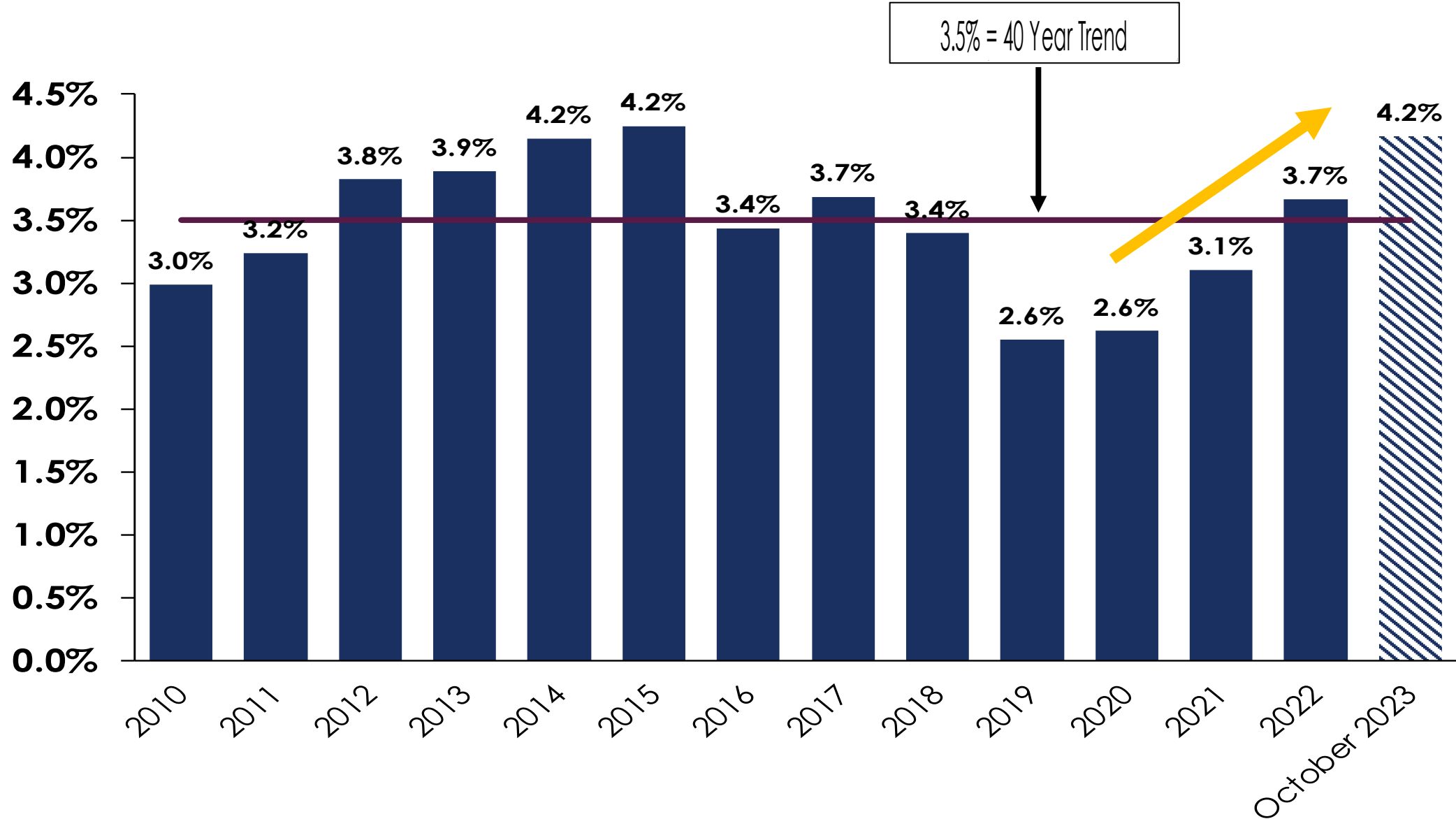


Economic and Credit Union Update

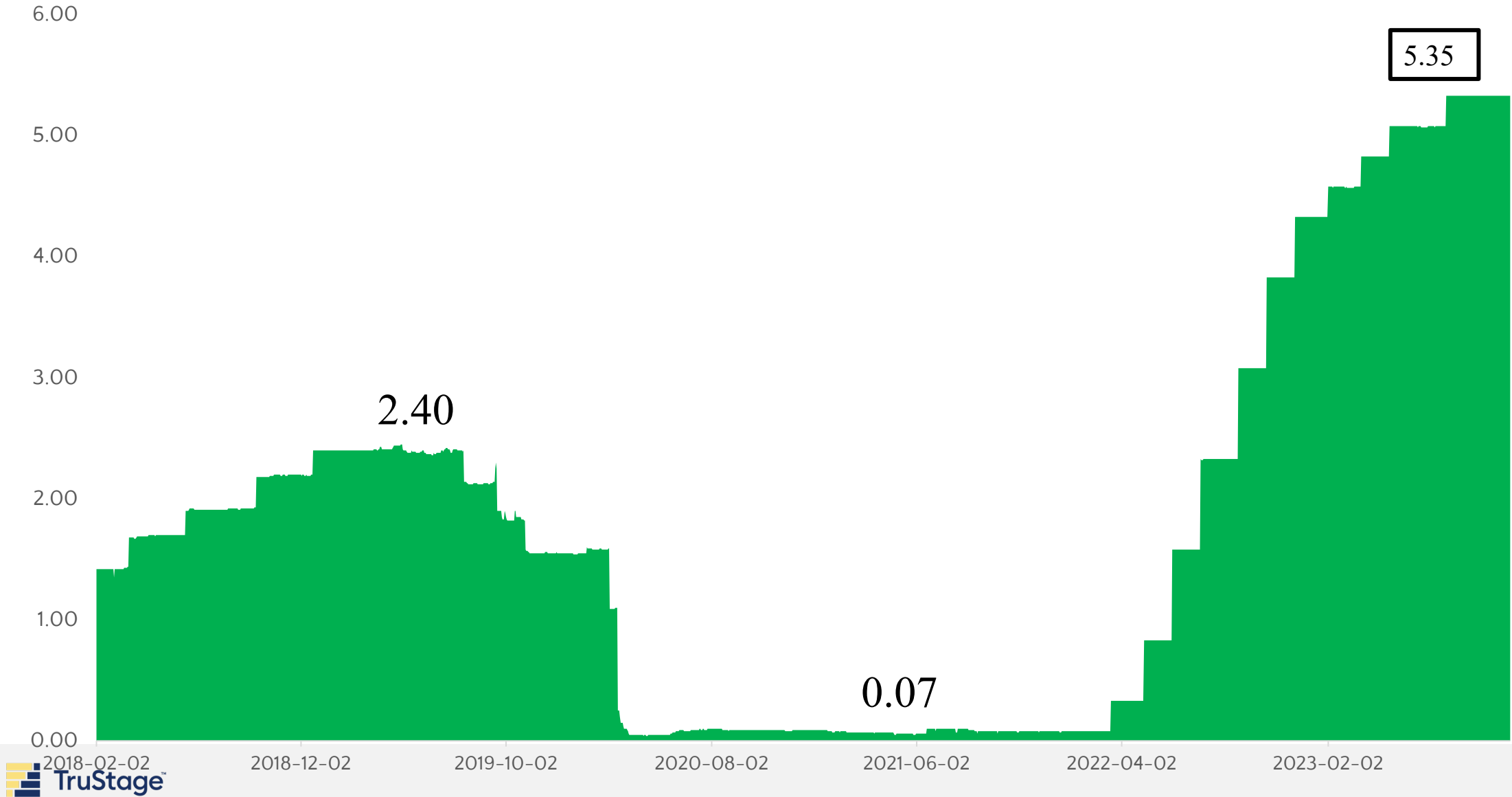
February 2024

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

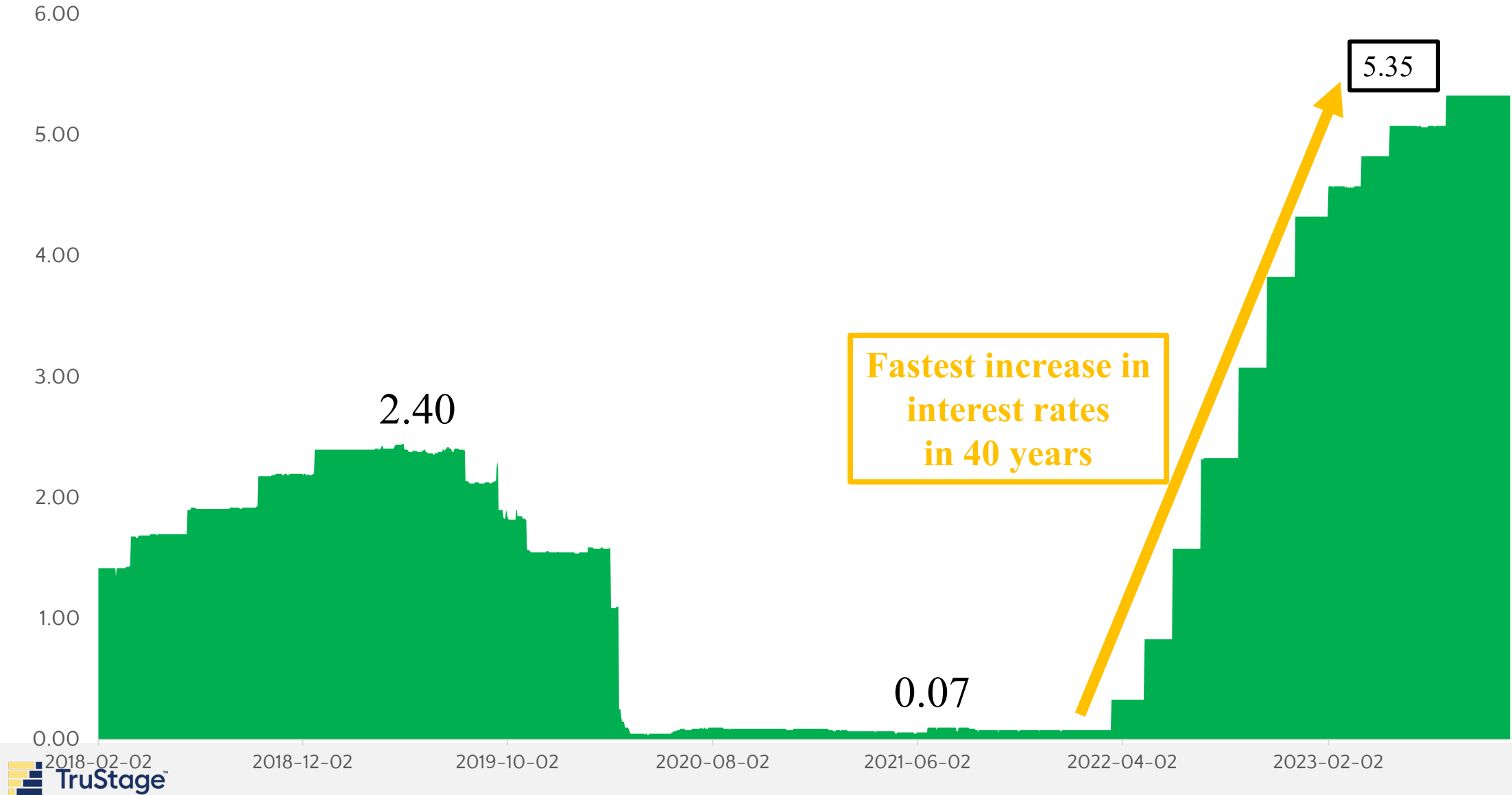
Annual Contraction Rate in CU Marketplace



