

CUNA Economic and Credit Union Forecast

April 2019

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CUNA Economic and Credit Union Forecast

April 2019 Change Highlights

The U.S. economy continues to grow at healthy rate. Economic fundamentals remain sound as evidenced by low inflation, a continued low unemployment rate, healthy job creation, recent wage increases, and consumer confidence. Still, downside risks such as the continuing trade tensions, slowing global growth, rising corporate debt, and uncertainty surrounding Brexit make this a delicate moment for the economy.

Slow labor force growth and slow increases in productivity suggest that the long-term sustainable rate of growth for the U.S. economy is close to 2.00%. Over the near term we expect to see the pace of economic growth slow and foresee continued healthy, albeit less robust, credit union performance in 2019 as several key performance metrics return to long-run trend levels over the next year.

Below are the most significant changes to our previous forecast:

- We lowered our GDP growth forecast for 2019 from 2.25% to 2.10%.
- We've adjusted our 2019 inflation (CPI) forecast down from 2.25% to 1.95%.
- We've changed our Fed Funds rate forecast for 2019 from two 25-basis point hikes to no increases.
- Our 2019 forecast for loan growth was lowered from 8.00% to 7.75%.
- The savings growth forecast was lowered from 7.00% to 6.00% in 2019.
- We've adjusted our ROA forecast for 2019 from 0.85 basis points to 0.80 basis points.

CUNA Economic Forecast

The U.S. economy grew at a strong pace of 2.9% in 2018 but we expect growth to slow to 2.1% in 2019.

Sound economic fundamentals are obvious but the declining impact of tax cuts, slower global growth, continued trade tensions, and rising corporate debt could each serve as drag. Accordingly, we lowered our GDP growth forecast for 2019 from 2.25% to 2.10% and we're now forecasting slightly lower GDP growth of 1.90% in 2020.

Inflation, measured by the headline Consumer Price Index (CPI), is controlled near the Fed's 2.0% target rate. We therefore adjusted the 2019 inflation forecast down from 2.25% to 1.95%. Expect energy prices to continue rising over the near term, putting upward pressure on near-term inflation. Our baseline forecast now calls for an increase in inflation for the second quarter of 2019 to 2.60% from 1.60% in the first quarter. However, we expect inflation to taper off and return below 2.00% toward the end of the year as the economy slows.

The Fed is unlikely to increase its target Federal Funds interest rate over the forecast horizon. Low inflation, low inflation expectations, and public pledges of more patience by Fed policymakers suggest no further rate increases in the foreseeable future.

CUNA Economic Forecast

April 2019

	Actual Results		Quarterly Results/Forecasts				Annual Forecasts	
	5 Yr Avg	2018	2019:1	2019:2	2019:3	2019:4	2019	2020
Growth rates:								
Economic Growth (% chg GDP)*	2.42%	2.90%	1.50%	2.50%	2.50%	2.00%	2.10%	1.90%
Inflation (% chg CPI)*	1.52%	2.44%	1.63%	2.60%	2.10%	2.00%	1.95%	2.10%
Unemployment Rate	4.90%	3.90%	3.70%	3.70%	3.60%	3.60%	3.60%	3.90%
Federal Funds Rate (effective)	0.69%	1.83%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
10-Year Treasury Rate	2.35%	2.91%	2.65%	2.60%	2.85%	2.90%	2.75%	2.75%
10-Year-Fed Funds Spread	2.22%	1.08%	0.43%	0.38%	0.63%	0.68%	0.53%	0.53%

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

CUNA Credit Union Forecast

- **Credit union loan growth will slow to 7.75% in 2019 and decline further - to 7.00% - in 2020.** Modestly lower automobile sales will translate into fewer automobile loans and marginally higher long-term market interest rates will reduce mortgage originations. Nevertheless, the expected 7.75% overall increase in loans is a healthy gain and higher than the average annual loan growth rate since 1990 (7.50%). By 2020, we see loan growth decreasing further - to around 7.00%.
- **Credit union savings growth is now expected to come in at 6.00% in 2019 and increase to 6.50% in 2020.** Against the backdrop of tight liquidity credit unions face an increasingly competitive market for deposit dollars – and many will be reluctant to pay up for retail funding. A growing economy with continued relatively high consumer confidence also is expected to negatively affect savings growth.
- **Credit union ROA for 2019 will be 0.80 basis points and will decrease to 0.75 basis points in 2020.** Slower loan growth, more obvious interest margin pressures, fewer gains on mortgage sales and a significantly smaller share insurance fund dividend will each negatively impact ROA in 2019. Further, though more modest declines in bottom-line results should be obvious next year as well.

CUNA Credit Union Forecast

April 2019

	Actual Results		Quarterly Results/Forecasts				Annual Forecasts	
	5 Yr Avg	2018	2019:1	2019:2	2019:3	2019:4	2019	2020
Growth rates:								
Savings growth	6.0%	5.2%	3.5%	0.9%	0.5%	1.1%	6.00%	6.50%
Loan growth	10.1%	8.9%	0.4%	2.8%	2.7%	1.8%	7.75%	7.00%
Asset growth	6.5%	5.4%	3.7%	0.9%	0.5%	1.1%	6.20%	6.70%
Membership growth	3.8%	4.4%	1.1%	1.0%	0.9%	0.5%	3.50%	3.00%
Liquidity:								
Loan-to-share ratio**	80.2%	85.8%	83.2%	84.8%	86.7%	87.2%	87.2%	87.6%
Asset quality:								
Delinquency rate**	0.80%	0.71%	0.77%	0.79%	0.80%	0.80%	0.80%	0.85%
Net charge-off rate*	0.54%	0.57%	0.60%	0.60%	0.60%	0.60%	0.60%	0.65%
Earnings:								
Return on average assets (ROA)*	0.80%	0.91%	0.80%	0.80%	0.80%	0.80	0.80%	0.75%
Capital adequacy:								
Net worth ratio**	11.0%	11.3%	11.1%	11.2%	11.3%	11.4%	11.4%	11.4%

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