Credit Union National Association

CUNA Economic and Credit Union Forecast

June 2017

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

June 2017 Change Highlights

CUNA Economists updated their economic and credit union financial operations outlook for 2017 and 2018. We expect moderate economic growth to continue with further strengthening of labor markets and modest inflation, which should lead to gradual increases in the Fed's interest rate target this year and next. However, political deadlock and geopolitical uncertainty create potential for a slowdown of the economic recovery. Nonetheless, our forecast for credit union financial operations remains optimistic. We continue to expect double digit credit union loan growth, healthy credit union earnings and strong growth in memberships.

The most significant changes for 2017 include:

- We lowered our inflation forecasts from 2.5% to 2.0% (headline and core).
- Our forecast for the unemployment rate is revised down from 4.6% to 4.2%.
- We increased our projections of savings and asset growth from 5.5% and 6.5% to 7.5% and 7.9%, respectively.
- Our forecasted growth in loans also increased, from 10.0% to 10.8%.
- We revised up our estimate of membership growth from 3.5% to 4.0%.

CUNA Economic Forecast

- **We expect the U.S. economy to grow by 2.3% in 2017 and 2018**. The economy continues to grow at a moderate pace, propelled by confident consumers, home equity gains, consumer spending and business investment. Projecting into the next year or two, government spending on infrastructure and potential tax cuts could further boost growth; however, the likelihood of legislative movement on these initiatives now seems lower. Furthermore, the uncertain political environment, potential trade wars, and proposed changes to healthcare and immigration may lower growth in the long run.
- **Headline and core (excluding food and energy prices) inflation will both be 2.0% in 2017 and 2.3% in 2018.** These numbers were revised down slightly from our previous forecast, as energy and commodity prices continue to fall and wages have grown slower than expected. Nonetheless, rising employment, consumer spending and wealth will all contribute to continued moderate inflation into 2018.
- **The unemployment rate will finish at 4.4% in 2017 and fall to 4.0% in 2018**. Strong monthly job gains continue to put downward pressure on the unemployment rate. As the economy reaches full employment, competition for workers will increase, leading to higher quality jobs and higher wages, although the adjustments will continue to be gradual. Discouraged workers are likely to re-enter the job market, off-setting some of the gains in unemployment and wages. However, we expect job growth to remain strong as unemployment bottoms out around 4.0% next year.
- **The Federal Funds interest rate will increase to 1.4% by the end of 2017 and 2.25% by the end of 2018.** Increased spending, tighter labor markets, and looming inflation will cause the FOMC to continue to raise its target interest rate gradually, with another quarter-point hike this year and further increases of 75 basis points in 2018, if the economy continues on its current path.
- **The 10-year Treasury interest rate will continue to increase ending at 2.5% by December 2017 and 3.0% by December 2018.** Although slightly below our last estimates, we expect the 10-year Treasury interest rate to increase gradually as the economy continues to improve.

CUNA Economic Forecast

June 2017

	Actual Results		Quarterly Results/Forecasts					Annual Forecasts	
	5Yr Avg	2016	2017:1	2017:2	2017:3	2017:4	2018:1	2017	2018
Growth rates:									
Economic Growth (% chg GDP)*	2.10%	1.90%	1.40%	3.00%	2.30%	2.30%	1.50%	2.30%	2.30%
Inflation (% chg CPI)*	1.30%	2.10%	1.53%	2.20%	2.20%	2.20%	2.30%	2.00%	2.30%
Core Inflation (ex. food & energy)*	1.90%	2.20%	1.57%	1.90%	2.60%	2.60%	2.30%	2.00%	2.30%
Unemployment Rate	6.00%	4.70%	4.50%	4.40%	4.30%	4.20%	4.20%	4.20%	4.00%
Federal Funds Rate (effective)	0.23%	0.54%	0.82%	1.06%	1.25%	1.40%	1.50%	1.40%	2.25%
10-Year Treasury Rate	2.31%	2.45%	2.40%	2.31%	2.40%	2.50%	2.60%	2.50%	3.00%
10-Year-Fed Funds Spread	2.08%	1.91%	1.58%	1.25%	1.15%	1.10%	1.10%	1.10%	0.75%