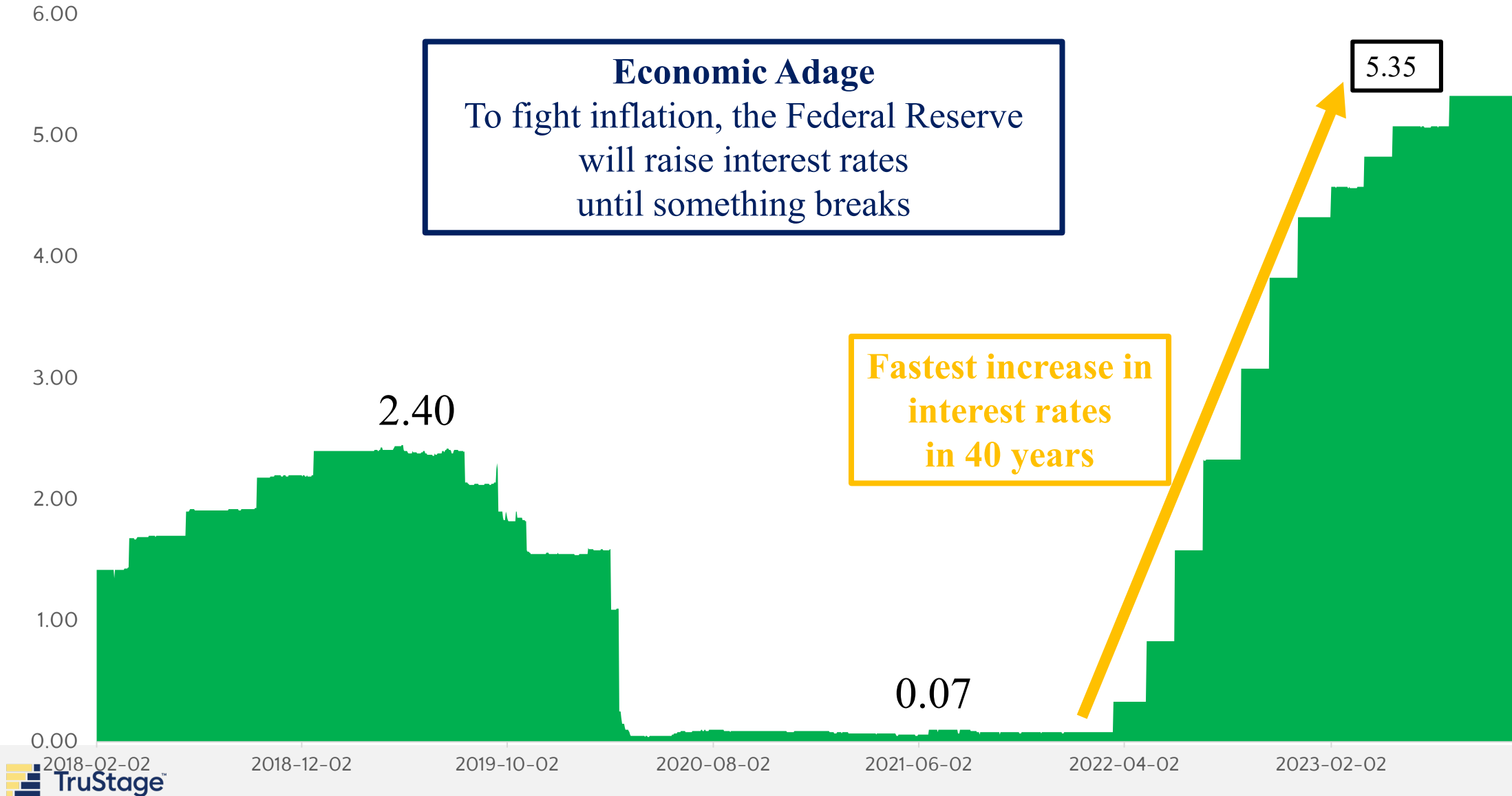
Federal Funds Rate, 2018 - 2023



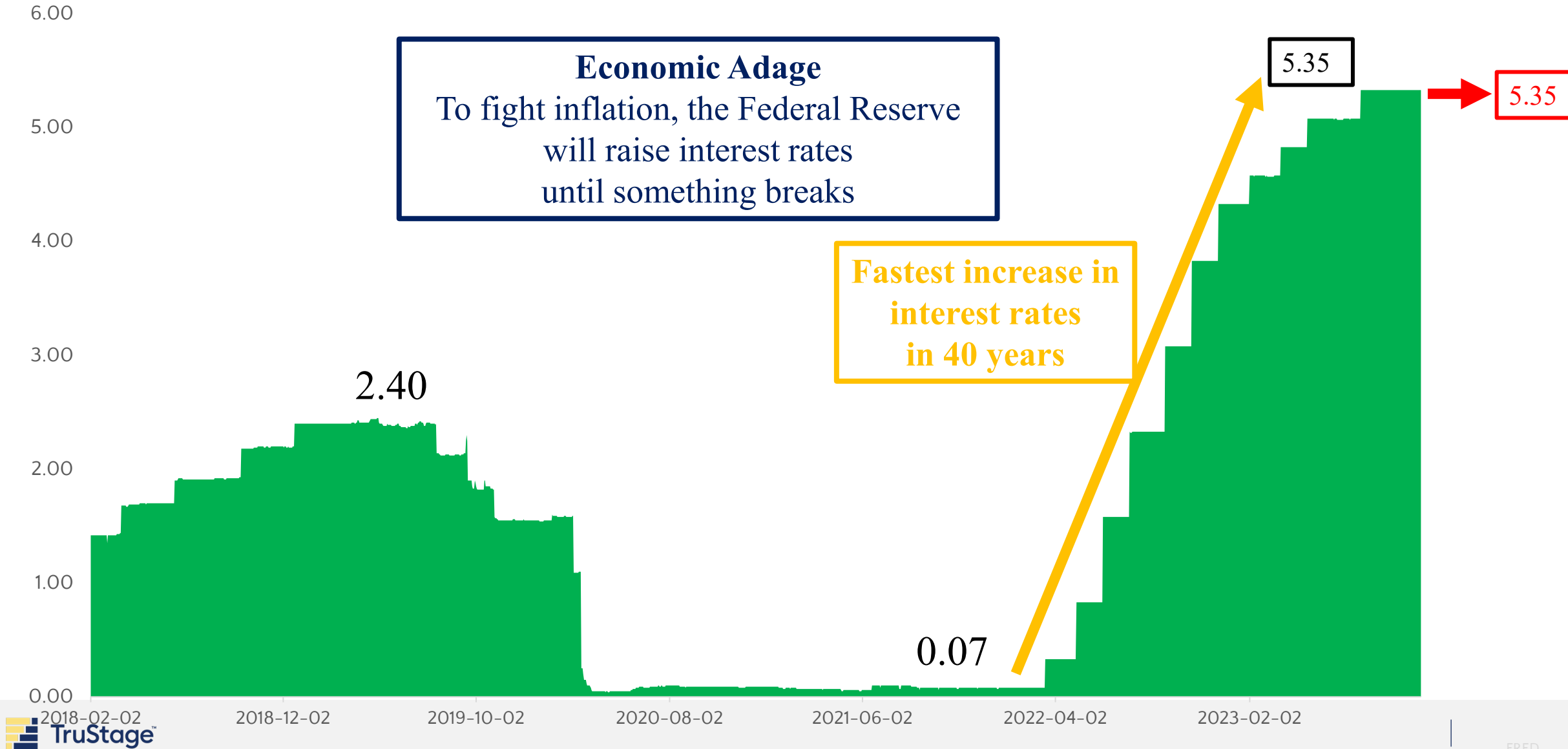
Federal Funds Rate, 2018 - 2023



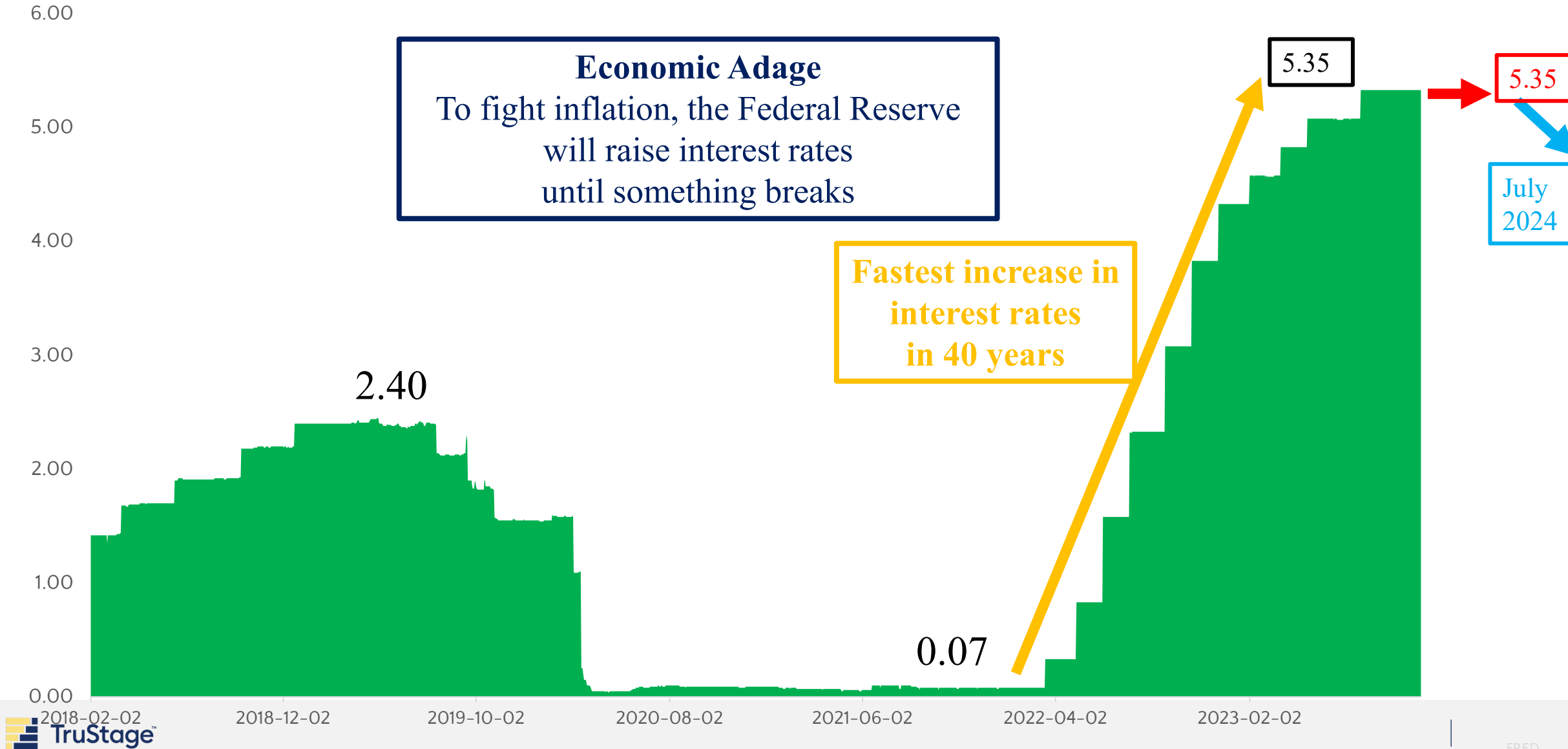
Federal Funds Rate, 2018 - 2023



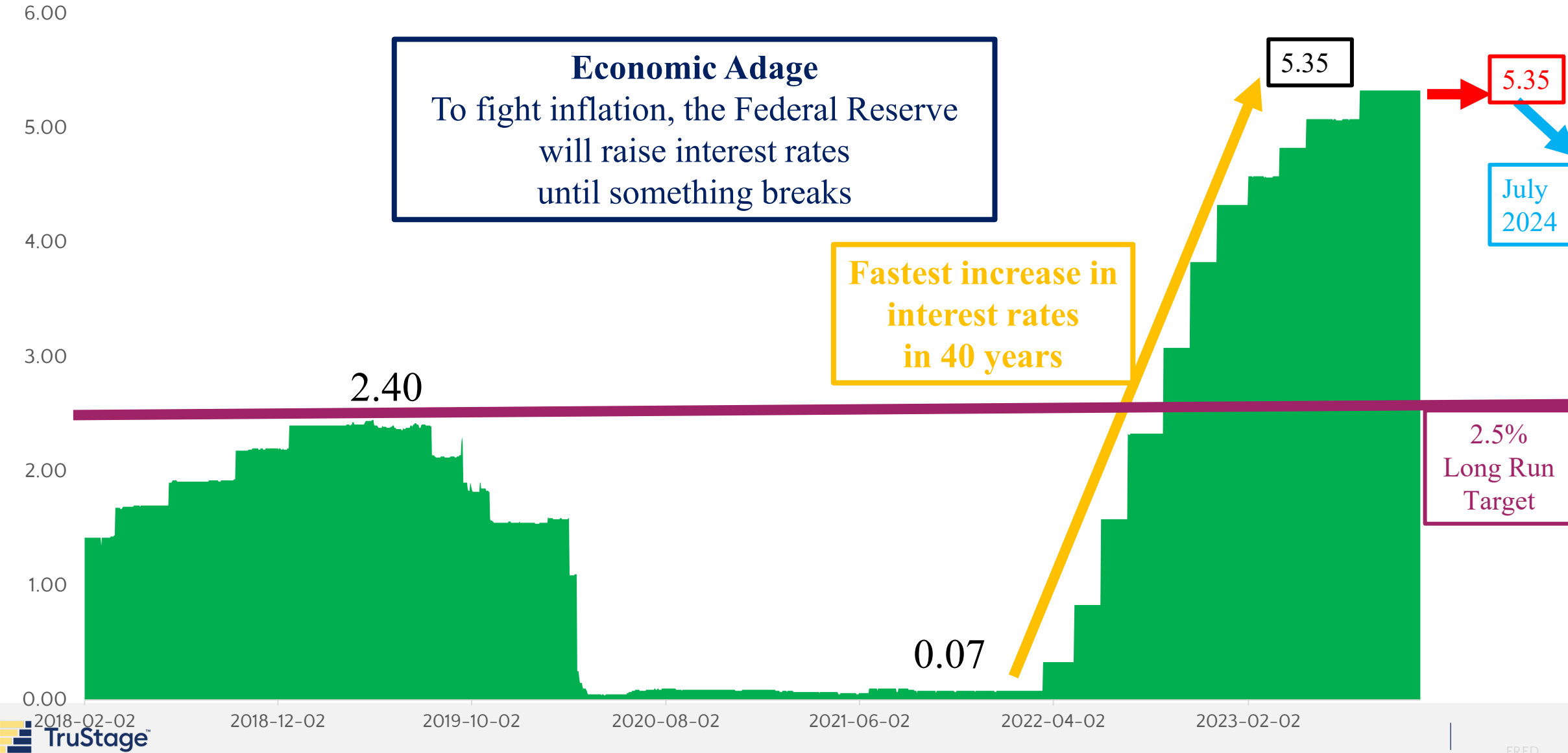
Federal Funds Rate, 2018 - 2023



Federal Funds Rate, 2018 - 2023

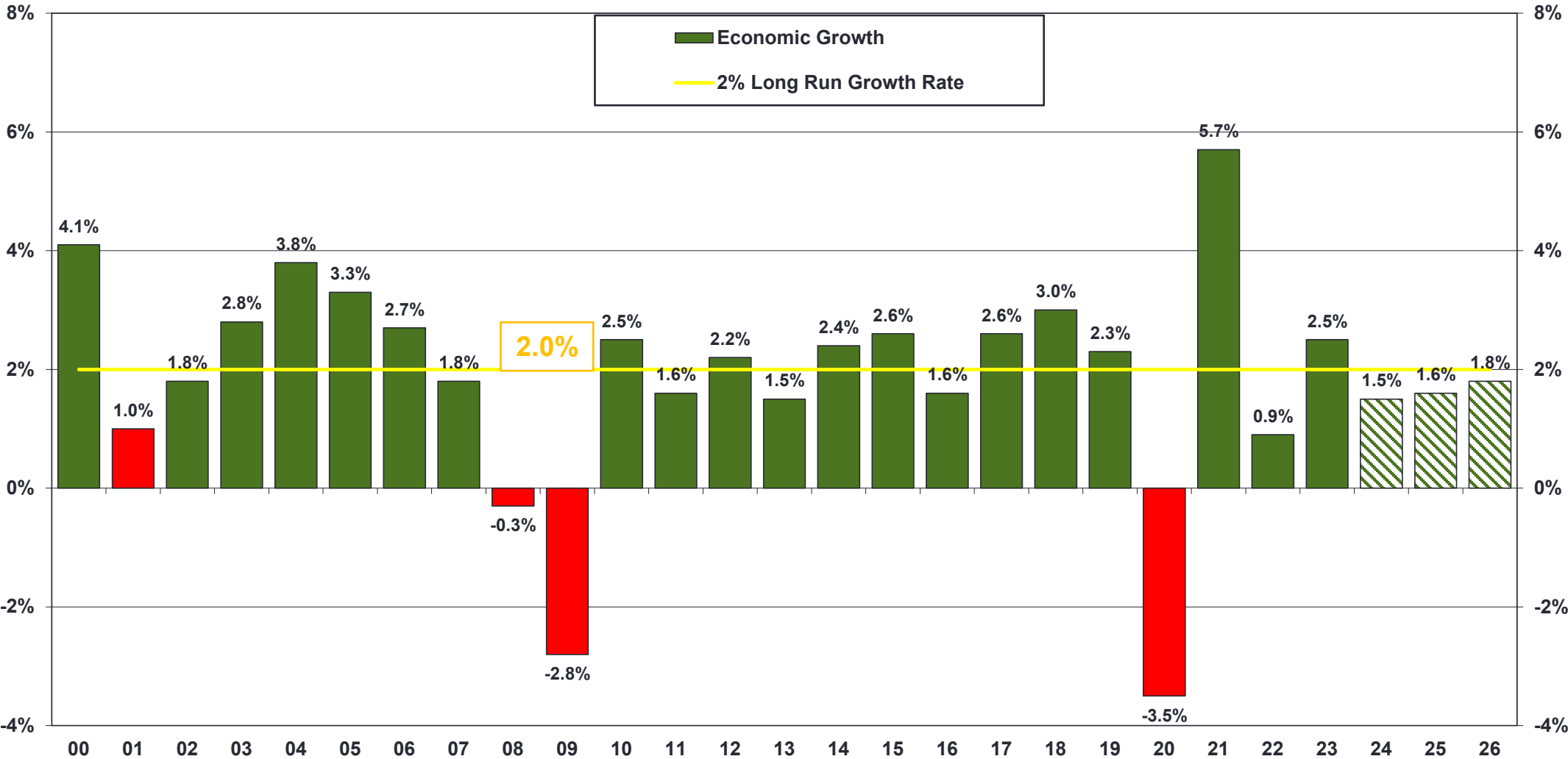


Federal Funds Rate, 2018 - 2023



Slower Economic Growth for Next 2 Years

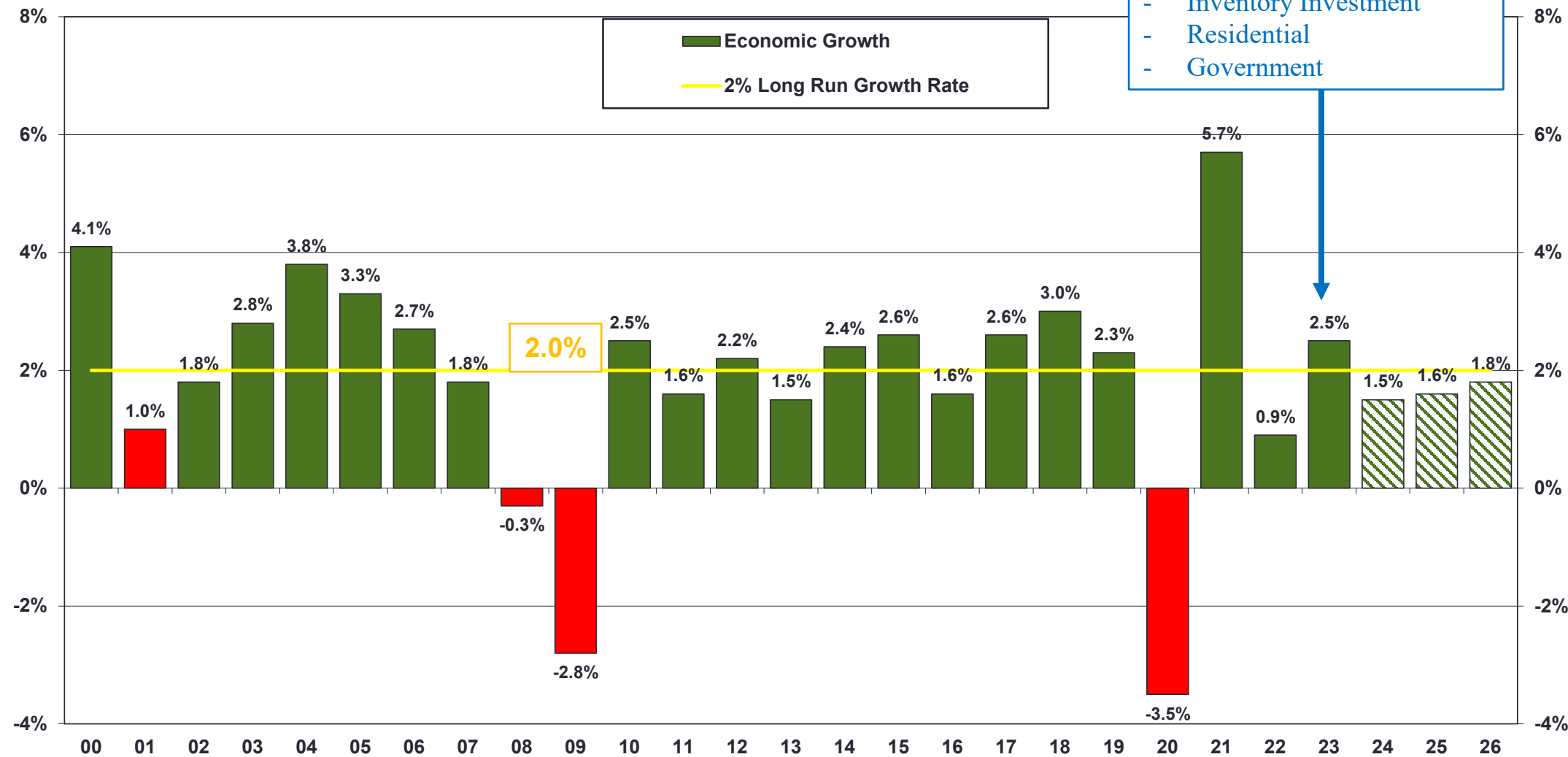
U.S. Economic Growth Rate



Source: Department of Commerce

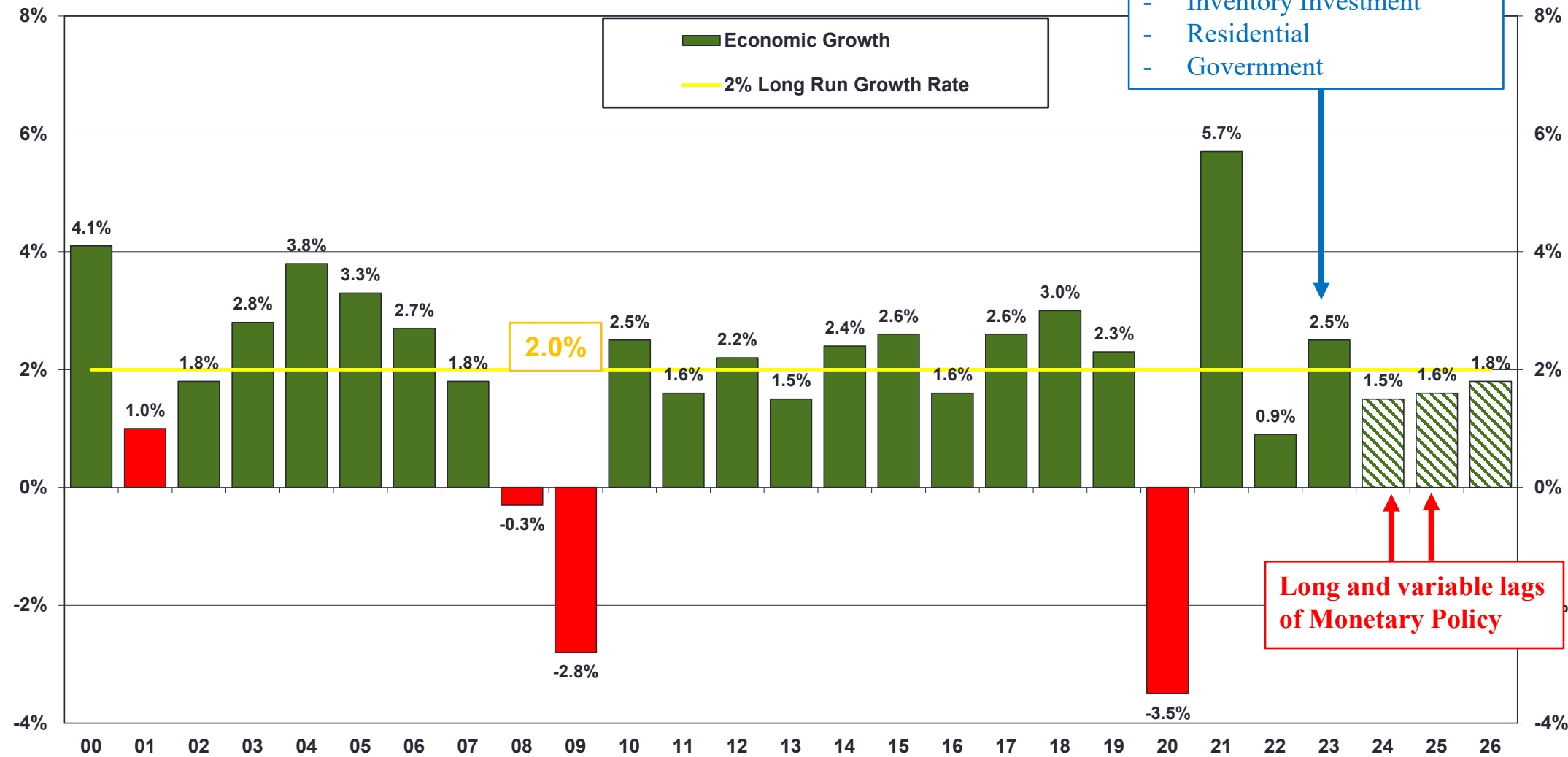
Slower Economic Growth for Next 2 Years

U.S. Economic Growth Rate

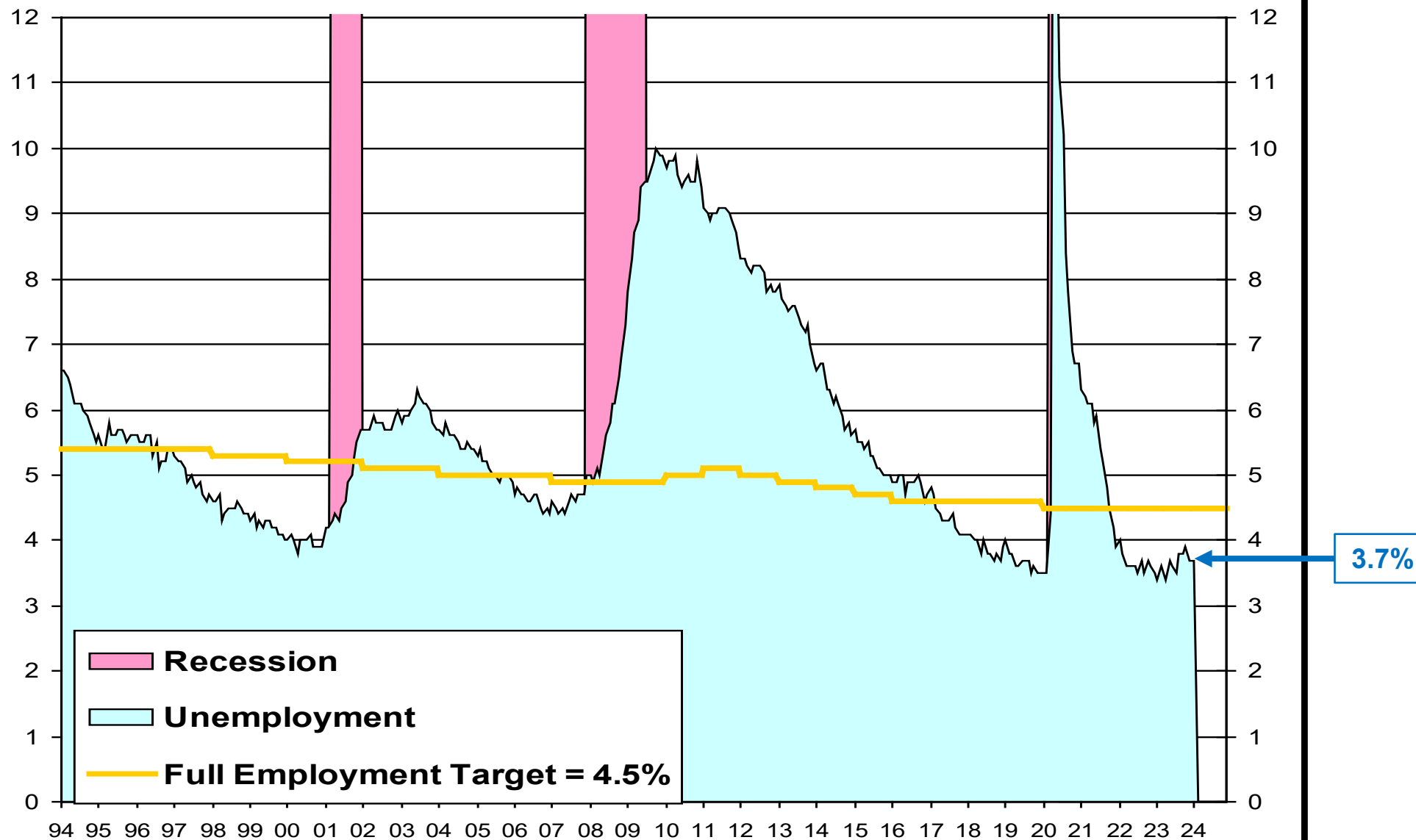


Slower Economic Growth for Next 2 Years

U.S. Economic Growth Rate



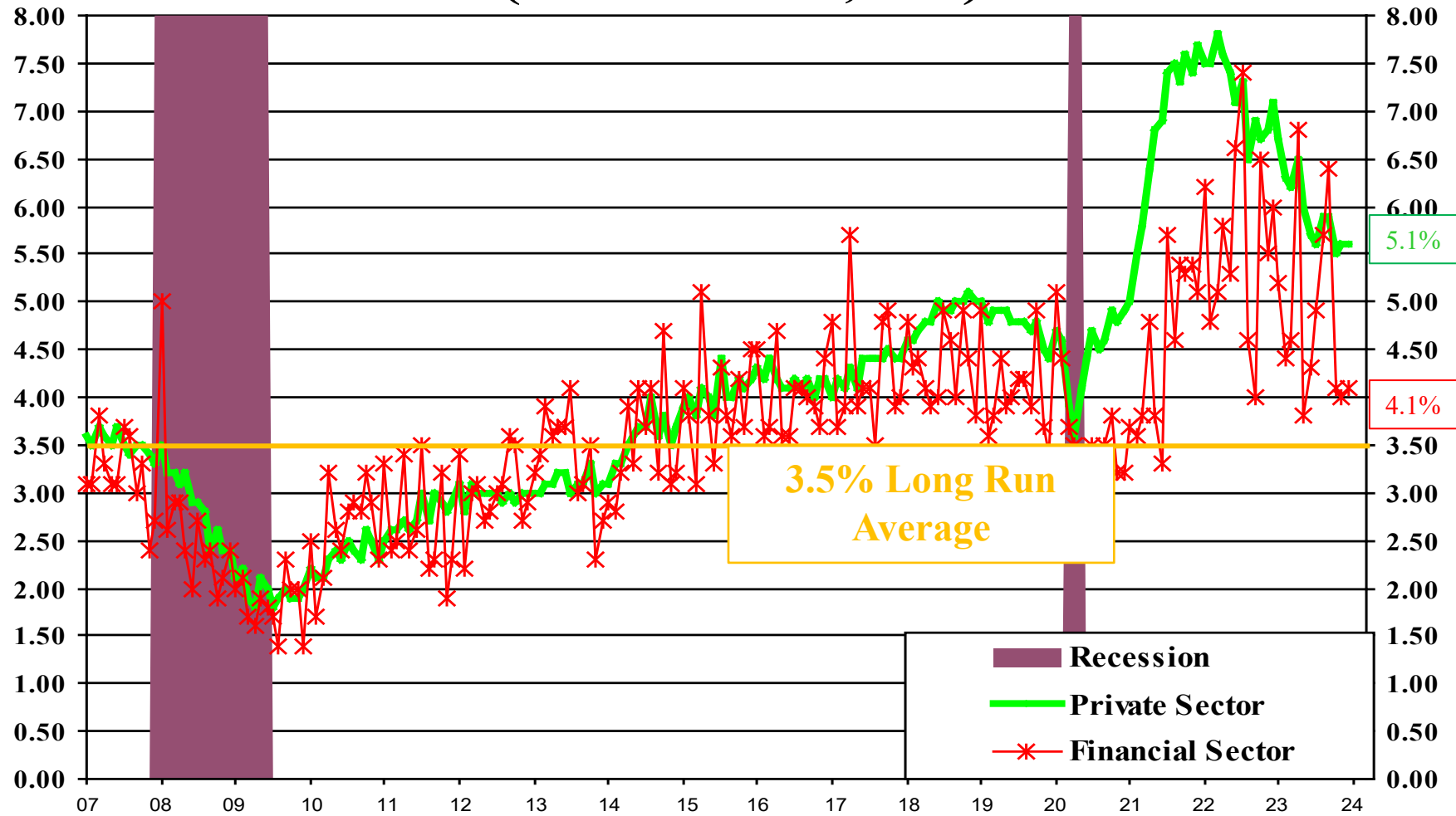
Unemployment Rate



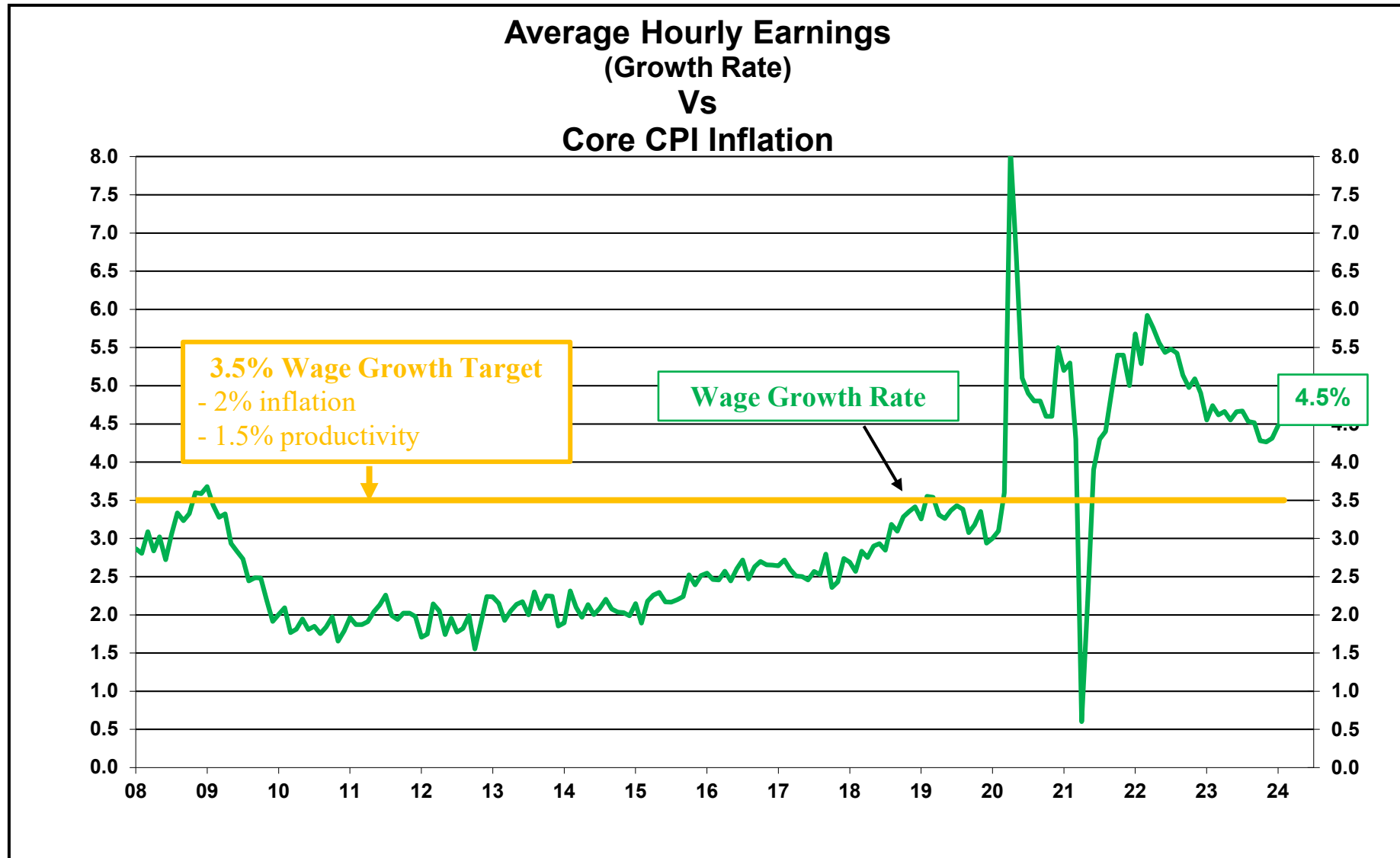
Source: Department of Labor.

Job Openings Rate is the number of job openings on the last business day of the month as a percent of total employment plus job openings.

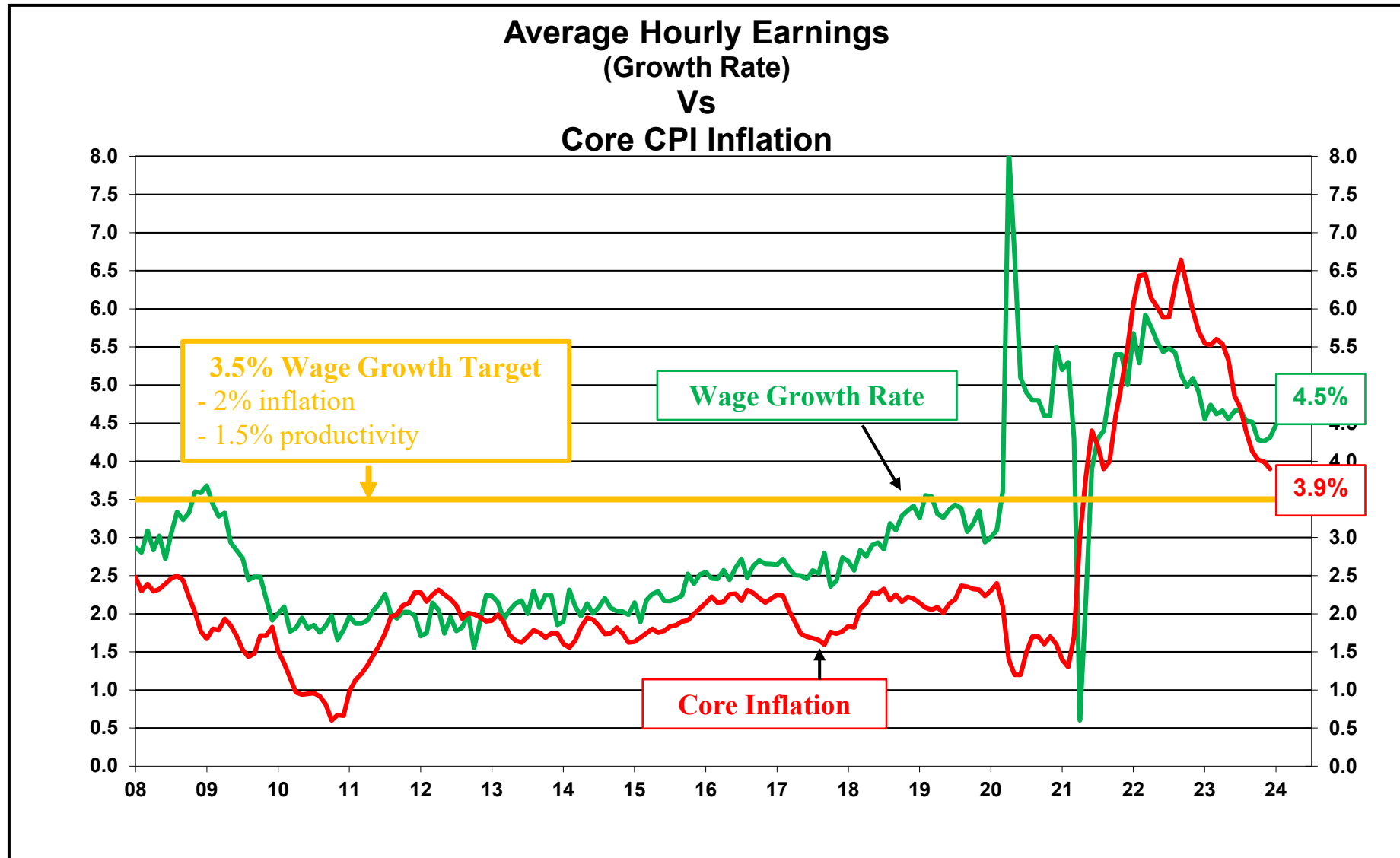
Job Openings Rate (Thousands, SA)



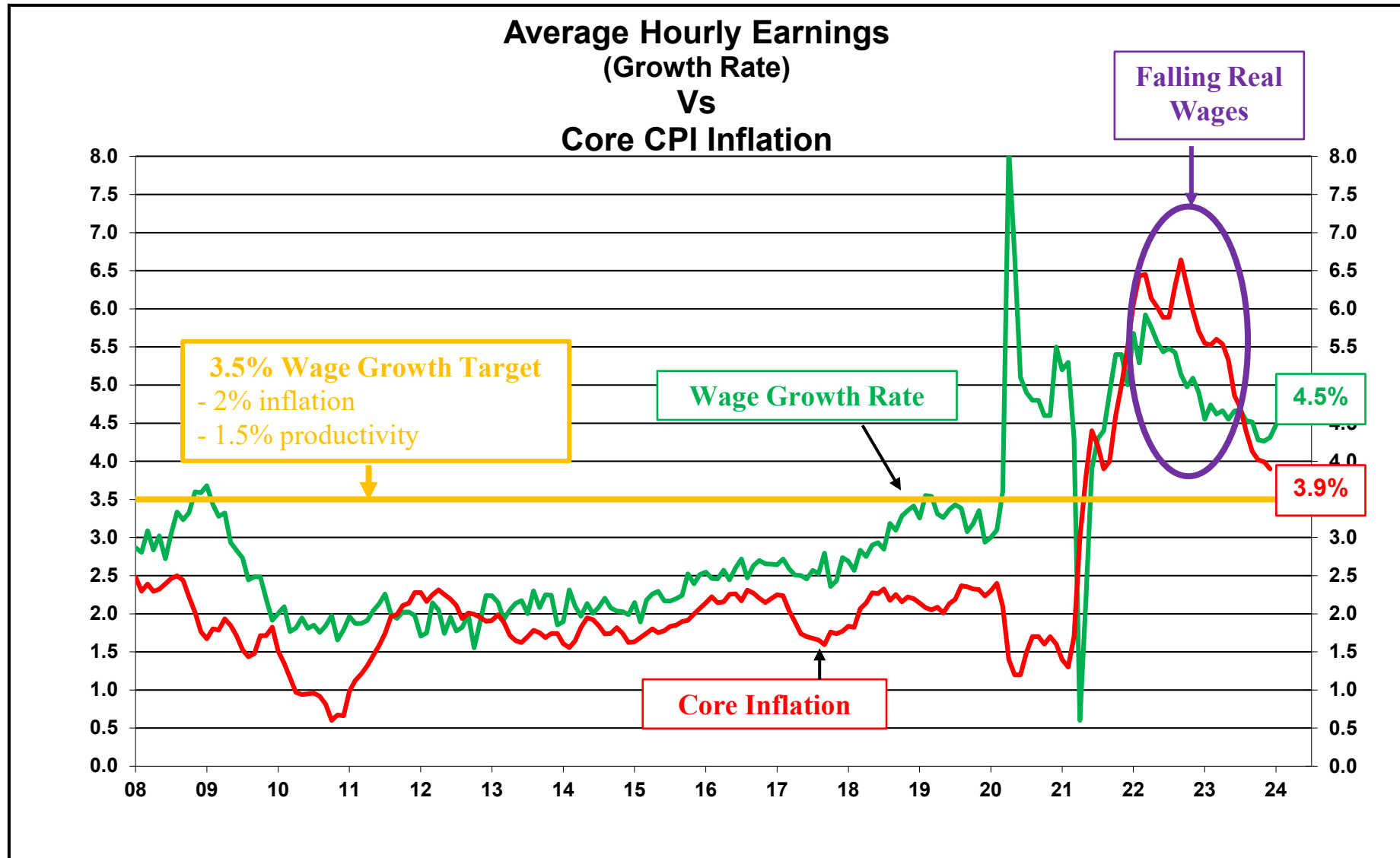
Wage Growth Slowing as Core Inflation Falls



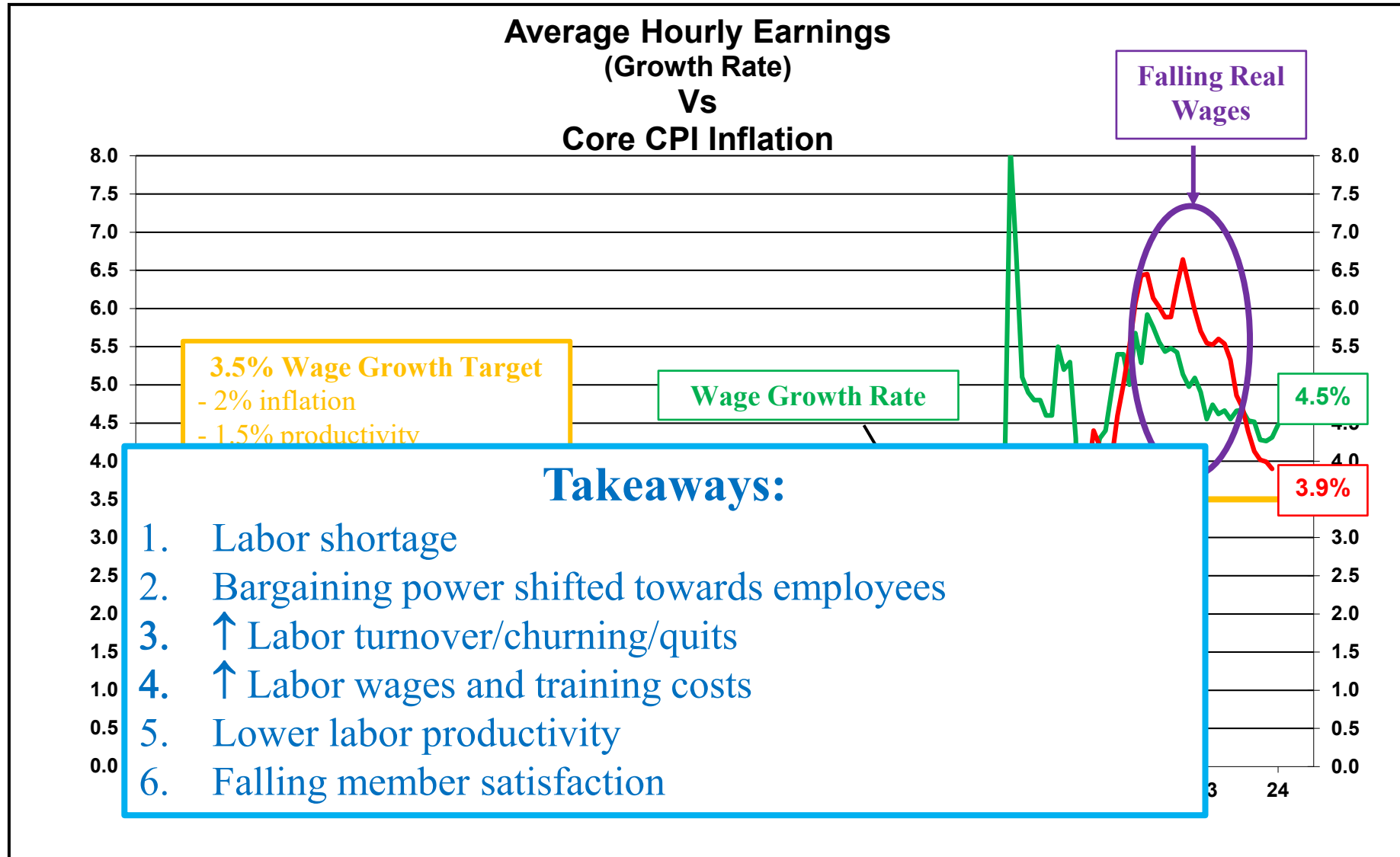
Wage Growth Slowing as Core Inflation Falls



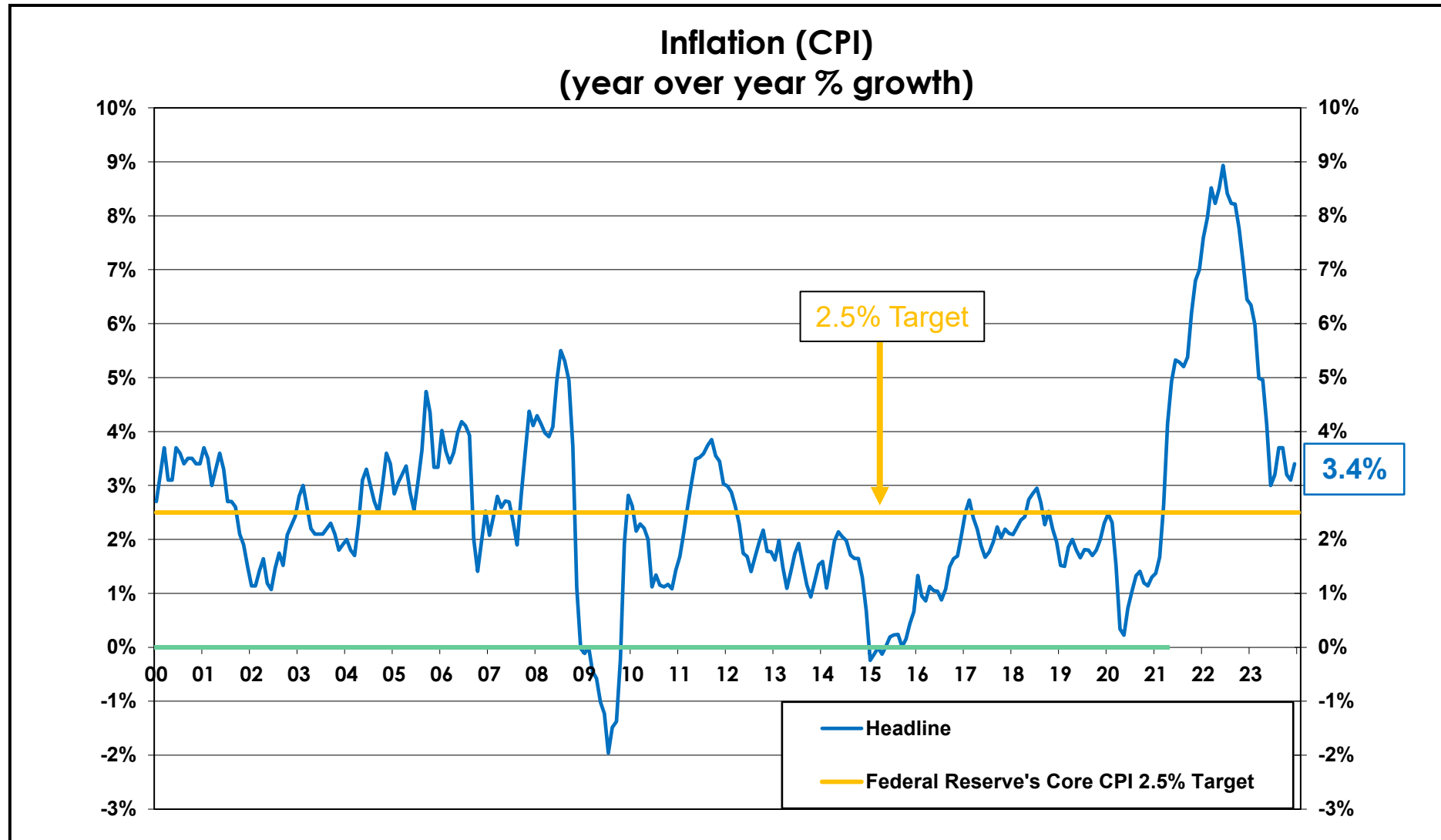
Wage Growth Slowing as Core Inflation Falls



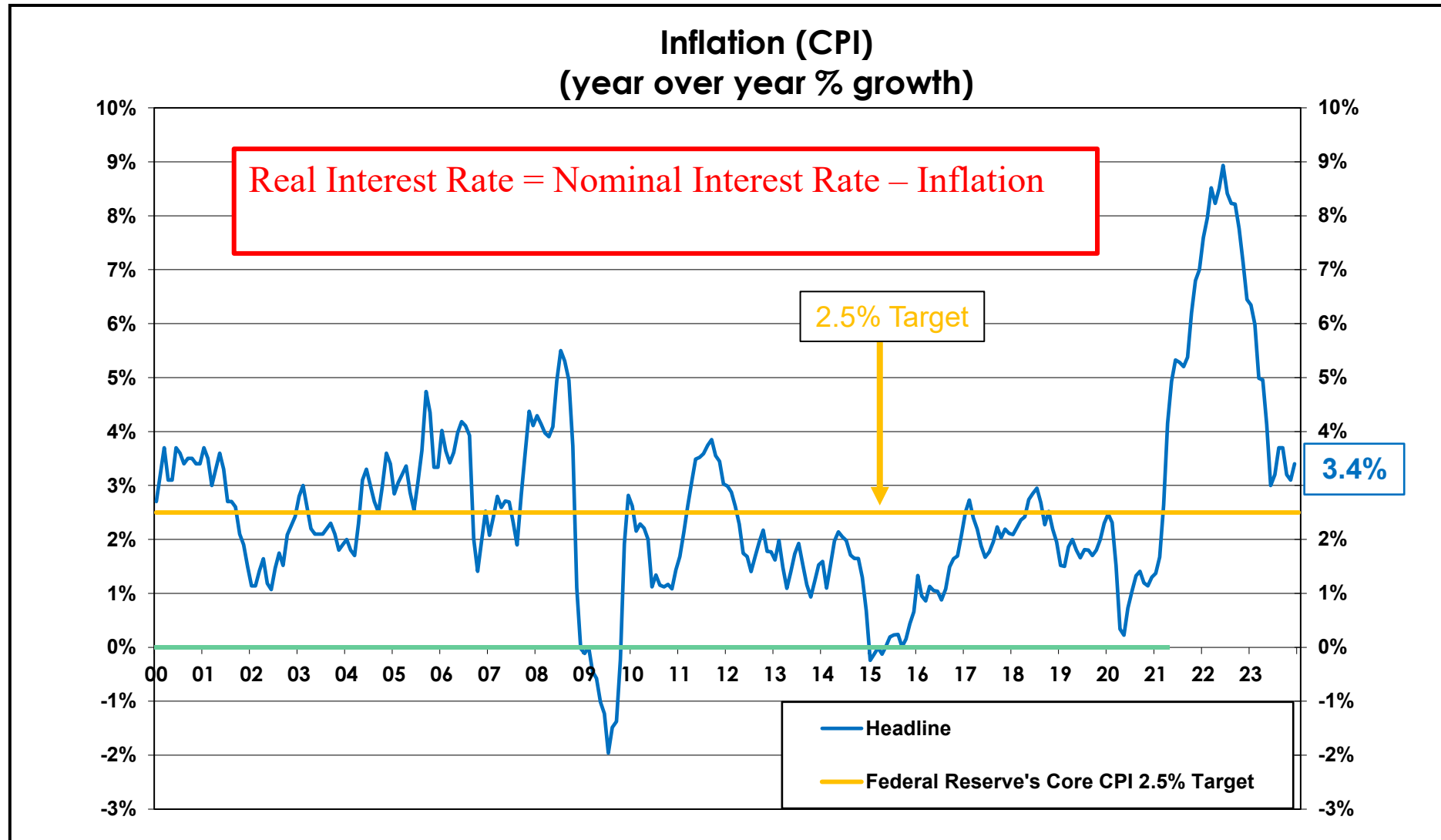
Wage Growth Slowing as Core Inflation Falls



