TruStage™

Credit Union Trends Report

Executive Summary December 2023

TruStage's Chief Economist, Steven Rick, shares trends of lending volume and credit quality. Additional highlights this month include:

Economy

- On December 13th, the Federal Reserve announced that it would keep the Fed Funds effective interest rate in the target range to 5.25%-5.50%, which is probably the apex for this interest rate cycle.
- We expect the Federal Reserve to keep the effective Fed Funds interest rate at the current 5.33% through the spring and then beginning lowering it sometime this summer.
- Bond investors are expecting these lower short-term interest rates in the future, which is one reason why longer-term Treasury yields have declined by more than one percentage point since its high-water mark set back on October 20th.
- The Federal Reserve will keep lowering the Fed Funds rate through 2024-2026 until it reaches the long run "neutral" rate of 2.5%.

Lending

- Credit union loan balances grow on average 7.5% per year over the long run, but today credit union loan balances are only rising at a 5.4% seasonally adjusted annual rate.
- For all lenders, outstanding consumer credit rose by $5.1 billion in October, according to the Federal Reserve, which is lower than the $12 billion reported in September, and almost one-third the average pace of $15 billion growth reported during the years 2015 – 2019.
- The effect of this lending slowdown is the number of new-auto loans as a percent of members in offering credit unions – the penetration rate – fell to 7.5% in the third quarter, down from 7.9% last year.
- Expect mortgage originations to increase 15% in 2024 due to mortgage interest rates falling one percentage point during the next 12 months.
- We are forecasting below trend credit union loan growth of 4-5% for 2024 due to elevated short-term interest rates.

Members/Assets

- Credit union savings balances fell in October by 0.6%, better than the 0.7% decline in October 2022.
- So, this year members were dipping into savings deposits to maintain their current level of consumption spending in this era of high and rising prices.
- We expect credit union deposit growth to rise only 3% in 2024, still below the 7% long–run average, but above the 1.5% expected in 2023.
- We expect a surge in credit union mergers in the 2024 – 2025 period, like what we experienced the years following the Great Recession as many credit unions look to offer more financial services to their members through mergers.

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Source: December 2023, CUNA Economics & Statistics and TruStage Economics. This report on key CU indicators is based on data from TruStage E&S's Monthly Credit Union Estimates, the Federal Reserve Board, and TruStage – Economics