Credit Union National Association

CUNA Economic and Credit Union Forecast

January 2018

For Additional Information Contact:

Jordan van Rijn
Senior Economist
Credit Union National Association
Telephone: 800-356-9655
E-Mail: jvanrijn@cuna.coop

CUNA Economic and CU Forecast

January 2018 Change Highlights

CUNA Economists updated their economic and credit union financial projections for 2017 and 2018. Very low unemployment, high consumer confidence, and individual and corporate tax cuts should strengthen economic growth in 2018 and put upward pressure on wages and inflation. This will lead to the FOMC increasing the Fed Funds rate at a slightly faster pace next year. However, despite rising interest rates, we expect credit union membership and loan growth to remain strong, and portfolios to stay healthy. Credit union earnings will also receive a boost from the Corporate Stabilization Fund repayment in the second quarter of 2018.

We made only modest changes to our previous forecast, including:

- We increased our forecast for economic growth in 2018 from 2.5% to 2.6%.
- We increased our projection for the 2018 year-end Fed Funds rate from 2.25% to 2.40%.
- We revised up our forecast for 2018 loan growth from 9.5% to 10.0%.
- We decreased our forecasted 2018 delinquency and net charge-off rates from 0.85% and 0.60% to 0.80% and 0.55%, respectively.

CUNA Economic Forecast

- **We expect the U.S. economy to grow by 2.60% in 2018, up from the previous forecast of 2.50%.** Depending on how the fourth quarter GDP figure turns out, the U.S. economy is expected to have grown about 2.40% in 2017, a fairly robust rate. With very low unemployment, high consumer confidence, and a finalized tax bill with corporate and individual tax cuts, we now expect this figure to increase to 2.60% in 2018.
- **The unemployment rate finished 2017 at 4.1% and will fall to 3.9% in 2018**. The robust economy is boosting job growth and lowering unemployment. We expect continued strong job growth through 2018, with the unemployment rate bottoming out around 3.9%.
- **Headline and core inflation will both increase to 2.25% in 2018.** The growing economy and low unemployment will put upward pressure on wages, increasing headline and core (excluding food and energy prices) inflation by 2.25% in 2018.
- **The Federal Funds rate will increase to 2.40% in 2018.** With a fast growing economy, low unemployment, and rising wages and inflation, we expect the FOMC to raise interest rates at a faster pace in 2018 compared to 2017. We expect three to four rate hikes in 2018, with the Fed Funds rate reaching 2.40% by the end of 2018.
- **The 10-year Treasury rate will increase to 3.0% in 2018.** As the FOMC raises rates, the 10-year Treasury rate will correspondingly increase. With a strong economy and rising interest rates, investors are likely to perceive less risk and seek higher return investments, driving up the returns of the “safe” 10-year Treasury. This will propel the 10-year Treasury rate to 3.0% by the end of 2018.

CUNA Economic Forecast

January 2018

	Actual Results		Quarterly Results/Forecasts					Annual Forecasts	
	5Yr Avg	**2016**	**2017:2**	**2017:3**	**2017:4**	**2018:1**	**2018:2**	**2017**	**2018**
Growth rates:									
Economic Growth (% chg GDP)*	2.10%	1.90%	3.10%	3.20%	2.50%	2.25%	2.50%	2.40%	2.60%
Inflation (% chg CPI)*	1.30%	2.10%	0.06%	4.23%	3.20%	2.00%	2.10%	2.00%	2.25%
Core Inflation (ex. food & energy)*	1.90%	2.20%	1.01%	1.77%	2.70%	2.00%	2.10%	2.00%	2.25%
Unemployment Rate	6.00%	4.70%	4.40%	4.20%	4.10%	4.10%	4.00%	4.10%	3.90%
Federal Funds Rate (effective)	0.23%	0.54%	1.06%	1.06%	1.40%	1.65%	1.90%	1.40%	2.40%
10-Year Treasury Rate	2.31%	2.45%	2.31%	2.33%	2.50%	2.60%	2.70%	2.50%	3.00%
10-Year-Fed Funds Spread	2.08%	1.91%	1.25%	1.27%	1.10%	0.95%	0.80%	1.10%	0.60%

*Percent change, annual rate. All other numbers are end-of-period values.