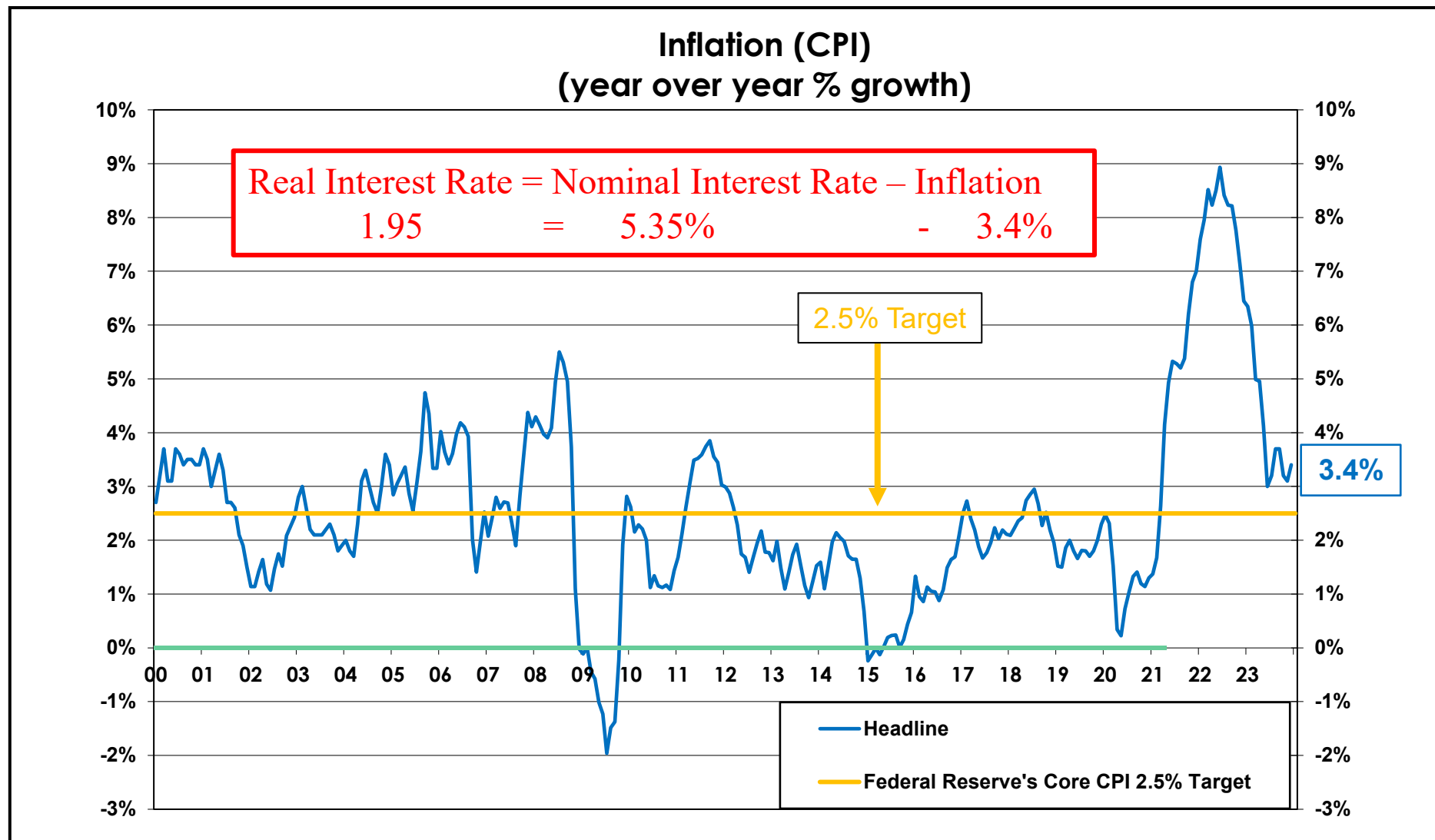
High Inflation for the Next Year



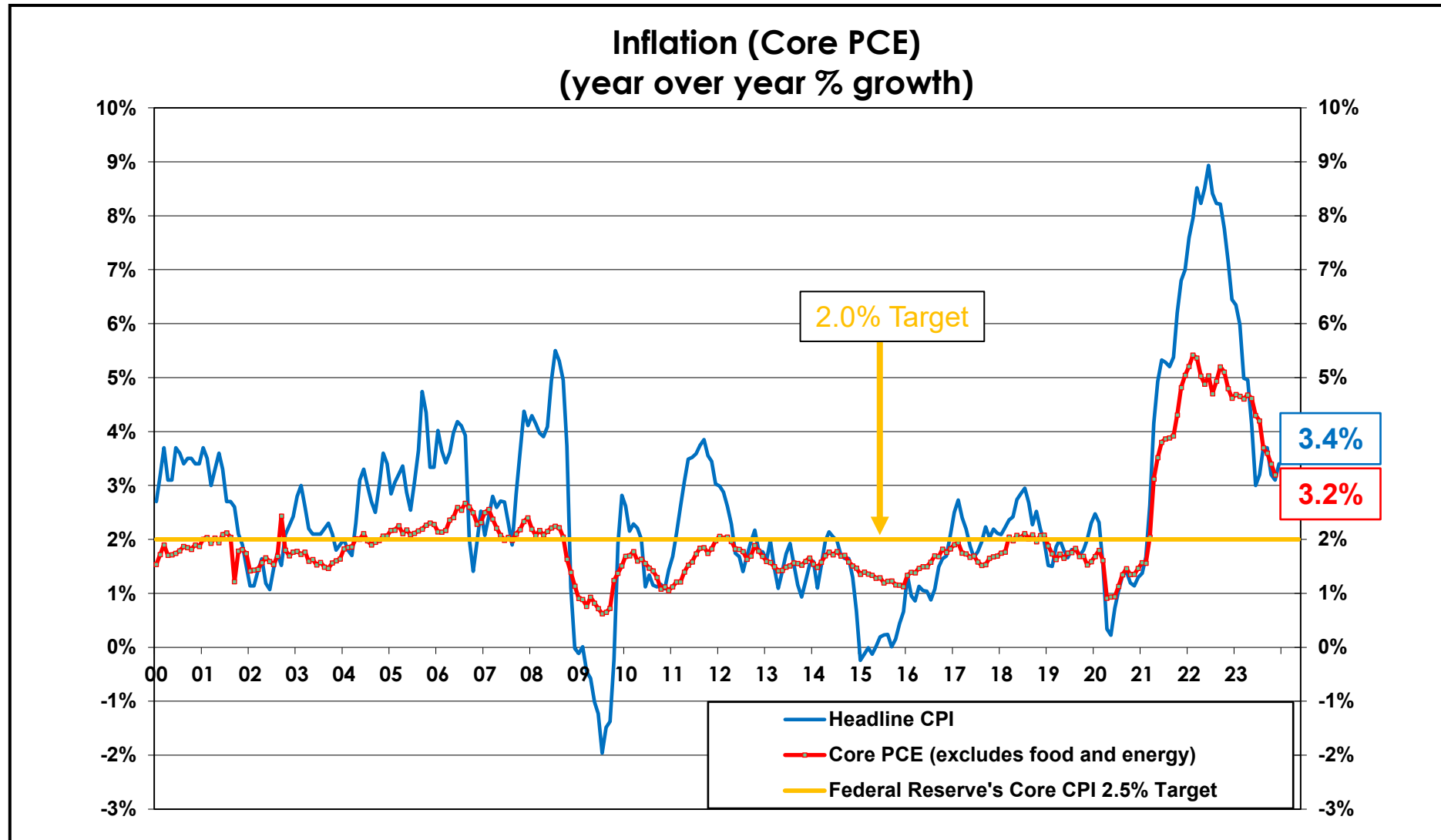
High Inflation for the Next Year



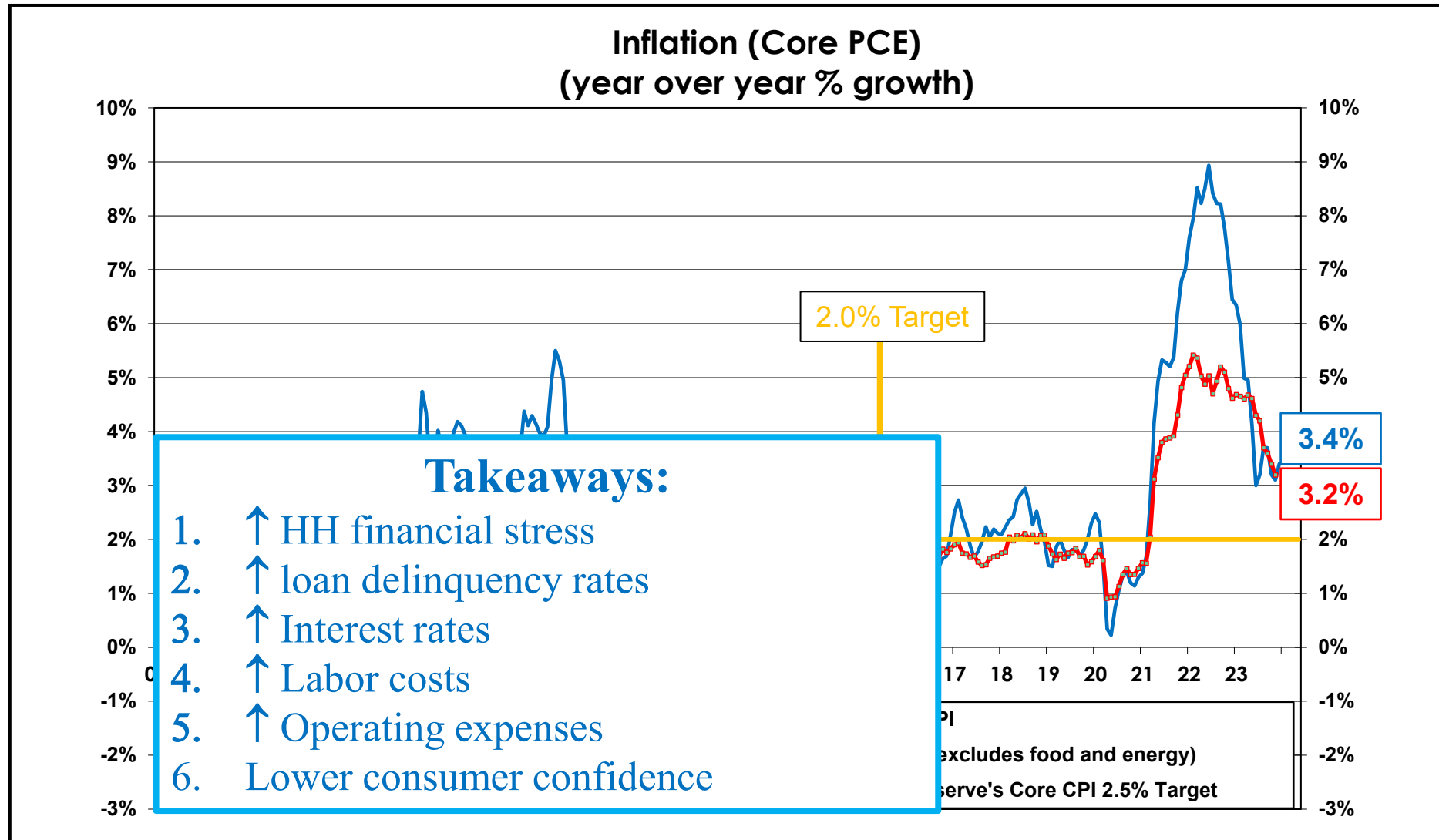
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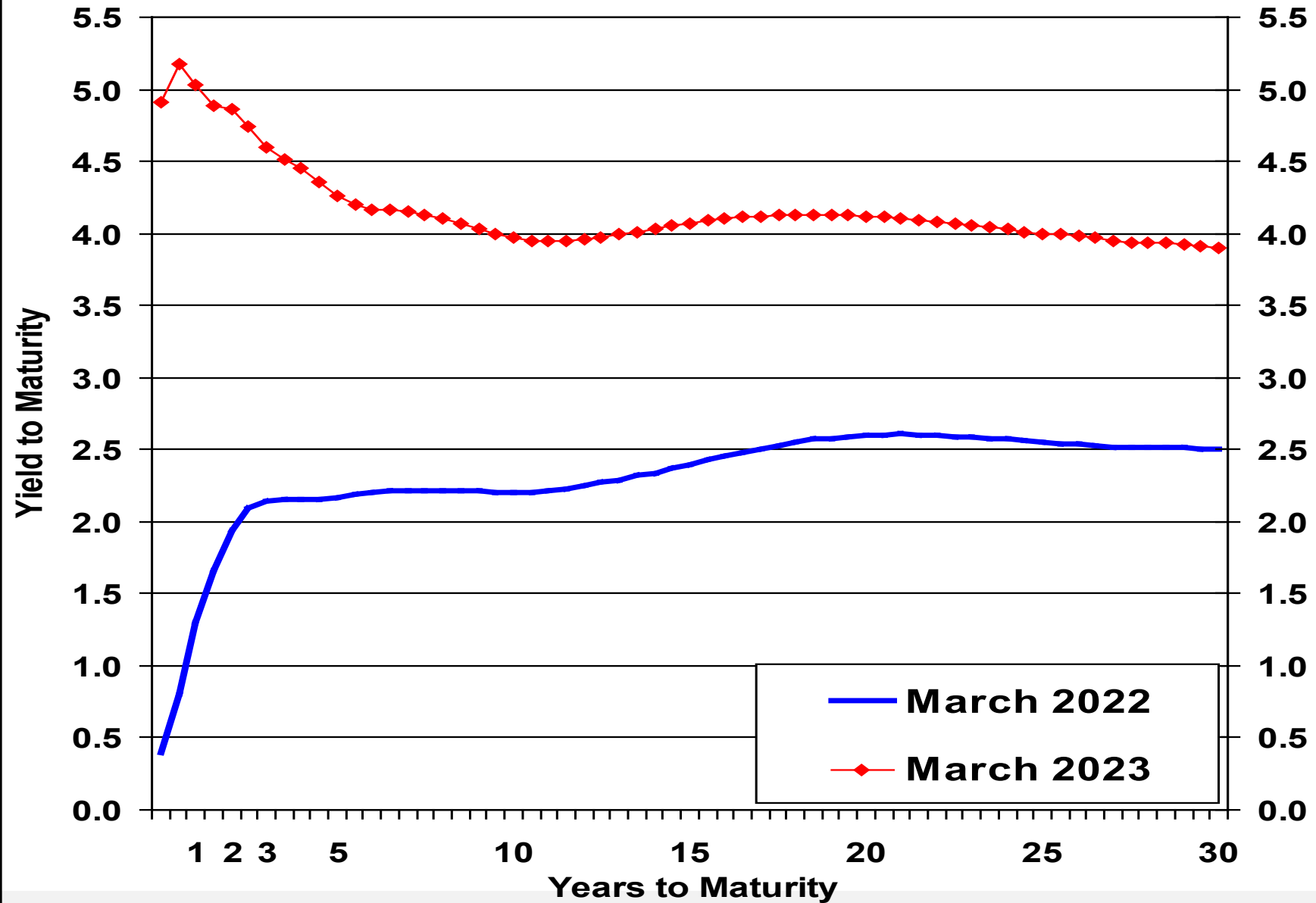
High Inflation for the Next Year



