

Economic and Credit Union Update

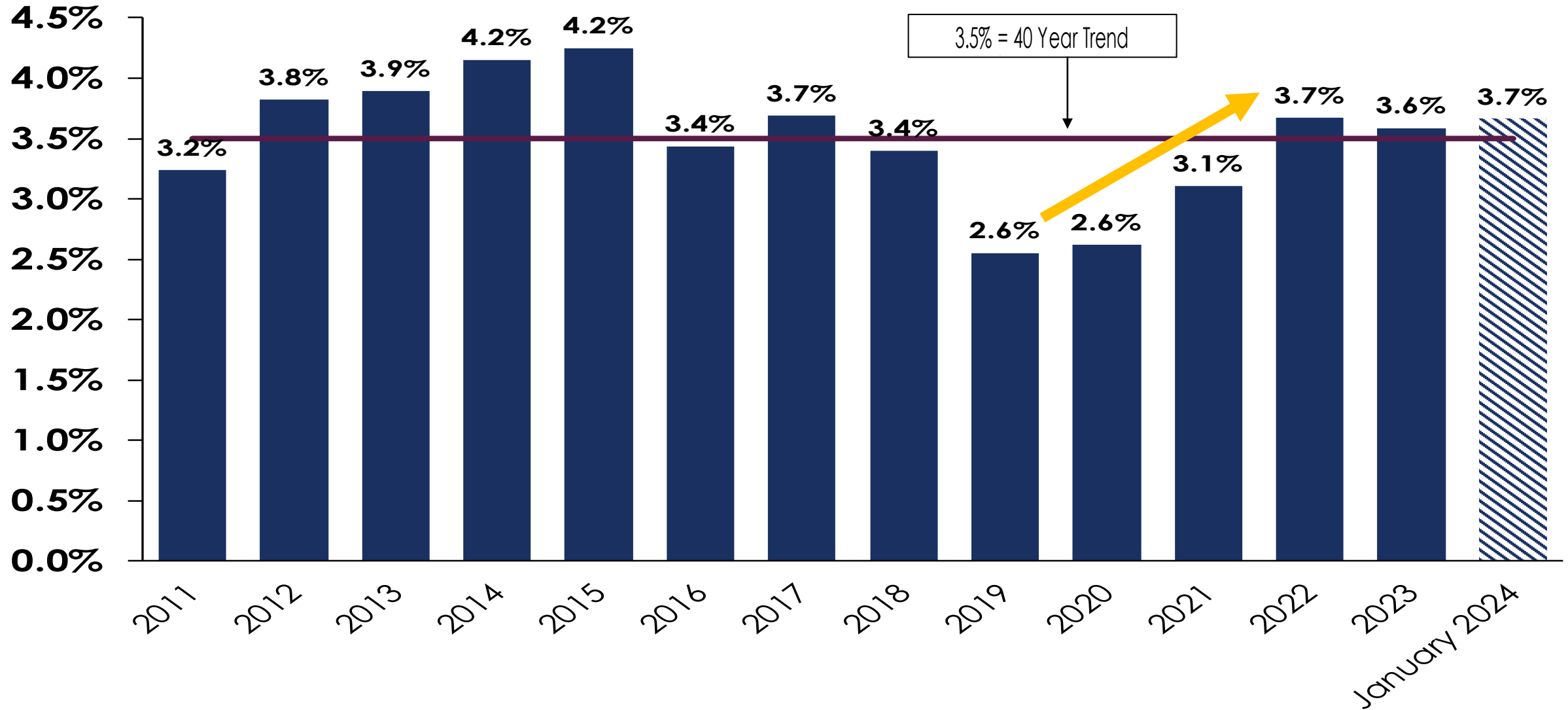
April 2024

If you have any questions or
comments, please contact:
Steven Rick, Chief Economist
TruStage - Economics
800.356.2644, Ext. 665.5454
Steve.rick@TruStage.com

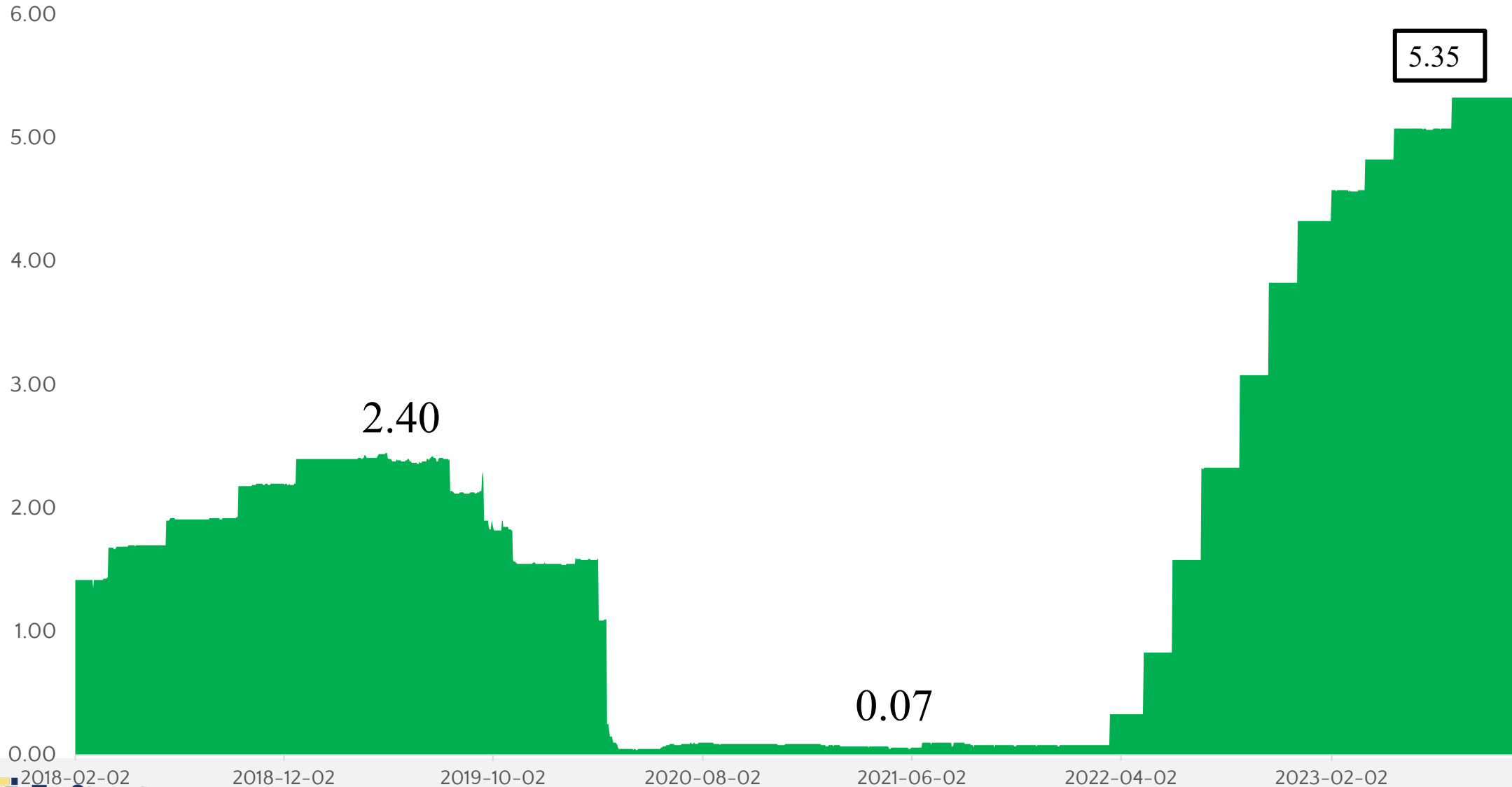
Annual Contraction Rate in CU Marketplace

January 2024

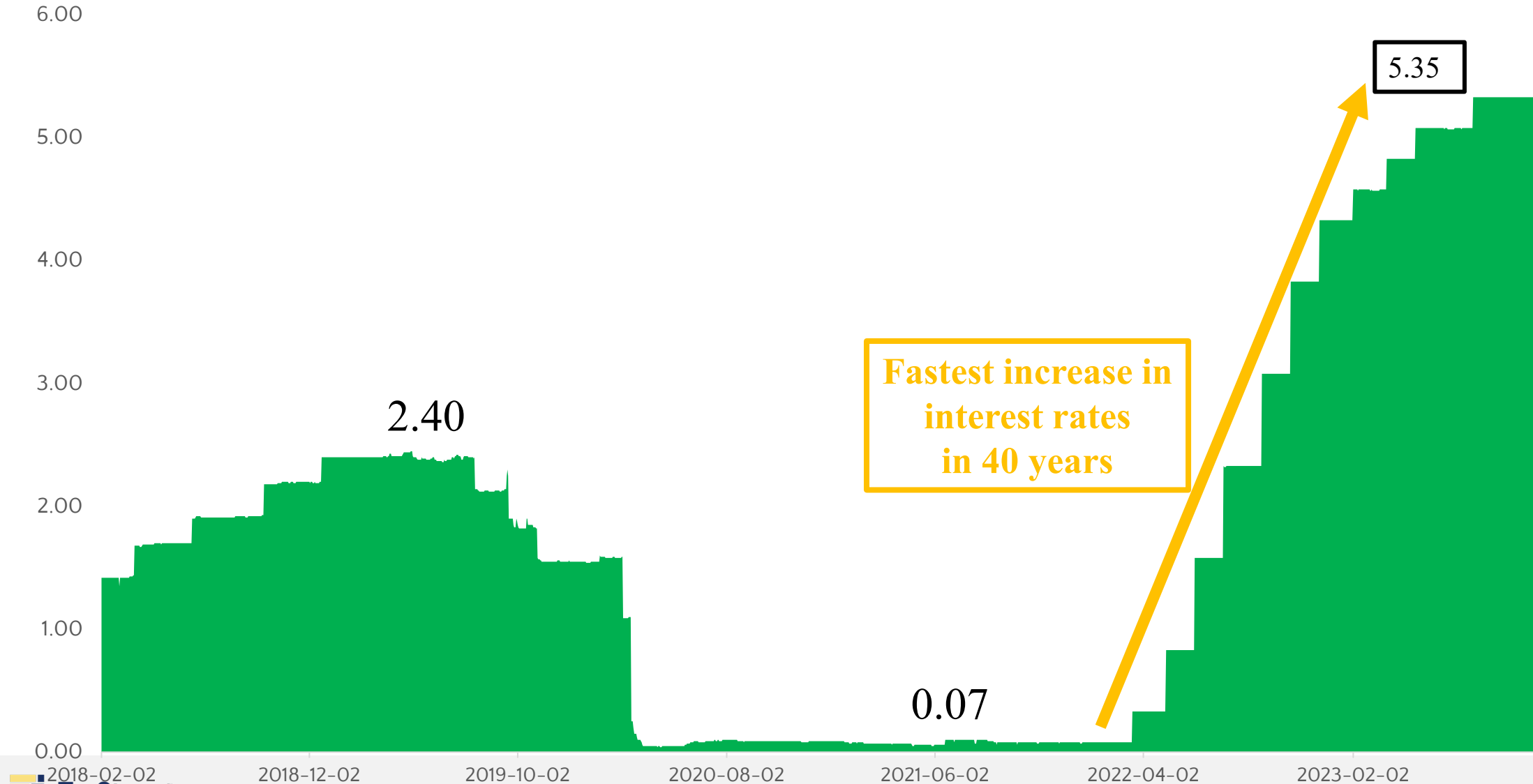
January 2023 - January 2024 Decline = 181 CUs



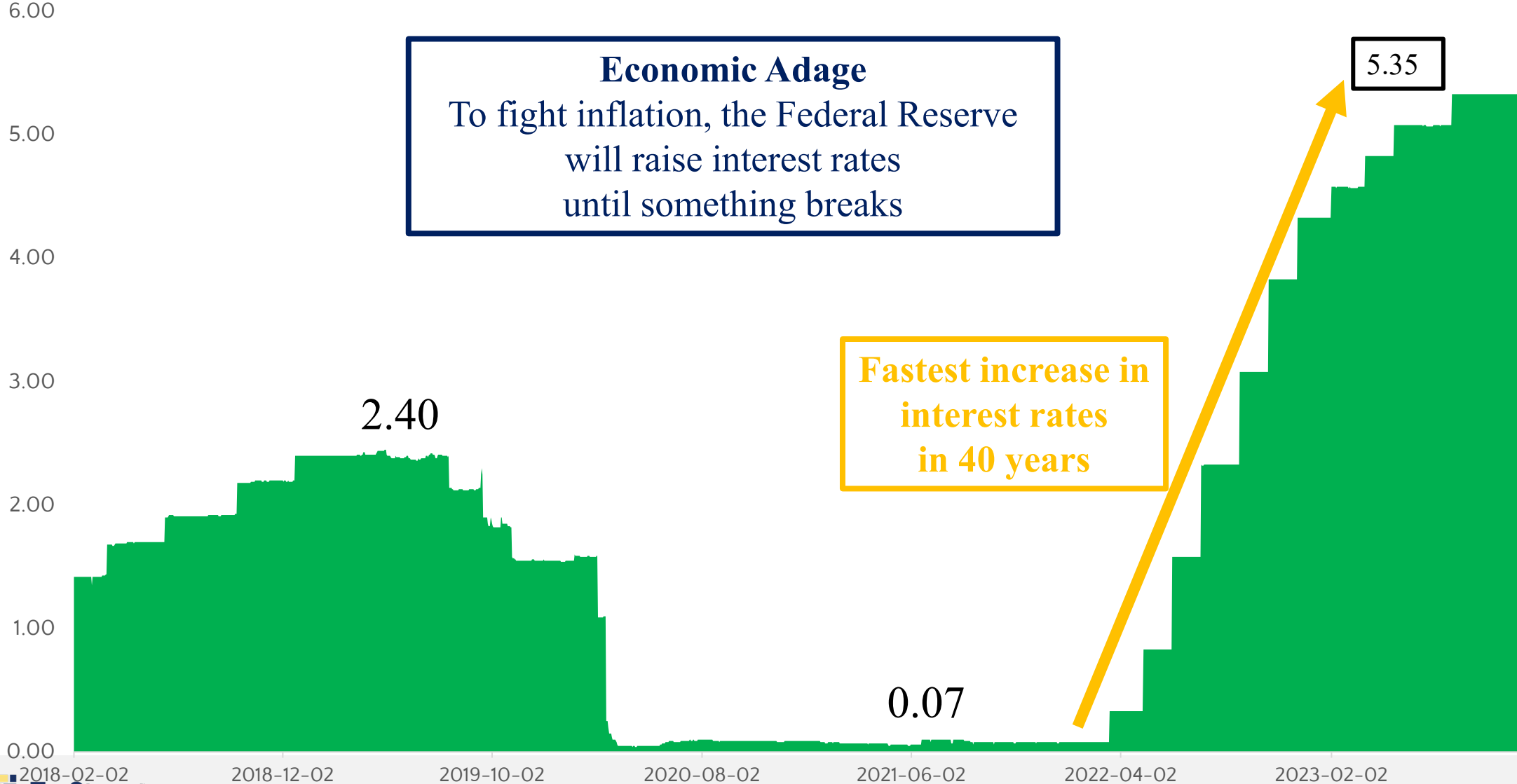
Federal Funds Rate, 2018 - 2023



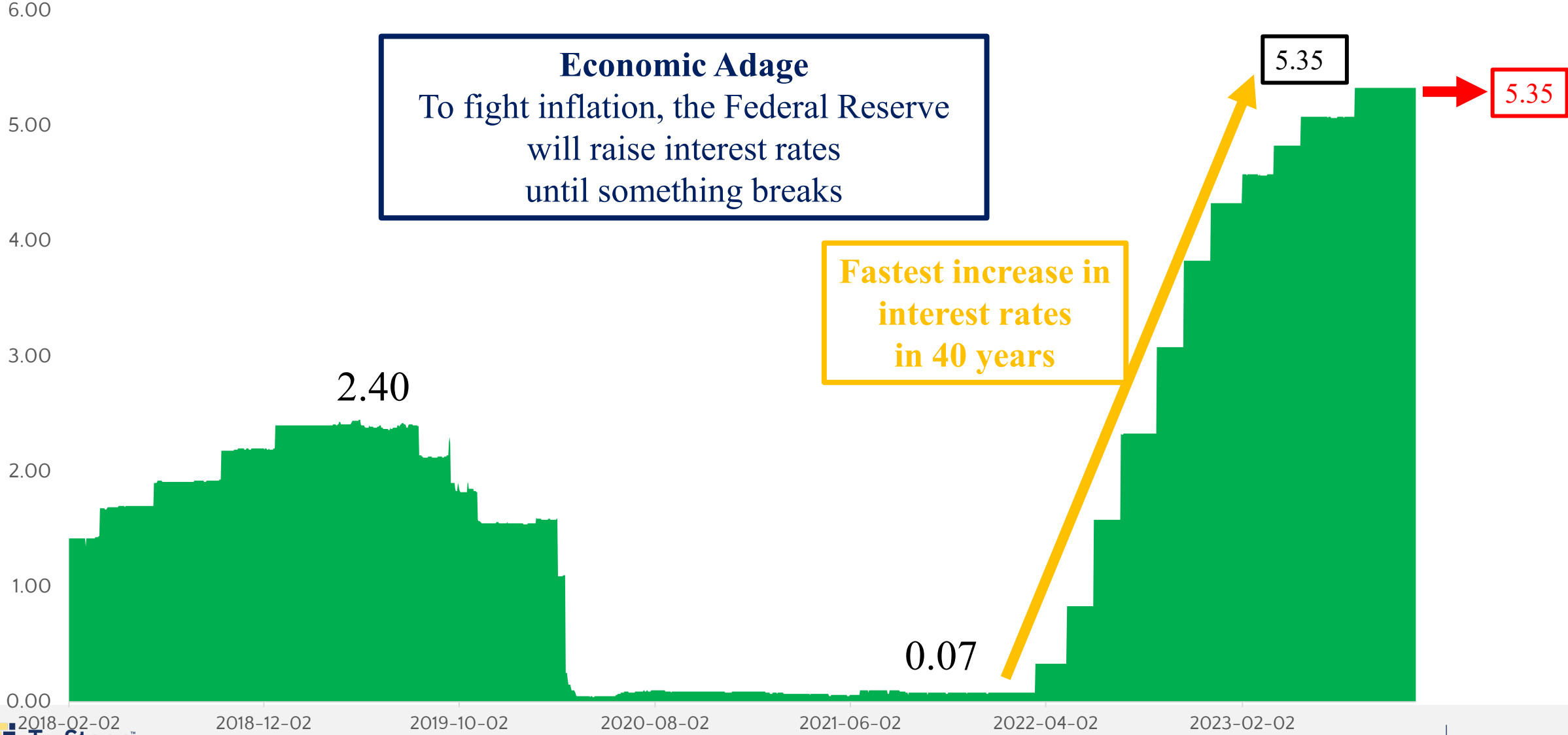
Federal Funds Rate, 2018 - 2023



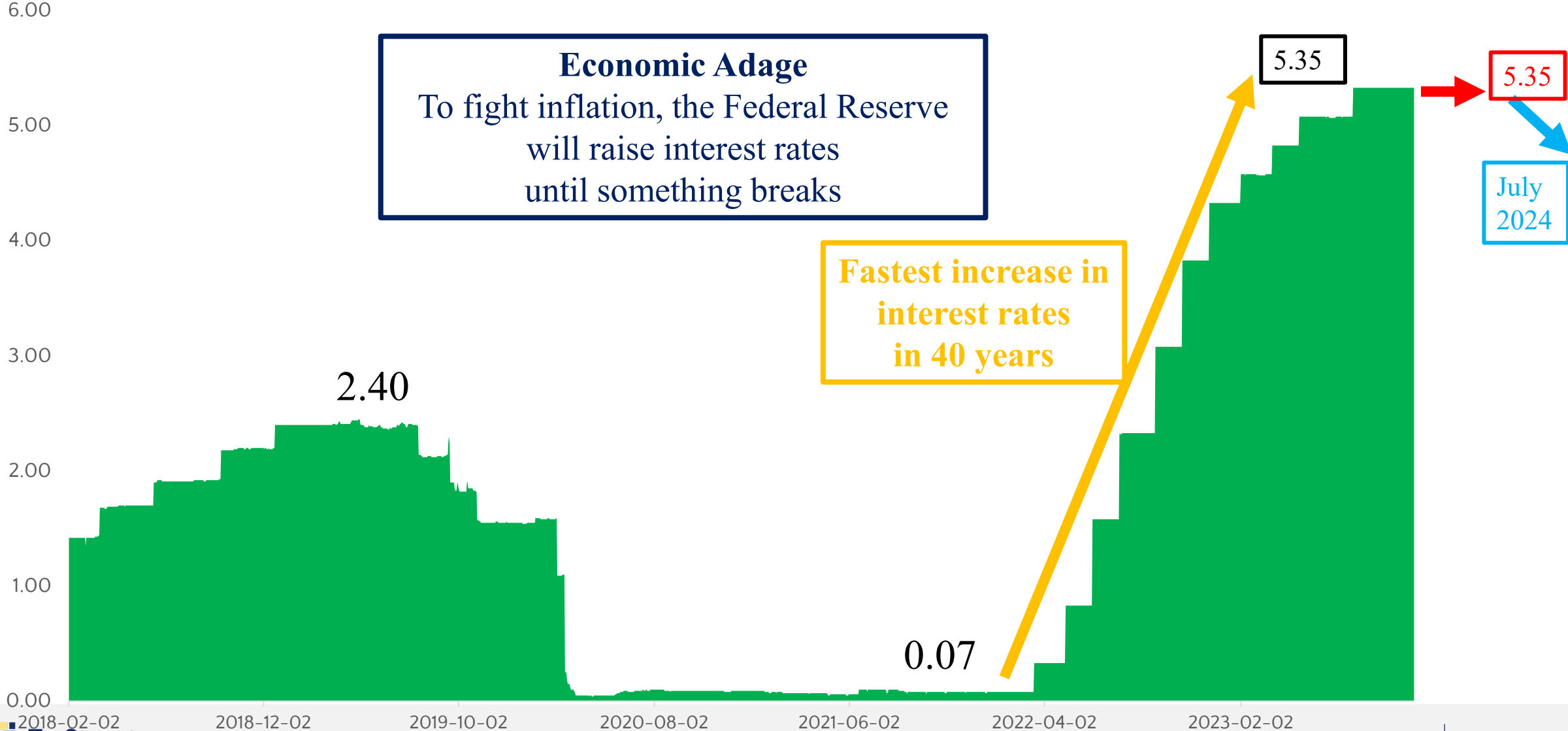
Federal Funds Rate, 2018 - 2023



Federal Funds Rate, 2018 - 2023



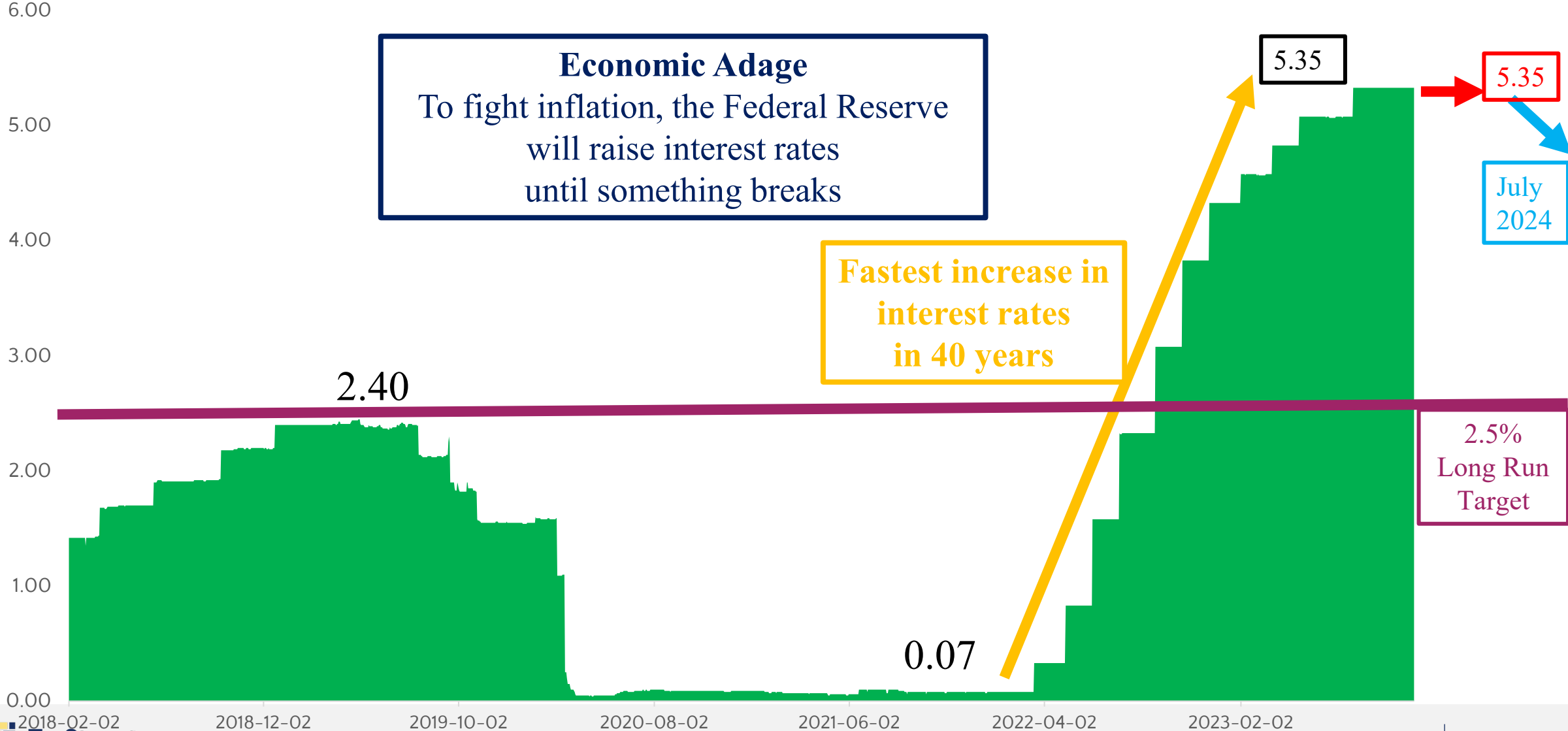
Federal Funds Rate, 2018 - 2023



Economic Adage
To fight inflation, the Federal Reserve will raise interest rates until something breaks

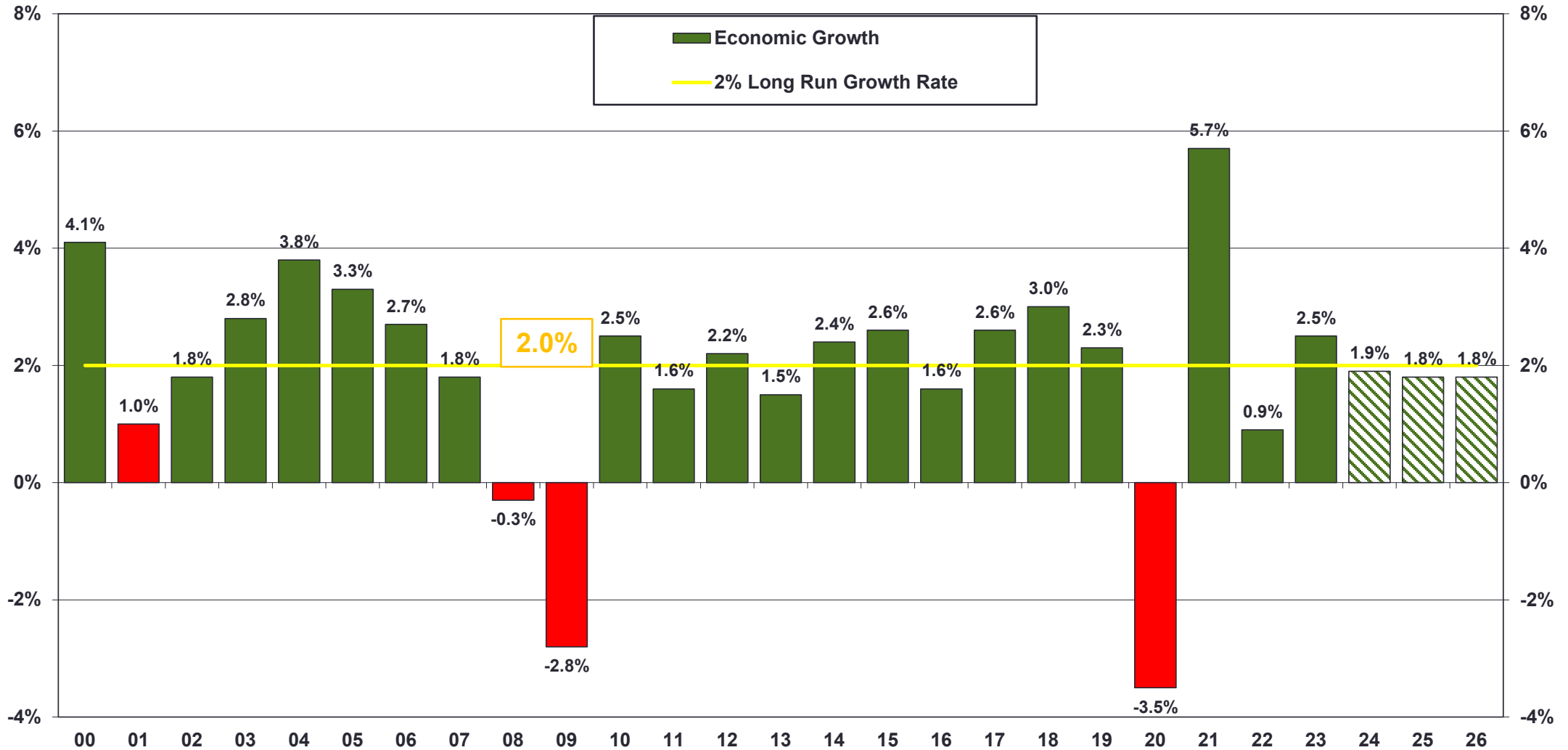
Fastest increase in interest rates in 40 years

Federal Funds Rate, 2018 - 2023



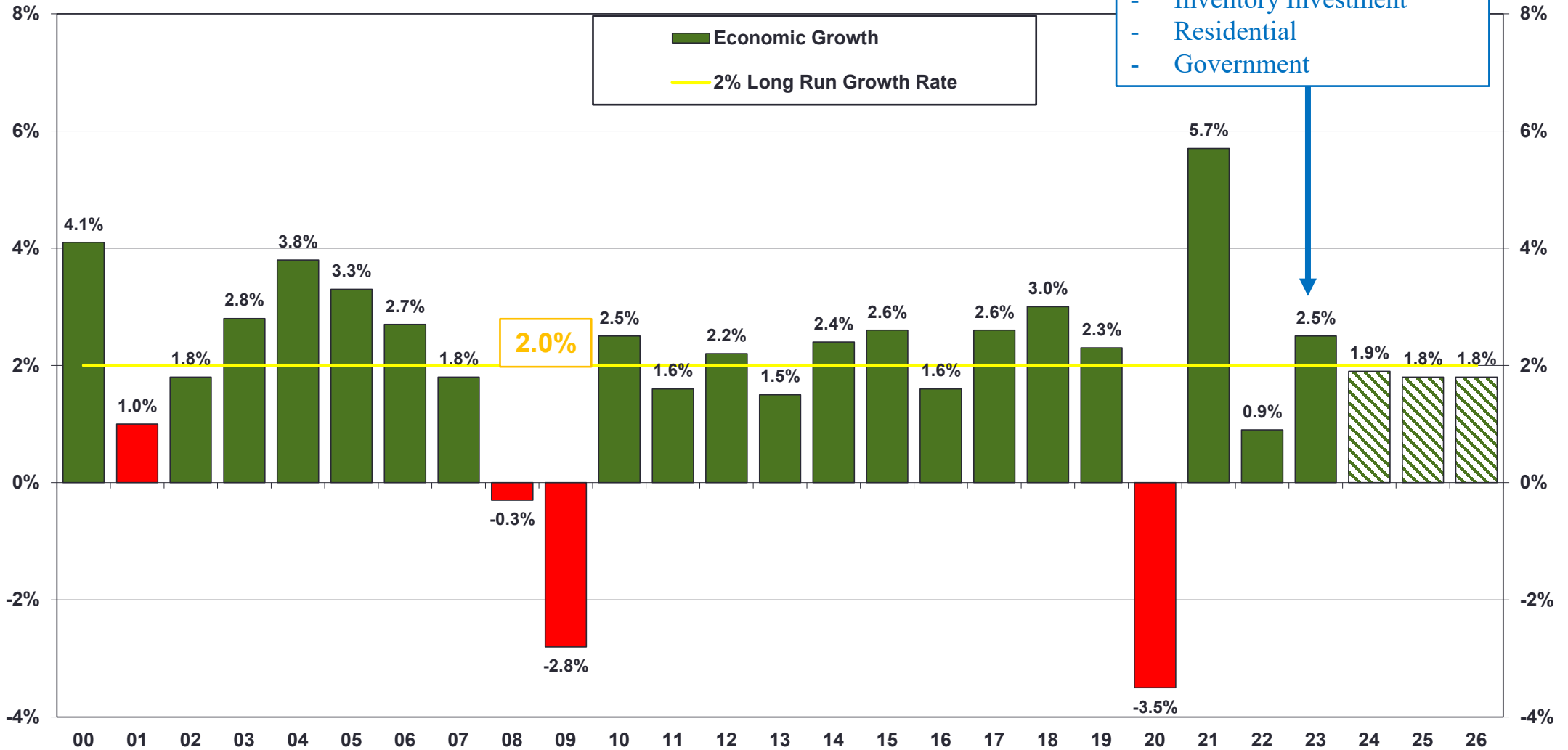
Slower Economic Growth for Next 2 Years

U.S. Economic Growth Rate



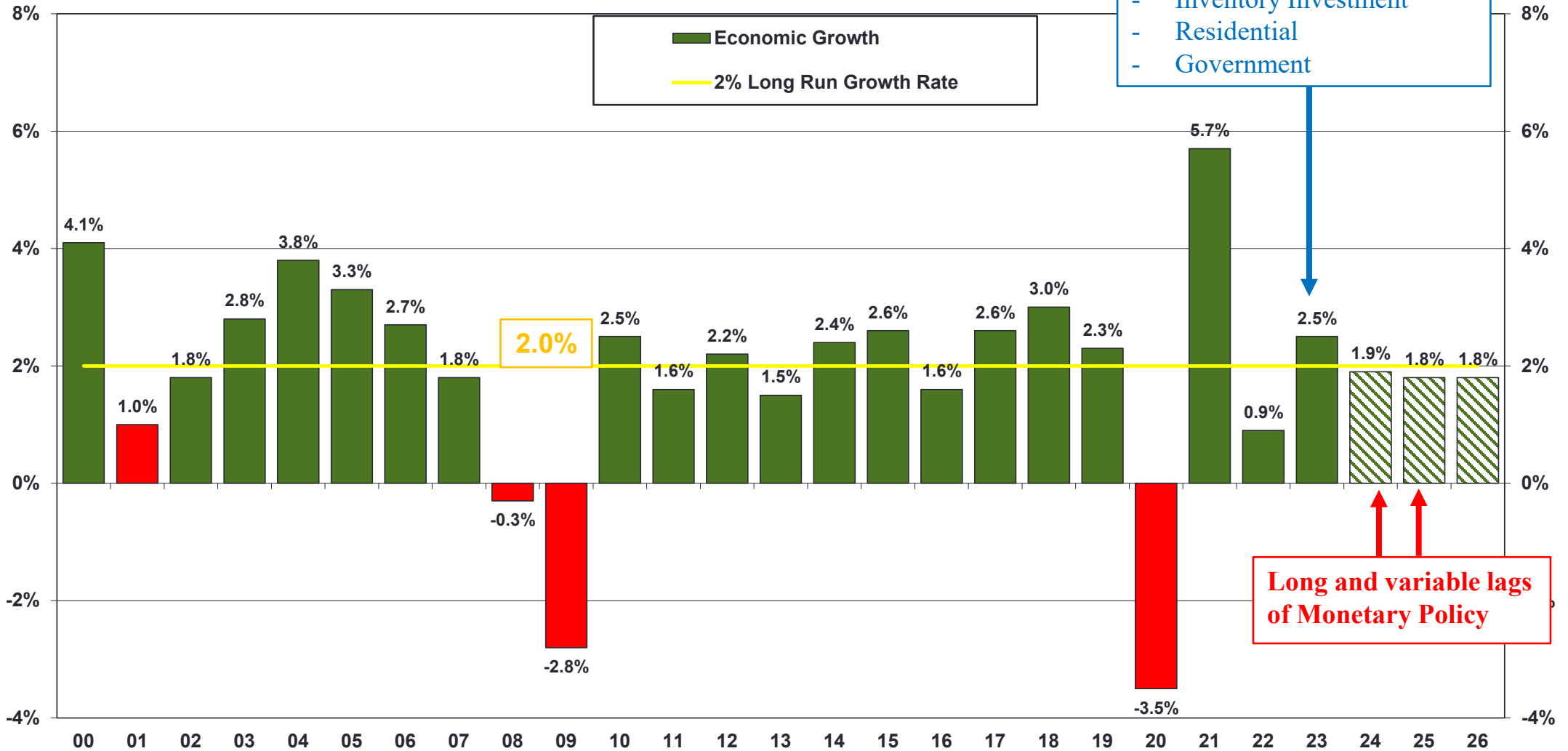
Slower Economic Growth for Next 2 Years

U.S. Economic Growth Rate

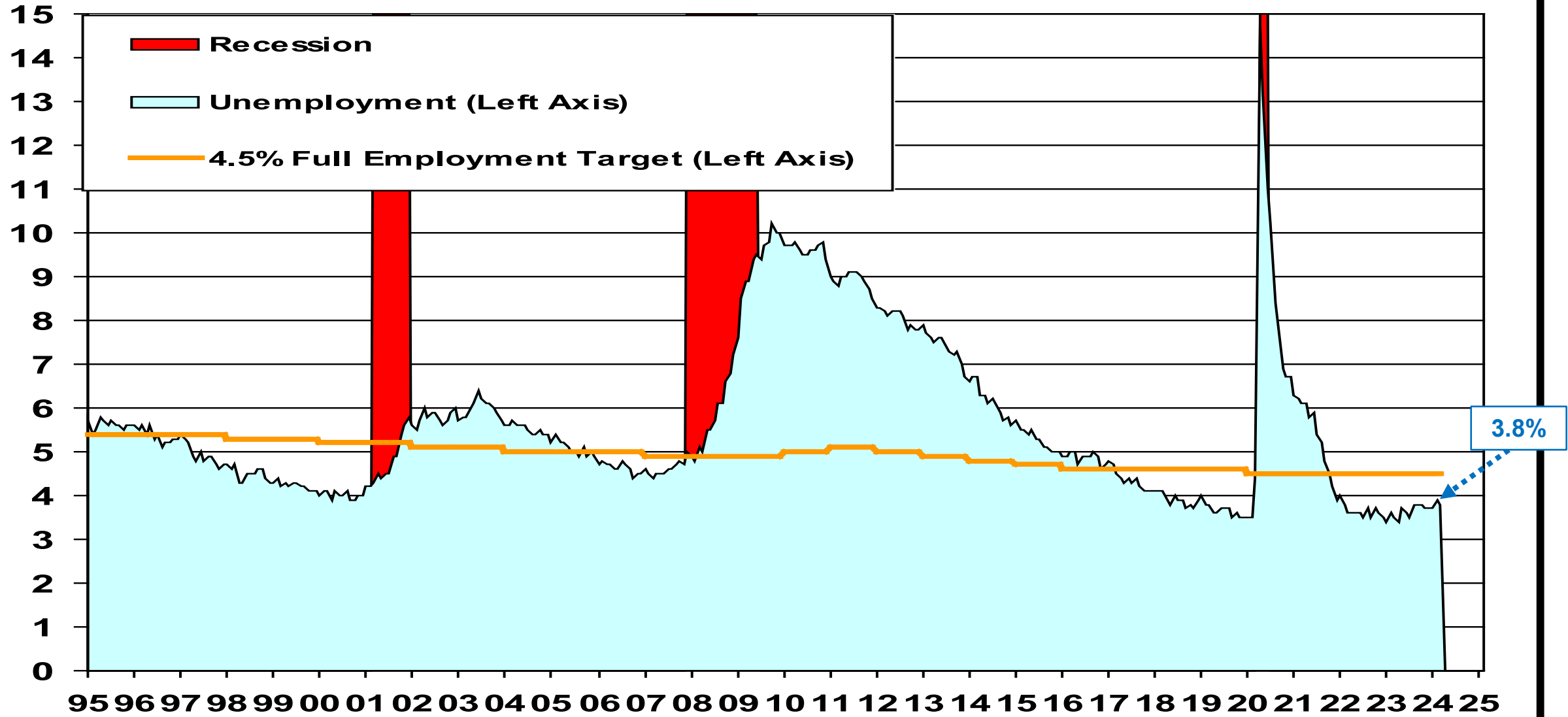


Slower Economic Growth for Next 2 Years

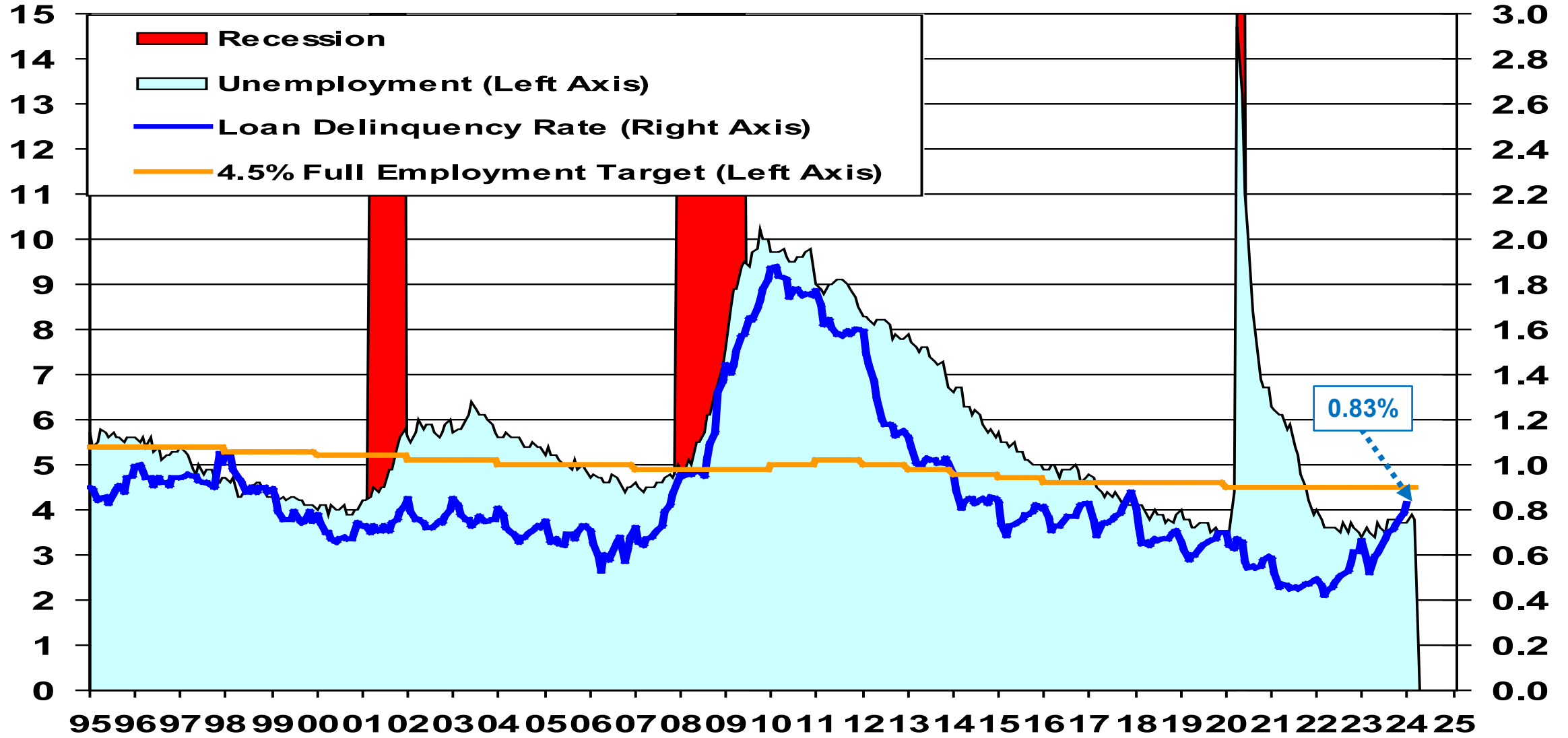
U.S. Economic Growth Rate



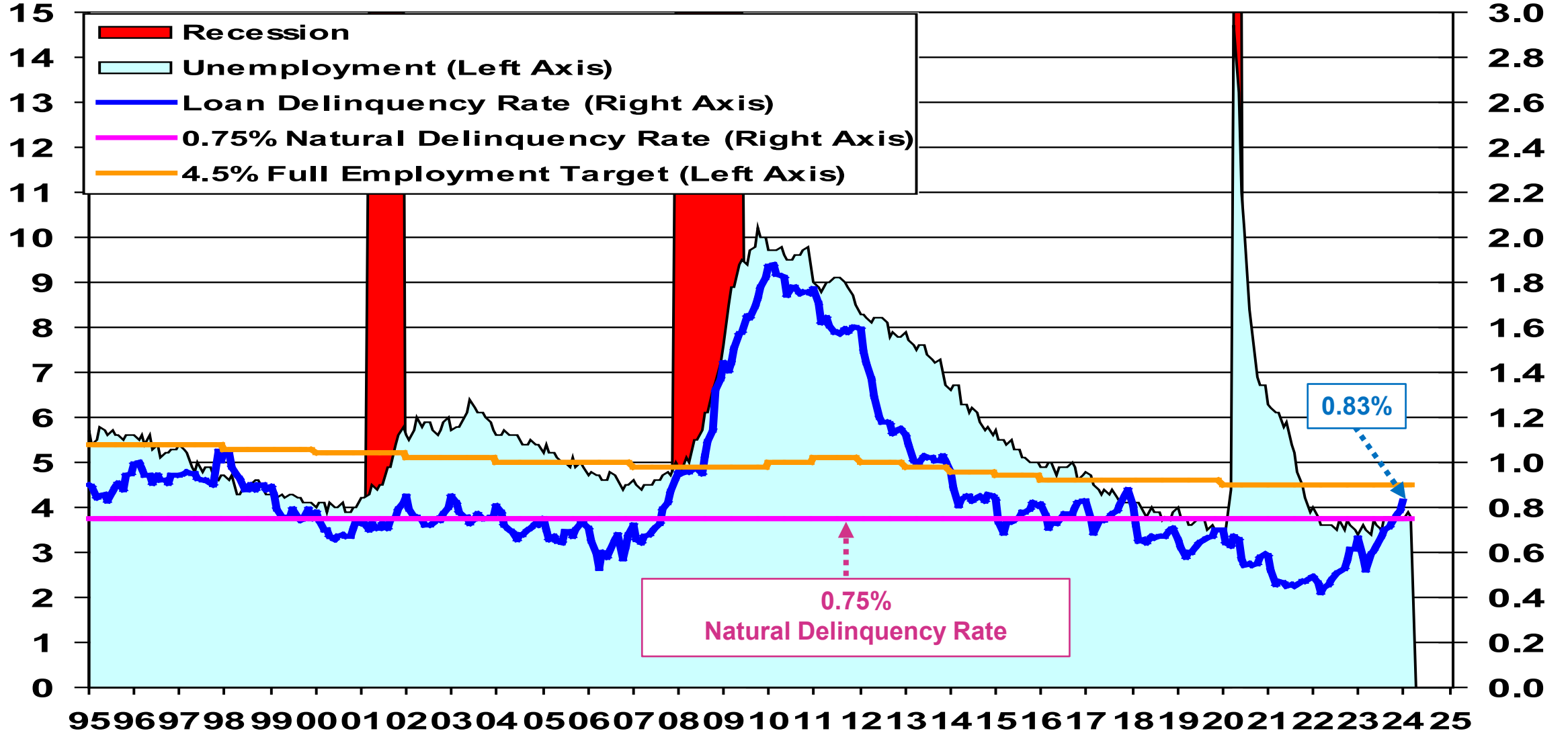
CU Delinquency Rate Versus Unemployment Rate



