
• Mixed outlook for net income
  – See below
• Stable/rising net worth ratios
Credit Union Delinquency

Dollars Delinquent as Percent of Total Portfolio

Net Capital to Assets

U.S.  PCA Well Cap'd  PCA Adequate
What’s Driving Earnings?

POSITIVES:
• Finished stabilization assessments

ALMOST POSITIVE:
• Net Interest Income

EVAPORATING
• Lower Provision Expenses
• Mortgage refinance revenue

AT LONG-TERM RISK
• Debit interchange revenue
• Overdraft revenue
Future of Stabilization Fund?

Total: 60 bp over 5 years
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Credit Union Credit Quality
(As a % of Loans)

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

Source: NCUA
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Mortgage Refinancing

- 10-yr Treas
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IS 80 THE NEW 100? (basis points, that is)

• To maintain a net worth ratio of 11%:
  – With 10% asset growth, takes ~100 bp of ROA
  – With 8% asset growth, takes ~80 bp of ROA

• To grow by 6% a year after inflation:
  – With 4% inflation, takes 10 % of top line growth
  – With 2% inflation, takes 8% of topline growth

• If 100 bp works at 4% inflation, 80 bp works at 2% inflation