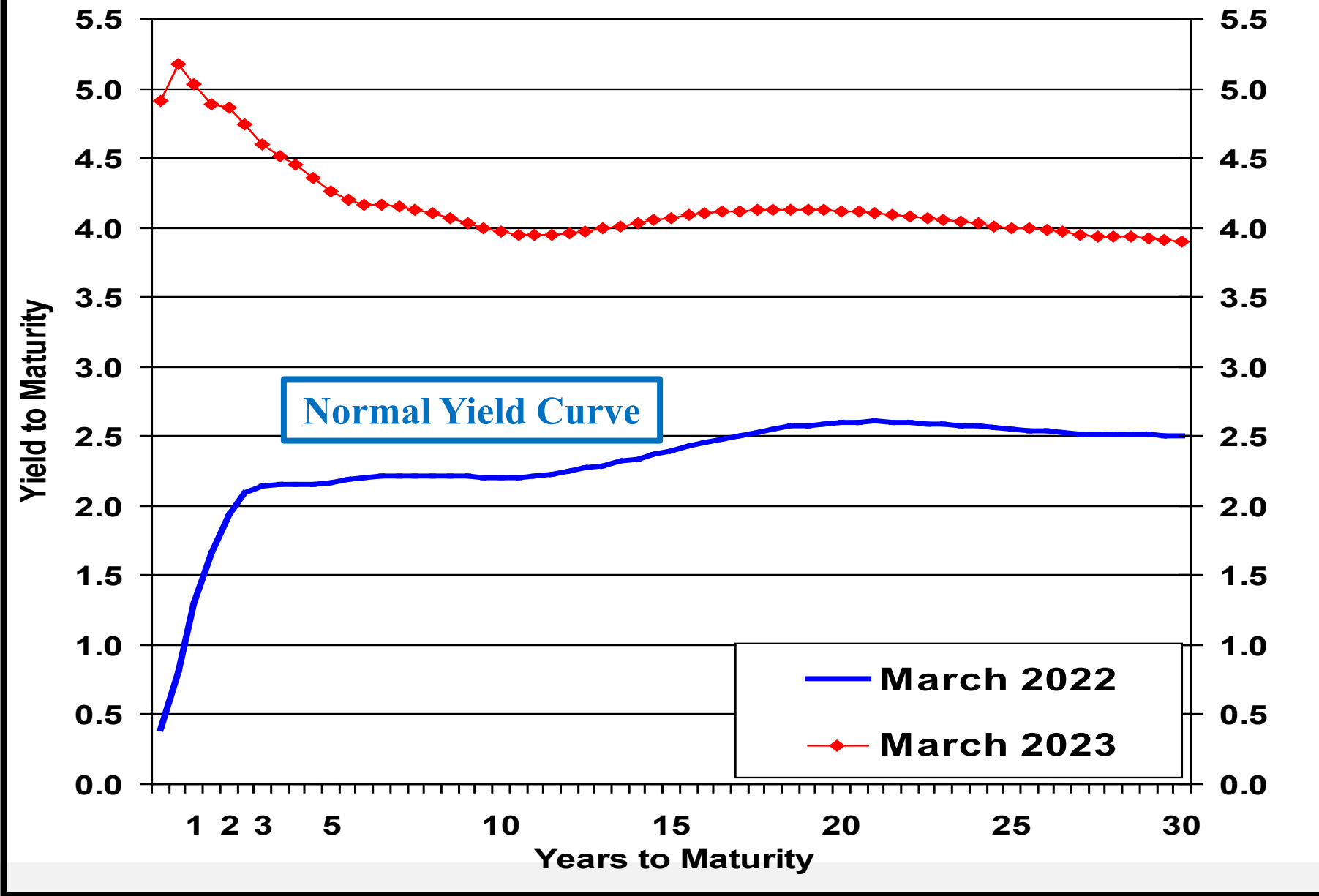
High Inflation for the Next Year



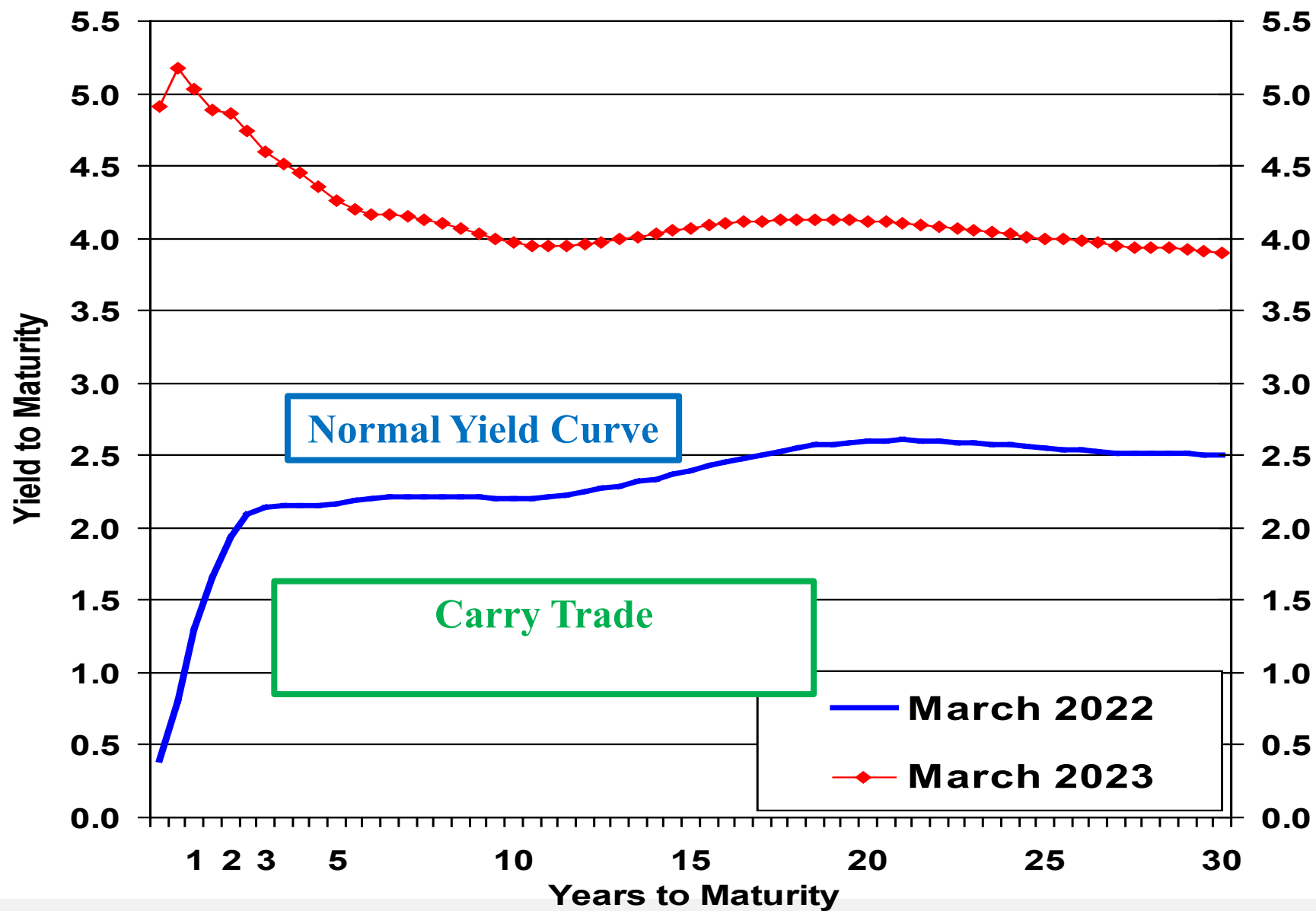
Treasury Yield Curves



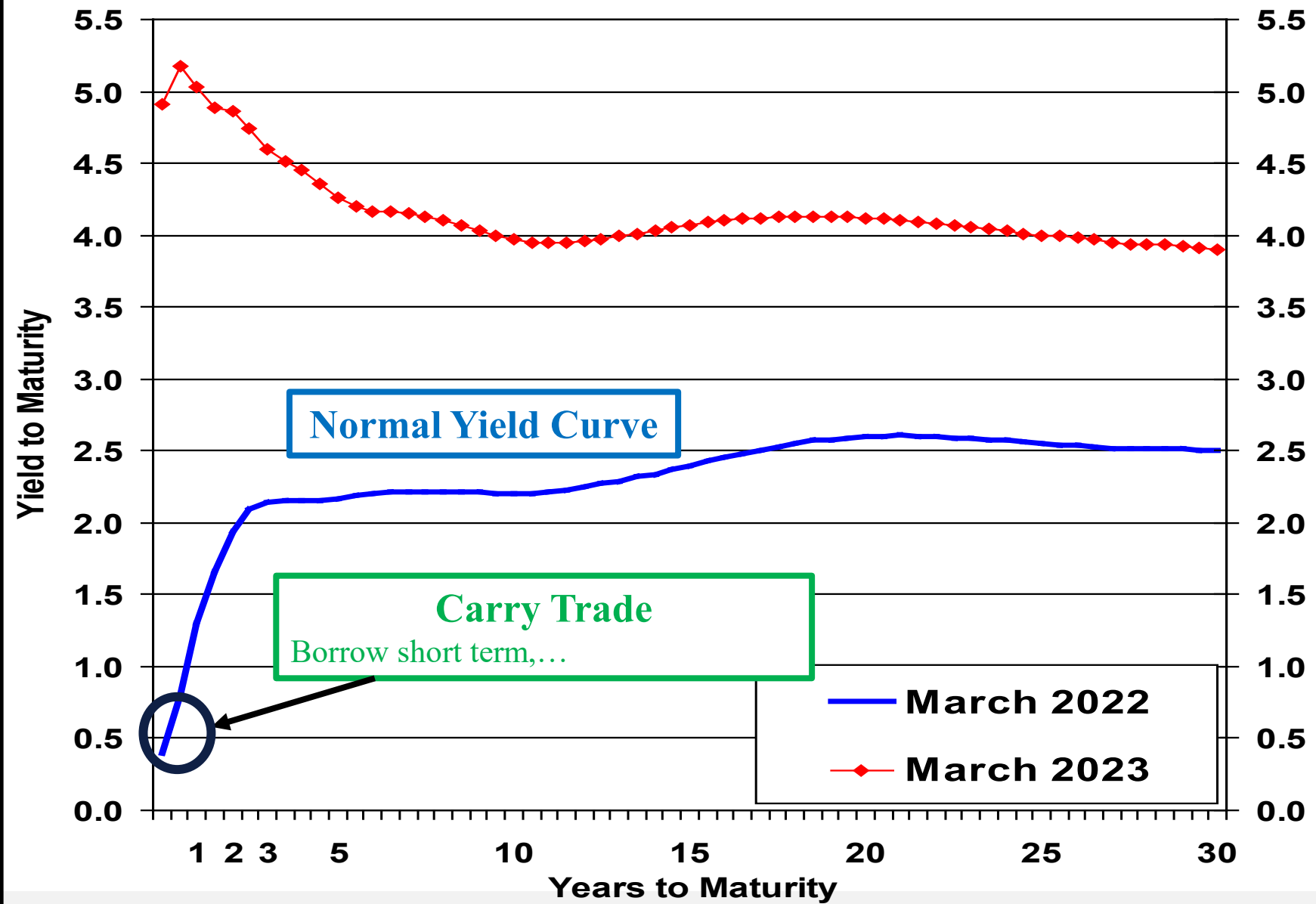
Treasury Yield Curves



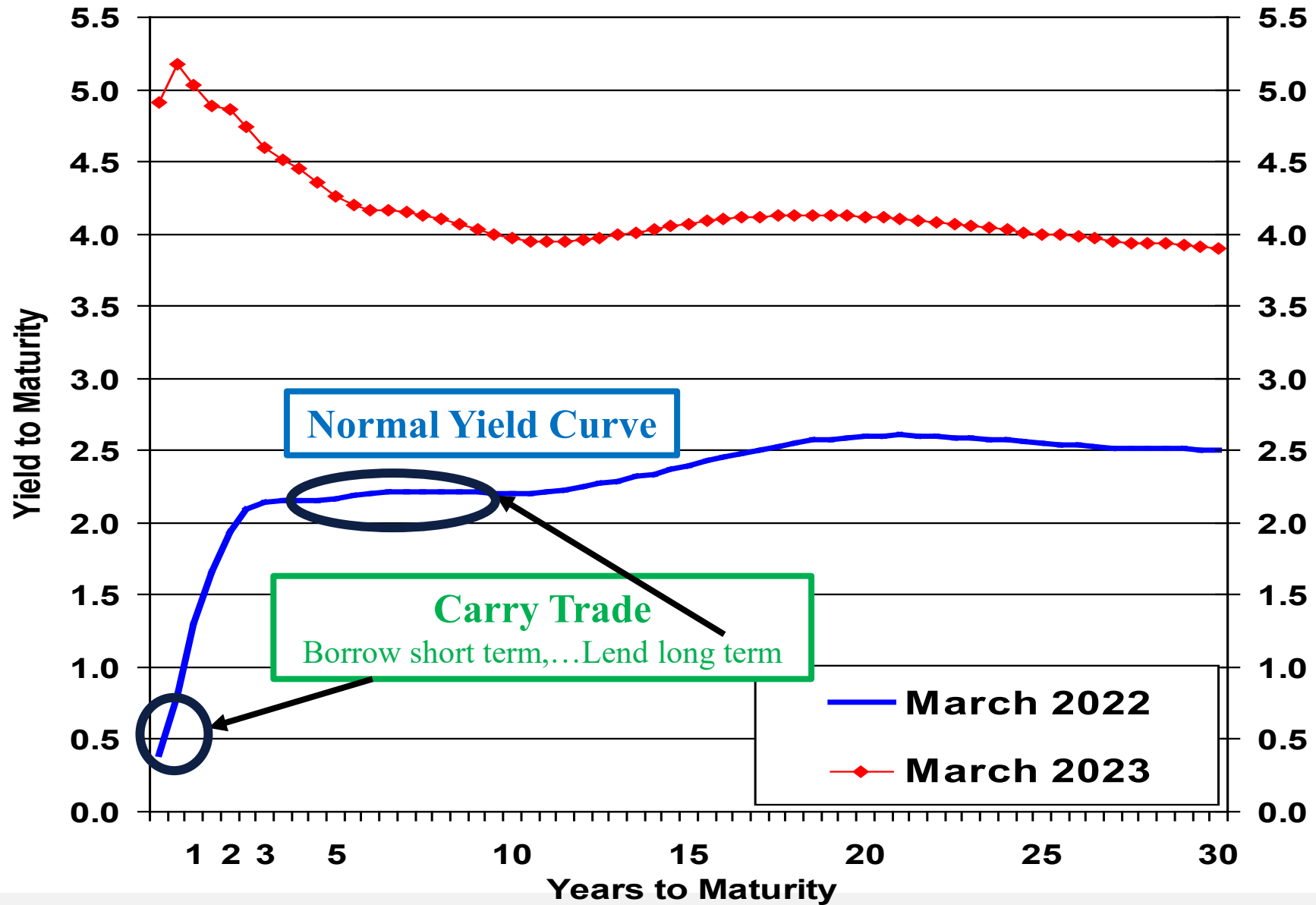
Treasury Yield Curves



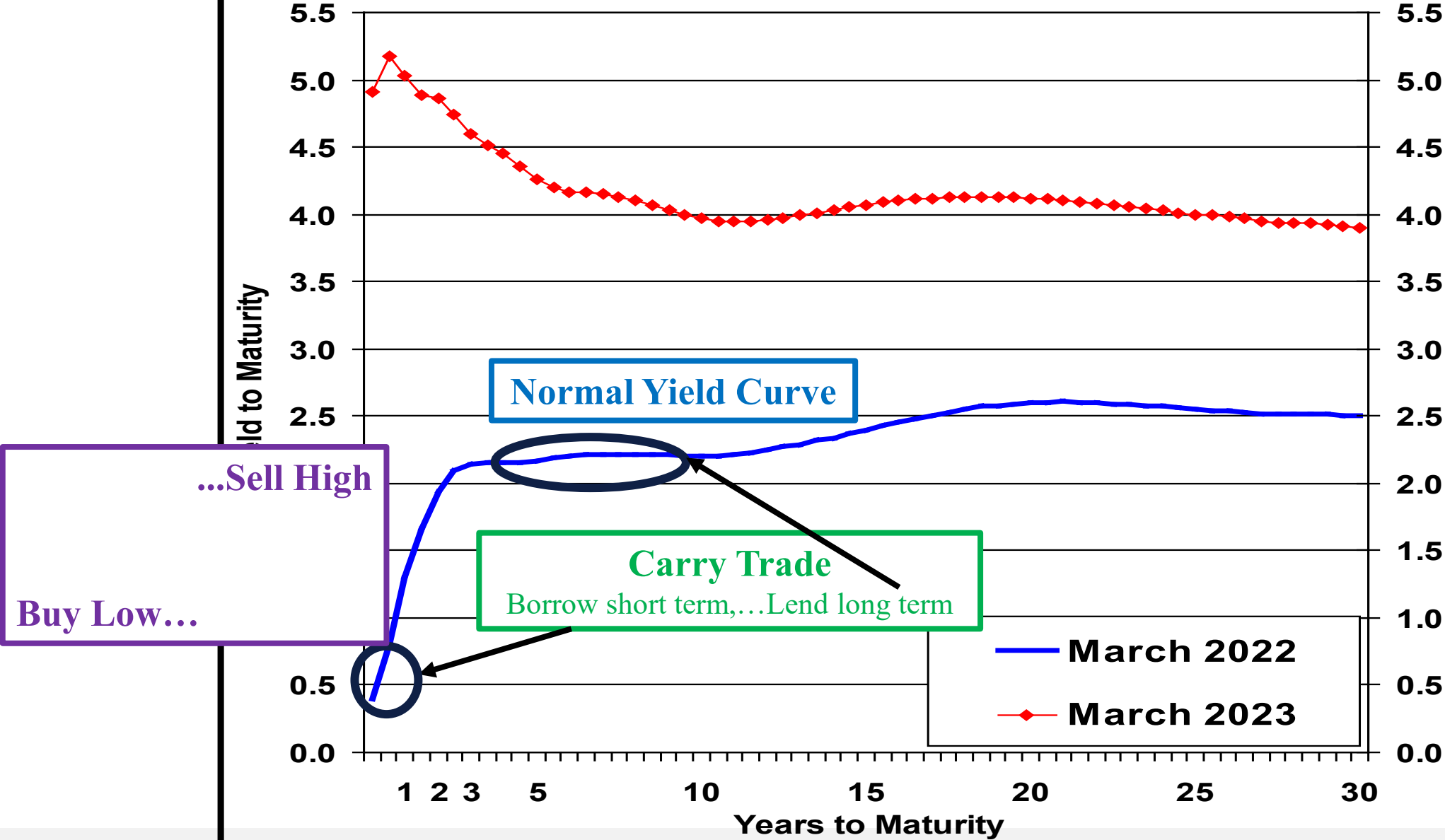
Treasury Yield Curves



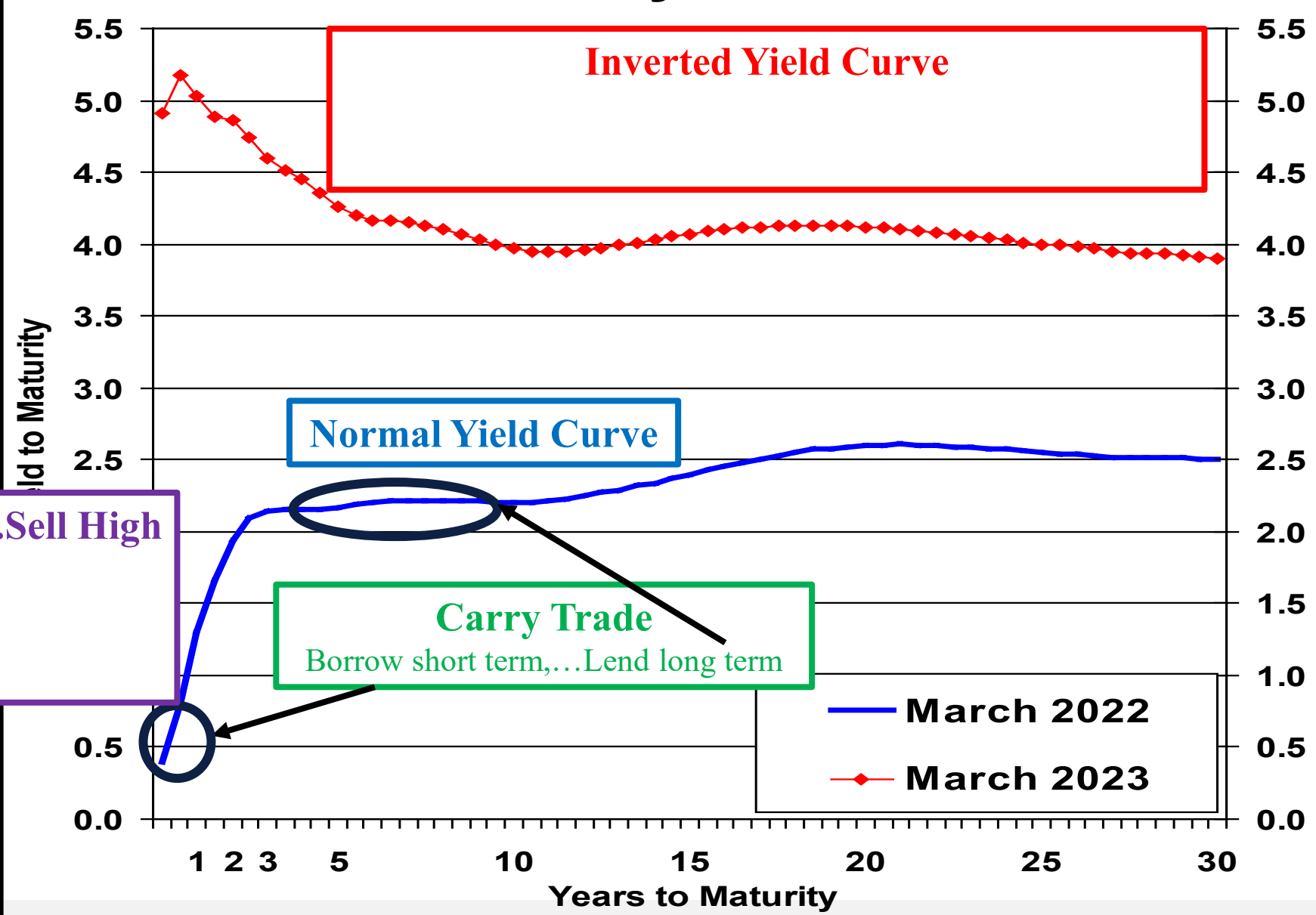
Treasury Yield Curves



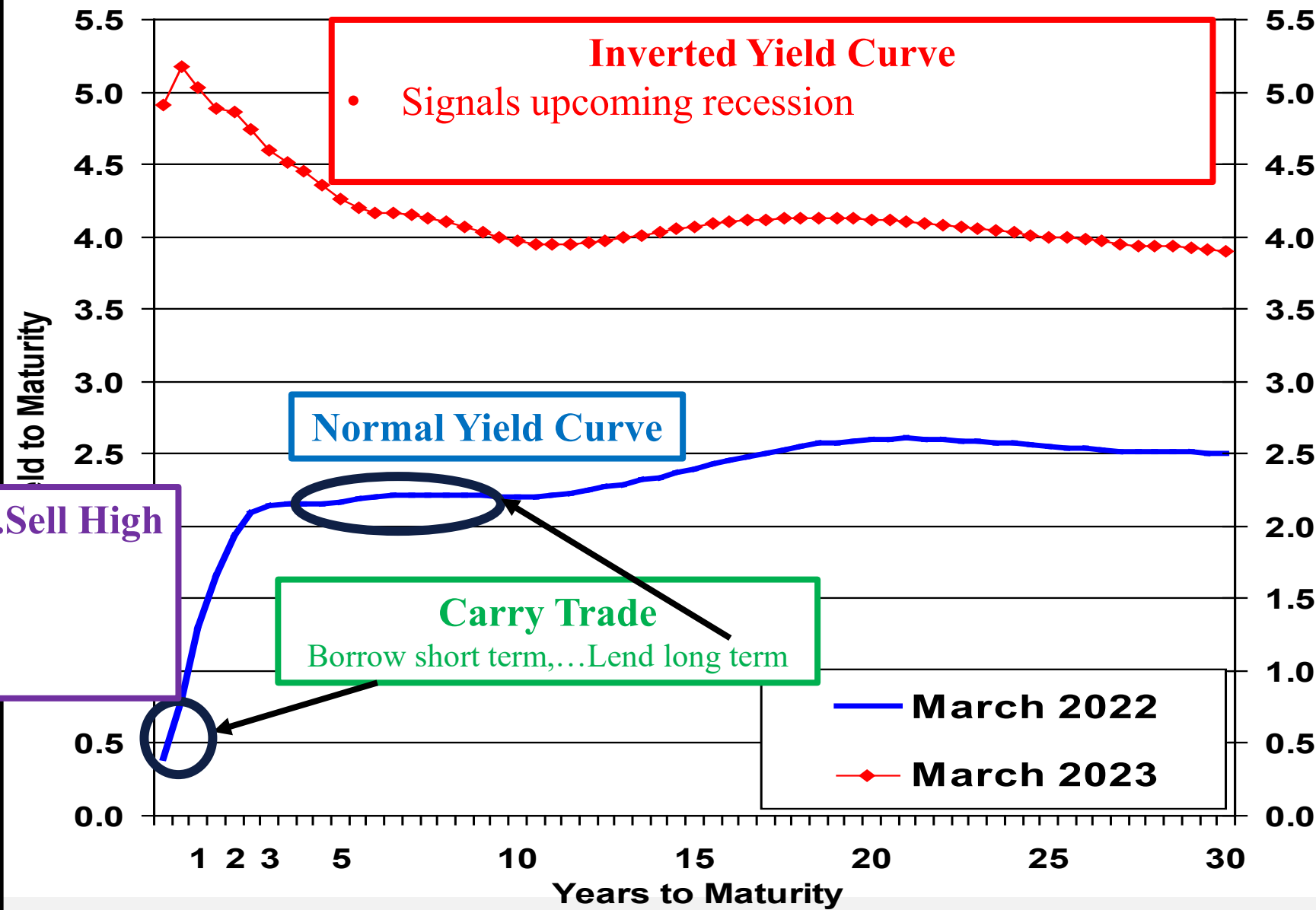
Treasury Yield Curves



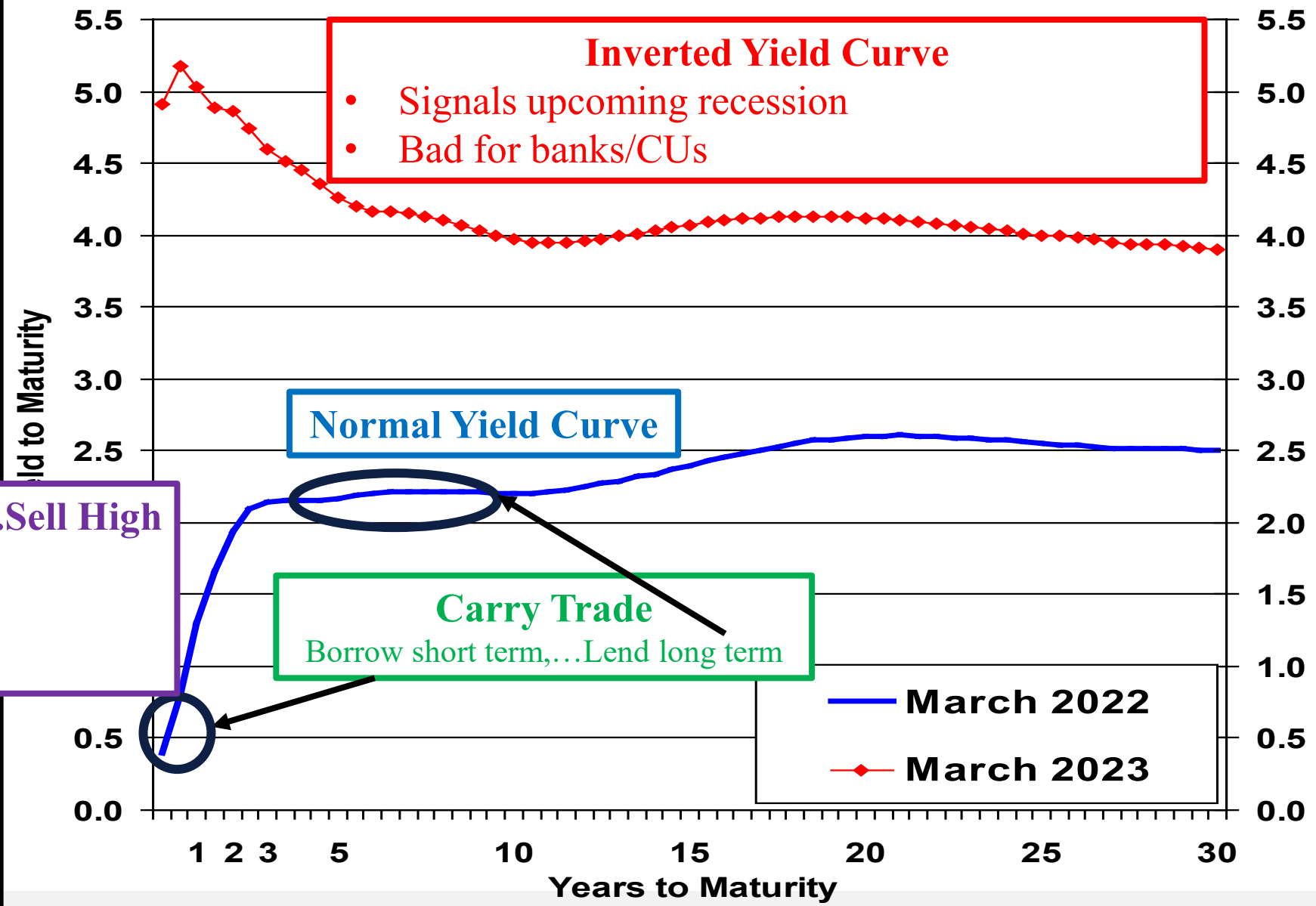
Treasury Yield Curves



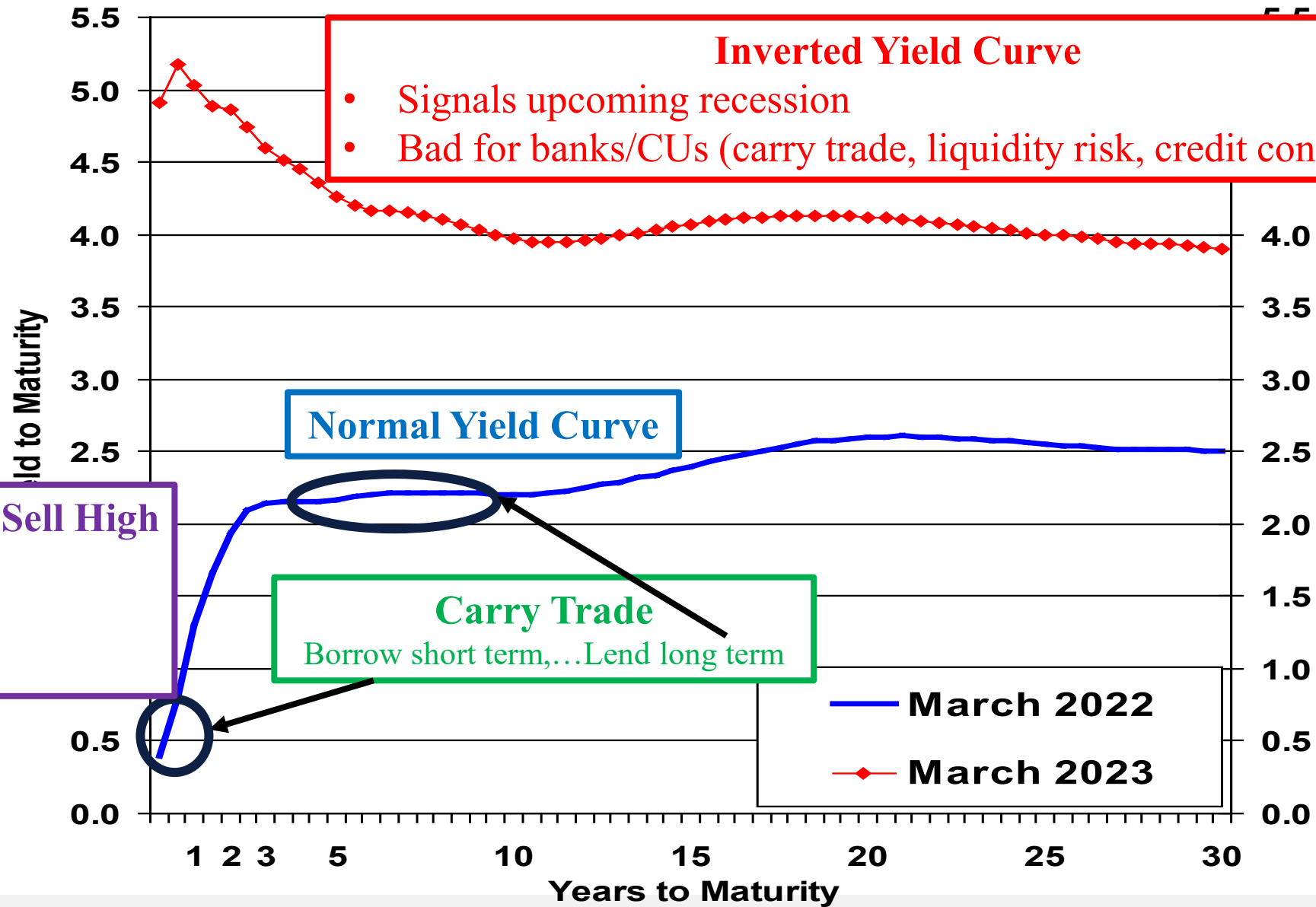
Treasury Yield Curves



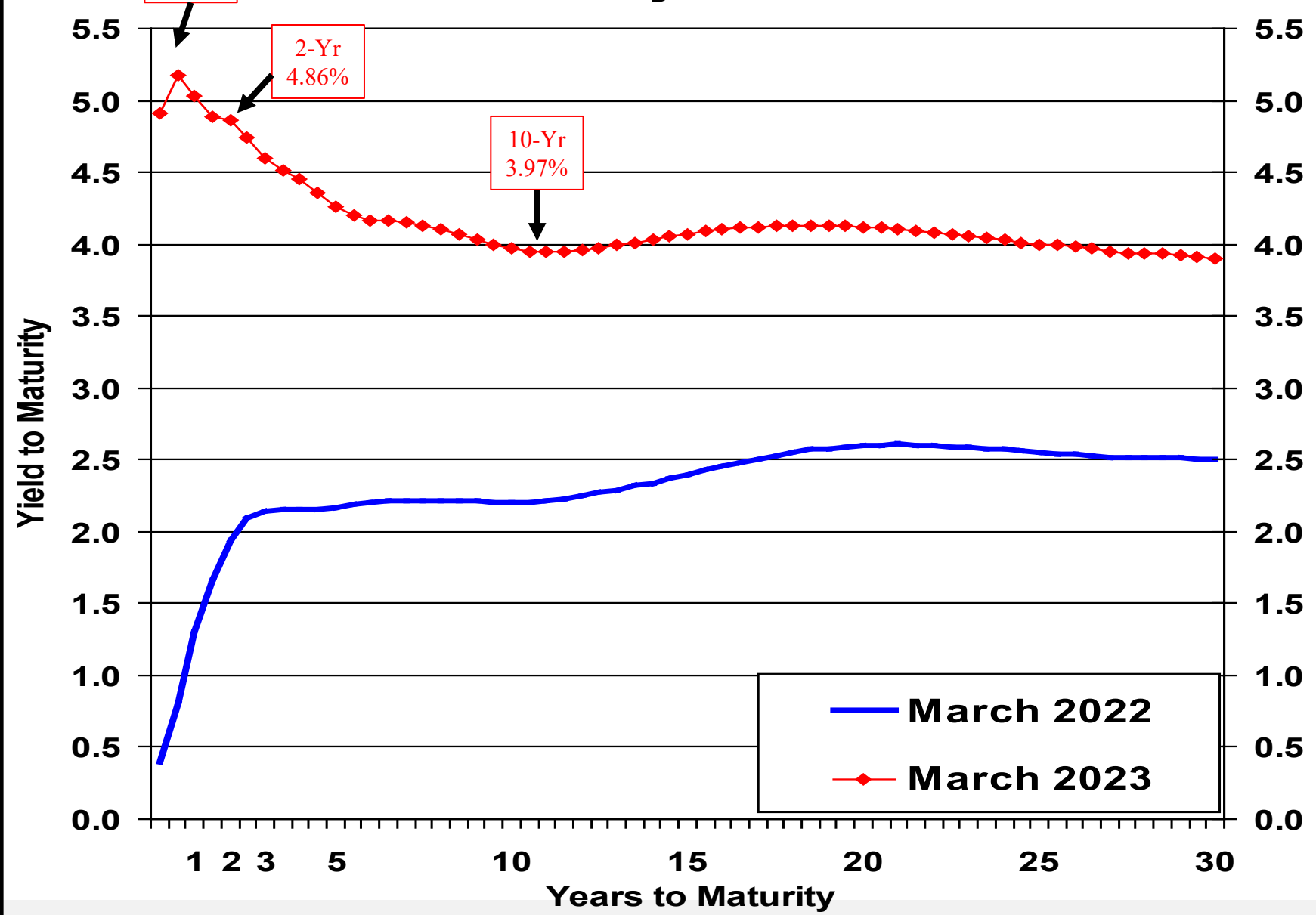
Treasury Yield Curves



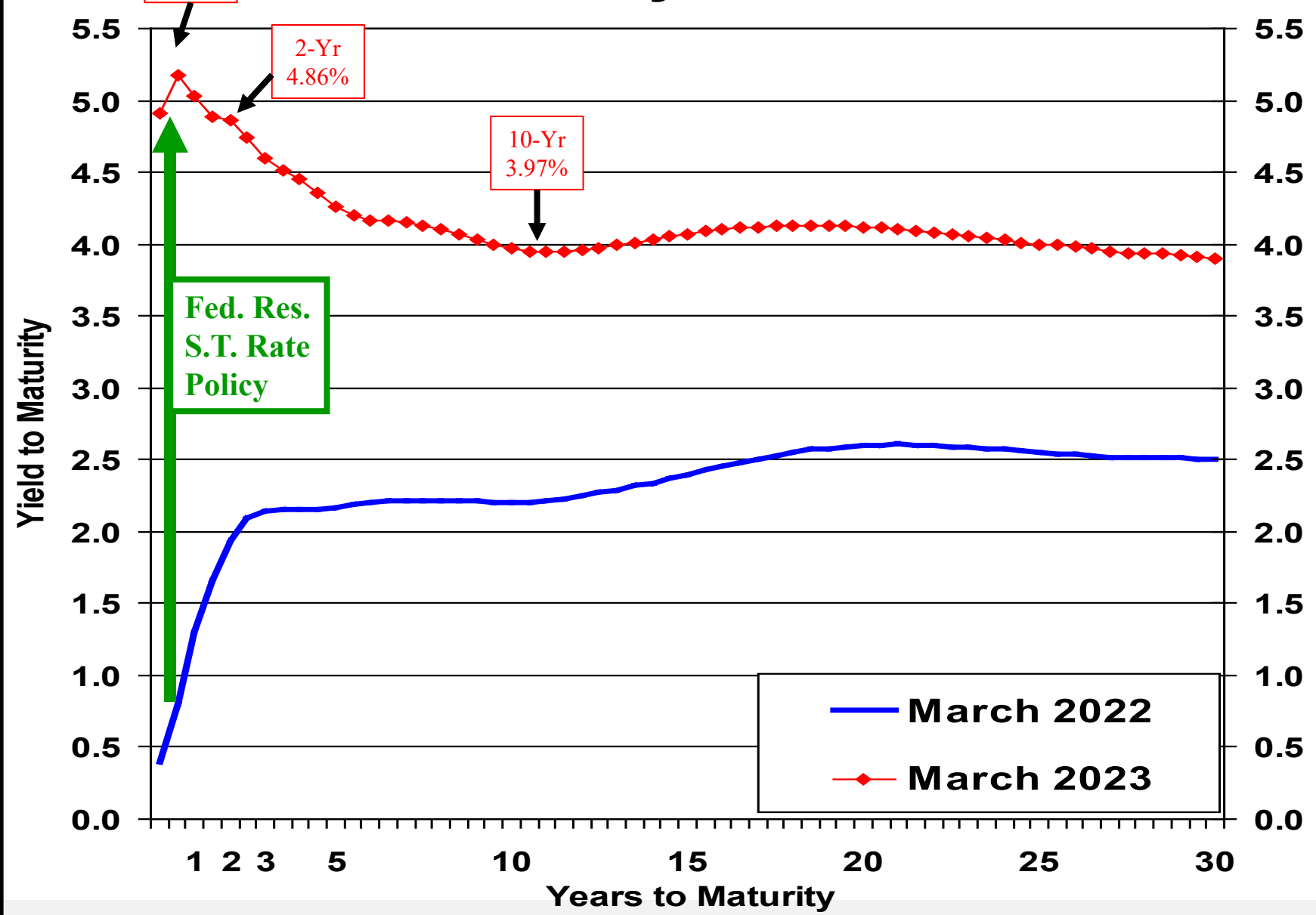
Treasury Yield Curves



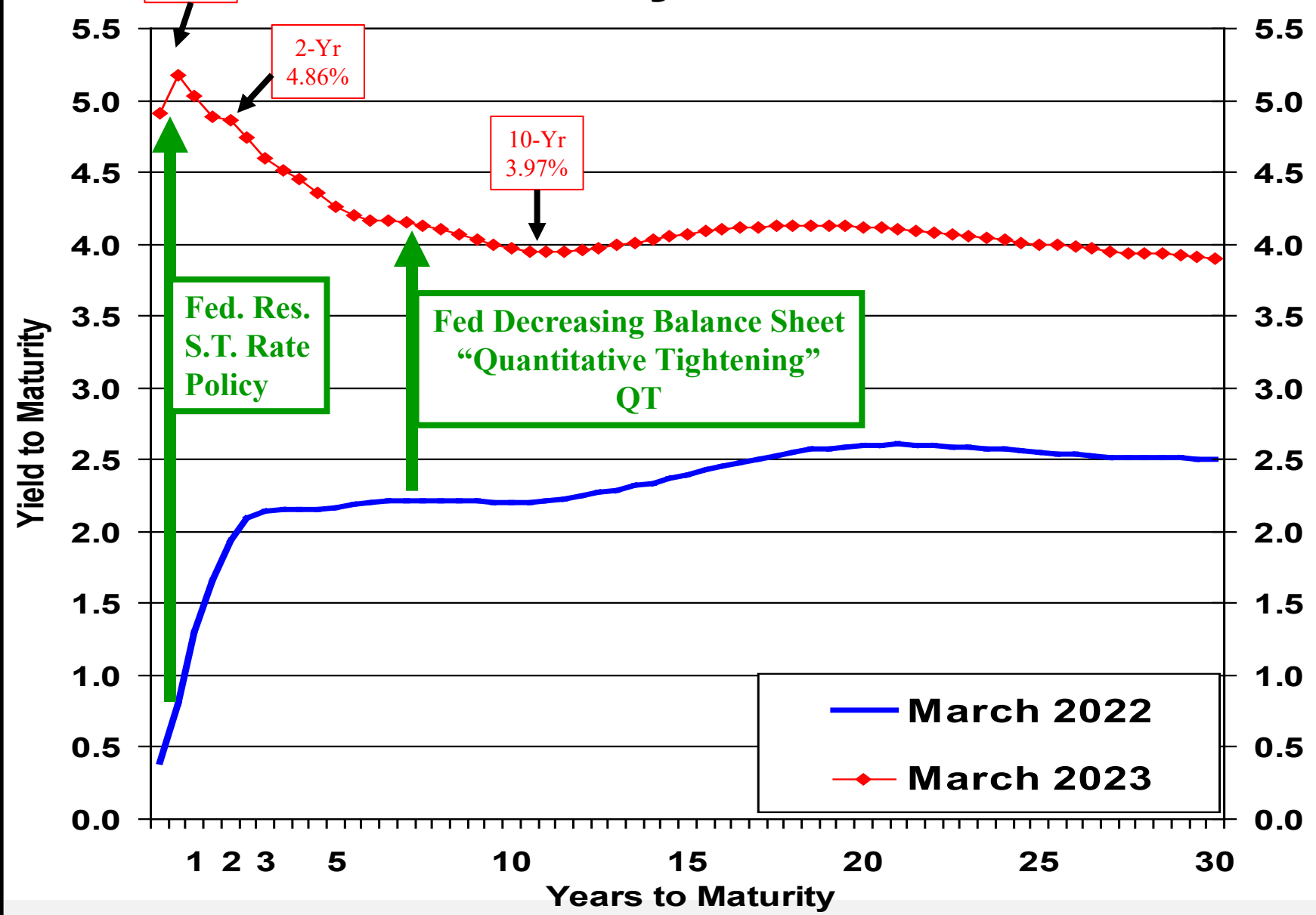
Treasury Yield Curves



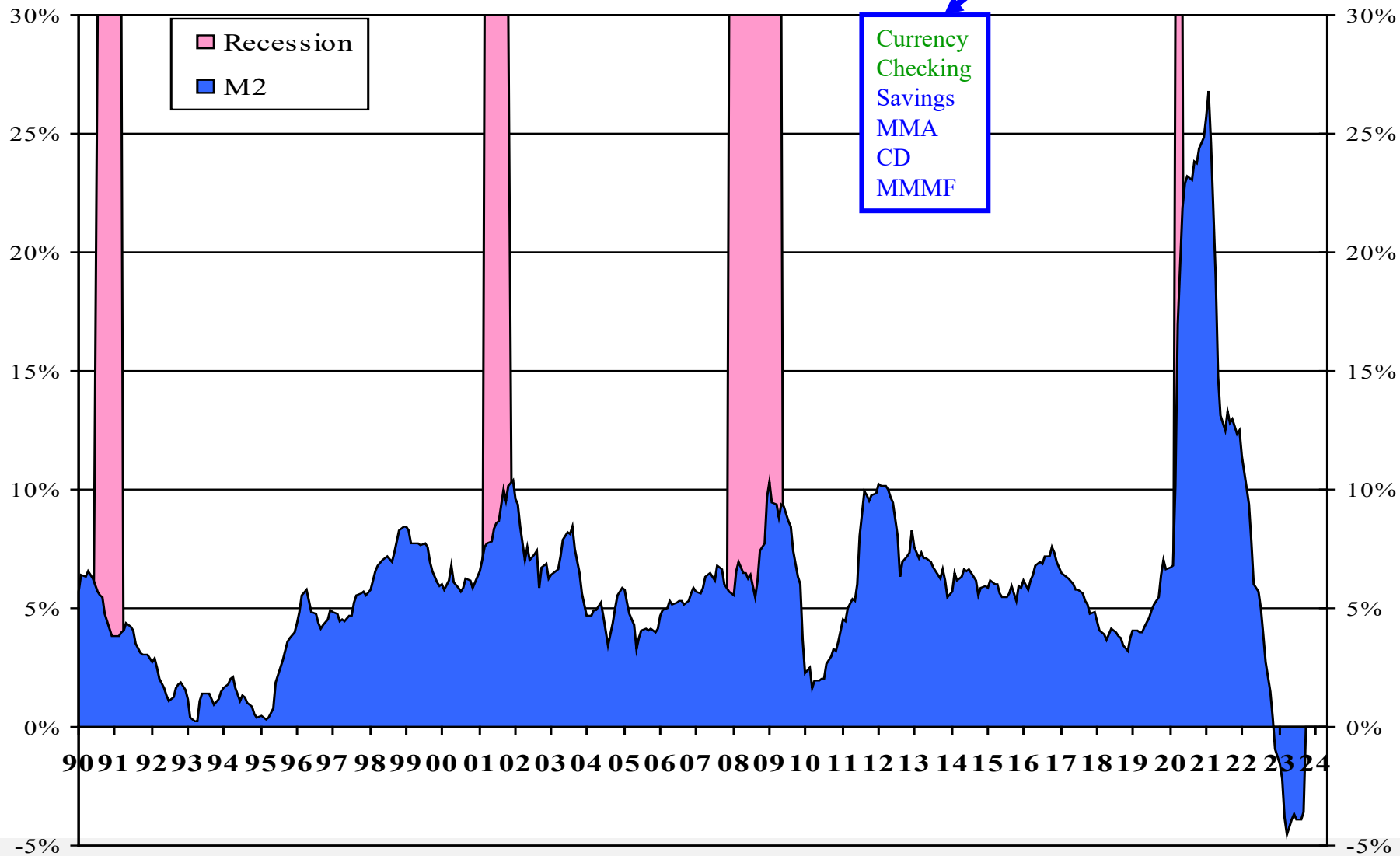
Treasury Yield Curves



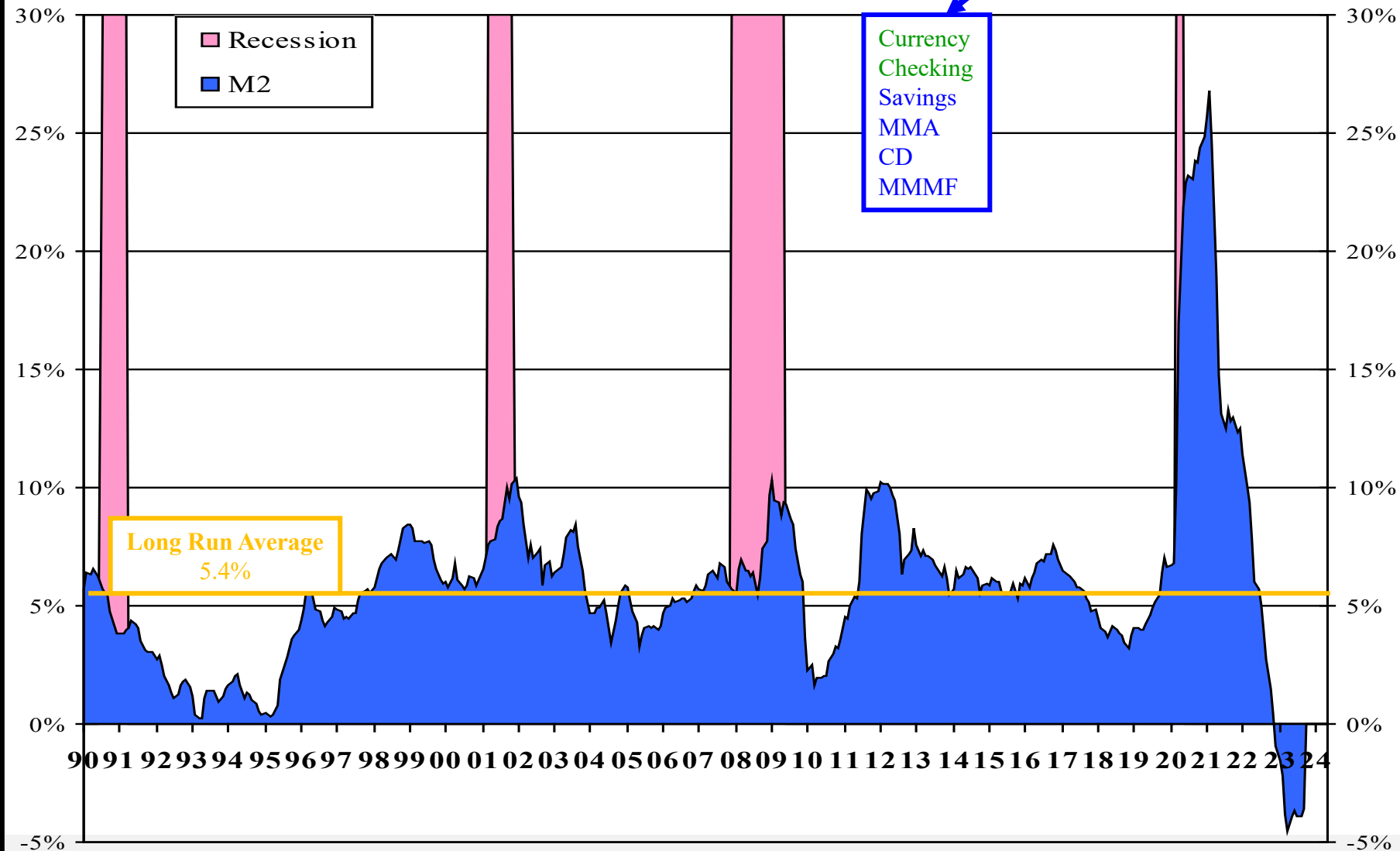
Treasury Yield Curves



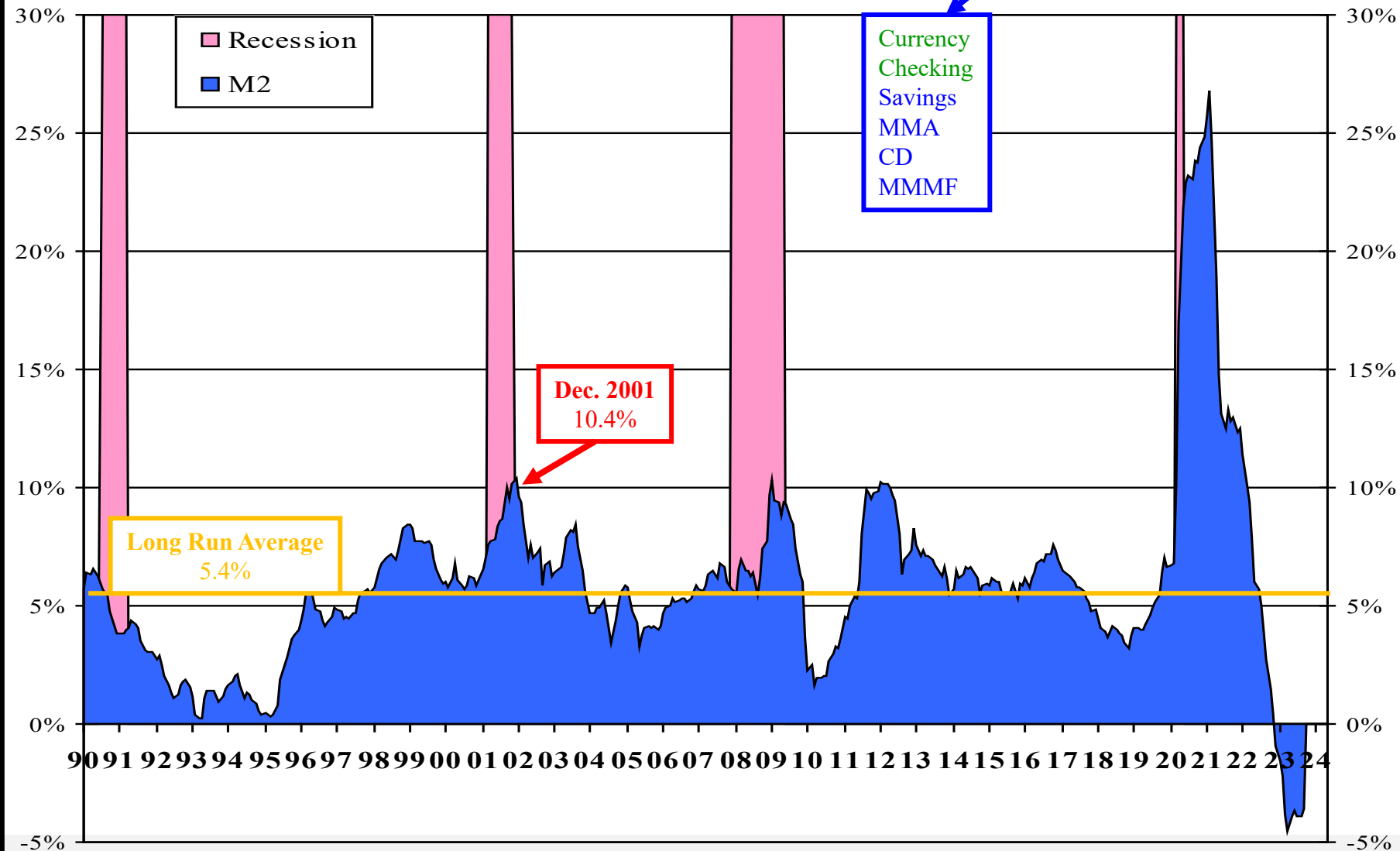
Money Supply Growth, M2



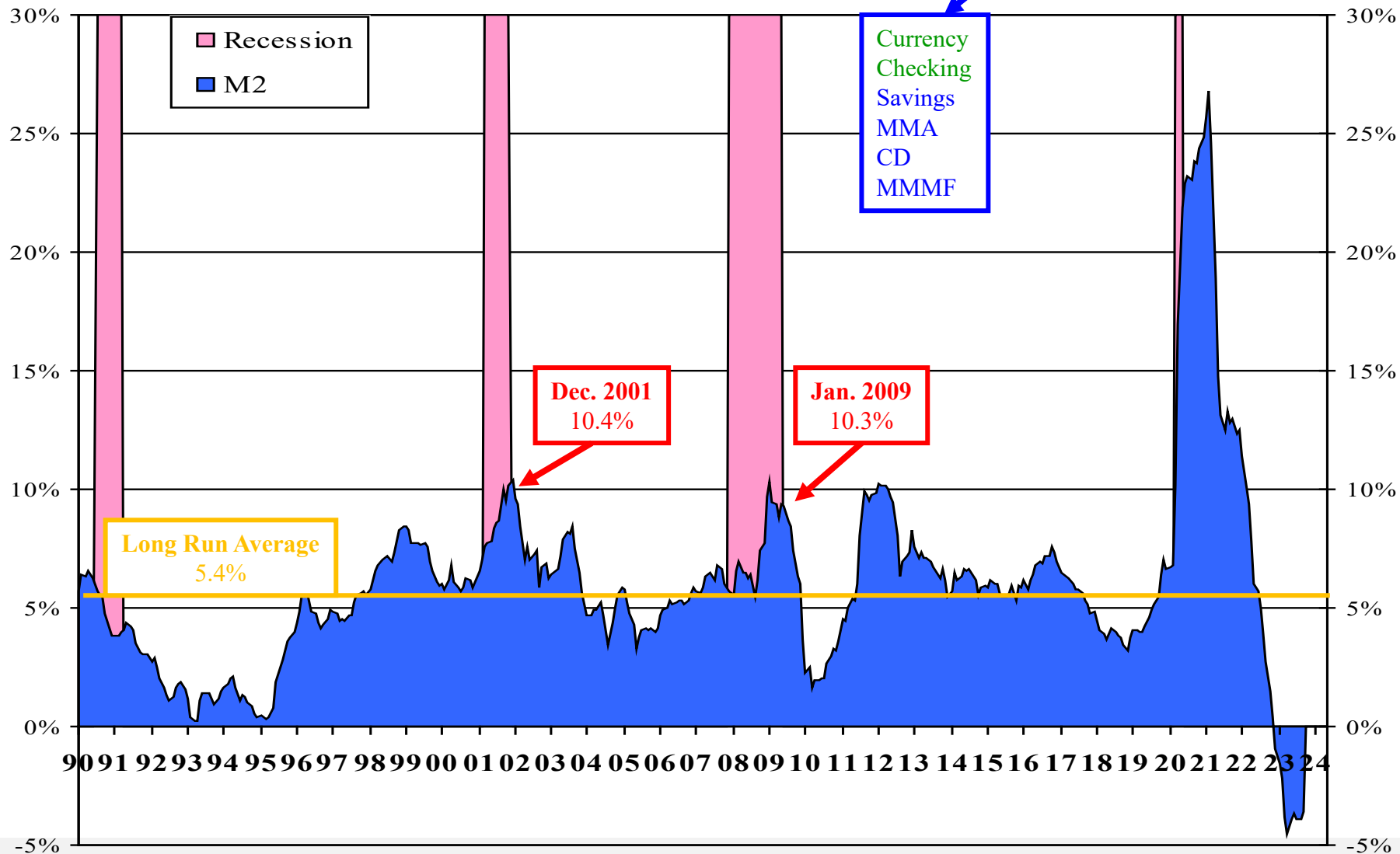
Money Supply Growth, M2



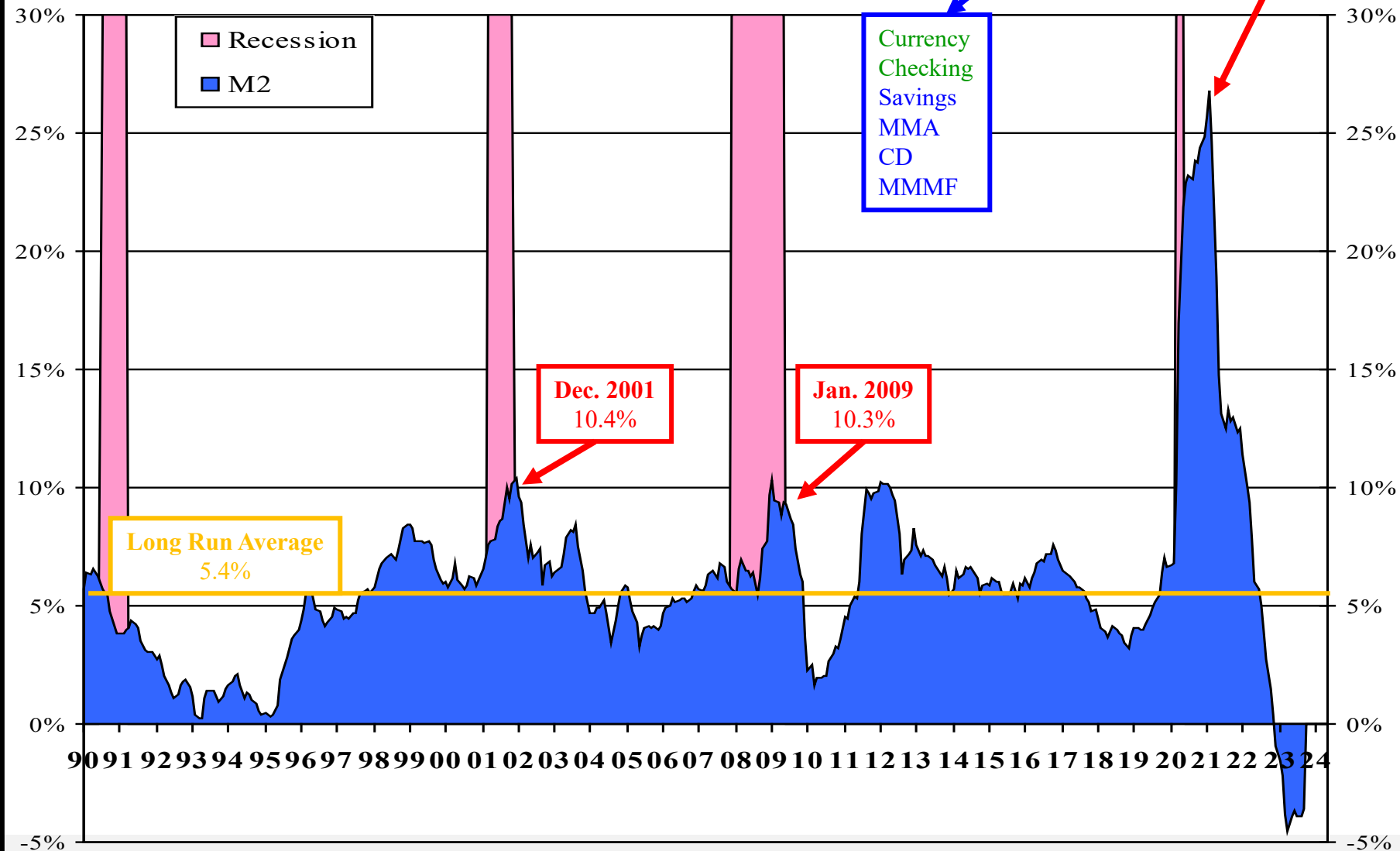
Money Supply Growth, M2



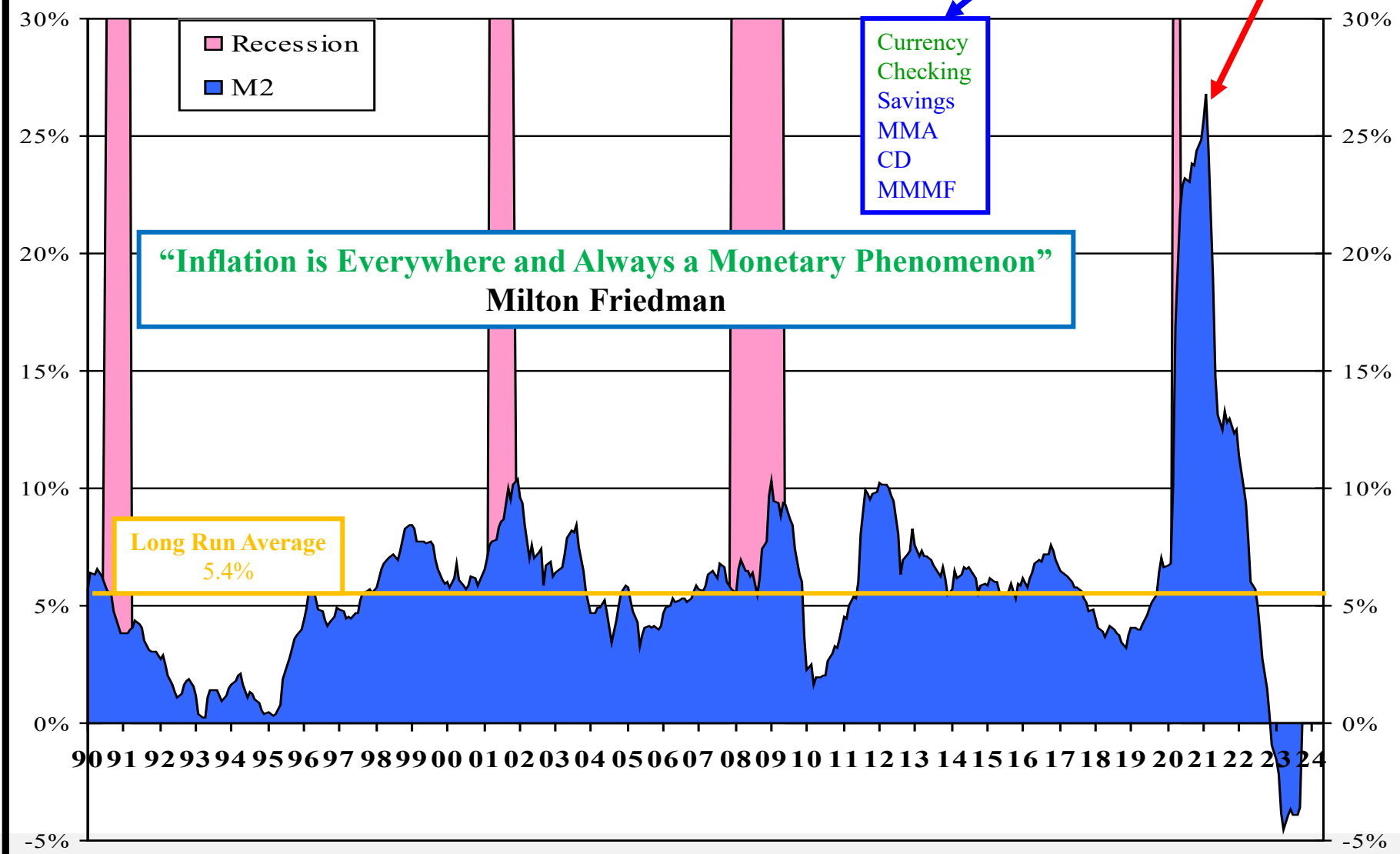
Money Supply Growth, M2



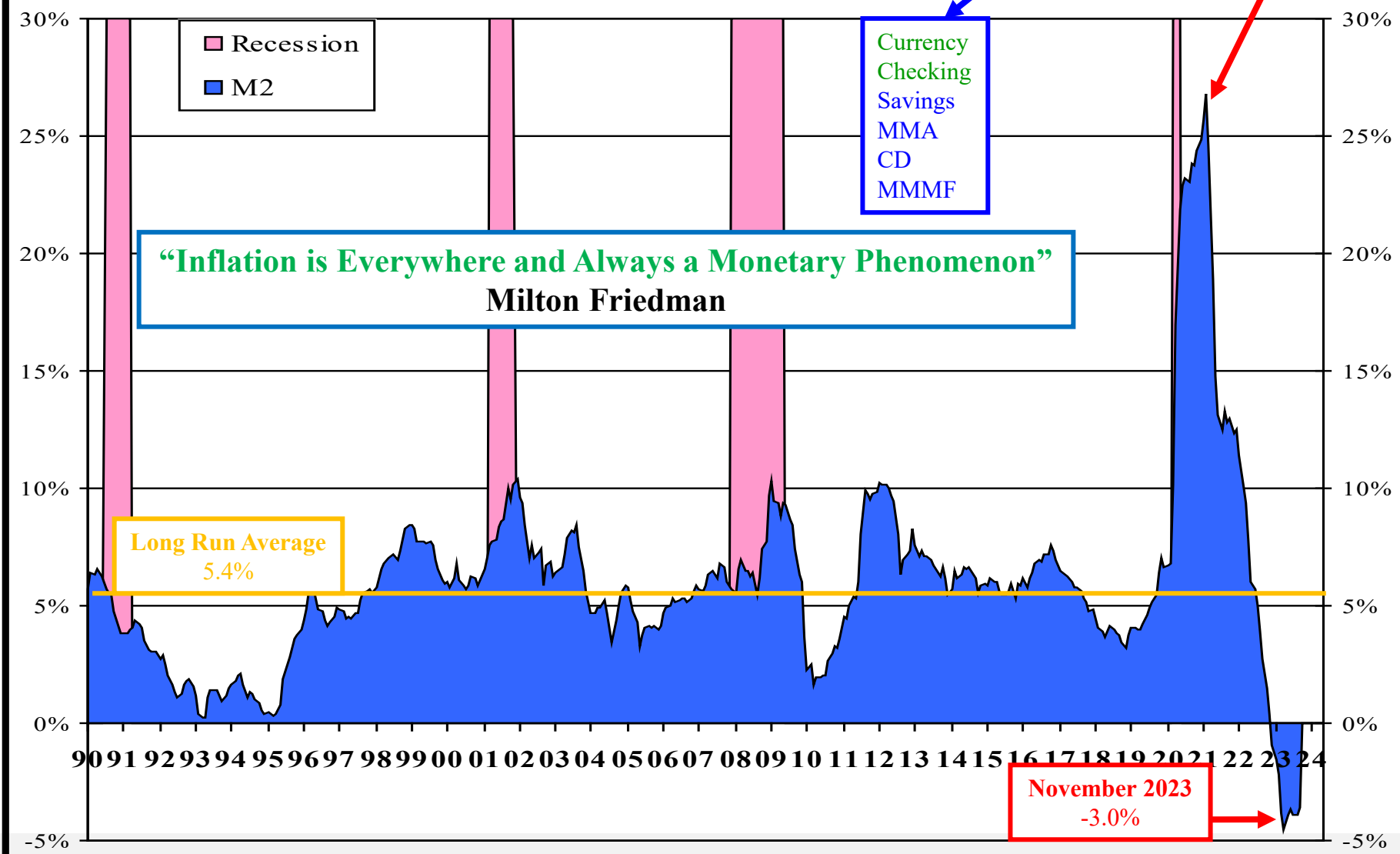
Money Supply Growth, M2



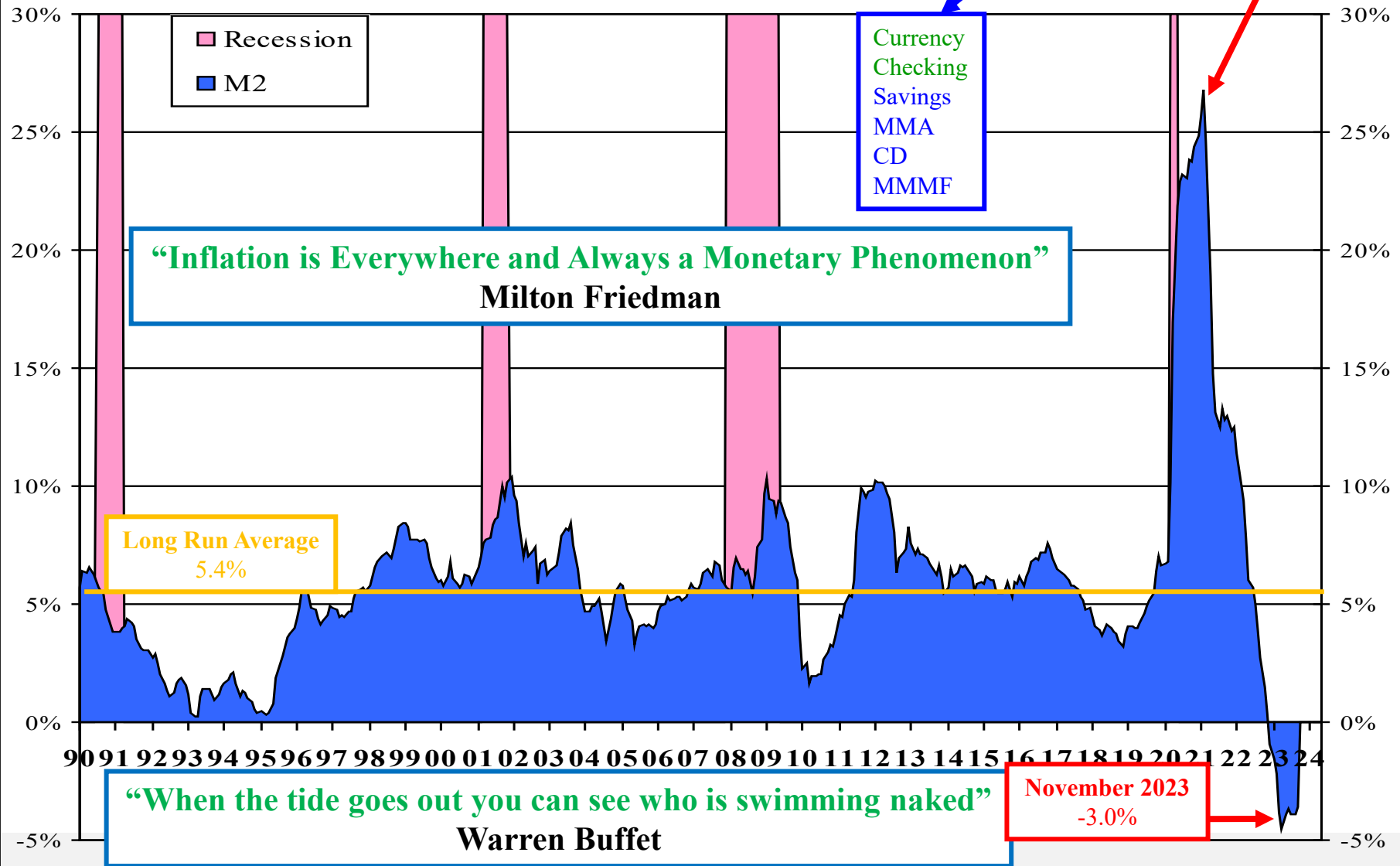
Money Supply Growth, M2



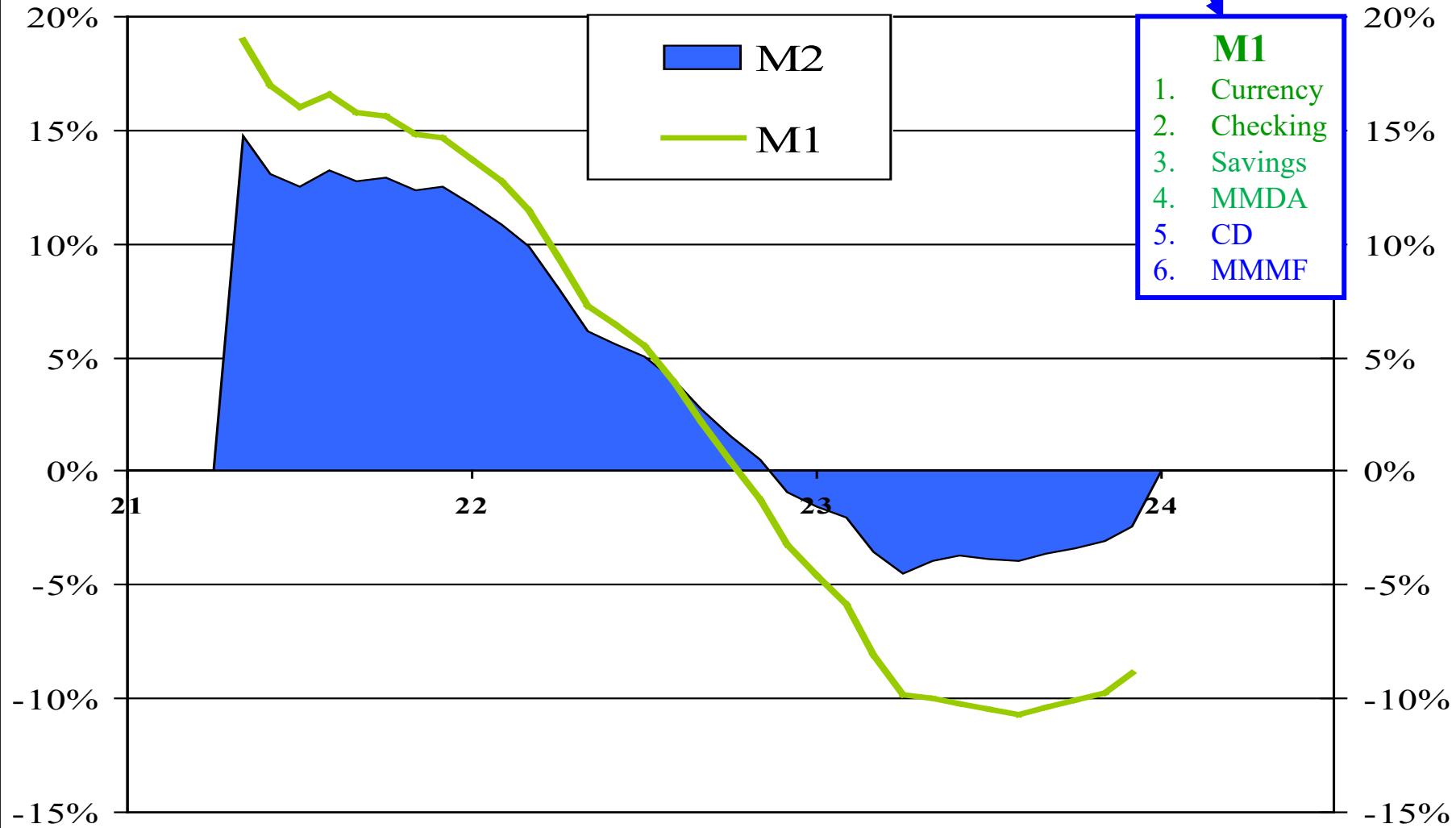
Money Supply Growth, M2



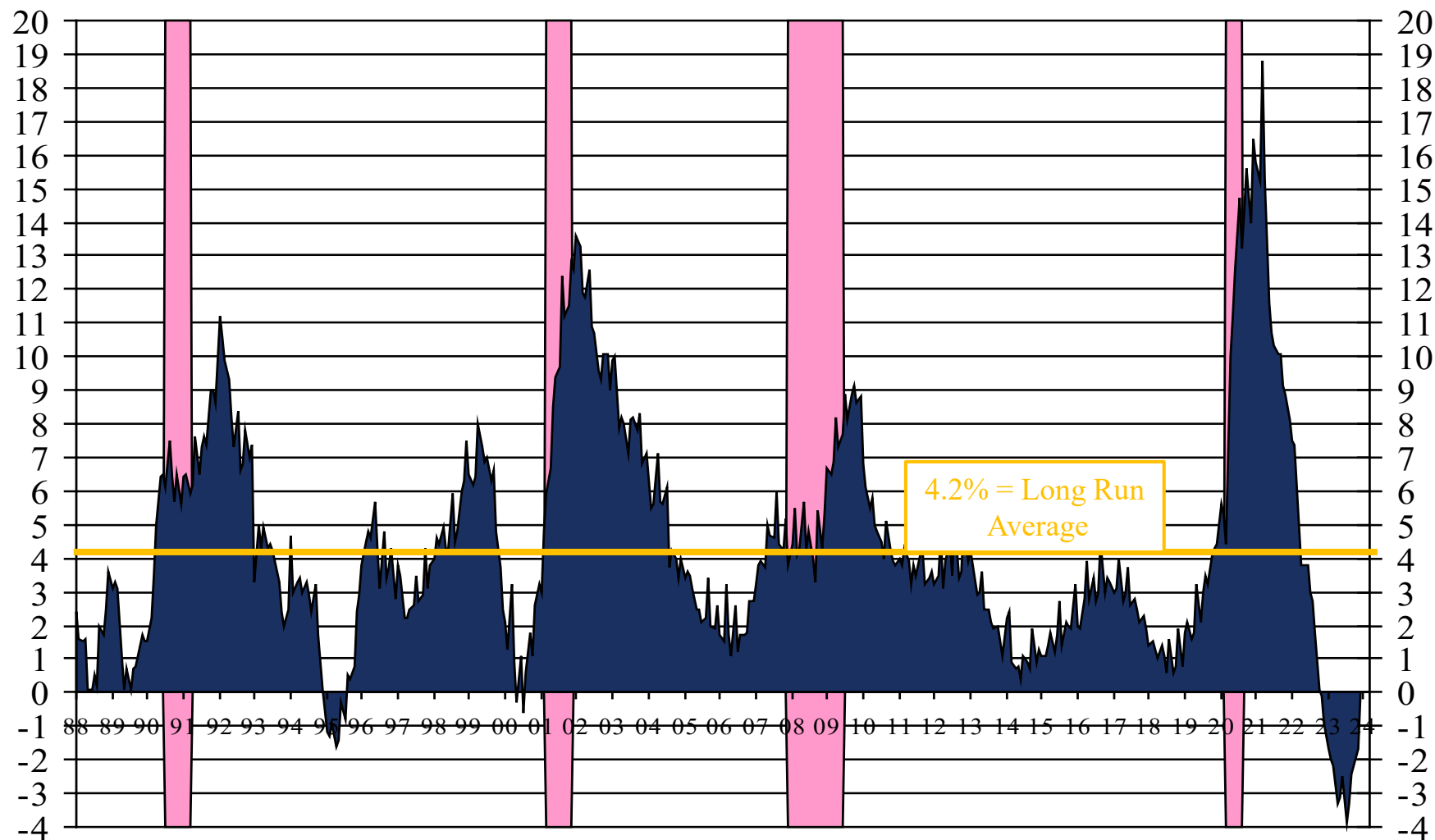
Money Supply Growth, M2