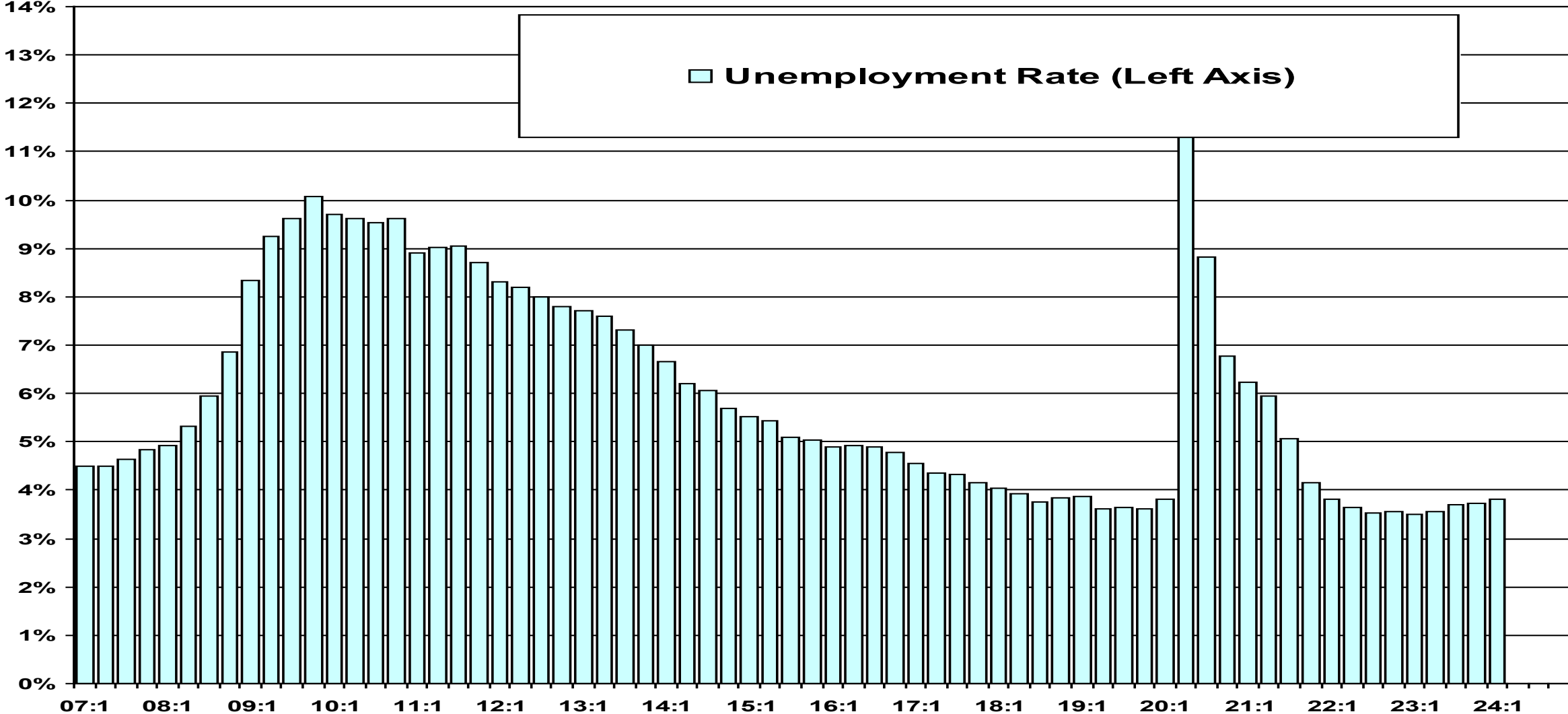
CU Delinquency Rate Versus Unemployment Rate



CU Delinquency Rate Versus Unemployment Rate

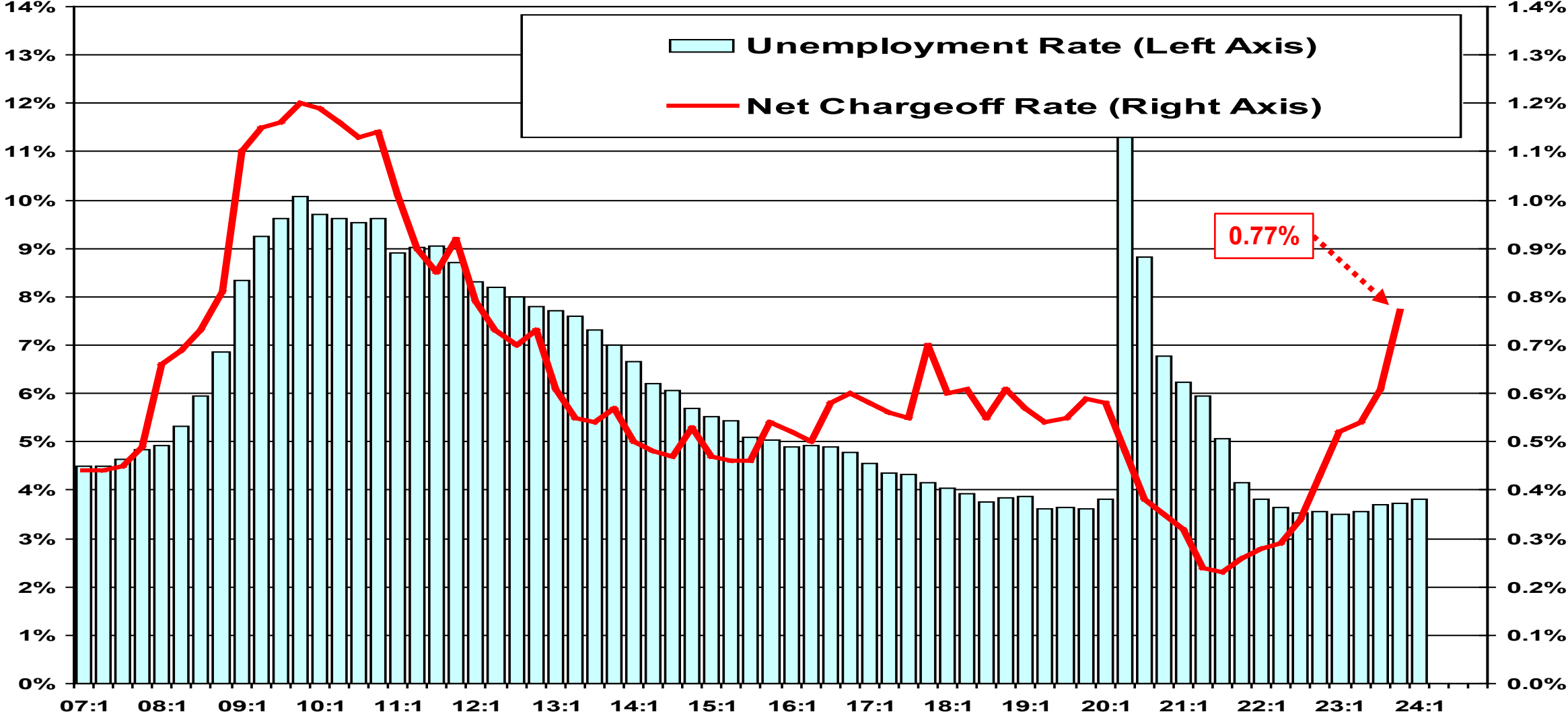


CU Net Chargeoff Rate Versus Unemployment Rate



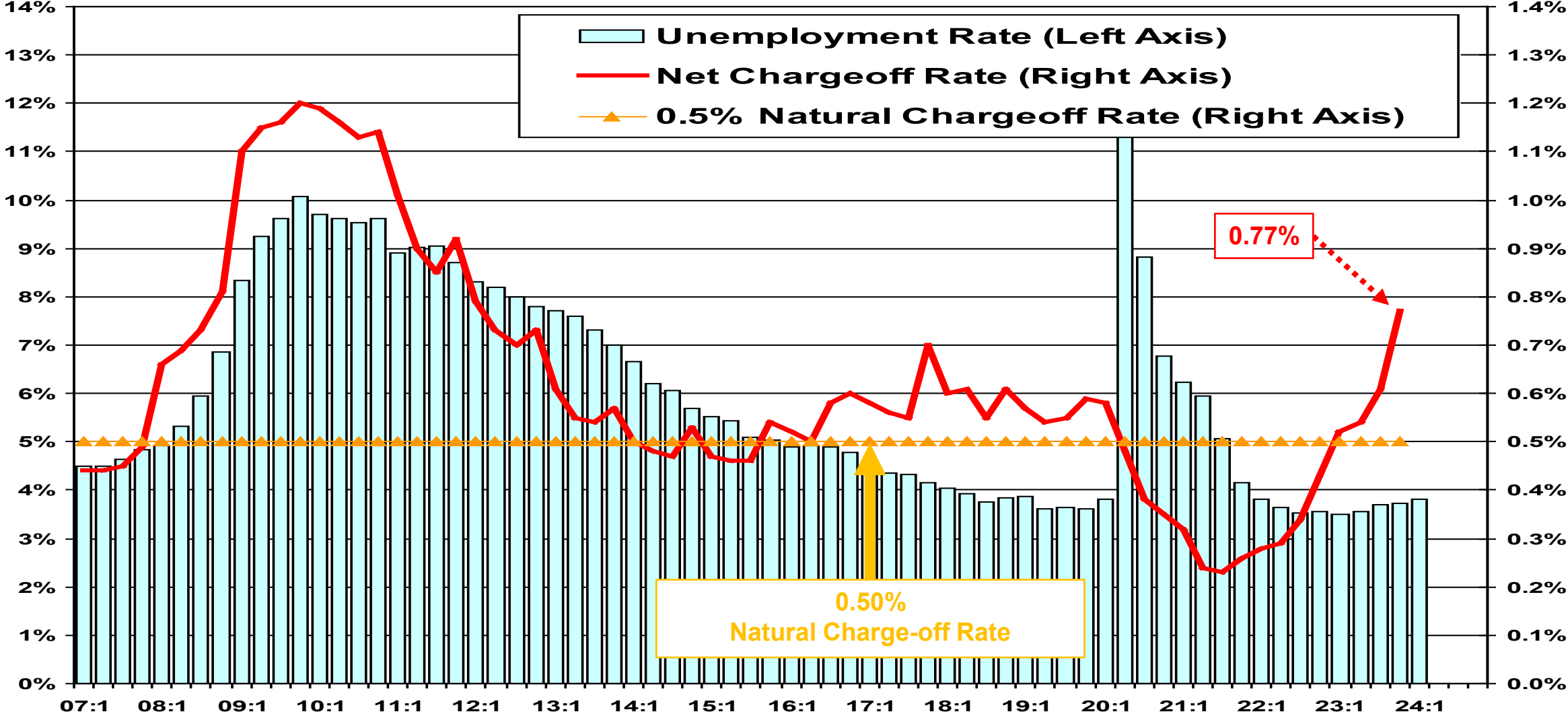
Source: Department of Labor, NCUA, CUNA

CU Net Chargeoff Rate Versus Unemployment Rate



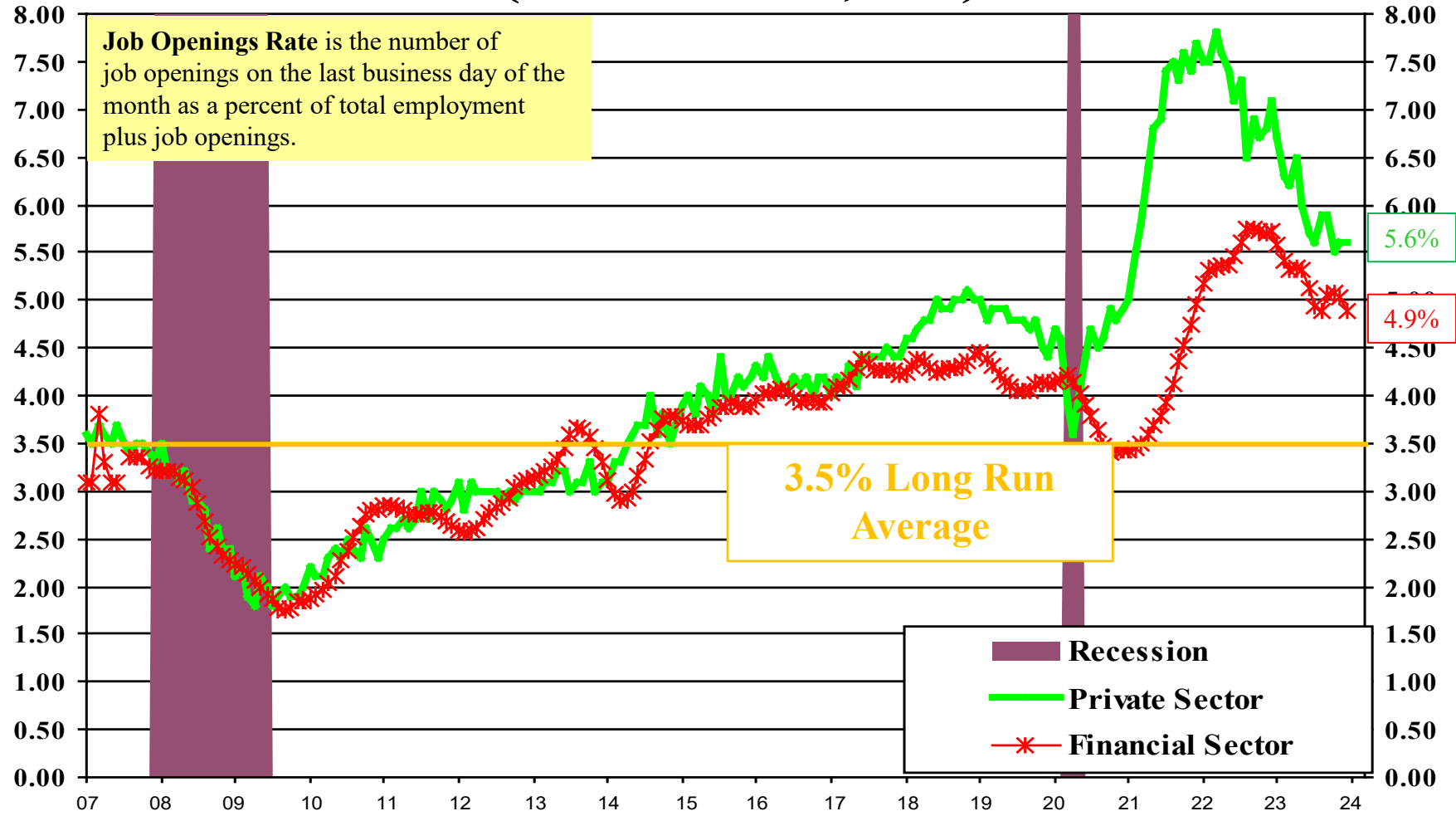
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CU Net Chargeoff Rate Versus Unemployment Rate

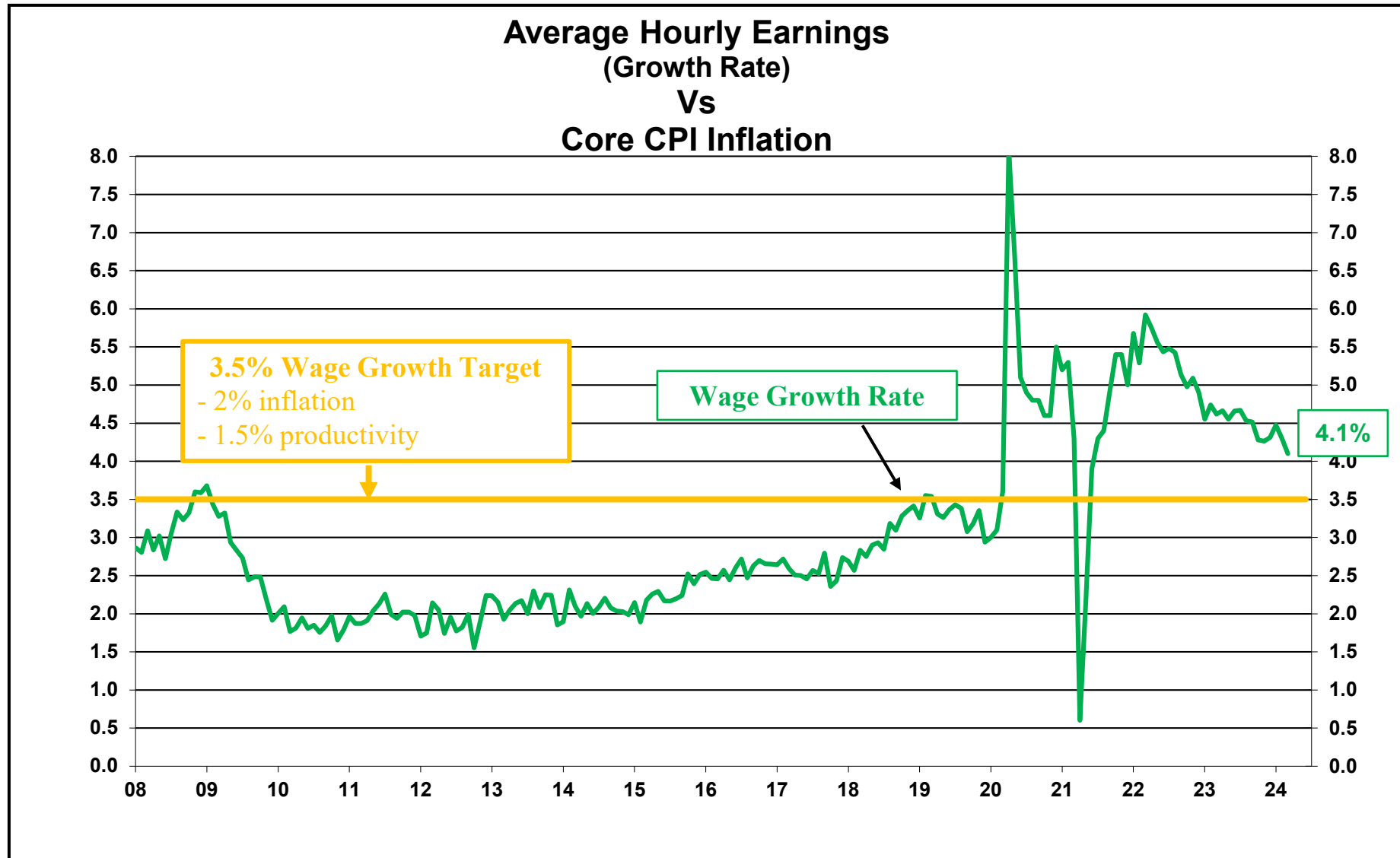


Source: Department of Labor, NCUA, CUNA

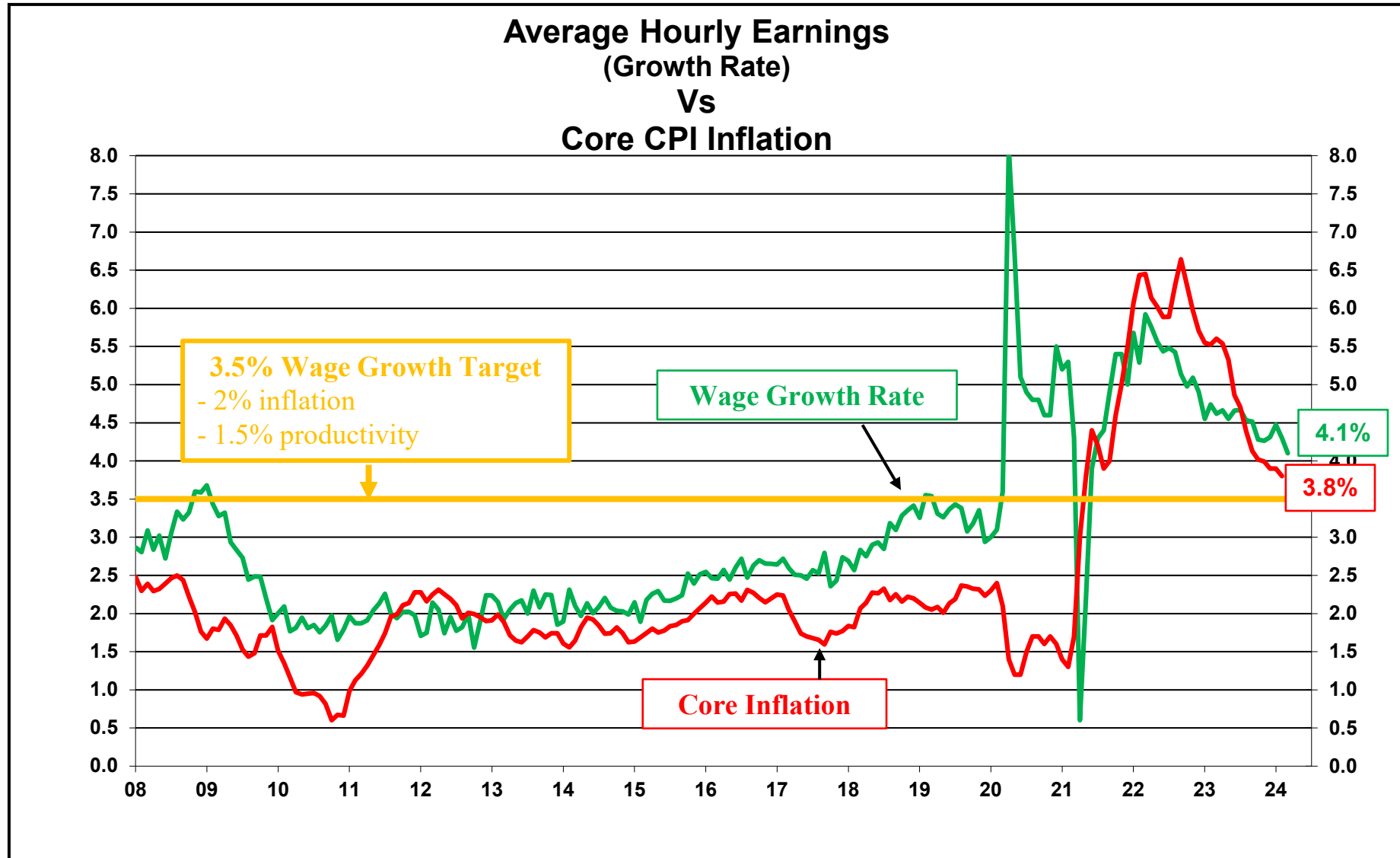
Job Openings Rate (Thousands, SA)



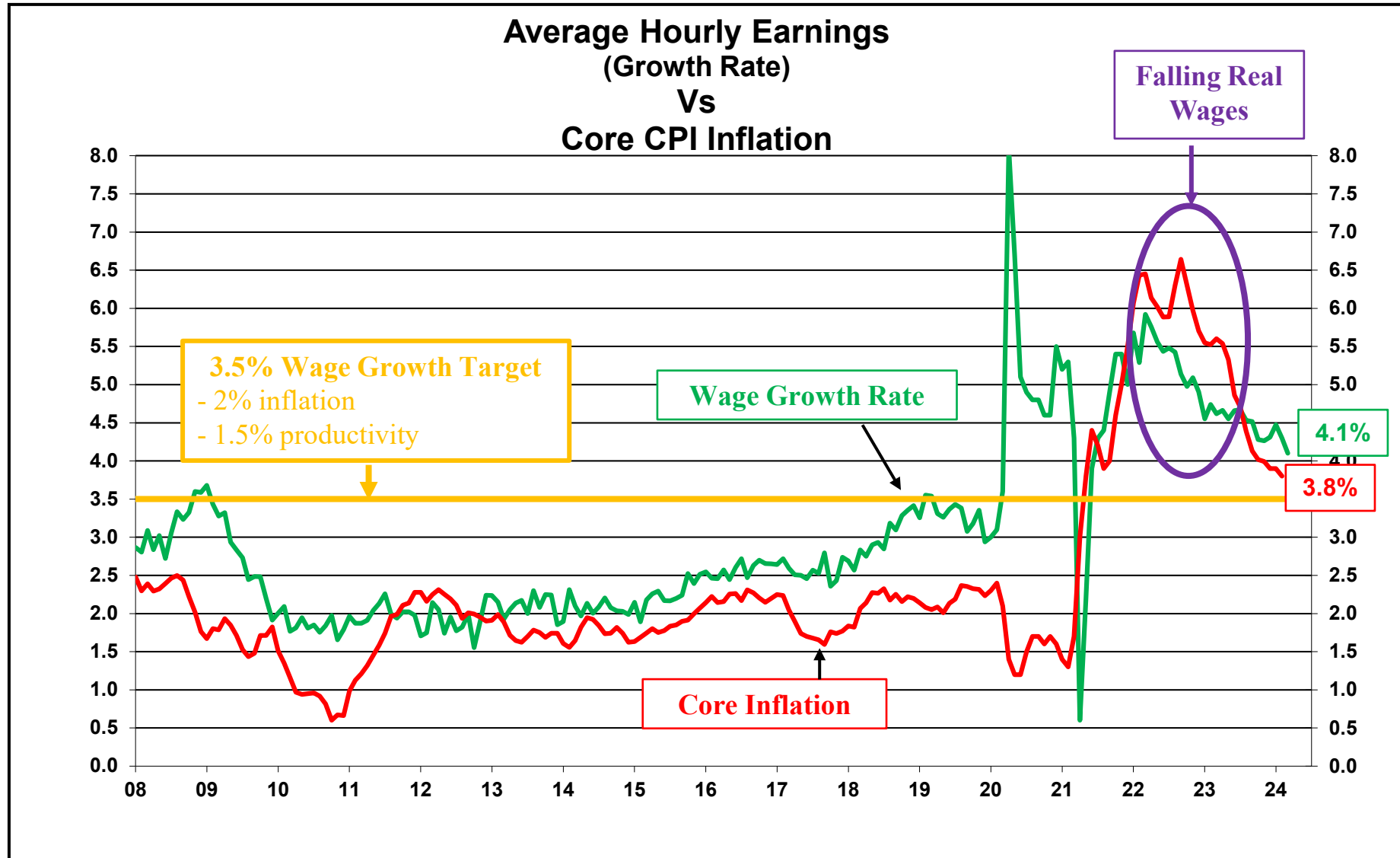
Wage Growth Slowing as Core Inflation Falls



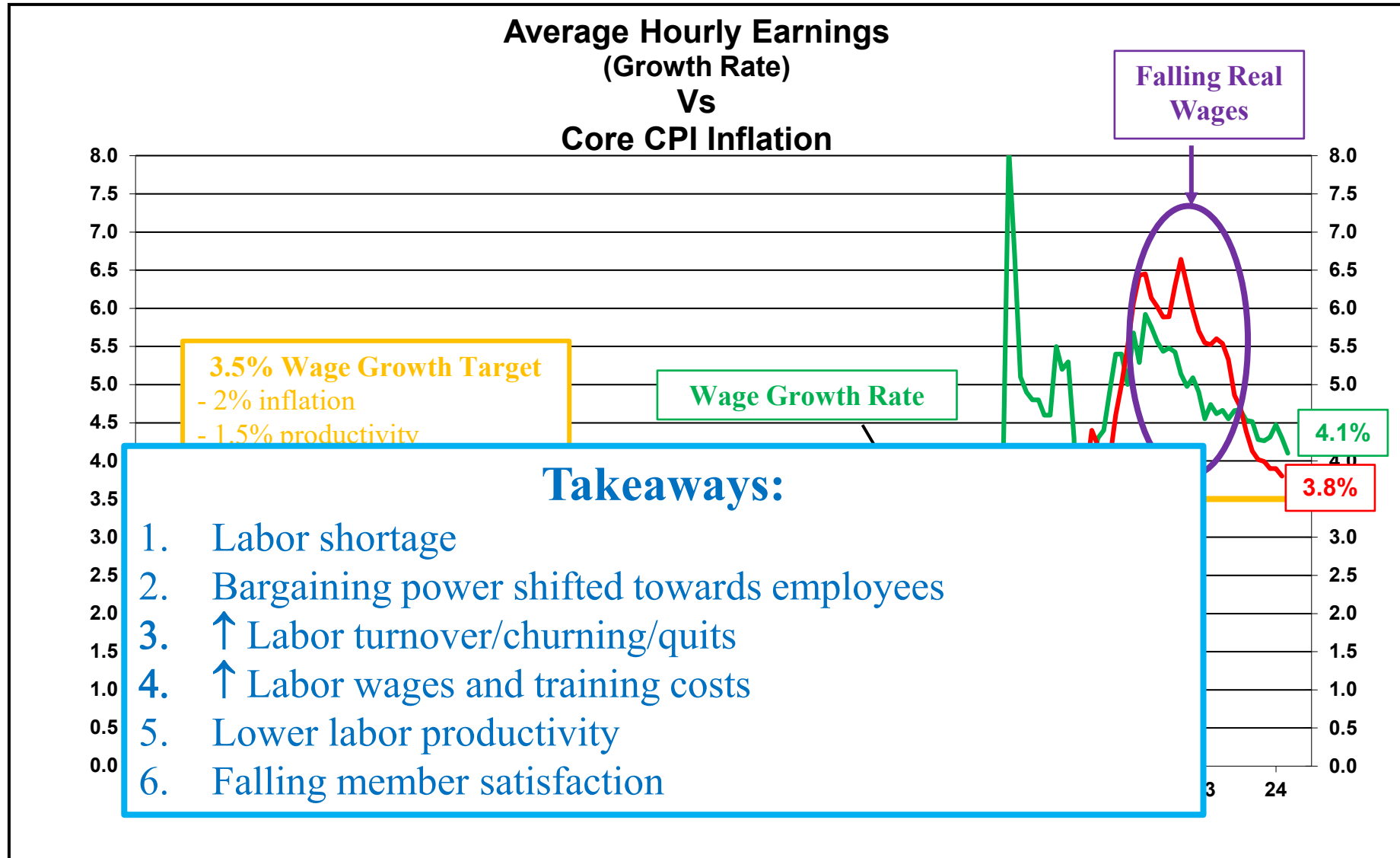
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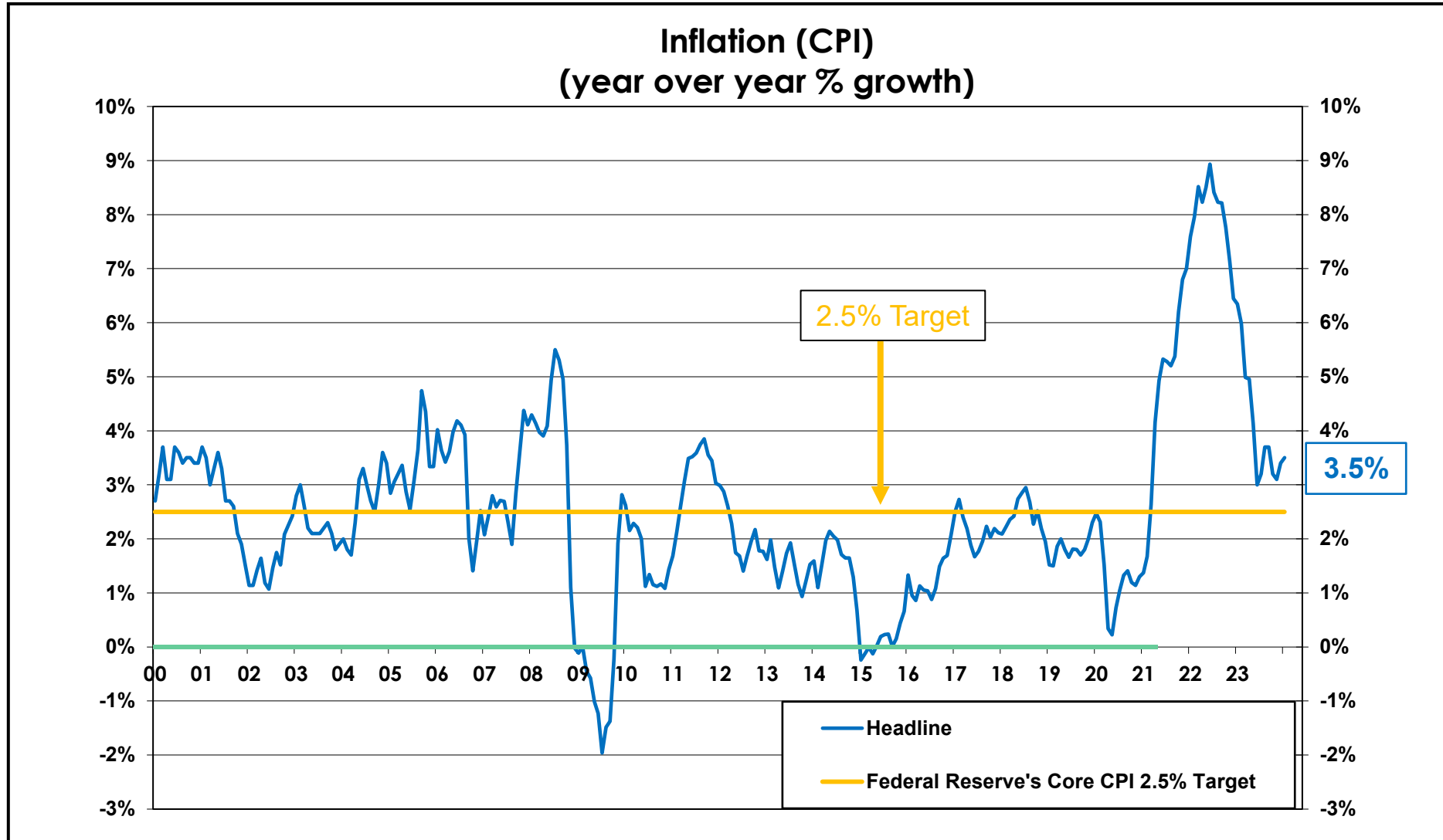
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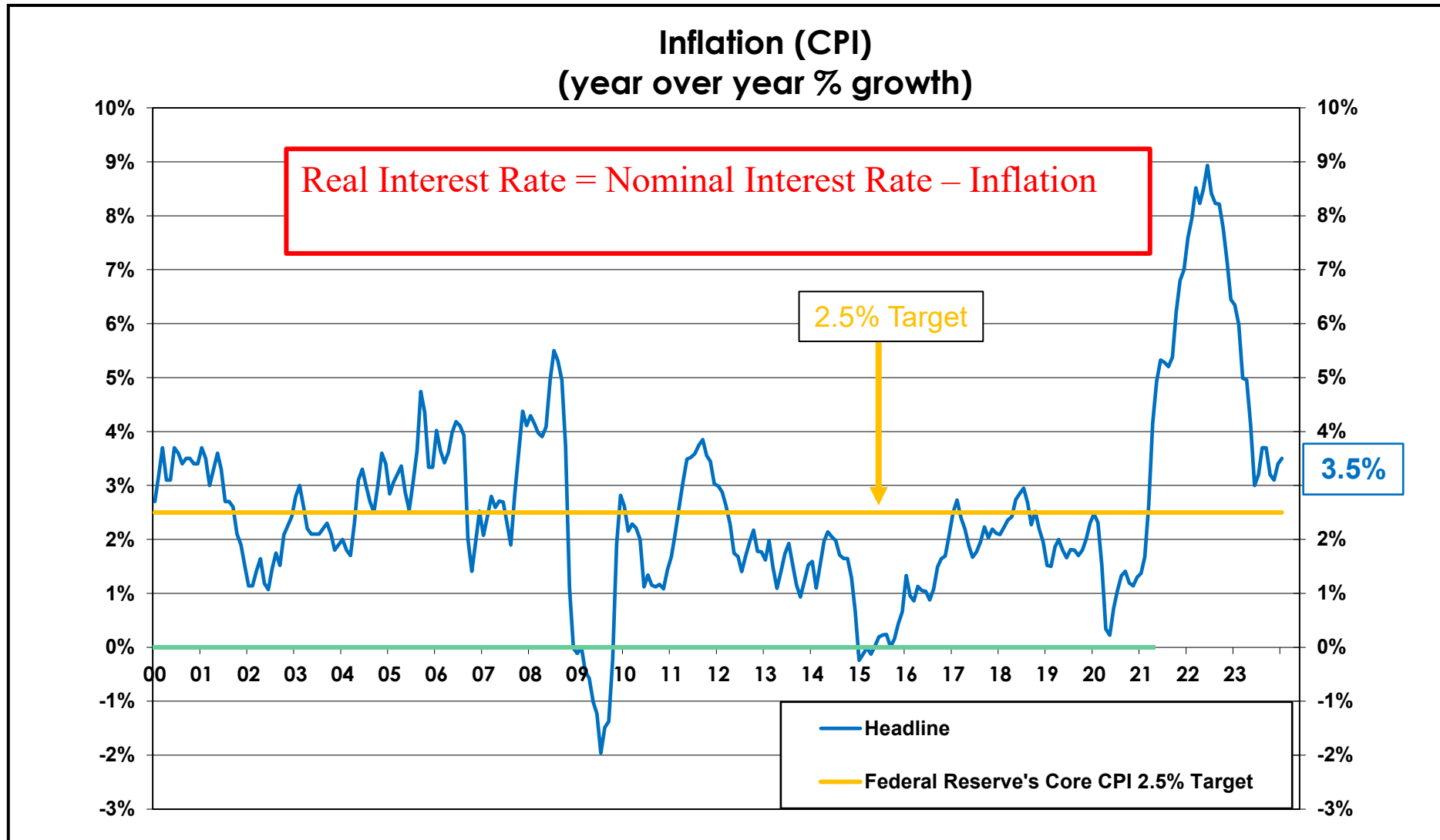
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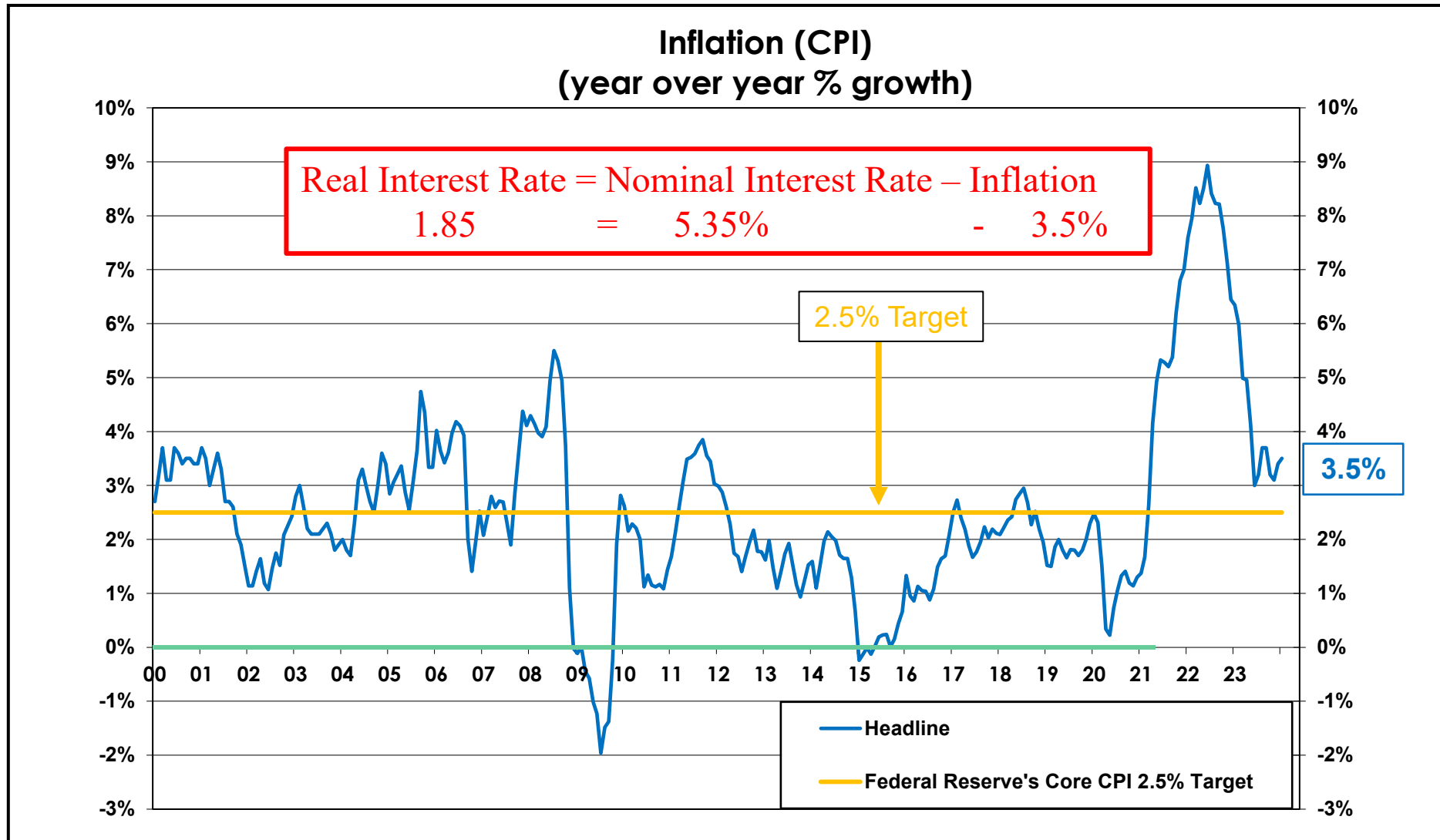
High Inflation for the Next Year