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

Credit Union National Association

CUNA

CUNA Credit Union Forecast

- **Credit union savings balances will grow by 7.5% in 2017 and 6.0% in 2018.** These numbers were revised upward, as early 2017 indicators continue to point to high savings growth among credit unions. We expected outflows into money market mutual funds, but this might not occur until late 2017 or 2018.
- **Memberships will increase in 2017 by 4.0%.** Credit unions continue to see strong increases in membership, due primarily to recognition of the positive credit union value proposition, particularly in auto lending rates. We expect this number to fall slightly to 3.0% in 2018, as the auto lending boom slows and indirect borrower memberships decline from loan pay-offs.
- **Credit union loan balances will increase by 10.8% in 2017 and 9.5% in 2018**. With a stronger economy, we expect increases in consumer spending and consumer loans. As interest rates rise, fence-sitters will enter the market to lock in low rates. Coupled with all-time high credit scores across much of the country, we expect strong growth in new auto loans, credit cards and mortgages.
- **Credit quality will remain healthy in 2017 and 2018**. Although these numbers vary by sector of the economy and region, on average the improving job market, fast loan growth, and rising wealth will keep delinquencies and charge-offs at relatively low levels.
- **Credit union return on assets will decline modestly to 0.70% in 2017 and increase to 0.75% in 2018**. Strong loan growth will continue to sustain interest margins, leading to healthy earnings in 2017 and 2018. However, mortgage refinances are likely to decline due to increasing interest rates and this will push gains on loan sales lower. Furthermore, higher operating expenses due to a tighter labor market, higher funding costs, and lower fee income from overdrafts and NSFs will put downward pressure on credit union returns through 2018. Finally, a share insurance fund dividend (from Corporate Credit Union Stabilization Fund repayment) should add about five basis points to bottom-line results.
- **Net worth ratios will remain relatively stable at 10.8% in 2017 and 10.6% in 2018.** The increases are a bit lower than previously forecasted due to modestly lower earnings outlook and faster asset growth.

CUNA Credit Union Forecast

June 2017

	Actual Results		Quarterly Results/Forecasts					Annual Forecasts	
	5Yr Avg	2016	2017:1	2017:2	2017:3	2017:4	2018:1	2017	2018
Growth rates:									
Savings growth	5.7%	7.6%	4.4%	1.0%	1.0%	1.0%	4.0%	7.5%	6.0%
Loan growth	8.7%	10.6%	2.0%	3.5%	3.5%	1.8%	1.8%	10.8%	9.5%
Asset growth	6.1%	7.4%	3.5%	1.4%	1.5%	1.5%	4.0%	7.9%	6.0%
Membership growth	3.1%	4.1%	1.2%	0.9%	1.0%	0.9%	0.8%	4.0%	3.0%
Liquidity:									
Loan-to-share ratio**	74.5%	79.8%	78.0%	80.3%	82.3%	82.9%	81.1%	82.9%	85.7%
Asset quality:									
Delinquency rate**	0.93%	0.83%	0.68%	0.77%	0.76%	0.80%	0.70%	0.80%	0.85%
Net charge-off rate*	0.57%	0.55%	0.58%	0.54%	0.54%	0.54%	0.55%	0.55%	0.60%
Earnings:									
Return on average assets (ROA)*	0.81%	0.76%	0.71%	0.70%	0.70%	0.70%	0.75%	0.70%	0.75%
Capital adequacy:									
Net worth ratio**	10.8%	10.9%	10.7%	10.7%	10.7%	10.8%	10.5%	10.8%	10.6%

*Annualized Quarterly Data. **End of period ratio. Additional information and updates available on our MCUE website.

Credit Union National Association
CUNA