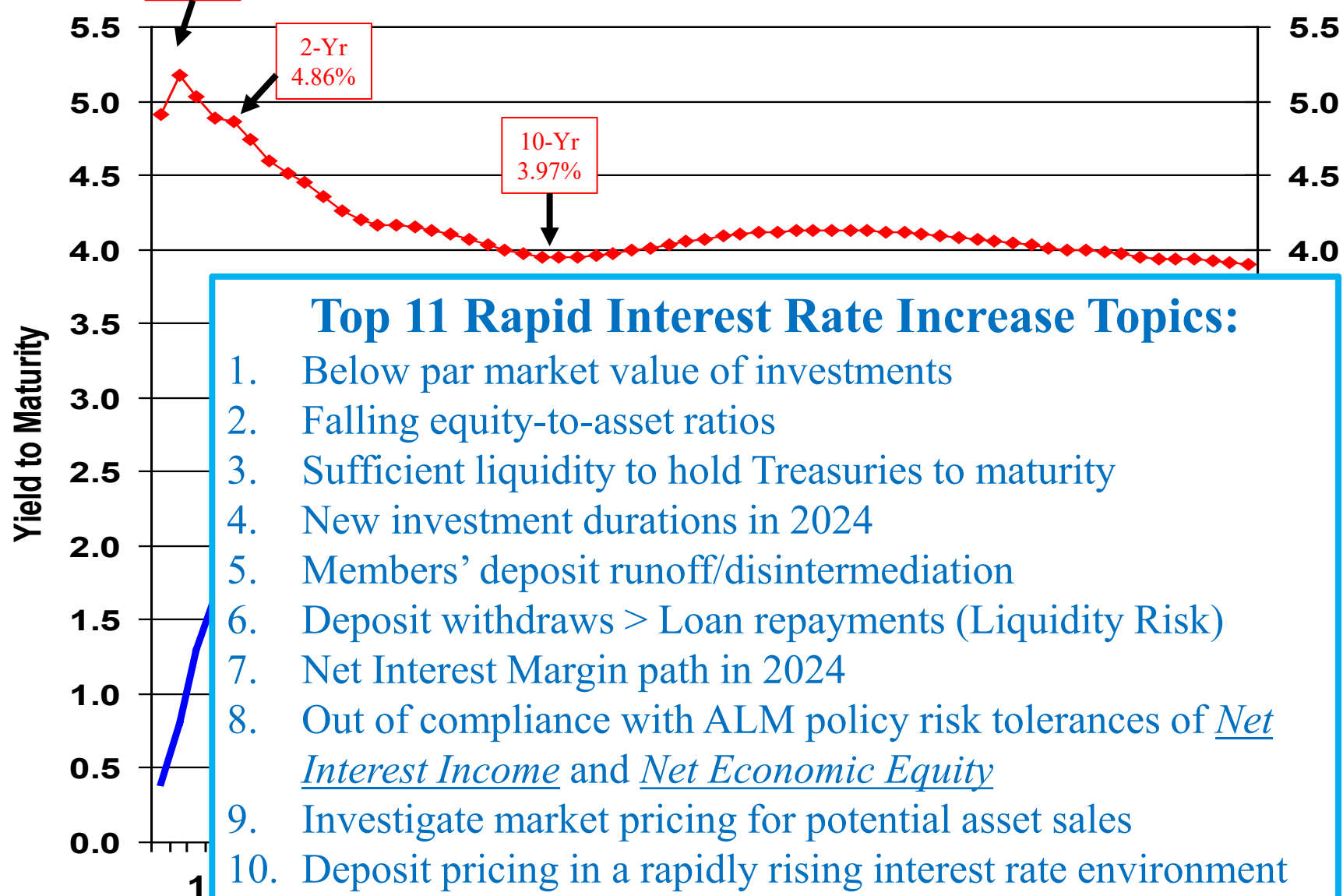
Money Supply Growth, M1&M2 (% change year ago)



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

The image consists of a solid white rectangular area enclosed within a thick, uniform black border. The border is composed of two perpendicular lines meeting at a corner in the top-left quadrant, forming an L-shape that defines the perimeter of the white space. The interior of the rectangle is completely blank and contains no other visual elements.

Credit Union Balance Sheet

Assets

Credit Union Balance Sheet

Assets

Liabilities + Capital

Credit Union Balance Sheet

Assets

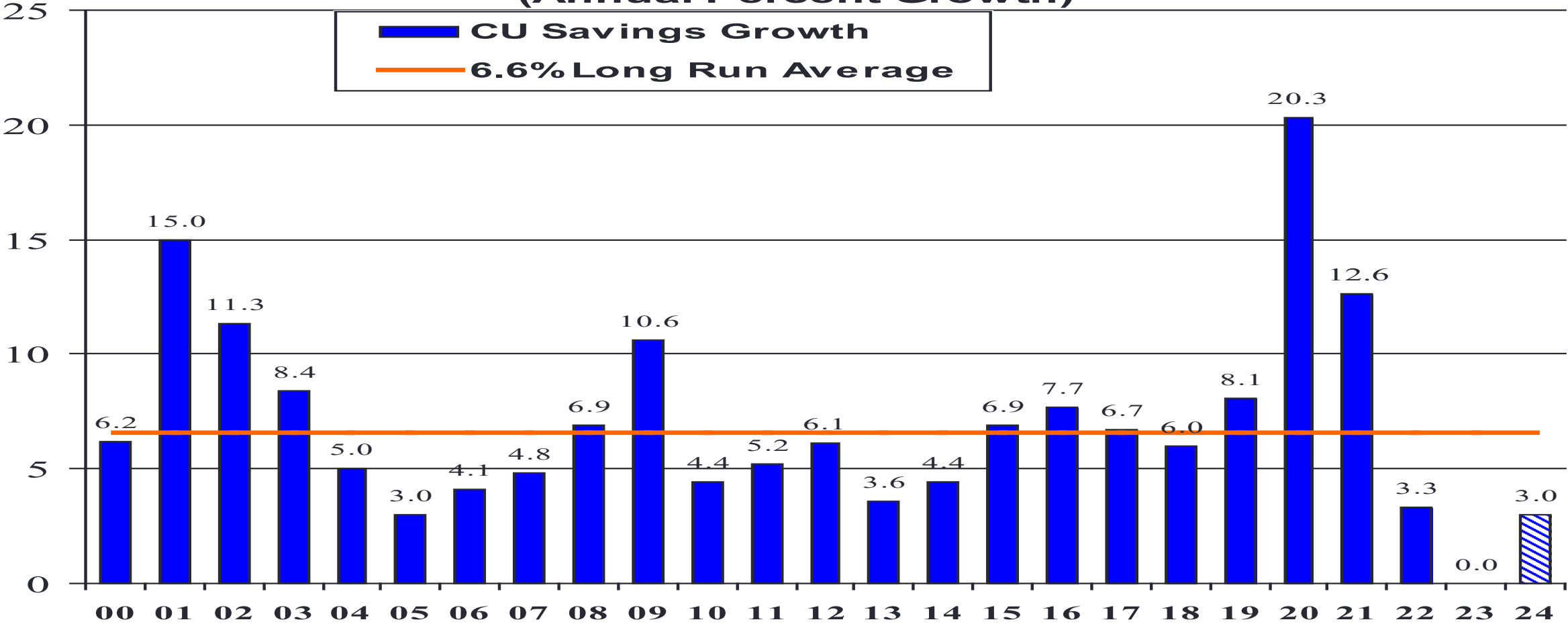
Liabilities + Capital

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

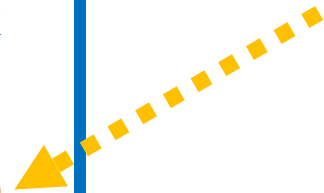
Liabilities + Capital

Deposits

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- 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

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Equity (Net Capital)

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

Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

Deposits

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Credit Union Balance Sheet

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- < 1 year maturity
- 1–3-year maturity
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Borrowings

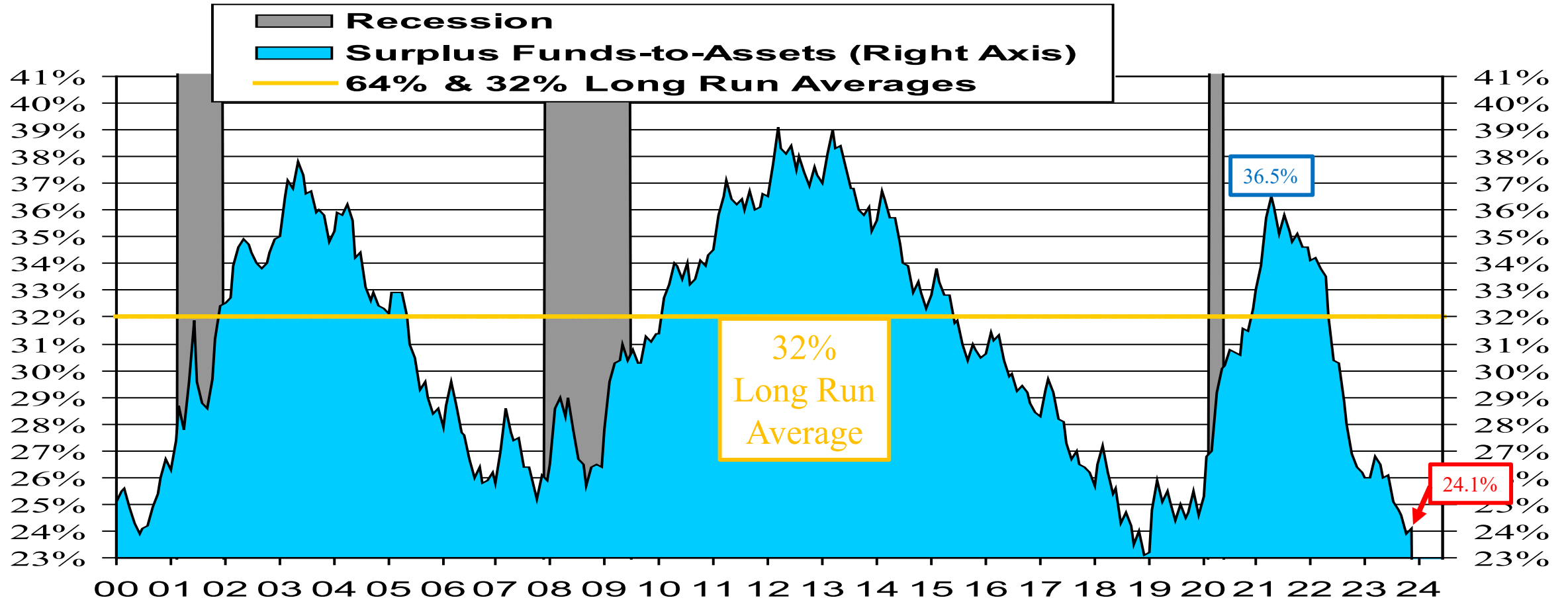
- Federal Home Loan Bank
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Equity (Net Capital)