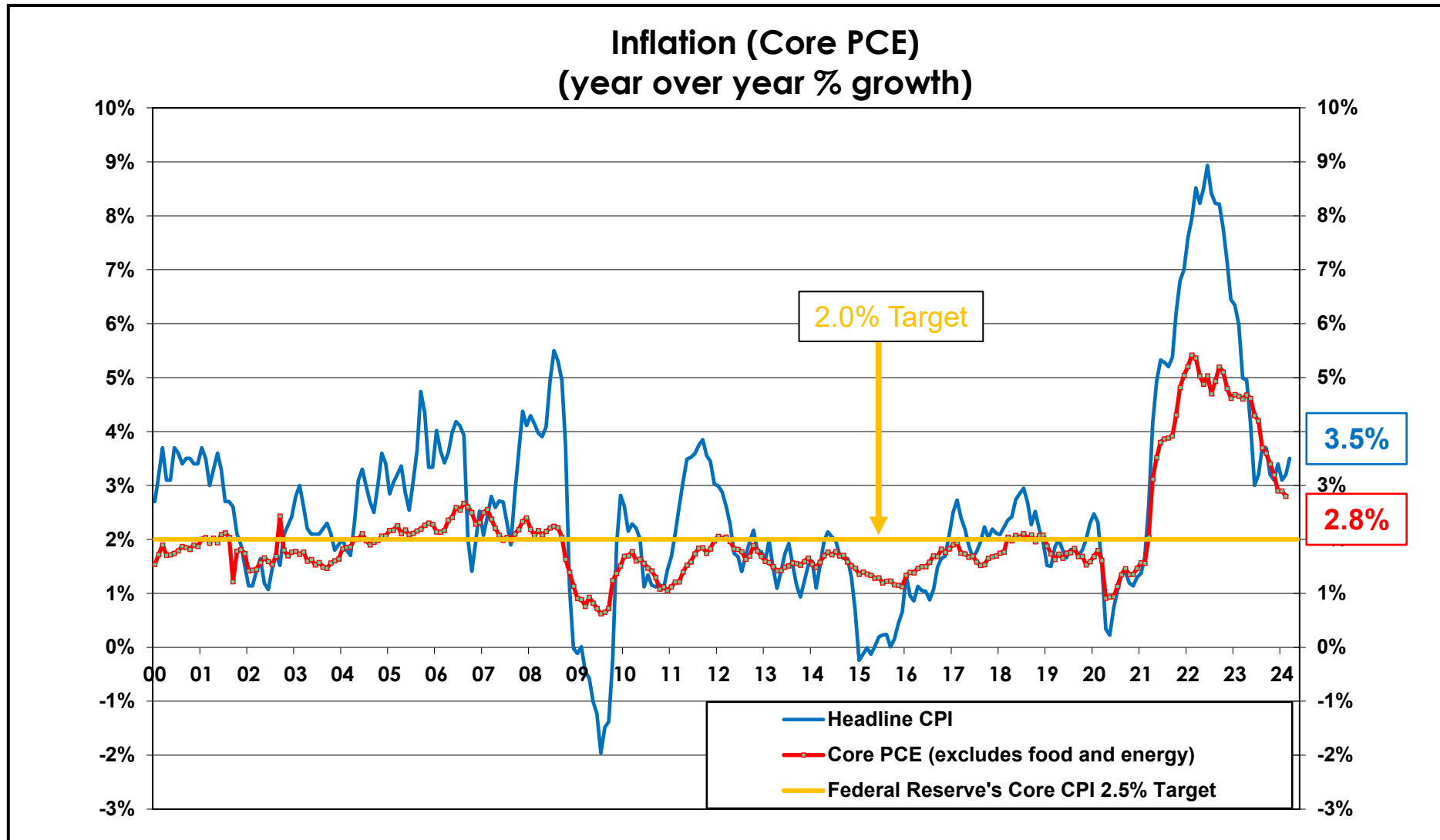
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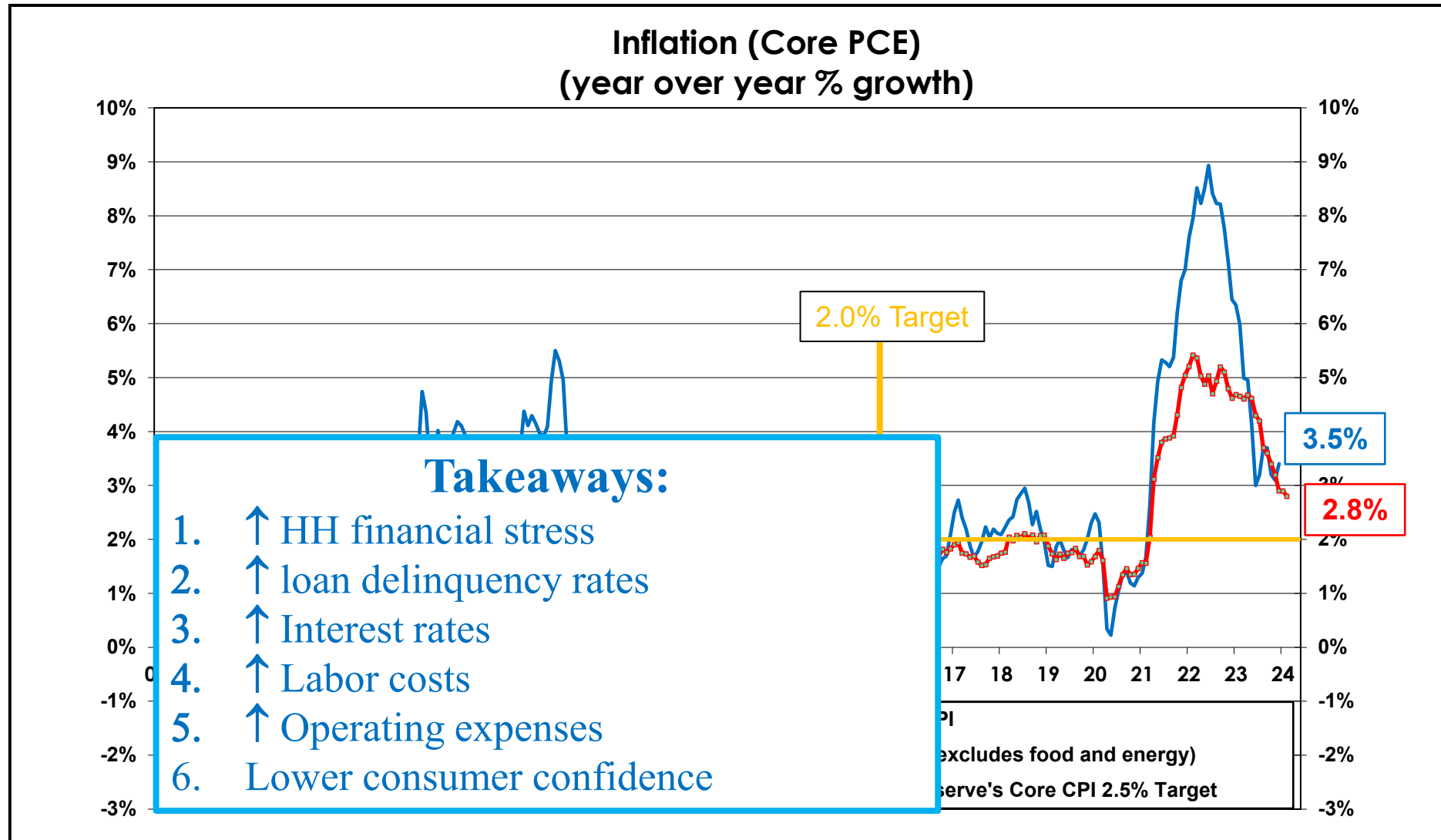
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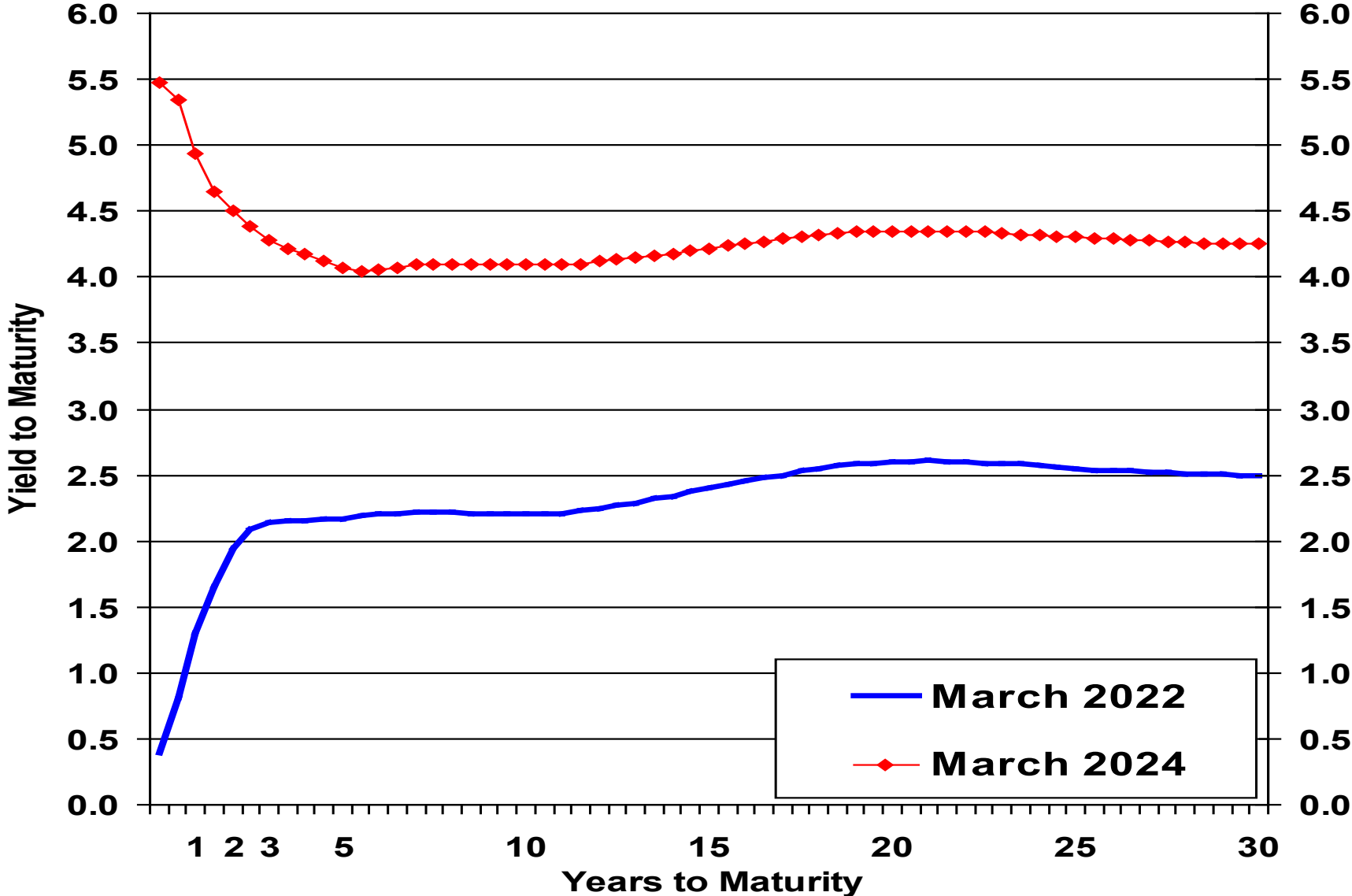
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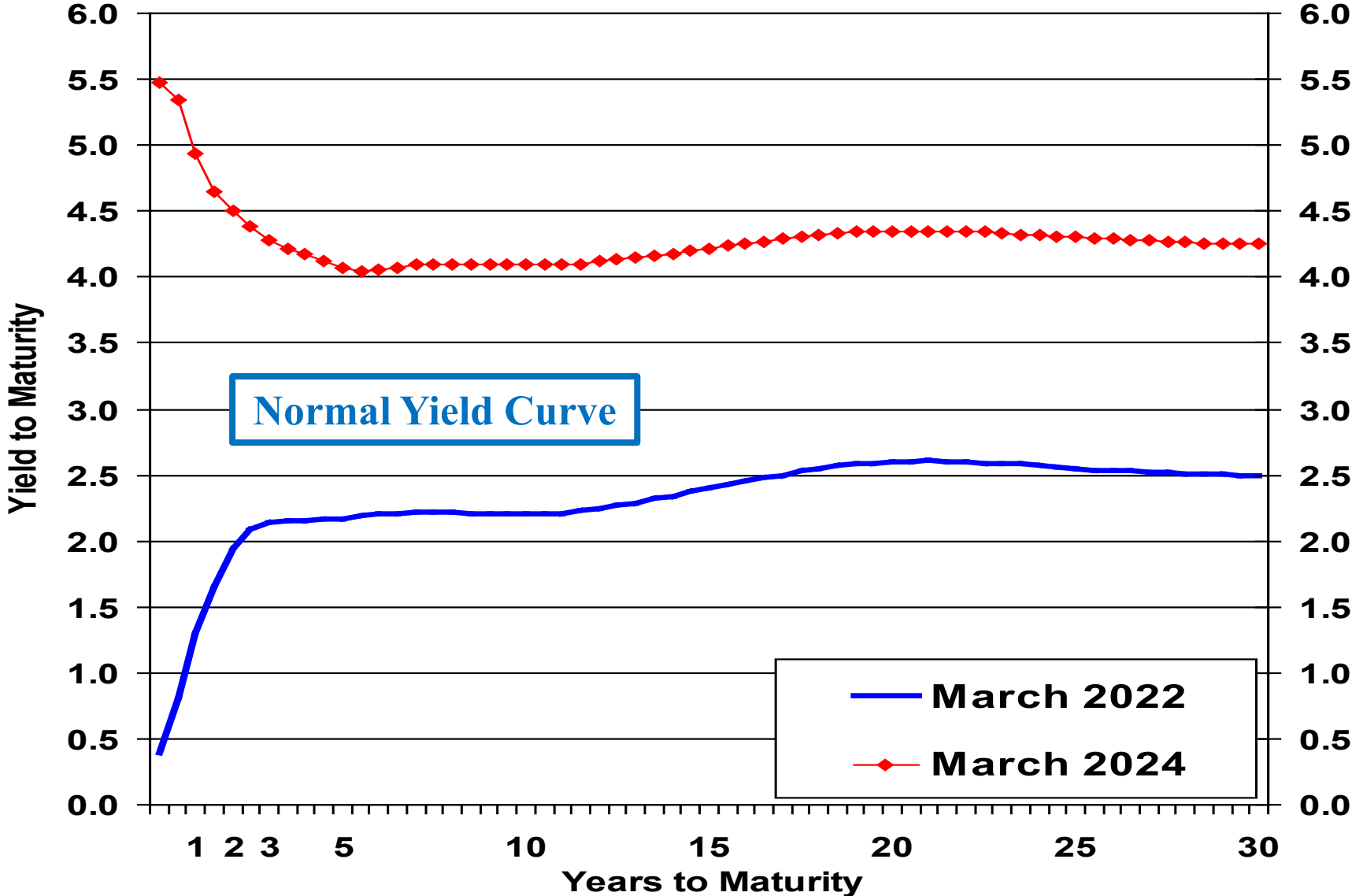
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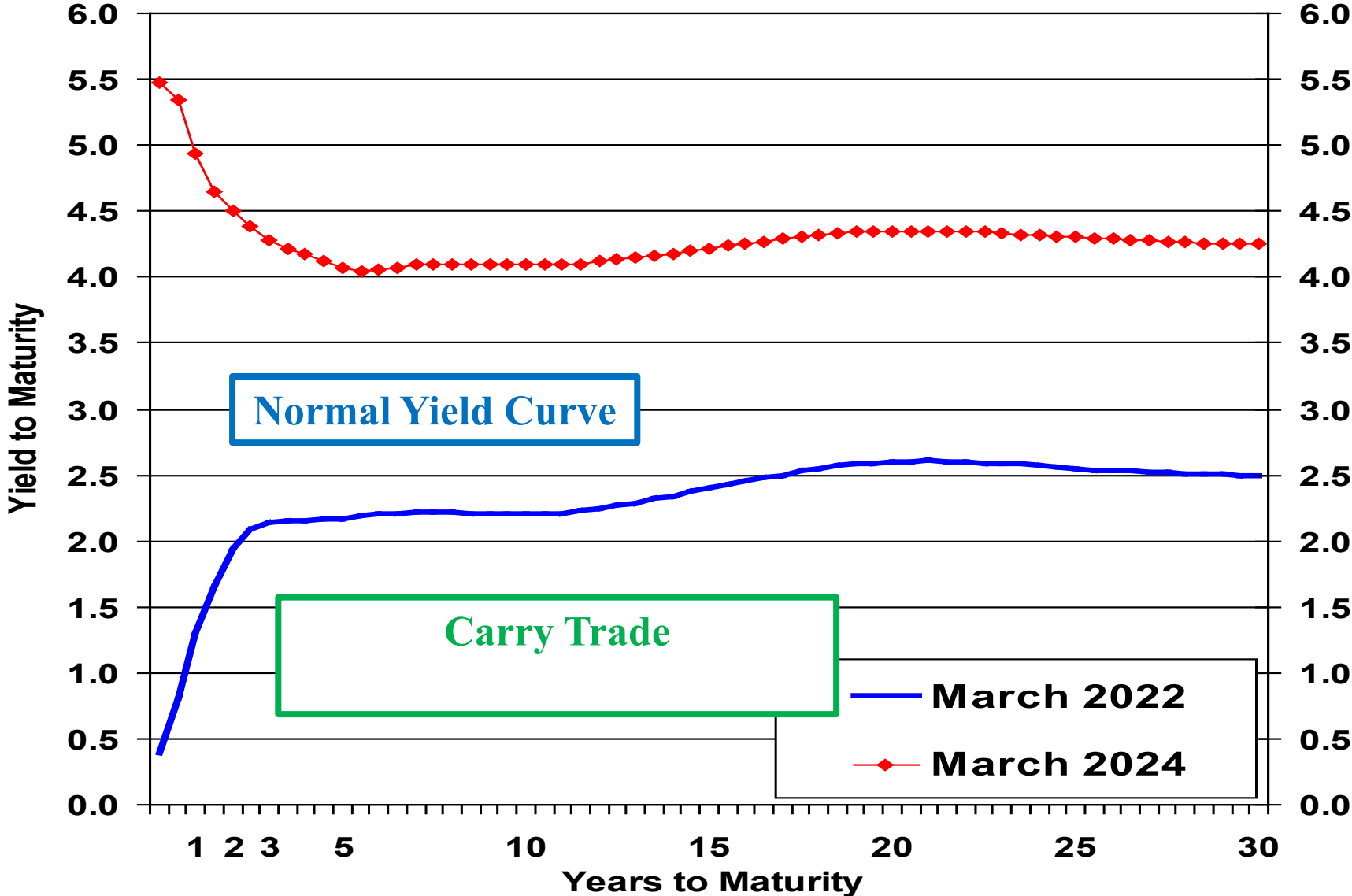
Treasury Yield Curves



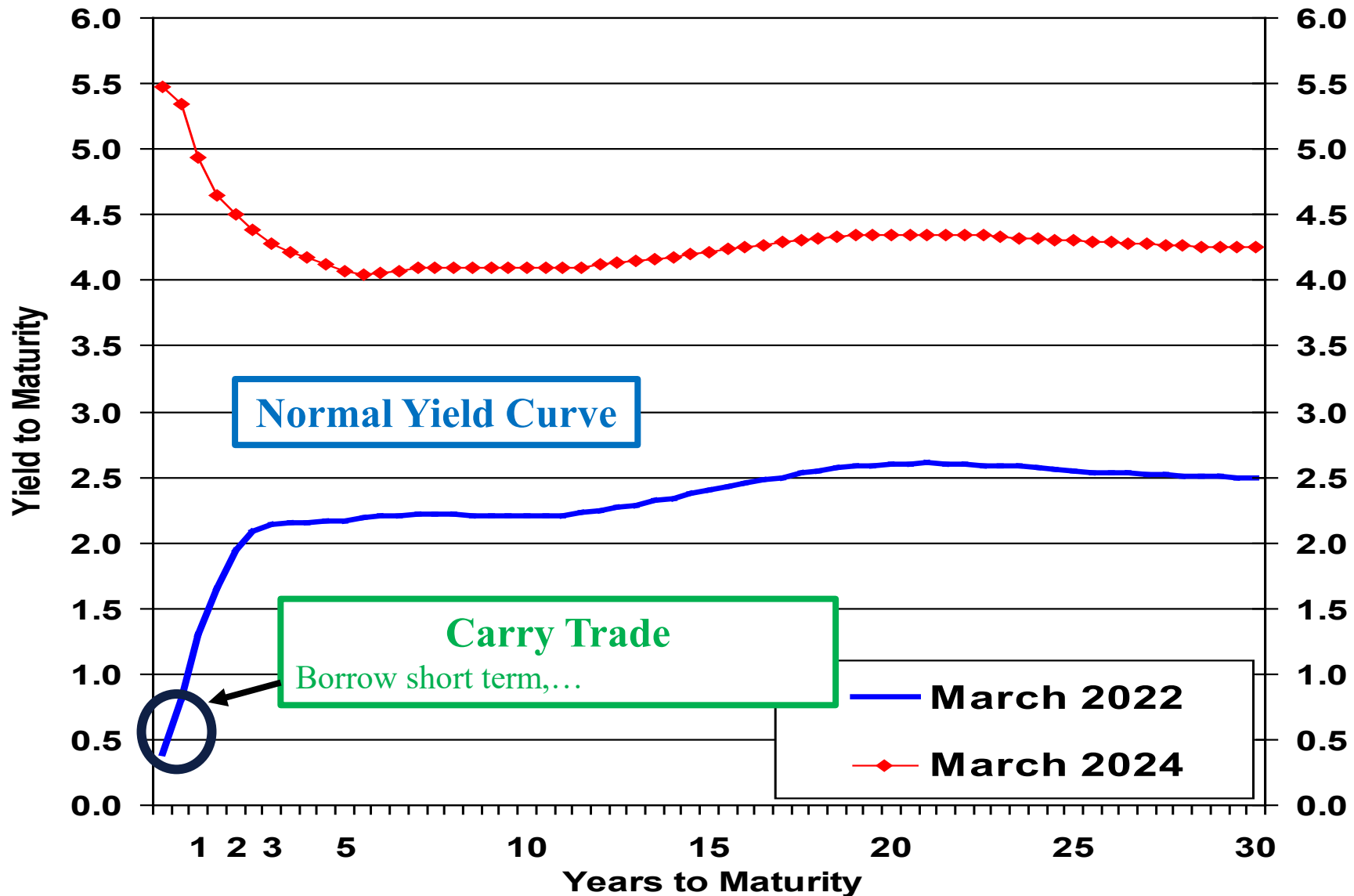
Treasury Yield Curves



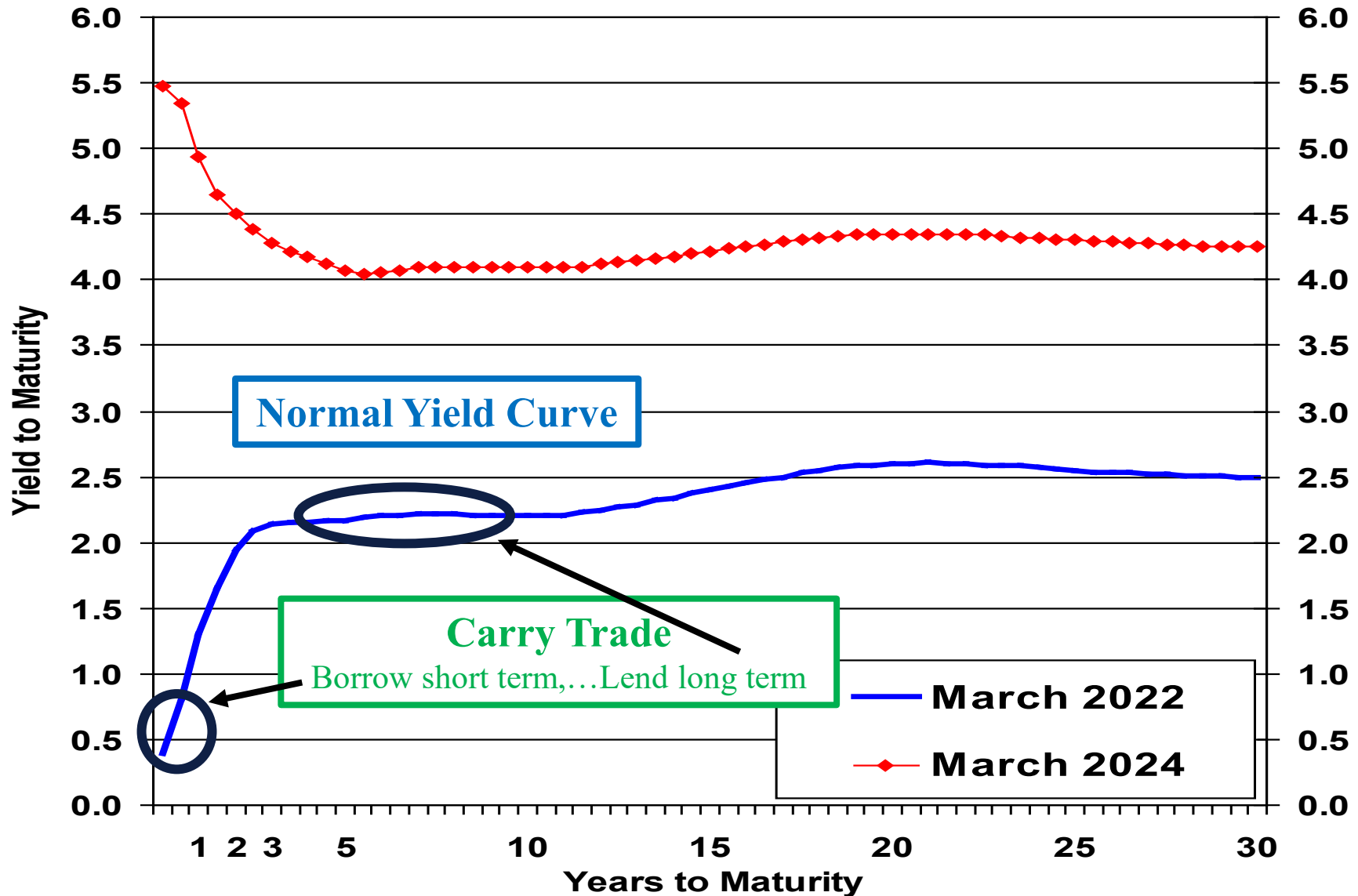
Treasury Yield Curves



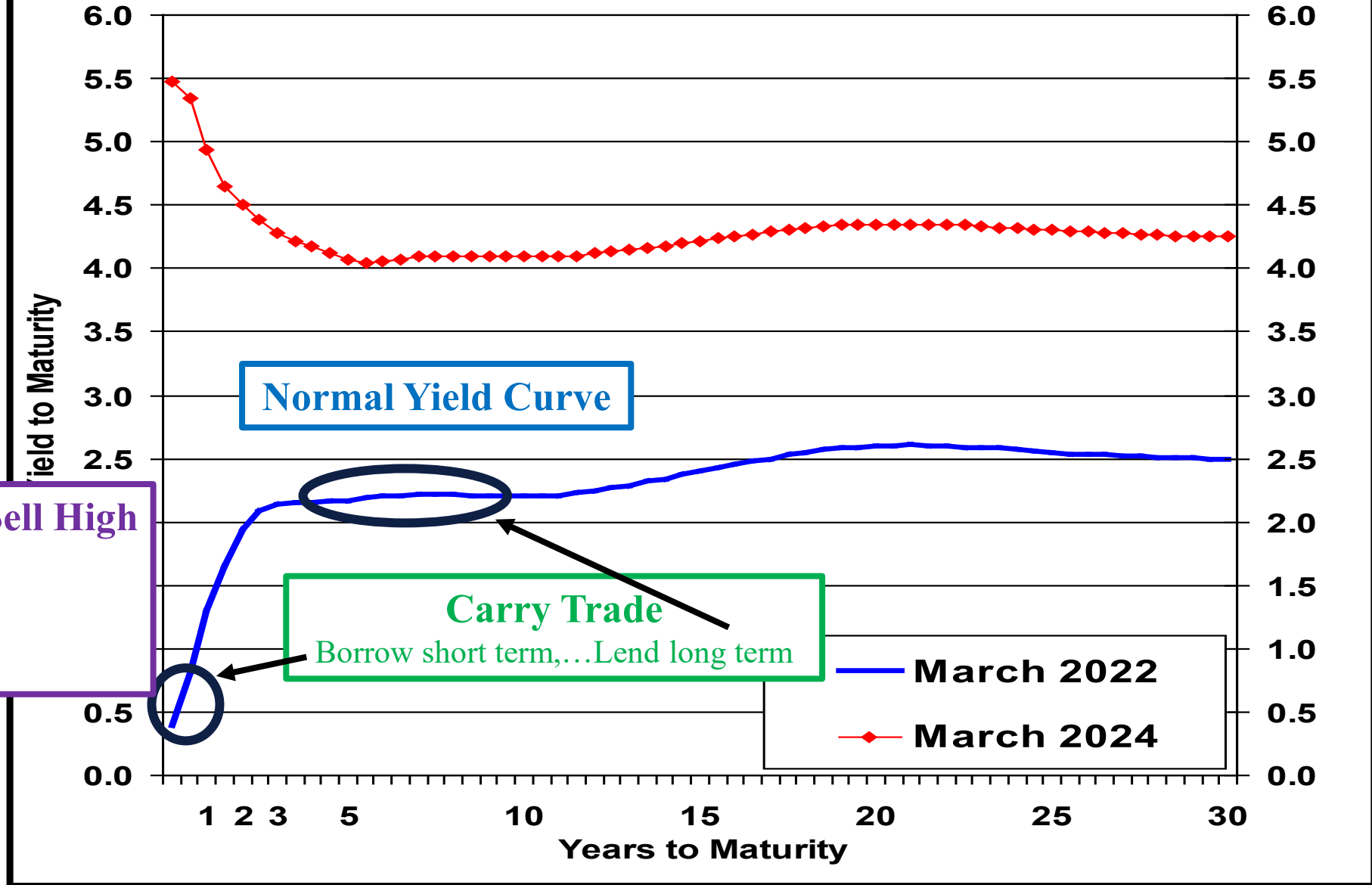
Treasury Yield Curves



Treasury Yield Curves



Treasury Yield Curves



Buy Low...
...Sell High

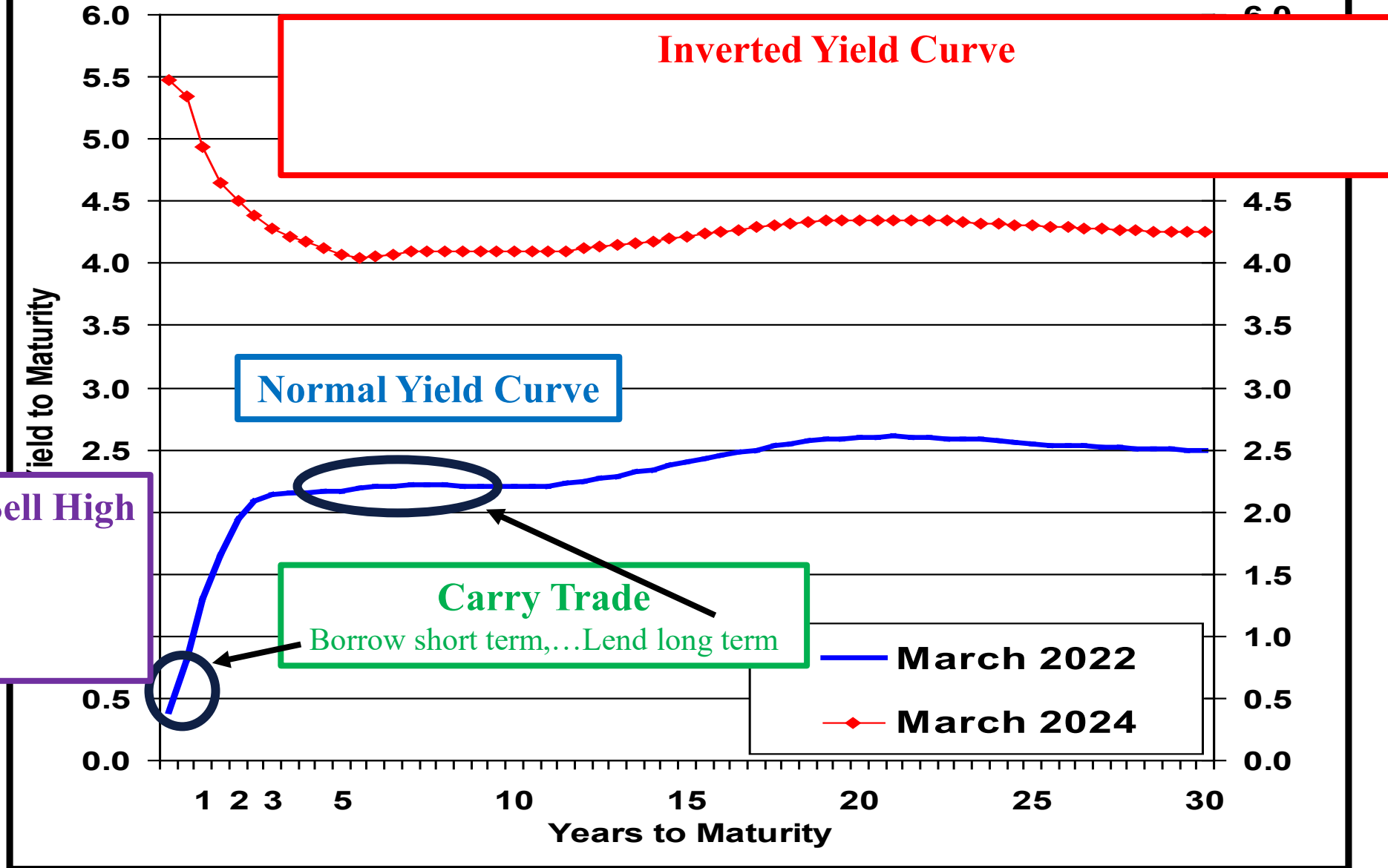
Normal Yield Curve

Carry Trade
Borrow short term, ... Lend long term

March 2022

March 2024

Treasury Yield Curves



...Sell High

Buy Low...

