Champion for America’s Credit Unions

CUNA is the largest national association, and the only one that advocates on behalf of all of America’s credit unions. Together with the leagues, we work tirelessly to support, protect, unify and advance the credit union movement.

It’s what we do together that sets us apart.
**Stronger together:** Through our combined strength and network with the state Leagues, we work so your credit union can focus on what’s most **important:** your members.

<table>
<thead>
<tr>
<th>1 CUNA</th>
<th>50 STATES and D.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,700 CREDIT UNIONS</td>
<td>5,000 credit union service providers</td>
</tr>
<tr>
<td>70,000 board members</td>
<td>110 million credit union members</td>
</tr>
<tr>
<td>300,000 credit union professionals</td>
<td>11 CORPORATE CREDIT UNIONS</td>
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<tr>
<td>950 Credit Union Service Organizations</td>
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</tbody>
</table>
Powered by purpose: CUNA membership

Advocate
Advocacy lies at the heart of everything we do for members

Unify
Unequaled network looking out for credit union’s best interests

Advance
Providing the tools to make service excellence a reality

Promote
CUNA supports the credit union difference

Learn more about the power of membership at cuna.org/join
Your strongest advocate

Fierce advocacy lies at the heart of everything we do for our members.
Economic Outlook
Federal Reserve’s mandate &
critical measures

Federal Reserve’s Dual Mandate
1. Stable Prices
2. Full Employment of Resources

<table>
<thead>
<tr>
<th></th>
<th>Long-Run Equilibrium Goal</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation Rate (Core PCE)</td>
<td>2%</td>
<td>2.1% (June '18)</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5%</td>
<td>4.0% (June '18)</td>
</tr>
<tr>
<td>Economic Output Gap</td>
<td>0%</td>
<td>0.65% (Qtr1 '18)</td>
</tr>
<tr>
<td>Fed Funds Interest Rate</td>
<td>3%</td>
<td>1.75-2.0% (June ‘18)</td>
</tr>
<tr>
<td>10-Year Treasury Rate</td>
<td>4%</td>
<td>2.88% (July 27, 2018)</td>
</tr>
</tbody>
</table>
Happy days are here again!
Strong short-term economic growth (Real GDP)

YOY 2nd Qtr. 2018 = 4.1%
2018 Est. = 3.00%
2019 Est. = 2.25%

Source: Bureau of Economic Analysis (BEA)
But is it sustainable?
Inflation is ticking up
(YOY Core Inflation, PCE)

Source: BEA
# CUNA Economic Forecast

June 2018

<table>
<thead>
<tr>
<th></th>
<th>Actual Results</th>
<th>Quarterly Results/Forecasts</th>
<th>Annual Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth (% chg GDP)*</td>
<td>2.37%</td>
<td>2.60%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Inflation (% chg CPI)*</td>
<td>1.30%</td>
<td>2.10%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.60%</td>
<td>4.10%</td>
<td>4.10%</td>
</tr>
<tr>
<td>Federal Funds Rate (effective)</td>
<td>0.36%</td>
<td>1.33%</td>
<td>1.68%</td>
</tr>
<tr>
<td>10-Year Treasury Rate</td>
<td>2.26%</td>
<td>2.40%</td>
<td>2.74%</td>
</tr>
<tr>
<td>10-Year-Fed Funds Spread</td>
<td>1.90%</td>
<td>1.07%</td>
<td>1.06%</td>
</tr>
</tbody>
</table>

*Percent change, annual rate. All other numbers are end-of-period values.
Credit union loan growth strong, but reverting back to the mean

CU Loan Growth 2018E: 9%
CU Loan Growth 2019E: 7%

Source: BEA, NCUA, and CUNA
Fast U.S. job growth...