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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

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Investments

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Loans

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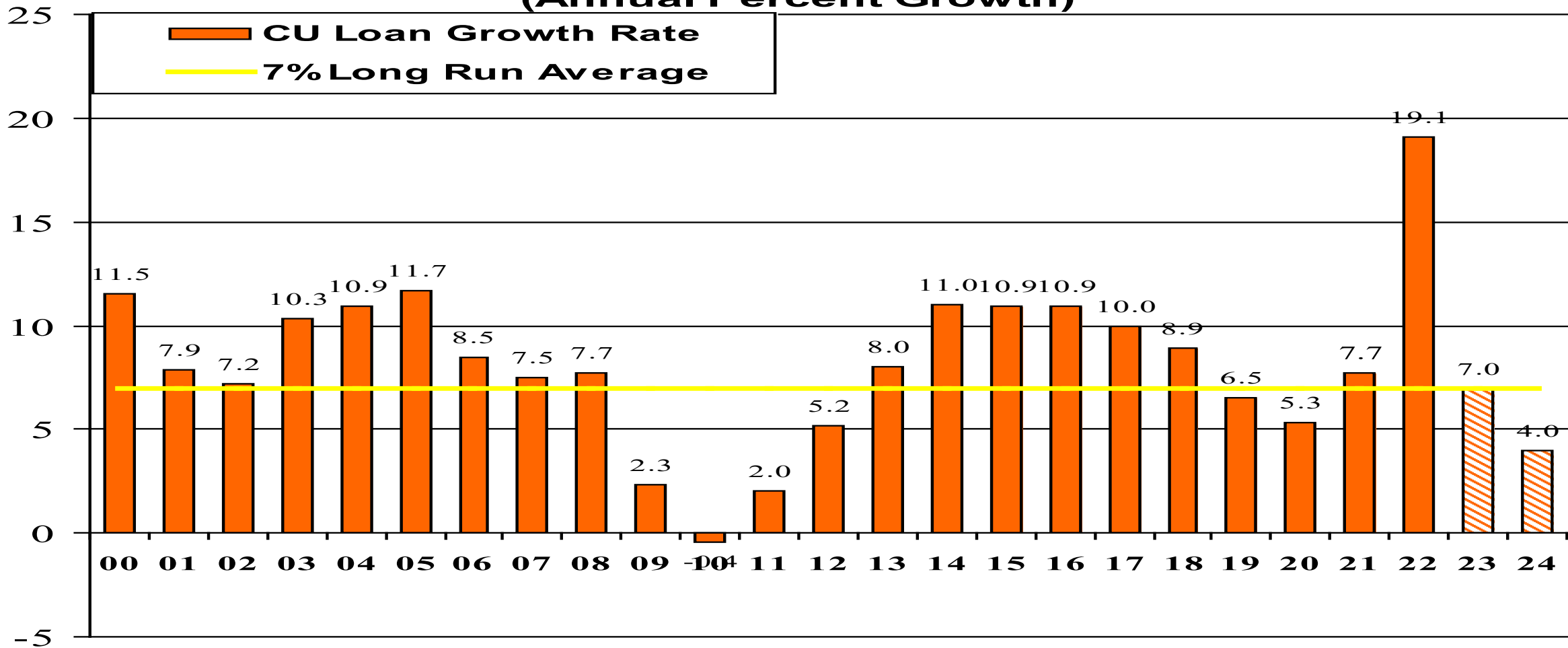
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Equity (Net Capital)

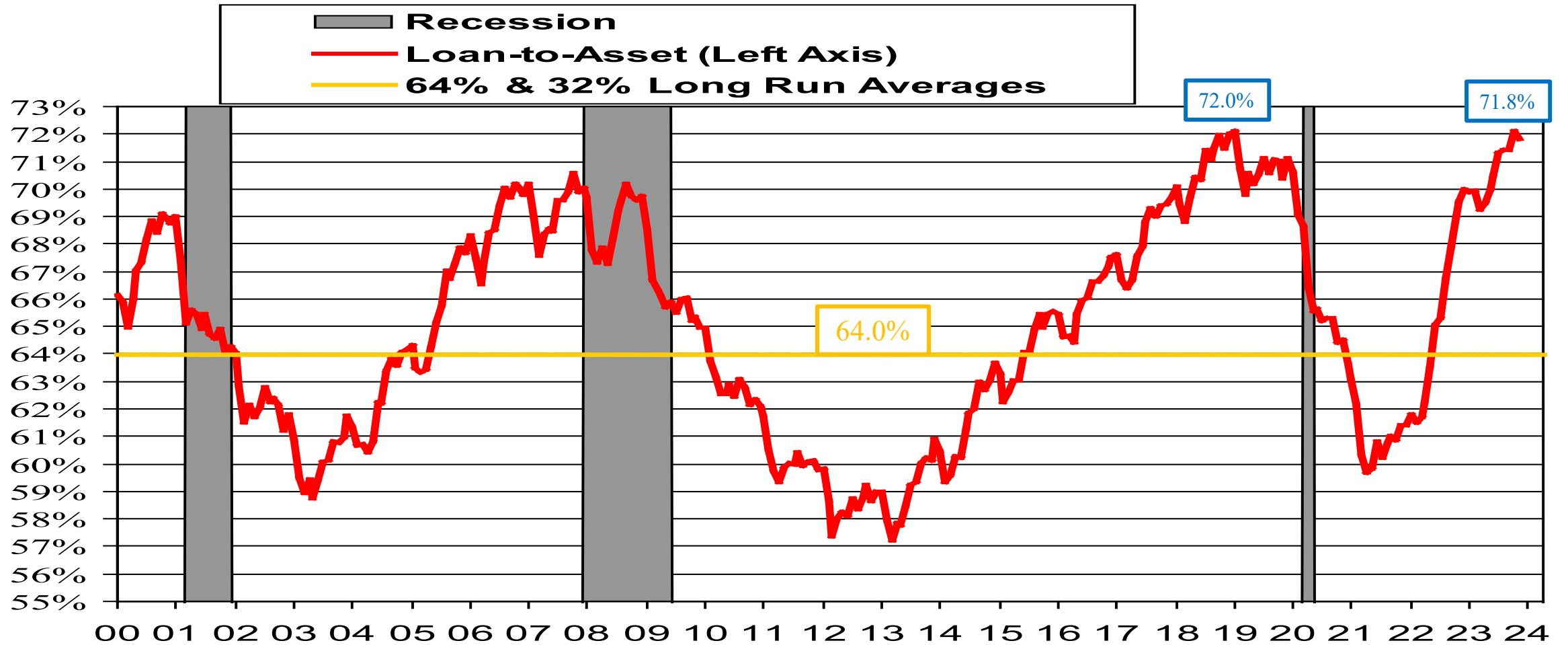
1. Undivided Earnings
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Slowing Credit Union Loan Growth

Credit Union Loan Growth (Annual Percent Growth)



CU Loan to Asset Ratio



Credit Union Balance Sheet

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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

Credit Union Balance Sheet

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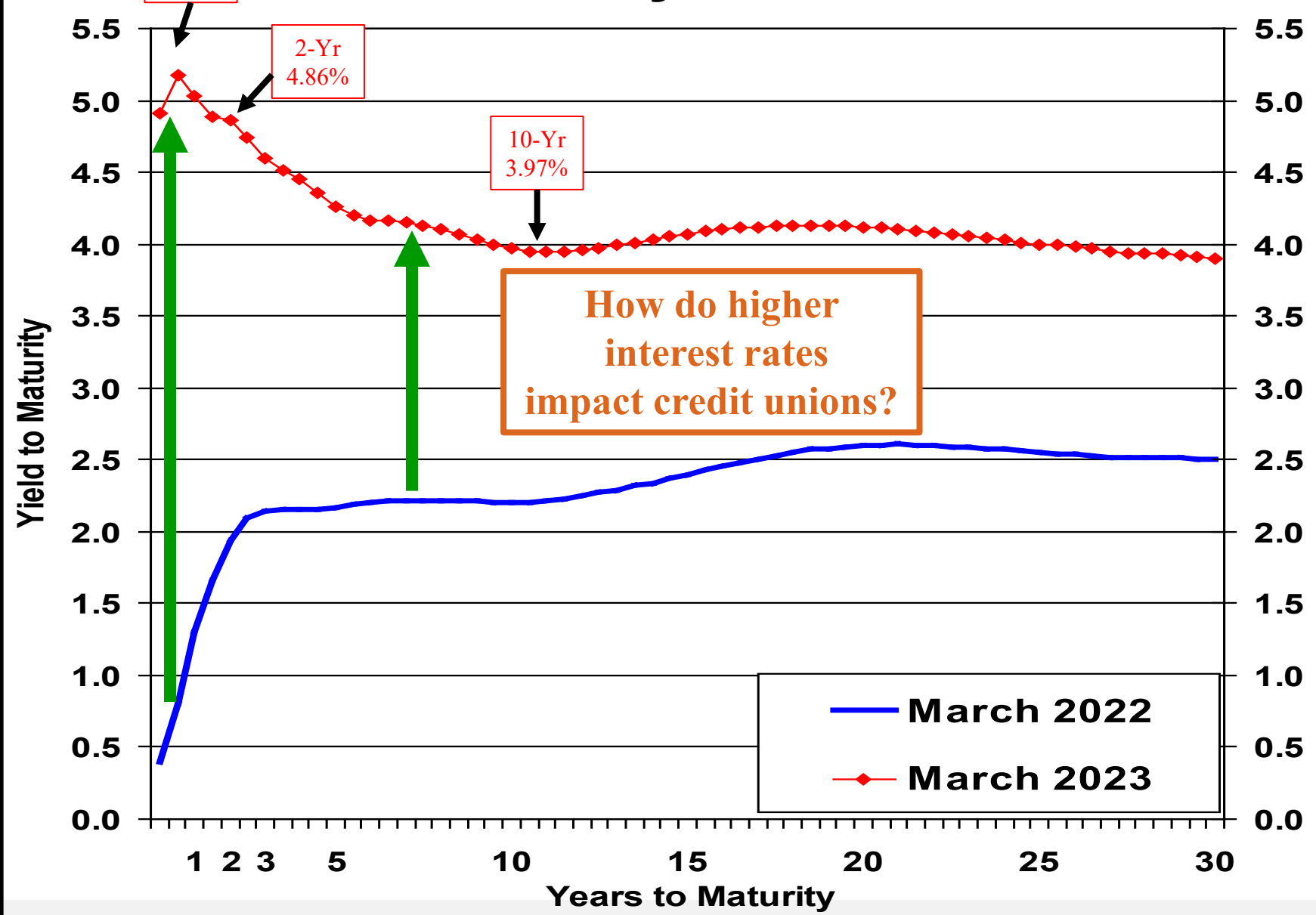
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“Non progredi est regredi”

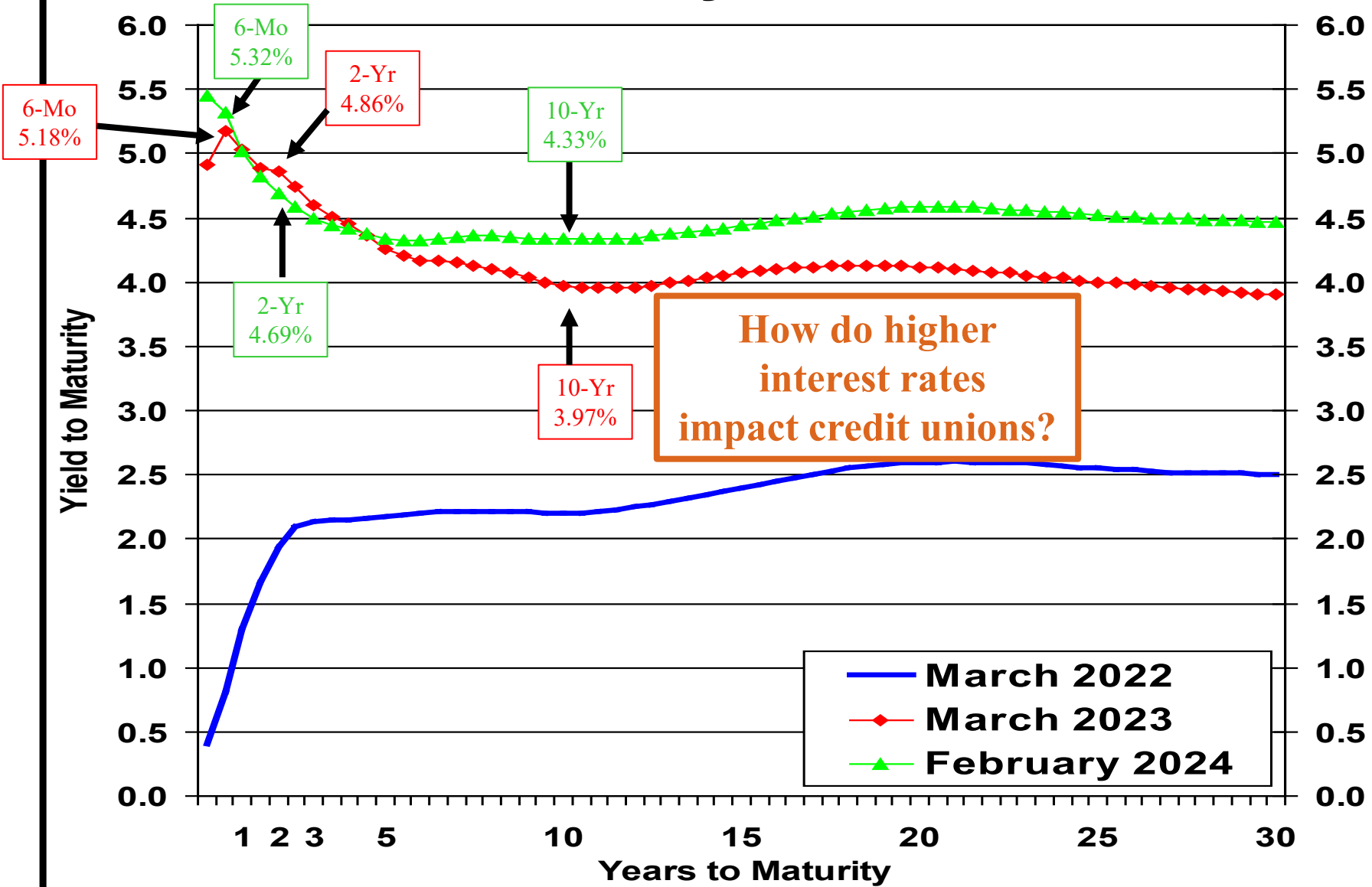
To not go forward is to go backward

If you're not growing, you're dying

Treasury Yield Curves



Treasury Yield Curves



Credit Union Balance Sheet

Assets

Liabilities + Capital

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How do higher
interest rates
impact credit unions?

Credit Union Balance Sheet

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↑ interest rates => ↓ Bond Prices

1. Below par market value of investments

Credit Union Balance Sheet

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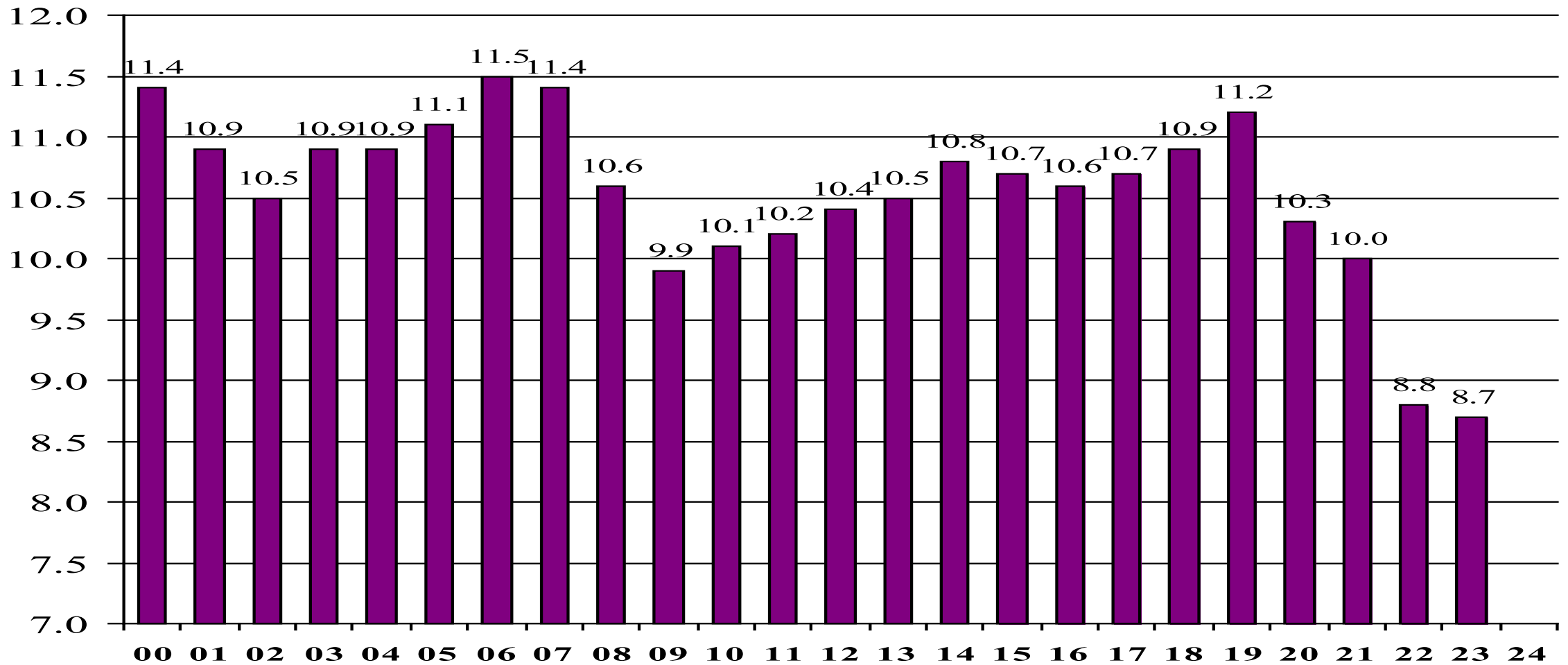
Allowance for Loan Loss

1. Below par market value of investments

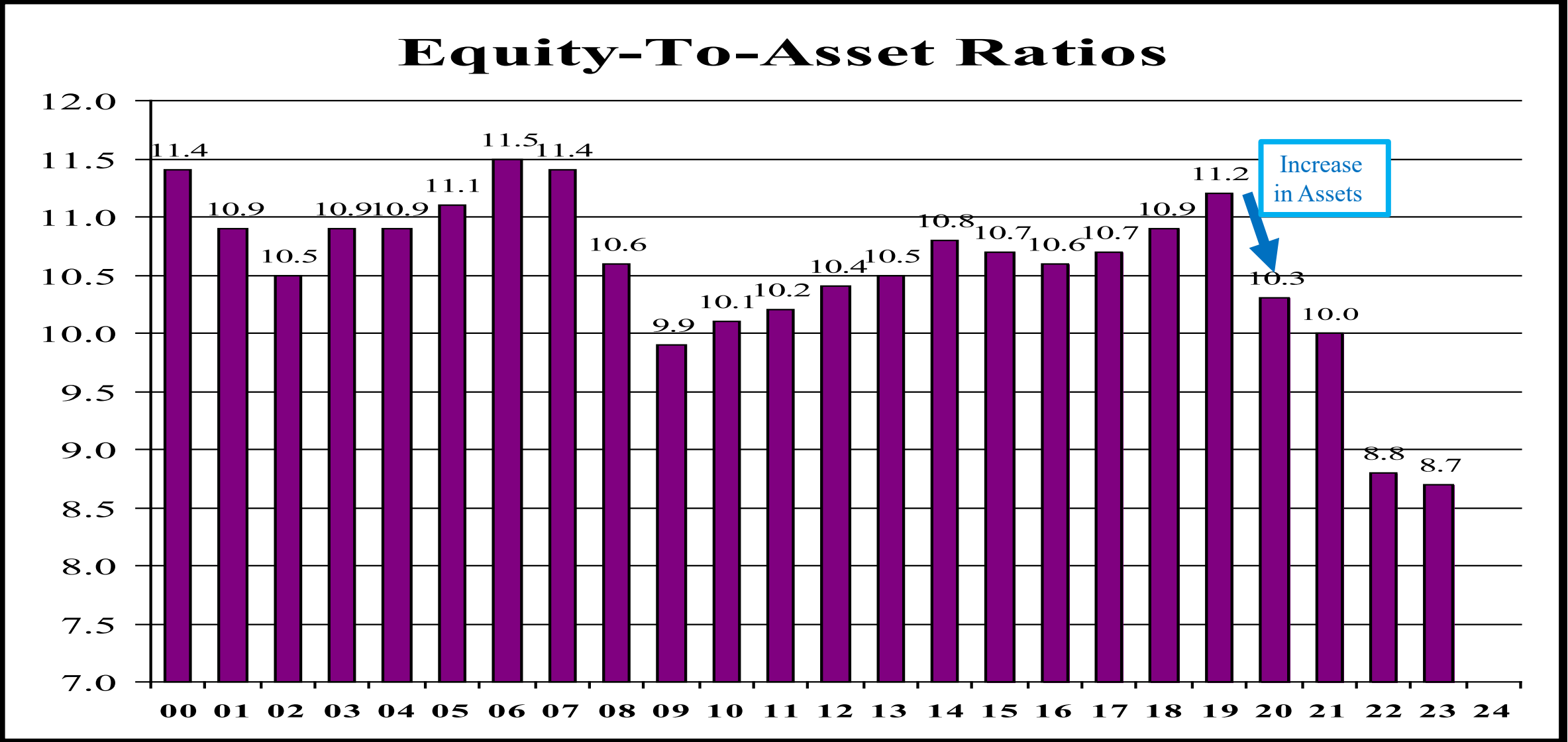
2. Falling equity-to-asset ratios

Falling Equity Ratios

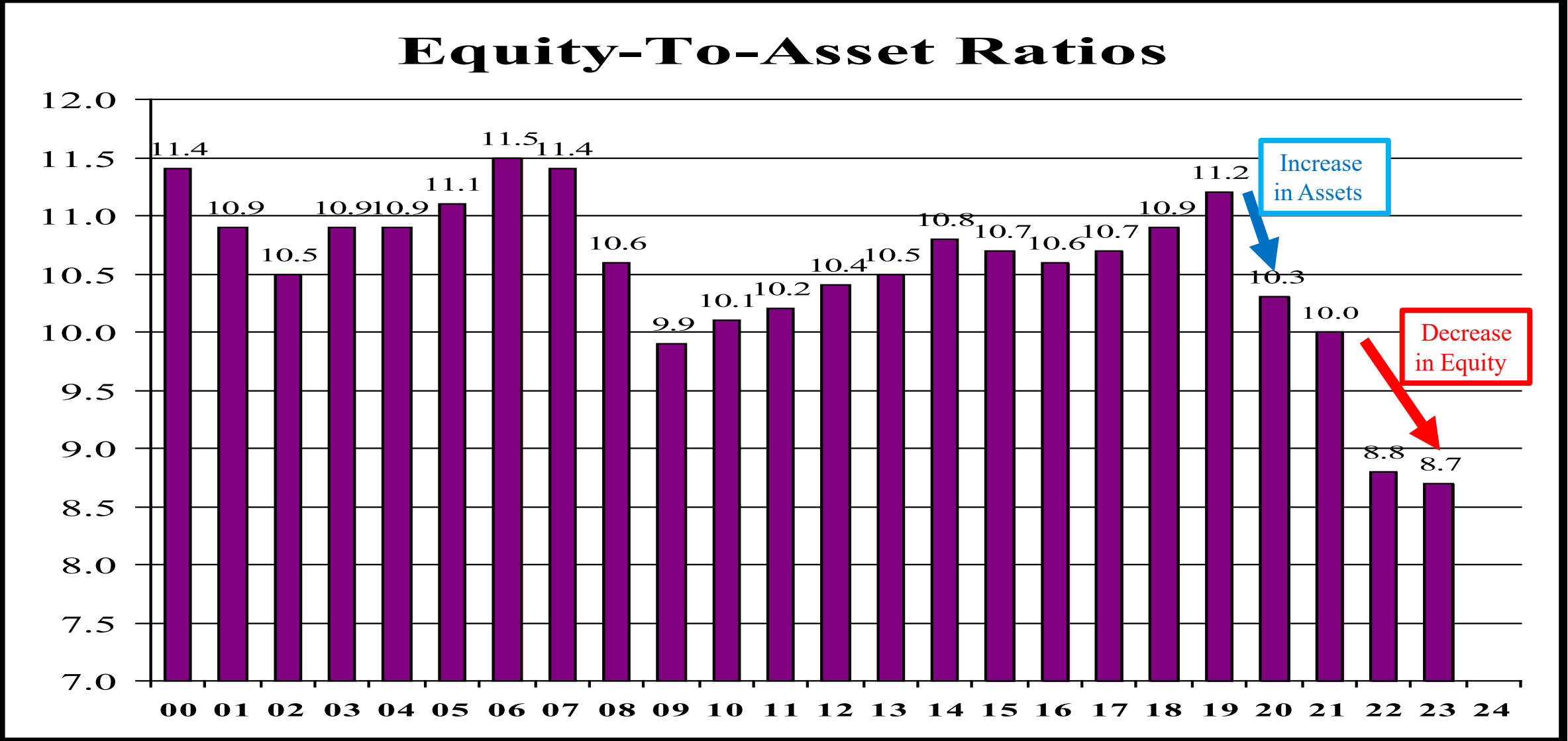
Equity-To-Asset Ratios



Falling Equity Ratios



Falling Equity Ratios



Credit Union Balance Sheet

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Liabilities + Capital

Cash (Reserves)

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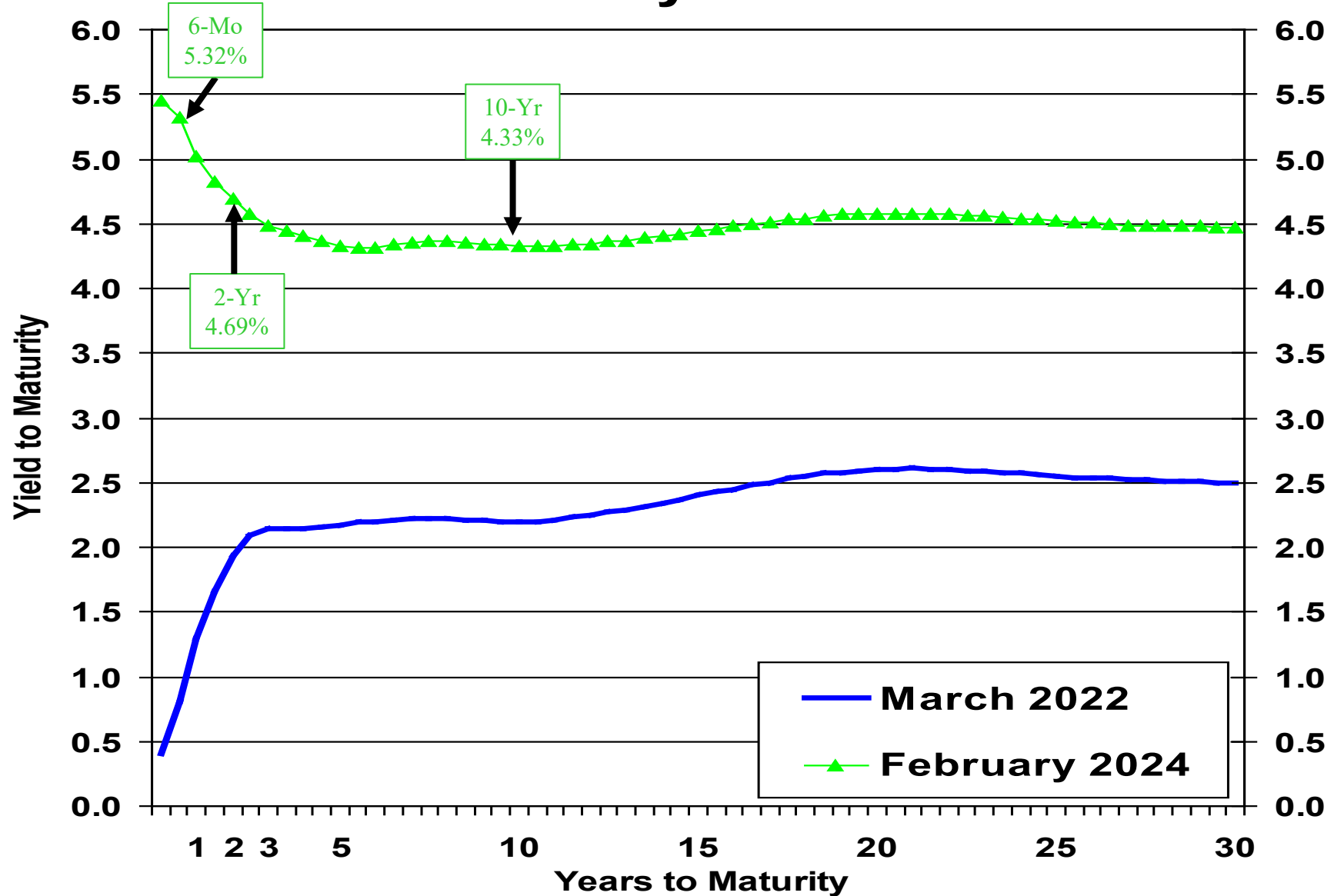
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Treasury Yield Curves



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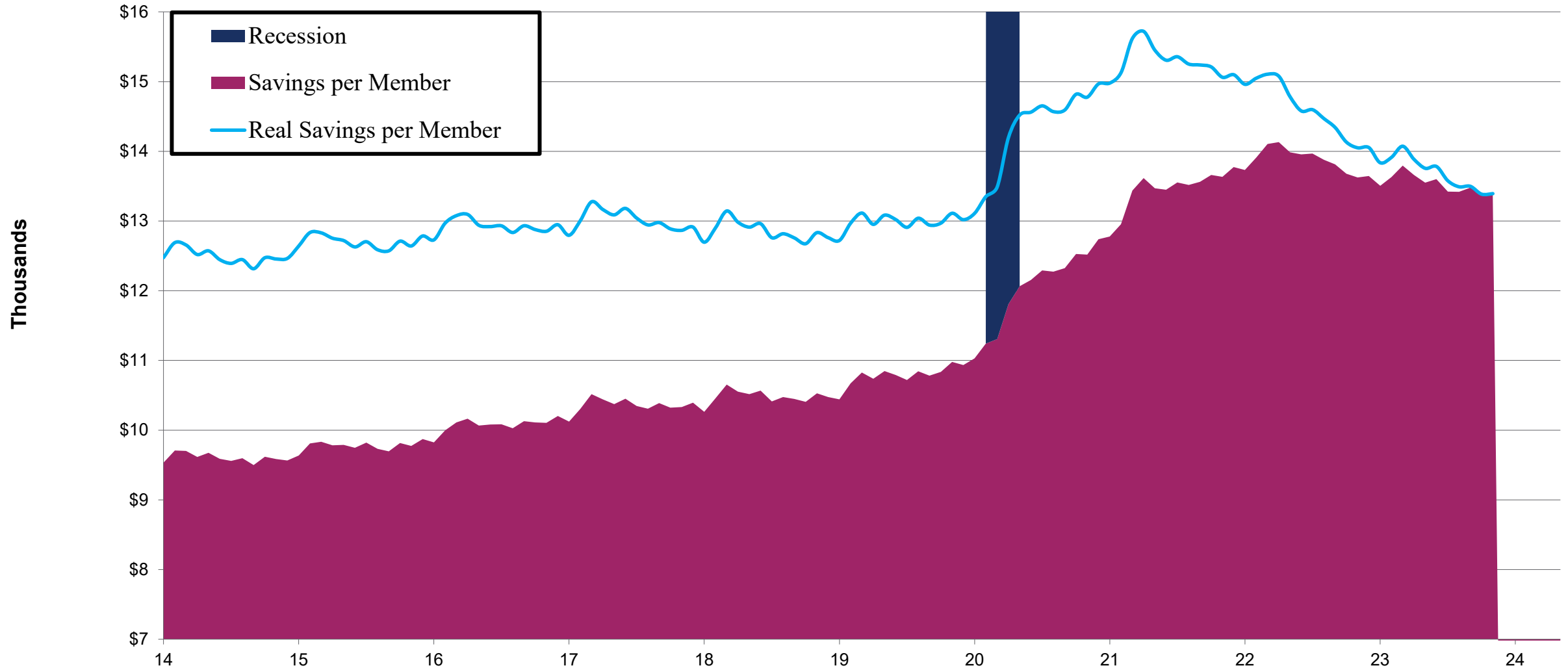
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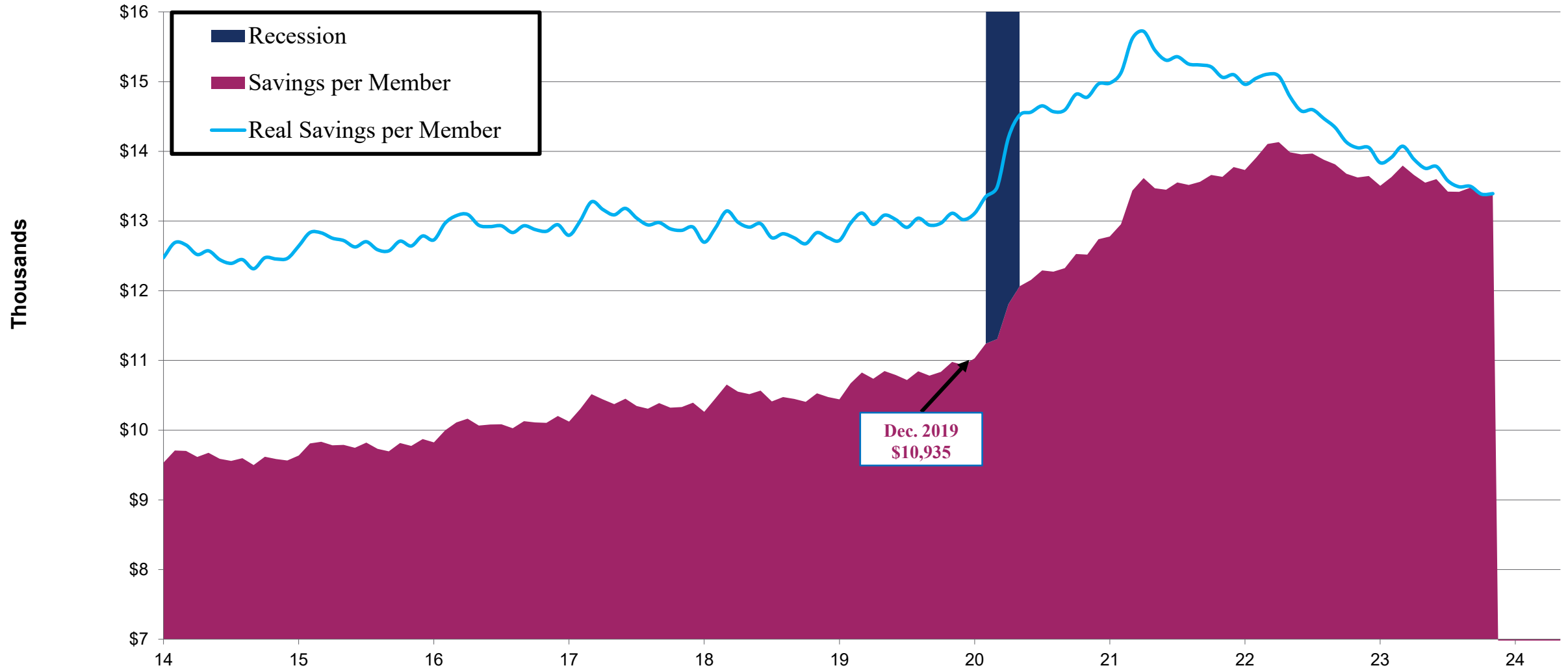
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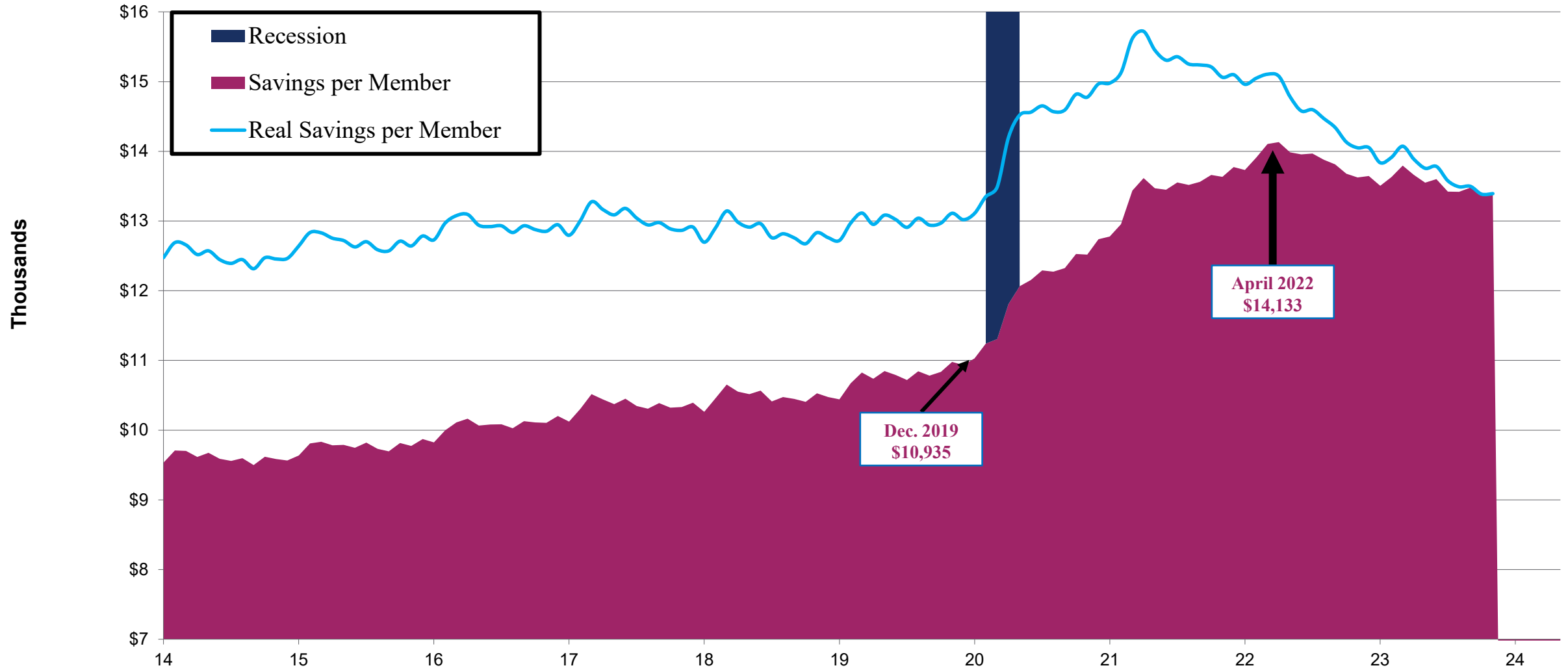
Credit Union Savings per Member