Carry Trade

Borrow short term, ...Lend long term

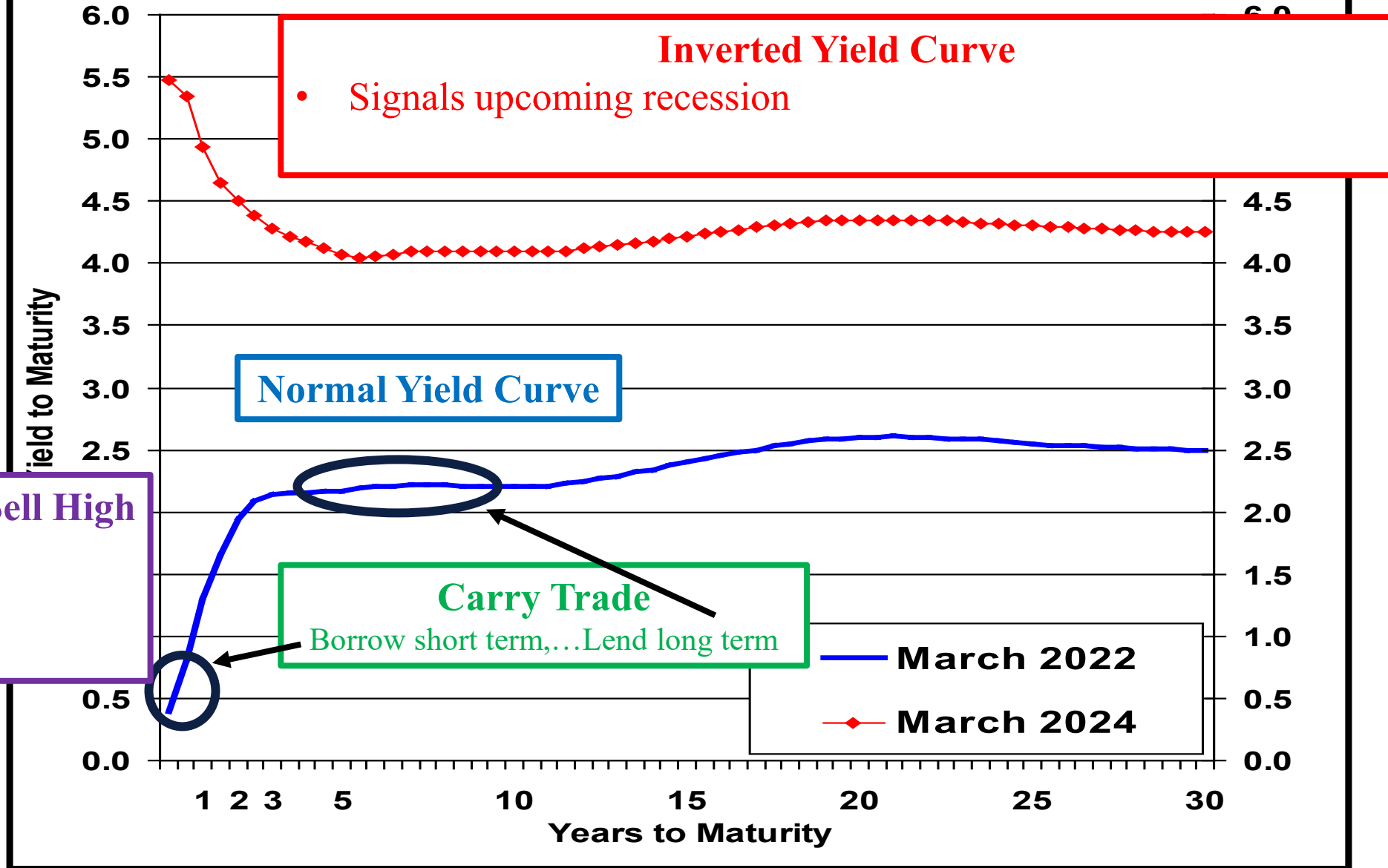
Inverted Yield Curve

Normal Yield Curve

March 2022

March 2024

Treasury Yield Curves



Buy Low...
...Sell High

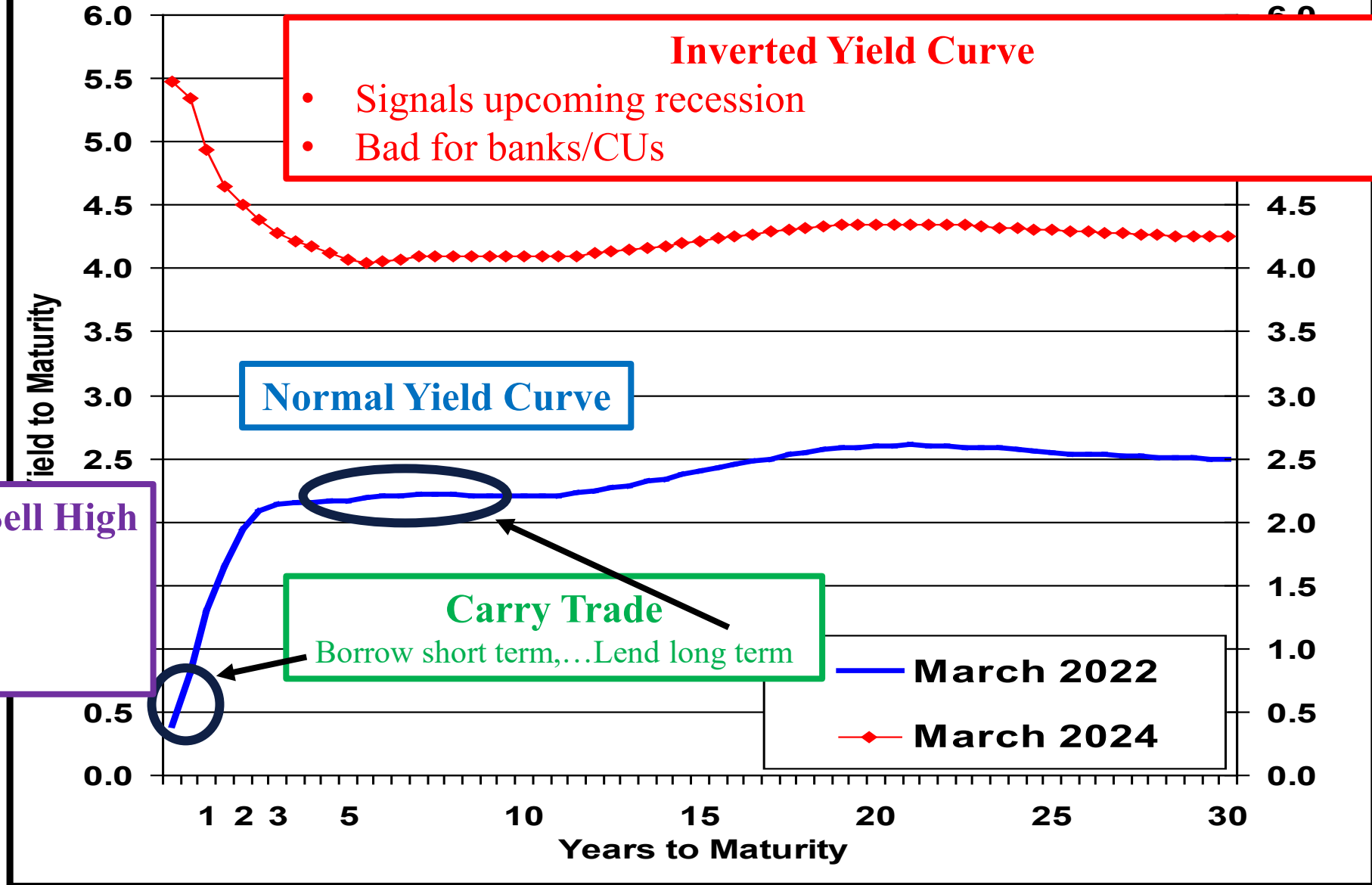
Inverted Yield Curve
• Signals upcoming recession

Normal Yield Curve

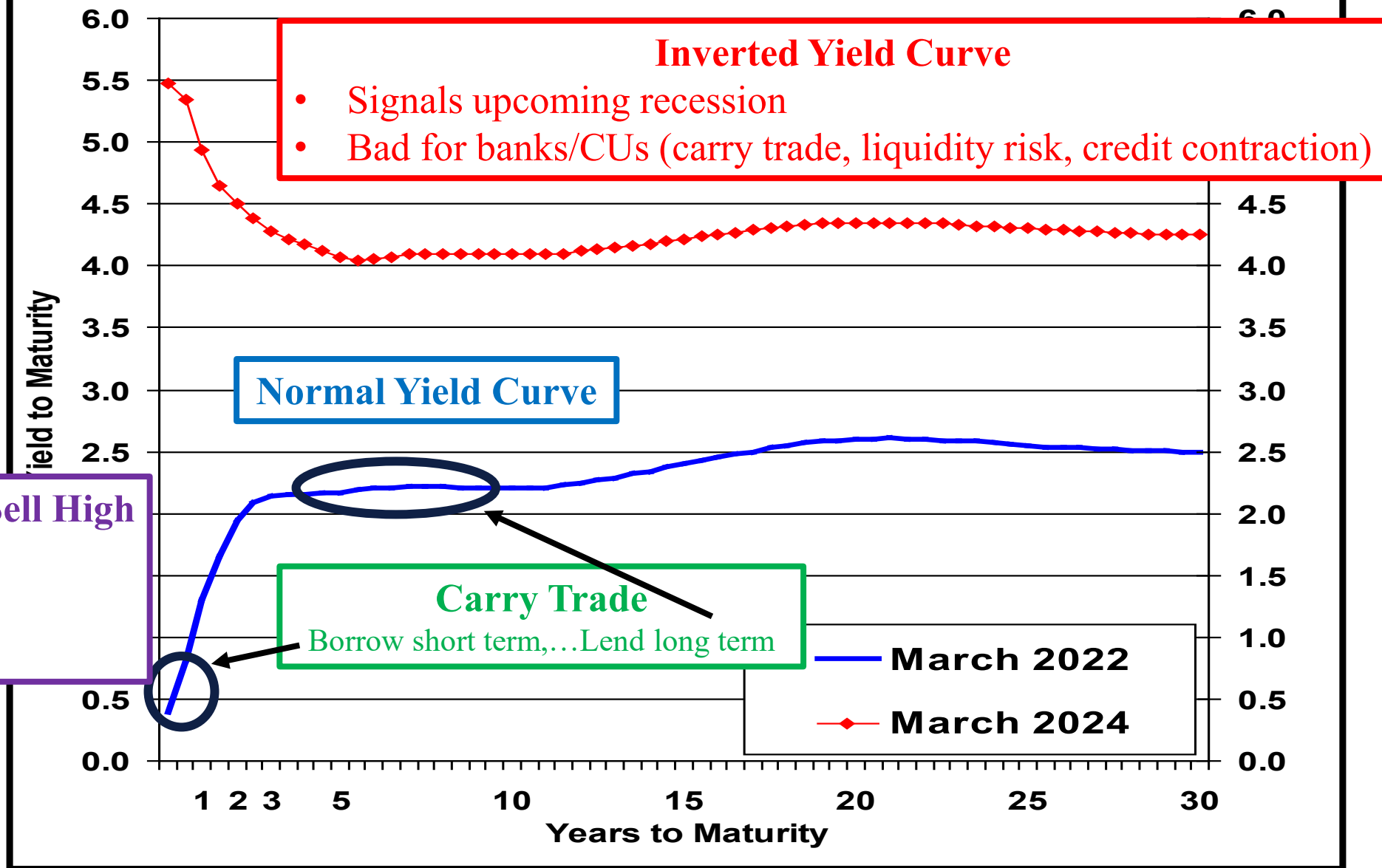
Carry Trade
Borrow short term,...Lend long term