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CUNA Credit Union Forecast

- **Memberships will end 2017 up about 4.4%. We expect slightly slower membership growth of 3.5% in 2018.** Since the recession, credit union membership growth has been buoyed by indirect auto lending. However, there are signs that the pent up demand for auto loans is leveling off. Therefore, we expect a slight drop-off in membership growth from 4.4% in 2017 to 3.5% in 2018.
- **Credit union savings balances will end 2017 up about 6.0%, and we expect 6.0% savings growth in 2018 as well.** Relatively slow second- and third-quarter savings growth of 0.6% in both periods led us to revise downward our expected 2017 savings growth figure from 7.0% to 6.0%. In 2018, savings should be propelled by increased membership growth and rising interest rates, maintaining growth of about 6.0%.
- **Credit union loan balances will have increased 10.5% in 2017, and we expect only a slight drop to 10.0% loan growth in 2018.** Credit unions will finish 2017 will their fourth straight year of double-digit loan growth. As auto lending tapers off, we expect this growth to also fall slightly. However, the growing economy and robust labor market should continue to bolster strong loan growth of 10.0% through 2018.
- **Credit quality will finish healthy in 2017, and this will continue into 2018.** The 2017 delinquency rate will end up around 0.78%, well below the five-year average of 0.93% and 2016's delinquency rate of 0.83%. The 2017 net charge-off rate will be a similarly strong 0.56%. We expect a slight increase in delinquencies as a fraction of the substantial auto lending falls past-due; however, credit quality should remain healthy in 2018. We expect a delinquency rate of 0.80% and net charge-off rate of 0.55% for 2018.
- **We expect strong 2017 credit union ROA of 75 to 80 basis points. This will increase to 85 basis points in 2018.** Credit unions should expect the share insurance fund dividend from the Corporate Credit Union Stabilization Fund repayment in the second quarter of 2018, boosting ROA by about 5 basis points for the year (or 20 basis points in the second quarter). Combined with a strong economy and growing loan portfolios, this should increase already healthy credit union earnings to 0.85% ROA in 2018.

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	Actual Results		Quarterly Results/Forecasts					Annual Forecasts	
	5Yr Avg	2016	2017:2	2017:3	2017:4	2018:1	2018:2	2017	2018
Growth rates:									
Savings growth	5.7%	7.6%	0.6%	0.6%	1.0%	4.0%	1.0%	6.0%	6.0%
Loan growth	8.7%	10.6%	3.2%	2.7%	1.8%	1.5%	3.0%	10.5%	10.0%
Asset growth	6.1%	7.4%	0.7%	0.9%	1.5%	4.0%	1.0%	6.5%	6.0%
Membership growth	3.1%	4.1%	1.3%	1.3%	0.9%	0.8%	0.9%	4.4%	3.5%
Liquidity:									
Loan-to-share ratio**	74.5%	79.8%	80.0%	81.8%	82.4%	80.5%	82.1%	82.4%	85.6%
Asset quality:									
Delinquency rate**	0.93%	0.83%	0.75%	0.79%	0.80%	0.80%	0.80%	0.80%	0.80%
Net charge-off rate*	0.57%	0.55%	0.56%	0.55%	0.54%	0.55%	0.55%	0.55%	0.55%
Earnings:									
Return on average assets (ROA)*	0.81%	0.76%	0.80%	0.81%	0.75%	0.75%	0.95%	0.75%	0.85%
Capital adequacy:									
Net worth ratio**	10.8%	10.9%	10.8%	10.9%	10.9%	10.7%	10.8%	10.9%	10.9%

*Quarterly data, annualized. **End of period ratio. Additional information and updates available on our MCUE website.

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