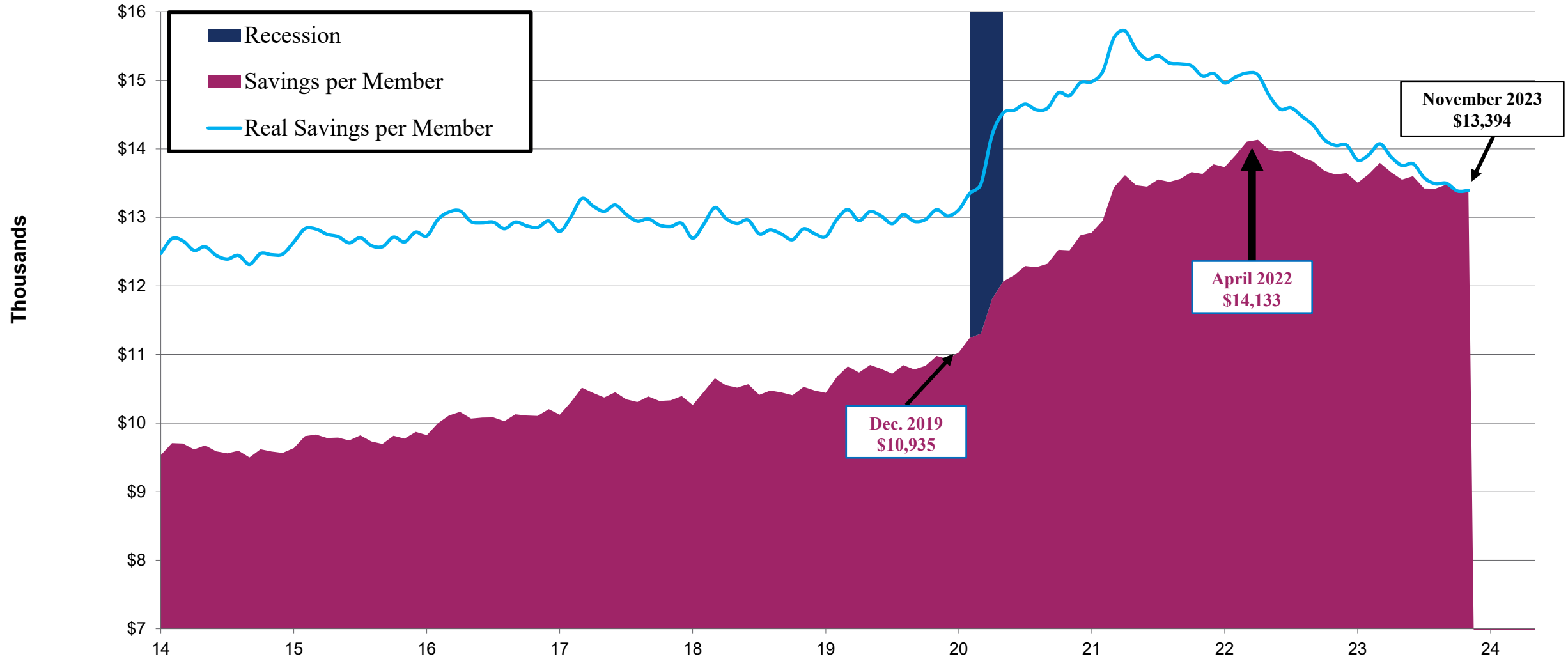
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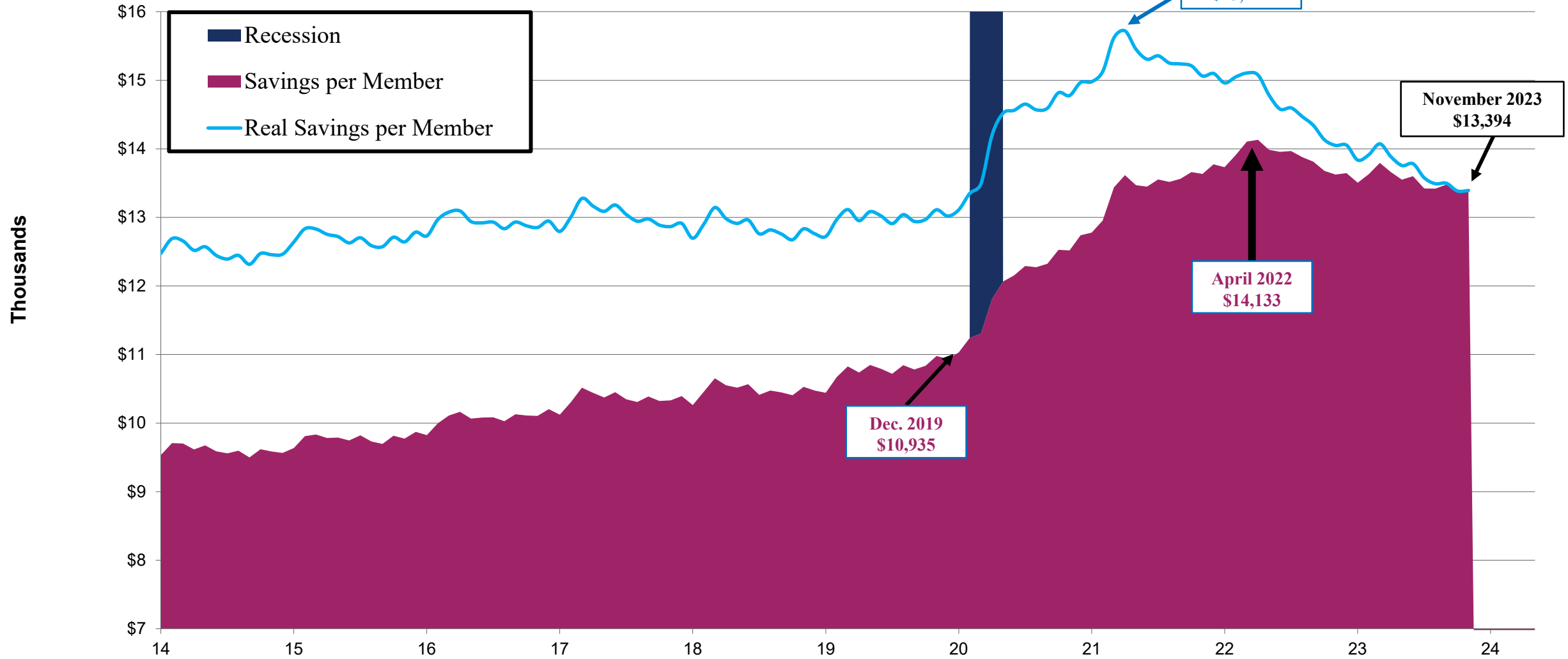
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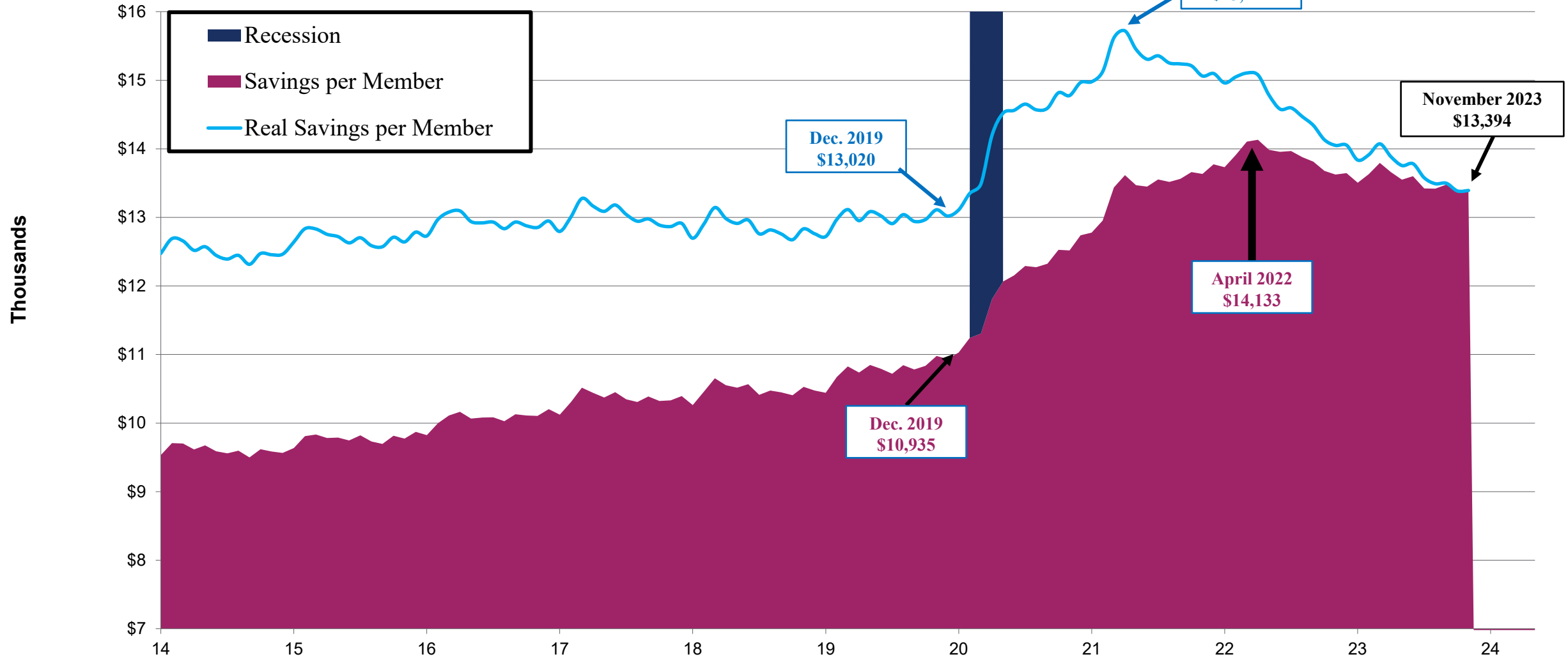
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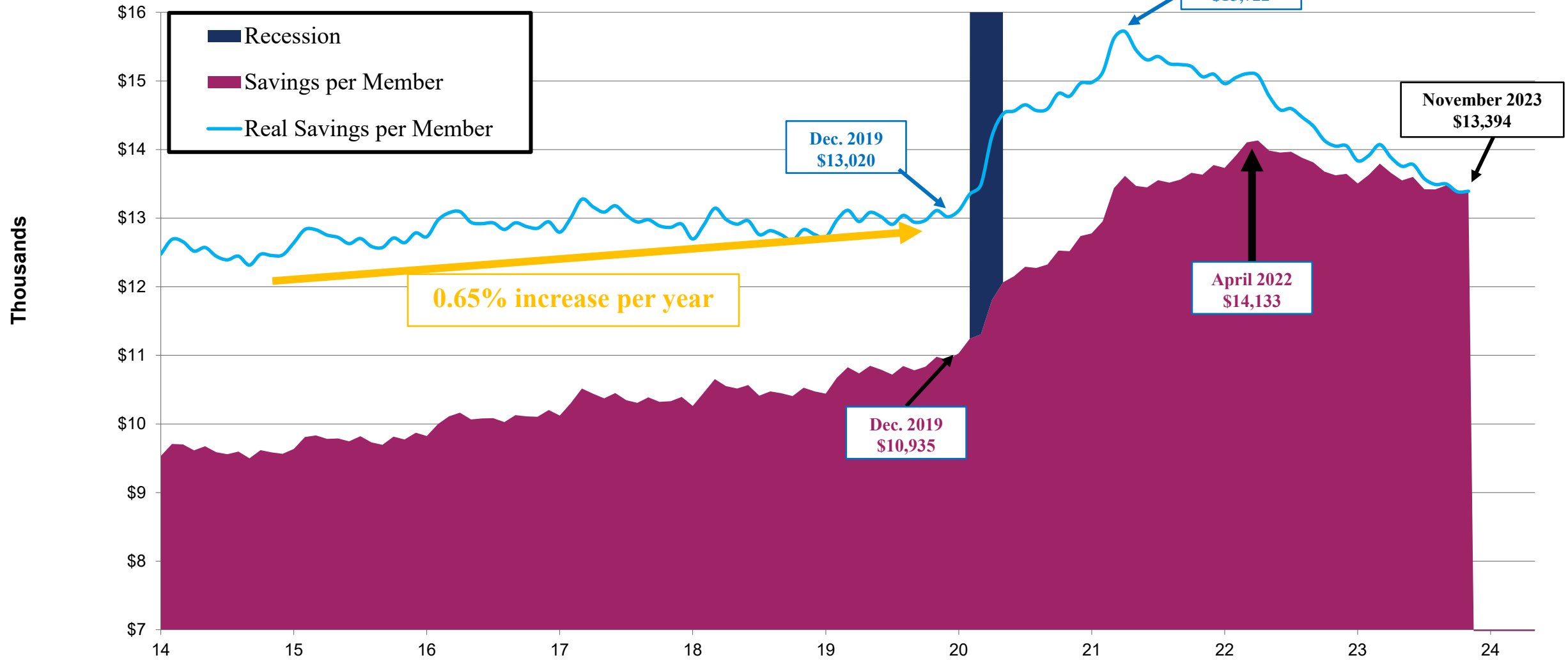
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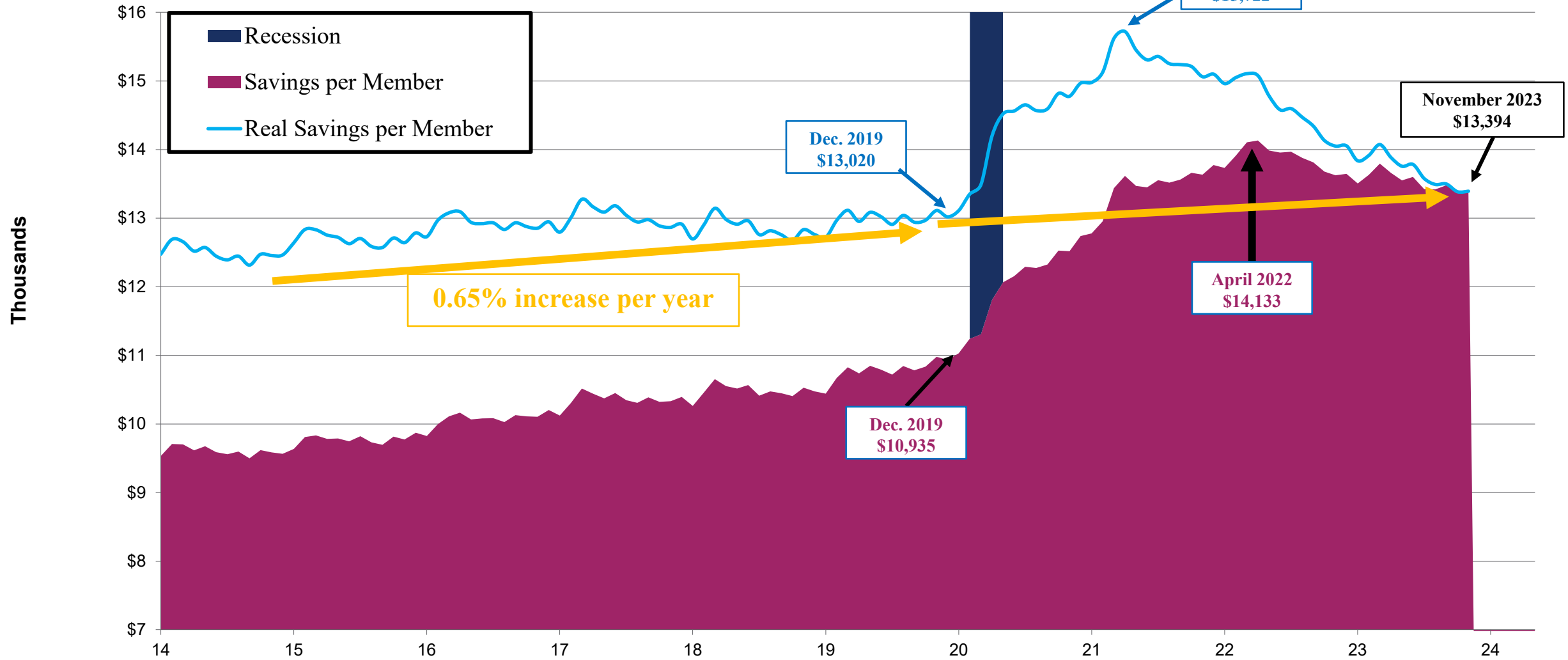
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Credit Union Savings per Member



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

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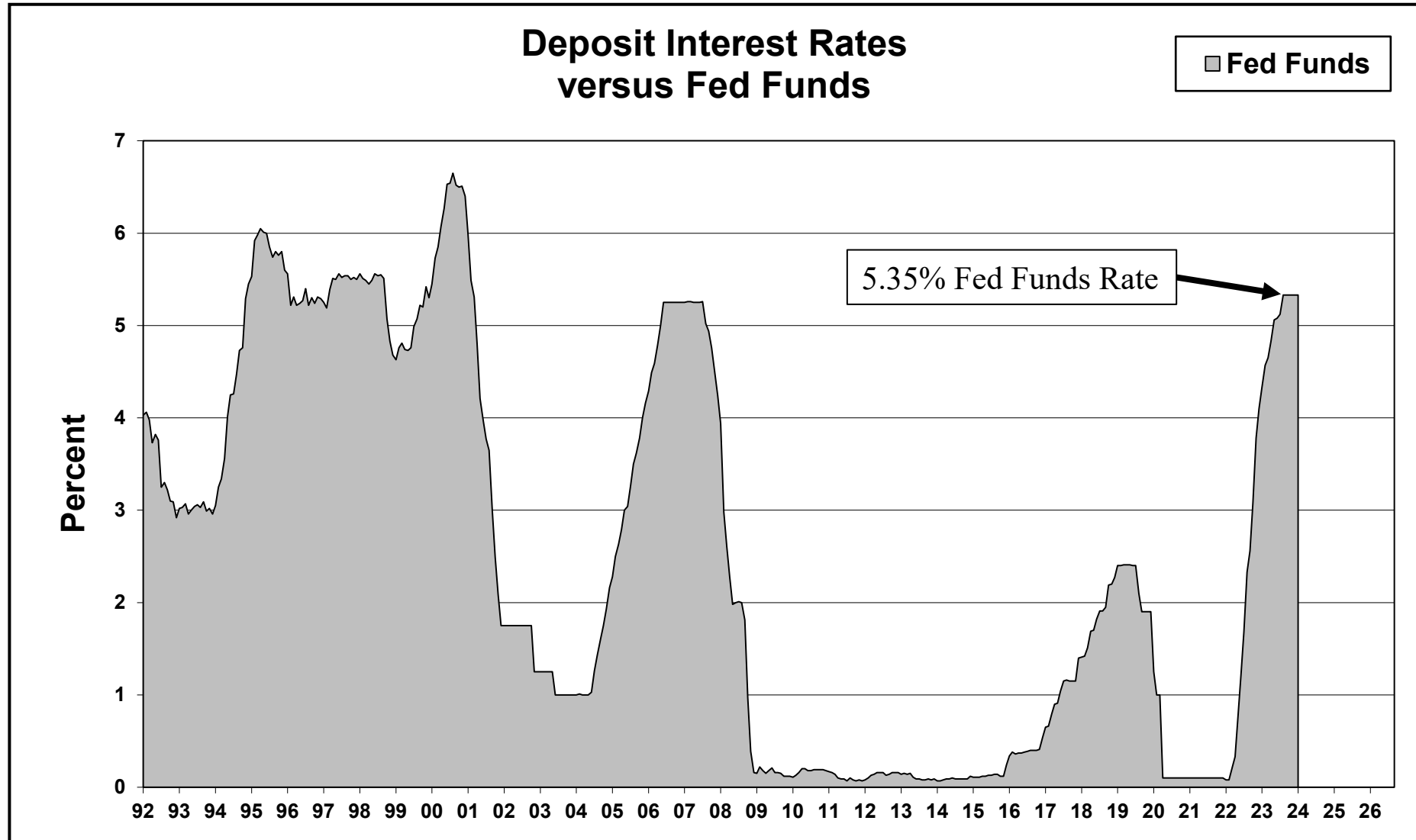
5. Members' deposit runoff/disintermediation

10. Deposit pricing in a rapidly rising interest rate environment

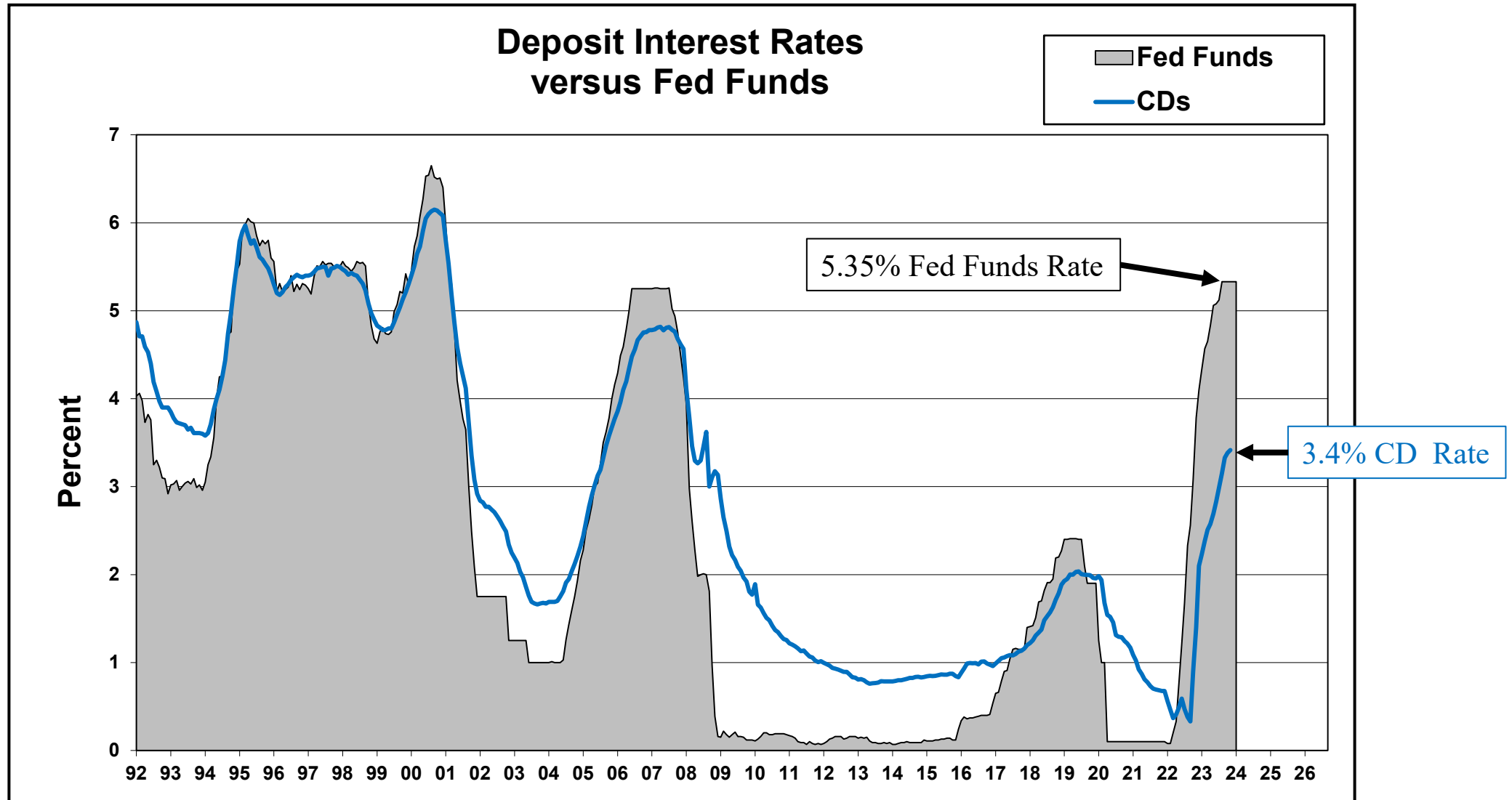
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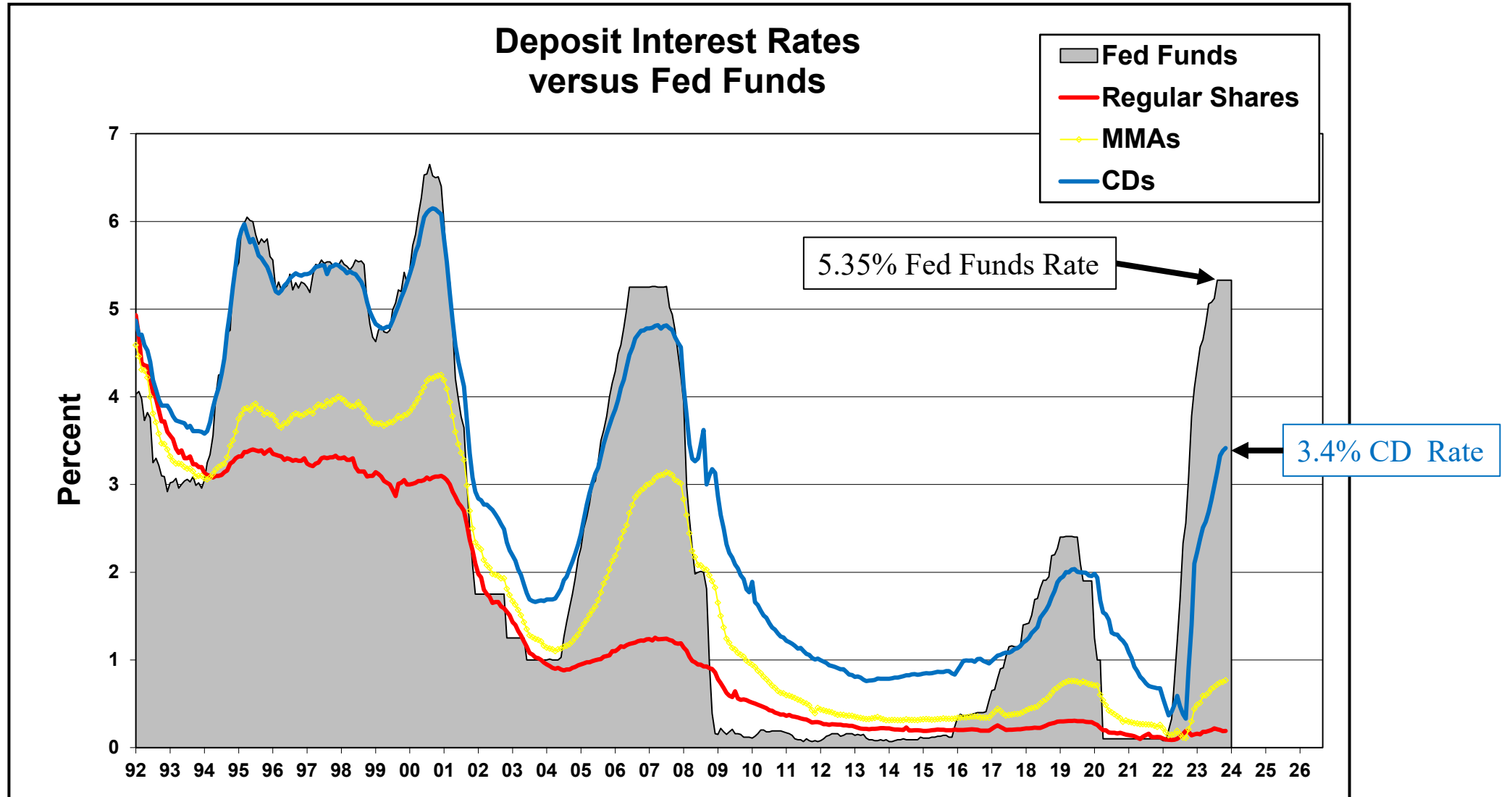
Rising Fed Funds Interest Rate and Deposit Pricing