— March 2022
—◆ March 2024

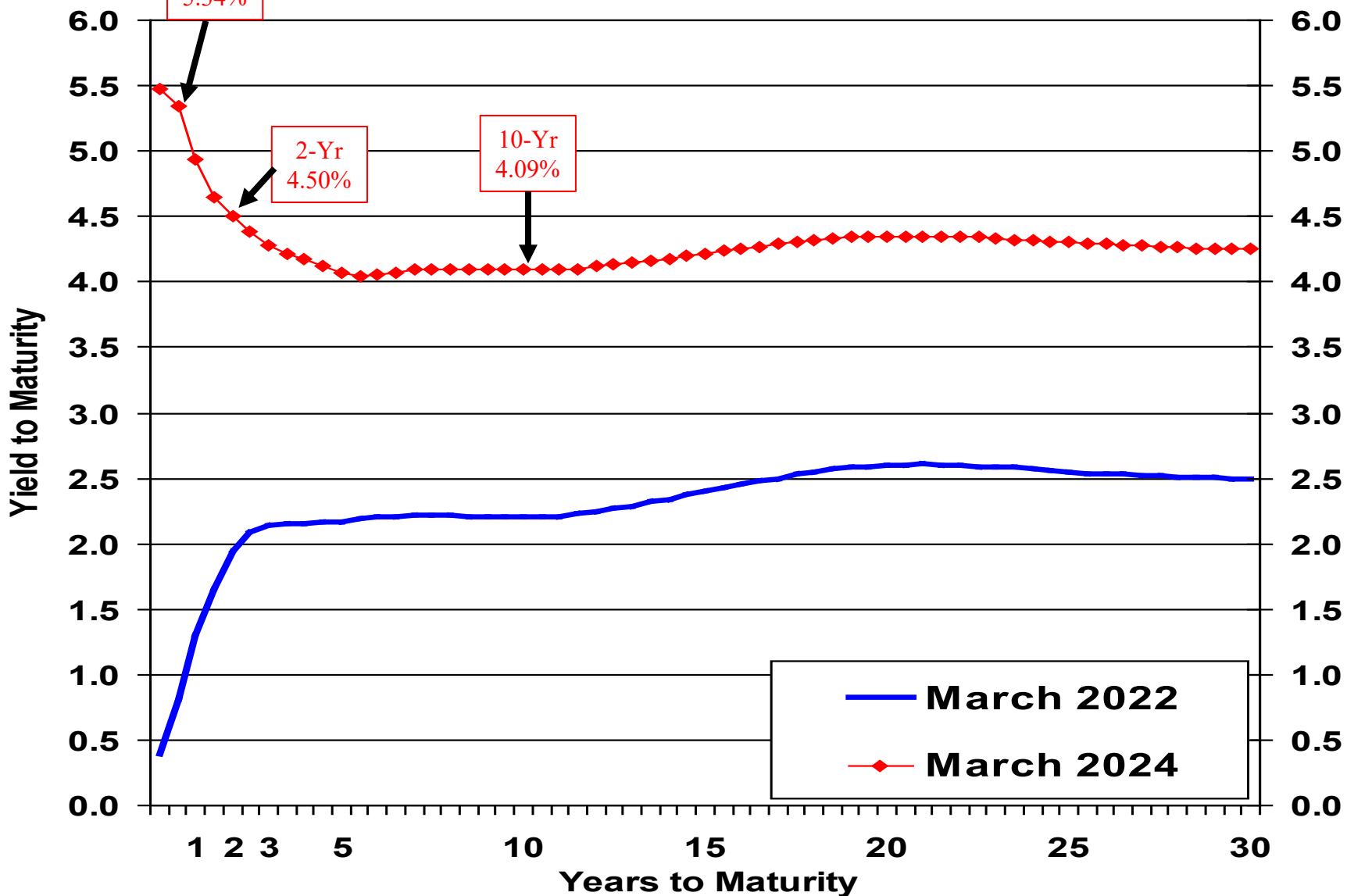
Treasury Yield Curves



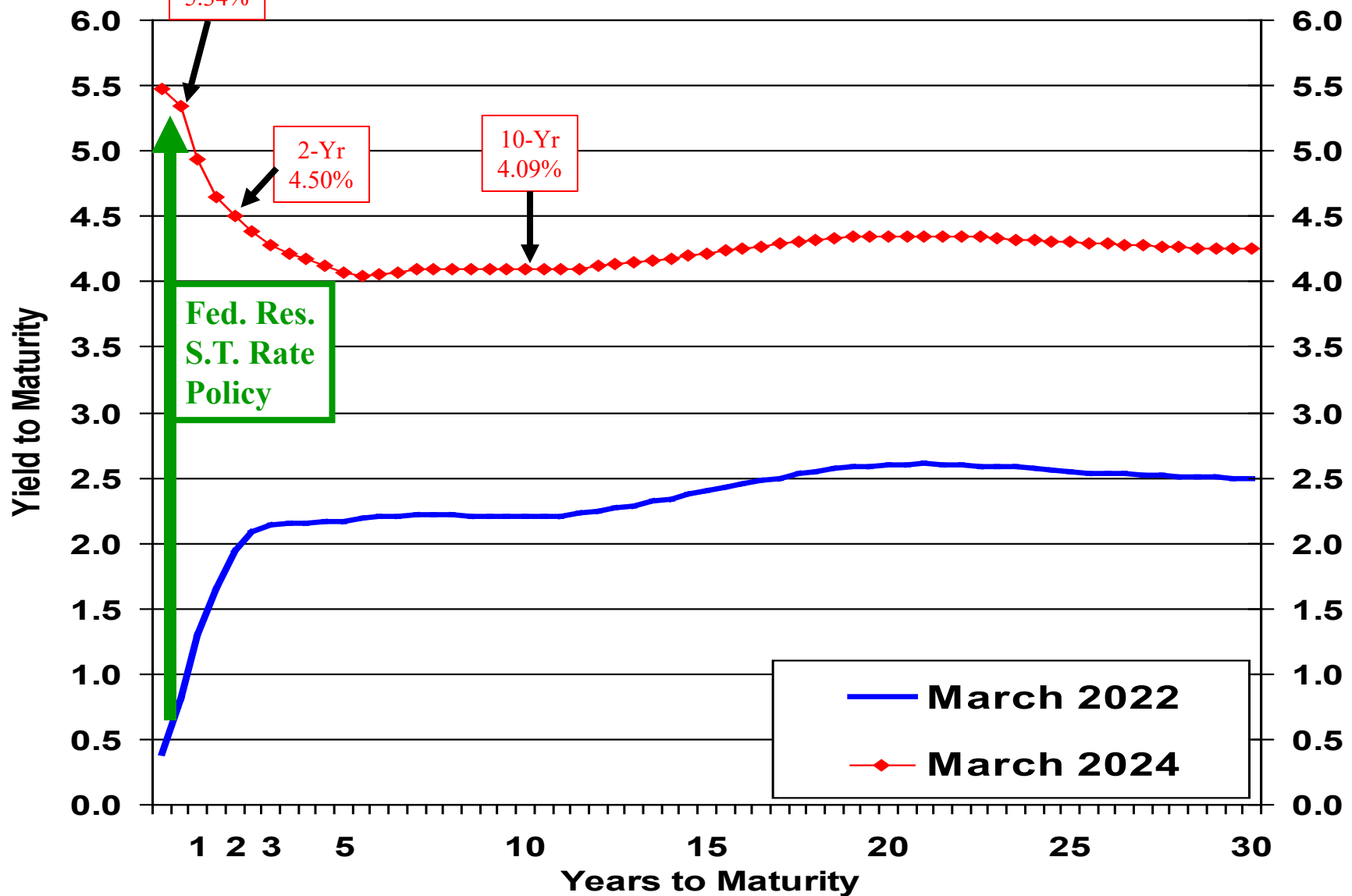
Treasury Yield Curves



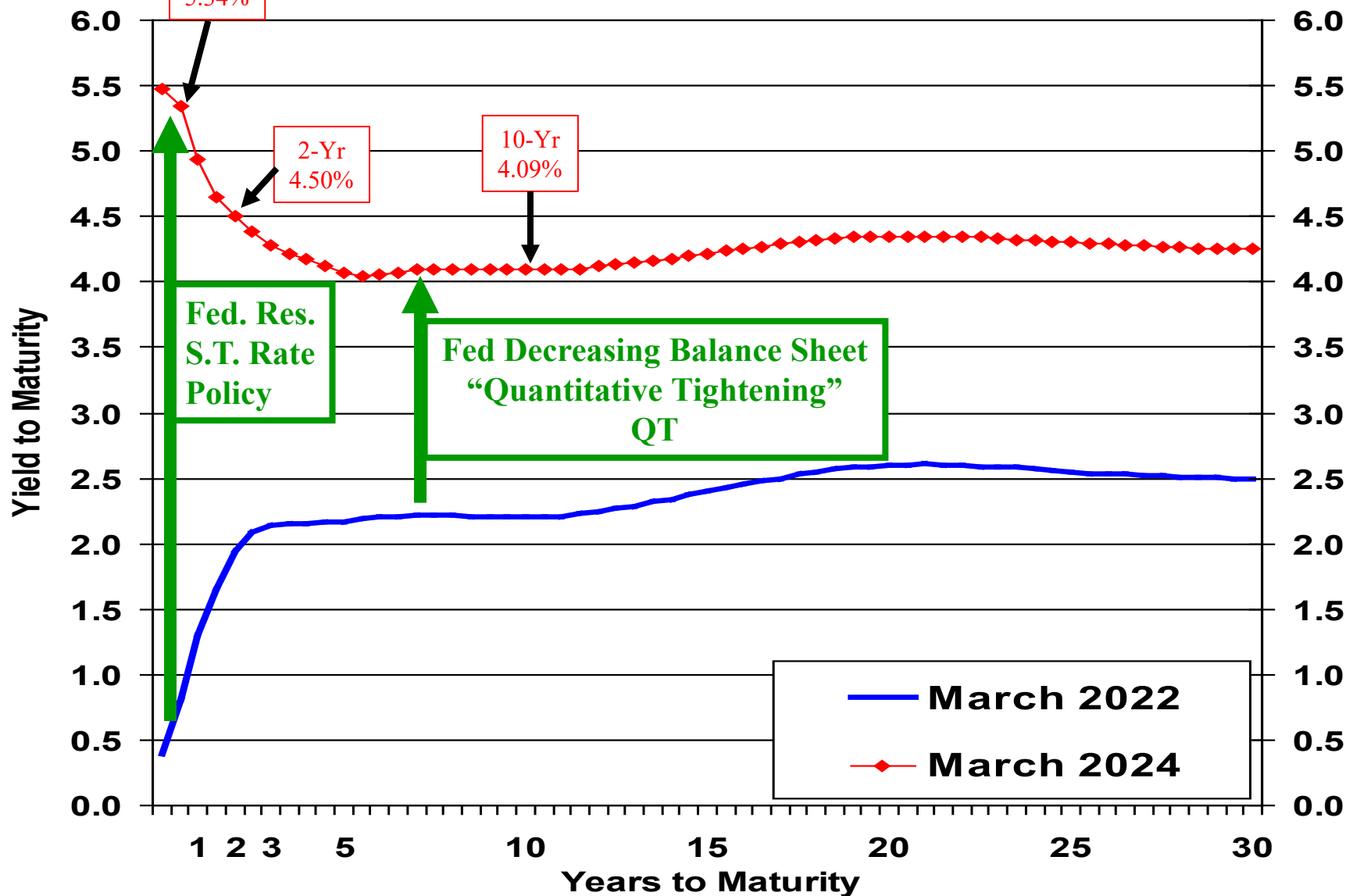
Treasury Yield Curves



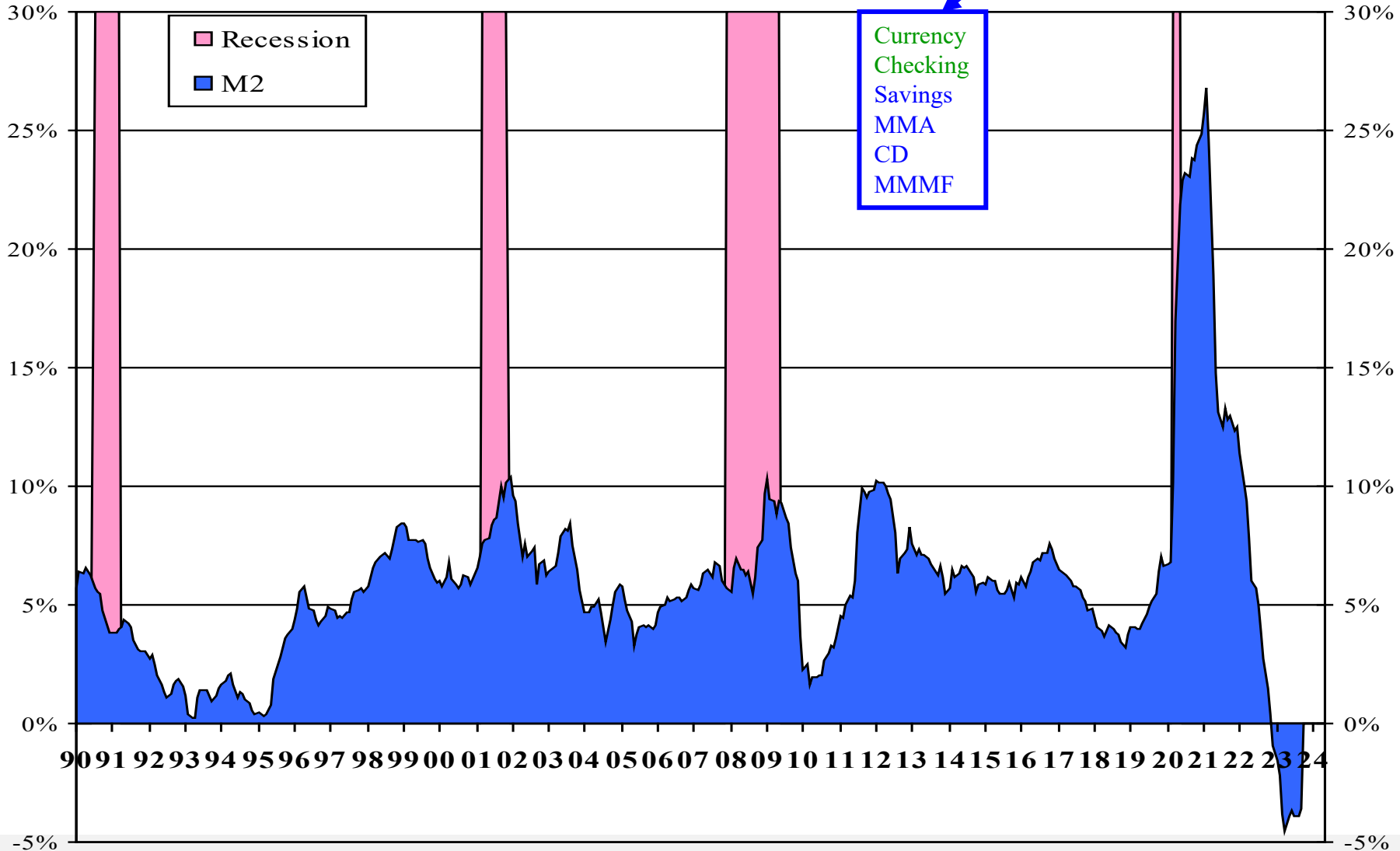
Treasury Yield Curves



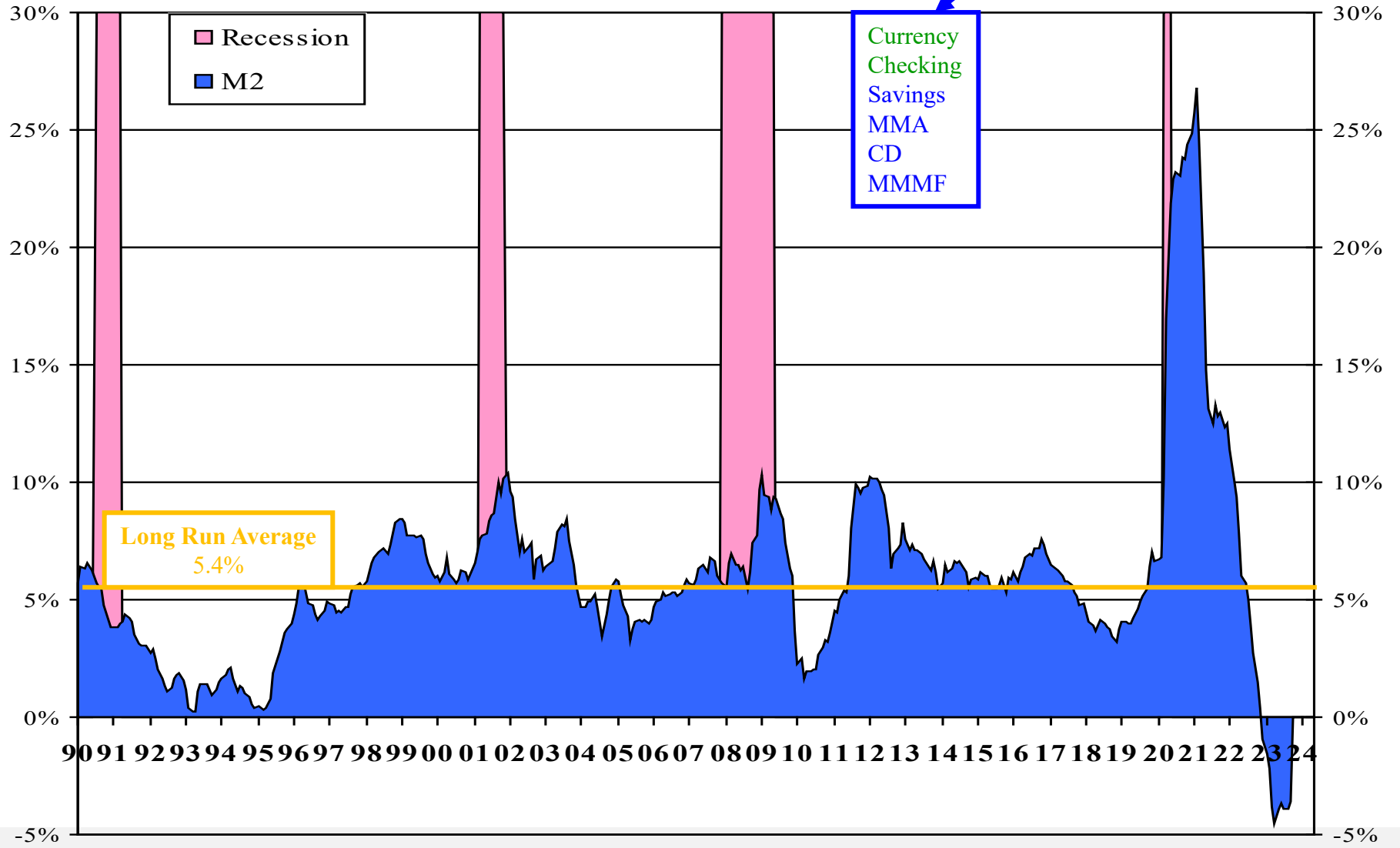
Treasury Yield Curves



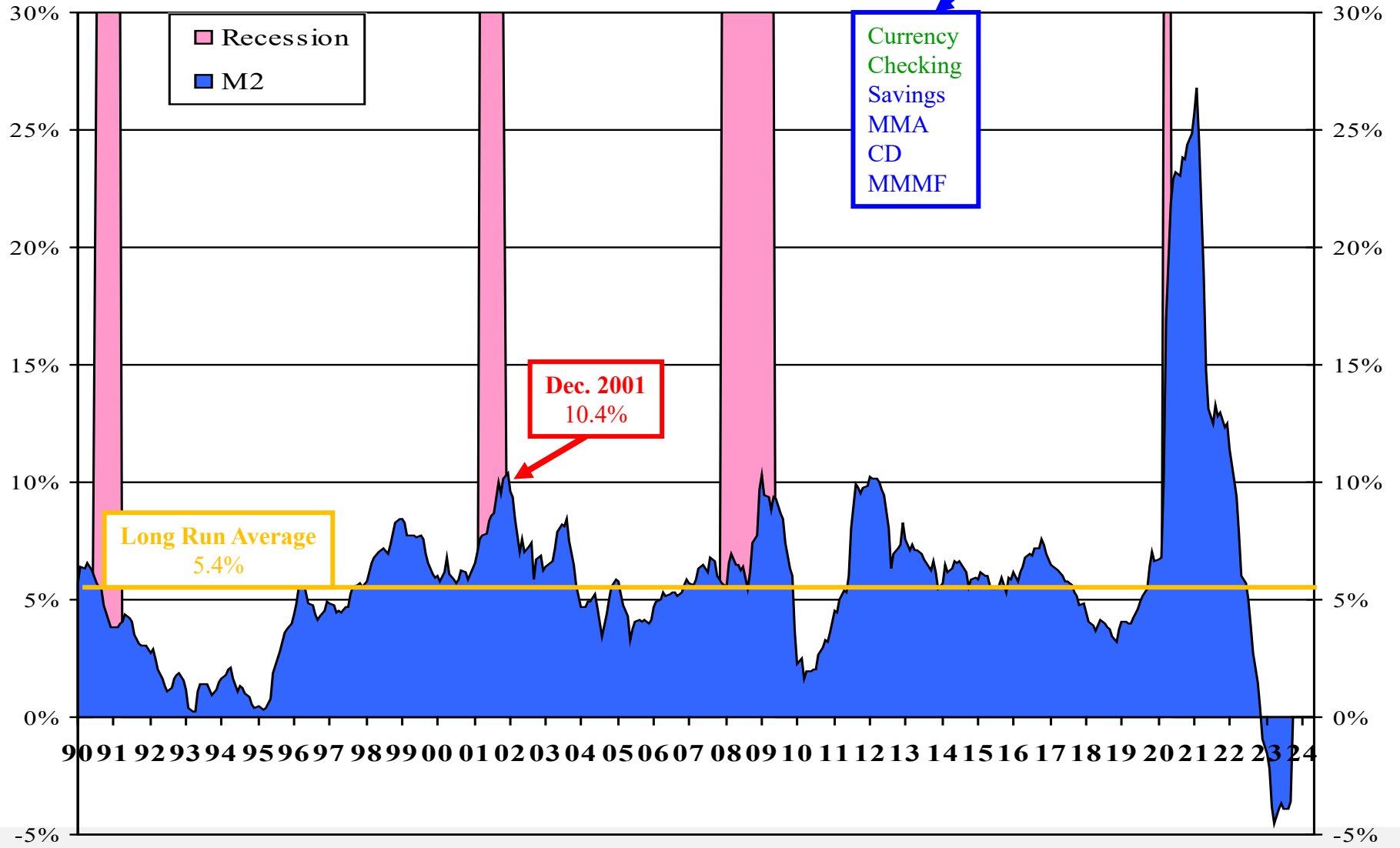
Money Supply Growth, M2



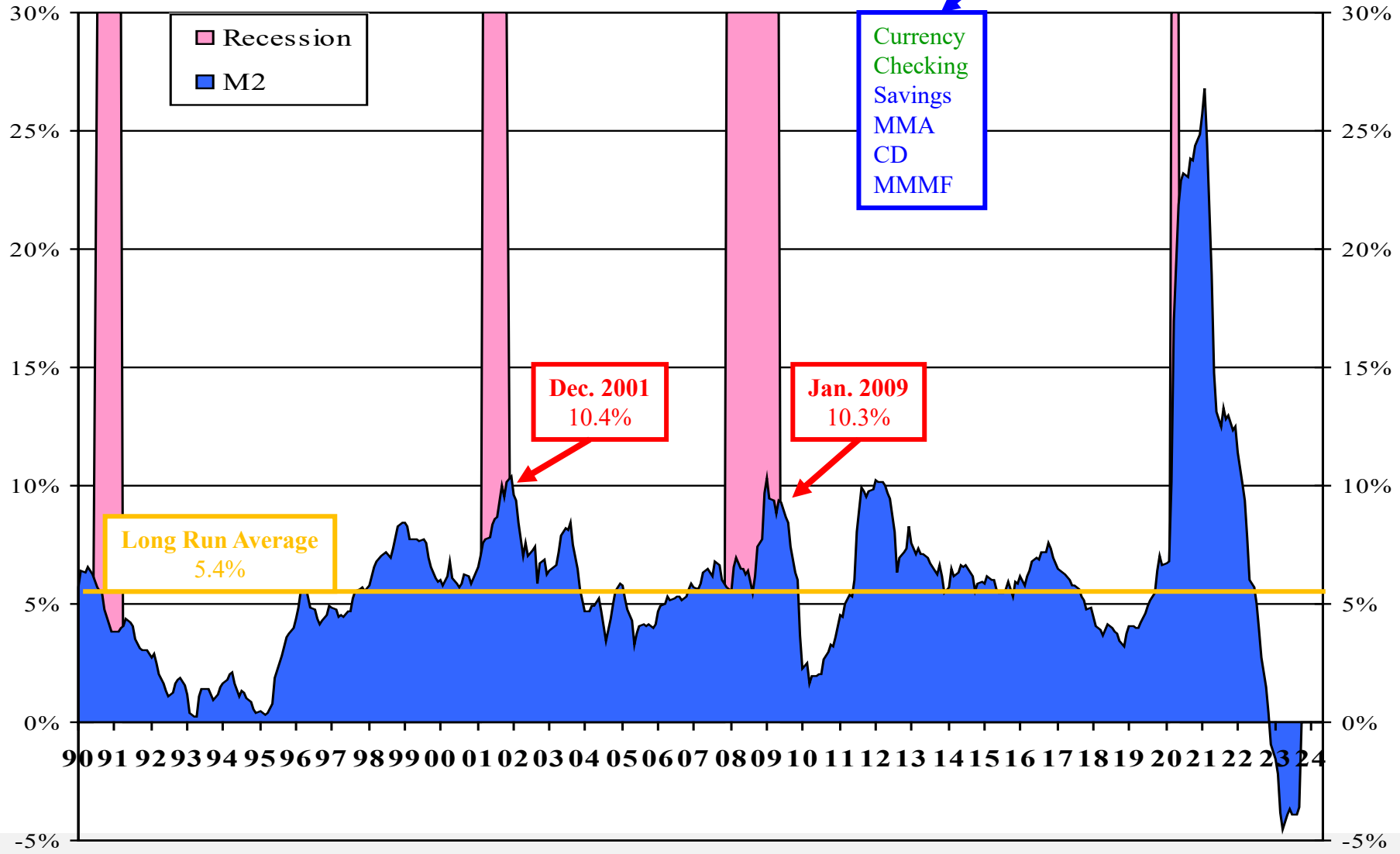
Money Supply Growth, M2



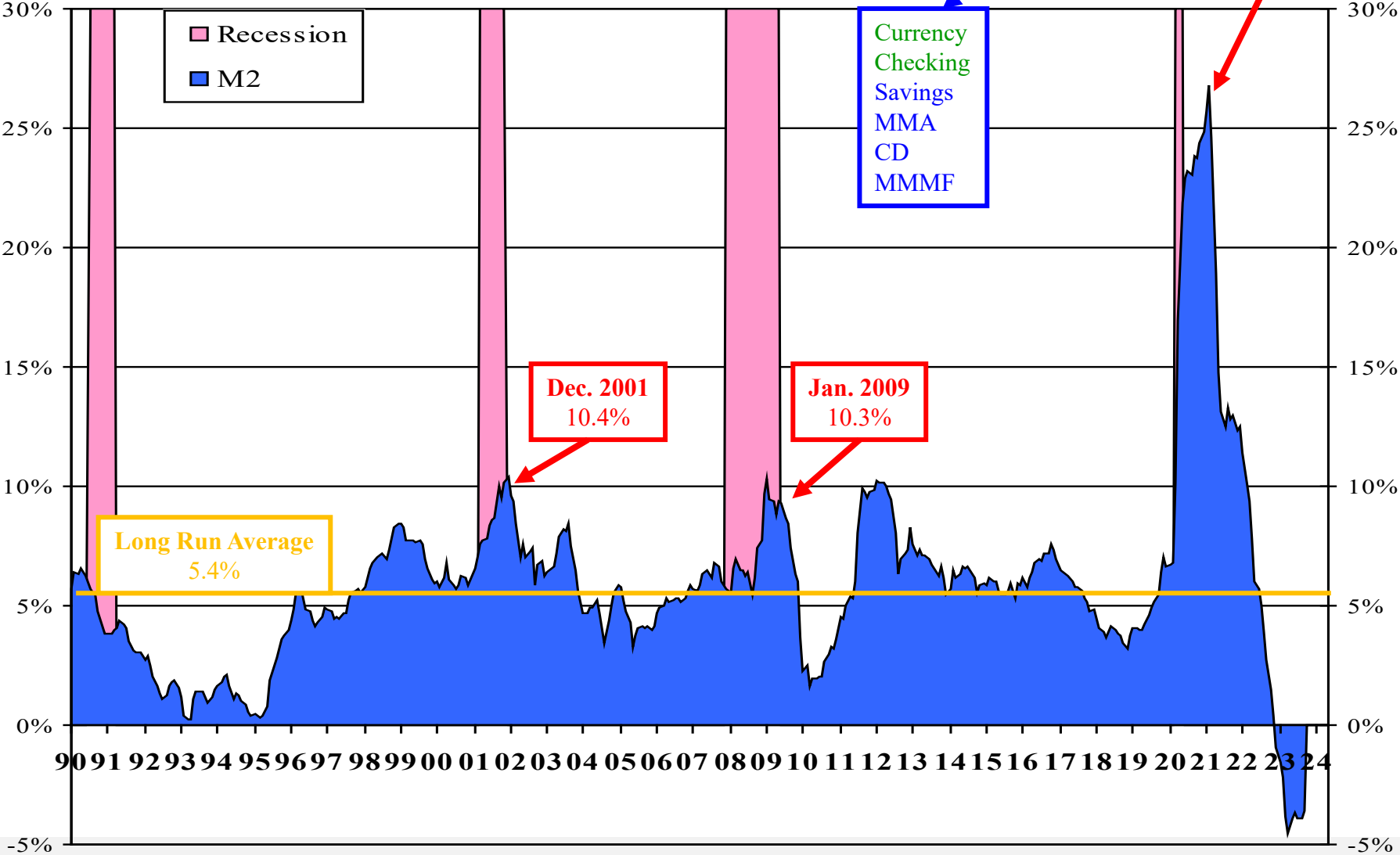
Money Supply Growth, M2



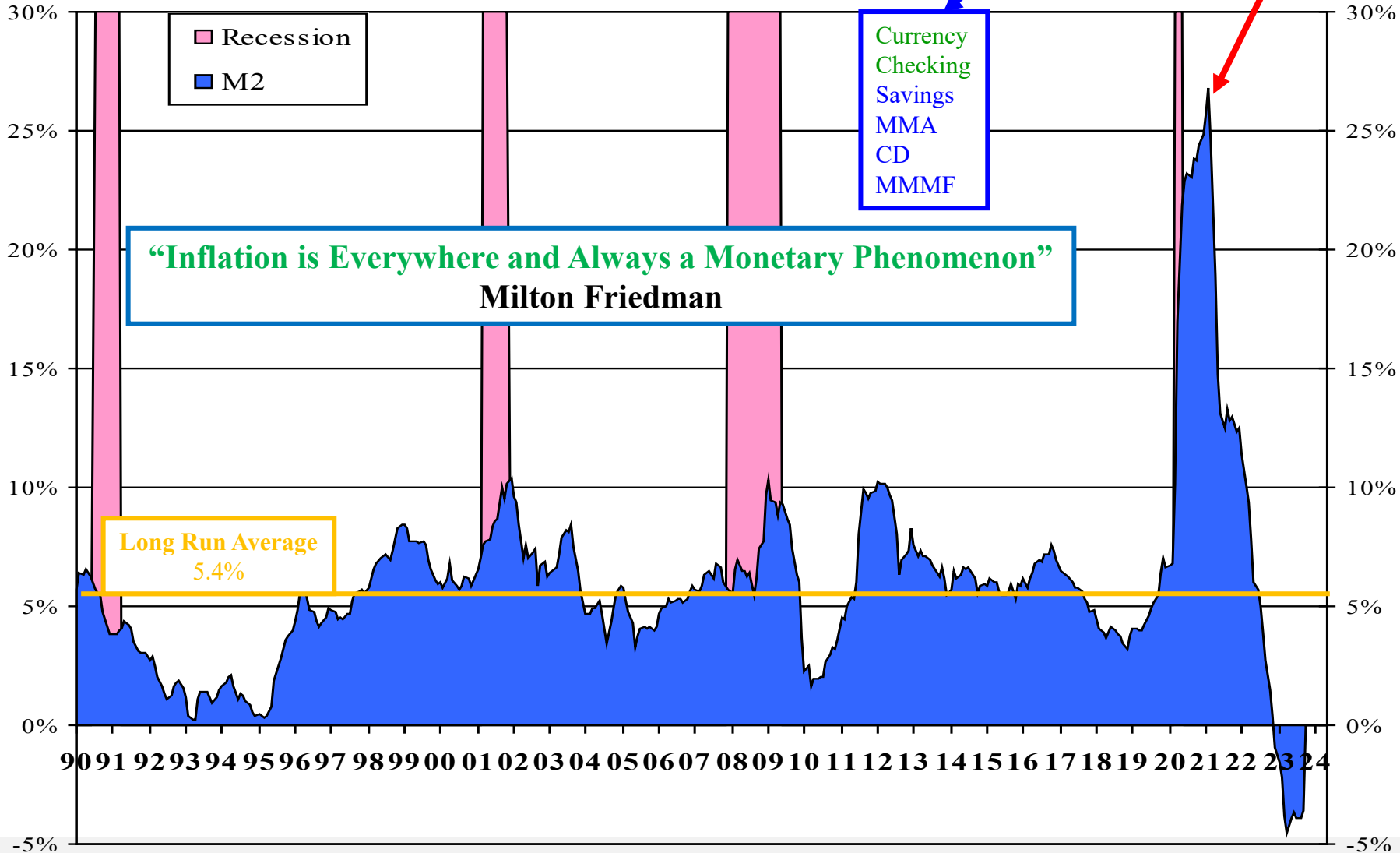
Money Supply Growth, M2



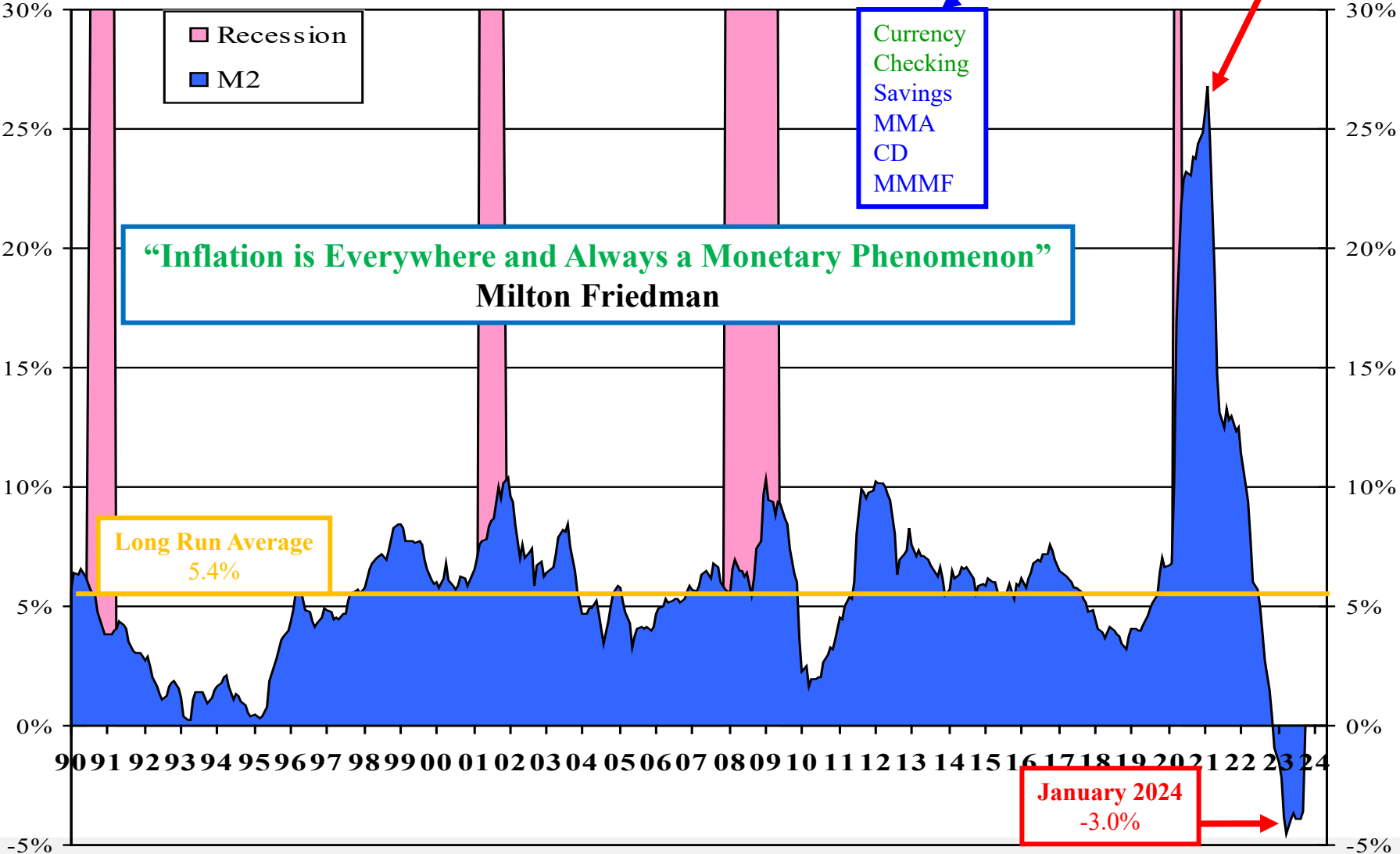
Money Supply Growth, M2



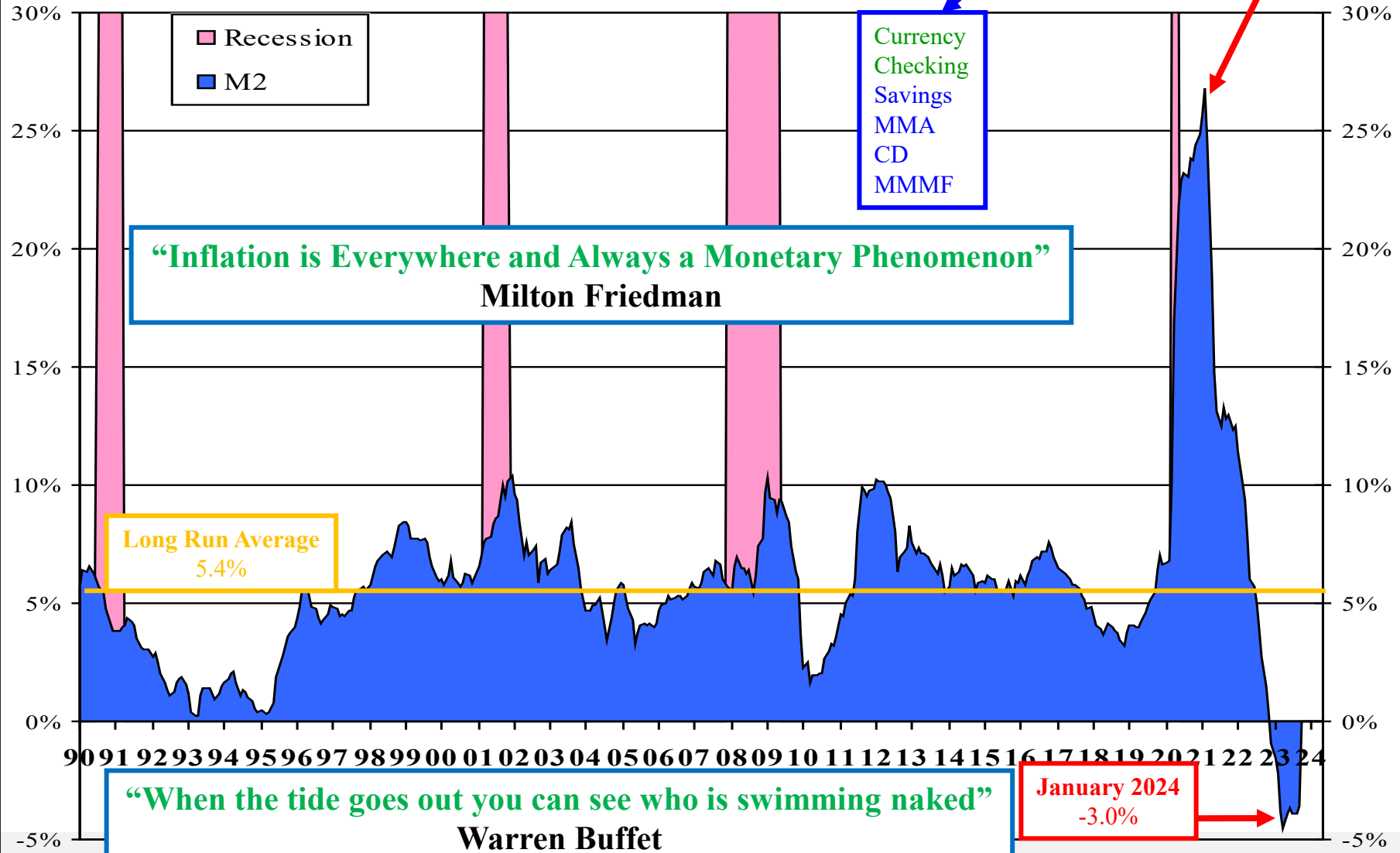
Money Supply Growth, M2



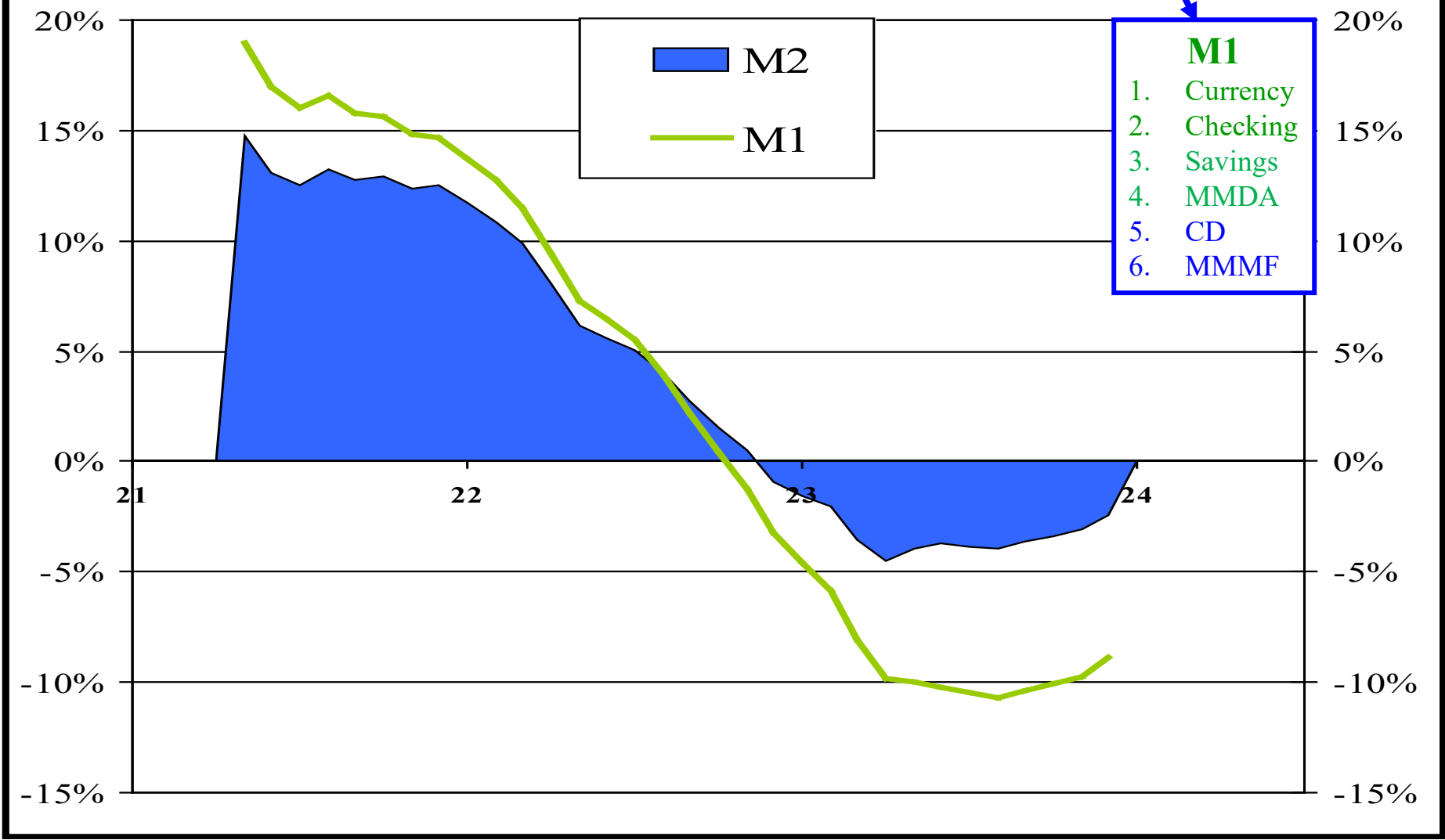
Money Supply Growth, M2



Money Supply Growth, M2



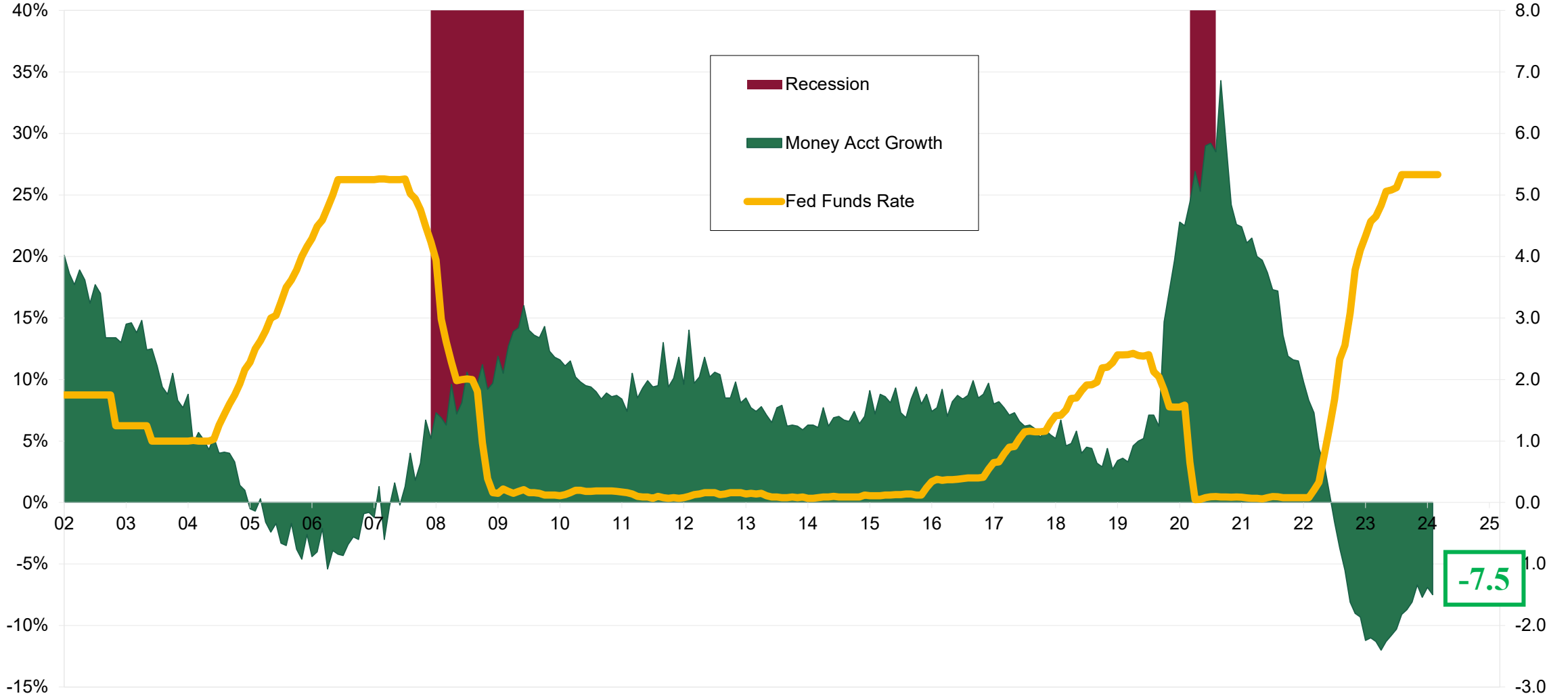
Money Supply Growth, M1&M2 (% change year ago)



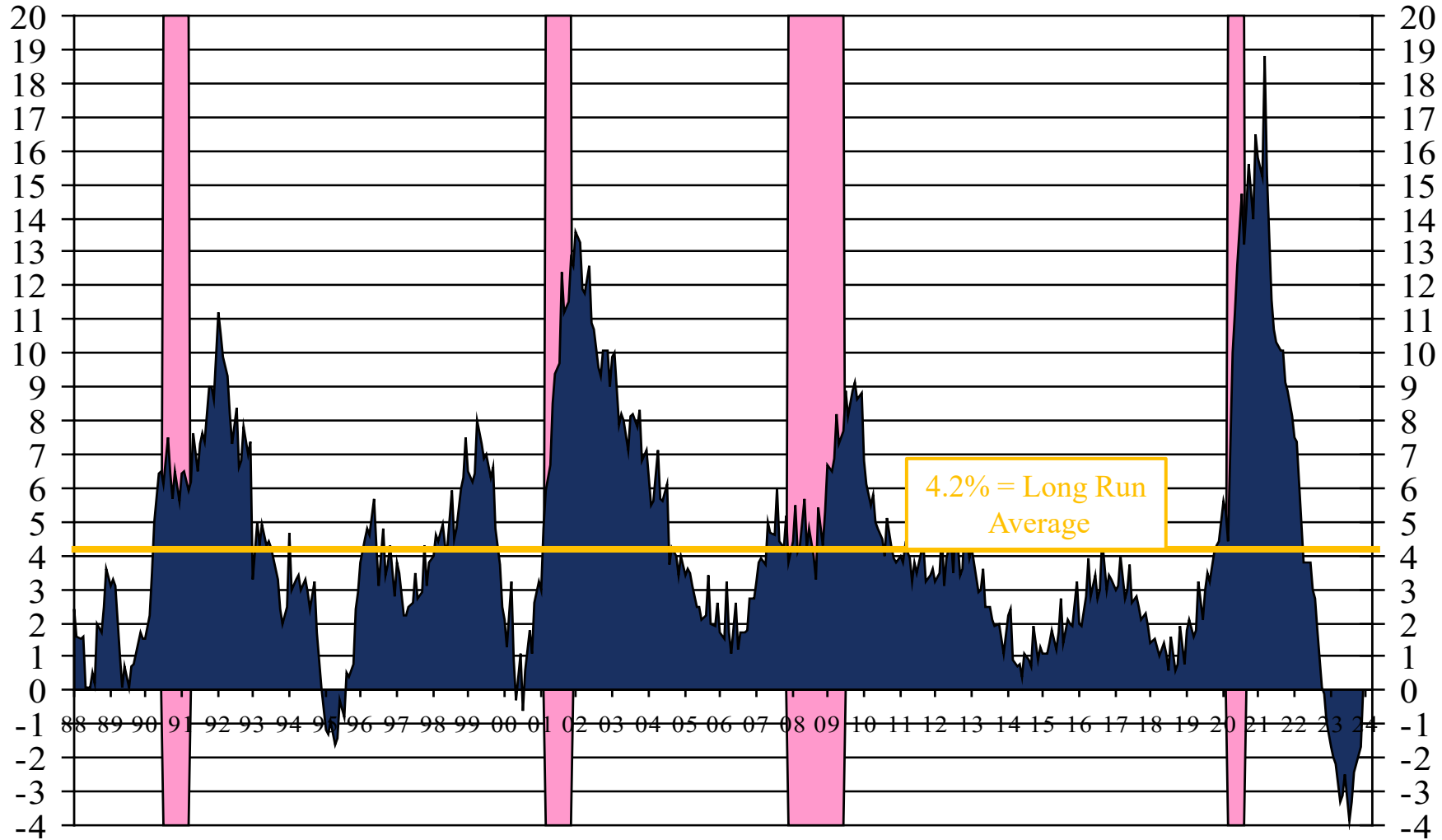
Money Accounts Growth Rate

Annual Growth

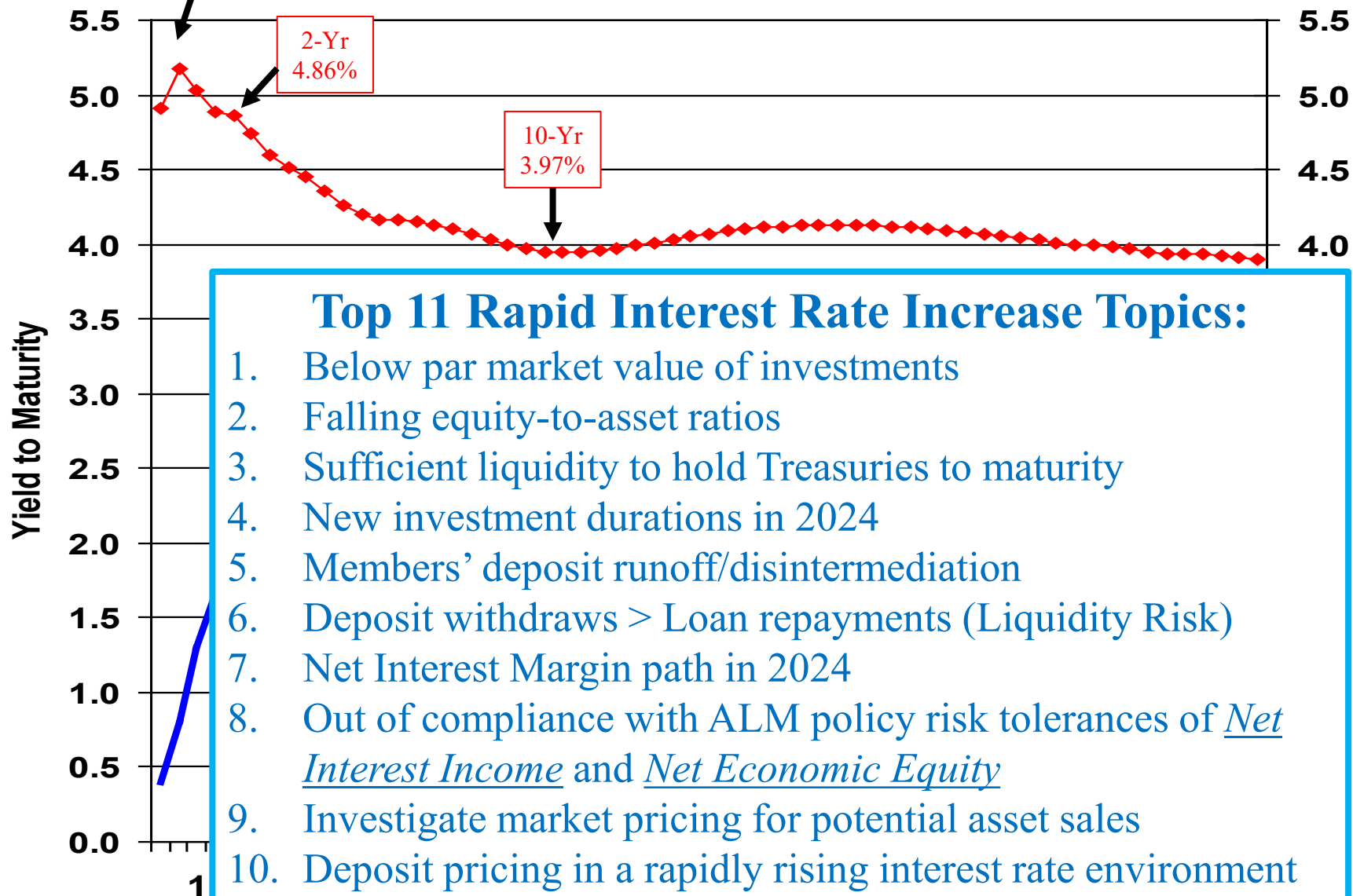
Interest Rate



Savings per Member Growth Rate



Treasury Yield Curves



Top 11 Rapid Interest Rate Increase Topics:

1. Below par market value of investments
2. Falling equity-to-asset ratios
3. Sufficient liquidity to hold Treasuries to maturity
4. New investment durations in 2024
5. Members' deposit runoff/disintermediation
6. Deposit withdraws > Loan repayments (Liquidity Risk)
7. Net Interest Margin path in 2024
8. Out of compliance with ALM policy risk tolerances of Net Interest Income and Net Economic Equity
9. Investigate market pricing for potential asset sales
10. Deposit pricing in a rapidly rising interest rate environment
11. Rely on wholesale borrowings to maintain sufficient liquidity

**Credit Union
Balance Sheet**

A large T-shaped frame representing a blank balance sheet table. It consists of a horizontal line at the top and a vertical line extending downwards from the center of the horizontal line, forming a 'T' shape. The interior of the 'T' is empty, intended for data entry.

Credit Union Balance Sheet

Assets

**Credit Union
Balance Sheet**

Assets

Liabilities + Capital

Credit Union Balance Sheet

Assets

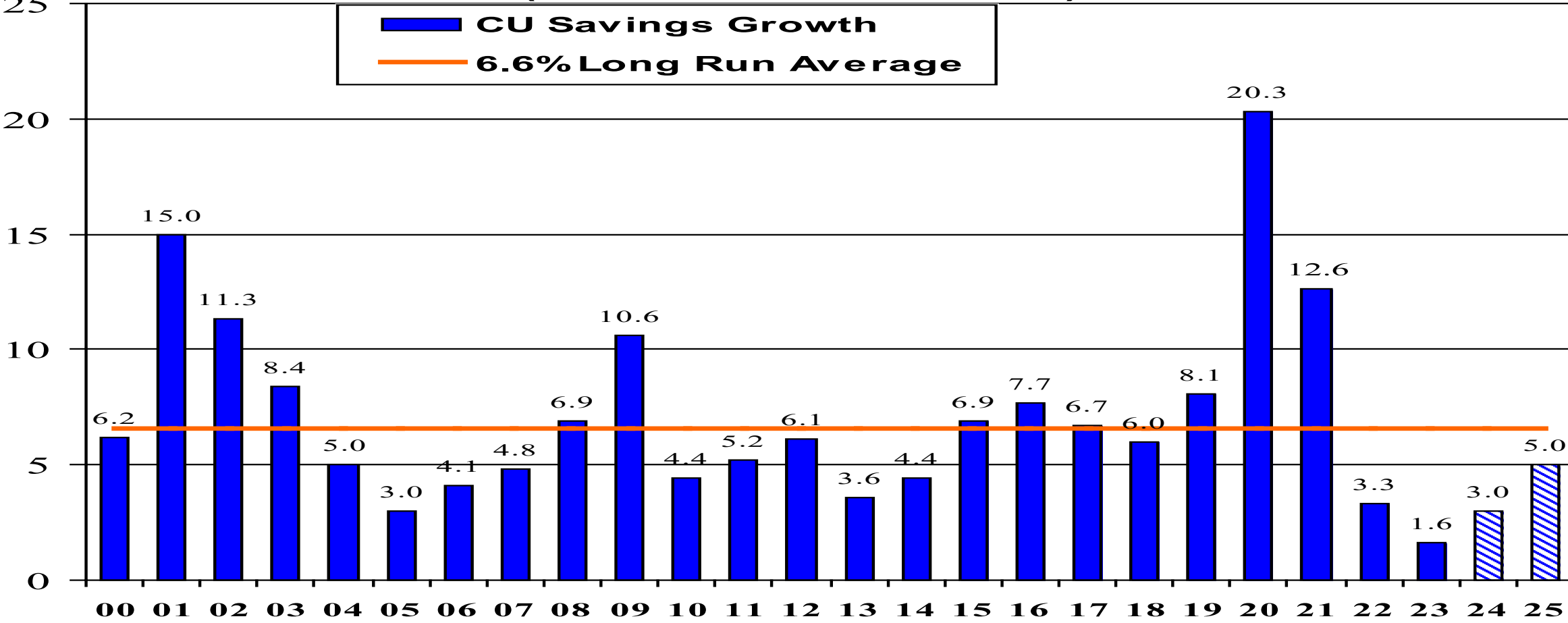
Liabilities + Capital

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Slowing Credit Union Savings Growth

Credit Union Savings Growth (Annual Percent Growth)



Credit Union Balance Sheet

Assets

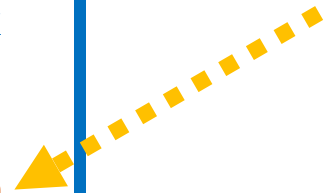
Liabilities + Capital

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program



Credit Union Balance Sheet

Assets

Liabilities + Capital

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

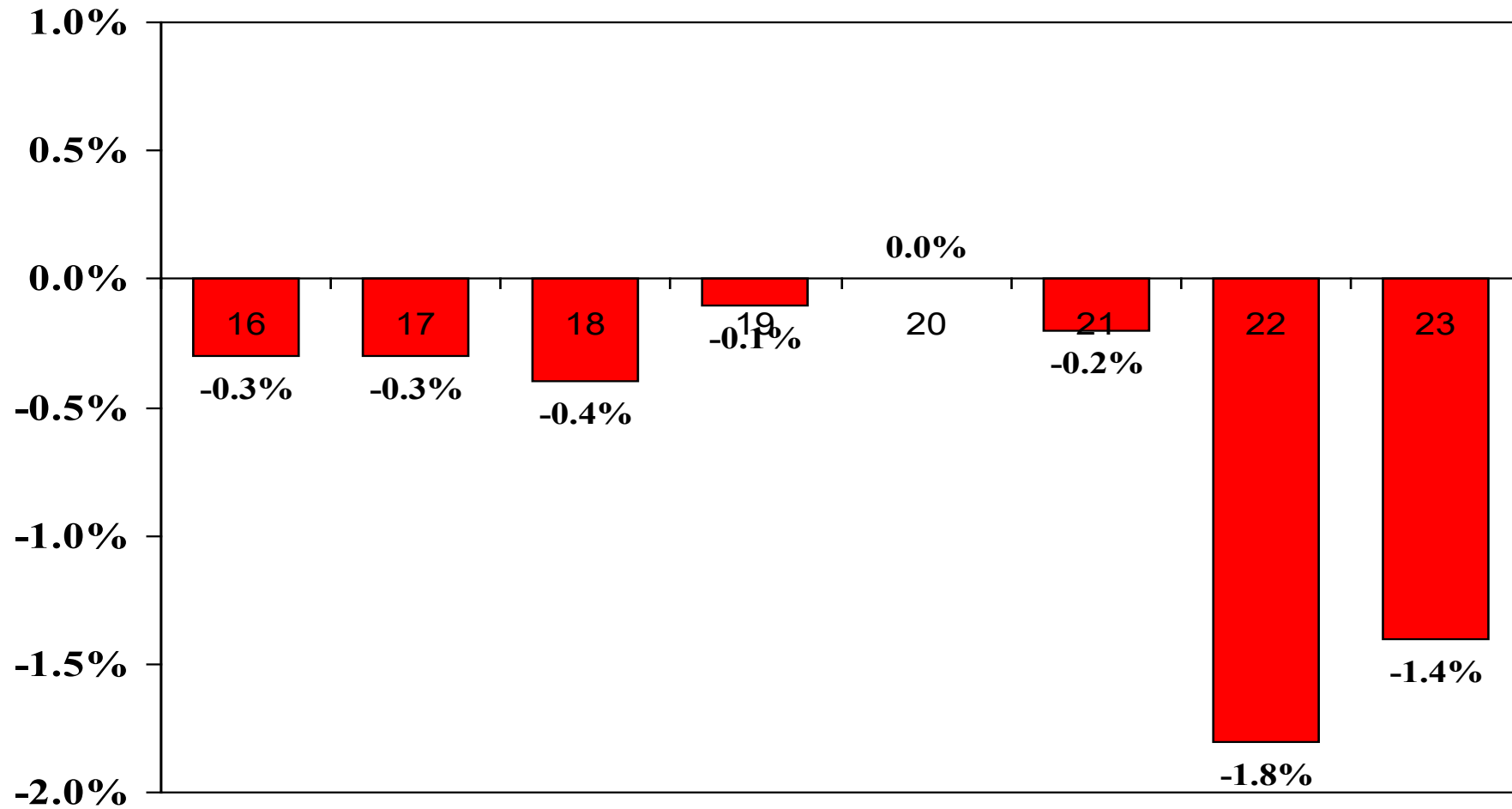
Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
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- Bank Term Funding Program

Equity (Net Capital)

1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

Accumulated Unrealized Losses on AFS Securities (Percent of Assets)



Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

Borrowings

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Equity (Net Capital)

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Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Fixed Assets

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- Equipment

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Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Fixed Assets

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Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Deposits

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Borrowings

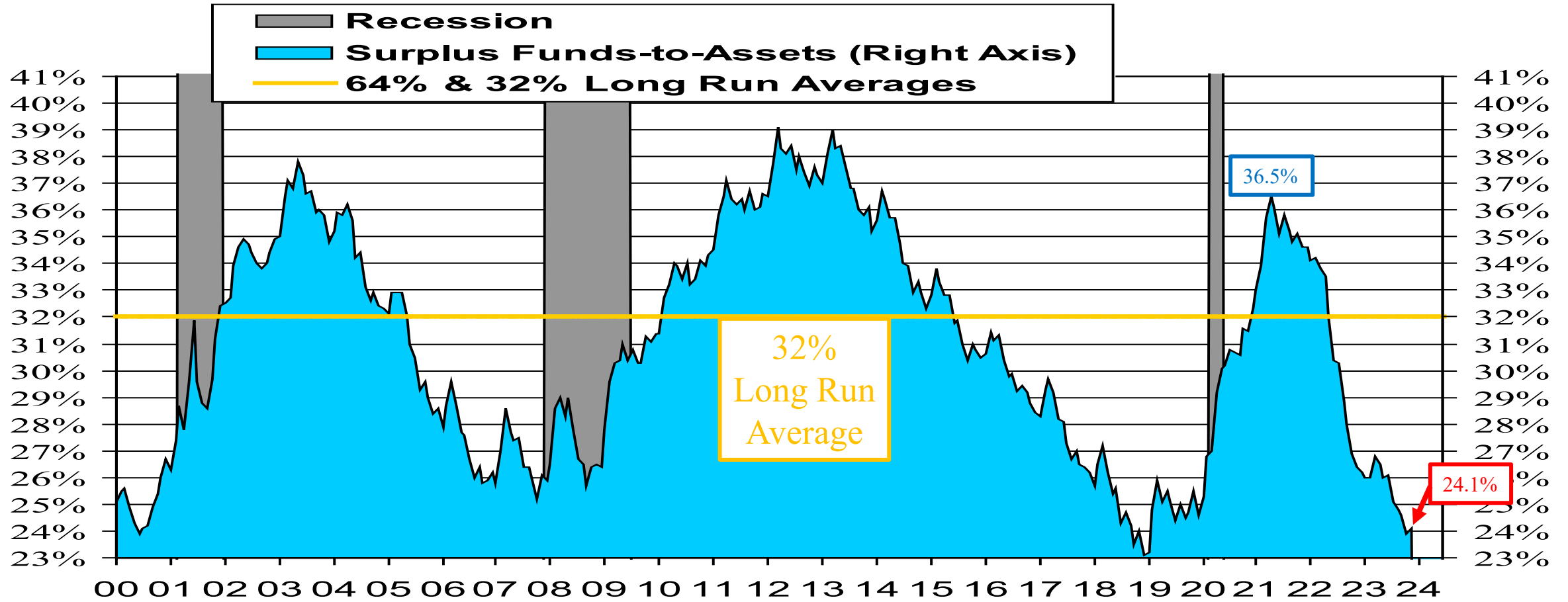
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Equity (Net Capital)

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Investments Are Falling and Yields Are Rising

CU Surplus Funds (Cash + Investments)



Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Fixed Assets

- Land
- Building
- Equipment

Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans

- Commercial
- Auto
- Home
- Credit Card

Deposits

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Borrowings

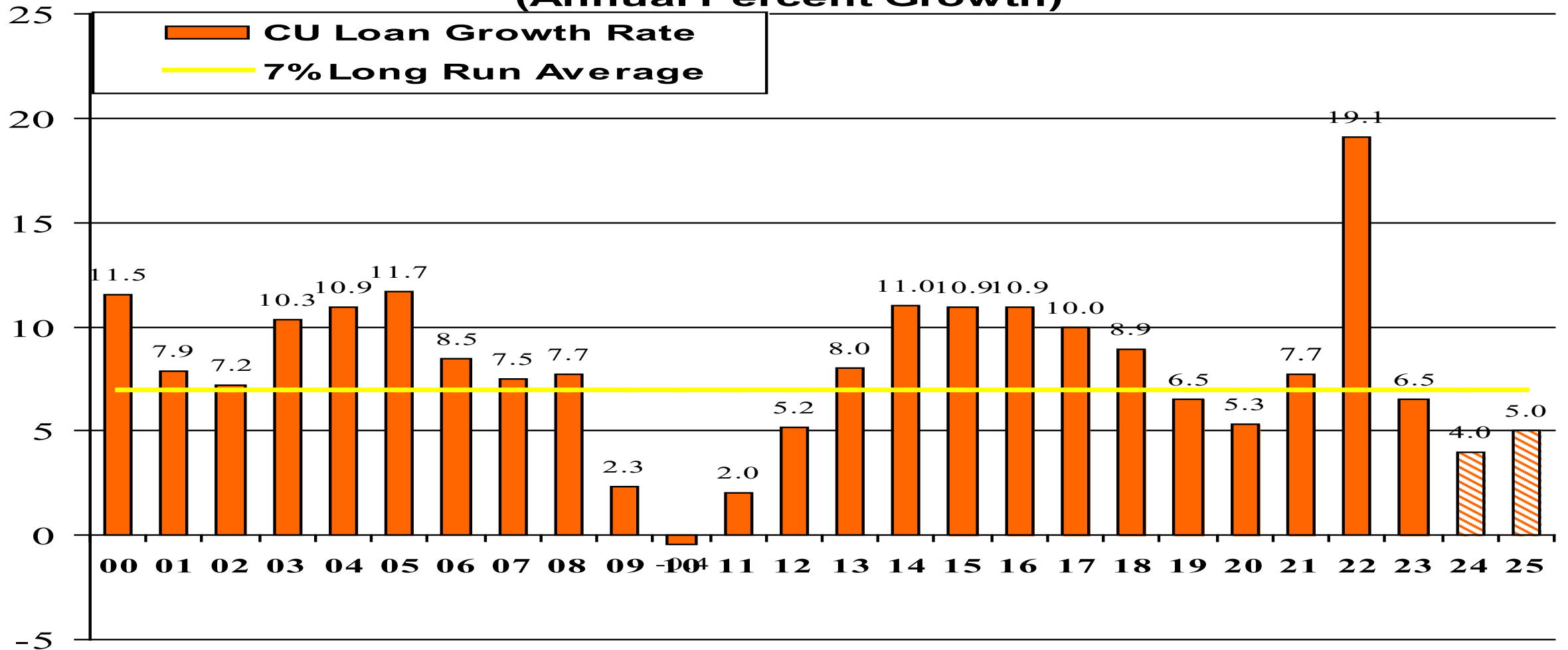
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Equity (Net Capital)

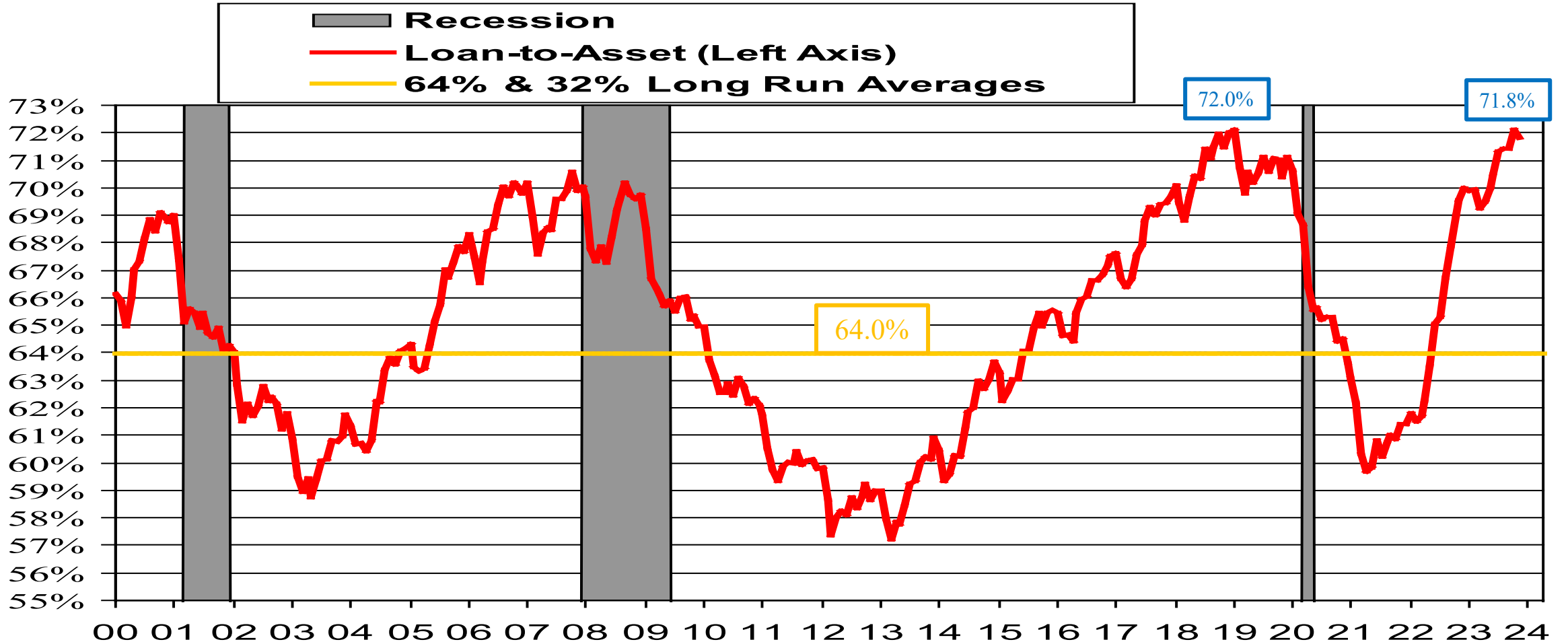
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Slowing Credit Union Loan Growth

Credit Union Loan Growth (Annual Percent Growth)



CU Loan to Asset Ratio



Credit Union Balance Sheet

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Liabilities + Capital

Cash (Reserves)

Fixed Assets

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Investments

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Allowance for Loan Loss

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“Non progredi est regredi”

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“Non progredi est regredi”

To not go forward is to go backward

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Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

Equity (Net Capital)

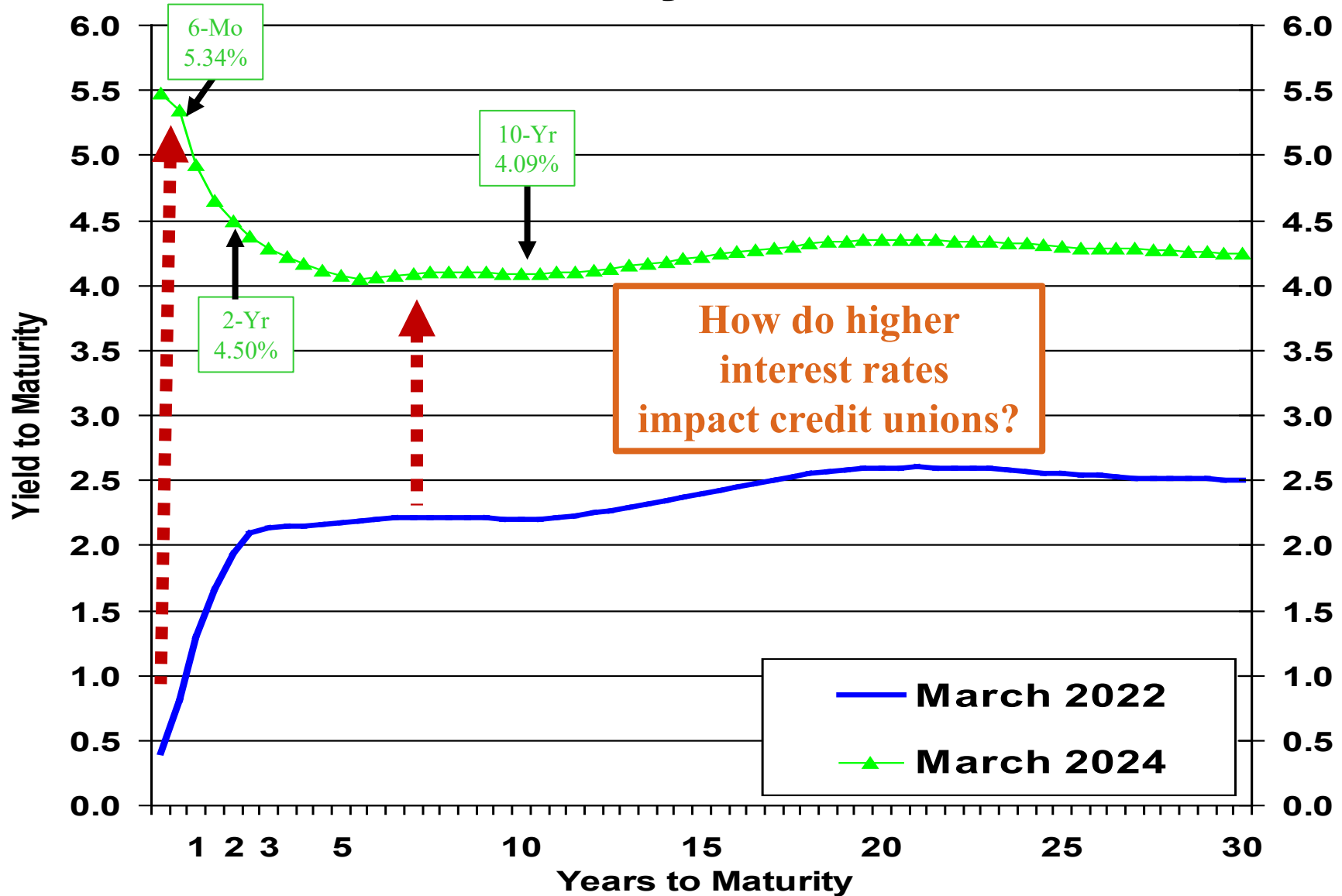
1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

“Non progredi est regredi”

To not go forward is to go backward

If you're not growing, you're dying

Treasury Yield Curves



Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Fixed Assets

- Land
- Building
- Equipment

Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Loans

- Commercial
- Auto
- Home
- Credit Card

Allowance for Loan Loss

Deposits

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How do higher interest rates impact credit unions?