And unemployment is at historically low levels

April Unemployment Rate: 3.9%
May Unemployment Rate: 3.8%
June Unemployment Rate: 4.0%

Source: BLS
Low unemployment = higher credit quality

CU Delinquency Rate vs. Unemployment Rate

CU Loan Growth Rate vs. Unemployment Rate

Source: BLS and CUNA
Tightening labor market, but wages growth is weak

Inflation (% Change in Headline CPI) vs Nominal Wage Growth (%)

Puzzle: Why aren’t wages growing faster???

Source: BLS
High-wage earners have continued to pull away from everyone else since 2000

Cumulative percent change in real hourly wages, by wage percentile, 2000–2017

Notes: Sample based on all workers ages 18–64. The xth-percentile wage is the wage at which x% of wage earners earn less and (100 – x)% earn more.
Employee expenses are increasing for med. & large size credit unions
The yield curve is flattening...

Source: Federal Reserve and NBER
The budding trade war

**Trump tariff tracker**
The United States imported **$2.4 trillion** in goods in 2017.

Trump has enacted tariffs on **$85 billion worth of goods**, or 3.6 percent of total imports.

**Trump’s trade fight by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>Tariffs enacted</th>
<th>China retaliation</th>
<th>Trump threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China</strong></td>
<td>$37 billion</td>
<td>$37B</td>
<td>$416B</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>$3B</td>
<td>$3B</td>
<td>$117B</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>$13B</td>
<td>$13B</td>
<td>$62B</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>$2B</td>
<td>$0B</td>
<td>$56B</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>$8B</td>
<td>$3B</td>
<td>$50B</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau; Peterson Institute for International Economics

WAPO.ST/W0NKBLOG

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Painting America's Price Picture
Changes in wages and the costs of select goods and services since 1997

Source: Bureau of Labor Statistics, American Enterprise Institute
Risks to the Economy

1. Trade war
2. U.S. inflation moving higher=> interest rates moving up faster than expected
3. Ballooning U.S. deficit and debt
4. Continued rise in U.S. inequality
Credit Union Trends
Credit union membership is growing 5X faster than U.S. population growth!

(% change)

Source: NCUA and CUNA
Credit union loan growth remains healthy (% change)

May ’18 CU loan growth rates: 9.9%

Source: NCUA and CUNA
Consumers are spending so CUs are experiencing weak savings balance growth (% change)

May'18 savings growth rate (YOY): 5.7%

Source: NCUA and CUNA
Credit union dollar delinquency rates have settled (End of Period %)

Source: NCUA and CUNA
Healthy bottom line results

- Steady earnings help boost capital
- CUNA 2018 Forecast: ROA 83 basis points

### ROA Trends

**bp of Average Assets**

- 2012: 78
- 2013: 72
- 2014: 80
- 2015: 75
- 2016: 76
- 2017: 77
- Mar 18: 90

### ROA in Basis Points

**by Asset Size Category**

- **< $20Mil**
  - ROA: 70.2
  - Percent with positive ROA: 12
- **$20-$50**
  - ROA: 85.8
  - Percent with positive ROA: 40
- **$50-$100**
  - ROA: 90.6
  - Percent with positive ROA: 52
- **$100-$250**
  - ROA: 94.3
  - Percent with positive ROA: 61
- **$250-$500**
  - ROA: 98.3
  - Percent with positive ROA: 74
- **$500-$1B**
  - ROA: 98.8
  - Percent with positive ROA: 82
- **> $1 Bil**
  - ROA: 99.3
  - Percent with positive ROA: 102

Source: CUNA
The credit union industry has been consolidating

Source: NCUA & CUNA

95% merged
5% liquidated
Nearly all of the consolidation due to large CUs acquiring small
The number of consolidating credit unions has slowed.

**Average Annual Change in Number of U.S. CUs By Decade**

- -686  '80 to '89
- -411  '90 to '99
- -319  '00 to '09
- -257  '10 to '16

**Average Annual % Change in Number of U.S. CUs By Decade**

- -3.7%  '80 to '89
- -3.1%  '90 to '99
- -3.4%  '00 to '09
- -3.9%  '10 to '16
The banking industry is also consolidating.
The banking industry is also consolidating.