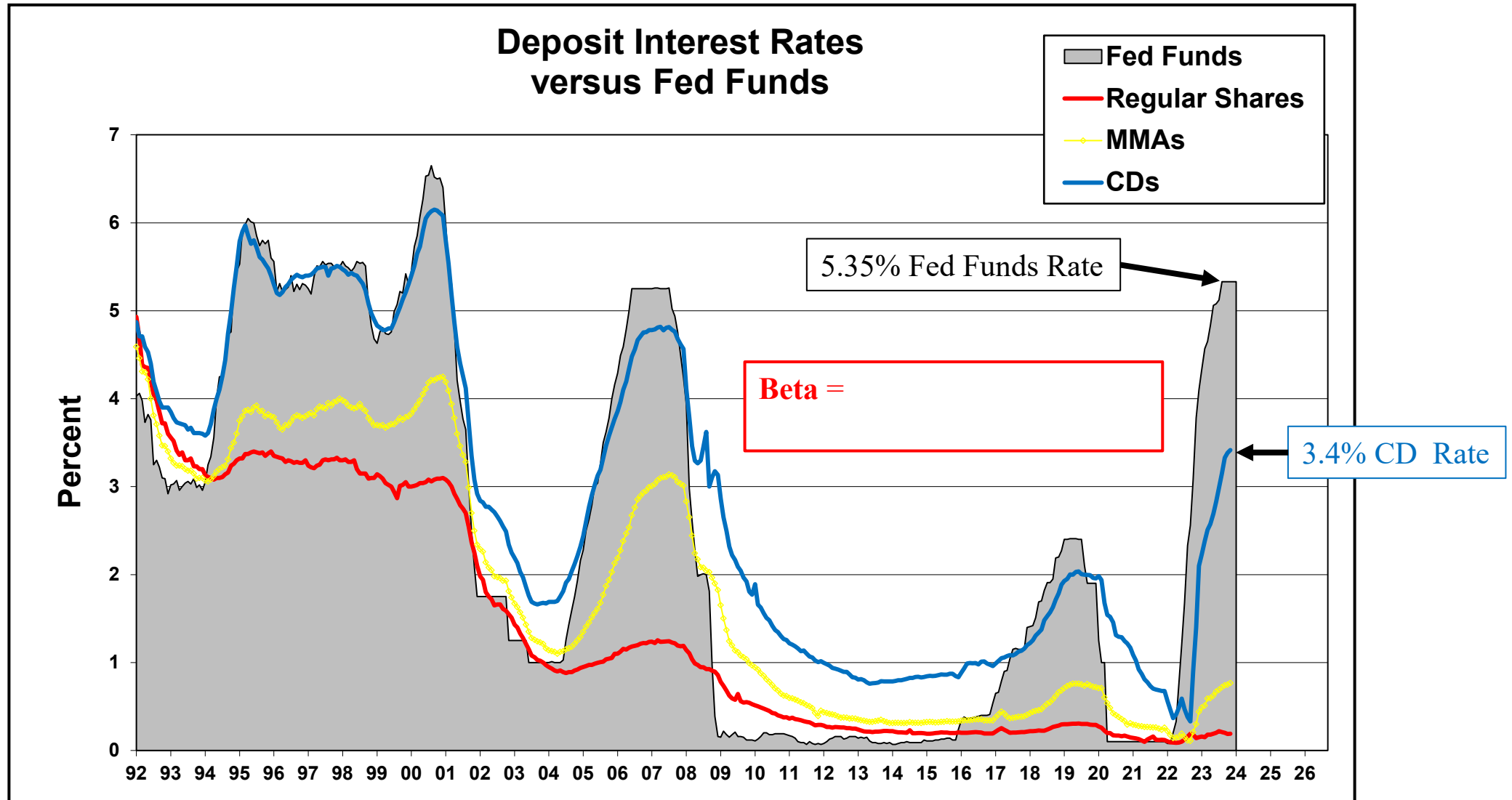
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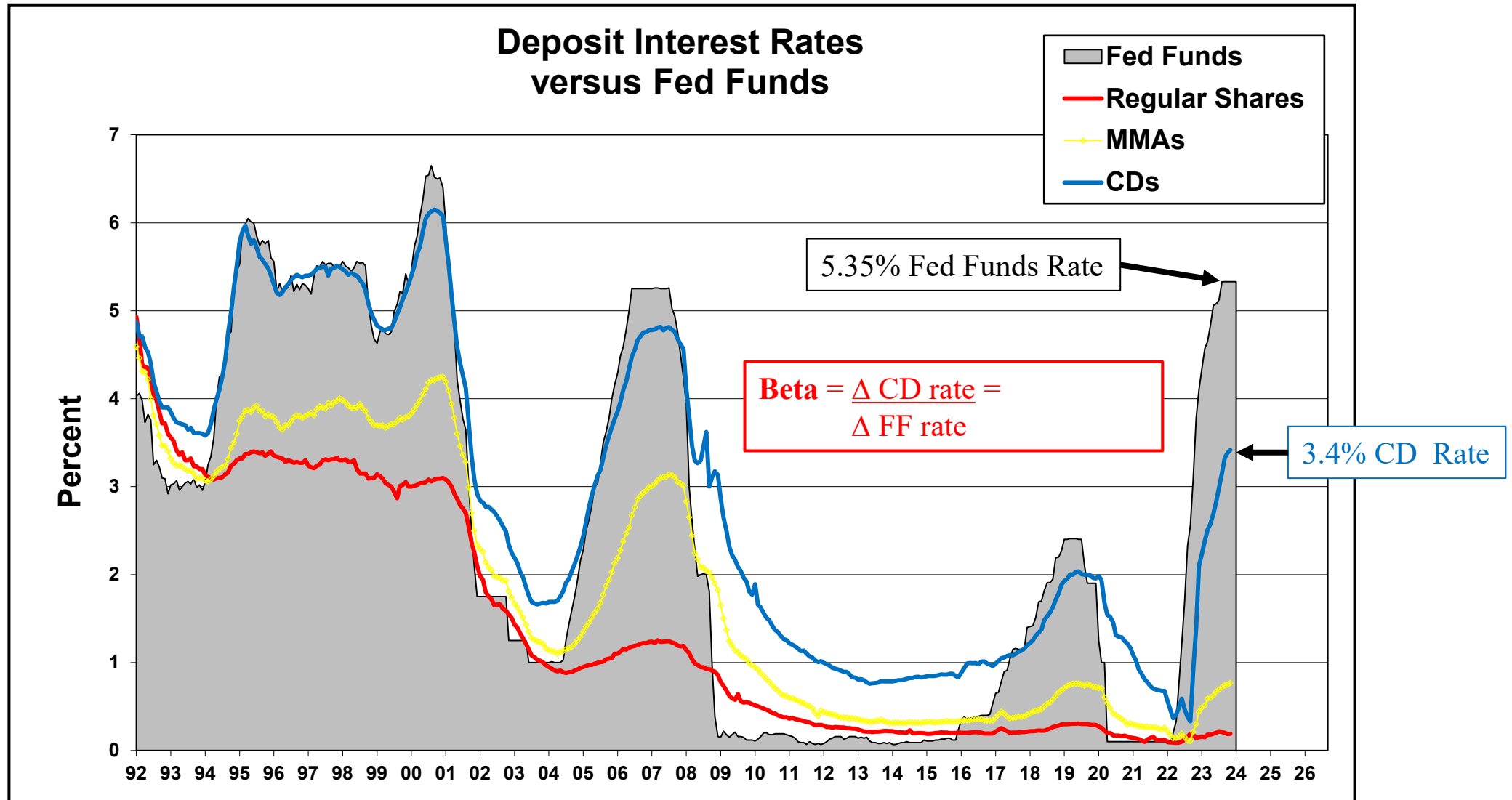
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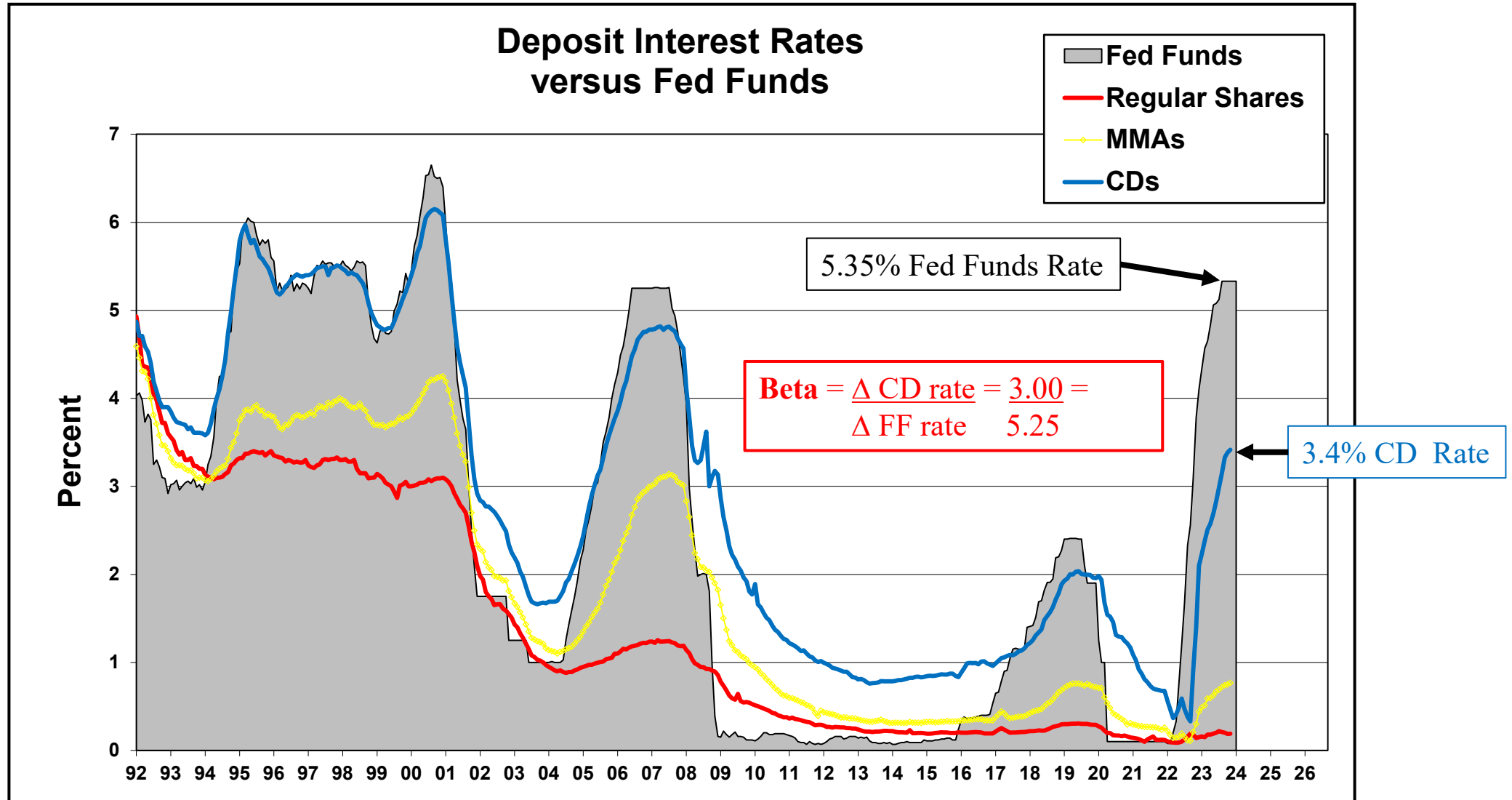
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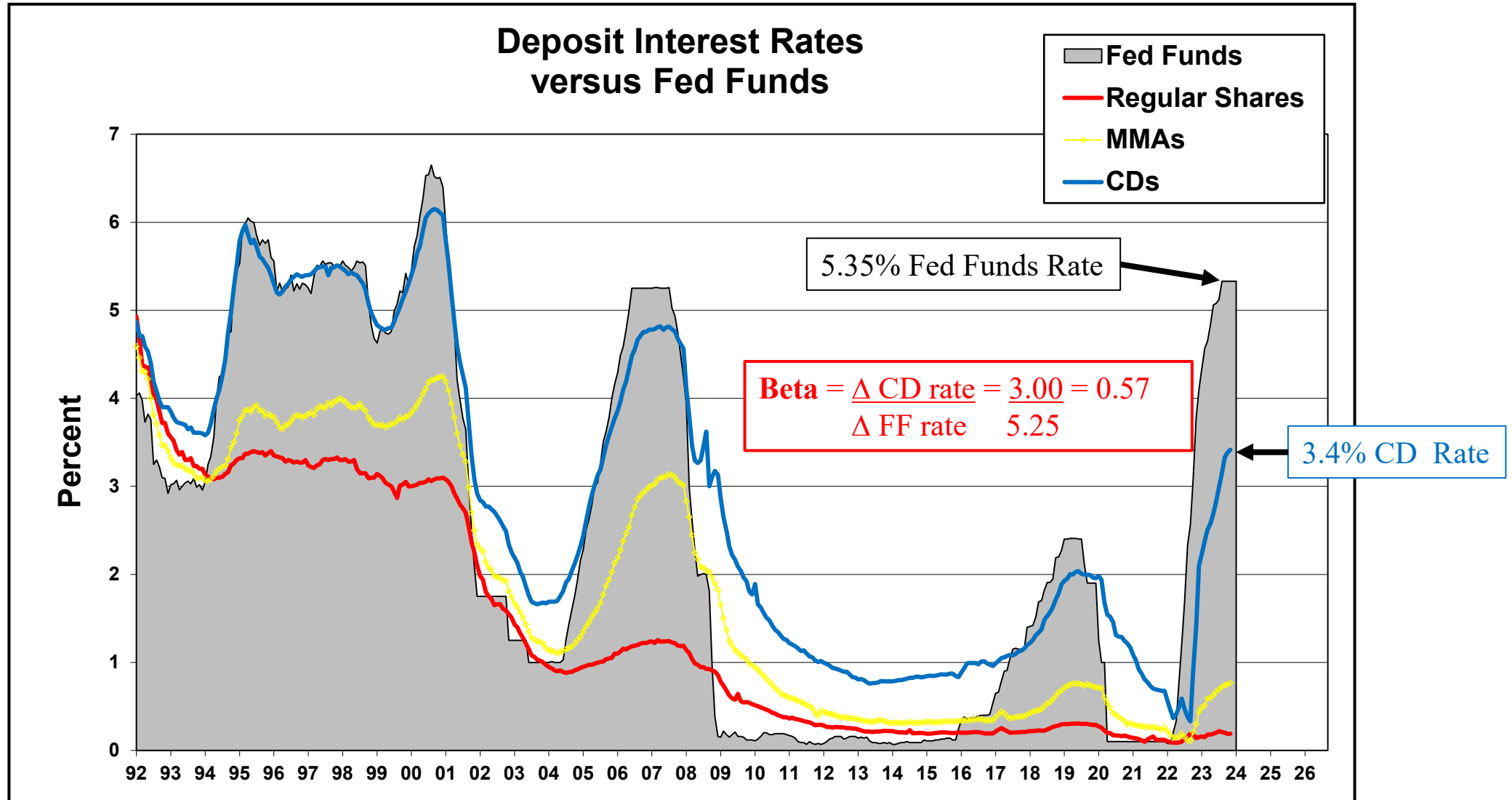
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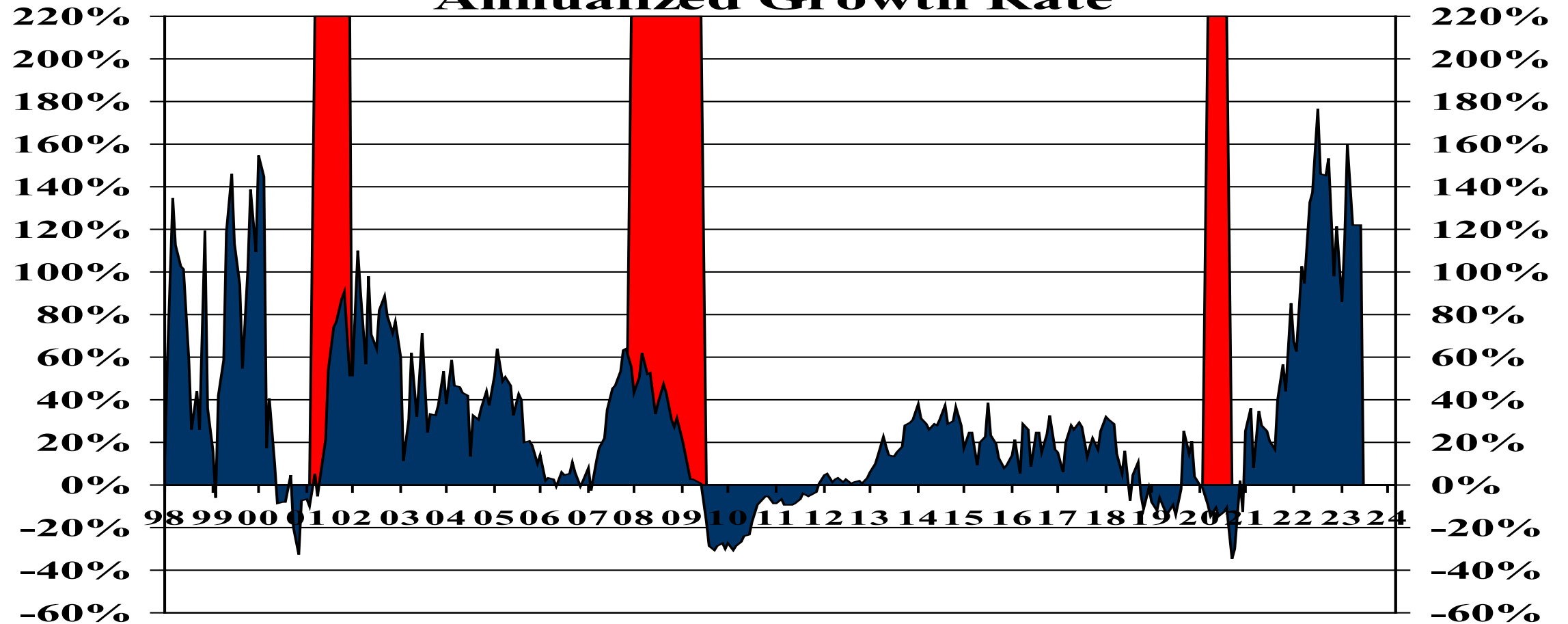
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Resurgent Borrowings

CU Borrowings Growth Seasonally Adjusted Annualized Growth Rate



Limerick of the Day

There once was a credit union that had quite a scare

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

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For their liquidity seemed quite rare
But with some quick loans

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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
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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. Slow economic growth for the next year

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5. Credit union loan growth slowing in 2024
6. Mortgage originations rising 15% as interest rates fall 1 percentage point



Economic Forecast

January 2024

	Past results		Actual/ Forecasts					
	Previous 10 Yr. Avg	2022	2023 Q1	2023 Q2	2023 Q3	2023Q4	2023	2024
Growth rates:								
Economic Growth (% chg GDP)*	2.10%	2.10%	2.0%	2.4%	4.9%	2.0%	2.5%	1.5%
Inflation (CPI, 12 mth % chg)	2.20%	6.50%	5.0%	3.1%	3.7%	3.4%	3.4%	2.5%
Unemployment Rate (BLS)	6.00%	3.50%	3.5%	3.6%	3.8%	3.7%	3.7%	4.3%
Federal Funds Rate (effective)	0.58%	4.33%	4.83%	5.08%	5.33%	5.33%	5.33%	4.50%
10-Year Treasury Rate	2.11%	3.88%	3.48%	3.81%	4.59%	3.88%	3.88%	4.25%
10-Year-Fed Funds Spread	1.53%	-0.45%	-1.35%	-1.27%	-0.77%	-1.45%	-1.45%	-0.25%

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



Credit Union Forecast

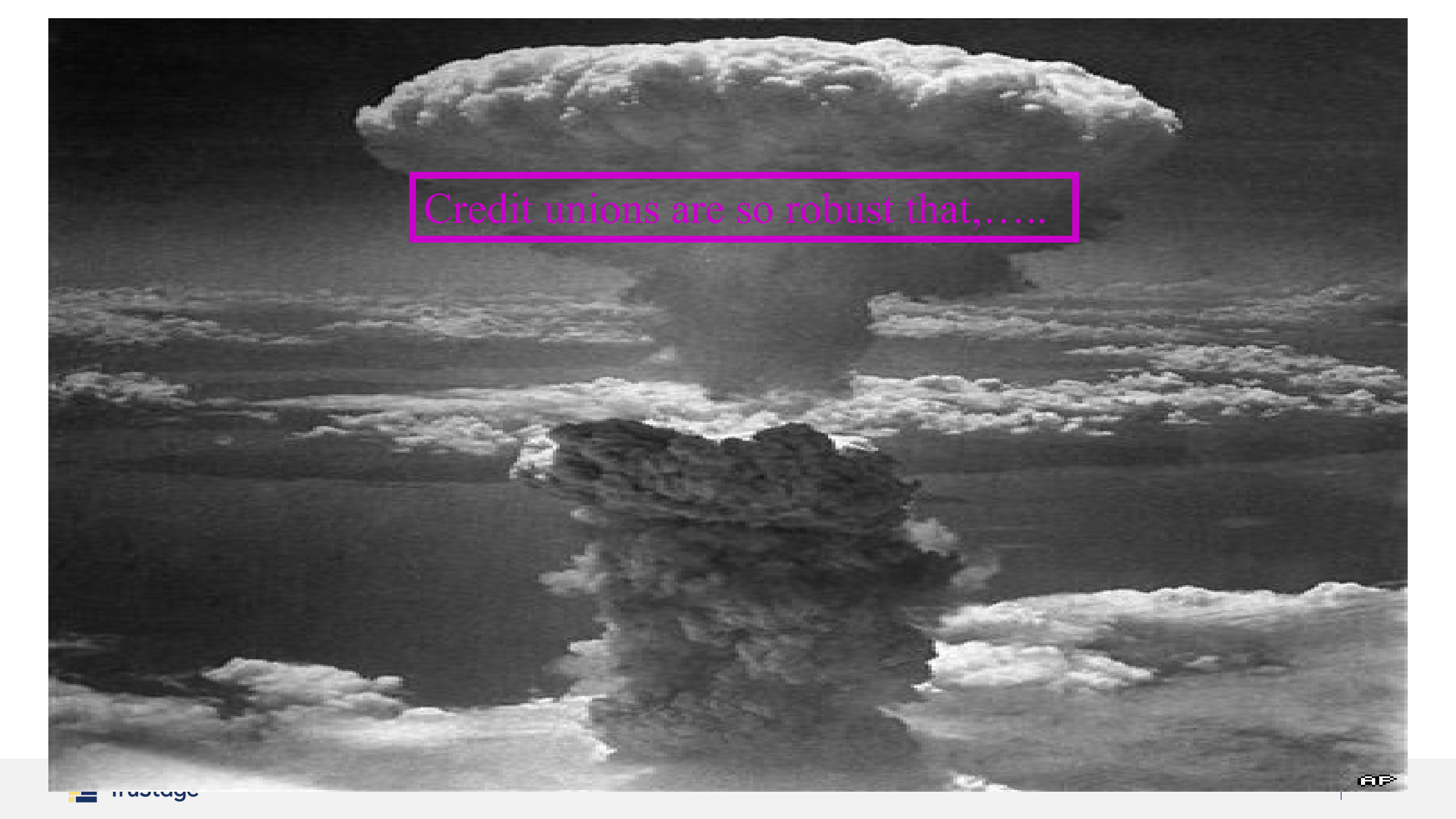
January 2024

	Past Results		Actual/forecasts				Annual forecasts	
	10 Yr Average	2022	2023 Q1	2023 Q2	2023 Q4	2023 Q4	2023	2024
Growth rates:								
Savings growth	7.7%	3.3%	2.3%	-0.5%	-0.1%	-0.7%	1.0%	3.0%
Loan growth	9.2%	19.1%	1.7%	2.2%	1.8%	1.3%	7.0%	4.0%
Asset growth	7.7%	5.1%	2.0%	0.3%	0.5%	1.2%	4.0%	4.0%
Membership growth	3.55%	4.3%	1.2%	1.0%	0.8%	0.3%	3.3%	2.5%
Liquidity:								
Loan-to-share ratio**	79.5%	81.5%	80.9%	83.1%	84.9%	86.6%	86.6%	88.1%
Asset quality:								
Delinquency rate**	0.66%	0.61%	0.52%	0.63%	0.72%	0.80%	0.80%	0.90%
Net charge-off rate*	0.48%	0.34%	0.52%	0.54%	0.61%	0.55%	0.60%	0.65%
Earnings:								
Return on average assets (ROA)*	0.88%	0.88%	0.81%	0.77%	0.67%	0.65%	0.73%	0.50%
Capital adequacy:								
Net worth ratio**	10.9%	10.8%	10.8%	10.9%	11.0%	11.4%	11.1%	11.1%

*Quarterly data, annualized. **End of period ratio.

Questions?

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

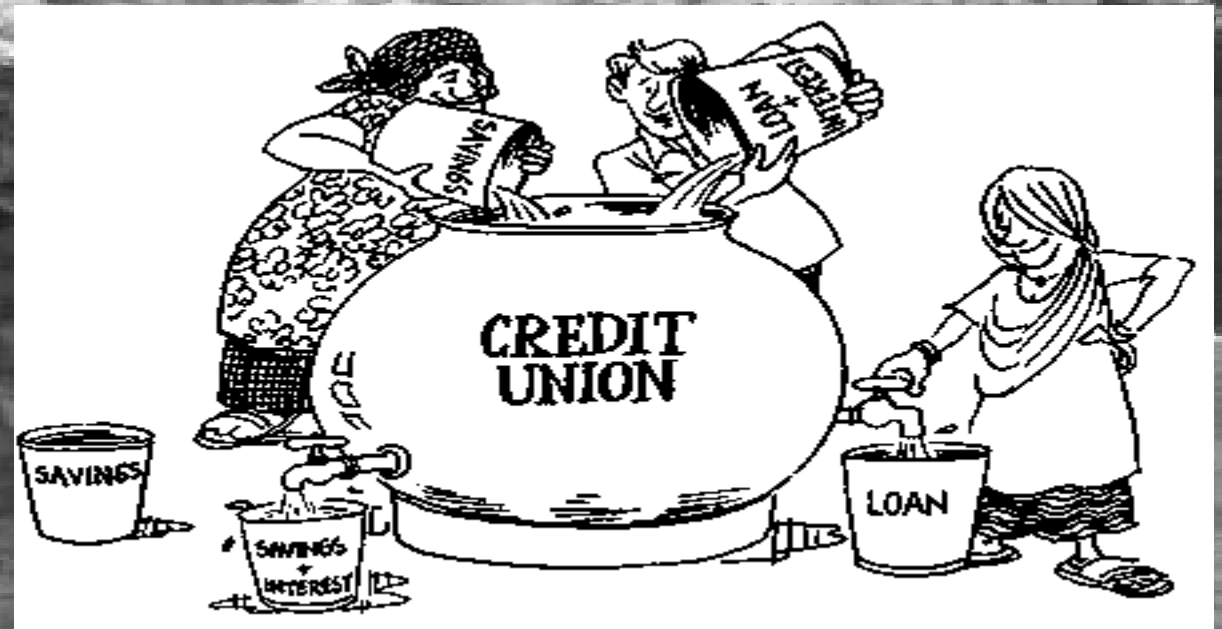
A black and white photograph of a nuclear explosion's mushroom cloud. The cloud has a large, billowing, white top that spreads out like a mushroom cap, with a dark, dense column rising from the center. The background is a dark, cloudy sky.

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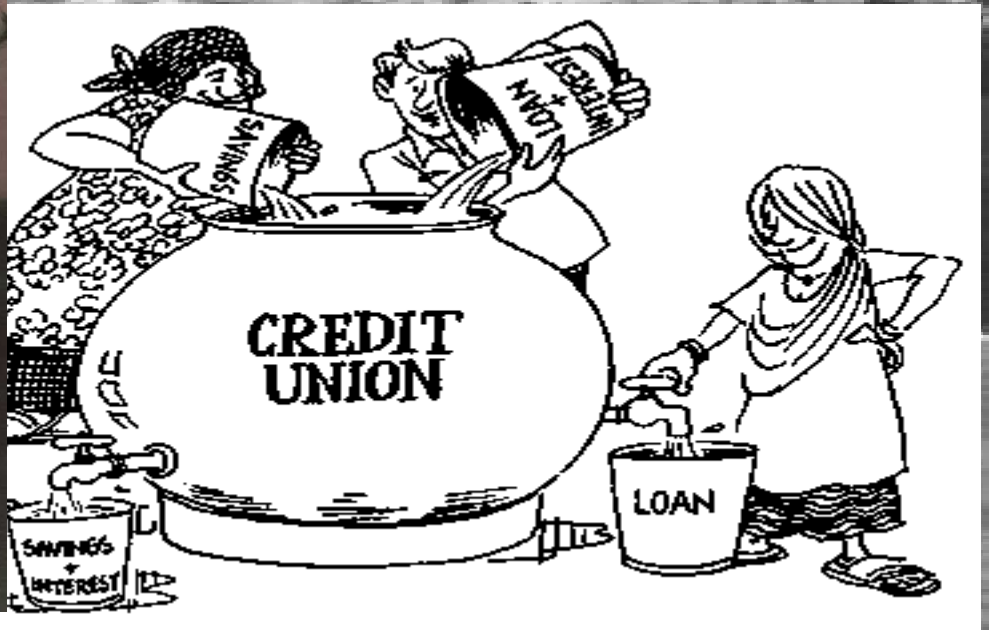
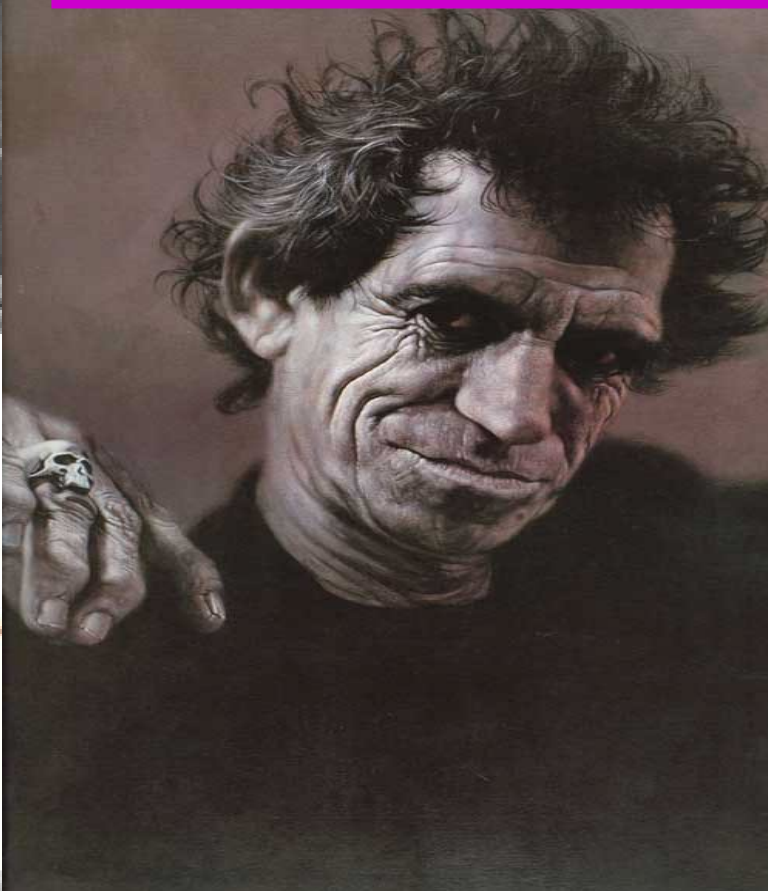
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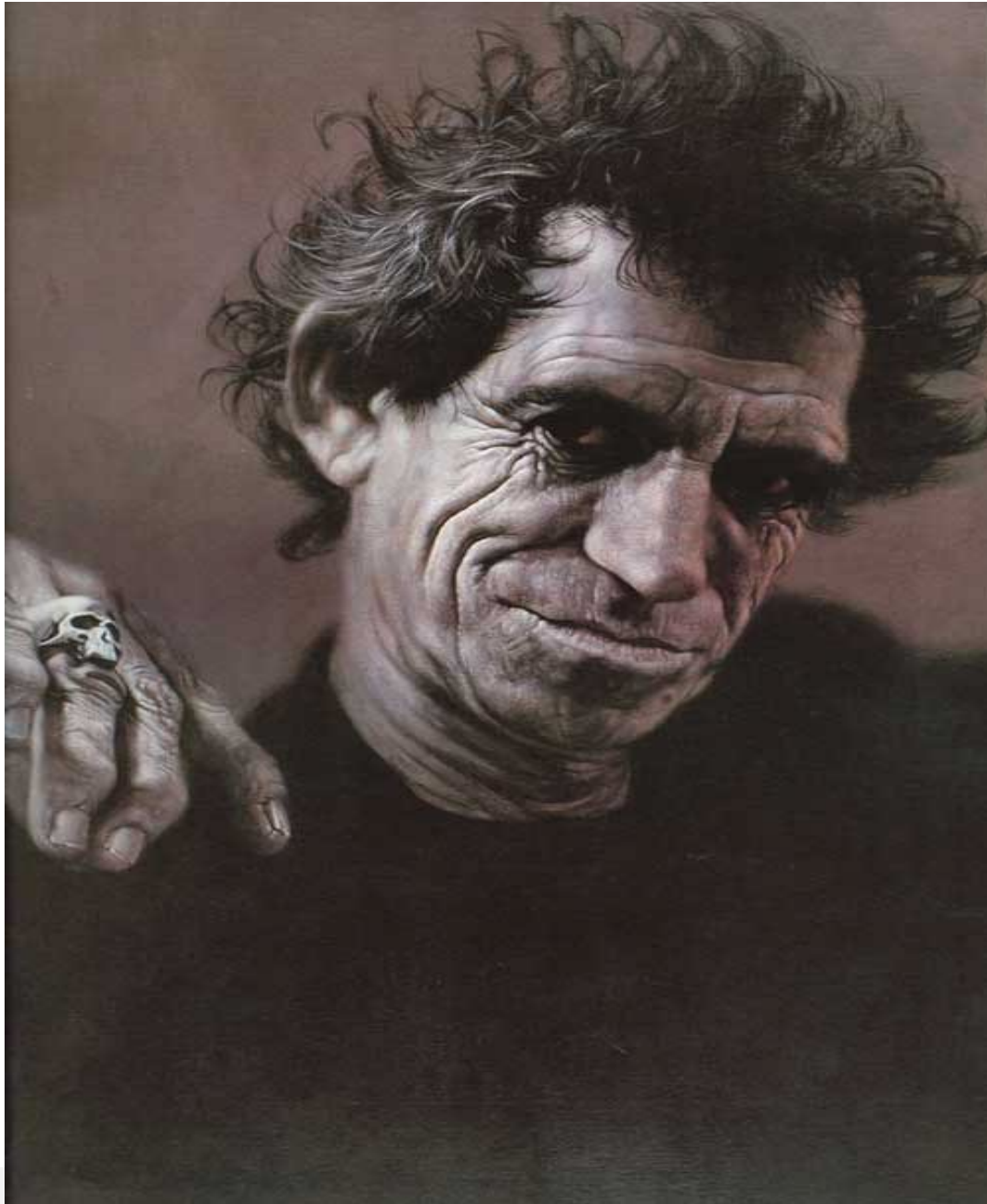


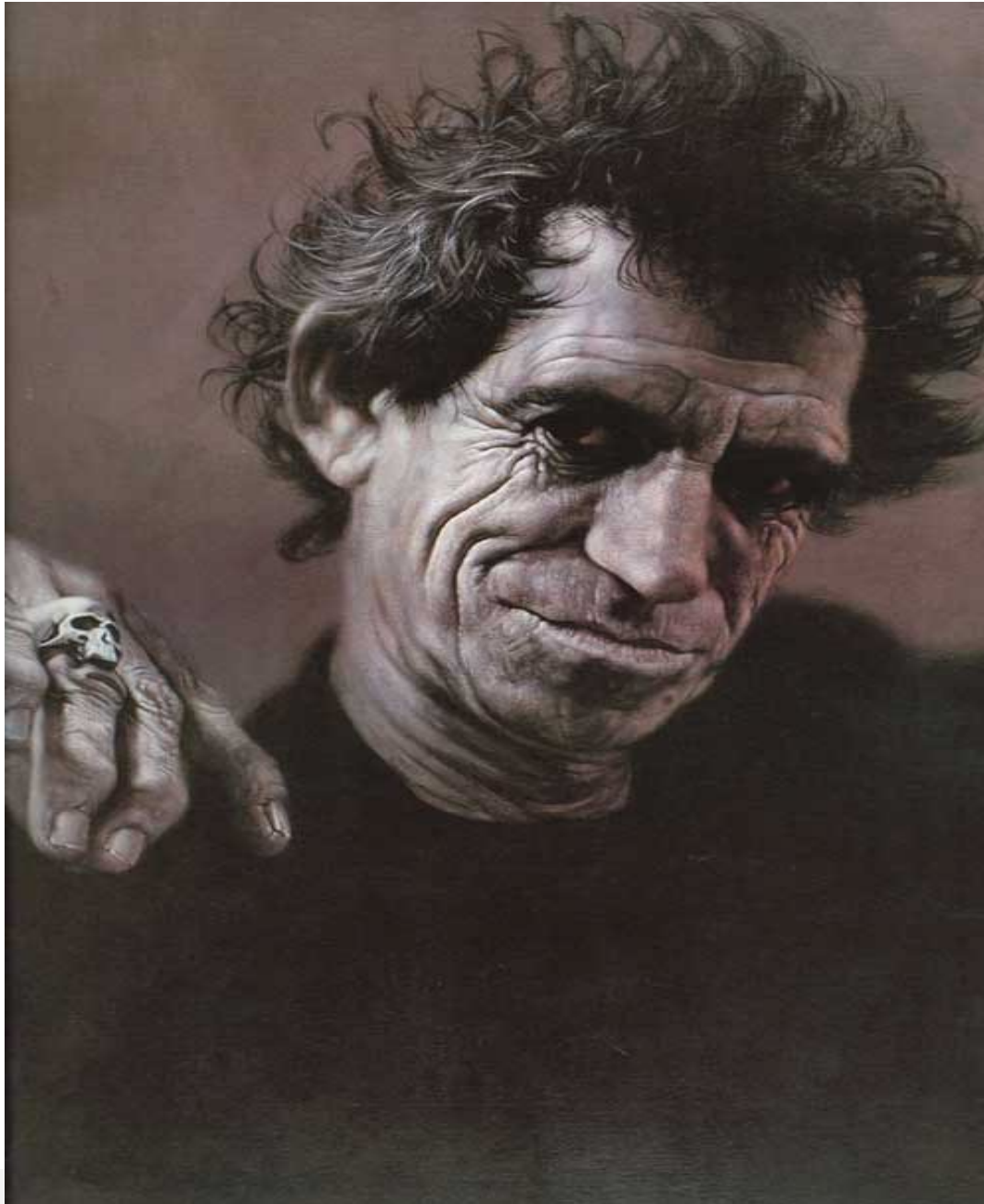
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Carpe Diem
“Seize the day”

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