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↑ interest rates => ↓ Bond Prices

1. Below par market value of investments

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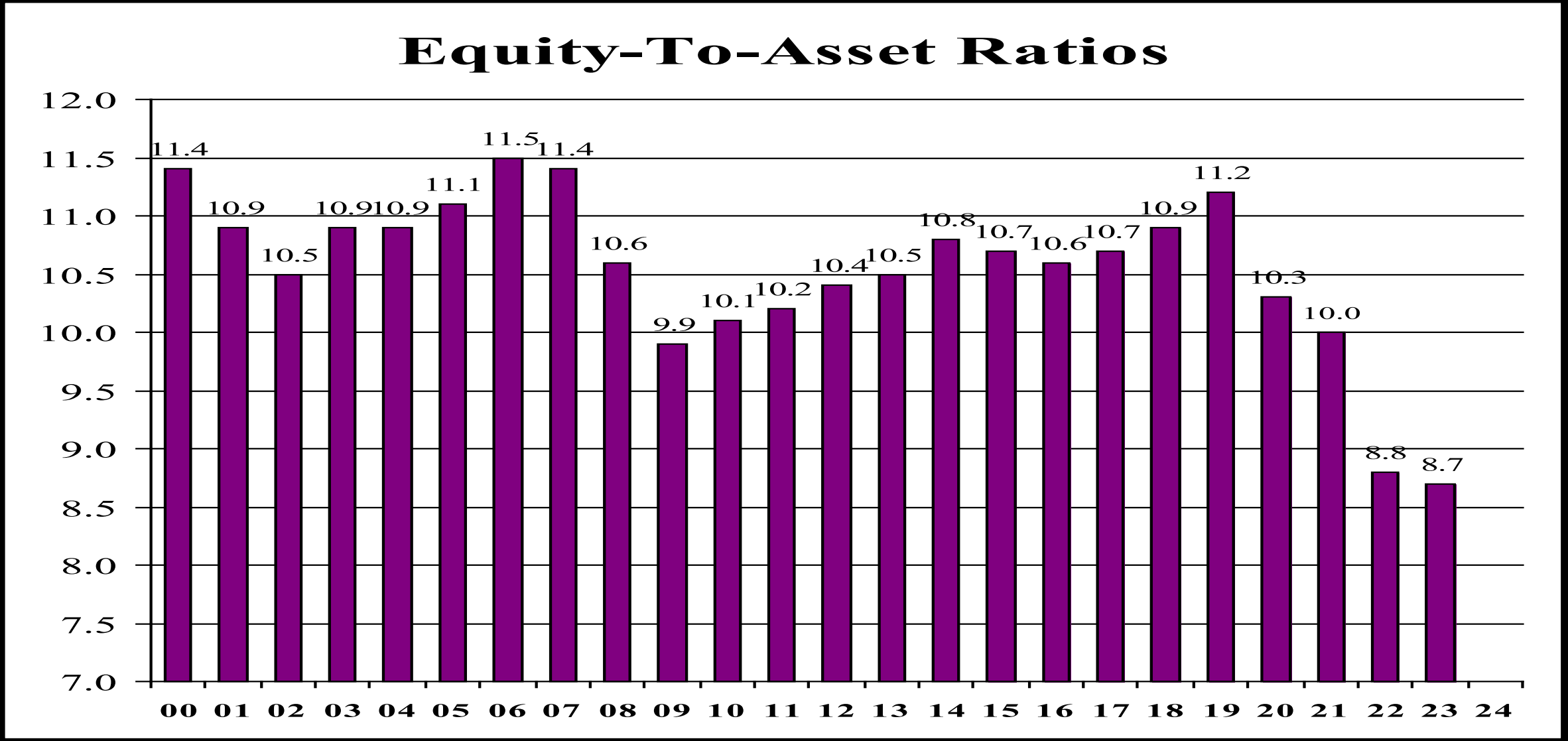
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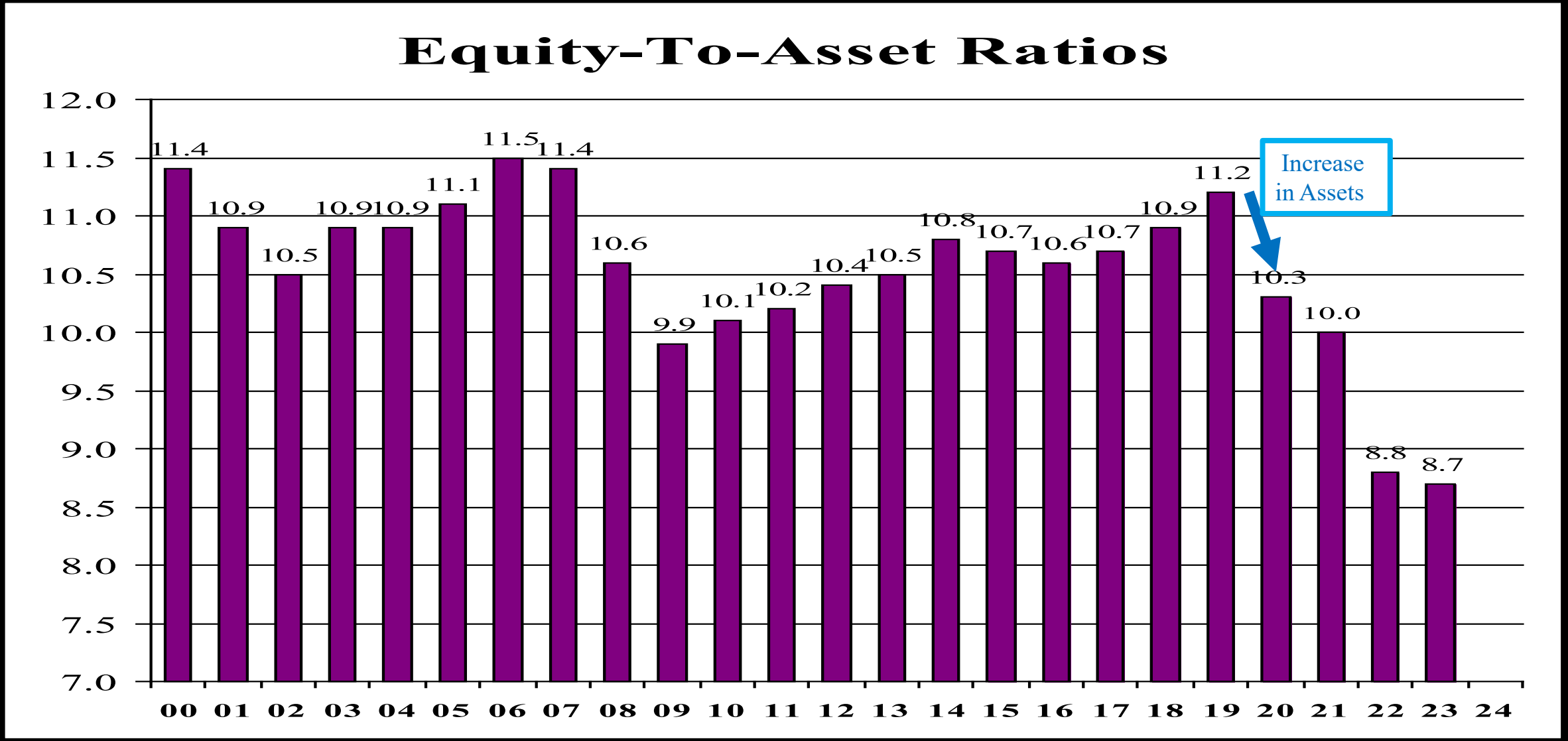
1. Below par market value of investments

2. Falling equity-to-asset ratios

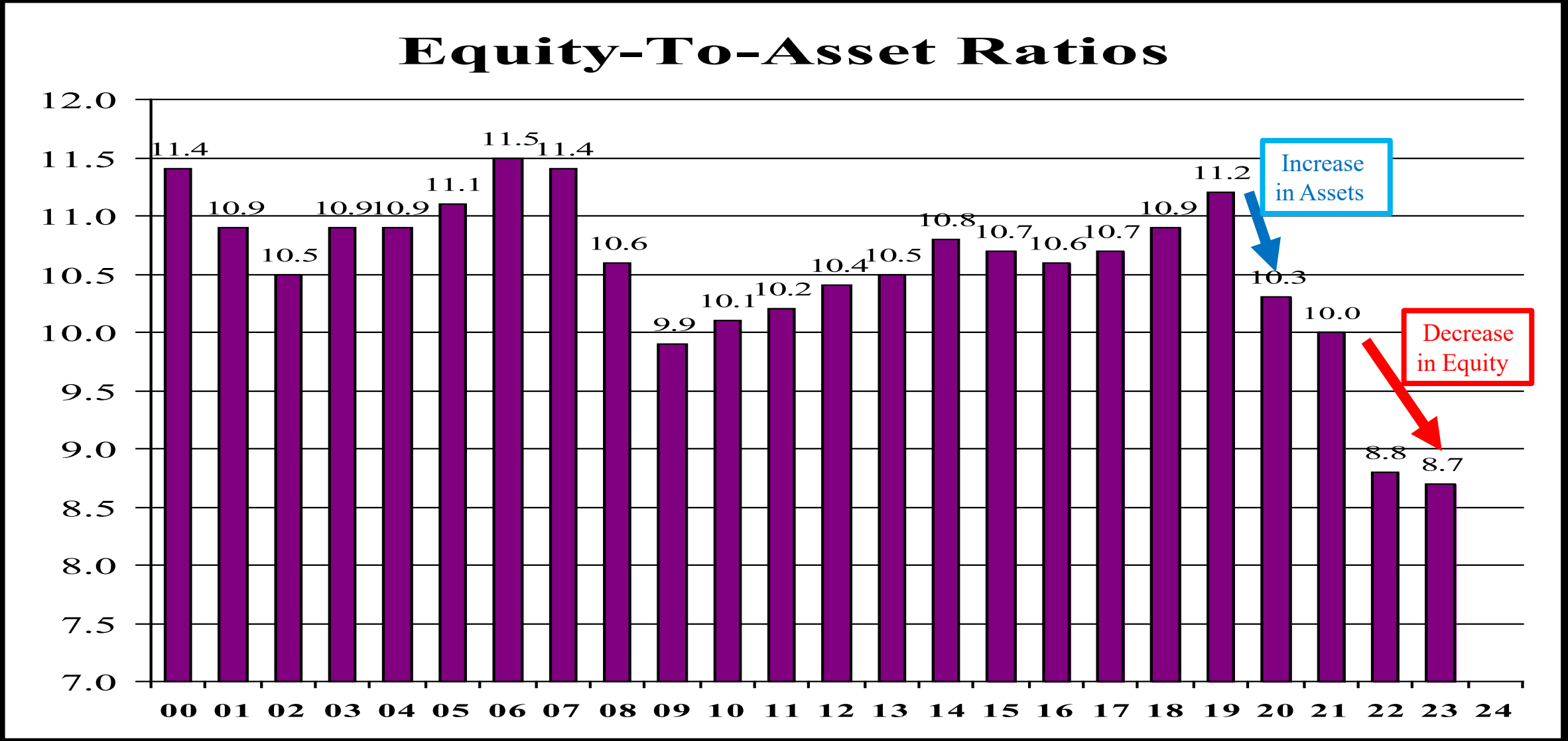
Falling Equity Ratios



Falling Equity Ratios



Falling Equity Ratios



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Liabilities + Capital

3. Sufficient liquidity to hold Treasuries to maturity

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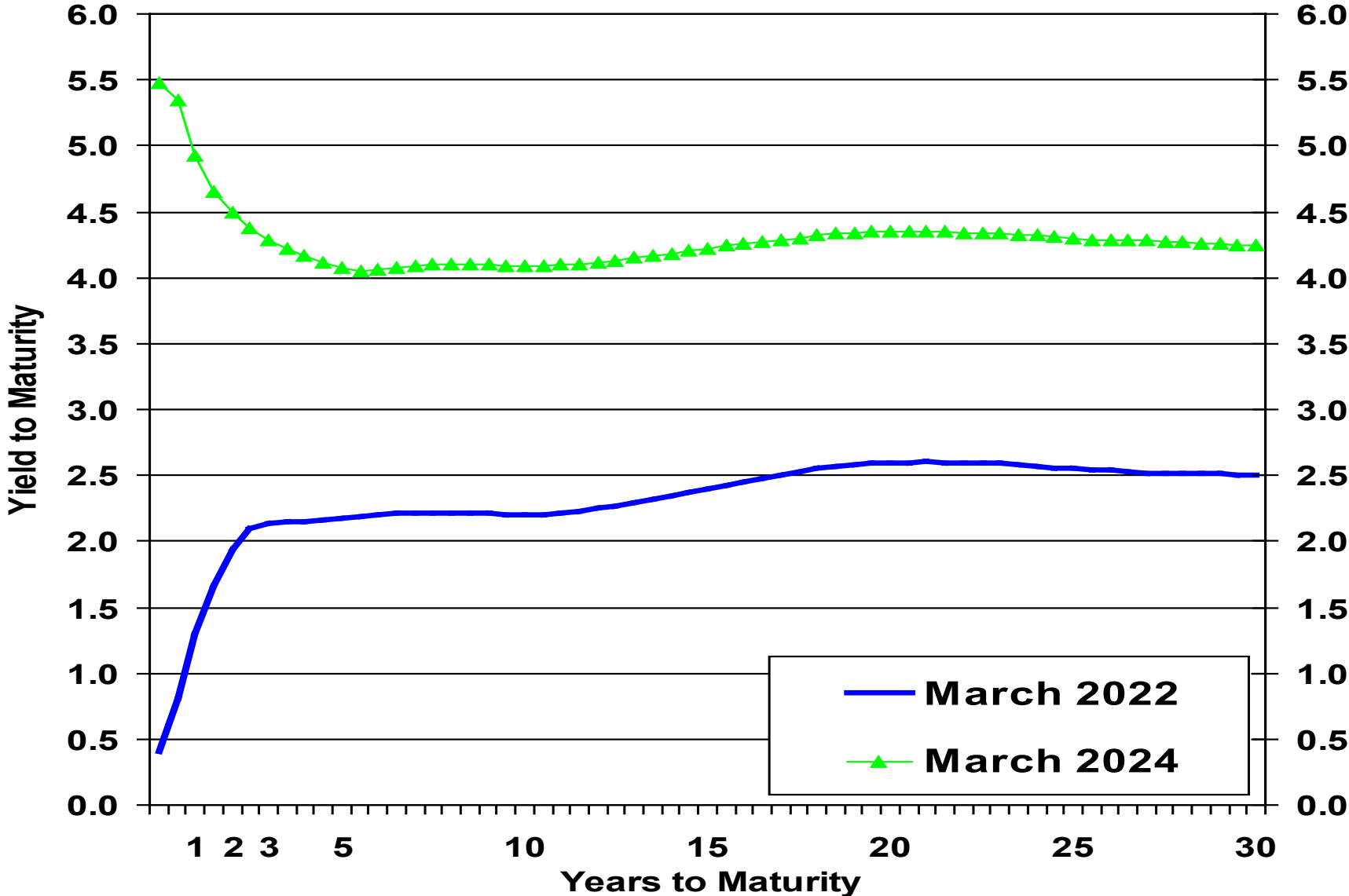
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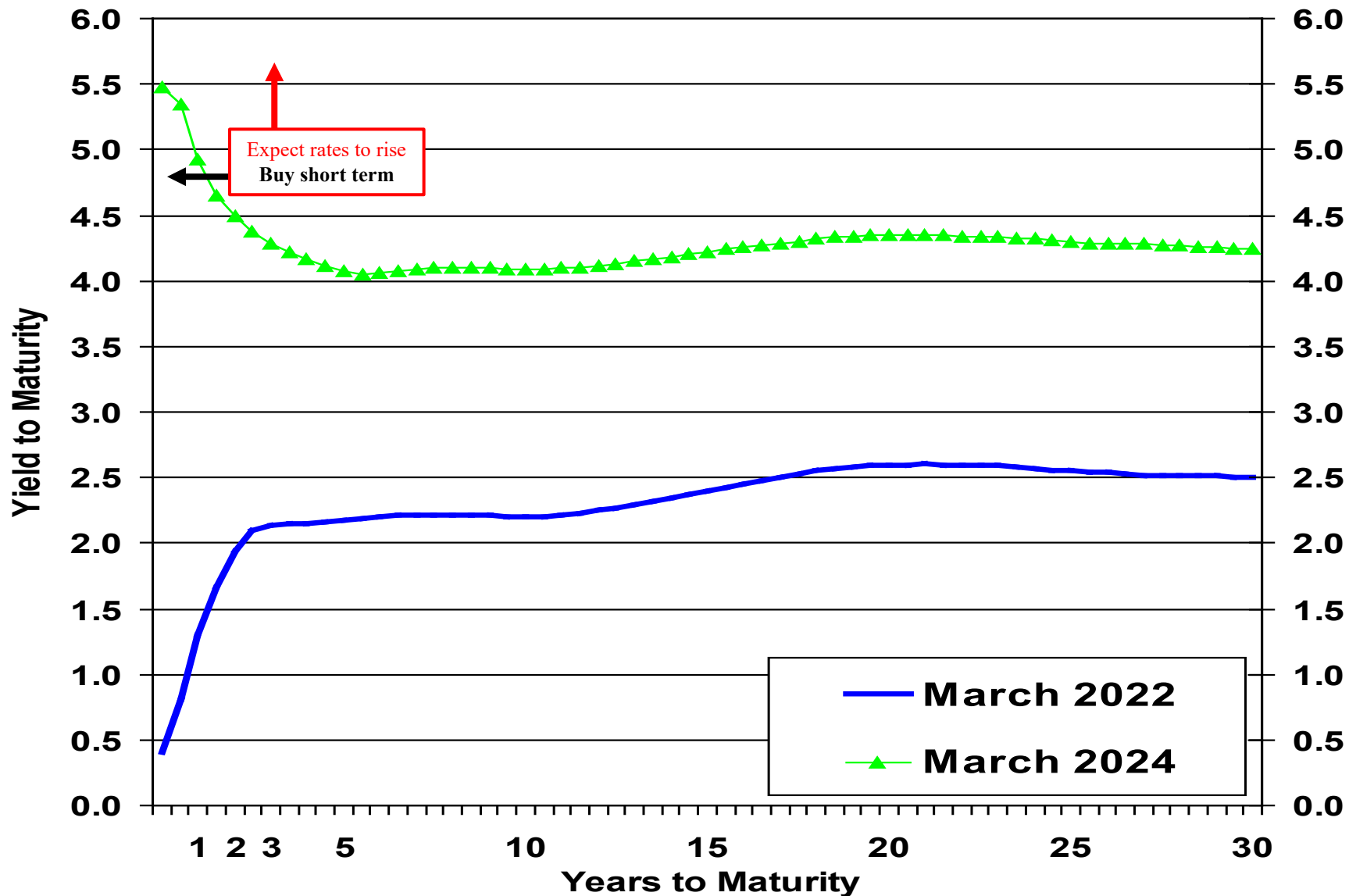
4. New investment maturities in 2024

2. Falling equity-to-asset ratios

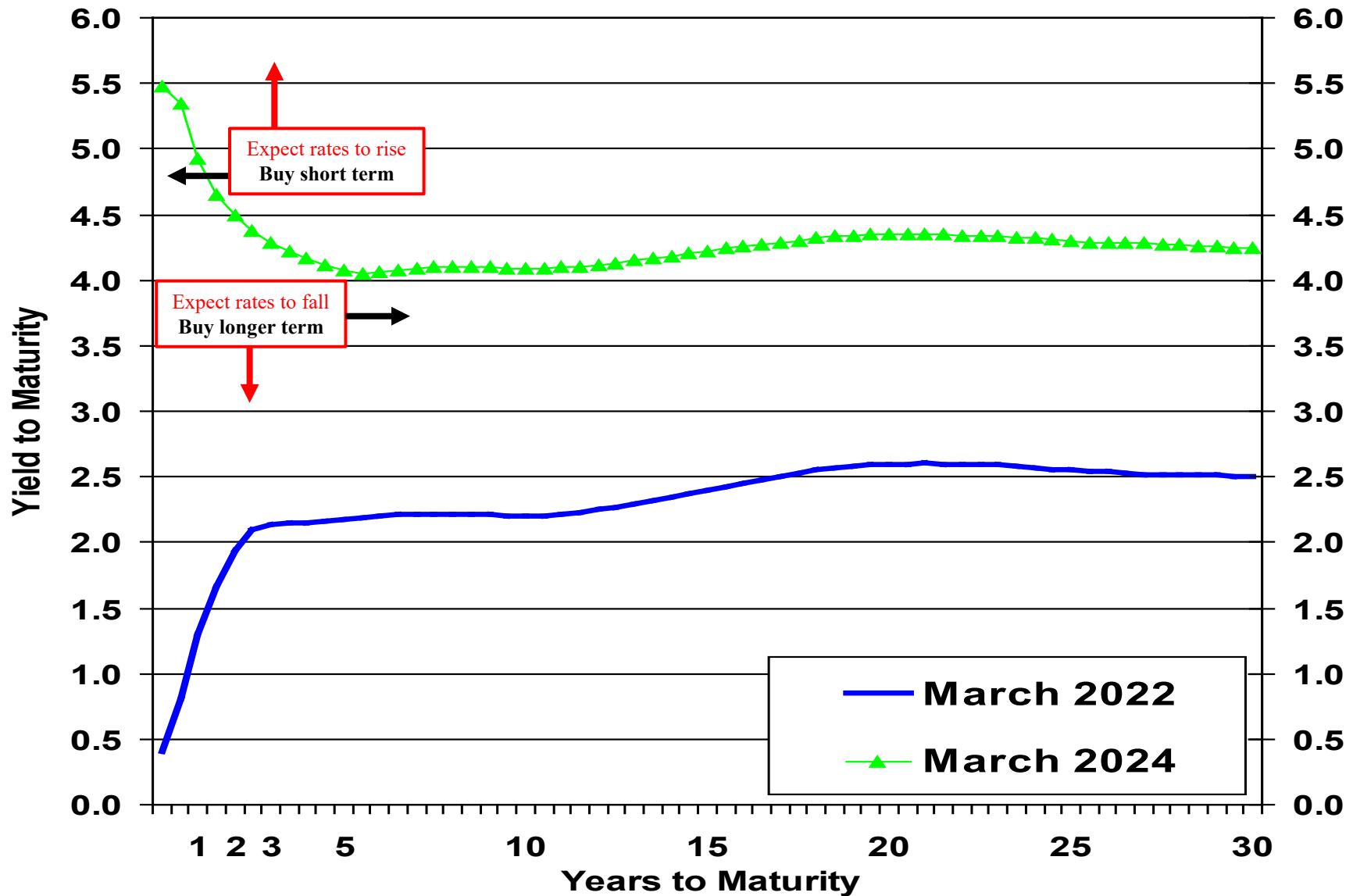
Treasury Yield Curves



Treasury Yield Curves



Treasury Yield Curves



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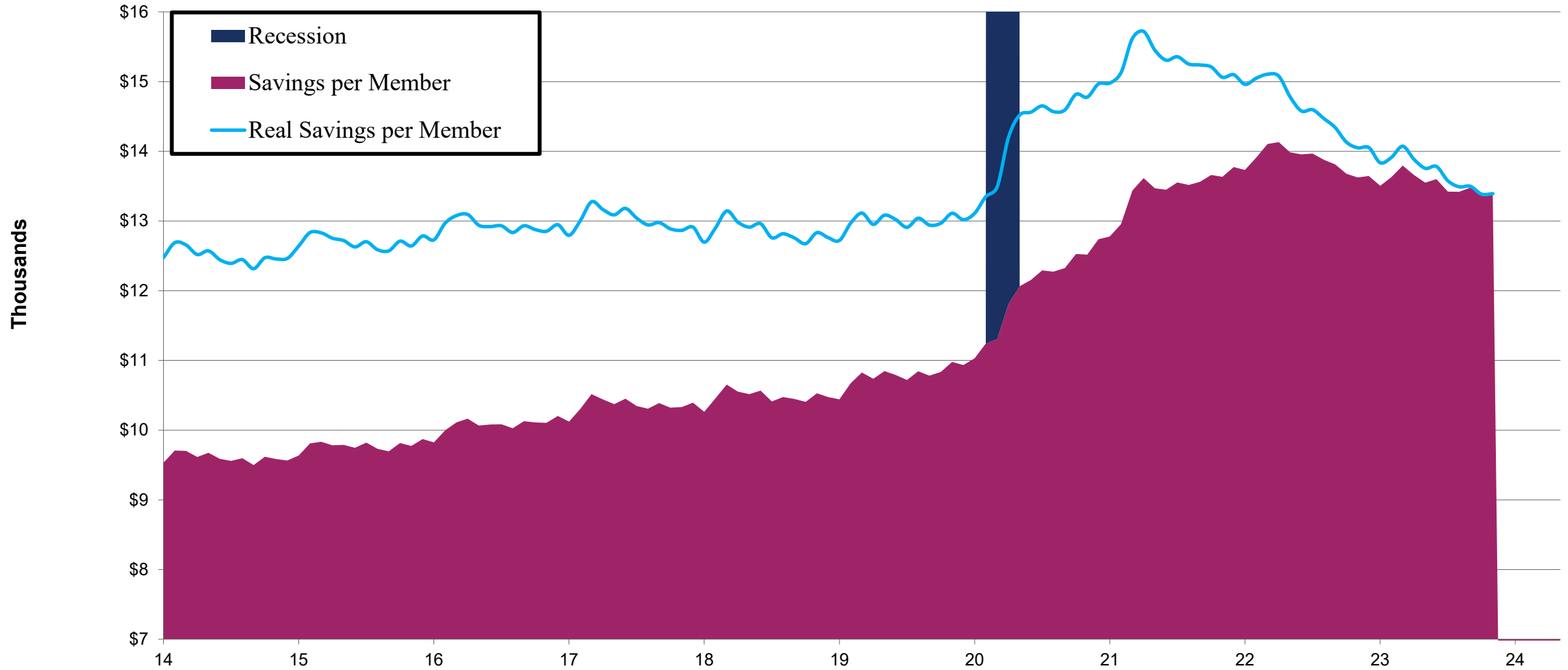
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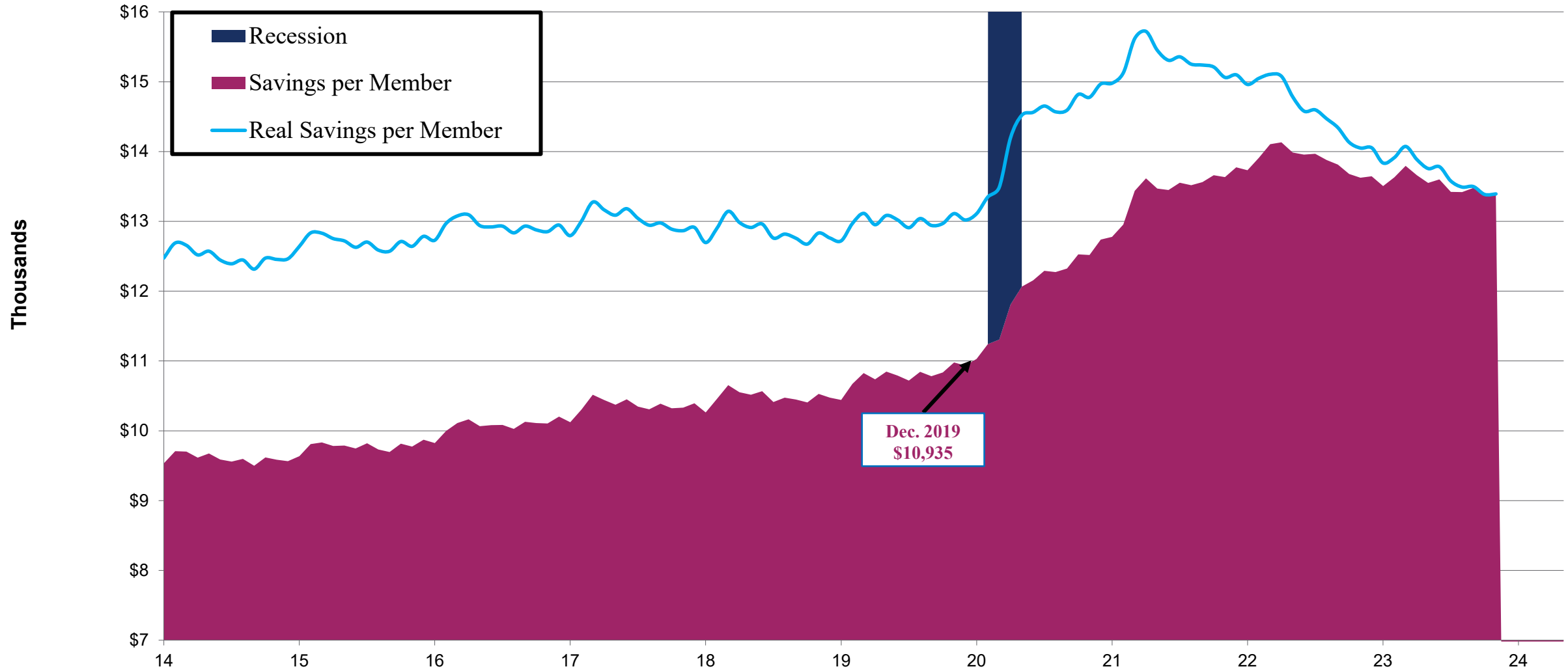
5. Members' deposit runoff/disintermediation

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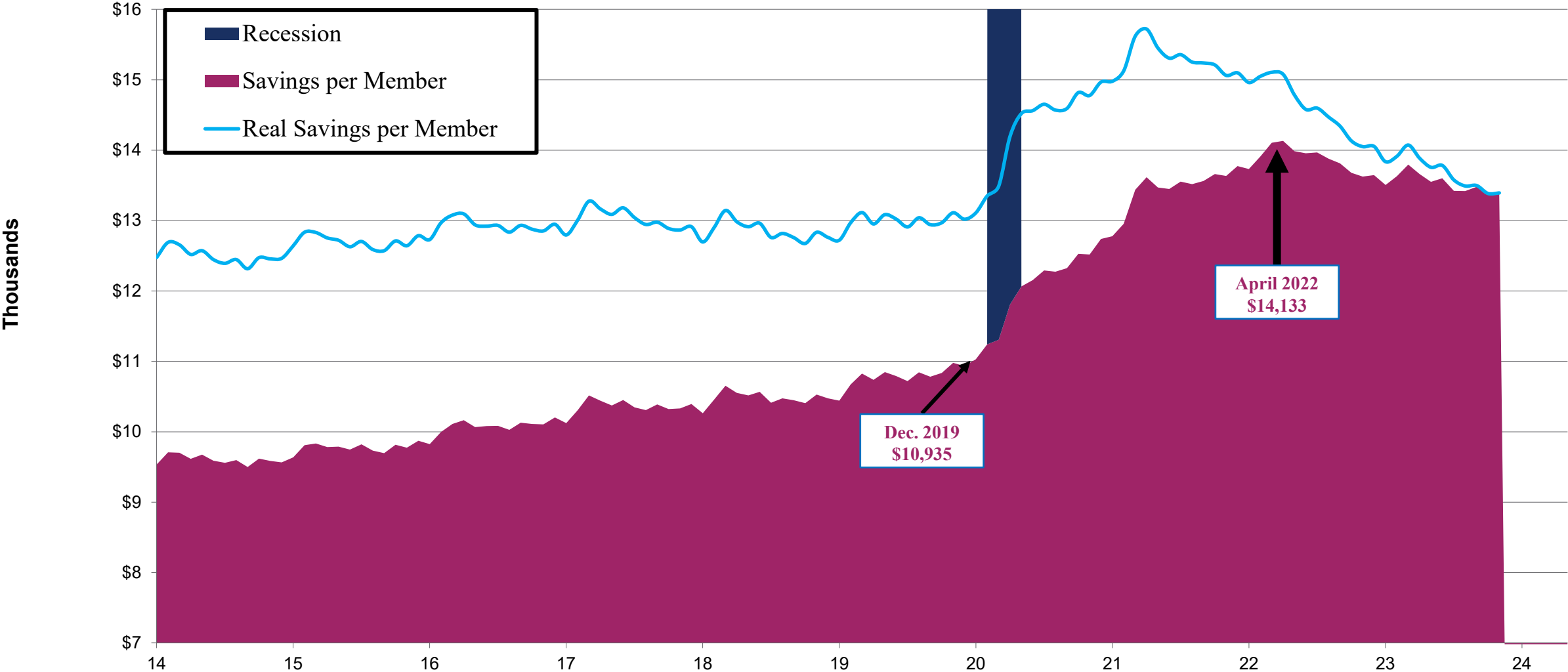
Credit Union Savings per Member