Largest 100 Banking Institutions
(1992 market share = 41.1%; 2017 market share = 75.4%)

Smaller Banking Institutions
(1992 market share = 53.3%; 2017 market share = 17.2%)

Source: FDIC, NCUA, and CUNA
## CUNA Credit Union Forecast
### June 2018

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<th>Annual Forecasts</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>5 Yr Avg</td>
<td>2017</td>
<td>2018:1</td>
</tr>
<tr>
<td></td>
<td>2018:2</td>
<td>2018:3</td>
<td>2018:4</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td><strong>Growth rates:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings growth</td>
<td>5.7%</td>
<td>6.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td></td>
<td>0.7%</td>
</tr>
<tr>
<td>Loan growth</td>
<td>9.8%</td>
<td>10.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td></td>
<td>2.5%</td>
</tr>
<tr>
<td>Asset growth</td>
<td>6.2%</td>
<td>6.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td></td>
<td>1.3%</td>
</tr>
<tr>
<td>Membership growth</td>
<td>3.5%</td>
<td>4.1%</td>
<td>1.4%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td></td>
<td>0.7%</td>
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<tr>
<td><strong>Liquidity:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan-to-share ratio**</td>
<td>77.3%</td>
<td>82.8%</td>
<td>81.0%</td>
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<td></td>
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<td>82.4%</td>
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<td>83.9%</td>
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<td></td>
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<td>85.4%</td>
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<tr>
<td>Asset quality:</td>
<td></td>
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<tr>
<td>Delinquency rate**</td>
<td>0.86%</td>
<td>0.81%</td>
<td>0.66%</td>
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<td></td>
<td></td>
<td></td>
<td>0.80%</td>
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<tr>
<td>Net charge-off rate*</td>
<td>0.54%</td>
<td>0.59%</td>
<td>0.60%</td>
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<td></td>
<td></td>
<td></td>
<td>0.60%</td>
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<tr>
<td><strong>Earnings:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Return on average assets (ROA)*</td>
<td>0.77%</td>
<td>0.77%</td>
<td>0.90%</td>
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<tr>
<td><strong>Capital adequacy:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Net worth ratio**</td>
<td>10.9%</td>
<td>11.0%</td>
<td>10.9%</td>
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<td></td>
<td></td>
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<td>11.0%</td>
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<td></td>
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<td>11.1%</td>
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*Quarterly data, annualized. **End of period ratio. Additional information and updates available on our MCUE website.
Consumer Financial Health
S&P 500 monthly average at record heights

Historically every $ gain = $0.03 increase in spending over following two years

Avg. between 6/6/18 and 7/6/18: 2,752.16

Source: S&P
Home prices are up (YOY % change)

23 consecutive quarterly gains
Up 6.4% between since 2017Q1

Source: FHFA, All Transaction Index, Not seasonally adjusted
U.S. home prices have surpassed pre-recession levels

Source: U.S. Federal Housing Finance Agency (FHFA), All-Transactions House Price Index for the United States, Index 1980:Q1=100, Quarterly, Not Seasonally Adjusted
Household net worth is increasing
Total net worth as % of disposable income

Source: Federal Reserve
On average, Americans are making decent income gains

Inflation-Adjusted, YOY Changes in Disposable Personal Income

Source: BEA
The average FICO score is going up

Source: Federal Reserve Bank of New York

Household Debt
Total Loans as a % of Disposable Income

Household Debt Service Burden
Monthly Debt Payments as a % of Disposable Income

Source: Federal Reserve
Consumer confidence is at a 17-year high!

Source: Conference Board
Yet, 30% of families are just getting by or are finding it difficult to get by

- 27% finding it “difficult to get by” or “just getting by” - 90 million people!
- 40% could not cover a $400 emergency expense
- 25% of non-retired have no retirement