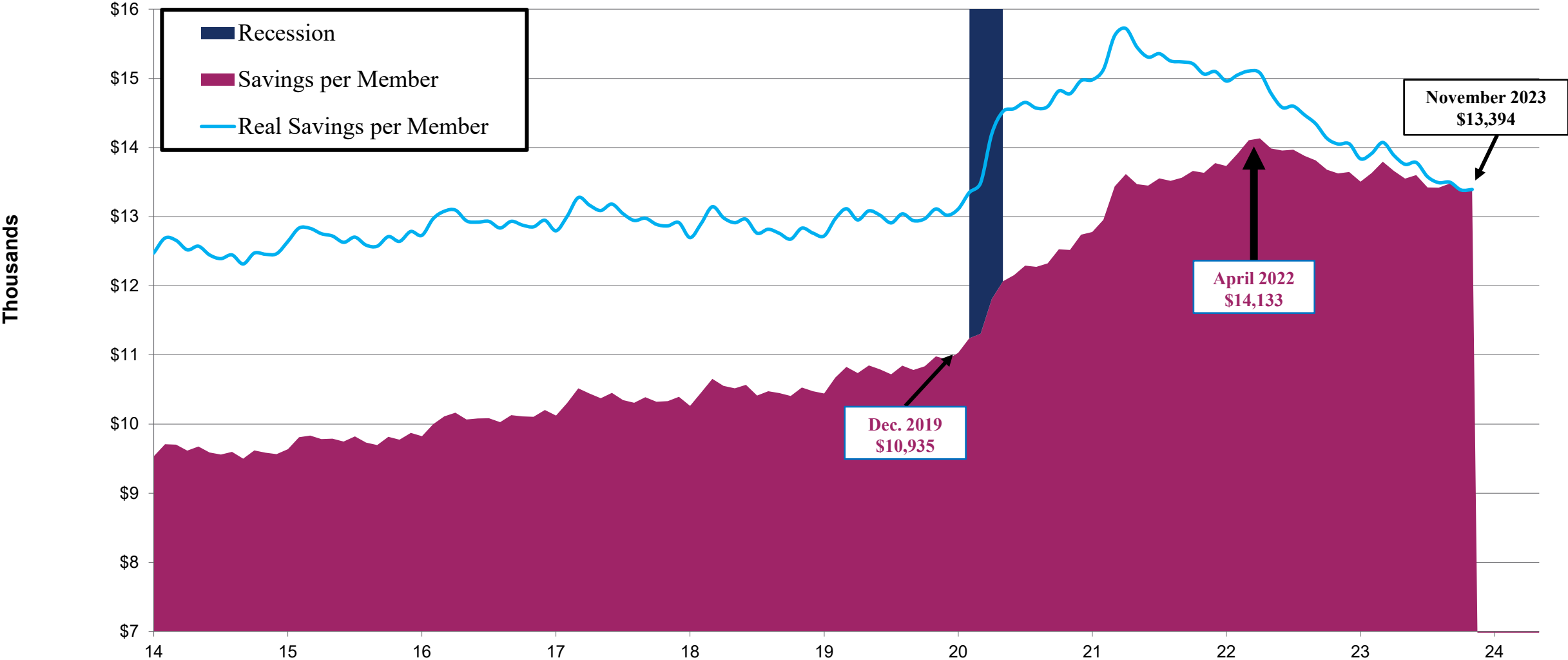
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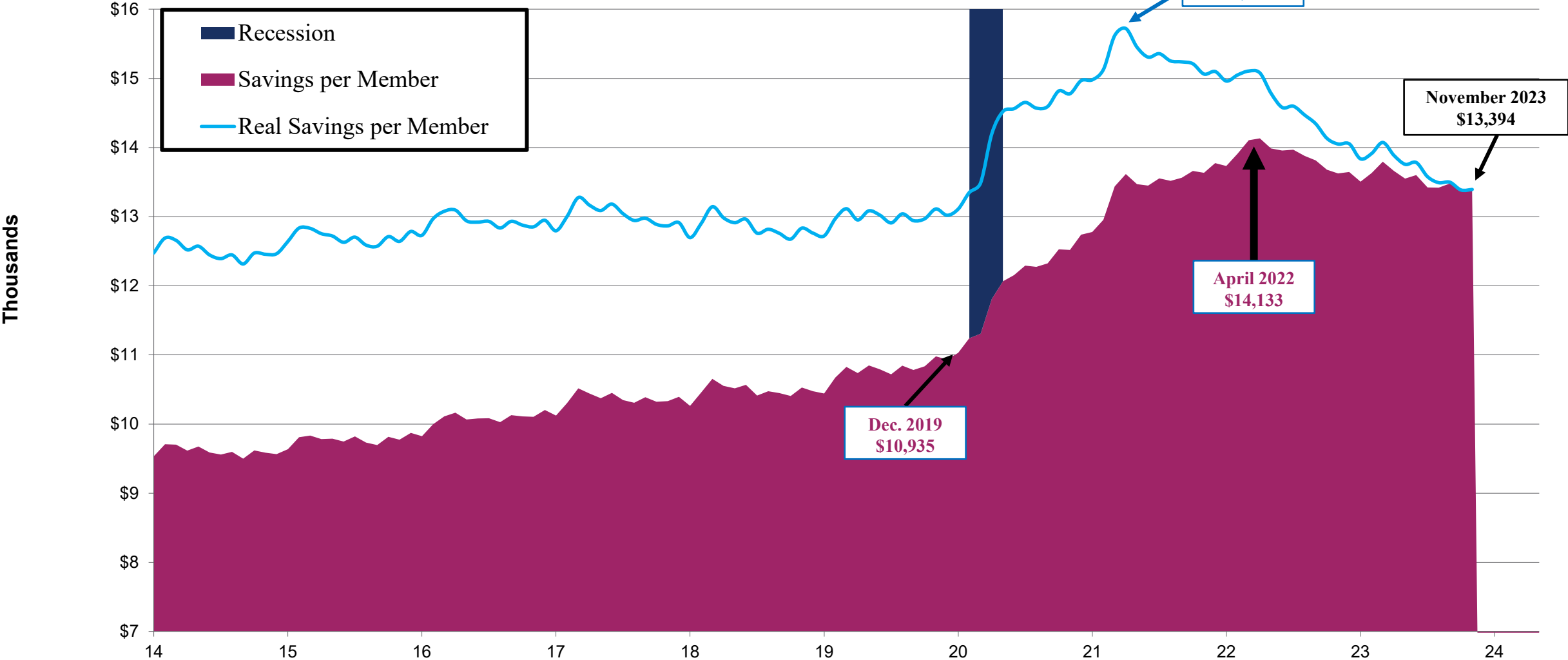
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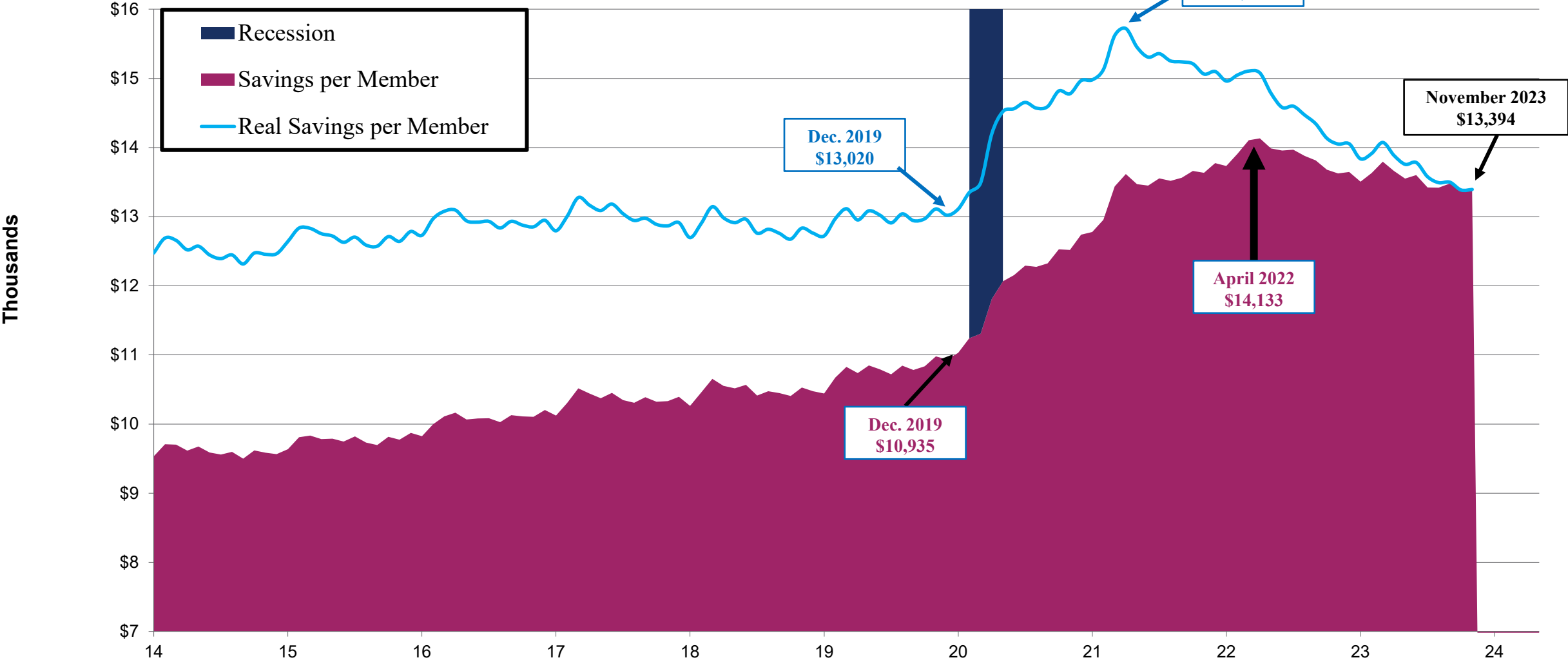
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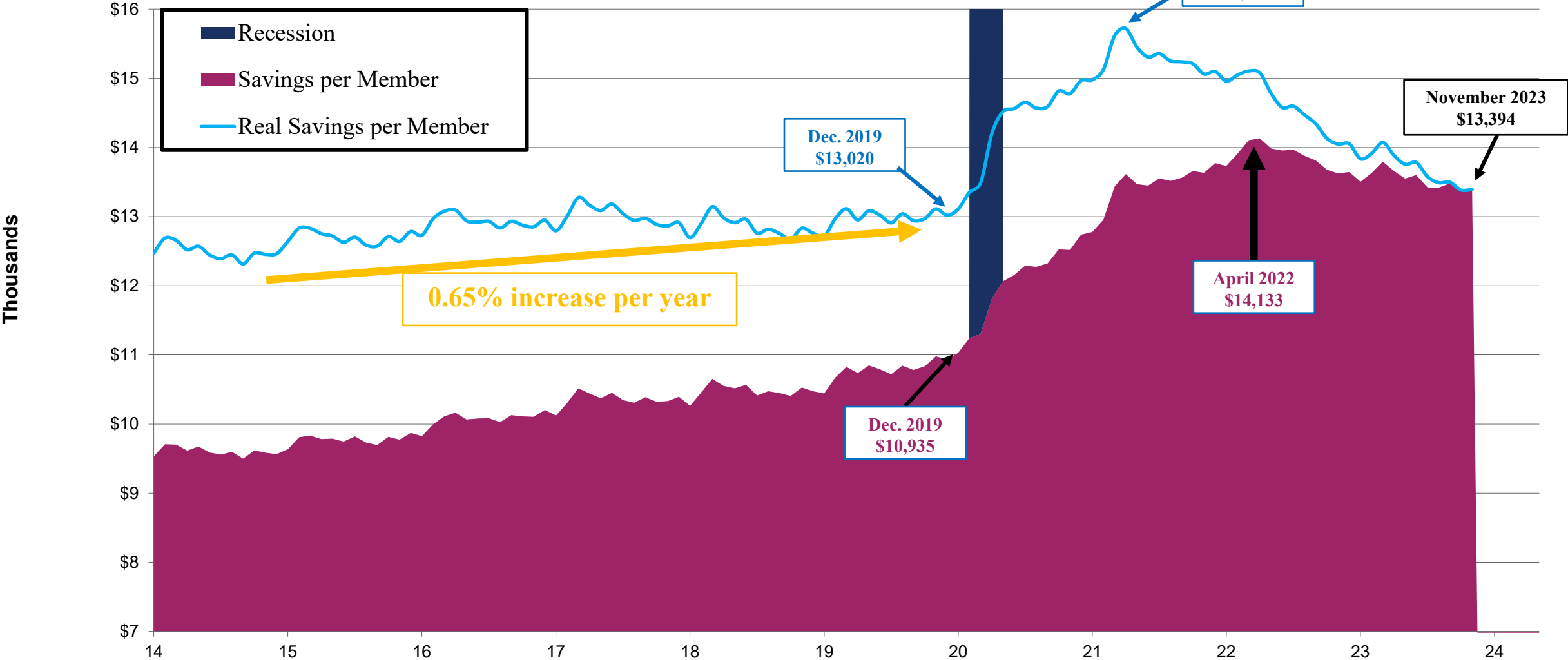
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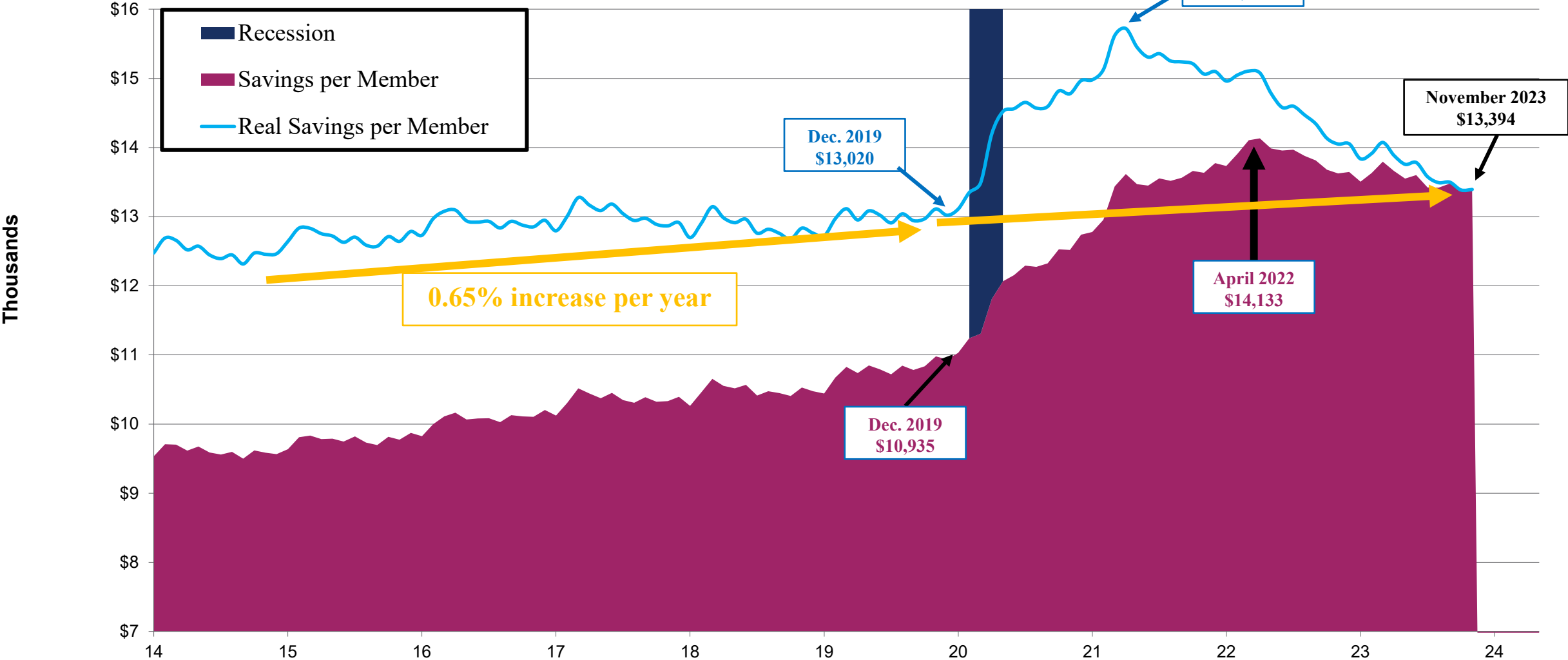
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Credit Union Savings per Member



Credit Union Savings per Member



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Time
(the 4th dimension)
Short Run vs Long Run

2. Falling equity-to-asset ratios

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Time
(the 4th dimension)
Short Run vs Long Run

How long it takes for financial instrument interest rates to reprice to current market rates

2. Falling equity-to-asset ratios

8. Out of compliance with ALM policy risk tolerances of *Net Interest Income* and *Net Economic Equity*

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Liabilities + Capital

3. Sufficient liquidity to hold Treasuries to maturity

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9. Investigate market pricing for potential asset sales

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10. Deposit pricing in a rapidly rising interest rate environment

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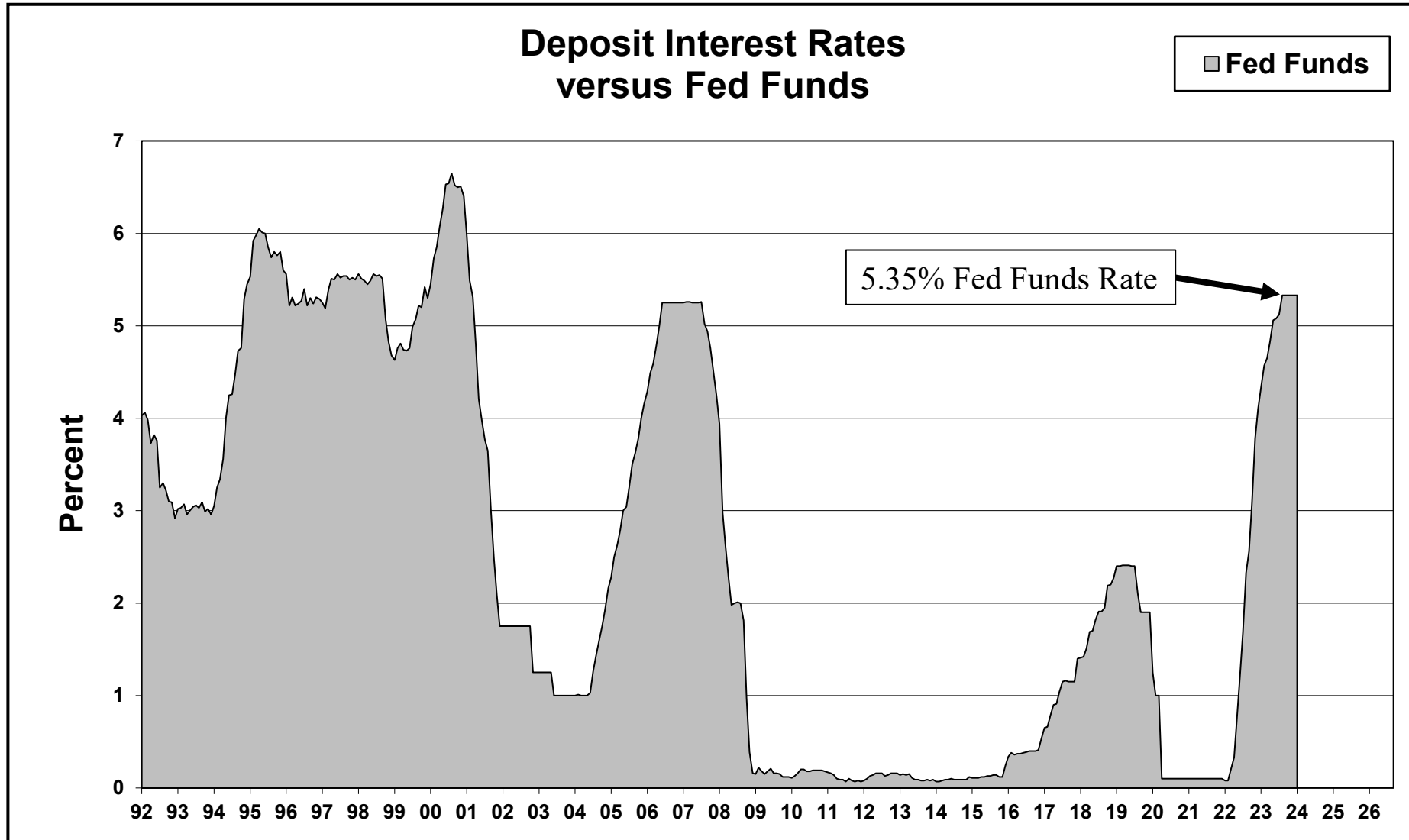
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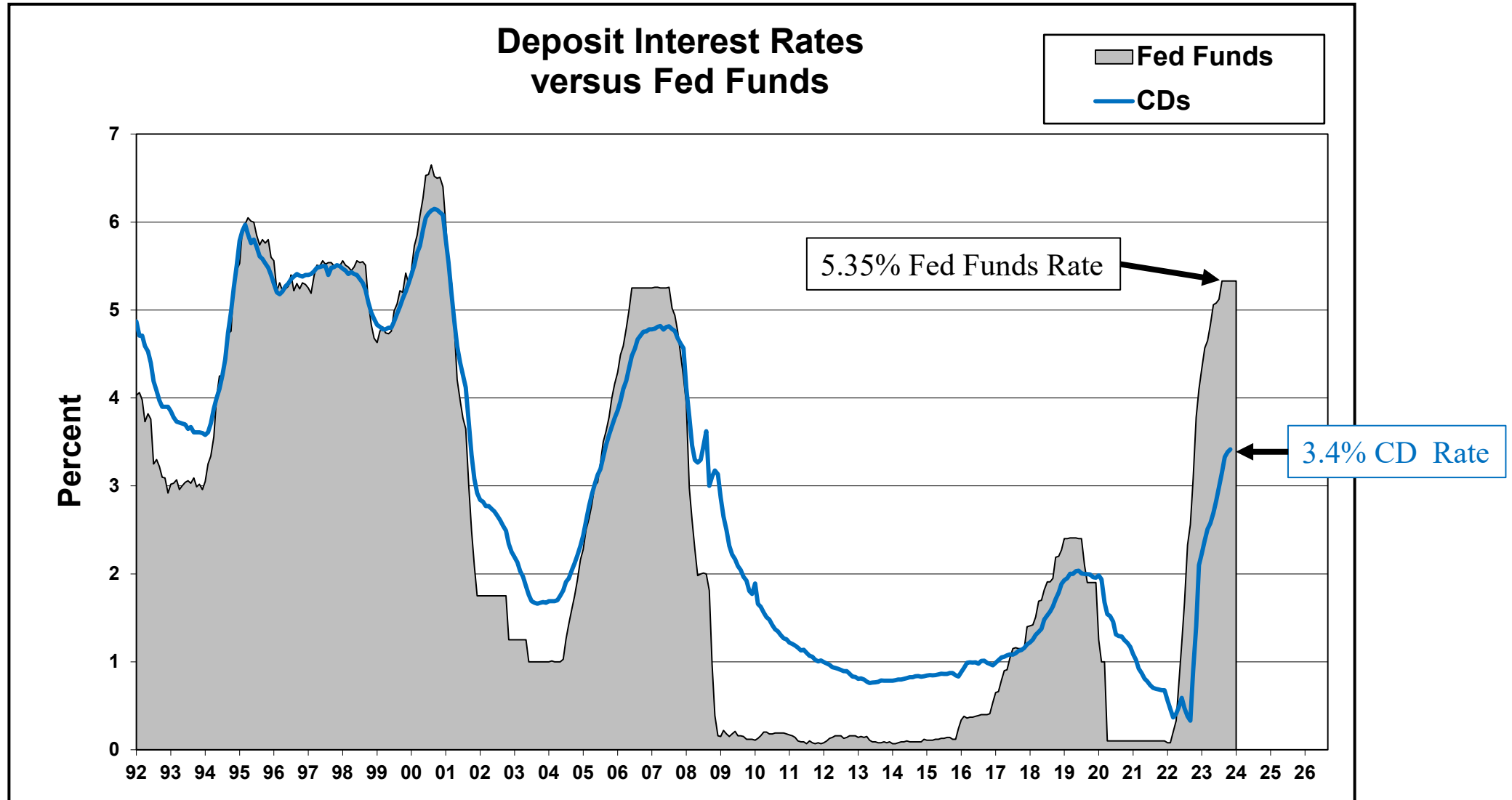
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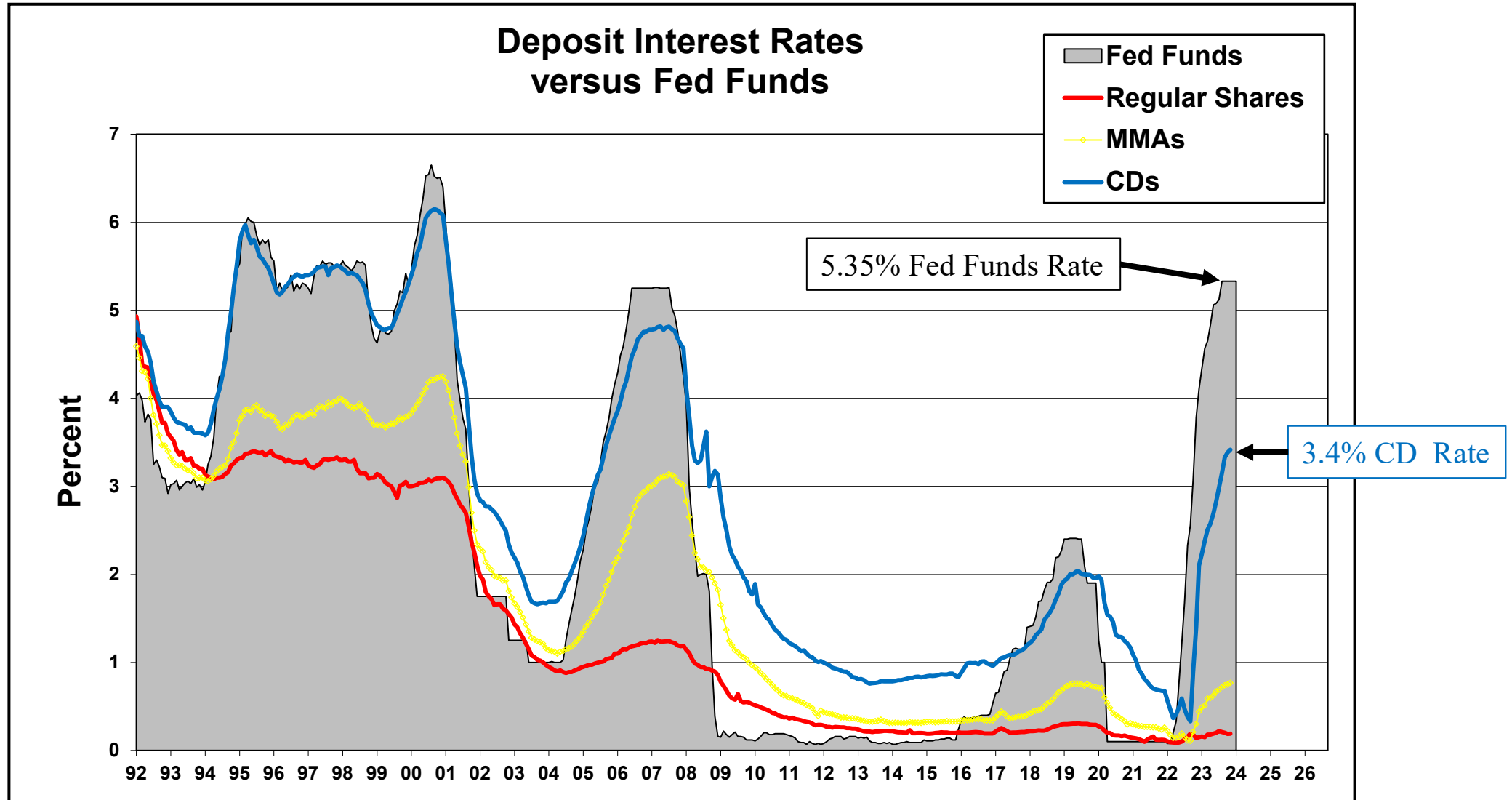
Rising Fed Funds Interest Rate and Deposit Pricing



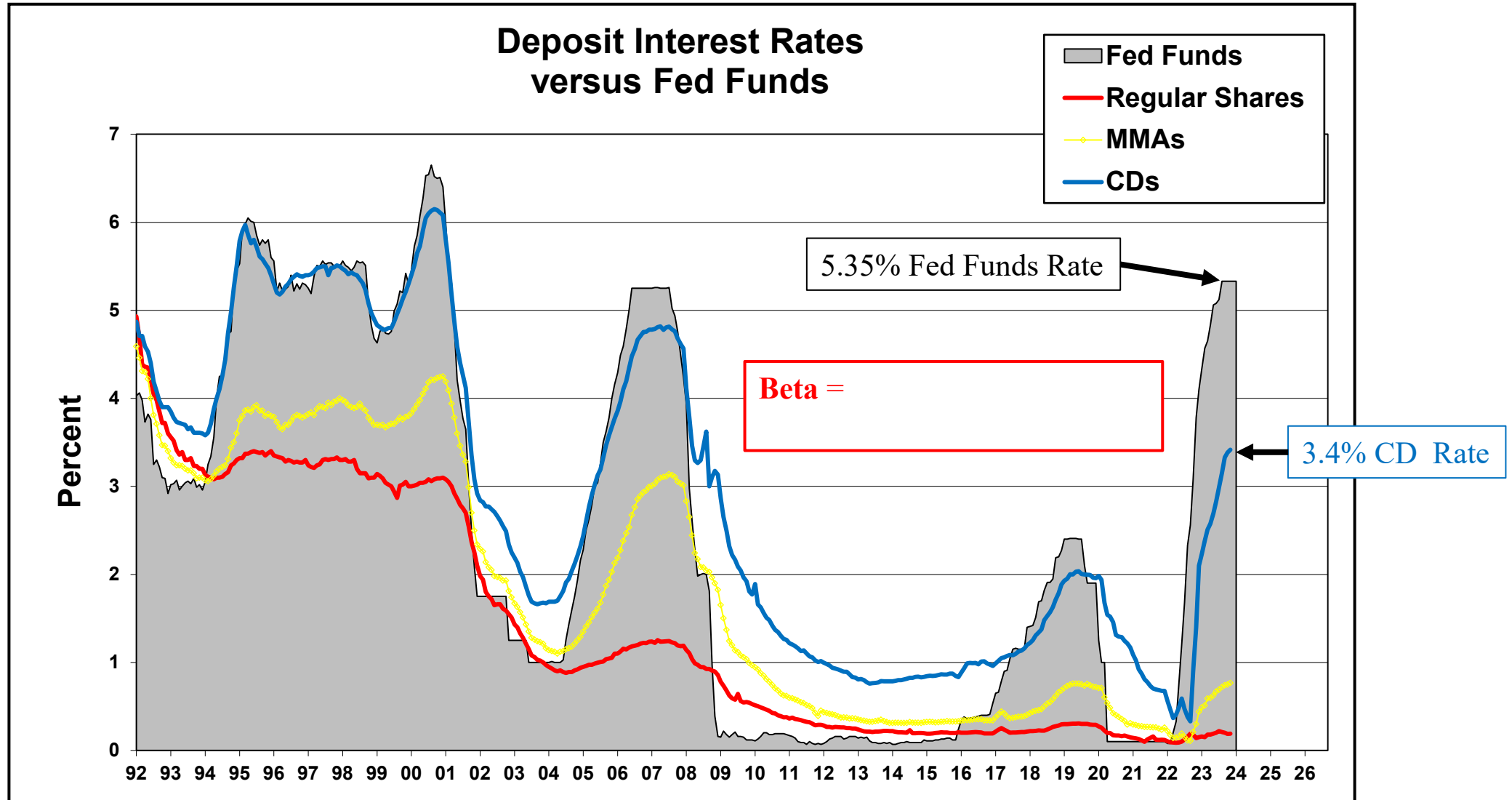
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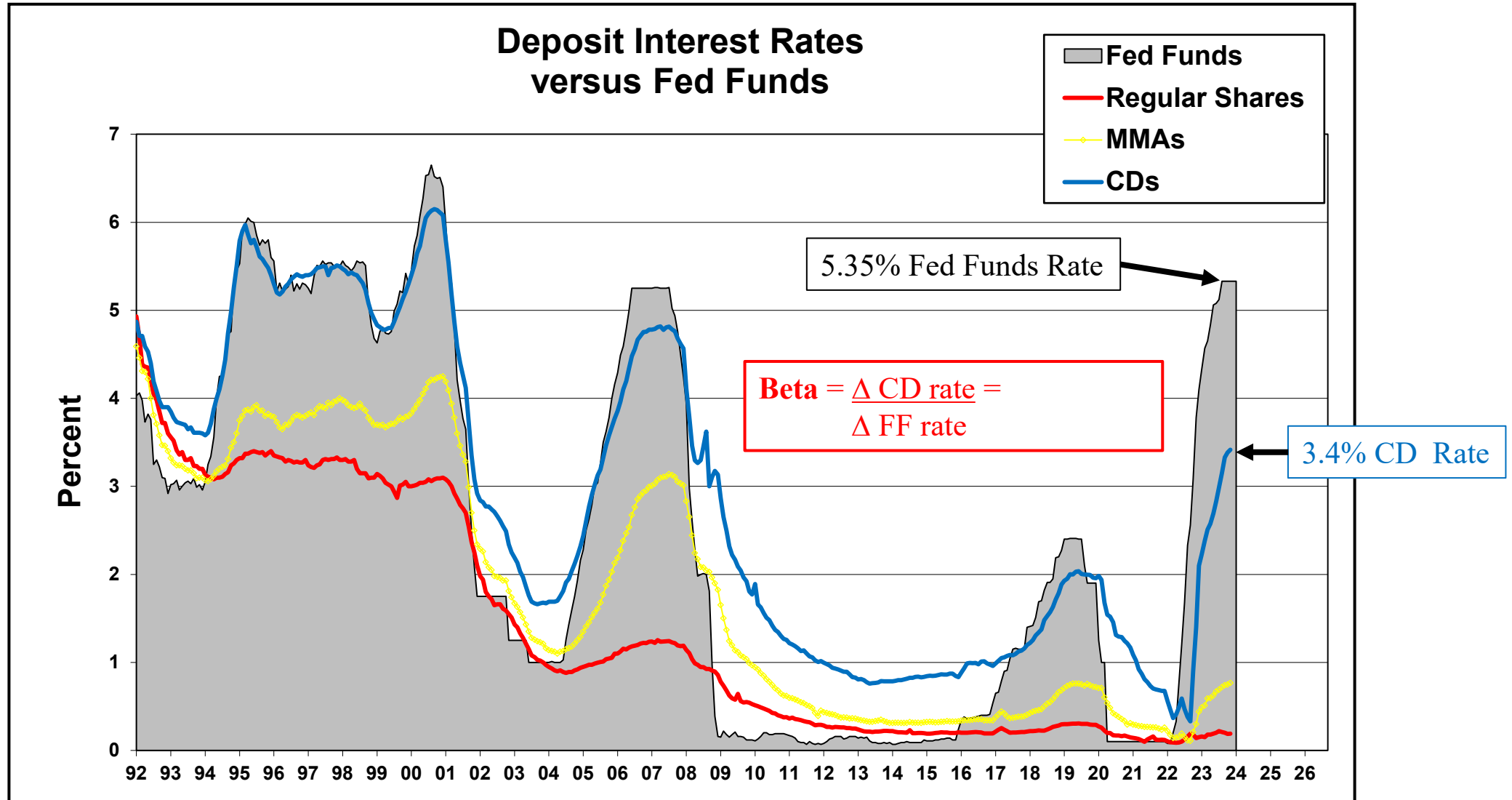
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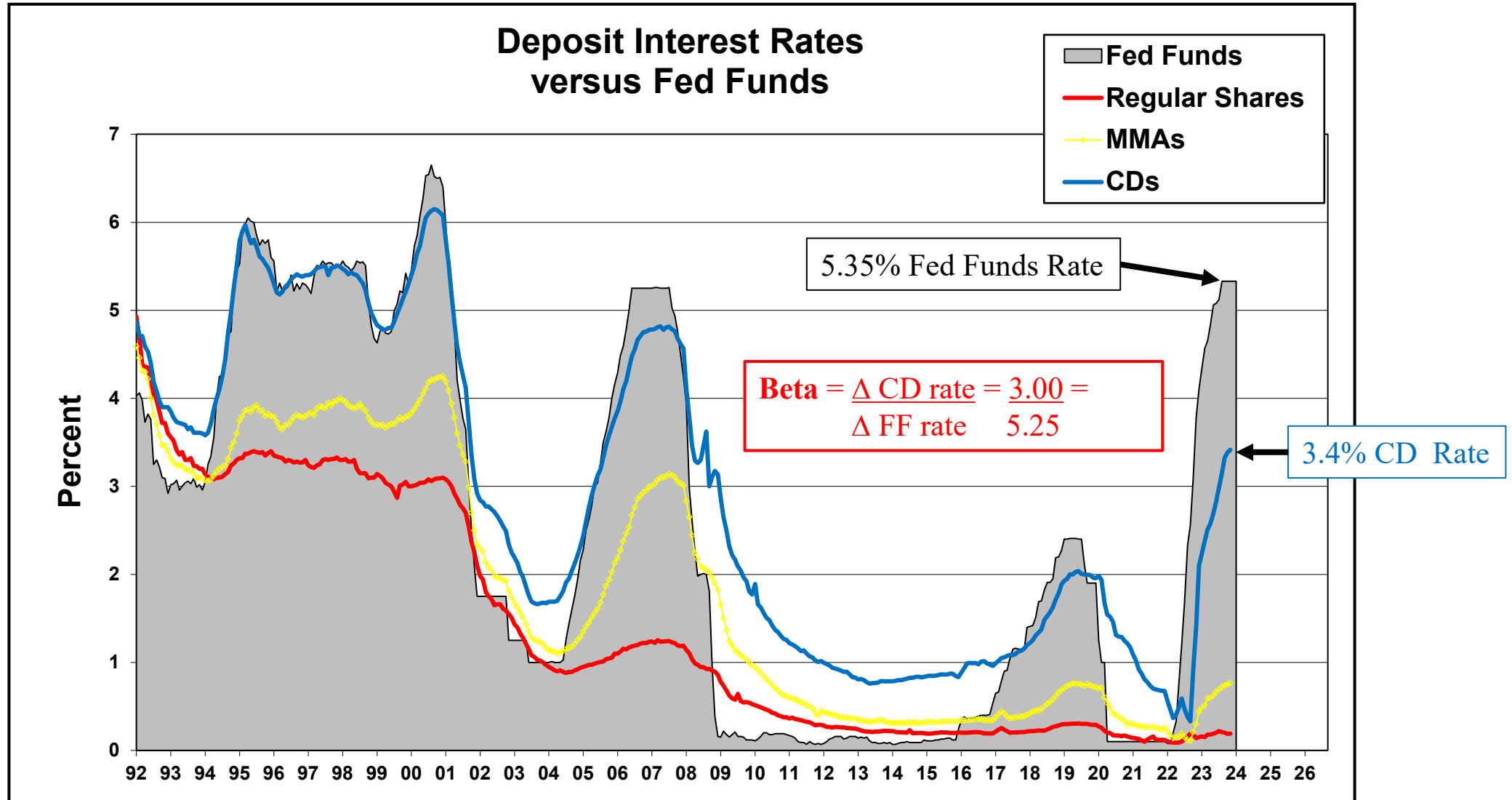
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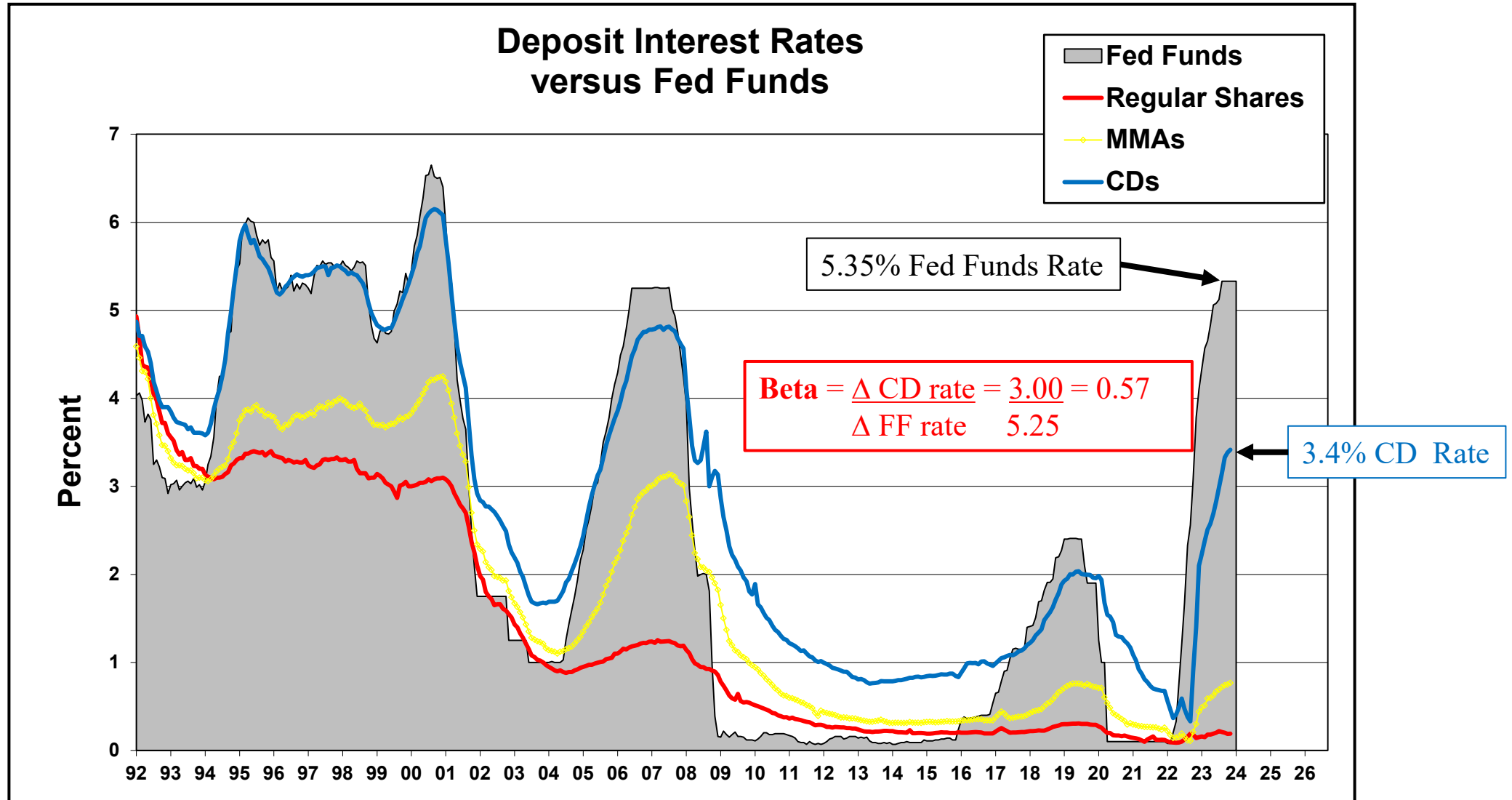
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8. Out of compliance with ALM policy risk tolerances of *Net Interest Income* and *Net Economic Equity*

Balance Sheet

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11. Rely on wholesale borrowings to maintain sufficient liquidity

6. Deposit withdraws > Loan repayments (Liquidity Risk)

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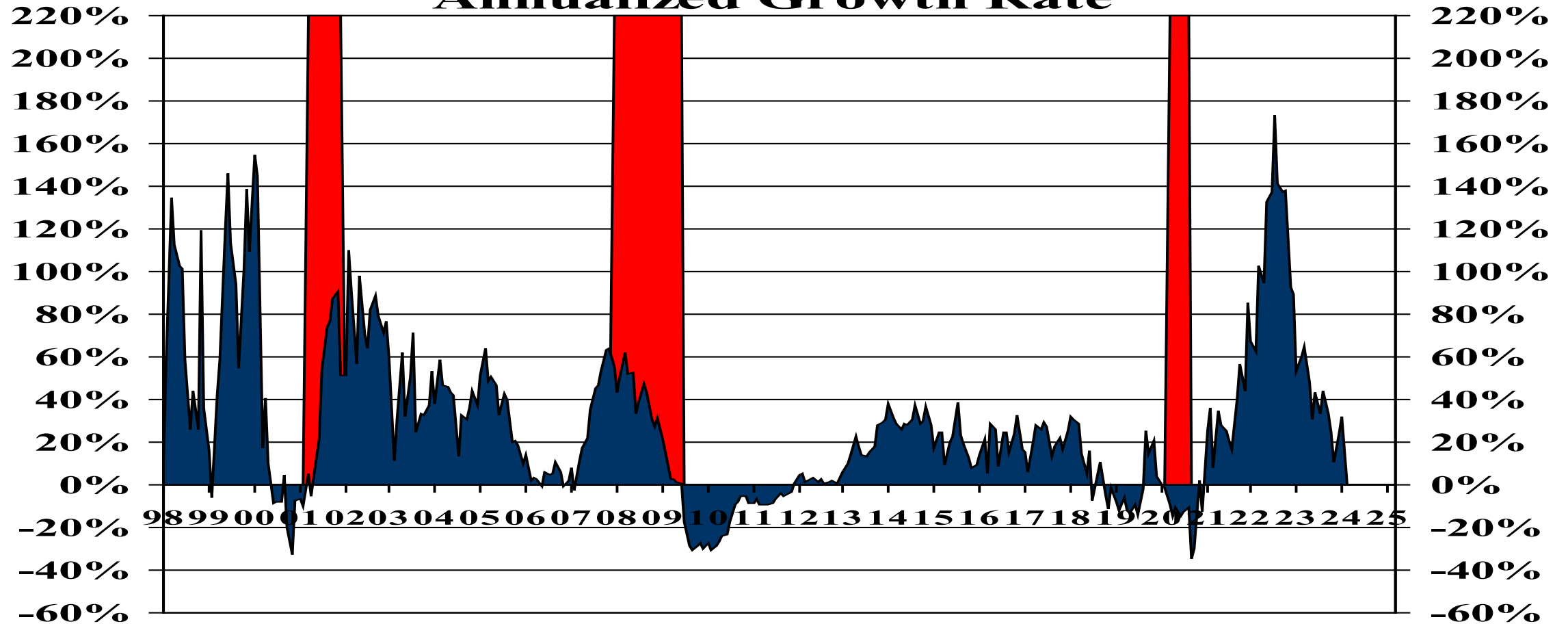
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Allowance for Loan Loss

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Resurgent Borrowings

CU Borrowings Growth Seasonally Adjusted Annualized Growth Rate



Limerick of the Day

There once was a credit union that had quite a scare

Limerick of the Day

There once was a credit union that had quite a scare
For their liquidity seemed quite rare

Limerick of the Day

There once was a credit union that had quite a scare
For their liquidity seemed quite rare
But with some quick loans

Limerick of the Day

There once was a credit union that had quite a scare
For their liquidity seemed quite rare
But with some quick loans
And more cash in their bones

Limerick of the Day

There once was a credit union that had quite a scare
For their liquidity seemed quite rare
But with some quick loans
And more cash in their bones
They managed to keep their head above the despair.

Economic Update Summary For 2024

1. Trend economic growth for the next year

Economic Update Summary For 2024

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2. Falling inflation rate during the next 2 years

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5. Credit union loan growth slowing in 2024

Economic Update Summary For 2024

1. Trend economic growth for the next year
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3. Unemployment rate rising to natural rate in 2024
4. Short-term interest rates above long-term interest rates into 2024
5. Credit union loan growth slowing in 2024
6. Mortgage originations rising 15% as interest rates fall 1 percentage point

Economic Forecast

April 2024

	Past results		Actual/ Forecasts					
	Previous 10 Yr. Avg	2023	2024 Q1	2024 Q2	2024 Q3	2024Q4	2024	2025
Growth rates:								
Economic Growth (% chg GDP)*	2.3%	2.5%	2.3%	1.8%	1.6%	1.8%	2.6%	1.8%
Inflation (CPI, 12 mth % chg)	2.8%	3.3%	3.5%	3.4%	3.2%	3.0%	3.0%	2.5%
Unemployment Rate (BLS)	4.5%	3.7%	3.8%	3.9%	4.0%	4.0%	4.0%	4.3%
Federal Funds Rate (effective)	1.45%	5.33%	5.33%	5.33%	5.10%	4.90%	4.90%	4.20%
10-Year Treasury Rate	2.41%	3.88%	4.20%	4.20%	4.10%	4.10%	4.10%	4.00%
10-Year-Fed Funds Spread	0.96%	-1.45%	-1.13%	-1.13%	-1.00%	-0.80%	-0.80%	-0.20%

*Percent change, annualized rate for quarterly and average for annual . All other numbers are end-of-period values.

Credit Union Forecast

April 2024

	Past Results		Actual/forecasts				Annual forecasts	
	10 Yr Average	2023	2023 Q1	2023 Q2	2023 Q4	2023 Q4	2023	2024
Growth rates:								
Savings growth	7.6%	1.6%	2.5%	-0.4%	-0.1%	0.5%	3.0%	5.0%
Loan growth	9.5%	6.2%	0.5%	1.0%	1.5%	1.0%	4.0%	5.0%
Asset growth	7.9%	4.0%	2.5%	0.5%	1.0%	1.0%	5.0%	5.5%
Membership growth	3.7%	2.9%	0.7%	0.7%	0.8%	0.3%	2.5%	2.8%
Liquidity:								
Loan-to-share ratio**	79.7%	85.1%	80.9%	84.8%	86.0%	86.4%	86.4%	86.0%
Asset quality:								
Delinquency rate**	0.72%	0.83%	0.80%	0.85%	0.87%	0.90%	0.90%	0.90%
Net charge-off rate*	0.49%	0.61%	0.60%	0.63%	0.65%	0.67%	0.65%	0.65%
Earnings:								
Return on average assets (ROA)*	0.83%	0.68%	0.46%	0.46%	0.57%	0.56%	0.50%	0.70%
Capital adequacy:								
Net worth ratio**	10.9%	10.7%	10.6%	10.6%	10.7%	10.7%	10.7%	10.8%

*Quarterly data, annualized. **End of period ratio. Net worth forecast does not account for CECL Provision

Questions?

Credit unions are so robust that,.....

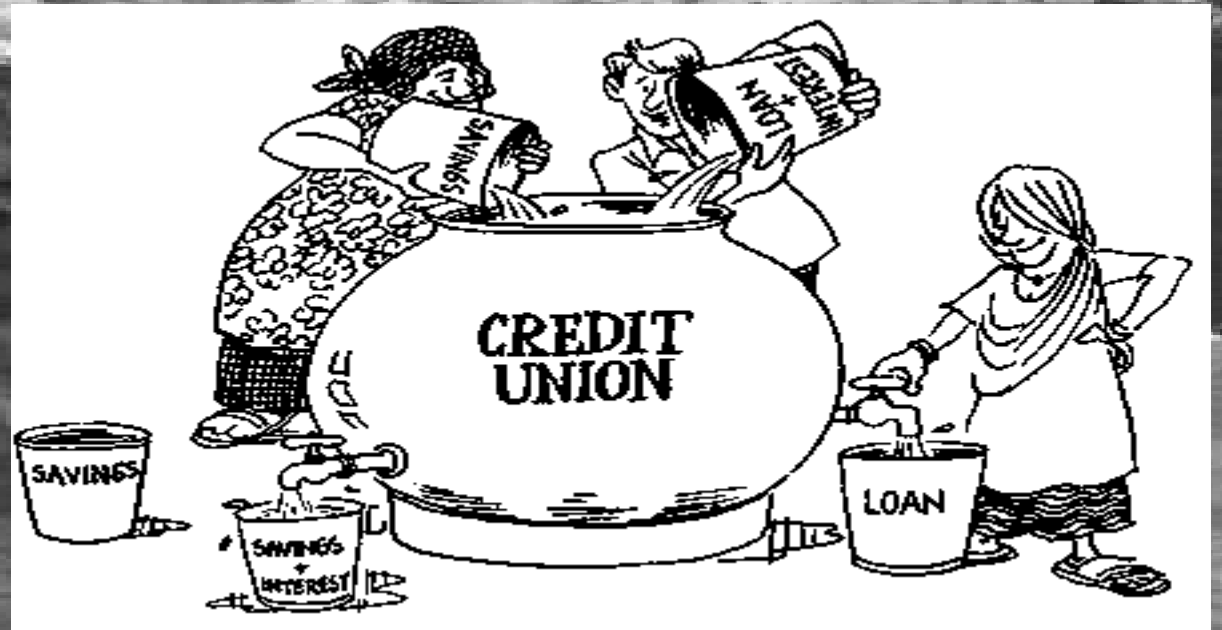


Credit unions are so robust that,.....

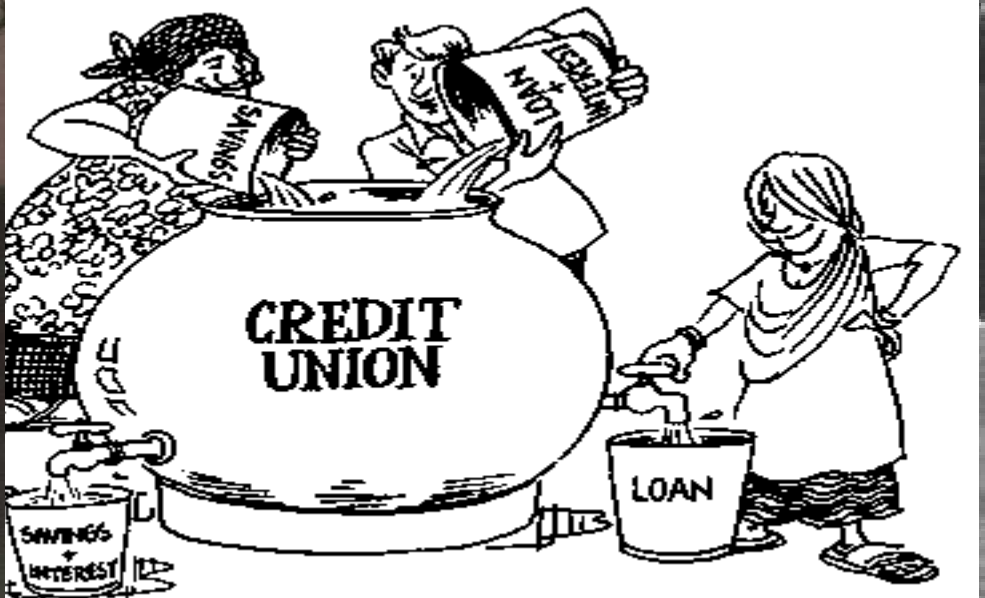
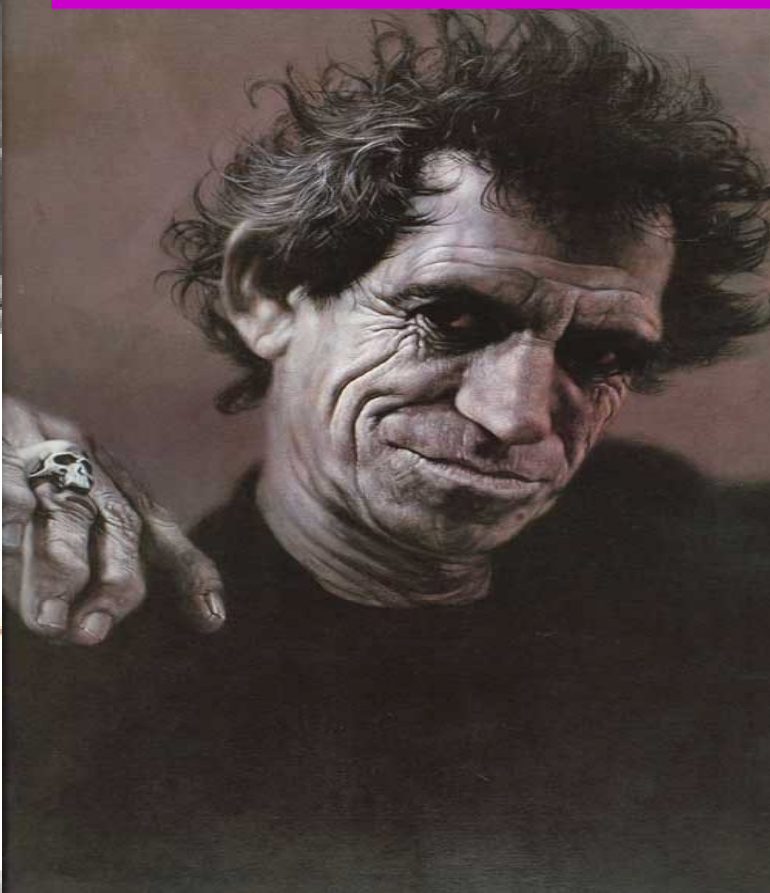
Credit unions are so robust that,.....

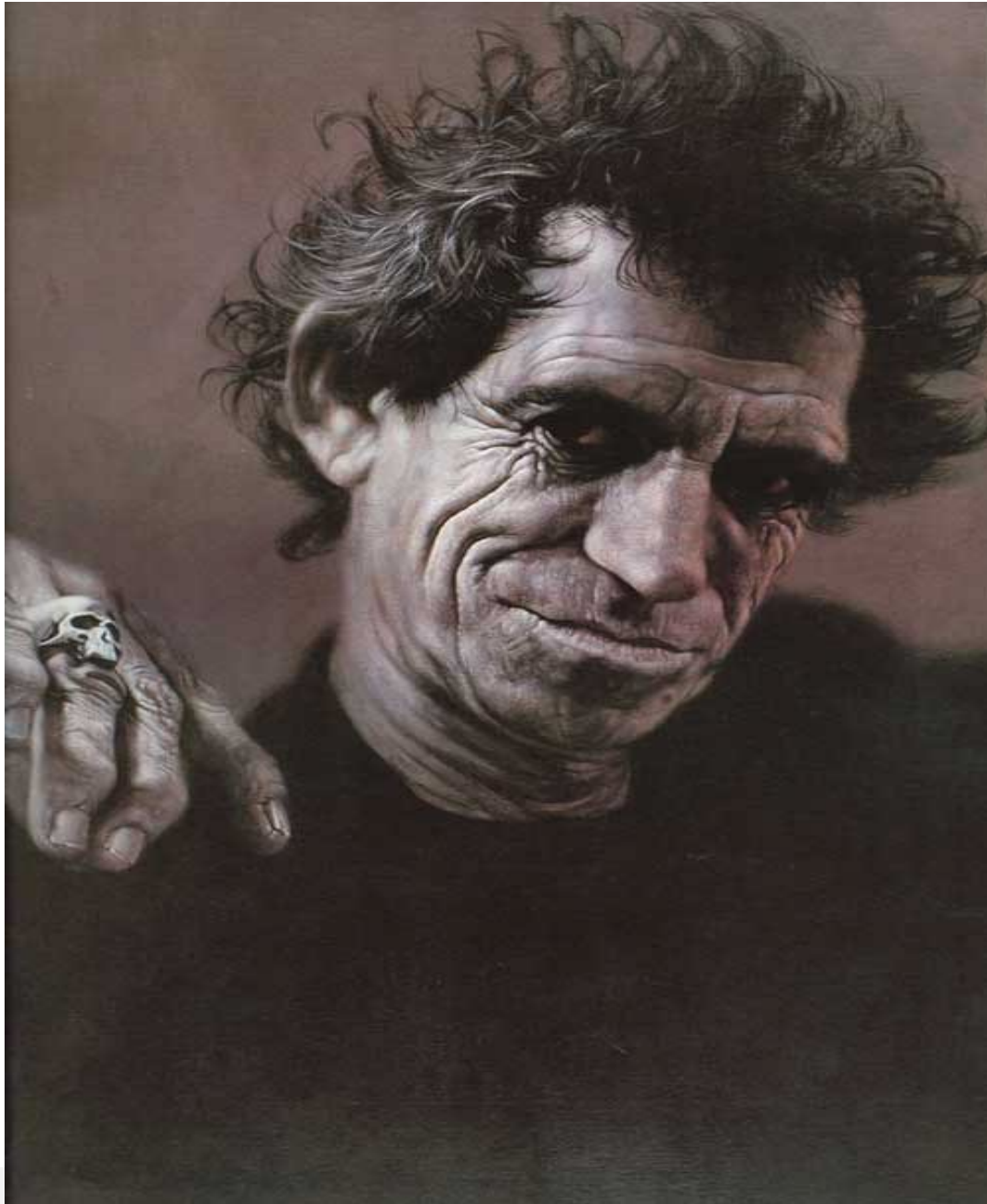


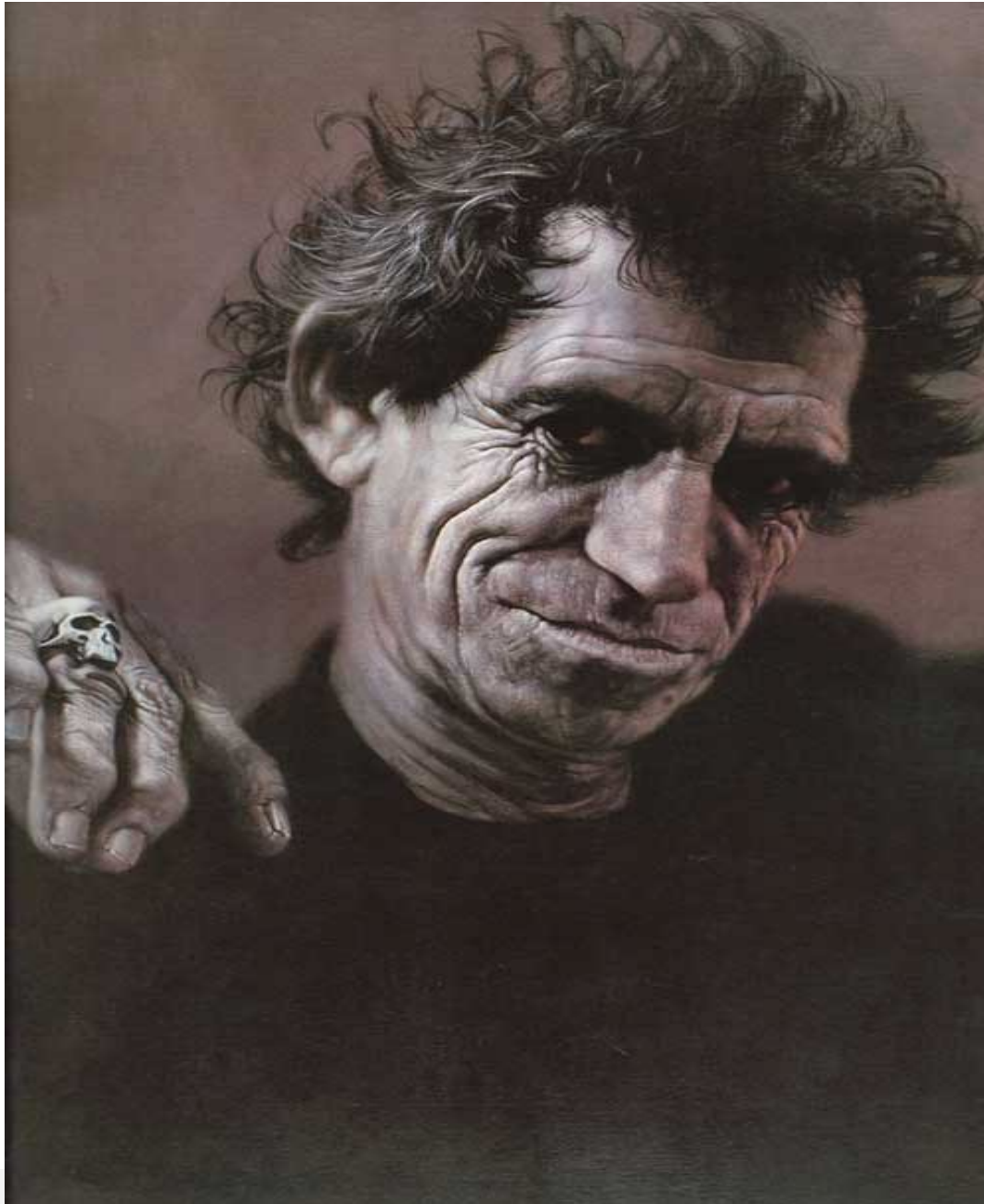
Credit unions are so robust that,.....



Credit unions are so robust that,.....



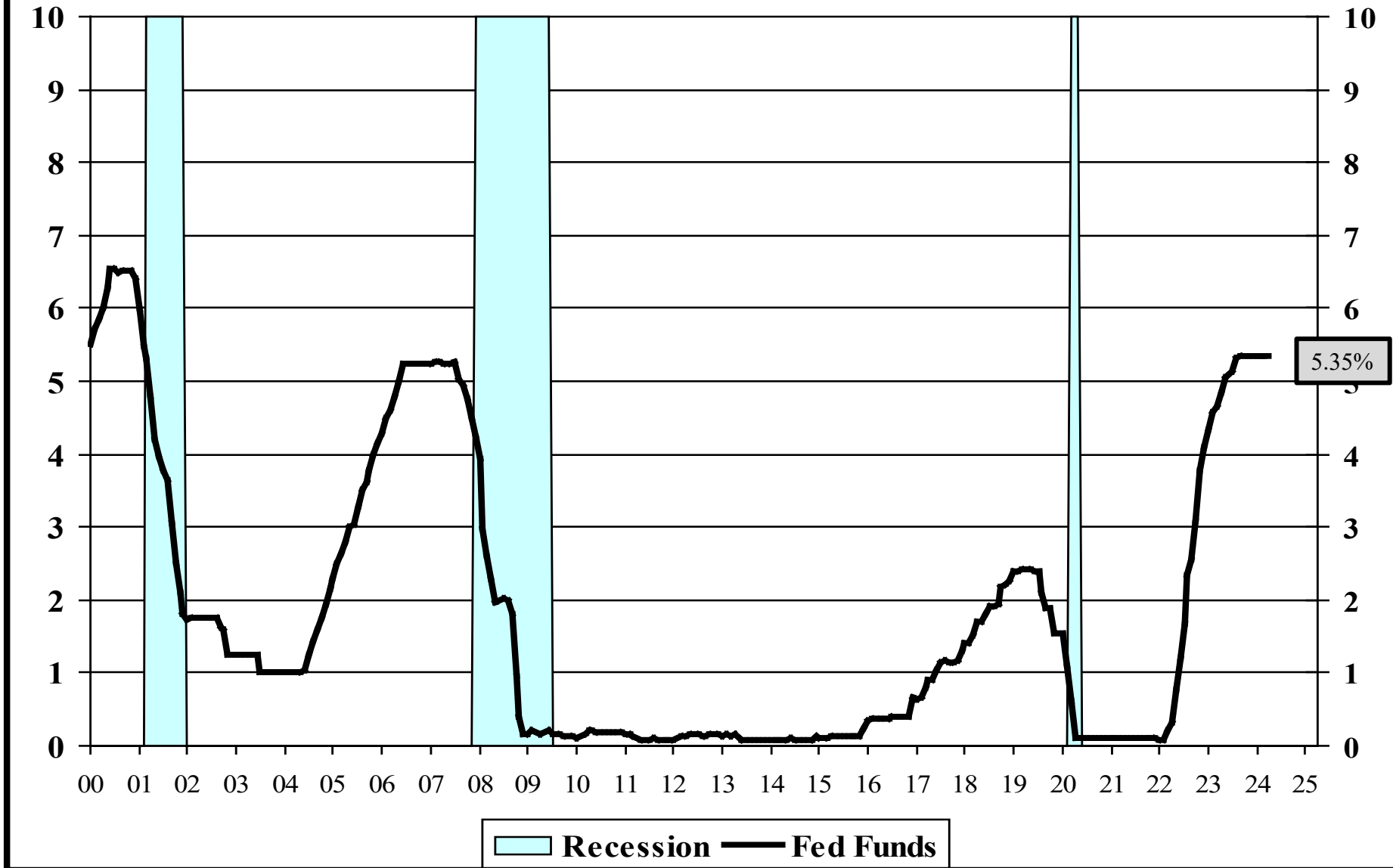




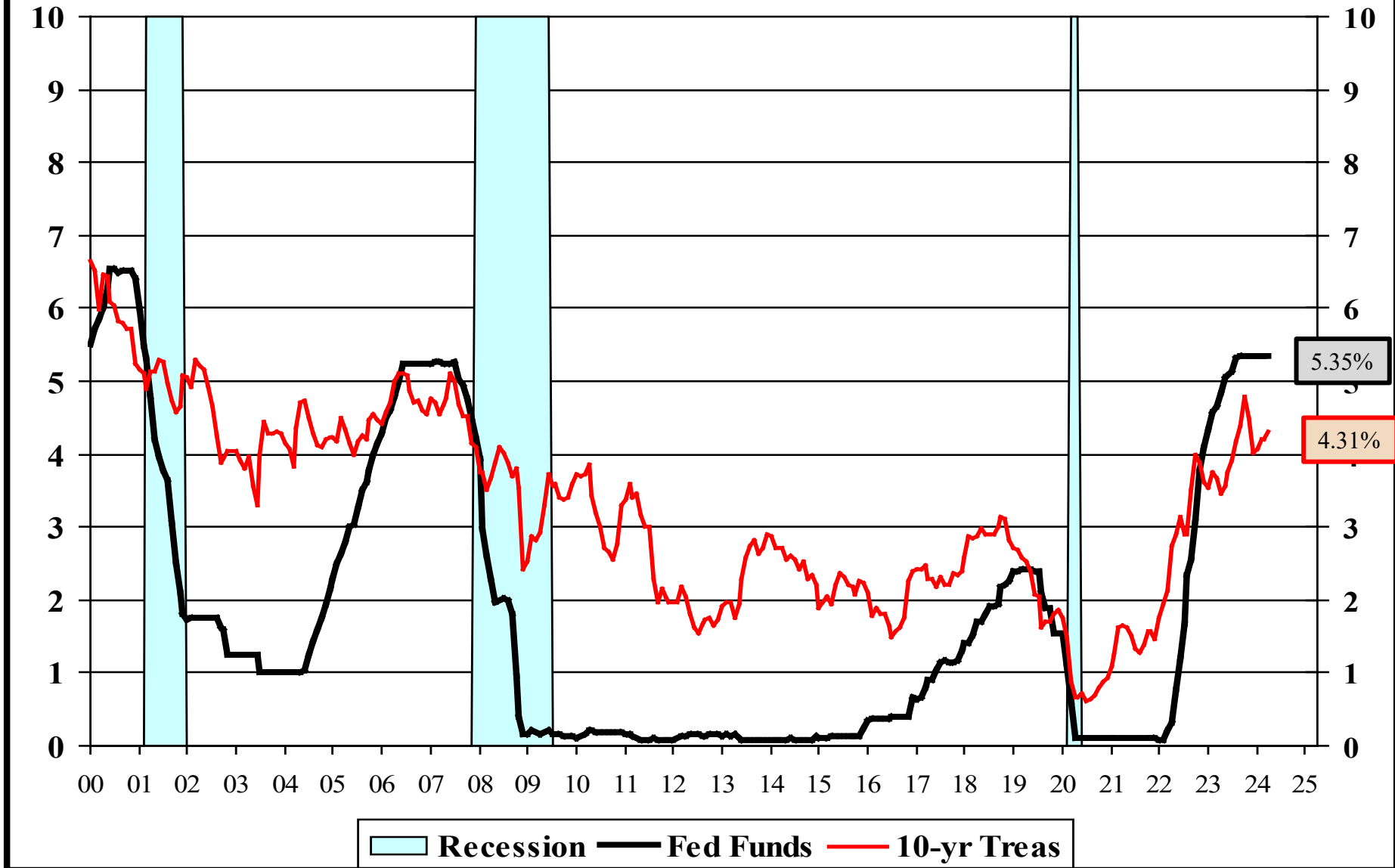
Carpe Diem
“Seize the day”

Questions?

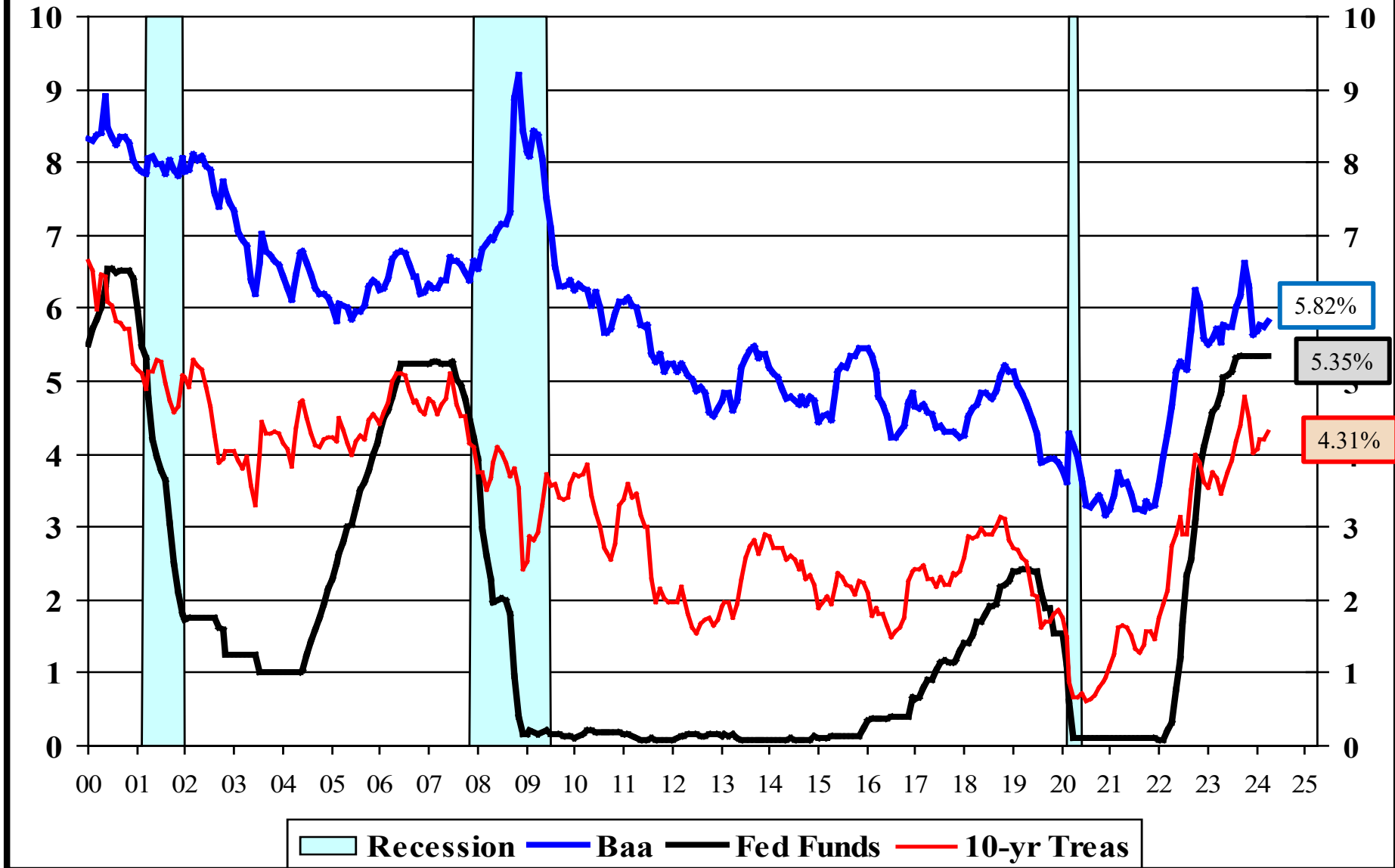
Interest Rates and Recessions



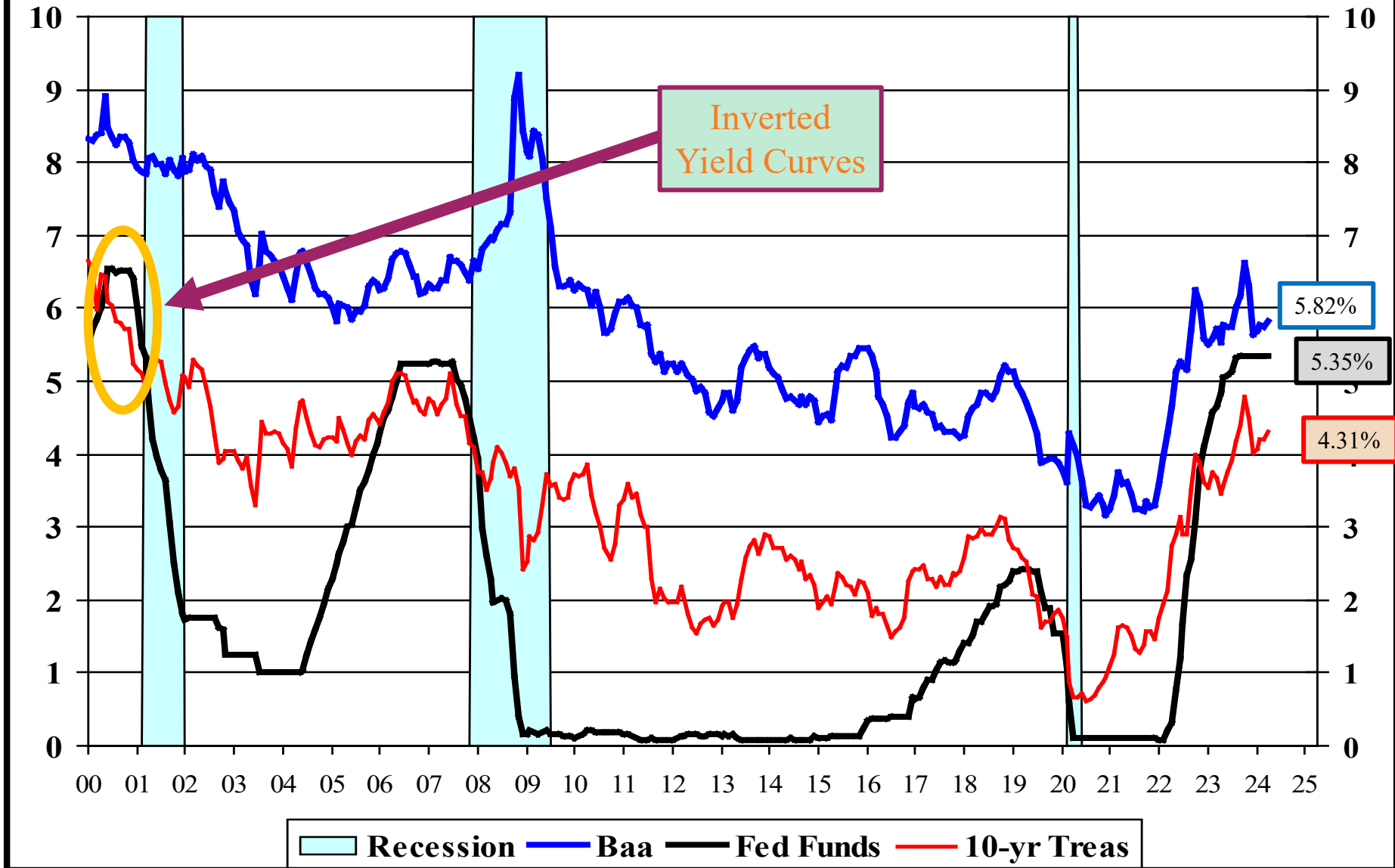
Interest Rates and Recessions



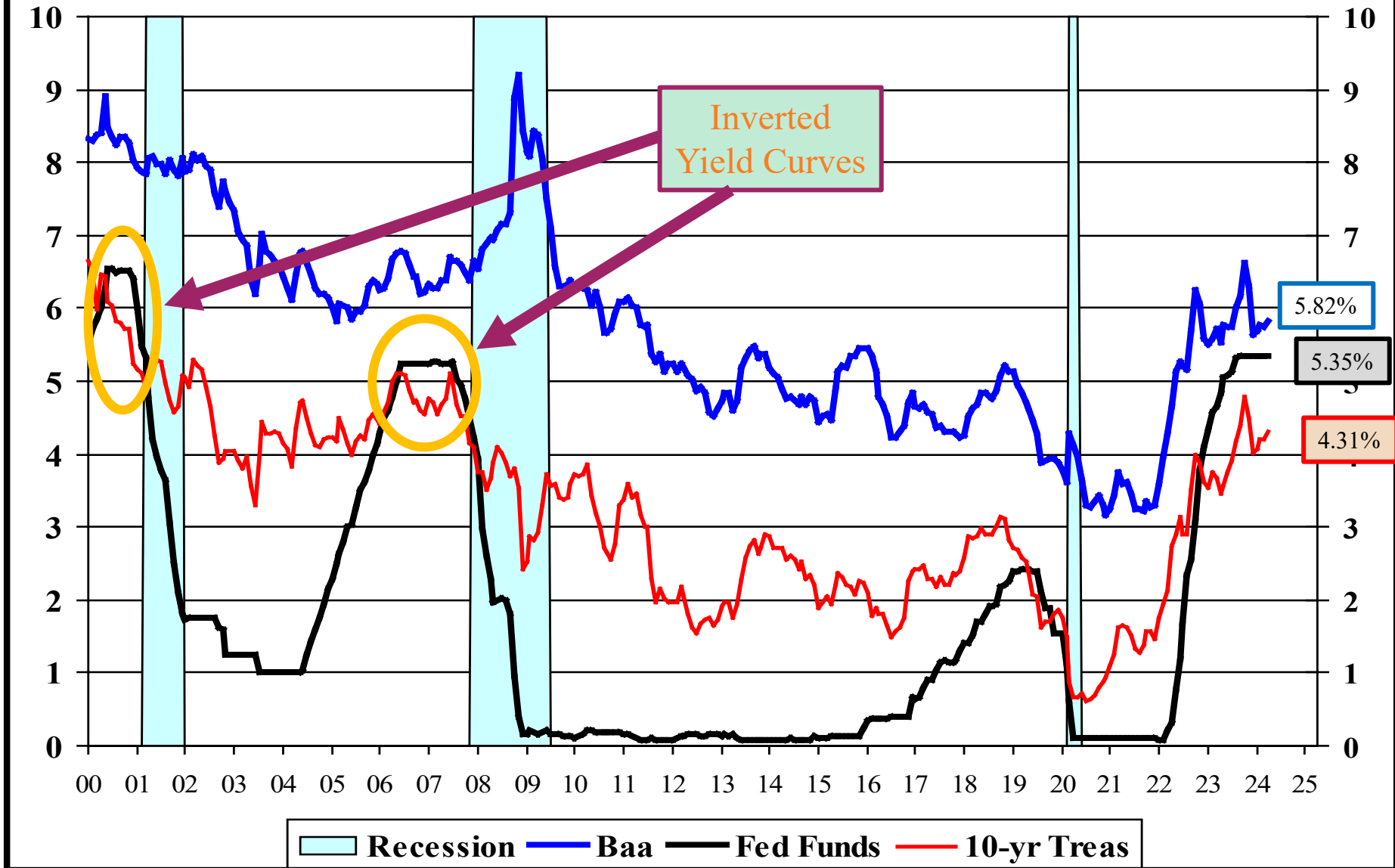
Interest Rates and Recessions



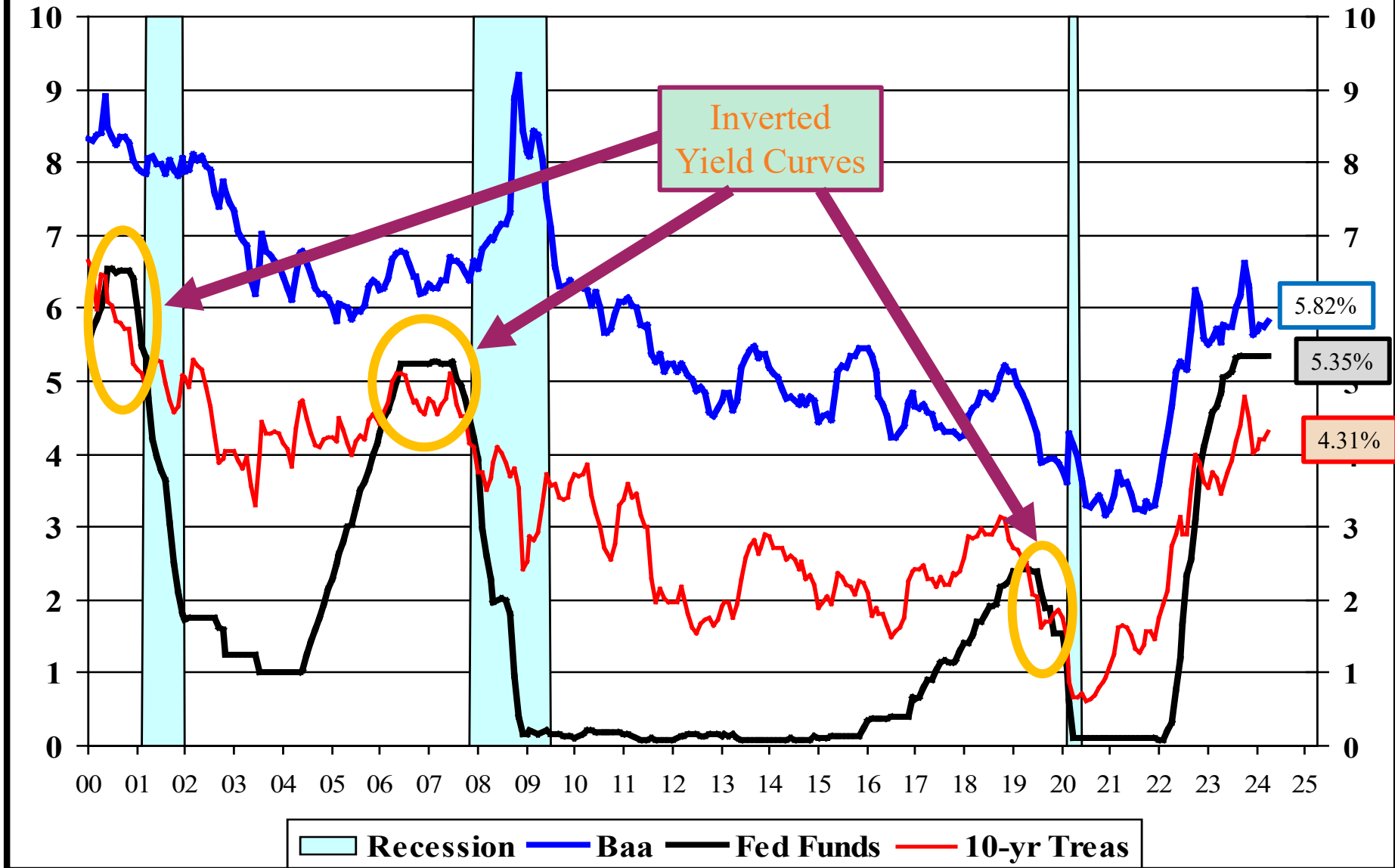
Interest Rates and Recessions



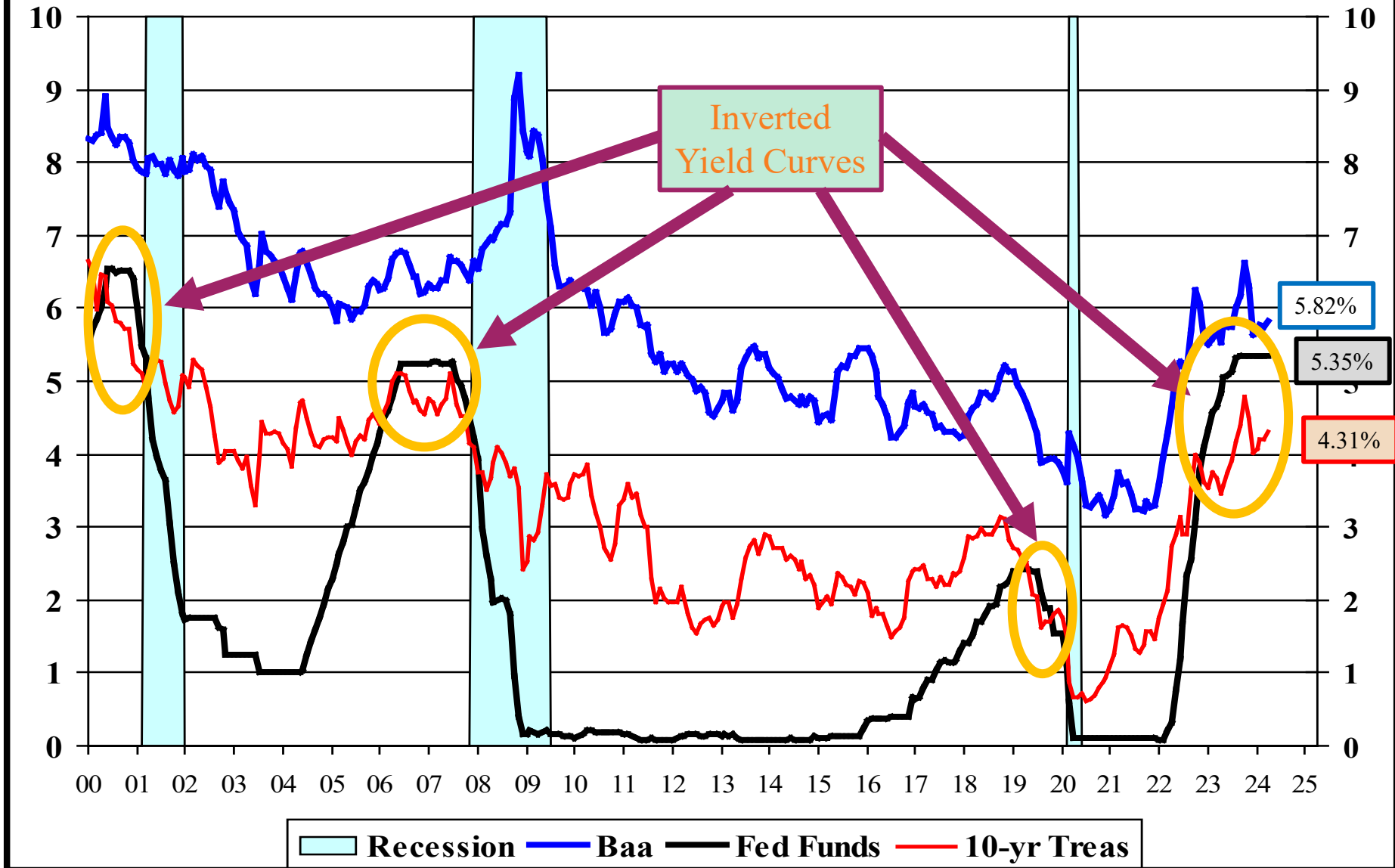
Interest Rates and Recessions



Interest Rates and Recessions



Interest Rates and Recessions



Interest Rates and Recessions

